Office Memorandum

To: Distribution

March 13, 2006

From: Trish Pollard

Subject: **Seychelles 2005 Article IV Consultation - Readout of March 10 IMF Executive Board Discussion**

Directors consistently mentioned the need for Seychelles to implement a comprehensive reform agenda, to address the unsustainable level of public debt (182 percent of GDP) and the overvalued exchange rate. Directors noted that these recommendations are not new but were proposed by the staff and supported by the Executive Board for the past few years. The authorities have undertaken some reform measures, but these have not been sufficient to prevent economic decline.

The Australian Alternate Director, Mr. Murray, who represents Seychelles, acknowledged that the views of the Board were very strong with respect to the need for the authorities to take prompt action. He indicated he would convey the sentiment of the Board to the authorities particularly regarding the need for a devaluation of the rupee, further fiscal restraint and privatization. He argued that the reluctance of the authorities to implement the staff's recommendations resulted from their concerns over the adverse consequences of the reforms. Directors acknowledged that proposed reforms will be painful but concluded that prompt action is needed to avoid further degradation of the economy.

Directors supported the staff's recommendation for an immediate devaluation followed by a gradual adjustment of the exchange rate toward its equilibrium rate. A few Directors, however, expressed concern that a devaluation would reduce the ability of the government to repay its debt, as much of it is foreign currency denominated. In addition, several Directors urged the authorities to develop a timetable for the removal of restrictions on foreign exchange transactions.

The staff did not provide a precise size for the recommended devaluation but remarked that the adjustment would need to be large enough to signal a credible change. The recent parallel market range of 8-12 rupees per U.S. dollar provides a reasonable range, particularly as a non-negligible share of private activity currently operates at the parallel rate.

Several Directors noted the increasing level of arrears and lack of progress on debt renegotiations. The UK Director suggested that Seychelles turn to the Paris Club to restructure some of its debt rather than through bilateral negotiations.

Many Directors urged the authorities to maintain close engagement with the Fund. Mr. Murray observed that the country does not qualify for a Fund program nor for debt relief. He also noted that despite its problems Seychelles is "not a basket case" but has a high standard of living and good governance. The country is undergoing a transformation to full democracy that is expected to be completed this year with elections in the fall. The staff noted that the institutions are staffed well and are very competent.

When questioned as to whether there were any countries in similar situations that had undergone successful planned devaluations, the staff replied that the vulnerabilities facing Seychelles are high and somewhat unique. Nevertheless, the experience of Hungary, Poland and Turkey in undertaking successful devaluations may be relevant, as well as the experience of the CFA franc. The staff stressed that a devaluation need not be contractionary particularly if combined with restrictive fiscal policy, citing a 2003 IMF Working Paper, "Output Response to Currency Crises" in support of this conclusion.

IMF Staff Report for the 2005 Article IV Consultation
February 14, 2006

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Executive Summary

- **Seychelles' achievements in terms of living standards may end up being jeopardized by the ongoing balance of payments and debt crisis.** Past large fiscal deficits have led to one of the highest public debt levels in the world and the currency overvaluation has undermined competitiveness. Real GDP fell by 11 percent since 2000.

- **The authorities' home-grown macroeconomic reform program, which began in 2003, has not yielded the expected results.** On the one hand, some fiscal consolidation was achieved and the public debt has stabilized—albeit at a high level. On the other hand, the lack of complementary action on the exchange rate and on broad structural reforms has caused further declines in economic activity and in competitiveness.

- **Decisive implementation of a comprehensive adjustment program will be necessary to tackle existing imbalances and prevent a further economic decline.** Key elements of such a reform program should include correcting the exchange rate overvaluation, implementing supportive fiscal and monetary policies, and further reducing the role of the state in the economy. Concurrently, a comprehensive debt strategy would need to be implemented in order to restore debt sustainability. While in broad agreement with the policies recommended by staff, the authorities noted their preference for a gradual pace of implementation mindful of social cohesion.

- **Exchange rate policy.** The authorities agreed in principle with staff's recommendation to establish a mechanism that would allow the exchange rate to gradually reach its market-clearing level. They indicated however that any major policy initiative in this area would be difficult to undertake in the run-up to the presidential and National Assembly elections, to be held no later than September 2006.

- **Fiscal policy.** The authorities reiterated their commitment to continued fiscal surpluses. However, staff noted that a more ambitious fiscal effort than that envisaged in the 2006 budget (which implies a loosening of the fiscal stance relative to 2005) would be necessary to place public debt on a steady downward path.

- **Monetary policy.** In the context of a more flexible exchange rate regime, the authorities acknowledged that the monetary policy framework would need to be modified and monetary instruments revised. The choice of a new monetary anchor, and measures to strengthen monetary operations, would be reviewed by the central bank during 2006.

- **Structural reforms.** The authorities emphasized recent achievements in the areas of privatization, trade liberalization, relaxation of some price controls, and elimination of the import monopoly of the Seychelles Marketing Board (SMB). Staff welcomed the progress achieved so far and encouraged further implementation of a coherent set of structural reforms aimed at reducing the role of the state in the economy.

I. Background

1. **The ongoing balance of payments and debt crisis may jeopardize Seychelles' past economic and social achievements.** The authorities' development model since independence, based on extensive investment in infrastructure and human capital, as well as generous welfare benefits, succeeded in improving the standard of living. Seychelles' social indicators are now higher than in the region and in similar economies. However, these policies, based on extensive state intervention, came at the cost of large fiscal deficits. They have led to a significant buildup of public debt, the overvaluation of the currency under the fixed exchange rate regime, as well as declining competitiveness and growth. Foreign exchange shortages have been pervasive and external arrears continue to accumulate. Reserves have remained low at an average of US$45 million or less than five weeks of imports since 1998 (see Text Figure 1).

2. **The authorities' partial policy response to these macroeconomic imbalances has failed to halt the economy's decline.** Until 2003, repeated staff recommendations[1] to address the overvaluation of the exchange rate and to liberalize the economy were largely ignored.[2] In mid-2003, the authorities began implementing a home-grown Macroeconomic Reform Program (MERP), which aimed at solving the economy's problems primarily through fiscal consolidation. However, due to its incompleteness, the reform program failed to generate an economic recovery, leading to a large decline in real GDP in 2003, and a further deterioration in 2004. Overall, real GDP has declined by about 11 percent this decade, and by 13 percent on a per capita basis over the same period (Box 1).

3. **The authorities agreed, in principle, with Executive Directors' recommendations presented at the occasion of the 2004 Article IV consultation, but critical reforms continue to be postponed.** Directors stressed the importance of implementing a comprehensive reform package, including an exchange rate adjustment and progressive foreign exchange regime liberalization, as well as supporting demand management policies and structural reforms. However, the authorities have avoided tackling what they perceive to be politically costly reforms.

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[1] See Staff Reports SM/00/240, SM/02/228, and SM/04/19. Use of Fund Resources (UFR) discussions in 2000 and 2003 did not lead to a Fund-supported program, mainly due to the lack of action on exchange rate liberalization and concerns about debt sustainability.

[2] There has been ongoing opposition by vested business and political interests to a comprehensive reform program.

Text Figure 1. Seychelles: Long-Term Developments

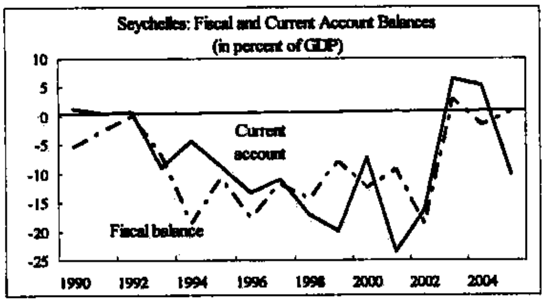
Seychelles' social indicators are currently higher than in comparable economies and among the highest in the region.

Selected Social Indicators, end-2003

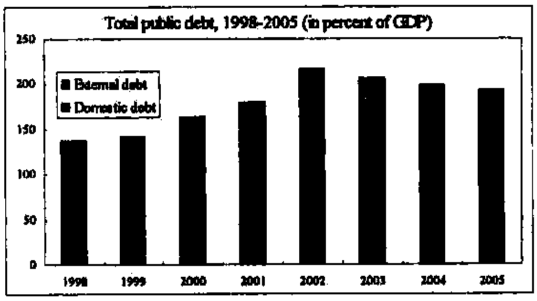
	Seychelles	Sub-Saharan Africa	ECCU 1/
Population (in millions)	0.1	704.7	0.6
GDP per capita (in 2003 U.S. dollars)	8404.0	505.5	5609.0
Net primary enrollment ratio (% of relevant age group)	99.4 2/	...	68 3/
Under 5 mortality rate (per 1,000)	15.0	171.2	17 4/
UNDP HDI ranking, rank out of 175 countries	36	...	73
Life expectancy at birth (years)	73.2	45.6	74.0

Sources: http://worldbank.org/data, www.undp.org.
1/ Eastern Caribbean Currency Union Member Countries.
2/ 1991 value.
3/ Combined school enrollment ratio.
4/ Infant mortality.

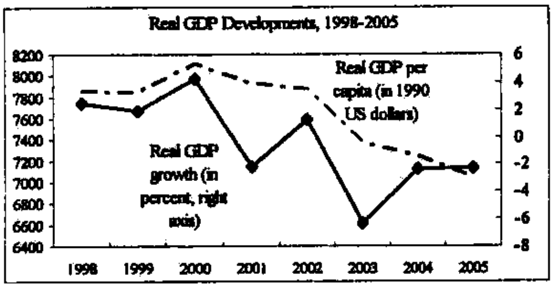
However, large fiscal and current account deficits due to the financing of large infrastructure projects and a generous welfare system...



... have led to a rapid buildup of public domestic and external debt.



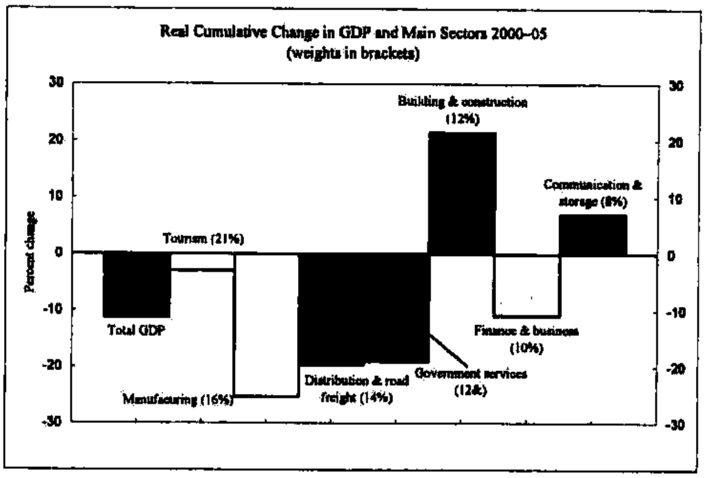
The deterioration in competitiveness has led to a decline in real GDP growth and real GDP per capita...



...and foreign reserves have remained low.

Sources: Ministry of Finance, Central Bank, and IMF staff estimates.

Box 1. Seychelles Growth Performance, 2000 05



Economic activity has declined by 11 percent in real terms since 2000. The deterioration of the economy has been broad-based. Only building and construction and communication and storage have expanded, mostly due to large hotel construction projects.

This economic decline can be partly attributed to foreign exchange shortages that have limited imports of raw materials necessary for the expansion of various economic sectors. Prevailing foreign exchange restrictions have also curbed private investment inflows (with the exception of the hotel industry) that were necessary to raise the productive base of the economy.

II. Recent Economic Developments

4. **Real GDP is estimated to decline by a further 2.3 percent in 2005.** The tsunami of end-2004 caused significant damage to the economy (about 5 percent of GDP) and led to an increase in construction and hotel renovation. The impact on tourism was negligible (tourism arrivals in 2005 were 7 percent higher than in the previous year). However, production indicators for the first three quarters of 2005 were weak, as the lack of foreign exchange prevented imports of essential inputs for agriculture and manufacturing, and domestic demand remained depressed. The average unemployment rate rose somewhat to 3.8 percent in 2005, compared to 3.5 percent in 2004 (Figure 1 and Table 1).

5. **Inflationary pressures abated in 2005, with average annual inflation estimated to have declined from 3.9 percent in 2004 to 1 percent.** While the tsunami resulted in some short-lived increases in prices of food and construction materials, this was offset by the impact of domestic tax reductions on some food items in late 2005. However, the official consumer price index (CPI) likely underestimates true inflation due to methodological issues.[3] Continued import compression manifests itself in shortages rather than in price increases.

[3] The CPI basket is based on an outdated expenditure survey and corresponds imperfectly to current consumption patterns, as a number of widely consumed goods were not available due to import restrictions at the time of the survey. There are also problems with the price data collection methodology, which lead to a downward bias. Furthermore, the CPI basket contains a range of fixed- or controlled price items.

6. **While the fiscal stance has tightened relative to 2004, the fiscal outturn of the consolidated government in 2005 is estimated to have fallen short of the budget target.** Revenue shortfalls were primarily due to lower-than-expected dividend payments from parastatals, with a buoyant general sales tax (GST) only partially offsetting disappointing collections on business and trade tax. Expenditure overruns on goods and services and on transfers to parastals were partly compensated by lower-than-budgeted capital spending (Figure 2 and Table 2). Public debt declined by 5 percentage points of GDP in 2005 to reach 182 percent of GDP.

Selected Fiscal Indicators, 2004–05
(In percent of GDP)

	2003 Actual	2004 Actual	2005 Budget	2005 Est.
Revenue	49.3	49.1	52.7	50.4
Expenditure	46.7	50.7	48.3	50.0
Overall balance	2.8	-1.5	4.4	0.7
Primary balance	9.8	6.3	12.3	8.5

Source: Ministry of Finance and staff estimates.

7. **Domestic debt operations have alleviated immediate cash flow pressures, but have had a negligible impact on the net present value (NPV) of debt.** The authorities undertook a conversion of the advances held by the Central Bank of Seychelles (CBS) together with the domestic counterpart of external loans on lent to the government (about 35 percent of 2004 GDP) into a 20-year bond.[4] Whereas the restructuring had a neutral impact on the overall value of CBS assets and liabilities, exposure to exchange and interest rate risk increased since the CBS remains responsible for servicing the external loans in foreign currency and at market interest rates, while receiving income on the bond in rupees and at domestic interest rates.[5] The operation's impact on the CBS's profitability is more difficult to assess. While the CBS has been consistently profitable in recent years, it is expected to make a small loss in 2005 as interest on the new bond for that year was capitalized.

8. **The fiscal tightening has led to a reduction in excess liquidity.** Broad money grew by only 0.4 percent in the first three-quarters of 2005 (year-on-year), and narrow money contracted by 10.5 percent in the same period, slightly reducing the monetary overhang in the economy. Pipeline deposits have been declining slowly, from a high of SR 618 million at end-September 2004 to SR 513 million by end-November 2005.[6] Gross official reserves increased from 3.7 weeks of imports at end-2004 to 4.7 weeks at end-2005. At the same time, net foreign assets of commercial banks deteriorated somewhat during the year.[7] Although net claims on the

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[4] For more details on the restructuring, see Box 1 in the selected issues chapter on debt sustainability analysis (SM/06/53).

[5] As a result of the operation, the share of public debt carrying variable interest rates increased from 31 percent of the total at end-2004 to 57 percent at end-2005.

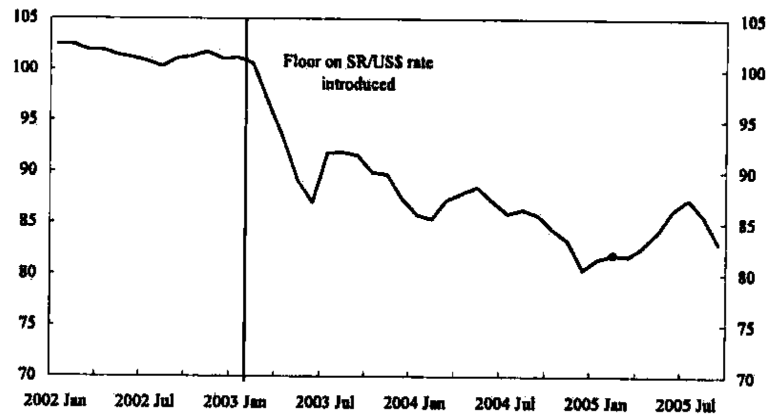
[6] The foreign currency pipeline results from the unmet foreign exchange demand: foreign exchange requests have to be accompanied by a commensurate rupee deposit in commercial banks. Requests are approved according to a priority list.

[7] Commercial banks' foreign liabilities increased primarily due to the reclassification of formerly resident deposits to nonresident deposits.

government continued to decline, claims on public entities increased significantly (Figure 3, Tables 3 and 4).[8]

9. **The recent depreciation of the REER has done little to address the more fundamental erosion of competitiveness in Seychelles.** Overall, the level of the REER is below historical highs, and has shown a trend decline since mid-February 2003, when the authorities introduced a floor on the SR/US$ rate, effectively introducing a U.S. dollar peg, and engineering a steady depreciation against the euro. Nevertheless, a range of other competitiveness indicators indicate a continued decline and an exchange rate misalignment (see Box 2).

Seychelles: Real Effective Exchange Rate, 2002–05
1990=100



10. **External sector developments have been mixed.** The current account deteriorated sharply in 2005, driven mostly by the purchase of two oil tankers by the national oil company, and by imports linked to significant hotel-related foreign direct investment (FDI) (Table 5). Non-FDI, non-oil-related imports have remained unchanged relative to 2004, and there appear to have been increasing shortages of essential goods and raw materials. Much of the growth in commodity exports in 2005 was driven by oil re-exports. Tuna exports were relatively flat for the first half of the year, due to low inventories and supply problems, but picked up since May 2005. Estimated tourism income increased by 10 percent compared to 2004. The low level of reserves remains an important source of vulnerability: in the first quarter of 2005, tsunami-induced spending pressures, combined with higher energy prices, sharply increased external financing needs and forced the central bank to resort to additional collateralized borrowing

11. **Arrears to multilateral and bilateral external creditors continue to accumulate, although the authorities are making bilateral efforts to regularize relations.** Debt service arrears are estimated to have increased by about US$32 million in 2005, to reach a stock of US$185 million (26 percent of GDP). Monthly payments of US$100,000 have been made to the World Bank during 2005, as per the agreement reached in early 2005, reducing the stock of arrears to about US$1 million as of end-December 2005. There has also been some progress in

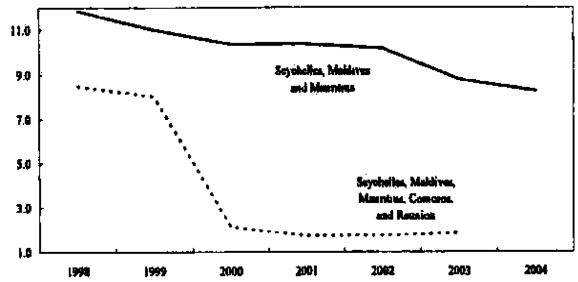
[8] The bulk of this increase of claims on public entities was due to a loan to the Housing Finance Corporation.

