



SEYCHELLES

FIRST REVIEW UNDER THE EXTENDED ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—STAFF REPORT; PRESS RELEASE

December 2014

In the context of the First Review Under the Extended Arrangement and Request for Modification of Performance Criteria, the following documents have been released and are included in this package:

- **The Staff Report** prepared by a staff team of the IMF for the Executive Directors' consideration on lapse of time basis, following discussions that ended on September 30, 2014, with the officials of Seychelles on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on November 25, 2014.
- A **Press Release**.

The following documents have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Seychelles*
Technical Memorandum of Understanding*

*Also included in the Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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SEYCHELLES

FIRST REVIEW UNDER THE EXTENDED ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

November 25, 2014

KEY ISSUES

Context. Program implementation and economic fundamentals continue to be strong, but the external position weakened in mid-2014. Projected growth for 2014 has been revised down to 2.8 percent from 3.7 percent, due to weaker demand for Seychelles' two main exports—tourism and canned tuna. At the same time, strong growth in personal earnings and private sector credit have fueled a surge in imports, putting further pressure on the balance of payments. As a result, the exchange rate depreciated an estimated 11 percent in nominal effective terms from early August to late-October.

Focus. Discussions centered on policy responses to the balance of payments pressures, including tightening monetary policy, revising the primary fiscal surplus target upwards, and measures to restrain a new credit subsidy program. Discussions also highlighted structural measures to reduce risks and promote growth, including reforming the governance of state-owned enterprises (SOEs), improving public financial management, and strengthening the business environment.

Program performance. All performance criteria for end-June 2014, the program's first test date, were met. Based on preliminary data, all the third quarter indicative targets were also met. The measures in the structural benchmarks were all completed, although there were some delays in implementation for technical reasons. Staff recommends completion of the first review under the Extended Arrangement and modification of the performance criteria for end-December 2014.

Policies in the period ahead. The authorities are committed to restoring external balance expeditiously, relying on the effects of depreciation and tight monetary and fiscal policy. They also remain steadfast in the program's fiscal anchor of reducing public debt below 50 percent of GDP by 2018; fiscal policy in 2015 continues debt reduction while financing important public investments. Monetary policy aims to stabilize inflation at low levels. Planned structural reforms aim to reduce risks and promote growth.

Risks. The largest risks to the economic outlook and program performance are external, including most notably a downturn in Europe or global financial turbulence, which could lead to declines in tourism receipts and/or in FDI. Homegrown risks to the program center on SOEs; poor performance could hold back growth or jeopardize public debt reduction through losses.

Approved by
David Robinson
and **Dhaneshwar**
Ghura

Discussions were held in Victoria September 17–30, 2014. The staff team comprised Mr. Mills (head), Messrs. Abdychev, Dallari, Jammeh, Roy, and Thornton (all AFR). The mission met the President, Vice President, Finance Minister, Governor of the Central Bank, other senior officials, banks, private sector representatives, civil society, and parliamentarians. The three-year Extended Arrangement under the Extended Fund Facility (EFF) for SDR 11.445 million (105 percent of quota) expires on June 4, 2017. The program aims to bolster the foundations for sustained and inclusive growth, while addressing remaining vulnerabilities.

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RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

1. **The Seychelles economy performed well in the first half of the year** (Tables 1–4 and Figures 1–2). The Central Bank of Seychelles (CBS) took advantage of the positive balance of payments situation to build reserves above the levels projected for end-June. FDI also exceeded projections as a result of several large projects in the tourism sector. Inflation continued to decelerate, reaching 1.1 percent (yoy) in June. Strong growth in private sector credit and personal earnings, led by a large public sector wage hike (10 to 20 percent), also boosted retail and construction activity. Supported by these developments and especially robust import growth, tax revenue collections exceeded mid-year projections by $\frac{1}{3}$ percent of GDP.
2. **By mid-year, external pressures began to build rapidly, the result of strong domestic demand coinciding with weak foreign exchange earnings.** The public sector wage increase fed through to the private sector, with personal earnings economy-wide growing 13 percent. Boosted by the income growth and a government-supported loan program for small and medium enterprises (SMEs), private sector credit growth further accelerated, reaching 17 percent (yoy) in September, exacerbating the surge in imports.¹ At the same time, foreign exchange earnings weakened after a strong performance in 2013. With tourism arrivals down 1 percent (yoy) up to September, tourism revenues fell an estimated 5 percent; the main cause was a drop in the number of relatively higher spending French and Italian tourists, which is attributable to the economic weaknesses in those countries and a loss in some flight connections. Tuna production also suffered as production shifted to lower-cost locations, in part due to high domestic electricity prices.
3. **The balance of payments pressures resulted in a sharp depreciation.** In June and July, the exchange rate remained stable but market participants noted an increasing backlog of unmet demand for foreign exchange as commercial banks slowed the processing of transactions. From August onwards, the exchange rate began to depreciate gradually, with continuing but smaller backlogs. From early August to late October, the Rupee fell in nominal effective terms by 10.9 percent; against the strengthening dollar—the most watched exchange rate—the depreciation was 14.0 percent. While relying on exchange rate flexibility, the authorities have moved decisively to contain the external pressures through an appropriate policy tightening (discussed below).
4. **The external weakness and policy tightening are expected to dampen economic growth somewhat in 2014 and 2015, although underlying fundamentals remain strong.** Projected growth for 2014 is being revised down to 2.8 percent (from 3.7 percent), as other sectors partially offset the weakness in tourism and tuna canning. Continuing weakness in tourism and policy tightening is expected to keep growth at 3.0 percent in 2015. The projected current account deficit has also worsened, reaching 22.5 percent of GDP, with a gradual improvement to 20.5 percent in 2015. While inflation remained low through September (at 0.6 percent yoy), some

¹ Private sector credit growth had long been anemic despite ample liquidity, prompting government programs to promote SME and housing lending. The rapid credit growth in 2014 was therefore unexpected.

increase is anticipated as the depreciation passes through with a lag. Nevertheless, the strong policy response is expected to limit any second round inflationary pressures beyond the initial impact from the depreciation, keeping inflation in single digits. Falling international prices for fuel and other commodities will also help dampen inflationary pressures. In addition, reserve coverage is still projected to improve in 2014 over 2013, and public debt reduction remains on track despite the impact of depreciation.

5. On November 11, the CBS took management control of BMI Offshore Bank, a small offshore bank located in the Seychelles. Its correspondent banking relationship had been severed in the context of a broader de-risking by global banks. This intervention was necessitated by the inability to operate resulting from the absence of a correspondent banking relationship, rather than financial soundness concerns, and accordingly, this action is not expected to have significant fiscal or program implications. The CBS has stated that the bank is liquid, well capitalized, and not a systemic risk, and staff are working closely with the authorities to assess options to resolve the issue.

PROGRAM PERFORMANCE

Despite the balance of payments difficulties, implementation of the EFF-supported program has been strong, as it was under the previous program.

6. All end-June PCs were met by comfortable margins (LOI Table 1), and all but one of the measures under the SBs were completed, albeit some with minor delays (LOI Table 2).

- On fiscal policy, the mid-year primary surplus target was exceeded by nearly 2 percent of GDP.** With the exception of disappointing business tax collections, revenues have significantly exceeded budget projections, driven largely by buoyant tax collections on imports. A supplementary budget was passed in September to accommodate some unexpected expenditure needs, notably a transfer to Air Seychelles stemming from the 2012 restructuring and additional health-care spending. The transfer consisted of a \$5 million capital injection and a \$3.5 million transfer in 2014, with a further \$5 million capital injection to come in 2015. While these amounts had been foreseen as part of the 2012 restructuring agreement, the timing had been unexpected. The additional health care spending largely involved additional purchases of medicine. The supplementary budget authorized new spending of 1.2 percent of GDP, although it also identified savings of just under 1.0 percent of GDP. As in 2013, the capital budget has been significantly under-executed, largely reflecting difficulties in procurement and execution in the line ministries, as well as technical delays in large infrastructure projects of the Public Utilities Corporation (PUC) financed by on-lending. As result, preliminary indications are that the end-September indicative target was also comfortably exceeded by 1½ percent of GDP. Project delays also brought the contracting of new external debt significantly below the ceiling for the year (with some loans postponed to 2015).
- The net international reserve targets were also exceeded by significant margins.** Taking advantage of the favorable balance of payments situation early in the year, the Central Bank of Seychelles purchased US\$24 million more than planned, resulting in an over-performance of the

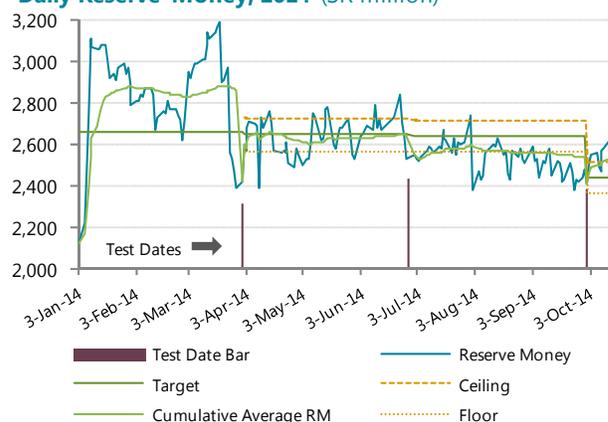
(adjusted) NIR target by US\$30 million. This considerable over-performance also enabled the authorities to surpass the end-September indicative target, despite the more challenging external position from May onwards.

- **Building on the successful operations to mop up excess liquidity, average reserve money has remained comfortably below the ceiling.**

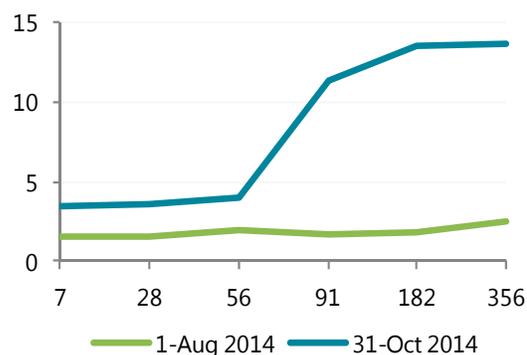
In March to June, multi-year Treasury bonds were issued, absorbing structural excess liquidity equivalent to 4.3 percent of GDP. In response to the unsustainable private sector credit growth and deteriorating external balance, the authorities subsequently boosted the issuance of treasury bills to mop up additional excess liquidity, so cumulative quarterly reserve money fell 6.7 percent below the program ceiling as of end-September.

Following the transition under this program to targeting average daily reserve money over a quarter, the CBS also moved from quantity-based to price-based auctions of their money market instruments. These measures have supported a significant increase in interest rates, while reducing the volatility of monetary aggregates and strengthening the transmission mechanism. The authorities made additional efforts to restrain demand, for example by tightening the eligibility requirements of a government program to encourage SME lending.

Daily Reserve Money, 2014 (SR million)



Interest rates on CBS instruments and treasury bills (percent, maturity in days)



- **The structural agenda continues to advance, with all SBs planned through end-October either completed or expected to be completed by end-December** (LOI Table 2). The medium term agenda to support sustained and inclusive growth is now explicitly defined, with cabinet approval in November of the strategies on Medium-Term National Development and the Financial Sector, as well as the Medium-Term Fiscal Framework. To move Seychelles toward international norms and thereby protect the international financial services sector, the authorities plan to submit to the National Assembly in December an amendment to the Seychelles Revenue Commission Act which ensures consistency with international standards, as well as the ratification of the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (minor delays developed due to legal issues of the sequencing of the actions). Concerning public financial management and oversight of SOEs, all commercial SOEs submitted their procurement plans to the National Tender Board for endorsement in November, following a delay for a necessary modification of regulations. The PEMC Board approved a plan in

October—well ahead of the scheduled date of end-December—for carrying out audits of the governance structures and practices of SOEs over the next several years. Progress is continuing on establishing and publishing a comprehensive asset register for five large SOEs (SB for end-December).

POLICIES IN THE PERIOD AHEAD

The authorities are acting decisively to restore external balance. Fiscal policy is being tightened relative to the previous plans, while remaining anchored on the authorities' debt reduction goal. The CBS has tightened monetary policy forcefully and has committed to maintain this stance as long as necessary, which is expected to be at least through the first half of 2015. Structural reforms will build on the strategies set out for national development, the financial sector, and fiscal framework to lay the groundwork for broad-based and sustainable growth, while reducing vulnerabilities.

A. Fiscal Policy

7. Supported by strong revenues, the government has tightened the primary surplus target for 2014 by $\frac{1}{3}$ percent of GDP. Offsetting the current spending increase in the supplementary budget, externally-financed investment is expected to fall significantly short for the year, although domestically-financed capital expenditures are projected to be roughly in line with budgeted levels. Overall tax revenues are expected to be around $\frac{1}{2}$ percentage point of GDP higher than budgeted for the year, owing in large part to the import surge. As a consequence, a higher primary surplus of 4.3 percent of GDP is now targeted, since a looser target could add to domestic demand pressures that have impacted the external position. However, the under-execution of investment spending raises concern about the composition of spending and achievement of important infrastructure and growth objectives.

8. To help safeguard program objectives, the authorities have established a 2015 primary balance target of 3.7 percent of GDP, $\frac{1}{2}$ percentage point higher than previously envisaged. With the currency weaker and interest payments increasing in the face of tighter monetary policies, the higher primary surplus is needed to meet the authorities' central goal of reducing public debt below 50 percent of GDP by 2018.² A continued tight fiscal stance will also help to dampen domestic demand and support external stability.

9. The 2015 budget also aims to enhance the quality of spending. To preserve room for necessary investments in critical water, electricity and sewage infrastructure, the budget envisages tight control of current expenditure. Taking account of the large pay increase in 2014, the authorities' proposed budget for submission to the National Assembly includes a wage freeze in

² Despite the fiscal surplus, the 2014 debt level is expected to increase as a result of both the weaker currency and the significant t-bill and t-bond issuance for monetary purposes. As discussed in EBS/14/58, this debt is included in the gross debt stock for the purposes of the 2018 target since it is not expected to be unwound over the medium term in view of the structural nature of the excess liquidity.

