INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/191

SEYCHELLES

June 2024

2024 ARTICLE IV CONSULTATION, SECOND REVIEWS UNDER THE ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, REQUESTS FOR A WAIVER OF NONOBSERVANCE AND MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SEYCHELLES

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with Seychelles, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 3, 2024, consideration of the staff report that concluded the Article IV consultation with Seychelles.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 3, 2024, following discussions that ended on April 3, 2024, with the officials of Seychelles on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 15, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Seychelles.

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

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International Monetary Fund
Washington, D.C.

PR24/203

IMF Executive Board Completes Second Reviews Under the Extended Fund Facility and the Resilience and Sustainability Facility Arrangements and Concludes the 2024 Article IV Consultation with Seychelles

FOR IMMEDIATE RELEASE

- *The Seychellois economy continued to recover in 2023, though at a slower pace than in 2022. Tourist arrivals continued to rise, and sectors such as IT and construction were strong. However, flooding and an industrial explosion in December 2023 dampened overall growth.*
- *The government has made considerable progress under the Extended Fund Facility (EFF) and Resilience and Sustainability Facility (RSF) Arrangements—strengthening fiscal and external buffers, reducing public debt, and enhancing the policy framework to address climate change. The Executive Board's approval of the reviews will allow for a total disbursement of SDR 9.2 million ($12.2 million).*
- *Long term challenges center on the limits to sustainable tourism-based growth, economic diversification, and Seychelles' high vulnerability to the effects of climate change.*

Washington, DC – June 3, 2024: The Executive Board of the International Monetary Fund (IMF) completed today the second reviews of Seychelles' economic performance under the 36-month EFF and RSF Arrangements approved on May 31, 2023. The completion of the reviews allows for the authorities to draw the equivalent of SDR 6.1 million (about $8.1 million) under the EFF and SDR 3.1 million (about $4.1 million) under the RSF, bringing total disbursements to SDR 18.3 million (about $24.3 million) and SDR 6.2 million (about $8.2 million) under the EFF and RSF, respectively.

Seychelles' real GDP growth is estimated at 3.2 percent in 2023 compared to 15 percent in 2022. Tourist arrivals rose to about 91 percent of the pre-pandemic high (2019) but spending per tourist was flat. Information technology was the main impetus of non-tourism growth, along with fishing and construction. However, unseasonably heavy rains and flooding combined with an industrial explosion in December contributed to a contraction in manufacturing. Year-on-year headline inflation was -2.7 percent by December, reflecting lower global commodity prices and a broadly stable exchange rate. Gross international reserves increased to $682 million (3.2 months of imports) by end-2023. The government's primary fiscal surplus of 1.7 percent of GDP was higher than expected, due mainly to lower than projected current and capital spending.

Looking ahead, real GDP growth is projected to rise to 3.7 percent in 2024, and annual average inflation is expected to reach 1.2 percent. While the external current account is expected to remain broadly stable, gross foreign exchange reserves are projected to reach

$751 million by end-2024, equivalent to 3.4 months of imports. Potential downside risks include Seychelles' high vulnerability to external shocks (such as volatility in commodity and shipping prices), climate-related events, or disruptions to tourism.

The Executive Board also concluded the 2024 Article IV Consultation[1] with Seychelles.

Following the Executive Board's discussion, Mr. Bo Li, Deputy Managing Director, and acting Chair, issued the following statement:

"The Seychellois economy has continued to demonstrate resilience, despite continued volatility in the external environment and the intensification of climate shocks. The performance under the Fund-supported Extended Fund Facility (EFF) and Resilience and Sustainability Facility (RSF) arrangements has been strong. The authorities are committed to preserving macroeconomic sustainability, building buffers, and supporting inclusive growth and resilience. Strong support from development partners is critical for the successful implementation of the reform agenda.

"Sustained growth-friendly fiscal consolidation through revenue mobilization, prudent spending, and improved public financial management would help to reduce debt vulnerabilities and create fiscal space for priority social and climate-related investment spending. In that context, addressing bottlenecks in public sector hiring is also important. Strengthening the debt management framework and improving the governance, transparency, and monitoring of state-owned enterprises are important measures.

"The monetary stance is appropriate. Going forward, close monitoring of inflationary pressures is important. Measures to strengthen the central bank's balance sheet and enhance the monetary policy framework to improve policy transmission are essential. The authorities' commitment to maintaining a flexible exchange rate regime is welcome, given the susceptibility to external shocks. Close monitoring of non-performing loans is needed to safeguard financial sector stability. The planned upgrades of the regulatory framework for crisis prevention and management will help to ensure the resilience of the financial system. Further strengthening the AML/CFT framework, including by enhancing the transparency of beneficial ownership information is also important.

"The authorities are committed to reforms to boost inclusive growth, particularly aimed at economic diversification, modernizing public service and the education system, and strengthening climate change resilience, in line with the National Development Strategy. Implementation of reform measures under the RSF will help to strengthen the climate-

[1] 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.

focus of public investment, integrate climate change into the budget process, and facilitate development of a climate financing strategy. Efforts to strengthen climate-related risk management for financial institutions and deepen climate adaptation and mitigation reforms are important."

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the strong performance under the Fund-supported programs, which has supported the ongoing recovery. While noting the favorable outlook, Directors recognized the challenges related to Seychelles' vulnerability to external and climate-related shocks. Accordingly, Directors underscored the need to preserve macroeconomic sustainability, build buffers, and support inclusive growth and resilience. They also emphasized the critical role of support from development partners in achieving these objectives.

Directors agreed on the need for sustained growth-friendly fiscal consolidation to build buffers, while ensuring sufficient space for critical social and climate-related investment spending. Important measures include strengthening public investment management, addressing bottlenecks in civil service hiring, and bolstering revenues through modernization and streamlining of tax procedures. Recognizing the potential for lower access to concessional financing, Directors encouraged continued efforts to strengthen the debt management framework. Improving the governance, transparency, and monitoring of state-owned enterprises is also important.

Directors agreed that the recent reduction in the monetary policy rate was appropriate. They encouraged the authorities to closely monitor inflationary pressures and to stand ready to adjust the policy stance, if needed. Directors also underscored the importance of strengthening the central bank's balance sheet and enhancing the monetary policy framework to improve policy transmission. Noting Seychelles' sensitivity to external shocks, Directors encouraged the authorities to continue building external buffers and welcomed their commitment to maintaining a flexible exchange rate regime.

Directors urged continued efforts to safeguard financial sector stability and close monitoring of non-performing loans, given that they remain well above pre-pandemic levels. They welcomed the planned upgrades of the regulatory framework for crisis prevention and management, which will help to strengthen the resilience of the financial

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[2] 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. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm .

system. Directors recommended further strengthening the AML/CFT framework, including by enhancing the transparency of beneficial ownership information.

Directors underlined the importance of advancing broader structural reforms focused on economic diversification and modernization of public service and the education system. They highlighted the need to strengthen climate change resilience, in line with the National Development Strategy, and welcomed the progress on implementing climate-related reforms, supported by the RSF. They nonetheless stressed the importance of sustained reform implementation and strong support from development partners to achieve climate mitigation and adaptation goals.

It is expected that the next Article IV Consultation with Seychelles will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

Seychelles: Selected Economic Indicators (2021-2029)

	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Act.		Prel.	Proj.					
	(Annual percent change, unless otherwise indicated)								
National income and prices									
Nominal GDP (millions of Seychelles rupees)	25,164	29,373	30,019	31,464	33,420	35,496	37,874	40,462	43,213
Real GDP (millions of Seychelles rupees)	22,700	26,100	26,926	27,920	29,072	30,155	31,229	32,330	33,457
Real GDP	0.6	15.0	3.2	3.7	4.1	3.7	3.6	3.5	3.5
CPI (annual average)	9.8	2.6	-1.0	1.2	2.3	3.0	3.5	3.5	3.5
CPI (end-of-period)	7.9	2.5	-2.7	1.6	3.0	3.5	3.5	3.5	3.6
GDP deflator average	2.7	1.5	-0.9	1.1	2.0	2.4	3.0	3.2	3.2
Money and credit									
Broad money	-5.1	0.6	5.8	6.4	...	...	...	...	...
Reserve money (end-of-period)	11.1	-3.0	-3.5	6.4	...	...	...	...	...
Velocity (GDP/broad money)	1.1	1.2	1.2	1.2	...	...	...	...	...
Money multiplier (broad money/reserve money)	3.3	3.4	3.7	3.7	...	...	...	...	...
Credit to the private sector	-11.9	4.0	7.4	8.4	9.3	9.6	8.8	8.3	7.8
	(Percent of GDP, unless otherwise indicated)								
Savings-Investment balance									
External savings	10.1	7.4	7.2	7.3	7.8	8.4	9.1	9.1	9.3
Gross national savings	15.4	15.6	17.5	17.8	18.5	17.8	17.1	17.1	17.0
Of which: government savings	-3.2	1.2	2.2	2.3	3.6	4.4	5.1	5.6	6.0
private savings	18.6	14.5	15.4	15.4	14.9	13.4	12.0	11.5	11.0
Gross investment	25.5	23.0	24.8	25.1	26.2	26.2	26.2	26.2	26.3
Of which: public investment [1]	5.2	2.6	4.3	4.6	5.6	5.6	5.6	5.6	5.7
private investment	20.3	20.4	20.5	20.5	20.6	20.6	20.6	20.6	20.6
Private consumption	45.7	51.1	48.8	47.7	47.8	47.6	48.5	49.0	49.9
	(Percent of GDP)								
Government budget									
Total revenue, excluding grants	30.3	29.5	31.5	32.4	33.3	33.7	33.8	33.7	33.8
Expenditure and net lending	39.1	31.0	33.6	34.9	35.6	35.2	34.3	33.7	33.4
Current expenditure	33.8	28.6	29.8	30.1	29.7	29.2	28.7	28.1	27.8
Capital expenditure [1]	5.2	2.6	4.3	4.6	5.6	5.6	5.6	5.6	5.7
Overall balance, including grants	-5.7	0.1	0.2	-1.4	-1.0	-0.8	0.2	0.7	0.9
Primary balance	-3.1	1.0	1.7	1.0	1.5	1.6	2.5	2.9	3.0
Total government and government-guaranteed debt [2]	74.5	61.4	58.5	60.0	59.1	57.0	53.5	49.5	45.5
External sector									
Current account balance including official transfers									
(in percent of GDP)	-10.1	-7.4	-7.2	-7.3	-7.8	-8.4	-9.1	-9.1	-9.3
Total external debt outstanding (millions of U.S. dollars) [3]	5,261	5,387	5,570	5,859	6,145	6,386	6,581	6,501	6,470
(percent of GDP)	353.1	261.8	260.1	270.8	272.8	269.5	262.9	245.6	231.1
Terms of trade (-=deterioration)	-3.0	-8.5	-3.6	-2.6	7.3	-1.8	-1.1	-0.8	-0.7
Gross official reserves (end of year, millions of U.S. dollars)	702	639	682	751	805	841	879	937	977
Months of imports, c.i.f.	3.7	3.1	3.2	3.4	3.5	3.5	3.5	3.6	3.6
In percent of Assessing Reserve Adequacy (ARA) metric	121	102	104	110	113	114	117	121	123
Exchange rate									
Seychelles rupees per US$1 (end-of-period)	14.7	14.1	14.2	...	...	...	...	...	...
Seychelles rupees per US$1 (period average)	16.9	14.3	14.0	...	...	...	...	...	...

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

[1] Includes onlending to the parastatals for investment purposes.

[2] Includes debt issued by the Ministry of Finance for monetary purposes.

[3] Includes private external debt.

INTERNATIONAL MONETARY FUND

SEYCHELLES

May 15, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION, SECOND REVIEWS UNDER THE ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, REQUESTS FOR A WAIVER OF NONOBSERVANCE AND MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Context. They Seychellois economy continues to recover from the effects of the pandemic but at a slowing pace. While tourist arrivals were about 91 percent of pre-pandemic highs and activity in the IT, construction, and fishing sectors was robust, real GDP growth slowed to about 3.2 percent in 2023. This is due partly to a complex disaster (flooding and an industrial explosion) in December and associated negative impacts on manufacturing. Inflation has been negative since May but appears to have troughed in December. The fiscal stance in 2023 was tighter than projected and, as a result, the ratio of public debt to GDP is moving more quickly back to pre-pandemic lows. The external position improved slightly relative to the previous year.

EFF/RSF performance. Program implementation has been strong. All but one of the quantitative program targets under the EFF for end-December 2023 were met. The authorities request modification of the June 2024 QPCs to reflect recent outturns. Progress on structural reforms has generally been good, albeit with some technical delays. The structural benchmark on streamlining VAT exemptions was implemented with a two-month delay; the benchmark in ringfencing ground handling operations at Seychelles Airport was implemented with a three-month delay. One benchmark (on the Bank Recovery Act) for end-March 2024 has been re-set to September, and another (tourism study) for end-June 2024 has been modified and re-set for end-December. An additional structural benchmark on amendments to the Public Debt Management Act has been added for end-March 2025. The one reform measure for completion of this review under the RSF (cabinet approval of building legislation integrating climate adaptation and mitigations aspects) was completed on time.

Outlook and risks. The outlook is broadly favorable, and risks are balanced. Real GDP growth is projected at 3.7 percent in 2024 and expected to stabilize around 3.5 percent in the medium term. Year-on-year inflation is expected to hit 1.6 percent by end-year due to an increase in fuel and utility prices. Any rebound in global commodity prices would present a significant downside risk to inflation and foreign reserves. Unseasonably

heavy rains, possibly exacerbated by the El Niño phenomenon, highlight the escalating threats posed by climate change. Increased competition in the tourism industry, and any dampening of global tourism demand are also important risk factors.

Article IV. The Article IV discussions focused on (i) competitiveness of the tourism sector and drivers of tourism inflows; (ii) macro-fiscal and debt dynamics under shocks to assess medium and long-term debt targets; and (iii) challenges in mobilizing climate finance and using these resources effectively.

Policy recommendations. The policy framework is guided by the need to preserve macroeconomic and financial sustainability, build fiscal and external buffers, as well as advance prospects for long-term inclusive growth and economic resilience, in line with the objectives under the EFF and RSF. Toward this end, the mission agreed with the authorities on a revised macroeconomic framework and quantitative program targets consistent with the program objectives of steady fiscal consolidation and reduction of public debt over the medium-term. Also agreed were revisions to the timeline for completion of structural benchmarks, and the addition of new and revised benchmarks (related to a study on tourism and revisions to the Public Debt Act) to enhance the macro-structural reform agenda.

Approved By
Andrea Richter Hume (AFR) and Pritha Mitra (SPR)

The discussions in Victoria took place during March 21–April 3, 2024; the in-person team consisted of Todd Schneider (head), Aissatou Diallo (resident representative), Hany Abdel-Latif, Taehoon Kim (all AFR) and Jung Yeon Kim (SPR). Leonardo Pio Perez (AFR) participated virtually. Miho Tanaka (LEG) participated virtually in relevant meetings. The team was supported by Andrew Esparon (local economist). Danielle Bieleu, Vaishali Ashtakala and Henry Quach (all AFR) assisted with the preparation of this report.

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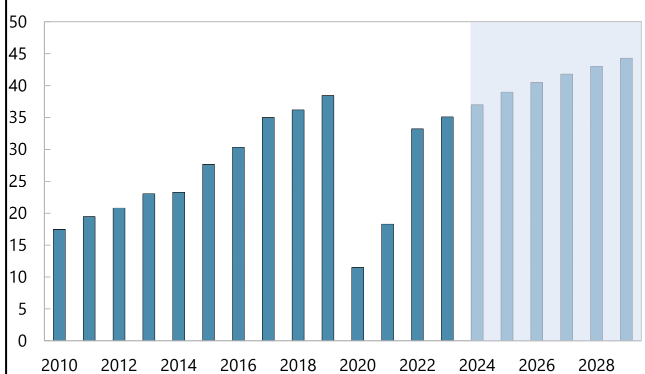
CONTEXT

1. **While Seychelles' tourism-reliant economy was hit hard by the pandemic, it began to recover in 2021 and rebounded strongly in 2022 after a vaccination campaign and early reopening of borders**. Tourism has proven resilient despite economic challenges in traditional source markets thanks to ongoing efforts to diversify the tourism base. With the recovery in GDP and steady efforts toward fiscal consolidation, the debt shock created by the pandemic has been mostly reversed, with public debt falling from 74.5 percent of GDP at end-2021 to 58.5 percent by end-2023. The financial sector remains sound with a well-capitalized and liquid banking sector, but NPLs remain well above pre-pandemic levels.

2. **Sustaining economic growth and ensuring fiscal and external sustainability over the medium-term will require new and innovative efforts.** Tourism has been the main driver of growth, but this sector may be maturing after a surge in visitor arrivals during 2010-19. The number of tourists Seychelles can sustainably manage is limited by space constraints as well as environmental considerations. Absent significant investment in infrastructure, tourist volumes may already be close to sustainability limits (Annex V). Faced with a limit on the number of tourists that can be accommodated each year, Seychelles will need to maintain its image as a luxury destination with a pristine environment, increase domestic value-added, and strengthen non-tourism growth. Steady fiscal consolidation and reduction of public debt will also be essential due to challenges in accessing less expensive external financing.

Annual Tourism Arrivals
(In tens of thousands)



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

3. **Seychelles' new National Development Strategy (NDS 2024-28) identifies six priority areas for particular attention.** These are: (i) a modern public service; (ii) transformative economic agenda; (iii) a healthy nation; (iv) promotion of law and order; (v) a modern education system in line with future needs; and (vi) environmental sustainability and climate change resilience. These priorities are largely a continuation of the previous NDS and are manifest in the FY24 budget framework. The strategy is aligned with a continued commitment to fiscal responsibility and recognizes current and future challenges with respect to mobilizing sufficient financing to achieve development objectives, including climate adaptation and mitigation.

4. **National elections are slated for the second half of 2025.** Seychelles' last national elections in 2020 brought the opposition into power for the first time since independence in 1977. The elections are expected to be a significant backdrop to policy discussions over the next year and may also entail some risks given Seychelles' limited history of political transitions.

RECENT DEVELOPMENTS

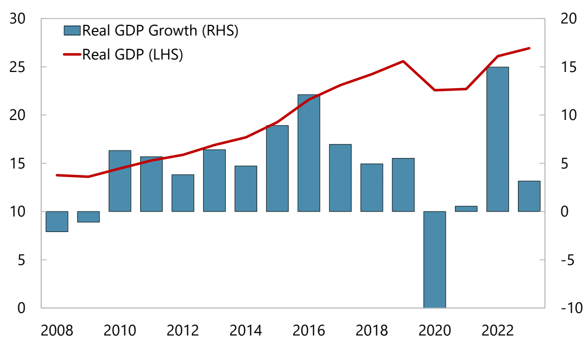
5. Although indicators are mixed, data suggest economic activity in Seychelles is weakening following the post-pandemic surge in 2022. Real GDP growth is estimated at 3.2 percent in 2023, compared to 3.8 percent projected at the time of the first review and average growth of about 6.9 percent in the 10 years prior to the pandemic. Tourist arrivals increased by 6 percent relative to 2022—reaching about 91 percent of pre-pandemic highs—but spending per tourist was flat. In non-tourism sectors, information technology (IT) has been the main impetus of growth, along with fishing and construction. However, manufacturing activity contracted due to flooding and an explosion in December,[1] and other non-tourism sectors (agriculture, transport, and real estate) were weaker than anticipated. Total employment grew by 0.5 percent from Q4 2022 to Q4 2023, and the unemployment rate as of Q2 2023 was 3.2 percent.

6. Seychelles saw disinflation in 2023, which now appears to have bottomed out. Year-on-year headline inflation entered negative territory in May 2023 and reached a nadir of -2.7 percent in December. Core inflation dropped to -0.9 percent. Downward adjustment to utility rates and downward pressure on food and transport (reflecting lower global commodity prices and a broadly stable exchange rate) were the most significant drivers of disinflation during the year. Headline inflation has since reversed course, climbing to -0.17 percent in March 2024 (y/y) on the back of hikes in utility tariffs.[2]

Seychelles: Growth, Inflation, and Exchange Rate

Real GDP and GDP Growth

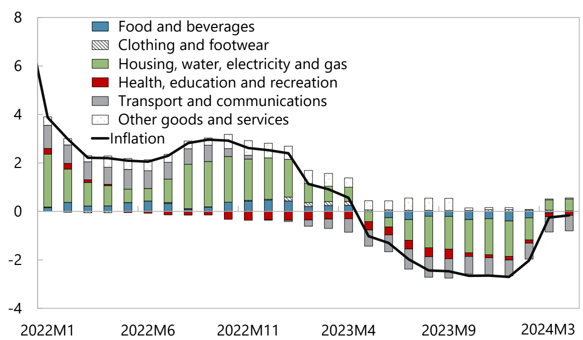
(In billions of SCR and annual percent change)



Sources: National Bureau of Statistics Seychelles; and IMF staff calculations.

Headline Inflation and Main Components

(In percent, year-over-year)



Sources: National Bureau of Statistics Seychelles; and IMF staff calculations.

7. Despite the presence of disinflation, the Central Bank of Seychelles (CBS) kept nominal policy rates unchanged through 2023, leading to a tighter monetary policy stance.

[1] Mahé Island, home to about 75 percent of Seychelles' population, was affected by a combination of heavy rainfall, floods, landslides, and a devastating explosion at Providence Industrial Estates (which accommodates about 350 businesses and is near the Seychelles International Airport). Total damages and losses are estimated at SCR 2.2 billion (7.4 percent of GDP) according to *"Seychelles Complex Emergencies: Rapid Damage and Loss Assessment"* (World Bank, December 2023).

[2] Public Utilities Corporation (PUC) has announced tariff increases for electricity (8.4 percent) and water and sewerage (9.2 percent) to reflect its new projected investment plans to expand capacity.

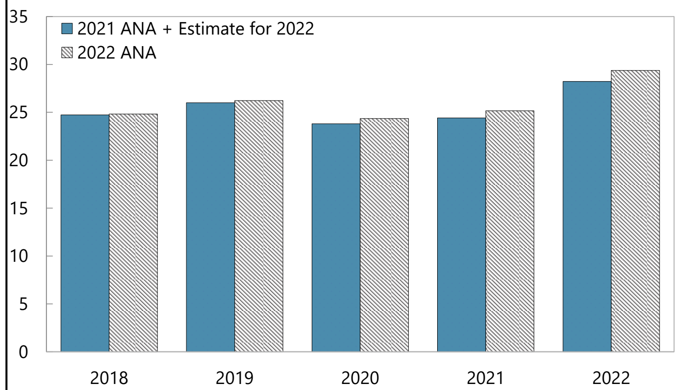
The CBS maintained the policy rate at 2 percent—where it had been since mid-2021—as the negative inflation was considered temporary and supply driven. At end-March 2024, however, the CBS announced a reduction in the policy rate by 25 bps, citing weaker than projected growth and the need to support credit and the economy. This move is unlikely to have any immediate impact due to weak monetary transmission and substantial excess liquidity in the banking system (despite liquidity absorption efforts by CBS).

Box 1. Revision in National Accounts

The 2022 Annual National Accounts, released in December 2023, made significant revisions to the historical real GDP series dating back to 2014. Notably, real growth for 2022 was estimated at 15 percent—significantly higher than the initial estimate of 9 percent (at program approval) and 10.8 percent (at the first review).

Key changes stemmed from a revised GDP deflator reflecting a new estimation methodology in the wage cost index. Overall, these changes led to a 4 percent increase in the nominal GDP level for 2022—making material changes to key macroeconomic indicators as a share of GDP.

Annual National Accounts: Nominal GDP
(In billions of SCR)



Source: National Bureau of Statistics Seychelles; and IMF staff calculations.

National accounts data are an area of focus for IMF technical assistance. Seychelles has benefited from several national accounts mission and discussions are ongoing for new capacity development. However, capacity within the National Bureau of Statistics (NBS) remains a significant challenge for the government—particularly with respect to recruiting and retaining highly qualified staff.

8. **The external position was weaker than expected, mainly due to an increase in FDI-related imports.** The 2023 current account deficit is estimated at 7.2 percent of GDP—a marginal improvement relative to 2022, but weaker than the 5.4 percent projected at the first review. Gross international reserves increased to $682 million in December 2023 (3.2 months of imports, 104 percent of ARA metric), from $639 million at end-2022 (102 percent of ARA metric). After interventions totaling an equivalent of $59.3 million during January-June 2023 to accumulate reserves, CBS refrained from further FX purchases in H2. Interventions resumed in 2024 with an equivalent of US$21 million purchased by end-March. The exchange rate depreciated slightly (0.5 percent) comparing end-2022 to end-2023 but appreciated by 1.8 percent against the US dollar on average between 2022 and 2023. In NEER and REER terms, the rupee appreciated by 1.2 percent and depreciated by 6.1 percent, respectively, on a YOY basis. The external sector assessment (Annex III) indicates that Seychelles' 2023 external position was substantially weaker than the level implied by medium-term fundamentals and desirable policies.

9. The 2023 fiscal outturn was tighter than projected, despite a marginal shortfall in revenues. The primary fiscal surplus of 1.7 percent of GDP was well above the zero-balance projected at the time of the first review. Government expenditures fell short of projections by SR 605 million (2 percent of revised 2023 GDP), with large recurrent and capital expenditure shortfalls. Underspending on the wage bill reflected ongoing difficulties in filling public sector vacancies. The shortfall in public investment highlights the challenges with respect to project selection and implementation noted in the first review. The underspend offset an unexpected decline in tax revenues during H2—linked mainly to higher-than-expected VAT refunds related to new hotel construction. Underperformance extended to non-tax revenues, due to delays in dividend disbursements and lower grant receipts.

Seychelles: Operations of the Central Government, 2023
(Millions of Seychelles rupees)

	2023		Difference	
	First Review Projections	Outturn	SR million	Percent of revised GDP
Revenue	**9,944**	**9,726**	**-218**	**-0.7**
Taxes	8,431	8,169	-262	-0.9
Grants	367	260	-107	-0.4
Other revenue	1,146	1,297	152	0.5
Expenditure and net lending	**10,751**	**10,094**	**-657**	**-2.2**
Expense	**9,515**	**8,945**	**-569**	**-1.9**
Wages and salaries	3,264	3,009	-254	-0.8
Purchase of goods and services	3,904	3,582	-322	-1.1
Interest	804	875	71	0.2
Transfers	1,542	1,478	-64	-0.2
Capital expenditure	**1,183**	**1,147**	**-36**	**-0.1**
Net lending, contingency	**53**	**2**	**-51**	**-0.2**
Primary balance	**-3**	**507**	**510**	**1.7**
Overall balance	**-807**	**-368**	**439**	**1.5**
Financing	**807**	**368**	**-439**	**-1.5**
Domestic	-106	-296	-190	-0.6
Foreign	898	136	-762	-2.5
Other flows	16	529	513	1.7

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

10. Financial sector developments suggest continued normalization, but vulnerabilities persist. Credit to the private sector—led by construction and retail segments—grew by 7.4 percent in 2023 compared to 4 percent in 2022. The cost of credit remains high, with average lending rates of 9.7 percent at end-December 2023, reflecting the high spread between lending and deposit rates (about 7.7 ppt). The credit stock (32.4 percent of GDP) and the share of rupee vs. FX credits have also recovered to pre-pandemic levels. Commercial banks remain well capitalized, liquid, and profitable (Table 5). However, NPLs as a share of gross loans increased from 7.6 percent at end-2022 to 8.2 percent by end-2023 (dropping to 7.7 percent in February 2024). The high level of NPLs—well above the pre-pandemic average of about 3 percent—reflects the remaining effects of unwinding of pandemic-related forbearance measures and asset management issues at particular banks.

OUTLOOK AND RISKS

11. The outlook is broadly favorable, and risks appear balanced. Real GDP growth is forecast at 3.7 percent in 2024—about 0.3 ppt lower than projected at the first review and accounting for the impact of the December 2023 floods and explosion.[3] Growth is projected to rise to 4.1 percent in 2025 and stabilize around 3.5 percent in the medium term. Average annual inflation is projected at 1.2 percent in 2024, due to higher fuel and utility prices. The current

[3] The commerce and industry sub-sectors suffered the most from the flooding, incurring damages amounting to SCR 1,553 million (USD 104.6 million) and losses of SCR 257 million (USD 17.3 million). The damage is expected to lead to diminished commercial transactions and thus a lower GDP in 2024.

account deficit is expected to remain broadly stable at 7.3 percent of GDP in 2024, widening over the medium term as visitor arrivals stabilize and imports increase with investment in capital projects. Gross foreign exchange reserves are projected to reach $751 million by end-2024, equivalent to 3.4 months of imports. Reserve coverage is projected to increase gradually to around 3.6 months of imports over the medium term. Private credit is expected to grow 8.4 percent in 2024 and accelerate gradually to 9.6 percent by 2026.

12. Downside risks include a rebound in global commodity prices and external shocks to tourism demand (Annex I). Projections for global commodity and transport prices are subject to downside risks from the conflict in the Middle East, Russia's war in Ukraine and other regional conflicts. Increasing competition in the global tourism industry, coupled with the potential for slower growth in traditional source markets or disruptions in new markets, pose further risks. Should tourism decline, the drop in FX inflows could weaken the rupee and pass through to inflation. On the domestic side, financial stability risks may arise from large exposures, credit concentration, and high NPLs. The El Niño phenomenon appears to be exacerbating the effects of climate change through unseasonably heavy rains. Seychelles remains vulnerable to sea level rise and natural disasters via damage to coastal infrastructure and tourism. Unseasonably heavy rains—which gave rise to flooding in late 2023—are already shifting funds from planned investments to emergency response. Risks could arise should political tensions escalate in the runup to the 2025 elections.

Authorities' Views

13. The authorities shared staff views regarding recent economic developments, the outlook and potential risks. They cited Seychelles' particular vulnerability to disruptions in Red Sea shipping and challenges (due to small size) in sourcing imports outside of Europe. They also mentioned the rapidity of climate change relative to adaptation efforts, as erratic weather conditions and related disaster events are already skewing public spending from planned investment projects to emergency reconstruction and disaster relief.

PROGRAM PERFORMANCE

14. Macroeconomic performance under the EFF is satisfactory. All but one of the quantitative program targets for end-December 2023 were met (MEFP Table 1). Revenue collections were marginally (0.03 percent of GDP) below the program floor. The primary balance exceeded the program target by a wide margin, as underspending across both current and capital expenditure more than compensated for lower revenues. Accumulation of net international reserves (NIR) was substantially above the program target.

Seychelles: EFF Quantitative Targets, 2023

	2023	
	June	December
Quantitative performance criteria		
Net domestic financing of the government (ceiling)	✓	✓
Primary balance of the consolidated government (floor)	✓	✓
Total revenue (floor)	✓	✗
Net international reserves of the CBS (floor)	✓	✓
Continuous quantitative performance criteria (ceilings)		
Accumulation of new external payments arrears	✓	✓
Accumulation of new domestic payments arrears	✓	✓
Indicative targets		
Net change in total PPG debt (ceiling)	✓	✓
Priority social expenditure (floor)	✓	✓

Sources: Seychellois authorities; and IMF staff calculations.
Symbols: ✓ Met; ✗ Not met.

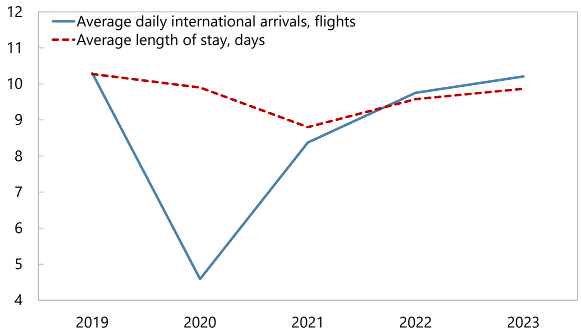
15. Progress on structural reforms has been good but with some delays. Two structural benchmarks (SBs) for end-December 2023 (MEFP Table 2) were not met but implemented with delay. The Cabinet approved legislative amendments to streamline VAT exemptions on February 1st, 2024, and the ringfencing of the ground-handling operation at Seychelles Airport was finalized in March. Submission of amendments to the CBS Act to parliament, in line with safeguard assessment recommendations, was delayed because of the legislative calendar and reset for end-June. Cabinet approval of a draft Bank Recovery and Resolution Act (BRRA) was delayed because of staff turnover at CBS and was reset for end-September 2024. The structural benchmark on a tourism study initially set for end-June 2024 was amended to include action plans and reset for end-December 2024.

16. The RSF reform measure for this review was implemented as scheduled. The approval of new draft building legislation that integrates climate adaptation and mitigation aspects (RM2) was implemented in March 2024 (MEFP Table 3).

Figure 1. Seychelles: Tourism Indicators

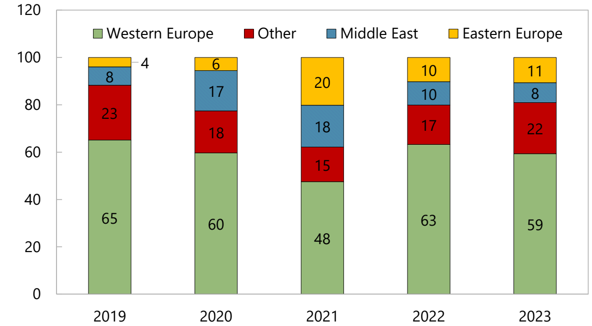
Seychelles continued to show resilient recovery in the tourism sector. The average number of international flights has returned to its pre-pandemic level.

International Arrivals and Length of Stay
(In units)



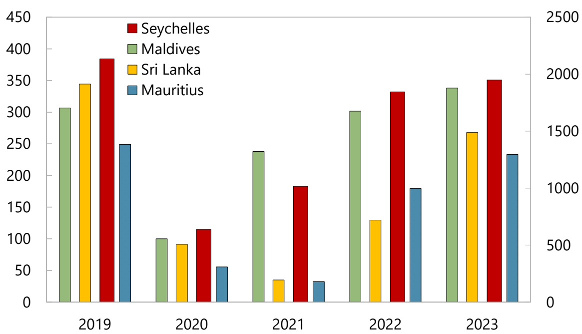
Divergent economic growth in source markets continues to affect arrivals, with less traditional markets contributing to an overall rise in tourist arrivals thus far in 2023.

Visitor Arrivals by Country
(In percent)



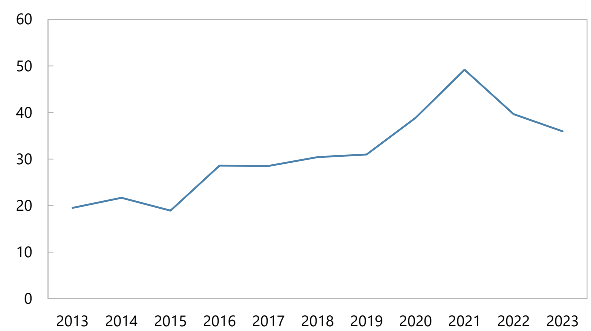
The average length of stay for tourists has fully recovered to pre-pandemic levels.

Tourist Arrivals
(In thousands)



The profile of spending per tourist returned to pre-pandemic levels after a peak observed in 2021 with the presence of tourists from less traditional markets.

Tourism Earnings Per Tourist
(In thousands of SCR per person)

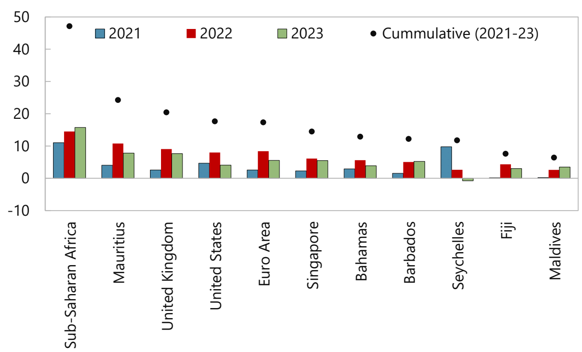


Sources: Flightradar24, Authorities' data, Central Bank of Seychelles, United Nations WTO; and IMF staff calculations.

Figure 2. Seychelles: Inflation Indicators

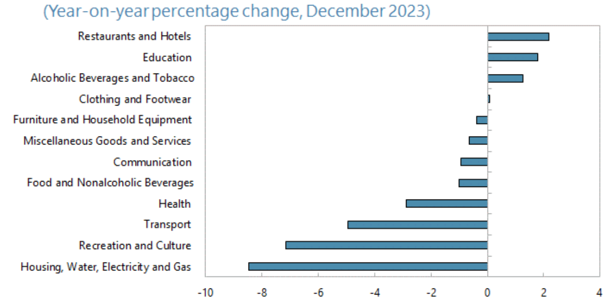
Cumulative inflation in Seychelles between 2021 and 2023 has been one of the lowest among similar countries.

Annual Average Inflation
(In percent change)



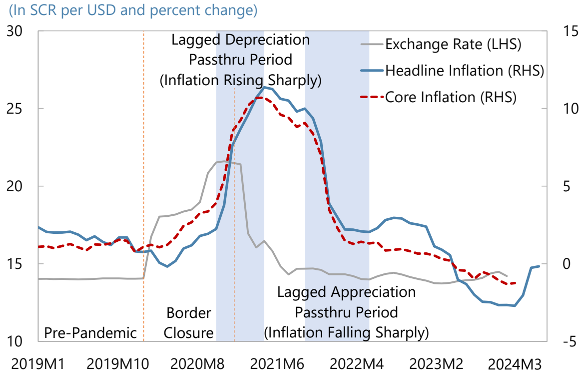
The steepest declines in 2023 were observed in housing, electricity, and utilities, recreation and culture, and transport.

Inflation in Major Components
(Year-on-year percentage change, December 2023)



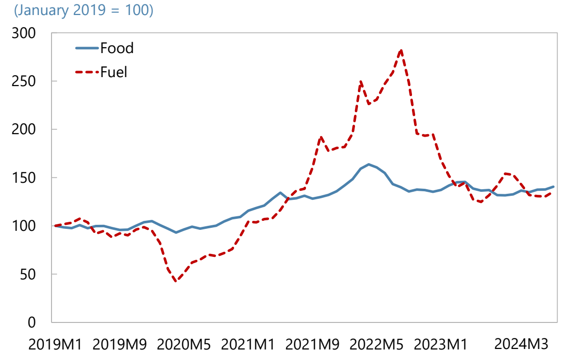
Both headline and core inflation have decreased. The moderation in prices is partly attributed to the stable exchange rate since most goods are imported.

Exchange Rate and Inflation
(In SCR per USD and percent change)



The decline in global fuel prices, since their peak in September 2022, has also placed downward pressure on transport, import, and utility costs.

Global Food and Fuel Prices
(January 2019 = 100)



Sources: IMF World Economic Outlook, Haver Analytics, National Statistics Institutes; and IMF staff estimates.

POLICY DISCUSSIONS

The mission agreed with the authorities on a revised macro framework and quantitative targets consistent with program objectives. Discussions focused on near and medium-term policies: ensuring macroeconomic stability and resilience, addressing bottlenecks in government spending, rebuilding fiscal space, strengthening the monetary policy operating framework, and preserving financial stability. The Article IV consultation focused on (i) assessing macro-fiscal and debt dynamics; (ii) assessing Seychelles' tourism competitiveness; and (iii) examining bottlenecks in climate financing and funding/implementing climate related projects.

A. Fiscal Policy

Near-Term Fiscal Stance

17. The unexpectedly large primary surplus in 2023 highlighted persistent budget implementation issues. The under-execution of capital expenditures is linked to persistent challenges in project appraisal and selection, which remain a focus for macro structural reforms under the EFF. Challenges in executing current expenditures stem from ongoing recruitment delays, attributed to a scarcity of desired skills in the labor market. Under-hiring also contributed to postponed implementation of programs and activities, leading to underspending on goods and services. The causes of the 2023 revenue shortfall (0.7 percent of GDP relative to target but only 0.03 percent short of the revenue floor under the EFF), appear to be temporary rather than structural. VAT refunds played the most significant role. However, also it also appears likely that diversion of scarce human resources at the Seychelles Revenue Commission (SRC) to implementation of the new Tax Management System (TMS) detracted from tax audit and enforcement efforts.

18. The FY24 fiscal strategy targets a primary surplus of 1 percent of GDP, largely consistent with the first review and in line with the government's medium term consolidation objectives. Government revenue, excluding grants, is projected to be about 2.1 percentage points of GDP lower than projected at the first review. This stems from a lower tax base in 2023 and a downward revision to VAT collections as large refunds linked to hotel construction are expected to extend into 2024. To maintain fiscal discipline and adhere to commitments under the EFF toward fiscal consolidation, projected public expenditures were reduced by 2.3 percent of GDP relative to the first review. This includes more moderate spending on wages and salaries—assuming a full-year application of the 2023 civil service wage increase and continued bottlenecks in hiring; and a reduction of planned capital spending (which now is more in line with recent implementation). On a year-to-year basis, however, capex would still increase by 0.7 percentage points of GDP, given spending pressures from the election cycle and planned investments in preparation for a major sports event in 2025 (FIFA beach soccer world cup). Notably, the fiscal impact of the December flooding and explosion is expected to be relatively light.[4]

Medium-Term and Article IV Issues

19. The Sovereign Risk Debt Sustainability Framework (SRDSF) indicates that Seychelles is at a moderate risk of sovereign stress, and debt is assessed to be sustainable with high probability. Medium-term risks are assessed as moderate on the basis of the strength of institutions and the authorities' continued commitment to a prudent fiscal stance. At the same time, Seychelles will need to accelerate policies to tackle risks arising from climate change—the fiscal cost of which is estimated at $670 million (about 31 percent of estimated 2024 GDP) for climate related infrastructure investment needs through 2030. However, due to its high-income status, Seychelles faces limited access to less expensive (from MDBs, bilateral loans, and international climate finance organizations) external financing which may imply an increase debt servicing costs going forward and delay progress toward the 2030 debt target (Annex VII).

20. Balancing the need to rebuild fiscal buffers with sufficient room for public investment remains the key objective guiding the medium-term fiscal trajectory. A balanced approach to fiscal consolidation is essential for Seychelles, given the need to bolster resilience to future shocks while also addressing critical public investment and social spending needs, including for climate change. Fiscal policy will remain anchored by the primary fiscal balance, with a view to reducing public debt to 50 percent of GDP or less by the authorities' target of 2030. This encompasses further fiscal consolidation of about 0.6 percent of GDP by the end of the program in 2026 and an additional 1.4 percent of GDP by the end of the medium-term (2029)—with the objective of reaching and sustaining a primary surplus of about 3 percent of GDP through a roughly balanced increase in revenues and reduction in total spending.

21. Discussions focused on reforms needed to meet short-term program targets and align the fiscal trajectory with medium term objectives.

- **Sustained efforts are crucial for ensuring robust revenue collection.** A phased action plan for implementing VAT reforms during 2024-26 is underway. Legislative amendments to streamline VAT exemptions were approved by Cabinet in February (SB). Regulatory amendments will be published by end-June. VAT collections are expected to rise in 2024 and beyond as refunds diminish together with steps to streamline VAT registration and collection and enhance refund efficiency. Review of tax exemptions will proceed throughout 2025. To increase transparency on foregone revenues, a full report of tax expenditures on VAT and business tax and their cost in terms of foregone revenue is expected by December 2024 (SB). A World Bank-supported review to identify potential audits related to transfer pricing is ongoing

[4] While the disaster significantly impacted industrial production, most of the damage was to private sector properties, many of which were insured. Of the 800 businesses affected, only 8 have sought a tax payment moratorium. The Ministry of Finance has estimated that SR 88.6 million (0.3 percent of GDP) was allocated for maintenance, repairs, and the reconstruction of both private residences and government housing units.

and expected to be completed by June 2024. A country engagement plan with the UNDP is also in progress to bolster national capacities for domestic resource mobilization.

- **Digitalization should enhance compliance and collection efforts.** The ASYCUDA World system is being upgraded with new modules in stages. Modules for E-Manifest, Express Courier, Excise Tax, and WCO tariffs have already been implemented. The completion of the E-payment module is scheduled for end-June 2024. The new, web-based Tax Management System (TMS) is intended to automate and modernize tax collection in Seychelles. Once completed, it is expected to bolster revenue collection, reduce tax leakage, and facilitate integration of government revenue systems.

- **Modernization and digitalization remain critical to expenditure management.** An expenditure review of the education and health sectors by the World Bank is anticipated by June 2024 to identify essential business needs and redundant positions. To contain the wage bill, a recruitment freeze remains in effect for non-critical areas. Efforts to streamline the wage bill and enforce hiring controls will be supported by the implementation of a new Human Resource Management System (HRMS)—set to be operationalized by 2025. To bolster public financial management (PFM), a new Integrated Financial Management Information System (IFMIS) will be installed by the first quarter of 2025, becoming operational for the 2026 budget.

- **Continued efforts are needed to strengthen public investment management.** Measures are underway to tighten conditions for including investment projects in the Public Sector Investment Plan (June 2024 structural benchmark). Further efforts will be made to boost technical expertise and project design in Ministries, Departments, and Agencies (MDAs). Technical assistance provided by the Fund in January 2024 has also reviewed the Public Investment Management (PIM) Policy and scoring methods to strengthen capital project development capacity and incorporate climate considerations into the public investment pipeline. The revised policy will facilitate a coordinated approach to managing capital projects, ensuring they align with sectoral objectives and national priorities, and will incorporate climate-smart criteria in project selection.

- **Continued efforts are needed to improve the targeting of social spending.** Social spending (about 6 percent of GDP) is fragmented and split across budget lines. With support from the World Bank, the government is working to address weaknesses in social targeting. By June 2024, the Agency of Social Protection (ASP) will update its socioeconomic needs assessment to include non-income poverty measures, with implementation set for January 2025. Work is also ongoing to facilitate coordination across ministries and create a social registry.

22. As Seychelles makes steady progress in fiscal consolidation, consideration should be given to the long-term debt target. The objective of reducing the ratio of public debt to GDP has served as a vital anchor for both the Medium-Term Fiscal Framework and the Public Debt Management Strategy. As Seychelles confronts a challenging trinity of lower growth (as tourism flows stabilize), greater spending needs for climate adaptation, and higher debt service costs (should access to concessional financing continue to diminish), the staff recommended further analysis of the long-term debt target, with a view to mitigating the risks of future debt shocks. Staff analysis (Annex VII) suggests that considering the specific risks to Seychelles as a small island state with a high degree of vulnerability to external shocks, a more conservative, yet realistic, debt target could be considered for the long term. Going forward, these discussions would need to take place against more explicit targets for climate related spending (and after PFM reforms to climate budget tagging embedded in the RSF are fully realized).

Authorities' Views

23. The authorities remain committed to maintaining a robust fiscal consolidation to reinforce the downward trajectory of public debt. They emphasized that planned tax reforms in the medium term are set to boost domestic resource mobilization, emphasizing the strengthening of national capabilities in alignment with the country's development goals. Furthermore, the current review of the public sector's size and structure, coupled with a digitalization strategy, aims to improve public service delivery and contain current expenditures. They appreciated the staff's analysis on debt risks, particularly given the potential financing challenges going forward and heightened risks of external shocks.

B. Public Debt Management and Government Financing

24. Financing needs have decreased since 2020 and public debt has been assessed as sustainable with high probability. The ratio of public and publicly guaranteed debt is projected to decline from 58.5 percent of GDP in 2023 to around 46 percent of GDP by 2030, barring new shocks.[5] Continued reduction in gross financing needs over the medium term should help to keep domestic bond financing at sustainable levels and balance of payments needs manageable. However, should concessional financing flows diminish, the authorities will need to seek alternative external financing, which could entail higher debt service costs and greater risks.

Summary of Table on External Financing, 2024 (US$ million)

Total external financing	**174**	
PPG external debt contracted or guaranteed debt	Volume of new debt, US million 1/	Present value of new debt, US mil 1/
Sources of debt financing	**149**	130
Concessional debt, of which 2/	15	9
Multilateral	9	5
Bilateral	6	4
Non-concessional debt, of which	134	121
Semi-concessional debt 3/	134	121
Commercial term 4/	0	0
Uses of debt financing	149	
Infrastructure	10	
Budget financing	134	
Guarantee (parastal)	5	
Sources/uses of grant financing	**26**	
Budgetary grants	0	
Project grants	26	
Memorandum items		
Indicative projections		
2025	204	
2026	157	

Sources: Authorities' data and IMF staff calculations.
1/ Contracting and guaranteeing of new debt.
2/ Debt with a grant element that exceeds a minimum threshold of 35 percent.
3/ Debt with a positive grant element but does not meet the minimum grant element.
4/ Debt without a positive grant element.

25. Staff emphasized the need to continue work on developing the domestic debt market. Consistent with the strategy of lengthening domestic debt maturity, 10-year treasury bonds were issued in June, September, and November 2023, with average yields to maturity of 7.77 percent,

[5] As discussed in Box 1, the recent GDP revision conducted by the Annual National Accounts, particularly for the year 2022, will impact key macroeconomic indicators that are expressed as a percentage of GDP. This includes a reduction of 2.5 percentage points in public debt.

7.12 percent, and 6.91 percent, respectively.[6] There is currently no secondary market for government securities in Seychelles. To support the liquidity of bonds and increase the potential for greater domestic financing, the Government will initiate a framework to operate a buy-back facility for trading of government securities through commercial banks in 2025.[7] Annual average net domestic market financing is projected to remain negative, turning positive only in 2028. Exposure of the banking sector to government securities declined by 1.3 ppt, to 13.1 percent of assets in December 2023. The government is now issuing T-Bonds on a quarterly basis, which has helped to lengthen the weighted average maturity of the domestic debt stock and reduce refinancing risks.

