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Seychelles: Second Review Under the Stand-By Arrangement, Request for Waivers of Nonobservance of Performance Criteria, and Financing Assurance Review—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Seychelles

In the context of the second review under the Stand-By Arrangement, request for waivers of nonobservance of performance criteria, and financing assurance review for Seychelles, the following documents have been released and are included in this package:

- The staff report for the Second Review Under the Stand-By Arrangement, Request for Waivers of Nonobservance of Performance Criteria, and Financing Assurance Review, prepared by a staff team of the IMF, following discussions that ended on May 18, 2009, with the officials of Seychelles on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 16, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Press Release summarizing the views of the Executive Board as expressed during its June 30, 2009, discussion of the staff report that completed the review.

- A statement by the Executive Director for Seychelles.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Seychelles *
Memorandum of Economic and Financial Policies by the authorities of Seychelles *
Technical Memorandum of Understanding*
*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

SEYCHELLES

Second Review Under the Stand-By Arrangement, Financing Assurances Review, and Modification of Performance Criteria

Prepared by the African Department
(In consultation with other Departments)

Approved by Roger Nord and Aasim Husain

June 16, 2009

SDR 7.1 million has been disbursed to date under the two-year Stand-By Arrangement (SBA) (SDR 17.6 million; 200 percent of quota), approved on November 14, 2008. SDR 0.88 million is available upon completion of the second review.

Discussions were held in Victoria May 4–18, 2009. Staff met with President James Michel, Minister of Finance Danny Faure, Governor Pierre Laporte of the Central Bank of Seychelles (CBS), other senior government officials, and representatives of the private sector, civil society and the diplomatic community. The mission was headed by Paul Mathieu, and included Nikoloz Gigineishvili, Patrick Imam (all AFR), Nkunde Mwase (SPR), and Magdalena Polan (MCM).

The program is on track and macroeconomic stabilization has advanced rapidly. The authorities are implementing the program with determination and a high degree of ownership. All quantitative performance criteria (PCs) at end-March 2009 were met. One of two structural benchmarks for end April was missed, reflecting capacity constraints in issuing new bank capitalization norms, but was completed in late May.

The program has been updated to reflect the progress in macro stabilization, but also the impact of global recession and heightened piracy. The revised program profile locks-in a significant portion of the fiscal over performance of the first quarter, while allowing for some additional spending in priority areas. At the same time, the tighter fiscal stance and rapid disinflation will permit a measured easing of monetary policy to support lending and private sector growth. The authorities are requesting modification of the quantitative performance criteria.

Seychelles has made major progress in its public debt restructuring strategy. In mid-April Paris Club creditors granted exceptional treatment under the Evian approach. Good faith discussions with other creditors are being pursued and the authorities are in compliance with the Fund's lending into arrears policy.

Program design: In light of the progress on macroeconomic stabilization and significantly reduced risks to the program, it is proposed that the program reviews be put on a semi-annual basis. Performance criteria, financing assurances reviews, and purchases would remain on a quarterly basis.

The authorities continue to make strong progress in addressing the areas of concern identified in the safeguards assessment, including a new central bank act that meets international best practice.

Contents Page

EXECUTIVE SUMMARY

- **Macroeconomic performance in the first four months of 2009 was more favorable than anticipated in the program**. CPI inflation was reduced markedly and interest rates followed a sharp downward trend from a peak early in the year. After stabilizing, the nominal exchange rate appreciated strongly against the U.S. dollar. government revenue was more buoyant and the primary surplus was well above target making possible a large repayment of domestic public debt. The capitalization of the financial system has improved and remains adequate.

- **However, Seychelles is being hard hit by global recession and real GDP is expected to decline 11 percent in 2009**. While tourism is faring better than expected, construction is down sharply on delays in FDI projects and industrial output is off significantly. In addition, heightened piracy activity in and around Seychelles' territorial waters is affecting the tuna industry as well as shipping and pleasure sailing.

- **Structural reforms are being implemented with determination**. The initial steps of a profound structural reform are being put in place, notably on a fundamental reform of tax policy and a strengthening of governance and monitoring of the parastatal sector.

- **The program has been updated to reflect the progress in macro stabilization, but also the impact of global recession and heightened piracy**. The revised program profile aims to lock in a significant portion of the fiscal over performance of the first quarter. The tighter fiscal stance and rapid disinflation will permit a measured easing of monetary policy to support lending and private sector growth.

- **Program financing gaps are higher for 2009–10, reflecting the impact of piracy on tuna exports**. These gaps are expected to be closed by additional program grant support from the EU and through the public external debt restructuring.

- **Staff recommends completion of the second review under the SBA**. All quantitative PCs were observed and the structural reform program remains on track.

- **As the risks to the program have decreased significantly, reflecting the major progress in macroeconomic stabilization, staff proposes that the program monitoring revert to semiannual reviews**. Quarterly performance criteria and financing assurances review would remain.

I. MACROECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

1. **The authorities are implementing the reform program with determination and rapid progress has been made in macroeconomic stabilization**. CPI inflation has declined sharply to the low single digits in the first four months of 2009 (annualized). Tracking the disinflation, interest rates have been on a downward trend (from about 30 percent in December to 12.4 percent in late-May on 91 day T-bills) and the nominal exchange rate has appreciated significantly against the U.S. dollar since its low in December 2008 (Figure 1). The strong policy performance has created a virtuous cycle environment for fiscal and monetary policy with falling budget financing costs and stronger demand for money.

2. **However, GDP is now projected to decline by 10.7 percent in 2009** (Table 1).[1] While the decline in tourism is more moderate than earlier expected, construction is down sharply on delays in FDI hotel projects and industrial output has fallen. In addition, increased piracy activity off the east coast of Africa, adjacent and into Seychelles' territorial waters is affecting the tuna catch, and to a lesser extent also tourism. In response, the EU and others are bolstering their security aid in the region. Official unemployment statistics have risen to the mid single digits.[2]

3. **This performance was anchored by a large fiscal over performance in the first quarter** (Table 2). Government revenue was more buoyant than expected and the primary surplus was well above target, helped by the large on-lending repayment by the national oil company (SEYPEC). Expenditures were below target on the impact of the tighter procurement procedures under the new law and the non use of the public financial institutions recapitalization contingency. The public financial institutions are doing much better than had been feared, on balance sheet effects of the depreciation, administrative cost savings, and lower markets risks than feared on the back of the rapid financial stabilization. As a result, domestic public debt has fallen by 4 percent of GDP and the interest bill will be reduced significantly going forward.

4. **The Central Bank of Seychelles (CBS) has been implementing with success the new market-based monetary policy to control reserve money**. Monetary policy was kept tight and progress has been made in improving the regulatory environment, with ongoing Fund TA support (Table 3). Nominal interest rates have declined sharply but they remain high in real terms (10 percent). Bank portfolios are weathering the impact of higher market and credit risk and bank capitalization has improved. A new central bank act that meets international best practice was approved by parliament in late April.

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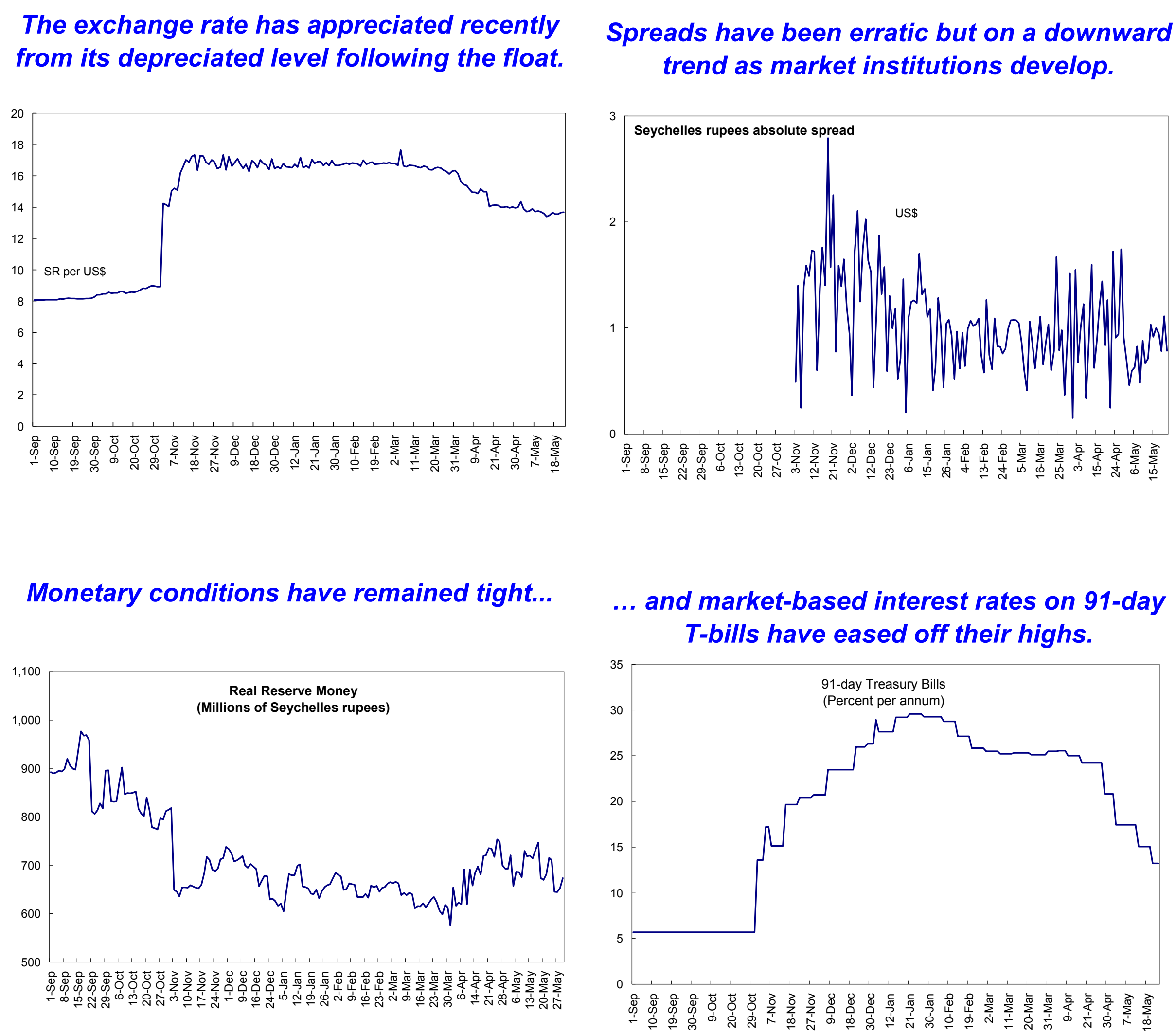
[1] The program incorporates revised official national accounts statistics for 2005–06 and provisional data for 2007–08 based of improvements in methodology and data coverage. These data show somewhat higher levels and different growth rates.

[2] However, official data do not fully capture unemployment and the authorities are working to improve coverage.

5. **All quantitative PCs for end-March 2009 have been met with margins** (MEFP; Table 1). One end-April structural benchmark was missed due to the delay in approval of new bank capitalization norms, which was implemented in late May (MEFP, Table 2). Good progress was achieved toward the end-June structural benchmarks and the structural PC is expected to be met.[3] Other structural reforms are on track.

Figure 1. Seychelles: Evolution of Monetary and Exchange Rates, 2008



Sources: Central Bank of Seychelles and IMF staff estimates.

[3] Following discussion with the staff on the new Fund policy on structural PCs, the authorities decided not to seek conversion of the end-June structural PC to a benchmark, reflecting their strong commitment to meeting the target.

6. **The external current account deficit widened sharply in 2008, reaching 46 percent of GDP, mainly reflecting a large surge in imports in the fourth quarter** (Table 4). Despite the decrease in world food and oil prices together with a slowdown in tourism and FDI, imports rose, primarily reflecting repressed demand released with the elimination of foreign exchange restrictions. Imports appear to have been largely financed by foreign currency outside the banking system and other capital flows. Imports declined sharply in the first quarter of 2009 and gross official reserves rose above the program target (to 1 month of imports) on some one-off inflows and the unblocking of foreign asset accounts.

7. **On April 16th, Paris Club creditors granted exceptional debt treatment to Seychelles under the Evian approach**. The agreement resulted in a clearance of US$140 million of arrears.[4] Seychelles' debt stock will be reduced by 45 percent in nominal terms in two tranches.[5] The remaining amounts will be rescheduled over 18 years, including five years of grace. No payments will be due in 2009 other than a "goodwill" payment of US$1 million by end-June, with very limited payments due in the next few years as moratorium interest will be partially deferred. The authorities have shared relevant data with the creditors, including the cash flow simulation following the Paris Club agreement, and estimations of financing gaps and necessary debt service reduction. The Paris Club agreement has given an impetus to the debt restructuring discussions with other creditors, including bondholders and banks.

II. Policy Discussions

A. Macroeconomic Outlook

8. **The program has been updated to reflect the progress in macro stabilization, but also the impact of global recession and heightened piracy**. The revised program profile aims to lock in a significant portion of the fiscal over performance of the first quarter, while allowing for an easing in the rest of the year to address some areas of priority spending. At the same time, the tighter fiscal stance and rapid disinflation will permit a measure easing of monetary policy to support lending and private sector growth. Inflation is expected to remain in the low single digits. The external current account deficit is projected to decline markedly, with a rise in official reserves to 1.3 months of imports. Focus is now shifting to implement an important structural transformation of the economy, notably on a fundamental reform of tax policy and addressing underperformance and quasi-fiscal risks in the parastatal sector.

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[4] Including owed to South Africa.

[5] The first tranche is conditioned on the completion of the 2nd SBA review and the second tranche on the completion of the first review under a successor arrangement (expected around June 2010) and satisfactory implementation of the comparability of treatment clause. South Africa, a non Paris Club member and major creditor, participated in the negotiation.

B. Fiscal Policy

9. **The over performance of the first quarter, and the associated virtuous financial dynamics, has created fiscal space for priority expenditure, notably to combat piracy and raise social spending for the remainder of the year** (MEFP, ¶17). While the primary surplus target has been raised to 11.4 percent of GDP, this reflects the large overperformance in the first quarter, together with a measured loosening in the last three quarters. The fiscal program will benefit from much lower interest costs. . Revenue is expected to remain on track, despite the real GDP decline, in part reflecting the impact of the depreciation of the rupee on turnover, supported by the widened tax base and continuing measure to strengthen administration. On the expenditure side, strengthen commitment procedures, notably through the new Procurement Act and tightened financial controls, will reduce inefficiencies and contain outlays on goods and services. As the public financial institutions are doing reasonably well, the need for their potential recapitalization is significantly lessened, and the budget contingency for this purpose has been cut back.

10. **The authorities are launching a fundamental tax reform in June** (MEFP, ¶18). The medium-term strategy involves a modernization of the tax regime to eliminate sectoral preferences and exemptions, harmonize tax rates, and remove distortions and inefficiencies. A new business tax code and a personal income tax will be introduced in 2010, followed by a VAT by 2012. Major upgrades to tax administration are also in process, supported by continued technical assistance from the Fund.

11. **The program also features a major reinforcement of financial control and governance oversight of state enterprises** (MEFP, ¶19–21). External financial and management audits of the largest public enterprises are in process, which will inform the action plans for the necessary reform of the sector. A strategic assessment of the role of each public entity is underway. Implementation of a treasury single account is well underway and is leveraging efforts to strengthen budget control. With the support of the World Bank, a Public Expenditure Review (PER), focusing on the health and education sectors, has been launched to reinforce expenditure control and rationalization.

C. Monetary, Exchange and Financial Sector Policies

12. **In line with its strengthened mandate under the new CBS act, monetary policy will focus on achieving price stability**. With inflation in low single digits and demand pressures subsided, the program includes a measured easing of monetary policy through a gradual reduction in reserve requirements (initially to 12 percent in July) and a further reduction in the local asset ratio to boost credit growth.[6] In addition, starting from April, the

[6] While the original reserve money targets have been retained, implementation of the treasury single account will create additional space under the targets, as about 1 percent of GDP in public entity deposits are anticipated to be repatriated to the treasury single account at the CBS in the coming months. The local asset ratio is much like a secondary reserve requirement and has been reduced from 60 percent in 2008 to 40 percent in April.

constitution of required reserves on foreign currency deposits will gradually shift to foreign currency. At the same time, policy interest rates will need to remain positive in real terms to anchor price stability, and the CBS is prepared to act promptly at the first signs of re-emergence of inflationary pressures.

13. **The CBS will continue to expand its policy instruments** by introducing a standing credit facility, using its portfolio of treasury bills for open market operations, and introducing repo and reverse repo transactions. Cash flow management was strengthened through improved cooperation between the Ministry of Finance and the CBS, and a good progress was achieved in developing liquidity forecasting and a reserve money programming framework.

14. **Consistent with the price stability objective, the exchange regime will remain a market-based float to provide a buffer against changes in the external environment**. The CBS interventions in the foreign exchange market will aim at limiting exceptional volatility of the rupee and ensuring orderly market conditions, subject to the achievement of the external reserves and reserve money targets.

15. **Overall, the banking sector appears stable and vulnerabilities manageable** (Table 5). Despite severe interest and exchange rate shocks of late 2008, banks reported net profits and their capitalization improved. Although credit risks still remain, especially given the worsening external environment and declining tourism, stress tests suggest that the banking sector would withstand a fairly strong credit shock.[7] Modernization of the regulatory framework and strengthening of the supervisory capacity are ongoing, drawing heavily on IMF TA recommendations. Privatization of state-owned banks remains the authorities' medium-term objective.

D. External Sector, Financing, and Debt Sustainability

16. **The current account deficit is projected to shrink considerably in 2009**. The expected contraction of both tourism and fishing receipts, reflecting the slowdown in the global economy and rising piracy in Seychelles' territorial waters is likely to be more than offset by a sharp drop in imports – primarily as a result of falling international food and fuel prices. FDI, which has played an increasingly important role in developing the tourism sector, is expected to decline in 2009 as international investors scale back or postpone their investment projects, but recover gradually in subsequent years. Together with a return to normal import levels, this is likely to lead to a small deterioration in the external current account deficit in 2010, followed by an improvement to an average of 25 percent of GDP in 2011–14 (Table 6).

[7] Stress tests suggest that capital adequacy of only one bank would drop below the prudential norm of 12 percent, but would remain above the 8 percent Basel I ratio.

17. **There has been good progress made towards the debt restructuring objectives envisaged under the program**. The authorities have been continuing good faith efforts to preserve inter-creditor equity in compliance with the Fund's lending into arrears policy, and developments in debtor-creditor relations are compatible with program implementation. The authorities completed a second road show for commercial and other creditors in March and maintained a dialogue with all creditors. Creditors' feedback on the proposals presented on the second road show will inform the final debt exchange offer. Payments to two external commercial bank creditors were made in recent months from escrow accounts not under the authorities' control. Instructions to stop payment into these accounts were issued and account balances are minimal. Payments to creditors will be accounted for in a debt exchange offer with a view to preserving inter-creditor equity.

18. **An updated debt sustainability assessment (DSA), following the Paris Club agreement and under the updated program assumptions, shows that public debt remains highly unsustainable** (Appendix II). Under a baseline scenario, with Paris Club and South African debt restructured along Paris Club agreement terms, and assuming that new borrowing on commercial terms is undertaken to refinance non-Paris Club arrears and close financing gaps, public external debt would reach 326 percent of GDP by 2019. Assuming that other creditors agree to restructure Seychelles' public external debt on terms comparable to those granted by the Paris Club, external financing gaps would be closed and the public external debt stock would decline to 63 percent of GDP by 2019. Bound tests show that Seychelles remains highly vulnerable to a large variety of shocks.

19. **Debt management capacity of the Ministry of Finance has improved**, but further progress is needed in line with technical assistance provided by the Fund, and the need to formulate a medium-term debt strategy. To this end, the authorities will seek further technical assistance from the Fund and other TA providers.

20. **Financing gaps have increased somewhat in 2009–10, while the medium-term outlook remains broadly as envisaged at the time of the first program and financing assurances review** (Table 7). Development lending operations by the World Bank and African Development Bank for 2009–10 (US$38 million) are proceeding as expected, with US$19 million available in mid-2009. Remaining financing gaps are expected to be closed by debt restructuring and by additional program support, primarily from the EU, in 2009–10.

III. Program Design, Monitoring, and Risks

A. Program Design and Monitoring

21. **The revised quarterly quantitative PCs for June, September, and December 2009 are set out in the MEFP, Table 1**. The revision to the quantitative PCs reflects the need to capture the progress in macro stabilization, but also the impact of global recession and heightened piracy on the program targets. The phasing of access has not been changed and Seychelles' should not have difficulty meeting its obligations to the Fund

(Tables 8 and 9). New structural benchmarks have been added for the later part of 2009 to target strengthening operations at the CBS (including to address areas identified in the safeguards assessment), strengthening monitoring of parastatal performance, and implementing the tax reform (MEFP; Table 2).

B. Risks

22. **The risks to the program have moderated significantly since it was put in place, but remain largely associated with a difficult external economic environment, implementation capacity constraints and the impact of negative growth on households**. The risks to the program appear manageable and are balanced against the authorities' over performance relative to program objectives and rapid stabilization of the macroeconomic environment. Continued Fund technical assistance to the CBS and Ministry of Finance has been invaluable to program success thus far.

IV. Staff Appraisal

23. **The staff commends the authorities for the strong performance to date under the program**. Rapid macroeconomic stabilization has led to a virtuous cycle whereby lower budget financing costs and stronger demand for money are aiding the adjustment effort. This positive environment was made possible through a significant fiscal adjustment effort, backed by the new market-based monetary policy. Staff encourages the authorities to build on this success by working to entrench prudent macroeconomic policies in support of their objective of restoring fiscal sustainability and laying the foundation for economic recovery.

24. **Staff welcomes the strengthening of public financial management**. Implementation of the treasury single account currently in process is a key component of these reforms. The authorities are encouraged to maintain the pace of efforts to transform the management of public finance.

25. **Progress is being made to reinforce financial discipline and accountability in the parastatal sector, which if left unaddressed, could put at risk the hard-won recent stabilization gains**. Major improvements in public sector governance practices are needed over the medium-term to contain fiscal risks and raise productivity in the parastatal sector.

26. **The authorities have strengthened tax administration and elaborated a fundamental tax policy reform to be implemented over the medium-term**. This initiative is key to improving the business and investment climate, reducing economic distortions, and securing fiscal sustainability.

27. **The new monetary policy framework has played a key role in the rapid economic stabilization**. The managed floating exchange regime remains appropriate. Looking ahead, efforts should focus on further expanding monetary policy instruments and modernizing the legal and institutional framework for the financial sector.

28. **Staff encourages the authorities to continue to reinforce debt management capacity and to pursue their public external debt restructuring strategy aimed at normalizing relations with all creditors**. Given their continuing good faith efforts to reach agreement on comparable terms with all creditors, as evidenced by the ongoing dialogue and timely sharing of information, the staff believes the authorities are in compliance with the Fund's lending into arrears policy. Continued Fund involvement is crucial to the success of the reform effort.

29. **The staff believes that the policies in place are sufficient to achieve the program's objectives**. While program financing needs for 2009-10 are now somewhat higher than previously expected, additional budget and balance of payment support appears to be forthcoming, and the program is financed, assuming a public debt restructuring consistent with Seychelles' payments capacity can be achieved.

30. **In view of the reduced risks to the program reflecting the strong performance to date and rapid progress in macro stabilization staff recommends completion of the second program and financing assurances reviews**. Staff supports the modification of the quarterly performance criteria. Staff proposes to shift to semi-annual program reviews, while maintaining quarterly performance criteria, and associated purchases, and financing assurances reviews. The authorities have indicated that, in support of their medium-term reform agenda, they intend to request support under the Fund's Extended Fund facility, in replacement of the SBA, by end-2009.

