INTERNATIONAL MONETARY FUND

Staff Country Reports

January 2013
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Seychelles: Sixth Review Under the Extended Arrangement and Request for an Extension of the Arrangement and Augmentation of Access—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Seychelles.

In the context of the sixth review under the Extended Arrangement and request for an extension of the arrangement and augmentation of access, the following documents have been released and are included in this package:

- The staff report for the sixth review under the Extended Arrangement and request for an extension of the arrangement and augmentation of access, prepared by a staff team of the IMF, following discussions that ended on October 26, 2012, with the officials of Seychelles on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 30, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement of November 30, 2012 on Debt Sustainability Analysis.

- A Press Release summarizing the views of the Executive Board as expressed during its December 17, 2012 discussion of the staff report that completed the request and/or review.

- A statement by the Executive Director for Seychelles.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Seychelles*
Memorandum of Economic and Financial Policies by the authorities of Seychelles*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

SEYCHELLES

November 30, 2012

SIXTH REVIEW UNDER THE EXTENDED ARRANGEMENT AND REQUEST FOR AN EXTENSION OF THE ARRANGEMENT AND AUGMENTATION OF ACCESS

KEY ISSUES

Context. Economic growth has held up despite the discontinuation of direct flights from, and challenging economic situation in, Europe—Seychelles' main tourism market. Mid-year inflation and exchange rate pressures are subsiding but continue to challenge monetary policy. A surge in grants is expected to offset falling exports and rising imports of goods and services, leaving the large current account deficit broadly unchanged in 2012.

Focus. Discussions centered on the 2013 budget and policy responses to exchange rate and inflation pressures; VAT rollout and utility tariff reform; and measures to improve oversight and performance of public enterprises.

Program performance. The authorities met all performance criteria and structural benchmarks through end-June 2012, and debt restructuring is nearly complete. However, the economy remains highly vulnerable to external shocks, and some post-June key structural reforms have experienced short delays. An extension and augmentation would help support reserves during this period of uncertainty and provide time to bring critical structural reforms to fruition. Staff recommends completion of the sixth review under the Extended Arrangement, and supports extension of the arrangement by one year and augmentation of access by 60.6 percent of quota.

Policies in the period ahead. There is little scope to relax medium-term fiscal policy given the authorities' objective to bring down public debt below 50 percent of GDP by 2018. Policies in 2013 aim to attenuate balance of payments pressures stemming from declining FDI and strong import demand through fiscal adjustment, providing room for a gradual decline in interest rates from double digit levels. Structural reforms aim to extend improvements in financial discipline to the broader public sector, including through price adjustments that reduce implicit subsidies and through better oversight of parastatals.

Risks. The largest risks to the economic outlook and program performance are external, comprising factors leading to a decline in tourism receipts and/or FDI. Homegrown risks to the program include additional losses of key public enterprises that could jeopardize the government's debt reduction objectives, and implementation glitches associated with VAT rollout, automatic domestic price adjustment and utility tariff reform.

Approved by
Roger Nord and Martin Mühleisen

Discussions were held in Victoria October 17–26, 2012. The staff team comprised Ms. Baker (head), Mr. Roy, Ms. Tartari, and Mr. Culiuc (all AFR). The three-year Extended Arrangement under the Extended Fund Facility (EFF) for SDR 19.8 million (182 percent of quota) expires on December 22, 2012. SDR 18.48 million has been disbursed, and SDR 1.32 million will be available upon completion of this review. The arrangement aims at consolidating macroeconomic stability and external sustainability, and implementing second-generation structural reforms. The authorities are requesting an extension of the arrangement by one year and an augmentation of access by SDR 6.6 million (60.6 percent of quota). Following an augmentation, Seychelles' total Fund credit at end-2013 would be SDR 28.49 million (261 percent of quota).

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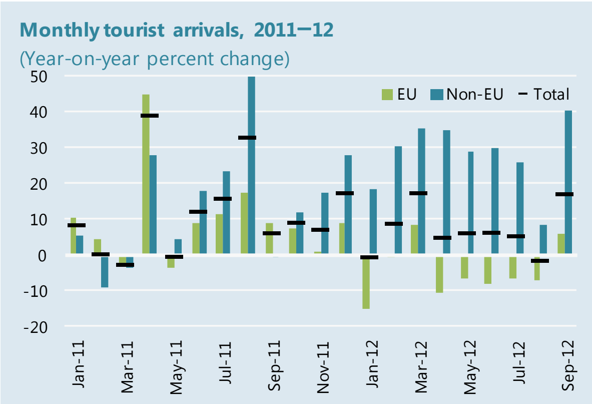
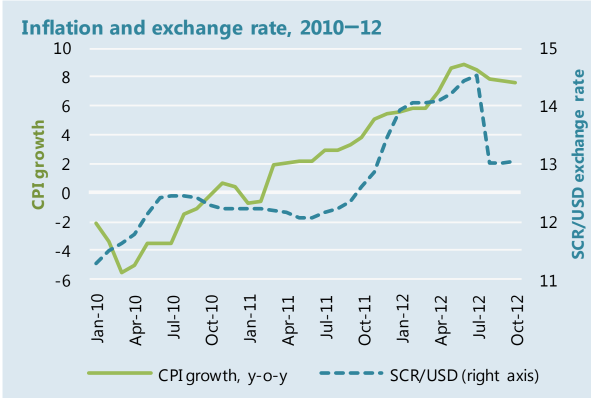
I. RECENT DEVELOPMENTS AND OUTLOOK

Growth in 2012 is holding up despite the challenging global environment, and fiscal policies have remained firmly on track. Policy implementation through September 2012 has been broadly in line with the program, and all quantitative targets were met. Monetary tightening reversed an inflationary uptick, but the foreign exchange market has become uneasy, pointing to the need for strengthening the monetary policy framework.

1. **Resilient growth.** Weakness in tourism arrivals from traditional markets in Europe (France, Italy) has been offset by increases from less-traditional markets (Germany, the Gulf States, Russia). Growth in 2012 is expected to be 2.7 percent, driven by tourism and telecoms following the August coming on stream of the transoceanic fiber-optic cable (table 1).



2. **Recent inflation and exchange rate episodes.** Following a weakening of the current account and adjustments in administered prices in the second half of 2011, a cycle of depreciation and inflation ensued (Box 1). Initial monetary tightening by the Central Bank of Seychelles (CBS) was hampered by delayed monetary transmission. When the CBS again responded, including through two unsterilized interventions in the foreign exchange market, the rupee quickly appreciated and inflation pressures subsided.



3. **Fiscal performance.** The fiscal accounts suffered a hit in the first half of 2012 from the restructuring arrangement for Air Seychelles (see Country report No. 12/260, Box 1), which increased government debt by 2.5 percent of GDP. In mid-2012, this setback was largely reversed through an unexpected revenue windfall related to the sale of d'Arros island.[1] Somewhat higher outlays mostly reflect one-off spending on national security and a modest supplemental budget (table 3). The windfall is expected to be mostly saved, raising the 2012 projected primary surplus to 5.9 percent of GDP (1.6 percent of GDP higher than expected under the program).

4. **External position and debt.** Weak transport services exports (discontinuation of Air Seychelles' direct flights to Europe, losses on Seypec's oil tanker business) and a sustained rise in non-oil, non-FDI merchandise imports through

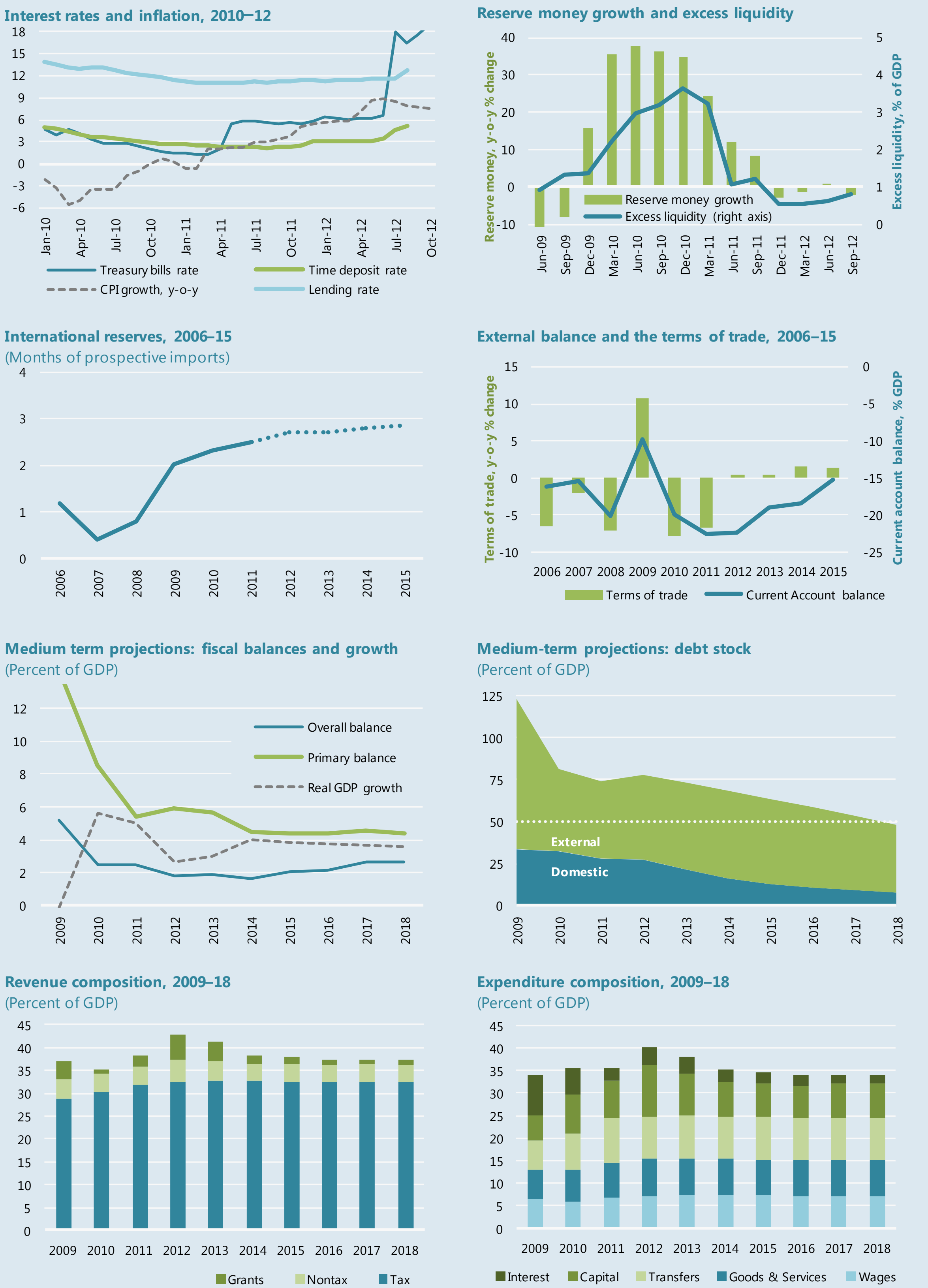
[1] In July 2012 a French national sold d'Arros island—which was at the center of a tax evasion case in France. In the same month the Government of Seychelles received windfall taxes of \$18.5 million: \$8 million in unpaid taxes from the 1998 purchase and \$10.5 million on the 2012 sale.

September led to a deterioration in the balance of goods and services. This is expected to be mainly offset by rising grants. The large current account deficit is forecasted to remain stable and be financed by FDI and project grants. Despite assuming liabilities from Air Seychelles, the end-2012 public debt ratio is projected to be lower than envisioned because of windfall revenues and upward revision of nominal GDP (see DSA). Progress has been made on debt restructuring—all commercial private-sector liabilities have now been restructured, leaving only one bilateral agreement outstanding (MEFP ¶7). In the absence of arrears to external private creditors, a financing assurances review is not required.

5. **Financial sector developments.** The banking system remains solid and continues to maintain healthy capital adequacy ratios (26 percent in June 2012; table 5). Earnings and profitability indicators are also strong (annualized ROE around 40 percent in June), but there has been an uptick in the Non-Performing Loan ratio from 5 percent to 9 percent, which is entirely explained by the restructuring of one development loan which under prudential rules must temporarily be classified as non-performing, despite the fact that it is being serviced.

6. **The macroeconomic outlook for 2013 and beyond is benign, but vulnerable to external developments** (figure 1, table 1). Growth is forecast to average around 3 percent, as tourism continues to diversify into non-traditional markets, and inflation is expected to return to low single digits. Increased utilization of the new transoceanic fiber-optic cable may further buoy growth prospects in the services sector over the medium term, supported by a modest improvement in the terms of trade. Risks to the baseline scenario are broadly balanced (see ¶¶23–24 below).

Figure 1. Seychelles: Macroeconomic developments and projections

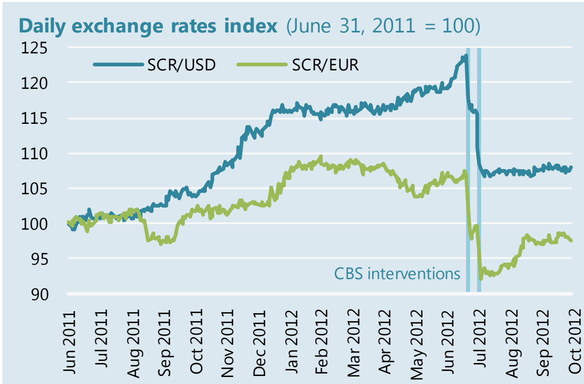


Box 1. Monetary Policy—Response to recent inflation and exchange rate developments

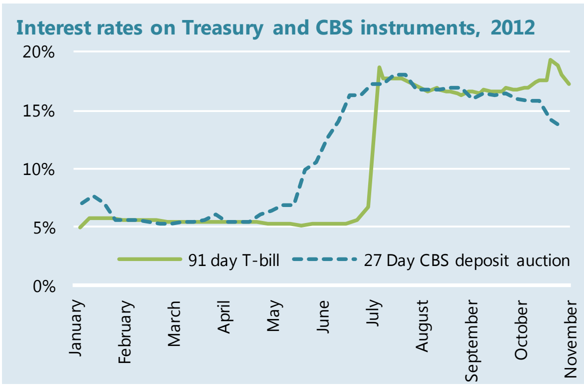
The Central Bank of Seychelles (CBS) successfully responded to recent inflation and exchange rate episodes, but the events highlight the need to strengthen the monetary policy framework and provide signals to shallow markets.

Background: Seychelles has had a freely floating exchange rate since 2008, with no intervention in the foreign exchange market until July 2012. Despite multiple external shocks, the exchange rate remained broadly stable until mid 2011, supported by a primary fiscal surplus and appropriate monetary policy.

In the second half of 2011 the rupee began to depreciate, initially because of current account pressures emanating from lower exports of transportation services as a result of the sale of 40 percent of Air Seychelles to Etihad Airline and cessation of long-haul flights to Europe. During this same period, rising global food and fuel prices started to pass-through to local prices—the overdue, albeit partial, increase in fuel prices and utility tariffs in November combined with the depreciation to put inflation on an upward trend.



Monetary policy response and delayed transmission. Over the ensuing months a confluence of events led to a vicious circle of depreciation and inflation. First, depreciation accelerated in the shallow foreign exchange market (apparently because of a withholding of foreign exchange earnings from the market by exporters and some frontloading of imports in anticipation of the delayed VAT rollout), further fueling inflation. In response, the CBS aptly tightened monetary policy, but the already weak transmission mechanism[1] was further hampered in May-June by a decision by the Treasury not to issue new T-bills, opting instead to use deposits at the CBS for liquidity needs. While interest rates on CBS paper quickly shot up to 19 percent, interest rates on Treasury bills remained below 8 percent. This prompted the CBS to temporarily increase the maturities of its sterilization instruments up to one year. But the divergence of the rates on T-bills and CBS instruments undermined CBS sterilization efforts and delayed the transmission of the policy rate increase to the overall interest-rate structure. At the same time, the CBS stepped up its forex purchases in May and June to meet the NIR target, adding to forex demand. At the beginning of July, major market participants were unable to meet their needs in the market, purchasing forex directly from the CBS.



With the delayed monetary transmission, inflation reached 8.9 percent in June, fueling a bout of rapid depreciation. The CBS again responded, this time with (i) better coordination with Treasury operations, (ii) discontinuing issuance of instruments exceeding 28 days in maturity, and (iii) an unsterilized modest intervention (sale) in the foreign exchange market in July, followed by a second intervention in early August. As a result, inflation moderated to 7.7 percent in August and the rupee quickly appreciated, and has remained fairly steady relative to the dollar absent intervention. Intervention totaled 2.4 percent of end-June reserves.

[1] Structural obstacles to monetary transmission include oligopolistic bank behavior, which deters responsiveness of savings deposits—a key funding base—to the interest rate structure.

II. PROGRAM PERFORMANCE AND THE CASE FOR AN EXTENSION AND AUGMENTATION

Program performance through the sixth review has been satisfactory and the EFF arrangement has been successful in improving performance and macroeconomic management at the central government level. However, the challenging global environment—especially uncertainties regarding Europe—clouds the otherwise benign outlook for 2013. An extension and augmentation would help support reserves during this period of uncertainty and provide time to bring critical structural reforms to fruition.

