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March 26, 1985

To: Members of the Executive Board

From: The Acting Secretary

Subject: Seychelles - Staff Report for the 1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Seychelles, which is proposed to be brought to the agenda for discussion on Wednesday, April 24, 1985.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Cronquist, ext. 8731.

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INTERNATIONAL MONETARY FUND

SEYCHELLES

Staff Report for the 1985 Article IV Consultation

Prepared by the Staff Representatives for the
1985 Consultation with Seychelles

Approved by A. D. Ouattara and S. Kanesa-Thasan

March 25, 1985

I. Introduction

The 1985 Article IV consultation discussions with Seychelles were held in Victoria, Mahé during January 6-20, 1985. The Seychelles' representatives included His Excellency F.A. René, President of the Republic and Minister of Finance, Mr. G. Morel, Principal Secretary of the Department of Finance and Governor of the Central Bank; Mr. G. Payet, Permanent Secretary, Ministry of National Development; Miss Y. Lafortune, Principal Secretary, Ministry of Labor and Social Security; Mr. Tin Tun, General Manager of the Central Bank; and other senior officials concerned with economic and financial matters. The staff representatives were Messrs. Cronquist (head-AFR), Blejer (FAD), Niebling (AFR), Egwim (AFR), and Miss Cheng (secretary-AFR).

Seychelles has accepted the obligations of Article VIII, Sections 2, 3, and 4. A summary of Seychelles' relations with the Fund and with the World Bank Group is provided in Appendix I.

II. Background and Recent Economic Developments

Seychelles comprises nearly one hundred islands with a total area of 453 square kilometers and a population of 65,000. The economy is largely dependent on tourism, which grew rapidly after the opening of an international airport in 1971. Although tourism accounts directly for less than 15 percent of GDP, its secondary effects are substantial and it also provides nearly one half of the country's foreign exchange earnings. Other economic activities include fishing, manufacturing (mainly food processing) and agriculture. It is an open economy with the value of imports, c.i.f., accounting for about 60 percent of GDP and total current payments for nearly three fourths of GDP.

In the late 1970s growth averaged about 10 percent per annum, mainly due to the expanding tourism sector. The rapid rate of growth ended in 1979 and in each of the following four years real GDP declined

as the rise in air fares due to oil prices and the recession in industrial countries led to a substantial fall in tourist arrivals; in the two years 1980-81 arrivals declined by 23 percent, and in 1982 arrivals fell by a further 22 percent to about 47,000 as the effects of the recession were compounded by an abortive mercenary attack in November 1981 and subsequent disturbances in August 1982.

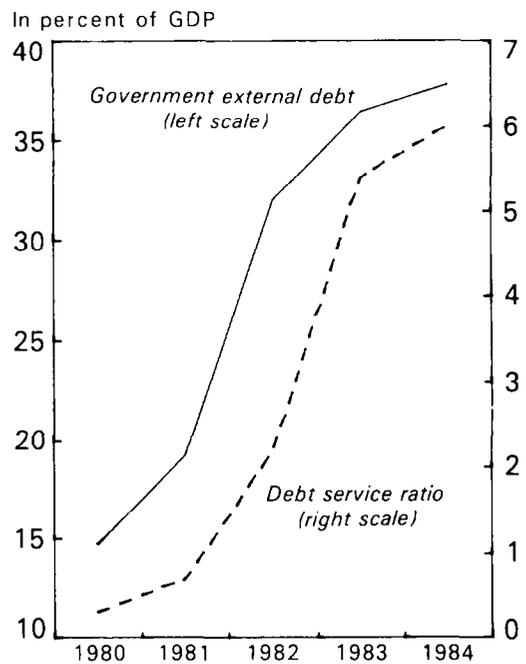
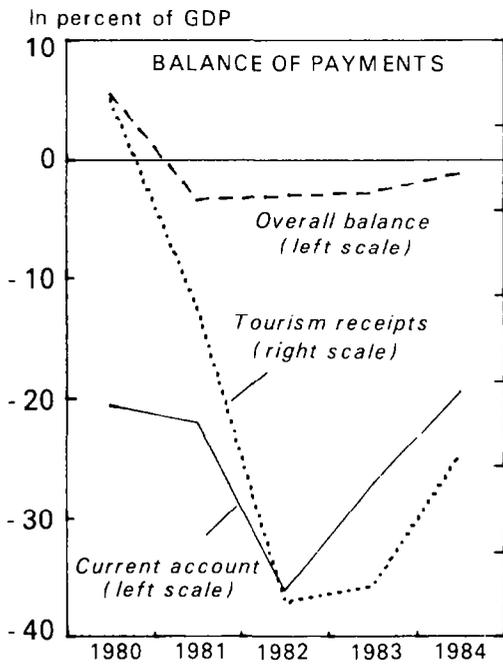
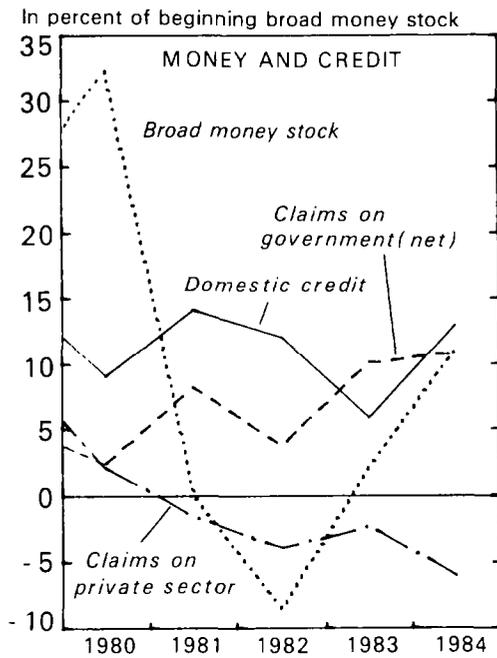
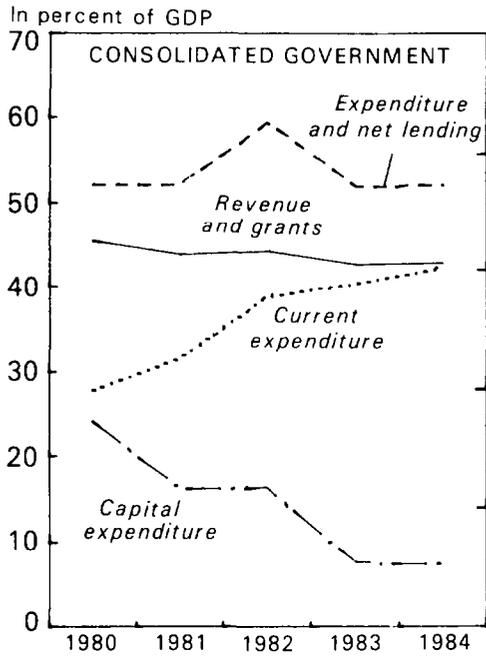
During the period 1980-82, the Government expanded the public sector, establishing some 30 parastatal enterprises in agriculture, fishing, manufacturing, and commerce with the aim of increasing value added from tourism and traditional activities, and reducing dependence on imports. These enterprises, many of which were undercapitalized, increasingly resorted either to borrowing directly from the banking system or to loans and subsidies from the government budget to finance their operating deficits and their capital outlays. It is estimated that the overall deficit of the consolidated public sector (government and parastatals) more than doubled during this period to about 22 percent of GDP (Table 1) and that more than half of the deficit was due to the financing requirements of the parastatals (Appendix II, Table II). Most of the overall deficit was being financed through foreign borrowing.