26. The authorities are committed to strengthening the legal framework for public debt management. The November 2023 technical assistance mission from the Fund recommended legislative amendments to bolster debt management. Recommendations included establishing debt management objectives and including them in primary legislation, establishing the Minister of Finance’s authority to borrow, and clarifying the roles and avoiding redundancy of technical units. The authorities have committed to revise the Public Debt Management Act in parallel with the Public Finance Management Act to provide more flexibility to debt management (new structural benchmark).

Authorities’ Views

27. The authorities concurred with staff and reiterated concerns about limited access to concessional financing. They noted the substantial progress made on public debt management in recent years, including the liability management operation implemented in 2021. They reiterated their desire to see a Multidimensional Vulnerability Index (MVI) for Small Island Developing States and vulnerable countries to be accepted within the UN framework and by international financial institutions to enable access to concessional financing.

C. Monetary Policy

28. The mission considered the recent reduction in the CBS policy rate as appropriate given weaker growth and disinflation. Due to weak monetary transmission, lending rates are unlikely to be affected in the short term. The faster response of deposit rates will likely add to the already high spread between lending and deposit rates.[8] To address this issue, CBS has engaged

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[6] The government also issued a 5-year treasury bond in November 2023, followed by another issuance in March 2024 (single bond issuance in the year so far), with average yields to maturity of 5.18 percent and 4.72 percent, respectively.

[7] Based on a 2023 MCM mission, the Ministry of Finance, National Planning and Trade (MoFNPT) and other relevant stakeholders—Central Bank of Seychelles (CBS), Financial Services Authority (FSA), and representatives from commercial banks—agreed to pilot a buy-back window where interested commercial banks would provide a two-way price quote on a risk-taking basis with the securities routed through their own account. This arrangement requires the authorities to put in place a code of conduct for market participants and establish oversight responsibilities as well as develop guidelines for the settlement of traded securities.

[8] According to CBS, the high spread between lending and deposit rates is a legacy issue from the time that the spread was set by CBS.

with banks and is working to improve communication of monetary policy decisions. Going forward, CBS should remain vigilant to inflation risks given the potential for new external shocks. Inflation remains subject to risks from global commodity market shocks and a decline in tourism, which would reduce FX inflows and weaken the rupee, with consequent pass-through to inflation.

29. Recent CBS efforts to increase absorption of excess liquidity have been stymied by banks' preference to retain liquidity and market segmentation (Box 2). CBS gradually increased liquidity absorption in 2023. CBS interventions in Q4 of 2023—including introduction of longer-term maturity deposit auction arrangements (DAAs)—aimed at a full-mop up of excess liquidity. However, these efforts were not fully effective. Banks' participation in the auctions was insufficient, demonstrating a preference to hold high levels of excess reserves due to market segmentation and low liquidity management capacity from some banks (which rely on the overnight facility at CBS). The limited participation may also reflect lack of market consensus on interest rates for longer maturities. The CBS should calibrate the longer-maturity placement based on market preference, combined with the issuance of the 7-day DAA as a full allotment at the policy rate. The effectiveness of monetary policy will remain limited until excess liquidity is fully absorbed.

30. The CBS needs to continue improving the monetary policy framework based on the interest rate as the operational target. There is progress on the CBS implementation action plan to strengthen the monetary policy framework and develop the interbank market. An internal analysis of the monetary policy decision-making process and the composition of the monetary policy technical committee is ongoing and will be presented to the Board in 2024Q2. The staff of the modelling team is to be reinforced in the coming months. To help develop the interbank market, the process for the introduction of repo operations (SB end-December 2024) will benefit from IMF technical assistance scheduled for April.

31. The CBS balance sheet needs to be strengthened further. CBS' financial solvency has been eroded in recent years by several structural operational elements, and by the impact of soft lending measures during the pandemic. The balance sheet remains vulnerable to shocks and, following MCM CD, the authorities committed to key balance sheet strengthening measures. These include the adoption of a multi-year budgeting process based on a combination of cost-cutting and recovery measures. The authorities also committed to retain 100 percent of distributable earnings every year until the capital target level of 10 percent of monetary liabilities is achieved. Submission of the new CBS Act to National Assembly (SB end-March 2024), aimed at strengthening CBS governance and institutional, personal, and financial autonomy, recapitalization needs, and safeguards assessment recommendations, is expected by end-June 2024.

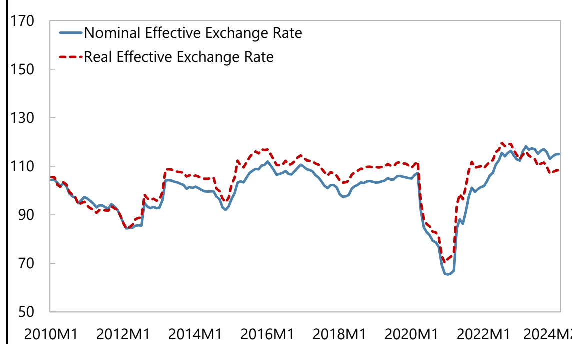
Authorities' Views

32. The authorities agreed that the impact of loosening the monetary policy stance would likely be limited in the short term, but considered it warranted given weaker growth and high real interest rates. They emphasized that the effectiveness of monetary policy will be limited until CBS can more effectively manage domestic liquidity. They understand the need to better calibrate the maturities offered in DAA auctions to better fit market appetite. The authorities consider that the banks, in their turn, need to improve liquidity management capacity and be more proactive in seeking private sector lending opportunities. The authorities welcomed ongoing IMF CD on the implementation of repo operations and consider that the workplan on the modernization of the monetary policy framework is progressing well.

D. Exchange Rate Policy and External Sector Issues

33. Results of the external sector assessment indicate Seychelles' 2023 external position was substantially weaker than the level implied by medium-term fundamentals and desirable policies (Annex III). However, the final assessment would need to take into account country-specific circumstances being a microstate heavily dependent on imports and tourism. Exchange rate depreciation may have little or no immediate impact on the exports and imports but could be seen more quickly in inflation. There were also significant data revisions by the authorities in 2023. The current account narrowed slightly in 2023, compared to 2022 but was higher than anticipated at the time of the first review due mostly to higher imports linked to tourism recovery and strong FDI inflows. The exchange rate appreciated by 1.8 percent against the US dollar on average in 2023. In NEER and REER terms, the rupee appreciated by 4.4 percent and depreciated by 3.0 percent, respectively, on average in 2023, the latter reflecting negative inflation.

Effective Exchange Rates
(2010 = 100)



Source: IMF staff calculation.

34. The CBS has taken advantage of seasonal windows of opportunity to intervene in the FX market to accumulate reserves while maintaining a floating exchange rate. The CBS intervened and purchased an equivalent of $59.3 million in 2023. All interventions occurred within H1, taking advantage of FX liquidity in the domestic market to increase reserve buffers (as committed under the EFF), while letting the exchange rate fluctuate based on the supply and demand from banks. Following the same strategy, CBS resumed FX interventions in 2024 and purchased an equivalent of US$21 million by end-March.[9]

35. Recent tourism dynamics suggest continued close attention to competitiveness is needed. Staff analytical work (Annex V) highlighted not only Seychelles' high price as a tourist destination compared to peer countries, but also that the islands may be approaching maximum carrying capacity. Tourism flows from several key European source markets are sensitive to domestic economic conditions (via the impact on disposable income) as well as relative prices. Given Seychelles' current position vis-à-vis peers, and the limits to increasing tourism earnings from higher tourist volumes, this highlights the importance of deepening the tourism sector (to increase

[9] This is a volatility-based strategy in which the CBS would consider intervening if daily exchange rate fluctuations exceed a norm defined either based on historical or predicted volatility (the constraint) but does not have to intervene (the discretion).

domestic value added and expenditure per tourist) as well as maintaining or improving supporting infrastructure and adopting data tools to better monitor tourism indicators and spending.

36. The authorities should continue to maintain a flexible exchange rate regime and build buffers against external shocks. At this point, a further tightening of Seychelles' fiscal position could potentially have a stronger negative effect on growth rather than strengthening the external position. Meanwhile the authorities' policy response to building external reserves need to take account of Seychelles' heavy reliance on high-end tourism earnings and on imports for consumption and investment. Going forward, the authorities face climate-related challenges but have limited access to concessional financing due to their higher income status. Efforts should continue to build external buffers, implement structural reform to create environment conducive to steady FDI and loan financing on favorable terms, and diversify and improve overall competitiveness.

Authorities' Views

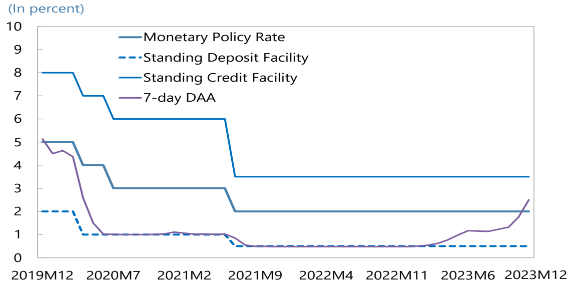
37. The authorities concurred with staff's views but remain concerned about the impact of exchange rate depreciation on inflation given the country's heavy reliance on imports and the political sensitivity of inflation. They agreed with the need to maintain competitiveness and build external buffers and indicated that they would do so as the opportunities arise in the market to purchase FX. They committed to building higher international reserves (a QPC), benefitting from increased budget support from international partners.

Box 2. Excess Liquidity in Seychelles

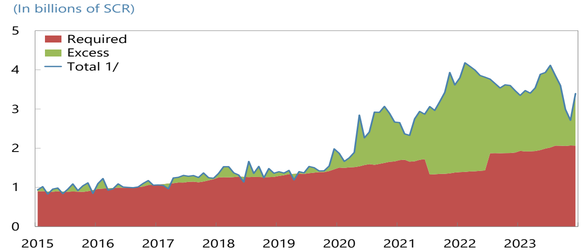
Monetary policy in Seychelles is in state of transition to a framework based on interest rates as an operational target. The CBS has already implemented some recommendations from IMF CD, including introduction of the CBS monetary policy rate (MPR) and an interest rate corridor. Some reforms were paused during COVID, during which CBS measures to mitigate the impact of the pandemic contributed to a significant increase in excess liquidity—peaking at SR 2.8 billion (9.5 percent of GDP) in February 2022.

Optimal absorption of excess liquidity is essential for an interest-rate based monetary framework. The main tool for mopping up liquidity is the Deposit Auction Arrangement (DAA), for which the most common maturity is 7 days. In normal conditions, CBS issues the 7-day DAA at the policy rate, and the allotment amount for DAAs is based on liquidity forecasts. However, excess liquidity in the market since 2020 drove the 7-day DAA rates very close to the lower bound of the interest rate corridor.

Monetary Policy and Related Rates
(In percent)



Reserves of Local Currency
(In billions of SCR)



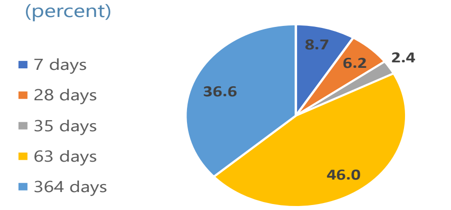
1/ Includes the amount under the Standard Deposit Facility (SDF).

Source: Authorities' data

Since January 2023, CBS has increased intervention volumes using the 7-day DAA. The stock of DAA (kept at SR 200 million since March 2021) increased by SR 100 million each month, reaching SR 1.1 billion in September. In 2023Q4, CBS introduced longer maturities (28, 35 and 63 days) as well as one 364-day issuance in October 2023. Despite this change, excess liquidity was not fully absorbed by end-December, remaining at SR 0.9 billion, or 4.4 percent of GDP. Virtually all remaining excess liquidity sits in the CBS Standing Deposit Facility with a 0.5 percent interest rate, corresponding to the bottom of the corridor.

Higher intervention volumes increased the DAA interest rate towards the MPR. However, while the volumes on offer by CBS would have been sufficient to fully absorb excess liquidity in the system, take-up by banks has been insufficient. For example, SR 1 billion was offered for the one-year DAA in October, but the received (and accepted) bids totaled only SR 450 million, at a weighted interest rate of 2.4 percent. The limited participation may reflect lack of market consensus on interest rates for longer maturities.

DAA stock by maturity: December 2023
(percent)



Source: Authorities' data.

The total stock of DAA at end-December 2023 was SR 1.2 billion, split among the maturities of 7, 28, 35, 63 and 364 days (chart). The CBS should calibrate the longer-maturity placement based on market preference, combined with the issuance of the 7-day DAA as a full allotment at the policy rate.

The banking sector in Seychelles is highly segmented, dominated by three major banks with remaining liquidity unevenly distributed in the smaller banks. There is no interbank market, and on the relatively rare occasion that banks need to borrow they typically resort to the CBS. The effectiveness of monetary policy will remain limited until excess liquidity is fully absorbed and the interbank market becomes active and less segmented. The implementation of planned operational reforms, such as introduction of repo operations and a well-designed communication strategy, will be vital going forward.

E. Financial Stability

38. The financial system remains stable, well capitalized, and liquid, but NPLs remain above pre-pandemic levels. All banks held regulatory capital above the prudential requirement of 12 percent at end-2023. Nevertheless, NPLs as a share of total loans increased by 0.5 ppt in 2023 to 8.1 percent. To some extent, this reflects the unwinding of pandemic-related forbearance measures,[10] but also some asset mismanagement. One bank with the highest level of NPLs managed to reduce the level in 2023, and a further decline is expected this year as additional months of repayment allow for reclassification. The uptick at end-2023 was related to other banks with specific clients facing asset issues considered temporary—such that the NPL ratio dropped to 7.9 percent in February 2024. Even though low interbank linkages may help avoid contagion, due to the still nascent money and capital markets, systemic risks may stem from common exposure to the tourism and fisheries sectors.

39. The CBS is closely monitoring financial sector soundness and banks' credit portfolios. The CBS has been monitoring NPL levels and banks' actions to address accumulated NPLs through both off-site and periodic onsite inspections. NPLs are generally under-provisioned due to high reliance on collateral. The CBS finalized an on-site assessment of bank collateral quality in March 2024. Banks will be issued with recommendation letters based on the findings along with appropriate enforcement actions. In general, collateral valuation should be done every two years, but it has been avoided as it is an additional burden on the borrower and considering that, since collateral is mostly land and real estate, their value has been increasing. About 10 percent of collateral assets was exposed to the December 2023 disaster.

40. The CBS should address remaining gaps in off- and on-site supervision of the banking system. Supervisory capacity is being strengthened with assistance from the IMF and the US Treasury Office of Technical Assistance (OTA). Substantial progress has been made in adjusting and simplifying a risk-based supervision (RBS) framework (designed by an external consultant) in line with IMF and OTA recommendations, including a reduction in the number of key risk indicators. The RBS framework will be run in parallel with quarterly offsite inspections to assess its effectiveness. IMF and OTA assistance has emphasized the need to use the RBS as a complement to the inspection process and the importance of supervisory judgement in determining banks' assessments.

41. The CBS has been strengthening the legal framework for financial stability and crisis management. The Financial Stability Bill was approved and published in December 2023. The authorities are currently working on its operationalization, which involves producing an MOU covering the exchange of information across institutions and an action plan with the strategy for the next four years. Technical work has also been largely completed by CBS on a Bank Recovery and Resolution Bill (SB end-March 2024). However, due to staff turnover at CBS and the expected length

[10] Previously forborne loans declined from 62.1 to 50.5 percent of total NPLs between end-2022 and end-2023.

of time for draft legislation to be produced by the Attorney General's office, this benchmark has been reset for end-September 2024.

Authorities' Views

42. The authorities are committed to strengthening the regulatory and supervisory framework to ensure financial stability. They agree that the RBS framework, once fully operational, will be an important complement to on and off-site supervision. Moreover, they understand the need to carefully analyze model results and apply judgement on bank assessment. The authorities agree on the importance of moving forward with the legal framework for bank resolution. Going forward, the authorities consider digitalization of the banking sector to be a crucial factor to support effective supervision.

F. Other Structural Reforms

43. The authorities are taking steps to increase private investment and promote medium-term growth. At the industry level, the terms-of-reference for a tourism study have been finalized with the aim of completing the study and an action plan by end-December 2024 (structural benchmark). The study will focus on the dynamics of the tourism sector and its benefit to the economy. At the national level, the new National Development Strategy 2023-2027 highlights the importance of economic transformation—building on Seychelles' areas of comparative advantage, but building greater value added in tourism, agriculture, fisheries, and other sectors. The authorities have also taken measures to develop a digital payment system by launching an action plan in 2023Q1 to bolster awareness and prepare the country to move towards a cash-lite society.

44. The restructuring of Air Seychelles and enhancements in public enterprise legislation are expected to reduce risks and improve governance, transparency, and monitoring of SOEs. The process of ringfencing the ground handling operation in Seychelles Airport, part of the operational restructuring of Air Seychelles, was finalized in March 2024 (SB end-December 2023). The Public Enterprises Monitoring Commission (PEMC) will, through an independent audit firm, conduct governance audits and operational assessment of six key public enterprises by December 2024. The procurement process is expected to be completed in May so that the work can start in June (MEFP ¶42).[11]

45. Enhancing the transparency of beneficial ownership (BO) information is crucial to prevent misuse of the international business sector for money laundering and terrorist financing. As of end-February 2024, around 95 percent of the 43,357 international business companies (IBCs) in good standing have submitted information to the BO database managed by the Financial Intelligence Unit (FIU). However, the population of domestic entities (companies and associations) is lagging in compliance (only 29 percent are in the database). To address this, the

[11] The key public enterprises to be audited are Public Utilities Corporation (PUC), Seychelles Petroleum Company (SEYPEC), Air Seychelles, Island Development Company Limited, Seychelles Civil Aviation Authority (SCAA) and Seychelles Trading Company Ltd (STC).

Financial Services Authority (FSA) has started requesting domestic entities to input information. In line with the proposed amendments to the BO Act to broaden access to the central BO database to financial institutions and other reporting institutions with AML/CFT obligations (SB end-December 2024), the authorities started the procurement process for the new BO digital platform with the aim of launching it in 2025. To comply with OECD standards on tax transparency, the Automatic Exchange of Information (AEOI) platform was implemented in September 2023 and is fully functional.

Authorities' Views

46. The authorities understand that economic diversification is crucial to medium-term growth as the contribution of tourism plateaus, and to building greater resilience. Under the National Development Strategies, the authorities highlight the need to increase tourism yield by building a more sustainable, resilient, and integrated tourism model. They also aim to improve food and nutrition security by establishing supporting structures and mechanisms in the agriculture sector. Additionally, the authorities seek to foster greater value addition within the fisheries and blue economy sectors, without compromising the sustainability of the marine ecosystem. On the governance front, the authorities are also committed to improving the effectiveness of their regime for anti-money laundering and combatting the financing of terrorism (AML/CFT).

G. Climate Change Mitigation and Adaptation

47. Seychelles has implemented RM2 and work is progressing on future RMs agreed under the RSF. The authorities have integrated climate adaptation and mitigation elements into new draft building legislation (RM2, March 2024).[12] Key climate aspects include requiring all new buildings of certain sizes to install solar power systems for hot water supply, to have centralized air conditioning systems to optimize energy efficiency, and to use pillars of sufficient height underneath if constructed in coastal areas, as an adaption measure to sea level rises. The authorities have also drafted an updated Public Investment Management Policy, integrating climate considerations into projection selection criteria, and had it reviewed by AFRITAC South, as a prerequisite to RM3 (RM3, September 2024). A CD mission was provided in April to assist in climate budget tagging, climate-related fiscal risk analysis, and further strengthening the climate aspects of the forthcoming Public Investment Management Policy (RM4, October 2024). RM3 and RM4 are expected to provide a mechanism for reporting and verification of climate change actions within the government. These will help the authorities to track progress towards achieving Nationally Determined Contributions (NDCs) targets.

48. Risks remain with respect to implementation of some future RMs. RM3, RM4, and RM5 (related to PFM issues) may require additional time given their complexity. RM6 and RM9 (March

[12] The Physical Planning Act, which gives the government the power to issue the regulations, has already been approved by Cabinet. Draft regulations are currently with the Attorney General's office for review before issuance. The authorities report that they expect the Attorney General's office to complete its work by end-May, clearing the way for implementation of the new regulations.

and September 2025) are geared toward bank reporting on climate risks, assessing climate risk exposure, and implementing a stress testing framework incorporating climate-related risks.[13] These measures are expected to require significant upgrading of current capacity at CBS and will require a sequenced approach to technical assistance and capacity development. The country team is working with functional department experts to ensure that any modification of future RMs maintain their high quality and alignment with the RSF objectives.

49. The mission evaluated progress on development of a climate financing strategy related to RM5 and RM10. Climate adaptation and mitigation investment imply large gross financing needs and higher public debt. Planned climate-related public spending is roughly estimated at about 0.9 percent of GDP per year[14] against estimated needs of 5 percent per year. Climate-related public spending is identified in the 2023 Climate-PIMA report and the needs, averaging over 2021-2030, estimated in the 2021 Nationally Determined Contribution (NDC). The authorities have noted challenges on developing a national climate finance strategy. In this context, Fund staff are facilitating external assistance from the NDC Partnership on devising a climate finance strategy and establishing a project pipeline (RM5, September 2024). The planned articulation of the climate finance strategy (RM5) should be well-integrated into the country's overall public debt management strategy and consistent with maintaining Seychelle's risk rating of moderate.

50. As part of the Article IV discussion, the mission also assessed institutional challenges in expanding climate finance (Annex VI). Even for Seychelles, which has been at the cutting edge in terms of such innovative financing arrangements as the 2017 debt for nature swap and issuance of a Blue Bond in 2018, mobilizing sufficient financing for climate-related projects, implementing projects, and generating private sector interest has been challenging. The size of climate-related funds mobilized thus far is small relative to estimated needs, some programs for climate adaptation and mitigation projects are incomplete due to challenges in effectively disbursing resources, and subsequent funding streams have yet to be identified. Another major issue is the sustainability of projects. Private financing is also virtually nonexistent, given the risks involved and the absence of a coherent PPP framework.

Authorities' Views

51. The authorities concurred with the team's assessment of the progress of the RMs and the direction for future steps. Considering the required expertise, the authorities are attempting to recruit a resident climate finance advisor, with funding from the UN. Additionally, they have established a climate finance working group and are mobilizing internal resources to lay the groundwork for a financing strategy. The authorities have also requested TA and CD missions to support the completion of medium-term RMs. The authorities shared some challenges (as well as benefits) from their previous climate and environmental financing arrangements and intend to

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[13] The IMF has already started providing TA on macroprudential stress test and climate risk.

[14] An accurate assessment of climate-related spending is one of the key reform elements under the RSF (see RM4).

incorporate the lessons learned from both aspects into their forthcoming reforms. But they also expressed frustration given the slow pace of climate finance initiatives (especially for adaptation) relative to the accelerating pace of climate change, and related damages which require immediate remediation by government.

H. Data Adequacy Assessment

52. Data provision has some shortcomings but is broadly adequate for surveillance. In most evaluated areas, except for national accounts and external statistics, the data is generally reliable, timely, and adequate for surveillance purposes. Government staff are actively involved in providing supplementary data and clarifying the reasons behind any anomalies. National accounts have recently undergone significant revisions to historical data. The NBS has limited capacity in this area, including tasks such as back-casting, resampling, and harmonizing quarterly and annual data. External finance statistics could also be improved with respect to the consistency and detail of capital flow information. Tourism receipts are difficult to capture accurately given that large hotels and resorts operate on transfer pricing, making it challenging to fully assess tourism earnings and the impact on the local economy. The authorities, including the newly appointed head of the NBS, concur with staff on the need for capacity development in national accounts and external statistics. TA missions have been scheduled to address some of these issues in 2024, specifically aiming to improve quarterly GDP and price statistics.

PROGRAM MODALITIES

53. New program targets are proposed for 2024 (MEFP Table 1). The mission agreed with the authorities on a macro framework and quantitative program targets. Revised targets are proposed as ITs and QPCs for June, September, and December 2024 and new ITs proposed for March and June 2025. Compared to previous ITs, the targets related to total revenue have been adjusted downwards to reflect the lower tax base of 2023 and the associated impact on 2024. This is reflected in a downward adjustment in the primary balance by a small margin and upward adjustment in net change in public and publicly guaranteed debt.[15] The target for net international reserves was revised upwards in line with the better-than-expected outcome in 2023, increased budget support from AfDB, and the authorities' strategy to accumulate reserves to increase external buffers. The targets for priority social expenditure were marginally changed to reflect the authorities' revised projections.[16]

54. A structural benchmark was revised and a new one is being proposed (MEFP Table 2). The structural benchmark on a tourism study (funded by AfDB) was revised and reset for December 2024 to include an action plan to maximize the impact on tourism on the economy over the long

[15] The total revenue target for December 2024 was adjusted downwards by SR 293 million (0.9 percent of GDP) whereas the target for the primary balance target was reduced by SR 23.4 million and the target for net change in PPG debt was increased by SR 158 million.

[16] Targets for September and December 2024 were lowered by 0.1 percent.

term. To improve the efficiency of debt management, staff proposes a new structural benchmark on amendments to the Public Debt Act in line with IMF TA recommendations.

55. Upon successful approval of the second reviews, SDR 6.107 million will be purchased under the EFF arrangement and SDR 3.123 million will be disbursed under the RSF arrangement (Table 7). The resources under both arrangements will be used for budget support.

56. Risks to the EFF and RSF are assessed to be moderate, and the EFF program is fully financed. EFF purchases under the second and third reviews will help close the 2024 financing gap. There are firm financing commitments for the next 12 months and good prospects for the remainder of the program period (Table 6). International reserves are projected to cover around 3.4 months of prospective imports by end-2024, with ongoing financial support from the Fund and other IFIs (World Bank $33 million; AfDB $48 million). Reserves are expected to reach around 3.6 months of import cover over the medium term. Program risks relate primarily to implementation capacity and potential for policy slippage, which are assessed to be moderate considering Seychelles' strong track record under a series of Fund-supported programs, commitments to strengthen fiscal risk management, and contingent planning under the program.

57. Seychelles' capacity to repay the Fund is adequate but remains subject to risks. The economic recovery which began in 2021 has generated significant repayment capacity. The authorities' commitment to the program and their sound repayment history provide assurance. The Fund credit-to-GDP ratio will peak at 7.7 percent in 2025 (Table 8). This is higher than in some recent cases, reflecting Seychelles' relatively small GDP. The ratio of Fund credit to GIR is projected to peak at 21.5 percent in 2025. Fund exposure to Seychelles will remain high for an extended period.

58. Exchange measures and CFMs. The authorities confirmed that Seychelles has not introduced any new exchange measures that may give rise to restrictions on the making of payments and transfers for current international transactions or multiple currency practices or has engaged in any type of discriminatory currency arrangements subject to the Fund's jurisdiction, including measures imposed solely for reasons of national or international security. The authorities increased the annual tax on immovable property owned by non-Seychellois in January 2024, from 0.25 percent to 0.5 percent of the value of the property, which is considered an inflow CFM according to the Fund's Institutional View on Liberalization and Management of Capital Flows. Staff recommends making the tax broad-based by applying it to both Seychellois and non-Seychellois or removing the measure and relying on alternative fiscal revenue enhancing measures.

59. An update safeguards assessment was completed in December 2023. The assessment found that the CBS has continued to strengthen its safeguards framework, including through ongoing legal reforms to further align governance and autonomy provisions with leading practices. Amendments to the CBS Act will be submitted to the National Assembly for enactment by end-June 2024 (structural benchmark). While financial reporting and external audits continue to adhere to international standards, capacity constraints remain a key challenge for advancing the internal audit and risk management functions. The CBS has committed to implementing the safeguards recommendations.

60. CD activities remain closely linked to the implementation of both EFF and RSF program priorities (Annex II). The Seychellois authorities need to strengthen capacity for macroeconomic management through stronger public financial management and revenue administration as well as an improved monetary policy framework, stronger financial sector surveillance, enhanced AML/CFT framework, and better quality of key macroeconomic statistics. CD under the EFF will also focus on DRM, PIMA priorities. CD under the RSF will focus on adopting green PFM and climate-sensitive PIM practices.

STAFF APPRAISAL

61. The Seychelles economy continues to recover but at a slowing pace. Tourist arrivals are increasing but are expected to slow in coming years. Negative inflation was observed in most of 2023, due to lower import prices and a stable exchange rate but is expected to shift back into positive territory in 2024. The fiscal balance has strengthened, but due mostly to lower than expected current and capital spending. The external balance in 2023 was worse than projected, due to higher imports related to FDI, but stable compared to the previous year. Seychelles' external position in 2023 was assessed to be substantially weaker than the level implied by fundamentals and desirable policies. Risks are largely balanced and continuing downward pressure on international commodities and the expected recovery in key tourism source countries in Europe bode well for the coming year.

62. Restoration of fiscal and external buffers in the context of macroeconomic stability remains the central challenge for Seychelles over the medium term. As a small island state with a strong dependence on tourism and a heavy reliance on imports, Seychelles remains exceptionally vulnerable to external shocks. While public debt is assessed as sustainable in the medium term, steady and growth-friendly fiscal consolidation will be needed to reduce vulnerability to debt and debt servicing shocks—particularly if Seychelles is less able to access concessional financing going forward. Staff welcomes the authorities' commitments to build stronger fiscal and external buffers. The revenue target was revised downwards to reflect the shortfall observed in 2023, however, the fiscal consolidation path has been preserved in the following years. The foreign exchange reserve target was revised upwards, locking in the higher-than-expected outcome in 2023. Adapting to and mitigating the effects of climate change also remains essential for sustained and inclusive growth.

63. Continued progress is needed on enhancing the efficiency of revenue and expenditure administration. The government plans to review existing tax exemptions and expenditures, enhancing transparency and integrating these expenditures within the annual budgeting process. Further efforts are focused on modernizing and streamlining tax procedures through reengineering and automation. Moreover, the government is committed to implementing structural reforms to refine the selection and execution of capital projects. Deployment of an IFMIS by early 2025 will also be a significant step forward in public financial management. Staff support these initiatives as vital to fiscal consolidation in the medium term.

64. The CBS will need to maintain a focus on measures to support the ongoing shift to a new monetary framework, while also increasing external buffers. CBS actions are following the timeline published in the July 2023 Monetary Policy Report with the support of the IMF. To support the shift to an interest-rate based framework, staff and the authorities agreed on the need to continue draining excess liquidity, which should be based on a better calibration of the maturities being offered to fit market appetite. The authorities remain vigilant against inflation risks, especially those related to external shocks, and are committed to foreign exchange interventions limited to accumulating reserves and smoothing out disorderly exchange rate fluctuations.

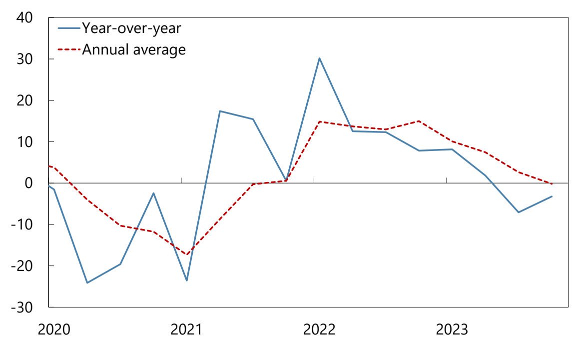
65. Financial sector risks are assessed to be low, but supervisory capacity needs to be strengthened, and supported by legislative reforms under the EFF for crisis management. The CBS has undertaken onsite bank inspections to assess collateral quality and ensure credit risk is adequately reported and mitigated. In addition, the legislative agenda strengthening the CBS Act and for a bank recovery and resolution framework will be instrumental in supporting Seychelles' resilience to financial crises. Several other legal and regulatory reforms to strengthen the resilience and integrity of the financial system (including transparency of beneficial ownership information and the licensing and AML/CFT framework for VASPs) are on track for enactment in 2024, and the Fund stands ready for subsequent steps to support a healthy financial market. Importantly, the authorities have committed to take measures to gradually bring CBS capital to a more solvent position.

66. Implementation of reforms under the RSF are on track, but the next 12 months will be challenging. As committed under the RSF, the authorities have integrated climate adaptation and mitigation elements into the new building legislation. They have also drafted an updated Public Investment Management Policy, reflecting the need to account for climate issues in project selection. Other actions include creating and adopting a national climate financing strategy and implementing a framework of climate scenarios to assess long-term fiscal sustainability as part of the FY2025 budget process. The burden these measures and their subcomponents will place on limited staff resources at key agencies suggests the need for additional external support and expertise. The authorities and staff will continue to collaborate on filling capacity gaps to ensure successful implementation of the RSF, and to ensuring continued CD from the Fund in critical areas.

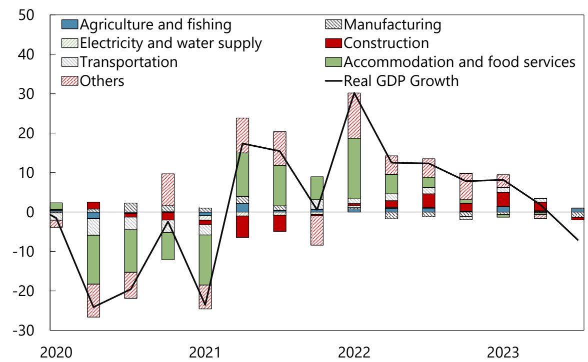
67. Staff supports the authorities' request for completion of the second reviews of the arrangements under the EFF and the RSF and the modification of end-June PCs and ITs. Staff supports the request for a waiver of nonobservance for the unmet December 2024 QPC on total revenue floor, as the breach was minor (0.03 percent of GDP), and also supports the request for the purchase on an amount equivalent to SDR 6.107 million (26.7 percent of quota) under the EFF arrangement and the disbursement of SDR 3.123 million (13.6 percent of quota) under the RSF arrangement on the account of meeting the RSF reform measure (RM2). The attached Letter of Intent and Memorandum of Economic and Financial Policies set out appropriate policies to pursue the program's objectives. The capacity to repay the Fund is adequate but subject to risks. Risks to program implementation are manageable. It is expected that the next Article IV Consultation with Seychelles will take place on the standard 24-month cycle in accordance with Executive Board decision on consultation cycles for members with Fund arrangements.

Figure 3. Seychelles: Recent Economic Developments

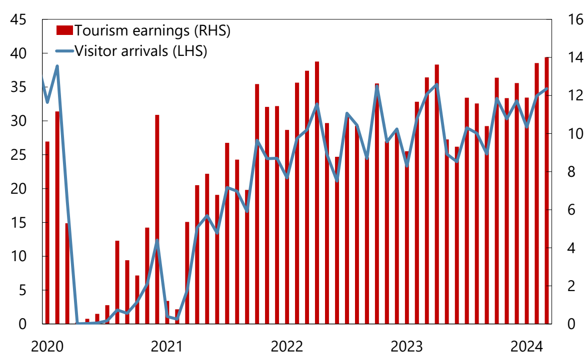
Real GDP Growth
(In percent)



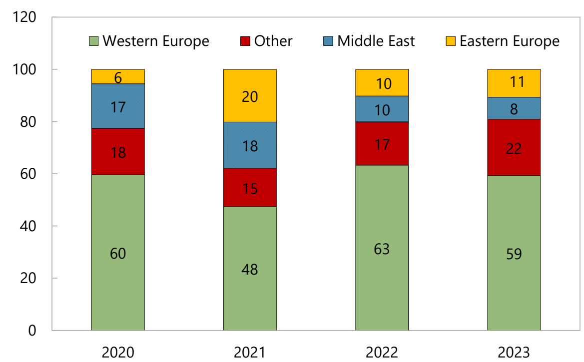
Contributions to GDP Growth
(In percent)



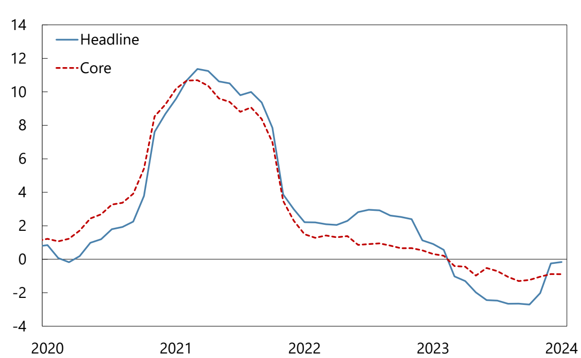
Visitor Arrivals and Tourism Earnings
(In thousands of arrivals and hundred millions of SCR)



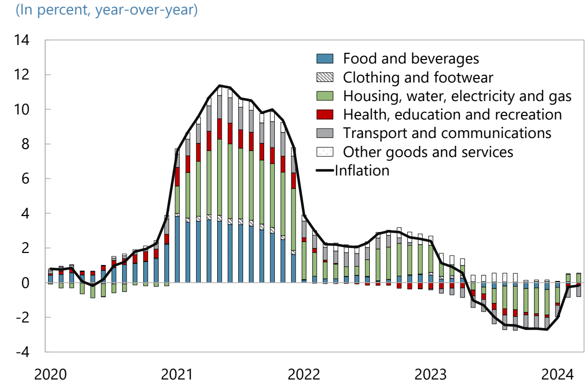
Visitor Arrivals by Region
(In percent)



Headline and Core Inflation
(In percent, annual change)



Headline Inflation and Main Components
(In percent, year-over-year)



Sources: Haver Analytics, National Bureau of Statistics Seychelles; and IMF staff estimates.

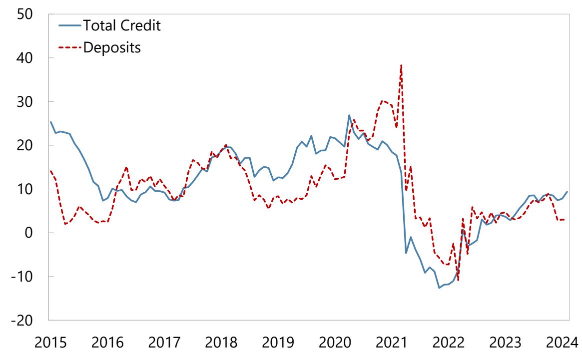
Figure 3. Seychelles: Recent Economic Developments (concluded)

Note: Reflects the BOP based on new compilation methodology adopted in 2022.

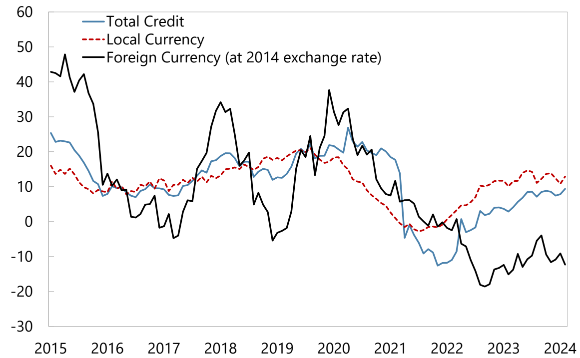
Sources: Authorities' data, National Bureau of Statistics Seychelles; and IMF staff estimates.

Figure 4. Seychelles: Financial Sector Developments

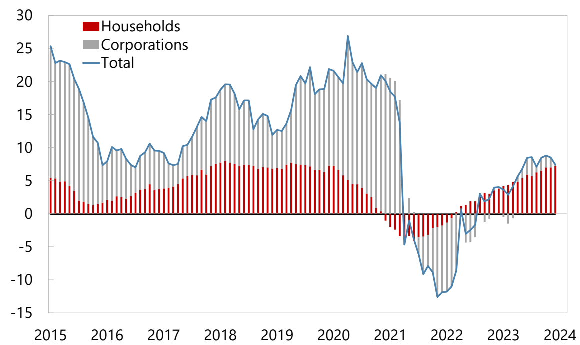
Deposits and Total Credit to the Private Sector
(In percent, annual change)



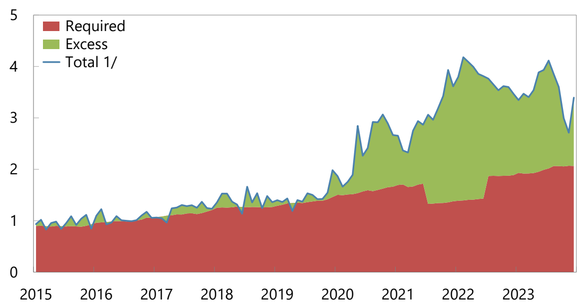
Credit to the Private Sector
(In percent, annual change)



Private Sector Credit Growth
(In annual change and contributions)

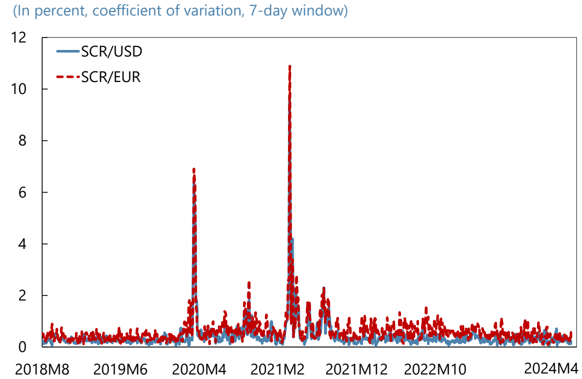


Reserves of Local Currency
(In billions of SCR)

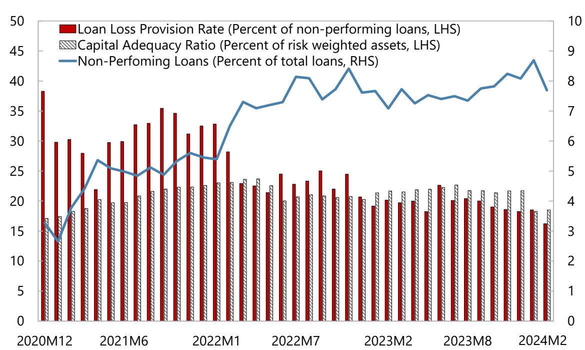


1/ Includes the amount under the Standard Deposit Facility (SDF).

Exchange Rate Volatility
(In percent, coefficient of variation, 7-day window)



Banking Sector Indicators
(In percent)

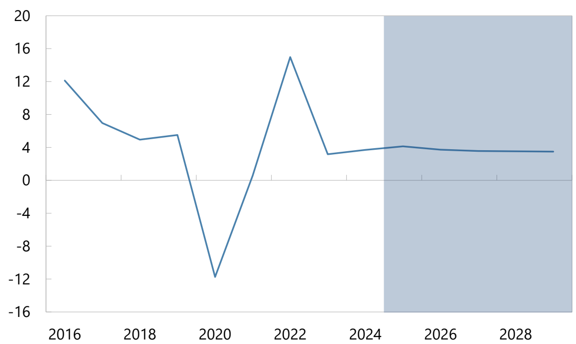


Sources: Central Bank of Seychelles; and IMF staff calculations.

Figure 5. Seychelles: Macroeconomic Indicators

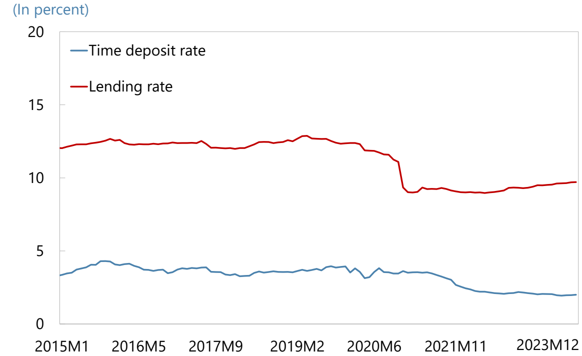
After experiencing a V-shaped recovery, economic growth is expected to moderate.

Real GDP Growth, 2016-29
(In percent)



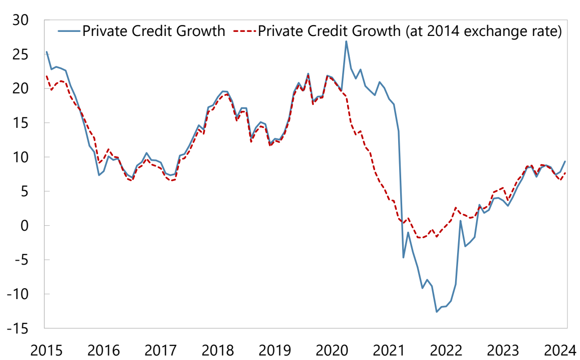
Nominal interest rates remained unchanged as inflation remained moderate.

Interest Rates, Jan'15–Aug'23
(In percent)



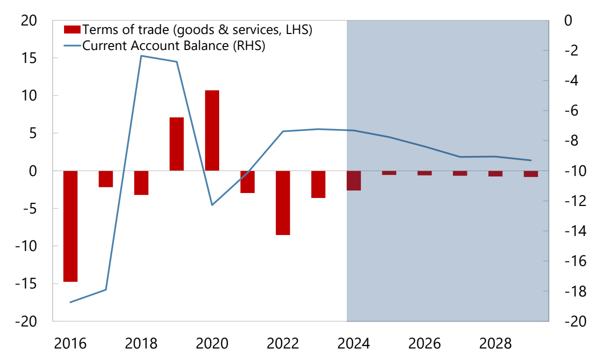
Private sector credit continued to recover in line with economic growth and despite the tighter monetary policy stance generated by disinflation.

Total Credit to the Private Sector
(In percent change, year-over-year)



The external position has improved with the recovery in tourism.

External Balance and Terms of Trade, 2016–29
(In year-over-year percent change and percent of GDP)



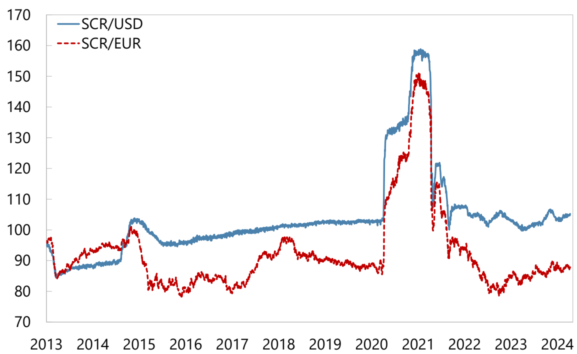
Sources: Seychellois authorities; and IMF staff calculations.

Figure 6. Seychelles: Macroeconomic Developments and Projections

The exchange rate has stabilized after returning to pre-pandemic levels.

Daily Exchange Rates Index, Jan'13-Apr'24

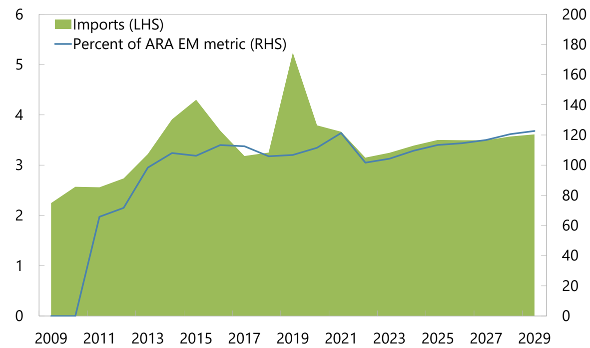
(December 31, 2011 = 100)



Reserves projected to recover after falling due to lower tourism receipts and higher fuel and food import costs.

Reserves Adequacy, 2009-29 [1]

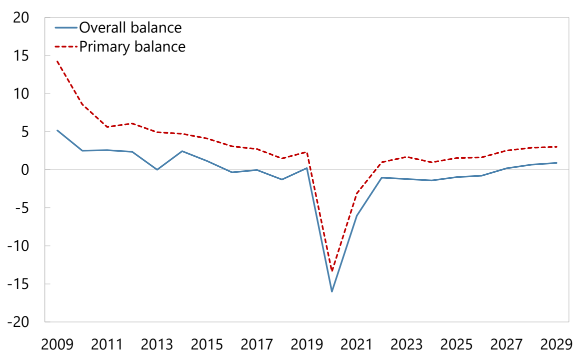
(In months and percent)



Budget under execution should lead to fiscal surplus…

Fiscal Balances, 2009–29

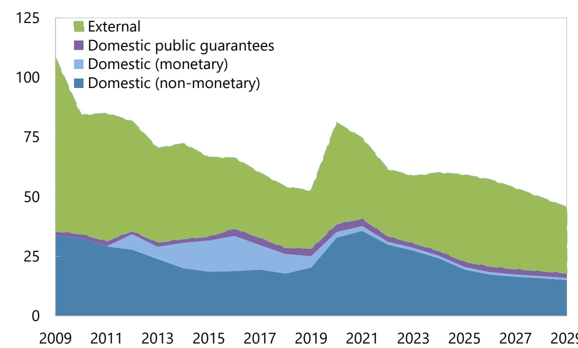
(In percent of GDP)



…contributing to lowering debt vulnerability.

Stock of Public Debt, 2009–29

(In percent of GDP)



[1] Data for the ARA EM metric are not available prior to 2011.

Sources: Seychellois authorities; and IMF staff calculations.

