GOVERNMENT OF SEYCHELLES
Debt Management Strategy:

For the years 2016 - 2018

Ministry of Finance, Trade & The Blue Economy
Republic of Seychelles
December 2015

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1. INTRODUCTION

The Government of Seychelles's Debt Management Strategy (DMS) provides details of the Government's plans for managing Government and Government guaranteed debt over the medium term. It is prepared in compliance with international best practices in debt management and the requirements of the Public Debt Management Act of December 2008 (amended in 2009 and 2012).

The DMS aims at determining the most effective debt management strategies for achieving the desired future debt structure based on cost and risk considerations in line with other macroeconomic policies.

This strategy document gives an overview of the debt profile. It will be followed by the goals and strategies for the 2016-2018 period and conclude with the borrowing plan for 2016 whilst taking the fiscal balances into account.

PART I

Part I covers the objectives, scope and the legal framework for the MTDS. It also describes the role of debt management in the macro economic framework and provides a historical overview of the debt structure.

2. DEBT MANAGEMENT OBJECTIVE

The government's primary debt management objective is founded on international best practice for debt management. The framework is one that is recommended by the IMF, World Bank and other international institutions. The government's primary management objective is defined as follows;

"To ensure that the Government's financing needs and payment obligations are met on a timely basis, and at the lowest possible cost, consistent with a prudent degree of risk."

3. GOALS FOR DEBT MANAGEMENT

In order to achieve the primary debt management objective, for the years 2016 to 2018, the goals listed in Box 1 will be undertaken.

Box 1: Debt Management Goals

- Work towards an optimum structure for public debt that minimizes cost and risks, including currency mismatch, adverse movement in interest rates, refinancing and operational risks.
- Limit public borrowing to an amount that is consistent with the country's medium-term payment capacity assessed from both a fiscal and balance-of-payments perspective.
- Ensure that the fiscal and monetary authorities are aware of the impact of government's financing requirements and monetary policies on the levels and the rate of growth of public debt.
- Assist towards the development of the domestic financial market.

4. SCOPE OF THE DMS

The 2016-2018 strategy will look at total public debt which is defined as the total Government and Government guaranteed liabilities that require payment of principal and/or interest to external and domestic creditors.

The strategy will focus on market risks and re-financing risks. It covers the period from 2016 – 2018 and encompasses the current outstanding debt stock (as of end September 2015). Consideration will also be given to the liabilities of the public sector, future borrowing needs and funding sources.

5. LEGAL AND INSTITUTIONAL FRAMEWORK

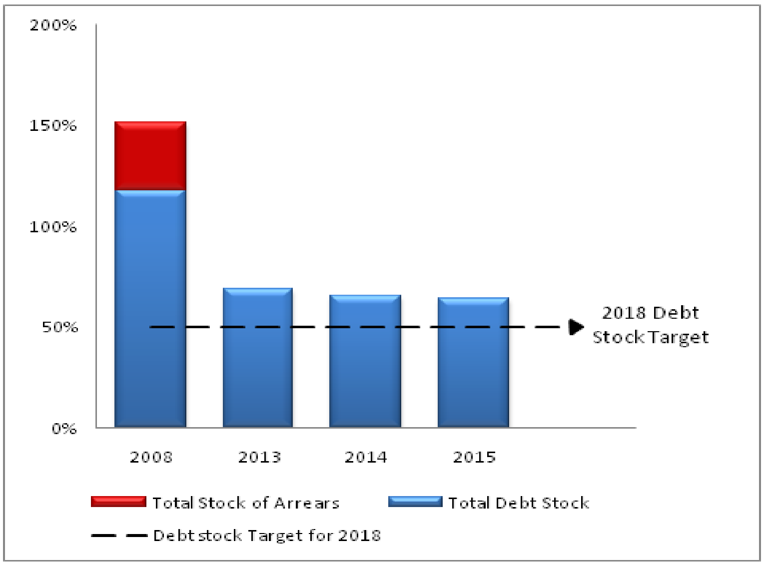
The primary responsibility of debt management lies with the Public Debt Section at the Ministry of Finance, Trade and The Blue Economy. This Section is responsible for managing Government and Government-guaranteed debt as well as monitoring all non-guaranteed public enterprise debt. Public debt management in Seychelles is regulated by the Public Debt Management Act of December 2008 (amended in 2009 and 2012).

6. EVOLUTION OF DEBT

The government's comprehensive 2008 economic reform and debt restructuring programme implemented with the support of the International Monetary Fund (IMF), the World Bank and other national and international institutions has successfully reduced and transformed the public debt over the years.

In terms of GDP, the total debt stock has been maintained on a downward trend without any accumulation of arrears. As at the end of September 2015, the total debt stock accounted for about 64% of GDP as can be seen in Figure 1. The government will endeavor to achieve a Debt to GDP ratio of 50% by 2018.