Box 2. External Competitiveness and the Exchange Rate

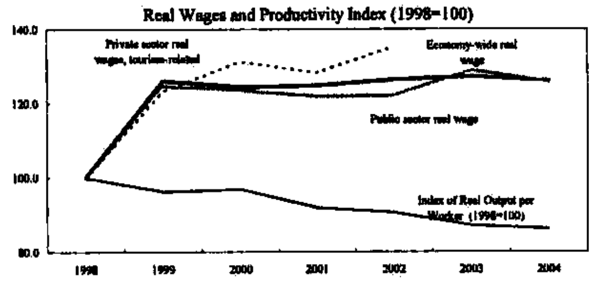
Available indicators point to an unambiguous deterioration in competitiveness and an exchange rate misalignment:

- *Seychelles' share in Indian Ocean tourism arrivals has steadily declined.* Arrivals have picked up somewhat in 2005, but it is not clear whether this increase will be sustained.
- *Productivity (measured as real output per worker) has declined, and unit labor costs have risen.* Real wages in the tourism-related private sector have risen significantly faster than the average economy-wide wage.
- *Foreign direct investment (FDI) flows (mainly to the tourism sector) have decreased somewhat in the last few years,* although there is an estimated US$250 million of approved foreign investment projects in the pipeline. FDI flows into the Seychelles have exceeded flows into Mauritius and the Maldives, but are about 5-20 percentage points of GDP lower than FDI flows into other tourism-based islands such as St. Vincent & the Grenadines and St. Kitts & Nevis.

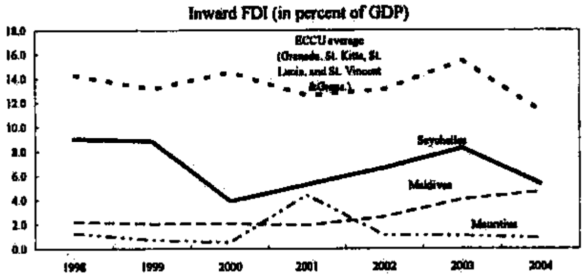
Seychelles, share of Indian Ocean tourism arrivals (in percent)



Real Wages and Productivity Index (1998=100)



Inward FDI (in percent of GDP)



Evidence of an exchange rate misalignment includes the pervasive foreign exchange shortages, the resulting restrictions on current account transactions, the complex system of foreign exchange allocation, and an active (but illegal) parallel market with a substantial wedge with the official rate.

The extent of the misalignment of the real exchange rate is difficult to ascertain. One important impediment to an empirical analysis is the limited information content of the CPI-based REER measure, as price controls limit the impact of supply and demand pressures on prices and the CPI basket itself seems misspecified. However, empirical studies, such as Ghei and Kamin (1996), suggest that the parallel market rate seems to represent an upper bound on the appropriate level. This finding was corroborated by an IMF study on orderly exits from pegged regimes, in the presence of parallel markets.

The parallel market rate in Seychelles has been between SR 8 and SR 12 per U.S. dollar in the past two years. Both the lack of a substantial risk premium due to the relaxation of enforcement and the increase in volume of imports financed through the parallel market suggest that the parallel rate may be a good guide for the upper bound of the equilibrium official rate.

clearing arrears to the OPEC Fund, the Kuwaiti Fund, India, as well as rescheduling a loan from China. While there have been discussions with the AfDB, no clear solution has emerged in terms of a way forward for settling the arrears (US$41 million as of mid-December 2005).

12. **The banking sector remains well capitalized and profitable, but high exposure to government debt instruments is a significant vulnerability** (Table 7). The capital to risk-weighted assets ratio has been over 20 percent in recent years, though the zero risk-weighting of government obligations may not appropriately reflect the government's credit risk. Although the sector's balance sheet is dominated by claims on the public sector with approximately 50 percent of total banking sector's assets held in government securities, credit to the private sector has been increasing in the last few years. Increasing intermediation has been coupled with a rise in nonperforming loans, albeit to a low level, and a decline in provisioning. Foreign-exchange loans have been increasing since 2003, but are strictly limited by banks to foreign-exchange earners, thus limiting credit risk. All but one bank continue to have long foreign-exchange positions. Banks are exposed to significant interest rate risk given their large stock of long-term, fixed-rate government bonds (23 percent of total assets) and the very short maturity of their liabilities.

Selected Financial Soundness Indicators, 2000–05
(In percent)

	2000	2001	2002	2003	2004	2005 Est.
Regulatory capital to risk-weighted assets	27.1	34.2	31.8	20.9	21.6	20.8
Capital (net worth) to assets	4.6	4.4	4.2	4.1	4.0	4.1
Foreign exchange loans to total loans	5.8	1.5	2.3	8.1	9.5	10.6
Non-performing loans to gross loans	1.7	1.6	2.5	3.0	5.1	2.6
Provision as percent of past-due loans	65.4	75.1	51.8	55.0	40.9	51.4
Gross claims on central government/Total assets	62.7	64.4	60.4	61.2	50.7	46.5

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

13. **A number of structural reforms have been undertaken in 2005:**

- *The privatization process has begun.* The sale of a portion of the public insurance company (SACOS) to a strategic investor was finalized by end-January 2006 and that of the hydroponic unit of the Seychelles Marketing Board (SMB) should be completed in the first quarter of 2006, with the divestiture of other state-owned entities to follow.[9]

- *Prices of food products have been liberalized, and a tender system for the import of essential goods has replaced SMB's monopoly.* The tender process seems to be generating more competitive prices.

- *The trade regime has been liberalized.* Import licenses were removed early in 2005 and, as of December 1, 2005, trade taxes on all raw materials, selected capital equipment, and a range of consumer goods were reduced to zero. The authorities also announced their intention to rejoin the Southern African Development Community (SADC) trade bloc in 2006.

[9] The Seychelles Pension Fund, as majority owner in a private company formed jointly with a Mauritian insurer, was awarded a 30 percent share of SACOS in January 2006, for the sum of SR 10.5 million.

- *A new pension scheme has been put in place as of January 1, 2006.* Compared to the old pension scheme, which provided a fixed lump-sum retirement benefit, the new Pension Fund benefits will be proportional to the contributions and to the previous salary of employees. The Pension Fund will receive mandatory contributions from employers and employees, voluntary contributions from self-employed workers, as well as 10 percent of total collections of the Social Security Fund.

- *A new Investment Code was adopted in December 2005.* The code, which would apply only to new investors, follows international best practices in protecting foreign investors and providing for a unified legal framework. However, even though the repatriation of foreign income as well as the right to convert rupee earnings in foreign currency, is in principle guaranteed under the code, such transactions will have to go through the existing pipeline scheme.

III. Policy Discussions

A. Challenges and Medium-Term Outlook

14. **The discussions focused on the key challenges for the authorities, which remain to tackle the existing macroeconomic imbalances and reinvigorate growth, by taking early and decisive action on exchange rate liberalization, addressing the debt overhang, and reducing the role of the state in the economy.** Staff encouraged the authorities to initiate a comprehensive reform process promptly, so as to prevent a further deterioration of the economy. The authorities indicated that they agreed in principle and reiterated their commitment to reform, but noted that major policy initiatives (including addressing the exchange rate overvaluation) would be difficult to implement before the upcoming presidential and National Assembly elections, due no later than September 6, 2006. They also noted their preference for a slower pace of reform, mindful of social cohesion. In the meantime, the authorities would continue to pursue their strategy of attracting new FDI in the high-end tourism sector, by granting them tax concessions and providing shelter from the foreign exchange allocation constraints. This would generate additional employment opportunities, as well as positive spillovers to other sectors of the economy.

15. **In the absence of policies to address the aforementioned challenges, the medium-term outlook would be characterized by further economic decline and increased susceptibility to shocks that could undermine past achievements.** Under unchanged policies, real GDP growth would continue to decline in 2006 and beyond, imports would remain compressed, investment would remain low, and private sector credit would shrink. Public debt would remain unsustainable, as the fiscal stance would not be sufficiently tight to bring about any significant reduction in the debt stock (public debt would reach 204 percent of GDP by 2010). Roll-over risk would be significant, as domestic financing needs would imply net annual issues of government securities equivalent to about 7 percent of GDP from 2007 onwards. External arrears would keep accumulating and gross reserves would remain at about four weeks of imports (Table 8).. The economy would also remain vulnerable to external and policy shocks.

16. **The staff presented a comprehensive reform program that, if implemented, would help bring about a resurgence of economic growth and lead to a sizable decline in public**

and external debt. The adjustment scenario is premised on: (i) an upfront exchange rate adjustment, followed by a gradual move toward its equilibrium market value; (ii) supportive fiscal and monetary policies; and (iii) further economic liberalization. Under such a scenario, GDP growth would rebound to about 8 percent in 2007 as confidence returns, private investment increases, and domestic production reaches higher capacity, given the greater availability of imported inputs. The boost in competitiveness would allow Seychelles to regain its tourism market share in the region. Inflation would increase to about 12 percent in 2006 and 25 percent in 2007, following the devaluation and the adjustment of energy and utility prices, before returning to about 2½ percent by 2010. Public debt would decline by about 50 percentage points of GDP, and gross reserves would increase to over four months of imports (Text Figure 2).

17. **The main risks to the adjustment scenario are a partial implementation of exchange rate and fiscal measures, a smaller-than-expected growth response, and an unwinding of balance sheet vulnerabilities caused by the devaluation.** The authorities might be reluctant to allow for the full adjustment of the exchange rate to the market equilibrium to take place due to concerns about adverse inflation and welfare effects. Such partial implementation would fail to instill confidence and restore competitiveness, leading to lower FDI inflows and a weaker current account response. The fiscal effort required to generate the projected reduction in public debt is also highly demanding. The authorities noted that the required primary surpluses might be difficult to achieve, as they would necessitate drastic expenditure adjustments in the face of higher spending on imported goods and services. They also expressed doubts regarding the extent of the response of the private sector, and of overall growth, to the adjustment package. In addition, the devaluation would likely exacerbate currency risk in the public sector and interest rate risk in the financial sector (Box 3).[10]

18. **Although the implementation of the adjustment scenario would place public debt on a steady downward path, it would remain at a precarious level for many years.** Whereas under the baseline scenario, external and public debt remain high, with explosive dynamics potentially triggered by a range of shocks, in the adjustment scenario public and external debt continue to trend downward under most plausible shocks (Box 4, and Tables 9-12).[11] However, even assuming full implementation of the adjustment package, total public debt would still be at about 130 percent of GDP by 2010.

19. **The concurrent implementation of a comprehensive debt strategy would therefore be needed to bring public debt to a sustainable level.** As suggested by the authorities, the strategy could include enhanced liability management through targeting early repayment of the more costly collateralized obligations. At the same time, the authorities could engage in good-faith negotiations with external creditors. On the domestic debt front, operations to progressively lengthen the maturity of domestic public debt would provide cash-flow relief, but the impact of any domestic debt strategy on the banking system's capitalization would need to be carefully

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[10] Balance sheet vulnerabilities are discussed in SM/06/53 (2/15/06).

[11] A detailed debt sustainability analysis is presented in SM/06/53.

considered, as all six commercial banks have large exposures to government instruments, ranging from 45 to 85 percent of total assets.

B. Exchange Rate Policy

20. **The authorities agreed in principle with the staff's recommendation of a sizable step adjustment in the exchange rate and the establishment of a mechanism that would move the rate in a controlled manner to the market-clearing level.** Given the uncertainty about the equilibrium level of the exchange rate and the extent of pent-up demand for foreign exchange, the risk of overshooting could be minimized by allowing the exchange rate to adjust in a controlled manner. Staff advised that the official exchange rate should initially be devalued, and a wide horizontal band be established around the central rate. At the same time, a clear timetable for the phased elimination of the remaining exchange controls should be announced. Such a timetable was discussed in detail with the authorities.[12] In order to allow the exchange rate to find its market-determined level, the exchange rate should be allowed to move freely within this band. Should the exchange rate remain at one of the edges of the band for several weeks, the exchange rate band would be re-centered at that level. Staff also encouraged the authorities to give further thought to the appropriate exchange rate regime after foreign exchange liberalization.

21. **The foreign exchange controls would need to be removed in a phased manner, in order to avoid excessive pressure on the exchange rate.** Priority should be given to equilibrate the supply and demand for foreign exchange for all current flows, including the transfer of current dividends and profits. A timetable for the gradual transfer of the stock of unremitted profits and dividends (at the prevailing exchange rate) would be agreed upon with the relevant enterprises.[13]

22. **The authorities expressed concerns about the welfare impact from the devaluation.** In response, a recent study by the World Bank indicates that the impact of temporarily higher inflation on poverty should be relatively small and short-lived, as initial poverty levels are low, a significant amount of transactions take place at the parallel exchange rate, and as growth should pick up following the implementation of the reform program.[14] Better targeted welfare benefits

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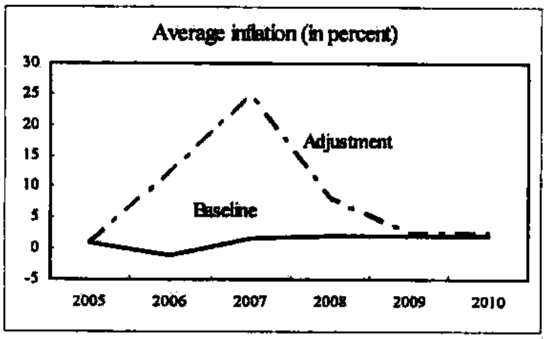
[12] The recommendations on exchange rate liberalization were prepared and discussed with the authorities at the occasion of a staff visit in May 2005, with MFD participation.

[13] The bulk of the unremitted amounts (approximately SR 780 million, or 20 percent of GDP) is held by two large private companies.

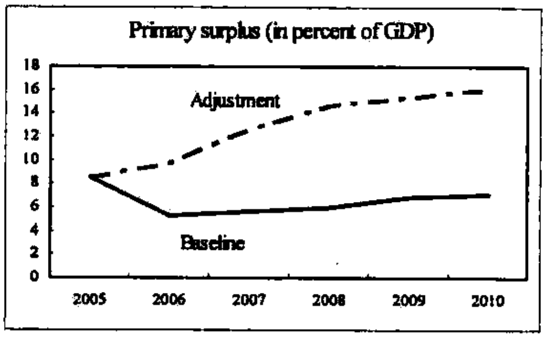
[14] Preliminary World Bank estimates, based on an extrapolation of the 1999/2000 poverty rate (data of the last household expenditure survey) indicate that the poverty headcount would increase by about 7 percentage points. However, the official poverty line is likely to overestimate the incidence of poverty as it does not use a purchasing power parity-based indicator.

Text Figure 2. Adjustment Scenario

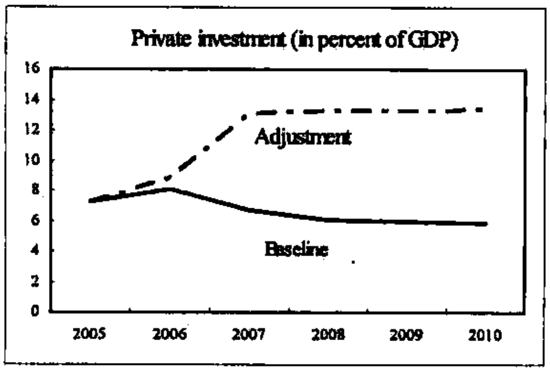
The exchange rate adjustment would lead to a one-time increase in inflation but the relaxation of FX controls....



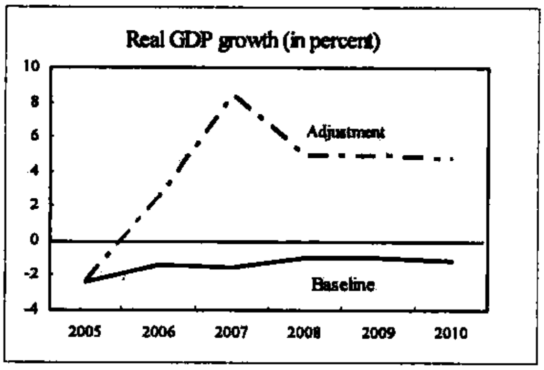
... together with more ambitious primary surpluses, and further economic liberalization...



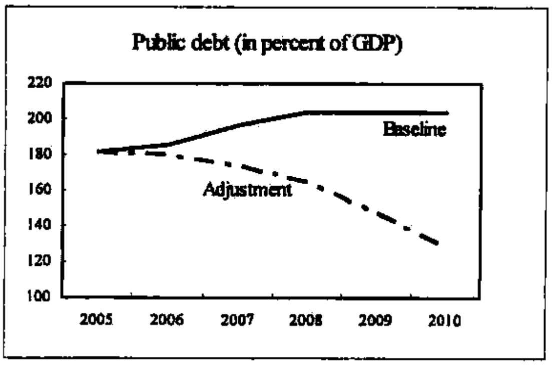
...would increase confidence in the economy and lead to higher private sector investment.



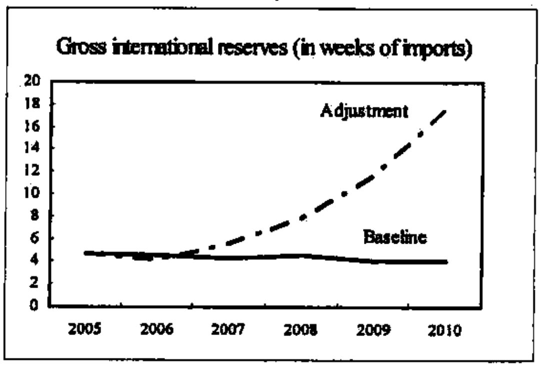
GDP growth would rebound and remain high...



...public debt would decline steadily...



... and gross reserves would increase, reducing the economy's vulnerability to external shocks.

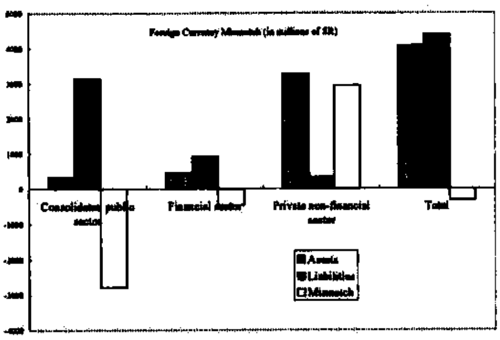


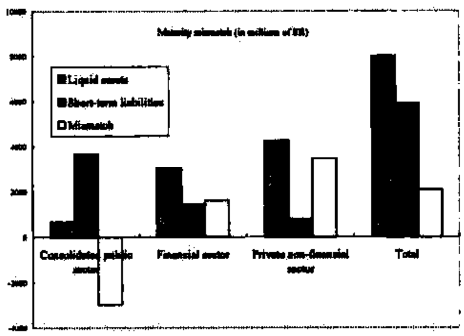
Sources: Central Bank, Ministry of Finance and staff estimates.

Box 3. Vulnerability of Sectoral Balance Sheets to a Devaluation

Seychelles' sectoral balance sheets, particularly those of the consolidated public and financial sectors, exhibit significant mismatches. In the current environment of foreign exchange and interest rate controls, these mismatches are unlikely to trigger a crisis by themselves. However, an external or policy shock leading to sufficiently large changes in asset prices could cause serious liquidity and solvency problems in the most vulnerable sectors, which might then spill over to the rest of the economy.

