IMF Country Reports 20/170

Seychelles: Request for Purchase Under the Rapid Financing Instrument-Press Release; Staff Report; and Statement by the Executive Director for Seychelles

INTERNATIONAL MONETARY FUND

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IMF Country Report No. 20/170

SEYCHELLES

May 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SEYCHELLES

In the context of the Request for Purchase Under the Rapid Financing Instrument, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 8, 2020, following discussions that took place during April 6-May 4, 2020, with the officials of Seychelles on economic developments and policies underpinning the IMF arrangement under the Rapid Financing Instrument. Based on information available at the time of these discussions, the staff report was completed on May 4, 2020.
- A **Statement by the Executive Director** for Seychelles.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Approves a US$31.2 Million Purchase in Emergency Assistance to Seychelles to Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The IMF approved Seychelles' request for emergency financial assistance under the Rapid Financing Instrument (RFI) of about US $31.2 million.
- The near-term economic fallout of the COVID-19 pandemic is expected to be severe. Restriction in travel will hinder tourism and weaken fiscal and external positions, creating large additional financing needs.
- The authorities reacted swiftly by taking immediate measures of containment, including border closures, strengthening health policy responses and supporting households and firms.

Washington, DC – May 8, 2020 The Executive Board of the International Monetary Fund (IMF) approved today Seychelles' request for emergency financial assistance under the Rapid Financing Instrument (RFI) equivalent to SDR 22.9 million (about US$31.2 million, or 100 percent of quota) to meet the country's urgent balance of payment needs stemming from the COVID-19 pandemic.

The near-term economic fallout of the COVID19 pandemic is expected to be severe. Travel restrictions and the subsequent loss of tourism receipts are sharply reducing economic activity and weakening the fiscal and external positions, creating large additional financing needs. The authorities reacted swiftly by taking immediate measures of containment, including border closures, strengthening health policy responses and supporting households and firms.

The RFI will provide timely resources to the authorities to address the urgent balance of payments needs and soften the hit on the budget. The IMF will continue to monitor Seychelles' situation closely and remain in close dialogue with the authorities.

Following the Executive Board discussions, Mr. Tao Zhang, Deputy Managing Director and Chair, made the following statement:

"Seychelles' hard-won economic gains since the 2008 crisis, supported by successive Fund arrangements, are being eroded by the severe impact of the COVID-19 pandemic.

"A temporary fiscal expansion as well as expeditious external support are needed to address the large output contraction. The authorities have taken decisive measures to prevent a local outbreak and mitigate the economic fallout on affected businesses and the most vulnerable households. Once the pandemic dissipates and confidence is restored, the authorities are committed to return to a fiscal stance that stabilizes debt.

"The central bank's prompt response to provide emergency assistance will help alleviate the economic fallout. The flexible exchange rate has served Seychelles well, and the resilience of the banking system will play a crucial role in restoring external and internal balances. The

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central bank should remain vigilant to potential market stress and emerging risks to financial markets.

"The emergency IMF support under the Rapid Financing Instrument provides timely resources to the authorities to address the urgent balance of payments and budgetary needs. The assistance of other international financial institutions and development partners is crucial to close the remaining financing gaps, ease the adjustment burden, and preserve economic growth. The authorities are committed to transparency and good governance in the use of emergency financing by providing monthly reports of pandemic-related expenditure to the National Assembly and undertaking an independent audit of such spending and procurement and publishing the results."

For information on the emergency financing requests approved by the IMF Executive Board, please see a link to the IMF Lending Tracker:

https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker

For upcoming discussions on the emergency financing requests, please see a link to the calendar of the IMF Executive Board meetings:

https://www.imf.org/external/NP/SEC/bc/eng/index.aspx

INTERNATIONAL MONETARY FUND

SEYCHELLES

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

May 4, 2020

EXECUTIVE SUMMARY

Context: In recent years, economic growth has been robust and inflation low, while the external and fiscal positions have improved. These hard-won gains, supported by three successive Fund financial programs, followed by the Policy Coordination Instrument (PCI), which was approved in 2017, are at risk of being eroded by the severe impact of the COVID-19 pandemic. The authorities have taken decisive measures to prevent a local outbreak and to mitigate the economic impact on affected businesses and the most vulnerable households. Nonetheless, given Seychelles' heavy dependence on tourism, the economy is being very badly hit, with GDP likely to drop by over 10 percent this year.

Request for Fund support: In the attached Letter of Intent, the authorities are seeking financial assistance from the IMF under the Rapid Financing Instrument (RFI) of SDR 22.9 million, equivalent to 100 percent of quota to address the urgent balance of payment needs arising from the economic impact and mitigation efforts to the COVID-19 pandemic. They are also proposing that the resources be used as direct budget support to the Ministry of Finance.

Staff's views: Staff supports the authorities request. Debt is projected to be sustainable although risks have increased substantially. Seychelles' capacity to repay the Fund is adequate but subject to downside risks. RFI resources will cover about a quarter of the estimated BOP financing needs and help catalyze further international support.

Approved By	
David Owen (AFR) and Martin Sommer (SPR)	The staff team comprised Ms. Yontcheva (head), Mr. Konuki and Ms. Diallo (all AFR), and Mr. Dodzin (MCM). The mission met remotely during April 28, 2020 with the Minister of Finance, the Governor of the Central Bank, other senior officials. Mr. Khurelbaatar (OED) also participated in the discussions. Ms. Carvalho provided research support and Ms. Aliu provided assistance for the preparation of this report.

CONTENTS

ECONOMIC DEVELOPMENTS PRE-COVID 19

1. **Before the COVID-19 global outbreak, economic performance was solid, the fiscal and external balances at end-2019 outperformed staff's projections, and the medium-term outlook was positive.** Building upon the significant progress made since the 2008 crisis and evidenced by robust growth and strengthening of fiscal and external positions, the economic momentum at end-2019 remained strong (Tables 1-5). Tourism receipts increased by 5½ percent, contributing to a real GDP growth of 3.9 percent in 2019. Gross international reserves (GIR) outperformed staff's projections at the time of the 4th review under the PCI. The financial sector appeared sound and banks were adequately capitalized and liquid. The inflation rate was subdued. The primary fiscal surplus reached 2.7 percent of GDP in 2019, slightly overperforming the authorities' target of 2½ percent of GDP. The near- and medium-term economic outlook was projected to be benign.[1]

2. **Performance under the PCI-supported program was strong.** Based on preliminary information, all end-December 2019 quantitative targets were met while the 12-month average inflation at end-2019 was well within the inner bound of the monetary policy consultation clause. Structural reforms progressed broadly in line with the targets until the COVID-19 pandemic severely impacted the country in early 2020. The authorities' macroeconomic policies remain guided by the objectives of the PCI. The fifth PCI review, which was scheduled to be completed by end-April 2020 but is delayed in light of the pandemic but completion before end-July is planned. Staff is confident that the authorities will cooperate with the Fund and pursue economic policies appropriate for addressing the impact of the virus, based on the country's track record of strong economic policies and excellent relations with the Fund.

IMPACT OF THE COVID-19 PANDEMIC, OUTLOOK AND RISKS

3. **The COVID-19 pandemic has severely interrupted this positive economic trajectory.** While the number of COVID-19 cases has been limited so far in Seychelles (11 cases as of April 22, 2020), the short-term economic impact of the COVID-19 on this tourism-dependent small island economy is expected to be large (Text Table 1). Tourism and its related sectors account for about one third of Seychelles' GDP. The global economic downturn and travel restrictions are expected to reduce tourist arrivals by about half in 2020, compared with the pre-pandemic projection of a 7 percent growth.[2] Hence, economic activity is tentatively projected to decline by almost 11 percent in 2020 (compared with the pre-crisis projection of 3½ percent expansion), on account of a pronounced fall in exports of services.

[1] See Country Report No. 19/386.

[2] Although the global assumptions in the April 2020 World Economic Outlook (WEO) indicate that major advanced and emerging markets, which are the main tourism markets for Seychelles, will start a strong recovery in 2020Q3, it is likely to take some time for the confidence of tourists to return to pre-pandemic levels.

Text Table 1. Seychelles: Selected Economic Indicators, 2020, Before and After the Shock

	2020 Before the shock 1/	2020 After the shock
Real economiuc activities (annual percentage change, unless otherwise indicated)		
Nominal GDP (millions of Seychelles Rupee)	24,447	21,538
Real GDP	3.5	-10.8
CPI (annual average)	2.1	4.5
Credit to the private sector	10.1	-1.0
Fiscal position (percent of GDP)		
Total revenue, excluding grants	37.7	31.6
Expenditure and net lending	40.2	48.5
Overall balance, including grants	0.1	-13.6
Primary balance	2.5	-9.7
Total government and government-guaranteed debt	57.3	85.8
Balance of payments (in millions of US dollars, unless otherwise indicated)		
Current account deficit (in percent of GDP)	17.6	29.2
Tourism earnings	625	311
FDI into Seychelles	268	80

Sources: IMF staff estimates

1/ Projections at the time of the 4th review under the PCI

4. **The COVID pandemic is worsening the external position.** The current account deficit is expected to reach 29.2 percent of GDP in 2020 (compared with the pre-pandemic projection of 17½ percent of GDP). Meanwhile, most of the expected FDI, which has been the major source of financing of current account deficits, is likely to be postponed to at least 2021.[3] Without exceptional financing, the central bank's gross international reserves (GIR) are estimated to decline to around $240 million by end-2020, equivalent to only 1.8 months of prospective imports and 66 percent of the Fund's standard reserve adequacy (ARA) metric. This would imply a financing gap of $126 million in 2020 (10 percent of 2020 GDP, Text Table 2).

Text Table 2. Seychelles: External Financing Gap 2020

(Millions of US dollars; unless otherwise specified)

	2019	2020 Pre-COVID /1	2020 Latest without external support
Current account balance	-275.4	-305.6	-366.1
Balance of goods and services	-179.3	-192.9	-274.4
Exports of goods	516.3	583.4	391.4
Imports of goods	1,135.9	1,268.3	871.1
Exports of services	1,136.0	1,053.9	618.4
Imports of services	695.7	561.9	413.1
Balance on primary income	-89.7	-95.5	-94.1
Balance on secondary income	-6.5	-17.2	2.4
Financing			
Capital account	48.5	59.3	35.2
Financial account , net	266.5	256.6	-0.4
Direct investment, net	243.1	260.6	80.4
Portfolio investment, net	-59.9	-34.0	-80.1
Other investment, net	83.2	30.0	-0.7
Overall balance	39.5	10.2	-331.6
GIR without external support			242
In percent of ARA metric			66
Financing Gap			125.7
In percent of GDP			10.0
RFI			31
Other sources			55
World Bank			46
African Development Bank			9
Unidentified Budget Support			40
GIR with external support			368
In percent of ARA metric			100

Sources: Authorities and IMF staff estimates.

1/ January 2020 WEO Update

[3] The majority of FDI into Seychelles is tourism related.

5. The fiscal impact of the COVID-19 pandemic will also be severe (Text Table 3). The fiscal primary balance is expected to reach a deficit of 9.7 percent of GDP in 2020 (compared with a surplus of 2.5 percent of GDP targeted by the pre-pandemic 2020 budget). The contraction in tourism related activities and underperforming dividends are the main factor impacting revenues, which would bring the total revenue (excluding grants) to GDP ratio to 31.6 percent in 2020, compared with 37.7 percent in the pre-pandemic budget. Expenditures are expected to reach 48.5 percent of GDP in 2020, compared with 40.2 percent of GDP in the original 2020 budget, reflecting the cost of health and economic measures (see Text Table 4).

Text Table 3. Seychelles: Fiscal Accounts, 2020, Before and After the Shock

	2020 Before the shock 1/	2020 After the shock
	(In percent of GDP)	
Total revenue, excluding grants	37.7	31.6
Tax	31.6	27.5
Of which		
Excise tax	6.3	6.1
VAT	11.4	8.7
Business tax	5.8	5.0
Nontax	6.0	4.1
Of which		
Dividends from SOEs	3.4	1.8
Expenditure and net lending	40.2	48.5
Primary current expenditure	31.9	40.7
Capital expenditure	5.1	2.9
Contingency	0.2	0.5
Primary balance	2.5	-9.7
Overall balance	0.1	-13.6
Financing	-0.1	13.6
External financing w/o exceptional financing	-0.7	-1.1
Domestic	0.6	4.7
o/w CBS	1.2	2.6
o/w Commercial banks	-0.7	0.3
Financing gap	0.0	10.0
Exceptional RFI financing	0.0	2.5
Other budget support loans	0.0	7.5

Sources: IMF staff estimates
1/ Prpojections at the time of the 4th review under the PCI

6. The medium-term outlook is contingent on resumption of tourism and capital flows to Seychelles. In line with the April 2020 WEO global projections, staff assumes that global tourism demand will rebound strongly starting in 2021 and the number of tourist arrivals in Seychelles would return to the level of 2019 by 2025. With this recovery in tourism and accompanying investments, real GDP growth is expected to reach 6.5 percent in 2021 and gradually moderate to around 4 percent over the medium term, in line with staff's estimates of potential growth rate in Seychelles. With normalization of global supply chains and foreign exchange markets, inflation is projected to moderate to around 3 percent over the medium term.

7. However, there are considerable downside risks. The main external risk is a prolonged COVID-19 outbreak that would continue to suppress international growth, tourism and FDI, thereby further widening the external financing gap. Domestic risks include a local outbreak which could overwhelm the healthcare system and exponentially increase health spending while depressing economic activity as well as adverse climate events. Under such adverse scenario, growth would fall further, and the fiscal and external financing needs would be larger, potentially requiring greater domestic policy actions and support from development partners.

