EXECUTIVE BOARD MEETING

EBS/19/44

June 3, 2019

To: Members of the Executive Board

From: The Secretary

Subject: **Seychelles—Staff Report for the 2019 Article IV Consultation and Third Review Under the Policy Coordination Instrument and Request for Modification of Targets and Monetary Consultation Clause**

Board Action:	Executive Directors' **consideration** (Formal)
Tentative Board Date:	**June 14, 2019**
Proposed Decision:	Page 27
Publication:	Yes*
Questions:	Mr. Sy, AFR (ext. 38651) Mr. Konuki, AFR (ext. 38085)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	Tuesday, June 11, 2019—WTO After Board Consideration—African Development Bank

***The authorities have indicated that they consent to the Fund's publication of this paper.**

INTERNATIONAL MONETARY FUND

SEYCHELLES

May 30, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION AND THIRD REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND REQUEST FOR MODIFICATION OF TARGETS AND MONETARY CONSULTATION CLAUSE

KEY ISSUES

Context: Seychelles has made noticeable progress toward economic stability and sustainability under successive Fund programs through prudent macroeconomic policies and bold reforms since the crisis in 2008. Despite significant headway, the country remains vulnerable to external shocks as a small, open, and tourism-dependent economy. Seychelles could face challenges to reconcile its goals to reduce its infrastructure gap, enhance its resilience to climate change, and bolster its medium-term fiscal and external sustainability.

Outlook and risks: While the outlook is benign, the economy remains vulnerable to external shocks, including weakness in the key tourism markets, global banks' withdrawal of correspondent banking relationships (CBRs), and, over the long term, climate change. Domestic risks center on potential slippages in Air Seychelles' restructuring, which could threaten the authorities' medium-term public debt reduction goal.

Focus: Policy discussions centered around possible saving measures to be introduced in the 2020 budget, sustainable strategies to accommodate the authorities' ambitious plans to build up infrastructure and address climate change over the medium term, and the supporting role of monetary and exchange rate policies. Discussions on the structural agenda focused on policies to secure financial stability, minimize fiscal risks, and enhance prospects for inclusive growth.

Recommendations: The authorities need to secure their debt reduction goal through permanent fiscal measures in 2020, create further fiscal space over the medium term, and take a phased approach to priority infrastructure and climate change investments. Staff also urged the authorities to step up efforts to reduce fiscal risks potentially arising from Air Seychelles. The Central Bank of Seychelles (CBS) should remain vigilant to inflationary pressures and keep reserve coverage broadly at the current level. Structural reforms should focus on strengthening the AML/CFT framework and promoting inclusive growth, including by improving the business climate.

Review: The program under the Policy Coordination Instrument (PCI) has been on track. The authorities met all the end-2018 quantitative targets. The approved 2019 budget is in line with the program. The structural agenda remains broadly on track despite some technical delays. Three reform targets on financial stability are proposed to be reset considering institutional capacity constraints. Staff recommends completion of the third review.

Data: Data provision is broadly adequate for surveillance. Improving the quality of BOP statistics remains a priority.

Approved by
David Owen and Martin Sommer

Discussions were held in Victoria during March 6-19, 2019. The staff team comprised Mr. Sy (head), Messrs. Dhungana, Issoufou, and Konuki (all AFR). The mission met with President Faure, Minister of Finance, Trade, Investment, and Economic Planning Loustau-Lalanne, Central Bank Governor Abel, other senior officials, parliamentarians, and representatives of the private sector and civil society. Mr. Johnston (OED) also participated in the discussions. Ms. Gupta provided research support and Ms. Bieleu provided assistance for the preparation of this report.

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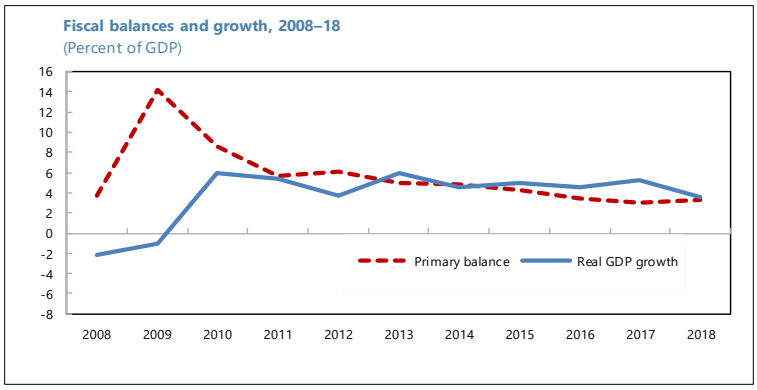
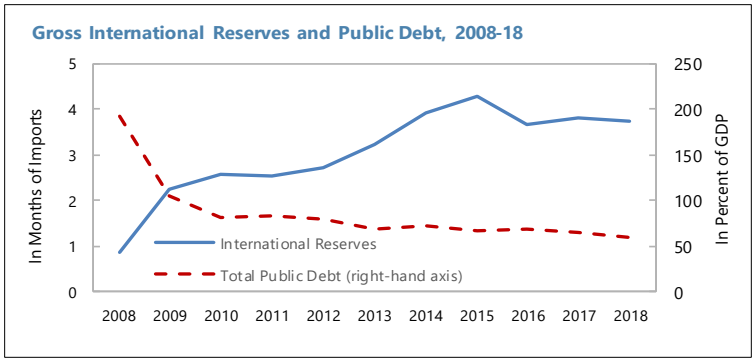
CONTEXT

1. Seychelles has made considerable progress in strengthening economic stability and sustainability under successive Fund programs since the 2008 crisis. Underpinned by the authorities' prudent macroeconomic policies and bold structural reforms, the country enjoyed strong economic growth while running significant primary fiscal surpluses since 2009 and reducing its public-debt-to-GDP ratio by two thirds since end-2008. A strong fiscal position, prudent monetary policy, and significant Fund financial assistance led to a build-up of external buffers: prospective import coverage of the gross international reserves (GIR) improved to about 4 months by 2015 from less than 1 month at end-2008. Strong ownership by the authorities played a key role in successful programs.





2. Seychelles is the only high-income country in Sub-Saharan Africa and its economic and social indicators are among the highest among small states.[1] As the country did not need Fund financial assistance anymore, in mid-2017 the authorities requested a Policy Coordination Instrument (PCI)—the first member country to do so—to maintain a close policy dialogue with the Fund after its Extended Arrangement (EFF) expired. Seychelles announced an ambitious strategy for climate change mitigation and adaptation in 2015 and was the first pilot country for a Climate Change Policy Assessment (CCPA) for small states.

Selected Indicators in Small States
(2017 or latest available)

	Bahamas	Barbados	Fiji	Maldives	Mauritius	Singapore	Seychelles
GDP per capita (USD)	32,661	17,758	5,528	12,527	10,504	57,713	15,735
Real GDP growth (percent, average 2012-16)	0.1	0.6	3.6	5.2	3.7	3.5	5.0
Public debt (percentage of GDP)	55	124	50	65	64	113	64
External current account balance (% of GDP; average 2013-17)	-14.2	-6.3	-5.3	-11.8	-5.5	18.3	-18.8
Adult literacy rate (percent)	96	100	94	99	93	97	95
Life expectancy at birth, total (years)	76	76	70	77	74	83	74
Infant mortality rate (per 1,000 live births)	6	12	21	7	12	2	12

Sources: WEO, *World Economic Outlook* ; World Bank, *World Development Indicators.*

[1] Seychelles is a micro-state (i.e., population less than 200,000). While the overall area is 455 km^2, the population and economic activity are concentrated on three mostly mountainous islands totaling 203 km^2, comparable to the size of Washington, DC (177 km^2).

3. Despite this impressive progress, additional efforts are needed to lock in medium-term sustainability. The government intends to reduce the country's infrastructure gap and achieve ambitious climate change mitigation and adaptation goals over the medium term. In this context, it is necessary to ensure efficient management of public investment and maintain fiscal discipline to shore up the authorities' medium-term debt reduction target and fiscal sustainability. The political situation could pose challenges for the current administration to keep fiscal discipline as the next presidential elections are scheduled to be held by December 2020.[2] Furthermore, as a very small open economy dependent on tourism and tuna, Seychelles remains vulnerable to negative external shocks.

4. The authorities' policies have been largely aligned with the advice from the previous Article IV consultation, albeit with a marginal loosening of fiscal stance (Box 1). With a view to creating space for priority public investments, the authorities revised down the primary surplus target by ½ percent of GDP to 2½ percent of GDP from 2018 onwards compared with the 2017 Article IV recommendation. The revised primary surplus would lead to a steady reduction of public-debt-to-GDP ratio to below 50 percent by 2021, one year later than the authorities' previous medium-term debt reduction goal. This revised goal, in the view of Staff and the authorities, strikes an adequate balance between addressing investment needs and preserving economic stability. The monetary policy stance has been appropriate to achieve inflation objectives. The flexible exchange rate has allowed for a build-up of foreign reserves, and the Central Bank of Seychelles (CBS) has made progress to strengthen the new monetary policy framework where interest rates play a prominent role. Structural reforms have also been implemented broadly in line with staff's advice to strengthen the state-owned enterprises (SOEs) and address risks of potential further withdrawal of correspondent banking relations (CBRs). As a result, the PCI program has been on track (see ¶34). Progress in improving the business environment and diversifying tourism and fishery industries have been mixed.

RECENT DEVELOPMENTS, OUTLOOK AND RISKS

5. Economic conditions continue to be favorable (Tables 1-5, Figures 1 and 2). Tourist receipts grew by 16¾ percent in 2018 with strong growth from the major European markets, according to the CBS survey. The robust performance of the tourism sector coupled with strong canned tuna production resulted in a real GDP growth of 4.1 percent in 2018. The nominal exchange rate has been stable in recent months while gross international reserves (GIR), supported by strong tourism, have outperformed staff's projection at the time of the 2nd review under the PCI. Private sector credit growth decelerated since March 2018 but remained high at 13.6 percent at end-March 2019. Financial soundness indicators indicate that the ratio of non-performing loans (NPLs) to gross loans declined to

[2] The ruling party has been weakened by its loss of control of the legislature since late 2016 and the opposition has been vocal in demanding early elections.

Box 1. Seychelles: Main Recommendations of the 2017 Article IV Consultation

Recommendations	Status
Fiscal Policy and Public Financial Management	
1. Target primary surplus of 3 percent of GDP from 2018 onwards to buttress the medium-term debt reduction target of bringing public-debt-to-GDP ratio below 50 percent by 2020.	1. The authorities revised down the primary surplus target to 2.5 percent of GDP from 2018 onwards to address investment needs. The medium-term target of bringing public debt-to-GDP ratio below 50 percent has been postponed by one year to 2021.
2. Create further fiscal space to accommodate investments aimed at enhancing resilience to climate change.	2. The authorities have been seeking financing sources for the climate change related projects, including external grants and PPPs to minimize fiscal impact. The government has introduced measures to limit the nominal growth of current spending, including procurement reforms and measures to remove duplication of services provided by different agencies.
3.Continue the progress to strengthen the SOE sector	3. The authorities made significant progress under the PCI, including publishing significant fiscal risks arising from SOEs and amending Code of Governance for SOEs in line with OECD Guideline.
Monetary and foreign exchange policy	
4. Maintain an appropriately tight monetary policy stance.	4. The CBS has kept an appropriately tight monetary policy stance, which has contributed to contain inflation at a low level.
5. Continue the progress toward a stronger monetary policy framework in which interest rates play a prominent role.	5. The CBS made significant progress with the help of Fund TA. It has introduced an interest rate corridor in June 2017 and announced a policy rate in December 2018.
6. Maintain the flexible exchange rate policy.	6. The CBS has maintained flexible exchange rate policy while keeping international reserves buffer at an adequate level.
Financial sector policy and structural reform	
7. Continue efforts to address risks of further potential loss of correspondent banking relationships (CBRs).	7. Seychelles has made significant progress towards protecting CBRs, including amendments to strengthen the AML/CFT framework as envisaged under the PCI and improve CBR compliance by local banks.
8. Improve the business environment, including by reducing cross-subsidization in electricity prices.	8. Progress has been limited in improving business environment. Adjustment in electricity tariffs to reduce cross subsidization have resumed starting September 2018.
9. Deepen, diversify and upgrade the tourism and fisheries industries	9. Certain efforts on diversifying tourism markets and providing more local content through guesthouses have borne fruit. More efforts are needed to value upgrade the fisheries industry.

Source: IMF Staff

3.5 percent in December 2018 from 7.1 percent in December 2017 (following the resolution of a large legacy NPL) and that banks are adequately capitalized and liquid. The CBS raised the lower and upper bounds of the interest rate corridor by 50 basis points in late December 2018, citing concerns over potential demand pressures arising from public-sector wage adjustments in the 2019 budget and the still brisk pace of private credit growth. Headline year-on-year CPI inflation rate declined to 2 percent in March 2019, down from over 4½ percent earlier in 2018 due to declining international fuel prices in the later months of 2018 and a tight monetary policy stance since March 2018. Staff's newly constructed financial conditions index indicates a general improvement in financial conditions relative to 2016, prior to the start of the strong credit growth cycle.4

6. Economic conditions continue to be favorable (Tables 1-5, Figures 1 and 2). Tourist receipts grew by 16¾ percent in 2018 with strong growth from the major European markets, according to the CBS survey. The robust performance of the tourism sector coupled with strong canned tuna production resulted in a real GDP growth of 4.1 percent in 2018. The nominal exchange rate has been stable in recent months while gross international reserves (GIR), supported by strong tourism, have outperformed staff's projection at the time of the 2nd review under the PCI. Private sector credit growth decelerated since March 2018 but remained high at 13.6 percent at end-March 2019. Financial soundness indicators indicate that the ratio of non-performing loans (NPLs) to gross loans declined to 3.5 percent in December 2018 from 7.1 percent in December 2017 (following the resolution of a large legacy NPL) and that banks are adequately capitalized and liquid. The CBS raised the lower and upper bounds of the interest rate corridor by 50 basis points in late December 2018, citing concerns over potential demand pressures arising from public-sector wage adjustments in the 2019 budget and the still brisk pace of private credit growth.[3] Headline year-on-year CPI inflation rate declined to 2 percent in March 2019, down from over 4½ percent earlier in 2018 due to declining international fuel prices in the later months of 2018 and a tight monetary policy stance since March 2018. Staff's newly constructed financial conditions index indicates a general improvement in financial conditions relative to 2016, prior to the start of the strong credit growth cycle.[4]

7. The economic outlook remains benign in the near- and medium-term provided that the authorities maintain their prudent policies envisaged under the PCI. Growth is expected to moderate to around 3½ percent during 2019–20, around the potential rate, on the back of a tightening of monetary policy, moderating performance in the tourism and fishery sectors, and a moratorium on large hotel construction projects until 2020.[5] While the increase in some excise rates in the 2019 budget and an electricity tariff rebalancing scheduled for later 2019 could create inflationary pressures, the tight monetary policy stance should help contain inflation. Foreign direct investment (FDI) and growth should pick up after the lifting of the moratorium on large hotel construction at

[3] A 5 percent increase on the salary table for public services was implemented in April 1, 2019. This salary scale revision is done every five years as stipulated in the Salary Act. Increases in salary have contributed to consumer credit growth as borrowers' income has increased. As Seychelles imports most of its consumption, higher demand translates into higher current account deficits and a depreciating local currency. As exchange rate pass-through to inflation was estimated by staff to be significant, demand-pull inflationary pressures remain a concern for monetary policy and macroeconomic stability.

[4] See accompanying Selected Issues Paper "Estimating a Financial Conditions Index for Seychelles."

[5] The large hotel moratorium introduced in late 2015 prohibits construction of new large hotels until end-2020.

end-2020. The external current account deficit would continue to be mostly financed by FDI, and the GIR's ARA metric is projected to stay around the current level of about 125 percent in the medium term.

8. Risks to the outlook presented above are tilted toward the downside (RAM, Box 2). Seychelles remains vulnerable to external shocks. Intensification of security concerns around the world could dent tourist arrivals, while structurally weaker growth in major advanced and emerging economies, particularly in the context of heightened tensions in the global trade system, could dampen tourism performance and tuna exports in the medium term. Seychelles' financial sector could be affected by global banks' potential withdrawal of correspondent bank relationships (CBRs). Higher-than-projected international energy prices could adversely affect Seychelles' external position, inflation, and Air Seychelles' financial position. Domestic risks center around potential fiscal slippages. Delay in Air Seychelles' operational restructuring could also place risks to the authorities' medium-term debt reduction goal. The government may face challenges implementing permanent saving measures in 2020 when the Presidential election will take place, while execution of large projects at a pace much faster-than-recommended by staff could put external stability at risk. On the upside, tourism sector growth could be significantly higher than projected in the next couple of years. Meanwhile, lower-than-projected international energy prices would help strengthen Seychelles' external position, contain inflation, and enhance growth.

Authorities' Views

9. The authorities agreed with staff's assessment of the economic outlook and risks. They pointed out that a delay in the implementation of Air Seychelles' operational restructuring would jeopardize the authorities' debt reduction goal and medium-term fiscal sustainability. In this context, the authorities are committed to implementing the restructuring plan of the company and to the strengthening of the monitoring of its cash flows and operations (¶17).

POLICY DISCUSSIONS

10. Discussions centered around policies to shore up the country's hard-won economic stability while enhancing inclusive growth over the medium term. Major public investment projects announced in the 2018 Sate of the Nation Address (SONA) would help address infrastructure bottlenecks and enhance resilience to climate change. However, these investment projects would need to be implemented within the envelope of fiscal parameters envisaged under the PCI to secure the authorities' debt reduction target and medium-term fiscal and external sustainability. This will require implementing permanent fiscal measures in 2020 and creating further fiscal space beyond the medium-term debt reduction target. Maintaining a flexible exchange rate policy while preserving the current level of reserve buffer will help lock in price and external stability. Discussion on the structural agenda focused on maintaining financial stability, minimizing fiscal risks, and enhancing prospects for inclusive growth.

Box 2. Seychelles: Risk Assessment Matrix (2019)[1]

Source of threat	Likelihood	Severity	Impact	Policy response
			Domestic risks	
Relaxation of fiscal discipline	M	H	Relaxation of fiscal discipline could quickly feed through to the balance of payments and threaten targets for debt reduction and reserves adequacy.	Ensure the primary surplus target continues to be met from 2019 onwards. Implement the larger infrastructure and climate change related projects in a phased way within the fiscal parameters under the PCI.
Slippage in Air Seychelles restructuring	M	M	Could threaten targets for debt reduction and negatively impact the external position.	Steadfastly implement the restructuring plan.
Natural disaster and climate change	L	H	Catastrophic weather event could lead to an exploding public debt dynamics. Rising sea level over the long run could have devastating impacts.	Create further fiscal space, beyond ensuring the medium-term debt target, to accommodate key public investments to address vulnerability to climate change. Ensure adequate natural disaster insurance coverage.
			External risks	
Structurally weak growth in key advanced and emerging economies	M-H	M	Weaker global growth would lead to a drop-in tourism receipts, resulting in lower domestic growth and weaker balance of payments.	Ensure exchange rate flexibility to act as shock absorber. Encourage continued diversification of tourism markets.
Large swings in international fuel prices	M	M	Although risks to prices are broadly balanced, higher-than-projected prices would negatively affect Seychelles' external balance, inflation, and some SOEs' financial positions.	Ensure exchange rate flexibility to act as shock absorber. Make progress toward a less fuel dependent energy mixes over the medium to long term.
Intensification of security risks in parts of Africa, Asia, Europe, Latin America and Middle East	H	M	Tourist arrivals could be adversely affected.	Support an open, competitive air transport policy which encourages diversification in the source of tourists and travel connections.
Reduced financial services by correspondent banks	M	M	Should banks lose a significant number of CBRs, trade and financial flows would be disrupted with adverse effects on growth prospects.	Step up efforts to make the legal and regulatory framework for AML/CFT in line with international standards and enhance the enforcement capacity of the framework.

[1] The risk assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of ricks an overall level of concern as of the time of discussions with the authorities. Non-Mutually exclusive risks may interact and materialize jointly.

A. Buttressing Fiscal Sustainability

11. The 2019 budget approved by the National Assembly is in line with the program. The approved budget targets a primary surplus of 2½ percent of GDP, supported by permanent measures in line with the understandings under the 2nd PCI review. On the revenue side, the budget introduces a sugar tax and a property tax, reduced fuel tax exemptions for the fishing and tourism sectors, and an increase in excise rates on some products and in certain fees and charges. The accelerated investment deduction and marketing cost deduction granted for tourism related companies were terminated at the end-2018, but this measure would not produce additional revenues for the next several years due to loss carryovers. These revenue measures would provide additional revenue of around 0.6 percent of GDP from 2019 onwards, offsetting the full-year revenue loss arising from the introduction of the progressive personal income tax (PIT) in June 2018 (PS¶7). These permanent revenue enhancing measures are supplemented by a one-off stamp duty receipt of almost 1 percent of GDP from the sale in 2016–17 of a major telecom company to a new operator. On the expenditure side, the 2019 budget includes various measures to contain the nominal growth of goods and services, including procurement reforms and the elimination of government services duplication .

Permanent revenue enhancing measures in the 2019 budget

Measures	Estimated saving in 2019 (in SCR millions)	Estimated saving in 2019 (in percent of GDP)
Introduction of a sugar tax (starting in April 2019)	39	0.17
Phasing out of fuel tax exemptions for fishing and tourism industry	6	0.02
10 percent increase in tobacco excise	15	0.06
Increase in duties on poultry and pork product imports	5	0.02
Introduction of a property tax	40	0.17
Increase in various fees and charges	40	0.17
Total	145	0.62

Source: Ministry of Finance and staff estimates

12. Staff advised the authorities to include permanent measures in the 2020 budget to shore up their medium-term debt reduction goal. Staff's recent DSA indicates that the primary surplus of 2½ percent of GDP from 2020 onwards would lead to public debt below 50 percent of GDP by end-2021 and a continued steady reduction of the debt ratio thereafter, in line with the authorities' debt reduction goal and medium-term fiscal sustainability.[6] Given that the one-off stamp duty receipt from the telecom company sales would expire in 2019, the authorities would need to create savings of almost 1 percent of GDP in 2020. The government intends to implement the following measures, which are currently being articulated, in the 2020 budget (PS¶9):

- Containing the nominal growth of current expenditures in goods and services to almost zero in 2020 through the continued implementation of procurement reform and utility tariff rebalancing, as well as further progress in removing duplication of services provided by

[6] See Appendix I of Country Report No. 19/4.

different agencies (the saving impact in 2020 is preliminary estimated by the authorities at about 0.5 percent of GDP[7]);

- Containing wage bill growth by implementing a new staffing and recruitment plan and
- Better targeting of social welfare spending under the current social welfare protection system by implementing recommendations to be finalized by the World Bank, including a review and adjustment of means-test and benefit levels of the home care program[8] (the saving impact in 2020 is preliminary estimated by the authorities at about 0.3 percent of GDP);

These measures would help create space for the planned acceleration of public investments over the medium term within the envelope of the primary surplus target under the PCI and fiscal sustainability. Staff encouraged the government to delineate measures to mitigate the impact of the utility tariff rebalancing and the introduction of the sugar tax on the most vulnerable groups. The authorities noted that households with income below a threshold will receive vouchers for electricity starting mid-2019. Staff also argued for removing the discriminatory features in the property tax introduced in the 2019 budget.[9]

13. The authorities should take a phased approach in executing the 2018 SONA and climate change related projects. While the authorities have identified the financing of about $60 million of climate change mitigation and adaptation projects and included them in their Public-Sector Investment Program (PSIP, text table), a medium-term financing strategy for other climate change and major investment projects announced in the 2018 SONA needs to be worked out. The total cost of these projects whose financing is yet to be identified is estimated at over 40 percent of 2018 GDP

Climate change related projects incorporated in the authorities' PSIP

	Project period	Estimated cost	Financing
SWIOFish3 Project	2017–23	$25.3 million	$15 million by Blue Bond $5 million by World Bank's GEF grant $5.3 million by World Bank loan
Solar Power Field Project	2018 onwards	$8.5 million	Loan from Abu Dhabi Fund for Development
Utility scale power plant with battery storage	2018–22	$4 million	Line of credit from the Government of India
Solar LED street lights	2018–22	$0.6 million	Line of credit from the Government of India
Photovoltaic rooftop on government buildings	2018–22	$3 million	Line of credit from the Government of India
Photovoltaic plant project	2019 onwards	$0.3 million 1/	African Legal Support Facility grant
Other projects already started in 2017	2017–19	$9.8 million	$2.3 million by domestic financing $2.4 million by World Bank's GEF grant $5.1 million by AfDB loan
Solar power projects	2019–21	$3.4 million	Grant from India
Climate smart agriculture project	2019–21	$0.5 million	Grant from EU
Total		$60.8 million	

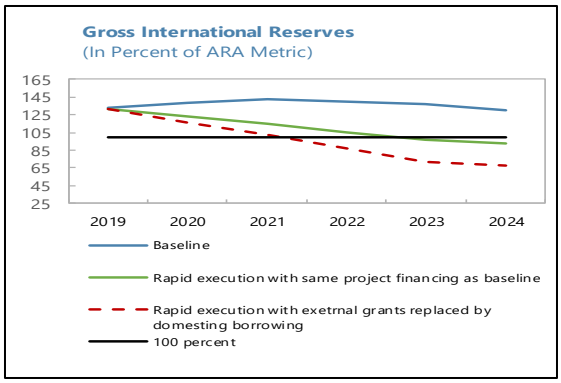
Source: Seychelles authorities
1/ Project design and legal advisory service only.

[7] Cessation of one-off spending of this item in 2019, such as international sports events, would reduce the spending on goods and services by 0.2 percent of GDP in 2020 compared with 2019.

[8] The authorities pointed out that a better targeting of the Home Care program, which provides at home health and/or social care and is budgeted to cost 1 percent of GDP in 2019, should generate savings.