7. **End-June quantitative performance criteria were observed,** and preliminary data suggest that end-September indicative targets were met (MEFP table 1). The primary surplus exceeded the September program target by the full amount of the tax revenue windfall from the sale of D'Arros Island, while overperformance on NIR was markedly smaller reflecting direct forex sales to the national oil import company during the period of market stress (July) and unsterilized intervention. A tightening of monetary policy left reserve money 6 percent below the target ceiling.

Program performance at end-June 2012

	Performance Citeria [1]	Actual	Status
Net international reserves (floor)	223	225	met
Reserve money (ceiling)	1800	1745	met
Primary balance (floor)	309	423	met
Contracting external debt (ceiling)	30	0	met

[1] Adjusted Performance Criteria for net international reserves

8. **End-June structural benchmarks were also broadly observed**, with the exception of the delayed receipt of the tariff reform study (MEFP table 2). As a result, first reform steps based on the public utility tariff reform study (September 2012 benchmark) have yet to be implemented. Other post-June structural reforms are broadly on track—notably, the Public Sector Investment Program was approved by the cabinet (September) and the Electronic Clearing House System was activated ahead of time (August). However, implementation of the VAT (July 2012) was delayed to January 2013 pending further study of administrative costs, possible unfair competition from registered companies serving local markets, and the potential impact on inflation.

9. **Despite strong program performance, Seychelles remains highly vulnerable to external shocks**, especially in light of still-high debt and relatively low international reserve coverage. Sustained large fiscal primary surpluses will be required over the medium term to bring down debt below 50 percent of GDP. While the accumulation of gross official reserves in 2010 and 2011 exceeded original program projections in dollar terms as well as import coverage, reserve coverage remains below the standard metric of three months of imports.

Gross Official Reserves Projections during the EFF
(million US$)

	2010	2011	2012	2013
EFF Request	202	252	302	...
in months of imports	1.9	2.2	2.5	...
3rd Review	238	240	250	272
in months of imports	2.2	2.4	2.5	2.6
5th Review	254	277	301	328
in months of imports	2.4	2.6	2.8	3.1
New Projection	254	277	296	306
in months of imports	2.3	2.5	2.7	2.7

10. The authorities are requesting a one-year program extension and augmentation of access to lock in the gains to date, make further inroads on key reforms and build policy buffers in the uncertain global environment. An extension and augmentation by 60.6 percent of quota would support the build-up of reserves in 2013, close the identified balance-of-payments gap of about US$10 million, and give the authorities more time to complete the crucial fiscal and structural reforms at the center of the current arrangement (VAT implementation, public utility tariff reform). Fund financial support would also strengthen the CBS' hand at bringing inflation down, as the CBS would need to buy less forex, which under current circumstances could weaken the exchange rate and reignite inflationary pressures.

11. Capacity to repay the Fund remains strong (table 7), with obligations projected to remain low as a share of GDP, total exports and gross reserves. An augmentation of access requires an update safeguards assessment of the CBS, consistent with the Fund's safeguard's policy.

III. POLICIES FOR 2013 AND PROGRAM RISKS

There is little scope to relax medium-term fiscal policy given the authorities' objective to bring down public debt. Macroeconomic policies in 2013 aim to attenuate balance of payments pressures stemming from declining FDI and strong import demand through fiscal adjustment, providing room for a gradual decline in interest rates from double digit levels. Structural reforms are centered around modernizing the tax system and improving the financial performance of the broader public sector.

A. Fiscal Policies

12. In order to attenuate possible balance of payments pressures, the current stance of fiscal policy will be tightened. Achieving the 2018 public debt target of 50 percent GDP requires sustained primary surpluses above 4 percent of GDP (average) through 2018. For 2013, the authorities are targeting a primary surplus of 5.6 percent of GDP. Stripping out the effect of exceptional revenues and one-off expenditure in 2012 and 2013,[2] this represents a structural tightening of 0.6 percent of GDP in 2013 compared to 2012.

13. Revenue will increase as a result of modifications to the tax system (MEFP ¶14–17). Including the revenue neutral VAT rollout, these measures are expected to add around 1 percent of GDP to the bottom line in 2013.

- Introduce a Corporate Social Responsibility tax of 0.5 percent on turnover above SR 1 million to finance local development projects.

[2] One-off events in 2013 with a positive impact on the fiscal balance include postponement of the second phase of the recapitalization of Air Seychelles, exceptional dividends paid by SIBA when its operations are brought on budget, and exceptional dividend by majority state-owned Nouvobanq from the sale of its participation in a smaller commercial bank. On the negative side a European Investment Bank (EIB) loan, originally programmed as government guaranteed debt of the Public Utility Company, was contracted by the government and will be onlent to the parastatal.

- Replace the business tax on small businesses with turnover of less than SR 1 million with a 1.5 percent turnover tax.

- Introduce a 0.5 percent turnover tax mainly on tourism establishments to fund the Seychelles Tourism Board.

- Bring SIBA, the state agency responsible for licensing offshore businesses, on budget (previously SIBA paid dividends).

- Reduce the maximum business tax rate from 33 to 30 percent as part of a medium-term plan to make the tax system more business friendly (lower rates and broader base).

14. Somewhat higher current expenditure is motivated by the drive to reduce the impact on the working poor and vulnerable of increased pass-through of international prices (paragraph 21). Higher public sector wages (MEFP ¶18) and social spending (MEFP ¶19) will be mostly offset by a reduction in other current spending and lower transfers.

- Raise the minimum wage by 6 percent on July 1 to mitigate the impact on low-wage earners of an increase in the price of LPG and price hikes for basic goods imported by the state-owned trading company. This results in an upward adjustment in means-tested and statutory benefits administered by the Agency for Social Protection.

- Bring on budget the subsidy to the public transit company resulting from unchanged bus fares (0.2 percent of GDP). Recognition of the losses is a first step toward securing public buy-in for a fare increase in 2014.

15. The authorities also intend to broaden VAT coverage. They plan to reduce the turnover threshold for mandatory VAT registration from SR 5 million in 2013 to SR 3 million in 2014 and SR 2 million in 2015.

16. Staff broadly supports the thrust of fiscal policy for 2013. While recognizing the importance of strengthening public service provision, especially in the social and security areas, staff cautions against introducing structural rigidities into the budget, which may arise from a rapid increase in the wage bill. Moreover, staff encourages stronger efforts be made to understand and address tax evasion and transfer pricing by companies operating in Seychelles, and to avoid recourse to second best solutions.

B. Monetary and Exchange Rate Policies

17. With inflation subsiding, there is room to gradually relax the tight monetary policy stance. This will be supported by CBS' efforts to expand its anti-inflationary toolkit, including through (i) improved and more frequent communication, (ii) making its interest rate policies more effective and (iii) finetuning its presence in the foreign exchange market. That said, monetary policy will continue to face challenges in 2013 that will require heightened vigilance and measures to strengthen the monetary policy framework. A first step is to ensure that the long end of the yield curve conveys useful information on the CBS' expected path for inflation. As reserve money is relaxed from currently very tight levels, the CBS needs to carefully monitor potential impacts on the foreign exchange market, and hence inflation.

18. The CBS should stand ready to provide price signals to the foreign exchange market, while continuing to accumulate reserves. The floating exchange rate was instrumental in restoring external stability and establishing

independence of monetary policies after the 2008 crisis. As has become apparent over the past four years, the shallowness of the foreign exchange market compels the central bank to occasionally give price signals by sporadic interventions. But, given the structure of the central bank's foreign-exchange cash flow, purchases in the market are also needed for steadily increasing the CBS' reserves coverage. The potential tension between these two objectives can be reconciled by keeping the amounts for price-signaling interventions small, while at the same time increasing reserves mainly through opportunistic forex purchases during temporary inflow surges.

C. Financial Sector Policies

19. The CBS is advancing its work program to enhance financial system infrastructure and banking supervision. Preparations to introduce a real-time gross-settlement (RTGS) payment system in 2014 are well under way. The transition toward risk-based banking supervision will continue, supported by TA from the Fund, including through the inclusion of banks' annual business plans in the supervisory process, and the integration of the CAELS rating system in the reporting system. The Development Bank of Seychelles will resume lending under its new mandate, funded by a European Investment Bank loan (€5 million), and will revamp its ownership framework as to eventually attract new shareholders, including through the new local stock market (MEFP ¶42).

D. Structural Reforms

20. The authorities intend to improve financial performance of parastatals through introducing automatic adjustment of domestic prices, rebalancing public utility tariffs, and improving oversight. As previously noted, their overarching objective is to move to cost-recovery while protecting the vulnerable.

- **Automatic price adjustment.** Building on recent ad hoc adjustments, in August the prices of domestic petroleum products were raised to cost recovery levels and an automatic price adjustment mechanism was adopted. In 2013 a system of indexation will be applied to utility prices (MEFP ¶11), and the price of LPG for residential consumers will be raised in stages (MEFP ¶13), completely eliminating the LPG subsidy by early 2014.

- **Rebalancing utility tariffs.** PUC's current tariff structure is characterized by heavy cross-subsidization of residential customers by commercial and government users.[3] The authorities intend to draft a tariff rebalancing plan in early 2013, which will be adopted by the Cabinet by end March (structural benchmark) and implemented beginning July 2013 (MEFP ¶11, structural benchmark).

- **Improved oversight**. Restructuring of Air Seychelles is advanced (MEFP ¶12), and some initial steps have been taken to address Seypec losses on its oil tanker freight business (MEFP ¶13). The latest audit of the PUC has revealed a number of weaknesses in

[3] According to the recent utility tariff study, in order to reach cost-recovery levels, average tariffs need to increase some 50 percent for water and 100 percent for sewerage, but less than 10 percent for electricity. However, the electricity tariff for the lowest consumption bracket needs to double.

management and investment quality. The Ministry of Finance (MOF) is strengthening and streamlining parastatals' legal disclosure requirements, and a committee is reviewing large investment projects of state owned enterprises. Capacity of the Public Enterprise Monitoring Division (PEMD) of the MOF is being strengthened prior to its conversion into a Commission in 2013 (MEFP ¶49).

21. Reform momentum for improvements in PFM appears to be gathering (MEFP ¶¶27–29). Following extensive delays, the National Assembly approved the PFM Act in November 2012; preparations are underway for a pilot of Performance Base Budgeting in 2014; and work continues toward adopting international accounting standards.

22. The government is laying the groundwork for a fiscal framework to manage oil revenues and wealth (MEFP ¶50). Technical assistance is being provided in various areas, including the auction process (World Bank) and oil fiscal regime (IMF).

E. Risks to the Program

23. External risks to the program mirror risks to the outlook and are centered around the uncertain global environment. Under an extreme downside scenario, a decrease in tourism arrivals by 7 percent in 2013 (compared to 3 percent growth under to the baseline) would reduce GDP growth down to zero, and worsen the overall balance of payments by nearly 2 percent of GDP. Under unchanged policies, a reduction in the supply of foreign exchange could precipitate a renewed depreciation-inflation spiral. Lower fiscal revenue under this scenario would reduce the primary fiscal balance by around 1¼ percent of GDP. The probability of such a scenario is low, however. Over the past two years tourism flows have shown a strong resilience to the economic slowdown in Europe, including through diversification into other markets. On the upside, better-than-expected tourism receipts from new markets in Asia and reversal of the expected decline in FDI and grants would improve the balance of payments.

24. Homegrown risks to the program mostly pose risks to debt reduction objectives. In addition to risks posed by possible contingent liabilities or further losses by key public enterprises, large infrastructure investment needs could lead the authorities to take on increasing external debt and jeopardize debt sustainability. Increases in public utility tariffs to cost recovery levels and improved oversight of parastatals are expected to mitigate the risk to performance. At the same time, it is imperative that the government exercise prudence with regard to negotiating loan agreements by first assessing the impact on debt sustainability. Favorable changes in the terms of trade and/or commodity prices, and improvements in the outlook for traditional tourism markets are upside risks, as are prospective oil discoveries.[4]

[4] Recent petroleum discoveries in the East Africa offshore region and seismic tests indicate the possible presence of hydrocarbon in Seychelles' large economic zone. Two license areas are currently being explored, and a new licensing round is planned for 2013.

IV. STAFF APPRAISAL

25. The near-term outlook is benign, but the small island economy remains highly vulnerable to external shocks. Growth has been resilient, with tourism from less-traditional markets offsetting weakness in traditional European arrivals. Monetary tightening is gradually bringing down inflation emanating from higher energy prices and exchange rate depreciation in the first half of the year, although the external position is somewhat tenuous.

26. Sustained satisfactory performance under the EFF-supported program has strengthened fiscal discipline of the central government. The authorities met all end-June quantitative benchmarks, in some cases by a significant margin, and debt restructuring is nearly complete. While international reserves accumulation has been in line with program targets, rising debt service and the challenging global environment signal potential headwinds to increasing reserve coverage.

27. The macroeconomic policy mix for the period ahead is appropriate and consistent with falling public debt over the medium term. The tightening of fiscal policy should preempt potential balance of payments pressures, providing scope to loosen monetary policy, while keeping a close eye on developments in the foreign exchange market. Intervention policies should continue to be consistent with a trend accumulation of reserves, opportunistically purchasing forex during temporary inflow surges to enhance reserves coverage.

28. Implementation of the structural reform agenda should continue apace. The expected minor delay in VAT implementation will have little impact on the broader reform process, and the recently completely utility tariff study will inform the rebalancing of electricity tariffs in the period ahead. Recent ad hoc price adjustments and the introduction of an automatic price adjustment mechanism for fuel are welcome first steps toward cost recovery pricing. Broadening these reforms to all sectors will reduce the implicit subsidies negatively affecting the financial performance of parastatals. This, together with strengthened oversight of public enterprises, will extend gains in financial discipline beyond the central government.

29. To lock in recent progress in debt restructuring, staff urges prudence in the contracting of new debt. Staff welcomes the authorities' best efforts to conclude outstanding debt negotiations with the remaining bilateral creditor, and encourages the authorities to assess the impact of any potential new loan on debt sustainability prior to reaching agreement.

30. Staff recommends the completion of the sixth review under the Extended Arrangement and the associated purchase of an amount equivalent to SDR 1.32 million. Staff also supports the authorities' request for a one-year extension and augmentation of access by 60.6 percent of quota. Given the authorities' desire to remain closely engaged with the Fund and the uncertainty surrounding the period ahead, an extension of the program represents a measured approach.

Table 1. Seychelles: Selected Economic and Financial Indicators, 2010–15

	2010	2011	2012		2013	2014	2015
		Est.	Prog.	Proj.	Proj.	Proj.	Proj.
National income and prices	(Percentage change, unless otherwise indicated)						
Nominal GDP (millions of Seychelles rupees)	11,746	13,119	13,564	14,159	15,055	16,218	17,393
Real GDP	5.6	5.0	2.8	2.7	3.0	4.0	3.8
CPI (annual average)	-2.4	2.6	7.3	7.2	5.1	3.3	3.0
CPI (end-of-period)	0.4	5.5	6.5	6.7	4.1	3.3	3.0
GDP deflator average	-3.6	6.4	5.1	5.1	3.2	3.6	3.3
Money and credit	(Percentage change, unless otherwise indicated)						
Net claims on private sector	21.4	6.2	6.7	1.7	13.2	8.8	5.4
Broad money	13.5	4.5	4.4	-2.7	1.6	5.4	7.2
Reserve money	34.7	-2.7	8.9	13.0	6.3	5.4	7.2
Velocity (GDP/broad money)	1.6	1.7	1.7	1.9	2.0	2.0	2.0
Money multiplier (broad money/reserve money)	4.2	4.5	4.3	3.9	3.7	3.7	3.7
Savings-Investment balance	(Percent of GDP)						
External savings	19.9	22.5	21.2	22.4	18.9	18.4	15.3
Gross national savings	16.7	12.6	15.2	16.4	16.0	13.2	13.3
Of which: government savings	7.8	10.6	10.7	13.6	12.0	10.6	10.7
Gross investment	36.6	35.1	36.3	38.8	34.9	31.6	28.7
Of which: government investment	8.6	8.1	9.3	11.8	9.5	8.2	8.0
Government budget							
Total revenue, excluding grants	34.1	35.8	36.6	37.2	36.9	36.2	36.2
Expenditure and net lending	32.5	35.7	39.7	41.0	39.3	36.6	35.8
Current expenditure	27.2	27.6	29.8	29.6	29.5	28.0	27.4
Capital expenditure and net lending	5.3	8.1	9.3	11.3	9.8	8.6	8.4
Overall balance, including grants	2.5	2.5	0.8	1.8	1.8	1.7	2.0
Primary balance	8.6	5.4	4.5	5.9	5.6	4.5	4.4
Total public debt	81.6	74.3	81.7	78.1	73.6	68.7	63.6
Domestic [1]	32.5	28.0	27.7	27.4	21.6	16.1	12.7
External	49.1	46.2	54.0	50.7	52.0	52.5	50.9
External sector	(Percent of GDP, unless otherwise indicated)						
Current account balance including official transfers	-19.9	-22.5	-21.2	-22.4	-18.9	-18.4	-15.3
Total stock of arrears (millions of U.S. dollars)	30.3	9.0	...	...	...	...	...
Total public external debt outstanding (millions of U.S. dollars)	478	490	515	520	566	605	621
(percent of GDP)	49.1	46.2	54.0	50.7	52.0	52.5	50.9
Terms of trade (= - deterioration)	-7.8	-7	-1.5	0.4	0.5	1.5	1.3
Real effective exchange rate (average, percent change)	4.4	-7	...	...	...	...	...
Gross official reserves (end of year, millions of U.S. dollars)	254	277	301	296	306	322	344
Months of imports, c.i.f.	2.3	2.5	2.8	2.7	2.7	2.8	2.9
Exchange rate							
Seychelles rupees per US$1 (end of period)	12.1	13.7	...	...	...	...	...
Seychelles rupees per US$1 (period average)	12.1	12.4	...	...	...	...	...