Text Table 4. Seychelles: Policy Measures in Response to COVID-19 Pandemic

Containment measures	– Entry ban of cruise ship starting February 17. – Entry ban from China, Hong Kong, Macau, Italky, Iran and Korea starting February 17. – Entry ban from all countries starting March 23. – Travel ban to all countries starting March 23. – Closure of schools and social distance recommendations starting March 23. – Mandatory work from home for all non-essential workers starting April 9.
Fiscal measures	– Revised 2020 budget submitted to the National Assembly on April 7, including: (i) wage grants to all companies affected by COVID-19 pandemic for 3 months, capped at SCR30,000 per month per employee (5.1 percent of GDP). (ii) additional allocation of health spending (½ percent of GDP) (iii) addition allocations to social protection for the vulnerable group (¼ percent of GDP) (iv) suspension of hiring of non-essential staff and other current spending
Monetary and financial measures	– Monetary policy rate reduced by 100 basis points on March 23. – A credit facility of SCR500 million was set up recently to assist commercial banks with emergency relief measures to assist businesses affected by COVID-19. – A moratorium of six months on the repayment of principal and interest on loans to assist businesses in impacted sectors was announced. – The National Assembly has allowed the Central Bank to provide (i) a limited credit to government up to SCR 500 million; and (ii) extending the maturity of credit to commercial banks to 3 years. – Central Bank sold $10 million of FX to meet the unmet FX demand on April 9.

POLICY DISCUSSIONS

The authorities plan to temporarily loosen macroeconomic and financial policies to absorb the shock in 2020 but are committed to implementing the necessary measures to maintain public debt and external sustainability once the shock abates.

A. Fiscal Policy

8. **Prudent budgetary fiscal policy in recent years has generated fiscal space but an adequate policy response to the COVID-19 pandemic will require a large widening of the fiscal deficit in 2020.** A large fiscal expansion is needed to mitigate the economic damage inflicted by the pandemic. The government has presented a revised budget at the National Assembly, reflecting substantial increases in spending to tackle the COVID crisis, including a 3-month wage subsidy estimated to cost up to SCR 1.1 billion (5.1 percent of GDP in 2020). To ensure that the wage subsidy would be paid out to only companies which were impacted by the pandemic, the government is applying a strict eligibility criteria, including submission of cash flow information to verify that the financial condition has worsened due to the negative economic impact of the pandemic. The government is committed to limiting the spending of wage subsidy no more than SCR 1.1 billion (5.1 percent of GDP) to ensure that the fiscal cost will be consistent with fiscal sustainability objectives. The government will allocate about SCR110 million (0.5 percent of GDP in 2020) to additional health-related contingency spending and about SCR50 million (¼percent of GDP) to social protection spending for the vulnerable group. To ensure transparency of these emergency fiscal spending, the government will submit monthly

reports of the emergency spending on wage subsidies, health, and social spending to the Finance and Public Accounts Committee of the National Assembly and made such reports public within three months. Furthermore, an independent audit on emergency spending and related procurement processes will be conducted and the audit report will also be published. To create fiscal space for these emergency expenditures, non-essential hiring and current spending, including some officials' travels and social events, will be suspended in 2020 (saving estimated at around 1 percent of GDP in 2020). Staff underscored that the ambitious level of capital expenditure in the revised 2020 budget may not be achievable, considering the execution constraints over the past several years and expected additional supply disruptions due to the pandemic in 2020. The government plans to re-examine the public investment program at the end of the second quarter of 2020 to ensure it matches financing availabilities and debt sustainability objectives.[4] The government intends to substantially increase external borrowing in 2020 to finance the wide financing gap opened by the COVID-19 pandemic without straining the domestic financial sector. In addition to the identified budget support loans from IFIs (about $55 million) and the RFI purchase (about $31 million), the government will seek another $40 million of external budget support. The government also plans to resort to the Central Bank of Seychelles (CBS) advances (SCR250 million, half of the maximum amount stipulated in the CBS Act) and issuances of government securities to commercial banks and other private sector (about 2¼ percent of GDP, see Text Table 3). In case external budget support does not increase as planned, greater domestic policy actions would need to be considered.

9. Public debt should remain sustainable over the medium term although risks have increased substantially. The public debt to GDP ratio is expected to jump from 59 percent at end-2019 to about 85¾ percent by end-2020 and gross financing needs from 24 percent in 2019 to 39¼ percent in 2020, respectively, reversing the strong downward trend since the 2008 crisis. However, the government is committed to implementing fiscal saving measures to bring back the public debt ratio on a downward path once the impact of the pandemic dissipates and confidence is restored, by steadily improving the primary balance from 2021 onwards to reach a surplus of 2½ percent of GDP by 2025 and by actively continuing to seek external budget support after 2021.[5] In staff's view, medium term consolidation measures could include reduction of non-priority current expenditures. The staff's debt sustainability analysis (DSA) indicates that, over the medium term, the debt-to-GDP ratio and gross financing needs will follow a steady declining path to reach 55½ percent and 23½ percent of GDP by 2025, respectively (Annex I). In addition, domestic financing options and international official creditors will help alleviate the very high rollover risks. However, there are substantial risks to debt sustainability given a sharp increase in the public debt ratio, very high gross financing needs, uncertain growth outlook, and uncovered financing gaps. In this context, the government should step up its efforts to identify financing for covering these gaps and, if needed, adjust policies.

[4] Given the expected supply disruptions for the next few months due to the pandemic, this Staff Report assumes that the actual execution of the public investment in 2020 would be limited to externally financed investment projects.

[5] Unidentified budget support loan of $40 million is assumed in 2020, $50 million in 2021, and $30 million each year during 2022–25 (Table 2).

10. While short-term actions are focused on COVID-19 mitigation, structural reforms should continue. The authorities intend to carry on their intensified efforts to minimize fiscal risks from SOEs, particularly Air Seychelles. Air Seychelles began its comprehensive operational restructuring in late 2018, including staff redundancy and the closure of loss-making international routes. Its financial performance improved significantly in 2019 thanks to the progress in operational restructuring.[6] However, the collapse of tourism activities triggered by the COVID-19 pandemic will likely have a dire impact on the company's already weak financial health.[7] The government will shortly discuss the future of the company with the other shareholder. Staff underlined that the government should closely monitor the company's financial performance and the progress in its restructuring and take corrective actions, if needed, to ensure that no budget impact would materialize beyond that assumed in the latest medium-term expenditure and debt projections. Staff advised the government to examine the possible scope for further privatization of some SOEs, including Air Seychelles, to reduce the fiscal risks and improve economic efficiency over the medium term. The government is encouraged to pursue its efforts to improve its public finance management (PFM) and notably set up transparent mechanisms for tracking, accounting, and reporting of COVID-19 related emergency spending.

B. Monetary and Financial Sector Policies

11. The CBS is committed to maintaining prudent monetary and financial policies while mitigating pressures from increased capital outflows. In late March, the CBS decided to loosen its policy stance by reducing the policy rate by 100 basis points and increasing liquidity in the banking system. The CBS set up a long-term lending instrument of SCR 500 million for commercial banks to assist businesses struggling with the financial impact of the pandemic with emergency relief measures. The CBS also called on commercial banks to grant a moratorium of six months on the repayment of principal and interest on loans to assist businesses in impacted sectors. Staff advised the CBS to maintain its flexible exchange rate policy and to limit foreign exchange interventions to the extent needed to address disorderly market conditions, while allowing exchange rate adjustment. The inflation is expected to remain moderate and the CBS intends to closely monitor its developments. It is key to ensure that: (i) borrowers that were already highly unlikely to repay before the Covid-19 crisis started do not unduly benefit from wide-ranging repayment holidays; and (ii) borrowers facing temporary difficulties are not disincentivized to resume loan repayment at the end of the application of the moratorium. Banks should continue to carefully assess the credit quality of exposures subject to these measures and identify situations in which borrowers are unlikely to pay. Banks and supervisors should also

[6] The loss of the company declined to $4.6 million in 2019 from 41.5 million in 2018.

[7] In the revised 2020 budget, an additional transfer of SCR109 million (½ percent of GDP) to Air Seychelles is allocated, on top of the financial support to the company already incorporated in the authorities' medium-term debt projections: guarantees to working capital of $12.5 million and to the other shareholder's preference shares of $30 million starting in 2019, and $6 million of transfers to the company each year financed by grants during 2019–23.

collect information about the scope of moratoria, identify precisely borrowers and exposures subject to these measures, and improve the quality of disclosure.

12. Since the banking sector is well capitalized and liquid, it should be able to absorb some credit losses and liquidity squeeze if the crisis is short lived. If the banks would absorb their capital and liquidity buffers, the CBS should agree with them on a plan to bring capital and liquidity to above the required minima, while taking into account the length of the crisis.

FUND SUPPORT UNDER THE RAPID FINANCING INSTRUMENT

13. The authorities requested a purchase under the Rapid Financing Instrument (RFI) in an amount equivalent to 100 percent of quota (SDR22.9 million, $31.1 million). The pandemic is expected to generate extensive economic damage in the short term. The qualification criteria for the Fund's emergency financing through RFI are met as urgent balance-of-payments need, if left unaddressed, would result in an immediate economic disruption, while the severity of the shock, uncertainty about the outlook, and the urgency of the need make it difficult to quickly reach understandings on policies for a Fund-supported program. Debt is assessed as sustainable despite the temporary spike in debt ratio and gross financing needs, although risks are substantial (Annex I). The proposed purchase under the RFI would contribute towards closing a quarter of the external financing gap and play a catalytic role for further international support. The World Bank and the AfDB also plan to provide emergency assistance of about $55 million (Text Table 5). Remaining needs of $40 million are expected to be filled by other international partners and/or further policy adjustment.[8] The authorities' strong track record of prudent macroeconomic policies and structural reforms since 2009 under three successive programs supported by Fund financial assistance and the recent PCI, combined with the size of the estimated financing gap, justifies such access.

Text Table 5. Seychelles: Balance of Payments Financing, 2020-25

	2020	2021	2022	2023	2024	2025
	Proj.					
	(In millions of US dollars)					
Financing Gap	125.7	50.0	30.0	30.0	30.0	30.0
Identified budget support	85.7	0.0	0.0	0.0	0.0	0.0
World Bank	45.6	0.0	0.0	0.0	0.0	0.0
AfDB	9.0	0.0	0.0	0.0	0.0	0.0
IMF RFI disbursement	31.1	0.0	0.0	0.0	0.0	0.0
Unidentified budget support	40.0	50.0	30.0	30.0	30.0	30.0

Sources: Authorities and IMF staff projections.

14. The authorities are also requesting that RFI resources be made available as direct budget support. Budget support is the fastest way to reduce the financing gap in the balance of payments and soften the hit on the budget. The CBS and the Ministry of Finance will agree on a

[8] In the BOP table in this Staff Report, $40 million of unidentified external budget support loan in 2020 is assumed.

Memorandum of Understanding that: (i) commits the government to maintaining funds received from the IMF in a government account at the CBS, pending their use; (ii) requires the government to hold foreign exchange balances only with the CBS; and (iii) clarifies the responsibilities for repaying Fund resources. In line with IMF safeguards policy, the CBS is committed to undertake an update of the safeguards assessment before the approval of any new subsequent arrangement by the IMF Executive Board. The latest assessment of the CBS was completed in February 2018. Draft amendments to the CBS Act, including provisions to enhance the governance arrangements, have yet to be presented to the National Assembly and remain an outstanding recommendation.

15. Capacity to repay the Fund under such access is adequate subject to downside risks (Table 6). The Fund repayment ratio to exports of goods and services will peak at 13½ percent in 2024, while the Fund repayment-to-GIR ratio will reach peak at 3.6 percent in 2024.

STAFF APPRAISAL

16. The Covid-19 pandemic is expected to have a severe impact on Seychelles. Global tourism demand has come to a standstill and real GDP is expected to contract by almost 11 percent in 2020 with a recovery projected in 2021. The fiscal position is expected to deteriorate drastically in 2020 due to significant revenue losses triggered by the pandemic and additional spending needs to mitigate the negative economic impact and to prevent a potential outbreak in Seychelles (almost 6 percent of GDP). As a result, a BOP financing gap of $126 million (about 10 percent of GDP) is estimated to open in 2020.

17. To address the crisis, a temporary loosening of macroeconomic and financial policies as well as expeditious external support are needed. A temporary widening of the budget deficit due to the revenue loss triggered by the pandemic and the necessary spending to combat the crisis is appropriate. Budget support by IFIs is the best way to reduce the financing gap in the balance of payments and soften the hit on the budget. The deterioration in the fiscal position in 2020 should be embedded in a medium-term fiscal plan, in which the primary fiscal position should improve significantly each year after the shock abates and confidence returns, bringing the public debt-to-GDP ratio back on a steadily declining path. The CBS' prompt response to the crisis by reducing the monetary policy rate and setting up an emergency credit facility is appropriate. The CBS is advised to maintain its flexible exchange rate policy and to limit foreign exchange interventions to the extent needed to address disorderly market conditions. The CBS should stay vigilant at potential market stress and any emerging risks to the financial sector.

18. Staff supports the authorities' request for purchase under the RFI. Seychelles' capacity to repay the Fund is adequate but subject to downside risks. Staff's support is based on the urgent balance of payments need arising from the severe impact of the pandemic, the authorities' existing and prospective policies to address this external shock, along with their strong track record which will mitigate risks for the Fund.

