FOR AGENDA

SM/06/54

February 15, 2006

To: Members of the Executive Board

From: The Secretary

Subject: **Seychelles—Selected Issues and Statistical Appendix**

This paper provides background information to the staff report on the 2005 Article IV consultation discussions with Seychelles (SM/06/53, 2/15/06), which is tentatively scheduled for discussion on **Wednesday, March 8, 2006.** At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of Seychelles indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Tsibouris (ext. 35632) and Ms. Deléchat (ext. 39681) in AFR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Friday, February 24, 2006; and to the African Development Bank, the European Commission, the European Investment Bank, the Food and Agriculture Organization, and the United Nations Development Programme, following its consideration by the Executive Board.

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SEYCHELLES

Selected Issues and Statistical Appendix

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Approved by the African Department

February 14, 2006

Contents Page

Boxes

Figures

Tables

I. INTRODUCTION

1. **Seychelles is experiencing a protracted balance of payments and debt crisis.** As of end-2005, reserves stood at about 5 weeks of administratively compressed imports, and public debt is one of the highest in the world at about 182 percent of GDP, of which about 26 percent of GDP is in arrears to external creditors. Real GDP has declined by over 11 percent since 2000, competitiveness has been hurt by the overvalued exchange rate, and the complicated regime of foreign exchange restrictions is increasingly distorting the domestic economy.

2. **The resulting high vulnerability of the economy to external and policy shocks calls for the implementation of a comprehensive reform package, aimed at tackling existing macroeconomic imbalances, and at further economic liberalization.** The authorities' policy response so far, focused on fiscal adjustment, has failed to halt the economic decline, and has merely stabilized the debt at a high level. A more comprehensive reform package—including a sizable adjustment of the exchange rate and the phased removal of foreign exchange controls, accompanied by the implementation of tight fiscal and monetary policies—would be needed in order to place public debt on a steady downward path.

3. **This paper provides further background on some critical issues to be considered in the context of the preparation of such an adjustment program**:

- Chapter II assesses balance sheet vulnerabilities in the main sectors of Seychelles' economy, highlighting the associated crisis risks and transmission channels. Given existing vulnerabilities and risks, it also discusses the potential impact of a change in the foreign exchange regime, as well as policies to prevent or mitigate adverse effects and spillovers.

- A detailed public and external debt sustainability analysis is presented in Chapter III. It examines the path of public and external debt under two different macroeconomic scenarios, as well as the sensitivity of these paths to various shocks. The first scenario assumes a continuation of current policies (i.e. moderate fiscal adjustment with an unchanged foreign exchange regime), while the second scenario looks into the impact of the comprehensive reform program mentioned above.

- Finally, Chapter IV discusses key considerations for the conduct of monetary policy in the context of a more flexible exchange rate regime. It highlights the changes in the monetary policy framework and operations that would need to be considered for an effective monetary policy based on a monetary aggregate anchor.

II. Balance Sheet Vulnerabilities in Seychelles[1]

A. Introduction

4. **Seychelles' sectoral balance sheets, particularly those of the consolidated public and financial sectors, exhibit significant mismatches.** In the current environment of foreign exchange and interest rate controls, these mismatches are unlikely to trigger a crisis. However, an external or policy shock leading to sufficiently large changes in asset prices could cause serious liquidity and solvency problems. The paper uses the balance sheet framework to assess existing vulnerabilities. It also discusses the impact of a devaluation of the rupee, accompanied by a relaxation of existing foreign exchange restrictions, as considered in the adjustment scenario of the accompanying staff report (SM/06/53).

5. **The analysis shows that careful design and sequencing of the exchange rate adjustment and accompanying policy package would help mitigate the negative impact and spillovers following a one-time change in the foreign exchange (FX) regime.** A sizable one-time devaluation would lead to a significant increase in net FX liabilities of the public sector. Existing vulnerabilities would be exacerbated and, in the case of a forced exit from the peg, could lead to a full-fledged balance of payments and banking crisis. However, a voluntary, well-prepared, and carefully sequenced change in the FX regime, accompanied by a host of stabilizing and confidence-enhancing measures, would help keep the situation under control. In this context, the implementation of policies to enhance public debt management and to strengthen the financial sector's prudential and regulatory framework will be of particular importance.

6. The remainder of the paper is structured as follows. Section B briefly summarizes the key tenets of the balance sheet approach and its application to Seychelles. Section C provides background information and a description of the main sectors of Seychelles' economy, along with data sources. Section D discusses existing balance sheet vulnerabilities, including possible impacts of a devaluation. Section E concludes with a summary of the main findings and key policy recommendations.

B. Applying the Balance Sheet Framework to Seychelles

7. **The balance sheet framework helps provide an assessment of a country's crisis vulnerabilities through an analysis of existing mismatches in sectoral balance sheets.** These mismatches define individual sectors' exposures to liquidity and solvency risks, and, more generally, an economy's vulnerability to shocks transmitted through movements in exchange rates, interest rates, and other asset prices. The focus on individual sectors is important, as imbalances concentrated in one sector can quickly get transmitted to the others through inter-sectoral exposures. For example, defaults on bank loans in the corporate sector due to currency mismatches may create problems for the banking sector, and government's difficulties in servicing external obligations may lead to default on domestic liabilities. This

[1] Prepared by Corinne Deléchat.

analysis can provide useful guidance to policy-makers in taking appropriate preventive or mitigating measures.[2]

8. **Significant intra- and inter-sectoral imbalances make an analysis using the balance sheet framework particularly relevant for Seychelles**. In particular, the paper focuses on three main types of risks or mismatches:[3]

- *Solvency risks* arise when overall liabilities exceed assets. Whereas the definition is straightforward in case of private sector firms, for the government or the country as a whole solvency is more difficult to assess directly, as it involves comparing the current stock of liabilities with the present discounted value of all future fiscal or current account balances. In practice, indirect indicators of solvency such as ratios of debt to GDP, revenues, or exports are being used (See IMF, 2002).

- *Currency mismatches* (e.g., domestic-currency denominated assets versus foreign-currency denominated liabilities) expose a country or an individual sector to exchange rate risk, as a devaluation will increase the domestic currency value of foreign liabilities.

- *Maturity mismatches* (e.g., short-term liabilities versus long-term assets) may lead to roll-over and interest rate risk. For example, large net short-term liabilities, or a sharp rise in short-term interest rates may prevent the government from rolling-over short-term debt instruments, leading to financing problems and increasing the risk of full or partial default.

9. **The balance sheet framework is however subject to important limitations.** *Data requirements* are significant, as a comprehensive analysis requires detailed data on the size, maturity and currency composition of assets and liabilities across the main sectors of the economy. For Seychelles, partial information on the private nonfinancial sector, and the lack of data on the international investment position, are indeed problematic. However, balance sheet data for the public and financial sectors, which are the focus of the analysis, are reasonably reliable. Further, *individual entities' exposures may not be reflected in aggregate sectoral data*. In a small country such as Seychelles, problems in a single company or bank might have sector-wide implications. Whenever possible, the analysis has used individual balance sheet for the largest operators in various sectors. Finally, *balance-sheet analysis is static in nature*, looking at stocks of assets at a given point in time, in isolation of changes in other macroeconomic (flow) variables.[4]

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[2] See Allen et al. (2002) and IMF (2003) for a more extensive presentation of the balance sheet approach, and Daseking (2003), IMF (2004a), Keller (2004), and Wiegand (2005), for examples of recent applications.

[3] A fourth type of mismatch, in capital structure (reliance on debt rather than equity financing), is not discussed here due to lack of information.

[4] In this regard, a study of balance sheet vulnerabilities is a useful complement to—but is not necessarily fully comparable with—analyses based on time-series stock and flow data.

C. Background

10. **Seychelles' current balance sheet vulnerabilities are the result of the large macroeconomic imbalances that have characterized the economy since the mid-1990s.** The average fiscal and current account deficit for the decade 1994-2004 was about 11 percent of GDP. These flow imbalances were sustained by the buildup of large domestic and external liabilities. As the financing of fiscal deficits moved to less concessional borrowing, the public debt stock rapidly increased to peak at 193 percent of GDP as of end-2002, then declining to 182 percent of GDP as of end-2005. On the external side, gross reserves remained low at an average of 4.5 weeks of imports throughout the last decade, and total external debt grew to 80 percent of GDP in 2002 (67 percent of GDP by end-2005).

11. **The system of FX restrictions and controls introduces additional distortions and vulnerabilities.** With restricted access to foreign exchange, economic agents (in particular importers) can only hedge their FX exposures imperfectly. In addition, the lack of alternative investment opportunities, combined with the excess domestic liquidity resulting from lax fiscal policies, has led domestic banks to build large exposures to public debt instruments.[5] At the same time, the private sector has found some ways to circumvent the FX controls and has been transferring foreign assets overseas.[6] In the current regime, the interest cost of the large public domestic debt has been kept at relatively low levels through interest rate controls and through the existence of a captive investor market (the banking sector has to fulfill a high local asset ratio and other investment opportunities are scarce). Excess demand pressures are not fully reflected in inflation but rather in shortages, and large-scale capital outflows are being prevented.

12. **Any changes to the existing FX regime would need to be assessed carefully**. By highlighting existing balance sheet vulnerabilities, the paper helps identify the risks associated with a move toward a more flexible and liberalized FX regime across the various sectors of the Seychelles' economy. However, the actual impact of such a move will also largely depend on its magnitude, timing, and on economic agents' expectations. An abrupt (and unprepared) change in the value of the currency, or a wholesale relaxation of FX restrictions, possibly in the context of an adverse external shock, are likely to have different repercussions than a carefully prepared currency adjustment accompanied by a well-sequenced, progressive relaxation of FX restrictions, in the context of a comprehensive package of macroeconomic reforms.

13. In order to assess balance sheet vulnerabilities, the economy is decomposed into three sectors, along with their assets and liabilities vis-à-vis nonresidents, using available information as of end-2004:

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[5] The implementation of the authorities' Macroeconomic Reform Program (MERP) since 2003, consisting mostly of a strong fiscal adjustment, was quite successful at mopping up excess domestic liquidity, but merely stabilized the stock of public debt at a high level.

[6] The large negative errors and omissions in the balance of payments, combined with evidence of significant overseas FX deposits by Seychelles residents, indicate that private capital outflows are taking place in spite of the controls.

- *Consolidated public sector*, comprising the consolidated central government (including the Social Security Fund), the central bank and nonfinancial parastatals. The consolidated public sector is the single largest sector of the economy. Public expenditure represented about 50 percent of GDP as of end-2005, and 14 percent of the total population, or 29 percent of total employees, worked for the central government. When adding parastatals, the figure increases to 46 percent of total formal employment.[7] Balance sheet data for the sector come primarily from the Ministry of Finance and the Social Security Fund, the Central Bank, and directly from selected parastatals with particularly large foreign exchange exposures (the Seychelles Petroleum Company─SEPEC, and the Seychelles Marketing Board─SMB).[8]

- *Financial sector*, including bank and nonbank financial institutions, some of which are state owned. With total assets representing 165 percent of GDP as of end-2004, the financial sector is quite large compared to similar countries.[9] It is dominated by the six commercial banks, with 87 percent of total assets. State-owned institutions (banks and nonbanks, including majority state owned) represent almost 50 percent of total sector's assets. Only two percent of total formal employment is in the financial sector, with a little over half in state-owned financial institutions. The main source of balance sheet data for the financial sector is the monetary survey, which covers all six commercial banks and only one nonbank financial institution (the Seychelles Development Bank).[10]

Seychelles: Financial System Structure, 2004

	Number of		Financial Sector Assets 1/		
	Institutions	Branches	(million rupees)	(% of sector)	(% of GDP)
Commercial banks					
Commercial banks 2/	6	13	5,562.9	87%	144%
Large commercial banks	3	9	4,538.7	71%	117%
Foreign-owned banks	4	8	3,164.1	50%	82%
State owned	2	5	2,398.8	38%	62%
Sub-total	6	13	5,562.9	87%	144%
Insurance companies					
Insurance companies	2	0	131.8	2%	3%
Sub-total	2	0	131.8	2%	3%
Other nonbank financial institutions					
Mortgage finance	1	0	…	…	…
Savings and loans	1	2	54.6	1%	1%
Development finance institutions	1	0	318.3	5%	8%
Pension funds	1	0	321.0	5%	8%
Sub-total 3/	4	2	693.9	11%	18%
Total financial sector 3/	12	15	6,388.6	100%	165%

Sources: Central Bank of Seychelles; and Fund staff estimates.
1/ No detailed information available, some estimates preliminary (unaudited).
2/ All commercial banks conduct domestic banking.
3/ Excluding mortgage finance.

[7] Based on National Statistics Bureau data as of end-September 2005. As discussed in the accompanying staff report, the public sector in Seychelles is also large in comparison with similar economies.

[8] The balance sheet for SEPEC and SMB (with total assets amounting to 40 percent of 2004 GDP) show significant short-term FX liabilities that are not captured in aggregate public debt data. Total short-term liabilities of parastatals might, however, still be underestimated as information on the Public Utilities Company (PUC) was not available at the time of the study (PUC imports its own fuel for electricity generation).

[9] For example, Kenya's financial sector, which is considered fairly well developed, has assets representing only 45 percent of GDP. This share tends to be lower in other sub-Saharan African countries. Regarding countries at similar income levels, total financial sector assets for ECCU countries as a group represent about 185 percent of combined GDP.

[10] A new body in charge of supervising nonbank financial institutions was created at end-2005. In the meantime, the paper uses individual balance sheet data for the state insurance company (SACOS), and the Housing Finance Corporation (HFC) to complement the monetary survey data.

- *Nonfinancial private sector,* including both companies and households. The corporate sector is dominated by a few large companies, with the top 50 companies representing 90 percent of total business tax collection. The companies with the largest amount of FX liabilities are Seybrew (beer and soft drinks) and Cable and Wireless (communications).[11] Only 54 percent of total formal employment was in the private sector in 2005, to which must be added a significant amount of self-employed and domestic workers.[12] As there is no stock exchange, there are no sources of aggregate data on Seychelles' companies. In addition, there is only partial information on the household sector, aside from data on credit from the banking sector, and BIS data on overseas deposits by Seychelles' private residents. FX liabilities of the private sector are most likely underestimated, as they would appear on individual balance sheets, and as a large share of FX payables is held in the form of rupee deposits at commercial banks.[13]

D. Sectoral Balance Sheet Vulnerabilities

Overall country position

14. **The overall balance between assets and liabilities at the country level masks significant inter-sectoral mismatches.** Overall assets and liabilities vis-à-vis the rest of the world represent respectively 84 and 95 percent of 2004 GDP (Figure 1, Panel 2). However, whereas the bulk of foreign liabilities are held by the public sector (about 70 percent of total foreign liabilities), and are of a medium to long-term nature, recorded foreign assets are mostly held by the nonfinancial private sector (95 percent of total foreign assets) as bank deposits in BIS-reporting institutions.[14] As such, these deposits could not be mobilized easily in case liquidity or solvency problems appear on the public external debt front.

15. **Similarly, at the country level, short-term foreign assets outweigh short-term liabilities,** mainly as the nonfinancial private sector's significant overseas deposits are classified as short-term. Excluding these assets, the overall external financing gap amounts to about 17 percent of 2004 GDP (Figure 1, Panels 4 and 5). Public and financial sectors' liquid foreign assets (foreign reserves) fall short of short-term liabilities by 14 percent and 5.5 percent of GDP, respectively (Figure 1, Panels 4 and 5).

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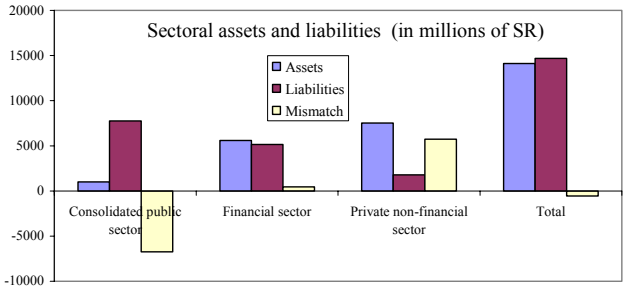
[11] Due to the FX restrictions, foreign investors in Seychelles have, by and large, been unable to repatriate dividends and profits to their headquarters abroad. According to some estimates, the amount of unrepatriated profits and dividends remaining on the books of Seybrew and Cable and Wireless is about SR 350 million, or 9 percent of 2004 GDP (the full amount is even larger, but appears to have been written off the companies' books). The paper uses data from Seybrew's balance sheet. Information on Cable and Wireless' balance sheet could not be obtained on time for this study.

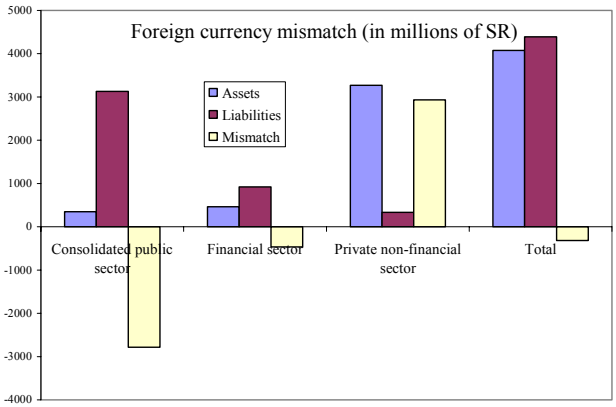
[12] Using this last measure, the share of private sector employees in total employment rises to 61 percent.

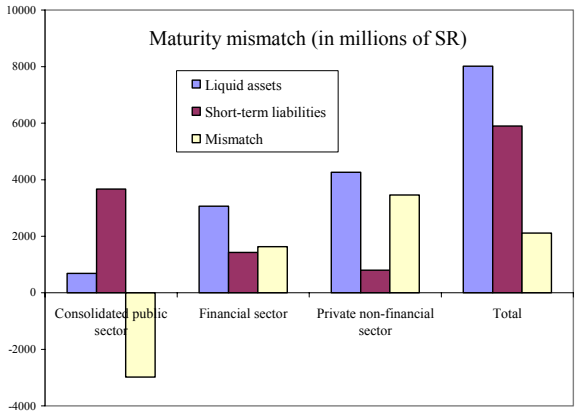
[13] So-called pipeline deposits, consisting of unmet demand for FX. FX requests are entered in a queue, and have to be backed up by commensurate rupee deposits.

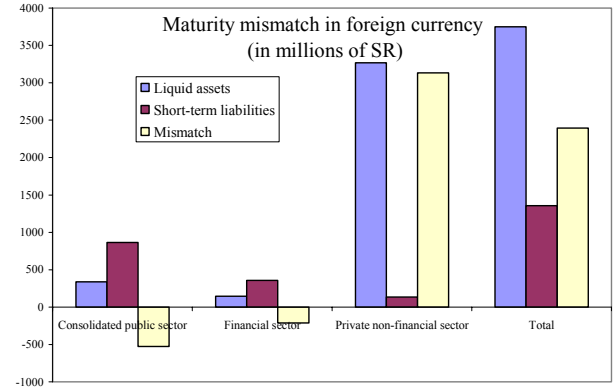
[14] Both the central bank and commercial banks have negative net foreign asset positions.

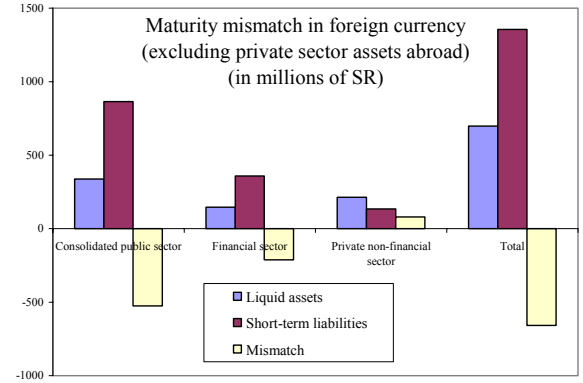
Figure 1. Seychelles: Sectoral Balance Sheet Vulnerabilities, End-2004.











