Seychelles

The Economic Reform Experience

January 2011
Structure of Presentation

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3. Key economic Indicators
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5. Going forward
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1. General Information and Characteristics

- Archipelago of 115 islands in the Western Indian Ocean
- Population: 88,000

- Economic Characteristics
  - Main economic sectors:
    - Tourism
    - Fisheries
    - Trade
    - Financial services (including offshore centre)
  - Net importing country
  - Vulnerable to external shocks
2. Seychelles’ Road to Economic Collapse

• **Late 1980s:** Planned Economy, with Heavy Government intervention; Welfare State but stable economy largely due to international support

• **Early 1990s:** Major External Shocks hit the Seychelles which required major Expenditure programs:
  – Collapse of Soviet block resulting in major cut in external assistance
  – Return to multiparty democracy and fresh Presidential and Parliamentary Elections
  – Seychelles’ turn to host Indian Ocean Games

• **Mid-1990s until 2008:** Seychelles authorities continued to maintain same social/welfare programs but without international financial support from friendly countries; instead Seychelles would enter over almost two decades of monetization of fiscal deficits. This coincides with a period of slow economic growth, and widening of macro-economic imbalances

• **2008:** Seychelles defaults on external debt commitments vis-à-vis external creditors

• **2008:** Seychelles economy nears collapse; IMF called in and economic reforms began.
Living standards are high and above those in the region and other middle-income countries...

...but large fiscal and current account deficits...

...have led to unsustainable debt....

...accumulation of external arrears and the near exhaustion of foreign reserves.

Recently, external shocks have led to a slowdown in growth...

...and higher commodity prices and exchange rate depreciation have increased inflation.
## 3. Key Economic Indicators

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010²</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP (USD million)</strong></td>
<td>1,020</td>
<td>1,025</td>
<td>928</td>
<td>790</td>
<td>937</td>
</tr>
<tr>
<td><strong>GDP/capita (USD)¹</strong></td>
<td>12,054</td>
<td>12,053</td>
<td>10,671</td>
<td>9,046</td>
<td>10,607</td>
</tr>
<tr>
<td><strong>Real GDP growth (%)</strong></td>
<td>9.3</td>
<td>9.7</td>
<td>-0.9</td>
<td>0.7</td>
<td>6.2</td>
</tr>
<tr>
<td><strong>Unemployment rate (end-of-period)</strong></td>
<td>2.6</td>
<td>1.9</td>
<td>1.0</td>
<td>1.7</td>
<td>2.3³</td>
</tr>
<tr>
<td><strong>Inflation rate (%) (end-of-year)</strong></td>
<td>2.3</td>
<td>16.7</td>
<td>63.3</td>
<td>-2.6</td>
<td>0.4</td>
</tr>
</tbody>
</table>

¹ Estimate  
² Decline in GDP/capita in 2009 reflects the exchange rate devaluation in November 2008  
³ Provisional, as at end November 2010.
4. IMF-Supported Economic Reform Program

- IMF-supported economic reform programme since November, 2008

- **Objective:** To promote macroeconomic stability and sustainable growth.

- **Main components:**
  - Market-Based Monetary Policy framework
  - Liberalized Foreign exchange policy
  - Fiscal policy aimed at attaining sustainability
  - Sustainable public debt
  - Sustainable balance of payments position
  - Structural reforms (incl. Public sector reforms)
• Successful implementation of the Stand-by Arrangement

• Move to Extended Fund Facility (EFF) in December 2009

• Improvement in key economic indicators
  – Stabilized exchange rate
  – Declining interest rate
  – Inflation contained
  – Significantly improved foreign exchange reserves
  – Budgetary surplus
  – Comprehensive Re-scheduling of external debt
  – Improved sovereign rating (confidence)
  – Institutional and Legal framework strengthened
  – Modernization of tax system
Chart 03: Inflation Rate

- 12-Month Average
- Year-on-Year
- Month-on-Month
**Chart 04: Fiscal Balance as Percentage of GDP**

Year

- **Overall Fiscal Balance**
- **Primary Fiscal Balance**

*2010 Data is provisional*
Chart 05: Debt to GDP Ratio

Year | Domestic | External | Total
--- | --- | --- | ---
2006 | 70 | 50 | 120
2007 | 65 | 55 | 120
2008 | 60 | 60 | 120
2009 | 55 | 65 | 120
2010 | 50 | 60 | 110

Percent of GDP
5. Going forward

- EFF aims to:
  - Preserve macroeconomic stability
  - Achieve external sustainability
  - Improve economic efficiency and raise growth through implementation of second generation of structural reforms
6. Second Generation Reforms

- **Tax Reforms**
  - Personal Income Tax (PIT)
  - Value Added Tax (VAT)
  - Business Tax

- **Public Finance Management**

- **Public Enterprise Reforms**

- **Private Sector Development**
  - Business Environment
Thank You!