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

[1] Excludes debt issued in 2012 for monetary purposes (5.4 percent of GDP), as proceeds are kept in a blocked account with the Central Bank.

Table 2. Seychelles: Balance of Payments, 2010–15

(Millions of U.S. dollars)

	2010	2011	2012		2013	2014	2015
		Est.	Prog.	Proj.	Proj.	Proj.	Proj.
Current account	-193	-239	-202	-230	-206	-211	-186
(percent of GDP)	-19.9	-22.5	-21.2	-22.4	-18.9	-18.4	-15.3
Balance of goods and services	-171	-225	-174	-263	-211	-210	-183
Exports of goods	400	477	516	499	517	529	544
Of which: oil re-exports	158	194	215	200	204	204	205
Of which: tuna exports	210	242	249	249	259	270	281
Imports of goods	-733	-893	-880	-918	-892	-921	-923
Of which: oil imports	-218	-255	-323	-269	-284	-302	-310
FDI-related imports	-164	-146	-132	-115	-102	-96	-97
other	-352	-492	-426	-535	-507	-523	-515
Exports of services	592	617	586	567	585	622	662
Of which: tourism earnings	274	291	304	305	317	335	354
Imports of services	-430	-426	-396	-411	-422	-440	-465
Income, net	-47	-50	-43	-35	-35	-37	-38
Of which: interest due [1]	-24	-15	-18	-13	-16	-18	-20
transfers of profits and dividends	-6	-19	-11	-6	-6	-7	-7
Current transfers, net	25	36	15	68	40	36	35
Of which: general government, net	26	29	8	52	18	12	10
Capital and financial account	494	221	221	224	214	231	211
Capital account	275	68	29	62	36	19	17
Of which: debt forgiveness	267	0	0	0	0	0	0
Financial account	219	153	193	162	178	212	194
Direct investment, net	213	187	170	147	130	131	133
Portfolio investment, net [1]	10	-18	20	11	15	17	17
Other investment, net	-3	-16	2	3	34	64	45
Government and government-guaranteed	19	10	8	8	21	23	1
Disbursements	48	12	22	19	37	42	26
Project loans	20	12	15	12	20	25	26
Program loans	28	0	7	7	17	17	0
Amortization	-46	-10	-14	-11	-16	-18	-25
Private sector [2]	-22	-50	9	11	29	50	34
Net errors and omissions	-34	27	0	21	0	0	0
Overall balance	267	9	19	14	8	19	25
Financing	-267	-9	-19	-14	-8	-19	-25
Change in net international reserves (increase: –)	-43	-17	-19	-14	-8	-19	-25
Change in gross official reserves (increase: –)	-58	-23	-25	-20	-10	-16	-22
Liabilities to IMF, net	13	6	6	6	2	-4	-3
Other net foreign assets (increase: –)	10	0	0	0	0	0	0
Exceptional financing	-234	8	0	0	0	0	0
Change in arrears (increase: +)	-234	8	0	0	0	0	0
Clearance of arrears	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0
Memorandum items:							
Exports G&S growth, percent	-3.9	10.2	0.9	-2.6	3.5	4.4	4.7
Tourism growth, percent	7.0	6.1	4.5	4.9	3.9	5.6	5.6
Imports G&S growth, percent	4.3	13.3	-1.5	0.8	-1.1	3.6	2.0
Exports G&S, percent of GDP	102	103	115	104	101	100	99
Imports G&S, percent of GDP	120	124	134	129	121	118	114
FDI (incl. loans), US$ million	213	187	170	147	130	131	133
FDI (incl. loans), percent of GDP	21.8	17.7	17.8	14.4	11.9	11.4	10.9
Gross international reserves (stock, e.o.p.)	254	277	301	296	306	322	344
Of which: program definition [3]	238	254	269	265	275	290	312
(Months of imports of goods & services)	2.3	2.5	2.8	2.7	2.7	2.8	2.9
Scheduled public external debt service	72	22	27	25	31	36	46
(Percent of exports of goods & services)	7.3	2.0	2.3	2.3	2.8	3.2	3.8
Public and publicly guaranteed external debt [4]	478	490	515	520	566	605	621
(Percent of GDP)	49.1	46.2	54.0	50.7	52.0	52.5	50.9
GDP	973	1,060	954	1,027	1,090	1,151	1,218

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

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

[2] Includes parastatals for which data are available.

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

[4] Includes outstanding IMF credit.

Table 3. Seychelles: Consolidated Government Operations, 2010–15[1]
(Millions of Seychelles rupees; cumulative from the start of the year)

	2010	2011	2012							2013				2014	2015
			Q1	Q2		Q3		Q4		Q1	Q2	Q3	Q4		
				Prog.	Act.	Prog.	Act.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	4,108	5,014	1,316	2,518	2,610	3,900	4,417	5,490	6,051	1,544	2,967	4,512	6,193	6,209	6,580
Total revenue	4,008	4,695	1,178	2,342	2,371	3,632	3,878	4,970	5,263	1,269	2,603	4,021	5,551	5,875	6,294
Tax	3,533	4,165	982	2,035	2,069	3,176	3,359	4,390	4,573	1,067	2,230	3,537	4,923	5,275	5,650
Personal income tax	195	612	170	331	338	484	514	666	686	181	374	557	752	803	861
Social security tax	220	…	…	…	…	…	…	…	…	…	…	…	…	…	…
Trade tax	356	421	94	204	200	320	300	450	415	104	204	311	429	459	490
Excise tax	580	727	180	362	360	544	545	741	744	179	370	561	768	824	882
Goods and services tax (GST) / VAT [2]	1,047	1,208	327	690	698	1,051	1,070	1,449	1,485	340	700	1,130	1,595	1,718	1,846
Business tax	790	893	141	321	324	594	579	770	770	177	399	696	922	979	1,042
Other	346	304	70	126	149	182	351	314	474	85	183	282	457	492	528
Nontax	474	530	196	308	301	456	519	580	689	203	373	484	628	600	644
Fees and charges	191	306	50	110	104	168	288	226	342	53	108	178	234	252	270
Dividends from parastatals	206	161	131	171	171	245	189	292	282	138	241	266	330	279	299
Other	77	63	15	26	26	42	43	62	65	13	24	41	64	69	74
External grants	101	319	138	176	239	268	539	520	788	274	364	490	642	334	286
Expenditure and net lending	3,815	4,689	1,217	2,465	2,388	3,894	4,019	5,381	5,800	1,570	2,831	4,234	5,915	5,941	6,230
Current expenditure [3]	3,194	3,620	959	1,956	1,832	2,977	2,900	4,047	4,121	1,047	2,048	3,133	4,389	4,489	4,715
Primary current expenditure	2,482	3,236	830	1,695	1,633	2,552	2,457	3,546	3,535	884	1,772	2,694	3,817	4,032	4,309
Wages and salaries	693	891	227	496	476	763	715	1,035	1,023	281	561	843	1,129	1,204	1,276
Goods and services	843	999	204	451	471	731	759	1,118	1,164	220	493	789	1,212	1,287	1,380
Transfers	935	1,330	390	735	672	1,042	965	1,374	1,326	365	696	1,037	1,448	1,512	1,621
Social program of central government	233	266	54	137	122	224	194	318	300	76	164	253	355	410	440
Transfers to public sector from central government	349	727	247	437	374	571	508	730	685	195	343	500	715	694	745
Benefits and programs of Social Security Fund	353	338	89	161	175	247	263	326	340	95	189	284	378	407	437
Other	12	15	9	13	15	16	18	19	22	18	23	26	28	30	32
Interest due	712	384	129	261	199	425	443	501	586	163	276	439	572	457	406
Foreign interest	402	137	48	72	65	144	158	170	188	68	86	154	193	234	268
Domestic interest	310	247	81	189	134	281	286	331	398	95	190	285	380	224	138
Capital expenditure	1,009	1,060	228	471	489	868	1,040	1,267	1,601	389	639	948	1,380	1,274	1,333
Net lending	-389	9	3	1	8	-4	5	-8	4	122	119	115	97	128	132
Contingency	0	0	28	38	59	53	73	75	75	13	25	38	50	50	50
Primary balance	1,006	709	227	314	420	431	841	610	837	136	412	717	850	725	757
Using definition from 5th Review [3]	1,006	709	227	314	420	431	841	610	837	131	400	699	827	701	731
Overall balance, commitment basis [4]	293	325	99	53	221	6	398	109	251	-26	136	278	278	268	350
Change in arrears	-3	16	0	0	0	0	0	0	0	0	0	0	0	0	0
External interest	90	27	0	0	0	0	0	0	0	0	0	0	0	0	0
Budget	-92	-11	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in float		-217	0	0	-64	0	0	0	0	0	0	0	0	0	0
Overall balance, cash basis (after grants)	291	124	99	53	157	6	398	109	251	-26	136	278	278	268	350
Financing	-291	-124	-99	-53	-157	-6	-398	-109	-251	26	-136	-278	-278	-268	-350
Foreign financing	236	2	-5	9	-13	83	-9	108	110	166	111	110	286	326	17
Disbursements	584	83	12	76	22	174	43	309	260	183	217	242	512	586	368
Project loans	247	83	12	76	22	174	43	209	163	183	217	242	277	346	368
Program/budget support	337	0	0	0	0	0	0	100	97	0	0	0	235	239	0
Scheduled amortization	-554	-126	-16	-67	-35	-91	-52	-201	-149	-17	-106	-132	-226	-260	-351
Change in amortization arrears	-2,811	44	0	0	0	0	0	0	0	0	0	0	0	0	0
Clearance of arrears	3,017	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Debt service relief	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Domestic financing, net [5]	-701	-177	-150	-130	-152	-182	-463	-373	-471	-157	-282	-441	-634	-632	-405
Bank financing	-346	-181	-137	242	-73	337	-602	-336	-589	-141	-254	-397	-571	-569	-365
CBS	-131	45	-309	-559	-220	-759	-1,104	-959	-1,146	0	0	0	0	0	0
CBS recapitalization	188	…	…	…	…	…	…	…	…	…	…	…	…	…	…
Commercial banks	-403	-226	172	800	147	1,096	502	623	557	-141	-254	-397	-571	-569	-365
Nonbank financing	-355	4	-14	-13	-79	-18	139	-37	118	-16	-28	-44	-63	-63	-41
Privatization and long-term lease of fixed assets	156	99	7	14	69	39	77	102	113	18	35	53	70	38	38
Statistical discrepancy	18	-47	49	53	-61	53	-3	53	-3	0	0	0	0	0	0
Fiscal financing gap	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum item:															
Pension Fund contribution	…	67	22	46	49	72	76	92	102	26	51	77	102	109	115
Pension Fund benefits payment	…	78	23	46	48	71	73	88	94	25	49	74	98	103	107
Pension Fund operating expenses [3]										5	12	17	23	24	25
External debt service due	957	263	64	139	100	234	209	371	338	85	192	286	419	493	619

Sources: Seychelles authorities and IMF staff estimates and projections.

[1] Includes the central government and the social security system.

[2] VAT replaces GST in January 2013.

[3] From 2013 Pension Fund operating expenses (wages, purchases pf goods and services) are excluded from the current expenditure and reported as memorandum item.

[4] Only interest payments on foreign debt are on a commitment basis. Other expenditures are recorded when checks are issued or transfers initiated.

[5] Includes one-off operations in 2011: repayment of recently recognized domestic obligation (SR 90 million) and the increase in IMF quota (SR 10 million).

Table 3. Seychelles: Consolidated Government Operations, 2010–15[1] (continued)
(Percent of GDP; cumulative from the start of the year)

