

# IMF– Seychelles Conference

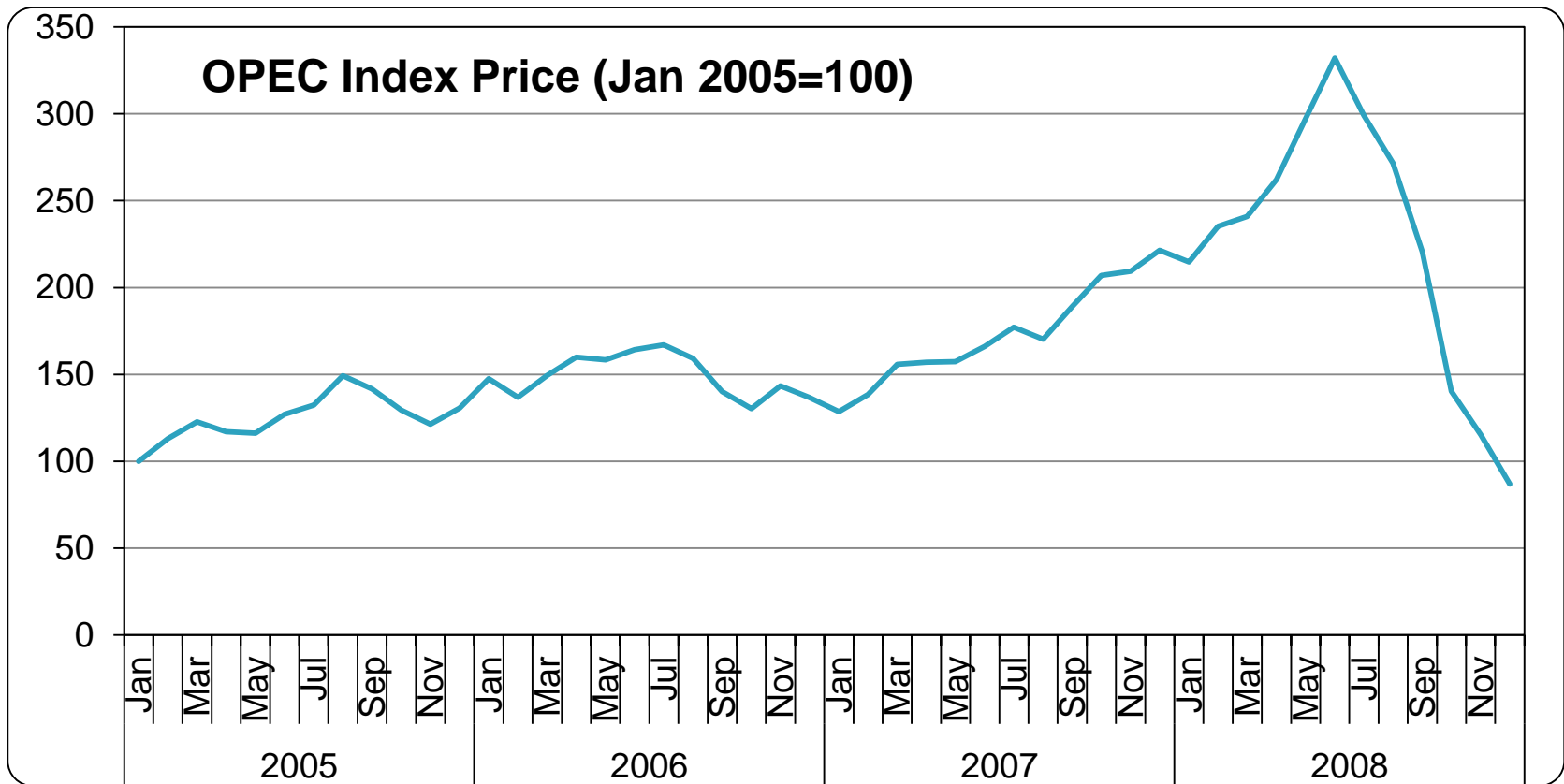
**Assessing the Seychelles' reform  
program and IMF engagement**

