

## International Monetary Fund

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IMF

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Understanding

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## Letter of Intent

Ms. Christine Lagarde  
Managing Director  
International Monetary Fund  
December 4, 2015

Dear Ms. Lagarde:

1. Following is a Letter of Intent that updates our Memorandum of Economic and Financial Policies (MEFP) for 2015–16 and provides a description of Seychelles' recent performance and policies for rest of 2015, and the period 2016.
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 2015 in the EFF-supported program and is on track albeit with some small delays to complete all the measures envisioned in the structural benchmarks (SBs) for the third 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 third review of the EFF-supported program and approve the associated disbursement.
3. With the support of the Fund and other development partners the Seychelles authorities have been able to maintain strong fiscal performances, as witnessed by an annual average fiscal primary surplus. This has allowed us to continue to bring down public debt to more sustainable levels, following debt restructuring agreed by our creditors in 2009 with a goal of reducing over the medium term our debt to 50% of GDP. 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 above 4 and a half months of imports.
4. Despite uneven global growth, the Seychelles economy has remained buoyant. Economic activity for the first half of 2015 has picked up and this is expected to continue for the rest of the year. It is estimated that the economy will grow by 4.3 per cent compared to the initial 3.0 per cent forecast at budget. The upward revision is attributed to more favorable outcome from tourism activity as well as continued growth in the 'Information and Communication' sector. Despite more favorable real growth, the nominal growth has been revised slightly downward. This is attributed to a lower GDP deflator following the depreciation in the Euro against the Rupee so far this year. By the end of July the Euro had depreciated by 16.5 per cent against the Rupee compared to December 2014.
5. Tourism activities have picked up this year with visitor arrivals growing by double digits since the start of the year. By the end of July, visitor arrivals increased by 17 per cent compared to the same period last year. The growth is being strongly supported by the traditional European market as well as the new emerging Asian market showing growth of 10 per cent and 33 per cent respectively. For the next half of the year, growth in arrivals is expected to be sustained at current levels.

6. For the revised Budget 2015 , Government revenue excluding grants is expected to remain at similar levels at SR 6.23bn, which is SR 43.2 million higher than the original 2015 budget with only a very slight upward revision of SR 8m forecasted, compared to the initial Budget of SR 6.18bn. This positive adjustment is equivalent to only a 0.7 per cent increase. Despite the higher outlook for 2015 Tax and Non-Tax revenue at the end of 2015, there have been large and unexpected refund payments (relating to Business tax and VAT). However grant income is now expected at SR 148m less in 2015, which, as a consequence shows an overall decrease of total revenue an grants by SR 104.7 million in the revised 2015 budget.

7. The strong economic performance has contributed to an increased fiscal surplus at midyear revisions. Primary expenditure has been revised downwards by R46 m from R5, 889 m to R5, 843 million as a result of savings within a few expenditure lines. Wages to GDP ratio is still projected to remain at 5.8% as a result of the Manpower Budgeting Exercise which ensures provision of critical positions only.

8. Government remains committed to ensure that it achieves a sustainable level of fiscal surplus in the medium term that accommodates the debt reduction target to below 50% by 2018. For 2016, primary surplus has been projected at 3.8% of GDP which will allow the government to implement several new spending policies. This will represent a surplus of R767 million rupees. To achieve this objective, several spending measures will also be introduced. This will allow government to maintain a capital budget to allow a sustainable level of Investment in the economy.

9. It is expected that Trades Tax, Vat and TMT will increase substantially in line with GDP growth. Business tax collected is also expected to be above the 2015 level as a result of the major exercise of the SRC Audits, while Income tax will also rise due to implementation of the 13th month salary. A freeze on the allocation of non-essential items within the goods and services will be executed while maintaining most goods and services budget line items at the 2015 levels. In addition, an approximate 1% targeted cut in most MDAs budget will be applied mostly so as to reduce spending on stationary, hospitality and consumables items.

