CENTRAL BANK OF SEYCHELLES

ANNUAL REPORT 2002

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2002

CONTENTS

Letter of Transmittal

Central Bank of Seychelles
P.O. Box 701
Victoria

March 31, 2003.

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 Twentieth Annual Report of the Central Bank together with a copy of the Annual Accounts for 2002 certified by the Auditors.

Yours faithfully,

F. Chang Leng
Governor

CENTRAL BANK OF SEYCHELLES

Board of Directors

(as at 31 December 2002)

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

Secretary to the Board

Jean-Claude D'Offay

List of Charts and Tables

<u>Table No.</u> **Page**

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:

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

SECTION ONE

World Economic Conditions

1. Overview

During the year 2002, the world economic conditions evolved in two distinct phases. These roughly correspond with the two halves of the year.

Following the sharp global slowdown in 2001, economic activities bounced back in early 2002. There was widespread evidence of rising optimism, with most analysts expecting a move to a gradual recovery. Strong growth outlook was apparent in many parts of the world, and more importantly in the United States (US), the world leading economy. However, in the second half of the year, facts of mounting uncertainty emerged and it became increasingly unclear whether the momentum of the pick-up in activity will be sustainable; in most regions, activities eventually slowed down. For one, the higher uncertainty weakened consumer and business confidence. In many economies, declining demand from countries in Western Europe and the US was hindering growth prospects.

To a large extent, deterioration in confidence reflected developments in the financial markets, which was being characterised with; tumbling share prices, falling long-term government bond yields to 50-year lows, increases in corporate indebtedness, and weak business profits. In addition, towards the end of the year, market participants were becoming increasingly uneasy over a possible US-led war on Iraq.

In the oil market, pressures continued to mount amid increases in instability in the Middle East and rising uncertainty. In May, oil prices fell to a ten-year low, from its highest level in eight months, after Iraq (the world's eight largest exporter) halted productions. Further during the year, as the US was seemingly gearing up to a war on Iraq, fears that such action would disrupt global supply pushed up prices. To worsen matter, oil supply was interrupted after a national strike in Venezuela halted production and exports from the world fifth largest exporter. What followed was soaring prices internationally, which reached a two-year high in the United States. As to the world oil producers, they enjoyed a third consecutive straight year of high prices, although this raised inflationary pressures in many industrialised countries. Nevertheless, OPEC members vowed to increase oil supplies when necessary, in order to stabilise prices and maintain demand.

Overall, the global economy was expected to have maintained the slow growth registered in the previous year. In Europe and the Central Asian regions, GDP is estimated to have grown by 3.6 per cent in 2002, in comparison to 2.3 per cent in 2001. This was alleged to have been assisted by the rise in oil prices, which was to the advantage of oil producing countries like Russia, Kazakhstan, and Azerbaijan. In spite of the general worsening global environment, non-Japan Asian economies registered their best performance in the major regions. Issues such as the AIDS crisis, unsound political environment, civil wars and draughts, continued to hamper developments in many regions of Africa, whilst instability in the Middles East remained in the limelight. In major countries of Latin America, foreign debts' obligations continued to be a concern.

Nonetheless, economic activity is expected to pick up in the near future as the effects of the previous monetary policy easing and fiscal policy incentives already in place, filter through the global economic environment. However, the OECD worryingly alerted that "stabilisation policies were not appropriately fine-tuning global demand in certain OECD areas". This was after large growth differences were observed between North America, continental Europe and Japan. The World Bank on the other hand reported that the "sluggish global economic outlook", with slower than expected growth threatened to "slow down poverty reduction" in many countries across the globe. In addition, it was viewed that trade barriers and investment restrictions, which are to the detriment of poor people in developing countries, need to be addressed urgently.

1.1 Developed Countries

1.1.1 United States

In the US, the year 2002 started on an encouraging note and performance continued the positive trend, which began at the end of the previous year. In the first three months of the year, robust consumer spending and rapid gains in industrial productions triggered a strong 6.1 per cent expansion in annual economic output. Imports were growing and stimulating demand internationally, although this raised increasing concerns over the US current account deficit.

However, in the preceding months, activity slowed in the midst of rising uncertainty and falling confidence. Some views were that to some extent, this might have been assisted by the release of reports of corporate accounting scandals, although the Federal Reserve did not necessarily share that opinion. Nevertheless, developments in the financial market, which was being characterised by tumbling equity prices, were helping to increase the level of uncertainty, reduce confidence, and weaken the US dollar. All these were adversely affecting spending (which is required to support US economic activities). Consequently, outlook turned gloomy amid the weak labour market conditions. To further dampen the situation, American consumers were increasingly becoming uneasy over a possible US-led military attack on Iraq. The heightened uncertainty was apparent in the foreign exchange market, where the US dollar recorded its biggest loss against the euro since the latter's introduction in January 1999. On the other hand, a weaker US dollar was expected to stimulate exports, although imports and travel by Americans abroad became more expensive.

Amid worsening economic performance, the authority was forced to intervene. In consideration of its long-term objectives of price stability and sustainable economic growth, in November, the Federal Reserve reduced interest rates by 50 basis points to a very low level by historical norm. The US' economy, which "roared" into 2002 and raised hopes for a strong recovery, ended the year on a weak note as a falling stock market and the prospect of a war on Iraq curbed consumers' spending pace. In the labour market, the 2002 annual rate of unemployment was estimated at around 6.0 per cent.

Although the economy ended the year on a sour note, during the year 2002, it grew by a decent 2.4 per cent according to the *Department of Commerce*. Nonetheless, even if that marked a big improvement over the tiny 0.3 per cent rise registered in 2001, it was still considered weaker-than-normal growth for the U.S. economy. In its latest "Beige Book" survey of economic conditions, the Federal Reserve suggested that in spite of the series of interest rates cuts over the previous years, concern still remains about economic prospects.

1.1.2 European Union

1.1.2.1 Eurozone economies

Similar to the US, economic activities in the eurozone started on a fairly good tone. Despite unrelenting weak domestic demand, performance was being boosted by strong exports demand, especially from the US. An early hiccup however came from reports, which suggested that the introduction of the euro banknotes and coins as legal tender (since January 1, 2002) was inducing new inflationary pressures. This was after soaring prices for certain selected items were observed in some of the 12 European countries that adopted the euro. It was however later conveyed (*Eurostat*) that this development had very limited effects on inflation figures.

As the year unfolded, similar to many parts of the world, uncertainty started to mount. By June, growth prospects in the euro-zone remained positive. Various surveys continued to indicate some improvements in industrial and consumer confidence in certain areas, although the prospect of domestic demand was uncertain. A positive development was regarding inflation, which was being influenced by the preceding moderation in oil prices. Moreover, the euro was strengthening against most currencies, especially the US dollar.

Further during the year, the adverse effects of rising uncertainty on the euro-zone became more apparent. One sign came from evidence of slowing activity, which was related to sluggish consumer confidence and weak business investments. This had an undesirable effect on the labour market where unemployment was a major cause for concern, especially in Germany. In November, the rate of eurozone's unemployment stood at 8.4 per cent. On the inflation front, in December, Eurostat estimated that the annual inflation rate was 2.2 per cent, and considered stable as compared to the previous month. In order to improve the outlook for the euro area economies, in December, the European Central Bank reduced interest rates by 50 basis points.

In Germany, eurozone's largest economy, activities were weak and for most part of the year were being outpaced by the relatively better performance in other countries such as France. In most cases, economic data was weaker in Germany than for the euro area as a whole. During 2002, Germany was estimated to have grown at its slowest pace in nine years, expanding by less than 1.0 per cent.

1.1.2.2 Non-eurozone economies

In the **UK**, as early as in February, hopes of a sound performance emerged after the manufacturing sector registered its first monthly growth since the summer of 2001. Furthermore, there were reports of rising output of firms, which was being supported by robust consumer expenditure. These outcomes brought forth evidence of optimistic outlooks and expectations. As the year progressed, one fear however was that the Queen's Golden Jubilee, and the World Cup, might affect the normal pattern of activities. Although less apparent in the services sector, corresponding to these events, in June, some economic variables pointed to frail performance in certain areas.

Furthermore, in the preceding months, the Office for National Statistics (ONS) started to report contractions in manufacturing output. In addition, the

British Chamber of Commerce suggested lower performances by companies, reflecting slow activities. These were more apparent in the export-oriented areas, which were being affected by the slowdown in performance, especially in the US. Moreover, job losses in the manufacturing sector was growing, exerting further pressures in the labour market. However, the UK rate of unemployment remained broadly stable at around 5.2 per cent.

Despite some sluggish outcomes, consumer confidence and spending remained robust, and helped to stimulate overall output albeit concerns that the strong expenditure would increase inflationary pressures. The Bank of England reported that the relative price index inflation rose from 1.5 per cent in mid-year to close to 3.0 per cent by the end of the year. This was likely to have been influenced by soaring oil prices.

Nevertheless, output from the manufacturing sector picked up and rose by 0.4 per cent in November. This was its first increase since July even if there were reports that the performance of the sector weakened towards the end of the year. The unrelenting strong consumption expenditure supported the overall growth in sales, including over the Christmas season. This was despite the slow start and also poor sales figures at some retailers.

In **Russia**, the concrete effort to reform the economy, which compared to the previous year, was politically more stable, continued to reap further success. In 2002, GDP growth was expected to be around 4.5 per cent, supported by a stabilised currency, approval of much-needed tax reform legislations and the rise in oil prices.

1.1.3 Japan

At the start of the year, an early indication was that the prolonged deflationary trend in Japan would ease. This was deduced from analysis of available data, which indicated that the economy was heading towards a recovery. The registered level of unemployment fell to a seven-month low of 5.2 per cent. Robust activity in the US and China was stimulating exports, although imports continued to be hampered by the persisting weak domestic demand. In the month of March, Japan registered a 39 per cent annual expansion in its trade surplus, a record figure in more than three years. Encouraging economic data also indicated improvements in confidence at large manufacturers even if business spending was falling. As the year unfolded, the long-awaited recovery was threatened by falling demand from the US, where uncertainty mounted and consumer confidence was declining. The trade balance was worsened by the appreciation of the yen against the US dollar. In consideration of the possible risk that an excessive movement of the yen would have on the export-driven recovery, the Bank of Japan was forced to intervene in the market. The Japanese authority thus was compelled to sell US dollars in order to weaken the value of the yen and keep its exports competitive.

Towards the end of the year, evidence was that the persisting deflationary trend would stay. Existing concerns were that the rising external uncertainty and worsening employment conditions were posed to hinder performance. This was likely to be supported by the enduring weak domestic demand and falling exports amid mounting uncertainty about the global economy. Trade outlook was being adversely affected and in September, for the first time in four quarters, the growth in imports exceeded its exports. However, in 2002, Japan's trade surplus rose by 51 per cent and also revealed deepening economic ties with the rest of Asia, especially China.

1.2 Developing Countries

1.2.2 Asia

In 2002, the Asian economies were expected to have performed above expectations on account of strong consumption and robust exports. The Asian Development Bank estimated that the economies of the region (excluding Japan) grew by 5.6 per cent. Nevertheless, the aftermath on the tourism industry following the October 12 terrorist bombing in Bali was expected to have adverse effects on **Indonesia** and the rest of Asia, given the importance of this industry to these countries. The tourism industry accounts for around 9.0 per cent of Asia's GDP and 7.0 per cent of employment. In Indonesia, about 9.9 per cent of economic activity is dependent on tourism and 8.0 per cent of the country's exports are tourism-related.

Preliminary figures showed that in the region, 16 countries recorded average expansion of 5.5 per cent in 2002. As for **China** and **South Korea**, they grew by 7.7 per cent and 6.2 per cent respectively. The **Taiwanese** economy (which in January became the 144^{th} member of the WTO) grew by an estimated 3.3 per cent and the growth rate in the **Philippines**' GDP was by 4.6 per cent. Such performances were found to be satisfactory given that 40 per cent of exports from the region goes to the US or Japan where activities had slowed during the year.

In **India**, data for the period up to mid-year suggested that economic activity gained some momentum, driven mainly by the performance of the agricultural sector. Nevertheless, by August, there were concerns over the possible effects and spread of the drought conditions in the country, especially in regards to agricultural output. Despite the sluggish international environment, and thus weakening exports demand, India was able to benefit from the strong performance of the software and private business, and commercial exports. Consequently, the country managed to post a modest current account surplus after 24 years. In addition, it was able to attain the largest net inflow of foreign direct investment for any single year.

In **Thailand**, the IMF estimated that in 2002, the economy expanded above their initial 3.5 per cent to 3.8 per cent forecast on account of supportive state policies. However, the Foreign Trade Department reported that the value of Thailand's garment and textile exports dropped by 2.4 per cent year-on-year in the first 11 months of 2002. This outcome was viewed as better than previous expectations, although the figure for the year was forecasted to register a decline by 1.0 per cent relative to the previous year.

According to the Economic Intelligent Unit (EIU), outlook in the Asia-Pacific region would outpace that of the rest of the world in 2003. The region most populated nations – **China** and **India** – were forecasted to be among the best performers. However, as for countries like **Malaysia** and **Singapore**, prospects were expected to reflect the trend in global trade, given their high dependency on exports demand. In 2002, the weakened US demand restrained the growth in GDP in those countries.

1.2.2 Latin America

During the period under review, turmoil in countries of **Latin America** continued to make headlines. For another year, developments in Argentina remained in the limelight in early 2002, there were concerns that the recession was spreading to its neighbours. Towards the end of the year, emerging evidence suggested that Argentina could be moving out of one of its worst recessions. Whilst this was a possibility, attention was being shifted to Venezuela, where there was news that political disruptions were hampering economic activity.

In January, **Argentina** abandoned its 10-year one-to-one parity with the US dollar and devalued the peso. The rate of the peso at par with the US dollar, introduced to fight inflation, had reduced the competitiveness of manufactures facing competition with goods imported from neighbouring countries like Brazil. During the year 2002, the persisted four-year recession had dragged around half of the population into poverty. Consumer demand fell drastically whereas firms were forced to restrain output. In the same year, industrial output fell by 11 per cent compared with the previous year (*National Statistics Institute*).

During its bad times, the country had defaulted on its external debts and had frozen banks deposits. However, after a rapid depreciation of the peso, to above 70 per cent throughout 2002, Argentina's external position improved as domestic goods became more competitive.

Following stabilisation of the domestic currency, activities started to pick up towards the end of the year amid easing inflationary pressure. Analysts reported that low inflation was expected to help boost confidence and consequently stimulate sales and production.

Signs of an improvement in economic performance were observed in December when industrial production grew by 10 per cent for the second consecutive month in 28 months. The strengthening peso gained 7.4 per cent against the US dollar in December. This consequently lowered the cost of imports and reduced the rate of inflation to 0.2 per cent in December. As for producer prices, in that same month, the figure fell by 0.3 per cent. It was estimated that for the whole of 2002, the price of consumer goods rose by 41 per cent, whereas producer prices increased by more than 100 per cent. Moreover, during the year, GDP contracted by up to 15 per cent and unemployment rose to half of the working population.

In 2002, economic activities in **Venezuela** were manifested by the national strike organised by opposition leaders who wanted the elected president to step down. As the world's fifth largest exporter of oil, Venezuela produces more than 3.0 billion barrels of crude oil daily, but the strike reduced the country's production to less than 1.0 million barrels per day. Consequently, this affected oil exports and sales, which curbed government revenue. The strike also halted manufacturing activity, brought about shortages of food and gasoline and caused the currency to depreciate to record lows against the US dollar. In the financial market, investments in bonds declined on concerns that the government may default on its foreign debts. Inflationary pressures set in and the general price level rose by 31 per cent in 2002, the highest since a 38 per cent rise was recorded in 1997. The figure is compared to 12 per cent registered in 2001. Analysts forecasted that the economy contracted by an estimated 8.0 per cent during the year.

Moving over to **Chile,** where there were reports of declining prices in December. This outcome was associated with slack consumer spending, which threatened to curb the expansion in economic activity. In 2002, growth in economic output fell to 2.0 per cent from 2.8 percent in 2001. As for inflation, the government estimated a rate of 2.8 per cent.

Ecuador was another country in Latin America where economic activities slowed down. The Central Bank estimated that the economy grew by 3.5 per cent in 2002 compared to 5.3 per cent recorded in the previous year. As for the rate of unemployment, the figure was on a declining trend as started since mid 2000.

In **Mexico**, Latin America's largest economy, real GDP growth was 0.9 per cent. This result was slower than expected and reflected the sluggish demand for Mexican goods in the US. Despite this outcome, in 2002, the country managed to reduce its inflation and interest rates to record lows. In addition, it was able to attract US$14 billion in foreign investments even if the region recorded a general decline in capital inflows.

As for **Colombia**, the statistics agency reported that in December, the annual rate of inflation slowed to 7.0 per cent relative to 7.6 per cent in 2001. This was the fourth consecutive year in which inflation has been under 10 per cent. In addition, the economy continued to experience a booming construction industry, rising car sales and falling unemployment.

1.2.3 The Middle East and Africa

In the Middle East, there were concerns that the sluggish global activity could reduce the demand for oil, on which GDP growth of the region continued to depend. Furthermore, the increasing tensions between **Israel** and the **Palestine** threatened stability and raised uncertainty in the region. More predominantly towards the end of the year, there were also increasing fears over a US-led war on **Iraq**. These were expected to harm economic activities in the Persian region, with the oil, as well as the tourism and travel industry most likely to be severely affected. The intensification of a conflict in the region would disrupt the supply of oil and raise prices, which would in turn affect exports' demand from the Middle East.

As for Africa, the continent continued to be the victim of civil wars, political tensions and instability, the AIDS scourge, as well as draughts. In 2002, many lives in **Angola** were lost to famine caused by civil war, while famine originated from draughts troubled countries like **Malawi** and **Zambia**. Moreover, there were serious concerns over the effects of the humanitarian disaster affecting countries in the Southern Africa, where the effects of flooding, draughts and severe poverty were being felt in **Zimbabwe**, **Angola**, **Zambia**, **Malawi**, **Mozambique**, **Swaziland** and **Lesotho.**

As for the West African region, attention was focused on **Ivory Coast**, after an attempted military coup in September increased instability in that region. This development pushed up the price of cocoa to its highest level in more than 15 years, after the supply from the world's biggest grower and major exporter was being threatened.

In **Zimbabwe**, a noticeable development during the year was the government's land reform programme, which was aimed to improve the distribution of land between the white and black farmers. However, the programme adversely affected commercial farming, "the bedrock" of the economy. Moreover, it undermined the government's popularity on the international scene and hindered its search for financiers.

At the end of 2002, Zimbabwe was characterised with an economic and humanitarian crisis, where three quarters of the population were unemployed, and more than seven million people were reliant on aid. Analysts felt that the country's social and economic gains experienced in the 1980's have been "thrown into reverse" and Zimbabweans are now far poorer than they were in the seventies. Many skilled labours had left for better avenues amid acceleration in company closures and the worsening fuel shortages.

To prevent further deterioration in living standard in 2002, the government introduced additional price controls. This however increased food shortages on shelves as more transactions were diverted to a booming black market. Moreover, there was a rapid rise in complains from manufacturers who need to pay for their imports in foreign exchange. The official exchange rate is 1US$ to Z$55, whilst one US dollar is being traded to around Z$2,000 on the parallel market. According to the latest government statistics, the country's annual inflation rate reached nearly 200 per cent. In 2002, it is estimated that the economy shrunk by 11 per cent.

Amid the increasing uncertainty and slowing activity in the global environment, and the relatively poor performance of the other African countries, in 2002, the economy of **South Africa** continued to expand. This was influenced by, rising domestic demand, and increases in exports volume. At the end of the third quarter, the overall economy grew by a firm annualised 3.0 per cent, following a remarkable 4.0 per cent growth rate achieved in the second quarter.

As for price developments, production and consumer prices inflation remained well above the inflation target ranges set by the government. These were influenced by the previous depreciation of the rand, and the rapid rise in food and oil prices. Nevertheless, the recently strengthening rand and the high interest rates were expected to hinder GDP growth in 2003. However, the economy is still expected to outperform leading world economies, where activities are expected to remain sluggish.

3. Currency movements

3.1 The performance of the US dollar

In 2002, the foreign exchange markets were characterised by a weakening US dollar, which depreciated against most of the world's major currencies. By the end of the year, the US dollar had lost 10 per cent of its value as measured against a trade-weighted basket of currencies, with further depreciation anticipated during the start of the year 2003.

The loss in the value of the US dollar predominantly started after the release of a second report of corporate accounting scandals at US companies. By the end of the second quarter, the US dollar had depreciated against all major currencies and by 9.0 per cent against the euro, to register its biggest quarterly drop since introduction of the European Union single currency in January 1999. At that time, there were reports that the depreciation of the US dollar was "fairly normal" since "the dollar had gotten too strong, and in many ways was overvalued". There were also concerns over the adverse effects if the US dollar was to depreciate too much.

In the second half of the year, the US dollar regained some strength. This was associated with the release of a number of encouraging economic data, which led to an estimated 4.0 per cent expansion in US's GDP in the third quarter. However, towards the end of the year, the US dollar started to weaken against the other world leading currencies. This was to a large extent being influenced by the rising possibility of a US-led military attack on Iraq. Moreover, there were increasing concerns about the US current account deficit, which was estimated to be about 5.0 per cent of GDP.

However, it was expected that a weaker US dollar would be welcomed by American exporters, which have been finding it difficult to compete in the world markets, and also to manufacturers facing competitions from cheap imports. Moreover, countries – such as Hong Kong and Brazil – whose currencies are linked loosely or tightly to the US dollar, would welcome such development, after having been suffering from the preceding gain in the US dollar.

3.2 The launch of the euro

On January 1, 2002, the euro banknotes and coins became legal tender in 12 countries in the euro area. From the same date, as previously planned, euro cash were available in more than 80 per cent of automated teller machines (ATM) in some countries. A very high demand for euro banknotes was registered and cash withdrawals from ATMs were at exceptional levels. Amid this welcoming transition, there were early reports from the European Consumers' Organisation, which indicated that for some specific purchase, many countries registered an increase in prices associated with the introduction of the euro. Nevertheless, the adoption of the euro notes and coins was found to be a big step forward, and facilitated trade and payment transactions between member countries.

In its December annual review of the international role of the euro, the European Central Bank (ECB) crowned the euro as the second most widely used currency internationally, with expectation of continuing growth in its role. It was reported that the use of the euro as an international currency has a strong regional focus. This was most predominant in countries that border the euro area, such as some Central and Eastern European countries. In addition, the euro became increasingly important in financial centres and foreign exchange markets, especially after the decline in confidence in US dollar denominated assets, which triggered the appreciation of the euro to record highs against the US dollar.

As for the strong gain in the euro, this may have been welcomed by the ECB and eurozone importers, but not necessarily by export-driven economies such as Germany. The latter stance was expected from some economies of Asia, such as Singapore.

4. Trade and investment

4.1. World trade

4.1.1 China's first year as a member of the World Trade Organisation (WTO)

In December 2002, China celebrated its first year as a member of the WTO. One remarkable achievement was the increase in trade between the other Asian countries, an area expected to develop further, following the creation of the world's largest free trade zone between China and the Association of Southeast Asian Nations (ASEAN) in November. During the year, China's exports accounted for about one third of the growth in its economic output.

In 2002, China surpassed the US as the top exporter to Japan. This development underlined the growing importance of China by Japanese policymakers. Japanese's exports to China jumped by 32 per cent, while imports from China exceeded those from the US for the first time since 1961, when comparable data were first collected.

The *Financial Times* announced of reports by the Japanese official, which accused China of "spreading deflation by exporting an ever larger volume of cheap goods". This opinion was however not shared by a US trade representative, who referred to Chinese's exports as "inexpensive but quality". Figures in the US shows that in the first 11 months of 2002, China's surplus with the US stood at US$94 billion, in comparison to US$83 billion in 2001. For the whole of 2002, the figure was estimated to have exceeded US$100 billion for the first time, although overall, China's trade surplus was US$31 billion, in consideration of the deficits it ran with Asian economies.

On its account, the US government praised China for making "significant progress" for opening new markets but also voiced "serious concerns" relating to China's conformity in other areas, such as agriculture, services, and copyright piracy. China took positive steps to reduce tariffs on, for instance, information technology products, chemicals and auto parts. In addition, non-tariff barriers affecting industries such as chemicals and scientific equipment was also removed.

4.2 World investment

4.2.1 Increases in importance of emerging markets

During the period under review, investments in emerging markets became increasingly important relative to the previous years. This was primarily influenced by the relatively favourable characteristics of these markets, which include; a large, young and rapidly industrialising population (particularly in Asia), improved infrastructures, competitive labour rates, reasonable pace of reform and restructuring (especially in Russia), and higher return on equity, compared to the developed markets. In addition, in 2002, rising uncertainty and the possible threats of terrorist attacks on developed markets also helped to deter investors, and lower confidence. It followed that for the third consecutive year, stock prices registered a decline.

In the US, news of accounting scandals from two major corporates (Enron and Worldcom) helped to switch investors' preferences to emerging markets. Investors became increasingly sceptical about the strength of the American market and pulled funds out of dollar-based assets in favour of relatively more attractive, emerging markets like Indonesia and Russia respectively.

4.2.2 Falling profitability of British companies

In the UK, it was officially reported that the profitability of British companies hit its lowest level of 11 per cent for nine years in the third quarter of the year, from 12 per cent in the second quarter. Such news was the worst since 1993 and represented a decline in profitability across the main sectors. The opposition party were of the view that the preceding increases in business taxes and regulations were the main cause of this outcome.

4.2.3 Flow of foreign direct investment to China

In 2002, China registered a record US$53 billion in foreign direct investment. This outcome was likely to have been influenced by China's WTO membership and was expected to improve in 2003. In recent years, rising foreign direct investment has supported growth of the Chinese economy. As a member of the WTO since December 2001, China has made it easier for foreign companies to expand by liberalising some industries. In addition, foreign manufacturers were being attracted by China's wages, which are less than 5.0 per cent of those in the US. In spite of this outcome, the growth in investments slowed relative to the previous year. The ministry of foreign trade reported that in 2002, investment inflows rose by 13 per cent relative to a growth rate of 15 per cent recorded in 2001.

SECTION TWO

Highlights of the Seychelles Economy

Overview

The economy remained rather stable in the fiscal year of 2002 relative to the previous year and the economic performance was again affected by the foreign exchange problem. This shortcoming thus hampered the country's ability to produce at its full output potential. In the real economy, some sectors did manage to do better than others, particularly the tourism and fishing sectors. Tourism arrivals and foreign exchange earnings from the industry rose relative to 2001 and the fishing sector managed yet another good year. Increases in prices were reduced during the year, which came about through tighter price control, particularly on imported goods. This meant that the inflation rate was reduced from 6.0 per cent in 2001 to an average of 0.2 per cent in 2002. The other major positive outcome for the year under review was in the Balance of Payments (BOP), whereby there was an overall balance surplus of R76 million. This was mainly attributable to the significant inflow in the financial account which was caused by the new foreign loan of US$150 million with the Bank of Tokyo-Mitsubishi under the government's re-scheduling programme. Moreover, the offshore industry managed to continue to experience better results during the year. The Authority in charge of the registration of these companies licensed 2,617 IBCs, twelve new SITZ companies and twenty-seven new trusts.

Nevertheless, some economic outcomes were rather disappointing, namely the movements in the key monetary indicators and the government budget. In terms of the monetary indicators, namely the money supply and credit, they both increased at a faster pace in the year under review. Liquidity as measured by the money aggregate M2(p) rose by 13 per cent, an increase of 1.7 per cent relative to the 2001 growth. As regards domestic credit, it grew by 16 per cent, representing a growth of 4.8 per cent over the previous year's level. The current year's change was mainly attributable to the rise in credit extended by the Central Bank to the government. The latter had to borrow more during the year due to the unfavourable budget outcome, which warranted an increase in its borrowings, particularly from the domestic market.

Monetary Developments

Developments in the monetary sector followed the same pattern as in the previous year, with a continued deterioration in the liquidity position, which was fuelled by the expansion of domestic credit. The monetary aggregate M2(p), which is the broadest measure of money, increased by 13 per cent relative to 2001, putting further pressure on both the Balance of Payments (BOP) and on reserves of foreign exchange. This incessant growth in liquidity was caused primarily by increases in domestic credit. The latter expanded by 16 per cent over the previous year's total to amount R5,234 million. This rise in domestic credit was driven mainly by increases in Central Bank credit (67 per cent) and to a lesser extent by commercial banks credit (5.0 per cent).

For the year, the liquidity position of commercial banks also improved. Commercial banks have seen their deposit liabilities increase as a result of no new government papers being issued to mop up funds from the maturing securities and credit creation was rather slow particularly to the other sectors of the economy other than to government. Consequently the credit/deposit ratio of commercial banks fell to 98.3 in 2002 from 107.2 in 2001.

On the interest rate movements, they were generally on a downward trend, both on deposits and on lending. Interest rates on deposits with the exception of savings deposits declined on almost on maturities whereas the savings rate remained unchanged at 3.00 per cent as this would be revised under the instruction of the Central Bank for which in 2002 the policy did not change.

Budgetary Outcome

In line with its fiscal adjustments which started in 1999, the government managed to reduce its deficits over the three years that followed, particularly by curtailing its expenditures. However, the fiscal outcome for the year under review was somewhat disappointing, with the government accounts ending with a deficit of R574 million, overshooting its target by R116 million (25 per cent) as compared to the deficit of R340 million in the previous year. The deficit of 2002 stood at 17 per cent of the estimated nominal GDP compared to 9.3 per cent registered in 2001. The overall deficit was due to revenue amounting to R1,487 million, while expenditure stood at R2,061 million.

Balance of Payments

Provisional statistics for the year 2002 revealed that the Balance of Payments (BOP) ended with an overall surplus of R76 million. This overall outcome was attributed mainly through the combined capital and financial accounts, which increased by R386 million relative to the previous year.

The current account remained in deficit during 2002. This amounted to R724 million, an 11 per cent decrease relative to 2001. As a percentage of the estimated nominal GDP, this deficit accounted to 19 per cent, as compared to 22 per cent in 2001. This suggests a narrowing in the gap between domestic demand and supply.

The outcome of the capital account remained sound, with capital grants from donors registering their second consecutive year of growth. Similarly, the financial account continued in its expansion. This was greatly influenced by increases in the drawings made by the Central Bank, which was boosted by the US$150 million loan received in September from the Bank of Tokyo-Mitsubishi. Another major element of the financial account was FDI flows into the country which was more or less at the same level than in the previous year. Most of these flows went into the main economic sector – tourism.

It should be noted that the outcomes in the BOP for the year was significantly influenced by the movement of the domestic currency vis-à-vis the trading world currency, particularly against the US dollar and the Euro. In the second half of the year, the domestic currency gain grounds on the US dollar and depreciated against the Euro due to the change in those two currencies on the international markets. The change in those two currencies meant that payments, which are mainly dominated in dollars were becoming cheaper in domestic currency terms and the country was gaining to some extent on its services receipts, mainly tourism inflows, which are dominated in Euro.

The Real Economy

Compared to the previous year, the provisional data point to an increase in economic output in nominal terms. Nominal Gross Domestic Product (GDP) for the year under review shows an increase of 5.9 per cent, this despite the existing foreign exchange constraint. The growth came mainly from the secondary and tertiary sectors, namely in the manufacturing, construction and tourism.

The pillars in the secondary sector for the year were again coming from the manufacturing sector, principally from the canned-tuna factory. The company managed by Heinz continued to grow further in the year under review with export earnings again exceeding its previous year’s level. At the level of production, the coming year is set to be another fruitful year for the company. Another activity which was quite buoyant during the year was construction. This was mainly related to the government’s continued investment in housing and associated facilities and also in the sewage and desalination projects for which the latter one of the plants came into operation.

In relation to the tertiary sector, which is mainly service-oriented activities, the positive developments came from the tourism trade. During 2002, the tourism sector recovered after a downturn in 2001. In the year under review, tourism arrivals and foreign exchange receipts increased correspondingly. Arrivals rose by 1.9 per cent relative to 2001 and most tourists came from the European continent and the French market was the leading market. As for income, it increased by 8.8 per cent and this represents the growth in tourism earnings that is converted into rupees. This increase in income has led to a rise in per diem expenditure which amounted to R531.

Prices

As noted earlier, there was a significant slowdown in the movement of prices, which gave an average inflation rate of 0.2 per cent. This decline in the rate of inflation was due mainly to the decline in the price of fish and imported non-fish products (food and non-food as per the Retail Price Index). Since mid-2001, the government had taken stricter measures in terms of price control, particularly targeting import prices. These measures meant that there was a significant curtailment in the price increases of imported goods. Import prices moved from an increase of 8.4 per cent in 2001 to an average decline of 0.5 per cent in 2002. As for the index of local prices, it showed a slowdown from 4.7 per cent in the previous year to 0.6 per cent in the year under review.

