

# Seychelles

## *The Economic Reform Experience*

January 2011



# Structure of Presentation

1. General Information and Characteristics
2. Seychelles' Road to Economic Collapse
3. Key economic Indicators
4. IMF-Supported Economic Reform Program
5. Going forward
6. Second Generation Reforms



# 1. General Information and Characteristics

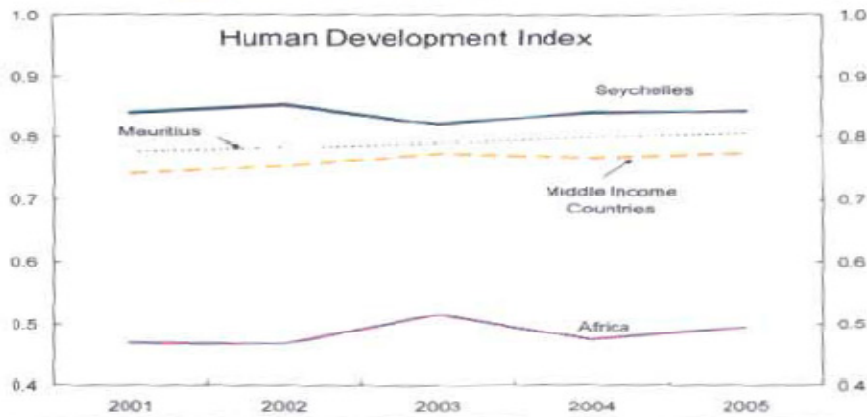
- Archipelago of 115 islands in the Western Indian Ocean
- Population: 88,000
- Economic Characteristics
  - Main economic sectors:
    - Tourism
    - Fisheries
    - Trade
    - Financial services (including offshore centre)
  - Net importing country
  - Vulnerable to external shocks



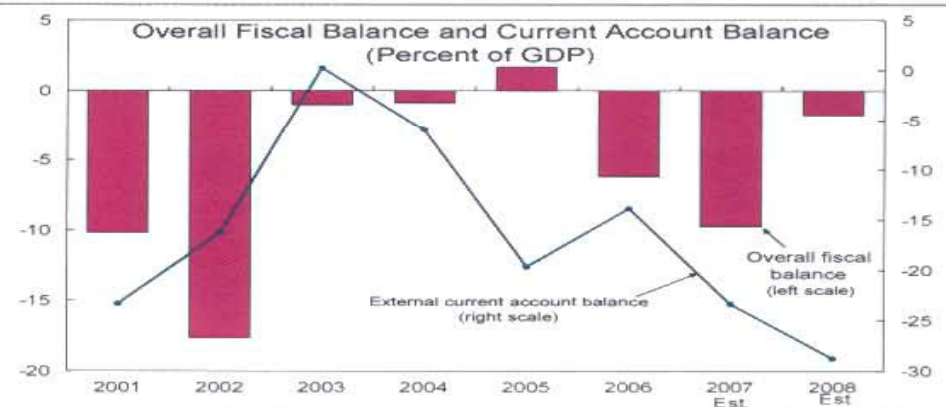
## 2. Seychelles' Road to Economic Collapse

- **Late 1980s:** Planned Economy, with Heavy Government intervention; Welfare State but stable economy largely due to international support
- **Early 1990s:** Major External Shocks hit the Seychelles which required major Expenditure programs:
  - Collapse of Soviet block resulting in major cut in external assistance
  - Return to multiparty democracy and fresh Presidential and Parliamentary Elections
  - Seychelles' turn to host Indian Ocean Games
- **Mid-1990s until 2008:** Seychelles authorities continued to maintain same social/welfare programs but without international financial support from friendly countries; instead Seychelles would enter over almost two decades of monetization of fiscal deficits. This coincides with a period of slow economic growth, and widening of macro-economic imbalances
- **2008:** Seychelles defaults on external debt commitments vis-à-vis external creditors
- **2008:** Seychelles economy nears collapse; IMF called in and economic reforms began.