10. A 13th month salary scheme is being implemented based on performance aimed at improving productivity in the civil service. Provision will also be made for an increase in Pension and for the implementation of a Youth Employment Scheme geared at increasing employment opportunities for school leavers and cultivate a culture of career development. Priority in budget allocation will be given to funding recruitment that was already planned during the 2015 MBE, promotions, returning graduates, implementation of salary increments according to existing schemes of service and catering for the full year allocation of schemes of service that have been introduced in mid 2015.

11. The Ministry of Finance, Trade and the Blue Economy will continue to pursue its reforms in the area of public financial management. In the implementation of program performance based budgeting the second pilot MDAs are currently preparing their PPBB statements after having submitted their PPBB request for the 2016 budget. In total in 2016, there will be 5 portfolio ministries

operating on a program-performance based budget. Partial roll out is expected in 2017 for the remaining 7 portfolio ministries. The authorities are currently discussing with the World Bank for the way forward with a view that this would be the largest number of pilot MDAs taken onboard for piloting. For a smooth transition partial roll out is expected, without the performance information being developed at this stage for a few of the remaining MDAs that will be on the final roll out.

12. The 2015 – 2018 PFM action plan is being implemented with considerable progress in the asset and capital project management. Discussion is underway for a Medium Term Budget Framework (MTBF) mission with AFRITAC South. To further assess the progress made and identify remaining challenges we will seek to undertake a new assessment of the government's financial operations under the Public Expenditure and Financial Accountability Framework (PEFA) standards in 2016, following which the PFM action plan will be revised and submitted to Cabinet for approval (proposed new SB).

13. We have developed the Public Investment Management (PIM) guidelines, which was recently approved by Government in June 2015. A Project Manager has now been recruited to see to the coordination of the PIM processes. With the assistance of the World Bank project officers in government are currently being trained so that they become versed with the appraisal requirement under the adopted PIM guideline.

14. The Government Annual Financial Statement (AFS) for 2014 is currently being finalized with the Office of the Auditor General. The State Owned Enterprise (SOEs) accounts have been consolidated with central government with the exception of two SOE's which at the time of producing the accounts had not yet submitted their accounts. We will work with the two remaining entities to ensure full consolidation of government accounts in 2016.

15. The government will balance progressive expansion of the country's infrastructure network within a framework of continued fiscal consolidation and financial risk management. In recognizing the potential value of Public Private Partnerships (PPPs) in furthering the expansion of infrastructure, the first component of the PPP framework which was the development of the national PPP policy have been completed and the policy was approved by cabinet on the 1st July 2015.

16. We are currently in the process of procuring the necessary services for the development of the PPP regulatory and operational framework being funded by the AfDB. A consulting firm is being sourced out to i) draft the PPP regulations for submission to the cabinet (proposed new SB), (ii) develop a PPP implementation manual to guide the operational aspects of PPP.

17. A public and private forum is being organized in the first quarter of 2016 to be funded by ICF. The aim of the forum will be to present the PPP policy to the various stakeholders, to sensitize the public and private sector on key principles for successful PPP projects, share experiences of PPP projects in focus sectors identified in the policy and provide a platform for the public and private sector to discuss potential PPP projects in key sector areas. We are also working on the communications strategy to promote the concept of PPP in Seychelles.

18. The promotion of competition and increased private sector involvement in key sectors remain one of our key priorities, in line with the government's commitment to sustain inclusive growth and improvement in the investment climate. Going forward the government recognizes the contribution of the Micro, Small and Medium Enterprises (MSME) in the economy and the need to strengthen the existing framework. In line with that a revised MSME policy will be submitted to cabinet for approval (proposed new SB).

19. On SOE's we continue to intensify our efforts to strengthen the overall corporate governance. The Public Enterprise Monitoring Commission (PEMC) recently received the approved OECD Code of Governance. The Commission intends to adopt this code as a basis for developing a Code of Governance to be adopted by Public Enterprises upon approval of the Cabinet. To facilitate Board nomination process on PE boards, the Commission shall initiate the creation of an Institute of Directors as well as providing training for Board appointees. The Commission with the assistance of the World Bank shall also conduct governance reviews and operational/business assessments on the Public Enterprises (three by end-June, 2016, revised SB and a further 3 by end-December 2016 proposed new SB)

20. For effective government oversight and to enhance accountability a State Ownership Policy separating the state's ownership function from its policy and regulatory functions will be developed which would further enhance the Commission's monitoring role.

