



# SEYCHELLES

December 2022

## THIRD REVIEW UNDER THE EXTENDED FUND FACILITY ARRANGEMENT AND REQUEST FOR MODIFICATION OF INDICATIVE TARGETS—PRESS RELEASE; AND STAFF REPORT

In the context of the Third Review Under the Extended Fund Facility Arrangement and Request for Modification Of Indicative Targets, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on October 5, 2022, with the officials of Seychelles on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on November 11, 2022.

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**  
**Washington, D.C.**



## IMF Executive Board Completes Third Review Under the Extended Fund Facility for Seychelles

### FOR IMMEDIATE RELEASE

- The strong recovery of the Seychellois economy has continued in 2022, led by a rebounding tourism sector. Growth is uneven across other sectors of the economy.
- The government has made significant progress in restoring macroeconomic balances and performance under the EFF program is strong.
- Maintaining the buildup of buffers against shocks, while protecting the most vulnerable people remains critical in the current global environment.

**Washington, DC – December 1, 2022:** The executive Board of the International Monetary Fund (IMF) completed today the third 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 \$8.6 million), bringing total disbursements under the current EFF to SDR 61 million (about \$80.6 million). The Executive Board's decision was taken on a lapse-of-time basis<sup>1</sup>.

Seychelles' economic recovery has remained very strong in 2022, fueled by a faster-than-expected rebound of the tourism sector. At end-September 2022, tourist arrivals were 125 percent higher than the same period in 2021, with stronger than expected demand from Europe and the Middle East. The recovery is mostly concentrated in tourism-related industries. Real GDP growth is expected to reach 10.6 percent in 2022, before moderating to 5.4 percent in 2023. Inflation has been relatively low (3.0 percent year-on-year at end-September 2022), reflecting the effects of currency appreciation in 2021 and earlier this year as well as the base effect of higher inflation in 2021. Average inflation is expected decline to 3.0 percent for 2022, before rising to 4.5 percent in 2023, reflecting higher import prices and a fading of the cushion provided by the lagged effect of the rupee appreciation.

The recovery has been accompanied by a significant fiscal consolidation and social support for the most vulnerable. The primary fiscal deficit in 2022 is expected to narrow to 1.1 percent of GDP, reflecting an extraordinary consolidation of 13.6 percentage points over the last two years. Risks to debt sustainability have been significantly reduced with the public debt-to-GDP ratio expected to decline to about 68 percent at end-2022, a 21-percentage-point reduction in two years. In 2023 and over the medium term, the primary balance will shift to a surplus, as revenue measures will more than compensate for the planned increase in capital expenditure. The government has provided social support for the population, including through a program of targeted, temporary cash transfers to protect the most vulnerable from rising food and fuel prices, which is expected to run through early 2023.

Program performance remains strong. All end-June 2022 quantitative performance criteria (QPCs) and indicative targets (ITs) as well as all end-September 2022 ITs were met. Good

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<sup>1</sup> The Executive Board takes decisions under its lapse-of-time procedure when a proposal can be considered without convening formal discussions.

progress was made toward structural benchmarks, although some were implemented with a delay due to capacity constraints.

The economic outlook, while positive, remains subject to risks, including a worsening of economic prospects in many of Seychelles' key tourist markets (Russia, the European Union, and the United Kingdom), high food and fuel prices and their effect on the most vulnerable, a resurgence of COVID-19, higher-than-expected inflation, and higher non-performing loans from legacy forbore loans. Climate-related shocks remain as medium- and long-term risks.

The authorities' near-term priorities are to support the post-pandemic recovery and maintain debt sustainability as well as address the impacts of rising food and fuel prices on the most vulnerable. Over the medium-term, the authorities' measures aim to increase revenues and bolster capital expenditure, with a focus on climate-change mitigation and adaptation. In addition, the structural reform agenda prioritizes revenue administration, public financial management, and governance, including digitalization, and state-owned enterprise reform.



# SEYCHELLES

November 11, 2022

## THIRD REVIEW UNDER THE EXTENDED FUND FACILITY ARRANGEMENT AND REQUEST FOR MODIFICATION OF INDICATIVE TARGETS

### EXECUTIVE SUMMARY

**Context.** Tourism is driving a strong economic recovery in Seychelles. Real GDP growth is expected to accelerate to 10.6 percent in 2022, up from 7.9 percent in 2021. However, the recovery is uneven across sectors of the economy. The authorities have already begun to rebuild policy buffers and have taken measures to protect the poorest as the country transitions from the COVID-19 outbreak. The primary fiscal deficit in 2022 is expected to narrow to 1.1 percent of GDP, reflecting an extraordinary consolidation of 13.6 percentage points over the last two years. Risks to debt sustainability have been significantly reduced with the public debt-to-GDP ratio projected at around 68 percent at end-2022, thereby registering a 21-percentage-point reduction in two years.

**Outlook and Risks:** Following the large COVID-19-related contraction, and the subsequent strong recovery, growth is expected to slow to 5.4 percent in 2023 and around 4 percent over the medium-term. This outlook is subject to risks, including in the short term a worsening of economic prospects in many of Seychelles' key tourist markets (Russia, the European Union, and the United Kingdom), high food and fuel prices and their effect on the most vulnerable, a resurgence of COVID-19, higher-than-expected inflation, and higher NPLs from legacy forborne loans. Climate-related shocks remain as medium- and long-term risks.

**Program performance:** Program performance remains strong. All end-June 2022 quantitative performance criteria (QPCs) and indicative targets (ITs) as well as all end-September 2022 ITs were met. Good progress was made toward structural benchmarks, although some were implemented with a delay due to capacity constraints.

**Policy Recommendations.** The authorities' near-term priorities aim at supporting the post-pandemic recovery and addressing the impacts of rising food and fuel prices on the most vulnerable. Over the medium-term, their focus is on increasing revenues and bolstering capital expenditure, with a focus on climate-change mitigation and adaptation.

**Staff's views.** Considering the authorities' strong program implementation and policy commitments going forward, staff recommends completion of the third EFF review.

**Approved By**  
**Abebe Selassie (AFR) and**  
**Maria Gonzalez (SPR)**

The discussions in Victoria took place during September 22–October 5, 2022; the in-person team consisted of Calixte Ahokpossi (head), Aissatou Diallo (resident representative), Erin Nephew (AFR), Taehoon Kim (AFR), and Jung Yeon Kim (SPR). Leonardo Pio Perez (AFR) and Arindam Roy (MCM) participated virtually. Jonathan Pampolina (LEG) participated virtually in relevant meetings. Fausa Aliu and Silvia Guadalupe Nunez (both AFR) assisted with the preparation of this report.

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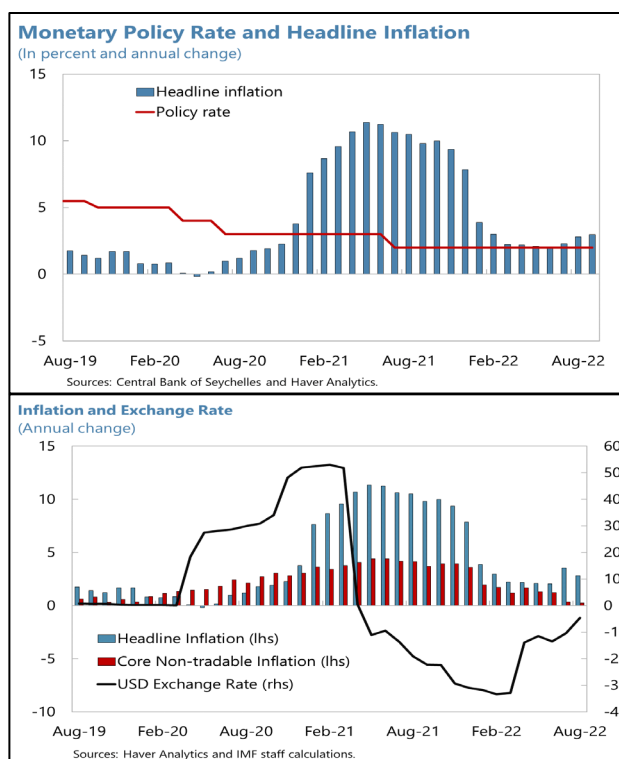
## CONTEXT AND RECENT DEVELOPMENTS

### 1. Tourism is rebounding much faster than anticipated and driving strong GDP growth.

Average employment increased by 4.5 percent between Q2 2021 and Q2 2022. Tourist arrivals reached 241,204 at end-September 2022, a 125 percent increase over the same period in 2021, with stronger than expected demand from Europe and the Middle East. The recovery is mostly concentrated in tourism-related industries, which account for 20.9 percent of GDP and 26.7 percent of employment. In the non-tourism sectors, gains in employment are 1.5 percent from Q2 2021 to Q2 2022.

### 2. Unlike many countries, inflation in Seychelles has been relatively low in 2022 reflecting the lagged effects of currency appreciation as well as base effects.

After averaging 9.8 percent in 2021, year-on-year inflation declined to 3.0 percent at end-September 2022. The large exchange-rate appreciation that started in 2021 and continued in 2022 has absorbed a significant part of the “imported” inflationary pressures stemming from higher global commodity prices and supply side disruptions. The authorities also took temporary measures to smooth prices over time and across different segments of society.<sup>1</sup> The muted inflation has allowed the central bank to maintain an accommodative stance, with the monetary policy rate unchanged at 2 percent since mid-2021.



### 3. The external position has improved

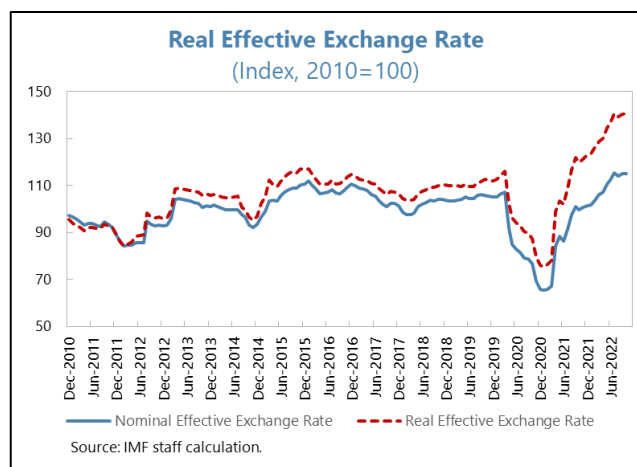
**with the recovery in tourism.** The current account deficit (CAD) narrowed in 2021, the rupee significantly appreciated and gross international reserves (GIR) increased to US\$702 million (3.7 months of imports).<sup>2</sup> However, GIR declined to US\$640 million at end-September 2022 (3.2 months of imports) due to higher FX demand for import of goods and services.<sup>3</sup> These statistics also

<sup>1</sup> Retail gasoline prices have been smoothed out as the government-owned enterprise purchased a larger bulk of petroleum than usual in anticipation of the global oil price hike. The electricity tariffs are adjusted on a quarterly frequency to absorb global fuel price fluctuations. The authorities also imposed maximum retail prices on several imported goods (less than 5 percent of the consumption basket) to protect low-income households on a temporary basis, which will expire in one year.

<sup>2</sup> Including the SDR allocation of about US\$32 million.

<sup>3</sup> The decline in reserve coverage in terms of ARA metric is much milder and the reserve remains within the range considered adequate for precautionary purposes.

reflect an update in the methodology for capturing the impact of tourism in the balance of payments (BOP).<sup>4</sup> Currency appreciation has marginally weakened since September 2022 owing to higher demand for foreign exchange for imports. During January-September 2022, the currency appreciated by 13.4 percent and 14.3 percent, respectively, in NEER and REER terms and by 2 percent versus the US dollar.



#### 4. Fiscal consolidation and debt reduction continue at a strong pace.

At end-June 2022, the primary fiscal balance reached a surplus of 2.1 percent of GDP, against projections of a deficit of 0.8 percent of GDP. Revenues performed broadly in line with projections while both current and capital expenditure were less than projected. Expenditure is expected to accelerate for the rest of the year. The debt-to-GDP ratio has fallen substantially to 63.0 percent at end-September 2022, a 10-percentage-point reduction since end-June 2021. The debt reduction contributed to a year-over-year reduction of more than 2 percentage points in the weighted average cost of borrowings in the domestic market during January-September 2022. The fiscal consolidation and debt reduction have been driven both by strong policy effort (including a timely unwinding of COVID emergency measures) and rapid economic recovery.

**5. The financial sector remains resilient, weathering the impact from COVID-19, but risks remain.** Non-performing loans (NPLs) doubled to 8 percent in August 2022, from 4 percent in August 2021, mainly due to the withdrawal of forbearance measures in February 2022.<sup>5</sup> The banking system remains adequately capitalized, with regulatory capital around 21 percent of risk-weighted assets in August 2022, mainly due to an increase in collateral. However, the provisioning level for the banking sector is low (25 percent of NPLs) mainly due to their reliance on collateral. Credit growth remains weak but there are signs of recovery in local currency lending with a gradual improvement in investor confidence, while foreign currency lending contracted moderately until August 2022.

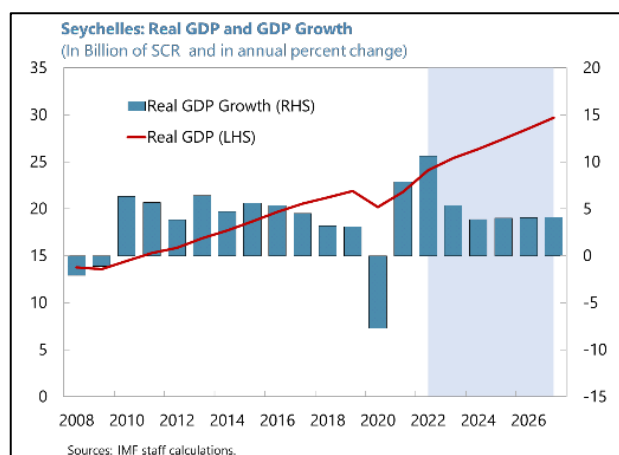
<sup>4</sup> The Central Bank of Seychelles changed the methodology for estimation of tourism earnings and released a revised series of tourism earnings from 2016. This resulted in significant increase in tourism receipts (for example, about 90 percent increase for 2021) and capital outflows. See Annex II for further details.

<sup>5</sup> Provisioning for the banking sector increased to 8.1 percent of gross loans from 5.1 percent during the same period.



## OUTLOOK AND RISKS

**6. The growth outlook remains generally strong.** Real GDP growth is expected to accelerate to 10.6 percent in 2022, driven by robust tourism, before moderating to 5.4 percent in 2023 and about 4 percent over the medium term. Average inflation is projected to decline to 3 percent in 2022 before rising to 4.5 percent in 2023, reflecting higher import prices and a fading of the cushion provided by the lagged effect of the rupee appreciation. The current account deficit is expected to narrow further to 6.7 percent of GDP in 2022 and 4.9 percent of GDP in 2023, as tourism remains healthy and international prices of food and fuel decline.



**7. The outlook is subject to downside risks.** An intensification of the spillovers from Russia's war in Ukraine as well as a worsening of economic prospects in Seychelles' key tourism markets (Russia, the European Union, and the United Kingdom) would negatively affect the Seychelles. In this regard, the authorities are closely monitoring trends in forward bookings for tourism. A resurgence of COVID-19 and inflation, and higher NPLs from legacy forborne loans remain near-term risks. The authorities are keen to regain fiscal and monetary policy space following the COVID-19 emergency in order to be prepared for future shocks. Should risks materialize, the authorities should maintain a flexible exchange rate and consider further fiscal measures, including appropriate revenue and expenditure measures, and protecting the most vulnerable through target support (see Annex I for more details).

**8. Climate change and environmental issues constitute a key medium-term risk.**

Challenges with coastal erosion, electricity generation and distribution, and waste management are particularly evident. Seychelles has long been at the forefront of environmental leadership and is likely to lead the way in the global pivot from crisis management to tackling longer-term structural challenges. On the positive side, Seychelles could capitalize on its unique "blue economy" assets that already provide global public goods in the form of carbon sequestration. The authorities plan to use some of their hard-won fiscal space to address environmental vulnerabilities and are seeking support from their partners (including the Fund) to secure additional financing.

## PROGRAM PERFORMANCE

**9. Quantitative performance under the program remains strong.** All end-June 2022 quantitative performance criteria (QPCs) and indicative targets (ITs) as well as all end-September 2022 ITs were met.

**10. Despite capacity constraints, progress on reforms has been strong, with most structural benchmarks either met or implemented with some delay.** Seven out of the nine

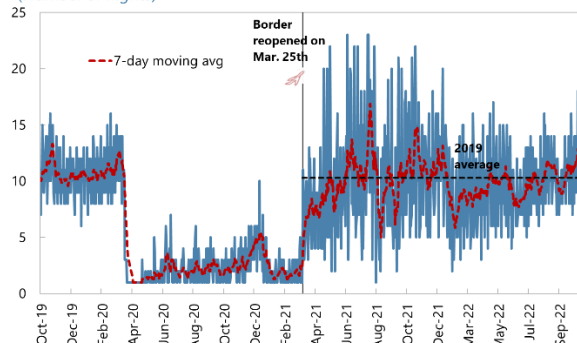
structural benchmarks (SBs) assessed for this review have been met or implemented with delay. The end-September SB on the publication of a new medium-term debt management strategy was not implemented, and the document will be published in December 2022 when the underlying medium-term budget framework will be finalized. The SB on streamlining VAT exemptions was not met as the necessary Fund technical assistance was only delivered in September 2022. In addition, the report found that VAT is performing relatively well and streamlining of exemptions can take place no earlier than December 2023 (past the last program test date), given all the preliminary work needed. New structural benchmarks have been added, including one on SOEs transparency, and another one on economic impact analysis for the tourism sector to better understand how tourism activities spill over to the rest of the economy and what type of tourists generate the most income for the local economy.

**Figure 1. Seychelles: Tourism Indicators**

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

**Number of International Flights Arrivals to SEZ airport**

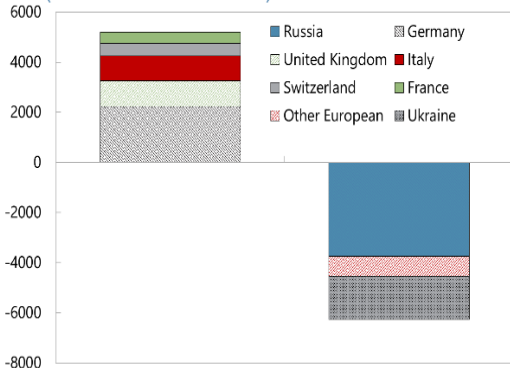
(Number of flights)



Source: Flightradar24.  
Note: SEZ stands for Victoria Seychelles International Airport.

Higher arrivals from Western Europe have offset the shortfall in arrivals from Russia and Ukraine.

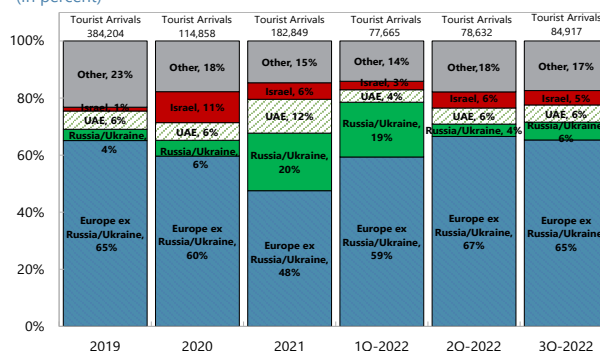
**Change in Tourist Arrivals from Europe, Jan-Sep 2022**  
(Number of tourist arrivals)



Sources: Authorities data and IMF staff calculations.

During the pandemic, Seychelles attracted tourists from new markets, including Israel, Russia, and the United Arab Emirates

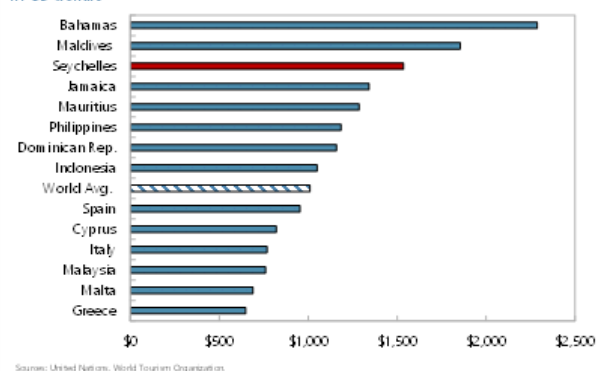
**Share of Tourist Arrivals by Country, 2019-2022**  
(In percent)



Sources: Authorities data and IMF Staff calculations.