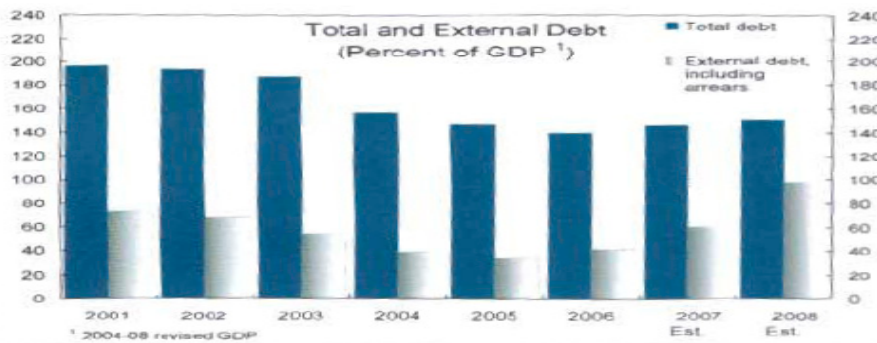
*Living standards are high and above those in the region and other middle-income countries...*



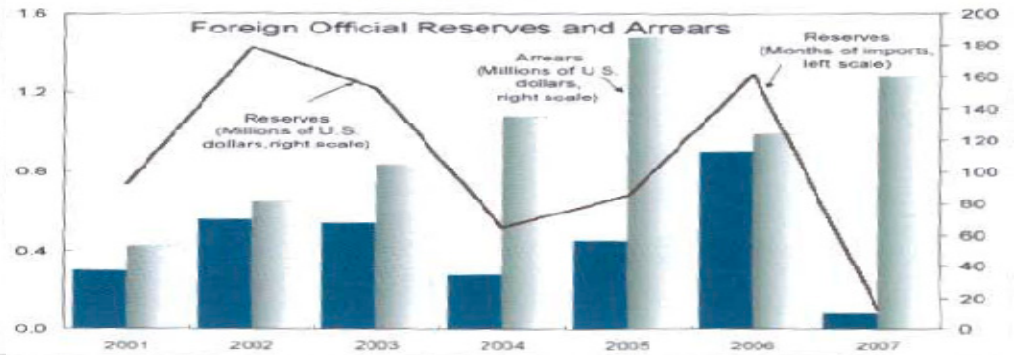
*...but large fiscal and current account deficits...*



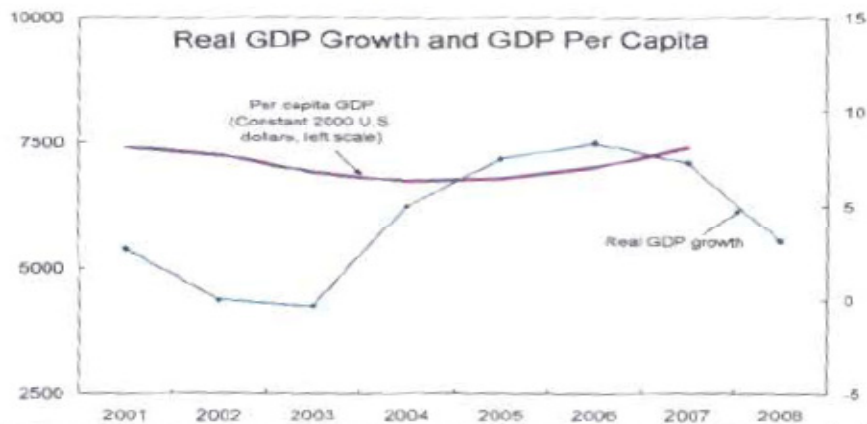
*...have led to unsustainable debt...*



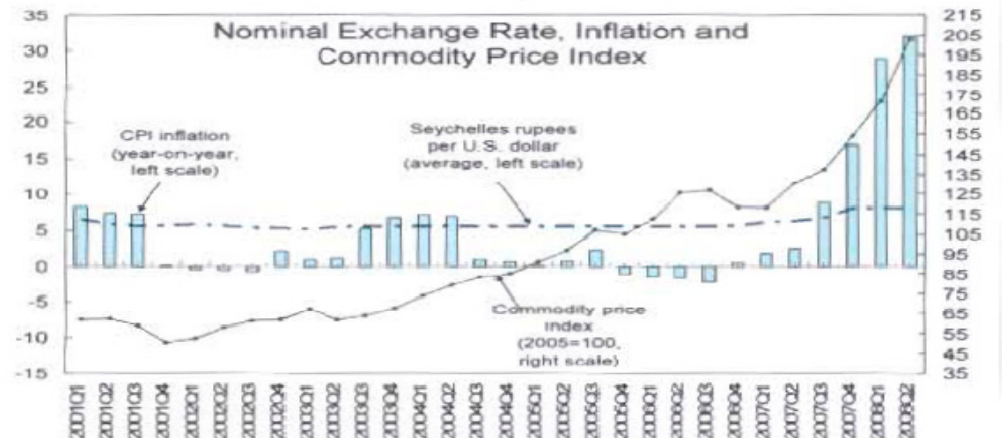
*...accumulation of external arrears and the near exhaustion of foreign reserves.*