Table 1. Seychelles: Selected Economic and Financial Indicators, 2006–10

	2006	2007	2008		2009		2010
			Prog.	Prel.	Country Report No. 09/121	Proj.	Proj.
National income and prices[1]	(Percentage change, unless otherwise indicated)						
Nominal GDP (millions of Seychelles rupees)	5,628	6,877	7,878	8,756	9,650	10,280	11,066
Real GDP	9.3	9.7	3.1	-0.9	-9.6	-10.7	3.5
CPI (annual average)	-1.9	5.3	32.2	37.0	39.2	35.1	4.1
CPI (end-of-period)	0.5	16.8	38.8	63.3	16.3	5.4	2.2
GDP deflator average	2.1	11.4	25.0	28.4	34.7	31.4	4.0
Money and credit	(Percentage change, unless otherwise indicated)						
Net claims on private sector	0.4	9.3	12.5	58.4	13.1	24.3	20.2
Broad money (M3(p)) [2]	6.1	-7.6	16.1	27.2	19.2	5.6	20.5
Reserve money	32.7	-23.1	3.4	0.6	20.6	20.6	19.4
Velocity (GDP/ M3)	1.1	1.5	1.5	1.5	1.5	1.6	1.5
Money multiplier (M3/reserve money)	3.2	4.2	4.7	5.3	4.8	4.7	4.7
	(In percent of GDP)						
External savings	13.2	20.8	28.8	45.6	29.3	29.7	33.0
Gross national savings	13.5	8.0	4.9	-13.7	2.2	-1.8	-3.8
Of which: government savings	0.4	-4.4	3.1	4.2	-2.2	1.0	4.5
Gross investment	26.6	28.8	33.6	31.9	31.5	27.9	29.3
Of which: government investment	7.7	5.5	4.1	2.1	3.7	4.3	5.0
Government budget	(In percent of GDP)						
Total revenue, excluding grants	39.9	32.0	35.4	32.8	35.1	35.1	34.1
Expenditure and net lending	47.0	40.9	37.6	39.8	40.1	35.6	32.9
Current expenditure	39.4	36.3	32.2	28.6	37.3	34.2	29.6
Capital expenditure and net lending	7.6	4.6	5.4	11.2	-0.3	0.5	2.4
Overall balance, including grants	-5.9	-8.7	-1.8	-3.3	-4.8	0.0	1.4
Primary balance [3]	-0.5	-2.0	7.1	3.8	9.8	11.4	9.8
Total public debt [4]	132.4	129.8	151.3	139.4	177.8	149.7	121.7
Domestic	81.4	65.8	53.5	52.3	44.2	41.8	30.5
External [4]	51.0	63.9	97.8	87.1	133.6	108.0	91.2
External sector	(In percent of GDP, unless otherwise indicated)						
Current account balance including official transfers	-13.2	-20.8	-28.8	-45.6	-29.3	-29.7	-33.0
Total stock of arrears (millions of U.S. dollars) [4]	123.5	160.4	330.6	333.5	…	195.1	…
Total external debt outstanding (millions of U.S. dollars) [4, 5]	521.0	710.2	840.5	802.2	805.6	732.6	694.7
Total external debt outstanding [5]	51.1	69.2	97.8	87.1	133.6	108.0	91.2
Terms of trade (= - deterioration)	-0.2	-1.2	2.1	0.7	-3.1	-2.1	…
Real effective exchange rate (end-of-period, percent change)	-9.7	-25.4	-8.5	-18.4	...	...	...
Gross official reserves (end of year, millions of US dollars) [6]	113	10	19	51	91	108	158
In months of imports, c.i.f.	1.3	0.1	0.2	0.7	1.2	1.3	1.8
Exchange rate							
Seychelles rupees per US$1 (end of period)	5.8	8.0	14.0	16.6	16.0	...	...
Seychelles rupees per US$1 (period average)	5.5	6.7	9.0	9.5	16.0	...	...

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

[1] Historic GDP data have been revised upwards in April 2009.

[2] In 2007 and earlier, includes domestic currency balances earmarked for pending import requests ("pipeline").

[3] The CBS transferred SR 175 million (2.2 percent of GDP) in profit to the government in March 2008. Of this amount SR 118.7 million (1.5 percent of GDP) was revaluation gains

[4] Assumes April 2009 Paris Club agreement is implemented.

[5] Includes arrears and the external debt of the central bank.

[6] Prior to 2007 includes blocked deposits and project accounts.

Table 2. Seychelles: Consolidated Government Operations, 2007-10 [1]

(Millions of Seychelles rupees)

	2007	2008	2009															2010
			Q1			Q2			Q3			Q4			Year			
	Act.	Actual	Prog.	Proj.	Act.	Prog.	Revised Prog.	New. Proj.	Prog.	Revised Prog.	New. Proj.	Prog.	Revised Prog.	New. Proj.	Prog.	Revised Prog.	New. Proj.	Proj.
Total revenue and grants	2,214.2	3,189.7	826.2	917.0	1,057.8	759.4	726.3	782.0	925.2	848.6	876.1	1,052.9	918.6	941.0	3,563.6	3,410.5	3,656.8	3,793.6
Total revenue	2,197.5	2,868.5	821.2	912.0	1,055.3	754.4	721.3	765.4	920.2	843.6	854.2	1,047.9	913.6	936.0	3,543.6	3,390.5	3,610.8	3,773.6
Tax	1,896.4	2,456.3	695.8	779.2	907.1	702.8	622.8	646.6	848.8	711.6	756.1	886.0	740.9	755.9	3,133.5	2,854.5	3,065.7	3,158.0
Social security tax	301.3	294.9	77.4	77.4	94.1	88.0	88.0	85.6	91.5	91.5	92.6	95.0	91.5	92.7	352.0	348.4	365.0	375.0
Trade tax	265.2	409.6	115.0	90.7	103.5	132.3	104.3	118.0	155.3	122.5	118.0	172.5	136.1	127.0	575.0	453.6	466.5	500.2
Goods and services tax (GST)	799.6	950.6	336.4	256.3	320.1	343.5	286.1	311.4	352.5	293.2	346.0	409.6	323.0	344.2	1,442.0	1,158.6	1,321.7	1,350.9
Business tax	360.5	524.0	106.1	115.0	126.8	107.8	110.0	110.0	168.7	170.0	170.0	168.5	156.0	156.0	551.0	551.0	562.8	593.1
Other	169.8	277.3	60.9	239.7	262.7	31.3	34.4	21.6	80.9	34.4	29.5	40.4	34.4	35.9	213.5	342.9	349.7	338.7
Nontax	301.1	412.2	125.4	132.8	148.1	51.6	98.5	118.7	71.4	132.0	98.0	161.9	172.7	180.1	410.2	536.0	545.0	615.6
Fees and charges	175.8	145.3	43.1	48.5	68.5	41.0	39.6	32.1	38.9	48.5	37.0	42.1	61.4	40.1	165.0	198.1	177.8	274.6
Dividends from parastatals	94.8	64.1	0.0	0.0	5.0	0.0	0.0	42.2	16.0	16.0	14.0	107.0	94.0	89.0	123.0	110.0	150.2	110.0
Other [2]	30.5	202.7	82.3	84.3	74.6	10.6	58.9	44.4	16.4	67.4	47.0	12.8	17.3	51.0	122.2	227.9	217.0	231.1
External grants	16.7	321.2	5.0	5.0	2.5	5.0	5.0	16.6	5.0	5.0	22.0	5.0	5.0	5.0	20.0	20.0	46.1	20.0
Expenditure and net lending	2,810.2	3,482.9	1,000.6	942.5	518.3	1,145.7	1,085.8	950.8	950.8	845.6	913.0	1,073.8	999.0	1,129.4	4,171.0	3,872.8	3,660.3	3,638.7
Current expenditure	2,497.2	2,503.5	829.1	864.1	739.6	963.6	999.0	1,010.3	804.7	797.7	794.2	917.2	942.6	967.2	3,514.6	3,603.4	3,511.3	3,275.3
Primary current expenditure	2,041.4	1,874.6	581.7	546.6	494.5	561.7	544.8	619.1	568.3	545.8	609.4	573.5	558.3	612.2	2,285.2	2,195.5	2,335.2	2,348.8
Wages and salaries	699.7	688.1	206.9	184.4	198.9	180.1	168.6	196.3	180.1	168.6	184.8	180.1	168.6	187.9	747.2	690.3	767.9	683.3
Goods and services	499.8	488.8	146.7	153.8	118.0	151.9	160.8	169.6	161.2	160.8	184.7	165.3	172.2	188.5	625.0	647.6	660.9	747.2
Interest payments due	455.8	628.9	247.4	317.6	245.1	402.0	454.2	391.2	236.4	251.8	184.8	343.7	384.3	355.0	1,229.4	1,407.9	1,176.1	926.5
Foreign interest [3]	219.4	343.8	43.8	47.9	63.1	196.3	216.9	227.5	41.0	45.2	38.7	181.4	208.4	211.9	462.5	518.4	541.3	434.5
Domestic interest	236.4	285.1	203.5	269.7	181.9	205.7	237.3	163.7	195.4	206.7	146.1	162.3	175.9	143.0	766.9	889.6	634.8	491.9
Transfers	833.6	692.0	226.2	205.9	170.2	227.7	212.9	242.8	225.0	213.9	237.9	226.1	214.9	234.6	905.1	847.4	885.6	908.0
Social program of central government	166.7	192.3	88.3	67.0	40.2	89.8	74.0	73.7	88.3	75.0	87.3	89.3	76.0	83.5	355.8	292.0	284.7	360.3
Transfers to public sector from central government	375.6	220.5	45.6	46.5	47.0	45.6	46.5	79.9	44.4	46.5	60.1	44.5	46.5	58.8	180.1	186.1	245.8	150.2
Benefits and programs of Social Security Fund	291.3	279.2	92.3	92.3	83.0	92.3	92.3	89.2	92.3	92.3	90.6	92.3	92.3	92.3	369.2	369.3	355.1	397.5
Other	8.3	5.7	2.0	2.6	7.4	2.0	2.6	10.3	2.0	2.6	1.9	2.0	2.6	1.2	8.0	10.2	20.8	10.3
Capital expenditure	375.7	183.2	71.5	74.3	21.3	82.1	82.7	111.8	96.1	94.0	136.3	106.7	102.4	176.7	356.4	353.4	446.1	555.4
Externally financed																		
Net lending	-62.7	796.2	0.0	-96.0	-242.5	0.0	-96.0	-22.5	0.0	-96.0	-67.5	0.0	-96.0	-64.5	0.0	-384.0	-397.0	-292.0
Contingency [3]			100.0	100.0	0.0	100.0	100.0	0.0	50.0	50.0	50.0	50.0	50.0	50.0	300.0	300.0	100.0	100.0
Primary balance [4]	**-140.2**	**335.7**	**72.9**	**292.2**	**784.5**	**15.7**	**94.7**	**73.5**	**210.8**	**254.8**	**148.0**	**322.8**	**304.0**	**166.6**	**622.0**	**945.6**	**1,172.6**	**1,081.4**
Overall balance, commitment basis	-596.0	-293.2	-174.4	-25.4	539.4	-386.3	-359.5	-317.7	-25.6	2.9	-36.8	-20.9	-80.4	-188.4	-607.4	-462.3	-3.5	154.9
Change in arrears	59.4	31.2	0.0	-61.5	-14.1	0.0	-50.0	-50.0	-181.4	-50.0	-50.0	0.0	-50.0	-34.0	-181.4	-211.5	-148.1	0.0
External interest	3.9	166.8	0.0	0.0	46.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	46.8	0.0
Budget	55.5	-135.6	0.0	-61.5	-60.9	0.0	-50.0	-50.0	-181.4	-50.0	-50.0	0.0	-50.0	-34.0	-181.4	-211.5	-194.9	0.0
Overall balance, cash basis (after grants)	-536.6	-262.0	-174.4	-87.0	525.3	-386.3	-409.5	-367.7	-207.0	-47.1	-86.8	-20.9	-130.4	-222.4	-788.8	-673.9	-151.6	154.9
Financing	536.6	262.0	174.4	87.0	-525.3	386.3	409.5	367.7	-7.6	-126.8	86.8	-296.3	-278.1	222.4	788.8	673.9	151.6	-154.9
Foreign financing	410.8	232.8	-150.7	-171.1	-258.6	-450.0	-515.5	-546.3	64.4	139.1	127.4	-178.1	-190.8	-174.7	-714.4	-738.2	-852.3	-316.4
Disbursements	859.4	671.8	70.0	80.0	2.2	70.0	80.0	0.0	280.0	384.0	351.6	70.0	80.0	73.3	490.0	624.0	427.1	566.3
Project loans	859.4	671.8	70.0	80.0	2.2	70.0	80.0	0.0	70.0	80.0	73.3	70.0	80.0	73.3	280.0	320.0	148.7	290.4
Program/budget support	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	210.0	304.0	278.4	0.0	0.0	0.0	210.0	304.0	278.4	275.9
Scheduled amortization	-448.6	-1,629.8	-220.7	-251.1	-260.9	-520.0	-595.5	-546.3	-215.6	-244.9	-224.2	-248.1	-270.8	-248.0	-1,204.4	-1,362.2	-1,279.4	-882.6
Change in amortization arrears	-2.7	1,190.8	0.0	0.0	228.3	0.0	0.0	-2,055.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1,826.8	0.0
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2055.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2055.1	0.0
Domestic financing, net	-19.5	-69.8	108.1	79.0	-394.6	276.5	145.8	193.4	-174.0	-332.7	-379.4	-289.0	-257.1	4.2	-78.4	-404.9	-576.4	-913.6
Bank financing	-50.3	-99.6	102.7	75.1	-1,335.6	262.6	138.5	183.7	-165.3	-306.6	-360.4	-274.5	-244.2	4.0	-74.5	-384.7	-1,508.3	-867.9
CBS	27.9	-3.4	10.8	23.7	-948.4	27.6	43.7	19.3	-17.4	-99.8	-37.9	-28.9	-77.1	0.4	-7.8	-121.5	-966.5	-91.4
Commercial banks	-118.9	-96.2	91.9	51.4	-387.2	235.0	94.8	164.4	-147.9	-216.3	-322.5	-245.6	-167.1	3.6	-66.7	-263.2	-541.7	-776.5
Nonbank	30.7	29.8	5.4	4.0	941.0	13.8	7.3	9.7	-8.7	-16.6	-19.0	-14.4	-12.9	0.2	-3.9	-20.2	931.9	-45.7
Privatization and long-term lease of fixed assets	134.3	219.4	85.6	56.8	96.6	36.0	56.8	93.0	102.0	66.8	90.0	170.8	169.8	90.0	394.3	390.2	369.7	57.6
Statistical discrepancy	13.8	-120.4	0.0	0.0	-197.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-197.0	0.0
Fiscal financing gap	0.0	0.0	131.5	122.1	0.0	523.9	722.3	627.6	214.6	173.9	248.8	317.2	408.5	302.9	1,187.2	1,426.8	1,179.3	1,017.4

Table 2. Seychelles: Consolidated Government Operations, 2007-10 [1] (continued)

(Percent of GDP)

	2007	2008	2009															2010
			Q1			Q2			Q3			Q4			Year			
	Act.	Actual	Prog.	Proj.	Act.	Prog.	Revised Prog.	New. Proj.	Prog.	Revised Prog.	New. Proj.	Prog.	Revised Prog.	New. Proj.	Prog.	Revised Prog.	New. Proj.	Proj.
Total revenue and grants	32.2	36.4	8.3	9.5	11.0	7.6	7.5	7.6	9.3	8.8	8.5	10.6	9.5	9.2	35.7	35.3	35.6	34.3
Total revenue	32.0	32.8	8.2	9.5	10.9	7.6	7.5	7.4	9.2	8.7	8.3	10.5	9.5	9.1	35.5	35.1	35.1	34.1
Tax	27.6	28.1	7.0	8.1	9.4	7.0	6.5	6.3	8.5	7.4	7.4	8.9	7.7	7.4	31.4	29.6	29.8	28.5
Social security tax	4.4	3.4	0.8	0.8	1.0	0.9	0.9	0.8	0.9	0.9	0.9	1.0	0.9	0.9	3.5	3.6	3.6	3.4
Trade tax	3.9	4.7	1.2	0.9	1.1	1.3	1.1	1.1	1.6	1.3	1.1	1.7	1.4	1.2	5.8	4.7	4.5	4.5
Goods and services tax (GST)	11.6	10.9	3.4	2.7	3.3	3.4	3.0	3.0	3.5	3.0	3.4	4.1	3.3	3.3	14.5	12.0	12.9	12.2
Business tax	5.2	6.0	1.1	1.2	1.3	1.1	1.1	1.1	1.7	1.8	1.7	1.7	1.6	1.5	5.5	5.7	5.5	5.4
Other	2.5	3.2	0.6	2.5	2.7	0.3	0.4	0.2	0.8	0.4	0.3	0.4	0.4	0.3	2.1	3.6	3.4	3.1
Nontax	4.4	4.7	1.3	1.4	1.5	0.5	1.0	1.2	0.7	1.4	1.0	1.6	1.8	1.8	4.1	5.6	5.3	5.6
Fees and charges	2.6	1.7	0.4	0.5	0.7	0.4	0.4	0.3	0.4	0.5	0.4	0.4	0.6	0.4	1.6	2.1	1.7	2.5
Dividends from parastatals	1.4	0.7	0.0	0.0	0.1	0.0	0.0	0.4	0.2	0.2	0.1	1.1	1.0	0.9	1.2	1.1	1.5	1.0
Other[2]	0.4	2.3	0.8	0.9	0.8	0.1	0.6	0.4	0.2	0.7	0.5	0.1	0.2	0.5	1.2	2.4	2.1	2.1
External grants	0.2	3.7	0.1	0.1	0.0	0.1	0.1	0.2	0.1	0.1	0.2	0.1	0.1	0.0	0.2	0.2	0.2	0.2
Expenditure and net lending	40.9	39.8	10.0	9.8	5.4	11.5	11.3	9.2	9.5	8.8	8.9	10.8	10.4	11.0	41.8	40.1	35.6	32.9
Current expenditure	36.3	28.6	8.3	9.0	7.7	9.7	10.4	9.8	8.1	8.3	7.7	9.2	9.8	9.4	35.3	37.3	34.2	29.6
Primary current expenditure	29.7	21.4	5.8	5.7	5.1	5.6	5.6	6.0	5.7	5.7	5.9	5.8	5.8	6.0	22.9	22.8	22.7	21.2
Wages and salaries	10.2	7.9	2.1	1.9	2.1	1.8	1.7	1.9	1.8	1.7	1.8	1.8	1.7	1.8	7.5	7.2	7.5	6.2
Goods and services	7.3	5.6	1.5	1.6	1.2	1.5	1.7	1.7	1.6	1.7	1.8	1.7	1.8	1.8	6.3	6.7	6.4	6.8
Interest payments due	6.6	7.2	2.5	3.3	2.5	4.0	4.7	3.8	2.4	2.6	1.8	3.4	4.0	3.5	12.3	14.6	11.4	8.4
Foreign interest	3.2	3.9	0.4	0.5	0.7	2.0	2.2	2.2	0.4	0.5	0.4	1.8	2.2	2.1	4.6	5.4	5.3	3.9
Domestic interest	3.4	3.3	2.0	2.8	1.9	2.1	2.5	1.6	2.0	2.1	1.4	1.6	1.8	1.4	7.7	9.2	6.2	4.4
Transfers	12.1	7.9	2.3	2.1	1.8	2.3	2.2	2.4	2.3	2.2	2.3	2.3	2.2	2.3	9.1	8.8	8.6	8.2
Social program of central government	2.4	2.2	0.9	0.7	0.4	0.9	0.8	0.7	0.9	0.8	0.8	0.9	0.8	0.8	3.6	3.0	2.8	3.3
Transfers to public sector from central government	5.5	2.5	0.5	0.5	0.5	0.5	0.5	0.8	0.4	0.5	0.6	0.4	0.5	0.6	1.8	1.9	2.4	1.4
Benefits and programs of Social Security Fund	4.2	3.2	0.9	1.0	0.9	0.9	1.0	0.9	0.9	1.0	0.9	0.9	1.0	0.9	3.7	3.8	3.5	3.6
Other	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.1
Capital expenditure	5.5	2.1	0.7	0.8	0.2	0.8	0.9	1.1	1.0	1.0	1.3	1.1	1.1	1.7	3.6	3.7	4.3	5.0
Net lending	-0.9	9.1	0.0	-1.0	-2.5	0.0	-1.0	-0.2	0.0	-1.0	-0.7	0.0	-1.0	-0.6	0.0	-4.0	-3.9	-2.6
Contingency[3]			1.0	1.0	0.0	1.0	1.0	0.0	0.5	0.5	0.5	0.5	0.5	0.5	3.0	3.1	1.0	0.9
Primary balance[2]	-2.0	3.8	0.7	3.0	8.1	0.2	1.0	0.7	2.1	2.6	1.4	3.2	3.1	1.6	6.2	9.8	11.4	9.8
Overall balance, commitment	-8.7	-3.3	-1.7	-0.3	5.6	-3.9	-3.7	-3.1	-0.3	0.0	-0.4	-0.2	-0.8	-1.8	-6.1	-4.8	0.0	1.4
Change in arrears	0.9	0.4	0.0	-0.6	-0.1	0.0	-0.5	-0.5	-1.8	-0.5	-0.5	0.0	-0.5	-0.3	-1.8	-2.2	-1.4	0.0
External interest	0.1	1.9	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.0
Budget	0.8	-1.5	0.0	-0.6	-0.6	0.0	-0.5	-0.5	-1.8	-0.5	-0.5	0.0	-0.5	-0.3	-1.8	-2.2	-1.9	0.0
Overall balance, cash basis (after grants)	-7.8	-3.0	-1.7	-0.9	5.4	-3.9	-4.2	-3.6	-2.1	-0.5	-0.8	-0.2	-1.4	-2.2	-7.9	-7.0	-1.5	1.4
Financing	7.8	3.0	1.7	0.9	-5.4	3.9	4.2	3.6	-0.1	-1.3	0.8	-3.0	-2.9	2.2	7.9	7.0	1.5	-1.4
Foreign financing	5.9	-10.9	-1.5	-1.8	0.0	-4.5	-5.3	-25.3	0.6	1.4	1.2	-1.8	-2.0	-1.7	0.0	0.0	0.0	0.0
Disbursements	12.5	7.7	0.7	0.8	0.0	0.7	0.8	0.0	2.8	4.0	3.4	0.7	0.8	0.7	4.9	6.5	4.2	5.1
Project loans	12.5	7.7	0.7	0.8	0.0	0.7	0.8	0.0	0.7	0.8	0.7	0.7	0.8	0.7	2.8	3.3	1.4	2.6
Program/budget support	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.1	3.2	2.7	0.0	0.0	0.0	2.1	3.2	2.7	2.5
Scheduled amortization	-6.5	-18.6	-2.2	-2.6	-2.7	-5.2	-6.2	-5.3	-2.2	-2.5	-2.2	-2.5	-2.8	-2.4	-12.1	-14.1	-12.4	-8.0
Change in amortization arrears	0.0	13.6	0.0	0.0	2.4	0.0	0.0	-20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-17.8	0.0
Debt relief	0.0	0.0	…	…	…	…	…	…	…	…	…	…	…	…	0.0	0.0	20.0	0.0
Domestic financing, net	-0.3	-0.8	1.1	0.8	-4.0	2.8	1.5	1.9	-1.7	-3.4	-3.7	-2.9	-2.7	0.0	-0.8	-3.7	-5.6	-8.3
Bank financing	-0.7	-1.1	1.0	0.8	-13.4	2.6	1.4	1.8	-1.7	-3.1	-3.6	-2.8	-2.4	0.0	-0.7	-3.5	-14.7	-7.8
Nonbank	0.4	0.3	0.1	0.0	9.4	0.1	0.1	0.1	-0.1	-0.2	-0.2	-0.1	-0.1	0.0	0.0	-0.2	9.1	-0.4
Privatization and long-term lease of fixed assets	2.0	2.5	0.9	0.6	1.0	0.4	0.6	0.9	1.0	0.7	0.9	1.7	1.8	0.9	4.0	3.5	3.6	0.5
Statistical discrepancy	0.2	-1.4	0.0	0.0	-2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.9	0.0
Fiscal financing gap	0.0	0.0	1.3	1.3	0.0	5.3	7.5	6.1	2.2	1.8	2.4	3.2	4.2	2.9	11.9	14.8	11.5	9.2
Memorandum item:																		
Nominal GDP	6,877.0	8,755.7	9,970.1	9,649.9	9,649.9	9,970.1	9,649.9	10,280.4	9,970.1	9,649.9	10,280.4	9,970.1	9,649.9	10,280.4	9,970.1	9,649.9	10,280.4	11,066.4

Sources: Ministry of Finance; Social Security Fund; Pension Fund; Central Bank of Seychelles (CBS); and IMF staff estimates and projections.

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

[2] The CBS transferred SR 175 million (2.2 percent of GDP) in profit to the government in March 2008. Of this amount SR 118.7 million (1.5 percent of GDP) was revaluation gains.

[3] This is created to cover potential losses in state-controlled financial institutions.