Table 1. Seychelles: Selected Economic and Financial Indicators, 2016–25

Nominal GDP (2017): US$1,498 million
Per capita GDP (2017): US$15,735
Population, end-year (2016): 94,677
Literacy rate (2015): 95.3 percent
Main products and exports: Tourism, Canned Tuna

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Act.	Act.	Prel.	Proj.			Proj.			
	(Annual percent change, unless otherwise indicated)									
National income and prices										
Nominal GDP (millions of Seychelles rupees)	19,002	20,806	22,064	23,191	21,538	23,643	25,607	27,575	29,563	31,680
Real GDP	4.6	4.4	3.8	3.9	-10.8	6.5	5.4	4.6	4.1	4.0
CPI (annual average)	-1.0	2.9	3.7	1.8	4.5	3.1	3.1	3.0	3.0	3.0
CPI (end-of-period)	-0.2	3.5	3.4	1.7	4.8	3.4	3.4	3.0	3.0	3.0
GDP deflator average	-0.9	4.9	2.2	1.2	4.2	3.0	2.8	3.0	3.0	3.0
Money and credit										
Broad money	12.1	16.4	7.7	13.9	-6.0	...	...	...	...	...
Reserve money (end-of-period)	14.5	18.9	4.5	22.7	-16.4	...	...	...	...	...
Velocity (GDP/broad money)	1.4	1.3	1.3	1.2	1.2	...	...	...	...	...
Money multiplier (broad money/reserve money)	4.6	4.5	4.6	4.3	4.8	...	...	...	...	...
Credit to the private sector	10.3	17.8	11.5	22.3	-1.0	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)									
Savings-Investment balance										
External savings	20.6	20.1	17.9	16.7	29.2	25.8	24.1	21.9	19.6	18.6
Gross national savings	9.7	8.8	8.6	9.5	-3.8	3.4	6.1	8.4	9.2	10.2
Of which: government savings	3.8	3.7	4.2	4.4	-12.1	-2.2	1.3	4.6	5.5	6.5
private savings	5.9	5.0	4.4	5.1	8.3	5.5	4.8	3.8	3.7	3.7
Gross investment	30.2	28.9	26.6	26.2	25.5	29.2	30.2	30.2	28.8	28.8
Of which: public investment [1]	5.0	4.4	5.1	3.7	4.0	6.4	6.4	6.3	6.3	6.3
private investment	25.2	24.5	21.5	22.5	21.5	22.8	23.8	23.9	22.5	22.5
Private consumption	47.1	51.3	52.7	53.1	52.9	55.0	55.0	54.0	53.5	53.3
	(Percent of GDP)									
Government budget										
Total revenue, excluding grants	36.7	35.1	36.2	36.0	31.6	32.8	32.9	33.8	33.8	33.7
Expenditure and net lending	38.1	36.5	37.8	36.1	48.5	42.0	38.7	37.7	36.4	35.0
Current expenditure	33.1	32.1	32.8	32.4	44.6	35.7	33.3	31.3	30.3	28.9
Capital expenditure [1]	5.0	4.4	5.1	3.7	4.0	6.4	6.4	6.5	6.1	6.2
Overall balance, including grants	-1.4	0.1	0.7	-0.8	-13.6	-4.9	-3.8	-2.2	-1.3	-0.1
Program primary balance	3.4	3.1	2.9	2.7	-9.7	-1.8	-1.0	0.3	1.6	2.5
Total government and government-guaranteed debt [2]	72.7	65.8	60.9	59.1	85.8	80.0	74.5	67.7	61.8	55.4
Domestic (including debt issued for monetary purposes)	40.5	36.2	32.3	32.1	39.2	35.7	32.6	29.3	25.5	20.0
of which: Monetary debt	16.2	11.2	9.2	8.6	7.9	5.9	4.3	2.9	1.7	0.9
External	32.2	29.7	28.5	27.0	46.5	44.4	41.9	38.4	36.3	35.3
External sector										
Current account balance including official transfers (in percent of GDP)	-20.6	-20.1	-17.9	-16.7	-29.2	-25.8	-24.1	-21.9	-19.6	-18.6
Total external debt outstanding (millions of U.S. dollars) [3]	1,505	1,639	1,762	1,875	1,882	1,971	2,060	2,150	2,222	2,249
(percent of GDP)	105.5	107.5	111.6	113.6	150.3	142.2	132.8	123.3	115.6	109.3
Terms of trade (-=deterioration)	-14.0	-2.6	-3.0	6.6	12.9	-1.0	0.0	0.5	0.3	0.3
Real effective exchange rate (average, percent change)	-0.1	-3.2	...	...	...	...	...	...	...	...
Gross official reserves (end of year, millions of U.S. dollars)	522.6	546	548	580	368	398	436	496	540	602
Months of imports, c.i.f.	3.7	3.5	3.6	5.4	2.8	2.8	2.8	2.9	2.9	3.1
In percent of Assessing Reserve Adequacy (ARA) metric	131.0	129.3	122.9	129.4	100.3	101.2	104.2	109.8	118.9	125.1
Exchange rate										
Seychelles rupees per US$1 (end-of-period)	13.5	13.8	...	...	...	...	...	...	...	...
Seychelles rupees per US$1 (period average)	13.3	13.6	...	...	...	...	...	...	...	...

Sources: Central Bank of Seychelles; Ministry of Finance; and IMF staff estimates and projections.
[1] Includes onlending to the parastatals for investment purposes.
[2] Includes debt issued by the Ministry of Finance for monetary purposes.
[3] Includes private external debt.

Table 2. Seychelles: Balance of Payments, 2016-25

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Est.	Est.	Est.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(In millions of US dollars, unless otherwise indicated)									
Current account balance (+ surplus; - deficit)	-293	-307	-283	-275	-366	-358	-374	-382	-377	-382
(percent of GDP)	-20.6	-20.1	-17.9	-16.7	-29.2	-25.8	-24.1	-21.9	-19.6	-18.6
Balance of goods and services (+ surplus; - deficit)	-146	-175	-178	-179	-274	-265	-262	-236	-205	-192
Exports of goods	459	536	573	516	391	535	617	705	814	898
Of which: oil re-exports	131	150	183	151	71	71	76	99	99	100
Of which: tuna exports	270	268	286	235	285	316	335	359	377	393
Imports of goods	991	1,155	1,188	1,136	871	1,050	1,184	1,336	1,480	1,591
Of which: oil imports	162	209	238	204	113	131	135	179	182	198
Exports of services	894	998	1,107	1,136	618	765	847	959	1,047	1,111
Of which: tourism earnings	414	483	559	590	311	370	435	512	562	596
Imports of services	507	554	670	696	413	516	543	564	586	609
Balance on primary income (+ surplus; - deficit)	-133	-136	-105	-90	-94	-97	-113	-140	-157	-175
Of which: interest due	40	25	26	36	39	40	41	47	56	55
transfers of profits and dividends	19	17	22	17	18	19	19	19	19	19
Balance on secondary income (+ surplus; - deficit)	-15	5	1	-6	2	5	2	-5	-14	-16
Of which: general government, net	50	42	37	28	34	34	36	34	29	29
Capital account	54	52	50	48	35	64	46	45	46	34
Financial account	237	276	241	266	125	330	371	407	394	420
Direct investment, net [1, 2]	182	270	149	243	80	219	260	276	256	303
Abroad	-4	-6	8	8	8	8	8	8	8	8
In Seychelles	178	264	157	251	88	227	268	284	264	311
Of which: offshore sector	0	0	0	0	0	0	0	0	0	0
Portfolio investment, net	-52	-57	-45	-60	-80	-40	-30	-20	-15	-15
Other investment, net	107	63	137	83	125	150	141	152	153	133
Government and government-guaranteed	-35	-16	35	-7	111	39	32	28	33	31
Disbursements	5	5	61	22	150	84	88	85	84	83
Project loans	5	0	61	22	24	34	58	55	54	53
Program loans	10	15	0	0	126	50	30	30	30	30
RFI					31					
World Bank					46					
African Development Bank					9					
Unidentified Budget Support					40	50	30	30	30	30
Amortization	-54	-19	-34	-32	-39	-43	-51	-51	-46	-47
Private sector	142	80	102	90	14	111	109	123	120	101
Net errors and omissions	-11	0	0	0	0	0	0	0	0	0
Overall balance	-2	22	8	40	-206	36	43	71	62	72
Financing	13	-22	-8	-40	206	-36	-43	-71	-62	-72
Change in net international reserves (increase: –)	13	-22	-8	-40	206	-36	-43	-71	-62	-72
Change in gross official reserves (increase: –)	14	-24	-1	-32	212	-30	-38	-60	-44	-62
Liabilities to IMF, net	-1	2	-6	-7	-6	-6	-5	-12	-18	-10
Other net foreign assets (increase: –)	0	0	0	0	0	0	0	0	0	0
Exceptional financing	0	0	0	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
Exports G&S growth, percent	4.3	13.4	9.5	-1.6	-38.9	28.8	12.6	13.6	11.8	8.0
Tourism growth, percent	5.4	16.7	15.8	5.5	-47.3	19.1	17.7	17.5	10.0	5.9
Exports of goods volume growth, percent	-10.4	6.9	-2.7	-1.8	-2.9	34.6	13.7	13.4	13.9	8.8
Imports G&S growth, percent	5.5	14.1	8.7	-1.4	-29.9	21.9	10.3	10.0	8.7	6.5
Imports of goods volume growth, percent	9.5	9.6	-3.3	-2.4	-13.0	19.8	11.2	11.5	9.0	5.8
Exports G&S, percent of GDP	94.83	101	106	100	81	94	94	95	97	98
Imports G&S, percent of GDP	105	112	118	111	103	113	111	109	107	107
FDI, percent of GDP [1, 2]	12.8	17.7	9.4	14.7	6.4	15.8	16.8	15.8	13.3	14.7
Gross official reserves (stock, e.o.p.)[3, 4]	523	546	548	580	368	398	436	496	540	602
(Months of imports of goods & services)	3.7	3.5	3.6	5.4	2.8	2.8	2.8	2.9	2.9	3.1
Percentage of IMF reserve adequacy metric	131	129	123	129	100	101	104	110	119	125
Government and government-guaranteed external debt	454	446	449	444	580	623	664	685	702	722
(Percent of GDP)	31.8	29.3	28.4	26.9	46.4	44.9	42.8	39.3	36.5	35.1
GDP (Millions of U.S. dollars)	1,427	1,525	1,579	1,651	1,252	1,386	1,551	1,743	1,922	2,058

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

[1] From 2015 onwards the data reflect the findings of the IIP survey, which indicated that the proportion of equity to debt in FDI flows was being significantly overestimated.

[2] Per STA recommendations, renewals of off-shore licenses are excluded.

[3] The level of GIRs computed from the BOP includes the budget support

[4] GIRs net of FX deposits by banks at the central bank is equal to 319 in 2020 and the equivalent percentage of IMF reserve adequacy metric is 87.

Table 3a. Seychelles: Consolidated Government Operations, 2016-25[1]

(Millions of Seychelles rupees)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Act.	Act.	Act.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
				(Millions of Seychelles rupees)						
Total revenue and grants	7,205	7,475	8,274	8,435	7,511	8,769	8,934	9,779	10,360	11,048
Total revenue	6,965	7,302	7,997	8,341	6,803	7,748	8,436	9,316	9,998	10,682
Tax	6,188	6,600	7,083	7,425	5,918	6,725	7,409	8,060	8,654	9,244
Personal income tax	939	900	965	975	902	990	1,062	1,144	1,226	1,310
Trade tax	359	285	315	313	298	328	349	378	436	458
Excise tax	1,144	1,312	1,281	1,385	1,323	1,474	1,575	1,682	1,791	1,906
Goods and services tax (GST) / VAT [2]	1,996	2,151	2,495	2,594	1,869	2,203	2,486	2,777	2,977	3,190
Business tax [3]	1,039	1,364	1,376	1,397	1,068	1,205	1,380	1,486	1,593	1,707
Corporate Social Responsibility Tax (CSR) [3]	87	95	106	109	41	88	95	103	110	118
Marketing Tourism Tax (MTT) [3]	45	60	70	71	80	88	96	103	110	118
Other	581	434	474	580	338	348	366	388	411	437
Nontax	777	702	914	916	885	1,023	1,027	1,256	1,344	1,438
Fees and charges	403	349	335	340	300	455	457	493	528	566
Dividends from parastatals	330	280	426	477	384	409	409	590	633	678
Other	44	72	153	99	201	160	161	173	183	194
External grants	240	173	277	94	708	1,021	498	463	362	366
Expenditure and net lending	7,277	7,455	8,318	8,379	10,437	9,936	9,911	10,389	10,751	11,093
Current expenditure	6,295	6,687	7,231	7,509	9,596	8,439	8,520	8,637	8,945	9,171
Primary current expenditure	5,581	6,056	6,541	6,950	8,766	7,706	7,801	7,935	8,067	8,329
Wages and salaries [4]	2,002	2,074	2,268	2,507	2,937	2,981	2,965	3,019	3,082	3,175
Goods and services [4]	2,489	2,562	2,800	2,793	2,736	2,873	2,872	2,924	3,050	3,181
Transfers [4]	1,063	1,380	1,443	1,612	3,058	1,818	1,929	1,955	1,895	1,930
Social program of central government	130	114	114	162	1,263	180	190	193	200	207
Transfers to public sector from central government	80	97	55	92	284	140	144	143	52	55
Benefits and programs of Social Security Fund	853	1,169	1,273	1,358	1,511	1,497	1,595	1,619	1,643	1,668
Other	27	41	31	39	35	35	35	38	40	43
Interest due	714	631	689	559	829	733	719	702	878	842
Foreign interest	190	218	227	237	336	359	360	373	566	554
Domestic interest	524	413	463	322	493	374	359	328	312	288
Capital expenditure	909	747	954	671	629	1,338	1,240	1,225	1,247	1,396
Domestically financed	644	564	455	225	0	12	283	504	611	766
Foreign financed	265	183	499	446	629	1,326	957	720	636	630
Net lending	35	-1	86	149	108	114	106	479	506	470
Contingency	38	21	47	50	105	45	45	48	52	56
Primary balance	642	650	646	615	-2,097	-434	-258	92	488	797
Overall balance, commitment basis [5]	-72	19	-43	56	-2,926	-1,167	-977	-610	-391	-45
Change in float	-201	3	194	-252	0	0	0	0	0	0
Overall balance, cash basis (after grants)	-273	22	151	-196	-2,926	-1,167	-977	-610	-391	-45
Financing	273	-22	-151	196	2,926	1,167	977	610	391	45
Foreign financing	-304	-407	-35	-45	1,909	706	624	565	637	629
Disbursements	287	11	305	352	2,574	1,436	1,457	1,338	1,292	1,285
Project loans	25	11	305	352	412	583	962	864	831	824
Program/budget support	262	0	0	0	2,162	853	495	475	461	462
Of which RFI	0	0	0	0	535	0	0	0	0	0
Scheduled amortization	-591	-418	-340	-397	-665	-730	-849	-804	-701	-718
Of which Paris Club buy-back	-269	…	…	…						
Domestic financing, net	578	316	-272	406	1,017	361	253	-56	-247	-892
Bank financing	389	419	-571	279	615	325	228	-50	-222	-803
CBS	-191	438	88	316	550	300	300	300	300	200
Commercial banks	579	-19	-659	-37	65	25	-72	-350	-522	-1,003
Nonbank financing	190	-103	299	127	402	36	25	-6	-25	-89
Privatization and long-term lease of fixed assets	76	82	0	0	0	100	100	100	0	308
Transfer of SSF deposits to SPF	…	…	… 0	…						
Statistical discrepancy	-77	-12	156	-164	0	0	0	0	0	0
Memorandum item:			0							
External debt service due	781	636	567	634	1,001	1,089	1,210	1,178	1,267	1,273

Sources: Seychelles authorities; and IMF staff estimates and projections.

