INTERNATIONAL MONETARY FUND

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SEYCHELLES

December 2024

THIRD REVIEWS UNDER THE ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY AND REQUEST FOR REPHASING OF ACCESS UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SEYCHELLES

This report on Seychelles was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed on November 19, 2024. The following documents have been released and are included in this package:

- A **Press Release** on the Executive Board's conclusion of the Third Reviews Under the Arrangement Under the Extended Fund Facility and the Arrangement Under the Resilience and Sustainability Facility and Request for Rephasing of Access Under the Resilience and Sustainability Facility with Seychelles.

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 9, 2024, following discussions that ended on October 1, 2024, with the officials of Seychelles on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 19, 2024.

- A **Staff Supplement** providing information on recent developments.

- A **Statement by the Executive Director** for Seychelles.

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 the Third Reviews Under the Extended Fund Facility and the Resilience and Sustainability Facility Arrangements and Approves US$12.1 Million Disbursement for Seychelles

FOR IMMEDIATE RELEASE

- The Executive Board of the International Monetary Fund (IMF) completed today the third reviews of Seychelles' economic performance under the Extended Fund Facility and Resilience and Sustainability Facility Arrangements. The completion of the reviews allows for an immediate disbursement of about US$12.1 million to help strengthen macroeconomic stability, boost growth, and strengthen fiscal and monetary policy frameworks, while also supporting efforts to strengthen resilience to climate change, exploit synergies with other sources of official financing, and catalyze financing for climate-related investments.

- Economic growth in Seychelles appears to have slowed relative to earlier forecasts, reflecting lower tourist arrivals and lower tourist spending in Q2 and Q3. Inflation remains low, fiscal performance in the first half the year was tighter than budgeted, and central bank accumulation of foreign exchange reserves was above the program target.

- Performance under the EFF and RSF programs has been good. All quantitative targets for end-June 2024 were met, and significant progress has been made on structural benchmarks under the EFF and reform measures under the RSF.

Washington, DC – **December 9, 2024:** The Executive Board of the International Monetary Fund (IMF) completed today the third reviews of Seychelles' economic performance under the 36-month EFF and RSF Arrangements approved on May 31, 2023. The completion of the reviews allows for the authorities to draw the equivalent of SDR 6.1 million (about $8 million) under the EFF and SDR 3.1 million (about $4.1 million) under the RSF, bringing total disbursements to SDR 24.4 million (about $32.1 million) and SDR 9.3 million (about $12.2 million) under the EFF and RSF, respectively.

Economic growth in Seychelles appears to have slowed relative to earlier forecasts, due in part to lower tourist arrivals from most regions as well as shorter stays and less spending per tourist. Fisheries and related product manufacturing is also lower than expected, driven by lower tuna production targets. Year-on-year inflation rose to 0.6 percent by September 2024, compared to -2.7 percent in December 2023, due primarily to higher utility tariffs. The Central Bank of Seychelles (CBS) has maintained an accommodative monetary stance. Fiscal performance in the first half of the year was tighter than budgeted, driven by robust tax collection. Lower than expected tourist arrivals and lower spending per capita is expected to contribute to a wider current account deficit by year-end. Nonetheless, gross international reserves rose to $754 million by August 2024, equivalent to 3.5 months of import cover.

Program performance remains good. All end-June 2024 quantitative performance criteria (QPCs) and all end-September 2024 indicative targets (ITs) were met. Good progress was made toward structural benchmarks, although some were implemented with a delay or rescheduled to a later implementation date due to capacity constraints. Three reform measures (RMs) under the RSF for the third review have been adjusted, with two now extended to September 2025. The third RM—adoption of a National Climate Finance Strategy—was achieved with a short delay.

The outlook is stable but faces significant near- and medium-term challenges. Real GDP growth is projected at 4.3 percent in 2025, stabilizing at around 3.5 percent in the medium term. Average annual inflation is expected to reach 2.3 percent in 2025, stabilizing at around 3 percent thereafter. The current account deficit is anticipated to average about 9 percent of GDP over the medium term. A balance of payments surplus, supported by modest improvements in the goods and services balance and continued FDI, is projected to raise reserve coverage to approximately 3.8 months of imports. Potential downside risks include rising global commodity prices, external shocks to tourism demand, and climate change.

The authorities' near-term priorities are to bolster economic growth, enhance fiscal and external buffers, and maintain macroeconomic stability. In the medium term, the authorities' focus is on gradual fiscal consolidation to reduce the ratio of public debt to GDP, while simultaneously improving the efficiency of public spending. Building capacity with respect to public financial management and financial sector supervision—particularly with respect to climate change, is another key focus. The structural reform agenda emphasizes revenue administration, public financial and investment management, and governance improvements, including digitalization and fiscal transparency.

Following the Executive Board's discussion, Mr. Bo Li, Deputy Managing Director, and acting Chair, issued the following statement:

"Seychelles continues to demonstrate sound macroeconomic management and progress on structural reforms under the EFF and RSF, despite volatility in the external environment and intensification of climate shocks.

"While growth in 2024 is likely to slow moderately, macroeconomic stability has been maintained, and continued progress has been made on critical macrostructural reforms. Better than expected fiscal outturns have contributed to a decline in public debt. Monetary policy remains accommodative in the context of low inflation and high real interest rates, but the authorities should remain vigilant to inflationary pressures and adjust the monetary policy stance if needed.

"The outlook is broadly stable but there are risks to near- and medium-term growth. These include a slowdown in tourism, risks from global economic and geopolitical developments, and the accelerating effects of climate change.

"The EFF arrangement will continue to help to protect macroeconomic stability and support stronger fiscal and external buffers, while supporting the authorities' structural reform agenda. Fiscal consolidation through revenue gains, prudent spending, and improvements in public financial management will help reduce debt and create space for priority expenditure, including social spending and investment in climate change adaptation and mitigation. The authorities are committed to continue reforms to boost inclusive growth by supporting economic diversification and value added, improving social protection, and investing in human capital. Ongoing reforms are also geared to improve the monetary policy implementation framework and to strengthen financial system resilience.

"Implementation of reform measures under the RSF will help to strengthen the climate-resilience of public investment, integrate climate change into the budget process and financing strategy, and bring climate risks to the fore in financial sector supervision. Looking ahead, continued implementation of the RSF will also help authorities strengthen climate-related risk management for financial institutions, and undertake climate adaptation and mitigation reforms, including through measures to facilitate energy transition."

Seychelles: Selected Economic and Financial Indicators, 2021–29

	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Act.		Prel.	Proj.					
	(Annual percent change, unless otherwise indicated)								
National income and prices									
Nominal GDP (millions of Seychelles rupees)	25,164	29,373	30,015	31,041	33,033	35,027	37,208	39,561	42,055
Real GDP (millions of Seychelles rupees)	22,700	26,100	26,922	27,735	28,922	29,929	30,983	32,079	33,205
Real GDP	0.6	15.0	3.2	3.0	4.3	3.5	3.5	3.5	3.5
CPI (annual average)	9.8	2.6	-1.0	0.5	2.3	3.0	3.0	3.0	3.0
CPI (end-of-period)	7.9	2.5	-2.7	2.5	3.0	3.0	3.0	3.0	3.0
GDP deflator average	2.7	1.5	-0.9	0.4	2.0	2.5	2.6	2.7	2.7
Money and credit									
Broad money	-5.1	0.6	5.8	11.3	...	...	...	...	...
Reserve money (end-of-period)	11.1	-3.0	-3.5	11.3	...	...	...	...	...
Velocity (GDP/broad money)	1.1	1.2	1.2	1.1	...	...	...	...	...
Money multiplier (broad money/reserve money)	3.3	3.4	3.7	3.7	...	...	...	...	...
Credit to the private sector	-11.9	4.0	7.4	10.0	10.2	10.1	9.9	9.8	9.8
	(Percent of GDP, unless otherwise indicated)								
Savings-Investment balance									
External savings	8.7	7.4	7.2	10.7	9.8	9.2	9.5	9.3	8.9
Gross national savings	16.8	15.6	17.5	14.7	17.0	16.3	16.2	17.0	17.4
Of which: government savings	-3.2	1.2	2.2	2.1	3.6	3.2	4.3	5.1	5.8
private savings	20.0	14.5	15.4	12.6	13.4	13.1	11.9	11.8	11.6
Gross investment	25.5	23.0	24.8	25.4	26.8	25.5	25.7	26.2	26.3
Of which: public investment [1]	5.2	2.6	4.3	4.9	6.2	4.9	5.1	5.6	5.7
private investment	20.3	20.4	20.5	20.5	20.6	20.6	20.6	20.6	20.6
Private consumption	45.7	51.1	48.8	49.1	47.0	48.3	49.9	50.2	50.6
	(Percent of GDP)								
Government budget									
Total revenue, excluding grants	30.3	29.5	31.5	33.9	35.3	33.4	33.1	33.0	32.9
Expenditure and net lending	39.1	31.0	33.6	37.0	38.2	35.4	33.9	33.5	32.8
Current expenditure	33.8	28.6	29.8	31.9	32.1	30.1	28.8	27.8	27.1
Capital expenditure [1]	5.2	2.6	4.3	4.9	6.2	4.9	5.1	5.6	5.7
Overall balance, including grants	-5.7	0.1	0.2	-2.0	-1.6	-1.2	-0.1	0.2	0.7
Primary balance	-3.1	1.0	1.7	1.1	1.1	1.5	2.3	2.6	3.0
Total government and government-guaranteed debt [2]	74.5	61.4	58.6	61.5	60.8	59.1	55.9	52.5	48.7
External sector									
Current account balance including official transfers (in percent of GDP)	-8.7	-7.4	-7.2	-10.7	-9.8	-9.2	-9.5	-9.3	-8.9
Total external debt outstanding (millions of U.S. dollars) [3]	5,297	5,481	5,708	6,082	6,386	6,642	6,873	6,919	7,017
(percent of GDP)	355.5	266.3	266.6	285.0	286.8	284.1	279.5	267.3	257.6
Terms of trade (-=deterioration)	-3.0	-8.5	-3.3	1.9	10.3	-1.5	-1.0	-0.8	-0.7
Gross official reserves (end of year, millions of U.S. dollars)	702	639	682	806	851	852	889	958	1,001
Months of imports, c.i.f.	3.7	3.1	3.3	3.7	3.8	3.6	3.6	3.7	3.8
In percent of Assessing Reserve Adequacy (ARA) metric	121	102	104	118	119	116	118	123	125
Exchange rate									
Seychelles rupees per US$1 (end-of-period)	14.7	14.1	14.2	...	...	...	...	...	...
Seychelles rupees per US$1 (period average)	16.9	14.3	14.0	...	...	...	...	...	...

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

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

[2] Includes debt issued by the Ministry of Finance for monetary purposes.

[3] Includes private external debt.

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November 19, 2024

THIRD REVIEWS UNDER THE ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY AND REQUEST FOR REPHASING OF ACCESS UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

EXECUTIVE SUMMARY

Context. Economic growth in Seychelles appears to have slowed relative to earlier forecasts. Real GDP growth is projected at 3 percent in 2024 compared to an earlier projection of 3.7 percent. This reflects lower tourist arrivals in the wake of a temporary reduction in the number of direct flights and a decline in average spending per tourist. Some recovery is expected in the last quarter of 2024, but such a rebound is not expected to offset the shortfall recorded during the 2nd and 3rd quarters. Year-on-year inflation was about 0.6 percent as of September, reflecting stable utility rates and stable or declining prices for fuel and other commodities. Fiscal performance in the first half of 2024 was tighter than budgeted, driven by robust tax collection. Despite the slowdown in tourism, the external balance of payments is expected to strengthen in 2024 as the larger current account deficit is more than compensated for by larger financial inflows.

EFF performance. EFF program implementation has generally been good. All quantitative program targets for end-June 2024 were met. Two structural benchmarks (the first to strengthen public investment management and the second to revise the CBS Act in line with the Safeguards Assessment) have been met. A third benchmark, pertaining to Cabinet approval of the draft Bank Recovery and Resolution Act, has been delayed due to constraints related to legal drafting capacity. A benchmark for end-December on completion of a study on the dynamics of tourism is proposed to be reset for May 2025 due to challenges in hiring an external consultant. Six new structural benchmarks have been added for June 2025 to January 2026.

RSF performance. Of the three RMs attached to this review, completion of two is being proposed for delay to September 2025, to allow time for the authorities to build capacity to implement new climate-sensitive methodologies for assessment of public investment. In addition, a modification of one of these two delayed RMs is being proposed, specifically to drop a requirement for tagging of negative (brown) climate effects as this complex capability appears infeasible to achieve before the end of the program. A third RM, related to cabinet adoption of a climate finance strategy, is now expected to be met on November 28th—shortly before the December 9th Board meeting. Modifications are also being proposed to RMs for future reviews.

Outlook and risks. The outlook is stable but presents significant near and medium-term challenges to growth. Real GDP growth is projected at 4.3 percent in 2025 and expected to stabilize at around 3.5 percent in the medium term. Year-on-year inflation is expected to hit 2.5 percent by end-2024 due to currency depreciation so far this year, and increased utility prices and stabilize at around 3 percent in the medium term. Any rebound in global commodity prices would present a significant downside risk to inflation and foreign reserves. Unseasonably heavy rains, possibly exacerbated by the El Niño phenomenon, highlight the escalating threats posed by climate change. Increased competition in the tourism industry, and any dampening of global tourism demand are also important risk factors.

Policy recommendations. The policy framework is guided by the need to preserve macroeconomic and financial sustainability, build fiscal and external buffers, as well as advance prospects for long-term inclusive growth and economic resilience, in line with the objectives under the EFF and RSF. Toward this end, the mission agreed with the authorities on a revised macroeconomic framework and quantitative program targets consistent with the program objectives of steady fiscal consolidation and reduction of public debt over the medium-term. Also agreed were revisions to the timeline for completion of structural benchmarks, and the addition of new and revised benchmarks to enhance the macro-structural reform agenda. Finally, the mission agreed with the authorities to modify, delay, or rephase five of the remaining nine reform measures to address capacity constraints.

Staff's views. Considering the authorities' strong program implementation and policy commitments going forward, staff recommend completion of the third reviews of the EFF and RSF.

Approved By
Andrea Richter Hume (AFR) and Pritha Mitra (SPR)

The discussions in Victoria took place during September 18–October 1, 2024. The in-person team consisted of Todd Schneider (head), Aissatou Diallo (resident representative), Hany Abdel-Latif, Nombulelo Gumata (all AFR) and Oana Elena Luca (SPR). Leonardo Pio Perez (AFR) participated virtually. David Lukas Rozumek (MCM) and Miho Tanaka (LEG) participated virtually in relevant meetings. The team was supported by Andrew Esparon (local economist). Danielle Bieleu and Henry Quach (all AFR) assisted with the preparation of this report.

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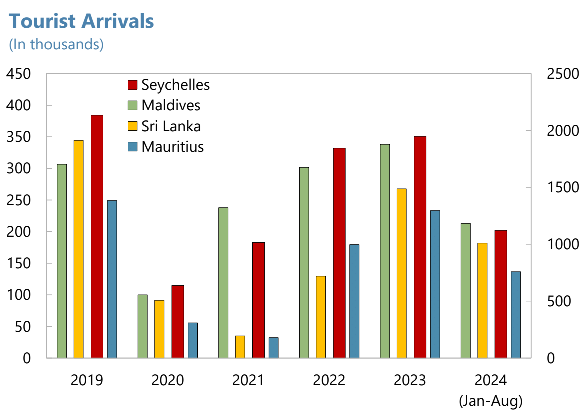
CONTEXT AND RECENT DEVELOPMENTS

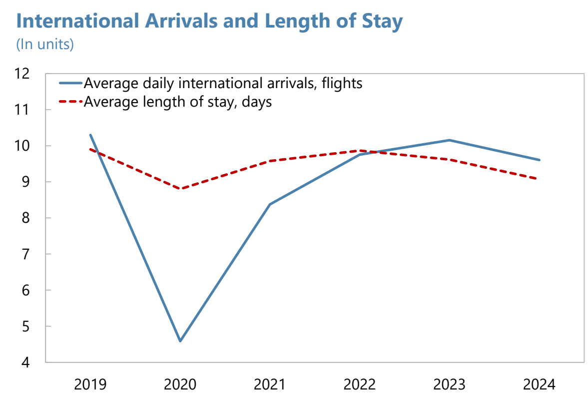
1. **Projected real GDP growth for 2024 has been revised down to 3.0 percent (compared to 3.7 percent at the time of the 2nd review) reflecting a drop in tourist arrivals and lower spending per tourist.** The drop in tourist arrivals has been broadly spread among source markets. Excluding Germany, arrivals from Europe declined during January-September 2024 compared to the same period in 2023—led by Russian tourists following Aeroflot's decision to suspend direct flights during May-September. A sharp year-on-year decline was also visible in Israeli tourists. Spending per tourist has also fallen. Preliminary data suggest total income from tourism was down by 18 percent year-on-year through August, reflecting shorter stays and a lower propensity to consume after the spending surge of the immediate post-pandemic period. The growth outlook for non-tourism sectors is largely unchanged relative to the second review except for fishery product manufacturing, which has been reduced by 3.5 percentage points due to lower tuna production targets in 2024.

Figure 1. Seychelles: Recent Developments in Tourism

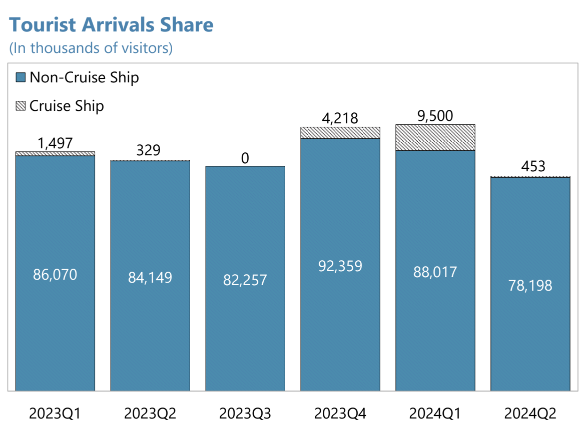
Tourism arrivals rebounded to near pre-pandemic levels but may soften this year



The average number of international flights has returned to pre-pandemic, but length of stay has decreased.



Resumption of cruise ship visitors has affected average length of stay and spending patterns.



Spending per tourist surged in the immediate post-pandemic but is now moderating due in part to lower-spending cruise ship visitors.

Sources: Flightradar24, Authorities' data, Central Bank of Seychelles, United Nations WTO; and IMF staff calculations.

2. Year-on-year inflation climbed to 0.6 percent by September 2024, rebounding from a low of -2.7 percent in December 2023. The shift back into positive inflation comes primarily from increases in utility tariffs. Core inflation has also risen but remained negative, at -0.4 percent, as of September. However, reflecting the low base, anticipated increases in utility tariffs, disruptions in Red Sea shipping routes, and the observed depreciation of the rupee, year-on-year inflation is projected to reach 2.5 percent by December 2024.

3. The downturn in tourism inflows has widened the current account deficit, but the overall balance of payments has been cushioned by an influx of foreign direct investment (FDI). Despite an increase in tuna and other exports, the external current account deficit is expected to widen to 10.7 percent of GDP in 2024, from 7.2 percent of GDP in 2023. However, an influx of FDI related to the development of Assumption Island (Seychelles is an archipelago of 115 islands, only some of which are developed) is expected to lead to an improvement in the overall balance of payments in 2024.

4. Positive conditions in the FX in the market during 2024H1 allowed the CBS to accumulate reserves. Gross international reserves increased to $754 million by August 2024 (3.5 months of imports, 110 percent of the ARA metric)—broadly in line with earlier forecasts—from $682 million at end-2023. Between January and June 2024, greater than expected supply of FX (mostly from conversion of FX earnings accrued earlier by tourism establishments) enabled the CBS to undertake additional FX purchases, equivalent to US$47 million. Interventions were not expected in the second half of the year. Gross international reserves are projected to reach 3.7 months of import cover by end-year. Through September 2024, the rupee had depreciated in nominal terms by 3.9 percent against the US dollar (y-o-y). In NEER and REER terms, the rupee had depreciated by 5 percent and 6.9 percent, respectively, through August (y-o-y).

5. The 2024 primary fiscal surplus is projected to reach 1.1 percent of GDP, 0.1 pp higher than forecast at the 2nd review. During H1, business tax and VAT collections overperformed, due mainly to the collection in 2024 of tax liabilities from 2023 as well as lower refunds. Total revenue in 2024 is projected to be 1.5 percentage points of GDP higher than earlier projections. Government spending in H1 was largely in line with the budget. While the capacity to vet public investment projects has improved, capex plans may still be under-executed. Public and publicly guaranteed debt is projected to rise to 61.5 percent of GDP by end-2024, from 58.6 percent of GDP at end-2023, due mainly to the extension of government guarantees to support key infrastructure improvement projects.

6. The monetary policy stance appears accommodative and has been accompanied by an increase in private sector credit growth. The Central Bank of Seychelles (CBS) decreased the monetary policy rate (MPR) by 25 bps in March 2024 to 1.75 percent—the first rate change since a 100-bps cut in June 2021. Monetary operations have been calibrated to steer the rate on the 7-day Deposit Auction Arrangement (DAA) to the MPR. This allowed for a temporary increase in excess reserves in March and April, which were then reduced in the following months. The reduction in the MPR has had little impact on market rates, with only two banks subsequently lowering their lending rates. Monetary transmission remains weak given excess liquidity in the banking system, reflecting banks' preference to hold higher precautionary balances.

7. Private sector credit growth has picked up, and the financial sector remains sound. The growth in private credit (up 9.7 percent y-o-y in June 2024, compared to 7.4 percent in December 2023) is most visible in the household and transport sectors. Overall private credit growth is projected to reach 10 percent by end-2024. However, the cost of credit remains high. The average lending rate (for corporates and households) was 9.8 percent at end-June 2024—a 7.6 ppt spread vis-à-vis deposit rates. Commercial banks remain well capitalized, liquid, and profitable (Table 5). NPLs as a share of gross loans decreased from 8.2 percent at end-2023 to 7.2 percent in June 2024 but remain above the pre-pandemic average of about 3 percent. NPLs are largely concentrated in the tourism sector—a consequence of the COVID pandemic—and mostly affect a specific bank.

OUTLOOK AND RISKS

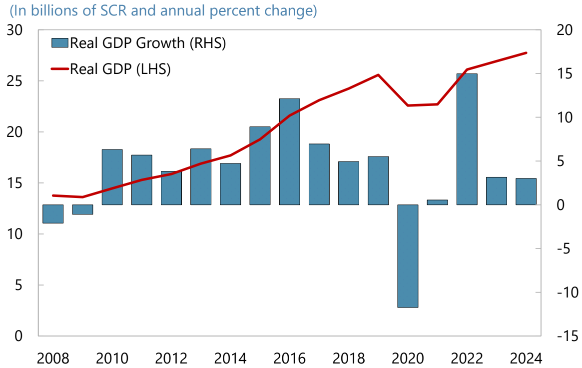
8. The outlook is broadly stable but there are significant near and medium-term challenges to growth. Real GDP growth is projected to rise to 4.3 percent in 2025 and stabilize at around 3.5 percent in the medium term, assuming a recovery in tourism inflows and a stabilization of tourist spending. Risks to the outlook hinge on Seychelles' competitive position as a tourist destination amid growing competition, the accelerating impact of climate change, and the negative effects of geo-political fragmentation. Average annual inflation is projected to stabilize at around 3 percent over the medium term but remains subject to external shocks and currency movements given Seychelles' high import dependency. The current account deficit is expected to average about 9 percent of GDP over the medium term. An overall balance of payments surplus supported by a modest improvement in the goods and services balance and continued financial inflows (FDI) is projected to bring reserve coverage to around 3.8 months of imports over the medium term.

9. Downside risks include commodity price volatility and external shocks to tourism demand (Annex I). Projections for global commodity and transport prices are subject to downside risks from conflicts in the Middle East, Russia's war in Ukraine, and other regional conflicts. Increasing competition in the global tourism industry, slower economic growth in traditional source markets, or disruptions in new markets pose further risks. Should tourism decline, the drop in FX inflows could weaken the rupee and pass through to inflation. On the domestic side, financial stability risks may arise from large exposures, credit concentration, and high NPLs. Seychelles remains vulnerable to sea level rise and natural disasters via damage to coastal infrastructure and tourism. Risks could arise should political tensions escalate in the runup to the 2025 elections.

Figure 2. Seychelles: Growth, Inflation, and Exchange Rate

Seychelles' economic recovery continues at a more moderate pace compared to the sharp rebound observed in 2022.

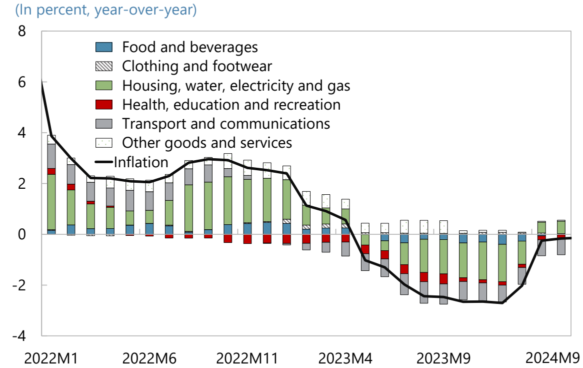
Real GDP and GDP Growth
(In billions of SCR and annual percent change)



Sources: National Bureau of Statistics Seychelles; and IMF staff calculations.

Inflation has rebounded from negative figures observed since 2023. The shift comes primarily from increases in utility tariffs.

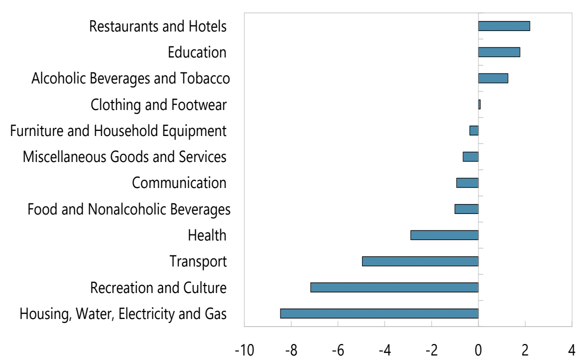
Headline Inflation and Main Components
(In percent, year-over-year)



Sources: National Bureau of Statistics Seychelles; and IMF staff calculations.

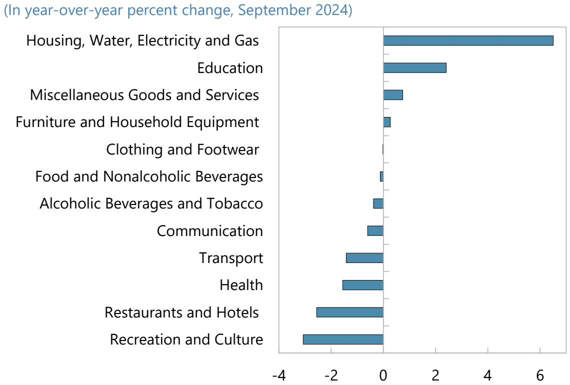
The steepest declines in 2023 were observed in housing and utilities, recreation and culture, and transport.

Inflation in Major Components
(Year-on-year percentage change, December 2023)



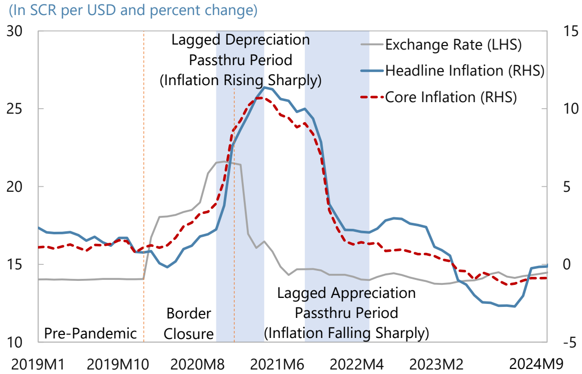
Recreation and culture and transport remain negative, but housing and utilities turned positive contributing to the uptick.

Inflation in Major Components
(In year-over-year percent change, September 2024)



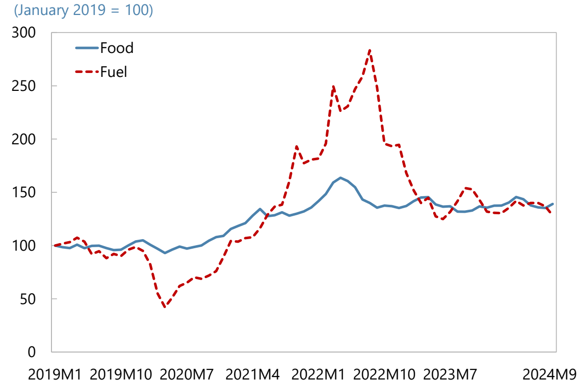
Both headline and core inflation have started to rise, reflecting exchange rate depreciation, since most goods are imported.

Exchange Rate and Inflation
(In SCR per USD and percent change)



The effect of lower global fuel prices, which placed downward pressure on transport, import, and utility costs, has started to unwind.

Global Food and Fuel Prices
(January 2019 = 100)



Sources: IMF World Economic Outlook, Haver Analytics, National Statistics Institutes; and IMF staff estimates.

PROGRAM PERFORMANCE

10. **EFF program implementation has generally been good.** All end-June 2024 quantitative performance criteria (QPC) and indicative targets (ITs) were met (MEFP Table 1). Revenue collection and the primary fiscal balance exceeded program targets by a wide margin. The accumulation of net international reserves (NIR) was also 5.6 percent above the program target.

EFF Quantitative Targets, 2023-24

	2023		2024
	June	December	June
Quantitative performance criteria			
Net domestic financing of the government (ceiling)	✔	✔	✔
Primary balance of the consolidated government (floor)	✔	✔	✔
Total revenue (floor)	✔	✖	✔
Net international reserves of the CBS (floor)	✔	✔	✔
Continuous quantitative performance criteria (ceilings)			
Accumulation of new external payments arrears	✔	✔	✔
Accumulation of new domestic payments arrears	✔	✔	✔
Indicative targets			
Net change in total PPG debt (ceiling)	✔	✔	✔
Priority social expenditure (floor)	✔	✔	✔

Sources: Seychellois authorities; and IMF staff calculations.
Symbols: ✔ Met; ✖ Not met.

11. **Structural reforms are moving forward, but several have encountered delays (MEFP Table 2).** Regarding structural benchmarks targeted for end-June 2024, the one related to strengthening public investment management has been met, and the one related to revision of the CBS Act in line with the Safeguards Assessment was implemented with delay in July. A benchmark targeted for end-September, pertaining to Cabinet approval of the draft Bank Recovery and Resolution Act, is delayed due to constraints related to legal drafting capacity; completion is expected by end-November 2024. The structural benchmark for end-December on completion of a study on the dynamics of tourism (funded by AfDB), including an action plan to maximize the impact of tourism on the economy over the long term, is proposed to be reset for a second time to May 2025 because of challenges in hiring an external consultant. The wording of the structural benchmark on the Public-Private Partnership (PPP) framework (targeted for end-March 2025) was modified to make it more specific by referring to cabinet approval.

12. **Progress has also been made on Seychelles' ambitious objectives under the RSF.** However, some measures have proven more complex than the authorities and IMF staff originally thought. Reflecting experience gained by the Fund on climate-related reforms (including from other RSFs), several modifications (of content and deadlines) are proposed for five of the remaining nine reform measures (RMs) (MEFP Table 3). Strong progress has been made on two of the three RMs slated for this review; the deadline for completion is proposed for September 2025 (after next year's budget cycle) to allow time to build capacity at the ministerial and agency level to implement new climate-sensitive methodologies for assessment of public investment. A modification of one of these RMs is also being proposed, specifically to drop a requirement for tagging of negative (brown) climate effects, as this appears infeasible before the end of the program. The third RM, related to cabinet adoption of a climate finance strategy, is now expected to be met on November 28th—shortly before the December 9th Board meeting. The first such strategy of its kind for Seychelles, it was completed with the assistance of external consultants. The government views the strategy as a living document and will update and improve with feedback from the Fund and other external stakeholders and as capacity for climate-related investment increases. Modifications are also being proposed to RMs for future reviews—most notably those pertaining to reporting, disclosure, and supervision of climate-related financial sector risks. While these modifications will

impact the disbursement schedule, total access would be unchanged as the overall ambition of the reforms remains high.

POLICY DISCUSSIONS

The mission agreed with the authorities on a revised macro framework and quantitative targets consistent with program objectives. Discussions focused on near and medium-term policies: ensuring macroeconomic stability and resilience, addressing bottlenecks in government spending, building fiscal space, strengthening the monetary policy operating framework, and preserving financial stability.