Offshore Developments

The year 2002 saw a continued increase in activities of the offshore sector. The sector, managed by the Seychelles International Business Authority (SIBA) recorded an increase of 2,617 IBCs during the year under review and this makes the total number of registered IBCs since 1995 to 10,632.

Furthermore, there were also a number of companies that obtained licences to operate within the Seychelles International Trade Zone (SITZ). Twelve new companies obtained these licences, whilst the year also witnessed the registration of twenty-seven new trusts. The SITZ companies also produced the highest ever half-year exports figures, with an estimated US$105.6 million exports being registered. This was 43 per cent higher in value terms compared to the corresponding period for 2001.

SECTION THREE

Financial Survey

1. Overview

Liquidity and credit are the two monetary aggregates that the Central Bank of Seychelles monitors very closely. This is so because credit has a strong positive relationship with liquidity, particularly related to the source of financing of the government budget deficit over the years and the impact that this has on prices. Excessive liquidity has undesirable repercussions on other sectors of the economy. In the case of Seychelles, where most goods are imported, an increase in liquidity impacts negatively on the Balance of Payments and exerts pressure on the foreign exchange reserves of the country.

For the year under review, the money supply continued its upward trend, with the broadest money aggregate, M2(p), increasing by 13 per cent over the 2001 level to stand at R4,165 million. As mentioned earlier, this incessant growth in money supply is alarming because of the pressure applied on both the Balance of Payments and foreign exchange reserves.

The main influential factor behind this growth in liquidity is the expansion of domestic credit. Total domestic credit for the year 2002 increased by 16 per cent over the previous year's total to end the year at R5,234 million. This was the result of increases in commercial banks' credit of 5.0 per cent and in Central Bank credit of 67 per cent. The significant expansion of Central Bank credit is the result of a similarly significant increase in advances to the government to help the latter finance its persisting budget deficit (Central Bank advances to government increased by 131 per cent from R472 million in 2001 to R1,092 million in 2002).

Furthermore, the liquidity standing of commercial banks improved in the year 2002. The credit/deposit ratio fell by 882 basis points, from 107.2 in 2001 to 98.3 in 2002. The reason behind this improvement in commercial banks' liquidity is the fact that no new government papers were issued in 2002 to mop up funds from the maturing securities, resulting in a deposit increase at commercial banks. This also contributed to the increase in the supply of money in the economy.

For 2002, no important changes occurred in interest rates. The minimum savings deposit rate remained at 3.0 per cent. By contrast, the average lending rate fell slightly by 9 basis points to 11.16 per cent in 2002.

2. Monetary Policy Instruments

Traditionally, the use of monetary policy instruments in the Seychelles to regulate the economy has been second to fiscal policy tools. Monetary instruments used by the Central Bank were principally aimed at managing liquidity in the economy.

2.1 Minimum Reserve Requirement[1]

A monetary policy tool that is used by the Central Bank to control liquidity is the Minimum Reserve Requirement. This is a statutory requirement that all commercial banks have to observe. It is the minimum percentage of the eligible deposits of a commercial bank that the institution has to hold as cash reserves at the Central Bank. For the year under review, this percentage remained unchanged at 2.5 per cent and all banks were able to comply with this directive.

2.2 Local Assets Ratio[2]

The local assets ratio is another monetary instrument used by the Central Bank. It is used to influence liquidity at commercial banks. For 2002, this ratio remained unchanged at 50 per cent and all commercial banks were able to maintain this ratio.

2.3 Central Bank Advances to Banks[3]

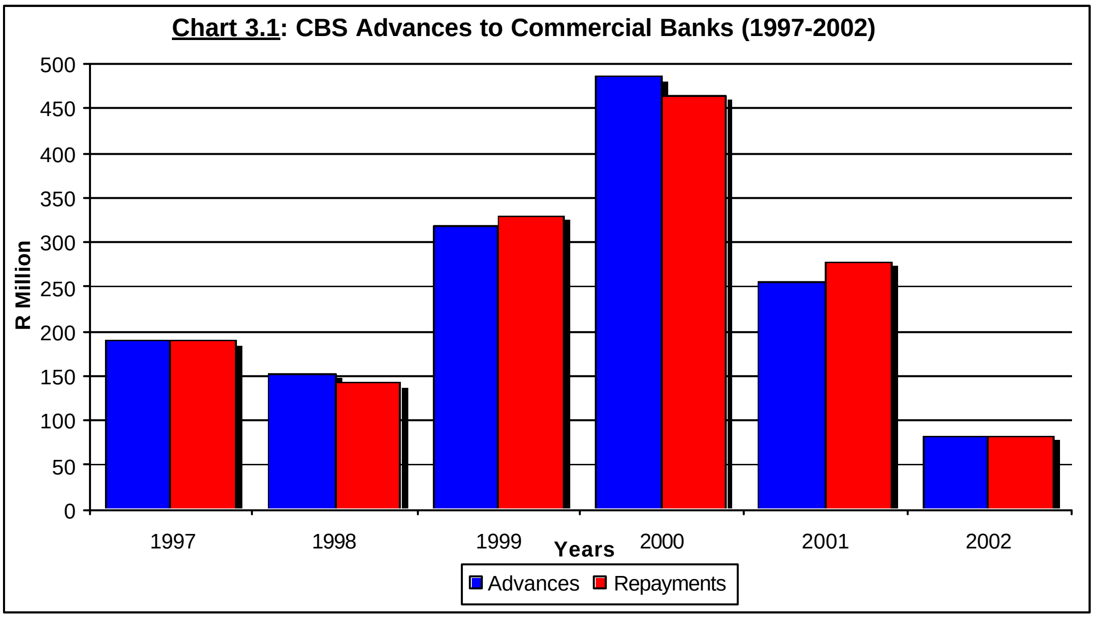
In times of shortages of liquidity, commercial banks can take short-term advances from the Central Bank to meet their liquidity requirements.

During the year 2002, advances made to commercial banks by the Central Bank totalled R83 million ***Chart 3.1***. This represents a significant fall of 68 per cent from the 2001 total of R255 million. The whole of that amount was repaid in the same year.

[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

[2] With effect from 15 September 1998, the local assets ratio was raised from 50 per cent to 70 per cent. This ratio was lowered to 50 per cent in November 2001.

[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.



The fall represents the significant improvement in the liquidity position of banks for the year under review. As will be explained further in subsection 6 below, the indicator of liquidity of banks, the credit/deposit ratio declined from 107.2 in 2001 to 98.3 in 2002.

2.4 Open Market Operations [4]

Open market operations is yet another potential instrument that is available to the Central Bank for liquidity management. It is the purchasing and selling of financial securities by the Central Bank in an open economy in order to regulate the supply of money. However, given that all government papers are offered on a tap system, there was no need to apply this monetary tool.

3. Net Foreign Assets and Domestic Assets

In 2002, the position of the country's net foreign assets deteriorated significantly in comparison with the previous year. The net foreign assets fell by 107 per cent to reach a low of R394 million (*negative*). This is compared to R191 million (*negative*) in 2001 (*see **Chart 3.2** below*). This deterioration is attributed to the Bank's foreign liabilities which increased in the year due to its foreign borrowings. By contrast, the net foreign assets position of the commercial banks improved by over 300 per cent, climbing from R28 million (*negative*) in 2001 to reach a positive outcome of R56 million in 2002.

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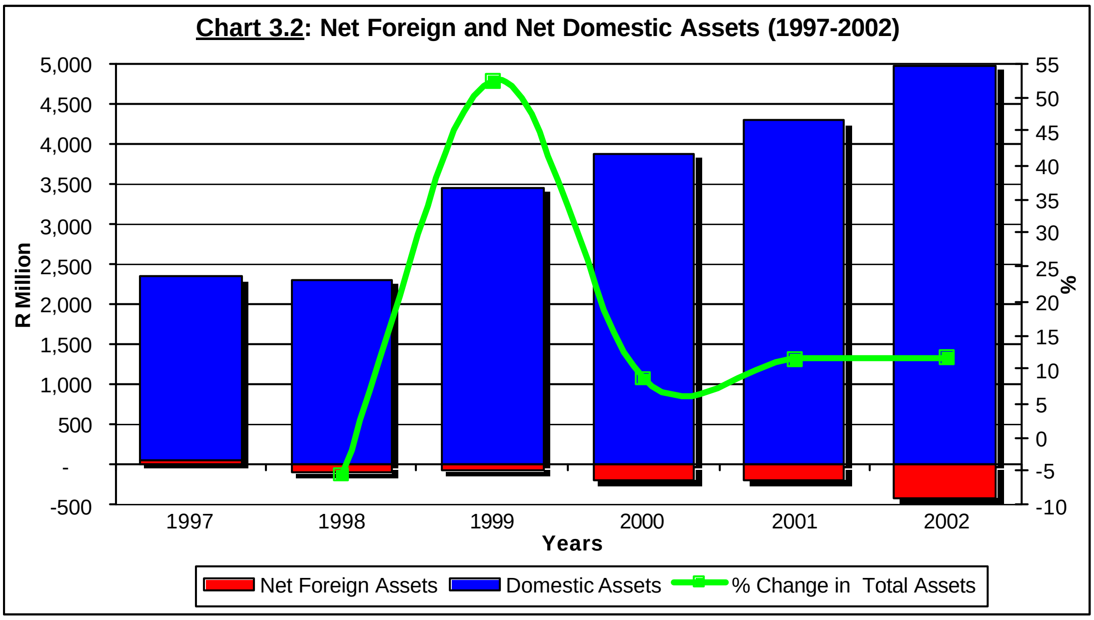
[4] Open market operations are purchases/sales of financial securities by Central Bank in the open economy to regulate the money supply. Such instruments frequently used to mop up excess liquidity. The securities involved can be both short and long term.

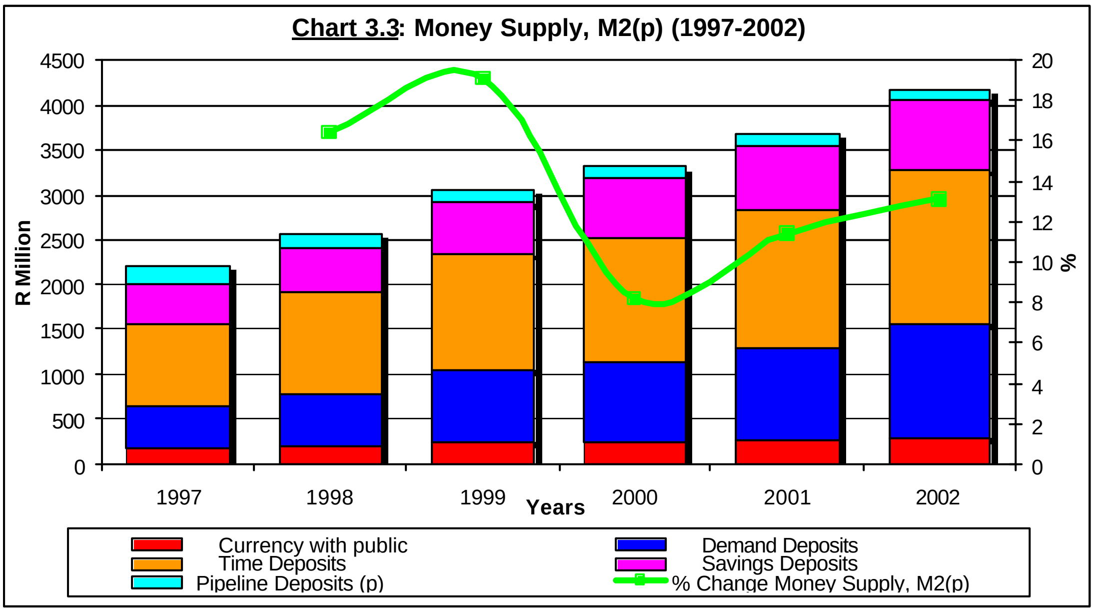


On the other hand, net domestic assets continued in its fourth year of consecutive expansion. During the year under review, it reached R4,965 million, a 16 per cent increase over the previous year. This is shown in ***Chart 3.2*** above. The growth in net domestic assets was driven by two elements. On the one hand, there was a growth of 17 per cent in claims on private sector (from R644 million in 2001 to R754 million in 2002) which is the result of increases in commercial bank credit to economic sectors such as tourism, wholesale & retail trade and manufacturing. The other contributor was a 16 per cent increase in claims on government (net) (from R3,627 million in 2001 to R4,206 million in 2002), which was the result of the increase in the budget deficit for the year, financed on a large part by Central Bank advances. Claims on parastatals however continued on a downward trend, totalling R5.4 million in 2002, a 50 per cent fall over the total of the previous period.

As a result of the movements in net foreign assets and net domestic assets, in 2002, total assets stood at R4,571 million. As it can be observed from ***Chart 3.2*** above, this represents a 12 per cent growth over the previous year.

4. Money Supply

In 2002, the broad money supply aggregate M2(p), which consists of M2 and pipeline deposits (p), continued on the upward trend of 2001. This is shown below in ***Chart 3.3***. In 2002, the M2(p) aggregate stood at R4,165 million, a 13 per cent increase over the previous year, this despite pipeline deposits falling by R24 million (or 19 per cent).



The M2(p) money supply aggregate pressed upwards due to an expansion of 14 per cent over the previous year in money supply aggregate, M2. The increase in money supply M2 in turn was brought about by increases in money M1 and quasi-money.

In 2002, M1, stood at R1,577 million, an increase of R286 million over the previous period. M1 is composed of "currency with public" and "demand deposits". Currency with the public grew by 7.6 per cent over the previous year to reach R301 million in 2002. The main factor contributing to the growth of M1 has been demand deposits. This stood at R1,276 million in 2002, an increase of R265 million (or 26 per cent) over 2001.

Quasi-money, which is composed of both time and savings deposits, totalled R2,485 million in 2002. This represents a 10 per cent increase over the year 2001. The time deposits and saving deposits increased by 10 per cent and 9.3 per cent respectively, of which time deposits reached R1,694 million and savings deposits stood at R791 million.

Table 3.1
Monetary Survey;[1] 1997-2002

	1997	1998	1999	2000	2001	2002
			(R million)			
Net Foreign Assets[2]	**49.9**	**-87.0**	**-68.9**	**-194.6**	**-190.5**	**-394.1**
Central Bank (net)	62.4	-57.9	-51.0	-132.3	-162.6	-450.3
Commercial banks	-12.5	-29.1	-17.9	-62.3	-27.8	56.2
Domestic Assets	**2291.7**	**2998.5**	**3442.7**	**3864.3**	**4280.9**	**4965.1**
Claims on private sector	387.6	460.0	503.5	565.6	643.5	753.5
Claims on parastatals	71.8	55.9	42.6	20.2	10.8	5.4
Claims on government (net)	1832.4	2482.7	2896.7	3278.5	3626.6	4206.3
Total Assets	**2341.6**	**2911.5**	**3373.8**	**3669.7**	**4090.4**	**4571.0**
Money Supply, M2(p)	**2205.9**	**2567.8**	**3056.9**	**3306.5**	**3682.5**	**4165.4**
Money Supply, M2	1987.8	2389.5	2908.9	3174.2	3554.8	4062.1
Money, M1	648.7	780.6	1071.2	1137.5	1290.6	1576.9
Currency with public	192.2	206.4	247.9	264.4	279.9	301.0
Demand deposits	456.5	574.2	823.3	873.1	1010.7	1275.9
(of which parastatals)	117.8	124.5	174.4	182.7	232.7	354.7
Quasi-money	1339.2	1608.9	1837.7	2036.7	2264.2	2485.2
Time deposits	926.6	1123.9	1253.6	1394.6	1540.0	1693.8
(of which parastatals)	107.0	119.0	126.5	177.5	183.9	223.3
Savings deposits	412.5	484.9	584.1	642.7	724.2	791.4
Pipeline deposits	218.0	178.3	148.0	132.3	127.7	103.3
Other items, net	**135.7**	**343.7**	**316.9**	**363.2**	**407.9**	**405.6**

Figures do not necessarily add up due to rounding.

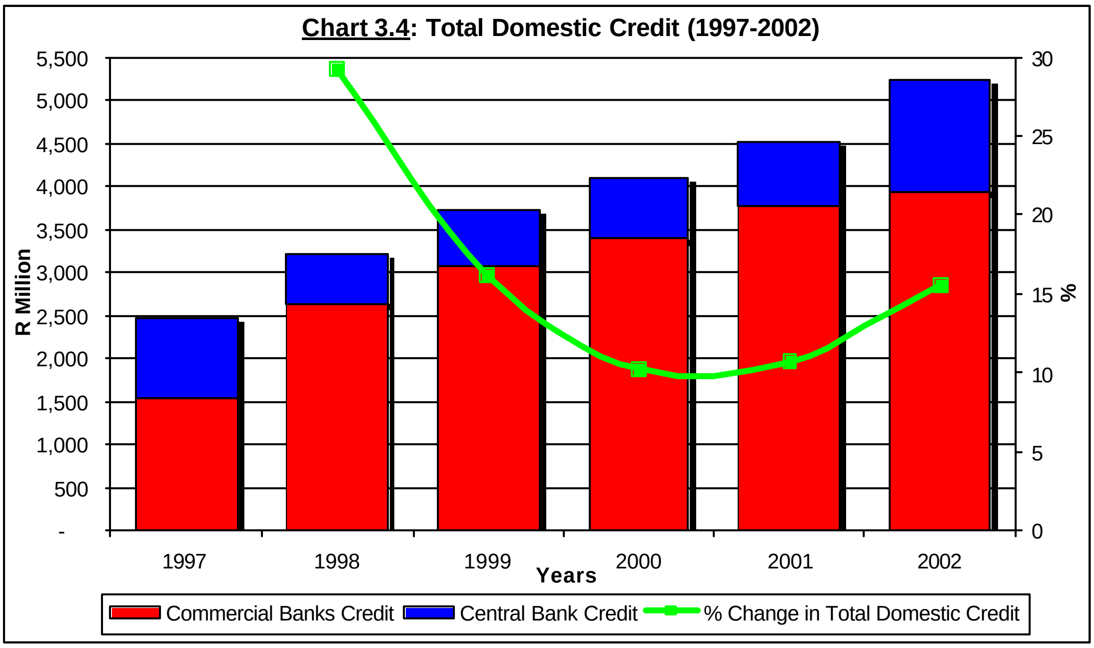
[1] *End-of-period data.*
[2] *Excludes government balances abroad.*

Given current economic situation, the continued expansion of the money supply can be seen as alarming as this has a direct negative impact on the Balance of Payments and on the foreign exchange reserves of the country. As the supply of money in circulation in the economy increases, so will domestic demand. Given the fact that the demand cannot be fully accommodated by domestic supply, then imports will increase, worsening the Balance of Payment position of the country and aggravating the current foreign exchange shortage difficulty.

5. Domestic Credit

5.1 Central Bank and Commercial Bank Credit

A major factor fuelling monetary growth in the economy is domestic credit. As it can be seen from ***Chart 3.4*** below, in 2002, total gross domestic credit increased by 16 per cent over the previous year to reach R5,234 million. As it can also be observed from the diagram, Central Bank credit (which is one of the two components of total domestic credit) is the main factor responsible for the growth in total domestic credit in 2002.



The Central Bank credit, which is solely given to the government, increased by 67 per cent from the 2001 level of R774 million to stand at R1,293 million at the end of 2002. This is shown in ***Chart 3.5*** below. This growth in Central Bank credit was due mainly to the significant growth of advances issued to Government. Central Bank advances stood at R1,092 million in 2002 relative to the 2001 level of R472 million, a 131 per cent increase.

However, it should be noted at the outset that the advances are made up of two components; short-term advances and back-to-back facilities. The latter takes place when the Central Bank converts a foreign loan into local currency and lends it to government. This occurred in 2002 when the Bank converted two foreign loans into domestic currency and advanced these loans to government.

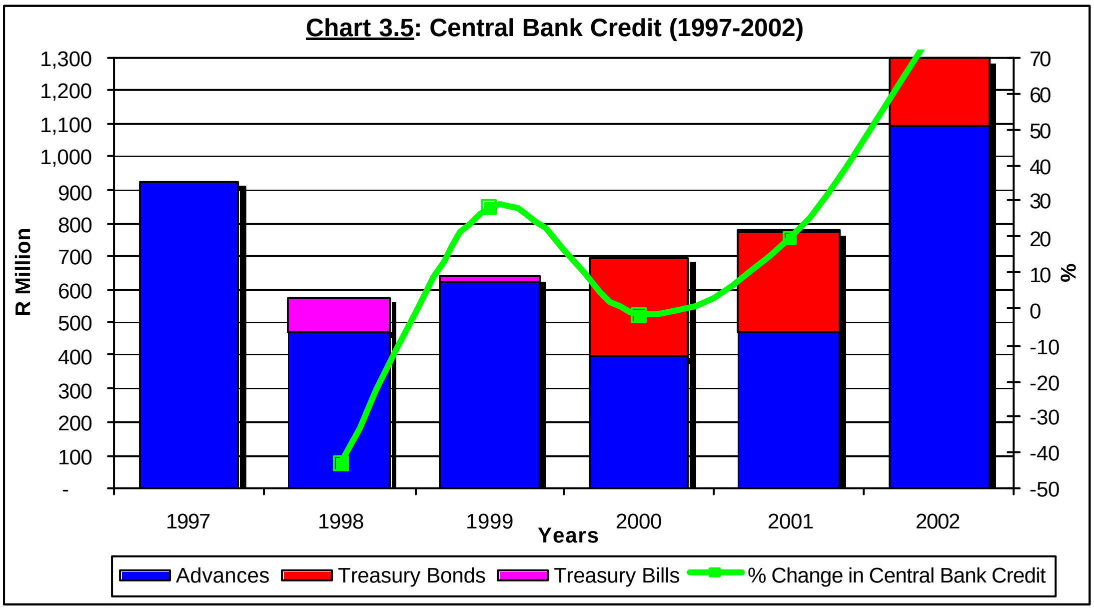


Table 3.2
Credit;[1/2] 1997-2002

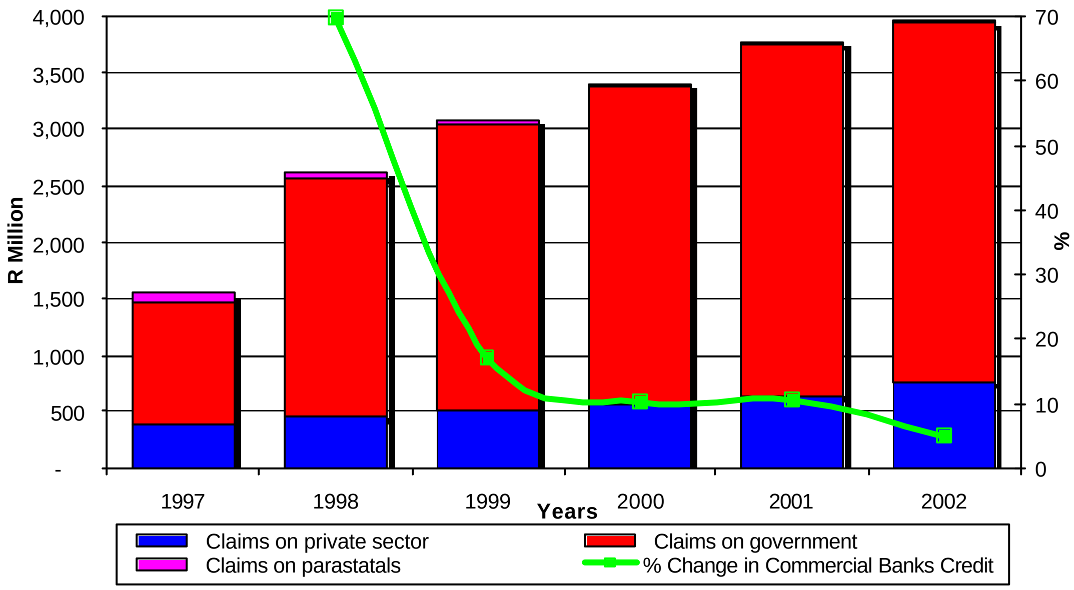
	1997	1998	1999	2000	2001	2002
			(R million)			
Total Credit	**2473.0**	**3197.6**	**3712.8**	**4090.3**	**4529.9**	**5234.5**
Commercial banks	**1546.2**	**2622.6**	**3072.7**	**3391.5**	**3755.9**	**3941.2**
Claims on private sector	387.6	460.0	503.5	565.6	643.5	753.5
Claims on parastatals	71.8	55.9	42.6	20.2	10.8	5.4
Claims on government	1086.9	2106.7	2526.6	2805.7	3101.6	3182.4
Of which:						
Dev. Fund Stocks	(82.0)	(89.1)	(96.2)	(100.7)	(139.7)	(139.7)
Treasury bonds	(326.1)	(1130.7)	(770.6)	(903.6)	(940.4)	(794.3)
Treasury bills	(608.8)	(832.2)	(1621.6)	(1777.1)	(1771.0)	(1784.4)
Central Bank	**926.8**	**575.0**	**640.1**	**698.8**	**774.0**	**1293.2**
Claims on government	926.8	575.0	640.1	698.8	774.0	1293.2
Of which:						
Advances	(923.2)	(469.0)	(623.9)	(395.8)	(472.4)	(1092.0)
Treasury bonds	(3.2)	(0.05)	(0.05)	(300.7)	(300.7)	(200.0)
Treasury bills	(0.4)	(106.0)	(16.2)	(2.3)	(1.0)	(1.2)

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.*

As it can be seen from ***Chart 3.6*** below, the increase of the commercial banks credit slowed in 2002. This was despite the continued increase of claims on private sector. In 2002, commercial banks' credit stood at R3,941 million, a 4.9 per cent increase over the previous year. The slowdown can be attributed to the continued decrease of claims on parastatals (a fall of 50 per cent over 2001) and a deceleration in claims on government (this only increased by 2.6 per cent over 2001). The fall in claims on parastatals can be explained by the fact that most parastatals have now matured and need less credit to operate. As for the decrease in rate of growth of claims on government, this is attributed to a lack of new issue of government securities as during the year there was only redemption of those instruments.

Chart 3.6: Commercial Banks Credit (1997-2002)



5.2 Sectoral Development of Credit to Private Sector and Parastatals

To obtain a better understanding of the distribution of loans in the economy it is worth examining commercial banks' credit to non-governmental sector by economic activities. At the end of 2002, a total of R759 million worth of credit was outstanding to the non-public sector, an increase of R105 million over 2001.

For the year under review, mixed developments were observed in the distribution of commercial banks' credit to the non-public sector. This can be seen in ***Chart 3.7*** below.

Loans to the "transportation" sector registered the most significant decrease in credit, falling by 21 per cent over the previous year to a level of R3.5 million in 2002. Similarly, credit to "other businesses" sector registered quite an important fall of R17 million to stand at R86 million.

Table 3.3
Commercial Banks – Loans and Advances
To Non-Government Sector by Economic Sectors;[1] 1998-2002

	1998	1999	2000	2001	2002	1998	1999	2000	2001	2002
		(R million)					(per cent)			
Total Advances	**515.8**	**546.0**	**585.8**	**654.1**	**758.8**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Agriculture & fishing	26.6	26.6	11.6	13.9	13.4	5.2	4.9	2.0	2.1	1.8
Of which:										
Refinance scheme	18.3	18.8	3.1	1.5	1.5	3.5	3.4	0.5	0.2	0.2
Manufacturing	33.8	3.4	4.8	6.1	9.0	6.6	0.6	0.8	0.9	1.2
Of which:										
Refinance scheme	29.0	0.0	0.0	0.0	0.0	5.6	0.0	0.0	0.0	0.0
Construction	22.9	20.6	29.8	30.3	38.2	3.4	4.4	3.8	4.6	5.0
Transportation	8.6	4.8	4.7	4.5	3.5	1.7	0.9	0.8	0.7	0.5
Tourist facilities	75.1	87.4	107.7	140.8	207.0	14.6	16.0	18.4	21.5	27.3
Wholesale & Retail trade	58.8	51.3	38.7	37.7	53.3	11.4	9.4	6.6	5.8	7.0
Other businesses	81.9	104.6	99.5	102.7	85.8	15.9	19.2	17.0	15.7	11.3
Private households & Non-profit organisations	208.2	247.3	288.9	318.0	348.7	40.4	45.3	49.3	48.6	45.9
Of which										
Mortgage loans	80.5	114.2	156.6	177.4	184.1	15.6	20.9	26.7	27.1	24.3

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

The most remarkable increase was for credit given to the "tourist facilities" sector. This sector saw loans and advances increase by 47 per cent, from R141 million in 2001 to R207 million in 2002. This reflects the increasingly important role that the tourism sector is to have in the development of Seychelles. The "manufacturing" sector also saw a major increase of commercial banks' credit bestowed to it, registering an increase of 46 per cent over the 2001 total of R6.1 million to R9.0 million in 2002. The "wholesale & retail trade" sector experienced a revival in 2002 with a 41 per cent increase in credit after it had suffered from the effects of the shortage of foreign exchange in the previous year.

Chart 3.7: Commercial Banks Loans and Advances to Non-Government Sectors (1997-2002)

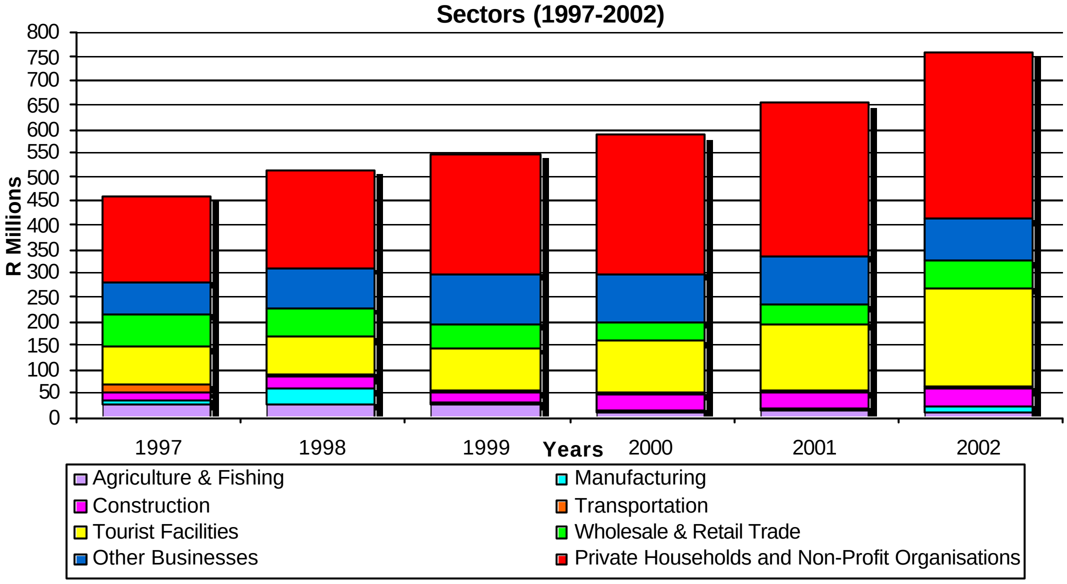
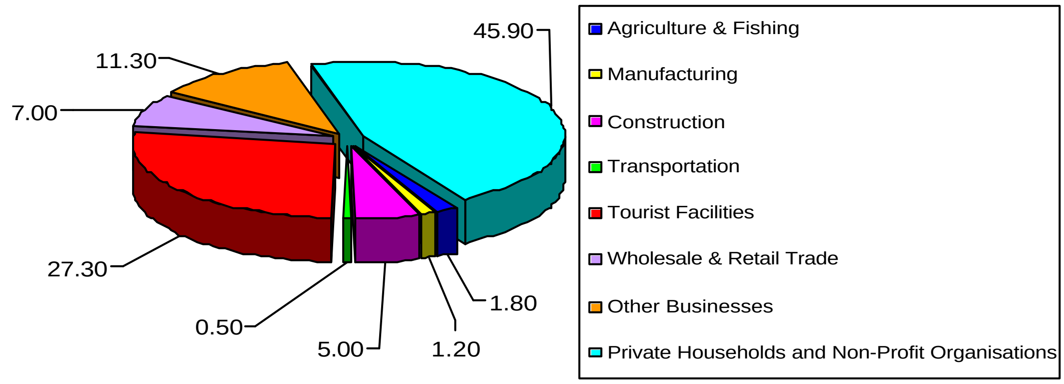


Chart 3.8 below, shows the distribution of commercial banks loans and advances to non-government sectors for the year. We notice that private households and non-profit organisations held the largest piece of the pie, with 46 per cent of commercial banks loans, or R349 million going to this sector. This reflected mainly the increase in mortgage loans.

Chart 3.8: Commercial Banks Loans and Advances to Non Government Sector (2002) (%)



5.3 Development Bank's Credit[5]

The Development Bank of Seychelles (DBS) provides vital credit to small and medium sized enterprises (SMEs) for the implementation of economically sound and financially viable projects, often in industry promoting sectors such as agriculture, fisheries among others. Due to the high level of risks involved, these SMEs usually do not qualify for credit from commercial banks. DBS offers these businesses with alternative and cheaper financing.