[9] The property tax discriminates between residents and nonresidents and is thus a capital flow management measure according to the Fund's institutional view.

over their lifespan. Staff's analysis illustrates that a phased execution approach would be consistent with long-term fiscal sustainability and external stability. In contrast, a rapid execution of these projects (concentrated over the next several years) would put the country's external stability at risk (Annex I). In this context, these projects should be phased in and implemented within the envelope of fiscal parameters under the PCI, in line with the President's assurance to the 1st and 2nd PCI review missions.



14. The authorities would need to create further fiscal space over the medium term, beyond that required to secure their debt target, to accommodate these investments. Staff reiterated its advice to seek concessional external financing for these projects to the extent possible and explore the possibility of additional measures discussed at the time of the 2017 CCPA over the medium term, including a gradual introduction of a carbon tax as part of a comprehensive tax reform. Given the government's planned use of PPPs to finance part of these projects,[10] staff encouraged the authorities to enhance capacity to minimize the potential fiscal risks arising from PPPs and raise efficiency of public investments. In this context, Staff welcomed the government's draft PPP bill which would provide a strong institutional framework, detailed procedures for project approval, screening, and contract management for PPPs and its request for technical assistance in designing major PPP projects with the help of international institutions (PS¶19). The government also intends to undertake the Fund's public investment management assessment (PIMA) in 2019 as part of its efforts to raise efficiency of capital expenditure, including project selection and execution planning (PS¶11).

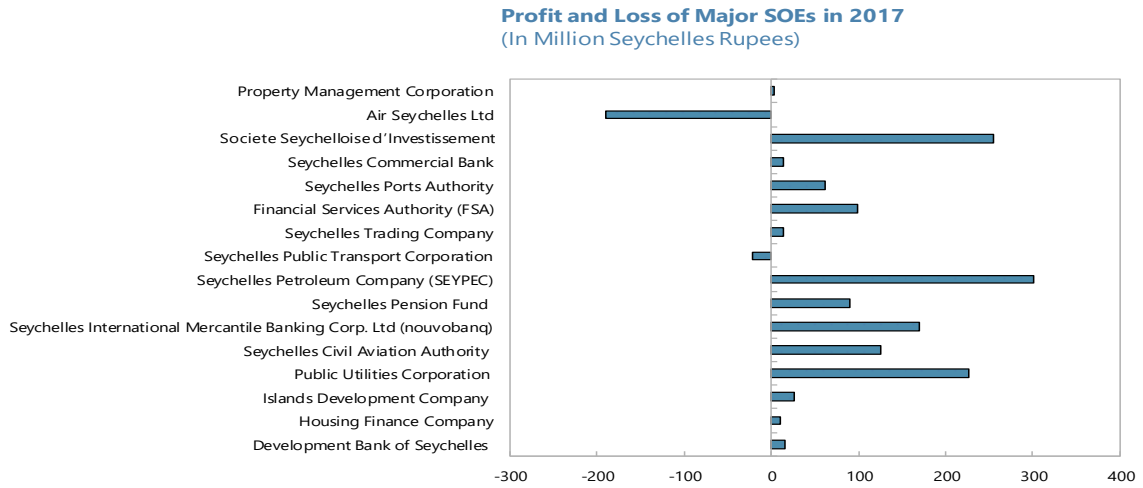
Authorities' Views

15. The authorities largely concurred with staff's policy advice. With a view to improve revenue collection and create space for priority investments over the medium term, the authorities pointed out that they would need to review transfer pricing by multinational companies. In this context, the government requested technical assistance from international organizations, including the Fund, on estimating and minimizing potential revenue losses from transfer pricing. The authorities reiterated that the political economy context makes it very difficult to address the discriminatory feature in the new property tax.

[10] For instance, the conversion of electricity generation from heavy fuel to Liquified Natural Gas (LNG) is planned to be done through a PPP with advice from the International Finance Corporation (IFC) (PS¶10).

B. Minimizing Fiscal Risks

16. Seychelles' still high gross financing needs and the prominent role of SOEs in the economy pose challenges to buttressing fiscal sustainability. While Seychelles has reduced the public-debt-to-GDP ratio by more than two thirds since end-2008, its debt burden remains high: the country spent about 8 percent of its expenditure outlays (or about 10 percent of its tax revenue) on interest payments in 2018. Risks to public debt sustainability center around high gross needs as highlighted in the DSA in the 2nd PCI review, which arise from the high level of debt and the short



Source: Seychelles authorities.

maturity of domestic debt.[11] There are 22 SOEs whose revenues reach almost 70 percent of GDP in Seychelles and their non-guaranteed debt —estimated at around 13 percent of GDP—implies a sizable contingent liability which could potentially pose fiscal risks.[12] Although most of the SOEs are currently profitable (text chart), Air Seychelles turned in a significant loss during 2017–18 due to a substantial loss made on some international routes and higher-than-budgeted international fuel prices.

17. The government continues to seek opportunities to further reduce debt-related risks. Extension of domestic maturities would help reduce rollover risk and gross financing needs over the medium term. In this context, staff welcomed the authorities' plan to issue 3-, 5-, and 7-year bonds to replace maturing debts during the second half of 2019. The government will also complete a liability management exercise to swap its current US dollar obligations of about US$130 million into Euros in coming months, which should better align the repayment currency with Seychelles' foreign exchange earnings (mostly in Euros).

18. Although the authorities have made progress in reducing risks from SOEs, further efforts to contain risks arising from Air Seychelles are essential. Staff welcomed the publication

[11] See Country Report No. 19/4. While there is virtually no short-term external public debt (on original maturity basis), most of the domestic debt has a maturity of less than one year.

[12] Majority of non-guaranteed debt is owed by Air Seychelles and Seychelles Petroleum Company, the latter of which is highly profitable.

of a fiscal risk statement including information on all contingent liabilities and fiscal risks arising from SOEs with the 2019 budget document, in line with 3rd review RT. However, the deteriorating financial performance of Air Seychelles poses significant medium-term fiscal risks. Air Seychelles began implementing its comprehensive operational restructuring in 2018, including staff redundancy and the closure of loss-making international routes, with financial support from its shareholders (PS¶23).[13] The government's financial support—reflected in the medium-term expenditure and debt projections of this Staff Report—is expected to amount to $42.5 million in the next five years.[14] Staff urged the government to implement Air Seychelles' restructuring plan and take corrective actions, if needed, to ensure that no budget impact would materialize beyond that already assumed in their medium-term expenditure and debt projections. In this context, the Public Enterprise Monitoring Committee (PEMC) will conduct a governance and operational assessment on Air Seychelles by end-December 2019 (PS¶25, 5th review RT). The assessment will include a thorough examination of the company's liabilities, including its "project box bond," of $71.5 million owed to Etihad, which could pose roll over risks to the company in 2020 and 2021.

19. Furthermore, the government is advised to re-examine the role of SOEs in the economy over the medium term. Staff inquired about the possible scope for further privatization of some SOEs, including Air Seychelles, to reduce fiscal risks and improve economic efficiency. Staff advised that a new government dividend policy for SOEs, which is currently being drafted by the PEMC, should clarify the rule and procedure of SOEs' dividend payment to the government to reduce uncertainty in the budgeting of non-tax revenue. Amendments in the PEMC Act, to be submitted to the Cabinet by September 2019 (4th review RT), will give PEMC more enforcement powers, such as administrative penalties for non-compliance and carrying out of due diligence for the appointment of directors (PS¶21).

Authorities' Views

20. The authorities broadly agreed with staff's policy advice. They were fully aware of the risks that further delays in Air Seychelles' operational restructuring could jeopardize public debt sustainability. Thus, they are committed to strengthening the monitoring of the company's cash flows and operations. At the same time, the authorities are of the view that the political economy context in a small tourism-dependent island country like Seychelles makes it difficult to privatize the national airline company as it guarantees continuity and frequency of flight connections.

C. Preserving Price and External Stability

21. The CBS's primary monetary policy objective is price stability while it is committed to a floating exchange rate policy. The CBS replaced its reserve money targeting framework in mid-

[13] The government of Seychelles owns 60 percent of the company while Etihad owns the rest. Etihad wrote off $34 million of Air Seychelles' debt and agreed to convert $30 million of its current liabilities into preference shares.

[14] Government's assistance consists of guarantees to working capital of $12.5 million starting 2019, $6 million of transfers to the company in 2019 financed by grants, and $6 million of guarantees to the company each year during 2020–23.

2017 with a new monetary policy framework which uses an interest rate corridor.[15] The new framework aims at enhancing monetary policy transmission by reducing short-term volatility and providing more guidance to short-term interest rates. The mid-point of the interest rate corridor serves as the policy rate. After building up an adequate level of reserve buffers by 2014, the CBS' foreign exchange interventions have been mostly confined to limiting excessive volatility.

22. While inflation has been falling recently, the CBS should stay vigilant to any sign of inflationary pressures. After raising the policy rate by 50 basis points in late December 2018, the CBS kept it unchanged in March 2019. Staff found the CBS's monetary policy tightening at end-2018 appropriate, considering the faster credit growth at the time as well as an increase in public wages announced in the 2019 budget. Although inflation has been falling since early 2018, thanks to the decline in international fuel prices during late 2018 and early 2019 and the tight monetary policy stance; and staff's credit cycle analysis indicates that the credit gap is nearly closed (Box 3), inflationary pressures are expected from increased private consumption on the back of higher public wages and sustained credit to the private sector, as well as the rising international fuel prices in recent months. In this context, staff supports the CBS' recent monetary policy decision to keep the policy rate unchanged and to stay vigilant to any sign of inflationary pressures. Given that consumption-driven loans continue to drive credit growth, staff recommended accelerating the amendment of the Financial Stability Act, which will enable the authorities to adopt macroprudential measures to address risks from a potential build-up in consumer credit. Seychelles' economy has been characterized by structural excess liquidity in the banking system for many years, partly due to unsterilized purchases of foreign exchange by the CBS during 2009–10, in the aftermath of the crisis. Starting in 2014, the CBS conducted a sterilization program to mop up excess liquidity using Treasury bonds specifically issued by the Ministry of Finance.[16] Staff also encouraged a close coordination between the Ministry of Finance and the CBS on the unwinding of the monetary debt so that the government's debt reduction strategy and the CBS' inflation objectives would be balanced.

23. Staff welcomed the progress made toward strengthening the new interest rate-based monetary policy framework. Under the new framework, the focus of monetary policy is to guide short-term interest rates through the introduction of a Monetary Policy Rate (MPR), which serves as the key policy rate signaling the prevailing monetary policy stance. The MPR is expected to lie at the center of interest rate corridor. To strengthen the new framework, considerable progress has been made in inflation forecasting and liquidity management capacity, including progress in

[15] The floor on the corridor sets the rate at which the CBS pays banks when they place their excess funds in an overnight deposit at the CBS while the ceiling sets the rates at which the CBS charges banks when it provides them with overnight collateralized liquidity. In the transition to the new framework, the CBS closely monitored reserve money until mid-2018.

[16] This "monetary debt" is fully backed by blocked deposits at the CBS. See Appendix III of Country Report No. 17/401.

Box 3. Private Sector Credit in Seychelles

Although the private sector credit-to-GDP ratio continues to rise in Seychelles, year on year growth in credit to the private sector has been decelerating. The credit-to-GDP ratio in Seychelles edged up from 30 percent at end-2017 to 31 percent of GDP at end-2018, which is lower than in small states like Cabo Verde (60 percent), Mauritius (78 percent), and The Bahamas (49 percent). Meanwhile the credit to GDP gap, measured as a deviation of credit-to-GDP ratio from its trend, appears to be closing. In addition, the

Figure 1. Credit to GDP
(In Percent)

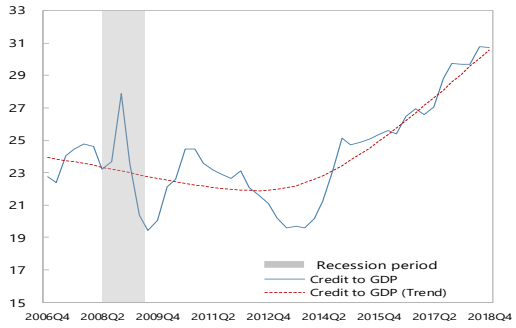
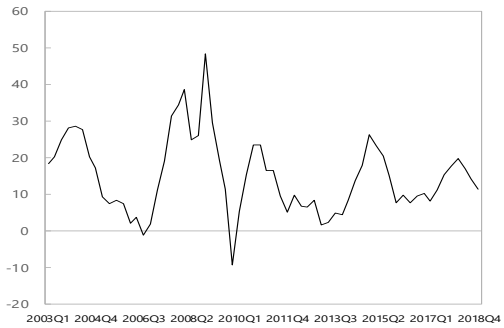


Figure 2. Nominal Credit Growth (Year-on-Year)
(In Percent)



Sources: Central Bank of Seychelles, National Bureau of Statistics, and IMF staff estimates.

recent credit boom, which started in the first quarter of 2017, appears to be nearing its end, thanks in part to the tightening of monetary policy which started at the peak of the recent credit boom.

At the disaggregated level, private sector credit growth continues to be driven by loans to private household and non-profit institutions (NPIs). Mortgage loans and loans to private households and NPIs reached 37 percent of total loans at end-2018, up from 34 percent at end-2017. Similarly, building and construction and wholesale and retail trade have seen their share in total loans increase from 16.5 percent in 2017 to 19 percent in 2018. These increases came at the expense of loans to the tourism and manufacturing sectors, which saw their shares in total loans decline from 22 percent in 2017 to 19 percent in 2018. Discussions with stakeholders suggest that increases in salaries (in the form of an across the board 13th month salary as well as an increase in the minimum wage) have contributed to the rise in the share of loans to the private households.

Credit booms and busts could have implications for Seychelles' economic activity going forward. Cross-country evidence suggests that periods of easy financial conditions can amplify economic fluctuations and possibly lead to adverse economic outcomes. Staff's analysis of financial conditions in Seychelles (see Selected Issues Paper on Developing a Financial Conditions Index for Seychelles) suggests that periods of loose financial conditions are typically followed by expansion in credit, rise in NPLs and declines in return on equity. Sectoral NPLs data shows that over 2017M1-2018M12, NPLs in mortgages and other loans to private households have been on the rise. Finalizing the amendment of the Financial Stability Act would enable the CBS to adopt macroprudential measures to address risks from the build-up in consumer credit.

implementing the CBS 6-phase plan (PS¶35).[17] Staff encouraged the CBS to continue adapting its communication policy and work with relevant stakeholders to develop the interbank market with the help of Fund TA. Staff concurred with the CBS's views that adopting a formal inflation targeting framework at this current juncture would be premature. As the basic infrastructure for a well-functioning interest-rate-based monetary policy framework is being developed, it appears too early to consider a move to a formal inflation targeting framework. Nonetheless, announcing a medium-term inflation objective could help anchor inflation expectations, thereby promoting economic and financial stability, and increasing the traction of monetary policy. In that regards, staff encouraged the CBS to formalize and expand the survey of inflation expectations. Closer coordination between the CBS and the Ministry of Finance would also help improve liquidity forecasting which would benefit the implementation of monetary policy.

24. The flexible exchange rate policy has served Seychelles well and reserve coverage is at an adequate level. Staff's external sector assessment indicates a modest level of overvaluation of the real effective exchange rate and an external position moderately weaker than implied by fundamentals and (Annex II). Meanwhile, GIR currently stand at around 125 percent of the ARA metric. Given Seychelles' perennial vulnerability to external shocks as a typical tourism-dependent small island economy, staff views the current level of reserve coverage as adequate. Large foreign exchange purchases would lead to increased excess liquidity in the system or to further issuance of monetary debt to mop it up, which would be detrimental to both the inflation and the debt reduction objectives. Thus, staff advised the CBS to maintain its flexible exchange rate policy and limit foreign exchange purchases to the extent necessary to preserve reserve coverage ratios at around the current level.

Authorities' Views

25. The authorities concurred with staff's assessment and policy recommendations. They appreciated the Fund's ongoing TA activities supporting their efforts to ensure a successful transition to the new monetary policy framework. Although the CBS recognizes the importance to promptly amend the Financial Stability Act and drafting of amendments had already started, it noted that the involvement of other agencies and capacity constraints are slowing down the process.[18] In this context, it requested to delay the submission of the amendment to the Cabinet to end-September 2020 (PS¶36, 6th review RT) from end-May 2019 pledged at the time of the 2nd PCI review.

D. Supporting Financial Stability

26. Seychelles is making progress in reducing the jurisdictional risk associated with its offshore financial sector. Tax legislation has been amended to meet the obligations under the

[17] The CBS developed an action plan, consisting of six phases, aimed at facilitating the transition to the new monetary policy framework in late 2017 (see Annex II of Country Report No. 18/48).

[18] Demands on the Attorney General's Office are particularly high and have increased with the new regulatory and legal reform agenda. In Seychelles, the Attorney General plays the role of a principal legal advisor to the government and initiates all criminal prosecutions for criminal offences following investigations by the police, the Financial Intelligence Unit, and the Anti-Corruption Commission. Furthermore, in a tight labor market, there is intense competition from the private sector for high-skilled nationals which leads to a staffing turnover in public institutions.

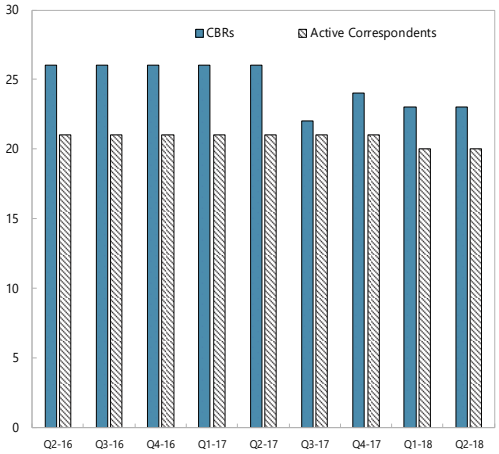
OECD Baseline Erosion and Profit Shifting (BEPS) initiatives (PS¶16). The Financial Action Task Force (FATF) mutual evaluation report by the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) published in late 2018 recommended measures to enhance the effectiveness of the AML/CFT system, including capacity enhancement of relevant agencies in Seychelles. The authorities have appointed a National AML/CFT Committee to improve coordination among relevant agencies and implement the recommendations of the 2018 ESAAMLG mutual evaluation report (MER, PS¶40). Nonetheless, Seychelles' banks still face pressures in maintaining CBRs amid trends toward withdrawal of CBRs, albeit that the loss of CBRs has been limited so far (Box 4).

Box 4. Correspondent Banking Trends in Seychelles

According to the November 2018 update of the Financial Stability Board *Correspondent Banking Data Report*, Seychelles was among the 50 countries with the largest cumulative decline in the number of CBRs between 2012 and 2017. The number of CBRs of Seychellois banks has steadied at a lower level since the third quarter of 2017, when two small banks lost all their CBRs. Furthermore, high concentration makes the financial sector in Seychelles more vulnerable, especially against the backdrop of a global withdrawal of CBRs. Four out of 24 correspondent banks comprised approximately 70 percent of the total transaction value between 2016Q1 and 2018Q3. Meanwhile, the total value of correspondent banking transactions has stabilized after peaking in the second quarter of 2016, while the volume of transactions has fallen more recently in 2018.

Figure 1. Correspondent Banking Transactions

Figure 2. Evolution of CBRs and Active Correspondents



Source: Central Bank of Seychelles and Staff calculations.

Global banks cite high risk perception, low profitability, reputational concerns, and unclear regulatory environments as the most commonly cited reasons for CBR withdrawals. Adherence to international benchmarks for capital adequacy and risk management procedures can reduce foreign investors' concerns and prevent further loss of CBRs. Priorities in this aspect include strengthened enforcement of domestic financial sector supervision and compliance with international standards. In addition, conducting due diligence on the respondent bank's customers and improvements in information sharing between respondent and correspondent banks and supervisory authorities can help lower risk perception.

27. Staff encouraged the authorities to sustain their increased efforts to address the risks of a loss of CBRs and urged them to develop an offshore sector strategy. With a view to strengthening the effectiveness of the AML/CFT framework to address deficiencies identified in the 2018 MER, the relevant institutions, such as the Financial Intelligence Unit (FIU) and the Anti-

Corruption Commission of Seychelles (ACCS), have identified TA needs for capacity enhancement and contacted the external experts to request TA. The authorities are encouraged to make prompt progress in capacity enhancement in these institutions in preparation for the next ESAAMLG evaluation scheduled for September 2019.[19] Staff expressed its concerns about new provisions in the recent amendments to the International Business Corporations (IBC) Act that would prohibit the disclosure or availability of the list of directors of Seychelles IBCs (except under specific circumstances).[20] Staff urged the authorities to articulate a new offshore sector strategy focusing on measures to move to a more transparent business model in compliance with international best practices and prevent the misuse of legal persons and arrangements for money laundering activities. Staff also encouraged the authorities to accelerate the progress toward an implementation of a risk-based approach to supervising bank and trust and company service providers in line with the MER recommendations. Staff welcomed efforts by the CBS to improve financial institutions' compliance with the requirements needed to obtain new and maintain existing CBRs with the help of an intermediary bank, which include the provision of backup CBRs. The factors leading to global banks' withdrawals from CBRs being multiple and interrelated, the authorities are encouraged to continue efforts at the regional/international level to address current challenges to the maintenance of CBRs.

28. Staff welcomed the progress toward improving financial stability and encouraged the CBS to accelerate the implementation of remaining reforms. Progress in completing a full transition to Basel II and adoption of Basel III capital definition is in line with the original plan (PS¶39, 5th review RT). This would support on-going efforts to reduce the risk of loss of CBRs, especially through international capital adequacy assessment process requirements and the adoption of a more risk-based supervisory approach. The Cabinet already approved the policy framework to strengthen crisis management, bank resolution, and the safety net (PS¶36). However, submission of draft legislation to strengthen the legal framework on these fronts will be delayed to end-March 2020 (5th review RT) from end-June 2019 envisaged at the time of the 2nd PCI review due to staffing constraints of relevant institutions other than the CBS, including the Attorney General's office.

Authorities' Views

29. While the authorities agreed with staff's policy advice, they pointed out that it would take more time than originally planned to implement some reform measures. A first draft of the AML Bill was submitted to Cabinet (absent measures to strengthen entity transparency, particularly on IBCs) and the authorities are drafting the new AML legislation with the assistance of an international consultant. A National AML/CFT Committee with senior officials from sectoral authorities has been established to ensure domestic coordination and international cooperation and

[19] Seychelles is under the "enhanced Follow-Up Process" and will continue to report bi-annually to ESAAMLG on its progress in implementing the MER recommendations.

[20] Under the FATF standards, the list of directors of a company should be considered by countries as basic ownership information that should be made publicly available (see Recommendation 24 on pages 66-69, particularly, paras. 24.3 on basic ownership information of companies that needs to be publicly available).

sectoral approach to AML/CFT to supervision has been adopted. The authorities, however, noted that capacity building of relevant institutions needs to progress to some extent to implement a risk-based approach to the AML/CFT supervision. Meanwhile, some legal amendments are necessary to implement the risk-based approach (PS¶40). In this context, the authorities proposed to delay amendments to the legal framework relative to the implementation of risk-based AML/CFT supervision consistent with the FATF standard to March 2020 (PS¶38, 5th review RT). Meanwhile, they requested technical assistance from the World Bank and Fund to facilitate the process toward an implementation of risk-based supervision. While the authorities are committed to move away from the current IBC model to a more transparent and internationally acceptable model for the offshore sector, they would conduct thorough consultations with all stakeholders to develop a new offshore sector strategy to be finalized during the second half of 2019 (PS¶42).

E. Enhancing Inclusive Growth

30. To enhance medium-term growth prospects and make growth more inclusive, the authorities have been implementing an economic diversification strategy centered around making the most of Seychelles' existing comparative advantage. Marine resources are the backbone of Seychelles' economy. The tourism-related sectors directly contribute about one-third of GDP, while tourism receipts and canned tuna exports represent over half of the exports of goods and services. The authorities' "Blue Economy" initiatives have focused on diversifying and upgrading the tourism and fishery industries. The authorities recently finalized the National Development Strategy, which includes an updated diversification strategy in these two industries (PS¶26–27).

31. Staff supported the authorities' plans to deepen and diversify tourism and upgrade the value-chain of the fisheries sector under the Blue Economy initiatives (Box 5). Key goals include augmenting the domestic component of tourism-related activities through increased consumption of local agricultural products by the hotel industry and the promotion of local guest houses and other tourism services provided by local small and medium-sized enterprises (SMEs). Meeting these goals would help ensure that the benefits of economic growth are more widely distributed throughout the economy. Staff encouraged the authorities to accelerate efforts to activate the Tourism Satellite Account (TSA)[21], which would help local tourism businesses to be better informed of potential demand. The authorities should also step up investment in vocational education to enhance productivity, help reduce labor market mismatch and increase local labor content in tourism and fisheries sectors. A high-level steering effort, complemented by the Blue Bond and The Third South West Indian Ocean Fisheries Governance and Shared Growth (SWIOFish 3) projects, is key to the development of the fisheries sector.[22] In line with the World Bank's SWIOFish 3

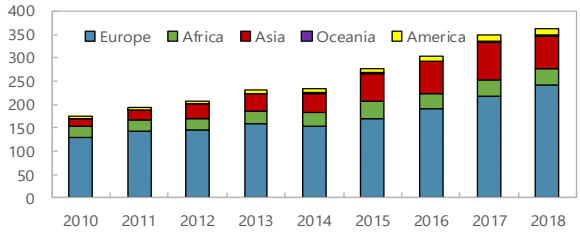
[21] TSA is the internationally recognized standard to collect a wide range of detailed data including both the demand and supply sides of tourism.

[22] The SWIOFish3 project, co-financed by the World Bank and the government of Seychelles, aims at improving the management of marine areas and the fishery industry and at strengthening the fisheries value chains through the provision of grants and loans.