**October 2013**



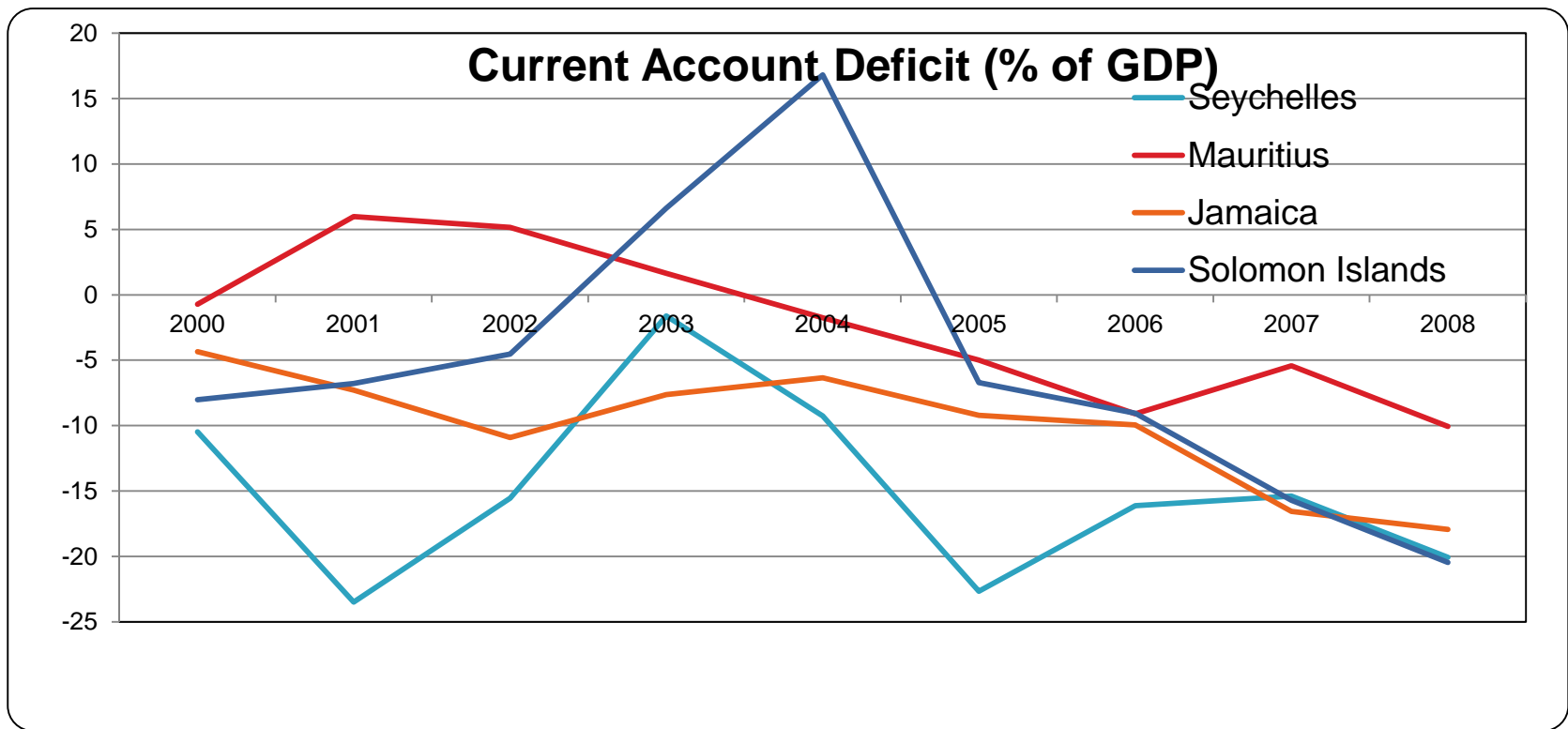
# The Crisis Period

Internal Development: Rising Energy Prices...