Table 1. Seychelles: Selected Economic and Financial Indicators, 2021-29

	2021	2022	2023		2024		2025		2026	2027	2028	2029
	Act.		Prel.		Proj.		Proj.		Proj.			
			1st Review		1st Review		1st Review					
	(Annual percent change, unless otherwise indicated)											
National income and prices												
Nominal GDP (millions of Seychelles rupees)	25,164	29,373	29,095	30,019	30,318	31,464	32,012	33,420	35,496	37,874	40,462	43,213
Real GDP (millions of Seychelles rupees)	22,700	26,100	27,604	26,926	28,695	27,920	29,822	29,072	30,155	31,229	32,330	33,457
Real GDP	0.6	15.0	3.8	3.2	4.0	3.7	3.9	4.1	3.7	3.6	3.5	3.5
CPI (annual average)	9.8	2.6	-0.8	-1.0	0.3	1.2	2.0	2.3	3.0	3.5	3.5	3.5
CPI (end-of-period)	7.9	2.5	-1.6	-2.7	0.9	1.6	2.8	3.0	3.5	3.5	3.5	3.6
GDP deflator average	2.7	1.5	-0.7	-0.9	0.2	1.1	1.6	2.0	2.4	3.0	3.2	3.2
Money and credit												
Broad money	-5.1	0.6	9.0	5.8	...	6.4	...	...	...	...	...	...
Reserve money (end-of-period)	11.1	-3.0	9.0	-3.5	...	6.4	...	...	...	...	...	...
Velocity (GDP/broad money)	1.1	1.2	1.1	1.2	...	1.2	...	...	...	...	...	...
Money multiplier (broad money/reserve money)	3.3	3.4	3.5	3.7	...	3.7	...	...	...	...	...	...
Credit to the private sector	-11.9	4.0	8.4	7.4	8.8	8.4	8.2	9.3	9.6	8.8	8.3	7.8
	(Percent of GDP, unless otherwise indicated)											
Savings-Investment balance												
External savings	10.1	7.4	5.4	7.2	7.1	7.3	7.4	7.8	8.4	9.1	9.1	9.3
Gross national savings	15.4	15.6	19.3	17.5	18.9	17.8	19.5	18.5	17.8	17.1	17.1	17.0
Of which : government savings	-3.2	1.2	0.4	2.2	3.0	2.3	4.3	3.6	4.4	5.1	5.6	6.0
private savings	18.6	14.5	18.9	15.4	15.9	15.4	15.3	14.9	13.4	12.0	11.5	11.0
Gross investment	25.5	23.0	24.8	24.8	25.8	25.1	26.7	26.2	26.2	26.2	26.2	26.3
Of which : public investment [1]	5.2	2.6	4.3	4.3	5.3	4.6	6.1	5.6	5.6	5.6	5.6	5.7
private investment	20.3	20.4	20.5	20.5	20.5	20.5	20.6	20.6	20.6	20.6	20.6	20.6
Private consumption	45.7	51.1	43.0	48.8	43.5	47.7	45.6	47.8	47.6	48.5	49.0	49.9
	(Percent of GDP)											
Government budget												
Total revenue, excluding grants	30.3	29.5	32.9	31.5	34.5	32.4	34.5	33.3	33.7	33.8	33.7	33.8
Expenditure and net lending	39.1	31.0	37.0	33.6	37.2	34.9	36.8	35.6	35.2	34.3	33.7	33.4
Current expenditure	33.8	28.6	32.7	29.8	31.6	30.1	30.4	29.7	29.2	28.7	28.1	27.8
Capital expenditure [1]	5.2	2.6	4.2	4.3	5.3	4.6	6.1	5.6	5.6	5.6	5.6	5.7
Overall balance, including grants	-5.7	0.1	-2.8	0.2	-1.5	-1.4	-1.1	-1.0	-0.8	0.2	0.7	0.9
Primary balance	-3.1	1.0	0.0	1.7	1.1	1.0	1.1	1.5	1.6	2.5	2.9	3.0
Total government and government-guaranteed debt [2]	74.5	61.4	64.4	58.5	65.6	60.0	64.3	59.1	57.0	53.5	49.5	45.5
External sector												
Current account balance including official transfers												
(in percent of GDP)	-10.1	-7.4	-5.4	-7.2	-7.1	-7.3	-7.4	-7.8	-8.4	-9.1	-9.1	-9.3
Total external debt outstanding (millions of U.S. dollars) [3]	5,261	5,387	5,583	5,570	5,825	5,859	6,029	6,145	6,386	6,581	6,501	6,470
(percent of GDP)	353.1	261.8	267.9	260.1	277.6	270.8	273.6	272.8	269.5	262.9	245.6	231.1
Terms of trade (-=deterioration)	-3.0	-8.5	-2.2	-3.6	1.5	-2.6	5.6	7.3	-1.8	-1.1	-0.8	-0.7
Gross official reserves (end of year, millions of U.S. dollars)	702	639	733	682	791	751	843	805	841	879	937	977
Months of imports, c.i.f.	3.7	3.1	3.7	3.2	3.7	3.4	3.8	3.5	3.5	3.5	3.6	3.6
In percent of Assessing Reserve Adequacy (ARA) metric	121	102	110	104	112	110	116	113	114	117	121	123
Exchange rate												
Seychelles rupees per US$1 (end-of-period)	14.7	14.1	...	14.2	...	...	...	...	...	...	...	...
Seychelles rupees per US$1 (period average)	16.9	14.3	...	14.0	...	...	...	...	...	...	...	...

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

[1] Includes onlending to the parastatals for investment purposes.

[2] Includes debt issued by the Ministry of Finance for monetary purposes.

[3] Includes private external debt.

Table 2. Seychelles: Balance of Payments, 2021-29

	2021	2022	2023		2024		2025		2026	2027	2028	2029
	Act.		Prel.		Proj.		Proj.		Proj.			
			1st Review		1st Review		1st Review					
	(Millions of US dollars, unless otherwise indicated)											
Current account balance (+ surplus; - deficit)	-151	-152	-113	-155	-148	-158	-162	-175	-199	-227	-240	-261
(percent of GDP)	-10.1	-7.4	-5.4	-7.2	-7.1	-7.3	-7.4	-7.8	-8.4	-9.1	-9.1	-9.3
Balance of goods and services (+ surplus; - deficit)	-70	-51	-5	-62	-20	-61	-57	-83	-71	-84	-89	-110
Exports of goods	516	563	588	542	647	569	684	610	640	665	691	735
Of which: oil re-exports	162	193	177	192	181	201	198	201	202	205	210	219
Of which: tuna exports	276	283	300	277	315	280	326	326	339	354	375	398
Imports of goods	1,023	1,294	1,294	1,427	1,363	1,480	1,447	1,598	1,651	1,714	1,785	1,855
Of which: oil imports	197	299	271	279	282	290	282	287	288	292	300	313
Exports of services	1,235	1,684	1,688	1,833	1,728	1,892	1,794	1,968	2,049	2,142	2,238	2,308
Of which: tourism earnings	588	935	937	989	976	1,044	1,015	1,088	1,134	1,182	1,232	1,284
Imports of services	798	1,004	987	1,010	1,032	1,043	1,088	1,063	1,109	1,176	1,233	1,297
Balance on primary income (+ surplus; - deficit)	-81	-84	-98	-74	-113	-78	-94	-80	-113	-127	-131	-127
Of which: interest due	28	30	36	43	43	41	46	47	61	68	61	58
transfers of profits and dividends	4	8	8	8	8	8	8	8	8	8	20	20
Balance on secondary income (+ surplus; - deficit)	0	-17	-10	-19	-15	-20	-11	-12	-15	-17	-20	-23
Of which: general government, net	31	15	27	27	17	17	18	18	17	15	15	13
Capital account	24	14	13	5	21	21	21	25	14	15	15	16
Financial account [1]	-207	-76	-183	-184	-171	-191	-165	-176	-221	-266	-299	-304
Direct investment, net	-160	-226	-235	-279	-244	-244	-322	-307	-333	-365	-434	-433
Abroad	-7	-37	-36	-40	-37	-37	-43	-43	-50	-57	-65	-66
In Seychelles	153	190	199	240	207	207	279	264	283	308	368	367
Of which: offshore sector	0	0	0	0	0	0	0	0	0	0	0	0
Portfolio investment, net	-13	4	-43	-10	-43	12	29	31	6	6	6	6
Other investment, net	-34	146	95	106	117	41	128	101	106	93	128	124
Government and government-guaranteed	-37	-10	-55	1	-18	-58	-28	-65	-41	-15	-1	-5
Disbursements	73	49	102	47	70	111	74	113	90	49	16	13
Project loans	9	11	14	15	24	10	49	40	50	39	6	4
Program loans	64	38	88	32	46	101	25	73	40	10	10	10
World Bank	44	25	30	6	16	33	15	38	15	0	0	0
African Development Bank	20	0	58	26	10	48	10	35	25	0	0	0
Others	0	13	0	0	20	20	0	0	0	10	10	10
SDR allocation	0	0	0	0	0	0	0	0	0	0	0	0
Amortization	-36	-40	-47	-47	-52	-52	-46	-48	-49	-34	-31	-27
Others	3	155	149	105	135	99	156	166	146	108	129	129
Net errors and omissions	0	0	0	0	0	0	0	0	0	0	0	0
Overall balance	80	-62	84	34	43	54	23	26	36	53	75	59
Financing	-80	62	-84	-34	-43	-54	-23	-26	-36	-53	-75	-59
Change in net international reserves (increase: +)	80	-62	84	34	43	54	23	26	36	53	75	59
Change in gross official reserves (without RSF, increase: +)	143	-49	89	39	42	53	30	33	32	37	59	39
Change in liabilities to IMF, net (without RSF)	63	12	5	5	-1	-1	7	7	-4	-16	-16	-20
Purchases/drawings	68	17	16	16	16	16	16	16	8	0	0	0
Repurchases/repayments	6	5	11	11	18	18	9	9	12	16	16	20
Financing gap	0	0	0	0	0	0	0	0	0	0	0	0
Use of Fund credit RSF			4	4	17	17	21	21	4	0	0	0
Change in gross official reserves (with RSF, increase: +)			93	43	59	69	51	54	36	37	59	39
Memorandum items:												
Exports G&S growth, percent	41	28	1	6	4	4	4	5	4	4	4	4
Tourism growth, percent	80	59	1	6	4	5	4	4	4	4	4	4
Exports of goods volume growth, percent	-16	-14	6	-3	11	1	13	18	4	3	3	5
Imports G&S growth, percent	37	26	0	6	5	4	6	6	4	5	4	4
Imports of goods volume growth, percent	-2	9	4	15	5	3	7	11	4	4	4	3
Exports G&S, percent of GDP	118	109	109	111	113	114	112	114	114	112	111	109
Imports G&S, percent of GDP	122	112	109	114	114	117	115	118	117	115	114	113
FDI, percent of GDP	11	11	11	13	12	11	15	14	14	15	16	15
Gross official reserves with RSF (stock, e.o.p.)[2]	702	639	733	682	791	751	843	805	841	879	937	977
(Months of imports of goods & services)	3.7	3.1	3.7	3.2	3.7	3.4	3.8	3.5	3.5	3.5	3.6	3.6
Percentage of IMF reserve adequacy metric	121	102	110	104	112	110	116	113	114	117	121	123
Gross official reserves without RSF (stock, e.o.p.)[2]			728	678	770	731	801	764	796	833	892	977
(Months of imports of goods & services)			3.7	3.2	3.6	3.3	3.6	3.3	3.3	3.3	3.4	3.6
Percentage of IMF reserve adequacy metric			109	104	109	107	110	108	108	111	115	123
Government and government-guaranteed external debt	575	578	642	591	711	699	787	812	851	839	806	769
(Percent of GDP)	39	28	31	28	34	32	36	36	36	34	30	27
GDP (Millions of U.S. dollars)	1,490	2,058	2,084	2,141	2,098	2,163	2,204	2,253	2,369	2,503	2,647	2,799

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

[1] Per STA recommendations, net lending under financial account is recorded as positive following BPM6 guidance.

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

Table 3a. Seychelles: Consolidated Government Operations, 2021-29 [1]

(Millions of Seychelles Rupees)

	2021	2022	2023		2024		2025		2026	2027	2028	2029
	Act.		Prel.		Proj.		Proj.		Proj.			
			1st Review		1st Review		1st Review					
	(Millions of Seychelles rupees)											
Total revenue and grants	8,322	8,798	9,944	9,726	10,836	10,554	11,427	11,573	12,219	13,053	13,922	14,837
Total revenue	7,622	8,652	9,577	9,466	10,472	10,179	11,046	11,117	11,947	12,792	13,647	14,589
Tax	6,677	7,382	8,431	8,169	9,190	8,875	9,889	9,986	10,789	11,627	12,441	13,329
Personal income tax	1,030	1,079	1,215	1,190	1,285	1,256	1,357	1,362	1,455	1,601	1,722	1,850
Trade tax	226	302	336	330	350	341	364	366	397	430	468	501
Excise tax	1,207	1,416	1,476	1,426	1,550	1,494	1,618	1,656	1,734	1,881	2,009	2,152
Goods and services tax (GST) / VAT	2,326	2,951	3,113	3,002	3,367	3,164	3,602	3,655	4,019	4,315	4,610	4,923
Business tax	1,457	1,214	1,618	1,601	1,764	1,753	2,034	2,080	2,261	2,413	2,578	2,753
Corporate Social Responsibility tax (CSR)	61	10	6	5	0	0	0	0	0	0	0	0
Marketing tourism tax (MTT)	60	81	88	109	91	95	97	95	101	108	115	121
Property tax	45	26	36	35	73	72	74	72	75	77	77	79
Other	265	302	544	470	710	698	743	699	747	802	862	950
Nontax	945	1,270	1,146	1,297	1,282	1,304	1,157	1,130	1,158	1,165	1,206	1,259
Fees and charges	366	386	423	446	420	425	438	424	447	445	476	501
Dividends from parastatals	441	757	580	582	587	587	603	587	596	598	599	624
Other	138	127	142	270	275	292	116	118	115	122	131	134
External grants	700	146	367	260	364	375	381	456	273	261	275	248
Expenditure and net lending	9,843	9,103	10,751	10,094	11,277	10,995	11,794	11,895	12,498	12,980	13,652	14,447
Current expenditure	8,496	8,409	9,515	8,945	9,585	9,467	9,738	9,920	10,371	10,857	11,388	11,992
Primary current expenditure	7,757	7,813	8,710	8,070	8,812	8,717	9,024	9,086	9,512	9,975	10,489	11,079
Wages and salaries [2]	2,760	2,792	3,264	3,009	3,544	3,384	3,663	3,553	3,766	4,033	4,245	4,543
Goods and services [2]	2,827	3,063	3,904	3,582	3,685	3,733	3,724	3,873	3,995	4,076	4,243	4,431
Transfers [2]	2,123	1,915	1,542	1,478	1,584	1,586	1,636	1,645	1,735	1,849	1,984	2,087
Social program of central government [4]	468	268	294	243	284	285	293	295	302	351	410	439
Transfers to public sector from central government	240	277	45	48	48	49	51	52	53	38	26	27
Benefits and programs of Social Security Fund [4]	1,415	1,370	1,203	1,187	1,252	1,252	1,293	1,297	1,379	1,460	1,547	1,621
Other	46	43	0	0	0	14	0	15	16	17	18	18
Interest due	739	596	804	875	772	750	714	835	859	882	899	913
Foreign interest	259	209	241	315	322	283	343	353	424	472	491	479
Domestic interest	480	388	563	560	451	467	371	481	435	410	409	434
Capital expenditure	1,248	674	1,183	1,147	1,594	1,418	1,890	1,876	1,986	2,129	2,262	2,454
Domestically financed	394	462	859	834	973	1,051	941	920	1,035	1,312	1,939	2,150
Foreign financed	853	212	324	313	621	367	949	955	952	817	323	304
Net lending	41	-15	3	-34	23	23	116	49	91	-81	-74	-74
Contingency	58	35	50	36	75	88	50	50	50	75	75	75
Primary balance	-781	291.1	-3	507	332	308	347	513	580	955	1,170	1,303
Overall balance, commitment basis [3]	-1,520	-305	-807	-368	-441	-441	-367	-322	-279	73	270	390
Change in float	86	332	1	415	0	0	0	0	0	0	0	0
Overall balance, cash basis (after grants)	-1,434	27	-806	47	-441	-441	-367	-322	-279	73	270	390
Financing	1,434	-27	865	12	683	683	673	630	341	-73	-270	-390
Foreign financing	1,480	-206	898	136	490	1,072	811	1,377	613	-8	-476	-525
Disbursements	2,118	334	1,709	792	1,496	2,089	1,622	2,221	1,519	742	241	205
Project loans	153	211	190	147	347	143	714	589	743	595	88	56
Program/budget support	1,965	123	1,519	645	1,149	1,946	908	1,633	776	147	153	149
Of which RSF			58	58	242	241	306	308	62	0	0	0
Scheduled amortization	-639	-540	-811	-656	-1,007	-1,017	-811	-845	-906	-750	-716	-729
Of which Paris Club buy-back												
Domestic financing, net	-27	342	-48	-238	180	-402	-151	-759	-285	-78	192	122
Bank financing	-192	340	-37	-197	186	-338	-106	-652	-250	-70	173	110
CBS	-781	616	0	491	0	0	0	0	0	0	0	0
Commercial banks	589	-276	-37	-688	186	-338	-106	-652	-250	-70	173	110
Nonbank financing	165	2	-11	-41	-6	-64	-46	-107	-35	-8	19	12
Privatization and long-term lease of fixed assets	72	87	15	17	13	13	13	13	13	13	13	13
Increase in government assets			58	58	242	241	306	308	62	0	0	0
Of which RSF			58	58	242	241	306	308	62	0	0	0
Statistical discrepancy	-90	-249	0	97	0	0	0	0	0	0	0	0
Memorandum item:												
Total social spending [4]	1,550	1,530	1,774	1,711	1,835	1,833	1,882	1,883	1,901	1,941	2,003	2,139

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

[1] Data include the central government and the social security system, from the 1st review and going forward.

[2] Wage and salaries and goods and services (to be) spent by government agencies other than Ministries are reclassified into these items from transfers.

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

[4] The total amount of social spending considered in the IT (memorandum item) also includes items under goods and services and wages and salaries.

Table 3b. Seychelles: Consolidated Government Operations, 2021-29 [1]

(Percent of GDP)

	2021	2022	2023		2024		2025		2026	2027	2028	2029
	Act.		Prel.		Proj.		Proj.		Proj.			
			1st Review		1st Review		1st Review					
	(Percent of GDP, unless otherwise indicated)											
Total revenue and grants	33.1	30.0	34.2	32.4	35.7	33.5	35.7	34.6	34.4	34.5	34.4	34.3
Total revenue	30.3	29.5	32.9	31.5	34.5	32.4	34.5	33.3	33.7	33.8	33.7	33.8
Tax	26.5	25.1	29.0	27.2	30.3	28.2	30.9	29.9	30.4	30.7	30.7	30.8
Personal income tax	4.1	3.7	4.2	4.0	4.2	4.0	4.2	4.1	4.1	4.2	4.3	4.3
Trade tax	0.9	1.0	1.2	1.1	1.2	1.1	1.1	1.1	1.1	1.1	1.2	1.2
Excise tax	4.8	4.8	5.1	4.8	5.1	4.7	5.1	5.0	4.9	5.0	5.0	5.0
Goods and services tax (GST) / VAT	9.2	10.0	10.7	10.0	11.1	10.1	11.3	10.9	11.3	11.4	11.4	11.4
Business tax	5.8	4.1	5.6	5.3	5.8	5.6	6.4	6.2	6.4	6.4	6.4	6.4
Corporate Social Responsibility Tax (CSR)	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Marketing Tourism Tax (MTT)	0.2	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Property tax	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other	1.1	1.0	1.9	1.6	2.3	2.2	2.3	2.1	2.1	2.1	2.1	2.2
Nontax	3.8	4.3	3.9	4.3	4.2	4.1	3.6	3.4	3.3	3.1	3.0	2.9
Fees and charges	1.5	1.3	1.5	1.5	1.4	1.3	1.4	1.3	1.3	1.2	1.2	1.2
Dividends from parastatals	1.8	2.6	2.0	1.9	1.9	1.9	1.9	1.8	1.7	1.6	1.5	1.4
Other	0.5	0.4	0.5	0.9	0.9	0.9	0.4	0.4	0.3	0.3	0.3	0.3
External grants	2.8	0.5	1.3	0.9	1.2	1.2	1.2	1.4	0.8	0.7	0.7	0.6
Expenditure and net lending	39.1	31.0	37.0	33.6	37.2	34.9	36.8	35.6	35.2	34.3	33.7	33.4
Current expenditure	33.8	28.6	32.7	29.8	31.6	30.1	30.4	29.7	29.2	28.7	28.1	27.8
Primary current expenditure	30.8	26.6	29.9	26.9	29.1	27.7	28.2	27.2	26.8	26.3	25.9	25.6
Wages and salaries [2]	11.0	9.5	11.2	10.0	11.7	10.8	11.4	10.6	10.6	10.6	10.5	10.5
Goods and services [2]	11.2	10.4	13.4	11.9	12.2	11.9	11.6	11.6	11.3	10.8	10.5	10.3
Transfers [2]	8.4	6.5	5.3	4.9	5.2	5.0	5.1	4.9	4.9	4.9	4.9	4.8
Social program of central government [4]	1.9	0.9	1.0	0.8	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.0
Transfers to public sector from central government	1.0	0.9	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Benefits and programs of Social Security Fund [4]	5.6	4.7	4.1	4.0	4.1	4.0	4.0	3.9	3.9	3.9	3.8	3.8
Other	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest due	2.9	2.0	2.8	2.9	2.5	2.4	2.2	2.5	2.4	2.3	2.2	2.1
Foreign interest	1.0	0.7	0.8	1.1	1.1	0.9	1.1	1.1	1.2	1.2	1.2	1.1
Domestic interest	1.9	1.3	1.9	1.9	1.5	1.5	1.2	1.4	1.2	1.1	1.0	1.0
Capital expenditure	5.0	2.3	4.1	3.8	5.3	4.5	5.9	5.6	5.6	5.6	5.6	5.7
Domestically financed	1.6	1.6	3.0	2.8	3.2	3.3	2.9	2.8	2.9	3.5	4.8	5.0
Foreign financed	3.4	0.7	1.1	1.0	2.0	1.2	3.0	2.9	2.7	2.2	0.8	0.7
Net lending	0.2	-0.1	0.0	-0.1	0.1	0.1	0.4	0.1	0.3	-0.2	-0.2	-0.2
Contingency	0.2	0.1	0.2	0.1	0.2	0.3	0.2	0.1	0.1	0.2	0.2	0.2
Primary balance	-3.1	1.0	0.0	1.7	1.1	1.0	1.1	1.5	1.6	2.5	2.9	3.0
Overall balance, commitment basis [3]	-6.0	-1.0	-2.8	-1.2	-1.5	-1.4	-1.1	-1.0	-0.8	0.2	0.7	0.9
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in float	0.3	1.1	0.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis (after grants)	-5.7	0.1	-2.8	0.2	-1.5	-1.4	-1.1	-1.0	-0.8	0.2	0.7	0.9
Financing	5.7	-0.1	3.0	0.0	2.3	2.2	2.1	1.9	1.0	-0.2	-0.7	-0.9
Foreign financing	5.9	-0.7	3.1	0.5	1.6	3.4	2.5	4.1	1.7	0.0	-1.2	-1.2
Disbursements	8.4	1.1	5.9	2.6	4.9	6.6	5.1	6.6	4.3	2.0	0.6	0.5
Project loans	0.6	0.7	0.7	0.5	1.1	0.5	2.2	1.8	2.1	1.6	0.2	0.1
Program/budget support	7.8	0.4	5.2	2.1	3.8	6.2	2.8	4.9	2.2	0.4	0.4	0.3
Of which RSF			0.2	0.2	0.8	0.8	1.0	0.9	0.2	0.0	0.0	0.0
Scheduled amortization	-2.5	-1.8	-2.8	-2.2	-3.3	-3.2	-2.5	-2.5	-2.6	-2.0	-1.8	-1.7
Of which Paris Club buy-back												
Domestic financing, net	-0.1	1.2	-0.2	-0.8	0.6	-1.3	-0.5	-2.3	-0.8	-0.2	0.5	0.3
Bank financing	-0.8	1.2	-0.1	-0.7	0.6	-1.1	-0.3	-2.0	-0.7	-0.2	0.4	0.3
CBS	-3.1	2.1	0.0	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	2.3	-0.9	-0.1	-2.3	0.6	-1.1	-0.3	-2.0	-0.7	-0.2	0.4	0.3
Nonbank	0.7	0.0	0.0	-0.1	0.0	-0.2	-0.1	-0.3	-0.1	0.0	0.0	0.0
Privatization and long-term lease of fixed assets	0.3	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase in government assets			0.2	0.2	0.8	0.8	1.0	0.9	0.2	0.0	0.0	0.0
Of which RSF			0.2	0.2	0.8	0.8	1.0	0.9	0.2	0.0	0.0	0.0
Statistical discrepancy	-0.4	-0.8	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Nominal GDP (millions of Seychelles Rupees)	25,164	29,373	29,095	30,019	30,318	31,464	32,012.0	33,420	35,496	37,874	40,462	43,213
Total social spending [4]	6.2	5.2	6.1	5.7	6.1	5.8	5.9	5.6	5.4	5.1	5.0	5.0

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

[1] Data include the central government and the social security system, from the 1st review and going forward.

[2] Wage and salaries and goods and services (to be) spent by government agencies other than Ministries are reclassified into these items from transfers.

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

[4] The total amount of social spending considered in the IT (memorandum items) also includes items under goods and services and wages and salaries.

Table 4. Seychelles: Depository Corporations Survey and Central Bank Accounts, 2019-27

	2019	2020	2021	2022	2023	2024	2025	2026	2027
		Act.			Prel.		Proj.		
				(Millions of Seychelles rupees)					
Depository corporations survey									
Net foreign assets	12,486	18,596	18,815	18,538	18,973	21,076	22,350	23,278	24,248
Central bank	7,645	11,427	9,519	8,467	9,010	10,494	11,451	12,109	12,798
Other depository corporations	4,841	7,169	9,295	10,071	9,963	10,582	10,898	11,169	11,450
Net domestic assets	7,008	6,157	4,678	5,097	6,032	5,521	5,202	5,757	6,556
Domestic credit	10,562	14,587	13,522	14,750	15,549	15,789	15,809	16,598	17,640
Net claims on the government	1,882	4,175	4,473	4,943	4,868	4,289	3,329	3,016	2,946
Of which : Government deposits at the Central Bank	-2,513	-1,638	-2,417	-1,801	-1,310	-1,310	-1,310	-1,310	-1,310
Of which : Change in monetary debt [1]	219.2	184.0	70.0	0.0	0.0	...	...	...	...
Credit to the economy	8,680	10,413	9,049	9,807	10,680	11,499	12,480	13,582	14,694
Of which : credit to the private sector	8,229	9,890	8,708	9,059	9,731	10,549	11,530	12,632	13,744
Other items, net	-3,554	-8,430	-8,844	-9,653	-9,517	-10,268	-10,606	-10,840	-11,084
Broad money	19,494	24,753	23,492	23,635	25,005	26,597	27,552	29,035	30,804
Currency in circulation	1,228	1,460	1,500	1,389	1,374	1,376	1,352	1,425	1,511
Foreign currency deposits	7,987	11,390	9,447	9,135	9,664	10,314	10,715	11,292	11,980
Local currency deposits	10,278	11,903	12,545	13,111	13,967	14,906	15,485	16,319	17,313
Central bank									
Net foreign assets	7,645	11,427	9,519	8,467	9,010	10,494	11,451	12,109	12,798
Foreign assets	8,191	12,144	10,361	9,166	9,714	11,092	12,061	12,724	13,420
Foreign liabilities	545	716	841	699	704	597	609	615	621
Net domestic assets	-3,081	-5,020	-2,399	-1,557	-2,222	-3,400	-4,102	-4,364	-4,582
Domestic credit	-2,318	-1,121	-1,222	-859	-1,499	-2,291	-2,817	-2,955	-3,044
Government (net)	-1,328	-453	-1,225	-603	-113	-113	-113	-113	-113
Other depository corporations (net)	-873	-503	189	-30	-1,155	-1,941	-2,460	-2,591	-2,671
Other (parastatals)	-117	-166	-185	-226	-231	-236	-244	-251	-260
Other items, net	-763	-3,898	-1,177	-698	-723	-1,109	-1,286	-1,408	-1,538
Reserve money	4,564	6,408	7,120	6,910	6,670	7,095	7,349	7,745	8,217
Currency in circulation	1,510	1,729	1,770	1,658	1,641	1,644	1,620	1,692	1,779
Commercial bank reserves	3,054	4,678	5,350	5,252	5,029	5,451	5,730	6,053	6,438
Of which : required reserves in foreign currency	1,057	1,588	1,711	1,741	1,827	1,413	1,468	1,547	1,641
required reserves in domestic currency	1,462	1,661	1,379	1,888	1,991	2,127	2,211	2,328	2,468
Memorandum items:									
Gross official reserves (millions of U.S. dollars)	581	559	702	645	675	751	805	841	879
Foreign currency deposits (millions of U.S. dollars)	567	542	643	647	681	702	719	750	788
Broad money growth (12–month percent change)	13.9	27.0	-5.1	0.6	5.8	6.4	3.6	5.4	6.1
Credit to the private sector (12–month percent change)	22.3	20.2	-11.9	4.0	7.4	8.4	9.3	9.6	8.8
Reserve money (end-of-period; 12–month percent change)	22.7	40.4	11.1	-3.0	-3.5	6.4	3.6	5.4	6.1
Money multiplier (broad money/reserve money)	4.3	3.9	3.3	3.4	3.7	3.7	3.7	3.7	3.7
Velocity (GDP/broad money; end-of-period)	1.3	1.0	1.1	1.2	1.2	1.2	1.2	1.2	1.2

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

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

Table 5. Seychelles: Financial Soundness Indicators for the Banking Sector, 2018–24

	2018	2019	2020	2021	2022	2023				2024
						Mar	Jun	Sep	Dec	Feb
	(Percent, end-of-period)									
Capital adequacy										
Regulatory capital to risk weighted assets	20.5	19.5	17.1	22.7	20.7	21.5	22.3	21.7	21.7	18.5
Regulatory tier 1 capital to risk weighted assets	16.8	16.2	14.1	17.2	15.2	18.0	18.4	16.9	16.1	13.2
Capital to assets (net worth)	10.1	9.9	8.4	9.2	8.8	9.1	9.4	9.5	9.9	10.2
Net tangible capitalization [1]	10.1	10.0	8.5	9.3	8.9	9.2	9.5	9.6	10.0	10.3
Asset quality										
Foreign exchange loans to total loans	24.2	26.0	36.4	27.9	24.5	22.7	21.7	20.6	19.7	18.8
Non-performing loans to gross loans	3.5	2.7	3.3	5.5	7.6	7.7	7.4	7.8	8.2	7.7
Provision as percentage of non-performing loans	19.2	25.1	38.3	32.5	20.3	19.7	22.6	20.0	18.3	16.2
Earnings and profitability										
Return on assets (annualized)	3.7	2.5	1.0	2.6	8.0	2.2	3.5	2.3	1.3	3.1
Return on equity (annualized)	35.7	24.0	11.5	28.1	91.3	24.0	37.8	24.3	13.1	30.4
Interest margin to gross income	54.5	62.6	58.3	51.8	57.3	63.6	61.1	64.3	64.8	64.1
Noninterest expense to gross income	55.9	57.7	55.3	56.0	46.7	53.4	46.1	51.0	75.9	50.0
Net interest margin (annualized) [2]	4.2	9.4	7.4	7.3	3.6	4.4	4.0	4.1	4.5	4.1
Net noninterest margin (annualized) [3]	-0.8	-3.1	-1.7	-2.8	-0.3	-1.2	-0.5	-1.0	-2.8	-0.9
Expense to income	61.4	63.7	60.7	65.0	52.0	58.0	52.2	57.1	79.1	57.0
Interest expense to gross income	14.4	16.6	13.6	12.4	11.0	11.1	12.9	14.2	15.1	16.5
Liquidity										
Core liquid assets to total assets [4]	45.2	44.1	44.1	43.6	47.8	51.3	50.7	49.0	49.2	50.6
Broad liquid assets to total assets [5]	58.2	55.3	57.3	59.4	63.0	65.4	64.4	62.9	62.8	63.5
Liquid assets (broad) to short term liabilities	63.7	60.6	62.3	66.3	69.0	73.5	73.2	71.1	71.0	70.4
Liquid assets (broad) to total liabilities	64.7	61.6	62.5	65.4	69.1	72.0	71.1	69.6	69.7	70.7
Liquid assets to deposit liabilities	68.5	65.3	67.8	69.4	72.5	75.8	74.6	73.1	73.5	74.4
Foreign exchange exposure										
Total long position in foreign exchange to capital	...	...	...	5.2	6.9	9.8	3.0	3.0	5.9	6.8
Total short position in foreign exchange to capital	...	...	...	-4.3	-3.2	-3.4	-6.5	-4.2	-2.8	-2.9

Source: Central Bank of Seychelles.

[1] Defined as: equity capital/(assets-interest in suspense-provisions).
[2] Defined as: (Interest income - interest expense)/average assets.
[3] Defined as: (Non-interest income - non-interest expense)/average assets.
[4] Core liquid assets include cash, balances with CBS, and deposits with other banks.
[5] Broad liquid assets include core liquid assets plus investments in government securities.

Table 6. Seychelles: Program Monitoring – External Financing Requirements and Sources, 2021-29
(Millions of US$, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029
Gross Financing Requirements	**192**	**197**	**214**	**228**	**232**	**259**	**277**	**287**	**308**
Current account deficit	151	152	155	158	175	199	227	240	261
CG Debt Amortization	41	45	59	70	57	60	50	47	47
Sources of Financing	**192**	**197**	**214**	**212**	**216**	**252**	**277**	**287**	**308**
Public sector	141	67	63	111	113	90	49	31	32
o/w: World Bank	44	25	6	33	38	15	0	0	0
African Development Bank	20	0	26	48	35	25	0	0	0
Others	0	13	0	20	0	0	10	10	10
IMF	68	17	16	0	0	0	0	0	0
EFF purchases	68	17	16	0	0	0	0	0	0
SDR allocation	0	0	0	0	0	0	0	0	0
FDI (net)	160	226	279	244	307	333	365	434	433
Portfolio investment (net)	13	-4	10	-12	-31	-6	-6	-6	-6
Others (net)	-3	-155	-105	-99	-166	-146	-108	-129	-129
Capital account balance	24	14	5	21	25	14	15	15	16
Net errors and omissions	0	0	0	0	0	0	0	0	0
Change in reserves (without RSF, increase: -)	-143	49	-39	-53	-33	-32	-37	-59	-39
Financing gap	**0**	**0**	**0**	**16**	**16**	**8**	**0**	**0**	**0**
Prospective Financing				**16**	**16**	**8**	**0**	**0**	**0**
IMF EFF purchases[1]				16	16	8	0	0	0
RSF disbursement[1]	**0**	**0**	**4**	**17**	**21**	**4**	**0**	**0**	**0**
Add'l change in official reservers (increase: +)	0	0	4	17	21	4	0	0	0
Total change in official reserves (with RSF, increase: +)	**143**	**-49**	**43**	**69**	**54**	**36**	**37**	**59**	**39**
Memo items									
Gross international reserves with RSF	702	639	682	751	805	841	879	937	977
(percent of ARA)	121	102	104	110	113	114	117	121	123
(months of imports of G&S)	3.7	3.1	3.2	3.4	3.5	3.5	3.5	3.6	3.6
Gross international reserves without RSF			678	731	764	796	833	892	931
(percent of ARA)			104	107	108	108	111	115	117
(months of imports of G&S)			3.2	3.3	3.3	3.3	3.3	3.4	3.4

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

[1] Including IMF disbursements associated with future reviews.

Table 7. Seychelles: Schedule of Reviews and Purchases Under the EFF-Supported Program and Disbursements Under the RSF Arrangement

Availability date	Conditions for disbursement	EFF Purchases	
		SDR million	Percent of Quota
May 31, 2023	Approval of the 3-year arrangement under the EFF	6.107	26.7
November 15, 2023	1st Review and continuous and end-June 2023 performance criteria	6.107	26.7
May 15, 2024	2nd Review and continuous and end-December 2023 performance criteria	6.107	26.7
November 15, 2024	3rd Review and continuous and end-June 2024 performance criteria	6.107	26.7
May 15, 2025	4th Review and continuous and end-December 2024 performance criteria	6.107	26.7
November 15, 2025	5th Review and continuous and end-June 2025 performance criteria	6.107	26.7
May 15, 2026	6th Review and continuous and end-December 2025 performance criteria	5.723	25.0
Total Access		42.365	185

Availability date	Conditions for disbursement [1]	RSF Disbursements	
		SDR million	Percent of Quota
May 31, 2023	Approval of the RSF arrangement	-	-
November 15, 2023	Completion of RSF review of reform measure 1 implementation	3.123	13.6
May 15, 2024	Completion of RSF review of reform measure 2 implementation	3.123	13.6
November 15, 2024	Completion of RSF review of reform measure 3 implementation	3.123	13.6
	Completion of RSF review of reform measure 4 implementation	3.123	13.6
	Completion of RSF review of reform measure 5 implementation	3.123	13.6
May 15, 2025	Completion of RSF review of reform measure 6 implementation	3.123	13.6
	Completion of RSF review of reform measure 7 implementation	3.123	13.6
	Completion of RSF review of reform measure 8 implementation	3.123	13.6
November 15, 2025	Completion of RSF review of reform measure 9 implementation	3.123	13.6
	Completion of RSF review of reform measure 10 implementation	3.123	13.6
May 15, 2026	Completion of RSF review of reform measure 11 implementation	3.120	13.6
Total Access		34.350	150

Source: IMF staff.

[1] The disbursement amounts are split evenly among all reform measures.

Table 8. Seychelles: Program Monitoring – Indicators of Fund Credit Under the EFF and RSF

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
	(Millions of SDR)																					
Existing Fund credit																						
Stock [1]	84.5	77.6	68.7	57.1	45.5	33.3	21.1	8.9	4.7	3.1	2.8	2.5	2.2	1.9	1.6	1.2	0.9	0.6	0.3	0.0	0.0	0.0
GRA	81.4	74.4	65.6	54.0	42.3	30.1	17.9	5.7	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	2.8	2.5	2.2	1.9	1.6	1.2	0.9	0.6	0.3	0.0	0.0	0.0
Obligation	19.5	12.4	14.1	16.1	15.3	15.0	14.3	13.7	5.2	2.4	1.1	1.1	1.1	1.0	1.0	1.0	1.0	1.0	1.0	0.9	0.6	0.6
Principal (repayments/repurchases)	13.2	7.0	8.8	11.6	11.7	12.2	12.2	12.2	4.2	1.5	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.0	0.0
GRA	13.2	7.0	8.8	11.6	11.7	12.2	12.2	12.2	4.2	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.0	0.0
Charges and interest	6.2	5.4	5.3	4.5	3.6	2.8	2.1	1.5	1.0	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.6
Prospective Fund credit																						
Disbursement	24.7	27.8	8.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GRA	12.2	12.2	5.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	12.5	15.6	3.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock [1]	24.7	52.5	61.4	61.4	60.9	58.3	53.8	48.8	43.7	38.7	34.0	29.8	26.4	23.3	20.1	17.0	13.9	10.8	7.6	4.5	1.6	0.2
GRA	12.2	24.4	30.2	30.2	29.6	27.1	22.5	17.5	12.5	7.5	3.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	12.5	28.1	31.2	31.2	31.2	31.2	31.2	31.2	31.2	31.2	31.1	29.4	26.4	23.3	20.1	17.0	13.9	10.8	7.6	4.5	1.6	0.2
Obligations [2, 3, 4]	0.4	2.0	3.7	4.0	4.5	6.3	7.7	7.7	7.4	7.2	6.6	5.9	4.9	4.4	4.3	4.1	3.9	3.8	3.6	3.5	3.2	1.5
Principal (repayments/repurchases)	0.0	0.0	0.0	0.0	0.5	2.5	4.5	5.0	5.0	5.0	4.7	4.2	3.4	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.0	1.4
GRA	0.0	0.0	0.0	0.0	0.5	2.5	4.5	5.0	5.0	5.0	4.5	2.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	1.7	3.0	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.0	1.4
Charges and interest	0.4	2.0	3.7	4.0	4.0	3.8	3.2	2.7	2.4	2.2	1.9	1.7	1.5	1.3	1.1	1.0	0.8	0.7	0.5	0.4	0.2	0.1
Existing and prospective Fund credit																						
Stock [1]	109.2	130.1	130.1	118.5	106.3	91.6	74.8	57.6	48.4	41.8	36.8	32.3	28.6	25.1	21.7	18.3	14.8	11.4	8.0	4.5	1.6	0.2
GRA	93.6	98.9	95.8	84.1	72.0	57.2	40.5	23.3	14.0	7.5	3.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	15.6	31.2	34.4	34.4	34.4	34.4	34.4	34.4	34.4	34.4	33.9	31.9	28.6	25.1	21.7	18.3	14.8	11.4	8.0	4.5	1.6	0.2
In percent of quota	476.9	568.1	568.2	517.5	464.3	399.9	326.8	251.5	211.3	182.6	160.9	141.2	124.8	109.8	94.8	79.8	64.8	49.8	34.8	19.8	6.8	0.0
GRA	408.8	431.7	418.2	367.5	314.3	249.9	176.8	101.5	61.3	32.6	12.9	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	68.2	136.4	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	148.0	139.1	124.8	109.8	94.8	79.8	64.8	49.8	34.8	19.8	6.8	0.0
In percent of GDP	6.7	7.7	7.3	6.3	5.4	4.3	3.2	2.3	1.8	1.4	1.2	1.0	0.8	0.6	0.5	0.4	0.3	0.2	0.1	0.1	0.0	0.0
In percent of Government Revenues	20.0	22.2	21.3	18.4	15.6	12.5	9.4	6.7	5.2	4.2	3.4	2.8	2.3	1.8	1.5	1.2	0.9	0.6	0.4	0.2	0.1	0.0
In percent of exports of goods and services	5.9	6.7	6.5	5.7	4.9	3.9	2.9	2.1	1.6	1.3	1.1	0.9	0.7	0.6	0.5	0.4	0.3	0.2	0.1	0.1	0.0	0.0
In percent of gross reserves	19.3	21.5	20.7	18.1	15.2	12.1	9.2	6.5	5.1	4.1	3.3	2.7	2.2	1.8	1.4	1.1	0.8	0.6	0.4	0.2	0.1	0.0
Obligations to the Fund from existing and prospective Fund arrangements																						
Total obligations	19.8	14.4	17.8	20.1	19.8	21.3	22.1	21.4	12.7	9.5	7.7	6.9	6.0	5.5	5.3	5.1	4.9	4.8	4.6	4.4	3.8	2.1
Principal (repayments/repurchases)	13.2	7.0	8.8	11.6	12.2	14.7	16.8	17.2	9.2	6.6	5.0	4.5	3.8	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.0	1.4
GRA	13.2	7.0	8.8	11.6	12.2	14.7	16.8	17.2	9.2	6.6	4.5	2.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	2.0	3.3	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.0	1.4
Charges and interest	6.6	7.4	8.9	8.5	7.6	6.5	5.3	4.2	3.4	3.0	2.7	2.4	2.2	2.0	1.8	1.7	1.5	1.3	1.2	1.0	0.8	0.7
In percent of quota [5]	86.6	62.9	77.6	87.9	86.4	93.0	96.4	93.5	55.3	41.7	33.4	30.3	26.0	23.8	23.1	22.3	21.6	20.8	20.1	19.3	16.5	9.1
In percent of GDP	1.2	0.9	1.0	1.1	1.0	1.0	1.0	0.9	0.5	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
In percent of Government Revenues	3.6	2.5	2.9	3.1	2.9	2.9	2.8	2.5	1.4	1.0	0.7	0.6	0.5	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.1
In percent of exports of goods and services	1.1	0.7	0.9	1.0	0.9	0.9	0.9	0.8	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
In percent of gross reserves	3.5	2.4	2.8	3.1	2.8	2.8	2.7	2.4	1.3	0.9	0.7	0.6	0.5	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.1

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

[1] End-of-period.

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

[3] Seychelles belongs to the RST interest Group C.

[4] Based on the RST rate of interest of 5.028 percent as of April 25, 2024.

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

Table 9. Seychelles: Decomposition of Public Debt and Debt Service by Creditor, 2023-25[1]

Seychelles. Decomposition of Public Debt and Debt Service by Creditor, 2023-25[1]

	Debt Stock (end of period)			Debt Service					
	2023			2023	2024	2025	2023	2024	2025
	(In US$ million)	*(Percent total debt)*	*(Percent GDP)*	*(In US$ million)*			*(Percent GDP)*		
Total	1178	100.0	55.7	247	228	189	11.5	10.6	8.4
External	574	48.7	27.1	73	91	77	3.4	4.2	3.4
Multilateral creditors[2]	424	36.0	20.1	26	43	36	1.2	2.0	1.6
IMF	130	11.1	6.2						
World Bank	141	11.9	6.6						
AfDB	101	8.6	4.8						
Other Multilaterals	52	4.4	2.5						
o/w: EIB	27	2.3	1.3						
o/w: BADEA	18	1.5	0.8						
Bilateral Creditors	75	6.3	3.5	16	16	17	0.7	0.7	0.8
Paris Club	40	3.4	1.9	9	10	12	0.4	0.5	0.5
o/w: France	20	1.7	1.0						
o/w: UK	6	0.5	0.3						
Non-Paris Club	38	3.2	1.8	7	6	6	0.3	0.3	0.3
o/w: China	11	0.9	0.5						
o/w: Saudi Arabia	12	1.1	0.6						
Bonds	57	4.9	2.7	21	21	20	1.0	1.0	0.9
Commercial creditors	20	1.7	0.9	10	11	4	0.5	0.5	0.2
o/w: TDB	7	0.6	0.3						
o/w: Nedbank	6	0.5	0.3						
o/w: Habib Bank	5	0.4	0.2						
Domestic	604	51.3	28.5	174	137	112	8.1	6.3	5.0
Held by residents, total	n/a								
Held by non-residents, total	n/a								
T-Bills	129	10.9	6.1	93	47	1	4.4	2.2	0.0
Bonds	425	36.1	20.1	73	82	103	3.4	3.8	4.6
Loans	50	4.3	2.4	8	9	8	0.4	0.4	0.3
Memo items:									
Collateralized debt[3]									
o/w: Related									
o/w: Unrelated									
Contingent liabilities									
o/w: External public guarantees	9	0.7	0.4						
o/w: Domestic Public guarantees	52	4.4	2.5						
o/w: Other explicit contingent liabilities[4]									
Nominal GDP	2141			2141	2163	2253			

1/As reported by Country authorities according to their classification of creditors, including by official and commercial, as of end-2022. Debt coverage is the same as the DSA, except for domestic and external guarantees which are reported under memo items. The debt stock as percent of GDP is calculated in local currency.

2/Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

3/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

4/Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

Source: IMF staff.

Annex I. Risk Assessment Matrix [1]

Source of Risks	Relative Likelihood	Expected Impact if Realized	Policy Response
Conjunctural Risks			
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	**High**	**High** Supply disruptions and sharper-than-anticipated increases in international energy prices raise the costs of energy imports and other imported goods.	Develop a contingency plan (including risk management tools such as establishing contingent line of credit and a rule-based cash buffer) that would lower the impact of a delayed economic recovery. Consider further fiscal consolidation and targeted and temporary support as needed for vulnerable sectors. Let the exchange rate act as a shock absorber to protect reserve buffers.
Abrupt global slowdown. Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs.	**Medium**	**High** Recession in key tourist markets would lower tourist arrivals and hamper economic recovery and revenues.	Develop a contingency plan (including risk management tools such as establishing contingent line of credit and a rule-based cash buffer) that would lower the impact of a delayed economic recovery. Consider further fiscal consolidation and targeted support as needed for vulnerable sectors in case such risk materializes. Let the exchange rate act as a shock absorber to protect reserve buffers and utilize FXI to prevent disorderly market conditions.
Commodity price volatility. A succession of supply disruptions (e.g., conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	**High**	**Medium** The exchange rate pass-through is slow in Seychelles for certain items, but higher food and energy prices would hurt vulnerable consumers.	CBS to maintain vigilant monitoring and be ready to tighten monetary stance to anchor inflation expectations. Provide targeted support for the most vulnerable population to deal with rising prices amid a delayed economic recovery.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of Risks	Relative Likelihood	Expected Impact if Realized	Policy Response
Conjunctural Risks			
Sovereign debt distress. Domino effects from high global interest rates, a growth slowdown in AEs, unfunded fiscal spending, and/or disorderly debt events in some EMDEs spillover to other highly indebted countries, amplified by sovereign-bank feedback, resulting in capital outflows, rising risk premia, and loss of market access.	**Medium**	**Medium** A reduction in external financing could worsen the balance of payments with implications for the exchange rate.	Ensuring a prudent macro-fiscal stance to foster market access at reasonable terms. Preemptively rebuild fiscal and FX buffers.
Limited access to external grants and concessional financing due to Seychelles' high-income status	**Medium**	**Medium** Access to costly external financing could worsen the balance of payments with implications for the exchange rate.	Consider tapping alternative sources of external financing in the medium-term. Ensuring a prudent macro-fiscal stance to foster market access at reasonable terms. Preemptively rebuild fiscal and FX buffers.
Higher NPL levels in the banking sector in Seychelles	**Medium**	**Medium** Higher NPL levels in the banking sector, which increased mainly due to the withdrawal of forbearance measures, could pose risks to financial stability.	Encourage and facilitate prudent restructuring of loans and enhance management and monitoring of NPLs. The authorities should provide guidance on prudential treatment of moratoria and NPL management strategies and assess their implementation.
Structural Risks			
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	**Medium**	**Medium** The materialization of risks related to natural disasters could trigger further public expenditures and alter the planned reduction of public debt.	Prioritize the implementation of projects related to climate change. Continue rebuilding fiscal space, reducing public debt, increasing foreign exchange buffers, and improving the effectiveness of social protection.
Potential permanent effect on imports of any reshuffling of global supply chains due to geoeconomic fragmentation.	**Medium**	**Medium** Higher food and energy prices would hurt vulnerable consumers.	Provide targeted support for the most vulnerable population to deal with rising prices.