It can be observed from ***Chart 3.9*** above that total advances from DBS increased by R29 million (or 13 per cent) over the previous year to reach R260 million in 2002.

Whilst DBS loans to the industry sector contracted for 2002, all other sectors saw an expansion in credit. This is compared to 2001 where all sectors except tourism experienced a fall in credit. The tourism sector remained the largest recipient of DBS loans, accounting for 48 per cent of loans. The sectoral distribution of DBS credit is illustrated in ***Chart 3.10*** below.

[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 'Seychellios', 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.

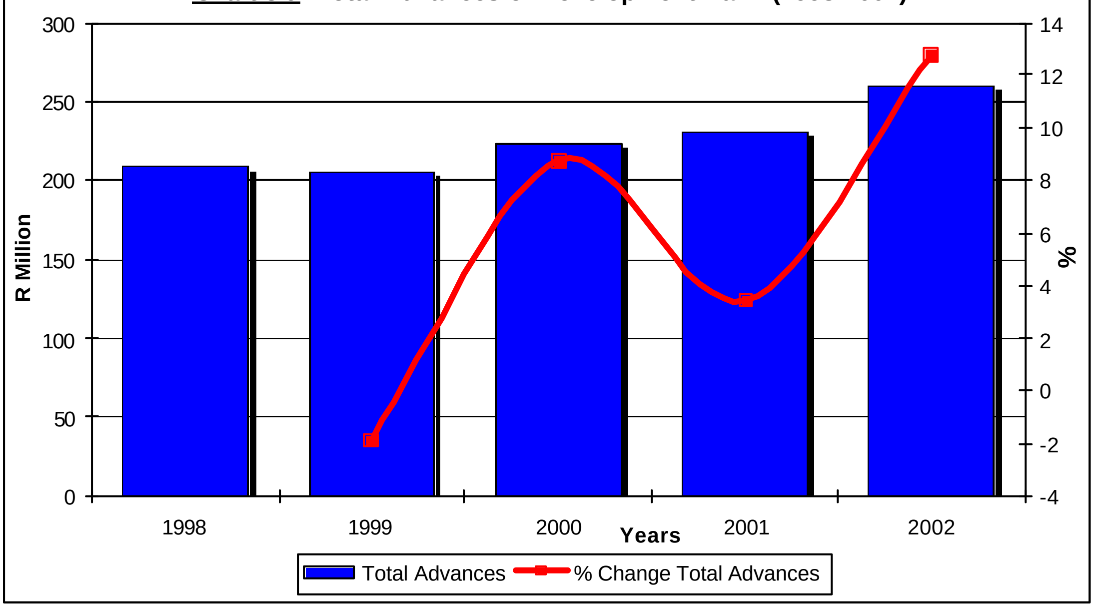


Chart 3.9: Total Advances of Development Bank (1998-2002)

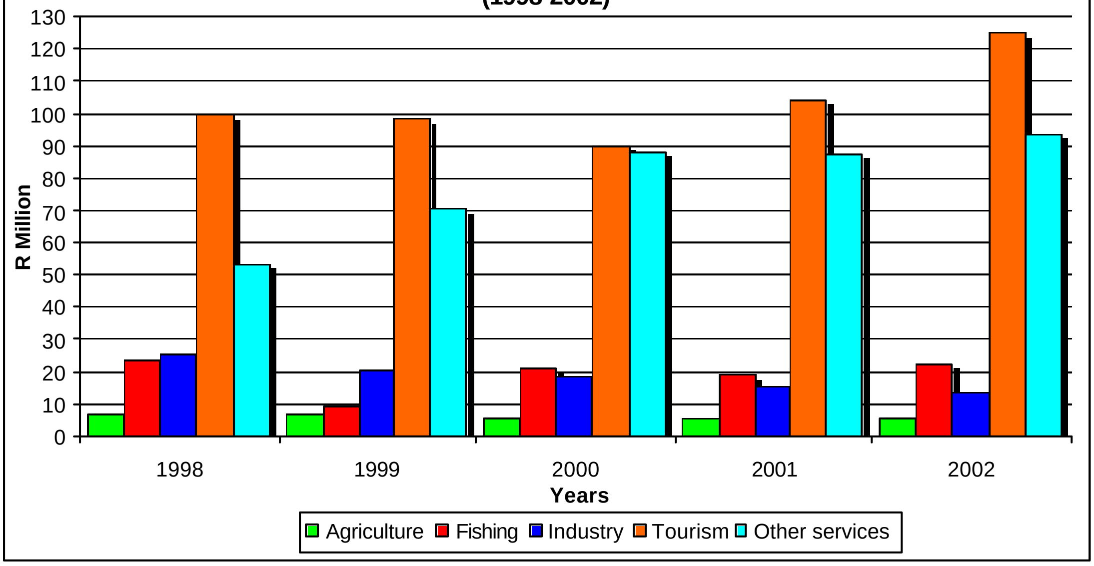


Chart 3.10: Loans by Development Bank by Economic Sectors (1998-2002)

The "other services" grouping also benefited relatively well in 2002 in terms of DBS credit. There was a significant increase of R6.0 million (or 6.9 per cent) relative to the previous year. The sector also accounted for 36 per cent of total DBS credit. The "agriculture" sector recorded an increase of 20 per cent over 2001 to a level of R6.2 million.

Table 3.4
Loans by Development Bank by Economic Sectors;* 1998-2002

	1998	1999	2000	2001	2002	1998	1999	2000	2001	2002
	(R million)					(per cent)				
Total Advances	**209.2**	**205.3**	**223.3**	**230.8**	**260.2**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Agriculture	7.3	6.8	6.2	5.1	6.2	3.5	3.3	2.8	2.2	2.4
Fishing	23.9	9.5	21.2	18.8	22.2	11.4	4.6	9.5	8.1	8.5
Industry	25.5	20.5	18.2	15.6	13.5	12.2	10.0	8.1	6.7	5.2
Tourism	99.4	98.0	89.9	103.8	124.8	47.5	47.7	40.3	45.0	48.0
Other services	53.1	70.5	87.8	87.6	93.6	25.4	34.4	39.3	37.9	36.0

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

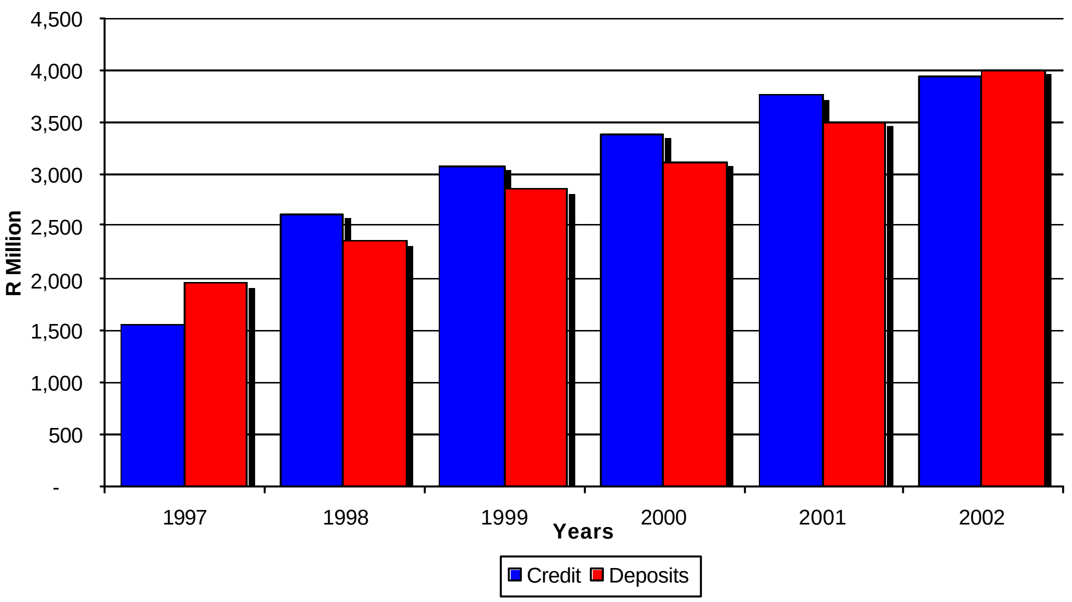
Source: Development Bank of Seychelles

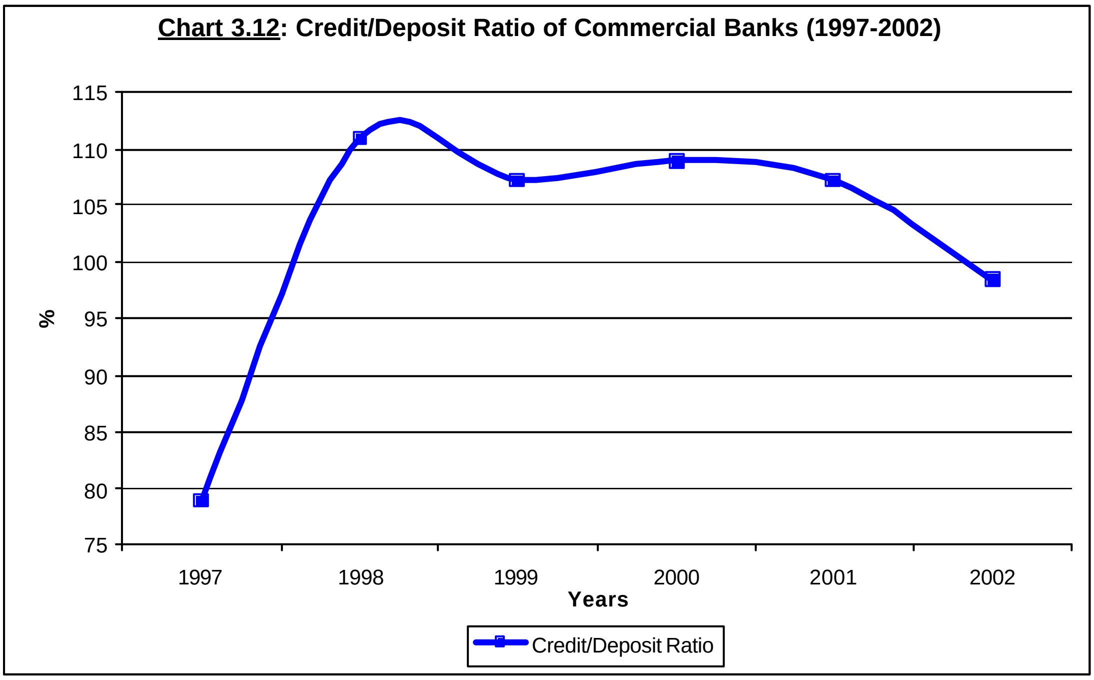
6. Liquidity of Commercial Banks

As was the case in preceding years, both commercial banks' credit and deposits increased in 2002, as shown in ***Chart 3.11*** below. Credit grew by 4.9 per cent over the 2001 total of R3,756 million to stand at R3,941 million in 2002. Similarly, deposits increased by R503 million, totalling R4,008 million in 2002.

For the year under review the credit/deposit ratio, which depicts the movement in the liquidity position of banks, fell to 98.3 per cent from 107.2 per cent in 2001.

Chart 3.11: Credit and Deposits of Commercial Banks (1997-2002)





The fall in the ratio shows an improvement in the liquidity position of commercial banks ***Chart 3.12***. Given that both commercial banks' credit and deposit increased in 2002, the fall in the ratio is the result of the larger increase in deposit relative to credit. The increase in deposit is the direct result of a lack of government securities available on the market to mop up funds from the ones being redeemed.

Table 3.5
Liquidity Indicators of Commercial Banks;[1] 1997-2002

	1997	1998	1999	2000	2001	2002
			(R million)			
Credit	1546.2	2622.6	3072.7	3391.5	3755.9	3941.2
Deposits	1958.9	2364.0	2864.5	3114.3	3505.1	4008.0
			(per cent)			
Credit-deposit ratio	78.9	110.9	107.3	108.9	107.2	98.3

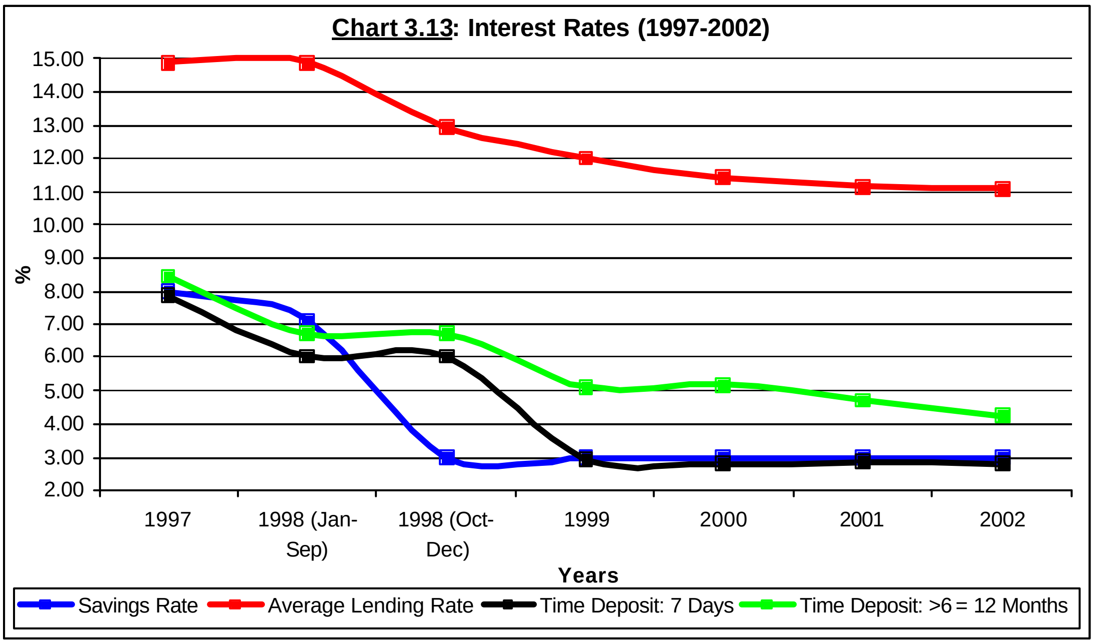
Figures do not necessarily add up due to rounding.

[1] *End-of-period data.*

7. Interest Rates

For the year under review, interest rates were relatively stable. The minimum savings' rate remained unchanged at 3.0 per cent. Due to the fact that all three Treasury Bills (91-Day, 182-Day and 365-Day) continued to be issued on a tap basis, there were no movements in the yields on these.

Time deposit yields performance varied. For 7 day deposits the yield fell by 3.81 percentage points to 2.78 per cent. Similarly yields for 12 months deposits fell by 9.75 percentage points to 4.26 per cent. No change in yield was recorded for deposits between 3 to 6 months. Deposits between 7 days and 3 months saw an increase of 0.20 percentage point to 4.93 per cent. Deposits between 6 to 12 months also saw an increase of 0.70 percentage point to 4.34 per cent.



The average lending rate fell slightly from 11.14 per cent in 2001 to the level of 11.09 per cent in 2002. The relative movements in the key interest rates are shown in ***Chart 3.13*** above.

Table 3.6
Interest Rates;[1] 1997-2002

	1997	1998 Jan-	1998 Oct-	1999	2000	2001	2002
	(per cent)						
Volume-weighted average deposit rates:							
Savings rate	8.00	7.11	3.00	3.00	3.00	3.00	3.00
Time deposits							
7 days	7.86	7.11	2.75	2.93	2.79	2.89	2.78
> 7 days ≤ 3 months	9.20	8.03	6.03	5.13	4.77	4.92	4.93
> 3 months ≤ 6 months	9.11	8.77	6.94	4.71	4.76	4.98	4.98
> 6 months ≤ 12 months	9.91	9.31	7.64	5.05	4.29	4.31	4.34
> 12 months	8.46	7.18	5.23	5.13	5.14	4.72	4.26
Volume-weighted Average lending rate	14.88	14.88	12.92	12.01	11.45	11.14	11.09
91-day treasury bill rate	10.50	10.50	4.50	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.*

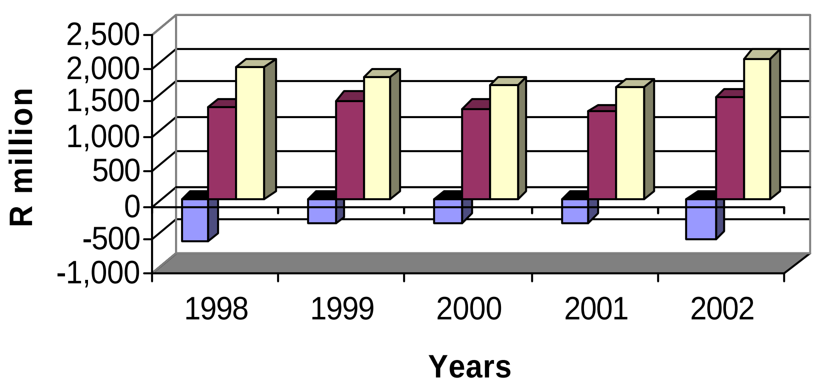
SECTION FOUR

Government Finance

1. Overview

In line with its fiscal adjustment since 1999, government directed more efforts towards curtailing expenditure in order to contain its budget deficits. Such practice is aimed primarily to reduce the repercussive effects that an undesirable fiscal outcome would have on the other sectors of the economy. Encouragingly, this started with some positive results and 2001 was the third consecutive year in which a reduction in the budget shortfall was registered. However, in its broadest sense, the fiscal result for the period under review was somewhat disappointing; government accounts ended with a deficit of R574 million, which surpassed its target by R116 million or 25 per cent, see *Chart 4.1*.

Chart 4.1. Government finance outcomes for 1998 to 2002



Naturally, such result would not be welcomed by the authority given that amid a lower than expected revenue, expenditure exceeded its planned amount by R87 million or 4.4 per cent. However, a detailed analysis of the account revealed that the "extra" spending reflected an overshot of the budget under "capital outlays" and "net lending" only. As for "current outlays", it posted a saving of R91 million, which was explained by the outcome under both "appropriation items" and "charges". With regards to capital expenditure, it was R54 million above target and R132 million higher than that of the previous year. For "net lending", the government was anticipating a repayment amount of R80 million. However, in actual terms, on a net basis, it lent R43 million. Therefore, it followed that the year 2002's fiscal outcome was explained by above-budgeted expenditure geared towards investments and financial supports whereas government was able to restrain its current consumption. The end result was not surprising given the challenge being faced by the government to maintain the pace of development – especially in line with its social objectives – in an environment of limited natural resources and sources of revenue.

On the revenue side, the government fell short of its target by R29 million. Such outcome was attributed to the lower-than-expected current receipts as well as grants, a development that was more pronounced in the second half of the year. The shortfall in inflows varied between R0.1 million and R48 million, with the latter originated from revenue collected under "dividends and interest". Nevertheless, above-targeted income was registered under "trades tax", "business tax" and "income tax", which surpassed expectations by R56 million, R13 million, and R0.1 million respectively. On a good note, the year 2002's aggregate revenue compared more favourably to R1,289 million posted in the preceding year. This was on account of a significant supplementary R284 million earned under "other indirect taxes" albeit income from trades tax contracted by R236 million over that same period. The growth in revenue was influenced by earnings relating to the "Goods and Services Tax", (GST) collected from tourism establishments (particularly hotels), which is applicable since the start of the year.

Table 4.1
Government Budget; 2000-2003
Summary

	2000 Revised Budget	2000 Actual[1]	2001 Revised Budget	2001 Actual[1]	2002 Budget	2002 Revised Budget	2002 Actual[1]	2003 Budget
				(R million)				
Total Receipts	**1528**	**1333**	**1405**	**1289**	**1516**	**1516**	**1487**	**1512**
Current receipts	1477	1283	1389	1275	1488	1488	1464	1502
Of which:								
Trades tax	[591]	[578]	[610]	[596]	[604]	[305]	[360]	[304]
Transfers from Social Security	[80]	[80]	[95]	[105]	[110]	[110]	[110]	[120]
Business/income tax	[205]	[244]	[219]	[228]	[240]	[240]	[253]	[222]
Grants	51	50	16	14	28	28	22	10
Total Outlays	**1947**	**1675**	**1670**	**1630**	**1765**	**1974**	**2061**	**1693**
Current outlays	1440	1358	1488	1421	1625	1780	1689	1625
Appropriation items	1149	1083	1244	1139	1306	1457	1371	1363
Of which:								
Ministries/departments	[735]	[712]	[731]	[735]	[757]	[852]	[828]	[813]
Social Security contributions	[119]	[119]	[125]	[125]	[131]	[131]	[131]	[138]
Current outlays to parastatals	[33]	[35]	[72]	[46]	[101]	[142]	[170]	[101]
Charges	291	274	243	282	319	323	318	261
Of which:								
Interest payments	[280]	[263]	[231]	[265]	[307]	[307]	[303]	[250]
Capital outlays	461	463	263	197	219	274	329	68
Net lending	46	-145	-80	12	-80	-80	43	0
Of which:								
Parastatals	[17]	[-47]	[-80]	[16]	[-80]	[-80]	[37]	[0]
Primary Balance[2]	**-139**	**-79**	**-34**	**-75**	**-59**	**-151**	**-271**	**69**
Overall Balance	**-419**	**-342**	**-265**	**-340**	**-248**	**-458**	**-574**	**-180**
Financing	**419**	**342**	**265**	**340**	**248**	**458**	**574**	**180**
Foreign loans (net)	208	461	92	-62	552	552	-322	-73
Domestic loans (net)	210	9	173	429	-304	-94	806	253
Cash movements	0	-127	0	-27	0	0	91	0
Memorandum Items:								
Amortisation of loans	390	645	679	780	526	526	757	1028
Foreign loans	112	40	90	220	306	306	371	109
Domestic loans	278	604	589	560	219	219	386	919

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 form the overall balance.*

Source: Ministry of Finance

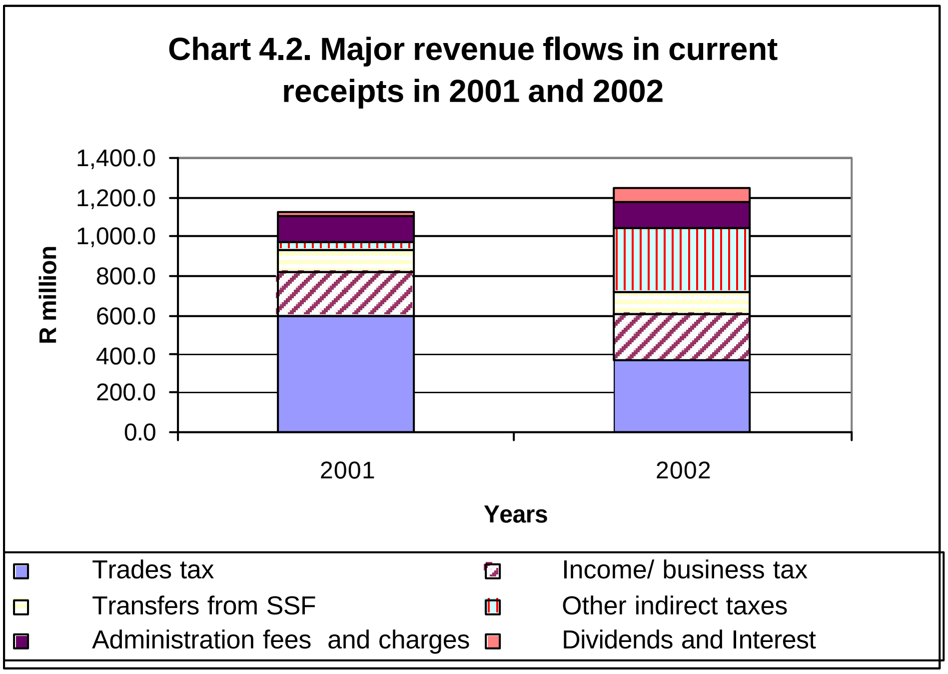
Consistent with the previous years, the main source of financing originated from the domestic market. In 2002, government's domestic liability expanded by R806 million, whilst R386 million worth of domestic loans was cleared. The growth in credit to the government, which directly relates to the increase in advances from the Central Bank, was a major catalyst in the overall growth in total credit posted during the year. The majority of these advances represented foreign loans (and not necessarily "printing of money") converted into domestic currency and lent to the government as Central Bank's advances (domestic loans). Moreover, amid the increase in Central Bank's credit to government, the rate of growth in commercial banks' claims on government contracted (to 2.6 per cent), which was a welcoming development to the business community as more funds became available for investment purposes. Over the same period, the growth in commercial banks' claims on private sector picked up pace to reach 17 per cent. The declined pace in commercial banks' credit to government was directly related to the redemption of government securities as no new issues of such instruments were made during the year.

The year 2002's fiscal outcome compared less favourably to that of the year 2001 when the government ran a budget deficit of R340 million. As a percentage of GDP, the result for the period under review stood at 17 per cent of the estimated nominal GDP. This compared to 9.3 per cent registered in 2001.

2. Revenue

During the fiscal year 2002, aggregate revenue amounted to R1,487 million. It accounted to R29 million or 1.9 per cent less than the expected figure and reflected the underperformance recorded under both "current receipts" and "grants". Such outcomes were especially influenced by revenue earned in the second half of the year given that from January to June, current revenue exceeded expectations.

For the year as a whole, a total of R1,488 million was anticipated under "current receipts". However, in actual terms, the government collected R1,464 million and thus fell R24 million or 1.6 per cent short of its target. Excluding inflows under "trades tax", "business tax" and "income tax" that surpassed expectations by R56 million, R13 million and R0.1 million respectively, and "transfer from SFF" which met its target, that under all of the remaining entries fell short of their relevant forecast. The major shortfall was registered under "dividends and interest" where annual revenue was R48 million below the budgeted amount. This reflected the lower than anticipated flows from two parastatals which failed to materialise. A shortfall of R19 million was registered under "other indirect taxes" whereas those under other items were at most R7.4 million.



During the period, trades tax continued to be the main source of current earnings with a contribution of R360 million or 25 per cent of aggregate current receipts. This was followed by "other indirect taxes" and "business tax", with a respective share of 22 per cent and 17 per cent. Each of the remaining items accounted for less than 10 per cent of current inflows, see *Chart 4.2*.

With regards to grants, the figure for 2002 was R22 million. This was R5.5 million short of expectations, but compared more favourably to R16 million received in 2001. Nevertheless, the year 2002's total grants accounted for only 1.5 per cent of total budget receipts.

Compared to the previous year, aggregate revenue (current receipts plus grants) in 2002 grew by R197 million or 15 per cent. Excluding developments on the expenditure side of the fiscal account, this was relatively an encouraging performance. The year's result reflected growth under both major headings of inflows, namely "current receipts" and "grants", which expanded by R189 million or 15 per cent and R8.4 million or 60 per cent respectively. The growth under current receipts was explained by the significant rise in revenue collected under "other indirect taxes", the figure of which exceeded that of the year 2001 by R284 million or 687 per cent. Such remarkable increase was associated with the new "Goods and Services Tax" (GST) introduced at the start of the year 2002. This tax is levied on services provided by tourism establishments, particularly hotels. Important growths in revenue were also recorded under "business tax" and "dividends and interest", which were of

R25 million and R49 million respectively. These could reflect a pick-up in business activity and thus investment prospects and more efficient methods of collecting those taxes. In spite of this, a disappointing outcome was posted under "trades tax", the primary source of current income. Relative to 2001, revenue collected under "trades tax" declined by a significant R236 million or 40 per cent. This could be associated with the contraction in import payments, which in 2002 fell by 1.9 per cent relative to the previous year. Over that same period, the remaining shortfall in revenue ranged from R0.1 million ("income – public services") and R3.0 million ("administration fees and charges").

Table 4.2
Government Budget; 2000-2003
Revenue

	2000 Revised Budget	2000 Actual[1]	2001 Revised Budget	2001 Actual[1]	2002 Budget	2002 Revised Budget	2002 Actual[1]	2003 Budget
			(R million)					
Total Receipts	**1528**	**1333**	**1405**	**1289**	**1516**	**1516**	**1487**	**1512**
Current receipts	**1477**	**1283**	**1389**	**1275**	**1488**	**1488**	**1464**	**1502**
Transfers from social security fund	80	80	95	105	110	110	110	120
Trades tax	591	578	610	596	604	305	360	304
Income/business tax	205	244	219	228	240	240	253	222
Other indirect taxes	41	44	41	41	45	344	325	373
Fees and fines	87	84	96	89	97	97	91	97
Administration fees and Charges	126	126	126	132	130	130	129	130
Rent and royalties	12	15	12	14	18	18	16	18
Income – public service	10	9	10	8	10	10	8	10
Dividends and interest	144	58	102	26	122	122	75	122
Reimbursements	26	38	36	33	40	40	33	45
Miscellaneous	156	5	42	3	72	72	65	62
Grants	51	50	16	14	28	28	22	10

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

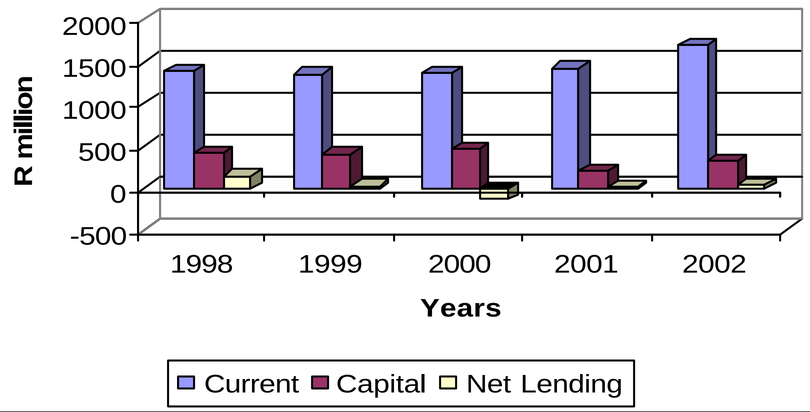
3. Expenditure

In view of the overall performance, the year 2002's expenditure outcome was not in its entirety in line with the move opted by the government since 1999 to restrain spending and thus the budget deficit. Despite the fact that such practice has been relatively successful in preceding years, during the year being reviewed, the actual aggregate government expenditure exceeded the planned amount by R87 million or 4.4 per cent to reach R2,061 million.

Nonetheless, in spite of this result, one encouraging sign was that the government was able to curtail its spending under "current outlays" by R91 million. Therefore, it followed that the higher than expected summed expenditures were in respect of those effected under the remaining entries, namely "capital outlays" and "net lending". Capital expenses exceeded its budget by R54 million. As for "net lending", it contributed to a significant part in the budget overrun, whereby from a planned net repayment of R80 million, government lent out R43 million (on a net basis).

In 2002, the government spent R431 million higher than the amount realised in 2001, which was explained by increases in expenditure under all main headings, *see chart 4.3*. The major growth was posted under "current outlays" whereby R268 million above the year 2001's level was disbursed. Public investment expenditure on the other hand expanded by R132 million.

Chart 4.3. Government expenditure by main headings;1998 to 2002



3.1 Current Outlays

As previously noted, notwithstanding the overall budgetary performance, the outcome under current expenditure was relatively encouraging. More importantly, this reflected positive results posted under both "appropriation items" and "charges" where the registered savings amounted to R86 million and R4.6 million respectively.

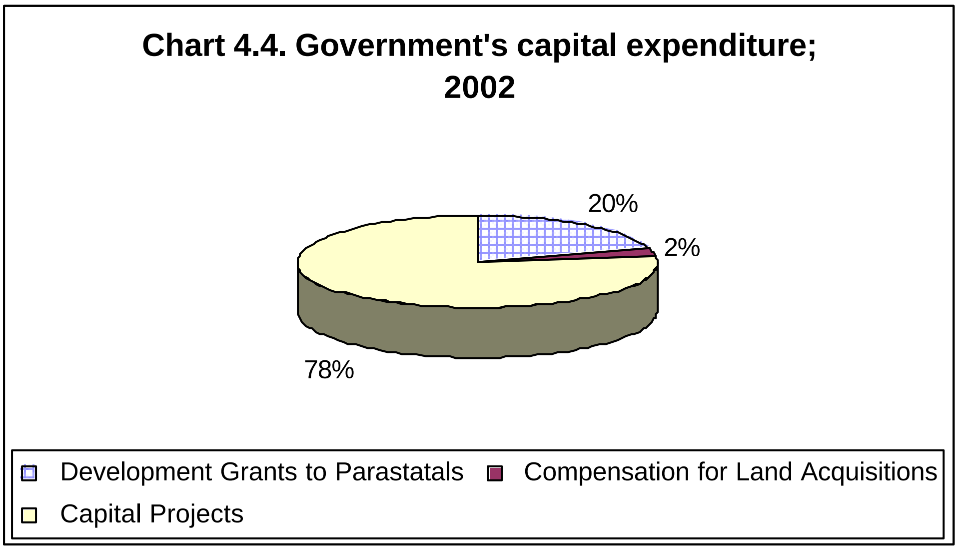
The bulk of current expenditure was disbursed under "appropriation items", which accounted approximately 81 per cent of "current outlays". It followed that the remaining current payouts were with regards to transactions recorded under "charges". A more detailed analysis of the entries under "appropriation items" revealed that in most cases, the outcome was a saving or as per its target. The only item whereby payments exceeded the budgeted amount was that under "current outlays on parastatals", where the actual figure was R28 million above forecast. This largely reflected subventions to the Public Utilities Corporation (PUC), which was 44 per cent above the budgeted amount. Nevertheless, such development was outweighed by the relatively "controlled" spending effected under "ministries and departments", "pensions & gratuities", "current outlays on regulatory bodies", and "centralised payments". These savings varied between R1.4 million and R86 million with the maximum materialised under "centralised payments" whereby for many items, expenditure was above 80 per cent to 100 per cent less than their respective expected amount.