Box 5. Tourism and Fisheries Diversification and Value-Upgrading

Mixed results from plans to diversify the tourism sector and increase local content signal the need for further action. The Tourism Master Plan of 2012–20 had identified environmental, historical and cultural holidays as avenues for diversification beyond the current beach destination model. [1] Progress in these areas has been limited. Similarly, a high concentration of European tourists led authorities to push for newer markets in Africa and Asia. Recent data suggests some diversification has happened, as the share of European tourists in total arrivals fell from 75 percent to 65 percent between 2010 and 2018, offset by the increase in the share of Asian tourists. Another area of success has been local guest houses and self-catering establishments. The Seychelles Tourism Academy was created to provide qualified local labor to the hotel industry. However, placements into the industry have been lower than envisaged. Another goal included the development of the SME sector to provide tourism services to larger operators, such as diving, boating, recreational activities. Local content rules and a vertical integration policy have been set up in areas such as boating, accommodation, diving and car rentals.[2] Finally, Seychelles Tourism Value Chain analysis by the Commonwealth Secretariat prioritized increasing agricultural input into the hotel industry. Progress on this front has been limited.

Tourist Arrivals in Seychelles by Region
(thousands)



Source: National Bureau of Statistics Seychelles

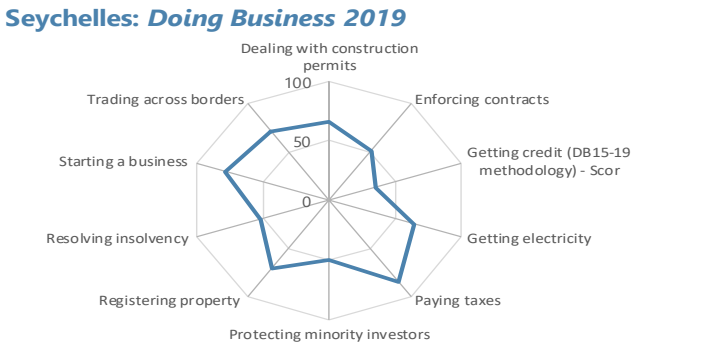
The recent SWIOFish 3 consultant's report highlights the importance of infrastructure improvement, skill development, and species diversification as key towards upgrading the fisheries industry. Strategic infrastructure development can facilitate the growth of an ecosystem connecting fishing vessels, exporters, and local businesses. This includes managing the ongoing development around Victoria port to establish it as a long-liner base and building new handling facilities. The report points out that Industrial Ultra-Low Temperature (ULT) freezing facilities are required to develop a stronger long-liner fishing fleet while the freezing facility at the airport should be revamped to increase its usage for ULT. The report also recommends strategic planning on talent and skill development. Currently, the fisheries industry relies mostly on foreign labor. Previous efforts to develop local labor content have seen limited results. Furthermore, the report encourages diversification and expansion of Seychelles' species offering beyond yellowfin tuna given the recent quotas on yellowfin tuna: a comprehensive plan on aquaculture would help maximize fish production and exports while meeting conservation goals.

[1] Strategy 2017: Creating our nation's wealth together (Government of Seychelles).
[2] Seychelles Tourism Department, "Policy Statements on Vertical Integration", June 2018.

consultant's report, such effort should include managing the ongoing infrastructure development around the Victoria port, developing a stronger R&D ecosystem, filling regulatory gaps, providing complementary infrastructure such as freezing and airport facilities.[23] Effective management of these efforts will help the industrial fishing sector to move up the value ladder in a sustainable manner.

[23] Advance Africa Management Services, "Development of Seychelles' Seafood Value Chains," Report commissioned for the Ministry of Fisheries and Agriculture by the SWIOFish3 Project, November 2018

32. The success of Seychelles' economic diversification depends critically on improving the business climate. The latest business survey indicates that infrastructure concerns, particularly high electricity costs, and access to financing, are among the most serious constraints to doing business in Seychelles. High electricity costs result partially from cross-subsidies. Staff urged the authorities to steadfastly implement rebalancing tariff adjustments to reduce cross-subsidies over the medium term and explore ways to lower production costs. Staff welcomed the plan to further digitalize some government services, such as tax filing and property and company registration. This, together with the CBS' efforts to modernize the national payment system to allow for wider choice of digital channels for financial service consumers (PS¶43), will pave the way for the economy to take full advantage of digitalization and FinTech, and complement ongoing initiatives in the banking sector. The authorities plan to formulate a National Fintech Strategy by end-2019 (PS¶48). The authorities' efforts to improve business regulation continue, including ongoing work to amend the Companies and Insolvency Act to speed up the insolvency resolution process.



Source: World Bank
Note: The score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the best performance.

33. The authorities' efforts to increase the financial sector's contribution to inclusive growth continue. The authorities' National Financial Inclusion Strategy, which is currently being formulated, would focus on enhancing SMEs' access to finance. Staff reiterated its advice that any SME financing scheme should be targeted, transparent, and not impede the conduct of monetary policy. Staff also recommended that a comprehensive review of the effectiveness of the existing SME schemes should be conducted. Implementation of the authorities' financial education plan would also increase the currently low private savings rate and help enhance the financial sector's contribution to the inclusive growth. Meanwhile, the authorities are making good progress toward improving the Credit Information System (PS¶45) and promulgating a Financial Consumer Protection Law (PS¶48). Such progress would help enhance financial stability and deepening, leading to a strengthened monetary policy transmission mechanism over the medium term.

Authorities' Views

34. The authorities agreed with the staff's view. Staff and the authorities agreed on the need to maintain momentum in structural reforms to enhance inclusive growth. The authorities pointed out that an independent committee was conducting a comprehensive utility tariff review aimed at better targeting the utility subsidies to households and possibly lowering the utility costs to business and the government.

PROGRAM AND OTHER ISSUES

35. Program implementation to date. The PCI-supported program has been on track. Both the 1st and 2nd reviews under the PCI were concluded as scheduled. As to the quantitative targets for the 3rd review, both the floor on the primary fiscal surplus for end-2018 and the floor on end-2018 net international reserves (NIR) were met by comfortable margins. The 12-month average inflation rate for end-2018 was well within the inner bound of the monetary policy consultation clause (MPCC, PS Table 1). All end-2018 structural reform targets (RTs) were implemented in line with expectation at the time of the 2nd PCI review, other than the cost-benefit analysis of public investment projects and the new Code of Governance for the SOEs, which were completed in March and February 2019, respectively (PS¶5).

36. Forward-looking part of the review. Given the lower-than-projected CPI inflation in recent months and the precautionary monetary stance tightening at end-2018, Staff propose to revise down the end-June and end-December 2019 inflation projections for the MPCC from those presented at the time of the 2nd review. End-June quantitative target on primary fiscal balance is proposed to be slightly revised down because of seasonality in the fiscal outturn. The end-of year target remains unchanged. While other quantitative targets for 2019 remain unchanged from those proposed in the 2nd review, staff proposes to introduce an automatic adjuster for the NIR targets for 2019 with respect to receipts from the sales of the telecom company (Technical Memorandum Understanding (TMU) ¶5). Considering the capacity constraints of relevant institutions, three 4th review RTs (risk-based approach to the AML/CFT supervision; legal framework for crisis management, bank resolution, and safety nets; and Financial Stability Act) are proposed to be reset (PS Table 2). Staff propose to add a RT on Air Seychelles operation and governance review given the macro critical nature of a timely implementation of the company's operational restructuring. The review schedule is set out in Table 6.

37. Downside risks to the PCI remain modest. Seychelles' remaining obligations to the Fund is small and its capacity to repay the Fund is adequate (Table 7). Seychelles does not need the Fund's financial assistance under the baseline and is not seeking financial assistance from the Fund as the program is fully financed. Despite risks stemming predominantly from external factors (¶7), risks to the implementation of the envisaged permanent fiscal measures in an election year (¶7), and the restructuring of Air Seychelles (¶17), downside risks to the PCI appear to be moderate given the country's strong track record and continued commitment to prudent policies.

38. Safeguard assessment. The CBS continues to implement the recommendations of the voluntary update safeguards assessment in February 2018. It has made steady progress in addressing vulnerabilities pointed out by the assessment, including its internal audit and aspects of internal controls. The amendments to the CBS legal framework are now planned for December 2019 (PS¶50).

39. Seychelles' macroeconomic data are broadly adequate to conduct surveillance, despite some weaknesses in external sector statistics. Staff encouraged close collaboration between relevant institutions, including the National Bureau of Statistics (NBS), Seychelles Revenue

Commission, and the CBS, to enhance the quality of BOP statistics, particularly tourism receipts.[24] It is essential that the authorities ensure adequate levels of staffing for conducting the surveys and raw data collection needed to maintain high quality BOP statistics, including the International Investment Position (IIP). Staff also encouraged the NBS to continue efforts to improve the quality of national accounts statistics and implement the rebasing of GDP with the help of Fund TA.

40. Capacity development by the Fund and other international institutions is supporting the implementation of the PCI (Annex III). The authorities' top priority is to enhance capacity relevant to strengthening the AML/CFT framework, which would play a key role in reducing the risks of a loss of CBRs (¶26). Other areas of the authorities' focus include public finance management (PFM), monetary policy operations, and quality of statistics. PFM focuses on fiscal risk analysis (particularly those arising from the SOE sector), medium-term budgeting, and public investment management. These capacity development efforts would help strengthen medium-term fiscal sustainability and growth prospects. Fund's TAs on monetary policy operations and key economic statistics would help ensure a successful transition to the new monetary policy strategy. The authorities were appreciative of the Fund's TAs in these priority areas.

STAFF APPRAISAL

41. Seychelles has made remarkable progress in consolidating economic stability and sustainability under successive Fund programs. Anchored by prudent policies and bold structural reforms, the country has enjoyed strong economic growth and has built up reserve buffers to an adequate level. Seychelles was the first country in sub-Saharan Africa to be designated a high-income country by the World Bank in 2016. Public-debt-to-GDP ratio has declined by two thirds since the 2008 crisis.

42. Despite such an impressive progress, the country needs to maintain efforts to reinforce the hard-won economic stability and sustainability. As a very small island open economy dependent on tourism, the economy remains highly susceptible to external developments, such as weak growth in advanced and emerging market economies and intensification of security risks worldwide. Slippages in the implementation of permanent measures in the 2020 budget and Air Seychelles' operational restructuring could put the authorities' debt reduction goal at risk. Institutional capacity constraints led to delays in RTs on financial stability while the progress on economic diversification and business environment has been limited. Furthermore, the country is vulnerable to climate change over the long term. The authorities in Seychelles are acutely aware of these vulnerabilities and risks and are rightly focused on maintaining external buffers and a downward trajectory of public indebtedness to manage the impact of shocks. These vulnerabilities highlight the central importance of continued fiscal discipline, prudent macroeconomic and financial sector policies, and steadfast implementation of structural reforms.

43. The authorities should buttress their debt reduction goal and take a phased approach in executing the ambitious infrastructure and climate change projects to preserve medium-

[24] Tourism receipts are likely to be under estimated significantly (Annex II).

term fiscal and external sustainability. The authorities are advised to implement permanent measures, including better targeting of social welfare spending and keep a tight rein on other current spending in the 2020 budget with a view to shoring up their goal to bring the public-debt-to GDP ratio below 50 percent by end-2021. Major public investment projects announced in the 2018 SONA and other climate change related projects should be phased in and implemented within the envelope of the fiscal targets under the PCI as the President assured to the mission with a view to safeguarding long-term fiscal and external sustainability. The authorities would need to create further fiscal space over the medium term beyond that required to secure the debt reduction target to accommodate these priority investments. They should explore the possibility of additional measures discussed at the time of the 2017 CCPA over the medium term. The government's continued efforts to raise the efficiency of capital expenditure and enhance capacity to minimize the potential risks arising from PPPs are welcome.

44. The authorities are urged to step up efforts to reduce fiscal risks potentially arising from Air Seychelles. Most of the SOEs are now profitable and the authorities have implemented structural reforms to reduce fiscal risks arising from the SOE sector under the PCI. However, the precarious financial performance of Air Seychelles poses significant risks to the debt reduction goal. The government is urged to closely monitor the company's operations and progress in implementing its operational restructuring, and take corrective actions if needed, to ensure that no fiscal impact would materialize beyond that already assumed in their medium-term baseline.

45. The CBS should maintain its monetary policy stance and preserve international reserve coverage at around the current level. Staff supports the CBS' recent policy decision to keep its monetary policy rate unchanged and stay vigilant to any sign of inflationary pressures. While Seychelles' real effective exchange rate is moderately overvalued, and its external position appears moderately weaker than implied by fundamentals, the current level of GIR coverage is estimated to be adequate. In this context, the CBS should maintain a flexible exchange rate policy with minimal intervention to keep the current reserve coverage ratio at around the current level. Staff welcomes the significant progress toward strengthening the new monetary policy framework.

46. The authorities should continue their intensified efforts to address the risks of a potential loss of CBRs. They are encouraged to make prompt progress in capacity enhancement in institutions relevant to the AML/CFT framework. Staff welcomed the progress made to meet the OECD BEPS principles. Staff urged the authorities to articulate a new offshore sector strategy and continue efforts at the regional/international level to make the case for maintaining CBRs by global banks.

47. Enhancing prospects for inclusive growth in Seychelles will require further structural reforms. The authorities are encouraged to accelerate efforts to deepen and diversify tourism and upgrade the fishery industry under the "Blue Economy" initiatives that could help ensure that the fruits of economic growth are shared more widely throughout the economy. Economic diversification requires improving the business environment. Reducing cross-subsidization in electricity prices in a steadfast way would enable the private sector to be more competitive and foster growth. The authorities' continued efforts to increase the financial sector's contribution to inclusive growth is welcome. Finally, accelerating investments in vocational education would help

raise productivity and address skills mismatch in the labor market, which would go a long way toward promoting shared prosperity.

48. Data are broadly adequate for surveillance. The authorities would need to step up efforts to improve the quality of BOP data, where the country has some long-standing weaknesses. It is essential to ensure that there is adequate level of staffing for conducting the surveys and raw data collection that are needed to maintain quality statistics.

49. Considering the authorities' continued strong program implementation and determined policy response to safeguard macroeconomic stability, staff supports the authorities' request for the completion of the third review under the PCI. Staff also supports the authorities' request to modify the end-June 2019 quantitative target on primary fiscal balance and end-June and end-December 2019 inflation projections for MPCC, to introduce an additional adjuster for the end-June and end-December 2019 floors on NIR, and to reset RTs. It is proposed that the next Article IV consultation with Seychelles take place within 24 months in accordance with the Decision on Article IV Consultation Cycles (Decision No. 14747–(10/96)).

Proposed Decision

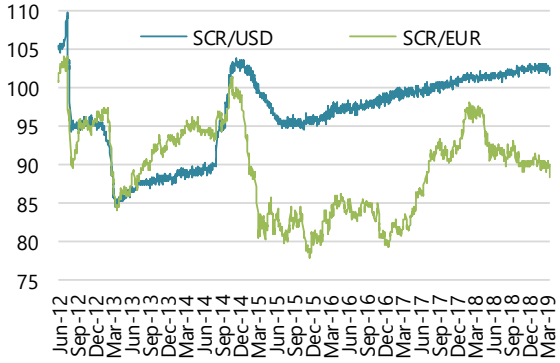
Seychelles—Third Review Under the Policy Coordination Instrument

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

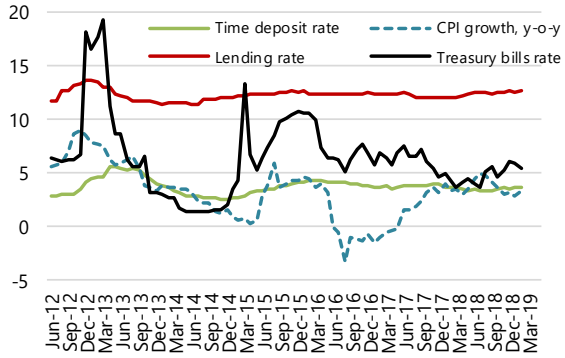
1. Pursuant to paragraph 7 of Decision No. 16230-(17/62), adopted July 14, 2017, and paragraph 1 of the Policy Coordination Instrument for Seychelles ("PCI") [SM/17/120], the Fund has conducted a review to assess program implementation.
2. The Program Statement dated May 29, 2019 (the "May 2019 Program Statement") and its attached Technical Memorandum of Understanding (the "May 2019 TMU") shall be attached to the PCI, and the Program Statement dated November 28, 2017, together with all of its attachments, as supplemented and modified, shall be read as further supplemented and modified by the May 2019 Program Statement and its attachment.
3. Accordingly, the standard continuous targets, the end-June 2019 and the end-December 2019 quantitative targets and the reform targets under the PCI shall be as specified in Tables 1a and 1b and Table 2 attached to the May 2019 Program Statement and as further specified in the May 2019 TMU.
4. In paragraph 4 of the PCI the references to "Table 1a of the November 2018 Program Statement and paragraph 6 of the November 2018 TMU" shall be replaced to read "Table 1a of the May 2019 Program Statement and paragraph 7 of the May 2019 TMU"
5. The Fund completes the third review specified in paragraph 1 of the PCI on the condition that the information provided by Seychelles on its performance under the Quantitative Targets and Standard Continuous Targets related to this review is accurate.

Figure 1. Seychelles: Macroeconomic Developments and Projections

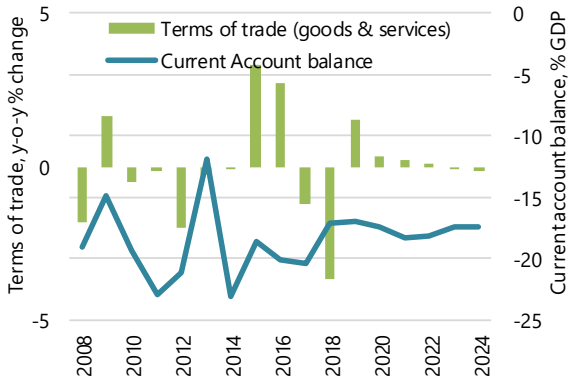
Daily exchange rates index, Jun'12-Mar'19
(December 31, 2011 = 100)



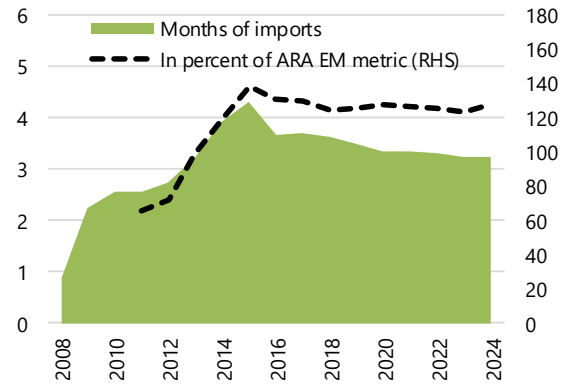
Inflation and interest rates, Jun'12–Feb'19



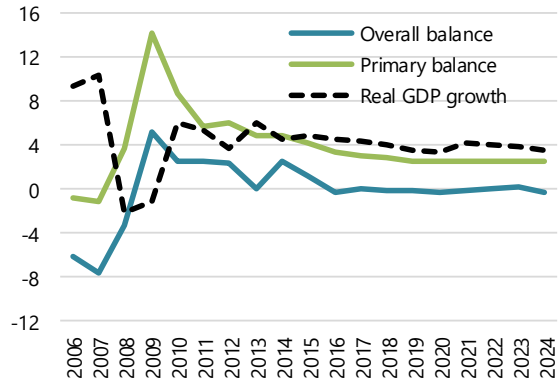
External Balance and Terms of Trade, 2006–24



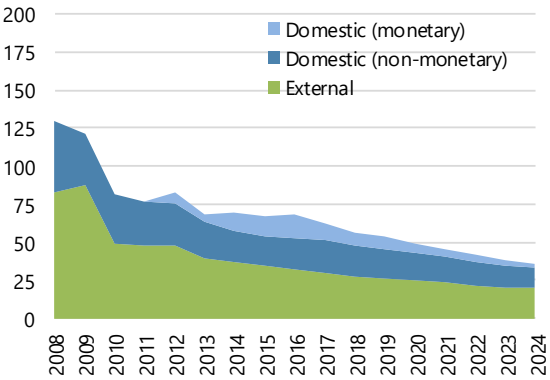
Reserves Adequacy, 2008-24 [1]



Fiscal balances and growth, 2006–24
(Percent of GDP)

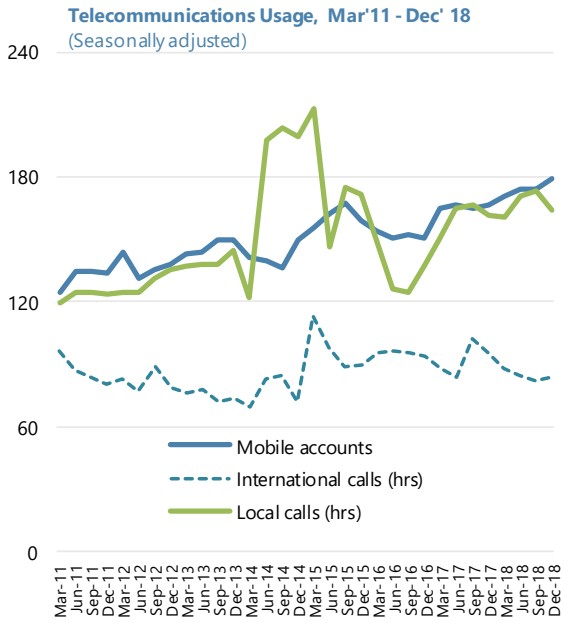


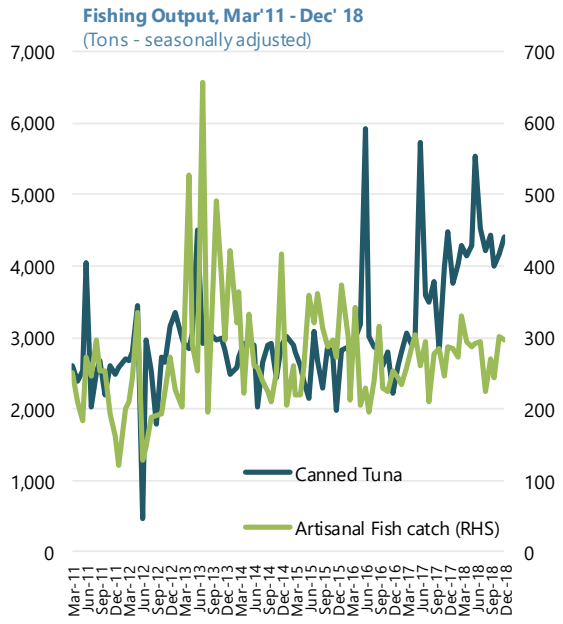
Stock of public debt, 2008–24
(Percent of GDP)

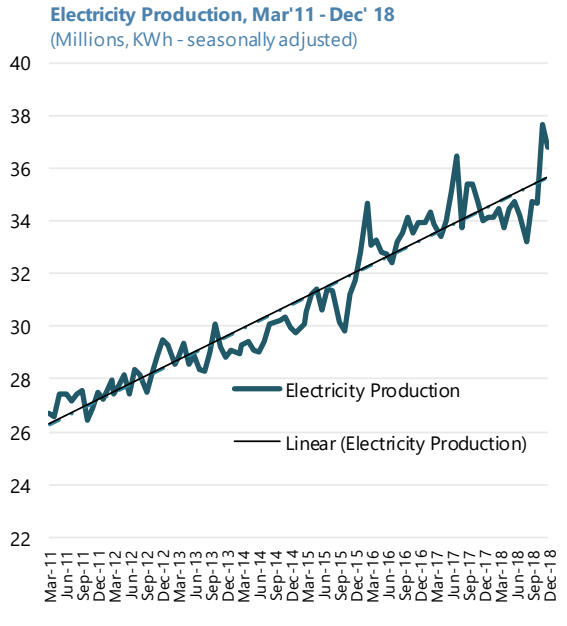


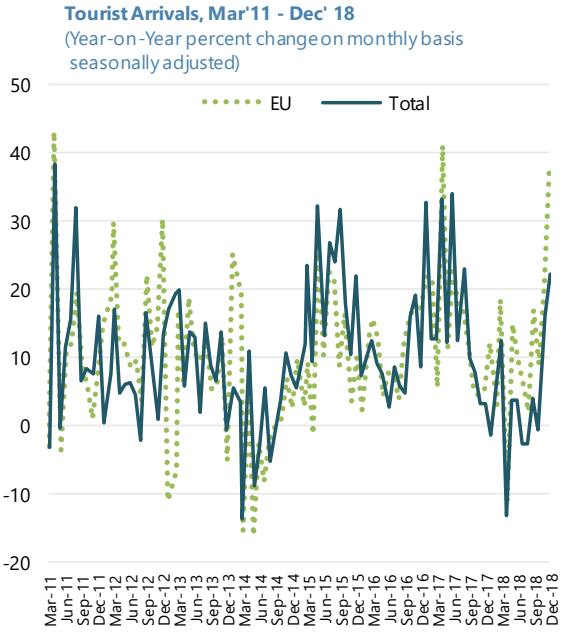
Sources: Seychelles authorities and IMF staff estimates.
[1]Data for the ARA EM metric are not available prior to 2011.

Figure 2. Seychelles: Monthly Indicators of Economic Activity









Sources: Seychelles authorities and IMF staff estimates.