21. Asset registers for state owned enterprises were published via the PEMC website with the exception of L'Union Estate and the Seychelles Ports Authority (*AFS 2014 not yet received*)

22. The operational performance of SEYPEC is showing positive movement in operational performance compared to 2014 with a provisional profit as of September 2015. Due to the decline in the cost of fuel oil, PUC has been performing very well at end-September 2015, with a marginal increase of 3% in profit above December 2014. Air Seychelles is on track to achieving profitability in 2016.

23. Recognizing the need to further clarify and reinforce SOE supervision the mandate of the Société Seychellois d'investissement (SSI) has now been clarified through its mission statement. With a revised mandate SSI will now be able to better manage fiscal risks by close monitoring and undertaking independent analysis of companies in their portfolio. Moving forward, in cooperation with the World Bank the government will further focus SSI's mandate through a shareholder policy for SSI, developing an investment strategy and operating guidelines.

24. In the area of taxation, SRC will continue its efforts to address remaining challenges such as improving the methods for collection of total tax arrears and improving filing rate. SRC will be working towards increasing collection of total arrears; this will involve a development of a Collection Enforcement Strategy to improve the methods for collection of total tax arrears. The strategy will aim to modify the approach used by tax officers based on age of debt and level of compliance by the taxpayers. The strategy will be completed by March 2016 followed by implementation with the purpose of strengthening compliance and enhancing revenue collections.

25. Going forward efforts will continuously be placed on the auditing of tax cases. The SRC has completed 66 tax audits by September (SB) and will conduct a further 60 business tax audits by

November 2016. This will strengthen compliance and enhance revenue collections, especially in business taxes.

26. The Central Bank will maintain emphasis on a forward-looking approach to monetary policy implementation and the quarterly average reserve money will remain as the nominal anchor. Importance will continue to be placed on promoting better liquidity management with the aim to improve the effectiveness of monetary policy through enhancing the transmission of interest rates. When the condition permits, the Bank aims to eventually shift from the current quantitative target to an interest-rate based target. In that respect, the Central Bank is receiving Technical Assistance (TA) from the MCM department of the IMF to enhance its forecasting and modeling capacity.

27. Coordination between fiscal and monetary policies will continue. As per the Memorandum of Understanding between the Ministry responsible for Finance and the Central Bank of Seychelles, the Ministry will issue government securities for monetary policy purposes as needed in line with monetary policy objectives and being conscious of the debt target.

28. Mindful of the current inflation outlook and developments in the external sector, the Bank will consider a gradual and cautious loosening of monetary policy as from the fourth quarter of 2015. The policy mix implemented since the second half of 2014, combined with the decline in global energy and commodity prices, had a dampening effect on potential inflationary pressures. In addition, credit growth, particularly for the financing of consumer goods, has slowed down since the beginning of the year. However, private sector credit growth will be monitored closely to ensure that vulnerabilities do not emerge.

29. The Bank remains committed to a floating exchange rate regime. Following the depreciation observed in the second half of 2014 due to strong demand, the Seychelles rupee appreciated against the USD in the first half of the year and remains stable against its main counterparts. Despite the weaker euro and downside risks emanating from emerging markets, the lower international energy and commodity prices are expected to continue support the external value of the domestic currency.

30. In order to build further resilience against external shocks, the authorities will continue to pursue its reserves accumulation strategy. When the opportunity arises, CBS will purchase foreign exchange from the market to build reserves without influencing the exchange rate. Depending on market conditions, we hope to exceed our reserves targets.

31. The Bank remains committed to improve its reserves management capacity. Following approval by the CBS Board in late 2014, CBS started its engagement on the Reserves Advisory and Management Programme (RAMP) with the World Bank. To date, several staff have benefited from a number of workshops and TA's offered by RAMP. As part of the external investment management agreement, staff directly involved with reserves management started the second part of a training provided by Crown Agents Investment Management (CAIM) in the third quarter of 2015.