As for charges, the saving of R4.6 million or 1.4 per cent of the budget was explained by the below-budgeted expenditure achieved under "public debt interest" and "salaries of constitutional appointees", which were by R4.0 million and R0.6 million respectively. As for the remaining items under "charges", they were achieved within targets. Nevertheless, compared to the year 2001, expenditure under that category rose by R36 million to reach R318 million, with the greater part of the increase explained by the expansion posted under "public debt interest", which rose by R38 million. A growth was also recorded under "execution of elections" – even if it was relatively insignificant – and this was by R0.4 million. With regards to "salaries of constitutional appointees", R3.0 million less was spent in 2002 relative to 2001 whereas expenditure under "contribution to political parties" met its target of R0.5 million.

3.2 Capital Outlays

The level of government's capital expenditure or public investments tend to portray how the authority is committed to ensure availability of the required infrastructures which would improve investment environment and in turn support economic growth and development. In the case of Seychelles, a large proportion of such spending is also directed towards achieving the government's social objectives.

In 2002, capital outlays amounted to R329 million, which was R54 million or 20 per cent above the budgeted amount. This outcome was attributed to the unplanned spending effected under "capital projects" in view of the fact that expenditure in respect of the two subgroups – namely "compensation for land acquisition" and "development grants to parastatals" – met their respective targets.



As a proportion of total capital outlays, the largest share of expenditure was accounted for by disbursements under "capital projects" (78 per cent). This was followed by "development grants to parastatals" (20 per cent) and "compensation for land acquisition" which accounted for the remaining (smallest) share, see *Chart 4.4.*

Compared to the previous year, the growth in capital spending was by R132 million. Similarly to the year 2001, the majority of these disbursements in 2002 went towards "capital project". Nevertheless, over the period being reviewed, the figure increased by R68 million or 37 per cent relative to the preceding year. This represented investments with regard to various social developments schemes such as housing projects implemented at district level. As for capital outlays under "development grants to parastatals", this grew by R60 million from the previous year's level of R6.0 million. Concerning "compensation for land acquisition", an expansion of R3.4 million was registered over the period.

Table 4.3
Government Budget; 2000-2003
Expenditure

	2000 Revised Budget	2000 Actual[1]	2001 Revised Budget	2001 Actual[1]	2002 Budget	2002 Revised Budget	2002 Actual[1]	2003 Budget
	R million							
Total Budget Outlays	**1947**	**1675**	**1670**	**1599**	**1765**	**1974**	**2061**	**1693**
Current Outlays	**1440**	**1358**	**1488**	**1408**	**1625**	**1780**	**1689**	**1625**
Appropriation items	1149	1083	1244	1126	1306	1457	1371	1363
Ministries/departments[2]	735	712	731	735	757	852	828	813
Tourism & Civil Aviation	44	42	48	48	72	75	71	75
Education	139	136	140	144	151	159	157	160
Health	135	133	137	137	140	143	138	164
Defence	63	62	60	65	64	74	77	64
Internal Affairs	66	65	68	69	68	71	70	72
Pension & Gratuities	44	38	35	36	38	38	37	38
Subventions	83	81	122	92	152	196	220	180
Regulatory bodies[3]	50	46	50	46	51	54	50	53
Parastatals	33	35	72	34	101	142	170	101
Social Security Contributions	119	119	125	125	131	131	131	138
Pension Scheme Contributions	7	7	7	7	7	7	7	7
Other appropriations[4]	161	127	225	144	222	234	149	188
Charges	291	274	243	282	319	323	318	261
Public debt interest	280	263	231	265	307	307	303	250
Other charges[5]	12	12	13	17	11	15	15	12
Total Capital Outlays	**461**	**463**	**263**	**197**	**219**	**274**	**329**	**68**
Development grants to parastatals	17	58	6	6	13	66	66	11
Land acquisitions	12	4	7	5	7	8	8	7
Capital projects	432	401	250	186	200	200	254	50
Net Lending	**46**	**-145**	**-80**	**12**	**-80**	**-80**	**43**	**0**
BTL advances – parastatals	0	-47	-80	16	-80	-80	37	0
BTL advances – others	28	-99	0	-5	0	0	6	0
Capital subscriptions	1	0	0	0	0	0	0	0
Equity participation	0	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

3.2.1 Public Sector Capital Project Expenditure

For the year 2002, capital expenditure of the government amounted to R254 million or increased by R68 million (37 per cent) relative to the previous year. In sectoral terms, this growth in aggregate capital outlays was primarily associated with the higher spending on "infrastructure and utilities" and that on "services". The two expenditure categories exceeded their year 2001's level by R38 million and R54 million respectively. As for capital expenditure under "economic sectors", this contracted by R24 million or 89 per cent.

3.2.1.1 Economic Sectors

Like mentioned above, "economic sectors" was the only subgroup under which a lower level of capital expenditure was effected in 2002 relative to year 2001. With the exception of spending on "craft & home industry" and that on "tourism", outlays in respect of the remaining economic sectors posted a decline. Expenditure on the former subgroup was R21 million after no such spending was registered in 2002 and was funds relating to the consultancy and training centre for glass recycling and pottery project in Seychelles. As for the tourism sector, payments went towards the financing of the "tourism capacity building project". With regards to the reduction in expenditure, this was more significant in relation to disbursement under "fisheries" which fell by R24 million or 94 per cent compared to the previous year.

3.2.1.2 Infrastructure and Utilities

Expenditure on "infrastructures and utilities" amounted to R102 million, showing growth of R38 million or 60 per cent. With the exception of the outcome under "transportation" and "electricity, water supply & sanitation", spending in relation to all the remaining items under that category increased in comparison to the previous year. The most influential growth in capital spending was for the financing of the land reclamation project (East Coast Project, Phase III), payments to which exceeded the previous year's amount by R33 million or 101 per cent. Furthermore, spending under "land bank" rose by R6.4 million or 77 per cent. And finally, spending on "communications" increased by around R1.0 million or 15 per cent with the major component related to the "electronic government" project. As for the reduced capital outlays, this represented a significant contraction of 70 per cent under "electricity, water supply & sanitation", whilst under "transportation", spending was less than that of the preceding year by 7.1 per cent. It is worth noting that the figure for expenditure on "electricity, water supply & sanitation" does not include investments projects of the Public Utilities Corporation (PUC) effected during the year.

3.2.1.3 Services

In 2002, government expenditure in respect of the services' sector amounted to R150 million or grew by 56 per cent relative to the previous year. The higher government capital expenditure reflected the continued commitment by the government to spend money under its social programme for continued social development of the country. During the year, this commitment was particularly reflected under "housing" and "social development" expenditures, the two of which posted remarkable growth and accounted for 59 per cent of aggregate outlays under "services". A significant R1.8 million increase was registered under "culture". As for expenditure in respect of "public sector management", this was R5.3 million or 39 per cent higher than in year 2001. With regards to the remaining subheadings under "services", the outcome was a lower spending relative to the preceding year.

Table 4.4
Public Sector Capital Expenditure; 1998-2002

	1998	1999	2000	2001	2002
			(thousand)		
Total	**390,00**	**385,561**	**400,986,**	**185,981**	**254,297**
Economic Sectors	**35,463**	**15,380**	**3,930**	**26,588**	**2,992**
Agriculture	9,055	9,605	1,112	1,070	738
Fisheries	8,776	522	18	24,980	1,382
Tourism	882	2,823	2,674	477	851
Outer island development	2,500	500	-	0	-
Craft & home industries	2,515	-	-	0	21
Trade & commerce	11,735	1,929	126	62	-
Infrastructure and Utilities	**172,01**	**166,191**	**268,694**	**63,608**	**101,719**
Transport	29,201	53,223	49,267	14,663	13,624
Water supply & sanitation	60,621	26,394	64,805	1,374	411
Communications	1,679	4,657	4,581	6,650	7,621
Land Reclamation	45,521	63,738	137,317	32,532	65,232
Land Bank	34,996	18,179	12,725	8,388	14,830
Services	**182,52**	**203,990**	**128,362**	**95,785**	**149,585**
Education	40,481	25,440	13,057	18,504	16,368
Health	14,054	4,190	6,726	9,379	1,376
Housing	63,377	82,195	58,826	21,725	64,017
Social development	34,878	15,658	8,934	6,830	24,622
Culture	99	276	908	96	1,909
Sports	3,089	2,063	1,915	15,324	14,885
Information & media	918	39,046	4,157	924	-
Internal affairs	9,817	5,012	4,226	677	-
Public sector management	4,832	9,850	17,910	13,656	18,971
Environment	10,982	20,259	11,704	8,670	7,436

Source: Ministry of Finance

3.3 Net Lending

For government's transactions recorded under "net lending", as it was the case in the preceding year, in 2002, the government was again anticipating net repayment of R80 million. However, in actual terms, the outcome was a net lending, which amounted to R43 million and represented an increase of R31 million relative to the previous year.

The year 2002's result was mainly influenced by disbursement to parastatals, which exceeded its target by R117 million to trigger an expansion of R21 million above the year 2001's amount. This reflected the increase in general housing loans and housing improvement loans that fell under the management of the Seychelles Housing Development Corporation (SHDC). As for advances under "other", like it has been the case in the previous year, the government planned a balanced outcome. However, in actual terms and on a net basis, it lent R5.7 million, which was R10 million above the level registered in the preceding year. With regards to the remaining items, "capital subscriptions to international organisation" and "equity participation" met their relevant target, and stayed constant in comparison to the year 2001.

4. Financing

Similar to the recent years, the shortfall in 2002's aggregate revenue was financed mainly from the domestic market. In view of the fact that the deficit exceeded its target, a higher level of domestic borrowing was therefore not surprising. During the same period, gross domestic loans amounted to R1,192 million, whereas amortisation was R386 million. This was compared to a planned gross domestic borrowing of R125 million and repayments of R219 million. With regards to its foreign liabilities, the government anticipated an amortisation of R306 million, and accumulation of R552 million new debts. However, in actual terms, it reduced its foreign debt by R322 million following repayments of R371 million. Therefore, it followed that, gross foreign loans amounted to R49 million.

The main source of government credit originated from the Central Bank, mainly in the form of advances. At the end of December, total advances to the government stood at R1,092 million. It should be noted that these do not necessarily represent total financing to the government through seignorage but rather relates to loans to the government from the Central Bank under a "back to back" financing facility. Thus, the new advances were partly associated with two foreign loans disbursed during the year, (especially the US$150 million under the "Debt Re-Scheduling Programme" received in September), which were converted into local currency and lent to the government as Central Bank's advances. On the government's account, this was translated into domestic borrowings.

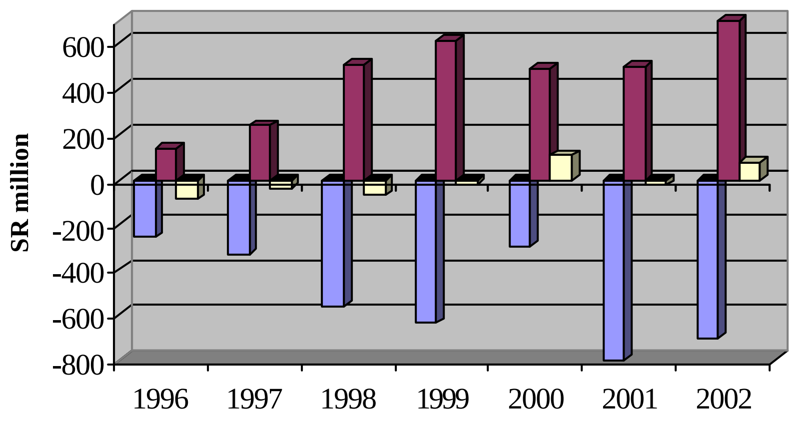
SECTION FIVE

The External sector

1. Overview

For the fiscal year 2002, provisional statistics showed that the Seychelles Balance of payments (BOP) ended with an overall balance surplus of R76 million. This was an encouraging improvement in the country's external position given that in 2001, its transactions with the rest of the world revealed a deficit of R24 million. The period's result was attributed to a remarkable R342 million surplus under the combined capital and financial accounts. This was also supported by an improvement in the current account (*Chart 5.1).*

Chart 5.1. The overall balance, current account and capital & financial account of the BOP for 1996 to 2002



The current account remained in deficit amounting R704 million or representing a contraction of 13 per cent in comparison to the previous year. Therefore, it followed that on an accrual basis, the country continued to be unable to finance its current transactions from its current inflows. As a percentage of the estimated nominal GDP, the deficit was 18 per cent in comparison with 22 per cent in 2001. Such result suggested a relatively narrowed gap between domestic demand and supply. The outcome under the goods account ended with a reduced deficit of R803 million which was a significant R362 million below the previous year's level. It should be noted that the year 2001's outcome was influenced by the growth in imports under "machinery and transport equipment" which expanded by an additional R508 million – and consequently boosted payments – on account of the financial lease of a new Boeing by Air Seychelles. Nevertheless, payments under the goods account remained relatively high but were encouragingly measured against a growth in receipts, inspired by exports revenue which managed to maintain its increasing trend.

The services' account remained in surplus but contracted by 15 per cent. This reflected a 16 per cent growth in payments measured against 6.6 per cent increase in receipts. Tourism earnings which continued to be the most important single item under "services" grew by 8.9 per cent to a record R706 million. This was 40 per cent of aggregate receipts under this account.

With regards to the other main sub-headings under measurements of current transactions, the income account showed a deficit which significantly enlarged by 104 per cent to increase the account's negative net contribution to the current account to R365 million. This primarily reflected the growth in the net inflow under "investment income" in addition to that under "compensation of employees". As for current transfers, the supplementary income of R7.7 million pushed the surplus to R33 million triggered by the increase in receipts under "general government".

The outcome under the capital account remained sound and after falling to a low point of R50 million in the year 2000, at the end of 2002, capital grants from donors registered their second consecutive year of growth and increased to R60 million.

Likewise, the expansion under the financial account was the second in two years. The latter was particularly influenced by the increase in drawings by the Central Bank – boosted by the US$150 million loan received in September as per the government debt re-scheduling programme – which triggered the growth in net inflow under "other investment". This was supported by a relatively smaller increase under "direct investment" whilst the net financial inflow under "portfolio investment" contracted by 5.0 per cent.

Table 5.1
Balance of Payments;[1/2] 1997-2002

	1997	1998	1999	2000	2001	2002
	(R million)					
CURRENT ACCOUNT	**-331.8**	**-564.8**	**-636.7**	**-301.6**	**-812.2**	**-714.5**
Goods,	**-954.8**	**-1114.4**	**-1197.2**	**-622.8**	**-1164.5**	**-803.0**
Receipts (of which)	570.8	646.4	778.2	1112.8	1260.9	1259.0
Merchandise exports (f.o.b)	360.8	490.9	596.6	740.8	948.0	992.2
Payments (of which)	1525.6	1760.8	2001.4	1737.8	2266.4	2062.0
Merchandise imports (f.o.b)	1454.5	1713.2	1931.0	1658.7	2194.0	1996.8
Services	**644.5**	**606.8**	**640.5**	**521.4**	**505.9**	**430.9**
Receipts (of which)	1285.9	1302.3	1473.9	1538.8	1660.7	1770.2
Tourism income thru' Commercial banks	612.5	583.8	596.2	600.0	648.8	706.4
Payments	641.4	695.4	833.3	1017.4	1154.7	1339.3
Income	**-61.6**	**-110.3**	**-132.8**	**-245.7**	**-179.3**	**-375.8**
Compensation of employees	-0.7	-7.6	-6.0	-81.2	-67.2	-77.2
Credit	1.1	0.6	1.0	1.0	1.0	1.1
Debit	1.8	8.2	7.0	82.2	68.2	78.3
Investment income	-60.9	-102.7	-126.9	-164.5	-112.1	-298.6
Receipts	47.4	29.3	44.2	58.9	58.0	39.9
Payments	108.3	132.0	171.0	223.4	170.1	338.5
Current transfers	**39.6**	**53.1**	**52.8**	**45.4**	**25.7**	**33.4**
General government	71.8	93.8	89.4	80.3	59.5	62.8
Receipts	75.3	94.1	89.4	80.8	61.6	63.8
Fishing license fees	41.7	32.2	32.8	24.8	38.4	35.0
Overseas grants	9.5	27.8	40.6	24.8	14.0	22.4
Educational grants	24.1	34.1	16.1	6.4	9.3	6.4
Payments	3.5	0.3	0.1	0.5	2.1	1.0
Other sectors	-32.2	-40.7	-36.6	-34.9	-33.8	-29.4
Receipts	29.9	19.2	21.1	21.7	23.9	27.1
Payments	62.1	59.9	57.7	56.6	57.7	56.5
CAPITAL AND FINANCIAL ACCOUNT	**238.8**	**453.7**	**611.1**	**487.1**	**394.1**	**864.5**
CAPITAL ACCOUNT	**34.0**	**114.0**	**88.0**	**50.0**	**55.0**	**60.0**
FINANCIAL ACCOUNT	**204.8**	**339.7**	**523.1**	**437.1**	**339.2**	**804.5**
Direct investment	**218.7**	**264.2**	**246.9**	**84.0**	**283.1**	**288.1**
Abroad	49.7	15.8	48.1	60.0	65.0	48.6
In Seychelles (of which)	268.4	280.0	295.0	144.0	348.1	336.6
Sale of Assets (Privatised enterprises)	0.5	0.0	0.0	0.0	0.0	0.0
Equity capital	247.9	260.0	275.0	114.0	313.1	290.0
Re-invested earnings	20.0	20.0	20.0	30.0	35.0	46.6
Portfolio investment	**15.3**	**10.8**	**2.9**	**5.4**	**6.8**	**6.4**
Assets	-0.4	4.1	0.1	0.5	-0.4	-0.4
Liabilities	14.8	14.9	3.0	6.0	6.4	6.1
Other investment	**-29.2**	**118.9**	**273.3**	**347.7**	**154.5**	**510.0**
Assets	64.0	29.8	69.3	84.9	51.3	53.9
Liabilities	34.8	148.7	342.6	432.6	205.9	563.9
Net errors and omissions	**58.7**	**-11.5**	**3.5**	**-77.6**	**288.8**	**-73.9**
OVERALL BALANCE	**-34.9**	**-68.4**	**-22.0**	**107.9**	**-23.9**	**76.0**
Financing of overall balance	**34.9**	**68.4**	**22.0**	**-107.9**	**23.9**	**-76.0**
Reserve assets[3]	-25.7	11.5	-45.0	-110.9	60.5	-141.7
Arrears	60.6	56.9	67.0	3.0	-36.6	65.7
Memorandum items:						
Current account (percentage of GDP)	*-11.7*	*-17.6*	*-19.1*	*-8.9*	*-22.4*	*-18.7*
Trade Balance (f.o.b)	*-1093.8*	*-1222.2*	*-1308.5*	*-915.7*	*-1404.9*	*-1004.6*
Stock of Reserves (Gross)(R million)	*129.1*	*118.2*	*160.2*	*271.1*	*210.6*	*352.3*
Stock of Reserves (Gross) (Weeks of cif imports)	*3.9*	*3.1*	*3.7*	*7.2*	*3.9*	*7.9*

[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.*

On the financing side, the R76 million surplus implied that the country was able to increase its stock of reserves by R142 million but at the same time registered a growth of R66 million in arrears.

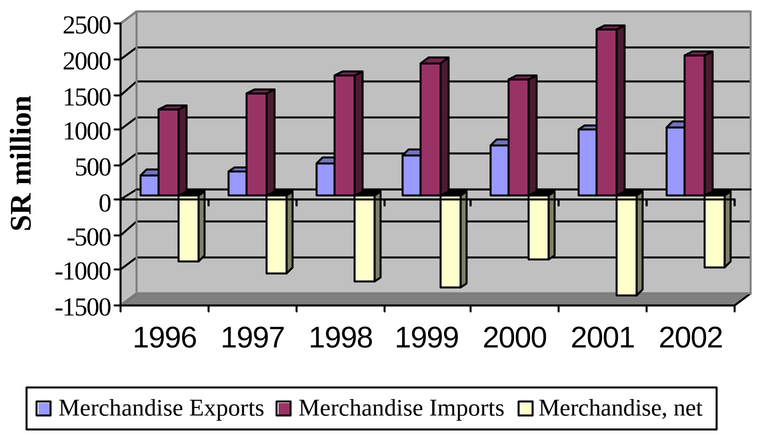
2. Current account

2.1 Trade in goods

As expected, the outcome under "goods" reflects the result under its most influential component – the trade balance – which portrayed the gap between domestic demand and supply. Nevertheless, after attaining a deficit of R1,165 million in 2001, during the period under review, the goods account ended with a reduced deficit of R803 million.

The narrowed goods balance was associated with a contraction in payments which was encouragingly measured against a growth in revenue inflow. The trade balance ("general merchandise") attained a deficit of R1,005 million, showing a contraction of R400 million or by 28 per cent compared to the previous year. This was attributed to a R363 million decline in import payments weighed against a R38 million rise in exports revenue. Encouragingly, exports receipts managed to maintain its expansionary trend whilst import payments drop by 15 per cent after growing to a peak of R2,360 million in 2001. However, it is worth noting that the year 2001's outcome was boosted by a growth in spending under "machinery and transport equipment" (associated with a one-off transaction for a new aircraft by Air Seychelles).

Chart 5.2, Trade in Goods, 1996 - 2002



Apart from the outcome under "general merchandise", an improved result was also registered under "repairs of goods". The latter account ended with a deficit of R3.1 million, representing an improvement of R3.2 million or by 51 per cent in comparison to the previous year. However, as for "goods procured in ports by carriers", this remained in surplus which amounted to R205 million, but was R42 million or 17 per cent below the level posted in 2001.

2.1.1 Merchandise exports

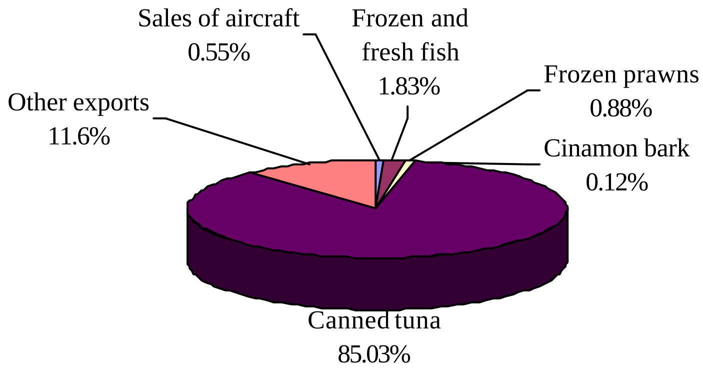
Traditionally, the main source of the exports' revenue in Seychelles originated from two of the country's primary industries, namely agriculture and fisheries. Apart from the tourism industry, these are areas where special attentions have been given in order to support and encourage development which would in turn uphold economic growth. As a consequence, continuous growth and improved performance have been registered in such activities over the years. In the external sector, this is revealed in the annual expansion in the country's exports' revenue albeit in 2002, this was at a reduced pace compared to (of 29 per cent) the previous year.

Table 5.2
Domestic Exports; 1997-2002

	1997	**1998**	**1999**	**2000**	**2001**	**2002**
	(R million)					
Total	**360.8**	**490.9**	**596.6**	**740.8**	**954.7**	**992.2**
Copra	0.0	0.0	0.0	0.0	0.3	0.0
Cinnamon bark	3.4	2.7	2.2	1.3	1.3	1.2
Frozen and fresh fish	20.3	13.2	28.3	20.7	17.3	18.2
Canned tuna	286.2	413.3	531.9	606.2	771.2	843.7
Shark Fins (Dried)	0.7	0.2	0.3	..	..	..
Crustaceans	22.7	34.1	7.7	18.3	13.2	8.7
of which:						
Frozen Prawns	22.7	34.1	7.7	18.3	12.1	8.7
Other exports	27.4	27.3	26.2	94.3	151.4	120.4

Source: Management and Information Systems Division

Chart 5.3. Exports, 2002



For 2002, provisional estimates showed that the total exports (f.o.b.) from the Seychelles economy was valued at R992 million. This represented growth of R38 million or 3.9 per cent above what was recorded in the previous year. The increase in exports' earnings was attributed to the rise in revenue collected from exports of canned tuna as well as receipts from overseas sales of fresh and frozen fish; the two items of exports under which revenue exceeded their year 2001's level. This was supported by an aircraft sale from the domestic fleet by Air Seychelles valued at R5.5 million even if that was only 0.6 per cent of total proceeds. As for the remaining items, a contraction in exports receipts was registered.

Canned tuna continued to be the most important component of exports with a ratio of 85 per cent to reflect the increase in the production of this good. Proceeds from this item maintained its growing trend and rose to R844 million or by 9.4 per cent relative to the previous year's. However, this growth rate was at a reduced pace compared to the significant 27 per cent registered in 2001. Nevertheless, such result portrayed the promising exports potential of the Indian Ocean Tuna Canning Factory which was able to maintain its status as the country's biggest manufacturing entity.

The share to aggregate exports receipts of items reported under "other exports" was 17 per cent or the second most important source of revenue. However, the value of transactions registered under that category declined to R115 million or by 24 per cent over the year 2001's level. In spite of this development, such result could still be viewed as satisfactory given that the year 2002 was only the third year since 1996 in which "other exports" has exceeded R114 million.

The period under review also saw a slight improvement in the result under exports of fresh and frozen fish. After posting further decline to R17 million in 2001 following a disappointing performance in fishing activity in terms of catch, receipts under this category grew by R0.9 million or 5.2 per cent to reach R18 million in 2002.

As regards to revenue collected from exports of frozen prawns, this continued to be disappointing. After posting a 34 per cent contraction to reach R12 million in 2001, revenue from exports of this commodity maintained a declining trend and dropped to R8.7 million. A small encouragement was that the latest fall in revenue was at a reduced pace of 28 per cent relative to what was achieved in 2001.

Concerning exports of agricultural products, cinnamon bark remained the dominant source of revenue but accounted for a mere 0.1 per cent of aggregate exports receipts. Inflows from overseas sales of this item showed a slight decline of only R0.1 million in relation to the year 2001's level. This was in spite of the significant 38 per cent fall in production volume to reach 116 tonnes in 2002. Despite the fact that the fairly stable exports revenue would suggest a growth in price for such commodity, the general trend is that exports of Seychelles' agricultural products is on the decline whilst that from the fishing sector increased in importance.

2.12 Merchandise imports

For a small island state with limited production resources, there is an important need to meet excess demand of imports from international sources. This applied to consumption as well as investment needs. For the year 2002 as a whole, provisional estimates showed that the value of overseas goods demanded by Seychelles' residents amounted to R1,997 million or decreased by a significant R363 million or 15 per cent. However, it is important to highlight that imports in year 2001 grew by a significant R703 million or 42 per cent. This was influenced by a momentous R508 million payments under "machinery & transportation equipment" on account of the new aircraft taken by the national airline.

Table 5.3
Imports (cif) – by HS[1] Sections; 1998-2002

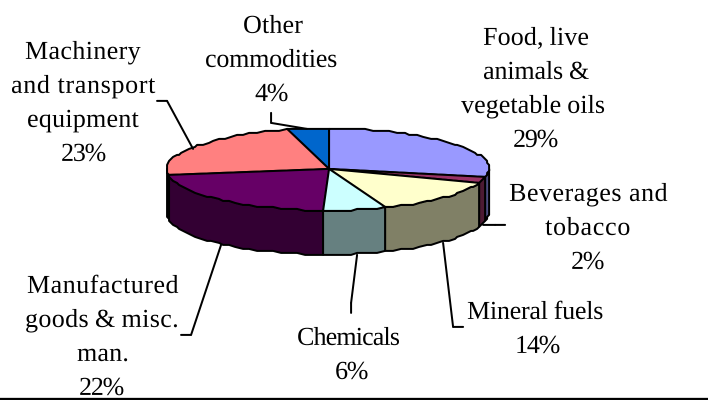
	1998	1999	2000	2001	2002[2]
			(R million)		
Total imports	**2015.5**	**2241.3**	**1948.9**	**2776.0**	**2294.9**
Food and live animals	455.9	484.2	517.8	645.6	673.8
Beverages & tobacco	30.0	29.9	27.1	21.9	36.5
Mineral fuels etc.	189.5	198.5	422.7	409.6	327.9
Chemicals	129.1	138.3	128.7	144.9	152.0
Manufactured goods & Misc. manufactured articles	564.5	714.4	472.9	459.2	520.4
Machinery & transport equipment*	603.4	638.7	332.4	1056.5	542.5
Other commodities	43.1	37.3	47.3	38.3	41.9

[1] Harmonised System
[2] Provisional

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

In 2002, with the exception of import payments effected under “machinery & transportation equipment” and payments in respect of “mineral fuels” which contracted, a growth was registered under all categories of imported items. This was despite the persisting foreign exchange shortage and tighter import controls implemented since June 2001. However, conversely, the increase in import payments could have been associated with the improved foreign exchange situation experienced during the period, which in a way encouraged local production of some commodities, where a pick up in activity was registered.

Chart 5.4. Imports (f.o.b), 2002



In consideration of the categories of imports which were at a lower level relative to the previous year, as stated earlier, the most notable development was registered under the “machinery & transportation equipment” which over the period amounted to R461 million, representing a decrease of a significant R437 million or 49 per cent in relation to the preceding year. This development was not surprising given that the year 2001’s outcome was influenced by the one-off effect of the aircraft taken by Air Seychelles.

As for payment in respect of mineral fuels, this expenditure item dropped by R69 million to end at R279 million despite the value of imported crude materials – a subgroup under this category – grew by 38 per cent to reach R66 million. In consideration that the country’s demand for this product did not register a drastic fall, such a decline in imports suggested that the country was rather resilient to the international price hike experienced during 2002 in the midst of rising uncertainty and geopolitical risks. Nonetheless, high oil prices implied more revenue from reexports transactions, another important source of revenue to the country.

With regards to the items where import payments exceeded the year 2001's level, on a percentage basis, this was at a maximum of 67 per cent in respect of "beverages and tobacco". However, spending on such items which amounted to R31 million was only 1.6 per cent of the aggregate import payments.

The next most noticeable increase in imports was registered under "manufactured goods and miscellaneous manufactured articles" which posted growth of 13 per cent. As for the other expansions, this was 9.5 per cent under "other commodities", 4.9 per cent under "chemicals" whilst the least growth rate was 4.4 per cent in respect of "food, live animals and vegetable oils". Under the latter category, the continued growth suggested the need to improve on the performance of the domestic primary sectors – namely the agricultural and fishing sectors – amid soaring demand, boosted by the indicators such as the increasing number of tourism establishment, visitor arrivals and consequently consumption. Despite its magnitude, such growth suggested that domestic output failed to meet the local demand for these items which consequently tend to stimulate the demand for imports.

In terms of the distribution of import payments, a total R573 million or 29 per cent of aggregate payments was effected under "food, live animals and vegetable oils". After posting the momentous contraction, payments under "machinery and transport equipment" accounted for 23 per cent. The share of payments in respect of "manufactured goods and miscellaneous manufactured articles" and that under "mineral fuels" were 22 per cent and 14 per cent respectively. The remaining items accounted for at most 6.5 per cent of payments.

During 2002, a new item of imports under the heading "other unrecorded shipment (shuttle trade)" was included in import payments and this was estimated at around R46 million. This represented the amount of unrecorded goods that entered the country and sold in the domestic market. Such transactions are expected to be higher the more critical the foreign exchange shortages.

2.1.3 Goods procured in ports

Similar to the previous years, the balance under "goods procured in ports by carriers" remained in surplus. However, the result showed two consecutive years of decline – from its peak of R304 million in year 2000 – after falling by R42 million relative to the year 2001's level to reach R205 million in 2002. The latest contraction was associated with a R46 million decline in receipts measured against R4.3 million drop in payments.