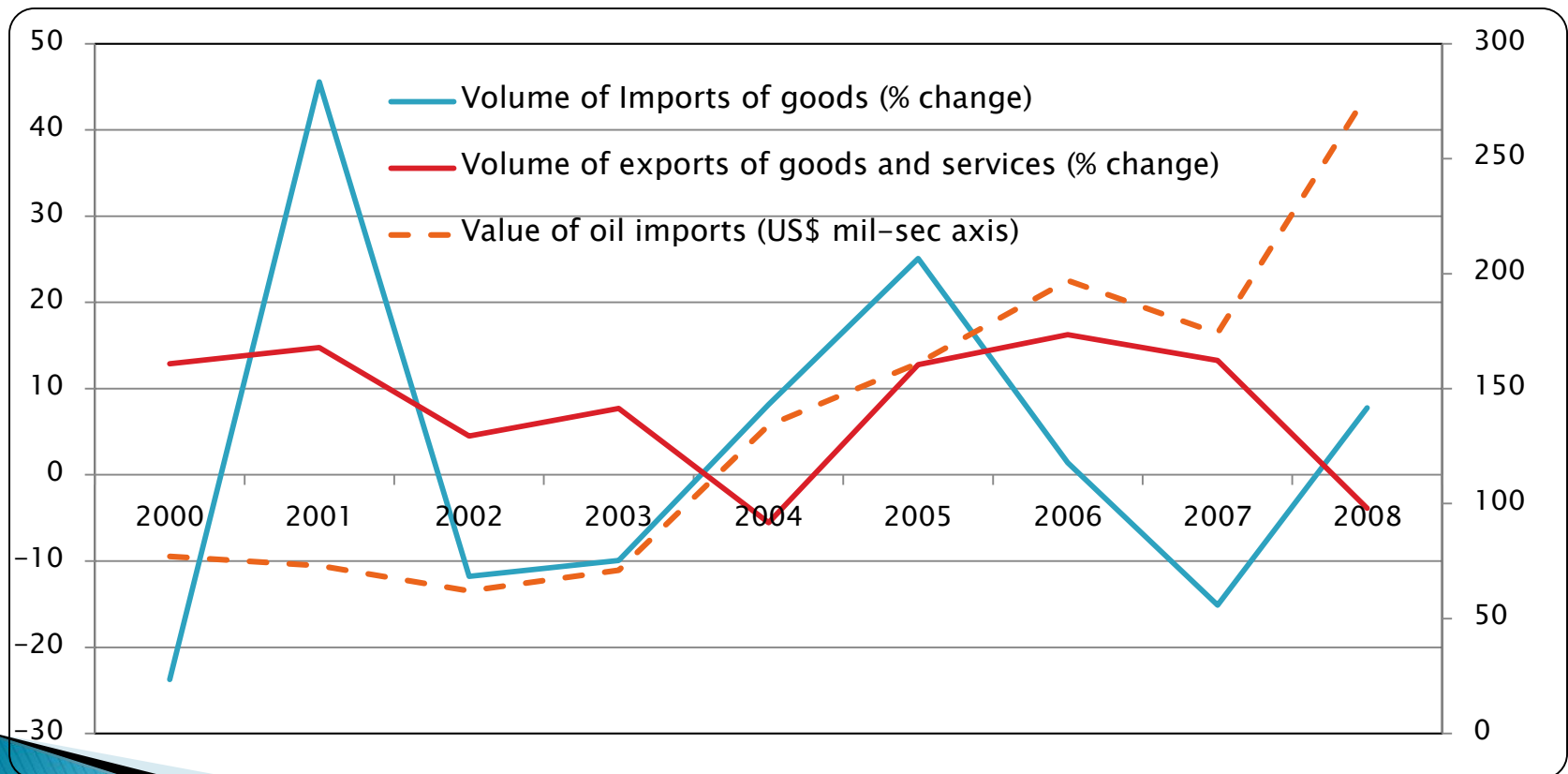
# The Crisis Period (Cont'd)

... Impact on selected small island, energy-dependent Importers.