Sources: Central Bank of Seychelles, balance sheets of selected companies; and Fund staff calculations.

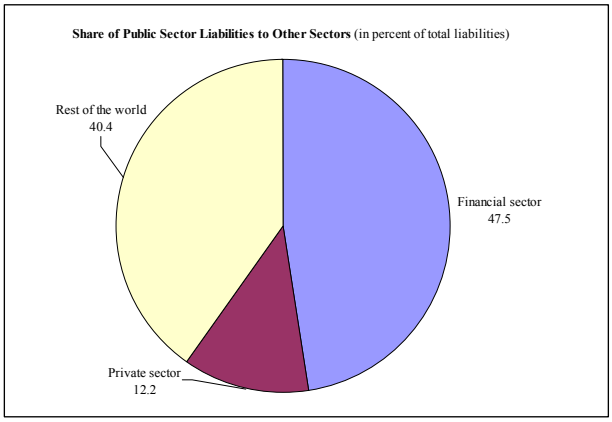
Consolidated public sector

16. **In addition to solvency problems, the consolidated public sector exhibits significant currency and maturity mismatches.** As of end-2004, total liabilities exceeded total assets by about 180 percent of GDP, net foreign liabilities amounted to 72 percent of GDP, and total liquid assets fell short of short-term liabilities (mainly T-bills) by 77 percent of GDP (Figure 1, Panels 1, 2, and 3).

17. **The currency mismatch mainly arises due to the large medium-to long-term public external debt**, representing 59 percent of GDP as of end-2004. [15] To these should be added short-term foreign liabilities of parastatals (22 percent of GDP), consisting mainly of FX payables to overseas suppliers. Liquid central bank's gross reserves and short-term foreign assets of SEPEC and SMB (FX receivables from overseas suppliers and term deposits) constitute the asset side (9 percent of GDP). Even though the external financing gap for the public sector is relatively small (14 percent of GDP), the low level of reserves implies a high vulnerability to external shocks.

18. **The overall maturity mismatch stems from the fact that a larger share of public domestic debt is of a short-term nature**, with T-bills representing 30 percent of the total (41 percent of GDP) at end-2004. Adding maturing bonds, annual roll-over needs are significant (approximately 48 percent of GDP for 2005 and about 49 percent of GDP in 2006). In addition, domestic short-term debt is exposed to interest risk, as 31 percent of total domestic public debt interest rates are indexed to domestic inflation.[16]

19. **The public sector is heavily exposed to the domestic financial and external sectors.** Liabilities to the financial sector represent 48 percent of the total (95 percent of GDP), and external liabilities about 40 percent of the total. Only a small share of domestic debt instruments is held by the nonfinancial private sector. Given its large currency mismatch, the public sector's balance sheet is thus quite vulnerable to shocks affecting the value of external liabilities, such as a devaluation. On the domestic side, it is exposed to the willingness/ability of domestic banks to roll-over short-term debt instruments.



20. **A currency devaluation would aggravate the solvency, currency and maturity risks in the public sector, as the value of FX liabilities would increase**. The devaluation would also lead to an initial rise in inflation and interest rates, which would increase the cost of public debt service. The higher associated financing requirement would have to be met

[15] See Chapter III for more detail on the structure of public sector debt.

[16] The share of domestic debt at variable rates increased in the first quarter of 2005 to 57 percent of the total, as the central bank advances were converted into a 20-year bond with interest rate indexed to the one-year T-bill rate.

either by a strong fiscal adjustment, a larger accumulation of external arrears, an issuance of new domestic securities or some domestic debt management/restructuring operation, or by a combination of these measures.

Financial sector

21. **The financial sector shows a small currency mismatch**, partly due to one nonbank public institution's large external liabilities (Figure 1, Panel 2). Other FX liabilities include foreign currency deposits of residents and nonresidents at commercial banks.[17] However, the financial sector' small mismatch is most likely overstated, as nonresident deposits also rupee-denominated deposits. Overall, FX liabilities of the financial sector are relatively small (18 percent of the total). Due to the current restrictions, banks's FX lending has remained relatively low, and has been hedged through lending mainly targeted to exporters.[18] Other FX assets include commercial banks' gross reserves held abroad, which are low at SR 122 million. As of end-2004, all commercial banks had long FX positions.[19] Whereas the sector shows no overall maturity mismatch (liquid assets exceed short-term liabilities, mainly due to the large holdings of short-term government instruments), there is a small external financing gap, as short-term FX liabilities of the sector fall short of liquid assets by about 6 percent of GDP.

22. **Although there is no apparent maturity mismatch for the sector, credit, liquidity, and interest rate risks are considerable** (Figure 1, Panel 3).[20] Given the large exposure of banks to government instruments, the level of public debt is a nonnegligible credit risk. Banks' balance sheets would be negatively affected by any reduction in the market value of their holdings of government debt, stemming from either a revision of accounting practices (i.e., recording debt at market value rather than at face value), the introduction of additional provisioning requirements, or any debt restructuring operation. In this regard, the zero risk weight currently assigned to government obligations may not accurately reflect the government's credit risk. Liquidity risk is also high because commercial banks have very limited options to divest their assets in case of a large scale withdrawal from the banking system that could happen in parallel with the easing of foreign exchange controls.[21] The liquidity of government securities is limited by the lack of a secondary market for government debt instruments, and re-discounting options would likely be limited at the central bank in such a case, or rediscounting could end-up involving a

[17] Foreign exchange earners are allowed to retain a certain share of their FX earnings in foreign currency. Due to classification problems, the category "FX deposits of nonresidents" sometimes consists of rupee deposits by nonresidents.

[18] See accompanying staff report. As of end-2004 the share of banks' FX loans in total loans amounted to about 10 percent of GDP.

[19] However, as of end-September, 2005, one bank had a short FX position, due to off-balance sheet items.

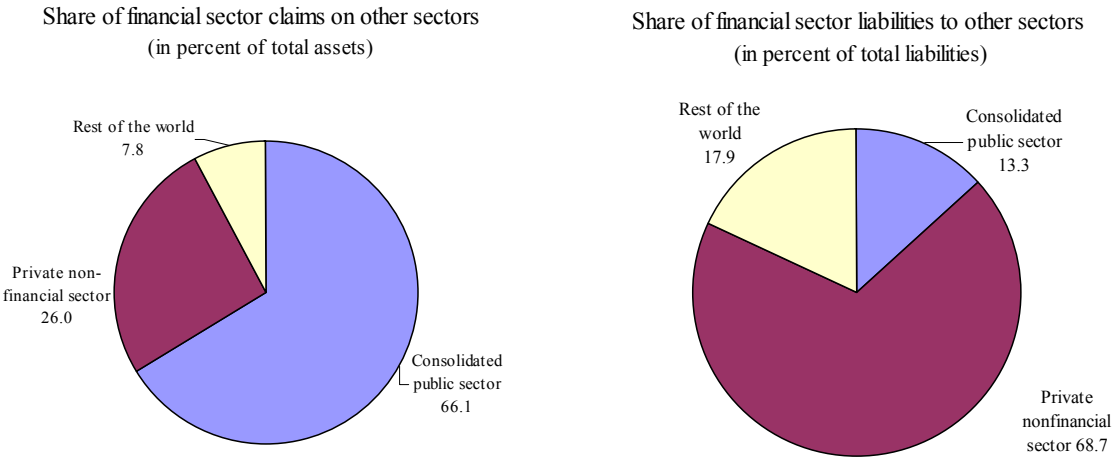
[20] See Cayazzo et al. (2004), for a more detailed discussion of vulnerabilities in the Seychelles banking sector.

[21] A large share of the private sector deposits is short-term and relatively concentrated in the hands of a small number of depositors. According to Cayazzo et al. (2004), as of mid-2004, there was evidence of significant deposit concentration, with 10 customers making up 30 percent of the banking sector's deposit base.

substantial loss for the banks. Finally, banks are exposed to interest rate risk, as they have large holdings of medium and long-term, fixed-rate government instruments, while almost two-thirds of their liabilities are short term (mainly private sector deposits) and longer-term time deposits could be reinvested at higher yields if the rise in interest rates was sufficiently high (which would likely be the case). A sudden large increase in interest rates would thus affect their balance sheets and lead to potential solvency problems.

23. **Asymmetric inter-sectoral exposures in terms of assets and liabilities indicate that the domestic financial sector would play a key role in the transmission of risks across sectors.** Whereas public debt instruments represent two-thirds of total assets, financial sector's liabilities are concentrated in the domestic nonfinancial private sector (Figure 2). Debt-service difficulties, or some kind of debt restructuring operation, could thus result in liquidity, and potentially solvency, problems for the banks. Alternatively, the large liability exposure to the private sector, combined with a relatively high concentration of deposits, make the banking system vulnerable to private sector confidence reversals leading to large-scale deposit withdrawals. Stress tests performed in 2001 by staff indicated that a 10 percent increase in nonperforming loans would reduce the capital base of the financial sector by about 20 percent.[22]

Figure 2. Financial Sector's Exposure to Other Sectors of the Economy



Sources: Central Bank of Seychelles, balance sheets of selected companies; and Fund staff calculations.

24. **In this context, although the direct impact of a devaluation on the financial sector would be small, indirect effects might be significant.** In particular, banks would be affected by an increase in interest rates. With limited rediscounting possibilities at the central

[22] The transmission of crisis risks through the financial sector could be mitigated or aggravated by existing institutional arrangements, such as the degree of foreign ownership, cross-ownership among financial institutions, or lender of last resort arrangements in the central bank. Whereas such a detailed analysis is beyond the scope of this paper, it would be worth pursuing in the context of a full financial sector assessment.

bank for instruments, and a large share of fixed-rate securities in their portfolios, previous analyses had indicated that solvency problems could arise in the banking system.

25. **An upfront liberalization of the FX restrictions, even if only for current transactions, would represent a major risk for the financial sector.** If there were to be a one-off removal of most FX restrictions, instead of the gradual, well-sequenced process presented in the adjustment scenario, banks could be affected by large-scale deposit withdrawals. The share of deposits that are in the system only due to the lack of alternative investment venues could amount up to 40 percent of the total deposit base.[23] Massive deposit withdrawals with the view to convert them into foreign currency would affect banks' liquidity significantly, and would also put pressure on the exchange rate in the context of a more flexible system.

Nonfinancial private sector

26. **Based on the available partial information, the sector as a whole does not exhibit currency or maturity mismatches** (Figure 1). However, the picture is likely to look different for different groups of the population. Whereas private sector residents holding FX assets abroad should be protected from currency risk, importers, whose payables are mostly in FX while their receipts are in rupees, would be quite exposed to a change in the value of the currency, and exporters would benefit. In terms of intersectoral exposures, the above discussion of financial sector vulnerabilities suggests that the private sector would be most vulnerable to problems in commercial banks.

27. **Whereas the direct impact of a devaluation on the nonfinancial private sector would be positive overall, negative indirect effects could be significant.** Specific groups such as importers might nevertheless experience a significant increase in their foreign liabilities, while others such as exporters would benefit from higher foreign currency receipts. In addition, liquidity and solvency problems in the financial sector could in turn affect private sector confidence, leading to bank runs (in particular in the context of the liberalization of the FX regime mentioned above) and bank closures. In the absence of deposit insurance, and given the public sector's own liquidity problems preventing it from helping the banks and the depositors, private sector wealth would be negatively affected, and domestic demand and output would contract.

E. Conclusions and Policy Recommendations

28. **Seychelles' balance sheet vulnerabilities are significant, and are compounded by the system of fixed exchange rate and FX restrictions.** The public sector is the most vulnerable, being insolvent, as well as exposed to liquidity, exchange rate, interest rate, and roll-over risk. The overall financial sector's balance sheet does not exhibit significant currency or maturity mismatches. However, due to the structure of inter-sectoral exposures on the asset and liability side, credit, liquidity, and interest risks are nonnegligible. Incomplete information prevents a comprehensive analysis of private sector vulnerabilities,

[23] This would be the sum of unrepatriated profits and interest income, deposits in the FX pipeline, and deposits in excess of the assumed demand for transactions and savings, see Cayazzo et al. (2004).

although the available evidence suggests that importers would be exposed to exchange rate risk, and depositors would be affected by banks' solvency problems.

29. **Careful design and sequencing of the exchange rate adjustment and accompanying policy package would help mitigate the negative impact and spillovers following a one-time change in the foreign exchange (FX) regime.** A one-time adjustment of the exchange rate together with a wholesale liberalization of FX controls, would exacerbate existing vulnerabilities and risks. The increase in the size of external liabilities would aggravate the public sector's solvency problem, and, in the presence of low international reserves and already high roll-over requirements, the rise in debt service costs could lead to financing problems. The financial sector would be negatively affected by an increase in interest rates and a withdrawal of private sector deposits. Finally, serious liquidity and solvency problems in banks leading to closures would reduce private sector wealth, leading to aggregate demand and output losses. Negative effects and spillovers would be more pronounced in case of a forced exit of the peg, with reduced confidence in the authorities' ability to keep the situation under control. However, in the adjustment scenario presented in the staff report, the move to a more flexible exchange rate and the liberalization of the FX restrictions would be gradual, and accompanied by time-bound steps to enhance the authorities and the financial sector's ability to deal with the new regime. In addition, the supporting macroeconomic environment created by tight fiscal and monetary policies and the reduction of the role of the state in the economy would enhance confidence, foster investment, private sector development, and growth.

30. **Specific measures to address the negative impact of a change in the FX regime would include the prompt implementation of a comprehensive debt strategy and the strengthening of the financial sector's prudential and regulatory framework.** Efforts to regularize relations with multilateral and bilateral external creditors should be pursued within a comprehensive framework mindful of inter-creditor equity, including avoiding recourse to further collateralized borrowing. An effective two-way communication strategy with creditors would also aid the authorities assess and manage risks. On the domestic debt front, operations aiming at a progressive lengthening of maturities combined with improved re-discounting facilities for short-term debt would help alleviate interest and roll-over risks. Regarding the financial sector, a progressive re-balancing of asset portfolios should aim at increasing in the share of private sector credit and reduce that of government debt instruments. Supervision of exchange rate and interest rate risks, and the development of prudential regulations through risk-based indicators, should precede the removal of FX restrictions. Controls on interest rates and FX restrictions should be relaxed only gradually.

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III. Public and External Debt Sustainability Analysis[24]

A. Introduction

31. **Key debt ratios point to a substantial debt overhang in Seychelles.** Public nonfinancial sector debt stood at about 187 percent of GDP and 380 percent of revenues at end-2004. The bulk of public sector debt is domestic, held mainly by the banking system. About 30 percent of the total debt stock is owed to external creditors, and more than one-third of that is in arrears, mostly to official creditors, including the World Bank and the African Development Bank.

32. **This chapter examines the sustainability of public and external debt in Seychelles under a continuation of current policies (baseline scenario) and under a comprehensive adjustment scenario.** A meaningful concept of debt sustainability would suggest at least two necessary conditions: (i) that a country's debt can be serviced without an unrealistically large correction in the fiscal or current account balances, and (ii) that the decline in debt is sufficiently large so that the economy can withstand reasonable shocks to key macroeconomic variables.

33. **The current policies scenario, which mostly relies on maintaining large primary surpluses, is barely able to offset the drag on public debt from the large interest rate—growth differential.** Findings suggest that most shocks to this scenario generate explosive dynamics of the public debt path. External debt is less sensitive to standard shocks, but given the pronounced historical volatility of real growth and main external indicators, even a modest consolidation could be jeopardized by exogenous or policy-induced shocks. The bolder and more comprehensive adjustment scenario places debt on a declining path and produces debt dynamics that are more robust to shocks, as the significant fiscal effort is complemented by measures aimed at restoring competitiveness and invigorating growth. However, the required fiscal effort is remarkable, and the public sector debt stock, albeit declining, remains high.

B. Background and Recent Developments

34. **The accumulation of external debt has to a degree reflected capital spending on large infrastructure projects; however, a combination of inadequate debt management and inconsistent macroeconomic policies has left Seychelles unable to service all of its external debt.** Balance of payments deficits generated by an overvalued pegged exchange rate, past overborrowing, and declines in competitiveness and growth have been financed mainly by increases in external payments arrears as international reserves have remained low (Figure 3). Access to new financing from official creditors has dwindled in the past few years. Furthermore, given the decline in sovereign creditworthiness, new commercial loans were increasingly collateralized with pledges of future export receipts, increasing the rigidity

[24] Prepared by Ivanna Vladkova Hollar.

of the debt stock (Figure 4).[25] Seychelles' current access to external financing is very limited, and an imports-related spike in external financing needs in the first quarter of 2005 was addressed through an additional collateralized commercial loan.

35. **While domestic payment arrears have not emerged, the domestic public debt stock is large, as are the associated gross financing needs of the public sector.** Domestic public debt is estimated at about 125 percent of GDP at end-2005. About 29 percent of total domestic debt is held in short-term treasury bills, associated with financing needs of about 36 percent of GDP in 2006. Total gross domestic financing needs of the public sector are projected to exceed 60 percent of GDP by 2010, leaving the public sector extremely vulnerable to rollover risk (Figure 5).[26]

36. **In response to the macroeconomic imbalances, the government launched a Macro-Economic Reform Program (MERP) in 2003, centered around an ambitious fiscal adjustment, but its success has been limited.** While the authorities tightened the fiscal stance significantly, the policy framework did not succeed in bolstering confidence, invigorating growth, or reducing external imbalances, and thus has not made big inroads in reducing the debt stock. The authorities have subsequently undertaken some structural measures to liberalize the economy and complement the fiscal adjustment, but one of the main components of a comprehensive policy package—reforming the foreign exchange regime—remains unaddressed.

37. **In the absence of a comprehensive debt strategy, the government has been seeking small-scale bilateral reschedulings with some external creditors, and has completed a domestic debt restructuring with the Central Bank, giving the budget some cash flow relief but exposing it to greater interest rate risk.** On the external side, the authorities have been making regular payments on arrears to the World Bank, and negotiated a timetable for the clearance of arrears with the Kuwaiti Fund. The latter will unlock some potential for future small-scale project financing. A small official loan from China has also been rescheduled, although the flow relief it provides is negligible. On the domestic debt front, the recent debt restructuring operation with the Central Bank of Seychelles (CBS) brought about substantial flow relief for the budget, but no reduction in the net present value (NPV) of the debt stock. More importantly, the debt operation appears to have increased the sensitivity of the public debt stock to changes in interest rates (Box 1).

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[25] While the share of collateralized debt in total debt declined in 2005, this was mainly a function of the fact that this category of debt is being serviced on time and is not in arrears.

[26] This represents gross amortization requirements, and differs from overall domestic financing needs, which take into account the generated fiscal surplus.