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

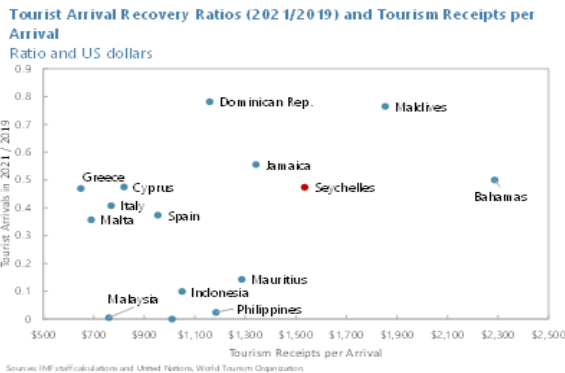
**Tourism Receipts per Arrival, 2019**  
In US dollars



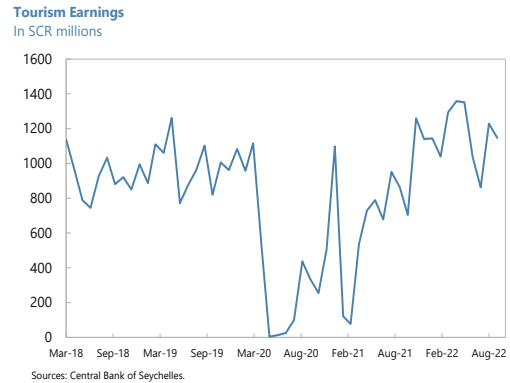
Sources: United Nations, World Tourism Organization

**Figure 1. Seychelles: Tourism Indicators (continued)**

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

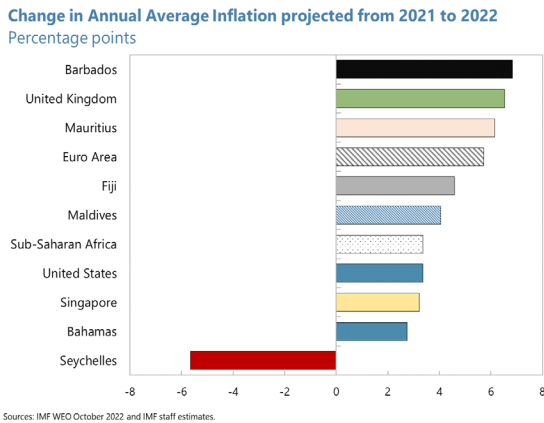


*Tourism earnings reached pre-pandemic levels by Q1 2022.*

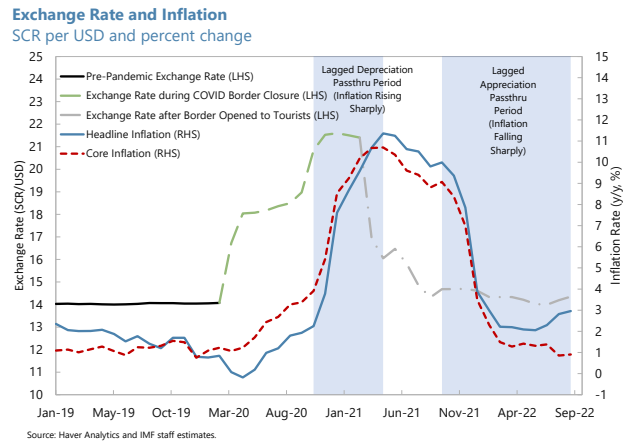


**Figure 2. Seychelles: Inflation Indicators**

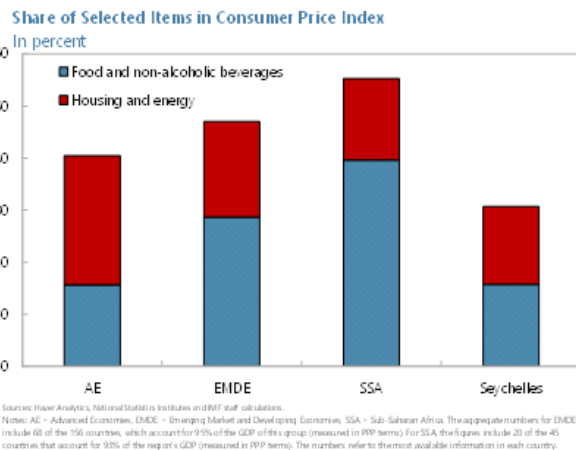
*Inflation is lower in Seychelles than in many other countries.*



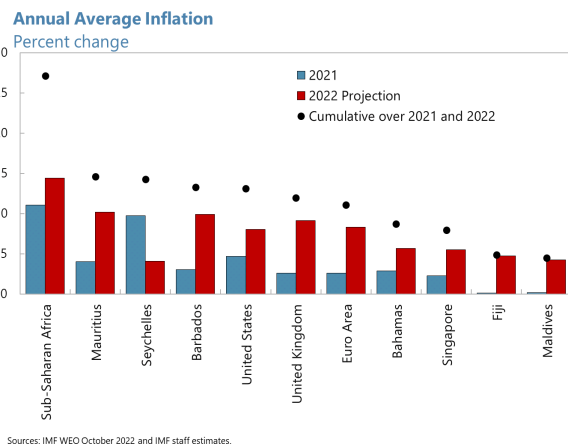
*As a small-island economy dependent on imports, the value of the currency is a key determinant of domestic inflation, but with a considerable lag.*



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



*Seychelles experienced a larger inflation in 2021 than many other countries. The base effect, along with exchange rate appreciation, helped stabilize inflation in 2022.*



## POLICY DISCUSSIONS

*Discussions focused on near and medium-term policies: rebuilding fiscal buffers to maintain debt sustainability, bolstering capital expenditures to preserve growth and manage climate-change vulnerabilities over the medium term, and adopting measures to modernize monetary policy and financial systems.*

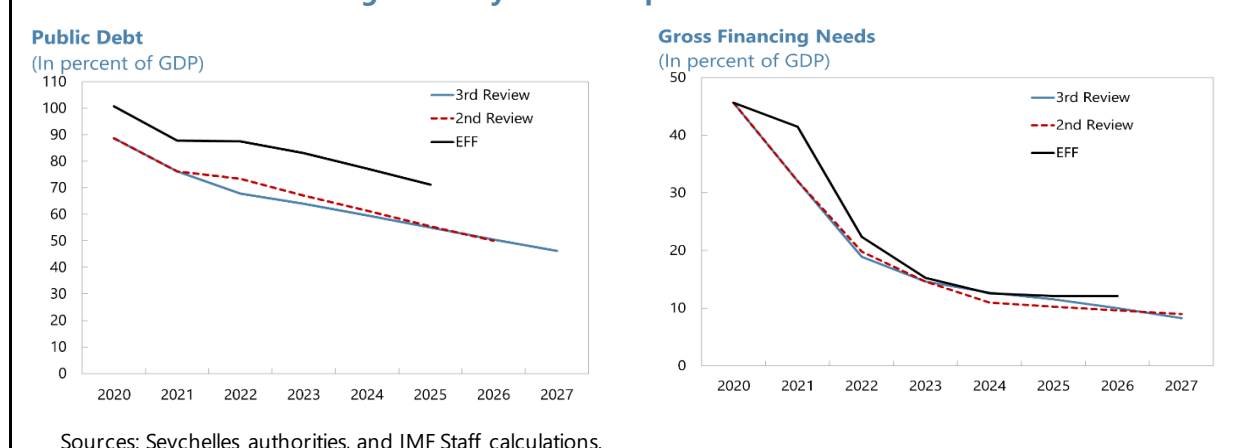
### A. Short-Term Fiscal Policy: Rebuild Fiscal Buffers to Maintain Debt Sustainability, while Protecting the most Vulnerable

**11. Fiscal overperformance continued in 2022, allowing for a faster fiscal consolidation compared to the second review.** The primary deficit is now expected to be contained at 1.1 percent of GDP in 2022 (compared to 1.4 percent of GDP at the second review). The faster consolidation reflects lower expenditures than projected, including social expenditures. A program of targeted, temporary cash transfers to protect the most vulnerable from rising food and fuel prices began later than expected and will now run from August 2022 through the first quarter of 2023.<sup>6</sup> In the first month of the program (August 2022), 7.7 million rupees out of an initial budget of 80 million rupees (0.2 percent of GDP) had been spent. Shortfalls in external financing led to lower capital expenditure than budgeted.

**12. Prospects of external grants are relatively weaker than anticipated, resulting in some adjustments in the fiscal framework for 2022 and 2023, without compromising debt sustainability or increasing financing needs.** Some capital expenditures originally planned for 2022 have been delayed, pending the eventual receipt of grant financing, and will now occur in 2023. An increase in domestically financed capital expenditure in 2022 partially offsets the drop in foreign-financed capital expenditure, but capital expenditure as a whole will remain under-executed in 2022 because grants and external finance in general have been slow to arrive. Prospects for 2023 are now much weaker, as grants are expected to be 1.3 percent of GDP smaller than anticipated at the time of the second review. This resulted in some adjustments in the budget, while maintaining debt on a downward path and keeping gross financing needs unchanged in 2022 and 2023 relative to the second review.

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<sup>6</sup> At the time of the Second Review, this expenditure was assumed to occur all within 2022. Social expenditures in Seychelles include many items not accounted for in the “Social Programs of the Central Government” line appearing in Table 3. For example, expenditures associated with a new agency for Home Carers will have been shifted—for 2023 and beyond—from this line to within both “Wages and Salaries” and “Goods and Services.” The total amount of social expenditure planned is higher now than it was at the time of the Second Review.

**Figure 3. Seychelles: Improved Debt Outlook**

**13. In 2023, higher revenues and expenditures are planned, and the primary balance will shift from a deficit to a surplus, which is expected to be maintained over the medium term.** On the revenue side, the draft 2023 budget introduced three new tax measures: (i) a domestic minimum tax, applied on the turnover of large hotels (0.4 percent of GDP); (ii) a nightly environmental charge for tourists, based on hotel room nights (0.5 percent of GDP); and (iii) reforms of the business tax on securities dealers (0.7 percent of GDP). These measures will more than make up for expected lower excise tax revenues. Capital expenditures delayed from 2022 are set to resume in 2023. Public sector reforms<sup>7</sup> and the increase in retirement age starting 2023 will yield savings of 1.0 percent of GDP in 2023 relative to the no-reform baseline.

**Fiscal Measures in 2023**  
(Amount in SCR million and percent of GDP)

	2023	
	SCR million	Percent of GDP
<b>Revenue Side</b>		
Introduction of Tourism environmental levy applicable to tourism establishments as of April 2023 <sup>1</sup>	162.0	0.5%
Introduction of a Tourism turnover tax applicable to businesses with turnover of more than SR 25m <sup>1</sup>	118.0	0.4%
Reform of Business tax on 'Securities dealers' (1.5% to 3%) <sup>2</sup>	219.5	0.7%
	<b>499.5</b>	<b>1.6%</b>
<b>Expenditure Side</b>		
Public Sector Reforms	<b>255.1</b>	<b>0.8%</b>
Increase in Retirement Age to 65	<b>47.8</b>	<b>0.16%</b>
	<b>302.8</b>	<b>1.0%</b>
<b>Total</b>	<b>802.3</b>	<b>2.6%</b>

Sources: Authorities and IMF staff calculations  
 1/ New Measures added  
 2/ Measures added from the previous Budget 2022

**14. Given these revenue and expenditure measures, the primary balance is expected to reach a surplus of 1.1 percent of GDP in 2023** (compared to 1.7 percent of GDP envisaged at the time of the second review). The reduction of the surplus compared to the second review is mainly driven by the expected decline in capital grants and its partial substitution by domestic financing, as the sharp decline in externally financed capital expenditure is partially compensated by higher domestically financed capital expenditure. In addition, some capital expenditures have been shifted from 2022 to 2023. Over the medium term, the primary surplus is expected to be larger than originally programmed, as the new policy measures improve revenue and reduce expenditures. The

<sup>7</sup> Discussed in the staff report for the first review (IMF Country Report No. 22/6).

debt level is projected therefore to go down slightly faster (declining to 44.1 percent of GDP by 2027).

**15. Social spending across various programs is projected at 7.3 percent of GDP in 2023.**

The execution of some social programs was well below targets in 2022 due to a roll-cleaning exercise; the authorities have since enlisted World Bank help to better target social welfare programs, and the number of recipients has begun rising again.

**16. Public debt continues to fall, albeit with risks.** After declining from 88.7 percent of GDP in 2020 to 67.9 percent in 2022 (compared with 87.6 percent envisaged in the original program), the debt-to-GDP ratio is projected to continue declining to 64.6 percent in 2023 and below 50 percent by 2026. Gross financing needs (GFNs) are projected to decline from 32 percent of GDP in 2021 to 14 percent in 2023 (compared with 16 percent envisaged in the original program), though slightly higher over the medium term due to weaker external grants. However, risks remain due to the war in Ukraine, possible resurgence of Covid, and Seychelles' vulnerability to climate change. The authorities should rely as much as possible on concessional financing and optimize the debt portfolio.

**17. Following a large haircut on debt in May 2022 and an operational restructuring set to be completed by December 2022 (structural benchmark for December 2022), medium-term contingent fiscal risks from Air Seychelles no longer appear macro-critical.** An agreement was reached with the bondholders of Air Seychelles for a 66.7 percent nominal haircut on its US\$83 million obligations. Air Seychelles took a commercial loan to pay off its remaining obligations, and the Government paid off its remaining US\$13 million obligation using a two-year commercial loan, with Air Seychelles responsible for interest payments.<sup>8</sup> Operating Air Seychelles on a sustainable basis, so that operational losses do not accrue, and debts do not re-accumulate, will be the key challenge moving forward. Proper monitoring of contingent fiscal liabilities posed by SOEs, including Air Seychelles, will be facilitated by resuming the publication of an annual report on SOE balance sheets, which had been paused during the COVID-19 period (new structural benchmark for June 2023, MEFP para 43). This publication should gradually be enhanced to provide an overall assessment of fiscal risks from SOEs.

## B. Medium-Term Fiscal Priorities: Bolster Revenues and Capital Expenditures

**18. The authorities committed to improving revenue performance, including by better capturing the value generated by the tourism industry.** Revenues, which have lagged GDP growth, are set to rise from 32.5 percent of GDP in 2022 to about 34 percent of GDP in the medium term, based on reforms planned for 2023. A challenge for the medium-term will be to identify more precisely the economic contribution of the tourism industry and to ensure a commensurate

<sup>8</sup> See the Staff Report for the 2<sup>nd</sup> Review of EFF for further details.

contribution from tourism to tax revenue. Right now, much of the value-added that tourism generates is accrued abroad, which limits its contribution to local tax revenue and economic activity.

**19. The authorities have committed to conduct an economic impact analysis to better understand how tourist receipts flow through the economy.** They are receiving technical assistance in various areas related to tax and transfer pricing and seeking financial support from their partners to finance this study. Meanwhile, they will prepare the terms of reference by June 2023 (new structural benchmark). In conformity with the September 2022 IMF technical assistance report on VAT, the authorities will set up a medium-term plan to reform VAT policy, with a view to streamline exemptions where the impact on the most vulnerable is negligible (MEFP para 36). The authorities are working closely with OECD on the two-pillar approach to address the tax challenges arising from the digitalization of the economy (MEFP para 36). An improvement of the implementation of the VAT on digital platforms and digital services is also targeted. The authorities' planned reforms in tax administration focus on digitalization initiatives, stronger compliance monitoring, and an upgrade in the ASYCUDA system at Customs.

**20. Improving government spending efficiency remains key to enhancing medium-term growth.** The authorities committed to increasing capital expenditure, with a focus on climate and the environment. They are making progress in strengthening Treasury cash management, including by issuing in October 2022 a ministerial circular to reduce deviations of expenditure from the monthly cash flow plan (structural benchmark). Investments in electricity generation, water systems, sewerage, roads, waste management, and other infrastructure will be necessary to continue sustainably growing the economy, including tourism. Capital expenditure is now planned at around 6 percent of GDP through the medium-term (compared to 4 percent of GDP in 2022). This reflects a continued pivot in the program from spending on the COVID-19 emergency to spending on addressing longer-term structural issues, including the efficiency of public investment and environmental vulnerabilities. In this regard, a Public Investment Management Assessment (PIMA) planned for January 2023 will help identify opportunities to increase the efficiency of public investment, including the scope for the procurement system to support PPPs. The PIMA TA will be combined with a Climate Change PIMA (C-PIMA).

## C. Monetary and Exchange Rate Policy

**21. The monetary policy stance should remain on hold given relatively contained inflation, but the CBS should remain vigilant to signs of inflation pressures and stand ready to tighten monetary policy if needed.** Given the benign inflation and weak private credit growth, staff considers the current monetary policy stance appropriate, including to avoid hampering the ongoing recovery. However, the CBS should continue monitoring for signs of inflationary pressures and the strength of the recovery to timely adjust its policy rate if necessary. The central bank adopted a forward-looking monetary policy approach to anchor inflation expectations and remains vigilant to domestic and external developments underlying the inflation outlook, including the

impact of foreign inflation.<sup>9</sup> The planned implementation of an inflation expectations survey, with the support of the National Bureau of Statistics, will help CBS to provide forward guidance. CBS remains committed to a floating exchange rate and will only intervene to facilitate orderly conduct of the market (MEFP para 50).

**22. A revival in private credit is needed to support a broad-based economic recovery that goes beyond tourism and related sectors.** Private credit has been weak primarily due to uneven growth in the economy and the scarring from COVID-19 with a rise in bank NPLs.<sup>10</sup> However, as the economic recovery becomes more broad-based, credit will be required for firms' operational expenses and investment. Although credit growth to the private sector is projected at only 3.3 percent in 2022, it is expected to pick up in 2023 and beyond with an improvement in banks' appetite for lending as the effects of pandemic fade out. Stimulating private credit would, however, require an effective monetary policy transmission mechanism.

**23. Strengthening the monetary policy transmission mechanism would require the authorities to mop up the excess reserves from the system in a phased manner.**<sup>11</sup> CBS has committed to implementing IMF TA recommendations to mop up liquidity through a combination of instruments (reserve requirements and liquidity-absorbing operations, including through the issuance of securities and higher volume of deposit auctions) and develop the money and FX markets (MEFP para 51). The Fund's pilot review of the central bank transparency code for Seychelles shows some areas for improvement but, overall, a high standard of transparency by the CBS.<sup>12</sup>

## D. Debt Management Strategy

**24. The shift toward a primary surplus will require greater coordination between debt management and monetary policy.** The continued shift towards local currency bond issuance and reduction of T-bills is needed to further reduce refinancing risks. However, a sufficient supply of T-bills is needed in the market to support banks' liquidity management.<sup>13</sup> At the same time, as net

<sup>9</sup> The CBS published its monetary policy report for the first time in July 2022 providing forward-looking information that underpins monetary policy discussions.

<sup>10</sup> GDP growth has been driven largely by tourist receipts, and by large hotels who finance themselves with credit from outside the economy. For this reason, the slow growth in credit to the private sector in Seychelles has not unduly hindered the recovery.

<sup>11</sup> Excess reserves of the banking system held at the CBS at the end of September 2022 amount to 5.5 percent of banks' assets.

<sup>12</sup> With the ongoing transition to a full-fledged inflation targeting regime, the CBS is expected to gradually enhance transparency of its monetary policy framework, which would strengthen monetary policy transmission and dialogue with stakeholders.

<sup>13</sup> Holdings of T-bills declined from 10 percent of bank assets in end-2020 to 3 percent by end-August 2022, while the share of bonds increased from 3 percent to 12 percent during the same period. Although banks are sufficiently liquid, mopping up of excess liquidity from the system in the absence of a secondary market for government securities and repo markets could complicate liquidity challenges for the banking system, with potential for amplification of rising interest rates.



domestic financing will turn negative from 2025, there would be a need to ensure the CBS has adequate securities at its disposal for the regular conduct of monetary policy.

**25. Notwithstanding its vulnerabilities as a small and climate-affected state, the authorities have emphasized the problems that arise as a result of Seychelles' high-income status precluding it from access to concessional bilateral and multilateral financing.** The external financing challenge poses a problem for the authorities given their need to increase capital expenditure as well as deal with shocks and vulnerabilities. The authorities noted that, despite having the highest GDP per capita in Sub-Saharan Africa, Seychelles remains a country with multidimensional vulnerabilities as a small island micro-state. The authorities are seeking to tap into the Fund's Resilience and Sustainability Trust (RST) funds to address its climate finance needs.

**26. The debt management framework and planning process has progressed significantly.** Since the last review, the authorities published an Annual Borrowing Plan (ABP – structural benchmark for end-September 2022) and are planning to publish a Medium-Term Debt Strategy (MTDS) by the end of this year (structural benchmark for end-December 2022). Based on IMF TA, the publication of a policy framework for a secondary market mechanism for government securities, needed to support a greater supply of bonds, is expected by March 2023 (structural benchmark reset from December 2022). Given the limitations of the financial market including the narrow investor base, the policy framework should lay out the mechanism and market infrastructure required to allow redemption of government securities prior to maturity.<sup>14</sup> To provide more flexibility for debt management, the authorities should repeal the law requiring approval from the President for specific bond issuances and align it with the approval of the summary bond issuance program in the Annual Borrowing Plan.<sup>15</sup> The authorities understand the need to diversify their financing options, including to Eurobonds and sovereign environmental social and governance (ESG) bonds.

## E. Financial Stability

**27. With the unwinding of forbearance measures, it remains important for the CBS to enhance its surveillance mechanism to mitigate financial stability risks arising from higher NPLs.** Despite the recent increase in NPLs, the capital adequacy across the banking sector remains high. However, financial stability risks remain from further migration from the previously forborne loans to NPLs and the reliance on collateral. The authorities have completed a study on the impact of unwinding of forbearance measures on bank asset quality (structural benchmark for end-September 2022). The recent increase in NPLs was found to result mainly from loans subject to forbearance during the pandemic. Further, a significant portion of loans classified as performing were previously subject to forbearance. Further work is needed to strengthen the study, including a

<sup>14</sup> Efforts to develop the money market would also help to support the secondary market development.

