Seychelles Conference 2013:
From Stabilization to Sustained Growth:
Five Years of Successful Reforms and the Challenges Ahead
Victoria, October 31, 2013

Fiscal Policy Priorities in Seychelles:
From Solvency to Resilience
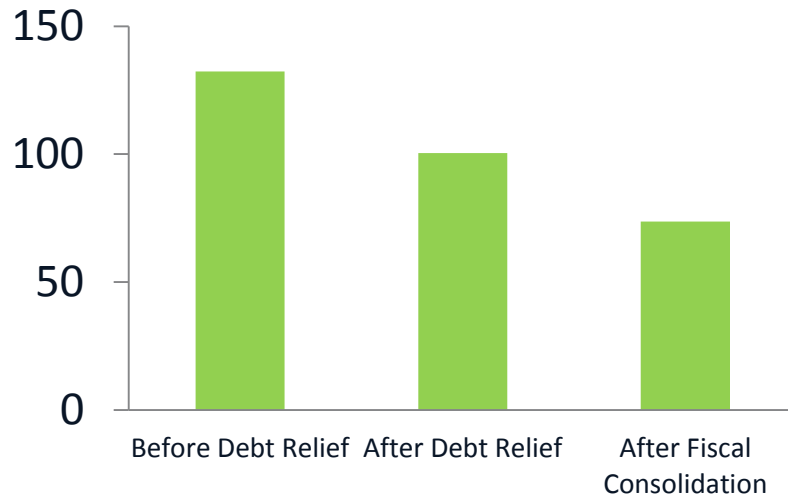
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African Department, IMF