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

[2]VAT replaced GST in January 2013.

[3]CSR and MTT were subsumed into Business Tax in CR 14/186.

[4]From 2015 onwards, wage and salaries and goods and services (to be) spent by government agencies other than Ministries are reclassified into these items from transfers.

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

Table 3b. Seychelles: Consolidated Government Operations, 2016-25[1]

(Percent of GDP)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Prel.	Proj.	Prel.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent of GDP, unless otherwise indicated)									
Total revenue and grants	37.9	35.9	37.5	36.4	34.9	37.1	34.9	35.5	35.0	34.9
Total revenue	36.7	35.1	36.2	36.0	31.6	32.8	32.9	33.8	33.8	33.7
Tax	32.6	31.7	32.1	32.0	27.5	28.4	28.9	29.2	29.3	29.2
Personal income tax	4.9	4.3	4.4	4.2	4.2	4.2	4.1	4.1	4.1	4.1
Trade tax	1.9	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.5	1.4
Excise tax	6.0	6.3	5.8	6.0	6.1	6.2	6.2	6.1	6.1	6.0
Goods and services tax (GST) / VAT [2]	10.5	10.3	11.3	11.2	8.7	9.3	9.7	10.1	10.1	10.1
Business tax	5.5	6.6	6.2	6.0	5.0	5.1	5.4	5.4	5.4	5.4
Corporate Social Responsibility Tax (CSR)	0.5	0.5	0.5	0.5	0.2	0.4	0.4	0.4	0.4	0.4
Marketing Tourism Tax (MTT)	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Other	3.1	2.1	2.1	2.5	1.6	1.5	1.4	1.4	1.4	1.4
Nontax	4.1	3.4	4.1	4.0	4.1	4.3	4.0	4.6	4.5	4.5
Fees and charges	2.1	1.7	1.5	1.5	1.4	1.9	1.8	1.8	1.8	1.8
Dividends from parastatals	1.7	1.3	1.9	2.1	1.8	1.7	1.6	2.1	2.1	2.1
Other	0.2	0.3	0.7	0.4	0.9	0.7	0.6	0.6	0.6	0.6
External grants	1.3	0.8	1.3	0.4	3.3	4.3	1.9	1.7	1.2	1.2
Expenditure and net lending	38.3	35.8	37.7	36.1	48.5	42.0	38.7	37.7	36.4	35.0
Current expenditure	33.1	32.1	32.8	32.4	44.6	35.7	33.3	31.3	30.3	28.9
Primary current expenditure	29.4	29.1	29.6	30.0	40.7	32.6	30.5	28.8	27.3	26.3
Wages and salaries [3]	10.5	10.0	10.3	10.8	13.6	12.6	11.6	10.9	10.4	10.0
Goods and services [3]	13.1	12.3	12.7	12.0	12.7	12.2	11.2	10.6	10.3	10.0
Transfers [3]	5.6	6.6	6.5	7.0	14.2	7.7	7.5	7.1	6.4	6.1
Social program of central government	0.7	0.5	0.5	0.7	5.9	0.8	0.7	0.7	0.7	0.7
Transfers to public sector from central government	0.4	0.5	0.2	0.4	1.3	0.6	0.6	0.5	0.2	0.2
Benefits and programs of Social Security Fund	4.5	5.6	5.8	5.9	7.0	6.3	6.2	5.9	5.6	5.3
Other	0.1	0.2	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Interest due	3.8	3.0	3.1	2.4	3.9	3.1	2.8	2.5	3.0	2.7
Foreign interest	1.0	1.0	1.0	1.0	1.6	1.5	1.4	1.4	1.9	1.7
Domestic interest	2.8	2.0	2.1	1.4	2.3	1.6	1.4	1.2	1.1	0.9
Capital expenditure	4.8	3.6	4.3	2.9	2.9	5.7	4.8	4.4	4.2	4.4
Domestically financed	3.4	2.7	2.1	1.0	0.0	0.0	1.1	1.8	2.1	2.4
Foreign financed	1.4	0.9	2.3	1.9	2.9	5.6	3.7	2.6	2.2	2.0
Net lending	0.2	0.0	0.4	0.6	0.5	0.5	0.4	1.7	1.7	1.5
Contingency	0.2	0.1	0.2	0.2	0.5	0.2	0.2	0.2	0.2	0.2
Primary balance	3.4	3.1	2.9	2.7	-9.7	-1.8	-1.0	0.3	1.6	2.5
Overall balance, commitment basis [4]	-0.4	0.1	-0.2	0.2	-13.6	-4.9	-3.8	-2.2	-1.3	-0.1
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in float	-1.1	0.0	0.9	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis (after grants)	-1.4	0.1	0.7	-0.8	-13.6	-4.9	-3.8	-2.2	-1.3	-0.1
Financing	1.4	-0.1	-0.7	0.8	13.6	4.9	3.8	2.2	1.3	0.1
Foreign financing	-1.6	-2.0	-0.2	-0.2	8.9	3.0	2.4	2.1	2.2	2.0
Disbursements	1.5	0.1	1.4	1.5	12.0	6.1	5.7	4.9	4.4	4.1
Project loans	0.1	0.1	1.4	1.5	1.9	2.5	3.8	3.1	2.8	2.6
Program/budget support	1.4	0.0	0.0	0.0	10.0	3.6	1.9	1.7	1.6	1.5
Of which RFI		0.0	0.0	0.0	2.5	0.0	0.0	0.0	0.0	0.0
Scheduled amortization	-3.1	-2.0	-1.5	-1.7	-3.1	-3.1	-3.3	-2.9	-2.4	-2.3
Of which Paris Club buy-back	-1.4	...	...							
Domestic financing, net	3.0	1.5	-1.2	1.7	4.7	1.5	1.0	-0.2	-0.8	-2.8
Bank financing	2.0	2.0	-2.6	1.2	2.9	1.4	0.9	-0.2	-0.8	-2.5
CBS	-1.0	2.1	0.4	1.4	2.6	1.3	1.2	1.1	1.0	0.6
Commercial banks	3.0	-0.1	-3.0	-0.2	0.3	0.1	-0.3	-1.3	-1.8	-3.2
Nonbank	1.0	-0.5	1.4	0.5	1.9	0.2	0.1	0.0	-0.1	-0.3
Privatization and long-term lease of fixed assets	0.4	0.4	0.0	0.0	0.0	0.4	0.4	0.4	0.0	1.0
Transfer of SSF deposits to SPF	...	...	...							
Statistical discrepancy	-0.4	-0.1	0.7	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Nominal GDP (millions of Seychelles Rupees)	19,002	20,806	22,064	23,191	21,538	23,643	25,607	27,575	29,563	31,680
Public domestic debt [5]	36.9	32.6	29.2	28.3	33.8	31.1	28.5	25.2	21.6	16.7
Excluding t-bills issued for monetary purposes	20.7	21.4	19.9	19.7	25.9	25.2	24.2	22.3	20.0	15.8
Publicly guaranteed domestic debt	3.6	3.5	3.2	3.8	5.4	4.6	4.1	4.1	3.9	3.3

Sources: Seychelles authorities; and IMF staff estimates and projections.

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

[2] VAT replaced GST in January 2013.

[3] From 2015 onwards, wage and salaries and goods and services (to be) spent by government agencies other than Ministries are reclassified into these items from transfers.

[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 debt issued by the Ministry of Finance for monetary purposes, excludes guarantees.

Table 4. Seychelles: Depository Corporations Survey and Central Bank Accounts, 2016–20

	2016	2017	2018	2019	2020			
					Mar.	Jun.	Sep.	Dec.
	Act.	Act.	Act.	Act.	Proj.			
	(Millions of Seychelles rupees)							
Depository corporations survey								
Net foreign assets	9,817	10,754	11,948	12,647	12,313	12,055	11,706	11,265
Central bank	6,550	6,982	7,248	7,807	7,423	6,969	6,428	5,802
Deposit money banks	3,267	3,771	4,700	4,841	4,890	5,087	5,278	5,463
Net domestic assets	3,831	5,134	5,166	6,847	7,122	6,951	6,910	7,050
Domestic credit	7,110	8,476	8,620	10,562	9,231	10,276	10,930	11,792
Net claims on the government	1,791	2,209	1,699	1,882	1,807	2,324	2,701	3,194
Of which : Government deposits at the Central Bank	-3,355	-3,355	-2,829	-2,513	-2,604	-2,119	-1,990	-1,963
Of which : Change in monetary debt [1]	-191	670.0	394.1	219.2	75.0	75.0	75.0	75.0
Credit to the economy	5,319	6,267	6,921	8,680	7,424	7,951	8,229	8,598
Of which : credit to the private sector	5,122	6,032	6,727	8,229	6,973	7,500	7,778	8,146
Other items, net	-3,279	-3,342	-3,453	-3,715	-2,109	-3,324	-4,020	-4,741
Broad money	13,648	15,888	17,115	19,494	19,434	19,007	18,616	18,315
Currency in circulation	1,026	1,116	1,169	1,228	1,188	1,137	1,104	1,141
Foreign currency deposits	5,029	6,115	7,060	7,987	7,947	7,550	7,172	6,814
Local currency deposits	7,592	8,657	8,886	10,278	10,299	10,319	10,340	10,361
Central bank								
Net foreign assets	6,550	6,982	7,248	7,807	7,423	6,969	6,428	5,802
Foreign assets	7,059	7,560	7,731	8,191	7,801	7,338	6,786	6,145
Foreign liabilities	508	578	483	384	378	369	358	343
Net domestic assets	-3,558	-3,423	-3,528	-3,242	-3,378	-2,926	-2,379	-2,172
Domestic credit	-2,855	-2,629	-2,651	-2,318	-2,035	-1,451	-572	-95
Government (net)	-2,170	-1,731	-1,644	-1,328	-1,418	-934	-605	-178
Commercial banks	-610	-705	-845	-873	-500	-400	150	200
Other (parastatals)	-75	-192	-162	-117	-117	-117	-117	-117
Other items, net	-703	-794	-877	-925	-1,343	-1,475	-1,806	-2,077
Reserve money	2,992	3,559	3,720	4,564	4,045	4,043	4,050	3,630
Currency in circulation	1,026	1,116	1,169	1,228	1,188	1,137	1,104	1,141
Commercial bank reserves (includes cash in vault)	1,966	2,443	2,551	3,336	2,856	2,906	2,946	2,489
Of which : vault cash	193	212	...	...	...	...	...	...
Of which : excess reserves (excl. bank vault cash)	9	182	...	...	...	...	...	...
Of which : required reserves in foreign currency [2, 3]	703	841	924	924	973	924	878	834
required reserves in domestic currency [2]	1,061	1,208	1,346	1,595	1,470	1,470	1,470	1,471
Memorandum items:								
Gross official reserves (millions of U.S. dollars) [4]	523	546	548	580	524	468	412	356
Foreign currency deposits (millions of U.S. dollars)	372	442	503	567	534	481	435	395
Broad money growth (12–month percent change)	12.1	16.4	7.7	13.9	...	...	...	-6.0
Credit to the private sector (12–month percent change)	10.3	17.8	11.5	22.3	...	...	...	-1.0
Reserve money (end-of-period; 12–month percent change)	14.5	18.9	4.5	22.7	...	...	...	-20.5
Reserve money (daily average over quarter; 12–month percent change	10.4	19.0	...	...	...	...	...	...
Money multiplier (broad money/reserve money)	4.6	4.5	4.6	4.3	...	...	...	5.0
Velocity (GDP/broad money; end-of-period)	1.4	1.3	1.3	1.2	...	...	...	1.2

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

[1] Negative shows accumulation, positive shows retiring (debt that is not rolled over)

[2] 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.