Table 3. Seychelles: Monetary Survey and Central Bank Accounts, 2007–09

	2007	2008					2009							
	Dec.	Mar.	Jun.	Sep.	Dec.		Mar.		Jun.		Sep.		Dec.	
	Act.	Act.	Act.	Act.	Prog.	Act.	Prog.	Act.	Rev. prog.	Proj	Rev. prog.	Proj	Rev. prog.	Proj
	(Seychelles rupees millions, unless otherwise indicated)													
Monetary survey														
Net foreign assets	423	423	479	731	1,738	1,935	1,822	2,263	2,054	2,183	2,289	2,572	2,603	2,728
Central bank	323	406	320	776	1,320	1,050	1,334	1,447	1,179	1,374	1,317	1,688	1,584	1,843
Deposit money banks	101	17	160	-45	418	885	488	816	876	809	972	884	1,020	885
Net domestic assets	4,257	4,293	4,395	4,098	3,695	4,018	3,748	3,029	3,977	3,236	4,047	3,330	4,492	3,560
Domestic credit	5,108	5,158	5,351	5,468	5,358	6,136	5,414	4,756	5,558	4,974	5,648	4,963	6,113	5,372
Net claims on the government	3,178	3,122	3,279	3,240	2,928	3,079	3,031	1,743	3,063	1,927	2,747	1,566	2,503	1,570
Credit to the economy	1,930	2,036	2,072	2,227	2,430	3,058	2,383	3,013	2,495	3,047	2,901	3,397	3,610	3,802
Other items, net	-851	-865	-957	-1,369	-1,663	-2,119	-1,665	-1,727	-1,581	-1,738	-1,601	-1,633	-1,621	-1,812
M3	4,681	4,716	4,874	4,830	5,433	5,952	5,570	5,292	6,031	5,419	6,336	5,902	7,096	6,288
Foreign currency deposits	640	747	680	574	1,288	1,783	1,330	1,673	1,664	1,580	1,696	1,693	1,760	1,808
M2	4,041	3,970	4,194	4,256	4,145	4,170	4,240	3,619	4,367	3,840	4,640	4,209	5,336	4,480
Currency in circulation	450	442	447	444	478	478	469	413	475	424	471	441	507	455
Local currency deposits	3,591	3,527	3,747	3,812	3,667	3,692	3,771	3,206	3,892	3,416	4,169	3,768	4,829	4,024
Central bank														
Net foreign assets	323	406	319	776	1,320	1,050	1,334	1,447	1,179	1,374	1,317	1,688	1,584	1,843
Foreign assets	323	406	319	776	1,452	1,207	1,466	1,595	1,358	1,526	1,518	1,840	1,806	2,015
Of which : official reserves	78	141	114	136	262	843	276	1,372	1,006	1,214	1,166	1,433	1,454	1,588
Foreign liabilities	0	0	0	0	131	157	131	148	179	152	201	152	222	172
Net domestic assets	966	735	963	495	-169	70	-188	-396	87	-108	-7	-376	-233	-492
Domestic credit	1,103	895	1,094	1,092	549	851	532	-56	703	133	629	-115	423	-219
Government (net)	1,103	948	1,115	1,246	1,032	1,099	1,043	151	964	66	864	28	787	29
Commercial banks	0	0	30	-97	…	-22	…	0	…	238	…	28	…	-76
Other (parastatals)	0	-53	-51	-58	-483	-226	-511	-207	-261	-171	-235	-171	-364	-171
Other items, net	-137	-160	-131	-597	-718	-780	-720	-340	-616	-241	-636	-261	-656	-273
Reserve money	1,113	1,141	1,282	1,271	1,151	1,120	1,146	1,051	1,266	1,266	1,311	1,311	1,351	1,351
Currency in circulation	450	442	447	444	478	478	469	413	475	424	471	441	507	455
Commercial bank reserves (includes cash in vault)[1]	663	698	835	828	674	642	677	637	791	842	840	871	844	896
o.w. required reserves in foreign currency[2]	…	…	…	…	…	…	…	…	…	110	…	204	…	223
Memorandum items:														
Gross international reserves (US$ millions)	10	18	14	17	19	51	20	85	63	83	73	98	91	108
Foreign Currency Deposits (US$ millions)	80	94	85	70	92	108	95	104	104	108	106	116	110	123
M2 growth (12–month percent change)	-14.9	-17.3	-15.5	7.7	2.6	3.2	6.8	-8.8	4.1	-8.4	9.0	-1.1	28.0	7.4
M3 growth (12–month percent change)	-7.6	-9.5	-7.9	8.0	16.1	27.2	18.1	12.2	23.7	11.2	31.2	22.2	19.2	5.6
Credit to the economy (12–month percent change)	32.7	34.5	26.6	22.4	25.9	58.4	17.1	48.0	20.1	47.0	30.0	52.5	17.9	24.3
Reserve money (12–month percent change)	-23.1	-32.4	-21.0	17.4	3.4	0.6	0.5	-7.9	-1.3	-1.3	3.1	3.2	20.6	20.6
Money multiplier (M2/reserve money)	3.6	3.5	3.3	3.3	3.6	3.6	3.7	3.4	3.4	3.0	3.5	3.2	3.9	3.3
Money multiplier (M3/reserve money)	4.2	4.1	3.8	3.8	1.9	5.3	2.0	5.0	4.8	4.3	4.8	4.5	5.3	4.7
Velocity (GDP/M2; end of period)	1.5	2.2	2.2	2.2	0.0	2.2	2.0	2.8	2.0	2.3	2.0	2.3	1.8	2.3
Velocity (GDP/M3; end of period)	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.9	1.4	1.6	1.4	1.6	1.4	1.6
Change in Net Credit to Government (change in quarter)	-213	-56	157	-39	-137	-162	103	-1,336	101	184	-316	-360	-244	4

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

[1] Reserve requirements are being lowered from 13% to 12% in Q3.

[2] Starting April 2009, constitution in foreign currency of required reserves on foreign currency deposits were phased in.

Table 4. Seychelles: Balance of Payments, 2007-10
(Millions of U.S. dollars)

	2007	2008			2009				2009		2010
		Prog.	Country Report No. 09/121	Prel.	Q1 (Prel.)	Q2	Q3	Q4	Rev. Prog.	Proj.	Proj.
Current account	-213	-247	-267	-420	-23	-65	-41	-72	-177	-202	-252
(Percent of GDP)	-21	-29	-32	-46	-3	-10	-6	-11	-29	-30	-33
Trade balance	-175	-216	-235	-386	-33	-50	-26	-38	-105	-146	-187
Exports of goods	392	511	491	495	89	97	89	91	370	366	400
Of which: oil re-exports	190	293	260	271	32	54	59	41	132	186	233
Of which: tuna exports	184	198	215	215	54	40	26	51	219	171	160
Imports of goods	-734	-854	-868	-1,018	-147	-151	-159	-151	-555	-608	-674
Oil imports	-236	-337	-339	-391	-51	-29	-72	-56	-143	-207	-250
FDI-related imports	-153	-190	-237	-231	-42	-37	-22	-45	-156	-146	-177
Other	-345	-327	-292	-352	-54	-85	-66	-50	-256	-255	-247
Exports of services	481	505	523	512	98	70	110	94	383	372	409
Of which: tourism earnings	284	303	276	267	64	28	66	50	207	209	223
Imports of services	-313	-377	-381	-374	-74	-65	-66	-72	-303	-276	-323
Income, net	-72	-68	-84	-103	-6	-27	-28	-47	-118	-107	-124
Of which: transfers of profits and dividends	-33	-28	-39	-61	-2	-10	-23	-29	-74	-64	-82
Of which: interest payments due [1]	-33	-33	-33	-33	-4	-15	-3	-14	-32	-36	-33
Moratorium interest		0	0	0	0	-2	0	-2	0	-4	-3
Other interest (scheduled)	-33	-33	-33	-33	-4	-13	-3	-13	-32	-31	-30
Current transfers, net	33	37	51	69	15	12	13	12	46	52	60
General government, net	10	14	30	43	12	4	5	5	24	27	35
Other sectors, net	23	23	22	26	3	8	8	7	22	25	25
Capital and financial account	261	130	168	172	30	19	38	61	124	147	219
Capital account	8	4	5	5	0	0	37	0	3	37	37
Financial account	254	126	164	167	29	19	1	61	121	110	181
Direct investment, net	225	296	354	346	53	46	27	56	200	183	213
Portfolio investment, net	31	1	1	1	0	0	0	0	0	0	0
Other investment, net	-2	-171	-191	-180	-24	-28	-26	4	-79	-73	-32
Assets	-66	-13	-78	-5	-31	6	2	13	-16	-10	6
Liabilities	63	-158	-112	-175	7	-34	-28	-8	-63	-63	-38
Government and government-guaranteed	34	-155	-109	-105	-15	-34	-28	-8	-46	-85	-53
Disbursements	101	26	73	84	0	0	24	5	39	29	39
Project loans	101	24	73	84	0	0	5	5	20	10	20
Program loans	0	2	0	0	0	0	19	0	19	19	19
Amortization (Principal payments) [1,2]		-181	-181	-189	-15	-35	-15	-15	-85	-81	-56
Deferred interest [1,2]					0	1	0	2	…	3	1
Debt forgiveness					0	0	-37	0	…	-37	-37
Other	29	5	4	-70	22	0	0	0	-17	22	15
Net errors and omissions	-8	14	-17	101	23	0	0	0	0	23	0
Overall balance	40	-104	-116	-147	30	-46	-3	-11	-53	-32	-33
Financing	-40	104	116	147	-30	4	-14	-9	-36	-49	-37
Change in net international reserves (increase: –)	49	5	-27	-27	-34	4	-14	-9	-36	-54	-37
Change in gross official reserves (increase: –)	49	-4	-36	-36	-34	2	-15	-11	-40	-58	-50
Prospective liabilities to IMF, net	0	9	10	10	0	1	1	1	4	4	13
Other NFA (increase: –)	0	-54	0	0	-10	0	0	0	0	-10	0
Exceptional financing	-89	152	142	174	15	0	0	0		15	0
Change in arrears (increase: +) [3, 4]	-89	152	154	174	15	-140	0	0	0	-125	0
Clearance of arrears		…	…	…	0	140	0	0		140	0
Financing gap	0	0	0	0	0	43	17	21	89	80	70
Memorandum items:											
Exports growth, percent	-8	30	25	26	-24	-20	-37	-21	-25	-26	9
Tourism growth, percent	25	7	-3	-6	-22	-60	4	0	-25	-22	7
Imports growth, percent	3	16	18	39	-35	-33	-35	-53	-36	-40	11
Exports, percent of GDP	38	59	59	54	…	…	…	…	61	54	53
Imports, percent of GDP	72	99	104	111	…	…	…	…	92	90	88
FDI, percent of GDP	22	34	42	38	…	…	…	…	33	27	28
Gross international reserves (stock, e.o.p.) [5]	10	19	51	51	85	83	98	108	91	108	158
Months of prospective imports of goods and services	0.1	0.2	0.7	0.7	1.0	1.0	1.2	1.3	1.2	1.3	1.8
Scheduled public external debt service [1, 6]	100	222	222	221	19	49	18	28	118	114	88
(Percent of exports of goods and services)	11.4	22	22	22	10	30	9	15	16	15	10.9
Public external debt [1,4, 6]	710	840	763	802	…	…	…	…	806	733	695
(Percent of GDP)	69.2	98	91	87	…	…	…	…	134	108	91.2
Of which: arrears [1, 3,4]	160	331	310	333	…	…	…	…	310	195	195
(Percent of GDP)	15.6	38	37	36	…	…	…	…	51	29	25.6
Cash available for debt service	...	...	...	...	19	7	1	7	28	33	18
GDP	1,026	859	834	921	...	...	...	...	603	679	762

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

[1] Projections are based on identified new borrowing and rescheduled Paris Club debt. It assumes comparable cash flow treatment and identical reduction in the debt stock for South Africa, which also signed the agreement, and no debt restructuring for other countries. Arrears restructuring leads to higher rescheduled interest payments.

[2] Based on Paris Club agreement, the payments of principal and most interest during 2008 and through June 2009 are deferred.

[3] In 2008, includes accelerated promissory notes.

[4] Debt forgivenesss reflects: (i) the first stage of debt reduction (about 22.5) percent in July 2009; (ii) the second stage reduction (about 22.5 percent) in July 2010 on Paris Club debt. Assumes debt reduction comparable to the Paris Club agreement on South African debt.

[5] Starting with 2007, refers to CBS gross international reserves net of blocked deposits and project accounts.

[6] Preliminary and subject to reconciliation with creditors. Includes CBS external debt.

Table 5. Seychelles: Financial Soundness Indicators for the Banking Sector, 2007 - 2009 [1]

(Percent, eop)

	2007				2008				2009
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Capital adequacy [2]									
Regulatory capital to risk weighted assets	20.4	21.0	18.2	18.2	18.4	17.6	17.9	19.4	21.8
Regulatory tier 1 capital to risk weighted assets	14.8	16.1	14.8	12.9	12.9	14.0	13.4	10.4	11.1
Capital to assets (net worth)	6.2	6.5	6.4	6.4	6.9	6.6	7.0	8.4	9.1
Net tangible capitalization [3]	6.2	6.6	6.5	6.5	7.0	6.6	7.1	8.4	9.2
Asset quality									
Foreign exchange loans to total loans	24.1	25.1	28.7	30.8	32.7	32.9	31.6	50.8	50.5
Non-performing loans to gross loans	3.7	2.9	2.5	2.3	2.0	2.1	2.0	2.0	2.3
Provision as percentage of non-performing loans	38.2	44.1	45.6	45.9	51.2	50.3	59.6	58.3	56.8
Earnings and profitability									
Return on assets (annualised)	3.9	3.4	5.0	6.6	4.3	3.4	2.8	16.1	5.5
Return on equity (annualised)	59.1	50.4	68.3	93.0	59.5	47.9	39.3	199.4	57.6
Interest margin to gross income	60.0	66.1	57.9	46.0	58.7	62.8	58.3	24.2	60.0
Non-interest expense to gross income	35.5	39.7	33.3	32.3	33.2	43.5	49.4	17.8	35.4
Net interest margin (annualised) [4]	3.6	3.7	4.3	4.5	3.8	3.8	3.1	4.8	3.3
Net non interest margin (annualized) [5]	0.3	-0.3	0.6	2.1	0.5	-0.4	-0.4	11.4	0.2
Expense to income	48.5	53.5	44.8	42.2	46.6	55.9	62.5	25.5	50.5
Interest expense to gross income	25.2	29.5	20.8	17.2	25.0	28.0	35.0	10.2	29.5
Liquidity									
Core liquid assets to total assets [6]	19.2	18.6	11.4	10.0	30.8	34.6	36.4	37.8	36.0
Broad liquid assets to total assets [7]	54.8	55.8	44.3	39.4	59.2	60.9	60.0	55.7	50.8
Liquid assets (broad) to short term liabilities	57.3	57.5	46.7	40.8	59.3	61.6	87.1	56.5	53.2
Liquid assets (broad) to total liabilities	58.7	60.1	47.8	42.3	63.9	65.5	64.8	61.2	56.2
Liquid assets to deposit liabilities	64.0	64.5	52.5	46.0	68.3	72.4	71.7	66.4	63.1
Foreign exchange exposure									
Net open foreign exchange position to capital	2.6	14.1	28.3	28.5	24.9	31.3	21.3	58.9	44.4

Sourse: Central Bank of Seychelles

1 Excluding purely offshore banks.

2 Under new standards of provisioning and capital adequacy.

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

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

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

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

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

Table 6. Seychelles: Balance of Payments, 2007-14
(Millions of U.S. dollars)

	2007	2008			2009		2010	2011	2012	2013	2014
		Prog.	Country Report No. 09/121	Prel.	Country Report No. 09/121	Proj.					
Current account	-213	-247	-267	-420	-177	-202	-252	-252	-221	-225	-237
(Percent of GDP)	-21	-29	-32	-46	-29	-30	-33	-30	-24	-22	-22
Trade balance	-175	-216	-235	-386	-105	-146	-187	-172	-142	-127	-119
Exports of goods	392	511	491	495	370	366	400	435	468	500	538
Of which: oil re-exports	190	293	260	271	132	186	233	260	287	312	342
Of which: tuna exports	184	198	215	215	219	171	160	167	172	179	186
Imports of goods	-734	-854	-868	-1,018	-555	-608	-674	-716	-752	-807	-862
Oil imports	-236	-337	-339	-391	-143	-207	-250	-278	-305	-330	-362
FDI-related imports	-153	-190	-237	-231	-156	-146	-177	-195	-198	-213	-238
Other	-345	-327	-292	-352	-256	-255	-247	-243	-249	-263	-262
Exports of services	481	505	523	512	383	372	409	444	491	544	595
Of which: tourism earnings	284	303	276	267	207	209	223	242	267	296	322
Imports of services	-313	-377	-381	-374	-303	-276	-323	-334	-349	-365	-390
Income, net	-72	-68	-84	-103	-118	-107	-124	-141	-140	-160	-181
Of which: transfers of profits and dividends	-33	-28	-39	-61	-74	-64	-82	-99	-119	-139	-160
Of which: interest payments due [1]	-33	-33	-33	-33	-32	-36	-33	-33	-13	-15	-16
Moratorium interest		0	0	0	0	-4	-3	-3	-3	-3	-3
Other interest (scheduled)	-33	-33	-33	-33	-32	-31	-30	-30	-10	-12	-12
Current transfers, net	33	37	51	69	46	52	60	60	61	62	63
General government, net	10	14	30	43	24	27	35	35	36	36	37
Other sectors, net	23	23	22	26	22	25	25	25	26	26	27
Capital and financial account	261	130	168	172	124	147	219	38	279	294	318
Capital account	8	4	5	5	3	37	37	5	5	5	6
Financial account	254	126	164	167	121	110	181	33	273	288	311
Direct investment, net	225	296	354	346	200	183	213	236	239	258	289
Portfolio investment, net	31	1	1	1	0	0	0	0	0	0	0
Other investment, net	-2	-171	-191	-180	-79	-73	-32	-203	35	30	22
Assets	-66	-13	-78	-5	-16	-10	6	5	0	0	6
Liabilities	63	-158	-112	-175	-63	-63	-38	-208	35	30	16
Government and government-guaranteed	34	-155	-109	-105	-46	-85	-53	-215	30	30	10
Disbursements	101	26	73	84	39	29	39	40	40	40	20
Project loans	101	24	73	84	20	10	20	20	20	20	20
Program loans	0	2	0	0	19	19	19	20	20	20	0
Amortization (Principal payments) [1,2]		-181	-181	-189	-85	-81	-56	-256	-11	-10	-10
Deferred interest [1,2]						3	1	1	1	0	0
Debt forgiveness						-37	-37	0	0	0	0
Other	36	5	4	-70	-17	22	15	8	5	1	6
Net errors and omissions	-8	14	-17	101	0	23	0	0	0	0	0
Overall balance	40	-104	-116	-147	-53	-32	-33	-215	58	69	81
Financing	-40	104	116	147	-36	-49	-37	-50	-56	-60	-56
Change in net international reserves (increase: –)	49	5	-27	-27	-36	-54	-37	-50	-56	-60	-56
Change in gross official reserves (increase: –)	49	-4	-36	-36	-40	-58	-50	-50	-50	-50	-50
Prospective liabilities to IMF, net	0	9	10	10	4	4	13	0	-6	-10	-6
Other NFA (increase: –)	0	-54	0	0	0	-10	0	0	0	0	0
Exceptional financing	-89	152	142	174		15	0	0	0	0	0
Change in arrears (increase: +) [3, 4]	-89	152	154	174	0	-125	0	0	0	0	0
Clearance of arrears		…	…	…		140	0	0	0	0	0
Financing gap	0	0	0	0	89	80	70	265	-2	-9	-25
Memorandum items:											
Exports growth, percent	-8	30	25	26	-25	-26	9	9	8	7	8
Tourism growth, percent	25	7	-3	-6	-25	-15	7	9	11	11	9
Imports growth, percent	3	16	18	39	-36	-41	11	6	5	7	7
Exports, percent of GDP	38	59	59	54	61	54	53	52	51	50	49
Imports, percent of GDP	72	99	104	111	92	89	88	86	82	80	79
FDI, percent of GDP	22	34	42	51	33	114	28	28	26	26	27
Gross international reserves (stock, e.o.p.) [5]	10	19.0	51	51	91	108	158	208	258	308	358
Months of prospective imports of goods and services	0.1	0.2	0.7	0.7	1.2	1.3	1.8	2.3	2.6	3.0	3.2
Scheduled public external debt service [1, 6]	100	222	222	221	118	114	88	289	29	33	27
(Percent of exports of goods and services)	11.4	22	22	22	16	15	10.9	32.9	3.0	3.1	2.4
Public external debt [1,4, 6]	710	840	763	802	806	733	695	481	508	529	535
(Percent of GDP)	69.2	98	91	87	134	108	91.2	57.8	55.3	52.5	49.1
Of which: arrears [1, 3,4]	160	331	310	333	310	195	195	195	195	195	195
(Percent of GDP)	15.6	38	37	36	51	29	25.6	23.4	21.3	19.3	17.9
GDP	1,026	859	834	921	603	679	762	833	918	1,009	1,090

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

[1] Projections are based on identified new borrowing and rescheduled Paris Club debt. It assumes comparable cash flow treatment and identical reduction in the debt stock for South Africa, which also signed the agreement, and no debt restructuring for other countries. Arrears restructuring leads to higher rescheduled interest payments.

[2] Based on Paris Club agreement, the payments of principal and most interest during 2008 and through June 2009 are deferred.

[3] In 2008, includes accelerated promissory notes.

[4] Debt forgivenesss reflects: (i) the first stage of debt reduction (about 22.5) percent in July 2009; (ii) the second stage reduction (about 22.5 percent) in July 2010 on Paris Club debt. Assumes debt reduction comparable to the Paris Club agreement on South African debt.

[5] Starting with 2007, refers to CBS gross international reserves net of blocked deposits and project accounts.

[6] Preliminary and subject to reconciliation with creditors. Includes CBS external debt.

Table 7. Seychelles: Projected Financing Requirements and Sources, 2008–19
(Millions of U.S. dollars)

	2008	2009	2010	2011	2012	2013	2014	2017	2019
External Financing									
Gross financing requirements	514.4	496.5	397.6	597.1	325.8	331.9	338.6	383.9	439.6
External current account deficit (excl. official transfers)	463.0	228.3	286.5	287.7	256.7	260.9	273.6	327.0	381.3
Amortization of public debt (scheduled) [1]	188.7	85.1	60.8	259.1	13.2	10.4	8.9	6.9	8.3
Change in arrears (repayment = +)	-173.5	125.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross reserves accumulation (increase =+)	36.1	57.6	50.0	50.0	50.0	50.0	50.0	50.0	50.0
IMF repurchases and charges	0.0	0.2	0.3	0.4	6.0	10.6	6.1	0.0	0.0
Available financing	514.4	416.1	327.6	332.4	327.8	340.8	363.5	417.5	475.4
Foreign direct investment	346.1	182.9	213.2	235.7	238.6	257.9	288.9	352.2	411.5
Disbursements of program support [2]	0.0	19.1	19.0	20.0	20.0	20.0	0.0	0.0	0.0
Multilateral	0.0	19.1	19.0	20.0	20.0	20.0	0.0	0.0	0.0
Bilateral	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disbursements of project loans	84.2	10.1	20.0	20.0	20.0	20.0	20.0	20.6	20.6
Arrears clearance (inc. arrears forgiveness)	0.0	140.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF	9.6	4.0	13.2	0.0	0.0	0.0	0.0	0.0	0.0
Other flows [3]	74.4	60.0	62.1	56.7	49.2	42.8	54.6	44.6	43.3
External flow financing gap		80.4	70.1	264.7	-1.9	-8.9	-24.9	-33.5	-35.8
External arrears clearance [3]		195.1							
Total financing need		275.5	70.1	264.7	-1.9	-8.9	-24.9	-33.5	
Fiscal Financing									
Gross fiscal requirements									
Debt service	258.9	158.7	124.6	316.6	48.7	47.6	44.9	47.6	50.3
Interest payments due	70.2	73.6	63.8	57.5	35.5	37.2	36.0	40.7	43.0
Domestic	37.4	41.9	33.9	27.4	25.3	25.3	23.6	25.7	27.0
External	32.8	31.7	29.9	30.1	10.2	12.0	12.4	15.0	16.0
External principal repayments due[1]	188.7	85.1	60.8	259.1	13.2	10.4	8.9	6.9	7.3
Source of funds	258.9	86.6	54.5	71.6	62.4	64.3	70.1	85.3	92.3
Primary balance	35.3	77.4	74.5	45.3	43.7	49.0	45.7	45.4	43.1
Privatization and long-term leases	23.1	24.4	4.0	3.8	3.7	4.2	4.4	4.8	5.0
Domestic (net)	-7.3	-38.0	-62.9	-17.5	-24.9	-29.0	0.0	14.5	25.4
External disbursements	84.2	29.1	39.0	40.0	40.0	40.0	20.0	20.6	20.6
Change in fiscal arrears (net)	137.1	5.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other [4]	-13.4	-11.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal flow financing gap		72.2	70.1	244.9	-13.8	-16.7	-25.1	-37.7	-42.1
External arrears clearance		195.1							
Total financing need		267.3	70.1	244.9	-13.8	-16.7	-25.1	-37.7	-42.1

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

[1] On existing debt and disbursements of new assumed debt, excluding IMF assuming no debt restructuring and no repayment of arrears.
[2] Includes loans and grants.
[3] Includes all other net financial flows and errors and omissions.
[4] Statistical discrepancy.