FIGURE 1: TOTAL PUBLIC DEBT STOCK AS A PERCENTAGE OF GDP FOR SELECTED YEARS



Source: MOFTBE

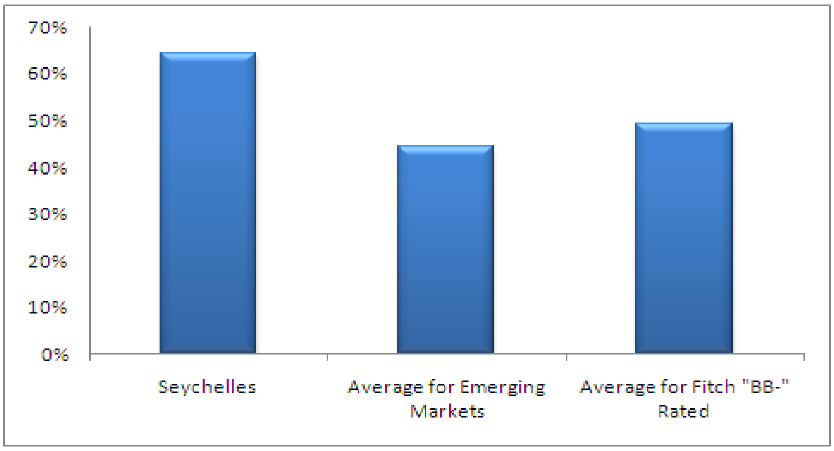
PART II

This section gives an overview of the current debt profile. It provides an analysis of possible risks to the portfolio, the volatility of the risk factors and the exposure to these risks. This will provide clues as to whether the existing cost and risk structures are satisfactory or what needs to be changed. It will also enable the identification of which risks are more pertinent.

7. OVERVIEW OF EXISTING DEBT

The total government and government guaranteed debt stock stood at SR 12,556.87 million or 64% of GDP at the end of September 2015. In terms of GDP this represents a 1% fall from the 2014 level. In spite of this, the debt to GDP ratio is still relatively high in comparison to that of emerging markets countries and the average of countries with a “BB-” Fitch rating as illustrated Figure 2. The government’s target of 50% debt to GDP ratio by 2018 will contribute towards bringing debts levels closer to that of its peers.

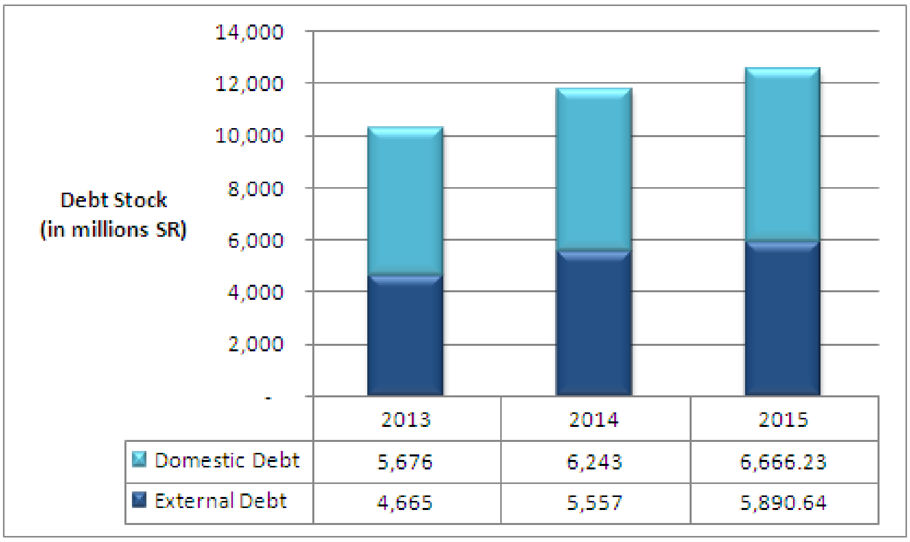
FIGURE 2: 2014 PUBLIC DEBT TO GDP - PEER COMPARISON



Source: IMF World Economic Outlook Database

The total debt stock comprised of SR 5,890.64 million (i.e. 47%) of external debt and SR 6,666.23 million (i.e. 53%) of domestic debt (Figure 3).

FIGURE 3: COMPOSITION OF TOTAL PUBLIC DEBT



Source: MOFTBE

8. EXTERNAL DEBT PROFILE

The external debt is defined as the outstanding amount of those actual current liabilities that require payment(s) of principal and/or interest by the debtor at some point(s) in the future and that are owed to non residents by residents of an economy.

The external debt stock at the end of September 2015 stood at SR 5,890.64 million (i.e. USD 449.61 million). The external debt stock also represents about 30.15% of GDP.

The total external debt stock is made of SR 3,617.50 million in loans and SR 2,273.14 million in securities, with loans accounting for the largest share (61.41%) of the total external debt stock. The USD 169 million (SR 2,212.78 million) external bond due in 2026 is the main component of Securities.