	2010	2011	2012							2013				2014	2015
			Q1	Q2		Q3		Q4		Q1	Q2	Q3	Q4		
				Prog.	Act.	Prog.	Act.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	35.0	38.2	9.3	18.6	18.4	28.8	31.2	40.5	42.7	10.3	19.7	30.0	41.1	38.3	37.8
Total revenue	34.1	35.8	8.3	17.3	16.7	26.8	27.4	36.6	37.2	8.4	17.3	26.7	36.9	36.2	36.2
Tax	30.1	31.8	6.9	15.0	14.6	23.4	23.7	32.4	32.3	7.1	14.8	23.5	32.7	32.5	32.5
Personal income tax	1.7	4.7	1.2	2.4	2.4	3.6	3.6	4.9	4.8	1.2	2.5	3.7	5.0	5.0	5.0
Social security tax	1.9	…	…	…	…	…	…	…	…	…	…	…	…	…	…
Trade tax	3.0	3.2	0.7	1.5	1.4	2.4	2.1	3.3	2.9	0.7	1.4	2.1	2.8	2.8	2.8
Excise tax	4.9	5.5	1.3	2.7	2.5	4.0	3.8	5.5	5.3	1.2	2.5	3.7	5.1	5.1	5.1
Goods and services tax (GST) / VAT [2]	8.9	9.2	2.3	5.1	4.9	7.7	7.6	10.7	10.5	2.3	4.7	7.5	10.6	10.6	10.6
Business tax	6.7	6.8	1.0	2.4	2.3	4.4	4.1	5.7	5.4	1.2	2.7	4.6	6.1	6.0	6.0
Other	2.9	2.3	0.5	0.9	1.0	1.3	2.5	2.3	3.3	0.6	1.2	1.9	3.0	3.0	3.0
Nontax	4.0	4.0	1.4	2.3	2.1	3.4	3.7	4.3	4.9	1.3	2.5	3.2	4.2	3.7	3.7
Fees and charges	1.6	2.3	0.4	0.8	0.7	1.2	2.0	1.7	2.4	0.3	0.7	1.2	1.6	1.6	1.6
Dividends from parastatals	1.8	1.2	0.9	1.3	1.2	1.8	1.3	2.2	2.0	0.9	1.6	1.8	2.2	1.7	1.7
Other	0.7	0.5	0.1	0.2	0.2	0.3	0.3	0.5	0.5	0.1	0.2	0.3	0.4	0.4	0.4
External grants	0.9	2.4	1.0	1.3	1.7	2.0	3.8	3.8	5.6	1.8	2.4	3.3	4.3	2.1	1.6
Expenditure and net lending	32.5	35.7	8.6	18.2	16.9	28.7	28.4	39.7	41.0	10.4	18.8	28.1	39.3	36.6	35.8
Current expenditure	27.2	27.6	6.8	14.4	12.9	21.9	20.5	29.8	29.1	7.0	13.6	20.8	29.2	27.7	27.1
Primary current expenditure	21.1	24.7	5.9	12.5	11.5	18.8	17.4	26.1	25.0	5.9	11.8	17.9	25.4	24.9	24.8
Wages and salaries	5.9	6.8	1.6	3.7	3.4	5.6	5.1	7.6	7.2	1.9	3.7	5.6	7.5	7.4	7.3
Goods and services	7.2	7.6	1.4	3.3	3.3	5.4	5.4	8.2	8.2	1.5	3.3	5.2	8.0	7.9	7.9
Transfers	8.0	10.1	2.8	5.4	4.7	7.7	6.8	10.1	9.4	2.4	4.6	6.9	9.6	9.3	9.3
Social program of central government	2.0	2.0	0.4	1.0	0.9	1.7	1.4	2.3	2.1	0.5	1.1	1.7	2.4	2.5	2.5
Transfers to public sector from central government [3]	3.0	5.5	1.7	3.2	2.6	4.2	3.6	5.4	4.8	1.3	2.3	3.3	4.7	4.3	4.3
Benefits and programs of Social Security Fund	3.0	2.6	0.6	1.2	1.2	1.8	1.9	2.4	2.4	0.6	1.3	1.9	2.5	2.5	2.5
Other	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.2
Interest due	6.1	2.9	0.9	1.9	1.4	3.1	3.1	3.7	4.1	1.1	1.8	2.9	3.8	2.8	2.3
Foreign interest	3.4	1.0	0.3	0.5	0.5	1.1	1.1	1.3	1.3	0.4	0.6	1.0	1.3	1.4	1.5
Domestic interest	2.6	1.9	0.6	1.4	0.9	2.1	2.0	2.4	2.8	0.6	1.3	1.9	2.5	1.4	0.8
Capital expenditure	8.6	8.1	1.6	3.5	3.5	6.4	7.3	9.3	11.3	2.6	4.2	6.3	9.2	7.9	7.7
Net lending	-3.3	0.1	0.0	0.0	0.1	0.0	0.0	-0.1	0.0	0.8	0.8	0.8	0.6	0.8	0.8
Contingency	0.0	0.0	0.2	0.3	0.4	0.4	0.5	0.6	0.5	0.1	0.2	0.2	0.3	0.3	0.3
Primary balance	8.6	5.4	1.6	2.3	3.0	3.2	5.9	4.5	5.9	0.9	2.7	4.8	5.6	4.5	4.4
Using definition from 5th Review [3]	8.6	5.4	1.6	2.3	3.0	3.2	5.9	4.5	5.9	0.9	2.7	4.6	5.5	4.3	4.2
Overall balance, commitment basis [4]	2.5	2.5	0.7	0.4	1.6	0.0	2.8	0.8	1.8	-0.2	0.9	1.8	1.8	1.7	2.0
Change in arrears	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External interest	0.8	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Budget	-0.8	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in float	0.0	-1.7	0.0	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis (after grants)	2.5	0.9	0.7	0.4	1.1	0.0	2.8	0.8	1.8	-0.2	0.9	1.8	1.8	1.7	2.0
Financing	-2.5	-0.9	-0.7	-0.4	-1.1	0.0	-2.8	-0.8	-1.8	0.2	-0.9	-1.8	-1.8	-1.7	-2.0
Foreign financing	2.0	0.0	0.0	0.1	-0.1	0.6	-0.1	0.8	0.8	1.1	0.7	0.7	1.9	2.0	0.1
Disbursements	5.0	0.6	0.1	0.6	0.2	1.3	0.3	2.3	1.8	1.2	1.4	1.6	3.4	3.6	2.1
Project loans	2.1	0.6	0.1	0.6	0.2	1.3	0.3	1.5	1.2	1.2	1.4	1.6	1.8	2.1	2.1
Program/budget support	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.7	0.0	0.0	0.0	1.6	1.5	0.0
Scheduled amortization	-4.7	-1.0	-0.1	-0.5	-0.2	-0.7	-0.4	-1.5	-1.1	-0.1	-0.7	-0.9	-1.5	-1.6	-2.0
Change in amortization arrears	-23.9	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Clearance of arrears	25.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt service relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing, net [5]	-6.0	-1.3	-1.1	-1.0	-1.1	-1.3	-3.3	-2.7	-3.3	-1.0	-1.9	-2.9	-4.2	-3.9	-2.3
Bank financing	-2.9	-1.4	-1.0	1.8	-0.5	2.5	-4.2	-2.5	-4.2	-0.9	-1.7	-2.6	-3.8	-3.5	-2.1
CBS	-1.1	0.3	-2.2	-4.1	-1.6	-5.6	-7.8	-7.1	-8.1	0.0	0.0	0.0	0.0	0.0	0.0
CBS recapitalization	1.6	…	…	…	…	…	…	…	…	…	…	…	…	…	…
Commercial banks	-3.4	-1.7	1.2	5.9	1.0	8.1	3.5	4.6	3.9	-0.9	-1.7	-2.6	-3.8	-3.5	-2.1
Nonbank	-3.0	0.0	-0.1	-0.1	-0.6	-0.1	1.0	-0.3	0.8	-0.1	-0.2	-0.3	-0.4	-0.4	-0.2
Privatization and long-term lease of fixed assets	1.3	0.8	0.1	0.1	0.5	0.3	0.5	0.8	0.8	0.1	0.2	0.4	0.5	0.2	0.2
Statistical discrepancy	0.2	-0.4	0.3	0.4	-0.4	0.4	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:															
Nominal GDP	11,746	13,119	14,159	13,564	14,159	13,564	14,159	13,564	14,159	15,055	15,055	15,055	15,055	16,218	17,393
Pension Fund contribution	…	0.5	0.2	0.3	0.3	0.5	0.5	0.7	0.7	0.2	0.3	0.5	0.7	0.7	0.7
Pension Fund benefits payment	…	0.6	0.2	0.3	0.3	0.5	0.5	0.7	0.7	0.2	0.3	0.5	0.7	0.6	0.6
Pension Fund operating expenses [3]										0.0	0.1	0.1	0.2	0.1	0.1
Public domestic debt (% GDP)	32.5	28.0	27.3	31.3	26.7	31.9	32.3	33.6	32.8	29.8	29.0	27.9	26.7	16.1	12.7
Excl. t-bills issued for monetary purposes	…	…	26.2	28.3	24.1	26.0	26.6	27.7	27.4	24.7	23.9	22.9	21.6	16.1	12.7
Publicly guaranteed domestic debt (% GDP)	2.1	2.4	1.0	1.1	1.0	1.1	1.0	1.1	1.0	0.0	0.9	0.9	0.9	0.7	0.0

Sources: Seychelles authorities and IMF staff estimates and projections.

[1] Includes the central government and the social security system.

[2] VAT replaces GST in January 2013.

[3] From 2013 Pension Fund operating expenses (wages, purchases pf goods and services) are excluded from the current expenditure and reported as memorandum item.

[4] Only interest payments on foreign debt are on a commitment basis. Other expenditures are recorded when checks are issued or transfers initiated.

[5] Includes one-off operations in 2011: repayment of recently recognized domestic obligation (SR 90 million) and the increase in IMF quota (SR 10 million).

Table 4. Seychelles: Monetary Survey and Central Bank Accounts, 2010–13

	2010	2011	2012							2013			
			Mar.	June		Sep.		Dec.		Mar.	June	Sep.	Dec.
			Act.	Prog.	Act.	Prog.	Act.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Monetary survey													
Net foreign assets	3,644	4,450	4,929	4,978	5,058	4,981	4,708	5,155	4,901	5,034	5,112	5,211	5,362
Central bank	2,709	3,303	3,536	3,569	3,643	3,560	3,352	3,724	3,485	3,563	3,574	3,609	3,696
Deposit money banks	935	1,147	1,393	1,409	1,415	1,421	1,356	1,430	1,416	1,470	1,538	1,602	1,666
Net domestic assets	3,622	3,145	2,886	2,754	2,818	2,751	2,572	2,774	2,491	2,513	2,352	2,267	2,145
Domestic credit	5,652	5,657	5,563	5,486	5,609	5,516	5,130	5,547	5,167	5,249	5,150	5,109	5,037
Net claims on the government	2,567	2,380	2,249	2,627	2,326	2,723	1,822	2,050	1,834	1,693	1,580	1,437	1,264
Credit to the economy	3,085	3,277	3,314	2,859	3,283	2,793	3,308	3,497	3,333	3,556	3,569	3,672	3,773
Other items, net	-2,029	-2,511	-2,677	-2,732	-2,791	-2,765	-2,558	-2,773	-2,676	-2,736	-2,797	-2,842	-2,892
Broad money	7,266	7,596	7,815	7,732	7,876	7,732	7,280	7,928	7,392	7,547	7,465	7,477	7,507
Currency in circulation	580	623	602	603	589	603	575	620	652	662	672	682	693
Foreign currency deposits	1,708	2,406	2,710	3,035	2,703	3,094	2,462	3,143	2,961	2,984	3,054	3,115	3,175
Local currency deposits	4,979	4,566	4,503	4,093	4,583	4,034	4,243	4,165	3,779	3,901	3,738	3,680	3,640
Central bank													
Net foreign assets	2,709	3,303	3,536	3,569	3,643	3,560	3,352	3,724	3,485	3,563	3,574	3,609	3,696
Foreign assets	3,087	3,800	4,102	4,181	4,250	4,160	3,892	4,336	4,055	4,114	4,170	4,179	4,306
Foreign liabilities	379	497	566	612	607	600	540	612	570	550	596	570	609
Net domestic assets	-962	-1,604	-1,786	-1,769	-1,899	-1,760	-1,659	-1,874	-1,565	-1,613	-1,594	-1,599	-1,656
Domestic credit	-506	-883	-987	-900	-1,054	-846	-1,161	-942	-888	-868	-787	-747	-764
Government (net)	780	835	527	277	615	77	-269	-123	-311	-311	-311	-311	-311
Commercial banks	-1,135	-1,512	-1,315	-977	-1,478	-723	-785	-619	-470	-450	-369	-329	-345
Other (parastatals)	-151	-206	-199	-199	-191	-199	-107	-199	-107	-107	-107	-107	-107
Other items, net	-456	-721	-799	-869	-845	-914	-498	-932	-677	-745	-807	-852	-892
Reserve money	1,746	1,699	1,750	1,800	1,745	1,800	1,692	1,850	1,920	1,950	1,980	2,010	2,040
Currency in circulation	580	623	602	603	589	603	575	620	652	662	672	682	693
Commercial bank reserves (includes cash in vault)	1,166	1,075	1,148	1,197	1,155	1,197	1,118	1,230	1,268	1,288	1,308	1,328	1,347
Of which: required reserves in foreign currency [1,2]	193	322	392	395	377	402	354	409	415	418	428	436	445
required reserves in domestic currency [2]	545	679	678	670	690	662	651	680	638	654	633	625	620
Memorandum items:													
Gross international reserves (US$ millions) [3]	254	277	292	295	294	291	299	301	298	300	301	300	308
Foreign currency deposits (US$ millions)	141	175	193	214	187	216	189	218	218	217	221	224	227
Broad money growth (12–month percent change)	13.5	4.5	5.4	2.7	4.7	4.8	-1.3	4.4	-2.7	-3.4	-5.2	2.7	1.6
Credit to the economy (12–month percent change)	21.4	6.2	0.1	-11.8	1.2	-14.7	1.1	6.7	1.7	7.3	8.7	11.0	13.2
Reserve money (12–month percent change)	34.7	-2.7	-1.3	4.2	1.0	4.2	-2.0	8.9	13.0	11.5	13.5	18.8	6.3
Money multiplier (broad money/reserve money)	4.2	4.5	4.5	4.3	4.5	4.3	4.3	4.3	3.9	3.9	3.8	3.7	3.7
Velocity (GDP/broad money; end of period)	1.6	1.7	1.8	1.8	1.8	1.8	1.9	1.7	1.9	2.0	2.0	2.0	2.0

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

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

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

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

Table 5. Seychelles: Financial Soundness Indicators for the Banking Sector, 2009–12 [1]

	2009				2010				2011				2012	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Capital adequacy														
Regulatory capital to risk weighted assets	13.6	17.8	22.0	21.7	21.4	22.1	21.7	21.5	23.3	24.8	26.3	24.2	24.9	25.9
Regulatory tier 1 capital to risk weighted assets	12.9	17.1	21.3	21.0	20.7	21.5	21.1	20.8	16.8	21.0	21.1	17.3	18.1	21.6
Capital to assets (net worth)	9.6	8.7	9.7	9.9	9.3	8.7	9.1	9.2	9.3	9.6	10.1	9.0	9.1	9.5
Net tangible capitalization [2]	9.6	8.7	9.8	9.9	9.4	8.8	9.1	9.3	9.4	9.7	10.2	9.1	9.3	9.6
Asset quality														
Foreign exchange loans to total loans	50.5	43.0	41.1	37.2	34.3	29.7	27.8	25.5	23.7	20.1	18.5	18.4	20.9	20.0
Nonperforming loans to gross loans	2.3	4.3	4.2	3.8	4.1	6.9	6.4	5.5	5.4	5.6	5.3	8.1	8.3	9.2
Provisions as percentage of nonperforming loans	56.8	35.2	32.6	33.8	41.7	26.0	26.0	31.4	30.9	37.3	40.4	33.8	33.9	32.1
Provisions as percentage of total loans	1.3	1.5	1.4	1.3	1.7	1.8	1.7	1.7	1.7	2.1	2.2	2.7	2.8	3.0
Earnings and profitability														
Return on assets (annualized)	5.3	3.0	-0.2	3.2	3.4	5.0	3.0	3.7	3.9	3.1	3.6	5.6	3.5	3.9
Return on equity (annualized)	55.1	35.4	-2.8	32.4	33.6	54.3	33.7	40.0	40.8	32.6	36.4	61.6	38.3	40.8
Interest margin to gross income	62.1	83.7	105.5	68.6	56.5	60.2	59.9	50.6	46.8	56.3	61.6	55.8	52.8	57.5
Noninterest expense to gross income	36.4	48.7	116.5	49.1	44.0	52.0	47.6	39.9	46.7	49.3	46.4	22.3	44.0	40.7
Net interest margin (annualized) [3]	5.1	4.8	4.2	4.0	3.1	3.6	3.4	3.1	3.0	3.5	4.2	3.9	3.6	3.5
Net noninterest margin (annualized) [4]	0.1	-1.9	-4.9	-1.0	0.0	-0.7	-0.4	0.6	0.4	-0.3	-0.5	1.5	0.3	0.2
Expense to income	52.3	62.2	111.2	58.0	53.0	58.0	53.6	46.6	50.8	53.6	50.1	28.5	44.7	45.4
Interest expense to gross income	33.2	35.8	47.1	21.2	19.0	14.2	12.8	12.5	8.5	9.3	7.4	8.7	9.3	9.7
Liquidity														
Core liquid assets to total assets [5]	36.0	35.0	37.7	43.2	43.5	44.7	44.7	46.9	47.1	47.1	47.7	49.9	49.6	48.6
Broad liquid assets to total assets [6]	50.8	53.0	57.6	58.4	58.6	60.0	58.1	58.9	56.6	55.7	57.0	58.8	59.3	57.9
Liquid assets (broad) to short term liabilities	53.2	56.2	62.1	62.7	65.0	63.4	62.1	62.9	60.0	58.8	60.9	63.0	65.4	64.6
Liquid assets (broad) to total liabilities	56.2	58.0	63.8	64.7	64.7	65.7	63.8	64.9	62.4	61.6	63.4	64.7	65.3	64.0
Liquid assets to deposit liabilities	63.1	63.8	71.4	69.4	72.4	72.0	69.1	69.1	65.5	64.5	68.7	71.0	70.9	69.7
Foreign exchange exposure														
Net open foreign exchange position to capital	44.4	32.4	21.9	33.1	22.2	24.7	29.2	5.6	3.8	2.2	1.5	1.9	2.9	-3.9

Source: Central Bank of Seychelles.

[1] Excluding purely offshore banks.

[2] Defined as: equity capital/(assets-interest in suspense-provisions).

[3] Defined as: (Interest income - interest expense)/average assets.

[4] Defined as: (Noninterest income - noninterest expense)/average assets.

[5] Core liquid assets include cash, balances with CBS, and deposits with other banks.

[6] Broad liquid assets include core liquid assets plus investments in government securities.

Table 6. Seychelles: Schedule of Reviews and Purchases Under the Extended Arrangement, 2009–13

Program Review	Date of availability	Conditions	Amount	
			(Millions of SDR)	(Percent of quota)
	December 23, 2009	Board approval of the Extended Arrangement	0.88	8.1
	March 15, 2010	Compliance with end-December 2009 quantitative performance criteria and completion of a financing assurances review (if needed)	2.20	20.2
First	June 15, 2010	Completion of first program review and financing assurances review (if needed) and compliance with end-March 2010 quantitative performance criteria	2.20	20.2
	September 15, 2010	Compliance with end-June 2010 quantitative performance criteria and completion of a financing assurances review (if needed)	2.20	20.2
Second	December 15, 2010	Completion of second program review and financing assurances review (if needed) and compliance with end-September 2010 quantitative performance criteria	1.76	16.1
Third	March 31, 2011	Compliance with end-December 2010 quantitative performance criteria and completion of a financing assurances review (if needed)	3.52	32.3
Fourth	September 30, 2011	Compliance with end-June 2011 quantitative performance criteria and completion of a financing assurances review (if needed)	3.08	28.3
Fifth	March 31, 2012	Compliance with end-December 2011 quantitative performance criteria and completion of a financing assurances review (if needed)	2.64	24.2
Sixth	September 30, 2012	Compliance with end-June 2012 quantitative performance criteria	1.32	12.1
Seventh	March 31, 2013	Compliance with end-December 2012 quantitative performance criteria	3.30	30.3
Eighth	September 30, 2013	Compliance with end-June 2013 quantitative performance criteria	3.30	30.3
Total			**26.4**	**242.3**

Table 7. Seychelles: Indicators of Fund Credit, 2008–18
(in millions SDR)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Existing Fund credit											
Stock [1]	6.2	11.9	20.2	23.8	26.1	20.6	18.2	16.3	13.7	10.6	7.6
Obligation	0.0	0.1	0.2	0.4	3.7	5.8	2.6	2.0	2.8	3.2	3.2
Principal (repayments/repurchases)	0.0	0.0	0.0	0.0	3.4	5.5	2.4	1.8	2.6	3.1	3.1
Charges and interest	0.0	0.1	0.2	0.4	0.3	0.3	0.2	0.2	0.2	0.1	0.1
Disbursements	6.2	5.7	8.4	3.5	5.7						
Projected EFF											
Disbursement					1.3	6.6					
Stock [1]					1.3	7.9	7.9	7.9	7.9	7.4	6.1
Obligations [3]					0.0	0.1	0.1	0.1	0.1	0.6	1.4
Principal (repayments/repurchases)					0.0	0.0	0.0	0.0	0.0	0.5	1.3
Charges and interest					0.0	0.1	0.1	0.1	0.1	0.1	0.1
Stock of existing and prospective Fund credit [1]	6.2	11.9	20.2	23.8	27.4	28.5	26.1	24.2	21.6	18.1	13.7
In percent of quota	70.0	135.0	230.0	218.0	251.3	261.4	239.2	222.4	198.4	165.7	125.3
In percent of GDP	1.0	2.2	3.2	3.5	4.1	4.0	3.4	3.0	2.5	2.0	1.4
In percent of exports of goods and services	0.9	1.8	3.1	3.4	3.9	3.9	3.4	3.0	2.6	2.0	1.5
In percent of gross reserves	12.9	9.6	12.2	13.3	14.0	14.1	12.2	10.6	8.9	7.0	5.0
Obligations to the Fund from existing and prospective Fund arrangements											
Disbursements	6.2	5.7	8.4	3.5	7.0	6.6					
Obligations	0.0	0.1	0.2	0.4	3.7	5.8	2.7	2.1	2.9	3.8	4.6
Principal (repayments/repurchases)		0.0	0.0	0.0	3.4	5.5	2.4	1.8	2.6	3.6	4.4
Charges and interest		0.1	0.2	0.4	0.3	0.3	0.3	0.3	0.3	0.2	0.2
In percent of quota	0.3	0.9	2.0	3.4	33.8	53.5	24.9	19.3	26.1	34.9	42.0
In percent of GDP	0.0	0.0	0.0	0.1	0.5	0.8	0.4	0.3	0.3	0.4	0.5
In percent of exports of goods and services	0.0	0.0	0.0	0.1	0.5	0.8	0.4	0.3	0.3	0.4	0.5
In percent of gross reserves	0.1	0.1	0.1	0.2	1.9	2.9	1.3	0.9	1.2	1.5	1.7

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

[1] Assumes a one year extension of the EFF-supported arrangement and an augmentation of 60.6 percent of quota (SDR 6.6 million, approximately $10.2 million), disbursed following reviews of December 2012 and June 2013 test dates.