Annex II. Sovereign Risk Debt Sustainability Framework

Figure 1. Seychelles: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	Moderate	The overall risk of sovereign stress is moderate, reflecting moderate levels of vulnerability in the medium-, and long-term horizons.
Near term 1/	n.a.	n.a.	Not applicable
Medium term	Moderate	Moderate	Medium-term risks are assessed as moderate on the basis of the strength of institutions and the authorities' commitment to prudent fiscal stance.
Fanchart	Moderate	…	
GFN	Moderate	…	
Stress test	...	…	
Long term	…	Moderate	Long-term risks are moderate as the need for climate-related expenditures feed into debt dynamics.
Sustainability assessment 2/	Sustainable	Sustainable	The projected debt path is expected to improve and stabilize over the long run and GFNs will remain at manageable levels. While the impact of climate change is a concern, efforts to mitigate its impact is already built in over the medium term in the infrastructure spending, and the authorities are already actively engaging with other international agencies for technical and financial support.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Staff assesses Seychelles to be at a moderate risk of sovereign stress and debt is assessed to be sustainable with high probability. Public debt declined from 74.5 percent in 2021 to 61.4 percent in 2022, and further to 58.5 percent in 2023, thanks to the continued economic recovery from pandemic and fiscal consolidation efforts vastly overperforming program targets. Medium-term liquidity risks as analyzed by the GFN Financeability Module are moderate. Gross financing needs are assessed to be lower compared to June 2023 DSA due to stronger than anticipated fiscal consolidation and higher GDP projections. However, due to its high income status, Seychelles faces limited access to concessional financing which can increase debt servicing costs. The authorities should continue to maintain prudent fisccal position and develop domestic debt markets. Seychelles should also continue with policies to tackle risks arising from climate change. Fund's support through RSF will help contain risks. Health spending needs will also rise, in part due to high percentage of population suffering from substance abuse and its long-term generational effect.

Source: Fund staff.
Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.
1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.
2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Seychelles: Debt Coverage and Disclosures

	CG	GG	NFPS	CPS	Other	Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	

2. Subsectors included in the chosen coverage in (1) above:

					Subsectors captured in the baseline	Inclusion	Comments
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes	
				2	Extra budgetary funds (EBFs)	No	Not applicable
				3	Social security funds (SSFs)	Yes	
				4	State governments	Yes	
				5	Local governments	Yes	
				6	Public nonfinancial corporations	Yes	
				7	Central bank	Yes	
				8	Other public financial corporations	Yes	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	**IPSGSs 3/**

	Basis of recording		Valuation of debt stock		
4. Accounting principles:	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-government Debt Holdings

					Holder / Issuer	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt									0
				2	Extra-budget. funds									0
				3	Social security funds									0
				4	State govt.									0
				5	Local govt.									0
				6	Nonfin pub. corp.									0
				7	Central bank									0
				8	Oth. pub. fin. corp									0
					Total	0	0	0	0	0	0	0	0	0

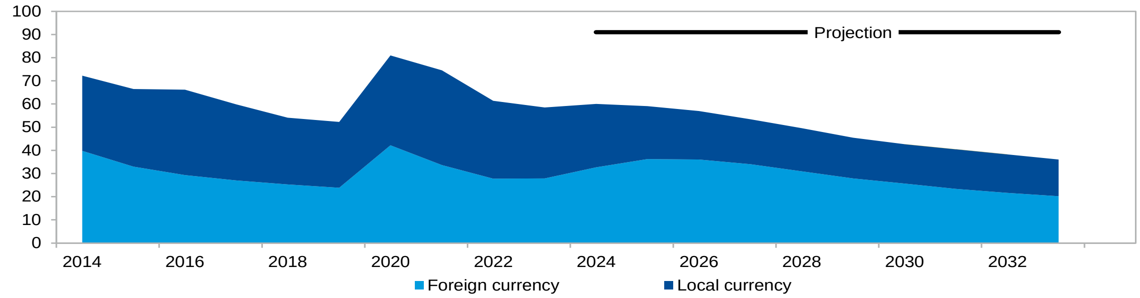
Sources: IMF staff calculations and authorities data.

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

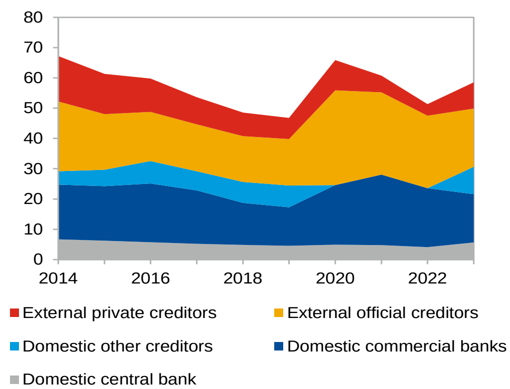
Commentary: The coverage in this SRDSA is for the general government. Government guarantees are included. There are no outstanding arrears.

Figure 3. Seychelles: Public Debt Structure Indicators

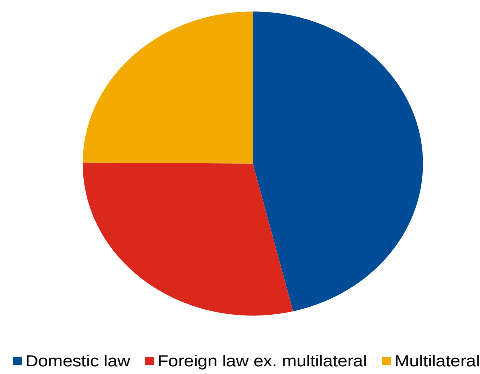
Debt by Currency (percent of GDP)

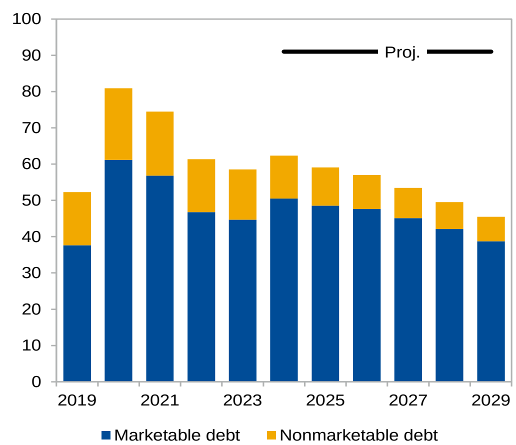


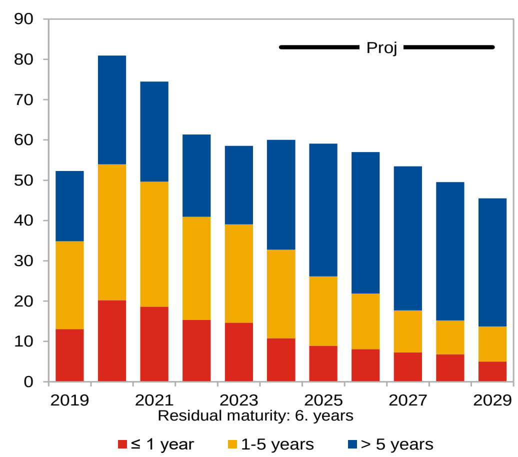
Public Debt by Holder (percent of GDP)



Public Debt by Governing Law, 2023 (percent)







Commentary: The composition of domestic debt rose in recent years, and its share in total debt is expected to rise gradually over the projection period. Over the medium and long-term, market financing both from domestic and external financial markets will increase gradually. External creditors are largely multilaterals (IMF, World Bank and AfDB) and bilaterals (Paris and non-Paris club). However, access to conessional financing is limited due to its high income status. Banks are the largest domestic creditors.The potential for greater domestic bond financing to replace external financing could be constrained by the absence of a secondary market mechanism for government securities. Authorities are working with the Fund to improve secondary market mechanism.

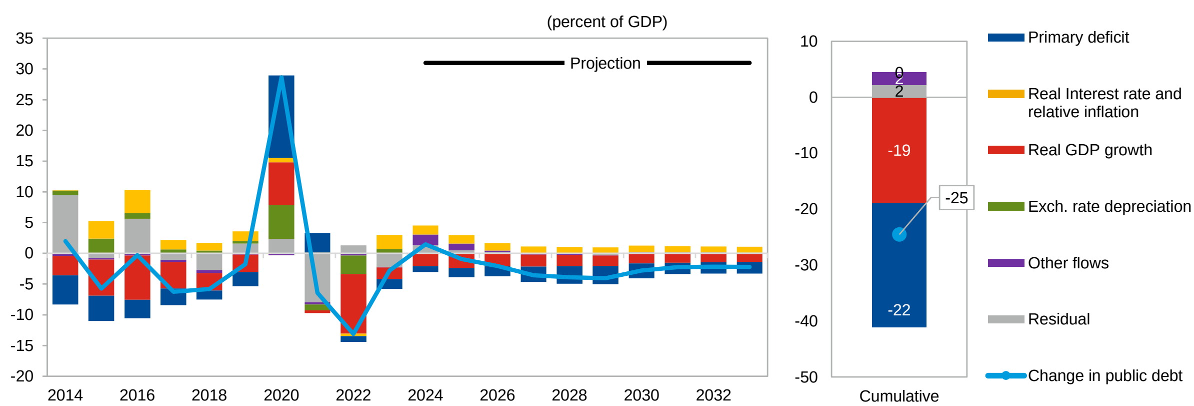
Source: IMF staff.

Figure 4. Seychelles: Baseline Scenario

(percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection				
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	58.5	60.0	59.1	57.0	53.5	49.5	45.5	42.7	40.4	38.3	36.1	34.0
Change in public debt	-2.8	1.5	-0.9	-2.1	-3.6	-3.9	-4.0	-2.8	-2.2	-2.2	-2.2	-2.0
Contribution of identified flows	-0.6	0.1	-1.4	-2.3	-3.5	-3.8	-3.8	-3.0	-2.4	-2.3	-2.3	n.a.
Primary deficit	-1.6	-1.0	-1.5	-1.6	-2.5	-2.9	-3.0	-2.4	-1.8	-1.8	-1.9	-1.7
Noninterest revenues	32.3	33.5	34.6	34.4	34.4	34.4	34.3	33.7	32.9	32.7	32.6	32.2
Noninterest expenditures	30.7	32.6	33.1	32.8	31.9	31.5	31.3	31.3	31.0	30.9	30.7	30.4
Automatic debt dynamics	1.1	-0.6	-1.0	-0.9	-0.9	-0.8	-0.7	-0.5	-0.4	-0.4	-0.3	n.a.
Real interest rate and relative inflation	2.3	1.5	1.4	1.2	1.1	1.0	1.0	1.0	1.0	1.0	0.9	n.a.
Real interest rate	3.5	1.8	1.4	1.1	0.7	0.6	0.6	0.7	0.7	0.7	0.7	0.6
Relative inflation	-1.2	-0.3	0.0	0.2	0.4	0.4	0.4	0.3	0.3	0.3	0.3	n.a.
Real growth rate	-1.9	-2.1	-2.4	-2.1	-2.0	-1.8	-1.7	-1.5	-1.4	-1.4	-1.3	-1.2
Real exchange rate	0.7	…	…	…	…	…	…	…	…	…	…	…
Other identified flows	-0.1	1.7	1.1	0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	-0.1	1.7	1.1	0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0
Contribution of residual	-2.2	1.3	0.5	0.2	-0.1	-0.1	-0.2	0.2	0.2	0.1	0.1	n.a.
Gross financing needs	12.98	13.7	11.1	9.2	7.4	6.1	5.6	4.7	5.6	5.0	5.1	5.3
of which: debt service	14.7	14.6	12.6	10.8	9.9	9.0	8.6	7.1	7.5	6.9	7.0	7.1
Local currency	11.4	10.5	9.1	7.1	6.7	6.0	5.9	4.4	4.9	4.8	5.3	5.8
Foreign currency	3.2	4.1	3.6	3.7	3.2	3.0	2.7	2.7	2.6	2.1	1.8	1.3
Memo:												
Real GDP growth (percent)	3.2	3.7	4.1	3.7	3.6	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Inflation (GDP deflator; percent)	-0.9	1.1	2.0	2.4	3.0	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Nominal GDP growth (percent)	2.2	4.8	6.2	6.2	6.7	6.8	6.8	6.8	6.8	6.8	6.8	6.8
Effective interest rate (percent)	4.9	4.3	4.4	4.4	4.4	4.4	4.5	4.8	4.9	5.0	5.1	4.8

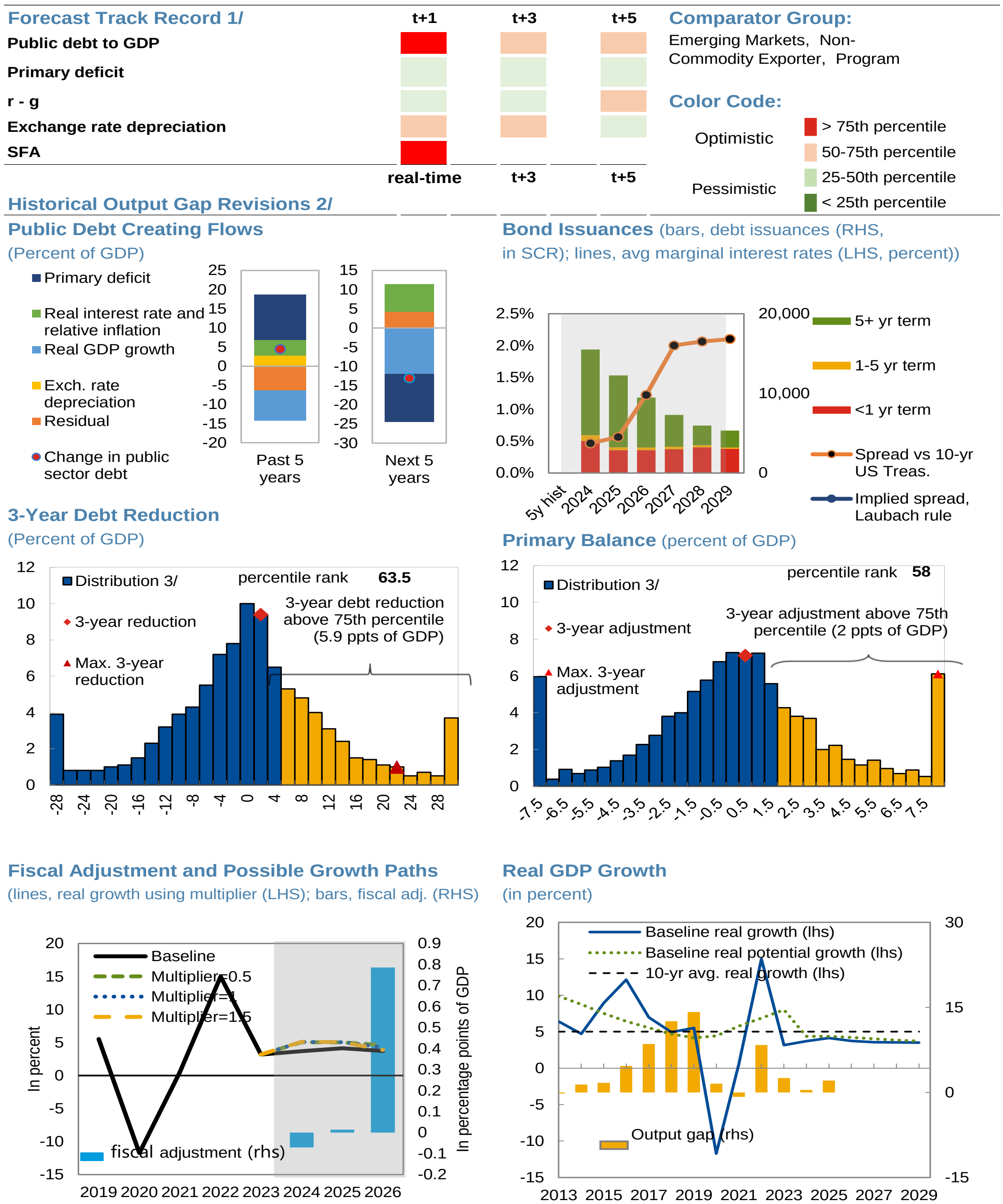
Contribution to Change in Public Debt



Staff commentary: Public debt has been put on a downward debt trajectory after a temporary increase during the pandemic. Debt reduction is projected to continue to meet the authorities' medium term target of 50 percent of GDP and even lower over the longer term, mainly driven by continued fiscal prudence and growth. Changes compared to previous DSA (June 2023) reflect better than expected primary balance for 2023.

Source: IMF staff.

Figure 5. Seychelles: Realism of Baseline Assumptions



Commentary: The materialization of a v-shaped economic recovery from the Covid pandemic combined with larger than expected fiscal consolidation have significantly improved public indebtedness. Debt reduction of near 20 percent of GDP over three years and the authorities' strong commitment to prudent fiscal management make Seychelles standout among other comparable countries. However, its heavy reliance on tourism renders the economy vulnerable to shocks. The country is also facing significant climate challenges.

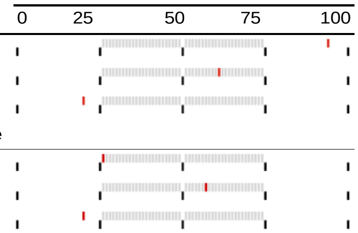
Source: IMF staff.

Figure 6. Seychelles: Medium-Term Risk Analysis

Debt Fanchart and GFN Financeability Indexes

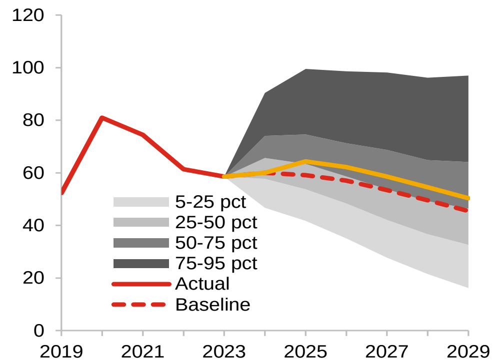
(percent of GDP unless otherwise indicated)

Module	Indicator	Value	Risk index	Risk signal
Debt fanchart module	Fanchart width	80.8	1.2	…
	Probability of debt not stabilizing (pct)	5.1	0.0	…
	Terminal debt level x institutions index	21.7	0.5	…
	Debt fanchart index	**…**	**1.7**	**Moderate**
GFN finance-ability module	Average GFN in baseline	8.8	3.0	…
	Bank claims on government (pct bank assets)	14.5	4.7	…
	Chg. in claims on govt. in stress (pct bank assets)	9.2	3.1	…
	GFN financeability index	**…**	**10.8**	**Moderate**

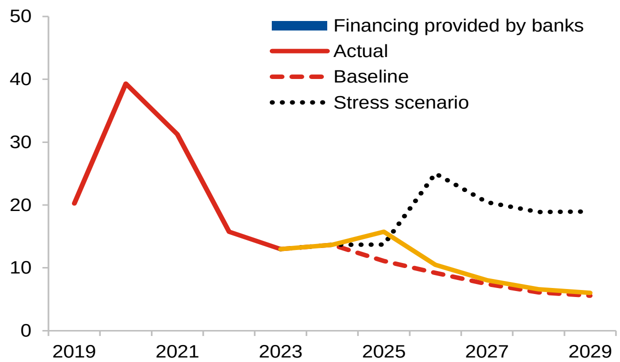


Legend: Interquartile range Seychelles

Final Fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)

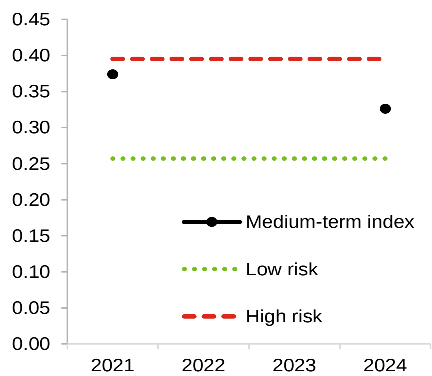


Triggered stress tests (stress tests not activated in gray)

Banking crisis Commodity prices Exchange rate Contingent liab. Natural disaster

Medium-Term Index

(index number)



Medium-Term Risk Analysis

	Low risk threshold	High risk threshold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.4
GFN finaceability index	7.6	17.9	0.5	0.2
Medium-term index (MTI)	0.3	0.4	…	0.3, Moderate

Prob. of missed crisis, 2024-2029 (if stress not predicted): 18.2 pct.

Prob. of false alarm, 2024-2029 (if stress predicted): 31.8 pct.

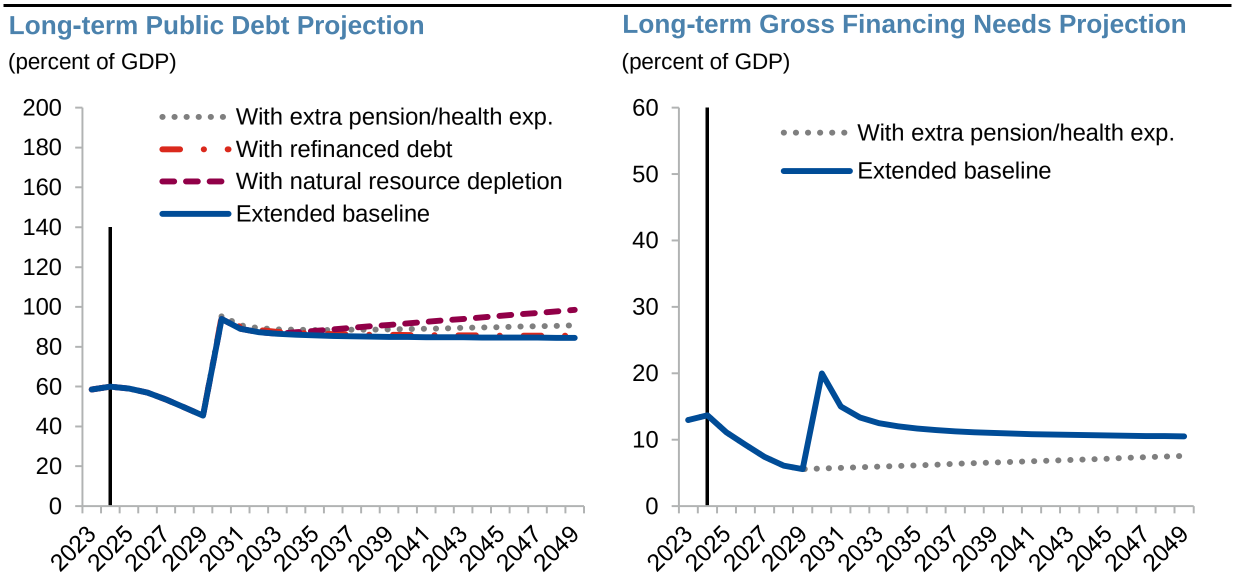
Sources: IMF staff calculations and authorities data.

Commentary: Both of the medium-term tools indicate that risk is moderate. The fan chart analysis estimates risks to be moderate partly due to a high assessed probability of debt stabilization. The GFN module also indicates moderate risk for Seychelles in relation to its low average projected gross financing needs and relatively limited exposure of banks on government debt. In a standard stress scenario, the natural disaster shock would elevate financing needs in the short term but the financing needs would stabilize. In reality, due to geographical location, Seychelles has not experienced much natural diastasters, however the country is highly vulnerable to the rise in sea level from climate change.The RSF is supporting the authorities address climate concerns.

Figure 7. Seychelles: Long-Term Risk Analysis

Relevancy of long-term factors

Topic	Vulnerability factors
Climate change	n.a.
Demographics	Large change in old-age dependency ratio
Long-term amortization	n.a.
Natural resource production	n.a.



Commentary: Unlike other small island economies, Seychelles has not been subject to frequent natural diasters such as earthquakes or hurricanes due to its geographical location. However, the country is highly vulnerable to climate change associalted with the rise in the sea-level. Over the long-run, Seychelles also faces risks from population aging. Effective planning and execution of climate policies and identification and deployment of new revenue sources to address social needs will be critical.

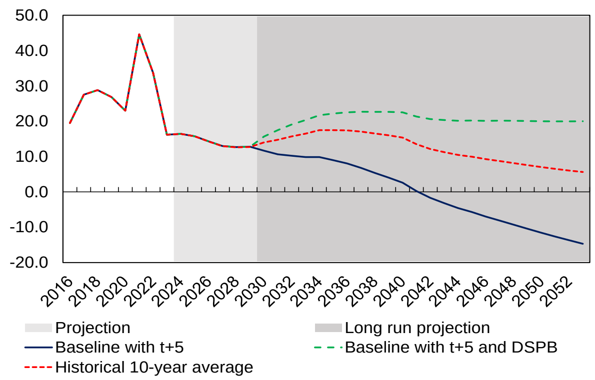
Source: IMF staff.

Figure 8. Seychelles: Long-Term Risk Analysis

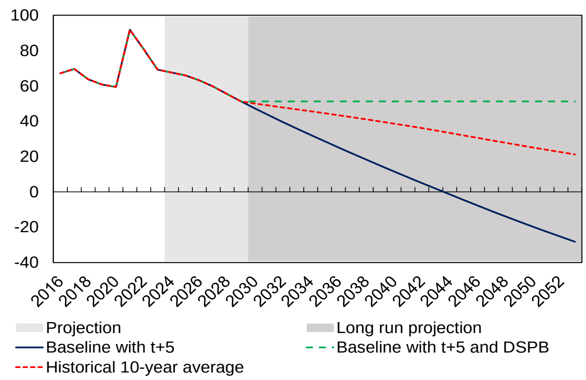
Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Overall Risk Indication		

GFN-to-GDP Ratio



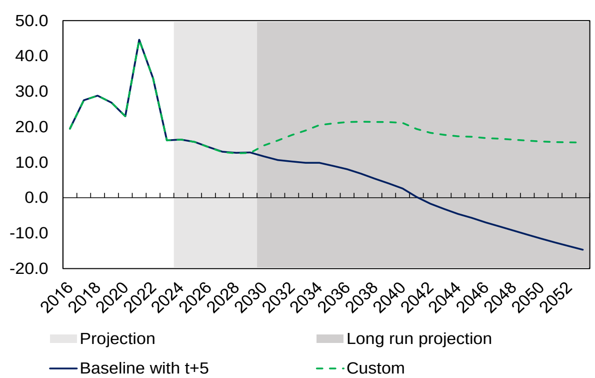
Total Public Debt-to-GDP Ratio



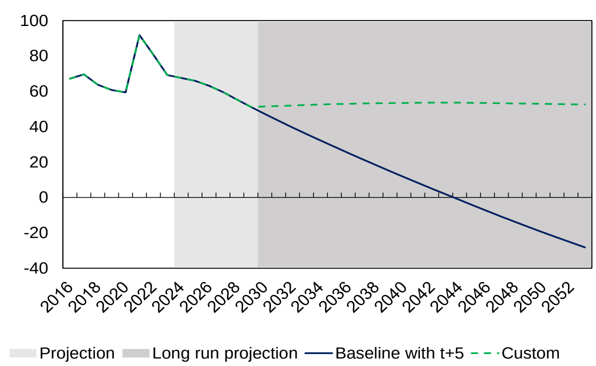
Custom

	Baseline extension of fifth projection year	Custom baseline
Real GDP growth	3.5%	2.0%
Primary balance-to-GDP ratio	0.8%	0.0%
Real depreciation	-2.2%	-1.1%
Inflation (GDP deflator)	3.0%	2.9%

GFN-to-GDP Ratio



Total public Debt-to-GDP Ratio



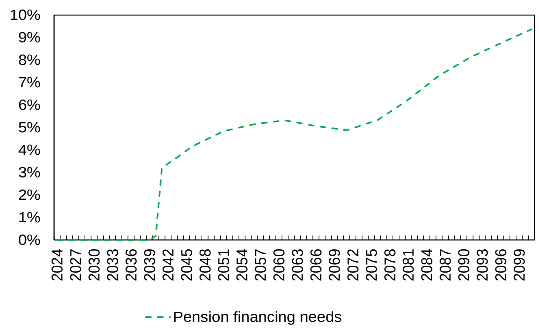
Source: IMF Staff.

Figure 8. Seychelles: Long-Term Risk Analysis (Continued)

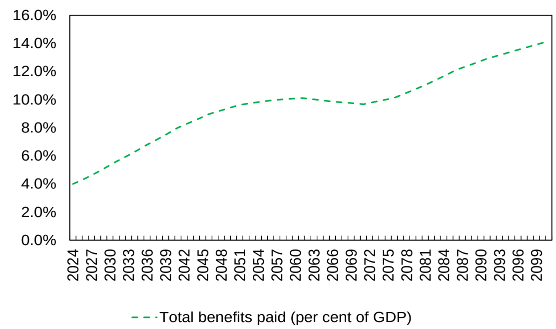
Demographics: Pension

Permanent adjustment needed in the pension system (pp of GDP per year)	To keep pension assets positive for:		
	30 years	50 years	Until 2100
	1.94%	3.34%	5.13%

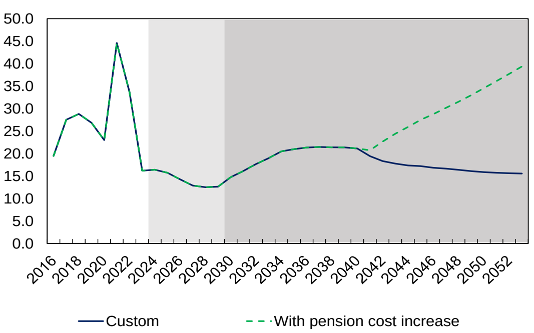
Pension Financing Needs



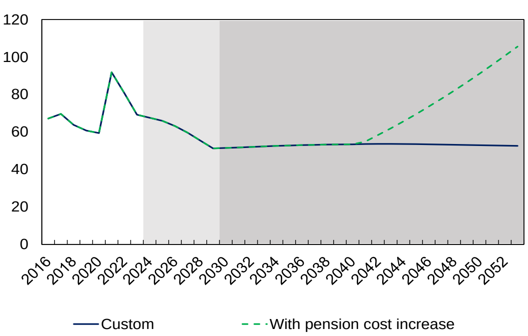
Total Benefits Paid



GFN-to-GDP Ratio



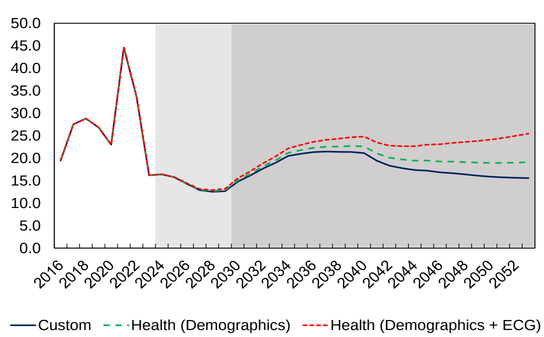
Total Public Debt-to-GDP Ratio



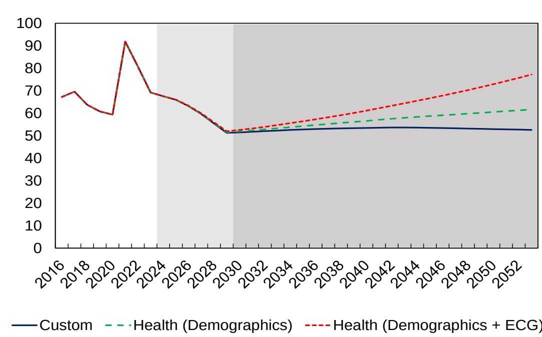
Comment: The authorities are cognizant of financing needs related to pension and are devising and implementing policies to address them. For example, the retirement age was increased from 63 to 65 from 2023. The authorities are also considering to include contribution from the non-Seychellois residing in Seychelles. The authorities explained that they are prepared to take any additional measures (e.g., raise pension contribution) to ensure financial sustainability of the pension system.

Demographics: Health

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



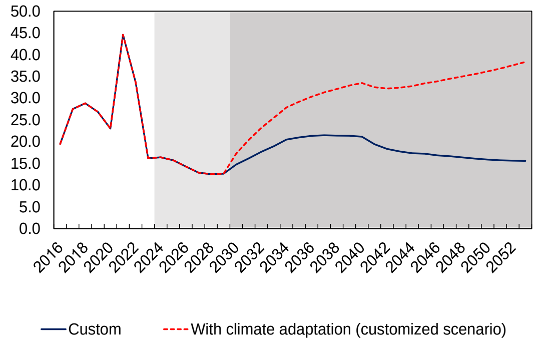
Comment: The health spending needs may be higher than what is suggested by the model, given the increasing share of population suffering from substance abuse and its long-term generational effect. The authorities are actively seeking external partners to build medical/health infrasture and to devise social programs to address this issue.

Source: IMF staff.

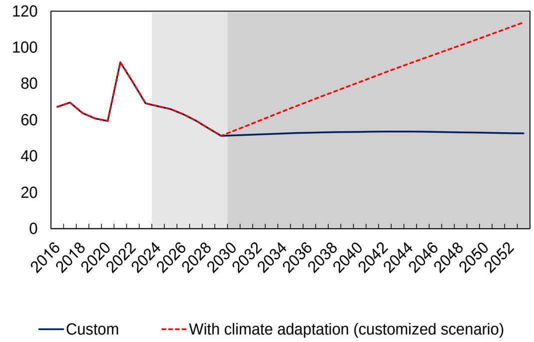
Figure 8. Seychelles: Long-Term Risk Analysis (Concluded)

Climate Change: Adaptation

GFN-to-GDP Ratio



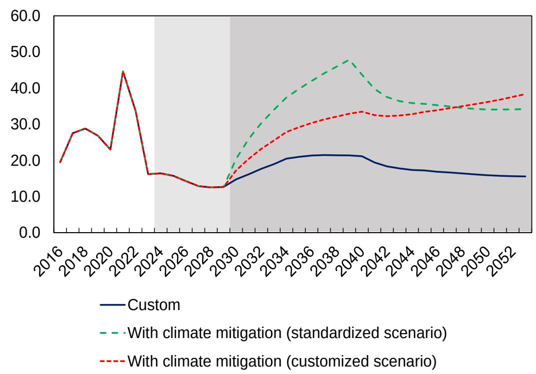
Total Public Debt-to-GDP Ratio



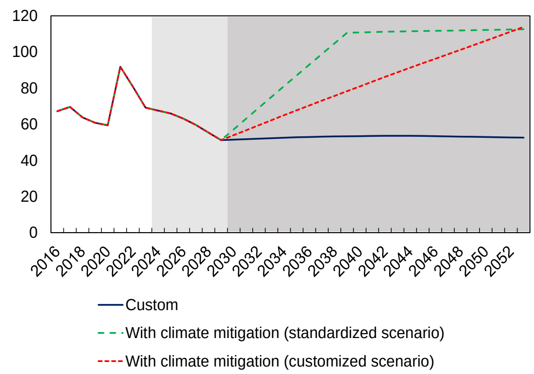
Comment: The authorities are actively engaging with the development partners to address the impact of climate change. Due to gerographical location, Seychelles has not been affected much by natural diasters such as earthquakes, tornados and hurricanes, however, the rising sea level poses siignificant threat to this island economy heavily dependent on tourism. The authorities are receving Fund's support through the RSF.

Climate Change: Mitigation

GFN-to-GDP Ratio

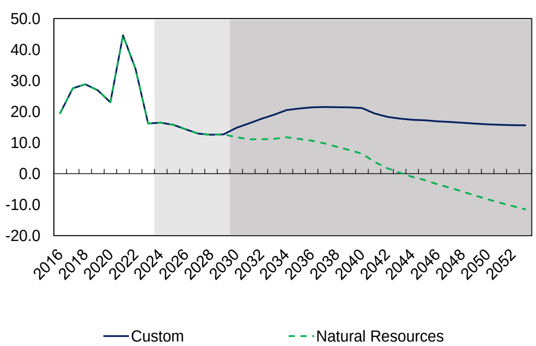


Total Public Debt-to-GDP Ratio

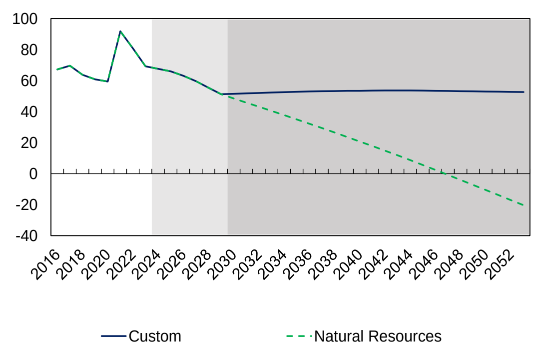


Natural Resources

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Source: IMF staff.

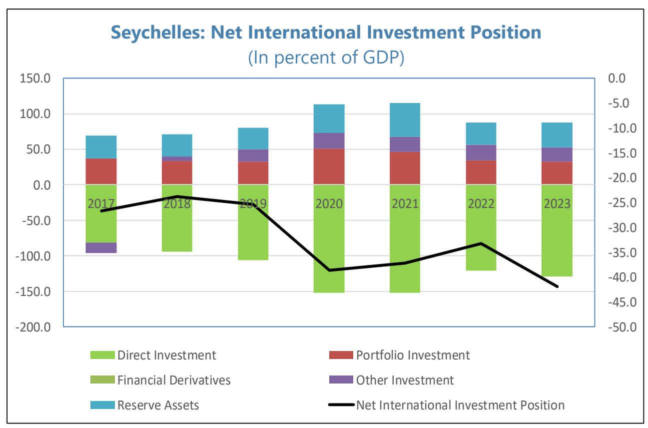
Annex III. External Sector Assessment

Overall Assessment: Seychelles' external position in 2023 was substantially weaker than the level implied by fundamentals and desirable policies based on IMF's EBA-lite current account model.[1] However, the assessment is subject to significant data revision by the authorities in 2023. Seychelles' current account deficit improved slightly in 2023 compared to 2022 but was larger than anticipated at the time of the first review due mostly to higher imports linked to tourism recovery and strong FDI inflows.

Potential Policy Responses: The authorities should continue to maintain a flexible exchange rate regime and build up external buffers against external shocks. Seychelles' fiscal outturn, marked by under-execution of capital projects, was already tighter than budgeted. It is also worth noting that Seychelles is a microstate heavily reliant on high-end tourism earnings and on imports for consumption and investment. Exchange rate depreciation may therefore not change export performance and import demand much, at least in the short term, due to low elasticities. At the same time, the pass-through from the exchange rate to inflation is relatively high. Going forward, the authorities face climate-related challenges and limited access to concessional financing due to their higher income status. Efforts should continue to implement structural reform to create environment conducive to steady FDI and loan financing on favorable terms, and to diversify and improve overall competitiveness.

Foreign Assets and Liabilities: Position and Trajectory

Background. Seychelle's net international investment position (NIIP) is likely to have deteriorated slightly in 2023. Seychelles' NIIP is estimated at -42 percent of GDP compared to -33 percent at end 2022. This was driven mainly by strong FDI inflows related to tourism, and continues to remain an important component of the financial account financing the current account deficit. In 2023, direct investment was about 25 percent of gross assets and 58 percent of gross liabilities (compared to 27 and 58 percents respectively in 2022), while portfolio investment was about 13 percent of gross assets and about 3 percent of gross liabilities (compared to 15 and 3 percents respectively in 2022).



Source: Central Bank of Seychelles

Assessment. Going forward, the current account deficit to stabilize at around 9 percent of GDP reflecting maturing tourism sector and continued need to invest in infrastructure to support inclusive growth and to address climate challenges. To mitigate risks, the authorities should continue to maintain efforts to improve external competitiveness especially in the tourism sector, support productivity growth through capacity building which would reduce cost of external financing, and continue to attract steady foreign investment.

2023	NIIP:	Gross Assets:	Debt Assets:	Gross Liab.:	Debt Liab.:
(% GDP)	-41.9%	321%	33.8%	363%	147%

Current Account

Background. The current account widened slightly to 7.3 percent of GDP in 2023 from 6.9 percent in 2022 reflecting continued recovery in the tourism sector and strong imports related to FDI. With -2.5 percent of GDP overall balance of general government, this implies negative saving-investment balance in the private sector of -5.1 percent. Tourist arrivals increased by about 6 percent compared to 2022, reaching 91 percent of the pre-pandemic peak of 384,204 in 2019. On the import side, the increase in non-food items, in particular machineries and equipment related to FDI and private demand, accounted for the largest share of the 2023 increase. For 2024, the current account deficit is expected to widen to around 8.4 percent of GDP with tourist arrivals and earnings expected to record 5 percent growth and imports of oil, food and non-food items are expected to continue to rise.

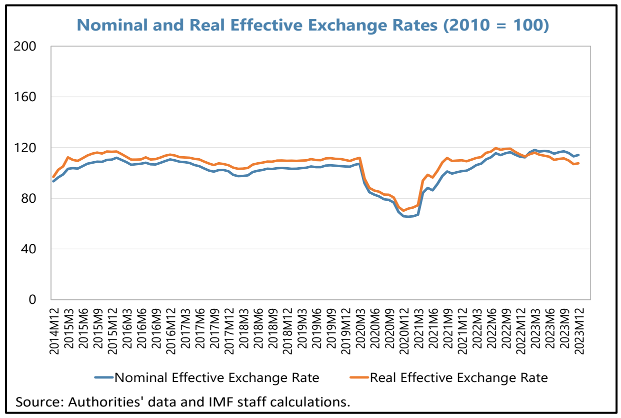
Assessment. The model estimates that Seychelles' external position is substantially weaker than suggested by fundamentals and desirable policies, subject to caveats discussed above. The EBA-lite CA model shows that Seychelles' adjusted CA balance is estimated at minus 6.9 percent of GDP in 2023, while the multilaterally consistent adjusted CA norm is minus 0.6 percent of GDP, suggesting a current account gap of minus 6.2 percent of GDP and REER gap of 2.6 percent of GDP. The REER model also supports similar this finding with CA gap at almost 40 percent of GDP and REER gap of 16.4 percent of GDP.

Seychelles: EBA-lite Model Results, 2023

	CA model 1/	**REER model**
	(in percent of GDP)	
CA-Actual	**-7.3**	
Cyclical contributions (from model) (-)	-0.4	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	**-6.9**	
CA Norm (from model) 2/	**-0.6**	
Adjusted CA Norm	**-0.6**	
CA Gap	**-6.2**	**-39.8**
o/w Relative policy gap	2.0	
Elasticity	-2.4	
REER Gap (in percent)	**2.6**	**16.4**

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

Source: IMF staff calculations.

Real Exchange Rate
Background. The exchange rate appreciated by 1.8 percent against the US dollar on average in 2023. In NEER and REER terms, the rupee appreciated by 1.2 percent and depreciated by 6.1 percent, respectively, from December 2022 to December 2023, the latter reflecting negative inflation in Seychelles.  Source: Authorities' data and IMF staff calculations. **Assessment.** The REER model suggests that Seychelles' external position is substantially weaker than the level implied by medium-term fundamentals and desirable policies. Subject to same caveat as above on the 2023 data revision, the model suggests a current account gap of 39.8 percent and overvaluation of 16.4 percent.
Capital and Financial Accounts: Flows and Policy Measures
Background. Net FDI has dominated Seychelles' financial account flows, averaging well above 10 percent of GDP since 2018. In 2023, net FDI inflows remained strong at around 13 percent of GDP. FDI dynamics are expected to remain strong over the medium term, reflecting building of new resorts and upgrading existing establishments related to tourism. New external debt incurred in 2023 was provided entirely by IFIs and bilateral loans from development partners. Due to Seychelles' high-income status, these loans were not provided on concessional terms. Going forward Seychelles faces limited access to concessional financing. The authorities continue to levy an annual tax on immovable property owned by non-Seychellois in Seychelles, which is considered an inflow CFM under the Institutional View on Liberalization and Management of Capital Flows. **Assessment.** Risks related to capital flows are increasing primarily due to its high-income status which limits the access to concessional loans from development partners. Over the medium-term, the country's exposure to climate-related challenges may also impact its ability to attract FDI. *The authorities should continue to maintain a flexible exchange rate regime and build external buffer against external shocks, while implementing structural reforms which would make Seychelles attractive to foreign investors.*
FX Intervention and Reserves Level
Background. The exchange rate regime is classified as floating and foreign exchange interventions are aimed at addressing disorderly market conditions and maintaining an adequate level of international reserves. Until June 2023, the authorities conducted several foreign exchange auctions to accumulate reserves but did not intervene for the remainder of the year. Interventions resumed in 2024 with an equivalent of US$21 million purchased by end-March. Gross International Reserves (GIR) at end-2023 were $681 million (3.2 months of imports, 104 percent of ARA metric), a slight increase from US$639 million at end-2022 (3.2 months of imports, 102 percent of ARA metric). Slow accumulation was due to higher imports and the increased external debt service obligations from higher global interest rates. GIR are projected to maintain import coverage in the range of 3- 3½ months over the medium term. **Assessment.** Staff recommends increasing external buffers. Seychelles' international reserve holdings are assessed against standard reserve adequacy benchmark. Per the standard metric, staff estimates that

international reserves at end-2023 to be within but at the lower end of the advisable range of international reserves. Given the country's high dependency on tourism and the vulnerability of this sector to external shocks (including the impacts of climate change), staff recommends, and the authorities agree on the need to further increase external buffers. However, the authorities have expressed caution over interventions in the foreign exchange market given the rapid pass through from depreciation of the rupee to inflation via import prices. They indicated that they can and would intervene and accumulate more reserves if the market conditions allow.

[1] The external sector assessment is based on staff's estimates.

Table 1. Classification of the Overall Assessments 1/

CA gap	Description in overall assessment
> 4%	… substantially stronger…
[2%, 4%]	… stronger…
[1%, 2%]	… moderately stronger…
[-1%, 1%]	The external position is broadly in line with the level implied by fundamentals and desirable policies
[-2%, -1%]	… moderately weaker…
[-4%, -2%]	… weaker…
< -4%	… substantially weaker…

1/ The qualitative assessment of the external position is primarily based on the CA gap. Due to different elasticities, the same CA gap could be associated with different REER gaps for different economies.

Annex IV. Capacity Development Strategy for 2024–25

1. **The implementation of reforms in Seychelles over successive programs has been supported by Capacity Development (CD) activities covering all key areas of institution building, with a focus on public financial management, revenue administration, financial integrity (AML/CFT), monetary policy conduct, and better compilation of macroeconomic statistics.** Such CD priority areas are aligned with the authorities' reform agenda which aims at securing economic stability and sustaining inclusive growth in view of the country's vulnerability to external shocks due to its small size and reliance on tourism. The track record of implementing recommendations is good, despite the high volume of CD activities and the human resources' constraints. In 2023, 38 CD activities were implemented in Seychelles and in FY 2024, a total of 31 CD activities is expected to take place. The feedback received from the authorities confirms that the CD activities are much appreciated. They represent a tool for the authorities to implement the program's reforms and comply with international standards. Finally, Seychellois authorities are an active financial contributor to AFRITAC SOUTH, which is a factor in appropriation of CD activities.

2. **In May 2023, the Board approved a three-year arrangement for Seychelles under the Extended Fund Facility (EFF), in an amount equivalent to US$56 million, as well as a three-year arrangement under the Resilience and Sustainability Facility (RSF), in an amount equivalent to US$46 million.** The RSF is designed to support the authorities in their efforts to build resilience to climate change, exploit synergies with other sources of official financing, and to help catalyze further private financing for climate-related investments. The RSF has generated new CD requests in areas such as climate budgeting, climate related fiscal risk analysis, and climate-sensitive public investment management. Also, the authorities have begun to explore potential funding for an additional resident advisor on climate finance. With the help of the MCM's climate advisor expert and the staff, authorities have engaged with the NDC Partnership and will benefit from their support to elaborate a climate financing strategy. The Central Bank of Seychelles received a TA on macroprudential stress test and climate risks analysis. Such TA (mostly the climate risks analysis part) involved : (i) an introduction to climate risk analysis; (ii) an overview of the climate data, exposure data, and impact/damage functions; (iii) identifying and discussing the exposure data available or that could become available; (iv) identifying and discussing other local data sources for hazards, exposures, and vulnerability, and possible interagency collaborations; (iv) setting out the options for an initial climate risk analysis framework.