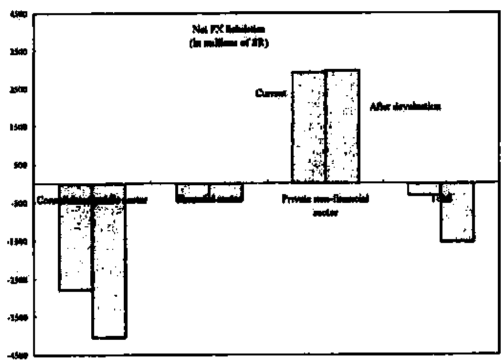
The consolidated public sector exhibits the most significant *currency mismatch*, with net foreign liabilities amounting to 72 percent of GDP as of end-2004. The financial sector' small mismatch is most likely overstated, as foreign liabilities include all non-resident deposits, some of which are in Seychelles rupees. Only one non-bank public institution has net external liabilities. The private nonfinancial sector exhibits a net creditor position toward the rest of the world, as reflected in large overseas deposits. However, such deposits could not be called upon by the public sector in case of liquidity or solvency problems. Only the public sector has a sizeable *maturity mismatch* (77 percent of 2004 GDP), as liquid assets fall well short of short-term liabilities (mainly treasury bills).

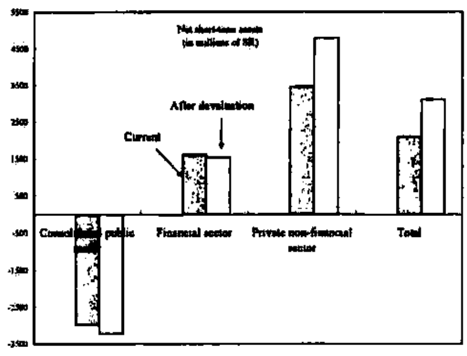




In this context, starting from the status of sectoral balance sheet as of end-2004, an assessment of the impact of a substantial exchange rate devaluation was conducted.

The consolidated public sector would be the most affected, with net foreign exchange liabilities increasing by 30 percent of GDP. The financial sector would not be directly affected. However, given the large holdings of government securities in the banking sector, payment pressures on external liabilities could spill over into the domestic sector. In addition, the rise in domestic interest rates in the wake of the devaluation and the ensuing rise in inflation, would inflict losses on the banking sector given its high exposure to interest rate risk.

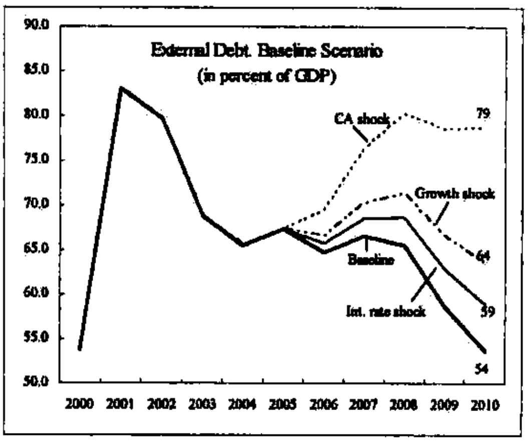


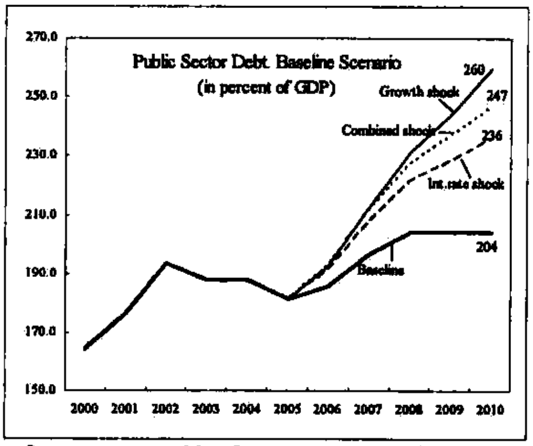


Box 4. Debt Sustainability Analysis

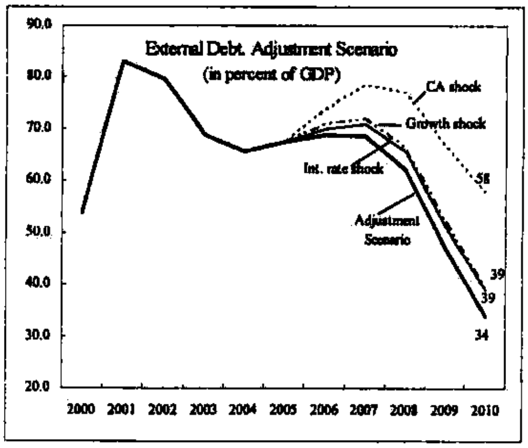
Under the baseline scenario, on current policies, public debt is clearly unsustainable, and external debt remains vulnerable to plausible shocks to the growth rate, interest rates, and the noninterest current account.

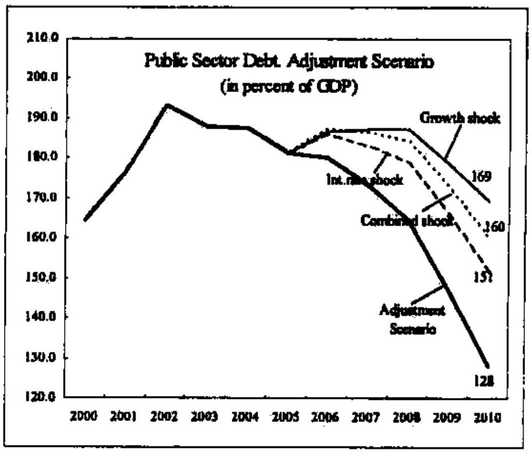
Despite generating primary surpluses between 5.5 and 7 percent of GDP over the medium term, the fiscal effort is largely offset by interest payments and negative growth, resulting in a lack of improvement in the public sector debt stock over the forecast horizon. All shocks, including a combination of relatively small shocks, produce explosive public debt dynamics.





In the adjustment scenario, the comprehensive package of measures provides for a resumption of positive growth, and allows the authorities to make notable progress toward debt sustainability. Unlike the dynamics of the baseline scenario, standard shocks do not generate explosive public debt dynamics, although the level of public debt would remain very high. Furthermore, the significant fiscal effort required to bring about large reductions in the stock represents an important vulnerability. Two important risks to rapid consolidation are worth highlighting. First, there is certainly a risk that the effect of the policy package on growth may be overstated, in which case public debt could decline by up to 40 percentage points less by 2010. Second, interest rate shocks are highly relevant, especially as the structure of public debt has recently shifted toward more variable-rate debt: public debt may end up closer to 150 percent of GDP in 2010 under a scenario with higher interest rates.





would help alleviate short-term negative impacts of the devaluation on the most vulnerable groups of the population while limiting budgetary costs.

C. Fiscal Policy

23. **The fiscal stance in 2006 will loosen somewhat.** The 2006 budget aims at a slight overall deficit of 0.4 percent of GDP, reflecting a combination of tax cuts and social spending programs (see Box 5 for details on key budget measures).[15] Whereas trade tax revenue would be permanently lower as a result of the lower tariffs, the budgeted nontax revenue increases hinge on an ambitious projection of dividend payments by parastatals. On the expenditure side, staff warned about the impact of the reduction in public transport prices and of the new home ownership scheme on the finances of the concerned parastatals. The progressive deterioration of the Social Security Fund balance was also a source of concern.

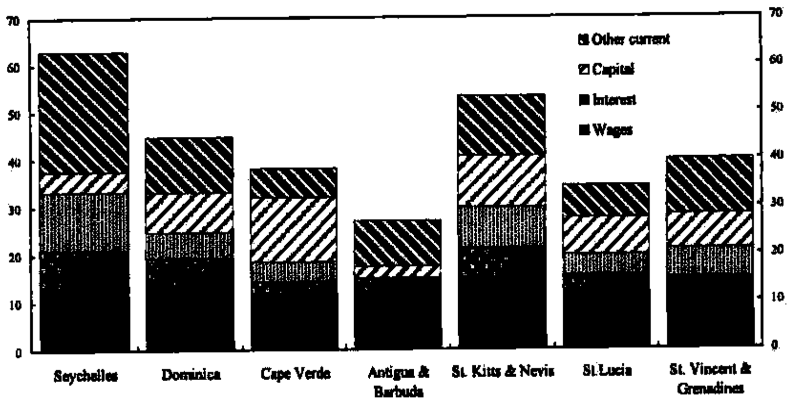
24. **A more ambitious fiscal stance will be necessary in order to place public debt on a steady downward path.** The staff stressed the need for further fiscal adjustment which would target progressively increasing primary surpluses, in order for public debt to decline from 182 percent of GDP in 2005 to 128 percent by 2010. As tax collection was already high by international standards, the bulk of the adjustment should come through expenditure restraint and a redefinition of the role of the government in the economy. Whereas the size of government has tended to be proportionately larger in small countries due to "fixed costs" of operation, Seychelles' current outlays are larger than in comparable island economies.

Seychelles: Expenditure Measures (in percent of GDP)

	2005	2010	Change between 2005–10
Expenditure and net lending	50.0	43.3	-6.7
Current expenditure	44.6	41.3	-3.2
Wages and salaries	15.0	11.7	-3.4
Goods and services	9.2	12.5	3.2
Interest payments due	7.8	7.6	-0.2
Transfers	12.5	10.8	-1.7
Other	0.1	0.1	0.0
Capital expenditure	5.5	2.0	-3.5
Overall balance	0.7	8.5	7.8
Primary surplus	8.5	16.1	7.6

Sources: Ministry of Finance, and IMF staff estimates.

Seychelles: Government Spending in Small Island Economies, 2004
(As a percent of GDP)



[15] Using the government's budget classification (which does not consolidate Social Security Fund operations, is on a cash basis, and shows privatization receipts as revenue), the 2006 budget aims at a surplus of 5 percent of GDP.

Box 5: The 2006 Budget

The 2006 budget targets a combination of tax cuts and increased social spending, so as to reduce the cost of living, enhance employment and the performance of the economy, and control government borrowing. The resulting small overall deficit of 0.4 percent of GDP and a primary surplus of 5.3 percent of GDP would imply a loosening of the fiscal stance compared with the estimated outturn for 2005.

The announced revenue measures, leading to a decline in tax revenue of about 1 percentage point of GDP compared with 2005, involve reductions in trade and some local taxes, and reduced social security contributions by private employers, which are to be more than fully offset by an increase in nontax revenue of about 2 percentage points of GDP.

Summary Fiscal Position (in percent of GDP)

	2005 Budget	2005 Est.	2006 Budget
Total revenue and grants	52.7	50.7	51.4
Total revenue	52.7	50.4	51.3
Tax	39.9	39.5	38.4
Nontax	12.8	10.9	12.9
External grants	0.0	0.3	0.1
Expenditure and net lending	48.3	50.0	50.9
Current expenditure	42.6	44.6	44.6
Wages and salaries	11.1	15.1	15.3
Goods and services	11.4	9.2	9.6
Interest payments due	7.9	7.8	5.7
Transfers	12.2	12.5	15.0
Capital expenditure	5.7	5.5	6.4
Overall balance	4.4	0.7	-0.4
Primary surplus	12.3	8.5	5.3

Sources: Ministry of Finance; and IMF staff estimates.

Total expenditure is budgeted to increase by 0.9 percent of GDP, due to an increase in capital expenditure while current spending remains constant as a share of GDP. However, the composition of current expenditure would change with an increase in transfers (social spending and subventions to parastatals) and small increases in wages and other consumption offset by lower interest payments.

In addition to their direct impact on the central government budget, some of the announced measures will affect other government institutions, such as the Social Security Fund (SSF) and various parastatals. As a result of the higher benefits and lower contributions—in addition to the transfer of 10 percent of total contributions to the new Pension Fund as of January 2006 the operating balance of the SSF is projected to turn from a small surplus into a deficit of about ½ percent of GDP as of 2006.

25. **Further actions are needed to strengthen the budget planning process.** The staff welcomed the authorities' plans to establish a macro-fiscal unit in the Ministry of Finance that would complement the current bottom-up approach to budget preparation with the specification of an overall budget envelope, based on a common set of key macroeconomic assumptions. Staff also recommended that annual budgets be formulated within a rolling medium-term fiscal framework so as to ensure consistency between fiscal objectives and other economic policies and developments.

D. Monetary and Financial Sector Policies

26. **The authorities agreed that, in the context of the move to a more flexible exchange rate regime, the monetary policy framework would need to be modified.** In light of thin money markets and uncertainty about the appropriate level of interest rates, staff recommended monetary aggregate targeting, starting with reserve money as the operating target. The choice of

the future monetary policy framework would require further study as the monetary transmission mechanism, given the long history of the exchange rate peg and distortions in inflation measurement, remained unclear.[16]

27. **There was also agreement that monetary operations needed to be improved in order to conduct effective monetary policy.** Staff recommended that the key first steps in preparation for a more active monetary policy should include an increase in the frequency of treasury bill auctions, the gradual dismantling of interest rate controls, and the replacement of the tap issue of government bonds at pre-set interest rates with auctions. Staff advised the authorities to consider converting part of the central bank's long-term, nonmarketable government bond to short term, marketable securities and recommended further refinements in monetary instruments. The authorities indicated that the central bank would start deliberating the details of the future monetary policy strategy and conduct a comprehensive review of its monetary operations in early 2006.

28. **The Central Bank's financial regulation and supervision capacity has been strengthened.** A regular monitoring of foreign exchange positions in the banking system by the Central Bank has been introduced, a body for the supervision of nonbanking financial services has been established at end-2005, and the Anti-Money Laundering (AML) legal framework is being finalized. The draft AML bill will inter-alia establish a Financial Intelligence Unit. Staff also encouraged the Central Bank to carefully analyze and monitor the interest rate risk in the banking system.

E. Reducing the Role of the State in the Economy

29. **Acknowledging the authorities' ongoing reform initiatives, staff emphasized the importance of a comprehensive liberalization process as part of the proposed adjustment scenario.** Key elements would include:

- *Continued, transparent privatization,* ensuring that public assets would be sold on a transparent, arms-length basis, and at fair market value.

- *Further domestic price liberalization.* Staff recommended that prices for petroleum products and utilities be liberalized and allowed to move in line with costs.[17]

- *Deeper and broader trade liberalization.* While welcoming the implementation of trade tax reductions and the cut in import license fees, staff noted that the intended imposition of seasonal import restrictions for domestic agricultural products would be a step back in terms of liberalization commitments, and was likely to create opportunities for rent seeking. The

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[16] A Selected Issues chapter discusses the monetary framework in a more flexible exchange environment (see SM/06/53, 2/15/06).

[17] Domestic petroleum product prices are administratively set and remain well above the world price. The government collects trade tax revenue on the margin between the landed cost of fuel products and the domestic retail price.

authorities were also encouraged to make further progress toward joining the COMESA Free Trade Area.

- *An improved business environment.* As noted in a recent study by the World Bank's Foreign Investment Advisory Services (FIAS), the entire business regulatory environment remained characterized by excessive government controls and a high degree of discretion. The adoption of the new investment code was a welcome step, but staff recommended that overall government intervention in private sector activities should be further reduced.

F. Statistical Issues

30. **Significant data weaknesses continue to hamper effective surveillance.** The authorities recently adopted the National Statistics Bureau Bill, which should help ensure that adequate financial and staffing resources are allocated to the improvement of the national accounts unit, and they also intended to undertake a new household expenditure and income survey in early 2006 (the first since 1999). Staff noted that the survey would provide the opportunity to improve the national accounts and CPI data methodologies along the lines of the recommendations provided by the Fund's Statistics Department technical assistance in May 2005. Finally, the authorities indicated that they remained committed to GDDS participation, and that their new target date was July 2006.

IV. Staff Appraisal

31. **Economic performance in Seychelles has continued to weaken over the last year.** The authorities' economic reform program, which started in 2003 and was premised primarily on a significant fiscal adjustment, has not adequately addressed the fundamental imbalances of the economy nor has it restored competitiveness. While public debt has stabilized at a high level, it remains unsustainable. External arrears keep accumulating and international reserves remain low. Economic activity has continued to dwindle, having declined by over 11 percent since 2000, and there is a risk that some of the gains in improving living standards and the high development indicators could be jeopardized unless there is a fundamental change in economic policy.

32. **The decisive and prompt implementation of a comprehensive reform program aiming at correcting the country's macroeconomic imbalances and at further liberalizing the economy is of critical importance.** The centerpiece of the program should be a sizable adjustment of the exchange rate and the phased removal of foreign exchange controls, accompanied by the implementation of tight fiscal and monetary policies, as well as the undertaking of structural reforms aiming at reducing the role of the state in the economy. Foreign investment would thus flow more readily (without resorting to tax concessions) and have greater domestic spillover in a liberalized economic environment. While cognizant of electoral considerations and of the need to adopt a pragmatic approach in order to minimize negative social impacts, the authorities' desire to proceed cautiously with further reform implementation has to be balanced against the need to avoid a further deterioration of the economic situation.

33. **The overvaluation of the Seychelles rupee needs to be addressed and the foreign exchange controls progressively removed.** With a significant portion of private sector economic activity already functioning on the basis of the more depreciated parallel market

exchange rate, a move toward the unification of the exchange rate should have only a limited adverse impact on economic growth. Moving toward a market-clearing exchange rate, through an up-front devaluation followed by the introduction of a system to guide further adjustments should provide a jump-start in terms of competitiveness. Combined with the steady elimination of the extremely burdensome foreign exchange allocation system and related controls, such a move would attract private capital flows and spark a resurgence of broad-based economic growth.

34. **With further fiscal adjustment being necessary over the medium term, the rather unambitious 2006 budget is a missed opportunity in making significant inroads into further debt reduction.** The 2006 budget aims at a modest fiscal deficit, bowing partly to spending pressures in the run-up to the upcoming elections. However, large primary surpluses will be necessary over the medium term in order to pay down public debt and curtail liquidity. Such an adjustment should focus mainly on expenditures, given Seychelles' high tax-to-GDP ratio.

35. **In considering a move to a more flexible exchange rate regime, monetary policy should be tightened, a monetary anchor adopted, and monetary operations would need to be improved.** Consideration should be given to reserve money targeting in the first instance. Monetary operations could be enhanced by increasing the frequency of treasury bill auctions and a gradual dismantling of interest rate controls.

36. **The authorities would be well served by further structural reforms, capitalizing on recent advances.** The start of the privatization process is welcome, though the staff wishes to reiterate the importance of an open, transparent, and arms-length privatization process. The authorities are to be commended for their commitment to increased trade liberalization, although commitments to regional trade initiatives could be strengthened and pressures to impose new protectionist measures should be resisted. The staff welcomes the accelerated pace at which the trade tax is being reduced, as well as the liberalization of the system of import permits. The authorities are encouraged to liberalize prices for petroleum products and utilities and allow them to move in line with costs. Finally, further reduction in the level of government intervention in private sector activities would help to improve the business environment.

37. **Vulnerabilities will remain high over the medium term.** Even assuming full implementation of the adjustment scenario, public debt would remain unsustainable and reserves would be uncomfortably low for a few years to come. The balance sheet of the consolidated public sector would be exposed to currency risk, while the financial sector would face interest rate risk. Strengthened liability management and the implementation of a comprehensive debt strategy, mindful of inter-creditor equity, and of domestic balance sheet exposures, would help further reduce the debt burden.

