

**FOR  
INFORMATION**

EBS/20/135  
Correction 1

August 13, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Seychelles—Interim Performance Update Under the Policy Coordination Instrument**

Board Action: The attached corrections to EBS/20/135 (8/4/20) have been provided by the staff:

**Mischaracterizations  
of the Views of the  
Authorities**

**Page 3**

**Factual Errors Not  
Affecting the  
Presentation of Staff's  
Analysis or Views**

**Pages 4 and 9**

Questions:

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## RECENT ECONOMIC DEVELOPMENTS

**1. The pandemic continues to take a toll on Seychelles' economy.** Given Seychelles' heavy dependence on tourism, the pandemic has had a severe impact on the economy. The deployment of strict domestic containment measures<sup>1</sup> and global travel restrictions have deteriorated the fiscal and external positions as 2020 tourism receipts are expected to fall by 64 percent compared to 2019. To help address the urgent balance of payments (BOP) need arising from the pandemic, the Executive Board approved on May 8, 2020, the authorities' request for emergency financing under the Rapid Financing Instrument (RFI) of SDR 22.9 million, equivalent to 100 percent of quota. The authorities have successfully prevented a local outbreak<sup>2</sup> and are gradually reopening the border to tourists. On June 1, the country started allowing passenger flights, thus far limited to chartered flights. Some commercial flights from low-risk countries are expected to be allowed from August 1, 2020. In addition to fiscal mitigation measures, effective of July 1, the Central Bank of Seychelles (CBS) cut the policy rate by 100 basis points. Market reaction to this policy action has been muted. Nominal exchange rates have been stable since late May while inflation has been contained so far.

**2. High downside risks to the outlook are materializing.** The near-term economic outlook has worsened as the global economic downturn is expected to be deeper and travel restrictions to persist longer than expected at the time of the RFI request (Country Report No. 20/170, Tables 1–5). The worse global economic outlook for 2020 is expected to reduce tourist arrivals in Seychelles by about two thirds in 2020, compared with a 50 percent decline anticipated in May 2020.<sup>3</sup> Hence, economic activity is now projected to decline by almost 14 percent in 2020 (compared with a previously projected contraction of almost 11 percent). ~~While the authorities concur with thought~~ the ~~staff's~~ revised outlook ~~and as economic growth is expected to fall more sharply is too pessimistic, with economic growth is expected to fall more sharply,~~ they have taken further measures to mitigate the impact on affected businesses and vulnerable households, and fiscal needs and revenue loss have become larger. The growth effect is expected to further reduce fiscal revenue by about 1¼ percent of GDP in 2020 compared with the projection at the time of the RFI request. The authorities reformed the wage subsidy measures by extending the duration of the program but revising its coverage, thereby maintaining the nominal cap of spending on wage subsidies at the level envisaged at the time of the RFI request (5¼ percent of GDP in 2020). At the same time, ~~the authorities intend to increase staff expects that~~ the execution of capital expenditures in 2020 ~~would be higher~~ by about 1¼ percent of GDP ~~to which could bolster domestic demand~~. As a result, the primary deficit is expected to reach 12¼ percent of GDP in 2020 while the debt-to-GDP ratio would increase to about 90 percent by end-2020, due to a widening of the fiscal deficit and a further depreciation of Seychelles rupee since late April.

<sup>1</sup> The government took decisive containment measures, including entry ban, school closures, and mandatory work from home for all non-essential workers.

<sup>2</sup> Although the Seychelles reported no new cases since mid-April and all 11 positive cases (no deaths) recovered by early May, 70 sailors from Western African countries tested positive after arriving in Seychelles to join a fleet of Spanish tuna fishing boats in late June. Mandatory work-from-home was lifted on April 30. On May 18, all schools were reopened.

<sup>3</sup> Although the global assumptions in the June 2020 World Economic Outlook (WEO) update still indicate that major advanced and emerging markets, which are the main tourism markets for Seychelles, will start a significant recovery in 2020Q3, it will likely take some time for the confidence of tourists to return to pre-pandemic levels.

The current account deficit is expected to reach about 27 percent of GDP in 2020, slightly lower than expected at the time of the RFI as imports declined more than expected. External financing needs for 2020 are expected to be covered by IFI (about \$55 million by the World Bank and African Development Bank), notably RFI financing (\$31 million) and a reduction of the gross international reserves (GIR) which is expected to decline to slightly below 100 percent of the Fund's standard reserve adequacy (ARA) metric at end-2020.