Presentation Outline

➔ Achievements so far

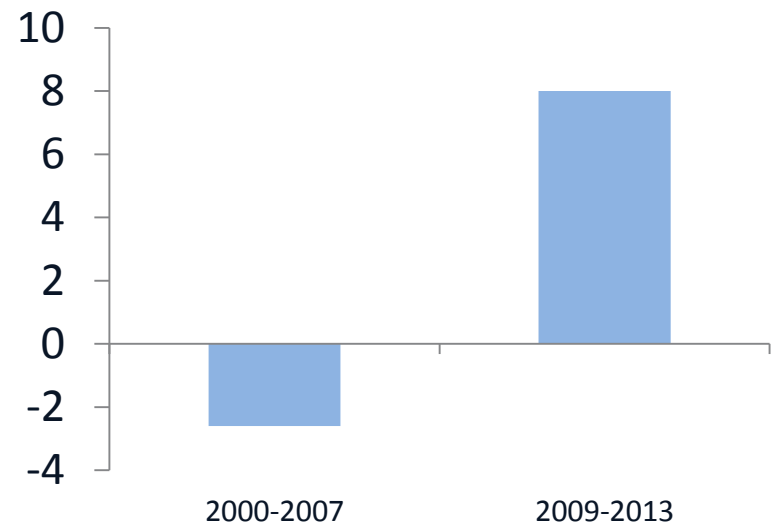➔ Future priorities

➔ Quality of Fiscal Adjustment

Seychelles' achievement so far

Seychelles: Public Debt-to-GDP

Primary Fiscal Balance

➔ Public debt per inhabitant has fallen from around $15,000 at the start of the crisis to less than $10,000 today
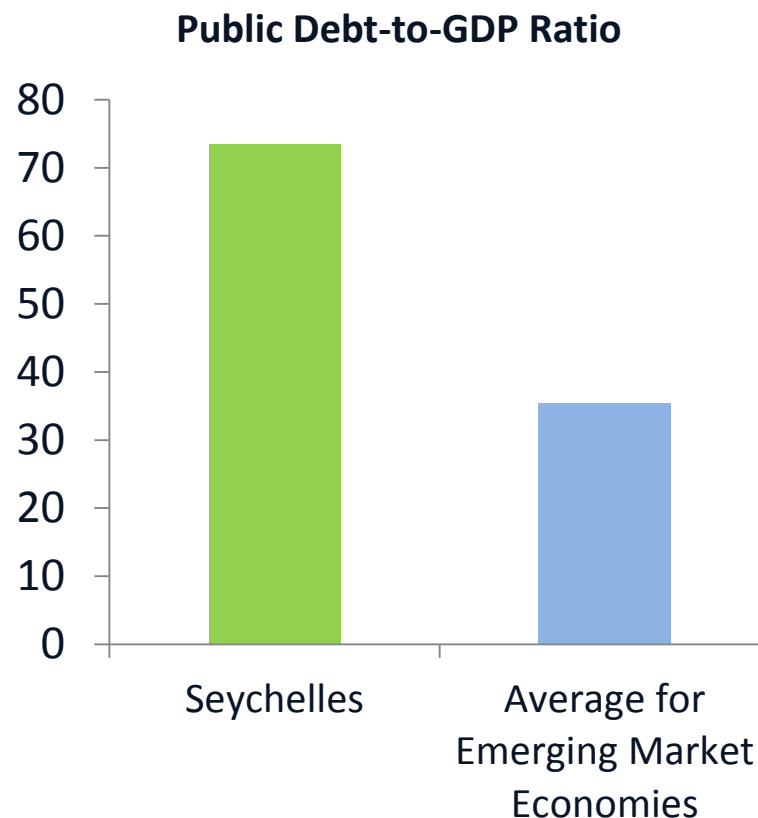
➔ The primary balance has improved by 10 percent of GDP pre-crisis to post-crisis

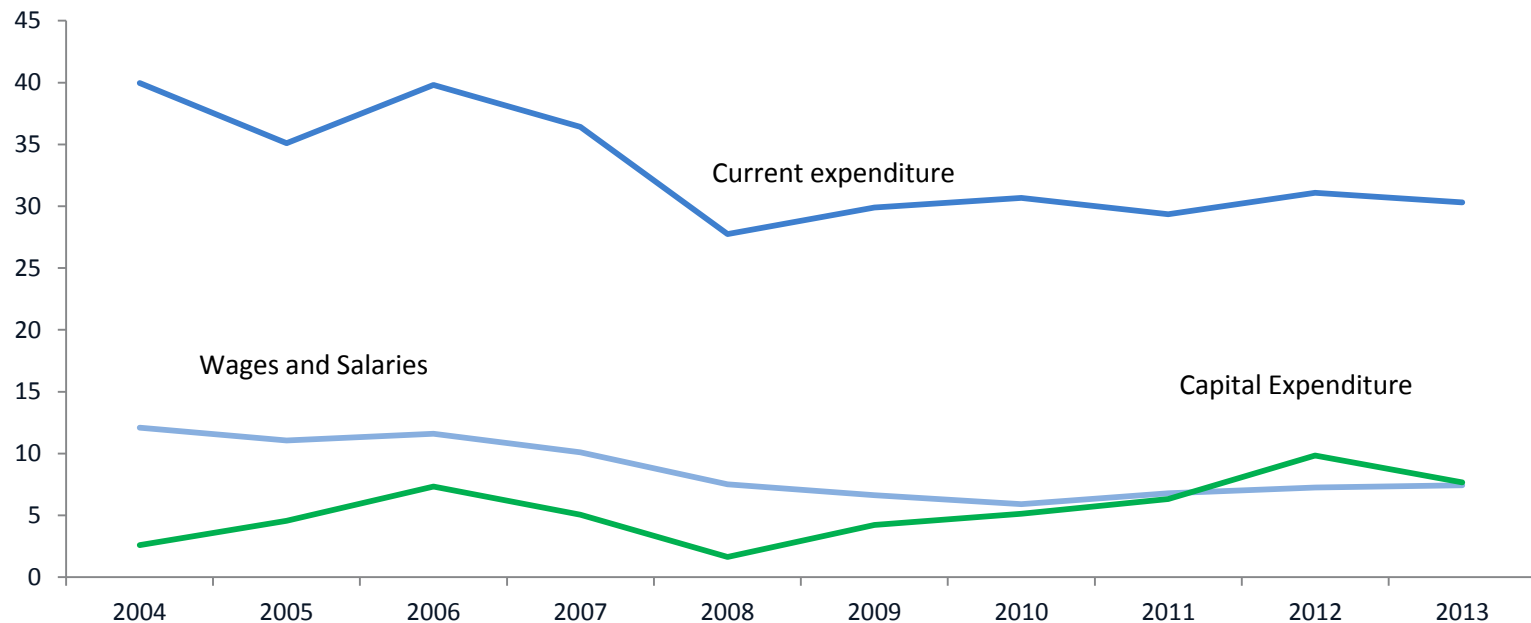# So why the need for continued fiscal effort?

