

CENTRAL BANK OF SEYCHELLES



ANNUAL REPORT 2001

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ANNUAL REPORT

2001

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Letter of Transmittal

Central Bank of Seychelles
P.O. Box 701
Victoria

March 31, 2002.

President F. A. René
State House
Victoria

Dear Mr. President,

In accordance with section 43(3) of the Central Bank of Seychelles Act, 1982, as amended, I have the honour to submit for your approval the Nineteenth Annual Report of the Central Bank together with a copy of the Annual Accounts for 2001 certified by the Auditors.

Yours faithfully,



F. Chang Leng
Governor

CENTRAL BANK OF SEYCHELLES

Board of Directors

(as at 31 December 2001)

Francis Chang Leng, Governor	-	Chairman
Errol Dias	-	Member
Francis Chang-Sam	-	Member

Secretary to the Board

Jean-Claude D'Offay

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Technical Note

Owing to rounding of figures, the sum of separate items may not always add up to the total shown.

Abbreviations used in this Report are:

<i>R</i>	=	<i>Seychelles Rupee</i>
<i>CBS</i>	=	<i>Central Bank of Seychelles</i>
<i>n.a</i>	=	<i>Figure not available</i>
<i>..</i>	=	<i>Negligible</i>
<i>-/0</i>	=	<i>Nil</i>

ECONOMIC REVIEW OF 2001

January

*Ban on
copra
lifted*

The Ministry of Agriculture and Marine Resources (MAMR) announced that Pakistan has lifted the seven-year-old ban it imposed on the imports of copra from Seychelles in 1994. With the lifting of the ban, Seychelles could now export its copra to Pakistan, which has been its main market for that product, albeit, under a series of conditions imposed by the Plant Protection unit in Pakistan. It is to be noted that an in-depth study carried out by the FAO in 1995 indicated that Seychelles' copra was free of any kind of diseases.

February

*USD\$25m
for
desalination
plants*

The Public Utilities Corporation (PUC) secured a loan amounting to US\$25 million from two international banks to finance the installation of four water desalination plants in Seychelles. South Africa's Nedbank has contributed US\$14 million whilst Malaysia's Bumiputra Commerce Bank financed the balance of US\$11 million. The loan agreement with the two banks was signed by the Executive Chairman of the PUC board, Mr Mukesh Valabhji, the Executive Vice-President of the London branch of Malaysia Bumiputra Commerce Bank Mr Hashemi Albakri Bin Abu Bakar and the Senior Manager of South Africa's Nedbank Mr Johan Oelofse.

March

*Letter of
commitment
to OECD*

The Vice-President, Mr James Michel signed a letter of Commitment to the Organisation of Economic Cooperation and Development (OECD) that the country would work towards the establishment of international standards to eliminate harmful taxation competition. Hence, Seychelles becomes one of the offshore-industry countries that is recognised as a cooperating jurisdiction under OECD.

April

*Ministerial
and PS
changes*

President Rene announced ministerial and principal secretary changes. Minister Patrick Pillay became the new Minister for Health. Minister Jacquelin Dugasse, moved to the Ministry of Industries and International Business. Mr. Joel Morgan, the Principal Secretary for Industries and International Business, moved to the Ministry of Land Use and Habitat. Mr. Joseph Nourrice from Land Use and Habitat became the new Principal Secretary for Industries and International Business.

*New Boeing
767-300ER
for Air
Seychelles*

In April Air Seychelles' new Boeing 767-300ER arrived. The national airline's Chief Executive (CEO), Captain David Savy, described it as a boost to the country's tourist

market in Europe. The new 246-seat aircraft, carries the name “Aldabra” from the older Boeing 767-200ER.

May

Inauguration of USAIM

Education Minister Danny Faure inaugurated the University of Seychelles-American Institute of Medecine (USAIM) in a ceremony attended by other government ministers, the new institutions administrators, top medical personnel and members of the diplomatic corps.

Amendment to Acts approved

The National Assembly supported the Government’s effort to ensure equitable distribution of foreign exchange earned in the country’s economy by approving amendments to strengthen legislation governing all transactions that deal in foreign exchange. The amendments were: the Foreign Earnings (Regulations) Act, Exchange Control Act, Central Bank of Seychelles Act, Trades Tax Act and Licences Act.

Appointment of controllers

President France Albert Rene announced the appointment of three controllers under the amendments to laws governing foreign exchange transactions in Seychelles. Mr Pierre Laporte was appointed as Exchange Controller, Dr Peter Larose as Banking Controller and Mr Patrick Vel as Price and Import Controller. He also announced the appointment of Mr Francis Chang-Leng as Governor of the Central Bank, and Mr Mukesh Valabhji as Presidential Economic Advisor.

June

Inauguration of sewage treatment works

Vice-President Mr James Michel inaugurated the R100 million Greater Victoria sewage Treatment works at Providence. The system has a capacity to treat as much as 7000 litres of sewage daily and is designed to cater for the needs of Victoria for the next 20 years.

President inaugurate Praslin Airport

President France Albert Rene inaugurated Praslin Airport at Amitie. He said the rebuilt state-of-the-art airport is a key tool for tourism development on the island and represents another important achievement by the Government for the people of Seychelles.

July

Seychelles biggest cargo ship

Seychelles acquired its biggest inter-island cargo ship, Praslin Dolphin, which has a cargo capacity of 200 tonnes. The 34-metre long and 8.2-metre wide vessel belongs to company Praslin Dolphin Ltd and was built by island Network in Sibou, Malaysia.

August

*Exports of
beauty*

Yve's Pty Ltd, local distributor of UK- made Topaz made history in Seychelles when it exported its first eight-tonne consignment of beauty products and toiletries to Madagascar. The co-owner of the company, Mrs Yvette Breithaupt, expressed hope that the new venture would contribute in increasing foreign exchange inflows.

September

*Desalina-
tion project*

South African company Biwater and the Government of Seychelles signed a contract to build desalination plants on all three main islands within 16 months. The US\$29 million project, to which the government is contributing R22 million, will deliver an additional daily total of 20,900 cubic metres of water into Seychelles's distribution network.

October

*US\$750
million
indemnity*

The Seychelles Government issued an indemnity worth US\$750m to the national airline's insurers. This was required to keep the carrier air-borne in the wake of the September 11 terrorist attacks in the United States. The Seychelles Government has made it clear that it will do everything possible to ensure the continued viability and survival of the airline, which carries 70 per cent of all tourist traffic to and from the country.

November

*New Boeing
737-700*

Air Seychelles acquired the services of a new Boeing 737-700 aircraft, named Amirantes. The new aircraft is to be used on regional routes and thus release the other two Boeing 767-300s to longer distance journeys to Europe.

December

*New pasta
plant*

The Seychelles Marketing Board (SMB) installed a new R2 million pasta manufacturing plant at its Bois de Rose premises. SMB is expected to meet the country's growing demand for the wheat products, currently estimated to be 18-22 tonnes per month.

*Budget 2002
approved*

The Budget for 2002 was approved by the National Assembly. In his Budget speech Mr James Michel, the Minister for Finance announced a new housing scheme to allow families to buy their homes at a discount, a reduction in the airport tax for residents from R500 to R250 and the intensification of the war on price increase.

SECTION ONE

World Economic Conditions

1. Overview

In the year 2000, there were bright prospects for the world economy after attaining its fastest pace of growth for over a decade and a half. With the exception of Japan, healthy growth figures were being recorded in all the main industrialised economies. The world's largest economy, the United States was growing at 4.0 per cent annually, stimulating demand from around the world and inspiring exports particularly from Asia. However, towards the end of the year and during 2001, global economic activity slowed down significantly. Firstly, this was due to the downturn in the performance of advanced economies, particularly the US. Secondly, there was a moderation in growth in a number of emerging market countries. It was estimated that in general, in 2001, no growth was recorded in per capita world output.

Growth eased in response to the impact of higher prices on purchasing power (oil prices) and weaker business confidence in addition to spill over effects of the US

slowdown. In the year 2001, of the Group of Seven (G7) leading high-income economies, initial indications were that only the UK had a reasonable chance of performing in line with its long-term trend and escape the recession that was first experienced in Japan.

In attempts to boost the economy and limit the impact of the downturn, the main industrialised economies, eased their monetary policy. After attaining its highest level the preceding year, interest rates were reduced significantly with the hope to improve global liquidity conditions. Nevertheless, some tightening of monetary policy were however found appropriate, largely reflecting the growing financial problems in countries like Argentina.

With the contraction of the previously booming IT-related industry, global demand was severely affected, although the recent decline in oil prices were boosting some other industries by helping to contain inflationary pressures. Oil

prices and production outlook however remained highly uncertain. During 2001, the world price of petroleum fell to US\$ 20.48 per barrel from US\$ 32 a barrel at the start of the year.

To add to the world economic difficulties, on September 11, there was a terrorist attack in New York and Washington that resulted in an immediate blow to future growth prospects, following the consequential increase in uncertainty and slip in confidence. Surprisingly, in spite of the global slowdown, countries like China, India and Russia, recorded rapid economic growth over the period, proving that some parts of the world were rather resilient to international events.

1.1 Developed Countries

1.1.1 United States

In the USA, since the beginning of the year, there were already indications of weakening economic activity. That, prompted the Federal Reserve Open Market Committee (FOMC) to reduce interest rates on January 3, for the first time since late 1998, in a bid to improve global liquidity condition and confidence amid weakening sales and production. As early as in the first quarter, there were reports that the world most powerful economy slowed to a near standstill. Consequently, these were expected to lead the rest of the world to recession, given that global activity remained dependent on developments in the US.

Based on some initial findings, up to mid-year consumer spending and earlier increase in government expenditure were supporting the economy in attaining expansion in GDP. Consumer and business confidence however deteriorated thereafter, which led to falling imports as well as exports. There was also weakening business profits and capital spending, although household expenditure was relatively stable. Even if the long-term prospect for domestic economic expansion and productivity was still favourable, the economy started to show signs of weak employment, productivity and corporate investments. Notwithstanding the fact that the US official GDP figure from January to June was still showing expansion, there were also early signs that the world largest economy would enter into a recession.

The persistence weakness in business and consumer confidence was unfortunately aggravated by the terrorist attacks on September 11. The event had immediate adverse effects on world economic conditions, forcing policy-makers to adopt urgent policy adjustments. In a bid to limit the effects of the attacks, the Federal Reserve cut interest rates further, prompting other major central banks to make a similar move in less than one week after the event. There was a significant blow to confidence and increase in uncertainty about the US that led to contraction in household and business

expenditure. Nevertheless, the main industry to be severely affected was tourism and travel. The aftermaths of the incident forced leading travel and tourism industry associations worldwide to collaborate and seek the assistance of governments, to collectively address concerns that were being faced by the industry – a US\$ 15 billion aid package was subsequently approved in the US. Many airlines were forced to reduce employment as the global airline industry contracted with the repercussions of the event spreading within the USA and internationally. Hundred of thousands of travel-related employments were lost with airlines reported to be operating 40 per cent – 50 per cent below capacity. Estimated job losses in New York City alone were 100,000, amongst which, many were in financial services, the state's main economic engine. There was a significant reduction in the hotel occupancy rate in Washington DC. The loss of business to travel agents after the attacks was estimated at US\$ 51 million per day. The national economy is expected to have lost US\$ 639 billion, based on reduction in annual GDP.

In the year 2001, the month of September was believed to be the poorest monthly performance in economic activity for the US economy. Not surprisingly therefore, GDP for the third quarter declined in output by 0.4 per cent, to represent the worst achievement in US quarter three

GDP since 1991. Many views were that the US economy was going to follow Japan to recession predicting a continued fall in GDP, although the long-term growth prospects remained favourable. Towards the end of the year, the US was unexpectedly showing signs of an upturn in activity. These were attributable to a fall in unemployment and benefit payments in addition to increases in income that was boosting consumer spending, restoring confidence and signalling rise in investments. December's unemployment figure fell by 5.8 per cent, to represent the first drop since May 2001. Even if job markets remained weak, overall job losses moderated and in December, personal income rose for the first time in four months.

Consumer spending, productivity and demand for services that were on a declining trend picked up towards the end of the year, after being boosted by the aggressive interest rates cuts – by 11 times in 2001. However, consumer spending that accounts for two-thirds of US economic activity, recorded the weakest increase in the States' annual retail sales since 1993. During the year, price index fell by 1.8 per cent after attaining an increase by 3.6 per cent the preceding year. Inflation remained low and stable with a recorded rise in CPI by only 1.6 per cent.

In the financial market, the US equity market fell, due to weak corporate earnings reports, a downward revision in technological valuation, tightening credit conditions and increase in expectations of the US slowdown in light of increasing uncertainty. However, confidence was expected to have been on the upward trend towards the end of the year.

In the three months ending December, GDP recorded a surprise expansion by an annualised rate of 0.2 per cent. This implied that if one was to stick to the definition of recession of two consecutive quarterly contractions in GDP, then, the US was not in recession during 2001. However, arguments supporting the alternative view was that the technical definition does not give a correctly enough representation of economic performance since it covers a “long” time period and may ignore performance of many important variables. It was argued that other indicators like movements in unemployment as well as that in income and prices on a monthly basis, for example, would give better indications of economic activity as opposed to the GDP figure on its own.

1.1.2 European Union

1.1.2.1 Eurozone economies

An early sign of the slowdown in the eurozone was visible in the decline in business confidence, even if consumer confidence, being backed by growth in

disposable income, remained strong at the start of the year. Bearing in mind monetary movements and inflationary pressures, the Governing Council of the European Central Bank (ECB) made its first interest rates cut during the second quarter of the year. In total the key ECB rates were revised downwards on four occasions during 2001.

In the second half of the year, growth prospects weakened as the world economic slowdown became more pronounced and unfolding development in the US following the September 11 incident was taking its own course. With weak external demand, lower investment confidence and slow moving domestic demand, commodity prices followed a downward trend and economic indications were pointing to a lower than expected real GDP growth rate. The easing of monetary policy amid low inflationary pressures was expected to stimulate domestic demand, following improvement in financing conditions in the euro area. Nevertheless, throughout 2001, economic activity remained weak with the expectation of an upswing in 2002.

All through the year, euro area real GDP growth rate year-on-year at the end of each quarter maintained a downward trend. The figure was expected to have declined from 3.4 per cent in 2000 to between 1.3 per cent – 1.7 per cent in 2001 while estimated inflation was around 2.6 per cent

– 2.8 per cent. Contractions in imports and exports were also expected. Although long-term growth prospects remained relatively strong in other regions, those in larger EU accession countries gradually deteriorated. In Poland, the weaker exports demand was aggravating the abating domestic economic environment. With regards to the outlook in the Czech Republic and Hungary, the situation remained relatively benign even if evidence of deterioration in growth prospects was cropping in. On the other hand, in Turkey according to the ECB, economic situation “remains particularly difficult” on expense of persistent high inflation amid sharp decline in consumption and investment demand.

In Russia however, economic outlook remained positive. There was stronger than expected influence on the economy owing to the favourable terms of trade and improved competitiveness experienced over the previous three years. Nevertheless, short to medium-term growth was expected to be hampered by the worsened global environment in addition to the recent decline in oil prices.

In the world third largest and euro area’s largest economy, outlook deteriorated amid the world slowdown. The downturn that became more pronounced in the second half of the year, which had hindered activity in Germany, was helping to drag the euro area to a recession. At the

end of 2001, the German economy grew by a mere 0.6 per cent, compared to 3.0 per cent the previous year, and representing its poorest performance since 1993 in particular the unemployment aspect was nearing the politically sensitive point. There was also concerned over the budget deficit that had widened to 2.6 per cent of GDP, from 1.2 per cent in 2000. It was believed to be a result of the tax cut implemented at the start of the year, in addition to the slowdown in global activities. On the other hand exports growth slowed to 5.1 per cent, from 13.2 per cent the previous year.

1.1.2.2 Non-eurozone economies

A preliminary overview of the UK’s economy concluded that in general, performance in 2001 was above that of many industrialised economies. However, according to the recent data released by the Office of National Statistics (ONS), GDP grew by just over 1.7 per cent, compared to 2.2 per cent the previous year. Unfortunately it was Britain’s worst performance since 1992 when the economy was recovering from its last recession.

In the first half of the year, signs of weakening in investment growth, fall in equity market and the forecasted effects of the foot and mouth disease on demand, output, and confidence were negatively impacting on the economic activity. Notwithstanding these, the effects of the

world slowdown were believed to be softening in outlook. Persuaded by the weaker than expected indicators of world economic activities and in line with attaining its long-term economic targets, monetary policy was substantially eased throughout the year whereby the Bank of England cut interest rates seven times to a 37-year low of 4.0 per cent.

The seven cuts in interest rates helped to restore business and consumer confidence in addition to investment growth. Strong performance in activity was apparent in retail spending, household borrowing and the housing market. Relatively high spending by the public and private sectors, stimulated growth and unlike some of the world main economies, the UK recorded no quarterly contraction in GDP during 2001. Nevertheless, some members of the Monetary Policy Committee saw the strong spending as being “unstable” as it was directly being financed from borrowing, and consequently expected to be held back with increase in indebtedness.

On the production side, performance declined during the year, with the most affected being the hi-tech industry and investments in that sector originated from the US, while in addition, the services sector recorded sluggish performance. The slowing global situation and weak firm domestic demand, encouraged output to be stimulated in the more sheltered

sectors, while those in the internationally exposed areas contracted.

In consideration of international competitions and also to some extent the persistent strong value of the sterling, downward pressures were being exerted on prices. There were reports of reduction in prices by companies of all sizes and in all sectors resulting in declining profit margin. Nevertheless, inflationary pressure stayed within its target and long-term trend, near 2.5 per cent.

In the labour market, unemployment was contained, although a moderate increase was recorded, especially towards the end of the year. The percentage of people out of work and claiming benefit was in general steady at 3.2 per cent and stayed below the European Union average, and the lowest among the G7 industrial countries.

1.1.3 Japan

From the start of the year, Japan showed signs of declining business and consumer confidence, which left little hope for improvement in growth prospects. The economy deteriorated as private consumption weakened in addition to a reduction in net exports and business fixed investments.

Industrial production declined substantially and these had adverse effects on employment and income indicators.

Japanese industrial output dropped by 7.9 per cent, to record the biggest fall in 26 years, when Japan's industry was shaken by the oil crisis. In December, the recorded decrease in year-on-year output was 14.9 per cent. Recent indicators support the view that manufacturing activity stayed frail for some time. In addition, housing investment was sluggish while public investment maintained a downward trend.

With falling sales figures, Japanese stores chose to slice prices: there were increasing evidence of persistent deflationary pressures as both consumer and wholesales prices maintained a downward trend. Import prices rose towards the end of the year due to continuing depreciation of the yen that was however insufficient to exert inflationary pressures. Deflationary forces are expected to persist during 2002 and year 2001 figures indicated that consumer prices fell by 0.7 per cent, for a record third year in a row.

In year 2001, Japan's trade surplus plunged 38 per cent to 6,611 bn yen, the biggest decline since 1970. The drop in December year-on-year was 18.4 per cent, reflecting the slower demand for Japanese exports amid the slowing global economy and relatively weaker domestic demand for imports as Japan struggled with recession. Japanese companies were faced with contracting demand in both the

domestic economy as well as in the US, and at the same time, with increasing competitions from neighbouring Asian countries. A number of companies were forced into bankruptcy after domestic demand failed to reach profitability levels. Some exporters (like carmakers) were however helped by the preceding falling value of the yen. Nevertheless, the US, China and South Korea were of the view that Japan may be using the yen depreciation to "exports its way out of recession".

Unemployment for the year rose steadily, increasing to 5.6 per cent in December as companies restructured or collapsed while deflation and diminishing domestic demand persisted. Increases in bankruptcies and insecurity about jobs were having damaging effects on consumer confidence. Spending by salaried households fell by 4.4 per cent in December on the year contrary to the 0.8 per cent decline recorded the previous year.

In the financial market, in bids to inspire the economy out of recession, the Bank of Japan intervened when necessary (and changed the guidelines for money market operations) to ensure smooth fund settlement and effective functioning of markets. More importantly, after the September 11 event, to make sure that ample liquidity was available, the Bank of Japan in effect returned to a zero-interest-

rate policy. The Bank also adopted a framework for further monetary stimulus; consequently, the overnight inter-bank interest rates and longer-term bond yields fell. In addition, interest rates were also lowered and at the end of the year, the official discount rate had been reduced to 0.1 per cent.

1.2 Developing Countries

In the face of the global economic slowdown, growth in developing countries fell to 2.3 per cent in 2001, in comparison to 5.8 per cent the previous year, mainly due to external factors. Growth in Africa remained almost unchanged in 2001 at around 3.4 per cent and is expected to increase slightly to about 3.5 per cent in 2002. From the UN's point of view, improved agricultural conditions and more political stability were expected to boost growth figures. It is expected that an end to violence in some African nations would revive investors and consumer confidence, while some of the poorest African countries, including Benin, Ethiopia, Mali, Niger and Senegal, are expected to benefit from debt relief.

In year 2001, the contraction of the communications and technology sectors, and the region's trade relationship with the US had significant adverse effects on most East Asian economies. It was forecasted that a recovery in exports and stimulative policies would push economies of the region into achieving positive growth

figures by mid-2002. In China however, albeit the global downturn, the Chinese economy, finished the year 2001 with a positive growth figure of 7.3 per cent, with expectation of the economy remaining robust during 2002. An exceptional achievement.

1.2.2 Asia

In the slowing global economic environment, imports in the **Philippines** declined at its fastest pace in almost three years in November. The fall in imports was associated with the contraction in the technological industry. Imports plunged by 23.6 per cent compared to the previous year to about US\$ 2 billion, to represent the biggest drop since December 1998. The decline in imports was due to reduction in orders from the US and Japan by manufacturers. Falling imports of electronic components also resulted in a direct contraction in exports of electronic goods. The government estimated that the drop in exports (by 15 per cent in 2001) slowed the economy to about 3.3 per cent in 2001, from 3.9 per cent in 2000. The economy was however expected to grow by about 4.5 per cent in 2002.

Singapore, one of Asia's strongest economy suffered its worst recession in four decades – the trade dependent economy shrunk by 20 per cent in 2001, contrary to a 9.9 per cent growth the previous year that made it Asia's best performer. The year 2001's outcome was

associated with the contraction in global electronic industry that contributes to more than half of the output in the all-important manufacturing sector, that itself accounts for 22 per cent of GDP. The situation has been worsened by the sharp slowdown in the US, drop in global demand for IT-related products and contraction in Asian economies.

During 2001, **Malaysia** recorded a trade surplus of 53.7 bn ringgit (about 14bn US\$), despite the global economic slowdown. The recorded figure was 13.1 per cent lower than the previous year. Both exports and imports fell in 2001, by 10.4 per cent and 9.9 per cent respectively. Exports in comparison to main exporting partners declined, with the exception of exports to China and France, where a rise was attained. Nevertheless, imports from

China rose, continuing the trend, which started since March 2001.

1.2.3 Latin America

Overall, the year 2001 was a disappointing one for Latin American bloc. The regional GDP estimates for the region was flat and therefore, in consideration of population growth, this implied falling living standards. These countries were affected by the economic slowdown in the developed economies, particularly the US, instability in world financial markets and falling prices for commodities. However, during the year 2001, the Argentinean crisis overshadowed other developments in the region. The table below shows the estimated Real GDP growth and inflation forecast for some Latin American countries, based on a country briefing from the Economist Intelligent Unit (EIU).

	Year 2001	
	Real GDP Growth (%)	Inflation Forecast (consumer prices, average % change)
Argentina	-3.5	-0.8
Brazil	1.6	6.7
Chile	3.1	3.6
Colombia	1.8	8.0
Ecuador	4.2	37.7
Mexico	-0.9	6.5
Peru	-0.7	2.0
Venezuela	3.5	12.6

Source: EIU

In **Argentina**, the effects of worsening performance following increasing years of negative growth became more pronounced in 2001. Consumption and welfare declined considerably as a result of cuts in public wages and pensions, while investments and employment level fell due to deterioration in business environment. Overall, economic activity remained stagnant as domestic demand weakened.

In the financial market, the situation worsened as confidence in the peso deteriorated and the market collapsed. The Government was forced to impose restrictions on withdrawals from banks and on access to US dollars from transactions abroad. Shocks from Argentina's financial market were spread to the Asian markets classified or placed in the same investment basket by overseas investors. Consequently, fund manager's attentions were switched from Argentina to countries having the same economic profile, like the Philippines for example. International investors' confidence was reduced significantly when Argentina failed to receive financial assistance from the IMF after the former could not meet the originally proposed fiscal target. While monitoring the country's economic plans, the IMF has in recent years paid US\$ 40 billion to Argentina. Throughout 2001, the country deferred payments on its foreign debt and was also "forced" to delay other payment obligations – at the

end of December, total debt suspended stood at US\$ 141 billion.

In **Brazil**, slowing deflationary pressures triggered by lower fuel prices and strengthening of the domestic currency, created favourable conditions for a reduction in interest rates in year 2002. This was after the central bank had raised interest rates five times, by 375 basis points since February 2001. The tightening of monetary policy during 2001 was to reduce the upward pressures on prices, triggered by a tumble in the currency, by 30 per cent in the first three quarters of the year.

In **Mexico**, historically low inflation improved investment prospects, especially in the agricultural sector. The country's annual inflation rate fell from 9.0 per cent to 4.4 per cent in 2001, the lowest level since inflation information first recorded in 1968. This was believed to be associated with the stronger currency and a slowing economy that helped to restrain the rise in consumer prices. The inflation target for the year was 6.5 per cent and the attained rate was accompanied by considerable drop in real and nominal interest rates. The currency (peso) gained 5.08 per cent against the US\$ even as the economy contracted. The falling inflation also reduced financial risks, although some small business owners and consumers awaits recovery in the US, to

which 90 per cent of Mexican exports goes. It was however forecasted that a weaker Mexican peso could reverse the slowing inflation trend. The Bank of Mexico estimated that GDP for the year contracted by 0.3 per cent in real terms and the economy experienced its first recession since 1995.

1.2.3 The Middle East and Africa

Two of the main factors that continued to influence economic activities in the Middle East and Africa were the price of oil, a legacy of economic policies and structures that had emphasised a leading role for the states. The economically diverse region that includes oil-rich economies of the gulf to resources-scarce countries in relation to population was not isolated from the world economic slowdown. More importantly, the decline in oil prices had direct effects on performance of many of these countries. In Africa, economic and social developments continued to be affected by the AIDS epidemic, which had directly offset the recent slight rise in life expectancy.

In **South Africa**, the economic engine of the African continent, economic growth in year 2001 was 2.9 per cent and was expected to be 3.1 per cent the following year. Nevertheless, development in the global environment resulted in slowing growth in real value-added by the manufacturing sector, while agricultural

output declined compared to the previous year. There were also signs of falling employment that was more subdued than in any of the preceding five years.

In **Ghana**, the positive macro-economic trend that started at the beginning of the year continued, while inflationary pressure was on a declining trend. Growth figures was estimated at 5.8 per cent in 2001 and expected to be maintained at 5.3 per cent the preceding year.

However, in **Zimbabwe**, growth prospect in 2001 deteriorated compared to the previous year, and was expected to worsen in 2002. Faced with increasing inflationary pressures and rising unemployment in addition to worsening political crisis, the economy contracted by 6.6 per cent, compared to 5.5 per cent the previous year.

Given the year 2001 performance, the very diverse nature of the African continent and improvement in investment environment, growth prospect was expected to improve in 2002. Based on a joint report by the Organisation for Economic Cooperation and Development (OECD) and the African Development Bank (ADB), growth in Africa in 2002 is expected to be at least two percentage points above that of industrialised nations. This was believed to be attainable from increasing foreign investment inflows. The study stated that although many African countries have not

capitalised on the benefits of globalisation, some have been able to do so which could be equally successful elsewhere in Africa. Nevertheless, growth figure for the whole continent was estimated by the Organisation for Economic Co-operation and Development (OECD) and the African Development Bank (ADB) at 3.4 per cent in 2001 compared to 3.2 per cent the previous year.

2. World economic outlook

following the September 11 event

Unfolding developments following the September 11 event on the US, deteriorated global economic outlook sharply and consequently hampered growth prospects in all major regions of the world. Following the immediate increase in uncertainty and confidence, the projected world outlook was re-assessed and the IMF, like many organisations, revised its growth forecast downwards. The attacks had sudden impact on demand and activity, especially in the US; it weakened consumer and business confidence further and in the financial market, there was a general shift away from risky assets. There was a huge deterioration in financial conditions of emerging countries and a fall in commodity prices as business activity shrunk and unemployment swelled.

However, according to an IMF special report released after the incident, many factors exist in the global environment to

help stimulate an upturn in activity: policy-makers' intervention to help boost activity had been quick with aggressive easing of monetary policy in all major economies; oil prices have fallen sharply even if not to the advantage of vulnerably poor oil-exporting countries; and the existence of favourable economic conditions like low inflation, generally improved fiscal positions in many emerging markets, especially in Asia, and other supportive factors to domestic demand. Nevertheless, the question of uncertainty and possible external shocks has not been ruled out. Furthermore, the time lag in implementation of structural reforms, particularly in Japan and the euro area may help to retard the eventual upturn in activity. The IMF projected a deeper than expected and more prolonged global slowdown in GDP growth rate of about 2.4 per cent, 0.2 per cent less than the original forecast.

3. Currency movements

3.1 Movements of world's major currencies

At the start of the year, increasing uncertainty surrounding growth prospects, particularly the sluggish activity in the US and Japan, resulted in the foreign exchange markets being characterised by relatively high volatility. However, the euro, the common currency of the 12 member countries of Western Europe, remained fairly stable at the start of the year and was around its average of the

year 2000, at US\$ 0.92. Nevertheless, against the Japanese yen, it appreciated due to depreciation of the yen.

After a bright start, the euro inevitably fell to a year low of US\$ 0.837 in early July. According to analysts, the drop reflected the “unfavourable comparison” of the monetary situation in the US and euro area. Unlike the traditional expectations that lower interest rates weaken a currency as it becomes less attractive to investors, due to the market’s focus on economic growth, each cut by the Federal Reserve gave a temporary boost to the dollar. These were associated with views that the ECB’s decision-making was unpredictable in comparison to that of the Federal Reserve.

However, like in recent years, the euro recovered in the summer months and appreciated by about 9.0 per cent, to US\$ 0.92 towards the end of August, which provoked speculations about the strength of the US dollar. There were views that the demand for US dollar fell as the earlier expected recovery before July failed to materialise.

In September, developments in the foreign exchange market were dominated by the September 11 incident in the US, which resulted in a temporary upsurge in market uncertainty. At that moment, according to the ECB, this appeared to “have shifted the markets’ sentiment on exchange rates”.