*Recently, external shocks have led to a slowdown in growth...*



*...and higher commodity prices and exchange rate depreciation have increased inflation.*



# 3. Key Economic Indicators

	2006	2007	2008	2009	2010 <sup>2</sup>
GDP (USD million)	1,020	<b>1,025</b>	<b>928</b>	790	937
GDP/capita (USD) <sup>1</sup>	12,054	12,053	10,671	9,046	10,607
Real GDP growth (%)	9.3	9.7	-0.9	0.7	6.2
Unemployment rate (end-of-period)	2.6	1.9	1.0	1.7	2.3 <sup>3</sup>
Inflation rate (%) (end-of-year)	2.3	16.7	63.3	-2.6	0.4

•<sup>1</sup> Estimate

•<sup>2</sup> Decline in GDP/capita in 2009 reflects the exchange rate devaluation in November 2008

•<sup>3</sup> Provisional, as at end November 2010.



## 4. IMF-Supported Economic Reform Program

- IMF-supported **economic reform** programme since November, 2008
- **Objective:** To promote macroeconomic stability and sustainable growth.
- **Main components:**
  - Market-Based **Monetary Policy framework**
  - Liberalized **Foreign exchange policy**
  - **Fiscal policy** aimed at attaining sustainability
  - Sustainable **public debt**
  - Sustainable **balance of payments** position
  - **Structural reforms** (incl. Public sector reforms)