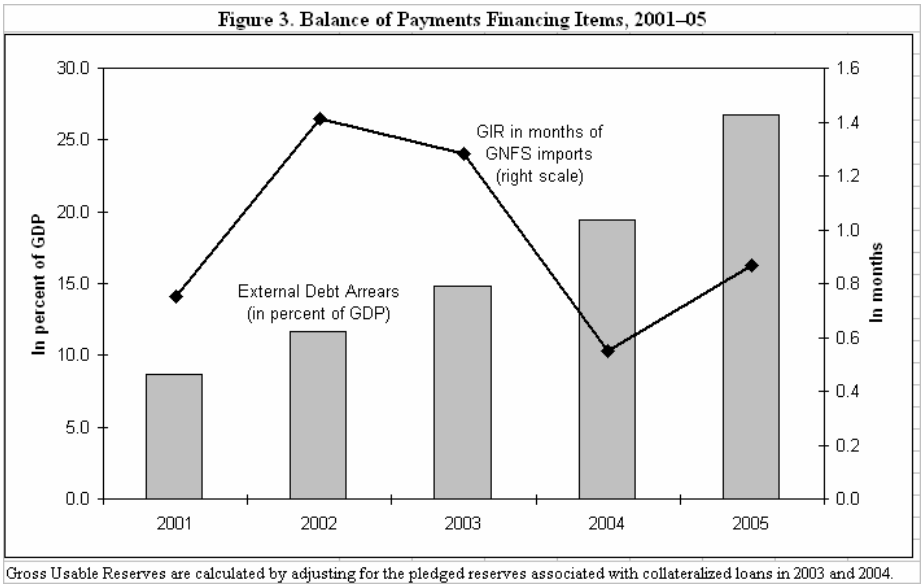


Figure 4. Evolution of Structure of External Debt (in percent of total external debt)

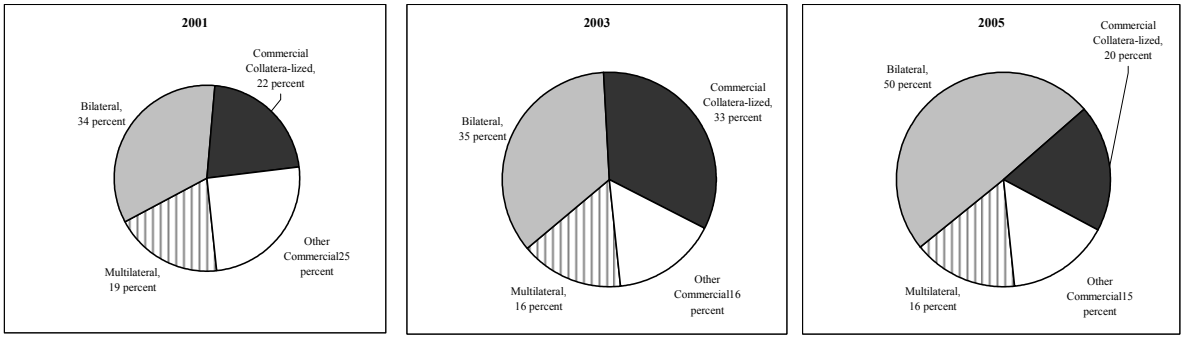
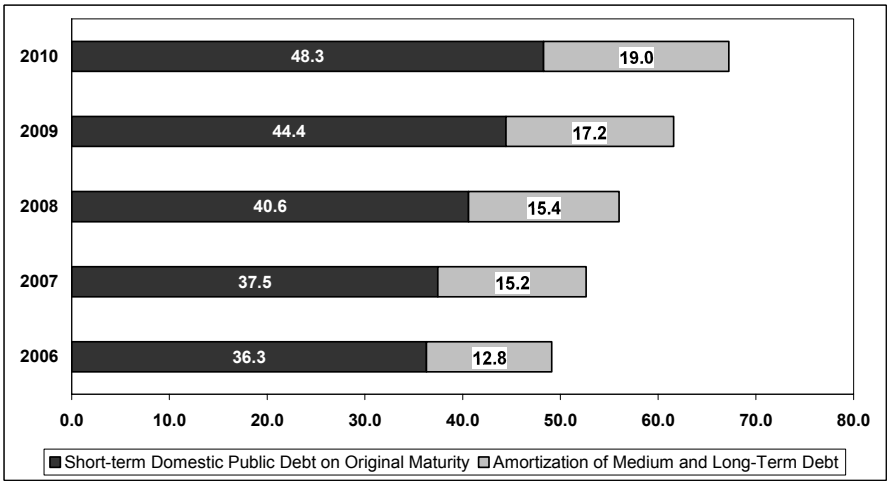


Figure 5. Public Sector, Total Domestic Financing Requirement, in percent of GDP, 2006–10



Box 1. Domestic Debt Restructuring in 2005[1]

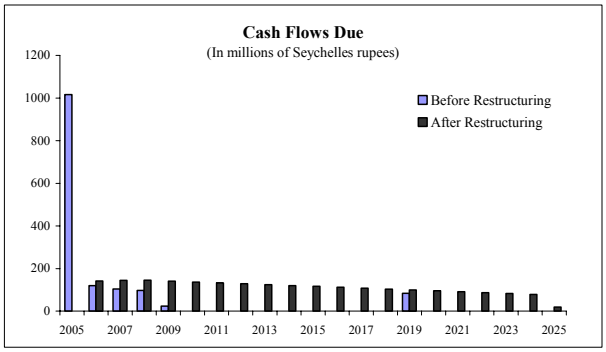
In the first quarter of 2005, the government undertook a domestic debt restructuring operation that impacted 27 percent of the domestic debt stock, representing 36 percent of GDP. The stock of CBS general advances to the government and the outstanding amount of the zero-coupon 2019 bond as of end-December 2004, were exchanged for a new 20-year amortizing bond with the interest rate equal to the one-year T-bill rate plus 67 basis points (see Table 1). The interest due on the bond for the first year, SR 58 million, was added on to the face value of the bond, bring the total face value of the new bond to SR 1,459 million. The CBS advances consisted of short-term advances and of the onlending to the government of collateralized external loans contracted by the CBS from Bank of Tokyo Mitsubishi (BOTM) and from Mauritius Commercial Bank (MCB). The new bond is held by the CBS.

Table 1. Seychelles: Terms of the Domestic Debt Restructuring
(Values in millions of Seychelles rupees)

	Maturity date	Coupon	Float spread 1/	Duration 2/	Face value	NPV	Average life 2/
Sum/Weighted averages							
Old instruments				*1.5*	*1401*	*1318*	*1.1*
New instrument				*8.2*	*1459*	*1456*	*10.5*
Change				*6.8*	*58*	*138*	*9.4*
Old instruments							
CBS short-term advances	6/30/05	7.5 percent	0	0.5	852	851	0.5
CBS advance: BOTM loan A	3/13/07	euro libor	275	1.1	144	131	0.9
CBS advance: BOTM loan B	3/13/09	euro libor	350	2.5	280	256	2.5
CBS advance: MCB loan 1	12/31/06	US libor	250	1.0	27	24	0.4
CBS advance: MCB loan 2	7/31/07	US libor	250	1.3	14	13	0.7
Zero coupon bond	12/31/19	0	0	15.0	84	43	4.2
New instrument							
20-year amortizing bond	1/1/25	1 year T-bill	67	8.2	1459	1456	10.5

Sources: Central Bank of Seychelles; and Fund staff estimates.
1/ In basis points.
2/ In years.

The main impact of the operation was to bring substantial cash-flow relief to the government in 2005 (see Chart). Through the operation, the government avoided having to repay in 2005 SR 851 million of short-term advances to the CBS. Moreover, the terms of the new 20-year amortizing bond state that no interest or principal repayments were due until 2006. The restructuring also extended the average life of the debt concerned by 9.4 years.



The restructuring did not lower public debt or debt service to sustainable levels in the medium term. The operation actually increased the NPV of the restructured debt by 10 percent.[2] This is mostly due to the fact that although the debt service on the new bond is more evenly spread over time, total debt service on the new 20-year bond is higher and repayments begin soon in 2006. As a result, the public sector debt-to-revenue ratio remains very high and is projected at 360 to 425 percent between 2006 and 2010. In addition, the operation increased the face value of domestic debt and did not reduce the debt overhang for the economy.

This domestic debt restructuring increased the vulnerability of public debt and debt service to changes in domestic interest rates that are currently rising. The debt exchange increased the proportion of variable rate debt from 31 percent of total domestic debt at the end of 2004, to 57 percent by the end of 2005. At the end of 2005, the interest rate on the one-year T-bill rate rose from 3.84 to 4.24 percent. The increased sensitivity to changes in interest rates is also reflected by the fact that the duration of the new bond is 6.8 year higher than the debt it replaced.

[1] Prepared by Stephanie Medina Cas.
[2] The discount rate utilized here is the risk-free rate, equal to the current U.S. T-bill rate of 4.5 percent.

C. Baseline Scenario: Debt Dynamics

38. **Under the baseline scenario, all standard shocks to the public debt stock produce explosive debt dynamics.** Despite relatively high primary surpluses (of the order of 5.5-7.5 percent of GDP), the fiscal effort is largely offset by large interest payments and negative growth, resulting in a cumulative increase of the public debt stock by about 16 percentage points over the forecast horizon (Figure 6). By virtue of its sheer size, the stock of debt is vulnerable to a number of shocks, but particularly to growth shocks[27] and to a combination of relatively small shocks (¼ of a standard deviation of past outcomes) to growth rates, the primary balance and real interest rates.

39. **An additional metric by which one could assess the unsustainability of the public sector debt stock at current (or forecasted) levels would be the fiscal effort required to stabilize the debt stock under a range of macroeconomic outcomes.** Focusing on current levels, with the public debt stock estimated at 182 percent of GDP in 2005, a projected decline in real growth of 1.4 percent and an average real interest rate of about 4 percent, a primary balance of at least 7 percent is required to simply stabilize the debt stock in 2006, and, consequently, an even greater effort is required to bring about a reduction in the stock (Table 1). Should growth turn out more negative than expected, or should interest rates rise, the debt stabilizing primary balance rises to 9 percent of GDP. The over-reliance on fiscal policy in this framework underscores the need for a more comprehensive package of reforms that would stimulate growth.

40. **While standard shocks under the baseline do not produce explosive dynamics of the external debt path, the modest consolidation to about 54 percent of GDP in 2010 is not without risks.** The moderate improvements in the debt stock during 2009–10 are predicated on an improvement in the CA balance, the absence of significant increases in interest rates, and on positive net FDI inflows, albeit at below historical averages. However, under this scenario, permanent shocks to the growth rate and to the current account, equal to one-half of the historical standard deviation of each variable, produce very unfavorable dynamics (Figure 7). Both potential risks are a function of the historically significant volatility of the current account balance and the growth rate, both in an absolute sense and from a cross-country perspective. Over the past 10 years, the growth rate of Seychelles has been over twice as volatile as the growth rates of the Maldives, Mauritius, and selected ECCU countries; roughly the same is true of the current account deficit (Table 2).

41. **Even in the absence of adverse shocks to the current account, current account balances could be lower than projected, if the foreign exchange constraint were relaxed.** The evolution of the current account in the baseline scenario is predicated on a continuation of the foreign exchange allocation framework and thus implicitly assumes that imports are administratively compressed. While it is difficult to determine the equilibrium level of

[27] The seemingly extreme dynamics generated by the growth shock are a result of the assumption that worse growth outcomes do not lead to further expenditure consolidation: expenditures remain at baseline projections in nominal terms, and the primary surplus deteriorates as a share of GDP.

imports in the Seychelles, the foreign exchange induced shortages are evidence that imports would be higher if the foreign exchange constraint was relaxed. The availability of foreign exchange for making transfers of profits and dividends would also allow for an outflow that has currently been suppressed.

42. **One ameliorating factor to the debt dynamics is the level and relative stability of foreign direct investment (FDI) flows into the Seychelles.** Despite the difficult foreign exchange environment, on average, the Seychelles has been able to attract FDI inflows of about 7 percent of GDP per year, less than flows to selected ECCU countries, but significantly more than to regional competitors Maldives and Mauritius (Table 2). Figure 8 shows the important relative contribution of the net FDI flows to the debt dynamics in the baseline scenario.

Table 1. Sensitivity of Debt-Stabilizing Primary Balance to Main Macroeconomic Parameters

		Sensitivity of Required Primary Surplus to:	
	Current Assumptions for 2006:	1 pp lower growth:	1 pp higher interest rate:
Primary Balance Required to Stabilize Debt Stock of 182 percent of GDP:	**7.0**	**9.0**	**9.0**
Automatic debt dynamics	10.2	12.2	12.2
Real GDP growth (in percent)	-1.4	-2.4	-1.2
Average nominal interest rate on public debt (in percent)	3.1	3.1	4.1
Average real interest rate (in percent)	4.1	4.1	5.1
Privatization receipts (in percent of GDP)	3.2	3.2	3.2

Sources: DSA template; and IMF staff calculations

Table 2. Comparison of Mean and Volatility of Growth and External Sector Variables

	GDP growth		Growth in exports of goods and services		Growth in imports of goods and services		Current account balance (percent of GDP) 1/		Direct investment in reporting economy (percent of GDP)	
Country	10 year avg.	10 year std.	10 year avg.	10 year std.	10 year avg.	10 year std.	10 year avg.	10 year std.	10 year avg.	10 year std.
Seychelles	**2.2**	**5.6**	**10.8**	**6.4**	**9.5**	**12.5**	**-12.0**	**7.3**	**7.0**	**1.8**
Maldives	7.6	2.2	9.8	6.6	10.6	10.0	-7.0	3.7	2.4	1.1
Mauritius	5.2	1.6	5.9	6.4	4.9	7.7	0.2	3.2	1.2	1.2
ECCU avg 2/	3.0	1.9	4.2	5.4	5.8	5.4	-19.8	4.1	12.2	2.5

Sources: WEO; and IMF staff calculations

1/ Includes interest payments

2/ Includes Grenada, St. Kitts & Nevis, St. Lucia, and St. Vincent & Grenadines

Figure 6. Public Sector Debt Dynamics, 2000–10, Baseline Scenario

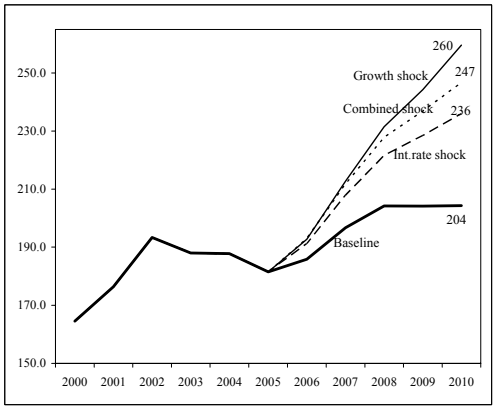


Figure 7. External Debt Dynamics, 2000–10, Baseline Scenario

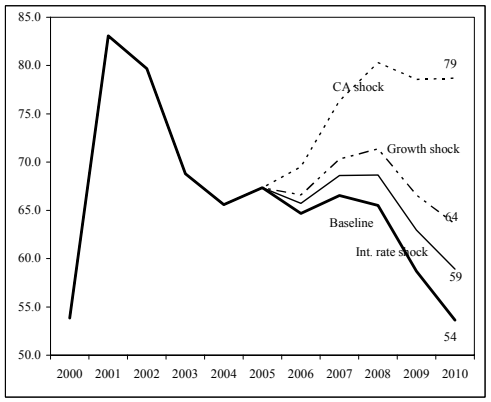
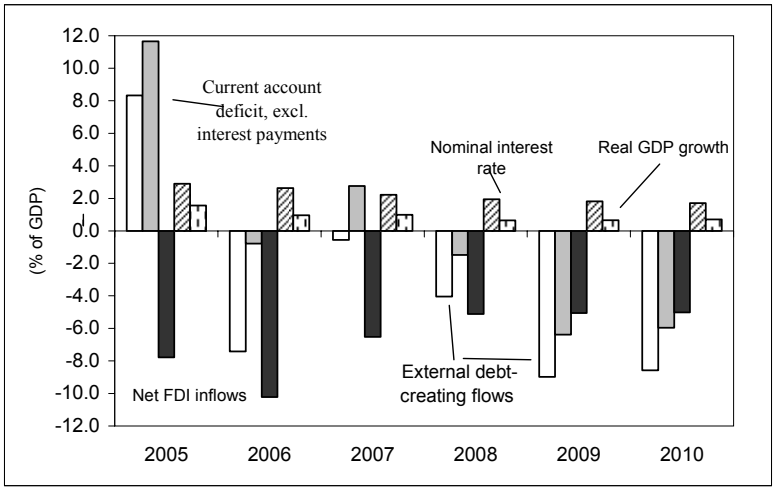


Figure 8. External Debt Dynamics: Decomposition of Contibuting Factors, 2005–10



D. Adjustment Scenario: Debt Dynamics

43. **The adjustment scenario, which features a comprehensive policy package—with exchange rate adjustment, significant fiscal effort, and structural reform as key components—provides for a resumption of positive growth, allowing the authorities to make significant inroads into debt reduction**. Under such a framework, competitiveness is restored, confidence returns, and investment increases in the context of decreased uncertainty and lower vulnerabilities, and the broad availability of foreign exchange for imports allows domestic growth to pick up significantly.

44. **Under the adjustment scenario standard shocks do not generate explosive public debt dynamics, although the significant fiscal effort required to bring about large reductions in the stock represents an important vulnerability**. According to staff projections, public debt declines significantly, by about 55 percentage points of GDP between 2006 and 2010, partly as a result of favorable growth dynamics, but also as a result of running primary surpluses of the order of 16 percentage points of GDP by 2009-10. While the interest rate-growth dynamics would be favorable enough that even a very modest

surplus would undoubtedly stabilize the debt ratio, the capacity to produce such primary surpluses may be overstated, and debt may decline slower, in line with the path representing a permanent shock to primary balance (Figure 9).

45. **The external debt stock is projected to decline to about 34 percent of GDP by 2010, and its path is fairly robust to most standard shocks** (Figure 10). The policy package is expected to produce rapid improvements in the trade balance, driven by services exports, as competitiveness improves. The current account deteriorates on policy measures that are needed to instill investor confidence in the new environment (mainly the allowance for a gradual transfer or unremitted profits and dividends), but those effects dissipate after 2007. The significant improvement in the external position allows for arrears clearance and reserve accumulation.

46. **Two important quantifiable risks to rapid consolidation in the adjustment scenario are worth highlighting: (i) that growth outcomes turn out to be less positive, and, (ii) that interest rates rise more rapidly.** Should the effect of the policy package on growth end up being overstated, public debt would decline by up to 40 percentage points less, to about 169 percent of GDP by 2010 (Figure 9) and external debt would decline by about 5 percentage points less, to about 40 percent of GDP (Figure 10). Finally, interest rate shocks are highly relevant, especially as the structure of public debt has recently shifted toward more variable-rate debt:[28] public debt may end up closer to 150 percent of GDP in 2010 under a scenario with higher interest rates.

Figure 9. Public Sector Debt Dynamics, 2000–10, Adjustment Scenario

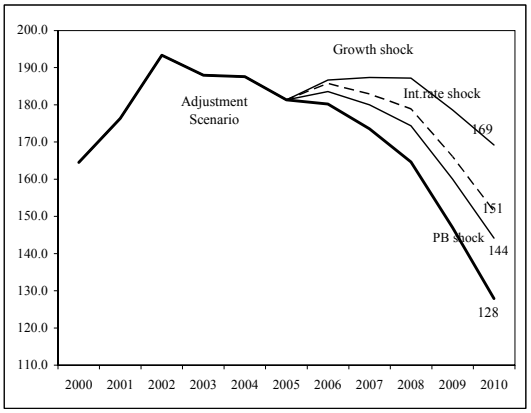
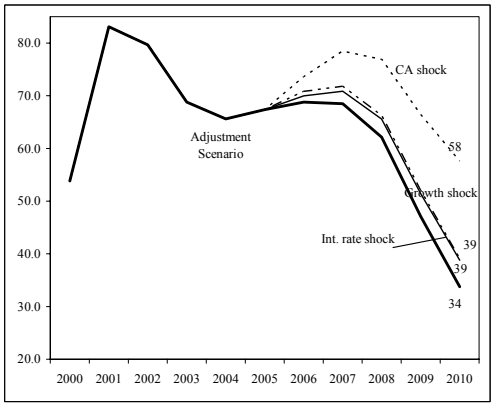


Figure 10. External Debt Dynamics, 2000–10, Adjustment Scenario



47. **A key policy-induced risk to the adjustment scenario is partial implementation of the reform package, reflected in an insufficiently large step-adjustment of the exchange rate, failure to introduce a mechanism allowing discovery of the market-clearing exchange rate, and the lack of supporting confidence-enhancing measures.** As such, partial implementation could, in broad terms, be described as: (i) having a limited impact on confidence, leading to a lower level of FDI inflows and potentially higher interest

[28] While the DSA template implicitly assumes that all debt is at variable interest rates, thus giving an upper bound on the impact of higher interest rates, higher shares of debt at variable interest rate mean potentially higher effective interest rates on debt and potentially higher volatility of interest rates than in the past.

rates relative to those assumed in the adjustment scenario; (ii) exhibiting less improvement in the current account balance, as competitiveness is not restored; (iii) resulting in lower overall growth rates, as construction and tourism post more mediocre rates; and (iv) producing a negative effect on the public sector's external payment capacity, without the accompanying benefits. The latter effect in particular suggests that it is plausible that a partial implementation of the proposed adjustment framework may provide an inferior outcome than the baseline, highlighting the importance of committing to a comprehensive package of measures, rather than a partial fix.