Consequently, some downward pressures were being observed following the urgent intervention by the Japanese authority to avoid further unanticipated depreciation of the domestic currency. One of the currencies to gain from these movements was the Swiss franc, which in general strengthened. The depreciation of the US dollar however caused weakening in currencies of emerging markets because of their dependent on the US dollar. However, in the third week of September, the yen rose against the US dollar to its highest level in six months, which prompted further interventions by the Japanese authority.

Following the terrorist attacks, the euro appreciated above US\$ 0.93, six days later when the US equity markets reopened, subsequent to their first suspension since the Great Depression. Nevertheless, with investors’ focus on growth prospects, and seeing the US as the economy to lead the upturn in activity, the US dollar regained its strength.

In year 2001, the US dollar appreciated against most of the main currencies and was associated to the rising long-term US bond yields. At the end of December, the euro remained broadly stable against the US dollar and Swiss franc but depreciated against the pound sterling. During 2001, the foreign exchange market was marked by the steady depreciation of the Japanese yen against the euro and the US dollar,

which portrayed the protracted weakness of the Japanese economy.

The table below summarises the average exchange rate against the US dollar for year 2000 and 2001.

Average rates of exchange in year 2000/2001

(Currency unit per US\$)

<u>Currency</u>	<u>2001</u>	<u>2000</u>	<u>Currency</u>
Movements			
Depreciation (%)			
Australian Dollar	1.9346	1.7197	12.5
Canadian Dollar	1.5487	1.4855	4.3
Chinese Yuan	8.2770	8.2784	-0.02
Danish Krone	8.3323	8.0953	2.9
Euro	1.1171	1.0832	3.13
Hong Kong Dollar	7.7997	7.7924	0.09
Japanese Yen	121.6	107.8	12.8
Singapore Dollar	1.793	1.725	3.9
South African Rand	8.6093	6.9468	23.9
Pound Sterling	0.6946	0.6598	5.3

Source: Federal Reserve

4. Trade and investment

4.1. World trade

The slowdown in global activity was associated with an extensively anticipated deceleration in world trade. Expenditure on information technological products, which boosted the outstanding performance in many regions the previous year, contracted considerably to trigger the sharper-than-expected downturn. This was subsequent to the sharp decline in share prices on major stock exchanges, the impact of which was apparent on investment and production sectors. Falling oil prices have however helped

improve trade situation for some oil importing countries and kept inflationary pressures contained. The September 11 event, which hampered growth prospects internationally, unfortunately deteriorated trade outlook. In Japan for example, the year 2001 recorded its worst performance in years, following contraction in exports while imports recorded moderate growth.

The prices of internationally traded goods were nevertheless dropped due to low-level inflation of the major trades in Western Europe and in Asia. As early as in the first half of the year, world trade had

already contracted compared to the previous year. Exports and imports of office and telecommunication equipments reported above 10 per cent drops in value. Trade in Japan and developing countries of Asia reduced even if in other more fortunate countries, like China for example, trade situations remained robust. Towards the end of the year, uncertainty surrounding trade and growth developments expanded amid lower growth forecast. At the end of the year, world merchandise exports were expected to grow by only 2.0 per cent in contrast to the 7.0 per cent earlier forecasted. In Western Europe and the transition economies, the projected growth in trade was around the 2.0 per cent global forecast

while that of North America was expected to be below this average.

4.1. World investment

Due to the sharp global downturn in addition to the economic crisis in Argentina and Turkey, the year 2001 experienced a subdued investment outlook, especially in the emerging markets. In the developing economies, this has been affected by political instability and uncertainty, which have been aggravated by the September 11 incident. However, the situation was expected to improve, subsequent to an upturn in activity in the US, on which the global economic performance remained dependent.

SECTION TWO

Highlights of the Seychelles Economy

Overview

A current review of the performance of the economy in 2001 reveals some signs of recovery and further strengthening of some key economic activities in the real economy relative to the past year or so. However, it should be noted on the outset that both external and domestic influences affected the overall outcome for the year under review. Externally, the continued recession in many parts of the world, coupled with the terrorist attacks in the US in September had an adverse effect on our main industry, tourism. This resulted in a 0.2 per cent fall in arrivals for the whole of 2001. Despite the fall in arrivals, there was an increase in revenue and it is expected that the industry would rebound in the coming year. On the domestic front, the foreign exchange shortage remained one of the underlying problems particularly to the industrial sector, which is now the second main economic activity.

With the introduction of the foreign exchange laws in June, it has helped to curb down a significant portion of the

parallel market activities and there has been an increase in the level of inflows going to the banking system.

Monetary Developments

In terms of monetary developments in 2001, there was a worsening in the movements of the main monetary aggregates, namely liquidity and credit, compared to 2000. There was an acceleration in the rate of growth of liquidity in 2001. The broad money aggregate, M2(p), rose by 11 per cent per cent compared to 8.2 per cent in the previous year. For domestic credit, the pace of growth was only marginally higher than in 2000. For the year 2001, credit grew by 11 per cent, an increase of 1 percentage point over that of last year's growth rate.

During the year, the Central Bank also changed one of the interest rates under its control. As of November 1, 2001, the maximum lending rate was abolished and it is now up to the commercial banks to set their own lending rates based on their

perceived risks. The only interest rate under the ambit of the Central Bank was the minimum savings rate, which remained fixed at 3.0 per cent.

Budgetary Outcome

The process of fiscal adjustment, which was set in a momentous drive in 1999 continued to be a focal point of the government's macroeconomic policy for the year 2001. Though the budgetary outcome was above what had been forecasted, when compared to the previous year, there has been some improvement, even though it was marginal. The outcome is also the third consecutive year of a reduction in the budget deficit, which put the government well on course to achieve a surplus in the next couple of years. The fiscal balance for the year 2001 amounted to a shortfall of R340 million, which was R1.8 million or 0.5 per cent below last year's outcome. The outcome was 9.3 per cent of the estimated GDP for 2001.

Balance of Payments

The year 2001 saw a deterioration in the external position of Seychelles as indicated by the Balance of Payments (BOP) estimates for the year. Following the significant improvement in the external sector in 2000, the widened gap between domestic demand and supply as indicated by the overall balance moved from a

surplus of R108 million in 2000 to a deficit of R101 million in the year under review. It was the higher growth in the deficit in the current account over the expansion in the capital and financial account, which caused the overall outflow of hard currency.

The worsening of the current account is explained by a one-off transaction under the Balance of Trade account. During the year under review, the national airline, Air Seychelles increased its fleet by replacing one of its Boeing 767-200 aircraft with another one of 767-300 in April and took one 737-700 in November. The April procurement was under a financial lease agreement for which the transaction has to be accounted for in the BOP calculations. It is for this inclusion that has caused the deterioration of the current account. Without this transaction the current account amounts to a shortfall of only R73 million a decline of R202 million relative to the previous year.

For the "capital & financial account", the net balance amounted to R542 million, for which a large proportion was accounted for by net foreign direct investment. Net FDI flows amounted to R283 million, was attributable to investment in Seychelles through equity capital. Equity capital represents investment mostly in the tourism industry in the 5-star establishments.

Exchange Rates

During the year under review, the Central Bank made a second revision to its pegged basket of currencies. The revision was made to reflect the changes in the two underlying indicators of the basket, namely tourism and trade. Secondly, the change was effected to incorporate the Euro currencies, the French franc, Italian lira and German mark into one single euro weight. This meant that the basket of currencies reduced from eight to six.

New Foreign Exchange measures in 2001

In June 2001 the government introduced a set of measures aimed at boosting foreign exchange earnings and to curb activity in the parallel market. The crux of the measures involved the amendment of the existing foreign exchange laws which provided for certain class of earners to accept payment for goods and services from non-residents in hard currency only and for these earnings to be routed through the domestic banking system. To this end, there has been a general increase in the amount collected through the system. Since July 2001, there has been a monthly average growth of 26 per cent in revenue collected through the banking system.

The Real Economy

Compared to the year 2000, the early indications showed that there has been an increase in output in the major economic sectors during the year under review. This has been the result of a combination of

stronger nominal growth and a moderation in the rate of inflation though the latter remain relatively high compared to the previous years. Central Bank estimated that real growth for the year under review was 0.9 per cent. Across the economy – from the primary, secondary and tertiary sectors – nominal output continued to expand despite the generally difficult conditions. Whilst most sectors of the economy continued to grow, the secondary and tertiary sectors proved to be the locomotives of growth during the year under review.

The pillars in the secondary sector remained the industrial sector, particularly manufacturing for which the most important activities have been tuna processing (canning) and building and construction. The tuna-canning factory, operated by the Indian Ocean Tuna Ltd (IOT), remained the country's biggest manufacturing entity in terms of employment, output and revenue, with a workforce of just over 2500 employees and turnover of R406 million. The latter was 33 per cent above the amount earned a year earlier. The company is expected to continue to perform well in the coming year through an increase in its output and revenue through exports of its different range of tuna products.

In the "building and construction" industry the ongoing housing projects of the government, the reclamation and private investment in new buildings, particularly

in the town area, have been among key factors enabling this industry to grow. Nevertheless, it depends to a significant extent on foreign exchange to maintain a stable level of activity.

In relation to the tertiary sector, which consists mainly of service activities, the most positive development in 2001 has been the continued growth of the tourism industry in terms of its value added, employment and foreign earnings, as a service-exporting activity. Tourism remained the principal service activity in 2001 generating 55 per cent of the country's foreign exchange earnings. The industry was not severely affected as previously thought as the fall in tourism arrivals stood at only 0.2 per cent compared to a 30 per cent decline in world tourism. Prior to the September 11 terrorist attack, the two most notable indicators of that sector had posted positive growth. With regards to visitor arrivals, a growth of 3.0 per cent was registered for the first nine months in relation to the same period in 2000. Likewise the second indicator, tourism income, posted an increase of 5.4 per cent.

Nevertheless, a new milestone was attained in 2001, as there was an 8.1 per cent growth in tourism income through banks, with inflows rising to a record R649 million. This increase stemmed partly from the new foreign exchange laws that were introduced in June and also the higher yielded hotels such as Lemuria. As

a result, the average per diem expenditure increased to R480. With the favourable outcome, the industry remains optimistic that there will be a rebound in activity in 2002.

Prices

As noted above, there was a general moderation in prices in 2001, which gave an average inflation rate of 6.0 per cent. This deceleration in the rate of inflation was mainly attributed to a significant decline in the prices of fish and to a lesser extent the prices of local non-fish products (food & non-food). A growth of 4.7 per cent was registered in the price of the local goods index, representing a slowdown, compared to a 7.2 per cent increase in the previous year. However, there was an increase in import prices from 4.4 per cent in 2000 to 8.4 per cent in the current year under review. The majority of imported products are invoiced in US dollars, and the year 2001 saw a further depreciation of rupee against the dollar. This explained partly the general increase in the prices of imports.

Offshore Developments

During the year, the offshore sector continued to flourish. Managed by the Seychelles International Business Authority (SIBA). Another 1,854 IBCs were registered with the authority. In addition, the Authority licensed eleven new companies to operate within the Industrial Trade Zone and also registered the same amount of trusts.

SECTION THREE

Financial Survey

1. Overview

The two monetary aggregates that the Central Bank monitors more closely are liquidity and credit growth. In 2000, these two indicators grew at a much slower pace and their growth rates were below double digits. However, during the year under review, both these aggregates registered an acceleration in their growth pattern, but it is worth noting that they remained below what were recorded in 1999 (*Charts 3.1 & 3.2*).

During the year under review, the rise in liquidity was influenced by the movement in both net foreign assets and domestic assets. Net foreign assets grew by 2.2 per cent, whilst domestic assets grew by 11 per cent. In terms of the movement in credit, it edged up by 1.0 percentage point relative to the previous year's growth. The rise in domestic credit in 2001 was influenced by both agents in the financial market, namely commercial banks and Central Bank. Their debt portfolios increased by 11 per cent. Loans and advances from the Development

bank however, grew less rapidly due to the contractions in credits to most economic sectors, portraying slowing activity in those small to medium size businesses.

As regards policy, which targets the financial system, there were a few changes last year. These changes were related mostly to two main indicators under the ambit of the Monetary Authority, both of the changes taking effect on November 1.

The first one is related to the maximum lending rate. As of that date, the maximum lending rate of 10.0 per cent no longer exists. The commercial banks are free to charge their interest rates on loans based on their perceived risks, except for loans under special status. The minimum savings rate was maintained at 3.0 per cent.

The second indicator that was changed is the local asset ratio (LAR). This requirement dictates the amount of government securities that commercial banks must hold in their portfolio of assets.

Since September 1998, this ratio stood at 70 per cent. As of November 1, it was reduced to 50 per cent.

2. Monetary Policy Instruments

Central Banks use monetary policy instruments to meet certain objectives, and in most cases, the main aim is to attain an environment of stable and low inflation. The Central Bank of Seychelles uses such instruments mostly to achieve a manageable liquidity level; to manage foreign currency flows, and to fine-tune interest rates.

2.1 Interest rate floor

Interest rates in Seychelles are generally stable, particularly those that are set by the monetary authority, namely the minimum savings rate and the maximum lending rate. The last time that the Central Bank made major revisions to the level of those two respective rates was in 1998. The Central Bank lowered these rates twice in that year, which brought the savings rate to 3.0 per cent and the maximum lending rate to 10.0 per cent.

In 2001, the Central Bank made a revision to one of those two rates, namely the maximum lending rate. As of November 1, the ceiling of 10.0 per cent no longer exist.

The commercial banks are free to set their own lending rates based on the perceived risks of the loans. As regards the minimum statutory savings rate, it remained unchanged at 3.0 per cent.

2.2 Minimum Reserve Requirement¹

One of the statutory requirements on the commercial banks is the minimum cash reserve ratio held at the Central Bank. This ratio, which is the percentage of a commercial bank's liabilities, remained unchanged at 2.5 per cent. During the year, all banks were able to maintain that directive.

2.3 Local Assets ratio²

The local assets ratio is an instrument that is used by the Central Bank to influence liquidity at commercial banks. In September 1998, in a monetary policy package, which involved a change in interest rates, the Bank also adjusted the local asset ratio. It was increased to 70 per cent from 50 per cent. In 2001, in anticipation of a new government housing scheme, which would be taken up by the commercial banks in the coming year, the Central Bank has as of November 1, reduced his ratio to 50 per cent. During 2001, all commercial banks operating in Seychelles were able to maintain this ratio.

¹ The minimum reserve requirement is a minimum ratio of cash reserves to eligible deposits that commercial banks are required to hold at the Central Bank. The higher is this ratio, the lower is the money multiplier, thus the monetary impact of new injections of liquidity. The minimum reserve requirement was set at 20 per cent on 16 November 1992. As from 15 September 1998, this ratio was lowered to 2.5 per cent (see Section Eight in this report for further details).

² With effect from 15 September 1998, the local assets ratio was raised from 50 per cent to 70 per cent.

2.4 Central Bank advances to banks³

Commercial banks can from time to time be in need of short-term liquidity. In order to meet these shortfalls in liquidity requirements, the commercial banks have recourse to the Central Bank short-term advances against their securities, which is repayable in fourteen days. In 2001, total advances to commercial banks fell by R231 million, or 48 per cent relative to the previous year.

This represents a significant reduction in the level of advances after attaining a growth rate of 53 per cent the year before. This has been the most recent contraction in advances to banks since 1998. From the total of R256 million disbursed by the Central Bank in 2001, R277 million was repaid over the period, leaving an average outstanding stock of R4.0 million. The banks actually repaid all of the advances taken during the year together with the outstanding amount of the previous year.

The fall in Central Bank's advances during the year under review represents an improvement in banks' liquidity position, which was also indicated by the fall in the ratio of credits to deposits.

2.5 Open-market operations⁴

Open market operations is a monetary tool used to control the level of liquidity in an economy. In 2001, a new government bond was issued and the existing government stock remained opened for subscription. In September, the government through the Central Bank issued a new Treasury bond with an authorised limit of R450 million. This bond has a maturity of three years and carries an interest rate of 7.5 per cent per annum.

3. Money Supply

In 2001, there was an upsurge in liquidity growth compared to the previous year. Movements in liquidity as measured by the changes in the broad money aggregate M2(p) showed a rise of 11 per cent, after having reduced significantly by 8.2 per cent at the end 2000 (*Tablet 3.1 & Chart 3.1*). The main influential factor explaining this acceleration in liquidity growth was due to a R4.2 million or 2.2 per cent increase in the country's net foreign assets in contrast to the R126 million reduction registered in the previous year. Domestic assets also influenced monetary growth during the year despite expanding at a slower pace than in 2000. In 2001, domestic assets growth slowed to 11 per cent down from 10 per cent a year earlier.

³ This is the sole standing facility offered by the Central Bank of Seychelles. Since September 1993, the rate on advances has been set at 50 basis points above the average of the last tender rate, rounded to 1/8 of 1 per cent.

⁴ Open market operations are purchased/ sales of financial securities by Central Bank in the open economy to regulate the money supply. Such instruments frequently used to mop up excess liquidity. The securities involved can be both short and long term.

Table 3.1
Monetary Survey;¹ 1996-2001

	1996	1997	1998	1999	2000	2001
	(R million)					
Net Foreign Assets²	93.3	49.9	-87.0	-68.9	-194.6	-190.5
Central Bank (net)	86.7	62.4	-57.9	-51.0	-132.3	-162.6
Commercial banks	6.6	-12.5	-29.1	-17.9	-62.3	-27.8
Domestic Assets	1982.6	2291.7	2998.5	3442.7	3864.3	4280.9
Claims on private sector	314.6	387.6	460.0	503.4	565.6	643.5
Claims on parastatals	75.9	71.8	55.9	42.6	20.2	10.8
Claims on government (net)	1592.1	1832.4	2482.7	2896.7	3278.5	3626.6
Total Assets	2075.9	2341.6	2911.5	3373.8	3669.7	4090.4
Money Supply, M2(p)	1847.6	2205.9	2567.8	3056.9	3306.5	3682.5
Money Supply, M2	1530.5	1987.8	2389.5	2908.9	3174.2	3554.8
Money, M1	473.8	648.7	780.6	1071.2	1137.5	1290.6
Currency with public	163.9	192.2	206.4	247.9	264.4	279.9
Demand deposits	309.9	456.5	574.2	823.3	873.1	1010.7
(of which parastatals)	80.1	117.8	124.5	174.4	182.7	232.7
Quasi-money	1056.7	1339.2	1608.9	1837.7	2036.7	2264.2
Time deposits	699.5	926.6	1123.9	1253.6	1394.6	1540.0
(of which parastatals)	60.8	107.0	119.0	126.5	177.5	183.9
Savings deposits	357.3	412.5	484.9	584.1	642.7	724.2
Pipeline deposits	317.1	218.0	178.3	148.0	132.3	127.7
Other items, net	228.3	135.7	343.7	316.9	363.2	407.9

Figures do not necessarily add up due to rounding.

¹ *End-of-period data.*

² *Excludes government balances abroad.*

With the exception of pipeline deposits that contracted due to continuous clearing, all the other components of the money supply registered growth. M1, which comprises of "currency with the public" and "demand deposits", picked up pace and grew by 14 per cent compared to 6.2 per cent in 2000. The movement in M1 was related to the significant increase in demand deposits, which expanded by 16 per cent, compared to 6.0 per cent in the previous year. The

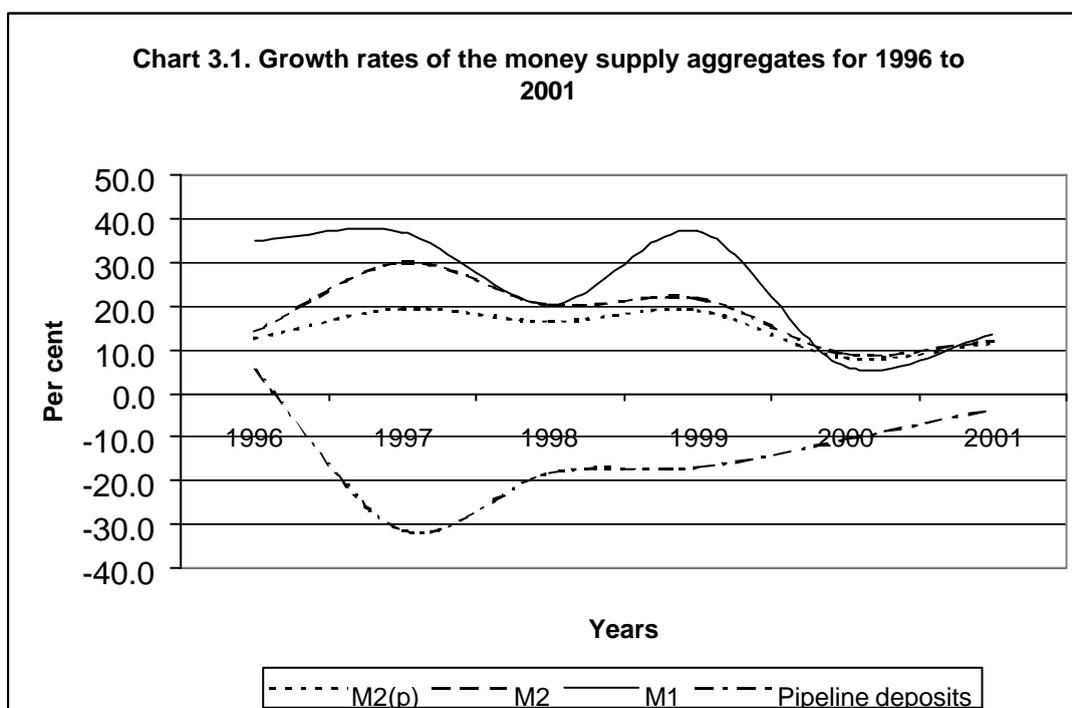
expansion in demand deposits was itself influenced by that of the private sector, which accounted for 77 per cent of total demand deposits. Private sector's demand deposits rose by R88 million or 13 per cent compared to the previous year.

However, for the second consecutive year, a slower growth rate of cash with the public was recorded. At the end of 2001, "currency with the public" grew by 5.9 per

cent compared to 6.7 per cent in the previous year. This reduction might be an indication that economic agents are using more the facility of e-money with the increasing outlets accepting debit cards as a means of payment.

The M2 definition of money, which is M1 plus quasi-money, increased by 12 per cent compared to 9.1 per cent in 2000. The growth in M2 was due to an 11 per cent

expansion in quasi-money, triggered by the growth in savings deposits, which increased by 13 per cent compared to 10 per cent in the preceding year. Nevertheless, time deposits, the major component of quasi-money, grew less rapidly, expanding by 11 per cent, which was about the same pace of growth than in the previous year and its ratio to quasi-money has remained fairly stable.



4. Net Foreign Assets

During 2001, there was a slight improvement in the position of the country's net foreign assets compared to the previous year. Although it remained negative, at the end of the year, the country's net foreign assets was *negative* R191 million, compared to *negative* R195

million in 2000. This represented an improvement of R4.2 million or 2.1 per cent compared to the preceding year.

The positive movement in the net foreign assets was due to the relatively significant improvement in foreign reserves held by the commercial banks, while that of the

Central Bank's declined. Commercial banks' net foreign assets bettered from *negative* R62 million in 2000 to *negative* R28 million in 2001, representing an improvement of R35 million, or 55 per cent. The Central Bank's foreign reserve however, dropped by R30 million, or 23 per cent over the same period. Consequently, its net foreign assets fell from *negative* R132 million, to *negative* R163 million.

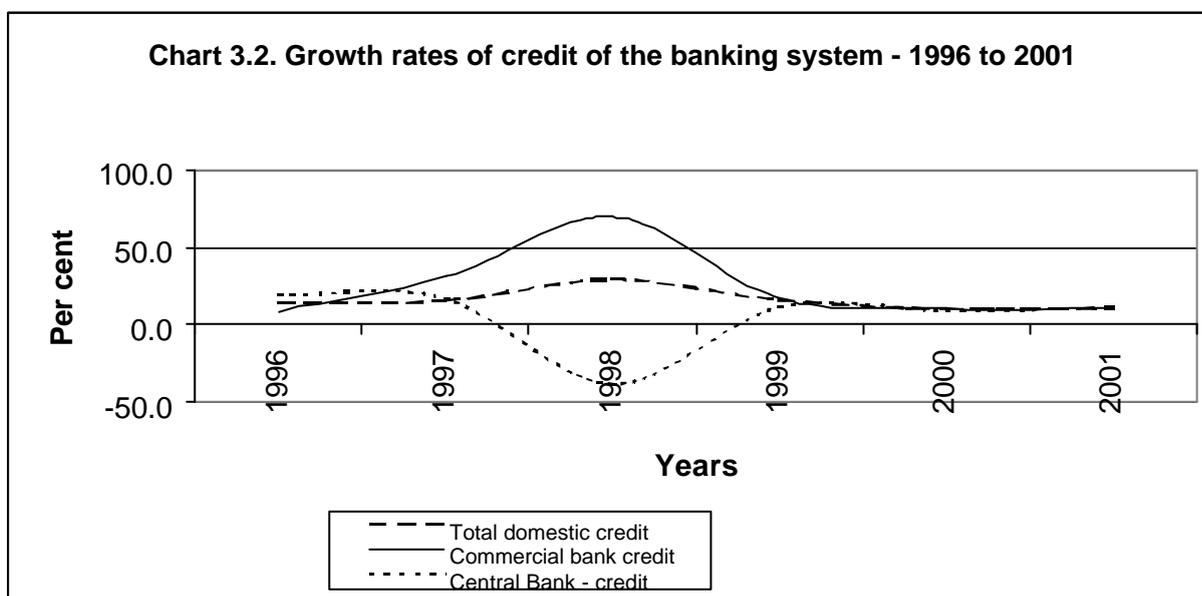
5. Domestic Credit

5.1 Central Bank and commercial banks' credit

Domestic credit has been one of the primary factors affecting monetary growth in the Seychelles economy. Therefore,

limiting its growth generally is a step in containing the liquidity overhang.

The government succeeded in reducing the pace of credit growth to 10 per cent in 2000, namely through the reduction of its budget deficit, which thus led to less recourse to financial resources. In 2001, total credit in the economy expanded by R440 million or 11 per cent (*Chart 3.2, Chart 3.3 & Table 3.2*). This growth in the year under review continued to portray the relative stability in credit growth over the past few years as witnessed in *Chart 3.2*. The credit expansion in 2001 was due to the increase in both commercial banks' and Central Bank's lending, which grew by 11 per cent.

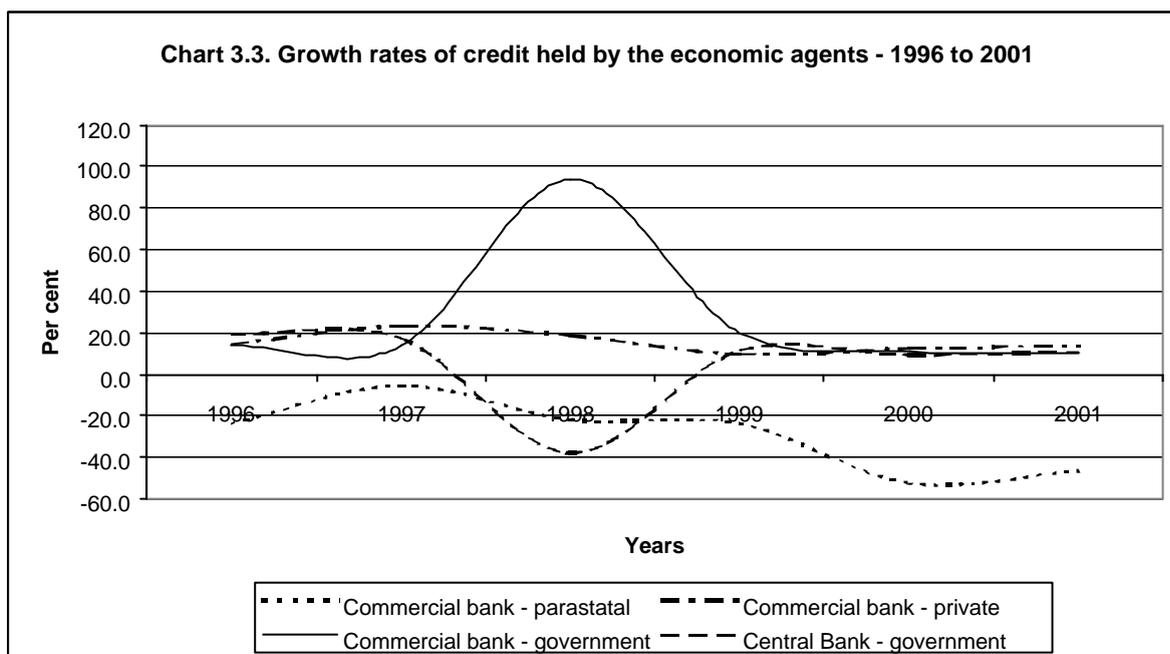


Being the case in recent years, the government remained the main borrower from commercial banks, and accounted for 83 per cent of banks' credit in 2001. This continued to be in the form of government

security holdings. Nevertheless, government borrowing from banks grew less rapidly in 2001, by 50 basis points below the 11 per cent in the preceding year.

Growth in commercial banks' credit to the private sector picked up pace and expanded by 14 per cent compared to 12 per cent in 2000. Borrowing by the parastatals continued to decline significantly, and at the end 2001, it had been reduced

considerably by 47 per cent, (*see Table 3.2*). Nevertheless, the pace of the contraction eased when compared to the former year, and moreover, claims on parastatals consisted of a mere 0.3 per cent of commercial banks' total credit.



Unlike with the commercial banks, lending by the Central Bank is only to the government. At the end of 2001, the increase in government borrowing stood at 11 per cent, compared to 9.2 per cent in 2000. The growth in borrowing by the government from the Central Bank was mainly in the form of advances. After having been significantly reduced by 37 per cent at the end of the year 2000, Central Bank's advances to the government picked

up pace and grew by 19 per cent by the end of 2001.

The Government remained the largest borrower in the economy, with the bulk of its debt portfolio being in the form of commercial bank claims, primarily in holdings of securities. At the end of the year, the government accounted for 86 per cent of total loans, while the private sector and the parastatals accounted for 14 per cent and 0.2 per cent, respectively.

Table 3.2
Credit,^{1/2} 1996-2001

	1996	1997	1998	1999	2000	2001
	(R million)					
Total Credit	2139.8	2473.0	3197.6	3712.8	4090.3	4529.9
Commercial banks	1349.4	1546.2	2622.6	3072.7	3391.5	3755.9
Claims on private sector	314.6	387.6	460.0	503.5	565.6	643.5
Claims on parastatals	75.9	71.8	55.9	42.6	20.2	10.8
Claims on government	958.9	1086.9	2106.7	2526.6	2805.7	3101.6
Of which:						
Dev. Fund Stocks	(68.6)	(82.0)	(89.1)	(96.2)	(100.7)	(139.7)
Treasury bonds	(308.0)	(326.1)	(1130.7)	(770.6)	(903.6)	(940.4)
Treasury bills	(471.9)	(608.8)	(832.2)	(1621.6)	(1777.1)	(1771.0)
Central Bank	790.5	926.8	575.0	640.1	698.8	774.0
Claims on government	790.5	926.8	575.0	640.1	698.8	774.0
Of which:						
Advances	(503.6)	(923.2)	(469.0)	(623.9)	(395.8)	(472.4)
Treasury bonds	(23.4)	(3.2)	(0.05)	(0.05)	(300.7)	(300.7)
Treasury bills	(259.9)	(0.4)	(106.0)	(16.2)	(2.3)	(1.0)

Figures do not necessarily add up due to rounding.