<sup>15</sup> The publication of the ABP provides information on the planned composition of annual borrowings for different instruments including government securities. As the ABP will be published on a recurring basis with the approval of the Parliament, the summary bond issuance program indicated in the ABP should enable the government to undertake its bond issuance without requiring the approval of the President for specific issuances.

forward-looking analysis, to ensure that the banking sector remains adequately provisioned and capitalized. Staff has provided recommendations on possible improvements to the study and will follow up on ways to improve the monitoring of NPLs going forward.

**28. The authorities made significant progress on updating the legal framework related to financial stability and crisis management, however, some enhancements will be required to improve their operating framework.** Following the Cabinet approval of the draft policy paper on Financial Stability Bill in March 2022, the authorities are taking the necessary steps to enhance the macroprudential toolkit (MEFP, para 63). Macroprudential policies to manage systemic risks, including from foreign exchange loans, will be key to preserve financial stability.<sup>16</sup> The CBS submitted for Cabinet approval the draft policy paper on the Bank Resolution Bill in October 2022 (structural benchmark delayed from end-July 2022), 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. The US Treasury has been assisting CBS on the Bank Resolution Bill.<sup>17</sup> The authorities are expected to further enhance the Bank Resolution Bill by addressing issues related to funding mechanisms, no creditor worse off other than in liquidation (NCWOL) principle, and cross-border resolution. Such enhancements will be made by the CBS following further technical assistance support from the IMF.

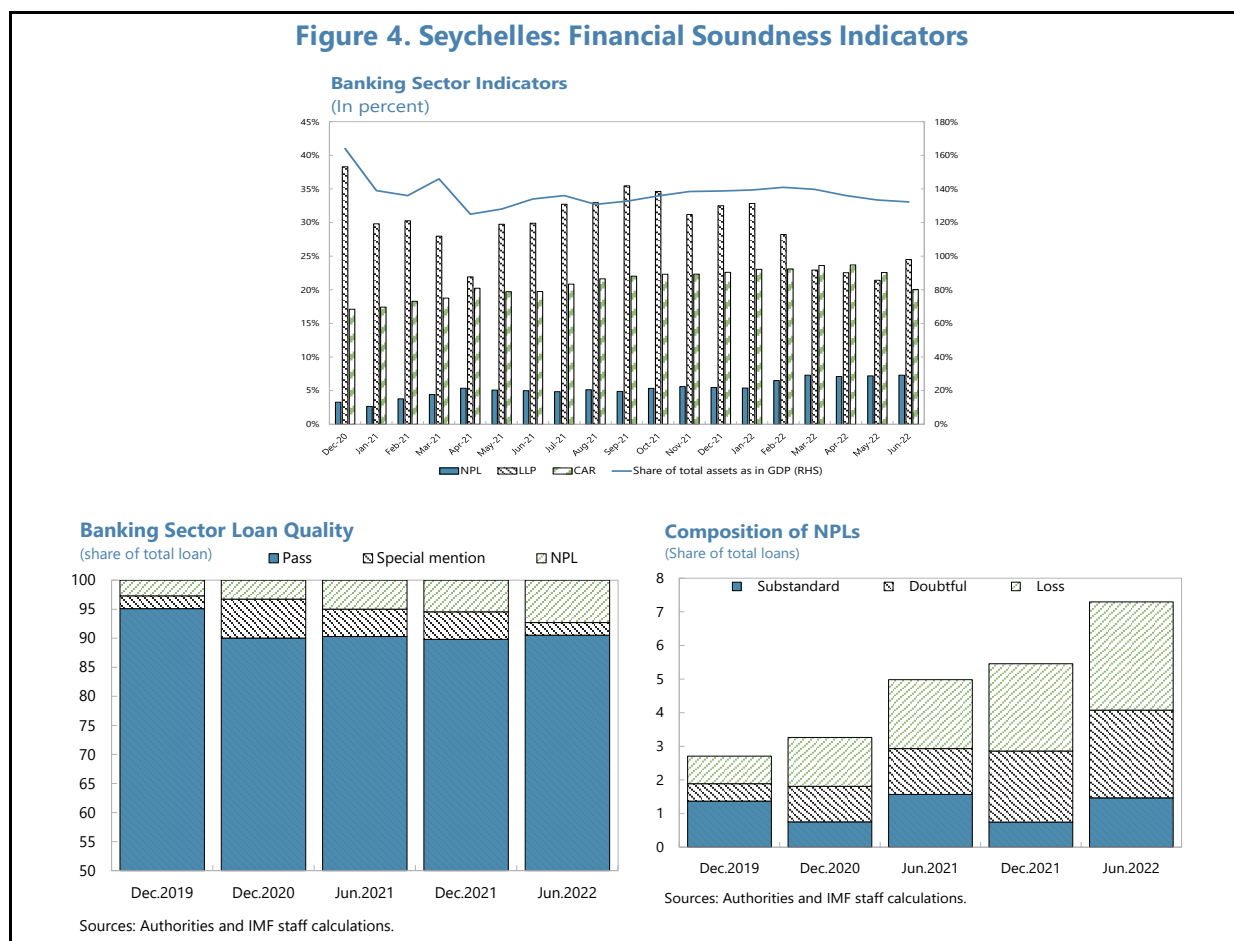
**29. Upgrading the financial market infrastructure will be required to support greater financial market development.** A move to development of a Real Time Gross Settlement System and a Central Security Depository by the authorities would support a safe, secure and efficient system of settlement of transactions and securities. Embedding new technologies and digital products within the financial system, including the payments system, will support financial market development and enhance financial inclusion (MEFP para 17).

**30. The authorities remain committed to strengthening the financial stability and crisis management framework.** To ensure the effectiveness of its risk based supervisory process, the CBS stands ready to take relevant and timely enforcement actions where necessary. 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. The authorities would depend on continued IMF technical assistance support in the areas of financial stability and bank resolution to ensure a stable and well capitalized banking system (MEFP para 63).

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<sup>16</sup> CBS will, in consultation with IMF, submit amendments to the CBS Act to Cabinet by May 2023 to: (i) strengthen governance and oversight; (ii) enhance institutional and personal autonomy; and (iii) safeguard financial autonomy.

<sup>17</sup> The draft Bank Resolution Bill is expected to be approved by Cabinet by end-September 2023 (structural benchmark).

**Figure 4. Seychelles: Financial Soundness Indicators**

## F. Governance and Transparency

**31. The authorities continue to progress in improving transparency of beneficial ownership (BO) information, including on international business companies (IBCs).** As of end-August, 90 percent of the more than 53,000 IBCs in good standing had submitted information to the BO database since it became operational in July 2021. The Financial Intelligence Unit (FIU) submitted to the National AML/CFT Committee (NAC) an assessment report, which provides statistics on the BO database, and identifies discrepancies in the submitted information. In one case, verification of the BO information by the FIU revealed a match with an international sanctions list, and the IBC was struck off the register by the Financial Services Authority (FSA). The FIU will continue to report statistics on the BO database on a quarterly basis. The authorities will ensure that the FIU has effective access to all relevant databases to facilitate verification of BO information and will establish mechanisms for processing reports of discrepancies. Progress in facilitating international cooperation and information sharing will further contribute to addressing the money laundering, terrorist financing, and reputational risks associated with IBCs in Seychelles (MEFP para 71).

**32. To leverage the progress to date, the authorities have committed to verify the adequacy, accuracy, and timeliness of BO information in the database.** The NAC has requested technical assistance from the European Union AML/CFT Global Facility to amend the BO Act. The NAC and FIU aim to finish drafting the amendments to the BO legal framework by end-December

2022. These amendments will address gaps identified in the FIU assessment report, and ensure the effectiveness of the BO regime, including enhancing sanctions for non-submission, false BO information, and other violations. The FSA is conducting targeted risk-based AML/CFT inspections of licensed resident agents with respect to compliance with collecting BO information from IBCs and will publish by end-January 2023 a report on its findings, including statistics on compliance, enforcement actions and sanctions (MEFP para 69).

**33. The authorities completed and published an audit of COVID-related emergency spending in June 2022.** The audit report noted some shortcomings in the emergency procurement framework and the authorities plan to update the emergency procurement framework in 2023. The audit found instances of inadequate assessment of applications and non-application of established criteria in the administration of the Financial Assistance for Job Retention (FA4JR) scheme, resulting in overpayments. On employers' side, there were instances of providing inadequate and incorrect information. The authorities have started to address these and other shortcomings, including by already applying more stringent criteria to assess eligibility for the targeted, temporary cash transfers to help the most vulnerable cope with rising food and fuel prices.

## G. Climate Challenges and Initiatives

**34. Seychelles places climate change at the center of its sustainable development strategy.** Among the authorities' many climate initiatives, major ones include the coastal erosion protection plan, Blue Carbon roadmap, and climate financing framework (See Annex III. MEFP para 10-12). The authorities are exploring options to capitalize on "blue economy" environmental assets that may provide global public goods with respect to the climate. Seychelles also updated in July 2021 its Nationally Determined Contribution. However, there is a need to undertake studies and establish frameworks to govern new and innovative areas of climate-change actions. Among these, the key priority is to establish a unifying body to prioritize and oversee the management and implementation of the various climate change initiatives, including transparency and accountability mechanisms.

**35. The authorities have expressed interest in the Resilience and Sustainability Trust (RST).** Discussions focused on the timeline, in light of the necessary consistency between the timing of an RST and EFF, and potential reform measures that could eventually underpin a future RST program. The authorities will also benefit from a climate Public Investment Management Assessment (C-PIMA) technical assistance mission in January 2023.

## H. Data Issues

**36. Data are broadly adequate for program purposes, with room for improvement in certain areas.** IMF and AFRITAC South (AFS) technical assistance 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. Backcasting the GDP series is currently underway with AFS support. AFS is also supporting the NBS to improve the Producer Price Index

(PPI). IMF technical assistance 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. The IMF and AFS will continue to provide TA to the NBS and the CBS as needed.

**37. Implementation of the 2021 safeguards assessment recommendations has progressed in most areas except on amending the CBS Act.** The authorities are committed to submit to Cabinet by May 2023 (structural benchmark), in consultation with IMF staff, the amendments aimed to, inter alia, strengthen governance and oversight, enhance institutional and personal autonomy, and safeguard financial autonomy.

## PROGRAM MODALITIES

**38. Program implementation remains strong.** Staff assessed performance against QPCs and ITs, and progress on SBs. All end-June 2022 QPCs and ITs as well as end-September ITs were met. Seven out of the nine SBs assessed for this review have been met or implemented with delay. Regarding the two end-September SBs that were not met, the SB on the publication of a new medium-term debt management strategy was reset for December 2022—after the underlying medium-term budget framework is finalized—and the SB on streamlining VAT exemptions was postponed pending further Fund TA. New QPCs and ITs are proposed for March and June 2023 along with new structural benchmarks. Staff support the request to modify the end-March 2023 and end-June 2023 ITs. Moreover, staff support the modification request relative to the definition of the IT on the floor of governmental social spending in the TMU. The definition of social spending has been broadened to include a variety of social programs that were previously classified as “wages and salaries” and “goods and services”. The need to make this change became apparent when the Home Carers Agency was split off from the Agency for Social Protection, and the associated expenditures were reclassified as “wages and salaries” and “goods and services”.

**39. 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. International reserves are projected to record around 3.2 months of prospective imports by end-2022, supported by ongoing financial support from the Fund, and other IFIs (World Bank US\$ 30.5 million; AfDB US\$20 million, Trade and Development Bank US\$13 million). Reserves are expected to be equivalent to 4.6 months of imports over the medium term.

<b>Seychelles: Financing Gap and Sources of Financing</b> (Millions of US dollars, unless otherwise specified)		
	<b>2022</b>	<b>2023</b>
<b>Current account balance</b>	<b>-131.2</b>	<b>-99.3</b>
<i>(In percent of GDP)</i>	-6.7%	-4.9%
Balance of goods and services	-8.7	23.3
Balance on primary income	-89.8	-97.7
Balance on secondary income	-32.6	-24.9
<b>Capital account, net</b>	5.6	9.2
<b>Financial account, net</b> <sup>1, 2</sup>	0.4	-94.9
Direct investment, net	-275.7	-266.3
Portfolio investment, net	15.5	19.0
Other investment, net <sup>2</sup>	260.6	152.4
SDR allocation	-	-
<b>Overall balance</b> <sup>2</sup>	<b>-126.0</b>	<b>4.8</b>
Change in gross official reserves (increase: +)	-50.0	55.9
<b>Financing gap (1)</b>	<b>-76.0</b>	<b>-51.0</b>
<i>(In percent of GDP)</i>	-3.9%	-2.5%
<b>Expected budget support (2)</b>	<b>63.5</b>	<b>45.0</b>
World Bank	30.5	25.0
African Development Bank	20.0	20.0
Others	13.0	0.0
<b>Residual Financing gap (1+2)</b>	<b>-12.5</b>	<b>-6.0</b>
<b>Change in liabilities to IMF, net</b>	<b>12.5</b>	<b>6.0</b>
EFF Purchases	17.5	17.3
<i>(In percent of GDP)</i>	0.9%	0.9%
Repurchases	5.0	11.2

Source: Authorities and IMF staff estimates.

<sup>1</sup> Per STA recommendations, net lending under financial account is recorded as positive following BPM6 guidance.

<sup>2</sup> Excluding expected budget support, therefore different from BOP.

**40. 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.<sup>18</sup> The authorities' commitment to the program and their strong repayment history following previous Fund programs provide assurance. The Fund credit-to-GDP ratio will peak at 6.8 percent in 2023. This is higher than in most recent EFF cases, reflecting Seychelles' relatively small GDP size. The Fund credit to GIR ratio is projected to peak at 20.2 percent in 2022. 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

**41. The economy continues to rebound strongly, and the outlook is favorable.** Real GDP growth outlook for 2022 is very strong (10.6 percent), as the recovery of the tourism sector continues to accelerate, with tourism arrivals expected near pre-pandemic levels. However, the recovery is uneven across sectors and within the tourism sector, as smaller and local tourism establishments are not recovering to the same extent as large international ones. Overall, the economy is expected to continue its rebound in 2023, though at a slower pace (5.4 percent).

**42. Inflation was relatively contained in 2022 but is expected to accelerate in 2023.** Even though Seychelles depends extensively on imports, its inflation for 2022 is subdued, as the lagged effect of the rupee appreciation in 2021 and the forward purchase of fuel have cushioned the country against the increase of prices in international markets. As this cushion fades in 2023, inflation is expected to pick up moderately.

**43. The staff supports the authorities' vigilance against inflation risks and their readiness to tighten the monetary policy stance if needed.** The accommodative monetary policy stance which remained unchanged since 2020 has served the economy well in view of the remaining output gap and subdued inflation. As economic recovery becomes broad based and the lagged effect of the rupee appreciation fades, inflationary pressure could emerge. Staff supports the central bank's vigilance against such pressures and a proactive and forward-looking response. The exchange rate should continue being used as a shock absorber, with foreign exchange interventions limited to smoothing out disorderly exchange rate fluctuations.

**44. The authorities remain committed to reducing debt vulnerabilities and fiscal risks.** Fiscal consolidation is expected to continue at a strong pace in 2022 and 2023 and gross financing needs remain on a firm downward path over the medium term. The debt-to-GDP ratio is expected to decline below 50 percent of GDP by 2026.

**45. Risks to the outlook remain high.** The main risks relate to an intensification of the spillovers from Russia's war in Ukraine as well as worse economic prospects in Seychelles' key tourism markets (Russia, the European Union, and the United Kingdom). A resurgence of COVID-19,

<sup>18</sup> 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.

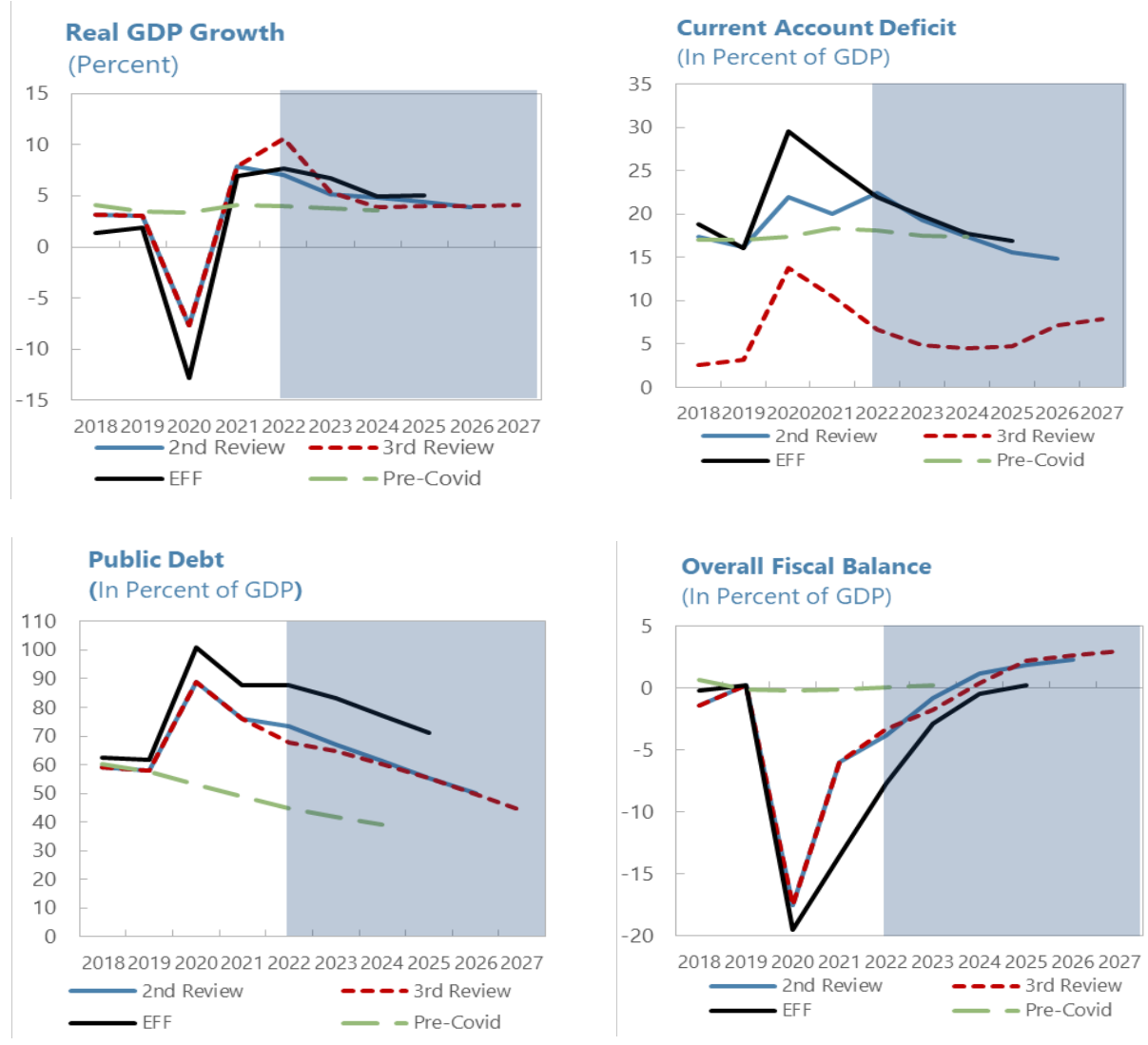
and higher NPLs from legacy forborne loans remain near-term risks. Over the medium and long term, climate change constitutes a risk that the authorities should address.

**46. The financial sector remains resilient, weathering the impact from COVID-19, but risks remain.** NPLs have increased, mainly due to the withdrawal of forbearance measures in February 2022. The banking system remains adequately capitalized. Credit growth remains weak but there are signs of recovery in local currency lending with a gradual improvement in investor confidence, while foreign currency lending contracted moderately.

**47. The authorities continue to make progress on their governance agenda.** The authorities have taken important steps to improve the transparency of beneficial ownership information (BO), including international business companies (IBCs). Amendments to the BO Act should ensure that BO information is accurate, adequate, up-to-date, and effectively accessible by competent authorities.

**48. Staff supports the authorities' request for completion of the third review under the Extended Fund Facility.** Staff also supports the authorities request for modification of March and June 2023 ITs. The attached letter of Intent and Memorandum of Economic and Financial Policies set out appropriate policies to pursue program objectives. The capacity to repay the Fund is adequate but subject to high risks, and risks to program implementation are manageable.

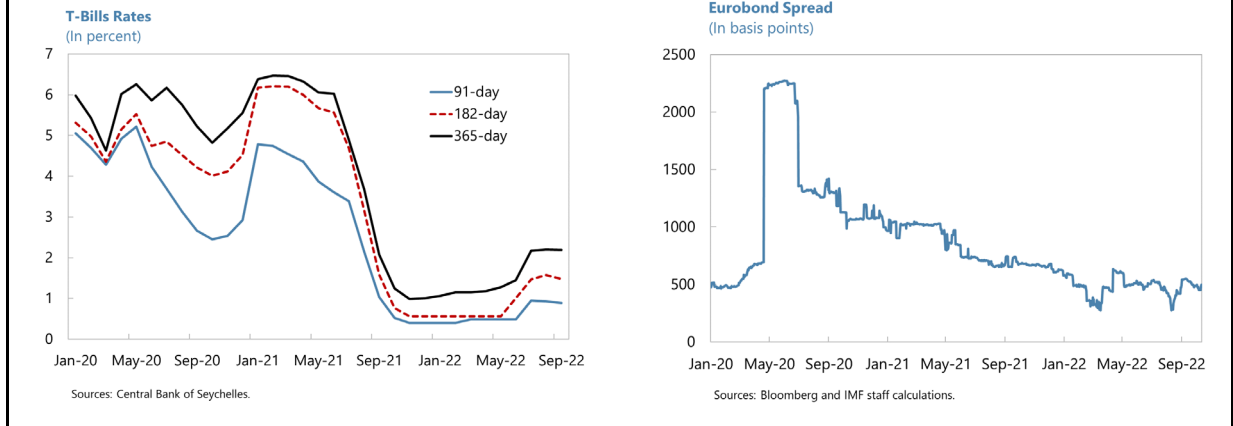
Figure 5. Seychelles: Indicators of Economic Activity



Sources: Seychelles authorities, and IMF Staff calculations.