2015 for government employees; this pay freeze is expected to promote wage restraint across the economy, helping restrain domestic demand. Primary current spending will fall by about ½ percent of GDP (after accounting for one-off items that boosted spending in 2014). Furthermore, to strengthen investment spending, a high-level committee is now in place to review all large project proposals, and the Ministry of Finance is working closely with key line ministries to address the key constraints in project implementation. In addition, the authorities and staff agree that under-execution of investment spending and resulting shifts to current spending during the year is weakening the quality of spending outcomes. Consequently, the authorities plan to safeguard investment on a multi-year basis, by conserving resources from any under-execution and allocating them to higher capital spending in subsequent years. The Cabinet has also approved implementation of a Results Based Management framework aimed at improving the efficiency of expenditure, including through the expansion of Programme-Performance Based Budgeting beyond the two pilot ministries. Staff welcomed the authorities' plan to complete the reform of the pension system by transferring the remaining assets of the Social Security Fund to the Seychelles Pension Fund in January 2014.³

10. With lower imports expected to constrict revenues in 2015, the authorities are planning measures to buttress tax collections in 2015. In 2014 tax revenues rose by over one percent of GDP, much of which appears to have been driven by the strong growth in consumption-related imports (85 percent of the VAT over-performance came from imported goods). As tight policies and a weaker currency restrain import growth, this revenue over-performance can be expected to subside and the revenue-to-GDP ratio will fall in 2015. To mitigate this fall and meet the tighter fiscal target, the proposed budget incorporates a number of revenue measures, including an increase in road fees and excise on tobacco and spirits and a postponement of a planned reduction in corporate tax rates. Furthermore, the government is investigating the causes of the decline in business tax receipts and has hired new experts to carry out additional audits (SB).

B. Monetary Policy

11. The central bank is using its newly strengthened monetary policy tools to rein in credit growth and domestic demand pressures. In light of continuing external pressures and rapid private sector credit growth, the CBS intends to maintain a tight monetary policy stance, with an average daily reserve money target for Q4 of 2014 that is seven percent below the original program target. Interest rates have risen sharply, and private sector credit is expected to stabilize in Q4, as banks' free reserves available for lending become limited.

12. The CBS is committed to maintaining this tight monetary policy stance as long as necessary to support external balance and contain inflation. The full impact of the current tightening on credit aggregates and conditions in the foreign exchange market will only be felt in the first half of 2015, as transmission mechanisms take time. Similarly, the inflationary impact of exchange rate depreciation will also operate with a lag and will continue into H1 2015. To prevent

³ For program purposes this transfer will not be considered as expenditure, as noted in the revised TMU.

second-round inflationary pressures, monetary policy will need to remain tight well into 2015. Once inflation starts to recede in the second half of 2015, the CBS will start normalizing the monetary policy stance. In addition to the government restricting eligibility under the SME lending program, the CBS is also working to refine its macro-prudential toolkit (SB) over the next year, particularly looking at unsecured consumer lending.

C. External Stability

13. The balance of payments pressures that began in 2014 are expected to unwind gradually in 2015, as some of the causes recede and the policy responses take effect. The current account deficit should decline to more sustainable levels as export growth gradually resumes and import demand moderates in the face of policy tightening and depreciation. The authorities are appropriately committed to exchange rate flexibility to ensure adjustment in line with economic fundamentals, while standing ready to intervene in the event of excessive volatility. Moreover, they are discussing with market participants the causes of backlogs in meeting demand for foreign exchange, with a view to promoting smoother functioning of the market.

14. In this context of continuing external pressures, the EFF-supported program targets only stability in gross reserves for 2015.⁴ These pressures have proven more acute than previously anticipated. In addition to disappointing exports, the public sector's net foreign exchange cashflow is projected to become moderately negative in 2015, as debt service increases. Supporting gross reserves will require purchases in the market by the CBS, and taking into account the continuing external pressures and the poor functioning of the foreign exchange market, the authorities plan on modest and back-loaded purchases. This strategy is projected to roughly maintain current levels of reserve adequacy, including the import coverage ratio, as imports are also projected to stabilize.

D. Structural Agenda

15. To further strengthen public financial management, reforms aim to better align expenditures with the authorities' strategic priorities. The Medium Term Fiscal Framework (MTFF) approved in November sets out a strategy for the next three annual budgets, drawing on the priorities set out in the Medium Term National Development Strategy (MTNDS). Next year a more detailed Medium-Term Budget Framework will be prepared, which will provide more guidance for establishing spending allocations for the line ministries linked to specific policy goals. With the support of the World Bank, the authorities have prepared Program Performance Based Budgeting (PPBB) frameworks for two ministries (which reported that the PPBB process was time-intensive but useful), and plan to extend the framework for three further ministries next year. In addition, a new interministerial committee will ensure that the investment program is aligned with the priorities set out in the MTNDS and the MTFF. To enhance transparency in the use of public resources, the

⁴ The original PC on end-2014 NIR, adjusted by new projections on budget support and external debt service, would have been US\$344 million. The new proposed NIR target is US\$350 million. This increase of the target is possible because of the strong NIR performance in the first half of the year.

authorities also intend to extend the public asset register to the entire public sector by the end of 2015 (SB).

16. The authorities' reform agenda for SOE governance and oversight continues to advance, although risks remain. Although the Public Enterprise Monitoring Commission (PEMC) now receives data on SOEs' financial performance, it needs to further develop its capacity to analyze the data and assess the SOEs' governance. In this regard, the authorities intend to strengthen the supervision of commercial SOEs, including independent review of large investment plans (SB). Staff also stressed the importance of enhancing the independence of the board of the state holding company, *Société Seychelloise d'Investissement* (SSI), from the SOEs in its portfolio. The authorities will conduct governance audits of five SOEs in 2015 (SB) and continue to explore further reforms to the SOE sector with World Bank technical assistance. Public finances remain vulnerable to the possibility of poor performance and excessive risk-taking by SOEs, particularly in activities outside their core mandates. The risks posed by SOEs were highlighted in 2014 by the unexpected outlays connected to the past restructuring of Air Seychelles, indications that financial performance of some SOEs may be weakening, and expansion proposals for the state-owned importer and retailer, Seychelles Trading Company.

17. With the adoption of the Financial Sector Development Implementation Plan (FSDIP), the authorities have a blueprint to enhance the sector's contribution to inclusive growth. The most macroeconomically important elements of the FSDIP focus on developing capital markets and the supervision and regulation of banks and non-bank financial institutions (NBFIs). Concerning capital markets, planned reforms to the investment strategy of the Seychelles Pension Fund will help deepen markets and extend the maturity horizon. On supervision and regulation, the authorities aim to modernize the legal framework, with assistance of the World Bank, and to adopt relevant elements of Basel II and III over the next two years. Financial soundness indicators continue to reflect a strong capital position of the banking system (Table 5), but the CBS—motivated by the rapid credit growth in 2014—intends to develop and adopt a new macro-prudential framework in 2015 (SB). They also plan to update the Credit Information System, establish a collateral registry, and build the capacity of the Financial Services Authority, the new agency responsible for supervising some NBFIs. In addition to enhanced payments system supervision, regulation of offshore banking activities are also on the reform agenda; the importance of this issue was highlighted by the CBS' intervention in a small off-shore bank in November.

18. The government is also committed to a broader reform agenda to promote growth and private sector development. Measures are underway to improve Seychelles' ranking in the World Bank's Doing Business Indicators, including allowing increased use of electronic payment in interactions with SRC and facilitating trade through creation of a trade portal and eventual one stop trade shop. Seychelles' accession to the WTO, expected at the end of this year, has also occasioned a major overhaul of the country's trade legislation and regulations. The government is also committed to reviewing the opportunities for greater private sector participation in the provision of port services and infrastructure, in collaboration with the IFC, including cabinet approval of a strategy to reduce restrictive practices at the Port of Victoria (SB). The government is also

conducting a review of air transport policy, which will be important for the competitiveness of the tourism sector.

PROGRAM MONITORING AND RISKS

19. Proposed program targets for end-2014 and 2015 are consistent with the policy tightening. To support restoring external equilibrium, the proposed reserve money target for December 2014 is tighter by about 7 percent, and the proposed fiscal primary surplus target for December 2014 is tighter by $\frac{1}{3}$ percentage points of GDP, relative to the original program request. Taking into account over-performance in the first half of the year and adjusters for shortfalls in external financing, the proposed NIR target for December is also higher. To further support external balance, the proposed targets for 2015 are also tighter than in the original program request—the primary surplus by $\frac{1}{2}$ percentage points of GDP and reserve money targets by about 7 percent. The proposed NIR targets for 2015 are at a level consistent with stable gross reserves, reflecting the need for a prudent approach on purchases until the macroeconomic tightening takes effect in the foreign exchange market. The proposed ceiling on external debt contracting in 2015 is higher, as certain planned loans slipped from 2014 to 2015. The authorities have also proposed structural benchmarks for 2015 consistent with the program's objectives. An updated Safeguards Assessment completed in September found the CBS's safeguards framework broadly adequate, with continued progress; nevertheless, there is further room for strengthening the internal audit function and the CBS legal framework.⁵

20. With international reserves adequate and appropriate policies in place, Seychelles' capacity to repay the Fund remains strong (Table 6). With planned budget support from the World Bank and African Development Bank, the program is fully financed for 2015. Downside risks to the program stem predominantly from external factors: a renewed recession in Europe could exacerbate the problems caused by a lack of non-stop air connections, while a down-turn in the growth markets of the Middle East/Asia could also threaten recovery of the tourism sector. Weak tourism arrivals could also pose fiscal risks from Air Seychelles, which is planning to expand its routes in the coming months. While Seychelles' exposure to risks from Ebola is limited by its distance from the epidemic and the mainland, the authorities have put in place travel controls and screening to reduce further any possible risks. However, the tourism sector remains vulnerable to a possible global pullback due to Ebola fears or even isolated cases elsewhere, for example in the travel hubs serving Seychelles. Internal risk factors are currently focused on potential losses in SOEs (see paragraph 15). Failure to implement agreed policy measures would also be costly given Seychelles' high level of openness and difficult external environment.

⁵ The TMU was revised to reflect the Safeguard Report's recommendation that NIR compilation should be subject to semi-annual internal auditing.

STAFF APPRAISAL

21. Staff welcome the authorities' strong program implementation and determination to safeguard macroeconomic stability in the face of external pressures. These pressures stem from both strong domestic demand and weak external demand for Seychelles' main exports (tourism and canned tuna). The planned policy tightening is appropriate to restore external balance. With weak external demand and policy tightening, growth is expected to slow somewhat this year and next, at around 3 percent.

22. The external pressures this year demonstrate that, with a very open economy, Seychelles remains vulnerable to shocks despite considerable progress in recent years. As a result of the economy's small size and extremely high degree of openness, shocks can have a significant and rapid impact, and the margin for maneuver is limited. External shocks like disappointing tourism growth translate rapidly into pressure on the balance of payments. Similarly, the experience in 2014 has demonstrated that public sector wage hikes can spill over into the private sector and, together with rapidly increasing credit, translate into external pressures. In this context, the flexible exchange rate was able to act as an important safety valve in helping to manage the pressures and restore external equilibrium. The authorities should continue to rely on this flexibility and promote the smooth operation of the foreign exchange market.

23. The authorities have also taken appropriate and decisive monetary policy actions to address the balance of payment pressures. The CBS' decision to tighten the reserve money target for Q4 2014 by 7 percent and maintain this stance into 2015 is a strong response to the demand and external pressures, and it will also serve to dampen any inflationary second-round effects following the depreciation. Falling global commodity prices will help mitigate external pressures and contain inflation. The new monetary policy framework has also provided opportune and effective tools to control monetary aggregates and interest rates, with the flexibility needed to manage volatility. The CBS rightly stands ready to take further action if conditions warrant. Staff also supports the prudent approach to reserve accumulation in 2015, while encouraging the authorities to build reserves on an opportunistic basis as soon as market conditions are propitious.

24. Tightening fiscal policy next year, including a very tight wage round, should support the restoration of external balance. The authorities' continued commitment to reducing the debt-to-GDP ratio to 50 percent by 2018 provides a clear and transparent anchor to their fiscal strategy and to the program. The reduction of the debt ratio over the medium term is key to building the resilience of the economy. Similarly, close control over current expenditure is necessary to ensure spending levels remain sustainable and leave sufficient room for making investments in infrastructure which are crucial to supporting growth. Improving the execution of planned investment spending is a high priority, and shifting unused resources to current spending should be minimized. The public sector wage restraint will set a valuable example for the economy as a whole.

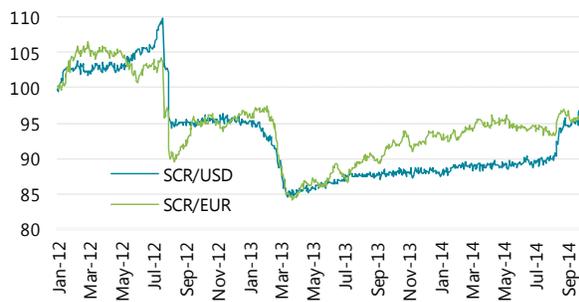
25. The authorities should also remain steadfast in implementing their structural agenda. Transparency, efficiency and fairness in the use of public resources will be central to laying the

groundwork for inclusive growth, as well as reducing fiscal risks. In this context, it will be important to focus SOEs on the efficient fulfillment of their core mandates, to contribute to growth and prevent the negative financial consequences of the past from recurring. In addition, the governance of SOEs needs to continue to strengthen, especially at SSI given its role in oversight of all SOEs operating on commercial terms. The growth strategy of Seychelles should promote the contribution of the private sector to sustained and broad-based growth, by opening new activities to its participation, such as in the port, while avoiding crowding out by expanding SOEs. Staff also urges the authorities to develop policy responses to important competitiveness issues such as flight connections and high commercial electricity rates. In both structural and macroeconomic policy, continued strong implementation of policy plans remains vitally important given the continuing pressures and small margin for maneuver.