¹ *End-of period data.*

² *All figures for stocks, bonds and bills are at cost value.*

5.2 Sectoral Development of Credit to Private Sector and Parastatals

A closer look at commercial banks' credit to the non-government sector by economic activities gives an indication of the distributions of loans in the economy. In year 2001, a total of R654 million worth of credit was disbursed to the non-public sector, compared to R586 million the previous year.

Gross commercial banks' loans and advances therefore picked up pace and accelerated by 12 per cent compared to 7.3

per cent at the end of the preceding period. Mixed developments were once again observed in the distribution of commercial banks' credit to the various sectors of the economy. Loans to the "transportation" and "wholesale & retail trade" sectors contracted while those to the remaining sectors increased. The lower credit expansion in these two sectors, particularly the "wholesale & retail trade" sector, reflects the slowing activity associated with the persistent foreign exchange shortages experienced in the first half of the year.

Table 3.3
Commercial Banks – Loans and Advances
To Non-Government Sector by Economic Sectors;¹ 1997-2001

	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001
	(R million)					(per cent)				
Total Advances	459.3	515.8	546.0	585.8	654.1	100.0	100.0	100.0	100.0	100.0
Agriculture & fishing	26.7	26.6	26.6	11.6	13.9	5.8	5.2	4.9	2.0	2.1
Of which:										
Refinance scheme	18.8	18.3	18.8	3.1	1.5	4.1	3.5	3.4	0.5	0.2
Manufacturing	9.0	33.8	3.4	4.8	6.1	2.0	6.6	0.6	0.8	0.9
Of which:										
Refinance scheme	7.0	29.0	0.0	0.0	0.0	1.5	5.6	0.0	0.0	0.0
Construction	15.8	22.9	20.6	29.8	30.3	3.3	3.4	4.4	3.8	4.6
Transportation	14.6	8.6	4.8	4.7	4.5	3.2	1.7	0.9	0.8	0.7
Tourist facilities	82.2	75.1	87.4	107.7	140.8	17.9	14.6	16.0	18.4	21.5
Wholesale & Retail trade	64.0	58.8	51.3	38.7	37.7	13.9	11.4	9.4	6.6	5.8
Other businesses	69.8	81.9	104.6	99.5	102.7	15.2	15.9	19.2	17.0	15.7
Private households & Non-profit organisations	177.3	208.2	247.3	288.9	318.0	38.6	40.4	45.3	49.3	48.6
Of which										
Mortgage loans	93.0	80.5	114.2	156.6	177.4	20.2	15.6	20.9	26.7	27.1

Figures do not necessarily add up due to rounding.

¹ End-of-period data.

The most significant decrease in credit was to the “transportation” sector, which contracted by 5.4 per cent, reducing the share of credit to that sector slightly by 10 basis points to 0.7 per cent. Loans and advances to the “wholesale & retail trade” sector however, continued to shrink and fell by 2.6 per cent, bringing its share of total credit down from 6.6 per cent to 5.8 per cent.

The most notably increase was observed in credit granted to the “tourist facilities” sector, to which loans and advances expanded by 31 per cent in comparison to 23 per cent the previous year. The sector’s share of total loans and advances was increased from 18 per cent to 22 per cent.

The next major increase in credit was experienced by the “manufacturing” sector. Loans and advances to that sector expanded by 27 per cent compared to the preceding year. Nevertheless, this represents a slower pace of growth compared to 42 per cent recorded in the previous year and, in addition, credit to that sector accounted for only 0.9 per cent of commercial banks’ total loans and advances.

Loans and advances to the “private household and non-profit organisations” sector, which accounted for the majority of commercial banks’ credit, increased by R29 million or 10 per cent. This however was less rapid growth compared to the 17 per cent recorded at the end of the previous year.

5.3 Development Bank's Credit⁵

The Development Bank of Seychelles (DBS) caters for the implementation of economically sound, financially viable and productive projects, which are mainly undertaken by small to medium sized enterprises. Since these enterprises would not necessarily receive advances from the commercial banks because of the risks

involved, DBS offers an alternative and cheaper avenue for financial sources. This is advantageous to these enterprises because DBS normally lends for a longer duration than commercial banks. The development bank invests in industry-promoting sectors such as agriculture, fishing, tourism, industries, as well as other sectors as shown in *Table 3.4*.

Table 3.4
Loans by Development Bank by Economic Sectors;* 1997-2001

	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001
	(R million)					(per cent)				
Total Advances	196.0	209.2	205.3	223.3	230.8	100.0	100.0	100.0	100.0	100.0
Agriculture	6.4	7.3	6.8	6.2	5.1	3.2	3.5	3.3	2.8	2.2
Fishing	21.7	23.9	9.5	21.2	18.8	11.1	11.4	4.6	9.5	8.1
Industry	27.1	25.5	20.5	18.2	15.6	13.8	12.2	10.0	8.1	6.7
Tourism	103.8	99.4	98.0	89.9	103.8	52.9	47.5	47.7	40.3	45.0
Other services	37.2	53.1	70.5	87.8	87.6	18.9	25.4	34.4	39.3	37.9

*Figures do not necessarily add up due to rounding.
End-of-period data.*

From the *Table 3.4*, it can be observed that at the end the year 2001, total DBS's advances increased by R7.5 million or 3.4 per cent, compared to the previous year. However, this expansion in credit was due to the increase in borrowings by the "tourism" sector only, which expanded by R14 million, or 15 per cent compared to the preceding year, while loans to all the remaining sectors contracted.

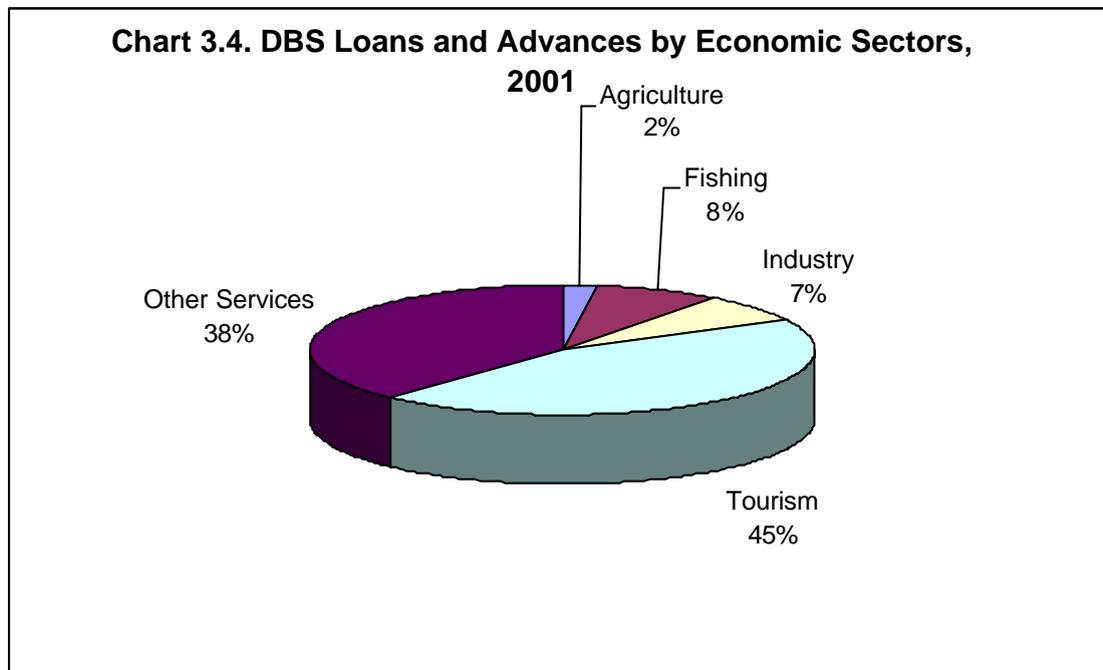
With the exception of loans to the "other services" sector, the contraction recorded in

DBS's credit by economic sector was above 10 per cent in all cases. The most significant decrease was in the "agriculture" sector, to which credit fell by 18 per cent at the end of 2001, compared to the previous year. Nevertheless, as can be seen from the *pie chart 3.4*, agriculture continued to account for the least percentage of DBS' total advances – 2.2 per cent. Nonetheless, it can be observed that during the year, in most of the small to medium sized enterprises, activity slowed significantly in the majority of economic sectors.

⁵ From 17 January 1994, the Development Bank of Seychelles provided credit to Seychellois investors at concessionary rate of 12 per cent per annum. To qualify as 'Seychellois', Seychellois nationals must own at least 50 per cent of the investment. The minimum contribution for the investor was raised to 25 per cent from 15 per cent at the same occasion. The Development Bank does not provide credit for purposes of working capital. Previously it had lend at 12 per cent per annum for loans in excess of R50,000, rates varied between 9 per cent and 11 per cent depending on economic sector. This rule had been implemented on 17 July 1991.

As has been the case in recent years, the “tourism” sector remained the dominant sector in terms of borrowing from DBS,

and in year 2001, it accounted for 45 per cent of the bank’s total advances.



6. Commercial Bank’s Liquidity

During the year 2001, both commercial banks’ credits and deposits increased in comparison to the previous year. The growth in credit was achieved by 11 per cent, while the expansion in deposits over the same period was by 13 per cent. At the end of 2001, the credit to deposit ratio of commercial banks contracted compared to the preceding year. After increasing slightly from 107.3 per cent in 1999 to 108.9 per cent the year after, in 2001, the

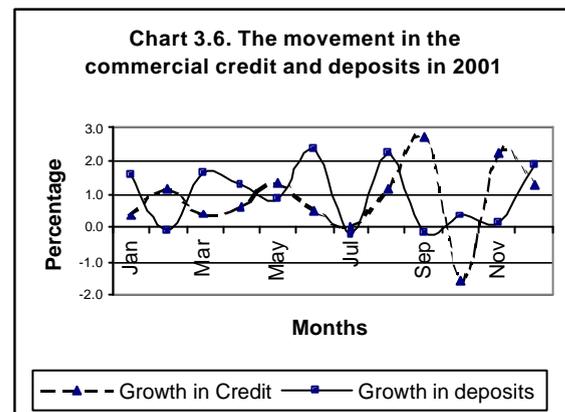
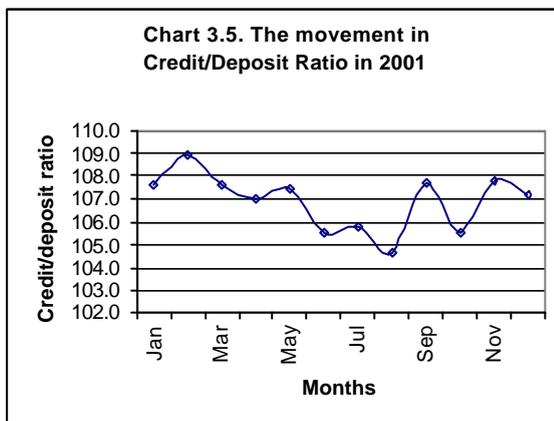
figure fell to 107.2 per cent, to about the same level attained in 1999. The decrease in the credit/deposit ratio signified the improvement in the liquidity position of commercial banks, which was also reflected in the reduction in Central Bank’s advances taken by banks during the year. As shown in *Chart 3.5*, there were fluctuations in the credit/deposit ratio, but the overall trend was downwards. *Chart 3.6* shows the movement in credit and deposits on a monthly basis during the year.

Table 3.5
Liquidity Indicators of Commercial Banks;¹ 1996-2001

	1996	1997	1998	1999	2000	2001
	(R million)					
Credit	1181.4	1546.2	2622.6	3072.7	3391.5	3755.9
Deposits	1311.5	1958.9	2364.0	2864.5	3114.3	3505.1
	(per cent)					
Credit-deposit ratio	90.1	78.9	110.9	107.3	108.9	107.2

Figures do not necessarily add up due to rounding.

¹ End-of-period data.



7. Interest rates

As stated earlier, during 2001, the minimum savings' rate remained at 3.0 per cent per annum, while as of November 1, there was no maximum lending rate. There was however, no movement in the yield on government treasury bills, as all three bills (91-day, 182-day and 365-day) continued to be issued on tap.

With the exception of interest rates on time deposits above twelve months, yields on all

other time deposits improved compared to the previous year. The biggest increase was by 220 basis points on deposits above three months to six months, while interest rates on deposits above six months to a year grew by a mere 2 basis points. The decrease in the weighted average interest rates on deposits above twelve months maturity was by 42 basis points to 4.72 per cent.

Since there was a change in the policy in relation to the interest rates ceiling, this was expected to have an effect on the average lending rates. However, as the change took effect on November 1, and the growth in credit was fairly stable towards the end of the period, this did not have a major

influence on the average lending rate during the year. Furthermore, given that some loans were taken prior to the change in policy, the volume-weighted average lending rate in 2001 was fairly stable at 11.1 per cent, when compared to the 11.5 per cent figure for the year 2000.

Table 3.6
Interest Rates;¹ 1996-2001

	1996	1997	1 9 9 8		1999	2000	2001
			Jan-Sep	Oct-Dec			
			(per cent)				
Volume-weighted average deposit rates:							
Savings rate	8.00	8.00	7.11	3.00	3.00	3.00	3.00
Time deposits							
7 days	8.36	7.86	7.11	2.75	2.93	2.79	2.89
> 7 days ≤ 3 months	9.90	9.20	8.03	6.03	5.13	4.77	4.92
> 3 months ≤ 6 months	9.44	9.11	8.77	6.94	4.71	4.76	4.98
> 6 months ≤ 12 months	10.50	9.91	9.31	7.64	5.05	4.29	4.31
> 12 months	11.30	8.46	7.18	5.23	5.13	5.14	4.72
Volume-weighted							
Average lending rate	16.21	14.88	14.88	12.92	12.01	11.45	11.14
91-day treasury bill rate	11.33	10.50	10.50	4.50	4.50	4.50	4.50

¹ Averages of quarterly data, compiled on an end-of-period basis, whereas that of the 91-day bill rate is the average of monthly data, compiled on an end-of-period basis.

SECTION FOUR

Government Finance

1. Overview

The process of fiscal adjustment, which was set in a momentous drive in 1999 continued to be a focal point of the government's macroeconomic policy for the year 2001. Though the budgetary outcome exceeded the forecasted figures when compared to the previous year, there has been some improvement, albeit marginal. The outcome is also the third consecutive year of a reduction in the

budget deficit, which put the government well on course to achieve a surplus in the next couple of years. As shown below in *Chart 4.1* and *Table 4.1*, the fiscal balance for the year 2001 amounted to a shortfall of R340 million, which was R1.8 million or 0.5 per cent below last year's outcome. In relation to the revised budgeted target, the outcome was above by R75 million or 28 per cent.

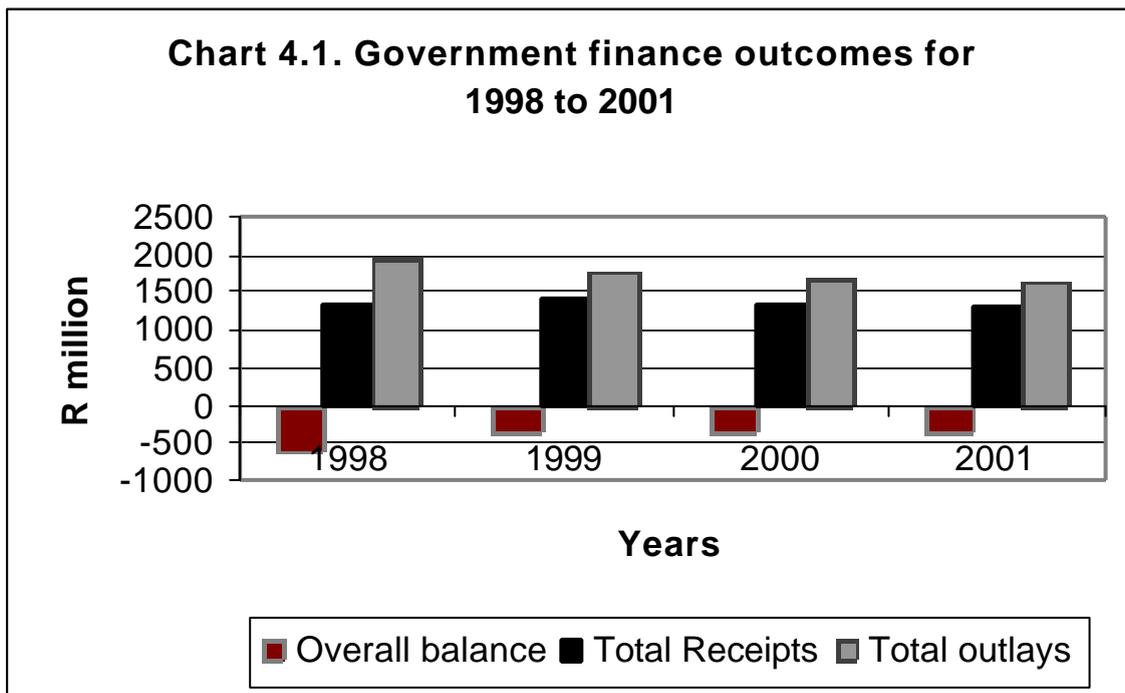


Table 4.1
Government Budget; 1999- 2002
Summary

	1999 Revised Budget	1999 Actual ¹	2000 Revised Budget	2000 Actual ¹	2001 Revised Budget	2001 Actual ¹	2002 Budget
	(R million)						
Total Receipts	1484	1440	1528	1333	1405	1289	1516
Current receipts	1400	1400	1477	1283	1389	1275	1488
Of which:							
Trades tax	[602]	[577]	[591]	[578]	[610]	[596]	[604]
Transfers from Social Security	[125]	[77]	[80]	[80]	[95]	[105]	[110]
Business/income tax	[182]	[223]	[205]	[244]	[219]	[228]	[240]
Grants	84	41	51	50	16	14	28
Total Outlays	1822	1788	1947	1675	1670	1630	1765
Current outlays	1314	1352	1440	1358	1488	1421	1625
Appropriation items	1060	1019	1149	1083	1244	1139	1306
Of which:							
Ministries/departments	[731]	[705]	[735]	[712]	[731]	[735]	[757]
Social Security contributions	[119]	[119]	[119]	[119]	[125]	[125]	[131]
Current outlays to parastatals	[32]	[32]	[33]	[35]	[72]	[46]	[101]
Charges	254	333	291	274	243	282	319
Of which:							
Interest payments	[243]	[322]	[280]	[263]	[231]	[265]	[307]
Capital outlays	457	402	461	463	263	197	219
Net lending	52	33	46	-145	-80	12	-80
Of which:							
Parastatals	[22]	[7]	[17]	[-47]	[-80]	[16]	[-80]
Primary Balance²	-95	-26	-139	-79	-34	-75	-59
Overall Balance	-338	-348	-419	-342	-265	-340	-248
Financing	338	348	419	342	265	340	248
Foreign loans (net)	47	-65	208	461	92	-62	552
Domestic loans (net)	271	447	210	9	173	429	-304
Cash movements	20	-34	0	-127	0	-27	0
Memorandum Items:							
Amortisation of loans	849	876	390	645	679	780	526
Foreign loans	91	100	112	40	90	220	306
Domestic loans	758	776	278	604	589	560	219

Figures do not necessarily add up due to rounding.

¹ These series are subject to audit and might be revised accordingly.

² The primary balance is obtained by excluding interest payments from the overall balance.

Source: Ministry of Finance

The R340 million deficit was the result of expenditure, which amounted to R1,630 million, exceeding revenue, which totalled R1,289 million. However, it was the shortfall in receipts that was the determining factor in explaining the overall outcome as spending came in below to the budgeted target. Total receipts were R116 million below expectations, which completely outweighed the savings in expenditure. The lower inflow for revenue was due to both of its components, namely current receipts and grants. Current receipts came in at R114 million below target, whilst grants were marginally lower by R1.8 million. The reduction in spending on the other hand was mainly due to two of its main headings – current and capital outlays – which were below their targeted levels by R67 million and R66 million respectively.

The only overrun was in net lending, where instead of a net repayment of R80 million, the government made a net lending of R12 million. One of the main reasons why the net repayment did not materialised during the year was because the government did not implement its proposed “home ownership scheme”.

The main source of budget financing came from the domestic market. Domestic borrowing amounted to R429 million on a net basis whilst the government made a net

repayment on its stock of foreign debt by R62 million. The remaining balance was made up for by an increase of R27 million in government’s cash balances, which is mainly held with the Central Bank.

Compared with the previous year, the shortfall in receipts over outlays narrowed by R1.8 million. The decline though marginal was due primarily to a cutback in government expenditure as receipts were lowered than in the previous year. Provisional government finance data shows that there was an abatement of R45 million in total spending compared to the 2000 level, mainly on account of capital expenditure. Contrary to the positive developments on the expenditure side, revenue declined by R43 million. This reduction was the result of lower revenue flows in both current and grant receipts. There were nonetheless, improved performances in certain categories of current revenue, most notably in the collection of transfers from Social Security Fund, trades tax and fishing licence fees, which exceeded their 2000 aggregate levels by R25 million, R18 million and R12 million respectively.

As mentioned above, the reduction in the deficit in the year under review was marginal, but it is gradually being reduced to a more sustainable level. The year 2001 is the third consecutive fiscal year whereby the government has been able to

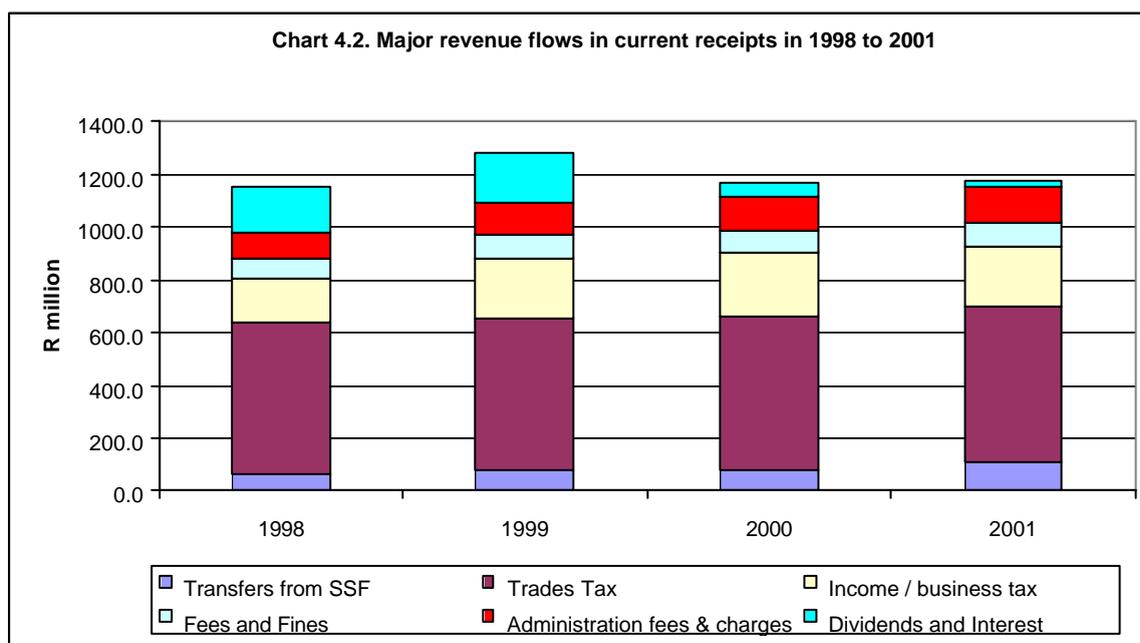
maintain this reduction and this shows the strong government's commitment in reducing the shortfall further and thus achieving a surplus. It is imperative therefore, that the other ministries and government agencies continue to give full support to the Ministry of Finance in its endeavour to bring down the deficit to a more sustainable level.

2. Revenue

Total government revenue amounted to R1,289 million, which was R116 million or 8.2 below forecast (*Table 4.2*). The fall in receipts was due to current receipts and grants. Nevertheless, the current receipts explained most of the decline, which stood at 98 per cent. At the outset, the fall in current revenue was mainly attributable to lower inflows from "dividends & interests" and "miscellaneous receipts", which together accounted for the bulk of

the shortfall. Grant receipts, which consist mainly of capital project grants, came in at R14 million, only R1.8 million below budget.

Trades tax remained the primary source of current income in 2001, totalling R596 million. "Income and business tax" also continued to account for an important share of total income, as did "administrative fees & charges" and "transfers from Social Security Fund". Through these channels, the government collected R228 million, R132 million and R105 million respectively. The evolution of the importance of these flows is shown below in *Chart 4.2*. It can be seen that the contribution of "transfers from Social Security Fund" and "administrative fees & charges" increased during the year when compared to the past three years.



Whilst trades tax continued to account for the largest share of fiscal revenue, the amount collected fell R14 million short of the budgeted R610 million. This shortfall was attributable to inflows from trades tax on locally manufactured goods and import duties, though trades tax on services also fell short of budget. At R172 million tax on locally manufactured goods represented a shortfall of R7.6 million whilst import duties fell by R4.9 million. Tax on services fell marginally by R1.2 million.

Notwithstanding the overall shortfall, trades tax collection for 2001 exceeded the 2000 level by R18 million. This was mainly explained by the increase in trades tax revenue on “miscellaneous manufactured articles”. Tax collected on this group of goods amounted to R30 million compared to R9.0 million in the previous year.

Table 4.2
Government Budget; 1999-2002
Revenue

	1999 Revised Budget	1999 Actual ¹	2000 Revised Budget	2000 Actual ¹	2001 Revised Budget	2001 Actual ¹	2002 Budget
	(R million)						
Total Receipts	1484	1440	1528	1333	1405	1289	1516
Current receipts	1400	1400	1477	1283	1389	1275	1488
Transfers from social security fund	125	77	80	80	95	105	110
Trades tax	602	577	591	578	610	596	604
Income/business tax	182	223	205	244	219	228	240
Other indirect taxes	54	52	41	44	41	41	45
Fees and fines	81	93	87	84	96	89	97
Administration fees and Charges	126	123	126	126	126	132	130
Rent and royalties	13	13	12	15	12	14	18
Income – public service	10	10	10	9	10	8	10
Dividends and interest	160	190	144	58	102	26	122
Reimbursements	45	32	26	38	36	33	40
Miscellaneous	2	11	156	5	42	3	72
Grants	84	41	51	50	16	14	28

Figures do not necessarily add up due to rounding.

¹ *These series are subject to audit and might be revised accordingly.*

Source: Ministry of Finance

Contrary to trades tax, “income & business tax” was R9.2 million or 4.2 per cent above the targeted R219 million. The higher amount collected relative to budget owed largely to the corporate sector for which the government received the bulk of the revenue. However, compared to last year, there was a decline in the revenue from this heading. In 2000, the government gained R244 million in “income & business tax”, which represented a fall of R16 million when compared with this year’s outcome. This was because there was a reduction of R18 million in business tax revenue received from companies, which outweighed the increases in the other headings of business tax.

“Administrative fees & charges” collected in 2001 totalled R132 million, surpassing the forecasted level by R5.8 million or 4.6 per cent. This occurred largely on account of higher inflows from “fees and charges” levied by the Ministries of Health and Tourism & Transport. For the Ministry of Health, the higher revenue earned was in respect of medical fees for which the government collected an amount of R3.1 million compared to the budgeted R1.7 million. For the Ministry of Tourism & Transport, the government gained increased revenue through “airline passenger fees” and “air navigation fees”. These headings recorded inflows of R43 million and R17 million. These outcomes were above their respective targets by

R7.8 million and R1.2 million. Compared to last year, as shown above in *Chart 4.2*, “administrative fees & charges” increased in the current year under review. This revenue item has risen by R5.7 million above the aggregate of 2000.

After falling short of budget in 1998 and 1999 and being on target in 2000, there was a higher than anticipated inflow in the year under review for “transfers from Social Security Fund”. Against a budgeted revenue of R95 million, the government received a total of R105 million, representing an increase of R10 million or 11 per cent. The increase in this revenue flow represents to some extent the increase in salaries in the public sector, which came into effect in June. This year’s outcome is also an improvement over last year’s aggregate total for “transfers from Social Security Fund”. It rose by R25 million, which has thus increased the share of this revenue item in total current revenue. From 6.2 per cent in 2000, it rose to 8.2 per cent in the year under review (*see Chart 4.2 above*).

As noted above, it was the shortfalls in “dividends & interests” and “miscellaneous receipts” that caused total current revenue to fall short of the target. “Dividends & interests” fell by R77 million and “miscellaneous receipts” fell by R39 million, which together make up for the bulk of the decline in current revenue relative to budget. The factor that

caused the decline in “dividends & interests” was lower revenue on government’s investment, which came in at R25 million compared to a target of R101 million. The lower than budgeted revenue was because flows from the Seychelles Marketing Board (SMB), Seychelles Petroleum (SEPEC) and State Assurance Corporation (SACOS) did not materialised as anticipated. For “miscellaneous receipts”, the reduced revenue compared to budget was due entirely to the “sales of assets” related to the “homeownership scheme”, which the government should have collected R40 million. With the scheme not being implemented during the year, this revenue was not received. Compared to last year, these two headings of current revenue continued to decline, this time by R32 million for “dividends & interests” and R2.6 million for “miscellaneous receipts”. For “dividends & interests”, it meant that its share in total current revenue became smaller, standing at 2.0 per cent compared

to 4.5 per cent a year earlier and 13 per cent in 1998 and 1999 (*see Chart 4.2 above*).