FIGURE 4: EXTERNAL DEBT BY INSTRUMENT TYPE

	2015 *(In Millions SCR)*	*%*
Loans	3,617.50	61.41
Securities	2,273.14	38.59
Total Debt	**5,890.64**	**100**

Source: MOFTBE

As noted in Figure 5, private debt are the largest group of creditors within the external portfolio, making up about 38% of the external creditors. Multilateral and bilateral creditors make up about 26% of the external debt stock each. Paris club creditors account for most (i.e. 59%) of the total bilateral debts. Commercial banks account for about 11% of the external debt stock.

FIGURE 5: EXTERNAL DEBT CREDITOR COMPOSITION

	2015 External Debt Stock (in Millions SR)	**%**
Multilateral	1,536.28	26.1
Bilateral *of which;*	1,507.14	25.6
Paris Club	*891.26*	15.1
Non-Paris Club	*615.89*	10.5
Commercial Banks	632.80	10.7
Private	2,214.42	37.6
TOTAL	**5,890.64**	**100**

Source: MOFTBE

9. DOMESTIC DEBT PROFILE

The Domestic Debt is defined as debt liabilities owed by residents to residents of same economy. The total domestic debt stock as at the end of September 2015 was equivalent to SR 6,666.23 million representing a 6.8% increase from the 2014 level. The increase was mainly attributed to increased issuance of Treasury Bills. As shown in figure 6 below, treasury bills accounts for most (i.e. 69.5%) of the total domestic debt stock. Hence, securities account for the largest share (about 86.5%) of the domestic portfolio. Loans and other debt liabilities account for about 12% and 2% of the portfolio respectively.

FIGURE 6: DOMESTIC DEBT BY INSTRUMENT TYPE

	2015 (In Millions SR)	%
Loans	796.85	12.0
Securities *of which;*	5,764.86	86.5
Treasury Bills	*4,629.86*	*69.5*
Treasury Bonds	*901.01*	*13.5*
Stocks	*30.00*	*0.5*
Deposits	*33.71*	*0.5*
Notes	*170.28*	*2.6*
Other Debt Liabilities	104.51	1.6
Total Debt	**6,666.23**	**100.0**

Source: MOFTBE

Although gross domestic debt stock showed an overall increase in 2015, net domestic debt which is domestic debt for fiscal purposes only, accounts for 57% of the total domestic debt stock. A significant 43% of total domestic debt are for monetary purposes. These include both Treasury Bills and Treasury Bonds, which are used by the Central Bank to sterilize their foreign exchange interventions.

10. RISK INDICATORS

Sound risk management, institutional and debt structures are important elements in reducing exposures to risks such as interest risks, currency risks, liquidity risks and other risks. Some key risk indicators for the current portfolio is given in Figure 7 below.

FIGURE 7: RISK INDICATOR

Risk Indicators		External debt	Domestic debt	Total debt
Refinancing risk	ATM (years)	7.1	3.3	5.6
	Debt maturing in 1yr (% of total)	6.3	65.3	29.7
Interest rate risk	ATR (years)	4.7	1.3	3.3
	Debt re-fixing in 1yr (% of total)	33.8	80.8	52.4
	Fixed rate debt (% of total)	70.1	83.8	75.5

Refinancing Risks

Measures of refinancing risks include; the Average Time to Maturity (ATM), the debt redemption profile and the percentage of debt maturing in one year.

a. Average Time to Maturity

The Average Time to Maturity (ATM) measures the weighted average length of time the debt will mature on the portfolio. The average life of the total debt portfolio is about 6 years indicating moderate risks. The ATM for the external debt is about 7 years and 3 years for the domestic debt. In order to minimize the risks associated with the low ATM on the domestic debt, the government will continue with its efforts to lengthen maturities of the domestic debt.

b. The Redemption Profile

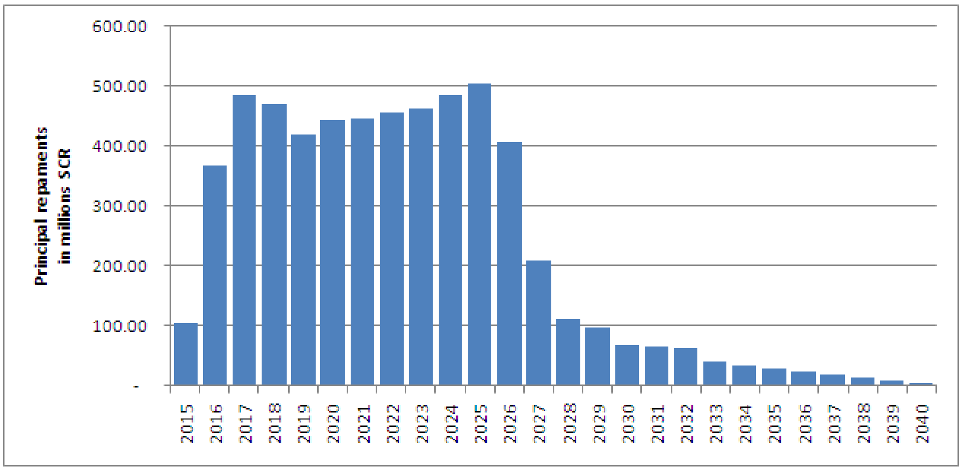
The debt maturity profile (i.e. redemption profile) gives an indication of the rollover or refinancing risk associated with the debt portfolio by looking at the amount of debt maturing each year until the end of the portfolio's life. Figures 7 and 8 show the external and domestic debt redemption profile for 2015-2040.

i) External Debt Redemption

The external debt redemption profile shows rather low refinancing risk with only 6.3% of the total debt stock maturing within one year.