As have been observed in the previous years, the bulk of revenue was collected under sales of petroleum products which in 2002 amounted to R253 million or 96 per cent of total receipts under this subheading. However, this showed a reduction of R44 million or 15 per cent. Such drop could have been associated with the appreciation in the value of the domestic currencies given that the period registered no dramatic changes in the variables that influence this item.

Receipts under "food and beverages" remained relatively constant and account for 2.8 per cent of total revenue whilst inflows collected under "others", which accounted for the remaining share contracted by R3.0 million or 56 per cent after posting a momentous growth at the end of 2001.

Table 5.4
Good procured in Ports; 1997-2002

	1997	1998	1999	2000	2001	2002
			(R million)			
Goods procured in port,	**149.0**	**105.1**	**114.2**	**304.4**	**246.8**	**204.8**
Receipts	**208.5**	**152.7**	**178.8**	**368.2**	**309.1**	**262.8**
Petrol	200.1	140.3	169.5	356.8	296.6	253.0
Food and beverages	6.1	6.3	6.9	8.5	7.1	7.4
Others	2.2	6.1	2.4	2.9	5.4	2.4
Payments	**59.5**	**47.7**	**64.6**	**63.8**	**62.3**	**58.0**
Petrol	50.2	42.8	54.6	54.3	53.0	47.1
Food and beverages	9.3	4.8	10.0	9.5	9.3	10.9

Source: Management and Information Systems Division

On the payments side, 81 per cent represented the purchase of petroleum products with spending in respect of "foods and beverages" accounting for the remaining share. The drop in overall payments was triggered by the lower spending on petroleum products by Air Seychelles which fell by R5.9 million or 11 per cent to reach R50 million. Payments under "Seychelles shipping lines" rose from R1.3 million to R2.2 million, a development which was outweighed by the decline in expenditure on petroleum products effected by Air Seychelles.

2.1.4 Repairs

At the end of 2002, the records of transaction under "repairs on goods" showed a deficit of R3.1 million. This revealed a second annual consecutive improvement under this account considering that the deficit contracted from R12 million in the year 2000 to reach R6.4 million in 2001.

The deficit therefore represented a higher amount of repairs on goods abroad than those effected in Seychelles, but at a reducing trend. Nevertheless, after being constant at R3.8 million in the year 2000 and 2001, repairs on goods in the domestic economy posted a slight R0.2 million increase to reach R4.0 million. The bulk of this revenue is accounted for by income from repairs of foreign aircrafts which in 2002 stood at R3.2 million. As for repairs of foreign ships, this also remained more or less constant and was valued at R0.7 million.

On the payments side, after declining to R10 million in 2001, it contracted by R3.1 million to reach R7.1 million. This was on account of a significant R4.6 or 52 per cent decline in repairs of Seychelles aircraft while repairs of Seychelles ships grew by R1.5 million to reach R2.9 million.

2.2 Services

At the end of the year 2002 and for another year, the services' account was in surplus. However, for the third consecutive year, the surplus contracted relative to the previous period. The latest decline was by R75 million or 15 per cent which was at an increased pace compared to R15 million or 3.0 per cent registered in 2001.

The services' balance reflected the deterioration of the results under the accounts which remained in deficit namely; "insurance", "financial and business services" and "construction". In addition, it was influenced by the surplus under "travel" which contracted by R26 million or 4.4 per cent. The net insurance payments increased by a significant R11 million or 91 per cent to amount to R22 million. The net foreign liabilities under "construction" expanded by R35 million or 17 per cent whilst the deficit under "financial and business services" expanded by R21 million or 6.9 per cent. As for the remaining items under the other major headings, the outcome stayed in surplus and posted an improvement relative to the year 2001.

The 91 per cent increase in the deficit under "insurance" represented a growth in payments measured against a decline in receipts. Compared to the previous year, revenue under this subgroup fell by R2.8 million or 16 per cent whilst payments grew by R8.0 million or 27 per cent. The net outcome under "royalty", registered a R0.5 million increase in payment to amount to R3.0 million.

With regards to the net outflow under "construction", this was associated with development on the payments side which swelled from R208 million in 2001 to R243 million in 2002. The growth in net payments was primarily associated with construction projects or investment in the tourism industry, namely first star establishments. In 2001, such expenditure represented that effected under the ECPIII, however, the latter component under "construction" accounted for only 38 per cent of construction spending in 2002.

As for the component of the services' account which registered an improved outcome, firstly, net receipts under "transportation" expanded by a further R35 million to reach R403 million. Net inflow under this category which accounted for 96 per cent of the net outcome under services remained dependent on net passenger receipts which maintain it increasing trend and grew by R2.6 million or 0.7 per cent although this was at a reduced pace relative to a growth rate of 15 per cent posted at the end of 2001. Relating to the increase in visitor arrivals and the number of residents who travelled abroad during the year, the overall result reflected the rise in ticket sales to non-residents by Air Seychelles which grew by R26 million (6.3 per cent) and payments for tickets sales to foreign airlines by residents which rose by R7.5 million or 16 per cent.

As for inflows under "freight", it improved slightly but remained in deficit. It is not surprising that such result is a reflection of the contraction in import payments. The shortfall contracted by R4.8 million or 5.0 per cent and it was mainly associated with R8.1 million expansion in receipts to R189 million measured against R3.3 million growth in payments to R287 million.

Regarding "other transportation services", this managed to reverse the contraction registered in the previous year. With the exception of revenue under "airport handling fees" which contracted by R1.4 million or 10 per cent all the remaining inflows under this sub-account posted a growth. Hence, after falling to R80 million in 2001, its net outcome rose by R27 million or 34 per cent to R108 million. This result was attributed to a R25 million or 22 per cent expansion in receipts whilst payments fell by R1.5 million or 11 per cent. Similar to the previous year, receipts under "income from stevedoring" remained the most important contributor to inflows under this subgroup with a ratio of 45 per cent in 2002 and grew by R17 million or 38 per cent. The next most important item was "marine and port charges" with a share of 22 per cent which over the period rose by R3.8 million or 14 per. These statistics suggested an increase in port activities of the country and the continued preference in favour of port Victoria's facilities against that of the region's.

Table 5.5
Services; 1997-2002

	1997	1998	1999	2000	2001	2002
			(R million)			
SERVICES, NET	**644.5**	**606.8**	**636.7**	**521.6**	**505.9**	**430.9**
Transportation	**122.9**	**203.0**	**248.2**	**323.4**	**368.4**	**403.1**
Passenger	201.8	312.2	345.0	340.1	390.9	393.5
Receipts	218.0	326.1	381.6	383.9	437.2	447.4
Ticket sales to non-residents by Air Seychelles	188.9	296.9	351.6	371.1	417.0	443.3
Others	29.2	29.2	30.0	12.9	20.2	4.1
Payments (tickets to foreign airlines by residents)	16.3	13.9	36.7	43.8	46.3	53.8
Freight	-156.1	-175.2	-181.6	-150.2	-102.8	-98.1
Receipts	45.0	58.1	102.4	138.7	180.7	188.8
Payments	201.1	233.3	284.0	243.9	283.5	286.9
Other transportation services	77.3	66.0	84.8	88.5	80.4	107.6
Receipts (of which)	111.8	93.6	126.4	122.7	113.2	138.3
Marine and port charges	26.5	25.9	27.9	28.3	27.0	30.8
Income from stevedoring	23.0	24.3	53.4	49.2	44.9	61.8
Agency service income	21.1	18.0	16.2	16.0	14.6	18.9
Airport handling fees	13.5	14.0	14.3	15.1	13.5	12.2
Aircraft landing fees	27.7	11.4	14.6	14.2	13.1	14.6
Payments of aircraft landing Fees abroad	34.5	27.7	41.6	34.3	32.9	30.7
Travel	**647.8**	**574.6**	**611.3**	**617.7**	**599.0**	**573.0**
Receipts	787.1	709.0	724.0	761.3	777.4	833.6
Tourism earnings	783.0	703.0	717.9	754.6	770.0	827.0
(of which income thru' Commercial banks)	612.5	583.8	596.2	600.0	648.8	706.4
Others	4.1	6.0	6.1	6.7	7.4	6.6
Payments	139.3	134.3	112.7	143.6	178.4	260.6
Foreign travel expenditure	115.0	98.0	95.0	118.9	139.8	189.6
Training of residents abroad	24.3	36.3	17.7	24.7	30.9	30.4
Others	0.0	0.0	0.0	0.0	7.7	40.6
Insurance, net	**-37.1**	**-49.1**	**-18.3**	**-19.1**	**-11.7**	**-22.5**
Royalty payments	**-3.0**	**-2.0**	**-2.5**	**-2.5**	**-2.5**	**-3.0**
Financial and Business Services	**-119.3**	**-140.5**	**-147.1**	**-252.2**	**-297.4**	**-318.1**
Receipts (of which)	30.7	38.9	46.4	47.8	52.6	57.8
Telecommunications Seychelles	25.3	28.0	39.6	40.8	42.0	43.3
Payments	150.0	179.4	193.5	300.0	350.0	375.9
Construction services	**-**	**-9.9**	**-119.8**	**-196.7**	**-208.3**	**-243.2**
Government services	**33.1**	**30.6**	**64.8**	**51.1**	**58.4**	**41.5**
Receipts	53.2	56.0	86.9	77.7	82.0	89.4
USAF Tracking Station	0.0	0.0	0.0	0.0	0.0	0.0
Foreign embassies in Seychelles	2.7	2.2	3.0	3.0	3.0	3.0
Licences and other fees	50.5	53.8	83.9	74.7	79.0	86.4
Payments	20.2	25.3	22.0	26.7	23.5	47.9
Expenses by Seychelles embassies	3.2	4.5	6.7	6.8	6.5	6.3
Tourism promotion	17.0	20.8	15.3	19.8	17.1	18.9
Others	-	-	-	-	-	22.8

As for the payment side of this account, this contracted by R2.2 million or 6.6 per cent relative to the previous year which consequently influenced the growth in the surplus. Apart from being associated by the number of international flights effected by the national carrier, this result was influenced by the appreciation of the domestic currency which gained 6.3 per cent against the US dollar.

Under "travel", the net outcome was a surplus of R573 million, representing a contraction of R26 million or 4.4 per cent. Over the same period, although receipts posted further expansion of 7.2 per cent, this was measured against a predominant 46 per cent in payments which triggered the second annual consecutive reduction in the surplus. As have been traditionally the case, the primary source of revenue is tourism earnings, which in 2002 amounted to a new record level of R827 million, after posting an expansion of R50 million or 6.4 per cent. As a percentage of aggregate travel receipts, tourism earnings stood at significant 99 per cent with revenue from in-flight sales by Air Seychelles accounting for the remaining share.

On the payment side, this grew by R82 million or 46 per cent to stand at R261 million. A total of 73 per cent of total payments represented that under "foreign travel expenditure", which grew by R50 million or 36 per cent, reflecting growth in the number of residents that travelled abroad.

With regards to financial and business services, the account remained in deficit, which worsened by R21 million or 6.9 per cent. Receipts rose by R5.3 million whilst payments posted growth of R26 million. The bulk of receipts represented revenue under "telecommunications" with a share of 75 per cent, whist expenditure under "others" accounted for 84 per cent of aggregate payments.

2.3 Income

During the fiscal year 2002, the net outflow in income from the domestic economy rose by a significant R185 million or 103 per cent relative to the previous year to reach R365 million. This result was attributed to the deterioration in performance under both of the major headings of income; namely "compensation of employee" and "investment income", in particular the result under the latter. It followed that the outcome under this account failed to maintain the improvement posted in 2001 when the shortfall contracted by R66 million or 27 per cent.

The deficit under "compensation of employees" enlarged by R10 million or 15 per cent ending at R77 million and it was due to the higher growth in outflows relative to inflows. As for the net payment under "investment income", this increased by R176 million or 157 per cent. Such outcome was associated with a significant R156 million growth or of 93 per cent in investment payments measured against R18 million or 31 per cent contraction in receipts.

2.4 Transfers

In 2002, the net current transfer accruing to the Seychelles economy stood at R33 million showing an increase of R7.7 million or 30 per cent relative to the year 2001. Similar to the previous years, the overall outcome was influenced by the transaction under "general government" which remained in surplus, valued R63 million whereas the balance under "other sectors" ended with a deficit of R29 million.

The surplus under "general government" grew by R3.3 million or 5.6 per cent after posting contraction of 26 per cent to reach R60 million in 2001. Following the preceding decline in transfers registered in 2001, receipts under this account increased by R2.2 million (3.5 per cent). Similar to the previous year, revenue from fishing licence fees remained the major contributor with a significant R35 million or 55 per cent share. This was followed by receipts under "overseas grants" and "educational grants" with a ratio of 35 per cent and 10 per cent. On the payments side, a significant R1.2 million or 55 per cent contraction was registered.

With regards to the net transfer under "other sectors" this ended with a deficit of R29 million, representing a reduction by R4.4 million in comparison to the preceding period. The improved performance reflected the continuous growth in receipts (started since 1999) which reached R27 million in 2002, measured against a fall in payments which contracted to R57 million.

3. Capital and financial account

3.1 Capital account

At the end of the year 2002, the capital and financial account remained in surplus. This amounted to R864 million, showing growth of R365 million or 73 per cent above the level registered in 2001. Such result was attributed to the outcomes under both the capital and financial accounts which not only remained in surplus but improved in relation to the preceding year.

The outcome under the "capital account" showed that the amount of capital transfers to the Seychelles economy was R60 million. This was encouraging given that such result was the best recorded in three years. In addition, it represented growth of R5.0 million or 9.2 per cent compared to the previous year. Its net contribution to the capital and financial account (combined) stood at 6.9 per cent.

3.2 Financial account

The financial account – the largest component under the "capital and financial account" – ended with one of its biggest recorded surplus which amounted to R804 million, which represented a growth of R360 million or 81 per cent relative to the previous year. Such result was associated with a noteworthy R355 million or 230 per cent increase under "other investment", the period's most influential component of the financial account. As for the remaining sub-accounts, net inflows under "direct investment" improved by R5.0 million or 1.7 per cent whilst on a less encouraging note, the outcome under "portfolio investment" posted a contraction of 5.0 per cent.

In 2002, foreign direct investment in the economy amounted to R337 million, showing a decline of R11 million or 3.3 per cent. The fall was associated with the reduced investment inflow under "equity capital" which declined by R23 million (7.4 per cent) to reach R290 million. The investment in equity capital – which remained relatively high in comparison to preceding annual outcomes – represented investment in the tourism sector which in 2001 was at its peak and mainly investments in five star hotels. Nonetheless, the year 2002's figure still includes a high percentage of investment in that sector. As for re-invested earnings by foreign companies – the other component (14 per cent) under this sub-account – it posted a growth of R12 million or 33 per cent.

During the year under review, portfolio investment remained in surplus. However, its net contribution to the financial account fell to R6.4 million or by 5.0 per cent after posting growth for two consecutive years. The surplus was a culmination of inflows (liabilities) totalling R6.1 million and outflows (assets) in the order of R0.4 million *negative*, the latter remaining constant in comparison to the previous year.

As for the remaining component of the financial account – "other investment" – it stayed in surplus for the fifth consecutive year and like stated earlier, its outcome was the most influential after posting net inflows of R510 million.

On the assets side, the result amounted to R54 million and this represented mainly currency and deposits. On the liabilities side, the bulk comprised of loans. Net borrowings of the country amounted to R605 million, and factoring in payments of R41 million in respect of the financial lease of one of the two aircrafts acquired by the national airline in 2001, the country's overall liabilities under this account was R564 million. The bulk of the flows in loans reflected that of the Central Bank, which on a net basis borrowed R434 million. This was a significant growth of R384 million compared to the previous year and was influenced by the US$150 million loan received in September under the country's debt re-scheduling programme.

4. External reserves

At the end of the year 2002, gross official reserves which comprise of Central Bank and Government reserves stood at R352 million *(Table 5.6)*. This represented a growth of R142 million or 67 per cent after contracting to R211 million in 2001. In 2002, gross official reserves were equivalent of 7.9 weeks of 2001 c.i.f.'s imports. Such result compared more favourably to 3.9 weeks registered at the end of 2001.

Table 5.6
External Reserves;[1] 1997-2002

	1997	1998	1999	2000	2001	2002
			(R million)			
Gross official reserves	129.1	117.6	162.7	274.2	213.4	352.7
Central Bank	127.2	115.2	160.2	271.1	210.6	352.3
Government	1.9	2.4	2.5	3.1	2.8	0.5
Central Bank's short-term Borrowings	64.8	173.1	211.2	403.4	373.2	802.6
Net official reserves	64.3	-55.5	-48.5	-129.2	-159.8	-449.8

[1] *End-of period data.*

5. Exchange rates

In 2002, there were no revisions in the exchange rate policy and thus the Seychelles rupee remained pegged to the Seychelles Trade and Tourism Weighted Basket (STTWB). The weights of the currencies in the basket were not reviewed and remained as per the latest revision effected January 3, 2001. Therefore, it followed that the exchange rate of the Seychelles rupee continued to be influenced by the movements of the six currencies composed in the STTWB.

At the end of the year, the Seychelles rupee continued to depreciate against the Swiss Franc. After losing 2.8 per cent of its value at the end of 2001, the local currency weakened by a further 1.5 per cent. Relative to the US dollar, the previous year registered a loss of 2.5 per cent but at the end of 2002, the domestic currency appreciated by 6.3 per cent *(Table 5.7).* This was the first annual gain in the average value of the local currency against the US dollar after the former currency started to weaken from its peak reached in 1995. The loss in the value of the US dollar predominantly started after the release of a second report of corporate accounting scandals at US companies which triggered the depreciation of the US dollar in the first half of the year. However, towards the end of the year, the performance of the US dollar was to a large extent being influenced by the rising possibility of a US-led military attack on Iraq. Moreover, there were increasing concerns about the US current account deficit, which was estimated to be about 5.0 per cent of GDP.

Nevertheless, excluding those developments, relative to the other world's major currencies, the Seychelles rupee strengthened further during 2002. The maximum appreciation of the domestic currency was 25 per cent and continued to be against the South African rand, following a gain of 16 per cent posted in 2001. This movement reflected the performance of the latter currency on the international market, which continued to weaken relative to the world's major currencies.

Table 5.7
Exchange Rates;[1] 1997-2002

	1997	1998	1999	2000	2001	2002
			(Seychelles Rupees per currency unit)			
Euro	-	-	5.6980	5.2650	5.2516	5.1751
US dollar	5.0269	5.2638	5.3418	5.7132	5.8585	5.4883
Pound sterling	8.2379	8.7229	8.6415	8.6446	8.4397	8.2329
Deutsche mark	2.9029	2.9989	2.9217	2.6917	2.6851	-
Japanese yen	0.0416	0.0404	0.0471	0.0530	0.0483	0.0438
French franc	0.8624	0.8945	0.8710	0.8026	0.8004	-
Italian lira	0.0030	0.0030	0.0030	0.0027	0.0027	-
South African rand	1.0915	0.9572	0.8742	0.8248	0.6925	0.5225
Singapore dollar	3.3921	3.1481	3.1515	3.3132	3.2714	3.0633

[1] *Period averages.*

The gain against the euro, (which has a maximum weight in the STTWB) was 1.5 per cent compared to 0.3 per cent registered in the preceding period.

Relative to the UK sterling, the domestic currency strengthened by 2.5 per cent or by an additional 0.1 per cent in comparison to the previous year. Against the Singapore dollar, its margin of gain increased from 1.3 per cent in 2001 to 6.4 per cent in 2002, whilst in relation to the Japanese yen, the gain of the rupee increased from 8.9 per cent in the previous period to 9.2 per cent at the end of 2002.

SECTION SIX

The Real Sector: Production, Employment and Prices

1. Macroeconomic developments in 2002 - Overview

Provisional estimates of nominal Gross Domestic Product (GDP) puts growth at 5.9 per cent for the year 2002. However, it should be noted that this growth came principally from capital investment of the government sector and to some extent increased activity in the tourism industry. The rest of the economy remained about the same level as in 2001 as they continued to be negatively affected by the prevailing foreign exchange constraint. The "building and construction" sector experienced the most significant nominal growth of 25 per cent, which relative to the previous year, was an acceleration of 21 per cent. This was due to the investment by the government particularly in the on-going housing project, reclamation and desalination works (*Table 6.1*).

The primary sector improved on its contribution of R103 million posted in the previous year by R7.3 million to stand at R110.3 in 2002, a nominal growth of 7.1 per cent. This improvement was mainly due to the estimated growth output of the fishery sector which grew by 15 percentage points.

Similarly, agricultural production's money input towards GDP increased by 1.7 per cent for the year under review. The production of fruits and vegetables which is mostly determined by local demand failed to satisfy demand such that imports rose. The aim of the Ministry of Agriculture and Marine Resources is to produce 80 per cent of fruits and vegetables locally by 2010 would look unlikely to be fulfilled if production keeps falling in the near future. On the other hand, livestock production looked more promising reflecting the authority's policy to produce pork and poultry at 100 per cent locally, in spite of the fact that poultry production fell by 3.6 per cent.

The fisheries sector registered a significant growth, through both the artisanal and industrial fishing methods with estimated rates of 15 per cent and 30 per cent respectively. Conversely, the lobster season recorded a small drop in landings when compared to the previous year.

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

	1997	1998	1999	2000	2001[1]	2002[2]
	(R million)					
GDP at market value	**2829.6**	**3201.3**	**3323.2**	**3531.7**	**3617.8**	**3829.9**
Agriculture, forestry and fishing	98.8	84.2	103.2	99.4	103.0	110.3
Mining, manufacturing and Handicrafts	406.8	482.1	503.4	674.9	654.8	698.0
Electricity and water	69.5	80.1	76.1	47.8	61.5	66.6
Building and construction	212.7	264.9	323.5	296.8	307.4	384.2
Transport, distribution and Communications	816.7	963.6	1043.1	1032.9	1068.1	1110.6
Hotels and restaurants	268.9	289.5	264.7	324.2	349.3	380.3
Financial and business services	320.8	341.7	350.3	380.8	395.8	409.0
Government services	376.0	410.0	416.0	433.0	443.0	458.0
Other services	259.4	285.2	242.9	241.9	234.9	212.9

[1] *Provisional*
[2] *Estimate*

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

Likewise, there was a substantial decrease in the production of crustaceans which dropped to 234 tonnes, representing a reduction of 17 per cent relative to 2001. The production hit its lowest point over the past two years during the third quarter of the year when harvest dropped to 13 tonnes.

The Coëtivy Prawn Industry expansion project Phase III was successfully completed and commissioned in December 2002. This added another 42 grow-out ponds, pump house, water intake and drainage system with an average capacity of 300 metric tonnes. This increased total capacity of the project up to the level of 1,500 metric tonnes a year. The vision of Expansion Project is viewed as an investment for the future. This is also in line with the plan to utilise the island to its full potential in order to generate extra foreign exchange earnings of US$12 million.

Considering the manufacturing sector a nominal growth of 6.5 per cent was recorded, which indicated a successful improvement from a declining rate of 3.5 per cent. Nonetheless, the hard currency problem remained the main factor regarding industrial growth since a considerable amount of the manufacturing input depends on imports, especially for those industries which do not directly earn foreign exchange.

The performance of the manufacturing industries was mixed. The production of canned tuna increased by 24 per cent in 2002, offsetting the fall in the previous year. Most of the production took place in the first quarter, where 9,430 tonnes of tuna was produced to reach a total of 34,503 tonnes, for the year. However there was a decrease of 18 per cent in other processed tuna.

With regards to the production of soft drinks, beer and stout, and mineral water, the figures were far better than those in 2001 with the production of mineral water increasing by 67 per cent, over the previous year's figure, to 4,732 litres. This was the highest volume recorded over the past two years and was mainly due to an increase in the number of producers.

Increase in production was also experienced in the canned and dairy products. Jam and sauces which were affected by the drought in 2001 managed to raise their productions by 33 per cent and 23 per cent respectively.

Table 6.2
Gross Domestic Product by Broad Productive Sectors
at current market prices

	1997	1998	1999	2000	2001[1]	2002[2]
			(R million)			
GDP	**2829.5**	**3201.3**	**3323.2**	**3531.7**	**3617.8**	**3829.9**
Agriculture, forestry and fishing	98.8	84.2	103.2	99.4	103.0	110.3
Industries	666.1	800.3	878.2	995.7	997.5	1120.3
Tourism	415.4	549.4	538.7	630.8	662.5	707.5
Government	376.0	410.0	416.0	433.0	433.0	458.0
Other services[2]	1273.2	1357.4	1387.1	1372.8	1411.8	1433.8

[1] *Provisional*
[2] *Estimates*
Source: Management and Information Systems Division and Central Bank of Seychelles.

Similarly the production of tobacco which has been on a downward trend since 1997 continued to fall, reaching a production level of 24 million cigarettes in 2002 as compared to the 36 million cigarettes in the fiscal year 2001. This represented a significant fall of 33 per cent.

On the construction side, the end of year value added stood at R384 million following a significant growth of 25 per cent. The East Coast Phase III reclamation project, reached 80 per cent of total completion during the first three months of the year under review. According to the Ministry of Land Use and Habitat, it represented a total of 13.5 million cubic metre of dredged material, which has been used to fill an area of 265 hectares. A further 15 per cent was reclaimed by the end of September, and the project was completed by the end of the year. A new reclamation project also got underway at Anse Aux Pins. The reclamation was due to clear a safe channel to improve access to open sea for the local fishermen and owners of pleasure craft whilst also providing flat land for future developments. However, only one part of the projected reclamation got underway due to unforeseen constraints, namely related to bad weather conditions.

The *Seychelles Pride*, Seychelles first oil tanker, was launched in June from the Lindenau Shipyard in Kiel, Northern Germany. The Seychelles Petroleum Company (SEPEC) has invested a sum of US$30 million in the tanker. The double-hull tanker is designed to comply with the latest standards in safety and pollution. The vessel has a capacity of 31,000 metric tonnes and is currently carrying petroleum products to different parts of the world on a charter basis.

The collective output of electricity and water rose by 8.3 per cent in money term, representing a slowdown of 20 per cent. Electricity production rose by 8.7 per cent or by 18.3 thousands KWH. This reflected increases of 9.0 per cent for Mahe and 4.0 per cent for Praslin. Similarly total treated water consumption increased by 6.0 per cent.

The government signed a contract with the South African Company, BIWATER, to install three separate desalination plants on the three main islands. The key infrastructural development project is intended to mitigate the effect of dry weather during the South-East Monsoon and should guarantee all year round water supply. The US$29 million project is expected to be completed by June 2003.

As regards to the largest sector, the tertiary sector, comprising of "financial & business services" and "hotels & restaurants" continued to follow an upward trend in 2002. At current prices "financial & business services" grew by 3.3 per cent. Nouvobanq opened its first branch at Baie Ste Anne on Praslin in a bid to expand its financial services delivery. The branch is to offer the same level of services as that of its main branch and will service the ever-increasing banking needs of Praslin residents and tourists. The bank also announced its intention of installing an Automated Teller Machine at the nearby Cote D'Or tourist area.

The tourism sector continued to generate foreign exchange earnings for the Seychelles economy. Following the expansion of that sector additional jobs were created. Tourism arrivals, which have been fairly stable over the last five years grew slightly in 2002, compensating for the fall experienced in the previous year. This reflected the authority's efforts to promote the Seychelles as a safe and attractive destination with France being the leading market. Moreover the sector also produced positive results in terms of tourism income whereby a new record of R827 million was achieved.

The telecommunication sector has been one of the sectors that have enjoyed constant annual growth in the past three years and 2002 was no exception. During this year, the sector showed signs of its maturity following an agreement signed between AirTel and Cable & Wireless during the year, whereby telephone subscribers in Seychelles are currently enjoying the prerogative of equal access – freedom of choice of operative network for the international calls. This allows one operator's fixed line customers to access the other's gateway for making international calls. This facility provides flexibility of choice and the possibility of reduced cost of international connectivity as the operators are expected to compete for this potentially lucrative segment of the market.

The outlook for economic growth in the year 2003 will depend much on the policies the government implements in its effort to improve the foreign exchange situation with the principal focus on addressing shortage. This shortage remains the core of the distortions that the economy is dealing with and is the main determinant of the competence of the underlying economy. The negative spill-over effects are great. Producers have been adversely affected by the inability to access inputs required in the production process. Having this as a constraint, they were unable to produce enough to meet domestic demand and the export process was also impeded.

From the short to medium term much will depend on how successful the tourism industry is able to keep up with its growing trend. Besides the tourism industry, the government is hoping that its effort in promoting increased activity in the area of fisheries will produce positive results. With the increased export revenue from the tuna-canning factory and the increase in the total number of fish catch, the fishing sector could indeed become a success as further indicated by its increased contributions to GDP over the years.

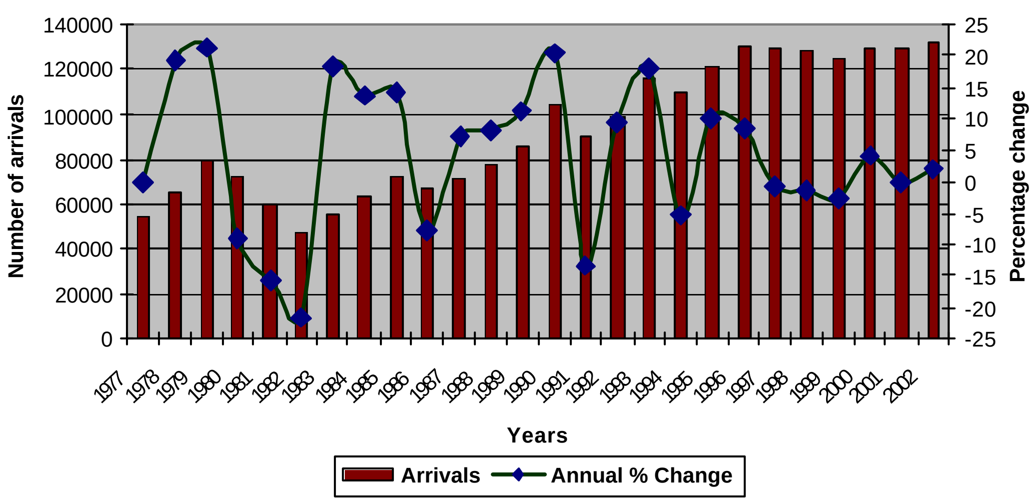
2. Tourism

In 2002, the tourism sector maintained its key contribution in the Seychelles economy through its 85 per cent share of the country's total foreign exchange earnings inflows with commercial banks. Its role as the principal economic sector was also evident with an increase in the number of employees, stimulated by the new generation of up market establishments that emerged during the year. For the industry, the year was a very fruitful one as portrayed by increases in its two main indicators, namely tourist arrivals and foreign exchange earnings.

Tourism arrivals for the year stood at 132,246, which represented an increase of 1.9 per cent over the previous year (*Table 6.3*). This is partly reflected with the improved marketing efforts of the Seychelles Tourism Marketing Authority (STMA) in promoting Seychelles as a safe and attractive destination. The more focused marketing approach helped to enhance and upgrade the contributions of the sector. This was backed by the emergence of five-star establishments on the two main islands which targeted upper-end market tourists, thus ensuring a high level of spending per visitor.

Over the past 26 years, arrivals have mostly followed an increasing trend, although during the latter years growth has been at a slower pace *(Chart 6.1)*. This has been due to the fact that existing tourism infrastructures were not sufficient to accommodate a substantial increase in visitors, unless new establishments come into place. However, it is expected that the growth should pick up in the coming years following the recent developments in the industry, namely the new hotels becoming operational. Plans for future hotels are also being considered so as to increase the tourist capacity on the islands and boost the earnings from the sector.

Chart 6.1: Tourism Arrivals



In terms of geographical distribution, Europe remained the primary supply of visitors occupying a market share of 80 per cent, with France maintaining its importance with a 21 per cent share. In relation to the other major European countries there were mixed movements in terms of the market shares. For instance, the United Kingdom, Scandinavia and 'other' European countries posted increases, whilst Italy, Germany and Switzerland recorded declines relative to 2001.