[2] End of period.

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

ANNEX I. RELATIONS WITH THE FUND

(As of October 31, 2012)

A. Membership Status: Joined 6/30/1977. Article VIII member since 01/03/1978

B. General Resources Account	SDR Million	% Quota
Quota	10.90	100.0
Fund holdings of currency	37.21	341.40
Reserve Position in Fund	0.53	4.85

C. SDR Department	SDR Million	% Allocations
Net cumulative allocation	8.28	100.0
Holdings	6.53	78.83

D. Outstanding Purchases and Loans:		
Stand-by Arrangement	8.36	76.70
Extended Arrangement	18.48	169.54

E. Financial Arrangements:

			SDR Million	
Type	Arrangement	Expiration	Amount Approved	Amount Drawn
EFF	Dec 23, 2009	Dec. 22, 2012	19.80	18.48
Stand-By	Nov 14, 2008	Dec. 22, 2009	17.60	11.00

F. Projected Obligations to the Fund (SDR Million: based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2012	**2013**	**2014**	**2015**	**2016**
Principal	0.77	5.50	2.42	1.83	2.60
Charges/interest	0.07	0.27	0.22	0.19	0.17
Total	0.84	5.77	2.64	2.03	2.78

G. Implementation of HIPC Initiative: Not applicable

H. Safeguards Assessments:

The Central Bank of Seychelles (CBS) was subject to a safeguards assessment with respect to the Stand-By Arrangement for Seychelles. The assessment completed in 2008 found high risks in all areas of the CBS's safeguards framework, and several measures were included in the program. An update assessment in relation to the Extended Fund Facility, which was completed in July 2010, found that the authorities had implemented most of the measures recommended by the 2008 assessment. In particular, governance oversight at the CBS is now exercised by the Board and management committees, and transparency improved through application of International Financial Reporting Standards and the publication of financial statements that have been audited in accordance with international standards. The draft amendments to the CBS Act, approved by Cabinet in April 2011, will strengthen the legal framework and the independence of the central bank. CBS governance is also being improved through ongoing strengthening of the internal audit and control mechanisms.

I. Exchange Rate Arrangement:

The exchange market was liberalized in November 2008, which resulted in the elimination of all restrictions on the making of payments and transfers for current international transactions that are subject to Fund approval under Article VIII Sections 2, 3, and 4. The exchange rate policy is floating. On October 31, 2012 US$ 1 = SR 13.081 (mid rate).

J. Article IV Consultations:

Seychelles is currently under a 24 month consultation cycle.

K. Technical Assistance (2010–November 2012):

Department	Head of Mission	Subject	Date
MCM	Mr. Bartholomew	Central Bank Capacity Building	March 2010
MCM	Mr. Sullivan	Central Bank Accounting and Audit	October 2010
MCM	Mr. Vollan	Monetary Operations	October 2010
FAD	Mr. Bodin	Tax Policy (VAT)	October 2010
STA	Mr. Hughes	Quarterly National Accounts Statistics	November 2010
STA	Ms. Razin	External Sector Statistics	January 2011
MCM	Mr. Sullivan	Central Bank Financial Reporting and Risk Management	February 2011
FAD	Mr. Kloeden	Tax Reform	February 2011
STA	Mr. Jones	Government Finance Statistics	March 2011

Department	Head of Mission	Subject	Date
MCM	Mr. Bartholomew	Central Bank Capacity Building	April 2011
STA	Ms. Winston	Producer Price/Industrial Production Indices	April 2011
FAD	Mr. Ljungman	PFM Legal Framework	August 2011
STA	Ms. Razin	External Sector Statistics	January 2012
MCM	Ms. Radzewicz-Bak	Central Bank Capacity Building	March 2012
AFS	Mr. Helis	PFM Regulatory Framework	March 2012
MCM	Mr. Robotham	Payments System	April 2012
FAD	Mr. Gillan	Customs administration	May 2012
AFS	Mr. Panda	Basel I compliance	June 2012
AFS	Mr. Ramachandran	PFM: Financial Management Information Systems and Chart of Accounts	June 2012
FAD	Ms. Penfold	Revenue Commission training function	June 2012
AFS	Mr. Mendes	Customs administration	July 2012
AFS	Mr. Hughes	Quarterly national accounts	September 2012
FAD	Mr. Le Leuch	Oil taxation regime	November 2012

L. Resident Representative: None

APPENDIX I. LETTER OF INTENT (SIXTH REVIEW)

November 30, 2012

Ms. Christine Lagarde

Managing Director

International Monetary Fund

Dear Ms. Lagarde:

The attached Memorandum of Economic and Financial Policies (MEFP) describe Seychelles' performance through June 2012, and sets out our policy and reform priorities for the rest of 2012 and 2013.

We request completion of the sixth review under our Extended Arrangement and the availability for purchase of the ninth tranche of SDR 1.32 million (12.1 percent of quota). Moreover, we also request a one-year extension of the Extended Fund Facility Arrangement to support our economic reform program—for which we see a critical role for the Fund—and along with that, augmentation of access by SDR 6.6 million (60.6 percent of quota).

We have continued to make significant progress in our reforms and our program remains on track. All quantitative performance criteria (PCs) at end-June 2012 were met, in some cases with margins. All structural benchmarks for the end-June test date were also met. Fiscal conditions have remained favorable whilst on the monetary side a tight monetary policy stance by the central bank has enabled us to contain inflation in single digits and ease pressures that were building on the exchange rate.

The extension we are requesting under the EFF Arrangement will help us in preserving the gains that we have achieved in terms of macroeconomic stabilization and our move toward achieving debt sustainability. It will also support our efforts in pursuing structural reforms in key areas including tax administration, promoting private sector-led growth, and reform of public enterprises.

We believe that the economic and financial policies set forth in the MEFP will ensure that the objectives of the program will be met. We stand ready to take any further measures that may prove necessary to meet our objectives. We will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations.

The seventh review under the EFF Arrangement will be completed on or after March 31, 2013 and the eighth review under the EFF Arrangement will be completed on or after September 30, 2013. In this context, we request the establishment of the performance criteria for end-December 2012 and end-June 2013. We have made further progress in restructuring our external debt and we now need to complete the restructuring exercise with only one creditor, which we expect to finalize before end-December 2012. We also expect that implementation of two key structural reform measures that we have encountered, namely (i) the introduction of Value Added Tax and (ii) implementation of recommendations the tariff study, will both begin in January 2013.

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

Sincerely yours,

/s/	/s/
Pierre Laporte	Caroline Abel
Minister of Finance, Trade and Investment	Governor
Republic of Seychelles	Central Bank of Seychelles

Attachments: MEFP and TMU

Attachment 1: Memorandum of Economic and Financial Policies for 2013

I. INTRODUCTION

1. This document tracks progress after two and a half years of macroeconomic and financial structural reforms under the three-year program supported by an Extended Arrangement under the Extended Fund Facility (EFF). It updates the MEFP of May 2012 and details our policies for the remainder of 2012 and the start of 2013 to support completion of the sixth review. We are also requesting a one-year extension of the EFF arrangement and augmentation of access under this facility.

2. The policies and measures laid out in this MEFP are aimed at consolidating the gains made through structural reforms including in the areas of public financial management, taxation reform and financial sector development whilst sustaining the reform momentum in other areas such as public enterprise performance, social sector policy and utility tariff adjustment and rebalancing.

II. MACROECONOMIC PERFORMANCE IN 2012 AND OUTLOOK FOR 2013 AND BEYOND

3. Macroeconomic outcomes for 2012 have been in line with our projections at the time of the discussions for the fifth review (March 2012). Real GDP has grown by just under 3 percent, inflation is subsiding after peaking at 8.9 percent in June, and the current account deficit is stable at a projected 22 percent of GDP for 2012. Tourism arrivals were 6.9 percent above 2011 levels after 40 weeks, much better than expected given the economic turmoil in the Euro zone. Despite slightly shorter average stays, the sector is estimated to have grown by about 3 percent in real terms.

4. GDP growth has mirrored global trends in 2012, and is forecasted to continue to do so in 2013, albeit at a slightly higher rate. We are optimistic that in 2013 GDP growth could attain 3.0 percent. Following robust performance in 2012, we expect the manufacturing sector (primarily beverages and tobacco) to continue to grow against the backdrop of further capital investments and continued expansion in domestic consumption. Diversification of the tourism base, including the Asian market where flights to Seychelles through Abu Dhabi will begin in early 2013, should drive growth from new markets, and make up for some of the ground lost in the European market where we also expect a modest rebound following a contraction in 2012. In 2013 we expect to see a full year of benefits from the submarine cable which should lead to technological gains in other sectors of the economy and potentially opening new opportunities for investment.

5. The rupee has remained stable following interventions from the Central Bank of Seychelles (CBS) in July and August to curb excess volatility. Following the interventions and the tightening of monetary policy, the exchange rate strengthened from 15 SR/USD to 13 SR/USD and has stabilized. With the expected decline in global commodity prices, this could ease some pressure on the exchange rate and the current account in 2013. Based on this we have forecasted a slight reduction in inflation next year with a period average inflation forecast at 5.1 percent or 2.1 percentage points lower than 2012. We are mindful nonetheless of the potential impact of tariff adjustment in the second half of 2013 though the magnitude of this measure should be minimal.

6. **The external balance is expected to remain stable.** The current account deficit is expected to stay at 22½ percent of GDP in 2012 and further improve over the medium term, as FDI-related imports moderate following the completion of major projects. Whilst the current account deficit remains large, it continues to be financed by non-debt incurring capital inflows, including net FDI inflows of 18 percent of GDP and sizable project grants in 2012.

7. **We remain committed to attaining our target of 50 percent of debt-to-GDP ratio by 2018**. The restructuring of our external debt is nearly complete, with new restructuring agreements reached with two creditors in June and July. There is now only one creditor outstanding. We have already signed one new agreement and will shortly sign the other outstanding agreement. This would further help us in reducing our debt burden and put it on a path toward sustainability. We recognize however, that the need to continue to invest in infrastructure and social services will render our debt reduction endeavors challenging. In order to minimize the risk of not meeting our 2018 target we will seek as much as possible to fund these infrastructure investments through grants.

III. PROGRAM IMPLEMENTATION

8. **We achieved—and in some cases comfortably exceeded—the quantitative targets of the program.** All quantitative performance criteria as of end-June 2012 were met (Table 1), and we are on track to achieve end-December targets.

9. **For 2012 we expect to attain a primary surplus of 5.9 percent of GDP, much larger than the program target of 4.5 percent of GDP.** It should be noted that the nominal GDP 2012 has been revised upwards considerably from the level in the program (by 4.4 percent) because of the revision of the 2011 deflator. In the first nine months of the year expenditure have been slightly below target (0.2 percent), while revenues have exceeded targets by 2 percent of GDP because of the large stamp duty and other tax receipts arising from the sale of the D'Arros Island between two private parties. Even without the exceptional revenue, the end-June primary surplus target would have been met owing to tight control of expenditures.

10. **The tightened monetary policy stance has resulted in a notable contraction in broad money and an important increase in interest rates.** For the period between March and September 2012, broad money contracted by 7 percent whilst interest rates on 91-day T-Bills rose from 5.43 to 16.99 percent. While we comfortably met the end-June reserve money target under the program, the interest rate transmission mechanism remains weak despite increased communication by CBS of its policy stance.

11. **Structural benchmarks were mostly implemented, albeit with minor delays in two cases.** The Public Sector Investment Program has been approved by the Cabinet and the Electronic Clearing System was activated ahead of time. The PFM bill was approved by the National Assembly on November 6, 2012. However, the introduction of the Value Added Tax (planned for July 1, 2012) was postponed to January 2013, and the tariff study was delivered only in October 2012 (end-June benchmark). We will start implementing the recommendations of this study in 2013, beginning with the January introduction of a system of tariff indexation to the international price and the March adoption by Cabinet of an action plan to rebalance utility tariffs between residential and commercial consumers over a 7 year period starting in July 2013.

12. The national airline is now 9 months into its joint venture with Etihad, and initial signs are encouraging. The airline has introduced one new Airbus A330 into the fleet—another expected in 2013—and has increased the load factor of seats. It is expected that the airline will reach profitability sooner-than-expected in the last quarter of 2012 owing to more professional management, more aggressive marketing and higher quality of service. No additional capital injection in 2012 is expected from Government in addition to what took place in the first months of the year (SR 176m). In 2013, we have agreed that we will pay the USD 3.5 million of penalties to ILFC corresponding to the interrupted leases and SR 17 million for indemnities related to personnel severances. However, the second injection of $10 million agreed when Etihad purchased its stake in Air Seychelles has been deferred to at least 2014 given the faster than expected improvement in the airline's financial position.

13. We are keeping under close review the financial position of SEYPEC which is weakened by losses of approximately USD 1 million a month on its tanker operations. Two tankers have recently been placed on long-term leases and we have started negotiations with the main lender to restructure the existing tankers' loan. If successful this will significantly improve the overall cash flow of SEYPEC. To further improve SEYPEC's financial position the cost of LPG for commercial users was doubled in May 2012 to bring it in line with costs, as a first step toward eliminating the implicit subsidy borne by SEYPEC. We will introduce the same adjustment for household users in two steps, with an initial increase on July 1, 2013 and complete elimination of the subsidy on LPG by early January 2014.

IV. POLICIES FOR THE REMAINDER OF 2012 AND 2013

A. Fiscal Policy

14. For 2013 we are committed to carry out a fiscal policy consistent with our aim of achieving debt sustainability over the medium term, namely to reduce public debt to 50 percent of GDP by 2018. To that end we have set a primary surplus target for 2013 of 5.6 percent of GDP assuming increased revenues from larger dividend payments and consolidation of SIBA's budget as part of Central Government. We now expect the public debt level as a share of GDP to decrease to 78 percent by the end of 2012 and to 74 percent at the end of 2013.

15. Government revenue is projected to decrease slightly as a share of GDP in 2013 to 36.9 percent (as against 37.2 percent in 2012 which includes exceptional tax receipts related to the D'Arros sale). Abstracting from the exceptional revenue in 2012, growth in revenue reflects special dividend from SIBA at the beginning of 2013 when SIBA will transfer funds currently held at commercial banks, including those held in foreign exchange deposit accounts (0.6 percent of GDP) and a number of measures to fight poor tax compliance.

16. In 2013 we will introduce some changes in the tax system to enhance compliance in revenue collections and to render our system more equitable, efficient, and business friendly. We will introduce a simplified, presumptive tax of 1.5 percent of turnover for small businesses with turnover of less than SR1 million, as an option to the current system of 15 percent on taxable income. We have decided to lower the business tax rate from 33 percent to 30 percent as part of a broader plan to reduce it further over the medium term. These measures will allow us to lower rates and broaden the base going forward.

17. We will also, beginning 2013, introduce a Corporate Social Responsibility tax contribution of 0.5 percent on turnover on all businesses with sales above SR 1 million. Funds raised through this contribution will finance mostly community projects. Finally, we will introduce a 0.5 percent tourism marketing tax on tourism establishments and other selected sectors like banks and insurance which benefit significantly from tourism activities. The funds raised through this tax will go to the Seychelles Tourism Board, which is currently funded solely by Government for the marketing program of the Seychelles Tourism Board.