Credit developments in this period reflected the increased financing requirements of the public sector. The increase in total claims on Government (net) and the parastatals (gross) during 1980-82 was equivalent to 49 percent of the initial broad money stock; bank credit to the parastatals to support their expansion rose rapidly despite the introduction of measures to contain the growth of domestic credit, including a 5 percent minimum reserve requirement for the banks in 1981 which was increased to 7 percent in 1982. ^{1/} Broad money stock rose at an average annual rate of only 7 percent in this period, reflecting the decline in economic activity, particularly in the tourism sector (Chart 1).

The expansionary fiscal policies during 1980-82 contributed to pressure on domestic prices, which rose by 13.5 percent in 1980 and by 10.6 percent in 1981, as well as to a substantial deterioration in the balance of payments. In an effort to stem the price increases, the Seychelles rupee was revalued by 15 percent in 1981 and price controls were intensified. The external current account deficit (excluding official transfers) increased from 21 percent of GDP in 1980 to 36 percent in 1982, reflecting a high and rising level of imports, sustained by the rapid credit expansion and the revaluation, as well as sharply lower receipts from tourism. Despite large official transfers and net capital inflows, the overall balance of payments, which had shown a surplus in 1980, recorded deficits in 1981 and 1982, equivalent to

^{1/} As indicated in the staff reports for the 1982 and 1983 Article IV consultations, respectively (SM/82/65, 4/5/82 and SM/83/175, 8/5/83).

CHART 1
SEYCHELLES
SELECTED ECONOMIC AND FINANCIAL
INDICATORS, 1980-84



Source: Data provided by the Seychelles authorities.

Table 1. Seychelles: Selected Economic Indicators, 1980-84

	1980	1981	1982	1983	1984 Prel.
GDP at current market prices (in millions of Seychelles rupees)	942.0	959.7	965.1	993.4	1,061.3
Capital formation in percent of GDP at current market prices	38.3	33.8	31.8
GDP at constant 1976 prices (in millions of Seychelles rupees)	477.9	443.1	431.0	428.0	435.5
Annual real rate of growth (in percent)	-2.5	-7.3	-2.7	-0.7	1.8
(Percent change; annual averages)					
Consumer prices	13.5	10.6	-0.9	6.1	4.0
(In millions of Seychelles rupees)					
Consolidated government operations					
Revenue and grants	428.6	420.2	426.1	424.4	455.2
Current expenditure	261.7	303.5	375.0	401.8	449.2
Capital expenditure	227.3	154.8	155.9	74.3	78.7
Net lending	2.0	42.5	42.4	40.0	24.7
Overall deficit, commitment basis	-62.4	-80.6	-147.2	-91.7	-97.4
As percent of GDP	-6.6	-8.4	-15.3	-9.2	-9.2
Overall deficit, cash basis	-62.4	-85.5	-147.0	-108.1	-97.4
As percent of GDP	-6.6	-8.9	-15.2	-10.9	-9.2
Domestic financing (in percent of deficit on cash basis)	8.7	46.9	15.4	50.7	60.0
Foreign financing (in percent of deficit on cash basis)	91.3	53.1	84.6	49.3	40.0
Parastatal enterprises, estimated deficit	-62.6	-60.9	-123.9	-77.3	-67.5
Consolidated public sector					
Overall deficit	-91.5	-99.6	-211.3	-123.7	-99.8
As percent of GDP	-9.7	-10.4	-21.9	-12.5	-9.4
(In percent of beginning broad money stock)					
Total domestic credit	9.2	14.1	12.0	6.0	12.9
Credit to government (net)	2.5	8.3	3.8	10.1	10.9
Credit to parastatals (gross)	4.6	7.4	12.1	-1.9	8.0
Credit to private sector	2.1	-1.6	-3.9	-2.3	-6.0
Money and quasi-money	32.3	-0.1	-8.5	2.2	11.1
(In millions of SDRs)					
Exports, f.o.b.	4.4	4.0	3.5	4.8	4.3
Imports, f.o.b.	-64.3	-67.0	-75.1	-69.5	-70.9
Services, net	37.7	37.0	26.3	30.1	40.2
Of which:					
Tourism	(39.2)	(38.3)	(30.4)	(31.8)	(38.6)
Interest on public debt	(-0.1)	(-0.2)	(-0.9)	(-1.5)	(-2.3)
Current account balance (excluding official transfers)	-23.3	-28.4	-48.2	-37.2	-28.6
Current account balance (including official transfers)	-12.2	-17.6	-39.4	-24.0	-15.9
Capital account, net (including net errors and omissions)	16.3	14.9	34.9	20.1	14.2
Overall balance (deficit -)	4.1	-2.7	-4.5	-3.9	-1.7
(In percent of GDP)					
Current account balance (excluding official transfers)	-20.6	-22.0	-36.1	-27.1	-19.5
Overall balance (deficit -)	3.6	-2.1	-3.3	-2.9	-1.1
(In millions of SDRs)					
Gross official foreign reserves (end of period)	14.9	12.2	11.8	9.6	8.3
In weeks of imports, c.i.f.	(10.2)	(7.8)	(6.9)	(6.0)	(5.1)
Government external debt (end of period)	16.7	25.5	42.7	50.0	55.4
In percent of GDP	(14.8)	(19.2)	(32.0)	(36.4)	(37.8)
Debt service (in percent of exports of goods and nonfactor services)	0.3	0.7	2.2	5.2	6.0

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

more than 3 percent of GDP in each year. In 1982, the Central Bank had recourse to short-term foreign borrowing in order to finance the balance of payments deficit.

In 1983 tourist arrivals began to pick up again, in part due to the introduction of charter operations in late 1982 and the beginning of flights to Europe in late 1983 by the national airline following the cessation of services by two major foreign carriers. There was resumption of growth in the traditional sectors, particularly agriculture and fishing, but construction activity continued to decline. Real GDP continued to fall, although by less than 1 percent.

In view of the very large external imbalances which had developed in 1980-82, the authorities took corrective fiscal and credit measures in the second half of 1983, ^{1/} which helped to reduce the prevailing imbalances, although they did not eliminate them. The overall deficit of the consolidated public sector (government and parastatals) was reduced from 21.9 percent of GDP to an estimated 12.5 percent through a sharp cutback in government capital outlays and a substantial reduction in the parastatal deficit. Although the access of the parastatals to bank financing was reduced, they continued to receive substantial financing through the government budget, and their direct foreign borrowing, guaranteed by the Government, increased. The rate of expansion in total domestic credit abated to 6 percent as the rapid increase in net claims on Government was partly offset by the reduction in credit to the parastatals and to the private sector. Domestic prices, which fell by nearly 1 percent in 1982 in the wake of the rupee revaluation, rose by about 6 percent in 1983. The external current account deficit narrowed to SDR 37.2 million, or 27 percent of GDP, but since the net inflow of capital was much smaller than in 1982, there was an overall balance of payments deficit of SDR 3.9 million, equivalent to 2.9 percent of GDP. Gross official reserves as of end-1983 (SDR 9.6 million) represented six weeks of 1983 imports, c.i.f.

In 1984 economic performance improved but the fiscal policy stance remained relatively expansionary and continued to exert considerable pressure on the balance of payments. There was growth in the economy

^{1/} As indicated in Supplement 1 to the staff report for the 1983 Article IV consultation (SM/83/175, Supplement 1, October 11, 1983) these measures included the extension of the turnover tax to virtually all retail sales, increases in the personal income tax, higher excise and customs duties, and increases in bus fares and postal rates. Taxes on tourism-related activities were lowered. Expenditure measures comprised stricter control over current and domestically financed capital outlays. Banks' maximum lending and minimum deposit rates were raised by 1.5 percentage points, and a secondary reserve requirement of 3 percent was introduced in addition to the existing 7 percent minimum reserve requirement.

for the first time since 1979, and real GDP is estimated to have risen by 1.8 percent, mainly due to a 16 percent recovery in value added from tourism; tourist arrivals rose by 13.5 percent to more than 63,000. Government current expenditure rose by nearly 12 percent, mainly due to substantially higher current subsidies to the parastatals, while outlays for wages, salaries, and goods and services remained at about their 1983 level. Since revenue grew by only 10 percent, a large recurrent deficit emerged, equivalent to 5 percent of current outlays (Appendix II, Table I). Government capital expenditure rose by about 6 percent and the overall budget deficit on a commitment basis rose by 6 percent to SR 97 million, or 9.2 percent of GDP. On a cash basis, however, the budget deficit was reduced by 10 percent as all outstanding domestic arrears had been settled in 1983 and no new arrears were incurred in 1984. Most of the budget deficit was financed domestically, mainly through the banking system; foreign net borrowing was reduced from 5.4 percent of GDP in 1983 to 3.7 percent.