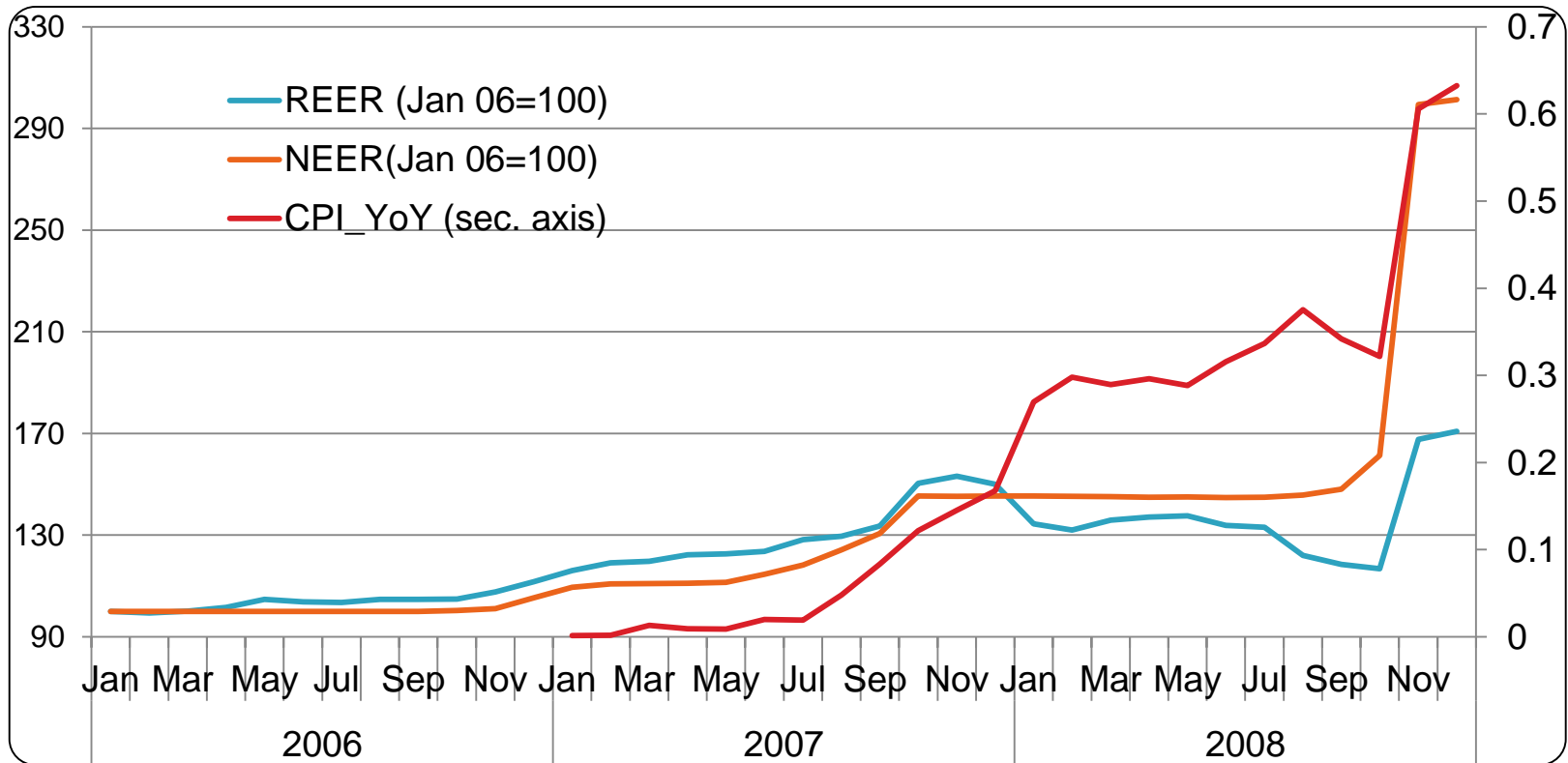
# The Crisis Period (Cont'd)

The Seychelles Context; Decline in exports and rise in imports, specifically energy



# The Crisis Period (Cont'd)

Build up of imported inflationary pressures due to rising commodity prices...



# Pre-Reform Challenges

- ▶ Seychelles faced internal and external economic imbalances;
- ▶ Previous attempts to address these contentious issues were too gradual, not properly coordinated and insufficient for the magnitude of the macroeconomic imbalances;
  - Thus, the country remained highly vulnerable.