Table 1. Seychelles: Selected Economic and Financial Indicators, 2015-24

Nominal GDP (2017): US$1,498 million
Per capita GDP (2017): US$15,735
Population, end-year (2016): 94,677
Literacy rate (2015): 95.3 percent
Main products and exports: Tourism, Canned Tuna

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Act.	Act.	Act.	Prel.	Proj.					
	(Annual percent change, unless otherwise indicated)									
National income and prices										
Nominal GDP (millions of Seychelles rupees)	18,340	19,014	20,515	22,019	23,274	24,774	26,526	28,393	30,366	32,396
Real GDP	4.9	4.5	4.3	4.1	3.5	3.3	4.1	4.0	3.8	3.6
CPI (annual average)	4.0	-1.0	2.9	3.7	2.6	3.0	3.0	3.0	3.0	3.0
CPI (end-of-period)	3.2	-0.2	3.5	3.4	3.2	3.3	3.0	3.0	3.0	3.0
GDP deflator average	2.1	-0.8	3.4	3.1	2.2	3.0	2.8	2.9	3.0	3.0
Money and credit										
Broad money	2.9	12.1	16.4	7.7	5.6	7.1	...	...	...	...
Reserve money (end-of-period)	9.5	14.5	18.9	4.5	8.3	9.7	...	...	...	...
Reserve money (average of last quarter)	7.2	10.4	19.0	...	...	...	...	...	...	...
Velocity (GDP/broad money)	1.5	1.4	1.3	1.3	1.3	1.3	...	...	...	...
Money multiplier (broad money/reserve money)	4.7	4.6	4.5	4.6	4.5	4.4	...	...	...	...
Credit to the private sector	7.8	10.3	17.8	11.5	10.7	10.1	...	...	...	...
	(Percent of GDP, unless otherwise indicated)									
Savings-Investment balance										
External savings	18.6	20.1	20.4	17.1	17.0	17.4	18.3	18.1	17.5	17.4
Gross national savings	15.2	10.2	8.5	10.0	10.9	11.6	12.4	13.4	13.7	13.2
Of which: government savings	5.9	3.8	3.6	4.7	5.2	5.3	6.1	7.7	8.1	7.2
private savings	9.3	6.4	4.9	5.3	5.7	6.2	6.3	5.6	5.7	6.0
Gross investment	33.8	30.2	28.9	27.1	27.9	29.0	30.7	31.5	31.2	30.5
Of which: public investment [1]	4.8	5.0	4.4	5.6	5.4	6.0	6.7	7.0	7.0	7.0
private investment	29.0	25.2	24.5	21.5	22.5	23.0	24.0	24.5	24.2	23.5
Private consumption	47.6	47.1	51.0	53.3	51.1	50.8	51.5	51.8	52.1	51.4
	(Percent of GDP)									
Government budget										
Total revenue, excluding grants	33.4	36.6	35.5	36.3	37.3	35.8	35.3	35.2	35.0	34.8
Expenditure and net lending	32.8	38.1	37.0	38.4	38.6	37.7	36.7	36.2	36.0	36.3
Current expenditure	28.0	33.1	32.6	32.8	33.2	31.7	30.1	29.4	28.8	29.4
Capital expenditure [1]	4.8	5.0	4.4	5.6	5.4	6.0	6.7	7.0	7.3	7.2
Overall balance, including grants	0.9	-1.4	0.0	0.7	-0.1	-0.2	-0.1	0.1	0.2	-0.4
Program primary balance	4.3	3.4	3.0	2.9	2.5	2.5	2.5	2.5	2.5	2.5
Total government and government-guaranteed debt [2]	69.2	72.7	66.8	60.1	57.7	53.2	48.9	44.9	41.7	39.2
Domestic (including debt issued for monetary purposes)	34.8	40.4	36.7	32.4	31.0	28.0	25.6	23.4	21.3	19.5
of which: Monetary debt	13.4	16.2	11.4	9.3	7.9	6.5	5.1	4.0	3.3	2.6
External	34.4	32.2	30.1	27.7	26.7	25.1	23.3	21.5	20.4	19.7
External sector										
Current account balance including official transfers (in percent of GDP)	-18.6	-20.1	-20.4	-17.1	-17.0	-17.4	-18.3	-18.1	-17.5	-17.4
Total external debt outstanding (millions of U.S. dollars) [3]	1,392	1,505	1,639	1,748	1,772	1,789	1,817	1,839	1,877	1,970
(percent of GDP)	101.1	105.4	109.0	110.5	107.4	105.4	101.7	97.6	94.8	95.1
Terms of trade (-=deterioration)	3.3	2.7	-1.2	-3.7	1.5	0.3	0.2	0.1	0.0	-0.1
Real effective exchange rate (average, percent change)	11.6	0.1	-5.2	...	...	...	...	...	...	...
Gross official reserves (end of year, millions of U.S. dollars)	536.8	522.6	546	548	551	570	586	601	613	630
Months of imports, c.i.f.	4.3	3.7	3.7	3.6	3.5	3.3	3.3	3.3	3.2	3.2
In percent of Assessing Reserve Adequacy (ARA) metric	138.1	131.0	129.3	124.5	124.9	127.1	126.9	125.6	123.3	127.8
Exchange rate										
Seychelles rupees per US$1 (end-of-period)	13.2	13.5	13.8	...	...	...	...	...	...	...
Seychelles rupees per US$1 (period average)	13.3	13.3	13.6	...	...	...	...	...	...	...

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

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

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

[3] Includes private external debt.

Table 2. Seychelles: Balance of Payments, 2015–24

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Est.	Est.	Est.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance (+ surplus; - deficit)	-256	-286	-307	-270	-280	-296	-327	-342	-347	-360
(percent of GDP)	-18.6	-20.1	-20.4	-17.1	-17.0	-17.4	-18.3	-18.1	-17.5	-17.4
Balance of goods and services (+ surplus; - deficit)	-124	-146	-176	-189	-183	-175	-206	-201	-203	-198
Exports of goods	449	459	536	562	569	614	664	678	707	750
Of which: oil re-exports	147	131	150	183	163	171	179	188	199	211
Of which: tuna exports	239	270	268	286	291	324	360	363	371	386
Imports of goods	922	991	1,155	1,234	1,279	1,342	1,454	1,483	1,537	1,612
Of which: oil imports	170	162	209	288	278	296	316	281	295	304
Exports of services	848	894	998	1,016	1,062	1,111	1,178	1,221	1,270	1,334
Of which: tourism earnings[1]	392	414	483	564	594	627	662	695	733	769
Imports of services	498	507	554	533	535	557	593	617	642	669
Balance on primary income (+ surplus; - deficit)	-105	-133	-136	-99	-95	-114	-113	-131	-134	-150
Of which: interest due	27	40	25	26	36	39	40	40	42	56
transfers of profits and dividends	18	19	17	22	17	18	19	19	19	19
Balance on secondary income (+ surplus; - deficit)	-27	-8	6	18	-2	-8	-9	-9	-10	-11
Of which: general government, net	38	50	42	54	30	30	31	32	32	31
Capital account	37	54	52	50	47	49	45	43	45	46
Financial account	271	237	276	229	244	273	304	319	317	334
Direct investment, net [1]	148	182	270	116	211	225	305	324	315	314
Abroad	-5	-4	-6	8	8	8	8	8	8	8
In Seychelles	144	178	264	124	219	233	314	332	324	325
Of which: offshore sector	0	0	0	0	0	0	0	0	0	0
Portfolio investment, net	36	-52	-57	-45	-60	-34	-32	-32	-32	-22
Other investment, net	86	107	63	157	93	82	30	28	35	42
Government and government-guaranteed	-14	-35	-16	-1	1	1	3	-3	2	7
Disbursements	0	5	5	25	28	36	44	52	56	54
Project loans	0	5	0	25	28	36	44	52	56	54
Program loans	10	10	15	0	0	0	0	0	0	0
Amortization	-24	-54	-19	-34	-33	-40	-44	-53	-52	-46
Private sector	100	142	80	159	92	81	28	30	32	35
Net errors and omissions	21	-18	-1	0	0	0	0	0	0	0
Overall balance	72	5	22	8	10	26	21	21	16	19
Financing	-72	13	-23	-8	-10	-26	-21	-21	-16	-19
Change in net international reserves (increase: –)	-72	13	-23	-8	-10	-26	-21	-21	-16	-19
Change in gross official reserves (increase: –)	-74	14	-24	-2	-3	-19	-16	-15	-12	-17
Liabilities to IMF, net	2	-1	2	-6	-7	-7	-6	-5	-4	-2
Other net foreign assets (increase: –)	0	0	0	0	0	0	0	0	0	0
Exceptional financing	0	0	0	0	0	0	0	0	0	0
Financing gap	0	0	1	0	0	0	0	0	0	0
Memorandum items:										
Exports G&S growth, percent	-5.5	4.3	13.4	2.9	3.4	5.8	6.8	3.1	4.1	5.4
Tourism growth, percent	-1.3	5.4	16.7	16.8	5.3	5.6	5.5	5.0	5.5	4.9
Exports of goods volume growth, percent	-12.1	8.7	0.5	4.6	2.2	7.0	7.2	1.8	2.4	3.5
Imports G&S growth, percent	-10.3	5.5	14.1	3.3	2.7	4.7	7.8	2.6	3.8	4.7
Imports of goods volume growth, percent	-1.4	14.4	10.9	0.2	6.1	4.5	8.0	1.5	3.0	3.9
Exports G&S, percent of GDP	94	94.77	102	100	99	102	103	101	100	101
Imports G&S, percent of GDP	103	105	114	112	110	112	115	111	110	110
FDI, percent of GDP [2]	10.8	12.8	18.0	7.3	12.8	13.2	17.1	17.2	15.9	15.2
Gross official reserves (stock, e.o.p.)	537	523	546	548	551	570	586	601	613	630
(Months of imports of goods & services)	4.3	3.7	3.7	3.6	3.5	3.3	3.3	3.3	3.2	3.2
Percentage of IMF reserve adequacy metric	138	131	129	125	125	127	127	126	123	128
Government and government-guaranteed external debt	480	454	446	435	437	422	413	401	400	405
(Percent of GDP)	34.8	31.8	29.7	27.5	26.5	24.9	23.1	21.3	20.2	19.5
GDP (Millions of U.S. dollars)	1,377	1,427	1,503	1,583	1,649	1,697	1,787	1,884	1,981	2,072

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

[1] From 2015 onwards the data reflect the findings of the IIP survey, which indicated that the proportion of equity to debt in FDI flows was being significantly overestimated

[2] Per STA recommendations, renewals of off-shore licenses are excluded.

Table 3a. Seychelles: Consolidated Government Operations, 2015–21[1]

(Millions of Seychelles rupees)

	2015	2016	2017	2018	2019				2019	2020	2021
					Q1	Q2	Q3	Q4			
	Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Millions of Seychelles rupees)										
Total revenue and grants	6,276	7,205	7,446	8,274	1,867	2,207	2,332	2,570	8,977	9,274	9,719
Total revenue	6,132	6,965	7,274	7,997	1,815	2,155	2,305	2,411	8,686	8,878	9,374
Tax	5,557	6,188	6,600	7,083	1,659	1,831	1,971	1,967	7,428	7,589	8,066
Personal income tax	948	939	900	965	241	254	232	241	969	1,031	1,104
Trade tax	326	359	285	315	85	83	89	84	340	355	373
Excise tax	962	1,144	1,312	1,281	326	323	352	390	1,391	1,470	1,536
Goods and services tax (GST) / VAT [2]	1,803	1,996	2,151	2,495	601	673	665	691	2,630	2,800	3,000
Business tax [3]	757	1,039	1,364	1,376	238	355	437	313	1,342	1,373	1,470
Corporate Social Responsibility Tax (CSR) [3]	79	87	95	106	28	27	29	30	114	122	130
Marketing Tourism Tax (MTT) [3]	45	45	60	70	17	19	20	20	76	81	87
Other	637	581	434	474	123	98	146	199	566	357	366
Nontax	575	777	673	914	156	324	335	444	1,259	1,289	1,308
Fees and charges	322	403	349	335	93	128	107	99	426	458	471
Dividends from parastatals	228	330	280	426	21	177	190	287	675	669	671
Other	25	44	44	153	43	19	38	58	158	162	166
External grants	144	240	173	277	53	53	26	159	291	396	345
Expenditure and net lending	6,057	7,277	7,455	8,318	1,859	2,192	2,150	2,802	9,003	9,328	9,737
Current expenditure	5,130	6,295	6,687	7,231	1,628	1,877	1,944	2,278	7,726	7,863	7,980
Primary current expenditure	4,566	5,581	6,056	6,541	1,511	1,752	1,763	2,085	7,111	7,195	7,305
Wages and salaries [4]	1,753	2,002	2,074	2,268	682	640	665	663	2,650	2,785	2,838
Goods and services [4]	2,126	2,489	2,562	2,800	511	707	677	913	2,808	2,811	2,858
Transfers [4]	659	1,063	1,380	1,443	301	395	415	507	1,618	1,564	1,574
Social program of central government	79	130	114	114	43	36	39	69	187	207	207
Transfers to public sector from central government	123	80	97	55	29	34	35	40	137	53	53
Benefits and programs of Social Security Fund	458	853	1,169	1,273	229	325	341	399	1,294	1,304	1,314
Other	29	27	41	31	17	10	6	2	35	35	35
Interest due	564	714	631	689	117	125	181	193	615	668	675
Foreign interest	181	190	218	227	56	58	112	28	254	290	311
Domestic interest	383	524	413	463	61	66	69	165	361	378	365
Capital expenditure	801	909	747	954	173	172	204	455	1,005	1,169	1,562
Domestically financed	651	644	564	455	106	105	141	307	658	560	776
Foreign financed	150	265	183	499	67	68	63	149	346	609	787
Net lending	77	35	-1	86	48	129	-9	54	222	277	175
Contingency	49	38	21	47	9	14	12	15	50	20	20
Primary balance	783	642	622	646	125	140	362	-38	589	614	657
Overall balance, commitment basis [5]	219	-72	-9	-43	8	15	182	-231	-26	-54	-19
Change in float	-48	-201	3	194	0	0	0	0	0	0	0
Overall balance, cash basis (after grants)	171	-273	-6	151	8	15	182	-231	-26	-54	-19
Financing	-171	273	6	-151	-8	-15	-182	231	26	54	19
Foreign financing	-84	-304	-407	-35	-75	-73	-14	177	-70	-57	1
Disbursements	102	287	11	305	41	43	102	293	394	529	658
Project loans	6	25	11	305	41	43	102	208	394	529	658
Program/budget support	96	262	0	0	0	0	0	85	0	0	0
Scheduled amortization	-186	-591	-418	-340	-116	-116	-116	-116	-464	-586	-658
Of which Paris Club buy-back	...	-269	...	...	...	...	...	...	...		
Domestic financing, net	130	578	316	-272	67	58	-168	54	96	11	18
Bank financing	-172	389	419	-571	64	55	-170	52	86	6	16
CBS	-488	-191	438	88	50	50	50	50	200	250	250
Commercial banks	316	579	-19	-659	14	5	-220	2	-114	-244	-234
Nonbank financing	302	190	-103	299	2	2	2	2	10	5	2
Privatization and long-term lease of fixed assets	46	76	82	0	0	0	0	0	0	100	0
Transfer of SSF deposits to SPF	-176	...	...	...	...	...	...	...	...		
Statistical discrepancy	-86	-77	16	156	0				0	0	0
Memorandum item:				0							
Pension Fund contribution	196	251	237	0	0	0	0	0	0	0	0
Pension Fund benefits payment	85	91	90	180	56	73	93	-30	191	208	229
Pension Fund operating expenses	36	37	31	33	8	8	9	9	33	34	36
External debt service due	367	781	636	567	172	174	228	144	718	876	969

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

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

[2] VAT replaced GST in January 2013.

[3] CSR and MTT were subsumed into Business Tax in CR 14/186.

[4] From 2015 onwards, wage and salaries and goods and services (to be) spent by government agencies other than Ministries are reclassified into these items from transfers.

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

Table 3b. Seychelles: Consolidated Government Operations, 2015–21[1]

(in percent of GDP)

	2015	2016	2017	2018	2019				2019	2020	2021
					Q1	Q2	Q3	Q4			
	Act.	Prel.	Proj.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent of GDP, unless otherwise indicated)										
Total revenue and grants	34.2	37.9	36.3	37.6	8.0	9.5	10.0	11.0	38.6	37.4	36.6
Total revenue	33.4	36.6	35.5	36.3	7.8	9.3	9.9	10.4	37.3	35.8	35.3
Tax	30.3	32.5	32.2	32.2	7.1	7.9	8.5	8.5	31.9	30.6	30.4
Personal income tax	5.2	4.9	4.4	4.4	1.0	1.1	1.0	1.0	4.2	4.2	4.2
Trade tax	1.8	1.9	1.4	1.4	0.4	0.4	0.4	0.4	1.5	1.4	1.4
Excise tax	5.2	6.0	6.4	5.8	1.4	1.4	1.5	1.7	6.0	5.9	5.8
Goods and services tax (GST) / VAT [2]	9.8	10.5	10.5	11.3	2.6	2.9	2.9	3.0	11.3	11.3	11.3
Business tax	4.1	5.5	6.6	6.3	1.0	1.5	1.9	1.3	5.8	5.5	5.5
Corporate Social Responsibility Tax (CSR)	0.4	0.5	0.5	0.5	0.1	0.1	0.1	0.1	0.5	0.5	0.5
Marketing Tourism Tax (MTT)	0.2	0.2	0.3	0.3	0.1	0.1	0.1	0.1	0.3	0.3	0.3
Other	3.5	3.1	2.1	2.2	0.5	0.4	0.6	0.9	2.4	1.4	1.4
Nontax	3.1	4.1	3.3	4.2	0.7	1.4	1.4	1.9	5.4	5.2	4.9
Fees and charges	1.8	2.1	1.7	1.5	0.4	0.6	0.5	0.4	1.8	1.8	1.8
Dividends from parastatals	1.2	1.7	1.4	1.9	0.1	0.8	0.8	1.2	2.9	2.7	2.5
Other	0.1	0.2	0.2	0.7	0.2	0.1	0.2	0.2	0.7	0.7	0.6
External grants	0.8	1.3	0.8	1.3	0.2	0.2	0.1	0.7	1.2	1.6	1.3
Expenditure and net lending	33.0	38.3	36.3	37.8	8.0	9.4	9.2	12.0	38.7	37.7	36.7
Current expenditure	28.0	33.1	32.6	32.8	7.0	8.1	8.4	9.8	33.2	31.7	30.1
Primary current expenditure	24.9	29.4	29.5	29.7	6.5	7.5	7.6	9.0	30.6	29.0	27.5
Wages and salaries [3]	9.6	10.5	10.1	10.3	2.9	2.8	2.9	2.8	11.4	11.2	10.7
Goods and services [3]	11.6	13.1	12.5	12.7	2.2	3.0	2.9	3.9	12.1	11.3	10.8
Transfers [3]	3.6	5.6	6.7	6.6	1.3	1.7	1.8	2.2	7.0	6.3	5.9
Social program of central government	0.4	0.7	0.6	0.5	0.2	0.2	0.2	0.3	0.8	0.8	0.8
Transfers to public sector from central government	0.7	0.4	0.5	0.2	0.1	0.1	0.1	0.2	0.6	0.2	0.2
Benefits and programs of Social Security Fund	2.5	4.5	5.7	5.8	1.0	1.4	1.5	1.7	5.6	5.3	5.0
Other	0.2	0.1	0.2	0.1	0.1	0.0	0.0	0.0	0.2	0.1	0.1
Interest due	3.1	3.8	3.1	3.1	0.5	0.5	0.8	0.8	2.6	2.7	2.5
Foreign interest	1.0	1.0	1.1	1.0	0.2	0.3	0.5	0.1	1.1	1.2	1.2
Domestic interest	2.1	2.8	2.0	2.1	0.3	0.3	0.3	0.7	1.5	1.5	1.4
Capital expenditure	4.4	4.8	3.6	4.3	0.7	0.7	0.9	2.0	4.3	4.7	5.9
Domestically financed	3.6	3.4	2.7	2.1	0.5	0.4	0.6	1.3	2.8	2.3	2.9
Foreign financed	0.8	1.4	0.9	2.3	0.3	0.3	0.3	0.6	1.5	2.5	3.0
Net lending	0.4	0.2	0.0	0.4	0.2	0.6	0.0	0.2	1.0	1.1	0.7
Contingency	0.3	0.2	0.1	0.2	0.0	0.1	0.1	0.1	0.2	0.1	0.1
Primary balance	4.3	3.4	3.0	2.9	0.5	0.6	1.6	-0.2	2.5	2.5	2.5
Overall balance, commitment basis [4]	1.2	-0.4	0.0	-0.2	0.0	0.1	0.8	-1.0	-0.1	-0.2	-0.1
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in float	-0.3	-1.1	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis (after grants)	0.9	-1.4	0.0	0.7	0.0	0.1	0.8	-1.0	-0.1	-0.2	-0.1
Financing	-0.9	1.4	0.0	-0.7	0.0	-0.1	-0.8	1.0	0.1	0.2	0.1
Foreign financing	-0.5	-1.6	-2.0	-0.2	-0.3	-0.3	-0.1	0.8	-0.3	-0.2	0.0
Disbursements	0.6	1.5	0.1	1.4	0.2	0.2	0.4	1.3	1.7	2.1	2.5
Project loans	0.0	0.1	0.1	1.4	0.2	0.2	0.4	0.9	1.7	2.1	2.5
Program/budget support	0.5	1.4	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0
Scheduled amortization	-1.0	-3.1	-2.0	-1.5	-0.5	-0.5	-0.5	-0.5	-2.0	-2.4	-2.5
Of which Paris Club buy-back	...	-1.4	...	...	...	...	...	...			
Domestic financing, net	0.7	3.0	1.5	-1.2	0.3	0.2	-0.7	0.2	0.4	0.0	0.1
Bank financing	-0.9	2.0	2.0	-2.6	0.3	0.2	-0.7	0.2	0.4	0.0	0.1
CBS	-2.7	-1.0	2.1	0.4	0.2	0.2	0.2	0.2	0.9	1.0	0.9
Commercial banks	1.7	3.0	-0.1	-3.0	0.1	0.0	-0.9	0.0	-0.5	-1.0	-0.9
Nonbank	1.6	1.0	-0.5	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization and long-term lease of fixed assets	0.3	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0
Transfer of SSF deposits to SPF	-1.0	...	...	...	...	...	...	...			
Statistical discrepancy	-0.5	-0.4	0.1	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Nominal GDP (millions of Seychelles Rupees)	18,340	19,014	20,515	22,019	23,274	23,274	23,274	23,274	23,274	24,774	26,526
Transfer of assets of SSF to SPF											
Pension Fund contribution	1.1	1.3	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Fund benefits payment	0.5	0.5	0.4	0.8	0.2	0.3	0.4	-0.1	0.8	0.8	0.9
Pension Fund operating expenses	0.2	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Public domestic debt [5]	32.8	36.8	33.1	29.2	...	...	...	27.2	27.2	24.6	22.1
Excluding t-bills issued for monetary purposes	19.5	20.7	21.7	19.9	...	...	...	19.3	19.3	18.1	17.0
Publicly guaranteed domestic debt	1.9	3.6	3.6	3.2	...	...	...	3.8	3.8	3.4	3.5

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

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

[2] VAT replaced GST in January 2013.

[3] From 2015 onwards, wage and salaries and goods and services (to be) spent by government agencies other than Ministries are reclassified into these items from transfers.

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

[5] Includes debt issued by the Ministry of Finance for monetary purposes, excludes guarantees.

Table 4. Seychelles: Monetary Survey and Central Bank Accounts, 2016–20

	2016	2017	2018	2019				2020			
				Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
	Act.	Act.	Act.	Proj.				Proj.			
	(Millions of Seychelles rupees)										
Depository corporations survey											
Net foreign assets	9,817	10,754	11,948	11,394	11,653	11,700	11,173	11,347	11,521	11,698	11,875
Central bank	6,550	6,982	7,248	7,138	7,171	7,205	7,238	7,375	7,512	7,651	7,791
Deposit money banks	3,267	3,771	4,700	4,256	4,481	4,496	3,935	3,972	4,009	4,046	4,084
Net domestic assets	3,831	5,134	5,166	5,967	5,824	5,941	6,894	7,046	7,017	7,102	7,476
Domestic credit	7,110	8,476	8,620	8,696	8,676	9,039	9,341	9,351	9,319	9,985	10,293
Net claims on the government	1,791	2,209	1,699	1,670	1,586	1,544	1,700	1,607	1,518	1,746	1,900
Of which: Government deposits at the Central Bank	-3,355	-3,355	-2,829	-2,872	-2,961	-2,783	-2,629	-2,722	-2,811	-2,583	-2,429
Of which: Change in monetary debt [1]	-191	670.0	380.7	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Credit to the economy	5,319	6,267	6,921	7,026	7,090	7,495	7,640	7,744	7,801	8,239	8,393
Of which: credit to the private sector	5,122	6,032	6,727	6,833	6,897	7,301	7,447	7,550	7,607	8,046	8,199
Other items, net	-3,279	-3,342	-3,453	-2,729	-2,852	-3,098	-2,447	-2,304	-2,301	-2,883	-2,817
Broad money	13,648	15,888	17,115	17,361	17,477	17,642	18,067	18,393	18,539	18,800	19,351
Currency in circulation	1,026	1,116	1,169	1,221	1,186	1,213	1,236	1,293	1,258	1,289	1,315
Foreign currency deposits	5,029	6,115	7,060	7,243	7,316	7,409	7,631	7,716	7,803	7,890	8,127
Local currency deposits	7,592	8,657	8,886	8,897	8,975	9,020	9,200	9,384	9,478	9,620	9,909
Central bank											
Net foreign assets	6,550	6,982	7,248	7,138	7,171	7,205	7,238	7,375	7,512	7,651	7,791
Foreign assets	7,059	7,560	7,731	7,725	7,761	7,796	7,831	7,973	8,116	8,261	8,407
Foreign liabilities	508	578	483	587	589	591	593	599	604	610	615
Net domestic assets	-3,558	-3,423	-3,528	-3,184	-3,266	-3,269	-3,210	-3,249	-3,327	-3,382	-3,371
Domestic credit	-2,855	-2,629	-2,651	-2,286	-2,346	-2,326	-2,244	-2,214	-2,222	-2,207	-2,126
Government (net)	-2,170	-1,731	-1,644	-1,687	-1,776	-1,598	-1,444	-1,537	-1,626	-1,398	-1,244
Commercial banks	-610	-705	-845	-437	-408	-566	-638	-515	-434	-647	-720
Other (parastatals)	-75	-192	-162	-162	-162	-162	-162	-162	-162	-162	-162
Other items, net	-703	-794	-877	-898	-920	-943	-966	-1,035	-1,104	-1,174	-1,245
Reserve money	2,992	3,559	3,720	3,954	3,905	3,935	4,028	4,126	4,186	4,270	4,421
Currency in circulation	1,026	1,116	1,169	1,221	1,186	1,213	1,236	1,293	1,258	1,289	1,315
Commercial bank reserves (includes cash in vault)	1,966	2,443	2,551	2,733	2,719	2,722	2,793	2,834	2,927	2,980	3,105
Of which: vault cash	193	212	...	...	...	...	...	...	...	...	...
Of which: excess reserves (excl. bank vault cash)	9	182	...	...	...	...	...	...	...	...	...
Of which: required reserves in foreign currency [2, 3]	703	841	924	997	1,007	1,020	1,051	1,063	1,074	1,087	1,119
required reserves in domestic currency [2]	1,061	1,208	1,346	1,289	1,300	1,308	1,333	1,360	1,374	1,395	1,434
Memorandum items:											
Gross official reserves (millions of U.S. dollars) [4]	523	546	548	549	550	551	551	556	561	566	570
Foreign currency deposits (millions of U.S. dollars)	372	442	503	515	518	523	537	538	539	540	551
Broad money growth (12–month percent change)	12.1	16.4	7.7	6.7	6.4	6.8	5.6	5.9	6.1	6.6	7.1
Credit to the private sector (12–month percent change)	10.3	17.8	11.5	11.3	11.1	10.9	10.7	10.5	10.3	10.2	10.1
Reserve money (end-of-period; 12–month percent change)	14.5	18.9	4.5	3.9	16.4	4.5	8.3	4.4	7.2	8.5	9.7
Reserve money (daily average over quarter; 12–month perce	10.4	19.0	...	...	...	...	...	...	...	...	...
Money multiplier (broad money/reserve money)	4.6	4.5	4.6	4.4	4.5	4.5	4.5	4.5	4.4	4.4	4.4
Velocity (GDP/broad money; end-of-period)	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3

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

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

[2] Reserve requirements on foreign currency deposits were introduced in 2009.