As can be seen in Figure 8, during the fourth quarter of 2015 about SR105 million of external debt will be repaid. Debt repayment is expected to increase by about 32%, from 2016-2017 after which it is expected to fall gradually until 2019. The years 2019-2025 will be characterized by another gradual rise in debt repayments. A reduction in debt repayment is expected from 2025 up to 2040.

FIGURE 8: EXTERNAL DEBT REDEMPTION 2015-2040

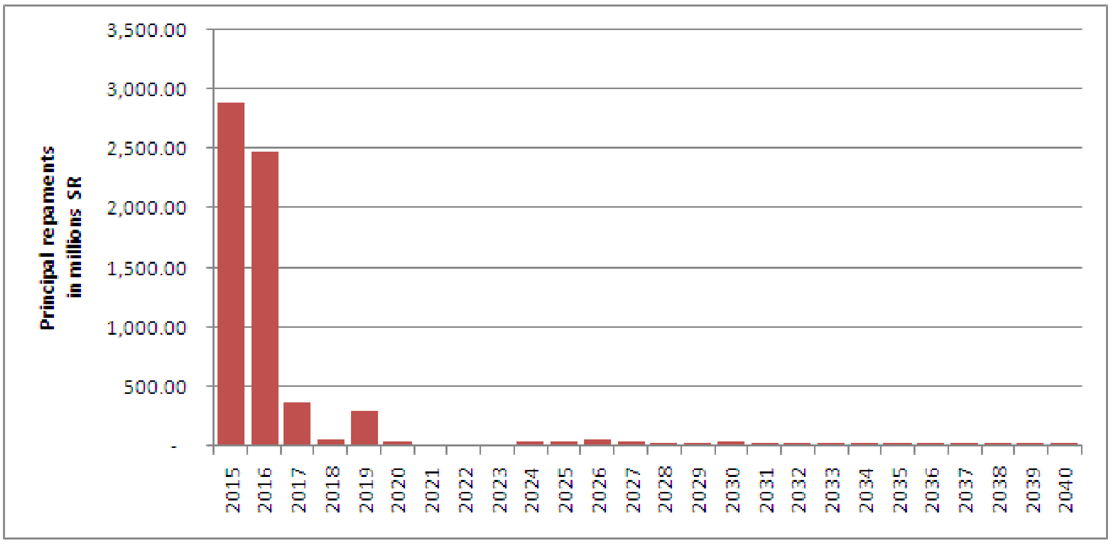


Source: MOFTBE

ii) Domestic Debt Redemption

The domestic debt redemption profile shown in Figure 9 indicates a high refinancing risk in view that about 65% of the domestic debt will be maturing within the next year. This indicates a high possibility of having to refinance a large proportion of the debt at a higher cost. This has been mostly attributed to the domestic market's preference for instruments with short-term maturity.

FIGURE 9: DOMESTIC DEBT REDEMPTION



Source: MOFTBE

Interest Rate Risks

Interest rate risks indicators include the Average Time to Re-Fixing (ATR), the share of debt subject to interest reset within the next year and the share of fixed interest rate debt within the portfolio.

a. Average Time to Re-fixing

The Average Time to Re-fixing (ATR) is a measure of weighted average time until all the principal payments in the debt portfolio become subject to a new interest rate. It will take an average 3 years for the interest rate to re-set on the total portfolio. About 52% of the total debt portfolio will be subject to interest rate re-fixing within the next year.

Figure 7 also indicate that it will take about 5 years for interest to re-set on the external portfolio and 1 year to re-set on the domestic portfolio. In addition about 34% of the external debt portfolio will be subject to interest rate re-fixing within one year in comparison with 81% on the domestic portfolio. This again indicates moderate interest rate risk on the external portfolio but relatively high interest rate risk on the domestic portfolio.