18. Current primary expenditure is expected to increase slightly in 2013 by 0.4 percent of GDP in part on account of wage adjustments in priority sectors and to compensate for increases in the cost of living. To take into account inflationary expectations, including phased elimination of LPG subsidy for households, and increases in tariffs as part of the rebalancing exercise planned in 2013, on July 1, 2013 public sector wages below SR 10,000 per month will be increased by 6 percent, with wages above that threshold rising by 3 percent. In addition, a number of priority sectors will benefit from new schemes of service and some upgrading of position, resulting in a rise of the wage-to-GDP ratio by 0.3 percent. We consider that this increase is justified in order to retain qualified workers, but we are committed to keep the wage bill under very close review. Capital expenditure will be lower in 2013 (9.2 percent of GDP versus 11.3 percent in 2012) because of smaller external grants financed projects, partially offset by the on-lending to PUC of an EIB loan (SR 120 million or 0.8 percent of GDP). Development grants to public enterprises will remain broadly stable, and domestic financing of capital projects will show a small increase.

19. In recognizing the negative impact of higher inflation in 2012 and potential adverse effects of certain structural measures such as introduction of the VAT, adjustment of utility tariff and partial elimination of subsidies on cooking gas **we will take necessary measures to ensure that the working poor and vulnerable are socially protected**. This will be achieved through: (i) an increase of 6 percent in the minimum wage, and (ii) increases in rates of benefits provided by the Agency for Social Protection and upward revision in the Agency's weights used to determine the level of assistance.

B. Tax and Customs Reform

20. VAT remains the immediate priority and is on track for implementation in January 2013. Seychelles Revenue Commission (SRC) has intensified its effort to sensitize the public and businesses on this new system, including through the media and technical meetings with relevant stakeholders.

21. Customs will upgrade to ASYCUDA World in March 2013. The new web-based program will be more user-friendly and is expected to facilitate trade operations. It will also assist in improving the quality and accuracy of trade statistics.

22. SRC continues with its effort to build capacity and expertise to improve its capability to address the issue of transfer pricing. The OECD provided basic training in August 2012, and a follow up workshop is expected. A few transfer pricing cases have been identified and are undergoing audit, although significant work remains to be done in this area.

23. The Integrity Action Plan within SRC has been submitted to the Ministry of Finance with a detailed roadmap and key staff has been identified to ensure its implementation.

24. The Customs Management Act to improve efficiency and governance of SRC's customs department became operational in July 2012. The enabling regulations are expected to be completed by end-2013.

25. Risk Management has been a point of focus in the customs modernization and tax compliance program. Technical assistance was provided by AFRITAC on risk management and trade facilitation. A risk assessment team has been appointed to provide support to the Risk Management Committee. SRC is developing an audit strategy based on risk identification and management for implementation in 2013.

26. In line with our continued effort to improve our national tariff nomenclature, **we will be migrating the Harmonized Commodity Description and Coding System from the 2002 version to the 2007** version **in January 2013**.

C. Public Financial Management (PFM)

27. We are continuing reforms to improve PFM performance. The PFM Act was approved by the National Assembly in November 2012. The main elements of the PFM reform include:

- Adoption of the new Charts of Accounts (COA). The new COA was circulated in August 2012 and the 2013 budget will be based on the new COA. The Ministry of Finance, Trade and Investment (MFTI) is undertaking all the necessary preparations for the introduction of the new COA which includes software modification, capacity building and ensuring stakeholder ownership by the different ministries and departments.

- Starting January 2013, Accounts staff of all Ministries and government departments will be required to report to MFTI. They will all be on MFTI payroll and report directly to the Comptroller General.

- Improvements to the Public Sector Investment Program (PSIP) were submitted to cabinet in November 2012.

- Establishment of the Government Audit Committee, which will act in an advisory capacity to the Minister. The Ministry of Finance is finalizing an audit charter for the Government Audit Committee that will provide guidance to members of the Committee in discharging their respective duties. It sets out the Committee's objectives, authority, composition, roles and responsibilities and provides a channel of communication with the different stakeholders. MFTI aims to seek cabinet approval by December 2012.

- The Public Finance Management bill also provides for the Minister to make regulations and accounting manuals for carrying out the provisions of the bill. MFTI will finalize the Financial Instructions and Accounting Manuals by end of June 2013.

28. A major reform will be the introduction of Program Performance Based Budgeting (PPBB) starting with two pilot ministries, the Ministry of Education and Ministry of Natural Resources and Industry **in 2014.** Capacity in PPBB will also be developed in many stakeholders including members of Parliament.

29. **Government is working towards adopting the International Public Sector Accounting Standards (IPSAS) classifications.** A mission from AFRITAC South visited Seychelles in November 2012 to assist the Government in implementing cash based IPSAS for government accounts. The mission helped identify gaps between the existing practice in Seychelles and the mandatory requirements under the Cash-basis IPSAS, and this will allow us to develop an action plan to meet the IPSAS requirements. The short-term priority is to improve the disclosure statements.

D. Monetary and Exchange Rate Policies

30. **CBS began gradually loosening monetary policy in the fourth quarter of 2012 in view of reduced inflationary risks.** However, CBS remains cautious of the potential impacts of external shocks and changes in domestic administrative prices on inflation, and stands ready to adjust its policy if needed.

31. **CBS will continue to enhance its monetary policy framework**. The country's inability to influence international prices and its high dependency on imports present important challenges for the Bank to meet its primary objective of price stability. Whilst a tightened monetary policy has helped reduce inflationary pressures originating from the credit channel, the relatively weak correlation between reserve money and headline inflation suggests that excessive tightening might actually hurt the economy whilst not necessarily reducing inflation in a significant way. Whilst reserve money targeting has served us well since it was adopted in 2008 in view of recent challenges in meeting the target CBS will in the coming months assess the desirability and feasibility of adopting an Inflation Targeting Lite (ITL) framework. ITL may prove to be an appropriate framework to allow the CBS to target a measure of core inflation which will exclude movement in prices that is outside the control of CBS. However, in view of our lack of experience with this framework, CBS will request for Technical Assistance from the Fund's Monetary and Capital Markets Department to develop the framework, if it proves feasible.

32. **Government will continue to assist CBS in its liquidity management efforts through the issuance of treasury bills.** The recently signed Memorandum of Understanding between CBS and MFTI provides for the funds raised from such issuance to be placed in a blocked account at CBS until maturity and government is bearing the interest cost.

33. **CBS remains committed to a floating exchange rate regime.** As it has done since the rupee was floated CBS will intervene in the market only to smooth out excess volatility and ensure orderly market conditions.

34. **CBS will continue to build up international reserves, which will provide Seychelles with an adequate buffer against external shocks.** To achieve this objective, CBS will purchase foreign currency for reserves accumulation purposes on the domestic interbank market. CBS' participation will assist in the deepening of the domestic foreign exchange market and also allow for more efficient allocation of foreign exchange within the financial system.

35. **CBS continues to strengthen its reserve management practices.** In September 2012, the Board approved the new Investment Policy for International Reserves Management and separate Investment Guidelines. CBS has entered into a three-year reserve portfolio management program with Crown Agent Investment Management (CAIM). The program is comprised of a training plan, which

aims to develop and enhance the Bank's staff practical investment skills, in order to manage risks and undertake the necessary supporting functions effectively.

E. Financial Sector Reforms

36. CBS remains committed to improving competition and transparency in the banking sector. The December 2011 amendments to the Financial Institutions Act 2004 (FIA) provided for the single licensing regime under which both domestic and offshore banking business may be conducted. This has contributed to increased interest from potential investors in the banking sector and also allows the former offshore bank to operate domestically. The FIA amendments also provided for the Central Bank to regulate banks' fees and charges. These regulations are expected to become effective by end 2012. CBS will also further enhance its financial literacy program with the aim of reinforcing competition in the financial sector. This will complement other efforts of Government to strengthen the environment for competition, namely establishment of the commercial list and on-going reform at the Registrar's Office.

37. The introduction of hire purchase, credit sale and financial leasing activities will provide additional means of accessing finance. These activities are also expected to bring economic benefits to the country through domestic investment, creation of employment opportunities and tax revenue. The Cabinet approved policies for hire purchase and credit sale in May 2012, and will consider policies on financial leasing in December 2012. The Acts covering these activities will be submitted to National Assembly by end-June 2013.

38. CBS remains committed to strengthening its supervisory framework. As part of its risk-based forward looking approach to supervision, supervised institutions are required to submit their business plans on an annual basis. This requirement came into effect in July 2012. CBS intends to develop a CAELS[4] rating system using the projected financials on which we received the first technical assistance in November 2012. The calendar of onsite inspections is based on results of the examination reports, with the inspections of institutions with more supervisory concerns prioritized on the calendar. CBS also plans to further develop macro-prudential supervision to consider the impact of the macro-economy and developments in the financial market on institutions' exposure to systemic risk.

39. The Statistical and Supervisory Application (SSA) went live in September 2012. The SSA is aimed at increasing efficiency by further automating the process of offsite supervision through online submission of returns and embedded analytical tools. The SSA eliminates most of the manual process of validating data contained in reports and contains querying, analysis and reporting features which facilitate analysis and the decision making process.

40. Development and strengthening of the insurance sector's supervisory framework is an ongoing process. In August 2012, Cabinet approved the creation of a Financial Services Commission (FSC) to replace the Seychelles International Business Authority (SIBA) in 2013. The FSC will have oversight over non-bank financial institutions, including the insurance sector. Transfer of supervision of the insurance sector from CBS' portfolio to that of FSC is expected to take place within one year. Preparatory work is already underway.

[1] CAELs stands for: Capital Adequacy, Asset Quality, Earnings, Liquidity, Sensitivity to Market Risk.

41. Seychelles has taken major steps in its endeavor to fight money laundering, financing of terrorism and to improve international tax co-operation. In 2012 we made comprehensive amendments to the Anti-Money Laundering (AML) Act to enhance the independence of our Financial Intelligence Unit (FIU), to establish a time-frame for its administrative freezing of suspected assets and to oblige related parties to supply documents, information and other material for investigative purposes. FIU is in the process of recruiting more staff to increase efficiency, improve its compliance function and to speed up the resolution of cases. We have also made important strides in strengthening our legislative framework that governs offshore activities. Following on recommendations of the last peer review report of the OECD Global Forum on transparency and exchange of information for tax purposes, amendments were made to several laws governing offshore financial sector activities such as trusts, foundations and funds as well as the taxation of these entities. OECD has since classified Seychelles as fully compliant with its international standards of exchange of information. These amendments should also facilitate international co-operation once Seychelles is admitted as a member of the Egmont Group.

42. The launching of the stock exchange, planned for the fourth quarter of 2012, will provide a boost to the financial service sector. A license for operating the stock exchange has been granted. Initially, the stock exchange will handle local listings including shares of both private and public companies. The eventual aim is for the stock exchange to operate a dual listing system.

F. CBS Operations and Governance

43. The CBS Board approved the Quality Assurance and Improvement Program (QAIP) Policy and Procedures in June 2012. This fulfills the requirements of, and compliance with, the Institute of Internal Auditors (IIA) standards. Subsequently, to ensure that consistencies are maintained in internal as well as external assessment reviews conducted on a periodic basis, the Board also approved the Internal Audit Quality Assessment Framework in July 2012. With the framework now in place, the Internal Audit Division (IAD) started implementation of the QAIP in September 2012. IAD is currently at level 2 on the QAIP evaluation scale and aims to achieve level 3 by July 2013. IAD is currently developing plans to remedy identified areas for improvement and these will be implemented to achieve level 3.

44. CBS' initiative to further modernize the national payment system is being accelerated. Following successful implementation of the Electronic Cheque Clearing (ECC) project across all banks in August 2012, the project to implement the Seychelles Electronic Funds Transfer (SEFT) system and is now scheduled to go live in the first quarter of 2013. This new electronic system will provide individuals and businesses with an online platform to effect the transfer of funds from the comfort of their own premises. Furthermore, a country-wide Mobile Payment Solution and Service has also been initiated and is expected to go live in the fourth quarter of 2013 which will be followed by the implementation of the local rupee ATM/POS switching system.

Text Table: Matrix of Actions by CBS

Actions	Deadline
Submit Policy Paper, including draft Leasing Bill to Cabinet	December 2012
Implementation of Seychelles Electronic Funds Transfer system	March 2013
Submission of Leasing Bill to National Assembly	June 2013
External Review of the Quality Assurance and Improvement Program	December 2013
Implementation of the country-wide Mobile Payments Solution and Service	December 2013
Implementation of Local Rupee ATM/POS Switch system	September 2014

G. Private Sector Development and Reform of Public Enterprises

45. **Seychelles' ranking in the World Bank's 'Ease of doing businesses' has improved considerably with the country rising by 29 places to 74th in the 2013 ranking.** Areas where Seychelles has made significant improvements are: (i) paying of taxes; (ii) resolving insolvency and (iii) dealing with construction permits.

46. **Moreover, a significant number of measures were taken after June and thus are not reflected in the latest raking**. These include improvements in business registration through an online company registration and name search facility, as well as an online import permit application. In the coming months we will introduce further measures:

- Improved facility to pay taxes;
- Online land registry and online planning permission application;
- Accelerated land registration at the Attorney General's office,
- Review of the Town and Country Planning Act and the Land Development Bill;
- Publication of environmental guidelines by each Ministries to increase transparency;
- Adoption of a Leasing Bill;
- Establishment of a Mediation and Civil Rules for the Commercial Court; and
- Establishment of a one stop shop for application of all licenses.

47. **Further to the above Government has initiated the process of drafting an Accounting Profession Bill with the assistance of the World Bank.** The legislation is aimed at enhancing the quality of financial reporting and strengthening accountancy profession—key contributors to improving competitiveness and governance.

48. **We are undertaking the process of designing and implementing a unified insolvency statute**. The insolvency regulatory framework of the Seychelles is covered by numerous laws. In light of this Cabinet has approved that all legislation pertaining to insolvency law in the Seychelles should be revised with a view to modernizing the law. The World Bank will be assisting the Attorney General's Office in drafting the Unified Insolvency legislation. This will be accompanied by introduction of a revised and modern Companies Act.

49. **The Public Enterprise and Monitoring Division in the MFTI will be transformed into a Commission in early 2013.** This will enhance its authority and monitoring role over public enterprises. A CEO will be appointed and staff trained to strengthen the monitoring capabilities of the

Commission. The new PEM bill provides a three-year timeframe for all public enterprises to transition to International Accounting Standards.

H. Petroleum Issues

50. As indicated in the previous MEFP of May 2012 we have started preparations for potential oil discoveries with technical assistance from various institutions and governments to put in place the necessary frameworks, including the legal and fiscal frameworks as well as policies for managing of oil revenues. Two recent missions, one from the World Bank and one from the IMF visited Seychelles in November 2012 in this regard. The IMF reviewed Seychelles' current fiscal regime and made a number of recommendations to the Government. The World Bank mission focused on preparations for the new bidding rounds for new concessions that will take place next year. Both missions conducted seminars with key stakeholders in the oil sector.

V. PROGRAM MONITORING

51. We are seeking IMF Executive Board approval for extension of the EFF arrangement for an additional year and augmentation of access to further support our reform efforts. This will involved two semi-annual reviews corresponding to test dates of end-December 2012 and end-June 2013, which will be based on a set of quantitative performance criteria as shown in Table 1 and structural benchmarks as shown in Table 2. The attached revised Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, indicative targets, and adjusters under the program.

52. Seychelles will avoid introducing new exchange restrictions, multiple currency practices, or bilateral payment agreements in contradiction with Article VIII of the IMF's Articles of Agreement and imposing any import restrictions for balance of payments reasons. We stand ready to adopt any additional measures, in consultation with IMF staff, which may become necessary to ensure program success.

