

**EXECUTIVE
BOARD
MEETING**

EBS/17/46
Supplement 1

May 22, 2017

To: Members of the Executive Board

From: The Secretary

Subject: **Seychelles—Staff Report for the 2017 Article IV Consultation and Sixth Review Under the Extended Arrangement—Informational Annex**

Board Action:	Executive Directors' consideration (Formal)
Tentative Board Date:	Friday, June 2, 2017
Publication:	Yes*
Questions:	Mr. Samuel, AFR (ext. 35612) Mr. Konuki, AFR (ext. 38085)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	Wednesday, May 31, 2017—WTO After Board Consideration—African Development Bank, European Commission

*The authorities have indicated that they consent to the Fund's publication of this paper.



SEYCHELLES

May 18, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION, SIXTH REVIEW UNDER THE EXTENDED ARRANGEMENT— INFORMATIONAL ANNEX

Prepared By

The African Department
(In consultation with other departments)

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RELATIONS WITH THE FUND

(As of March 31, 2017)

Membership Status: Joined 6/30/1977. Article VIII member since 01/03/1978.

General Resources Account	<u>SDR Million</u>	<u>% Quota</u>
Quota	22.90	100.0
Fund holdings of currency	50.19	219.18
Reserve Position in Fund	3.53	15.41
SDR Department	<u>SDR Million</u>	<u>% Allocations</u>
Net cumulative allocation	8.28	100.0
Holdings	5.05	60.99

Outstanding Purchases and Loans:

Extended Arrangements	30.82	134.59
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Financial Arrangements:

Type	Arrangement	Expiration	<u>SDR Million</u>	
			Amount Approved	Amount Drawn
EFF	Jun 04, 2014	Jun 03, 2017	11.45	9.81
EFF	Dec 23, 2009	Dec. 23, 2013	26.40	26.40
Stand-By	Nov 14, 2008	Dec. 22, 2009	17.60	11.00

Projected Obligations to the Fund (SDR Million: based on existing use of resources and present holdings of SDRs):

	<i>Forthcoming</i>				
	2017	2018	2019	2020	2021
Principal	2.95	4.54	5.08	5.16	3.93
Charges/interest	0.32	0.39	0.32	0.25	0.19
Total	3.27	4.93	5.41	5.41	4.12

Implementation of HIPC Initiative: Not applicable

Safeguards Assessments:

An update assessment of the Central Bank of Seychelles (CBS) in relation to the successor Extended Fund Facility (EFF) was completed in September 2014. The update assessment confirmed that the CBS has made further progress in developing its governance and control framework and that its operations are subject to independent oversight and accountability. The key remaining vulnerability is in internal audit, which lacks capacity. The CBS is working with an external consultant to develop this function in the medium-term. In addition, certain provisions of the CBS legal framework need strengthening. An updated review by LEG against evolving international benchmarks identified areas for improvement, particularly to safeguard the CBS Act's integrity and further ensure the central bank's autonomy. IMF technical assistance will be needed to draft the amendments and provide examples of leading practices.

Exchange Rate Arrangement:

The exchange market was liberalized in November 2008, which resulted in the elimination of all restrictions on the making of payments and transfers for current international transactions that are subject to Fund approval under Article VIII Sections 2, 3, and 4. The de jure exchange rate regime is floating and its de fact exchange rate regime is classified as floating. On March 31st, 2017 US\$1 = SR 13.5817 (mid-rate).

Article IV Consultations:

Seychelles is currently under a 24-month consultation cycle.

Technical Assistance (November 2016–April 2017):

Department	Head of Mission	Subject	Date
MCM	Mr. Ramakrishnan	Self-assessment of ISOCO principle	November-December 2016
FAD	Mr. Scott	Ensure adequate controls to prevent fraud and revenue leakage while facilitating trade	February 2017
MCM	Mr. Ramakrishnan	Strengthen non-bank financial supervision	February-March 2017
FAD	Ms. Cheasty	Carbon taxation	March 2017
MCM	Mr. Humik	Inflation forecasting	March 2017
STA	Mr. Legoff	National accounts	March 2017

Department	Head of Mission	Subject	Date
MCM	Mr. Bossone	Diagnostic mission	March 2017
MCM	Mr. Petrus	Tools and procedures for communication and inflation	March 2017
MCM	Ms. Selander	Develop tools and procedures for communication	March 2017
FAD	Mr. MacMorran	Follow-up on 2016 diagnostic mission recommendations	April 2017
STA	Ms. Razin	Balance of payment statistics	April 2017
STA	Ms. Evangelista	Residential property price index	April 2017

Resident Representative: None

JOINT WORLD BANK-IMF WORK PROGRAM, 2017

(As of April, 2017)