3. **To build on the substantial progress made after the pandemic shock and maintain macroeconomic stability, the Seychellois authorities will need to strengthen their capacity for macroeconomic management through stronger public financial management and revenue administration, an improved monetary policy framework, stronger financial sector surveillance, an enhanced AML/CFT framework, and better quality of key macroeconomic statistics (Table below).**

Priorities	Objectives	Challenges
Macro-Fiscal Policies	Strengthen the credibility of medium-term budget planning; balance fiscal consolidation; strengthen the identification, monitoring, and management of fiscal risks; wage bill and pension sustainability; improve coverage and quality of fiscal reporting; strengthen macro-fiscal forecasting capacities.	Political commitment will need to be maintained to ensure impactful reforms; capacity is limited given the small number of staff.
Public Financial Management	Infrastructure and climate change related investments; enhance the efficiency of public investment; improve debt and cash management practices; improve the efficiency and integration of IT systems.	Political commitment will need to be maintained to ensure impactful reforms. New IT systems will need to be tailored to Seychelles.
Revenue administration and tax policy	Strengthen revenue administration and governance arrangements and strengthen Customs and tax administration core functions; assess the efficiency of VAT in a small island country; improve tax expenditure reporting; assess scope to strengthen international tax rules.	The limited number of technically strong staff, as well as frequent turnovers of senior staff in the Seychelles Revenue Commission (SRC).
Debt Management	Continue to produce a comprehensive Medium-Term Debt Management Strategy (MTDS) and Annual Borrowing Plan (ABP); strengthen processes for accurate debt recording, reporting, and monitoring; develop the secondary market for government securities.	The small size of the Ministry of Finance, Economic Planning and Trade.
Monetary Policy Implementation	Strengthen the CBS staff's capacity for inflation forecasting and liquidity management; deepen the money market and improve the transmission mechanism of monetary policy in the context of an interest rated-based framework; develop the Emergency Liquidity Assistance (ELA) framework; develop the government securities; develop the market infrastructure; enhance the communication strategy/policy of the CBS.	The small size of the CBS staffing.
Financial Stability and Crisis Management	Implement a risk-based supervision system and upgrade other supervisory processes; amend the capital adequacy regulation; strengthen the legal basis and the mandate of the Financial Stability Commission (FSC); management of climate-related risks.	The limited number of technically strong staff.
Financial Integrity (AML/CFT)	Improve the AML/CFT supervision/regulatory framework by implementing a risk-based approach to supervision; reduce the reputational risk to which the offshore banking and international business sectors is exposed (including on transparency of beneficial ownership information).	The limited number of technically strong staff could delay the implementation of reforms.
Payments and Infrastructure	Advise and assist the central bank and other relevant authorities in developing and reforming the national payment system.	The limited number of technically strong staff; lack of structured coordination between agencies.
Real Sector Statistics	Strengthen the compilation and dissemination of national accounts, price, and external sector statistics according to internationally accepted statistical standards.	Lack of human resources at the National Bureau of Statistics (NBS) and the high staff turnover.
Government Finance statistics (GFS)	Build capacity and improve the quality of fiscal and debt statistics.	The small size of the Ministry of Finance, Economic Planning and Trade.
Financial Sector Statistics	Increase the scope of monetary and financial statistics data to include credit providing nonbank financial institutions and payment companies and compile Financial Soundness Indicators in line with the latest international standards (2019 FSI Guide).	The small size of the CBS staffing.

Annex V. Competitiveness of Seychelles' Tourism Sector[1]

A. Introduction

This annex highlights the need for continued close attention to the competitiveness of Seychelles' tourism sector. The cost of tourism in Seychelles is high compared to peer countries, and the islands may be approaching maximum carrying capacity. Analyses indicate that tourists from several key European source markets are sensitive to domestic economic conditions via the impact on their disposable income, as well as relative prices. It would be important to deepen the tourism sector to increase the expenditure per tourist, while improving infrastructure and adopting data tools to better monitor tourism indicators and spending.

1. **Tourism sector plays a key role on Seychellois' economy.** Tourism earnings reached U$989 million in 2023, about 46 percent of GDP or 49 percent of total exports of goods and services. Already in 2017, its direct contributions to GDP and total employment were estimated at around 26 and 27 percents respectively, around 65 and 66 percents respectively if indirect contributions were also included.[2] A majority of tourists are from western Europe, but recently Seychelles managed to attract tourists from new markets, including Russia, Israel, and UAE.

2. **Despite an impressive rebound from Covid-19 pandemic, there is a growing recognition that Seychelles' tourism sector may be maturing.** Seychelles' economy recovered sharply from the pandemic owing, in part, to its early and widespread vacation campaign which allowed the country to open its borders to tourists in early 2021 when the rest of the world was still struggling with successive coronavirus variants. However, the recent trend in tourism arrivals and earnings indicate that this sector may be approaching its equilibrium level of growth. After contracting by over 60 percent in 2020 due to the pandemic, the tourism earnings bounced back with a strong recovery of 80 percent in 2021 and 60 percent in 2022. In 2023, however, the sector expanded by only 6 percent in 2023, reaching 91 percent of its peak pre-pandemic earnings, and the authorities project the growth to reach about 5 percent in 2025 and plateau at around 3 percent over the medium term. The Seychelles Strategic Land Use Plan (2015-40) had posited gradual increase in tourist arrivals to 400,000 by 2040 for sustainable tourism, taking into account the need to increase bed supply and air seat supply, and maintain visitor annual targets.

3. **Moreover, competition in the global tourism industry is increasingly strong.** Many emerging markets are developing tourist infrastructures and are presenting themselves as the new high-end tourist destinations. Many of them market themselves as "wellness" tourism, a growing industry that merges tourism and health, attracting wealthier clients[3] Moreover, transportation has improved significantly globally both in terms of connectivity and price due to competition. Many people are taking advance of non-traditional lodgings (e.g., Airbnb). Technical advancements have

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[1] The Annex includes analysis based on third party indicators including data from Directflights.com, Fligthradar24.

[2] See *Seychelles Tourism Master Plan, 2018 update*.

[3] See "The Future Of Wellness: New Data On Wellness Travel and Mental Wellness" (forbes.com).

transformed the way visitors plan and book their travels with online travel agencies, social media platforms, and booking apps making it easier for the consumers to compare the cost and services leading to increased competition for value and quality of travel experience.

4. This paper focuses on the competitiveness of Seychelles' tourism sector compared to other similar tourist destinations in the world and major competitors and assesses factors that impact tourism demand for Seychelles. It also discusses the country's tourism carrying capacity and suggests policy recommendations to maintain competitiveness while protecting its valuable and fragile environment. The paper is organized as follows. Section II presents a snapshot of Seychelle's tourism competitiveness based on available indicators. Section III presents results of quantitative analysis on factors that impact tourism demand focusing on major visitor sources by nationality. Section IV discusses Seychelle's tourism carrying capacity using Tourism Capacity Index frequently used by the industry and academics, and section V concludes with some policy considerations.

B. Competitiveness of Seychelles' tourism sector

5. How competitive is Seychelles as a tourist destination? In terms of cost competitiveness, vacationing in Seychelles is expensive compared to other tourism economies. The island, while small in size (460 km2, or 2.6 times the size of Washington DC), is renowned as one of the world's most exclusive holiday destinations, and the cost of tourism reflects that. Below is the comparison of cost of vacationing in Seychelles vis-à-vis rest of the world using the "A week at the beach-index, w@tb)." The w@tb index measures the average cost of a 7-day stay at a beach destination, with Bahamas indexed as 100 each year. It shows that cost of stay in Seychelles far exceeds any destinations in Africa, as well as many other tourism destinations in the world (Figure 1 and Table 1).[4]

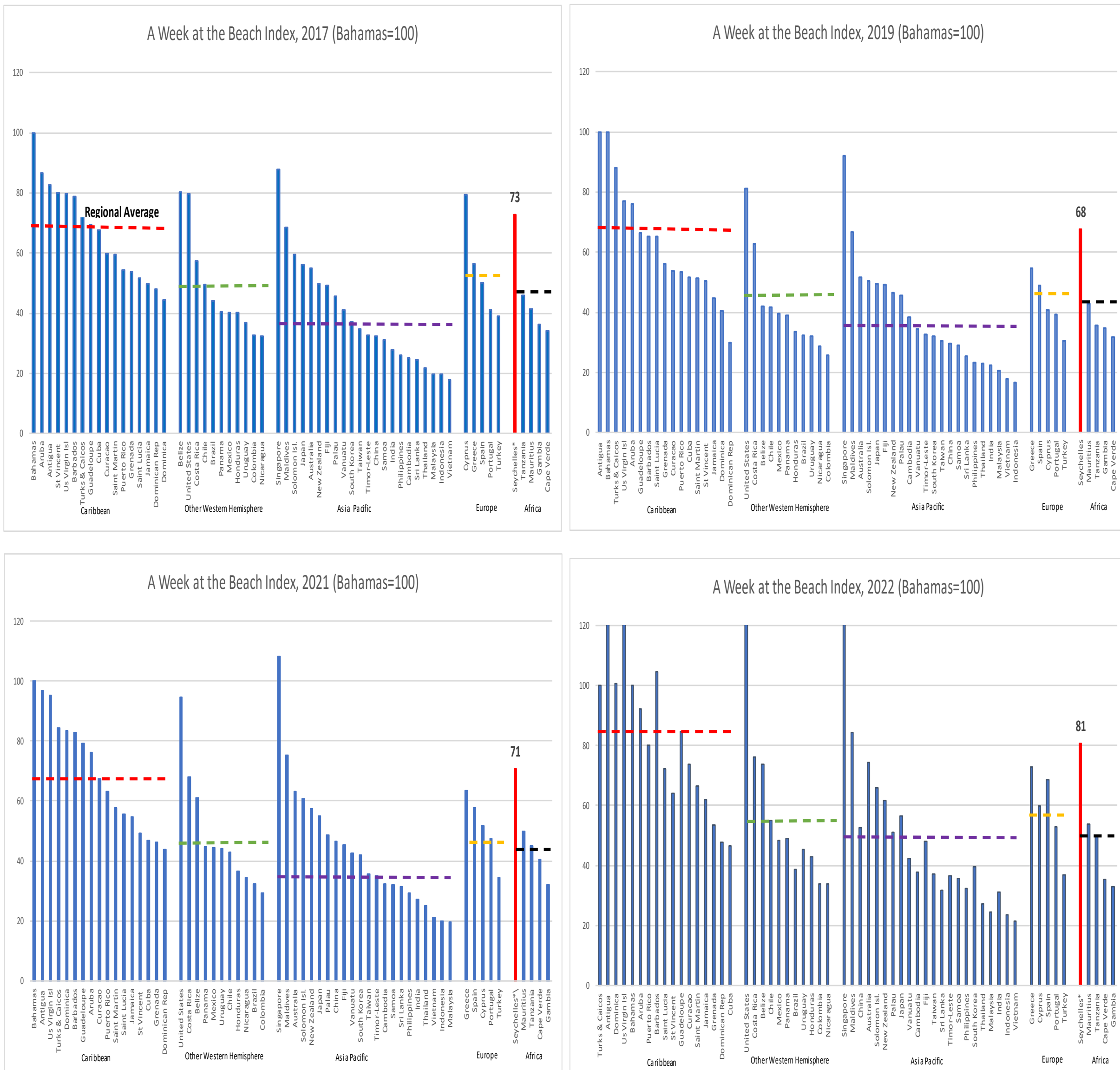
6. The figures and the table show a general spike in the cost of vacation world-wide in 2022. The pandemic-related restrictions eased, price increase reflected pent-up demand for vacation and limited availability. In that year, the global economy also faced supply-chain disruptions which lead to shortages and delays, affecting flights, accommodations, and other travel services. Hike in the fuel price may have also contributed to the cost of vacation. Globally, the price of vacation increased by about 14.5 in 2023 compared to previous year, and Seychelles followed similar increase.

7. Another indicator widely used to assess the competitiveness of the tourism sector is the Travel & Tourism Competitiveness Index (TTCI), published by the World Economic Forum. The TTCI measures not only the desirability of a destination but also assesses the set of factors and policies that enable the sustainable development of the travel and tourism sector, which contributes to the development and competitiveness of a country. It assesses the competitiveness of a tourism

[4] "Week at the Beach (W@TB)" index measures the average cost of a 7-day-stay at a beach destination. The index is a simple average of hotel rates from TripAdvisor (3 to 4 'bubble' ratings) and over 80 million crowdsourced data points on meals and beverages. Excludes some data series from W@tB sample with y/y changes exceeding 50 percent in any month during 2019-2020.

sector from four angles: (i) Enabling Environment, (ii) Travel and Tourism (T&T) Policy and Enabling Condition, (iii) Infrastructure, and (iv) Natural Resources.

Figure 1. Comparison of Cost of Vacation, 2017–2022



Source: IMF data.

Table 1. Seychelles: Comparing the cost of vacation in Seychelles vs. rest of the world, 2017–2023

(Bahamas=100)

Regional Average	2017	2018	2019	2020	2021	2022	2023 1/
Caribbean	67.3	57.9	68.3	70.1	69.5	80.9	62.4
Other Western Hemisphere	48.6	40.4	45.7	46.5	48.4	55.6	37.3
Asia Pacific	39.3	34.9	41.2	42.8	43.3	46.9	33.3
Europe	53.2	40.6	46.8	51.8	50.9	57.3	38.3
Africa	46.1	41.6	46.5	48.8	47.7	49.8	31.5
Seychelles*	**72.9**	**66.1**	**74.0**	**72.1**	**70.8**	**79.6**	**46.7**

Source: IMF data and staff calculations.

1/ Covers January-April 2023. Certain countries are excluded due to data availability. The peak season in the Caribbean is from mid-December to end-March.

8. **The latest TCCI for which information on Seychelles is available is the 2019 index which comprised total of 140 countries.**[5] Seychelles ranked 62 out of 140 countries, lagging behind its major competitor, Mauritius, which ranked 54 in the overall ranking. In particular, Seychelles was ranked at the bottom quartile in the areas of travel and tourism policy and enabling conditions, which includes visa/entry requirements, openness of bilateral air service agreements, and number of regional trade agreements in force. Seychelles was also ranked very low for availability of natural and cultural resources.

Table 2. Seychelles: Travel and Tourism Competitiveness Index, 2019

(Rankings of 140 countries)

	Overall ranking	Enabling Environment	T&T Policy and Enabling Condition	Infrastructure	Natural and Cultural Resource
Seychelles	62	61	103	30	118
Mauritius	54	43	43	41	117

Source: IMF data and staff calculations.

9. **Flight connections and availability of variety of leisure activities are also crucial factors determining tourism demand**. Compared to Mauritius, Seychelles lag behind in both aspects. As of February 2024, there are direct flights to Seychelles from 14 countries servicing total of about 60 flights per week from these origins. The most frequent direct flights are from Dubai (Emirates), Addis Ababa (Ethiopian Airlines) and Doha (Qatar Airways) with one to two 2 flights per day. In comparison, there are 27 airports with direct flights to Mauritius from 19 other countries, in many cases from multiple airports from a country, providing total of about 130 flights per week. In particular, Mauritius has direct flight connections from many European cities as well as from Australia. Most frequent non-stop flights are available from Dubai (Emirates), Johannesburg (South African Airways), Paris (Air France), London (British Airways), Mumbai (Vistara), Frankfurt (Air Condor) and Istanbul (Turkish Airlines). Direct flight connections for other comparable beach travel destinations in the world (e.g., Bahamas, Zanzibar, Maldives) are also presented below. In terms of non-water leisure activities for the

[5] The latest TCCI was published in 2021, but Seychelles was not included among the 114 countries.

tourists, data are not readily available for direct comparison, but it is understood that Mauritius offers more diverse leisure activities than Seychelles including historical and cultural tours and cultural events. Mauritius also has 10 golf courses, compared to only two in Seychelles.

Figure 2. Non-stop international flight connections to Seychelles and other comparable beach destinations 1/

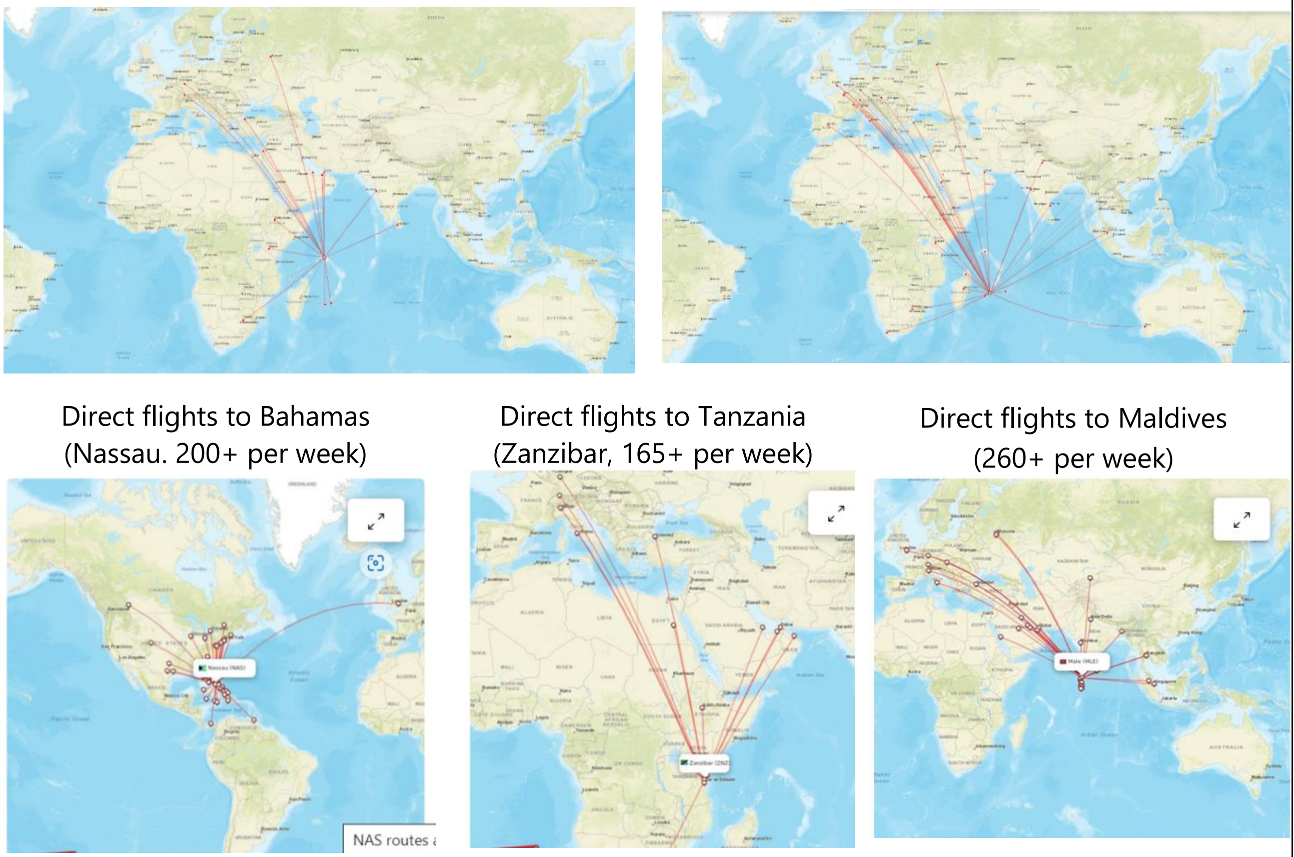
Direct flights to Seychelles (60 per week)

Direct flights to Mauritius (130 per week)

Direct flights to Bahamas (Nassau. 200+ per week)

Direct flights to Tanzania (Zanzibar, 165+ per week)

Direct flights to Maldives (260+ per week)



Source: Directflights.com. Directflights.com is a third-party data provider, and limitations may apply to coverage and validity.
1/ As of February 2023.

C. Determinants of Demand for Tourism in Seychelles

10. Tourism demand theory postulates that tourists' incomes, prices in destination countries, and prices in tourists' countries of origin are key determinants of tourism demand—but must this hold for all countries, especially for long-haul luxury travel destinations such as Seychelles? The findings from this paper suggests otherwise, and that the factors determining visitor arrivals for Seychelles have varying impact depending on the source countries. This paper assesses factors that determine tourism flows into Seychelles for key visitors by nationality using time-series analysis. In doing so, we also include whether price in its competitor country affect tourism demand for Seychelles.

11. We examine how the tourism demand for Seychelles (visitor arrivals) is affected by the visitors' income (i.e., GDP per capita) and cost/price in Seychelles (i.e., real exchange rates). We also include as an explanatory variable the price of Seychelles' major competitor Mauritius, based on the rationale that if travelling to Mauritius becomes more expensive, other things being equal, visitors may choose to visit Seychelles instead. The analysis focuses on the major tourist clientele, namely nationals of Germany, France, Italy, United Kingdom, Switzerland, and Russia who are mostly traditional clientele and comprise about 60 percent of total arrivals. Other things equal, higher income of visitors would increase tourism demand; real appreciation of Seychelle's rupee would make vacation in Seychelles more expensive, and appreciation of Mauritius rufiyaa would make vacation in Seychelles more attractive.

Data

12. We used quarterly arrivals data from 2000 Q1 to 2023 Q4 for tourism demand, the GDP per capita, and the nominal currency exchange rates vis-a-vis the Seychellois rupees for Germany, France, Italy, Switzerland and Russia, and also nominal currency exchange rates vis-à-vis the Mauritius rufiyaa, and the CPI for Seychelles and visitor countries, as well as for Mauritius. For Russia, the euro was used as its currency since most Russian tourist arrive from Europe and used bank accounts established in Europe.[6] Tourism demand is represented by the number of international visitor arrivals published by the National Statistics Bureau of Seychelles. The GDP, nominal exchange rates, and CPI data were sourced from the IMF's WEO database.

Model

13. We utilized the dynamic Error Correction Model (ECM) derived from Autoregressive Distributed Lag (ARDL) time-series models to examine the income and price elasticities of tourism demand (Pesaran and Shin, 1999; Pesaran et al., 2001). We found that the time series data for tourist arrivals were stationary, i.e., the series have statistical properties of moments (e.g., mean and variance) that do not vary in time for all countries except for the visitors from Switzerland. All the explanatory variables (i.e., income per capita, real exchange rates vis a vis Seychelles rupee and vis-à-vis Mauritius rufiyaa) were non-stationary, i.e., the variables do not tend to return to its long-run average value, hence, its mean, variance and co-variance also change over time. Unit root tests indicated that the data series on tourist arrivals were I(0) except for the arrivals from Switzerland, and all the explanatory variables as well as the arrivals from Switzerland are I(1), i.e., they become stationary after differencing it by one period (t – (t-1)). ECM derived from ARDL models are well-suited to analyzing datasets comprising series with different orders of integration and lend themselves well to studying relatively short sample periods.

[6] Based on the discussions with largest commercial banks in Seychelles (ABSA, Nouvobanq)

We specified the following ARDL-ECM model:

$$VA_t^c = a_0 + \sum_{i=1}^{m} \delta_i VA_{t-i}^c + \sum_{i=1}^{n} \varphi_i gdp_{t-i}^c + \sum_{i=1}^{\rho} \omega_i srer_{t-i}^c + \sum_{i=1}^{\gamma} \tau_i mrer_{t-i}^c$$

$$+\theta cov + \epsilon_t \qquad (1)$$

where VA_t^c denotes the log-transformed numbers for visitor arrivals from country c during period t; $a_0$is a constant term; gdp_t^c is the log-transformed GDP per capita of country c during period t; $srer_t^c$ is the log-transformed RER of country c vis-a-vis Seychelles in period t, ; $mrer_t^c$ is the log-transformed RER of country c vis-a-vis Mauritius in period t, and θcov represents the peiord of Covid-pandemic, March 2020 until September 2021, during which the value is one and zero otherwise.

Comprising the first difference of the dependent variable, equation (2) below is the conditional error correction (CEC) representation of equation (1).

$$\Delta VA_t^c = a_1 + b_0 VA_{t-1}^c + b_1 gdp_{t-1}^c + b_2 srer_{t-1}^c + b_3 mrer_{t-1}^c + \sum_{i=1}^{m-1} c_{0,i}\, \Delta VA_{t-i}^c$$

$$+ \sum_{i=1}^{n-1} c_{1,i} \Delta gdp_{t-i}^c + \sum_{i=1}^{\rho-1} c_{2,i} \Delta srer_{t-i}^c + \sum_{i=1}^{\gamma-1} c_{3,i} \Delta mrer_{t-i}^c$$

$$+\theta cov + \epsilon_t \qquad (2)$$

We follow Hendry's (1980) approach of general to specific model by using different lags of dependent and independent variables.

14. The estimated coefficients of ECM-ARDL model represents sensitivity of tourist demand to determinant factors. Positive coefficients for income indicate that higher income is associated with higher tourism demand. Negative coefficients for real exchange rate against Seychelles rupee indicate that real appreciation of rupee makes visits to Seychelles more expensive hence has negative impact on visitor demand. Positive coefficients for real exchange rate against Mauritius rufiyaa indicate that real appreciation of rufiyaa makes visits to Mauritius more expensive, making Seychelles a more attractive alternative destination and increases the demand for visits to Seychelles. Negative coefficients for the dummy variable for Covid-19 pandemic indicate that the pandemic affected tourism demand negatively. The results of econometric exercise with coefficient significant at least 5 percent are summarized in the table below.

Table 3. Seychelles: ARDL-ECM Model 1/

	Germany	France	Italy	UK	Switzerland	Russia
Income (t)	17.208***	14.926***	11.742***	12.560***		
Income (t-1)				8.420***		
RER Seychelles						2.442**
RER Seychelles (t-2)	-2.348***		-2.360***	-1.243**		
RER Mauritius					2.394***	
RER Mauritius (t-2)			1.600**		-3.066***	
Covid-19 (t)	-4.490***	-3.805***	-4.140***	-2.931	-1.505***	-1.505***
R-square	*0.81*	*0.79*	*0.84*	*0.89*	*0.68*	*0.61*
F-stat (Prob)	*-31.0 (0.00)*	*28.09 (00)*	*36.6 (00)*	*50.9 (00)*	*13.56 (0.00)*	*13.56 (0.00)*
AIC	*1.52*	*1.23*	*0.89*	*0.46*	*0.45*	*2.09*

1/ (**) Significant at the 5%; (***) Significant at the 1%.

Source: IMF staff estimations.

15. **The results of econometric exercise suggested that different factors determine tourism demand for visitors from each country.** Income was an important determinant factor for tourism demand for the four largest visitors, Germany, France, Italy, and UK but not for Switzerland and Russia. Real exchange rate vis-à-vis Seychelles was an important determinant for tourism demand from Germany, Italy, and UK. The real exchange rate of the competitor Mauritius rufiyaa was an important factor only for Italy and Switzerland. However, for France the real exchange rate coefficients against the Seychelles rupee or Mauritius rufiyaa were not statistically significant. All countries were sensitive to the Covid-19 pandemic.

16. **For Russia, the sign of the coefficient of real exchange rate vis-à-vis Seychelles rupee was positive, meaning that a real appreciation of Seychelles rupee was associated with increased demand for tourism demand.** This anomality could be attributed to the fact that the euro was used as its currency rather than Russian rubles and may also be associated visa and other travel considerations. There are also perceptions of Russian tourists as the very high-spending visitors whose tourism demand may not be influenced by the price factor. For Russia only, we also included a dummy variable on the war in Ukraine, but the coefficient was not statistically significant implying that the war did not affect Russian tourist arrivals. The R-square, the coefficient of determination which provides information about the goodness of fit of a model, was not strong (in 61 percent) for Russia. Detailed results of each country's econometric analysis are provided at the end.

D. Tourism Carrying Capacity

17. **There are signs that Seychelles' tourism sector may be approaching its tourist carrying capacity limits.** The tourism carrying capacity is defined by the World Tourism Organization as "the maximum number of people that may visit a tourist destination at the same time without causing destruction of the physical, economic, socio-cultural environment and an unacceptable decrease in

the quality of visitors' satisfaction." The Carrying Capacity Assessment (CCA) is a technique frequently used for the estimation of tourism assessment and management by the industry and academics.[7] The analysis of CCA in the field of tourism globally includes measurable physical and ecological aspect, as well as the demographic and sociocultural factors. We focus here only on the physical and ecological factors which are related to environmental parameters.

18. **All four sub-indices monitoring the physical-ecological aspect of the carrying capacity show that Seychelles may be reaching or has exceeded carrying capacity limits.** This implies that the country may not be able to host many more tourists without damaging the environment. For the people-users per meter of beach (PUB) index, Seychelles would be 1.14 if the entire coastline is considered as beach, and 2.19 if only Mahe, Praslin and La Digue are treated as beaches hosting tourists. The authorities recognized these concerns and conducted its own carrying capacity analysis in greater Beau Vallon Area, Cerf Island, La Digue and the Inner Islands. The results of the analysis as well as policy recommendations were reported in the 2018 Tourism Master Plan. The recommendations included restricting any further development of tourism accommodation in the next few years in certain areas, conducting more tax inspections, and limiting the growth of self-catering establishments. However, it is not clear whether these recommendations were followed through.

Table 4. Seychelles: Tourist Carrying Capacity of Seychelles

Physical-ecological Index	Tourist Operation Index (TOI)	(Total beds*100)/Resident population	464.65	>500 Excessive/intensive tourism development 100-500 Almost exclusive development
	Tourism Intensity Index (TII)	Beds/population	4.65	>3.0 High level of tourist services, exceeding tourist carrying capacity 1.0-3.0 Satisfactory level of tourist services, growth potential
	Tourist Tolerance Population Index (TTPI)	No. of tourists per peak day/Population	2.60	>2.0 Exceeding tourist carrying capacity, control of tourist arrivals 2.0 Significant point of exceeding carrying capacity 1.5 Satisfactory level of tourism, need of control of tourist arrivals 1.0 Low number of tourists, greater number of tourists can be received
	People-users per m of beach (PUB) 1/	(Population+beds)/length of beaches(m)	1.14 - 2.19	1.0-2.0 Existence of pressure >2.0 Existence of significant pressure

1/ PUB index is 1.14 for Seychelles if the entire coastline is used as the proxy for the length of beaches; 2.19 if only the share of Mahe, Praslin, and La Digue in the area are used.

Source: Authorities data.

[7] See "The Carrying Capacity and Environmental Friendly Plans for the Future Tourism Development—Greece," European Journal of Geography, volume 10, number 4: 149-159, December 2019. See also "Carrying Capacity and Assessment of the Tourism Sector in the South Aegean Region, Greece." Water 2023, 15, 2616. https://doi.org/10.3390/w15142616)

E. Conclusion and Policy Implications

19. Tourism is the main pillar of Seychelles' economy, and how to maintain its competitiveness, i.e., how to increase tourism earnings going forward, is a key policy question. The analysis in this paper indicated that determinants for the demand for tourism in Seychelles differed by the visitor nationalities, and that the price was an important factor for most but not for all visitors. Meanwhile, tourism carrying capacity indicators indicated that the country is approaching or may be exceeding its tourism carrying capacity.

20. Given the constraints on tourism growth through higher volume, the government's tourism policy will need to focus more on how to increase earnings per tourists rather than total number of tourist arrivals. This would have implications on all aspects of macro policies including tax policies for hotels and self-catering businesses, capital expenditure to enhance infrastructure (road, water, sewage), monetary and financial sector policies affecting credit to businesses in the tourism related sectors, as well as micro-level policies including which countries the government should strategically target to expand its air connections. It also speaks to the importance of developing data sources to more closely track tourism activity in Seychelles as well as spending patterns.

Results of ARDL-ECM Model by Country of Origin

Germany

Germany: Unit Root Test Results Table (ADF)
(Null Hypothesis: the variable has a unit root)

At Level		VADE	GDE	RERDE	RERMUDE
With Constant	t-Statistic	-5.8736	0.5967	-2.2635	-1.0075
	Prob.	0.0000	0.9890	0.1860	0.7481
		***	n0	n0	n0
With Constant & Trend	t-Statistic	-6.1090	-3.0366	-2.3363	-1.2121
	Prob.	0.0000	0.1280	0.4103	0.9020
		***	n0	n0	n0
Without Constant & Trend	t-Statistic	0.0163	4.1667	0.2917	-0.0467
	Prob.	0.6854	1.0000	0.7683	0.6647
		n0	n0	n0	n0
At First Difference		**d(VADE)**	**d(GDE)**	**d(RERDE)**	**d(RERMUDE)**
With Constant	t-Statistic	-11.8872	-11.6673	-7.1072	-9.6970
	Prob.	0.0001	0.0001	0.0000	0.0000
		***	***	***	***
With Constant & Trend	t-Statistic	-11.8259	-11.7505	-7.1136	-9.6437
	Prob.	0.0000	0.0000	0.0000	0.0000
		***	***	***	***
Without Constant & Trend	t-Statistic	-11.9448	-9.6978	-7.1154	-9.7498
	Prob.	0.0000	0.0000	0.0000	0.0000
		***	***	***	***

Notes:
a: (*)Significant at the 10%; (**)Significant at the 5%; (***) Significant at the 1% and (no) Not Significant
b: Lag Length based on SIC
c: Probability based on MacKinnon (1996) one-sided p-values.

Germany: Unit Root test for Error Correction Term (ECT)
(Null Hypothesis: ECT has a unit root)

Exogenous: Constant
Lag Length: 4 (Automatic - based on SIC, maxlag=11)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-6.8065	0.0000
Test critical values:	1% level	-3.50388	
	5% level	-2.89359	
	10% level	-2.58393	

Notes:
*MacKinnon (1996) one-sided p-values.

Germany: Regression Estimation

Dependent Variable: D(VADE)
Method: Least Squares
Date: 02/09/24 Time: 21:12
Sample (adjusted): 2001Q1 2023Q4
Included observations: 92 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(GDE)	17.20786	4.594697	3.745157	0.0003
D(RERDE)	0.288988	0.743545	0.388662	0.6986
D(RERDE(-1))	0.471154	0.745676	0.631847	0.5293
D(RERDE(-2))	-2.348505	0.788183	-2.979643	0.0038
D(RERDE(-3))	-0.106088	0.714092	-0.148563	0.8823
D(RERMUDE)	1.263629	1.296411	0.974713	0.3326
D(RERMUDE(-1))	0.157839	1.231546	0.128163	0.8983
D(RERMUDE(-2))	0.411031	1.165736	0.352594	0.7253
D(RERMUDE(-3))	-0.507135	1.224871	-0.414032	0.6800
D(DUMCOV)	-4.489547	0.476370	-9.424500	0.0000
ECT(-1)	-0.811624	0.104994	-7.730203	0.0000
C	-0.116147	0.060395	-1.923135	0.0580

R-squared	0.810011	Mean dependent var	0.015682
Adjusted R-squared	0.783887	S.D. dependent var	1.047045
S.E. of regression	0.486750	Akaike info criterion	1.518973
Sum squared resid	18.95401	Schwarz criterion	1.847902
Log likelihood	-57.87278	Hannan-Quinn criter.	1.651732
F-statistic	31.00699	Durbin-Watson stat	2.060814
Prob(F-statistic)	0.000000		

Source: IMF staff estimations.

France

France: Unit Root Test Results Table (ADF)

(Null Hypothesis: the variable has a unit root)

At Level		VAFR	RERFR	RERMUFR	GFR
With Constant	t-Statistic	-4.6780	-2.30	-2.0724	-0.4545
	Prob.	0.0002	0.1750	0.2563	0.8942
		***	n0	n0	n0
With Constant & Trend	t-Statistic	-4.6645	-2.2906	-2.5561	-2.8704
	Prob.	0.0015	0.4346	0.3012	0.1768
		***	n0	n0	n0
Without Constant & Trend	t-Statistic	-0.4565	0.2462	0.0725	3.1083
	Prob.	0.5148	0.7555	0.7034	0.9995
		n0	n0	n0	n0
At First Difference		**d(VAFR)**	**d(RERFR)**	**d(RERMUFR)**	**d(GFR)**
With Constant	t-Statistic	-11.9803	-6.9751	-12.7537	-11.4313
	Prob.	0.0001	0.0000	0.0001	0.0001
		***	***	***	***
With Constant & Trend	t-Statistic	-11.9158	-6.9919	-12.7125	-11.3759
	Prob.	0.0000	0.0000	0.0000	0.0000
		***	***	***	***
Without Constant & Trend	t-Statistic	-12.0450	-6.9870	-12.8213	-10.3157
	Prob.	0.0000	0.0000	0.0000	0.0000
		***	***	***	***

Notes:
a: (*)Significant at the 10%; (**)Significant at the 5%; (***) Significant at the 1% and (no) Not Significant
b: Lag Length based on SIC
c: Probability based on MacKinnon (1996) one-sided p-values.

France: Unit Root test for Error Correction Term (ECT)

(Null Hypothesis: ECT has a unit root)

Exogenous: Constant
Lag Length: 4 (Automatic - based on SIC, maxlag=11)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-6.32981	0.0000
Test critical values:	1% level	-3.50388	
	5% level	-2.89359	
	10% level	-2.58393	

Notes:
*MacKinnon (1996) one-sided p-values.

France: Regression Estimation

Dependent Variable: D(VAFR)
Method: Least Squares
Date: 02/09/24 Time: 22:40
Sample (adjusted): 2001Q1 2023Q4
Included observations: 92 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(RERMUFR)	0.914999	1.064320	0.859703	0.3925
D(RERFR)	1.049918	0.615866	1.704784	0.0921
D(RERMUFR(-1))	-1.013959	1.063570	-0.953354	0.3433
D(RERFR(-1))	0.980039	0.655978	1.494012	0.1391
D(RERMUFR(-2))	-0.132259	1.028802	-0.128556	0.8980
D(RERFR(-2))	-1.152496	0.664973	-1.733147	0.0869
D(RERMUFR(-3))	0.663892	0.988973	0.671294	0.5040
D(RERFR(-3))	-0.218754	0.595768	-0.367180	0.7145
D(GFR)	14.92586	3.907854	3.819450	0.0003
ECT(-1)	-0.623804	0.149156	-4.182215	0.0001
D(DUMCOV)	-3.804928	0.488534	-7.788464	0.0000
C	-0.079016	0.049833	-1.585631	0.1168

R-squared	0.794325	Mean dependent var	0.004285
Adjusted R-squared	0.766045	S.D. dependent var	0.869291
S.E. of regression	0.420466	Akaike info criterion	1.226204
Sum squared resid	14.14337	Schwarz criterion	1.555133
Log likelihood	-44.40537	Hannan-Quinn criter.	1.358962
F-statistic	28.08758	Durbin-Watson stat	2.045782
Prob(F-statistic)	0.000000		

Source: IMF staff estimations.

Italy

Italy: Unit Root Test Results Table (ADF)

(Null Hypothesis: the variable has a unit root)

At Level		VAIT	GIT	RERIT	RERMUIT
With Constant	t-Statistic	-3.7437	-0.83	-2.2560	-1.0491
	Prob.	0.0048	0.8053	0.1884	0.7329
		***	n0	n0	n0
With Constant & Trend	t-Statistic	-3.8966	-2.1784	-2.2321	-1.4660
	Prob.	0.0159	0.4957	0.4663	0.8344
		**	n0	n0	n0
Without Constant & Trend	t-Statistic	-0.4794	2.4457	0.2904	0.0001
	Prob.	0.5056	0.9964	0.7679	0.6802
		n0	n0	n0	n0
At First Difference		**d(VAIT)**	**d(GIT)**	**d(RERIT)**	**d(RERMUIT)**
With Constant	t-Statistic	-11.5094	-10.2603	-7.0488	-9.8166
	Prob.	0.0001	0.0000	0.0000	0.0000
		***	***	***	***
With Constant & Trend	t-Statistic	-11.4478	-10.2073	-7.0715	-9.7633
	Prob.	0.0000	0.0000	0.0000	0.0000
		***	***	***	***
Without Constant & Trend	t-Statistic	-11.5718	-9.6971	-7.0553	-9.8699
	Prob.	0.0000	0.0000	0.0000	0.0000
		***	***	***	***

Notes:
a: (*)Significant at the 10%; (**)Significant at the 5%; (***) Significant at the 1% and (no) Not Significant
b: Lag Length based on SIC
c: Probability based on MacKinnon (1996) one-sided p-values.

Italy: Unit Root test for Error Correction Term (ECT)

(Null Hypothesis: ECT has a unit root)

Exogenous: Constant
Lag Length: 4 (Automatic - based on SIC, maxlag=11)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-6.82617	0.0000
Test critical values:	1% level	-3.50388	
	5% level	-2.89359	
	10% level	-2.58393	

Notes:
*MacKinnon (1996) one-sided p-values.

Italy: Regression Estimation

Dependent Variable: D(VAIT)
Method: Least Squares
Date: 02/09/24 Time: 21:45
Sample (adjusted): 2001Q1 2023Q4
Included observations: 92 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(RERMUIT)	1.348464	0.934414	1.443113	0.1529
D(RERIT)	0.891294	0.542200	1.643847	0.1041
D(GIT)	11.74176	2.475025	4.744097	0.0000
D(RERMUIT(-1))	-0.274604	0.856071	-0.320773	0.7492
D(RERIT(-1))	0.831897	0.571426	1.455825	0.1494
D(RERMUIT(-2))	1.691639	0.835148	2.025557	0.0461
D(RERIT(-2))	-2.359830	0.567912	-4.155273	0.0001
D(RERMUIT(-3))	-0.069039	0.897933	-0.076887	0.9389
D(RERIT(-3))	0.261538	0.543737	0.481001	0.6318
ECT(-1)	-0.673096	0.118602	-5.675268	0.0000
D(DUMCOV)	-4.139608	0.377884	-10.95470	0.0000
C	-0.058930	0.039327	-1.498455	0.1380

R-squared	0.833925	Mean dependent var	0.002224
Adjusted R-squared	0.811090	S.D. dependent var	0.819600
S.E. of regression	0.356229	Akaike info criterion	0.894623
Sum squared resid	10.15194	Schwarz criterion	1.223552
Log likelihood	-29.15267	Hannan-Quinn criter.	1.027382
F-statistic	36.51911	Durbin-Watson stat	2.204429
Prob(F-statistic)	0.000000		

Source: IMF staff estimations.

Great Britain

Great Britain: Unit Root Test Results Table (ADF)

(Null Hypothesis: the variable has a unit root)

At Level		VAGB	RERMUGB	RERGB	GGB
With Constant	t-Statistic	-4.5857	-1.37	-2.5125	-0.8699
	Prob.	0.0003	0.5958	0.1158	0.7938
		***	n0	n0	n0
With Constant & Trend	t-Statistic	-4.6727	-1.9003	-2.6778	-3.3535
	Prob.	0.0014	0.6465	0.2482	0.0641
		***	n0	n0	*
Without Constant & Trend	t-Statistic	-0.2117	-0.3831	0.1490	3.7081
	Prob.	0.6074	0.5437	0.7270	0.9999
		n0	n0	n0	n0
At First Difference		**d(VAGB)**	**d(RERMUGB)**	**d(RERGB)**	**d(GGB)**
With Constant	t-Statistic	-10.5821	-5.2653	-7.0446	-11.5868
	Prob.	0.0000	0.0000	0.0000	0.0001
		***	***	***	***
With Constant & Trend	t-Statistic	-10.5304	-5.2257	-7.0255	-11.5149
	Prob.	0.0000	0.0002	0.0000	0.0000
		***	***	***	***
Without Constant & Trend	t-Statistic	-10.6405	-5.2831	-7.0713	-10.2850
	Prob.	0.0000	0.0000	0.0000	0.0000
		***	***	***	***

Notes:
a: (*)Significant at the 10%; (**)Significant at the 5%; (***) Significant at the 1% and (no) Not Significant
b: Lag Length based on SIC
c: Probability based on MacKinnon (1996) one-sided p-values.

Great Britain: Unit Root test for Error Correction Term (ECT)

(Null Hypothesis: ECT has a unit root)

Exogenous: Constant
Lag Length: 1 (Automatic - based on SIC, maxlag=11)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-8.409178	0.0000
Test critical values:	1% level	-3.50145	
	5% level	-2.89254	
	10% level	-2.58337	

Notes:
*MacKinnon (1996) one-sided p-values.

Great Britain: Regression Estimation

Dependent Variable: D(VAGB)
Method: Least Squares
Date: 02/09/24 Time: 22:29
Sample (adjusted): 2001Q1 2023Q4
Included observations: 92 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(RERMUGB)	1.586605	0.970307	1.635158	0.1060
D(RERGB)	0.496648	0.470361	1.055887	0.2942
D(RERMUGB(-1))	-0.864755	1.087483	-0.795189	0.4289
D(RERGB(-1))	-0.590659	0.507755	-1.163276	0.2482
D(RERMUGB(-2))	1.895074	1.033686	1.833317	0.0705
D(RERGB(-2))	-1.243431	0.560141	-2.219853	0.0293
D(RERMUGB(-3))	-0.124018	0.948292	-0.130781	0.8963
D(RERGB(-3))	-0.388172	0.516234	-0.751930	0.4543
D(GGB)	8.420162	1.867403	4.509023	0.0000
D(GGB(-1))	12.56043	1.632216	7.695325	0.0000
ECT(-1)	-0.950168	0.084927	-11.18802	0.0000
D(DUMCOV)	-2.931280	0.312305	-9.385960	0.0000
C	-0.177362	0.037975	-4.670496	0.0000

R-squared	0.885518	Mean dependent var	0.003374
Adjusted R-squared	0.868129	S.D. dependent var	0.787239
S.E. of regression	0.285879	Akaike info criterion	0.463771
Sum squared resid	6.456412	Schwarz criterion	0.820111
Log likelihood	-8.333460	Hannan-Quinn criter.	0.607593
F-statistic	50.92221	Durbin-Watson stat	1.258670
Prob(F-statistic)	0.000000		

Source: IMF staff estimations.

Switzerland

Switzerland: Unit Root Test Results Table (ADF)

(Null Hypothesis: the variable has a unit root)

At Level		VACH	GCH	RERMUCH	RERCH
With Constant	t-Statistic	0.6899	-0.74	-1.6492	-2.0614
	Prob.	0.9912	0.8303	0.4536	0.2607
		n0	n0	n0	n0
With Constant & Trend	t-Statistic	-2.6124	-1.7723	-1.9556	-2.4082
	Prob.	0.2762	0.7105	0.6174	0.3730
		n0	n0	n0	n0
Without Constant & Trend	t-Statistic	2.5334	2.7697	0.2963	0.3941
	Prob.	0.9971	0.9986	0.7695	0.7956
		n0	n0	n0	n0
At First Difference		**d(VACH)**	**d(GCH)**	**d(RERMUCH)**	**d(RERCH)**
With Constant	t-Statistic	-10.3256	-9.6753	-6.8055	-7.2419
	Prob.	0.0001	0.0000	0.0000	0.0000
		***	***	***	***
With Constant & Trend	t-Statistic	-4.9066	-9.6221	-6.7657	-7.0424
	Prob.	0.0008	0.0000	0.0000	0.0000
		***	***	***	***
Without Constant & Trend	t-Statistic	-6.3080	-9.0266	-6.8281	-7.2338
	Prob.	0.0000	0.0000	0.0000	0.0000
		***	***	***	***

Notes:
a: (*)Significant at the 10%; (**)Significant at the 5%; (***) Significant at the 1% and (no) Not Significant
b: Lag Length based on SIC
c: Probability based on MacKinnon (1996) one-sided p-values.

Switzerland: Unit Root test for Error Correction Term (ECT)

(Null Hypothesis: ECT has a unit root)

Exogenous: Constant
Lag Length: 4 (Automatic - based on SIC, maxlag=11)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-3.019763	0.0370
Test critical values:	1% level	-3.50928	
	5% level	-2.89592	
	10% level	-2.58517	

Notes:
*MacKinnon (1996) one-sided p-values.

Switzerland: Regression Estimation

Dependent Variable: D(VACH)
Method: Least Squares
Date: 02/09/24 Time: 22:07
Sample (adjusted): 2001Q1 2023Q4
Included observations: 90 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(RERMUCH)	2.394152	1.051317	2.277288	0.0255
D(RERCH)	0.393898	0.474987	0.829281	0.4095
D(GCH)	-4.140731	4.248496	-0.974635	0.3328
D(GCH(-1))	5.077834	3.704866	1.370585	0.1745
D(RERMUCH(-1))	-3.065597	1.071493	-2.861053	0.0054
D(RERCH(-1))	0.881076	0.476942	1.847344	0.0685
D(RERMUCH(-2))	-0.106340	1.136097	-0.093601	0.9257
D(RERCH(-2))	-0.287786	0.490511	-0.586706	0.5591
D(RERMUCH(-3))	-0.505750	1.021650	-0.495033	0.6220
D(RERCH(-3))	0.032280	0.426417	0.075701	0.9399
ECT(-1)	-1.142291	0.120372	-9.489649	0.0000
D(DUMCOV)	-1.504992	0.353523	-4.257133	0.0001
C	0.016780	0.035347	0.474711	0.6363

R-squared	0.678832	Mean dependent var	0.036460
Adjusted R-squared	0.628780	S.D. dependent var	0.466305
S.E. of regression	0.284109	Akaike info criterion	0.453970
Sum squared resid	6.215298	Schwarz criterion	0.815054
Log likelihood	-7.428649	Hannan-Quinn criter.	0.599580
F-statistic	13.56252	Durbin-Watson stat	1.784025
Prob(F-statistic)	0.000000		

Source: IMF staff estimations.

Russia

Russia: Unit Root Test Results Table (ADF)

(Null Hypothesis: the variable has a unit root)

At Level		VARU	RERRU	RERMURU	GRU
With Constant	t-Statistic	-4.0057	-2.03	-2.9470	-2.5270
	Prob.	0.0021	0.2724	0.0438	0.1124
		***	n0	**	n0
With Constant & Trend	t-Statistic	-4.9253	-1.9433	-2.7327	-2.0946
	Prob.	0.0006	0.6239	0.2262	0.5418
		***	n0	n0	n0
Without Constant & Trend	t-Statistic	-0.2898	1.2312	3.2945	4.1450
	Prob.	0.5790	0.9435	0.9997	1.0000
		n0	n0	n0	n0
At First Difference		**d(VARU)**	**d(RERRU)**	**d(RERMURU)**	**d(GRU)**
With Constant	t-Statistic	-9.6532	-6.8763	-9.5896	-6.4791
	Prob.	0.0000	0.0000	0.0000	0.0000
		***	***	***	***
With Constant & Trend	t-Statistic	-9.5994	-7.0272	-9.7962	-6.8875
	Prob.	0.0000	0.0000	0.0000	0.0000
		***	***	***	***
Without Constant & Trend	t-Statistic	-9.6746	-6.5167	-8.5559	-4.2949
	Prob.	0.0000	0.0000	0.0000	0.0000
		***	***	***	***

Notes:
a: (*)Significant at the 10%; (**)Significant at the 5%; (***) Significant at the 1% and (no) Not Significant
b: Lag Length based on SIC
c: Probability based on MacKinnon (1996) one-sided p-values.