Table 8. Seychelles: Fund Disbursements and Timing of Reviews Under the Two-Year Stand-By Arrangement, 2008–10

Review	Date availability	Conditions	*Amount* (millions of SDR)	(percent of quota)
	Disbursed	Board approval of the SBA arrangement – disbursed	6.16	70
First	Disbursed	Completion of first review (end-December 2008 quantitative performance criteria)	0.88	10
Second	June 15, 2009	Completion of second review (end-March 2009 quantitative performance criteria)	0.88	10
	August 15, 2009	Compliance with end-June 2009 quantitative and structural performance criteria	0.88	10
Third	December 15, 2009	Completion of third review (end-September 2009 quantitative performance criteria)	2.20	25
	March 15, 2010	Compliance with end-December 2009 quantitative performance criteria	2.20	25
Fourth	June 15, 2010	Completion of fourth review (end-March 2010 quantitative performance criteria)	2.20	25
	September 15, 2010	Compliance with end-June 2010 quantitative performance criteria	2.20	25

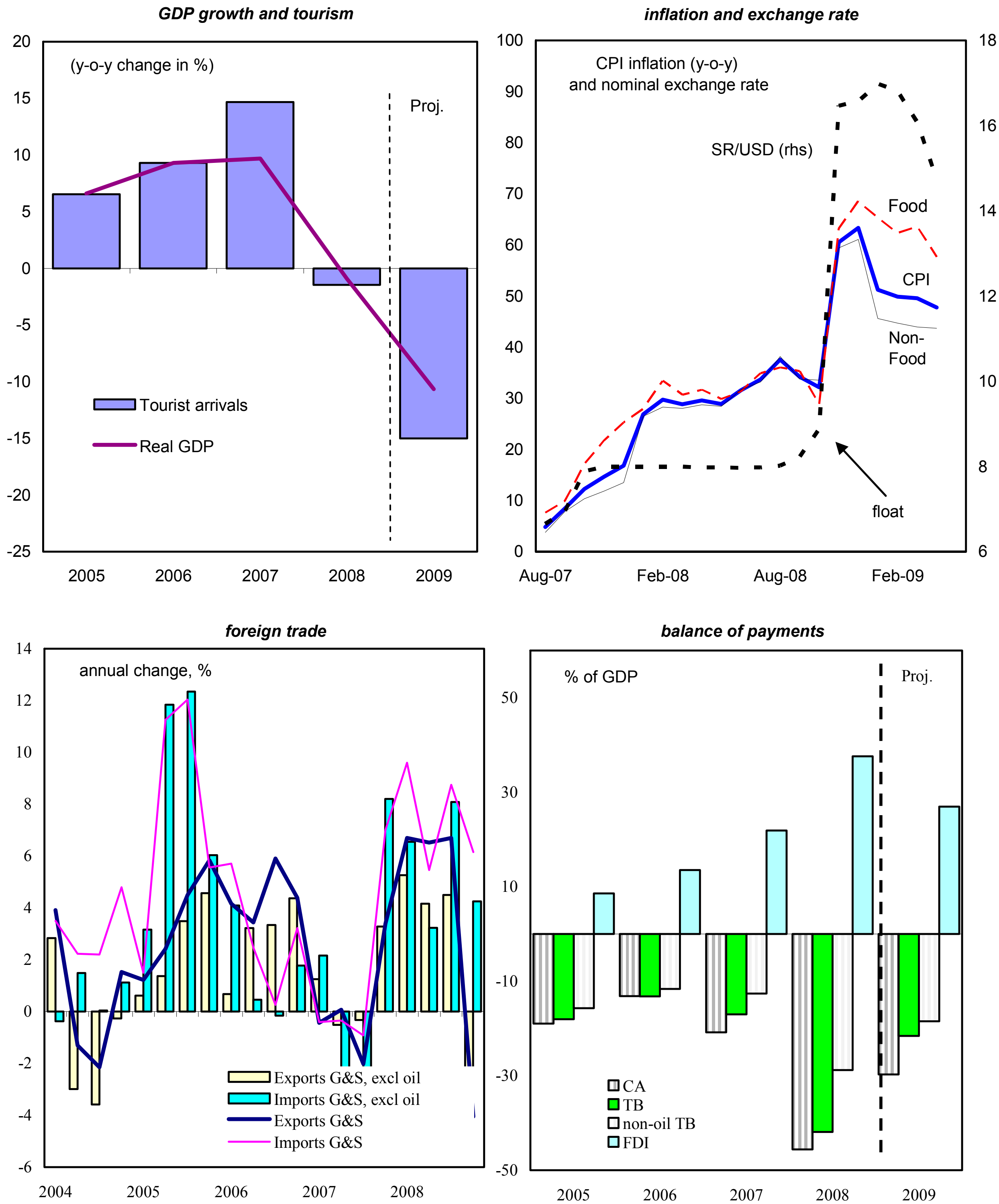
Source: IMF staff.

Table 9. Seychelles: Indicators of Fund Credit, 2008-15
(Millions of SDR)

	2008	2009	2010	2011	2012	2013	2014	2015
	Projections							
Existing Fund credit								
Stock [1]	6.2	6.2	6.2	6.2	3.1	0.0	0.0	0.0
Obligation	0.0	0.1	0.1	0.1	3.2	3.1	0.0	0.0
Proposed SBA								
Disbursements	6.2	2.6	8.8	0.0	0.0	0.0	0.0	0.0
Obligations [2]	0.0	0.0	0.1	0.2	0.8	3.9	4.0	0.8
Principal (repayments/repurchases)	0.0	0.0	0.0	0.0	0.7	3.8	4.0	0.8
Charges and interest	0.0	0.1	0.2	0.3	0.2	0.2	0.1	0.0
Stock of existing and prospective Fund credit [1]	6.2	11.0	15.4	15.4	11.7	4.8	0.8	0.0
Percent of quota	70.0	125.0	175.0	175.0	132.5	54.4	9.4	0.0
Percent of GDP	1.0	2.4	3.0	2.8	1.9	0.7	0.1	0.0
Percent of exports of goods and services	0.9	2.2	2.9	2.6	1.8	0.7	0.1	0.0
Percent of gross reserves	18.4	15.3	14.6	11.1	6.8	2.3	0.3	0.0
Obligations to the Fund from existing and prospective Fund arrangements	0.0	0.0	0.1	0.2	0.8	3.9	4.0	0.8
Percent of quota	0.3	0.5	1.5	1.7	9.2	44.7	45.7	9.5
Percent of GDP	0.0	0.0	0.0	0.0	0.1	0.6	0.6	0.1
Percent of exports of goods and services	0.0	0.0	0.0	0.0	0.1	0.6	0.5	0.1
Percent of gross reserves	0.1	0.1	0.1	0.1	0.5	1.9	1.7	0.3

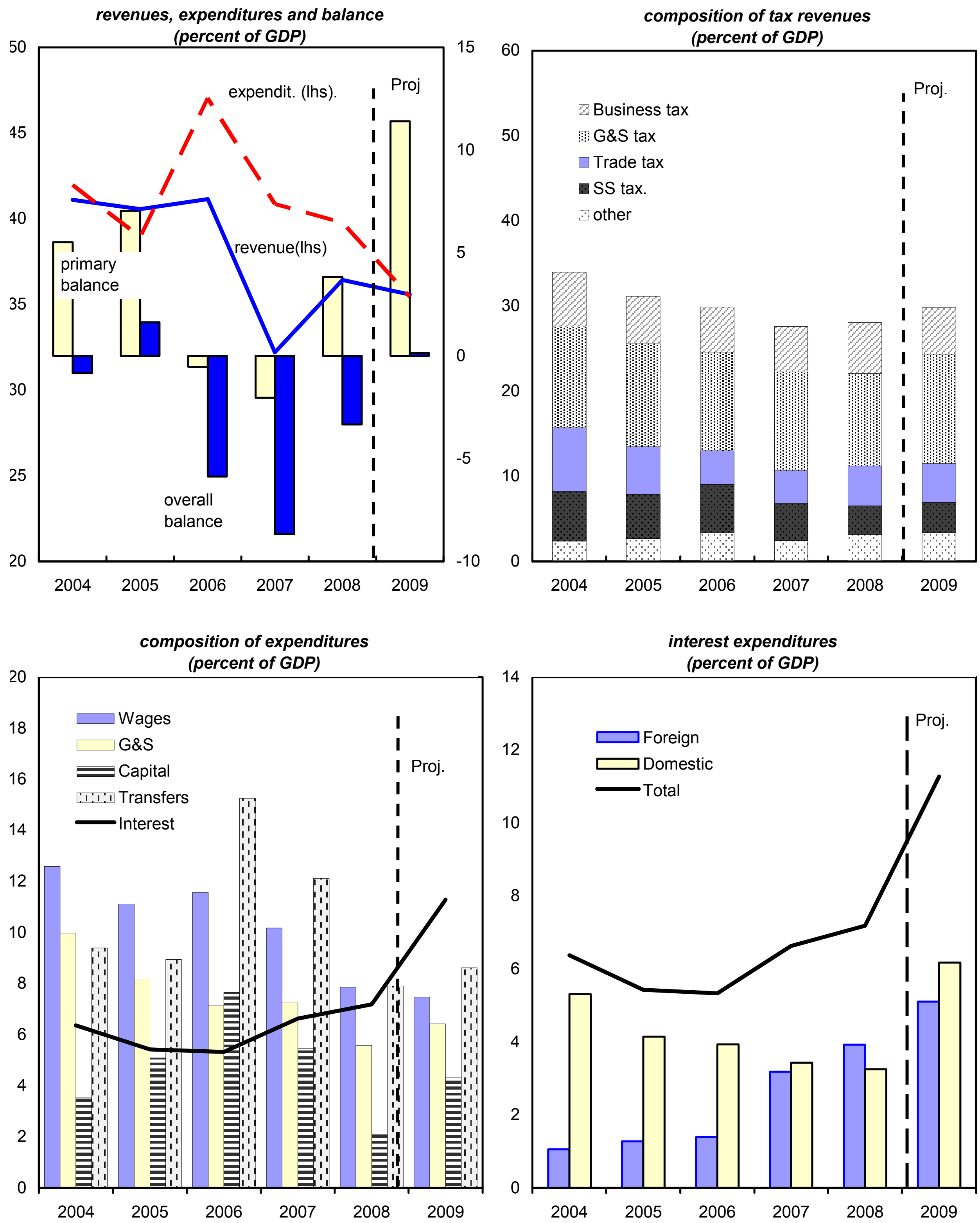
Sources: IMF Finance Department; and IMF staff estimates and projections.
[1] End of period.
[2] Repayment schedule based on repurchase obligations.

Figure 2. Seychelles: Macroeconomic Developments



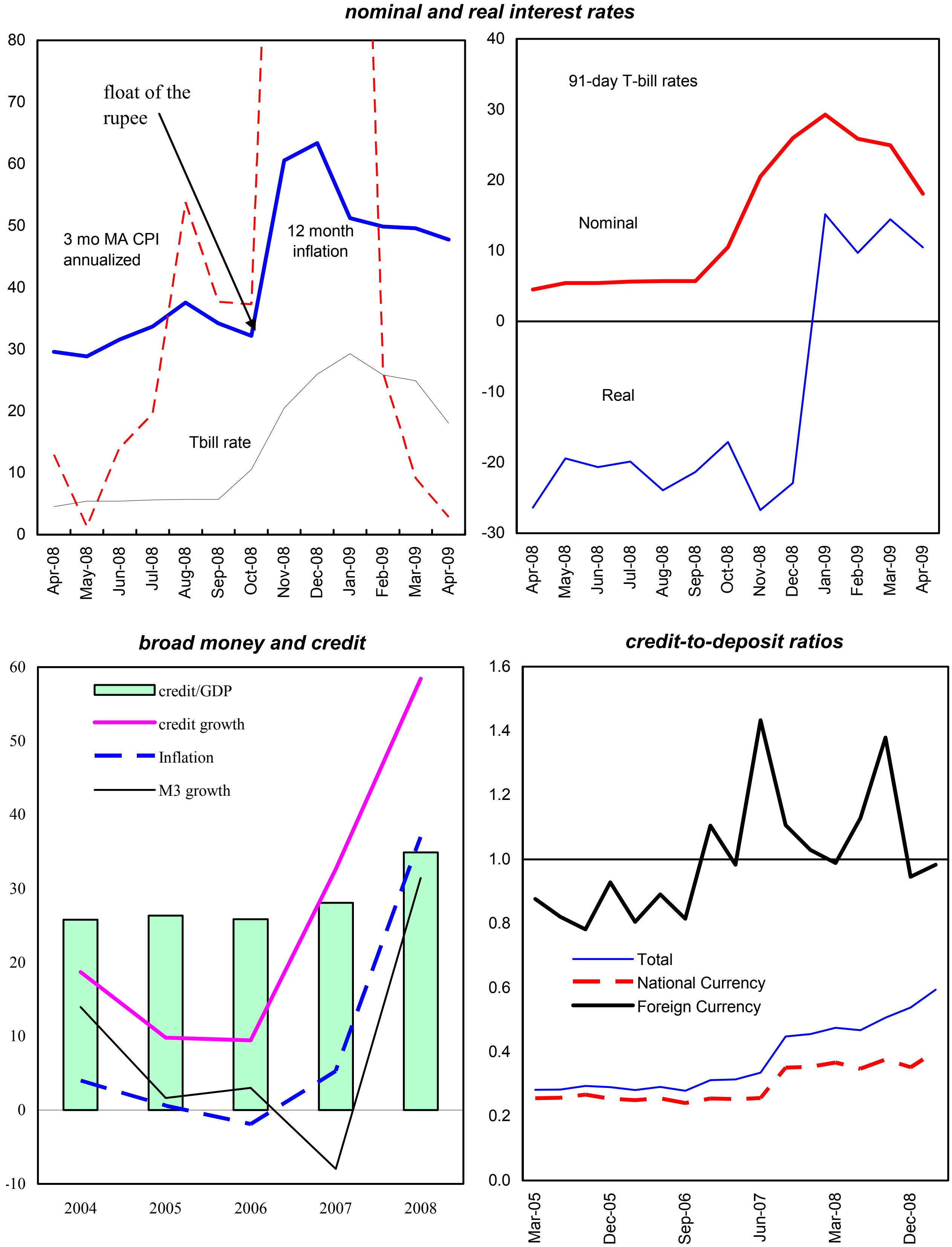
Source: Seychelles authorities; and Fund staff estimates.

Figure 3. Seychelles: Fiscal Sector



Source: Seychelles authorities; and Fund staff estimates.

Figure 4. Seychelles: Monetary Sector



Source: Seychelles authorities; and Fund staff estimates

APPENDIX I
SEYCHELLES: LETTER OF INTENT

June 16, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund

Dear Mr. Strauss-Kahn:

1. The attached Updated Memorandum of Economic and Financial Policies for 2009 (MEFP) describes Seychelles' performance in the first quarter of 2009 and policies for the remainder of the year. We request completion of the second review under the Stand-by arrangement and the release of the third tranche of SDR 0.88 million (10 percent of quota).

2. **All the quantitative performance criteria (PCs) at end-March 2009 were met**. One of the two structural benchmarks at end-April was observed. The second was missed due to a delay in the approval of new bank capitalization norms, which was implemented in May. We are making progress towards meeting the structural performance criterion and benchmarks for end-June and end-September. We are also moving ahead with our external debt restructuring strategy and are committed to achieving comparable treatment to the Paris Club agreement with all creditors.

3. **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 remain committed to full implementation of the recommendations of the Fund's safeguards assessment of the Central Bank of Seychelles (CBS).

4. **We have begun to elaborate a comprehensive medium-term structural reform strategy**, in collaboration with our international partners, in support of which we intend to request a 3-year arrangement under the Extended Fund Facility in late 2009 coinciding with our 2010 budget.

5. **In line with our commitment to transparency, we request the IMF publish this letter, the MEFP, the technical memorandum of understanding (TMU), and the staff report**. We will simultaneously publish these documents in Seychelles.

Sincerely yours,

/s/
James Alix Michel
President
Republic of Seychelles

Attachments: MEFP and TMU

ATTACHMENT I

SEYCHELLES: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2009 (UPDATED FOR THE SECOND PROGRAM REVIEW)

I. INTRODUCTION

1. **This document updates the MEFP of March 13, 2009 for the first program review**. It reviews macroeconomic and financial performance in the first quarter of 2009 and describes our policies and reform measures for the remainder of the year.

II. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

2. **The economy has stabilized more rapidly than anticipated so far in 2009.** Supported by tight monetary and fiscal policies, inflation has declined sharply to 2.4 percent in the first four months of 2009 (annualized), aided by sharp declines in food and petroleum prices. The rupee, which stabilized following the float at around SR16-17/US$, has appreciated significantly in the second quarter. Nominal interest rates have been declining steadily from their highs as inflation has fallen and real interest rates had risen to positive levels early in the year.

3. **The global economic recession is nonetheless pressing on Seychelles, with tourism earnings in particular falling significantly in the first quarter**. Imports fell faster than exports, partly due to the decline in FDI and in private incomes. At the same time, while tourism earnings weakened, exports of tuna have held up well. Gross official reserves rose to US$85 million (1 month of imports, well above the program target) at end-March on some one-off inflows and the unblocking of foreign asset accounts.

4. **Fiscal policy over performed the program target in the first quarter** on a more rapid repayment by SEYPEC of its financing facility, tightened expenditure controls (notably through the strengthened procedures under the new Procurement Act), the non use of the public financial institutions recapitalization contingency, and higher fishing license fees. Revenues also held up well, exceeding program projections. The primary fiscal balance was SR784 million (8.1 percent of GDP). A qualified financial controller was appointed to the Ministry of Health to strengthen expenditure controls, an auditor was hired to conduct management audits of the largest public enterprises and a public enterprise monitoring unit was established at the Ministry of Finance to support public enterprise reform. The first steps to implement a treasury single account were taken and an upgraded public debt report (for 2008) was produced.

5. **Monetary policy was kept tight and the reserve money target was observed, supported by fiscal over performance**. Positive real interest rates have been instrumental in containing inflationary pressures and limiting the second round effects of the depreciation of the rupee on prices. As an early sign of financial stabilization, interest rates on government

paper declined notably from the peak 30 percent in January 2009 to about 15 percent in May 2009. The CBS has implemented with success the new reserve money management framework, relying on indirect policy instruments, such as the deposit auction facility with commercial banks. To allow for more operational flexibility in commercial banks liquidity management, the required reserves maintenance period has been increased to two weeks, while gradually shifting that on FX deposits to foreign exchange. The 91-day Treasury bill rate has become a benchmark rate.

6. **All quantitative performance criteria for end-March were comfortably met** (Table 1) and one of the structural benchmarks for end-April was observed while part of the second one was missed as bank capitalization norms were approved with a delay (Table 2). Table 3 lists the measures that were implemented (additional to the structural benchmarks) in the first four months of 2009.

7. **The passage of the new central bank act was an important step towards modernizing monetary policy**. In line with best international practices, price stability is now the primary objective of monetary policy. The law also strengthens the independence and accountability of the CBS, introduces new rules for CBS profit calculation and distribution, and puts in place a new capital structure that adjusts dynamically with changing monetary liabilities of the central bank.

8. **On April 16, 2009 Paris Club creditors (with the participation of South Africa) granted an exceptional debt treatment to Seychelles under the Evian approach**. US$140 million of arrears were regularized and the consolidated debt stock will be reduced by 45 percent in nominal terms in two tranches: the first, after the completion of the second program review (July 2009) and the second after the completion of the first review under a successor arrangement with the IMF (expected around June 2010) and satisfactory implementation of the comparability of treatment clause with respect to the agreements reached with other creditors. The remaining amounts will be rescheduled over 18 years, including 5 years of grace. A "goodwill" payment of US$1 million will be made by end-June.

9. **We are continuing our good faith efforts with other creditors to agree a restructuring on comparable terms**. We have completed a second road show for commercial creditors and are maintaining a dialogue with creditors to inform the outlines of a restructuring proposal. We have been disseminating data and information relevant to our creditors through a dedicated website, including up to date estimates of our external financing gap and extent of the necessary debt service reduction. However, despite our best efforts, we were unable to stop payments by third parties to two of our external creditors through escrow accounts outside of Government control. We have instructed the third parties to cease making payments into these accounts, consistent with our commitment to inter-creditor equity.

III. Updated Macroeconomic and Financial Program for 2009

10. **Building on the strong performance in the first quarter, our macroeconomic policies for the remainder of 2009 aim to consolidate the gains in macrostabilization, notably on low inflation**. We intend to lock-in most of the fiscal overperformance of the first quarter, while allowing for a measured easing of monetary policy. However, driven by a drop-off in tourism and construction, real GDP is projected to contract by almost 11 percent in 2009, with a modest recovery starting from 2010. On the back of weakening domestic demand and declining FDI, the current account deficit is expected to improve to about 27 percent of GDP in 2009.

11. **Our reform objectives are to consolidate macroeconomic stability, and lay the foundation for economic recovery and sustained growth.** We will continue to remove distortions, modernize economic laws and regulations, and reduce the role of the state in the economy. We will implement a significant reinforcement of monitoring and control over parastatal bodies to address major financial risks to the stability of public finances. We will also implement a fundamental reform of tax policy and administration. We will work to strengthen and modernize the financial system. We will also continue our good faith efforts to restructure our external public debt, building on the agreement with Paris Club creditors.

A. Fiscal Policy

12. **To bank the gains in macro stabilization, the program aims to lock-in most of the over-performance achieved in the first quarter**. The primary fiscal surplus will reach 11.4 percent of GDP. We are taking measures to further strengthen revenue collection, reinforce control of public expenditure, and raise the efficiency and transparency of public finance. At the same time, the contingency for the recapitalization of the public financial institutions has been reduced by two-thirds (2 percent of GDP), reflecting reduced potential need. These savings have been reallocated to meet unforeseen expenditure demands, including to respond to the threat of piracy in Seychelles' territorial waters, to cover financial losses of the public utilities corporation while it is being reformed, and to meet pressing social needs. Overall, the primary surplus, together with declining interest rates, will allow a reduction of domestic financing by the equivalent of 5.6 percent of GDP.

Tax reform

13. **We are preparing to launch a fundamental reform of the tax system with technical support from the IMF**. Our objective is to have a simple, fair, and equitable system, which will promote growth, improve self-compliance, and level the playing field for investors. Our tax reform strategy will have three major components:

- Broadening of the **business tax base** by removing exemptions and sectoral preferences (tourism and fishing); lowering/eliminating thresholds and accelerated capital depreciation schedules. Commensurately, rates will be harmonized at lower levels. This reform will be launched with the 2010 budget.

- Introduction of a **personal income tax** to replace the social security contributions and other taxes on personal earnings to improve transparency, efficiency, and fairness. We expect to introduce the personal income tax by July 2010.

- Introduction of a single rate **VAT** by January 2012, replacing the current multiple rate GST, to improve the efficiency of the indirect tax system and external competitiveness.

The tax incentives under the Tourism Incentive Act, Agriculture and Fisheries Incentive Act, and the Investment Promotion Act will be eliminated by January 1, 2010 with the introduction of the new tax code. New concessions under these acts will have a duration limited to July 2010 at most. We will seek to transition companies with existing concessions agreements into the new tax system. We will also introduce measures to bolster tax administration and have requested technical assistance from the IMF in this regard.

Action	**Timing**
Administration	
• Introduce a "Valid Tax Invoice" system to provide for an audit trail for the claiming of deductions for business tax as well as input tax credits for the new VAT.	July 2009
• Grant Seychelles Revenue Commission (SRC) autonomy from public administration (DPA) human resource norms	June 2009
• Introduce a Tax Administration Act governing all administrative issues surrounding legislation administered by the SRC.	January 2010
• Eliminate retail shops from the International Trade Zone (ITZ)	July 2010
• Introduction of a Seychelles business number to serve as an account number for all revenue streams within Seychelles.	January 2010
• Introduce legislation to facilitate a single consolidated client account and introduce provisions within such legislation where liabilities and refunds may be netted off.	July 2010
• Integrate the Seychelles Licensing Authority within the SRC in order to achieve synergies for both government and clients	January 2010
• Outsource the Seychelles Pension Fund collection and compliance functions to the SRC to achieve synergies for both Government and clients	January 2010
• Outsource the SRC "point of contact" (cashier) functionalities to a suitable third party with a large geographic footprint in order to further enhance the "one-stop-shop" principle for the public	July 2010
• Develop a Client Management System (CMS) for the SRC so it is in a position to manage the revenue collection effectively and with integrity	July 2009 to January 2012
• Introducing new legislation to strengthen the current Tax Agent Board by providing it with more effective management capabilities as well as limited arbitration functions	January 2010
• Introduce legislation to mandate that all revenue collected by the SRC be posted to the Government's consolidated revenue account.	September 2009

Business Tax	
• Amend the Business Tax Act in line with the tax reform strategy	December 2009
• Reduce the tax free threshold to international standards	January 2010
• Introduce legislation to facilitate a Uniform Capital Allowance system, annul all accelerated depreciation rules and cap all depreciation allowances at 100 percent of cost	January 2010
• Introduce simple Capital Gains legislation to capture large capital profits currently un-taxed.	July 2010
• Replace the current withholding and DAS provisions in the Business Tax Act with a pay as you go instalment (PAYGI) system.	January 2010
• Introduce a thin capitalisation ratio of 3 to 1 within the Business Tax act for defined types of businesses	January 2010
• Bring the tax rate for tourism, fisheries, agriculture and other concessionary industries in line with the normal tax rate.	January 2010
Personal Income tax (Pay as you go withholding)	
• Introduce new legislation to replace SSF contribution with Pay As You Go withholding (PAYGW) system	July 2010
• Introduce simple Fringe Benefit legislation based on the current interpretation of non-monetary benefits within the Social Security Act.	July 2010
Indirect taxation	
• Introduce GST on licenses provided by the Seychelles Licensing Authority	January 2010
• Introduce GST on all consultancy services	January 2010
• Eliminate the retail mark-up to calculate the GST	January 2010
• Change current GST legislation to include all goods and services unless exempt (create positive list)	January 2010
• Replace current GST legislation and replace it with a full GST (VAT) system including the availability of input tax credits	January 2012
Trade Taxes	
• Introduce the new Customs Management Act including HS codes: "Seychelles Taxation System (Customs Management) Act 2010"	January 2010
• Rationalize all trade tax rates in line with international commitments	January 2010

14. **We will implement expenditure rationalization measures recommended in the World Bank's Public Expenditure Review (PER)**, initially focusing on the health and education sectors. Based on the findings of the high-level government task force, the functions of the civil service will be streamlined with a view to eliminating duplication and outsourcing ancillary services to the private sector.