E. Conclusions

48. **Public debt is clearly unsustainable under current policies.** All standard plausible shocks produce explosive dynamics. In addition, the drag from the large real interest rate—growth differential in this macroeconomic environment requires the maintenance of significant fiscal surpluses in order to simply stabilize the debt ratio.

49. **The adjustment scenario presents a package of measures that succeed in reducing public debt, although the high level of the debt and the fiscal sacrifice required to continue reducing it constitute an important vulnerability.** Standard shocks of plausible magnitudes do not generate explosive dynamics. However, the fiscal effort required to bring about large reductions in the stock, while feasible, is remarkable, and, as such, may fail to materialize. Moreover, the projected consolidation of about 55 percentage points in the next five years is subject to nonnegligible risks of lower than expected growth and higher interest rates.

IV. Considerations for the Monetary Policy Framework and Monetary Operations in a More Flexible Exchange Rate Setting[29]

A. Introduction

50. **The long-standing fixed exchange rate of Seychelles has become a burden on the country's economic performance.** The exchange rate peg and pervasive exchange controls have been maintained for more than two decades and have become unsustainable as they have caused shortages of imported goods and raw materials necessary for economic growth. This situation calls for a liberalization of foreign exchange restrictions and a change in the peg.[30] Staff has recommended the gradual easing of foreign exchange restrictions and a sizeable step adjustment of the exchange rate followed by the establishment of a wide horizontal band.[31]

51. **Monetary policy has been constrained by fiscal dominance resulting in substantial excess liquidity in the financial system.** Apart from external financing, past large budget deficits were partly financed by excessive borrowing from the central bank and by the issuance of government securities to the captive banking sector. The very high local asset ratio (see Box 2), foreign exchange controls, and limited opportunities for lending to the private sector have forced banks to hold about 50 percent of their assets in government securities lately.

52. **Given its fixed exchange rate regime, Seychelles has little experience with active monetary policy.** In the current monetary framework, the development of monetary aggregates is subjected to the exchange rate target, and the central bank does not engage in active liquidity management. Correspondingly, current monetary instruments and operations are mainly rules based, with heavy reliance on the local asset ratio, standing facilities, and reserve requirements. While the present design of instruments serves the central bank in the current monetary framework more or less adequately, there are some inconsistencies among the instruments that could give rise to arbitrage opportunities in a less controlled interest rate environment.

53. **In considering a move to a more flexible exchange rate regime in Seychelles, the authorities would need to consider a change in the monetary framework.** A more flexible exchange rate regime would imply the need to find an alternative monetary anchor and to make changes in the monetary operations allowing the central bank to conduct a more active monetary policy in the future. This paper considers the options for a new monetary policy framework and the changes in monetary operations that would be necessary for conducting a more active monetary policy in the future.

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[29] Prepared by Zsofia Arvai.

[30] Although formally pegged to a basket of currency, the Seychelles rupee has been de facto pegged to the U.S. dollar at SR 5.5/U.S. dollar since September 2003.

[31] No decision has been made on the long-term exchange rate regime yet. As a first step, the focus is on the mechanism to find the market-clearing exchange rate after years of substantial misalignment.

B. Monetary Policy Framework within the More Flexible Exchange Rate Regime

54. **The recent modification of the Act on the Central Bank of Seychelles (CBS) enables the central bank to pursue an independent and active monetary policy.** Among other objectives, the central bank is given the task to promote price stability and maintain both the domestic and external value of the Seychelles currency.

55. **In the new monetary policy setting, the exchange rate would lose its role as the main monetary anchor, and new intermediate and operating targets would need to be established.** To achieve its ultimate objectives, a central bank can choose from four main types of monetary policy frameworks based on the type of intermediate target: (i) exchange rate targeting; (ii) monetary aggregate targeting; (iii) a combination of exchange rate and monetary aggregate targeting; and (iv) inflation targeting. Having the monopoly to create money, central banks can either set the price for reserve money (i.e., the interest rate) or its quantity. Thus, the operating targets can be price targets (short-term interest rates) or quantity targets (the monetary base, or its components).[32]

56. **A monetary aggregate appears to be the most viable option as the intermediate target in the more flexible exchange rate setting.** As Seychelles considers moving away from exchange rate pegging and the conditions in support of inflation targeting are not fulfilled, the adoption of a monetary aggregate as the intermediate target for monetary policy is likely to be the most feasible choice. As a first step, exchange rate targeting would not entirely be abandoned, and a wide horizontal band will be established around the new devalued parity. This band, however, ought to be wide enough to facilitate price discovery and allow the monetary aggregate be the primary intermediate target.

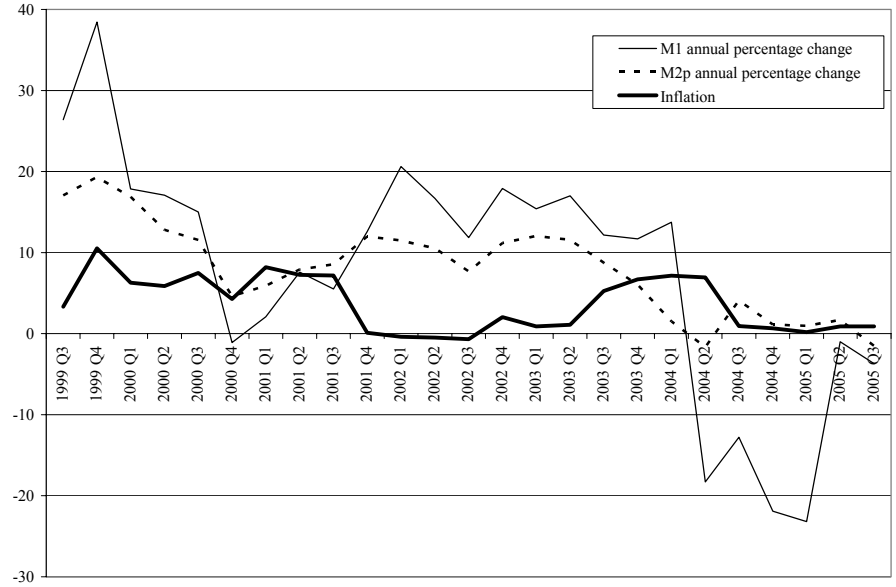
57. **Conducting monetary policy would be a difficult task initially.** In the new regime, the conduct of monetary policy will be complicated by considerable uncertainty about the monetary transmission mechanism due among other things to the lack of a proper measurement of inflation. The consumer price index (CPI) basket corresponds imperfectly to current consumption patterns, as a number of widely consumed goods were not available due to import restrictions at the time of the last survey. In addition, official CPI statistics tend to underestimate true inflation due to price repetition for unavailable items and the fact that the CPI does not reflect the price change of goods and services purchased through the parallel exchange rate market. The lack of sufficient knowledge about the monetary transmission mechanism will be exacerbated by the likely structural break following the change in the exchange rate regime.

58. **The shortcomings in inflation measurement hinder inferences for the relationship between monetary aggregates and inflation**. Based on data spanning 1999 to 2005, there does

[32] See Schaechter (2001) and IMF (2005) for more details on the selection of monetary frameworks and targets.

not seem to be a systematic relationship between M1 and M2p and inflation (Figure 11).[33] Despite double-digit growth rates and large swings in monetary aggregates, official inflation has been subdued, especially since mid-2004, partly due to the above-mentioned methodological problems with CPI. In addition, trade and price liberalization will fundamentally change the inflation process in the future, making reliance on the past relationship between money and inflation even more difficult.

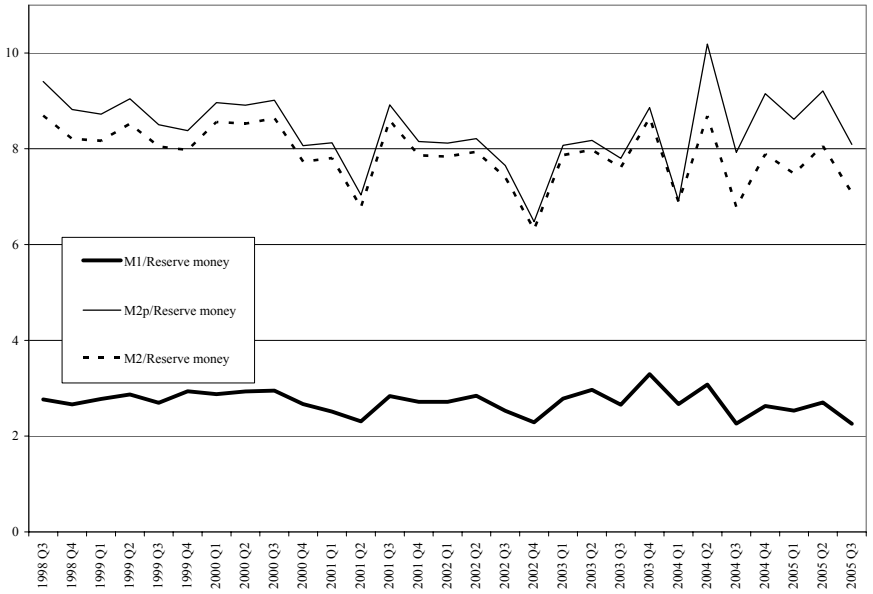
Figure 11. Seychelles: Monetary Aggregates and Inflation



59. **The relationship between reserve money and broader monetary aggregates has been relatively stable in recent years** (Figure 12). Nevertheless, the money multiplier for M1 appears to be more stable than that for M2 and M2p. The latter is a more meaningful indicator than M2 for analytical purposes, as pipeline deposits used to be 'ordinary' deposits that were converted into long-term deposits that can be withdrawn or converted into other deposits any time. The reintroduction of the pipeline in the third-quarter of 2004 resulted in some reallocation of deposits from M1 to the pipeline, which had a minor effect on the money multipliers.

[33] M2p denotes the M2 monetary aggregate including pipeline deposits in the banking system that consist of amounts of Seychelles rupees awaiting to be exchanged for foreign currency.

Figure 12. Seychelles: Money Multipliers



60. **The authorities could initially rely on reserve money as the operating target of monetary policy in view of its direct and predictable impact on monetary aggregates.** The lack of market-determined interest rates in a large segment of the yield curve and the underdevelopment of financial markets in Seychelles (see next section) are an obstacle to using the short-term rate as the operating target. Even when interest rates are allowed to be market determined, it will take some time before the linkage between short-term interest rates, monetary aggregates, and inflation will be clearly understood.

61. **Flexibility in implementation and the continuous evaluation of the new monetary framework would be crucial**. Monetary aggregate targeting may not perform well in managing shocks and is sensitive to changes in the demand for money. The CBS would be well advised to closely monitor macroeconomic indicators and stand ready to correct initial assumptions if necessary. This is all the more important for Seychelles given its long history of a pegged exchange rate regime and the lack of knowledge about the monetary transmission mechanism.

C. Financial Markets

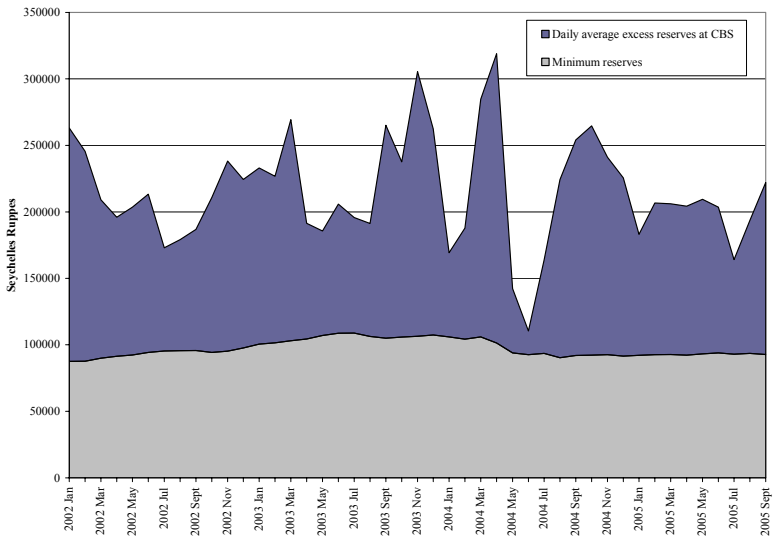
62. **Interbank market activity is modest in Seychelles.** Given the large structural surplus in the banking system and ample excess reserves held at the CBS, banks rarely experience tight liquidity, hence they rarely need to borrow from the interbank market (Figure 13).[34] The monthly volume of interbank transactions in recent years has been on average approximately 3 percent of

[34] There is no foreign exchange market, the interbank market only exists for Seychelles rupees.

monthly excess reserves held at the CBS (Figure 14).[35] Market participants confirmed that interbank trading usually consists of just a handful of transactions a month, which are collateralized with government securities.[36]

63. **The average monthly volume in the interbank Seychelles rupee market declined significantly between 2002 and 2004, but picked up in 2005** (Figure 16). The average monthly volume of transactions dropped from SR 80 million to SR 36 million between 2002 and 2004 before rising to SR 60 million in 2005. The maturity of interbank transactions is between overnight and 15 days. The interbank rate has been tracking the 91-day treasury-bill rate with a negative spread of about 60 basis points recently (Figure 6).

Figure 13. Seychelles: Required and Excess Reserves at the Central Bank



64. **Rising interest rates, in particular, could act as a catalyst for trading as the opportunity cost of holding unremunerated excess reserves is growing.** In fact, the past drop in interest rates might have played a role in the fall of interbank trading between 2002 and 2004.

[35]To arrive at monthly numbers, daily excess reserves at the central bank were multiplied by the approximate number of business days in a month (20).

[36] There were several months in 2003 when no transactions took place in the interbank market, hence the breaks in the figures.

Figure 14. Seychelles: Depth of the Interbank Market

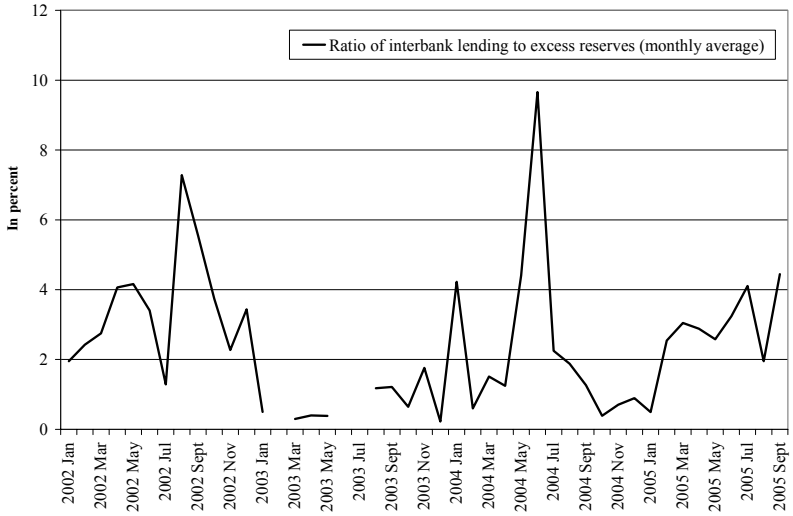


Figure 15. Seychelles: Transactions in the Interbank Market

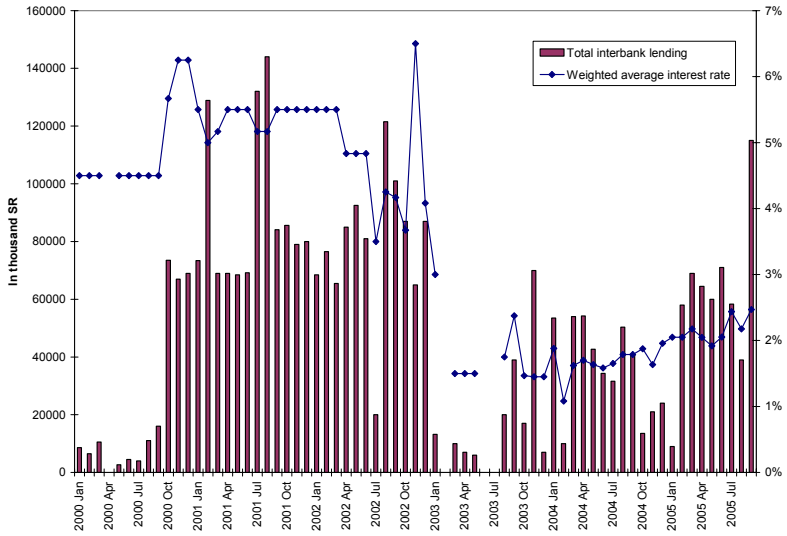
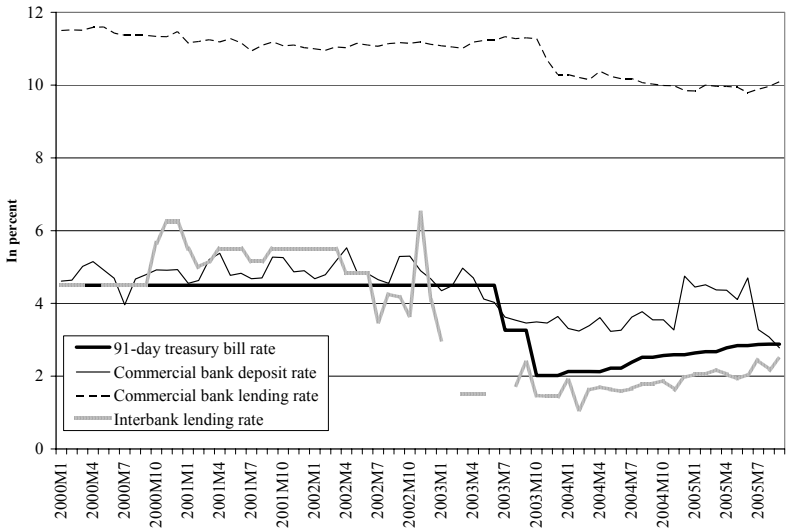


Figure 16. Seychelles: Interest Rates



65. **There is no secondary market for government securities in Seychelles.** Domestic commercial banks are the main holders of government debt. They can in principle use the rediscount facility at the CBS to sell their treasury bills, but this facility has been used infrequently. There is no rediscounting of treasury bonds or stocks. Predetermined interest rates for government debt with maturities over one year at primary issues and the lack of a secondary market means that there is no market-determined yield curve in Seychelles. Due partly to the presence of foreign exchange controls, there are no institutional and foreign investors in the market, thus it is unlikely that an active secondary market will develop in the near future. The lack of liquid financial markets and of a market-set yield curve are among the main reasons for using reserve money as opposed to the short-term interest rate as the operating target for monetary policy.