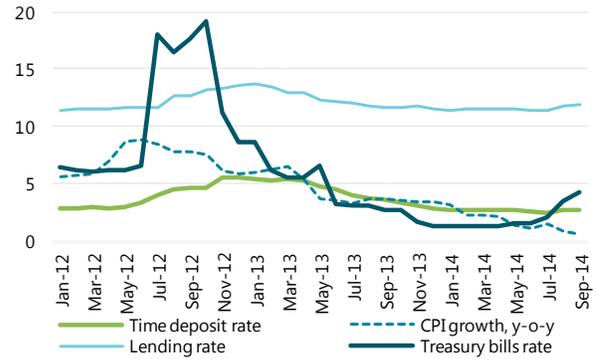
26. In light of the authorities' continued strong program implementation and determined policy response to safeguard macroeconomic stability, staff supports the authorities' request for the completion of the first review under the Extended Arrangement and the modification of the quantitative performance criteria for end-December 2014.

Figure 1. Seychelles: Macroeconomic Development and Projections

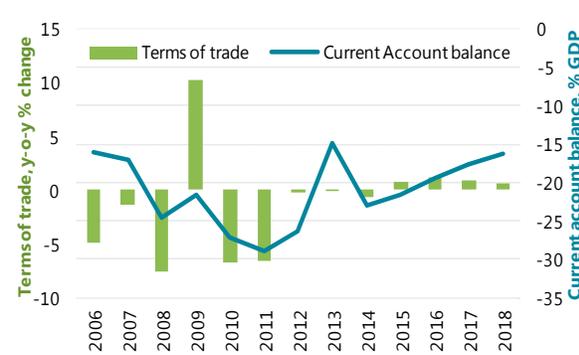
Daily exchange rates index, 2012-14
(December 31, 2011 = 100)



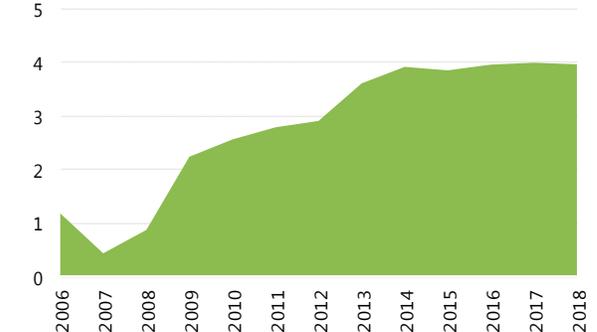
Inflation and interest rates, 2012-14



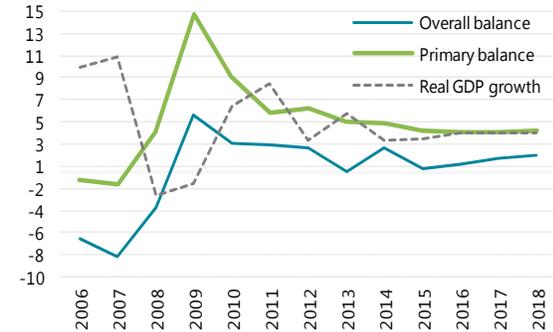
External balance and the terms of trade, 2006-18



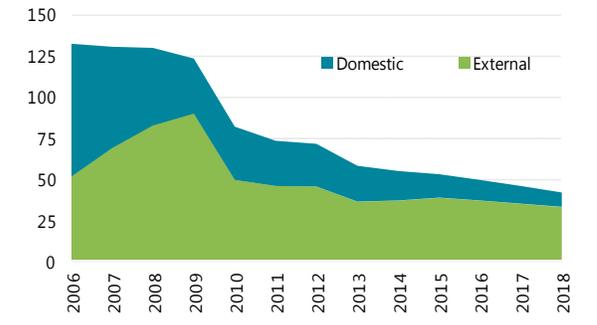
International reserves, 2006-18
(Months of prospective imports)



Fiscal balances and growth, 2006-18
(Percent of GDP)



Stock of public debt, 2006-18
(Percent of GDP)

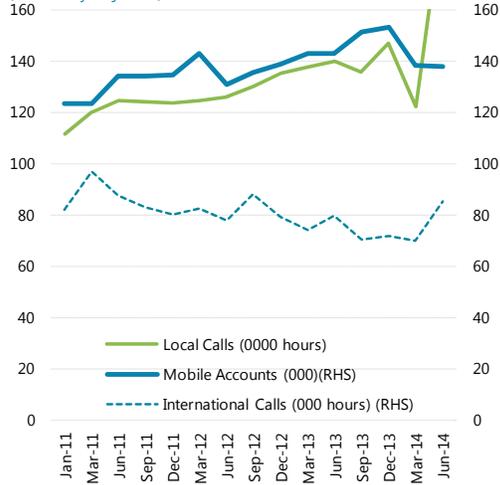


Sources: Seychelles authorities and IMF staff estimates

Figure 2. Seychelles: Monthly Indicators of Economic Activity

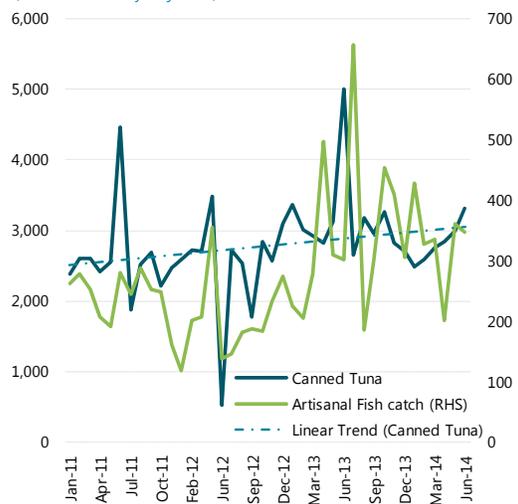
Telecommunications Usage, Jan'11 - Jun'14

(Seasonally adjusted)



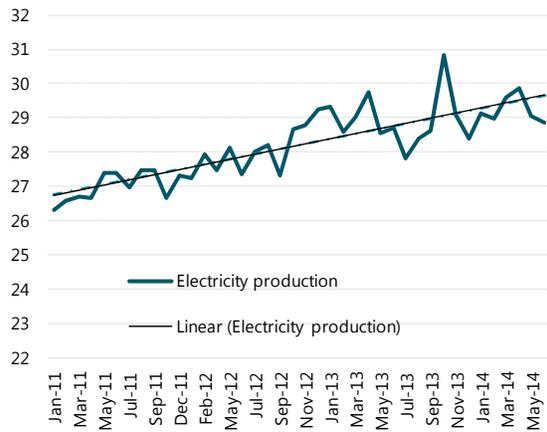
Fishing Output Jan'11 - Jun'14

(Tons - seasonally adjusted)



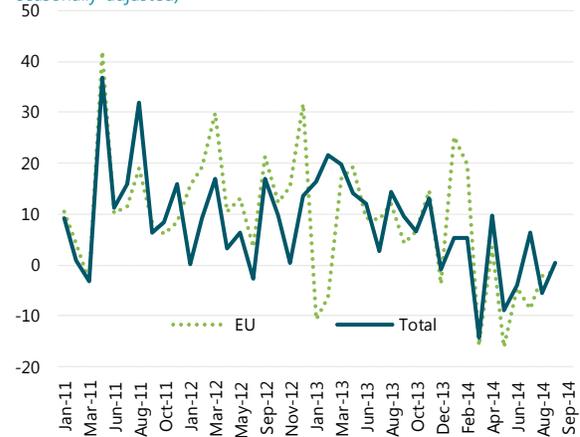
Electricity Production, Jan'11 - Jun'14

(Millions, KWh - seasonally adjusted)



Tourist Arrivals, Jan'11 - Sep'14

(Year-on-Year percent change on monthly basis seasonally adjusted)



Sources: Seychelles authorities and IMF staff estimates

Table 1. Seychelles: Selected Economic and Financial Indicators, 2011–19

	2011	2012	2013	2014		2015	2016	2017	2018	2019
		Prel.	Est.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Nominal GDP (2013): US\$ 1,386 million	Quota: SDR 10.9 millions (0.03 percent of total)									
Per Capita GDP (2013): US\$15,644	Outstanding use of IMF resources: SDR 27.78 millions (254.85 percent of quota)									
Population, end-year (2010): 90,000	Membership status: June 30, 1977									
Literacy rate (2010): 94 percent										
Main products and exports: Tourism, Canned Tuna										
(Percentage change, unless otherwise indicated)										
National income and prices										
Nominal GDP (millions of Seychelles rupees)	13,304	15,468	17,407	18,103	18,342	19,539	20,870	22,288	23,776	25,327
Real GDP	7.9	2.8	5.3	3.7	2.8	3.0	3.6	3.5	3.5	3.4
CPI (annual average)	2.6	7.1	4.3	3.6	2.3	5.2	2.9	3.0	3.0	3.0
CPI (end-of-period)	5.5	5.8	3.4	4.0	4.8	2.5	3.1	3.0	3.0	3.0
GDP deflator average	5.3	13.1	6.9	4.4	2.5	3.4	3.1	3.2	3.1	3.0
(Percentage change, unless otherwise indicated)										
Money and credit										
Broad money	4.5	-0.6	23.7	8.3	12.0	5.3	...	...	...	...
Reserve money (end of period)	-2.7	6.9	15.4	25.8	16.5	5.6	...	...	...	...
Reserve money (average of last quarter)	...	...	...	-10.8	-17.4	5.6	...	...	...	...
Velocity (GDP/broad money)	1.8	2.0	1.9	1.8	1.8	1.8	...	...	...	...
Money multiplier (broad money/reserve money)	4.5	4.2	4.5	3.8	4.3	4.3	...	...	...	...
Credit to the private sector	5.2	8.5	4.5	6.8	15.2	3.3	...	...	...	...
(Percent of GDP)										
Savings-Investment balance										
External savings	28.9	26.4	14.9	18.5	22.5	20.5	18.9	17.3	16.0	15.7
Gross national savings	6.0	11.0	23.2	17.5	14.7	15.2	14.8	15.9	15.8	15.8
<i>Of which</i> : government savings	8.1	8.6	5.1	8.0	6.1	6.1	7.2	8.3	8.9	8.8
Gross investment	35.0	37.4	38.1	36.0	37.2	35.8	33.6	33.3	31.9	31.5
<i>Of which</i> : public investment ¹	8.0	10.4	9.1	7.1	6.2	6.8	6.4	6.6	6.9	7.5
(Percent of GDP)										
Government budget										
Total revenue, excluding grants	35.3	34.4	31.1	31.0	31.6	31.0	30.8	30.7	30.8	30.9
Expenditure and net lending	35.2	36.2	35.2	33.1	32.3	32.6	31.3	30.7	30.4	30.9
Current expenditure	27.2	25.8	26.1	26.0	26.1	25.8	24.9	24.1	23.6	23.4
Capital expenditure ¹	8.0	10.4	9.1	7.1	6.2	6.8	6.4	6.5	6.9	7.5
Overall balance, including grants	0.9	2.2	0.3	0.7	2.1	0.3	0.8	1.3	1.5	1.0
Program primary balance	5.3	5.7	4.5	4.0	4.3	3.7	3.7	3.7	3.7	3.1
Total public debt	73.2	77.5	62.6	64.5	64.9	62.3	58.1	53.8	49.2	45.3
Domestic ²	27.7	32.2	26.6	27.3	28.2	23.8	21.4	19.0	16.4	13.8
External	45.6	45.3	36.0	37.2	36.7	38.5	36.7	34.8	32.8	31.5
(Percent of GDP, unless otherwise indicated)										
External sector										
Current account balance including official transfers	-28.9	-26.4	-14.9	-18.5	-22.5	-20.5	-18.9	-17.3	-16.0	-15.7
Total public external debt outstanding (millions of U.S. dollars)	490	512	520	549	535	575	585	586	584	591
(percent of GDP)	45.6	45.3	36.0	37.2	36.7	38.5	36.7	34.8	32.8	31.5
Terms of trade (-=deterioration)	-6.5	-0.2	0.0	1.3	-0.6	0.8	1.2	0.9	0.6	0.3
Real effective exchange rate (average, percent change)	-7.4	-1.0	17.7	...	...	...	...	...	...	...
Gross official reserves (end of year, millions of U.S. dollars)	277	307	425	456	452	453	479	503	544	584
Months of imports, c.i.f.	2.8	2.9	3.6	4.0	4.1	4.0	4.0	4.1	4.2	4.2
Exchange rate										
Seychelles rupees per US\$1 (end of period)	13.7	13.0	12.1	...	...	...	...	...	...	...
Seychelles rupees per US\$1 (period average)	12.4	13.7	12.1	...	...	...	...	...	...	...

Sources: Central Bank of Seychelles; Ministry of Finance; and IMF staff estimates and projections.

¹Includes onlending to the parastatals for investment purposes.²Includes debt issued by the Ministry of Finance for monetary purposes.