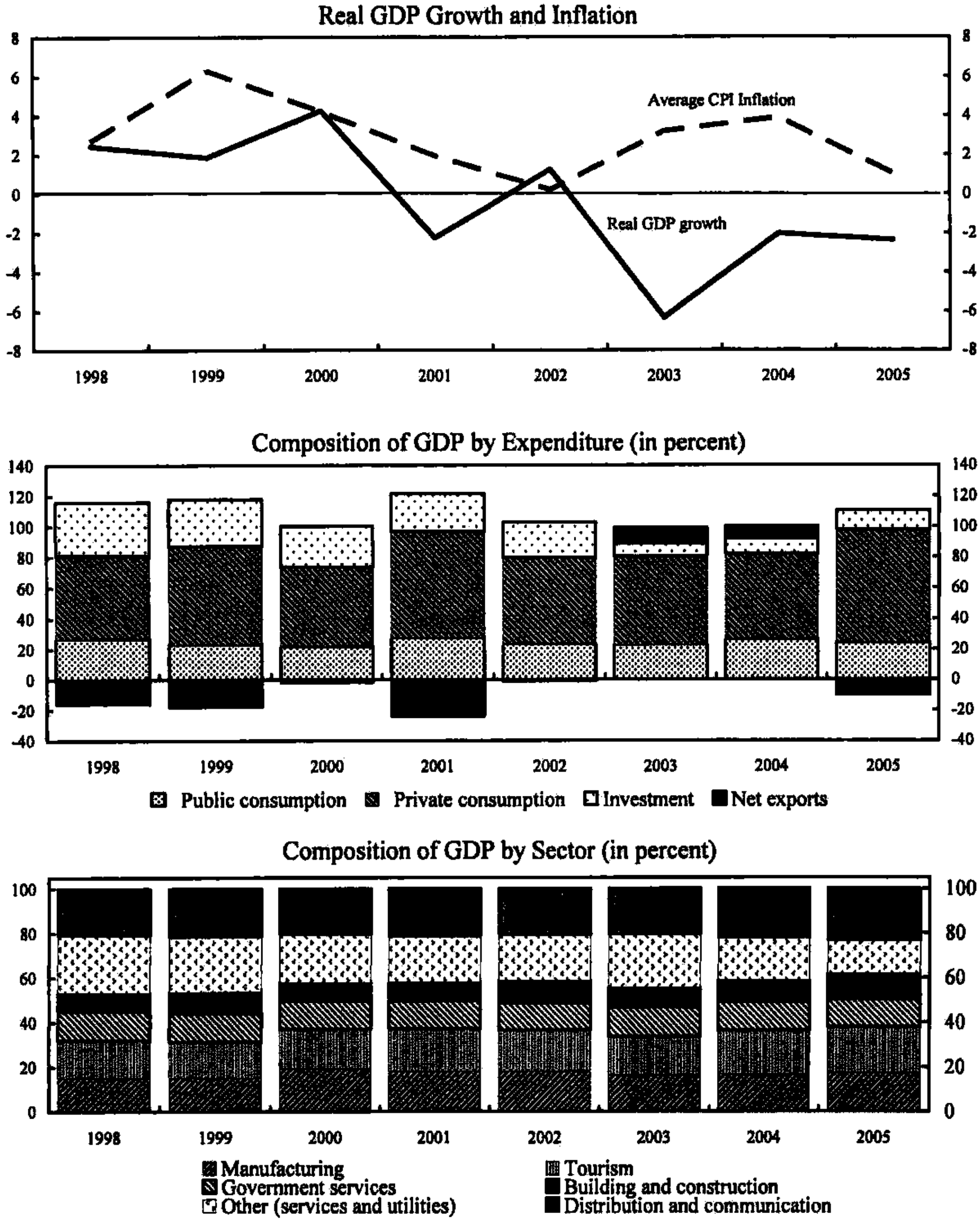
38. **Further efforts are required to normalize relations with external creditors.** Staff welcomes the advances in discussions with bilateral and multilateral creditors. Further efforts to reaching an agreement with the African Development Bank on a plan to clear the arrears should be undertaken. Relations with private creditors should be improved and the authorities should refrain from additional access to collateralized debt, which limits Seychelles's flexibility to respond to external shocks and has complicated the task of normalizing relations with official creditors.

39. **Whereas data provision for surveillance purposes is adequate overall, the authorities need to improve the quality of national accounts and price statistics.** The large lags in the production of GDP statistics and methodological problems impede staff's assessment of growth developments, and problems with the official CPI measure limit staff's analysis of inflationary pressures.

40. **Seychelles maintains exchange restrictions subject to approval under Article VIII.** As described in Appendix I, these include restrictions on the transfer of profits and dividends, and a foreign exchange allocation system based on priority categories. In the absence of a justification for retention, the staff does not recommend their approval and urges their speedy elimination in the context of a well-designed liberalization framework.

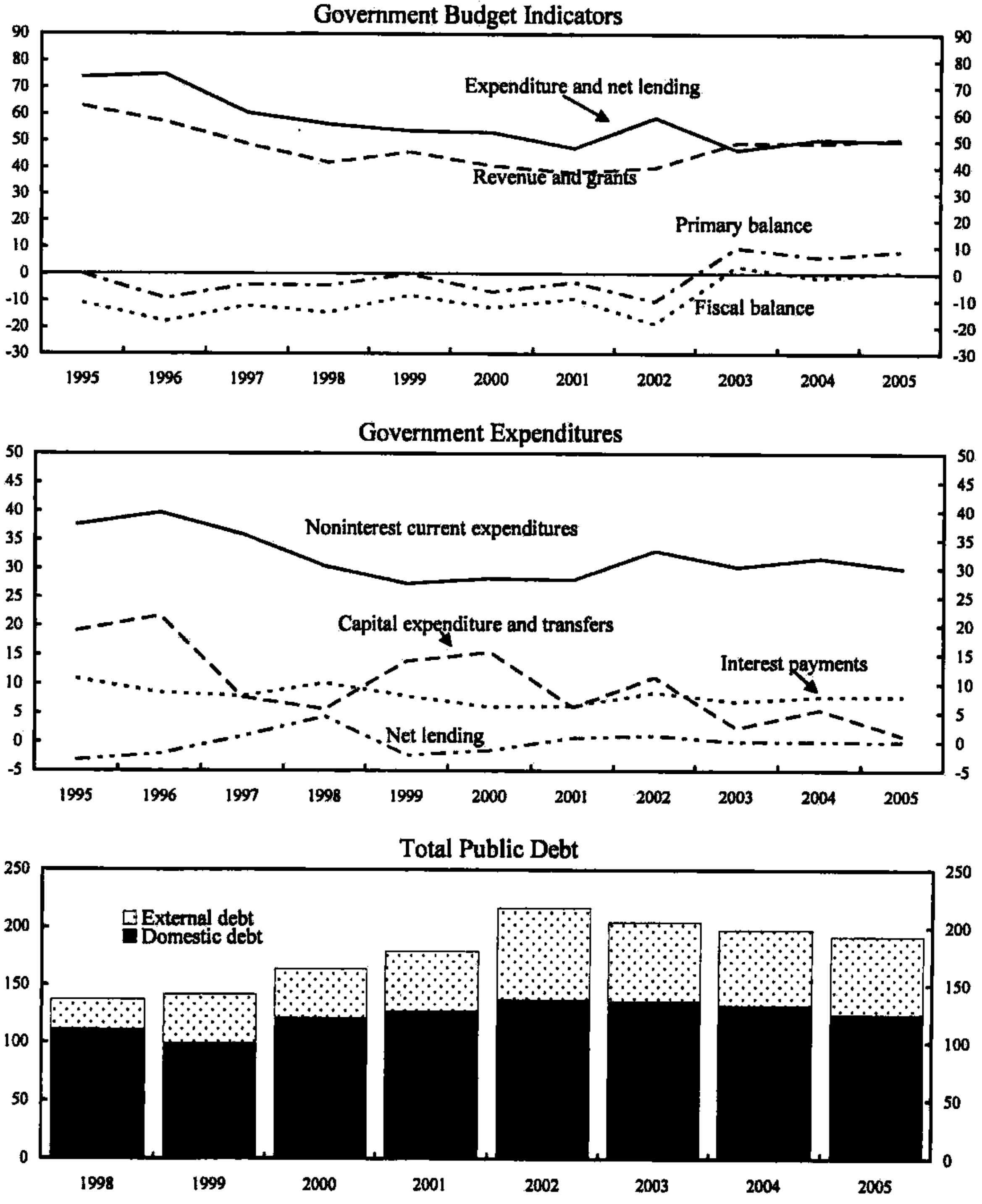
41. It is proposed that the next Article IV consultation with Seychelles be held on the standard 12-month cycle.

Figure 1. Seychelles: Real Sector Developments, 1998-2005
(Annual percentage changes unless otherwise indicated)



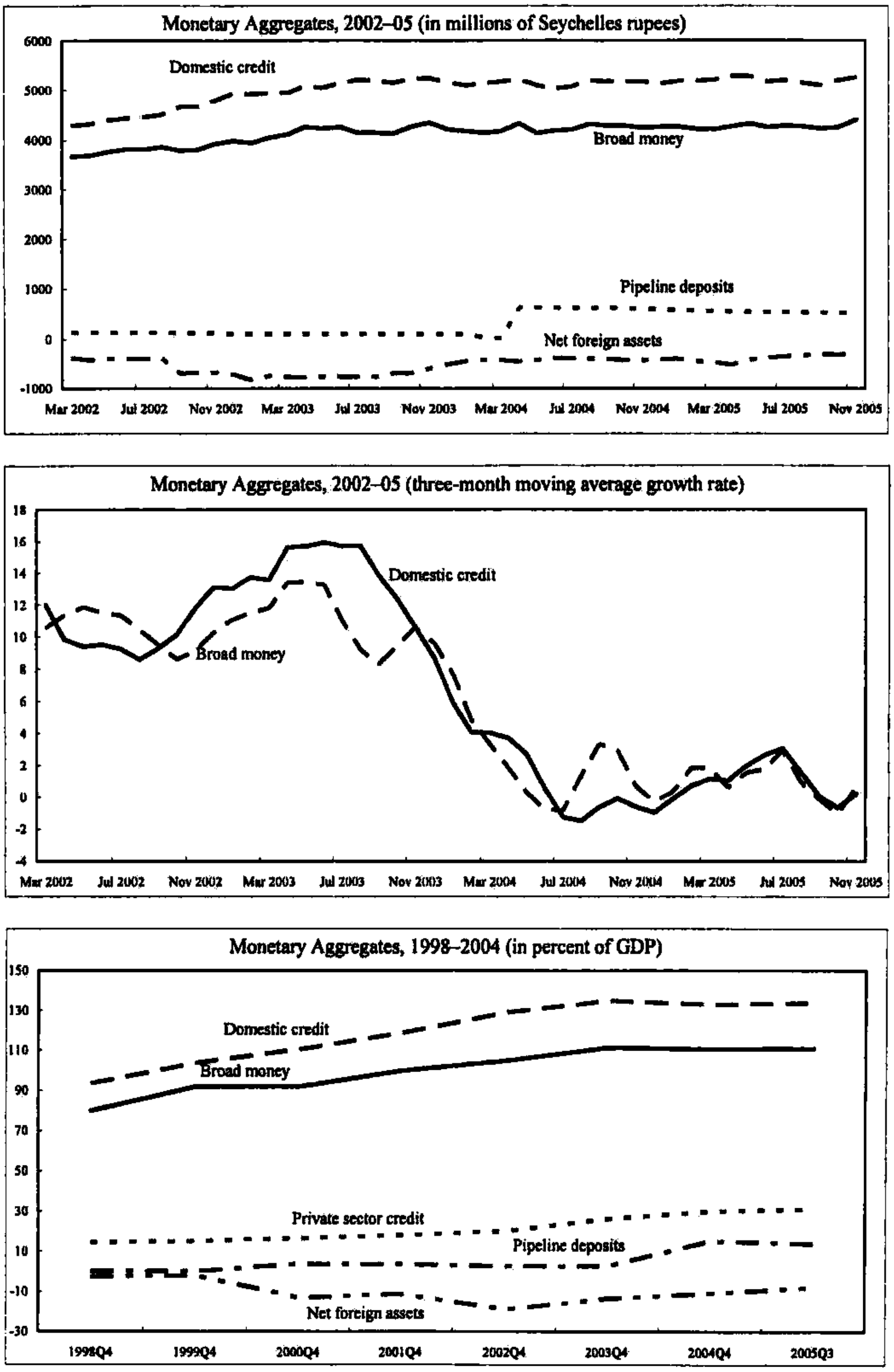
Sources: Seychelles authorities; and IMF staff estimates.

Figure 2. Seychelles: Fiscal Developments, 1995–2005
(In percent of GDP, unless otherwise indicated)



Sources: Seychelles authorities and IMF staff estimates.

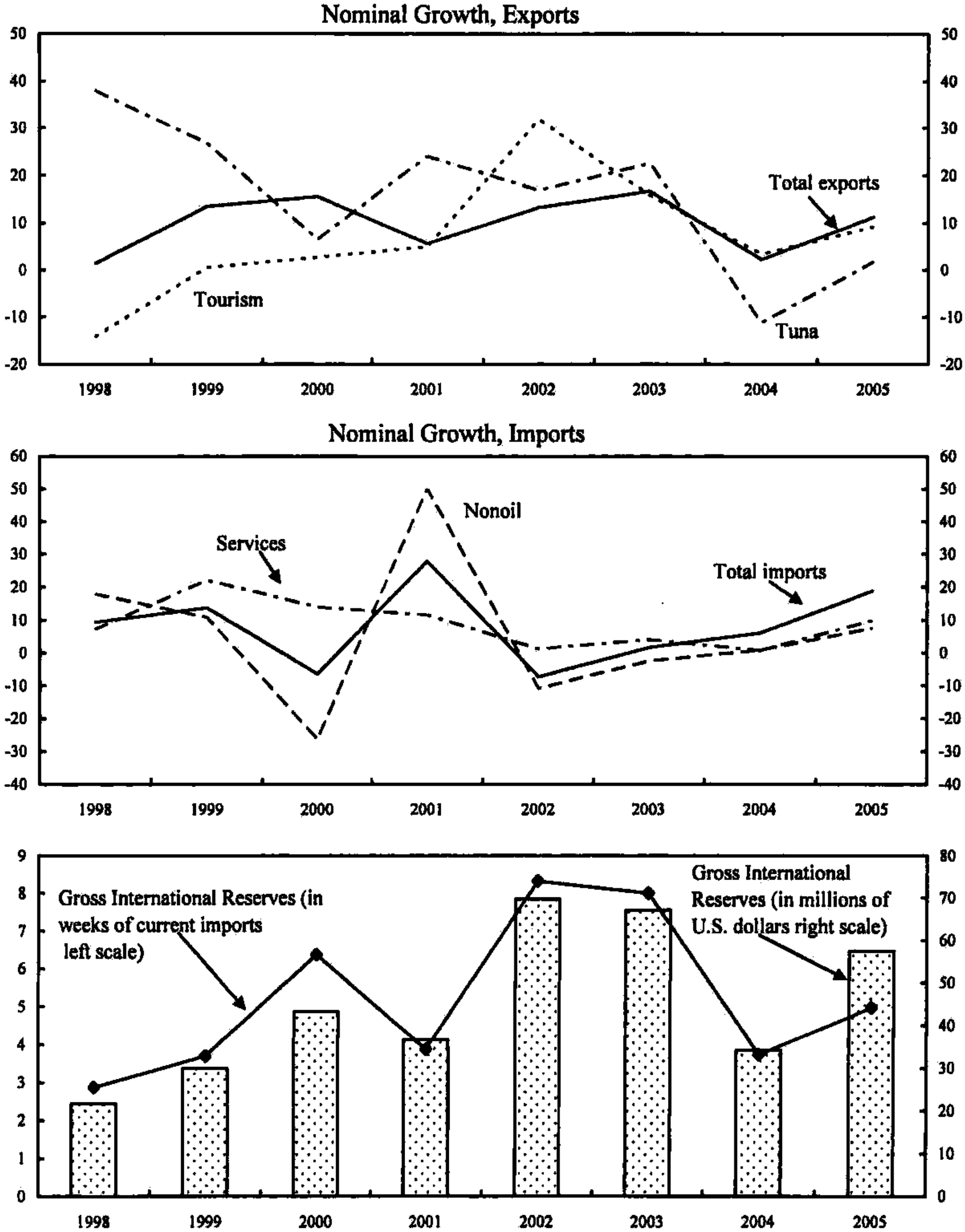
Figure 3. Seychelles: Monetary Developments



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

Figure 4. Seychelles: External Sector Indicators, 1998–2005

(Annual growth rates in percent, unless otherwise indicated)



Sources: Central Bank of Seychelles; and IMF staff estimates. Data for 2005 are end-year projections.

Table 1. Seychelles: Selected Economic and Financial Indicators, 2001–06

	2001	2002	2003	2004	2005 Est.	2006 Proj. 1/
	(Annual percentage change, unless otherwise indicated)					
National income and prices						
Nominal GDP (in millions of Seychelles rupees)	3,623	3,826	3,797	3,867	3,815	3,724
Real GDP	-2.2	1.3	-6.3	-2.0	-2.3	-1.4
Retail price index, annual change 2/	1.9	0.2	3.2	3.9	1.0	-1.0
Unemployment rate	4.4	4.1	3.2	3.5	3.8	4.2
	(Annual change in percent of beginning-of-period broad money, unless otherwise indicated)					
Money and credit						
Domestic credit	12.6	18.3	5.8	-0.7	-1.4	-2.2
Net claims on government	10.6	15.2	-2.1	-6.6	-3.3	0.2
Claims on public entities	-0.3	-0.1	2.4	1.9	1.8	-0.1
Claims on private sector	2.3	3.3	5.5	4.0	0.1	-2.3
Broad money (M2(p)) 3/	11.9	11.1	5.3	1.1	-0.1	1.0
M2	12.6	12.2	5.5	-10.7	1.5	3.3
Reserve money 4/	7.2	25.9	-18.9	79.6	-0.2	-0.5
Velocity (GDP/average M2)	1.06	1.00	0.92	0.91	0.89	0.88
	(In percent of GDP)					
Government budget						
Total revenue, excluding grants	37.8	40.0	49.3	49.1	50.4	51.4
External grants	0.0	0.0	0.0	0.0	0.3	0.1
Expenditure and net lending	47.4	58.7	46.7	50.7	50.0	51.9
Current expenditure	40.8	48.2	44.4	46.3	44.6	45.5
Capital expenditure and net lending	6.6	10.6	2.3	4.3	5.5	6.4
Overall balance, including grants (above the line)	-9.2	-18.7	2.8	-1.5	0.7	-0.4
Primary balance	-3.0	-10.2	9.8	6.3	8.5	5.3
Total public debt 5/	176.5	193.4	188.0	186.7	181.5	185.9
Domestic	126.9	137.1	136.6	132.4	124.7	130.0
External	49.6	56.2	51.4	54.3	56.8	55.9
Short-term public debt (residual maturity) 5/	85.3	89.3	163.5	100.4	81.7	92.6
External sector						
Exports of goods and nonfinancial services (annual percentage change)	8.3	6.0	15.0	4.2	11.3	7.3
Imports of goods and nonfinancial services (annual percentage change)	31.1	-13.2	0.1	8.0	32.9	-5.0
Real effective exchange rate						
(1990=100) (annual percentage change, depreciation +)	-0.7	-1.6	9.0	7.2	1.6	...
Current account balance after official transfers	-3.5	-9.2	6.4	5.3	-14.6	-1.8
Current account balance adjusted for tanker imports		...	...	...	-1.9	
Total external debt 6/	52.0	79.8	68.8	65.6	67.4	64.7
	(In millions of U.S. dollars, unless otherwise indicated)					
Overall external balance	-48.9	24.3	-24.0	-65.2	-8.4	-49.6
Change in arrears (increase: +)	38.6	1.6	27.1	32.2	31.7	26.0
Of which: arrears settlement with multilateral creditors	...	...	...	...	-0.8	-2.3
Remaining gap	0.0	0.0	0.0	0.0	0.0	25.5
Stock of outstanding arrears 7/	53.5	81.4	104.1	136.3	185.0	211.1
Gross official reserves (end of year)	36.6	69.7	67.1	34.1	57.4	59.4
In weeks of imports, c.i.f. 8/	3.9	8.3	8.0	3.7	5.0	4.9
In percent of broad money	5.8	8.8	8.7	4.4	7.4	7.5

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

1/ Assuming unchanged policies.
2/ The official retail price index is believed to understate substantially the rate of inflation.
3/ M2 plus domestic currency balances earmarked for pending import requests ("pipeline").
4/ As an annual percentage change.
5/ Including arrears. Gross nonfinancial public sector debt.
6/ Including arrears and central bank external debt.
7/ For 2005, there is a discrepancy between the stock of arrears from the authorities data and the stock imputed from flow information. Some of the difference may be due to valuation changes in the existing stock of arrears.
8/ Net of tanker imports.