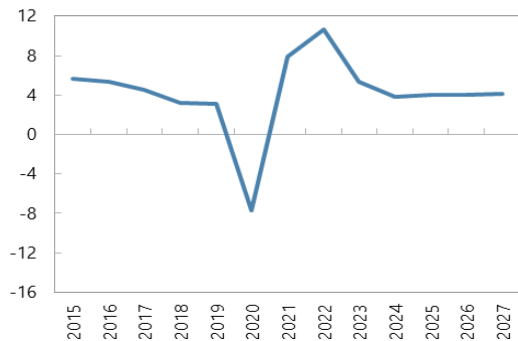
**Figure 6. Seychelles: Improved Debt Outlook**



**Figure 7. Seychelles: Macroeconomic Indicators, 2015-27**

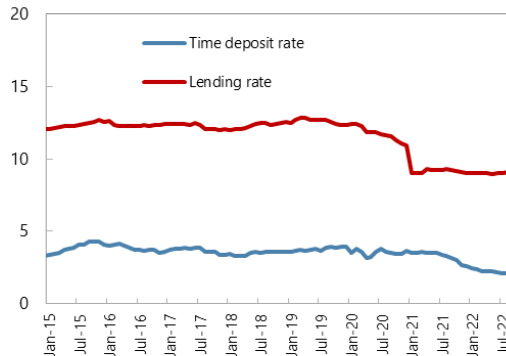
The economy experienced a V-shape recovery but faces yet another shock...

**Real GDP Growth, 2015-27 (In Percent)**



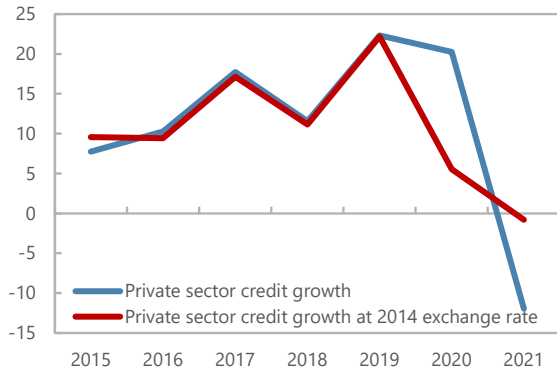
Interest rates remain globally stable...

**Interest Rates, Jan'15-Aug'22 (In Percent)**



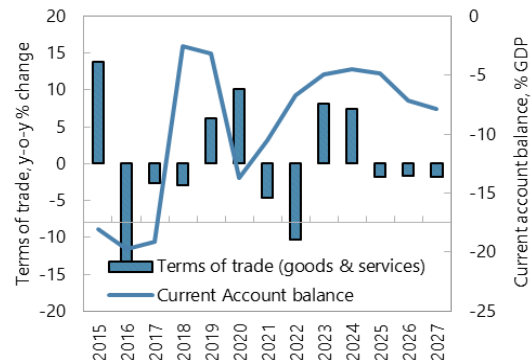
Private sector credit reflects the impact of currency movements...

**Credit to the Private Sector, 2015-21 (Year-over-year growth in percent)**



Strong recovery in tourism contributed to improvements in external balance...

**External Balance and Terms of Trade, 2015-27**

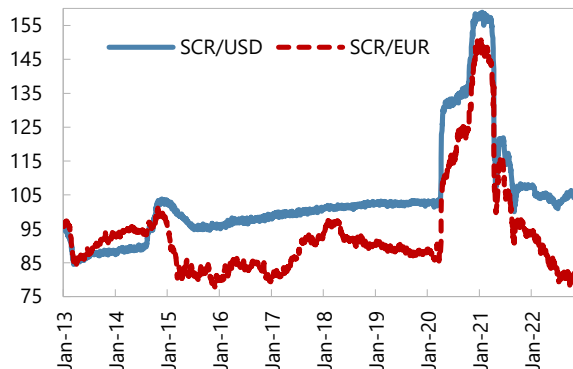


Sources: Seychelles authorities, and IMF Staff calculations.

**Figure 8. Seychelles: Macroeconomic Developments and Projections**

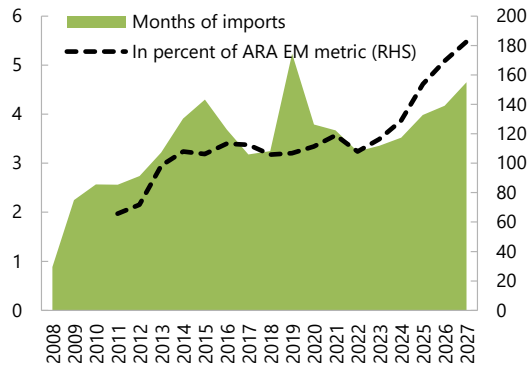
Recent appreciation partly offset the 2020 depreciation....

**Daily Exchange Rates Index, Jan'13-Oct'22**  
(December 31, 2011 = 100)



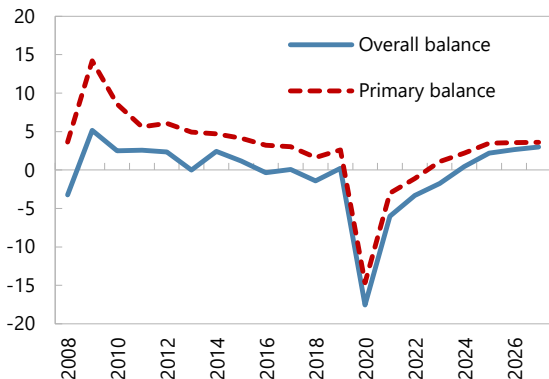
Reserves are reduced slightly due to higher demand for FX for imports....

**Reserves Adequacy, 2008-27<sup>1</sup>**



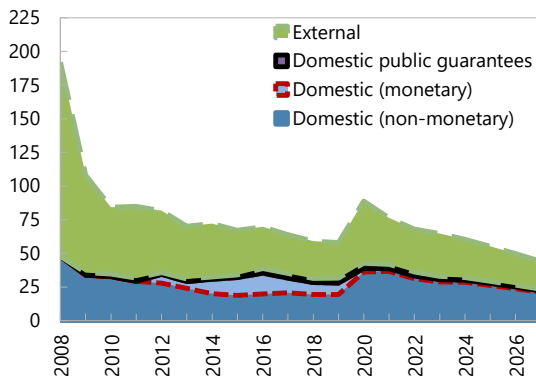
Fiscal policy mitigates the impact of surge in commodity prices

**Fiscal Balances, 2008-27**  
(Percent of GDP)



...while preserving debt sustainability....

**Stock of Public Debt, 2008-27**  
(Percent of GDP)



<sup>1</sup> 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

	2020	2021	2022	2023	2024	2025	2026	2027
	Act.		Proj.					
(Annual percent change, unless otherwise indicated)								
<b>National income and prices</b>								
Nominal GDP (millions of Seychelles rupees)	22,211	24,611	27,785	30,495	32,825	35,238	37,822	40,503
Real GDP (millions of Seychelles rupees)	20,196	21,792	24,111	25,406	26,386	27,442	28,551	29,718
Real GDP	-7.7	7.9	10.6	5.4	3.9	4.0	4.0	4.1
CPI (annual average)	1.2	9.8	3.0	4.5	3.8	3.5	3.3	3.0
CPI (end-of-period)	3.8	7.9	3.8	4.2	3.6	3.4	3.2	3.0
GDP deflator average	1.8	2.7	2.0	4.2	3.6	3.2	3.2	2.9
<b>Money and credit</b>								
Broad money	29.1	5.8	2.6	...	...	...	...	...
Reserve money (end-of-period)	40.4	11.1	...	...	...	...	...	...
Velocity (GDP/broad money)	0.9	0.9	1.0	...	...	...	...	...
Money multiplier (broad money/reserve money)	3.9	3.7	...	...	...	...	...	...
Credit to the private sector	20.2	-11.9	3.3	10.5	9.3	7.8	7.6	7.3
(Percent of GDP, unless otherwise indicated)								
<b>Savings-Investment balance</b>								
External savings	13.7	10.5	6.7	4.9	4.5	4.8	7.1	7.9
Gross national savings	8.4	15.1	17.7	20.8	22.1	21.9	19.6	18.8
<i>Of which</i> : government savings	-13.0	-3.0	0.5	2.9	6.4	7.6	7.6	7.9
private savings	21.4	18.1	17.2	18.0	15.8	14.3	12.0	10.9
Gross investment	22.1	25.6	24.4	25.7	26.7	26.7	26.7	26.7
<i>Of which</i> : public investment <sup>1</sup>	4.6	5.3	4.0	5.2	6.2	6.1	6.1	6.1
private investment	17.5	20.3	20.4	20.5	20.5	20.6	20.6	20.6
Private consumption	40.0	44.9	44.1	42.2	43.0	46.3	48.2	49.4
(Percent of GDP)								
<b>Government budget <sup>4</sup></b>								
Total revenue, excluding grants	32.2	31.2	32.5	33.8	34.5	34.2	34.4	34.2
Expenditure and net lending	51.5	40.0	36.5	36.8	34.7	32.8	32.6	32.0
Current expenditure	45.2	34.5	32.5	31.0	28.4	26.8	26.8	26.3
Capital expenditure <sup>1</sup>	4.6	5.4	4.0	5.2	6.2	6.1	6.3	6.2
Overall balance, including grants	-18.4	-5.6	-3.3	-1.8	0.4	2.2	2.7	3.0
Primary balance	-14.7	-3.0	-1.1	1.1	2.2	3.5	3.6	3.6
Total government and government-guaranteed debt <sup>2</sup>	88.7	76.2	67.9	64.6	60.3	55.3	49.7	44.1
<b>External sector</b>								
Current account balance including official transfers (in percent of GDP)	-13.7	-10.5	-6.7	-4.9	-4.5	-4.8	-7.1	-7.9
Total external debt outstanding (millions of U.S. dollars) <sup>3</sup>	5,049	5,261	5,301	5,413	5,499	5,634	5,750	5,879
(percent of GDP)	400.1	361.1	270.9	267.0	252.3	241.0	230.0	215.5
Terms of trade (=deterioration)	10.1	-4.6	-10.3	8.2	7.4	6.8	0.0	0.0
Gross official reserves (end of year, millions of U.S. dollars)	575	702	652	708	796	971	1,086	1,186
Months of imports, c.i.f.	3.8	3.7	3.2	3.4	3.5	4.0	4.2	4.6
In percent of Assessing Reserve Adequacy (ARA) metric	111.3	119.1	108.0	116.2	128.8	153.7	169.5	182.5
<b>Exchange rate</b>								
Seychelles rupees per US\$1 (end-of-period)	21.0	14.7	...	...	...	...	...	...
Seychelles rupees per US\$1 (period average)	17.6	16.9	...	...	...	...	...	...

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

<sup>1</sup> Includes onlending to the parastatals for investment purposes.

<sup>2</sup> Includes debt issued by the Ministry of Finance for monetary purposes.

<sup>3</sup> Includes private external debt.

<sup>4</sup> 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.	2nd review	Act.	2nd review	3rd review	2nd review	3rd review	2nd review	3rd review	2nd review	3rd review	2nd review	3rd review	2nd review	3rd review
(In millions of US dollars, unless otherwise indicated)															
Current account balance (+ surplus; - deficit)	-173	-293	-153	-413	-131	-382	-99	-380	-98	-366	-112	-373	-178	-377	-216
(percent of GDP)	-13.7	-20.1	-10.5	-22.4	-6.7	-19.3	-4.9	-17.4	-4.5	-15.6	-4.8	-14.9	-7.1	-14.2	-7.9
Balance of goods and services (+ surplus; - deficit)	-92	-215	-70	-329	-9	-283	23	-276	47	-256	9	-253	-43	-249	-65
Exports of goods	473	516	516	559	540	565	556	573	604	594	642	623	678	656	721
Of which: oil re-exports	149	162	162	202	182	196	194	191	222	189	221	188	224	191	229
Of which: tuna exports	252	276	276	289	289	298	306	307	322	316	348	326	377	335	410
Imports of goods	832	1,022	1,023	1,287	1,262	1,320	1,345	1,373	1,408	1,446	1,513	1,525	1,661	1,601	1,796
Of which: oil imports	144	197	197	297	308	280	326	272	317	269	316	269	320	273	327
Exports of services	767	722	1,235	892	1,745	997	1,882	1,127	1,973	1,235	2,081	1,322	2,205	1,400	2,337
Of which: tourism earnings	327	310	588	402	967	468	1,005	528	1,070	598	1,137	677	1,208	759	1,284
Imports of services	500	431	798	493	1,032	525	1,069	602	1,121	638	1,201	673	1,266	703	1,327
Balance on primary income (+ surplus; - deficit)	-67	-80	-83	-75	-90	-82	-98	-87	-105	-95	-81	-103	-93	-112	-103
Of which: interest due	33	30	30	30	31	28	28	27	26	24	23	30	29	33	32
transfers of profits and dividends	11	4	4	8	8	8	8	8	8	8	8	8	8	8	8
Balance on secondary income (+ surplus; - deficit)	-13	2	0	-9	-33	-16	-25	-18	-40	-15	-40	-17	-42	-17	-48
Of which: general government, net	18	19	31	16	16	16	31	13	15	13	15	12	16	13	15
Capital account	21	27	24	15	6	39	9	46	11	42	16	42	19	42	21
Financial account <sup>1</sup>	-93	-346	-207	-381	-63	-368	-140	-331	-193	-340	-282	-358	-286	-388	-310
Direct investment, net	-135	-148	-160	-194	-276	-204	-266	-240	-267	-272	-340	-293	-359	-312	-383
Abroad	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7
In Seychelles	128	141	153	187	268	197	259	233	259	265	333	286	352	305	375
Of which: offshore sector	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Portfolio investment, net	97	-13	-13	15	15	9	19	9	16	9	16	9	16	9	16
Other investment, net	-54	-184	-34	-202	197	-172	107	-100	57	-77	43	-74	57	-85	57
Government and government-guaranteed	1	-37	-37	-41	-38	-46	-17	8	16	35	20	47	24	31	11
Disbursements	35	73	73	76	80	85	66	37	36	13	27	11	23	11	23
Project loans	4	9	9	29	16	43	21	30	29	13	22	11	23	11	23
Program loans	31	64	64	48	64	42	45	7	7	0	5	0	0	0	0
IMF	31	50	50	50	50	88	88	0	0	0	0	0	0	0	0
World Bank	21	44	44	28	31	22	25	7	7	0	0	0	0	0	0
African Development Bank	10	20	20	20	20	20	20	0	0	0	0	0	0	0	0
Others	0	0	0	0	13	0	0	0	0	0	0	0	0	0	0
SDR allocation	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Amortization	-36	-36	-36	-35	-42	-38	-49	-45	-52	-48	-47	-58	-47	-41	-34
Others	-55	-147	3	-161	235	-126	125	-108	42	-112	23	-121	33	-116	47
Net errors and omissions	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Overall balance	-60	80	78	-18	-62	25	50	-3	106	16	185	27	127	54	115
Financing	60	-80	-78	18	62	-25	-50	3	-106	-16	-185	-27	-127	-54	-115
Change in net international reserves (increase: +)	-60	80	78	-18	-62	25	50	-3	106	16	185	27	127	54	115
Change in gross official reserves (increase: +)	-35	143	141	-5	-50	32	56	-22	88	6	176	14	115	37	100
Change in liabilities to IMF, net	25	63	63	13	13	6	6	-19	-18	-10	-9	-14	-13	-16	-15
Purchases/drawings	32	68	68	18	17	18	17	0	0	0	0	0	0	0	0
Repurchases/repayments	7	6	6	5	5	12	11	19	18	10	9	14	13	16	15
Other net foreign assets (increase: +)	0	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	0
Financing gap	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<i>Memorandum items:</i>															
Exports G&S growth, percent	-40.5	20.9	41.3	17.2	30.5	7.7	6.7	8.8	5.7	7.6	5.7	6.4	5.9	5.7	6.1
Tourism growth, percent	-61.8	39.8	79.8	30.0	64.4	16.2	4.0	13.0	6.4	13.2	6.3	13.2	6.3	12.1	6.3
Exports of goods volume growth, percent	17.4	-15.6	-15.7	-14.1	-19.4	10.6	15.9	7.1	18.5	7.4	15.3	3.5	4.2	4.1	4.9
Imports G&S growth, percent	-34.2	18.8	36.7	22.5	26.0	3.7	5.3	7.0	4.7	5.6	7.3	5.4	7.8	4.8	6.7
Imports of goods volume growth, percent	-18.6	-0.7	-0.3	7.9	5.8	5.8	10.9	5.7	6.5	6.2	9.0	5.8	10.1	5.0	8.5
Exports G&S, percent of GDP	98	85	120	79	117	79	120	78	118	78	116	77	115	78	112
Imports G&S, percent of GDP	106	100	125	97	117	93	119	91	116	89	116	88	117	87	114
FDI, percent of GDP	10.7	10.2	11.0	10.5	14.1	10.3	13.1	11.0	12.2	11.6	14.6	11.7	14.4	11.8	14.0
Gross official reserves (stock, e.o.p.) <sup>2</sup>	575	702	702	697	652	729	708	707	796	713	971	726	1,086	764	1,186
(Months of imports of goods & services)	3.8	4.7	3.7	4.5	3.2	4.4	3.4	4.1	3.5	3.9	4.0	3.8	4.2	3.9	4.6
Percentage of IMF reserve adequacy metric	111	120	119	114	108	113	116	106	129	104	154	103	170	106	182
Government and government-guaranteed external debt	489	575	575	653	621	723	648	697	620	652	611	592	582	545	555
(Percent of GDP)	46.2	39.5	39.5	35.4	31.7	36.6	31.9	31.9	28.4	27.8	26.1	23.6	23.3	20.6	20.4
GDP (Millions of U.S. dollars)	1,262	1,457	1,457	1,842	1,957	1,977	2,028	2,182	2,180	2,348	2,338	2,511	2,501	2,649	2,728