Russia: Unit Root test for Error Correction Term (ECT)

(Null Hypothesis: ECT has a unit root)

Exogenous: Constant
Lag Length: 1 (Automatic - based on SIC, maxlag=11)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-7.02002	0.0000
Test critical values:	1% level	-3.50145	
	5% level	-2.89254	
	10% level	-2.58337	

Notes:
*MacKinnon (1996) one-sided p-values.

Russia: Regression Estimation

Dependent Variable: D(VARU)
Method: Least Squares
Date: 02/09/24 Time: 22:18
Sample (adjusted): 2001Q1 2023Q4
Included observations: 92 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(RERRU)	2.441792	1.024590	2.383190	0.0196
D(RERMURU)	1.209812	1.654205	0.731356	0.4668
D(GRU)	2.776364	2.418330	1.148050	0.2545
D(RERRU(-1))	-0.876316	1.041234	-0.841613	0.4026
D(RERMURU(-1))	2.535596	1.543080	1.643204	0.1044
D(RERRU(-2))	-0.373541	1.091464	-0.342239	0.7331
D(RERMURU(-2))	0.903116	1.552337	0.581778	0.5624
D(RERRU(-3))	-0.039240	0.966120	-0.040616	0.9677
D(RERMURU(-3))	-1.499656	1.591497	-0.942293	0.3490
D(GRU(-1))	1.488214	2.415432	0.616127	0.5396
D(GRU(-2))	2.503550	2.235535	1.119888	0.2662
ECT(-1)	-0.706947	0.107866	-6.553938	0.0000
D(DUMWAR)	-0.813248	0.676994	-1.201265	0.2333
D(DUMCOV)	-3.527681	0.549321	-6.421888	0.0000
C	-0.106429	0.114336	-0.930844	0.3548

R-squared	0.612542	Mean dependent var	0.033515
Adjusted R-squared	0.542095	S.D. dependent var	0.943944
S.E. of regression	0.638754	Akaike info criterion	2.089510
Sum squared resid	31.41653	Schwarz criterion	2.500671
Log likelihood	-81.11745	Hannan-Quinn criter.	2.255458
F-statistic	8.695088	Durbin-Watson stat	1.801720
Prob(F-statistic)	0.000000		

Source: IMF staff estimations.

Annex VI. Climate Finance Challenges in Seychelles

Seychelles has been a pioneer in leveraging innovative financing instruments to support climate investments. However, it faces challenges in ramping up the scale of its climate finance. This annex sheds on the need to address three major bottlenecks; At the funding stage, the bottleneck is the lack of capacity and support to meet the stringent requirements of international climate financing programs. At the disbursement stage, the major challenge is establishing timely and effective institutional processes to allocate funds to relevant local projects. At the implementation stage, the bottleneck involves the limited capacity of private sector entities and sometimes the lack of essential infrastructure.

Introduction

1. The Seychelles economy faces climate-related impacts and risks, necessitating significant investment for adaptation and transition. As a tourism-dependent island nation, Seychelles is vulnerable to a multitude of climate change risks, including the erosion of habitable land, natural disasters, and the loss of tourism assets such as pristine beaches. The economic damage from the 2023 flooding highlights the country's vulnerability to such events.[1] These challenges create infrastructure demands that call for sustained public investment. According to Seychelles' latest Nationally Determined Contributions (NDCs), addressing climate change requires a total investment of US$331 million for mitigation and US$339 million for adaptation. On an annual basis, these spending needs amount to approximately 3.3 percent of the estimated GDPs for the years 2023 to 2030 To support these investment plans, the authorities have introduced initiatives such as the Seychelles Coastal Management Plan (CMP) and the Seychelles Marine Spatial Plan (SMSP) to outline strategies for protecting shorelines, promoting marine biodiversity, supporting the Blue Economy. These initiatives detail projects that need external funding to proceed.

2. Seychelles has been a pioneer in leveraging innovative financing instruments to support climate investments, albeit on a small scale. Notable examples include:

- **Debt-for-nature Swap:** In 2015, Seychelles successfully implemented a debt-for-nature swap to enhance marine conservation and climate adaptation. As part of this operation, the Seychelles Conservation and Climate Adaptation Trust (SeyCCAT) was formed, which was funded by a $15.2 million loan from The Nature Conservancy and $5 million in grants from philanthropic organizations. The Trust then extended a loan of $20.2 million to the Seychelles government to re-purchase $21.6 million of its sovereign debt owed to Paris Club creditors, at a small discount (6.5 percent).[2] With this and subsequent fundings, SeyCATT provides grants of at least US$750,000 per annum to promote the stewardship of Seychelles' ocean resources, blue economy, and climate change adaptation.

[1] According to the World Bank's Rapid Damage and Loss Assessment, the total damage and loss estimate amounts to 2,221 million SCR, equivalent to 7.4 percent of the estimated 2023 GDP. The precise number could vary in the actual evaluation.

[2] For more information regarding the loan structure, please refer to *Debt for Climate Swaps Supporting a Sustainable Recovery*, Climate Policy Initiative, 2021.

- **Blue Bond:** In 2018, Seychelles issued the world's first sovereign Blue Bond (in total of $15 million), a new financial instrument aimed at supporting sustainable marine and fisheries initiatives. The World Bank facilitated the issuance by providing provided a guarantee of $5 million and assisted in the fund raising from global investors. Additionally, the Global Environment Facility supported with a $5 million concessional loan to cover interest payments. The proceeds, which consist of grants ($3 million) and loans ($12 million), were designed to support the private sector projects via the SeyCATT and the Development Bank of Seychelles.
- **GCF and GEF:** Seychelles has also been receiving project financing from the Global Climate Fund (GCF) and the Global Environment Facility (GEF). Currently, GCF has been supporting 4 regional projects that allocate a combined total of US$34.3 million to Seychelles, including Sustainable Renewables Risk Mitigation Initiative (SRMI) Facility and Global Fund for Coral Reefs Investment Window. The GEF is involved in 10 ongoing national projects in Seychelles, providing US$30.3 million to supplement investment projects that focus on biodiversity, land degradation, and climate change.
- **RSF:** In 2023, Seychelles was approved for a three-year arrangement under the Resilience and Sustainability Facility (RSF), in the amount of US $46 million. A core element of the RSF reforms includes the mobilization of climate finance.

3. Despite these achievements, Seychelles faces internal and external challenges in ramping up the scale of its climate finance, disbursing funds, and implementing projects. The size of climate-related funds mobilized thus far is small relative to the needs estimated in the NDCs. Some of the programs for climate adaptation and mitigation projects are incomplete due to challenges in effectively disbursing resources, and subsequent funding streams have yet to be identified. Another major issue is the sustainability of projects. In some cases, the project financing arrangements from global institutions only cover initial setup costs, and the initial absence of a strategy for financing operational expenses and labor has complicated the management of projects. Consequently, some past projects have been abandoned at the operations stage due to these cost issues.

4. To address these issues, the RSF included two reforms to expand financial resources and remove the bottlenecks. Discussions with the authorities highlighted the need for a clear roadmap from securing funds to project implementation. In the first phase, the program aims to adopt a national climate finance mobilization strategy and develop a pipeline of appraised climate-related projects (RM 5). The goal of this RM is to establish an overarching strategy to maximize the effectiveness and sustainability of climate finance, drawing on lessons from previous efforts. The second phase focuses on establishing an implementation strategy and secure funding for at least one significant adaptation or mitigation project that contributes to the NDC (RM 10). Additional RMs were established and discussed to remove bottlenecks in the public sector investment. As the program review progresses, however, many additional challenges have been identified that impede the flow of finance to climate investments.

5. This annex sheds light on the various internal and external challenges in accessing climate finance identified during the early stages of the RSF program. Three major bottlenecks seem apparent. At the funding stage, the bottleneck is the still developing level of internal capacity and external support necessary to meet the stringent (and sometimes onerous for small countries due to fixed costs involved with audits and assessments) requirements of international climate financing programs. At the disbursement stage, the major challenge is establishing timely and effective institutional processes to allocate funds to relevant local projects. At the implementation stage, the bottleneck involves the limited capacity of private sector entities and sometimes the lack of essential infrastructure such as land, zoning, utilities, and facilities for projects to take off. Finally, the lack of a post-financing strategy can lead to a short life span for projects even after an initial period of success. Prior instruments such as the Debt-for-nature swap, the Blue Bond, and the project financing from the GEF encountered some of these issues, particularly in their later stages. Funding arrangements with GCF and the implementation of RM5 and RM10 within the RSF face challenges due to the first bottleneck.

Funding Stage

6. **Climate adaptation is paramount to small island states like Seychelles, but adaptation remains comparatively low on the climate financing spectrum next to mitigation and transition activities.** The Climate Policy Initiative estimates that average annual climate finance flows reached almost $1.27 trillion in 2022, almost double the levels from 2020. However, only about $63 billion (less than 5 percent) targeted climate adaptation. The overwhelming majority of these funds, $1.15 trillion, were devoted to climate change mitigation.[3] To date, adaptation financing has relied predominantly on public funds, presenting a challenging business case for private investment. Further, some small island states encounter difficulties in accessing concessional public finance and Official Development Aid due to their income status.[4]

7. **The requirements to get access to international climate finance from various institutions are heavy and often take multiple years.[5]** The Global Climate Fund (GCF) and Global Environment Facility (GEF) are the two main operating entities under the financial mechanism of the United Nations Framework Convention on Climate Change (UFFCC). Obtaining climate finance via these institutions involves a number of steps. Typically, a country needs to nominate a National Designated Authority (NDA) or a Focal Point to interact with international organizations. This NDA or Focal Point, usually working with a range of stakeholders, is responsible for developing strategic document that outlines the country's priorities and potential projects. Projects or programs seeking GCF funding need to be developed and submitted by an entity that is accredited by the GCF. The accredited entity, in collaboration with the NDA or Focal Point and other stakeholders, develops a funding proposal for a project or program. Once submitted, the funding proposal undergoes a review process by the GCF and GEF. Accessing funds from these institutions can typically take anywhere from over a year to

[3] Some mitigation measures have adaptation co-benefits, such as building solar panels, but not all of them are applicable to small island contexts.

[4] *Accessing Climate Finance: Challenges and opportunities for Small Island Developing States*, United Nations, 2022.

[5] *Unlocking Access to Climate Finance for Pacific Island Countries*, IMF Departmental Paper No 2021/020, September 2021.

several years from initial concept to fund disbursement, depending on the project's specifics and the efficiency of the involved processes.

8. **Seychelles has made progress in establishing initial arrangements with the GCF, but country-level programs have yet to be established.** As of March 2024, Seychelles had completed three readiness activities with the GCF—essential first steps for accessing GFC funding—with the Ministry of Environment and Energy serving as the NDA. Currently, Seychelles participates in four regional-level projects, amassing a total of $34.3 million. However, beyond regional projects, Seychelles lacks a country-level program, which is the cornerstone of each country's pipeline development with the GCF. The authorities have identified the slow pace of funding and the heavy requirements as a major issue in initiating a country program.[6] Even for the regional projects in which Seychelles participates, which benefit from a more streamlined process due to economies of scale, the disbursement rates remain low, and it has taken several years from the initial concept proposal to the first fund disbursement. (Table 1) Securing additional funding from the GCF has proven challenging for Seychelles.

Table 1. Seychelles: GCF Regional Project Status

Name	Concept Received	Approved	First Disbursement	Disbursement Rate[1]
Sustainable Renewables Risk Mitigation Initiative	Mar 2021	Mar 2023	Dec 2023	< 1%
Global Fund for Coral Reefs Investment Window	Apr 2021	Oct 2021	Aug 2022	40%
Building Regional Resilience through Strengthened Meteorological, Hydrological and Climate Services	Jul 2018	Mar 2021	Dec 2022	17%
Ecosystem-based Adaptation	Jun 2018	Aug 2020	Jul 2021	18%

Source: Authorities' data.
1/ Average disbursement rates to all countries involved with the project, as of March 2024.

9. **Financing arrangements with the GEF have been comparatively smooth (Table 2), but challenges arose during implementation due to the short life cycles of funding.** Historically, Seychelles has relied heavily on project financing from the GEF. The country began receiving funds from GEF-4, covering the years 2006-2010. To date, 29 country-level projects have been supported by the GEF, with many achieving successful completion. The primary challenge identified by the authorities, with respect to the GEF, is the sustainability of projects. GEF funding is typically short-term, covering initial setup costs such as equipment and training but often lacking a strategy for ongoing operational expenses and labor. Some projects have been abandoned during the operational stage due to these financial challenges. The GEF will continue to be a main financing instrument for

[6] Fouad et al (2021) highlight the low level (compared to commitment) of adaptation funds disbursed. Climate Analytics indicates that approximately $230 million has been disbursed, which is less than 9 percent of the total amount approved by the Green Climate Fund for the LDCs, after 5.5 years of operation.

climate-related investments; however, the authorities are now placing more emphasis on developing a long-term financing strategy for their projects, starting from the design stage.

Table 2. Seychelles: GEF Financing Status

Name	Life Cycle	Allocated	Utilized	Disbursement Rate
STAR GEF-8	2022-2026	$10.8 m	$9.8 m	91%
STAR GEF-7	2018-2022	$6.6 m	$6.6 m	>99%
STAR GEF-6	2014-2018	$7.6 m	$7.6 m	100%
STAR GEF-5	2010-2014	$7.6 m	$7.3 m	96%
STAR GET-4	2006-2010	$8.3 m	$6.3 m	76%

Source: Authorities' data.

10. Seychelles pioneered its own environmental funding arrangements such as the Blue Bond and Debt-for-Nature Swap, but there is a lack of continuity in knowledge and expertise within governmental ranks. Since launching initiatives like the Blue Bond and Debt-for-Nature Swap, no further funding independent mechanisms have been established. The Ministry of Finance, National Planning, and Trade does not have a dedicated unit to oversee and manage the knowledge base gained from these cutting-edge experiences. As is common in small island states, Seychelles faces challenges in recruiting and retaining qualified government staff, and those with specific expertise in climate change are dispersed across various ministries. Running an internal unit that manages and builds expertise in external financing is challenging, especially in a relatively niche area such as climate finance. The authorities have also expressed difficulties in retaining staff who gain experience in these areas, as they are frequently recruited by external consultancy firms. For some, this implies the need to rely on external experts from a limited (albeit growing) talent pool.

11. Identifying and recruiting a suitable advisor to Seychelles' MoFNPT with relevant market experience has proven to be more difficult than initially anticipated. At the inception of the RSF, the authorities aimed to recruit a resident climate finance advisor to assist in developing a national climate finance strategy as part of the reform measures. However, this process has had its own challenges. First there is a limited outside talent pool, with the necessary expertise in the operational aspects of climate change and actual deal experience. Second, hiring an outside expert is costly. Seychelles has sought support from the United Nations for the recruitment process and potential financial support. This funding process has its own timeline and program requirements, requiring time and a learning process to navigate. Third, hiring an expert per se requires a certain level of knowledge within government. Even at the preliminary stage of drafting a terms-of-reference, there was a learning process surrounding the determination of needs and aligning those needs against the services normally attached to multilateral funding. Taken together, these experiences highlight the tension between wanting to move quickly on climate financing objectives and the learning curve associated with ensuring the work has a lasting and meaningful impact.

12. Obtaining outside technical support takes time and investment of scarce resources, which can present challenges for meeting commitments under RSF. For example, to facilitate recruitment of an adviser to facilitate development of a climate financing strategy, Seychelles is leveraging expertise in the NDC Partnership—a global initiative aimed at helping countries achieve their national climate goals. The NDC Partnership possesses expertise in global climate finance and provides a local contact to facilitate collaboration. It also has experience assisting small island states in developing national climate finance strategies and securing funding. However, even at an expedited pace, obtaining approval for assistance from the NDC Partnership can take about three months, and (based on NDC cross-country experience) developing a national climate finance strategy and a project pipeline can take about one year.

Disbursement Stage

13. **The Blue Bond, issued in 2018, illustrates difficulties in disbursing funds at the local level.** To date, no funds (in the form of loans) have been disbursed to private sector projects. Some 80 percent of the proceeds from the Blue Bond was used to establish the Blue Investment Fund (BIF) in 2020. It is a loan scheme developed specifically to support the expansion and diversification of sustainable fishery value chains in Seychelles, with the Development Bank of Seychelles serving as the operating entity. The program offers up to $3 million at 4 percent interest rate to help eligible entities scale up their business. However, as of 2024, none of the funds have been disbursed to actual projects. While two projects were approved, one applicant withdrew. The remaining project is pending recruitment of new shareholders.

14. **One bottleneck, as identified by the authorities, are the stringent administrative requirements often mandated by global financial institutions.** For approval from the Blue Investment Fund (BIF), applicants should develop an Environmental and Social Management Plan. The plan must be approved via an external evaluation conducted by SWIOFish3, in accordance with the Blue Bond's establishing contract. The Development Bank of Seychelles (DBS), which channels the BIF, offers support during this preparatory phase. Nevertheless, the approval process usually spans six months and is beyond the DBS's purview. Several applications have been deferred due to the lack of complete documentation. Moreover, the private sector's capacity to independently manage this process is often limited.

15. **Gaps in public infrastructure have also reportedly contributed to delays in project initialization.** The range of projects eligible for the BIF is specific, focusing on fish processing, logistics, market development, and aquaculture. Such projects depend on government-provided infrastructure, including zoning, utilities, and facilities. These elements are essential, especially since loans typically require collateral. It is common for the land and facilities utilized for projects to be used as such collateral. The DBS has pointed out that many client projects are postponed due to inadequate infrastructure and the absence of zoning permits. This suggests that the launching a fund scheme, such as the BIF, without first establishing the necessary public infrastructure can be ineffective.

16. **Beyond the administrative challenges, there appear to be relatively few 'bankable' private sector projects that meet the criteria of a climate finance program and could eventually generate significant returns to investors.** The Blue Investment Fund primarily targets the fisheries and aquaculture sectors, which hold industrial potential in Seychelles. By its nature, climate change mitigation and adaptation often involve fewer projects that are inherently bankable and likely to yield

high investor returns. The critical projects Seychelles is focusing on pertain to climate adaptation, such as protecting shorelines, beaches, and preventing landslides. These investments are directed toward public goods, making it challenging to assign their implementation to the private sector.

17. In this regard, the grants program of SeyCCAT is well-managed, but the grants disbursed to projects are small and predominantly support exploratory research. SeyCCAT, which was financed by the Blue Bond and the Debt-for-Nature Swap, focuses mainly on grant financing. Funded project examples include research on Blue Carbon to understand marine assets (i.e., Blue Carbon systems) that directly mitigate climate change and reduce ocean risks, a mangrove habitat mapping project, and feasibility studies for various ocean farming initiatives. Most of these projects are centered on exploratory research with limited funding. The actual implementation of these projects requires substantial funding, which domestic finance in Seychelles is unable to provide.

Implementation Stage

18. The private and public sectors have limited execution capacity for climate-related investment projects. Seychelles is relatively a small economy with a population of around 100,000. Its domestic private sector primarily focuses on the tourism, construction, and fishery industries. Although the government of Seychelles is considered efficient compared to regional peers, under-execution of public investment (relative to budget) is a persistent issue. Structural benchmarks and reform measures under the current EFF/RSF aim to target this bottleneck and several important reforms are already underway in line with recommendations from the CPIMA.[7] However, it will take time for these reforms to be fully absorbed at the operational level and to translate these efficiencies into tangible investment outcomes. Climate investment is a particularly specialized field that demands significant time to build adequate capacity.

19. Technical assistance for the execution and oversight of climate projects from international bodies is limited. While there is a recognition of the need for such support, particularly in developing countries and small island states like Seychelles, the availability of skilled experts and resources often falls short of demand. Establishing this support is a time-consuming process, and it is crucial to build long-term relationships between the recipient country and international support units.

Conclusion

20. This annex sheds light on internal and external challenges in expanding and implementing climate finance in Seychelles. Seychelles is one of the leading small island states in the climate finance arena. The country has pioneered innovative climate and environment financing and became the second nation in Africa to be approved for the RSF. Many challenges, from the funding to the implementation stage have been identified during the early course of the program. These experiences provide valuable learning opportunities for other countries.

[7] See paragraph 78 and 79 in the MEFP for more details on governmental actions.

21. Despite these challenges, progress is being made. The RSF provides opportunities to mobilize internal resources within the government and conduct necessary reforms. The authorities recognize the staff's recommendation to deliver the RSF reforms in a timely manner. In this regard, the authorities have recently set up a climate finance working group to initiate the groundwork for a national climate finance strategy before any outside assistance from the NDC Partnership or resident advisor arrives. Furthermore, key governmental bodies, such as the Seychelles Infrastructure Agency, have begun building internal capacity for managing climate-related public investments. Seychelles has planned to receive many technical assistance and capacity development support from international organizations. These initiatives are a step in the right direction, though they are relatively recent developments.

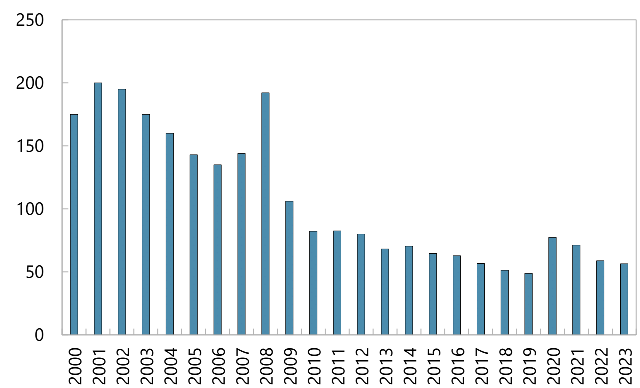
Annex VII. Debt Scenarios and Fiscal Targets

1. **Seychelles has undertaken remarkable fiscal consolidation over the past two decades, accompanied by substantive reforms to fiscal management**. Public debt has declined from just under 200 percent of GDP in 2001 to an estimated 59 percent by end-2023, (Figure 1). The government has committed to achieve a ratio of public debt to GDP of 50 percent no later than 2030 as part of the medium-term fiscal framework (although this is not a legislated or binding target).

2. **Seychelles is assessed under the Sovereign Risk Debt Sustainability Framework (SRDSF) to be a moderate risk of sovereign stress and that debt is sustainable with high probability**. Nonetheless, risks to debt sustainability risks remain over the medium and long-term given: (i) potentially higher debt service costs for non-concessional borrowing; (ii) vulnerability as a small island state to exogenous shocks, including climate related events; (iii) high import dependence; and (iv) dependence on tourism as the main source of foreign exchange.

3. **This annex seeks to assess Seychelles' debt dynamics under a range of possible scenarios, illustrate vulnerabilities, and suggest ways to mitigate risks**. The annex (i) projects Seychelles' public debt under a baseline scenario; (ii) breaks down the major factors influencing these projections; (iii) and explores potential fiscal adjustment paths to achieve a specific debt level. Additionally, it evaluates public debt under various shock scenarios, including potential increases in borrowing costs, which may result from decreased access to concessional financing.

Figure 1. Public Debt to GDP (2000-23)
(Percent of GDP)



Sources: Authorities' data and staff calculations.

4. **Debt projections under a baseline scenario.** The modeling framework used here creates a baseline scenario that integrates current projections for key macro-fiscal variables to forecast public debt as a percentage of GDP. In the baseline scenario, the debt-to-GDP ratio is expected to decrease by 15.3 percentage points, reaching 43.6 percent by 2029 (compared to 45.5 percent in the current macroeconomic framework). This decline in the public debt ratio is linked primarily to a steady increase in the government primary fiscal surplus, and steady (albeit moderating) GDP growth—each contributing to a decline of 11 percentage points (ppt) of GDP. On the other hand, interest rates are anticipated to result in a 7-percentage point increase in public debt. By 2024, the debt-stabilizing primary balance is projected at 0.4 percent of GDP, changing to -0.8 percent of GDP by 2029.[1]

[1] The debt-stabilizing primary balance is the necessary primary balance to keep the public debt to GDP ratio constant at the level recorded in the preceding year.

Table 1. Seychelles: Public Debt Dynamics – Baseline Scenario

	Projections					
	2024	2025	2026	2027	2028	2029
Nominal gross public debt	60.6	59.6	57.3	53.7	49.5	43.6
Of which: guarantees (uncalled)	4.1	5.0	5.0	4.6	4.2	2.1
Real GDP growth (in percent)	3.7	4.1	3.7	3.6	3.5	3.5
Inflation (GDP deflator, in percent)	1.1	2.0	2.4	3.0	3.2	3.2
Nominal GDP growth (in percent)	4.8	6.2	6.2	6.7	6.8	6.8
Effective interest rate (in percent)	4.5	4.8	4.8	4.8	4.9	5.0

Source: Staff projections.

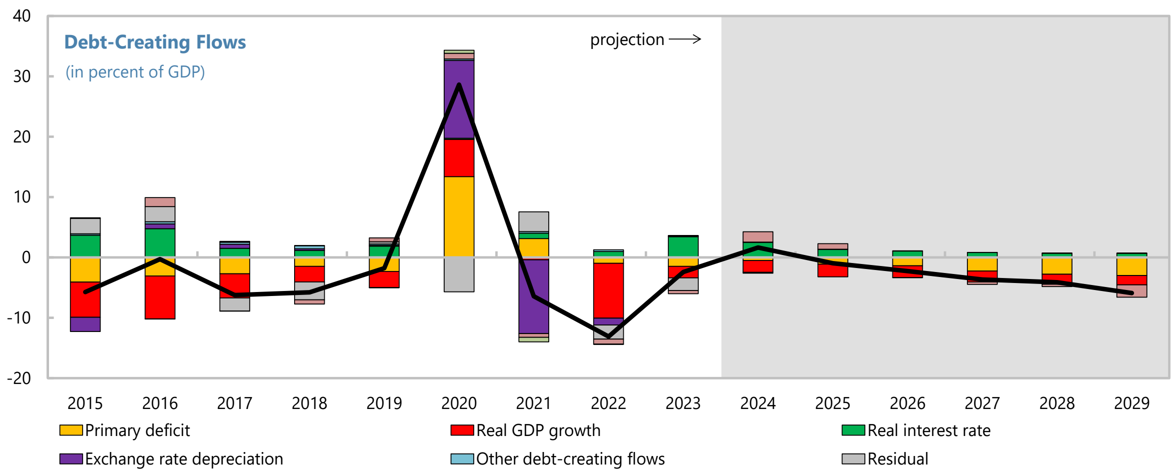
5. **Fiscal adjustment paths.** While the government's objective of reaching a ratio of public debt to GDP of 50 percent by 2030 is well within reach under the baseline scenario, this assumes no significant exogenous shocks, continued fiscal consolidation, relatively inexpensive terms for new external borrowing, and a benign path for real GDP growth. Given the vulnerabilities noted above, a lower debt-to-GDP ratio would intuitively provide greater fiscal space to absorb shocks and/or an increase in debt servicing costs. Assuming the authorities aimed instead to achieve a debt-to-GDP ratio of 40 percent with fiscal adjustment occurring between 2024 and 2029, different approaches can be considered under the baseline scenario assumptions.

- One approach could be by maintaining a primary balance of 2.5 percent of GDP from 2024 to 2029 which would result in a debt ratio of 40 percent by 2029. However, this path might necessitate a significant adjustment, particularly an increase in the fiscal balance, in the initial year of adjustment.

- For a smoother adjustment path that still meets the same debt target, incrementally increasing the primary balance by 0.3 percent of GDP from 2024 to 2029 would also lead to a 40 percent debt ratio by 2029.

- A hybrid of the first two paths noted above could involve a constant yearly adjustment between 2024 and 2025, followed by maintaining a steady primary balance from 2026 to 2029. For example, if a steady primary balance of 2 percent is desired in the latter period, it would require an increase in the primary balance by 1.4 percent in 2024 and 2025, moving from 1.48 percent in 2023 to 4.29 percent in 2025.

Figure 2. Contributions to Changes in Public Debt (nominal terms)



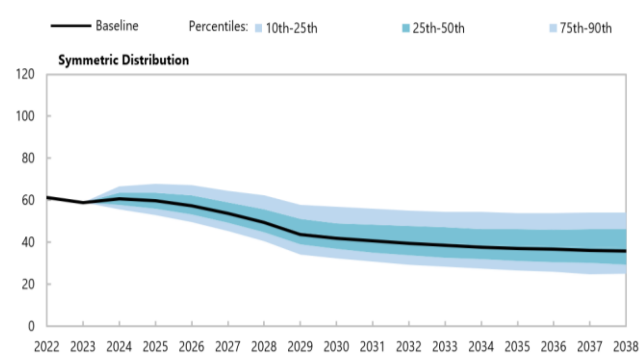
Source: Authorities' data and IMF staff calculations and projections.

Projecting Public Debt Under Uncertainty.

6. **As with any projections, estimating the public debt trajectory is subject to significant uncertainty**. The current model results indicate that the probability of the debt ratio in 2029 being lower than that in 2024 exceeds 90 percent. On the other hand, the probability of achieving a debt ratio below the 40 percent target by 2029 is approximately 30 percent. Additionally, there is a 90 percent confidence level that the public debt ratio will remain below 57 percent over the projection period.

7. **Alternative scenarios:** The following section provides estimates of the public debt ratio under alternative scenarios. The ***historical scenario*** applies historical averages for macro-fiscal variables, starting from the second projection year, to forecast the trajectory of public debt assuming key variables follow historical patterns. The ***constant primary balance scenario*** sets all key macro-fiscal inputs as in the baseline, except for the primary balance, which, starting in the second projection year, is set at the level of the first projection year. Other ***shock scenarios*** (stress tests) could be implemented including a shock to interest rate reflecting

Figure 3. Evolution of Predictive Densities of Gross Nominal Public Debt
(Percent of GDP)

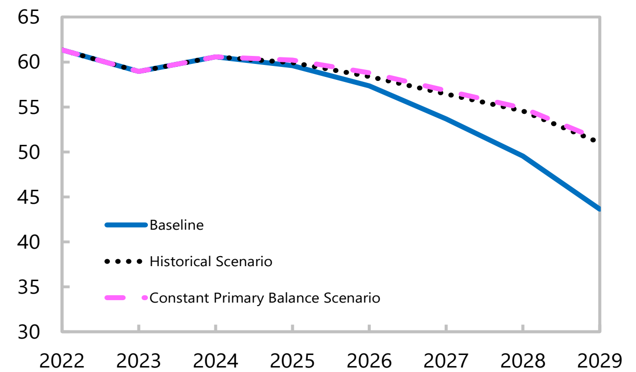


Source: Staff projections.

potential increases in borrowing costs, a weaker primary balance, lower GDP growth, and movement in nominal exchange rates.

8. **Historical scenarios can help assess the realism of baseline assumptions**. For instance, if a historical scenario shows higher debt than the baseline, it may imply the baseline assumptions are too optimistic. Although deviations from historical trends can be justified, clear explanations are essential for robust public debt analysis. The baseline scenario presented here projects a sharper decrease in the debt to GDP ratio to 43.6 percent by 2029, in contrast to 51 percent as per the historical scenario, indicating a degree of optimism in the baseline assumptions. Factors such as a fixed exchange rate (versus higher depreciation observed in the historical scenario) and more ambitious primary balance projections relative to historical trends contribute to the steeper decrease in debt-to-GDP in the baseline scenario. Nonetheless, given the authorities' commitment to exchange rate stability and fiscal consolidation under the IMF program and the MTFF, the historical scenario does not necessitate a revision of the baseline assumptions.

Figure 4. Public Debt Dynamics - Alternative Scenarios
(Percent of GDP)

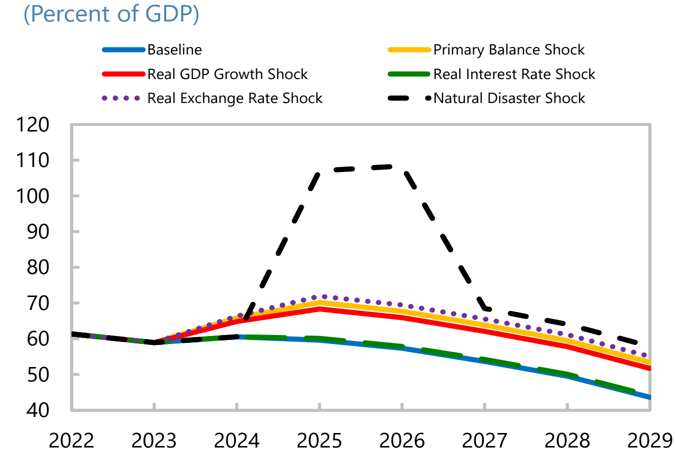


Source: Staff projections.

9. **Constant Primary Balance Scenario.** This scenario helps to assess what would happen if the fiscal measures reflected in the primary balance's baseline path are not implemented. According to the results, this scenario projects a public debt path that is consistent with the historical scenario.

10. **Shocks to Interest Rates and GDP Growth.** A scenario where there is an unexpected increase in interest rates on the government borrowing or a negative growth shock between 2024 and 2025, would results in failing to achieve the 40 percent debt target by 2029. For example, a one standard deviation shock to interest rates (i.e., deviation of its historical values), while keeping all other macro-fiscal variables take their baseline values, is equivalent to a 1.3 percentage point increase on domestic currency debt or 0.7 percentage point increase on foreign currency debt. This shock would shift the public debt trajectory upward and results in a 4-percentage point of GDP higher debt compared to the 40 percent target in 2029. Considering a one standard deviation negative shock to GDP growth (equivalent to 7 percentages point by historical trends), it would lead to an increase of debt to GDP ratio by 7.7 percentage points compared to the 40 percent debt target.

Figure 5. Public Debt Dynamics - Stress Tests
(Percent of GDP)



Source: Staff projections.

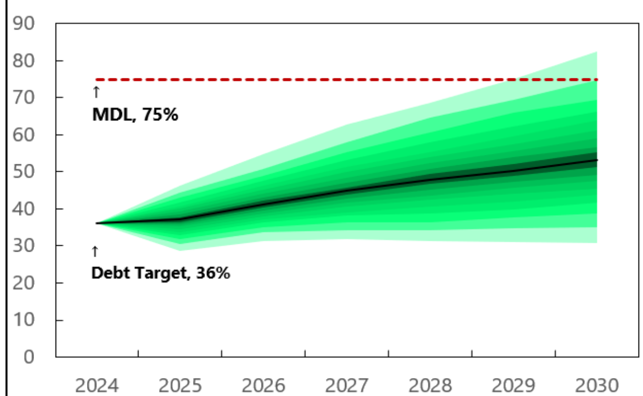
Shocks to other variables such as the exchange rate or primary balance would result in similar outcomes.

11. Setting a debt target. An effective strategy for establishing a debt target could involve initiating from a predetermined maximum debt threshold and determining the necessary buffers to minimize the risk of breaching this ceiling. Stochastic debt projections are generated by subjecting the baseline debt trajectory to macroeconomic shocks. These shocks are calibrated to mirror the magnitude of historical fluctuations in GDP, public debt, interest rates, exchange rates, and other relevant variables. The debt target is subsequently derived by calculating the gap between the maximum debt threshold and an estimated safety margin. This safety margin ensures there is ample borrowing capacity between the debt target and the ceiling, facilitating a robust response to unforeseen shocks. [2]

12. Maximum debt limit. The MDL is calculated to account for shifts in policy and the external environment. Employing a first-approximation formula, which considers the ratio of interest to government revenues and establishes a threshold indicative of fiscal stress, the MDL is projected to be 79 percent of GDP. [3] However, given the vulnerabilities outlined above, this analysis estimates the debt target considers two different debt thresholds (80 percent and 75 percent) considering varying degrees of tolerance rates (5 and 10 percent, respectively). This risk tolerance reflects the probability level of the debt ratio breaching the maximum debt level within the forecast horizon and is acceptable to the government. In these scenarios, the debt threshold marks the point beyond which public debt is susceptible to external shocks. Therefore, in the interest of prudent fiscal management, it is advised that the debt ratio be maintained well below this limit to ensure adequate buffers against unforeseen events. This precaution is especially crucial for economies reliant on tourism and susceptible to climate change, such as Seychelles, which inherently grapple with high uncertainty levels. This revised MDL forms the basis for generating various analytical scenarios. [4]

Figure 6. Debt Target with a Conservative Debt Limit

(Percent of GDP)



Source: Staff projections.

[2] See Eyraud and others (2018) "How to Calibrate Fiscal Rules—A Primer"; FAD How-to-Note.

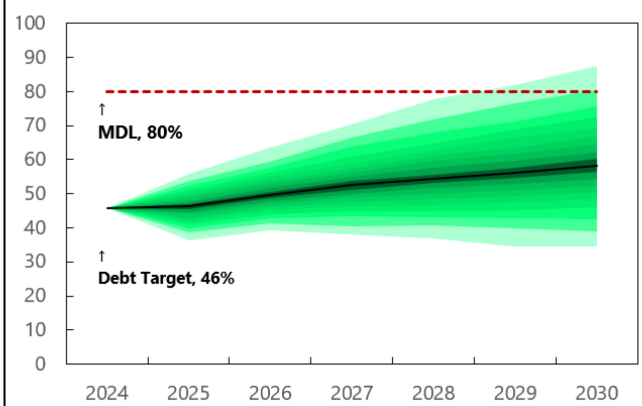
[3] One way to calculate the maximum debt limit as a ratio to GDP can be as follows MDL = τ * (revenue as a ratio to GDP) / (effective interest rate) where τ is the threshold for fiscal stress (assumed 15 percent here). See Comelli and others (2023).

[4] See Comelli and others (2023) "Navigating Fiscal Challenges in Sub-Saharan Africa: Resilient Strategies and Credible Anchors in Turbulent Waters", IMF Departmental Paper No 2023/007.

13. Debt Target Under a More Conservative Debt Limit with Moderate Tolerance Rate. Considering a maximum debt threshold of 75 percent alongside a moderate tolerance rate of 10 percent, this analysis conducts stochastic simulations that incorporate a range of macroeconomic and fiscal shocks to determine an optimal debt target. These simulations help to estimate the distribution of potential debt trajectories over the medium-term horizon. The chart summarizes the results of these simulations and shows the debt trajectories under various shocks. The goal is to establish a debt target that ensures the debt level remains under the 75 percent threshold through the medium term with high probability, even in the face of adverse shocks. The simulations suggest an initial debt target of 36 percent of GDP, significantly lower than the current 50 percent of GDP target and offering enhanced leeway to manage future uncertainties.

14. Debt Target Under a Higher Maximum Debt Limit with Low Tolerance Rate. An interesting aspect of the methodology applied in this analysis for determining the upper limit of debt is its sensitivity to the revenue-to-GDP ratio; all else being equal, an increase in this ratio leads to a higher debt ceiling. Considering that the revenue-to-GDP ratio in Seychelles historically surpasses 30 percent of GDP, the earlier established maximum debt threshold may have been overly cautious. In a scenario where the maximum debt limit is set at 80 percent of GDP, albeit with a minimal tolerance for deviation, the resultant debt target is projected at 46 percent of GDP. This represents a somewhat elevated target in comparison to former benchmarks, yet it conspicuously stays beneath the 50 percent threshold currently endorsed by the government.

Figure 7. Debt Target with Higher Debt Limit
(Percent of GDP)



Source: Staff projections.

15. Practical Considerations When Setting the Maximum debt Limit. Given that the debt target influences the direction of medium-term fiscal policy, it is recommended to calculate the maximum debt limit using the medium-term forecasted values for the revenue ratio and the effective interest rate. However, relying on medium-term projections inherently comes with limitations due to the accuracy of the forecasts, including a tendency towards "optimism bias." Specifically, in countries where the economy relies heavily on tourism, revenue projections may be more prone to errors due to the unpredictable nature of tourism arrivals, the high sensitivity of tourist travel, and susceptibility to external influences. Moreover, enhancing fiscal risk management capabilities by adjusting the tolerance level could be incorporated into the model. This improvement in risk management would decrease the possibility of an unforeseen increase in debt levels and minimize the chances of prolonged deviation from the MDL leading to a debt crisis. Also, this framework could facilitate the assessment of how tax policy and administrative measures might bolster debt sustainability, as evidenced by an increased maximum debt threshold.

Policy Recommendations

16. Seychelles' use of a medium-term debt target, set at 50 percent, has been a critical element of successful fiscal consolidation since 2008. It has provided an essential anchor for discussions on the trajectory of fiscal policy, even while adjusting to year-to-year circumstances. However, it is important to remain flexible in assessing the value of any fixed target, particularly as domestic and external economic and financial conditions change. For Seychelles, the economic landscape has shifted significantly since 2008, and most notably with respect to the outlook and risks surrounding external borrowing, the types of shocks Seychelles may encounter, and the exigencies of climate change.

17. Consideration of a more conservative debt target—over a longer time horizon and mindful of the constraints embedded in the need to maintain critical public spending—may be needed to ensure adequate insulation against new shocks. Developing a medium-term debt management strategy that incorporates measures to hedge against interest rate fluctuations and currency risks is crucial. Maintaining ample fiscal buffers will provide greater flexibility to address shocks without jeopardizing fiscal sustainability or development objectives. From a holistic perspective, this would also entail factoring in sufficient room for needed spending related to climate change. In this context, participating in international climate finance mechanisms will be essential to secure funding for climate adaptation and mitigation projects on favorable terms. Additionally, leveraging international partnerships can enhance access to concessional financing and technical assistance for bolstering resilience and sustainability.

Annex VIII. Data Issues

Table 1. Seychelles: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	A	A	C	A	B	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	C	A	A	B	B		
Granularity 3/	B		A	C	A		
			A		A		
Consistency			B	C		B	
Frequency and Timeliness	B	A	B	A	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.

1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.

2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).

3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Overall, data provision has some shortcomings, but it is broadly adequate for surveillance. In most evaluated areas, apart from national accounts and external statistics, the data is reliable, timely, and sufficient for surveillance purposes. National accounts have recently undergone major revisions to historical data. External finance statistics could also be improved particularly with respect to the consistency and detail of capital flow information. Government staff are actively involved in providing supplementary data and clarifying the reasons behind these revisions.

Changes since the last Article IV consultation. Technical assistance has been provided to address the weaknesses identified during the last Article IV consultation, including the backcasting of GDP with a new base year, enhancement of the macroprudential framework and external sector statistics. While some progress has been achieved in implementing recommendations from this support, national accounts and external statistics continue to exhibit weaknesses, necessitating further improvements**.**

Corrective actions and capacity development priorities. The authorities are in agreement with the staff's assessment regarding the need for capacity development in national accounts and external statistics. Main topics include: TA in external finance statistics to improve consistency and detail of capital flow information, TA in national accounts to improve quarterly GDP, and TA in monetary and financial statistics to improve the coverage of financial activities beyond the banking system

Use of data and/or estimates different from official statistics in the Article IV consultation. We only use official statistics in the current Article IV consultation.

Other data gaps. Labor market statistics has room for inprovement. Specifically, timely updates on unemployment rates are needed. Additionally, providing detailed breakdowns of employment and earnings data for migrant and non-migrant workers would offer valuable insights into economic trends. On monetary and financial statistics, there is room for improving the coverage of financial activities beyond the banking system.

Table 2. Seychelles: Data Standards Initiatives

Seychelles subscribes to the Special Data Dissemination Standard (SDDS) since May 2015 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Table 3. Seychelles: Table of Common Indicators Required for Surveillance

As of May 8, 2024

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Seychelles[8]	Expected Timeliness[6,7]	Seychelles[8]
Exchange Rates	7-May-24	8-May-24	D	D	D	1D	...	1D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	26-Apr-24	3-May-24	D	W	M	1M	1W	1M
Reserve/Base Money	26-Apr-24	3-May-24	D	W	M	M	2W	1W
Broad Money	Mar-24	May-24	M	M	M	M	1M	3W
Central Bank Balance Sheet	26-Apr-24	3-May-24	D	W	M	M	2W	1W
Consolidated Balance Sheet of the Banking System	Mar-24	May-24	M	M	M	M	1M	3W
Interest Rates[2]	Mar-24	Apr-24	M	M	D	D	NA	1D
Consumer Price Index	Mar-24	Apr-24	M	M	M	M	1M	7D
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Dec-23	Feb-24	Q	Q	A	A	2Q	6M
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Dec-23	Feb-24	Q	Q	M	M	1M	15D
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec-23	Feb-24	Q	Q	Q	Q	1Q	45D
External Current Account Balance	Dec-23	Apr-24	Q	Q	Q	Q	1Q	1Q
Exports and Imports of Goods and Services	Dec-23	Apr-24	Q	Q	M	W	8W	3M
GDP/GNP	Dec-23	Mar-24	Q	Q	Q	Q	1Q	1Q
Gross External Debt	Dec-23	Apr-24	Q	Q	Q	Q	1Q	1Q
International Investment Position	Dec-23	Apr-24	Q	Q	Q	Q	1Q	1Q

[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] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("I") irregular; and ("NA") not available.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

Annex IX. Main Recommendations of the 2022 Article IV Consultation

Recommendations	Status
Fiscal Policy and Financial Management	
1. Maintain the buildup of buffers against shocks with continued prudent macroeconomic policies and adequate international reserves.	In Progress
2. Incur no further liability from Air Seychelles.	Completed
3. Consolidate improvements in the PFM system's integrity and transparency.	In Progress
4. Diversify financing options, including to Eurobonds and sovereign environmental social and governance (ESG) bonds.	In Progress
Monetary and Financial Sector Policy	
1. Evolve the monetary policy framework based on interest rate targeting.	In progress
2. Reactivate CBS's bi-annual Survey on Consumer Confidence and Expectations in collaboration with the National Bureau of Statistics (NBS).	Completed
3. Undertake a bank-level analysis of the impact of the COVID-19 related support measures on banks' asset quality.	Completed
4. Preserve international reserve coverage.	In Progress
Structural Reforms	
1. Prioritize investments related to climate change.	In Progress
2. Ensure accuracy of and appropriate access to beneficial ownership information.	In Progress

Source: IMF staff

Appendix I. Letter of Intent

Victoria
May 15, 2024

Ms. Kristalina Georgieva,
Managing Director,
International Monetary Fund
700 19th St, NW
Washington, DC 20431
USA

Dear Madam Managing Director:

Seychelles recovery continues with an overall positive economic performance in 2023. Real GDP grew at 3.2 percent and budgetary performance was better than forecasted with a primary surplus of 1.7 percent compared to the initial target of zero. Total revenue excluding grants was lower by SR 110.7 million compared to the program estimate. This was mainly due to an increase in tax refund as a result of significant investment in tourism accommodation. However, the revenue for the year 2023 has increased by SR 813.7 million or 9.4 percent in comparison with the actual collection during 2022. Revenue excluding grants has reached 31.5 percent of GDP, up from 29.5 percent in 2022. With the implementation of the new accommodation turnover tax of 2 percent for tourism accommodation operators earning a yearly turnover of SR 100 million and above which was implemented in January 2023 and the new Tourism Environment Sustainability Levy applicable per night per visitor, which was implemented from the 1st of August 2023, a total of SR 162.5 million was collected in 2023.

Domestic prices declined for the most part of 2023 as a result of the moderation in global commodity prices which underpinned the reduction in electricity tariffs, as well as the overall stronger domestic currency. In February 2024, year-on-year inflation rate stood at negative 0.3 percent whilst the 12-month average inflation rate was negative 1.5 percent.

The Government continues to maintain a resilient fiscal consolidation which enabled debt to continue on its downward trajectory. By the end of 2023, the debt to GDP ratio decreased to 58.5 percent compared to 61.4 percent in 2022. This was mainly attributed to repayment on existing debt which has outweighed the new borrowings during the year.

As of end-December 2023, except for the total revenue floor, all QPCs and ITs were met. On structural reforms, although there were delays in certain instances the government implemented the envisaged reforms in the area of fiscal and public financial management and monetary policy operations. Progress is also being made with respect to reform measures agreed under the RSF.

The Government remain steadfast in our commitment to honour the international standards on tax transparency and be an effective partner in exchange of information for tax purposes. Following inclusion on the EU list of non-cooperative jurisdictions for tax purposes. Seychelles' authorities engaged with the Global Forum Secretariat and submitted its request for another review in mid-December 2023. The request was submitted on the basis of significant improved supervision and enforcement activities to ensure compliance with the framework. The Peer Review Group (PRG) of the Global Forum approved the proposal that these represented sufficient likelihood of an upgrade to the overall rating of Seychelles against the Standard such that the country qualified for a supplementary review and removed Seychelles from Annex I of the EU list of non-cooperative jurisdictions for tax purposes (the so-called EU blacklist) with effect February 2024, and added the jurisdiction to Annex II of the list (the so-called EU greylist).

In the policy area, we remain committed to the implementation of the action plan we have presented when requesting the 36-month arrangement under the EFF as well as the arrangement under the RSF. As a small island state vulnerable to external shocks and climate change our objectives remain the resiliency of the economy to external shocks, debt sustainability, rationalizing the tax regime, improving expenditure management, and enhancing financial sector stability and compliance with international financial standards.

The policies we will be implementing over the coming months are presented in the attached Memorandum of Economic and Financial Policies, which updates the Memorandum of December 2023. We are requesting the completion of the second reviews under the EFF and RSF approved in May 2023, a waiver for nonobservance of the performance criterion on total revenue, and the modification of the end-June 2024 performance criteria and indicative targets. We also request the purchase of an amount equivalent to SDR 6.107 million under the EFF arrangement and the disbursement of SDR 3.123 million under the RSF arrangement following the completion of the second review under these arrangements.

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

We authorize the publication of this letter of intent, the attached MEFP, the technical memorandum of understanding, and the forthcoming staff report.