15. **We will continue to strengthen the public financial management framework.** Modernizing and strengthening the treasury function will be important to consolidate and optimize the use of government cash balances, and improve oversight by the Ministry of Finance of spending units. For that purpose, we have begun moving to a Treasury Single Account and have already closed most of the ministerial and parastatal entity accounts in commercial banks. We will ensure that the recently created financial analysis branch within the SRC has the staffing and tools to adequately assess all investment proposals.

16. **Rationalizing the size of public sector and greatly increasing the financial control and monitoring of parastatal finances is a key building block of our reform program**. In recognition of the need to improve monitoring and control of the public enterprises, a detailed work plan for the new Public Enterprise Monitoring Division has been approved. The key emphasis of the Division will be to drive improved operational efficiency; significantly strengthened governance; reduction of dependence on public funding and financial risks to the state. The Division will monitor all government owned organizations and will undertake a strategic assessment that will make recommendations on ownership and corporate structure to improve efficiency in the provision of essential services and ensure Government receives maximum returns on its investments and value for money. The Division will achieve these objectives through a combination of improvements in the legal framework, management reviews, external audits, increased and improved reporting obligations, development and introduction of policies and guidelines and strategic assessments of the government's interest in parastatals.

Action	**Timing**
Budget	
• Adopt a treasury single account	September 2009
Pubic enterprises and entities	
• Collect monthly reports from public enterprises and analyze on a quarterly basis	July 2009
• Launch a tender for an advisor for the privatization of Nouvobanq and Seychelles Savings Bank	September 2009
• Develop corporate governance guidelines for public entities	August 2009
• Complete external audits of the 2008 accounts of seven major public enterprises (PUC, STC, SEYPEC, SCAA, IDC, Air Seychelles and Nouvobanq) in accordance with international audit standards	September 2009
• Introduce a new Public Enterprise Monitoring and Control Act	September 2009
• Prepare a strategic assessment for each major public enterprise	September 2009
• Ministry of finance to conduct management audits of major public enterprises	2009-10
• Develop reform action plans for major public enterprises following the external and management audits.	2009-10
• Introduce policies to guide management of public entity debt in line with the debt strategy	December 2009
Public debt	
• Prepare a medium-term debt strategy	November 2009
• Prepare an annual borrowing plan to be submitted with the 2010 budget	November 2009
• Begin establishing performance benchmarks for public enterprises	December 2009

B. Public Debt Restructuring Strategy

17. **We are committed to continuing our good faith efforts to achieve a comprehensive public external debt restructuring, consistent with our medium-term payments capacity and the Fund's lending into arrears policy**. We will ensure information transparency, inter-creditor equity, and dialogue with all creditor groups. As was recognized by Paris Club creditors, immediate and sizable cash flow relief in the short- to medium-term, and a sustained reduction of our debt service burden is necessary. This needs to be supplemented by significant balance of payments support from our international partners. We will also formulate a debt management strategy, complemented by annual borrowing plans. This will incorporate the objective of reducing the cost and risk of public debt, while taking into account monetary and fiscal policy objectives. To this end, we will seek further assistance of the Fund's Monetary and Capital Markets Department.

C. Monetary, Exchange Rate, and Financial Sector Policies

18. **The primary objective of our monetary policy is to achieve price stability**. With forecasts for continued low inflation, there appears to be room to loosen monetary policy, while ensuring that interest rates remain positive in real terms. Beginning in July we will begin a structural and measured reduction in reserve requirements and the local asset ratio, as conditions permit, to support a recovery in credit to the economy and an unwinding of the effects of longstanding financial repression. Nevertheless, we stand ready to ensure that inflationary pressures do not re-emerge.

19. **Monetary policy is based on reserve money targeting and the CBS will continue to rely on indirect instruments of monetary management**. In addition to the recently introduced weekly deposit auctions, which have become an effective liquidity management tool, we plan to set up a standing credit facility and develop operational procedures for using CBS's portfolio of treasury bills in open market operations. We have developed and intend to further improve the liquidity forecasting and reserve money programming framework, and strengthen cash flow management through improved policy coordination and information sharing between the Ministry of Finance and the CBS. Going forward, we will continue to expand policy tools, including introducing repo and reverse repo instruments, developing the interbank foreign exchange market, strengthening CBS governance, and work to elucidate the monetary transmission mechanism.

Monetary measures

Action	**Timing**
• Make operational new lending facilities to commercial banks	June 2009
• Introduce repo and reverse-repo facility	June 2009
• Reduce the local asset ratio further with the aim of phasing it out over the program period as conditions permit, in consultation with IMF staff	2009
• Improve liquidity forecasting and strengthen monetary targeting	September 2009
• Implement a structural and measured reduction in reserve requirements	2009

20. **We will maintain the floating exchange rate regime.** CBS intervention in the foreign exchange rate market will be limited to smoothing excessive volatility and ensuring orderly market conditions, subject to the achievement of our reserve money and external reserves targets. The goal is to strike a balance between the disinflation objective and build-up of international reserves, which are expected to reach 1.3 months of prospective imports by end-2009. We will continue, with IMF technical support, to introduce measures to strengthen nascent foreign exchange institutions and promote efficiency and transparency in the market.

Action	Timing
• Prepare and submit to the National Assembly a modernized, simplified and transparent foreign exchange act.	June 2009
• Establish a Foreign Reserves Management Committee at the CBS	June 2009
• Adopt foreign reserves management and investment guidelines	September 2009
• Establish stronger controls over day-to-day foreign exchange operations by separating key responsibilities and reporting lines	September 2009
• Introduce a net open position limit of 30 percent for class A bureau de change	September 2009
• Introduce an augmented real-time gross settlement foreign exchange system	2010

Financial sector development and stability

21. **We are committed to improving the efficiency and operations of the financial sector**. Modernizing the regulatory framework and strengthening supervisory capacity are key components of our reform agenda, drawing on IMF technical assistance. We are closely monitoring the operations and capitalization of financial institutions, which have proven resilient to large fluctuations in interest and exchange rates. Stress tests undertaken on the basis of the more stringent provisioning requirements to be introduced in June 2009 indicate that the banking sector's net tangible capitalization ratio would remain above minimum standards. Privatization of state-owned financial institutions remains a medium-term objective and we have sought technical support in this endeavor.

Action	Timing
• Presentation to the National Assembly of a modernized and strengthened Financial Institutions Act with IMF technical support	June 2009
Further strengthen financial sector supervision through implementation of the action plan developed in consultation with IMF technical experts in December 2007, including:	
• Issue determination on minimum requirements for appointing external auditors, which will replace existing circular	June 2009

Action	Timing
• Update credit concentration regulations and connected lending regulations in parallel with amendments to the Financial Institutions Act	June 2009
• Introduce documentation on the acquisition of substantial interests	June 2009
• Introduce manual for application to acquire substantial interest in commercial banks	July 2009
• Introduce manual on prompt corrective actions	September 2009
• Introduce documentation on mergers and acquisitions of assets and liabilities of other financial institutions	December 2009
• CBS to publish commercial banking supervision report	December 2009

Governance and safeguards measures

22. **We are committed to continued rapid implementation of measures to improve CBS governance, financial and accounting systems, and internal audit and control procedures, as identified in the IMF safeguards report**. We are working closely with the IMF to address all of these recommendations over the next two years.

Action	Timing
• Complete the CBS Procedures manual	December 2009
• Adopt a business continuity plan for CBS	June 2010
• Establish a new T-Bill allotment committee to ensure that the tendering process exercise is more transparent.	June 2009
• Begin transition to IFRS accounting standards at CBS by 2010 financial year	June 2009
• Launch a tender to upgrade CBS's IT system, particularly to introduce an integrated accounting framework	September 2009
• Set-up a procedure to systematically record all off balance sheet items in the CBS in conjunction with IT system upgrade	December 2009

D. Statistics

23. **The government will strive to improve the quality, periodicity, and timeliness of macroeconomic statistics and address** deficiencies in key macroeconomic data – especially GDP estimates, and external sector statistics, to improve their usefulness for economic analysis, and policy formulation. The government has requested technical assistance from the IMF Statistics Department (fiscal accounts) and from the World Bank (to strengthen the National Statistic Bureau (NSB). We will bring Seychelles into line with international best practice, by aiming to implement the IMF's Special Data Dissemination Standard (SDDS). We will set up a central coordination unit at the NSB that acts as a data-bank and a hub for data distribution, and monitors the timeliness of submission of the data by various agencies.

IV. Program Financing

24. **For 2009, the external nonproject financing requirement is expected to be covered by** disbursements from the IMF under the SBA (30 percent of quota; SDR 2.64 million; US$3.85 million), from the joint World Bank and African Development Bank Development Policy Loan (US$19 million) and from external debt relief (US$83 million, including on the US$15 million that was accumulated as arrears in the first quarter), following US$3 million cashflow relief secured from the Paris Club creditors, and by additional program financial support, primarily from the European Union.

V. Program monitoring

25. **The SBA will henceforth be monitored by semi-annual program reviews**. The quarterly quantitative performance criteria for 2009 (end-June and end-September) have been revised as shown in Table 1, with the end-December targets now proposed as indicative. The structural benchmarks and performance criterion are shown in Table 2. The non zero ceilings on the contracting or guaranteeing of external debt are to allow for budgeted public project finance and program support from multilateral institutions exclusively.

26. **The completion of the third review under the program will be based on meeting the quantitative performance criteria (QPCs) at end-September 2009**. The third review will also focus on further strengthening operations at the CBS, reinforcing public financial management, progress on normalizing relations with external creditors and implementation of the tax policy reform. We intend to request a successor arrangement under the Extended Fund Facility and cancellation of the SBA before end-December 2009. The fourth program review under the SBA would be based on meeting end-March 2010 QPCs and is scheduled to be completed by end-June 2010. Quarterly financing assurance reviews will continue as long as public debt arrears remain outstanding.

27. **The attached Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, indicative targets and adjusters under the program.** Seychelles will avoid introducing new exchange restrictions, multiple currency practices, or bilateral payments agreements in contradiction with Article VIII of the IMF's Articles of Agreement and imposing any import restrictions for balance of payments reasons. We stand ready to adopt any additional measures, in consultation with IMF staff, which may become necessary to ensure program success.

Table 1. Seychelles: Quantitative Performance Criteria Under the Stand-By Arrangement, December 2008–December 2009
(Millions of Seychelles rupees; end-of-period)

	2008			2009								
	December			March			June		September		December	
	Country Report No. 09/121	Adjusted	Actual	Country Report No. 09/121	Adjusted	Prel.	Country Report No. 09/121	Rev. prog	Country Report No. 09/121	Rev. prog	Country Report No. 09/121	Rev. prog
Performance criteria												
Net international reserves of the CBS, millions of U.S. dollars (floor) [1]	19.0	26.0	41.2	20.0	26.6	76.2	51.9	69.5	60.5	83.1	77.2	93.7
Reserve money (ceiling)	1,151	...	1,120	1,146	1,146	1,051	1,266	1,266	1,311	1,311	1,351	1,351
Primary balance of the consolidated government (cumulative floor) [2, 3, 4]	560	...	336	73	178	784	387	858	642	1,006	946	1,173
The contracting or guaranteeing of new external debt by the public sector (Millions of U.S. dollars; cumulative ceiling) [2]	15		10	10	…		10	10	30	34	35	39
The contracting or guaranteeing of new short-term external debt by the public sector (Millions of U.S. dollars; cumulative ceiling) [2]	0.0		0.0	0.0	…		0.0	0.0	0.0	0.0	0.0	0.0
The accumulation of external payments arrears by the public sector (ceiling) [5]	0.0		0.0	0.0	…		0.0	0.0	0.0	0.0	0.0	0.0
The accumulation of domestic payment arrears by the public sector (ceiling)	0.0		0.0	0.0	…		0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
External non project financing (millions of U.S. dollars; cumulative) [2]	-0.4	6.6	6.6	-10.0	-3.4	-3.4	-16.4	-26.0	-4.3	-7.3	-8.2	-8.2
Program financing support [2]	1.6	19.9	19.9	0.0	0.0	0.0	0.0	0.0	19.0	19.0	19.0	19.0
Cash payments on foreign debt service [2]	2.0	13.3	13.3	10.0	3.7	3.7	17.0	26.7	24.2	28.4	28.4	30.4
External budget grants [2]					0.3	0.3	0.6	0.6	0.9	2.1	1.2	2.5
Budget contingency[6]	…	…	…	100	…	0.0	200	0.0	250	50	300	100
Program accounting exchange rates												
SR/US$ (end-of-quarter)	14.00	14.00	16.57	16.00	16.00	16.09	16.00	14.65	16.00	14.65	16.00	14.65
US$/Euro (end-of-quarter)	1.46	1.46	1.39	1.46	1.46	1.33	1.46	1.33	1.46	1.33	1.46	1.33
US$/UK pound (end-of-quarter)	1.84	1.84	1.44	1.84	1.84	1.48	1.84	1.48	1.84	1.48	1.84	1.48
US$/SDR (end-of-quarter)	1.56	1.56	1.54	1.56	1.56	1.50	1.56	1.50	1.56	1.50	1.56	1.50
Reserve requirement (percent of deposits)	13	13	13	13	13	13	13	13	13	12	13	12

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

[1] The floor will be adjusted downwards (upwards) for any shortfall (excess) in external nonproject financial support from that assumed in the program.
[2] Cumulative flows from the beginning of the calendar year.
[3] The floor will be adjusted upwards for any unused amounts of the contingency in the budget for the recapitalization of the banking sector assumed in the program. Amounts of the contingency in excess of programmed amounts need to be funded within the program limits.
[4] The floor on the primary fiscal surplus will be adjusted upwards (downwards) by any excess (shortfall) of external budget grants from that assumed in the program.
[5] The non-accumulation of new external payment arrears constitutes a continuous performance criterion. Excludes arrears for which a rescheduling agreement is sought. Some external arrears were accumulated in December 2008, but cleared before end-December.
[6] The floor on the primary surplus of the consolidated government will be adjusted upwards by the cumulative amount of the contingency for recapitalizing the state-controlled financial institutions which is not used for that purpose.

Table 2. Seychelles: Structural Benchmarks and Performance Criterion, 2008–09

Measure	Target date	Status
Structural performance criterion		
• Complete tax audits by Seychelles Revenue Commission of the 20 largest companies	End-June 2009	Most audits completed and remainder being finalized in June. and target expected to be met
Structural benchmarks		
• Submit to the National Assembly a revision of the CBS act to strengthen governance and operations (MEFP, ¶30).	End-April 2009	Approved by Parliament on April 28, 2009
• Promulgate updated credit classification and provisioning regulations and strengthened commercial bank capitalization norms. (MEFP, ¶32).	End-April 2009	CBS board adopted credit classification norms and provisioning regulations on April 30. Capitalization norms were adopted on May 29, 2009
• Adopt a tax policy reform strategy with FAD TA (MEFP, ¶20).	End-June 2009	Strategy announced June 10, 2009
• Adopt a modernized and strengthened financial institutions act, with IMF T/A support. (MEFP, ¶32).	End-June 2009	In progress and expected to be met
• Introduce a treasury single account (MEFP, ¶19).	End-September 2009	In progress
• Adopt foreign reserves management investment guidelines (MEFP, ¶31).	End-September 2009	In progress
• Adopt Public Enterprise Monitoring and Control act (MEFP, ¶16)	End-September 2009	In progress
• Complete CBS procedures manual (MEFP, ¶22)	End-December 2009	
• CBS to publish commercial bank supervision report(MEFP, ¶21)	End-December 2009	
• Amend the Business Tax Act in line with the tax reform strategy (MEFP, ¶13)	End-December 2009	

Table 3. Seychelles: Reform Measures Implemented in January-May 2009

Action	Timing
Fiscal policy	
Introduce GST on casinos	March
Remove the GST on animal feed	March
Appoint a qualified financial controller to the Ministry of Health to strengthen expenditure control	March
Commence work towards implementation of a treasury single account	March
Finalize annual pubic debt report	March
Gather comprehensive data on parastatal debt and finances	March
Hire additional qualified staff and equip the public enterprise monitoring unit	June
Set up a Financial Analysis Branch at Ministry of Finance to assess investment proposals.	April
Monetary policy	
Introduce remuneration on statutory commercial bank reserves above a certain threshold at an interest rate that reflects the financial cost to commercial banks	March
Increase required reserves maintenance period to two weeks	April
Reduce to 30 per cent of capital the net open positions on foreign exchange, effective end June 2009	April
Establish a platform at the CBS for interbank foreign exchange trading	March
CBS governance and safeguards	
Disclosure in 2008 Annual CBS report of off balance sheet items, including pledged assets and earmarked or blocked funds	March
Submit to Parliament a revised CBS Act, inter alia to strengthen governance and operations.	April
Publish external audit letter and accounts on CBS website	April
Exchange regime	
With technical assistance from the IMF, establish a platform at the CBS for interbank foreign exchange trading/fixing	April
Financial sector reforms	
Further strengthen financial sector supervision through implementation of the action plan developed in consultation with IMF technical experts in December 2007, including:	
° Introduction of new liquidity risk management regulations	March
° Introduce new bank and *bureau de change* licensing regulations	March
° and update documentation requirements for banks	
° Update credit classification and provisioning regulations	April
° Update and strengthen commercial bank capitalization norms	May

ATTACHMENT II

SEYCHELLES: TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This technical memorandum of understanding presents the definitions of variables included in the quantitative performance criteria and indicative targets set out in the memorandum of economic and financial policies (MEFP), the key assumptions, and the reporting requirements of the Government and the Central Bank of Seychelles (CBS) needed to adequately monitor economic and financial developments. The quantitative performance criteria and indicative targets, and the structural performance criterion and benchmarks for 2008–09 are listed in Tables 1 and 2 of the MEFP, respectively.

I. QUANTITATIVE PERFORMANCE CRITERIA

A. Net International Reserves of the CBS (Floor)

Definition

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

Calculation method

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

Monitoring and reporting

4. At each program test date, the quarterly net international reserves data submitted by the CBS to the IMF will be audited by the CBS external auditors in accordance with International Standards on Auditing, to ensure conformity with the program definition and calculation methods. Reports should be submitted to the CBS, with a copy to the IMF, no later than two months after each test date.

Adjusters

5. The floor on the CBS's NIR will be adjusted upward (downward) by the amount by which the external non-project loans and cash grants exceeds (falls short of) the amounts assumed in the program (MEFP Table 1). The floors will also be adjusted upwards (downwards) by the amount that external debt service payments fall short (exceed) the amounts assumed in the program.

B. Reserve Money (Ceiling)

Definition

6. Reserve money is equivalent to currency issued and deposits held by financial institutions at the central bank (bank reserves), including those denominated in foreign currencies. Evaluation of performance of reserve money with respect to the program ceiling will be done at the program accounting exchange rate.

Monitoring and reporting

7. For each program test date, the quarterly reserve money data submitted by the CBS to the IMF will be audited by the CBS' external auditors in accordance with International Standards on Auditing, to ensure conformity with the program definition. Reports should be submitted to the CBS, with a copy to the IMF, no later than two months after each test date.

C. Primary Balance of the Consolidated Government (Cumulative Floor)

8. The consolidated government primary balance from above the line on a commitment basis is defined as total consolidated government and social security fund revenues (excluding privatization and long-term lease income receipts) less all noninterest (primary) expenditures of the government and social security fund.

Adjusters

9. The floor on the primary surplus of the consolidated government will be adjusted upwards by the cumulative amount of the contingency for recapitalizing the state-controlled financial institutions which is not used for that purpose. Any amounts spent for the recapitalizing of the state-controlled financial institutions in excess of programmed contingency will need to be funded within the program limit on the primary balance.

10. The floor on the primary surplus of the consolidated government will be adjusted upward (downward) by the amount by which external budget grants exceeds (falls short of) the amounts assumed in the program (MEFP Table 1).

D. Public External Debt (Ceiling)

11. The ceiling applies to the contracting or guaranteeing of new external liabilities by the public sector (including the central government, the CBS, and all public agencies and parastatals for operations that are not directly linked to commercial activities). The ceiling does not apply to the use of Fund resources, operations related to external debt restructuring; normal import related credits; purchases of treasury securities by nonresidents; or borrowing by parastatals in the conduct of normal commercial operations. The non zero ceilings on the contracting or guaranteeing of external debt are to allow for normal public project finance and program support from multilateral institutions exclusively. Debt shall be valued in U.S. dollars at program exchange rates.

- A zero subceiling on short-term external debt applies continuously to the contracting or guaranteeing of short-term external debt by the public sector, with an original maturity of up to and including one year.

12. For the purpose of this performance criterion, the term "debt" has the meaning set forth in point No. 9 of the Executive Board's Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85)). Debt is understood to mean a current, non 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 points in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. The ceiling on contracting official and officially guaranteed external debt includes all form of debt, including:

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

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

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the leasor retains title to the property. 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.

(iv) Arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt.

E. External Arrears of the Public Sector

13. The nonaccumulation of arrears to external creditors will be a continuous performance criterion under the program. External payments arrears for program monitoring purposes are defined as the amount of external debt service due and not paid within the contractually agreed period, including contractual and late interest. Arrears resulting from the nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is sought are excluded from this definition.

F. Budget Expenditure Arrears

14. The nonaccumulation of budget expenditure arrears will be a continuous performance criterion under the program. Budget expenditure arrears are defined as the sum of (1) any invoice that has been received by a spending agency from a supplier of goods, services, and capital goods delivered and verified, and for which payment has not been made within the contractually agreed period, or in the absence of a grace period, within 30 days; (2) unpaid wages, pensions, or transfers, pending for longer than 30 days to domestic or foreign residents, irrespective of the currency denomination of the debt.

II. Data and Information

15. 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)

- Reserve money.
- Foreign exchange reserves position.
- A summary table on the foreign exchange market transactions.
- The results of the liquidity deposit auctions, primary treasury bill auctions, and secondary auctions.

Monthly (within 4 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 2 weeks from the end of the month):

- Consolidated government operations on a commitment basis and cash basis in the IMF-supported program format.
- The detailed revenues and expenditures of the central government and social security fund.
- Monthly accounts of the public nonbank financial institutions.
- Import and export data from the customs department.
- Monthly public debt report.

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.

Appendix II
Seychelles: Debt Sustainability Analysis

The debt sustainability analysis (DSA) confirms that public debt in Seychelles remains unsustainable even after restructuring of Paris Club (PC) debt in April 2009. The highly concessional restructuring agreement with PC creditors in mid-April 2009, which recognized Seychelles' limited payments capacity, was an important step in toward achieving sustainability. However, even with the strong and sustained fiscal adjustment assumed under the program, a further significant reduction of the external debt burden is required to restore longer-term sustainability. Against this background, engagement in good-faith discussions with all external creditors to achieve a restructuring on comparable terms is critical.

Macroeconomic assumptions

The debt sustainability analysis is based on the macroeconomic framework presented in the present staff report:

- Near-term economic growth outlook has been revised downwards on account of the global recession, with real GDP expected to shrink by about 10.7 percent in 2009. Growth is expected to recover only gradually from 2010 onwards, supported by resumption of FDI-financed projects and recovery of tourism, and stabilize at around 5 percent a year in the long term.

- Supported by tight fiscal and monetary policy, inflation has declined sharply and is expected to remain in the low single digits for the remainder of 2009, aided by sharp declines in world food and fuel prices. It is assumed to remain at around 3 percent going forward in line with major trading partners' inflation.

- The near-term current account outlook has worsened from the previous analysis (done at the time of the first review) as piracy and the global economic crisis are expected to restrain exports and tourism earnings in 2009–10. The tourism forecasts for 2009 have been revised to a 22 percent drop, from the originally projected 25 percent decline, while tuna exports are expected decline by 21 percent and by a further 6 percent in 2010. Nevertheless, over the medium-term, tourism growth is expected to recover, peaking at 10.6 percent in 2013 and moderating to a long-run steady rate of around 8 percent a year. Given its comparative advantage, tuna exports are expected to revive by 4.5 percent in 2011.

- Net FDI inflows are expected to decline sharply in 2009 to 27 percent of GDP, as a number of large hotel projects have been postponed or slowed. This reflects tighter credit conditions and lower near-term outlook for tourism inflows. FDI flows are expected to recover from 2010 and stabilize at 26 percent of GDP over the long-run.

- Official foreign exchange reserves are targeted to build-up gradually to about 3.8 months of imports by 2019, a necessary recovery from the depleted levels of 2008.

Evolution of the debt stock and debt burden

- Public external debt is estimated at US$802.2 million (87.1 percent of GDP) at end-2008 (Table 1). About 60 percent of the debt was owed to commercial creditors, while the PC countries account for about 19 percent of the total. Seychelles has no arrears with multilateral creditors. At end-2008 some 42 percent of the debt stock was in arrears (US$333.5 million).

- In April 2009, PC creditors granted exceptional treatment to Seychelles under the Evian approach.[1] US$140 million of arrears were normalized (including South Africa). The restructuring of Seychelles debt will involve both flow and stock rescheduling with the debt stock reduced by 45 percent in two tranches and the remaining amounts rescheduled over 18 years including a five-year grace. No repayments will be made in 2009 other than a "goodwill" payment of US$1 million by end-June, with very limited payments due in the next few years as moratorium interest is partially deferred.