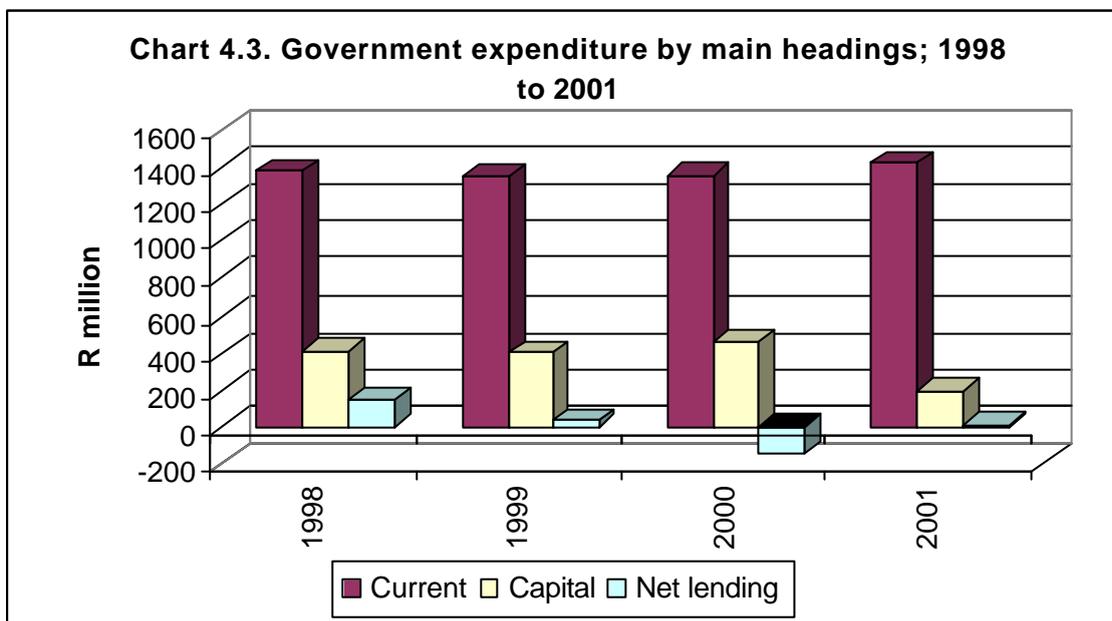
Relative to 2000, total revenue (current receipts plus grants) declined by R43 million to amount R1,289 million. This reduction stemmed primarily from a R36 million and R32 million decline in “grants” and “dividends & interests” and to some extent a R16 million fall in “income & business tax”. Despite these shortfalls, there were some notable increases. These were in terms of inflows from “transfers from Social Security Fund, “trades tax” and “administrative fees & charges”. They exceeded the 2000 aggregate level by R25 million, R18 million and R5.7 million respectively. This has also meant that their respective shares in total revenue have also increased over the four-year period of 1998 to 2001. These changes can be observed in *Chart 4.2* above and the respective shares over the period are shown in the table below.

	1998	1999	2000	2001
	Shares in total revenue (in %)			
Transfers from SSF	4.9	5.4	6.0	8.1
Trades tax	43	40	43	46
Administrative fees & charges	7.3	8.5	9.5	10

3. Expenditure

The government's efforts to curtail the growth in expenditure have been a success as is witnessed through the continuous reduction in total spending since 1999 (Chart 4.1, Chart 4.3, & Table 4.3). For 2001, government overall expenses amounted to R1,630 million and this represented a saving of R41 million or 2.4

per cent relative to the budgeted target of R1,670 million. It was savings in current and capital expenditures that explained this favourable performance. However, spending in relation to net lending was less encouraging. Compared to a targeted net repayment of R80 million, the government made a net lending of R12 million.



3.1 Current outlays

As mentioned above, current spending was one of the headings of expenditure that came in below budget. It amounted to R1,421 million, which was 4.5 per cent below expectations (Table 4.3). This stemmed primarily from lower than expected payments under the subheading of "appropriation items", which declined by R105 million or 8.5 per cent relative to the revised budget. The main

appropriation items that explained the reduced spending was "centralised payments" and "current outlays on parastatals", which were below their respective budgets by R81 million and R26 million.

However, despite the overall savings in current outlays, there were instances of excess spending, the main heading being that of "charges" and to some extent

expenditure by “ministries & departments”. For “charges”, there was an overrun of R39 million, which was explained by higher than expected “interest payments” and also “salaries of constitutional appointees”. They were above their budgets by R34 million and R4.6 million respectively. In terms of “interest payments”, the rise in interest paid compared to budget is explained by the higher level of foreign loan amortisation and domestic debt payments during the year. The amount of public debt interest paid to foreign creditors and in the domestic market stood at R41 million and R224 million, which were R7.5 million and R27 million above their respective budgets. As for “ministries & departments”, the excess spendings were minimal at R4.7 million. For the other main headings of expenditure under current outlays, spending was below or on target.

A comparison of current expenditure in the year under review with that of 2000 reveals that there has been an increase in this heading of spending in 2001. From R1,358 million in 2000, aggregate current expenditure increased to R1,421 million. This rise of R64 million or 4.7 per cent was primarily attributable to an increase in payments in relation “appropriation items” and “charges”, which rose by R56 million

and R7.9 million respectively. In “appropriation items”, there were increases in terms of “ministries & departments”, “social security contributions” by government and in “centralised payments”. They were above their 2000 levels by R24 million, R6.0 million and R17 million respectively.

3.2 Capital outlays

The most influential factor, which has determined the overall outcome on total expenditure in the year under review, has been capital spending. Compared to a budgeted expenditure of R263 million, the government spent only R197 million, a saving of R66 million or 25 per cent (*Chart 4.3 & Table 4.3*). As has been the norm in recent years, capital projects accounted for the bulk of spendings under capital budget. In 2001, a total of R186 million was spent on capital projects, which represented a saving of R64 million relative to the budgeted R250 million.

In terms of other capital expenditure items, there was also a reduction in payments for land acquisitions, which amounted to R4.6 million against the budgeted R6.5 million. Development grants made by the government during 2001 were strictly in line with the budget, totalling R6.0 million.

Table 4.3
Government Budget; 1999-2002
Expenditure

	1999	1999	2000	2000	2001	2001	2002
	Revised		Revised		Revised		
	Budget	Actual ¹	Budget	Actual ¹	Budget	Actual ¹	Budget
	(R million)						
Total Budget Outlays	1822	1788	1947	1675	1670	1599	1765
Current Outlays	1314	1352	1440	1358	1488	1421	1625
Appropriation items	1060	1019	1149	1083	1244	1139	1306
Ministries/departments ²	731	705	735	712	731	735	757
Tourism & Civil Aviation	51	47	44	42	48	48	72
Education	143	134	139	136	140	144	151
Health	141	141	135	133	137	137	140
Defence	60	61	63	62	60	65	64
Internal Affairs	61	60	66	65	68	69	68
Pension & Gratuities	31	37	44	38	35	36	38
Subventions	81	71	83	81	122	92	152
Regulatory bodies ³	49	39	50	46	50	46	51
Parastatals	32	32	33	35	72	46	101
Social Security Contributions	119	119	119	119	125	125	131
Pension Scheme Contributions	7	7	7	7	7	7	7
Other appropriations ⁴	91	81	161	127	225	144	222
Charges	254	333	291	274	243	282	319
Public debt interest	243	322	280	263	231	265	307
Other charges ⁵	11	11	12	12	13	17	11
Total Capital Outlays	457	402	461	463	263	197	219
Development grants to							
parastatals	10	10	17	58	6	6	13
Land acquisitions	12	7	12	4	7	5	7
Capital projects	435	386	432	401	250	186	200
Net Lending	52	33	46	-145	-80	12	-80
BTL advances – parastatals	22	7	0	-47	-80	16	-80
BTL advances – others	29	26	28	-99	0	-5	0
Capital subscriptions	1	0	1	0	0	0	0
Equity participation	0	0	0	0	0	0	0

Figures do not necessarily add up due to rounding.

¹ These series are subject to audit and might be revised accordingly.

² Due to a reclassification, there is a break in the series of this item. Road and building maintenance, contributions to political parties, and housing improvement grants are examples of items that were recorded under "other current transfers" in previous Reports, but are included in various "ministries/departments" or "other charges" in this Report.

³ Regulatory bodies are Seychelles Licensing Authority, Seychelles Fishing Authority and Seychelles Bureau of Standards. For 1995 Seychelles International Business Authority is also regulatory body.

⁴ Examples of "other appropriations" are contributions to a training fund and international organisations.

⁵ "Other charges" consist of: salaries of constitutional appointees; contribution to political parties; and execution of elections.

Source: Ministry of Finance

Compared to the previous year, capital spending fell by a significant margin of R266 million. Capital projects and development grants to parastatals were the main expenditures that came in below their 2000 aggregate levels. They were below their 2000 levels by R215 million and R52 million respectively. In terms of compensation for land acquisitions, there was a slight excess spending of R1.0 million, which was nevertheless outweighed by the savings of the other main headings.

3.2.1 Public Sector Capital Project Expenditure

Capital project expenditure of the government for the year 2001 reached a total of R186 million, showing a decline of R215 million or 53 per cent relative to the previous year (*Table 4.4*). In sectoral terms, the fall in total capital project expenditure was mainly attributable to lower spending on “infrastructure and utilities” and on “services”. They were below their 2000 levels by R205 million and R33 million respectively. The only increase was in the subgroup of “economic sectors”, which rose by R23 million to amount of R27 million.

3.2.1.1 Economic Sectors

As noted above, outlays on “economic sectors” rose by R23 million compared to the previous year. The increase was

mainly attributable to the large rise in expenditure on the fishing sector, which represented spending on the coastal fisheries development project during the year. For the other sectors, expenditures declined in comparison to prior year. This reflected completion of projects that have been undertaken.

3.2.1.2 Infrastructure and Utilities

This category of capital spending saw a major decline in its level compared to the previous year. It accounted for 95 per cent of the fall in total capital project expenditure. Total spending in this category amounted to only R64 million compared to R269 million in 2000. The decline in the level of spending was explained by all sub-headings with the exception of expenditure on “communications”. The “Seychelles Satellite Project” explained the increase in the latter. Again the reduced expenditure under the heading of “infrastructure & utilities” is explained by the completion of some of the major projects in 2000, namely the new Praslin airport, the highway link on Mahé and the installation of the new electricity generators at Providence.

Table 4.4
Public Sector Capital Project Expenditure

	1996	1997	1998	1999	2000	2001
	(R thousand)					
Total	185,023	213,983	390,008	385,561	400,986	185,981
Economic Sectors	19,267	25,941	35,463	15,380	3,930	26,588
Agriculture	4,511	2,991	9,055	9,605	1,112	1,070
Fisheries	1,139	2,195	8,776	522	18	24,980
Tourism	949	2,372	882	2,823	2,674	477
Outer island development	1,882	708	2,500	500	-	0
Craft & home industries	595	1,393	2,515	-	-	0
Trade & commerce	10,191	16,283	11,735	1,929	126	62
Infrastructure and Utilities	38,405	67,022	172,018	166,191	268,694	63,608
Transport	6,531	21,988	29,201	53,223	49,267	14,663
Water supply & sanitation	14,331	13,533	60,621	26,394	64,805	1,374
Communications	842	358	1,679	4,657	4,581	6,650
Land Reclamation	1,701	315	45,521	63,738	137,317	32,532
Land Bank	15,000	30,827	34,996	18,179	12,725	8,388
Services	127,351	121,020	182,527	203,990	128,362	95,785
Education	31,861	16,721	40,481	25,440	13,057	18,504
Health	15,575	15,593	14,054	4,190	6,726	9,379
Housing	41,280	41,748	63,377	82,195	58,826	21,725
Social development	17,525	27,102	34,878	15,658	8,934	6,830
Culture	172	197	99	276	908	96
Sports	180	1,567	3,089	2,063	1,915	15,324
Information & media	46	452	918	39,046	4,157	924
Internal affairs	8,456	7,008	9,817	5,012	4,226	677
Public sector management	798	4,972	4,832	9,850	17,910	13,656
Environment	11,458	5,659	10,982	20,259	11,704	8,670

Source: Ministry of Finance

Services

Total capital outlays in respect of “services” also fell compared to a year earlier. Total spending in that category amounted to R96 million, a decline of R33 million. The fall was attributable mainly to spending on housing. The government continued to spend money on its social programme, particularly on housing projects. The decline reflected the completion of some of the housing projects and also the increased

participation of the private sector in providing for housing development.

In spite of falls in other subheadings of “services”, there were increases in “education” and “youth & sports”. The increase spending on capital expenditure in “education” was attributable mainly to the refurbishment of some schools and also the construction of a new primary school at Anse Aux Pins.

3.3 Net Lending

The only heading of government expenditure that recorded an overrun was in net lending. Compared to a forecasted net repayment of R80 million, the government made a net lending of R12 million. The budgeted outcome was attributable to one subheading of net lending, namely advances to parastatals, to which the government provided advances worth R16 million over the year. The excess spending was due to a R20 million advance made to the Seychelles Housing Development Corporation (SHDC) for housing improvement. The net repayment of R80 million did not materialise due to the non-realisation of the "home ownership scheme" as it was expected to be implemented in 2002. Nevertheless, it is worth noting that there was a net repayment of R3.4 million in relation to "other parastatals" and a R4.8 million in relation to "advances to other", which comprises mainly of advances to civil servants including motor vehicle and general purpose loans.

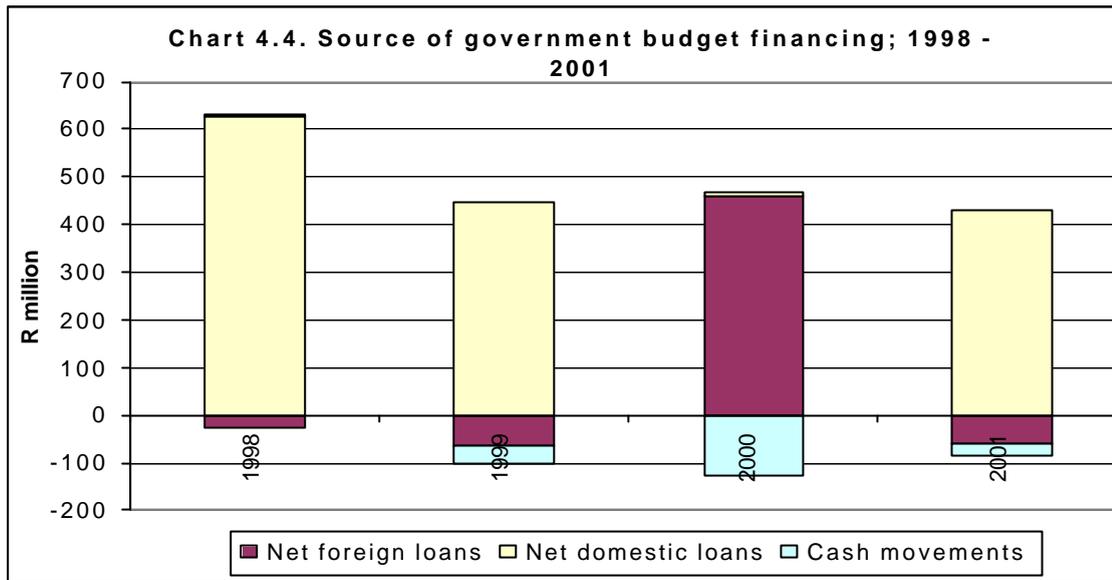
Analysing the 2001 outcome relative to the previous year, it was observed that net lending increased during the year. From a net repayment of R145 million in 2000,

net lending amounted to R12 million in the current year. The difference between the two comparative periods is that in 2000, there were net repayments in the two main headings, namely "advances to parastatals" and in "other loans" which are advances made to public servants.

4. Financing

The R340 million deficit was financed mainly through the domestic markets as have been the case in recent years (*Chart 4.4*). Domestic loans net of repayments, stood at R429 million. Gross borrowings totalled R989 million and this consisted primarily of treasury bonds (R612 million), government deposits (R219 million) and advances (R114 million). Amortisation amounted to R560 million.

Foreign loan drawdown amounted to R158 million, representing a shortfall of R24 million relative to the budgeted R182 million. With amortisation amounting to R220 million, the net outcome was a repayment of R62 million. With net domestic and foreign loans totalling R367 million, this resulted in a balance of R27 million, which was met by the movement in cash balances of the government being held mainly with the Central Bank.



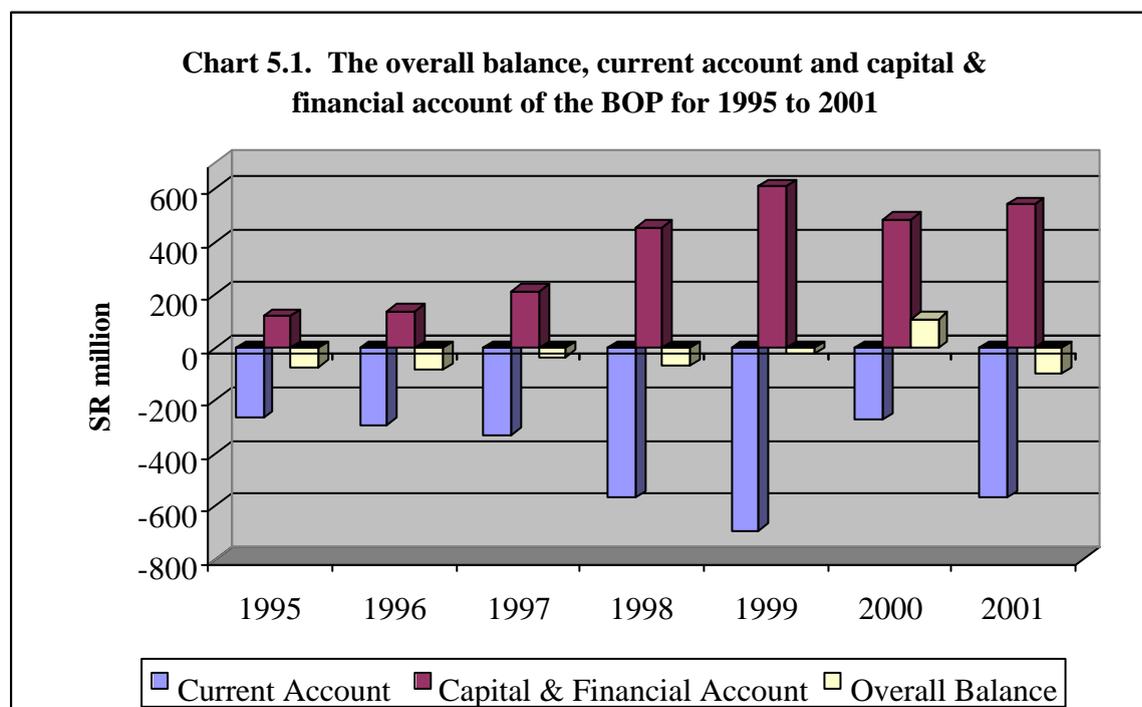
SECTION FIVE

The External sector

1. Overview

On the actual external sector outcome, provisional data for the transactions undertaken by the economy with the rest of the world in 2001 as measured by the Balance of Payments (BOP) showed that there has been a worsening outcome relative to the previous year. Following the significant improvement in the external sector in 2000, the widened gap between

domestic demand and supply as indicated by the overall balance moved from a surplus of R108 million (US\$19 million) in 2000 to a deficit of R101 million (US\$17 million) in the year under review. It was the higher growth in the deficit in the current account over the expansion in the capital and financial account, which caused the overall outflow of hard currency (*Chart 5.1 & Table 5.1*).



The apparent worsening of the current account position during 2001 was largely influenced by a one-off transaction in the "Balance of Trade account". This was related to the aircraft acquired by Air Seychelles in April, which was classified as an import. This procurement by the national carrier was made under a financial lease agreement, for which under the IMF BOP Manual 5 (IMF BOPM5) guidelines such a transaction should be included in the BOP calculations (*for more details on the incorporation of financial lease transaction, see subsection 2.1*). If the financial lease factor is removed, the current account will remain in deficit, but it shows a further reduction in the shortfall, which amounts to only R73 million, hence is a marked improvement relative to 2000. The other headings in the current account showed positive movements as observed under the accounts of "services", "income", and "current transfers". The surplus in respect of services in the year under review was mainly boosted by the heading of "transportation". For the income account, there was a contraction in its shortfall, while the surplus under current transfers expanded after falling in the previous year.

On the other hand, there was a reversal of the decline in the "capital & financial account" in 2000, where in the year under review, it increased by R55 million attributable to both of its accounts. The

"capital account" rose by 10 per cent to amount R55 million for the year. In terms of the second account, there was an increase of R50 million in the financial account to aggregate at R487 million. The expansion was attributable to the rise of R199 million in net direct investment relative to the previous year. The net inflow of FDI in the country in 2001 came principally through new investment in the form of equity capital and also re-invested earnings. The flow of FDI is presently being targeted in the tourism trade where the high end of the market is being tapped.

The overall external deficit on the overall balance was financed partly from a R61 million draw-down on reserves with the balance representing accumulation of arrears of R40 million.

In 2001, there was also a change in the laws related to foreign exchange transactions. At the start of the year, there continued to be a shortage of hard currency entering the banking system, which prompted the government to put forth a series of measures that will on one hand increase the number of agents that accept foreign currency payments for their services and also to curb the parallel market activity, thus channelling hard currency flows into the banking system (*for more details, see Box 5.1 at the end of this chapter*).

Table 5.1
Balance of Payments;^{1/2} 1996-2001

	1996	1997	1998	1999	2000	2001 <i>Provisional</i>
	(R million)					
CURRENT ACCOUNT	-289.9	-334.5	-566.9	-693.8	-247.5	-567.7
Goods,	-846.6	-957.1	-1114.4	-1223.1	-625.0	-1005.5
Receipts (of which)	480.4	568.5	646.4	778.2	1112.8	1260.9
Merchandise exports (f.o.b)	315.1	358.7	490.9	596.6	740.8	948.0
Payments (of which)	1327.0	1525.6	1760.8	2001.4	1737.8	2266.4
Merchandise imports (f.o.b)	1238.5	1454.5	1713.2	1931.0	1658.7	2194.0
Services	580.8	644.5	607.2	636.7	521.6	529.2
Receipts (of which)	1178.2	1285.9	1302.3	1473.9	1538.8	1658.9
Tourism income thru' Commercial banks	524.5	612.5	583.8	596.2	600.0	648.8
Payments	597.4	641.4	695.1	837.1	1017.2	1129.7
Income	-73.6	-62.0	-110.3	-133.0	-185.8	-110.9
Compensation of employees	1.7	-0.7	-7.6	-6.0	-18.7	-17.2
Credit	3.5	1.1	0.6	1.0	1.0	1.0
Debit	1.8	1.8	8.2	7.0	19.7	18.2
Investment income	-75.3	-61.3	-102.7	-126.9	-167.1	-93.7
Receipts	49.7	50.0	29.3	47.0	61.1	53.1
Payments	125.0	111.3	132.0	173.9	228.2	146.7
Current transfers	49.5	40.1	50.6	25.5	14.7	19.5
General government	79.9	72.3	91.3	62.1	49.5	53.3
Receipts	85.1	75.8	91.6	62.2	50.0	55.4
Fishing license fees	51.1	41.7	32.2	32.8	24.8	37.7
Overseas grants	13.8	10.0	25.3	13.3	18.8	8.5
Educational grants	20.1	24.1	34.1	16.1	6.4	9.3
Payments	5.2	3.5	0.3	0.1	0.5	2.1
Other sectors	-30.4	-32.2	-40.7	-36.6	-34.9	-33.8
Receipts	24.4	29.9	19.2	21.1	21.7	23.9
Payments	54.8	62.1	59.9	57.7	56.6	57.7
CAPITAL AND FINANCIAL ACCOUNT	186.5	213.1	453.7	611.1	487.1	542.2
CAPITAL ACCOUNT	28.1	34.0	114.0	88.0	50.0	55.0
FINANCIAL ACCOUNT	158.5	179.1	339.7	523.1	437.1	487.3
Direct investment	126.3	193.0	210.0	246.9	84.0	283.5
Abroad	64.6	75.4	70.0	48.1	60.0	65.0
In Seychelles (of which)	190.9	268.4	280.0	295.0	144.0	348.1
Sale of Assets (Privatised enterprises)	23.1	0.5	0.0	0.0	0.0	0.0
Equity capital	135.2	247.9	260.0	275.0	114.0	313.1
Re-invested earnings	32.6	20.0	20.0	20.0	30.0	35.0
Portfolio investment	33.0	15.3	10.8	2.9	5.4	6.8
Assets	-33.1	-0.4	4.1	0.1	0.5	-0.4
Liabilities	0.0	14.8	14.9	3.0	6.0	6.4
Other investment	-0.9	-29.2	118.9	273.3	347.7	197.4
Assets	58.6	64.0	29.8	69.3	84.9	51.3
Liabilities	57.7	34.8	148.7	342.6	432.6	248.7
Net errors and omissions	19.3	86.5	44.8	60.7	-104.8	-75.3
OVERALL BALANCE	-84.1	-34.9	-68.4	-22.0	107.9	-100.7
Financing of overall balance	84.1	34.9	68.4	22.0	-107.9	100.7
Reserve assets ³	24.2	-25.7	11.5	-45.0	-110.9	60.5
Arrears	59.9	60.6	56.9	67.0	3.0	40.3
Memorandum items:						
Current account (percentage of GDP)	-11.9	-9.7	-19.3	-22.0	-7.3	-15.5
Trade Balance (f.o.b)	-923.5	-1095.9	-1222.2	-1334.4	-917.9	-1245.9
Stock of Reserves (Gross)(R million)	103.4	129.1	118.2	160.2	271.1	210.6
Stock of Reserves (Gross) (Weeks of cif imports)	3.7	3.9	3.1	3.7	7.2	4.2

¹ Contrary to the exchange record, this series is recorded on an accrual basis.

² Data series differ from previous publications due to revisions

³ (-) sign indicates increase in reserves.

2. Current account

2.1 Trade in goods

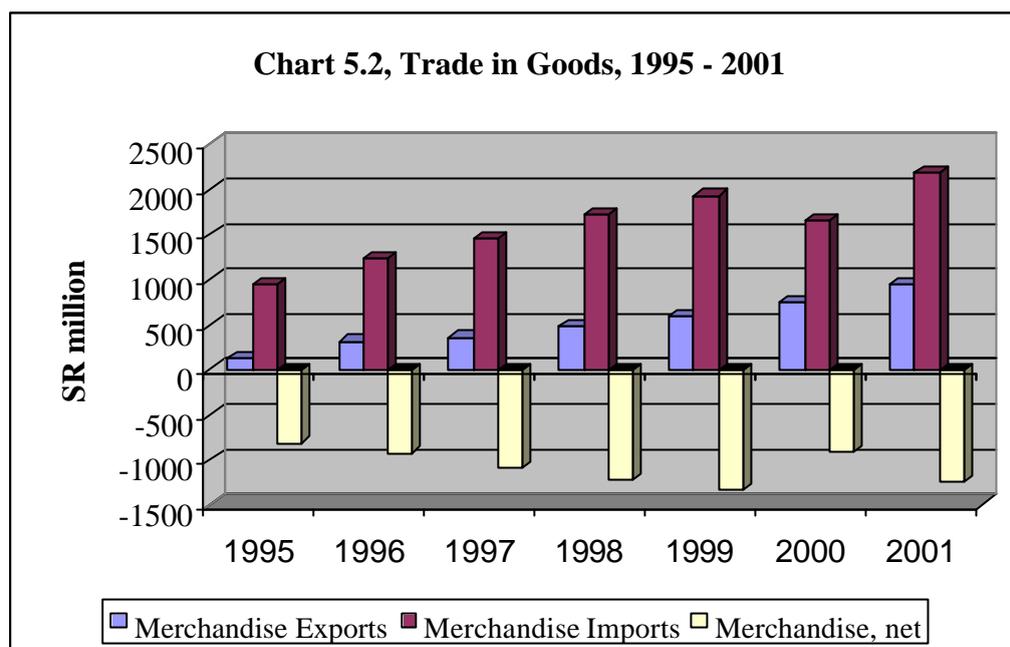
Following the 49 per cent contraction in the deficit on account of transactions on goods, which was registered in the previous year, provisional indicators show that the year 2001 posted an expansion in the deficit by R381 million or 61 per cent. The widening goods deficit was attributed to a R529 million increase in payments to R2,266 million, compared to the R264 million or 13 per cent contraction registered in 2000. The 2001 outcome was weighed against a 13 per cent rise in receipts by R148 million to R1,261 million in contrast to a considerable R335 million or 43 per cent increase in the previous year.

It should be noted on the outset that the apparent worsening of the goods account was attributable to a one-off transaction during the year affecting merchandise trade. In 2001, the national airline acquired two new aircrafts, the first one a Boeing 767-300 to replace the 767-200 in April. The other, a Boeing 737-700 was received in November. The aircraft was acquired in April under a financial lease agreement for which the transaction has been taken into account both in the goods account and financial account as outlined in the IMF BOPM5 for which the Central Bank is following.

According to the BOPM5, financial leases or similar arrangements represent a form of financing akin to a secured loan. It is a long-term agreement, which gives the lessee the right to decide on what to do with the item at the end of the agreement. The lessee is responsible for operation, repair and maintenance of the item, and in this case the aircraft. The lessee also has the first option on disposal of the item being leased at the termination of the agreement. With the latter argument, the value of the aircraft has been taken into account both in the goods account as an import and in the financial account falling under "other investment" on the liability, as it states that Air Seychelles has the right of ownership.

Due to the above, the merchandise trade balance of the goods account was the one that was affected by the financial lease transaction. Without it, the balance on the goods account though remaining in deficit showed a decline relative to 2000, falling by R51 million.

Apart from the widening deficit in respect of imports and exports (*Chart 5.2*), the goods account was influenced also by a R58 million or 19 per cent contraction in the surplus under "goods procured in ports by carriers", while the deficit in respect of "repairs on goods" fell from R12 million to R6.4 million.



2.1.1 Merchandise exports

Traditionally, Seychelles' exports have been mainly from the agricultural and marine resources sectors, or goods whose raw materials originated from those sectors. With the authority's continual attention to these areas, the country's income from exports has been on the increasing trend. In 2001, total exports of

merchandise (f.o.b.) stood at R948 million. This represents growth of R207 million or 28 per cent compared to the previous year's 24 per cent rate. With the exception of exports under "Fresh & Frozen Fish" and "Frozen Prawns", which declined, all other exported items registered growth in 2001.