[2] Reserve requirements were lowered from 13% to 10% in 2009, but raised back to 13% in April 2011.

[4] The definition was revised in June 2011 to include foreign-currency denominated required reserves held by banks and project and blocked accounts at the CBS.

Table 5. Seychelles: Financial Soundness Indicators for the Banking Sector, 2012Q4–2018[1]

	2012	2013	2014	2015	2016	2017	2018			
	Q4	Q4	Q4	Q4	Q4	Q4	Q1	Q2	Q3	Q4
	(Percent, end-of-period)									
Capital adequacy										
Regulatory capital to risk weighted assets	26.7	26.7	21.7	25.5	26.6	23.5	23.5	21.1	20.5	20.5
Regulatory tier 1 capital to risk weighted assets	19.3	21.0	16.3	18.1	20.4	18.1	17.5	18.2	17.1	16.8
Capital to assets (net worth)	10.3	9.7	8.5	11.0	11.8	11.0	10.9	9.9	10.2	10.1
Net tangible capitalization [2]	10.4	9.8	8.6	11.2	12.0	11.2	11.1	10.1	10.4	10.1
Asset quality										
Foreign exchange loans to total loans	18.7	18.7	23.8	28.6	25.0	27.7	28.4	26.2	26.4	24.2
Non-performing loans to gross loans	9.3	9.4	8.2	7.6	6.8	7.1	6.5	5.9	5.8	3.5
Provision as percentage of non-performing loans	29.5	39.2	43.9	41.1	37.4	31.9	35.8	40.1	38.6	19.2
Provisions as percentage of total loans	2.7	3.7	3.6	3.1	2.5	2.3	2.3	2.4	2.3	0.7
Earnings and profitability										
Return on assets (annualized)	3.1	1.9	3.3	3.8	3.8	3.9	1.1	2.9	2.9	3.7
Return on equity (annualized)	29.8	19.6	38.2	34.7	32.7	35.1	10.0	28.4	28.0	35.7
Interest margin to gross income	62.7	56.6	57.5	60.1	62.7	53.1	59.7	59.0	63.1	54.5
Noninterest expense to gross income	56.6	65.1	50.3	52.9	45.5	49.7	53.3	54.8	55.9	55.9
Net interest margin (annualized) [3]	4.1	3.2	2.8	4.3	4.6	4.1	3.7	3.7	4.0	4.2
Net noninterest margin (annualized) [4]	0.0	-0.4	0.0	-0.4	-1.0	-0.2	-0.8	-0.9	-1.2	-0.8
Expense to income	46.4	54.5	52.6	50.3	55.2	54.2	59.3	60.5	61.4	61.4
Interest expense to gross income	11.8	15.3	10.7	11.1	10.7	12.5	12.1	14.5	14.2	14.4
Liquidity										
Core liquid assets to total assets [5]	39.6	41.6	40.8	33.0	28.6	38.2	42.0	41.5	41.4	45.2
Broad liquid assets to total assets [6]	52.0	54.7	54.2	49.1	47.9	55.4	58.4	58.1	56.7	58.2
Liquid assets (broad) to short term liabilities	58.1	61.2	60.0	55.9	55.0	62.4	65.8	64.7	62.8	63.7
Liquid assets (broad) to total liabilities	58.0	60.6	59.2	55.2	54.3	62.2	65.6	64.5	63.2	64.7
Liquid assets to deposit liabilities	62.5	64.3	62.7	59.5	57.8	65.7	69.4	69.5	67.4	68.5
Foreign exchange exposure										
Net open foreign exchange position to capital	7.9	8.9	8.8	1.9	3.0	0.0	0.1	0.3	0.8	3.4

Source: Central Bank of Seychelles.

[1] Data from 2015 onwards include purely offshore banks.

[2] Defined as: equity capital/(assets-interest in suspense-provisions).

[3] Defined as: (Interest income - interest expense)/average assets.

[4] Defined as: (Noninterest income - noninterest expense)/average assets.

[5] Core liquid assets include cash, balances with CBS, and deposits with other banks.

[6] Broad liquid assets include core liquid assets plus investments in government securities.

Table 6. Seychelles: Schedule of Reviews Under the Policy Coordination Instrument, 2017–20

Program Review	Test Date	Review Date
Board discussion of a PCI request		December 13, 2017
First Review	December 31, 2017	April 30, 2018
Second Review	June 30, 2018	October 31, 2018
Third Review	December 31, 2018	April 30, 2019
Fourth Review	June 30, 2019	October 31, 2019
Fifth Review	December 31, 2019	April 30, 2020
Sixth Review	June 30, 2020	October 31, 2020

Source: IMF

Table 7. Seychelles: Indicators of Fund Credit, 2016-24

	2016	2017	2018	2019	2020	2021	2022	2023	2024
			(Millions of SDR)						
Existing Fund credit									
Stock [1]	28.0	27.9	24.8	19.9	14.7	10.7	7.0	4.2	2.5
Obligation	0.9	3.0	1.7	4.3	5.6	4.4	4.0	2.9	1.9
Principal (repayments/repurchases)	0.9	2.8	1.7	4.0	5.2	4.1	3.7	2.7	1.8
Charges and interest	0.0	0.2	0.0	0.3	0.5	0.4	0.3	0.2	0.1
Disbursements	...	3.3	...	...	...	...	...	...	...
Prospective Fund credit									
Disbursement	0.0	1.6	...	...	...	...	...	...	...
Stock [1]	13.1	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8
Obligations [2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal (repayments/repurchases)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of existing and prospective Fund credit [1]	28.0	29.5	24.8	19.9	14.7	10.7	7.0	4.2	2.5
In percent of quota	122.2	128.8	108.2	86.9	64.3	46.6	30.4	18.4	10.7
In percent of GDP	2.8	2.8	2.2	1.7	1.2	0.9	0.5	0.3	0.2
In percent of exports of goods and services	2.9	2.7	2.2	1.7	1.2	0.8	0.5	0.3	0.2
In percent of gross reserves	7.6	7.7	6.4	5.2	3.7	2.6	1.6	1.0	0.5
Obligations to the Fund from existing and prospective Fund arrangements									
Disbursements	0.0	4.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Obligations	0.9	3.0	1.7	4.3	5.6	4.4	4.0	2.9	1.9
Principal (repayments/repurchases)	0.92	2.77	1.71	4.00	5.16	4.07	3.70	2.73	1.77
Charges and interest	0.00	0.25	0.00	0.27	0.45	0.35	0.26	0.19	0.13
In percent of quota [3]	4.0	13.2	7.5	18.6	24.5	19.3	17.3	12.8	8.3
In percent of GDP	0.1	0.3	0.2	0.4	0.5	0.4	0.3	0.2	0.1
In percent of exports of goods and services	0.1	0.3	0.2	0.4	0.5	0.3	0.3	0.2	0.1
In percent of gross reserves	0.2	0.8	0.4	1.1	1.4	1.1	0.9	0.7	0.4

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

[1] End-of-period.

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

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

Annex I. Implication of Climate Change and Major Infrastructure Projects on External Viability and Fiscal Sustainability

In addition to an ambitious long-term plan to reduce Seychelles' vulnerability to climate change, President Faure announced a plan to implement large infrastructure projects over the medium term in his 2018 State of the Nation Address (SONA). These climate change and infrastructure investments would be consistent with the country's long-term external stability and fiscal sustainability as long as they are implemented in a phased way over the medium to long term. However, rapid implementation of projects over the next several years, would put the country's hard-won economic stability at risk.

Background

1. The authorities are articulating a medium- to long-term financing strategy for investments aimed at enhancing resilience to climate change and for the large projects announced in the 2018 SONA. Although financing of over $50 million for climate change related projects has already been identified and incorporated in the authorities' Public-Sector Investment Plans (PSIPs), the authorities would need to identify the financing of climate change investments which are estimated to cost around 16 percent of 2018 GDP over the next 15 years or so ("other unidentified climate change related projects" in the table below). Moreover, the authorities would need to work out a financing plan for the projects announced in the 2018 SONA, which would help boost medium-term growth prospects by addressing infrastructure bottlenecks and enhance resilience to climate change. The total cost of the unidentified climate change and the 2018 SONA projects is estimated to reach around 44 percent of 2018 GDP over their life span.

Major public investment projects yet to be included in the PSIP				
	Estimated total cost		Project execution assumption	
	in US$	in percent of 2018 GDP	Baseline	Rapid execution
Climate change related projects				
Grand Anse Dam	$80 million	5.1	2020-2023	2020-2023
Conversion of electricity generation to LNG	$216 million	13.6	2022-2027	2020-2023
Other unidentified climate change related projects	$252 million	15.9	2020-2033 (back-loaded)	2020-2029 (front-loaded)
Subtotal	$548 million	34.6		
Major projects not related to climate change				
Cascade to Grand Anse Tunnel	$65 million	4.1	2024-2028	2020-2023
Reclaiming of land	$80 million	5.1	2025-2027	2024-2026
Grand total	**$693 million**	**43.8**		

Source: Seychelles authorities and IMF staff estimates

This Annex estimates how these infrastructure and climate change mitigation and adaptation investments would affect the country's external stability and fiscal sustainability under different scenarios and draw on policy implications.

Baseline (staff proposed) scenario

2. Under the baseline scenario, the major climate change and infrastructure projects would be phased over the next 15 years and their financing would rely largely on external sources, including grants, and PPPs. The major projects—Grand Anse Dam, conversion of electricity generation to LNG, and Cascade to Grande-Anse tunnel—would be phased in during 2020–28 while other projects would be backloaded during 2020–33 so that the GDP ratio of these projects are broadly constant each year for the next 15 years (see text table on the previous page). Financing of these projects are assumed as follows:[1]

- Grande Anse Dam: half by external grants, half by external project loans.[2]
- Conversion of electricity generation to LNG: entirely by PPP.
- Cascade to Grand Anse Tunnel: half by external grants, half by external project loans.
- Other unidentified climate change related investments: one-quarter by external grants, one-quarter by external project loans, one-quarter by PPP, and the rest by domestic borrowing.
- Reclaiming of land: mostly by the sale of land by the government.

Growth and inflation assumptions are as follows:

- GDP growth would notch up and reach 4½ percent by 2033, thanks to more efficient, clean energy infrastructure, other augmented infrastructure such as roads and ports, and stronger growth in tourism and fishing related industries buoyed by resilience to natural disasters.[3]
- CPI inflation would stay at around 3 percent.

3. Under this baseline assumption, the major projects could be implemented within the envelope of long-term external stability and fiscal sustainability. Primary surplus would stay at 2½ percent of GDP until 2024, the level envisaged under the PCI, and then gradually decline each year to a balance in 2033. Under this scenario, the public debt to GDP ratio will be below 50 percent by end-2021, in line with the authorities' medium-term debt reduction goal.

[1] Except for the financing of other unidentified climate change related projects, the authorities plan to finance these projects in line with this baseline assumption and are actively seeking the external financing sources and partners of PPPs (Country Report No. 19/4).

[2] All external project loans are assumed to be market financing.

[3] This is the very similar long-term assumption made in the 2017 Article IV consultation for the climate change policy assessment (CCPA) (Country Report No. 17/161).

Public debt to GDP ratio would steadily decline thereafter and is projected to be around 25 percent at end-2033, a reasonably low level (Annex I. Figure 1). Current account deficit would decline marginally each year from 2021 onwards under this scenario. As a result, the GIR import coverage would stay around 3¼–3½ months and its ARA metric would hover in the range of 120–130 percent, broadly in line with the current level which is estimated as adequate (see Annex II). The NIIP position would worsen gradually each year from -107 percent of GDP in 2019 to -118 percent of GDP in 2024 due to large external project financing. Even under this phased-in execution approach, the authorities' commitment under the Paris agreement is likely to be fulfilled around 2030, in line with their Nationally Determined Contribution (NDC) 2015.

Rapid Project Execution Scenarios
Scenario 1

4. Under this scenario, a large part of the major climate change and infrastructure investments would be executed during the next several years. All three large projects (Grand Anse Dam, conversion of electricity generation to LNG, and Cascade to Grand Anse tunnel) are assumed to be executed during 2020–23, while other projects would be executed in a front-loaded way during 2020–29 (see text table in the Background section). The scenario assumes the same project financing assumptions as under the baseline. The following assumptions regarding changes from the baseline are made:

- The primary balance would worsen/improve by each year compared with the baseline by the amount of the difference in the execution of these investments each year from that assumed under the baseline[4];

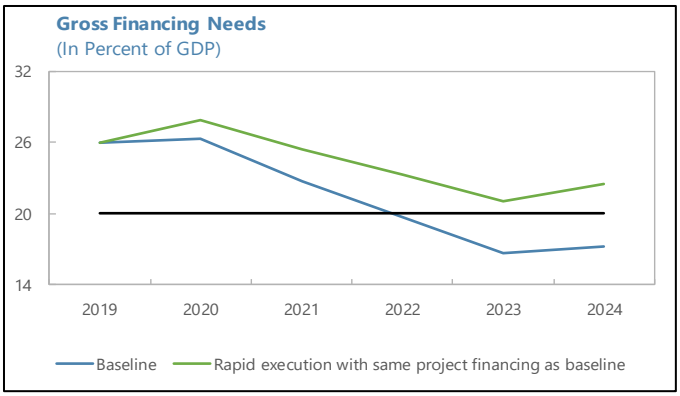
- The multiplier of these investments on GDP would be 0.1 (i.e., GDP in this scenario is larger (smaller) than the baseline by 0.1 times the difference in the execution of these investments each year) [5];

- Inflation would be the same as under the baseline given the very small multiplier mentioned above; and

[4] We also assume a saving of replacement cost of existing electricity generators (0.1 percent of GDP each year) during 2020–23 under the rapid execution scenarios compared with the baseline due to the earlier execution of a conversion of electricity generation to LNG.

[5] This is a plausible assumption given that Seychelles is a very small island economy whose import component of investments is estimated to be around 90 percent.

- While the bulk of the major projects are assumed to be still financed externally (grants, project loans, and PPPs in the form of FDIs), the significant fiscal policy slippages compared with the PCI envisaged baseline, leading to an elevated level of gross financing needs (text chart), staying above 20 percent of GDP for the next several years, could raise concern on fiscal sustainability and absorptive capacity among investors.[6] Such concerns could negatively affect private sector portfolio and FDI inflows.

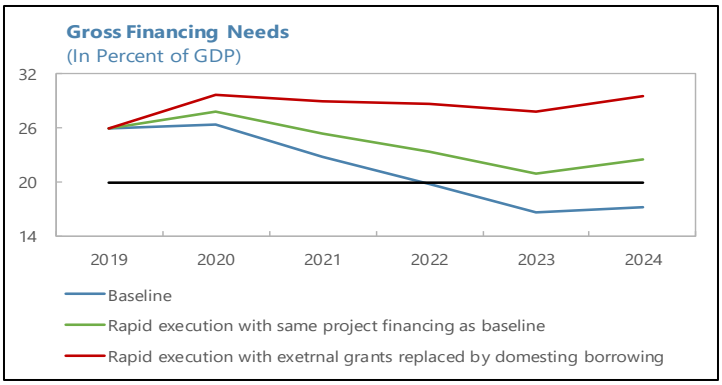


5. Under such a scenario, the public debt dynamics and external buffers would worsen considerably from the baseline during 2020–23 when the project execution accelerates rapidly. The primary surplus would fall to around 1–1½ percent of GDP during this period. As a result, the public debt to GDP ratio is projected to fall below 50 percent only by end-2023, two years later compared with the baseline, even with the same favorable assumptions on project financing as assumed under the baseline. The external current account deficit would increase to over 20 percent of GDP during these years due to increased imports for investments. The fiscal policy slippages during 2020–23 could lead to a higher gross financing needs and a loss of confidence among investors, which could lead to lower private portfolio inflows and direct investments compared with the baseline. Due to the worsening of current account balance and negative impact on capital inflows compared with the baseline, the external buffer would deteriorate for the next several years: the GIR import coverage would decline to 2¼ months and its ARA metric would worsen to around 90 percent while NIIP would worsen to around 134 percent of GDP by 2024 (Annex I. Figure 2)

Scenario 2

[6] Gross financing needs, which will remain over 20 percent until 2021 even under the baseline scenario, are the major source of risks to the public debt sustainability as highlighted by the previous DSA (Country Report No. 19/4, Annex I).

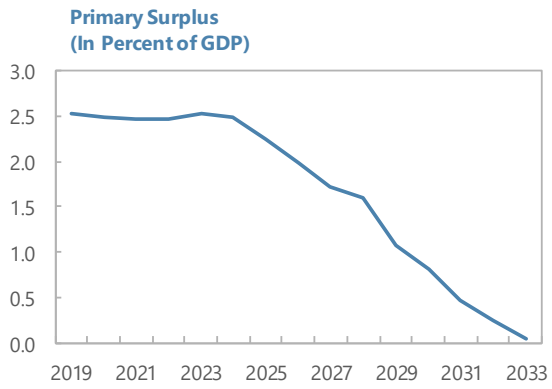
6. When we assume that the authorities would rely more heavily on domestic borrowing under this rapid project execution scenario, the external position would become highly vulnerable. Under this scenario, the authorities would borrow domestically the grant financed part of Grand Anse Dam, the Cascade to Anse Tunnel, and other unidentified climate change related projects (US$136 million more domestic borrowing over the projection period compared with the previous two scenarios). Under such a scenario, the gross financing needs would notch up to around 30 percent of GDP for the next several years and the public debt to GDP will fall below 50 percent of GDP only by 2025, four years later compared with the baseline. More importantly, external buffers would be depleted even more significantly because of the reduced amount of external grant which adds additional pressures on GIR: the GIR's ARA metric would decline to only around 65 percent while NIIP would worsen to around 140 percent of GDP by 2024 (Annex I Figure 2).

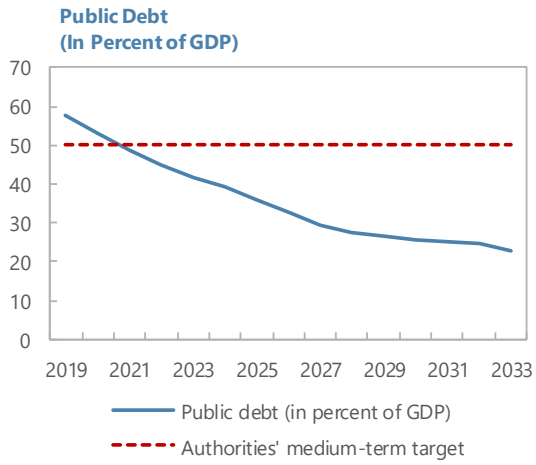


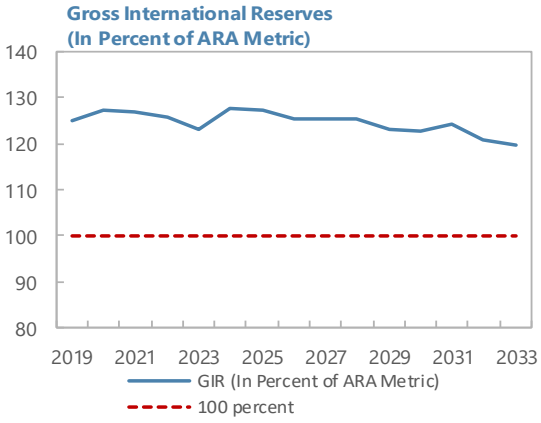
Policy implications

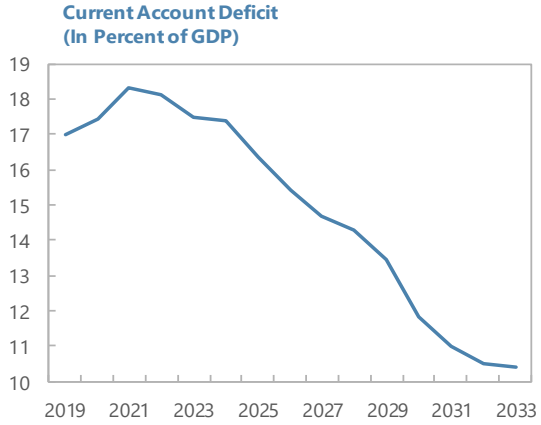
7. The planned climate change and infrastructure projects should be phased in line with the country's absorptive capacity to preserve Seychelles' hard-won economic stability. Staff's proposed baseline scenario illustrates that such a phased-in approach would be compatible with long-term fiscal sustainability and external stability and help achieve the authorities' 2015 NDC. Even if the authorities could rely mostly on external financing, including grants and PPPs, the public debt and external buffer dynamics would worsen significantly under the rapid project execution scenario for the next several years. If the projects are executed rapidly with a more dominant role of domestic borrowing without grants (Scenario 2), the external stability would be at risk. This highlights the importance of finding concessional external sources to finance the investments to the extent possible. Rapid execution would likely to make it hard to find such favorable financing sources. While the authorities plan to rely significantly on PPPs for some projects, the authorities would need to build up capacity to reduce potential risks arising from PPPs. A phased-in approach would help the authorities to buy time for such capacity building.

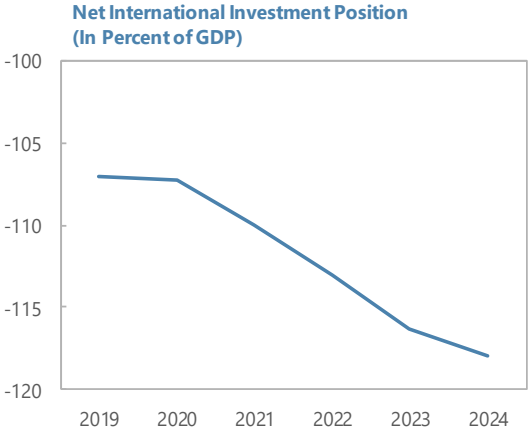
Annex I. Figure 1. Baseline: Long-term Dynamics of Key Fiscal and External Indicators





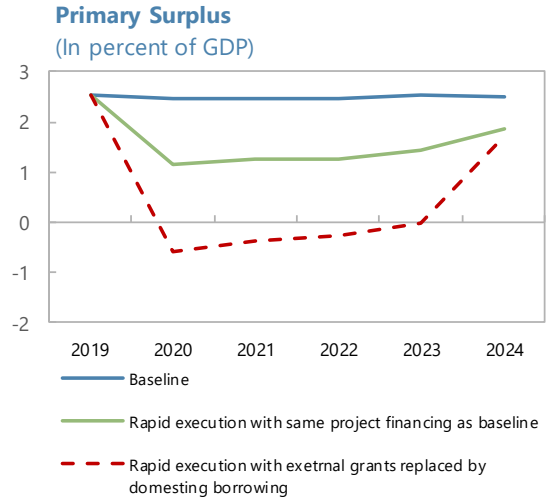


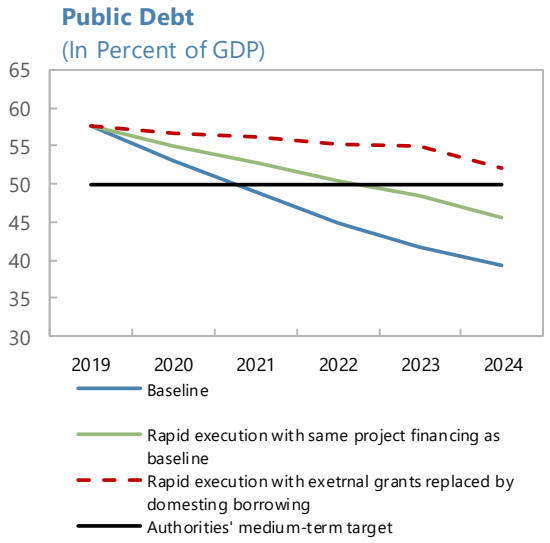


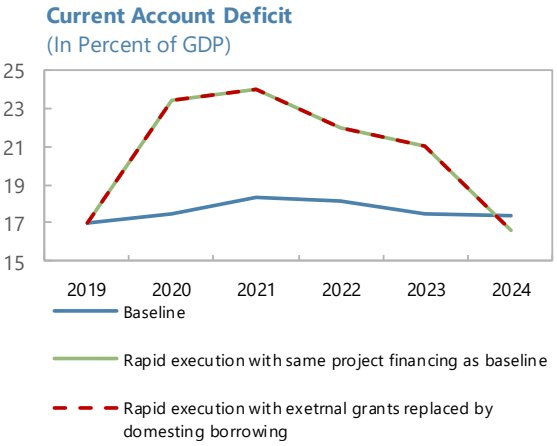


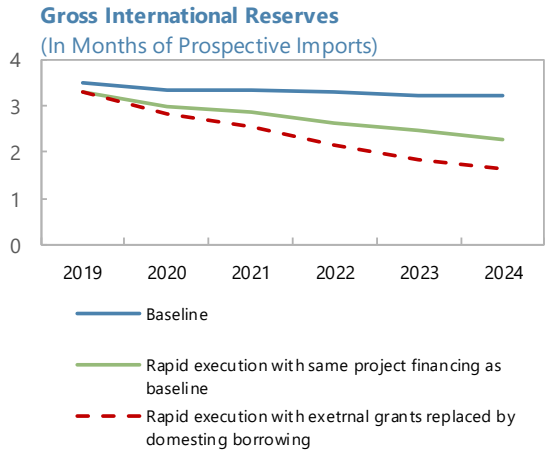
Annex I. Figure 2. Key fiscal and External Indicators

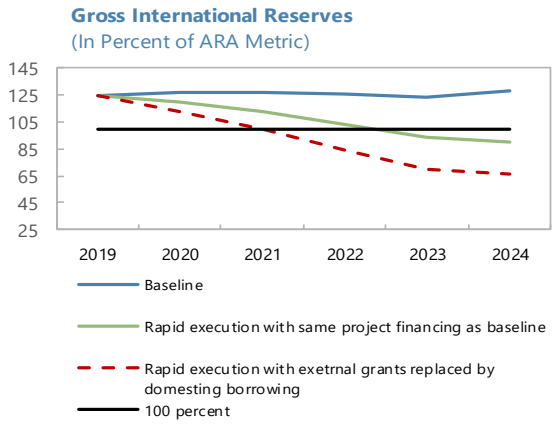
Baseline versus Rapid Execution of Investments

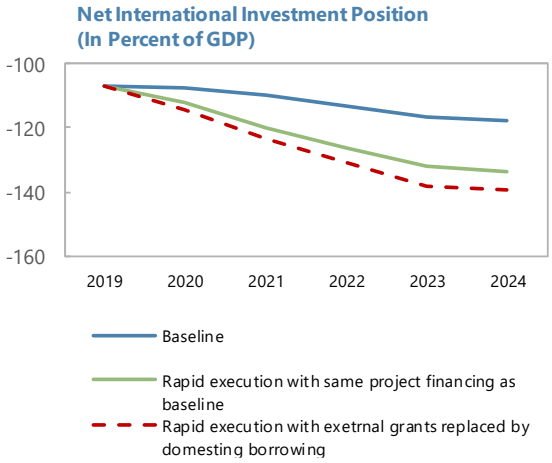












Annex II. External Stability and Competitiveness Assessment

Seychelles' external position in 2018 was moderately weaker than implied by medium-term fundamentals and desirable policy settings. Although the EBA-lite regressions do not provide a definitive exchange rate assessment, staff complemented the External Sustainability method with an indicator-based approach which suggested a modest level of overvaluation of the exchange rate. The reserve adequacy assessment suggests that the Seychelles' international reserves at end-2018 were within the advisable range of international reserves.