D. Monetary Instruments and Operations

66. **Monetary operations and instruments of the CBS would need to be adapted to the new monetary regime.** Currently, monetary operations rely on rules-based monetary instruments (reserve requirements, the local asset ratio, and standing facilities) and do not facilitate efficient liquidity management by the banking sector (Box 2). The introduction of monetary targeting would necessitate changes in government securities issuance and standing

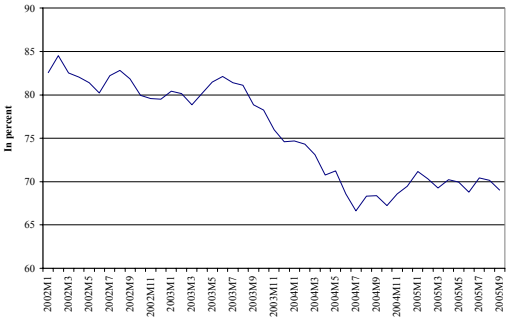
facilities in order to improve the liquidity management capacity of both the central bank and the banking system.[37]

Box 2. Current Monetary Instruments and Operations

Reserve requirements are applied against all deposits in commercial banks, excluding interbank and foreign currency deposits and pipeline deposits. The reserve requirement ratio has been set at 2.5 percent since 1998 and is unremunerated. Required reserves are placed at the central bank on a one-week averaging basis with a one-week lag. In addition, commercial banks have to place the entire amount of pipeline deposits with the central bank.

The ***local asset ratio*** (a requirement to keep certain share of liabilities in government obligations) was reduced from 70 percent to 50 percent in 2001. The base (the liabilities against which the local asset ratio is applied), averaging and lagging for the local asset ratio are the same as for required reserves. Government securities and certain government loans can be used to comply with the local asset ratio. The actual ratio has been around 70 percent since early 2005.

Box Figure 1. Seychelles: Actual Local Asset Ratio



There are four ***standing facilities*** for injecting liquidity into the banking system and all utilized government securities. The emergency lending facility provides funds for up to 14 days and is collateralized with treasury bills, whereas the short-term facility is for lending up to 30 days against treasury bonds or stocks. The rediscount facility for treasury bills and the repurchase facility for accessing funds between 30 and 90 days are used infrequently.

In addition to government financing, ***the issuance of government securities*** serves as the main instrument for liquidity absorption. Treasury bills are issued through multiple-price auctions, whereas treasury bonds and stocks are issued on tap at predetermined interest rates. Three-month treasury bill auctions are auctioned about eight times a year, while one-year bills are auctioned once a year. The settlement period of over ten days is too long and complicates liquidity management for commercial banks.

67. **An increase in the frequency of treasury bill auctions is recommended**. In the early stages of reserve money targeting, monetary operations would need to rely heavily on primary issuance of government securities to manage liquidity in the banking system. Therefore, there is a need to increase the frequency of primary auctions of short-term treasury bills to at least monthly, or preferably biweekly, tenders with a pre-announced auction calendar. More frequent auctions are especially important in the absence of a secondary market for government securities and a liquid interbank market to aid liquidity management by commercial banks.

[37] Staff provided extensive advice in past years on improving the effectiveness of monetary operations in Seychelles, most of which have not been implemented. Nevertheless, the reintroduction of auctions for treasury bills after years of tap issuance and the enactment of the new Central Bank Bill have been important measures. The recommendations in this section largely correspond to past proposals by staff.

68. **The authorities are advised to use auctions for issuing debt of all maturities and publish the auction calendar.** Interest rates on government securities should progressively be allowed to be market determined. The current practice of tap issues of government bonds with pre-set interest rates should be replaced with auctions where the interest rate is market determined. This would allow for a more efficient allocation of funds in the economy and the establishment of a yield curve. Interest rate controls for commercial banks should also be gradually dismantled to avoid distortions in the allocation of funds and the structure of interest rates. To follow international best practices and aid the banking sector's liquidity management, it would be useful to publish preannounced auction calendars for all maturities, while the exact amount to be auctioned could be determined a few weeks in advance of the auctions. The period between the tender and the issue of securities could usefully be shortened from the prevailing settlement period of over ten days.

69. **The authorities might want to consider converting part of the central bank's long-term, nonmarketable government bond to short-term, marketable securities in preparation for more active liquidity management.** CBS advances to the government were converted in 2005 into a nontradable 20-year government bond totaling SR 1,460 million with the interest rate tied to the one-year treasury-bill rate. The conversion of this bond into short-term marketable securities would allow the central bank to undertake transactions either on an outright or repurchase basis to smooth out liquidity fluctuations and reduce the reliance of liquidity management on primary issuance.

70. **Additional refinements to monetary instruments would also aid more effective monetary policy in the future.** The current lending facilities of the central bank could be rationalized by offering only one secured overnight overdraft facility with a penalty rate tied to market interest rates (for example, to a moving average of the three-month treasury bill rate). This new facility would increase transparency and encourage more active trading in the interbank market. The current system of several lending facilities with different collaterals and interest rates could easily give rise to arbitrage opportunities in a less controlled and more volatile interest rate environment. The establishment of a deposit facility at the central bank would also be helpful to limit the volatility of short-term interest rates. The interest rate on the deposit facility would also be tied to market rates. The lending and deposit facilities would thus form a corridor, which should be sufficiently wide to maintain incentives for commercial banks to engage in interbank trading.

71. **The authorities' intention to raise the reserve requirement ratio and remunerate required reserves would aid the implementation of monetary policy in the new monetary regime.** A rise in required reserves would limit the volatility of broader monetary aggregates in the new reserve money targeting framework. This move would also be needed to absorb the liquidity released by the elimination of the pipeline deposit scheme that would be undertaken in conjunction with the exchange rate liberalization.

E. Conclusion

72. **In the event of a shift to a more flexible exchange rate, monetary aggregate targeting appears to be the most feasible first step.** The choice of the intermediate target would require further study, but preliminary calculations indicate that the money multiplier for M1 has been more stable than that for broader aggregates in recent years. Initially, reserve money would be more suitable than short-term interest rates as the operating target in light of thin money markets and uncertainty about the appropriate level of interest rates.

73. **Uncertainty about the monetary transmission mechanism is likely to be the biggest challenge to conducting monetary policy in the new monetary regime.** Given the long history of the peg and distortions in inflation measurement, inferences about the monetary transmission mechanism are unlikely to be reliable initially. Thus, the central bank would have to conduct monetary policy on a "learning-by-doing" basis. Flexibility in implementation and continuous assessment of the new framework would be essential, and the central bank should stand ready to adjust initial assumptions as necessary.

74. **Key recommendations on monetary operations in this paper focused on preparations for a more active monetary policy in the new, more flexible exchange rate regime.** This would include extending auction-based government securities issuance to all maturities, gradual dismantling of interest rate controls, increasing the frequency of treasury bill auctions, and refinements to monetary instruments. The recommended changes could be relatively easily implemented technically by the CBS, but the replacement of tap issues of government securities with auctions requires the resolve of the authorities to accept market determined interest rates.

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Table 1. Seychelles: Gross Domestic Product by Industrial Origin at Constant 1986 Market Prices, 2000-04
(Annual percentage change)

	2000	2001	2002	2003	2004
Agriculture, forestry, and fishing	4.7	-5.0	1.8	-8.1	-0.7
Agriculture	6.2	-4.6	0.9	-1.8	0.0
Forestry	-2.9	0.0	0.0	0.0	0.0
Fishing	1.6	-6.8	5.2	-27.9	-3.7
Manufacturing and handicrafts	35.6	-3.1	2.9	-11.4	-8.8
Manufacturing	36.1	-3.5	3.2	-11.3	-9.0
Handicrafts	21.9	10.2	-17.2	-14.7	-1.0
Electricity and water	-23.5	5.0	18.9	1.7	1.3
Electricity	-28.0	5.4	19.7	1.6	1.3
Water	-141.8	-17.4	-29.3	10.1	0.0
Building and construction	-0.2	1.3	4.2	-20.2	34.0
Transport, distribution, and communications	6.5	-4.7	-2.2	-11.2	-2.9
Distribution and road freight	4.9	-5.6	-3.4	-12.7	-3.0
Water transport, etc.	-12.9	-5.6	-12.8	3.2	-2.9
Air transport, etc.	6.9	-5.5	3.2	-14.9	-3.0
Passenger transport	37.9	-3.0	6.3	-10.3	-3.0
Tour operators	146.4	-5.8	10.3	-14.7	3.3
Communications and storage	36.3	5.8	0.0	-0.7	2.0
Hotels and restaurants	10.9	10.0	-0.9	-11.7	-2.0
Finance and business services	-0.9	-0.7	-5.4	-4.3	1.3
Banks	5.3	-7.9	-8.4	-7.4	-1.0
Insurance	20.5	-0.7	-3.3	-3.3	-1.2
Business services	-18.0	-0.9	-17.0	-3.3	-1.1
Real estate	7.0	0.0	-1.4	-4.2	5.2
Ownership of dwellings	-14.7	13.0	0.0	-0.4	5.0
Government services	8.8	-1.2	8.3	-10.8	-4.0
Other services	-3.9	0.3	8.1	-5.3	-1.6
Private, nonprofit institutions	-4.2	0.0	0.0	-3.0	-4.4
Domestic services	2.9	-2.1	0.0	-2.5	0.0
Recreation	-8.6	2.7	4.6	-8.6	0.0
Other	-6.1	0.0	1.2	-3.5	0.0
Subtotal	8.4	-2.2	1.2	-10.5	-0.4
Adjustments					
Net interest payments by banks	-45.0	-1.2	-13.7	6.7	0.0
Import duty	-7.9	-1.2	-2.3	22.5	-10.0
Statistical discrepancies	0.0	0.0	0.0	0.0	0.0
GDP at 1986 market prices 1/	4.2	-2.2	1.3	-6.3	-2.0

Source: National Statistics Bureau.

1/ Figures might deviate from arithmetical sum, owing to rounding.

Table 2. Seychelles: Gross Domestic Product by Industrial Origin at Current Market Prices, 2000-04
(In millions of Seychelles rupees, unless otherwise indicated)

	2000	2001	2002	2003	2004
Agriculture, forestry, and fishing	99.4	103.0	110.3	100.5	100.7
Agriculture	61.7	58.5	59.5	60.1	61.9
Forestry	2.2	2.0	2.0	2.0	2.3
Fishing	35.5	42.5	48.8	38.4	36.5
Manufacturing and handicrafts	674.9	654.8	698.0	623.2	645.0
Manufacturing	651.1	628.6	669.5	596.9	614.6
Handicrafts	23.8	26.2	28.5	26.3	30.4
Electricity and water	47.8	61.5	74.7	78.7	61.1
Electricity	36.5	52.3	67.8	71.4	69.0
Water	11.3	9.2	6.9	7.3	-7.9
Building and construction	296.8	307.4	384.2	342.5	379.8
Transport, distribution, and communications	1,032.9	1,069.8	1,110.6	1,088.9	1,173.1
Distribution and road freight	453.2	475.1	489.8	479.7	489.5
Water transport, etc.	90.4	78.0	88.1	93.5	102.3
Air transport, etc.	124.0	116.5	118.7	109.5	112.8
Passenger transport	64.8	69.7	74.0	68.3	70.3
Tour operators	38.1	41.9	45.6	42.1	46.7
Communications and storage	262.4	288.6	294.4	295.8	351.5
Hotels and restaurants	324.2	383.7	379.8	350.5	389.0
Finance and business services	362.4	364.4	376.3	378.5	381.2
Banks	196.1	193.7	202.4	203.3	203.8
Insurance	42.4	46.1	50.9	51.1	57.2
Business services	35.7	32.4	30.7	30.8	25.9
Real estate	7.0	7.2	7.2	7.2	7.8
Ownership of dwellings	81.2	85.0	85.1	86.1	86.5
Government services	433.0	443.0	458.0	488.8	492.5
Other services	91.2	99.1	101.5	101.9	105.5
Private, nonprofit institutions	17.6	16.4	16.6	16.7	16.9
Domestic services	16.8	16.0	16.1	16.3	19.7
Recreation	39.8	41.0	42.8	42.8	46.1
Other	17.0	25.7	26.0	26.1	22.8
Subtotal	3,362.6	3,486.7	3,693.4	3,553.5	3,727.9
Adjustments					
Net interest payments by banks	-165.2	-175.6	-172.8	-173.6	-258.3
Import duty	315.9	311.4	304.9	417.3	397.4
Statistical discrepancies	0.0	0.0	0.0	0.0	0.0
GDP at current market prices	3,513.3	3,622.5	3,825.5	3,797.2	3,867.0
GDP deflator (1986=100)	1.34	1.42	1.48	1.57	1.63

Source: National Statistics Bureau (NSB); and Fund staff estimates.

Table 3. Seychelles: Expenditure on Gross Domestic Product, 2000-04
(In millions of Seychelles rupees at current prices, unless otherwise indicated)

	2000	2001	2002	2003	2004
Consumption	2,743.8	2,945.4	3,100.6	3,302.3	3,322.6
Public	850.0	897.0	868.0	973.0	976.0
Private 1/	1,893.8	2,048.4	2,232.6	2,329.3	2,346.6
Investment	884.5	1,459.6	981.3	382.2	567.1
Gross fixed capital formation	884.5	1,459.6	981.3	382.2	567.1
Public	484.9	911.5	360.7	85.5	145.0
Private 2/	399.6	548.1	620.6	296.7	422.1
Increase in stocks and herds					
Total expenditure	3,628.3	4,405.0	4,081.9	3,684.5	3,889.7
Exports minus imports 3/	-115.0	-782.5	-256.4	112.7	-22.7
Statistical discrepancies	0.0	0.0	0.0	0.0	0.0
Gross domestic product at market prices	3,513.3	3,622.5	3,825.5	3,797.2	3,867.0
Memorandum items:					
Net factor income from abroad	-190.2	-171.2	-372.6	-233.3	-183.2
Gross national product at market prices	3,323.1	3,451.3	3,452.9	3,563.9	3,683.8
Less net indirect taxes	622.2	637.3	685.7	687.7	688.3
Less depreciation	259.1	267.1	282.3	280.0	276.1
Net national product at factor cost (national income)	2,441.8	2,546.9	2,484.9	2,596.2	2,719.4
Gross domestic savings	769.5	677.1	724.9	494.9	544.4
Ratio of total expenditure to GDP (percent)	103.3	121.6	106.7	97.0	100.6

Source: National Statistics Bureau (NSB); and Fund staff estimates.

1/ Calculated based on average expenditure of households from the 1999/2000 Households Income and Expenditure Survey.
2/ Calculated as the residual.
3/ Goods and nonfactor services; discrepancies with balance of payments figures are likely a result of parallel market transactions outside the banking system.

Table 4. Seychelles: Production Indicators, 2000-04
(In metric tons; unless otherwise indicated)

	2000	2001	2002	2003	2004
Agricultural crops					
Copra					
Exports	52	72	11	0	0
Deliveries to warehouse	377	421	262	296	293
Cinnamon bark					
Exports 1/	177	147	158	112	73
Deliveries to warehouse	25	187	116	148	205
Tea, green leaf	246	231	222	261	214
Fish landed, artisanal sector	4,768	4,442	4,896	3,852	4,177
Canned tuna					
Production	28,781	27,789	34,503	36,436	36,109
Exports	31,118	32,992	39,170	35,757	36,738
Fish transshipped 2/	55	48	69	81	78
Beverage production					
Beer and stout	7,046	7,241	7,605	6,519	6,316
Soft drinks	8,806	8,700	9,421	8,094	6,760
Cigarette production	40	36	24	50	22
Electricity production	189	210	229	241	226
Slaughter					
Cattle (in heads)	147	129	83	85	117
Pigs (in heads)	8,619	8,648	8,808	8,027	9,461
Chickens (in thousands)	735	700	675	766	750

Source: National Statistics Bureau (NSB).

1/ Actual shipments by Union Lighterage Company.
2/ Estimates relate to fish caught by foreign fishing vessels in the western Indian Ocean and transshipped in Seychelles.

Table 5. Seychelles: Indicators of Prices, Wages, and Employment, 2000-04

	2000	2001	2002	2003	2004
	(Indices; period averages)				
Retail prices - all income groups (2001=100) 1/	94.4	100.0	100.2	103.5	107.5
Domestic goods (62.5) 2/	95.5	100.0	100.6	104.6	108.2
Fish (2.6)	86.4	100.0	104.9	114.3	106.2
Other food (11.9)	97.4	100.0	102.0	105.5	108.5
Nonfood (49.0)	95.6	100.0	100.1	103.9	108.2
Imported goods (37.5)	92.2	100.0	99.4	101.6	106.3
Food (14.5)	96.1	100.0	98.8	99.4	100.5
Nonfood (23.0)	91.0	100.0	99.8	103.0	109.9
External terms of trade (1986=100)	114.1	112.1	112.0	113.8	114.4
Export prices	102.3	96.6	98.9	112.2	129.1
Tourism prices	99.5	101.8	119.2	125.6	142.1
Import prices	89.7	86.2	88.4	98.6	113.0
Average wages (1980=100)	221.7	226.6	229.8	238.9	245.8
Formal employment (1980=100)	184.2	189.7	195.0	189.8	187.9
	(Annual percent change)				
Retail prices, all income groups	6.2	6.1	0.2	3.3	3.9
Domestic goods	7.2	4.7	0.6	4.0	3.4
Imported goods	4.4	8.5	-0.6	2.2	4.6
Import prices	3.3	-3.9	2.5	11.5	14.6
Average wages	2.1	2.2	1.4	4.0	2.9
Formal employment	3.6	3.0	2.8	-2.7	-1.0

Source: National Statistics Bureau (NSB); and Fund staff estimates.

1/ Weights in percent shown in parentheses.
2/ Includes goods with high import content.

Table 6. Seychelles: Average Formal Employment by Principal Sectors, 2000-04

	2000	2001	2002	2003	2004
	(Number of people employed)				
Agriculture, forestry, and fishing	2,129	2,143	2,122	1,080	1,044
Manufacturing, electricity, and water	4,786	4,770	4,690	5,448	5,265
Building and construction	2,538	2,542	2,778	2,055	2,141
Wholesale and retail trade	2,696	2,994	3,110	2,494	2,482
Transport, storage, and communications	3,517	3,625	3,693	2,953	3,181
Tourism related	1,467	1,531	1,558	1,415	1,362
Other	2,050	2,094	2,135	1,539	1,820
Restaurants	475	530	518	610	433
Hotels	3,816	3,819	3,778	4,081	3,989
Services	12,174	12,682	13,330	14,390	14,210
Public administration	3,184	3,138	3,026	5,453	5,705
Finance and business	1,812	1,886	1,896	2,281	2,046
Social and community	6,111	6,564	7,290	4,559	4,325
Other	1,067	1,094	1,118	2,097	2,134
All sectors	32,131	33,105	34,017	33,111	32,782
Government	10,309	10,695	11,242	10,244	10,293
Parastatal	4,740	5,046	5,100	5,459	5,545
Private	17,082	17,363	17,675	17,408	16,944
	(In percent of total)				
Agriculture, forestry, and fishing	6.6	6.5	6.2	3.3	3.2
Manufacturing, electricity, and water	14.9	14.4	13.8	16.5	16.1
Building and construction	7.9	7.7	8.2	6.2	6.5
Wholesale and retail trade	8.4	9.0	9.1	7.5	7.6
Transport, storage, and communications	10.9	11.0	10.9	8.9	9.7
Tourism related	4.6	4.6	4.6	4.3	4.2
Other	6.4	6.3	6.3	4.6	5.6
Restaurants	1.5	1.6	1.5	1.8	1.3
Hotels	11.9	11.5	11.1	12.3	12.2
Services	37.9	38.3	39.2	43.5	43.3
Public administration	9.9	9.5	8.9	16.5	17.4
Finance and business	5.6	5.7	5.6	6.9	6.2
Social and community	19.0	19.8	21.4	13.8	13.2
Other	3.3	3.3	3.3	6.3	6.5
All sectors	100.0	100.0	100.0	100.0	100.0
Government	32.1	32.3	33.0	30.9	31.4
Parastatal	14.8	15.2	15.0	16.5	16.9
Private	53.2	52.4	52.0	52.6	51.7

Source: National Statistics Bureau (NSB).