A. Fiscal Policy

Near-Term Fiscal Stance

13. Fiscal performance in 2024 is expected to be in line with program commitments and projections made at the time of the 2nd review. Total revenue is now projected to be 1.6 percentage points of GDP higher than the second review projection. The increase in projected tax revenue is attributed to strong business tax collection, which is approximately 0.4 percentage points higher than previously anticipated. The impact of the negative shock to tourism in Q2 and Q3 is visible in VAT, the hotel turnover tax, and the environmental and Environmental Sustainability Levy (collected by hotels). Projections for other tax items in 2024 align with earlier estimates. Non-tax revenue is expected to be about 1 percentage point higher than previous projections, driven by increased dividends from parastatals and other non-tax items.[1] Government spending is forecast to be approximately 2 percentage points of GDP higher than previous projections. There have been upward revisions to projected expenditure on goods and services (about 0.7 percent of GDP), as well as on public debt service—reflecting the impact of exchange rate depreciation on external obligations. On balance, the government is expected to achieve a primary fiscal surplus of 1.1 percent in 2024—roughly on par with 2023.

14. The FY2025 fiscal stance is expected to remain appropriately tight. The budget targets a lower primary surplus (1.1 percent of GDP) than projected at the time of the second review but remains consistent with program and government medium-term objectives—specifically, achieving a public debt-to-GDP ratio of 50 percent or less by 2030. Government expenditure is projected to be 2.1 ppt of GDP higher than originally expected—related to spending needs for national elections, the hosting of international sporting events, and an increase in public salaries. Revenue (excluding grants) is forecast to be 2 ppts of GDP higher, driven primarily by higher dividends and other non-tax revenues. The public debt-to-GDP ratio is expected to continue its downward trend,

[1] The upward revision in non-tax revenue results from a €10 million upfront lease payment for the Ile Aurore extension, expected before year-end. The private sector project will develop 18 hectares of newly reclaimed land. Reclamation is anticipated to finish by June 2025.

reaching the target of 50 percent of GDP or less before 2030. Overall, the medium-term trajectory remains largely unchanged.

Medium-Term Fiscal Issues

15. Balancing the need to enhance fiscal buffers with sufficient room for public investment remains the key objective guiding the medium-term fiscal trajectory. A balanced approach to fiscal consolidation is essential for Seychelles, given the need to bolster resilience to future shocks while also addressing critical public investment and social spending needs, including for climate change. Fiscal policy will remain anchored by the primary fiscal balance, with a view to reducing public debt to 50 percent of GDP or less by the authorities' target of 2030. This encompasses further fiscal consolidation of about 0.5 percent of GDP by the end of the program in 2026 and an additional 1.5 percent of GDP by the end of the medium-term (2030)—with the objective of reaching and sustaining a primary surplus of about 3 percent of GDP through a roughly balanced increase in revenues and reduction in current spending by about 3 ppt of GDP, while increasing public investment by 1 ppt of GDP.[2]

16. Discussions focused on reforms needed to meet short-term program targets and align the fiscal trajectory with medium term objectives.

- **Sustained efforts are crucial for ensuring robust revenue collection.** A phased action plan for implementing VAT reforms from 2024 to 2026 is currently underway. Amendments to regulations regarding valuation rules, tax credits, and VAT registration have been completed.

- **Tax leakages need to be addressed**. An inventory of existing tax expenditures on VAT and business tax, together with an estimate of annual revenue cost, will be published as part of the FY2025 budget (SB for December 2024).[3] A World Bank-supported review to identify potential audits related to transfer pricing has been completed. The Seychelles Revenue Commission (SRC) is conducting risk reviews to identify potential cases for transfer pricing audits, including 15 cases scheduled for completion by end-2024. To modernize and further simplify tax processes, the UNDP has provided technical assistance to develop a risk framework. This will enable comprehensive risk analysis and facilitate objective decisions on risk treatment, including audit case selection, based on predefined criteria. The SRC will launch an automated framework to analyze data from multiple sources, aligning with the government's goal of addressing tax leakages (*new SB for June 2025*). This automation should also ease pressure on SRC's limited resources.

[2] While this medium-term increase includes some spending related to climate adaption, it does not encompass the estimated $670 million needed in required infrastructure spending through 2030 to address climate risks as outlined in Seychelles Nationally Determined Contributions ($331 million for mitigation and $339 million for adaptation).

[3] An IMF technical assistance mission estimated that tax expenditures for the VAT and the BIT (excluding those given to SOEs) amounted to about 3.8 percent of GDP in 2023.

- **Digitalization is needed to enhance compliance and collection efforts.** The ASYCUDA World system is being upgraded in stages with new modules. The E-Payment module was deployed in June 2024, while the E-Manifest, Express Courier, Excise Tax, and WCO tariffs modules have already been implemented. Additional modules and integration processes are slated for completion by October 2024. The new web-based Tax Management System (TMS) aims to automate and modernize tax collection in Seychelles. The taxpayer portal is set for deployment in October 2024, followed by the case management module in December 2024. Once fully implemented, these enhancements are expected to strengthen revenue collection, reduce tax leakage, and facilitate the integration of government revenue systems.

- **Wider digitalization is in train to strengthen public expenditure management.** A new Integrated Financial Management Information System (IFMIS) will be installed by the first quarter of 2025, with the aim of being operational for the FY2026 budget. The IFMIS project is currently in the tender evaluation phase. To contain the wage bill, a recruitment freeze remains in effect for non-critical areas. A functional review of the public sector will be conducted by December 2025 (*new SB for December 2025*). Efforts to streamline the wage bill and enforce hiring controls will be supported by the implementation of a new Human Resource Management System (HRMS)—set to be operationalized by 2025. An action plan to address any deficiencies identified in the Public Expenditure and Financial Accountability (PEFA) assessment will be prepared and approved by cabinet by November 2025 (*new SB*).

- **Further strengthening public investment management is vital.** Tighter standards have been implemented for including investment projects in the Public Sector Investment Plan (SB). Ministries, Departments, and Agencies (MDAs) have been given minimum criteria related to design, costing, and engineering to assess projects in the 3-year PSIP. To enhance climate-resilient and green public investment, the revised Public Investment Management (PIM) Policy and scoring methods aim to strengthen capital project development and integrate climate considerations into the investment pipeline. This policy will ensure a coordinated approach to managing capital projects that aligns with sectoral objectives and national priorities while incorporating climate-smart criteria in project selection. A database of major and critical fixed government assets managed by MDAs will be established by November 2025 and incorporated into the Fixed Asset Management System (*new SB*), with a view to bolstering maintenance management and facilitating assessment of climate change risks.

- **Reforms are ongoing to further improve the social protection system and social spending targeting.** ASP is adopting a revised socioeconomic needs assessment framework that extends beyond income measures to include non-income dimensions of poverty. This holistic approach ensures a broader range of factors is considered in determining eligibility for social welfare assistance—better addressing the needs of vulnerable populations. The Cabinet is also expected to approve a policy framework, supported by the World Bank, for youth at risk that includes a detailed, multi-sectoral implementation plan to address key sources of risk, including a social registry information system and early warning system, among other measures.

B. Public Debt Management and Government Financing

17. Financing needs have decreased since 2020, and public debt has been assessed as sustainable with high probability. Despite the expected primary surplus, the ratio of public and publicly guaranteed debt to GDP is projected to rise to 61.5 percent of GDP by end-2024 (compared to 58.6 percent in 2023). This is due mainly to the extension of government guarantees on borrowing by the Development Bank of Seychelles from the European Investment Bank, for an amount of $5.28 million to support key infrastructure improvement projects. The ratio of public and publicly guaranteed debt is projected to decline to around 49 percent of GDP by 2029, barring new shocks. Continued reduction in gross financing needs over the medium term should help to keep domestic bond financing at sustainable levels and balance of payments needs manageable. However, the authorities may in the future need to seek alternative external financing, which could entail higher debt service costs and greater risks.

Summary of Table on External Financing, 2024 (US$ million)

Total external financing	**174**	
PPG external debt contracted or guaranteed debt	Volume of new debt, US million 1/	Present value of new debt, US mil 1/
Sources of debt financing	**149**	130
Concessional debt, of which 2/	15	9
Multilateral	9	5
Bilateral	6	4
Non-concessional debt, of which	134	121
Semi-concessional debt 3/	134	121
Commercial term 4/	0	0
Uses of debt financing	149	
Infrastructure	10	
Budget financing	134	
Guarantee (parastal)	5	
Sources/uses of grant financing	**26**	
Budgetary grants	0	
Project grants	26	
Memorandum items		
Indicative projections		
2025	204	
2026	157	

Sources: Authorities' data and IMF staff calculations.
1/ Contracting and guaranteeing of new debt.
2/ Debt with a grant element that exceeds a minimum threshold of 35 percent.
3/ Debt with a positive grant element but does not meet the minimum grant element.
4/ Debt without a positive grant element.

18. Given Seychelles' high-income status and the risk of reduced access to financing on favorable terms, the authorities will need to continue developing alternative sources of external financing and bolster debt management capacity. Any significant ramp-up in public investment to address climate challenges will add to financing needs. In this context, the authorities are planning for a climate finance roundtable in early 2025 with IMF participation. On the domestic side, after the first successful issuances of 10-year bonds in 2023,[4] bond issuances were limited to shorter maturities in March and June 2024 to align with market demand.

19. A secondary market for government securities in Seychelles is needed to support the liquidity of bonds and increase the potential for greater domestic financing. The Government will initiate a framework to operate a buy-back facility for trading of government securities through commercial banks in 2025 (*new SB for January 2026*).[5] Compared to 14.4 percent at end-2022, government securities as a share of bank assets were 12.3 percent in July 2024. The government is

[4] In 2023, there were issuances of 10-year treasury bonds in June, September, and November, with average yields to maturity of 7.77 percent, 7.12 percent, and 6.91 percent, respectively, and total issuance of about 1.1 percent of GDP.

[5] Based on a 2023 MCM mission, the Ministry of Finance, National Planning and Trade (MoFNPT) and other relevant stakeholders—Central Bank of Seychelles (CBS), Financial Services Authority (FSA), and representatives from commercial banks—agreed to pilot a buy-back window where interested commercial banks would provide a two-way price quote on a risk-taking basis with the securities routed through their own account. This arrangement requires the authorities to put in place a code of conduct for market participants and establish oversight responsibilities as well as develop guidelines for the settlement of traded securities.

now issuing T-Bonds on a quarterly basis, which has helped to lengthen the weighted average maturity of the domestic debt stock and reduce refinancing risks.

20. The authorities are committed to strengthening the legal framework for public debt management. Based on IMF TA, the authorities are working on legislative amendments to bolster debt management. Recommendations included establishing debt management objectives and bringing them into primary legislation, establishing the Minister of Finance’s authority to borrow, and clarifying the roles and avoiding redundancy of technical units. The authorities are working to revise the Public Debt Management Act in parallel with the Public Finance Management Act to ensure consistency in their provisions (SBs).

C. Monetary and Exchange Rate Policy

21. The current monetary policy stance, which is broadly neutral, is considered appropriate. With inflation projected to remain moderate, private credit growth increasing gradually, and the recent depreciation of the rupee, a data-dependent approach is recommended. CBS should be ready to respond to emerging price pressures (including from the exchange rate pass-through), should these materialize. On the other hand, given the still low level of headline inflation (core inflation remains negative at -0.4 percent YOY in September), further monetary accommodation would be warranted if downside risks in economic activity materialize. However, weak monetary policy transmission means that the impact of policy rate adjustments on commercial rates is muted. To enhance the monetary policy framework, CBS will conduct inflation surveys of banks, firms, and households and publish the results on the CBS website (*new SB for June 2025*). Private credit growth is projected to accelerate to 10 percent by end-2024, and the stock of private credit as a share of GDP to pass pre-pandemic levels.

22. Excess liquidity management has improved with a better calibration of CBS’s liquidity absorption volumes. A monetary policy framework based on interest rates as an operational target relies on an optimal liquidity absorption mechanism to be able to steer the interbank short-term interest rate. CBS should issue the 7-day DAA—its main instrument for liquidity absorption—as a full allotment at the MPR. However, after increasing liquidity absorption volumes in 2023Q4 and accepting higher rates, the 7-day DAA interest rate reached 2.5 percent, well above the MPR.[6] To steer the 7-day DAA interest rate to the MPR, CBS reduced liquidity absorption volumes in March and April 2024, allowing for an increase in excess reserves. The optimal liquidity absorption strategy resumed in May, with volumes calibrated to mop up excess reserves and using the MPR as the cut-off rate. However, the DAA was undersubscribed due to the banks’ preference of maintaining some level of precautionary balances.[7]

[6] The 7-day DAA interest rate reached 2.5 percent in December 2023, well above the MPR of 2 percent at the time, and remained at that level until March 2024, when the MPR was reduced to 1.75 percent.

[7] The market intelligence survey by CBS indicates that banks held a higher level of precautionary balances of approximately SCR140 million in Q3 2024. The findings also indicated that banks aim to increase their precautionary

23. The authorities remain committed to a floating exchange rate regime while also seeking to increase their international reserves as a buffer against external shocks. Taking advantage of higher-than-expected FX liquidity in the domestic market during H1, CBS purchased $47 million. CBS should continue to undertake FX interventions while letting the exchange rate fluctuate based on the supply and demand from banks with the objective of accumulating reserves (as committed under the program) and smoothing out excessive volatility to ensure orderly market conditions when warranted.[8]

D. Financial Stability

24. The financial system remains stable, well capitalized, and liquid, but NPLs remain elevated. NPLs decreased from 8.1 percent in December 2023 to 7.2 percent in June 2024 but remain above the pre-pandemic average of about 3 percent. One bank with the highest level of NPLs further reduced its NPL level, reaching 11 percent in June 2024 (from 13.5 percent and 18.2 percent in December 2023 and December 2022, respectively). Financial stability risks appear limited due to low contagion risk as interbank linkages are low in Seychelles' still nascent money and capital markets. Further reductions in NPLs are expected in 2024. CBS will need to maintain close monitoring of banks' credit portfolios while preparing structural policies to better prevent and manage crises.

25. Remaining gaps in off and on-site supervision of the banking system need to be addressed. Following recommendations from both the IMF and US Treasury's Office of Technical Assistance, CBS has reinstituted quarterly off-site risk assessments as part of its supervision framework. The enhancement to the process and quality of off-site financial risk analysis has improved and CBS now produces quarterly financial analysis reports. The reports need to be improved, giving more focus on the identification of risk. CBS supervisors agreed with the recommendation of adopting a more simplified risk rating model with Seychelles' specific add-ons, which requires supervisory assessment and judgment. A simplified risk-based supervision (RBS) framework tailored to Seychelles' specific circumstances will be implemented with IMF support in the months ahead.

26. The draft Bank Resolution Bill is being finalized for Cabinet approval *(SB for September 2024)*. The new law will be the basis of an institutional framework for dealing with bank resolution and managing a crisis. Discussions on a deposit insurance scheme have been deferred to a future

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balances due to Q4 seasonal patterns, but CBS shall maintain the precautionary balances at SCR100 million when conducting its operations in Q4 2024. The precautionary balances may be re-adjusted in subsequent quarters if the need arises.

[8] CBS conducts FX interventions only with the commercial banks, limited to the spot market based on auctions.

date largely due to fiscal implications. The bill was approved by the CBS Board and sent to the Attorney General's Office. Approval by the Cabinet of Ministers is expected by end-November.[9]

27. The CBS balance sheet remains vulnerable to shocks and needs to be strengthened with support from the government.[10] CBS' financial solvency has been eroded in recent years by several structural operational elements, and by the impact of soft lending measures during the pandemic. According to amendments to the CBS Act approved by the National Assembly in August 2024, the capital of the central bank needs to be raised to SR 550 million with the support from the government over a period of 10 years starting in January 2024. CBS staff estimated that approximately SR 319 million in new capital injection is required. No contribution from the government is anticipated in 2024. The proposed recapitalization amount falls in the range recommended by IMF TA and would be around the 10 percent of monetary liabilities targeted by the Act. The extended timeline for recapitalization will be the subject of further discussion with the authorities.

E. Other Structural Reforms

28. An audit of six key SOEs started in September, after some operational delays. The public enterprises to be audited are Public Utilities Corporation (PUC), Seychelles Petroleum Company (SEYPEC), Air Seychelles, Island Development Company Ltd (IDC), Seychelles Civil Aviation Authority (SCAA), and Seychelles Trading Company Ltd (STC). The government signed the contracts with the independent audit firms for the audits at PUC, Air Seychelles, SCAA and SEYPEC in August. The procurement process for IDC and STC is expected to be finalized in November. The governance audits and operational assessments of these public enterprises are expected to be finalized by end-March 2025.

29. The authorities are making progress in collecting beneficial ownership (BO) information and broadening access to financial and reporting institutions with AML/CFT obligations. As of end-August 2024, around 97 percent of the 41,820 international business companies (IBCs) in good standing had submitted information to the BO database managed by the Financial Intelligence Unit (FIU). To enhance BO transparency, the authorities are at the final stages of preparing legal amendments to expand access to the FIU's BO registry to institutions with AML/CFT obligations (SB for December 2024). The authorities are developing a strategy to achieve tiered public access to their BO database. The FIU is also developing its IT systems and is

[9] Following Cabinet approval, the draft will be reviewed and discussed at the Bills Committee ahead of presentation to the full National Assembly for discussion and approval, which will likely be next year given the technical nature of the bill, and other priorities of the National Assembly.

[10] Following MCM CD, the authorities committed to balance sheet strengthening measures, including a capital injection and adoption of a multi-year budgeting process based on a combination of cost-cutting and recovery measures. The authorities also committed to retain 100 percent of distributable earnings every year until the capital target level of 10 percent of monetary liabilities is achieved.

strengthening resources for AML/CFT supervision of the Virtual Asset Service Providers (VASP) sector.

30. Seychelles tourism risks losing market share due to increased competition from other markets. Alternative destinations include traditional competitors such as Mauritius and Maldives, as well as emerging competitors such as Madagascar and Sri Lanka. The recent decline in per capita tourist spending suggests an increase in price sensitivity. The authorities will need to leverage the forthcoming study on the dynamics of tourism (*SB, proposed for reset for end-May 2025*) to develop an action plan to increase competitiveness and value-added to the economy, building on Seychelles' areas of comparative advantage as a tourism destination.

31. High borrowing costs generated by the banks' large interest rate spread may limit private credit and hamper medium-term growth (Annex II). The interest rate spread (difference between banks' lending and deposit rates) has been consistently high in Seychelles. The small market intensifies diseconomies of scale and does not stimulate competition among banks. The banking sector is concentrated, and the past entry of new banks has not contributed to lowering lending rates. A significant but short-lived reduction in the spread observed during the pandemic (attributed to the impact of two credit lines introduced by CBS) has been reversed and the spread is moving towards pre-pandemic levels with the normalization of bank lending operations. CBS is studying alternatives to improve market dynamics, such as addressing difficulties for customers to switch banks to get lower rates and to improve credit information sharing across the financial system.

32. The authorities and multilateral stakeholders have expressed concern over the economic and social consequences of substance abuse.[11] While recent, comprehensive data are lacking, proxy indicators such as the increased use of foreign workers in key labor markets[12], rising absenteeism, and a high level of school dropouts, especially for adolescent males, suggest that opioid addiction is an increasingly significant problem in Seychelles, with potentially macro-critical effects. There is an urgent need to improve the collection, analysis, sharing, and utilization of data on substance abuse. Ongoing reforms in the social protection system could be an opportunity address the data issue and to reshape the government's policy response.

F. Climate Change Mitigation and Adaptation

33. The authorities are making progress on the climate finance strategy with support from external partners (RM5, September 2024). A pipeline of appraised climate projects has been identified. The financing strategy is currently being drafted with the assistance of the climate finance advisor commissioned by the Commonwealth. The NDC Partnership has also helped to recruit an adviser to assist in finalizing the climate finance strategy. All efforts have been made to

[11] World Bank, Country Partnership Framework for Seychelles (June 2024).

[12] Employment data show that between 2020 and 2023 the number of foreign workers in Seychelles increased by 36 percent, representing 34 percent of the total employees in 2020 and 45 percent in 2023. The number of foreign workers in the agriculture, forestry and fishing sector has increased by 83 percent between 2020 and 2023.

complete this RM on time, and the authorities are making solid progress on the strategy itself as well as long-term fiscal sustainability analyses under different climate scenarios. The current strategy document provides a foundational compilation of potential institutions and stakeholders for mobilizing climate finance for Seychelles. The authorities should continue to develop this strategy to achieve a comprehensive assessment of financing gaps and drill down on specific actions to fill them. The strategy should eventually include a detailed discussion on potential mobilization of climate finance from both domestic and global markets, insights into their expected magnitude, and specific actionable steps for accessing these resources through different financial instruments. The strategy would also need to link these funding sources with the project pipeline that is being developed and include an actionable roadmap for implementation. At the time this report was prepared, the authorities had scheduled this RM for completion (Cabinet approval) by November 28th, shortly before the December 9th Board meeting.

34. Implementation of the new Public Investment Management (PIM) policy (RM3) is proposed to be delayed to September 2025 to align with the FY2026 budget cycle. While the methodology integrating climate considerations (subsections (i) and (ii)) has been adopted and two major infrastructure projects have been selected for appraisal under the updated methodology, the authorities require additional time and support to implement RM3 in its entirety. Specifically, more time is needed both to ensure that project proposals for investment plans are created with the relevant details for appraisal, and to train government staff on the correct application of the new climate-sensitive project appraisal methodology. As part of the revisions to the PIM policy, a clear definition of "major" infrastructure project (above SCR50 million) will be incorporated in the updated PIM guidelines.

35. Work on climate budget tagging (CBT) and fiscal sustainability analysis (RM4) has also progressed well, but full implementation is proposed to be delayed to September 2025, with a modified focus on tagging for adaptation and mitigation. While the authorities have made significant progress on most parts of this RM, the methodology to identify negative (brown) effects from climate spending is not well established internationally.[13] A preliminary version of CBT guidelines has been completed and is being reviewed by Fund staff, and the CBT working group is nearing institutionalization. Following recommendations from IMF CD, the current process will only reliably identify climate expenditures with positive climate effects, including those for adaptation and mitigation.

36. Technical and capacity constraints preclude the implementation of two future RMs related to the financial sector as originally formulated in the RSF request (Annex III). In consultation with technical experts in MCM, it was agreed that these measures require significant upgrading of current capacity at CBS as well as a better sequenced approach to capacity development. The main changes are the following:

[13] Identification of negative effects is generally considered more difficult. For example, the EU's Green Budgeting Reference Framework also starts with identification of positive effects, with identification of negative elements coming later.

- **RM6 is proposed to be broken into four new RMs and rephased to address two key challenges:** (i) international standards for banks on reporting and disclosure of climate-related risks are yet to be established based on forthcoming BCBS principles, expected by end-2024; and (ii) establishing a data repository for banks' financial exposure to climate-related risks is considered beyond current capacity (advanced economies have yet to adopt this practice). The guidelines in the original formulation of RM6 would be separated into two packages to reflect best practices: One for discussion with banks on the management and supervision of climate risks; and the second for the disclosure of climate risks. The timeline is proposed for extension to December 2025 to allow adequate time for drafting. To preserve the level of ambition from the original RSF and facilitate rigorous assessment and disclosure of climate-related financial risks, a new requirement is being introduced to complete a data gap analysis, with support from the Fund (STA). A new milestone is also being proposed for CBS to publish a climate risk analysis framework by September 2025, followed by a report on the climate risk exposure of the banking sector by March 2026.

- **RM9 is proposed to be separated into two new RMs.** To reflect international practice, the original stress testing framework incorporating climate-related risks is proposed to be replaced with a financial sector climate risk analysis.[14] The new RMs also specify that the risk analysis will focus on the banking sector rather than the entire financial sector, reflecting the original intention at the RSF request and CBS' supervisory mandate. The implementation of the climate risk analysis framework is targeted for September 2025, followed by the publication of a climate risk exposure assessment by March 2026.

37. The Seychellois authorities have flagged one element of RM8 as unlikely to be completed by the deadline. While strong progress is already being made at the technical level on many aspects of RM8 (which focuses on scaling up renewable energy), they flagged the potential challenges of approving a new multi-year tariff system for end-use electricity tariffs at the current juncture. The completion date of this RM is proposed to be moved from April to November 2025.

PROGRAM MODALITIES

38. New program targets are proposed for 2025 (MEFP Table 1). The mission agreed with the authorities on a macro framework and quantitative program targets. Revised targets are proposed as ITs and QPCs for March and June 2025 and new ITs proposed for September and December 2025. The targets related to total revenue, primary balance, and net change in public and publicly guaranteed debt were adjusted by a small margin to reflect updated budget projections.[15] The target for net international reserves was revised upwards to $628.8 million in June 2025, reflecting the better-than-expected outcomes in 2024 and consistent with the authorities' strategy

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[14] Financial sector climate risk analyses are different from stress tests due to their limitations and the intention of the exercise, which focus on awareness and understanding.

[15] The total revenue target for June 2025 was adjusted upwards by SR 220 million whereas the target for the primary balance target was reduced by SR 56 million due to higher expenditures. The ceiling for net change in PPG debt was increased by SR 216 million.

to accumulate reserves to increase external buffers. The targets for priority social expenditure were changed marginally to reflect the authorities' revised projections.[16]

39. Six new structural benchmarks are being proposed (MEFP Table 2). On the fiscal side, they include the launching of an automated framework to address tax leakages; the establishment of a database of government assets; the approval of an action plan to address deficiencies identified in the Public Expenditure and Financial Accountability (PEFA) assessment; the development of a secondary market to support the liquidity of government bonds; and the conduct of a functional review of the public sector. Moreover, to enhance the monetary policy framework, the CBS is expected to implement and release the results of inflation expectations surveys on banks, firms, and households.

40. Modifications are being proposed to RMs for future reviews to reflect technical refinements and targeted adjustments, while preserving the original ambition of the RSF arrangement. Two RMs are proposed to be modified and delayed to September 2025 to align with the FY2026 budget cycle. RM3, on the implementation of the new PIM policy, and RM4, on climate budget tagging and fiscal sustainability analysis, originally targeted for September and October 2024, respectively. Another two RMs are proposed to be broken down into new RMs, which results in revised phasing of disbursements. RM6, on climate-related financial risks, originally targeted for March 2025, is broken down into four RMs targeted for March 2025, December 2025 and May 2026. RM9, on banking sector climate risk analysis, originally targeted for September 2025, is broken down into two RMs targeted for September 2025 and March 2026.

41. Upon successful approval of the completion of the third reviews, SDR 6.107 million will be purchased under the EFF arrangement and SDR 3.123 million will be disbursed under the RSF arrangement (Table 7). The resources under both arrangements will be used for budget support.

42. Risks to the EFF and RSF are assessed to be moderate, and the EFF program is fully financed. There are firm financing commitments for the next 12 months and good prospects for the remainder of the program period (Table 6). Continued support from the World Bank, African Development Bank, and EFF disbursements under the second and third reviews will help close the 2024 financing gap. International reserves (not including RSF) are projected to cover around 3.6 months of prospective imports by end-2024, with ongoing financial support from the Fund and other IFIs (World Bank $42 million; AfDB $58 million). Reserves are expected to reach around 3.8 months of import cover over the medium term. The World Bank is designing a new 2-year DPL (Board approval expected in December 2024). Program risks from global and regional uncertainty and declines in available concessional resources remain but will be moderated by Seychelles' strong track record under a series of Fund-supported programs and commitments to strengthen fiscal risk management and contingent planning under the program.

[16] Targets for March and June 2025 were increased by 0.1 percent of GDP reflecting a projection of 6 percent of GDP for end-2025.

43. Seychelles' capacity to repay the Fund is adequate but remains subject to risks (Table 8). The Fund credit ratios will peak at 7.6 percent of GDP and 6.8 percent of exports of goods and services in 2025. This is higher than in some recent cases, reflecting Seychelles' relatively small GDP. Fund credit to GIR ratio is projected to peak at 20.5 percent in 2026. Debt service to the Fund peaks at 1.2 percent of GDP, 1.1 percent of exports of goods and services, and 3.3 percent of GIR in 2024. Under the current EFF arrangement, Fund exposure to Seychelles will remain high for an extended period. Shocks to global commodity and transport prices and a weaker demand for tourism could exacerbate balance-of-payments pressure. However, the program has built in flexibility to allow for recalibration in case of such shocks. The authorities' commitment to the program and their sound repayment history provide assurance.

44. The 2023 update safeguards assessment found that CBS has continued to strengthen its safeguards framework. In August 2024, the National Assembly passed amendments to the CBS Act to further align governance and autonomy provisions with leading practices (SB). While financial reporting and external audits continue to adhere to international standards, capacity constraints remain a key challenge for advancing the internal audit and risk management functions. CBS remains committed to implementing the safeguards recommendations.

45. CD activities remain closely linked to the implementation of both EFF and RSF program priorities. The Seychellois authorities need to strengthen capacity for macroeconomic management through stronger public financial management and revenue administration as well as an improved monetary policy framework, stronger financial sector surveillance, enhanced AML/CFT framework, and better quality of key macroeconomic statistics.

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46. The Seychelles economy has largely recovered from the effects of the pandemic, but activity now appears to be moderating. Real GDP growth has been revised down following a drop in tourist arrivals and lower spending per tourist. Tourist arrivals are not expected to keep pace with the rapid growth of the pre-pandemic period, particularly given the inherent constraints on volume from the need to preserve Seychelles' comparatively pristine environment. Greater price sensitivity in the years ahead will require close attention to increasing the value added of tourism activities and maintaining competitiveness relative to peer destinations. In addition, medium-term prospects for Seychelles remain vulnerable to accelerating climate change, an increasingly volatile geopolitical landscape (with direct effects on such key variables as tourist flows and shipping prices), and a likely press for more populist policies in the context of upcoming national elections.

47. Maintaining macroeconomic stability and advancing structural reforms in the face of this changing landscape will be challenging. The authorities have established a strong track record with respect to fiscal and monetary management over the last two decades. It is essential that this progress be guarded over the next year, and that the policy framework remain dedicated to enhancing fiscal and external buffers and pursuing structural reforms to increase the efficiency of public service, bolster competitiveness, and increase resilience to climate and other external shocks.

The policy framework and agenda of macro-structural reforms agreed under the EFF and RSF are well suited to accomplishing these objectives.

48. While higher FDI this year is helping to offset a deterioration in tourism earnings, external dynamics affecting the balance of payments remain a vulnerability looking ahead. Volatility in tourist arrivals and per capita tourist spending remains a critical external vulnerability for Seychelles, and future shocks (whether related to geopolitics, competition, economic conditions in source markets, commodity and shipping cost, or events similar to the pandemic) highlight the need to keep building external buffers, strengthen resilience through diversification of economic activity, and keep a firm reign on fiscal policies.

49. Fiscal policies for 2024 and 2025 are appropriate given economic circumstances, and consistent with achieving program and medium-term debt objectives. Given the already strong revenue performance in H1, the prevailing risk is for the fiscal balance in FY2024 to be even higher than the projected 1.1 percent of GDP primary surplus, given ongoing (albeit improving) challenges with respect to full execution of the capital budget. For FY2025, a primary surplus of this same scale is appropriate given the faster-than-expected progress on fiscal consolidation and reduction of public debt and moderate additional spending needs linked to the election and hosting of international events.

50. Structural reforms to bolster revenue collection, eliminate tax leakages, bolster public financial and public investment management, and strengthen fiscal transparency are proceeding well. It is important that these continue to be supported by technical assistance from the Fund and other stakeholders. Staff see implementation of the new IFMIS system—appropriately tailored to Seychelles' needs and capacity—as a critical step. New structural benchmarks (many of which are high priority recommendations from TA, including the C-PIMA), focus on reforms that are critical to achieve medium-term fiscal objectives.

51. A data-driven approach to monetary policy is appropriate given current economic and credit conditions. On the one hand, interest rates remain high in real terms, and there are signs that growth eased through Q3. On the other hand, price pressures may emerge in the last quarter (such as from changes in utility prices), and both private credit and velocity are increasing. Staff recommends a careful, data-driven approach to monetary policy in the coming months.

52. The CBS will also need to maintain a focus on measures to support the ongoing shift to a new monetary framework, while also increasing external buffers. Recent monetary interventions have been effective in draining excess liquidity and keeping the short-term interest rates aligned with the MPR. Staff welcomes the authorities' continued efforts to enhance the monetary policy framework, including inflation surveys of banks, firms, and households and publishing the results on the CBS website.