A. External Balance Sheet

1. Background. The latest available official data on Seychelles' International Investment Position (IIP) indicate that Seychelles' net IIP (NIIP), which excludes the offshore sector, deteriorated to -108 percent of GDP at end-2018 from -104 percent of GDP in 2017, as the increase in cross-border asset holdings was offset by the increase in international liabilities. As at end 2018, direct investment was about 8 percent of gross assets and 61 percent of gross liabilities while portfolio investment was about 7 percent of gross liabilities.

2. Assessment. The external balance sheet is a source of risk for Seychelles. Total external debt was 110 percent of GDP at end-2018. Risks are however mitigated due to favorable debt composition and maturity profile. External debt is comprised mostly of public and tourism sector borrowing at favorable interest rates and long maturities, as well as FDI-related borrowing, which constitutes 43 percent of non-equity liabilities. Seychelles' gross official reserves also stayed around 35 percent of GDP in 2018. The authorities closely monitor global financial conditions given Seychelles' openness. The External Sustainability (ES) approach suggested a 16% real effective exchange rate depreciation to maintain NIIP at its current level.

B. Current Account

3. Background. Seychelles' current account deficit shrank from 20.4 percent of GDP in 2017 to 17.1 percent of GDP in 2018 (Figure 1)[1]. This was driven primarily by lower services imports, higher tuna exports, and strong tourism receipts growth (16 percent) in 2018. The current account deficit is expected to remain at around 17 percent of GDP this year and average at around 17–18 percent of GDP over the medium-term.

4. Non-EBA-lite (Indicators-based) Assessment: Staff analysis suggests that Seychelles' external position at end-2018 was moderately weaker than implied by medium-term

[1] Seychelles' current account deficit is likely to be over-estimated by about 5 to 8 percent of GDP because of the likely under-estimation of tourism receipts. The CBS began its efforts to improve the estimation of tourism receipts to enhance the accuracy of the current account balance estimates.

fundamentals and desirable policy settings. This assessment comes from complementing the ES approach with non-EBA-lite quantitative indicators of Seychelles' current account and exchange rate competitiveness, which point to Seychelles' competitiveness compared to peers, with a modest recent overvaluation.

5. As an economy with a strong dependence on the tourism sector (tourism receipts at 37 percent of total exports and 36 percent of GDP), Seychelles is significantly above the thresholds set for special cases for external assessments (tourism receipts at 15 percent of GDP and 25 percent of total exports).[2] The savings-investment relationship in Seychelles is primarily driven by tourism-based investments. Such investments come in the form of FDI and have significant import content (around 80–90 percent). Seychelles' FDI is driven not by productivity differences or investment climate, but by its natural landscape and tourism potential. Without clear proxies for such investment drivers, the EBA-lite CA model is a persistently poor fit.

6. Staff indicators-based analysis compares Seychelles' external competitiveness indicators to a group of small tourism-dependent island economies.[3] Seychelles' tourism sector has performed well, as tourist arrivals have been stronger than the comparator group average, and its share in the overall tourist arrival numbers has increased in recent years (Figure 2). The "Week-at-the-Beach" index suggests tourism costs in Seychelles rose faster than in the comparator group since September 2017, but the trend reversed in the final months of 2018[4]. Significant increases in these costs pose risks to the country's competitiveness in its most important sector. Seychelles' current account has traditionally been volatile and larger than comparators but has stabilized at around -17% recently. Net FDI to Seychelles has been much stronger than the peer average over the past five years.

7. Assessment based on EBA-Lite Models: The EBA-lite methodology does not provide conclusive results. The current account (CA) model implies a sizable CA gap of 18.5 percent of GDP and over-valuation of the exchange rate (by 23 percent) (Table 1)[5], but the real effective exchange rate index (IREER) model shows a sizable under-valuation of the exchange rate (by 46.2 percent) (Table 2). These discrepancies are largely explained by country-specific circumstances, as pointed out in the Non-EBA-lite assessment above.

8. According to the CA model, the CA gap is estimated at 18.5 percent of GDP, indicating deviation of Seychelles' current account balance from the norm, which is an estimated surplus of 0.7 percent of GDP. Using the estimated current account elasticities, this implies an REER misalignment (overvaluation) of about 23 percent (Table 1). Seychelles' policy stance, assessed at end-2018, contributes to a national policy gap of only 0.7 percent of GDP.

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[2] Ter-Martirosyan, At al. External Assessments in Special Circumstances, IMF, 2014

[3] Comparator group includes Antigua and Barbuda, Bahamas, Barbados, Belize, Cabo Verde, Dominica, Jamaica, Maldives, Mauritius, St. Kitts and Nevis and St. Lucia.

[4] The "Week-at-the-Beach" index uses price data on hotels, beer, coffee, taxis and food to create an index of tourism costs.

[5] Note that the CA deficit in Seychelles is likely to be over-estimated (see footnote 1).

The total gap is hence driven by the residual, reflecting factors not captured by the model. In addition, any symptoms of a highly overvalued exchange rate are not present in the economy: there are no signs of domestic overheating, export growth including tourism has been strong, and the government has been running consistent fiscal surpluses.

Table 1. Seychelles: EBA-lite Exchange Rate Assessment (CA Model)

CA-Actual	-17.1%
Cyclical Contributions (from model)	0.2%
Cyclically adjusted CA	-17.3%
Cyclically adjusted CA Norm	0.7%
Multilaterally Consistent Cyclically adjusted CA Norm	1.2%
CA-Gap	-18.5%
of/which Policy gap	0.66%
Elasticity	-0.80
REER Gap	23%

9. The IREER model on the other hand suggests REER is widely undervalued, estimating the REER gap at -46.2 percent (Table 2). This is driven by the difference between the fitted and actual REER values. The policy gap only contributes -0.5 percent to the REER gap.

Finally, the External Sustainability (ES) Approach suggested a 16% overvaluation of the REER, based on the NIIP position excluding the offshore sector. Staff anchored their assessment on the ES approach and complemented it with the indicator-based analysis.

C. Real Exchange Rate

10. Background. REER has been appreciating since end-2014 following sharp depreciation, but the pace slowed since March 2016 reflecting lower domestic inflation. REER appreciated by

Table 2. Seychelles: EBA-lite Exchange Rate Assessment (IREER Model)

Ln(REER) Actual	4.71
Ln(REER) Fitted	5.167
Ln(REER) Norm	5.172
REER Gap	-46.2%
Policy Gap	-0.5%

2.1 percent year-on-year (yoy) in 2018 in line with a 2.3 percent yoy nominal effective exchange rate (NEER) appreciation. This followed cumulative appreciations of REER by 12.2 percent and of NEER by 10.8 percent between 2014 and 2017.

11. Assessment. Based on the staff analysis using the ES approach complemented by various competitiveness indicators, the REER is moderately overvalued compared to medium-term

fundamentals and desired policies. Continued appreciation of the REER could pose risks to the country's competitiveness in the context of the already large external current account deficit.

D. Capital and Financial Flows

12. Background. Seychelles has an open capital account. International capital flows remained resilient in 2018, with continued strong contribution from FDI and other investment flows. Seychelles' overall capital and financial account remained at around 17 percent of GDP at end-2018.

13. Assessment. The capital and financial account is likely to remain in surplus if FDI remains strong. As the moratorium on large hotel investments is scheduled to be lifted in 2020, FDI should increase in the medium term.

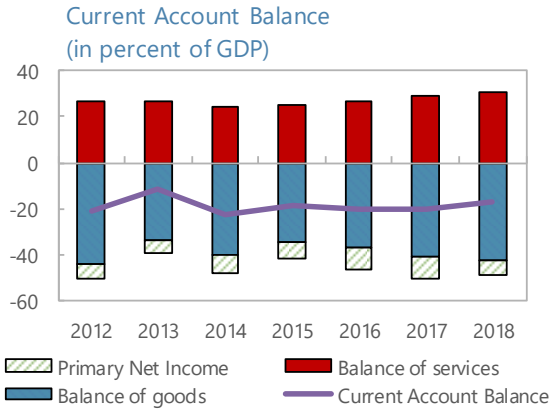
E. Reserve Adequacy

14. Background. The exchange rate regime of Seychelles is classified as floating and foreign exchange interventions are aimed at maintaining current level of international reserves following Fund advice. Gross international reserves (GIR) stayed at 3.6 months of the prospective imports of goods and services, at US$ 548 million. The GIR is projected to remain between 35 and 30 percent of GDP and its import coverage would stay in the range of 3¼–3½ months over the medium-term.

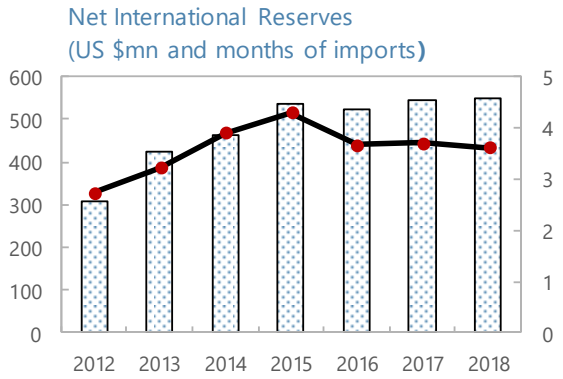
15. Assessment. Seychelles' international reserve holdings is assessed against the standard reserve adequacy benchmark. Per the standard metric, staff estimates that international reserves at the end of 2018 were within the advisable range of international reserves (Figure 3). The level of international reserves at the end of 2018 stood at about 125 percent of the ARA metric. This level is within the advisable range of international reserves.

Figure 1. Seychelles: Recent External Developments and Outlook

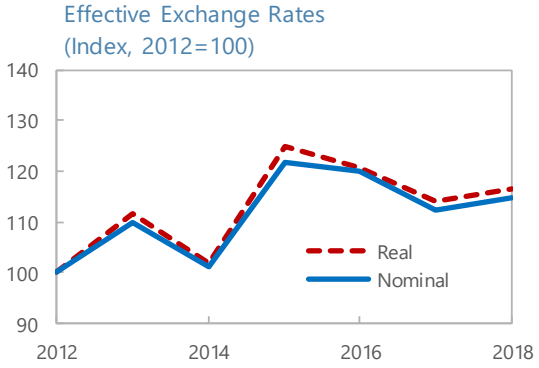
The current account deficit shrank in 2018 ...



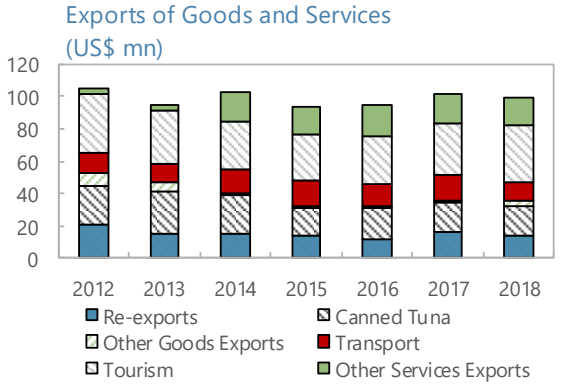
...while reserves remained stable in absolute terms...



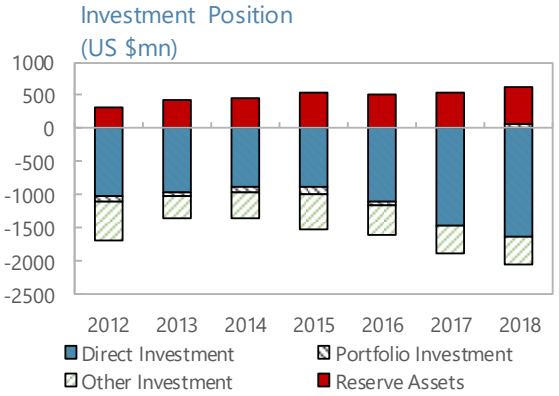
....and the real and nominal effective exchange rate appreciated slightly.



Tourism and tuna are still the key export sectors along with offshore services becoming more important recently.

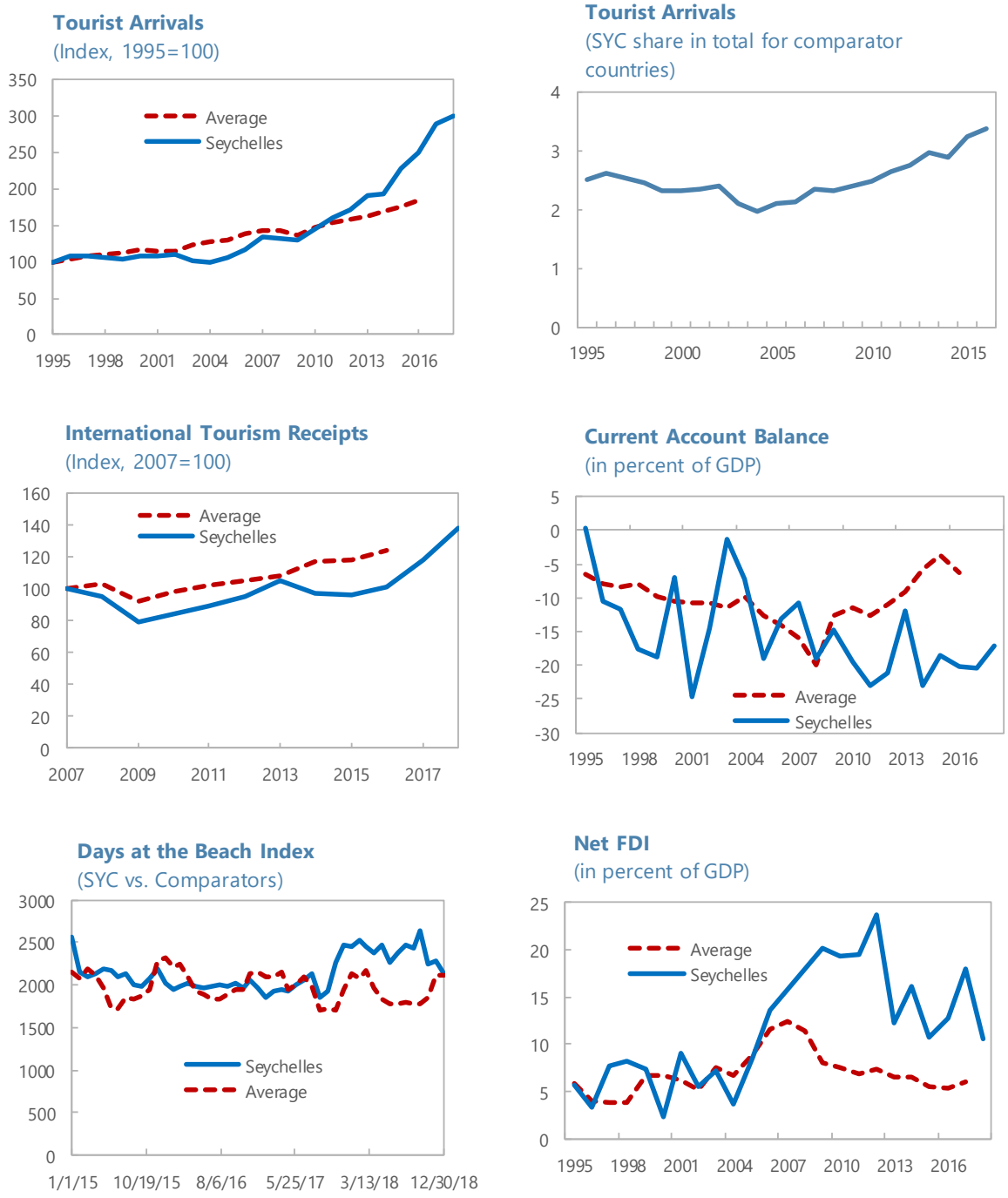


The investment position is negative and growing.



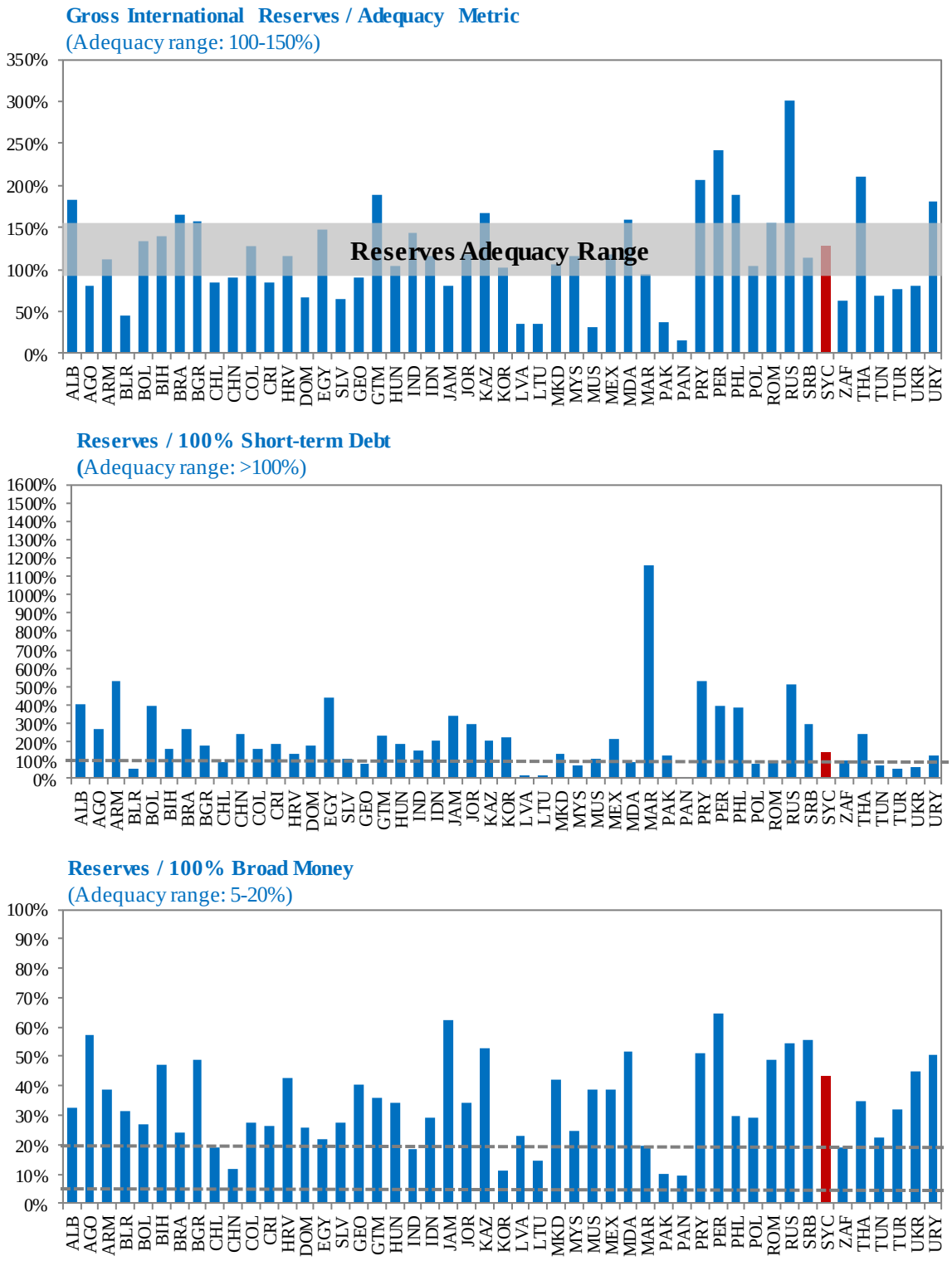
Source: IMF Staff Calculations
Note: The IIP figure does not include offshore assets and liabilities.

Figure 2. Seychelles: Other Indicators of External Competitiveness



Source: World Bank, Country Authorities, IMF Staff Calculations
Note: Comparator data on tourist arrivals, tourism receipts are only available till 2016.

Figure 3. Seychelles: Comparison of Reserve Adequacy Measures



Source: IMF Staff Calculations

Annex III. Capacity Development Strategy for 2019–20

Overall Strategy

1. The capacity development strategy for Seychelles continues to focus on supporting the authorities' program backed by the PCI: public finance management (PFM, including fiscal risk analysis, medium-term budgeting, and public investment management), monetary policy operation (inflation forecasting modeling, liquidity management, and policy communication), the AML/CFT framework, and the quality of statistics. The proposed strategy for the Fund capacity development in Seychelles for the next two years is summarized in the Table below. The authorities have already made significant progress in capacity enhancement in the areas of PFM, AML/CFT regulatory framework, and inflation and liquidity forecast/management for the monetary policy conducts. However, limited human resources, often exacerbated by the very small size of the country, have slowed down the progress for capacity building in some occasions.

CD Priorities

Priorities	Objectives
Ministry of Finance, Trade, Investment, and Economic Planning	
PFM—Fiscal risk analysis.	Enhance capacity to address fiscal risks potentially arising from the SOE sector, including by enhancing quality of fiscal reports.
PFM—Medium-term budgeting and public investment management.	Strengthen the credibility of the budget planning and enhance efficiency of public investment, which will be key to boost growth potential and buttress long-term fiscal sustainability.
Central Bank of Seychelles (CBS)	
AML/CFT framework.	Strengthen the AML/CFT supervision/regulatory framework to minimize the risks of further loss of CBRs, which could have dire economic consequences
Capacity for the conduct of monetary policy.	Strengthen the CBS staff's capacity for inflation forecasting and liquidity management to ensure a successful transition to a new monetary policy framework where interest rates play a prominent role.
Monetary policy communication.	Review the communication strategy/policy of the CBS to ensure its policy communication is enhanced and more transparent.
Deepening of the money market.	Improve transmission mechanism of monetary policy.
Seychelles Revenue Commission (SRC)	
Enhancing revenue administration.	There is room to strengthen the revenue collection capacity of SRC, particularly regarding customs administration.
National Bureau of Statistics (NBS)	
Enhancing quality of key economic statistics.	High quality price, GDP, and external sector statistics would be key for successful implementation of a new monetary policy framework.

Risks and Mitigation

2. Risks mostly stem from capacity constraints. Due to the very small size of the country, the number of technical staff is limited. Lack of understanding of the new monetary policy framework on the side of the commercial banks could be a challenge to a smooth transition to the new policy framework.

3. To mitigate risks, the Fund will use the PCI reviews to have detailed discussions on reform priorities and help set a realistic timeline. Staff will ensure the authorities' high-level commitment to priority reforms supported by capacity development, which has contributed to a generally strong implementation of reform targets (RTs) under the PCI. Closer coordination between AFR and TA departments in the areas of monetary policy operation and AML/CFT framework would be helpful in mitigating the risks, by setting priorities in capacity development that are fully consistent with program objectives and by helping set a more realistic timeline for reforms (see the authorities view below).

Authorities' Views

4. The authorities concurred with staff on the CD priorities. The CBS asked staff to continue coordinating closely with MCM in the areas of monetary policy framework so as to ensure that TA advice is fully consistent with program recommendations. The authorities also pointed out that the timeline of the RTs in AML/CFT framework could be better aligned with their TA absorptive capacity.