Table 6.3
Tourism

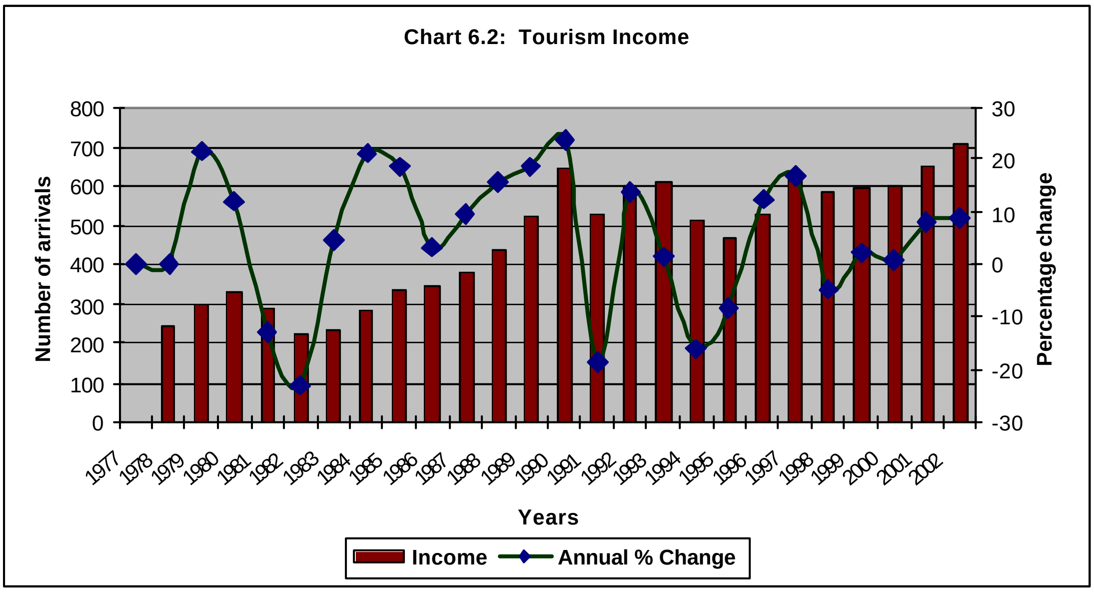
	1997	1998	1999	2000	2001	2002
Visitor nights – thousands	1340	1347	1299	1352	1350	1336
Visitor arrivals – thousands	130	128	125	130	130	132
Average length of stay (nights)	10.3	10.5	10.4	10.4	10.4	10.1
Tourism income – R million	612	584	596	600	649	706
Average expenditure						
Per diem – Rupees	457	434	460	445	480	531
Memorandum						
Hotel bed occupancy rate (%)	56	53	53	52	51	52

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)

The other major markets were in decline with the exception of Asia which increased its share from 4.2 per cent in 2001 to 6.5 per cent in the year under review. America recorded a sudden drop, falling from 5.3 per cent to 2.8 per cent. The terrorist threats following the September 11th events and the looming war with Iraq have been the main factors influencing the decline in American tourists to Seychelles.

The second indicator, tourism income, is a more reflective indicator of the economic vigour of the sector. The indication for 2002 was very positive as a new record was set. Foreign exchange flows channelled into the banking system amounted to R706 million, a record flow so far (*Table 6.3*). This represents an increase of 8.8 per cent relative to 2001 and also reflects earning that is converted into rupees only. The total amount earned was R827 million. This increase was two fold. On one hand, the higher yielded hotels which had begun their operations played a major role. On the other hand, the Foreign Earnings (Regulations) Act not only ensured the proper channelling of income through the banking system, but also made provisions for an increase number of services to accept payment in foreign currency.

Income from tourism has to some extent influenced the development of the country. This has helped confirmed the sector as the primary industry, both as the main source of foreign exchange and its contribution to the rest of the economy in terms of value-added. Tourism income has grown significantly since 1977 *(Chart 6.2)*. During the eighties income from the industry averaged R338 million, whilst during the nineties it rose to R567 million. The early signs for the first three years of the new decade are very encouraging with a recorded average of R652 million. This could increase further when the new resorts have been well established. All the major developments during the year relate to either the completion or the expansion of these establishments.



In February, *Banyan Tree Seychelles*, Mahe's first 5-Star hotel started its operations. The hotel owned by Banyan Tree, a Singapore-based luxury hotel group, is situated at Intendance, only twenty-five minutes from the Seychelles International Airport. The hotel is a joint venture between Banyan Tree Hotels & Resorts and Immobilière Sorento SA. It will offer guests a unique setting, with accommodation using indigenous materials and artefacts to reflect the architecture and culture of the area.

Lemuria Hotel of Anse Kerlan, Praslin is another 5-Star hotel in the new generation of up-market tourism establishments emerging in the country. Encouraged by its success prior to the September 11 events, the owners, Le Refuge du Pécheur announced plans for further expansion. The hotel was enjoying one of the highest occupancy rates in the world, and submitted plans to add eight junior suites, eight deluxe villas and one presidential villa to the resort. This would allow for a wider range of products for clients with the 'haut-de-gamme' market. It is estimated to cost around US$7.3 million including landscaping.

The US$45.4 million *Beachcomber Ste Anne Resort*, with a capacity for 168 clients, was completed in October, and started to take clients on a soft opening basis. It was then officially opened in November. The resort consists of eighty-seven villas and a staff approximating 250. The hotel is Seychelles third 5-Star establishment to be opened in the last three years. It is owned by the New Mauritius Hotel Group, which owns eight hotels in Mauritius.

The *Northolme Hotel* was also hoping to raise its status to 5-Star level with the anticipated refurbishment and extension of its present facilities. This would include the construction of a swimming pool, a health spa, an ocean deck, and thirty individual villas. The hotel is now under the management of COSPROH, by Crown and Champa Resorts, a Maldivian company, and the Wren's Hotel Group of Windsor.

There were other developments in tourism during the year. For instance, in March, the Pearl of Seychelles, a luxurious catamaran owned by a French company called Bourbons Maritime was officially launched. The catamaran, which is managed by Le Méridien, a French leading hotel group will enable visitors to have an idyllic combination of stay on land plus a cruise aboard. Customer will thus discover some of the most exotic islands of the Archipelago.

Another boost for the industry came following an agency agreement signed between Air Seychelles and Federal Express (FedEx). Under this agreement, FedEx will rely on the increased frequency of Air Seychelles flights to and from Seychelles, a service that FedEx heavily relies on to offer the best and most efficient service possible to clients around the globe. The opening of the new office operated by Air Seychelles also highlights the airline's intention to provide a competitive option to the courier services already in place. As a result this would have a positive outcome on the sector.

For the coming year the overall prospects for the tourism industry are positive and it is expected to contribute more to the domestic output.

3. Agriculture

Overview

The Agricultural Sector Policy formulated in 1992/1993, which advocated Government divestment, privatisation and a revitalisation of the private sector participation in the national economy have had very encouraging results with 100 per cent of eggs, 80 per cent of broiler meat, 60 per cent of pork and about 65 per cent of fruits and vegetables consumed being produced locally. However, challenges in national food security have presented new opportunities and new targets have been set in national agricultural production.

The New Agricultural Policy (NAP) 2000-2010 which was submitted to the cabinet during the year has as its objective 'the achievement of a higher food security through sustainable agricultural production'. It is foreseen that at the end of 2010, at least 80 per cent of the fruits and vegetables consumed, and in which Seychelles has comparative advantages, would be produced locally in a sustainable manner, inclusive of poultry and pork. Developments leading to these goals would ensure additional employment opportunities will be created for skilled and unskilled entrants. It would also help maintain the sector's contribution to the Gross Domestic Product (GDP).

In terms of the year's output, the performances registered in all the different categories, were mostly unsatisfactory. There were also other developments in the sector during the year which came either in the form of capital projects or improved services and facilities.

Fruits and Vegetables

Information on purchases of fruits and vegetables by the Seychelles Marketing Board (SMB) – the traditional measure for local production of fruits and vegetables - shows that there was a general decline during 2002. The fall could be the result of the unfavourable weather conditions which hit the islands in September, leaving local production at 153 tonnes, a fall of 26 per cent. This is its lowest production figure reached, over the past five years. Thus, in order to meet the continuous increase in local demand, imports rose by 7.1 per cent, from 6,339 tonnes to reach 6,789 tonnes. These developments increased the total tonnes of fruits and vegetables purchased by 6.1 per cent to reach 6,944 tonnes, in 2002.

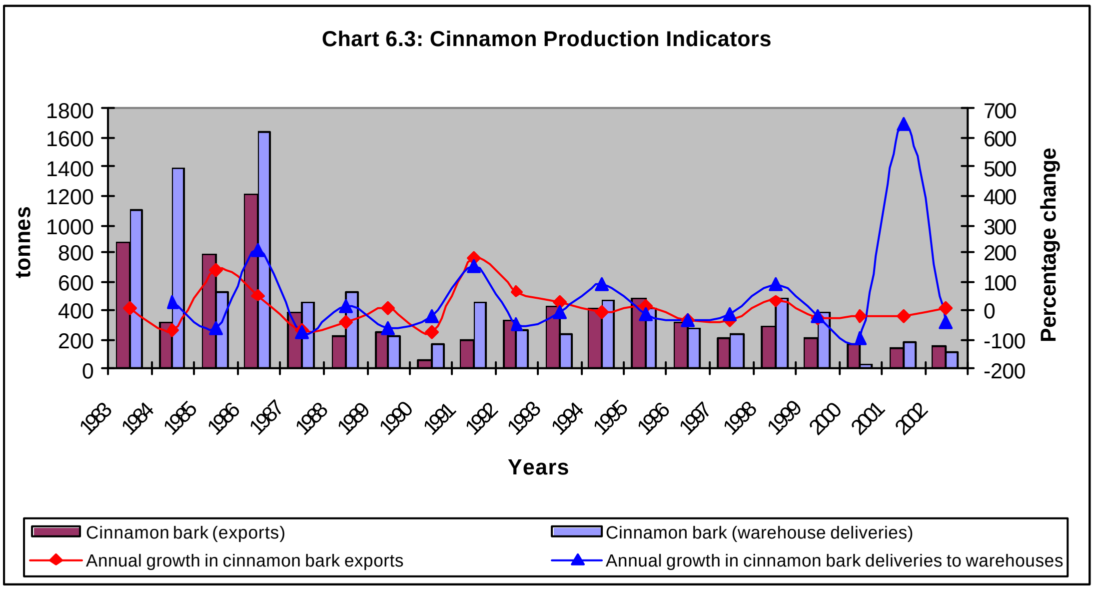
Table 6.4
SMB Purchases of Vegetables and Fruits

	1997	1998	1999	2000	2001	2002
		(tonnes)				
Total	**5,409**	**5,964**	**6,097**	**6,349**	**6,545**	**6,944**
Local	160	247	388	278	206	153
Change (%)	-52	54	57	-28	-26	-26
Imported	5,249	5,717	5,710	6,071	6339	6789
Change (%)	2.0	8.9	-0.1	6.3	4.4	7.1

Source: Seychelles Marketing Board

Cinnamon

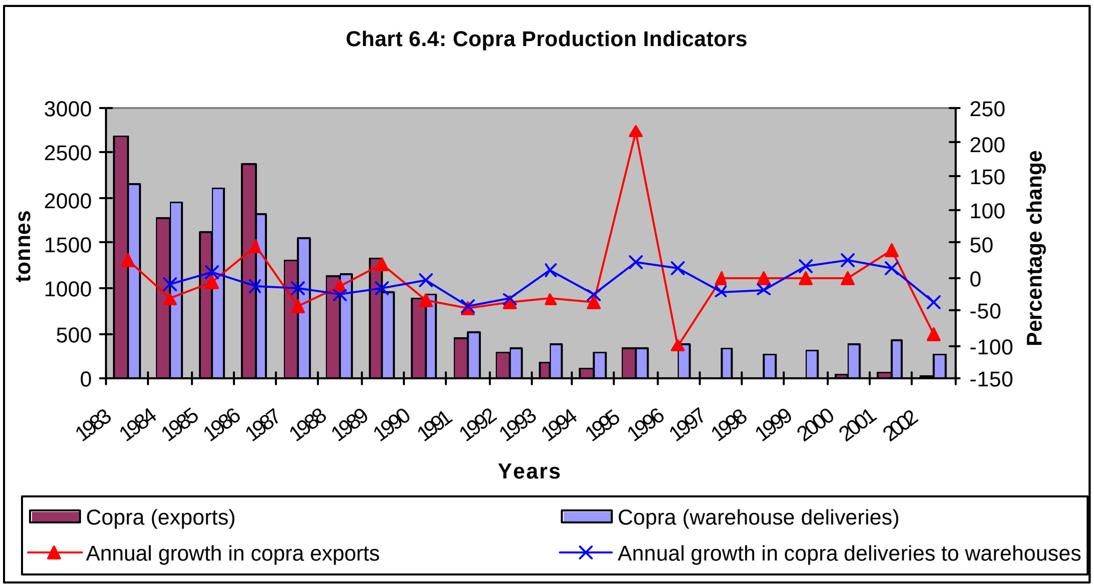
There were mixed results in cinnamon production, one of the country's major traditional cash crops. Cinnamon production for 2002 decreased by 38 per cent from the 187 tonnes produced in 2001 to reach 116 tonnes. This reflects the failure to maintain the growth observed in the previous year. As illustrated by the deliveries to warehouses component, there has been a declining trend in terms of cinnamon production during the past few years *(Chart 6.3)*.



However, in terms of cinnamon exports, the year's figure of 158 tonnes was higher than that for the previous year where 147 tonnes was exported. This represents an increase of 7.5 per cent, partly improving on the fall experienced in 2001.

Copra

During the 1970's and early 1980's, copra was one of the key visible trades of the Seychelles *(Chart 6.4)*. However, since 1985, the authorities re-oriented their trade patterns, and the production of copra was seen as economically unviable due to its labour intensive costs. Since then, there has been a general decline in the production of copra - both its exports component and the deliveries to warehouse support this fact.



In 2002, copra experienced yet another decline in production (*chart 6.4*). Production fell by 38 per cent in relation to 2001, affecting exports to record an unfortunate 85 per cent decline. Half of the copra production took place during the third quarter of the year whereas exports were only registered in the first quarter. The general fall in the production of copra is because there is no 'niche' in the international market and also because it is a very labour intensive business.

Tea

The production of tea in the Seychelles has picked up significantly over the past 13 years. From an average annual output of 132 tonnes during the 1980's, average annual output rose by around 107 tonnes in the next decade. By the end of the nineties, the annual production of tea averaged 239 tonnes per year. The first three years of the 21st century has also been quite encouraging, although production has been declining since the beginning of the century.

In the year under review a total of 222 tonnes of tea was produced. This is 3.9 per cent below the previous year's output of 231 tonnes. This deterioration is attributed to the unfavourable weather conditions experienced. Comparing the quarters, only quarter three failed to produce tea above 60 tonnes.

Table 6.5
Crops

	1997	1998	1999	2000	2001	2002
			(tonnes)			
Copra (exports)	0	0	0	52	72	11
Copra (warehouse deliveries)	314	259	301	377	421	262
Cinnamon bark (exports)	219	289	214	177	147	158
Cinnamon bark (warehouse Deliveries)	241	478	385	25	187	116

Source: Management & Information Systems Division

Other developments in agriculture

During the year, there were a number of developments in agriculture. Firstly, it should be noted that the NAP was submitted to the Cabinet, pending a reply. There were also the ongoing research activities at Anse Boileau and Grand Anse, which involved the evaluation, monitoring and screening of varieties. Similar developments involved the strengthening of the National Capacity for the control of Melitomma insular.

As was planned in 2001, new big bloodline for breeding purposes was acquired. The aim was to ensure that healthy breeds would be produced. The EU approved the Melon Fruit Fly

Eradication Project which was expected to enhance the production of the fruit.

Other projects are outlined below:

- The African Development Bank project to finalise the irrigation systems at Barbarons, Val D'en Dor, La Gogue, and Cote D'Or Praslin. This project will cost around R4.6 million.
- The proposed construction of the Maritime Training Centre (MTC) to be funded by the BADEA and Government of Seychelles (GOS) valued at US$5.7 million.
- The renovation of the Multiplication cattle centre at Anse Royale, estimated at US$0.5 million.
- The Diagnostic and control of Pterocarpus indicus wilt diseases and forest protection, first initiated in December 2001 amounting to USS0.12 million.
- The upgrading plant protection services to farmers at a cost of US$0.12 million.

4. Livestock

The fiscal year 2002 illustrated unfavourable results in the local livestock production relative to the previous year. Firstly, the number of cattle slaughtered experienced the sharpest decline, falling by 36 per cent to 83 heads, by the end of 2002. This clearly highlights the need to import beef for local consumption so to meet the increasing demand for the product.

In view of the number of chickens slaughtered declining statistics were also registered, with output for the year under review standing at 3.6 per cent below that in 2001.

In contrast, the number of pigs slaughtered increased by 1.9 per cent when compared with the previous year. Over the past ten years or so, the productions of cattle and pigs have moved in opposite directions. Whilst there was a general increase in the number of pigs slaughtered, the number of cattle slaughtered experienced a major decline. This reflects the authorities' policy, namely to produce all pork meat 100 per cent locally. (*Charts 6.5 and 6.6*)

Chart 6.5: Pigs Production

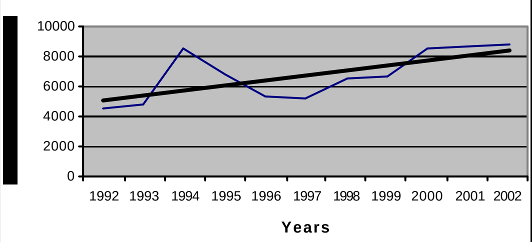
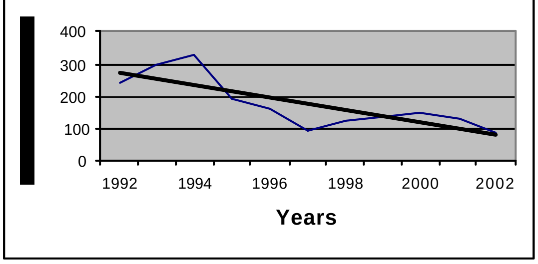


Chart 6.6: Cattle Production



Plans for 2003

The Ministry responsible for Agriculture has outlined certain plans for the year 2003, mainly related to the NAP. Firstly, it should be mentioned that the ongoing projects of the current year will continue in 2003. Identification of new land to expand and promote agriculture has been seen as an important issue. This will involve combined work of the Ministry of Land Use and Habitat (MLUH), and the Ministry of Environment (MOE). They would also seek to ensure the approval of the NAP.

Table 6.6
Livestock (slaughters)[1]

	1997	1998	1999	2000	2001	2002
			(units)			
Cattle	91	123	136	147	129	83
Pigs	5,165	6,430	6,629	8,619	8648	8808
Chicken ('000)	806	684	695	734	700	675

[1] *Le Rocher Abattoir only*

The Ministry of Finance has already approved a budget to re-introduce Artificial Insemination (AI) in the case of bulls, if the NAP is approved. Other plans of the Ministry are highlighted below:

- The strengthening of sustainable on-farm research, improving communication skills and enhancing information flow. The project is expected to start around January to February 2003.
- The consolidation of the bilateral relation with Reunion, both in agriculture and fisheries for economic development.
- The EU/COI regional plant protection project
- The SADC Plant Genetic Resource Centre (SPGRC)
- The forest fire protection to be submitted
- The management of sea-cucumber to be submitted, and
- The SADC database on food and analytical program for food security, which is an ongoing regional program.

5. Fisheries

For the year 2002 the fisheries sector continued to contribute significantly to the economic development of the country. According to the statistics received from the Seychelles Fishing Authority (SFA), the year was a particularly good one where catch through the artisanal and the industrial, methods illustrated improvements on the 2001 figures.

The lobster season that was opened from 1st November 2002 to 31st January 2003 for the fourth consecutive year indicated landing at 5.4 metric tonnes compared to 5.5 metric tonnes for the 2001/2002 season. This year the fishery was again closely monitored with night patrol organised and catch and effort data collected on a regular basis.

5.1 Artisanal and semi-industrial fishing sector

In 2002, the Artisanal catch successfully increased to 4,914 metric tonnes. This represents a 15 per cent increase over the previous year when it was 4,290 metric tonnes. It was also an excess of 649 metric tonnes over the average catch for the 5 previous years. The main species landed were 'carangue' (42 per cent), 'job gris' (12 per cent), 'capitaines' (6.8 per cent), and 'becune' (6.1 per cent).

The fuel voucher scheme was the object of a very close monitoring programme with all boats inspected to ensure that they were in operation before being allocated a fuel quota. Several vessels, in particular, at Praslin which did not meet the required criteria, had their allocation cancelled or considerably reduced.

Table 6.7
Estimates of Fish Landed

	1997	1998	1999	2000	2001	2002
			(Metric tonnes)			
Artisanal method	4,095	3,334	4,842	4,764	4,290	4,914
Semi-industrial (longline)	311	308	457	290	238	-
Industrial method						
- Caught	271,095	252,595	331,424	330,340	295,000	360,000
- Transhipped	200,279	151,592	250,708	269,673	235,000	-

Source: Seychelles Fishing Authority

During 2002 the Japanese Grant Aid Project was implemented with the ice plant being fully operational, all fishing vessels were sold after having undergone trials by the SFA and most of the sixty inboard engines and fishing equipment sold to local fishermen.

The Development Bank approved 38 fishing loans valued at around R9.0 million whilst the Youth Employment Scheme (YES) approved 24, valued at R423 thousand. This brought the total number of fisheries loan approved to 62 with a total value of about R9.4 million.

5.2 Industrial fishing

The industrial tuna purse seine fishery continued to play a dominant role in 2002 with an estimated catch of 360,000 metric tonnes of tuna caught, the highest ever reached, compared to 295,000 metric tonnes for 2001. This illustrates a 22 per cent rise.

In July 2002 the SFA Fisheries Monitoring Centre (FMC) became fully operational and it is now a condition that all fishing vessels licensed in the Seychelles should be equipped with vessel monitoring system (VMS) terminals that transmit their position to the SFA FMC. To date there are more than 100 vessels that are monitored on a daily basis.

Outlook

One of the major projects to be implemented during 2003 is the construction and realignment of the tuna quay at the fishing port. This will help to increase the turnover rate of purse seiners, hence the competitiveness of Port Victoria as a major tuna transhipping port in the Indian Ocean.

During 2003 SFA will also continue to implement the projects initiated last year of which the most important are the Monitoring, Control and Surveillance of the Seychelles EEZ spearheaded by the vessel monitoring project (VMS). The VMS project will be extended to monitor the Artisanal fishing fleet. Larger vessels with an autonomous power supply will be equipped with off-the-shelf units whilst smaller vessels will be fitted with purpose built units. In addition to helping to monitor vessel movement it will assist in any search and rescue operations, hence improve safety of vessel at sea.

5.3 Aquaculture (Prawn Farming)

The Prawn Industry started in the mid-nineties by the Seychelles Marketing Board (SMB) as part of its venture to diversify its operations. Since then, the demand for its product has been increasing considerably on the global market that during the year under review, the total direct export earnings of the Prawn Industry count 70 per cent of the total revenue generated. Total sales recorded amounted to around R11 million and the industry also added its contribution towards the tourism industry of the nation by supplying US$0.6 million worth of Seychelles Prawn as local supply to the hoteliers.

The Biomass production was 219 metric tonnes compared to the 236 metric tonnes produced in 2001. This fall was partly due to the fact that the two Hatcheries were under producing Post Larva (PL). However in the latter part of the year the industry managed to redirect its operations towards the full level as the Hatcheries started to recover and to produce PL to their full capacity. This was a tremendous turning point for the industry and was largely due to the dedication and the hard work of all personnel mixed up in many specialty of the operation.

Hence there exists an increased optimism for the year 2003, with an anticipation of achieving a Biomass harvest of 900 metric tonnes. Compared to the year under review this represents an impressive growth of 311 percentage points. In consequence 2003 is seen as "The year of Challenge" for the Prawn Industry, with the ever-best sales forecasts. Export earnings are expected to contribute a remarkable 85 per cent to the total revenue, bringing in foreign exchange revenue of approximately US$10 million to the nation at current market prices.

6. Industries

The Seychelles' Industries continued to rely heavily on foreign markets for the supply of raw materials. Accordingly, because of the foreign exchange shortage, many industries were unable to produce up to their potential level as severe difficulties were created in paying for imports of raw materials. This caused some of the products to run out of stock on the local market.

One of the major highlights of the industrial sector, during the year, was the risk taken by two young local entrepreneurs venturing into the production of quality rum and vodka suitable for export. A sum of US$64 thousand has been invested in the business, with the view of further expansion. Depending on demand the company, named **Trois Freres Distillery**, is also planning to set up an automatic bottling plant which would more than triple the current quantity of 3,000 bottles being produced.

Another successful performance in year 2002 was witnessed in the **Food Processing Unit** of the Seychelles Marketing Board where production only fell short by 0.6 percentage points below the forecasted figure. Nonetheless, there was an overall increase in the production figure of 2002 as compared to that of 2001 with a percentage growth of 13 per cent, increasing the total production from 648,189 kilograms to 729,984 kilograms. A fall was only observed in the fish product which fell by 900 kilograms or equivalently 7.1 per cent. The biggest rise, in terms of kilograms recorded, was in the mixed product which stood at 30,906 kilograms in excess of the 268,790 kilograms posted for the previous year. But the chicken products experienced the fastest growth with a rate of 41 per cent, an improvement from 9,287 kilograms to 13,112 kilograms. These successes can be explained by the capital expenditure made throughout the year specifically:

- The refurbishment of the two main smoking/cooking kilns which resulted in a reduction of cooking time period, better percentage yield and production of products of perfect quality and taste.
- The purchase of one new industrial automatic slicing

machine enabling the factory to speed up the slicing process of the products.

- The continuation of introduction of new products on the market and of more appropriate and more attractive packaging.
- Strict in house daily quality control measures that was undertaken.
- Continuous staff training.

Attempting to keep up the good performance, the unit shall, throughout 2003, continue to monitor the necessity to refurbish or replace old machineries and also to obtain new additional equipment if found to be necessary. Continuous progress will also be made on the points mentioned above where the total production in terms of kilograms is expected to increase by 10 per cent.

Moreover the **Indian Ocean Tuna** canning factory, the country's biggest manufacturing entity in terms of its value added contribution to the economy, produced successful outcomes in 2002. The production of canned tuna increased by 6,714 tonnes or similarly 24 per cent to stand at 34,503 tonnes. With the total value of canned tuna exported moving in parallel with production, by the end of 2002, 39.2 million kilograms of canned tuna was exported bringing a revenue of almost R844 million. As compared to the R771 million collected in 2001, this shows an increase in revenue of around 19 per cent. Europe remained the major importer throughout 2002 with a share of 99 per cent. On top of the list is UK importing from the Seychelles 47 per cent of the total kilograms of canned tuna exported.

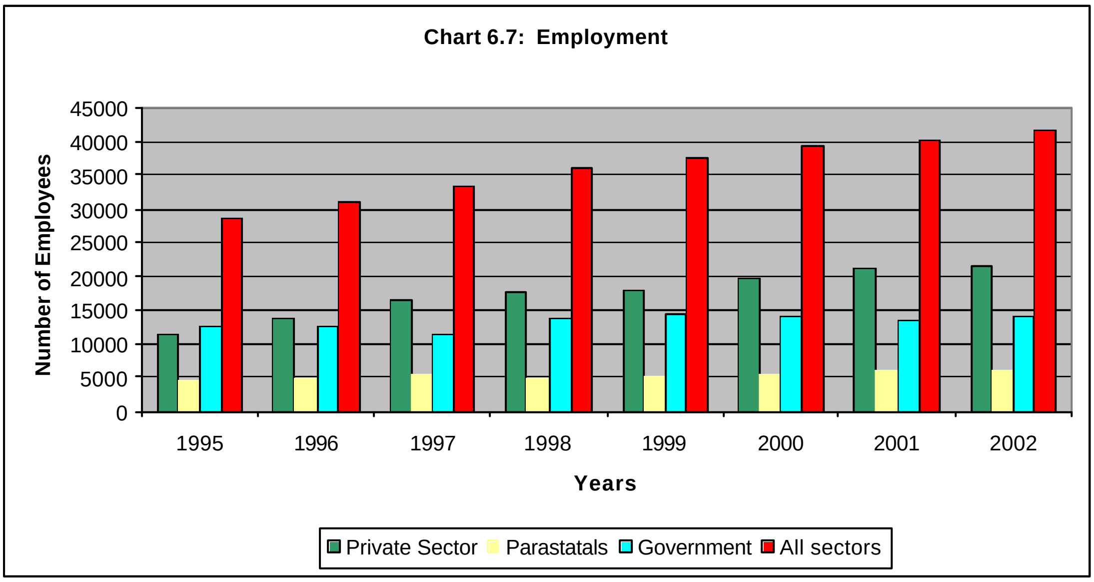
Further more with regards the **Seychelles Breweries Ltd,** its overall volume compared to 2001, showed an increase of 2.3 per cent raising the general revenue from around R293 million to around R302 million. However, both variables significantly experienced slower growth relative to 2001, where the revenue rate of growth declined by 6.1 percentage points, to reach a level of 3.2 per cent. In addition, the foreign exchange problems, the size of the company's debt to Guinness Limited continued to increase in an alarming way. The risk of a reduced support from Guinness is increasing in parallel with the increase of the debt. As of December 2002, the debt was R166 million. Therefore the company could not undertake any capital expenditure for the year 2002, resulting in higher costs of maintaining the existing plant and equipment and mechanically reducing efficiency. Considering its output, soft drinks rose at a lower rate than beers which went up by 317 basis points above 2001 figures. The growth in the revenue for soft drinks fell to a disappointing 0.8 per cent from a pace of 11 per cent as registered in 2001. Similarly that for beers fell from 8.9 per cent to 3.9 per cent.

On the other hand the **Penlac Co. Ltd** production which depends entirely on imports for raw materials fell by 0.9 percentage points for the year under review. Nevertheless, sales achieved were appreciably higher than those in 2001, a 6.9 per cent increment, attributed to an increase in the sales of the more expensive products. The 2001 and 2002 production and sales records, yet, confirm an established upswing trend which gives the industry some optimism for the future, after going through some very difficult periods in the preceding years. However its performance remains to be determined by the availability of foreign exchange to pay for the importation of raw materials.

Likewise, according to the figures from the **Island Development Co. Ltd** total production income was somewhat disappointing in 2002 when compared to 2001 figures. The former saw an absolute fall of R932 thousands, to stand at R1,810 thousands indicating a shortfall of 22 per cent from what was anticipated. The main contributor to that fall was 'birds' eggs' production income which fell by 56 percentage points from a contribution of R1,060 thousands in 2001 towards the total production income. Likewise, apart from the percentage change of the production income generated from the 'fish product', all other products experienced negative percentage changes. Nevertheless, the company is likely to earn more in 2003, where it is expected to raise the current figure by 22 percentage points. In absolute amount copra product remained to contribute the most income where in 2002 its share of contribution increased by 4.9 per cent thus accounting for 54 per cent of the total production income figure.

7. Employment

According to the records of the Social Security Fund, a further growth in employment was recorded during the year. Relative to 2001, employment grew by 1,424 or 3.5 per cent, as illustrated by *Table 6.8 and Chart 6.7*. Compared to the 40,263 people employed in 2001, the total number of people officially employed in the year stood at 41,687.



The overall growth in employment was reflective of all three sectors, namely the private sector, the parastatal sector and the government sector. In the private sector a 3.7 per cent growth was posted in relation to 2001 albeit at a slower pace (*chart 6.8*). However, it can be seen that over the past eight years, the number of people being employed by the sector has grown on an annual basis.

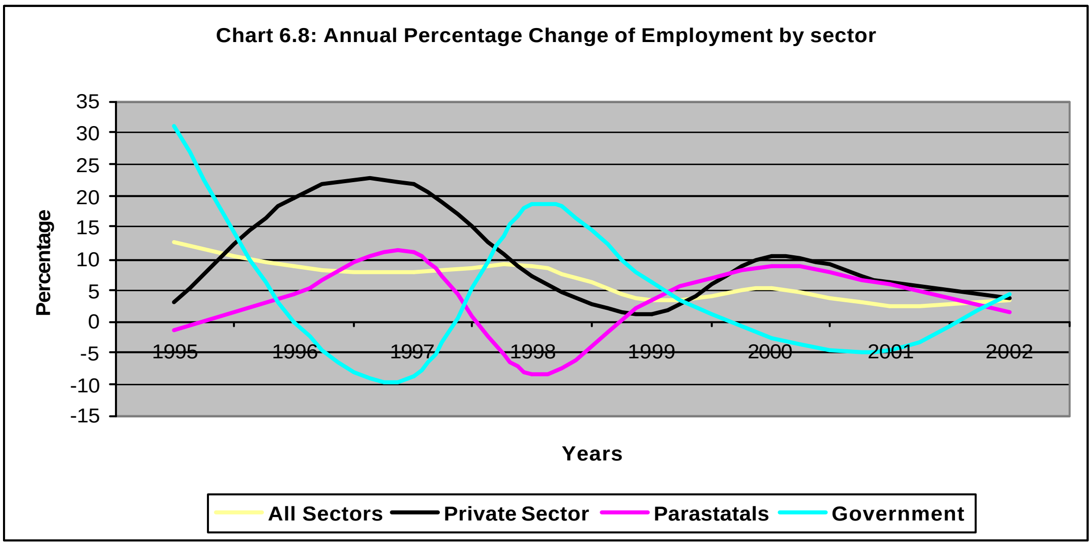
The parastatal sector registered the slowest increment, with a 1.4 per cent increase over the year under review. This means that only 85 additional jobs were created in that sector. The biggest recorded change in employment was in the Government sector, which recorded a 4.2 per cent growth over the previous year, *chart 6.8*. By the end of the year, the stock of employment pool at the private, parastatal and Government sectors stood at 21,715, 5,957 and 14,015 respectively.