32. A Financial Stability Committee (FSC) is to be set up and will be chaired by the Governor of the Central Bank of Seychelles. The FSC will provide a platform for discussion on pertinent local and

international developments that may impact the financial stability of Seychelles. The FSC shall serve as an interim committee until the required legal framework is established. The FSC shall comprise of the following members: the Ministry of Finance, Trade and the Blue Economy, the Central Bank of Seychelles, the Financial Services Authority and the Financial Intelligence Unit. In addition, CBS is in the process of setting up a Financial Stability Unit (FSU) which will, amongst other activities, monitor and carry out research on macro-financial matters to support the work of the FSC. It is intended that both the FSC and FSU will be operational by end-March 2016.

33. With the aim of ensuring that financial services are used more effectively and in a responsible and sustainable manner, CBS will enhance its mandate for consumer protection and develop a strategy for financial literacy. The government has signed a Reimbursable Advisory Services (RAS) agreement with the World Bank that will allow CBS to access TA to amongst other things, establish a comprehensive consumer protection framework for financial institutions. The options for establishing a financial ombudsman function in Seychelles with adequate enforcement powers will be explored. CBS will also coordinate work on enhancing financial literacy in Seychelles with a view to improve financial inclusion. As a first step, a financial literacy baseline study will be commissioned to identify the target groups and design a comprehensive and cost effective strategy and implementation plan for reaching them. Funding has already been sought from the Investment Climate Fund for the baseline strategy and the AfDB for the design of the financial literacy strategy.

34. CBS will continue to pursue its effort to upgrade banking regulations. A complete review of the Financial Institutions Act is underway, which will *inter alia* cater for implementation of Basel 2 and 3 in 2017 as per the revised road map prepared with assistance of the IMF. TA is anticipated from the IMF regarding the implementation of the pillar 2 component of Basel II in the first half of 2016. Moreover, drawing on recent experiences with CBS' bank intervention, an enhanced resolution framework for banks will be developed to ensure that it is in line with new domestic and international developments.

35. In line with the aim of achieving best practices in the international financial services sector, CBS and other authorities such as the Financial Intelligence Unit (FIU) and Financial Services Authority (FSA) will strengthen the regulation of the offshore sector. Initiatives in this direction include the country's commitment to sign the Model 1 B Intergovernmental Agreement for FATCA with the US and signing of the Multilateral Competent Authorities Agreement in relation to the Automatic Exchange of Information (AEOI) with Seychelles' commitment for first automatic exchange by 2017. Additionally, the authorities will be receiving TA from the World Bank in the fourth quarter of 2015 regarding the National Risk Assessment as preparation for the Mutual evaluation against the Financial Action Task Force (FATF) principles which is scheduled for the second half of 2016. Consistent with new developments in AML regulatory framework internationally, Seychelles authorities have taken necessary steps to modernize the industry and local regulatory standards. In that regards a tripartite MoU between the CBS, FIU and FSA has been signed. This will ensure greater coordination between the authorities in their efforts to safeguard the financial sector from any risks emanating from the offshore sector. The regulation of the 'offshore banking' sector will be enhanced

to ensure that any contagion effect emanating from the offshore sector is mitigated. In this regards CBS has been receiving TA from the IMF. An action plan to implement the recommendations from the TA mission has been finalized. Moreover, CBS and FIU are undertaking joint inspections regarding AML matters.

36. Significant reforms of the Credit Information System (CIS) will be undertaken by the Bank to increase its usefulness for lenders. CBS will enhance the overall scope of the CIS by including credit data from all relevant lenders, including those that do not fall under its regulatory purview, and eventually other types of data providers such as utilities companies. The frequency and type of data that is collected by the CIS and the information that is distributed back to lenders will be improved. In the medium term, another structural improvement will be a more comprehensive legal and regulatory framework for credit reporting activities in Seychelles, which is an area that will be addressed through the RAS.

