

SUR/08/110

November 14, 2008

**The Acting Chair's Summing Up
Seychelles—2008 Article IV Consultation and
Request for a Stand-By Arrangement
Executive Board Meeting 08/99
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Executive Directors agreed with the thrust of the staff appraisal. Seychelles faces a severe economic crisis—characterized by large fiscal and balance of payments imbalances built up over several years, an unsustainable public debt burden, mounting arrears, and dwindling foreign reserves—which has been exacerbated by the global economic turmoil. Directors accordingly welcomed the authorities' determination to undertake far-reaching economic reforms aimed at putting the economy back on the track of sustainable economic growth and development. This reform effort merits the support of the international community, including through comprehensive public debt restructuring.

Directors commended the authorities' upfront liberalization of the exchange regime and the float of the rupee. The removal of extensive exchange restrictions and discretionary regulations as part of the reform program is essential to restore credibility of the currency and unify the parallel and official exchange rates. Several Directors emphasized that, at this juncture, there is little alternative to a floating market-determined exchange rate regime, especially as official reserves are largely depleted. However, further reflection will be required on the best long-run monetary policy framework and exchange rate regime for Seychelles.

Directors saw the significant tightening of fiscal policy in 2008 as a crucial element of macroeconomic stabilization, and welcomed the accompanying provision of targeted support for the most vulnerable groups. Key to program success will be the implementation of strong fiscal policy reforms needed to maintain sizable primary surpluses over the medium term. These include introduction of a targeted social safety net to replace indirect product subsidies and tax exemptions and continuation of the public sector employment retrenchment exercise.

The public debt of Seychelles is unsustainable, even with the significant fiscal adjustment envisaged. Directors welcomed the authorities' good faith efforts to work with official bilateral and commercial creditors on a debt restructuring strategy aimed at reestablishing public debt sustainability consistent with Seychelles' long-term payment capacity, based on the principles of transparency, inter-creditor equity, and open dialogue with all creditor groups. They underlined the importance of steps to strengthen public debt

management. Directors looked forward to a more comprehensive DSA to be provided at the time of the first review of the stand-by arrangement as well as to regular updates on financing assurances and safeguards.

Directors welcomed the major strengthening of the monetary policy framework under way, notably in enhancing the ability of the Central Bank of Seychelles (CBS) to manage liquidity through indirect market-based monetary intervention. This will require closer collaboration between the CBS and Ministry of Finance to improve liquidity forecasting and management. Directors supported the authorities' efforts to strengthen financial sector supervision, and noted that the budget includes a provision for the potential recapitalization needs of the sector.

Directors commended the authorities for taking several important measures to bolster public sector governance and transparency, and encouraged the authorities to address all areas of concern identified in the safeguards assessment. Steps to address weaknesses in data quality and timeliness with technical assistance from the Fund will also be important.

Directors recognized that a comprehensive and sustained structural reform effort will be needed to underpin economic growth and competitiveness over the medium term, and welcomed the authorities' intention to articulate such a medium-term structural reform agenda in 2009 with input from the Fund, the World Bank, and other partners.

It is expected that the next Article IV consultation with Seychelles will be held in accordance with the Executive Board decision on the consultation cycle for members with Fund arrangements.