There was also a further decline in the estimated overall deficit of the parastatal enterprises (Appendix II, Table II). Government total transfers and net lending to the parastatals rose only slightly and parastatal net foreign borrowing fell from 2.1 percent of GDP in 1983 to 0.6 percent of GDP. The parastatals' recourse to bank credit increased substantially, but was more than offset by an increase in their deposits, resulting in a SR 4 million reduction in their net borrowing from the banks. As a result, the overall cash deficit of the consolidated public sector (Government and parastatals) was reduced from 12.5 percent of GDP in 1983 to 9.4 percent in 1984.

Reflecting the public sector's continued recourse to bank financing, the increase in total domestic credit was equivalent to 13 percent of initial broad money stock; private sector credit fell substantially indicating the continuing decline in this sector's relative importance in the economy. Broad money rose by about 11 percent reflecting the improvement in economic activity and increased willingness to hold money balances. With a 1.5 percentage point upward adjustment in deposit rates in late 1983, real interest rates have remained positive by a substantial margin based on the rate of inflation measured by the official consumer price index; this index registered an average price rise of 4 percent in 1984. However, as extensive price controls remained in force, the underlying inflation rate was probably significantly higher.

The external current account deficit (excluding official transfers), although reduced by about 20 percent to SDR 28.6 million in 1984, was still equivalent to 19.5 percent of GDP. There was a considerable improvement in net services receipts, mainly due to increased earnings from tourism, and only a small increase in the trade deficit. Imports rose by less than 2 percent to SDR 70.9 million, mainly due to the continued low level of investment activity, but also due to the continued

efforts to reduce imports in favor of locally produced goods (see below). Although the inflow of official grants and net capital, including net errors and omissions, declined by about 19 percent to SDR 26.9 million, the overall balance of payments deficit was more than halved to SDR 1.7 million. As of end-1984, gross official reserves were equivalent to only five weeks of 1984 imports, c.i.f., compared with six weeks as of end-1983. Net of short-term borrowing, reserves were equivalent to only nine days' imports as of end-1984.

The volume of retained imports declined in the two years 1983-84 following the introduction of fiscal measures and also a tightening of trade controls in 1982-83. ^{1/} In mid-1982 a specific duty was introduced on rice imports in order to encourage domestic agricultural production, and, at the end of that year, customs tariffs were raised substantially for a wide range of consumer goods, estimated to amount to some 20 percent of total retained imports. At the same time, some of these imports (mainly fish, meat, fruits, juices, and beer) were also made subject to licensing in order to promote import substitution. In 1983-84, although the number of imports requiring specific licenses was increased, the trade system was generally administered in a liberal manner.

Outstanding external debt of the Government rose from SDR 16.7 million at end-1980 to SDR 55.4 million at end-1984, or from the equivalent of 15 percent of GDP to 38 percent. The debt service ratio, which until 1982 had been negligible since most external loans were on highly concessional terms, rose to 5.2 percent in 1983 and to 6 percent in 1984, reflecting increased borrowing in 1982-83 on conventional terms.

There are no restrictions on payments for current international transactions, no restrictions on inward or outward capital payments, and no exchange control in Seychelles. Seychelles' currency, the rupee, is pegged to the SDR. The rupee was revalued in March 1981 by 15 percent to SR 7.2345 = SDR 1. The trade-weighted (including tourism receipts) nominal effective exchange rate, which had appreciated by 28.2 percent (on a cumulative basis) between 1980 and 1982, appreciated by a further 13.6 percent during 1983-84. The real effective exchange rate, which had appreciated by 15.7 percent between 1980 and 1982, appreciated by a further 11.1 percent during 1983-84. Over the period 1982-84, the Seychelles rupee depreciated by nearly 14 percent against the the U.S. dollar, and appreciated by nearly 33 percent against the pound sterling (Chart 2).

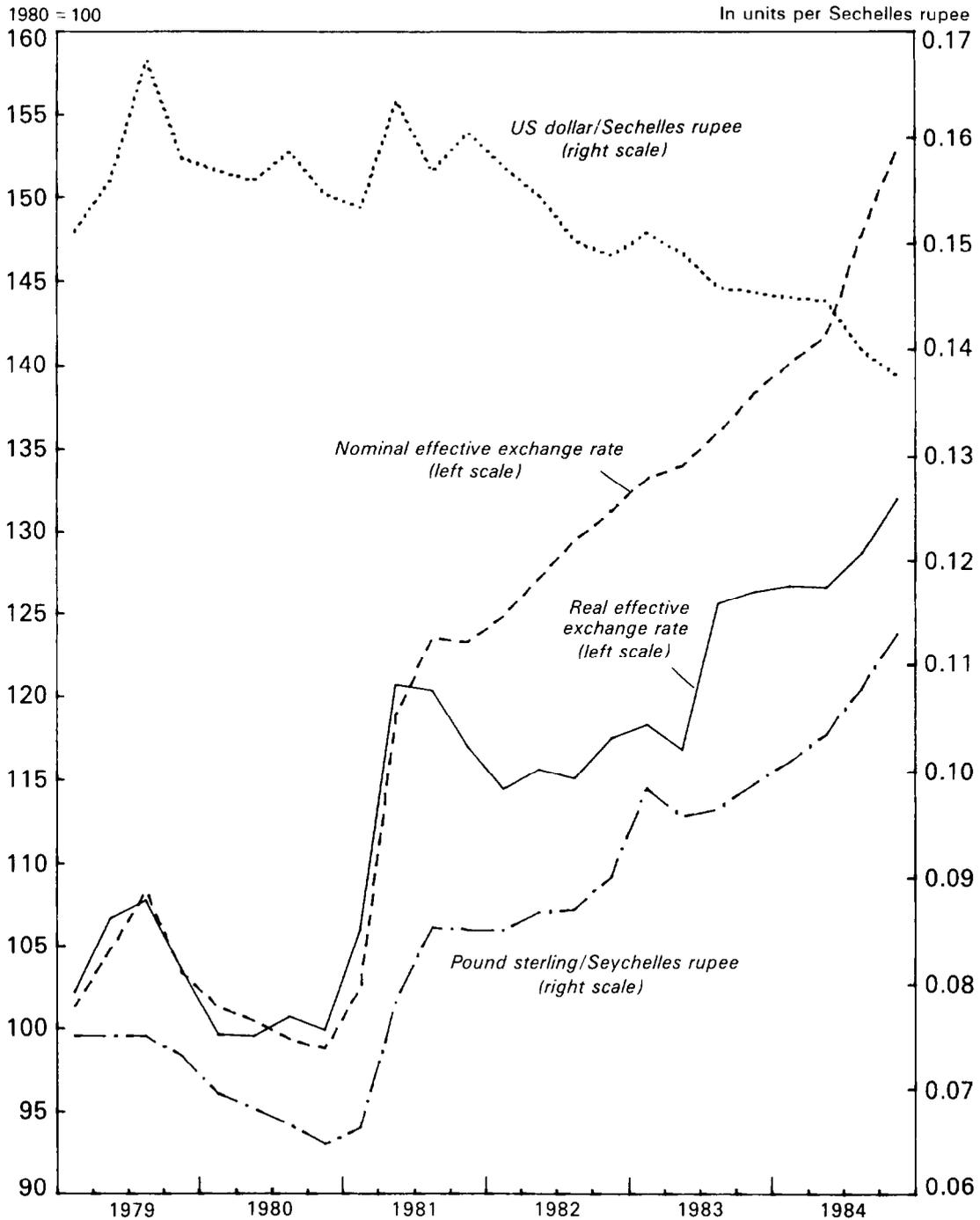
III. Report on the Discussions

1. Medium-term policies and prospects

In an effort to establish a framework for growth, the Government has evolved a set of economic and financial policies for the medium-

^{1/} As indicated in the staff report on the 1983 Article IV consultation (SM/83/175, 8/5/83).