# Pre-Reform Challenges (Cont'd)

- Limited role of market forces
  - Foreign exchange restrictions/controls
  - Acute shortages of hard currency
  - Growing divergence in between the official and parallel exchange rates
  - Low confidence in the domestic currency
  - High, unsustainable debt commitments
  - Accumulation of external arrears
  - Low and depleting external reserves
- 

# CBS' Challenges

- ▶ **Monetary Policy:**
  - MP subservient to fiscal policy
  - Significant level of liquidity in the system
  - Use of Direct Instruments



# CBS' Actions

IMF-supported reform program since  
November, 2008

*'To promote macroeconomic stability and sustainable growth'*

- ▶ Change in Monetary policy framework and introduction of market-based instruments
- ▶ From Fixed Exchange Rate to Reserve Money Targeting
- ▶ Market-determined exchange rates and interest rates
- ▶ Removal of foreign exchange restrictions: Elimination of capital controls
- ▶ Final Sector Developments

# CBS' Program Targets

## *Main Performance Criteria under the Program*

- Reserve money
- Net international reserves (NIR)

### Reserve Money;

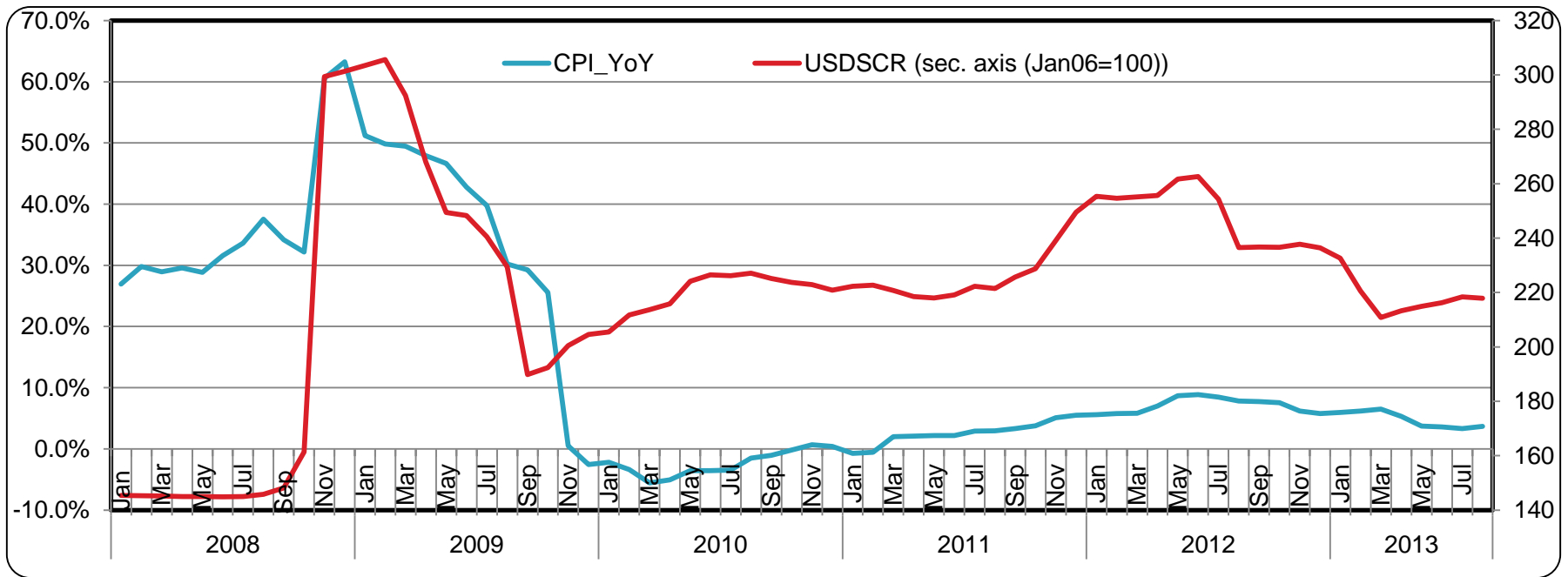
- Manage the level of broad money growth by indirectly targeting high-powered money; indirectly control inflation

### Net international reserves (NIR);

- Accumulate sufficient reserves to safeguard against terms of trade shock and improve external position