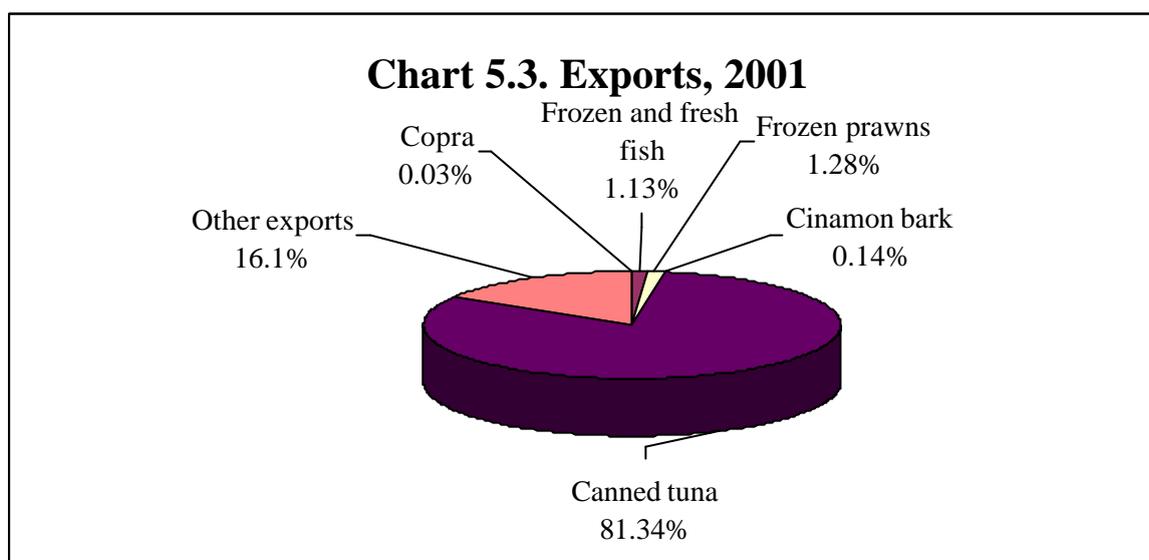
Table 5.2
Domestic Exports; 1996-2001

	1996	1997	1998	1999	2000	2001
	(R million)					
Total	315.1	358.7	490.9	596.6	740.8	948.0
Copra	0.0	0.0	0.0	0.0	0.0	0.3
Cinnamon bark	4.7	3.4	2.7	2.2	1.3	1.3
Frozen and fresh fish	11.2	20.4	13.2	28.3	20.7	10.7
Canned tuna	169.8	286.2	413.3	531.9	606.2	771.2
Shark Fins (Dried)	2.4	0.8	0.2	0.3
Frozen Prawns	10.9	22.7	34.1	7.7	18.3	12.1
Other exports	116.1	25.2	27.3	26.2	94.3	152.5

Source: Management and Information Systems Division

Canned tuna remained the major component of exports and accounted for above 81 per cent of total export receipts (see Chart 5.3). Income received from exported canned tuna grew by R165 million or 27 per cent to R771 million. This represents an increase in the pace of

growth compared to the 14 per cent rise in 2000, and reflects the promising exporting potential of the Indian Ocean Tuna Canning Factory, following its expansion in the last couple of years. The company also remained the country's biggest manufacturing entity.



Exports of items under “other exports” grew by R58 million or 62 per cent to R153 million. This was on account of the growth in exports of “other processed fish” and “other re-exports”, which rose by R26 million and R28 million respectively. Items under the former category include shark’s fins, towards which fishermen’s preference rose in relation to other catch, confirmed by the increase in fishing of sharks.

There was a further contraction in exports of “Fresh & Frozen Fish”. After declining by R8 million or 27 per cent in the

previous year, the figure dropped by R10 million to R11 million in 2001. This result summarises the disappointing performance in fishing activity in terms of catch. Statistics from Seychelles Fishing Authority (SFA) indicated that compared to the previous year, there was a decline in catch of fish from artisanal, semi-industrial for which a portion of their output is targeted for export. The lower catch and exports of fresh and frozen fish reflects, to some extent, fishermen’s preference for other fishes, under other categories for reasons such as higher revenue per catch.

Following the pick up in exports of frozen prawns recorded in 2000, the year 2001 posted a decline, although the movement was not as dramatic as that of 1999. In 2001, the value dropped by R6.2 million or 34 per cent to R12 million in contrast to the R11 million increase registered in the preceding year. According to SFA, the drop was mainly due to the lower production of post larvae by the hatchery and the problem of obtaining brood stock.

2.1.2 Merchandise imports

In spite of the imposition of import restrictions and new regulations in regards to foreign exchange transactions in mid-

2001, the year registered an increase in the value of merchandise imported (c.i.f.). Subsequent to the 14 per cent contraction recorded in 2000, imports grew by R630 million or 32 per cent to R2,581 million in 2001. This growth, however, as explained above was largely influenced by the financial lease of the new aircraft to the Air Seychelles fleet, which pushed up the figure under "machinery and transport equipment". Furthermore, the improved foreign exchange situations toward the end of the year encouraged the increase in imports. Nevertheless, mixed movements were registered in the value of the items imported in 2001.

Table 5.3
Imports (cif) – by HS¹ Sections; 1996-2001

	1996	1997	1998	1999	2000	2001
	(R million)					
Description						
Total imports	1457.1	1711.2	2015.5	2271.8	1951.4	2581.1
Food and live animals	322.3	416.8	455.9	484.2	517.8	641.3
Beverages & tobacco	23.5	27.5	30.0	29.9	27.1	22.2
Mineral fuels etc.	211.3	252.0	189.5	229.0	423.7	412.7
Chemicals	90.8	125.6	129.1	138.3	128.7	145.0
Manufactured goods &						
Misc. manufactured articles	352.5	462.9	564.5	714.4	472.9	458.7
Machinery & transport equipment*	415.9	384.7	603.4	638.7	334.0	862.8
Other commodities	40.8	41.7	43.1	37.3	47.3	38.4

¹ Harmonised System

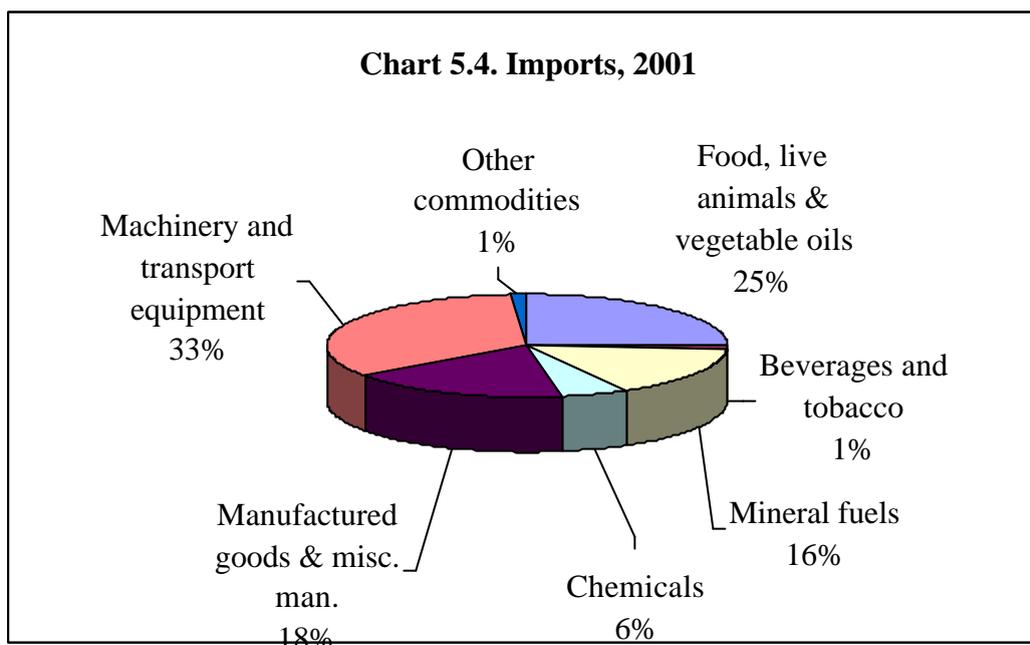
* Include the value of the Boeing 767-300 acquired by Air Seychelles in April 2001 under a financial lease agreement.

As stated above, the most notable development was in the increase in imports under "Machinery and transport equipment". Following the 48 per cent contraction in imports of items under this category in the previous year, the figure

grew by 158 per cent or R529 million to R863 million in 2001. Consequently, its share of total imports was exceptionally raised to above 33 per cent (*see Chart 5.4*), in contrast to 17 per cent the previous year. Excluding the financial lease of the

new Boeing by the local airline, which aggregate the figure by a significant R508 million, imports under “Machinery and transport equipment” was more or less normal and have grown by R21 million or 6.3 per cent and in general, remained more

or less in line with its trend. Furthermore, without this transaction, total imports would have been raised by only R123 million or 6.3 per cent, influenced by the improvement in foreign earnings.



The next most noticeable growth in imports was under “food, live animals & vegetable oils”, which registered a significant increase in the pace of growth. From 6.9 per cent in 2000, the figure grew by 24 per cent in 2001, to end the year at R641 million. Amid soaring demand on the local market for those products, this development was related to the relatively poorer performance of the domestic agricultural sector due to the dry season of 2001 in the second half of the year (*see section six*). Furthermore, apart from meeting domestic consumption, movement in imports of foodstuff reflected the increase in consumption by tourism-

related establishments, confirmed by the upsurge in the number of such businesses in 2001.

The imported value of the other remaining items posted a lower figure compared to the previous year. The most noticeable contraction was registered under imports of “other commodities” which declined by R8.9 million or 19 per cent to R38 million. Imports of “Beverages and tobacco” contracted further and dropped by R4.8 million or 18 per cent to R22 million. Other drops were registered in imports of mineral fuels and manufactured goods, which declined by 2.6 per cent and 3.0 per cent respectively. The lower value of

imports was likely to be related to the persistent foreign exchange shortage, which was more evident in the first half of the year.

The only increase apart from "machinery & equipment" was the imports of chemicals. Following the 6.9 per cent contraction in imports of chemicals the previous year, in 2001, the total value expanded by 13 per cent or R16 million to R145 million.

2.1.3 Goods procured in ports

Subsequent to the significant 167 per cent rise in the net inflow under "goods procured in port by carriers" at the end of 2000, the surplus contracted by R58 million to R247 million in 2001. The movement was on account of the R59 million or 16 per cent reduction in receipts, weighed against a slight 2.3 per cent decrease in outflows to R62 million.

The lower receipt was associated with the decline in re-exports of petroleum

products, which contracted by R60 million to R297 million and brought its share to 96 per cent of revenue. This fall in oil re-export revenue is related mainly to the fall in oil prices in 2001 relative to 2000. Re-exports of food and beverages declined by 17 per cent to R7 million. Receipts in respect of other re-exports posted an increase of R2.5 million to R5.4 million and represents outflow of nationalised goods which are repatriated following completion of various projects during the year.

With the exception of petroleum products in respect of Air Seychelles, which rose by 1.6 per cent growth, all the remaining items under "payments" registered a slight decline and remained more or less stable. The rise in the consumption of oil by the national carrier is related to the increase in the number of aircraft in its fleet, which at the end of 2001 was three compared to two at the end of the previous year.

Table 5.4
Goods procured in Ports; 1996-2001

	1996	1997	1998	1999	2000	2001
	(R million)					
Goods procured in port, net	104.5	148.9	105.1	114.2	304.4	246.8
Receipts	163.6	208.4	152.7	178.8	368.2	309.1
Petrol	151.3	200.1	140.3	169.5	356.8	296.6
Food and beverages	10.5	6.1	6.3	6.9	8.5	7.1
Others	1.8	2.2	6.1	2.4	2.9	5.4
Payments	59.1	59.5	47.7	64.6	63.8	62.3
Petrol	56.9	50.2	42.8	54.6	54.3	53.0
Food and beverages	2.3	9.3	4.8	10.0	9.5	9.3

Source: Management and Information Systems Division

2.1.4 Repairs

Whilst repairs of foreign ships and aircraft in Seychelles remained constant at R3.8 million when compared to the previous year, payments for repairs on goods abroad declined by R5 million to R10 million. Consequently, net income on “repairs” posted a marked improvement, whereby the shortfall dropped from the R12 million in 2000 to R6.4 million in 2001. The lower payments for repairs were associated with the significant 40 per cent reduction in payments for repairs of Air Seychelles’ aircraft abroad, which fell to R9 million. This lower payment was related to the replacement by Air Seychelles, of one of its older aircraft with a new one, towards which prior to replacement, maintenance costs increased in the preceding year. With regards to repairs of Seychelles’ ships abroad, however, the figure grew by 146 per cent to R1.4 million, in connection with the increase in the number of vessels registered in Seychelles.

2.2 Services

After recording a contraction of R115 million or 18 per cent the preceding year, the services account balance expanded, by R7.5 million to R529 million. The increase was related to the notable upsurge in the net inflows under “transportation” and an increase in net surplus under “government services”, while the remaining items under other major headings recorded worsened performances.

Net inflow under “transportation” was boosted by the R53 million or 14 per cent increase in passenger receipts, which soared to R391 million compared to R340 million the preceding year. This development was partly associated with the increase in the number of seats on offer by the national carrier, Air Seychelles, following the introduction of two additional planes to its fleet, and simultaneously, offering flights to new destinations. This was marked by the airline’s R46 million or 12 per cent increase in ticket sales to non-residents. However, items under “other transportation services” registered worsened performances, whereby the net inflow declined by R6.5 million to R83 million.

The drop in net inflow under “other transportation services” was in connection with the larger fall in receipts relative to the drop in payments of aircraft landing fees. Receipts shrunk by R7.7 million to R115 million, compared to the R3.7 million or 2.9 per cent drop registered the previous year. The decline in 2001 was as a result of the fall in all categories of receipts under “other transportation services”, with the exception of airport handling fees, which increased slightly by 2.0 per cent. The most noticeable fall was registered in income from stevedoring, which fell by R4.3 million to R45 million. Payments of aircraft landing fees contracted by R1.9 million or 5.6 per cent to R32 million compared to the 18 per cent decline recorded the previous year.

Table 5.5
Services;¹ 1996-2001

	1996	1997	1998	1999	2000	2001
	(R million)					
SERVICES, NET	580.8	644.5	607.2	636.7	521.6	529.2
Transportation	123.8	122.9	203.0	248.2	323.4	393.9
Passenger	191.9	201.8	312.2	345.0	340.1	390.9
Receipts	238.5	218.0	326.1	381.6	383.9	437.2
Ticket sales to non-residents by Air Seychelles	202.1	188.9	296.9	351.6	371.1	417.0
Others	36.4	29.2	29.2	30.0	12.9	20.2
Payments (tickets to foreign airlines by residents)	16.1	16.3	13.9	36.7	43.8	46.3
Freight	-152.2	-156.1	-175.2	-181.6	-150.2	-79.7
Receipts	27.4	45.0	58.1	102.4	138.7	179.5
Payments	179.6	201.1	233.3	284.0	243.9	259.2
Other transportation services	84.0	77.3	66.0	84.8	88.5	82.7
Receipts (of which)	109.7	111.8	93.6	126.4	122.7	115.1
Marine and port charges	21.4	26.5	25.9	27.9	28.3	27.0
Income from stevedoring	42.0	23.0	24.3	53.4	49.2	44.9
Agency service income	14.3	21.1	18.0	16.2	16.0	14.6
Airport handling fees	17.3	13.5	14.0	14.3	15.1	15.4
Aircraft landing fees	14.6	27.7	11.4	14.6	14.2	13.1
Payments of aircraft landing Fees abroad	25.6	34.5	27.7	41.6	34.3	32.4
Travel	558.6	647.8	574.6	611.3	617.7	599.2
Receipts	699.3	787.1	709.0	724.0	761.3	777.4
Tourism earnings	696.0	783.0	703.0	717.9	754.6	770.0
(of which income thru' Commercial banks)	524.5	612.5	583.8	596.2	600.0	648.8
Others	3.3	4.1	6.0	6.1	6.7	7.4
Payments	140.6	139.3	134.3	112.7	143.6	178.3
Foreign travel expenditure	113.4	115.0	98.0	95.0	118.9	139.8
Training of residents abroad	27.2	24.3	36.3	17.7	24.7	30.8
Others	0.0	0.0	0.0	0.0	0.0	0.0
Insurance, net	-33.3	-37.1	-49.1	-18.3	-19.1	-11.7
Royalty payments	-3.1	-3.0	-2.0	-2.5	-2.5	-2.5
Financial and Business Services	-106.4	-119.3	-140.5	-147.1	-252.2	-297.4
Receipts (of which)	18.6	30.7	38.9	47.8	47.8	52.6
Telecommunications Seychelles	17.4	25.3	28.0	40.8	40.8	42.0
Payments	125.0	150.0	179.4	193.5	300.0	350.0
Government services	41.2	33.1	31.0	64.8	51.1	56.1
Receipts	69.3	53.2	56.1	86.9	77.7	79.6
USAF Tracking Station	19.1	0.0	0.0	0.0	0.0	0.0
Foreign embassies in Seychelles	10.0	2.7	2.2	3.0	3.0	3.0
Licences and other fees	40.2	50.5	53.8	83.9	74.7	76.6
Payments	28.2	20.2	25.1	22.0	26.7	23.5
Expenses by Seychelles embassies	3.2	3.2	4.5	6.7	6.8	6.4
Tourism promotion	25.0	17.0	20.8	15.3	19.8	17.1

With regards to “travel”, the single most important service component, net inflow contracted by 3.0 per cent to R599 million, following the slight 1.0 per cent increase registered the prior year. The movement in 2001 was associated with the R35 million rise in payments, balanced against a R16 million increase in receipts. Under the receipts component, tourism earnings maintained the increasing trend, which started at the end of 1999 while in-flight sales by Air Seychelles grew by 11 per cent to R7.4 million. In 2001, tourism earnings stood at R770 million, of which R649 million was through the commercial banks. Tourism income through the commercial banks swelled by R49 million or 8.1 per cent in comparison to the previous year, mainly due to the implementation of foreign exchange regulations, which took effect in mid-2001 and at the same time reflects the higher yield from the tourism trade, namely five-star establishments. On the payments side, the expansion was associated with the rising foreign travel expenditure, which grew by R21 million to R140 million.

Net outflow from insurance payment improved from R19 million in 2000 to R12 million in 2001. This was associated with the significant improvement in receipts, which expanded by 166 per cent to R18 million, while payments increased by 14 per cent to R29 million. The favourable movement in 2001 related to the reinsurance of higher claims that was due.

Net outflow in relation to “financial and business services” recorded an upsurge of R45 million to R297 million, although the rate of the increase declined from 72 per cent to 18 per cent over the period 2000 to 2001. The outcome in 2001 was mainly due to the upsurge in other payments while that under “operational lease” grew by 4 per cent to R107 million. Items under “others”, related to payments such as management fees, accounting fees, legal fees, cost of advertising (mainly by five stars hotels), management and consultancy fees, expanded by 23 per cent to R243 million. Nonetheless, this represent a lower rate of growth compared to the 96 per cent rate recorded at the end of the previous year.

Unlike in 2000 when the surplus in “Government services” attained a 21 per cent drop, at the end of 2001, the figure enlarged by 10 per cent to R56 million. This movement was associated with the 2.4 per cent increase in receipts to R80 million whilst payments contracted by 12 per cent to R24 million. The higher receipts is explained by the increase under “licences and other fees”, which grew by 2.5 per cent to R77 million, in contrast to the 11 per cent contraction recorded the previous year. Payments fell at the expense of “payment by Seychelles embassies abroad” which contracted by R400 thousand or 5.8 per cent to R6.4 million and “tourism promotion” fell by R2.8 million or 14 per cent to R17 million. The fall in tourism promotion reflects the

effort made by STMA to reduce promotional costs by effective means of advertising.

2.3 Income

In 2001, net income flows accruing to the Seychelles economy increased significantly as reflected by the narrowing of the deficit to R111 million (US\$19 million). This improvement was attributed to the better position of both major headings of income “compensation of employee” and “investment income”.

Firstly, the narrowing of the shortfall in “compensation of employees, which amounted to R17 million, was due to a fall in payments whilst receipts remained unchanged relative to the previous year. Therefore, the reduction in the deficit in income was ascribed to investment income. The movement in “investment income” showed a reduction in its shortfall by R74 million or 44 per cent relative to the previous year. This was explained by the fall in payments, which outweighed the reduction in receipts. The decline in outflows was due to lower payments made to non-residents on account of “dividends & distributed profits” and “interest paid”.

2.4 Transfers

Net transfers continued to remain in surplus in 2001 amounting to R20 million (US\$3.3 million), representing an increase of R4.9 million relative to 2000. This rise was explained by the larger increase in revenue over payments during the year.

Receipts rose by R5.4 million, whilst payments increased by R1.6 million.

Current transfers to the government, which represents the bulk of the flows, recorded a surplus of R55 million. Of this total amount, R38 million was on account of fishing license fees. This was R13 million higher than the level of 2000. For the other grant receipts, there was an increase of R2.9 million in “educational grants”, whilst there was a decline of R10 million in “overseas grants” relative to 2000.

Net transfers to the private sector remained in deficit in 2001, totalling R34 million compared to R35 million the year before. This slight improvement reflected the higher increase in receipts compared to the rise in payments. Receipts amounted to R24 million compared to R22 million in 2000 whilst payments increased by R1.1 million to R58 million.

3. Capital and financial account

3.1 Capital account

There was a slight increase in inflows in respect of the capital account. According to data from the Ministry of Foreign Affairs, capital grants to Seychelles in 2001 from bilateral and multilateral donors amounted to R55 million. This represented a rise of R5.0 million or 9.9 per cent relative to the previous year.

3.2 Financial account

The financial account is the largest component of the “capital and financial

account” and it is made up of four main headings, namely “direct investment”, “portfolio investment”, “other investment” – which consist largely of loans – and “reserve assets”. The latter is shown as a “below the line” item as these flows go towards financing the overall balance of payments.

Provisional indicators for 2001 show that the net capital flows (excluding reserve assets) stood at a net of R487 million. At this level, the financial account surplus represented a rise of R50 million or 11 per cent relative to the previous year. A net direct investment inflow of R283 million was recorded whilst the surplus in “other investment” amounted to R197 million. Portfolio investment, which is minimal in the context of Seychelles, registered a surplus of R6.8 million.

Net foreign direct investment in the Seychelles economy reached an estimated R283 million (US\$48 million), an increase of R199 million relative to 2000. Investment in the form of equity capital reached R313 million (US\$53 million), a growth of 175 per cent. The further growth in capital investment occurred in a number of sectors, however, the bulk of it represented investment in the tourism sector, namely in the building of new five-star establishments. Based on current information available, one can expect investment in the tourism industry to continue to grow. Re-invested earnings by foreign companies in the country

amounted to R35 million, a growth of 17 per cent.

Outward foreign direct investment totalled an estimated R65 million (US\$11 million), an increase of R5.0 million or 8.3 per cent relative to 2000. Outward FDI represent investment of equity capital by Seychellois residents or resident firms abroad and re-investment of resident’s funds abroad.

Portfolio investment, which represents mainly commercial banks’ investment abroad, remained in surplus in the year under review. It rose for a second consecutive year, this time by R1.4 million to amount R6.8 million. The surplus was a culmination of inflows (liabilities) totalling R6.4 million and outflows (assets) in the order of *negative* R0.4 million.

The last heading of the financial account – other investment – remained in surplus in the current year review. Nevertheless, the net position declined by R150 million or 43 per cent relative to the previous year. At the aggregate level it amounted to R197 million (US\$34 million). On the asset (debit), currency and deposits fell by R34 million. However, the bulk of the change in “other investment” is accounted for on the liability side (credit). Inflows totalled R249 million (US\$42 million), a decline of R184 million or 43 per cent relative to 2000. This fall represented mainly net repayments made on foreign loans. It should be noted that in 2001, the financial

lease of one of the new aircraft of the national airline is taken into account in "other investment". Based on the guidelines of the IMF BOPM5, such an agreement represent a form of financing akin to a secured loan.

During the year, the Central Bank made a total draw down of R143 million whilst repaying R93 million. This gave a net inflow of R50 million, which was almost half what was received in the previous year.

Loan disbursed in favour of the government totalled R0.6 million, a fall of R216 million. In contrast the level of amortisation stood at R187 million, an increase of R110 million. On a net basis, the government made a net repayment of R187 million on its foreign commitments. Other net repayments were in respect of parastatals and private organisations.

4. External reserves

After two consecutive years of increasing reserves, gross official reserves declined in the year under review. Gross official reserves, which comprise Central Bank and Government reserves, fell by R61 million or 22 per cent to close the year at R213 million equivalent to US\$37 million (*Table 5.6*). This was equivalent to 4.3 weeks of 2001 imports (c.i.f.). On the other hand, after increasing for the past four years, short-term liabilities decreased by R30 million or 7.5 per cent to stand at R373 million (US\$64 million).

Despite the decline in liabilities, on a net official basis, reserves deteriorated by R31 million. This adverse movement in the net position reflected the larger margin of the fall in gross reserves. At the end of the year, the net official reserve position stood at *negative* R160 million (US\$27 million).

Table 5.6
External Reserves:¹ 1996-2001

	(R million)					
	1996	1997	1998	1999	2000	2001
Gross official reserves	103.4	129.1	117.6	162.7	274.2	213.4
Central Bank	99.2	127.2	115.2	160.2	271.1	210.6
Government	4.2	1.9	2.4	2.5	3.1	2.8
Central Bank's short-term						
Borrowings	12.5	64.8	173.1	211.2	403.4	373.2
Net official reserves	90.9	64.3	-55.5	-48.5	-129.2	-159.8

¹ End-of period data.

5. Exchange rates

The Seychelles rupee remained pegged to the Seychelles trade and tourism weighted

basket (STTWB) during 2001. At the beginning of the year, the Central Bank announced a revision in the weights of the

currencies in the basket. This new set of weights came into effect on January 3. The revision was effected to reflect the significant changes in tourism and trade patterns over the past three years. The basket was also revised to incorporate the euro, the common currency of the European Monetary Union countries. In

the light of this, the weights of the three euro-zone currencies, namely the Italian lira, German mark and French franc, have been amalgamated into the new *euro* weight. Thus, the STTWB now comprises of six currencies instead of the previous eight. The new revised basket is shown below.

Currency	Weight (%)
Euro	37.7
US dollar	25.7
UK sterling	15.7
South African rand	10.5
Singapore dollar	7.7
Japanese yen	2.7
Total	100.0

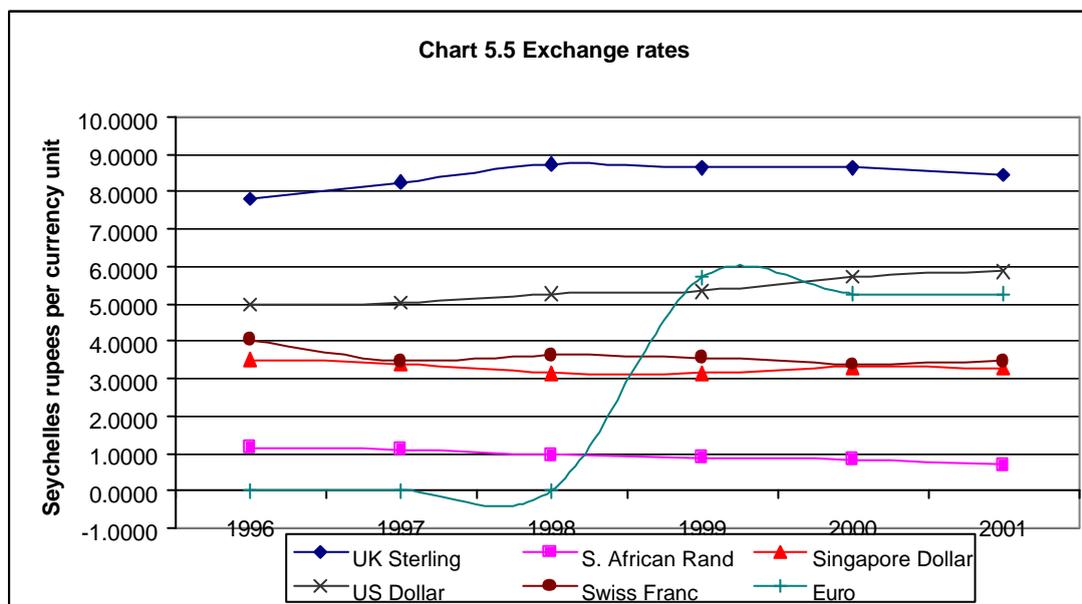
Table 5.7
Exchange Rates;¹ 1996-2001

	1996	1997	1998	1999	2000	2001
	(Seychelles Rupees per currency unit)					
US dollar	4.9699	5.0269	5.2638	5.3418	5.7132	5.8585
Pound sterling	7.7991	8.2379	8.7229	8.6415	8.6446	8.4397
Deutsche mark	3.2899	2.9029	2.9989	2.9217	2.6917	2.6851
Japanese yen	0.0455	0.0416	0.0404	0.0471	0.0530	0.0483
French franc	0.9676	0.8624	0.8945	0.8710	0.8026	0.8004
Italian lira	0.0032	0.0030	0.0030	0.0030	0.0027	0.0027
South african rand	1.1602	1.0915	0.9572	0.8742	0.8248	0.6925
Singapore dollar	3.5066	3.3921	3.1481	3.1515	3.3132	3.2714

¹ *Period averages.*

In terms of the movement in the exchange rate of the rupee in the year under review, there has been a general appreciation of the domestic currency vis-à-vis major world currencies with the exception of the US dollar and the Swiss Franc (*Table 5.7 & Chart 5.*). Against these two currencies the rupee depreciated by 2.5 per cent and 2.8 per cent respectively. Nevertheless,

the magnitude of the changes during 2001 has reduced compared to the previous year. The largest gain was against the South African rand, where the rupee appreciated by 16 per cent. This was followed by the Japanese yen of 8.9 per cent and the UK Pound sterling by 2.4 per cent. The other movements ranged between 0.2 per cent and 1.3 per cent.



Box 5.1 – New foreign exchange laws

At the end of 2000 and at the beginning of the year, foreign exchange flows through the commercial banks continued to decline. In a bid to prevent this situation to deteriorate much further, the government legislated amendments to the existing foreign exchange laws. In May 2001, the National Assembly approved these new legislations for amendments of the Foreign Earnings Regulations Act, Exchange Control Act, Licensing Act, Trades Tax Act and Central Bank Act. The new regulations were aimed at; increasing the inflow of foreign currency through the banking system and thus control illegal foreign exchange transactions, controlling imports in addition to maintaining price stability.

In brief, the amendments to the respective acts were as follows;

Foreign Earnings (Regulations) Act

This was to stipulate that unless exemption is granted otherwise, for certain categories of goods and services, rendered to or on behalf of “non-residents”, payments have to be in foreign currency. Prescribed businesses or authorised dealers to which this change in policy applied was stated as follows; Hotels, Guesthouses, Self-catering Establishments, Luxury Villas, Tour Operators, Travel Agents, Car Hire Operators, Helicopter Seychelles, Air Seychelles, Hirecraft Operators (of a minimum length of six metres), Diving Businesses, Casinos and Cruise Ships temporarily operating in Seychelles waters under licence issued by the Seychelles Licensing Authority.

Exchange Control Act

The Act was amended to address the illegal foreign exchange activities and make sure that all foreign exchange transactions are those authorised and be at a rate determined by the Central Bank of Seychelles. In addition, it states that without Exchange Control exemption, export from or import into Seychelles more than R2,000 in Seychelles currency is an offence. Penalties relating to failure to comply with this Act is a fine of not less than R250,000 and not exceeding R500,000 and to imprisonment for a term of 5 years.