CHART 2
SEYCHELLES
MOVEMENTS OF THE EXCHANGE RATE AGAINST
SELECTED CURRENCIES, 1979-84¹



Source: IMF, *International Financial Statistics*.
¹Increase in index denotes appreciation.



term, which are embodied in the National Development Plan (1985-89), adopted in December 1984. The fundamental aim of this plan is to broaden the economic base by concentrating investments in the productive sectors, i.e., maximizing the benefits from tourism, while developing mainly agriculture and fishing, in order to promote economic growth, create additional employment, and improve the balance of payments outlook. The strategy for improving the external position also includes measures to curb imports through tariffs and the licensing and prohibition of certain imports.

The plan provides for a massive increase in investments which, over the four-year period, would amount to SR 2.8 billion (SDR 391 million) at constant 1985 prices, of which some 80 percent would be undertaken by the public sector (government and parastatal enterprises). About 38 percent of planned investment is allocated to the productive sectors (tourism, fishing, and agriculture), 26 percent to social services (housing and education), 18 percent to utilities (water supply and energy), and 16 percent to infrastructure (air and land transport). The authorities envisage that close to 90 percent of the required financing will be generated from foreign sources, either as loans or grants.

In its preliminary assessment of this plan, the World Bank staff indicates that the sectoral composition of the plan seems broadly appropriate, particularly in view of larger investment shares for the fishing and energy sectors. With respect to the proposed investments in tourism as well as in social services, however, the World Bank staff raises questions relating to the country's needs and financing possibilities since from available project descriptions it is difficult to judge whether there are adequate underlying studies of potential costs and benefits. Concerning the financial aspects in general, the World Bank staff feels that the investment program is unrealistically large, as foreign financing would have to cover not only the entire foreign exchange component, but also some three-fourths of the local currency counterpart. The World Bank staff's view is that since grant receipts are likely to be minimal, foreign borrowing at this level would have serious consequences for the country's debt servicing capacity.

Against the background of the proposed substantial increase in the investment level, and given the underlying weakness of the external current account as well as increasing difficulties in obtaining foreign financing on concessionary terms, the consultation discussions centered on the authorities' investment and fiscal policy stance.

In response to the staff concern about the high investment level, the Seychelles representatives said that the plan was indicative in character, and that its execution would ultimately depend on the availability of foreign financing on appropriate terms. They agreed that, given the limitations posed by the economy's absorptive capacity and

the present outlook for obtaining foreign grants and concessional loans, actual investments were likely to be substantially lower than envisaged in the plan. In their view, annual capital outlays of the Government in the first years were likely to be less than two thirds of the outlays envisaged in the plan and those of the parastatals less than half.

Even with these reduced levels of expenditures the staff expressed great concern about the financial implications of the proposed investments. In illustration of this, the staff has developed a scenario for the consolidated public sector financial operations and for the balance of payments, respectively, which make use of these lower implementation rates for government and parastatal capital outlays in each year of the plan (Appendix II, Tables VI, and VII). In developing these scenarios the staff assumed that, given the authorities' determination to reorganize the parastatal sector in 1985 (see below), the only government subsidy to parastatals after 1985 would be for servicing parastatal foreign debt. Regarding the balance of payments, the staff assumed that total export and tourism earnings would rise broadly in line with the assumptions in the plan, though this assumption appeared to be optimistic. Official unrequited transfers were assumed to remain at about the 1985 level throughout the period, while foreign financing of investment would maintain the same relative proportion as was projected for 1985, i.e., that foreign loans would finance some two thirds of the public sector deficit, including amortization, and would be on the same average terms, i.e., new loans being obtained at an average interest rate of 10 percent, with an average maturity of 12 years and an average grace period of 2.8 years.

This illustrative exercise suggests that, although based on much lower investment levels than envisaged in the plan itself, the consolidated public sector financing need (public sector deficit including foreign debt amortization) would more than double in terms of GDP to about 26 percent in 1985 and would decline significantly only during the last two years of the plan period. As for the balance of payments, the external current account deficit (excluding official transfers) would be unsustainably high, although declining from 31 percent of GDP in 1985 to 12 percent in 1989 reflecting the rapid rise in tourism earnings. Despite large grant and capital inflows, the overall balance of payments would record annual deficits, equivalent in 1985 to nearly 7 percent of GDP and declining only gradually to about 2 percent of GDP in the last two years of the period. Furthermore, on the basis of existing debt and the assumed additional foreign borrowing, the external debt service ratio would double to about 13 percent in 1985 and would rise during the remainder of the period if one were to take into account debt service on any additional foreign borrowing required to close the overall balance of payments gap. On the basis of the assumed availability of foreign loans, the additional domestic net financing required by the Government and the parastatals would raise the outstanding stock of domestic debt, mainly of the banking system, from 17 percent of GDP

in 1984 to 35 percent by 1989. The staff representatives observed that this illustrative exercise indicated that, in view of the financial implications, great caution should be used in trying to carry out such an investment program.

2. Financial policies in 1985

With regard to the short term, the 1985 government budget ^{1/} envisages that total expenditure and net lending are to increase by 38 percent, with current outlays rising by 13 percent and capital expenditures nearly tripling. Since revenues are estimated to increase by 10 percent, the deficit on recurrent operations would increase from SR 22 million to about SR 37 million (Appendix II, Table I). Total revenue and grants are estimated to rise by 16 percent, and the overall deficit is budgeted to rise to SR 235 million (20.1 percent of GDP) compared with an actual deficit of SR 97 million (9.2 percent of GDP) in 1984.

The staff representatives expressed concern about the fiscal stance, which, in their view, would imply a substantial increase in domestic bank financing and contribute to a further and unsustainable deterioration in the external position. The Seychelles representatives explained that they were keenly aware of the severity of the financial situation and stated their determination not to let it deteriorate. While they believed that foreign grants and loans would be approximately in line with the budget estimates, the unavoidable lags in project implementation would probably reduce capital outlays, including transfers, from SR 227 million to SR 198 million. The staff representatives noted that even this reduction suggested that the Government's investment outlays alone would more than double to SR 165 million in 1985.

With respect to the recurrent budget, the Seychelles representatives observed that it might be possible to introduce a combination of revenue and expenditure measures that would practically eliminate the deficit. Some of the revenue measures, including increases in import duties and indirect taxes and better collection procedures for the turnover tax, had already been given serious consideration although the authorities had not yet taken any decisions on their implementation. The staff representatives emphasized that even if the recurrent deficit were eliminated, and account is taken of the probable lower level of investment outlays, the 1985 budget would still register a deficit of SR 182 million, equivalent to 15.6 percent of GDP. Such a deficit would require domestic bank financing of some SR 70 million, equivalent to 22 percent of end-1984 broad money stock, most of which would need to be obtained from the Central Bank. Consequently, even with the possible modifications

^{1/} Since the budget document mainly covers revenue and recurrent expenditure, and does not include foreign grants or capital outlays, these elements have been included in this presentation. The social security system has also been consolidated with the budget.

presently being contemplated by the authorities, the budget would place severe pressures on the domestic financial situation and also on the external position. The staff representatives urged the Seychelles authorities to consider urgently a reduction in budgetary outlays, especially transfers to parastatals and investment.