Table 7. Seychelles: Average Monthly Earnings in Formal Employment by Principal Sectors, 2000-04

	2000	2001	2002	2003	2004
	(In millions of Seychelles rupees)				
Agriculture, forestry, and fishing	3,046	3,097	3,259	2,863	3,086
Manufacturing, electricity, and water	3,303	3,421	3,552	3,144	3,183
Building and construction	2,814	2,882	2,875	2,668	3,052
Wholesale and retail trade	2,689	2,584	2,617	2,757	2,857
Transport, storage, and communications					
Tourism related	4,547	4,611	4,958	5,088	5,207
Other	4,326	4,404	4,637	4,723	4,875
Restaurants	2,517	2,770	2,779	2,639	3,102
Hotels	2,947	3,012	3,197	3,412	3,477
Public administration	3,886	3,949	4,032	4,116	4,065
Finance and business	3,796	3,934	3,994	4,457	4,090
Social and community	3,420	3,423	3,395	3,677	4,010
Other	2,865	2,907	2,838	3,805	3,815
All sectors	3,343	3,417	3,465	3,603	3,708
Government	3,561	3,581	3,593	3,918	3,971
Parastatal	3,693	3,648	3,865	3,984	4,038
Private	3,208	3,303	3,269	3,297	3,441
	(Annual percentage change)				
Agriculture, forestry, and fishing	0.7	1.7	5.2	-12.2	7.8
Manufacturing, electricity, and water	-0.5	3.6	3.8	-11.5	1.2
Building and construction	2.5	2.4	-0.2	-7.2	14.4
Wholesale and retail trade	5.7	-3.9	1.3	5.3	3.6
Transport, storage, and communications					
Tourism related	3.4	1.4	7.5	2.6	2.3
Other	2.0	1.8	5.3	1.9	3.2
Restaurants	5.4	10.1	0.3	-5.0	17.5
Hotels	0.4	2.2	6.1	6.7	1.9
Public administration	2.1	1.6	2.1	2.1	-1.2
Finance and business	-0.7	3.6	1.5	11.6	-8.2
Social and community	3.0	0.1	-0.8	8.3	9.1
Other	10.3	1.5	-2.4	34.1	0.3
All sectors	2.1	2.2	1.4	4.0	2.9
Government	2.5	0.6	0.3	9.0	1.4
Parastatal	-0.2	-1.2	5.9	3.1	1.4
Private	3.7	3.0	-1.0	0.9	4.4

Source: National Statistics Bureau (NSB).

Table 8. Seychelles: Tourism Statistics, 2000-04

	2000	2001	2002	2003	2004
Visitor arrivals					
Number (thousands)	130.0	129.8	132.3	122.1	120.8
Percent change	4.2	-0.2	1.9	-7.7	-1.1
Purpose (thousands)					
Holiday	117.6	116.2	117.1	109.7	108.1
Business	6.5	6.4	7.0	6.1	6.7
Transit and other	5.9	7.2	8.2	6.2	5.9
Nights spent					
Number (thousands)	1,352.0	1,349.9	1,336.0	1,233.0	1,208.0
Percent change	4.1	-0.2	-1.0	-7.7	-2.0
Average number of nights spent	10.4	10.4	10.1	10.1	10.0
Value added in tourism					
(In millions of Seychelles rupees; current prices)	630.8	697.8	707.0	660.3	761.0
Tourism receipts 1/					
Total (in millions of Seychelles rupees)	600	651	707.0	682	756
Per arrival (in Seychelles rupees)	4,614	5,002	5,344.0	5,586	6,263
Per night (in Seychelles rupees)	444	481	529	553	624
Purpose (percent of arrivals)					
Holiday	90.5	89.5	88.5	89.9	89.6
Business	5.0	4.9	5.3	5.0	5.6
Transit and other	4.5	5.5	6.2	5.1	4.9
Residency (percent of arrivals)					
Europe	80.1	79.3	79.8	81.7	81.5
Africa	10.6	10.7	10.5	11.2	10.5
Other	9.3	10.0	9.7	7.2	8.1
Beds available (average number)	5,000	4,940	4,780	4,930	5,030
Bed occupancy rate (percent)	52.0	51.0	51.0	46.0	44.0
Cruise ship passengers (number) 2/	10,176	7,562	3,038	6,781	7,450
Air travelers (number)	126,668	126,649	129,220	118,886	117,108

Sources: National Statistics Bureau; and Central Bank of Seychelles.

1/ Commercial bank purchases of foreign exchange from tourism sector. Unadjusted figures, which include purchases from residents and sales to visitors returning home.
2/ Not included as visitors.

Table 9. Seychelles: Visitor Arrivals by Country of Residence, 2000-04

	2000	2001	2002	2003	2004
			(In thousands of persons)		
Europe	104.1	102.9	105.6	99.7	98.4
United Kingdom and Ireland	16.4	17.5	19.3	19.1	18.0
Italy	20.0	21.1	20.0	17.8	17.1
France	28.3	25.4	28.3	26.0	26.0
Germany	17.7	16.8	15.1	15.9	15.5
Switzerland	5.0	5.2	5.2	4.7	4.5
Scandinavia	4.3	3.5	3.6	3.1	2.8
Spain and Portugal	3.0	4.3	3.4	2.6	3.0
Other Europe	9.4	9.1	10.6	10.5	11.5
Africa	13.8	13.9	13.9	13.6	12.7
Reunion, France	2.8	3.0	2.9	2.8	2.6
Mauritius	3.1	2.7	3.1	2.4	2.3
East Africa	1.6	1.3	1.5	1.2	1.2
South Africa	4.3	4.4	4.2	5.0	5.1
Other Africa	2.0	2.5	2.2	2.2	1.5
Asia and Middle East	5.4	5.5	8.6	4.8	5.0
Middle East	1.9	1.8	4.6	2.1	2.0
India and Pakistan	1.3	1.7	1.8	1.0	1.1
Hong Kong SAR	0.1	0.1	0.4	0.1	0.1
Japan	0.4	0.4	0.4	0.3	0.3
Other Far East	1.7	1.5	1.3	1.1	1.5
Western Hemisphere	6.2	6.9	3.7	3.5	4.0
United States	4.7	5.8	3.0	2.8	3.1
Other Western Hemisphere	1.5	1.1	0.7	0.7	0.9
Other	0.5	0.6	0.5	0.5	0.7
Total	130.0	129.8	132.3	122.0	120.8
			(In percent of total)		
Europe	80.1	79.3	79.8	81.7	81.5
United Kingdom and Ireland	12.6	13.5	14.6	15.7	14.9
Italy	15.4	16.3	15.1	14.6	14.2
France	21.8	19.6	21.4	21.3	21.6
Germany	13.6	12.9	11.4	13.0	12.8
Switzerland	3.8	4.0	3.9	3.9	3.7
Scandinavia	3.3	2.7	2.7	2.5	2.3
Spain and Portugal	2.3	3.3	2.6	2.1	2.5
Other Europe	7.2	7.0	8.0	5.8	9.5
Africa	10.6	10.7	10.5	11.2	10.5
Reunion, France	2.2	2.3	2.2	2.3	2.0
Mauritius	2.4	2.1	2.3	1.9	1.9
East Africa	1.2	1.0	1.1	1.0	1.0
South Africa	3.3	3.4	3.2	4.1	4.2
Other Africa	1.5	1.9	1.7	1.8	1.2
Asia and Middle East	4.2	4.2	6.5	3.9	4.1
Middle East	1.5	1.4	3.5	1.7	1.6
India and Pakistan	1.0	1.3	1.4	0.8	0.9
Hong Kong SAR	0.1	0.1	0.3	0.1	0.1
Japan	0.3	0.3	0.3	0.3	0.2
Other Far East	1.3	1.2	1.0	0.9	1.3
Western Hemisphere	4.8	5.3	2.8	2.8	3.3
United States	3.6	4.5	2.3	2.3	2.6
Other Western Hemisphere	1.2	0.8	0.5	0.6	0.7
Other	0.4	0.5	0.4	0.4	0.6
Total	100.0	100.0	100.0	100.0	100.0

Source: National Statistics Bureau.

Table 10. Seychelles: Value Added in Tourism by Subsector, 2000-04
(In thousands of Seychelles rupees)

	2000	2001	2002	2003	2004
Hotels and restaurants	324.2	383.7	379.8	350.5	389.0
Handicrafts	23.8	26.2	28.5	26.3	30.4
Air transport, etc.	124.0	116.5	118.7	109.5	112.8
Tour operators	38.1	41.9	45.6	42.1	46.7
Passenger transport 1/	32.4	34.9	37.0	34.2	70.3
Communications 1/	52.5	57.7	58.9	59.2	70.3
Recreational services 1/	35.8	36.9	38.5	38.5	41.5
Total	630.8	697.8	707.0	660.3	761.0

Sources: National Statistics Bureau (NSB).

1/ Not all value added of these subsectors is attributed to tourism.

Table 11. Seychelles: Retail Prices for All Income Groups by Types of Goods, 2000-04
(Indices, 2001= 100, unless otherwise indicated; period averages)

	Weights 1/	2000	2001	2002	2003	2004
Fish (local)	2.6	86.4	100.0	104.9	114.3	106.2
Other food	25.5	96.8	100.0	100.2	102.0	103.9
Bread and cereals	8.7	...	100.0	98.8	99.1	100.8
Meat (fresh, chilled, and frozen)	3.3	...	100.0	100.0	103.0	107.7
Fish (frozen, smoked, and salted)	0.2	...	100.0	100.0	103.6	111.4
Milk, cheese, and eggs	1.9	...	100.0	99.2	100.9	107.6
Oils and fats	1.0	...	100.0	100.0	100.0	97.7
Fruits	0.9	...	100.0	101.3	104.2	99.0
Vegetables	3.8	...	100.0	104.9	107.8	103.6
Sugar, jam, honey, and confectionary	3.0	...	100.0	99.6	102.2	107.1
Food products	0.2	...	100.0	98.9	100.2	102.7
Nonalcoholic beverages	2.6	...	100.0	99.7	103.1	107.5
Nonfood items	71.9	94.3	100.0	100.0	103.5	108.8
Alcoholic beverages	10.7	...	100.0	99.9	109.4	118.8
Tobacco	0.5	...	100.0	99.5	101.7	103.8
Clothing and footwear	6.7	...	100.0	100.0	105.7	118
Housing, water, electricity, and gas	14.8	...	100.0	100.2	101.8	103.1
Furniture and household equipment	9.0	...	100.0	99.7	101.1	107.1
Health	1.3	...	100.0	98.2	104.2	109.1
Transport	5.8	...	100.0	100.0	102.8	105.9
Communication	4.5	...	100.0	97.6	98.8	105.9
Recreatrion and culture	5.5	...	100.0	100.0	100.7	104.5
Education	1.4	...	100.0	99.4	98.2	108.4
Restaurants and hotels	0.1	...	100.0	104.2	118.8	145.8
Miscellaneous goods and services	11.7	...	100.0	101.3	105.2	107.3
All items (index)	77.0	94.4	100.0	100.2	103.5	107.5
All items (percentage change)	2.0	6.3	5.9	0.2	3.3	3.9

Source: National Statistics Bureau (NSB).

1/ New weights used since January 2002 based on the results of the Household Income and Expenditure Survey, 1999/2000.

Table 12. Seychelles: Consolidated Government Operations, 2000-04 1/

	2000	2001	2002	2003	2004
			(In millions of Seychelles rupees)		
Total revenue and grants	1,428.8	1,382.0	1,531.1	1,873.6	1900.4
Total revenue	1,397.0	1,368.0	1,529.8	1,873.6	1900.4
Tax	1,116.1	1,112.7	1,202.4	1,450.9	1533.5
Nontax	280.9	255.3	327.3	422.7	366.8
External grants	31.8	14.0	1.4	0.0	0.0
Expenditure and net lending	1,871.3	1,715.9	2,247.1	1,773.6	1958.8
Current expenditure	1,437.8	1,477.1	1,843.3	1,686.9	1791.1
Of which : wages and salaries	502.5	513.8	525.2	547.8	549.9
interest	212.7	223.8	325.8	265.4	300.4
Capital expenditure	484.9	211.5	360.7	85.5	166.7
Net lending	-51.4	27.3	43.1	1.2	1.0
Current balance (deficit -)	-40.8	-109.1	-313.5	186.7	109.3
Overall deficit, accrual basis	-442.6	-334.0	-716.0	106.8	-58.4
Arrears (net; reduction -) 2/	0.0	0.0	0.0	39.3	29.6
Overall deficit, cash basis	-442.6	-334.0	-716.0	146.1	-28.8
Financing	442.6	334.0	716.0	-146.1	28.8
Foreign financing (net), cash basis	235.4	123.9	-163.7	12.6	-10.8
Gross borrowing	216.6	1.1	214.1	28.0	4.2
Amortization	-33.0	-14.6	480.1	-302.0	-219.1
Change in arrears on amortization	51.8	137.5	102.3	286.6	204.1
Domestic financing	207.1	210.1	792.2	-154.2	-47.6
Banking system	192.0	203.0	582.0	-333.2	-291.5
Nonbanking system 3/	15.1	7.1	73.6	6.0	138.9
Other 4/	0.0	0.0	87.5	-4.5	87.2
			(In percent of GDP)		
Total revenue and grants	40.7	38.1	40.0	49.3	49.1
Total revenue	39.8	37.8	40.0	49.3	49.1
External grants	0.9	0.4	0.0	0.0	0.0
Expenditure and net lending	53.3	47.4	58.7	46.7	50.7
Current expenditure	40.9	40.8	48.2	44.4	46.3
Of which : wages and salaries	14.3	14.2	13.7	14.4	14.2
interest	6.1	6.2	8.5	7.0	7.8
Capital expenditure	13.8	5.8	9.4	2.3	4.3
Net lending	-1.5	0.8	1.1	0.0	0.0
Overall deficit, accrual basis	-12.6	-9.2	-18.7	2.8	-1.5
Overall deficit, cash basis	-12.6	-9.2	-18.7	3.8	-0.7
Financing	12.6	9.2	18.7	-3.8	0.7
External, excluding grants (net)	6.7	3.4	-4.3	0.3	-0.3
Domestic	5.9	5.8	20.7	-4.1	-1.2
Banks	5.5	5.6	15.2	-8.8	-7.5
Nonbanks 3/	0.4	0.2	1.9	0.2	3.6
Other 4/	0.0	0.0	2.3	-0.1	2.3
Memorandum item:					
Nominal GDP (in millions of Seychelles rupees)	3,513.3	3,622.5	3,825.5	3,797.2	3867.0

Sources: Ministry of Finance; Social Security Fund; Central Bank of Seychelles; and Fund staff estimates.

1/ Includes the central government and the social security system.
2/ Includes identified arrears on foreign interest payments.
3/ Includes securities held by the non-bank private sector and sales of fixed assets.
4/ This represents the difference between identified budget revenues and expenditures, on the one hand, and the unidentified financing of the consolidated budget, on the other.

Table 13. Seychelles: Consolidated Government Revenue, 2000-04
(In millions of Seychelles rupees)

	2000	2001	2002	2003	2004
Tax revenue	1,116.1	1,112.7	1,202.4	1,450.9	1533.5
Taxes on income and profits	244.3	228.1	253.1	276.6	297.3
Social Security Fund (SSF)	235.7	232.5	262.7	277.9	272.5
Other contribution to the SSF	227.0	228.0	253.2	269.7	264.0
Other revenue 1/	8.7	4.5	9.5	8.2	8.5
Taxes on goods, services, and trade	578.0	596.0	640.8	841.0	912.5
Trade taxes on imports	315.9	311.1	360.3	394.1	394.1
Trade taxes on domestic goods	171.9	172.4	159.1	214.4	238.7
Trade taxes on domestic services	90.1	112.5	121.4	160.4	196.9
Other indirect domestic taxes	41.8	41.7	45.8	55.5	51.3
Motor vehicles	17.1	17.1	44.2	53.8	49.6
Other indirect taxes 2/	24.6	24.6	1.6	1.6	1.7
Taxes on property	0.0	0.0	0.0	0.0	0.0
Other taxes	16.3	14.3	0.0	0.0	0.0
Nontax revenue	280.9	255.3	327.3	422.7	366.8
Administrative fees and charges	205.6	214.9	234.3	247.5	279.0
Of which : Business and professional licenses	39.2	46.7	86.1	98.4	121.9
Fishing	25.6	37.6	34.9	42.6	37.8
Hotels	3.8	1.0	0.7	1.0	0.7
Others	9.9	8.0	50.5	54.8	83.4
Property income	69.8	39.3	69.3	172.5	55.4
Of which : dividends from parastatals	53.3	24.8	51.8	148.6	46.2
Transfer of profits from central bank	3.5	0.0	21.9	0.0	16.7
Post office surplus	0.0	0.0	0.0	0.0	0.0
Capital revenue	21.1	12.0	73.5	117.3	122.3
Sale of land	17.6	11.0	10.2	9.0	6.5
Sales of other fixed assets	3.6	1.0	63.3	108.3	115.8
Other nontax	1.9	1.1	1.9	2.7	
Total revenue	1,397.0	1,368.0	1,529.8	1,873.6	1900.4

Sources: Ministry of Finance; Social Security Fund; Central Bank of Seychelles; and Fund staff estimates.

1/ Excluding interest from government.
2/ Including motor vehicle testing.

Table 14. Seychelles: Economic Classification of Consolidated Government Expenditure and Net Lending, 2000-04 1/
(In millions of Seychelles rupees)

	2000	2001	2002	2003	2004
Current expenditure	1,437.8	1,477.1	1,843.3	1,686.9	1791.1
Wages and salaries 1/	502.5	513.8	525.2	547.8	549.9
Goods and services 1/	284.2	305.2	408.2	385.7	468.6
Scheduled interest 2/	212.7	223.8	325.8	265.4	300.4
Current transfers 3/	437.6	432.6	583.1	485.9	470.0
To households	322.8	341.2	363.2	353.3	382.8
To parastatals	114.8	91.4	220.1	132.7	87.3
Other current expenditures	0.6	2.1	0.9	2.1	2.1
Capital expenditure	484.9	211.5	360.7	85.5	166.7
Acquisition of fixed assets	423.4	200.6	286.5	65.4	114.1
Purchase of land	3.6	4.6	8.0	11.3	5.6
Capital transfers to nonfinancial public enterprises 4/	58.0	6.3	66.3	8.8	47.0
Total expenditure	1,922.7	1,689.0	2,204.2	1,772.4	1957.8
Net lending	-51.4	27.3	43.1	1.2	1.0
To parastatals	-51.4	27.0	42.8	1.2	1.0
Sale of equity in parastatals	0.0	0.3	0.3	0.0	0.0
Total expenditure and net lending	1,871.3	1,716.3	2,247.1	1,773.6	1958.8
Memorandum items:					
Transfers and net lending to parastatals	121.4	125.0	329.5	142.6	135.3
Expenditure of Ministry of Defense	62.5	64.8	78.8	67.4	82.4

Sources: Ministry of Finance; Social Security Fund; Central Bank of Seychelles; and Fund staff estimates.

1/ Including the Social Security Fund (SSF).
2/ Including domestic and external interests.
3/ Transfers and benefits from the government and the SSF to the rest of the economy.
4/ Excludes equity participation.