Appendix I. Program Statement

Victoria,
May 29, 2019

Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
USA

Madame Managing Director:

Following is an updated Program Statement (PS) that provides a description of Seychelles' recent economic and financial performance and policies for 2019 and 2020.

Macroeconomic performance continues to be strong in 2019 and the outlook remains favorable. Program implementation is largely on track.

The government continues to believe that the policies and measures set forth in the attached PS are adequate for achieving the objectives of the Policy Coordination Instrument (PCI)-supported program, which was approved by the IMF Executive Board on December 13, 2017. Given our commitment to macroeconomic stability, the government will promptly take any additional measures needed to achieve the objectives of the program. It will consult with the IMF—at its own initiative or whether the Managing Director requests such consultation—before adopting any such measures or in advance of revisions to the policies contained in the attached PS. Moreover, the government will provide the IMF with such information as the IMF may request as regards to the progress made in implementing the economic and financial policies, and in achieving the program objectives.

Based on our performance under the program and the sustainability of our planned policies, we are requesting that the IMF Executive Board complete the third review of the PCI-supported program and approve the proposed modification of the end-June 2019 quantitative target on primary fiscal balance, the end-June 2019 and end-December 2019 quantitative targets on net international reserves and the end-June 2019 and end-December 2019 monetary consultation clause as reflected

in Table 1a, and reform targets from fourth review onwards as reflected in Table 2, respectively, in the attached PS.

In line with our commitment to transparency, we request that the IMF publish this letter, the attached statement, and the staff report. We will simultaneously publish these documents in Seychelles.

Sincerely yours,

/s/

Ambassador Maurice J Loustau Lalanne
Minister of Finance, Trade, Investment and Economic Planning

/s/

Caroline Abel
Governor,
Central Bank of Seychelles

Attachment: Technical Memorandum of Understanding (TMU)

Updated Program Statement for the Period December 2017–December 2020

1. This Updated Program Statement describes Seychelles' recent economic and financial performance as well as our policies for 2019 and updates the Program Statement dated November 20, 2018.

A. Macroeconomic Performance in 2018 and Outlook for 2019

2. Economic performance in 2018 has been satisfactory, with real GDP growth rate now estimated to have attained 4.1%, higher than envisaged in mid-2018. GDP growth was sustained by a good performance of production of manufactured goods and food, in particular canned tuna, and information and communication. Tourism arrivals were less than expected in the first nine months of the year but accelerated in the last quarter, with tourism arrivals up for the year by 3.4 % compared with 2017.

3. Consumer price inflation in 2018, at 3.7% on average, was lower than previously expected (4.4%), despite some increase in electricity tariffs as part of the tariff rebalancing exercise in September. International fuel price declined in the last quarter. The external current account deficit declined in 2018, on account of lower services imports, higher tuna exports and stronger growth in tourism receipts, despite an increase in the value of fuel import, reflecting higher international prices on average in 2018 compared with 2017. Gross international reserves increased modestly, reflecting the issuance of the Blue Bond on the international markets (US$ 15 million) in the last quarter of 2018, and a strong growth in tourism earnings.

4. In 2019 the real GDP growth rate is expected to reach 3.5%, in line with previous forecast, with tourism arrivals expected to increase by about 4% and continuous growth of the non-food manufacturing, construction and telecommunication sectors. The CPI is expected to rise in 2019 by 2.6 % on an annual average basis, significantly less than previously forecasted because of the downward revision to international fuel prices and skipped quarterly utility tariff adjustments in 2018Q4 and 2019Q1. The external current account is expected to be broadly stable as a ratio to GDP between 2018 and 2019.

B. Performance Under the PCI for 2018

5. The program is on track. QTs for end-December were all met. The primary surplus and net international reserves (NIR) for end-December 2018 were met by a comfortable margin. Inflation was lower than envisaged under the consultation clause. Regarding structural Reform Targets (RTs), the report on cost-benefit analyses of public investment projects with a cost above 10 million Seychellois Rupees (SCRs) was submitted to Cabinet in March 2019, later than the expected timing

of end-December 2019 at the time of the 2nd review. The delay was due to the nature of one of the projects- the drug rehabilitation centre. Following submission of the project to the Development Committee, it was requested that the project be re-examined in view of the size taking into account the future operational costs. Thus it took a while before completing the cost-benefit analysis of this project. The new Code of Governance for the SOEs, which was expected to be submitted to the Cabinet in December 2018 at the time of the 2nd review, was submitted in February 2019. The Public Enterprise Monitoring Committee (PEMC) has had to tender for an international consultant for that work and also as part of the process there was a consultation phase with all CEOs and Chair of SOE, and this only happened in January 2019.after which that the consultant was able to complete its work. Amendments to the AML/CFT legal and institutional framework were submitted to Cabinet in December 2018, in line with expectations at the time of the 2nd review, although measures to strengthen entity transparency, particularly with respect to beneficial ownership information of international business companies in the offshore sector were absent. All other RTs for end-December (fiscal risk report and quantification of social obligation of SOEs) were implemented on time.

C. Budgetary Performance in 2018, Outlook for 2019 and Medium-Term Framework

6. The primary surplus in 2018, at 2.9 % of GDP, exceeded the target of 2.5% of GDP, as tax revenue overperformed the budget and capital expenditure was under executed. Tax revenue exceed the budget by 1% of GDP on account of higher-than-budgeted personal income tax and VAT receipts. Capital expenditure was lower mainly because of slower execution of the investment plan by the public utility company, requiring less net lending by government.

7. In 2019, the budget target of a primary surplus equivalent to 2.5% of GDP remains within reach. The permanent measures taken to boost tax revenue include: (i) the reduction in the fuel tax exemptions for the fishing and the tourism sector; (ii) the introduction of a sugar tax on beverages including alcohol; (iii) the introduction of a property tax on real estate owned by non-residents; and (iv) an increase in excise rates on some products and in certain fees and charges. In total these permanent measures will yield the equivalent of 0.6 % of GDP in 2019. Other taxes will be boosted by the receipt of the stamp duty on the sale of a major telecom company to a new operator that took place in 2016-17 (this is a one-off revenue measure).

8. On the expenditure side, it is expected that primary current expenditure to GDP ratio will rise by 1% of GDP from the 2018 outcome, but capital expenditure to GDP ratio will be about the same as in 2018 outcome. The effort of rationalizing functions and programs provided by different agencies will continue, with the aim to increase efficiency in service delivery and achieve savings by removing duplicating services. As announced in the budget, the revised wage grid will enter into force in April 2019 with a 5 % wage increase and the long service allowance will be introduced in July 2019.

9. Permanent saving measures will be introduced in the 2020 budget to shore up the medium-term debt reduction goal. A comprehensive review of the mechanisms of social

protection, in particular of the care of old age persons, is under preparation with World Bank assistance, and will lead to adoption of certain reforms to be introduced in time for the 2020 budget. The documents are expected for submission to the World Bank board in October 2019. Continued implementation of procurement reform and utility tariff rebalancing, as well as further progress in removing duplication of services provided by different agencies should help contain the nominal growth of goods to almost zero in 2020 compared with the 2019 budget,

10. The government is keeping under review the large public investment projects announced in the 2018 State of the Nation Address (SONA), with the view to minimize costs and obtain favorable financing, including grants, so as not to jeopardize the medium target to reduce the public debt – GDP ratio below 50% by 2021. The Liquefied Natural Gas (LNG) project will be implemented as a PPP project with the technical assistance of IFC, the Grand Anse Dam and the tunnel will be financed by a mixture of grants and concessional loans whereas the funding for land reclamation will come in terms of project finance with the funding coming from the sale of land, all with various phasing combination to ensure smooth implementation and no negative impact on macroeconomic position of the country.

11. The process of raising efficiency of capital expenditure is underway. The construction of a "Government house" funded by a grant from the Government of India will lead to savings in rental costs as of 2022 for an estimated Scr 35 million. In order to ensure efficiency of public investment, Government is committed to undertake a PIMA assessment by end of December 2019.

12. To **further improve the government budget estimates, the Government has requested for technical assistance from IMF-AFRITAC to work on a baseline costing procedure, methodologies and tools for formulating sector-specific and economic item medium-term budget estimates.** Currently, the approved budget of the previous year is being used as a base for the following 3 years budget forecast. The issue with this baseline method is that in some instances, one-off item expenditures are usually incorporated in the baseline cost, which creates unrealistic spending space within MDAs budget hence unnecessary spending, and an inflated base. A more accurate and realistic baseline costing will help reduce wastage through identifying areas of efficiency hence savings could be used to fund other priority areas leading to more efficient use of government resources. In addition, it will improve the budget planning and forecasting process and a more credible budget. The Government plans to pilot this technical reform in 2020 with five MDAs (Ministry of Education and Human Resource Development, Health Care Agency, Ministry of Habitat, Infrastructure & Land Transport, Department of Police and Department of Defense) for the preparation of their 2021 budget followed by full roll out with all MDAs with the 2022 budget.

13. The renewable energy development plan detailed in the previous program statement, **which is a corner stone of the sustainable development agenda, is being executed as announced**. This include the 2 solar farms on Romainville built by PUC, the 5 MW solar farm financed by IRENA and the Abu Dhabi Development Fund, the 1 MW solar plants on Praslin and La Digue, the smart energy in public spaces program financed by the government of India.

14. Climate change mitigation and adaptation remains high on the government agenda. Government will continue with the implementation of its various projects;

Restriction on single use plastics:

Since 2017 the Government has imposed complete restriction on the distribution, importation and production of single use plastic items and in 2019 the Government is putting in place various measures to restrict the sales and distribution of other single use plastic straws. The Private sector entities are being encouraged to distribute biodegradable single use items such as paper bags and straws made out of bamboo. The long-term plan is to restrict the importation, distribution and production of other types of single use plastic items on the market.

Waste to Energy:

Solid waste management (SWM) poses significant challenges for Seychelles from which emanate the usual issues associated with managing waste within small-island environments, such as scarcity of land to construct landfills. The installation of a waste to energy facility will reduce significantly the volume of waste and the energy produced can partly substitute the use of fossil fuel for electricity production. Therefore, the Government of Seychelles is in the process of launching an Expression of Interest for a waste to energy project in Seychelles.

Glass bottles recycling scheme:

The Government of Seychelles through the Ministry of Environment, Energy and Climate Change is working on new recycling scheme for the glass bottles. The new scheme will start in 2019. Since October 2018 a levy of 2 rupees has been imposed on all Glass bottles containing alcoholic beverage entering the country.

Seychelles National Waste Policy 2018-2023:

The new National Waste Policy was approved in December 2018. The purpose of this policy is to provide a framework to facilitate the involvement of the government, private sector and the general public in the waste management sector and encourage the efficient use of resources by helping the public to make better informed decisions on how to manage and dispose of their waste. The objective of the policy is to minimize the amount of waste from being landfilled by promoting waste minimization through the 3Rs (reduce, reuse, recycle) and build capacity among state and non-state institution to manage waste.

Waste Master Plan:

Following the successful implementation of the Integrated Solid Waste Management Program under the 10th EDF (European Development Fund), the Government of Seychelles is collaborating with the European Union to develop the Seychelles Solid Waste Master Plan. The Waste Master Plan is being develop by an European consultancy firm and they are presently in Seychelles drafting the Solid Waste Master Plan.

D. The Implementation of the Structural Reform Agenda

Revenue Management

15. The reform program at Seychelles Revenue Commission (SRC) is progressing as scheduled. An audit program with externally recruited auditors is scheduled to start in the coming months, the debt recovery has been centralized in a specialized department, a deputy commissioner for customs was appointed. The cargo targeting software system has been introduced as scheduled in March 2019, to permit targeted inspections. Reforms in legislation have been enacted in December 2018; the Business Tax Act, the International Business Companies Act and the Companies Special Licenses Act were amended effective end-December 2018 to be consistent with the territorial tax system, subjecting Seychelles sourced income to the prevailing business tax, thus meeting the obligations of Seychelles under the Base Erosion and Profit Shifting (BEPS) initiative spearheaded by the OECD. Also, the Securities Act of 2007 and the Mutual Fund and Hedge Act have been modified, to ensure that the concessions under the Business Tax Act are applied only of if the substantial activity requirements, defined in the amendments, are met.

16. In January 2019, the Inclusive Framework on BEPS of the OECD approved the Seychelles Progress Report on its assessment of harmful tax practices. The Progress Report shows that Seychelles meets the requirements of Action 5 of the BEPS standard, following the assessment of eight of our preferential tax regimes by the Forum on Harmful Tax Practices (FHTP). Seychelles has also engaged with Tax Inspectors Without Borders (TIWB) secretariat with a programme in some of the priority areas of audit support for Seychelles. TIWB is a joint initiative of the OECD and the United Nations Development Programme (UNDP) supporting countries in building tax audit capacity. The projects will focus on revenue recovery and improving local audit capacity while sending a strong message on the need for tax compliance.

17. A team from AFRITAC SOUTH visited Seychelles during late 2018 to provide technical assistance to develop user specifications requirements for an integrated tax administrations system. The stability of the current Client Management System (CMS) remains a major issue that must be urgently addressed before the new system can be implemented. The system has a lot of functional deficiencies and operational errors which renders it deficient in supporting key business operations. Currently, SRC is working with Department of Information and Communication Technology (DICT) to stabilize the system environment. The Ministry of Finance, Trade, investment and Economic Planning MFTIEP is working with SRC and DICT on a proposal to assess the different options of upgrading the current CMS or purchasing an off the shelf tax system.

Results Based Management Framework

18. The Government will continue to consolidate its effort in enhancing public sector efficiency, effectiveness, transparency and accountability through Strategic Planning, Programme Performance Based Budgeting, Performance Monitoring and Evaluation, and Personnel Management Systems.

Public Private Partnership

19. With large national projects identified to be implemented through PPPs, the Government aims to submit the PPP Bill for approval by National Assembly in the second quarter of 2019. The bill is almost finalized with the Attorney General office's having given its comments. The PPP bill shall contribute to the setup of the legal and regulatory framework that will govern all matters related the implementation of PPP projects, which will help reduce potential risks arising from PPPs through the provisions of clear definition of a PPP project, strong institutional arrangements and detailed procedures for project approval, screening and contract management. The bill will also serve to boost private investors' confidence in investing in PPP projects in the country by providing a transparent level playing field for private investments in the country whilst also protecting investor's rights. Recognizing the limited capacity of the country in implementing PPP projects the Government will ensure the engagement of external technical experts for all such projects, and to date we have received assistance from the African Legal Facility and have also approached the IFC.

Review of Public Finance Management Regulatory Framework

20. The Public Finance Management Act 2012 and Regulations 2014 are in the process of being revised to integrate new developments and facilitate the implementation of the accounting manual. The Public Debt Management Act will also be revised in 2019.

Minimizing fiscal risk of SOE

21. Ownership policy and a dividend policy for SOEs are being prepared. State-owned enterprises (SOEs) are ultimately owned by the people of Seychelles and play an important role in the Seychelles economy. The ownership policy's objectives are for the Government as owner to create the environment so that SOEs could take a long-term approach, be efficient and profitable, while being given the capacity to develop. Moreover, by establishing this policy, Government is stressing the importance of financial oversight of SOEs; and making SOE boards more professional. Currently, there is no written dividend policy. The objectives of the dividend policy are for dividends to be driven by each SOE's desired capital structure, profitability and the level of future capital expenditure as outlined in their Statement of Corporate Intent. The dividend policy would give an appropriate balance between dividends and re-investment in the business, and - shows a degree of consistency and improvement over the years. An amendment to the Public enterprise monitoring committee act (PEMC Act) to strengthen enforcement powers is scheduled to be submitted to Cabinet by end September 2019, as originally envisaged (4th review RT).

22. Government has published a fiscal risk statement with the 2019 budget which provide a general economic risks and uncertainties, specific fiscal risks related to the budget execution and a risk framework for public enterprises. The fiscal risk statement also includes information on all contingent liabilities and fiscal risks arising from PPPs and SOEs for the 2019

budget (3rd review RT). This follows several technical assistances received from the AFRITAC South mission. The government has calculated the cost of social obligations of SOEs and provides that information in the budget document for the 2019 budget, in line with the 3rd review RT.

23. Going forward Government will be paying close attention to the non-profitable SOEs: namely Petro Seychelles, Seychelles Public Transport Corporation and Air Seychelles. Out of the non-profitable SOE's Air Seychelles is the only one with significant losses, having recorded a $43.5 provisional loss for the year 2018. The latter has submitted a transformation plan whereby they have requested Governments' assistance of a guarantee of $12.5 million for a working capital loan and $6 million transfers to the company in 2019, which will be financed by a grant, and $6 million financial support each year during 2020–23. Government has assessed their request and does not currently have the fiscal space to accommodate for the request for the years during 2020–23. However, different options are being considered, such as extension of guarantees to Air Seychelles. During the second PCI review and the preparation of the 2019 budget, Air Seychelles did not advise the Government of all the losses in their operations. As such, Government has requested that Air Seychelles prepared an operational restructuring plan. One of the components is that Etihad, another shareholder, will convert US$ 30 million current liabilities into preference shares which Air Seychelles will only start repayment of US$ 5 million per year from 2022. To ensure that Air Seychelles delivers on its mandate, as part of its network efficiency development plan, the airline will consolidate its regional network by suspending its Abu Dhabi service effective 11 May 2019, in addition to the services to Paris and Dusseldolf which have been already closed. Those international routes were loss making for the airline. As part of its network adjustments the airline will concentrate on developing its operations in the region. Effective 12 May 2019, Air Seychelles will add a new Sunday service on its Mumbai route, increasing its frequency to six flights per week. As from 3 June 2019 the airline will commence daily services to Johannesburg with a new flight to be operated on Mondays. Both routes to Mumbai and Johannesburg have been profitable to date.

24. PEMC will undertake a governance and operational audit of Air Seychelles from the 23rd of April 2019. This will allow Government to have an independent assessment of all their Governance framework and ensure that Air Seychelles is undertaking cost saving measures exercise on all its operations. Air Seychelles will start to report to PEMC on a segmenting accounting framework on a monthly basis to ensure that Government monitor its profit or loss in its three lines of businesses (domestic, international and ground handling). Until now, Air Seychelles has been reporting such information only internally.

25. During 2019 the PEMC will be conducting operational and governance assessment on three SOE's: namely Air Seychelles (5th review RT), STC and PUC. In addition, as part of the risk assessment, PEMC will do a thorough assessment of the project box bond totaling to US$ 71.5 million that Air Seychelles has with Etihad. There is a risk that Air Seychelles will need to roll over the bond when it matures in September 2020 and June 2021.

National Development Strategy and Economic Transformation

26. The country-VISION 2033 and the National Development Strategy have been finalized and these will provide the strategic direction which will guide government policies and related interventions in the medium and long term. The National Development Strategy (NDS) is supported by six key pillars which represents the areas of focus. These are Governance, People at the Centre of Development, Social Cohesion, Science Technology and Innovation for Development, Economic Transformation, Environmental Sustainability & Resilience. The NDS recognizes that for the successful implementation of our development agenda, Seychelles will need to become a high value economy that embraces diversification as presented by opportunities in Science, Technology and Innovation (STI) blue economy and human capital development amongst others.

27. Economic transformation emphasizes the movement of economic activities and resources from low- to high-productivity activities within and across all sectors as well as the strengthening of existing comparative advantage. Currently, the tourism sector is the main pillar of Seychelles' economy followed by the fisheries, financial and agricultural sectors. We recognize the importance of the tourism sector as well as the other major sectors and the critical role they have in the Seychelles' economy. The focus is therefore on improving and strengthening these industries by simultaneously encouraging sustainable and environmentally conscious practices and increasing the yield through greater value addition.

- The Tourism Satellite Account project is ongoing which once completed will allow for the collection of high-quality tourism market intelligence. This would in turn assist with promotion of the local component of tourism-related activities. There are new opportunities for strengthening linkages between food supply chains and service providers to the growing SME tourism industry.

- In the fisheries sector, the SWIOFish3 project, aimed at supporting increased value addition in the aquaculture, industrial, semi-industrial, and artisanal fishing and processing sectors in a sustainable way, is ongoing. The imminent development of the aquaculture sector in the Seychelles will add to supply volumes and diversify the seafood products available to the value chains.

- The development of seafood value chains has been prioritized as a means of improving value addition to what are increasingly recognized as finite fisheries resources. Government has invested into the construction of seafood processing facilities over the past ten years to augment capacity. The result is that existing, complete and pipeline projects (planned for completion by the end of 2020) comprise an estimated 60,000 Mt per annum of combined processing capacity (excluding the IOT tuna canning factory). If successfully operationalized in the coming years, the capacity offered in these facilities would establish Seychelles as a regional processing hub.

28. The NDS further ensures consistency with macro-fiscal programming. In line with the general emphasis on efficiency and sustainability, the financing framework is built on principles of strong fiscal discipline, optimal coordination, and proper alignment with planned programmes.

E. Monetary and Exchange Rate Policy.

29. Monetary policy has been tightened since the second quarter of 2018 amid concerns over potential inflationary pressures emanating from both domestic and external sources. The 12-month average inflation rate stood at 3.7 per cent at the end of 2018 whilst on a year-on-year basis, prices have increased by an average of 3.4 per cent.

30. The CBS has introduced a Monetary Policy Rate (MPR) to serve as the key policy signal for communications of monetary policy actions effective January 2019. With this change, the focus of monetary policy has shifted from indirectly influencing the intermediate target of money supply growth to guiding short-term interest rates through the MPR. The revision to the monetary policy framework is part of a gradual process deemed necessary to improve the transmission of the policy signal to the real economy. The MPR was initially set at 5.5 per cent and consistent with the tight monetary policy stance for the first quarter of 2019. The interest rates on the Bank's Standing Deposit Facility and Standing Credit Facility were raised to 2.5% and 8.5% respectively. CBS will continue to build internal capacity in modelling and forecasting to improve the effectiveness of the interest-rate based framework.

31. The level of gross international reserves is expected to remain at a level which adequately buffers the country's liabilities against external shocks. This is consistent with the IMF-calculated metrics on foreign reserves adequacy. Nonetheless, CBS will continue to purchase reserves from the market whenever the opportunity arises.

32. To strengthen the institution's capacity in reserves management, CBS signed a new agreement with the World Bank for continued engagement with the Reserves Advisory and Management Programme (RAMP) in January 2019. Under this new mandate, besides additional reserves management-related training and on-site Technical Assistance missions, there is also an asset management service. A total asset of US$100 million is being actively managed by the World Bank versus a US dollar denominated short-term government securities benchmark, with the objective to generate a moderate level of excess return over the benchmark, with a low level of volatility.

33. The CBS remains committed to a floating exchange rate and will only intervene in the market to smooth out excess volatility. Opportunistic purchases of foreign exchange from the market to enhance the level of international reserves will be done in a manner that does not compromise CBS' primary objective of promoting domestic price stability.

34. To ensure policy coordination, CBS will continue to work in close collaboration with the Ministry responsible for Finance on the issuance of government securities for monetary policy purposes. Such assistance remains critical given the environment of structural excess liquidity as well as the reserves accumulation objective of the country. However, such fiscal support will be done in line with government's debt reduction strategy.

35. The CBS managed to complete some of the tasks of the six-phase action plan on monetary policy implementation under an interest-rate based framework, outlined for the year 2018. Most of the recommendations related to the conduct of open market operations (OMOs) were implemented in 2018, including a reduction in the number of times CBS intervenes in the market. In view of certain delays experienced, the online portal is now expected to be completed by end March 2019. Likewise, the processing of transactions relating to liquidity injecting operations on the accounting system of CBS has been pushed to 2020 because of a planned upgrade of the CBS CORE Banking system. Progress has also been made with regards to revisions to the framework of the minimum reserve requirement (MRR). In February 2019, the Cabinet of Ministers approved the amendments to the CBS Act to allow for prescription of regulations on the MRR penalty. As for the development of the interbank market, a working group has been established with representatives from each bank, whereby recommendations related to the interbank market will also be discussed. Similarly, to facilitate discussions and assist with the implementation of recommendations that need the involvement of the CBS and the Ministry of Finance, the CBS is in the process of setting-up a working group with representatives from both institutions.

F. Financial Sector

36. The CBS continues efforts to strengthen the framework for financial stability. Whilst the banking sector remains profitable and well capitalised, work is ongoing to strengthen the macro-prudential framework to ensure any potential emerging risk can be addressed. To this end work is ongoing to formulate a Financial Stability Act with relevant macro-prudential tools that can be utilised to address emerging risk. A draft Financial Stability Act will be submitted to the Cabinet by September 2020 (6threview RT), delayed from the original target of end-May 2019. Furthermore, Cabinet approved the policy for crisis management and bank resolution. This will provide that the resolution authority has adequate powers and tools to ensure it is capable of dealing with problematic banks and non-bank financial institutions under the purview of CBS, without leading to financial stability issues. The CBS is currently seeking assistance for a legal expert to assist the AG's office to draft the law. Draft legislation to solidify the legal framework for crisis management, bank resolution, and safety nets will be submitted to Cabinet by March 2020, delayed from the original target of June 2019.

37. CBS has been in close dialogue with banks with regards to the implementation of IFRS9. A circular was issued to the banks in April 2018 in order to provide guidance on the implementation of IFRS9. Based on the principles issued by the Basel Committee on Banking Supervision, banks were provided with guidance on credit risks and accounting on expected credit losses. Furthermore, an internal working group drawing on the expertise of the Financial Surveillance and Research and Statistics Divisions of the CBS has been established to monitor and analyse credit risks emanating from the implementation of IFRS 9. In addition, a more refined and granular set of reporting requirements comprising of returns and its respective guidelines are being finalised to better inform the regulators on the effects of credit risk deterioration of the banking

sector. Nonetheless, work on the development of tools to assess the impact of IFRS9 is still in progress.