53. Financial sector risks are assessed as low, but building supervisory capacity remains a priority. CBS has reinstituted quarterly off-site risk assessments as part of its supervision framework and improved the process and quality of its analysis. CBS now produces quarterly financial analysis reports. Staff welcomes the decision to design and implement a tailored risk assessment framework, drawing on IMF assistance and integrating Seychelles-specific elements from the existing RBS framework. In addition, the legislative agenda strengthening the CBS Act and for a bank recovery and resolution framework will be instrumental in supporting Seychelles' resilience to financial crises. Importantly, the authorities have committed to take measures to gradually bring CBS capital to a more solvent position, including a capital injection from the government, and the Fund stands ready for steps to support a healthy financial market.

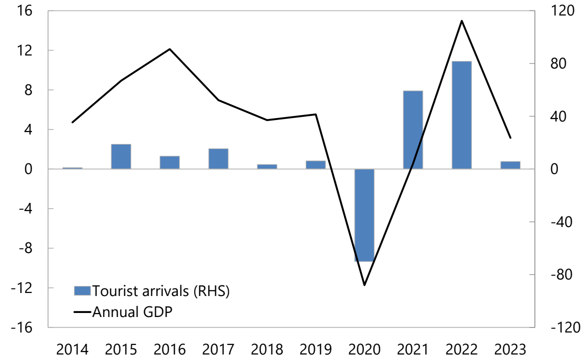
54. The authorities should continue to improve the effectiveness of the AML/CFT framework, including transparency of beneficial ownership information, in line with the findings in the 2024 National Risk Assessment [and the action plan currently being developed]. Staff welcomes the authorities' efforts to ensure the availability of adequate, accurate, and up-to-date beneficial ownership information in the FIU's database. Staff notes that reform to expand access to the database for reporting entities is on track for enactment in 2024 (*SB end-December 2024*) and encourages the authorities to develop a roadmap to achieve tiered public access.

55. The next twelve months will be challenging for RSF implementation. As committed under the RSF, the authorities have integrated climate adaptation and mitigation elements into the new building legislation, and drafted an updated Public Investment Management Policy reflecting the need to account for climate issues in project selection. A pipeline of appraised climate-related projects has been identified and a climate financing strategy has been drafted and will be refined going forward as capacity in this area increases. Other actions, such as updating the public investment management policy and implementing a framework of climate scenarios to assess long-term fiscal sustainability, require more time to be implemented in a meaningful way and will be done as part of the FY2026 budget process. The burden these measures and their subcomponents will place on limited staff resources at key agencies suggests the need for additional external support and expertise. The authorities and staff will continue to collaborate on filling capacity gaps to ensure successful implementation of the RSF, and to ensure continued CD from the Fund in critical areas.

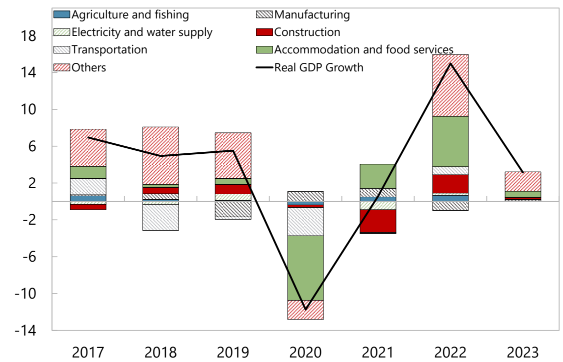
56. Staff supports the authorities' request for completion of the third reviews of the arrangements under the EFF and the RSF. Staff supports the request for the purchase on an amount equivalent to SDR 6.107 million (26.7 percent of quota) under the EFF arrangement and the disbursement of SDR 3.123 million (13.6 percent of quota) under the RSF arrangement on the account of meeting one RSF reform measure (RM5). Staff also supports the request for rephasing of access under the RSF given modification of RMs, and the proposed modification of March ITs in line with the revised macroeconomic framework. The attached Letter of Intent and Memorandum of Economic and Financial Policies set out appropriate policies to pursue the program's objectives. The capacity to repay the Fund is adequate but subject to risks. Risks to program implementation are manageable.

Figure 3. Seychelles: Recent Economic Developments

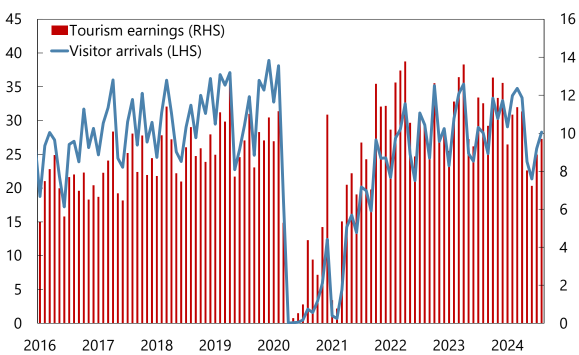
Real GDP Growth
(In percent)



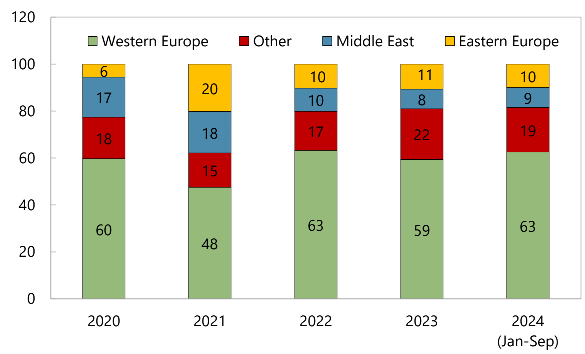
Contributions to GDP Growth
(In percent, year-over-year)



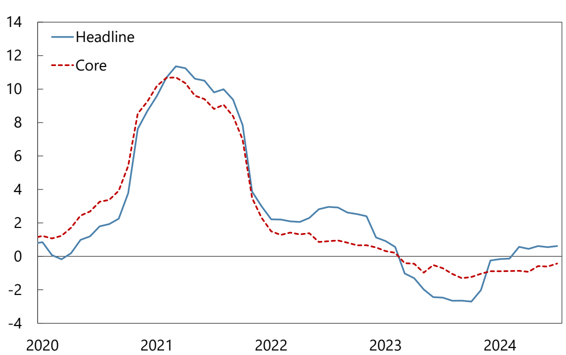
Visitor Arrivals and Tourism Earnings
(In thousands of arrivals and hundred millions of SCR)



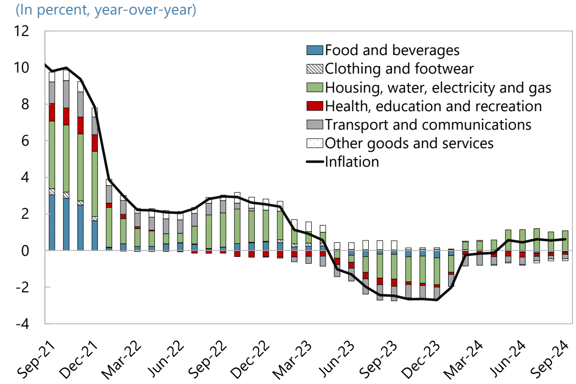
Visitor Arrivals by Region
(In percent)



Headline and Core Inflation
(In percent, annual change)



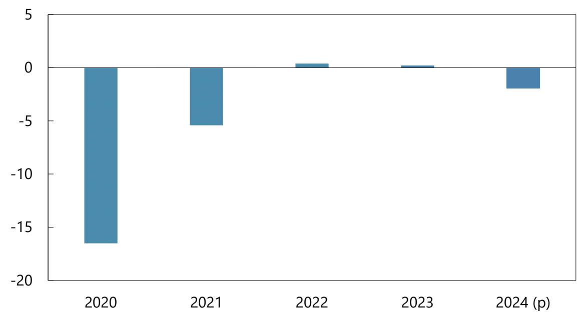
Headline Inflation and Main Components
(In percent, year-over-year)



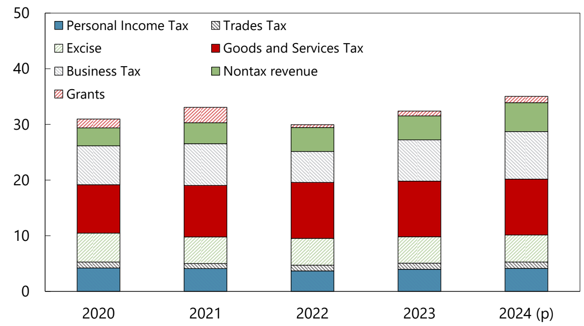
Sources: Haver Analytics, National Bureau of Statistics Seychelles; and IMF staff estimates.

Figure 3. Seychelles: Recent Economic Developments (concluded)

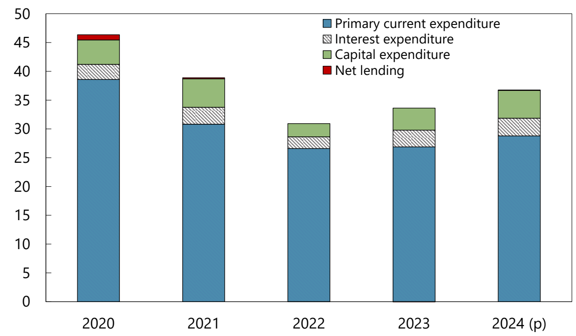
Overall Fiscal Balance (cash basis)
(In percent of GDP)



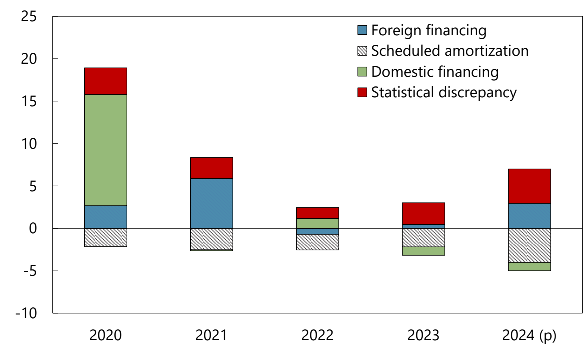
Tax Revenue
(In percent of GDP)



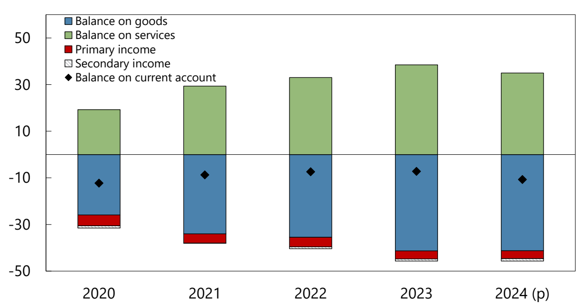
Expenditure
(In percent of GDP)



Financing
(In percent of GDP)

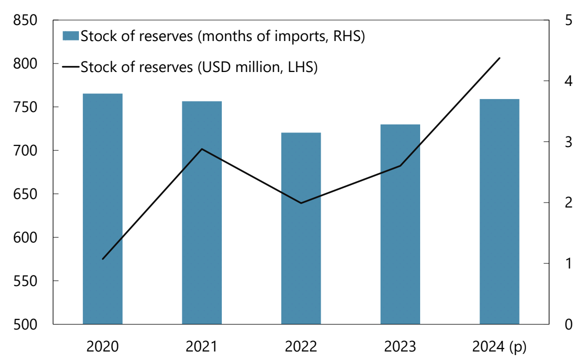


Current Account Balance
(In percent of GDP)



Note: Reflects the BOP based on new compilation methodology adopted in 2022.

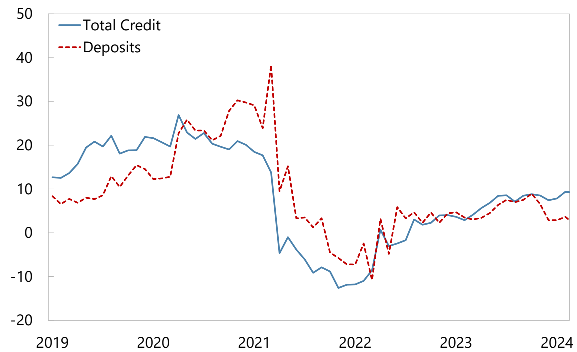
International Reserves
(In units)



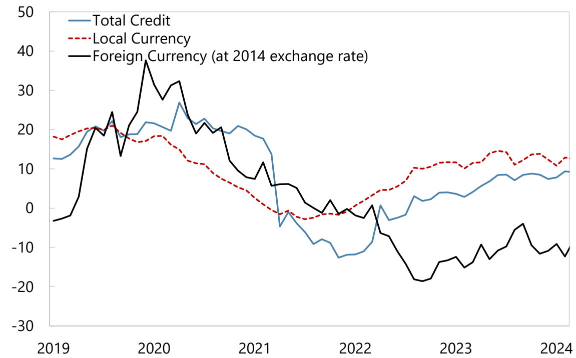
Sources: Authorities' data, National Bureau of Statistics Seychelles; and IMF staff estimates.

Figure 4. Seychelles: Financial Sector Developments

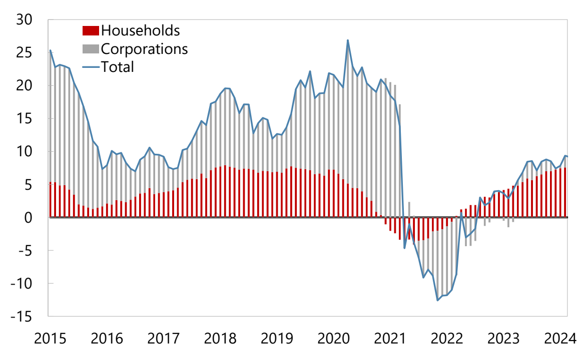
Deposits and Total Credit to the Private Sector
(In percent, annual change)



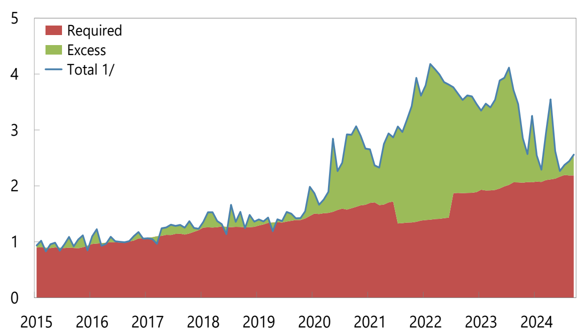
Credit to the Private Sector
(In percent, annual change)



Private Sector Credit Growth
(In annual change and contributions)

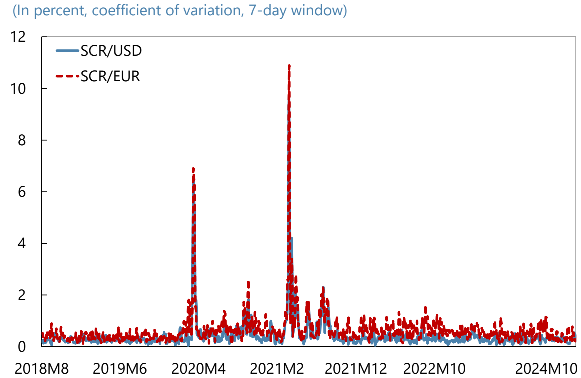


Reserves of Local Currency
(In billions of SCR)

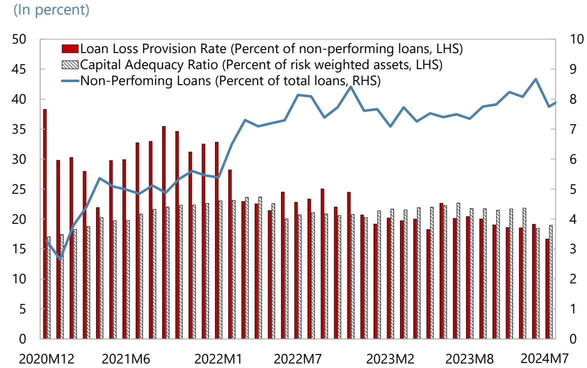


1/ Includes the amount under the Standard Deposit Facility (SDF).

Exchange Rate Volatility
(In percent, coefficient of variation, 7-day window)



Banking Sector Indicators
(In percent)



Sources: Central Bank of Seychelles; and IMF staff calculations.

Table 1. Seychelles: Selected Economic and Financial Indicators, 2021-29

	2021	2022	2023		2024		2025		2026	2027	2028	2029
	Act.		Prel.		Proj.		Proj.		Proj.			
			2nd Review		2nd Review		2nd Review					
	(Annual percent change, unless otherwise indicated)											
National income and prices												
Nominal GDP (millions of Seychelles rupees)	25,164	29,373	30,019	30,015	31,464	31,041	33,420	33,033	35,027	37,208	39,561	42,055
Real GDP (millions of Seychelles rupees)	22,700	26,100	26,926	26,922	27,920	27,735	29,072	28,922	29,929	30,983	32,079	33,205
Real GDP	0.6	15.0	3.2	3.2	3.7	3.0	4.1	4.3	3.5	3.5	3.5	3.5
CPI (annual average)	9.8	2.6	-1.0	-1.0	1.2	0.5	2.3	2.3	3.0	3.0	3.0	3.0
CPI (end-of-period)	7.9	2.5	-2.7	-2.7	1.6	2.5	3.0	3.0	3.0	3.0	3.0	3.0
GDP deflator average	2.7	1.5	-0.9	-0.9	1.1	0.4	2.0	2.0	2.5	2.6	2.7	2.7
Money and credit												
Broad money	-5.1	0.6	5.8	5.8	6.4	11.3	…	…	…	…	…	…
Reserve money (end-of-period)	11.1	-3.0	-3.5	-3.5	6.4	11.3	…	…	…	…	…	…
Velocity (GDP/broad money)	1.1	1.2	1.2	1.2	1.2	1.1	…	…	…	…	…	…
Money multiplier (broad money/reserve money)	3.3	3.4	3.7	3.7	3.7	3.7	…	…	…	…	…	…
Credit to the private sector	-11.9	4.0	7.4	7.4	8.4	10.0	9.3	10.2	10.1	9.9	9.8	9.8
	(Percent of GDP, unless otherwise indicated)											
Savings-Investment balance												
External savings	8.7	7.4	7.2	7.2	7.3	10.7	7.8	9.8	9.2	9.5	9.3	8.9
Gross national savings	16.8	15.6	17.5	17.5	17.8	14.7	18.5	17.0	16.3	16.2	17.0	17.4
Of which: government savings	-3.2	1.2	2.2	2.2	2.3	2.1	3.6	3.6	3.2	4.3	5.1	5.8
private savings	20.0	14.5	15.4	15.4	15.4	12.6	14.9	13.4	13.1	11.9	11.8	11.6
Gross investment	25.5	23.0	24.8	24.8	25.1	25.4	26.2	26.8	25.5	25.7	26.2	26.3
Of which: public investment [1]	5.2	2.6	4.3	4.3	4.6	4.9	5.6	6.2	4.9	5.1	5.6	5.7
private investment	20.3	20.4	20.5	20.5	20.5	20.5	20.6	20.6	20.6	20.6	20.6	20.6
Private consumption	45.7	51.1	48.8	48.8	47.7	49.1	47.8	47.0	48.3	49.9	50.2	50.6
	(Percent of GDP)											
Government budget												
Total revenue, excluding grants	30.3	29.5	31.5	31.5	32.4	33.9	33.3	35.3	33.4	33.1	33.0	32.9
Expenditure and net lending	39.1	31.0	33.6	33.6	34.9	37.0	35.6	38.2	35.4	33.9	33.5	32.8
Current expenditure	33.8	28.6	29.8	29.8	30.1	31.9	29.7	32.1	30.1	28.8	27.8	27.1
Capital expenditure [1]	5.2	2.6	4.3	4.3	4.6	4.9	5.6	6.2	4.9	5.1	5.6	5.7
Overall balance, including grants	-5.7	0.1	0.2	0.2	-1.4	-2.0	-1.0	-1.6	-1.2	-0.1	0.2	0.7
Primary balance	-3.1	1.0	1.7	1.7	1.0	1.1	1.5	1.1	1.5	2.3	2.6	3.0
Total government and government-guaranteed debt [2]	74.5	61.4	58.5	58.6	60.0	61.5	59.1	60.8	59.1	55.9	52.5	48.7
External sector												
Current account balance including official transfers												
(in percent of GDP)	-8.7	-7.4	-7.2	-7.2	-7.3	-10.7	-7.8	-9.8	-9.2	-9.5	-9.3	-8.9
Total external debt outstanding (millions of U.S. dollars) [3]	5,297	5,481	5,570	5,708	5,859	6,082	6,145	6,386	6,642	6,873	6,919	7,017
(percent of GDP)	355.5	266.3	260.1	266.6	270.8	285.0	272.8	286.8	284.1	279.5	267.3	257.6
Terms of trade (-=deterioration)	-3.0	-8.5	-3.6	-3.3	-2.6	1.9	7.3	10.3	-1.5	-1.0	-0.8	-0.7
Gross official reserves (end of year, millions of U.S. dollars)	702	639	682	682	751	806	805	851	852	889	958	1,001
Months of imports, c.i.f.	3.7	3.1	3.2	3.3	3.4	3.7	3.5	3.8	3.6	3.6	3.7	3.8
In percent of Assessing Reserve Adequacy (ARA) metric	121	102	104	104	110	118	113	119	116	118	123	125
Exchange rate												
Seychelles rupees per US$1 (end-of-period)	14.7	14.1	14.2	14.2	…	…	…	…	…	…	…	…
Seychelles rupees per US$1 (period average)	16.9	14.3	14.0	14.0	…	…	…	…	…	…	…	…

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

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

[2] Includes debt issued by the Ministry of Finance for monetary purposes.

[3] Includes private external debt.

Table 2. Seychelles: Balance of Payments, 2021-29

	2021	2022	2023		2024		2025		2026	2027	2028	2029
	Act.		Prel.		Proj.		Proj.			Proj.		
			2nd Review		2nd Review		2nd Review					
	(Millions of US dollars, unless otherwise indicated)											
Current account balance (+ surplus; - deficit)	-130	-152	-155	-155	-158	-229	-175	-219	-216	-233	-240	-242
(percent of GDP)	-8.7	-7.4	-7.2	-7.2	-7.3	-10.7	-7.8	-9.8	-9.2	-9.5	-9.3	-8.9
Balance of goods and services (+ surplus; - deficit)	-70	-51	-62	-62	-61	-134	-83	-124	-92	-109	-110	-108
Exports of goods	516	563	542	542	569	600	610	621	639	654	679	715
Of which: oil re-exports	162	193	192	192	201	201	201	216	218	221	227	233
Of which: tuna exports	276	283	277	277	280	296	326	318	327	337	347	358
Imports of goods	1,023	1,294	1,427	1,427	1,480	1,481	1,598	1,553	1,598	1,675	1,743	1,824
Of which: oil imports	197	299	279	279	290	294	287	309	311	316	324	333
Exports of services	1,235	1,684	1,833	1,833	1,892	1,757	1,968	1,868	1,979	2,084	2,189	2,295
Of which: tourism earnings	588	935	989	994	1,044	860	1,088	926	996	1,062	1,121	1,178
Imports of services	798	1,004	1,010	1,010	1,043	1,011	1,063	1,061	1,112	1,171	1,234	1,294
Balance on primary income (+ surplus; - deficit)	-60	-84	-74	-74	-78	-72	-80	-73	-102	-103	-107	-109
Of which: interest due	28	30	43	43	41	56	47	49	62	67	61	59
transfers of profits and dividends	4	8	8	8	8	8	8	8	8	8	20	20
Balance on secondary income (+ surplus; - deficit)	0	-17	-19	-19	-20	-22	-12	-22	-22	-22	-23	-25
Of which: general government, net	31	15	27	27	17	26	18	18	17	15	15	13
Capital account	24	14	5	5	21	19	25	24	17	15	15	16
Financial account [1]	-166	-77	-184	-183	-191	-327	-176	-208	-195	-271	-310	-289
Direct investment, net	-119	-226	-279	-279	-244	-382	-307	-295	-308	-342	-400	-404
Abroad	-7	-37	-40	-40	-37	-37	-43	-31	-35	-40	-46	-47
In Seychelles	111	190	240	240	207	344	264	264	273	302	353	356
Of which: offshore sector	0	0	0	0	0	0	0	0	0	0	0	0
Portfolio investment, net	-13	4	-10	-10	12	12	31	12	7	4	0	-4
Other investment, net	-34	146	106	106	41	43	101	74	106	67	90	119
Government and government-guaranteed	-37	-10	1	1	-58	-56	-65	-36	-22	-13	-34	-15
Disbursements	73	49	47	47	111	124	113	78	63	48	45	28
Project loans	9	11	15	15	10	4	40	24	23	38	35	18
Program loans	64	38	32	32	101	120	73	55	40	10	10	10
World Bank	44	25	6	6	33	42	38	30	15	0	0	0
African Development Bank	20	0	26	26	48	58	35	25	25	0	0	0
Others	0	13	0	0	20	20	0	0	0	10	10	10
SDR allocation	0	0	0	0	0	0	0	0	0	0	0	0
Amortization	-36	-40	-47	-47	-52	-68	-48	-42	-41	-35	-26	-32
Others	3	155	105	105	99	99	166	111	128	80	124	134
Net errors and omissions	0	0	0	0	0	0	0	0	0	0	0	0
Overall balance	60	-61	34	34	54	117	26	14	-4	53	85	63
Financing	-60	61	-34	-34	-54	-117	-26	-14	4	-53	-85	-63
Change in net international reserves (increase: +)	60	-61	34	34	54	117	26	14	-4	53	85	63
Change in gross official reserves (without RSF, increase: +)	122	-49	39	39	53	116	33	21	-9	37	69	43
Change in liabilities to IMF, net (without RSF)	63	12	5	5	-1	-1	7	7	-4	-16	-16	-20
Purchases/drawings	68	17	16	16	16	16	16	16	8	0	0	0
Repurchases/repayments	6	5	11	11	18	18	9	9	12	16	16	20
Financing gap	0	0	0	0	0	0	0	0	0	0	0	0
Use of Fund credit RSF			4	4	17	8	21	24	9	0	0	0
Change in gross official reserves (with RSF, increase: +)			43	43	69	124	54	45	1	37	69	43
Memorandum items:												
Exports G&S growth, percent	41	28	6	6	4	-1	5	6	5	5	5	5
Tourism growth, percent	80	59	6	6	5	-13	4	8	8	7	6	5
Exports of goods volume growth, percent	-16	-14	-3	-3	1	12	18	20	2	1	3	4
Imports G&S growth, percent	37	26	6	6	4	2	6	5	4	5	5	5
Imports of goods volume growth, percent	-2	9	15	15	3	3	11	10	3	5	4	4
Exports G&S, percent of GDP	118	109	111	111	114	110	114	112	112	111	111	110
Imports G&S, percent of GDP	122	112	114	114	117	117	118	117	116	116	115	114
FDI, percent of GDP	8	11	13	13	11	18	14	13	13	14	15	15
Gross official reserves with RSF (stock, e.o.p.)[2]	702	639	682	682	751	806	805	851	852	889	958	1,001
(Months of imports of goods & services)	3.7	3.1	3.2	3.3	3.4	3.7	3.5	3.8	3.6	3.6	3.7	3.8
Percentage of IMF reserve adequacy metric	121	102	104	104	110	118	113	119	116	118	123	125
Gross official reserves without RSF (stock, e.o.p.)[2]			678	678	731	794	764	815	806	843	912	1,001
(Months of imports of goods & services)			3.2	3.3	3.3	3.6	3.3	3.6	3.4	3.4	3.5	3.8
Percentage of IMF reserve adequacy metric			104	104	107	116	108	114	109	112	117	125
Government and government-guaranteed external debt	575	578	591	591	699	690	812	777	802	787	787	761
(Percent of GDP)	39	28	28	28	32	32	36	35	34	32	30	28
GDP (Millions of U.S. dollars)	1,490	2,058	2,141	2,141	2,163	2,134	2,253	2,227	2,338	2,459	2,588	2,724

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

[1] Per STA recommendations, net lending under financial account is recorded as positive following BPM6 guidance.

[2] The level of GIRs computed from the BOP includes the budget support.

Table 3a. Seychelles: Consolidated Government Operations, 2021-29 [1]

(Millions of Seychelles Rupees)

	2021	2022	2023	2023	2024	2024	2025	2025	2026	2027	2028	2029
	Act.	Act.	2nd Review	Prel.	2nd Review	Proj.	2nd Review	Proj.	Proj.	Proj.	Proj.	Proj.
					(Millions of Seychelles rupees)							
Total revenue and grants	8,322	8,798	9,726	9,726	10,554	10,879	11,573	12,112	11,999	12,584	13,313	14,090
Total revenue	7,622	8,652	9,466	9,466	10,179	10,525	11,117	11,666	11,684	12,322	13,038	13,842
Tax	6,677	7,382	8,169	8,169	8,875	8,918	9,986	9,965	10,567	11,247	11,940	12,687
Personal income tax	1,030	1,079	1,190	1,190	1,256	1,284	1,362	1,388	1,483	1,577	1,678	1,785
Trade tax	226	302	330	330	341	351	366	371	385	402	419	434
Excise tax	1,207	1,416	1,426	1,426	1,494	1,505	1,656	1,629	1,706	1,794	1,884	1,978
Goods and services tax (GST) / VAT	2,326	2,951	3,002	3,002	3,164	3,122	3,655	3,705	3,929	4,200	4,469	4,754
Business tax	1,457	1,214	1,601	1,601	1,753	1,855	2,080	2,020	2,169	2,332	2,503	2,698
Corporate Social Responsibility tax (CSR)	61	10	5	5	0	2	0	0	0	0	0	0
Marketing tourism tax (MTT)	60	81	109	109	95	101	95	108	114	122	129	138
Property tax	45	26	35	35	72	57	72	58	59	60	61	63
Other	265	302	470	470	698	641	699	686	721	760	795	838
Nontax	945	1,270	1,297	1,297	1,304	1,607	1,130	1,701	1,116	1,076	1,099	1,155
Fees and charges	366	386	446	446	425	426	424	449	453	459	478	484
Dividends from parastatals	441	757	582	582	587	692	587	900	545	493	493	543
Other	138	127	270	270	292	490	118	352	118	124	128	128
External grants	700	146	260	260	375	354	456	446	315	261	275	248
Expenditure and net lending	9,843	9,103	10,094	10,094	10,995	11,501	11,895	12,633	12,416	12,609	13,240	13,784
Current expenditure	8,496	8,409	8,945	8,945	9,467	9,893	9,920	10,604	10,554	10,725	11,010	11,393
Primary current expenditure	7,757	7,813	8,070	8,070	8,717	8,938	9,086	9,709	9,624	9,825	10,073	10,452
Wages and salaries [2]	2,760	2,792	3,009	3,009	3,384	3,426	3,553	3,764	3,850	3,884	3,977	4,120
Goods and services [2]	2,827	3,063	3,582	3,582	3,733	3,891	3,873	4,150	3,909	4,005	4,055	4,193
Transfers [2]	2,123	1,915	1,478	1,478	1,586	1,593	1,645	1,765	1,834	1,902	2,004	2,103
Social program of central government [4]	468	268	243	243	285	283	295	292	324	379	405	426
Transfers to public sector from central government	240	277	48	48	49	57	52	62	56	52	52	52
Benefits and programs of Social Security Fund [4]	1,415	1,370	1,187	1,187	1,252	1,252	1,297	1,410	1,454	1,472	1,547	1,625
Other	46	43	0	0	14	28	15	30	32	34	36	36
Interest due	739	596	875	875	750	954	835	895	930	900	936	942
Foreign interest	259	209	315	315	283	490	353	389	438	457	485	483
Domestic interest	480	388	560	560	467	464	481	506	491	443	451	459
Capital expenditure	1,248	674	1,147	1,147	1,418	1,494	1,876	1,930	1,721	1,891	2,229	2,389
Domestically financed	394	462	834	834	1,051	1,182	920	1,331	1,127	1,088	1,466	1,859
Foreign financed	853	212	313	313	367	312	955	599	595	803	762	530
Net lending	41	-15	-34	-34	23	26	49	49	91	-81	-74	-74
Contingency	58	35	36	36	88	88	50	50	50	75	75	75
Primary balance	-781	291.1	507	507	308	333	513	373	512	874	1,010	1,247
Overall balance, commitment basis [3]	-1,520	-305	-368	-368	-441	-621	-322	-521	-417	-26	74	306
Change in float	86	332	415	415	0	0	0	0	0	0	0	0
Overall balance, cash basis (after grants)	-1,434	27	47	47	-441	-621	-322	-521	-417	-26	74	306
Financing	1,434	-27	12	11	683	742	630	878	559	26	-74	-306
Foreign financing	1,480	-206	136	136	1,072	917	1,377	1,004	407	-43	31	-368
Disbursements	2,118	334	792	792	2,089	2,159	2,221	1,759	1,199	727	680	431
Project loans	153	211	147	147	143	63	589	350	343	580	528	282
Program/budget support	1,965	123	645	645	1,946	2,095	1,633	1,409	856	147	153	149
Of which RSF			58	58	241	121	308	357	142	0	0	0
Scheduled amortization	-639	-540	-656	-656	-1,017	-1,242	-845	-755	-792	-770	-649	-799
Of which Paris Club buy-back												
Domestic financing, net	-27	342	-238	-238	-402	-187	-759	-170	107	54	-118	49
Bank financing	-192	340	-197	-197	-338	-157	-652	-117	111	49	-106	45
CBS	-781	616	491	491	0	0	0	0	0	0	0	0
Commercial banks	589	-276	-688	-688	-338	-157	-652	-117	111	49	-106	45
Nonbank financing	165	2	-41	-41	-64	-31	-107	-53	-3	5	-12	5
Privatization and long-term lease of fixed assets	72	87	17	17	13	13	13	45	45	15	13	13
Increase in government assets			58	58	241	121	308	357	142	0	0	0
Of which RSF			58	58	241	121	308	357	142	0	0	0
Statistical discrepancy	-90	-249	97	97	0	0	0	0	0	0	0	0
Memorandum item:												
Total social spending [4]	1,550	1,530	1,711	1,711	1,833	1,833	1,883	1,973	2,016	2,030	2,030	2,158

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

[1] Data include the central government and the social security system, from the 1st review and going forward.