[4] 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, 2012-2019[1]

	2012	2013	2014	2015	2016	2017	2018	2019		
	Q4	Q4	Q4	Q4	Q4	Q4	Q4	Q1	Q2	Q3
	(Percent, end-of-period)									
Capital adequacy										
Regulatory capital to risk weighted assets	26.7	26.7	21.7	25.5	26.6	23.5	20.5	21.0	20.2	19.7
Regulatory tier 1 capital to risk weighted assets	19.3	21.0	16.3	18.1	20.4	18.1	16.8	16.1	17.4	16.5
Capital to assets (net worth)	10.3	9.7	8.5	11.0	11.8	11.0	10.1	10.2	10.3	10.3
Net tangible capitalization [2]	10.4	9.8	8.6	11.2	12.0	11.2	10.1	10.3	10.4	10.4
Asset quality										
Foreign exchange loans to total loans	18.7	18.7	23.8	28.6	25.0	27.7	24.2	23.6	25.2	24.9
Non-performing loans to gross loans	9.3	9.4	8.2	7.6	6.8	7.1	3.5	3.5	3.5	2.8
Provision as percentage of non-performing loans	29.5	39.2	43.9	41.1	37.4	31.9	19.2	20.3	21.8	24.5
Provisions as percentage of total loans	2.7	3.7	3.6	3.1	2.5	2.3	0.7	0.7	0.8	0.7
Earnings and profitability										
Return on assets (annualized)	3.1	1.9	3.3	3.8	3.8	3.9	3.7	2.8	3.0	3.1
Return on equity (annualized)	29.8	19.6	38.2	34.7	32.7	35.1	35.7	27.5	29.0	30.1
Interest margin to gross income	62.7	56.6	57.5	60.1	62.7	53.1	54.5	60.8	63.9	64.5
Noninterest expense to gross income	56.6	65.1	50.3	52.9	45.5	49.7	55.9	58.0	54.8	58.7
Net interest margin (annualized) [3]	4.1	3.2	2.8	4.3	4.6	4.1	4.2	4.0	4.1	4.2
Net noninterest margin (annualized) [4]	0.0	-0.4	0.0	-0.4	-1.0	-0.2	-0.8	-1.2	-1.2	-1.5
Expense to income	46.4	54.5	52.6	50.3	55.2	54.2	61.4	64.1	61.0	65.0
Interest expense to gross income	11.8	15.3	10.7	11.1	10.7	12.5	14.4	16.9	15.9	17.9
Liquidity										
Core liquid assets to total assets [5]	39.6	41.6	40.8	33.0	28.6	38.2	45.2	44.6	44.2	45.3
Broad liquid assets to total assets [6]	52.0	54.7	54.2	49.1	47.9	55.4	58.2	57.8	55.7	55.4
Liquid assets (broad) to short term liabilities	58.1	61.2	60.0	55.9	55.0	62.4	63.7	63.4	60.6	61.3
Liquid assets (broad) to total liabilities	58.0	60.6	59.2	55.2	54.3	62.2	64.7	64.3	62.1	61.7
Liquid assets to deposit liabilities	62.5	64.3	62.7	59.5	57.8	65.7	68.5	48.5	47.6	54.1
Foreign exchange exposure										
Net open foreign exchange position to capital	7.9	8.9	8.8	1.9	3.0	0.0	3.4	4.5	-4.0	-2.2

Source: Central Bank of Seychelles.

[1] Data from 2015 onwards include 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: Capacity to Repay the Fund, 2016-25

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
			(Millions of SDR)							
Existing Fund credit										
Stock [1]	28.0	29.5	24.8	19.9	14.7	10.7	7.0	4.2	2.5	1.2
Obligation	0.9	3.0	1.7	1.9	4.7	4.2	3.8	2.8	1.8	1.3
Principal (repayments/repurchases)	0.9	2.8	1.7	1.8	4.5	4.1	3.7	2.7	1.8	1.2
Charges and interest	0.0	0.2	0.0	0.1	0.2	0.2	0.1	0.1	0.0	0.0
Disbursements	...	3.3	...	...	...	...	...	...	...	...
Prospective Fund credit										
Disbursement	0.0	0.0	0.0	0.0	22.9	0.0	0.0	0.0	0.0	0.0
Stock [1]	0.0	0.0	0.0	0.0	22.9	22.9	22.9	17.2	5.7	0.0
Obligations [2]	0.0	0.0	0.0	0.0	0.2	0.2	0.2	6.0	11.6	5.8
Principal (repayments/repurchases)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.7	11.5	5.7
Charges and interest	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.1	0.0
Stock of existing and prospective Fund credit [1]	28.0	29.5	24.8	19.9	37.6	33.6	29.9	21.4	8.2	1.2
In percent of quota	122.2	128.8	108.2	86.9	164.3	146.6	130.4	93.4	35.7	5.4
In percent of GDP	2.8	2.7	2.2	1.7	4.3	4.1	3.8	2.8	1.1	0.1
In percent of exports of goods and services	2.9	2.7	2.1	1.7	5.3	7.8	11.3	13.3	8.3	1.3
In percent of gross reserves	7.6	7.7	6.5	4.9	14.6	12.1	9.8	6.2	2.2	0.3
Obligations to the Fund from existing and prospective Fund arrangements										
Disbursements	0.0	3.3	0.0	0.0	22.9	0.0	0.0	0.0	0.0	0.0
Obligations	0.9	3.0	1.7	1.9	4.9	4.5	4.0	8.8	13.4	7.0
Principal (repayments/repurchases)	0.92	2.77	1.71	1.80	4.54	4.07	3.70	8.46	13.22	6.96
Charges and interest	0.00	0.25	0.00	0.11	0.39	0.39	0.34	0.30	0.18	0.04
In percent of quota [3]	4.0	13.2	7.5	8.3	21.5	19.5	17.6	38.3	58.5	30.6
In percent of GDP	0.1	0.3	0.2	0.2	0.6	0.5	0.5	1.1	1.8	0.5
In percent of exports of goods and services	0.1	0.3	0.1	0.2	0.7	1.0	1.5	5.4	13.6	7.1
In percent of gross reserves	0.2	0.8	0.4	0.5	1.9	1.6	1.3	2.5	3.6	1.7

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

[1] End-of-period.

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

[3] Effective February 2016, the new quota of SDR 22.9 million is applied.

Annex I. Debt Sustainability Analysis

After years of steady improvement in public debt dynamics, Seychelles' public debt will significantly worsen and risks to sustainability have increased substantially due to the economic fallout of the COVID-19 pandemic. With the severe economic recession, the public debt level is expected to increase by 24½ percentage points (compared with pre-COVID projections) to 85¾ percent of GDP in 2020 and gross financing needs would reach 39¼ percent of GDP in 2020. Assuming the authorities will steadfastly implement a strong debt reduction strategy with a view to achieving a primary surplus of 2½ percent of GDP by 2025 and the economy will suffer no further major negative shocks, public debt and gross financing needs are expected to steadily decline again over the medium term. As a small island economy, Seychelles remains vulnerable to macroeconomic shocks, particularly interest and exchange rate shocks. Continued progress in reducing the public debt stock and extending the maturities of domestic public debt is therefore warranted.

1. Prior to the COVID-19 pandemic and the concomitant travel restrictions, public debt had been on a steady decline. Public debt continued to decline from 60.9 in 2018 to 59.1 percent in 2019 thanks to ongoing fiscal consolidation. Gross financing needs were manageable.

2. Debt levels and gross financing needs are projected to rise significantly as a result of the COVID-19 shocks. The level of end-2020 nominal gross public debt stock is much higher than previously projected (85.8 percent of GDP against 57.3 percent), owing mostly to a severe recession with GDP projected to contract by about 11 percent instead of growing by 3.5 percent. Under the baseline, gross financing needs fall over the projection period and would reach 23.4 percent of GDP in 2025. The severe deterioration of the macroeconomic indicators will push Seychelles public debt above the high-risk benchmark in 2020.

3. Macroeconomic and fiscal assumptions: The assumptions underpinning the DSA are those of the baseline scenario of this Staff Report (SR), which reflects the severe economic shock triggered by the COVID-19 outbreak. Real GDP growth rate is projected at around -10.8 percent in 2020, rebound strongly during 2021–22, and moderate to around 4 percent in the medium term—close to the estimated potential rate. Inflation projections for 2020 were revised up compared with the previous DSA (4.5 percent against 1.8 percent) to reflect the expected depreciation of the exchange rate as well the effect of the fiscal stimulus. Projections for effective interest rate were revised up compared with the previous DSA given the upward revision to the inflation projection for 2020 and the expected increase in borrowings. The primary fiscal balance is expected to reach its initially planned surplus target of 2½ percent of GDP by 2025.[1]

[1] Program primary balance includes net lending to SOEs.

4. **The baseline scenario projects a steady decline in public debt ratio and gross financing needs from 2021.** As the fiscal and growth impacts from the shocks are expected to be temporary and the government is committed to implementing fiscal saving measures to bring the primary balance to a surplus of 2½ percent of GDP over the medium term, the public debt ratio under the baseline is projected to decline steadily throughout the projection period and reach 55.4 percent of GDP by 2025. This remains significantly higher than the pre-pandemic debt-to-GDP ratio projected at 40.3 percent in 2024. Meanwhile, gross financing needs to GDP ratio will increase from 24 percent in 2019 to 39.3 percent in 2020, and gradually decline from 2021 onward to 23.4 percent by 2025. The impact of all shock scenarios on the public debt-to-GDP ratio is worsened compared with the previous DSA, given the upward revision of external borrowing and the significant downward revision to the level of nominal GDP throughout the projection period under the baseline.

5. **Since the COVID-19 pandemic, public debt is more vulnerable to macroeconomic shocks.** The debt path remains above the high-risk benchmark under all shock scenarios. Under the real exchange rate shock (real depreciation by around 16 percent after 2020), the debt-to-GDP ratio would peak at around 82½ percent in 2020 and fall thereafter and go below the 70 percent high-risk benchmark in 2025 (at 61 percent of GDP). One-time shocks to real GDP growth (lower than the baseline by 2 percent during 2021–22) would lead to a similar debt path as under the real exchange rate shock. The debt-to-GDP ratio would peak at around 82½ percent in 2020 and fall thereafter but would remain at around 9 percent below 70 percent high-risk benchmark in 2025. Under the real interest rate shock and primary balance shock scenarios, the debt-to-GDP ratio would decline at a slower path from the peak in 2020. The combined macro-fiscal shock is an aggregation of the shocks to real growth, the interest rate, the primary balance and the exchange rate. Under this scenario, the debt-to-GDP ratio would remain elevated throughout the medium term period and reach at around percent 85 percent of GDP in 2025, while the debt-to-revenue ratio would hover around 250 percent in the medium term and gross financing needs would increase to around 44 percent of GDP in the medium term. The asymmetric fan chart also highlights that a persistently looser fiscal position would keep debt at an elevated level and could prevent the authorities' planned debt reduction from being attained in the foreseeable future. Moreover, gross financing needs increase under various shocks, especially under the combined macro-fiscal shock or the real interest rate shock throughout the period of projection. While the steadfast implementation of fiscal consolidation will help to reduce gross financing needs, further measures to extend the average maturity of domestic issuance wherever possible would also reduce rollover risks.

6. **Air Seychelles poses significant risks to the debt sustainability.** In 2012, for example, the government assumed liabilities and obligations of Air Seychelles amounting to around 5 percent of GDP. Meanwhile, Air Seychelles' project box bond of $71.5 million (around 5 percent of GDP) owed to Etihad could pose roll over risks to the company in 2020 and 2021. This DSA therefore provides a scenario where SOEs' external debts of a similar magnitude (5 percent of GDP) are assumed by the government in 2020. Under this scenario, the public debt to GDP ratio at the end of the projection period (2025) would reach 62.8 percent, significantly

higher than the baseline scenario (55.4 percent). This highlights the need to mitigate any risk arising from Air Seychelles. The government will shortly discuss the future of the company with the other shareholder. Should additional government support beyond that assumed in the medium-term baseline needs to be considered in future, corrective actions should be required to offset any fiscal impact .

7. **The authorities are urged to steadfastly implement fiscal consolidation to reduce public debt vulnerability.** As illustrated by the heat map significant vulnerabilities arise from the large gross financing needs resulting from the high level of public debt and the short maturity of domestic debt.[2] In addition to the fiscal consolidation, the authorities would need to extend the maturities of the domestic debt, where possible, as indicated at the time of the 2019 Article IV consultation, to mitigate the risks arising from the high gross financing needs. Staff advised the government to examine the possible scope for further privatization of some SOEs, including Air Seychelles, to reduce the fiscal risks and improve economic efficiency over the medium term.

8. **The results of the updated external DSA reveal that the total external debt increased significantly following the pandemic shock and the ratio of external debt to GDP remains elevated in the range of 109–150 percent of GDP throughout the projection period.** Tourism receipts, which account for about 50 percent of our exports of services and 35 percent of our exports of goods and services, is projected to decline by 50 percent in 2020, in comparison with a pre-pandemic growth rate of 7 percent. As a result, the current account deficit is expected to reach 29.2 percent of GDP. Most of the expected FDIs, which has been the major source of financing of the current account deficit, will be postponed to 2021 and further. Such developments have led to a deterioration of the external indicators. However, the risks continue to be mitigated by maturity profile of the external debt. As of end-2019, about one quarter of the country's external debt is medium to long-term government borrowing, largely from official sources and at favorable interest rates and maturities.

9. **Standardized stress tests confirm that the country's external debt is particularly sensitive to currency depreciation shocks.** A 30 percent depreciation of the domestic currency would lead to a spike in external debt-to-GDP ratio to around 227 percent in 2021, however such a ratio would decrease steadily and would equal around 187 percent by the end of the projection period, compared to about 109 percent under the baseline scenario. The interest rate, growth and current account shocks would have a more muted, yet significant effect on the country's external debt profile. A permanent ¼ standard deviation shock to either growth or the current account (excluding interest payments) would lead to a gradual increase in the external debt-to-GDP ratio to around 140 percent by the end of the projection period.

[2]While there is virtually no short-term external public debt (on original maturity basis), most of the domestic debt has a maturity of less than one year.

