

In the beginning of this month, the International Monetary Fund (IMF) headed by Ms. Carol Baker presented the IMF's recommendations and findings following the seventh program review under the Extended Fund Facility (EFF) Arrangement with Seychelles in December last year. The IMF concluded that the government made sustained progress in implementing the IMF-supported program. All end-December 2012 quantitative targets under the program were met. The broader structural reform agenda is also moving ahead, with cabinet approval of the public sector investment program and passage of the Public Financial Management Act. The mission welcomed the introduction of the value-added tax (VAT), which will modernize and strengthen the tax system, and shall encourage the government to take all necessary steps to ensure that the VAT is applied efficiently.

Moreover, the IMF noted that the Seychellois economy has shown resilience in the face of the difficult global economic environment, economic growth has held up thanks to increasing tourist arrivals from non-traditional markets; fiscal policies have remained firmly on track toward the government's target of bringing public debt down to 50 percent of gross domestic product (GDP) by 2018 and debt restructuring is nearly complete. Monetary tightening has been successful in reversing the inflationary uptick experienced last year, and inflation pressures are expected to continue their recently observed downward path.

In terms of growth and employment, the IMF recommended that the government should maintain momentum for their ample structural reform agenda which aims to foster an environment conducive to private sector participation in economic activity. Key measures include modernization of the legal framework—such as the Companies, Insolvency and Labor Acts—in line with international best practice; financial sector development aimed at reducing the cost and increasing access to credit, especially for small and medium enterprises; and building capacity of local labor to bring it in line with the needs of the private sector. In the case of housing and social protection, policies should seek to balance addressing market failures and protecting the vulnerable against overly generous benefits which deter labor market participation and private sector development.