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SM/83/175  
Supplement 1

CONTAINS CONFIDENTIAL  
INFORMATION

October 11, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Seychelles - Staff Report for the 1983 Article IV Consultation

The attached supplement to the staff report for the 1983 Article IV consultation with Seychelles has been prepared on the basis of additional information.

This subject is scheduled for Executive Board consideration on Friday, October 14, 1983.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Jiménez (ext. 73707) or Mr. Egwim (ext. 76031).

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Other Distribution:  
Department Heads

1. The first part of the document is a letter from the President of the United States to the Congress, dated January 3, 1862. It is a very important document, as it contains the President's views on the state of the Union and the course of action which he proposes to pursue.

2. The second part of the document is a report from the Secretary of the Treasury, dated January 3, 1862. It contains a detailed account of the financial condition of the United States at that time.

3. The third part of the document is a report from the Secretary of the Interior, dated January 3, 1862. It contains a detailed account of the state of the public lands and the progress of the various departments under his control.

4. The fourth part of the document is a report from the Secretary of the War, dated January 3, 1862. It contains a detailed account of the military operations of the United States Army during the year 1861.

5. The fifth part of the document is a report from the Secretary of the Navy, dated January 3, 1862. It contains a detailed account of the operations of the United States Navy during the year 1861.

6. The sixth part of the document is a report from the Secretary of the Department of the Interior, dated January 3, 1862. It contains a detailed account of the operations of the various departments under his control during the year 1861.

INTERNATIONAL MONETARY FUND

SEYCHELLES

Staff Report for the 1983 Article IV Consultation  
Supplementary Information

Prepared by the African Department and the  
Exchange and Trade Relations Department

(In consultation with other Departments)

Approved by J.B. Zulu and S. Kanesa-Thasan

October 11, 1983

Since the issuance of the report on the 1983 Article IV consultation discussions (SM/83/175, 8/5/83) the staff has been informed of a series of economic and financial measures undertaken by the Seychelles authorities in the period June-August 1983 aimed at tackling the difficult economic and financial situation which they faced. These measures, on which information was made available by the Seychelles delegation during the Annual Meetings, represent an initial step toward adjusting public sector finances and the balance of payments.

1. Background

Most recent statistics continue to confirm the pickup of activity in the tourist sector detailed in the consultation report. During the first seven months of 1983 about 30,780 tourists visited the Seychelles, a 16 percent increase from the level recorded in the same period of 1982. The average length of stay has also increased somewhat to about 10.4 nights compared to 9.2 in a similar period of the previous year. As foreseen in the report, however, the drop in per capita expenditure has continued, due to the increasing proportion of package tours. Thus, although visitor nights increased by about 27.6 percent, tourism receipts fell by 9 percent in the first 7 months of 1983. On the basis of developments through July, tourist arrivals are likely to reach about 60,000 for the year as a whole, slightly larger than projected in the report, although receipts from tourism are not likely to change from 1982. However, the authorities hope that tourist arrivals would reach about 65,000, largely on optimistic assumptions on the impact of the new Air Seychelles scheduled service to start on October 26, 1983. The agreement for the new air service has already been signed and Air Seychelles has been selling tickets for these flights since August 18, 1983.

Certain tax concessions have been made to the tourist sector and are detailed below under fiscal developments.

Data for the first six months of 1983 also confirm that some of the policy initiatives oriented toward traditional exports have begun to yield positive results, with exports of copra, cinnamon bark, and tea showing important increases. However, some of this improvement has been offset by a decline in fish exports. Overall exports are now projected to be SR 22 million, or 10 percent higher than the original projection.