Licensing Act

Amendments to this act in summary relates to the new reporting requirements of licensed businesses in relation to foreign exchange transactions and penalties relating to failure to comply to this recommendations.

Trades Tax Regulations

This amendment was to stipulate that in addition to the Commissioner of Taxes and Controller of Prices, a Controller of Imports and Exports is appointed. Moreover, for each import and export of commodities, the importer/exporter must obtain a permit.

Central Bank Act

This act was amended to allow for the appointment of an Exchange Controller, whose responsibility is to enforce the Foreign Earnings (Regulations) Act and include making sure that all foreign exchange entering the country goes through the banking system.

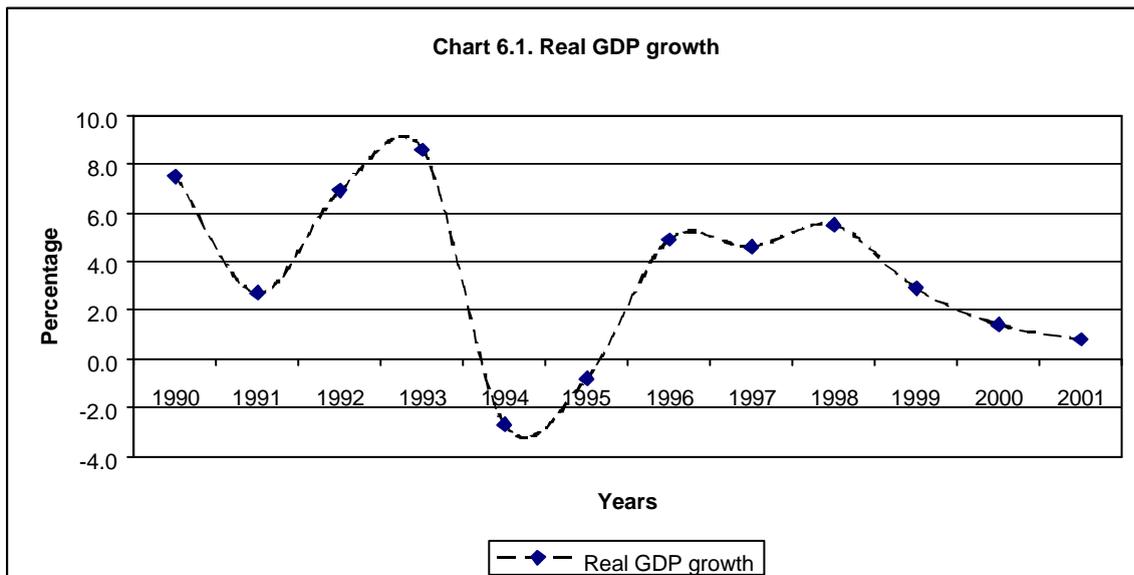
SECTION SIX

The Real Sector: Production, Employment and Prices

1. Macroeconomic developments in 2001 - Overview

The year 2001 saw a moderation in the inflation rate, falling from 6.3 per cent in 2000 to 6.0 per cent. With a further growth in nominal Gross Domestic Product (GDP), it induced a further growth in the real economy despite the prevailing constraints on the supply of foreign exchange. Preliminary estimates made by

the Central Bank of Seychelles (CBS) pointed to a 0.9 per cent increase in real GDP, a slowdown of 0.5 per cent, compared to a growth of 1.4 per cent in the preceding year (*Chart 6.1 & Table 6.1*). Most economic activities registered increases in value added, with the exception of "agriculture, forestry & fishing" and "other services".



The performance of the primary sector was more or less encouraging in 2001. Agricultural level of production was affected by the drought although there was an increase in demand. This increase in demand has encouraged the Ministry of Agriculture and Marine Resources to focus on enhancing production to achieve food security for the next ten years. The

Ministry is aiming to produce 80 per cent of fruit and vegetables locally, whilst all livestock needed should also be produced locally. On a more positive note, a growth was recorded in the number of cottage industry. Another significant development relates to cash crops, whereby the Ministry are targeting a niche in the world market.

Table 6.1
Gross Domestic Product by Kind of Economic Activity
at constant market prices

	1996	1997	1998	1999	2000 ¹	2001 ²
Percentage change	4.9	4.6	5.5	2.9	1.4	0.9
	(R million)					
GDP at constant market prices	2029.0	2122.1	2238.8	2303.7	2336.0	2358.2
Agriculture, forestry and fishing	64.1	65.0	64.4	67.5	67.2	67.0
Mining, manufacturing and Handicrafts	280.0	368.0	389.3	433.4	439.8	434.2
Electricity and water	107.6	128.6	138.5	149.7	156.1	160.3
Building and construction	133.0	148.6	159.7	167.7	175.9	182.9
Transport, distribution and Communications	612.7	597.4	657.1	690.0	721.0	732.7
Hotels and restaurants	89.2	75.9	76.3	72.8	76.0	79.0
Financial and business services	240.9	250.0	242.7	244.8	245.2	249.3
Government services	242.0	224.1	245.0	239.9	237.5	238.2
Other services	259.3	264.5	265.7	237.9	217.3	214.6

¹ Provisional

² Estimate

Source: Management and Information Systems Division and Central Bank of Seychelles.

The fisheries sector also registered a decline in relation to 2000. In terms of catches, all the existing methods, namely artisanal, semi-industrial and industrial fishing, registered declines. Similarly, the lobster season registered a drop in landings when compared to the previous year. The only improvement relating to 2000, was an increase in shark fishing,

which also accounts for the lower level of predatory recorded in 2001. However, exports of fish were on the up, especially through the cannery, although in terms of catch the industrial sector experienced a decline.

With regards to manufacturing, a growth was registered mainly on account of the

Indian Ocean Tuna canning factory. Nevertheless, the foreign exchange shortage, continued to affect growth in the industrial sector, as a substantial of manufacturing input depends on imports. This sector, which has grown in importance over the past few years, has again performed below its full potential. The severe drought that prevailed during the second half of the year also had a negative impact on production of that sector. The production of soft drinks, beer & stout, and mineral water were directly affected by the drought. Adverse effects were also felt in the production of jams, as local output for fruits were also constrained by the lack of rainfall. However, the main manufacturing activity of tuna canning continued to improve in performance with increases in both output

and revenue earned from its exports. On its own, the production of canned tuna increased by 29 per cent compared to the preceding year, and was the main impetus for the recorded growth in manufacturing during 2001.

Following the expansion phase over the past couple of years, the Indian Ocean Tuna (IOT) canning factory is now regarded as the country's biggest manufacturing entity in terms of its value added contribution to the economy. By the end of 2001, exports had risen to R771 million, with IOT becoming one of the major exporters of canned tuna in Europe. Furthermore, IOT has also become the major employer with a total of more than 2500 employees at the end of the year.

Table 6.2
Gross Domestic Product by Kind of Economic Activity
at current market prices

	1996	1997	1998	1999	2000 ¹	2001 ²
	(R million)					
GDP at market value	2588.7	2829.6	3201.0	3330.2	3397.7	3633.7
Agriculture, forestry and fishing	97.4	98.8	84.2	103.2	100.1	99.1
Mining, manufacturing and Handicrafts	321.7	406.8	482.1	503.4	491.7	585.1
Electricity and water	52.5	69.5	80.1	76.1	61.3	63.9
Building and construction	208.1	212.7	264.9	323.5	341.1	354.7
Transport, distribution and Communications	799.6	816.7	963.6	1043.1	1085.8	1150.9
Hotels and restaurants	247.2	268.9	289.5	264.7	295.6	313.3
Financial and business services	287.5	320.8	341.7	350.3	355.0	376.2
Government services	351.0	376.0	410.0	423.0	440.3	469.0
Other services	223.7	259.4	284.9	242.9	226.8	221.4

¹ Provisional

² Estimate

Source: Management and Information Systems Division and Central Bank of Seychelles.

On the construction front, there was a further increase in the sector in 2001, mainly on account of activities relating to the construction of five star establishments, namely *Banyan Tree* and *Beachcomber*. As noted earlier, the drought also affected the number of activities, but again the foreign exchange shortage was the major constraint. Despite the fact that a significant portion of raw materials for the construction industry is locally available, the industry remains largely dependent on imported inputs, notably cement, steel and most of the finishing materials. Among the major construction projects in 2001, were the continuation of housing projects, both by the government and the private sector, and other works relating to the continuation of the East Coast Reclamation Project.

In spite of the country experiencing a further period of drought, the combined output of electricity and water increased in 2001. In nominal terms it registered a growth of 4.2 per cent over 2000. The rise was largely influenced by growth in electricity, primarily due to improved capacities following the completion of the installation of the new generators. In terms of production, there was a 41 per cent growth in electricity output.

For the third segment of economic activity, the tertiary sector, which

comprises of "financial & business services" and "hotels & restaurants", there continued to be strong growth (*Table 6.1-6.3*). At current prices "financial & business services" grew by 6.0 per cent. With the effect of falling prices, it is an area where real growth was achieved in 2001.

Output of the tertiary sector, the largest component of gross domestic product, produced positive results. In terms of tourism activities, the country's main economic activity, there was a 0.2 per cent decline in tourist arrivals in 2001. This was partly influenced by the terrorist attack on the United States. Nevertheless, not everything was gloom as there was a substantial increase in tourism earnings. Compared to 2000, tourism income through the banking sector increased from R600 million to R649 million in 2001, which represented a growth of 8.1 per cent. Furthermore, the higher yielded market targeted by the government has started to have the desired effect on the economy. The *Lemuria* five-star resort has contributed 12 per cent of total tourism income on its own. Repercussions on other areas of the economy such as "transportation" and "other services", contributed to the increased activity in the tourism sector (*see tourism*).

Table 6.3
Gross Domestic Product by Broad Productive Sectors
 at current market prices

	1996	1997	1998	1999	2000 ¹	2001 ²
	(R million)					
GDP	2588.7	2829.5	3201.3	3330.2	3397.7	3633.7
Agriculture, forestry and fishing	97.4	98.8	84.2	103.2	100.1	99.1
Industries	560.6	666.1	800.3	878.2	865.7	975.4
Tourism	370.7	415.4	549.4	538.7	573.9	620.5
Government	351.0	376.0	410.0	423.0	440.3	469.0
Other services	1209.0	1273.2	1357.4	1387.1	1417.7	1469.6

¹ Provisional

² Estimates

Source: Management and Information Systems Division and Central Bank of Seychelles

The R49 million increase in income was a result of the new foreign exchange laws, which allow proper channelling of foreign exchange earnings. Secondly, the newly built five star establishments offer a higher yielded level of revenue. Despite the drop in arrivals, there was minimal negative impact on transportation services, as there was a growth in terms of air transportation, mainly due to the acquisition of two aircrafts, a Boeing 767-300 in April and a Boeing 737-700 by Air Seychelles. There was also a growth in terms of tour operating activities during the year under review.

Other factors boosting transportation were increased activities in the port in relation to both tuna handling following the return of normal weather conditions and an increase in merchandise imports.

There was a further rise in output in the communication sector. The increased

dynamism of this sector reflects stronger competitions between *Airtel* and *Cable & Wireless*, the two rival operators. Both companies registered increases in their output. Through a larger choice of products and cheaper communication charges, the competitive spirit in the sector has stimulated the upward trend since 1999. There was also a further growth in mobile services during 2001, which played a large part in these companies' output.

In relation to financial and business services, the growing trend was maintained in 2001. Firstly, this reflected the rise in banking activities during the year. There was also a further investment in ATM facilities, especially through the Seychelles Savings Bank (SSB) offering such services on a larger scale. The second argument relates to insurance activities, whereby the competition between *Harry Savy* and the well established *State Assurance Corporation*

of Seychelles (SACOS) intensified over the course of the year.

Outlook for 2002 for the economy will depend much on the policies that government pursues. Given present circumstances, the primary focus will remain on addressing the foreign exchange shortage, as it still remains the core of the distortions to economic efficiency. Access to raw materials and other inputs required in the production process has been a constraint especially for producers. This in itself is hampering the export prospects of the country.

For the medium term, a lot will depend on the tourism industry, through the five-star establishments. The early indications are very promising, with most of these hotels operating at near full capacity. With the construction of other such establishments, the industry is expected to boost further the country's foreign exchange revenue.

Besides the tourism industry, the government would be hoping that its effort in promoting increased activity in the area of fisheries would be further exploited to the full. Much hope relies on the tuna-canning factory, which attained a new record in terms of exports during the year under review. The government's plan to have its own purse seining fleet, whereby discussions started with a German

shipping yard, would also be a major boost to the economy in future. The acquisition of an oil tanker, *The Seychelles Pride*, is envisaged to make a significant economic contribution.

2. Tourism

In 2001, the tourism sector continued to play a major role in the economy with an ever-increasing interest in its future potential. With about 55 per cent of the country's foreign exchange earnings, tourism remained one of the principal economic activities in 2001, accounting for an increasing number of employees. For the industry itself, it has been very fruitful, despite suffering a setback after the September attacks in the United States. The two main indicators, which portray the economic vigour of the sector, namely tourist arrivals and income, were generally positive.

Tourism arrivals for the year stood at 129,762, which represented a decline of only 0.2 per cent relative to 2000 (*Table 6.4*). It is worth noting that the tourism data for the year clearly showed an increase up to September, where it had risen by 3.0 per cent in relation to the same period in 2000. Following the September 11th attacks there was a negative impact to the extent that there was a decline in bookings for the following months.

Table 6.4
Tourism

	1996	1997	1998	1999	2000	2001
Visitor nights – thousands	1270	1340	1347	1299	1352	1350
Visitor arrivals – thousands	131	130	128	125	130	130
Average length of stay (nights)	9.7	10.3	10.5	10.4	10.4	10.4
Tourism income – R million	524	612	584	596	600	649
Average expenditure						
Per diem – Rupees	413	457	434	460	445	480
Memorandum						
Hotel bed occupancy rate (%)	57	56	53	53	52	51

Source: Management and Information Systems Division (except tourism income, which is compiled by Central Bank based on commercial bank purchases of foreign exchange from the tourism sector)

In terms of geographical distribution, Europe remained the primary supply of visitors with a market share of 79 per cent despite the terrorist treat. Nevertheless, the September 11th events did have a negative influence on its market share as it fell by 0.1 per cent. France remained the most important market with a 20 per cent share of total arrivals. This amounted to 25,459 visitors, which is 10 per cent short of the previous year's record.

Regarding the other major European countries, there were mixed movements in terms of their market shares. For instance, France, Germany, Scandinavia and other European suppliers all posted declines. On the other hand, the United Kingdom, Italy and Switzerland contributed more tourists in 2001, and thus enhanced their respective market shares. The increases were mainly 6.3 per cent, 6.0 per cent and 4.8 per cent respectively.

All other major markets posted increases in their market share with the exception of Oceania, which remained the same. The number of visitors from Africa, Asia, America and Oceania increased relative to 2000. Increases of 1.0 per cent, 2.8 per cent, 9.9 per cent and 12 per cent were recorded for all these respective markets.

For the second indicator, tourism income, the year registered a new record. Income coming through the banking system rose by 8.1 per cent relative to 2000 to amount to R649 million (*Table 6.4*). This increase was two fold. On the one hand, there are the higher yield hotels, which have come online during the year. On the other hand, the government introduced new measures in relation to foreign exchange transactions. The new amendments to the Foreign Earnings (Regulations) Act make provision for an increase number of services to accept payment in foreign currency. The laws also make sure that

the earnings are channelled through the banking system. These new set of laws were put in place as of June 1.

One of the main developments in the tourism industry during the year has been the continued role of the Seychelles Tourism Marketing Authority (STMA) to promote Seychelles as a safe destination. Through a more focused marketing approach, it helped enhanced and upgrade the contributions of the sector. The prospects of the coming years look positive, especially after it launched its *Vision 21*, which highlighted the tourism development until 2010.

Acknowledging the advantages of the industry for the economy, and the challenges ahead, STMA has set some targets to boost the overall contribution of that sector. In the coming years, tourism in the Seychelles will be expanded gradually, with facilities, services and infrastructure developed to a higher quality level and more activities provided for tourists.

The tourist markets will be broadened to include more nationalities and both general and special interest tourists, and access will be improved to reach more market areas. On the other hand, expenditures per tourist day will be increased and there will be more value-added in the country, which will enhance economic benefits to the Seychelles.

Tourism will also be developed on a sustainable basis and not exceed carrying capacities, and the unique land and marine environment and cultural heritage of the Seychelles will continue to be protected and conserved. Seychellois will continue to be sensitised to the importance of tourism and providing value for money to tourists.

Some of the main tourist projects that were being undertaken in 2001 was a new 100 room 5-star resort, owned by *Banyan Tree*, which was nearing completion by the end of the year, with approvals awarded for further luxury projects. The *Beachcomber* investors purchased the Reef Hotel in order to train prospective workers for the industry and are also constructing a five-star resort on Ste Anne island. Other five star projects are also being considered. These new hotels would further enhance bed capacity in Seychelles and cater for the expected increase in visitor arrivals.

The second notable development is the expansion and upgrade of the Air Seychelles fleet following Air Seychelles' acquisition of a new Boeing 767-300 aircraft, which replaced the Boeing 767-200. There was also the acquisition of a third aircraft a Boeing 737-700 that would operate on regional routes. This development boosted capacity, service its present markets more effectively and allow the tapping of new potential markets.

The airline continued with its code sharing agreements with other airlines during 2001. In October, it signed an agreement with Condor of Germany, which launched a joint flight operation between the two countries. Air Seychelles is also expected to do well financially in the fiscal year 2000-2001. This follows another profitable year of profit estimated at US\$ 1.5 million. The year was the fourth consecutive year of good performance.

On the domestic side, the new airport on Praslin was officially opened on June 23, thus enabling better services and facilities.

The overall prospects for the tourism industry for 2002 look bright, especially upon the completion of the major projects within the industry. It is expected to improve the employment level in the country and increase the economic output further, which would have multiplier effects in the rest of the economy.

3. Agriculture

Overview

During 2001 agricultural output was again on the increasing trend. However, production level was hampered by one of the most severe droughts in recent times. One encouraging note was a general increase in demand for fruits and vegetables and livestock. This has encouraged the ministry to focus on enhancing production and thus achieve food security within the next ten years. Increases were also recorded in the

number of cottage industries. For the future the main aim of the government is to try and produce at least 80 per cent of all fruits and vegetables locally, whilst all livestock for local consumption should be produced 100 per cent by local entrepreneurs.

Another major development is the new interest relating to cash crops, such as cinnamon and essential oils. The Ministry of Agriculture and Marine Resources (MAMR) is targeting a niche in the World market where the demand has definitely gone up. The copra industry has been relatively disappointing as it is labour-intensive and also not too profitable. Concerning livestock, the main concern is to bring in new breeds of pigs to re-orient the bloodlines for better quality pork.

The Ministry of agriculture, through the assistance of the Food and Agriculture Organisation (FAO) and the European Union (EU) has benefited in improving the facilities such as roads, water systems and also the control of fruit flies and pests.

On a more encouraging note, a New Agriculture Policy (NAP) has been drafted for the next decade to achieve a higher food security through a sustainable agricultural production. The government would be the facilitator of this policy, with the co-corporation of private entrepreneurs a crucial ally in achieving the necessary targets.

Fruit and Vegetables

Data of purchase of fruits and vegetables by the SMB - the traditional measure for local production of fruits and vegetables - showed an overall decline during 2001. During the first half of the year there was an increase in locally produced items, influenced by a general increase by local entrepreneurs. However, the severe drought that prevailed in 2001, particularly in the second half of the year hampered the local production of fruits and vegetables, which fell by 26 per cent relative to the previous year. Nevertheless, there was an increase in demand for fruits, which encouraged the MAMR to increase the capacity of provision of planting materials in order to increase supply. During the year, there was also the notion whereby there was an

increase in the number of cottage industry. This encouraged the production of cassava, papaya, banana, to be used for chips and jams. So generally, there were more individuals interesting in crops and planting methods.

The output for vegetables was also very satisfactory. However, imports still account for total supply of vegetables. This is because of certain environmental conditions, which constrain the production of certain vegetables. Nevertheless, production of tomato, lettuce and cabbage still relies on local output. With the reduction in local production, the opportunity cost was an increase in imported items, which was 4.4 per cent higher in relation to the previous year.

Table 6.5
SMB Purchases of Vegetables and Fruits

	1996	1997	1998	1999	2000	2001
			(tonnes)			
Total	5,481	5,409	5,964	6,097	6,349	6,545
Local	333	160	247	388	278	206
<i>Change (%)</i>	51	-52	54	57	-28	-26
Imported	5,148	5,249	5,717	5,710	6,071	6339
<i>Change (%)</i>	17	2.0	8.9	-0.1	6.3	4.4

Source: Seychelles Marketing Board

Cinnamon

Cinnamon production, which is one of the country's major traditional cash crops increased relative to the previous year. According to production indicators published by MISD, cinnamon warehouses deliveries increased by a staggering 648

per cent. From an output of only 25 tonnes in 2000, it amounted to 187 tonnes in 2001. As for exports, there was a 17 per cent decline relative to 2000. There were also some promoters in the production of essential oils, like vanilla.

Copra

Unlike cinnamon, copra experienced an increase in both delivery to warehouses and exports. According to the indicators, deliveries rose by 12 per cent whilst exports increased by 38 per cent. In terms of exports, the year's output was higher than in 2000, but all exports were in the first nine months, whilst there was no exportation in the fourth quarter. There are two setbacks that have been identified as the downfall of copra production. The

first one is that it is labour intensive and secondly, it is not profitable in the world market.

Tea

The year 2001 was another setback for tea production, which resulted from the persistent drought throughout the year. Relative to 2000, production fell by 6.1 per cent totalling 231 tonnes (Table 6.6). Prospects for the year will again depend on improvement of the weather conditions.

Table 6.6
Crops

	1996	1997	1998	1999	2000	2001
			(tonnes)			
Copra (exports)	0	0	0	0	52	72
Copra (warehouse deliveries)	393	314	259	301	377	421
Cinnamon bark (exports)	318	220	289	214	177	147
Cinnamon bark (warehouse Deliveries)	280	241	478	385	25	187
Tea, green leaf (processed)	223	270	250	236	246	231

Source: Management & Information Systems Division

Other developments in agriculture

In the year 2001, the Ministry of Agriculture continued to improve farm infrastructure. This led to improved roads and irrigation reservoirs. There was also the African Development Bank (ADB), which financed integrated agricultural project, which was completed in December 2001. This project resulted in improved water systems and roads particularly at La Gogue, Anse Boileau, Praslin and Val D'en Dor. Foreign assistance was also received from the

Food and Agriculture Organisation (FAO) for projects relating to farm development systems. This includes new approaches for higher productivity, and making research and production become closer so that individual farmers can fare on their own. Another foreign assistance was from the European Union (EU), which was for the control of infestation of fruit flies and pests. This particular project, which has two different stages started in 2001. Finally, the Seychelles government financed the importation of new blood

lines for pigs. This project was to induce a new breed of pigs, as a solution to in breeding.

4. Livestock

During the fiscal year 2001, livestock reflected the general trend in agriculture, with an increase in production. The impetus for livestock production was again centred towards local production. Firstly in relation to chicken production, it can be said that the output from broiler chicken was fairly stable. There was an increase in demand for meat according to prevailing trend. As regards layer chickens, the outcome was more encouraging, with production increasing. There was also increase in the supply of eggs fuelled by increasing demand, thus creating a glut in

the market. Nevertheless, it is difficult to change policies relating to chicken production although there is a higher demand with the extra hotels and specific demand for chicken products. The total production thus is still made up of 20 per cent of imported products, with the rest accounted for by local production.

In relation to pork, there was a general increase in production. Local demand is catered for by 60 to 70 per cent of total production, with the rest being imported for processing. There has been an increase in farm gate prices which has encourage people to go in the industry, and thus has increase the total participation in production.

Table 6.7
Livestock (slaughters)¹

	1996	1997	1998	1999	2000	2001
	(units)					
Cattle	162	91	123	139	147	129
Pigs	5,302	5,165	6,430	6,629	8,619	8,648
Chicken ('000)	720	806	684	695	734	700

¹ *Le Rocher Abattoir only*

Plans for 2002

The Ministry responsible for agriculture has outlined a New Agricultural Policy (NAP) 2000-2010 for the coming decade to replace the current Agricultural Sector Policy formulated in 1992/93. The main target of the NAP is to present new opportunities and challenges in national

food security. This means that new targets have to be set in national agricultural production. This development is to bridge the gap in knowledge and understanding of all factors that constrained national agricultural production. The Ministry also believes that to achieve its overall objective of a higher food security through

sustainable agricultural production, it would have to entail both arable crops and livestock production, primarily in domains where there are comparative advantages. At the end of the planned period, it is envisioned that all the poultry meat and pork that is to be consumed should be produced locally, whilst 80 per cent of fruit and vegetables would be produced locally. The other two important facets of national food security, import and storage would be dealt with by other government policies and institutional mechanisms. The new policy also spells out the role of government as facilitator, whilst the private sector would be encouraged to directly engage in national agricultural production.

On a shorter time period, for the coming year 2002, the ministry has targeted an increase in the volume of fruit and vegetables production. Increasing the consumption of these two commodities would enhance the health of the Seychellois as illustrated by current trends. Secondly, production needs to increase because of the increase in demand, especially for vegetables. To increase the production of fruits, the Ministry would also be encouraging the entrepreneurs of cottage industry. The high demand has also alerted the Ministry to review its land policy, whereby it will try to increase area for production. The need for an increase

in pig production is yet another aim of the ministry, especially with the intention to inject new blood lines.

Finally, the ministry has identified the need to exploit cash crops and essential oils production. They will need to create a niche, as demand exists on the world market.

5. Fisheries

The year 2001 was not a particularly good year for the fisheries industry. According to the statistics obtained from the Seychelles Fishing Authority (SFA), catch through all the existing methods of fishing, namely artisanal, semi-industrial and industrial, all registered declines.

Similarly, the lobster season, which was opened from November to January for the third consecutive year, indicated a sharp drop in landings estimated at between 4.5 to 5.0 metric tonnes compared to 10 metric tonnes in the previous year. The fishery was also closely monitored with night patrols organised, and catch and effort data collected on a regular basis.

On the other hand, there was an increase in shark fishing, as there is a high value for their fins on the international market. The opportunity cost of these landings was a reduction incurred in tuna and swordfish landings, especially via long-lines.

5.1 Artisanal and semi-industrial fishing sector

In 2001, landing through artisanal fishing catch which represents fishing along the coast (including through the use of traps)

decreased slightly to 4,290 metric tonnes. This represents a 474 metric tonnes decrease or 10 per cent fall over the previous year's level when landings totalled 4,764 metric tonnes (Table 6.8).

Table 6.8
Estimates of Fish Landed

	1996	1997	1998	1999	2000	2001
	(Metric tonnes)					
Artisanal method	4,510	4,095	3,334	4,842	4,764	4,290
Semi-industrial (longline)	210	311	280	457	290	238
Industrial method						
- Caught	265,658	271,095	252,595	331,424	330,340	277,000
- Transhipped	163,657	200,279	151,592	257,447	269,673	235,000

Source: Seychelles Fishing Authority

The fuel voucher scheme was again renewed last year with certain allocation to individual fishermen reduced. Other fishermen who did not meet the required criteria had the allocation cancelled altogether.

During the last month of 2001, all the various components of the Japanese Grant Aid project was received and preparation was started to begin selling the engines and equipment in early January 2002. The project, valued at R25 million, involves the acquisition of an ice plant of 5 metric tonnes daily capacity situated at Anse Royale, which became operational in December 2001, 60 inboard engines, 5 fishing vessels and an assortment of fishing gears and equipment to be sold to local fishermen.

Besides artisanal fishing, SFA continued to concentrate its effort to promote the development of the semi-industrial long-line fishery targeting tuna and swordfish. One more vessel from Sri Lanka, a 22-metre long-liner financed under the EU disbursement project joined the existing fleet. This brought the total number of long-line fleet to 10.

During the year, the fleet landed a total of 238 metric tonnes of tuna and swordfish compared to 290 metric tonnes in 2000. The year's output comprised of 51 per cent swordfish and 30 per cent tuna. The year also saw a decline in the predation rate, dropping from 11 per cent in 2000 to 6.0 per cent. On the other hand, several of the semi-industrial boats carried out trips specifically targeting sharks due to the high value of their fins on the international

market, and this explains the decline in the landings of tuna and swordfish.

5.2 Industrial fishing

The purse seining fleet remains the most important fleet in industrial fishing, which at the moment is done entirely by foreign vessels. The policy of the government with regards to this type of fishing is to licence the foreign vessels, whilst attempting to derive maximum benefit from using Port Victoria. During the year 2001, 52 vessels were licensed to fish in the Seychelles EEZ, compared to 51 in the previous year. The total purse seine catch for last year was 277,000 metric tonnes compared to 330,000 for the year 2000, representing a decline of 16 per cent (*Table 6.8*). There was an increase in transshipment activity. In 2001, 85 per cent of the total catch (235,000 metric tonnes) was transhipped compared to 82 per cent (269,000 metric tonnes) in the previous year.

Furthermore, the Seychelles government over the past years has recognised the advantages of having their own fishing fleet, which would generally reduce importation. In 2001, discussions between the Seychelles government and a ship building company, Lindenau GMB, started for Seychelles to own its own purse seining fleet.

As regards industrial long-lining activity the number of licences increased drastically for the year 2001. Over R9.0

million in licence fees were collected compared to R5.8 million in the previous year.

Outlook

In 2002, the SFA would continue to implement the projects initiated during the year 2001, of which the most important are the fisheries management measures for monitoring and control of the Fishery Reserves in the Southern Island Groups, the fuel voucher scheme and the Vessel Monitoring System (VMS) programme. The implementation of the VMS programme would continue to receive high priority and it is planned that the program would be operational by mid-2001.

It is also planned that the Japanese Grant Aid project would become fully implemented during the course of the year in order to promote the development of the local artisanal fishing industry.

5.3 Aquaculture (Prawn Farming)

The year 2001 was the seventh year that the aquaculture industry, more specifically the production of prawns, has been in operation. The industry, which started in the mid-1990s by the Seychelles Marketing Board (SMB) as part of its endeavour to diversify its operations, especially its export-oriented activities is recognised for its high business risks and the corresponding high returns. The profit margins are among the highest compared to other industries due to the ever-expanding demand in the global market.

At the outset, production was relatively high as the environment on Coetivy was well endowed for prawn farming. With increases in world demand, the project induced increases in revenue. However, in 1999, production suffered a setback due to uncontrollable environmental factors. The overall production was hindered by a non-availability of brood stocks, from Mozambique (floods) and Madagascar (disease). This also resulted in a drop in exports. However, in 2000 both production and exports picked up again.