Table 15. Seychelles: Revenue and Expenditure of the Social Security System, 2000-04
(In millions of Seychelles rupees)

	2000	2001	2002	2003	2004
Total revenue	360.7	365.1	401.0	422.8	414.4
Contributions	346.0	353.0	384.2	407.3	397.3
Government 1/	119.0	125.0	131.0	137.6	133.4
Employers	99.0	101.0	101.3	106.6	110.5
Employees	20.0	24.0	29.7	31.0	22.8
Other contributions	227.0	228.0	253.2	269.7	264.0
Investment income	10.2	7.6	12.3	11.1	12.6
From government	6.0	7.6	7.3	7.3	8.6
From others	4.2	0.0	5.0	3.8	4.0
Property income	4.4	4.4	4.4	4.4	4.4
Other income	0.1	0.1	0.1	0.0	0.1
Of which : interest from government papers	0.0	0.0	0.0	0.0	0.0
Expenditure	242.2	247.5	263.1	275.7	269.3
Benefits 2/	162.9	169.9	178.4	187.7	196.6
Operating expenditure	8.1	8.1	10.3	5.9	10.5
Capital expenditures	3.5	3.7	3.0	0.0	0.0
Approved payments and grants to agencies	67.7	65.8	71.4	82.1	62.2
Transfer to Consolidated Fund	80.0	105.0	110.0	120.0	110.0
Gross surplus (including government)	38.5	12.6	27.9	27.1	35.1
Less government contributions	119.0	125.0	131.0	137.6	133.4
Less interest from government	0.0	0.0	0.0	0.0	0.0
Plus payments to government	80.0	105.0	110.0	120.0	110.0
Net surplus (excluding government)	-0.5	-7.4	6.9	9.5	11.7

Sources: Social Security Fund; Ministry of Finance; and Fund staff estimates.

1/ Excluding the armed forces and the National Youth Service.
2/ Including the Full Employment Scheme.

Table 16. Seychelles: Monetary Survey, 2000-04
(In millions of Seychelles rupees; at end of period)

	2000	2001	2002	2003	2004
Foreign assets, net	-456.5	-406.8	-716.9	-511.5	-414.5
Central Bank, net	-132.3	-162.6	-450.3	-324.1	-306.2
Assets 1/	271.1	210.6	352.3	369.2	187.8
Liabilities	403.4	373.2	802.6	693.3	494.0
Commercial banks, net	-324.2	-244.2	-266.6	-187.3	-108.3
Assets	307.4	284.5	271.9	253.6	315.4
Liabilities	631.6	528.6	538.5	440.9	423.8
Domestic credit	3,865.6	4,271.1	4,932.4	5,166.5	5,138.4
Claims on Government, net	3,263.8	3,604.9	4,153.2	4,070.0	3,791.0
Claims on Government	3,504.5	3,875.6	4,475.6	4,347.2	4,147.2
Central Bank	698.8	774.0	1,293.2	1,011.7	1,400.6
Commercial banks	2,805.7	3,101.6	3,182.4	3,335.5	2,746.6
Government deposits	240.6	270.8	322.5	277.2	356.3
Central Bank	33.1	42.0	75.4	32.8	122.1
Commercial banks	207.6	228.8	247.1	244.4	234.2
Claims on public entities	20.2	10.8	5.4	102.8	183.3
Claims on private sector	581.6	655.5	773.9	993.8	1,164.1
Claims on specialized banks 2/	0.0	0.0	0.0	0.0	0.0
Money and quasi-money	3,224.1	3,609.3	4,010.5	4,222.7	4,269.9
Money	1,059.3	1,192.9	1,406.5	1,570.9	1,226.9
Currency in circulation	264.4	279.9	301.0	305.9	295.8
Demand deposits 3/	794.9	913.0	1,105.5	1,265.0	931.1
Quasi-money 3/	2,032.5	2,288.8	2,500.7	2,549.7	2,453.5
Private time deposits	1,124.2	1,282.1	1,363.8	1,310.3	1,268.7
Time deposits of public enterprises	177.5	183.9	223.3	227.5	152.2
Savings deposits	612.1	677.0	744.8	806.7	806.9
Pipeline deposits 4/	132.3	127.7	103.3	102.1	589.5
Other items, net	185.0	255.1	205.0	432.3	454.0
Capital accounts	344.1	380.8	399.8	486.0	421.0
Other net liabilities—CBS	-16.6	-48.8	-7.0	-14.7	-19.9
Other net liabilities—banks	-148.9	-80.2	-192.0	-72.8	24.7
Memorandum items:					
Claims on public sector	3,284.1	3,615.6	4,158.5	4,172.7	3,974.3
Public entities' deposits	192.7	233.0	354.8	502.5	447.4
Claims on public entities, net	-172.4	-222.3	-349.4	-399.7	-264.1
Claims on public sector, net.	3,066.4	3,320.7	3,750.8	3,492.4	3,663.2
Private M2 5/	3,031.4	3,376.2	3,655.7	3,720.2	3,822.5

Source: Central Bank of Seychelles (CBS); and Fund staff estimates.

1/ Does not include government balances held abroad, which are included in official reserves.
2/ Investment in Development Bank.
3/ Includes deposits of Seychelles Savings Bank at Central Bank.
4/ The pipeline scheme for foreign currency allocation was introduced in April 1994.
5/ Money and quasi-money less public entities' deposits.

Table 17. Seychelles: Accounts of the Central Bank of Seychelles, 2000-04
(In millions of Seychelles rupees; end of period)

	2000	2001	2002	2003	2004
Foreign assets	271.1	210.6	352.3	369.2	187.8
Balances held abroad	234.1	210.5	352.2	369.1	187.8
Foreign securities	36.9	0.0	0.0	0.0	0.0
SDR holdings	0.1	0.1	0.1	0.0	0.0
IMF reserve position	0.0	0.0	0.0	0.0	0.0
Claims on government	698.8	774.0	1,293.2	1,011.7	1,400.6
Advances to government	395.9	472.4	1,092.0	811.0	1,316.6
Treasury bills	2.3	1.0	1.2	0.7	0.0
Treasury bonds	300.7	300.7	200.0	200.0	84.0
Government stocks	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Claims on commercial banks	22.0	0.0	0.0	19.0	120.0
Advances and rediscounts 1/	22.0	0.0	0.0	19.0	120.0
Export refinance	0.0	0.0	0.0	0.0	0.0
Other refinance	0.0	0.0	0.0	0.0	0.0
Other assets 2/	25.1	53.7	24.3	30.5	27.9
Assets = liabilities	1,017.0	1,038.3	1,669.8	1,430.3	1,736.3
Reserve money	545.8	585.4	737.2	597.9	1,073.9
Currency in circulation	282.2	299.2	321.2	326.0	314.5
Currency with banks	17.8	19.4	20.2	20.1	18.7
Bankers' deposits	245.7	266.7	395.8	251.8	740.6
Foreign liabilities	403.4	373.2	802.6	693.3	494.0
Government deposits	33.1	42.0	75.4	32.8	122.1
Treasury deposits 3/	21.5	18.9	22.4	16.1	16.4
Counterpart funds 3/	11.6	23.1	53.0	16.7	105.7
Capital accounts 4/	43.2	51.4	56.7	109.7	56.1
Other liabilities (net)	-8.5	-13.7	-2.1	-3.4	-9.8

Source: Central Bank of Seychelles; and Fund staff estimates.

1/ Against government securities.
2/ Includes counterpart of gold and silver coin in circulation.
3/ Included in government deposits in publications of the Central Bank of Seychelles.
4/ Capital, statutory reserves, and counterpart of SDR allocations.

Table 18. Seychelles: Accounts of the Commercial Banks, 2000-04
(In millions of Seychelles rupees; end of period)

	2000	2001	2002	2003	2004
Reserves	263.5	286.1	416.0	271.9	759.4
Cash in hand	17.8	19.4	20.2	20.1	18.7
Balances with Central Bank of Seychelles (CBS) 1/	245.7	266.7	395.8	251.8	740.6
Foreign assets	307.4	284.5	271.9	253.6	315.4
Claims on government	2,805.7	3,101.6	3,182.4	3,335.5	2,746.6
Treasury bills	1,777.1	1,771.0	1,784.4	1,003.9	1,511.6
Treasury bonds	730.5	940.4	794.3	1,167.4	1,079.4
Government stocks	91.6	139.7	139.7	140.0	147.1
Restructured loans	0.0	0.0	0.0	0.0	0.0
Other	206.5	250.4	464.0	1,024.3	8.6
Claims on public entities	20.2	10.8	5.4	102.8	183.3
Claims on private sector	581.6	655.5	773.5	993.8	1,164.1
Claims on specialized banks 2/	1.0	1.0	1.0	1.0	1.0
Other assets	492.2	479.4	619.6	496.2	246.8
Assets = liabilities	4,471.6	4,818.9	5,269.8	5,454.8	5,416.7
Demand deposits 3/	873.0	1,010.7	1,275.9	1,265.0	931.1
Public entities	182.7	232.7	354.7	477.2	283.9
Private sector 4/	690.3	778.0	921.2	787.8	647.2
Time and savings deposits	2,036.7	2,264.2	2,485.2	2,344.5	2,226.5
Public entities' time deposits	146.2	153.3	198.1	190.9	134.8
Private sector time deposits 4/	1,216.5	1,356.1	1,470.5	1,310.3	1,268.7
Savings deposits 3/	642.7	724.2	791.4	806.7	805.6
Specialized banks' time deposits 2/	31.3	30.6	25.2	36.6	17.4
Foreign liabilities 4/	631.6	528.6	538.5	440.9	423.8
Government deposits	207.6	228.8	247.1	244.4	234.2
Demand	43.0	37.8	52.1	35.2	65.5
Time	164.6	191.0	195.0	209.2	168.7
Credit from CBS	22.0	0.0	0.0	19.0	120.0
Capital accounts	110.8	110.8	110.8	110.8	110.8
Other liabilities	590.0	675.8	612.3	1,030.2	1,370.4
Memorandum items:					
Public entities' deposits 5/	328.9	386.0	552.8	668.1	418.7
Claims on public entities (net) 5/	-308.7	-375.2	-547.4	-565.3	-235.3
Pipeline deposits	132.3	127.7	103.3	102.1	589.5
Other liabilities (net)	214.4	271.7	192.3	169.1	308.4

Source: Central Bank of Seychelles (CBS); and Fund staff estimates.

1/ Includes pipeline deposits.
2/ Data shown pertain to Development Bank of Seychelles.
3/ Savings deposits include interest-bearing checking accounts appropriate to demand deposits.
4/ Private demand and time deposits include some deposits of nonresidents.
5/ Excludes specialized banks.

Table 19. Seychelles: Accounts of the Specialized Banks, 2000-04 1/
(In millions of Seychelles rupees; end of period)

	2000	2001	2002	2003	2004
Cash and balances	31.3	30.6	25.2	36.6	17.4
Claims on public entitites	13.6	7.9	4.1	0.8	0.0
Claims on private sector	202.1	217.9	252.3	267.4	286.4
Other assets	14.4	22.6	18.3	14.6	14.5
Assets = liabilities	261.3	279.0	300.0	319.4	318.3
Reserves	114.4	130.9	143.9	157.7	125.2
Assigned capital	39.2	39.2	39.2	39.2	39.2
Other liabilities	107.6	108.9	116.8	122.5	153.9

Source: Central Bank of Seychelles (CBS).

1/ Development Bank of Seychelles (DBS).

Table 20. Seychelles: Distribution of Commercial Bank Loans and Advances to Public Entities and Private Sector, 2000-04 1/
(In millions of Seychelles rupees; end of period)

	2000	2001	2002	2003	2004
Agriculture	3.9	4.8	3.6	2.6	1.4
Public entities	0.4	0.1	0.0	0.0	0.0
Private sector	3.5	4.7	3.6	2.6	1.4
Fishing	4.5	7.6	8.2	9.2	10.2
Public entities	0.0	0.0	0.0	0.0	0.0
Private sector	4.5	7.6	8.2	9.2	10.2
Manufacturing	4.9	6.1	9.0	9.8	7.9
Public entities	0.7	0.0	0.0	0.0	0.0
Private sector	4.2	6.1	9.0	9.8	7.9
Construction	29.9	30.3	38.2	42.9	87.0
Public entities	0.3	0.0	0.0	0.0	0.0
Private sector	29.6	30.3	38.2	42.9	87.0
Financial institutions	0.0	0.0	0.0	0.0	0.0
Public entities	0.0	0.0	0.0	0.0	0.0
Private sector	0.0	0.0	0.0	0.0	0.0
Transportation	4.7	4.5	3.5	7.0	6.6
Public entities	0.0	0.0	0.0	0.0	0.0
Private sector	4.7	4.5	3.5	7.0	6.6
Hotels, restaurants, and other tourism	107.7	140.8	207.0	294.9	361.5
Public entities	0.1	0.1	0.0	0.0	0.0
Private sector	107.6	140.7	207.0	294.9	361.5
Wholesale and retail trade	38.7	37.7	53.3	62.5	124.4
Public entities	0.0	0.1	0.1	0.0	36.3
Private sector	38.7	37.6	53.2	62.5	88.1
Real estate	25.8	34.6	37.5	63.8	78.3
Public entities	0.0	0.0	0.0	0.0	0.0
Private sector	25.8	34.6	37.5	63.8	78.3
Other businesses	73.8	68.1	48.3	179.4	290.0
Public entities	18.8	10.5	5.3	79.0	147.1
Private sector	55.0	57.6	43.0	100.4	142.9
Households and nonprofit private sector	132.3	140.7	164.6	151.7	156.4
Mortgage loans private sector	156.6	177.4	184.1	189	223.8
Total sectors 1/	582.8	652.6	757.3	1,013	1347.4
Public entities	20.3	10.8	5.4	79.0	183.3
Private sector	562.5	641.8	752.0	933.9	1164.1

Source: Central Bank of Seychelles (CBS).

1/ Totals reflect only loans identified by sector and may therefore differ from totals appearing in other tables.

Table 21. Seychelles: Indicators of Commercial Bank Liquidity, 2000-05
(End of period)

	Bank Credit 1/		Bank Deposits		Credit Deposit Ratio (Percent)	Excess Reserves (In millions of Seychelles rupees) 2/	Credit from Central Bank (In millions of Seychelles rupees)		Treasury Bill Discount Rate (Percent)	
	Total (In millions of Seychelles rupees)	Change from year earlier (Percent)	Total (In millions of Seychelles rupees)	Change from year earlier (Percent)			Advances and rediscounts	Refinancing schemes	Tap issue 3/	Tender issue
2000										
March	3,187.0	18.8	2,959.1	20.0	107.7	20.2	10.0	0.0	5.0	0.0
June	3,288.1	14.6	3,046.0	15.0	107.9	38.1	0.0	0.0	5.0	0.0
September	3,332.1	13.5	3,064.2	12.7	108.7	81.8	0.0	0.0	5.0	0.0
December	3,391.5	10.4	3,114.2	8.7	108.9	54.8	22.0	0.0	5.0	0.0
2001										
March	3,458.2	8.5	3,212.4	8.6	107.7	59.8	0.0	0.0	5.0	0.0
June	3,544.9	7.8		10.3	105.5	88.5	0.0	0.0	5.0	0.0
September	3,684.7	10.6	3,422.3	11.7	107.7	62.8	0.0	0.0	5.0	0.0
December	3,755.9	10.7	3,505.0	12.5	107.2	71.2	0.0	0.0	5.0	0.0
2002										
March	3,772.0	9.1	3,622.1	12.8	104.1	119.1	0.0	0.0	5.0	0.0
June	3,907.0	10.2	3,815.7	13.6	102.4	119.0	0.0	0.0	5.0	0.0
September	3,834.1	4.1	3,751.4	9.6	102.2	91.1	0.0	0.0	5.0	0.0
December	3,941.2	4.9	4,008.0	14.3	98.3	126.5	0.0	0.0	5.0	0.0
2003										
March	4,129.9	9.5	3990.5	10.2	103.5	166.3	0.0	0.0	5.0	0.0
June	4,328.6	10.8	4173.0	9.4	103.7	97.1	0.0	0.0	5.0	0.0
September	4,425.6	15.4	4053.8	8.1	109.2	160.1	25.0	0.0	4.3	0.0
December	4,432.1	12.5	4059.1	1.3	109.2	154.9	19.0	0.0	4.2	0.0
2004										
March	4385.9	6.2	4109.6	3.0	106.7	178.6	0.0	0.0	4.2	2.1
June	3947.3	-8.8	3538.2	-15.2	111.6	17.8	131.0	0.0	5.5	2.2
September	3809.6	-13.9	3623.8	-10.6	105.1	161.9	0.0	0.0	0.0	2.5
December	4094.1	-7.6	3618.8	-10.8	113.1	134.1	120.0	0.0	0.0	3.2
2005										
March	3988.7	-9.1	3613.4	-12.1	110.4	113.3	10.0	0.0	0.0	3.3
June	4049.6	2.6	3627.4	2.5	111.6	109.7	0.0	0.0	0.0	3.3
September	3970.8	4.2	3597.3	-0.7	110.4	129.4	0.0	0.0	0.0	3.4

Source: Central Bank of Seychelles (CBS).

1/ Excludes investment in Development Bank of Seychelles (SR 1.0 million throughout).
2/ Actual reserves less required reserves; average for weeks ended during December or other month indicated.
3/ Tap issue was replaced by a tender issue in September 1993, and reintroduced in 1996.

Table 22. Seychelles: Structure of Interest Rates, 2000-04
(Annual rates in percent; end of period)

	2000	2001	2002	2003	2004
Lending rates					
Central bank to government					
Low	5.0	5.0	5.0	5.0	5.0
High	5.0	5.0	5.0	5.0	5.0
Central bank to banks					
Temporary advances 1/	5.5	5.5	5.5	4.7	3.5
Export refinance	1.0	1.0	1.0	1.0	1.0
Other refinance	0.0	0.0	0.0	0.0	0.0
Commercial banks to public, weighted average	11.5	11.0	11.1	10.3	9.8
Prime rate					
Low	…	…	…	…	…
High	…	…	…	…	…
Minimum	…	…	…	…	…
Maximum	…	…	…	…	…
Concessionary refinance	3.0	3.0	3.0	3.0	0.0
Deposit rates (commercial banks) 2/					
Savings, low	3.0	3.0	3.0	2.7	2.8
Time 3/					
3 months	4.9	4.9	4.7	3.6	4.7
Low	…	…			
High	…	…			
6 months	5.0	5.2	5.2	4.0	3.9
Low	…	…	…	…	…
High	…	…	…	…	…
12 months	4.2	4.3	4.2	3.3	3.1
Low	…	…			
High	…	…			
Over 12 months	5.2	4.4	3.9	3.2	3.0
Low	…	…	…	…	…
High	…	…	…	…	…
Treasury bill discount rate					
Average during period, tap issue 4/	4.5	4.5	4.5	2.0	…
Average during period, tender issue 5/	…	…	…	…	2.6
Memorandum items:					
Change in retail prices (in percent)					
Annual average	6.2	6.1	0.2	3.3	3.9
From 12 months earlier	4.2	0.2	2.0	6.7	0.7

Source: Central Bank of Seychelles (CBS).

1/ Average annual rate reported on 14-day advances.
2/ Ranges reflect mainly differences among banks. In most cases, lower rates predominate.
3/ Base rates. Actual rates are generally negotiable when large amounts are involved.
4/ Tap issue discontinued after September 1993, but reintroduced in 1996.
5/ Tender issue discontinued after 1998 and reintroduced in December 2003.