## 2. Fiscal and monetary developments

On June 30, 1983 the Government of the Seychelles announced several revenue and expenditure measures aimed at reducing the deficit of the public sector, while at the same time strengthening the balance of payments. However, import demand has been lower than previously estimated as some of the measures have negatively affected demand, leading to a fall in tax (customs and sales) yields, which offset the new revenue gains. The revenue measures announced included (1) the introduction of a 5 percent turnover tax on virtually all retail sales; (2) the increase of the top marginal rates of personal income tax (from 35 percent to 40 and 50 percent for incomes above SR 48,000 and SR 110,000 per annum, respectively); (3) an increase in the excise duty on beer; (4) an increase of customs duties on a number of consumer products; and (5) an increase of postal rates. These measures are projected to yield SR 16.3 million (or 4 percent of the annual budgeted revenue) in the remaining six months of the fiscal year. At the same time the Government announced that effective October 1, 1983 the rate of the turnover tax on tourism-related activities was to be lowered from 10 percent to 5 percent and the airport tax abolished, in order to strengthen the competitive position of the tourist industry. The losses caused by these measures are estimated at SR 6.3 million for the present fiscal year. Moreover, imports are now estimated at SR 484 million, compared to a previous estimate of SR 585 million, with a resulting tax loss of about SR 22.0 million.

The Government has also taken steps to limit expenditure. An amount estimated at SR 13.6 million is expected to be saved by reducing ministries' budget allocations by the amount which was underspent through the end of May 1983. In addition, the Government reorganized some departments and stricter control was instituted over current and domestically-financed capital expenditure and additional savings may be generated on this account. The net impact of the revenue and expenditure changes is estimated to reduce the overall budgetary deficit only marginally, to SR 125.3 million (12.3 percent of GDP) compared with an earlier staff estimate of SR 126.9 million (12.5 percent of GDP) and an actual outcome of SR 112.3 million (11.4 percent of GDP) in 1982 (Table 1).

The Government also approved an increase in bus fares on June 30, 1983 which will substantially reduce the overall deficit of the transport parastatal (SPTC). The improvement in the financial position of this parastatal, plus the expected small reduction in the budgetary deficit, will result also in a small fall in the overall deficit of the public.

Table 1. Seychelles: Summary of Government Operations, 1980-83 1/

(In millions of Seychelles rupees)

	1980	1981	1982 <u>2/</u>	1983		
				Budget <u>3/</u>	Staff proj. <u>4/</u>	Revised proj. <u>5/</u>
Revenue and grants	428.6	465.6	468.5	579.9	485.2	473.2
Revenue	340.2	391.5	415.0	494.8	400.1	388.1
Grants	88.4	74.1	53.5	85.1	85.1	85.1
Current	(29.0)	(25.0)	(21.0)	(33.9)	(33.9)	(33.9)
Capital	(59.4)	(49.1)	(32.5)	(51.2)	(51.2)	(51.2)
Expenditure and net lending	491.0	552.9	580.8	595.9	612.1	598.5
Current	261.7	332.4	391.1	421.8	438.0	424.4
Capital <u>6/</u>	227.3	152.3	159.8	109.8	109.8	109.8
Net lending <u>6/</u>	2.0	68.2	29.9	64.3	64.3	64.3
Overall surplus/deficit (-)	-62.4	-87.3	-112.3	-16.0	-126.9	-125.3
Financing	62.4	87.3	112.3	16.0	126.9	125.3
Domestic	5.4	40.1	3.9	...	53.0	51.4
Banks	5.4	28.2	8.3	...	...	31.4
Central Bank	(-4.0)	(17.9)	(14.7)	...	...	...
Commercial banks	(9.4)	(10.3)	(-6.4)	...	...	...
Other	—	11.9	-4.4	...	...	20.0
Foreign	57.0	47.2	108.4	...	73.9	73.9
<u>Memorandum items:</u>						
Net lending and transfers to parastatals	33.5	73.7	49.5	...	73.8	73.8

Sources: Data provided by the Seychelles authorities; and staff estimates.

1/ Including the social security system.

2/ Preliminary.

3/ The budget document does not cover foreign grants or capital spending of the social security system; staff estimates have been made for these items.