- Despite the PC debt restructuring, the stock of public external debt is expected to rise to 108 percent of GDP by end 2009, primarily reflecting disbursements from multilateral agencies and the depreciation of the rupee.

Baseline Scenario

The PC agreement leads to a significant reduction in the debt ratios but without further restructuring from other creditors on a comparable basis public debt remains unsustainable (Tables 2, 2a). However, the PC agreement is not tenable on its own, since a formal requirement for the effectiveness of the agreement is securing comparability of treatment from other creditors. This scenario assumes that the non-restructured debt (including arrears) is serviced and that the financing gaps are closed, as assumed in earlier analyses, by a flow rescheduling on market terms at LIBOR plus 1300 basis points and with a three-year maturity.[2] Over the next ten years, the public external debt ratio would rise steadily to around 326 percent of GDP (310.5 percent of exports) in 2019. Furthermore, the bound tests highlight that the external debt is extremely sensitive to the underlying assumptions, with even moderate shocks triggering dramatic explosive dynamics (Figure 1a). Notwithstanding the strong fiscal adjustment (Table 2b and Figure 1b), the analysis indicates a similar unsustainable profile for overall public sector debt over the medium run, at 342.7 percent of GDP, driven by dynamics of external debt.

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[1] The agreement covered all the debt to Paris Club. South Africa, a significant non-Paris Club creditor, participated in the meeting and was a signatory of the minute.

[2] The assumed risk premium is designed to mimic the current level of EMBI spreads on sovereign external debt of other highly indebted countries with significant vulnerabilities, for which trading of debt securities is more active.

Alternative Scenario [3]

Under this scenario, public external debt at end-2008 is restructured on comparable cash flow terms with the PC agreement (the agreement with PC creditors requires Seychelles to seek promptly from all other external commercial and bilateral creditors debt restructuring on comparable terms). Public external debt would decline steadily to 60.4 percent in 2014 and remain under 60 percent through 2019 (Table 3a and Figure 2a). Total public debt (including domestic debt) would decline to 62.5 percent of GDP by 2019 (Table 3b, Figure 2b). However, assuming key variables are at their historical averages the external debt ratio would rise steadily to 104.9 percent of GDP, pointing to the vulnerability of the outlook.

Standardized bound tests show that Seychelles's public debt is particularly exposed to current account shocks and interest rate shocks. Assuming a half standard deviation shocks to the current account (8.3 percent increase in the deficit), the debt stock would increase to 493.2 percent (baseline scenario) in 2019 and 118.7 percent (alternative scenario).

Table 1. External Debt [1]

	End-2008
External debt stock [2]	802.2
Multilateral	57.0
Bilateral	267.4
Paris Club	151.7
Non-Paris Club	115.8
Commercial	477.7
External debt arrears	333.5
Multilateral	0.0
Bilateral	184.5
Paris Club	124.2
Non-Paris Club	60.4
Commercial	149.0

[1] Preliminary and subject to reconciliation with creditors. Includes CB

[2] Includes arrears.

[3] This hypothetical scenario is included for illustrative purposes only. It is based on technical assumptions regarding the restructuring of debts to all other non-Paris Club creditors on terms comparable to those agreed with Paris Club creditors, without pre-judging the terms of such a restructuring.

Table 2. Seychelles: Balance of Payments Baseline Scenario (Assuming Paris Club Restructuring), 2007-19
(Millions of U.S. dollars)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
		Prel.	Proj.	Proj.									
Current account	-213	-420	-250	-343	-422	-445	-500	-578	-659	-772	-911	-1,082	-1,283
(Percent of GDP)	-21	-46	-37	-45	-51	-48	-50	-53	-56	-61	-66	-73	-80
Trade balance	-175	-386	-146	-187	-172	-142	-127	-119	-104	-100	-97	-97	-92
Income, net	-72	-103	-155	-215	-311	-363	-435	-523	-620	-739	-882	-1,054	-1,262
Of which: interest payments due [1]	-33	-33	-92	-124	-202	-236	-290	-357	-432	-525	-642	-786	-962
Current transfers, net	33	69	52	60	60	61	62	63	65	66	68	70	71
Capital and financial account	261	172	483	380	472	500	561	634	711	822	961	1,132	1,333
Capital account	8	5	37	37	5	5	5	6	6	6	6	6	6
Financial account	254	167	446	342	467	495	555	628	705	816	955	1,126	1,327
Direct investment, net	225	346	183	213	236	239	258	289	301	326	352	381	411
Portfolio investment, net	31	1	0	0	0	0	0	0	0	0	0	0	0
Other investment, net	-2	-180	263	129	232	257	297	339	403	490	602	745	915
Net errors and omissions	-8	101	23	0	0	0	0	0	0	0	0	0	0
Overall balance	40	-147	257	37	50	56	60	56	51	50	50	50	50
Financing	-40	147	-257	-37	-50	-56	-60	-56	-51	-50	-50	-50	-50
Change in net international reserves (increase: –)	49	-27	-54	-37	-50	-56	-60	-56	-51	-50	-50	-50	-50
Change in gross official reserves (increase: –)	49	-36	-58	-50	-50	-50	-50	-50	-50	-50	-50	-50	-50
Prospective liabilities to IMF, net	0	10	4	13	0	-6	-10	-6	-1	0	0	0	0
Other NFA (increase: –)	0	0	-10	0	0	0	0	0	0	0	0	0	0
Exceptional financing	-89	174	-193	0	0	0	0	0	0	0	0	0	0
Change in arrears (increase: +) [3, 4]	-89	174	-333	0	0	0	0	0	0	0	0	0	0
Clearance of arrears		…	140	0	0	0	0	0	0	0	0	0	0
Financing gap [5]	0	0	0	0	0	0	0	0	0	0	0	0	0
Financing gap (before closing)	0.0	0.0	337	273	638	638	783	1,003	1,192	1,466	1,810	2,224	2,740
Memorandum items:													
Gross international reserves (stock, e.o.p.) [6]	10	51	108	158	208	258	308	358	408	458	508	558	608
Months of prospective imports of goods and services	0.1	1	1	1.8	2.3	2.6	3.0	3.2	3.4	3.6	3.7	3.8	3.8
Public external debt [1,4, 6]	710	802	885	1,008	1,229	1,477	1,766	2,088	2,486	2,971	3,572	4,318	5,233
(Percent of GDP)	69.2	87	130	132.3	147.5	161.0	175.1	191.7	211.1	233.6	259.9	290.8	326.2
Of which: arrears [1, 3,4]	160	333	0	0	0	0	0	0	0	0	0	0	0
(Percent of GDP)	15.6	36	0	0	0	0	0	0	0	0	0	0	0
GDP	1,026	921	679	762	833	918	1,009	1,090	1,177	1,272	1,374	1,485	1,604

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

[1] Projections are based on identified new borrowing and rescheduled Paris Club debt. It assumes comparable cash flow treatment for one bilateral creditor that also signed the agreement, and no debt restructuring for the remaining creditors. Arrears restructuring leads to higher rescheduled interest payments.

[2] Based on Paris Club agreement, the payments of principal and most interest during 2008 and through June 2009 are deferred.

[3] In 2008, includes accelerated amortizing notes.

[4] Debt forgivenesss reflects: (i) the first stage of debt reduction (about 22.5) percent in July 2009; (ii) the second stage reduction (about 22.5 percent) in July 2010 on Paris Club debt and one bilateral creditor. Assumes debt reduction comparable to the Paris Club agreement on

[5] Financing gaps are assumed to be closed by a hypothetical 3-year maturity amortizing loan at libor plus 13 percent.

[6] Starting with 2007, refers to CBS gross international reserves net of blocked deposits and project accounts.

Table 2a. Seychelles: External Debt Sustainability Framework for Baseline Scenario (PC Restructuring only and Nonconcessional Refinancing), 2008-19

(in percent of GDP, unless otherwise indicated)

					Projections							
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
					I. Baseline Projections							
External debt [1]	**87.1**	**130.4**	**132.3**	**147.5**	**161.0**	**175.1**	**191.7**	**211.1**	**233.6**	**259.9**	**290.8**	**326.2**
Change in external debt	17.9	43.4	1.8	15.2	13.5	14.0	16.6	19.5	22.5	26.3	30.9	35.5
Identified external debt-creating flows (4+8+9)	15.9	12.9	2.7	11.1	8.9	9.5	13.5	16.1	19.3	23.2	27.9	32.7
Current account deficit, excluding interest payments	43.4	-5.4	28.5	26.2	22.6	20.8	20.3	19.4	19.4	19.6	19.9	20.0
Deficit in balance of goods and services	41.9	-9.2	24.5	20.6	15.5	12.6	10.9	8.8	7.8	7.0	6.5	5.8
Exports	109.3	139.5	106.2	105.4	104.4	103.5	104.0	104.6	104.7	104.8	104.6	105.1
Imports	151.1	130.4	130.8	126.0	119.9	116.1	114.9	113.5	112.6	111.9	111.2	110.8
Net non-debt creating capital inflows (negative)	-37.6	-26.9	-28.0	-28.3	-26.0	-25.6	-26.5	-25.6	-25.6	-25.6	-25.6	-25.6
Automatic debt dynamics [2]	10.1	45.2	2.1	13.1	12.3	14.2	19.8	22.4	25.6	29.3	33.6	38.3
Contribution from nominal interest rate	2.2	14.0	16.5	24.4	25.8	28.8	32.8	36.7	41.3	46.7	52.9	60.0
Contribution from real GDP growth	0.7	12.6	-4.1	-6.0	-6.7	-7.3	-8.1	-8.9	-9.8	-10.8	-12.0	-13.5
Contribution from price and exchange rate changes [3]	7.2	18.5	-10.2	-5.3	-6.8	-7.2	-4.9	-5.4	-5.9	-6.6	-7.3	-8.2
Residual, incl. change in gross foreign assets (2-3)	2.0	30.5	-0.8	4.2	4.6	4.5	3.1	3.3	3.1	3.1	3.0	2.8
External debt-to-exports ratio (in percent)	79.7	93.5	124.5	139.9	154.2	169.1	184.3	201.8	223.0	248.0	277.9	310.5
Gross external financing need (in billions of US dollars) [4]	0.6	0.1	0.5	0.9	0.9	1.0	1.3	1.5	1.8	2.1	2.6	3.1
in percent of GDP	66.1	20.5	67.1	105.8	94.9	101.8	117.0	125.2	139.3	155.7	173.8	195.0
Key macroeconomic assumptions												
Nominal GDP (US dollars)	0.9	0.7	0.8	0.8	0.9	1.0	1.1	1.2	1.3	1.4	1.5	1.6
Real GDP growth (percent)	-0.9	-10.7	3.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Exchange rate appreciation (US dollar value of local currency, change in percent)	-29.5	-37.3	4.3	1.7	1.7	1.7	0.0	0.0	0.0	0.0	0.0	0.0
GDP deflator in US dollars (change in percent)	-9.4	-17.6	8.5	4.1	4.9	4.7	2.9	2.9	2.9	2.9	2.9	2.9
Nominal external interest rate (percent)	2.9	11.8	14.2	20.2	19.3	19.6	20.2	20.7	21.1	21.6	22.0	22.3
Growth of exports (US dollar terms, percent)	15.3	-6.0	-14.5	8.5	9.1	9.0	8.5	8.7	8.2	8.1	7.8	8.5
Growth of imports (US dollar terms, percent)	32.9	-36.5	12.7	5.4	4.8	6.4	6.9	6.7	7.2	7.4	7.4	7.7
Current account balance, excluding interest payments	-43.4	5.4	-28.5	-26.2	-22.6	-20.8	-20.3	-19.4	-19.4	-19.6	-19.9	-20.0
Net non-debt creating capital inflows	37.6	26.9	28.0	28.3	26.0	25.6	26.5	25.6	25.6	25.6	25.6	25.6
					II. Stress Tests for External Debt Ratio							
A. Alternative scenarios												
A1. Key variables are at their historical averages in 2008-13 [5]	**87.1**	**108.1**	**107.1**	**109.6**	**112.4**	**115.1**	**116.5**	**118.1**	**119.5**	**120.8**	**121.9**	**122.8**
B. Bound tests												
B1. Nominal interest rate is at baseline plus one standard deviation	**87.1**	**133.6**	**138.7**	**157.9**	**176.2**	**195.8**	**219.6**	**247.8**	**280.9**	**320.1**	**366.7**	**421.2**
B2. Real GDP growth is at baseline minus two standard deviations	**87.1**	**135.8**	**140.2**	**158.7**	**175.7**	**193.5**	**214.0**	**238.2**	**265.9**	**298.3**	**336.3**	**380.3**
B3. Non-interest current account is at baseline minus one standard deviations	**87.1**	**138.8**	**149.1**	**174.3**	**198.4**	**224.0**	**254.5**	**289.6**	**329.9**	**376.7**	**431.0**	**493.2**
B4. Combination of B1-B3 using 1/4 standard deviation shocks	**87.1**	**134.0**	**139.0**	**158.2**	**176.0**	**194.8**	**217.2**	**243.4**	**273.8**	**309.3**	**351.0**	**399.2**
B5. One time 15 percent of additional real depreciation in 2009	**87.1**	**153.6**	**150.9**	**163.9**	**175.1**	**186.8**	**200.7**	**217.5**	**236.9**	**259.7**	**286.7**	**317.7**

Source: Seychelles authorities; and IMF staff projections.

[1] Includes CBS external debt.

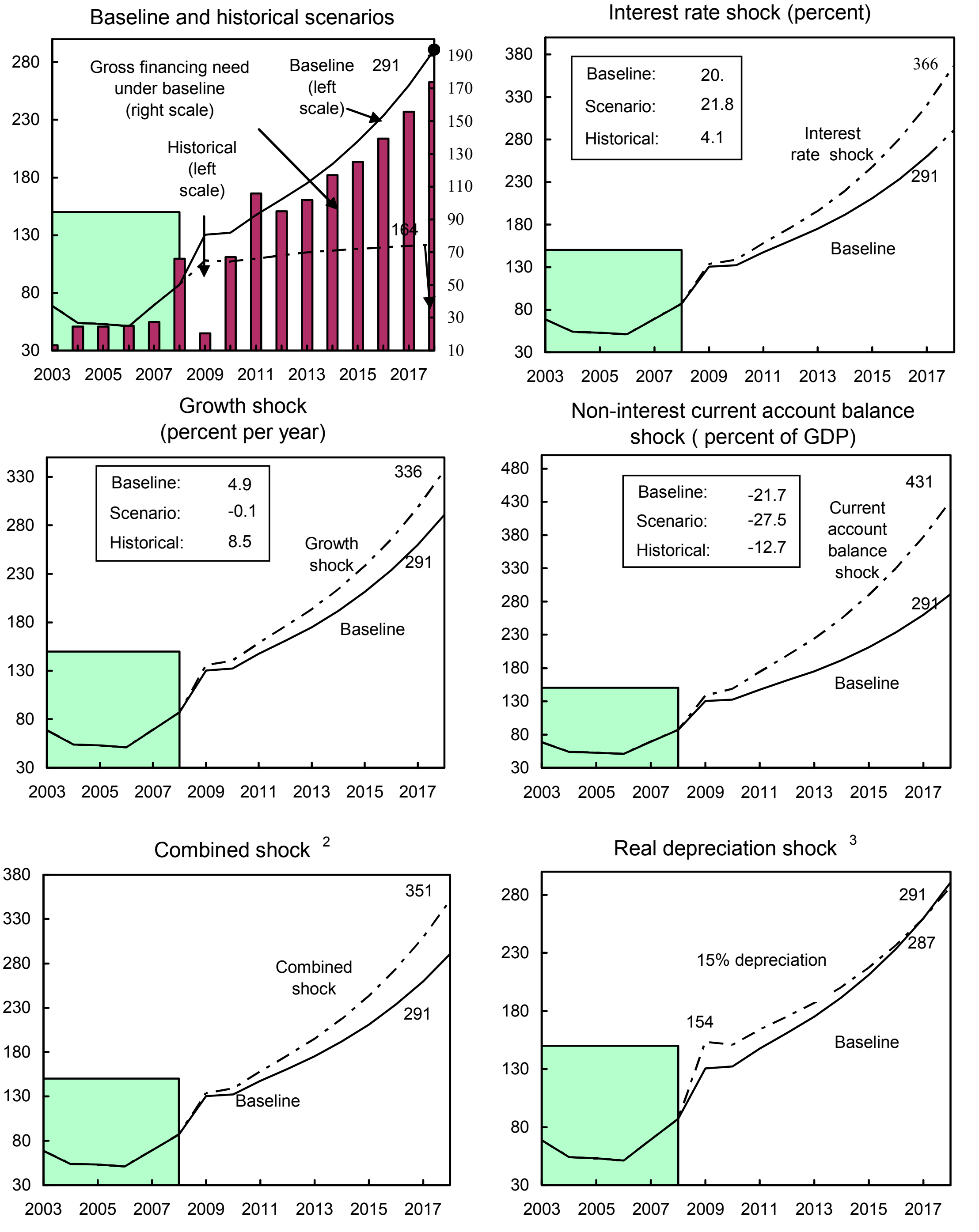
[2] Derived as [r - g - ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency),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

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

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

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

Figure 1a. External DSA: Bound Tests for Baseline Scenario (PC Restructuring and Nonconcessional Refinancing)[1](External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

[1] External financing gap is assumed to be closed by external borrowing at LIBOR plus 1300bps, with three year maturity. Shaded areas represent actual data. Individual shocks are permanent one standard deviation shocks (two standard deviations for growth shock). Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

[2] Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

[3] One-time real depreciation of additional 15 percent occurs in 2009.

Table 2b. Seychelles: Public Sector Debt Sustainability Framework for Baseline Scenario
(PC Restructuring only and Nonconcessional Refinancing of Private Sector Creditors), 2006-19
(Percent of GDP, unless otherwise indicated)

	Actual			Projections										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Public sector debt [1]	132.4	129.8	**139.4**	**172.2**	**162.8**	**173.8**	**183.8**	**195.4**	**210.8**	**229.5**	**252.2**	**278.7**	**309.3**	**342.7**
o/w foreign-currency denominated	51.0	63.9	87.1	130.4	132.3	147.5	161.0	175.1	191.7	211.1	233.6	259.9	290.8	326.2
Change in public sector debt	-9.4	-2.6	9.6	32.8	-9.4	11.0	9.9	11.6	15.4	18.7	22.7	26.5	30.6	33.4
Identified debt-creating flows (4+7+12)	-7.5	-7.7	-5.5	25.7	-6.9	7.0	6.1	8.1	14.3	17.1	21.2	24.9	29.2	33.9
Primary deficit (negative means surplus)	0.5	2.0	-3.9	-11.4	-9.8	-5.4	-4.8	-4.9	-4.2	-4.1	-3.3	-3.3	-3.3	-3.4
Revenue and grants	41.2	32.2	36.4	35.7	34.3	33.6	33.7	34.3	34.1	34.9	34.4	34.7	34.7	34.8
Primary (noninterest) expenditure	41.7	34.2	32.5	24.3	24.5	28.2	29.0	29.4	30.0	30.7	31.2	31.4	31.4	31.4
Automatic debt dynamics 2/	-9.3	-7.8	1.3	40.9	4.7	13.4	11.7	13.8	19.3	22.0	25.2	28.9	33.2	37.9
Contribution from interest rate/growth differential [3]	-9.4	-17.4	-20.6	-8.2	10.4	15.9	14.5	16.8	19.3	22.0	25.2	28.9	33.2	37.9
Of which contribution from real interest rate	2.4	-6.9	-21.5	-20.9	16.0	23.4	22.5	25.3	28.4	31.8	35.8	40.6	46.1	52.2
Of which contribution from real GDP growth	-11.8	-10.5	0.9	12.7	-5.6	-7.6	-8.0	-8.5	-9.0	-9.8	-10.6	-11.7	-12.9	-14.3
Contribution from exchange rate depreciation [4]	0.1	9.6	21.9	49.1	-5.7	-2.4	-2.7	-3.0	0.0	0.0	0.0	0.0	0.0	0.0
Denominator = 1+g+p+gp	1.1	1.2	1.3	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Other identified debt-creating flows	1.2	-2.0	-2.9	-3.8	-1.8	-0.9	-0.9	-0.9	-0.8	-0.8	-0.7	-0.7	-0.7	-0.7
Privatization receipts (negative)	-3.6	-2.0	-2.9	-3.8	-1.8	-0.9	-0.9	-0.9	-0.8	-0.8	-0.7	-0.7	-0.7	-0.7
Recognition of implicit or contingent liabilities	4.8	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
Other (specify, e.g. bank recapitalization)	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
Residual, including asset changes (2-3)	-1.9	5.1	15.1	7.1	-2.5	3.9	3.9	3.5	1.1	1.6	1.5	1.6	1.4	-0.5
Public sector debt-to-revenue ratio [1]	321.6	403.1	383.0	482.3	475.0	517.3	544.6	569.7	617.4	658.1	732.0	802.7	891.6	985.7
Gross financing need [5]	53.1	39.4	45.1	35.8	63.8	101.0	91.8	97.6	106.5	109.9	122.5	136.8	151.9	198.6
in billions of U.S. dollars	0.5	0.4	0.4	0.2	0.5	0.8	0.8	1.0	1.2	1.3	1.6	1.9	2.3	3.0
Key macroeconomic and fiscal assumptions														
Real GDP growth (in percent)	9.3	9.7	-0.9	-10.7	3.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Average nominal interest rate on public debt (in percent) [6]	4.2	6.1	7.1	10.5	14.2	18.0	17.3	17.9	18.7	19.3	19.9	20.4	20.9	21.3
Average nominal interest rate on forex debt (in percent) [6]	2.6	7.5	4.4	11.4	13.7	20.1	19.1	19.5	20.1	20.6	21.0	21.5	21.9	22.2
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	2.1	-5.3	-21.3	-20.9	10.2	15.6	14.2	15.0	15.8	16.4	17.0	17.5	18.0	18.4
Nominal depreciation of local currency (LC per dollar)	0.4	21.4	41.8	59.4	-4.2	-1.7	-1.7	-1.7	0.0	0.0	0.0	0.0	0.0	0.0
Nominal appreciation (increase in US dollar value of local currency, in percent)	-0.4	-17.6	-29.5	-37.3	4.3	1.7	1.7	1.7	0.0	0.0	0.0	0.0	0.0	0.0
Inflation rate (GDP deflator, in percent)	2.1	11.4	28.4	31.4	4.0	2.4	3.1	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Growth of real primary spending (deflated by GDP deflator, in percent)	36.0	-10.0	-5.8	-33.3	4.4	20.6	8.1	6.7	6.8	7.8	6.5	5.8	5.0	5.0
Primary deficit	0.5	2.0	-3.9	-11.4	-9.8	-5.4	-4.8	-4.9	-4.2	-4.1	-3.3	-3.3	-3.3	-3.4
A. Alternative scenarios														
A1. Key variables are at their historical averages in 2008-12 [7]			**139.4**	**187.4**	**183.7**	**190.5**	**197.4**	**204.1**	**211.5**	**219.8**	**228.3**	**237.4**	**246.6**	**254.2**
A2. No policy change (constant primary balance) in 2008-12			**139.4**	**185.6**	**188.4**	**209.0**	**228.2**	**250.0**	**277.1**	**308.8**	**345.5**	**388.1**	**437.0**	**491.4**
B. Bound tests														
B1. Real interest rate is at baseline plus one-half standard deviations			**134.9**	**171.9**	**167.9**	**184.7**	**201.3**	**220.6**	**245.7**	**275.9**	**312.6**	**356.2**	**407.6**	**470.2**
B2. Real GDP growth is at baseline minus two standard deviation			**139.4**	**180.3**	**178.9**	**201.1**	**224.7**	**253.3**	**290.5**	**336.4**	**393.0**	**461.5**	**543.6**	**629.8**
B3. Primary balance is at baseline minus one standard deviation			**139.4**	**177.1**	**172.9**	**189.6**	**205.6**	**223.8**	**247.0**	**274.4**	**307.0**	**344.7**	**388.2**	**436.8**
B4. Combination of B1-B3 using one-quarter standard deviation shocks			**139.4**	**184.3**	**186.1**	**211.1**	**236.9**	**267.5**	**306.5**	**354.1**	**412.1**	**482.2**	**566.2**	**665.4**
B5. One time 15 percent additional real depreciation in 2009 [8]			**134.9**	**206.4**	**198.0**	**211.9**	**224.4**	**239.1**	**258.8**	**282.5**	**311.0**	**344.2**	**382.6**	**429.1**
B6. 10 percent of GDP increase in other debt-creating flows in 2009			**139.4**	**182.2**	**173.1**	**184.9**	**195.6**	**208.2**	**224.8**	**245.0**	**269.3**	**297.8**	**330.7**	**367.4**

Source: Seychelles authorities; and IMF staff projections.

[1] Public sector covers non-finacial public sector and the IMF loan to the CBS. Debt is on a gross basis. External and domestic financing gaps are assumed to be closed by additional borrowing.

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

[3] The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.

[4] The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).