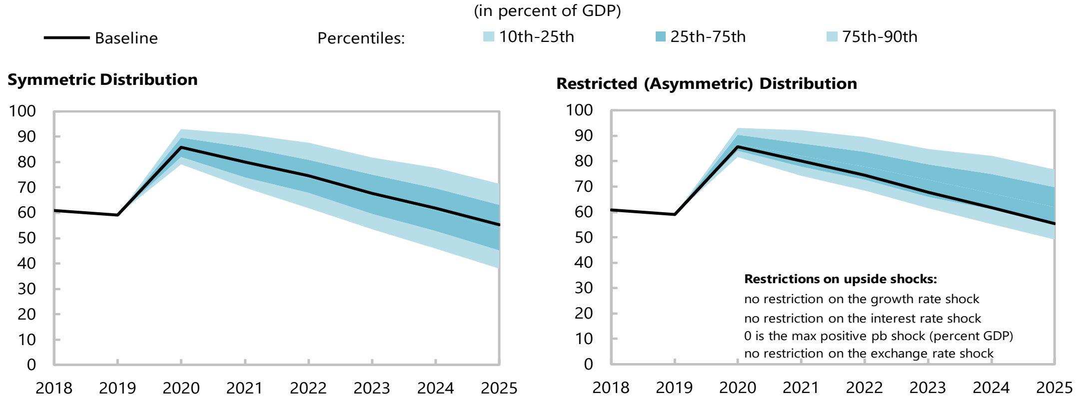
Figure 1. Seychelles: Public DSA Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

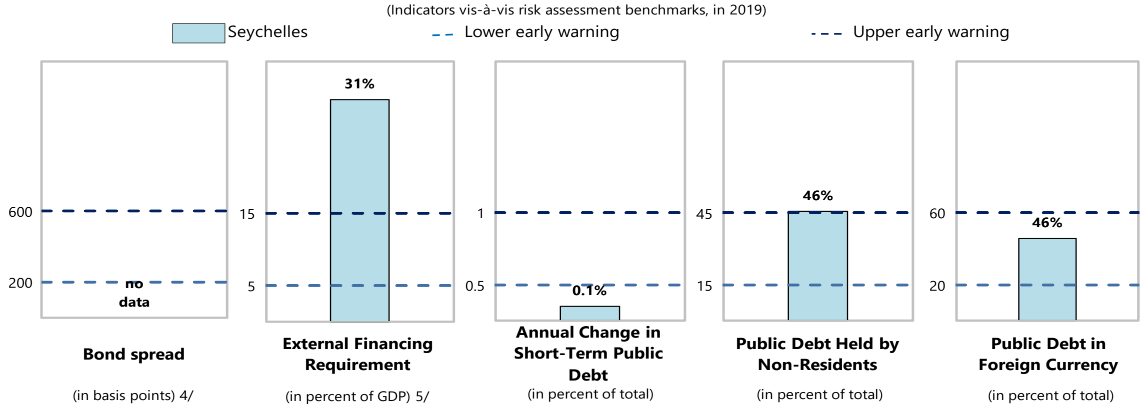
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2019)



Source: IMF staff.

[1]The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

[2]The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

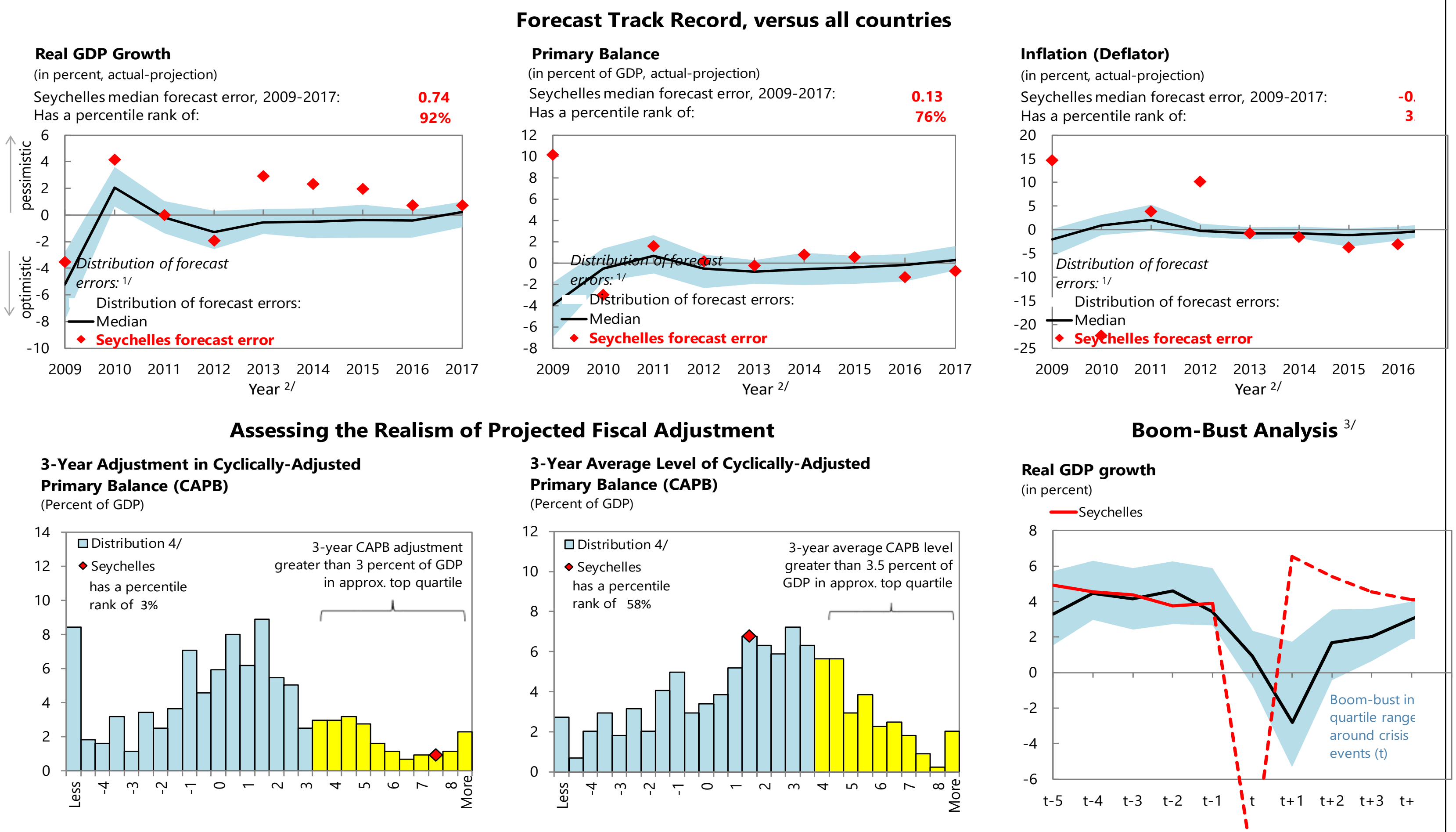
[3]The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

[4]Long-term bond spread over U.S. bonds, an average over the last 3 months, 21-Jan-20 through 20-Apr-20.

[5]External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 2. Seychelles: Public Debt Sustainability Analysis – Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Seychelles has had a positive output gap for 3 consecutive years, 2017-2019. For Seychelles, t corresponds to 2020; for the distribution, t corresponds to the first year of the cris

4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP, Percent of sample on vertical axis.

Figure 3. Seychelles: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(In percent of GDP unless otherwise indicated)

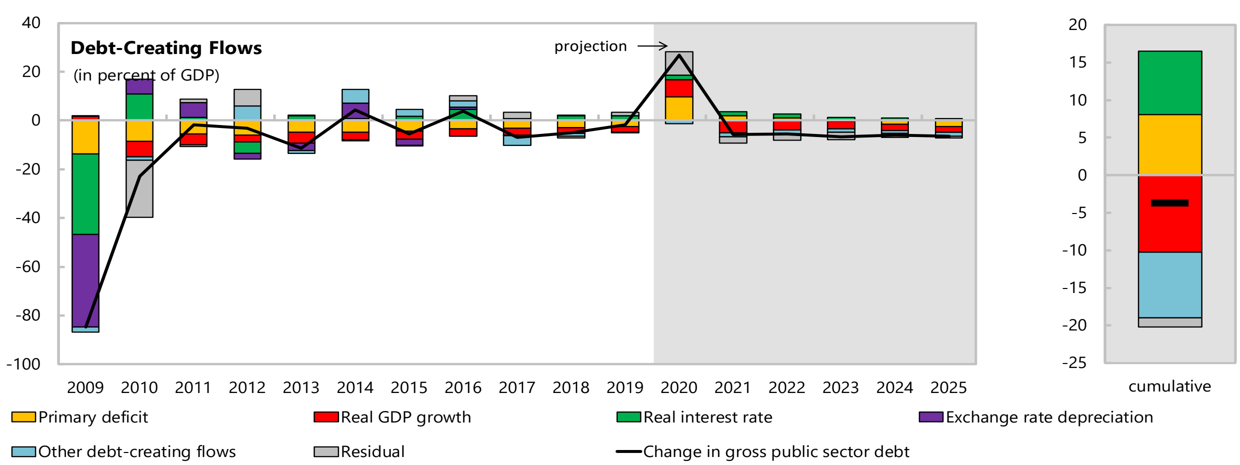
Debt, Economic and Market Indicators[1/]

	Actual			Projections					
	2009-2017 [2/]	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	79.5	60.9	59.1	85.8	80.0	74.5	67.7	61.8	55.4
Of which: guarantees	1.9	3.2	3.8	5.4	4.9	4.5	4.2	3.9	3.7
Public gross financing needs	24.2	27.9	24.1	39.3	37.5	33.5	28.7	26.0	23.4
Net public debt		51.6	50.5	77.9	74.1	70.2	64.8	60.1	54.5
Real GDP growth (in percent)	4.3	3.8	3.9	-10.8	6.5	5.4	4.6	4.1	4.0
Inflation (GDP deflator, in percent)	5.4	2.2	1.2	4.2	3.0	2.8	3.0	3.0	3.0
Nominal GDP growth (in percent)	9.8	6.0	5.1	-7.1	9.8	8.3	7.7	7.2	7.2
Effective interest rate (in percent) [4/]	5.1	5.3	4.4	6.7	5.5	5.2	4.9	4.8	4.6

As of April 20, 2020		
Sovereign Spreads		
EMBIG (bp) 3/		1745
5Y CDS (bp)		N/A
Ratings	Foreign	Local
Moody's	Baa2	Baa2
S&Ps	BB	BB
Fitch	B-	B-

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-14.3	-5.0	-1.8	26.7	-5.7	-5.6	-6.8	-5.9	-6.4	-3.7	
Identified debt-creating flows	-13.1	-4.4	-3.0	17.2	-3.2	-2.9	-3.7	-4.2	-5.6	-2.5	
Primary deficit	-6.1	-2.9	-2.6	9.7	1.8	1.0	-0.3	-1.6	-2.5	8.1	-3.1
Primary (noninterest) revenue and grants	37.4	37.5	36.3	34.9	37.1	34.9	35.5	35.0	34.9	212.2	
Primary (noninterest) expenditure	31.3	34.6	33.7	44.6	38.9	35.9	35.1	33.4	32.4	220.3	
Automatic debt dynamics [5/]	-7.9	-0.1	-0.2	8.8	-3.4	-2.3	-1.9	-1.5	-1.5	-1.8	
Interest rate/growth differential [6/]	-5.0	-0.4	-0.4	8.8	-3.4	-2.3	-1.9	-1.5	-1.5	-1.8	
Of which: real interest rate	-1.9	1.9	1.8	1.9	1.7	1.7	1.2	1.1	0.8	8.4	
Of which: real GDP growth	-3.2	-2.3	-2.3	6.9	-5.1	-4.0	-3.2	-2.6	-2.3	-10.3	
Exchange rate depreciation [7/]	-2.9	0.3	0.2	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.9	-1.4	-0.2	-1.4	-1.7	-1.6	-1.5	-1.0	-1.6	-8.7	
Privatization Proceeds (negative)	-0.7	0.0	0.0	0.0	-0.4	-0.4	-0.4	0.0	-1.0	-2.1	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Domestic debt issuance for monetary pı	1.6	-1.4	-0.2	-1.4	-1.3	-1.2	-1.1	-1.0	-0.6	-6.6	
Residual, including asset changes [8/]	-1.2	-0.6	1.2	9.5	-2.5	-2.7	-3.0	-1.8	-0.8	-1.2	



Source: IMF staff.

[1]Public sector is defined as general government and includes public guarantees.

[2]Based on available data.

[3]Long-term bond spread over U.S. bonds.Eurobond (due 2026) yields (1800) over US long-term bond yields (55 basepoints)

[4]Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

[5]Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = 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).

[6]The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

[7]The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

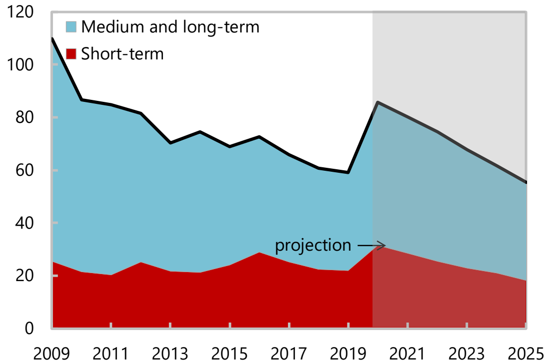
[8]Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

[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.