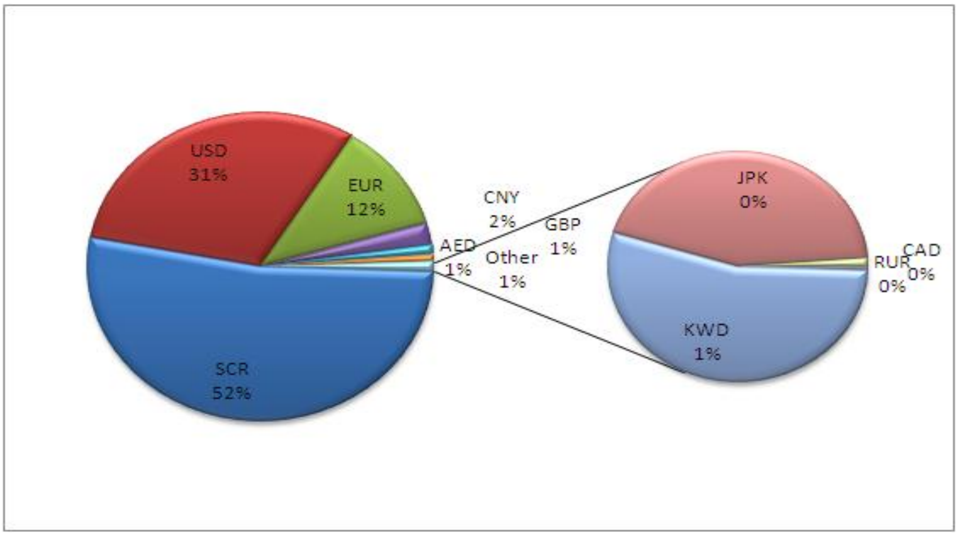
b. Fixed Rate Debt

The share of fixed to floating rate debt provides an indication of exposure of the debt portfolio to interest rate risk. About 80% of the total portfolio is subject to fixed interest rate indicating low exposure to risks associated with interest rate fluctuations. About 70% of the external debt is subject to fixed interest rate whilst 84% of the domestic debt is subject to fixed interest rate.

Foreign Exchange Risks

The currency composition provides an overall indication of the foreign exchange rate risks to the portfolios. As can be seen in Figure 10, 52% of the total debt portfolio is denominated in the local currency indicating low foreign exchange rate risks. The United States Dollar (USD) and Euro's are the second and third largest currency components of the total portfolio, accounting for 31% and 12% of the total debt portfolio respectively.

FIGURE 10: CURRENCY COMPOSITION



Source: MOFTBE

The six other currencies and their share of the debt stock are presented in Figure 11 below.

FIGURE 11: CURRENCY COMPOSITION

Currencies	United Arab Emirates Dirham (AED)	Canadian Dollar (CAD)	Chinese Yuan (CNY)	Great Britain Pound (GBP)	Japanese Yen (JPK)	Kuwaiti Dinar (KWD)	Russian Ruble (RUR)
% of Debt Stock	0.710	0.013	2.380	0.954	0.461	0.566	0.004

Source: MOFTBE

11. GOVERNMENT GUARANTEES

Publicly guaranteed debt is defined as debt liabilities of public sector units, the servicing of which is contractually guaranteed by Government. As illustrated in Figure 12, government guaranteed debt amounted to SR376.19 million equivalents to 3% of the total debt stock and 1.93% of GDP at 30th September 2015. Most of the guaranteed were domestic (2.30%) whilst 0.69% was external.

FIGURE 12: PUBLICLY GUARANTEED DEBT

	Stock of Guarantees *(in millions SR)*	% of Total Stock	% of GDP
External	87.02	0.69	0.45
Domestic	289.17	2.30	1.48
Total Guarantees	**376.19**	**3.00**	**1.93**

Source: MOFTBE

12. RECENT DEVELOPMENTS

12.1 Debt Swap Initiative

On 25th February 2015, Seychelles finalized an agreement to exchange its debts for Marine Conservation and adaptation to climate change financing with its Paris Club Creditors and South Africa. About US$ 30 million debts at face value were eligible for this exchange. Participation in this exchange were voluntary and from the outset, several creditors announced their intention to participate representing 91% of the eligible debt. In November 2015, agreements for the debt swap were signed with France, Italy and Belgium. Agreements with the United Kingdom and South Africa are expected to be signed soon.

This initiative require the government to buy back the eligible debt at a discount from its Paris Club creditors and subsequently issue new local currency debts to the Seychelles Conservation and Climate Adaptation Trust (SeyCCAT).

In terms of the debt structure, the buyback is expected to lead to a reduction in the proportion of foreign dominated debt within the portfolio, thereby reducing the exposure to foreign currency risks.

12.2 New Loans contracted in 2015

By the third quarter of 2015, only one loan amounting to USD20.6 million for the Mahé sustainable Water Augmentation Project has been contracted with the African Development Bank. A guarantee was issued to the Development Bank of Seychelles amounting to SR75 million to finance loans to the productive sector of the Seychelles economy.

Loans expected to be contracted by the fourth quarter of 2015 includes; a USD 10 million loan with the African Development Bank for the Inclusive Private Sector Development and Competitiveness Programme and a USD 5 million loan with the World Bank for Sustaining Reforms for Inclusive Growth Development Policy.

PART III

Part III looks at the environment for debt management and followed by the debt management framework and strategy.

13. THE ENVIRONMENT FOR DEBT MANAGEMENT

13.1 The Fiscal Sector

The government's fiscal policy during 2016-2018 will continue to support the debt management objectives which includes; adopting prudent borrowing practices, meeting all repayment obligations on a timely basis, adopting credible fiscal strategies to ensure that the current and projected levels of public sector indebtedness remains on a sustainable path. Fiscal Policy during the 2016-2018 period will maintain the primary fiscal surplus at an average of about 3.8% of GDP per year.