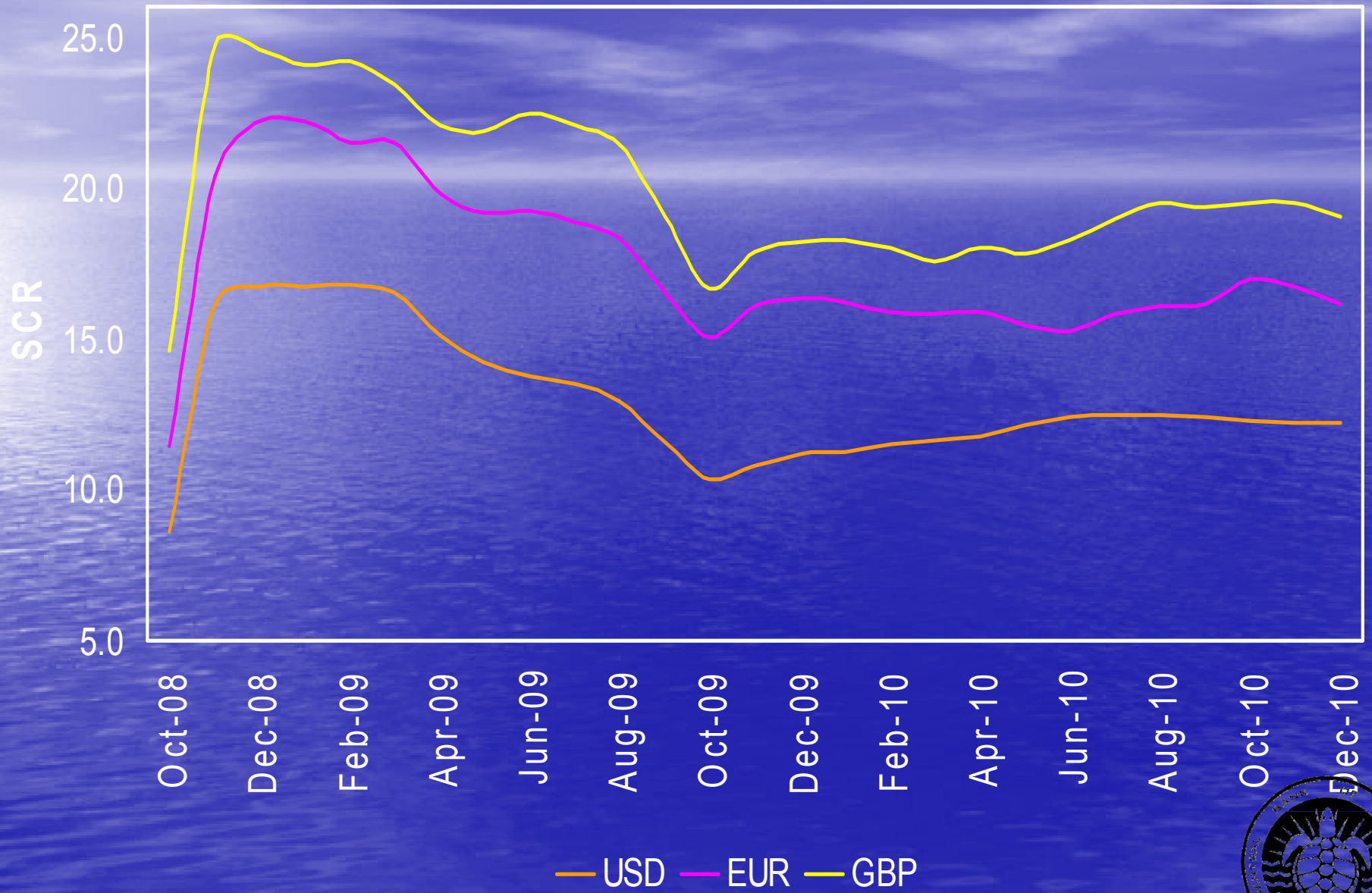


- Successful implementation of the Stand-by Arrangement
- Move to Extended Fund Facility (EFF) in December 2009
- Improvement in key economic indicators
  - Stabilized exchange rate
  - Declining interest rate
  - Inflation contained
  - Significantly improved foreign exchange reserves
  - Budgetary surplus
  - Comprehensive Re-scheduling of external debt
  - Improved sovereign rating (confidence)
  - Institutional and Legal framework strengthened
  - Modernization of tax system