Table 2. Seychelles: Balance of Payments, 2011–19

	2011	2012	2013	2014		2015	2016	2017	2018	2019
				Prog.	Proj.					
(Millions of US Dollars)										
Current account	-311	-298	-215	-273	-328	-307	-301	-292	-286	-295
(percent of GDP)	-28.9	-26.4	-14.9	-18.5	-22.5	-20.5	-18.9	-17.3	-16.0	-15.7
Balance of goods and services	-240	-257	-164	-218	-304	-246	-224	-208	-207	-213
Exports of goods	477	497	598	587	595	579	608	632	658	691
<i>Of which:</i> oil re-exports	194	201	202	197	191	170	181	185	189	198
<i>Of which:</i> tuna exports	242	249	351	343	341	344	358	374	392	412
Imports of goods	-915	-967	-1,024	-1,097	-1,156	-1,075	-1,102	-1,136	-1,187	-1,256
<i>Of which:</i> oil imports	-255	-301	-269	-284	-304	-251	-292	-300	-308	-320
FDI-related	-156	-109	-105	-145	-172	-138	-128	-133	-132	-130
grants- and loans-related	-86	-134	-127	-92	-87	-90	-93	-100	-106	-117
other	-419	-422	-522	-575	-593	-597	-589	-602	-641	-688
Exports of services	470	435	504	538	506	509	545	583	624	669
<i>Of which:</i> tourism earnings	291	310	344	366	327	328	352	376	402	431
Imports of services	-272	-222	-242	-245	-249	-259	-275	-288	-302	-317
Income, net	-74	-64	-72	-67	-58	-78	-100	-103	-106	-109
<i>Of which:</i> interest due ¹	-22	-25	-30	-22	-23	-27	-30	-30	-31	-32
transfers of profits and dividends	-21	-18	-17	-18	-19	-21	-21	-22	-22	-23
Current transfers, net	2	23	21	12	33	17	23	20	27	28
<i>Of which:</i> general government, net	42	69	69	49	54	42	43	47	51	55
Capital and financial account	273	308	190	304	354	306	325	320	333	343
Capital account	61	64	71	40	42	39	34	33	33	33
Financial account	212	244	119	263	313	266	291	286	300	310
Direct investment, net	234	198	219	244	296	259	270	282	295	309
Abroad	-8	-9	-8	-9	-8	-8	-9	-9	-10	-10
In Seychelles	242	206	227	253	304	267	279	291	304	319
<i>Of which:</i> offshore sector	34	41	49	59	59	70	83	96	110	126
Portfolio investment, net ¹	-35	-6	1	2	-5	0	0	0	0	0
Other investment, net	13	52	-100	18	21	7	21	5	5	1
Government and government-guaranteed	0	10	-13	27	14	33	5	1	2	12
Disbursements	7	19	21	45	31	53	34	41	44	54
Project loans	7	12	11	21	14	26	34	41	44	54
Program loans	0	6	10	24	17	27	0	0	0	0
Amortization	-10	-9	-34	-20	-20	-21	-30	-41	-44	-44
Private sector ²	13	41	-87	-10	7	-25	16	4	4	-10
Net errors and omissions	42	25	141	0	0	0	0	0	0	0
Overall balance	4	35	116	31	26	-1	24	28	48	49
Financing	-4	-35	-116	-31	-26	1	-24	-28	-48	-49
Change in net international reserves (increase: -)	-17	-25	-116	-31	-26	1	-24	-28	-48	-49
Change in gross official reserves (increase: -)	-23	-31	-118	-33	-27	-1	-25	-25	-41	-40
Liabilities to IMF, net	6	5	2	2	2	2	1	-3	-7	-8
Other net foreign assets (increase: -)	0	0	0	0	0	0	0	0	0	0
Exceptional financing	13	-9	0	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0	0
<i>Memorandum items:</i>										
Exports G&S growth, percent	12.7	-1.6	18.2	2.0	0.0	-1.2	5.9	5.4	5.5	6.1
Tourism growth, percent	6.1	6.6	10.7	6.6	-5.0	0.6	7.1	7.0	7.0	7.2
Imports G&S growth, percent	13.2	0.1	6.5	7.5	11.0	-5.0	3.2	3.4	4.5	5.7
Exports G&S, percent of GDP	88	83	76	76	75	73	72	72	72	73
Imports G&S, percent of GDP	110	105	88	91	96	89	86	84	84	84
FDI, percent of GDP	21.8	17.5	15.1	16.5	20.3	17.3	16.9	16.7	16.5	16.5
Gross official reserves (stock, e.o.p.)	277	307	425	456	452	453	479	503	544	584
<i>Of which:</i> program definition ³	254	277	395	426	422	423	449	473	514	554
(Months of imports of goods & services)	2.8	2.9	3.6	4.0	4.1	4.0	4.0	4.1	4.2	4.2
Months of non-FDI imports of G&S excl. oil re-exports	3.8	3.9	4.9	5.3	5.3	5.1	5.2	5.2	5.3	5.3
Percentage of IMF reserve adequacy metric	117	161	172	179	182	175	174	172	177	181
Public and publicly guaranteed external debt ⁴	490	512	520	549	535	575	585	586	584	591
(Percent of GDP)	45.6	45.3	36.0	37.2	36.7	38.5	36.7	34.8	32.8	31.5
GDP	1,075	1,129	1,443	1,476	1,460	1,495	1,594	1,686	1,781	1,874

Sources: Central Bank of Seychelles; Ministry of Finance; and IMF staff estimates and projections.

¹ Including coupons on the eurobonds, amortizing notes and bonds issued after the commercial debt exchange.

² Includes parastatals for which data are available.

³ Excludes foreign-currency denominated required reserves held by banks and project and blocked accounts at the CBS.

⁴ Includes outstanding IMF credit.

Table 3. Seychelles: Consolidated Government Operations, 2012–16¹

	2012	2013	2014								2015				2016
			Q1		Q2		Q3		Q4		Q1	Q2	Q3	Q4	
			Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Proj.	Proj.	Proj.	Proj.	
(Millions of Seychelles rupees; cumulative from the start of the year)															
Total revenue and grants	6024	6111	1278	1312	3012	3134	4523	4740	6123	6358	1357	3055	4611	6477	6755
Total revenue	5322	5420	1184	1274	2693	2748	4111	4260	5604	5788	1226	2841	4317	6050	6424
Tax	4600	4676	1060	1150	2405	2489	3676	3812	4995	5162	1120	2603	3947	5433	5765
Personal income tax	702	754	193	208	406	425	614	646	849	893	212	446	676	930	994
Trade tax	401	411	98	97	152	173	208	275	271	353	61	126	194	277	297
Excise tax	726	652	180	194	391	420	583	625	794	843	173	410	625	861	892
Goods and services tax (GST) / VAT ²	1465	1623	354	406	777	864	1205	1310	1667	1770	400	866	1326	1821	1952
Business tax ³	816	816	123	164	452	399	660	608	863	770	123	445	649	850	907
Corporate Social Responsibility Tax (CSR) ³	...	44	12	28	28	46	44	64	58	76	14	32	52	68	72
Marketing Tourism Tax (MTT) ³	...	22	5	6	11	14	16	28	23	50	12	25	37	53	57
Other	491	354	95	46	188	148	344	255	469	407	127	254	388	574	593
Nontax	722	744	125	124	287	260	435	448	609	626	106	238	370	617	659
Fees and charges	398	297	107	79	167	154	250	266	316	337	83	160	247	332	354
Dividends from parastatals	266	402	7	7	67	52	116	116	213	213	17	65	105	262	279
Other	58	46	11	38	54	53	69	65	80	76	6	12	18	24	25
External grants	702	691	94	38	320	386	412	480	520	570	131	215	294	427	332
Expenditure and net lending	5682	6111	1392	1140	2888	2670	4346	4194	6003	5966	1512	3039	4598	6415	6585
Current expenditure	3992	4536	1189	1042	2324	2253	3557	3412	4709	4785	1112	2341	3646	5045	5199
Primary current expenditure	3452	3746	1074	906	2138	2060	3141	3105	4109	4384	960	2047	3120	4387	4602
Wages and salaries	998	1129	326	321	646	631	961	960	1261	1280	329	660	990	1333	1387
Goods and services	1134	1218	339	261	668	750	966	1088	1258	1493	205	511	782	1148	1226
Transfers	1298	1366	402	318	805	665	1187	1041	1563	1583	420	865	1329	1877	1959
Social program of central government	290	307	79	50	169	119	257	207	358	349	62	132	235	361	379
Transfers to public sector from central government	660	663	210	163	411	332	592	509	755	799	243	504	751	1059	1088
Benefits and programs of Social Security Fund	348	396	112	105	225	213	337	325	449	436	114	229	343	457	491
Other	23	31	7	7	20	14	27	17	28	28	6	11	20	29	31
Interest due	540	790	115	136	186	193	416	307	600	401	152	294	526	658	596
Foreign interest	174	189	6	63	32	84	96	142	177	179	69	100	193	224	252
Domestic interest	366	601	110	73	153	109	320	165	423	222	83	194	333	434	344
Capital expenditure	1613	1508	169	77	498	370	690	646	1162	1014	290	557	764	1152	1060
Domestically financed	872	770	121	61	242	191	353	352	666	620	147	295	442	589	629
Foreign financed	741	738	49	16	257	179	338	294	496	394	143	263	323	563	431
Net lending	-6	6	22	5	43	10	65	102	87	123	98	118	154	173	281
Contingency	83	62	11	15	23	37	34	34	45	45	11	23	34	45	45
Primary balance	882	790	2	309	310	657	593	854	721	793	-3	311	539	720	766
Overall balance, commitment basis ⁴	342	0	-113	173	124	464	177	546	121	392	-155	17	13	62	170
Change in arrears	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in float	0	51	0	-9	0	-63	0	0	0	0	0	0	0	0	0
Overall balance, cash basis (after grants)	343	51	-113	164	124	401	177	546	121	392	-155	17	13	62	170
Financing	-343	22	113	-164	-124	-401	-177	-546	-121	-392	155	-17	-13	-62	-170
Foreign financing	53	112	-6	78	-86	1	-101	3	303	123	107	208	240	417	23
Disbursements	168	277	11	91	24	91	32	118	551	378	135	347	407	692	414
Project loans	79	152	11	4	24	4	32	31	257	164	42	162	222	339	414
Program/budget support	89	125	0	87	0	87	0	87	294	214	93	185	185	353	0
Scheduled amortization	-121	-165	-16	-13	-111	-90	-134	-115	-248	-254	-28	-139	-167	-276	-391
Change in amortization arrears	6	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Domestic financing, net	-493	-126	110	-312	-59	-371	-104	-526	-489	-500	39	-243	-280	-515	-193
Bank financing	-642	334	66	-299	-35	-453	-62	-526	-293	-500	35	-218	-252	-464	-173
CBS	-1194	-56	-20	-291	-946	-862	-870	-1097	-800	-1042	10	-61	-70	-129	-48
Commercial banks	552	390	86	-7	911	409	808	570	507	542	25	-158	-182	-335	-125
Nonbank financing	148	-460	44	-14	-23	82	-41	0	-195	0	4	-24	-28	-52	-19
Privatization and long-term lease of fixed assets	84	53	9	15	21	62	28	69	65	76	9	18	27	36	0
Statistical discrepancy	14	-89	0	55	0	-92	0	-92	0	-92	0	0	0	0	0
Fiscal financing gap	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum item:															
Transfer of assets of SSF to SPF											336				
Pension Fund contribution	105	145	47	35	94	82	141	141	188	188	48	97	145	194	204
Pension Fund benefits payment	100	133	35	18	70	37	105	108	140	144	36	71	107	143	149
Pension Fund operating expenses	...	0	0	5	0	9	0	16	28	23	7	15	22	29	30
External debt service due	294	354	22	76	143	174	230	257	425	433	97	239	360	499	643

Sources: Seychelles authorities and IMF staff estimates and projections.

¹ Includes the central government and the social security system.² VAT replaced GST in January 2013.³ CSR and MTT were subsumed into Business Tax in CR 14/186.⁴ Only interest payments on foreign debt are on a commitment basis. Other expenditures are recorded when checks are issued or transfers initiated.

Table 3. Seychelles: Consolidated Government Operations, 2012–16¹ (concluded)