Table 1. Quantitative Performance Criteria Under the Extended Arrangement, 2012–13

(Millions of Seychelles rupees; end-of-period)

	2012										2013			
	June				September				December		March	June	September	December
	Performance Criteria	Adjusted	Actual (prog rate)	Actual (market rate)	Indicative Target	Adjusted	Actual (prog rate)	Actual (market rate)	Indicative Target (5th Rev.)	Performance Criteria	Indicative Target	Performance Criteria	Indicative Target	Indicative Target
Performance criteria														
Net international reserves of the CBS, millions of U.S. dollars (floor) [1]	220	218	225	222	217	217	228	228	226	223	227	225	225	229
Reserve money (ceiling)	1,800	...	1,745	...	1,800	...	1,692	...	1,850	1,920	1,950	1,980	2,010	2,040
Primary balance of the consolidated government (cumulative floor) [2]	309	...	420	...	431	...	841	...	610	837	136	412	717	850
Contracting or guaranteeing of new external debt by the public sector (Millions of U.S. dollars; cumulative ceiling) [2]	30	...	0	...	40	...	14	...	40	40	25	40	55	55
Contracting or guaranteeing of new short-term external debt by the public sector (Millions of U.S. dollars; cumulative ceiling) [2]	0.0	...	0.0	...	0.0	...	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of external payments arrears by the public sector (ceiling) [3]	0.0	...	0.0	...	0.0	...	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payment arrears by the government (ceiling)	0.0	...	0.0	...	0.0	...	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:														
Net external non-project financing (millions of U.S. dollars; cumulative) [2, 4]	-3.7	...	-5.8	...	-7.5	...	-7.3	...	1.0	-13.1	-2.0	-8.9	-11.1	-10.2
Program accounting exchange rates														
SR/US$ (end-of-quarter)	14.04	...	14.04	14.43	14.04	...	14.04	13.02	14.04	13.02	13.02	13.02	13.02	13.02
US$/Euro (end-of-quarter)	1.33	...	1.33	1.26	1.33	...	1.33	1.29	1.33	1.29	1.29	1.29	1.29	1.29
US$/UK pound (end-of-quarter)	1.60	...	1.60	1.56	1.60	...	1.60	1.62	1.60	1.62	1.62	1.62	1.62	1.62
US$/AUD (end-of-quarter)	1.04	...	1.04	1.52	1.04	...	1.04	1.04	1.04	1.04	1.04	1.04	1.04	1.04
US$/SDR (end-of-quarter)	1.55	...	1.55	1.02	1.55	...	1.55	1.54	1.55	1.54	1.54	1.54	1.54	1.54

Sources: Seychelles authorities and IMF staff estimates and projections.

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

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

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

[4] Includes external non-project loans and cash grants net of external debt service payments.

Table 2. Structural Benchmarks, 2012-13

Measure	Target Date	Macroeconomic Rationale	Status
Introduction of the credit information system (4th Review MEFP, ¶46)	End-March 2012		Met
Creation of the commercial court (4th Review MEFP, ¶47)	End-March 2012		Met
Cabinet approval of new DBS mandates (4th Review MEFP, ¶54)	End-March 2012	To redefine its mandate to finance small and medium enterprises	Met
Commission and complete a study on optimal tariffs for utilities (4th Review MEFP, ¶51)	End-June 2012	To ensure cost recovery and long-term sustainability of utilities.	Met. Final version received October 2012.
Introduce VAT (4th Review MEFP, ¶26)	July 2012	To modernize the tax system and remove tax distortions	Not met. Postponed to January 2013.
Cabinet approval of the Public Sector Investment Program to be used for the 2013 budget planning. (4th Review MEFP, ¶28)	End-September 2012	To improve efficiency of public finance management and planning in capital investments by costing capital projects over the entirety of their implementation phase	Met
Based on the results of optimal tariff study, implement reform of utilities tariffs (4th Review MEFP, ¶51)	End-September 2012	To ensure long-term financial sustainability of utilities	Delayed. Re-phased to reflect receipt of final report in Oct. (see end-March and July 1 benchmarks below)
Implementation of Electronic Clearing House system (5th Review MEFP, ¶38)	End-September 2012	To improve transmission of monetary policy and reduce cost of financial transactions.	Met
Introduce VAT	January 1, 2013	To modernize the tax system and remove tax distortions.	
Cabinet approval of the action plan to rebalance utility tariffs	End-March 2013	To ensure cost recovery and long-term sustainability of utilities.	
Cabinet approval of Financial Instructions and Accounting Manuals in line with new PFM Act and IPSAS standards (MEFP, ¶27)	End-June 2013	To improve efficiency of public finance management.	
Approval of Leasing Bill by National Assembly (MEFP, ¶35)	End-June 2013	To improve access to credit.	Project has started
Implement the first step of the utilities tariffs rebalancing (MEFP, ¶11)	July 1, 2013	To ensure long-term financial sustainability of utilities	

Attachment 2: 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 memorandum of economic and financial policies (MEFP), 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 2012-2013 are listed in Tables 1 and 2 of 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 encumberments 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. At each program test date, the quarterly 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 (MEFP 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.

A. Reserve Money (Ceiling)

Definition

6. Reserve money is equivalent to currency issued and deposits held by financial institutions at the central bank (bank reserves), including those denominated in foreign currencies. Evaluation of performance of reserve money with respect to the program ceiling will be done at the program accounting exchange rate.

Monitoring and reporting

7. For each program test date, the quarterly reserve money 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. Reports will be submitted to the IMF no later than two months after each test date.

B. Primary Balance of the Consolidated Government (Cumulative Floor)

8. The 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 of the government and social security fund.

C. 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.

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 leasor 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.

D. 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.

E. 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)

- Reserve money.
- 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.
- The detailed revenues and expenditures of the central government and social security fund.
- Accounts of the public nonbank financial institutions.
- Import and export data from the customs department.
- Public debt report.
- Statements of Stabilization Fund operations
- Consolidated creditors schedule on domestic expenditure arrears of the government.

Quarterly (within a month from the end of the quarter):

- Financial statements of Air Seychelles

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.

SEYCHELLES

November 30, 2012

SIXTH REVIEW UNDER THE EXTENDED ARRANGEMENT AND REQUEST FOR AN EXTENSION OF THE ARRANGEMENT AND AUGMENTATION OF ACCESS—DEBT SUSTAINABILITY ANALYSIS

Approved By
Roger Nord and Martin Muhleisen

Seychelles has completed debt restructuring negotiations with all but one external creditor. The projected end-2012 public debt stock stands at 78 percent of GDP (130 percent of GDP in 2008), while total external debt is forecast at 51 percent of GDP. Macroeconomic policies aim to reduce public debt to below 50 percent of GDP by 2018. However, debt dynamics demonstrate elevated sensitivity to shocks, reflecting the inherent vulnerabilities faced by small island nations.

External debt

Despite a tick up in 2012–14, external debt is on a declining trend aimed at achieving the authorities' public debt target of 50 percent of GDP by 2018. The increase in external debt from 46 percent of GDP in 2011 to 52 percent in 2014 is mostly due to new borrowing related to infrastructure projects;[1] following the restructuring of legacy loans, the authorities are now moving ahead with much-needed improvements in electricity, sewage and water services. Over the medium term, external debt is projected to decline significantly, reaching about 40 percent of GDP by end-2018 (table 1).

[1] Infrastructure loans comprise three concessional loans totaling $58.6 million from the European Investment Bank, AFD and AfDB for the rehabilitation of PUC's water infrastructure.

External debt dynamics are most sensitive to exchange rate movements, and to a lesser degree, a widening of the large non-interest current account deficit. A real depreciation of 30 percent in 2013 would increase the external debt-to-GDP ratio by almost 30 percentage points to nearly 80 percent (2013). In the event of a one-half standard deviation deterioration in the non-interest current account Seychelles' external debt would increase steadily to 77 percent of GDP in 2017. In both cases, policy measures would be required in order to meet the 2018 debt target.

Public debt

Seychelles' public debt remains high but sustainable provided that the authorities maintain fiscal discipline. Restructuring agreements have been reached with all but one bilateral creditor. Under the policies envisaged in the 2013 budget and authorities' medium-term fiscal projections, the ratio of government debt to GDP is projected to rise to 78 percent in 2012 (excludes t-bills issued for monetary purposes) before declining gradually thereafter. The tick up is mainly due to the recognition of contingent liabilities assumed by the government from Air Seychelles.[2] Achieving the public debt target of 50 percent of GDP by 2018 requires maintaining average primary surpluses above 4 percent of GDP through 2018.

Public debt dynamics are sensitive to a variety of shocks. All stress tests lead to a significantly higher stock of public debt. This highlights the importance of maintaining macroeconomic stability and sound fiscal policies which target a debt-reducing primary surplus.

[2] This amounted to 2.5 percentage points of GDP for 2012, of which 0.3 percent is external.

Table 1. Seychelles: External Debt Sustainability Framework, 2007-2018
(In percent of GDP, unless otherwise indicated)

	Actual					Projections							
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	68.7	82.5	89.9	49.1	46.2	**50.7**	**52.0**	**52.5**	**50.9**	**48.3**	**44.6**	**40.6**	**-14.4**
Change in external debt	17.5	13.8	7.3	-40.7	-2.9	4.4	1.3	0.6	-1.6	-2.6	-3.7	-4.0	
Identified external debt-creating flows (4+8+9)	-12.2	39.7	2.8	-14.6	2.6	8.1	1.1	-2.1	-2.6	-2.7	-2.8	-2.7	
Current account deficit, excluding interest payments	12.3	16.4	6.1	17.9	21.4	21.1	17.6	16.9	13.8	12.3	10.8	9.2	
Deficit in balance of goods and services	10.6	16.4	9.9	17.6	21.2	25.7	19.4	18.2	15.0	13.8	12.3	10.9	
Exports	99.3	108.3	121.8	101.9	103.2	103.8	101.2	100.0	99.0	98.0	98.1	98.7	
Imports	109.9	124.8	131.7	119.5	124.4	129.4	120.6	118.3	114.0	111.8	110.4	109.6	
Net non-debt creating capital inflows (negative)	-26.7	14.9	-18.6	-22.8	-16.0	-15.7	-16.4	-18.5	-16.0	-14.9	-13.3	-11.8	
Automatic debt dynamics 1/	2.3	8.4	15.3	-9.7	-2.9	2.8	-0.2	-0.5	-0.4	-0.2	-0.2	-0.2	
Contribution from nominal interest rate	3.1	3.7	3.6	1.9	1.1	1.4	1.3	1.4	1.5	1.6	1.4	1.3	
Contribution from real GDP growth	-5.1	1.4	0.1	-4.4	-2.3	-1.3	-1.4	-2.0	-1.9	-1.8	-1.7	-1.5	
Contribution from price and exchange rate changes 2/	4.2	3.3	11.5	-7.2	-1.7	2.7	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	29.7	-25.8	4.5	-26.1	-5.4	-3.7	0.2	2.6	1.0	0.1	-1.0	-1.3	
External debt-to-exports ratio (in percent)	69.2	76.2	73.8	48.2	44.8	48.8	51.4	52.5	51.5	49.3	45.4	41.1	
Gross external financing need (in billions of US dollars) 4/	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
in percent of GDP	19.9	27.3	19.7	25.3	23.5	23.5	20.5	20.1	17.5	17.0	15.8	13.9	
Scenario with key variables at their historical averages 5/						**51.0**	**53.3**	**57.3**	**59.6**	**61.1**	**61.4**	**61.1**	**-13.2**
Key Macroeconomic Assumptions Underlying Baseline													
Real GDP growth (in percent)	10.1	-1.9	-0.2	5.6	5.0	2.7	3.0	4.0	3.8	3.7	3.7	3.6	
GDP deflator in US dollars (change in percent)	-7.6	-4.6	-12.2	8.7	3.7	-5.6	3.0	1.6	1.9	2.1	2.0	1.5	
Nominal external interest rate (in percent)	6.2	5.0	3.8	2.5	2.4	2.9	2.7	2.9	3.1	3.3	3.2	3.2	
Growth of exports (US dollar terms, in percent)	19.6	2.1	-1.5	-3.9	10.2	-2.6	3.5	4.4	4.7	4.9	5.9	5.8	
Growth of imports (US dollar terms, in percent)	11.1	6.3	-7.5	4.3	13.3	0.8	-1.1	3.6	2.0	3.9	4.5	4.3	
Current account balance, excluding interest payments	-12.3	-16.4	-6.1	-17.9	-21.4	-21.1	-17.6	-16.9	-13.8	-12.3	-10.8	-9.2	
Net non-debt creating capital inflows	26.7	-14.9	18.6	22.8	16.0	15.7	16.4	18.5	16.0	14.9	13.3	11.8	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate,
e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

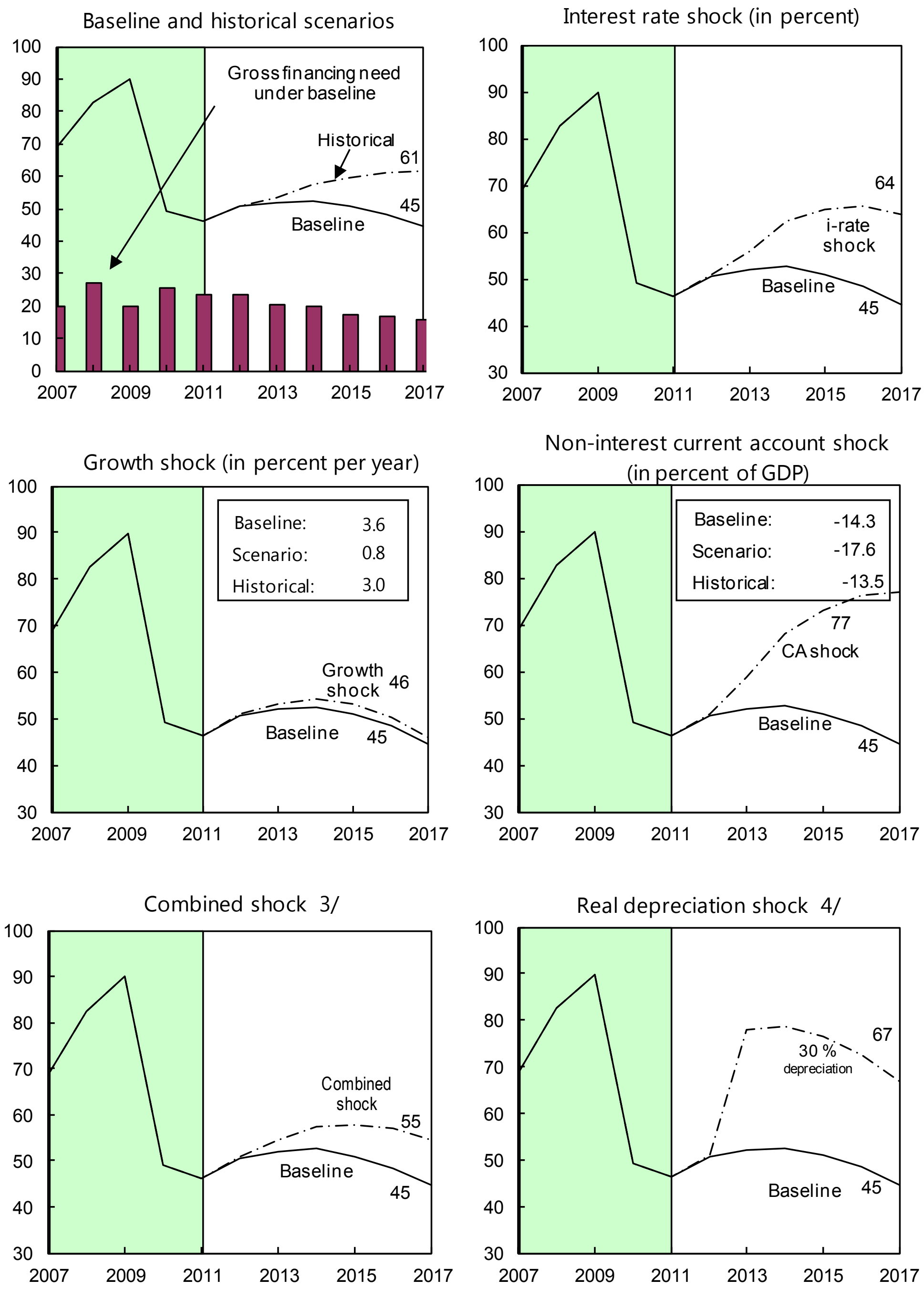
3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels

Figure 1. Seychelles: External Debt Sustainability: Bound Tests 1/ 2/



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2013.