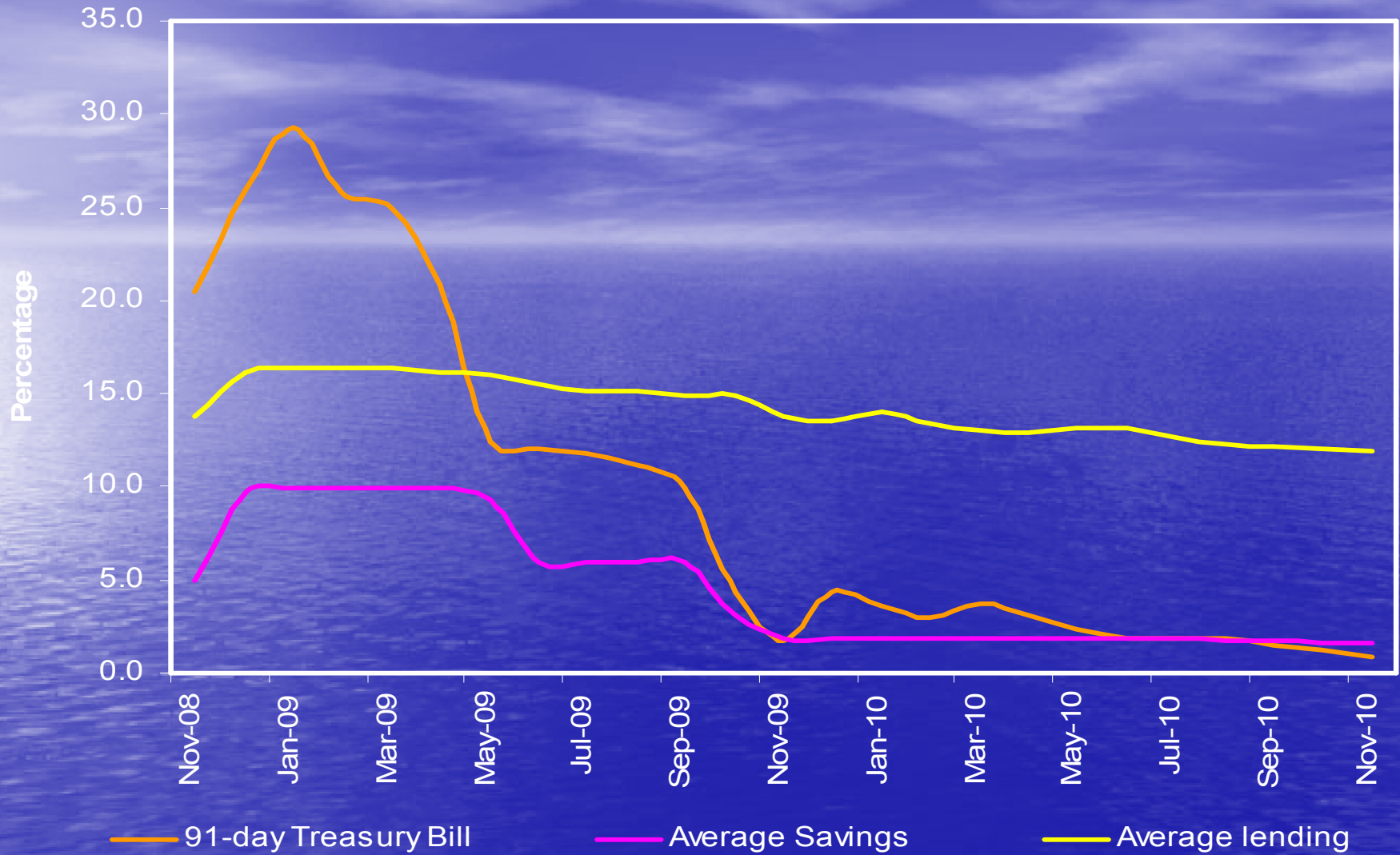




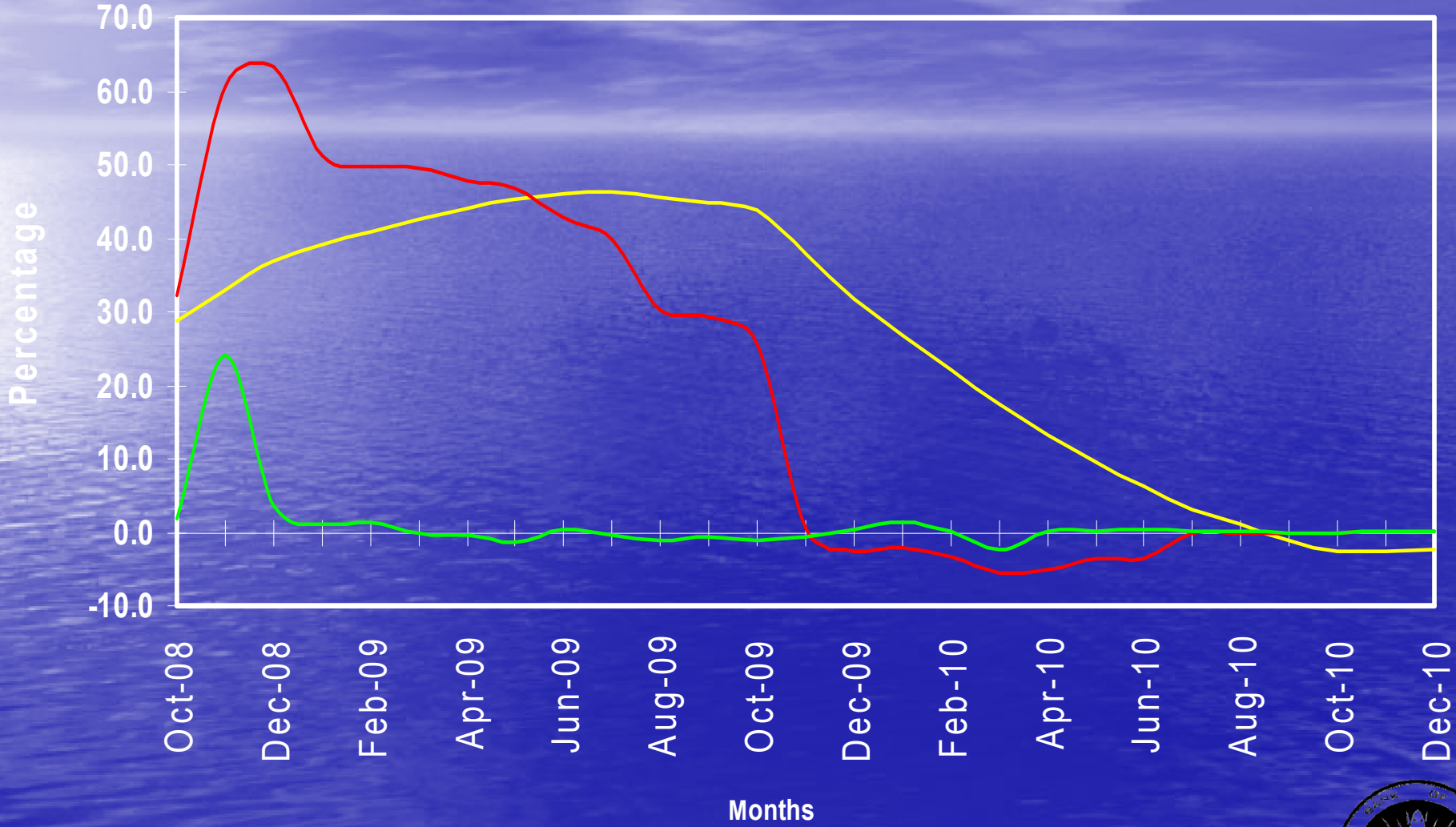
# Chart 01: Exchange Rate



### Chart 02: Interest Rates



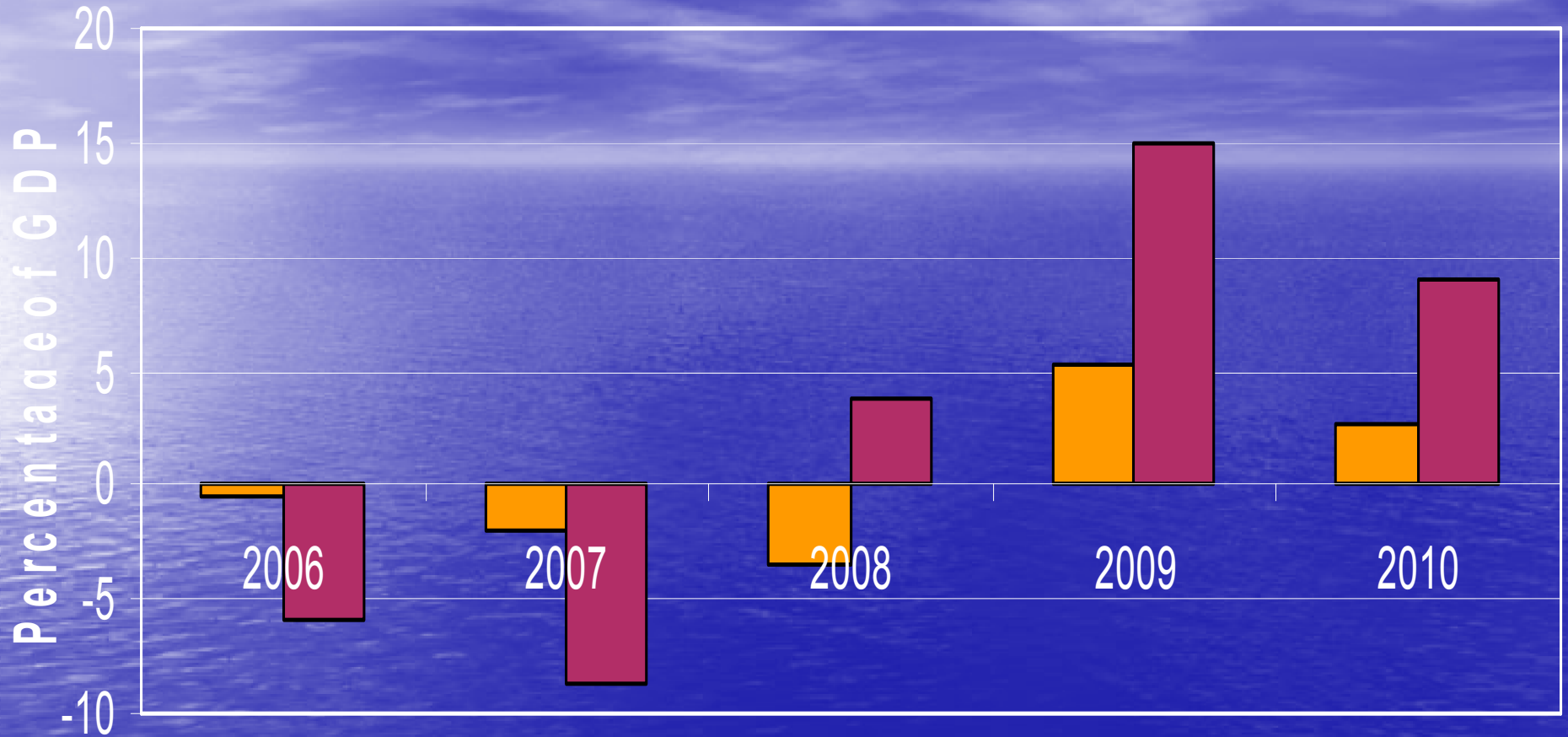
# Chart 03: Inflation Rate



— 12-Month Average — Year-on-Year — Month-on-Month