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

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

[4] The total amount of social spending considered in the IT (memorandum item) also includes items under goods and services and wages and salaries.

Table 3b. Seychelles: Consolidated Government Operations, 2021-29 [1]

(Percent of GDP)

	2021	2022	2023		2024		2025		2026	2027	2028	2029
	Act.		Prel.		Proj.		Proj.		Proj.			
			2nd Review		2nd Review		2nd Review					
	(Percent of GDP, unless otherwise indicated)											
Total revenue and grants	33.1	30.0	32.4	32.4	33.5	35.0	34.6	36.7	34.3	33.8	33.7	33.5
Total revenue	30.3	29.5	31.5	31.5	32.4	33.9	33.3	35.3	33.4	33.1	33.0	32.9
Tax	26.5	25.1	27.2	27.2	28.2	28.7	29.9	30.2	30.2	30.2	30.2	30.2
Personal income tax	4.1	3.7	4.0	4.0	4.0	4.1	4.1	4.2	4.2	4.2	4.2	4.2
Trade tax	0.9	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.0
Excise tax	4.8	4.8	4.8	4.8	4.7	4.8	5.0	4.9	4.9	4.8	4.8	4.7
Goods and services tax (GST) / VAT	9.2	10.0	10.0	10.0	10.1	10.1	10.9	11.2	11.2	11.3	11.3	11.3
Business tax	5.8	4.1	5.3	5.3	5.6	6.0	6.2	6.1	6.2	6.3	6.3	6.4
Corporate Social Responsibility Tax (CSR)	0.2	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)	0.2	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Property tax	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Other	1.1	1.0	1.6	1.6	2.2	2.1	2.1	2.1	2.1	2.0	2.0	2.0
Nontax	3.8	4.3	4.3	4.3	4.1	5.2	3.4	5.2	3.2	2.9	2.8	2.7
Fees and charges	1.5	1.3	1.5	1.5	1.3	1.4	1.3	1.4	1.3	1.2	1.2	1.2
Dividends from parastatals	1.8	2.6	1.9	1.9	1.9	2.2	1.8	2.7	1.6	1.3	1.2	1.3
Other	0.5	0.4	0.9	0.9	0.9	1.6	0.4	1.1	0.3	0.3	0.3	0.3
External grants	2.8	0.5	0.9	0.9	1.2	1.1	1.4	1.3	0.9	0.7	0.7	0.6
Expenditure and net lending	39.1	31.0	33.6	33.6	34.9	37.0	35.6	38.2	35.4	33.9	33.5	32.8
Current expenditure	33.8	28.6	29.8	29.8	30.1	31.9	29.7	32.1	30.1	28.8	27.8	27.1
Primary current expenditure	30.8	26.6	26.9	26.9	27.7	28.8	27.2	29.4	27.5	26.4	25.5	24.9
Wages and salaries [2]	11.0	9.5	10.0	10.0	10.8	11.0	10.6	11.4	11.0	10.4	10.1	9.8
Goods and services [2]	11.2	10.4	11.9	11.9	11.9	12.5	11.6	12.6	11.2	10.8	10.3	10.0
Transfers [2]	8.4	6.5	4.9	4.9	5.0	5.1	4.9	5.3	5.2	5.1	5.1	5.0
Social program of central government [4]	1.9	0.9	0.8	0.8	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0
Transfers to public sector from central government	1.0	0.9	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Benefits and programs of Social Security Fund [4]	5.6	4.7	4.0	4.0	4.0	4.0	3.9	4.3	4.2	4.0	3.9	3.9
Other	0.2	0.1	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Interest due	2.9	2.0	2.9	2.9	2.4	3.1	2.5	2.7	2.7	2.4	2.4	2.2
Foreign interest	1.0	0.7	1.1	1.1	0.9	1.6	1.1	1.2	1.3	1.2	1.2	1.1
Domestic interest	1.9	1.3	1.9	1.9	1.5	1.5	1.4	1.5	1.4	1.2	1.1	1.1
Capital expenditure	5.0	2.3	3.8	3.8	4.5	4.8	5.6	5.8	4.9	5.1	5.6	5.7
Domestically financed	1.6	1.6	2.8	2.8	3.3	3.8	2.8	4.0	3.2	2.9	3.7	4.4
Foreign financed	3.4	0.7	1.0	1.0	1.2	1.0	2.9	1.8	1.7	2.2	1.9	1.3
Net lending	0.2	-0.1	-0.1	-0.1	0.1	0.1	0.1	0.1	0.3	-0.2	-0.2	-0.2
Contingency	0.2	0.1	0.1	0.1	0.3	0.3	0.1	0.2	0.1	0.2	0.2	0.2
Primary balance	-3.1	1.0	1.7	1.7	1.0	1.1	1.5	1.1	1.5	2.3	2.6	3.0
Overall balance, commitment basis [3]	-6.0	-1.0	-1.2	-1.2	-1.4	-2.0	-1.0	-1.6	-1.2	-0.1	0.2	0.7
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
Change in float	0.3	1.1	1.4	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis (after grants)	-5.7	0.1	0.2	0.2	-1.4	-2.0	-1.0	-1.6	-1.2	-0.1	0.2	0.7
Financing	5.7	-0.1	0.0	0.0	2.2	2.4	1.9	2.7	1.6	0.1	-0.2	-0.7
Foreign financing	5.9	-0.7	0.5	0.5	3.4	3.0	4.1	3.0	1.2	-0.1	0.1	-0.9
Disbursements	8.4	1.1	2.6	2.6	6.6	7.0	6.6	5.3	3.4	2.0	1.7	1.0
Project loans	0.6	0.7	0.5	0.5	0.5	0.2	1.8	1.1	1.0	1.6	1.3	0.7
Program/budget support	7.8	0.4	2.1	2.1	6.2	6.8	4.9	4.3	2.4	0.4	0.4	0.4
Of which RSF			0.2	0.2	0.8	0.4	0.9	1.1	0.4	0.0	0.0	0.0
Scheduled amortization	-2.5	-1.8	-2.2	-2.2	-3.2	-4.0	-2.5	-2.3	-2.3	-2.1	-1.6	-1.9
Of which Paris Club buy-back												
Domestic financing, net	-0.1	1.2	-0.8	-0.8	-1.3	-0.6	-2.3	-0.5	0.3	0.1	-0.3	0.1
Bank financing	-0.8	1.2	-0.7	-0.7	-1.1	-0.5	-2.0	-0.4	0.3	0.1	-0.3	0.1
CBS	-3.1	2.1	1.6	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	2.3	-0.9	-2.3	-2.3	-1.1	-0.5	-2.0	-0.4	0.3	0.1	-0.3	0.1
Nonbank	0.7	0.0	-0.1	-0.1	-0.2	-0.1	-0.3	-0.2	0.0	0.0	0.0	0.0
Privatization and long-term lease of fixed assets	0.3	0.3	0.1	0.1	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0
Increase in government assets			0.2	0.2	0.8	0.4	0.9	1.1	0.4	0.0	0.0	0.0
Of which RSF			0.2	0.2	0.8	0.4	0.9	1.1	0.4	0.0	0.0	0.0
Statistical discrepancy	-0.4	-0.8	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Nominal GDP (millions of Seychelles Rupees)	25,164	29,373	30,019	30,015	31,464	31,041	33,420	33,033	35,027	37,208	39,561	42,055
Total social spending [4]	6.2	5.2	5.7	5.7	5.8	5.9	5.6	6.0	5.8	5.5	5.1	5.1

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

[1] Data include the central government and the social security system, from the 1st review and going forward.

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

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

[4] The total amount of social spending considered in the IT (memorandum items) also includes items under goods and services and wages and salaries.

Table 4. Seychelles: Depository Corporations Survey and Central Bank Accounts, 2019-27

	2019	2020	2021	2022	2023	2024 Jun	2024 Dec	2025	2026	2027
			Act.			Act.	Proj.		Proj.	
					(Millions of Seychelles rupees)					
Depository corporations survey										
Net foreign assets	12,486	18,596	18,815	18,538	18,959	20,701	21,881	23,034	23,438	24,402
Central bank	7,645	11,427	9,519	8,467	8,996	10,221	11,299	12,135	12,269	12,952
Other depository corporations	4,841	7,169	9,295	10,071	9,963	10,479	10,582	10,898	11,169	11,450
Net domestic assets	7,008	6,157	4,678	5,097	6,046	5,294	5,954	6,225	7,158	8,252
Domestic credit	10,562	14,587	13,522	14,750	15,549	15,378	16,244	16,863	18,029	19,368
Net claims on the government	1,882	4,175	4,473	4,943	4,868	4,182	4,591	4,116	4,086	4,134
Of which : Government deposits at the Central Bank	-2,513	-1,638	-2,417	-1,801	-1,310	-2,273	-1,310	-1,310	-1,310	-1,310
Of which : Change in monetary debt [1]	219.2	184.0	70.0	0.0	0.0	0.0	...	...	...	...
Credit to the economy	8,680	10,413	9,049	9,807	10,680	11,195	11,653	12,747	13,944	15,234
Of which : credit to the private sector	8,229	9,890	8,708	9,059	9,731	10,166	10,704	11,797	12,994	14,284
Other items, net	-3,554	-8,430	-8,844	-9,653	-9,503	-10,084	-10,291	-10,638	-10,871	-11,116
Broad money	19,494	24,753	23,492	23,635	25,005	25,994	27,834	29,258	30,596	32,653
Currency in circulation	1,228	1,460	1,500	1,389	1,374	1,320	1,440	1,436	1,501	1,602
Foreign currency deposits	7,987	11,390	9,447	9,135	9,664	9,968	10,794	11,379	11,899	12,699
Local currency deposits	10,278	11,903	12,545	13,111	13,967	14,707	15,600	16,444	17,196	18,352
Central bank										
Net foreign assets	7,645	11,427	9,519	8,467	8,996	10,221	11,299	12,135	12,269	12,952
Foreign assets	8,191	12,144	10,361	9,166	9,714	10,937	11,896	12,744	12,884	13,573
Foreign liabilities	545	716	841	699	718	716	597	609	615	622
Net domestic assets	-3,081	-5,020	-2,399	-1,557	-2,326	-4,542	-3,874	-4,331	-4,107	-4,242
Domestic credit	-2,318	-1,121	-1,222	-859	-1,499	-3,292	-2,620	-2,891	-2,546	-2,549
Government (net)	-1,328	-453	-1,225	-603	-113	-1,082	-113	-113	-113	-113
Other depository corporations (net)	-873	-503	189	-30	-1,155	-2,027	-2,272	-2,536	-2,183	-2,179
Other (parastatals)	-117	-166	-185	-226	-231	-183	-235	-242	-250	-257
Other items, net	-763	-3,898	-1,177	-698	-827	-1,250	-1,255	-1,440	-1,561	-1,692
Reserve money	4,564	6,408	7,120	6,910	6,670	5,680	7,425	7,804	8,161	8,710
Currency in circulation	1,510	1,729	1,770	1,658	1,641	1,581	1,708	1,703	1,769	1,870
Commercial bank reserves	3,054	4,678	5,350	5,252	5,029	4,099	5,717	6,101	6,392	6,840
Of which : required reserves in foreign currency	1,057	1,588	1,711	1,741	1,827	1,827	1,479	1,559	1,630	1,740
required reserves in domestic currency	1,462	1,661	1,379	1,888	1,991	1,991	2,216	2,334	2,440	2,600
Memorandum items:										
Gross official reserves (millions of U.S. dollars)	581	559	702	645	675	744	806	851	852	889
Foreign currency deposits (millions of U.S. dollars)	567	542	643	647	681	682	735	763	790	835
Broad money growth (12–month percent change)	13.9	27.0	-5.1	0.6	5.8	8.4	11.3	5.1	4.6	6.7
Credit to the private sector (12–month percent change)	22.3	20.2	-11.9	4.0	7.4	9.7	10.0	10.2	10.1	9.9
Reserve money (end-of-period; 12–month percent change)	22.7	40.4	11.1	-3.0	-3.5	-22.6	11.3	5.1	4.6	6.7
Money multiplier (broad money/reserve money)	4.3	3.9	3.3	3.4	3.7	4.6	3.7	3.7	3.7	3.7
Velocity (GDP/broad money; end-of-period)	1.3	1.0	1.1	1.2	1.2	1.1	1.1	1.1	1.1	1.1

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

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

Table 5. Seychelles: Financial Soundness Indicators for the Banking Sector, 2018–24

	2018	2019	2020	2021	2022	2023	2024	
							Mar	Jun
	(Percent, end-of-period)							
Capital adequacy								
Regulatory capital to risk weighted assets	20.5	19.5	17.1	22.7	20.7	21.8	19.1	18.3
Regulatory tier 1 capital to risk weighted assets	16.8	16.2	14.1	17.2	15.2	16.0	15.2	15.3
Capital to assets (net worth)	10.1	9.9	8.4	9.2	8.8	10.1	10.3	9.7
Net tangible capitalization [1]	10.1	10.0	8.5	9.3	8.9	10.2	10.4	9.8
Asset quality								
Foreign exchange loans to total loans	24.2	26.0	36.4	27.9	24.5	19.7	18.8	17.5
Non-performing loans to gross loans	3.5	2.7	3.3	5.5	7.6	8.1	8.0	7.2
Provision as percentage of non-performing loans	19.2	25.1	38.3	32.5	20.3	18.5	17.0	19.6
Earnings and profitability								
Return on assets (annualized)	3.7	2.5	1.0	2.6	8.0	1.0	3.1	4.2
Return on equity (annualized)	35.7	24.0	11.5	28.1	91.3	10.2	29.9	42.3
Interest margin to gross income	54.5	62.6	58.3	51.8	57.3	65.3	62.6	65.6
Noninterest expense to gross income	55.9	57.7	55.3	56.0	46.7	76.1	50.4	36.9
Net interest margin (annualized) [2]	4.2	9.4	7.4	7.3	3.6	4.5	4.1	4.0
Net noninterest margin (annualized) [3]	-0.8	-3.1	-1.7	-2.8	-0.3	-2.8	-0.8	-0.2
Expense to income	61.4	63.7	60.7	65.0	52.0	79.2	57.6	46.6
Interest expense to gross income	14.4	16.6	13.6	12.4	11.0	15.0	17.0	18.0
Liquidity								
Core liquid assets to total assets [4]	45.2	44.1	44.1	43.6	47.8	49.1	50.7	48.6
Broad liquid assets to total assets [5]	58.2	55.3	57.3	59.4	63.0	62.7	63.7	62.7
Liquid assets (broad) to short term liabilities	63.7	60.6	62.3	66.3	69.0	69.4	70.5	69.1
Liquid assets (broad) to total liabilities	64.7	61.6	62.5	65.4	69.1	69.7	71.1	69.4
Liquid assets to deposit liabilities	68.5	65.3	67.8	69.4	72.5	73.5	74.5	73.7
Foreign exchange exposure								
Total long position in foreign exchange to capital	…	…	…	5.2	6.9	7.7	9.1	8.0
Total short position in foreign exchange to capital	…	…	…	-4.3	-3.2	-8.3	-7.4	-7.7

Source: Central Bank of Seychelles.

[1] Defined as: equity capital/(assets-interest in suspense-provisions).
[2] Defined as: (Interest income - interest expense)/average assets.
[3] Defined as: (Non-interest income - non-interest expense)/average assets.
[4] Core liquid assets include cash, balances with CBS, and deposits with other banks.
[5] Broad liquid assets include core liquid assets plus investments in government securities.

Table 6. Seychelles: Program Monitoring—External Financing Requirements and Sources, 2021-29
(Millions of US$, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029
Gross Financing Requirements	**171**	**197**	**214**	**314**	**270**	**269**	**284**	**282**	**294**
Current account deficit	130	152	155	229	219	216	233	240	242
CG Debt Amortization	41	45	59	85	51	53	51	42	52
Sources of Financing	**171**	**197**	**214**	**306**	**254**	**261**	**284**	**282**	**294**
Public sector	141	67	63	132	78	63	48	60	47
o/w: World Bank	44	25	6	42	30	15	0	0	0
African Development Bank	20	0	26	58	25	25	0	0	0
Others	0	13	0	20	0	0	10	10	10
IMF	68	17	16	8	0	0	0	0	0
EFF purchases	68	17	16	8	0	0	0	0	0
SDR allocation	0	0	0	0	0	0	0	0	0
FDI (net)	119	226	279	382	295	308	342	400	404
Portfolio investment (net)	13	-4	10	-12	-12	-7	-4	0	4
Others (net)	-3	-155	-105	-99	-111	-128	-80	-124	-134
Capital account balance	24	14	5	19	24	17	15	15	16
Net errors and omissions	0	0	0	0	0	0	0	0	0
Change in reserves (without RSF, increase: -)	-122	49	-39	-116	-21	9	-37	-69	-43
Financing gap	**0**	**0**	**0**	**8**	**16**	**8**	**0**	**0**	**0**
Prospective Financing				**8**	**16**	**8**	**0**	**0**	**0**
IMF EFF purchases[1]				8	16	8	0	0	0
RSF disbursement[1]	**0**	**0**	**4**	**8**	**24**	**9**	**0**	**0**	**0**
Add'l change in official reservers (increase: +)	0	0	4	8	24	9	0	0	0
Total change in official reserves (with RSF, increase: +)	**122**	**-49**	**43**	**124**	**45**	**1**	**37**	**69**	**43**
Memo items									
Gross international reserves with RSF	702	639	682	806	851	852	889	958	1,001
(percent of ARA)	121	102	104	118	119	116	118	123	125
(months of imports of G&S)	3.7	3.1	3.3	3.7	3.8	3.6	3.6	3.7	3.8
Gross international reserves without RSF			678	794	815	806	843	912	955
(percent of ARA)			104	116	114	109	112	117	119
(months of imports of G&S)			3.3	3.6	3.6	3.4	3.4	3.5	3.6

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

[1] Including IMF disbursements associated with future reviews.

Table 7. Seychelles: Schedule of Reviews and Purchases Under the EFF-Supported Program and Proposed Disbursements Under the RSF Arrangement

Availability date	Conditions for disbursement	EFF Purchases	
		SDR million	Percent of Quota
May 31, 2023	Approval of the 3-year arrangement under the EFF	6.107	26.7
November 15, 2023	1st Review and continuous and end-June 2023 performance criteria	6.107	26.7
May 15, 2024	2nd Review and continuous and end-December 2023 performance criteria	6.107	26.7
November 15, 2024	3rd Review and continuous and end-June 2024 performance criteria	6.107	26.7
May 15, 2025	4th Review and continuous and end-December 2024 performance criteria	6.107	26.7
November 15, 2025	5th Review and continuous and end-June 2025 performance criteria	6.107	26.7
May 15, 2026	6th Review and continuous and end-December 2025 performance criteria	5.723	25.0
Total Access		42.365	185

Availability date	Conditions for disbursement	RSF Disbursements	
		SDR million	Percent of Quota
May 31, 2023	Approval of the RSF arrangement	-	-
November 15, 2023	Completion of RSF review of reform measure 1 implementation	3.123	13.6
May 15, 2024	Completion of RSF review of reform measure 2 implementation	3.123	13.6
November 15, 2024	Completion of RSF review of reform measure 5 implementation	3.123	13.6
May 15, 2025	Completion of RSF review of reform measure 6 implementation	0.78075	3.4
	Completion of RSF review of reform measure 7 implementation	3.123	13.6
	Completion of RSF review of reform measure 8 implementation	3.123	13.6
November 15, 2025	Completion of RSF review of reform measure 3 implementation	3.123	13.6
	Completion of RSF review of reform measure 4 implementation	3.123	13.6
	Completion of RSF review of reform measure 9 implementation	1.5615	6.8
	Completion of RSF review of reform measure 10 implementation	3.123	13.6
May 15, 2026	Completion of RSF review of reform measure 6.1 implementation	0.78075	3.4
	Completion of RSF review of reform measure 6.2 implementation	0.78075	3.4
	Completion of RSF review of reform measure 6.3 implementation	0.78075	3.4
	Completion of RSF review of reform measure 9.1 implementation	1.5615	6.8
	Completion of RSF review of reform measure 11 implementation	3.120	13.6
Total Access		34.350	150

Source: IMF staff.

Table 8. Seychelles: Program Monitoring—Indicators of Fund Credit Under the EFF and RSF

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046
											(Millions of SDR)												
Existing Fund credit																							
Stock [1]	93.7	86.8	78.0	66.4	54.2	41.0	27.7	14.5	9.3	6.8	5.8	5.2	4.5	3.9	3.3	2.7	2.0	1.4	0.8	0.2	0.0	0.0	0.0
GRA	87.5	80.5	71.7	60.1	47.9	34.7	21.5	8.3	3.1	0.5	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
RSF	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	5.8	5.2	4.5	3.9	3.3	2.7	2.0	1.4	0.8	0.2	0.0	0.0	0.0
Obligation	19.6	12.4	14.2	16.3	16.0	16.2	15.5	14.9	6.5	3.6	1.9	1.5	1.5	1.5	1.4	1.4	1.4	1.3	1.3	1.3	0.8	0.6	0.6
Principal (repayments/repurchases)	13.2	7.0	8.8	11.6	12.2	13.2	13.2	13.2	5.2	2.5	1.0	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.2	0.0	0.0
GRA	13.2	7.0	8.8	11.6	12.2	13.2	13.2	13.2	5.2	2.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.2	0.0	0.0
Charges and interest	6.3	5.5	5.4	4.7	3.9	2.9	2.3	1.7	1.2	1.0	0.9	0.9	0.9	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.6	0.6	0.6
Prospective Fund credit																							
Disbursement	9.2	30.2	12.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GRA	6.1	12.2	5.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	3.1	18.0	7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock [1]	9.2	39.4	52.1	52.1	52.1	50.6	47.1	43.1	39.1	35.1	31.1	28.1	25.1	22.3	19.5	16.7	13.9	11.1	8.3	5.5	2.7	0.3	0.0
GRA	6.1	18.3	24.0	24.0	24.0	22.5	19.0	15.0	11.0	7.0	3.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	3.1	21.1	28.1	28.1	28.1	28.1	28.1	28.1	28.1	28.1	28.1	27.6	25.1	22.3	19.5	16.7	13.9	11.1	8.3	5.5	2.6	0.3	0.0
Obligations [2, 3, 4]	0.0	0.0	1.4	1.8	1.9	3.5	5.5	5.9	5.8	5.6	5.5	4.3	4.1	3.9	3.8	3.6	3.5	3.4	3.3	3.1	3.0	2.4	0.4
Principal (repayments/repurchases)	0.0	0.0	0.0	0.0	0.0	1.5	3.5	4.0	4.0	4.0	4.0	3.0	2.9	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.3	0.4
GRA	0.0	0.0	0.0	0.0	0.0	1.5	3.5	4.0	4.0	4.0	4.0	2.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	2.5	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.3	0.4
Charges and interest	0.0	0.0	1.4	1.8	1.9	2.0	2.0	1.9	1.8	1.6	1.5	1.3	1.2	1.1	1.0	0.8	0.7	0.6	0.5	0.3	0.2	0.1	0.0
Existing and prospective Fund credit																							
Stock [1]	103.0	126.2	130.1	118.5	106.3	91.6	74.8	57.6	48.4	41.8	36.8	33.2	29.7	26.2	22.8	19.4	15.9	12.5	9.0	5.6	2.6	0.3	0.0
GRA	93.6	98.9	95.8	84.1	72.0	57.2	40.5	23.3	14.0	7.5	3.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	9.4	27.3	34.4	34.4	34.4	34.4	34.4	34.4	34.4	34.4	33.9	32.7	29.7	26.2	22.8	19.4	15.9	12.5	9.0	5.6	2.6	0.3	0.0
In percent of quota	449.7	551.1	568.2	517.5	464.3	399.9	326.8	251.5	211.3	182.6	160.9	145.1	129.5	114.5	99.5	84.5	69.5	54.5	39.5	24.5	11.6	0.0	0.0
GRA	408.8	431.7	418.2	367.5	314.3	249.9	176.8	101.5	61.3	32.6	12.9	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	40.9	119.3	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	148.0	143.0	129.5	114.5	99.5	84.5	69.5	54.5	39.5	24.5	11.6	0.0	0.0
In percent of GDP	6.4	7.6	7.5	6.5	5.5	4.4	3.3	2.4	1.8	1.5	1.2	1.0	0.8	0.7	0.5	0.4	0.3	0.2	0.2	0.1	0.0	0.0	0.0
In percent of Government Revenues	18.3	20.7	21.9	19.2	16.4	13.1	9.9	7.1	5.5	4.4	3.6	3.0	2.5	2.0	1.6	1.3	1.0	0.7	0.5	0.3	0.1	0.0	0.0
In percent of exports of goods and services	5.9	6.8	6.7	5.8	5.0	4.0	3.0	2.1	1.7	1.3	1.1	0.9	0.8	0.6	0.5	0.4	0.3	0.2	0.1	0.1	0.0	0.0	0.0
In percent of gross reserves	17.1	19.9	20.5	18.0	15.0	11.9	9.0	6.4	5.0	4.0	3.3	2.7	2.3	1.8	1.5	1.2	0.9	0.6	0.4	0.2	0.1	0.0	0.0
Obligations to the Fund from existing and prospective Fund arrangements																							
Total obligations	19.6	12.4	15.6	18.1	17.9	19.7	21.0	20.8	12.2	9.2	7.4	5.8	5.6	5.3	5.2	5.0	4.9	4.7	4.6	4.4	3.8	3.0	1.0
Principal (repayments/repurchases)	13.2	7.0	8.8	11.6	12.2	14.7	16.8	17.2	9.2	6.6	5.0	3.6	3.6	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.0	2.3	0.4
GRA	13.2	7.0	8.8	11.6	12.2	14.7	16.8	17.2	9.2	6.6	4.5	2.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	1.1	3.1	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.0	2.3	0.4
Charges and interest	6.4	5.5	6.8	6.5	5.8	4.9	4.3	3.6	3.0	2.7	2.4	2.2	2.1	1.9	1.8	1.6	1.5	1.3	1.2	1.0	0.9	0.7	0.6
In percent of quota [5]	85.6	54.2	68.2	79.2	78.3	85.9	91.8	90.9	53.4	40.2	32.3	25.4	24.6	23.3	22.7	22.0	21.4	20.7	20.0	19.4	16.7	13.2	4.4
In percent of GDP	1.2	0.7	0.9	1.0	0.9	0.9	0.9	0.9	0.5	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
In percent of Government Revenues	3.5	2.0	2.6	2.9	2.8	2.8	2.8	2.6	1.4	1.0	0.7	0.5	0.5	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.0
In percent of exports of goods and services	1.1	0.7	0.8	0.9	0.8	0.9	0.8	0.8	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
In percent of gross reserves	3.3	2.0	2.5	2.8	2.5	2.6	2.5	2.3	1.3	0.9	0.7	0.5	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.1	0.0

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

[1] End-of-period.

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

[3] Seychelles belongs to the RST interest Group C.

[4] Based on the RST rate of interest of 4.393 percent as of October 31, 2024.

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

Table 9. Seychelles: Decomposition of Public Debt and Debt Service by Creditor, 2023-25[1]

	Debt Stock (end of period)			Debt Service					
	2023			2023	2024	2025	2023	2024	2025
	(In US$ million)	*(Percent total debt)*	*(Percent GDP)*	*(In US$ million)*			*(Percent GDP)*		
Total	1179	100.0	55.7	247	228	189	11.5	10.7	8.5
External	575	48.8	27.2	73	91	77	3.4	4.3	3.5
Multilateral creditors[2]	424	36.0	20.1	26	43	36	1.2	2.0	1.6
IMF	130	11.1	6.2						
World Bank	141	11.9	6.7						
AfDB	101	8.6	4.8						
Other Multilaterals	52	4.4	2.4						
o/w: EIB	27	2.3	1.3						
o/w: BADEA	18	1.5	0.8						
Bilateral Creditors	74	6.3	3.5	16	16	17	0.7	0.8	0.8
Paris Club	36	3.1	1.7	9	10	12	0.4	0.5	0.5
o/w: France	20	1.7	1.0						
o/w: UK	4	0.4	0.2						
Non-Paris Club	38	3.2	1.8	7	6	6	0.3	0.3	0.3
o/w: China	11	0.9	0.5						
o/w: Saudi Arabia	13	1.1	0.6						
Bonds	57	4.9	2.7	21	21	20	1.0	1.0	0.9
Commercial creditors	20	1.7	0.9	10	11	4	0.5	0.5	0.2
o/w: TDB	7	0.6	0.3						
o/w: Nedbank	6	0.5	0.3						
o/w: Habib Bank	5	0.4	0.2						
Domestic	604	51.2	28.5	174	137	112	8.1	6.4	5.0
Held by residents, total	n/a								
Held by non-residents, total	n/a								
T-Bills	129	10.9	6.1	93	47	1	4.4	2.2	0.0
Bonds	425	36.1	20.1	73	82	103	3.4	3.8	4.6
Loans	50	4.3	2.4	8	9	8	0.4	0.4	0.3
Memo items:									
Collateralized debt[3]									
o/w: Related									
o/w: Unrelated									
Contingent liabilities									
o/w: External public guarantees	9	0.7	0.4						
o/w: Domestic Public guarantees	52	4.4	2.5						
o/w: Other explicit contingent liabilities[4]									
Nominal GDP	2141			2141	2134	2227			

1/As reported by Country authorities according to their classification of creditors, including by official and commercial, as of end-2023. Debt coverage is the same as the DSA, except for domestic and external guarantees which are reported under memo items. The debt stock as percent of GDP is calculated in local currency.

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).

Source: IMF staff.

Annex I. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Expected Impact if Realized	Policy Response
Conjunctural Risks			
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	**High**	**High** Supply disruptions and sharper-than-anticipated increases in international energy prices raise the costs of energy imports and other imported goods.	Develop a contingency plan (including risk management tools such as establishing contingent line of credit and a rule-based cash buffer) that would lower the impact of a delayed economic recovery. Consider further fiscal consolidation and targeted and temporary support as needed for vulnerable sectors. Let the exchange rate act as a shock absorber to protect reserve buffers.
Global growth surprises: • **Slowdown.** Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs.	**Medium**	**High** Recession in key tourist markets would lower tourist arrivals and hamper economic recovery and revenues.	Develop a contingency plan (including risk management tools such as establishing contingent line of credit and a rule-based cash buffer) that would lower the impact of a delayed economic recovery. Consider further fiscal consolidation and targeted support as needed for vulnerable sectors in case such risk materializes. Let the exchange rate act as a shock absorber to protect reserve buffers and utilize FXI to prevent disorderly market conditions.
Commodity price volatility. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.	**High**	**Medium** The exchange rate pass-through is slow in Seychelles for certain items, but higher food and energy prices would hurt vulnerable consumers.	CBS to maintain vigilant monitoring and be ready to tighten monetary stance to anchor inflation expectations. Provide targeted support for the most vulnerable population to deal with rising prices amid a delayed economic recovery.