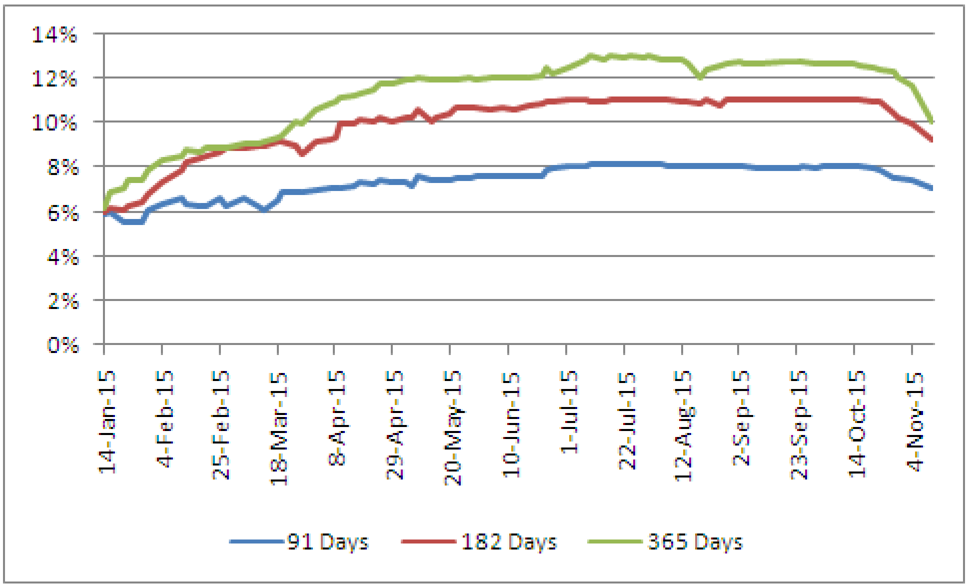
All of these measures are geared towards achieving the government's target of reducing its debt to GDP ratio to 50% by 2018.

13.2 Monetary Sector

The links between debt management and monetary policy cannot be understated. These links are related to the choices governments face as to how to satisfy its financing need and manage the daily liquidity flows between the government and the banking system that arise from the government's financial transactions. As such, the issuance of securities for monetary policy purposes continues to place constraints on the total debt portfolio, calling for intensification of corporation between the Central Bank and the Ministry of finance, Trade and the Blue Economy.

Interest rate on Treasury Bills for all three maturities was on an upward trend throughout the first quarter of 2015. However, it stabilized during the third quarter before reducing in the beginning of the fourth quarter. The trends in the interest rate on treasury bills are shown in Figure 13.

FIGURE 13: INTEREST RATE ON TREASURY BILLS

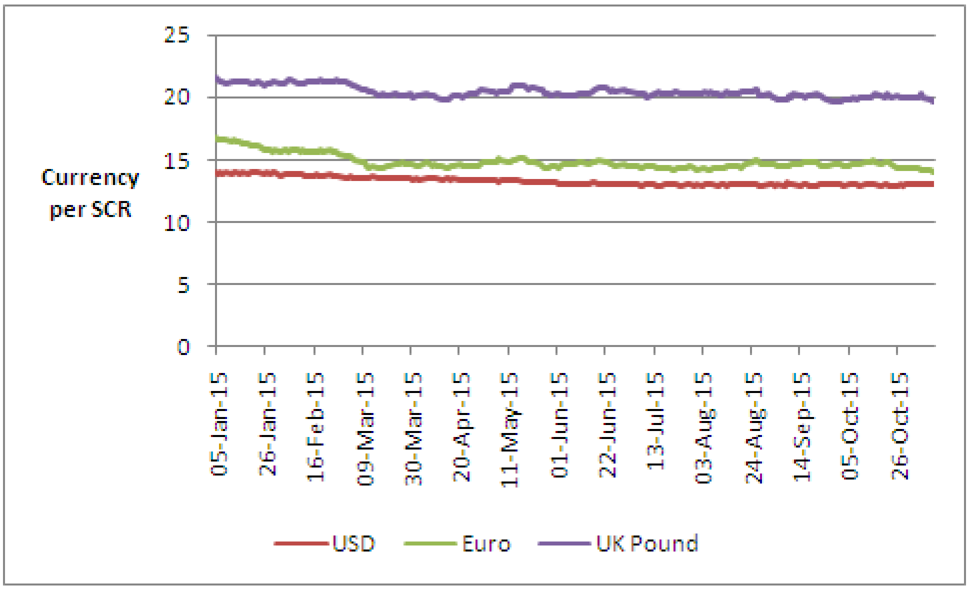


Source: CBS

13.3 The External Sector

The exchange rate policy and consequent developments in the real exchange rate have consequences for the debt strategy. In spite of a small appreciation of the Seychelles Rupee against the Euro and the UK pound during the first quarter of 2015. The exchange rate has been rather stable for most of the year as can be seen in Figure 14. This has helped to keep constant the cost of servicing debt denominated in these currencies.