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

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

Table 3a. Seychelles: Consolidated Government Operations, 2020-27

	2020	2021		2022		2023		2024		2025		2026		2027	
	Act.	2nd review	Act.	2nd review	3rd review	2nd review	3rd review	2nd review	3rd review	2nd review	3rd review	2nd review	3rd review	2nd review	3rd review
	(Millions of Seychelles rupees)														
Total revenue and grants	7,543	8,367	8,367	9,200	9,209	10,771	10,683	11,759	11,542	12,439	12,322	13,240	13,343	14,041	14,197
Total revenue	7,156	7,667	7,667	8,960	9,026	10,034	10,294	11,114	11,334	11,860	12,057	12,661	12,998	13,451	13,853
Tax	6,369	6,721	6,721	7,764	7,783	8,960	9,216	10,016	10,246	10,848	11,042	11,626	11,975	12,394	12,821
Personal income tax	1,023	1,030	1,030	1,134	1,099	1,233	1,226	1,400	1,319	1,513	1,416	1,548	1,520	1,628	1,627
Trade tax	260	226	226	285	286	340	336	348	355	390	370	438	386	479	402
Excise tax	1,268	1,207	1,207	1,434	1,456	1,727	1,696	1,855	1,868	2,066	2,017	2,200	2,176	2,367	2,352
Goods and services tax (GST) / VAT	2,117	2,326	2,326	2,979	3,049	3,283	3,349	3,674	3,659	3,850	3,928	4,210	4,302	4,454	4,606
Business tax	1,204	1,457	1,457	1,475	1,445	1,897	1,873	2,201	2,270	2,416	2,483	2,567	2,716	2,764	2,908
Corporate Social Responsibility Tax (CSR)	102	61	61	8	7	0	0	0	0	0	0	0	0	0	0
Marketing Tourism Tax (MTT)	62	60	60	67	68	75	74	90	80	102	86	114	93	124	99
Other	334	310	310	332	338	354	613	400	645	460	692	497	733	527	776
Nontax	787	945	945	1,196	1,244	1,074	1,077	1,098	1,088	1,012	1,015	1,035	1,023	1,057	1,032
Fees and charges	263	366	366	298	347	336	392	360	409	366	426	369	429	372	433
Dividends from parastatals	414	441	441	758	756	597	597	545	597	545	597	618	548	638	550
Other	110	138	138	54	54	53	48	51	45	49	44	48	46	47	49
External grants	387	700	700	240	182	737	390	645	209	579	265	579	345	590	344
Expenditure and net lending	11,440	9,843	9,843	10,257	10,132	11,021	11,218	11,394	11,400	11,807	11,553	12,386	12,338	13,033	12,979
Current expenditure	10,037	8,496	8,496	9,049	9,041	8,843	9,465	8,937	9,310	9,264	9,443	9,725	10,129	10,295	10,653
Primary current expenditure	9,397	7,757	7,757	8,375	8,423	8,078	8,597	8,325	8,734	8,757	8,980	9,318	9,777	9,965	10,410
Wages and salaries <sup>1</sup>	2,845	2,760	2,760	3,076	3,009	3,213	3,451	3,456	3,669	3,806	3,759	4,066	4,109	4,233	4,405
Goods and services <sup>1</sup>	2,915	2,827	2,827	3,153	3,326	3,029	3,600	3,065	3,532	3,149	3,616	3,464	3,906	3,810	4,210
Transfers <sup>1</sup>	3,607	2,123	2,123	2,098	2,035	1,789	1,546	1,757	1,533	1,755	1,605	1,747	1,762	1,881	1,795
Social program of central government	1,512	468	468	303	317	298	298	296	280	296	285	296	314	430	345
Transfers to public sector from central government	435	240	240	267	273	65	45	63	36	42	38	42	48	42	50
Benefits and programs of Social Security Fund	1,660	1,415	1,415	1,528	1,445	1,427	1,203	1,398	1,217	1,417	1,282	1,409	1,400	1,409	1,400
Other	31	46	46	47	53	47	0	47	0	47	0	41	0	41	0
Interest due	640	739	739	674	618	765	868	612	576	507	463	407	352	330	243
Foreign interest	292	259	259	194	200	183	184	158	155	132	122	104	100	83	77
Domestic interest	348	480	480	480	418	582	684	454	421	375	341	303	252	247	166
Capital expenditure	1,032	1,248	1,248	1,068	960	1,672	1,553	1,880	1,953	1,921	2,093	2,042	2,395	2,180	2,519
Domestically financed	599	394	394	732	789	794	1,143	907	1,143	1,144	1,591	1,304	1,754	1,428	1,865
Foreign financed	432	853	853	335	170	878	410	973	539	777	501	739	641	751	653
Net lending	222	41	41	91	81	456	151	426	48	481	-32	471	-235	400	-242
Contingency	149	58	58	50	50	50	50	150	88	140	50	148	50	158	50
Primary balance	-3,257	-736	-736	-383	-304.6	515	333	978	719	1,139	1,231	1,260	1,356	1,338	1,460
Overall balance, commitment basis <sup>2</sup>	-3,897	-1,475	-1,475	-1,057	-923	-250	-535	366	143	632	769	854	1,005	1,008	1,217
Change in float	-189	86	86	0	0	0	0	0	0	0	0	0	0	0	0
Overall balance, cash basis (after grants)	-4,086	-1,390	-1,390	-1,057	-923	-250	-535	366	143	632	769	854	1,005	1,008	1,217
Financing	4,086	1,390	1,390	1,057	923	250	535	-366	-143	-632	-769	-854	-1,005	-1,008	-1,217
Foreign financing	652	1,480	1,480	807	720	795	349	-393	-506	-660	-442	-887	-549	-694	-384
Disbursements	1,176	2,118	2,118	1,406	1,383	1,552	1,251	543	547	198	400	160	354	161	348
Project loans	46	153	153	426	233	650	315	440	441	198	332	160	354	161	348
Program/budget support	1,130	1,965	1,965	980	1,150	903	937	103	105	0	68	0	0	0	0
Of which RFI	535	0	0	0	0	0	0	0	0	0	0	1	1	2	2
Scheduled amortization	-523	-639	-639	-599	-663	-757	-902	-936	-1,053	-857	-842	-1,047	-903	-855	-732
Of which Paris Club buy-back															
Domestic financing, net	3,191	-28	-28	164	116.6	-633	94	-62	275	-62	-415	-57	-545	-406	-924
Bank financing	2,703	-193	-193	147	105	-570	85	-56	247	-56	-374	-52	-491	-365	-831
CBS	1,071	-781	-781	485	485	0	0	0	0	0	0	0	0	0	0
Commercial banks	1,632	588	588	-338	-380	-570	85	-56	247	-56	-374	-52	-491	-365	-831
Nonbank financing	488	165	165	16	12	-63	9	-6	27	-6	-42	-6	-55	-41	-92
Privatization and long-term lease of fixed assets	0	0	0	86	86	88	92	90	89	90	89	91	90	92	90
Statistical discrepancy	242	-1,152	-1,152	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum item:															
Pension Fund operating expenses	33	36	36	38	37	39	39	40	40	40	40	41	41	41	41
External debt service due	816	898	898	793	863	940	1,086	1,095	1,208	989	964	1,150	1,003	938	809

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

<sup>1</sup> Wage and salaries and goods and services (to be) spent by government agencies other than Ministries are reclassified into these items from transfers.<sup>2</sup> Only interest payments on foreign debt are on a commitment basis. Other expenditures are recorded when checks are issued or transfers initiated.

**Table 3b. Seychelles: Consolidated Government Operations, 2020-27<sup>1</sup>**  
(Percent of GDP)

	2020	2021		2022		2023		2024		2025		2026		2027	
	Act.	2nd review	Act.	2nd review	3rd review	2nd review	3rd review	2nd review	3rd review	Proj.		2nd review	3rd review	2nd review	3rd review
		(Percent of GDP, unless otherwise indicated)													
Total revenue and grants	34.0	34.0	34.0	33.5	33.1	36.2	35.0	36.6	35.2	36.0	35.0	35.8	35.3	35.7	35.1
Total revenue	32.2	31.2	31.2	32.6	32.5	33.7	33.8	34.5	34.5	34.3	34.2	34.3	34.4	34.2	34.2
Tax	28.7	27.3	27.3	28.3	28.0	30.1	30.2	31.1	31.2	31.4	31.3	31.5	31.7	31.5	31.7
Personal income tax	4.6	4.2	4.2	4.1	4.0	4.1	4.0	4.4	4.0	4.4	4.0	4.2	4.0	4.1	4.0
Trade tax	1.2	0.9	0.9	1.0	1.0	1.1	1.1	1.1	1.1	1.1	1.0	1.2	1.0	1.2	1.0
Excise tax	5.7	4.9	4.9	5.2	5.2	5.8	5.6	5.8	5.7	6.0	5.7	6.0	5.8	6.0	5.8
Goods and services tax (GST) / VAT	9.5	9.5	9.5	10.8	11.0	11.0	11.0	11.4	11.1	11.1	11.1	11.4	11.4	11.3	11.4
Business tax	5.4	5.9	5.9	5.4	5.2	6.4	6.1	6.8	6.9	7.0	7.0	6.9	7.2	7.0	7.2
Corporate Social Responsibility Tax (CSR)	0.5	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Marketing Tourism Tax (MTT)	0.3	0.2	0.2	0.2	0.2	0.3	0.2	0.3	0.2	0.3	0.2	0.3	0.2	0.3	0.2
Other	1.5	1.3	1.3	1.2	1.2	1.2	2.0	1.2	2.0	1.3	2.0	1.3	1.9	1.3	1.9
Nontax	3.5	3.8	3.8	4.4	4.5	3.6	3.5	3.4	3.3	2.9	2.9	2.8	2.7	2.7	2.5
Fees and charges	1.2	1.5	1.5	1.1	1.2	1.1	1.3	1.1	1.2	1.1	1.2	1.0	1.1	0.9	1.1
Dividends from parastatals	1.9	1.8	1.8	2.8	2.7	2.0	1.8	1.9	1.7	1.7	1.5	1.7	1.4	1.6	1.4
Other	0.5	0.6	0.6	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
External grants	1.7	2.8	2.8	0.9	0.7	2.5	1.3	2.0	0.6	1.7	0.8	1.6	0.9	1.5	0.8
Expenditure and net lending	51.5	40.0	40.0	37.3	36.5	37.0	36.8	35.4	34.7	34.1	32.8	33.5	32.6	33.1	32.0
Current expenditure	45.2	34.5	34.5	32.9	32.5	29.7	31.0	27.8	28.4	26.8	26.8	26.3	26.8	26.2	26.3
Primary current expenditure	42.3	31.5	31.5	30.5	30.3	27.1	28.2	25.9	26.6	25.3	25.5	25.2	25.9	25.3	25.7
Wages and salaries <sup>2</sup>	12.8	11.2	11.2	11.2	10.8	10.8	11.3	10.7	11.2	11.0	10.7	11.0	10.9	10.8	10.9
Goods and services <sup>2</sup>	13.1	11.5	11.5	11.5	12.0	10.2	11.8	9.5	10.8	9.1	10.3	9.4	10.3	9.7	10.4
Transfers <sup>2</sup>	16.2	8.6	8.6	7.6	7.3	6.0	5.1	5.5	4.7	5.1	4.6	4.7	4.7	4.8	4.4
Social program of central government	6.8	1.9	1.9	1.1	1.1	1.0	1.0	0.9	0.9	0.9	0.8	0.8	0.8	1.1	0.9
Transfers to public sector from central government	2.0	1.0	1.0	1.0	1.0	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Benefits and programs of Social Security Fund	7.5	5.7	5.7	5.6	5.2	4.8	3.9	4.3	3.7	4.1	3.6	3.8	3.7	3.6	3.5
Other	0.1	0.2	0.2	0.2	0.2	0.2	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0
Interest due	2.9	3.0	3.0	2.5	2.2	2.6	2.8	1.9	1.8	1.5	1.3	1.1	0.9	0.8	0.6
Foreign interest	1.3	1.1	1.1	0.7	0.7	0.6	0.6	0.5	0.5	0.4	0.3	0.3	0.3	0.2	0.2
Domestic interest	1.6	1.9	1.9	1.7	1.5	2.0	2.2	1.4	1.3	1.1	1.0	0.8	0.7	0.6	0.4
Capital expenditure	4.6	5.1	5.1	3.9	3.5	5.6	5.1	5.8	6.0	5.6	5.9	5.5	6.3	5.5	6.2
Domestically financed	2.7	1.6	1.6	2.7	2.8	2.7	3.7	2.8	4.3	3.3	4.5	3.5	4.6	3.6	4.6
Foreign financed	1.9	3.5	3.5	1.2	0.6	2.9	1.3	3.0	1.6	2.2	1.4	2.0	1.7	1.9	1.6
Net lending	1.0	0.2	0.2	0.3	0.3	1.5	0.5	1.3	0.1	1.4	-0.1	1.3	-0.6	1.0	-0.6
Contingency	0.7	0.2	0.2	0.2	0.2	0.2	0.2	0.5	0.3	0.4	0.1	0.4	0.1	0.4	0.1
Primary balance	-14.7	-3.0	-3.0	-1.4	-1.1	1.7	1.1	3.0	2.2	3.3	3.5	3.4	3.6	3.4	3.6
Overall balance, commitment basis <sup>3</sup>	-17.5	-6.0	-6.0	-3.8	-3.3	-0.8	-1.8	1.1	0.4	1.8	2.2	2.3	2.7	2.6	3.0
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in float	-0.8	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis (after grants)	-18.4	-5.6	-5.6	-3.8	-3.3	-0.8	-1.8	1.1	0.4	1.8	2.2	2.3	2.7	2.6	3.0
Financing	18.4	5.6	5.6	3.8	3.3	0.8	1.8	-1.1	-0.4	-1.8	-2.2	-2.3	-2.7	-2.6	-3.0
Foreign financing	2.9	6.0	6.0	2.9	2.6	2.7	1.1	-1.2	-1.5	-1.9	-1.3	-2.4	-1.5	-1.8	-0.9
Disbursements	5.3	8.6	8.6	5.1	5.0	5.2	4.1	1.7	1.7	0.6	1.1	0.4	0.9	0.4	0.9
Project loans	0.2	0.6	0.6	1.5	0.8	2.2	1.0	1.4	1.3	0.6	0.9	0.4	0.9	0.4	0.9
Program/budget support	5.1	8.0	8.0	3.6	4.1	3.0	3.1	0.3	0.3	0.0	0.2	0.0	0.0	0.0	0.0
Of which RFI	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Scheduled amortization	-2.4	-2.6	-2.6	-2.2	-2.4	-2.5	-3.0	-2.9	-3.2	-2.5	-2.4	-2.8	-2.4	-2.2	-1.8
Of which Paris Club buy-back															
Domestic financing, net	14.4	-0.1	-0.1	0.6	0.4	-3.2	0.3	-0.2	0.8	1.3	-1.2	-0.2	-1.4	-1.0	-2.3
Bank financing	12.2	-0.8	-0.8	0.5	0.4	-3.5	0.3	-0.2	0.8	1.2	-1.1	-0.1	-1.3	-0.9	-2.1
CBS	4.8	-3.2	-3.2	1.8	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	7.3	2.4	2.4	-1.2	-1.4	-3.5	0.3	-0.2	0.8	1.2	-1.1	-0.1	-1.3	-0.9	-2.1
Nonbank	2.2	0.7	0.7	0.1	0.0	0.2	0.0	0.0	0.1	0.1	-0.1	0.0	-0.1	-0.1	-0.2
Privatization and long-term lease of fixed assets	0.0	0.0	0.0	0.3	0.3	0.4	0.3	0.3	0.3	0.0	0.3	0.2	0.2	0.2	0.2
Statistical discrepancy	1.1	-4.7	-4.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>															
Nominal GDP (millions of Seychelles Rupees)	22,211	24,611	24,611	27,482	27,785	29,786	30,495	32,171	32,825	34,592	35,238	36,958	37,822	39,321	40,503
Pension Fund operating expenses	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Public domestic debt <sup>4</sup>	38.6	38.5	38.5	32.6	33.0	28.3	30.4	29.4	30.1	29.3	27.5	28.2	25.0	24.1	22.0
Excluding t-bills issued for monetary purposes	36.0	36.5	36.5	30.2	31.2	26.2	28.7	27.4	28.5	27.5	26.1	26.5	23.7	22.8	20.8
Publicly guaranteed domestic debt	3.9	3.3	3.3	4.8	3.0	3.9	2.4	3.4	1.8	2.9	1.6	2.6	1.4	1.3	1.2

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

<sup>1</sup> 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.

<sup>2</sup> Wage and salaries and goods and services (to be) spent by government agencies other than Ministries are reclassified into these items from transfers.

<sup>3</sup> Only interest payments on foreign debt are on a commitment basis. Other expenditures are recorded when checks are issued or transfers initiated.

<sup>4</sup> Includes debt issued by the Ministry of Finance for monetary purposes, excludes guarantees.

Table 4. Seychelles: Depository Corporations Survey and Central Bank Accounts, 2017-22

	2017	2018	2019	2020	2021	2022		
	Act.					Mar	Jun	Dec
						Act.		Proj.
(Millions of Seychelles rupees)								
<b>Depository corporations survey</b>								
Net foreign assets	10,591	11,787	12,486	18,596	18,814	18,196	16,179	17,925
Central bank	6,819	7,086	7,645	11,427	9,519	9,153	8,357	...
Other depository corporations	3,771	4,700	4,841	7,169	9,295	9,043	7,822	...
Net domestic assets	5,297	5,328	7,008	6,564	7,815	8,008	8,663	9,395
Domestic credit	8,476	8,620	10,562	14,257	13,178	13,271	13,357	13,572
Net claims on the government	2,209	1,699	1,882	3,844	3,978	4,146	4,065	4,083
<i>Of which</i> : Government deposits at the Central Bank	-3,355	-2,829	-2,513	-1,638	-2,417	-1,837	-1,966	...
<i>Of which</i> : Change in monetary debt <sup>1</sup>	670.0	394.1	219.2	184.0	70.0	0.0	0.0	...
Credit to the economy	6,267	6,921	8,680	10,413	9,200	9,125	9,292	9,488
<i>Of which</i> : credit to the private sector	6,032	6,727	8,229	9,890	8,713	8,688	8,545	9,001
Other items, net	-3,179	-3,292	-3,554	-7,693	-5,363	-5,263	-4,694	-4,176
Broad money	15,888	17,115	19,494	25,160	26,629	26,204	24,842	27,320
Currency in circulation	1,116	1,169	1,228	1,460	1,500	1,450	1,404	...
Foreign currency deposits	6,115	7,060	7,987	11,796	12,568	11,954	10,518	...
Local currency deposits	8,657	8,886	10,278	11,904	12,561	12,800	12,920	...
<b>Central bank</b>								
Net foreign assets	6,819	7,086	7,645	11,427	9,519	9,153	8,357	...
Foreign assets	7,560	7,731	8,191	12,144	10,360	9,950	9,075	...
Foreign liabilities	741	645	545	716	841	797	718	...
Net domestic assets	-3,260	-3,366	-3,081	-5,020	-2,399	-1,683	-1,449	...
Domestic credit	-2,629	-2,651	-2,318	-1,121	-1,222	-799	-791	...
Government (net)	-1,731	-1,644	-1,328	-453	-1,225	-641	-770	...
Other depository corporations (net)	-705	-845	-873	-503	189	39	227	...
Other (parastatals)	-192	-162	-117	-166	-185	-197	-249	...
Other items, net	-631	-716	-763	-3,898	-1,177	-884	-658	...
Reserve money	3,559	3,720	4,564	6,408	7,120	7,470	6,908	...
Currency in circulation	1,116	1,169	1,228	1,460	1,500	1,450	1,404	...
Commercial bank reserves (includes cash in vault)	2,443	2,551	3,336	4,947	5,621	6,021	5,504	...
<i>Of which</i> : required reserves in foreign currency	841	924	924	924	924	924	924	...
required reserves in domestic currency	1,208	1,346	1,595	1,844	2,096	2,096	2,096	...
<i>Memorandum items:</i>								
Gross official reserves (millions of U.S. dollars)	546	551	581	559	702	694	648	...
Foreign currency deposits (millions of U.S. dollars)	442	503	567	562	855	834	750	...
Broad money growth (12-month percent change)	16.4	7.7	13.9	29.1	5.8	-2.5	-0.1	2.6
Credit to the private sector (12-month percent change)	17.8	11.5	22.3	20.2	-11.9	-8.6	-2.5	3.3
Reserve money (end-of-period; 12-month percent change)	18.9	4.5	22.7	40.4	11.1	35.8	13.3	...
Money multiplier (broad money/reserve money)	4.5	4.6	4.3	3.9	3.7	3.5	3.6	...
Velocity (GDP/broad money; end-of-period)	1.4	1.3	1.2	0.9	0.9	1.0	1.1	1.0

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

<sup>1</sup> Negative shows accumulation, positive shows retiring (debt that is not rolled over)

**Table 5. Seychelles: Financial Soundness Indicators for the Banking Sector, 2018-22**

	2018	2019	2020	2021				2022	
				Mar	Jun	Sep	Dec	Mar	Jun
(Percent, end-of-period)									
<b>Capital adequacy</b>									
Regulatory capital to risk weighted assets	20.5	19.5	17.1	18.8	19.7	22.0	22.7	23.6	20.0
Regulatory tier 1 capital to risk weighted assets	16.8	16.2	14.1	14.5	17.2	17.5	17.2	18.8	17.0
Capital to assets (net worth)	10.1	9.9	8.4	8.2	9.0	9.6	9.2	9.4	8.6
Net tangible capitalization <sup>1</sup>	10.1	10.0	8.5	8.3	9.1	9.7	9.3	9.5	8.6
<b>Asset quality</b>									
Foreign exchange loans to total loans	24.2	26.0	36.4	35.0	30.0	27.9	27.9	26.1	26.3
Non-performing loans to gross loans	3.5	2.7	3.3	4.4	5.0	4.9	5.5	7.3	7.3
Provision as percentage of non-performing loans	19.2	25.1	38.3	28.0	29.9	35.5	32.5	22.9	24.5
<b>Earnings and profitability</b>									
Return on assets (annualized)	3.7	2.5	1.0	2.8	2.0	4.0	2.6	2.2	2.1
Return on equity (annualized)	35.7	24.0	11.5	33.2	22.6	42.1	28.1	23.7	23.8
Interest margin to gross income	54.5	62.6	58.3	64.4	54.4	54.8	51.8	52.2	55.4
Noninterest expense to gross income	55.9	57.7	55.3	57.3	53.3	47.3	56.0	55.5	52.9
Net interest margin (annualized) <sup>2</sup>	4.2	9.4	7.4	1.8	3.7	5.8	7.3	1.7	3.6
Net noninterest margin (annualized) <sup>3</sup>	-0.8	-3.1	-1.7	-0.9	-2.3	-2.6	-2.8	-0.2	-0.8
Expense to income	61.4	63.7	60.7	69.4	75.7	67.5	65.0	59.5	57.3
Interest expense to gross income	14.4	16.6	13.6	13.6	16.0	14.0	12.4	9.8	10.1
<b>Liquidity</b>									
Core liquid assets to total assets <sup>4</sup>	45.2	44.1	44.1	38.1	41.0	43.6	43.6	46.3	43.3
Broad liquid assets to total assets <sup>5</sup>	58.2	55.3	57.3	52.5	57.5	60.3	59.4	61.1	59.3
Liquid assets (broad) to short term liabilities	63.7	60.6	62.3	58.0	64.4	67.7	66.3	68.0	65.3
Liquid assets (broad) to total liabilities	64.7	61.6	62.5	57.2	63.2	66.6	65.4	67.5	64.9
Liquid assets to deposit liabilities	68.5	65.3	67.8	61.3	68.2	70.8	69.4	71.6	69.6
<b>Foreign exchange exposure</b>									
Total long position in foreign exchange to capital	...	...	...	18.5	3.5	3.0	5.2	9.9	10.8
Total short position in foreign exchange to capital	...	...	...	-4.1	-7.6	-6.4	-4.3	-3.4	-2.9

Source: Central Bank of Seychelles.