37. Work on a modern payment system continues. Following the successful implementation of the first phase of the Seychelles Electronic Funds Transfer (SEFT) project across all banks in mid-August 2013, the second phase of the project currently under implementation since July 2014 is progressing well, with a new scheduled date of completion set for third quarter 2016. Since the launch of phase one, the majority of participants have now integrated their CORE banking systems to SEFT to allow for straight-through processing of incoming and outgoing payments and CBS is continuing its efforts to encourage other participants to follow suit prior to the launch of the second phase. This second phase of the SEFT project will further modernize and increase the efficiency of the country's payments systems by extending the new internet-based online platform from the banks domain to the general public.

38. CBS remains committed in its endeavor to modernize the country's national payment system. Work is ongoing to formalize the Terms of Reference for the National Payments Task Force and the National Payments Council which amongst others provides for a regular schedule of meetings and sets out the objectives of the two forums which are key drivers in the modernization process. Moreover, the Bank in collaboration with other stakeholders, is working on a new vision and strategy for modernization of the national payment system covering the period from 2016 to 2020.

39. CBS is engaging the assistance of AfDB/ICF for external consultants to undertake a feasibility study for implementing modern settlement systems in 2015. The outcome from the study will be used to assist with the introduction of a Central Securities Depository (CSD) as well as a Real Time Gross Settlement System (RTGS). The Bank is also receiving TA from AfDB/ICF for the conduct of diagnostic studies for government payments and assessment of the international remittance market. The assessment will focus on improving remittance services. This will include the setting up the relevant regulatory and governance framework, and provide greater transparency and consumer protection in remittance services. The infrastructure for government payments and public financial resources payments will also be assessed with the aim to provide recommendations to ensure that these are managed and effected in a sound, efficient, reliable and transparent manner.

40. The regulatory framework for oversight of payment systems in Seychelles is being enhanced. With the initial regulatory platform through the enactment of the new National Payment Systems Act and the Licensing and Authorization Regulations in the second half of 2014, further work in that regards is expected in 2016. Regulations on the continuous oversight of payment systems will be issued by June 2016 with the help of TA from the World Bank. In that regard, CBS intends to issue regulations setting out minimum standards in relation to payment services in Seychelles and the protection of users of payment services. TA received from the IMF in April 2015 has commenced the process for assessment of the National Payment System's compliance with the Principles for Financial Market Infrastructures and further capacity building in this area is expected in 2016 which will achieve alignment with international standards.

41. Following IMF Safeguard Assessment, Internal Audit Division (IAD) will undergo an external Quality Assurance review by an independent quality assurance provider by mid-2017. This review will evaluate the quality and practices of the internal audit function and compare the results against the IIA Standards, provide examples of best practice, and verify IAD's overall efficiency and effectiveness. With an eye on the External Quality Assessment, IAD will be building capacity with the assistance of consultants whereby it will be focusing on its quality; developing its ability to conform to IIA Standards; mentoring and advising the staff in audit supervision, and project monitoring.

42. In the first quarter of 2015, the CBS commenced its review of the Central Bank of Seychelles Act, 2004 (CBS Act) consistent with its desire to further strengthen the corporate governance framework currently stipulated in the CBS Act. The proposed amendments will allow the Bank to meet established best practice standards regarding its corporate governance arrangements, enabling CBS to fulfill its objectives and mandate more efficiently and effectively.

43. We continue to work to safeguard the international financial services sector by ensuring compliance with best practices on transparency and exchange of information in tax matters. In line with international best practices an international financial services industry strategy will be developed and submitted for cabinet approval by end-June 2016 (proposed new SB). In the immediate, new obligations have been imposed on International Corporate Service Providers (ICSPs) such as (i) strengthened sanctions for non-compliance with legal requirements including broadening of possibility to strike off a company where the requested information is not provided; (ii) prohibited bearer shares; (iii) introduced the requirement for International Business Companies to provide declaration of compliance with its ownership and accounting obligations; (iv) introduced an obligation to maintain the share register at the ICSP's office in Seychelles; (v) restructured the supervisory authority of the offshore sector and strengthened its supervisory powers; (vi) increased the number of inspections and the proportion of inspected IBCs; and (vii) applied penalty upon detection of non-compliance and strike off companies where the noncompliance persists.

44. The Financial Services Authority completed its focused onsite inspections on all ICSPs in April 2015 and is currently using a risk-based approach to rank the ICSPs accordingly in terms of risk levels. As a result of the measures applied, Seychelles has now obtained a new rating of "Largely Compliant" by the Global Forum.