Table 2. Seychelles: Consolidated Government Operations,1/ 2002–06

	2002	2003	2004 Est.	2005 Budget	2005 Est.	2006 Budget	2006 Proj. 2/
	(In millions of Seychelles rupees)						
Total revenue and grants	1,531.1	1,873.6	1,900.4	2,010.0	1,935.0	1,917.5	1,917.5
Total revenue	1,529.7	1,873.6	1,900.4	2,010.0	1,922.9	1,912.5	1,912.5
Tax	1,202.4	1,450.9	1,533.5	1,521.7	1,508.3	1,432.9	1,432.9
Social security tax	262.7	277.9	272.5	269.5	265.6	255.1	255.1
Trade tax	360.3	394.1	351.1	306.1	281.4	199.5	199.5
General sale tax (GST)	280.5	446.9	561.3	549.3	603.8	573.4	573.4
Business tax	253.1	276.6	297.3	317.3	286.9	304.4	304.4
Other	45.8	55.5	51.3	79.4	70.7	100.6	100.6
Nontax	327.2	422.7	366.8	488.3	414.6	479.6	479.6
Fees and charges	234.2	247.5	279.0	241.6	219.3	220.3	221.3
Dividends from parastatals	51.8	148.6	46.2	136.0	84.0	140.0	140.0
Other	41.2	26.6	41.7	110.7	111.4	119.4	118.4
External grants	1.4	0.0	0.0	0.0	12.1	5.0	5.0
Expenditure and net lending	2,247.1	1,773.6	1,958.8	1,842.5	1,909.4	1,899.1	1,932.3
Current expenditure	1,843.3	1,686.9	1,791.1	1,624.5	1,701.5	1,662.1	1,695.3
Wages and salaries	525.2	547.8	549.9	423.4	574.3	568.9	568.9
Goods and services 3/	409.2	387.8	470.7	435.3	352.6	356.2	356.2
Interest payments due	325.8	265.4	300.4	300.5	298.6	179.0	212.2
Foreign interest	45.8	55.3	51.0	36.0	65.3	25.0	39.2
Domestic interest (including through CBS)	280.0	210.1	249.5	264.5	233.3	154.0	173.0
Transfers	583.1	485.9	470.0	465.3	476.0	558.0	558.0
Social program of central government	113.2	83.5	124.0	96.8	114.3	140.0	140.0
Transfers to public sector from central government	220.1	132.7	87.3	101.9	106.5	133.3	133.3
Benefits and approved programs of Social Security Fund 4/	249.8	269.8	258.8	266.6	255.2	284.6	284.6
Other	0.9	2.1	2.1	5.0	3.0	5.4	5.4
Capital expenditure	360.7	85.5	166.7	218.0	208.3	237.0	237.0
Net lending	43.1	1.2	1.0	0.0	-0.4	0.0	0.0
Primary balance	-390.2	372.2	242.0	467.9	324.1	197.5	197.5
Overall balance, accrual basis (after grants, above the line)	-716.0	106.8	-58.4	167.4	25.5	18.5	-14.8
Arrears accumulation	0.0	39.3	29.6	47.5	47.5	28.6	28.6
Overall balance, cash basis (after grants, above the line)	-716.0	146.1	-28.8	214.9	73.0	47.1	13.8
Financing	716.0	-146.1	28.8	...	-73.0	...	-13.8
Foreign financing (cash basis, net)	-163.7	12.6	-10.8	...	-81.6	...	-117.7
Foreign financing (accrual basis, net)	-266.0	-274.0	-214.9	...	-232.3	...	-232.2
Disbursements	214.1	28.0	4.2	...	16.3	...	11.0
Scheduled amortization	-480.1	-302.0	-219.1	...	-248.5	...	-243.2
Change in arrears	102.3	286.6	204.1	...	150.6	...	114.5
Domestic financing, net	792.2	-154.2	-47.6	...	-44.0	...	103.9
Bank financing	582.0	-333.2	-291.5	...	-59.1	...	8.1
Central Bank of Seychelles (CBS)	519.2	-281.6	226.6	...	152.8	...	-73.0
Commercial banks	62.8	-51.6	-518.1	...	-211.9	...	81.1
Nonbanking system	73.6	6.0	138.9	...	67.5	...	0.0
Nonbank financial and household sectors	-55.6	132.5	103.8	...	0.0	...	0.0
Treasury deposit from parastatals	129.2	-126.5	35.1	...	67.5	...	0.0
Cash movements	63.1	55.7	-17.3	...	-96.2	...	-23.5
Sales of fixed assets and privatization receipts	73.5	117.3	122.3	...	43.7	...	119.2
Unidentified financing	0.0	0.0	0.0	...	0.0	...	0.0
Statistical discrepancy 5/	87.5	-4.6	87.2	...	52.6	...	0.0

Table 2. Seychelles: Consolidated Government Operations, 1/ 2002–06 (concluded)

	2002	2003	2004 Est.	2005 Budget	2005 Est.	2006 Budget	2006 Proj. 2/
	(In percent of GDP)						
Total revenue and grants	40.0	49.3	49.1	52.7	50.7	51.4	51.5
Total revenue	40.0	49.3	49.1	52.7	50.4	51.3	51.4
Tax	31.4	38.2	39.7	39.9	39.5	38.4	38.5
Social Security Tax	6.9	7.3	7.0	7.1	7.0	6.8	6.9
Trade tax	9.4	10.4	9.1	8.0	7.4	5.4	5.4
General Sale Tax (GST)	7.3	11.8	14.5	14.4	15.8	15.4	15.4
Business tax	6.6	7.3	7.7	8.3	7.5	8.2	8.2
Other	1.2	1.5	1.3	2.1	1.9	2.7	2.7
Nontax	8.6	11.1	9.5	12.8	10.9	12.9	12.9
Fees and Charges	6.1	6.5	7.2	6.3	5.7	5.9	5.9
Dividends from parastatals	1.4	3.9	1.2	3.6	2.2	3.8	3.8
Other	1.1	0.7	1.1	2.9	2.9	3.2	3.2
External grants	0.0	0.0	0.0	0.0	0.3	0.1	0.1
Expenditure and net lending	58.7	46.7	50.7	48.3	50.0	50.9	51.9
Current expenditure	48.2	44.4	46.3	42.6	44.6	44.6	45.5
Wages and salaries	13.7	14.4	14.2	11.1	15.1	15.3	15.3
Goods and services 3/	10.7	10.2	12.2	11.4	9.2	9.6	9.6
Interest payments due	8.5	7.0	7.8	7.9	7.8	4.8	5.7
Foreign interest	1.2	1.5	1.3	0.9	1.7	0.7	1.1
Domestic interest (including through CBS)	7.3	5.5	6.5	6.9	6.1	4.1	4.6
Transfers	15.2	12.8	12.2	12.2	12.5	15.0	15.0
Other	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Capital expenditure	9.4	2.3	4.3	5.7	5.5	6.4	6.4
Net lending	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, accrual basis (after grants, above the line)	-18.7	2.8	-1.5	4.4	0.7	0.5	-0.4
Primary surplus, accrual basis (after grants, above the line)	-10.2	9.8	6.3	12.3	8.5	5.3	5.3

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

1/ Includes the central government and the social security system.
2/ Assuming no change in current policies.
3/ Includes the additional contigency spending of SR 50 million due to the tsunami in late December 2004.
4/ Includes the special allowance of SR 0.7 million due to the tsunami in late December 2004.
5/ This represents the difference between identified budget revenues and expenditures, and the financing of the consolidated budget.

Table 3. Seychelles: Monetary Survey, 2002 06
(In millions of Seychelles rupees; end of period)

sept	2002	2003	2004	2005 Mar.	2005 Jun.	2005 Sep.	2005 Dec. Proj.	2006 Proj. 1/
(In millions of Seychelles rupees; end of period)								
Foreign assets, net	-716.9	-511.5	-414.5	-478.7	-377.8	-301.5	-240.5	-52.3
Central bank	-450.3	-324.1	-306.2	-315.5	-199.4	-143.9	-82.9	125.3
Assets	352.3	369.2	187.8	229.4	242.2	277.6	313.8	324.8
Liabilities	802.6	693.3	494.0	544.9	441.6	421.5	396.7	199.5
Commercial banks	-266.6	-187.3	-108.3	-163.2	-178.4	-157.6	-157.6	-177.6
Domestic credit	4,932.4	5,166.5	5,138.4	5,183.7	5,146.4	5,102.0	5,077.8	4,982.3
Claims on government, net	4,153.2	4,070.0	3,791.0	3,808.1	3,695.7	3,654.5	3,651.8	3,660.0
Claims on public entities	5.4	102.8	183.3	224.6	269.6	258.5	258.5	252.3
Claims on private sector	773.9	993.8	1,164.1	1,151.0	1,181.1	1,189.0	1,167.4	1,070.0
Money and quasi money (M2(p))	4,010.5	4,222.7	4,269.9	4,215.9	4,258.1	4,227.1	4,263.9	4,306.6
Money (M1)	1,406.5	1,570.9	1,226.9	1,238.6	1,251.4	1,179.9	1,210.5	1,211.5
Quasi money	2,500.7	2,549.7	2,453.5	2,421.5	2,476.6	2,517.3	2,523.4	2,645.1
Pipeline deposits (p) 2/	103.3	102.1	589.5	555.8	530.1	530.0	530.0	450.0
Other items, net	205.0	432.3	454.0	489.1	510.6	573.4	573.4	623.4
(Annual changes in millions of Seychelles rupees)								
Foreign assets, net	-310.1	205.4	97.0	-42.9	6.3	103.0	174.1	188.2
Central bank	-287.7	126.2	17.9	19.1	144.1	198.6	223.3	208.2
Assets	141.7	16.9	-181.4	63.5	62.5	119.2	126.0	11.0
Liabilities	429.3	-109.3	-199.3	44.3	-81.6	-79.4	-97.4	-493.8
Commercial banks	-22.5	79.3	79.0	-62.1	-137.8	-95.7	-49.3	-20.0
Domestic credit	661.3	234.1	-28.1	11.5	113.3	-79.1	-60.6	-95.5
Claims on government, net	548.3	-83.2	-279.0	-209.2	-113.3	-264.5	-139.1	8.1
Claims on public entities	-5.4	97.4	80.6	127.0	146.5	116.1	75.2	-6.2
Claims on private sector	118.4	219.9	170.3	93.8	80.2	69.4	3.3	-97.4
Money and quasi money (M2(p))	401.2	212.2	47.2	40.6	70.2	-65.5	-5.9	42.7
Money (M1)	213.7	164.4	-344.0	-374.0	-12.7	-45.3	-16.4	1.0
Quasi money	212.0	48.9	-96.1	-124.7	170.0	68.1	69.9	121.7
Pipeline deposits 2/	-24.4	-1.1	487.3	539.3	-87.2	-88.3	-59.5	-80.0
Other items, net	-50.1	227.3	21.7	-72.0	49.5	89.4	119.4	50.0
(Annual change in percent)								
Domestic credit	15.5	4.7	-0.5	0.2	2.3	-1.5	-1.2	-1.9
Claims on government, net	15.2	-2.0	-6.9	-5.2	-3.0	-6.7	-3.7	0.2
Claims on public entities	-50.1	1,811.4	78.4	130.1	119.0	81.5	41.0	-2.4
Claims on private sector	18.1	28.4	17.1	8.9	7.3	6.2	0.3	-8.3
Money and quasi money (M2(p))	11.1	5.3	1.1	1.0	1.7	-1.5	-0.1	1.0
Money (M1)	17.9	11.7	-21.9	-23.2	-1.0	-3.7	-1.3	0.1
Quasi money	9.3	2.0	-3.8	-4.9	7.4	2.8	2.9	4.8
Pipeline deposits 2/	-19.1	-1.1	477.2	3,275.0	-14.1	-14.3	-10.1	-15.1
(Annual change in percent of beginning-of-period broad money)								
Foreign assets, net	-8.6	5.1	2.3	-1.0	0.2	2.4	4.1	4.4
Domestic credit	18.3	5.8	-0.7	0.3	2.7	-1.8	-1.4	-2.2
Claims on government, net	15.2	-2.1	-6.6	-5.0	-2.7	-6.2	-3.3	0.2
Claims on public entities	-0.1	2.4	1.9	3.0	3.5	2.7	1.8	-0.1
Claims on private sector	3.3	5.5	4.0	2.2	1.9	1.6	0.1	-2.3
Broad money	11.1	5.3	1.1	1.0	1.7	-1.5	-0.1	1.0
Other items, net	-1.4	5.7	0.5	-1.7	1.2	2.1	2.8	1.2
Memorandum items:								
M2/GDP	104.8	111.2	110.4	110.5	114.3	113.3	111.8	115.7
Nominal GDP (Seychelles rupees)	3,825.5	3,797.2	3,867.0	3,815.3	3,723.8	3,729.7	3,815.3	3,723.8
Growth in nominal GDP (in percent)	5.6	-0.7	1.8	...	...	...	-1.3	-2.4
Velocity (GDP/average broad money)	1.0	0.9	0.9	...	...	...	0.9	0.9
Private sector credit (in percent of GDP)	20.2	26.2	30.1	...	...	...	30.6	28.7
Exchange rate (SR/US$, period average)	5.5	5.4	5.5	5.5	5.5	5.5	5.5	...
Exchange rate (SR/US$, end of period)	5.1	5.5	5.5	5.5	5.5	5.5	5.5	...

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

1/ Assuming unchanged policies (baseline scenario).

2/ The pipeline scheme for foreign currency allocation was introduced in April 1994.

Table 4. Seychelles: Balance Sheet of the Central Bank of Seychelles, 2002 06

	2002	2003	2004	2005 Est.	2006 Proj. 1/
Central Bank of Seychelles					
Foreign assets, net	-450.3	-324.1	-306.2	-82.9	125.3
Assets	352.3	369.2	187.8	313.8	324.8
Liabilities	802.6	693.3	494.0	396.7	199.5
Net domestic assets	1,168.2	902.9	1,381.0	1,181.5	1,031.9
Net domestic credit	1,217.9	997.9	1,398.5	1,322.7	1,219.7
Net claims on central government	1,217.9	978.9	1,278.5	1,322.7	1,219.7
Claims on government	1,293.2	1,011.7	1,400.6	1,354.4	1,281.5
Government deposits	75.4	32.8	122.1	31.7	61.7
Of which: counterpart funds	53.0	16.7	...	...	...
Loan repayment account (Treasury bonds)	...	0.0	0.0	0.0	0.0
Claims on commercial banks	0.0	19.0	120.0	0.0	0.0
Other items (net)	-49.7	-95.0	-17.5	-141.2	-187.8
Assets	24.3	30.5	27.9	28.9	28.3
Liabilities	73.9	125.5	45.4	170.1	216.1
Of which: capital accounts	56.7	109.7	56.1	151.0	151.0
Reserve money	737.2	597.9	1,073.9	1,071.3	1,066.1
Currency in circulation	321.2	326.0	314.5	310.2	322.8
Currency with banks	20.2	20.1	18.7	22.1	22.1
Bankers' deposits	395.8	251.8	740.6	739.0	721.2
Other liabilities	-19.3	-19.2	0.9	27.3	91.1
Other liabilities	-19.3	-19.2	0.9	27.3	91.1
Reserve money	25.9	-18.9	79.6	-0.2	-0.5
Net foreign assets	-176.9	28.0	5.5	72.9	251.2
Net domestic assets	60.2	-22.7	53.0	-14.4	-12.7
net domestic credit	66.4	-18.1	40.2	-5.4	-7.8
Of which: net claims on government	66.4	-19.6	30.6	3.5	-7.8
Memorandum items:					
Nominal GDP (Seychelles rupees)	3,825.5	3,797.2	3,867.0	3,815.3	3,723.8
Growth in nominal GDP (in percent)	5.6	-0.7	1.8	-1.3	-2.4
Velocity (GDP/average broad money)	1.0	0.9	0.9	0.9	0.9
Exchange rate (Seychelles rupees per U.S. dollar, period average)	5.5	5.4	5.5	5.5	...
Exchange rate (Seychelles rupees per U.S. dollar, end of period)	5.1	5.5	5.5	5.5	...
Net international reserves (TMU definition, millions of U.S. dollars)	-148.0	-111.0	42.5	196.0	194.4
Net domestic assets, Central Bank Seychelles (TMU definition, millions of Seychelles rupees)	1,485.3	1,208.4	840.0	-7.0	-3.2

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

1/ Assuming no change in policies (baseline scenario).