38. The CBS remains committed to ensure its prudential regulatory framework remains in line with international best practice and is effective in safeguarding the safety and soundness of the financial sector. Based on this, work is ongoing with Deloitte to prepare the Risk Based Framework for the supervision of AML risk of banks and trusts and company service providers. It is expected that the framework will be completed by end-June 2020. With regards to the risk-based framework for AML/CFT supervision, a 2-year program will start implementation by June 2019. A risk-based approach to AML/CFT supervision, consistent with FATF standards, will be implemented by December 2020 in line with the RAS agreed with the World Bank for capacity building on AML/CFT. This will be later than the original target of end-March 2019 as there is a lack of internal capacity to undertake this task, hence the need to seek assistance from the World Bank. In addition, in order to further ensure the legislative framework remains on par with international standards, a comprehensive exercise to review the Financial Institutions Act is ongoing and a draft policy paper is expected to be completed by end of 3rd quarter 2019. Once finalised it is expected that the IMF will assist will peer reviewing the work done. It is anticipated that the amendments to the legal framework to allow for the implementation of risk-based AML/CFT supervision, consistent with FATF standards, will be presented to Cabinet by end-March 2020 (5th review RT).

39. The adoption of the Basel II framework is on track to be implemented by end-December 2019 (5th review RT). To this end, Pillar 1 will be operational by June 2019. Work with Deloitte is ongoing to implement Pillar 2 by December 2019. Lastly work to implement Pillar 3 is anticipated to be completed by end-December 2019 (5th review RT).

40. The authorities remain committed to improving the jurisdiction's AML/CFT framework. In October 2018 Cabinet approved the policy paper for the new AML Act which addresses some of the legislative deficiencies which had been identified under during the MER. Further to that a legal expert has been contracted to assist the AG's office in drafting the Act. It is expected that the Bill will be presented to National Assembly by June 2019. Moreover, a National AML/CFT Committee has been appointed in order to improve national coordination and ensure that the deficiencies as noted in the MER are addressed in a timely manner. Additionally, a Technical Committee has also been appointed to assist the National Committee. The Cabinet of Ministers has also approved for a Reimbursable Advisory Services agreement with the World Bank to provide technical assistance in reviewing and drafting legislative amendments to laws relevant to preventing money laundering and terrorist financing as well as National Strategy. In addition, this agreement will provide for capacity building of relevant AML supervisors (in formulating a Risk Based approach), law enforcement agencies as well as the prosecution office and judiciary.

41. Development of the oversight framework of the national payment system is continuing. A Principles for Financial Market Infrastructures (PFMI) Assessment was completed in March 2019. The CBS is committed to address the deficiencies noted in the assessment. In addition to the PFMI Assessment, a review of the National Payments Systems Act (NPSA) 2014, is underway.

Such amendments aim to address shortcomings of the current legislation that impair oversight and enforcement measures undertaken by the CBS and are expected to be completed in 2019.

42. The authorities remain committed to improve the legislative framework of the international financial sector. On 24th January, 2019, the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) of the OECD approved the Progress Report on its assessment of harmful tax practices of 57 preferential tax regimes, in 24 jurisdictions (see ¶16). The regimes' review also include:

(i) International Business Companies (IBC)

(ii) Companies (Special Licenses) (CSL)

(iii) Export Services under the International Trade Zone (ITZ)

(iv) Offshore banking (Segment 1 banking license)

(v) Non-domestic insurance business

(vi) Reinsurance business

(vii) Securities business under the Securities Act

(viii) Fund Administrator

In order to meet the BEPS Action 5 recommendations, several fundamental legislative amendments had to be made to these regimes, which also necessitated redefining of the Seychelles tax system. In view of these amendments Seychelles remains committed to uphold its adherence to international norms and best practices and will continue to monitor and supervise the new regimes in line with its mandate. In addition, the authorities are working with the industry to ensure the products that Seychelles will be offering in the international financial sector is based on the international framework and based on the competitive advantage of Seychelles. On this note, Seychelles will finalize the Financial Sector Strategy in the second half of 2019. The authorities remain committed to reviewing the model of the offshore sector whereby the aim is to move away from the current IBC model to a more transparent and internationally acceptable model. Such includes compliance with international standards on access by competent authorities to beneficial ownership information and compliance with BEPS.

G. Financial Inclusion and Market Conduct

43. CBS remains committed in its endeavour to modernise the National Payment System and digitalise the economy. It is in this context that CBS endeavours to modernise the national payment system to allow for further development in the payments infrastructure and wider choice of digital channels for financial services consumers. Consequently, the CBS has solicited technical assistance from the World Bank to formulate a strategy for the implementation of the necessary

technological infrastructure and enabling environment that would pave the way to incentivise the use of electronic payment channels and reduce the use of cash, whilst mitigating risks in the payment environment. This will also comprise further analysis in relation to the costs of and business case for the most appropriate business model for the Seychelles. This project is expected to be completed by the end of 2022.

44. Given limited resources and other priority projects to be implemented during the course of 2019, such as the modernisation of the National Payment System, the formulation of the National Financial Inclusion Strategy (NFIS) has been postponed to the end of 2020. The NFIS is deemed important for a coordinated approach at the national level to enhance financial inclusion in the Seychelles. Amongst other issues, the NFIS would address issues relating to the use of innovative financial services, reduction in the use of cash for payments including enhancing the efficiency of government payments as well as the remittance market, MSME's access to finance and competition in the financial sector. To ensure the proper formulation of the NFIS, a comprehensive exercise is to be undertaken by CBS to capture data and diagnostics to support the content and priorities of the NFIS, covering both the demand and supply side.

45. In its endeavour to improve the ease of doing business and access to finance, CBS with the assistance of the World Bank and the DICT, is making good progress towards improving the current Credit Information System and promulgate the Credit Information System Act. This initiative is expected to be completed by December 2019 and would make provision for lenders to have a more comprehensive and broader coverage of credit information about borrowers for better credit worthiness assessment and risk-based pricing of credit.

46. Competition in the local financial sector has become increasingly important in the local economy, implying the importance for the need of a fair and balanced environment in the local financial sector. CBS is therefore looking to conduct a thorough assessment on the level of competition in the financial sector, especially since three main banks hold the majority of the financial assets. The ultimate objective is to evaluate the necessary framework and enabling environment that need to be in place to enhance financial market operations, innovation, competitive pricing as well as higher quality and differentiated products and services in the financial sector. This project is expected to be completed by the end of 2020.

47. Subsequent to the launching of the National Financial Education Strategy (NFES) in December 2017, work is ongoing to implement the deliverables as identified within the Strategy. The deliverables are in accordance to the identified priority segments, namely Adults in the formal workplace, Micro, Small and Medium Enterprises, Youth and the socially and financially vulnerable. Given that the implementation of the Strategy is underway, the local authorities will now require technical assistance to design a monitoring and evaluation framework in order to guide the monitoring and evaluation of the strategy as well as assist in thinking through the programmatic strategies and objectives throughout the implementation plan of the Strategy. It is expected that work on the monitoring and evaluation framework be initiated during the course of 2019.

48. A High-Level Committee chaired by the President has granted approval for the authorities to formulate a National Financial Technologies (Fintech) Strategy. With the assistance of the World Bank, CBS and FSA are working towards a coordinated approach to promoting the introduction of Fintech in the country, including the enabling regulatory framework. The ultimate objective of the Strategy would be to provide for a framework that would enhance financial sector development and achieving a digitised economy through the adoption of Fintech for both the onshore and offshore financial sector, whilst considering the associated risks. The strategy is expected to be finalised by the end of 2019.

49. The plan to have the Financial Consumer Protection law by the end of 2019 remains on track. The Financial Consumer Protection regulatory framework has as objectives to give the competent authorities explicit mandate over financial related matters such as financial services complaints, consumer redress and equitable and fair treatment of consumers. The competent authorities are also looking into the matter of Digital Financial Consumer Protection in view of the agenda to digitalise the economy and increase the use of digital financial services. This would contribute towards increasing consumer trust and confidence in innovative financial products and services.

H. Safeguards at the CBS

50. The CBS continued to implement the recommendations of the voluntary safeguards assessment that were completed in February 2018. Draft amendments to the CBS Act, including provisions to enhance the governance arrangements, are expected to be presented to the National Assembly in December 2019. The CBS has also strengthened its reserves management operations and risk management function and made further progress in the developing of a comprehensive AML/CFT framework for its own banking operations. The external quality assessment of the CBS internal audit which was performed during the months of September and October 2018 identified both strengths and opportunities and offered ideas for improving effectiveness of the internal audit activity. Following the assessment, the IAD developed an action plan to address the noted gaps.

I. Program Monitoring

51. The modification of end-June 2019 quantitative target on primary fiscal balance, the end-June 2019 and end-December 2019 quantitative targets on net international reserves and the end-June 2019 and end-December 2019 monetary consultation clause are being proposed (Table 1a of the PS). The government, the CBS, and IMF staff also agreed on the reform targets shown in Table 2 of the PS. The fourth review is scheduled to be completed by October 31, 2019, fifth review by April 30, 2020, and sixth review by October 31, 2020.

Table 1a. Quantitative Targets (QTs) Under the PCI, December 2017 – December 2019[1]

	2017		2018					2019			
	December QT		June QT		December QT			June QT		December QT	
	Act.	Status	Act.	Status	2nd Review	Act.	Status	2nd Review	roposed	2nd Review	Proposed
Quantitative Targets											
Net international reserves of the CBS, millions of U.S. dollars (floor) [2]	424	Met	430	Met	375	407	Met	403	403	412	412
Reserve money target (ceiling on daily average during the quarter) [3]	3,559	Met	3,632	Not met	...	...			...		...
Primary balance of the consolidated government (cumulative floor)	622	Met	469	Met	538	646	Met	302	265	589	589
Accumulation of external payments arrears by the public sector (ceiling) [4]	0.0	Met	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	0.0
Monetary Policy Consultation Clause [5]											
Inflation (mid-point, percent) [6]	...		...		3.9	3.4		4.1	2.8	4.4	2.6
Inflation (upper bound, percent) [6]	...		...		5.9			6.1	4.8	6.4	4.6
Inflation (lower bound, percent) [6]	...		...		1.9			2.1	0.8	2.4	0.6
Inflation (upper inner-bound, percent) [6]					5.4			5.6	4.3	5.9	4.1
Inflation (lower inner-bound, percent) [6]					2.4			2.6	1.3	2.9	1.1
Memorandum items:											
Nominal public debt (millions of Seychelles Rupees) [2]	13,337	Met	13,653	Met	13,698	12,854	Met	13,728	13,301	13,757	13,342
Program accounting exchange rates [7]											
SR/US$ (end-of-quarter)	13.67		13.84			13.94			14.02		14.02
US$/Euro (end-of-quarter)	1.19		1.20			1.16			1.14		1.14
US$/UK pound (end-of-quarter)	1.29		1.35			1.30			1.33		1.33
US$/AUD (end-of-quarter)	0.79		0.78			0.72			0.71		0.71
US$/CAD (end-of-quarter)	0.80		0.80			0.77			0.76		0.76
US$/CNY (end-of-quarter)	0.15		0.15			0.15			0.15		0.15
US$/SDR (end-of-quarter)	1.41		1.45			1.40			1.40		1.40

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

[1] March and September 2018 indicators are not QTs and do not form part of program conditionality.

[2] Measured at program accounting exchange rate. The NIR floor is adjusted as defined in the TMU.

[3] The ceiling is the upper bound of a symmetrical band of six percent in both directions around the reserve money target. Until June 2018, this is a QT.

[4] The nonaccumulation of new external payment arrears constitutes a standard continuous target. Excludes arrears for which a rescheduling agreement is sought.

[5] When the end of period annual average headline inflation is above/below the upper/lower bound, a formal consultation with the Executive Board would be triggered.

[6] Average of year-on-year headline inflation for the past 12 months.

[7] Program exchange rates have been set according to prevailing market rates at the latest available update.

Table 1b. Seychelles : Continuos Target

- Not to impose or intensify restrictions on the making of payments and transfers for current international transactions
- Not to introduce or modify multiple currency practices
- Not to conclude bilateral payments agreements that are inconsistent with Article VIII
- Not to impose or intensify import restrictions for balance of payments reasons

Table 2. Seychelles. Reform Targets Under the PCI, 2018 – 20

Actions	Timing	Objective/Status
Fiscal and Public Financial Management Policy		
Submit a report on cost-benefit analyses of public investment projects with a cost above 10 million rupees to the Cabinet.	End June 2018	Not met. It was implemented with delay in March 2019.
State-Owned Enterprises (SOEs)		
Publish a report by central government annually that quantifies and consolidates information on all significant contingent liabilities and other fiscal risks of central government for the 2019 budget.	End December 2018	Met.
Calculate the cost of social obligations of SOEs and provide that information in the budget document for the 2019 budget.	End December 2018	Met.
Submit the new Code of Governance for the SOEs based on OECD Guideline to the Cabinet for enactment.	End September 2018	Not met. It was implemented with delay in February 2019.
Submit the amendments on Public Enterprise Monitoring Committee (PEMC) Act to the Cabinet to strengthen enforcement power of PEMC.	End September 2019	Reinforce the monitoring and oversight of SOEs.
Submit operational and governance assessments of Air Seychelles to the Cabinet.	End December 2019	Reduce the potential fiscal risks arising from Air Seychelles.
Financial Sector Stability		
Review the AML/CFT legal and institutional framework and submit the amended framework to the Cabinet, in line with the FATF standard, particularly regarding entity transparency and AML/CFT institutions.	End June 2018	Not met. It was partially implemented in December 2018.
Implement a risk-based approach to the supervision of banks and trusts and company service providers, consistent with the FATF standard	End-March 2019	Not met. This reform target is being revised and reset (see below).
Submit to the Cabinet amendments to legal framework that allows to implement a risk-based approach to the supervision of banks and trusts and company service providers, consistent with the FATF standard.	End-March 2020	Reduce AML risks in financial and off-shore sectors.
Submit draft legislation to Cabinet to solidify the legal framework for crisis management, bank resolution, and safety nets.	End-March 2020, reset from end-June 2019	Buttress financial sector stability.
Complete a full transition to Basel II and adopt the Basel III capital definition.	End-December 2019	Buttress financial sector stability.
Submit a draft Financial Stability Act to the Cabinet to assign macro prudential power to relevant institutions.	End-September 2020, reset from end-May 2019	Not met.

Attachment I. Technical Memorandum of Understanding

1. This technical memorandum of understanding presents the definitions of variables included in the quantitative targets and continuous targets set out in the Program Statement (PS), 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 targets, the continuous targets, and the reforms targets for 2018–19 are listed in Tables 1 and 2 attached to the PS, respectively. The quantitative targets and reform targets are listed in Tables 1 and 2 respectively. Reviews will assess quantitative targets as of specified test dates. Specifically, the third review will assess end-December 2018 test date, the fourth review will assess end-June 2019 test date, and the fifth review will assess end-December 2019 test date.

2. Program exchange rate: For the program, the exchange rates of the Seychellois Rupee (SCR) to the U.S. dollar will be SCR14.02 per US$1 for 2019. Similarly, the exchange rates of the US$ to other currencies for 2019 are as follows (US$/1 other currency).

EUR	1.14
GBP	1.33
SDR	1.40
AUD	0.71
CAD	0.76
ZAR	0.07
CNY	0.15

I. QUANTITATIVE AND CONTINUOUS TARGETS

Net International Reserves of the CBS (Floor)

Definition

3. 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

4. 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

1. Semiannually, at each test date for program quantitative targets, the net international reserves data submitted by the CBS to the IMF will be audited by the CBS' internal audit division in accordance with International Standards on Auditing, to ensure conformity with the program definition and calculation methods. Reports will be submitted to the IMF no later than two months after each test date.

Adjusters

6. The floor on the CBS's NIR will be adjusted upward (downward) by the amount by which the external non-project loans and non-project cash grants exceeds (falls short of) the amounts assumed in the program. The floors will also be adjusted upwards (downwards) by the amount that external debt service payments fall short (exceed) the amounts assumed in the program. The floors will also be adjusted upwards (downwards) by the amount that receipts from sales of Cable and Wireless Company in Seychelles exceed (fall short of) the amounts assumed in the program.

Projections: June 2019 - December 2019 (millions of US$)[1]		
	2019	
	June	December
External non-project loan	0.0	0.0
External non-project cash grants	0.0	0.0
External debt service payments	25.7	50.8
Receipts from sales of Cable and Wireless	7.0	14.0

[1] Cumulative from the beginning of each year

Monetary Policy Consultation Clause (MPCC)

Definition

7. MPCC headline inflation is defined as the year-on-year rate of change of the Consumer Price Index (CPI), averaged for the past 12 months, as measured by Seychelles' National Bureau of Statistics (NBS).

- If the observed headline inflation falls outside the ±2 percentage point range around the mid-point of projected value for end-December 2018, end-June 2019, and end-December 2019 test dates, the authorities will complete a consultation with the Executive Board which would focus on : (i) the stance of monetary policy and whether the Fund-supported program remains on track;

(ii) the reasons for program deviation, taking into account compensating factors; and (iii) proposed remedial actions if deemed necessary.

- If the observed headline inflation falls outside the ± 1.5 percentage point range around the mid-point of projected value for end-December 2018, end-June 2019, and end-December 2019 test dates, the authorities will conduct discussions with the Fund staff.

Program Primary Balance of the Consolidated Government (Cumulative Floor)

8. The program 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 and net lending of the government and social security fund. For program purposes the transfer of assets from the Social Security Fund to the Seychelles Pension Fund planned for 2015 will be excluded from expenditures.

Ceiling on the Overall Stock of Public Debt (Memorandum Item)

9. The ceiling applies to the overall stock of public debt). Public debt includes (i) central government debt; (ii) government guarantees issued for loans extended to state-owned enterprises; and (iii) obligation to the IMF. It will be defined for the purposes of the program as total outstanding gross debt liabilities. It will include, but not be limited to, liabilities in the form of securities and loans. It will exclude accounts payable. Debt will be measured at nominal value. The program exchange rate will apply to all non-SCR denominated debt. External debt is defined on a residency basis.

10. For the purposes of this memorandum item, the definition of debt is set out in Point 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted December 5, 2014.

- the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

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

- suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

- leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

- Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt."

External Arrears of the Public Sector

11. The no accumulation of arrears to external creditors will be a continuous target 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, subject to any applicable grace 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.

II. DATA AND INFORMATION

12. The Seychelles authorities (government and CBS) will provide Fund staff with the following data and information according to the schedule provided.

The CBS will report

Weekly (within one week from the end of the period)

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

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

- The monetary survey in the standardized report 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 four weeks from the end of the month):

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

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

- Accounts of the public nonbank financial institutions.
- 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.

The National Bureau of Statistics will report

Monthly (within 10 days from the end of the month):

CPI headline inflation, by category.

INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Appendix II. Draft Press Release

Press Release No. YY/XX
FOR IMMEDIATE RELEASE
June 14, 2019

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Third Review Under the Policy Coordination Instrument for Seychelles and Concludes 2019 Article IV Consultation

On June 14, 2019, the Executive Board of the International Monetary Fund (IMF) completed the third review under the Policy Coordination Instrument (PCI) for Seychelles.[1] In completing the review, the Executive Board also approved the modification of targets.

The PCI was approved on December 13, 2017 (see Press Release No. 17/492 (http://www.imf.org/en/News/Articles/2017/12/13/pr17492-imf-executive-board-approves-three-year-policy-coordination-instrument-for-seychelles)). Seychelles is the first IMF member country to request a PCI.

The Board also concluded the 2019 Article IV Consultation with Seychelles.

Macroeconomic performance continued to be strong in 2018. Economic growth reached 4.1 percent, reflecting increased tourist earnings and stronger output in the fishing industry. Helped by prudent monetary policy and a stable exchange rate, inflation was contained throughout early 2019. The external current account deficit narrowed to 17.1 percent of GDP, while net international reserves at end-2018 exceeded the program target by US$31 million. Supported by lower than budgeted capital outlays and strong tax revenue growth, the 2018 primary fiscal surplus reached 2.9 percent of GDP, comfortably exceeding the program target. The end-2018

[1] The PCI is available to all IMF members that do not need Fund financial resources at the time of approval. It is designed for countries seeking to demonstrate commitment to a reform agenda or to unlock and coordinate financing from other official creditors or private investors. (see https://www.imf.org/en/About/Factsheets/Sheets/2017/07/25/policy-coordination-instrument).

inflation target (annual average) was met by a comfortable margin, due to prudent monetary policy and declining international fuel prices in late 2018.

Economic outlook for 2019 remains positive. While some of the fiscal measures in the 2019 budget could put pressures on inflation and the balance of payments, the tight monetary policy stance should help contain such negative impacts. International reserves are expected to remain at an adequate level, anchored by prudent macroeconomic policies. Downside risks to the outlook stem largely from the external sector.

At the conclusion of the Executive Board meeting, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, made the following statement:

< The Acting Chair's Statement >

Executive Board Assessment[2]

< >

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Table 1. Seychelles: Selected Economic and Financial Indicators, 2015–24

Nominal GDP (2017): US$1,498 million
Per capita GDP (2017): US$15,735
Population, end-year (2016): 94,677
Literacy rate (2015): 95.3 percent
Main products and exports: Tourism, Canned Tuna

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Act.	Act.	Act.	Prel.	Proj.					
	(Annual percent change, unless otherwise indicated)									
National income and prices										
Nominal GDP (millions of Seychelles rupees)	18,340	19,014	20,515	22,019	23,274	24,774	26,526	28,393	30,366	32,396
Real GDP	4.9	4.5	4.3	4.1	3.5	3.3	4.1	4.0	3.8	3.6
CPI (annual average)	4.0	-1.0	2.9	3.7	2.6	3.0	3.0	3.0	3.0	3.0
CPI (end-of-period)	3.2	-0.2	3.5	3.4	3.2	3.3	3.0	3.0	3.0	3.0
GDP deflator average	2.1	-0.8	3.4	3.1	2.2	3.0	2.8	2.9	3.0	3.0
Money and credit										
Broad money	2.9	12.1	16.4	7.7	5.6	7.1	...	...	...	...
Reserve money (end-of-period)	9.5	14.5	18.9	4.5	8.3	9.7	...	...	...	...
Reserve money (average of last quarter)	7.2	10.4	19.0	...	...	...	...	...	...	...
Velocity (GDP/broad money)	1.5	1.4	1.3	1.3	1.3	1.3	...	...	...	...
Money multiplier (broad money/reserve money)	4.7	4.6	4.5	4.6	4.5	4.4	...	...	...	...
Credit to the private sector	7.8	10.3	17.8	11.5	10.7	10.1	...	...	...	...
	(Percent of GDP, unless otherwise indicated)									
Savings-Investment balance										
External savings	18.6	20.1	20.4	17.1	17.0	17.4	18.3	18.1	17.5	17.4
Gross national savings	15.2	10.2	8.5	10.0	10.9	11.6	12.4	13.4	13.7	13.2
Of which: government savings	5.9	3.8	3.6	4.7	5.2	5.3	6.1	7.7	8.1	7.2
private savings	9.3	6.4	4.9	5.3	5.7	6.2	6.3	5.6	5.7	6.0
Gross investment	33.8	30.2	28.9	27.1	27.9	29.0	30.7	31.5	31.2	30.5
Of which: public investment [1]	4.8	5.0	4.4	5.6	5.4	6.0	6.7	7.0	7.0	7.0
private investment	29.0	25.2	24.5	21.5	22.5	23.0	24.0	24.5	24.2	23.5
Private consumption	47.6	47.1	51.0	53.3	51.1	50.8	51.5	51.8	52.1	51.4
	(Percent of GDP)									
Government budget										
Total revenue, excluding grants	33.4	36.6	35.5	36.3	37.3	35.8	35.3	35.2	35.0	34.8
Expenditure and net lending	32.8	38.1	37.0	38.4	38.6	37.7	36.7	36.2	36.0	36.3
Current expenditure	28.0	33.1	32.6	32.8	33.2	31.7	30.1	29.4	28.8	29.4
Capital expenditure [1]	4.8	5.0	4.4	5.6	5.4	6.0	6.7	7.0	7.3	7.2
Overall balance, including grants	0.9	-1.4	0.0	0.7	-0.1	-0.2	-0.1	0.1	0.2	-0.4
Program primary balance	4.3	3.4	3.0	2.9	2.5	2.5	2.5	2.5	2.5	2.5
Total government and government-guaranteed debt [2]	69.2	72.7	66.8	60.1	57.7	53.2	48.9	44.9	41.7	39.2
Domestic (including debt issued for monetary purposes)	34.8	40.4	36.7	32.4	31.0	28.0	25.6	23.4	21.3	19.5
of which: Monetary debt	13.4	16.2	11.4	9.3	7.9	6.5	5.1	4.0	3.3	2.6
External	34.4	32.2	30.1	27.7	26.7	25.1	23.3	21.5	20.4	19.7
External sector										
Current account balance including official transfers (in percent of GDP)	-18.6	-20.1	-20.4	-17.1	-17.0	-17.4	-18.3	-18.1	-17.5	-17.4
Total external debt outstanding (millions of U.S. dollars) [3]	1,392	1,505	1,639	1,748	1,772	1,789	1,817	1,839	1,877	1,970
(percent of GDP)	101.1	105.4	109.0	110.5	107.4	105.4	101.7	97.6	94.8	95.1
Terms of trade (-=deterioration)	3.3	2.7	-1.2	-3.7	1.5	0.3	0.2	0.1	0.0	-0.1
Real effective exchange rate (average, percent change)	11.6	0.1	-5.2	...	...	...	...	...	...	...
Gross official reserves (end of year, millions of U.S. dollars)	536.8	522.6	546	548	551	570	586	601	613	630
Months of imports, c.i.f.	4.3	3.7	3.7	3.6	3.5	3.3	3.3	3.3	3.2	3.2
In percent of Assessing Reserve Adequacy (ARA) metric	138.1	131.0	129.3	124.5	124.9	127.1	126.9	125.6	123.3	127.8
Exchange rate										
Seychelles rupees per US$1 (end-of-period)	13.2	13.5	13.8	...	...	...	...	...	...	...
Seychelles rupees per US$1 (period average)	13.3	13.3	13.6	...	...	...	...	...	...	...

Sources: Central Bank of Seychelles; Ministry of Finance; and IMF staff estimates and projections.
[1] Includes onlending to the parastatals for investment purposes.
[2] Includes debt issued by the Ministry of Finance for monetary purposes.
[3] Includes private external debt.