45. The new IBC Bill is in its final stages of industry consultation and is expected to be submitted to the National Assembly by December 2015 (SB). A new International Corporate Service Providers Bill which includes a provision for a register of beneficial ownership data and Trusts Bill are expected to be submitted to the National Assembly by December 2015 (SB).

46. A new piece of legislation, Global Corporations Bill, which will replace the Companies (Special) License Act, 2003 is in the process of undergoing industry consultation and is expected to be enacted by April 2016.

47. The Seychelles Gambling Act was enacted in December 2014 with the FSA being given the responsibility to administer this piece of legislation which includes regulating and supervising of casinos, slot machines and interactive gaming. However, this Act is expected to become operational as of 1<sup>st</sup> November, 2015 which in the interim period has allowed the FSA to build capacity and meet with existing licensees to ensure a smooth transfer of powers from the SLA to the FSA.

48. In order to strengthen the regulation of insurance and pensions sector, technical assistance has been sought for the AfDB and ICF. Projects to amend the Securities Act, 2007 and Mutual Fund and Hedge Fund Act, 2008 will also be carried out in order to rectify gaps or weakness in these laws and bring them in line with international standards and best practices.

49. Following its accession to the WTO in April government continues its effort to work on the WTO implementation. The Government has just set up a National Trade Facilitation Committee which will analyze and advice on measures, provisions and procedures related to the movement of goods in and out of Seychelles, so as to achieve the optimal level of efficiency in expediting the movement, release and clearance of goods. The Committee will also provide inputs towards international agreements dealing with Trade Facilitation.

50. The National Trade Facilitation Committee comprises of personnel from Government entities and private sector addresses issues such as domestic coordination amongst relevant stakeholders on issues relating to trade facilitation, coordination with other standing committees which deal with trade related issues, assist and monitor the implementation of measures, provisions and procedures in accordance with trade agreements that Seychelles' is party to e.g. WTO, WCO, COMESA, SADC, assist and monitor the elimination of unnecessary Non-tariff measures. The National Trade Facilitation Committee will, at the best of its capacity, resolve issues relating to Trade Facilitation, Develop and review an action plan for the activities discussed and agreed by the National Trade Facilitation Committee, and adopt a work program for Trade Facilitation reforms.

51. Work on the establishment of a poverty line and the incidence of poverty is still ongoing with technical assistance from the World Bank. Two approaches have been explored (consumption and income) with results expected to be released at the end of 2015.

52. In addition data from the 2013 HBS will be used to compile GDP by expenditure (GDP (E)). This is being done with assistance from the IMF-AFRITAC South institute. All data sources for using

the GDP (E) approach, and methodology, are being reviewed by the new IMF AFRITAC advisor on Real Sector statistics.

*/s/*  
Jean-Paul Adam  
Minister of Finance, Trade and the Blue  
Economy  
Republic of Seychelles