Table 23. Seychelles: Balance of Payments, 2000-04 1/
(In millions of U.S. dollars, unless otherwise indicated)

	2000	2001	2002	2003	2004
Current account	-35.4	-142.5	-91.8	-6.0	37.3
Balance of goods and nonfactor services	-11.6	-121.8	-36.1	27.8	57.9
Trade balance	-118.9	-213.7	-145.3	-91.4	-117.0
Exports	194.8	216.4	236.7	291.5	300.5
Year-on-year change (in percent)	33.7	11.1	9.4	23.2	3.1
Imports	-313.7	-430.2	-382.0	-382.9	-417.4
Year-on-year change (in percent)	-15.2	37.1	-11.2	0.2	9.0
Nonfactor services, net	107.3	92.0	109.2	119.2	174.9
Receipts	285.8	291.2	310.8	329.0	386.3
Of which: Tourism income through commercial banks and hotels	105.0	111.4	129.1	126.2	195.8
Payments	-178.5	-199.2	-201.6	-209.8	-211.4
Income, net	-33.3	-29.2	-68.0	-43.0	-33.3
Current transfers, net	9.5	8.5	12.3	9.2	12.7
General government	14.1	10.2	12.0	10.5	12.8
Other sectors	-4.6	-1.7	0.3	-1.3	-0.1
Capital and financial account	72.4	93.7	116.0	-17.9	-102.5
Capital account	0.9	9.4	5.0	7.4	1
Financial account	75.6	124.3	128.4	-30.6	-69.2
Direct investment, net	13.8	56.2	39.0	49.9	29.8
Abroad	-10.5	-8.5	-8.7	-8.2	-7.6
In Seychelles	24.3	64.7	47.7	58.0	37.4
Portfolio investment, net	0.9	1.2	1.2	1.2	1.1
Other investment, net	60.9	66.9	88.2	-81.7	-100.1
Assets	-14.9	-8.8	-10.7	-14.8	-12.3
Liabilities	75.7	75.7	98.9	-66.9	-87.8
CBS	41.8	8.5	79.2	-35.6	-36.9
Government and government-guaranteed	24.4	-31.8	-0.1	-10.9	-19.2
Disbursements	38.0	0.1	11.8	6.3	2.3
Amortization	-13.6	-31.9	-11.9	-17.1	-21.6
Parastatals	3.3	-16.5	37.3	-20.2	-6.8
Other	6.2	115.6	-17.4	-0.2	-24.9
Net errors and omissions	-4.1	-40.1	-17.4	5.3	-34.3
Overall balance	37.1	-48.9	24.3	-24.0	-65.2
Financing	-37.1	48.9	-24.3	24.0	65.2
Identified financing	-37.1	48.9	-24.3	24.0	65.2
Gross international reserves (increase: -)	-19.4	10.3	-25.9	-3.1	33.0
Arrears (increase: +)	-17.7	38.6	1.6	27.1	32.2
Memorandum items:					
Official reserves	43.2	36.6	69.7	67.1	34.1
In weeks of prospective goods and nonfactor services imports	0.8	0.8	1.4	1.3	0.5
Outstanding stock of public arrears 2/	37.7	65.9	81.5	104.1	136.3
Nominal GDP	614.9	618.4	698.1	703.1	703.1
Current account balance (in percent of GDP)	-5.8	-23.0	-13.1	-0.9	5.3

Sources: Central Bank of Seychelles; and Fund staff estimates.

1/ Substantial data revisions in tourism receipts have been incorporated in the 2004 data but not 2002 and 2003 data.
2/ Reliable data are available only on public sector arrears. It is likely that private sector arrears are large and have increased over the last two years as foreign exchange shortages have grown worse and companies have been forbidden to repatriate dividends, management fees, etc.

Table 24. Seychelles: Domestic Exports, Reexports, and Bunker Sales, 2000-05
(In millions of Seychelles rupees)

	2000	2001	2002	2003	2004	2005 Jan.-Jun.
Domestic exports, f.o.b.	706.2	892.4	957.5	1,141.7	1,009.0	554.2
Canned tuna	606.2	771.2	843.7	1,023.1	923.2	484.8
Fresh and frozen fish	20.7	17.3	18.2	28.0	13.1	7.5
Sharks' fins	1.4	1.5	0.0	0.7	0.0	0.1
Frozen prawns	18.3	12.1	8.0	40.0	42.5	29.4
Copra	0.0	0.0	0.0	0.0	0.0	0.0
Cinnamon bark	1.3	1.3	1.2	1.0	0.5	0.2
Other	58.4	89.0	86.4	48.9	29.6	32.2
Reexports and bunker sales	402.2	370.8	291.6	342.0	591.2	312.0
Reexports 1/	36.9	67.1	31.1	39.9	103.5	46.1
Durables to carriers 2/	2.9	5.4	2.4	1.6	15.2	2.2
Other reexports 3/	34.0	61.7	28.7	38.3	88.4	44.0
Bunker sales 1/	365.3	303.7	260.5	302.1	487.6	265.8
Petroleum products 2/	356.8	296.6	253.1	294.3	479.2	261.2
Food, beverages, tobacco, and chemicals 2/	8.5	7.1	7.4	7.8	8.5	4.7
Total, customs basis	1,108.4	1,263.2	1,249.1	1,483.7	1,600.1	866.2
Memorandum items:						
Exports and reexports, balance of payments	741.1	957.5	986.6	1216.7	1652.8	864.2
Adjustments	0.0	0.0	0.0	0.0	0.0	0.0
Net petroleum earnings	30.6	25.4	-71.7	-51.2	-220.4	-62.8
Bunker sales	356.8	296.6	253.1	294.3	479.2	261.2
Imports for bunkers	326.2	271.2	324.8	345.5	699.6	323.9

Sources: National Statistics Bureau (NSB); Central Bank of Seychelles; and Fund staff estimates.

1/ Breakdown between reexports and bunkers is as made for the balance of payments, where bunker sales are regarded as services earnings under transportation (port services). Customs data treat all such merchandise as reexports.
2/ Imported into bond and resold to international carriers.
3/ Imported goods cleared through customs but not materially transformed before reexportation.
4/ May reflect minor revisions of customs data not incorporated in balance of payments.

Table 25. Seychelles: Major Exports by Value, Volume, and Unit Value, 2000-04

(Value in thousands of Seychelles rupees; volume in tons; and unit value in Seychelles rupees per kilogram)

	2000	2001	2002	2003	2004	2005 Jan.-Jun.
Canned tuna						
Value	606,210	771,176	843,670	1,023,142	923,247	484,786
Volume	41,490	32,992	39,170	35,776	36,738	18,903
Unit value	14.6	23.4	21.5	28.6	25.1	25.6
Fresh and frozen fish						
Value	20,675	17,326	18,176	27,994	13,131	7,521
Volume	605	455	476	686	374	242
Unit value	34.2	38.1	38.2	40.8	35.1	31.1
Copra						
Value	0.0	37.0	28.0	0.0	0.0	0.0
Volume	0.0	21.0	11.0	0.0	0.0	0.0
Unit value	0.0	1.8	2.7	0.0	0.0	0.0
Cinnamon bark						
Value	1,326	1,319	1,221	978	528	160
Volume	206	193	205	150	74	25
Unit value	6.4	6.8	6.0	6.5	7.1	6.5
Other exports (value)	78,060	102,553	94,380	89,564	72,062	61,762
Total domestic exports (value)	706,271	892,411	957,475	1,141,677	1,008,968	554,230

Source: National Statistics Bureau (NSB).

Table 26. Seychelles: Imports and Import Prices by Standard International Trade Classification (SITC) Commodity Group, 2000-04

(In millions of Seychelles rupees)

	2000	2001	2002	2003	2004	2005 Jan - Jun
Values						
Food, live animals, beverages, and tobacco	488.1	618.2	650.0	637.5	700.3	371.6
Food and live animals	461.6	597.1	614.3	605.9	665.5	353.7
Beverages and tobacco	26.5	21.1	35.7	31.5	34.8	17.9
Minerals, fuels, etc.	422.7	409.1	327.3	358.2	718.0	339.0
Products for home consumption	42.3	137.9	2.5	12.7	18.4	15.1
Petroleum products for bunkers 1/	326.2	271.2	324.8	345.5	699.6	323.9
Machinery and transport equipment	320.9	1,037.3	525.2	362.7	408.8	452.0
Manufactures	522.9	503.7	562.9	613.4	671.8	365.8
Goods classified by material	345.9	330.2	381.9	396.4	445.4	248.3
Miscellaneous articles	177.0	173.5	181.0	217.0	226.4	117.5
Other groups	195.0	207.7	229.4	258.9	232.8	127.4
Crude materials	29.3	31.3	33.0	39.1	25.1	24.5
Oils and fats	50.4	43.2	49.5	56.6	68.2	30.1
Chemicals	114.4	131.0	146.1	161.1	136.9	71.4
Goods not classified	0.9	2.2	0.8	2.2	2.6	1.4
Total imports, c.i.f.	1,949.6	2,776.0	2,294.8	2,219.9	2,731.7	1,655.8
Total imports, f.o.b.	1,658.7	2,359.2	1,950.5	1,896.1	2,322.0	1,407.5
Less imports for cannery	358.4	397.7	412.0	455.7	457.0	239.8
Less imports for resale	336.0	309.8	243.6	290.0	421.3	340.0
Retained imports	964.3	1,651.7	1,294.9	1,150.4	1,443.7	827.7
Prices 2/						
Food, live animals, beverages, and tobacco						
Food and live animals	93.7	88.5	80.8	...	...	...
Beverages and tobacco	73.0	54.2	49.4	...	...	...
Minerals, fuels, etc.	94.4	81.1	76.8	...	...	...
Machinery and transport equipment	79.0	70.3	63.7	...	...	...
Manufactures						
Goods classified by material	86.3	76.8	69.6	...	...	...
Miscellaneous articles	71.6	63.7	57.7	...	...	...
Other groups						
Crude materials	136.3	121.3	109.9	...	...	...
Oils and fats	101.8	90.6	82.1	...	...	...
Chemicals	132.9	118.3	107.2	...	...	...
Overall index	...	...	...	...	...	...

Sources: National Statistics Bureau (NSB); Central Bank of Seychelles; and Fund staff estimates.

1/ Valued at import prices. Imports for warehousing at reexport, less imports for home consumption ex-warehouse.

2/ Paasche formula indices (current weights) applied to 109 items representing over 60 percent of total value of imports, less coverage for machinery and transport equipment and manufacturing.

Table 27. Seychelles: Imports by End Use, 2000-04

(In millions of Seychelles rupees; unless otherwise indicated)

	2000	2001	2002	2003	2004
Retained imports, c.i.f.	964.3	1,651.7	1,294.9	1,150.4	1,443.7
Imports for cannery	358.9	397.7	412.0	455.7	457.0
Imports for resale, c.i.f.	368.2	309.1	262.8	303.8	502.9
Petroleum products for bunkers 1/	356.8	296.6	253.1	294.3	479.2
Other bunkers and reexports 2/	11.5	12.5	9.8	9.5	23.7
Statistical adjustment	258.2	417.5	325.1	310.0	328.1
Total imports, c.i.f.	1,949.6	2,776.0	2,294.8	2,219.9	2,731.7
Memorandum items:					
Imports, f.o.b. 3/	1,657.4	2,359.2	1,950.5	1,896.1	2,321.9
Total imports, c.i.f.	1,949.6	2,776.0	2,294.8	2,219.9	2,731.7
Less shipment 4/	292.5	416.4	344.2	323.9	409.8
GDP at current market prices	3,531.7	3,622.5	3,825.5	3,797.2	3,867.0
Rates of change					
Retained imports, c.i.f.	-54.6	71.3	-21.6	-11.2	25.5
Total imports, c.i.f.	-15.9	42.4	-17.3	-3.3	23.1
Ratios to GDP					
Retained imports, c.i.f.	27.3	45.6	33.8	30.3	37.3
Total imports, c.i.f.	55.2	76.6	60.0	58.5	70.6

Source: National Statistics Bureau (NSB).

1/ Imports of petroleum products for subsequent sale to ships and aircraft.
2/ Reported as equal to nonpetroleum reexports and bunker sales.
3/ As adjusted for balance of payments.
4/ Freight and insurance, estimated as 15 percent of noncannery imports, c.i.f.

Table 28. Seychelles: Direction of Trade, 2000-05
(In percent of total)

	2000	2001	2002	2003	2004	2005 Jan - Jun
Domestic exports, f.o.b.	100.0	100.0	100.0	100.0	100.0	100.0
France	21.8	25.2	29.9	32.0	30.8	30.3
Germany	12.2	6.1	8.5	7.5	8.2	9.8
Hong Kong SAR	0.3	0.2	0.1	0.1	0.0	0.2
Italy	8.4	15.2	9.6	14.7	9.7	13.1
Japan	1.0	0.3	1.1	0.5	0.5	1.1
Mauritius	0.2	0.1	0.1	0.1	0.2	0.1
Pakistan	0.0	0.0	0.0	0.0	0.0	0.0
Reunion, France	0.5	0.3	0.3	0.2	0.4	0.2
Singapore	0.2	0.0	0.0	0.4	0.2	0.1
South Africa	2.3	1.3	0.2	0.3	0.4	1.3
United Kingdom	44.8	37.4	42.2	39.2	45.1	37.6
Other	8.4	13.9	8.0	5.0	4.5	6.2
Total imports, c.i.f.	100.0	100.0	100.0	100.0	100.0	100.0
Australia	1.2	0.8	1.5	1.5	1.0	0.7
Bahrain	0.0	1.5	0.0	0.0	0.0	0.0
Belgium	1.0	0.8	1.1	1.0	0.8	0.8
China, People's Republic of	1.1	0.6	0.7	0.8	0.8	0.7
France	9.4	8.9	12.7	10.4	9.8	7.4
Germany	1.6	1.0	1.0	1.0	0.8	15.3
Hong Kong SAR	0.5	0.3	0.4	0.4	0.5	0.3
India	3.5	1.2	2.1	2.2	2.6	2.1
Italy	8.7	5.8	9.0	10.6	7.6	6.8
Japan	1.1	1.9	1.1	1.3	1.1	0.7
Kenya	1.3	0.7	1.3	1.2	0.9	0.7
Malaysia	2.1	0.9	2.0	1.0	1.3	1.8
Mauritius	2.3	1.6	4.6	2.7	4.1	2.4
Netherlands	1.3	0.6	1.1	1.4	1.5	0.8
Oman	0.0	0.0	0.1	0.0	0.0	0.1
Singapore	7.9	5.3	8.0	7.9	7.2	7.7
South Africa	11.1	6.2	11.6	12.6	9.0	6.8
Thailand	1.1	1.1	1.2	1.4	0.8	0.9
United Arab Emirates	1.6	4.1	1.7	1.9	2.2	3.8
United Kingdom	8.6	5.5	7.1	7.7	6.2	5.1
United States	1.8	32.7	1.5	1.1	1.7	1.2
Yemen	0.0	0.0	0.0	0.0	0.0	0.0
Other	32.9	18.3	30.2	31.9	40.1	33.9

Source: National Statistics Bureau (NSB).

Table 29. Seychelles: Effective Exchange Rate Indices, 2000-05
(Indices, 1990 = 100, unless otherwise indicated; period averages)

	Nominal Effective Rate Weighted by		Real Effective Rate Weighted by		
	Trade partners 1/	Tourism and trade 2/	Trade partners 1/	Tourism and trade 2/	Seychelles Rupees per U.S. Dollar
Annual					
2000	116.6	163.9	92.9	88.0	5.7138
2001	119.6	170.8	98.6	93.9	5.8575
2002	125.3	182.7	101.5	98.1	5.4800
2003	113.2	166.4	92.6	88.3	5.4007
2004	102.9	154.5	85.6	81.3	5.5000
Quarterly					
2000 I	117.0	163.5	92.2	88.0	5.4342
2000 II	116.7	164.2	92.7	88.2	5.6330
2000 III	117.2	164.8	93.5	88.2	5.7356
2000 IV	115.6	163.1	93.1	87.5	6.0525
2001 I	107.9	154.0	89.2	85.0	6.4245
2001 II	119.4	168.7	98.9	93.5	5.8172
2001 III	125.9	179.7	104.6	99.5	5.5496
2001 IV	115.8	170.2	94.9	90.9	5.6388
2002 I	125.4	180.9	102.3	98.2	5.7646
2002 II	124.9	181.3	101.5	98.1	5.5867
2002 III	124.9	183.6	100.7	98.1	5.3107
2002 IV	126.0	185.0	101.4	98.1	5.2581
2003 I	124.5	182.4	99.6	95.3	5.0692
2003 II	111.7	162.9	89.8	84.4	5.4758
2003 III	110.2	162.5	91.8	87.8	5.5579
2003 IV	106.2	157.8	89.1	85.6	5.5000
2004 I	102.4	152.6	86.2	82.2	5.0000
2004 II	104.7	156.3	87.9	83.7	5.0000
2004 III	103.9	156.7	86.0	81.5	5.0000
2004 IV	100.4	152.3	82.5	77.9	5.0000
2005 I	98.9	149.0	81.7	76.3	5.0000
2005 II	101.8	152.5	84.4	78.0	5.0000
2005 III	103.1	155.0	85.4	79.2	5.0000
December					
1999	117.6	165.7	94.7	91.1	5.3676
2000	113.2	160.8	92.6	87.5	6.2689
2001	124.9	181.3	100.8	97.2	5.7522
2002	126.3	185.5	101.1	97.6	5.0550
2003	104.1	154.9	87.5	84.1	5.5000
2004	97.5	148.5	80.5	76.2	5.5000

Sources: Fund staff estimates based on IMF, *International Financial Statistics* and *Directions of Trade Statistics* data, and tourism data from Seychelles.

1/ Weighted by shares of major trading partners in Seychelles's trade; index used for IMF's Information Notice System.
2/ Weighted by shares of nearby competitor countries in tourism market (applied to Seychelles's tourism earnings), as well as by trading partners' weight in exports and imports.

Table 30. Seychelles: External Public Debt and Debt Service, 2000-04 1/

	2000	2001	2002	2003	2004
	(In millions of Seychelles rupees, unless otherwise indicated)				
Government external debt					
(year's end) 2/	1,857.4	1,883.5	2,833.3	2,626.3	2,537.8
Bilateral loans	427.3	631.9	891.5	918.2	1,078.9
Multilateral loans	318.1	351.9	509.0	409.6	446.6
Commercial loans	1,112.0	899.7	1,432.8	1,298.5	1,012.3
Suppliers' credits	…	…	…	…	…
Financial institutions	1,112.0	899.7	1,432.8	1,298.5	1,012.3
Debt service	278.9	397.7	626.0	616.9	973.0
Repayments	188.0	299.7	522.9	520.4	882.2
Interest and charges	90.9	98.0	103.1	96.4	90.8
Memorandum items:					
Exchange rate (Seychelles rupees per U.S dollar; end of period)	6.3	5.8	5.1	5.5	5.5
GDP at current market price	3,513.3	3,622.5	3,825.5	3,797.2	3,867.0
Exports of goods and services	2,651.6	2,974.4	3,061.9	3,777.2	4,202.8
Reexports and bunkers	402.2	370.8	291.6	342.0	591.2
Exports of goods and services less reexports and bunker sales	2,249.4	2,603.6	2,770.3	3,435.2	3,611.6
	(In percent of total; unless otherwise indicated)				
Share in total debt	100.0	100.0	100.0	100.0	100.0
Bilateral loans	23.0	33.5	31.5	35.0	42.5
Multilateral loans	17.1	18.7	18.0	15.6	17.6
Commercial loans	59.9	47.8	50.6	49.4	39.9
Total debt-to-GDP ratio 3/	49.8	70.7	80.3	69.2	65.6
Debt service as a percent of 4/:					
Exports of goods and services	10.5	13.4	20.7	16.3	23.1
Same less reexports and bunker sales	12.4	15.3	23.0	18.0	26.9

Sources: Ministry of Finance; Central Bank of Seychelles; World Bank and Fund staff estimates.

1/ Includes debt of the Central Bank of Seychelles. The large increase in the stock of debt in 2002 is partly due to better measurement of data.
2/ Government-guaranteed debt of over one year's maturity only.
3/ In 2001, includes debt from long-term lease of aircraft by Air Seychelles equivalent to 18 percent of GDP. Calculated including arrears.
4/ Includes collateralized export receipts.