Table 6.8
Employment

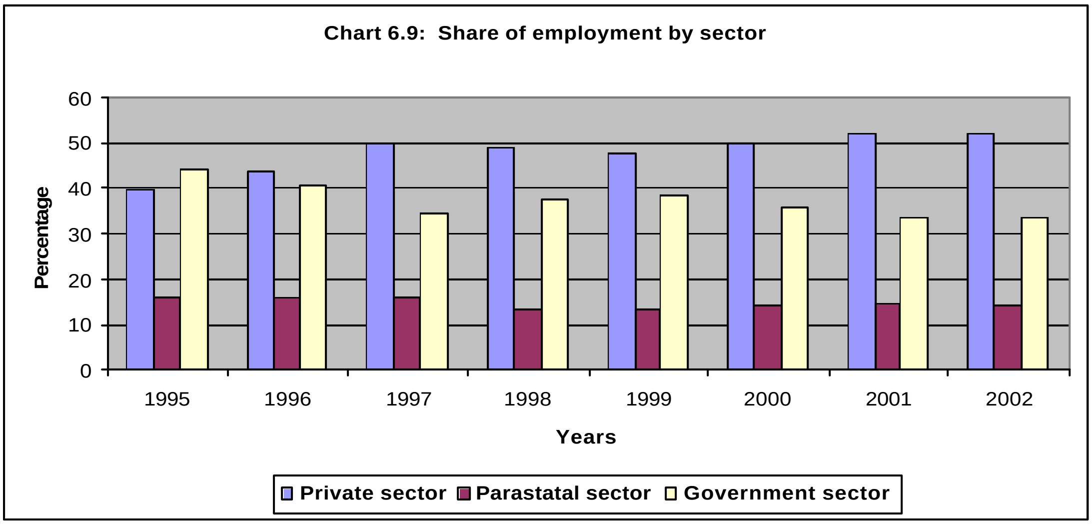
	Dec. 1997	Dec. 1998	Dec. 1999	Dec. 2000	Dec. 2001	Dec. 2002
Total	**33,328**	**36,207**	**37,465**	**39,381**	**40,263**	**41,687**
Private sector	16,486	17,675	17,908	19,753	20,944	21,715
Parastatals	5,368	4,921	5,100	5,550	5,872	5,957
Government	11,474	13,611	14,457	14,078	13,447	14,015

Source: Social Security Fund

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. The new placements in manufacturing came on account of new intakes by the Indian Ocean Tuna Canning, especially fuelled by an improved bonus and remuneration scheme. In the tourism sector, the new hotels increased the number of vacancies in that economic activity, which has caused corresponding effect for the other related services.



The developments in the labour market had minimum effects on the share of each sector in total employment *(Chart 6.9)*. The private sector increased minimally by 0.07 percentage points, whilst the Government sector's share grew by 0.2 percentage points. The only decline was with regards to the parastatal sector which fell by 0.3 percentage points.



8. Earnings

According to data from MISD, the average monthly earnings for the fiscal year 2002 posted a decline compared to 2001. During the first half of the year the 'all sectors' average monthly earnings dropped to R3,370, compared to R3,385 in 2001 (*Table 6.9*). This fall in earnings was due to a decrease in earnings of all the different sectors. The highest decline in earnings was in respect of the parastatal sector, which fell by 2.7 per cent, from R3,648 in 2001 to R3,549 in 2002. The private and government sectors fell by 0.7 per cent and 0.6 per cent, respectively. Private sector earnings fell from R3,189 to R3,166 whilst government earnings fell from R3,581 to R3,558.

In terms of industries, movements in earnings were mixed in nature. Industries like 'agriculture', 'manufacturing' and 'mining, quarrying and construction' all posted increases in earnings, whilst 'wholesale and retail trade' and the tourism part of 'hotels' and 'restaurants' registered declines.

Table 6.9
Average Monthly Earnings

	1997	1998	1999	2000	2001	2002
	(rupees – current prices)					
All Sectors	2,954	3,135	3,250	3332	3385	3370
Private sector	2,651	2,829	2,990	3094	3189	3166
Parastatals	3,429	3,725	3,669	3693	3648	3549
Government	3,251	3,410	3,474	3561	3581	3558

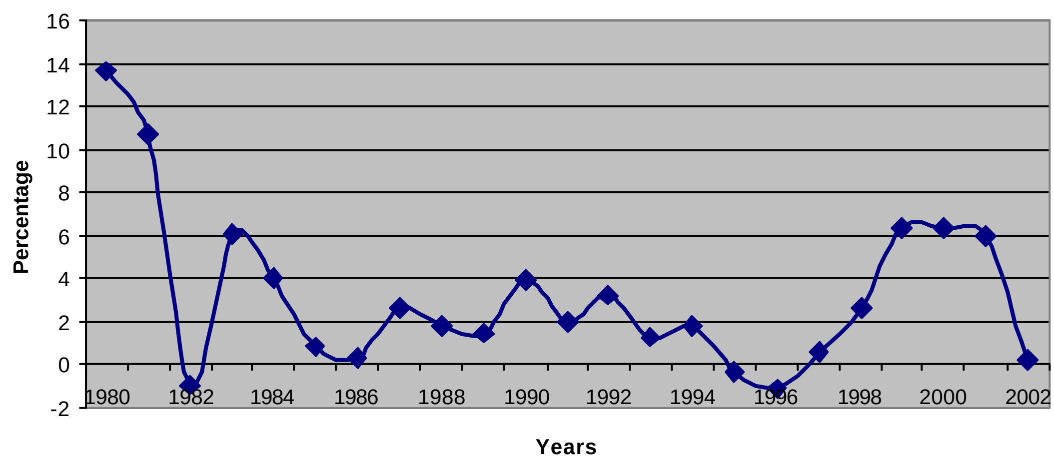
Source: Management & Information Systems Division

In the private sector, the highest earners came from the 'non-tourism' related industry, which stood at R5,066. The lowest in the private sector was in respect of 'wholesale and trade' with earnings of R2,372. In the parastatal sector, the tourism related 'transport, storage and communications' industry were the highest earners, with the 'wholesale and retail' again accounting for the lowest earners. In the government sector, people working in 'public administration' earned the highest amount at R4,026, whilst those in 'agriculture' registered the lowest earnings figure of R3,335.

9. Prices

As a result of a stable economic environment and a system of price control, the Seychelles economy has, over the past 23 years, been characterised by low and stable inflation. During that time, only the years of 1980 and 1981 indicated significant annual increases in prices of 13.6 per cent and 10.7 per cent respectively *(Chart 6.10)*. These have to date been the highest recorded inflation level in the Seychelles and were part of the factors for the introduction of price control in the country.

Chart 6.10: Inflation rate



However, prices rose and remained relatively high for Seychelles standards for three successive years 1999-2001 *(Chart 6.10, Table 6.10*), and this became a cause for concern for the authorities. Since mid-2001, the government took stricter measures in terms of price controls, particularly on imported goods. This caused overall price increases to moderate and in 2002, the overall inflation rate stood at 0.2 per cent.

A more detailed analysis of the movement in prices in 2002 shows that the slowdown in price increases came primarily on import goods and to some extent on locally produced goods. Import prices decline by 0.5 per cent compared to an increase of 8.4 per cent in 2001. This movement directly relates to the government measures on price control. Considering the local component of 'all items', it actually experienced an inflationary growth of 0.6 per cent, albeit a slowdown compared to the 4.7 per cent increase in the previous year. It is worth noting that this is the second consecutive year where a slowdown in the price growth of the latter category has been recorded.

Looking now at the three broad categories of the Retail Price Index (RPI), it was observed that the price of fish prices fell from 16 per cent to 4.9 per cent. This reduction in the pace of growth in fish prices was directly related to the supply of this commodity. In 2002, the total catch of artisanal fish output increase relative to 2001 influenced by the more favourable weather conditions throughout the year.

Prices in the other two broad categories, namely 'other food' and 'non-food items', also registered a decline in their rate of growth compared to the last three years.

Prices for the 'other food' category rose by 0.2 per cent influenced mainly by the fall in import prices, whilst there were negligible price movements for the 'non-food' category.

Table 6.10
Composition of Retail Price Index[1]

	Weights	1997	1998	1999	2000	2001	2002
				(percentage change)			
	1,000	**0.6**	**2.6**	**6.3**	**6.3**	**6.0**	**0.2**
Local	656	0.4	3.2	4.4	7.2	4.7	0.6
Imported	344	1.2	1.3	10.3	4.4	8.4	-0.5
Fish	**32**	**12.0**	**10.8**	**-15.3**	**-6.5**	**15.5**	**4.9**
Other Food Items	**234**	**0.7**	**1.0**	**1.9**	**2.9**	**3.2**	**0.2**
Local	119	1.0	1.5	0.9	4.5	2.7	2.0
Imported	115	0.3	0.3	3.3	0.7	3.8	-1.0
Non-Food Items	**734**	**0.0**	**2.7**	**8.6**	**7.7**	**6.2**	**0.0**
Local	505	-0.5	3.0	6.7	8.6	4.6	0.1
Imported	229	1.4	1.8	12.9	5.5	9.8	-0.2

[1] Period averages.
Source: Management & Information Systems Division

SECTION SEVEN

Offshore and Investment Developments

1. Overview

During the year, there was an increase in the number of activities in the offshore sector. The sector, which is managed by the Seychelles International Business Authority (SIBA), recorded an increase of 763 International Business Companies (IBCs) in excess of the registered companies' total of the previous year. This meant that 2,617 IBCs were registered in the current year, which brought the total number of registered IBCs to 10,632 since 1995.

There was also further improvement in the number of companies obtaining licences to operate within the Seychelles International Trade Zone (SITZ). Twelve new companies obtained these licences, whilst the year also witnessed the registration of twenty-seven new trusts. The SITZ companies also produced the highest ever half-year exports figures, with an estimated export revenue of US$105.6 million. This represented a growth of 43 per cent relative to the corresponding period for 2001.

The year also saw the introduction of legislations and proposals by the Government aimed at developing further the industry. The main thrust of the new legislation is to try and make Seychelles the core financial and trading place in the region.

The Legislation Update-Data protection bill was gazetted in the second half of the year. The Data Protection Bill aims at regulating the storage of personal information on computers by users and its disclosure to third parties. According to the bill, an individual is allowed to access his/her own data, and if necessary, correct or erase it, and protect the data from unauthorised access, alterations or destruction.

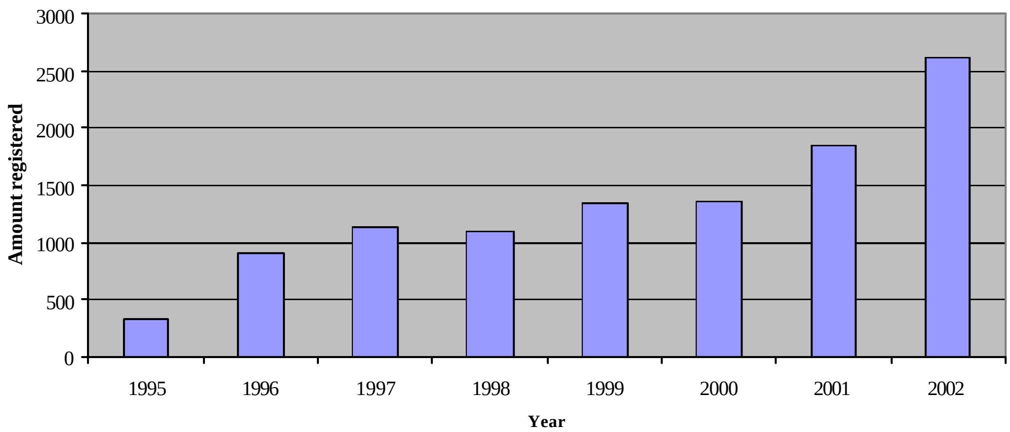
An agreement signed between the Ministry of Information Technology and Communications (MITC) and a telecommunications provider in Singapore, Singtel enabled the INMARSAR application to be activated from Seychelles. This has made the registration of ships faster and efficient. Singtel will also act as the Point of Service Activation (PSA), reducing the lengthy procedure of applying to MITC.

A ratified double taxation treaty between Seychelles and South Africa was signed during the third quarter of the year, which provides complete exemption from withholding tax on dividends, interest, royalties and capital gains. It has added an extra dimension to the range of products and structures that South African tax planners can legitimately utilise to provide tax efficient solutions to their clients.

2. Offshore developments

The registration of International Business Companies (IBCs) by the Seychelles International Business Authority (SIBA) has been a key component in the development of the country's offshore sector. Through 18 registered agents, these IBCs which are incorporated in Seychelles are marketed abroad for the offshore services. An IBC could be registered in less than 2 hours, which is the minimum reported time for registration. During the year 2002, SIBA set a record for the registration of these companies. In fact the year 2002 has been the most successful year on record since 1995. A record 2,617 new International Business Companies (IBCs) was registered with the Seychelles offshore industry. This represented a growth of 41 per cent in relation to the aggregate figure of 1,854 for 2001. Since the conception of SIBA in 1995, there has been an increasing trend in the number of registered IBCs as illustrated by ***Chart 7.1***. The year's activity brought the total of registered IBCs since 1995 to 10,632. The 10,000 mark was achieved on October 5th 2002. Since this achievement, Seychelles is now gearing up for its 'second phase' of development which will see the enactment of new legislation, namely the Company (Special License), Limited Liability Partnership, the Protected Cell Companies, and the Interactive Gambling Acts.

Chart 7.1: Annual number of registered IBCs



The year was a successful one for SIBA as all the different quarters fared much better than the corresponding ones of the previous years. The registrations for each quarter, from one to four were 669, 683, 569, and 696 respectively. This is a clear indication for SIBA as an established offshore centre. According to SIBA these increases can be directly attributed to the fact that Seychelles is perceived to be a reputable and well-regulated jurisdiction, highlighted by a signed Memorandum of Understanding with the FATF and OECD.

The year also posted an increase in the number of companies operating within the Seychelles International Trade Zone (SITZ) relative to the previous year. Compared to 8 companies in 2001, 12 new companies were licensed to operate within the SITZ. However, in contrast to the previous year where the third and fourth quarter accounted for the lion's share of activity, the first two periods were the mainstay in the current year's development, each with 4 SITZ companies. Since 1995 a total of 31 SITZ companies are registered with SIBA. Furthermore, the year was the most successful one in terms of trusts as well. A record number of 27 trusts were registered with 13 coming in the first quarter. This was 16 trusts more than in 2001. It brought the total number of international trusts registered in Seychelles to 59.

The year saw the highest half-year exports figures from the Seychelles International Trade Zone (SITZ) companies. An estimated US$105.6 million in exports was registered, 43 per cent higher in value terms compared to the corresponding period for 2001. The first quarter registered US$53.9 million whilst the second quarter recorded US$51.7 million.

In 2002, the government also embarked on the process of introducing a series of new legislations and proposals geared to launch the offshore industry into its second phase. This was seen as a key measure to promote an already fast growing industry. The second phase includes the establishment of procedures and vehicles for the registration of mutual funds, increased synergy between the onshore and offshore key sectors through the SITZ. This phase also includes the introduction of different types of structures supportive of financial services products. The aim of this recent development was to turn Seychelles into a financial and trading hub for the region. Priority was given to the pursuit of improved air and shipping links with the regional countries and in the negotiation of a broader network of double taxation agreements.

The INMARSAT application can now be activated from Seychelles, and this has made ship registration faster and more efficient following an agreement signed between the Ministry of Information Technology and Communications (MITC) and Singtel, a telecommunications provider in Singapore. Singtel would also be the provider of the Point of Service Activation (PSA). The client can now go directly to the PSA and ask for activation, cutting the lengthy procedure of applying for to MITC.

3. Investment

3.1 The Investment Desk

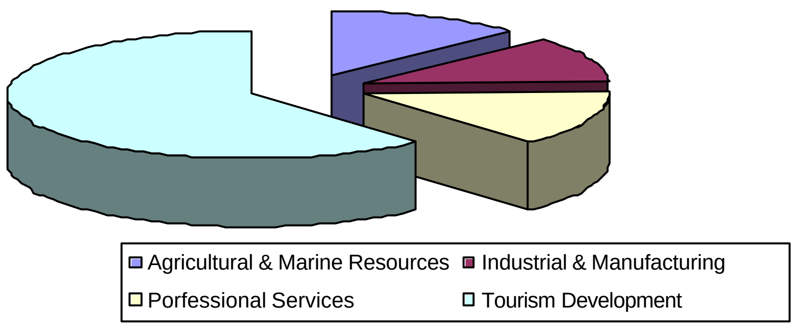
Investment is one of the most important factors in increasing economic growth. In the process economic growth has a positive effect for social progress, both directly through job creation and indirectly in allowing the government to finance its social programmes with as little disruption to economic growth as possible. The onshore investment in Seychelles is seen as a key element in the next stage of the country's economic development.

Since 1994, the government has been providing various incentives to develop and attract investors in specific sectors, both local and foreign by tax incentives under the Investment Promotion Act, 1994 (IPA). This act allows the Ministry of Finance to grant concessions and incentives to eligible investors. Although the specific incentives and concessions are dependent on the type of investment, they generally involve paying reduced rates of business and trade tax, social security contributions and, for expatriate employees, gainful occupation permit (GOP) fees.

Under the Investment Promotion Act (IPA), eligible businesses are given Certificates of Approval which entitles them to the various incentives and concessions. During the year under review, 4 new businesses were issued with Certificates of Approval, all of them tourism-related, whilst two certificates were renewed and another extended. However, the number of certificates approved was much lower than the 21 recorded in 2001.

Furthermore, the recent development reflects the government's persistent attempt to provide incentives to develop and promote tourism, the country's key service industry. Since the introduction of the IPA back in 1995, there have been a total of 135 certificates that have been approved. Out of this total, 17 have been cancelled, 2 have expired and 1 no longer has IPA status. These developments brought the number of IPA organisations to 115. The country's main service industry, tourism, has the bulk of these IPA certificates with 71 active organisations *(see chart 7.2)*. The other 44 companies issued with certificates were as follows: 16 were 'professional services' investment; new certificates brought the total number of companies in relation to 'tourism development investment' category to 76, 15 were 'agriculture and marine resources' investment; and 13 were 'industrial and manufacturing sector' investment.

Chart 7.2: IPA certificates by sector



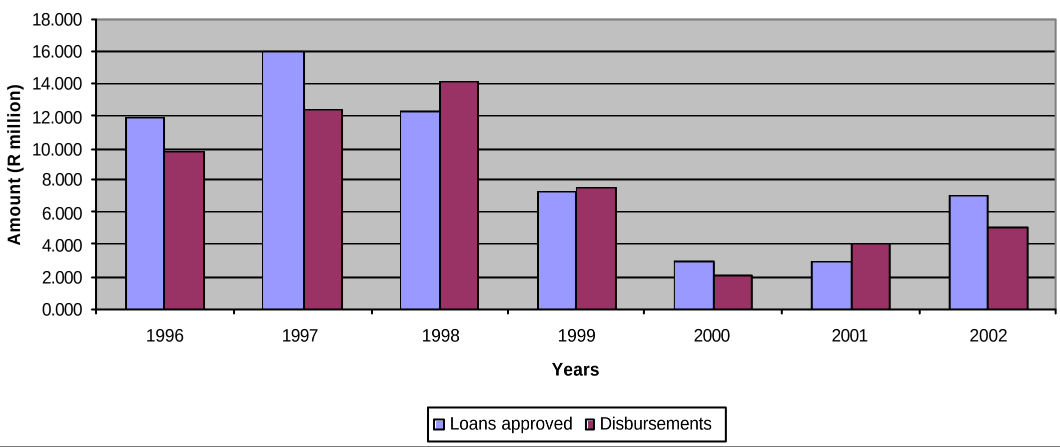
3.2 SIDEC

3.2.1 Young Enterprise Scheme

During 2002, the Small Business Bureau (SBB), which manages the Young Enterprise Scheme (YES), under the patronage of the Seychelles Industrial Development Corporation (SIDEC) received a total of 1,185 applications for financial assistance. The Loans Committee reviewed 622 viable cases, of which only 88 were approved for assistance at a total value of R7.1 million.

This represented an increase of 139 per cent over the R3.0 million approved in 2001. On the other hand, R5.1 million worth of loans were disbursed, representing an increase of 26 per cent over last year. ***Chart 7.3*** shows the value of loans approved and disbursed during the last seven years. It can be seen that during the first three years the amount of loans approved and disbursed were relatively high, whilst the past four years has seen a general decline.

Chart 7.3: Young Enterprise Scheme



Since its inception in 1996, 1,811 loans have been approved for small enterprises totalling R57 million. Out of these approved loans, 1,723 enterprises have already been financed at a value of R55 million. In terms of assistance, the "fishing" sector remained the major beneficiary within the scheme with a share of 20 per cent of the aggregate borrowing under the scheme, clearly highlighting the sector's importance to the Seychelles economy. The "maintenance" and "retailing" sectors also benefited with shares of 14 per cent and 11 per cent respectively.

3.2.2 European Union Credit Line Project

A total of R213,000 in loans were sanctioned under the European Union credit Line Project, whilst R235,000 were disbursed. Since the project was inaugurated in 1995, a total of R4.3 million has already been disbursed out of the R7.0 million grants available under the credit line at a concessionary rate of 3.0 per cent per annum.

The two classes of businesses that have benefited the most from such assistance are tailoring and handicraft with a 16 per cent and 12 per cent share of total loans disbursed respectively. Whereas in terms of districts, the residence of Praslin and Mont Fleuri have benefited the most under the project with a share of 9.4 per cent and 9.2 per cent of total loans respectively.

SECTION EIGHT

Operations and Administration of the Central Bank[1]

1. Overview

During 2002, the Central Bank continued to serve its role of monetary authority, effectively monitoring and regulating the financial sector, thus ensuring the smooth running of the financial system. More over, it carried on assisting the government in monitoring the economic performance and implementing new measures for further progress.

2. Banking Services

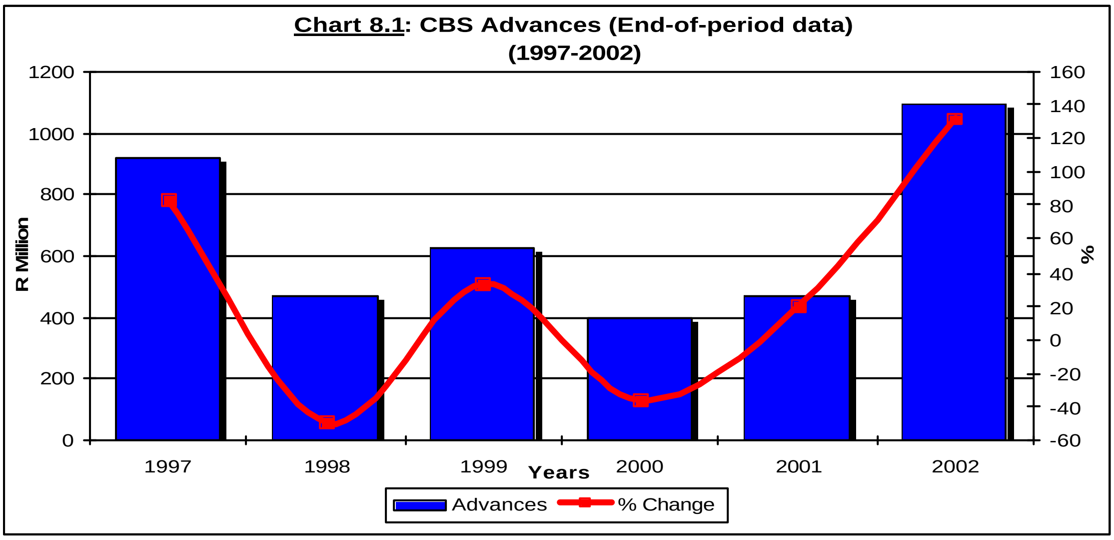
2.1 Currency and Banking Operations

The Banking Services Division has the responsibility of issuing currencies and managing accounts held with the Bank on behalf of the Government, commercial banks, other local financial institutions, and foreign government and international agencies. It is also accountable for the daily financial transactions of the Bank and administers temporary advances made to government, whilst closely monitoring external reserves. The sale of the numismatic coins and dealings in coins and notes with dealers abroad is yet another responsibility of the division.

2.1.1 Government accounts

As with precedent years, the Government continued to rely to some extent on Central Bank advances to finance its budget deficit. For the year under review, total advances outstanding from the Central Bank stood at R1,092 million and this represents a 131 per cent increase relative to the 2001 total of R472 million *(see Chart 8.1 below)*. However, one should note that total advances is composed of two elements; short-term advances and foreign loans borrowed by the Central Bank which it on-lends to the government in the domestic currency. In 2002, short-term advances totalled R261 million, while back-to-back facilities of two loans amounted to R831 million.

[1] All the data presented in this section is actual.



The continued reliance of Government on Central Bank credit to finance its deficits is edging the supply of money in the economy upwards to an alarming level. As mentioned in *Section Three*, this in turn impacts on the Balance of Payments negatively and worsens the foreign exchange problems of the country.

Table 8.1
CBS Advances to government; 1997-2002

	1997	1998	1999	2000	2001	2002
			(R million)			
Advances[1]	734.6	874.8	547.2	58.3	493.9	650.8
Advances[2]	923.2	469.0	623.9	395.9	472.4	1092.0
Growth[1]	35.44	19.09	-37.45	-89.35	747.22	31.77
Growth[2]	83.32	-49.20	33.03	-36.55	19.33	131.18

[1] *Yearly averages of monthly data compiled on an end-of-period basis.*
[2] *End-of-period data.*

2.1.2 Currency issues

Total currency in circulation at the end of year stood at R321 million. This represents a R22 million or 7 per cent increase in total currency in circulation in 2002 relative to the previous year's total of R299 million *(Chart 8.2)*.

Out of the 2002 total of R322 million of currency in circulation with the public, a total of R302 million were notes while the remaining R20 million were coins.

2.1.3 Numismatic issues

During the year under review, the sale of numismatic coins on both the local and international markets amounted to a total of R53,030. This represents a slight increase of 0.25 per cent relative to the total of 2001.

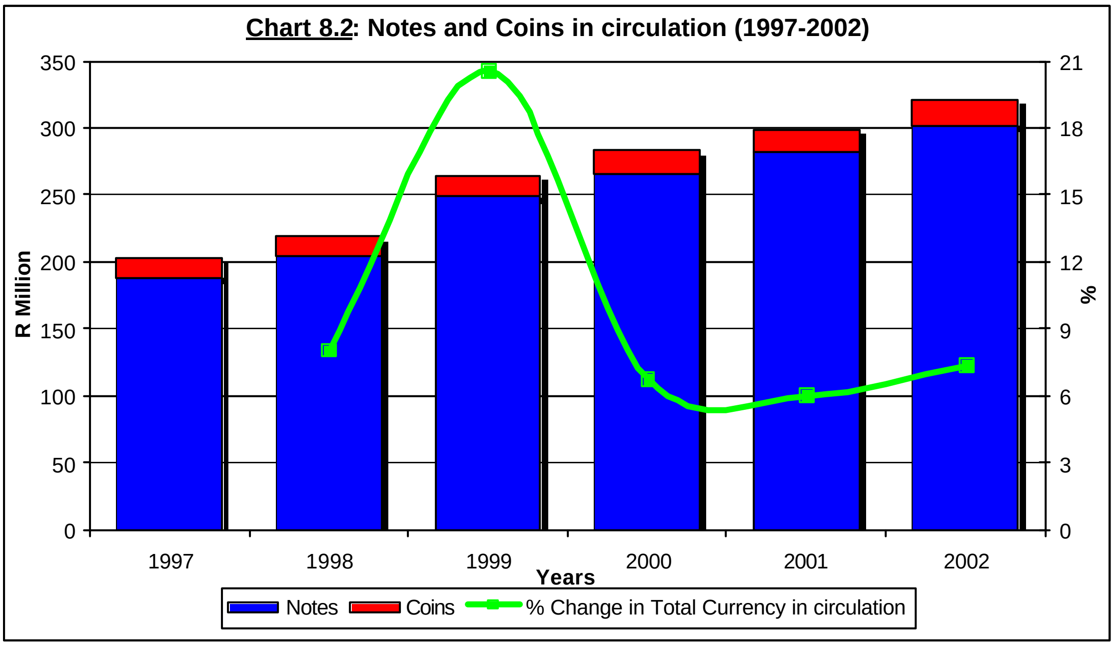


Table 8.2
Circulation of Notes and Coins;[1] 1997-2002

	1997	1998	1999	2000	2001	2002
			(R million)			
Total	**202.97**	**219.24**	**264.27**	**282.23**	**299.24**	**321.35**
Notes	189.07	204.29	247.94	265.27	280.94	301.66
Coins	13.90	14.95	16.33	16.96	18.30	19.69
			(per cent)			
Share						
Notes	93.2	93.2	93.8	94.0	93.9	93.9
Coins	6.8	6.8	6.2	6.0	6.1	6.1

[1] *End-of-period*

2.1.4 Accounts of commercial banks

Commercial banks have to hold a minimum percentage of their eligible deposits as cash reserves at the Central Bank. This is a statutory requirement and it is also used as a monetary policy tool by the Bank. For the year under review this requirement remained unchanged at 2.5 percent and all commercial banks were able to meet this requirement and the amount of reserves that the banks were holding with the Central Bank at the end of the year stood at R293 million.

The activities of the banker's clearing house remained under the ambit of the

Central Bank. The total number of items cleared during 2002 was 606,193, a 0.5 per cent fall relative to the 609,284 items cleared in 2001. This amounted to R1.7 billion worth of claims cleared during 2002.

Table 8.3
Bankers' Clearing House Activities; 1997-2002

	1997	1998	1999	2000	2001	2002
(Total)						
Number of items cleared	591,415	623,749	644,593	620,492	609,284	606,193
Amount (R'000)	1,327,170	1,543,457	1,641,388	1,861,626	1,676,372	1,662,604
(Daily average)						
Number of items cleared	2,394	2,536	2,568	2533	2,447	2,454
Amount (R'000)	5,373	6,274	6,539	7598	6,732	6,731

2.1.5 Other accounts

The Central Bank continued in its administration of two other groups of accounts on behalf of the government in addition to the accounts of government and those of the 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 government (labelled special deposits). For the financial year ending December 2002, the balance on these accounts was R869,057, an increase of 7 per cent over the 2001 total of R814,305.

2.1.6 Annual balances

An aggregate of R7.1 million was recorded as net operating profit for the year ended 31st December, 2002. This represents a slight fall of 0.2 per cent relative to the previous year's net operating profit of R7.2 million. For the year under review, total income decreased by 2.3 per cent from R46.0 million in 2001 to R44.9 million. Total expenditure fell by R1.1 million (2.7 per cent), from R38.8 million in 2001 to R37.8 million in 2002. This is due to a decline of 7.6 per cent in interest expenses over that period, which outweighed the rise in the other operating expenditure.

2.1.7 External reserves

At the end of the financial year of 2002, gross external reserves of the Bank stood at R352.3 million, an increase of R142 million (or 67 per cent) relative to 2001. This was mainly made up of deposits being held at financial institutions. The rest of the reserves was made up of the holdings of SDRs, which fell from R132,639 in 2001 to R66,980 in 2002.

2.2 Administration and Public Debt

The main functions of the Administration and Public Debt Division were to carrying out the administrative duties of the Bank and the management of domestic public debt instruments on behalf of the government.

2.2.1 Treasury Bills

For the year 2002, the issue of treasury bills on a tap basis continued. There were no changes to the rates with the 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.

The total value of bills sold for the year under review was R4.6 billion, showing no movement in the amount of bills sold relative to the previous year as the authorised limit remained unchanged. Total redemption of 91-day bills for the year 2002 was R2.76 billion, while that of 182-day bills and 365-day bills was R1.27 billion and R0.6 billion respectively.

The total stock outstanding of treasury bills stood at R1.998 billion for 2002, a slight increase of 0.2 per cent relative to the 2001 total *(see Chart 8.3)*.