	2012	2013	2014								2015				2016
			Q1		Q2		Q3		Q4		Q1	Q2	Q3	Q4	
			Prog.	Act.	Prog.	Act.	Prog.	Proj.	Prog.	Proj.					
(Percent of GDP; cumulative from the start of the year)															
Total revenue and grants	38.9	35.1	7.1	7.2	16.6	17.1	25.0	25.8	33.8	34.7	6.9	15.6	23.6	33.2	32.4
Total revenue	34.4	31.1	6.5	6.9	14.9	15.0	22.7	23.2	31.0	31.6	6.3	14.5	22.1	31.0	30.8
Tax	29.7	26.9	5.9	6.3	13.3	13.6	20.3	20.8	27.6	28.1	5.7	13.3	20.2	27.8	27.6
Personal income tax	4.5	4.3	1.1	1.1	2.2	2.3	3.4	3.5	4.7	4.9	1.1	2.3	3.5	4.8	4.8
Trade tax	2.6	2.4	0.5	0.5	0.8	0.9	1.2	1.5	1.5	1.9	0.3	0.6	1.0	1.4	1.4
Excise tax	4.7	3.7	1.0	1.1	2.2	2.3	3.2	3.4	4.4	4.6	0.9	2.1	3.2	4.4	4.3
Goods and services tax (GST) / VAT ²	9.5	9.3	2.0	2.2	4.3	4.7	6.7	7.1	9.2	9.7	2.0	4.4	6.8	9.3	9.4
Business tax	5.3	4.7	0.8	0.9	2.7	2.2	4.0	3.3	5.2	4.2	0.6	2.3	3.3	4.3	4.3
Corporate Social Responsibility Tax (CSR)	...	0.3	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.4	0.1	0.2	0.3	0.3	0.3
Marketing Tourism Tax (MTT)	...	0.1	0.0	0.0	0.1	0.1	0.1	0.2	0.1	0.3	0.1	0.1	0.2	0.3	0.3
Other	3.2	2.0	0.5	0.3	1.0	0.8	1.9	1.4	2.6	2.2	0.6	1.3	2.0	2.9	2.8
Nontax	4.7	4.3	0.7	0.7	1.6	1.4	2.4	2.4	3.4	3.4	0.5	1.2	1.9	3.2	3.2
Fees and charges	2.6	1.7	0.6	0.4	0.9	0.8	1.4	1.5	1.7	1.8	0.4	0.8	1.3	1.7	1.7
Dividends from parastatals	1.7	2.3	0.0	0.0	0.4	0.3	0.6	0.6	1.2	1.2	0.1	0.3	0.5	1.3	1.3
Other	0.4	0.3	0.1	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.0	0.1	0.1	0.1	0.1
External grants	4.5	4.0	0.5	0.2	1.8	2.1	2.3	2.6	2.9	3.1	0.7	1.1	1.5	2.2	1.6
Expenditure and net lending	36.7	35.1	7.7	6.2	16.0	14.6	24.0	22.9	33.2	32.5	7.7	15.6	23.5	32.8	31.6
Current expenditure	25.8	26.1	6.6	5.7	12.8	12.3	19.6	18.6	26.0	26.1	5.7	12.0	18.7	25.8	24.9
Primary current expenditure	22.3	21.5	5.9	4.9	11.8	11.2	17.3	16.9	22.7	23.9	4.9	10.5	16.0	22.5	22.1
Wages and salaries	6.5	6.5	1.8	1.7	3.6	3.4	5.3	5.2	7.0	7.0	1.7	3.4	5.1	6.8	6.6
Goods and services	7.3	7.0	1.9	1.4	3.7	4.1	5.3	5.9	6.9	8.1	1.1	2.6	4.0	5.9	5.9
Transfers	8.4	7.8	2.2	1.7	4.4	3.6	6.6	5.7	8.6	8.6	2.1	4.4	6.8	9.6	9.4
Social program of central government	1.9	1.8	0.4	0.3	0.9	0.7	1.4	1.1	2.0	1.9	0.3	0.7	1.2	1.8	1.8
Transfers to public sector from central government	4.3	3.8	1.2	0.9	2.3	1.8	3.3	2.8	4.2	4.4	1.2	2.6	3.8	5.4	5.2
Benefits and programs of Social Security Fund	2.3	2.3	0.6	0.6	1.2	1.2	1.9	1.8	2.5	2.4	0.6	1.2	1.8	2.3	2.4
Other	0.2	0.2	0.0	0.0	0.1	0.1	0.1	0.1	0.2	0.2	0.0	0.1	0.1	0.1	0.1
Interest due	3.5	4.5	0.6	0.7	1.0	1.1	2.3	1.7	3.3	2.2	0.8	1.5	2.7	3.4	2.9
Foreign interest	1.1	1.1	0.0	0.3	0.2	0.5	0.5	0.8	1.0	1.0	0.4	0.5	1.0	1.1	1.2
Domestic interest	2.4	3.5	0.6	0.4	0.8	0.6	1.8	0.9	2.3	1.2	0.4	1.0	1.7	2.2	1.6
Capital expenditure	10.4	8.7	0.9	0.4	2.8	2.0	3.8	3.5	6.4	5.5	1.5	2.9	3.9	5.9	5.1
Domestically financed	5.6	4.4	0.7	0.3	1.3	1.0	1.9	1.9	3.7	3.4	0.8	1.5	2.3	3.0	3.0
Foreign financed	4.8	4.2	0.3	0.1	1.4	1.0	1.9	1.6	2.7	2.1	0.7	1.3	1.7	2.9	2.1
Net lending	0.0	0.0	0.1	0.0	0.2	0.1	0.4	0.6	0.5	0.7	0.5	0.6	0.8	0.9	1.3
Contingency	0.5	0.4	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.2	0.2	0.2
Primary balance	5.7	4.5	0.0	1.7	1.7	3.6	3.3	4.7	4.0	4.3	0.0	1.6	2.8	3.7	3.7
Overall balance, commitment basis ³	2.2	0.0	-0.6	0.9	0.7	2.5	1.0	3.0	0.7	2.1	-0.8	0.1	0.1	0.3	0.8
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in float	0.0	0.3	0.0	0.0	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis (after grants)	2.2	0.3	-0.6	0.9	0.7	2.2	1.0	3.0	0.7	2.1	-0.8	0.1	0.1	0.3	0.8
Financing	-2.2	0.1	0.6	-0.9	-0.7	-2.2	-1.0	-3.0	-0.7	-2.1	0.8	-0.1	-0.1	-0.3	-0.8
Foreign financing	0.3	0.6	0.0	0.4	-0.5	0.0	-0.6	0.0	1.7	0.7	0.5	1.1	1.2	2.1	0.1
Disbursements	1.1	1.6	0.1	0.5	0.1	0.5	0.2	0.6	3.0	2.1	0.7	1.8	2.1	3.5	2.0
Project loans	0.5	0.9	0.1	0.0	0.1	0.0	0.2	0.2	1.4	0.9	0.2	0.8	1.1	1.7	2.0
Program/budget support	0.6	0.7	0.0	0.5	0.0	0.5	0.0	0.5	1.6	1.2	0.5	0.9	0.9	1.8	0.0
Scheduled amortization	-0.8	-0.9	-0.1	-0.1	-0.6	-0.5	-0.7	-0.6	-1.4	-1.4	-0.1	-0.7	-0.9	-1.4	-1.9
Change in amortization arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing, net	-3.2	-0.7	0.6	-1.7	-0.3	-2.0	-0.6	-2.9	-2.7	-2.7	0.2	-1.2	-1.4	-2.6	-0.9
Bank financing	-4.1	1.9	0.4	-1.6	-0.2	-2.5	-0.3	-2.9	-1.6	-2.7	0.2	-1.1	-1.3	-2.4	-0.8
CBS	-7.7	-0.3	-0.1	-1.6	-5.2	-4.7	-4.8	-6.0	-4.4	-5.7	0.0	-0.3	-0.4	-0.7	-0.2
Commercial banks	3.6	2.2	0.5	0.0	5.0	2.2	4.5	3.1	2.8	3.0	0.1	-0.8	-0.9	-1.7	-0.6
Nonbank	1.0	-2.6	0.2	-0.1	-0.1	0.4	-0.2	0.0	-1.1	0.0	0.0	-0.1	-0.1	-0.3	-0.1
Privatization and long-term lease of fixed assets	0.5	0.3	0.0	0.1	0.1	0.3	0.2	0.4	0.4	0.4	0.0	0.1	0.1	0.2	0.0
Statistical discrepancy	0.1	-0.5	0.0	0.3	0.0	-0.5	0.0	-0.5	0.0	-0.5	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>															
Nominal GDP (millions of Seychelles Rupees)	15,468	17,407	18,103	18,342	18,103	18,342	18,103	18,342	18,103	18,342	19,539	19,539	19,539	19,539	20,870
Transfer of assets of SSF to SPF											1.7				
Pension Fund contribution	0.7	0.8	0.3	0.2	0.5	0.4	0.8	0.8	1.0	1.0	0.2	0.5	0.7	1.0	1.0
Pension Fund benefits payment	0.6	0.8	0.2	0.1	0.4	0.2	0.6	0.6	0.8	0.8	0.2	0.4	0.5	0.7	0.7
Pension Fund operating expenses	...	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.1	0.0	0.1	0.1	0.2	0.1
Public domestic debt (% GDP)	32.2	26.6	27.8	23.5	28.0	28.6	27.8	29.1	27.3	28.2	26.7	25.2	25.0	23.8	21.4
Excluding t-bills issued for monetary purposes	26.1	21.9	21.4	19.1	20.5	18.8	20.3	17.9	18.6	18.1	17.2	15.7	15.5	14.3	12.5
Publicly guaranteed domestic debt (% GDP)	2.3	1.5	1.4	1.3	1.3	1.3	1.2	1.2	1.1	1.1	1.0	1.0	0.9	0.9	0.4

Sources: Seychelles authorities and IMF staff estimates and projections.

¹ Includes the central government and the social security system.² VAT replaced GST in January 2013.³ Only interest payments on foreign debt are on a commitment basis. Other expenditures are recorded when checks are issued or transfers initiated.⁴ Includes debt issued by the Ministry of Finance for monetary purposes.

Table 4. Seychelles: Monetary Survey and Central Bank Accounts, 2010–15

	2010	2011	2012	2013	2014								2015			
					Mar.		Jun.		Sep.		Dec.		Mar.	Jun.	Sep.	Dec.
					Prog.	Act.	Prog.	Act.	Prog.	Proj.	Prog.	Proj.				
(Millions of Seychelles rupees)																
Monetary survey																
Net foreign assets	3,644	4,450	5,297	7,247	7,631	8,114	7,608	7,788	7,839	8,598	8,111	8,117	8,151	7,974	7,925	8,032
Central bank	2,709	3,303	3,434	4,580	4,897	5,017	4,805	5,186	4,967	5,701	5,107	5,449	5,471	5,282	5,221	5,317
Deposit money banks	935	1,147	1,863	2,667	2,735	3,098	2,803	2,602	2,872	2,897	3,004	2,668	2,680	2,692	2,704	2,715
Net domestic assets	3,622	3,145	2,257	2,093	1,952	2,020	2,145	2,446	2,080	2,001	2,000	2,342	2,479	2,675	2,802	2,985
Domestic credit	5,652	5,657	5,295	5,825	5,775	5,653	5,862	5,557	5,825	5,658	5,750	5,818	5,841	5,579	5,646	5,485
Net claims on the government	2,567	2,380	1,786	2,335	2,401	2,087	2,300	1,829	2,273	1,657	2,042	1,835	1,870	1,616	1,582	1,371
Credit to the economy	3,085	3,277	3,510	3,490	3,374	3,566	3,562	3,728	3,552	4,002	3,709	3,983	3,971	3,962	4,064	4,114
Of which : credit to the private sector	2,861	3,011	3,266	3,412	3,300	3,488	3,475	3,652	3,468	3,928	3,644	3,929	3,917	3,909	4,010	4,060
Other items, net	-2,029	-2,511	-3,039	-3,732	-3,823	-3,634	-3,717	-3,111	-3,745	-3,657	-3,750	-3,476	-3,362	-2,904	-2,844	-2,501
Broad money	7,266	7,596	7,554	9,340	9,583	10,134	9,753	10,234	9,918	10,600	10,111	10,459	10,630	10,649	10,727	11,016
Currency in circulation	580	623	629	757	772	736	788	799	803	799	819	797	795	805	827	849
Foreign currency deposits	1,708	2,406	2,441	2,948	3,256	3,555	3,360	3,570	3,465	3,995	3,570	3,669	3,916	3,938	3,960	3,981
Local currency deposits	4,979	4,566	4,484	5,635	5,555	5,843	5,605	5,866	5,650	5,806	5,722	5,993	5,919	5,906	5,940	6,186
Central bank																
Net foreign assets	2,709	3,303	3,434	4,580	4,897	5,017	4,805	5,186	4,967	5,701	5,107	5,449	5,471	5,282	5,221	5,317
Foreign assets	3,087	3,800	3,972	5,103	5,421	5,539	5,351	5,724	5,504	6,262	5,667	6,025	6,036	5,868	5,797	5,908
Foreign liabilities	379	497	538	524	525	522	547	539	538	561	560	576	565	586	576	591
Net domestic assets	-962	-1,604	-1,617	-2,484	-2,238	-2,599	-2,154	-2,653	-2,325	-3,219	-2,470	-3,007	-3,016	-2,804	-2,730	-2,738
Domestic credit	-506	-883	-1,113	-2,082	-1,826	-2,115	-1,729	-2,278	-1,881	-2,315	-2,012	-2,212	-2,268	-2,101	-2,070	-2,120
Government (net)	780	835	-358	-414	-434	-706	-1,361	-1,277	-1,284	-1,595	-1,214	-1,456	-1,447	-1,517	-1,527	-1,585
Commercial banks	-1,135	-1,512	-636	-1,570	-1,294	-1,298	-270	-853	-499	-545	-700	-580	-646	-409	-368	-360
Other (parastatals)	-151	-206	-119	-98	-98	-111	-98	-149	-98	-175	-98	-175	-175	-175	-175	-175
Other items, net	-456	-721	-504	-401	-412	-484	-425	-374	-444	-904	-458	-796	-748	-703	-661	-618
Reserve money	1,746	1,699	1,816	2,096	2,659	2,417	2,651	2,533	2,642	2,483	2,637	2,442	2,455	2,478	2,491	2,578
Currency in circulation	580	623	629	757	772	736	788	799	803	799	819	797	795	805	827	849
Commercial bank reserves (includes cash in vault)	1,166	1,075	1,187	1,339	1,887	1,682	1,863	1,735	1,839	1,683	1,818	1,645	1,660	1,673	1,664	1,729
Of which : vault cash	74	84	110	143	146	159	149	104	152	126	155	151	150	152	156	...
Of which : excess reserves (excl. bank vault cash)	355	-10	59	-59	450	136	400	218	350	132	300	63	84	91	69	...
Of which : required reserves in foreign currency ^{1,2}	193	322	350	385	446	486	460	499	475	511	489	533	537	540	543	545
required reserves in domestic currency ²	545	679	667	870	845	901	854	914	862	915	874	898	890	890	897	931
Memorandum items:																
Gross international reserves (millions of U.S. dollars) ³	254	277	307	425	446	456	437	472	446	467	456	452	456	445	442	453
Foreign currency deposits (millions of U.S. dollars)	141	175	188	244	268	293	274	294	281	298	287	276	296	299	302	306
Broad money growth (12-month percent change)	13.5	4.5	-0.6	23.7	24.9	32.1	16.3	22.0	14.3	22.2	8.3	12.0	4.9	4.1	1.2	5.3
Credit to the private sector (12-month percent change)	23.6	5.2	8.5	4.5	2.1	7.9	7.7	13.2	3.5	17.2	6.8	15.2	12.3	7.0	2.1	3.3
Reserve money (end of period; 12-month percent change)	34.7	-2.7	6.9	15.4	41.5	28.6	40.7	34.4	37.5	29.2	25.8	16.5	1.6	-2.2	0.3	5.6
Reserve money (daily average over quarter; 12-month percent change)	...	...	...	...	20.1	23.5	12.0	11.8	1.4	-4.8	-10.8	-17.4	-13.9	-6.4	0.3	5.6
Money multiplier (broad money/reserve money)	4.2	4.5	4.2	4.5	3.6	4.2	3.7	4.0	3.8	4.3	3.8	4.3	4.3	4.3	4.3	4.3
Velocity (GDP/broad money; end of period)	1.6	1.8	2.0	1.9	1.8	1.7	1.8	1.7	1.8	1.7	1.8	1.8	1.8	1.8	1.8	1.8

Sources: Central Bank of Seychelles and IMF staff estimates and projections.