4/ From Seychelles - Staff Report for the 1983 Article IV Consultation (SM/83/175, 8/5/83).

5/ Revised projection allowing for the policy changes announced on June 30, 1983.

6/ Due to classification problems an important proportion of net lending to parastatals was registered as capital transfers.

sector in 1983 to SR 129.0 million (12.7 percent of GDP) compared to an earlier staff projection of SR 133.1 million (13.1 percent of GDP) and SR 160.5 million (16.3 percent of GDP) in 1982 (Table 2). The equivalent of 7.3 percent of GDP, or almost 60 percent of total public sector financing, will be from abroad, largely in the form of long-term concessionary loans.

The reduction in the overall deficit is expected to lead to a fall in the domestic borrowing requirement of the public sector. The Government has also been able to generate considerably more nonbank financing than previously estimated, from insurance companies and other nonbanks. On the basis of the actual outcome for seven months, such financing is now estimated at SR 20.0 million. The banking system net credit to the public sector is now projected to grow only by SR 35.1 million, or 13.1 percent of the initial money stock, compared to SR 59.2 million previously projected (22 percent of initial money) and SR 44.6 million (15.4 percent of initial money) in 1982. Thus, although the projected overall deficit for 1983 has not been curtailed by a significant margin, the required bank financing will be reduced by a substantial amount.

To aid in the further adjustment of public finances, the Government is prepared to reduce employment in some of the public enterprises. Moreover, some of the nonperforming enterprises will be closed in the near future, while others will have the scope of their activities significantly curtailed, with the aim of improving their profitability. The impact of these actions, while difficult to quantify at this time, is expected to be significant, with an initial effect expected in 1984.

The improvement of the Government's and the public sector's positions in the banking system was already evident by the end of July. The growth of the net domestic assets of the banking system fell to 3 percent of the initial money stock for the 12 months ending July 1983 compared to an expansion of nearly 8 percent at the end of March 1983. The moderation of credit to the public sector was accompanied by a continued repayment by the private sector of some of its tourism related credit obligations. Credit developments to date indicate that the Government's policy, initiated in November 1982, of strictly limiting credit to the parastatal sector is taking hold. At the end of July, for the first time since September 1981, the stock of money and quasi-money recorded a positive annual rate of growth (about 1.5 percent). To continue a strict monetary policy, in August 1983 the Central Bank of the Seychelles increased the minimum cash reserve ratio from 7 percent to 10 percent.

### 3. Balance of payments developments

Available data for the first seven months of 1983 and the estimated impact of the measures delineated above indicate that the balance of payments in 1983 is now expected to record some improvement over the scenario foreseen in the consultation report (Table 3). Imports f.o.b. (balance of

Table 2. Seychelles: Estimated Overall Deficit of the Public Sector, 1979-1983

	1979	1980	1981	1982	1983	
					Proj.1/	Revised Proj.2/
(In millions of Seychelles rupees)						
Public sector overall deficit	60.6	91.5	112.1	160.5	133.1	129.0
Central Government (net)	38.3	28.9	13.7	62.8	53.1	51.5
Central Government deficit	(60.6)	(62.4)	(87.3)	(112.3)	(126.9)	(125.3)
Minus transfers to public enterprises	(-22.3)	(-33.5)	(-73.6)	(-49.5)	(-73.8)	(-73.8)
Public enterprises financing requirement	22.3	62.6	98.4	97.7	80.0	77.5
Financing	60.6	91.5	112.1	160.5	133.1	129.0
Domestic (net)	10.0	15.8	62.5	40.2	59.2	55.1
Banking system	(9.8)	(15.8)	(50.6)	(44.6)	(59.2)	(35.1)
Other	(0.2)	(--)	(11.9)	(-4.4)	(--)	(20.0)
Foreign (net)	50.6	75.7	49.6	120.3	73.9	73.9
(As a percentage of GDP)						
Deficit	7.5	9.6	11.8	16.3	13.1	12.7
Central Government (net)	4.8	3.0	1.4	6.4	5.2	5.1
Central Government deficit 3/	(7.5)	(6.6)	(9.2)	(11.4)	(12.5)	(12.3)
Public enterprises	2.8	6.6	10.4	9.9	7.9	7.6
Financing						
Domestic (net)	1.2	1.7	6.6	4.1	5.8	5.4
Foreign (net)	6.3	7.9	5.2	12.3	7.3	7.3