# Chart 04: Fiscal Balance as Percentage of GDP

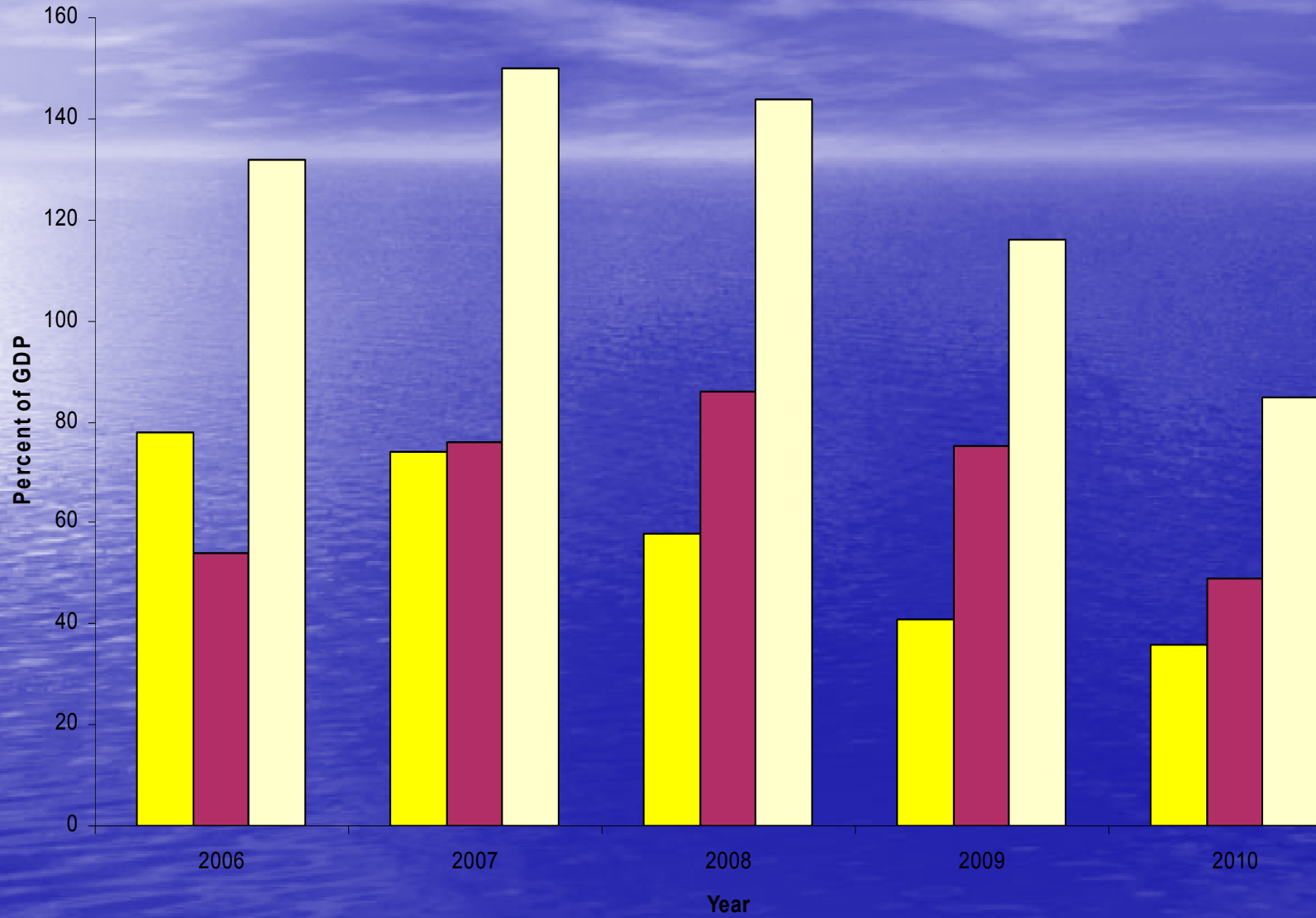


**Year**  
**Overall Fiscal Balance** **Primary Fiscal Balance**

\*2010 Data is provisional



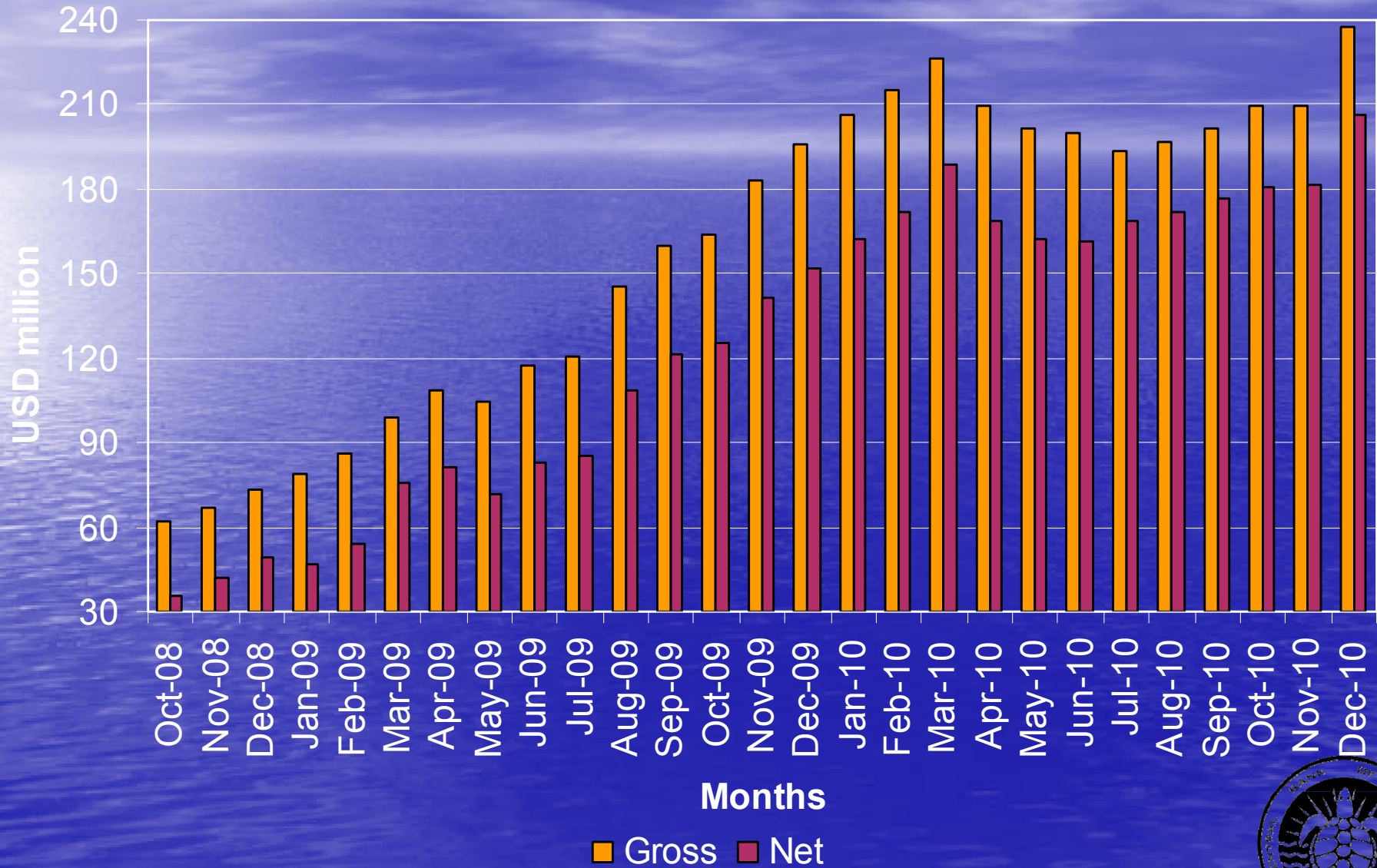
Chart 05: Debt to GDP Ratio



■ Domestic ■ External □ Total

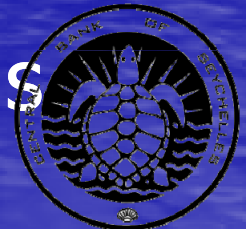


Chart 06: CBS External Reserves Position US\$



# 5. Going forward

- EFF aims to:
  - Preserve macroeconomic stability
  - Achieve external sustainability
  - Improve economic efficiency and raise growth through implementation of second generation of structural reforms



## 6. Second Generation Reforms

- Tax Reforms
  - Personal Income Tax (PIT)
  - Value Added Tax (VAT)
  - Business Tax
- Public Finance Management
- Public Enterprise Reforms
- Private Sector Development
  - Business Environment





Thank You!