*/s/*  
Caroline Abel  
Governor  
Central Bank of Seychelles

Attachment: Technical Memorandum of Understanding

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

	2015						2016			
	End-June		End-Sep.		End-Dec.		End-March	End-June	End-Sep.	End-Dec.
	Performance Criteria Second Review	Est.	Indicative Targets Second Review	Targets Proj.	Performance Criteria Second Review	Proposed	Proposed Indicative Targets	Proposed Performance Criteria	Proposed Indicative Targets	Proposed 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) <sup>1</sup>	367	398	364	417	363	409	429	412	418	401
Net international reserves (adjusted targets; outcomes)	...	...	...	...	...	...				
Reserve money (ceiling on daily average) <sup>2</sup>	2,529	2,529	2,552	2,552	2,655	2,781	2,818	2,858	2,897	2,961
Primary balance of the consolidated government (cumulative floor)	311	311	539	539	720	720	85	288	470	767
Contracting or guaranteeing of new external debt by the public sector (Millions of U.S. dollars; cumulative ceiling from start of 2015)	70	63	70	63	90	90	110	110	110	130
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>	-2.6	-6.0	-4.8	-8.3	-3.9	-22.4	12.3	-11.7	-14.4	-33.2
External budget loans	10.0	7.0	10.0	7.0	27.0	7.0	15.0	15.0	15.0	20.0
Cash payments on foreign debt service	17.4	16.0	19.6	18.3	35.7	34.3	2.7	26.7	29.4	53.2
External budget grants	4.8	3.1	4.8	3.1	4.8	4.9	0.0	0.0	0.0	0.0
Reserve money target (daily average)	2,455	2,490	2,478	2,520	2,578	2,700	2,736	2,775	2,813	2,875
<b>Program accounting exchange rates</b> <sup>5</sup>										
SR/US\$ (end-of-quarter)	13.74	13.74	13.74	13.74	13.74	13.01	13.01	13.01	13.01	13.01
US\$/Euro (end-of-quarter)	1.12	1.12	1.12	1.12	1.12	1.12	1.12	1.12	1.12	1.12
US\$/UK pound (end-of-quarter)	1.54	1.54	1.54	1.54	1.54	1.51	1.51	1.51	1.51	1.51
US\$/AUD (end-of-quarter)	0.78	0.78	0.78	0.78	0.78	0.70	0.70	0.70	0.70	0.70
US\$/CAD (end-of-quarter)	0.80	0.80	0.80	0.80	0.80	0.75	0.75	0.75	0.75	0.75
US\$/SDR (end-of-quarter)	1.41	1.41	1.41	1.41	1.41	1.40	1.40	1.40	1.40	1.40

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. Seychelles: Structural Benchmarks Under the Extended Arrangement, 2015**

<b>Actions</b>	<b>Timing</b>	<b>Objectives and Status</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	Met. The SRC conducted 66 business tax audits by end-September, and identified over SR 120 million in potential assessments.
Update and publish on-line a government asset register, including state land.	End December, 2015	On track. 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	Met with a delay. Cabinet approved measures in May 2015.
<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	Met.
<b>Financial Sector Development</b>		
Approval by the Board of CBS of a framework for macro prudential surveillance.	End October, 2015	Not met. Work ongoing to finalize the institutional arrangements. Reprogrammed to March 2016.
<b>International Financial Services Sector</b>		
Submission to National Assembly of new legislation on International Business Companies consistent with international standards.	End June, 2015	Not met. Reprogrammed to December 2015.
Submission to National Assembly of new legislation on International Corporate Service Providers and Trusts consistent with international standards.	End December, 2015	On track. Safeguard the global business sector, following the OECD finding, and lay the foundation for sustained growth through best practice regulation.

**Table 2b. Seychelles: Structural Benchmarks Under the Extended Arrangement, 2016**

<b>Actions</b>	<b>Timing</b>	<b>Objective</b>
<b>Fiscal and Public Financial Mgmt. Policy</b>		
Cabinet approval of Public Financial Management Action Plan	End-December 2016	Ensure timely implementation of recommendations of PEFA assessment (to be carried out in H1 2016).
Cabinet approval of new Public Private Partnership Regulation	End-October, 2016	Strengthen the legal framework of the Public Private Partnership framework.
<b>State-Owned Enterprises (SOEs)</b>		
Conduct governance reviews and operational/business assessments of initial three SOEs.	End June, 2016	Reinforce the monitoring and oversight of SOEs.
Conduct governance reviews and operational/business assessments of a further three SOEs	End December, 2016	Reinforce the monitoring and oversight of SOEs.
<b>Real Sector and Private Sector Development</b>		
Approval by cabinet of a revised Micro, Small and Medium Enterprise Policy	End-March, 2016	Support inclusive growth through a strengthened framework for SME support.
<b>Financial Sector Development</b>		
Development of a CBS strategy to improve financial literacy	End-September, 2016	Improve financial inclusion.
<b>International Financial Services Sector</b>		
Cabinet approval of a strategy to tackle AML/CFT risks, drawing on the National Risk Assessment.	End-September, 2016	Reduce AML/CFT risks in financial and off-shore sectors.

## 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 2015 and 2016 are listed in Tables 1 and 2 attached to the MEFP, 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 8 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.