Sources: Data provided by the Seychelles authorities; and staff estimates.

1/ From Seychelles - Staff Report for the 1983 Article IV Consultation (SM/83/175, 8/5/83).

2/ Revised projection allowing for the policy changes announced on June 30, 1983.

3/ Including social security system.

Table 3. Seychelles: Balance of Payments, 1980-83

(In millions of Seychelles rupees)

	1980	1981	1982 Prel.	1983	
				Orig. proj. 1/	Rev. proj.
Current account balance	-137.8	-165.1	-297.1	-322.9	-203.0
Merchandise trade	-498.6	-469.8	-515.2	-565.0	-462.0
Exports, f.o.b.	(36.1)	(29.4)	(25.6)	(20.0)	(22.0)
Imports, f.o.b.	(-534.7)	(-499.2)	(-540.8)	(-585.0)	(-484.0)
Services (net)	281.7	247.4	185.6	157.0	174.0
Of which: tourism income	(326.0)	(285.0)	(220.0)	(220.0)	(220.0)
Transfer payments	79.1	57.3	32.5	85.1	85.0
Capital account balance	103.2	65.2	134.3	95.8	95.8
Private investment (net)	26.4	13.8	14.3	20.0	20.0
Official loans (net)	75.7	50.3	120.0	75.8	75.8
Commercial banks' capital	--	--	--	--	--
Allocation of SDRs	1.1	1.1	--	--	--
Short-term capital and errors and omissions	81.2	52.0	102.1 )	)(-227.1) (-107.2)	
Overall balance	46.6	-47.9	-60.7 )		
Change in banking system reserves (increase -) 2/	-46.6	47.9 3/	60.7	...	...
<u>Memorandum item:</u>					
Short-term capital and errors and omissions and change in banking system reserves	34.6	86.5	162.8	227.1	107.2

Sources: Data provided by the Seychelles authorities; and staff estimates.

1/ From Seychelles - Staff Report for the 1983 Article IV Consultation (SM/83/175, 8/5/83).

2/ Corresponds to foreign exchange assets held by the public sector.

3/ Unadjusted for a revaluation loss of SR 13.4 million.



payments basis) are now estimated to reach SR 484 million, almost 17 percent below the previous estimate and representing a fall of about 11 percent from the level recorded in 1982. The improvement in various export products so far recorded also indicates that exports are likely to reach SR 22 million in 1983, about 10 percent larger than previously estimated, but still below the level recorded in 1982. On the basis of these changes and the corresponding adjustment on freight and insurance resulting from the lower level of imports presently projected, the current account deficit for 1983 is now estimated at SR 203 million, or 19.8 percent of GDP, compared to a previous estimate of SR 322.9 million, or 31.8 percent of GDP and to SR 297.1 million, or 30.3 percent of GDP in 1982.

Despite the major improvement projected for the balance of payments for 1983, the amount to be financed by short-term capital (including errors and omissions) and changes in the banking system's reserves is still very large, estimated at SR 107.2 million, compared to SR 227.1 million previously projected and will prove difficult to finance.

Thus, while the measures undertaken so far in 1983 represent an important step in the right direction, the thrust of the concerns expressed in the staff appraisal in SM/83/175 (8/5/83) remain and additional adjustment in the public sector finances and in the balance of payments will be needed in the coming years, together with further measures to improve the position of the tourist sector.