Table 5. Seychelles: Medium-Term Balance of Payments, 2003–10, Baseline Scenario
(In millions of U.S. dollars)

	2003	2004	2005 Est.	2006 Proj.	2007	2008	2009	2010
Current account	44.9	37.3	-101.0	-12.5	-33.7	-3.1	31.7	29.8
Balance of goods and nonfactor services	78.7	57.9	-71.8	25.8	9.8	46.4	84.7	91.0
Trade balance	-91.4	-117.0	-261.3	-189.9	-211.9	-195.2	-176.1	-179.6
Exports	291.5	300.5	342.2	367.9	380.8	386.1	393.9	401.9
Year-on-year change (in percent)	23.2	3.1	13.9	7.5	3.5	1.4	2.0	2.0
Of which: oil re-exports	65.2	96.5	134.4	158.4	168.1	170.8	176.1	182.3
Imports	-382.9	-417.4	-603.5	-557.8	-592.7	-581.3	-570.0	-581.5
Year-on-year change (in percent)	0.2	9.0	44.6	-7.6	6.3	-1.9	-1.9	2.0
Of which: oil imports		-99.9	-174.0	-202.4	-212.1	-213.1	-217.3	-222.6
Of which: non-FDI-related imports	...	-293.9	-302.5	-308.0	-298.1	-291.4	-326.8	-332.9
Of which: SEPEC tankers		...	-88.4	...	-50.9	-50.9	...	...
Nonfactor services, net	170.1	174.9	189.5	215.7	221.7	241.7	260.8	270.6
Exports	379.9	386.3	422.0	452.0	464.1	482.6	500.9	513.9
Of which: tourism income through *commercial banks and hotels*	177.1	195.8	213.7	226.9	231.0	235.2	239.3	243.4
Imports	-209.8	-211.4	-232.5	-236.4	-242.3	-240.9	-240.1	-243.3
Income, net	-43.0	-33.3	-37.0	-43.5	-45.3	-50.1	-53.5	-61.5
Current transfers, net	9.2	12.7	7.8	5.2	1.7	0.6	0.4	0.3
General government	10.5	12.8	9.9	8.8	8.4	8.4	8.4	8.4
Other sectors	-1.3	-0.1	-2.1	-3.6	-6.6	-7.8	-7.9	-8.1
Capital and financial account	-68.9	-102.5	92.6	-37.1	10.1	-1.6	-34.1	-25.2
Capital account	7.4	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Financial account	-30.6	-69.2	106.2	-25.1	22.1	10.4	-22.2	-13.2
Direct investment, net	49.9	29.8	54.0	69.2	44.2	35.1	35.1	35.1
Abroad	-8.2	-7.6	-7.6	-6.0	-6.0	-6.0	-6.0	-6.0
In Seychelles	58.0	37.4	61.6	75.2	50.2	41.1	41.1	41.1
Portfolio investment, net	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Other investment, net	-81.7	-100.1	51.2	-95.3	-23.2	-25.8	-58.4	-49.4
Assets	-14.8	-12.3	9.5	-10.0	-10.0	-10.0	-10.0	-10.0
Liabilities	-66.9	-87.8	41.7	-85.3	-13.2	-15.8	-48.4	-39.4
Central Bank of Seychelles	-35.6	-36.9	2.0	-39.3	-19.4	-16.9	-5.1	-0.9
Government and government-guaranteed	-10.9	-19.2	-17.3	-25.8	-21.2	-17.5	-13.3	-11.4
Of which: disbursements	6.3	...	3.6	2.0	2.0	2.0	2.0	2.0
Of which: amortization	-17.1	...	-20.9	-27.8	-23.2	-19.5	-15.3	-13.4
Parastatals	-20.2	...	56.2	-15.8	35.6	26.6	-21.9	-19.0
Net errors and omissions	-45.7	-34.3	-14.7	-13.0	-13.0	-13.0	-13.0	-13.0
Overall balance	-24.0	-65.2	-8.4	-49.6	-23.6	-4.7	-2.5	4.6
Financing	24.0	65.2	8.4	49.6	23.6	4.7	2.5	-4.6
Identified financing	24.0	65.2	8.4	49.6	23.6	4.7	2.5	-4.6
Gross international reserves (increase: -)	-3.1	33.0	-23.3	-2.0	4.1	-1.5	4.6	-4.0
Arrears (increase: +)	27.1	32.2	31.7	26.0	19.5	6.2	-2.1	-0.5
Of which: arrears settlement	...	...	-0.8	-2.3	-1.1	-1.1	-2.1	-0.5
Remaining gap	0.0	0.0	0.0	25.5	0.0	0.0	0.0	0.0

Table 5. Seychelles: Medium-Term Balance of Payments, 2003–10, Baseline Scenario (concluded)
(In millions of U.S. dollars)

	2003	2004	2005 Est.	2006 Proj.	2007	2008	2009	2010
Memorandum items:								
Gross international reserves (stock, end of period.)	67.1	34.1	57.4	59.4	55.3	56.8	52.2	56.2
In months of prospective GNFS imports	1.3	0.5	0.9	0.9	0.8	0.8	0.8	0.8
In percent of short-term debt (residual maturity)			115.8	71.7	98.9	101.9	123.5	168.9
In percent of short-term debt (residual maturity, incl. arrears) including arrears)			...	22.1	20.7	19.8	18.7	21.0
Net fuel imports	-3.2	-3.4	-39.6	-44.0	-44.0	-42.3	-41.2	-40.3
In percent of GDP								
Current account	6.4	5.3	-14.6	-1.8	-5.0	-0.4	4.6	4.2
Exports	41.5	42.7	49.3	54.3	56.2	56.3	56.8	57.4
Of which: nonfuel exports	32.2	29.0	30.0	30.9	31.4	31.4	31.4	31.4
Imports	-54.5	-59.4	-87.0	-82.4	-87.4	-84.7	-82.2	-83.1
Of which: nonfuel imports	-44.7	-45.2	-61.9	-52.5	-56.1	-53.7	-50.8	-51.3
Tourism receipts	31.5	32.5	36.0	39.2	39.8	40.0	40.3	40.6
Scheduled public external debt service	113.2	177.0	68.3	96.6	67.2	67.4	55.5	44.8
(In percent of GNFS exports)	16.9	25.8	8.9	11.8	8.0	7.8	6.2	4.9
Public external debt	483.5	461.4	467.5	438.2	451.4	449.9	407.5	375.7
(In percent of GDP)	68.8	65.6	67.4	64.7	66.6	65.6	58.7	53.7
Arrears	104.1	136.3	185.5	211.5	231.0	237.1	235.0	234.5
(In percent of GDP)	14.8	19.4	26.7	31.2	34.1	34.6	33.9	33.5
GDP	703.1	703.1	693.7	677.1	678.1	686.3	693.7	700.1

Sources: Cental Bank of Seychelles, Ministry of Finance, and IMF staff estimates.

Table 6. Seychelles: Public Domestic and External Debt, 2000–04 1/

	2000	2001	2002	2003	2004
	(In millions of Seychelles rupees)				
Public sector domestic debt (end of period)	4,279.8	4,591.4	5,246.9	5,185.8	5,120.1
CBS advances	395.9	472.4	1,092.0	811.0	1,276.3
Excluding back to back	395.9	472.4	260.6	183.8	851.8
Treasury bills	1,993.4	1,998.7	1,998.4	1,038.0	1,577.9
CBS	2.3	1.0	1.2	0.7	464.8
Commercial banks	1,825.1	1,815.6	1,828.6	1,018.2	0.0
Others	166.0	182.1	168.6	19.2	0.0
Treasury bonds	1,673.6	1,730.5	1,441.6	2,096.5	1,958.1
CBS 0 percent	300.7	300.7	200.0	200.0	84.0
Commercial banks	903.6	940.4	794.3	1,167.4	1,400.6
Others	469.3	489.4	447.3	729.2	200.0
Government stocks	91.6	128.6	139.7	140.0	150.0
Commercial banks	91.6	128.6	139.7	140.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Treasury deposits (commerial banks)	125.3	261.2	575.3	1,100.2	157.9
	(In millions of U.S. dollars)				
Public sector external debt (end of period) 2/	262.6	306.8	392.4	361.5	381.8
Multilateral	49.7	61.2	103.8	75.8	81.2
World Bank	1.9	1.7	3.5	3.2	3.6
African Development Bank	38.1	47.7	82.7	55.8	57.6
Other	9.7	11.8	17.6	16.9	19.9
Bilateral	77.7	109.9	173.2	170.0	196.2
Paris Club	45.9	75.0	115.4	116.1	135.9
Other	31.8	34.9	57.8	53.9	60.3
Commercial	135.2	135.8	115.3	115.6	104.5
Of which: arrears	30.0	53.5	81.4	104.1	136.3
Multilateral	5.7	13.1	25.2	33.3	39.6
World Bank	0.0	0.0	0.5	0.8	1.5
African Development Bank	4.0	10.0	20.2	27.3	30.9
Other	1.7	3.2	4.5	5.2	7.2
Bilateral	22.7	34.2	50.1	56.8	79.8
Paris Club	23.1	33.2	46.7	49.5	67.9
Other	-0.4	1.0	3.4	7.3	11.9
Commercial	1.6	6.2	6.1	14.0	16.9
Memorandum items:					
Total debt-to-GDP ratio	164.5	176.4	193.4	188.0	186.6
External debt-to-GDP ratio	42.7	49.6	56.2	51.4	54.3
Of which: arrears	4.9	8.6	11.7	14.8	19.4
Domestic debt-to-GDP ratio	121.8	126.7	137.2	136.6	132.3

1/ Gross debt of the nonfinancial public sector.

2/ External public sector debt does not include debt of the Central Bank of Seychelles.

Table 7. Seychelles: Indicators of Financial and External Vulnerability, 2000–05
(In percent, unless otherwise specified)

	2000	2001	2002	2003	2004	2005 Est.
Financial sector indicators						
Regulatory capital to risk-weighted assets	27.1	34.2	31.8	20.9	21.6	20.8
Capital (net worth) to assets	4.6	4.4	4.2	4.1	4.0	4.1
Foreign exchange loans to total loans	5.8	1.5	2.3	8.1	9.5	10.6
Nonperforming loans to gross loans	1.7	1.6	2.5	3.0	5.1	2.6
Provision as percent of past-due loans	65.4	75.1	51.8	55.0	40.9	51.4
Return on assets	2.6	2.6	2.5	2.4	2.6	2.4
Return on equity	28.6	31.4	30.8	26.9	29.0	28.9
Interest rate spread (lending minus demand deposit rates)	8.9	8.6	8.7	8.2	7.4	7.2
Gross claims on central government/Total assets	62.7	64.4	60.4	61.2	50.7	46.5
Liquid assets/total assets	72.0	74.0	75.0	72.0	70.0	65.9
Liquid assets/short term liabilities	84.1	83.7	85.2	77.2	71.9	65.2
Loans/deposits	23.0	21.0	21.2	25.4	29.7	31.4
Excess reserves/broad money	1.7	1.9	3.0	3.7	3.1	2.6
External sector indicators						
Exports (including oil reexports, annual percentage change)	33.7	11.1	9.4	23.2	3.1	13.9
Imports (annual percentage change)	-15.2	37.1	-11.2	0.2	9.0	44.6
Terms of trade (percentage change)	-12.4	13.3	10.7	1.7	...	...
Current account balance (percent of GDP) 1/	-5.8	-23.0	-9.2	6.4	5.3	-14.6
Gross official reserves (end of year; in millions of U.S. dollars)	43.2	36.6	69.7	67.1	34.1	57.4
In months of prospective GNFS imports	0.8	0.8	1.4	1.3	0.5	0.9
In percent of ST debt on remaining maturity	131.4	71.6	59.5	70.4	34.1	115.8
Total external debt outstanding 2/	276.3	321.8	556.9	483.5	461.4	467.5
Total external debt to official creditors (in percent of total external debt)	46.1	53.2	49.8	50.9	60.1	65.3
Stock of collateralized debt (in percent of total external debt)	19.1	21.5	29.5	33.3	21.6	19.3
Stock of external debt arrears (in percent of GDP)	4.9	8.6	11.7	14.8	19.4	26.7
Total scheduled external debt service 2/	10.2	13.4	24.5	16.9	25.8	8.6
Seychelles rupees per U.S. dollar (period average)	5.7	5.9	5.5	5.4	5.5	5.5

Sources: Seychelles authorities; and IMF staff estimates and projections.
1/ Including long-term lease of aircraft (equivalent to 18 percent of GDP) in 2001, and tanker imports in 2005 (12.5 percent of GDP).
2/ Including arrears, in millions of U.S. dollars. Public sector and CBS debt only.

Table 8. Seychelles: Baseline and Adjustment Scenarios, 2003 10

	2003	2004	2005 Est.	2006	2007	2008	2009	2010
				Projections				
	(Annual percentage change, unless otherwise indicated)							
Baseline scenario								
National income and prices								
Nominal GDP (in millions of Seychelles rupees)	3,797.2	3,867.4	3,815.7	3,723.8	3,729.7	3,774.6	3,815.4	3,850.3
Real GDP	-6.3	-2.0	-2.3	-1.4	-1.5	-1.0	-1.0	-1.2
Retail price index 1/	3.2	3.9	1.0	-1.0	1.7	2.2	2.1	2.1
Adjustment scenario								
National income and prices								
Nominal GDP (in millions of Seychelles rupees)	3,797.2	3,867.4	3,815.7	4,391.2	5,938.4	6,730.6	7,241.6	7,777.1
Real GDP	-6.3	-2.0	-2.3	2.5	8.4	5.0	5.0	4.8
Retail price index 1/	3.2	3.9	1.0	12.2	24.7	8.0	2.5	2.4
	(In percent of GDP)							
Baseline scenario								
Savings and investment								
Gross national savings 2/	15.4	15.1	10.9	12.6	13.7	17.1	14.6	14.2
Of which: government savings 3/	4.9	2.8	5.8	5.8	2.5	2.6	3.3	3.4
Gross investment	9.0	9.8	12.7	14.5	11.2	10.1	10.0	9.9
Of which: government investment	2.3	4.3	5.5	6.4	4.5	4.1	4.1	4.0
Government budget								
Total revenue, excluding grants	49.3	49.1	50.4	51.4	48.2	48.0	48.6	48.7
Identified expenditure and net lending	46.7	50.7	50.0	51.9	50.2	49.5	49.3	49.4
Current expenditure	44.4	46.3	44.6	45.5	45.7	45.3	45.2	45.4
Capital expenditure and net lending	2.3	4.3	5.5	6.4	4.5	4.1	4.1	4.0
Overall balance, including grants (above the line)	2.8	-1.5	0.7	-0.4	-1.9	-1.4	-0.7	-0.6
Primary balance	9.8	6.3	8.5	5.3	5.6	6.0	6.9	7.1
Total public debt 4/	187.5	186.7	181.5	185.9	196.7	204.2	204.1	204.3
Domestic	136.1	132.4	124.7	130.0	136.1	142.1	148.1	153.2
External 4/	51.4	54.3	56.8	55.9	60.6	62.1	56.1	51.1
Real interest rate on domestic debt	0.9	1.0	3.9	4.6	3.3	2.7	2.7	2.7
External sector								
Current account balance after official transfers	6.4	5.3	-14.6	-1.8	-5.0	-0.4	4.6	4.2
Adjustment scenario								
Savings and investment								
Gross national savings 2/	15.4	15.1	10.9	15.4	11.7	14.5	20.0	20.7
Of which: government savings 3/	4.9	2.8	5.8	-1.6	-11.7	2.2	8.0	10.4
Gross investment	9.0	9.8	12.7	14.2	16.0	15.3	15.3	15.4
Of which: government investment	2.3	4.3	5.5	5.4	2.8	2.0	2.0	2.0
Government budget								
Total revenue, excluding grants	49.3	49.1	50.4	51.0	51.5	52.3	52.6	52.9
Identified expenditure and net lending	46.7	50.6	50.0	58.1	66.1	52.1	46.6	44.5
Current expenditure	44.4	46.3	44.6	52.7	63.3	50.1	44.6	42.5
Capital expenditure and net lending	2.3	4.3	5.4	5.4	2.8	2.0	2.0	2.0
Overall balance, including grants (above the line)	2.8	-1.5	0.7	-6.9	-14.5	0.3	6.1	8.5
Primary balance	9.8	6.3	8.5	9.7	12.5	14.6	15.4	16.1
Total public debt 4/	187.5	186.7	181.5	180.2	173.5	164.7	147.0	127.9
Domestic	136.1	132.4	124.7	122.1	112.7	107.1	103.5	97.5
External 4/	51.4	54.3	56.8	58.1	60.8	57.5	43.5	30.4
Real interest rate on domestic debt	0.1	1.0	4.2	0.5	-1.5	4.9	6.0	5.0
External sector								
Current account balance after official transfers	6.4	5.3	-14.5	1.2	-13.1	-9.3	4.6	5.3
Baseline scenario								
Overall external balance	-24.0	-65.2	-8.4	-49.6	-23.6	-4.7	-2.5	4.6
Gross official reserves (end of year)	67.1	34.1	57.4	59.4	55.3	56.8	52.2	56.2
In weeks of prospective imports, c.i.f.	7.3	2.6	4.7	4.6	4.3	4.5	4.1	
In percent of broad money	8.7	4.4	7.4					
Estimated stock of external arrears	104.1	136.3	185.0	211.1	230.6	236.7	234.6	234.1
Exchange rate–Seychelles rupees per U.S. dollar (period average)	5.4	5.5	5.5					
Adjustment scenario								
Overall external balance	-24.0	-65.2	-8.4	-23.6	49.1	60.7	107.2	120.7
Gross official reserves (end of year)	67.1	34.1	57.4	59.4	82.4	112.0	178.1	253.3
In weeks of prospective imports, c.i.f.	7.3	2.6	4.7	4.1	5.6	7.9	11.8	17.5
In percent of broad money	73.5	4.4	7.4	6.7	8.5	11.6	19.1	26.4
Estimated stock of external arrears	104.1	136.3	185.0	182.3	153.9	120.4	77.0	29.1
Exchange rate–Seychelles rupees per U.S. dollar (period average)	5.4	5.5	5.5					

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

1/ Annual averages. The official retail price index is believed to understate substantially the rate of inflation.

2/ The S-I balance does not equal the current account deficit as shown, due to an adjustment for lumpy one-off tanker imports.

3/ Government expenditures for 2000-04 include net lending expenditures, therefore for those years government savings - government investment balance does not equal overall fiscal balance including grants.

4/ Including arrears.