The Seychelles representatives stated that they were aware of the need to improve the financial performance of the parastatal enterprises, since the annual transfers had become an increasing drain on budgetary resources. A decision had been taken to redress the situation in 1985; the parastatal sector would be restructured and consolidated with emphasis on commercial viability. The consolidation would exclude public utilities, such as the water, electricity, and public transport companies, but in the case of some utilities, changes in their price and cost structure were being introduced with a view to enabling them to cover most of their operating costs, including interest on outstanding debt. Technical assistance would be required and the terms of reference for consultants were being drawn up in the Ministry of Finance, to which the responsibility for the financial overview of all parastatals had been transferred in 1984. They concurred with the staff representatives that a first crucial step would be to provide transparency in the accounting of the parastatals since, at present, the only available indicators of their financial performance were the transfers and loans through the budget, the utilization of domestic bank credit, and their direct foreign borrowing, which is guaranteed by the Government. In this context the Seychelles representatives noted the mission's recommendation that international financial institutions, particularly the World Bank, could provide technical assistance in this field.

Turning to monetary and credit policies, the Seychelles representatives stated that the measures taken in 1983 continued to be applied in 1984. Although the public sector continued to put pressures on the balance of payments, the authorities in 1984 had been reluctant to risk stifling the modest recovery in economic activity that had begun to appear. Much of the authorized increase in gross credit to the parastatals in 1984 had reflected the fact that private sector credit demand was declining. In 1985 the Central Bank intends to review the sectoral distribution of bank credit to the parastatals with the aim of reducing the share of wholesale and retail trade in favor of tourism and productive sectors. In response to the concern expressed by the staff representatives that the execution of the 1985 budget and continued credit demands from the parastatals would result in an unsustainable increase in monetary aggregates, the Seychelles representatives stated that the Government had not yet taken any decision concerning its anticipated use of central bank advances in 1985.

3. External policy

The Seychelles representatives expressed awareness that the pressures on the balance of payments in recent years, though partly resulting from

adverse exogenous developments, stemmed mainly from public sector policies. In the small open economy of Seychelles, the Government's investment and fiscal policy stance and trade policies are key factors influencing the external sector. They expressed the hope that the strategy for restructuring existing trade policies and the institutional framework for marketing envisaged in the development plan would lead to an improvement in the external situation. A new central institution, the Seychelles Marketing Board (SMB), is now vested with powers to regulate imports as well as to promote traditional exports and import substitution. The setting up of the SMB implies the consolidation of a number of marketing parastatals which, it was hoped, would improve efficiency and curtail the substantial losses presently being made.

The Seychelles representatives stated that with respect to imports, experience in recent years indicated that there was a need to ensure more orderly pricing and distribution practices. Domestic prices of imports, which since 1981 are controlled mainly through prescribed percentage markups on the landed cost, had risen unduly in many cases because of over-invoicing and the proliferation of intermediaries between the exporter and the importer. Henceforth, the SMB would monitor international prices to verify the information submitted by importers in order to obtain import licenses. Importers would be obliged to import at least as much as requested and approved in the import permit at the authorized price so as to ensure adequate supplies at reasonable prices to the consumer. The Seychelles representatives emphasized that, despite the envisaged comprehensive control of the importers, there would be no restrictions on nonessential imports. Staple commodities, for which the Seychelles Commodity Company had been the sole agent, would be imported by a division of the SMB in order to continue to ensure regular and adequate supplies. Concerning exports, the SMB would retain a monopoly only on those commodities which had earlier been centrally marketed, i.e., mainly copra, cinnamon, and fish. The marketing section of the SMB would, however, become involved in the improvement of quality and price setting for most exports and would actively promote private investment in nontraditional export sectors. Overall, the SMB was expected to generate an annual operating surplus, offsetting losses on domestic products with profits on imports. The staff representatives emphasized that unless supported by appropriate pricing, including exchange rate policies, export promotion and import substitution would become costly and inefficient. While social considerations needed to be taken into account, it would nevertheless seem that the test of commercial viability was the best guide to efficiency.

The Seychelles representatives reiterated their concern about the parastatal subsidies and their determination to resolve this problem. They underscored that the tourism sector, as a matter of principle, should not be subsidized. They intended, through price controls and the licensing mechanism, to ensure cost efficiency and

also competitiveness. Government involvement in this sector had become increasingly necessary in order to reverse the deterioration in services and facilities which had taken place in recent years, and also to protect employment. The Seychelles representatives noted that an agreement with a European tour operator to develop a charter operation had led to an upturn in tourist arrivals but had not resulted in any appreciable increase in foreign exchange receipts. The authorities' present policy therefore was to reduce charter operations to a small portion of the market, and to increase public sector participation in the industry so that the Government could exert more effective managerial control. In this way, the Government anticipated that the projected increase in the number of arrivals during the plan period would also be accompanied by an increase in average tourist spending. In this context, they recognized the importance of offering improved standards for hotels and related services at competitive prices. Thus, it was intended that 1984 prices would be maintained in 1985. The Seychelles representatives stated that a margin existed at present occupancy rates to maintain the industry's competitiveness at the present exchange rate.

Although the authorities do not at this point contemplate an active use of exchange rate policy, they agreed with the staff representatives that an appreciating effective exchange rate would exacerbate the underlying weaknesses in the balance of payments and would be particularly harmful to the efforts to promote exports and import substitution, which are important elements in the development plan. The staff representatives underlined the importance of keeping the exchange rate under careful review, and added that, as a first step, the authorities should give consideration to an alternative and more appropriate basket than the present SDR, since the composition of the SDR basket appeared not to be closely related to the direction of trade and services of Seychelles. The authorities expressed interest in receiving informal staff advice on this matter.

IV. Staff Appraisal

From 1980 through 1983 the Seychelles economy experienced a decline in real GDP and large external and internal imbalances, partly because of adverse external developments, but also due to expansionary public sector policies. The corrective fiscal and credit measures taken, mainly in late 1983, helped to reduce the fiscal and external imbalances, while not eliminating them. Substantial imbalances persisted in 1984 despite some economic recovery, led by the tourism sector.

To bring about a further increase in economic growth, create additional employment and improve the balance of payments, the authorities have adopted a medium-term development plan, which aims to maximize the benefits from tourism while also developing production and exports of

the traditional sectors. The intention to broaden and diversify the economic base is appropriate. However, against the background of the present large deficit in the external current account, an increasing level of foreign debt amortization, and very low international reserves, the staff believes that the substantial increase in the investment level proposed in the plan would further exacerbate existing pressures on the external position. The staff shares the views of the World Bank staff that the authorities should re-examine the proposed 1985-89 investment program with a view to selecting those investments for which foreign grants and highly concessional loans have been obtained, and to ensure that only projects with high rates of return are financed through other borrowing.

The staff also believes that a major tightening of fiscal policies is called for in 1985. Thus, the deficit in the recurrent budget should be eliminated and planned budgetary investment outlays and lending need to be cut back as a matter of priority in order to reduce further the overall government deficit. Decisive action to lower the level of current subsidies to the parastatals is also required so that a surplus in the recurrent budget can be reconstituted for use in local counterpart financing of investment. The staff therefore welcomes the authorities' intention to give urgent attention in 1985 to the need for management control and improved accounting for nonfinancial public enterprises. Cost efficiency in the tourism sector takes on particular importance in view of the need for sustained medium-term growth in this sector.

Increasing demands from the Government and the parastatal enterprises resulted in substantial credit expansion in 1984; without improvements in the public finances the prospect for 1985 is for rapid expansion in monetary aggregates, which will increase further the pressures on prices and the balance of payments. The staff believes that particular restraint on credit to the parastatal enterprises is needed in order to supplement budgetary policies in an effort to reduce these pressures.