[5] Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

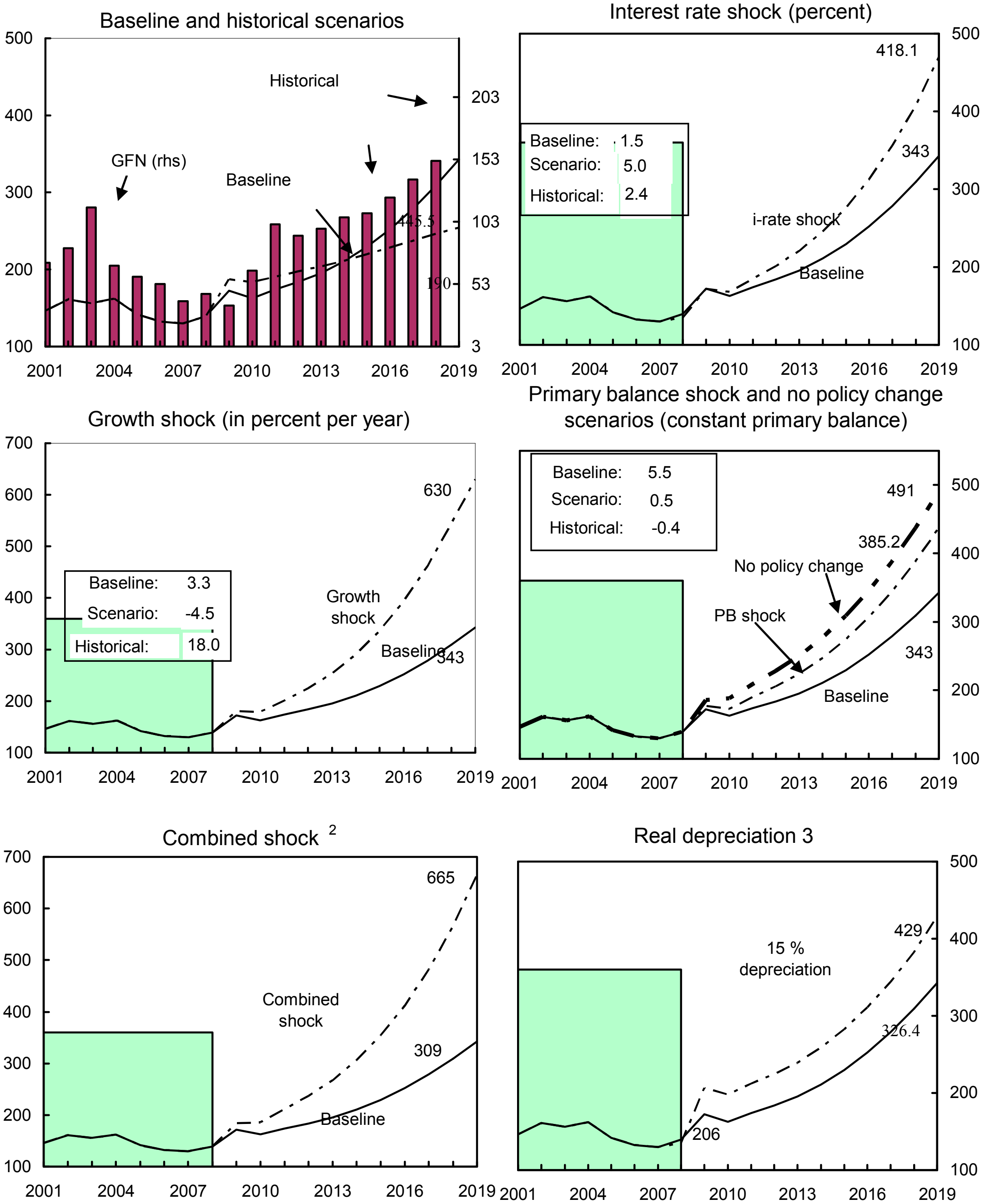
[6] Derived as nominal interest expenditure divided by previous period debt stock.

[7] The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

[8] Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Figure 1b. Public DSA: Bound Tests for Baseline Scenario (PC Restructuring and Nonconcessional Refinancing of Private Sector Creditors [1]

(Public debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

[1] Shaded areas represent actual data. Individual shocks are permanent one standard deviation shocks (two s.d. for growth). Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

[2] Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

[3] One-time additional real depreciation of 15 percent in 2009, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 3. Seychelles: Balance of Payments Alternative Scenario (Assuming Comparibility of Treatment for other Creditors), 2007–19

(Millions of U.S. dollars)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
		Prel.	Proj.	Proj.									
Current account	-213	-420	-195	-240	-240	-230	-234	-249	-260	-279	-303	-331	-346
(Percent of GDP)	-21	-46	-29	-31	-29	-25	-23	-23	-22	-22	-22	-22	-22
Trade balance	-175	-386	-146	-187	-172	-142	-127	-119	-104	-100	-97	-97	-92
Income, net	-72	-103	-101	-112	-129	-149	-169	-194	-221	-246	-274	-303	-325
Of which: interest payments due [1]	-33	-33	-25	-21	-21	-23	-25	-29	-34	-34	-36	-37	-28
Current transfers, net	33	69	52	60	60	61	62	63	65	66	68	70	71
General government, net	10	43	27	35	35	36	36	37	38	39	39	40	41
Other sectors, net	23	26	25	25	25	26	26	27	27	28	29	29	30
Capital and financial account	261	172	231	280	298	291	299	318	320	341	362	385	413
Capital account	8	5	158	158	5	5	5	6	6	6	6	6	6
Financial account	254	167	73	122	293	286	294	311	314	335	356	379	407
Direct investment, net	225	346	183	213	236	239	258	289	301	326	352	381	411
Portfolio investment, net	31	1	0	0	0	0	0	0	0	0	0	0	0
Other investment, net	-2	-180	-110	-91	58	47	36	22	12	9	4	-2	-5
Net errors and omissions	-8	101	23	0	0	0	0	0	0	0	0	0	0
Overall balance	40	-147	59	40	58	61	65	68	60	62	59	55	66
Financing	-40	147	-59	-40	-58	-61	-65	-68	-60	-62	-59	-55	-66
Change in net international reserves (increase: –)	49	-27	-64	-40	-58	-61	-65	-68	-60	-62	-59	-55	-66
Change in gross official reserves (increase: –)	49	-36	-68	-53	-58	-55	-55	-62	-59	-62	-59	-55	-66
Prospective liabilities to IMF, net	0	10	4	13	0	-6	-10	-6	-1	0	0	0	0
Other NFA (increase: –)	0	0	-10	0	0	0	0	0	0	0	0	0	0
Exceptional financing	-89	174	15	0	0	0	0	0	0	0	0	0	0
Change in arrears (increase: +) [3, 4]	-89	174	-333	0	0	0	0	0	0	0	0	0	0
Clearance of arrears		…	348	0	0	0	0	0	0	0	0	0	0
Financing gap [5]	0	0	0	0	0	0	0	0	0	0	0	0	0
Financing gap (before closing)	0	0	-10	0	0	-5	-5	-12	-9	-12	-9	-5	-16
Memorandum items:													
Gross international reserves (stock, e.o.p.) [6]	10	51	119	172	230	285	340	402	461	523	582	637	703
Months of prospective imports of goods and services	0.1	1	1	2.0	2.5	2.9	3.3	3.6	3.9	4.1	4.2	4.3	4.4
Public external debt [1,4, 6]	710	802	669	561	599	632	655	659	665	670	672	672	668
(Percent of GDP)	69.2	87	99	73.7	71.9	68.9	65.0	60.4	56.5	52.7	48.9	45.2	41.7
Of which: arrears [1, 3,4]	160	333	0	0	0	0	0	0	0	0	0	0	0
(Percent of GDP)	15.6	36	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP	1,026	921	679	762	833	918	1,009	1,090	1,177	1,272	1,374	1,485	1,604

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

[1] Projections are based on identified new borrowing and rescheduled Paris Club debt. It assumes restructuring of debt to other creditors on comparable cash flow treatment. Arrears restructuring leads to higher rescheduled interest payments.

[2] Based on Paris Club agreement, the payments of principal and most interest during 2008 and through June 2009 are deferred.

[3] In 2008, includes accelerated promissory notes.

[4] Debt forgivenesss reflects: (i) the first stage of debt reduction (about 22.5) percent in July 2009; (ii) the second stage reduction (about 22.5 percent) in July 2010 on Paris Club debt. Assumes debt reduction comparable to the Paris Club agreement on

[5] Negative financing gaps (surpluses) are added to official reserves.

[6] Starting with 2007, refers to CBS gross international reserves net of blocked deposits and project accounts.

Table 3a. Seychelles: External Debt Sustainability Framework for Alternative Scenario (Assuming Comparibility of Treatment for other Creditors),2005-2019

(Percent of GDP, unless otherwise indicated)

	Actual			Prel	Projections										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Baseline: external debt	53.0	51.1	69.2	**87.1**	**98.7**	**73.7**	**71.9**	**68.9**	**65.0**	**60.4**	**56.5**	**52.7**	**48.9**	**45.2**	**41.7**
Change in external debt	-0.9	-1.9	18.1	17.9	11.6	-25.0	-1.8	-3.0	-3.9	-4.5	-4.0	-3.8	-3.8	-3.7	-3.6
Identified external debt-creating flows (4+8+9)	6.0	-5.7	-1.4	8.7	-14.9	0.4	-2.9	-4.1	-5.5	-6.6	-6.3	-6.3	-6.0	-5.6	-6.2
Current account deficit, excluding interest payments	18.3	12.1	17.7	43.4	-7.5	27.9	25.7	22.3	20.7	20.2	19.2	19.3	19.4	19.8	19.8
Deficit in balance of goods and services	18.0	13.2	17.0	41.9	-9.2	24.5	20.6	15.5	12.6	10.9	8.8	7.8	7.0	6.5	5.8
Exports	78.5	84.1	85.1	109.3	139.5	106.2	105.4	104.4	103.5	104.0	104.6	104.7	104.8	104.6	105.1
Imports	96.5	97.3	102.1	151.1	130.4	130.8	126.0	119.9	116.1	114.9	113.5	112.6	111.9	111.2	110.8
Net non-debt creating capital inflows (negative)	-8.6	-13.5	-21.9	-37.6	-26.9	-28.0	-28.3	-26.0	-25.6	-26.5	-25.6	-25.6	-25.6	-25.6	-25.6
Automatic debt dynamics [1]	-3.7	-4.3	2.8	2.9	19.5	0.5	-0.3	-0.5	-0.7	-0.3	0.0	0.1	0.2	0.2	-0.3
Contribution from nominal interest rate	0.7	1.1	3.1	2.2	6.9	3.6	3.1	2.8	2.5	2.7	2.8	2.7	2.7	2.5	1.8
Contribution from real GDP growth	-3.3	-4.4	-4.9	0.7	12.6	-3.1	-3.4	-3.3	-3.1	-3.0	-2.8	-2.6	-2.4	-2.3	-2.1
Contribution from price and exchange rate changes [2]	-1.2	-0.9	4.6	...	...	...	...	...	...	...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) [3]	-6.9	3.8	19.5	9.2	26.5	-25.4	1.1	1.1	1.6	2.1	2.4	2.5	2.3	2.0	2.6
External debt-to-exports ratio (in percent)	67.5	60.8	81.3	79.7	70.7	69.4	68.2	65.9	62.8	58.1	54.0	50.3	46.6	43.2	39.7
Gross external financing need (in billions of US dollars) [4]	0.2	0.3	0.3	0.6	0.0	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.4	0.4
in percent of GDP	24.7	25.1	27.3	66.1	1.6	31.4	28.8	25.1	23.7	23.8	23.2	23.1	23.4	23.7	23.1
Key macroeconomic assumptions underlying baseline															
Real GDP growth (percent)	6.6	9.3	9.7	-0.9	-10.7	3.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Exchange rate appreciation (U.S. dollar value of local currency, change in percent)	0.0	-0.4	-17.6	-29.5	-37.3	4.3	1.7	1.7	1.7	0.0	0.0	0.0	0.0	0.0	0.0
GDP deflator (change in domestic currency)	2.3	2.1	11.4	28.4	31.4	4.0	2.4	3.1	2.9	2.9	2.9	2.9	2.9	2.9	2.9
GDP deflator in U.S. dollars (change in percent)	2.3	1.7	-8.2	-9.4	-17.6	8.5	4.1	4.9	4.7	2.9	2.9	2.9	2.9	2.9	2.9
Nominal external interest rate (percent)	1.4	2.2	6.2	2.9	5.8	4.1	4.6	4.2	3.9	4.5	5.1	5.1	5.4	5.5	4.2
Growth of exports (U.S. dollar terms, in percent)	14.7	19.2	1.8	15.3	-6.0	-14.5	8.5	9.1	9.0	8.5	8.7	8.2	8.1	7.8	8.5
Growth of imports (U.S. dollar terms, in percent)	33.5	12.1	5.6	32.9	-36.5	12.7	5.4	4.8	6.4	6.9	6.7	7.2	7.4	7.4	7.7
Current account balance, excluding interest payments	-18.3	-12.1	-17.7	-43.4	7.5	-27.9	-25.7	-22.3	-20.7	-20.2	-19.2	-19.3	-19.4	-19.8	-19.8
Net non-debt creating capital inflows	8.6	13.5	21.9	37.6	26.9	28.0	28.3	26.0	25.6	26.5	25.6	25.6	25.6	25.6	25.6
II. Stress Tests for External Debt Ratio															
Scenario with key variables at their historical averages 5/				**87.1 #**	**92.9**	**80.7**	**84.1**	**87.9**	**91.7**	**94.7**	**97.7**	**100.6**	**103.1**	**105.2**	**104.9**
B. Bound Tests															
B1. Nominal interest rate is at historical average plus one standard deviation				**87.1**	**101.8**	**79.0**	**78.9**	**77.5**	**75.0**	**72.0**	**69.5**	**67.0**	**64.6**	**62.2**	**55.3**
B2. Real GDP growth is at historical average minus one standard deviations				**87.1**	**102.8**	**77.3**	**75.2**	**71.2**	**65.5**	**58.0**	**50.3**	**41.7**	**31.9**	**20.9**	**9.2**
B3. Non-interest current account is at historical average minus one standard deviations				**87.1**	**107.0**	**89.7**	**95.5**	**99.6**	**102.4**	**104.9**	**108.1**	**111.2**	**114.3**	**117.5**	**118.7**
B4. Combination of B1-B3 using 1/2 standard deviation shocks				**87.1**	**102.0**	**79.5**	**80.0**	**79.0**	**77.0**	**74.4**	**72.2**	**70.1**	**67.9**	**65.6**	**63.1**
B5. One time 30 percent real depreciation in 2006				**87.1**	**116.8**	**82.7**	**76.3**	**69.4**	**61.9**	**53.6**	**46.2**	**38.9**	**31.8**	**24.7**	**50.9**

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

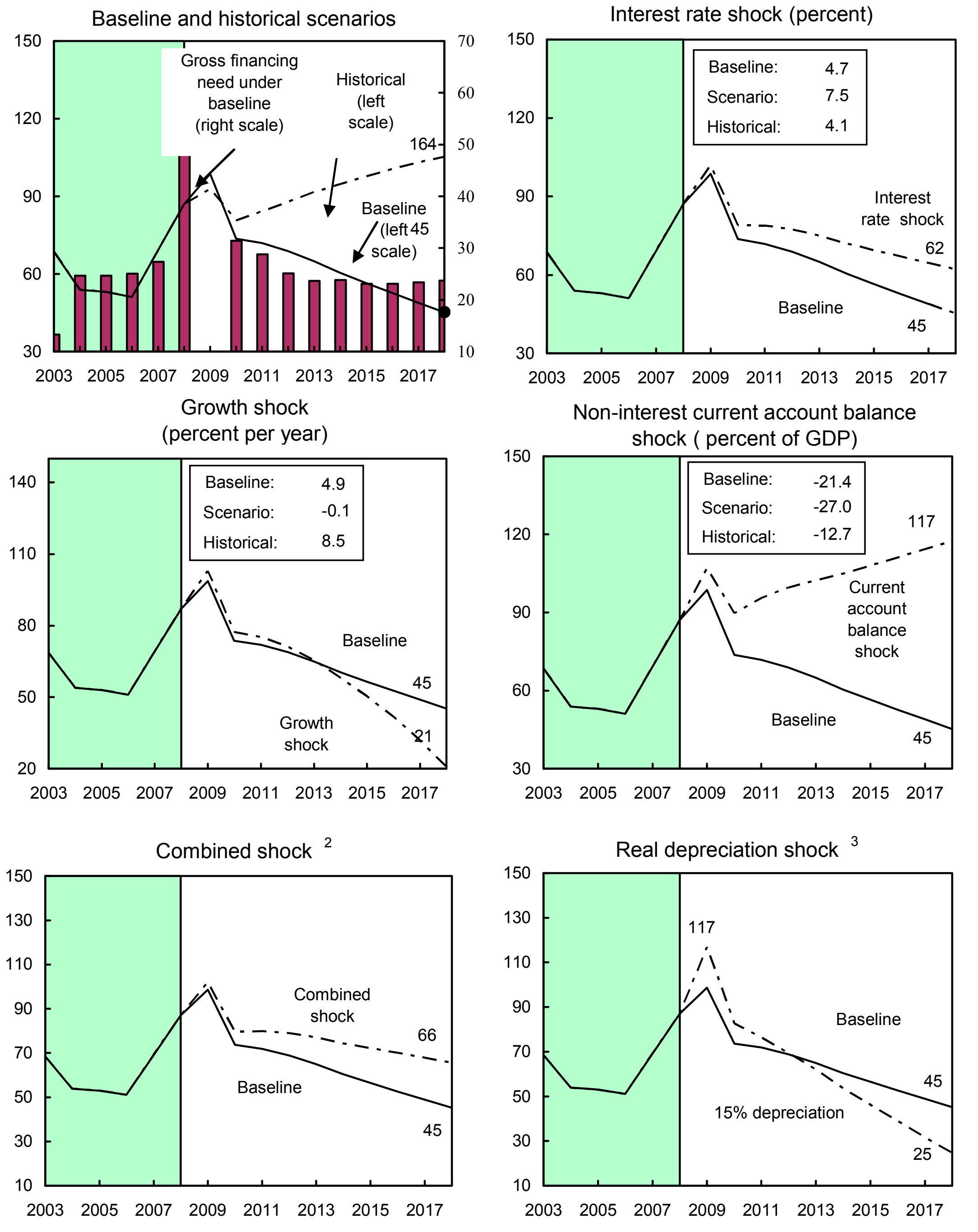
[2] The contribution from price and exchange rate changes is defined as [-ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) times previous period debt stock. ρ increases with an appreciating domestic currency (ε > 0) and rising inflation (based on GDP deflator).

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

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

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

Figure 2a. External DSA: Bound Tests for Alternative Scenario (Assuming Comparibility of Treatment for other Creditors), 2003-19[1] (External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

[1] External financing gap is assumed to be closed by external borrowing at LIBOR plus 1300bps, with 3 year maturity. Shaded areas represent actual data. Individual shocks are permanent one standard deviation shocks (two standard deviations for growth shock). Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

[2] Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

[3] One-time real depreciation of additional 15 percent occurs in 2009.

Table 3b. Seychelles: Public Sector Debt Sustainability Framework for Concessional Refinancing Scenario, 2006–19

(Percent of GDP, unless otherwise indicated)

	Actual				Projections										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Public sector debt [1]	141.8	132.4	129.8	**139.4**	**140.9**	**113.8**	**107.7**	**100.9**	**94.0**	**87.3**	**81.5**	**76.6**	**71.9**	**67.0**	**62.5**
o/w foreign-currency denominated	44.9	51.0	63.9	87.1	98.7	73.7	71.9	68.9	65.0	60.4	56.5	52.7	48.9	45.2	41.7
Change in public sector debt	-20.4	-9.4	-2.6	9.6	1.5	-27.1	-6.0	-6.8	-6.9	-6.7	-5.8	-4.9	-4.8	-4.8	-4.5
Identified debt-creating flows (4+7+12)	-46.9	-7.5	-7.7	-4.6	19.1	-15.7	-9.1	-9.9	-9.8	-7.5	-6.9	-5.8	-5.6	-5.4	-5.1
Primary deficit (negative means surplus)	-7.1	0.5	2.0	-2.9	-11.4	-9.8	-5.4	-4.8	-4.9	-4.2	-4.1	-3.3	-3.3	-3.3	-3.4
Revenue and grants	40.6	41.2	32.2	35.5	35.7	34.3	33.6	33.7	34.3	34.1	34.9	34.4	34.7	34.7	34.8
Primary (noninterest) expenditure	33.5	41.7	34.2	32.5	24.3	24.5	28.2	29.0	29.4	30.0	30.7	31.2	31.4	31.4	31.4
Automatic debt dynamics [2]	-38.6	-9.3	-7.8	1.3	34.3	-4.2	-2.7	-4.2	-4.1	-2.5	-2.0	-1.8	-1.5	-1.4	-1.1
Contribution from interest rate/growth differential [3]	-38.6	-9.4	-17.4	-20.6	-12.3	-0.2	-1.5	-3.1	-3.0	-2.5	-2.0	-1.8	-1.5	-1.4	-1.1
Of which contribution from real interest rate	3.1	2.4	-6.9	-21.5	-25.0	4.4	3.8	1.9	1.7	1.9	2.1	2.0	2.0	1.9	2.0
Of which contribution from real GDP growth	-41.7	-11.8	-10.5	0.9	12.7	-4.6	-5.3	-5.0	-4.7	-4.3	-4.0	-3.8	-3.5	-3.3	-3.1
Contribution from exchange rate depreciation [4]	0.0	0.1	9.6	21.9	46.6	-4.0	-1.2	-1.2	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
Denominator = 1+g+p+gp	1.4	1.1	1.2	1.3	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Other identified debt-creating flows	-1.3	1.2	-2.0	-2.9	-3.8	-1.8	-0.9	-0.9	-0.9	-0.8	-0.8	-0.7	-0.7	-0.7	-0.6
Privatization receipts (negative)	-1.3	-3.6	-2.0	-2.9	-3.8	-1.8	-0.9	-0.9	-0.9	-0.8	-0.8	-0.7	-0.7	-0.7	-0.6
Recognition of implicit or contingent liabilities	0.0	4.8	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
Other (specify, e.g. bank recapitalization)	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
Residual, including asset changes (2-3)	26.5	-1.9	5.1	14.2	-17.7	-11.4	3.0	3.1	2.9	0.8	1.1	0.9	0.8	0.5	0.6
Public sector debt-to-revenue ratio [1]	349.5	321.6	403.1	392.9	394.6	331.8	320.5	299.0	274.0	255.7	233.8	222.4	207.0	193.3	180.3
Gross financing need [5]	59.1	53.1	39.4	46.1	24.1	32.7	28.9	24.5	21.1	17.4	15.9	15.5	14.5	13.9	14.9
Billions of U.S. dollars	0.5	0.5	0.4	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Key macroeconomic and fiscal aAssumptions															
Real GDP growth (in percent)	35.0	9.3	9.7	-0.9	-10.7	3.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Average nominal interest rate on public debt (in percent) [6]	3.7	4.2	6.1	7.1	7.0	7.5	6.1	5.2	4.9	5.2	5.6	5.6	5.9	5.9	6.3
Average nominal interest rate on forex debt (in percent) [6]	1.7	2.6	7.5	4.4	5.8	4.1	4.6	4.2	3.9	4.5	5.1	5.1	5.4	5.5	4.2
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	2.9	2.1	-5.3	-21.3	-24.4	3.5	3.7	2.1	2.0	2.3	2.7	2.7	3.0	3.0	3.4
Exchange rate (LC per US dollar)	5.5	5.5	6.7	9.5	15.2	14.5	14.3	14.0	13.8	13.8	13.8	13.8	13.8	13.8	13.8
Nominal depreciation of local currency (LC per dollar)	0.0	0.4	21.4	41.8	59.4	-4.2	-1.7	-1.7	-1.7	0.0	0.0	0.0	0.0	0.0	0.0
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	-0.4	-17.6	-29.5	-37.3	4.3	1.7	1.7	1.7	0.0	0.0	0.0	0.0	0.0	0.0
Inflation rate (GDP deflator, in percent)	0.8	2.1	11.4	28.4	31.4	4.0	2.4	3.1	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Growth of real primary spending (deflated by GDP deflator, in percent)	0.4	36.0	-10.0	-5.8	-33.3	4.4	20.6	8.1	6.7	6.8	7.8	6.5	5.8	5.0	5.0
Primary deficit	-7.1	0.5	2.0	-2.9	-11.4	-9.8	-5.4	-4.8	-4.9	-4.2	-4.1	-3.3	-3.3	-3.3	-3.4
A. Alternative scenarios															
A1. Key variables are at their historical averages in 2008-12 [7]				**139.4**	**165.1**	**153.6**	**159.4**	**165.4**	**171.6**	**177.5**	**184.1**	**190.7**	**197.4**	**204.0**	**211.1**
A2. No policy change (constant primary balance) in 2008-12				**139.4**	**154.3**	**138.6**	**139.5**	**138.2**	**136.7**	**135.1**	**134.4**	**133.6**	**133.1**	**132.4**	**132.3**
B. Bound tests															
B1. Real interest rate is at baseline plus one-half standard deviations				**139.4**	**146.6**	**123.9**	**121.6**	**118.1**	**114.3**	**110.8**	**108.0**	**106.0**	**104.1**	**102.0**	**100.3**
B2. Real GDP growth is at baseline minus two standard deviation				**139.4**	**147.8**	**126.1**	**127.2**	**128.2**	**130.1**	**133.4**	**139.1**	**147.0**	**156.6**	**167.6**	**180.8**
B3. Primary balance is at baseline minus one standard deviation				**139.4**	**145.8**	**123.5**	**122.2**	**119.8**	**117.0**	**114.7**	**113.3**	**112.6**	**112.1**	**111.4**	**111.2**
B4. Combination of B1-B3 using one-quarter standard deviation shocks				**139.4**	**151.6**	**132.3**	**134.2**	**134.8**	**135.1**	**135.6**	**137.2**	**139.5**	**142.0**	**144.5**	**147.6**
B5. One time 15 percent additional real depreciation in 2009 [8]				**139.4**	**180.2**	**151.9**	**145.0**	**136.7**	**128.3**	**120.7**	**114.2**	**108.6**	**103.2**	**97.7**	**92.8**
B6. 10 percent of GDP increase in other debt-creating flows in 2009				**139.4**	**150.9**	**123.5**	**117.2**	**110.0**	**102.7**	**95.8**	**89.8**	**84.7**	**79.8**	**74.8**	**70.2**

[1] Public sector covers non-finacial public sector and the IMF loan to the CBS. Debt is on a gross basis. External and domestic financing gaps are assumed to be closed by additional borrowing.