During 2001, the Coetivy prawn farm produced 281 metric tonnes of shrimps, which is 34 per cent less than the previous year. This is mainly attributed to the hatchery not producing enough post larvae and again the problem of obtaining brood stock. On the other hand, there was a 12 per cent increase in the export of prawns. A total of 279 metric tonnes was exported in 2001. The SMB feed factory also exported 4,500 metric tonnes of shrimp feed. The plant has a capacity of 6000 metric tonnes.

6. Industries

The fiscal year under review was yet another difficult year for the industrial sector, particularly in the first half of the year and for the small to medium sized industries. The main reason being the shortage of hard currency for imports one of the main components for industrial activity. Most of these entities produced below their potential level. Information on industrial development in 2001, based on surveys from the major enterprises,

indicated that this was another difficult year for industry. The survey showed that the foreign exchange shortage was the main factor hindering growth prospects across industries. Amongst other factors affecting output in 2001 was the severe drought, particularly in the latter part of the year. Industries, which consume a considerable amount of water, particularly the brewery was the one principally affected by this constrain.

Despite the gloomy picture for the industrial sector, the outcome of the **Indian Ocean Tuna (IOT) canning factory** was a success story. The canning factory remained the country's biggest manufacturing entity in terms of employment, output and revenue. On the employment front, the company now provides employment for just over 2500 employees whilst with regards to revenue for the first half of the year, a turnover of R406 million was achieved which was 33 per cent above the amount earned for the same period a year earlier. By the end of 2001, the total value of exports increased in line with production, rising by 27 per cent to R771 million in relation to the preceding year. The factory was able to meet most of its external demand particularly in the European market. The United Kingdom remained the major market with a 41 per cent share of total exports. During the year, Seychelles became the major exporter of tuna to Europe with both France and Italy, moving to IOT as their main supplier.

On the other hand, **Kreol' Or**, an entity, which produces gold jewellery and craft items, experienced contrasting outcomes although it registered a general decline in its turnover. Its gold section saw a reduction in production and thus its turnover due to the foreign exchange problem. This was compensated by its craft section whereby sales increased from R815,297 in 2000 to R914,726 in 2001.

The level of production of gold jewellery fell compared to the preceding year, which followed the same trend as the value of sales. As for the craft section, the increasing trend was maintained in its production, thus explaining the rise in sales figures. Compared with 2000 figures, there was a 40 per cent drop in the exports of the company, as it is difficult to purchase raw materials for its gold section and also to offer proper marketing campaign overseas. In terms of investment, **Kreol'Or** was considering to purchase the premises where the factory is located or even purchase a new factory.

7. Employment

During the year 2001, there was a further growth in employment according to the records of the Social Security Fund. Relative to 2000, employment grew by 882 or 2.2 per cent, as illustrated below in *Table 6.9*. Compared to 39,381 people

employed in 2000, the total number of people officially employed in the year under review stood at 40,263. The overall growth in employment was reflective of both the private and parastatal sectors, which posted growth of 6.0 per cent and 5.8 per cent respectively. The private sector accommodated 1,191 new employees, whilst 322 employees joined the parastatal sector. This was at the expense of government employment, which declined by 4.5 per cent or by 631 workers. By the end of the year, the stock of employment pool at the private, parastatal and government sectors stood at 20,944, 5, 872 and 13, 447 respectively.

In the private sector, the increasing pace of growth in the manufacturing, tourism and other related services was the main factor in the expansion of job creation. Further intakes by the Indian Ocean Tuna Canning factory, parallel to further expansion, was the dynamo in the new placements in manufacturing. In the tourism sector, the opening of new hotels increased the number of vacancies in that economic activity, which thus caused a corresponding effect for the other related services.

These developments in the labour market had certain effects on the share of each

sector in total employment, albeit only marginal. With the growths, the private sector rose by two-percentage points from 50 per cent to 52 per cent. Likewise the parastatal sector's share rose by one

percentage point to 15 per cent. As a result, the opportunity cost was a three-percentage points decline in the government's share of total employment, which left its share at 33 per cent.

Table 6.9
Employment

	Dec. 1996	Dec. 1997	Dec. 1998	Dec. 1999	Dec. 2000	Dec. 2001
	30,935	33,328	36,207	37,465	39,381	40,263
Private Sector	13,534	16,486	17,675	17,908	19,753	20,944
Parastatals	4,836	5,368	4,921	5,100	5,550	5,872
Government	12,565	11,474	13,611	14,457	14,078	13,447

Source: Social Security Fund

8. Earnings

According to data from MISD, for 2001 the average monthly earnings rose by 1.6 per cent compared to last year. In 2001 the 'all sectors' average monthly earnings at current prices reached R3,385 compared to R3,332 in the previous year (*Table 6.11*). This rise in earnings was mainly attributed to the private and government sectors employees whose average monthly earning grew by 3.1 per cent and 0.6 per cent respectively. On the other hand, parastatal sector employees saw a 1.2 per cent fall in their average earnings. From an average of R3,693 in 2000, it fell to R3,648 in the year under review.

The growth in earnings was induced by increases in most of the industries

involved with the exception of "wholesale & retail" which posted a decline in average earnings by R105. The highest increases were recorded in respect of wholesale and retail trade, and restaurants, which grew by 5.7 per cent and 5.4 per cent respectively. The latter reflects the increased activities in the tourism industry over the past year particularly with the introduction of 5-star establishments.

During 2001, private sector employees working within the non-tourism related 'transport storage and communication' industry registered the highest average earnings at R4,937. The lowest earning in the sector was in relation to wholesale and retail trade, which earned R2,390 on average.

In the government sector, public administration employees were the highest earners with an average of R3,949, whilst

in the parastatal sector, tourism related employees were the top earners with R5,475.

Table 6.10
Average Monthly Earnings

	1996	1997	1998	1999	2000	2001
	(rupees – current prices)					
Private Sector	2,911	2,954	3,135	3,250	3332	3385
Parastatals	2,719	2,651	2,829	2,990	3094	3189
Government	3,180	3,429	3,725	3,669	3693	3648
	3,103	3,251	3,410	3,474	3561	3581

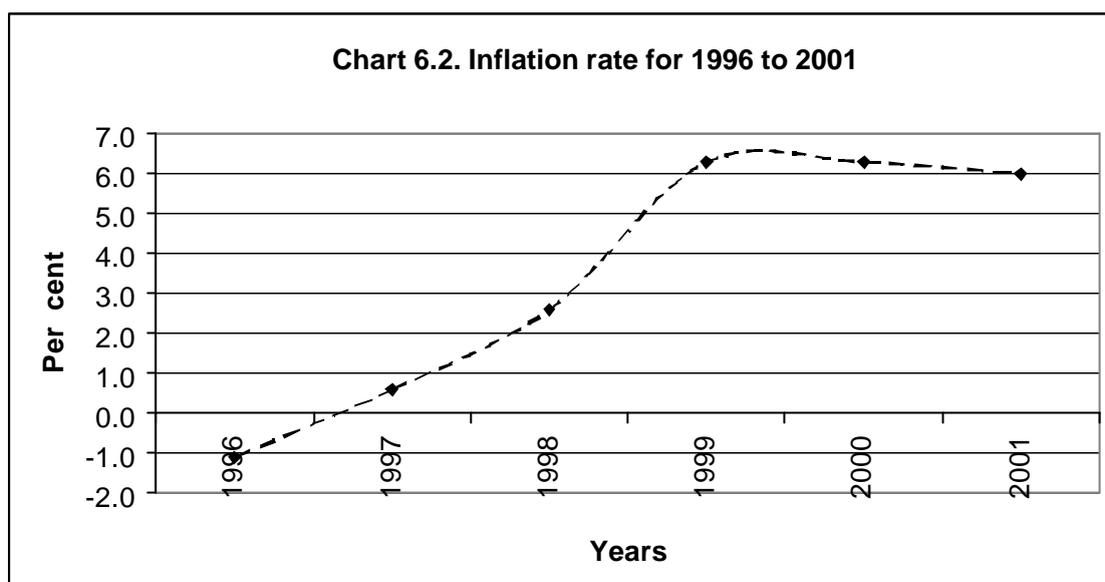
9. Prices

Since 1982, through a stable economic environment and a system of price control, the Seychelles economy was characterised by low and stable inflation for a period of eighteen years. This trend ended in 1999, following a surge in inflation, which prompted a concerned reaction by the authorities. The retail price index (RPI), which measures movements in prices, indicated a 6.3 per cent increase by the end of that year. This was the highest growth since the early 1980s.

Throughout the year 2000, this high level of prices persisted, averaging 6.3 per cent, thus maintaining the same level of prices as in the previous year. The government had as one of its priorities to curb this prevailing level of inflation. At the beginning of 2001, no major change occurred, prompting the authorities to find ways of cutting down the average inflation rate.

By the end of the year under review, there was a slight fall in prices, with the year's average standing at 6.0 per cent (*Chart 6.2*). This deceleration in the rate of inflation was mainly attributed to a significant decline in the prices of fish and to a lesser extent the prices of local products (food & non-food). A growth of 4.7 per cent was registered in the price of the local goods index, a slowdown, compared to a 7.2 per cent increase in the previous year.

In actual fact there was a decline in the prices of certain imported items, as the government targeted private merchants to sell at the right retail prices. The majority of imported products are invoiced in US dollars, and the year saw a further depreciation of rupee against the dollar. This explained the general increase in the prices of imports.



The index of fish prices, which fell in 2001, influenced the slowdown in the prices of local items. As there was a return to normal weather patterns, the supply of fish was relatively high which in turn induced the fall in the price of fish.

A more detailed analysis of the different components of the price index shows that there was a general increase in the prices of both the *'other food'* and the *'non-food'* categories. This implied that the price of fish was the pivotal factor in the slight drop in overall prices. Nevertheless, certain components of the other two major categories did register declines in prices relative to the year 2000.

For the *'other food'* category, the prices of "dairy products, oil & fats" and that of "other food & non-alcoholic beverages" rose by 1.2 per cent and 0.9 per cent respectively. On the other hand, a 0.8 per cent rise in "housing costs" was the component relating to the *'non-food'* category. These drops in prices also played a part in the improvement in prices, albeit a slight influence.

As mentioned above, the price of fish was a key element in the improvement of the inflation rate. Relative to the previous year, it fell by 14 per cent. This was attributed to the normal climatic conditions, which had caused an increase in fish landings.

Table 6.11
Composition of Retail Price Index¹

		1996	1997	1998	1999	2000	2001
	Weights						
			(percentage change)				
All Items	1,000	-1.1	0.6	2.7	6.3	6.3	6.0
Local	656	-1.3	0.4	3.2	4.4	7.2	4.7
Imported	344	-0.5	1.2	1.3	10.3	4.4	8.4
Fish	32	-7.3	12.0	10.8	-15.3	-6.5	15.5
Other Food Items	234	-2.2	0.7	1.0	1.9	2.9	3.2
Local	119	1.9	1.0	1.5	0.9	4.5	2.7
Imported	115	-2.6	0.3	0.3	3.3	0.7	3.8
Non-Food Items	734	-0.4	0.0	2.7	8.6	7.7	6.1
Local	505	-0.9	-0.5	3.0	6.7	8.6	4.6
Imported	229	0.3	1.4	1.8	12.9	5.5	9.8

¹ Period averages.

Source: Management & Information Systems Division

SECTION SEVEN

Offshore and Investment Developments

1. Overview

During the year, activity in the offshore sector, which is managed by the Seychelles International Business Authority (SIBA) improved further when compared to 2000. Firstly, there was an increase of 503 International Business Companies (IBCs) above the total registered in the previous year. Since 1996, this has been the highest recorded growth. Secondly, each quarter of the year recorded the highest ever number of registration to date, which brought the total registered IBCs for the year to 1,854.

Furthermore, a total of eleven new companies were awarded licences to operate within the Industrial Trade Zone (ITZ). The year also saw the registration of eleven new trusts, with the final quarter accounting for six of them.

The companies that were licensed in 2001 were involved in a wide range of activities. One such activity is the re-

distribution of EPSON point of sale equipment to African states. Furthermore, the SIBA screening process ensures that only projects with a high-value added nature and not detrimental to the environment should be accepted. There were also some significant expansion on existing companies, such as Chelle Medical and Planus Dental Technology.

There was a record R309 million in revenue generated from tuna industrial fishing in 2000. This left the net revenue, which includes expenditure in Port Victoria, foreign fishing vessels expenditure and license fees payments, to around R170 million.

In February, SEYSAT Limited, a joint venture company between the Seychelles government and a foreign company, leased the SEYSAT-1A slot to a satellite operating company, NEWSAT-1. The SEYSAT slot project was first initiated by the government in 1988, following the

availability of commercially attractive, but unclaimed slots.

DISTAFRIC Company Ltd started its operations within the SITZ. The company specialises in importing IT products in bulk, store them in Seychelles, and then re-export them to Zimbabwe, Kenya and South Africa.

A workshop involving the commercial implications of interconnection was held at the Berjaya Beau Vallon Bay Resort in July. Forty delegates from the Commonwealth Telecommunication Organisation (CTO) attended the five-day workshop, which was officially launched by Mr Errol Dias, the Principal Secretary for Information Technology and Communication.

Seychelles first Internet Service Provider, ATLAS, announced its plans for expansion to its stakeholders. The expansion, which involves the acquisition of 60 additional modems to add to the existing 30 analogue ones, was expected to make ATLAS one of the fastest hubs in the region. Further expansion by ATLAS included the added international roaming services to its customers.

The Savings Bank of Seychelles became the fourth local bank to become a member of VISA International network. The project, which became operational in September, was expected to be followed

by another venture, which involves the issue of its own VISA EFTPOS terminals to retail outlets. This would enable payments to be made by credit and debit cards.

The Banque Francaise Commercial (BFC) adopted a more professional approach following a change in management. The bank has also increased its staff by 25 per cent. Two further developments is the launching of Internet banking in October, and the expansion in its ATM facilities from 5 to 6 machines by the end of the year. The bank has also agreed to cater for the needs of IBCs, ITZ companies and other offshore corporate customers.

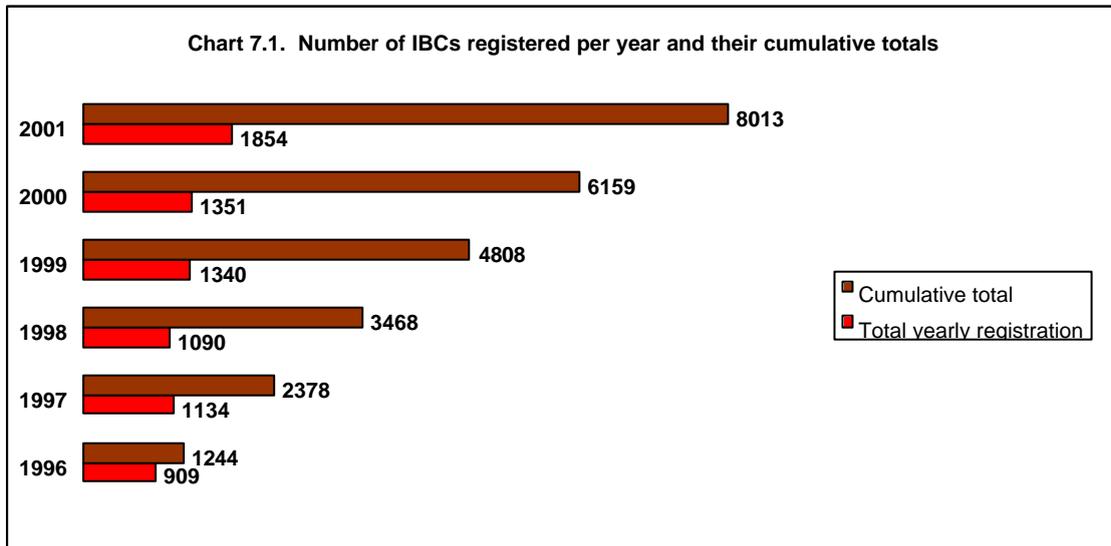
The Investment Desk issued an additional 21 'certificates of approval' under the Investment Promotion Act (IPA) 1994. At the end of 2001, a total of 119 companies had attained the IPA stature after their approval by this body, with companies in relation to 'tourism development investment' receiving the bulk of these certificates.

During the year, the Seychelles Industrial Development Corporation (SIDEK) reported that it had approved 57 cases for assistance at a value of R78,000, whilst total disbursement stood at R597,300. The European Credit Line Project, which is also under SIDEK's auspices, sanctioned a total of R629,100 worth of loans, whilst disbursing R594,000 in 2001.

2. Offshore developments

The registration of International Business Companies (IBCs) by the Seychelles International Business Authority (SIBA) was a key component of the country's offshore sector. These IBCs are incorporated in Seychelles through 18 registered agents, and these agents offer the marketing for the country's offshore services abroad. An IBC could be registered in less than 2 hours, which is the minimum reported time for registration. During the year, a record 1,854 new

International Business Companies (IBCs) was registered with the Seychelles offshore industry. Relative to the aggregate figure of 1,351 for 2000, there was an increase of 503 IBCs in 2001, representing a 37 per cent growth in registration. Since 1995, there has been an increasing trend in the number of registered IBCs (*Chart 7.1*), bringing the aggregate number of IBCs registered with SIBA to a total of 8,013 at the end of the year under review.



Furthermore, the year was a record breaking one for SIBA. All the respective quarters of the year recorded the highest number of registration to date. The recorded number of registered IBCs from quarter one to quarter four were 440, 513, 422, and 479 respectively. This performance is an indicator of SIBA's established position as an offshore centre. Over the past year, 11 new companies were licensed to operate within the

Seychelles International Trade Zone (SITZ). The fourth quarter again accounted for the lion's share of activity with 3 companies being licensed. Nevertheless, it can be said that the limited number of activities and the delay in completion of infrastructure of the zone are constraints that are holding back the applications of prospective companies for setting up their respective projects. Furthermore, eleven trusts were registered

during the course of the year, bringing the total number to 32 by the end of the year. During the fourth quarter, the company registered six trusts, the highest figure in one quarter.

Since the establishment of the SITZ in 1995, the year 2001 has been the most successful year on record. The companies that were licensed were engaged in a wide range of activities. One notable activity is the redistribution of EPSON point of sale equipment. This involves the sea-to-air redistribution concept, whereby the products are imported in bulk by sea, stored in Seychelles and exported to African countries by air.

There are currently 24 active SITZ companies, which have passed the screening process of the SITZ Authority. This screening ensures that accepted projects are those, which will have a positive impact on the local economy, of a high-value added nature and not detrimental to the environment.

Some existing companies, namely Chelle Medical and Planus Dental Technology were undergoing significant expansion process. The former is involved in the light assembly of laryngeal masks, whilst the latter deals with the manufacturing of dentures and other products.

The SITZ with US\$150 million per annum accounts for 22 per cent of all exports from Seychelles. It is expected that once the newly licensed companies are in place, there will be a significant improvement in total exports.

After experiencing a drop in 1998, revenue from industrial tuna fishing activity experienced an upward trend. Total revenue reached a record R309 million (US\$56m) in the year 2000, with net revenue standing at R170 million (US\$31m). By the end of 2001, it was expected that the same pattern would be maintained. Net revenue comprised vessel expenditure in Port Victoria, spending by foreign fishing companies and payment of licenses for access to the Exclusive Economic Zone (EEZ).

The commercialising of a satellite orbital slot network, SEYSAT, first initiated by the government in 1988, started during the year. The project was initiated when there were a few unclaimed but commercially attractive orbital slots. SEYSAT is to be developed into a four-slot project, SEYSAT-1A, up to SEYSAT-4A. According to SEYSAT Limited General Manager, Dr George Ah-Thew, SEYSAT is a joint venture between the Seychelles Government and a foreign company, which aims to maximise the commercial benefits from the slots and spectrum

resources made available to Seychelles. The foreign company, which specialises in orbital operations and provides the satellite to commission the slots, holds 80 per cent of the shares. Since February 2001, slot SEYSAT-1A has been leased to NEWSAT-1, a satellite operating company. The satellite slot leasing is expected to generate joint venture revenue in the coming years.

DISTAFRIC Company Ltd, begun its operations from its facilities in the SITZ. The company was set up for the re-distribution of IT products to the African markets. It is the regional distributor for Sub Saharan Africa of EPSON point of sale and technology products. Such products are stored in the SITZ, after being imported in bulk from China, Philippines and Japan by sea. The products are then air freighted to countries such as Zimbabwe, Kenya and South Africa for delivery.

In July forty delegates from the Commonwealth Telecommunication Organisation (CTO) member countries attended a five-day workshop at the Berjaya Beau Vallon Bay Resort. The workshop was officially launched by Mr Errol Dias, the Principal Secretary for Information Technology and Communication. The theme of the discussions involved the commercial implications of interconnection.

The country's first Internet Service Provider (ISP), ATLAS, marked its 5th year of operations by assuring its customers and stakeholders of its commitment to further upgrade its systems and services. It is expected that it will become one of the fastest hubs in the region, increasing its 64Kbps and 30 analogue modems with the installation of 60 additional modems. This will increase ATLAS bandwidth of incoming calls to 4Mbps. During the middle of 2001, ATLAS started to offer the services of international roaming to its customers.

The Seychelles Savings Bank (SSB) invested over Rs1 million (US\$182,000) in a major VISA project, which became operational in September. This follows the bank's ongoing endeavours to keep abreast of technological innovation and upgrade its customer services. This development has made SSB the fourth local bank following Novobanq, Barclays and Banque Francaise, to become a member of VISA international network. Another venture to issue its own VISA EFTPOS terminals to retail outlets is currently underway.

Banque Francaise Commercial (BFC) has taken a new focus on professionalism, better services and improved efficiency following a change of management. This has resulted in a 25 per cent increase in its staff, and has selectively recruited

professionals at managerial and clerical levels. It was also expected that the number of its ATM would be increased from 5 to 6 by the end of 2001. The bank also started their Internet banking in October. The bank is also dedicated to cater for the specific needs of International Business Companies (IBCs), ITZ companies and other offshore corporate customers.

3. Investment

3.1 The Investment Desk

During the year 2001, the onshore investment in Seychelles maintained its growing trend, which started in the previous year. The investment desk accorded 21 new businesses the Investment Promotion Act (IPA) status, compared to 14 in 2000. Furthermore, there were two tourism related businesses, which renewed their IPA certificates. Out of these 21 new businesses, 15 were 'tourism development' investment, 3 were 'agriculture and marine resources' investments, 2 were 'industrial and manufacturing sector' and 1 was 'professional services' investment. The 'boat charter' and the 'yachts and liveaboard' categories had the bulk of the 'tourism development projects' with 5 new businesses being granted IPA status each.

Since the IPA came into effect in 1995, there has been 108 Certificates of Approval that has been issued. The bulk of these certificates were issued to

companies in relation to 'tourism development investment' category with 69, which reflects the government's persistent attempt to provide incentives to develop and promote the country's main service industry. The other 47 companies issued with certificates were as follows: 17 were 'professional services' investment; 13 were 'industrial and manufacturing sector' investment; and 17 were 'agriculture and marine resources investment. The remaining one was on account of a latest category, the 'professional services investment'.

3.2 SIDEC

3.2.1 Young Enterprise Scheme

During 2001, a total of 1,109 applications for financial assistance were received by the Small Business Bureau (SBB), which manages the Young Enterprise Scheme (YES), under the patronage of the Seychelles Industrial Development Corporation (SIDEC). The Loans Committee reviewed 466 viable cases, of which only 57 were approved for assistance at a total value of R78,000. However, disbursement during the year amounted to a total of R597,300, which comprised partly of loans approved during the year and outstanding loans approved prior to 2001.

Since it was launched in 1996, a total of R51.1 million in loans for 1,513 small enterprises have been approved, of which a total of R49.3 million has already been

disbursed. In terms of financial assistance, the "fishing" sector remained the major beneficiary with a share of 20 per cent of the aggregate borrowing under the scheme. This reflected the government's effort to enhance the artisanal and semi-industrial fishing sector, and thus highlighted the role of fisheries in the economy. Other major beneficiaries of the YES scheme includes the "retailing", "social services", "maintenance" and the "agricultural" sectors with shares of 14 per cent, 11 per cent, 10 per cent and 9.0 per cent respectively.

3.2.2 European Union Credit Line Project

Under the European Union Credit Line Project a total of R629,100 in loans were

sanctioned, whilst disbursement stood at R594,600. Since the project was inaugurated in 1995, a total of R4.1 million has already been disbursed out of the R7.0 million grants available under the credit line at a concessionary rate of 30 per cent per annum.

Carpentry and handicraft businesses have received the main assistance under the project's finance with a combined share of 53 per cent of all total loans under the project. The districts of Mont Fleuri has benefited the most under the project with a share of 7.9 per cent of total loans. However, English River and Anse Boileau remained major beneficiaries under the project with a share of 7.2 per cent of total loans each.

SECTION EIGHT

Operation and Administration Of the Central Bank¹

1. Overview

In its ongoing role as the monetary authority, the Central Bank continued to ensure that the financial system was working efficiently throughout the year. This was done through the compliance of financial institutions to the respective acts, namely the Financial Institutions Act. Furthermore, the Bank continued to assist the government in monitoring the economic performance and to implement new measures for further progress.

In terms of policy measures during the year, there were changes to two key indicators under the ambit of the Bank. The first one is related to interest rates. The last change in interest rates was effected in September 1998 when the Bank reduced the minimum savings to 3.0 per cent and that of the maximum lending rate to 10.0 per cent. Since then, these two rates have remained stable. As of November 1, 2001, the Central Bank abolished the maximum lending rate and

the banks are now allowed to set their own lending rate. The second main indicator that was changed relates to the local assets ratio. This ratio dictates how much the commercial banks have to invest in government paper. Since November 1, 2001, this ratio has been reduced to 50 per cent, down from 70 per cent, implemented in September 1998.

2. Banking Services

2.1 Currency and Banking Operations

The Banking Services Division is responsible for the issuing of currencies; managing accounts held with the Bank on behalf of the government, commercial banks, other local financial institutions, foreign government agencies and international agencies. It is also accountable for the daily financial transactions of the Bank and administers temporary advances made to the government, whilst closely monitoring the external reserves. The sale of the

¹ All the data presented in this section is actual.

numismatic coins and dealings in notes and coins with dealers abroad remained another responsibility of the Division.

2.1.1 Government accounts

The government continued to rely to some extent on the Central Bank to finance its budget deficit. Total advances at the end of the year averaged to R494 million, which is R436 million higher than the average amount of the previous year (*Table 8.1 & Chart 8.1*). Likewise, there

was a 19 per cent increase in the end of period advances for the year amounting to R472 million. It is worth noting at the outset that total advances to the government is made of two main components, namely short-term advances; and foreign loans borrowed by the Central Bank on-lend to the government. At the end of the year, short-term advances amounted to R116 million and the difference was the foreign loan component on lending.

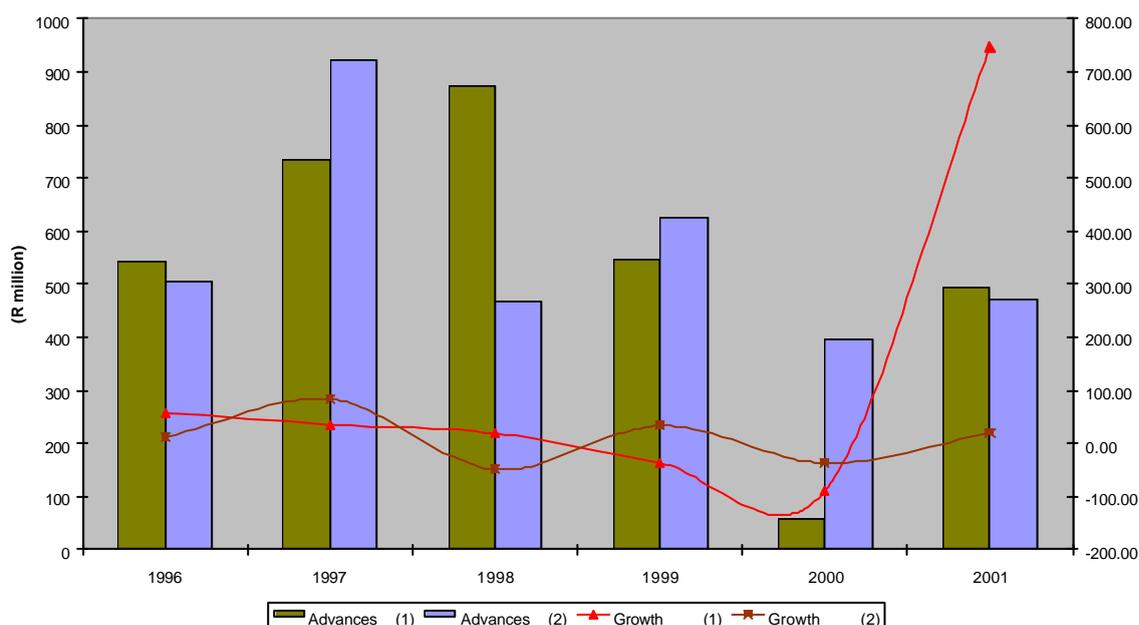
Table 8.1
CBS Advances to government; 1996-2001

	1996	1997	1998	1999	2000	2001
	(R million)					
Advances ¹	542.4	734.6	874.8	547.2	58.3	493.9
Advances ²	503.6	923.2	469.0	623.9	395.9	472.4

¹ Yearly averages of monthly data compiled on an end-of-period basis.

² End-of-period data.

Chart 8.1. Advances to Government



(1) Average

(2) End-of-period

2.1.2 Currency issues

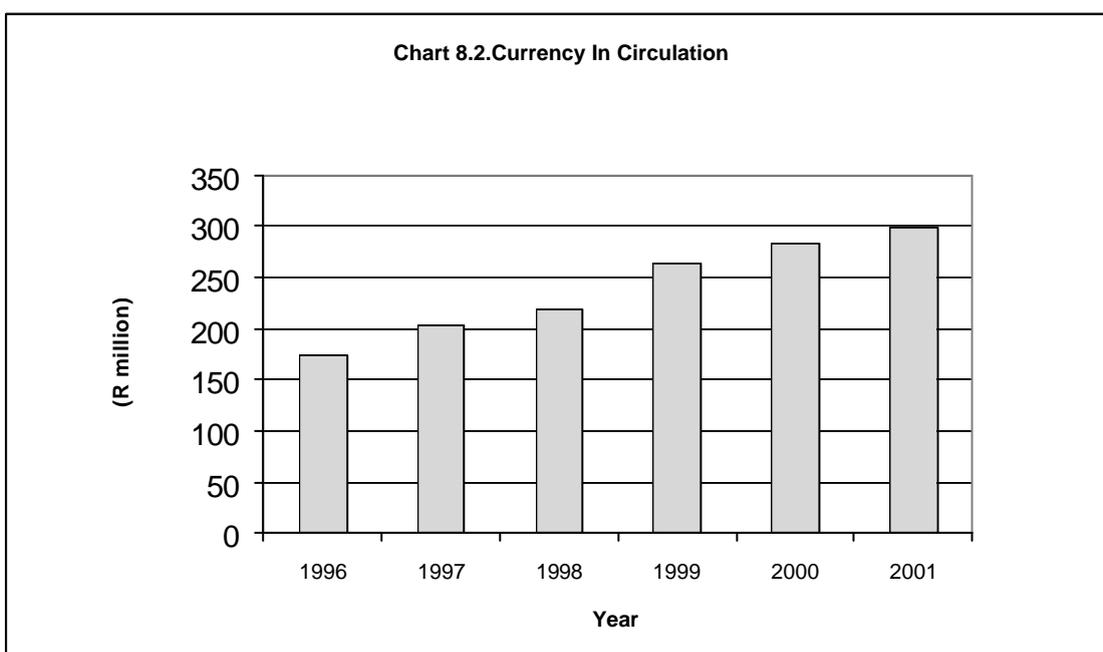
Total currency in circulation at the end of the year increased by 6.0 per cent or R17 million amounting to R299 million relative to R282 million in the previous year (*Table 8.2 & Chart 8.2*). Out of the R299 million, R280 million worth was "currency with the public", while the rest was cash at banks. This year's growth in currency in

circulation represented a slowdown compared to the previous year. The total notes increased by 5.9 per cent standing at R281 million while, coins had the largest increase of 7.9 per cent relative to the preceding year reporting an amount of R18 million. Furthermore, the share of notes declined whereas that of coins increased by 0.1 per cent.