Table 9. Seychelles: External Debt Sustainability Framework, 2000–10, Baseline Scenario
(In percent of GDP, unless otherwise indicated)

	Actual							Est.	Projections					
	2000	2001	2002	2003	2004			2005	2006	2007	2008	2009	2010	
									I. Baseline Projections					Debt-stabilizing noninterest current account 6/
External debt	53.8	83.1	79.7	68.8	65.6			67.4	64.7	66.5	65.5	58.7	53.6	-2.8
Change in external debt	8.1	29.2	-3.4	-10.9	-3.2			1.8	-2.7	1.8	-1.0	-6.8	-5.1	
Identified external debt-creating flows (4+8+9)	5.6	19.7	1.5	-14.1	-9.5			8.3	-7.4	-0.6	-4.0	-9.0	-8.5	
Current account deficit, excluding interest payments	0.9	19.7	13.1	-8.9	-7.7			11.7	-0.8	2.8	-1.5	-6.4	-5.9	
Deficit in balance of goods and services	2.5	21.3	6.3	-11.2	-8.2			10.3	-3.8	-1.4	-6.8	-12.2	-13.0	
Exports	74.8	80.7	77.6	95.5	97.6			110.1	121.0	124.5	126.5	128.9	130.7	
Imports	77.4	102.0	84.0	84.3	89.4			120.4	117.2	123.1	119.7	116.7	117.7	
Net non-debt creating capital inflows (negative)	-2.2	-3.5	-5.4	-7.1	-4.2			-7.8	-10.2	-6.5	-5.1	-5.1	-5.0	
Automatic debt dynamics 1/	7.0	3.5	-6.2	2.0	2.3			4.5	3.6	3.2	2.6	2.5	2.4 #	
Contribution from nominal interest rate	6.3	3.8	3.3	2.5	2.3			2.9	2.6	2.2	1.9	1.8	1.7	
Contribution from real GDP growth	-2.0	1.2	-0.9	5.0	1.4			1.6	1.0	1.0	0.6	0.7	0.7	
Contribution from price and exchange rate changes 2/	2.6	-1.5	-8.6	-5.6	-1.4			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3)	2.5	9.5	-4.9	3.2	6.3			-6.6	4.8	2.4	3.0	2.2	3.5	
External debt-to-exports ratio (in percent)	72.0	102.9	102.7	72.0	67.2			61.2	53.4	53.4	51.8	45.5	41.0	
Gross external financing need (in billions of U.S. dollars) 3/	0.1	0.2	0.2	0.1	0.1			0.2	0.1	0.1	0.1	0.0	0.0	
In percent of GDP	12.5	31.8	33.1	7.2	17.5			21.7	17.0	12.9	7.6	-0.1	-1.2	
Key macroeconomic assumptions						10-Year Historical Average	10-Year Standard Deviation							Projected Average
Real GDP growth (in percent)	4.3	-2.2	1.3	-6.3	-2.0	2.2	5.6	-2.3	-1.4	-1.5	-1.0	-1.0	-1.2	-1.2
Exchange rate appreciation (U.S. dollar value of local currency, change in percent)	-6.5	-2.5	6.9	1.5	-1.8	-0.8	4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP deflator in U.S. dollars (change in percent)	-5.3	2.9	11.5	7.5	2.1	1.8	6.2	1.0	-1.0	1.7	2.2	2.1	2.1	1.4
Nominal external interest rate (in percent)	13.7	7.1	4.4	3.2	3.4	6.2	3.0	4.4	3.8	3.4	2.9	2.8	2.9	3.2
Growth of exports (U.S. dollar terms, in percent)	10.1	7.4	8.8	23.8	2.3	10.8	6.4	11.3	7.3	3.0	2.8	3.0	2.3	3.7
Growth of imports (US dollar terms, in percent)	-8.4	31.3	-6.9	1.0	6.1	9.5	12.5	32.9	-5.0	5.1	-1.5	-1.5	1.8	-0.2
Current account balance, excluding interest payments	-0.9	-19.7	-13.1	8.9	7.7	-6.8	9.6	-11.7	0.8	-2.8	1.5	6.4	5.9	2.4
Net non-debt-creating capital inflows	2.2	3.5	5.4	7.1	4.2	5.2	1.8	7.8	10.2	6.5	5.1	5.1	5.0	6.4
									II. Stress Tests for External Debt Ratio					Debt-stabilizing noninterest current account 6/
A. Alternative scenarios														
A1. Key variables are at their historical averages in 2006-10 4/								67.4	74.2	80.5	87.7	94.1	101.6	-3.1
B. Bound tests														
B1. Nominal interest rate is at baseline plus one-half standard deviation								67.4	65.7	68.6	68.7	63.8	58.9	-3.8
B2. Real GDP growth is at baseline minus one-half standard deviations								67.4	66.6	70.3	71.4	66.6	63.6	-2.6
B3. Noninterest current account is at baseline minus one-half standard deviations								67.4	69.5	76.3	80.3	78.6	78.7	-3.4
B4. Combination of B1-B3 using 1/4 standard deviation shocks								67.4	68.6	74.4	77.5	75.8	74.3	-2.3

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in U.S. dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.
2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency (ε > 0) and rising inflation (based on GDP deflator).
3/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
4/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both noninterest current account and nondebt inflows in percent of GDP.
5/ The implied change in other key variables under this scenario is discussed in the text.
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and nondebt inflows in percent of GDP) remain at their levels of the last projection year.

Table 10. Seychelles: Public Sector Debt Sustainability Framework, 2000–10, Baseline Scenario
(In percent of GDP, unless otherwise indicated)

	Actual							Est.	Projections					
	2000	2001	2002	2003	2004			2005	2006	2007	2008	2009	2010	
									I. Baseline Projections					Debt-stabilizing primary balance 10/
Public sector debt 1/	164.5	176.4	193.4	188.0	187.8			181.5	185.5	196.7	204.2	204.1	204.3	5.8
Of which: foreign-currency denominated	42.7	49.6	56.2	51.4	54.3			56.8	55.9	60.6	62.1	56.1	51.1	
Change in public sector debt	22.9	11.8	17.0	-5.4	-0.2			-6.2	4.3	10.9	7.5	0.0	0.2	
Identified debt-creating flows (4+7+12)	5.1	0.7	4.8	0.9	-5.0			13.5	1.7	0.5	-1.6	-2.0	-1.7	
Primary deficit	6.5	3.0	13.0	-10.1	-6.6			3.8	-5.3	-5.6	-6.0	-6.9	-7.5	
Revenue and grants	40.7	38.1	40.5	49.8	49.5			51.1	51.5	48.3	48.0	48.6	49.2	
Primary (noninterest) expenditure	47.2	41.2	53.6	39.7	42.9			55.0	46.2	42.7	42.0	41.7	41.7	
Automatic debt dynamics 2/	-1.4	-2.3	-6.3	14.1	4.7			10.8	10.2	7.3	5.1	5.4	6.3	
Contribution from interest rate/growth differential 3/	-1.4	1.2	-0.3	8.9	4.7			10.8	10.2	7.3	5.1	5.4	6.3	
Of which: contribution from real interest rate	4.3	-2.3	1.8	-3.4	1.0			6.3	7.6	4.4	3.2	3.3	3.9	
Of which: contribution from real GDP growth	-5.7	3.6	-2.1	12.3	3.7			4.5	2.6	2.8	1.9	2.0	2.4	
Contribution from exchange rate depreciation 4/	0.0	-3.5	-6.0	5.2	0.0									
Other identified debt-creating flows	0.0	0.0	-1.9	-3.1	-3.2			-1.1	-3.2	-1.1	-0.7	-0.5	-0.5	
Privatization receipts (negative)	0.0	0.0	-1.9	-3.1	-3.2			-1.1	-3.2	-1.1	-0.7	-0.5	-0.5	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3)	17.8	11.1	12.2	-6.3	4.8			-19.7	2.7	10.3	9.1	1.9	1.9	
Public sector debt-to-revenue ratio 1/	404.6	462.3	476.9	377.3	379.5			355.1	360.9	407.1	425.0	419.7	415.2	
Gross financing need 5/	12.6	9.2	18.7	78.7	33.1			63.0	36.7	1.9	1.4	0.7	0.6	
in billions of U.S. dollars	0.1	0.1	0.1	0.6	0.2	10-Year Historical Average	10-Year Standard Deviation	0.4	0.2	0.0	0.0	0.0	0.0	Projected Average
Key macroeconomic and fiscal assumptions														
Real GDP growth (in percent)	4.3	-2.2	1.3	-6.3	-2.0	2.2	5.6	-2.3	-1.4	-1.5	-1.0	-1.0	-1.2	-1.2
Average nominal interest rate on public debt (in percent) 6/	4.5	3.9	5.4	3.8	4.4	6.3	2.2	4.3	3.1	4.1	3.8	3.7	4.0	3.7
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	3.3	-1.6	1.1	-2.1	0.5	3.6	5.8	3.3	4.1	2.4	1.6	1.6	1.9	2.3
Nominal appreciation (increase in US dollar value of local currency, in percent)	-14.4	9.0	13.8	-8.1	0.0	-0.7	8.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inflation rate (GDP deflator, in percent)	1.3	5.5	4.3	6.0	3.9	2.6	4.6	1.0	-1.0	1.7	2.2	2.1	2.1	1.4
Growth of real primary spending (deflated by GDP deflator, in percent)	7.4	-14.7	31.7	-30.6	5.8	2.3	17.6	25.2	-17.1	-9.0	-2.5	-1.7	-1.2	-6.3
Primary deficit	6.5	3.0	13.0	-10.1	-6.6	0.6	6.6	3.8	-5.3	-5.6	-6.0	-6.9	-7.5	-6.3
									II. Stress Tests for Public Debt Ratio					Debt-stabilizing primary balance 10/
A. Alternative scenarios														
A1. Key variables are at their historical averages in 2006–10 7/								181.5	184.3	196.8	206.8	211.5	216.2	9.3
A2. No policy change (constant primary balance) in 2006–10 8/								181.5	172.1	180.8	186.6	185.7	185.6	2.6
B. Bound tests														
B1. Real interest rate is at baseline plus one-half standard deviations								181.5	191.3	207.9	221.6	228.5	236.0	11.0
B2. Real GDP growth is at baseline minus one-half standard deviation								181.5	192.7	212.8	231.5	244.3	259.6	12.2
B3. Primary balance is at baseline minus one-half standard deviation								181.5	189.2	203.5	214.4	218.0	221.9	3.7
B4. Combination of B1-B3 using one-quarter standard deviation shocks								181.5	193.8	211.8	227.8	236.8	246.7	11.5
B5. 10 percent of GDP increase in other debt-creating flows in 2006								181.5	195.9	207.1	214.8	215.1	215.6	3.5

1/ This debt sustainability analysis covers *gross* debt of the *nonfinancial public sector*. It excludes external debt of the Central Bank of Seychelles, and it includes (to the extent possible) external debt of the parastatals.
Because of the inclusion of the parastatal sector, the public sector accounts may not match the fiscal accounts (which focus on central government).
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as $-g$.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
6/ Derived as nominal interest expenditure divided by previous period debt stock.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ Given that the 2005 expenditure includes a one-off purchase of two tankers by a parastatal, the shock is calibrated to maintain the primary balance for 2004.
9/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).
10/ 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.

Table 11. Seychelles: External Debt Sustainability Framework, 2000–10, Adjustment Scenario
(In percent of GDP, unless otherwise indicated)

	Actual							Est.	Projections					
	2000	2001	2002	2003	2004			2005	2006	2007	2008	2009	2010	
									1. Adjustment Scenario					**Debt-stabilizing noninterest current account 6/**
External debt	53.8	83.1	79.7	68.8	65.6			67.4	68.9	68.6	62.3	47.2	33.9	-21.1
Change in external debt	8.1	29.2	-3.4	-10.9	-3.2			1.8	1.4	-0.3	-6.3	-15.0	-13.3	
Identified external debt-creating flows (4+8+9)	5.6	19.7	1.5	-14.1	-9.6			8.3	-14.7	-15.7	-16.1	-29.2	-29.5	
Current account deficit, excluding interest payments	0.9	19.7	13.1	-8.9	-7.7			11.6	-4.2	10.6	7.4	-6.5	-8.1	
Deficit in balance of goods and services	2.5	21.3	6.3	-11.2	-8.2			10.3	-10.3	-2.8	-8.1	-20.7	-22.4	
Exports	74.8	80.7	77.6	95.5	97.6			110.2	139.3	158.2	162.6	165.8	169.1	
Imports	77.4	102.0	84.0	84.3	89.4			120.5	129.0	155.5	154.4	145.1	146.7	
Net non-debt creating capital inflows (negative)	-2.2	-3.5	-5.4	-7.1	-4.2			-7.8	-11.5	-22.7	-22.0	-21.1	-20.3	
Automatic debt dynamics 1/	7.0	3.5	-6.2	2.0	2.3			4.5	1.0	-3.6	-1.5	-1.5	-1.1 #	
Contribution from nominal interest rate	6.3	3.8	3.3	2.5	2.3			2.9	3.0	2.4	1.8	1.5	1.1	
Contribution from real GDP growth	-2.0	1.2	-0.9	5.0	1.4			1.6	-2.0	-6.0	-3.3	-3.0	-2.2	
Contribution from price and exchange rate changes 2/	2.6	-1.5	-8.6	-5.6	-1.4			...	.	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3)	2.5	9.5	-4.9	3.2	6.4			-6.5	16.2	15.5	9.7	14.1	16.2	
External debt-to-exports ratio (in percent)	72.0	102.9	102.7	72.0	67.2			61.2	49.4	43.3	38.3	28.5	20.0	
Gross external financing need (in billions of US dollars) 3/	0.1	0.2	0.2	0.1	0.1			0.1	0.1	0.1	0.1	0.0	0.0	
In percent of GDP	12.5	31.8	33.1	7.2	17.5			21.6	15.8	22.3	17.4	0.2	-2.0	
Key macroeconomic assumptions						10-Year Historical Average	10-Year Standard Deviation							Projected Average
Real GDP growth (in percent)	4.3	-2.2	1.3	-6.3	-2.0	2.2	5.6	-2.3	2.5	8.4	5.0	5.0	4.8	5.1
Exchange rate appreciation (US dollar value of local currency, change in percent)	-6.5	-2.5	6.9	1.5	-1.8	-0.8	4.4	0.0	-24.6	-28.9	-8.9	-3.2	-3.1	-13.7
GDP deflator in US dollars (change in percent)	-5.3	2.9	11.5	7.5	2.1	1.8	6.2	1.0	-15.4	-11.3	-1.6	-0.8	-0.8	-6.0
Nominal external interest rate (in percent)	13.7	7.1	4.4	3.2	3.4	6.2	3.0	4.4	3.8	3.3	2.7	2.5	2.4	3.0
Growth of exports (US dollar terms, in percent)	10.1	7.4	8.8	23.8	2.3	10.8	6.4	11.3	9.7	9.3	6.1	6.2	6.1	7.5
Growth of imports (US dollar terms, in percent)	-8.4	31.3	-6.9	1.0	6.1	9.5	12.5	32.9	-7.1	15.9	2.6	-1.9	6.1	3.1
Current account balance, excluding interest payments	-0.9	-19.7	-13.1	8.9	7.7	-6.8	9.6	-11.6	4.2	-10.6	-7.4	6.5	8.1	0.2
Net non-debt creating capital inflows	2.2	3.5	5.4	7.1	4.2	5.2	1.8	7.8	11.5	22.7	22.0	21.1	20.3	19.5
									II. Stress Tests for External Debt Ratio					**Debt-stabilizing noninterest current account 6/**
A. Alternative scenarios														
A1. Key variables are at their historical averages in 2006–10 4/								67.4	73.6	81.8	91.7	105.3	119.8	-2.7
B. Bound tests														
B1. Nominal interest rate is at baseline plus one-half standard deviation								67.4	70.0	70.9	65.6	51.4	38.8	-20.3
B2. Real GDP growth is at baseline minus one-half standard deviations								67.4	70.8	71.8	66.3	52.8	39.1	-22.8
B3. Non-interest current account is at baseline minus one-half standard deviations								67.4	73.6	78.5	76.9	66.4	57.6	-21.2
B4. Combination of B1-B3 using 1/4 standard deviation shocks								67.4	72.8	76.4	73.4	61.7	51.4	-21.4

1/ Derived as [r - g - ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms,
g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.
2/ The contribution from price and exchange rate changes is defined as [-ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) times previous period debt stock. ρ increases with an appreciating domestic currency (ε > 0) and rising inflation (based on deflator).
3/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
4/ 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.
5/ The implied change in other key variables under this scenario is discussed in the text.
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.

Table 12. Seychelles: Public Sector Debt Sustainability Framework, 2000–10, Adjustment Scenario
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2000	2001	2002	2003	2004			2005	2006	2007	2008	2009	2010	
								I. Baseline Projections						Debt-stabilizing primary balance 10/
Public sector debt 1/	164.5	176.4	193.4	188.0	187.6			181.7	180.5	174.8	164.8	145.3	125.5	-2.2
Off which: foreign-currency denominated	42.7	49.6	56.2	51.4	54.3			56.8	58.2	60.9	57.6	43.6	30.5	
Change in public sector debt	22.9	11.8	17.0	-5.4	-0.4			-6.1	-1.1	-6.5	-10.0	-18.6	-19.8	
Identified debt-creating flows (4+7+12)	5.1	0.7	4.8	0.9	-5.2			13.6	-19.5	-24.3	-13.7	-19.0	-19.6	
Primary deficit	6.5	3.0	13.0	-10.1	-6.6			3.9	-9.7	-4.3	-6.5	-15.7	-16.1	
Revenue and grants	40.7	38.1	40.5	49.8	49.4			51.2	51.3	52.2	52.9	53.0	53.0	
Primary (noninterest) expenditure	47.2	41.2	53.6	39.7	42.8			55.0	41.5	47.9	46.4	37.4	36.9	
Automatic debt dynamics 2/	-1.4	-2.3	-6.3	14.1	4.5			10.9	-7.0	-19.3	-6.9	-3.1	-3.2	
Contribution from interest rate/growth differential 3/	-1.4	1.2	-0.3	8.9	4.5			10.9	-7.0	-19.3	-6.9	-3.1	-3.2	
Of which: contribution from real interest rate	4.3	-2.3	1.8	-3.4	0.8			6.3	-3.1	-8.1	0.7	4.5	3.3	
Of which: contribution from real GDP growth	-5.7	3.6	-2.1	12.3	3.7			4.6	-4.0	-11.2	-7.6	-7.6	-6.5	
Contribution from exchange rate depreciation 4/	0.0	-3.5	-6.0	5.2	0.0			..	.		.			
Other identified debt-creating flows	0.0	0.0	-1.9	-3.1	-3.2			-1.1	-2.7	-0.7	-0.4	-0.2	-0.2	
Privatization receipts (negative)	0.0	0.0	-1.9	-3.1	-3.2			-1.1	-2.7	-0.7	-0.4	-0.2	-0.2	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3)	17.8	11.1	12.2	-6.3	4.8			-19.7	-16.4	9.1	-1.9	-0.9	-1.2	
Public sector debt-to-revenue ratio 1/	404.6	462.3	476.9	377.3	379.5			355.1	352.1	333.3	310.2	274.0	236.7	
Gross financing need 5/	12.6	9.2	18.7	78.7	33.1			63.0	37.6	43.0	36.2	31.9	29.0	
In billions of U.S. dollars	0.1	0.1	0.1	0.6	0.2	10-Year Historical Average	10-Year Standard Deviation	0.4	0.2	0.2	0.2	0.2	0.2	Projected Average
Key macroeconomic and fiscal assumptions														
Real GDP growth (in percent)	4.3	-2.2	1.3	-6.3	-2.0	2.2	5.6	-2.3	2.5	8.4	5.0	5.0	4.8	5.1
Average nominal interest rate on public debt (in percent) 6/	4.5	3.9	5.4	3.8	4.4	6.3	2.2	4.3	10.5	20.6	9.6	6.3	5.7	10.6
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	3.3	-1.6	1.1	-2.1	0.4	3.6	5.8	3.3	-1.6	-4.1	1.6	3.8	3.3	0.6
Nominal appreciation (increase in U.S. dollar value of local currency, in percent)	-14.4	9.0	13.8	-8.1	0.0	-0.7	8.1	0.0	-38.9	-14.3	-8.7	-2.1	-2.1	-13.2
Inflation rate (GDP deflator, in percent)	1.3	5.5	4.3	6.0	4.0	2.6	4.6	1.0	12.2	24.7	8.0	2.5	2.4	10.0
Growth of real primary spending (deflated by GDP deflator, in percent)	7.4	-14.7	31.7	-30.6	5.7	2.3	17.6	25.2	-22.6	25.2	1.6	-15.4	3.7	-1.5
Primary deficit	6.5	3.0	13.0	-10.1	-6.6	0.6	6.6	3.9	-9.7	-4.3	-6.5	-15.7	-16.1	-10.4
								II. Stress Tests for Public Debt Ratio						Debt-stabilizing primary balance 10/
A. Alternative scenarios														
A1. Key variables are at their historical averages in 2006-10 7/								181.4	201.2	223.1	231.2	235.4	239.8	4.1
A2. No policy change (constant primary balance) in 2006-10 8/								181.7	154.0	156.8	146.9	138.3	128.8	-1.2
B. Bound tests														
B1. Real interest rate is at baseline plus one-half standard deviations								181.4	185.8	183.6	178.9	166.1	151.4	2.3
B2. Real GDP growth is at baseline minus one-half standard deviation								181.4	186.7	187.3	187.2	178.6	169.2	2.5
B3. Primary balance is at baseline minus one-half standard deviation								181.4	183.6	180.0	174.4	160.0	144.1	-1.7
B4. Combination of B1-B3 using one-quarter standard deviation shocks								181.4	187.3	186.5	184.2	173.1	160.8	2.4
B5. 10 percent of GDP increase in other debt-creating flows in 2006								181.4	190.2	182.9	174.8	156.4	137.2	-1.7

1/ This Debt Sustainability Analysis covers ***gross*** debt of the ***nonfinancial public sector***. It excludes external debt of the Central Bank of Seychelles, and it includes (to the extent possible) external debt of the parastatals. Because of the inclusion of the parastal sector, the public sector accounts may not match the fiscal accounts (which focus on central government).
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
6/ Derived as nominal interest expenditure divided by previous period debt stock.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ Given that the 2005 expenditure includes a one-off purchase of two tankers by a parastatal, the shock is calibrated to maintain the primary balance for 2004.
9/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).
10/ 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

Seychelles: Relations with the Fund
(As of December 31, 2005)

I. **Membership Status:** Joined 6/30/77. Article VIII.

II. **General Resources Account**	SDR Million	% Quota
Quota	8.80	100.0
Fund holdings of currency	8.80	99.97
Reserve position in the Fund	0.00	0.04

III. **SDR Department**	SDR Million	% Allocations
Net cumulative allocation	0.41	100.0
Holdings	0.00	0.40

IV. **Outstanding Purchases and Loans:** None

V. **Financial Arrangements** None

VI. **Project Obligations to the Fund (SDR million: based on existing use of resources and present holdings of SDRs)**

			Forthcoming		
	2006	**2007**	**2008**	**2009**	**2010**
Principal					
Changes/interest	0.01	0.01	0.01	0.01	0.01
Total	0.01	0.01	0.01	0.01	0.01

VII. **Implementation of HIPC Initiative:** Not applicable

VIII. **Safeguards Assessments:**

Under the Fund's safeguards assessment policy, the Central Bank of Seychelles will be subject to an assessment with respect to a new financial arrangement. The necessary documentation was requested from the authorities on June 10, 2003 and received by staff on July 11, 2003. The assessment has been postponed until such a time when an arrangement is being considered.