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

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

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

<sup>4</sup> Core liquid assets include cash, balances with CBS, and deposits with other banks.

<sup>5</sup> 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, 2017-32

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
	(Millions of SDR)															
<b>Existing Fund credit</b>																
Stock <sup>1</sup>	29.3	24.8	19.7	37.6	81.6	84.4	75.9	62.7	55.7	46.9	36.9	28.3	19.3	10.2	1.1	0.0
Obligation	4.0	5.1	5.6	5.5	4.6	5.9	12.3	16.4	9.5	11.1	11.8	9.9	10.1	9.8	9.5	1.3
Principal (repayments/repurchases)	3.6	4.5	5.1	5.0	4.1	3.7	8.5	13.2	7.0	8.8	10.0	8.5	9.1	9.1	9.1	1.1
Charges and interest	0.4	0.5	0.5	0.5	0.5	2.2	3.9	3.2	2.5	2.3	1.7	1.4	1.1	0.7	0.4	0.2
Disbursements	4.9	0.0	0.0	22.9	48.0	6.5	...	...	...	...	...	...	...	...	...	...
<b>Prospective Fund credit</b>																
Disbursement	0.0	0.0	0.0	0.0	0.0	6.5	13.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock <sup>1</sup>	0.0	0.0	0.0	0.0	0.0	6.5	19.5	19.5	19.5	19.5	17.9	14.6	11.4	8.1	4.9	1.6
Obligations <sup>2</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.5	1.0	1.1	1.3	2.8	4.1	3.8	3.6	3.5	3.4
Principal (repayments/repurchases)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.6	3.3	3.3	3.3	3.3	3.3
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.5	1.0	1.1	1.3	1.2	0.9	0.5	0.4	0.3	0.2
<b>Stock of existing and prospective Fund credit <sup>1</sup></b>	29.3	24.8	19.7	37.6	81.6	90.9	95.4	82.2	75.2	66.4	54.7	43.0	30.6	18.3	6.0	1.6
In percent of quota	128.0	108.2	86.0	164.3	356.2	396.8	416.6	358.9	328.5	290.0	239.1	187.6	133.7	79.9	26.1	7.2
In percent of GDP	2.6	2.2	1.6	4.2	8.0	6.2	6.3	5.0	4.3	3.6	2.6	1.9	1.3	0.7	0.2	0.1
In percent of Government Revenues				12.2	23.5	18.9	17.9	14.3	12.4	10.2	7.5	5.4	3.6	2.0	0.6	0.2
In percent of exports of goods and services	2.7	1.6	1.3	4.4	6.5	5.3	5.2	4.3	3.7	3.1	2.4	1.8	1.2	0.6	0.2	0.0
In percent of gross reserves	7.6	6.3	4.7	9.4	16.3	18.5	18.0	13.9	10.4	8.3	6.3	4.6	3.0	1.7	0.5	0.1
<b>Obligations to the Fund from existing and prospective Fund arrangements</b>																
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	4.6	5.9	12.9	17.5	10.6	12.4	14.6	14.0	13.9	13.4	13.0	4.7
Principal (repayments/repurchases)	3.6	4.5	5.1	5.0	4.1	3.7	8.5	13.2	7.0	8.8	11.7	11.8	12.3	12.3	12.3	4.3
Charges and interest	0.5	0.5	0.5	0.5	0.5	2.2	4.4	4.3	3.6	3.6	2.9	2.2	1.6	1.1	0.7	0.4
In percent of quota <sup>3</sup>	17.6	22.1	24.5	23.9	20.1	25.9	56.1	76.3	46.1	54.0	63.8	61.2	60.6	58.7	56.8	20.4
In percent of GDP	0.4	0.4	0.5	0.6	0.4	0.4	0.8	1.1	0.6	0.7	0.7	0.6	0.6	0.5	0.5	0.2
In percent of Government Revenues				1.8	1.3	1.2	2.4	3.1	1.7	1.9	2.0	1.8	1.6	1.5	1.3	0.4
In percent of exports of goods and services	0.4	0.3	0.4	0.6	0.4	0.3	0.7	0.9	0.5	0.6	0.7	0.6	0.5	0.5	0.4	0.1
In percent of gross reserves	1.0	1.3	1.3	1.4	0.9	1.2	2.4	2.9	1.5	1.5	1.7	1.5	1.4	1.2	1.1	0.4

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

<sup>1</sup> End-of-period.

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

<sup>3</sup> 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, 2021-23<sup>1</sup>**

	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 <sup>2</sup>	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						
<i>o/w: EIB</i>	37.1	3.6	2.9						
<i>o/w: BADEA</i>	19.5	1.9	1.5						
Bilateral Creditors	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	0.1	0.0
<i>o/w: France</i>	30.8	3.0	2.4						
<i>o/w: UK</i>	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
<i>o/w: China</i>	18.3	1.8	1.5						
<i>o/w: Saudi Arabia</i>	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
<i>o/w: Nedbank</i>	0.0	0.0	0.0						
<i>o/w: Habib Bank</i>	0.0	0.0	0.0						
<i>o/w: MCB</i>	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 <sup>3</sup>	0.0								
<i>o/w: Related</i>									
<i>o/w: Unrelated</i>									
Contingent liabilities									
<i>o/w: External public guarantees</i>	0.0								
<i>o/w: Domestic Public guarantees</i>	37.6								
<i>o/w: Other explicit contingent liabilities<sup>4</sup></i>									
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 "Multilateral creditors" 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)

3 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.

4 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<sup>1</sup>

Source of Risks	Relative Likelihood	Expected Impact if Realized	Policy Response
<b>Conjunctural Risks</b>			
<b>Intensifying spillovers from Russia's war in Ukraine.</b> Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility, with Europe, LICs, and commodity-importing EMs among the worst hit.	<b>High</b>	<b>High</b>	<ul style="list-style-type: none"> <li>Develop a contingency plan that would lower the impact of a delayed economic recovery:</li> <li>Consider further fiscal consolidation and reliance on concessional financing in case such risk materializes.</li> </ul>
		A protracted delay in tourism arrivals from the main European countries could hamper the planned tourism and economic recovery during in 2022.	
<b>Protracted delay in tourism recovery in Seychelles</b> from traditional markets.	<b>High</b>	<b>High</b>	<ul style="list-style-type: none"> <li>Develop a contingency plan that would lower the impact of a delayed economic recovery:</li> <li>Consider further fiscal consolidation and reliance on concessional financing in case such risk materializes.</li> </ul>
		A protracted delay in tourism arrivals from the main European countries could hamper the planned tourism and economic recovery during in 2022.	
<b>Commodity price shocks.</b> A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility and social and economic instability.	<b>High</b>	<b>Medium</b>	<ul style="list-style-type: none"> <li>CBS to maintain vigilant monitoring and be ready to tighten monetary stance to anchor inflation expectations.</li> <li>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.</li> </ul>
		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).	

<sup>1</sup> 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. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of Risks	Relative Likelihood	Expected Impact if Realized	Policy Response
<b>Conjunctural Risks</b>			
<b>Higher NPL levels in the banking sector in Seychelles</b>	<b>Medium</b>	<b>Medium</b>	<ul style="list-style-type: none"> <li>Encourage and facilitate prudent restructuring of loans and enhance management and monitoring of NPLs.</li> <li>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.</li> </ul>
		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.	
<b>Local Covid-19 outbreaks.</b> Outbreaks in slow-to-vaccinate countries or emergence of more contagious vaccine-resistant variants force new lockdowns or inhibit commerce. This results in extended supply chain disruptions, slower growth, capital outflows, and debt distress in some EMDEs.	<b>Medium</b>	<b>Medium</b>	Rely as much as possible on concessional financing; optimize debt portfolio; adjust public investment level to reduce borrowing needs, if necessary.
		Low effectiveness in vaccines could further disrupt domestic activity and tourism recovery.	
<b>Structural Risks</b>			
<b>Natural disasters related to climate change.</b> More frequent natural disasters deal severe damage to infrastructure (especially in smaller vulnerable economies) and amplify supply chain disruptions and inflationary pressures, causing water and food shortages and reducing medium-term growth.	<b>Medium</b>	<b>Medium</b>	Prioritize the implementation of projects related to climate change.
		The materialization of risks related to natural disasters could trigger further public expenditures and alter the planned reduction of public debt.	

## Annex II. Improving Compilation of Tourism Receipts and Payments in Seychelles' Balance of Payments

**1. The Central Bank of Seychelles (CBS) adopted a new methodology for the estimation of tourism services.** The coverage of tourism receipts, which account for nearly 60 percent of the total exports of services, has been broadened to better capture the earnings generated by this sector. The import of services related to tourism has also been expanded to include various payments whose values had been underestimated. These changes in methodology resulted in improvements in the current account balance. Combined with a higher-than-expected increase in actual tourist arrivals over the course of 2022, there have been significant changes in the balance of payments compared to the second review.

**2. The old methodology systematically underestimated gross receipts and payments for tourism services.** Previously, tourist receipts were calculated based only on identifiable tourism-related inflows into the domestic economy, including expenditures charged to credit cards at local businesses and the amount converted into rupees at local commercial banks and *bureaux de change*. However, these estimates could not capture gross flows for tourism services, including the amounts tourists may have paid to international hotels or tour operators based abroad. These amounts—despite representing the provision of tourism services by residents of Seychelles—were not captured in the estimates if they remained abroad in the accounts of international hotels or tour operators. At the same time, payments related to tourism, such as internet booking platform fees, royalties, management fees, advertisements, etc., were not adequately captured. In 2016, the authorities began a process to formulate a new methodology based on data for hotel occupancy and room prices. The authorities also revised imports of services to account for payments mentioned above.

**3. Following endorsement by the IMF's Statistics Department, in July 2022, the authorities released a revised series of tourism earnings, starting from 2016, which reflect higher tourism receipts compared with the previous method.** The authorities also adjusted upwards payments associated with tourism services, but by a much smaller amount. Because large, international hotels have reported low profits due to a combination of transfer pricing and the high cost of hotel operations in Seychelles, no revisions were made in the income account. On net, the changes in tourism-related receipts and payments resulted in an improvement in the current account balance. The financial account was also adjusted to reflect the holdings of foreign currency assets abroad by the private sector (i.e., larger net outflows, as a large portion of the tourism receipts earned in Seychelles from a current-account perspective continue to remain outside the country from a financial-account perspective). Reflecting both the above- and the below-the-line changes, the overall balance remained unchanged.

**4. The revised current account balance for 2022 also reflects much higher tourist arrivals (and tourism receipts) than what was anticipated at the time of the second review.** At the time of the second review, the authorities anticipated tourist arrivals to rise from about 183,000 in 2021

to about 258,000 in 2022 (a 41 percent increase). However, based on the tourist-arrival data as of end-August 2022, the authorities now expect tourist arrivals of 330,000 (an 81 percent increase) in 2022 due to stronger than expected demand from Europe and the Middle East. The new figures are reflected in the latest balance of payments estimates.

	<b>Compiled before methodology revision</b>	<b>Compiled after methodology revision</b>
Current account	-293	-153
(percent of GDP)	-20.1	-10.5
Balance of goods and services	-215	-70
Exports of goods and services <sup>1/</sup>	1238	1751
of which: tourism earnings	310	588
Imports of goods and services	1453	1821
Balance on income <sup>1/</sup>	-78	-83
Capital account <sup>1/</sup>	27	24
Financial account	-346	-207
of which Other investment, net	-184	-34
Government and government guaranteed	-37	-37
Others	-147	3
Overall balance <sup>1/</sup>	80	78

1/ Differences reflect data updates.

## Annex III. Climate Plans and Initiatives

### 1. **As a small island state, Seychelles is vulnerable to a multitude of climate change risks.**

Major risk areas include damage caused by temperature rises (coral bleaching and losses to fisheries) and sea-level rises (coastal erosion, losses to tourism and food insecurity). The last El Niño in 2016 reduced coral coverage on Seychelles' reefs from 50 percent to 5 percent. Coastal flooding, coastal erosion, and the effects of sea level rise constitute a vulnerability to the country's critical infrastructure as most of roads, power stations, and food storage facilities are situated in the range of 2–4 meters above sea level.<sup>1</sup> The country's key economic activity, such as tourism and fishing, depends on its coastal zones.

### 2. **Seychelles has put climate change at the center of its sustainable development strategy, more purposefully than most other small countries.**

Among various plans and initiatives, the Seychelles' National Agriculture Investment Plan (SNAIP, 2015-2020) provided a development strategy and investment plan for agriculture and fisheries. The Seychelles Marine Spatial Plan (SMSP) Initiative began in 2014 to address climate change adaptation, marine biodiversity protection and support the Blue Economy. The Government is also developing the Seychelles Coastal Management Plan (CMP, 2019 – 2024) to protect coast with the support of the World Bank. Seychelles also plans to meet its emission reduction targets (Nationally Defined Contribution, 2021) by switching to renewable energy, improving energy efficiency, and bringing in electric cars for the period 2021-2030.

### 3. **Coastal Management Plan (CMP) provides a key framework for coastal erosion protection and risk management.**

Sea level rise and future occurrences of storms driven by climate change create vulnerability in the coastal regions. The CMP aims to protect the coastal zone by formulating priorities and actions to reduce coastal flood risk and coastal erosion. The CMP also provides an implementation agenda and an outline of the priority projects and their cost estimates. The total costs for the implementation of the plan are estimated to be US\$13,182,000,

### 4. **Seychelles' Blue Carbon Roadmap offers guidance to restore marine vegetation for climate change mitigation and to potentially sell carbon credits through market mechanisms.**

Mangrove forests, which occur across 1,700 ha of Seychelles' coastline, and seagrass meadows, which covers 143,000 ha, provide important opportunities for carbon sequestration. Combined, it is estimated that more than 65 million tons of CO<sub>2</sub>s can be held by the two vegetations. The authorities have developed a roadmap to use many climate-related financial mechanisms to fund the restoration of blue carbon ecosystems in Seychelles. Market mechanisms such as Voluntary Carbon Market to sell carbon credits, non-market mechanisms such as philanthropy giving, and financing support from multilateral development banks are in consideration.

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<sup>1</sup> Government of Seychelles (2017) "Seychelles Technology Needs Assessment Report—Adaptation." Victoria: Government of Seychelles.



**5. Besides these major projects, the authorities have developed initiatives to promote climate financing and governance.** This includes developing a National Climate Finance Policy, developing establishing institutional arrangement for monitoring, reporting and verification of climate change actions, founding a clearing house mechanism to exchange climate change adaptation & mitigation information. The authorities are in contact with various international organizations and multilateral development banks to secure financial support and capacity development.

<b>Selected List of Climate Change Priority Projects</b>		
<b>Project Category</b>	<b>Indicative Areas of Assistance and Duration</b>	<b>Priority</b>
Coastal Management Planning	Conduct coastal surveys in 13 priority sites listed in the Coastal Management Plan. Build capacity to monitor coastal data. Undertake feasibility study on coastal setbacks on the inner and outer islands.	High
Blue Carbon Roadmap	Advance Blue Carbon scientists and empower local scientists. Integrate Blue Carbon into National Policy Frameworks. Connect Blue Carbon projects to carbon markets and other finance mechanisms.	
Climate Change Financing and Governance	Build capacity to develop project proposals. GCF Accreditation by a National Implementing Entity. Develop a National Climate Finance Policy. Establish Climate Finance Governance Arrangement to track and mobilize climate finance.	
Source: Authorities data.		

## Appendix I. Letter of Intent

Victoria,  
November 11, 2022

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

Dear Madam Managing Director:

Seychelles recovery in 2022 was strong with growth higher than the one expected at time of the second review of the program in June 2022. Overall, GDP growth in 2022 is now estimated at 10.6 percent compared with 7.1 percent at the second review. Tourism arrivals in 2022 are now significantly exceeding the previous forecast, and growth in manufacturing was also more favorable. Tourist arrivals are expected to reach 330,000 persons, or only 15 percent below the peak level of 2019. In 2023 we expect growth to remain sustained at about 5.4 percent, based on a continued good performance of the tourism sector, although there are risks associated with possible recession in Europe.

CPI inflation slowed down in the first six month from the high level at end-2021, but has picked up in recent months and is expected to reach 3.8 percent at end-year. It is presently expected at 4.2 percent on a 12-month basis at end-2023, but considerable uncertainty surrounds the forecast, as inflation will be strongly affected by international fuel prices. The stability of the exchange rate vis-a-vis the US dollar during 2022 contributed to contain inflation.

All end-June 2022 quantitative performance criteria (QPCs) and indicative targets (ITs) as well as all end-September 2022 ITs were met, and all seven out of the nine structural benchmarks (SBs) assessed for this review have been met or met with delay. The SB on the publication of the medium-term debt management strategy was not met as we are still in the process of finalizing the associated budget framework by end-2022. The SB on streamlining VAT exemptions was not met as the necessary Fund technical assistance was only received in September 2022. Considering the preparatory work necessary for the streamlining of the VAT, the TA report suggested that the streamlining be delayed to end-December 2023. We request a modification of the social spending IT, March 2023 ITs and June 2023 ITs.

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, improving expenditure management, and enhancing financial sector stability and compliance with international financial standards.

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 June 2022. We are requesting the completion of the third review.

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. **In the first nine months of 2022 the economic performance was favorable, supported by a strong recovery of the tourism sector, as tourist arrivals gradually strengthened, and in the third quarter attained a level close to the record level of 2019.** For the year as a whole, it is now expected that arrivals may attain 330,000 or 15 percent below the 2019 level. Construction activity remain constant and is supported by the building of some new hotels. This could lead to a GDP growth of 10.6 percent in 2022, significantly higher than the 7.1 percent growth forecasted at the time of the second review.
2. **The domestic currency remained largely stable in 2022, supported by sustained inflows.** However, there was a pickup in demand since the second half of the year in part due to elevated international fuel and commodity prices. This would weaken the rupee if demand continues to exceed supply.
3. **Inflationary pressures are starting to pick up as the upsurge in international fuel and commodity prices inevitably passes through domestic prices given the country's heavy reliance on imports.** The 12-month average and year-on-year inflation rate for August 2022 was 4.7 percent and 2.8 percent, respectively. The forecast for December 2022 is a 12-month inflation rate of 3 percent while the year-on-year change in consumer prices is projected at 3.8 percent.
4. **Budgetary performance in the first nine months of the year was broadly in line with program forecast.** Revenue was in line with the forecast, with significant increase in value added tax and excise tax receipts from the level of 2021. For the year as a whole revenue excluding grant is expected to reach 32.5 percent of GDP, up from 31.2 percent in 2021, and close to the level forecast at the time of the second review. Expenditures are now expected to remain below the forecast level, as a share of GDP, at 36.5 percent compared with 37.3 percent forecast at the second review, as capital expenditure are now expected to remain below forecast due to a fall in grants, while current expenditure are expected to remain in line with the initial budget. The primary deficit is expected to fall to 1.1 percent of GDP, from 3 percent in 2021, as against a forecast of 1.4 percent at the time of the second review.
5. **Monetary policy is to remain accommodative throughout 2022 to continue supporting the domestic economy as it recovers from the abating effects of the pandemic and the downside risks emanating from the war in Ukraine.** The Monetary Policy Rate (MPR) stands at 2.0 percent, with the interest rate on the Standing Deposit Facility (SDF) and Standing Credit Facility (SCF) at 0.5 percent and 3.5 percent, correspondingly. Effective July 13, 2022, as part of the unwinding measures, the Minimum Reserve Requirement (MRR) on rupee-denominated deposits was increased from 10 percent to 13 percent whilst the applicable MRR on foreign currency deposits remained unchanged at 13 percent.

**6. The current account deficit improved to 10.5 percent of GDP in 2021 compared to 13.7 percent in 2020.** Such outcome was primarily supported by growth in tourism earnings. To note, the methodology used to estimate tourism earnings and cost has been revised from 2016 data, with the new calculation based on occupancy rate and room prices, leading to a higher figure. The incorporation of the revised estimate in the balance of payments statistics led to an improvement in the current account deficit. For 2022, the current account shortfall is forecasted at 6.7 percent of GDP, primarily due to projected growth of 80 percent in tourism earnings to reach US\$967 million.

## II. Program Objectives and Policies

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

**7. 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 production chains and the activity of new operators, along the line envisaged in the World Bank supported SWIOFISH 3 project.

**8. The Tourism Master Plan is being executed as planned.** In addition, with the assistance of the World Tourism Organization (UNWTO), Seychelles has developed a first tourism satellite account (TSA). The TSA will assist to measure the economic impact of tourism in a destination and find out exactly what tourism contributes to the gross domestic product (GDP). To better understand the dynamics of the tourism sector and its benefit to the economy the Government will seek assistance from its development partners to conduct a tourism study. The terms of reference for the study will be finalized by end-June 2023 (*structural benchmark*).