Table 8.2
Circulation of Notes and Coins;¹ 1996-2001

	1996	1997	1998	1999	2000	2001
	(R million)					
Total	174.20	202.97	219.24	264.27	282.23	299.24
Notes	160.50	189.07	204.29	247.94	265.27	280.94
Coins	13.70	13.90	14.95	16.33	16.96	18.30
	(per cent)					
Share						
Notes	92.1	93.2	93.2	93.8	94.0	93.9
Coins	7.9	6.8	6.8	6.2	6.0	6.1

¹ End-of-period data



2.1.3 Numismatic Issues

The sale of numismatic coins both local on the market and abroad accumulated a total revenue of R52,893, which was 39 per cent lower than the level recorded in year 2000.

2.1.4 Accounts of commercial banks

The commercial banks have a mandatory cash reserve ratio of 2.5 per cent of all eligible deposits that they have to maintain at the Central Bank. This requirement remained unchanged during 2001 and all

the six commercial banks operating in Seychelles were able to meet this directive.

The activities of the banker's clearing house remained under the ambit of the Central Bank. The total number of items cleared stood at 609,284 showing a decline of 1.8 per cent relative to the previous year. As a result, the total amount cleared showed a decline of 10 per cent standing at R1.7 billion at the end of the year 2001 (*Table 8.3*).

Table 8.3
Bankers' Clearing House Activities; 1996-2001

	1996	1997	1998	1999	2000	2001
	(Total)					
Number of items cleared	577,923	591,415	623,749	644,593	620,492	609,284
Amount (R'000)	1,161,2	1,327,170	1,543,457	1,641,388	1,861,626	1,676,372
	(Daily average)					
Number of items cleared	2,309	2,394	2,536	2,568	2533	2,447
Amount (R'000)	4,621	5,373	6,274	6,539	7598	6,732

2.1.5 Other Accounts

The Central Bank continued to administer two other groups of accounts on behalf of the government in addition to the accounts of government and those of banks. The first set of account includes those of local and international financial institutions, foreign government agencies and accounts in respect of the pipeline scheme. The second group of accounts consisted of several interest bearing "special funds" of the government (labelled special deposits). For the financial year ending December

2001, the balance on these accounts was R814,305 showing an increase of 4.8 per cent relative to the preceding year.

2.1.6 Annual Balances

At the end 2001, the net operating profit reached an aggregate of R11 million representing a fall of 43 per cent relative to 2000. Total income declined by 30 per cent mainly due to a R16 million declined in "other income". Furthermore, there was a fall of 23 per cent in total expenditure regardless of the increase in administrative

expenses, currency expenses, depreciation and maintenance of property and finance and interest charges. In accordance with Section 16 (1), Section 16(3) and Section 16(4) of the Central Bank of Seychelles Act, as amended, the net profit was appropriated to the General Reserve Accounts in amounts determined by the Board. The Revaluation and Reserve Account, showed a credit balance of R20 million reflecting a gain on the revaluation of Central Bank external reserve.

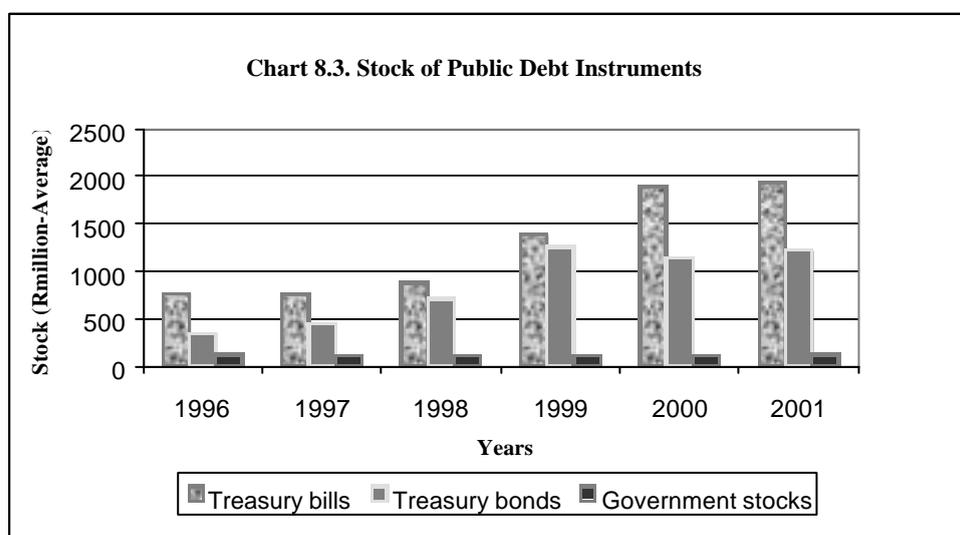
2.1.7 External Reserves

The official external gross reserve at the end of the financial year 2001 stood at R211 million, representing a decline of R60 million relative to 2000. The SDR holdings was SDR 18,336 equivalent to R132,639 after accounting for the General Reserve Account of IMF, whereas the balance of the reserve tranche with the Fund stood at nil at the end of December. The SDR allocated to Seychelles by the International Monetary Fund declined by 11 per cent to reach an amount of R2.9 million.

2.2 Administration and Public Debt

In accordance with the Local Loans Act, 1960, as amended in 1985 (stocks and treasury bonds) and the Land Acquisition Compensation Act, 1997 (land acquisition bonds), the main function of the Administration and Public Debt Division remains the management of domestic public debt instruments on behalf of the government.

The major development for the year was the introduction of a 7.5 per cent, 3-year Treasury bond in September. With a limit of R450 million, the bond was fully subscribed by the end of the year. Altogether four bonds reached maturity during the year and this comprised of the 11 per cent 3-year bond issued in 1998, 6.75 per cent 2-year bond and 7.5 per cent 3-year bond both issued in 2000 and the 6.75 per cent 2-year bond issued in 1999. The last bond was fully redeemed during the year. *Chart 8.3* shows the total stock of the three different types of government paper.



2.2.1 Treasury Bills

Since the introduction of the tap system in September 1998, there has been no new issues of treasury bills. Hence the 91-day bills, 182-day bills and 365-day bills remained with their actual limits of R700 million, R650 million and R650 million respectively.

There were also no change in the rates with annual yields for 91-day, 182-day and 365-day bills remaining at 4.5 per cent, 5.0 per cent and 5.5 per cent respectively

(Table 8.4). The total value of bills sold during the year amounted to R4.6 billion, showing a slight increase of 1.3 per cent when compared to fiscal year 2000. This was accounted for by the 1.1 per cent and 1.7 per cent increase in the sales of the 91-day and 182-day bills respectively, whilst the sale of the 365-day bills declined by 1.0 per cent. The slight change in the amount of bills sold reflected the near subscription for this government instrument.

Table 8.4
Treasury Bill Yields; * 1996-2001

Issues	1996	1997	1998	1999	2000	2001
	(per cent)					
Tender						
91-day	11.51	-	-	-	-	-
182-day	11.67	-	-	-	-	-
365-day	11.71	-	-	-	-	-
Tap						
91-day	10.50	10.50	8.00	4.50	4.50	4.50
182-day	-	-	5.00	5.00	5.00	5.00
365-day	-	-	5.50	5.00	5.50	5.50

* Yearly averages of monthly data, compiled on an end-of-period basis.

Total redemptions outweighed sales by 0.2 per cent to stand at R4.6 billion. At this level it was R139 million or 3.1 per cent higher than the R4.5 billion reported during the previous year.

Despite redemptions outweighing sales, the average stock outstanding at cost value

continued to increase standing at R1.9 billion, representing a 2.3 per cent increase (Table 8.5). Commercial banks remained the main subscribers, holding a share of R1.8 billion.

Table 8.5
Treasury Bills;¹ 1996-2001

	1996	1997	1998	1999	2000	2001
	(R million)					
Stock outstanding ^{1/3/}	766.0	757.7	876.4	1388.8	1889.8	1933.9
91-day bills (tap issue)	41.8	623.1	628.6	-	-	-
91-day bills ^{4/}	187.1	-	117.1	599.8	679.3	689.5
182-day bills ^{4/}	271.3	31.7	99.1	474.9	606.6	630.5
365-day bills ^{4/}	265.8	102.9	31.7	314.1	603.8	614.1
Stock outstanding ^{2/3/}	830.9	788.9	897.1	1424.7	1945.7	1991.1
91-day bills (tap issue)	43.0	639.9	644.0	-	-	-
91-day bills ^{4/}	198.3	-	118.2	606.6	687.0	697.2
182-day bills ^{4/}	291.7	33.3	101.6	486.7	621.7	646.0
365-day bills ^{4/}	297.9	115.6	33.4	331.4	637.0	647.9
Held by						
Central Bank	158.4	53.5	9.4	59.5	18.6	6.3
Commercial banks	502.9	581.0	724.7	1180.2	1709.5	1813.6
Savings Bank ⁵	43.2	-	-	-	-	-
Other financial institutions	9.5	7.9	2.9	8.5	18.0	10.4
Others	117.0	127.3	147.2	176.4	199.7	160.7
Citibank NA	-	19.3	12.8	-	-	-

¹ At cost value.

² At face value.

³ Annual and quarterly data are averages of monthly data, compiled on an end-of-period basis.

⁴ With effect from September 15, 1998, new issues of 91-day, 182-day and 365-day bills were placed on tap.

⁵ Savings Bank holdings have been incorporated in that of commercial banks as it became a commercial bank in 1997.

2.2.2 Treasury Bonds

As noted above, a new issue of a 7.5 per cent, 3-year bond was introduced in September with a limit of R450 million. This accounted for the high increase of R174 million in sales of Treasury bonds, amounting to a total R612 million for the whole year compared to R438 million in the previous year (*Table 8.6*). The bulk of the sale was recorded in third quarter with a total of R411 million sold.

Total redemptions rose by more than R300 million, standing at R555 million. Yet

again, the highest redemption was in the third quarter of the year with R284 million. This was mainly due to the fact that the 6.75 per cent 2-year bond issued in 1999 was fully matured in September.

Hence, stock outstanding for the year averaged to R1.2 billion, compared to the average R1.1 billion in 2000. This represented an increase of 6.8 per cent. As in previous years, commercial banks still held the largest share of the total, with R931 million.

Table 8.6
Treasury Bonds;¹ 1996-2001

Date Issued	Authorised Limit	1996	1997	1998	1999	2000	2001
		(R million)					
Stock outstanding		347.5	438.9	707.3	1255.8	1141.2	1218.7
03/08/01 7.5%, 3-yr		-	-	-	-	-	146.3
25/09/00 6.75%, 2-yr		-	-	-	-	38.2	277.0
07/02/00 7.5%, 3-yr		-	-	-	-	210.1	300.0
15/09/99 6.75%, 2-yr	250.0	-	-	-	83.3	250.0	166.7
01/09/98 6.0%, 1-yr	500.0	-	-	139.7	360.4	-	-
01/09/98 6.75%, 2-yr	200.0	-	-	44.3	199.6	157.3	0.4
01/09/98 7.5%, 3-yr	150.0	-	-	17.5	149.1	150.0	132.5
01/09/98 8.0%, 5-yr	50.0	-	-	2.3	34.6	50.0	50.0
01/02/97 11.0%, 3-yr	200.0	-	19.8	159.5	200.0	180.2	40.4
01/02/97 11.5%, 5-yr	150.0	-	13.6	85.3	105.5	105.5	105.5
01/10/95 12.0%, 3-yr	250.0	128.6	250.0	242.2	123.3	-	-
01/09/93 12.5%, 2-yr	250.0	64.7	13.4	-	-	-	-
15/11/92 12.0%, 5-yr	150.0	150.0	141.2	16.5	-	-	-
01/08/90 16.5%, 3-yr	10.0	-	-	-	-	-	-
01/08/90 16.5%, 5-yr	10.0	4.2	0.9	-	-	-	-
Held by							
Central Bank		23.5	20.0	1.8	0.1	0.1	0.0
Commercial banks		195.4	317.9	565.6	1040.1	903.7	930.8
Savings Bank ²		38.6	-	-	-	-	-
Other financial institutions		8.1	2.5	1.5	0.0	0.0	-
Others		81.9	98.5	138.5	215.7	237.4	287.9

¹ Annual data are averages of monthly data, compiled on an end-of-period basis.

² Savings Bank holdings have been incorporated in that of commercial banks as it became a commercial bank in 1997.

2.2.3 Seychelles Stocks

For the current year, the only government stock available on the market was the 8.0 per cent stock redeemable in 2009, which recorded a total sale of R39 million. At this point it was R35 million higher than the level recorded in 2000. There were no

transactions in the redemptions of stocks for the year, resulting in a 20 per cent increase in the stock outstanding averaging to R124 million (*Table 8.7*). This was being held entirely by commercial banks, which indicates an increase of R24 million relative to the preceding year.

Table 8.7
Government Stocks;^{1/2/} 1996-2001

Authorised Limit	1996	1997	1998	1999	2000	2001
	(R million)					
Stock outstanding	73.6	78.7	86.5	91.9	99.9	124.2
8.00%, 2009	50.0	-	-	2.1	9.9	34.2
8.50%, 2005/07	30.0	-	18.7	26.5	30.0	30.0
8.00%, 2004	60.0	58.9	60.0	60.0	60.0	60.0
9.50%, 1993/97	14.7	14.7	-	-	-	-
Held by						
Central Bank	3.6	0.0	0.0	0.0	0.0	0.0
Commercial banks	62.1	78.7	86.5	91.9	99.9	124.2
Savings Bank ³	5.4	-	-	-	-	-
Other financial institutions	2.5	0.0	0.0	0.0	0.0	0.0

¹ Yearly averages of monthly data, compiled on an end-of-period basis.

² At cost value.

³ Savings Bank holdings have been incorporated in that of commercial banks as it became a commercial bank in 1997.

2.3 Banking Supervision

The Bank Supervision Division was again upholding its duties of conducting inspections to all the commercial banks operational in the country. Altogether, the division carried out nine inspections during 2001. The Division completed the on-site inspection of one bank and also carried eight spot inspections in all other banks including the Bureau De Change.

2.3.1 Minimum Required Capital and Investment of Capital Funds

For the year under review, no alteration was made in the minimum reserve requirement of the commercial banks and all of them were able to meet this requirement. At the end of the year, the capital funds ratio averaged R211 million, 2.6 per cent higher than the R205 million reported last year (*Table 8.8*). This comprised the assigned capital and reserve fund, which accumulated R111 million and R100 million respectively.

Table 8.8
Capital Fund Ratios of Commercial Banks;¹ 1996-2001

	1996	1997	1998	1999	2000	2001
	(R million)					
Capital Funds	127.77	147.77	170.54	188.48	205.16	210.60
Assigned capital	79.04	90.75	100.97	104.45	110.75	110.80
Reserve fund	48.73	57.03	69.57	84.03	94.41	99.80
Minimum required capital funds (5% of A) ^{2/3/}	57.56	83.67	112.08	124.10	-	-
Memorandum item						
Eligible deposit liabilities (A)	1151.18	1673.3	2241.64	2482.05	-	-

¹ Annual averages of monthly aggregates compiled on a monthly basis.

² Figure for 1999 relate to the first four months only.

³ As of May 1999, the Minimum required capital was replaced by a new requirement known as the Risk Weighted Capital Adequacy Ratio (RWCAR) set at a minimum of 8.0 per cent.

2.3.2 Minimum Reserve Requirements and Local Assets Ratio

During the year 2001, the minimum reserve requirement eligible deposits to be maintained by all banks as deposits with

the Central Bank remained fixed at 2.5 per cent (*Table 8.9*). However, the outcome at the end of the financial year 2001 was 4.8 per cent, an increase of 1.0 per cent relative to the 3.8 percent of the previous year.

Table 8.9
Minimum Reserves and Local Assets Ratio;¹ 1996-2001

	1996	1997	1998	1999	2000	2001
	(per cent)					
Minimum reserve requirement						
Statutory limit	20.00	20.00	14.62	2.50	2.50	2.50
Outcome	21.01	21.49	21.62	3.56	3.79	4.76
Minimum local assets						
Statutory limit	50.00	50.00	55.83	70.00	70.00	66.54
Outcome	60.41	60.53	71.85	97.11	95.83	95.03

¹ Yearly averages of weekly data.

Note: Minimum local assets ratio was reduced to 50 per cent in November 2001.

As regards the local assets ratio, again all the commercial banks were able to meet the directive and it was even higher than the prescribed limit. For all the banks together, the actual outcome stood at 95 per cent. From January to October the local asset ratio was maintained at 70 per cent. As of November 1, 2001, the Central Bank reduced it to 50 per cent to allow the banks to subscribe to the housing loan scheme.

2.3.3 Advances against government securities

Advances against securities is a facility extended to commercial banks in times of

liquidity shortage. Total advances for the year declined by 48 per cent or R231 million standing at R255 million (*Table 8.10*). With a maturity of 14 days, most of the advances were repaid during the year. Hence, total repayments stood at R277 million, R22 million higher than total advances. The stock of credit for the year averaged to R4 million showing a decline of 34 per cent compared to the R6.1 million of the previous year. The reduced level of advances taken by banks during the year reflected to some extent their increased liquidity position.

Table 8.10
Temporary Advances against Government Securities; 1996-2001

	1996	1997	1998	1999	2000	2001
	(R million)					
Advances	315.6	189.5	151.3	318.0	485.4	254.7
Repayments	317.3	189.5	141.3	328.0	463.4	276.7
Stock of credit ¹	8.4	4.9	3.5	6.6	6.1	4.0

¹ Yearly data are averages of monthly data, compiled on an end-of-period basis.

2.3.4 Government of Seychelles Concessionary Re-finance Scheme

The scheme provides finance to export-oriented and import-substitution industries and is administered by the Bank on behalf of the Ministry of Finance. During the year, the Ministry of Finance approved only one line of credit worth R2.0 million. There was a drop of 49 per cent in total advances disbursed under the scheme with

an overall amount of R3.5 million (*Table 8.11*). In addition to that, total repayments fell by 77 per cent standing at R5.1 million. It is worth noting that the decline in advances under the scheme reflects the introduction of other schemes, which are targeting this group of economic activity and at the same time with the maturity profile of these loans standing at 5 years, most companies under the scheme are near the end of their loan repayment.

Table 8.11
Government of Seychelles Re-finance Scheme; 1996-2001

	1996	1997	1998	1999	2000	2001
	(R million)					
Stock of credit ¹	25.7	26.1	38.4	21.3	4.9	2.2
Of which:						
Export-oriented:						
Private sector	7.7	10.5	23.4	6.3	3.7	2.2
Public sector	18.1	15.7	15.0	15.0	1.3	0.0
Advances	56.4	55.5	89.5	43.1	6.9	3.5
Repayments	52.0	57.7	68.0	71.6	22.6	5.1

¹ Yearly data are averages of monthly data, compiled on an end-of-period basis.

2.3.5 Advances to non-Seychellois

The Central Bank was again reporting the total advances disbursed to non-seychellois investors and private individual by commercial banks. During the course of the year, total advances

amounted to R47 million, representing an increase of R26 million compared to the preceding year (*Table 8.12*). The tourism-related sector was the main beneficiary of the scheme with R36 million covering 76 per cent of the total advances distributed.

Table 8.12
Commercial Bank Advances to Non-Seychellois;¹ 1999-2001

	1 9 9 9		2 0 0 0		2 0 0 1	
	Limit R million	Outstanding %	Limit R million	Outstanding %	Limit R million	Outstanding %
Advances	30.5		20.6		46.7	
Tourism	15.9	(52.3)	12.8	(61.9)	35.5	(75.8)
Wholesale/retail	0.0	(0.0)	..	(0.2)	0.2	(0.4)
Building and construction	0.1	(0.2)	0.2	(0.9)	0.9	(1.9)
Manufacturing	0.0	(0.0)	0.0	(0.0)	1.2	(2.6)
Agriculture	0.0	(0.0)	0.0	(0.0)	0.0	(0.0)
Fishing	0.2	(0.7)	0.2	(1.1)	0.5	(1.2)
Real estate	0.7	(2.3)	0.0	(0.0)	0.0	(0.0)
Individuals & households	1.5	(4.8)	1.2	(5.7)	2.0	(4.4)
Other businesses	12.1	(39.7)	6.2	(30.1)	6.4	(13.8)

¹ End-of-period data

2.3.5 Advances to parastatals

Credit extended to parastatals organisations, jointly controlled by the Central Bank and the Ministry of Finance was set up at a ceiling of R40 million at the end of the year 2001 (*Table 8.13*). However, the outstanding balance stood at R11 million compared to R21 million in

the year 2000. The largest share of the commercial banks credit to such economic entities was accredited to the tourism industry with an aggregate of 62 per cent, followed by the "building and construction" sector with 32 per cent of the total.

Table 8.13
Commercial Bank Advances to Parastatals;¹ 1999-2001

	1 9 9 9		2 0 0 0			2 0 0 1			
	Limit	Outstanding	Limit	Outstanding	Limit	Outstanding			
	R million	%	R million	%	R million	%			
Advances	68.6	27.6	44.9	20.8	40.4	10.5			
Tourism	5.5	3.1 (11.2)	11.0	6.9 (33.3)	7.5	6.6 (62.1)			
Wholesale/retail	0.0	0.0 (0.0)	0.0	0.0 (0.0)	0.0	0.0 (0.0)			
Building and construction	34.5	20.2 (73.2)	30.0	11.8 (56.7)	30.0	3.4 (32.4)			
Manufacturing	2.5	1.5 (5.4)	2.5	1.0 (4.7)	2.5	0.4 (4.1)			
Agriculture	0.4	0.4 (1.4)	0.4	0.4 (2.1)	0.4	0.1 (1.4)			
Fishing	1.0	0.8 (2.9)	1.0	0.7 (3.2)	0.0	0.0 (0.0)			
Transport	13.7	1.6 (5.8)	0.0	0.0 (0.0)	0.0	0.0 (0.0)			
Communications	11.0	0.0 (0.0)	0.0	0.0 (0.0)	0.0	0.0 (0.0)			

¹ End-of-period data

2.3.6 Advances to wholesale and retail trade

The Central Bank continued to monitor commercial banks credits to wholesale and retail traders. Following that of the previous year all activities were on the account of the private sector with total advances standing at R22 million.

2.3.7 Pipeline foreign exchange payment scheme

Throughout the year 2001, the monetary authority focused its priorities on improving the foreign exchange inflows. The main target was to increase the foreign exchange receipts through the official channel and to reduce the activities of the parallel market. As a first step, the government together with the Central Bank introduced a set of foreign exchange measures on June 1, 2001 to achieve this aim. As a result of the new implemented laws, total inflows into the commercial

banks increased by 11 per cent to amount to R835 million compared to R755 million reported in the previous year. The highest revenue increase was recorded during the second half of the year representing a 37 per cent increase relative to the same period in 2000. The bulk of the total foreign exchange inflow was recorded in September with an amount of R99 million. Having achieved this objective successfully, the government expects to intensify its efforts to increase the foreign exchange inflows in the coming year for the benefits of the country.

2.3.8 Banking Licences

The commercial banks operating in Seychelles renewed their licences in accordance with the Financial Institutions Act 1984, as amended and the Licences Act 1986, and with the Financial Institutions (Domestic Banking Business) Regulations, 1996. Only one new

institution was licensed to conduct Investment Banking Business.

3. Research and Statistics

For the period of the year 2001, the main duties of the Research and Statistics Division was to advise Government and the Board of Directors on general economic issues. It was also responsible for the dissemination of information to the public through the Bank's quarterly reviews and annual reports.

During the year, the Division also created new initiatives. With the internet medium becoming a platform for the exchange and dissemination of information, the Bank through the Division decided to create its own web-site. Through training from the South African Development Community (SADC) IT Forum, staff from the Division were able to design the website for the Central Bank of Seychelles which officially came online in mid-September, 2001 with the following address: www.cbs.sc. From then on the public was able to acquire information such as the publications of the Bank, which include recent quarterly reviews and annual reports, daily exchange rates, important economic statistics and other administrative matters. The Division is also the liaison office with most international organisation for which the Bank has to provide statistical information.

4. Administrative Matters

4.1 Higher Education and Training

4.1.1 General

Miss Juliette Bertin, Data Processing Supervisor, attended the SADC Central Banks IT Forum Training Programme on web-site design, which was held in Pretoria, South Africa during the period of January 29 to February 2. She also attended the Networking Course, which was held at the same venue from March 19 to 23.

Mr. Darell Edmond, Senior Bank Clerk attended the SADC Central Banks IT Forum Training Programme on Service Level Management, which was held in South Africa, during the period September 10 to 14.

In September, Miss Juliette Bertin, Data Processing Supervisor was granted study leave for three academic years to undergo a course at Coventry University, in United Kingdom leading to a Bachelor's Degree in Business Computing.

Mr. Philip Moustache, Bank Supervision Officer was nominated to attend the Sub-Regional Training Workshop on combating money laundering which was held in Switzerland during the period November 19 to 23.

Mr. Philip Pierre and Miss Dorotha Michel resumed duties both as Research Officers

on June 13 and December 17 respectively after successfully completing their degree in Economics. Miss Dorothea Michel was on a 6-months study leave at La Trobe University, Melbourne, Australia while Mr. Philip Pierre, was at the University of Wales, Aberystwyth, UK on a 3-year study leave.

4.2 Courses, Workshops and Seminars

Ms Maryline Joseph, Bank Supervision Officer attended the Eastern Southern African Forum (ESAF) Banking Supervisors Group-Regional Workshop, which was held in Cape Town, South Africa from January 8 to 12.

Ms Jennifer Morel, Director General Supervision attended a seminar on on-site and off-site supervision, which was held in Basel Switzerland from June 26 to 28.

Mr. Patrick Stravens, the Monetary and Banking Advisor attended a workshop in Pretoria, South Africa from July 2 to 3. The subjects covered were the strategic framework for payment, clearing and settlement systems, exchange controls, legal and operational framework of SADC Central Banks and Information Technology.

Mr. Philip Moustache the Bank Supervision Officer attended the Risk Based Bank Supervision course in Nairobi, Kenya from July 9 to 13. The

objectives of the course were to expose participants to the practical and hands-on bank supervision practices and also to discuss contemporary bank supervision policies, practices and procedures that will contribute to efficient examination process.

Mr. Jean-Claude D'Offay, Director General Administration and Public Debt attended the T&D Forum and SADC Conference on Human Resources, which was held in Windhoek, Namibia during the period August 6 to 9. The objective of the conference was to share experiences on local and international best practices of human resources policies and procedures in order to improve the management of human resources in SADC Central Banks.

Ms Jennifer Morel, Director General Bank Supervision attended a workshop on Banking and Finance which was held in Malta from 1 to 12 October. The aim of the workshop was to disseminate knowledge and provide training on banking and finance, covering a variety of themes with a focus on small states. Another objective of the course was to enable the participants to benefit from the sharing of ideas and experiences during discussions.

Mr. Jacques Berlouis, Treasurer, attended a one-week work attachment at the Bank of Mauritius from October 10. The aim of the attachment was to work into the

system of collecting, sorting and distribution of soiled and mutilated notes and discuss measures against forging and counterfeit currency.

Mr. Pierre Laporte, Director General of Research and Statistics was nominated to attend a workshop on Financial Markets and Derivatives which was held during the period October 15 to 19 in Pretoria, South Africa. The purpose of the workshop was to familiarise participants with practical aspects of financial market activities such as stock exchange trading, the basics of derivatives and also financial market activities in a Monetary Union.

Mr. Philip Pierre, Research Officer attended the 4th Workshop on Statistics for SADC Central Banks held during the period October 17 to 26 in South Africa. Balance of Payments, monetary statistics and government statistics were topics being discussed during the workshop, which were all based on IMF manuals.

Ms Jennifer Morel Director General Banking Supervision attended the focused seminar: Offshore Banking Centres held in Basel, Switzerland during the period November 28 to 29.

Mr. Patrick Stravens, Director General of Banking Services, Monetary and Banking Advisor attended the Euro presentation, which was held in Nairobi, Kenya on November 29.

4.3 Official meetings and visits

Mr. Jean-Claude D'Offay, Director General Administration and Public Debt attended the COI Banking and Finance meeting in Mauritius from November 8 to 9.

4.4 Resignation and Appointment

Mr. Patrick Stravens, Director General Banking Services, resigned from his post in February and was subsequently appointed as Monetary and Banking Advisor to the Bank with effect from February 9.

Mr. Bernard Vel, Director General of Administration and Public Debt, resigned from the services of the Bank and Mr Jean-Claude D'Offay became his successor on January 16.

Mr. Norman Weber, Governor, resigned from the services of the Bank. With his departure, the President announced the appointment of Mr. Francis Chang-Leng, General Manager as his successor. With Mr. Chang-Leng assuming the office of the Governor, Dr. Peter Larose, Advisor in the Ministry of Finance, was appointed General Manager of the Bank.

Miss Caroline Abel, Research Officer, was promoted to the post of Senior Research Officer in the Research & Statistics Division, effective June 1.

5. Board of Directors

With the departure of Mr. Norman Weber as Governor of the Bank early in the year, the Board of Directors changed. With Mr. Francis Chang-Leng appointed as Governor, he became the new Chairman of

the Board. Mr. Errol Dias and Mr. Francis Chang-Sam remained as Directors. Mr. Jean-Claude D'Offay was appointed as the new secretary to the Board, replacing Mr. Patrick Stravens. During the year, the Board held three meetings.