FIGURE 14: FOREIGN EXCHANGE RATES



Source: CBS

13.4 The Real Sector

Despite the uneven forecasts across main countries and regions, the Seychelles economy has remained resilient in 2015. This has been strongly driven by activities in the Tourism sector. Visitor arrivals have grown by double digit throughout the year and will surely set a new total record by the end of the year. Growth has also been reinforced by positive outlook in the 'Information and Communication', 'Manufacturing of beverages and Tobacco' and 'Financial and Insurance services'. With the continuous strong performances in the aforementioned sectors and more favourable outlook in the 'Wholesale and Retail' sector, growth for 2015 is now anticipated to reach to up 4.3 per cent.

Following the strong performance this year, activities are expected to be less buoyant in 2016. It is estimated that the economy will grow by 3.3 per cent. Modest growth is estimated in the tourism sector after the high 2015 base. Similar pattern is expected in the 'Information and Communication' and 'Financial and Insurance services'. Growth will be driven by the Fishing sector and 'Manufacture of Food'- primarily in the canned tuna production- based on the continuous emphasis on the Blue Economy concept.

14. THE DMS FRAMEWORK

This Debt Management Strategy has been developed using the World Bank and IMF MTDS framework. The Analytical tool provides a generic template for quantitative analysis of costs and risks of borrowing strategies. It helps guides the following choices;

- Concessional / semi-concessional / commercial
- Currency composition
- Short- and long term maturities
- Variable and fixed rate debt

14.1 DMS 2016-2018

Alternative Strategies

Strategy 1 (S1)

In line with the Seychelles recent borrowing trends, this strategy places emphasis on gradually lengthening the maturity of the domestic debt portfolio. In the case of external debt side, the aim is to borrow more from multilateral creditors with a greater emphasis on fixed rates. This strategy assumes that more domestic debt will be contracted instead of external debt.

Strategy 2 (S2)

For this strategy, the assumption is that we will borrow domestically only with greater emphasis on short term treasury bills at variable rates. The majority of domestic securities is for commercial borrowings.

Strategy 3 (S3)

As opposed to strategy S2, this strategy assumes that borrowings will be more external only, with greater emphasis on commercial borrowings. For the cost of borrowing it is also assumed that there will be equal proportions of fixed and variable interest rates.

Strategy 4 (S4)

The fourth strategy is one equal mix of domestic borrowings for both variable and fixed rates and similarly the same mix for external borrowing for both variable and fixed rates. The strategy also assumes an equal percentage of domestic and external borrowings.

Analysis of the Alternative Strategies

Of the four proposed strategies, S1 and S4 appear better in terms of cost and risks.
These two strategies are focused on external borrowings at favourable terms and domestic lengthening of maturities. There is also a mix of variable and fixed rates. Whilst having fixed rates on the debt portfolio will minimise interest rate risks, the current libor rates are low, hence also beneficial in terms of costs. The strategies S2 and S3 are considered not suitable for Seychelles in the medium term since borrowing costs are high with a greater degree of risks.

The conclusion from the output strategies could be that we should continue maximizing concessional borrowings and gradually extend maturities on the domestic debt. This will be a combination of S1 and S4.