The staff notes that the external system is presently free of payments restrictions and that there are no external arrears. The authorities have also indicated their intention not to operate the import system in a restrictive manner. The staff believes, however, that the introduction of comprehensive import licensing may ultimately lead to distortions under pressures of balance of payments difficulties. The staff therefore urges the authorities to place more emphasis on the price mechanism. In particular, the staff believes that the continuing appreciation of the effective exchange rate of the rupee is a matter of serious concern. This will undoubtedly have a detrimental impact, particularly on the authorities' efforts to promote exports and import substitution, which are important elements in the development plan. The staff believes that the present situation calls for close surveillance of the exchange rate; in this connection, consideration should be given to adopting an

alternative peg for the rupee since part of the effective appreciation has undoubtedly been due to the composition of the SDR basket, which does not reflect the direction of trade of goods and services of Seychelles.

Given the underlying weakness of the balance of payments, it is recommended that the next Article IV consultation with Seychelles be held on the standard 12-month cycle.

Seychelles - Relations with the Fund and the World Bank Group

(As of February 28, 1985)

I. Relations with the Fund

Membership Status

Date of membership: June 30, 1977

Status: Article VIII

Financial Relations

General Department (General Resources Account)

Quota: SDR 3.0 million

Fund holdings of
Seychelles currency: SDR 3.0 million, or
100.00 percent of
quota

Fund credit: None

Reserve tranche position: SDR 1,798

Stand-by or Extended Arrangement and Special Facilities

No use of Fund resources to date.

SDR Department

Net cumulative allocations: SDR 0.41 million

Holdings: SDR 0.014 million
(3.5 percent of
net cumulative
allocations)

Administered accounts

Trust Fund loans
Disbursed: None
Outstanding: None

SFF subsidy account: None

Overdue obligations to the Fund None

Nonfinancial Relations

Exchange rate

The Seychelles rupee is pegged to the SDR at SDR 1 = SR 7.2345.

Last Article IV consultation

The last Article IV consultation discussions with Seychelles were held in Victoria during the period June 4-16, 1983. The staff report (SM/83/175) and the paper on Recent Economic Developments (SM/83/176) were discussed by the Executive Board on October 24, 1983.

Technical assistance

One member of the CBD panel served as Research Advisor until February 1985 and another is serving as Director of Bank Inspection in the Central Bank. A member of the FAD panel is serving as Budget Advisor in the Department of Finance. The terms of duty of the Budget Advisor also expires in 1985 and the authorities are requesting renewal of both the Research Advisor and Budget Advisor positions.

II. Relations with the World Bank Group

Seychelles joined the IBRD in 1980. The World Bank participated in the international co-lenders' conference in Victoria in March 1984, which was convened to obtain financing for the Mahé East Coast Development Project. This project includes the building of a fishing port and extension and modernization of the commercial port, land reclamation, rehabilitation of the existing road to the airport, and construction of ship repair facilities. On February 12, 1985 the World Bank Executive Board approved a loan of US\$6.2 million in support of this project.

Table I. Seychelles: Consolidated Government Operations, 1981-85 ^{1/}

(In millions of Seychelles rupees)

	1981	1982	1983	1984 Prel.	1985 Budget
Revenue and grants	420.2	426.1	424.4	455.2	527.8
Revenue	397.8	409.0	390.2	428.0	470.1
Current	(397.6)	(406.4)	(388.1)	(427.6)	(470.1)
Capital	(0.2)	(2.6)	(2.1)	(0.4)	(--)
Grants	22.4	17.1	34.2	27.2	57.7
Current	(--)	(2.0)	(12.9)	(--)	(--)
Capital	(22.4)	(15.1)	(21.3)	(27.2)	(57.7)
Expenditure and net lending	500.8	573.3	516.1	552.6	762.7
Current	303.5	375.0	401.8	449.2	506.7
Of which: transfers to parastatals	(2.0)	(12.5)	(14.2)	(42.3)	(35.9)
Capital	154.8	155.9	74.3	78.7	227.0
Of which: transfers to parastatals	(2.3)	(5.6)	(--)	(--)	(32.7)
Net lending ^{2/}	42.5	42.4	40.0	24.7	29.0
Of which: to parastatals	(42.5)	(41.5)	(47.5)	(22.8)	(29.0)
Recurrent surplus or deficit (-)	94.1	33.4	-0.8	-21.6	-36.6
Overall deficit (commitment basis)	-80.6	-147.2	-91.7	-97.4	-234.9
Arrears, net (reduction -)	- 4.9	0.2	-16.4	--	--
Overall deficit (cash basis)	-85.5	-147.0	-108.1	-97.4	-234.9
Financing	85.5	147.0	108.1	97.4	234.9
Domestic	40.1	22.7	54.8	58.4	151.4
Central Bank, net	(14.7)	(17.8)	(18.2)	(12.0)	(...)
Commercial banks, net	(10.6)	(-6.4)	(9.7)	(18.6)	(...)
Savings bank, net	(1.0)	(1.3)	(14.4)	(6.5)	(...)
Other	(13.8)	(10.0)	(12.5)	(21.3)	(...)
Foreign (net)	45.4	124.3	53.3	39.0	83.5
Gross borrowing	(46.7)	(127.6)	(66.0)	(57.1)	(141.5)
Amortization	(-1.3)	(-3.3)	(-12.7)	(-18.1)	(-58.0)
<u>Memorandum item:</u>					
Net lending and transfers to parastatals	46.8	59.6	61.7	65.1	97.6

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

^{1/} Including the social security system.

^{2/} A distinction between capital transfers and net lending to parastatals has not always been possible.

Table II. Seychelles: Consolidated Public Sector, 1981-85

	1981	1982	1983	1984	1985 Budget
(In millions of Seychelles rupees)					
Government					
Overall deficit (cash basis)	-85.5	-147.0	-108.1	-97.4	-234.9
Less: Current and capital transfers and net lending to parastatals	-46.8	-59.6	-61.7	-65.1	-97.6
Deficit	-38.7	-87.4	-46.4	-32.3	-137.3
Parastatal enterprises					
Estimated deficit <u>1/</u>	-60.9	-123.9	-77.3	-67.5	-160.2
Public sector deficit	-99.6	-211.3	-123.7	-99.8	-297.5
Financing	99.6	211.3	123.7	99.8	297.5
Domestic (net)	51.8	75.1	49.6	54.4	151.4
Banking system (net) <u>2/</u>	(38.0)	(65.1)	(37.1)	(33.1)	(...)
Other (net)	(13.8)	(10.0)	(12.5)	(21.3)	(...)
Foreign (net)	47.8	136.2	74.1	45.4	146.1
(In percent of GDP)					
Public sector deficit	10.4	21.9	12.5	9.4	25.5
Government deficit	4.0	9.1	4.7	3.0	11.8
Parastatal deficit	6.4	12.8	7.8	6.4	13.7
Domestic financing	5.4	7.8	5.0	5.1	13.0
Foreign financing	5.0	14.1	7.5	4.3	12.5

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

1/ Estimated from available financing data as follows:

	1981	1982	1983	1984
Government transfers and net lending	46.8	59.6	61.7	65.1
Domestic bank borrowing (net of parastatal deposits)	11.7	52.4	-5.2	-4.0
Foreign borrowing (net)	2.4	11.9	20.8	6.4
Total	60.9	123.9	77.3	67.5

2/ Bank credit to the parastatals and to the Government is shown net of deposits.