→ Still-high debt level:

- Constitutes source of vulnerability
- Limits ability to borrow in event of negative shock
- Inhibits growth and investment

Public Debt-to-GDP Ratio

	Seychelles	Average for Emerging Market Economies
Value	~73	~35

Chart values (y-axis): 0, 10, 20, 30, 40, 50, 60, 70, 80

As important as the quantity of fiscal adjustment is the quality

So far during the stabilization program the quality has improved…

Composition of Government Expenditures in Seychelles
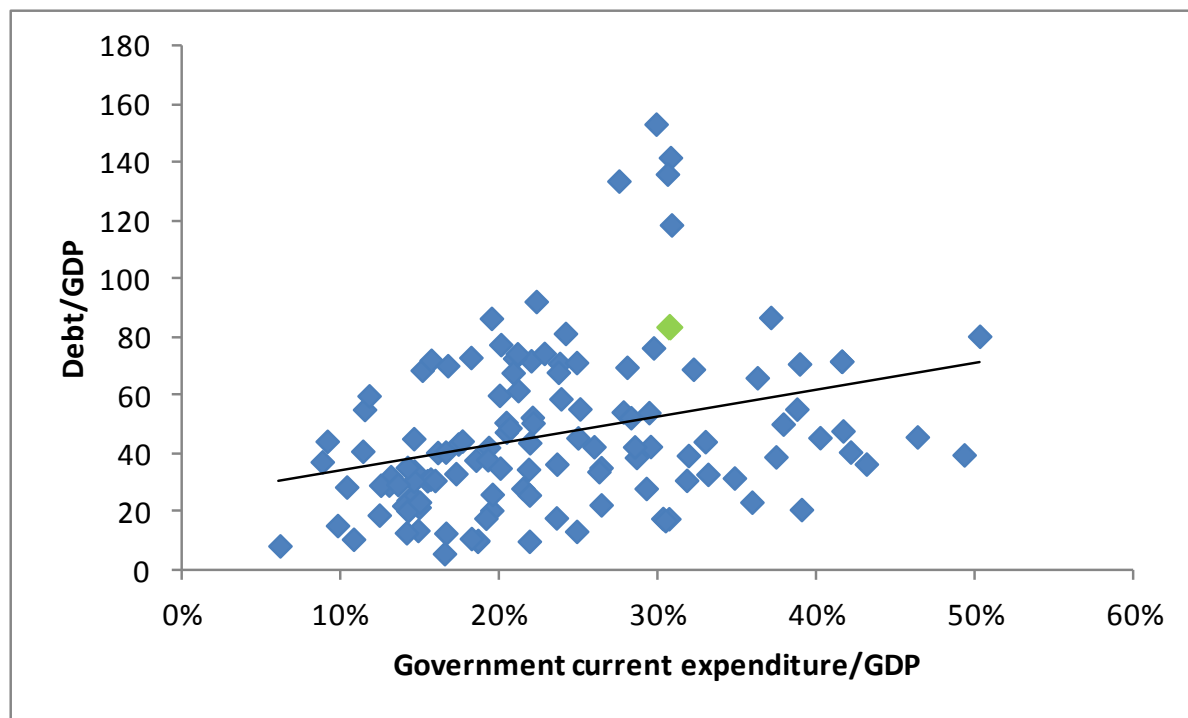**(percent of GDP)**

Investment is the driver of growth

➔ For a given fiscal target, increasing government consumption (wages, goods and services, subsidies etc.) faster than GDP growth has to be paid through:

- ▪ higher taxes,
- ▪ lower investment spending

both of which can result in lower growth....

Tax revenue also has a role to play

➔ Significant improvements in tax policy:
   - VAT
   - Income Tax

➔ But some decline in revenue, in part due to exemptions, and introduction of second-best turnover taxes

➔ Transparency and simplicity important to support compliance…

➔ And improved compliance is key to protecting revenues while delivering low rates

Going forward

➜ Stick to the announced target for reducing debt

➜ Ensure that public wages and other current spending grows in line with broader economy, and that pay increases do not come at the expense of the private sector or future growth

➜ Beyond 2018, pace of fiscal consolidation can slow, but important to keep debt on stable/declining trend

Thank you.
(end of presentation)