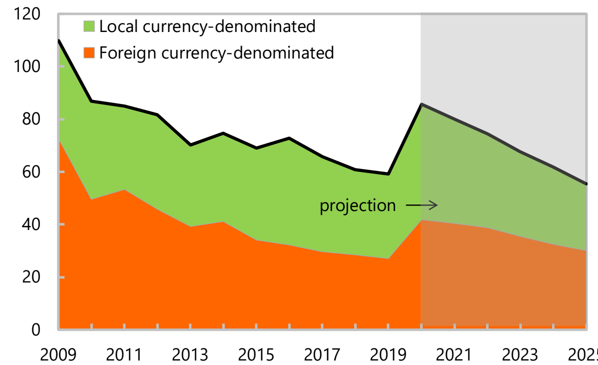
Figure 4. Seychelles: Public Debt Sustainability Analysis – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



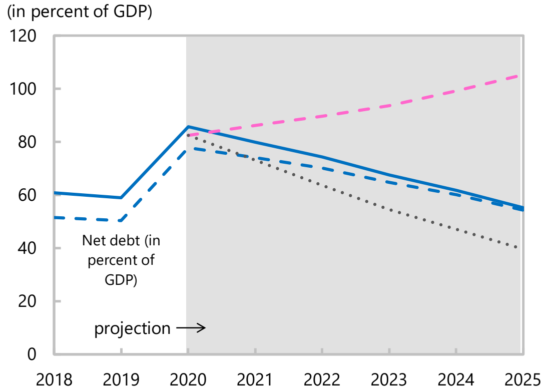
By Currency
(in percent of GDP)



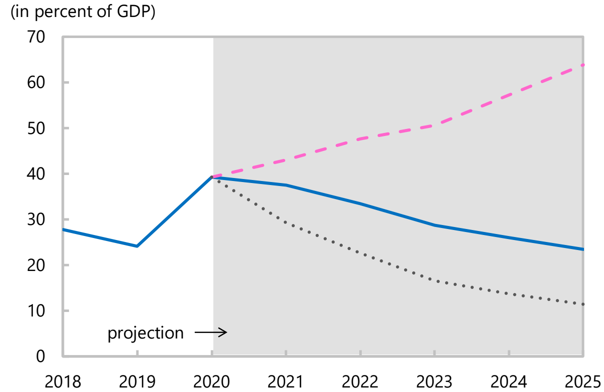
Alternative Scenarios

Baseline Historical Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

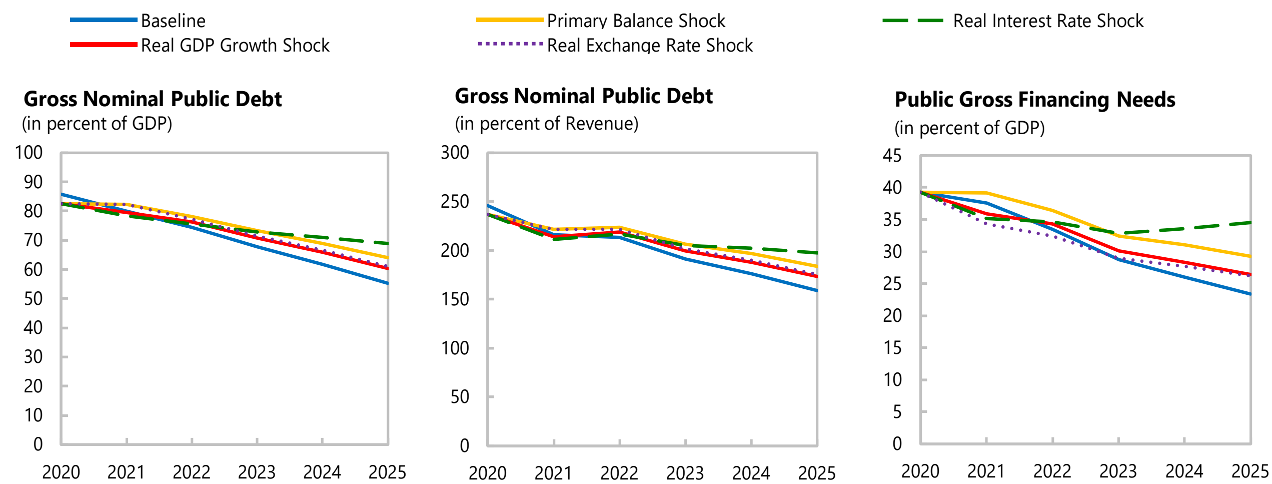
Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-10.8	6.5	5.4	4.6	4.1	4.0
Inflation	4.2	3.0	2.8	3.0	3.0	3.0
Primary Balance	-9.7	-1.8	-1.0	0.3	1.6	2.5
Effective interest rate	6.7	5.5	5.2	4.9	4.8	4.6
Constant Primary Balance Scenario						
Real GDP growth	-10.8	6.5	5.4	4.6	4.1	4.0
Inflation	4.2	3.0	2.8	3.0	3.0	3.0
Primary Balance	-9.7	-9.7	-9.7	-9.7	-9.7	-9.7
Effective interest rate	6.7	5.5	5.0	4.7	4.5	4.4

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-10.8	4.7	4.7	4.7	4.7	4.7
Inflation	4.2	3.0	2.8	3.0	3.0	3.0
Primary Balance	-9.7	4.6	4.6	4.6	4.6	4.6
Effective interest rate	6.7	5.5	5.5	5.3	5.3	5.0

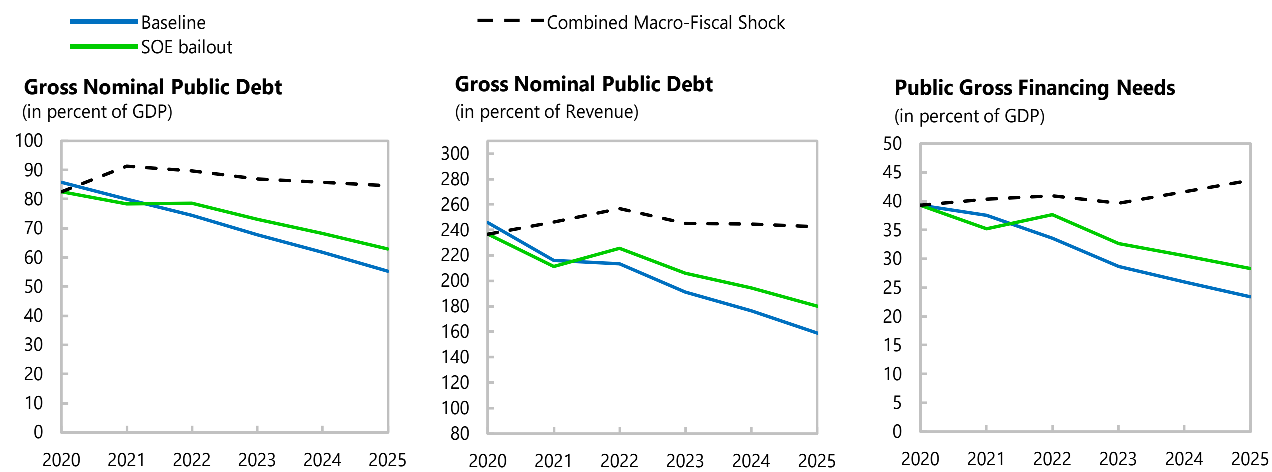
Source: IMF staff.

Figure 5. Seychelles: Public Debt Sustainability Analysis – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-10.8	6.5	5.4	4.6	4.1	4.0
Inflation	4.2	3.0	2.8	3.0	3.0	3.0
Primary balance	-9.7	-5.8	-1.4	-0.3	1.0	2.1
Effective interest rate	6.7	5.5	5.5	4.9	4.9	4.7
Real Interest Rate Shock						
Real GDP growth	-10.8	6.5	5.4	4.6	4.1	4.0
Inflation	4.2	3.0	2.8	3.0	3.0	3.0
Primary balance	-9.7	-1.8	-1.0	0.3	1.6	2.5
Effective interest rate	6.7	5.5	8.2	8.8	9.5	10.3
Combined Shock						
Real GDP growth	-10.8	5.7	4.5	4.6	4.1	4.0
Inflation	4.2	2.8	2.6	3.0	3.0	3.0
Primary balance	-9.7	-5.8	-1.7	-0.3	1.0	2.1
Effective interest rate	6.7	5.9	7.8	8.5	9.3	10.2

Real GDP Growth Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-10.8	5.7	4.5	4.6	4.1	4.0
Inflation	4.2	2.8	2.6	3.0	3.0	3.0
Primary balance	-9.7	-2.2	-1.7	0.3	1.6	2.5
Effective interest rate	6.7	5.5	5.2	5.0	4.8	4.6
Real Exchange Rate Shock						
Real GDP growth	-10.8	6.5	5.4	4.6	4.1	4.0
Inflation	4.2	8.5	2.8	3.0	3.0	3.0
Primary balance	-9.7	-1.8	-1.0	0.3	1.6	2.5
Effective interest rate	6.7	5.9	5.0	4.7	4.6	4.4

Source: IMF staff.

Table 1. Seychelles: External Debt Sustainability Framework, 2014-2025
(In percentage of GDP; unless otherwise indicated)

	Actual						Projections						Projection
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	100.2	100.8	105.5	107.5	111.6	113.6	**150.3**	**142.2**	**132.8**	**123.3**	**115.6**	**109.3**	**-19.0**
2 Change in external debt	-25.0	0.6	4.7	2.0	4.1	2.0	36.7	-8.1	-9.4	-9.5	-7.7	-6.3	
3 Identified external debt-creating flows (4+8+9)	43.0	8.7	13.2	4.0	10.5	8.9	38.2	0.9	1.0	1.4	2.5	0.7	
4 Current account deficit, excluding interest payments	22.1	18.1	19.2	19.7	17.5	15.6	27.6	24.3	22.7	20.5	17.7	16.8	
5 Deficit in balance of goods and services	-220.2	9.0	10.2	11.5	11.3	10.9	21.9	19.2	16.9	13.5	10.7	9.3	
6 Exports	102.2	94.2	94.8	100.6	106.3	100.1	80.6	93.8	94.4	95.4	96.8	97.6	
7 Imports	-118.0	103.2	105.0	112.1	117.6	110.9	102.6	113.0	111.3	109.0	107.5	106.9	
8 Net non-debt creating capital inflows (negative)	21.4	-7.5	-3.9	-9.4	-3.7	-2.9	-7.3	-16.1	-16.3	-15.1	-12.5	-13.5	
9 Automatic debt dynamics 1/	-0.4	-2.0	-2.1	-6.4	-3.3	-3.7	17.8	-7.3	-5.4	-4.0	-2.6	-2.6	
10 Contribution from nominal interest rate	1.0	0.5	1.3	0.4	0.4	1.1	1.6	1.6	1.4	1.4	1.9	1.8	
11 Contribution from real GDP growth	-5.6	-4.8	-4.4	-4.3	-3.9	-4.2	16.2	-8.9	-6.8	-5.4	-4.6	-4.4	
12 Contribution from price and exchange rate changes 2/	4.2	2.3	1.0	-2.5	0.2	-0.7	...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	-68.1	-8.1	-8.5	-2.0	-6.4	-6.9	-1.4	-9.0	-10.4	-10.9	-10.2	-7.0	
External debt-to-exports ratio (in percent)	98.0	107.1	111.2	106.8	104.9	113.5	186.4	151.6	140.6	129.2	119.5	112.0	
Gross external financing need (in billions of US dollars) 4/	828.7	533.3	639.9	557.4	604.3	507.0	641.2	575.9	598.5	598.7	597.7	601.2	
in percent of GDP	61.7	38.7	44.9	36.6	38.3	30.7	51.2	41.6	38.6	34.3	31.1	29.2	
Scenario with key variables at their historical averages 5/							**157.1**	**152.8**	**149.0**	**146.5**	**144.2**	**139.9**	**-17.8**
Key Macroeconomic Assumptions Underlying Baseline													
Real GDP growth (in percent)	4.5	4.9	4.6	4.4	3.8	3.9	-10.8	6.5	5.4	4.6	4.1	4.0	
GDP deflator in US dollars (change in percent)	-3.2	-2.3	-0.9	2.4	-0.2	0.6	-14.9	3.9	6.2	7.5	5.9	2.9	
Nominal external interest rate (in percent)	0.8	0.5	1.4	0.4	0.4	1.0	1.1	1.1	1.1	1.2	1.7	1.6	
Growth of exports (US dollar terms, in percent)	9.2	-5.5	4.3	13.4	9.5	-1.6	-38.9	28.8	12.6	13.6	11.8	8.0	
Growth of imports (US dollar terms, in percent)	17.5	-10.3	5.5	14.1	8.7	-1.4	-29.9	21.9	10.3	10.0	8.7	6.5	
Current account balance, excluding interest payments	-22.1	-18.1	-19.2	-19.7	-17.5	-15.6	-27.6	-24.3	-22.7	-20.5	-17.7	-16.8	
Net non-debt creating capital inflows	-21.4	7.5	3.9	9.4	3.7	2.9	7.3	16.1	16.3	15.1	12.5	13.5	

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).