Title	Products	Provisional timing of mission	Expected delivery date
A. Mutual Information on Relevant Work Programs			
Bank	A. Strategy		
	Systematic Country Diagnostic	n.a.	June 2017
	Country Partnership Framework	Ongoing	June 2018
	B. Lending Program		
	Third South West Indian Ocean Fisheries Governance and Shared Growth Project (SWIOFish3)	Ongoing	July 2017
	Development Policy Loan with Catastrophe Deferred Drawdown Option (DPL CAT-DDO)	Ongoing	Ongoing
	C. Analytical work, Technical Assistance and Capacity Building		
	TA on Social Sectors	Ongoing	June 2018
	TA on Financial Sector Development	Ongoing	June 2017
	TA on Efficiency and Value for Money in Health	Ongoing	August 2017
	TA on Program Performance Based Budgeting and Performance M&E	Ongoing	October 2019

Title	Products	Provisional timing of mission	Expected delivery date
Fund	A. Program and surveillance work		
	Sixth Review under EFF	March 2017	June 2017
	B. Technical assistance and capacity building		
	FAD technical assistance on progressive tax	Ongoing	Ongoing
	FAD technical assistance on revenue administration management and governance arrangement	June 2017	September 2017
	STA technical assistance on prices and index numbers	October 2017	January 2018
	STA technical assistance on national accounts	October 2017	January 2018
	STA technical assistance on prices and index numbers	February 2018	May 2018
	FAD technical assistance on risk management	February 2018	May 2018
	STA technical assistance on national accounts	April 2018	July 2018
B. Requests for Work Program Inputs			
Bank request to Fund	Medium-term macroeconomic and fiscal framework to inform Systematic Country Diagnostic and Country Partnership Framework	n.a.	Ongoing
Fund request to Bank	Assist authorities in reviewing AML/CFT framework and in conducting a national risk assessment	n.a.	Ongoing

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK

The Bank commenced operations in Seychelles in 1978 and has since approved 34 operations, comprising 15 projects, 3 lines of credit and 1 partial credit guarantee as well as numerous studies, capacity building, technical assistance and emergency relief operations (15 in total). The cumulative value of approvals, net of cancellations, as at April 2017 is UA 135.4 million, of which 82.5% from the ADB, 7.9% from the ADF, 7.9% from the NTF, and the remaining 1.6% from the AWF and the Fund for Africa Private Sector Assistance (FAPA).

In addition to Budget Support (Policy Based) operations, the Bank supported the Seychelles East Africa Submarine (SEAS) cable ICT PPP project, amounting to USD 39 million, of which the Bank financed US\$12million, which was successfully implemented and completed in 2012. The Bank also provided in 2009 a partial credit guarantee of USD 10 million to help the Government of Seychelles restructure its commercial debt whilst reinforcing financial governance. The most recent investment project approved by the Bank, on 1 April 2015, is for a US\$20.6 million loan in support of the Mahe Sustainable Water Augmentation Project (MSWAP).

The on-going non-lending operations include five (5) technical assistance packages in support of the reforms targeted by the Budget Support Operation, including support to Private Sector Development, particularly enhancing access to finance and skills development for small and medium enterprises (MSMEs), as well as a project jointly financed with the Investment Climate Facility (ICF) to support the preparation of a PPP legal, regulatory and operational framework. The Bank's TA package also includes support to the Development of Quality of Service Standards and Regulations to ensure reliable and efficient delivery of high quality communication broadcast services and ensure the protection of the welfare of all classes of consumers for all services (voice, data, and Broadcasting services) in Seychelles.

The current Country Strategy Paper (CSP 2016-20) – was approved by the AfDB Board in March 2016 and is articulated around two mutually reinforcing pillars: Pillar 1 – Enhancing energy infrastructure to promote inclusive and green growth; and Pillar 2 – Stimulating private sector activity in support of economic diversification through policy reforms. The overarching objective of the CSP is fostering a more diversified economy with greater resilience to external shocks and to create jobs, notably for the youth. To achieve this objective, the CSP is based on a two-pronged approach that focuses on the private sector as the main engine of diversified, inclusive economic growth: investments in energy infrastructure and support of policy reforms towards a more conducive business environment. Bank's Support under Pillar 1 will boost private sector activity and enable economic diversification through improved access to energy, reduced energy cost, and more reliable energy supply; while under Pillar 2, Bank's support will stimulate private sector activity and enable economic diversification through

policy reforms that improve Seychelles business environment by facilitating access to finance and strengthening competitiveness.

The Bank's Indicative lending program for the first 3 years of the CSP 2016-20 is estimated at UAC 28.7 million (USD 39 million) and includes an energy project and a 3-year Policy Based Operation under a programmatic approach. These will be financed from the ADB window, and will be complemented with Trust Fund resources, climate funds as well as resources mobilized through leveraging (parallel and co-financing). The CSP 2016-20 mid-term review will be prepared in 2018, and will provide the opportunity to prepare, in close consultation with the Government, the lending and non-lending programs for the remaining CSP period, assess implementation progress, and, if necessary, adjust the strategy's focus for the remaining CSP period.