**9. Fish processing and aquaculture remains two key sectors as part of the Transformative Economy Agenda of the Government.** Previously focus was put on the exploitation of our maritime resources and the need to assist fish processing projects in the fisheries sector that encourages the sustainable development of our ocean and develops new sectors in the economy. As the landscape for the growth of these categories is being improved and taking into account the investment requirement, Government will introduce a special business tax regime of 15 percent to help boost these sectors and encourage new entrants. In addition, the Government will invest in additional infrastructure needed to support the development of the sector as part of the 2022 and 2023 budget amounting to 0.2 percent of GDP.

**10. 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 remains 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 energy storage technologies. In its endeavor to boost electricity generation from renewables, the Government is accelerating the process of making the two inner islands, Praslin and

La Digue more sustainable. The Country is currently revising its institutional, policy and legislative frameworks to create an enabling environment to support the transition of the energy sector.

**11. 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 ktCO<sub>2</sub>e 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. Seychelles is doing an Integrated Resource Plan under the MIC TAF program of the AFDB which will contribute to the revision of the energy policy. The objective is to have a revised Energy Policy Document, with realistic targets for Intermittent and non-intermittent renewable energy sources by last quarter 2022. The IRP is currently being implemented by the SEC and we are in the RFP phase of the procurement process and expect to complete the study by the end of 2023.

**12. 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.

**13. 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 2023. Additionally, financing for a dry storage facility is being sought.

**14. 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.** Significant progress over the last year through digitalization of services and improved ease of doing business. Effective as of July 2022, it is now possible to apply and obtain a trade license online. The first phase of the Investment Portal is currently being tried out. Once portal is up and finalized, foreigners as well as locals would be able to submit a project proposal digitally. The back-end platform of the portal has been installed thus will facilitate internal processing of an application electronically.

**15. The Ministry has revamped the Seed Capital Grant Scheme to support start-ups with innovative business ideas in the priority sectors of the economy.** This effort is coupled with the development of the Business Technology Incubator that will help foster entrepreneurial ecosystem. Work is ongoing in the setting up of the Incubator.

**16. The effects of COVID-19 pandemic have further reinforced the need to embrace the digital economy agenda going forward.** 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. Government has provided funds of around 0.5 percent of GDP for the years 2023 to 2025 in the budget for projects supporting the digital economy. The digital action plan for the medium term has been adopted and will focus on the following:

- Improve relevant legislative framework. A new Communications Bill which aims to address anti- competitive practices and provide a better legal framework for the telecom sector was recently approved by the Parliament. This Bill also provides for the creation of an independent ICT regulator. In addition, a new legislation which aims to address the protection of individuals with regards to the processing of personal data (Data Protection) is expected to be enacted early 2023.
- Promote use of digital platforms in public service delivery. During the last quarter of 2022 key platforms have 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.
- Enhance the level of digital skills to ensure inclusion and equal access to opportunities. Digital skills will be made compulsory in the national curriculum for all students at all levels of education. The Policy paper ICT in Education was approved by Cabinet in October 2022.
- Increase financial inclusion through the promotion of access to affordable financial products and services with the support of new legislations such as e-money
- Improvement of payments systems infrastructure: Real Time Gross Settlement System (RTGS) to offer safe and secure real time funds transfer thus minimizing settlement risks
- A central securities depository (CSD) – infrastructure to support the deepening of the financial market by allowing the transfer of financial instruments in electronic form to minimize the risks associated with the clearing and settlement of securities transactions.

- Develop digital entrepreneurial ecosystems in order to diversify and strengthen the economy.
- Human Resource Management System (HRMS)-In order to bring greater efficiency in the public service funds will be provided for the development of a HRMS. This will connect core HR and payroll, talent management, and people analytics to help deliver exceptional employee experiences.

## B. Fiscal Policies, and Fiscal Structural Reforms

### The Budget for 2022 and Beyond

**17. The keystone of our reform program remains attainment of sustainable fiscal surpluses over the medium term with the aim to strengthen 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 and further reduction in 2022. Given Seychelles vulnerabilities to external shocks the Government remains committed to achieving its pre-COVID objective of reducing debt to 50 percent of GDP by 2026.

**18. Following the invasion of Ukraine and the observed spike in international commodity and energy prices, the implemented a series of measures to alleviate the potential impact on the most vulnerable groups of society.** In addition, given the current economic landscape, the Government has introduced the following measures, which cost 0.3 percent of GDP for the year 2022, 0.2 percent of GDP for the year 2023 and a total of SR156.9 million (combined amount in 2023):

- adjustment in welfare benefits, whereby the ceiling was increased by 32 percent;
- sliding scale adjustment of local employees' wages below the ceiling of R9000, with a maximum amount of R500 to be credited under the Temporary Salary Support (TSS) and R300 under the Temporary Electricity Support (TES);
- automatic temporary increment of R500 of select welfare and pension recipients;
- provisions for breakfast and lunch in public schools;
- Temporary fuel tax exemption for licensed ferry vessel which transport cargo by sea between islands;
- a Maximum Retail Price (MRP) strategy as an emergency temporary measure for a period of not more than one year starting in October 2022.

**19. Prospects for external grants are weaker than anticipated, resulting in some adjustments to the fiscal outturn in 2022, without compromising debt sustainability.** Some capital expenditures originally planned for 2022 have been delayed, pending the eventual receipt of grant financing, and will now occur in 2023. An increase in domestically-financed capital expenditure in 2022 partially offsets the drop in foreign-financed capital expenditure, but capital expenditure as a whole will remain under-executed in 2022 because grants have been slow to arrive.



**20. The budget for 2022 reflects under-performance of both revenue and expenditure, with the primary deficit narrowing to 1.1 percent of GDP.** This is driven primarily by the fall in grants and capital expenditures relative to the prior expectation, but also by a program of targeted, temporary cash transfers to protect the most vulnerable from rising food and fuel prices, which began later than expected: It will now run from July 2022 through the first quarter of 2023. Through July 2022, 7.7 million rupees out of an initial budget of 80 million rupees (0.2 percent of GDP) had been spent. The authorities also removed the freeze on the 13<sup>th</sup>-month salary in 2022, which had been in effect during COVID. Going forward, half will be paid automatically and half based on performance.

**21. The budget for 2023 aim at achieving a primary surplus of 1.1 percent of GDP.** Revenue excluding grants is targeted to increase by 1.3 percentage points to 33.7 percent of GDP, while expenditure would increase by 0.4 percentage points to 36.8 percent of GDP, reflecting reduction in current expenditure and an increase in capital expenditure. On the revenue side the bulk of the increase would come from the value added tax receipts and from the business tax receipts, based on new policy measures that will be introduced in 2023. Also, the tourism marketing tax of 0.5 percent based on turnover is expected to yield higher revenue. Government will also be introducing a salary increase in April 2023 after a salary freeze since 2019. Savings will occur in transfers to enterprises, following the 2022 non-recurring transfer to Air Seychelles of SR 213 million. The home carers' scheme costing at around 1.1 percent of GDP under the benefits and approved programs of Agency for Social Protection (ASP) would be moved under wages and salaries and good and services because it will become a new agency. Capital outlays will increase by 1.7 percent of GDP, partly financed by grants.

**22. Public debt is projected to continue its downward trajectory in 2023.** The 2023 overall deficit would amount to 1.8 percent of GDP. Taking into account external project loans, and budgetary support from the World Bank and the AfDB, there would be a small need of domestic financing, of 0.3 percent of GDP. The government and government guaranteed debt would decline by about 3.3 percentage points, to 64.6 percent of GDP

## Revenue Measures

**23. The authorities are committed to continue with improving revenue performance.** Reform will continue to focus on digitalization initiatives, stronger compliance monitoring and enhancement of the ASYCUDA customs system, as detailed below.

## Customs

**24. The enhancement of the ASYCUDA World is underway.** The system is being upgraded to accommodate new modules, such as Excise Warehouses, E-Payment, E-Government, Single Window, Express Courier, Manifest for Courier and also includes continuous technical training. The modules are being developed in phases, and will be deployed as and when they are ready. The Express Courier and Manifest modules have been fully developed and SRC is now awaiting certain airlines and courier service provider to complete their systems modification to start sending and receiving

manifest data electronically, whilst some have already commenced testing and validation. The module is expected to be operational by the end of October 2022. One Airline and one Courier company have been identified to start using the system. The Tariff 2022 has also been completed and is expected to go live by end of October 2022. The development of the E-Payment module has started; the estimated date of completion is the third quarter of 2023. The Excise Warehouse is expected to be ready for testing during the first quarter of 2023. The Single Window platform is expected to be fully developed by the second quarter of 2024.

### **Compliance**

**25. Progress is being made to empower and enable taxpayers to timely meet their obligations through innovative and transparent processes by improving and diversifying its online services.** It is part of SRC's strategy to improve the efficiency and effectiveness of SRC systems, namely the Client Management System (CMS). The aim is to simplify SRC business processes to reduce compliance time and cost and increase the ease of doing business. Maximizing revenue growth remains the core objective of the plan, with focus on the utilization of innovative practices and technology-driven products and services to ensure more efficiency and effectiveness in SRC operations. One step to improve ease of doing business with SRC is to implement a modern Tax Management System to replace the CMS. A modern tax system includes more automation, more digital solutions and less manual work. This will make SRC more efficient and effective and make it easier for taxpayers to interact with SRC.

**26. The implementation of the new TMS entails adoption of new technologies and management practices to increase efficiency and effectiveness and to improve our ranking on the Ease of Doing Business Index.** Much emphasis is being placed on streamlining bureaucratic practices, which will in turn provide more clarity, certainty, and consistency in the application of tax laws. The project will take into consideration efficient and cost-effective services, performance management, accountability frameworks, taxpayer engagement and improvement in the use of technology and monitoring of service standards.

**27. SRC recognizes the need to modernize and simplify tax processes through business process reengineering to remove bureaucracy, increase automation of manual processes and promoting electronic interactions with clients.** The process reengineering exercise has been completed for Taxpayer Registration, Filing and Processing of Returns, Tax Payment Processing and Taxpayer Accounting. The development of the functionality for the registration module has been completed and is undergoing final user-acceptance testing. The module is expected to go live towards the end of October 2022. The next step is to finalize the user requirements for the core modules. This is also expected to be completed by the end of October 2022. The modules are expected to be developed and deployed in phases. The timeframes are as follows:

- Registration – End of October 2022
- Core modules (Return and remittance, Taxpayer accounting, Revenue accounting) – June 2023
- Non-Core modules (Taxpayer Audit, Compliance and Enforcement, Workflow and Case Management, System Management) – June 2024

**28. SRC with support from GOPA are in the process of data cleansing for the registration module and started reaching out to the public to validate their information and provide missing information in order to meet the minimum requirements of the new TMS system.** This registration data cleaning exercise will take time and the plan is to complete most of this exercise by end of December 2022. Staff training and public awareness have commenced to ensure all SRC staff and the public are fully equipped to use and support the new system and the new procedures.

**29. SRC will modernize the processing of tax returns, with the aim of 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. A Compliance Improvement Plan is also being finalized and will soon be piloted. The full implementation of the plan will start as of January 2023. This is expected to increase the overall tax compliance rate.

**30. 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 have provided initial guidance on what to include in the Transfer Pricing regulations which is expected to be finalized by the end of 2022.

**31. SRC have also recruited a Technical Advisor (TA) to assist and provide guidance on practical audit casework including Transfer Pricing cases.** The TA is also assisting with the review of the Intelligence framework, risk profiling and case selection and assisting the International Tax Unit with international tax issues, such as implementation of the BEPS Actions and Exchange of Information. The TA will also build capacity of SRC officers in these areas. A training plan is being developed in line with the capacity building initiatives and the intention is to split training into smaller sessions (1-2 days at a time). This will be continuous for a duration of one year.

**32. SRC has started its business process reengineering exercise; the process for registration has been completed and has been launched in October 2022 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. One of the two international tax experts is in post since September 2022 and another one is due to start before the end of the year. The two experts will build internal capacity in the area of transfer pricing. This will help SRC to effectively engage in international efforts to address the emerging gaps in international norms. In addition, the World Bank is assisting on the necessary regulations will be finalized and gazetted by early November 2022.

**33. SRC has acquired a system for Automatic Exchange of Information to be more efficient in exchanging tax information and in meeting OECD standards.** The development stage for

Common Reporting Standards (CRS) and Country By Country reporting (CBCr) has been completed and the modules have been deployed. The two modules will be tested and go live in October 2022. Another system that has been developed is a case management system to keep track of cases of exchange of information upon request. The system has been tested and staff in the International Tax Unit have started recording their cases in the new system since October 2022.

**34. SRC will modernize its Tax Management System to improve efficiency.** 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 current system is not web based 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 with the aim to complete the project in 2023. The Registration module is being finalized. We have started testing and training of the module and it is expected to be deployed and piloted by the end of October 2022. The consultants have submitted a draft of the To-Be processes for returns processing and payment processing. All the core modules are expected to go live by May/June 2023 and the non-core modules by December 2024 if we receive approval from EU for an extension of the project. 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.

**35. The Authorities will undertake further reforms of the business tax during the year 2023.** From January 1<sup>st</sup>, 2022, the Government unified the business tax rate for different productive sectors at 25 percent (currently tourism, fishery and agriculture still benefit from a lower 15 percent profit tax rate), reduced the accelerated depreciation provisions for tourism, agriculture and fishery. 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. Government will introduce a revised framework for the taxation of security dealers from January 2023. In addition, based on the assessment that was done in 2020, the tourism industry contributes only marginally to the collection of business tax revenues in comparison to its role in the economy. The authorities will introduce a turnover tax of 2 percent on the large hotels from January 2023. In addition, the authorities will introduce an environmental and sustainability tax applicable to tourists who visit Seychelles. This would be in the form of a fixed rate per night per visitor and to be introduced from April 2023. The above reform measures are expected to yield an additional revenue of 1.4 percent of GDP in 2023.

**36. The IMF's Fiscal Affairs Department (FAD) completed an assessment of the Value-Added Tax (VAT) in Seychelles in September 2022**, based on (1) an in-depth review of the VAT law and key regulations, and other related laws, (2) benchmarking the VAT against international practice, especially in small islands economies, (3) quantitative assessment of key design elements,

such as the registration threshold and exemptions, and the associated revenue loss and neutrality implications, and (4) discussions with the business community in Seychelles, and the tax and customs administrations. The report concludes that the VAT has performed as well as it could from a revenue perspective, but that its neutrality and revenue yield risks being eroded if policymakers continue to broaden the exemptions beyond the strict necessary and practical, given the economic structure of Seychelles. In addition, the report highlighted that three sectors (e.g., wholesale and retail, accommodation and restaurant services, and information, financial and professional services), and 35 percent of registered mostly medium to large taxpayers, account for over 70 percent of the VAT collection and 97 percent of the VAT base. Based on the report, the Government is working on a strategy for reforming the VAT based on the following pillars:

- Stabilize VAT policy by refraining from further broadening of exemptions.
- Set up a task force from the Ministry of Finance, SRC, Customs, and the business community, to review the VAT law and suggest legislative changes to improve its clarity—without changing policy. The work of the task force could extend to VAT regulations, and other regulations affecting VAT, such as the Revenue Administration Act 8. The work will be undertaken during 2023 for implementation in January 2024. Further technical assistance will be required from FAD during 2023.
- The Ministry of Finance will prepare a short report on VAT tax expenditures, to be included for information as part of the 2024 budget presented to Parliament. And this will be mandatory in the VAT law.
- Draw a medium-term plan to reform VAT policy, with a view to streamline exemptions where the impact on the most vulnerable is negligible. Originally the review of the list of exemption was supposed to be completed by end- September 2022 (*structural benchmark*). This should be preceded by the preparation of a tax expenditures report on all exemptions (by broad categories), and a study of the distribution and incidence of these expenditures. Thus, the review exemption list will be completed by end of December 2023 before the finalization of the 2024 budget. The Ministry has been actively involved in the discussions led by the OECD on the two-pillar approach to addressing the tax challenges arising from the digitalization of the Economy. In 2023, participation in the discussions for the finalization of the Pillar 1 rules will continue. In addition, emphasis is to be put in sensitizing the domestic community of taxpayers and accountants/ tax agents. Upon finalization and confirmation of the framework of the two pillars, the Ministry would be collaborating closely with the Office of the Attorney General for the necessary legislative amendments to be incorporated into the domestic laws. The yacht industry in the Seychelles is one that has witnessed remarkable growth over the past few years, but it is clear that the sector is not reaping the maximum direct and indirect benefits it should for the country. Through consultation with a few agencies, there is a need for an audit to understand the exact nature of the industry and the existing loopholes. In addition, the authorities will have to undertake an assessment of the existing policies and regulations to ensure we have the proper legislative framework to enhance oversight and maximizing revenue collection from the industry. The authorities will request technical assistance from the IMF.

## Expenditure Management and Efficiency of Public Spending

**37. 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 first step would be the development finance assessment. 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 around 11 percent of GDP over the medium term.

**38. With the help of the World Bank budget support, reforms are 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). In light of the decline in the number of beneficiaries in the social welfare assistance (SWA) program, the World Bank is assisting the Government with conducting a survey amongst past and present beneficiaries of social welfare programs. Meanwhile, there has been an increase in the number of applications received and approved.

**39. 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 2023 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 on 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 by December 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.
  - 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. The Government has provided funds in the 2023 budget for procurement of the IT system by ASP.
  - Access to home care will be widened through the establishment of an Agency to allow citizens experiencing a considerable decline in capacity to receive care and support by those officially recognised by that Agency as being capable of rendering care. 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**

**40. The GOS is committed to improve the efficiency of government spending.** In line with IMF TA recommendations, a comprehensive review of the legal framework for public procurement in Seychelles, started in 2021 and the first phase will be published in early November 2022. The second phase of the complete procurement act review will be completed by third quarter of 2023. The Government has completed the assessment of the existing security contracts for an efficient and sustainable way of outsourcing those contracts. The recommendations have been included as part of the 2023 budget proposal. The Government will further undertake the assessment for the cleaning services and this will be ready as part of the 2023 mid-year review. With the assistance of UNDP, the Government has completed a Readiness Assessment and design of an e-Government Procurement Strategy. This will be incorporated as part of the IFMIS project. A Public Investment Management Assessment (Combined PIMA and PIMA climate change) will start in the first quarter of 2023 to help identify opportunities to increase the efficiency of public investment, including the scope for the procurement system to support PPPs.

**41. In order to improve PFM, the authorities decided that a new IFMIS platform should be installed by January 2025.** 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. A budget for the new IFMIS was included in the 2022 budget and over the medium term. The cash flow unit has been integrated in the Treasury function and awareness campaign is ongoing to ensure the Ministries, Departments and Agencies understand the cash flow process along with the current adjustment technique. Based on the mid-year review exercise, the Ministry of Finance has issued a Circular during the month of October 2022 to reduce the deviation between the forecast and the outcome in the monthly cash flow plan consistent with the 2022 revised budget (*structural benchmark for end-June 2022*).

## Results-Based Management

**42. The government remains committed to pursue a result- based management (RBM) approach to public spending.** The With the full RBM rollout 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, the focus has now moved to performance management systems. Each portfolio will have an annual performance plan which 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

**43. The government has taken steps to strengthen management of state-owned enterprises and reduce transfers from the budget.** The transfers to state-owned enterprises are being reduced significantly from 2.0 percent of GDP in 2020 to 0.1 percent forecasted for the year 2023. The new Public Enterprise bill was gazetted in October 2022. The new legislation will make provisions for the efficient governance of Public Enterprises and the monitoring of their performances and provides a harmonized and coherent framework for their establishment, governance, and operation. The Public Enterprises Monitoring Commission (PEMC) will publish a Public Enterprises' Annual Report in accordance with the new legislation to ensure more transparency in the fiscal affairs of the enterprises (*structural benchmark for end-June 2023*). The annual report will present the overall financial performance of the Public Enterprises based on their audited financial statement and will publish six months after the closing of the financial year. In addition, the new legislation will clarify the accountability and the relationships between board members and those charged with governance and management of Public Enterprises, Responsible Ministers, the Minister responsible for Finance and the Commission. The Public Enterprises Monitoring Commission (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 June 2023, audit and assessment will focus on Public Utilities Corporation (PUC) and Seychelles Petroleum Company (SEYPEC). The second phase to be completed in December 2023, the audit and assessment will concentrate on another three public enterprises: Air Seychelles, Island Development Company Limited, and Seychelles Trading Company Ltd (STC).

**44. In 2021, the PEMC requested assistance from the U.S. Treasury Office of Technical Assistance to review executive compensation at state-owned enterprises with a focus on ensuring greater transparency, equity and consistency in setting pay.** The draft assessment report recommends implementation of a comprehensive job grading scheme, such as the Hay Method, to enhance transparency, equity and consistency. The authorities will work with PEMC to set consistent and transparent criteria for salary packages of state-owned enterprises. The Government will publish information about state-owned compensation, thus advancing transparency.

**45. The Authorities are finalizing the restructuring of Air Seychelles to ring fence ground handling operation to become a separate legal entity.** As part of the finalization of the



restructuring the Government took a USD 13 million loan from Trade Development Bank (TDB) to repay the Etihad liabilities and release the security on the two twin otter airplanes. The interest will be serviced by Air Seychelles and the Government will repay the principal over two years as per the original plan.

**46. The Ground Handling activities at Seychelles International Airport is considered by the Government of Seychelles as an important strategic asset which must be safeguarded at all costs and remain the sole property of the Government of Seychelles.** In order to ensure that the Ground Handling operation at the Seychelles International Airport is not jeopardized in any manner whatsoever in the future, the authorities are working to finalize the operational restructuring to ring fence ground handling operation to become a separate legal entity by end 2022 (*structural benchmark for end-December 2022*). The Government commits to provide no further funds to Air Seychelles.