Figure 15: Debt to GDP as end 2019

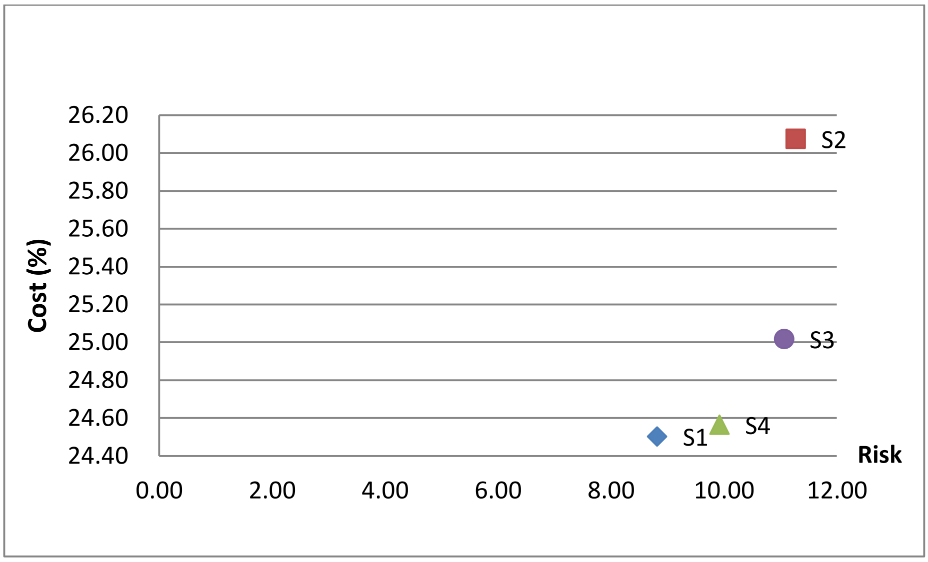
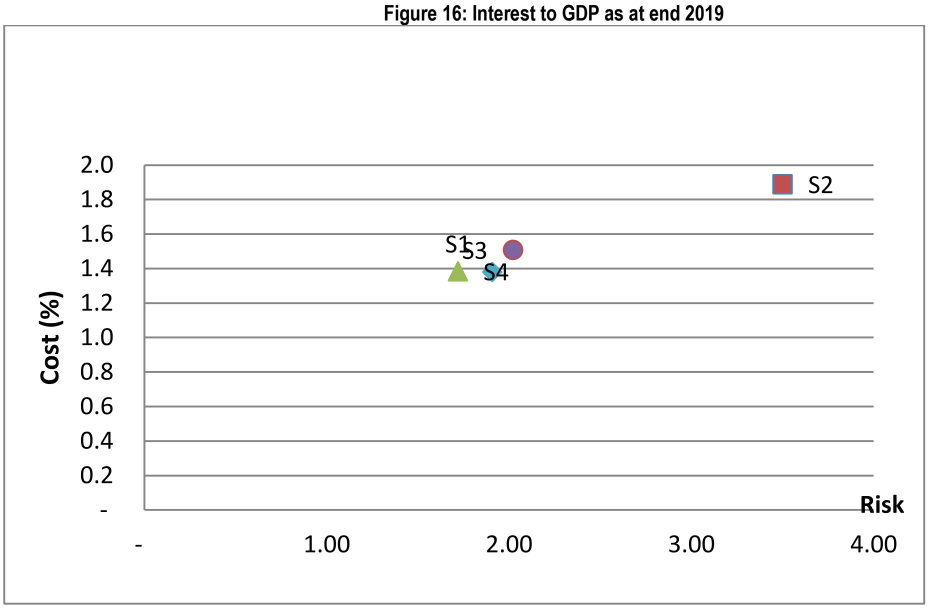


Figure 16: Interest to GDP as at end 2019



ANNEX: 2016 BORROWING PLAN

According to the Government's latest projections, an overall balance of SR18 million (US$1.4 million) is forecasted on a cash basis for 2016. The Government's overall indebtedness in net terms will be reduced by SR22 million. Long-term leases will provide SR40 million in financing. Concessional external debt being raised for projects will result in a net increase of external debt of SR269 million. The Government will repay domestic debt of SR291 million in net terms.

Figure 17: Overall Financing

	US$ million	SR million
Total Financing (overall budget deficit)	**1.4**	**18**
Foreign financing, net	20	269
Domestic financing, net	22	-291
Privatisation and long-term leases	2.9	40

External Debt

Requirements

The gross external borrowing requirement is forecasted to be approximately US$48 million in 2016, in line with the target under the Government's IMF supported programme, to be used primarily for budget support and project loans.

Sources

The borrowing requirement will be filled with long-term financing from multilateral and bilateral development institutional sources. Specifically, the World Bank will provide disbursements under programme loans; BADEA, OFID, Kuwait Fund, IFAD, AFD, EIB and Saudi Fund will provide concessional borrowing for project loans. Net foreign financing is expected to be SR269million, with scheduled foreign debt repayments of SR367million (US$27million) compensated for by disbursements of loans of SR636million (US$48million).

Figure 18: External Net Financing

	US$ million	SR million
Foreign financing, net	**20**	**269.0**
Total Borrowing	**48**	**636.2**
Program Loans	20	267.0
Project Loans	28	369.2
Perseverance Social Service (Badea)	1.1	13.9
PerseveranceSocial Service (Ofid)	0.9	12.5
Agriculture Development (IFAD)	1.2	16.0
Health Information system (India)	2.0	26.9
India Line of credit	1.7	23.4
Agriculture/Horticulture school (Kuwait Fund)	1.0	13.3
Perseverance Infrastructure Phase II (Badea/Ofid)	2.8	36.9
Procurement Primary school/creche (Kuwait Fund)	0.8	10.4
La Rosiere School (Kuwait Fund)	0.3	4.5
PUCProjects (EIB/AFD)	7.6	99.9
PUC 33kv (Badea/Saudi Fund)	8.5	111.3
Total Amortisations	**27**	**367.2**

Domestic Debt

Requirements

Under the current expectations for the overall balance, foreign financing, and privatisation, total domestic public debt would be reduced by approximately SR291 million in net terms in 2016.

Sources

Gross domestic debt issued would total approximately SR4.6 billion in the form of T-bills sold at auction. The Government would retire approximately SR4.9 billion of domestic debt as it matures, as follows:

Figure 19: Domestic Net Financing

Domestic Debt Financing Table	SR million
Gross Issuance	**4,650.8**
Gross Retirements	**-4,941.4**
**T-Bills Stock*	-4.629.9
91 day bills	-248.9
182 day bills	-751.3
365 day bills	-3,629.7
Bond Maturities	-202.0
4% two year bond	-200.0
8% ten year bond	2.0
Loans from Commercial Banks	-109.5
Net Domestic Issuance	**-290.6**

**Outstanding stocks are as at September 2015*