[1] 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
Conjunctural Risks			
Sovereign debt distress. Domino effects from high global interest rates, deteriorating debt sustainability in some AEs, unfunded fiscal spending, and/or disorderly debt events in some EMDEs spillover to other highly indebted countries, amplified by sovereign-bank feedback, resulting in capital outflows, rising risk premia, loss of market access, and contraction of growth and social spending.	**Medium**	**Medium** A reduction in external financing could worsen the balance of payments with implications for the exchange rate.	Ensuring a prudent macro-fiscal stance to foster market access at reasonable terms. Preemptively rebuild fiscal and FX buffers.
Limited access to external grants and concessional financing due to Seychelles' high-income status	**Medium**	**Medium** Access to costly external financing could worsen the balance of payments with implications for the exchange rate.	Consider tapping alternative sources of external financing in the medium-term. Ensuring a prudent macro-fiscal stance to foster market access at reasonable terms. Preemptively rebuild fiscal and FX buffers.
Higher NPL levels in the banking sector in Seychelles	**Medium**	**Medium** Higher NPL levels in the banking sector, which increased mainly due to the withdrawal of forbearance measures, could pose risks to financial stability.	Encourage and facilitate prudent restructuring of loans and enhance management and monitoring of NPLs. The authorities should provide guidance on prudential treatment of moratoria and NPL management strategies and assess their implementation.
Structural Risks			
Climate change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability. A disorderly transition to net-zero emissions and regulatory uncertainty lead to stranded assets and low investment.	**Medium**	**Medium** The materialization of risks related to natural disasters could trigger further public expenditures and alter the planned reduction of public debt.	Prioritize the implementation of projects related to climate change. Continue rebuilding fiscal space, reducing public debt, increasing foreign exchange buffers, and improving the effectiveness of social protection.
Potential permanent effect on imports of any reshuffling of global supply chains due to geoeconomic fragmentation.	**Medium**	**Medium** Higher food and energy prices would hurt vulnerable consumers.	Provide targeted support for the most vulnerable population to deal with rising prices.

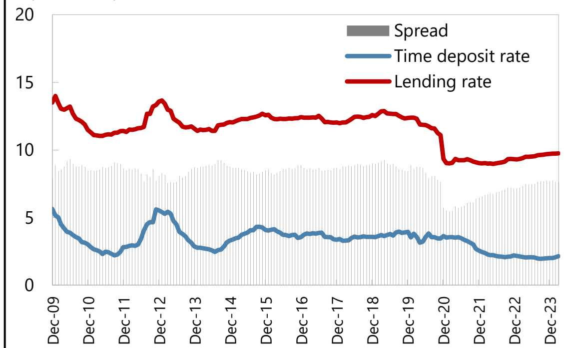
Annex II. Interest Rate Spread in Seychelles

The interest rate spread between lending and deposit rates offered by banks has been consistently high in Seychelles. By contributing to the cost of credit, the spread has a direct impact on growth and financial inclusion, and is an additional factor, among others, that hampers the effectiveness of monetary policy in Seychelles.

Evolution of the Spread Over Time in Seychelles

1. The spread is measured as the difference between lending rates, as defined by the average interest rate charged by banks on loans, and deposit rates, as defined by the average interest rate offered by commercial banks on time deposits in domestic and foreign currency. It has hovered around 9 percentage points since the Central Bank of Seychelles (CBS) liberalized interest rates in September 2008. A small reduction was observed since January 2019 with the introduction of the monetary policy rate (an initial step to support the deepening of the interbank market) followed by improved communication by the CBS on the monetary policy stance. A significant and short-lived reduction of 226 basis points between July 2020 and June 2021, was observed during the pandemic, attributed to the impact of two credit lines introduced by CBS under the private sector relief scheme to support critical operating expenditures of impacted businesses.[1] However, after dropping to 6.7 percent in 2021, the spread has risen by around 1.5 percentage points towards its long-term level with the normalization of bank lending operations.

Interest Rate Spread
(In Percent)



Source: Authorities' data.

2. Reducing interest rate spreads is crucial to lower the cost of borrowing as well as increase financial inclusion and access to credit for individuals and businesses. More affordable financing would not only encourage investment, promoting growth, but also increase financial inclusion and improve financial stability by reducing the risk of default and making the financial system more resilient to economic shocks.

Cross-Country Comparison

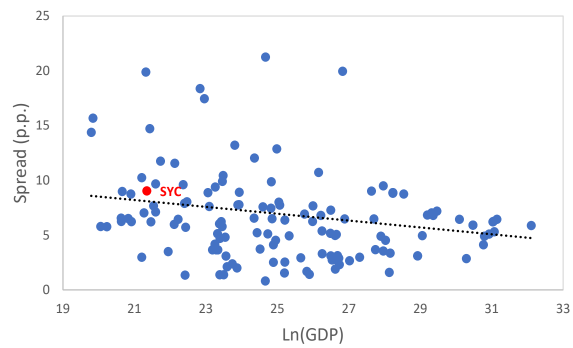
3. Structural factors inherent to small island states, such as high vulnerability to external shocks and exposure to effects of natural disasters, by increasing the general level of uncertainty, will contribute to structurally higher spreads. Those factors are difficult to address

[1] The first credit line, administered by the commercial banks and the Development Bank of Seychelles (DBS), targeted micro, small and medium enterprises (MSMEs) with an annual turnover not exceeding SR 25 million and offered credit at an interest rate of 1.5 percent with 70 percent government guarantee. The second facility, administered by the commercial banks, focused on larger businesses, offering credit at an interest rate of 4.5 percent with 50 percent government guarantee. A total of SR 139 million and SR 298 million was disbursed, respectively.

through economic and financial policies. However, the higher spread in Seychelles compared with peers, such as other small states and tourism-based economies, suggests that there is scope for the spread to come down. In the five years preceding the pandemic, the spread in Seychelles was, on average, 1 percentage point higher than the level observed in Sub-Saharan Africa, 2 percentage points higher than small states, and 2.6 percentage points higher than middle-income countries.

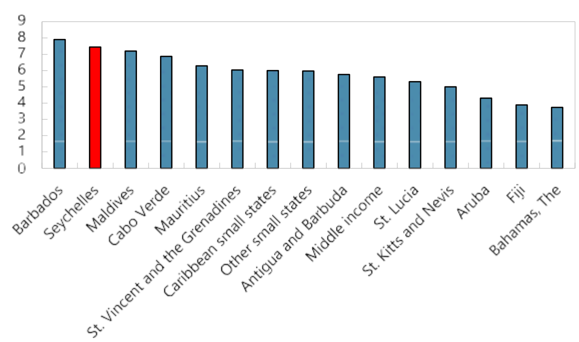
4. **Some of these characteristics are a direct consequence of the limited market size, such as diseconomies of scale that hamper the supply of a broader range of financial services or shallow financial markets with few players**. To some extent, these factors explain why small states are characterized by low availability of credit and high real lending rates relative to other low- and middle-income countries. The availability of credit to the private sector in Seychelles—at 32 percent of GDP in 2023—is considerably lower than the average for other small states and Pacific islands (around 55 percent of GDP).

Spread and Economic Size



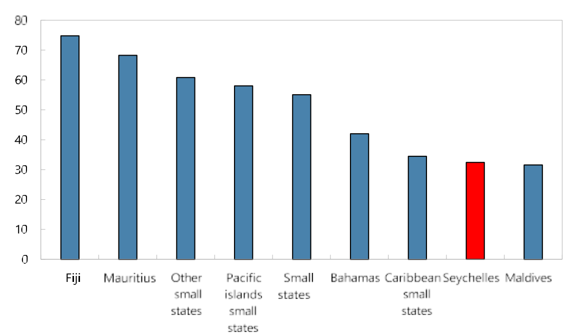
Source: World Development Indicators and authorities' data.

Spread: Cross Country Comparison, 2022
(percentage points)



Source: World Development Indicators.

Domestic Credit to Private Sector by Banks, 2023 (percent of GDP)



Source: World Development Indicators.

Potential Explanations from the Literature

5. **A margin between average lending and average deposit interest rate in the banking system constitutes an incentive for a bank to continue to remain in the industry**. However, there is a significant variation of the spread across the world, which is associated with the nature and efficiency of the financial sector in each country. In economies with weak financial sectors, the intermediation costs which are involved in deposit mobilization and channeling them into productive uses, are much larger. The spreads also reflect limited competition in the banking sector, shallow financial markets, weak banking supervision, and the level of nonperforming loans with their associated costs of getting them serviced or execute the collateral.

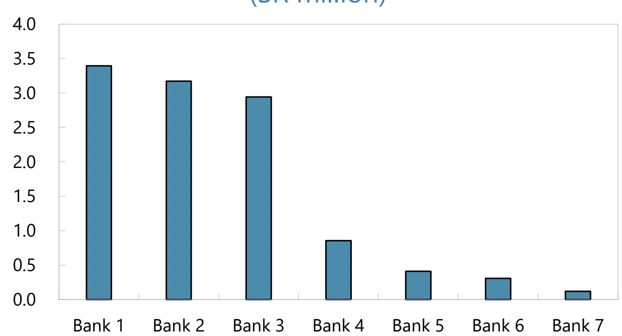
6. Using bank-specific, banking sector, and country level data, Demirguc-Kunt and Huizinga (1999) found that important determinants of spreads include characteristics of individual banks, the structure of the banking sector, bank taxation, deposit insurance regulation, macroeconomic conditions, and institutional indicators. Specifically, the scale of bank operations and banking sector concentration have significant effects on spreads, controlling for banking activity, leverage, and the macroeconomic environment.

7. Considering studies on Caribbean-island countries, Randall (1998) found that found that reserve costs, operational costs, and loan loss provisions accounted for over 75 percent of observed spreads. Also, Moore and Craigwell (2002) found that the market power of banks plays an important role in driving the interest rate spreads. Similar results are reported on studies on Pacific-island countries. Jayaraman and Sharma's (2003) study on Fiji found that the spreads were driven by after-tax profit margins, administrative costs, and loan loss provisioning expenses. Rebei (2014) conducted a panel study on Solomon Islands and showed that interest rate spreads were affected by the scale of operations (loan growth), administrative costs, banking industry concentration, the policy rate, and GDP growth. Jamaludin, Klyuev and Serechetapongse (2015) found statistically significant effects from economic size and quality of bank balance sheet, which negatively affect interest rate spreads, and inflation and banking sector concentration, with positive effects.

Banking System in Seychelles

8. As in other small island states, the Seychellois banking sector is large, concentrated, and open to foreign banks. The total banking sector assets amount to 118 percent of GDP in 2023, a high level compared to peers,[2] while the number of banks is small (seven). The three largest banks account for 86 percent of the sector's total assets, with a Herfindahl Hirschman Index of 0.26 in 2023, denoting a concentrated system.[3] Moreover, foreign bank penetration is high, with the presence of five banks with foreign capital, making up 58 percent of total banking assets. Tourism accounts for the highest share of loans, with 13 percent of the total.[4]

Loans by Banks
(SR million)



Source: Authorities' data.

[2] Islands and other small states.

[3] Based on MCM TA Aide-Mémoire *"Seychelles Macroprudential stress test and climate risk analysis"* (May 2024). The Herfindahl Hirschman Index is calculated as the sum of the squares of banks' market shares and ranges from 0 to 1. Higher index values denote higher concentration; a system with an index above 0.25 is considered highly concentrated.

[4] Considering all sectors, the largest shares of private credit are mortgages (21 percent) and individuals and households (20 percent).

9. The entry of new banks in Seychelles has not helped decrease lending rates as theoretically expected from increased competition. The presence of commercial banks in Seychelles is reported in the table below. While two banks just changed ownership (ABSA and SCB), three new small banks started operations after the liberalization of interest rates. Those were the Bank of Ceylon (BOC) in January 2014, the Al Salam Bank (ASBS) in May 2016, and the State Bank of Mauritius (SBM), which started in August 2020 but ceased operations in 2021. Despite the entry of those banks, lending rates and the interest rate spread remained broadly unchanged.

Seychellois Banking System[1]

Institution	Period	Arrangement
Barclays Bank (Seychelles) Limited	1959-2020	Subsidiary of foreign bank (UK)
purchased by **Absa Bank**	2020-present	Subsidiary of foreign bank (South Africa)
Habib Bank Limited (HBL)	1976-2018	Branch of foreign bank (Pakistan)
Bank of Credit and Commerce International (BCCI)	1976-1991	Branch of foreign bank (South Africa)
became **Seychelles International Mercantile Banking Corporation (SIMBC), known as Nouvobanq**	1991-present	Joint venture between foreign (UK) bank and the Government of Seychelles
Bank of Baroda	1978-present	Branch of foreign bank (India)
Seychelles Savings Bank	1981-2013	Local bank
became **Seychelles Commercial Bank (SCB)**	2013-present	Local bank
Banque Française Commercial Océan Indien (BFCOI)	1978-2003	Branch of foreign bank (France)
purchased by **Mauritius Commercial Bank (MCB)**	2003-present	Subsidiary of foreign bank (Mauritius)
Bank of Ceylon (BOC)	2014-present	Branch of foreign bank (Sri Lanka)
Al Salam Bank-Seychelles (ASBS)	2016-present	Joint venture between foreign bank (Bahrain) and the Seychelles Pension Fund
State Bank of Mauritius (SBM) Bank (Seychelles) Limited	2019-2020	Branch of foreign bank (Mauritius)

Source: CBS and banks' websites.
1/ Four banks changed ownership or denomination. The seven currently active banks are in bold.

10. Customers face some challenges when considering switching banks. Challenges include monetary costs (e.g., the cost of transferring securities when loans are being transferred from one bank to another), time constraints in transferring securities due to delays at the Registration Division, customers are required to have a 6-month relationship with the banks prior to accessing credit facilities, delays in opening new accounts to access required services, loyalty to the institution, and unavailability of similar or better services/benefits from other institutions.

11. CBS has started discussions with banks to find alternatives to improve market dynamics. As part of a competition study to be concluded by 2026, CBS will undertake an evaluation of credit policies of all banks to identify clauses affecting the relationship between clients and banks. The study will also include discussions with banks on the possibility of having switching packs for customers who intend to switch banks, aiming at reducing the administrative burden on the customer. On secured credit, measures to make the transfer of collaterals from one bank to another to be more affordable are under discussion with MOF.

12. To improve credit information sharing across the financial system, CBS launched the Seychelles Credit Information System (SCIS) in September 2024.[5] The SCIS replaces the previous credit information system established in 2012, which was not significantly used by the banks. The new system enhances credit reporting and data exchange between participating institutions. It incorporates automated features requiring minimal manual processing, hence mitigating potential risks of inaccuracies in the credit information of customers. Moreover, a customer credit portal allowing customers to access their own credit report will be launched in January 2025. With the SCIS, and eventually the option for credit scoring, the CBS expects a change in the behavior of banks by offering lending rates in a more competitive way.

13. The high spread may reflect weaknesses in the legal framework governing creditor default. Even though no formal study has been conducted on this matter, CBS believes there is a significant contribution of the absence of a proper legal framework to efficiently handle client defaults. The implementation of a commercial court has been the subject of ongoing discussions between the CBS and the Judiciary. It is expected to be set up in 2025 and help expedite the loan recovery process, thus reducing NPLs and ultimately narrowing the interest rate spread.

Policy Recommendations

14. In general, higher competition would pressure banks to lower spreads, but the limited market size may be an obstacle. Small economies like Seychelles may not reap the benefits from higher competition as the entry of more banks would rather intensify diseconomies of scale due to the limited market size. Banking sector reform efforts need to focus on fostering conditions that would support increasing the market share of efficient banks (Randall, 1998). Considering that, as part of amendments under consideration for the Financial Institutions Act, a proposal is being made for the CBS, in consultation with the Ministry of Finance, to avoid increasing the number of banks by imposing moratorium on new banking licenses.

15. Promoting the entry of digital banks, with lower operational costs, may be a viable alternative. The existing Financial Institutions Act already allows for the licensing of digital banks. Under this legal framework, CBS approved the license for a digital bank in 2021 but the bank failed to start operations, hence having the license revoked in early 2024. A plan to issue a specific legislative framework for digital banks is under consideration by CBS.

16. To help preserve competition in the presence of a limited number of banks, it is important to enable the operation of nonbank financial institutions. Appropriate regulations need to eliminate any existing unfair cost advantages the commercial banks may have. CBS is in the process of finalizing the Non-Bank Credit Granting Institutions Act, expected to be approved by the

[5] CBS launched the SCIS in accordance with the Credit Reporting Act, 2023, on September 11, 2024. The current participants include the commercial banks, Seychelles Credit Union, the DBS, and the Housing Finance Company (HFC). The SCIS will expand with the addition of other participants through a phased approach, to include Government entities, utility companies, hire purchase and credit sales, financial leasing companies, and insurance companies. The addition of these other entities will give a more accurate indication of the repayment history and level of indebtedness of customers, information which is essential in the decision-making process for granting credit and loan facilities.

National Assembly by 2025Q1. The new law would allow for the registration, licensing, regulation, and supervision of entities engaging in development finance, mortgage finance, microfinance. Institutions based on fintech-supported financing have emerged as a potential effective solution (IMF, 2019). In this context, CBS is working on the Regulatory Sandbox Framework, which is anticipated to be operationalized by 2025Q2.

17. Fostering conditions for financial deepening would allow the introduction of alternative channels of private financing. Those include, for example, commercial paper as an alternative to banks' short-term credit and investment funds as an alternative to term savings products. At present, the corporate bond market in Seychelles is in its nascent stages of development. Currently, private companies are deterred from raising funds through corporate bonds due to their cumbersome structures. Moreover, the supervision of the capital market needs to be bolstered to provide adequate assurance to potential investors.

18. Any financial environment to be considered must be supported by sound regulatory and supervisory frameworks that support the safe development and integrity of capital markets, and the appropriate legal framework to deal with property rights, contract enforcement, collateralization, and insolvency (Teodoru, 2020).[6] CBS is constantly reviewing and updating its legislative frameworks to align with international standards, best practices, and local market developments. Also, lending rates would drop with measures that improve the credit worthiness of borrowers, such as the compilation of credit histories and the consistent application of the rule of law.[7]

19. An eventual reduction of interest rate spreads would impact bank balance sheets. While narrower spreads will benefit nonfinancial firms, they have implications for bank profitability if not combined with declining costs. Interest income is the main source of banks' profit in Seychelles. With NPLs remaining elevated, with low provisioning due to reliance on collateral, discussions on lending rate and spread reduction need to be framed carefully to avoid underpricing of credit risk.

[6] Gelos (2009) shows a clear negative correlation between net interest margins and the legal system and property rights in Latin America.

[7] The introduction of a credit registry and the establishment of a private credit bureau have been important steps towards improving information sharing on the creditworthiness of borrowers in Armenia (Dabla-Norris and Floerkemeier, 2007). However, given the small market size, private bureaus may not necessarily be practical in Seychelles.

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Annex III. Financial Sector Reform Measures Under the 2024–26 RSF—Proposed Adjustments

Seychelles was one of the pilot countries under the RSF. Since approval of Seychelles RSF in July 2023, the Fund has gained experience in designing RSF reform measures, drawing on actual implementation experience by country authorities. In the case of Seychelles, issues with the design of several Reform Measures (RMs) have emerged. Some relate to technical capacity constraints. Others relate to knowledge gaps amongst Fund staff, at the time of RM design, on some issues. For Seychelles, the rationale for delayed implementation or redesign of some RMs (see table) is as follows.

1. *RM6 (March 2025)*. The original RM was ahead of its time in the sense that international standards were still evolving and originally intended for internationally active banks. The RM also critically over-estimated capacity at the CBS to issue guidelines in accordance with such standards by the stated deadline and without full consultation with domestic banks (who face their own challenges with respect to management, supervision, and disclosure of climate financial risks. Finally, a data repository for banks' lending exposure to climate-related risks has thus far proven beyond the reach of even advanced economies and is fundamentally hindered by the lack of necessary climate data—the collection of which is only just beginning in the Seychelles (and is an area where the Fund does not provide technical assistance).

2. *RM9 (September 2025)*. This RM over-estimated the expertise available in the CBS financial sector supervision group (which had deteriorated during the pandemic and due to loss of some critical CBS staff). The RM was targeted at a climate-related stress testing framework; the authorities' preference is now to work through the approach embodied in a climate risk assessment framework, which differs from stress tests due to their limitations and the intention of the exercise, which focus on awareness and understanding. Data gaps are a critical issue here as well and need to be assessed and strengthened as part of the process. As such, the strategy has shifted to (i) building essential capacity in basic financial sector stress testing; (ii) leveraging available data or data that will be collected over the short term; and completing the technical work on a climate risk assessment framework—all of which additional time and technical support (including from third parties).

Table 1. Seychelles: Proposed Changes to Financial Sector Reform Measures

Original Wording	Proposed Changes
RM6: March 2025 (4th Review) **Associated disbursement:** SDR 3.123 million The Central Bank of Seychelles (CBS): (i) issues guidelines for banks on reporting and disclosure of climate-related risks in accordance with international standards,	**RM6: March 2025 (4th Review)** **Associated disbursement:** SDR 0.78075 million The Central Bank of Seychelles (CBS): (i) issues draft guidelines for consultation on management and supervision of climate-related financial risks, consistent with international standards (BCBS 2022); (ii) issues draft guidelines for consultation on disclosure of climate related financial risks in accordance with international standards (BCBS—expected to be published by end-2024); (iii) issues a concept note for consultation with stakeholders/banks, to be circulated at the same time with the guidelines under (ii), and to include summary information on the key components of CBS' climate risk supervision strategy.
(ii) establishes a data repository and reporting template for banks' lending exposure to climate-related risks, and	**RM6.1: December 2025 (6th Review)** **Associated disbursement:** SDR 0.78075 million The Central Bank of Seychelles (CBS): (i) issues finalized guidelines on management and supervision of climate-related financial risks (based on BCBS 2022); (ii) completes a data gap analysis for supervision and disclosure of banks' exposures to climate-related financial risks consistent with international standards (BCBS - expected to be published by end-2024); (iii) publishes a strategy for bridging data gaps.
	RM6.2: December 2025 (6th Review) **Associated disbursement:** SDR 0.78075 million The Central Bank of Seychelles (CBS): (i) issues finalized guidelines on disclosure of banks' exposures to climate-related financial risks consistent with international standards (BCBS 2024); (ii) establishes regulatory reporting templates for monitoring climate risk exposures.
(iii) publishes a summary climate risk exposure report which includes at least two major commercial banks.	**RM6.3: May 2026 (6th Review)** **Associated disbursement:** SDR 0.78075 million The Central Bank of Seychelles (CBS) publishes on the CBS website a summary report on climate-related financial risk exposure which covers at least two major commercial banks.
RM9: September 2025 (5th Review) **Associated disbursement:** SDR 3.123 million The CBS adopts and implements a stress testing framework incorporating climate-related risks, and publishes a financial sector climate stress testing exercise starting with a macro-prudential approach.	**RM9: September 2025 (5th Review)** **Associated disbursement:** SDR 1.5615 million The CBS adopts and implements a banking sector climate risk analysis framework and publishes a summary of the framework on the CBS website.
	RM 9.1 March 2026 (6th Review) **Associated disbursement:** SDR 1.5615 million The CBS publishes a climate risk exposure assessment of the banking sector based on the climate risk analysis framework.

Source: IMF staff.

Appendix I. Letter of Intent

Victoria
November 19, 2024

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

Dear Madam Managing Director:

Seychelles' economic recovery continues at a moderate pace, with 2024 real GDP growth now projected at 3.02 percent, adjusted down from the original 3.69 percent forecast due to a weaker outlook in tourism. Tourism arrivals are now anticipated to grow by only 2 percent in 2024, compared to the initial 5 percent estimate. Additionally, the 'Manufacturing Other' sector is expected to contract by about 5 percent following the December 7th disaster, diverging from the previously anticipated 3 percent growth. Despite these downward revisions, the Government remains committed to maintaining a primary fiscal balance of 1.1 percent in line with the original Budget.

In the first half of 2024, Seychelles recorded a stronger-than-expected budget performance, with a primary surplus of 2.2 percent of GDP, well above the program forecast. Revenue during this period reached SR 4.9 billion, surpassing the program target of SR 4.1 billion. For 2024, revenue (excluding grants) is projected to rise to 33.9 percent of GDP, up from 31.5 percent in 2023. Total expenditures are now forecast at SR 11.5 billion, which remains below the SR 11.9 billion target set in the second review. Consequently, total expenditure and net lending as a share of GDP are projected at 37 percent, up slightly from the 34.9 percent forecast.

The Seychelles rupee has depreciated against major currencies, averaging a 4.0 percent decrease against the USD from January to August 2024, driven by a 3.1 percent increase in demand and a 0.5 percent supply growth in the foreign exchange market. The Consumer Price Index (CPI) showed a year-on-year increase in May 2024, mainly due to currency weakness and higher electricity tariffs. As of August, the year-on-year inflation rate stood at 0.5 percent, with the 12-month average showing a negative 0.9 percent. By December, inflation is forecast at 2.5 percent year-on-year and 0.5 percent on a 12-month average.

While maintaining a primary budget surplus, the public and publicly guaranteed debt-to-GDP ratio is expected to rise slightly to 61.5 percent by end-2024, up from 58.6 percent at end-2023. This temporary increase will support Government financing needs and allow for guarantees to select State-Owned Enterprises (SOEs). Budget support programs are expected to help address the short-term financing gap, while climate-related financing and investment opportunities are pursued through the RSF program. Over the medium term, guaranteed debt may increase as the Government extends guarantees to the Development Bank of Seychelles and the Seychelles Port Authority for port expansion. Despite external risks, the Government remains on track to reduce debt to 50 percent of GDP by 2029.

All Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs) have been met, and structural reforms in fiscal and public financial management, as well as monetary policy operations, are advancing. The Government is also progressing on RSF-agreed reform measures and remains committed to improving the AML/CFT framework. In recognition of significant legislative reform progress, Seychelles plans to address the five outstanding AML/CFT deficiencies in March/April 2025. A key focus is regulating Virtual Assets (VA) and Virtual Asset Service Providers (VASP) under the recently approved VASP Act, 2024. The Act mandates that VASP entities apply for a license by December 31, 2024, with enforcement actions to follow from January 1, 2025.

The Government remains steadfast in its commitment to the Economic and Fiscal Resilience Action Plan established under the 36-month Extended Fund Facility (EFF) arrangement and the RSF program. As a small island state vulnerable to external shocks and climate risks, our primary goals remain ensuring economic resilience, maintaining debt sustainability, optimizing the tax system, improving expenditure management, and enhancing financial sector stability in line with international standards. This proactive approach reflects Seychelles' dedication to sustainable growth, financial stability, and resilience-building in the face of both internal and external challenges.

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 May 2024. We are requesting the completion of the third review under the EFF and RSF approved in May 2023. In this context, we request modification of two RMs to September 2025 to align with the FY2026 budget cycle. Another two RMs are proposed to be broken down into new RMs, and we request the associated revised phasing of disbursements under the RSF. We also request the modification of March ITs.

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

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

Sincerely yours,

/s/
Naadir Hassan
Minister of Finance, National Planning and Trade

/s/
Caroline Abel
Governor, Central Bank of Seychelles

Attachment I. Memorandum of Economic and Financial Policies

I. Background and Macroeconomic Outlook

1. Economic performance for 2023 was generally positive, reflecting the ongoing recovery of key sectors with real GDP estimated at 3.2 percent. By the end of 2023, budgetary performance was stronger than expected, ending the year with a primary surplus of 1.7 percent of GDP.

2. The Seychelles rupee depreciated against the major traded currencies from January to August 2024 relative to the same period in 2023. In annual average terms, the domestic currency weakened by 4.0 percent against the USD. This reflected developments in the domestic foreign exchange market, whereby there was an increase of 3.1 percent in demand, whilst supply grew by 0.5 percent over that period.

3. The Consumer Price Index (CPI) increased in year-on-year terms as of May 2024, mainly due to the combined effects of a weaker domestic currency and higher electricity tariff. In August 2024, the year-on-year rate of inflation stood at 0.5 percent whilst the 12-month average was negative 0.9 percent. The year-on-year and 12-month average rate of inflation are forecast at 2.5 percent and 0.5 percent, respectively, by December 2024 due to expected increases in electricity tariff and weaker currency.

4. For the year 2024, Seychelles' real GDP growth has been revised downwards to 3.02 percent, compared to the Budget forecast of 3.69 percent. The downward revision stems largely from a weaker outlook in tourism-related sectors. Tourism arrivals growth is now expected at 2 percent vis-à-vis 2023, compared to 5 percent initially estimated. Following the 7th of December disaster, the 'Manufacturing Other' sector is now expected to contract by about 5 percent compared to the positive growth of 3 percent that was initially forecast. This reflects the expected output with only one quarry company producing and manufacturing rock and concrete products. In addition, 'Manufacturing of Fishery Products' is expected to remain flat, compared to the positive growth of 3.5 percent initially estimated. The ICT sector conversely, is predicted to remain strong with a growth of about 10 percent maintained, in line with the rapid increases in data traffic. Construction sector is also expected to remain resilient with a growth of about 6 percent in line with the anticipated construction activities surrounding the reconstruction of the Providence Industrial zone and the affected areas at Cascade.

5. The Monetary Policy Rate (MPR) was lowered from 2.0 percent to 1.75 percent for the second quarter of 2024 and maintained at that level thereafter. Consequently, the interest rate on the Standing Deposit Facility (SDF) and Standing Credit Facility (SCF) was reduced to 0.25 percent and 3.25 percent, respectively. The accommodative monetary policy stance led to a decline in short-term interest rates, with the yield on the 7-day Deposit Auction Arrangement (DAA) standing at 1.75 percent at end-August 2024 relative to 2.45 percent at end-March 2024.

6. There was a decline of 3.6 basis points in the average interest rate on rupee-denominated savings deposits in August 2024 relative to March 2024, whilst the interest rate on local currency loans remained relatively unchanged. Conversely, there was an increase of 28 basis points in the rate of interest on foreign currency-denominated loans. With regard to government securities, there was an increase in the yield on all three maturities of T-bills, mainly on account of higher issuance. As at end-August 2024, the interest rate on T-bills stood at 2.65 percent on the 91-day bills, 2.91 percent on the 182-day bills and 3.08 percent on the 365-day bills.

7. Despite a lower GDP growth forecast for 2024, the Government remains committed to maintaining the primary fiscal balance of 1.1 percent per the initial Budget. Budgetary performance for the first six months of the year outperformed the program forecast, with a primary surplus of 2.2 percent of GDP recorded. Revenue performed better than expected during the same period at SR 4.9 billion compared to the program target of SR 4.1 billion. For 2024, revenue excluding grants is expected to reach 33.9 percent of GDP up from 31.5 percent in 2023. Expenditures for 2024 are now expected to stand at SR 11.5 billion, which remain below the SR 11.9 billion agreed in the second review of. As a share of GDP, total expenditure and net lending now stands at 37 percent compared to 34.9 percent forecast during the second review.

8. The country's balance of payments remains intrinsically linked to the performance of the tourism and fisheries sectors. In 2023, the current account deficit stood at US$155 million, equivalent to 7.2 percent of GDP. For 2024, despite an increase of approximately 10 percent in the value of exported fisheries products, the current account deficit is forecast to widen to US$229 million or 10.7 percent of GDP, as activity in the tourism sector is expected to be lower than in the previous year.

9. Gross International Reserves (GIR) amounted to US$753 million as at end-August 2024, which was an increase of 2.2 percent from US$737 million recorded at end-March 2024. Furthermore, the Net International Reserves as at end-August 2024 exceeded the Q3 2024 target of US$567 million by US$37 million. The rise in GIR was primarily attributed to inflows for budget support, as well as purchases from the market, whereby CBS accumulated approximately US$47 million during the first half of the year, through its Foreign Exchange Auctions (FEA).

10. The banking industry remained well capitalized as at end-July 2024, although NPLs continued to be elevated. All banks maintained regulatory capital above the prudential requirement of 12 percent. However, on a year-on-year basis, the industry's aggregated regulatory capital to risk-weighted assets ratio decreased by 3.9 percentage points, reaching 19 percent as of July 2024. This was due to the revision in banks' reporting requirements whereby CBS implemented the Basel II framework. To note, the drop was mainly observed during Q1 2024, whereby the CBS engaged the banks to see how they can increase their CAR buffers through capital planning, whereby improvements have been observed during Q2 2024. As regards NPLs, on a year-on-year basis, the banking sector's NPLs increased by 5.7 percent, reaching R852 million. In contrast, the NPLs to gross loans ratio decreased by 0.3 percentage points to settle at 7.2 percent, driven by growth in loans and advances. Sector-wise, the main contributors to the increases in NPLs were in transport; agriculture & horticulture; and private households. An asset quality examination of the banking sector was completed in the first half of the year due to the elevated level of NPLs. CBS is monitoring the implementation of recommendations and corrective measures arising from the key findings of the aforementioned examination. During the same period, the banking sector recorded improvement in the earnings indicators with the return on assets and return on equity increasing to 3.2 percent and 33 percent, respectively. The banking sector's liquidity position remained robust, with all banks maintaining a liquid asset to total liabilities ratio well above the minimum requirement of 20 percent. In respect of the banking sector's foreign currency risk exposure, both the total long position and total short position in foreign currency to capital increased by 1.2 and 1.7 percentage points respectively, to stand at 8.1 percent and -7.6 percent. Both ratios remained well within the prescribed limits for foreign currency exposure.

