

SU/19/89

June 17, 2019

**The Acting Chair's Summing Up
Seychelles—2019 Article IV Consultation and Third Review Under the
Policy Coordination Instrument and Request for Modification of
Targets and Monetary Consultation Clause
Executive Board Meeting 19/50
June 14, 2019**

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for making considerable progress toward macroeconomic stability under successive Fund-supported programs. They noted that, while the economic outlook is favorable, the economy remains vulnerable to external shocks. In addition, meeting the budgetary costs of Seychelles' infrastructure and climate-resilience gaps could pose a challenge. Against this background, Directors called for sustained commitment to sound policies and reforms to reinforce the hard-won economic stability and sustainability.

Directors encouraged the authorities to continue fiscal consolidation to achieve their debt reduction goals, while protecting the most vulnerable. They highlighted that the 2020 budget would need to include permanent saving measures, including better targeting of social welfare programs and keeping tight rein on other current spending, to shore up the authorities' debt reduction target. They urged the authorities to closely monitor Air Seychelles' operations and make progress in implementing its restructuring plan, and to take corrective actions promptly if needed.

Directors agreed that the envisaged large infrastructure and climate change related projects should be phased in and implemented within the fiscal targets under the program. They encouraged the authorities to take steps to create additional fiscal space over the medium term, beyond their debt reduction goal, to reconcile these priority investment projects with long-term external and fiscal sustainability. In this context, they welcomed the authorities' continued efforts to raise the efficiency of capital expenditure and minimize the potential risks arising from public-private partnerships. They also recommended seeking concessional financing where possible.

Directors commended the Central Bank of Seychelles for its prudent monetary policy. They encouraged the central bank to remain vigilant to inflationary pressures and maintain a flexible exchange rate policy with minimal intervention only to preserve international reserve buffers around the current level. They welcomed the progress made toward ensuring a successful transition to the new monetary policy framework.

Directors encouraged the authorities to step up efforts to address the risks of further potential loss of correspondent banking relationships. They stressed the need to implement reforms to strengthen the AML/CFT framework and called for prompt progress in capacity enhancement in relevant institutions. Directors also encouraged the prompt formulation of a new offshore financial sector strategy.

Directors highlighted that further structural reforms would be essential to enhance prospects for inclusive growth. They encouraged the authorities to intensify efforts to improve the business environment to help accelerate progress in economic diversification.

It is expected that the next Article IV consultation with Seychelles will be held within 24 months, in accordance with the Executive Board decision on the consultation cycle for members with a PCI.