Sincerely yours,

/s/
Naadir Hassan
Minister of Finance, National Planning and Trade

/s/
Caroline Abel
Governor, Central Bank of Seychelles

Attachment I. Memorandum of Economic and Financial Policies

I. Background and Macroeconomic Outlook

1. Economic performance for 2023 was overall positive and marked the continued recovery of key sectors with real GDP growing at 3.2 percent. Budgetary performance by end of 2023 as overall better than forecasted, with a primary surplus of 1.7 percent of GDP.

2. The Seychelles rupee strengthened by 1.8 percent against the USD in annual average terms in 2023. Such development was supported by sustained inflows of foreign exchange although the domestic currency depreciated in the latter half of 2023 on account of the seasonal increase in demand. Notwithstanding the strengthening of the Seychelles rupee in January 2024, the currency has been depreciating during the first quarter of the year.

3. Domestic prices declined for the most part of 2023 as a result of the moderation in global commodity prices which underpinned the reduction in electricity tariffs, as well as the overall stronger domestic currency. In February 2024, year-on-year inflation rate stood at negative 0.3 percent whilst the 12-month average inflation rate was negative 1.5 percent. In December 2024, the year-on-year and 12-month average rate of inflation is forecasted at 1.6 percent and 1.2 percent, respectively.

4. For the year 2024, Seychelles' real GDP growth has been revised to 3.69 percent, compared to the Budget forecast of 3.95 percent. Tourism arrivals growth is expected at 5 percent vis-à-vis 2023 and the overall tourism industry is also estimated to grow by about 5 percent. The ICT sector is predicted to remain strong with a growth of about 10 percent maintained, in line with the rapid increases in data traffic. Following the 7th of December disaster, the 'Manufacturing Other' sector is now expected to contract by about 5 percent compared to the positive growth of 3 percent that was initially forecasted. Construction, on the other hand, is expected to grow by about 6 percent in line with the anticipated construction activities surrounding the reconstruction of the Providence Industrial zone and the affected houses at Cascade.

5. The Monetary Policy Rate (MPR) remained unchanged at 2.0 percent in the first quarter of 2024. As for the interest rate on the Standing Deposit Facility (SDF) and Standing Credit Facility (SCF), it was 0.5 percent and 3.5 percent, correspondingly. To absorb excess liquidity and consistent with the prevailing monetary policy stance, the Bank reinstated the issuance of the 1-month and 2-month Deposit Auction Arrangement (DAA) and resumed optimal liquidity absorption operations as of November 2023. This led to an increase in the interest rate on the 7-day DAA from 1.23 percent as at end-September 2023 to 2.50 percent as at end-February 2024. Nevertheless, excess liquidity was not fully absorbed.

6. In March 2024, the average rate on savings accounts was relatively unchanged whilst the average lending rate on rupee loans rose by 16 basis points when compared to March 2023. As for the interest rate on foreign currency loans, this rose by 61 basis points on account of the tight global financial conditions. Subsequently, the overall average lending rate rose by 35 basis points. There was an uptick in the cost of government borrowing as of December 2023 which partly reflected an increase in the volume of issuance. In March 2024, the yield on T-bills was 3.11 percent, 3.19 percent and 3.25 percent on the 91-day bills, 182-day bills and 365-day bills, correspondingly.

7. **The budgetary outturn for 2023 exceeded the program target under the Extended Fund Facility (EFF), with a primary surplus of 1.7 percent of GDP recorded.** This was largely due to lower expenditure. Expenditures remained below the revised forecast level of 37 percent of GDP, at 33.6 percent of GDP, due to lower execution of capital and recurrent expenditures. Nevertheless, capital expenditure (including development grants) has reached 3.8 percent of GDP compared to 2.3 percent of GDP in 2022. Total revenue excluding grants was lower by SR 110.7 million compared to the program estimate. This was mainly due to an increase in tax refund as a result of significant investment in tourism accommodation. However, the revenue for the year 2023 has increased by SR 813.7 million or 9.4 percent in comparison with the actual collection during 2022. Revenue excluding grants has reached 31.5 percent of GDP, up from 29.5 percent in 2022. With the implementation of the new accommodation turnover tax of 2 percent for tourism accommodation operators earning a yearly turnover of SR 100 million and above which was implemented in January 2023 and the new Tourism Environment Sustainability Levy applicable per night per visitor, which was implemented from the 1st of August 2023, a total of SR 162.5 m was collected in 2023.

8. **The current account deficit increased in value terms, from US$152 million in 2022 to US$155 million in 2023, due to a widening of the trade balance given the stronger growth in imports compared to exports.** As a percentage of GDP, it improved from 7.4 percent to 7.2 percent over that period. For 2024, the current account deficit is forecasted to widen slightly to 7.3 percent of GDP.

9. **Gross International Reserves (GIR) stood at US$736 million as at end-March 2024, representing an increase of 7.8 percent compared to US$682 million as at end-December 2023.** Net International Reserves exceeded the target of US$478 million by US$52 million, as at end-December 2023. The rise in GIR was primarily driven by funds received as budget support, in addition to foreign exchange that was purchased from the market. As at end-March 2024, the Central Bank of Seychelles (CBS) had purchased an equivalent of US$21 million through its foreign exchange auction (FEA), on account of higher FX supply in the domestic market.

10. **The banking industry remained well capitalised as at end of January 2024 although NPLs continued to be elevated.** All banks held regulatory capital above the prudential requirement of 12 percent. On a year-on-year comparison, the industry's aggregated regulatory capital to risk weighted assets decreased by 3.1 percentage points to stand at 18 percent as at January 2024. This was mainly attributed to the revision of the banks' reporting requirements to capture credit risk as per the standardised approach under Basel II in their capital adequacy calculation. Both the level of NPLs and gross loans recorded year-on-year expansions of 23 percent and 8.1 percent, respectively, which led to an increase of 1.0 percentage points in the NPLs to gross loans ratio, to stand at 8.7 percent as at end-January 2024. Of note, the year-on-year rise in NPLs was mostly noted in the tourism, commercial development sectors and building and construction. During the same period,

Return on Assets and Return on Equity increased to stand at 4.1 percent and 41 percent, respectively. The liquidity position of the banking sector remained strong, with all banks maintaining a liquid asset to total liabilities ratio well above the minimum requirement of 20 percent. As for the banking sector's foreign currency risk exposure, the total long position and total short position in foreign currency to capital declined by 2.0 and 4.5 percentage points respectively, to stand at 7.2 percent and -8.1 percent, correspondingly. Both ratios remained well within the foreign currency exposure prescribed limits.

II. Program Objectives and Policies Under the EFF and the RSF

A. Real Sector Reforms

11. The recently launched National Development Strategy (NDS) sets out Seychelles' strategic direction and development priorities for the period 2024-2028. The NDS works as a development catalyst for our nation's response to addressing current and potential development challenges over the 2024-2028 period. One of the key priority areas of the NDS is the transformative economic agenda.

12. We recognize the importance of becoming more resilient and prioritizing our objectives, due to possible external shocks and the current geopolitical situation across the globe. We are continuously working towards the creation of an environment that encourages transformation of our traditional and emerging sectors, which will promote added value in the key sectors, and thus gain more revenue to sustain our development. With the transformative economic agenda, the ultimate goal is to increase tourism yield by building a more sustainable, resilient and integrated tourism model, reduce import reliance where feasible and improve food and nutrition security by establishing supporting structures and mechanisms in the agriculture sector, and foster greater value addition while stimulating increased job creation and revenue generation within the fisheries and blue economy sectors without compromising the sustainability of the marine ecosystem.

13. The Government recognizes that the success of the economic transformation is dependent on investment, infrastructure development, and more importantly new business models. In the tourism sector this more effort will go towards improving our visitors' experience and satisfying their expectation through the diversification of our products to ensure that the economic gains do not go to the hotels only, but also other groups. To better understand the dynamics of the tourism sector and its benefit to the economy the Government has sought assistance from its development partners to conduct a tourism study. The terms of reference for the study was finalized with aim of having the study and action plan completed by end-December 2024 (*revised structural benchmark*).

14. The agricultural sector will have to adopt the appropriate technology to facilitate commerce and manage information so that the right decisions are made in this sector. The Authorities are also working with local producers to adopt new technologies, such as 'high tech farming', to enable them to become more resilient with regard to climate change consequences. To encourage adoption of these new technologies, government is undertaking a revision of the development fund for the agricultural sector. A total of SR 25.6 million has been allocated for different projects in the agricultural sector such as construction of a new abattoir, irrigation systems and construction and renovation of roads.

15. The Government continues to support development in the fisheries and blue economy sector. Significant funds continue to be invested in facilities for this sector such as the improvement of the port, markets, gear stores, and others. Government has also allocated SR 45.9 million for the development of the Ile Du Port infrastructure in 2024, which includes roads, waste disposal, water, electricity and telecommunication. Ile du Port has been designated as an area where fish processing will be based.

16. Government is continuing its strategy to analyze different measures to improve the country's business environment. The authorities are working towards increasing and improving the standards of procedures and services, with the aim of better facilitating procedures for investors to open their businesses. The revision of legislative frameworks such as the Licensing Act is a key priority so as to ensure that new business models are catered for.

17. Government continues to implement its digitalization reform agenda by promoting the use of digital payments platforms for Government transactions, by improving the efficiency of the platforms, and making them more user friendly hence building the public's confidence in using the platforms. Implementation of the action plan continues for improving Government's digital payments systems which included awareness and sensitization on the use of the systems; establishing a standard procedure and coding adopted across government streamlining the process for both the Government and the Public. This will also set the stage in preparing the country towards its move to a cash-lite society.

B. Fiscal Policies, and Fiscal Structural Reforms

The Budget for 2024 and Beyond

18. The Government remains committed to maintaining a resilient fiscal consolidation that will enable debt to continue on its downward trajectory. The ratio of public and publicly guaranteed debt to GDP ratio is projected at 60 percent of GDP by the end of 2024, reflecting a slight increase compared to the 58.5 percent at the end of 2023, based on the financing needs and the extension of government guarantees. Budget support programs will help fill the financing gap in the short to medium term. Additionally, the Government expects that more avenues for financing and investing in climate related projects will unclutter over the medium term following the RSF program. Guaranteed debt is anticipated to also increase over the medium term as the Government continues to provide guarantees to the Development Bank of Seychelles, by an average of about 0.7 percent annually. The extension of the Port is a major project that will also need Government's guarantee. Albeit external risks still prevail, the Government remains committed towards achieving a debt target of around 50 percent of GDP by 2029.

19. The budget 2024 aims at achieving a primary surplus of 1 percent of GDP. Revenue compared to 2023, excluding grants, is targeted to increase by 0.9 percentage points to 32.4 percent of GDP, current expenditure would increase by 0.3 percentage points to 30.1 percent of GDP, resulting from an increase under primary current expenditure and a reduction under interest payment compared to the 2023 level.

20. Government will enhance its tax reforms over the medium term to ensure domestic mobilization of resources. The business tax amendment enacted at the end of December 2022 includes new provisions for transfer pricing. The World Bank assisted us to finalize the general transfer pricing regulations to provide clarification of the new rules and their interpretations and also to explicitly indicate the actions that taxpayers are required to take in order to comply with the new legislation. The transfer pricing regulations was published on the 9th of October 2023. The Authorities with the assistance of TIWB is conducting a risk review to identify cases for tax audit based on potential revenue leakage as a result of transfer pricing/profit shifting in the Seychelles. However, in view of data limitations such exercise did not conclude into potential revenue leakage and WB advised that a desk review will be necessary for some audit cases to assist in this exercise. Government expects that such desk review will be completed by June 2024.

21. Seychelles has also engaged United Nations Development Programme (UNDP) on a Country Engagement Plan (CEP). Its primary aim is to enhance national capacities for domestic resource mobilization in alignment with the country's development priorities and the 2030 Agenda for Sustainable Development. This initiative is demand-driven and designed to assist the Seychelles Revenue Commission (SRC) in meeting the government's revenue expectations, while also aligning with fiscal consolidation policies to address the challenges of a shrinking fiscal space. The plan is financially supported through the UNDP's Africa Sustainable Finance Hub, as part of broader efforts to facilitate the implementation of the Addis Ababa Action Agenda.

22. Following the assessment of the value added tax conducted with the assistance of the IMF's Fiscal Affairs Department, the Cabinet has approved the recommended VAT Reform. The action plan has been developed and is being followed with implementation in phases for 2024, 2025 and 2026 in consultation with SRC and relevant stakeholders. Amendments of relevant regulation for valuation rules, tax credit and VAT registration is expected to be gazette by end June 2024. Exemption reviews will continue throughout 2025. The Authorities is conducting Situational Analysis of Domestic Yachting Sector which is expected to be completed by the second half of 2024.

23. Over the medium term the Government will undertake a review of the income and non-monetary benefits tax to assess the implications of introducing tax return. Government recognized that there are revenue losses attributable to tax exemption, special credit or preferential tax rate. As part of the 2024 budget document Government has published the budgeted tax expenditure forecast (*structural benchmark for end-October 2023*). Subsequently, further assessment will be done during the year 2024 to incorporate VAT and business tax expenditure forecast for the 2025 budget (*end-December 2024 structural benchmark*).

24. Government will conduct a comprehensive review on the size and current structure of the public sector in the medium term. This is being aligned with the digitalisation agenda across government services. For the first phase, all Ministries, Departments, and Agencies (MDAs) will have to prepare workflow processes for all their functions. And secondly, the MDAs will undertake a reengineering exercise of those processes to ensure an improvement in service delivery. This will be completed by June 2024. The MDAs will then work with the Department of ICT for any digital platforms that are needed. In addition, the Government will undertake a comprehensive functional review of the whole of government. The functional review process will start in the second half of 2024 and will be completed by June 2025. In the near term, Government will enhance managerial efficiency and focus on reviewing the role and functions of all departments and agencies to ensure maximization of current human resources and improve on service delivery. The strengthening of the monitoring and evaluation framework as part of the result-based management will ensure proper oversight of performance across Government. Targeted training will be provided for all public sector employees to ensure they have the necessary tools to deliver as per their mandate.

25. The implementation of the new salary grid has cost Government SR 171.9 million under wages and SR 23.8 million under goods and services in 2023. The full impact of the salary increase is reflected in the medium-term projection and a sum of SR 229.2 million under wages and SR 31.68 million under goods and services annually. In 2023, Government re-introduced a freeze in recruitment in non-critical areas in order to ensure that the wage bill is contained and remains sustainable. This has resulted in a savings of SR 41 million or 0.1 percent of GDP. The cleaning services to Government which was previously outsourced under goods and services moved under wages and salaries from 2024. This will save Government SR 5.1 million annually. The Government remains committed to the digital transformation of the economy and the creation of an enabling environment for the uptake and usage of Digital Financial Services. This includes revisiting the business processes in government with the aim of streamlining facilitation services offered and pursuing the digitalization agenda. The improvement in the processes and procedures aims to encourage new investors to start business and also to provide existing businesses with seamless access to services. This will be done in phases, with the immediate focus being the 8 key processes that are integral to the business sector and used more regularly. Work is underway for the processes to be integrated into the new investment portal and is expected to be completed by end of September 2024.

26. Significant investment in the medium term will go towards the digitalization agenda. In the effort to make Government more efficient, a total of SR 413 million has been allocated in the medium term to cater for several digitalization projects. This includes provision for a new Integrated Financial Management Information System, a new Human Resource Management System and a new system for the Agency of Social Protection. Other initiatives as part of the digital economy action plan remain ongoing.

- Improve relevant legislative framework. Key legislations such as the Communications Act and the Data Protection Act has been enacted with the aim of consolidating and revising the law relating to electronic communications to be on par with international best standards as well protecting individuals concerning the processing of personal data. The Communications Act also provides for the A new Communications Bill which aims to address anti-competitive practices and provide a better legal framework for the telecom sector was approved by the Parliament in March. This Bill also provides for the creation of an independent ICT regulator, the Seychelles Communications Regulatory Authority

- Promote use of digital platforms in public service delivery. The full implementation of the Health Information System is expected to now come online by end-2024 due to delays encountered in the procurement of equipment.

- Improvement of payments systems infrastructure. Real-Time Gross Settlement (RTGS) and Central Securities Depository (CSD) to improve operational efficiency and productivity, with the expectation that there will be a reduction in operational risks, and offer safe and secure real time funds transfer and settlements as well as efficient domestic securities management. Work on the RTGS and CSD is well underway and is expected to go live in Q4 2024.

- Human Resource Management System (HRMS). In order to bring greater efficiency in the public service funds will be provided for the development of a HRMS. This will connect core HR and payroll, talent and performance management, and people analytics to help deliver exceptional employee experiences. This is expected to come online in time for 2026 budget preparation.

Efforts Continue to Strengthen Tax and Customs Administration

27. The enhancement of the ASYCUDA World continues with numerous system upgrades and continuous technical training. The modules are being developed in phases and will be deployed as and when they are ready. At present the E-Manifest modules and Express Courier modules have been completed and deployed. In addition, the Excise Tax and the WCO tariff 22 have been deployed. Additionally, the completion of E-payment is due at the end of the 2nd quarter of 2024. Given that the EU project will end in May 2024 SRC is in discussion with the company working on the ASYCUDA system to provide support and further development of new modules and training in ASYCUDA respectively. This will ensure the stability of the system.

28. Progress is being made to empower and enable taxpayers to timely meet their obligations through innovative and transparent processes by improving and diversifying its online services. The timeline for the completion of the online portal has been extended following the recommendation of the external auditor who came into the country to assess the work done in TMS so far. The visit was done in December 2023 and /January 2024 respectively. The final report published recommended that more emphasis is placed on the debugging of the deployed modules and data clean-up, hence, in stabilising the system before it is open to the public. The amendments to the Revenue Administration Act to compel large taxpayers to transact through the new online portal was enacted in January 2024.

- Training sessions through regional outreach programs have been postponed to April 2024 due to delay in the deployment of the portal, which has now been rescheduled to May 2024 based on recommendation explained above. The implementation of the new Tax Management System (TMS) entails adoption of new technologies and management practices to increase efficiency and effectiveness and to improve the ease of doing business. The new processes related to the 4 core tax modules: registration, filing, payment and accounting have been developed and deployed. New Standard Operating Procedures are being developed to mirror the new ways of doing business.

- The return processing module has been completed and is being used in a piloting phase to capture and process certain return types and simultaneously going through several tests by the users and debugging process by the developers respectively. Payment and cashier system have been developed and deployed since the 1st of September 2023. However, there is still work ongoing to continuously resolve new bugs detected and to enhance the module to cater for further improvement in the "look" and "feel" respectively.

- SRC and SPF has agreed to start the implementation of the consolidated payroll after the deployment of the online portal which is now scheduled in May 2024.

29. SRC recognizes the need to modernize and simplify tax processes through business process reengineering to remove bureaucracy, increase automation of manual processes and promote electronic interactions with clients. SRC has completed the business process reengineering exercise; for the process for registration, returns processing, payment and accounting. Consequently, the User Requirement Specification document for each business process has been completed and signed off by the SRC project team. The document will be used as a guide to draft new Standard Operating Procedures. The same exercise has been conducted for debt collection, audit and risk during the 4th Quarter of 2023 to 1st quarter 2024. As part of this exercise SRC is also looking at ways to integrate with other government systems to facilitate sharing, data matching and validation of information with the aim of improving the ease of doing business and allow prompt detection of possible non-compliance behavior. In line with automating the manual processes, SRC is receiving technical assistance from UNDP to develop a risk framework which can further be automated in the TMS to conduct risk analysis and identify potential audit cases based on predefined criteria and parameters, thus focusing audits based on the risk level.

30. SRC is in the process of data cleansing for the registration module and has begun reaching out to the public to validate their information and provide missing information in order to meet the minimum requirements of the new TMS system. Another round of registration data cleansing is being conducted following the recommendation of the external auditor but this time the exercise is more IT-oriented. SRC has started the implementation of its first Compliance Improvement Plan (CIP) in a piloting phase. The aim is to improve and strengthen voluntary compliance. The CIP was developed with assistance from AFRITAC South and is expected to increase the overall tax compliance rate. Some of the compliance risk treatment actions include prompt detection and immediate follow up action to treat late and non-filing of returns as well as payment, education, and audit. The evaluation report for the year 2023 has been completed and the achievement against the plan has been assessed. A new operational plan will be implemented for the year 2024.

31. SRC is conducting risk reviews to identify potential cases for Transfer Pricing audit. A technical advisor was recruited and with the assistance of a TIWB (Tax Inspectors Without Borders) Transfer Pricing expert, is continuously building the capacity of the SRC officers in the TP area through both formal and informal training, workshops and on the job training. A total of 24 TP cases identified are under risk review. Additionally, SRC is receiving specialized audit training from the African Tax Administration Forum, namely for the telecommunication and financial sector.

32. There are currently 5 modules inclusive of the CRS module which have been developed and are operational. The development will further be extended to include 3 more deliverables namely, the questionnaire on substance requirement, audit module for financial institutions and the integration with the TMS through an API. The latter will be done by the 1st quarter of 2025.

Expenditure Management and Efficiency of Public Spending

33. In the first quarter of 2024, IMF-AFRITAC South (AFS) delivered a mission to assess current practices and processes for preparing the Medium-Term Fiscal Framework (MTFF) and Medium-Term Budget Framework (MTBF). The mission identified areas of strong performance as well as gaps and provided recommendations to address the gaps. One of the main gaps identified was that the MTBF preparation should be aligned with good practice which includes to (i) conduct the budget baseline process in one loop which comprehensively costs existing and new approved policies, programmes and projects to assess fiscal space; (ii) set initial MDA expenditure ceilings subsequent to a fully-fledged budget baseline calculation and based on Cabinet approval; (iii) in case of negative fiscal space, require MDAs to submit costed proposals for corrective measures to enforce compliance with expenditure ceilings; (iv) improve the reliability of the MTBF by avoiding frequent and substantial increases of set expenditure. In addition, the budget documents should explain changes in set expenditure ceilings compared to the previous MTBF. The authorities will start implementing some of the recommendations as part of the 2025 budget process.

34. The MTFF and MTBF mission also proposed to the authorities to ensure there is a link between the upcoming MTBFs to the strategic objectives of the new NDS. The mission highlighted, that compared to good practice the current Program Performance Based Budgeting (PPBB) approach is complex, and the strategic focus is insufficient which limits usability. The architecture includes many elements some of which create overlap among each other; examples presented within each element seem to be not limited, their sheer number is at times overwhelming and impacts readability; there is barely explicit reference to the NDS which keeps the budget and the NDS disconnected. The Government will streamline and focus the PPBB architecture on strategic policy priorities and start with climate sensitive pilots. This includes (i) reducing the number of elements; (ii) explicitly linking the elements to the NDS; (iii) adapt the existing implementation guide and on this basis train MDAs to apply the adapted PPBB approach; (iv) propose to assign one MDA with the lead responsibility for PPBB quality assurance.

35. Reforms are ongoing in the social protection system in the form of a "Program for Results" (PforR). In light of the decline in the number of beneficiaries in the social welfare assistance (SWA) program, the World Bank assisted the Government with conducting a survey amongst past and present beneficiaries of social welfare programs. In order to improve accessibility to welfare services it is being recommended that there is greater awareness and outreach campaign as well as improved communication of the application outcome.

36. The Program development objectives remains to improve the efficiency and effectiveness of social protection programs in the Seychelles, while remaining above the floor on social expenditure established under the program. The analysis of social spending is going to be refined to better capture budget allocation towards human capital development. The focus in 2024 will be to improve efficiency and transparency of social protection programs through the following measures.

- ASP will adopt a revised socioeconomic needs assessment incorporating non-income dimensions of poverty by June 2024 for implementation in January 2025.
- A comprehensive Review of ASP internal controls and payroll systems to check adequacy and adherence to the established country systems and controls has been conducted by PWC. The tender of the IT system has been completed and we expect work to begin in the second quarter of 2024. The IT system will also contribute to the objective of having an interdisciplinary approach to social protection by coordinating across MDA's and establishing a social registry.
- Access to home care will be better targeted through the establishment of an Agency to allow citizens experiencing a considerable decline in capacity to receive care and support by those officially recognised by that Agency as being capable of rendering care. Training of caregivers is ongoing and expected to be completed by August which will enabled high-need HCP beneficiaries to receive home care from trained caregivers.
- The bill has been gazetted for the establishment of the National Functional Assessment Board with the primary objectives of improving efficiency and transparency of social protection programs through streamlining assessment procedures for eligibility of invalidity and disability benefits.

37. The Government remains committed to boost the efficiency of public spending. IMF TA will be provided during the year 2024 to undertake additional review of the Public Procurement Act and the Public Finance Management Act. This will ensure consistency in some of the provisions of all three legislations and introduce new provision based on the ongoing reforms taking into account the digitalization agenda. We will also adopt a Public-Private Partnership framework including climate-related investment and include the necessary legislative provisions in the amendments to the Public Finance Management Act and the Public Procurement Act -. With the assistance of the development partners, the Public Expenditure and Financial Accountability (PEFA) assessment will be undertaken during the first quarter of 2025. Once completed, we will prepare an action plan for Cabinet of

Ministers' endorsement by June 2025 to correct on any deficiencies identify by the PEFA assessment. The World Bank is also assisting with the public expenditure review for the education and health sector and the results are expected by June 2024.

38. In order to improve PFM, we will be installing in phases a new Integrated Financial Management Information System (IFMIS) in the first quarter of 2025. This should strengthen capacities to manage public finance business processes and also link up with the emerging national payments platform prepared by the central bank. A budget for the new IFMIS is included in the 2024 budget and over the medium term. The review of the systems requirements specifications documents has been completed. The tender process is ongoing and the contract is expected to be signed in July 2024. The contextualization and validation of the modules will be done in phases with the budget preparation and management module being done first with the objective of preparing the 2026 budget in the new system. The configuration of other modules which includes budget execution, accounting and reporting modules will then follow.

39. Improving cash flow forecasting practices is essential since the current deviations in the cash flow forecasts are considered too large. We have in our medium-term priorities a commitment to improving spending efficiency, including through strengthening cash management. The issuance of a ministerial circular in October 2022 to reduce the deviation between the forecast and the outcome in the monthly cash flow plan is evidence of this commitment. The Cash Flow Unit (CFU) within the Ministry of Finance was created in the first half of 2023 and is partially staffed. The new unit is working closely with the MDAs to create more awareness and building more capacity for strengthening cash management across Government. AFRITAC South delivered training sessions on cash flow forecasting for the Department of Finance (including CFU) and MDAs in November 2023. The CFU will work closely with MDAs to receive information on large payments in advance and to include in the cash flow plan. The CFU will improve on the consolidated and comprehensive cash flow plan template to expand the classification details for expenditure and at the same time as the actuals are entered revised forecasts should be included into the Cash Plan. The CFU will ensure the forecasting errors are systematically analyze and discuss with the different stakeholders to improve the cash flow plan. Those improvements in the cash flows forecasts will also inform debt management and borrowing planning for the Debt Management Division (DMD) and liquidity management for the CBS to support the monetary policy. With these added objectives improved methodologies, better coordination and management of data and timely responding to stakeholder needs will be important for the effectiveness of the cash flow forecasting.

40. The Government is committed to improve the efficiency of public investment funding. Investment in public infrastructure remains a priority for Government in order to increase economic growth and improve the conditions of the public infrastructure. Seychelles undertook its first Public Investment Management Assessment (PIMA) and Climate PIMA (C-PIMA) assessment during the first quarter of 2023 with the assistance of the IMF's Fiscal Department and the World Bank. The PIMA has identified several causes for the under-execution of capital projects, including weakness in the national and sectoral planning processes, challenges and gaps in the appraisal and selection processes for projects entering the budget, and limited capacity for preparing and analyzing this information across the government. Maintenance budgeting and planning could also be improved, particularly by updating fixed asset registers and making this information available in the Fixed Asset Management System. In May 2023, the Cabinet of Ministers approved an action plan with the aim to improve the under execution of capital investment and to also address the identifying gaps in the public investment management institutions. To date support has been received from AFRITAC South to review the PIM Policy and scoring methods. The revised policy will assist in the establishment of a coordinated approach to capital project management, ensuring alignment with sector objectives and national priorities. It will also integrate climate smart methodologies in project selection.

41. We will undertake reforms to further strengthen the framework and capacity for appraising and selecting capital projects. The new project proposal circular issued stipulates that projects will not be included in the Medium Term Expenditure Strategy (MTES) if appraisal information is absent or materially incomplete. To assist in this endeavour MDAs have been provided with an established set of minimum criteria (related to design, costing, and engineering elements) to assess projects in the MTES 3-year Public Sector Investment Plan (PSIP), on the basis of which (met or not met) PIMU will recommend to the Inter-Ministerial Committee (IMC) for inclusion/deferral in the current year's budget (*structural benchmark end June 2024*). A detailed assessment of staffing requirements for SIA and PIMU will also be undertaken with a view to ensuring they are fit for purpose.

42. Strengthening maintenance budgeting and planning remains a priority. SIA is currently undertaking a stock taking exercise in order to compile a database of all government buildings and structures. This exercise is expected to be completed by December 2024. As part of the revised PIM, the Government will adopt maintenance standards for routine and capital maintenance and the program classification will be used to better measure maintenance costs.

C. Minimizing Risks of SOEs

43. The government has taken steps to strengthen management of state-owned enterprises and reduce transfers from the budget. The transfers to state-owned enterprises are being reduced significantly from 2.0 percent of GDP in 2020 to 0.16 percent forecasted for the year 2023. The new Public Enterprise act was enacted on the 31st of May 2023. The new legislation has made provisions for the efficient governance of Public Enterprises and the monitoring of their performances and provides a harmonized and coherent framework for their establishment, governance, and operation. The Public Enterprises Monitoring Commission (PEMC) has published the 2021 Public Enterprises' Annual Report in accordance with the new legislation to ensure more transparency in the financial performance and fiscal affairs of the enterprises. The annual report has a one-year time lag in view of the end of financial year of some SOEs which end on the 31st of March. Thus, those SOEs require six months to complete their audit. The 2022 annual report is expected to be published by mid of April 2024. The annual report has presented the overall financial performance, including outstanding debt, of Public Enterprises based on their audited financial statement. In addition, the new legislation has clarified the accountability and the relationships between board members and those charged with governance and management of Public Enterprises, Responsible Ministers, the Minister responsible for Finance and the Commission.

44. The Public Enterprises Monitoring Commission (PEMC) through an independent audit firm will conduct governance audit and operational performance assessment of six key public enterprises by December 2024. PEMC has commenced the evaluation of bids received from big 4 audit firms for each SOE. The procurement process is expected to be completed by end of May 2024. The works are expected to be commenced by early June after signing the contracts with successful bidders. The key public enterprises to be audited are Public Utilities Corporation (PUC), Seychelles Petroleum Company (SEYPEC), Air Seychelles, Island Development Company Limited, Seychelles Civil Aviation Authority (SCAA) and Seychelles Trading Company Ltd (STC). Government commenced making a road map with SEYPEC on the tanker replacement strategy in order to address any potential risk. This will be completed by end of June 2024.

45. Government sought further assistance from the U.S. Treasury Office of Technical Assistance in the following areas:

1. Technical staff capacity building to improve analytical skills and the quality of PEMC reporting on public enterprise monitoring and performance.

2. Development of comprehensive written policies and procedures for the PEMC staff that comply with the 2023 PE Act.

3. Support with implementation of the web-based reporting portal; this would include identifying the business needs for the portal (data, analytics, reporting) and assisting with training for portal users.

4. Assistance with the development of performance indicators and targets for public enterprises that comply with the 2023 PE Act.

5. Support with implementation of a comprehensive job grading scheme for public enterprise boards and executives; this would include assistance with establishing an oversight body to oversee implementation, sensitizing the oversight body and public enterprises on the concepts of a comprehensive job grading scheme. PEMC commenced to publish information about compensation of BoDs and CEOs of state owned.

46. The Ground Handling activities at Seychelles International Airport are of paramount importance to the Government of Seychelles. To safeguard the continuity and effectiveness of these operations, a new entity, the Seychelles Aviation Handling Company, has been established to assume legal ownership of the ground handling assets. Under this arrangement, the new company has entered into a lease agreement with Air Seychelles for the use of these assets. The asset transfer from Air Seychelles to the government has already been completed. The framework for the key terms and conditions of the lease agreement between Air Seychelles and the Seychelles Aviation Handling Company, along with the asset transfer from the government to the new company, was finalized in

March 2024 (*structural benchmark*). An action plan for the IT infrastructure has also been submitted to the Government.

D. Public Debt Management Strategy

47. Seychelles continues to make significant progress in terms of Debt Management. The publication of quarterly debt bulletins and quarterly borrowing and issuance plans has improved access to information for investors which is reflected through more stability in the domestic market conditions. Additionally, the improvement in reporting promotes accountability and transparency. With the current global economic environment, the foreign interest costs remain on the high side in comparison to 2022. The Government will conduct an assessment to determine the optimum debt model to align with the Medium Term Fiscal Framework and pave the way in formalizing its Medium Term Debt Management Strategy. In addition, Government will continue to explore alternative sources of financing.

48. As part of modernizing its legal framework on public debt, the Government is revising the Public Debt Management Act in parallel with the Public Finance Management Act to provide more flexibility to debt management and promote debt sustainability (*structural benchmark March 2025*).

49. The Government continues in its effort to develop the domestic debt market. It has diversified the domestic instruments being used which was primarily concentrated through T-Bills issuances to meet cash flow requirements. Government is now issuing T-Bonds on a quarterly basis, which has helped to lengthen the weighted average maturity of the domestic debt stock and reduced refinancing risks. With the help of the IMF's Monetary and Capital Markets department (MCM), the Government aims to set-up a buy-back facility for trading of government securities through commercial banks by September 2025.

E. Monetary and Exchange Rate Policy

50. The CBS considers the prevailing monetary policy stance appropriate but remains cognizant of shocks that may alter the inflation outlook and stands ready to adjust its policies if necessary. The MPR was lowered by 25 basis points to 1.75 percent for the second quarter of 2024. Subsequently, the interest rate on the SDF and SCF declined to 0.25 percent and 3.25 percent, correspondingly. In its endeavour to transition to forward guidance and enhance the expectations channel, the Financial Indicators Expectations Survey with households is anticipated to be carried out in the second quarter of 2024. The results of the survey are expected to complement the forward-looking macroeconomic variables collected from the quarterly exercise conducted with the Banking sector.

51. The transmission of interest rates remains weak. In its efforts to enhance the transmission mechanism, CBS is implementing recommendations from the technical assistance received from MCM of the IMF in April 2022 to strengthen CBS monetary policy operations and to develop the money and FX markets. The recommendation on addressing excess liquidity in line with the monetary policy stance was completed in Q4 2023. To help address the liquidity overhang, the Bank issued a one-off 364-day DAA in October 2023 whereby, R450 million was withdrawn from the system. Furthermore, as of November 2023, the Bank resumed optimal liquidity absorption operations through the 7-day DAA and reinstated the issuance of the one-month and two-month DAA. Excess liquidity is expected to be fully absorbed in Q2 2024.

52. CBS remains committed to a floating exchange rate and will only intervene to facilitate orderly market conduct and reserve accumulation. In line with the favourable external sector outlook, market-clearing conditions are anticipated to prevail in the domestic FX market in 2024. CBS re-initiated FEA purchases on January 19, 2024, to increase the level of external reserves. As such, CBS purchased an equivalent of US$21 million as at end-March 2024. In its endeavour to improve the efficiency and transparency of the FX market, the CBS with the support of the IMF, will analyze the possibility of implementing an FX negotiation platform where all wholesale market participants will have real time access to pricing and transaction volumes.

53. Considering that the country is a net importer and is highly vulnerable to external shocks, CBS will continue to accumulate reserves, should there be an opportunity to do so. This will allow CBS to improve its foreign exchange buffer and ensure that the level of international reserves remains adequate to meet the country's external obligations.

54. The CBS continues to engage with the Reserves Advisory & Management Partnership (RAMP) of the World Bank, following the signing of a new three-year Advisory and Investment Management Agreement (AIMA), in October 2022. The partnership includes an investment management mandate for US$100 million as well as technical advisory services.

55. The CBS will continue to improve external sector statistics. To improve the compilation of data related to net international financial flows of nonbank private sectors, the CBS together with Financial Supervisory Authority (FSA) will organise semi-annual meetings with the representatives of International Corporate Service Providers. The aim is to improve the understanding of financial flows of Special Licensed Companies (CSLs).

F. Efforts to Improve Real Sector Statistics

56. The National Bureau of Statistics is facing several constraints which adversely impact on its capacity to produce timely and quality statistics, as well as to extend its production to meet users' needs. The shortage of staff is one significant gap identified and to address this shortcoming the NBS will be implementing a multi-faceted strategy. Efforts are being made to attract and retain qualified personnel. In addition, the bureau will also explore partnerships with academic institution, other government agencies and development partners to leverage expertise and resources, thereby augmenting its capacity to fulfill its mandate. Furthermore, embracing technological solutions, such as automation and data analytics tools, can streamline processes, optimize resource allocation, and enhance the efficiency of statistical operations, mitigating the impact of understaffing on overall productivity. By adopting a comprehensive approach that addresses both human resource and operational challenges, the National Bureau of Statistics can strengthen its ability to deliver high-quality, timely, and relevant statistical information to support evidence-based decision-making.

57. Additionally, the bureau is developing a rebasing strategy for its National Accounts Statistics. With the conduct of the Agricultural Census and the Household Budget Survey in 2024 and 2025/26 respectively and the Census of Economic Activities in 2026, new datasets will be available. These, together with appropriate technical assistance on Supply and Use Tables and Backcasting, will provide a sound basis for a more comprehensive rebasing exercise in 2026, to produce a more complete data series for the benefit of users.

G. Modernizing the Financial System and Ensuring Financial Stability

58. CBS continues to collect additional information on restructured and rescheduled loans as part of its enhanced monitoring of the banking system. The outstanding value of restructured loans has maintained a downward trajectory, declining from R2.8 billion in December 2022 to stand at R2.2 billion as at end-December 2023. This amounted to 20 percent of the industry's total loans and advances, down from 27 percent in December 2022. Correspondingly, the exposure to forborne loans has also decreased, with these loans now constituting 86 percent (R1.9 billion) of all restructured loans, compared to 93 percent (R2.6 billion) in December 2022. The primary impetus for restructuring these loans was the economic repercussions of the COVID-19 pandemic in 2020. Tourism, mortgages, trade, real estate, and commercial development were the top five sectors with the highest outstanding value of restructured loans as of December 2023. Examining non-performing forborne loans as at December 2023, the value of loans subject to regulatory forbearance measures during the pandemic which subsequently transitioned into non-performing loans (NPLs), decreased by 5.8 percent to R464 million from R493 million in December 2022. Noteworthy decreases in non-performing forborne loans were observed in the manufacturing, private household, real estate, and mortgage sectors. However, despite the overall decline in non-performing forborne loans, certain sectors, namely agriculture & horticulture, commercial development, and tourism experienced an increase in non-performance on a year-to-year basis as at December 2023.

59. As part of its continuous monitoring, CBS has completed the analysis of the increases in the levels of NPLs and its possible impact on the capital adequacy ratios of individual banks. CBS has concluded the cycle of horizontal onsite examination on asset quality review across all banks within the banking industry. The examination report has been finalized and was presented to the CBS Board in April 2024. Based on the outcome of the examination, banks have been issued with recommendation letters of the findings along with appropriate enforcement actions to be undertaken to address the asset quality related issues. CBS will continue to monitor banks' NPL levels and loan classification standards, as well as their actions to address accumulated NPLs—through both off-site and periodic onsite inspections.

60. CBS aims to strengthen its supervisory framework such that it is more risk-sensitive, objective, forward-looking and continuous. CBS has seen improvements towards its effort to adopt a risk-based approach to supervision using its approved Risk-Based Supervision (RBS) framework. Further to the initial launch of the RBS model, ongoing assistance from AFRITAC South and US Department of the Treasury's Office of Technical Assistance (US OTA) in reducing the complexities and quantity of data being captured in the model to suit the Seychelles context. During September 2023, AFRITAC South provided further TA whereby, recommendations were made to revamping the model and has since been incorporated into the Data Collection Template (DCT) and are being finalised for issuance to the banking sector. In parallel to the risk-rating model, independent offsite monitoring is being done through the use of information gathered via the normal course of prudential supervision. The September 2023 TA also assisted the CBS in developing an offsite review template which targets a more risk-sensitive outlook and training was provided on same. Quarterly internal prudential reports are now being drafted using the recommendations. The CBS is also continuously receiving TA from US OTA to develop a comprehensive strategy to effectively operationalise CBS' RBS framework. After a comprehensive exercise done by the CBS team, spearheaded by the US OTA (considering the current risk elements pertinent within the banking industry) an examination plan was developed for the year. Thus, a horizontal asset quality examination was prioritised and completed in 2024. According to the examination plan derived for 2024, two additional horizontal and a limited scope on-site examination is targeted to be done during the year.

61. During 2023, CBS continued to engage with the Attorney General's Office to draft amendments to the Financial Institutions (Capital Adequacy) Regulations 2010 to incorporate Pillar 1 of Basel II. The amended Financial Institutions (Capital Adequacy) regulations was issued on December 29, 2023.

62. CBS has strengthened the legal basis of the Financial Stability Committee (FSC). The Financial Stability Bill was approved by the National Assembly on December 11, 2023 and subsequently gazetted on December 22, 2023.

63. CBS remains committed to having a robust crisis management and resolution framework. Based on the feedback received from the IMF TA, amendments have been made to the policy paper on Bank Recovery and Resolution that was initially submitted and approved by the Cabinet of Ministers in October 2022. In light of the amendments made, draft legislation will be submitted to Cabinet for approval by September 2024 (structural benchmark).

64. The CBS has incorporated the necessary amendments in the CBS (Amendment) Bill to strengthen the balance sheet of the Bank, including reviewing provisions relating to the retention of distributable earnings, recapitalization as well as reinforcing lending provisions for the Emergency Liquidity Assistance framework as per the recommendations from the Safeguards assessment. Following receipt of the first version of the Bill in November 2023, discussions were held between CBS and IMF to finalise certain provisions. The Attorney General's Office (AGO) received further drafting instructions from CBS in February 2024. CBS received the amended Bill from the AGO in March 2024. The CBS (Amendment) Bill is expected to be submitted to the National Assembly by end-June 2024.

65. CBS will strengthen its legislative framework for the National Payment System such that it remains aligned with international standards and best practices. The National Payment

System (Amendment) Act 2023 was assented on October 10, 2023 and subsequently gazetted on October 20, 2023. The stakeholder consultation with reference to the National Payment System (Licensing and Authorisation) Regulations 2014, was completed on February 29, 2024. CBS is currently addressing comments received through the consultation process. The proposed amendments are expected to be presented to the CBS Board by Q2 2024.

66. CBS continues efforts to ensure a more modern and efficient National Payment System. CBS is in the process of implementing systemically important payment infrastructures, namely the RTGS and CSD. CBS has set up a payment systems oversight unit to strengthen its oversight function over these systemically important payment infrastructures. With respect to the sunsetting of cheques, the necessary is being done to finalise the proposal, with the intention of presenting to the Cabinet of Ministers in April 2024. The Study to assess the reliability and affordability of internet and network connectivity has been completed and is expected to be presented to the Digital Economy Steering Committee in Q2 2024. Thereafter, the report will be presented to the Cabinet of Ministers. Aside from the ongoing TA on payment system oversight by AFRITAC South, there was a mission specifically related to the oversight of financial market infrastructures and FinTech payment service providers from November 21-29, 2023.

67. CBS is currently in the process of implementing a CSD and an RTGS alongside the new CORE banking system in an effort to enhance the operation of critical financial market and payment infrastructures. MONTRAN Corporation based in the United States (MONTRAN) was awarded the contract as best-evaluated vendor for the implementation of the CSD and RTGS systems in September 2023. Onsite initial study started in November 2023 and the Project Inception phase has now been completed. CBS completed the sign-off of the solution specification documentation at the end of February 2024 and based on project plan discussions held with MONTRAN, and revised project plan, the CSD and RTGS systems are now expected to go live in Q4 2024. The new CORE Banking System, aimed at helping with the continued modernization plan and strategy of the CBS, initially expected go live in Q1 2024 is now anticipated to go live in Q2 2024 to accommodate for unforeseen project complexities and challenges.

68. CBS continues to work towards the establishment of a policy and innovation focused regulatory sandbox for financial products and services within its regulatory ambit. Through continued engagement with stakeholders such as the AGO, the necessary will be done to finalize the legal considerations for the sandbox. Deliverables on this project has been delayed further due to competing priorities. The intention is to launch the sandbox by 2025.

69. CBS remains committed towards financial consumer protection. The CBS' focus continues to be on educating the public on needs identified within the market as well as topics such as personal financial management, consumer rights and responsibilities, and how to remain financially sound. Alongside this, the Competent Authorities have been working on the development of supporting Regulations to be issued under the Financial Consumer Protection Act. In 2024, efforts will focus on the issuance of the Complaints Handling Regulations, the Fees and Charges Regulations and the Debt Recovery Regulations.

70. **CBS continues to work towards enhancing the credit reporting framework.** Following the enactment of the Credit Reporting Act in October 2023, the necessary is being done towards the implementation of the new Credit Information System. Go-live of the system and commencement of the Act is expected in the second quarter of 2024.

71. **We are committed to improving the effectiveness of our regime for anti-money laundering and combatting the financing of terrorism (AML/CFT).** Work is ongoing to implement the recommendations of the Eastern and Southern Africa AML Group (ESAAMLG) in the 2018 Mutual Evaluation Report, where the country received 10 Low ratings in the 11 effectiveness criteria (Immediate Outcomes), including on AML/CFT supervision and entity transparency. Based on the evaluation, Seychelles received an upgrade for another two recommendations (recommendation 4 from partially compliant to compliant and recommendation 8 from non-compliant to partially compliant) during the April 2024 ESAAMLG meeting. In addition, based on the significant progress of the legislative reforms, Seychelles intend to request the five outstanding deficiencies (recommendations 6, 7, 8, 15, 33) in September 2024.

72. **We have completed the second National Risk Assessment (NRA) on money laundering and terrorism financing.** The NRA has identified the overall ML risk for Seychelles to be medium high. In October the Cabinet of Ministers approved an action plan to address the identified deficiencies. The National AML/CFT committee is monitoring the progress of the approved action plan and the first quarter report will be discussed during the May 2024 meeting.

73. **Tackling regulatory arbitrage of the activities involving Virtual Assets (VA) and Virtual Asset Service Providers (VASP) is another priority reform.** In July 2022, the Government completed the National Risk Assessment of VA/VASPs in line with FATF Recommendation 15 to identify, assess, and understand the ML/TF risks from VA/VASPs. In this NRA, Seychelles' exposure to ML/TF risks to VA/VASP was assessed as very high, owing to the absence of a regulatory framework. As a consequence, the National AML/CFT Committee is finalizing the course of action that aims to tackle regulatory arbitrage and enable mandatory identification, registration and licensing of VASPs. It will also provide a risk-based supervisory approach to ensure that measures to prevent or mitigate ML/TF are proportionate with the identified risks. The policy and legislative framework has been submitted to Cabinet of Ministers by mid-April 2024 and this will be tabled before the national assembly during May 2024.

74. **We are also progressing in ensuring that beneficial ownership (BO) information of legal persons and legal arrangements established in Seychelles is adequate, accurate and up to date.** As end-February 2024, 40,410 or 95 percent of the 43,357 international business companies (IBCs) in good standing with the Financial Services Authority (FSA) have submitted their BO information to the central BO database of the Financial Intelligence Unit (FIU). Active supervision was carried out by the Financial Services Authority (FSA) throughout 2023 to verify not only the availability of the register of beneficial owners, but also the supporting documentation such as declaration of beneficial owners, proof of address and proof of identity including the accuracy of data entered in the registers and the BO database. For 2023, a total of 763 entities underwent inspection. In comparison to 2022, there was a notable decrease in the number of samples chosen

for inspection. The decrease in the number of entities inspected in 2023 is attributed to an exercise undertaken by the FSA in early May 2023 regarding the obligation of the resident agents (i.e., to upload BO information of the legal persons and legal arrangements under their administration on the BO database) under the BO Act, following the information on non-compliance from the FIU. The percentage of compliance in relation to availability of register of beneficial owners has increased from 96 percent in 2022 to 99 percent in 2023. A significant upward trend was noticed for the availability of the declaration of beneficial owners where the compliance level stood at 88 percent in 2023 compared to 76 percent in 2022. The inspections also extended to the availability of up-to-date proof of identity and up-to-date proof of address.

75. **We will advance in verifying the accuracy of the BO information in the central BO database and ensure its accessibility.** With technical assistance from the EU Global Facility for AML/CFT, the revised BO Guidelines for effective collection and verification of information in the FIU central BO database are in the stages of finalization. These guidelines are expected to be issued by end-April 2024. We will ensure that the FIU has effective access to all relevant databases for purposes of verifying the information in the BO database, and will establish mechanisms for processing reports on information discrepancies found in the BO database. By end-December 2024, the BO Act will be amended to broaden access to the central BO database held by the FIU and provide information sufficient to identify the BO to financial institutions, and other reporting institutions with AML/CFT obligations (structural benchmark for end-December 2024). The work on the amendments will start during the second quarter of 2024. To enhance accessibility, the Financial Intelligence Unit in collaboration with expert from the EU Global Facility for AML/CFT and the National AML/CFT Committee finalized the technical specification for development and implementation of the beneficial owners registers IT system in December 2023.These technical specifications will support the new digital platform, providing direct and comprehensive access to the central BO database for all supervisory authorities and law enforcement agencies. Upon completion of the new digital platform, the registered agents will be given a specific time frame to rectify discrepancies in BO information of IBCs identified during the inspection program. We expect the new digital platform will be operational by third quarter of 2025.