II. Program Objectives and Policies Under the EFF and the RSF

A. Real Sector Reforms

11. The recently launched National Development Strategy (NDS) sets out Seychelles' strategic direction and development priorities for the period 2024-2028. The NDS works as a development catalyst for our nation's response to addressing current and potential development challenges over the 2024-2028 period. One of the key priority areas of the NDS is the transformative economic agenda.

12. We recognize the importance of becoming more resilient and prioritizing our objectives, due to possible external shocks and the current geopolitical situation across the globe. We are continuously working towards the creation of an environment that encourages transformation of our traditional and emerging sectors, which will promote added value in the key sectors, and thus gain more revenue to sustain our development. With the transformative economic agenda, the ultimate goal is to increase tourism yield by building a more sustainable, resilient and integrated tourism model, reducing import reliance where feasible and improving food and nutrition security by establishing supporting structures and mechanisms in the agriculture sector, and foster greater value addition while stimulating increased job creation and revenue generation within the fisheries and blue economy sectors without compromising the sustainability of the marine ecosystem.

13. The Government recognizes that the success of the economic transformation is dependent on investment, infrastructure development, and more importantly new business models. In the tourism sector more effort will go towards improving our visitors' experience and satisfying their expectations through the diversification of our products to ensure that the economic gains do not go to the hotels only, but also other groups. To better understand the dynamics of the tourism sector and its benefit to the economy the Government has sought assistance from its development partners to conduct a tourism study. The tender process is in its final stages with contract signature expected by end of October 2024. Given delays in finding a suitable partner to undertake the study in line with the government's terms of reference, the study is now expected to be completed by May 2025 (revised structural benchmark).

14. The agricultural sector will have to adopt the appropriate technology to facilitate commerce, and manage information so that the right decisions are made in this sector. The Authorities are also working with local producers to adopt new technologies, such as 'high tech farming', to enable them to become more resilient with regard to climate change consequences. To encourage the adoption of these new technologies, government is undertaking a revision of the development fund for the agricultural sector. A total of SR 25.6 million has been allocated for different projects in the agricultural sector such as construction of a new abattoir, irrigation systems and construction and renovation of roads.

15. The Government continues to support development in the fisheries and blue economy sector. Significant funds continue to be invested in facilities for this sector such as the improvement of the port, markets, gear stores, and others. Government has also allocated SR 45.9 million for the development of the Ile Du Port infrastructure in 2024, which includes roads, waste disposal, water, electricity, and telecommunication. Ile du Port has been designated as an area where fish processing will be based.

16. Government is continuing its strategy to analyze different measures to improve the country's business environment. The authorities are working towards increasing and improving the standards of procedures and services, with the aim of better facilitating procedures for investors to open their businesses. The revision of legislative frameworks such as the Licensing Act is a key priority so as to ensure that new business models are catered for. Work remains ongoing for the revisiting of business processes in government with the aim of streamlining facilitation services offered and pursuing the digitalization agenda. The improvement in the processes and procedures aims to encourage new investors to start business and also to provide existing businesses with seamless access to services. A new investment portal is expected to be launched online in 2025.

17. Government continues to implement its digitalization reform agenda by promoting the use of digital payments platforms for Government transactions, by improving the efficiency of the platforms, and making them more user friendly hence building the public's confidence in using the platforms. Implementation of the action plan continues for improving Government's digital payments systems which included awareness and sensitization on the use of the systems; establishing a standard procedure and coding adopted across government streamlining the process for both the Government and the Public. This will also set the stage in preparing the country towards its move to a cash-lite society.

18. Government will establish a commercial court in the 2025 budget to expedite the resolution of commercial disputes. The commercial court will have a full-time judge assigned to the commercial list which will ensure that cases on this list are tried and determined no later than three to six months from close of pleadings. This will contribute immensely to the ease of doing business and improve investor confidence.

B. Fiscal Policies, and Fiscal Structural Reforms

The Budget for 2024 and Beyond

19. The Government remains committed to maintaining a resilient fiscal consolidation that will enable debt to continue its downward trajectory. Despite the maintenance of a primary budget surplus, the public and publicly guaranteed debt to GDP ratio is projected to increase slightly to 61.5 percent of GDP by the end of 2024, compared to the 58.6 percent at the end of 2023. This short-term increase is needed to meet Government financing needs and as Government provide guarantees to some SOEs. Budget support programs will help fill the financing gap in the short term whilst Government seeks avenues for financing and investing in climate related projects over the medium term following the RSF program. Guaranteed debt is anticipated to also increase over the medium term as the Government continues to provide guarantees to the Development Bank of Seychelles and to the Seychelles Port Authority as the extension of the Port project materializes. Albeit external risks still prevail, the Government remains committed towards achieving a debt target of around 50 percent of GDP by 2029.

20. The revised budget for 2024 aims at achieving a primary surplus of 1.1 percent of GDP. Despite a lower GDP growth forecast, the Government remains committed to maintaining the primary fiscal balance of 1.1 percent per the initial Budget. The expected primary surplus is now forecasted at SR 356.6m compared to the initial budget of SR 331.7m. Despite lower projected tax revenue as compared to the initial budget, this has been compensated for by higher non-tax revenue which has resulted in an overall total revenue increase of 0.4 percent compared to the initial budget. Main lines contributing to the increase from non-tax revenue has been 'Dividend income' as well as proceeds from sale of assets. Revenue compared to end of year 2023, excluding grants, is targeted to increase by 10 percentage points to 35 percent of GDP. Current expenditure is forecast to increase by 2.1 percentage points to 31.9 percent of GDP largely due to increase under 'goods and services' and 'interest due'.

21. Government will enhance its tax reforms over the medium term to ensure domestic mobilization of resources. The business tax amendment enacted at the end of December 2022 includes new provisions for transfer pricing. The World Bank assisted us to finalize the general transfer pricing regulations to provide clarification of the new rules and their interpretations and also to explicitly indicate the actions that taxpayers are required to take in order to comply with the new legislation. The transfer pricing regulations were published on the 9th of October 2023. SRC is conducting risk reviews to identify potential cases for Transfer Pricing audit. A technical advisor was recruited and with the assistance of a TIWB (Tax Inspectors Without Borders) Transfer Pricing expert, is continuously building the capacity of the SRC officers in the Transfer Pricing area through on the job training and workshops. A total of 15 Transfer Pricing cases are expected to be completed by the end of December 2024, in which 4 cases are near completion.

22. Seychelles has also engaged United Nations Development Programme (UNDP) on a Country Engagement Plan (CEP). Its primary aim is to enhance national capacities for domestic resource mobilization in alignment with the country's development has priorities and the 2030

Agenda for Sustainable Development. This initiative is demand-driven and designed to assist the Seychelles Revenue Commission (SRC) in meeting the government's revenue expectations, while also aligning with fiscal consolidation policies to address the challenges of a shrinking fiscal space. The plan is financially supported through the UNDP's Africa Sustainable Finance Hub, as part of broader efforts to facilitate the implementation of the Addis Ababa Action Agenda. Seychelles engaged with the UNDP's team in August 2024 to measure the country's success in using the tax system to achieve the United Nations' sustainable Development Goals (SDG), using the SDG Taxation Framework (STF). The report made recommendations on the three prioritized SDG for Seychelles SDG 17, SDG 7 and SDG 8.

23. Following the assessment of the value added tax conducted with the assistance of the IMF's Fiscal Affairs Department, the Cabinet has approved the recommended VAT Reform. The action plan has been developed and is being followed with implementation in phases for 2024, 2025 and 2026 in consultation with SRC and relevant stakeholders. Amendments of relevant regulation for valuation rules, tax credit and VAT registration is completed and has been endorsed by Cabinet. The aim is to gazette by end December 2024. Exemption reviews will continue throughout 2025. The Authorities have completed a Situational Analysis of Domestic Yachting Sector which has been shared and is being reviewed by the Trade Department.

24. Government recognized that there are revenue losses attributable to tax exemption, special credit or preferential tax rate. As part of the 2024 budget document, the Government has published the budgeted tax expenditure forecast (structural benchmark for end-October 2023). Subsequently, further assessment with the support of IMF through Technical Assistance has been provided during the year 2024 and the Government has incorporated VAT and business tax expenditure forecast for the 2025 budget (end-December 2024 structural benchmark). The report has been published as part of the 2025 budget documents.

25. Government will conduct a functional review of the public sector in the medium term (new structural benchmark, end-December 2025). This is being aligned with the digitalization agenda across government services. For the first phase, all Ministries, Departments, and Agencies (MDAs) will have to prepare workflow processes for all their functions. The MDAs will then work with the Department of ICT for any digital platforms that are needed. In addition, the Government will undertake a comprehensive functional review of the whole of government. The functional review process will start early next year and will be completed by the end of 2025. In the short term, Government will enhance managerial efficiency and focus on reviewing the role and functions of all departments and agencies to ensure maximization of current human resources and improve on service delivery. The strengthening of the monitoring and evaluation framework as part of the result-based management will ensure proper oversight of performance across Government. Targeted training will be provided for all public sector employees to ensure they have the necessary tools to deliver as per their mandate. To support the retention of existing employees, the Government will be implementing a salary increase of around 7 percent from April 2025 which will cost around SR 419 million over the medium term. However, a freeze of recruitment remains over the medium term, with funds allocated only for identified priority positions. Over the medium term, a total of 88 posts has been funded out of 519 requested.

26. Significant investment in the medium term will go towards the digitalization agenda. The medium-term budget continues to invest in digitalization efforts across government. A total of SR 367.1 m has been allocated in the medium-term budget for digitalization projects. These include provision for a new Integrated Financial Management Information System, a new Human Resource Management System, a new Tax Management System and the ongoing system for the Agency of Social Protection.

- The ongoing reforms in the public health sector aimed towards digitalization is expected to see the completion of the Health Information System during the year 2025. The new system will also cater for additional modules that will further improve service delivery.

- In line with the existing plan with regards to the Human Resource Management system, the system will connect core HR, payroll, performance management and people analytics to help deliver exceptional employee experiences. This is expected to come online in time for 2026 budget preparation.

- The introduction of a Real-Time Gross Settlement (RTGS) system and a Central Securities Depository (CSD) will enhance the payments infrastructure. This upgrade aims to boost operational efficiency and productivity while reducing operational risks. The objective is to establish a secure and efficient real-time funds transfer and settlement process, thereby improving the management of domestic securities. Work on these modern systems is in progress, and the expected go-live date has been moved from Q4 2024 to Q2 2025 due to initial delays and additional efforts required for project alignment.

Efforts Continue to Strengthen Tax and Customs Administration

27. The SRC has developed a comprehensive transformation roadmap. Identifying root causes and deriving actionable recommendations, the roadmap focuses on five critical areas for improvement over the next three years. Policies, procedures, and processes will be streamlined to enhance efficiency and compliance; skills and development initiatives will be implemented to build a competent workforce; system and technology infrastructure will be modernized to support operational excellence; governance frameworks will be strengthened to ensure accountability and transparency; and leadership capabilities will be developed to drive strategic direction and cultural change.

28. The enhancement of the ASYCUDA World continues with numerous system upgrades and continuous technical training. The modules are being developed in phases and will be deployed as and when they are ready. At present the E-Manifest modules, Express Courier modules, Excise Tax and the WCO tariff 22 have been deployed. Additionally, the E-payment was completed in May 2024 and deployed in June 2024. In August 2024, the ASYCUDA World project reached significant milestones, including the successful completion of hardware migration, software and security upgrades, and the relocation of servers to a secure environment. The project team effectively configured the ASYCUDA World database and application server in high availability mode, implemented new TLS certificates, and resolved various server issues, including those related to excise documents, taxation rules, and declaration errors. Additionally, several requests from Customs were addressed, leading to enhancements in the ASYCUDA World system, such as modifications to payment penalty deadlines and the integration of E-Payment for declarations. The team also commenced documentation for the ASYCUDA World migration and efficiently managed multiple IT projects and meetings. Looking ahead, efforts will focus on finalizing migration documentation, addressing ongoing ASYCUDA World application issues, and initiating new projects related to eGovernment data retrieval and cargo targeting systems.

29. 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. The timeline for the completion of the online portal has been extended as it is crucial that a comprehensive security audit is conducted on the system prior to deployment. The audit is to ensure that taxpayers' information which is very sensitive in nature remains secure and confidential at all times. The audit is being conducted by an independent entity and is planned to be completed by October 2024. In addition, SRC and SPF have agreed to start the implementation of the consolidated payroll after the deployment of the online portal which is planned for October 2024.

30. SRC recognizes the need to modernize and simplify tax processes through business process reengineering to remove bureaucracy, increase automation of manual processes and promote electronic interactions with clients. SRC has received the technical assistance from UNDP to develop a risk framework. This was conducted and completed in May -June 2024. This will now be automated in the Data Warehouse which will be the main repository of all internal and external data received by SRC. This will allow a more overarching risk analysis approach and facilitate more objective decisions in regard to risk treatment. This includes audit case selection. Risk treatment will be based on predefined criteria and parameters. Therefore, SRC will launch an automated framework to analyze data from multiple sources (new structural benchmark, end-June 2025). This is a high priority TA recommendation and in line with the government's desire to identify and address tax leakages. Given the capacity constraints at SRC, an automated framework would also ease demands on scarce resources.

31. SRC is in the process of data cleansing for the registration module and has begun reaching out to the public to validate their information and provide missing information to meet the minimum requirements of the new TMS system. The data-cleansing exercise remains a continuous process. It includes 2 main components: (i) IT - where IT tools which will be used to facilitate data cleansing have been developed and (ii) operation- where 2 registry officers have been selected to work on a full-time basis in collaboration with IT to address issues identified.

32. There are currently 5 modules inclusive of the CRS module which have been developed and are operational. Three more deliverables, namely the questionnaire on substance requirement has been completed and is expected to be launched in November 2024. The audit tool which allows

SRC to review all its financial institutions account holders has been developed and is featured on the onboarding system; and the integration with the TMS through an API will be done by the 1st quarter of 2025.

Expenditure Management and Efficiency of Public Spending

33. In the first quarter of 2024, IMF-AFRITAC South (AFS) delivered a mission to assess current practices and processes for preparing the Medium-Term Fiscal Framework (MTFF) and Medium-Term Budget Framework (MTBF). The mission identified areas of strong performance as well as gaps and provided recommendations to address the gaps. One of the main gaps identified was that the MTBF preparation should be aligned with good practice which includes to (i) conduct the budget baseline process in one loop which comprehensively costs existing and new approved policies, programmes and projects to assess fiscal space; (ii) set initial MDA expenditure ceilings subsequent to a fully-fledged budget baseline calculation and based on Cabinet approval; (iii) in case of negative fiscal space, require MDAs to submit costed proposals for corrective measures to enforce compliance with expenditure ceilings; (iv) improve the reliability of the MTBF by avoiding frequent and substantial increases of set expenditure. In addition, the budget documents should explain changes in set expenditure ceilings compared to the previous MTBF. The authorities will start implementing some of the recommendations as part of the 2025 budget process.

34. The MTFF and MTBF mission also proposed to the authorities to ensure there is a link between the upcoming MTBFs to the strategic objectives of the new NDS. The mission highlighted that, compared to good practice, the current Program Performance Based Budgeting (PPBB) approach is complex, and the strategic focus is insufficient which limits usability. The architecture includes many elements some of which create overlap among each other; examples presented within each element seem to be not limited, their sheer number is at times overwhelming and impacts readability; there is barely explicit reference to the NDS which keeps the budget and the NDS disconnected. The Government will streamline and focus the PPBB architecture on strategic policy priorities and start with climate sensitive pilots. This includes (i) reducing the number of elements; (ii) explicitly linking the elements to the NDS; (iii) adapt the existing implementation guide and on this basis train MDAs to apply the adapted PPBB approach; (iv) propose to assign one MDA with the lead responsibility for PPBB quality assurance.

35. Reforms are ongoing in the social protection system in the form of a "Program for Results" (PforR). Significant progress has been made in enhancing the efficiency, transparency, and sustainability of social protection programs and to date USD 14 million has been disbursed. To improve the assessment of applicants for social protection benefits, the MoH has adopted the World Health Organization Disability Assessment Schedule (WHODAS) criteria for home care assessments. This move ensures a more standardized and objective evaluation of the needs of individuals seeking support. Additionally, the Agency for Social Protection (ASP) and the Seychelles Pension Fund (SPF) have merged their assessment boards, using WHODAS 2.0 criteria to evaluate eligibility for invalidity and disability benefits. This alignment between the two entities enhances consistency and fairness in the assessment process.

36. A comprehensive review of the internal controls and payroll systems of ASP has been conducted to ensure that they adhere to established national systems and controls. This review aimed to assess the adequacy of the current systems in place, safeguarding the transparency and accountability of the processes related to social protection disbursements. As part of efforts to improve coordination across multiple government agencies (MDAs) involved in social protection, ASP has signed inter-agency case management protocols with the Ministry of Employment and Social Affairs (MESA), the Ministry of Health (MoH), and the Ministry of Education (MoE). These agreements enable information sharing through referral and counter-referral mechanisms, enhancing the effectiveness of services provided to beneficiaries. The protocols also include necessary regulatory approvals, ensuring compliance with legal and administrative requirements.

37. ASP is currently undergoing an exercise to adopt a revised socioeconomic needs assessment framework. This updated assessment goes beyond income-based measures and includes non-income dimensions of poverty, ensuring that a broader range of factors is considered when determining eligibility for social welfare assistance. This shift represents a more holistic approach to addressing the needs of vulnerable populations. The development of a computerized welfare system, which will also function as a social registry, is currently in progress with the goal of the system becoming operational by mid-2025.

38. The Government recognizes that the future of Seychelles depends on its human capital. Recognizing the importance of youth to the country's future and inclusive growth, the Government, with the support of the World Bank, conducted an in-depth analysis of youth risk factors to inform both existing and new policies. A series of stakeholder consultations, roundtable discussions and a 3-day multi-stakeholder workshop highlighted the need for a whole of society approach with cohesive efforts of government, civil society and the private sector. The importance of strong institutional mechanisms supported by reliable and interoperable data systems are imperative for efficiently delivering targeted interventions maximizing their impact in the communities. Main areas of focus for various interventions include using the schools for integrated social services, community level interventions and creating safe spaces as well as strengthening skills and transitioning to jobs. This work remains ongoing with an Action Plan under development that encompasses all contributions received thus far. It is important that we remain results driven and accountable for the success of our efforts in the best interest of our youth.

39. The Government remains committed to strengthening its Public Finance Management (PFM) Regulatory Framework. IMF TA will be provided during the fourth quarter of 2024 to undertake a review of the Public Procurement Act and the Public Finance Management Act. Additionally, we will conduct a review of the current proposal provided from the technical assistance by Afritac South regarding the modernization of the legal framework for the public debt management. This will ensure consistency in some of the provisions of all three legislations and introduce new provision based on the ongoing reforms considering the digitalization agenda. We will also adopt a Public-Private Partnership framework including climate-related investment and include the necessary legislative provisions in the amendments to the Public Finance Management Act and the Public Procurement Act.

40. The Government remains committed to boost the efficiency of public spending. With the assistance of the development partners, the Public Expenditure and Financial Accountability (PEFA) assessment will be undertaken during the first quarter of 2025. Once completed, we will prepare an action plan for Cabinet of Ministers' endorsement by end-November 2025 (new structural benchmark) to correct any deficiencies identified by the PEFA assessment.

41. To improve PFM, we will be installing in phases a new Integrated Financial Management Information System (IFMIS) starting in the first quarter of 2025. This system is expected to enhance the Ministry's capacity to manage key public finance processes and integrate them with essential systems, including the National Population Database (NPD), the Company & Business Registry, the online payment platform, and the Central Bank of Seychelles banking platform. This integration will ensure end-to-end management of financial processes. The rollout will occur in phases, with the contextualization and validation of modules progressing accordingly. The first phase will involve the budget execution module, which will be implemented in parallel with the accounting and reporting modules. This will enable simultaneous management of financial transactions and accurate financial reporting. Following these, the budget preparation module will be rolled out, with the goal of preparing the 2026 budget using the new system. The recruitment process for the IFMIS team has already begun with the Senior Analyst Programmer position, and the recruitment process for a PFM expert advisor has also been initiated. Additionally, a project manager has been appointed to oversee the implementation, rollout, and other personnel have been identified to form part of the core IFMIS team, ensuring that the project has the necessary resources for successful implementation. Funding for the new IFMIS is included in the 2024 budget, with further allocations planned over the medium term. The project is currently in the tender evaluation phase.

42. Improving cash flow forecasting practices is essential since the current deviations in the cash flow forecasts are considered too large. We have in our medium-term priorities a commitment to improving spending efficiency, including through strengthening cash management. The issuance of a ministerial circular in October 2022 to reduce the deviation between the forecast and the outcome in the monthly cash flow plan is evidence of this commitment. The Cash Flow Unit (CFU) within the Ministry of Finance was created in the first half of 2023 and is partially staffed. The new unit is working closely with the MDAs to create more awareness and building more capacity for strengthening cash management across Government. AFRITAC South delivered training sessions on cash flow forecasting for the Department of Finance (including CFU) and MDAs in November 2023. The CFU will work closely with MDAs to receive information on large payments in advance and to include in the cash flow plan. The CFU will improve on the consolidated and comprehensive cash flow plan template to expand the classification details for expenditure and at the same time as the actuals are entered revised forecasts should be included into the Cash Plan. The CFU will ensure the forecasting errors are systematically analyze and discuss with the different stakeholders to improve the cash flow plan. Those improvements in the cash flows forecasts will also inform debt management and borrowing planning for the Debt Management Division (DMD) and liquidity management for the CBS to support the monetary policy. With these added objectives improved methodologies, better coordination and management of data and timely responding to stakeholder needs will be important for the effectiveness of the cash flow forecasting.

43. The Government is committed to improving the efficiency of public investment funding. Investment in public infrastructure remains a priority for Government to increase economic growth and improve the conditions of the public infrastructure. Seychelles undertook its first Public Investment Management Assessment (PIMA) and Climate PIMA (C-PIMA) assessment during the first quarter of 2023 with the assistance of the IMF's Fiscal Department and the World Bank. The PIMA has identified several causes for the under-execution of capital projects, including weakness in the national and sectoral planning processes, challenges and gaps in the appraisal and selection processes for projects entering the budget, and limited capacity for preparing and analyzing this information across the government. Maintenance budgeting and planning will also be improved by updating the fixed asset registers to include information on major and critical assets managed by MDAs and making this information available in the Fixed Asset Management System (new structural benchmark, end-November 2025). In May 2023, the Cabinet of Ministers approved an action plan with the aim to improve the under execution of capital investment and to also address the identifying gaps in the public investment management institutions. To date support has been received from AFRITAC South to review the PIM Policy and scoring methods. The revised policy has been approved by the Cabinet of Ministers and will assist in the establishment of a coordinated approach to capital project management, ensuring alignment with sector objectives and national priorities. It will also integrate climate smart methodologies in project selection.

44. We will undertake reforms to further strengthen the framework and capacity for appraising and selecting capital projects. The new project proposal circular issued stipulates that projects will not be included in the Medium-Term Expenditure Strategy (MTES) if appraisal information is absent or materially incomplete. To assist in this endeavor MDAs have been provided with an established set of minimum criteria (related to design, costing, and engineering elements) to assess projects in the MTES 3-year Public Sector Investment Plan (PSIP), on the basis of which (met or not met) PIMU will recommend to the Inter-Ministerial Committee (IMC) for inclusion/deferral in the current year's budget (Structural Benchmark end June 2024). The revised policy has also put in place a supported by a Sub - Committee to the IMC that will oversee the appraisal and approval process for new projects whilst emphasizing climate adaptation and risk management factors are considered.

45. Strengthening maintenance budgeting and planning remains a priority. SIA is currently undertaking a stock taking exercise to compile a database of all government buildings and structures. This exercise remains ongoing and will also fuel the adoption of maintenance standards for routine and capital maintenance and the program classification will be used to better measure maintenance costs. The Medium-term budget already makes provision for increased allocations towards maintenance of government infrastructures.

C. Minimizing Risks of SOEs

46. The government has taken steps to strengthen management of state-owned enterprises and reduce transfers from the budget. The transfers to state-owned enterprises have been being reduced significantly from 2.0 percent of GDP in 2020 to 0.19 percent forecasted for the year 2025. The new Public Enterprise act was enacted on the 31st of May 2023. The new legislation has made provisions for the efficient governance of Public Enterprises and the monitoring of their performance and provides a harmonized and coherent framework for their establishment, governance, and operation. The Public Enterprises Monitoring Commission (PEMC) has published the 2022 Public Enterprises' annual report in June 2024 in accordance with the new legislation to ensure more transparency in the financial performance and fiscal affairs of these enterprises. The annual report has a one-year time lag in view of the end of the financial year of some SOEs which end on the 31st of March. Thus, those SOEs require six months to complete their audit. The annual report has presented the overall financial performance, including outstanding debt, of Public Enterprises based on their audited financial statement. In addition, the new legislation has clarified 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.

47. The Public Enterprises Monitoring Commission (PEMC) through an independent audit firm will conduct governance audit and operational performance assessment of six key public enterprises by the first quarter of 2025. The key public enterprises to be audited are Public Utilities Corporation (PUC), Seychelles Petroleum Company (SEYPEC), Air Seychelles, Island Development Company Limited (IDC), Seychelles Civil Aviation Authority (SCAA) and Seychelles Trading Company Ltd (STC). PEMC has signed the agreements with the audit firms to commence the audit for SEYPEC, SCAA, PUC and Air Seychelles. We expect the audit to be completed by the first quarter of 2025. PEMC is engaging with the procurement oversight unit for the procurement of audit firms to undertake the audit for the IDC and STC in view that the procurement committees declared the first procurement process to be unsuccessful. In July 2024, the Government approved a road map with SEYPEC on the tanker replacement strategy concerning its ageing tanker fleet and replace with two new technologically advanced tankers in 2027.

48. Government is working with the U.S. Treasury Office of Technical Assistance in the following areas and has agreed on a work plan:

1. Technical staff capacity building to improve analytical skills and the quality of PEMC reporting on public enterprise monitoring and performance.

2. Development of comprehensive written policies and procedures for the PEMC staff that comply with the 2023 PE Act.

3. Support with implementation of the web-based reporting portal; this would include identifying the business needs for the portal (data, analytics, reporting) and assisting with training for portal users.

4. Assistance with the development of performance indicators and targets for public enterprises that comply with the 2023 PE Act.

5. Support with implementation of a comprehensive job grading scheme for public enterprise boards and executives; this would include assistance with establishing an oversight body to oversee implementation, sensitizing the oversight body and public

enterprises on the concepts of a comprehensive job grading scheme. PEMC commenced to publish information about compensation of BoDs and CEOs of state owned.

D. Public Debt Management Strategy

49. Seychelles continues to make significant progress in terms of Debt Management. The publication of quarterly debt bulletins and quarterly borrowing and issuance plans has improved access to information for investors which is reflected through more stability in domestic market conditions. Additionally, the improvement in reporting promotes accountability and transparency. With the current global economic environment, the foreign interest costs remain on the high side in comparison to 2022. Government continues to explore alternative sources of financing over the medium term.

50. As part of modernizing its legal framework on public debt, the Government will seek Cabinet's approval for the proposed revision to the Public Debt Management Act to provide more flexibility to debt management and promote debt sustainability (Structural Benchmark March 2025). Technical assistance has been received from Afritac South and the team is working to finalize the recommendation to the cabinet of Ministers. This will be done after the IMF TA that will be provided during the fourth quarter of the year 2024 on the other Public Finance Management (PFM) regulatory framework. This will ensure consistency in all PFM legislations.

51. The Government continues in its effort to develop the domestic debt market. It has diversified the domestic instruments being used, which was primarily concentrated through T-Bills issuance to meet cash flow requirements. Government is now issuing T-Bonds on a quarterly basis, which has helped to lengthen the weighted average maturity of the domestic debt stock and reduced refinancing risks. With the help of the IMF's Monetary and Capital Markets department (MCM), the CBS will develop a draft operational framework and launch a 6-month pilot retail investor-oriented purchase window as a prelude to a full-scale buy back facility for the trading of government securities through commercial banks (new structural benchmark, end-January 2026).

E. Monetary and Exchange Rate Policy

52. With the MPR set at 1.75 percent, CBS maintained a loosened monetary policy stance as of the second quarter of 2024 to support the domestic economy. As of May 2024, there has been a reversal in the deflationary trend in year-on-year terms, although inflation has remained low. However, a gradual increase in domestic prices is anticipated in the medium term, as a result of higher international fuel and commodity prices, combined with a weaker domestic currency. In its endeavor to transition to forward guidance and enhance the expectations channel, the Financial Indicators Expectations Survey with households was launched in the third quarter of 2024. The results of the survey are expected to complement the forward-looking macroeconomic variables collected from the quarterly exercise conducted with the banking sector. Whilst the CBS has begun to conduct inflation surveys of banks and households, that of firms will be undertaken in the first half of 2025 and the results will be published on the CBS website (new structural benchmark, end-June 2025).

53. CBS has started to implement the recommendations received from the MCM Department of the IMF following technical assistance to improve the transmission of interest rates. Whilst the necessary groundwork has been undertaken, there is a need to address certain technical and legal impediments with regard to the operationalization of the Repurchase Operations (Repo). In the meantime, the Bank is conducting collateralized loans, whereby the securities are pledged, as an interim solution until the full-fledged Repo can be implemented (structural benchmark, end-December 2024).

54. CBS remains committed to a floating exchange rate and will only intervene to facilitate orderly market conduct and reserve accumulation. Given the favorable conditions in the domestic foreign exchange market during the first half of the year, CBS was able to purchase the equivalent of US$47 million through its FEAs, to enhance the level of external reserves. In line with the revised guidelines on Multiple Currency Practice (MCP) as issued by the IMF, the authorities commit to ensure that official actions on their part do not give rise to a breach of the revised MCP rule.

55. CBS will continue to accumulate reserves whenever an opportunity arises in order to strengthen its foreign exchange buffer. This approach enables the Bank to maintain an adequate level of international reserves to meet the country's external obligations.

56. CBS has been engaging with the Reserves Advisory & Management Partnership (RAMP) of the World Bank since 2011. As part of this partnership, CBS has been receiving technical advisory services in the area of reserves management. Additionally, the three-year Advisory and Investment Management Agreement (AIMA), which was signed in October 2022, includes an investment management mandate for US$100 million.

57. As part of efforts to enhance external sector statistics, CBS is working in collaboration with the Financial Services Authority. The aim is to better understand the financial flows of Special Licensed Companies (CSLs). To that end, an initial meeting was held in September 2024, upon receipt of the results of the annual offshore sector survey.

F. Efforts to Improve Real Sector Statistics

58. The National Bureau of Statistics (NBS) is facing several constraints which adversely impact on its capacity to produce timely and quality statistics, as well as to extend its production to meet users' needs. The shortage of staff is one significant gap identified and to address this shortcoming the NBS will be implementing a multi-faceted strategy. Efforts are being made to recruit additional personnel. In addition, the bureau will explore partnerships with academic institutions, other government agencies and development partners to leverage expertise and resources, thereby augmenting its capacity to fulfill its mandate. Furthermore, embracing technological solutions, such as automation and data analytics tools, can streamline processes, optimize resource allocation, and enhance the efficiency of statistical operations, mitigating the impact of understaffing on overall productivity. By adopting a comprehensive approach that addresses both human resource and operational challenges, the National Bureau of Statistics can strengthen its ability to deliver high-quality, timely, and relevant statistical information to support evidence-based decision-making. To support the implementation of the NBS strategy there will be an increase in the budget allocated from SR 21.5m to SR 26m.

59. Additionally, the bureau is developing a rebasing strategy for its National Accounts Statistics. With the conduct of the Agricultural Census and the Household Budget Survey in 2024 and 2025/26 respectively and the Census of Economic Activities in 2026, new datasets will be available. These, together with appropriate technical assistance on Supply and Use Tables and Back casting, will provide a sound basis for a more comprehensive rebasing exercise in 2026, to produce a more complete data series for the benefit of users.

G. Modernizing the Financial System and Ensuring Financial Stability

60. CBS continues to collect information on restructured and rescheduled loans that were impacted by COVID-19 as part of its enhanced monitoring of the banking system following the pandemic. The outstanding value of restructured loans continued to decrease, falling by 24.7 percent from R2.2 billion in June 2023 to R1.7 billion in June 2024. The top five sectors with the highest outstanding value of restructured loans as of June 2024 were: tourism (42.4 percent), mortgage loans (14.1 percent), trade (7.6 percent), commercial development (6.4 percent), and residential development (5.3 percent). As of June 2024, forborne loans accounted for 84.7 percent of all restructured loans, compared to 89.4 percent in June 2023.