¹ Reserve requirements on foreign currency deposits were introduced in 2009.

² Reserve requirements were lowered from 13% to 10% in 2009, but raised back to 13% in April 2011.

³ The definition was revised in June 2011 to include foreign-currency denominated required reserves held by banks and project and blocked accounts at the CBS.

Table 5. Seychelles: Financial Soundness Indicators for the Banking Sector, 2010–14¹

	2010				2011				2012				2013				2014		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	(Percent, end of period)																		
Capital adequacy																			
Regulatory capital to risk weighted assets	21.4	22.1	21.7	21.5	23.3	24.8	26.3	24.2	24.9	25.9	26.2	26.7	26.9	26.0	26.1	26.7	26.7	24.6	22.4
Regulatory tier 1 capital to risk weighted assets	20.7	21.5	21.1	20.8	16.8	21.0	21.1	17.3	18.1	21.6	19.9	19.3	18.6	22.0	20.8	21.0	19.5	21.0	17.5
Capital to assets (net worth)	9.3	8.7	9.1	9.2	9.3	9.6	10.1	9.0	9.1	9.5	9.8	10.3	10.4	9.8	9.4	9.7	9.5	9.2	8.6
Net tangible capitalization ²	9.4	8.8	9.1	9.3	9.4	9.7	10.2	9.1	9.3	9.6	9.9	10.4	10.5	9.9	9.6	9.8	9.6	9.3	8.7
Asset quality																			
Foreign exchange loans to total loans	34.3	29.7	27.8	25.5	23.7	20.1	18.5	18.4	20.9	20.0	17.9	18.7	17.8	17.1	18.6	18.7	17.9	18.5	19.9
Nonperforming loans to gross loans	4.1	6.9	6.4	5.5	5.4	5.6	5.3	8.1	8.3	9.2	8.3	9.3	9.6	9.5	12.5	9.4	10.3	6.2	8.3
Provisions as percentage of nonperforming loans	41.7	26.0	26.0	31.4	30.9	37.3	40.4	33.8	33.9	32.1	33.3	29.5	37.0	37.3	27.6	39.2	36.2	57.4	44.6
Provisions as percentage of total loans	1.7	1.8	1.7	1.7	1.7	2.1	2.2	2.7	2.8	3.0	2.7	2.7	3.5	3.5	3.4	3.7	3.7	3.6	3.7
Earnings and profitability																			
Return on assets (annualized)	3.4	5.0	3.0	3.7	3.9	3.1	3.6	5.6	3.5	3.9	4.2	3.1	2.3	3.3	2.7	1.9	2.3	2.0	2.1
Return on equity (annualized)	33.6	54.3	33.7	40.0	40.8	32.6	36.4	61.6	38.3	40.8	41.3	29.8	22.2	33.7	28.3	19.6	23.6	22.3	23.7
Interest margin to gross income	56.5	60.2	59.9	50.6	46.8	56.3	61.6	55.8	52.8	57.5	64.6	62.7	84.7	61.1	56.9	56.6	54.7	57.3	51.0
Noninterest expense to gross income	44.0	52.0	47.6	39.9	46.7	49.3	46.4	22.3	44.0	40.7	39.0	56.6	56.6	45.4	46.3	65.1	52.7	55.2	57.1
Net interest margin (annualized) ³	3.1	3.6	3.4	3.1	3.0	3.5	4.2	3.9	3.6	3.5	3.9	4.1	4.3	3.9	3.3	3.2	2.6	2.7	2.7
Net noninterest margin (annualized) ⁴	0.0	-0.7	-0.4	0.6	0.4	-0.3	-0.5	1.5	0.3	0.2	0.1	0.0	-1.3	-0.6	-0.4	-0.4	0.1	-0.1	-0.1
Expense to income	53.0	58.0	53.6	46.6	50.8	53.6	50.1	28.5	44.7	45.4	45.4	46.4	57.0	52.1	51.9	54.5	51.2	53.7	53.1
Interest expense to gross income	19.0	14.2	12.8	12.5	8.5	9.3	7.4	8.7	9.3	9.7	10.9	11.8	20.0	17.0	16.4	15.3	11.0	10.5	10.5
Liquidity																			
Core liquid assets to total assets ⁵	43.5	44.7	44.7	46.9	47.1	47.1	47.7	49.9	49.6	48.6	47.9	39.6	38.9	39.5	41.4	41.6	41.5	42.0	36.9
Broad liquid assets to total assets ⁶	58.6	60.0	58.1	58.9	56.6	55.7	57.0	58.8	59.3	57.9	59.6	52.0	52.2	53.3	53.0	54.7	53.9	57.3	52.9
Liquid assets (broad) to short term liabilities	65.0	63.4	62.1	62.9	60.0	58.8	60.9	63.0	65.4	64.6	66.6	58.1	58.6	59.5	58.9	61.2	59.6	64.0	57.7
Liquid assets (broad) to total liabilities	64.7	65.7	63.8	64.9	62.4	61.6	63.4	64.7	65.3	64.0	66.1	58.0	58.2	59.1	58.5	60.6	59.6	63.2	57.9
Liquid assets to deposit liabilities	72.4	72.0	69.1	69.1	65.5	64.5	68.7	71.0	70.9	69.7	71.0	62.5	62.6	63.1	62.4	64.3	62.9	67.5	62.0
Foreign exchange exposure																			
Net open foreign exchange position to capital	22.2	24.7	29.2	5.6	3.8	2.2	1.5	1.9	2.9	-3.9	-0.8	7.9	6.8	-0.6	3.7	8.9	-2.6	0.1	4.3

Source: Central Bank of Seychelles.

¹ Excluding purely offshore banks.² Defined as: equity capital/(assets-interest in suspense-provisions).³ Defined as: (Interest income - interest expense)/average assets.⁴ Defined as: (Noninterest income - noninterest expense)/average assets.⁵ Core liquid assets include cash, balances with CBS, and deposits with other banks.⁶ Broad liquid assets include core liquid assets plus investments in government securities.

Table 6. Seychelles: Indicators of Fund Credit, 2013-22

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	(in millions of SDR)									
Existing Fund credit										
Stock ¹	28.3	27.7	25.9	23.3	19.7	15.2	10.5	6.1	3.3	1.2
Obligation	5.8	2.5	2.1	2.9	3.8	4.7	4.8	4.4	2.9	2.1
Principal (repayments/repurchases)	5.5	2.2	1.8	2.6	3.57	4.5	4.7	4.3	2.8	2.1
Charges and interest	0.3	0.3	0.3	0.3	0.24	0.2	0.2	0.1	0.1	0.0
Disbursements	6.6	1.6								
Prospective Fund credit										
Disbursement		1.6	3.3	3.3	1.64					
Stock ¹		1.6	4.9	8.2	9.81	9.8	9.4	8.5	7.0	5.3
Obligations ²		0.0	0.0	0.1	0.10	0.1	0.5	1.1	1.6	1.7
Principal (repayments/repurchases)		0.0	0.0	0.0	0.00	0.0	0.4	1.0	1.5	1.6
Charges and interest		0.0	0.0	0.1	0.10	0.1	0.1	0.1	0.1	0.1
Stock of existing and prospective Fund credit ¹	28.3	29.3	30.8	31.4	29.5	25.0	19.9	14.6	10.3	6.5
In percent of quota	259.4	269.2	282.3	288.5	270.6	229.1	182.4	133.9	94.0	60.0
In percent of GDP	3.0	3.1	3.2	3.1	2.8	2.2	1.7	1.2	0.8	0.5
In percent of exports of goods and services	3.9	4.1	4.4	4.3	3.9	3.1	2.3	1.6	1.1	0.6
In percent of gross reserves	10.2	10.1	10.6	10.3	9.3	7.4	5.5	4.0	2.8	1.8
Obligations to the Fund from existing and prospective Fund arrangements										
Obligations	5.8	2.5	2.2	2.9	3.9	4.9	5.3	5.5	4.5	3.8
Principal (repayments/repurchases)	5.5	2.2	1.8	2.6	3.6	4.5	5.1	5.3	4.3	3.7
Charges and interest	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.1
In percent of quota	52.8	23.3	19.9	27.0	35.9	44.5	49.0	50.4	41.2	35.0
In percent of GDP	0.6	0.3	0.2	0.3	0.4	0.4	0.5	0.4	0.3	0.3
In percent of exports of goods and services	0.8	0.4	0.3	0.4	0.5	0.6	0.6	0.6	0.5	0.4
In percent of gross reserves	2.1	0.9	0.7	1.0	1.2	1.4	1.5	1.5	1.2	1.0

Sources: IMF Finance Department; and IMF staff estimates and projections.

¹ End of Period.

² Repayment schedule based on repurchase obligations. Obligations to the Fund from Existing and Prospective Fund Arrangements includes charges.

Table 7. Seychelles: Schedule of Reviews and Purchases Under the Extended Arrangement, 2014–17

Program Review	Date of availability	Conditions	Amount	
			(Millions of SDR)	(Percent of quota)
	June 4, 2014	Board approval of the Extended Arrangement	1.635	15
First	September 15, 2014	Completion of first review and compliance with end-June 2014 quantitative performance criteria	1.635	15
Second	March 31, 2015	Completion of second review and compliance with end-December 2014 quantitative performance criteria	1.635	15
Third	September 15, 2015	Completion of third review and compliance with end-June 2015 quantitative performance criteria	1.635	15
Fourth	March 31, 2016	Completion of fourth review and compliance with end-December 2015 quantitative performance criteria	1.635	15
Fifth	September 15, 2016	Completion of fifth review and compliance with end-June 2016 quantitative performance criteria	1.635	15
Sixth	March 31, 2017	Completion of sixth review and compliance with end-December 2016 quantitative performance criteria	1.635	15
Total			11.445	105

Source: IMF

Appendix I. Letter of Intent

Ms. Christine Lagarde
Managing Director
International Monetary Fund
November 25, 2014

Dear Ms. Lagarde:

1. Following is a Letter of Intent that updates our Memorandum of Economic and Financial Policies (MEFP) for 2014–16 and provides a description of Seychelles' recent performance and policies for rest of 2014, and the period 2015–16.
2. The IMF board on June 4, 2014 approved our request for a 3-year arrangement under the Extended Fund Facility (EFF) for an amount of SDR 11.445 million (105 percent of quota). Seychelles has met all the quantitative Performance Criteria for end-June 2014 in the EFF-supported program (Table 2) and is on track to complete all the measures envisioned in the structural benchmarks (SBs) for the first review (Table 1). Based on our performance under the program and the sustainability of our planned policies, we are requesting through this letter that the IMF Executive Board complete the first review of the EFF-supported program and approve the associated purchase of the second tranche of SDR 1.635 million (15 percent of quota).
3. With the support of the Fund, through a SBA (2008-09) and a subsequent EFF (2009-2013), the Seychelles authorities have been able to maintain strong fiscal performances, as witnessed by an annual average fiscal primary surplus of more than 7 percent of GDP over the past six years. This has allowed us to continue to bring down public debt to more sustainable levels, following debt restructuring agreed by our creditors in 2009. During that period we have also maintained a prudent monetary policy that has helped bring inflation down to low single digits. The Central Bank has also continued to accumulate gross official reserves to about 4 months of imports despite a continuing difficult external environment that has affected our primary economic sector, tourism. We continue to pursue our structural reform agenda with vigor.
4. 2014 has been a very challenging year for the Seychelles economy. In particular, we have faced strong balance of payments pressures which we attribute to three main factors: (i) tourism revenues—which directly account for about 84 percent of the foreign exchange sold in the market—have fallen by an estimated 5 percent as the economies of our main tourism markets have continued to struggle; (ii) the impact of the wage increase in both the public and private sector has been stronger than we had anticipated; and (iii) credit to the private sector has expanded faster than projected, which, along with the wage increase translate into demand for imports given Seychelles' high trade openness.
5. We have moved swiftly to contain the BOP pressures, largely through tightening of monetary policy, though we have also taken steps on the fiscal front. We will implement further fiscal tightening in the rest of 2014 if this becomes necessary as we remain committed to our primary fiscal target, which is fundamental to our efforts in bringing down public debt further. At

the same time, the supplementary budget passed in September had to accommodate some unanticipated pressures, including a capital transfer for Air Seychelles planned in the 2012 restructuring but not expected in 2014. However, supported by strong revenues and spending restraint in certain areas, we anticipate exceeding our primary surplus target.

6. We recognize that in view of the current balance of payments pressures, in 2015 we will need a tighter fiscal stance than was previously envisaged. We will target a primary balance of at least SR720 million for 2015, almost SR 100 million higher than the amount envisaged at the time of the program request. We will freeze wages and maintain a tight lid on goods and services spending in order to allow for an increase in domestically financed investment spending to address pressing infrastructure needs. Recognizing that in 2014 the additional Government spending was met largely through increased consumption-related taxes, further efforts will be needed in 2015 onwards to boost revenues further. To this end we will introduce new measures and policies that will include increases in excise on tobacco and spirits. In addition, we will increase fees for various Government services. We will also make strong efforts to improve tax compliance, especially for business tax. To this end, we have stepped up recruitment of experienced tax auditors and intend to conduct 60 tax audits of large businesses in January-September 2015, compared to 49 in 2014 (proposed new SB). We will accompany this with appropriate monetary policy measures.

7. The revised monetary policy framework has introduced more flexibility in policy implementation. Reserve money will continue to serve as the nominal anchor and the Central Bank of Seychelles (CBS) will be guided by the quarterly average values of reserve money. This allows for the focus to be on short-term liquidity conditions, supporting the move to a more forward-looking framework. The Bank started taking overnight deposits in August 2014 with the introduction of an interest rate corridor as part of its effort to give more guidance to the market, improve liquidity management at commercial banks and also strengthen interest rate transmission. CBS has requested technical assistance from the IMF in order to build capacity in monetary policy analysis and forecasting which would further strengthen the Bank's monetary policy framework.