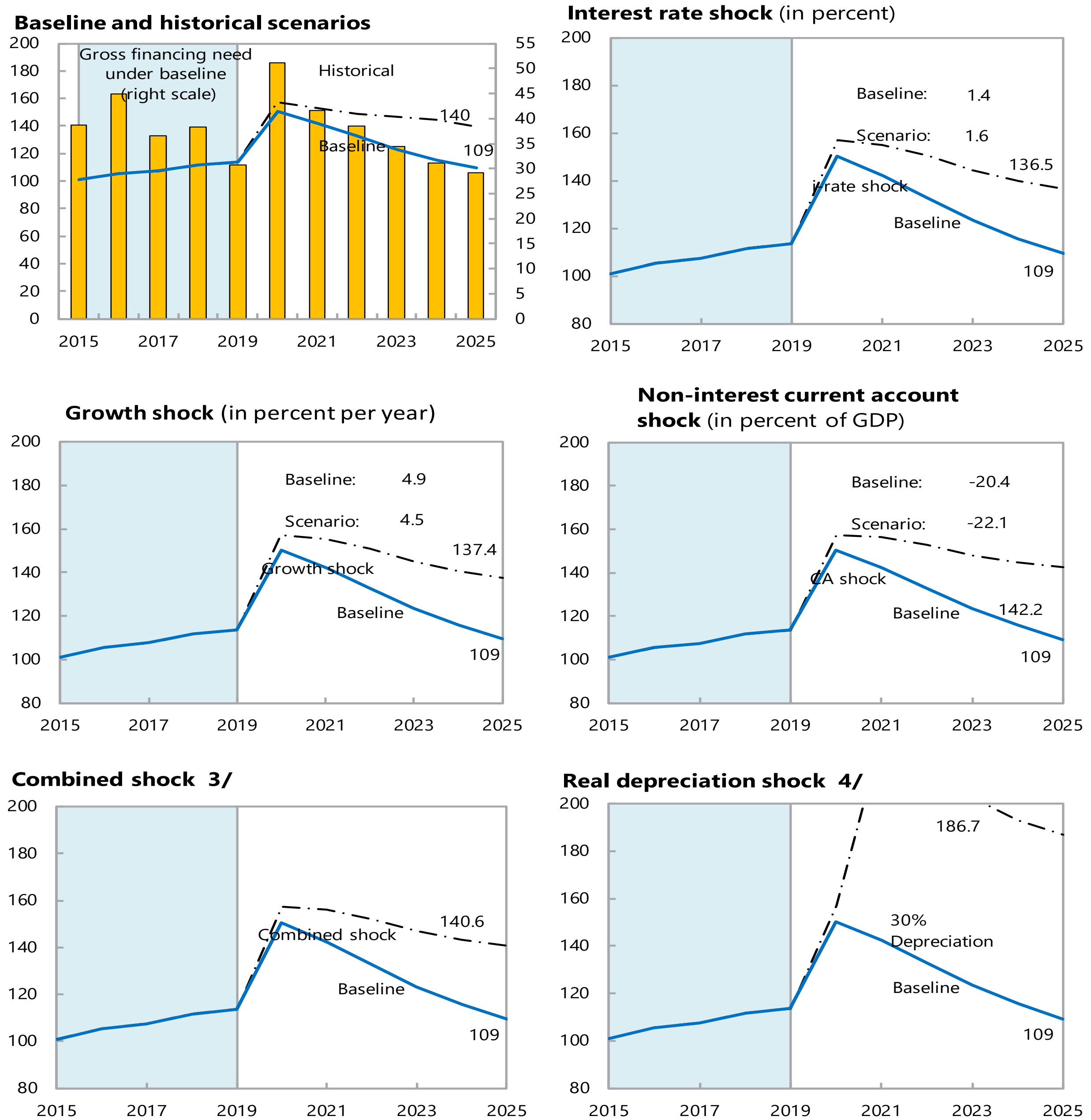
3/ For projection, line includes the impact of price and exchange rate changes.

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 of the last projection year.

Figure 6. Seychelles: External Debt Sustainability: Bound Tests 1/ 2/
(External 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 current account balance.
4/ One-time real depreciation of 30 percent occurs in 2020.

Appendix I. Letter of Intent

Victoria,
May 2, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
USA

Dear Managing Director:

1. Supported by successive International Monetary Fund (IMF) programs since the 2008 crisis, Seychelles has made considerable progress in strengthening economic stability and sustainability. By the end of 2019, we had reduced our public debt, improved import coverage of gross international reserves (GIRs), and successfully completed four reviews under the Policy Coordination Instrument (PCI), which was approved in late 2017. However, due to the severe economic consequences of the COVID-19 pandemic, a large part of our hard-won economic gains is being reversed.

2. The short-term economic fallout of the COVID-19 pandemic is expected to be tremendous. While the number of COVID-19 cases has been limited in Seychelles, travel restrictions necessary to fight the pandemic will have a major adverse impact on our economy. The tourism sector—accounting for more than one third of our economy—has come to a standstill. We therefore anticipate a major slowdown in growth and a deterioration in the external position and public finances. The balance of payments will be affected notably by the collapse in tourism exports and foreign direct investment, as most investment projects are expected to be postponed to 2021 at the earliest.

3. The Government is committed to addressing the economic and potential health damage caused by the COVID-19 pandemic. We have reacted rapidly with drastic measures, including the closing of borders and the suspension of international flights. The government has decided to allocate around SCR110 million to additional health spending and about SCR 50 million to additional social protection for the vulnerable group in 2020. We have also taken economic measures, including wage subsidies to all companies affected by the COVID-19 pandemic for 3 months to protect employment and household income, and to prevent further supply disruptions. We remain committed to fiscal sustainability and will review the impact and cost of this measure limiting its budgetary impact to no more than SCR1.1 billion. To create fiscal space for these emergency expenditures, non-essential hiring and current spending will be suspended in 2020. Furthermore, in a context of extraordinary supply disruptions, we will also take stock of

capital expenditures during our midyear review and adjust them according to financing availabilities. The revised 2020 budget, incorporating these measures and revised revenue projections, was recently approved by the National Assembly. The economic recession will have a negative impact on revenue. We project that the total revenue to GDP ratio will fall from 37.7 to 31.6 percent in 2020.

4. Due to the sizable revenue loss and emergency expenditures, the primary fiscal deficit could reach almost 10 percent of GDP in 2020. The spike in the deficit is expected to be temporary and the Government is committed to implementing a phased fiscal adjustment that will bring the primary balance to a surplus of 2½ percent of GDP by 2025 to shore up a declining path of public debt to GDP ratio. We intend to remain prudent in mobilizing financial resources and avoiding excessive debt accumulation to maintain public debt and external sustainability. Although the government plans to resort to the CBS advances to finance a small part of the deficit in 2020, this is a temporary and limited measure due to exceptional circumstances and care will be taken to maintain price and external stability.

5. Although we focus on COVID-19 mitigation in the short term, we will continue our structural reform efforts to reduce the fiscal risks and improve public finance management. Air Seychelles poses the largest risk to the fiscal sustainability, particularly due to the uncertainty in the global tourism. Should additional government support beyond that assumed in the medium-term baseline need to be considered in future, corrective actions to offset any fiscal impact would be discussed with the IMF staff. We are also committed to ensure transparency of the COVID-19 related emergency fiscal spending, and will submit monthly reports of the emergency spending on wage subsidies, health, and social spending to Finance Public Accounts Committee (FPAC) of the National Assembly. These reports will be made public within three months. Furthermore, we will undertake an independent audit of emergency spending and related procurement processes and publish its results.

6. The Central Bank of Seychelles (CBS) is committed to maintain a prudent monetary policy stance and mitigate any pressures from increased capital outflows. As a preemptive measure in view of the slowdown of economic activity, the Board of the CBS decided to cut the policy rate by 100 basis points. The CBS intends to maintain its flexible exchange rate policy and to limit foreign exchange interventions to the extent needed to address disorderly market conditions. It has started to provide support to the market through FX sales in the week of April 6, 2020. The CBS will ensure the well-functioning of the FX market and sufficient availability of FX for current international transactions, thereby guaranteeing the adequate supply of food, fuel and medical goods.

7. The CBS intends to closely monitor inflationary developments as the significant decline in international fuels prices partly offsets the depreciation of the rupee. In addition, the CBS has set up a facility to provide liquidity support to commercial banks and assist businesses struggling with the financial impact of the pandemic. The CBS will continue to monitor potential market stress and any emerging risks to the financial sector and the economy.

8. Our capacity to repay the IMF remains adequate. Furthermore, the Government of Seychelles intends to continue to maintain an open dialogue with the IMF to further explore solutions to our balance of payments difficulties in the coming weeks and months. We are committed to ensuring continued macroeconomic stability. We do not intend to impose new exchange and trade restrictions and other measures or policies that would compound these difficulties.

9. A Memorandum of Understanding between the CBS and the government will be signed to inter alia, ensure that that CBS and Ministry of Finance responsibilities for servicing financial obligations to the IMF are clearly established. In line with IMF safeguards policy, the CBS is committed to undertake an update of the safeguards assessment before the approval of any new subsequent arrangement by the IMF Executive Board. It will provide IMF staff with access to its most recently completed external audit reports and authorize the CBS' external auditors to hold discussions with IMF staff.

10. Against this backdrop, we request financial support from the IMF for an amount of 100 percent of quota (SDR 22.9 million) under the Rapid Financing Instrument (RFI) to help Seychelles mitigate the adverse impact of the COVID-19 pandemic that led to an urgent financing gap in the balance of payments. Financial support from the IMF would help to ease the pressure on our fiscal position while providing the fiscal space necessary to fight the adverse impact of the pandemic. In addition, we have been holding extensive and coordinated discussions with the World Bank and the African Development Bank regarding possible budget support loans. In case external budget support does not increase as planned, greater domestic policy actions would be considered.

11. Despite the temporary deterioration in the fiscal and external positions caused by the COVID-19 pandemic, we are still committed to the broad objectives of prudent policies underlying the PCI. In line with our commitment to transparency, we authorize the IMF to publish this Letter of Intent and the staff report for the request of purchase under the RFI.

Sincerely yours,

/s/	/s/
H.E. Maurice J Loustau Lalanne	Ms. Caroline Abel
Minister of Finance, Trade, Investment and Economic Planning	Governor, Central Bank of Seychelles

Statement by Mr. Nigel Ray, Executive Director of Seychelles, Ms. Johnson, Senior Advisor and Mr. Khurelbaatar, Advisor
May 8, 2020

On behalf of our Seychellois authorities, we thank staff, management and the Executive Board for their continued support of Seychelles, especially during these challenging times. The authorities have requested a purchase of SDR22.9 million, equivalent to 100 percent of quota, under the Rapid Financing Instrument. This would fill about a quarter of the balance of payments financing need and should help catalyze additional support.

Before the COVID-19 pandemic, Seychelles was continuing to make considerable progress in strengthening economic stability and sustainability. The Seychellois authorities have demonstrated their strong commitment to economic reform under successive Fund programs and the current Policy Coordination Instrument (PCI). They have implemented sound monetary and fiscal policies, reduced public debt and progressed structural reforms, all of which have significantly improved the resilience of the economy since the 2008 economic crises.

While staff have not yet completed the latest review under the PCI, their preliminary view is that all end-December 2019 quantitative targets were met while the 12-month average inflation at end-2019 was well within the inner bound of the monetary policy consultation clause. Structural policies have been progressed broadly in line with the PCI targets.

The outbreak of COVID-19 caused a health emergency. Progressively from February 2020, the authorities restricted international arrivals and, in order to prevent further spread of the virus, the authorities closed Seychelles' borders and suspended all international flights effective from mid-March. From early April, outdoor movements were prohibited and non-priority businesses closed. The authorities allocated additional financing equal to 0.5 percent of GDP to health-related spending. Thanks to strict and timely measures, Seychelles has had only 11 cases of COVID-19 and no fatalities. Recently, there have been no new cases reported and the authorities are now planning to ease restrictions in phases.

Outlook

As a small open economy highly dependent on tourism, the economy of Seychelles has been hit exceptionally hard. In the WEO projections, Seychelles is the worst hit economy in Sub-Saharan Africa and the economy is projected to shrink by 10.8 percent this year, with a recovery next year. The authorities doubt that the outlook is that promising; their expectation is that the tourism sector is unlikely to recover as staff project. The sector accounts for 24 percent of the Seychelles economy directly, an estimated 75 percent indirectly, and, crucially, 76 percent of foreign exchange receipts. The current account balance is expected to widen to close to 30 percent of GDP, as tourism receipts and FDI inflow have dried up. The authorities do not expect that the tourism sector will rebound swiftly to pre-COVID levels and are mindful about longer-term economic challenges.

Fiscal policy

As a result of COVID-19, fiscal revenues are projected to decrease sharply, and the primary fiscal deficit is projected to reach 9.7 percent of GDP this year. Gross financing needs are approaching almost 60 percent of GDP. To lessen the negative economic impact, the authorities have provided assistance for social protection to vulnerable groups and will provide wage subsidies to affected businesses from the budget, while also taking measures to reduce lower priority fiscal expenditures, including adjusting capital expenditures.

The key fiscal target under the PCI was to reduce the debt-to-GDP ratio to 50 percent by 2021. Now, the debt-to-GDP ratio at the end of 2020 is estimated to be 85.7 percent instead of 52 percent as had been projected in the 2020 budget. But the spike is expected to be temporary and the authorities are committed to the broad objectives underlying the PCI. The authorities honored debt repayments of USD18.2 million due in the first quarter of 2020; another USD32.9 million will become payable at the end of the year. The Seychellois authorities remain firmly committed to honor their debt service obligations. They are mindful of the debt sustainability risks.

Monetary policy

The Central Bank of Seychelles is committed to maintain a prudent monetary policy stance and mitigate any pressures from increased capital outflows. The Central Bank lowered the policy rate by 100 basis points, has started providing liquidity support to affected businesses and stands ready to provide FX liquidity to the market to ensure an uninterrupted supply of essential goods and medical supplies to the country, while maintaining its flexible exchange rate policy.

Financing request under the RFI

Seychelles is a small open economy, with a high dependence on tourism, which makes Seychelles very vulnerable to the current crisis. The authorities took strong preventive measures to contain the spread of the virus. Our Seychellois authorities are confident that they will prevail over these challenges and are looking to take necessary measures to revive the economy. Still, owing to the closure of borders and a worldwide freeze on travel, the economic toll is high and the economic challenges are enormous. Seychelles won’t be able to meet the economic challenges alone and the country needs urgent support from the Fund and the international community during these testing times. The Fund’s assistance, together with the World Bank and other donors’ support, will help meet two-thirds of urgent balance of payments needs stemming from the disruption to tourism as a result of the pandemic. We hope that the Fund’s assistance will also help to catalyze additional financing to close the remaining financing gap.