Table 2. Seychelles: Public Sector Debt Sustainability Framework, 2007-2018

(In percent of GDP, unless otherwise indicated)

	Actual					Projections							
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Debt-stabilizing primary balance 9/
Baseline: Public sector debt 1/	130.7	130.0	123.5	81.6	74.3	**78.1**	**73.6**	**68.7**	**63.6**	**58.9**	**53.7**	**48.2**	**-1.2**
o/w foreign-currency denominated	68.7	82.5	89.9	49.1	46.2	50.7	52.0	52.5	50.9	48.3	44.6	40.6	
Change in public sector debt	-1.8	-0.7	-6.5	-41.9	-7.3	3.8	-4.5	-4.9	-5.0	-4.7	-5.2	-5.5	
Identified debt-creating flows (4+7+12)	-2.5	28.9	-56.3	1.2	-5.9	-0.9	-7.0	-7.2	-6.9	-6.4	-6.5	-6.0	
Primary deficit	1.1	-3.6	-14.2	-8.6	-5.4	-5.9	-5.6	-4.5	-4.4	-4.4	-4.6	-4.4	
Revenue and grants	32.0	34.9	37.0	35.0	38.2	42.7	41.1	38.3	37.8	37.3	37.3	37.2	
Primary (noninterest) expenditure	33.1	31.2	22.7	26.4	32.8	36.8	35.5	33.8	33.5	33.0	32.7	32.7	
Automatic debt dynamics 2/	-1.6	34.9	-40.0	11.1	0.3	3.7	-0.8	-2.5	-2.3	-2.0	-1.9	-1.6	
Contribution from interest rate/growth differential 3/	-18.6	-24.9	-17.8	3.8	-5.6	-1.3	-0.8	-2.5	-2.3	-2.0	-1.9	-1.6	
Of which contribution from real interest rate	-7.8	-26.7	-18.0	10.7	-2.0	0.5	1.4	0.3	0.2	0.2	0.1	0.2	
Of which contribution from real GDP growth	-10.8	1.9	0.2	-6.8	-3.7	-1.8	-2.2	-2.7	-2.5	-2.2	-2.0	-1.8	
Contribution from exchange rate depreciation 4/	17.0	59.8	-22.2	7.3	5.9	5.0	...	...	...	...	...	...	
Other identified debt-creating flows	-1.9	-2.4	-2.0	-1.3	-0.8	1.3	-0.5	-0.2	-0.2	0.0	0.0	0.0	
Privatization receipts (negative)	-1.9	-2.4	-2.0	-1.3	-0.8	-0.8	-0.5	-0.2	-0.2	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	2.1	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	0.7	-29.6	49.8	-43.1	-1.4	4.7	2.4	2.3	1.9	1.6	1.3	0.5	
Public sector debt-to-revenue ratio 1/	409.0	372.8	334.2	233.3	194.4	182.7	178.8	179.4	168.2	157.8	143.9	129.7	
Gross financing need 6/	29.5	23.9	21.0	28.1	17.6	17.4	19.4	19.8	15.5	13.3	11.6	9.8	
in billions of U.S. dollars	0.3	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	
Scenario with key variables at their historical averages 7/						**78.1**	**69.5**	**61.6**	**54.0**	**47.0**	**40.3**	**33.3**	**-3.1**
Scenario with no policy change (constant primary balance) in 2012-2017						**78.1**	**73.4**	**67.1**	**60.6**	**54.4**	**47.9**	**41.0**	**-1.1**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline													
Real GDP growth (in percent)	10.1	-1.9	-0.2	5.6	5.0	2.7	3.0	4.0	3.8	3.7	3.7	3.6	
Average nominal interest rate on public debt (in percent) 8/	6.1	6.9	8.8	5.0	4.0	6.0	5.2	4.1	3.6	3.7	3.5	3.5	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-6.0	-27.6	-17.5	8.6	-2.4	0.9	1.9	0.5	0.4	0.5	0.3	0.5	
Nominal appreciation (increase in US dollar value of local currency, in percent)	-27.5	-51.7	47.3	-7.4	-11.5	...	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	12.1	34.6	26.3	-3.6	6.4	5.1	3.2	3.6	3.3	3.3	3.3	3.0	
Growth of real primary spending (deflated by GDP deflator, in percent)	-12.7	-7.4	-27.3	22.7	30.5	15.2	-0.7	-0.9	2.8	2.1	2.9	3.6	
Primary deficit	1.1	-3.6	-14.2	-8.6	-5.4	-5.9	-5.6	-4.5	-4.4	-4.4	-4.6	-4.4	

1/ Includes debt of central government and government-guaranteed debt of parastatals. Excludes domestic debt issued for monetary purposes.

2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r). For 2012, actual data through end-July 2012.

5/ For projections, this line includes exchange rate changes.

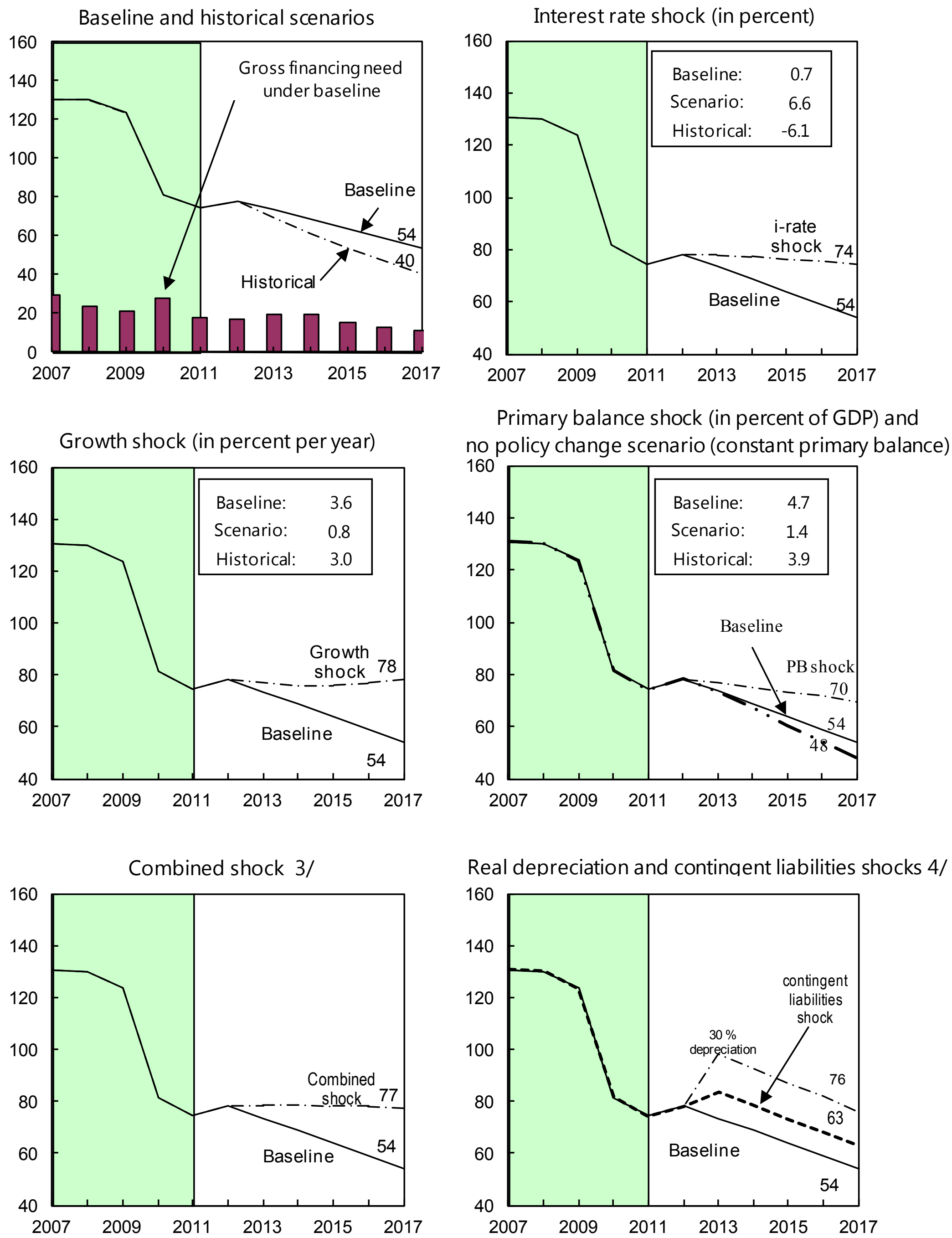
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP. While the debt dynamics under the historical average appear better than under the baseline, this result is driven by a negative historical interest rate.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. Seychelles: Public Debt Sustainability: Bound Tests 1/ 2/
(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

4/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2013, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

INTERNATIONAL MONETARY FUND

EXTERNAL RELATIONS DEPARTMENT

Press Release No. 12/490
FOR IMMEDIATE RELEASE
December 17, 2012

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes the Sixth Review Under the Extended Fund Facility (EFF) for Seychelles and Approves US$ 2.0 Million Disbursement and One-year Extension

The Executive Board of the International Monetary Fund (IMF) completed today the sixth review under the Extended Fund Facility (EFF) for the Seychelles. The completion of the review enables a disbursement of SDR 1.32 million (about US$2.0 million), which will bring total disbursements under the arrangement to SDR 19.8 million (about US$ 30.5 million). The Executive Board also approved an extension of the arrangement by one year to support the country's economic reform program and an augmentation of access by 60.6 percent of quota.

The Extended Fund Facility became effective on December 23, 2009, in the amount of SDR 19.8 million (see Press Release No. 09/472).

Following the Executive Board's discussion, Mr. Min Zhu, Deputy Managing Director and Acting Chair, made the following statement:

"Economic growth in 2012 has held up, with tourism from new markets offsetting weakness in traditional European arrivals. An uptick in inflation in the first half of the year emanating from higher energy prices and exchange rate depreciation has been successfully curbed by tight monetary policy. The outlook is benign, but remains vulnerable to the uncertain global environment.

"The outlook is supported by sustained strong policy performance. Introduction of the value added tax, now planned for January 1, 2013, marks an important milestone

in the ongoing modernization of Seychelles' tax system, while the move to automatic price adjustment mechanisms for fuel and utilities will help strengthen the financial position of parastatals.

"Current economic policies are appropriate and consistent with falling public debt over the medium term. Tighter fiscal policy should also preempt potential balance of payments pressures and provide scope to loosen monetary policy as inflation declines. Given the difficult global environment and rising debt service, the authorities should aim to build buffers by increasing international reserve holdings, and they should take a cautious approach to contracting new loans.

"The structural reform program aptly aims to improve financial discipline in public enterprises through better oversight. Moreover, recent ad hoc price adjustments and the introduction of an automatic price adjustment mechanism for fuel are welcome first steps toward cost recovery pricing, which will be further strengthened by the planned utility tariff reform."

**Statement by Jong-Won Yoon, Executive Director for Seychelles
and Ms. Nghi Luu, Senior Advisor to Executive Director
December 17, 2012**

The Seychelles' Extended Fund Facility (EFF) Arrangement has played a central role in restoring macro stability and growth to the economy, and has been instrumental to the development of the structural reform agenda. Since the Seychelles economy was in near collapse in 2008, fiscal and monetary policies have been tightened, inflation has fallen significantly, debt restructuring is near completion and the rupee has stabilized. Extensive reforms have been implemented since the three-year EFF commenced in December 2009, and sustaining momentum on structural reforms remains a key priority for the authorities. Fiscal discipline has been a key feature of this government, and we believe the task of reducing public debt to less than 50 per cent of GDP by 2018 remains firmly on track.

The Seychelles economy is maturing and while a number of challenges remain, the Seychellois economy is facing them from a position of strength. Our Seychellois authorities are reform-minded and remain committed to the EFF with continued strong program ownership. The IMF program has been underpinned by broad-based public support and the program has continued to surprise on the upside. The authorities see significant benefits in extending the EFF arrangement for another year to help preserve the gains from hard fought reforms, and to deepen structural reform in critical areas such as improving the transmission of monetary policy. Consolidating the significant progress achieved over the past few years will ensure that the reform agenda becomes entrenched in the medium term economic framework.

On behalf of the Seychellois authorities, we thank Staff for the engaging and productive discussion and the high quality of Staff advice. Considerable progress has been made in recent years with technical assistance from the Fund, and we wish to stay closely engaged. Authorities will also consult with the Fund on the adoption and changes to policy contained in the Memorandum of Economic and Financial Policies (MEFP) for 2013.

Economic development and outlook

As a small, open economy, Seychelles remains vulnerable to external shocks. As such, prospects for the Seychelles economy depend heavily on policies that mitigate the impact of risks stemming from the fragile state of the global economy. To this end, the floating exchange rate has served the economy well since its free flotation in November 2008.

Tourism (comprising around a quarter of GDP) remains an important source of growth and employment to the Seychelles. Although tourist arrivals from Europe have fallen, this has been largely offset by growth in non-traditional markets, such as Russia and the Middle East. Past efforts to diversify the tourism sector appear to be working, and tourist arrivals this year, as well as income, have exceeded our expectation, given the downturn in the European market.

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Real GDP is expected to pick up modestly to 3 per cent in 2013 and 4 per cent in 2014. Inflation is forecast to moderate and the current account deficit is expected to narrow, in line with an expected fall in commodity prices. Reserves are being rebuilt, albeit at a relatively modest pace and comprehensive restructuring of external debt is near completion.

Fiscal Policy

As noted above, the authorities are well on track to meet the target of limiting total debt to less than 50 per cent of GDP by 2018. The fiscal primary target under the program was met by a wide margin, notwithstanding the unexpected revenue windfall related to the sale of d'Arros island. The Seychellois authorities are committed to bringing down public debt and putting public finances on a sustainable footing. We are aware that spending on infrastructure and social services will need to be balanced against debt reduction efforts and careful consideration will need to be given to the impact of potential new loans on debt sustainability. The establishment of a committee to review large public investment projects (such as water and electricity) should help in this regard.

The authorities are also committed to strengthening the fiscal framework. Last month, the Public Financial Management Act was approved by the National Assembly. This Act includes, inter alia, the adoption of the new Charts of Accounts on which the 2013 Budget will be based upon, as well as enhancements to the Public Sector Investment Program and the establishment of the Government Audit Committee. The authorities are also finalizing a strategy to begin implementing a Program Based Budgeting Framework, and in 2013 it will initiate public expenditure reviews for health and education, which will be later extended to other key sectors.

Monetary and Exchange Rate policies

While inflation picked up modestly in mid-2012, it is projected to ease partly reflecting base effects from 12 months ago (higher energy prices and exchange rate depreciation). The recent moderation in inflation has allowed the Central Bank of Seychelles (CBS) to move gradually towards a more accommodative stance on monetary policy. Inflation is forecast to average 5.1 per cent in 2013 and 3.3 per cent in 2014.

While the foreign exchange market has been tight for most of 2012—which have rendered CBS' reserve buildup exercise more challenging—the situation has improved. We are nevertheless cognizant of the need to strengthen buffers against external shocks. The Central Bank will continue to purchase foreign currency for reserves accumulation purposes on the domestic interbank market and will continue to strengthen reserve management practices, including through the recent establishment of a three-year training program on reserve portfolio management.

In an effort to reduce excess volatility and to stabilize the rupee, the CBS intervened twice in the foreign exchange market in mid-2012. To help strengthen the transmission of monetary policy to achieve the CBS's primary objective of price stability, authorities will request technical assistance from the Fund to assess the desirability and feasibility of adopting a target for core inflation.

Financial sector policies

Wide-ranging reforms in the banking sector are being pursued, from increasing competition and enhancing the supervisory framework to improving access to credit and strengthening the financial literacy program.

Reducing the cost and improving the efficiency of financial transactions have been important objectives that have helped guide the development of financial sector policies. For example, the CBS is modernizing the National Payment System through the development of an electronic payment system. The countrywide provision of real-time payment services will result in greater financial inclusion and economic growth. The Electronic Cheque Clearing project has also been successfully implemented and will be followed by the rollout of an electronic Funds Transfer System in 2013.

The government is strengthening liquidity management having recently signed a Memorandum of Understanding between CBS and the Ministry of Finance, Trade and Investment to allow funds from treasury bill issuances to be placed in an account at the CBS with the interest cost to be borne by the government.

More broadly, the national stock exchange was launched in early December and as noted in the MEFP, Seychelles' ranking in the World Bank's 'Ease of doing Business' has improved substantially rising by 29 places to 74th in the 2013 ranking, and there is the potential for further improvements in the next ranking owing to a number of measures introduced over the past 6 months.

Program Implementation

The authorities have a strong track record in program implementation and performance. All performance criteria and structural benchmarks as of end-June have been met, and we remain on track to meet the end-December targets. As Staff notes, our capacity to repay the Fund remains strong when measured across a number of metrics.

The key objectives underpinning the request for a one year extension of the arrangement include fiscal reform, building reserves and improving the sophistication of the market-based monetary policy framework. The EFF extension and augmentation would help to cement the gains achieved in macroeconomic stabilization, assist in debt stabilizing and maintain the momentum on reform.

Structural Reforms – Second Generation

Structural economic policies are being pursued steadfastly, and will have far-reaching implications for households, businesses and government. Despite implementation risks associated with the rollout of some reforms, we have devoted significant effort to the planning and sequencing of reform. At the current juncture, developing sound institutions and strengthening the operation of monetary policy while maintaining fiscal discipline is critical to lifting growth and improving the resilience of the Seychelles economy.

Structural reforms are centered on modernizing the tax system and improving the financial performance of the broader public sector. The government is committed to improving the oversight and management of state-owned and parastatal companies. Work remains on improving the financial stability and reducing the debt of public sector enterprises, and progress here will be important to unlocking future growth potential.

Other important reforms include:

- The restructuring of Air Seychelles (joint venture with Etihad) is beginning to pay early dividends, with earlier-than-expected profits. Beginning next year, the commencement of flights into the Asian market through Abu Dhabi will help us expand our international network.

- Reducing the cross-subsidization of electricity costs through the implementation of the tariff study recommendations. The recent completion of the study on utility tariff reform will be instructive to the restructuring of electricity prices in 2013. We recognize that we need to strike the right balance between gradual increases in utility prices while protecting the vulnerable and low-income households.

- The introduction of value-added tax (VAT) from 1 January 2013, will also weigh on low-income households and we intend to protect low-income households by increasing the minimum wage, increasing benefits provided by the Agency for Social Protection, and exempting VAT on basic commodities and essential services. To ensure the smooth implementation of the VAT, we have stepped up our communication with key stakeholders and the general public on the new system. Over the medium term, modernizing the tax system will require an overhaul of some aspects of the tax system. We will work towards overhauling the tax system by further reducing the business tax rates, broadening the tax base and improving compliance in revenue collections.