8. As per the Memorandum of Understanding between the Ministry of Finance and the Central Bank of Seychelles, the Ministry will continue to issue T-Bills and T-Bonds for monetary policy purposes. To that end, the weekly issuance of T-bills for monetary policy purposes has increased from R60 million in June to R100 million in September 2014. This will assist with the further tightening of monetary policy in the fourth quarter as required to mitigate potential inflationary pressures. If needed, the CBS will not hesitate to tighten further to promote price stability.

9. The exchange rate will continue to be market-determined, serving as a shock absorber. In the second half of the year, the market has been clearing with some delays, with the exchange rate adjusting slowly to market fundamentals. CBS remains vigilant and in the case of excessive exchange rate volatility, and self-fulfilling expectations that could give rise to exchange rate overshooting, the Bank would consider intervening to ensure orderly market conditions. Although the current level of international reserves is broadly adequate to face severe external shocks, to preserve this buffer against potential shocks the Bank will purchase reserves further whenever the opportunity arises and to the extent that this would not exert additional pressure on the foreign exchange market. In light of the pressures due to the temporary shocks to our export revenues, we have established

prudent reserve targets for 2015. However, we will aim to exceed these targets in 2015 and build reserves further in 2016, as market conditions allow. In 2014, the Bank stood steadfast on its goal to actively manage its foreign exchange reserves. Looking forward, the Bank is considering engagement on the Reserves Advisory Management Programme (RAMP) with the World Bank during the first half of 2015.

10. The Ministry of Finance (MoF) will continue to pursue its reforms in the area of public financial management. To assess the progress already made and identify additional weaknesses and challenges that may still exist, we will seek to undertake a new assessment of the government's financial operations under the Public Expenditure and Financial Accountability (PEFA) standards in 2015/2016 with donor TA. The Medium Term Fiscal Framework (MTFF) was recently approved by Government (SB). This strategy will be operationalized through annual budgets, which in turn will be guided by the Budget Outlook Strategy Paper (BOS) in 2015. The BOS paper will update the MTFF annually on a rolling three years time frame. The MTFF will be aligned with the Medium Term National Development Strategy (MTNDS), which was approved by the cabinet on November 24 (SB). The MTNDS will be periodically updated and supported by a more detailed Medium-Term Budget Framework to be prepared in 2015. Having become the 46th member of the Extractive Industry Transparency Initiative (EITI) in August 2014, Seychelles is working to prepare its first report in February 2016.

11. We have developed Program Performance Based Budgeting (PPBB) frameworks for the Ministry of Education and Ministry of Natural Resources Portfolios for their 2015 PPBB Statements and Government has approved the use of the framework for three other Ministries on a pilot basis the 2016 budget. A development committee has been established to oversee the development of the Public Investment Management (PIM) and the Public Sector Investment Program (PSIP). That committee, which will also prepare and recommend the Investment Budget to cabinet for approval, will ensure that the projects are consistent with the Medium Term National Development Strategy. Discussions are under way with the World Bank to provide further assistance for the reform in the area of PIM Guidelines and project monitoring.

12. Government has submitted the 2013 financial statement in cash based IPSAS methodology. This has been audited by the Auditor General and is currently being finalized for submission to the National Assembly. To strengthen the management of state assets, progress continues on establishing and publishing an asset register for five major SOEs by the end of 2014 (SB) and a register for the entire public sector will be completed by the end of 2015 (proposed new SB).

13. We are taking steps to address underperformance in execution of our investment budget which we have observed over the past two years. Whilst this year the underperformance has been partially the result of a major external credit line not materializing, execution has also been the result of capacity constraints in line ministries that have delayed procurement. Whilst we are taking steps to address those capacity constraints going forward, in order to preserve the resources earmarked for investment projects, we will minimize the reallocation of resources from capital to current expenditure in supplementary budgets and support the implementation of delayed projects in the subsequent budget year through conserving unspent resources and allocating them to an upward adjustment of the following year's investment budget. This more multi-year approach will facilitate execution of investment projects while having a neutral impact on debt dynamics.

14. We continue to reform our pension system. Government has already approved a proposal by the Seychelles Pension Fund (SPF) to increase contributions of both employees and employers going forward to preserve the sustainability of the Fund, especially taking into account Seychelles' aging population. In the first step of this plan, employee and employer contributions both rose by ½ percent of earnings each in 2014. As part of the reforms a strategic plan for the long-term self-sufficiency of the Fund will be presented to Government for approval in April 2015. One critical element of this broader strategy is an investment strategy that will be put to the Board for approval in December 2015. Moreover, to boost the capital base of the Fund, Government will transfer all assets presently held by the Social Security Fund to the SPF in January, 2015, currently estimated at SR 335.9 million or 30 percent of the SPF total Funds.

15. In the area of Financial Sector Development and Stability the CBS, FSA and MoF have finalized a diagnostic project supported by the World Bank's FIRST initiative to develop a comprehensive Financial Sector Development Implementation Plan (FSDIP). The FSDIP which contains time-bound and prioritized deliverables, aims at facilitating reforms in the financial sector through the adoption of a coherent vision and strategy for financial sector development. The FSDIP focuses on access to finance, financial markets, financial infrastructure, banks and NBFIs' supervision and regulation. It also addresses consumer protection and financial literacy aspects. The cabinet approved the FSDIP in November 2014 (SB). This plan will inform reform measures for 2015–2017, including legal framework for additional financial services, enactment of the Non-Bank Financial Institutions Act and the new Credit Reporting Act.

16. CBS will strengthen the macro prudential policy framework. A strong macro prudential policy framework is important to continue to safeguard the financial sector, particularly as it develops and expands lending to the private sector. The Bank has finalized a first draft of a position paper on the implementation of a Financial Stability Framework in Seychelles, which amongst other things include the institutional design, identification of the key indicators required for macro prudential surveillance, potential tools that can be used and recommendation for the establishment of a Financial Stability Committee. CBS will seek further TA to finalize the framework which is to be implemented by end-October 2015 (proposed new SB).

17. The Bank will continue to pursue its effort to upgrade banking regulations. As recommended in the MCM TA Needs Evaluation in July 2013, CBS received TA in April 2014 towards the conduct of a complete analysis of the relevant and possibly tailored components of Basel II and III which could be applied in Seychelles and to develop a roadmap for implementation of these relevant elements. Recommendations of the TA report are being used as guidance by CBS for implementation of the components of Basel II and III that are applicable to Seychelles, for which the goal is a timeline up to 2016.

18. Work on a modern payment system is being accelerated. In July this year Parliament approved a new and modern payment systems law, which among other things provides for a clear and transparent regulatory framework. The new legal framework will also allow the introduction of a full array of payment systems activities, products and services such as mobile payments. Following the successful completion of the first phase of the Electronic Funds Transfer project across all banks in mid-August 2013, the second phase of the project is currently under implementation and is now scheduled for conclusion by end-September 2015. This phase includes a new internet based online platform from banks to the general public.

19. In the area of CBS Operations and Governance, following the initial self-assessment which had found the Internal Audit Department (IAD) to be only partly compliant with the IIA standards, an action plan has been prepared in order to achieve full compliance. As required by the standards, IAD will need to undergo an independent quality assessment. This review which will be done by an external reviewer will be completed by mid-2016 given.
20. CBS' 2014 – 2018 Strategic Plan continues to guide the Bank in achieving its primary objective of promoting domestic price stability and the soundness of the financial system. The CBS remains committed to implementing the strategic plan, even in the face of challenges. Ongoing scrutiny of the action plan derived from the strategic plan will ensure success through performance monitoring and the fine tuning of agreed deadlines. Actual performance against set targets is monitored on an ongoing basis, with reporting done each quarter. The validity of the action plan is reviewed annually.
21. Our aspirations toward greater integration with the world economy are being significantly enhanced with Seychelles' imminent accession to the World Trade Organization, expected in December 2014. As part of this process we have over the past two years undergone significant modernization of our legal framework that has now brought our trade laws and regulations in line with best international practices.
22. Seychelles' market access offer for its entry into the SADC Free Trade Area was accepted by the SADC Committee of Ministers' of Trade in June 2014. The Government is in the process of ratifying the SADC Trade Protocol, with the implementation of the SADC FTA expected to commence in January 2015.
23. Our structural reform agenda intended to support private sector-led growth continues to advance and develop. We are working to safeguard the international financial services sector by ensuring compliance with best practices on transparency and exchange of information on tax matters. By the end of the year we plan to submit revised tax legislation to the National Assembly (SB) that will allow for signing and ratification of the multilateral convention in early 2015. Following signing of the convention, Seychelles will submit a supplementary report, with a view to ensuring compliance with OECD standards. In 2015, we plan to submit to the National Assembly new legislation on International Business Companies (proposed new SB). On promoting the role of competition and the private sector, we intend to adopt a strategy to reduce restrictions at the Port of Victoria (proposed new SB).
24. On SOEs, we are intensifying our efforts to strengthen oversight and governance, both to limit fiscal risks and enhance performance. The procurement policies of all commercial SOEs were endorsed by the National Tender Board in November 2014 (SB), and Public Enterprise Monitoring Commission (PEMC) approved a plan for governance audits in October 2014 (SB), which will be conducted on five SOEs in 2015 (proposed new SB). We intend to adopt a new government policy to further strengthen supervision of commercial SOEs, including independent review of large investment plans (proposed new SB).
25. We also continue to make progress in modernizing our statistical framework as we prepare to become only the third country in Africa to adhere to the SDDS standards. Work is currently ongoing to produce the SDDS Real Sector indicators and achieve SDDS compliance by the committed target date of mid 2015.

26. We have begun to publish quarterly GDP statistics as well as quarterly labour market Indicators, including quarterly unemployment rates. Quarterly produce price index (PPI) and industrial production index are also now being published. The National Bureau of Statistics has plans to expand coverage to include other significant products in the manufacturing sector, and later cover other services, but this will be in the medium to long term. We are also working to improve the comprehensiveness of our balance of payments statistics, including through increased coverage of the off-shore business sector.

27. We are of the view that the policies described in this updated MEFP will allow us to overcome the current balance of payments pressures and ensure that we remain on track to attaining the objectives of the program. The program's proposed quantitative Performance Criteria and Indicative Targets, as described in the Technical Memorandum of Understanding, and proposed structural benchmarks for end-December 2014 and 2015 are set out in Tables 1 and 2. We stand ready to take any further measures that may prove necessary. We will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies.

28. In line with our commitment to transparency, we request that the IMF publish this letter, the technical memorandum of understanding (TMU), and the staff report. We will simultaneously publish these documents in Seychelles.

Sincerely yours,

/s/

Pierre Laporte
Minister of Finance, Trade and Investment
Republic of Seychelles

/s/

Caroline Abel
Governor
Central Bank of Seychelles

Attachment: Technical Memorandum of Understanding

Table 1. Quantitative Performance Criteria Under the Extended Arrangement, 2014–2015

	2014						2015					
	End-June		Actual (market rate)	End-September		Actual (market rate)	End-December		End-March	End-June	End-September	End-December
	Performance Criteria	Actual (prog rate)		Indicative Targets	Actual (prog rate)		Performance Criteria (EBS/14/58)	Modified Performance Criteria	Indicative Targets	Performance Criteria	Indicative Targets	Performance Criteria
(Millions of Seychelles rupees; end-of-period)												
Performance criteria												
Net international reserves of the CBS, millions of U.S. dollars (floor)	340	...	...	350	...	...	357	350	356	345	345	345
Net international reserves (adjusted targets; outcomes)	339	369	374	346	369	369	344	...	...	...	...	...
Reserve money (ceiling on daily average) ²	2,731	2,646	...	2,721	2,483	...	2,716	2,515	2,529	2,552	2,566	2,656
Primary balance of the consolidated government (cumulative floor)	310	657	...	593	854	...	721	793	-3	311	539	720
Contracting or guaranteeing of new external debt by the public sector (Millions of U.S. dollars; cumulative ceiling)	52	11	...	60	18	...	70	45	60	70	70	90
Contracting or guaranteeing of new short-term external debt by the public sector (Millions of U.S. dollars; cumulative ceiling)	0.0	0.0	...	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of external payments arrears by the public sector (ceiling) ³	0.0	0.0	...	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payment arrears by the government (ceiling)	0.0	0.0	...	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Net external non-project financing (millions of U.S. dollars; cumulative) ⁴	-8.3	-10.0	...	-8.1	-12.0	...	-3.3	-16.3	6.4	-2.5	-5.3	-8.8
External budget loans	7.0	7.3	...	7.0	7.3	...	24.0	17.3	7.0	14.0	14.0	27.0
Cash payments on foreign debt service	20.0	19.5	...	22.2	21.5	...	37.1	35.8	2.6	18.6	21.3	37.9
External budget grants	4.7	2.2	...	7.1	2.2	...	9.8	2.2	2.1	2.1	2.1	2.1
Reserve money target (daily average)	2,651	2,646	...	2,642	2,483	...	2,637	2,442	2,455	2,478	2,491	2,578
Program accounting exchange rates ⁵												
SR/US\$ (end-of-quarter)	12.13	12.13	12.22	12.13	12.13	13.43	12.13	13.43	13.43	13.43	13.43	13.43
US\$/Euro (end-of-quarter)	1.38	1.38	1.36	1.38	1.38	1.26	1.38	1.26	1.26	1.26	1.26	1.26
US\$/UK pound (end-of-quarter)	1.67	1.67	1.70	1.67	1.67	1.62	1.67	1.62	1.62	1.62	1.62	1.62
US\$/AUD (end-of-quarter)	0.89	0.89	0.94	0.89	0.89	0.87	0.89	0.87	0.87	0.87	0.87	0.87
US\$/CAD (end-of-quarter)	0.90	0.90	0.94	0.90	0.90	0.89	0.90	0.89	0.89	0.89	0.89	0.89
US\$/SDR (end-of-quarter)	1.55	1.55	1.54	1.55	1.55	1.48	1.55	1.48	1.48	1.48	1.48	1.48

Sources: Seychelles authorities and IMF staff estimates and projections.