Table 8.4
Treasury Bill Yields;* 1997-2002

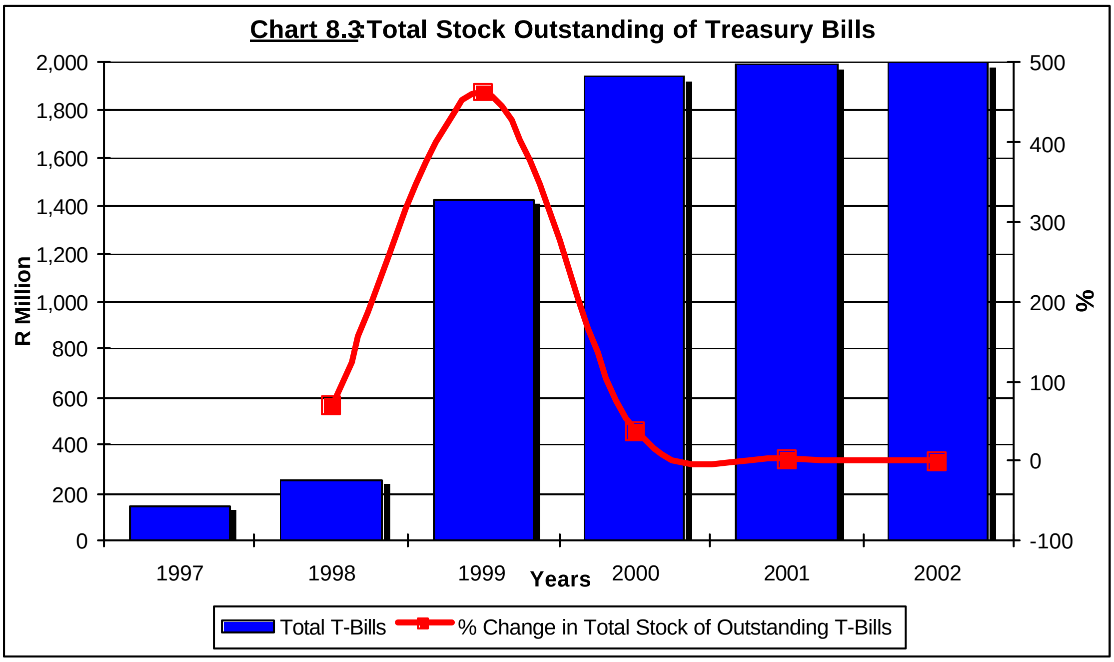
Issues	1997	1998	1999	2000	2001	2002
			(per cent)			
Tap						
91-day	10.50	8.00	4.50	4.50	4.50	4.50
182-day	-	5.00	5.00	5.00	5.00	5.00
365-day	-	5.50	5.00	5.50	5.50	5.50

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

Table 8.5
Treasury Bills;[1] 1997-2002

	1997	1998	1999	2000	2001	2002
			(R million)			
Stock outstanding [1/3/]	**757.7**	**876.4**	**1388.8**	**1889.8**	**1933.9**	**1940.5**
91-day bills (tap issue)	623.1	628.6	-	-	-	-
91-day bills[4/]	-	117.1	599.8	679.3	689.5	691.1
182-day bills[4/]	31.7	99.1	474.9	606.6	630.5	633.6
365-day bills[4/]	102.9	31.7	314.1	603.8	614.1	615.8
Stock outstanding [2/3/]	**788.9**	**897.1**	**1424.7**	**1945.7**	**1991.1**	**1997.9**
91-day bills (tap issue)	639.9	644.0	-	-	-	-
91-day bills[4/]	-	118.2	606.6	687.0	697.2	698.9
182-day bills[4/]	33.3	101.6	486.7	621.7	646.0	649.4
365-day bills[4/]	115.6	33.4	331.4	637.0	647.9	649.6
Held by						
Central Bank	53.5	9.4	59.5	18.6	6.3	0.6
Commercial banks	536.6	675.5	1102.6	1632.0	1813.8	1823.3
Other financial institutions	7.9	2.9	8.5	18.0	10.4	11.5
Others	127.3	147.2	176.4	199.7	160.7	162.6
Non-resident	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.*



2.2.2 Treasury Bonds

No new treasury bond was issued during the year under review. This has had an impact on the liquidity situation of the economy, because funds from redeeming government papers were not being mopped up. This results in a growth in the supply of money, which in turns puts unnecessary pressure on both the balance of payments and helps to worsen the current foreign exchange shortage.

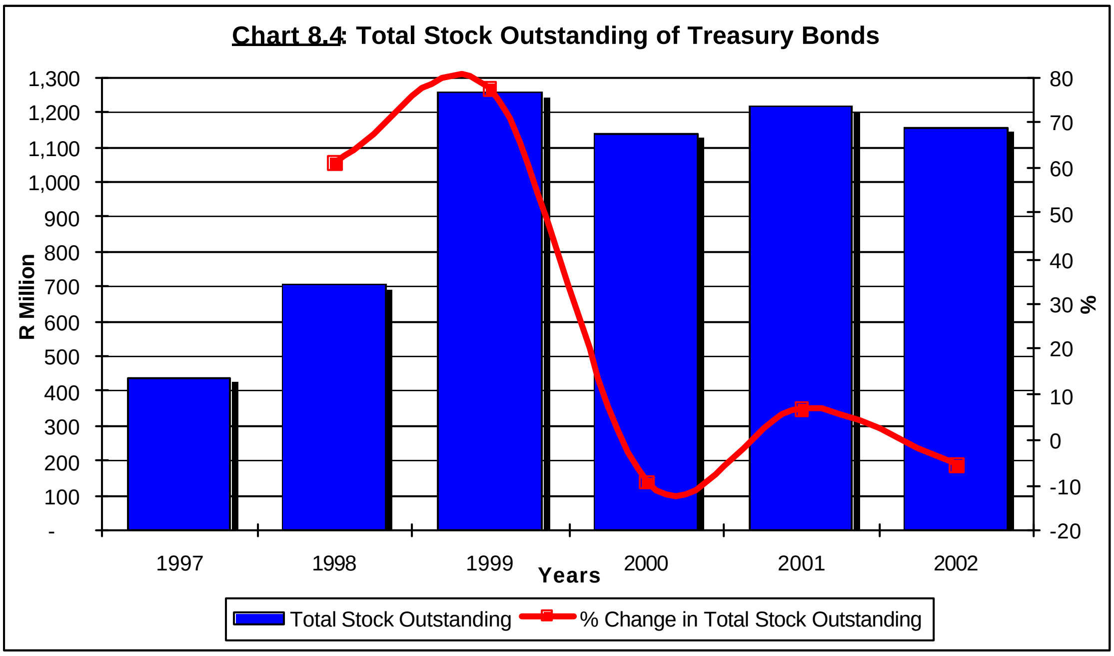
Total redemption of treasury bonds in 2002 stood at R187 million. This represents a fall of R368 million from the R555 million redeemed in the previous year.

The stock outstanding of bonds for the year averaged R1.15 billion for the year under review. This is a 5.5 per cent fall relative to the average of R1.21 billion of 2001. As with preceding years, the bulk of the bonds were being held by the commercial banks.

Table 8.6
Treasury Bonds;[1] 1997-2002

Date Issued		Authorised Limit	1997	1998	1999	2000	2001	2002
				(R million)				
Stock outstanding			**438.9**	**707.3**	**1255.8**	**1141.2**	**1218.7**	**1153.7**
03/09/01	7.5%, 3-yr		-	-	-	-	146.3	450.0
25/09/00	6.75%, 2-yr	200.0	-	-	-	38.2	277.0	261.8
07/02/00	7.5%, 3-yr	300.0	-	-	-	210.1	300.0	300.0
09/09/99	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	0.9
01/09/98	8.0%, 5-yr	50.0	-	2.3	34.6	50.0	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	91.0
01/10/95	12.0%, 3-yr	250.0	250.0	242.2	123.3	-	-	-
01/09/93	12.5%, 2-yr	250.0	13.4	-	-	-	-	-
15/11/92	12.0%, 5-yr	150.0	141.2	16.5	-	-	-	-
01/08/90	16.5%, 3-yr	10.0	-	-	-	-	-	-
01/08/90	16.5%, 5-yr	10.0	0.9	-	-	-	-	-
Held by								
Central Bank			20.0	1.8	0.1	0.1	-	-
Commercial banks			262.8	485.5	932.3	778.9	930.8	880.6
Other financial institutions			2.5	1.5	0.0	0.0	-	-
Others			98.5	138.5	215.7	237.4	287.9	273.2

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



2.2.3 Seychelles Government Stocks

For the year under review, no government stock was offered for sale and no redemption was recorded. The average total stock of Government stocks outstanding for 2002 was R139.7 million, a 12 per cent increase relative to the previous year's average. This total was being held only by commercial banks.

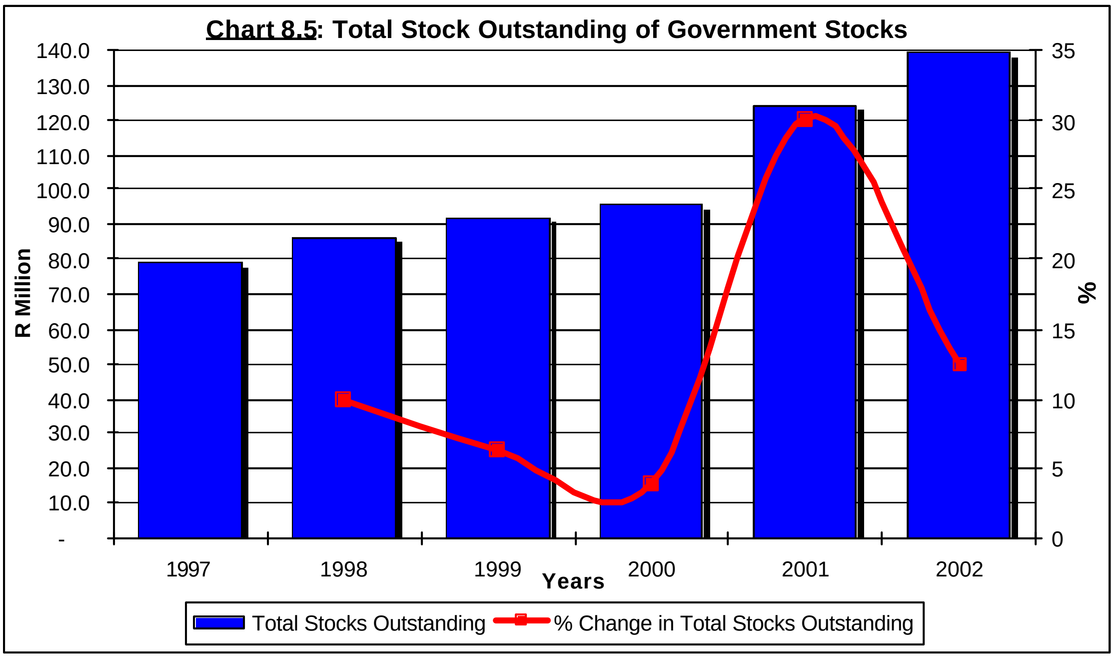


Table 8.7
Government Stocks;[1/2/] 1997-2002

	Authorised Limit	1997	1998	1999	2000	2001	2002
		(R million)					
Stock outstanding		**78.7**	**86.5**	**91.9**	**99.9**	**124.2**	**139.7**
8.00%, 2009	50.0	-	-	2.1	9.9	34.2	49.7
8.50%, 2005/07	30.0	18.7	26.5	29.8	30.0	30.0	30.0
8.00%, 2004	60.0	60.0	60.0	60.0	60.0	60.0	60.0
9.50%, 1993/97	14.7	-	-	-	-	-	-
Held by							
Central Bank		0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks		74.4	82.0	86.6	91.2	124.2	139.7
Other financial institutions		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.*

2.3 Bank Supervision

During the year, the Bank Supervision Division carried out business as usual, upholding its responsibilities with the aim of ensuring a sound and safe banking system. It carried out four inspections; of which one was a full inspection and the remaining three were spot inspections. All banks were seen to be meeting the criteria set by legislation except for one which had a lower than required Minimum Reserves in early January although this issue was resolved quickly.

2.3.1 Minimum required capital and investment of capital funds

No alterations were made in 2002 on the above statutory requirements and all the commercial banks were able to comply. At the end of the year, the capital funds averaged R215 million, up by 2.3 per cent relative to the R211 million of 2001. This increase was fuelled by increases of 4.8 per cent in the reserve funds from R100 million in 2001 to R105 million in 2002. Assigned capital increased only slightly to remain about the same level as in 2001.

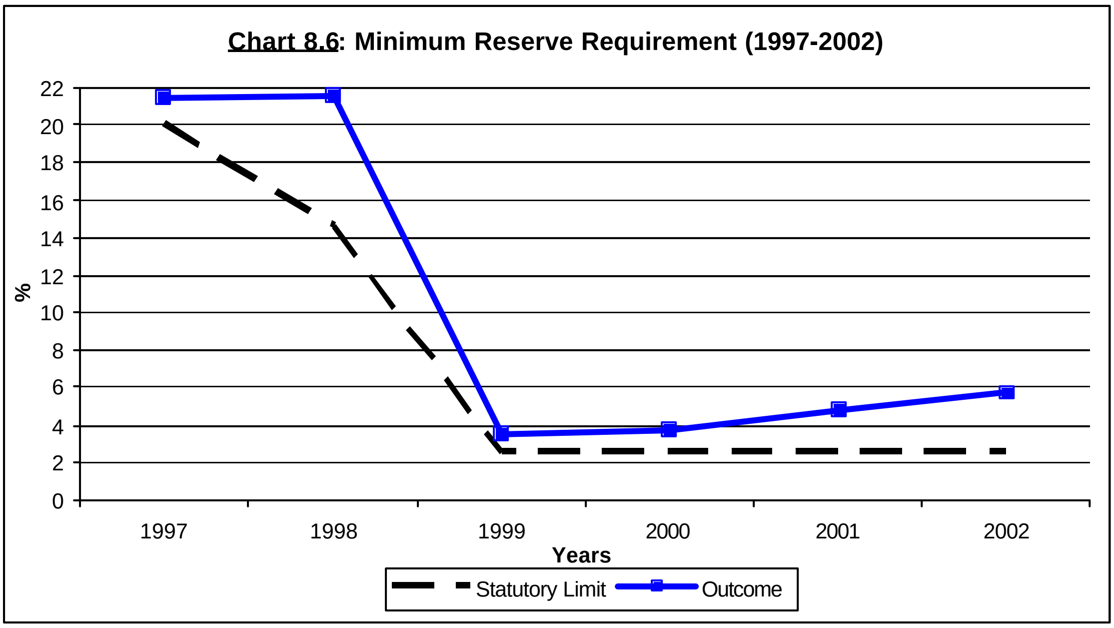
Table 8.8
Capital Fund Ratios of Commercial Banks;[1] 1997-2002

	1997	1998	1999	2000	2001	2002
			(R million)			
Capital Funds	147.77	170.54	188.48	205.16	210.60	215.37
Assigned capital	90.75	100.97	104.45	110.75	110.80	110.95
Reserve fund	57.03	69.57	84.03	94.41	99.80	104.62
Minimum required capital funds (5% of A) [2/3/]	83.67	112.08	124.10	-	-	-
Memorandum item						
Eligible deposit liabilities (A)	1673.32	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 asset ratio

There were also no alterations made to the minimum reserve requirement of the commercial banks during the year and it remained fixed at 2.5 per cent. However, the outcome at the end of the financial year 2002 was 5.7 per cent. This is compared to the outcome of 2001 of 4.8 per cent *(see Chart 8.6)*.



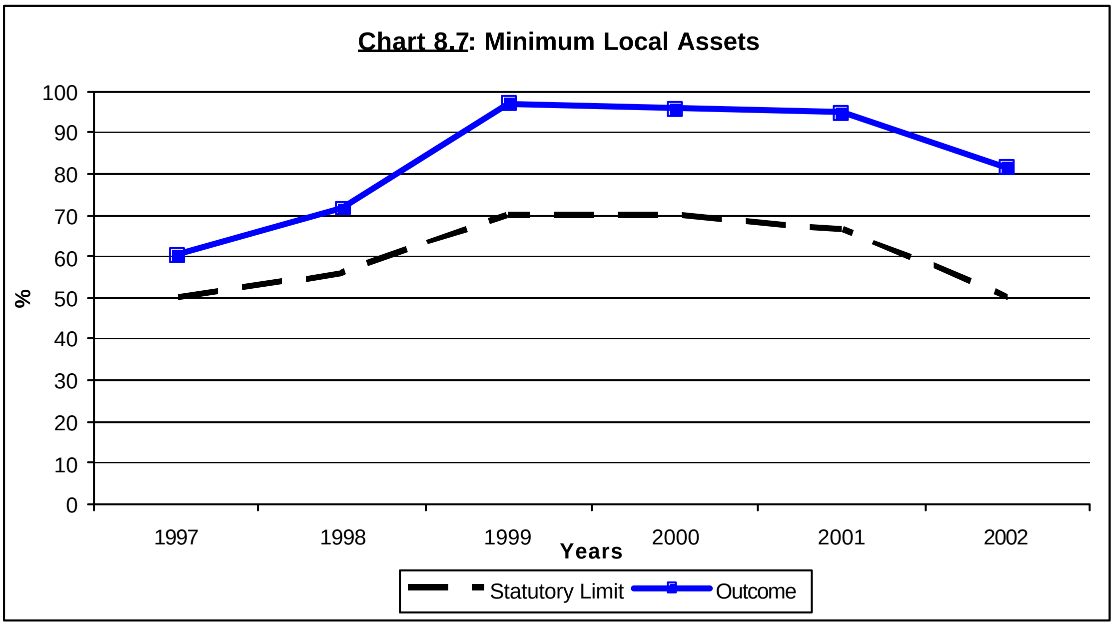
All commercial banks were able to comply with the local assets ratio requirement. The statutory limit was at 50 per cent, with all banks combining to give an actual outcome of 82 per cent *(see Chart 8.7)*.

Table 8.9
Minimum Reserves and Local Assets Ratio;[1] 1997-2002

	1997	1998	1999	2000	2001	2002
			(per cent)			
Minimum reserve requirement						
Statutory limit	20.00	14.62	2.50	2.50	2.50	2.50
Outcome	21.49	21.62	3.56	3.79	4.76	5.70
Minimum local assets						
Statutory limit	50.00	55.83	70.00	70.00	66.54	50.00
Outcome	60.53	71.85	97.11	95.83	95.03	81.50

[1] *Yearly averages of weekly data.*

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



2.3.3 Central Bank advances to commercial banks

The Central Bank offers temporary advances to the commercial banks when they face liquidity shortages. For the year under review, total advances dropped by 68 per cent from R255 million in 2001 to R83 million in 2002 *(see Chart 8.8)*. This reflects the high liquidity position of commercial banks which stems from the fact that no new government papers have been issued to absorb funds from maturing securities.

Total repayments in 2002 stood at R83 million, cancelling out total advances made during the year. The stock of credit for the year was thus a nil balance.

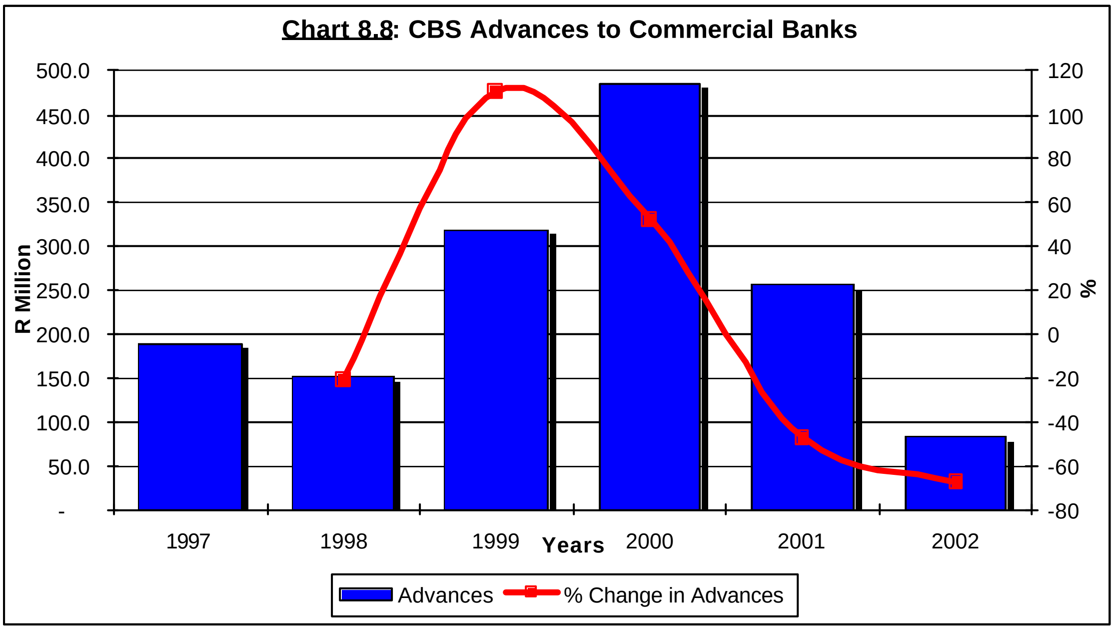


Table 8.10
Temporary Advances against Government Securities; 1997-2002

	1997	1998	1999	2000	2001	2002
			(R million)			
Advances	189.5	151.3	318.0	485.4	254.7	82.5
Repayments	189.5	141.3	328.0	463.4	276.7	82.5
Stock of credit[1]	4.9	3.5	6.6	6.1	4.0	0.0

[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 offer financing to export-oriented and import-substitution industries and is administered by the Bank on behalf of the Ministry of Finance. During 2002, only one line of credit worth R2.0 million was approved by the Ministry of Finance.

A total of R4.0 million advances were given out in 2002, a 14 per cent increase relative to the R3.5 million of 2001. Repayments totalling R4.0 million were also effected during the year. This is shown in *Chart 8.9* below. The decline in advances can be explained by the fact that other financing schemes targeting this economic activity were introduced. Additionally, given that the maturity profile of these advances stands at 5 years, most companies under the scheme were near the completion of their loan repayment. The stock of credit in 2002 stood at R1.9 million, a decline of 14 per cent relative to 2001.

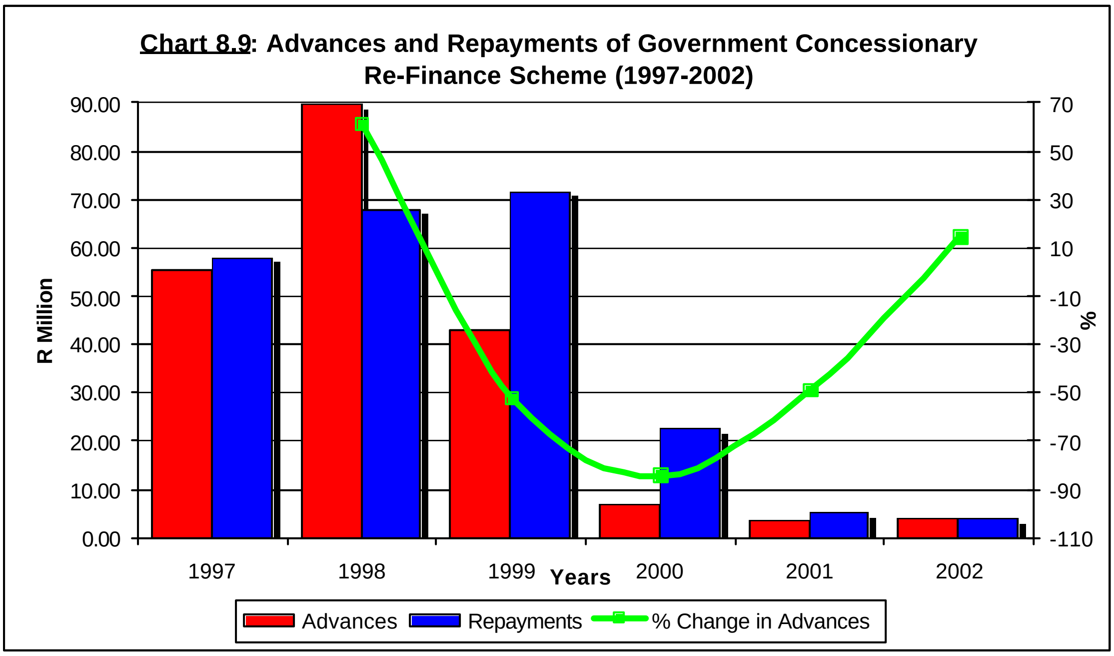


Table 8.11
Government of Seychelles Re-finance Scheme; 1997-2002

	1997	1998	1999	2000	2001	2002
			(R million)			
Stock of credit[1]	**26.1**	**38.4**	**21.3**	**4.9**	**2.2**	**1.9**
Of which:						
Export-oriented:						
Private sector	10.5	23.4	6.3	3.7	2.2	1.9
Public sector	15.7	15.0	15.0	1.3	0.0	0.0
Advances	55.5	89.5	43.1	6.9	3.5	4.0
Repayments	57.7	68.0	71.6	22.6	5.1	4.0

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

2.3.5 Commercial bank advances to non-Seychellois

During 2002, total advances made by commercial banks to non-Seychellois investors and private individual stood at R47 million, which is equivalent to the level in the previous year. The tourism sector remained the main beneficiary of the scheme having R39 million or 84 per cent share of the total financing.

Table 8.12
Commercial Bank Advances to Non-Seychellois;[1] 2000-2002

	2000 Limit	2000 Outstanding	2001 Limit	2001 Outstanding	2002 Limit	2002 Outstanding
	R million	%	R million	%	R million	%
Advances	**20.6**		**46.7**		**46.7**	**100.0**
Tourism	12.8	(61.9)	35.5	(75.8)	39.4	84.4
Wholesale/retail	..	(0.2)	0.2	(0.4)	0.0	0.0
Building and construction	0.2	(0.9)	0.9	(1.9)	0.5	1.1
Manufacturing	0.0	(0.0)	1.2	(2.6)	0.90	1.8
Agriculture	0.0	(0.0)	0.0	(0.0)	0.0	0.0
Fishing	0.2	(1.1)	0.5	(1.2)	0.0	0.0
Real estate	0.0	(0.0)	0.0	(0.0)	0.0	0.0
Individuals & households	1.2	(5.7)	2.0	(4.4)	2.7	5.8
Other businesses	6.2	(30.1)	6.4	(13.8)	3.2	6.9

[1] *End-of-period data*

2.3.6 Commercial bank advances to parastatals

The Central Bank and the Ministry of Finance jointly controls credit offered to parastatal organisations as part of the control on public spending. For the year under review, a limit of R7.5 million was approved. This is compared to the R40 million ceiling of 2001. The balance outstanding continued its decline, standing at R5.2 million, a 50 per cent decline relative to the previous year. It must be noted that the whole amount of R5.2 million worth of credit was to parastatals in the tourism sector.

Table 8.13
Commercial Bank Advances to Parastatals;[1] 2000-2002

	2000 Limit	2000 Out-tanding		2001 Limit	2001 Out-standing		2002 Limit	2002 Out-standing	
	R million		%	R million		%	R million		%
Advances	**44.9**	**20.8**		**40.4**	**10.5**		**7.5**	**5.2**	**(100.0)**
Tourism	11.0	6.9	(33.3)	7.5	6.6	(62.1)	7.5	5.2	(100.0)
Wholesale/retail	0.0	0.0	(0.0)	0.0	0.0	(0.0)	0.0	0.0	(0.0)
Building and construction	30.0	11.8	(56.7)	30.0	3.4	(32.4)	0.0	0.0	(0.0)
Manufacturing	2.5	1.0	(4.7)	2.5	0.4	(4.1)	0.0	0.0	(0.0)
Agriculture	0.4	0.4	(2.1)	0.4	0.1	(1.4)	0.0	0.0	(0.0)
Fishing	1.0	0.7	(3.2)	0.0	0.0	(0.0)	0.0	0.0	(0.0)
Transport	0.0	0.0	(0.0)	0.0	0.0	(0.0)	0.0	0.0	(0.0)
Communications	0.0	0.0	(0.0)	0.0	0.0	(0.0)	0.0	0.0	(0.0)

[1] *End-of-period data*

2.3.7 Advances to wholesale and retail trade

Credit to wholesale and retail traders from commercial banks continued to be monitored by the Bank. As it has been the case in recent years, all activities involved on account of the private sector. At the year ending 31st December 2002, the balance stood at R40.5 million, R3.5 million below the set limit of R44 million.

2.3.8 Banking licences

During the year under review, all existing commercial banks renewed their licences and there were no new banking institutions that became operational.

3. Research and Statistics

For the year under review, the Research and Statistics Division carried out its business of advising Government and the Board of Directors on general economic issues. It is also responsible for the production and publication of the Bank's *Quarterly Reviews* and *Annual Reports*. It also remained the liaison office with international organisations for which the Bank has to provide statistical information on a regular basis.

During the year plans for the restructuring of the Division were mooted and it is expected that the Division is reorganised during the year 2003.

4. Administrative matters

4.1 Higher education, training and courses

Mr Philip Moustache, Bank Supervision Officer, attended a course on Money Laundering which was held in Harare, Zimbabwe during the period July 23rd to 25th 2002.

Mr Alain Chang-Sam resumed duty on the 29th of July, 2002, after successfully completing a four-year Degree course in Economics. He was promoted to the post of Research Officer in the Research and Statistics Division.

Mr Andy Juliette, Senior Banking Supervisor, attended the ESAF Intermediate Training Course which was held in Pretoria, South Africa during the period July 22nd to August 2nd, 2002.

Miss Shirley Mendes, Senior Banking Supervisor, and Miss Sandra Pierre, Bank Clerk, attended a SWIFT Training Programme which was held in Mauritius from August 19th to 21st, 2002.

Mr Terry Adrienne, Public Debt Officer, attended the Public Debt Management Course which was held in South Africa during the period September 10th to 12th, 2002.

Mr Brian Commettant, Research Officer, attended a course on Financial Programming and Policies which was held in Abidjan, Côte D'Ivoire from September 9th to 20th, 2002.

Mr Philip Pierre, Research Officer, attended the SADC T&D forum Monetary Policy Course. This was held in Pretoria, South Africa from October 14th to 16th , 2002.

4.2 Workshop and seminars

Miss Caroline Abel, Senior Research Officer, attended the *Strategic Planning for the Management of Information Resources* course which was held in Mauritius during the period January 21st to 25th, 2002. The objective of the course was to introduce ICT practitioners with advanced methods of planning for ICT utilisation within an organisation.

Mr Phillip Moustache, Bank Supervision Officer, attended a seminar on Anti-Money Laundering Technique for Bank Supervisors which was held in Basel, Switzerland during the period of February 12th to 14th, 2002.

Miss Jennifer Morel, Director General Bank Supervision and Miss Caroline Abel, Director Research attended the ESAF/SADC Bank Supervision Application (BSA) Development Stakeholders Meeting held in Pretoria, South Africa on April 19th, 2002.

Miss Caroline Abel, Director Research, attended the SADC Business Continuity and Disaster Recovery Seminar which was held in Midrand, South Africa, from May 7th to 10th , 2002.

Miss Jennifer Morel, Director General Bank Supervision, attended the Overview of Financial Issues and Analysis Workshop which was held at the World Bank headquarters in Washington DC, during the period May 28th to 31st, 2002.

Mr Patrick Stravens, Monetary and Banking Advisor, attended the SWIFT African Regional Conference which was held in Sun City, South Africa from June 3rd to 6th 2002.

Mr Norman Lucas, Director Banking and Currency Operations, attended a conference on Strategic Directions in Reserves Management for the North African and Sub-Sahara African Region. The conference was held in Paris during the period June 17th to 18th, 2002.

Miss Jennifer Morel, DG Bank Supervision, attended the Imminent Project Review Meeting which was held in Pretoria, South Africa from July 23rd to 24th, 2002.

Miss Dorotha Michel, Research Officer, attended the IFC Conference: Challenges to Central Bank Statistical Activities which was held in Basel, Switzerland during the period August 20th to 22nd 2002.

Miss Shirley Mendes attended the SADC-BIS Seminar: Central Bank Surveillance of the Functioning of Financial Markets which was held in Pretoria, South Africa from August 28th to 30th, 2002.

Miss Jennifer Morel, DG Bank Supervision and Mr Alain Chang-Sam, Research Officer, attended the 3rd Project Review Meeting of the Bank Supervision Application project, which was held in Pretoria, South Africa from October 21st to 23rd, 2002.

Miss Guyliane Joubert, Bank Supervisor Officer, attended the ESAF Regional Workshop which was held in Livingstone, Zambia from October 28th to November 1st, 2002.

Miss Caroline Abel, Director of Research, attended the IT Forum Workshop which was held in Pretoria, South Africa between November 18th and 24th, 2002.

Mr Alain Chang-Sam, Research Officer, attended a workshop on Banking and Finance: Issues and Policies. This was held in Malta during the period December 2nd to 13th, 2002.

4.3 Appointment

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

5. Board of Directors

During the year 2002, the board of Directors held six meetings. The Board comprises of Mr Francis Chang-Leng, Governor, who is the chairman, Mr Erol Dias, as a Director, Mr Francis Chang-Sam, as a Director, Dr Peter Larose as the General Manager of the Central Bank and Mr Jean-Claude D'offay as Secretary to the Board.