

## International Monetary Fund

[Seychelles](#) and the  
IMF

**Seychelles:** Letter of Intent and Technical Memorandum of  
Understanding

**Press Release:**  
[IMF Completes First  
Review Under  
Extended Fund  
Facility Arrangement  
for Seychelles, and  
Approves US\\$2.4  
Million Disbursement](#)  
December 12, 2014

November 25, 2014

[Country's Policy  
Intentions Documents](#)

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## 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 46<sup>th</sup> 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)												
<b>Performance criteria</b>												
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) <sup>2</sup>	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) <sup>3</sup>	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
<b>Memorandum items:</b>												
Net external non-project financing (millions of U.S. dollars; cumulative) <sup>4</sup>	-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
<b>Program accounting exchange rates <sup>5</sup></b>												
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.

<sup>1</sup> The NIR floor is adjusted as defined in the TMU.

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

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

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

<sup>5</sup> 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**

<b>Measure</b>	<b>Target Date</b>	<b>Macroeconomic Rationale</b>	<b>Status Report</b>
<b>Real Sector</b>			
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.
<b>Financial Sector</b>			
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.
<b>Fiscal Policy</b>			
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.
<b>Public Financial Mgmt. Policy</b>			
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.
<b>State-Owned Enterprises</b>			
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**

<b>Actions</b>	<b>Timing</b>	<b>Objectives</b>
<b>Fiscal and Public Financial Mgmt. Policy</b>		
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.
<b>State-Owned Enterprises (SOEs)</b>		
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.
<b>Real Sector and Private Sector Development</b>		
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.
<b>Financial Sector Development</b>		
Approval by the Board of CBS of a framework for macro prudential surveillance.	End October, 2015	Strengthen financial stability.
<b>International Financial Services Sector</b>		
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.