Table III. Seychelles: Monetary Survey, 1979-84

(In millions of Seychelles rupees; end of year)

	1979	1980	1981	1982	1983	1984 Prel.
Foreign assets (net)	<u>96.2</u>	<u>160.7</u>	<u>107.6</u>	<u>49.3</u>	<u>23.7</u>	<u>24.3</u>
Central Bank	67.8	119.7	85.5	55.5	27.2	15.2
Commercial banks	28.4	41.0	22.1	-6.2	-3.5	9.1
Domestic credit	<u>167.9</u>	<u>188.7</u>	<u>231.3</u>	<u>267.4</u>	<u>283.8</u>	<u>320.1</u>
Claims on Government (net)	11.5	17.2	42.2	53.6	81.5	112.1
Claims on Government	(21.8)	(27.7)	(57.8)	(69.5)	(106.3)	(139.7)
Government deposits	(-10.3)	(-10.5)	(-15.6)	(-15.9)	(-24.8)	(-27.6)
Claims on public entities	1.0	11.4	33.8	70.1	64.9	87.5
Claims on private sector	155.4	160.1	155.3	143.7	137.4	120.5
Money and quasi-money (M2)	<u>227.7</u>	<u>301.3</u>	<u>301.0</u>	<u>275.5</u>	<u>281.6</u>	<u>312.8</u>
Money (M1)	109.1	139.0	143.5	128.1	117.9	124.9
Currency with public	(52.9)	(61.7)	(65.3)	(62.6)	(64.3)	(69.8)
Demand deposits	(56.2)	(77.3)	(78.2)	(65.5)	(53.5)	(55.1)
Quasi-money	118.6	162.3	157.5	147.4	163.7	187.9
Time deposits	(63.1)	(97.7)	(90.9)	(82.2)	(99.7)	(118.6)
Savings deposits	(55.5)	(64.6)	(66.6)	(65.2)	(64.0)	(69.3)
Other items (net)	<u>36.4</u>	<u>48.1</u>	<u>37.9</u>	<u>41.2</u>	<u>25.9</u>	<u>31.6</u>
<u>Memorandum item:</u>						
Claims on public sector <u>1/</u>	12.5	28.6	76.0	123.7	146.4	199.6

Source: Data provided by the Seychelles authorities.

1/ Government net of deposits and public entities (parastatals) gross.

Table IV. Seychelles: Factors Affecting Monetary Expansion, 1980-84

	1980	1981	1982	1983	1984 Prel.
<u>Changes during year</u> (In millions of Seychelles rupees)					
Foreign assets (net)	<u>64.5</u>	<u>-53.1</u>	<u>-58.3</u>	<u>-25.6</u>	<u>0.6</u>
Domestic credit	<u>20.8</u>	<u>42.6</u>	<u>36.1</u>	<u>16.4</u>	<u>36.3</u>
Claims on Government (net)	<u>5.7</u>	<u>25.0</u>	<u>11.4</u>	<u>27.9</u>	<u>30.6</u>
Claims on public entities	<u>10.4</u>	<u>22.4</u>	<u>36.3</u>	<u>-5.2</u>	<u>22.6</u>
Claims on private sector	<u>4.7</u>	<u>-4.8</u>	<u>-11.6</u>	<u>-6.3</u>	<u>-16.9</u>
Money and quasi-money (M2)	<u>73.6</u>	<u>-0.3</u>	<u>-25.5</u>	<u>6.1</u>	<u>31.2</u>
Money (M1)	<u>29.9</u>	<u>4.5</u>	<u>-15.4</u>	<u>-10.2</u>	<u>7.0</u>
Quasi-money	<u>43.7</u>	<u>-4.8</u>	<u>-10.1</u>	<u>16.3</u>	<u>24.2</u>
Other items (net)	<u>11.7</u>	<u>-10.2</u>	<u>3.3</u>	<u>-15.3</u>	<u>5.7</u>
<u>Memorandum item:</u>					
Claims on public sector <u>1/</u>	<u>16.1</u>	<u>47.4</u>	<u>47.7</u>	<u>22.7</u>	<u>53.2</u>
<u>Growth rate during year</u> (In percent)					
Domestic credit	<u>12.3</u>	<u>22.6</u>	<u>15.6</u>	<u>6.1</u>	<u>12.8</u>
Claims on Government (net)	<u>49.6</u>	<u>145.3</u>	<u>27.0</u>	<u>52.1</u>	<u>37.5</u>
Claims on public entities	<u>1,040.0</u>	<u>196.5</u>	<u>107.4</u>	<u>-7.4</u>	<u>34.8</u>
Claims on private sector	<u>3.0</u>	<u>-3.0</u>	<u>-7.5</u>	<u>-4.4</u>	<u>-12.3</u>
Money and quasi-money (M2)	<u>32.3</u>	<u>-0.1</u>	<u>-8.5</u>	<u>2.2</u>	<u>11.1</u>
Money (M1)	<u>27.4</u>	<u>3.2</u>	<u>-10.7</u>	<u>-8.0</u>	<u>5.9</u>
Quasi-money	<u>36.8</u>	<u>-3.0</u>	<u>-6.4</u>	<u>11.1</u>	<u>14.8</u>
<u>Memorandum item:</u>					
Claims on public sector <u>1/</u>	<u>128.8</u>	<u>165.7</u>	<u>62.8</u>	<u>18.4</u>	<u>36.3</u>
<u>Contribution to M2 growth</u> (In percent of opening M2)					
Foreign assets (net)	<u>28.3</u>	<u>-17.6</u>	<u>-19.4</u>	<u>-9.3</u>	<u>0.2</u>
Domestic credit	<u>9.2</u>	<u>14.1</u>	<u>12.0</u>	<u>6.0</u>	<u>12.9</u>
Claims on Government (net)	<u>2.5</u>	<u>8.3</u>	<u>3.8</u>	<u>10.1</u>	<u>10.9</u>
Claims on public entities	<u>4.6</u>	<u>7.4</u>	<u>12.1</u>	<u>-1.9</u>	<u>8.0</u>
Claims on private sector	<u>2.1</u>	<u>-1.6</u>	<u>-3.9</u>	<u>-2.3</u>	<u>-6.0</u>
Money and quasi-money	<u>32.3</u>	<u>-0.1</u>	<u>-8.5</u>	<u>2.2</u>	<u>11.1</u>
Money (M1)	<u>13.1</u>	<u>1.5</u>	<u>-5.1</u>	<u>-3.7</u>	<u>2.5</u>
Quasi-money	<u>19.2</u>	<u>-1.6</u>	<u>-3.4</u>	<u>5.9</u>	<u>8.6</u>
Other items (net)	<u>5.1</u>	<u>-3.4</u>	<u>1.1</u>	<u>-5.5</u>	<u>2.0</u>
<u>Memorandum item:</u>					
Claims on public sector <u>1/</u>	<u>7.1</u>	<u>15.7</u>	<u>15.9</u>	<u>8.2</u>	<u>18.9</u>

Source: Data provided by the Seychelles authorities.

1/ Government net of deposits and public entities (parastatals) gross.