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

[3] The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.

[4] The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).

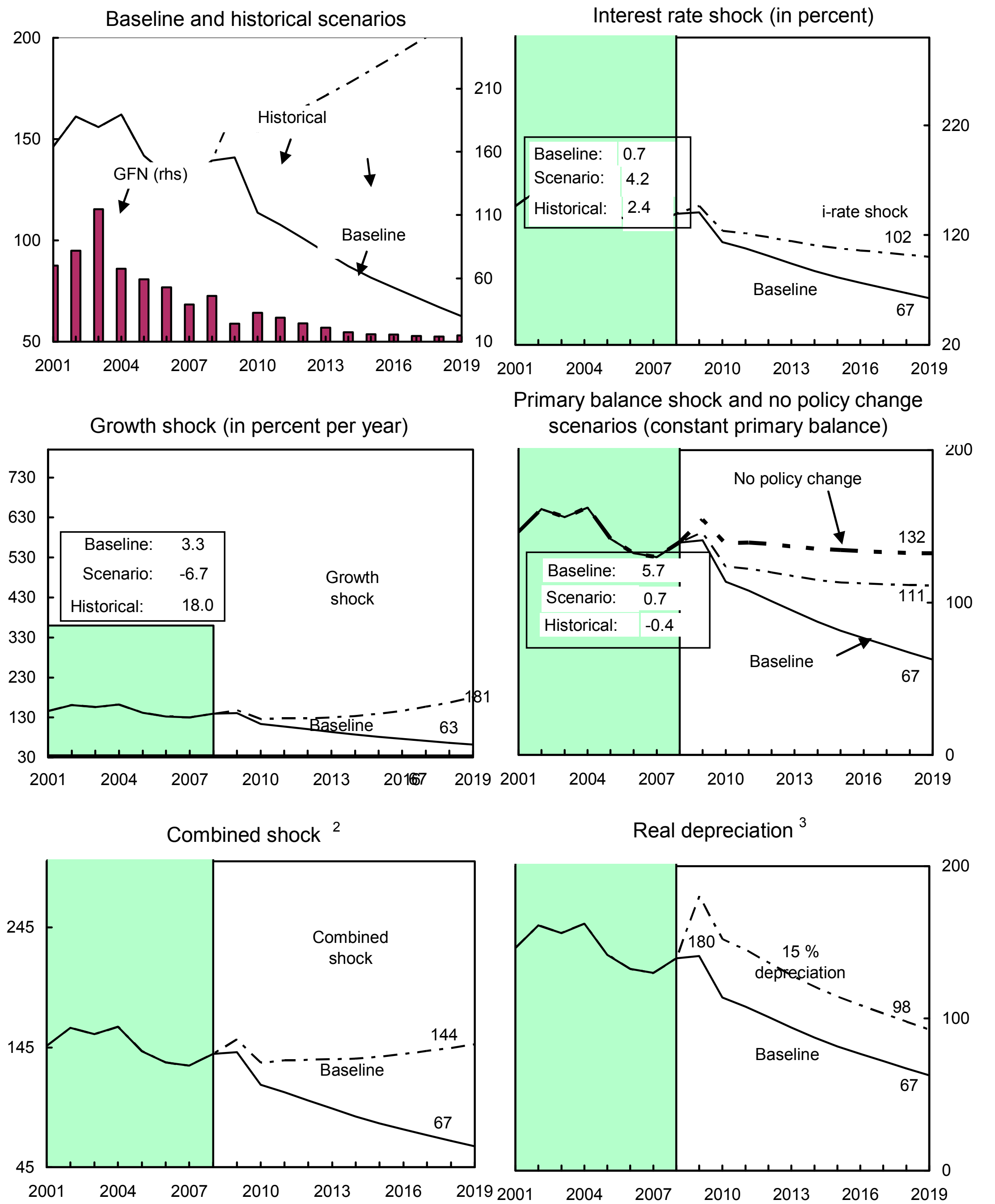
[5] Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

[6] Derived as nominal interest expenditure divided by previous period debt stock.

[7] The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

[8] Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Figure 2b. Public DSA: Bound Tests for Restructuring Scenario [1]
(Public debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

[1] Shaded areas represent actual data. Individual shocks are permanent one standard deviation shocks (two s.d. for growth). Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

[2] Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

[3] One-time additional real depreciation of 15 percent in 2009, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

INTERNATIONAL MONETARY FUND

SEYCHELLES

Second Review Under the Stand-By Arrangement, Financing Assurances Review, and Modification of Performance Criteria—Informational Annex

Prepared by the African Department
(In consultation with other departments)

Approved by Roger Nord (AFR) and Aasim Husain (SPR)

June 16, 2009

Contents Page

I. Seychelles: Relations with the Fund

(As of May 31, 2009)

I. Membership Status: Joined 6/30/77. Article VIII.

II. General Resources Account	SDR Million	% Quota
Quota	8.80	100.0
Fund holdings of currency	15.84	179.97
Reserve Position in Fund	0.00	0.04

III. SDR Department	SDR Million	% Allocations
Net cumulative allocation	0.41	100.0
Holdings	0.02	5.20

IV. Outstanding Purchases and Loans:	7.04	80.00

V. Financial Arrangements:

			SDR Million	
Type	Arrangement	Expiration	Amount Approved	Amount Drawn
Stand-By	Nov.14, 2008	Nov. 13, 2010	17.60	7.04

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

	Forthcoming				
	2009	**2010**	**2011**	**2012**	**2013**
Principal				3.30	3.52
Charges/interest	0.05	0.11	0.11	0.09	0.04
Total	0.05	0.11	0.11	3.39	3.56

VII. Implementation of HIPC Initiative: Not applicable

VIII. Safeguards Assessments:

As part of the Stand-By Arrangement, a safeguards assessment mission was conducted in September 2008. It found high risks in all areas of the central bank (CBS) safeguards assessment framework, including significant weaknesses in financial reporting that were not identified by the external auditor and internal control vulnerabilities. The authorities are implementing remedial measures including steps monitored under the program. In late November the CBS appointed a new external auditor, PricewaterhouseCoopers, on a five-year contract. The authorities continue to make strong progress in addressing the areas of concern identified in the safeguards assessment, including a new central bank act that meets international best practice.

IX. Exchange Rate Arrangement:

The authorities launched a comprehensive reform effort in November 2008, with reforms including a fundamental liberalization of the exchange regime. The exchange market liberalization resulted in all the elimination of restrictions on the making of payments and transfers for current international transactions that are subject to Fund approval under Article VIII Sections 2, 3, and 4. The exchange rate policy is a managed float. On May 31, 2009, US$ 1 = SR 13.71 (mid rate).

X. Article IV Consultations:

Seychelles is currently under a two year Stand-By Arrangement, with quarterly reviews.

XI. Technical Assistance (2004–March 2009):

Department	Head of Mission	Subject	Date
STA	Mr. Freeman	National Accounts/CPI	May/June 2005
MFD/LEG	Mr. Lonnberg	Strengthening Capacity in Critical Central Banking Areas, including AML/CFT-Legal, Institutional, and Supervisory Frameworks	July 2006
LEG	Mr. Beekarry	Advise on AML/CFT measures and the establishment of the FIU	September/October 2006
STA	Mr. Alexander	National accounts/CPI/GDDS	October/ November 2006
MCM	Mr. Bartholomew	Multipurpose mission: Monetary operations, monetary research, banking supervision, payment systems, foreign exchange markets, and nonbank financial institution supervision.	November/ December 2007
STA	Mr. Dessart	Dissemination of GDDS National Summary Data Page	April 2008
STA	Mr. Armknecht	Consumer price index	April 2008
MCM	Mr. Faulk	Banking supervision, drafting of new financial sector related regulations	April 2008
MCM	Mr. Robotham	National payment systems project	May/June 2008
FAD	Mr. Khemani	Strengthening expenditure rationalization and budget management	July 2008
LEG	Mr. Baban	Exchange Rate and Exchange Control Regimes	September 2008

Department	Head of Mission	Subject	Date
FIN	Mr. Hauge	Safeguards assessment	October 2008
FAD	Mr. Krelove	Reform of Tax Policy	January/February 2009
MCM	Mr. Bartholomew	Central Bank Capacity Building after the 2008 Float	February 2009
LEG	Mr. Baban	Reform of Exchange Rate Law	May 2009
STA	Mr. Jones	Government Finance Statistics	May 2009

XII. Resident Representative None

II. SEYCHELLES: JOINT WORLD BANK-IMF WORK PROGRAM, 2009

(As of June 05, 2009)

Title	Products	Provisional timing of mission	Expected delivery date
A. Mutual Information on Relevant Work Programs			
Bank	**A. Strategy and analytical work**		
	Interim Strategy Note	November 2008 and February 2009	April/May 2009
	Public Expenditure Review (PER)	October 2008	April 2009
	Public Expenditure Review (PER, Phase 2)	September 2009	February 2010
	Update to FIAS report (improving the business environment and private sector development)	September 2009	February 2010
	Joint Country Procurement Assessment Report (CPAR) and Country Financial Accountability Assessment (CFAA)	Ongoing Identification mission: November 2008	Ongoing
	B. Ongoing and new projects		
	GEF grant implementation (tsunami reconstruction, disaster management, fisheries capacity)	Identification mission: November 2009	April-May 2009
	Development Policy Loan (DPL 1)		
	Development Policy Loan (DPL 2)	November 2009	April-May 2010
Fund	**Program and surveillance work**		
	1. Article IV consultation and approval of 2-year Stand-By Arrangement (SBA)		November 14, 2009
	2. Quarterly program and financing assurances reviews under the SBA		
	First review	February 2009	March 27, 2009
	Second review	May 2009	June 2009
	Third review	August 2009	September 2009
	Fourth review (if needed)	October 2009	December 2009
	3. Discussion on medium-term structural reform agenda that could be supported by a successor arrangement under the EFF.	October 2009	December 2009
	Technical assistance and capacity building		
	1. FAD technical assistance mission on tax policy and revenue administration review.	February 2009	March 2009
	2. FAD technical assistance mission on Public Financial Management.	June 2009	July 2009
	3. MCM technical assistance on reforming the monetary policy framework (long-term monetary advisor, automation of interbank market, reserve money management) strengthening bank supervision, and CBS governance.	Ongoing	Ongoing
	4. MCM technical assistance on public debt management.	Ongoing	March 2009

Title	Products	Provisional timing of mission	Expected delivery date
B. Requests for Work Program inputs			
Bank request to Fund	1. Medium-term macro-economic and fiscal framework to inform Public Expenditure Reviews Debt Sustainability Analysis	n.a. n.a.	Ongoing March 2009
Fund request to Bank	2. Assessment of the poverty impact of rupee float and strategy on strengthening the social safety net and enhancing targeting of social assistance. 3. Policy note on parastatal reform and privatization. 4. Strategy on improving business environment and promoting private sector investment 5. New wage grid proposal for public sector	TBD TBD TBD TBD	October 2009 June 2009 November 2009 December 2009
C. Agreement on Joint Products and Missions			
Joint products	Joint mission to discuss a medium-term structural reform agenda focusing on: social safety net targeting; civil service reform, parastatal reform; and promoting private sector investment	October 2009 (preliminary)	December 2009 (preliminary)

III. Seychelles: Relations with the African Development Bank Group

(As of June 5, 2009)

The African Development Bank Group commenced operations with the Republic of Seychelles in 1978 and has since approved 19 operations comprising 15 projects, one study and three lines of credit for the country. Cumulative approvals as of October 2008 (there were no approvals between 2001 and 2006 when the country was under sanctions) amounted to UA 84.87 million,[1] of which 73 percent was from the African Development Bank (ADB), 14 percent from the Nigeria Trust Fund (NTF), and the remaining 13 percent from the African Development Fund (ADF) (Table 1). Reflecting government priorities, most of the operations were in the social sector (46 percent). This was followed by the financial sector (16 percent), agricultural sector (15 percent), transportation (13 percent), water supply and sanitation (10 percent) and industrial sector (1 percent). Before sanctions were imposed, about 76.8 percent of the total commitments on all approved loans had been disbursed and the balance of 23.2 percent was cancelled after sanctions were applied.

The country was under sanctions with the African Development Bank Group since February 16, 2000 due to the arrears situation. The country cleared all the arrears (amounting to US$46.75 million) in November 2006 and the African Development Bank Group consequently lifted all sanctions and started discussions on possible reengagement with the country. The process was boosted by the launching of a comprehensive reform programme by the Government in November 2008. Following this, an Interim Strategy Note was approved by the Board on April 22, 2009. The ISN covers 2009 and 2010 and focuses on a single pillar namely supporting the Government's reform programme to achieve sustainable growth. The lending programme during this period consists of a policy-based operation in the form of a budget support loan amounting to US $ 20 million. The operation is under preparation and it is expected to be disbursed in two equal tranches of US $ 10 million in 2009 and 2010. In addition, there is an ongoing non-lending programme under which the Bank Group is providing grant resources to the country, from the African Water Facility and the Middle Income Countries' (MIC) Technical Assistance Fund. Under the African Water Facility, a grant amounting to € 955,000 was signed in May 2008 to finance the preparation of the Water Development Plan aimed at improved water management and governance, and identifying priority investment projects for funding, in order to meet Seychelles' water needs up to 2030. The study is expected to be completed by December 2009. Under the MIC Technical Assistance Fund two grants have been approved to finance (i) a study (amounting to UA 600,000) approved in December 2008 aimed mainly to support human resource

[1] UA 1 = US$ 1.54805 as at June 5, 2009.

development, training and capacity building as well as the establishment of the Seychelles University Foundation; and (ii) a study (amounting to US$ 500,000) approved in February 2009 to undertake the feasibility on a Submarine Cable System to link Seychelles to East Africa.

Table 1. Operations Summary as at 5 June 2009*

Operations since: 1978

Total Number of operations 19: 15 Projects, 1 Study; 3 Lines of Credit

Source of Financing	Commitments (UA million)	Percentage Share	Disbursed Amount (UA million)	Percentage Disbursed
ADB	62.19	73	44.12	70.9
ADF/TAF	10.68	13	10.68	100.0
NTF	12.00	14	10.39	86.6
Total	84.87	100	65.19	76.8

* Excludes the grants from the African Water Facility and the MIC Technical Assistance Facility due to their unique nature and small magnitude.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No.09/246
FOR IMMEDIATE RELEASE
June 30, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes the Second Review Under Seychelles' Stand-By Arrangement And Approves US$1.4 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Seychelles' economic performance under its two-year Stand-by Arrangement, and completed the latest quarterly financing assurances review. The Board's decision enables Seychelles to receive a disbursement in an amount equivalent to SDR 0.88 million (about US$1.4 million).

The Executive Board also approved the modification of quarterly quantitative performance criteria, and agreed to establish a schedule of semi-annual program reviews, while maintaining quarterly quantitative performance criteria, and financing assurances reviews.

The two-year SDR 17.6 million (about US$27.3 million) Stand-By Arrangement for Seychelles was approved on November 14, 2008 (see Press Release No. 08/282).

Following the Executive Board discussion, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, stated:

"Seychelles' commitment to reform and prudent financial policies has brought about rapid progress on macroeconomic stabilization. The significant fiscal consolidation effort, backed by the new market-based monetary policy, has restored confidence in the Rupee and helped bring inflation down rapidly.

"Economic policies are geared toward consolidating this progress. The fiscal stance aims to support the disinflation objective and contribute to public debt sustainability, while preserving priority social spending. The market-based floating exchange rate regime is serving the economy well, and monetary policy should aim to maintain interest rates positive in real terms in order to anchor price stability. Efforts should continue to expand monetary policy instruments and modernize the legal and institutional framework for the financial sector.

"Structural reforms are needed to lay a firm foundation for sustained recovery. The authorities have strengthened tax administration and launched a fundamental tax policy reform, which are key to improving the investment climate, reducing economic distortions, and securing fiscal sustainability. Progress has also been made in strengthening public financial management and expenditure control. Further efforts in this direction, including to reinforce financial discipline and accountability in public enterprises, will be essential to ensuring fiscal sustainability and raising productivity.

"Good progress is being made with public external debt restructuring. Following the favorable agreement with the Paris Club, the authorities have shown good faith efforts to normalize relations with all creditor groups. In view of the high public debt level, the authorities are pursuing a debt restructuring with non-Paris Club creditors that is consistent with Seychelles' limited payments capacity. The authorities should reinforce their debt management capacity, supported by Fund technical assistance," said Mr. Kato.

Statement by Christopher Legg, Alternate Executive Director for Seychelles and Simon Duggan, Advisor to Executive Director
June 30, 2009

Our Seychellois authorities' determined adherence to their macroeconomic program is yielding results, with monetary and external stability now taking hold. Inflation fell to below 1 percent on an annualised basis in the first five months of this year and is expected to remain in the low single-digits through 2010. The exchange rate has appreciated over 20 percent against the US dollar since January—partially reversing the substantial depreciation that immediately followed the float; the accumulation of net international reserves continues to exceed program targets; and Seychelles' current account deficit is expected to decline sharply this year.

However, economic activity is expected to contract almost 11 percent in 2009 as the economy adjusts to tighter macroeconomic policies and with the global slowdown weighing heavily on the tourism sector and related industries. The threat of piracy has also had an adverse effect on commercial fishing activity in the region and, therefore, on Seychelles' tuna exports. Economic recovery is expected to take hold towards the end of this year, with real GDP growth forecast to be 3.5 percent in 2010 - a modest improvement on the staff projection at the first review and consistent with the rapid strengthening of Seychelles' macroeconomic frameworks.

Our authorities remain committed to maintaining prudent macroeconomic policies in accordance with program targets. The Government is pressing ahead with their ambitious structural reform agenda, focused on improving the efficiency of the tax system and reform of the public sector. Moreover, the Central Bank is making good progress towards addressing the recommendations of the IMF safeguards assessment.

Fiscal Policy

Fiscal policy is providing a strong nominal anchor to the economy, with the Government on track to achieve a fiscal tightening equivalent to almost 8 percentage points of GDP in 2009. The primary fiscal surplus out-performed the revised program target in the first quarter of 2009, allowing the government to reduce its net domestic debt by an additional Rupee 500 million. The government is now forecasting a primary fiscal surplus of 11.4 percent of GDP in 2009, an improvement on the 9.8 percent estimate at the first review, and program targets have been revised up accordingly. The better-than-anticipated first quarter result and 2 associated decline in annual interest expenses has created the fiscal space for the government to meet urgent expenditure needs, specifically: reinforcement of border protection to combat the threat of piracy; the bring-forward of priority infrastructure projects; increased expenditure on social services; and a one-off injection to support the operations of the Public Utilities Corporation.

The government is maintaining a tight control over expenditures, including through continued public sector wage restraint, strengthened expenditure controls within key spending ministries and by improving financial management in state-owned enterprises (as detailed below). These efforts have been reinforced by the introduction of strengthened Public Procurement and Public Debt Acts and will be further supported by full implementation of a Treasury Single Account by end-September. Our authorities also remain committed to implementing the recommendations of a recent Public Expenditure Review conducted by the World Bank that identified scope for substantial savings in the health and education sectors, while retaining the quality of services.

Monetary Policy

Monetary policy has remained tight, with the Central Bank successfully controlling reserve money through market-based mechanisms. Market interest rates rose to over 30 percent at the start of the year and the exchange rate has appreciated in recent months. Notwithstanding a large decline in nominal interest rates in the second quarter, real interest rates remain high at around 10 percent. This has had the desired effect, with inflation coming down markedly from 38 percent at the start of the program to the low single-digits.

The outlook is for inflation to fall below 5 percent in year-on-year terms in 2010, consistent with continued tight monetary conditions, the forecast decline in economic activity and reduction in imported food and fuel prices. Importantly, there is no evidence of persistent inflationary pressures following the substantial exchange rate depreciation and related price level jump associated with the exchange rate depreciation in November. This has provided space for a measured counter-cyclical easing in monetary policy, consistent with the price stability objective recently enshrined in legislation under the new Central Bank Act.

Financial Sector

With financial stabilization now taking hold, Seychelles' banks are emerging from a period of global and domestic financial sector turbulence in a strong position overall. The banking sector weathered the severe interest and exchange rate shock that followed the move to market-based mechanisms well. Banking sector capitalization exceeds standard norms, profitability remains strong and the percentage of non-performing loans remains low. In addition, the Central Bank's stress tests – conducted on the basis of new capitalization norms introduced in May and more stringent provisioning requirements introduced in June - show that the financial sector is well-placed to withstand further substantial shocks. Nonetheless, our authorities are attuned to the potential for credit risks to increase with declining economic activity and higher unemployment and remain vigilant in their supervision of banking sector balance sheets. The Central Bank is also working on contingency guidelines specifying 3 prompt and corrective actions to be taken in the unlikely event of severe market stress.

Structural Reforms

Earlier this month the Government announced a comprehensive tax reform strategy. The central pillars are: transforming the current goods and services tax (GST) into a value-added tax (VAT); replacing the current social security contributions scheme and other taxes on personal earnings with a personal income tax system; and overhauling the business tax regime through lowering/eliminating the threshold, rate and accelerated capital depreciation schedules towards international standards. A central element of these reforms is the elimination of tax concessions provided to the tourism, fisheries and agriculture industries, bringing these sectors into the new tax regime and leveling the playing field. Implementation of the Government's tax reform strategy will be staged, with the income tax measures (business and personal) to be introduced with the 2010 Budget and the VAT expected to be fully operational by January 2012 (with IMF technical support). The government's tax reform strategy is expected to be revenue neutral in 2009, with tax receipts expected to increase over time in line with nominal income growth. Our authorities are taking parallel measures to strengthen tax administration, both in terms of staffing and procedures, and will receive IMF technical assistance in this area shortly.

The second pillar of the Government's structural reform agenda is rationalization and reform of the public sector. In 2008, the government privatized several state-owned enterprises, reduced the number of civil service employees by 17 percent and outsourced a range of activities that could be provided more efficiently by the private sector. The next phase of the government's public sector reforms is a strategic assessment of all state-owned enterprises to evaluate the costs and benefits of continued government ownership. For those enterprises where continued government ownership is considered appropriate, the government will take measures to maximise the value of its shareholding and reduce risks to the public sector balance sheet. Informing this process are financial audits (by a major international accounting firm) and management audits (by an international expert working within the Ministry of Finance) of each public sector enterprise to assess current business practices against international financial, governance and management standards. These audits will be completed towards the end of this year and the government is committed to responding decisively to the findings.

Public Debt Restructuring Strategy

Our authorities are continuing their good faith efforts to achieve a comprehensive public external debt restructuring, consistent with their medium-term payments capacity and the Fund's lending into arrears policy. Agreement has now been reached with Paris Club Creditors and South Africa on an exceptional treatment of the government's debts under the Evian approach. Negotiations are continuing with other creditors and our authorities working towards the launch of a debt exchange offer before the end of this year, guided by their commitment to inter-creditor equity.
Our authorities are also making progress on a medium-term debt management strategy to
4 reduce the cost and risk of public debt, while taking into account monetary and fiscal policy objectives. They are aiming to finalize the strategy by November, with the assistance of the Fund's Monetary and Capital Markets Department.

Program Performance

Progress on macroeconomic stabilization is underpinned by our authorities' strong program performance. They comfortably met all of the end-March quantitative targets and have implemented the two structural benchmarks for the second review. The Seychelles Revenue Authority also recently completed tax audits of the 20 largest firms, meeting the structural performance criterion for the third review prior to the end-June deadline. Our authorities support staff's proposal that future program reviews be conducted on a semi-annual basis, consistent with the strength of their program performance and the stabilization of macroeconomic conditions.

As stated in President Michel's letter of intent, Seychelles will request a 3-year arrangement under the Extended Fund Facility (EFF) to replace their current Stand-By Arrangement in late 2009. Our Seychellois authorities are actively working with the IMF, World Bank and African Development Bank to elaborate a comprehensive medium-term reform program, where the EFF provides the appropriate macroeconomic framework and financing structure through which to address their medium-term challenges.

Finally, our Seychellois authorities would like to express their gratitude to Management for their support and the mission chief and his team for their continued hard work in helping to shape Seychelles' economic reform agenda.