61. By end-June 2024, non-performing forborne loans as a total of NPLs declined on a year-on-year basis, from 60.5 percent in June 2023 to 52.3 percent in June 2024. By end-June 2024, the value of loans initially subject to regulatory forbearance measures during the pandemic and later transitioned into NPLs decreased to R445 million, down from R479 million in June 2023, representing a 7.1 percent decline. Significant reductions in non-performing forborne loans were seen in manufacturing, real estate, private households, and tourism sectors. Despite the overall decrease, certain sectors, such as agriculture & horticulture, commercial development, and trade experienced an increase in non-performing forborne loan values on a year-to-year basis as of June 2024. The proportion of non-performing forborne loans as a percentage of total industry NPLs remains significant. CBS will be engaging the banks to get a better understanding of the different facilities which remain non-performing and what is being done to rectify the same.

62. In April 2024, CBS successfully completed the horizontal examination focusing on asset quality of banks. Following this comprehensive review, each bank was issued a detailed letter outlining the industry-wide findings as well as bank-specific findings and their corresponding recommendations. CBS is closely monitoring and following-up on the implementation of corrective measures to ensure that all issues identified during the examination are effectively addressed.

63. CBS remains committed to strengthening its supervisory framework, such that it is more risk-sensitive, objective, forward-looking and continuous. In July 2024, AFRITAC South provided further TA to CBS, aimed at enhancing its risk-based supervision (RBS) framework. This support included on-the-job training to supervisors, which involved reviewing the off-site analysis reports, providing follow-up training based on the reviews, and assigning risk ratings. Following the incorporation of the recommendations into the RBS model, CBS is engaging with AFRITAC South on the possibility of further assistance with the implementation of the model. CBS is adopting a standardized IMF RBS model while incorporating some components from the existing draft CBS model.

64. CBS is monitoring compliance to Pillar 1 of Basel II requirements. Following the issuance of the amended Financial Institutions (Capital Adequacy) Regulations 2010 on December 29, 2023, CBS has worked closely with all banks to ensure that all queries were addressed. This aimed at ensuring that the revised requirements were being adhered to. Thus far, all banks are in compliance with the revised regulations.

65. CBS is finalizing its crisis management and resolution framework for endorsement. A fact-finding mission was undertaken with relevant authorities in Mozambique in August 2024, with the aim of understanding the practical implementation of a resolution framework. Consequently, CBS is finalizing minor policy recommendations, one being the depositor preference whereby discussions have been held with the Ministry of Finance, National Planning and Trade. The consultation paper was circulated to all banks for feedback by end-August 2024. The paper was approved by the CBS Board at its September 23, 2024 meeting and subsequently by the Cabinet of Ministers in October 2024 (Structural Benchmark for the 3rd Review under the EFF).

66. The Central Bank of Seychelles (Amendment) Bill, 2024 was approved by the National Assembly on July 31, 2024. The aim of the legislation, which came into effect on August 16, 2024, is to strengthen the independence and good governance of CBS, and in particular further improve the provisions relating to CBS' institutional and financial autonomy.

67. CBS continues to strengthen its legislative framework for the National Payment System. The policy paper for amendments to the National Payment System (Licensing and Authorization) Regulations 2014 was approved by the CBS Board on August 12, 2024. Subsequently, the amendments were presented to and approved by the Cabinet of Ministers on September 11, 2024. The primary aim is to address deficiencies observed in administering the law over the years, as well as ensuring alignment with international standards and best practices.

68. CBS continues to make progress in modernizing and innovating its national payment system. In addition to the ongoing efforts to strengthen the systemically important payment system infrastructures through the implementation of an RTGS and a CSD, as well as a new core banking system, CBS is also focusing on nurturing a digital economy, rather than paper-based payment instruments. The findings of the study to assess the affordability and reliability of internet connection, which is the basis for enhancing the infrastructure necessary to increase the adoption of digital financial solutions, was approved by the Cabinet of Ministers in August 2024. On September 11, 2024, the Cabinet of Ministers also approved the proposal to sunset cheques. The deadline for banks to stop accepting cheques from individuals has been set for May 2025 and that for banks to stop accepting cheques from non-individuals is January 2026. With the ongoing developments in the national payment system, CBS also remains committed to further strengthen its internal capacity for the effective supervision and oversight of the national payment system.

69. CBS continues to implement the joint CSD and RTGS systems alongside the new CORE banking system throughout the second and third quarter of the year. The CSD and RTGS systems project is being implemented with the support of MONTRAN Corporation, which is based in the United States. CBS training, and the User Acceptance Testing (UAT) phase experienced delays and is expected to be completed by end-September 2024. Consequently, the go-live date of the two systems has been revised from Q4 2024 to Q4 2025 to support the successful onboarding of the financial market infrastructures by financial institutions. Similarly, the CORE banking system's go-live date has also been pushed to Q4 2024 from Q2 2024.

70. CBS pursues its endeavor to put in place a Regulatory Sandbox Framework for financial products and services within its regulatory purview. The documents that will govern the operation and oversight of the Regulatory Sandbox are being finalized for subsequent approvals. The expected timeframe for operationalization of the sandbox is Q2 2025.

71. CBS continues to intensify its efforts to enhance financial consumer protection, including increased financial education initiatives. Subsequent to the Cabinet of Ministers approving the policy paper for the Complaints Handling Regulations in June 2024, CBS and FSA are working closely with the Attorney General's Office to finalize the publication of the Regulations by Q4 2024. CBS is also finalizing the policy papers on the Fees and Charges Regulations and the Debt Recovery Regulations. From the financial education perspective, the focus areas are personal financial management as well as digital financial literacy, including cybersecurity, which is deemed critical for sound financial behaviors in the digital age.

72. CBS successfully launched the Seychelles Credit Information System (SCIS) on September 11, 2024. The SCIS is governed by the Credit Reporting Act, which came into effect alongside the launch of the SCIS. The CBS intends to launch the Customer Credit Portal of the SCIS in January 2025. Work is ongoing to onboard new participants on the system, beginning with CBS Staff loans that are expected to be uploaded on the SCIS in Q1 2025.

73. We are committed to improving the effectiveness of our regime for anti-money laundering and combatting the financing of terrorism (AML/CFT). Work is ongoing to implement the recommendations of the Eastern and Southern Africa AML Group (ESAAMLG) in the 2018 Mutual Evaluation Report, where the country received 10 Low ratings in the 11 effectiveness criteria (Immediate Outcomes), including on AML/CFT supervision and entity transparency. Based on the evaluation, Seychelles received an upgrade for another two recommendations (recommendation 4 from partially compliant to compliant and recommendation 8 from non-compliant to partially compliant) during the April 2024 ESAAMLG meeting. In addition, based on the significant progress of the legislative reforms, Seychelles intend to request the five outstanding deficiencies (recommendations 6, 7, 8, 15, 33) in March/April 2025.

74. We have completed the second National Risk Assessment (NRA) on money laundering and terrorism financing. The NRA has identified the overall ML risk for Seychelles to be medium high. In October the Cabinet of Ministers approved an action plan to address the identified deficiencies. The Technical AML committee will continue to monitor the progress of the NRA action plan and will submit the next report by December 2024.

75. Tackling regulatory arbitrage of the activities involving Virtual Assets (VA) and Virtual Asset Service Providers (VASP) is another priority reform. In July 2022, the Government completed the National Risk Assessment of VA/VASPs in line with FATF Recommendation 15 to identify, assess, and understand the ML/TF risks from VA/VASPs. In this NRA, Seychelles' exposure to ML/TF risks to VA/VASP was assessed as very high, owing to the absence of a regulatory framework. As a consequence, the National AML/CFT Committee adopted a policy framework that aims to tackle regulatory arbitrage and enable mandatory identification, registration and licensing of VASPs. It will also provide a risk-based supervisory approach to ensure that measures to prevent or mitigate ML/TF are proportionate with the identified risks. The policy and legislative framework have been approved by the Cabinet of Ministers, and the Virtual Asset Service Providers Act, 2024 was approved by the national assembly in August 2024 and commenced 1st September 2024. The Cabinet of Ministers have also approved the regulations addressing the specific and technical requirements to be prescribed per the Act and these regulations have been Gazette. The Act itself places a deadline of 31st December 2024 by which time entities operating within the VASP sphere must apply for a license, through-which, as from 1st January 2025, the FSA shall initiate various enforcement actions.

76. We are also progressing in ensuring that beneficial ownership (BO) information of legal persons and legal arrangements established in Seychelles is adequate, accurate and up to date. The FSA has undertaken two sets of Beneficial Ownership (BO) inspections thus far in 2024. The upward trend in compliance pertaining to maintenance of register of beneficial owners continued, with a 100 percent compliance in inspections in the first two quarters of 2024. As for the availability of declaration of beneficial ownership, the compliance level was 85 percent in quarter one and 94 percent in quarter two of 2024.

77. We will advance in verifying the accuracy of the BO information in the central BO database and ensure its accessibility. With technical assistance from the EU Global Facility for AML/CFT, the revised BO Guidelines for effective collection and verification of information was issued to the industry in May 2024. We will ensure that the FIU has effective access to all relevant databases for purposes of verifying the information in the BO database, and will establish mechanisms for processing reports on information discrepancies found in the BO database. By end-December 2024, the BO Act will be amended to broaden access to the central BO database held by the FIU and provide information sufficient to identify the BO to financial institutions, and other reporting institutions with AML/CFT obligations (Structural Benchmark). The work on the amendments has started during the second quarter of 2024 and will be submitted for cabinet consideration in October 2024. To enhance accessibility, the Financial Intelligence Unit in collaboration with expert from the EU Global Facility for AML/CFT and the National AML/CFT Committee finalized the technical specification for development and implementation of the beneficial owners registers IT system in December 2023.These technical specifications will support the new digital platform, providing direct and comprehensive access to the central BO database for all supervisory authorities and law enforcement agencies. Upon completion of the new digital platform, the registered agents will be given a specific time frame to rectify discrepancies in BO information of IBCs identified during the inspection program. We expect the new digital platform will be operational by third quarter of 2025.

78. The European Union (EU) Council, recognizing the Organization for Economic Co-Operation and Development (OECD) Global Forum on Transparency and Exchange of Information for Tax Purposes (the Global Forum) approval to grant Seychelles a supplementary review on the implementation of the standard of transparency and exchange of information on request (EOIR), removed Seychelles from Annex I of the EU list of non-cooperative jurisdictions for tax purposes (the so-called EU blacklist) with effect February 2024, and added the jurisdiction to Annex II of the list (the so-called EU greylist). Seychelles' authorities engaged with the Global Forum Secretariat and submitted its request for another review in mid-December 2023. The request was submitted on the basis of significant improvements in relation to the quality and timeliness of exchange of information (EOI) requests and maintained and improved supervision and enforcement activities to ensure compliance with the framework. The Peer Review Group (PRG) of the Global Forum approved the proposal that these represented sufficient likelihood of an upgrade to the overall rating of Seychelles against the Standard such that the country qualified for a supplementary review. This review will be launched in 2025 and include an on-site visit by the assessment team. The Government remains steadfast in its commitment to honor the international standards on tax transparency and be an effective partner in exchange of information for tax purposes.

H. Climate Change Reforms

79. The government recognizes that climate change has significant macroeconomic implications and has made significant strides on adaptation and mitigation responses. We have committed to ambitious climate change goals and are in the process of scaling up climate finance to support the implementation of Nationally Determined Contributions (NDCs). In the updated NDC submitted to the United Nations Framework Convention on Climate Change in 2021, we set a greenhouse gas emission reduction target of 26.4 percent below a business-as-usual emission level by 2030 and a net-zero emission target by 2050. To achieve the 2030 target, it is estimated that as much as US$670 million is required by 2030 to fund the implementation of climate adaptation and mitigation activities. In 2024, additional spending has been allocated amounting to SR 111.3 million and SR 29.3 million for west coast road infrastructure development and coastal erosion on Praslin respectively.

80. Building an environmentally sustainable and climate resilient economy is a main element of the new NDS 2024-2028. We have geared up adaptation response, including implementing the Coastal Management Plan, the Marine Spatial Plan, the National Integrated Emergency Management Plan, the National Biodiversity Strategy and Action Plan, the Seychelles National Climate Change Strategy and Strategic Land Use Development Plan, and started to integrate climate change considerations into the public investment management and budget processes through the review of the Public Investment Management policy and budget tagging. The Department of Climate Change and Energy has started the process to review and revise both the National Climate Change Policy and National Climate Change Strategy.

81. In order to enhance transparency and improve monitoring and evaluation of public expenditure towards climate change, the government is in the process of establishing a climate finance budget tagging and tracking system which shall form part of the broader National Monitoring Reporting and Verification (MRV) Framework in the context of the Enhanced Transparency Framework. The National MRV system which is tentatively planned to be completed by end 2024 is envisaged to contain three main components namely: MRV of emissions, mitigation and support (i.e. finance, technology transfer and capacity building). The institutional arrangements for the MRV system will be based on the provision of the national policy on climate change with established linkages to sub-national and sectoral institutions. The benefits of institutionalization include: improved inventory quality; data documentation; archiving; and transparency. The development of an MRV system will contribute to efficient measuring, reporting and verification of emissions from different sectors of the economy, thereby enhancing transparency of mitigation actions.

82. Mobilizing climate finance to address adaptation and mitigation challenges is among our top priorities. Seychelles is a pioneer in the field of climate and sustainable finance. Seychelles issued the World's first sovereign blue bond in 2018 and raised US$15 million to finance sustainable use of marine resources. In 2017, Seychelles became the first country to successfully undertake a debt for nature swap—the debt restructuring initiative resulted in mobilizing US$21.6 million worth of adaptation financing for coastal management, fishery sector research and the implementation of the Marine Spatial Plan, while raising additional funding of US$5 million from the private sector. At the same time, the government has begun to tap various sources of international climate funds such as the Green Climate Fund (GCF) and the Global Environmental Facility (GEF), as well as climate-related financial support from multilateral development banks and bilateral donors.

83. The government is committed to scaling efforts by engaging with the Commonwealth Climate Finance Access Hub (CCFAH) to get the support of a climate finance advisor to further support scaling up of climate finance. The current climate finance advisor recently conducted a training workshop on climate finance, project prioritization, targeting various entities from the government ministries to financial institutions. The Climate Finance Advisor is further supporting the country in facilitating the accreditation process for two national institutions (SeyCCAT and DBS) that have been nominated as Direct Access Entities to the Green Climate Fund (GCF). While the government has been making efforts, the climate financing gap remains large and more needs to be done in this regard. As such, Cabinet will adopt a national climate finance mobilization strategy that will comprehensively cover the financing instruments to unlock international climate finance from public and private sources (*Reform Measure, September 2024*). The government sees this strategy as a living document and is committed to improving it with the benefit of greater specificity with respect to climate related investments, incorporation of climate considerations in the medium-term outlook, and feedback from stakeholders on potential financing options going forward.

84. In efforts to achieve this milestone, Government with support from the Commonwealth Climate Finance Adviser has developed the Climate Finance Mapping report that gives an overview of the climate finance landscape in Seychelles which is a critical input in the

development of the Climate Finance Resource Strategy. A Climate Finance resource mobilization strategy workshop was held to agree on the scope and outline of the strategy as well as constitute the Climate Finance Technical Working Group that would serve as a coordination mechanism for Climate Finance resource mobilization in Seychelles. The next steps are to conduct the project prioritization and identification of prioritized investment options that would be used to inform the Climate Finance resource mobilization strategy. In addition to unlocking public and private finance, the all-encompassing climate finance mobilization strategy and framework will consider different financing instruments and will ensure that there is a robust pipeline of climate investment projects. The government is committed to putting in place an implementation framework that clearly sets out institutional mechanisms and financing modalities, and to securing funding for at least one major adaptation or mitigation project (*Reform Measure for end-October 2025*).

85. The government is committed to climate-resilient and green public investment. The government will integrate climate considerations in the Public Investment Management Framework. While climate-related public investment is well coordinated across the central government and frameworks for climate-related risk management are relatively well-established frameworks for climate-related risk management, there are important gaps in the appraisal, selection, and budgeting for climate-related public investments. Addressing these gaps would help to create a robust climate-sensitive public investment management framework, providing a foundation for Seychelles to further attract international climate finance and catalyze green private sector investment. To this end, the Ministry of Finance, National Planning and Trade (MoFNPT) integrated priority NDC objectives in the National Development Strategy 2024-2028 in portfolio-based sector plans. The MoFNPT has also conducted a PIM policy revision to include methodologies that incorporate climate-related issues in project selection criteria and project appraisals, and apply the updated project appraisal to at least two major infrastructure projects (*Reform Measure for end-September 2025*). We will also develop a Public-Private Partnership (PPP) framework that reflects climate-related risks and integrate it in the Public Financial Management Act and the Public Procurement Act, with the aim to use the PPP approach to leverage private climate finance (Structural Benchmark for end-March 2025).

86. The government will mainstream climate elements into the budget and fiscal risk management. The ongoing improvements to the Program Performance Based Budgeting (PPBB) framework and its alignment with the priorities of the new NDS is an opportunity to strengthen the planning and budget framework, as well as to integrate climate change dimensions into the budget. As part of the FY2026 budget, the MoFNPT will identify climate-related expenditures including those for adaptation and mitigation in the PPBB starting with the Environment and Climate Change portfolio. In addition, the government will also prepare scenarios of long-term fiscal sustainability analysis under different climate scenarios and publish the results in the Fiscal Risk Statement (*Reform Measure for end-October 2025*). The current fiscal risk analysis will be significantly enhanced by incorporating a comprehensive mapping of fiscal risks from climate change and natural disasters, quantifying the fiscal risks through long-term fiscal sustainability analysis in the context of different climate scenarios and quantifying the discrete risks to infrastructure and public assets from the hazards analyzed in the coastal management policy.

87. The government will strengthen the management of climate-related risks in the financial sector. Specifically, the Central Bank of Seychelles will initiate the implementation of climate-related risk management and disclosure for banks. The CBS will issue draft guidelines for consultation on the management, supervision and disclosure of climate-related financial risks, together with a concept note on CBS climate risk supervision strategy (*Reform Measure, March 2025*). Finalized guidelines will be issued in December 2025 together with regulatory reporting templates for monitoring climate risk exposures, and the CBS will also undertake a data gap analysis for supervision and disclosure of banks' exposure to climate-related risks together with a strategy for filling these gaps (*Reform Measure for end-December 2025*). The CBS will adopt and implement a banking sector climate risk analysis framework (*Reform Measure for end-September 2025*) and publish a climate risk exposure assessment based on this framework (*Reform Measure for end-March 2026*). CBS will also undertake a summary report on climate related financial exposures for at least two major commercial banks (*Reform Measure for May 2026*). These initiatives will be done following the international standards and best practices such as those developed by the Basel Committee on Banking Supervision (BCBS), the Network for Greening the Financial System (NGFS), and the Task Force on Climate-Related Financial Disclosures (TCFD). Together, they will support banks and financial institutions in managing physical and transition risks and help steer private investment toward climate resilient and green investments.

88. To transition and diversify the economy, the government is fully committed to the NDC and will step up adaptation and mitigation actions to support it. Renewables will be at the center of economic recovery strategies to advance economic, social and climate priorities for a sustainable post-covid recovery. The government will scale-up renewable energy investment through the new Electricity Act and Utilities Regulatory Commission Act and their respective operating regulations and will use this opportunity to increase private sector climate investment through innovative approaches such as distributed electricity generation and renewable energy independent power producers (IPPs). The government will ensure that legal frameworks to support rates determination under various schemes to promote adoption of renewable energy technologies, either at a distributed generation level or at utility-scaled systems (Independent Power Producers, IPPs), and a framework for multi-year electricity tariff system are in place for effective implementation (*Reform Measure for end-November 2025*). Work on these legal frameworks has already started and together with the recently approved Electricity and Utilities Regulatory Commission Bills will contribute to the transformation of the electricity sector into a low-carbon one. The government also intends to adopt an e-mobility regulatory framework to scale up the adoption of electric vehicles and supporting infrastructure. This will contribute towards a greener transportation sector. Additionally, government has published new building regulations that integrate climate adaptation and mitigation aspects and thus improve the energy performance of buildings (*Reform Measure for end-March 2024*). Research shows that operational energy use in buildings represent around 30 percent of the final energy consumption. Moreover, the government will adopt a comprehensive national Disaster Risk Financing Strategy (*Reform Measure for end-March 2025*). The government is fully committed to its long-term climate goals—transitioning away from fossil fuels, while it is critical for the economy to diversify revenue sources to promote overall economic resilience and sustainability. The government will ensure that the recently signed oil exploration is carried out with highest international environmental and governance standards and under Seychelles' strict environmental laws, and that this activity does not compromise the country's ambitious NDC.

89. The government will introduce additional green fiscal incentives to promote climate resilience and environmental sustainability. There are currently several fiscal initiatives that are in place. Goods imported to be used in the process of "conservation, generation or production of renewable energy or environment friendly are exempt from the payment of Value added Tax. Government introduced a new Tourism Environmental Sustainability Levy in August 2023 under the environment protection law which is charged to visitors entering the country. In addition, from January 2025, Government will be introducing new changes to the Rebate Scheme for Grid Connected PV Systems (the PV Rebate Scheme), the Seychelles Energy-Efficiency and Renewable Energy Programme (SEEREP) Scheme and introduce a new financing scheme for photovoltaic (PV) systems, with an aim to encourage an increase in adoption of PV technology among the population. These measures will be put in place as an incentive to encourage residential and commercial premises to install PV systems connected to the national electricity grid on their rooftop to power their homes and businesses. In addition, all duties including environment levy were removed on electric vehicles in 2015. Further incentives are being worked on to encourage the importation and use of electric and hybrid vehicles. The government will review its fiscal regime and introduce other incentives to promote climate change and environmental related investment (*Reform Measure for end-March 2026*). Potential fiscal measures include congestion fees, feebates, environmental levy, and/or price incentives for waste reduction as well as new tax incentives to support the development of utility-scaled renewable energy plant based on an Independent Power Producer (IPP) model. Funds for additional support for green finance initiatives between 2025-2027 are SR 78m, this is under the social programmes of government and will be targeting individuals.

Program Monitoring

90. The EFF 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 will take place on or after May 15, 2025, based on end-December 2024 quantitative targets and the fifth review will take place on or after November 15, 2025 based on end-June 2025 quantitative targets. The quantitative targets and structural benchmarks are set out in Tables 1 and 2 of the MEFP respectively. Detailed definitions and reporting requirements for all performance criteria are contained in the Technical Memorandum of Understanding (TMU) attached to this memorandum, which also defines the scope and frequency of data to be reported for program monitoring purposes. For RSF arrangement, progress in the implementation of policies will continue to be monitored through Reform Measures. These are detailed in Table 3 of the MEFP. 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: Quantitative Performance Criteria Under the EFF, 2024–25[1]

(In millions of Seychellois Rupees, unless otherwise indicated)

	March 31, 2024			June 30, 2024			September 30, 2024			December 31, 2024			March 31, 2025				June 30, 2025				September 30, 2025			December 31, 2025		
	IT			Performance Criteria			IT			Performance Criteria			IT				Performance Criteria				IT			IT		
	Prog.	Actual	Status	Prog.	Actual	Status	Prog.	Actual[6]	Status	Prog.	Actual	Status	Second Review	Proposed targets	Actual	Status	Second Review	Proposed targets	Actual	Status	Prog.	Actual	Status	Prog.	Actual	Status
A. Quantitative performance criteria[2]																										
Net domestic financing of the government (ceiling)[3]	-12.3	-805.0	Met	-257.3	-614.3	Met	-450.3	-903.7	Met	-643.3			-213.5	-105.5			-427.0	-211.0			-369.2			-527.4		
Primary balance of the consolidated government (floor)	66.3	128.4	Met	123.3	675.3	Met	215.8	972.8	Met	308.3			102.5	74.7			205.0	149.3			261.4			373.4		
Total revenue (floor)[4]	2,094.4	2,163.2	Met	4,071.5	4,925.7	Met	7,125.2	7,476.5	Met	10,178.8			2,223.3	2,333.2			4,446.6	4,666.4			8,166.3			11,666.1		
Net international reserves of the CBS, millions of US dollars (floor)[5]	540.8	589.1	Met	550.9	595.3	Met	567.0	606.3	Met	583.1			591.4	621.8			599.7	628.8			635.8			649.9		
B. Continuous quantitative performance criteria (ceilings)																										
Accumulation of new external payments arrears	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0			0.0	0.0			0.0	0.0			0.0			0.0		
Accumulation of new domestic payments arrears	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0			0.0	0.0			0.0	0.0			0.0			0.0		
C. Indicative targets (ITs)																										
Net change in public and publicly guaranteed domestic and external debt (ceiling)	230.3	-248.9	Met	523.9	146.1	Met	916.8	-6.8	Met	1,309.7			171.8	204.2			343.5	408.3			714.6			1,020.8		
Priority social expenditure (floor)[2]	367.0	440.0	Met	734.1	910.3	Met	1,283.4	1,305.9	Met	1,650.0			376.6	394.6			753.1	789.2			1,183.8			1,775.6		

Sources: Seychelles authorities; IMF staff estimates and projections.

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

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

[3] If the amount of disbursed external budgetary assistance (excluding RSF) 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 (excluding RSF) net of external debt service obligations exceeds the program forecast, the ceiling will be adjusted downward by the excess disbursement unless it is used to reduce domestic payment arrears. The NDF refers to the central government.

[4] If nominal GDP is lower than projected, the revenues floor will be adjusted by the amount equivalent to the nominal GDP shortfall in percentage terms.

[5] The floor on the CBS's NIR will be adjusted upward (downward) by the amount by which the external non-project loans (excluding RSF) 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.

[6] Data provided by the authorities is preliminary and incomplete.

Table 2. Seychelles: Structural Benchmarks Under the EFF, 2023–25

Actions	Timing	Objective	Status
Fiscal and Public Financial Management Policy			
1. The upgrade of the ASYCUDA system with new modules is completed for the E-Manifest, and Express Courier modules.	End-September 2023	Strengthen revenue mobilization.	Met
2. Cabinet approval of legislative amendments to streamline VAT exemptions, in consultation with IMF staff.	End-December 2023	Strengthen revenue mobilization.	Not met. Implemented with delay in February 2024.
3. Publish annual reporting of budgeted tax expenditure as a part of the annual budget exercise, in consultation with IMF staff.	End-October 2023	Increase transparency on tax expenditures.	Not met. Implemented with delay in November 2023.
4. Seychelles Revenue Commission to launch an automated framework for analyze data from multiple sources, identify risks to revenue, conduct risk analysis, and identify potential audit cases based on predefined criteria and parameters.	End-June 2025	Identify and address tax leakages.	New SB
5. The MoFNPT to compile an inventory of existing tax expenditures on VAT and business tax, together with an estimate of annual revenue cost, and to publish as part of the official budget.	End-December 2024	Increase transparency on tax expenditures and fiscal cost.	
6. Cabinet adoption of a roadmap and timeline of actions necessary to improve the efficiency of public investment, including for climate-related investment, based on the January 2023 PIMA.	End-September 2023	Improve the efficiency of public investment.	Met
7. Cabinet approval of the Public-Private Partnership (PPP) framework including climate-related risks, to be integrated in the Public Financial Management Act and the Public Procurement Act.	End-March 2025	Improve the efficiency of public investment.	
8. (i) MoFNPT to announce in the annual budget circular that projects will not be included in the Medium Term Expenditure Strategy (MTES) if appraisal information is absent or materially incomplete; (ii) MoFNPT to establish and distribute to MDAs a set of minimum criteria to assess projects in the MTES 3-year Public Sector Investment Plan (PSIP), on the basis of which (met or not met) PIMU will recommend to the Inter-Ministerial Committee (IMC) for inclusion/deferral in the current year's budget.	End-June 2024	Improve capital expenditure execution by strengthening the framework and capacity for appraising and selecting capital projects.	Met
9. Cabinet approval of a legislative amendments to the Public Debt Management Act, in line with recommendations provided by IMF capacity development.	End-March 2025	Establish debt management objectives, establish the Minister of Finance's authority to borrow, and clarify the roles and avoid redundancy of technical units.	
10. MoFNPT to establish a database of major and critical fixed government assets managed by MDAs and upload this information to the Fixed Asset Management System.	End-November 2025	Bolster public financial management through accounting of maintenance practices.	New SB
11. Cabinet to approve an action plan to address any deficiencies identified in the Public Expenditure and Financial Accountability (PEFA) assessment.	End-November 2025	Strengthen public expenditure management.	New SB
12. CBS to develop a draft operational framework and launch a 6-month pilot retail investor-oriented purchase window as a prelude to a full-scale buyback facility for the trading of government securities through commercial banks.	End-January 2026	Support the liquidity of bonds and help develop a secondary market for government securities and increase the potential for domestic financing.	New SB
13. Government to conduct a functional review of the public sector over the medium-term and share with Fund staff.	End-December 2025	Enhance managerial efficiency, ensure maximization of current human resources, and improve on service delivery.	New SB

Table 2. Seychelles: Structural Benchmarks Under the EFF, 2023–25 (continued)

Actions	Timing	Objective	Status
Monetary Policy and Financial Stability			
14. Submit amendments to the CBS Act, in consultation with IMF staff, to Cabinet.	End-June 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.	Not met. Implemented with delay in July 2023.
15. CBS to conduct inflation surveys (1 and 5 years) of banks, firms, and households and publish the results on the CBS website.	End-June 2025	Enhance the monetary policy framework.	New SB
16. Submit to the National Assembly amendments to the CBS Act in line with those approved by Cabinet in July 2023 and IMF staff recommendations.	End-June 2024	Address CBS recapitalization needs, in addition to safeguards assessment recommendations.	Not met. Implemented with delay in July 2024.
17. Implement the use of repo operations by CBS for liquidity management.	End-December 2024	Operationalize recent IMF TA recommendations to strengthen the monetary policy operating framework.	
18. Adoption of a reform plan for monetary policy operational reforms and make it public.	End-July 2023	Establish a timeline for the implementation of IMF TA recommendations to strengthen the monetary policy operating framework and instruments, including the adoption of repos and the development of the interbank market.	Met
19. CBS to complete a study on NPLs by including a forward-looking analysis.	End-September 2023	Improve the study conducted by CBS on the impact of unwinding of forbearance measures extended during the pandemic on bank asset quality, through a forward-looking analysis, including stress testing.	Not met. Implemented with delay in November 2023.
20. Cabinet approval for draft Bank Resolution Bill aligned to provide an adequate institutional framework and effective powers for dealing with bank resolution and managing a crisis, thus contributing to financial stability, while limiting the use of public funds and addressing moral hazard concerns.	End-September 2024	Based on IMF TA, 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 November 2024.]
State-Owned Enterprises (SOEs)			
21. 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.	Not met. Implemented with delay in July 2023.
22. Finalize ringfencing the ground-handling operation in Seychelles Airport by transferring the corresponding assets to Seychelles Aviation Handling Company and signing the lease agreement with Air Seychelles.	End-December 2023	Ensure that the ground-handling operations at the Seychelles International Airport, considered an important strategic asset, remain protected from creditors.	Not met. Implemented with delay in March 2024.

Table 2. Seychelles: Structural Benchmarks Under the EFF, 2023–25 (concluded)

Actions	Timing	Objective	Status
Real Sector Reforms			
23. Finalize the terms-of-reference for a study to better understand the dynamics of the tourism sector on the overall economy and its revenue potential.	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. The study would cover all economic activities related to tourism, including accommodation, food and beverage services, recreation and entertainment, transportation, and travel services.	Met
24. Complete the study on the dynamics of tourism on overall economy and on revenue potential and prepare an action plan to maximize the impact of tourism in Seychelles' economy over the long-term.	End-December 2024		Rescheduled to end-May 2025
Financial Integrity/AML/CFT			
25. Amend the Beneficial Ownership (BO) Act to broaden access to the FIU's central BO database to financial institutions, reporting institutions with AML/CFT obligations.	End-December 2024	Advance accuracy and accessibility of beneficial ownership information of entities created in Seychelles (including international business companies, limited partnerships, trusts and foundations).	

Source: IMF staff.