## D. Public Debt Management Strategy

**47. To better support planning of debt management operations, the Government has been formulating a quarterly borrowing plan on a recurring basis, which was approved by the National Debt Committee** (*structural benchmark for end-March 2022*). The authority has also published its revised 2022 Annual Borrowing Plan following the mid-year review (*structural benchmark for end-September 2022*). The Medium-Term Debt Management Strategy (MTDS) (*structural benchmark for end-September 2022*) will be published following finalization of 2023-2025 Budget numbers by end-2022. In accordance with the Public Debt Management Act (2008), Government ensures that the net amount guaranteed in any financial year is approved by the National Debt Committee and does not exceed an agreed upon ceiling.

**48. 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 three sets of Treasury bonds, in March, May and August. Additionally, government 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 continues with its quarterly publication of the issuance calendar for bonds on the Ministry of Finance website (*structural benchmark for end-March 2022*). The issuance of bonds will be supported through the initiation of trading reforms in government securities and development of repo market.

## E. Monetary and Exchange Rate Policy

**49. The accommodative monetary policy stance is to be maintained for the rest of 2022.** CBS is cognisant of providing support to a recovering economy whilst monitoring the dynamics in domestic prices. Despite the positive performance of the tourism industry, downside risks to the economy were heightened by uncertainty associated with the war in Ukraine. Notwithstanding the stability of the domestic currency, elevated foreign inflation continues to pose a risk to domestic price stability. The Central Bank remains vigilant to domestic and external developments underlying the inflation outlook and will accordingly implement the appropriate measures. CBS will provide

forward guidance on plans to respond to inflationary pressures. CBS plans to implement a survey on inflation expectations with the support of the National Bureau of Statistics.

**50. The transmission of interest rates remains weak although there has been an overall decline in interest rates in the domestic market following the realignment of the corridor in Q3 2021.** To improve the transmission mechanism, CBS plans to implement the recommendations made from latest technical assistance received from MCM of the IMF to develop the money and FX markets. CBS expects the transmission mechanism to improve once the excess liquidity in the system is addressed. In August 2022, the average savings rate fell by 38 basis points whilst the average lending rate decreased by 22 basis points relative to August 2021. The cost of government borrowing was generally stable for most part of the year although a marginal uptick was observed as of June 2022. In August 2022, the average yield on T-bills stood at 0.92 percent, 1.58 percent and 2.20 percent on the 91-day bills, 182-day bills and 365-day bills, respectively.

**51. CBS remains committed to a floating exchange rate and will only intervene to facilitate orderly conduct of the market.** Given the robust performance of the tourism sector and the anticipated positive outlook, it is expected that market-clearing conditions will prevail.

**52. Gross International Reserves (GIR) declined from US\$702 million at the end of March 2022 to US\$640 million as of September 29, 2022.** The last FX intervention was conducted in February 2022 to improve market functioning, and no direct sales were made to SOEs in 2022. This reduction was primarily driven by faster outflows compared to inflows. No foreign exchange auction (FEA) was conducted during this period.

**53. The three-year Advisory and Investment Management Agreement (AIMA) with the Reserves Advisory Management Partnership (RAMP) of the World Bank was due to expire on August 1<sup>st</sup>, 2022.** However, with the guidance of RAMP, CBS decided to extend the agreement by another 3 months. This will allow the two entities sufficient time to discuss and agree on the modalities of the engagement, prior to 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

**54. An alternative framework was used to estimate tourism earnings with the result incorporated in the balance of payments statistics for Q1 2022.** Benefiting from Fund TA, the statistical series was also revised for the period 2016 to 2021. Using the new methodology, tourism earnings are calculated based on data for occupancy and room prices. It also includes estimates of tourism revenue held abroad which improves the coverage of revenue as well as expense related to the sector. The external statistics also incorporated a revision on the net foreign assets held by the private sector. The changes in methodology as well as the revised balance of payments statistics were communicated to the relevant stakeholders as well as the media in August 2022.

## G. Modernizing the Financial System and Ensuring Financial Stability

**55. The banking industry remained financially sound with all banks remaining well and above the prudential capital requirement of 12 percent as at end-July 2022.** On a year-on-year comparison, aggregated regulatory capital to risk weighted assets remained broadly stable at 20.7 percent. The comparable movement in asset quality, earnings and profitability indicate a modest deterioration in the aforementioned indicators. A year-on-year increase of SCR320 million was observed in non-performing loans to settle at SCR797 million as at end-July 2022. Return on assets and return on equity decreased by 1.1 and 10 percentage points to settle at 3.3 percent and 37.5 percent respectively. In contrast, core liquid assets increased, which shows continuous prudence in the banking industry's risk appetite. As for the industry's foreign currency risk exposure, the long position increased by 8.5 percentage points whilst the short position decreased by 2.7 percentage points. Both ratios remained well within the foreign currency exposure limits.

**56. 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 remains in dialogue with the banking industry and 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.

**57. In line with developments around the COVID-19 pandemic and the improvement in domestic economic activity, the Central Bank has been gradually unwinding various policy and relief measures that were implemented since 2020 to assist the financial institutions and private sector.** In that context and amongst the most prominent ones were the Private Sector Relief Credit Line Facilities which were fully unwound effective March 31, 2022; and the moratorium and debt restructuring measures which were phased out on July 01, 2022. In addition, investors had until July 15, 2022, to sell their government securities to the CBS under the buy-back scheme implemented under the force majeure clause.

**58. To boost financial sector resilience, CBS has enhanced its monitoring of the banking system by collecting additional information relating to restructured and rescheduled loans.** CBS is closely monitoring and assessing the asset quality of banks in view of the recent unwinding measures including withdrawal of forbearance on asset classification (*structural benchmark for end-September 2022*). CBS completed an assessment of the impact of the unwinding measures on the asset quality of banks. 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.

**59. With the implementation and adoption of the risk-based supervision (RBS) framework, which integrates Basel II Pillar 2 requirements, CBS intends to have a robust supervisory framework that is more risk-sensitive, objective, forward-looking and continuous.** The review

and necessary calibrations are ongoing, with the aim to ensure that the RBS model produces resourceful information which is effective in the Bank's supervisory mandate.

**60. Throughout 2022, work remained ongoing to finalize a policy paper for adoption of Basel II Pillar 1.** The paper 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 end-Q1 2023.

**61. CBS is 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. A policy paper has been submitted for Cabinet approval to outline various policy considerations for the drafting of a financial stability bill with the assistance of a US OTA Financial Stability consultant. CBS will, in consultation with IMF staff, submit amendments to the CBS Act to Cabinet by May 2023 (*structural benchmark*) to: (i) strengthen governance and oversight; (ii) enhance institutional and personal autonomy; and (iii) safeguard financial autonomy.

**62. CBS remains committed to having a robust crisis management and resolution framework.** The necessary steps are to be taken 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 endorsed by the Cabinet of Ministers 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. CBS, in consultation with IMF staff, submitted the updated policy paper on bank resolution to the Cabinet of Ministers for approval in October 2022 (*structural benchmark*). With the support of IMF TA, the draft Bank Resolution Bill will be prepared and is expected to be approved by Cabinet by September 2023.

**63. As the country embarks on its next stage of economic development and transformation, the Government considers deepening of its financial market to be critical to support its process.** The Ministry of Finance is working with the Central Bank of Seychelles, Financial Services Authority and other stakeholders to develop a well-regulated capital market supported by an efficient market infrastructure. The IMF provided technical assistance in mid-July to assist the authority in formulating the policy framework for secondary market development for government securities. The plan for a government securities trading framework is expected to be approved by government in consultation with CBS by the end of March 2023 (*structural benchmark*).

**64. CBS will ensure that its legislative framework for the National Payment System remains aligned with international standards and best practices.** The National Payment System Act 2014, along with supporting regulations, has been reviewed 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 submitted for stakeholder consultations by end-December 2022.

**65. CBS remains committed to the modernization of the National Payment System agenda which aims to achieve increased efficiency, convenience, affordability and innovative payment facilities.**

Technical assistance is being received from the US OTA towards the establishment of an entity to manage the payment system platforms. This includes assessing gaps raised from the Principle for Financial Markets Infrastructure (PFMI) assessment. CBS aims to phase out the use of cheques as a payment instrument. 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. With regards to the new CORE Banking System, CBS has issued the RFP to the shortlisted vendors and aims to complete the evaluation process by the end of February 2023.

**66. Work with regard to the formulation of the Regulatory Sandbox on new technologies is ongoing with the assistance of the Alliance for Financial Inclusion.**

A Consultant has been recruited and is in the process of formulating the framework. In addition, knowledge exchange has been undertaken with Fiji and Malaysia to facilitate its implementation. To enhance coordination between stakeholders on the FinTech strategy, CBS anticipates to work in collaboration with key stakeholders on the creation of an innovation hub/incubator 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. A capacity building and stakeholder engagement event has been organized in October with the assistance of the Alliance of Financial Inclusion (AFI) as part of its assistance to CBS in the formulation of a Regulatory Sandbox Framework and Standard Operating Procedure.

**67. 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. With the enactment of the Consumer Protection Act, the necessary work is being done such that the required regulations are put in place. 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.

**68. The endeavor to implement a new Credit Information System and the supporting legal framework through a Credit Reporting Legislation to provide for broader coverage of credit information and better credit worthiness assessment is being undertaken.**

The project to implement the new system is expected to be completed in December 2022. The legal framework is expected to be enacted in the first quarter of 2023.

**69. Seychelles published the first National Risk Assessment (NRA) on Virtual Assets (VA) and Virtual Assets Service Providers (VASPs).**

The National Anti-Money Laundering and Countering the Financing of Terrorism Committee (NAC) conducted the NRA over the first half of 2022 and assessed the money laundering (ML) and terrorist financing (TF) risks associated with VA/VASP regime, consistent with Financial Action Task Force (FATF) Recommendations. The Cabinet

of Ministers endorsed the NRA, which was published in August 2022. In sum, the NRA concluded that Seychelles' exposure to ML/TF risks to VA/VASP is very high, owing to a lack of regulatory framework. In response, the NAC is preparing a Policy Framework to address the high ML/TF risks from the VA/VASP sector in line with international best practices. This Policy Framework will be finalized by end of 2022. The findings of the VA/VASP NRA will also be fed in to the wider second National Risk Assessment, which was launched in July of this year and remains ongoing.

**70. We continue to progress in ensuring that beneficial ownership (BO) information of legal persons and legal arrangements established in Seychelles is adequate, accurate and up to date.** Since the centralized BO database became operational within the Financial Intelligence Unit (FIU) in July 2021, a total, 53,340 international business companies (IBCs) or 90.2 percent of total IBCs in good standing have submitted BO information to the database as of August 2022. In addition, the FIU submitted to the NAC an overview of the beneficial ownership data report on the level of compliance of BO obligations with respect to legal persons and legal arrangements. These developments are fundamental improvements for the country as it relates to transparency of BO and a wealth of information to be used by relevant competent authorities and other relevant stakeholders (including counterpart foreign authorities). To leverage this progress, we will implement the following reform measures moving forward:

- **Strengthen the legal framework for beneficial ownership to effectively address significant ML/TF risks identified in the September assessment report.** The FIU assessment report revealed that while the fields in the BO database have been populated, some discrepancies in the dataset have been observed. This assessment being the first of its kind to be carried out, has provided the FIU with a basic insight in respect to gaps and/or discrepancies in the information populated onto the BO database. The FIU will publish a version of the assessment report by end-October to guide legal persons, legal arrangements and their registered agents in complying with requirements for the BO database. In consultation with IMF staff, the FIU will work with NAC in drafting amendments to the BO Act by end-December 2022, to address gaps identified in the assessment report and ensure the effectiveness of the BO regime (including enhancing proportionate, dissuasive and effective administrative sanctions and penalties for those who fail to comply with the BO information requirements under the BO Act). Consultations with the industry are currently underway.
- **Advance in verifying the accuracy, adequacy and timeliness of the BO information in the database.** As part of the September 2022 assessment report, the FIU submitted a summary of statistics on the central BO database. In line with its strategic analysis function under section 28 (5) (b) of the AML/CFT Act, the FIU will continue to submit on a quarterly basis to the NAC this summary of statistics (including the number of requests for information to the BO database, disseminations to other FIUs and/or other foreign/domestic authorities, the level of compliance by resident agents and international cooperation/exchange of information, and identified typologies or red flags of abuse). Moreover, the FIU conducted targeted verification by cross referencing the BO database with other information including suspicious transaction reports, OFAC and EU sanction lists. One positive match was identified, and the international business

company was struck off the register by the FSA on 8<sup>th</sup> September 2022. The FIU and FSA are working together to ensure that remaining legal persons and legal arrangements are fully compliant in submitting required information in the BO database. Moving forward, we will ensure that the FIU has effective access to all relevant databases for purposes of verifying the information in the BO database, and establish mechanisms for processing reports on information discrepancies found in the BO database. The National AML/CFT committee is working closely with the European Union Global Facility on Anti-Money Laundering and Countering the Financing of Terrorism (EU AML/CFT Global Facility) to provide technical assistance on the Seychelles' Beneficial Ownership Legal Framework Analysis. This will ensure Seychelles address the Global Forum and ESAAMLG recommended actions. In addition, the EU AML/CFT Global Facility will assist Seychelles authorities in Beneficial Ownership (BO) verification and the publication of BO statistics to enable the detection of outliers.

- **Advance on our risk-based AML/CFT supervision of the 63 licensed resident agents, to ensure compliance with BO information requirements.** In accordance with its mandate and supervisory powers under the AML/CFT framework, the FSA is conducting focused inspections with respect to beneficial ownership information of legal persons and legal arrangements required to be maintained at the office of their resident agents in Seychelles. During Q3 of 2022, sixteen resident agents were subject to on-site inspections, and a sample of 1,243 IBCs were reviewed. Significant shortcomings were revealed, namely: (i) non-submission of BO information by the IBCs (9.8 percent); and (ii) non-compliance with the format of submitting BO information (51.97 percent). Following the inspections, the FSA will be initiating enforcement actions against the non-compliant IBCs during quarter four of 2022. A strategic risk analysis will be used to assist the FSA in selecting IBCs to be part of its Q4 focused inspections. By end-January 2023, the FSA will publish a summary of its findings for the resident agent sector with respect to the compliance with identification and verification of beneficial ownership of legal persons and legal arrangements as well as statistics on enforcement actions and penalties imposed for AML/CFT violations.
- **Launch of Second Round Supplementary Peer Review on Transparency and Exchange of Information on Request (EOIR) for Seychelles.** 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 5<sup>th</sup> 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. In accordance with the 2016-2025 Schedule of EOIR Reviews, the commencement of the supplementary second round peer review of the Seychelles started on the 1<sup>st</sup> of October 2022, which will cover the Seychelles' legal and regulatory framework for transparency and exchange of information on request for tax purposes as well as the practical implementation of that framework. In accordance with the 2016

Methodology, the first step of the review is for the Seychelles to fill in the EOIR Supplementary Review Questionnaire for the Second Round of EOIR Reviews covering the period from 1 April 2019 to 31 March 2022. It is currently planned for the draft report to be submitted to the Peer Review Group for consideration and discussion at the PRG meeting of June 2023. Once this process is completed, the EU Economic and Financial Affairs Council will consider that report to remove Seychelles from Annex II of the list of non-cooperative jurisdictions (the “EU grey list”) for criterion 1.2 (tax transparency).

**71. 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 fourth review is set for June 2023 based on end-December 2022 quantitative targets and the fifth review is set for December 2023 based on end-June 2023 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, 2021-2023<sup>1</sup>**  
(In millions of Seychelles Rupees)

Performance Criteria	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			
	Prog.	Actual	Adjusted targets	Status	Prog.	Adjusted targets	Actual	Status	Prog.	Actual	Status	Prog.	Actual	Status	Prog.	Actual	Status	Prog.	Actual	Status	Prog.	Actual	Status	
<b>A. Quantitative performance criteria<sup>2</sup></b>																								
Net domestic financing of the government (ceiling) <sup>3</sup>	-555.0	-27.6	1849.3	Met	25.0	65.5	47.5	Met	101.3	-40.4	Met	133.1	3.0	Met	163.8				397.1				180.1	
Primary balance of the consolidated government (floor)	-2289.0	-776.8		Met	-700.0		Met	135.7		Met	-229.6	580.5		Met	-306.2	642.7		Met	-382.7				-376.0	-159.0
Total revenue (floor) <sup>4</sup>	7252.0	7666.8		Met	1735.5		Met	1840.2		Met	3470.9	4183.7		Met	5206.4	6286.8		Met	8960.3				1761.1	4002.7
Net international reserves of the CBS, millions of US dollars (floor) <sup>5</sup>	394.0	529.0	349.0	Met	407.0		Met	518.0		Met	416.0	495.9		Met	423.0	489.0		Met	426.0				450.0	470.0
<b>B. Continuous quantitative performance criteria (ceilings)</b>																								
Accumulation of new external payments arrears	0.0	0.0		Met	0.0	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0		Met	0.0				0.0	0.0
Accumulation of new domestic payments arrears	0.0	0.0		Met	0.0	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0		Met	0.0				0.0	0.0
<b>C. IT</b>																								
Net change in CG guaranteed domestic and external debt	753.0	-1005.7		Met	990.0	1140.9	-996.6	Met	792.8	-1291.3	Met	872.0	-965.8	Met	951.3				275.7				459.5	
Priority social expenditure (floor) <sup>2</sup>	1425.5	1414.9		Not Met	287.0	226.8	338.3	Met	574.1	677.9	Met	861.1	1024.2	Met	1527.7				343.1				686.2	

Sources: Seychelles authorities; IMF staff estimates and projections.

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

<sup>2</sup> The performance criteria are cumulative from the beginning of the calendar year. Starting in 2023, the scope of social spending is somewhat broadened as described in the TMU.

<sup>3</sup> 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.

<sup>4</sup> If growth fall short of targets the revenues floor will be adjusted accordingly.

<sup>5</sup> 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, 2022–2023**

Actions	Timing	Objective	Status
<b>Fiscal and Public Financial Management Policy</b>			
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.	Not Met. Implemented with delay in October 2022.
Cabinet approval of legislative amendments to streamline VAT exemptions, in consultation with IMF staff.	End-September 2022	Strengthen revenue mobilization.	Not met. Postponed pending Fund TA.
Completing the customs automation project, in consultation with IMF staff.	End-September 2023	Strengthen revenue mobilization.	
<b>Debt Management</b>			
Publish a new domestic debt management strategy document.	End-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 December 2022
Publish an Annual Borrowing Plan along with an auction calendar to help market participants plan their liquidity management and reduce uncertainty.	End-September 2022	Implement the debt management strategy.	Not met. Implemented with delay in October 2022.
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-September 2021 and quarterly thereafter	Enhance debt management and transparency.	Met
The Ministry of Finance, in consultation with CBS, will approve a plan for government securities trading framework.	End-December 2022	Implement the debt management strategy.	Reset for March 2023
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
The Government will quarterly publish the issuance calendar for bonds on the Ministry of Finance website.	End-March 2022 and quarterly thereafter	Enhance debt management and transparency.	Met
<b>State-Owned Enterprises (SOEs)</b>			
As part of the operational restructuring of Air Seychelles, ring fence the ground handling operation of Air Seychelles as a separate legal entity.	End-December 2022	Ensure that the ground-handling operations at the Seychelles International Airport, considered an important strategic asset, remain protected from creditors.	
Publication of SOE Annual Report.	End-June 2023	The annual report will present the overall financial performance of the Public Enterprises based on their audited financial statement and will publish eight months after the closing of the financial year.	New

**Table 2. Seychelles: Actual and Proposed Structural Benchmarks Under the EFF, 2022–2023 (concluded)**

<b>Actions</b>	<b>Timing</b>	<b>Objective</b>	<b>Status</b>
<b>Financial Sector Stability</b>			
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.	End-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.	Met
Submit policy paper for the draft Bank Resolution Bill to the Cabinet.	End-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.	Not met. Implemented with delay in October 2022
Cabinet approval for draft Bank Resolution Bill in alignment with international best practice.	End-June 2023		Reset for end-September 2023
Submit amendments to the CBS Act, in consultation with IMF staff, to Cabinet.	End-May 2023	Finish implementing the 2021 safeguards assessment recommendations. The amendments aim to, inter alia, (i) strengthen governance and oversight; (ii) enhance institutional and personal autonomy; and (iii) safeguard financial autonomy.	New
<b>Real Sector Reforms</b>			
Finalize the terms-of-reference for a study to better understand the dynamics of the tourism sector.	End-June 2023	Conduct a tourism study, with the assistance of development partners, to better understand the dynamics of the tourism sector and its benefit to the economy.	New

## 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:

- Goods and services: day care scheme under IECD; breakfast and lunch under education and dedicated fund; home care giver transferred to family affairs, SPTC Bus refund for students.
- Capital project: vulnerable home repair.
- Social program of government: Housing finance scheme, home improvement/re-roofing scheme for pensioners, youth employment scheme, temporary financial assistance.
- Transfers to public enterprises: SPTC- refund of bus fare for elderly, disability and workers special.
- Benefits and approved programmes of agency for social protection: all budget lines under this code.

### 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.