# Successes (Cont'd)

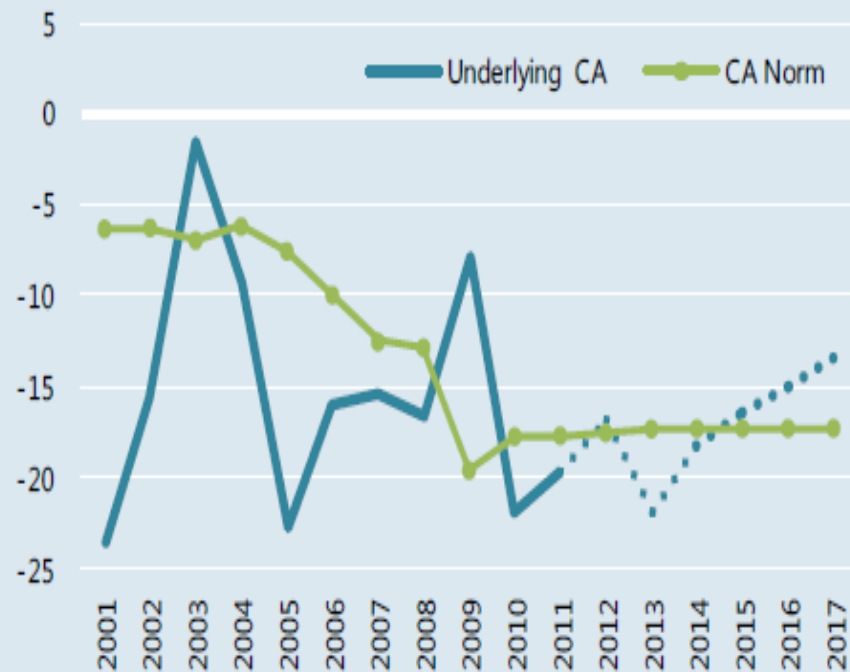
Rapid Stabilisation process; Increasing the role of market forces; improve efficiency in resource allocation...



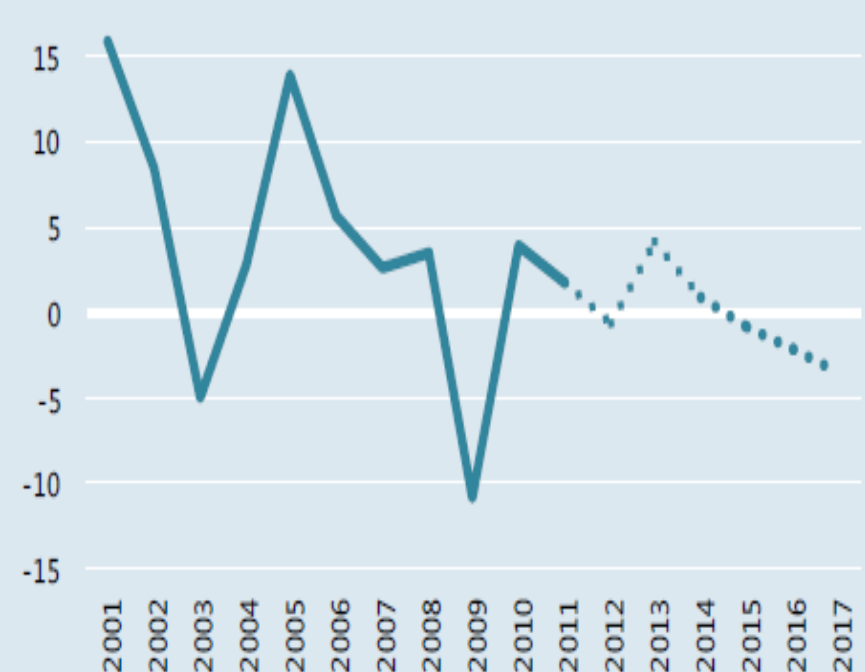
# Successes (Cont'd)

...suggest medium term stabilisation of REER and improving underlying current account