Table V. Seychelles: Balance of Payments, 1980-84

(In millions of SDRs)

	1980	1981	1982	1983	1984 Prel.
Merchandise trade, net	-59.9	-63.1	-71.6	-64.7	-66.6
Exports, f.o.b.	4.4	4.0	3.5	4.8	4.3
Imports, f.o.b.	-64.3	-67.0	-75.1	-69.5	-70.9
Services and income, net	37.7	37.0	26.3	30.1	40.2
Receipts	67.5	68.4	61.3	60.8	78.0
Transportation	(17.5)	(17.0)	(16.6)	(18.6)	(27.8)
Travel	(39.2)	(38.3)	(30.4)	(31.8)	(38.6)
Investment income	(3.8)	(3.6)	(2.5)	(2.2)	(1.9)
Other	(7.0)	(9.5)	(11.8)	(8.2)	(9.7)
Payments	-29.9	-31.5	-35.1	-30.8	-37.7
Shipment	(-11.4)	(-11.9)	(-13.3)	(-12.3)	(-12.6)
Other transportation	(-2.5)	(-3.5)	(-3.8)	(-5.1)	(-9.0)
Travel	(-5.6)	(-6.2)	(-5.9)	(-5.5)	(-6.4)
Interest on public debt	(-0.1)	(-0.2)	(-0.9)	(-1.5)	(-2.3)
Other investment income	(-4.8)	(-4.4)	(-2.9)	(-1.5)	(-1.7)
Other	(-5.4)	(-5.3)	(-8.2)	(-4.8)	(-5.8)
Private transfers, net	-1.1	-2.3	-2.9	-2.5	-2.2
Receipts	1.3	1.7	2.4	2.8	2.9
Payments	-2.4	-3.9	-5.3	-5.6	-5.1
Current account balance (excluding official transfers)	-23.3	-28.4	-48.2	-37.2	-28.6
Official unrequited transfers, net	11.2	10.8	8.8	13.2	12.7
Budgetary grant receipts	3.1	3.0	2.4	4.7	3.7
Other, net	8.1	7.8	6.5	8.5	9.0
Current account balance	-12.2	-17.6	-39.4	-24.0	-15.9
Long-term private capital, net	3.3	1.2	3.4	4.1	1.7
Long-term public capital, net	9.1	6.4	18.8	10.2	6.2
Loan drawings	9.2	6.6	19.3	12.0	8.7
Budgetary	(6.9)	(6.3)	(17.6)	(9.1)	(7.9)
Other public	(2.2)	(0.3)	(1.6)	(2.9)	(0.8)
Loan repayments	-0.1	-0.2	-0.5	-1.8	-2.5
Short-term capital	-1.5	1.8	4.0	-0.4	-1.8
SDR allocations	0.1	0.1	--	--	--
Errors and omissions, net	5.3	5.4	8.7	6.2	8.1
Overall balance	4.1	-2.7	-4.5	-3.9	-1.7
Official reserves, net	-4.1	2.7	4.5	3.9	1.7
Central Bank assets	-6.3	2.6	0.1	2.2	1.2
Other official assets	2.1	0.1	0.3	--	0.1
Central Bank liabilities	--	--	4.1	1.7	0.4
<u>Memorandum items:</u>					
Ratio of current account balance to GDP (in percent)					
Excluding official transfers	-20.6	-22.0	-36.1	-27.1	-19.5
Including official transfers	-10.7	-13.6	-29.5	-17.5	-10.8
Debt service ratio (in percent)	0.2	0.7	2.2	5.2	6.0
Conversion factor (SR per SDR)	8.3197	7.4463	7.2345	7.2345	7.2345

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

Table VI. Seychelles: Consolidated Public Sector
Financial Operations - A Scenario, 1985-89

(In millions of Seychelles rupees)

	<u>1985</u> Budget	<u>1985</u>	1986	1987	1988	1989
		Scenario				
1. Government						
Total revenues and grants	527.8	548.0	604	664	730	803
Expenditure	<u>665.1</u>	<u>632.4</u>	<u>705</u>	<u>726</u>	<u>717</u>	<u>765</u>
Interest on public debt	47.6	47.6	60	85	105	116
Other current <u>1/</u>	423.2	419.5	447	492	541	595
Capital <u>1/</u>	194.3	165.3	198	149	71	54
Overall balance (deficit -)	-137.3	-84.4	-101	-62	13	38
2. Parastatal enterprises						
Estimated recurrent deficit	-28.2	-28.2	--	--	--	--
Capital expenditures	-132.0	-132.0	-136	-132	-113	-115
Overall balance (deficit -)	-160.2	-160.2	-136	-132	-113	-115
3. Public sector (1 + 2)						
Overall deficit	-297.5	-244.6	-237	-194	-100	-77
Foreign debt amortization	-58.0	-58.0	-69	-58	-70	-92
Total financing need	<u>-355.5</u>	<u>-302.6</u>	<u>-306</u>	<u>-252</u>	<u>-170</u>	<u>-169</u>
Anticipated gross foreign borrowing (Government and parastatals)	204.1	204.1	208	170	111	114
Residual financing need (domestic, net)	<u>-151.4</u>	<u>-98.5</u>	<u>-98</u>	<u>-82</u>	<u>-59</u>	<u>-55</u>
<u>Memorandum items:</u>						
Total financing need as per- cent of GDP	-30.5	-25.9	-24.1	-18.3	-11.3	-10.4
Residual financing need as percent of GDP	-13.0	-8.4	-7.7	-6.0	-3.9	-3.4

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

1/ Excluding transfers and net lending to the parastatals (data for 1985 are provided in Appendix II, Tables I and II).

Table VII. Seychelles: Balance of Payments - A Scenario, 1985-89

(In millions of Seychelles rupees)

	1985	1986	1987	1988	1989
	Scenario				
Exports, f.o.b.	40	50	65	85	110
Imports, f.o.b.	<u>-685</u>	<u>-740</u>	<u>-760</u>	<u>-755</u>	<u>-795</u>
Trade balance	-645	-690	-695	-670	-685
Services and private transfers, net	286	361	401	456	483
Of which:					
Tourism	(337)	(407)	(462)	(521)	(562)
Interest on public debt	(-31)	(-34)	(-50)	(-57)	(-69)
Current account balance (excluding official transfers)	-359	-329	-294	-214	-202
Debt amortization	-58	-69	-58	-70	-92
Total financing need	<u>-417</u>	<u>-398</u>	<u>-352</u>	<u>-284</u>	<u>-294</u>
Official unrequited transfers and private capital (net)	133	145	145	145	145
Gross borrowing by Government and parastatals	204	208	170	111	114
Overall residual gap	<u>-80</u>	<u>-45</u>	<u>-37</u>	<u>-28</u>	<u>-35</u>
In millions of SDRs <u>1/</u>	(-11.1)	(-6.8)	(-5.1)	(-3.9)	(-4.8)
<u>Memorandum items:</u>					
Current account balance as percent of GDP	-30.8	-25.9	-21.3	-14.3	-12.4
Total financing need as percent of GDP	-35.7	-31.4	-25.5	-19.0	-18.1
Residual gap as percent of GDP	-6.9	-3.5	-2.7	-1.9	-2.1
Total debt service	89	103	108	127	161
Exports of goods and non-factor services	685	798	889	1,044	1,137
Debt service ratio (in percent)	13.0	12.9	12.1	12.2	14.2

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

1/ SR 7.2345 = SDR 1.

Seychelles - Statistical Issues

1. Coverage, currentness, and reporting of data in IFS

		<u>Latest data in February 1985 IFS</u>
Real Sector	- National accounts	1982
	- Prices	Oct. 1984
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/surplus	1978
	- Financing	1978
	- Debt	1977
Monetary Accounts	- Monetary authorities	Oct. 1984
	- Deposit money banks	Oct. 1984
	- Other financial institutions	n.a.
External Sector	- Merchandise trade: values	Q3 1984
	- Prices	n.a.
	- Balance of payments	1983
	- International reserves	Dec. 1984
	- Exchange rates	Dec. 1984

The reporting record of data for inclusion in the IFS has been somewhat irregular during the past year. However, reporting has improved recently and the data are now fairly current.

2. Outstanding statistical issues

Government Finance

The last year for which data for the Central Government appear in the GFS Yearbook is 1978, and the data for that year are partial. No data have been provided for 1979 and 1980. The latest GFS questionnaire was returned with data for 1981, 1982, and 1983, but no derivation table was supplied. These data were not, therefore, published in the 1984 GFS Yearbook. The authorities indicated that GFS procedures are now applied and a derivation table for the years 1981 through 1984 will shortly be communicated to the Bureau of Statistics.

3. Technical assistance

Following an expression of interest by the authorities in receiving technical assistance for improving and extending the quarterly review published by the Central Bank, the Bureau of Statistics is planning to provide such assistance in the near future. The authorities are also requesting technical assistance from the Bureau of Computing Services for this purpose.