**3. Downside risks remain substantial.** The medium-term outlook is contingent on resumption of tourism and capital flows to Seychelles. In line with the June 2020 WEO global projection updates, staff assumes that global tourism demand will rebound from 2021 onwards and the number of tourist arrivals in Seychelles would return to the level of 2019 by 2025. With the recovery in tourism and accompanying investments, real GDP growth is expected to reach 4¼ percent in 2021 and 5½ percent in 2022, and gradually moderate to around 4 percent over the medium term, in line with staff's estimates of the potential growth rate in Seychelles. This will lead to a rebound in fiscal revenue and help improve the fiscal position over the medium term. A more protracted normalization of the global economy or resurgence of the pandemic would delay the economic recovery or further deepen the slump.

## PROGRAM ISSUES

**4. Performance under the program had been strong until the onset of the economic fallout of the pandemic.** The first four reviews under the PCI were concluded on time. All end-December 2019 quantitative targets (QTs) for the 5<sup>th</sup> review were met: the floors on the primary fiscal surplus and net international reserves (NIR) at end-December 2019 were both exceeded by comfortable margins (Table 2). The 12-month average inflation rate at end-2019 was well within the inner bound of the monetary policy consultation clause (MPCC). The authorities have not imposed any foreign exchange restriction in line with the continuous target under the PCI. Reform targets (RTs) on the legal framework for a risk-based approach to AML/CFT supervision was implemented ~~with a minor delay (in April against the targeted date of end-March)~~ and the legal framework to strengthen entity transparency was partially implemented in ~~April~~ March,<sup>4</sup> but the other 5<sup>th</sup> review RTs were delayed: operational and governance assessment of Air Seychelles will be submitted to the Cabinet by end-July while the authorities proposed that a policy framework paper for Basel II pillar 1 and Basel III capital definition will be submitted to the Cabinet in June 2021 (Table 4). The government is currently discussing the future of Air Seychelles with the other shareholder with a view to minimize fiscal risks potentially arising from the company's financial difficulties.

**5. Given the significant uncertainty to the economic outlook and policy making, it is not feasible to complete the 5<sup>th</sup> review.** Due to the tremendous changes in the outlook and the uncertainty surrounding financing assurances at the time when a 5<sup>th</sup> review mission should have

<sup>4</sup> To fully implement this RT, the authorities would have to further the reform on the publication and access to the beneficial ownership information of legal entities and legal arrangements created in Seychelles.

Table 3. Seychelles. Reform Targets Under the PCI, 2019–20

Actions	Timing	Objective/Status
<b>State-Owned Enterprises (SOEs)</b>		
Submit the amendments on Public Enterprise Monitoring Committee (PEMC) Act to the Cabinet to strengthen enforcement power of PEMC.	End September 2019 (4 <sup>th</sup> review)	Not met. To be implemented in September 2020.
Submit operational and governance assessments of Air Seychelles to the Cabinet.	End December 2019 (5 <sup>th</sup> review)	Not met. To be implemented in July 2020.
<b>Business environment</b>		
Submit the policy paper on the draft amendments to the Companies Act and Insolvency Act to the Cabinet.	End September 2020 (6 <sup>th</sup> review)	Improve Business environment. On track to be implemented on time.
<b>Financial Sector Stability</b>		
Submit to the Cabinet amendments to legal framework that allows to implement a risk-based approach to the supervision of banks and trusts and company service providers, consistent with the FATF standard.	End-March 2020 (5 <sup>th</sup> review)	<del>Not met. It was implemented in April 2020.</del> Met.
Submit draft legislation for crisis management, bank resolution, and safety nets to the Cabinet.	End-November 2020 (6 <sup>th</sup> review), reset from end-March 2020	Will be delayed to November 2021.
Submit a policy framework paper for an implementation of Basel II pillar 1 and Basel III capital definition to the Cabinet.	End-December 2019 (5 <sup>th</sup> review)	Will be delayed to end-June 2021.
Submit a policy framework paper on Financial Stability Act to the Cabinet to assign macro prudential power to relevant institutions.	End-September 2020 (6 <sup>th</sup> review)	Strengthen macro prudential framework. On track to be implemented on time.
Submit amendments to the Cabinet to the legal framework to strengthen entity transparency (including on basic and beneficial ownership information on the domestic companies and international financial services companies and the establishment of a master registry of beneficial owners) in line with the FATF standard and the IMF's capacity development recommendations.	End-March 2020 (5 <sup>th</sup> review)	Not met. It was partially implemented in <del>April-March</del> 2020.