ES Approach: Underlying vs. norm current account  
Percent of GDP

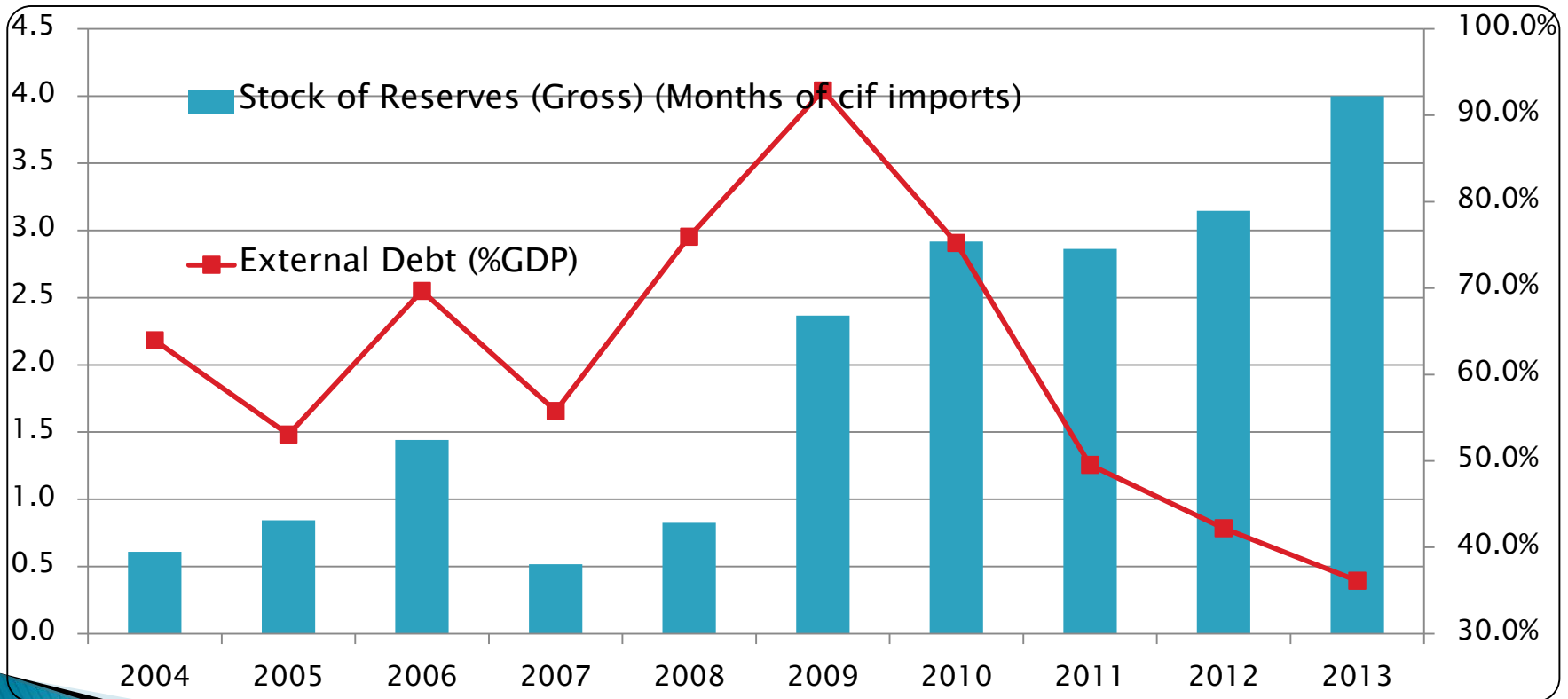


ES Approach: Real exchange rate misalignment  
Percent

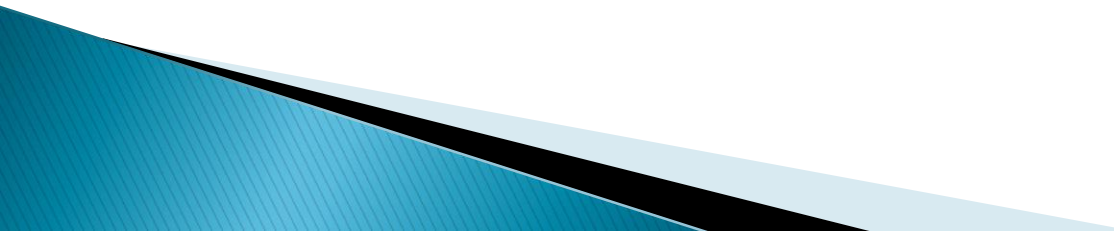


# Successes (Cont'd)

...with gradual accumulation of Foreign Reserves to safeguard against external shocks without debt accumulation



# Outstanding Monetary Policy Challenges

- Improving the transmission mechanism of monetary policy
  - Addressing expectations of prices in the short and medium term
  - Harmonisation of financial and monetary policy actions
  - Contribution to improving underlying rigidities in the financial system
- 

**End.**