¹ The NIR floor is adjusted as defined in the TMU.

² As per TMU, the ceiling is the upper bound of a symmetrical band of three percent in both directions around the reserve money target.

³ The nonaccumulation of new external payment arrears constitutes a continuous performance criterion. Excludes arrears for which a rescheduling agreement is sought.

⁴ Cumulative net flows from the beginning of the calendar year; includes external non-project loans and cash grants net of external debt service payments.

⁵ Program exchange rates have been set according to prevailing market rates at the last available update on projected external public financing flows.

Table 2a. Structural Benchmarks Under the Extended Arrangement, 2014

Measure	Target Date	Macroeconomic Rationale	Status Report
Real Sector			
Cabinet approval of the Medium-Term National Development Strategy (MTNDS).	End October, 2014	To provide common guidance for national and international actors supporting development, including ensuring that medium-term fiscal framework has adequate financing for priority investment projects.	Met with a delay. Cabinet approved the MTNDS on November 24.
Submission to National Assembly of (i) amendment of Seychelles Revenue Commission Act to be consistent with international standards; and (ii) ratification of the Multilateral Convention on Mutual Administrative Assistance in Tax Matters.	End June, 2014	To safeguard the global business sector by harmonizing domestic legislation with international best practice.	Not met but submission to National Assembly of the legislation expected by end-2014. The delay occurred due to legal issues surrounding the sequencing of the actions.
Financial Sector			
Cabinet approval of a Strategic Plan on Financial Sector Development.	End October, 2014	To deepen the financial system and reinforce inclusiveness.	Met with delay. The Cabinet approved the Financial Sector Development Implementation Plan (FSDIP) on November 12.
Fiscal Policy			
Cabinet approval of a Medium-term Fiscal Framework (MTFF).	End September, 2014	To ensure medium-term fiscal framework is sustainable and has adequate financing for priority public investment projects, including SOEs.	Met with delay. The Cabinet approved the MTFF on November 24.
Public Financial Mgmt. Policy			
Establish and publish comprehensive asset register for the following 5 state-owned enterprises (Air Seychelles, Seypec, SCAA, STC, PUC), including state land	End December, 2014	To ensure transparency in use of state assets.	This measure is on track for completion by end-December.
State-Owned Enterprises			
Endorsement by the National Tender Board of the procurement policies of all those state-owned enterprises incorporated under the companies act.	End September, 2014	To bring procurement policies of SOEs in line with provisions of the procurement act.	Met with a delay. The National Tender Board endorsed the procurement policies of all the SOEs in November. Extra time was required for a necessary regulatory change.
Approval by PEMC Board of a plan for carrying out governance audits of SOEs, including a plan for ensuring sufficient capacity.	End December, 2014	To enhance management practices and accountability in SOEs.	Met. The PEMC Board approved the plan in October.

Table 2b. Seychelles. Structural Benchmarks Under the Extended Arrangement, 2015

Actions	Timing	Objectives
Fiscal and Public Financial Mgmt. Policy		
Enhance collection of business tax by conducting at least 60 tax audits of businesses from January 2015 to end-September 2015.	End September, 2015	Strengthen compliance and enhance revenue collections, especially in business taxes.
Update and publish on-line a government asset register, including state land.	End December, 2015	Safeguard public finances and enhance economic governance through better management of state assets.
State-Owned Enterprises (SOEs)		
Approval by Cabinet of a policy to further strengthen supervision of SOEs that operate on commercial terms, including independent review of large investment plans.	End March, 2015	Enhance the oversight of SOEs and the governance of SSI.
Conduct governance audits of five SOEs.	End December, 2015	Reinforce the monitoring and oversight of SOEs.
Real Sector and Private Sector Development		
Cabinet approval of a strategy to reduce restrictive practices at the Port of Victoria.	End May, 2015	Enhance efficiency and competitiveness of port services and strengthen the role of the port as regional hub and logistics platform.
Financial Sector Development		
Approval by the Board of CBS of a framework for macro prudential surveillance.	End October, 2015	Strengthen financial stability.
International Financial Services Sector		
Submission to National Assembly of new legislation on International Business Companies consistent with international standards.	End June, 2015	Safeguard the global business sector, following the OECD finding, and lay the foundation for sustained growth through best practice regulation.

Attachment 1. Technical Memorandum of Understanding

1. This technical memorandum of understanding presents the definitions of variables included in the quantitative performance criteria and indicative targets set out in the letter of intent (LOI), the key assumptions, and the reporting requirements of the Government and the Central Bank of Seychelles (CBS) needed to adequately monitor economic and financial developments. The quantitative performance criteria and indicative targets, and the benchmarks for 2014 are listed in Tables 1 and 2 attached to the LOI, respectively.

I. QUANTITATIVE PERFORMANCE CRITERIA

A. Net International Reserves of the CBS (Floor)

DEFINITION

2. Net international reserves (NIR) of the CBS are defined for program monitoring purposes as reserve assets of the CBS, minus reserve liabilities of the CBS (including liabilities to the IMF). Reserve assets of the CBS are claims on nonresidents that are readily available (i.e., liquid and marketable assets, free of any pledges or encumbrances and excluding project balances and blocked or escrow accounts, and bank reserves in foreign currency maintained for the purpose of meeting the reserve requirements), controlled by the CBS, and held for the purpose of intervening in foreign exchange markets. They include holdings of SDRs, holdings of foreign exchange, demand and short-term deposits at foreign banks abroad, fixed-term deposits abroad that can be liquidated without penalty, and any holdings of investment-grade securities. Reserve liabilities of the CBS comprise liabilities to nonresidents contracted by the CBS, any net off-balance-sheet position of the CBS (futures, forwards, swaps, or options) with either residents or nonresidents, including those to the IMF.

Calculation method

3. For program monitoring purposes, reserves assets and liabilities at each test date must be converted into U.S. dollars using the end of period exchange rates assumed in the program.

Monitoring and reporting

4. Semiannually, at each test date for program performance criteria, the net international reserves data submitted by the CBS to the IMF will be audited by the CBS' internal audit division in accordance with International Standards on Auditing, to ensure conformity with the program definition and calculation methods. Reports will be submitted to the IMF no later than two months after each test date.

Adjusters

5. The floor on the CBS's NIR will be adjusted upward (downward) by the amount by which the external non-project loans and non-project cash grants exceeds (falls short of) the amounts assumed in the program (LOI Table 1). The floors will also be adjusted upwards (downwards) by the amount that external debt service payments fall short (exceed) the amounts assumed in the program.

B. Reserve Money and Reserve Money Band (Ceiling)

Definition

6. Reserve money is equivalent to currency issued and deposits held by other depository corporations at the central bank (bank reserves), including those denominated in foreign currencies. The reserve money targets are the projected daily averages of the quarter preceding the test date, surrounded by a symmetrical band of three percent in both directions. The upper bound of the band serves as performance criterion or indicative target (ceiling). Quarterly average reserve money will be calculated as the arithmetic average of reserve money observed on all days over the quarter. The resulting value will be compared with the program ceiling.

Monitoring and reporting

7. Daily reserve money data will be submitted by the CBS to the IMF on a weekly basis with a time lag no later than one week. The cumulative average over the quarter will also be monitored by the CBS and reported to the IMF on a weekly basis.

C. Program Primary Balance of the Consolidated Government (Cumulative Floor)

8. The program consolidated government primary balance from above the line on a commitment basis is defined as total consolidated government and social security fund revenues (excluding privatization and long-term lease income receipts) less all noninterest (primary) expenditures and net lending of the government and social security fund. For program purposes the transfer of assets from the Social Security Fund to the Seychelles Pension Fund planned for 2015 will be excluded from expenditures.

D. Public External Debt (Ceiling)

9. The ceiling applies to the contracting or guaranteeing of new external liabilities by the public sector (including the central government, the CBS, and all public agencies and parastatals for operations that are not directly linked to commercial activities). The ceiling does not apply to the use of Fund resources, operations related to external debt restructuring; normal import related credits; purchases of treasury securities by nonresidents; or borrowing by parastatals in the conduct of normal commercial operations. The non-zero ceilings on the contracting or guaranteeing of external debt are to allow for normal public project finance and program support from multilateral institutions exclusively. Debt shall be valued in U.S. dollars at program exchange rates. A zero sub-ceiling on short-term external debt applies to the contracting or guaranteeing of short-term external debt by the public sector, with an original maturity of up to and including one year. External debt is defined on a residency basis.

10. For the purposes of this performance criterion, the definition of debt is set out in Point 9 of the "Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements," attached to Executive Board Decision No. 6230-(79/140), as amended. Debt is understood to mean a current, non contingent liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future points in time; these payments will discharge the principal and/or interest liabilities incurred under the

contract. The ceiling on contracting official and officially guaranteed external debt includes all form of debt, including:

- a. loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
- b. suppliers credits, that is, contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and,
- c. leases, that is, arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains title to the property. The debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.
- d. arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g. payment on delivery) will not give rise to debt.

E. External Arrears of the Public Sector

11. The nonaccumulation of arrears to external creditors will be a continuous performance criterion under the program. External payments arrears for program monitoring purposes are defined as the amount of external debt service due and not paid within the contractually agreed period, subject to any applicable grace period, including contractual and late interest. Arrears resulting from the nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is sought are excluded from this definition.

F. Domestic Arrears of Government

12. The nonaccumulation of budget expenditure arrears will be a performance criterion under the program and will be measured on net basis from the beginning of a calendar year. Budget expenditure arrears are defined as the sum of (1) any invoice that has been received by a spending agency from a supplier of goods, services, and capital goods delivered and verified, and for which payment has not been made within the contractually agreed period, or in the absence of a grace period, within 30 days; (2) unpaid wages, pensions, or transfers, pending for longer than 30 days to domestic or foreign residents, irrespective of the currency denomination of the debt; and (3) debt service payment on domestic debt of the government or guaranteed by the government that has not been made within the contractually agreed period.

II. DATA AND INFORMATION

13. The Seychelles authorities (government and CBS) will provide Fund staff with the following data and information according to the schedule provided.

The CBS will report

Weekly (within one week from the end of the period)

- Daily reserve money data.
- Foreign exchange reserves position.
- A summary table on the foreign exchange market transactions.
- The results of the liquidity deposit auctions, primary Treasury bill auctions, and secondary auctions.

Monthly (within four weeks from the end of the month)

- The monetary survey in the standardized report form format.
- The foreign exchange cash flow, actual and updated.
- Financial soundness indicators.
- Stock of government securities in circulation by holder (banks and nonbanks) and by original maturity and the debt service profile report.

The Ministry of Finance will report

Monthly (within two weeks from the end of the month):

- Consolidated government operations on a commitment basis and cash basis in the IMF-supported program format and in GFSM2001 format.
- The detailed revenues and expenditures of the central government and social security fund.
- Import and export data from the customs department.
- Public debt report, reconciled with the cash operations to minimize any statistical discrepancy.
- Consolidated creditors schedule on domestic expenditure arrears of the government.

Quarterly (within one month from the end of the quarter)

- Accounts of the public nonbank financial institutions.

14. The government and CBS will consult with Fund staff on all economic and financial measures that would have an impact on program implementation, and will provide any additional relevant information as requested by Fund staff.



INTERNATIONAL MONETARY FUND



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International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes First Review Under Extended Fund Facility Arrangement for Seychelles, and Approves US\$2.4 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first review under the Extended Fund Facility arrangement (EFF)⁶ for Seychelles. The completion of the review enables a disbursement of SDR 1.635 million (about US\$2.4 million), bringing total disbursements under the arrangement to SDR 3.27 million (about US\$4.8 million). The Executive Board's decision was taken without a meeting⁷. The EFF was approved in June 2014 (see [Press Release No. 14/262](#)) for SDR 11.445 million (about US\$ 16.8 million, or 105 percent of Seychelles' quota), and follows the expiration of the previous EFF in December 2013.

Program implementation and economic fundamentals continue to be strong, although the external position weakened in mid-2014. At the first test date of end-June 2014, all performance criteria were met; based on preliminary data, all third quarter indicative targets were also achieved. The structural agenda remains broadly on track, although there were some technical delays, notably with respect to amending tax legislation to make it consistent with international transparency norms. Projected growth for 2014 has been revised down to 2.8 percent from 3.7 percent, due to weaker demand for Seychelles' two main exports—tourism and canned tuna. At the same time, strong growth in personal earnings and private sector credit have fueled a surge in imports, putting further pressure on the balance of payments. As a result, the exchange rate depreciated by 11 percent in nominal effective terms from early August to late-October.

The authorities have taken appropriate monetary and fiscal policy actions to address balance of payment pressures. The Central Bank's decision to tighten the reserve money target for the

⁶ The Extended Fund Facility under the Extended Arrangement is an instrument of the IMF designed for countries facing serious medium-term balance of payments problems because of structural weaknesses that require time to address. Assistance under the extended facility features longer program engagement—to help countries implement medium-term structural reforms—and a longer repayment period. (See <http://www.imf.org/external/np/exr/facts/eff.htm>). Details on Seychelles' arrangement are available at www.imf.org/seychelles

⁷ The Executive Board takes decisions without a meeting (based on lapse-of-time procedures) when it is agreed by the Board that a proposal can be considered without convening formal discussions.

fourth quarter of 2014 by 7 percent and maintain this stance into 2015 is a strong response to the demand and external pressures, which will serve to dampen any inflationary second-round effects following the depreciation. The fiscal targets for 2014 and 2015 were also tightened to support the restoration of external balance and maintain progress toward the target of reducing the debt-to-GDP ratio below 50 percent by 2018. The flexible exchange rate regime continues to serve the country well, and can act as an important safety valve in helping to manage the pressures and restore external equilibrium. Steadfast implementation of the authorities' structural agenda should continue to lay the groundwork to promote inclusive growth and reduce risks. This agenda focuses on ensuring transparency and efficiency in the use of public resources, strengthening the governance of state-owned enterprises, and enhancing the environment for private sector development.