76. **The European Union (EU) Council recognizing the Organisation for Economic Co-Operation and Development (OECD) Global Forum on Transparency and Exchange of Information for Tax Purposes (the Global Forum)** approval to grant Seychelles a supplementary review on the implementation of the standard of transparency and exchange of information on request (EOIR) and removed Seychelles from Annex I of the EU list of non-cooperative jurisdictions for tax purposes (the so-called EU blacklist) with effect February 2024, and added the jurisdiction to Annex II of the list (the so-called EU greylist. Seychelles' authorities engaged with the Global Forum Secretariat and submitted its request for another review in mid-December 2023. The request was submitted on the basis of significant improvements in relation to the quality and timeliness of exchange of information (EOI) requests and maintained and improved supervision and enforcement activities to ensure compliance with the framework. The Peer Review Group (PRG) of the Global Forum approved the proposal that these represented sufficient likelihood of an upgrade to the overall rating of Seychelles against the Standard such that the country qualified for a supplementary

review. This review will be launched in 2025 and include an on-site visit by the assessment team. The Government remain steadfast in our commitment to honour the international standards on tax transparency and be an effective partner in exchange of information for tax purposes.

H. Climate Change Reforms

77. The government recognizes that climate change has significant macroeconomic implications and has made significant strides on adaptation and mitigation responses. We have committed to ambitious climate change goals and are in the process of scaling up climate finance to support the implementation of Nationally Determined Contributions (NDCs). In the updated NDC submitted to the United Nations Framework Convention on Climate Change in 2021, we set a greenhouse gas emission reduction target of 26.4 percent below a business-as-usual emission level by 2030 and a net-zero emission target by 2050. To achieve the 2030 target, it is estimated that as much as US$670 million is required by 2030 to fund the implementation of climate adaptation and mitigation activities. In 2024, additional spending has been allocated amounting to SR 111.3 million and SR 29.3 million for west coast road infrastructure development and coastal erosion on Praslin respectively.

78. Building an environmentally sustainable and climate resilient economy is a main element of the new NDS 2024-2028, soon to be finalized. We have geared up adaptation response, including implementing the Coastal Management Plan, the Marine Spatial Plan, the National Integrated Emergency Management Plan, the National Biodiversity Strategy and Action Plan, the Seychelles National Climate Change Strategy and Strategic Land Use Development Plan, and started to integrate climate change considerations into the public investment management and budget processes through the review of the Public Investment Management policy and budget tagging. The Department of Climate Change and Energy has started the process to review and revise both the National Climate Change Policy and National Climate Change Strategy.

79. In order to enhance transparency and improve monitoring and evaluation of public expenditure towards climate change, the government is in the process of establishing a climate finance budget tagging and tracking system which shall form part of the broader National Monitoring Reporting and Verification (MRV) Framework in the context of the Enhanced Transparency Framework. The National MRV system which is tentatively planned to be completed by end 2024 is envisaged to contain three main components namely: MRV of emissions, mitigation and support (i.e., finance, technology transfer and capacity building). The institutional arrangements for the MRV system will be based on the provision of the national policy on climate change with established linkages to sub-national and sectoral institutions. The benefits of institutionalization include: improved inventory quality; data documentation; archiving; and transparency. The development of an MRV system will contribute to efficient measuring, reporting and verification of emissions from different sectors of the economy, thereby enhancing transparency of mitigation actions.

80. Mobilizing climate finance to address adaptation and mitigation challenges is among our top priorities. Seychelles is a pioneer in the field of climate and sustainable finance. Seychelles issued the World's first sovereign blue bond in 2018 and raised US$15 million to finance sustainable use of marine resources. In 2017, Seychelles became the first country to successfully undertake a debt for nature swap—the debt restructuring initiative resulted in mobilizing US$21.6 million worth of adaptation financing for coastal management, fishery sector research and the implementation of the Marine Spatial Plan, while raising additional funding of US$5 million from the private sector. At the same time, the government has begun to tap various sources of international climate funds such as the Green Climate Fund (GCF) and the Global Environmental Facility (GEF), as well as climate-related financial support from multilateral development banks and bilateral donors.

81. The government is committed to scaling efforts by engaging with the Commonwealth Climate Finance Access Hub (CCFAH) to get the support of a climate finance advisor to further support scaling up of climate finance. The current climate finance advisor recently conducted a training workshop on climate finance, project prioritization, targeting various entities from the government ministries to financial institutions. The Climate Finance Advisor is further supporting the country in facilitating the accreditation process for two national institutions (SeyCCAT and DBS) that have been nominated as Direct Access Entities to the Green Climate Fund (GCF). While the government has been making efforts, the climate financing gap remains large and more needs to be done in this regard. As such, government is looking to establish a national climate finance mobilization strategy that will comprehensively cover the financing instruments to unlock international climate finance from public and private sources and address the financing gap.

82. In efforts to achieve this milestone, Government with support from the Commonwealth Climate Finance Adviser has developed the Climate Finance Mapping report that gives an overview of the climate finance landscape in Seychelles which is a critical input in the development of the Climate Finance Resource Strategy. A Climate Finance resource mobilisation strategy workshop was held to agree on the scope and outline of the strategy as well as constitute the Climate Finance Technical Working Group that would serve as a coordination mechanism for Climate Finance resource mobilisation in Seychelles. The next steps are to conduct the project prioritization and identification of prioritized investment options that would be used to inform the Climate Finance resource mobilisation strategy. In addition to unlocking public and private finance, the all-encompassing climate finance mobilization strategy and framework will consider different financing instruments and will ensure that there is a robust pipeline of climate investment projects (*Reform Measure for end-September 2024*). The government is committed to putting in place an implementation framework that clearly sets out institutional mechanisms and financing modalities, and to securing funding for at least one major adaptation or mitigation project (*Reform Measure for* end-*October 2025*).

83. The government is committed to climate-resilient and green public investment. The government will integrate climate considerations in the Public Investment Management Framework. While climate-related public investment is well coordinated across the central government and frameworks for climate-related risk management are relatively well-established frameworks for climate-related risk management, there are important gaps in the appraisal, selection, and budgeting for climate-related public investments. Addressing these gaps would help to create a robust climate-sensitive public investment management framework, providing a foundation for Seychelles to further attract international climate finance and catalyze green private sector investment. To this end, the Ministry of Finance, National Planning and Trade (MoFNPT) integrated priority NDC objectives in the forthcoming National Development Strategy 2024-2028 to be launched early December (*Reform Measure for end-September 2023*) and in portfolio-based sector plans. The MoFNPT will conduct a PIM policy revision to include methodologies that incorporate climate-related issues in project selection criteria and project appraisals, and apply the updated project appraisal to at least two major infrastructure projects (*Reform Measure for end-September 2024*). We will also develop a Public-Private Partnership (PPP) framework that reflects climate-related risks and integrate it in the Public Financial Management Act and the Public Procurement Act, with the aim to use the PPP approach to leverage private climate finance (*structural benchmark for end-March 2025*).

84. The government will mainstream climate elements into the budget and fiscal risk management. The ongoing improvements to the Program Performance Based Budgeting (PPBB) framework and its alignment with the priorities of the new NDS is an opportunity to strengthen the planning and budget framework, as well as to integrate climate change dimensions into the budget. As part of the FY2025 budget, the MoFNPT will aim to identify climate-related expenditures including those with positive and negative climate effects in the PPBB starting with the Environment and Climate Change portfolio. However, accurately identifying both positive and negative climate impacts may pose challenges during this initial implementation. In addition, the government will also prepare scenarios of long-term fiscal sustainability analysis under different climate scenarios and publish the results in the Fiscal Risk Statement (*Reform Measure for end-October 2024*). The current fiscal risk analysis will be significantly enhanced by incorporating a comprehensive mapping of fiscal risks from climate change and natural disasters, quantifying the fiscal risks through long-term fiscal sustainability analysis in the context of different climate scenarios and quantifying the discrete risks to infrastructure and public assets from the hazards analyzed in the coastal management policy.

85. The government will strengthen the management of climate-related risks in the financial sector. Specifically, the Central Bank of Seychelles will initiate the implementation of climate-related risk disclosure for banks, including issuing guidelines, establishing data repository and reporting template, and publishing disclosure reports of at least two major commercial banks (*Reform Measure for end-March 2025*), and undertake a climate stress testing for the overall financial system based on a macro-prudential approach (*Reform Measure for end-September 2025*). These initiatives will be done following the international standards and best practices such as those developed by the Network for Greening the Financial System (NGFS) and the Task Force on Climate-Related Financial Disclosures (TCFD). Together, they will support banks and financial institutions in managing physical and transition risks and help steer private investment toward climate resilient and green investments.

86. To transition and diversify the economy, the government is fully committed to the NDC and will step up adaptation and mitigation actions to support it. Renewables will be at the center of economic recovery strategies to advance economic, social and climate priorities for a sustainable post-covid recovery. The government will scale-up renewable energy investment through the new Electricity Act and Utilities Regulatory Commission Act and their respective operating regulations and will use this opportunity to increase private sector climate investment through innovative approaches such as distributed electricity generation and renewable energy independent power producers (IPPs). The government will ensure that legal frameworks to support rates determination under various schemes to promote adoption of renewable energy technologies, either at a distributed generation level or at utility-scaled systems (Independent Power Producers, IPPs), and a framework for multi-year electricity tariff system are in place for effective implementation (*Reform Measure for end-April 2025*). Work on these legal frameworks has already started and together with the recently approved Electricity and Utilities Regulatory Commission Bills will contribute to the transformation of the electricity sector into a low-carbon one. The government also intends to adopt an e-mobility regulatory framework to scale up the adoption of electric vehicles and supporting infrastructure. This will contribute towards a greener transportation sector. Additionally, government implemented new draft building regulation that integrate climate adaptation and mitigation aspects and thus improve the energy performance of buildings *(Reform Measure for end-March 2024)*. Research shows that operational energy use in buildings represent around 30 percent of the final energy consumption. Moreover, the government will adopt a comprehensive national Disaster Risk Financing Strategy (*Reform Measure for end-March 2025*). The government is fully committed to its long-term climate goals—transitioning away from fossil fuels, while it is critical for the economy to diversify revenue sources to promote overall economic resilience and sustainability. The government will ensure that the recently signed oil exploration is carried out with highest international environmental and governance standards and under Seychelles' strict environmental laws, and that this activity does not compromise the country's ambitious NDC.

87. The government will introduce additional green fiscal incentives to promote climate resilience and environmental sustainability. There are currently several fiscal initiatives that are in place. Goods imported to be used in the process of "conservation, generation or production of renewable energy or environment friendly are exempt from the payment of Value added Tax. The photovoltaic (PV) financial rebate scheme launched in May 2014 has been put in place as an incentive to encourage residential and commercial premises to install PV systems connected to the national electricity grid on their rooftop to power their homes and businesses. Resources for this scheme have been exhausted and expected to be replenished in 2024. In addition, all duties including environment levy were removed on electric vehicles in 2015. Further incentives are being worked on to encourage the importation and use of electric and hybrid vehicles. The government will review its fiscal regime and introduce other incentives to promote climate change and environmental related investment (*Reform Measure for end-March 2026*). Potential measures fiscal measures include congestion fees, feebates, environmental levy, and/or price incentives for waste reduction as well as new tax schedule to support the development of utility-scaled renewable energy plant based on an Independent Power Producer (IPP) model. Funds for additional support for green finance initiatives between 2025-2027 are SR 90m, this is under the social programmes of government and will be targeting individuals.

Program Monitoring

88. The EFF program implementation will continue to be monitored through semi-annual reviews, quantitative performance criteria and indicative targets, continuous performance criteria, and structural benchmarks. The third review will take place on or after November 15, 2024 based on end-June 2024 quantitative targets and the fourth review will take place on or after May 15, 2025 based on end-December 2024 quantitative targets. The quantitative targets and structural benchmarks are set out in Tables 1 and 2 of the MEFP respectively. Detailed definitions and reporting requirements for all performance criteria are contained in the Technical Memorandum of Understanding (TMU) attached to this memorandum, which also defines the scope and frequency of data to be reported for program monitoring purposes. For RSF arrangement, progress in the implementation of policies will continue to be monitored through Reform Measures. These are detailed in Table 3 of the MEFP. During the program period, the government will not introduce or intensify restrictions on payments and transfers for current international transactions or introduce or modify any multiple currency practice without the IMF's prior approval, conclude bilateral payments agreements that are incompatible with Article VIII of the IMF's Articles of Agreement, or introduce or intensify import restrictions for balance of payments reasons.

Table 1. Seychelles: Quantitative Performance Criteria Under the EFF, 2023–25[1]
(In millions of Seychellois Rupees, unless otherwise indicated)

	September 30, 2023			December 31, 2023				March 31, 2024			June 30, 2024				September 30, 2024				December 31, 2024				March 31, 2025			June 30, 2025		
	IT			Performance Criteria				IT			Performance Criteria				IT				Performance Criteria				IT			IT		
	Prog.	Actual	Status	Prog.	Adjusted targets	Actual	Status	Prog.	Actual	Status	First Review	Proposed targets	Actual	Status	First Review	Prog.	Actual	Status	First Review	Proposed targets	Actual	Status	Prog.	Actual	Status	Prog.	Actual	Status
A. Quantitative performance criteria[2]																												
Net domestic financing of the government (ceiling)[3]	-14.0	-906.2	Met	-20.0	670.1	-296.3	Met	-12.3			-24.7	-257.3			-43.2	-450.3			-61.7	-643.3			-213.5			-427.0		
Primary balance of the consolidated government (floor)	-84.8	706.0	Met	-99.8		506.9	Met	66.3			132.7	123.3			232.2	215.8			331.7	308.3			102.5			205.0		
Total revenue (floor)[4]	6,632.9	6,704.5	Met	9,475.5	9,475.5	9,465.9	Not met	2,094.4			4,188.7	4,071.5			7,330.3	7,125.2			10,471.8	10,178.8			2,223.3			4,446.6		
Net international reserves of the CBS, millions of US dollars (floor)[5]	475.8	544.2	Met	477.7	428.5	529.4	Met	540.8			547.3	550.9			557.1	567.0			566.8	583.1			591.4			599.7		
B. Continuous quantitative performance criteria (ceilings)																												
Accumulation of new external payments arrears	0.0	0.0	Met	0.0		0.0	Met	0.0			0.0	0.0			0.0	0.0			0.0	0.0			0.0			0.0		
Accumulation of new domestic payments arrears	0.0	0.0	Met	0.0		0.0	Met	0.0			0.0	0.0			0.0	0.0			0.0	0.0			0.0			0.0		
C. Indicative targets (ITs)																												
Net change in public and publicly guaranteed domestic and external debt (ceiling)	414.3	-515.0	Met	591.9		-446.4	Met	230.3			460.7	523.9			806.1	916.8			1,151.6	1,309.7			171.8			343.5		
Priority social expenditure (floor)[2]	1,246.0	1,266.8	Met	1,601.9		1,711.0	Met	367.0			734.1	734.1			1,284.7	1,283.4			1,651.7	1,650.0			376.6			753.1		

Sources: Seychelles authorities; IMF staff estimates and projections.

[1] The terms in this table are defined in the Technical Memorandum of Understanding (TMU).

[2] The performance criteria are cumulative from the beginning of the calendar year.

[3] If the amount of disbursed external budgetary assistance (excluding RSF) net of external debt service obligations falls short of the program forecast, the ceiling on net domestic financing will be adjusted pro-tanto. If the amount of disbursed external budgetary assistance (excluding RSF) net of external debt service obligations exceeds the program forecast, the ceiling will be adjusted downward by the excess disbursement unless it is used to reduce domestic payment arrears. The NDF refers to the central government.

[4] If nominal GDP is lower than projected, the revenues floor will be adjusted by the amount equivalent to the nominal GDP shortfall in percentage terms.

[5] The floor on the CBS's NIR will be adjusted upward (downward) by the amount by which the external non-project loans (excluding RSF) and non-project cash grants exceeds (falls short of) the amounts assumed in the program. The floor will also be adjusted upwards (downwards) by the amount that external debt service payments fall short of (exceed) the amounts assumed in the program. The floors will also be adjusted upwards by the amount of the new SDR allocation to Seychelles if the IMF makes a new allocation of SDRs to its membership.

Table 2. Seychelles: Structural Benchmarks Under the EFF, 2023–25

Actions	Timing	Objective	Depth	Status
Fiscal and Public Financial Management Policy				
1. The upgrade of the ASYCUDA system with new modules is completed for the E-Manifest, and Express Courier modules.	End-September 2023	Strengthen revenue mobilization.	Medium	Met
2. Cabinet approval of legislative amendments to streamline VAT exemptions, in consultation with IMF staff.	End-December 2023	Strengthen revenue mobilization.	High	Not met. Implemented with delay in February 2024.
3. Publish annual reporting of budgeted tax expenditure as a part of the annual budget exercise, in consultation with IMF staff	End-October 2023	Increase transparency on tax expenditures	Medium	Not met. Implemented with delay in November 2023.
4. The MoFNPT to compile an inventory of existing tax expenditures on VAT and business tax, together with an estimate of annual revenue cost, and to publish as part of the official budget.	End-December 2024	Increase transparency on tax expenditures and fiscal cost.	Medium	
5. Cabinet adoption of a roadmap and timeline of actions necessary to improve the efficiency of public investment, including for climate-related investment, based on the January 2023 PIMA.	End-September 2023	Improve the efficiency of public investment.	Low	Met
6. The MoFNPT develops and adopts a Public-Private Partnership (PPP) framework and explicitly include climate-related risks, while integrating this in the Public Financial Management Act and the Public Procurement Act.	End-March 2025	Improve the efficiency of public investment.	High	
7. (i) MoFNPT to announce in the annual budget circular that projects will not be included in the Medium Term Expenditure Strategy (MTES) if appraisal information is absent or materially incomplete; (ii) MoFNPT to establish and distribute to MDAs a set of minimum criteria to assess projects in the MTES 3-year Public Sector Investment Plan (PSIP), on the basis of which (met or not met) PIMU will recommend to the Inter-Ministerial Committee (IMC) for inclusion/deferral in the current year's budget.	End-June 2024	Improve capital expenditure execution by strengthening the framework and capacity for appraising and selecting capital projects.	High	Met
8. Cabinet approval of a legislative amendments to the Public Debt Management Act, in line with recommendations provided by IMF capacity development.	End-March 2025	Improve capital expenditure execution by strengthening the framework and capacity for appraising and selecting capital projects.	High	New SB
Monetary Policy and Financial Stability				
9. Submit amendments to the CBS Act, in consultation with IMF staff, to Cabinet.	End-June 2023	Finish implementing the 2021 safeguards assessment recommendations. The amendments aim to, inter alia, (i) strengthen governance and oversight; (ii) enhance institutional and personal autonomy; and (iii) safeguard financial autonomy.	High	Not met. Implemented with delay in July 2023.
10. Submit to the National Assembly amendments to the CBS Act in line with those approved by Cabinet in July 2023 and IMF staff recommendations.	End-March 2024	Address CBS recapitalization needs, in addition to safeguards assessment recommendations.	High	Not met. Reset for end-June 2024.

Table 2. Seychelles: Structural Benchmarks Under the EFF, 2023–25 (concluded)

Actions	Timing	Objective	Depth	Status
11. Implement the use of repo operations by CBS for liquidity management	End-December 2024	Operationalize recent IMF TA recommendations to strengthen the monetary policy operating framework.	High	
12. Adoption of a reform plan for monetary policy operational reforms and make it public.	End-July 2023	Establish a timeline for the implementation of IMF TA recommendations to strengthen the monetary policy operating framework and instruments, including the adoption of repos and the development of the interbank market.	Low	Met
13. CBS to complete a study on NPLs by including a forward-looking analysis.	End-September 2023	Improve the study conducted by CBS on the impact of unwinding of forbearance measures extended during the pandemic on bank asset quality, through a forward-looking analysis, including stress testing.	Low	Not met. Implemented with delay in November 2023.
14. Cabinet approval for draft Bank Resolution Bill aligned to provide an adequate institutional framework and effective powers for dealing with bank resolution and managing a crisis, thus contributing to financial stability, while limiting the use of public funds and addressing moral hazard concerns.	End-March 2024	Based on IMF TA, address shortcomings from previously approved cabinet policy paper for bank resolution and to align with ongoing revisions to the Financial Institutions Act 2004 as amended and Insolvency Law, as well as cater recent developments stemming from the current crisis. Includes identification of consequential amendments in subsidiary legislations, with the objective of providing the regulators the necessary powers to effectively resolve troubled financial institutions.	High	Not met. Reset for end-September 2024
State-Owned Enterprises (SOEs)				
15. Publication of SOE Annual Report.	End-June 2023	The annual report will present the overall financial performance of the Public Enterprises based on their audited financial statement and will publish eight months after the closing of the financial year.	Medium	Not met. Implemented with delay in July 2023.
16. Finalize ringfencing the ground-handling operation in Seychelles Airport by transferring the corresponding assets to Seychelles Aviation Handling Company and signing the lease agreement with Air Seychelles.	End-December 2023	Ensure that the ground-handling operations at the Seychelles International Airport, considered an important strategic asset, remain protected from creditors.	Medium	Not met. Implemented with delay in March 2024.
Real Sector Reforms				
17. Finalize the terms-of-reference for a study to better understand the dynamics of the tourism sector on the overall economy and its revenue potential.	End-June 2023	Conduct a tourism study, with the assistance of development partners, to better understand the dynamics of the tourism sector and its benefit to the economy. The study would cover all economic activities related to tourism, including accommodation, food and beverage services, recreation and entertainment, transportation, and travel services.	Low	Met
18. Complete the study on the dynamics of tourism on overall economy and on revenue potential and prepare an action plan to maximize the impact of tourism in Seychelles' economy over the long-term.	End-December 2024		Medium	Revised SB for December 2024.
Financial Integrity/AML/CFT				
19. Amend the Beneficial Ownership (BO) Act to broaden access to the FIU's central BO database to financial institutions, reporting institutions with AML/CFT obligations.	End-December 2024	Advance accuracy and accessibility of beneficial ownership information of entities created in Seychelles (including international business companies, limited partnerships, trusts and foundations).	High	

Source: IMF staff.

Table 3. Seychelles: Phasing and Reform Measures under the RSF (May 2023–May 2026)

	Reform Measures (RMs)	Tentative Target date	Status	Analytical Underpinning	Capacity Development Support Needs
Reform Area 1. Enabling Climate-Smart Infrastructure Investment and Fiscal Management					
RM1	The Ministry of Finance, National Planning, and Trade (MoFNPT) integrates priority climate adaptation and mitigation objectives stipulated in the National Determined Contribution (NDC) in the forthcoming National Development Strategy 2023-2027, to ensure that investment decisions are consistent with the outcomes expected in the NDC.	**Sep 2023 (1st Review)**	Implemented	Critical area identified in C-PIMA	
RM3	The MoFNPT updates the Public Investment Management Policy and includes (i) the requirements for the use of methodologies to identify net GHG emission, emission reduction alternatives, and climate resilience of projects in ex-ante project appraisals and (ii) project selection criteria that is fully aligned with the NDC; and (iii) applies the updated project appraisal to at least two major infrastructure projects by end-September 2024 and all new major[1/] infrastructure projects going forward.	**Sep 2024 (3rd Review)**		High priority reform identified in C-PIMA; a top priority identified by the authorities to facilitate access to climate finance	FAD support has been provided
RM4	As part of the FY2025 budget process, the MoFNPT (i) identifies climate-related expenditures, including those with positive and negative climate effects, in Program Performance Based Budget (PPBB) and reports a summary climate statement in PPBB document, and (ii) conducts long-term fiscal sustainability analysis under different climate scenarios, assess the main discrete fiscal risks related to climate change.	**Oct 2024 (3rd Review)**		High priority reform identified in C-PIMA; climate finance tracking a top priority identified by the authorities	FAD support has been provided for item (i) and needed for item (ii).
Reform Area 2. Financial Sector Resilience and Climate Finance Mobilization					
RM5	To scale up climate finance, (i) the cabinet adopts a national climate finance mobilization strategy that comprehensively covers the financing instruments to unlock international climate finance from public and private sources; and (ii) the MoFNPT, together with relevant sector ministries, develop and submit a pipeline of appraised climate-related projects for recommendation by the Inter-Ministerial Committee and approval by the MoFNPT as part of the budget process.	**Sep 2024 (3rd Review)**		A high priority jointly determined with the authorities and development partners	Climate finance advisor, MCM to provide input
RM6	The Central Bank of Seychelles (CBS) (i) issues guidelines for banks on reporting and disclosure of climate-related risks in accordance with international standards, (ii) establishes a data repository and reporting template for banks' lending exposure to climate-related risks, and (iii) publishes a summary climate risk exposure report which includes at least two major commercial banks.	**Mar 2025 (4th Review)**		Important reform area based on Climate Change Policy Assessment	MCM is providing TA on macroprudential stress test and climate risk.
RM9	The CBS adopts and implements a stress testing framework incorporating climate-related risks, and publishes a financial sector climate stress testing exercise starting with a macro prudential approach.	**Sep 2025 (5th Review)**		Important reform area based on Climate Change Policy Assessment	USOTA and IMF (MCM) already providing support.
RM10	In accordance with the national climate finance mobilization strategy adopted in RM5, (i) the cabinet adopts an implementation framework including institutional mechanisms, financing modalities, and necessary guidelines; and (ii) the MoFNPT, together with relevant sector ministries, secure* funding for at least one major[1/] adaptation or mitigation project that contributes directly to the NDC. (*funding secured in the budget and/or loan agreement signed)	**Oct 2025 (5th Review)**		A high priority jointly determined with the authorities and development partners	Climate finance advisor, MCM to provide input.

1 / All projects costing over SCR 10 million are classified as "major" projects.

Source: IMF staff.

Table 3. Seychelles: Phasing and Reform Measures under the RSF (May 2023–May 2026) (concluded)

	Reform Measures (RMs)	Tentative Target date	Status	Analytical Underpinning	Capacity Development Support Needs
Reform Area 3. Climate Mitigation and Adaptation Policy and Disaster Risk Financing					
RM2	The cabinet of ministers approves the new draft building legislation that integrate climate adaptation and mitigation aspects.	**Mar 2024 (2nd Review)**	Implemented	Critical Area identified in C-PIMA	
RM7	The MoFNPT, together with the Disaster Risk Management Division, develop and adopt a comprehensive national Disaster Risk Financing Strategy (DRSF) considering complementary instruments that meet the financing needs.	**Mar 2025 (4th Review)**		Critical Area identified in C-PIMA	
RM8	To scale-up renewable energy in the context of the new Electricity Act and the NDC, (i) the Utility Regulatory Commission (URC) adopts and implements a rates determination framework for renewable energy sources under the net billing and gross metering schemes and publishes the cumulative installed capacity of distributed renewable energy in accordance with the Distributed Generation System Regulations, (ii) the Ministry of Agriculture, Climate Change, and Environment (MoACCE) adopts a Power Procurement Plan from independent power producers (IPPs) that is consistent with the Integrated Electricity Plan, and the URC approves a competitive selection process for renewable energy IPPs in accordance with the IPP Regulations, and (iii) the URC approves an implementation framework for a multi-year tariff system for end-use electricity tariffs that are cost-reflective and publishes tariff trajectory in accordance with the Electricity Tariff Setting Regulations.	**April 2025 (4th Review)**		Based on discussion with the authorities during PIMA mission; Top priority reform identified by the authority	WB providing technical input to sub-regulations.
RM11	The MoFNPT introduces green fiscal and tax incentives to promote positive environmental outcomes and reduce greenhouse gas emissions to support the NDC (for example, congestion fees, feebates, environmental levy, and/or price incentives for waste reduction).	**Mar 2026 (6th Review)**		Top priority reform identified by the authority; Important reform area based on Climate Change Policy Assessment	

Source: IMF staff.

Attachment II. Technical Memorandum of Understanding

This Technical Memorandum of Understanding (TMU) defines the performance criteria, quantitative benchmarks, and structural benchmarks of the Republic of Seychelles' economic and financial program supported by the Extended Fund Facility (EFF). It also specifies the frequency and deadlines for data reporting to the staff of the International Monetary Fund (IMF) for program monitoring purposes.

I. Definitions

- Unless otherwise indicated, "government" is understood to mean the central government of the Republic of Seychelles and does not include any political subdivisions (such as local governments), the central bank, or any other public or government-owned entity with autonomous legal personality not included in the government's budget.

- Consolidated government debt is understood to mean central government plus public guarantees.

- "External debt" is defined as debt denominated in any currency other than the Seychellois rupee (SCR). (1) The performance criterion or indicative target will include all forms of debt. The definition of "debt" is set out in paragraph 8 (a) of the Guidelines on Public Debt Limits in Fund-Supported Programs attached to the Executive Board Decision No. 16919-(20/103), adopted October 28, 2020. For the purpose of these guidelines, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

- loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

- suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

- leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(2) awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

II. Quantitative Performance Criteria

A. Ceiling on Net Domestic Financing of the Government

1. **Net domestic financing (NDF) of the government is defined as the sum of:** (i) net bank credit to the government, defined below; and (ii) net nonbank financing of the government, including the proceeds of the sale of government assets, which includes proceeds from the divestiture of shares of public enterprises, that is privatizations, Treasury bills, and other securitized obligations issued by the government and listed in rupees in the domestic financial market, and any Central Bank of Seychelles (CBS) credit to the government, including any drawings on the rupees counterpart of the Special Drawing Rights (SDR) allocation.

2. **The data deemed valid within the framework of the program will be the amounts for net bank credit to the government and for the net amount of Treasury bills and bonds issued in rupees on the domestic financial market, calculated by the CBS, and the amounts for nonbank financing calculated by the Treasury of Seychelles.**

3. **Gross external budgetary assistance is defined as grants, loans, and non-earmarked debt relief operations (excluding project-related loans and grants, use of IMF resources, and debt relief under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDRI) Initiatives.** Net external budgetary assistance is defined as the difference between gross external budgetary assistance and the sum of total debt service obligations on all public external debt (defined as the sum of interest payments and amortizations on all external loans, including interest payments and other charges to the IMF and on project-related loans, but excluding repayment obligations to the IMF), and all payments of external arrears.

4. **Adjustors:** Net domestic financing of the government will be adjusted downward (upward) if net external budgetary assistance, including the Resilience and Sustainability Facility (RSF), exceeds (falls short of) the program projections.

5. **For the purpose of monitoring, data will be provided to the Fund by the authorities on a monthly basis with a lag of no more than four weeks from the end-of-period.**

B. Floor on the Primary Balance

6. The primary balance is defined as total revenues and grants minus primary expenditure and covers non-interest government activities as specified in the budget. The primary balance will be measured as cumulative over the fiscal year, and it will be monitored from above the line.

- Revenues are recorded when the funds are transferred to a government revenue account. Tax revenues are recorded as net of tax refunds. Revenues will also include grants. Capital revenues will not include any revenues from non-financial asset sales proceeding from divestment operations.

- Central government primary expenditure is recorded on a cash basis and includes recurrent expenditures and capital spending. Primary expenditure also includes transfers to State-Owned Enterprises (SOEs). All primary expenditures directly settled with bonds, or any other form of non-cash liability will be treated as one-off adjustments and recorded as spending above-the-line, financed with debt issuance, and will therefore affect the primary balance.

7. Adjustors: The primary balance target will be adjusted upward (downward) by the surplus (shortfall) in disbursements of grants relative to the baseline projection.

8. For the purpose of monitoring, data will be provided to the Fund by the authorities monthly with a lag of no more than four weeks from the end-of-period.

C. Floor on Total Revenue

9. Total government revenue includes tax and nontax revenue, as shown in the fiscal table, but excludes external grants, revenue of autonomous agencies, and privatization receipts.

10. The government revenue floor will be adjusted downward by the amount equivalent to the shortfall in nominal gross domestic product, in percentage terms, compared to the program projections.

11. For the purpose of monitoring, data will be provided to the Fund by the authorities on a monthly basis with a lag of no more than four weeks from the end-of-period.

D. Floor on Net International Reserves

12. Net International Reserves (NIR) of the CBS are defined as the difference between reserve assets and reserve liabilities with a maturity of less than one year. Note that, NIR exclude blocked assets. Blocked assets mostly consist of commercial banks foreign deposits and project accounts. Since those assets are controlled and readily available to the CBS to meet BOP needs, they are included in gross international reserves (GIR).

13. **Reserve assets are defined as readily available claims on nonresidents denominated in foreign convertible currencies.** They include the CBS's holdings of monetary gold, SDRs, foreign currency cash, foreign currency securities, deposits abroad, and the country's reserve position at the Fund. Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered, claims on residents, claims in foreign exchange arising from derivatives in foreign currencies vis-a-vis domestic currency (such as futures, forwards, swaps, options et cetera), precious metals other than gold, assets in nonconvertible currencies, and illiquid assets.

14. **Reserve liabilities are:** (1) all foreign exchange liabilities to residents and nonresidents with original maturity of less than one year, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, options, et cetera); and (2) all liabilities outstanding to the IMF (only the total outstanding use of Fund Credit and loans is included in reserve liabilities).

15. **Adjustors:** The floor on the CBS's NIR will be adjusted upward (downward) by the amount by which the external non-project loans, including the RSF, and non-project cash grants exceeds (falls short of) the amounts assumed in the program. The floor will also be adjusted upwards (downwards) by the amount that external debt service payments fall short of (exceed) the amounts assumed in the program. The floors will also be adjusted upwards by the amount of the new SDR allocation to Seychelles if the IMF makes a new allocation of SDRs to its membership.

16. **For the purpose of monitoring, semiannually, at each test date for program quantitative targets, the net international reserves data submitted by the CBS to the IMF will be audited by the CBS' internal audit division in accordance with International Standards on Auditing, to ensure conformity with the program definition and calculation methods. Reports will be submitted to the IMF no later than two months after each test date.**

E. Non-Accumulation of New Domestic and External Arrears (continuous)

17. **Domestic payments arrears are defined as domestic payments due but not paid by the government after a 90-day grace period unless the payment arrangements specify a longer payment period.** The Ministry of Finance records and updates the data on the accumulation and reduction of domestic payments arrears.

18. **The government undertakes not to accumulate any new domestic payments arrears. The non-accumulation of new domestic payments arrears will be continuously monitored throughout the program.** The accumulation of any new domestic payments arrears will be reported immediately by the government to Fund staff.

19. **The government undertakes not to accumulate any new external public payments arrears, with the exception of arrears related to debt that is the subject of rescheduling.** External public payments arrears are defined as payments due but not paid by the government as of the due date specified in the contract, taking into account any applicable grace periods, including contractual and late interest, on the external debt of the government or external debt guaranteed by the government. The performance criterion on the non-accumulation of new external public

payments arrears will be continuously monitored throughout the program. The accumulation of any new external payments arrears will be reported immediately by the government to Fund staff.

20. Standard continuous performance criteria include: 1) prohibition on the imposition or intensification of restrictions on making of payments and transfers for current international transactions; 2) prohibition on the introduction or modification of multiple currency practices; 3) prohibition on the conclusion of bilateral payments agreements that is inconsistent with Article VIII; and 4) prohibition on the imposition or intensification of import restrictions for balance of payments reasons.

III. Indicative Targets

A. Net Change in Public and Publicly Guaranteed Domestic and External Debt

21. The public and publicly guaranteed domestic and external debt is defined as the public debt and includes the central government debt plus domestic and external guarantees provided by the government.

B. Floor on Government Social Spending

22. The indicative floor on social spending will apply to the expenditures incurred by the government on the following plans and programs that are intended to have a positive impact on education, health, social protection, housing and community services and recreational activities:

- Goods and services: day care scheme under IECD; breakfast and lunch under education and dedicated fund; home care giver transferred to family affairs, SPTC Bus refund for students.
- Capital project: vulnerable home repair.
- Social program of government: Housing finance scheme, home improvement/re-roofing scheme for pensioners, youth employment scheme, temporary financial assistance.
- Transfers to public enterprises: SPTC- refund of bus fare for elderly, disability and workers special.
- Benefits and approved programs of the Agency for Social Protection: all budget lines under this code.

IV. Program Reporting Requirements

23. Performance under the program will be monitored from data supplied to the IMF by the authorities. The authorities will transmit promptly to IMF staff any data revisions as well as other information necessary to monitor the arrangement under the EFF.

V. Data and Information

24. The Seychelles authorities (government and CBS) will provide Fund staff with the following data and information according to the schedule provided.

The CBS Will Report

Weekly (within one week from the end of the period):

- Daily reserve money data.
- Foreign exchange reserves position.
- A summary table on the foreign exchange market transactions.
- The results of the liquidity deposit auction, primary Treasury bill auctions, and secondary auctions.

Monthly (within four weeks from the end of the month):

- The monetary survey in the standardized report form format.
- The foreign exchange cash flow, actual and updated.
- Financial soundness indicators.
- Stock of government securities in circulation by holder (banks and nonbanks) and by original maturity and the debt service profile report.

The Ministry of Finance Will Report

Monthly (within two weeks from the end of the month):

- Consolidated government operations on a commitment basis and cash basis in the IMF supported program format and in GFSM2001 format.
- The detailed revenues and expenditures of the central government and social security fund.
- Import and export data from the customs department.
- Public debt report reconciled with the cash operations to minimize any statistical discrepancy.
- Consolidated creditors schedule on domestic expenditure arrears of the government.

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

- Accounts of the public nonbank financial institutions.

25. The government and CBS will consult with Fund staff on all economic and financial measures that would have an impact on program implementation and will provide any additional relevant information as requested by Fund staff.

INTERNATIONAL MONETARY FUND

SEYCHELLES

May 15, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION, SECOND REVIEWS UNDER THE ARRANGEMENTS UNDER THE EXTENDED FUND FACILITY AND THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, REQUESTS FOR A WAIVER OF NONOBSERVANCE AND MODIFICATION OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX

Prepared By

The African Department
(In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of March 31, 2024)

Membership Status: Joined 6/30/1977. Accepted Article VIII obligations since 01/03/1978.

General Resources Account	SDR Million	% Quota
Quota	22.90	100.00
Fund holdings of currency	110.82	483.93
Reserve Position in Fund	3.58	15.64

SDR Department	SDR Million	% Allocations
Net cumulative allocation	30.23	100.00
Holdings	15.01	49.64

Outstanding Purchases and Loans:		
Emergency Assistance	14.31	62.50
RSF Arrangements	3.12	13.64
Extended Arrangements	77.17	336.97

Latest Financial Arrangements:

			SDR Million	
Type	Arrangement	Expiration	Amount Approved	Amount Drawn
EFF	May 31, 2023	May 30, 2026	42.37	12.21
RSF	May 31, 2023	May 30, 2026	34.35	3.12
EFF	July 29, 2023	May 30, 2023	74.00	61.00

Latest Outright Loans:

			SDR Million	
Type	Commitment	Drawn/Expired	Amount Approved	Amount Drawn
RFI	May 08, 2020	May 12, 2020	22.90	22.90

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

	Forthcoming				
	2024	2025	2026	2027	2028
Principal	10.09	6.95	8.82	11.63	11.66
Charge/interest	4.66	5.46	5.28	4.53	3.63
Total	14.75	12.41	14.10	16.16	15.29

Implementation of HIPC Initiative: Not applicable
Implementation of Multilateral Debt Relief Initiative (MDRI): Not applicable
Implementation of Catastrophe Containment and Relief (CCR): Not applicable

An update safeguards assessment of the Central Bank of Seychelles (CBS) was completed in December 2023. The assessment found that the CBS has continued to strengthen its safeguards framework, including through ongoing legal reforms to further align governance and autonomy provisions with leading practices. Amendments to the CBS Act will be submitted to the National Assembly for enactment by end-March 2024 (structural benchmark). While financial reporting and external audits continue to adhere to international standards, capacity constraints remain a key challenge for advancing the internal audit and risk management functions. The CBS has committed to implementing the safeguards recommendations.

Exchange Rate Arrangement: The exchange market was liberalized in November 2008, which resulted in the elimination of all restrictions on the making of payments and transfers for current international transactions that are subject to Fund approval under Article VIII Sections 2, 3, and 4. The de jure exchange rate regime is floating, and the de facto exchange rate regime is also classified as floating. On March 31, 2024, US$1 = SR 14.3091 (mid-rate).

Article IV Consultations: Seychelles is currently under a 24-month consultation cycle. The last Article IV Consultation was concluded on June 29, 2022.

Technical Assistance (January 2022-January 2024):

MCM
Medium-term Debt Management Strategy and Annual Borrowing Plan, January 2022
Secondary Market Development, August 2022
Monetary Policy Implementation and Operations, November 2022
Basel II/III Capital Regulatory Reform, November 2022
Basel II Implementation – ICAAP Assessment Process, December 2022
Bank Resolution Framework, May 2023
Development of Secondary Market for Government Securities, June 2023
Stress Testing the Central Bank Balance Sheet, October 2023
Central Bank Strategic Planning and Board Workshop, November 2023
Oversight of Retail Payment Systems and Setting Up a CSD, November 2023
Risk Based Supervision Framework Enhancement – Risk Rating and Off-site Supervision, December 2023
Review of the Legal Framework for Public Debt Management, December 2023
Modernizing the Legal Framework for Public Debt Management, January 2024

FAD
Public Financial Management, Asset and Liability management, September 2021
Further Development of Risk Management Capability, March 2022
Business Continuity and Disaster Recovery Management, May 2022

Compliance Improvement Planning and Risk Management, August 2022
Assessment of the Value-Added Tax, November 2022
Post Clearance Audit, April 2023
Public Investment Management Assessment – PIMA and Climate PIMA, May 2023
Compliance Risk Parameters, July 2023
Value-Added Tax: Reform Options and Tax Expenditures Assessment, July 2023
Strengthening Cash Flow Forecasting, November 2023
Desk Review of Public Investment Management Policy, January 2024

STA
National Accounts, January 2022
National Accounts, October 2022
Price Statistics, March 2023
Update of the Producer Price Index, May 2023
National Accounts, June 2023

LEG
Drafting of the Bank Recovery and Resolution Act, April 2023

Resident Representative: Aissatou Diallo

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL ORGANIZATIONS

As of May 2024, Seychelles collaborates with the World Bank Group and the African Development Bank. Further information may be obtained from the following sources.

http://www.worldbank.org/en/country/seychelles

https://www.afdb.org/en/countries/east-africa/seychelles/

Statement by Mr. Robert Bruce Nicholl, Executive Director for Seychelles, and Mr. Lenny Palit, Advisor to the Executive Director
June 3, 2024

The Seychellois authorities appreciate the ongoing support from the Executive Board, management, and staff. The authorities broadly concur with the Article IV findings, and the assessment of performance against the EFF and RSF. Furthermore, they remain committed to measures set under these programs.

We are especially appreciative of staff efforts in understanding the impact of the December 7th calamity, and how it impacted program performance while highlighting a key area of risk to the outlook in terms of climate change. In the medium run, the program remains critical in supporting the country's priorities as reflected in the recently launched National Development Strategy. Fund support will facilitate and help to promote the need for structural challenges and unlocking opportunities for future growth.

Seychelles has enjoyed relatively strong growth and high living standards over a long period but recognizes the threats to that trajectory given its heavy reliance on external sectors through import and export channels. These were highlighted by the pandemic and are increasingly revealed through incremental and cumulative climate change impacts.

Recent Economic Developments

The post-pandemic growth path is being maintained. Real growth for 2023 is estimated at 3.2 percent and forecast at 3.7 percent for 2024. The outcome for 2023 was driven by strong tourism numbers, information technology (IT), fishing and construction sectors. The previous growth forecast was revised down mainly due to the December industrial zone explosion and significant flooding in the north of Mahé. A preliminary World Bank report estimates the cost at 7.4 percent of GDP (2023). Moreover, the construction sector has been impacted by the December explosion, including domestic labor shortages.

The current account deficit in 2023 was broadly unchanged from 2022 and is projected to be at a similar level (7.3 percent) in 2024. The outcome for 2023 was impacted by higher than forecast growth in services and oil re-exports, albeit insufficient to offset lower exports of tuna and higher levels of FDI-related imports. With the tourism sector operating at around full capacity (in terms of visitor numbers), simply looking to reduce this deficit through higher exports is not as straightforward as it may appear.

Fiscal performance has exceeded the program forecast. The primary balance in 2023 stood at 1.7 percent of GDP compared to a forecast of zero. For 2024, the primary surplus forecast is 1.0 percent of GDP, with some expected recalibration over the fiscal path in the medium run underpinned by growth facilitating fiscal consolidation. However, key matters—including the severity and evolution of the climate financing gap and efficiency gains from the RSF-EFF and related policies—may require future adjustments.

Annual inflation was -1.0 percent in 2023, consistent with past observations of lagged currency effects and international commodity price dynamics. Domestically, downward adjustments to utility, food, and transport prices reflect lagged external price effects and a broadly stable nominal exchange rate. The Seychelles rupee appreciated by 1.8 percent against the US dollar relative to 2022. However, a sharp depreciation of the currency would open the potential for reigniting inflationary pressures.

The overall outlook while favorable remains vulnerable to external shocks. Given a high import dependence, global commodity price shocks would present significant downside risks to inflation and foreign reserves. Increasing global competition in the tourism sector is a particularly growing concern given Seychelles reliance on this market with limited opportunities for expansion.

Fiscal Policy

The authorities are dedicated to continuing fiscal consolidation; budgetary reforms will enhance public financial management delivery and facilitate investment and growth. Continued implementation of the Results Based Management framework, addressing C-PIMA gaps, enhanced efficiency of public investment, improved debt and cash management practices, and integrated and automated systems will underpin progress over the RSF-EFF. Over the medium term, National Development Strategy priorities are expected to be embedded within the budget process. The authorities are aware of the need to rebuild fiscal buffers and remain committed to a debt anchor of 50 percent of GDP or less by 2030.

The authorities will continue tax reforms over the medium term to boost domestic resource mobilization. VAT reforms will be implemented over a 3-year phase by key stakeholders, although program-linked reforms at the Revenue Commission face capacity constraints, delaying progress in select areas. The Public Procurement Act and the Public

Finance Management Act reforms will facilitate the development of the PPP framework and aim to open new avenues for financing. To improve allocative efficiency, the authorities are seeking World Bank assistance for public expenditure reviews of the education and health sectors. Over the medium term, tax administration and the size and current structure of the public sector will be reviewed.

Strengthening public investment management remains a priority and authorities remain committed to implementing C-PIMA recommendations. Inclusion of the Public Sector Investment Plan as part of the budgetary cycle is progressing. The Fund-supported review of the Public Investment Management (PIM) Policy and scoring methods will improve project management, better align government priorities, and incorporate climate aware criteria in project selection.

Efforts for a more targeted approach to social spending remain ongoing. A revised socioeconomic needs assessment incorporating non-income dimensions of poverty is expected to be implemented in 2025, while the National Functional Assessment Board Act has been gazetted. Integrating data structures across relevant MDAs to identify the most vulnerable members of society on the social registry is ongoing. The authorities are cognizant of demographic-related risks magnifying without gradual adjustments over time. Establishment of the Homecare Agency provides the necessary framework for more targeted and quality old age care.

Monetary Policy and Financial Stability

The Central Bank of Seychelles (CBS) reduced its Monetary Policy Rate from 2.0 percent to 1.75 percent for the second quarter of 2024 to stimulate further economic activity given the inflation outlook. CBS is ready to respond to any shocks on short run price stability. However, the transmission mechanism of monetary policy remains weak despite CBS attempts to withdraw excess liquidity (Q4 2023) and enhance communications, as per previous TA recommendations. Further measures are expected in 2024, with a focus on developing repo markets and enhancing technical capacity.

CBS is committed to maintaining a flexible exchange rate regime and build buffers against external shocks. CBS will limit interventions for reserve accumulation purposes and to smooth excess volatility. As at end 2023, Gross Reserves were US$682 million, with Net International Reserves (NIR) (US$529 million), exceeding the program target by US$52 million. This overperformance and a positive outlook are expected to yield a higher NIR.

CBS remains committed to financial stability. While banks remain liquid and well capitalized, CBS is cognizant that NPLs have increased. The authorities note that this is not a systemic matter and agree with staff that full implementation of a robust RBS framework will support on and off-site supervision and monitoring. While minor legal related delays highlight capacity constraints of the authorities, technical work is mostly completed on the Bank Recovery and Resolution Bill. The authorities highlight that digitalization where it can be achieved delivers greater marginal benefits when considering labor constraints and the added burden of supervisory functions facing small island states.

Structural Reforms

The Transformative Economic Agenda aims to diversify the economic base, and improve value addition and synergies in existing sectors. Some competitiveness has been realized in the tourism sector following the pandemic, supported by diversification efforts. The authorities agree that carrying capacity for the tourism sector is at (or close to) its limits when considering environmental commitments, land availability and infrastructure constraints.

Digitalization aims improve government efficiency and diversify economic structure. Progress remains ongoing on the Integrated Financial Management Information System, ASYCUDA, tax returns, the Agency of Social Protection and the social registry. Implementation of the Health Information System is expected by year end. The authorities have undertaken the legislative changes to improve competition in the telecom sector and to enhance data protection laws.

RSF and Climate Change Policy

Recent developments highlight the accelerated impact of climate change on a small island state. The RSF has provided a sound framework to anchor three pillars required to unlock medium term fiscal space, with all required Reform Measures implemented to date. Continued Fund support is critical to a successful outcome of the program. However, these processes have revealed tight capacity constraints in areas of technical and policy support.

The authorities remain committed to long run targets under the Nationally Determined Contribution with the RSF being a catalyst of the process. The country's unique circumstances limit opportunities for addressing the long run funding gap needs and the authorities acknowledge the RSF's role in reprioritizing reforms for medium run policy space.