STATISTICAL ISSUES

<p style="text-align: center;">SEYCHELLES—STATISTICAL ISSUES APPENDIX</p> <p style="text-align: center;">As of May 18, 2017</p>
<p style="text-align: center;">I. Assessment of Data Adequacy for Surveillance</p>
<p>General: Data provision has some shortcomings, but it is broadly adequate for surveillance. The country participates in the General Data Dissemination System (GDDS) since December 2006 and in government finance statistics modules of the Anglophone Africa project funded by the U.K. Department for International Development (DFID). Good progress has been achieved in improving statistical capacity, though sustained technical assistance and additional resources will be required for statistical development over the medium term in order to improve the quality of economic statistics. Having met all Special Data Dissemination Standard (SDDS) requirements and following review of metadata by the IMF Statistics Department, Seychelles subscribed to the SDDS on May 1, 2015.</p>
<p>National accounts: National accounts data are prepared on a calendar-year basis with 2006 serving as the base year for constant price measures. The NBS has developed quarterly national accounts data for the period 2006-14. Further technical assistance is being provided to allow for a rebasing of the national accounts to 2013 (reflecting the results of the new Household Budget Survey), compilation of the quarterly national accounts using the expenditure approach, production of seasonally-adjusted quarterly GDP figures. Tourism statistics are compiled on a weekly and monthly basis. Production indicators are compiled quarterly, and both are reported to the IMF in a timely manner. Data on average earnings and employment by sector are collected on a quarterly basis by the NBS, but there are no data on unit labor costs.</p>
<p>Price statistics: A new consumer price index (CPI) was introduced in January 2015 based on expenditure weights derived from the 2013 household budget survey. There is some concern on the quality of CPI data as some CPI sub-components are not collected every month and</p>

estimated, instead. Further technical assistance is being provided to improve data quality and collection.

Government finance statistics: Seychelles reports to STA the cash flow statements and financial balance sheet data based on the Government Finance Statistics Manual (GFSM 2001). Main recommendations of the 2011 GFS mission were: (i) establish a GFS task force among Treasury, Financial Planning and Control Division (FPC), Debt Management staff, and other relevant agencies to discuss and resolve technical and methodological issues; (ii) establish a strategic plan that specifies how to address weaknesses in terms of: (1) augmenting the cash recording of transactions in the execution of the budget with relevant accrual-based measures; (2) improving data on other economic flows for financial assets and liabilities; and, (3) addressing the lack of stock data on government holdings of nonfinancial assets, beginning with fixed assets and non-produced assets (lands). While substantial progress has been made, further work will be needed to support a full move to GFSM 2001.

Monetary and financial statistics: Monetary and financial sector data are reported regularly to STA for publication in the *IFS*. The analytical framework underlying the compilation of monetary statistics is generally sound. An integrated monetary database has been developed and is fully operational using the standardized report forms (SRF) for reporting monetary data to the Fund. The SRF-based monetary data have been published in the *IFS Supplement* since its March 2007 issue.

Financial sector surveillance: The authorities are compiling financial soundness indicators and report them to the Fund on a monthly basis. Work is ongoing to strengthen the recently established macroprudential framework, which includes revisions to the Central Bank Act and migration towards Basel II.

External sector statistics: The authorities have adopted the methodology of the sixth edition of the *Balance of Payments and International Investment Position Manual*, and began compiling the international investment position in 2015. Annual balance of payments data are reported to the Statistics and African Departments nine months after the reference period, but provisional estimates are provided to missions earlier. Quarterly BOP data are being compiled since 2009, and made publicly available and reported to STA since 2015. Merchandise trade data are reported on a quarterly basis. Considerable progress has been made in collecting and updating data on public sector external debt and debt-service and payments of external arrears. Remaining priority areas include improving the coverage of external sector statistics, and compiling private sector debt data.

II. Data Standards and Quality

No ROSC has been carried out.

Seychelles: Table of Common Indicators Required for Surveillance

	Date of latest observation (For all dates in table, please use format dd/mm/yy)	Date received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of Publication ⁷
Exchange Rates	21/04/17	25/04/17	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	21/04/17	25/04/17	D	W	M
Reserve/Base Money	21/04/17	25/04/17	D	W	M
Broad Money	31/03/17	28/04/17	M	M	M
Central Bank Balance Sheet	21/04/17	25/04/17	D	W	M
Consolidated Balance Sheet of the Banking System	31/03/17	28/04/17	M	M	M
Interest Rates ²	28/02/17	10/04/17	M	M	M
Consumer Price Index	31/03/17	24/04/17	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	28/02/17	24/04/17	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	28/02/17	24/04/17	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	31/03/17	25/04/17	M	M	M
External Current Account Balance	31/12/16	15/03/17	Q	Q	Q
Exports and Imports of Goods and Services	31/12/16	15/03/17	Q	Q	Q
GDP/GNP	31/12/15	31/01/17	Q	Q	Q
Gross External Debt	31/12/16	01/02/17	Q	Q	Q
International Investment Position ⁶	30/06/16	15/09/16	Q	Q	Q

¹ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

² Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).