Table 3. Seychelles: Phasing and Reform Measures under the RSF (May 2023–May 2026)

	Reform Measures (RMs)	Tentative Target date	Status	Analytical Underpinning	Capacity Development Support Needs
Reform Area 1. Enabling Climate-Smart Infrastructure Investment and Fiscal Management					
RM1	The Ministry of Finance, National Planning, and Trade (MoFNPT) integrates priority climate adaptation and mitigation objectives stipulated in the National Determined Contribution (NDC) in the forthcoming National Development Strategy 2023-2027, to ensure that investment decisions are consistent with the outcomes expected in the NDC.	**Sep 2023 (1st Review)**	Implemented	Critical area identified in C-PIMA	
RM3	The MoFNPT updates the Public Investment Management Policy and includes (i) the requirements for the use of methodologies to identify net GHG emission, emission reduction alternatives, and climate resilience of projects in ex-ante project appraisals and (ii) project selection criteria that is fully aligned with the NDC; and (iii) applies the updated project appraisal to at least two major infrastructure projects by end-September 2025 and to all new major infrastructure projects going forward as part of the PIM guidelines/process.	**Sep 2025 (5th Review)**		High priority reform identified in C-PIMA; a top priority identified by the authorities to facilitate access to climate finance	FAD support has been provided
RM4	As part of the FY2026 budget process, the MoFNPT (i) identifies climate-related expenditures, including those for adaptation and mitigation, in Program Performance Based Budget (PPBB) and reports a summary climate statement in PPBB document, and (ii) conducts long-term fiscal sustainability analysis under different climate scenarios, assess the main discrete fiscal risks related to climate change.	**Sep 2025 (5th Review)**		High priority reform identified in C-PIMA; climate finance tracking a top priority identified by the authorities	FAD support has been provided for item (i) and needed for item (ii).
Reform Area 2. Financial Sector Resilience and Climate Finance Mobilization					
RM5	To scale up climate finance, (i) the cabinet adopts a national climate finance mobilization strategy that comprehensively covers the financing instruments to unlock international climate finance from public and private sources; and (ii) the MoFNPT, together with relevant sector ministries, develop and submit a pipeline of appraised climate-related projects for recommendation by the Inter-Ministerial Committee and approval by the MoFNPT as part of the budget process.	**Sep 2024 (3rd Review)**	[On track to be implemented by November 28]	A high priority jointly determined with the authorities and development partners	Climate finance advisor, MCM to provide input
RM6	The Central Bank of Seychelles (CBS) (i) issues draft guidelines for consultation on management and supervision of climate-related financial risks, consistent with international standards (BCBS 2022); (ii) issues draft guidelines for consultation on disclosure of climate related financial risks in accordance with international standards (BCBS—expected to be published by end-2024); (iii) issues a concept note for consultation with stakeholders/banks, to be circulated at the same time with the guidelines under (ii), and to include summary information on the key components of CBS' climate risk supervision strategy.	**Mar 2025 (4th Review)**		Important reform area based on Climate Change Policy Assessment	MCM is providing support.
RM6.1	The Central Bank of Seychelles (CBS) (i) issues finalized guidelines on management and supervision of climate-related financial risks (based on BCBS 2022); (ii) completes a data gap analysis for supervision and disclosure of banks' exposures to climate-related financial risks consistent with international standards (BCBS - expected to be published by end-2024); (iii) publishes a strategy for bridging data gaps.	**Dec 2025 (6th Review)**		Important reform area based on Climate Change Policy Assessment	MCM is providing support.
RM6.2	The Central Bank of Seychelles (CBS) (i) issues finalized guidelines on disclosure of banks' exposures to climate-related financial risks consistent with international standards (BCBS 2024); (ii) establishes regulatory reporting templates for monitoring climate risk exposures.	**Dec 2025 (6th Review)**		Important reform area based on Climate Change Policy Assessment	MCM is providing support.
RM6.3	The Central Bank of Seychelles (CBS) publishes on the CBS website a summary report on climate-related financial risk exposure which covers at least two major commercial banks.	**May 2026 (6th Review)**		Important reform area based on Climate Change Policy Assessment	MCM is providing support.
RM9	The CBS adopts and implements a banking sector climate risk analysis framework and publishes a summary of the framework on the CBS website.	**Sep 2025 (5th Review)**		Important reform area based on Climate Change Policy Assessment	USOTA and IMF (MCM) already providing support.
RM9.1	The CBS publishes a climate risk exposure assessment of the banking sector based on the climate risk analysis framework.	**Mar 2026 (6th Review)**		Important reform area based on Climate Change Policy Assessment	USOTA and IMF (MCM) already providing support.
RM10	In accordance with the national climate finance mobilization strategy adopted in RM5, (i) the cabinet adopts an implementation framework including institutional mechanisms, financing modalities, and necessary guidelines; and (ii) the MoFNPT, together with relevant sector ministries, secure* funding for at least one major[2/] adaptation or mitigation project that contributes directly to the NDC. (*funding secured in the budget and/or loan agreement signed)	**Oct 2025 (5th Review)**		A high priority jointly determined with the authorities and development partners	Climate finance advisor, MCM to provide input.

Table 3. Seychelles: Phasing and Reform Measures under the RSF (May 2023–May 2026) (concluded)

	Reform Measures (RMs)	Tentative Target date	Status	Analytical Underpinning	Capacity Development Support Needs
Reform Area 3. Climate Mitigation and Adaptation Policy and Disaster Risk Financing					
RM2	The cabinet of ministers approves the new draft building legislation that integrate climate adaptation and mitigation aspects.	**Mar 2024 (2nd Review)**	Implemented	Critical Area identified in C-PIMA	
RM7	The MoFNPT, together with the Disaster Risk Management Division, develop and adopt a comprehensive national Disaster Risk Financing Strategy (DRSF) considering complementary instruments that meet the financing needs.	**Mar 2025 (4th Review)**		Critical Area identified in C-PIMA	
RM8	To scale-up renewable energy in the context of the new Electricity Act and the NDC, (i) the Utility Regulatory Commission (URC) adopts and implements a rates determination framework for renewable energy sources under the net billing and gross metering schemes and publishes the cumulative installed capacity of distributed renewable energy in accordance with the Distributed Generation System Regulations, (ii) the Ministry of Agriculture, Climate Change, and Environment (MoACCE) adopts a Power Procurement Plan from independent power producers (IPPs) that is consistent with the Integrated Electricity Plan, and the URC approves a competitive selection process for renewable energy IPPs in accordance with the IPP Regulations, and (iii) the URC approves an implementation framework for a multi-year tariff system for end-use electricity tariffs that are cost-reflective and publishes tariff trajectory in accordance with the Electricity Tariff Setting Regulations.	**April 2025 (4th Review)**		Based on discussion with the authorities during PIMA mission; Top priority reform identified by the authority	WB providing technical input to sub-regulations.
RM11	The MoFNPT introduces green fiscal and tax incentives to promote positive environmental outcomes and reduce greenhouse gas emissions to support the NDC (for example, congestion fees, feebates, environmental levy, and/or price incentives for waste reduction).	**Mar 2026 (6th Review)**		Top priority reform identified by the authority; Important reform area based on Climate Change Policy Assessment	

Source: IMF staff.

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, including the Resilience and Sustainability Facility (RSF), 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 nominal gross domestic product, in percentage terms, 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. Note that, NIR exclude blocked assets. Blocked assets mostly consist of commercial banks foreign deposits and project accounts. Since those assets are controlled and readily available to the CBS to meet BOP needs, they are included in gross international reserves (GIR).

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 original 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, including the RSF, 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 Public and Publicly Guaranteed Domestic and External Debt

21. The public and publicly 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 programs of the 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.

SEYCHELLES

December 2, 2024

THIRD REVIEWS UNDER THE ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY AND REQUEST FOR REPHASING OF ACCESS UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—SUPPLEMENTARY INFORMATION

Prepared by African Department

This supplement provides additional information to the Staff Report (EBS/24/123) circulated to the Executive Board on November 21, 2024. It includes an update on the status of one structural benchmark under the EFF, and one Reform Measure under the RSF. The supplement does not change either the staff recommendations or the thrust of the staff appraisal.

1. **This supplement to the staff report summarizes key developments with respect to implementation of measures under the EFF and RSF since the staff report was issued.** Staff projections and the thrust of the staff appraisal remain unchanged.

2. **On November 27, 2024, the Cabinet formally approved the Seychelles Climate Finance Resource Mobilization Strategy 2025 – 2030.** This followed a round of consultation with internal and external stakeholders, including the Fund. This completes the required steps under RM5.

3. **On October 16, 2024, the Cabinet approved the draft Bank Recovery and Resolution Act.** This was a structural benchmark under the EFF for end-September 2024.

4. **These developments are reflected in a revised Table 2 and Table 3 (attached).**

Table 2. Seychelles: Structural Benchmarks Under the EFF, 2023–25

Actions	Timing	Objective	Status
Fiscal and Public Financial Management Policy			
1. The upgrade of the ASYCUDA system with new modules is completed for the E-Manifest, and Express Courier modules.	End-September 2023	Strengthen revenue mobilization.	Met
2. Cabinet approval of legislative amendments to streamline VAT exemptions, in consultation with IMF staff.	End-December 2023	Strengthen revenue mobilization.	Not met. Implemented with delay in February 2024.
3. Publish annual reporting of budgeted tax expenditure as a part of the annual budget exercise, in consultation with IMF staff.	End-October 2023	Increase transparency on tax expenditures.	Not met. Implemented with delay in November 2023.
4. Seychelles Revenue Commission to launch an automated framework for analyze data from multiple sources, identify risks to revenue, conduct risk analysis, and identify potential audit cases based on predefined criteria and parameters.	End-June 2025	Identify and address tax leakages.	New SB
5. The MoFNPT to compile an inventory of existing tax expenditures on VAT and business tax, together with an estimate of annual revenue cost, and to publish as part of the official budget.	End-December 2024	Increase transparency on tax expenditures and fiscal cost.	
6. Cabinet adoption of a roadmap and timeline of actions necessary to improve the efficiency of public investment, including for climate-related investment, based on the January 2023 PIMA.	End-September 2023	Improve the efficiency of public investment.	Met
7. Cabinet approval of the Public-Private Partnership (PPP) framework including climate-related risks, to be integrated in the Public Financial Management Act and the Public Procurement Act.	End-March 2025	Improve the efficiency of public investment.	
8. (i) MoFNPT to announce in the annual budget circular that projects will not be included in the Medium Term Expenditure Strategy (MTES) if appraisal information is absent or materially incomplete; (ii) MoFNPT to establish and distribute to MDAs a set of minimum criteria to assess projects in the MTES 3-year Public Sector Investment Plan (PSIP), on the basis of which (met or not met) PIMU will recommend to the Inter-Ministerial Committee (IMC) for inclusion/deferral in the current year's budget.	End-June 2024	Improve capital expenditure execution by strengthening the framework and capacity for appraising and selecting capital projects.	Met
9. Cabinet approval of a legislative amendments to the Public Debt Management Act, in line with recommendations provided by IMF capacity development.	End-March 2025	Establish debt management objectives, establish the Minister of Finance's authority to borrow, and clarify the roles and avoid redundancy of technical units.	
10. MoFNPT to establish a database of major and critical fixed government assets managed by MDAs and upload this information to the Fixed Asset Management System.	End-November 2025	Bolster public financial management through accounting of maintenance practices.	New SB
11. Cabinet to approve an action plan to address any deficiencies identified in the Public Expenditure and Financial Accountability (PEFA) assessment.	End-November 2025	Strengthen public expenditure management.	New SB
12. CBS to develop a draft operational framework and launch a 6-month pilot retail investor-oriented purchase window as a prelude to a full-scale buyback facility for the trading of government securities through commercial banks.	End-January 2026	Support the liquidity of bonds and help develop a secondary market for government securities and increase the potential for domestic financing.	New SB
13. Government to conduct a functional review of the public sector over the medium-term and share with Fund staff.	End-December 2025	Enhance managerial efficiency, ensure maximization of current human resources, and improve on service delivery.	New SB

Table 2. Seychelles: Structural Benchmarks Under the EFF, 2023–25 (continued)

Actions	Timing	Objective	Status
Monetary Policy and Financial Stability			
14. Submit amendments to the CBS Act, in consultation with IMF staff, to Cabinet.	End-June 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.	Not met. Implemented with delay in July 2023.
15. CBS to conduct inflation surveys (1 and 5 years) of banks, firms, and households and publish the results on the CBS website.	End-June 2025	Enhance the monetary policy framework.	New SB
16. Submit to the National Assembly amendments to the CBS Act in line with those approved by Cabinet in July 2023 and IMF staff recommendations.	End-June 2024	Address CBS recapitalization needs, in addition to safeguards assessment recommendations.	Not met. Implemented with delay in July 2024.
17. Implement the use of repo operations by CBS for liquidity management.	End-December 2024	Operationalize recent IMF TA recommendations to strengthen the monetary policy operating framework.	
18. Adoption of a reform plan for monetary policy operational reforms and make it public.	End-July 2023	Establish a timeline for the implementation of IMF TA recommendations to strengthen the monetary policy operating framework and instruments, including the adoption of repos and the development of the interbank market.	Met
19. CBS to complete a study on NPLs by including a forward-looking analysis.	End-September 2023	Improve the study conducted by CBS on the impact of unwinding of forbearance measures extended during the pandemic on bank asset quality, through a forward-looking analysis, including stress testing.	Not met. Implemented with delay in November 2023.
20. Cabinet approval for draft Bank Resolution Bill aligned to provide an adequate institutional framework and effective powers for dealing with bank resolution and managing a crisis, thus contributing to financial stability, while limiting the use of public funds and addressing moral hazard concerns.	End-September 2024	Based on IMF TA, 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 November 2024.
State-Owned Enterprises (SOEs)			
21. 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.	Not met. Implemented with delay in July 2023.
22. Finalize ringfencing the ground-handling operation in Seychelles Airport by transferring the corresponding assets to Seychelles Aviation Handling Company and signing the lease agreement with Air Seychelles.	End-December 2023	Ensure that the ground-handling operations at the Seychelles International Airport, considered an important strategic asset, remain protected from creditors.	Not met. Implemented with delay in March 2024.

Table 2. Seychelles: Structural Benchmarks Under the EFF, 2023–25 (concluded)

Actions	Timing	Objective	Status
Real Sector Reforms			
23. Finalize the terms-of-reference for a study to better understand the dynamics of the tourism sector on the overall economy and its revenue potential.	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. The study would cover all economic activities related to tourism, including accommodation, food and beverage services, recreation and entertainment, transportation, and travel services.	Met
24. Complete the study on the dynamics of tourism on overall economy and on revenue potential and prepare an action plan to maximize the impact of tourism in Seychelles' economy over the long-term.	End-December 2024		Rescheduled to end-May 2025
Financial Integrity/AML/CFT			
25. Amend the Beneficial Ownership (BO) Act to broaden access to the FIU's central BO database to financial institutions, reporting institutions with AML/CFT obligations.	End-December 2024	Advance accuracy and accessibility of beneficial ownership information of entities created in Seychelles (including international business companies, limited partnerships, trusts and foundations).	

Source: IMF staff.

Table 3. Seychelles: Phasing and Reform Measures Under the RSF, (May 2023–May 2026)

	Reform Measures (RMs)	Tentative Target Date	Status	Analytical Underpinning	Capacity Development Support Needs
Reform Area 1. Enabling Climate-Smart Infrastructure Investment and Fiscal Management					
RM1	The Ministry of Finance, National Planning, and Trade (MoFNPT) integrates priority climate adaptation and mitigation objectives stipulated in the National Determined Contribution (NDC) in the forthcoming National Development Strategy 2023-2027, to ensure that investment decisions are consistent with the outcomes expected in the NDC.	**Sep 2023 (1st Review)**	Implemented	Critical area identified in C-PIMA	
RM3	The MoFNPT updates the Public Investment Management Policy and includes (i) the requirements for the use of methodologies to identify net GHG emission, emission reduction alternatives, and climate resilience of projects in ex-ante project appraisals and (ii) project selection criteria that is fully aligned with the NDC; and (iii) applies the updated project appraisal to at least two major infrastructure projects by end-September 2025 and to all new major infrastructure projects going forward as part of the PIM guidelines/process.	**Sep 2025 (5th Review)**		High priority reform identified in C-PIMA; a top priority identified by the authorities to facilitate access to climate finance	FAD support has been provided
RM4	As part of the FY2026 budget process, the MoFNPT (i) identifies climate-related expenditures, including those for adaptation and mitigation, in Program Performance Based Budget (PPBB) and reports a summary climate statement in PPBB document, and (ii) conducts long-term fiscal sustainability analysis under different climate scenarios, assess the main discrete fiscal risks related to climate change.	**Sep 2025 (5th Review)**		High priority reform identified in C-PIMA; climate finance tracking a top priority identified by the authorities	FAD support has been provided for item (i) and needed for item (ii).
Reform Area 2. Financial Sector Resilience and Climate Finance Mobilization					
RM5	To scale up climate finance, (i) the cabinet adopts a national climate finance mobilization strategy that comprehensively covers the financing instruments to unlock international climate finance from public and private sources; and (ii) the MoFNPT, together with relevant sector ministries, develop and submit a pipeline of appraised climate-related projects for recommendation by the Inter-Ministerial Committee and approval by the MoFNPT as part of the budget process.	**Sep 2024 (3rd Review)**	Implemented November 2024	A high priority jointly determined with the authorities and development partners	Climate finance advisor, MCM to provide input
RM6	The Central Bank of Seychelles (CBS) (i) issues draft guidelines for consultation on management and supervision of climate-related financial risks, consistent with international standards (BCBS 2022); (ii) issues draft guidelines for consultation on disclosure of climate related financial risks in accordance with international standards (BCBS—expected to be published by end-2024); (iii) issues a concept note for consultation with stakeholders/banks, to be circulated at the same time with the guidelines under (ii), and to include summary information on the key components of CBS' climate risk supervision strategy.	**Mar 2025 (4th Review)**		Important reform area based on Climate Change Policy Assessment	MCM is providing support.
RM6.1	The Central Bank of Seychelles (CBS) (i) issues finalized guidelines on management and supervision of climate-related financial risks (based on BCBS 2022); (ii) completes a data gap analysis for supervision and disclosure of banks' exposures to climate-related financial risks consistent with international standards (BCBS - expected to be published by end-2024); (iii) publishes a strategy for bridging data gaps.	**Dec 2025 (6th Review)**		Important reform area based on Climate Change Policy Assessment	MCM is providing support.
RM6.2	The Central Bank of Seychelles (CBS) (i) issues finalized guidelines on disclosure of banks' exposures to climate-related financial risks consistent with international standards (BCBS 2024); (ii) establishes regulatory reporting templates for monitoring climate risk exposures.	**Dec 2025 (6th Review)**		Important reform area based on Climate Change Policy Assessment	MCM is providing support.
RM6.3	The Central Bank of Seychelles (CBS) publishes on the CBS website a summary report on climate-related financial risk exposure which covers at least two major commercial banks.	**May 2026 (6th Review)**		Important reform area based on Climate Change Policy Assessment	MCM is providing support.
RM9	The CBS adopts and implements a banking sector climate risk analysis framework and publishes a summary of the framework on the CBS website.	**Sep 2025 (5th Review)**		Important reform area based on Climate Change Policy Assessment	USOTA and IMF (MCM) already providing support.
RM9.1	The CBS publishes a climate risk exposure assessment of the banking sector based on the climate risk analysis framework.	**Mar 2026 (6th Review)**		Important reform area based on Climate Change Policy Assessment	USOTA and IMF (MCM) already providing support.
RM10	In accordance with the national climate finance mobilization strategy adopted in RM5, (i) the cabinet adopts an implementation framework including institutional mechanisms, financing modalities, and necessary guidelines; and (ii) the MoFNPT, together with relevant sector ministries, secure* funding for at least one major[2/] adaptation or mitigation project that contributes directly to the NDC. (*funding secured in the budget and/or loan agreement signed)	**Oct 2025 (5th Review)**		A high priority jointly determined with the authorities and development partners	Climate finance advisor, MCM to provide input.

Table 3. Seychelles: Phasing and Reform Measures Under the RSF, (May 2023–May 2026) (concluded)

	Reform Measures (RMs)	Tentative Target Date	Status	Analytical Underpinning	Capacity Development Support Needs
RM9	The CBS adopts and implements a banking sector climate risk analysis framework and publishes a summary of the framework on the CBS website.	**Sep 2025 (5th Review)**		Important reform area based on Climate Change Policy Assessment	USOTA and IMF (MCM) already providing support.
RM9.1	The CBS publishes a climate risk exposure assessment of the banking sector based on the climate risk analysis framework.	**Mar 2026 (6th Review)**		Important reform area based on Climate Change Policy Assessment	USOTA and IMF (MCM) already providing support.
RM10	In accordance with the national climate finance mobilization strategy adopted in RM5, (i) the cabinet adopts an implementation framework including institutional mechanisms, financing modalities, and necessary guidelines; and (ii) the MoFNPT, together with relevant sector ministries, secure* funding for at least one major[2/] adaptation or mitigation project that contributes directly to the NDC. (*funding secured in the budget and/or loan agreement signed)	**Oct 2025 (5th Review)**		A high priority jointly determined with the authorities and development partners	Climate finance advisor, MCM to provide input.

	Reform Measures (RMs)	Tentative Target Date	Status	Analytical Underpinning	Capacity Development Support Needs
Reform Area 3. Climate Mitigation and Adaptation Policy and Disaster Risk Financing					
RM2	The cabinet of ministers approves the new draft building legislation that integrate climate adaptation and mitigation aspects.	**Mar 2024 (2nd Review)**	Implemented	Critical Area identified in C-PIMA	
RM7	The MoFNPT, together with the Disaster Risk Management Division, develop and adopt a comprehensive national Disaster Risk Financing Strategy (DRSF) considering complementary instruments that meet the financing needs.	**Mar 2025 (4th Review)**		Critical Area identified in C-PIMA	
RM8	To scale-up renewable energy in the context of the new Electricity Act and the NDC, (i) the Utility Regulatory Commission (URC) adopts and implements a rates determination framework for renewable energy sources under the net billing and gross metering schemes and publishes the cumulative installed capacity of distributed renewable energy in accordance with the Distributed Generation System Regulations, (ii) the Ministry of Agriculture, Climate Change, and Environment (MoACCE) adopts a Power Procurement Plan from independent power producers (IPPs) that is consistent with the Integrated Electricity Plan, and the URC approves a competitive selection process for renewable energy IPPs in accordance with the IPP Regulations, and (iii) the URC approves an implementation framework for a multi-year tariff system for end-use electricity tariffs that are cost-reflective and publishes tariff trajectory in accordance with the Electricity Tariff Setting Regulations.	**April 2025 (4th Review)**		Based on discussion with the authorities during PIMA mission; Top priority reform identified by the authority	WB providing technical input to sub-regulations.
RM11	The MoFNPT introduces green fiscal and tax incentives to promote positive environmental outcomes and reduce greenhouse gas emissions to support the NDC (for example, congestion fees, feebates, environmental levy, and/or price incentives for waste reduction).	**Mar 2026 (6th Review)**		Top priority reform identified by the authority; Important reform area based on Climate Change Policy Assessment	

Statement by Mr. Seong-Wook Kim, Executive Director for Seychelles, and Mr. Lenny Palit, Advisor to the Executive Director
December 9, 2024

The Seychellois authorities would like to thank the Executive Board, Management, and Staff for their ongoing support. Furthermore, they would like to express their appreciation to Mr. Schneider and the mission team for their commitment in closing the third reviews under the EFF and RSF, with emphasis on the discussions for the proposed rephasing of the RSF Reform Measures.

As evidenced by this review and the historical track record, Seychelles remains strongly committed to measures set under these programs. To improve the alignment of budget cycle with the intensity of reforms, and in recognition of human resource constraints, the authorities wish to better embed recent policies, warranting a rephasing of certain reform measures. Moreover, relatively new areas of policy guidance on climate change within the financial sector necessitates a phased approach mindful of the fact that Fund knowledge in the area remains a work in progress.

With the launch of the National Development Strategy (NDS), the authorities have ensured that program outcomes support long run objectives, including acknowledgment of the significant funding gap in meeting the Nationally Determined Contributions (NDCs). Seychelles remains highly vulnerable given its income classification and limited access to commercial funding, with climate change risks expected to further exacerbate conditions. Therefore, Fund support will remain critical in not only continuing the post-pandemic recovery but also in enhancing conditions to address longstanding structural challenges the country faces.

Recent Economic Developments

While post-pandemic growth has continued, ongoing geopolitical tensions have resulted in downward revisions. Relative to an initial growth forecast of 3.7 percent for 2024 and 4.3 percent for 2025, weakness in the services sector has resulted in revised forecasts of 3.0 percent and 4.1 percent respectively. While visitor arrivals have remained broadly unchanged, lower average expenditure per head and large declines from previously high yielding markets have impacted earnings from the services sector. With regards to other sectors, the supply side shock following the December quarry explosion which impacted the extractive, construction and retail sectors, has moderated and a more buoyant outlook is expected in construction and related sectors in 2025.

The underperformance in tourism has widened the current account deficit but partially offset by improved fisheries exports. As such, the current account deficit for 2024 has been revised to 10.7 percent of GDP compared to the 2024 projection of 7.3 percent of GDP under the previous review. Nonetheless, financial flows linked to a major FDI project are expected to lead to an improved balance of payments position, and the deficit is expected to narrow in the medium term.

Fiscal performance continues to exceed the program forecast. The primary surplus in 2024 is projected to be 1.1 percent of GDP compared to the program forecast of 1.0 percent. This is a result of higher tax revenue, partially offset by increased current expenditures. For 2025, the authorities remain committed to further fiscal consolidation, anchored by a medium run debt target. Relative to the previous review, consolidation will follow a revised path in view of the updated outlook, recent wage and social spending revisions, and higher capital expenditures. Wage adjustments are expected to be offset by a freeze of new hiring with the exception of identified priority positions, whereas social spending is considerate of old age poverty effects and partially absorbs previously temporary measures following the 2022 price shock. Moving forward, continued implementation of priority areas under the NDS and a functional review of government are likely to provide nascent guidance for future rightsizing objectives, inclusive of the positive impact of the digitization drive under the Digital Economy Agenda.

Annual inflation is forecasted to be 0.5 percent in 2024, primarily driven by revised utility prices and a weaker exchange rate. Annual inflation has been negative since October 2023 but expected to be positive by the end of 2024, with price dynamics over the period supported by relatively stable import prices. Inflationary pressures are expected to increase in 2025, with a weaker Rupee and developments in the euro-dollar cross rate an added risk.

The overall outlook remains cautiously optimistic but vulnerable to external shocks. In particular, recent underperformance in the tourism sector warrants greater caution and highlights the need to explore value-added activities within the sector and opportunities for economic diversification. In the short run and due to high import dependence, global commodity price shocks would present significant risks to inflation, foreign reserves and potentially, social stability given the political narratives and public expectations.

Fiscal Policy

The authorities remain committed to improving governance and sustaining fiscal consolidation, with a debt target of around 50 percent of GDP by 2029. All indicative targets for September were met, with December Quantitative Performance Criteria (QPC) targets on track. Some rescheduling of select Structural Benchmarks and Reform Measures are warranted, including the implementation of the new Public Investment Management (PIM) policy. This is due to proposed structural benchmarks relating to Public Investment Management Assessment (PIMA) and Climate-PIMA (C-PIMA) recommendations, the prioritization of resources following the December calamity and improving alignment with the 2026 budget cycle.

The authorities remain committed to medium-term tax reforms with the Cabinet approving a phased action plan for VAT reforms from 2024 to 2026. The Public Procurement Act and the

Public Finance Management Act reforms will facilitate the development of a Public-Private Partnership framework inclusive of climate-related risks aimed at opening new avenues of financing. With regards to taxation and as a new Structural Benchmark for 2025, the Seychelles Revenue Commission will launch an automated framework to address tax leakages and identify potential audit cases based on predefined criteria and parameters.

The authorities continue to build the resource capacity of the Medium-Term Fiscal Framework, with recent Fund assistance highlighting the need for enhanced linkages between the budget and the NDS. On governance, the authorities remain committed to strengthening its Public Finance Management Regulatory Framework, with recent reviews of critical laws and phased installation of the Integrated Financial Management and Information System (IFMIS) expected to enhance oversight, efficiency and integrate relevant digital systems. Work remains ongoing on the Results Based Management framework with leadership quality enhanced following capacity building facilitated through ongoing bilateral support.

Efforts for a more targeted approach to social spending remain ongoing with recently increased political rhetoric impacting public expectations. A revised socioeconomic needs assessment incorporating non-income dimensions of poverty is expected to be implemented in 2025 by the Agency of Social Protection in partnership with relevant Departments and Agencies. Relatedly and consistent with the long run objective to bolster human capital and given the multifaceted determinants of poverty, the authorities sought the assistance of the World Bank for an in-depth analysis of youth at risk factors, with the objective of deriving a costed action plan with clear outcomes. Mindful of the digitization agenda, this multisectoral approach will require integrated digital systems to improve social targeting. With regards to old age care, the Homecare Agency will adopt a standardized assessment based on international best practice, while mindful of the need for long run financing sustainability.

Monetary and Financial Stability

The Monetary Policy Rate was lowered for the second quarter of 2024 given the inflation outlook and economic conditions. Private credit growth is projected to accelerate to 10 percent by end-2024, with the volume of credit expected to be at pre-pandemic levels. While real interest rates remain positive, inflationary risks persist with the Central Bank of Seychelles (CBS) ready to respond to shocks. However, concerns remain on the strength and channels of the transmission mechanism, with limited reaction from banks observed despite improved open market operations and communications in more recent times. To further enhance the monetary policy framework and help shape expectations, CBS will conduct inflation surveys of banks, firms, and households and publish the results as a new Structural Benchmark. CBS will continue to enhance its policy toolkit with further Fund assistance. Relatedly and following legislative endorsement on a revised CBS Act in August, CBS's balance sheet was strengthened, with parameters consistent with Fund guidance and improving CBS autonomy.

CBS is committed to maintaining a flexible exchange rate regime and building buffers against external shocks. CBS will limit interventions for reserve accumulation purposes and to smooth excess volatility, mindful of adhering to the Fund's exchange rate policies. As of December 3, Gross Reserves stood at US$752 million, with Net International Reserves (NIR) at US$606 million, exceeding the December target by US$23 million, and equivalent to 3.5 months of import cover. Between January and June, accumulated foreign currency within the financial system resulted in CBS purchasing an additional US$47 million, allowing the authorities to lock in this overperformance with higher targets set for future reserve coverage.

CBS remains committed to financial stability and implementing the safeguards recommendations. Commercial banks remain well capitalized, liquid, and profitable, with Non-Performing Loans (NPLs) as a share of gross loans decreasing from 8.2 percent at end-2023 to 6.3 percent in October. The authorities note that this is not a systemic matter despite concentration within the tourism sector, with a large portion attributed to a single bank. In October, the Cabinet endorsed the Bank Resolution Framework, which strengthens the ability of CBS in managing a crisis. Furthermore, CBS has further enhanced its supervisory framework by reinstituting quarterly off-site risk assessments as part of its supervision as per Fund guidance, with further improvement in oversight expected with the implementation of a simplified risk-based supervision (RBS) framework. Regulations linked to the Beneficial Ownership (BO) Act to enhance accuracy and accessibility of data in line with AML/CFT obligations are expected to be issued prior to the end of December.

Structural Reforms

The Transformative Economic Agenda (TEA) aims to diversify the economic base, and improve value add and synergies in existing sectors. The authorities have taken steps to embed the NDS within the MTFF by identifying relevant programs and enhancing synergies between the planning and executions aspects of the budget. Work remains ongoing across multiple sectors with the authorities highlighting infrastructure gaps and land scarcity as key short run challenges in improving diversification and increasing value addition. The tourism study, a structural benchmark for December, has been delayed to 2025 owing to capacity constraints and timing within the budget cycle.

Enhanced governance remains a priority. The authorities are cognizant that improved public trust remains critical during the program and is necessary to maintain social stability. An audit of six key State-Owned Enterprises (SOEs) started in September, with the governance audits and operational assessments expected to be finalized by end-March 2025. In addition, the Public Enterprises Monitoring Commission (PEMC) published its annual report in June 2024 in accordance with the new legislation to enhance transparency and accountability of public enterprises.

The Digital Economy Agenda aims to improve government efficiency and enhance the use of technology as a substitute and enabler. Progress remains ongoing on the IFMIS, Automated System for Customs Data (ASYCUDA), digitalizing tax returns, the social registry, and integrating data systems across the Agency of Social Protection, homecare and education, among others. The Human Resource Management System is expected to be operational by the 2026 budget cycle and aims to integrate key HR functions and automate currently paper-based processes. However, implementation of the Health Information System has been delayed to early 2025.

RSF and Climate Change Policy

Climate change is an existential threat with Seychelles facing a substantial funding gap. Thus, the authorities remain committed to implementing adaptation plans and integrating climate change considerations into the public investment management and budget processes through the review of the PIM policy and improved budget tagging, in future facilitated by IFMIS.

Mobilizing climate finance remains a priority with the RSF serving as a catalyst. The authorities remain engaged with the Commonwealth Climate Finance Access Hub (CCFAH) to scale up financing and are expected to facilitate interactions with other agents in 2025. In view of this, the Cabinet adopted a national climate finance mobilization strategy to identify the financing instruments needed to unlock international climate finance from public and private sources.