IX. **Exchange Rate Arrangement**

The Seychelles rupee is pegged to a trade- and tourism-weighted currency basket. As of January 18, 2006 the rate was US$1 = SR 5.5. The weights used are as follows: the euro (37.7 percent), the U.S. dollar (25.7 percent), the pound sterling (15.7 percent), the South African rand (10.5 percent), the Singapore dollar (7.7 percent), and the Japanese yen (2.7 percent). Exchange rates for various currencies are quoted on the basis of their New

York closing rates for the U.S. dollar on the previous day, using the U.S. dollar rate for the Seychelles rupee as derived from the fixed parity to the currency basket. Due to a mechanism in the exchange arrangement that sets a maximum dollar value for the exchange rate, the exchange rate of the rupee has been de facto pegged to the U.S. dollar—instead of its usual basket—since October 2003.

Seychelles maintains restrictions on payments and transfers for current international transactions subject to approval by the Fund under Article VIII, Sections 2(a), 3, and 4, as described below:

The framework for allocating/rationing foreign exchange in the Seychelles (the "pipeline mechanism") requires commercial banks to surrender a proportion of the foreign currency received by them and are permitted to retain the balance. From that retained balance, they are required to allocate foreign exchange in accordance with various categories set out in a "priority list." The priority list further restricts allocation of foreign exchange in each category to a percentage of the overall foreign exchange available. To the extent the framework results in a circumstance whereby foreign exchange will not be available for a bona fide current international transaction, either because: (i) the percentage allocation for a particular category has already been exhausted, or (ii) foreign exchange is not available for transactions unrelated to categories that are not on the "priority list" (as the exchange has been exhausted by allocation to some/all priority items), this amounts to an exchange restriction subject to Fund jurisdiction. Furthermore, "undue delays" in the availability or use of foreign exchange for the making of payments and transfers for current international transactions are also deemed as giving rise to exchange restrictions within the meaning of Article VIII, Section 2(a).

In addition, the foreign exchange directive notes that "Banks should not entertain any application to meet dividends, [or] proceeds from the sale of assets." This measure, which amounts to an absolute restriction on the ability of nonresidents to convert and thus transfer abroad the proceeds obtained from current international transactions (i.e. remittances of profits and dividends), also gives rise to an exchange restriction subject to Fund jurisdiction.

X. Article IV Consultations

Seychelles is currently on a 12-month consultation cycle. The 2004 Article IV consultation was concluded by the Executive Board on January 21, 2005.

XI. **Technical Assistance (1995- December 2005)**

Department	Head of Mission	Subject	*Date*
FAD	Mr. Schiller	Review the revenue system.	July 1995
STA/AFR	Mr. Dublin	Assess statistical databases.	March 1999
STA	Mr. Pritchett	Advise on government finance statistics.	March 2000
MAE	Mr. Ouanes	Advise on liberalizing the foreign exchange system; introducing indirect instruments of monetary management; strengthening prudential regulations; and restructuring the domestic debt.	June 2000
FAD	Mr. Sunley	Review indirect taxes, including customs duties.	June 2000
MAE	Ms. Brenner	Module 2 assessment of offshore financial center and measures to combat money laundering and the financing of terrorism.	June/July 2002
MFD/LEG	Ms. Vadasz	Advise on the redrafting of the Central Bank of Seychelles Act and the Financial Institutions Act.	January/ February 2003
MFD/LEG	Mr. M. Darbar	Anti-money laundering and combating the financing of terrorism and banking supervision issues	July/August 2004
STA	Mr. S. Rajcoomar	Multisector statistics/GDDS mission	August 2004
STA	Mr. R. Freeman	National Accounts/CPI	May/June 2005

XII. Resident Representative: None

Seychelles: Relations with the World Bank Group
(As of January 24, 2006)

Seychelles joined the World Bank (IBRD) in 1980, the International Finance Corporation (IFC) in 1981, and the Multilateral Investment Guarantee Agency (MIGA) in 1992. Given the country's small size and its access to commercial lending sources, the Bank has provided only modest assistance in Seychelles, mainly in infrastructure rehabilitation and environment protection, and it has provided technical support in building institutional capacity in preparation of the multiyear public investment programming. The IFC has no current loan portfolio. MIGA does not currently have any guarantees in the Seychelles. The status of IBRD and IFC operations is summarized in the attached table.

The Bank's main objectives in Seychelles are to (i) assist the government in restoring macroeconomic balance and to create an environment conducive to improving economic prospects in the medium and long term; and (ii) provide support for environmentally sustainable economic activities and the preservation of the environment. To this end, the Bank has cooperated with other donors on macroeconomic policy advice and on environmental protection through Global Environmental Facility (GEF) grants.

In this regard, a Bank team visited Seychelles in June–July 2000 to advise the authorities on developing a privatization program, encouraging private sector development, and liberalizing domestic and foreign trade system. Bank teams visited Seychelles again in May and October 2002 to assess social and economic conditions, and in October 2003 to launch the preparation of a Development Policy Review (DPR) and participate in government-IMF discussions on a staff-monitored program. Another visit took place in June 2004 to discuss a draft DPR report, which outlines major development challenges faced by Seychelles. The report was favorably received by the government.

Most recently, a Bank's mission visited Seychelles during April–May 2005. The major objective of the mission was to discuss with the Government of Seychelles the roadmap which would set the economy back on a sustainable growth path, including a regularization of its unsustainable debt situation.

Seychelles has been in non-accrual status with the Bank since August 15, 2002. However, the government began repayments of arrears to the Bank in March 2005 with a monthly payment of US$100,000. Nine payments of this size have been made thus far, reducing the stock of arrears to the Bank to US$1.0 million as of January 24, 2006. The current non-accrual status precludes financial assistance (grants and loans) from the Bank. However, the Bank remains engaged in Seychelles by maintaining a dialogue on key macroeconomic and social issues.

Seychelles: Relations with the World Bank Group

Statement of the World Bank Loans and IDA Credits (as of January 24, 2006)

No IBRD or IDA loans, credits, or grants are currently active.

Statement of IFC 's Held and Disbursed Portfolio (as of January 24, 2006)

No IFC loans are currently active. All the six projects financed from 1986 to 1998 have been repaid and closed.

Seychelles: Statistical Issues

While data provision for surveillance purposes is adequate, staff's analysis is affected by considerable lags in the production of national accounts and problems with the official consumer price index. Although the authorities have recently made efforts to improve their capacity with assistance from STA, they will require sustained technical assistance and additional resources over the medium term in order to significantly improve the quality and availability of economic statistics.

Real sector

National accounts data are prepared on a calendar-year basis. Currently, national accounts at constant prices use 1986 as the base year. There are considerable delays in compiling GDP deflators; the most recent official estimate of real GDP is for 2003. Data on average earnings and employment by sector are collected on a monthly basis by the National Statistics Bureau. Unemployment data are collected by the Ministry of Economic Planning and Employment, but not regularly reported to the IMF. Tourism statistics are compiled monthly and reported to the IMF in a timely manner. Better use should be made of available data sources (i.e., employment, tax data) to improve their quality and timeliness and improve compilation methods.

The retail price index (RPI) is calculated on the basis of prices mandated by the government and, therefore, takes no account of prices in the parallel market. The most recent revisions to the RPI were published beginning in January 2003; the revised index utilizes expenditure weights reflecting a 1999-2000 household expenditure survey, and base period of the last three months of 2001. However, consumption patterns have changed considerably since the household expenditure survey was completed and the weights should be updated as soon as possible. There is also a problem with a high amount of repeated prices in the RPI. Until a new household expenditure survey is completed (planned for 2006), the authorities should focus on improving the quality and scope of price collection, and updating the index base.

Government finance

Annual data on consolidated central government transactions are reported for publication in the *Government Finance Statistics Yearbook (GFSY)*. The authorities have recently resumed reporting quarterly data on central government budgetary operations for publication in *International Financial Statistics (IFS)*.

Government finance statistics are recorded on a cash basis. The STA mission that visited Victoria in August 2004 concluded that the methodology used to consolidate fiscal data (for the central government, including the Social Security Fund) was broadly consistent with the *Government Finance Statistics Manual* (1986). However, official statistics continue to be presented on an unconsolidated basis. In addition, there are discrepancies between above-the-line (budget) and below-the-line (financing) data, and domestic financing data from the fiscal accounts do not match CBS data on bank financing. Other major differences, which the authorities have been working to address, pertain to the classification of receipts from privatization, the treatment of foreign loans, and debt.

Monetary accounts

Monetary data are reported regularly for publication in *IFS*, with recent improvements in timeliness. The latest data for the Central Bank of Seychelles, the commercial banks, and the Development Bank of Seychelles were reported to STA with a one-month lag. The analytical framework underlying the compilation of monetary statistics is generally sound, but does not fully conform with the methodology of the *Monetary and Financial Statistics Manual*. Enhancements in the data collection, compilation, and dissemination procedures are being introduced to bring monetary data further in line with international standards. The multisector statistics mission that visited Seychelles in August 2004 made recommendations on the expansion of the institutional coverage, application of the residency criterion, sectorization of the domestic economy, classification of financial instruments, and valuation and accounting procedures.

Balance of payments

The authorities have made substantial progress in adopting the balance of payments methodology outlined in the fifth edition of the *Balance of Payments Manual*. Trade data are reported on a quarterly basis, but with some delay. Balance of payments data are reported to the Statistics and African Departments on an annual basis, nine months after the reference period, while provisional data are generally provided to Fund missions seven months after the reference period.

The quality of balance of payments data is impaired by the thriving foreign exchange parallel market, which diverts transactions away from the banking system and into the informal sector. However, the authorities have recently made considerable progress in collecting data on public sector debt, debt-service obligations, and external payments arrears.

Seychelles: Table of Common Indicators Required for Surveillance

(As of January 27, 2005)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	01/17/06	01/17/06	Daily	Daily	Daily
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	12/30/05	1/3/06	Monthly	Monthly	Monthly
Reserve/Base Money	11/30/05	12/28/05	Monthly	Monthly	Monthly
Broad Money	11/30/05	12/28/05	Monthly	Monthly	Monthly
Central Bank Balance Sheet	11/30/05	12/28/05	Monthly	Monthly	Monthly
Consolidated Balance Sheet of the Banking System	11/30/05	12/28/05	Monthly	Monthly	Monthly
Interest Rates[2]	11/30/05	12/28/05	Monthly	Monthly	Monthly
Consumer Price Index	11/31/05	12/30/05	Monthly	Monthly	Monthly
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	12/31/04	05/30/05	Quarterly	Annual	Annual
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	10/30/05	11/30/05	Quarterly	Quarterly for above the line, irregular for below the line items	Quarterly for above the line, irregular for below the line items
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/31/05	1/16/05	Monthly	Monthly	Irregular
External Current Account Balance	12/31/04	3/15/05	Quarterly	Annual	Annual
Exports and Imports of Goods and Services	9/30/05	12/1/05	Monthly	Irregular	Irregular
GDP/GNP	12/31/03	09/30/04	Annual	Annual	Annual
Gross External Debt	10/31/05	11/15/05	Monthly	Irregular	Irregular

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

INTERNATIONAL MONETARY FUND

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IMF Concludes 2005 Article IV Consultation with Seychelles

On [March 8, 2006], the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Seychelles.[18]

Background

Seychelles is in the midst of an ongoing balance of payments and debt crisis. The authorities' development model since independence, based on extensive investment in infrastructure and human capital, as well as generous welfare benefits, succeeded in improving the standard of living, and Seychelles' social indicators are now higher than in the region and in similar economies. However, these policies, based on extensive state intervention, came at the cost of large fiscal deficits. They have led to a significant buildup of public debt, the overvaluation of the currency under the fixed exchange rate regime, as well as declining competitiveness and growth. Foreign exchange shortages have been pervasive and external arrears continue to accumulate.

The authorities' home-grown Macroeconomic Reform Program (MERP), launched in mid-2003, attempted to tackle these imbalances by focusing on fiscal adjustment. However, the lack of comprehensive reforms failed to halt the economic decline. After

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[18] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the [Month, dd, yyyy] Executive Board discussion based on the staff report.

falling by about 11 percent of GDP since 2000, real activity is estimated to have contracted by a further 2.3 percent in 2005. Although the tsunami of end-2004 caused significant damage to the economy, it also led to an increase in construction and hotel renovation, and had a negligible impact on tourism, with arrivals increasing by 7 percent in 2005 relative to the previous year. However, production indicators were weak, as the lack of foreign exchange has prevented imports of essential inputs for agriculture and manufacturing. Domestic demand remained depressed, and inflationary pressures abated.

While the fiscal stance has tightened relative to 2004, the fiscal outturn of the consolidated government in 2005 is estimated to have fallen short of the budget target. Revenue shortfalls were primarily due to lower-than-expected dividend payments from parastatals, with a buoyant general sales tax only partially offsetting disappointing collections on business and trade tax. Expenditure overruns on goods and services and on transfers to parastatals were partly compensated by lower-than-budgeted capital spending. Public debt declined by 5 percentage points of GDP in 2005 compared with 2004 to reach 182 percent of GDP. Excess liquidity continued to decline as broad money growth remained contained and narrow money contracted.

The current account deteriorated sharply in 2005, but this was mostly driven by the purchase of two oil tankers by the national oil company, and by imports linked to significant hotel-related foreign direct investment (FDI). The higher FDI, combined with other net capital inflows, compensated somewhat for the deficit in the current account. Gross official reserves increased slightly, from 3.7 weeks of imports at end-2004 to 4.7 weeks at end-2005, at the expense of a further accumulation in external arrears.

The authorities have made some progress on the structural reforms front, notably on privatization, trade liberalization, relaxation of some price controls, and in the elimination of the import monopoly of the Seychelles Marketing Board. The government also recently adopted a new pension scheme and an Investment Code.

Executive Board Assessment

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Seychelles: Selected Economic and Financial Indicators, 2001 05

	2001	2002	2003	2004	2005 Est.
	(Annual percentage change, unless otherwise indicated)				
National income and prices					
Nominal GDP (in millions of Seychelles rupees)	3,623	3,826	3,797	3,867	3,815
Real GDP	-2.2	1.3	-6.3	-2.0	-2.3
Retail price index 1/	1.9	0.2	3.2	3.9	1.0
	(Annual change in percent of beginning-of-period broad money, unless otherwise indicated)				
Money and credit					
Domestic credit	12.6	18.3	5.8	-0.7	-1.4
Broad money (M2(p)) 2/	11.9	11.1	5.3	1.1	-0.1
Reserve Money 3/	7.2	25.9	-18.9	79.6	-0.2
Interest rate (average during period, 91-day bill)	4.5	4.5	2.0	2.3	2.8
	(In percent of GDP)				
Savings and investment					
Gross national savings	16.9	15.0	15.4	15.1	-1.9
Gross investment	20.4	24.2	9.0	9.8	12.7
Government budget					
Total revenue, excluding grants	37.8	40.0	49.3	49.1	50.4
Identified expenditure and net lending	47.4	58.7	46.7	50.7	50.0
Current expenditure	40.8	48.2	44.4	46.3	44.6
Capital expenditure and net lending	6.6	10.6	2.3	4.3	5.5
Overall balance, including grants (above the line)	-9.2	-18.7	2.8	-1.5	0.7
Primary balance	-3.0	-10.2	9.8	6.3	8.5
Total public debt 5/	211.4	193.4	188.0	186.7	181.5
Domestic	126.9	137.1	136.6	132.4	124.7
External 5/	49.6	56.2	51.4	54.3	56.8
External sector					
Current account balance after official transfers	-3.5	-9.2	6.4	5.3	-14.6
	(In millions of U.S. dollars, unless otherwise indicated)				
Gross official reserves (end of year)	36.6	69.7	67.1	34.1	57.4
In weeks of imports, c.i.f.	3.9	8.3	8.0	3.7	5.0
In percent of broad money	5.8	8.8	8.7	4.4	7.4
Seychelles rupees per US$1 (end of period)	5.75	5.06	5.50	5.50	5.50
Seychelles rupees per US$1 (period average)	5.86	5.48	5.40	5.50	5.50

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

1/ Annual averages. The official retail price index is believed to understate substantially the rate of inflation.

2/ M2 plus domestic currency balances earmarked for pending import requests ("pipeline").

3/ In annual percentage change.

4/ Government expenditures for 2000-04 include net lending expenditures, therefore for those years government savings - government investment balance does not equal overall fiscal balance including grants.

5/ Including arrears.