FY 2022

Annual Borrowing Plan

MINISTRY OF FINANCE, NATIONAL PLANNING AND TRADE

DEBT MANAGEMENT OFFICE

Contents

Introduction 2
Economic Outlook 3
Borrowing Requirements 5
Financing Plan 6
  External 7
    Loans 7
    Project Loans 8
  Domestic 9
    Treasury Bills 10
    Treasury Bonds 10
    Loans 10
  Debt stock composition 11
Conclusion 13

Introduction

The 2022 Annual Borrowing Plan (ABP) is prepared in accordance to the Public Debt Management Act section 29, which requires the Debt Management Office of the Ministry of Finance to prepare and publish an ABP. The ABP describes how the annual financing needs will be met during the budget year. It has been developed in accordance with the targets and benchmark indicators of the Medium-Term Debt Management Strategy (MTDS) and is based on the macroeconomic and fiscal frameworks presented in the 2022 Revised Budget. The MTDS determines the proportions of different instruments to be used during the implementation of the strategy and the ABP turns these, in line with the annual financing needs, into nominal values, keeping into account the short-term macroeconomic outlook and market dynamics.

As the Government entered on the IMF reform program in 2021, it was important to revisit its Annual Borrowing Plan and update it with the aim of being more informative and to promote transparency and predictability of debt management operations. This facilitates sharing of information with other stakeholders (monetary policy, budget execution, cash management) for macroeconomic management, and enables investors to better plan their investments.

By publishing the ABP, the Debt Management Office ensures that the Government financing needs are met on a timely basis, borrowing is done at the lowest possible cost with prudent degree of risk and additionally, enhance predictability of government borrowing and helps promote the development of the domestic market.

The plan will be complemented by the quarterly issuance calendar for government securities, which provides indication of the domestic borrowing operations of the Government over the fiscal year, the instruments to be issued and indicative timing of such borrowings.

It is crucial to note that the ABP has been prepared in consideration of the forecasted financing needs of the Government using the best information available at the time of publication. The estimates are based on a range of economic and other parameters hence there may be the need to revise the ABP.

Economic Outlook

As part of the mid-year budget review, Seychelles' real GDP growth for 2022 has been revised upwards by 3.7 percentage points to 10.8%. This mainly results from the upward revision of the 2022 tourism arrivals growth estimate to 75% in light of the surge in tourism arrivals over the first half of the year, surpassing the 2021 total tourism arrivals figure by July 2022. This positive performance translated into a rise in tourism earnings, and is expected to contribute towards improved balance of payments projections for 2022 compared to 2021, despite the increased international commodity prices in 2022. As for the value of the domestic currency, an appreciating trend was observed from January to July 2022.

Inflation have been moderate over the first half of the year in comparison to same period last year with a slight uptick in average prices of goods and services in July 2022. The year-on-year inflation rate in July 2022 stood at 3.5% as compared to 7.9% in December 2021. The inflation outlook for the rest of the year is expected to be contingent on the repercussions of the geopolitical tensions associated with the war between Russia and Ukraine as well as the movements in the domestic currency against its main trading partners. The monetary policy stance remained accommodative for the first three quarters of 2022, a stance that was unchanged since the second quarter of 2020. In line with the accommodative stance, market interest rates have continued to decline. As at July, the yield on T-bills stood at 0.94% on the 91-day T-bills, 1.47% on the 182-day T-bills and 2.17% on the 365-day T-bills. In relation to the outcome for end-2021, this was an increase of 54 basis points and 90 basis points in the yield on the 91-day T-bills and 182-day T-bills, correspondingly, whereas on the 365-day T-bills, the return grew by 1.2 percentage points. The domestic yield is expected to remain supportive in view of the abundant liquidity and weak private credit demand. On the external side, yields on the outstanding international bond have compressed significantly.

For the fiscal year 2022, the Government recognizes the strong rebound in the economy since the pandemic and remains committed towards the fiscal effort required to return to pre-COVID levels. Compared to the initial Budget, the primary deficit has been revised from -0.8% to -0.9% of GDP, amounting to a SCR 256m deficit in level terms. The overall budget deficit for 2022 is forecasted at 3.1% of GDP, equivalent to SCR 884m. The table below shows a snap shot of the revised key economic indicators for 2022 in comparison to 2021.

Table 1: Selected Economic Indicators

	2021	2022
National income and prices		
Nominal GDP (millions of Seychelles rupees)	24,611	28,082
Real GDP growth	7.9	10.82
CPI (annual average)	9.8	3.9
Government Budget (% GDP)		
Total revenue, including grants	34	33.1
Expenditure and net lending	40	36.2
Overall balance	-6	-3.1
Primary balance (accrual basis), including grants	-3	-0.9
External sector (USD'm, unless otherwise indicated)		
Current account balance including official transfers	-154	-134
Gross official reserves (USD'm)	702	624
In months of imports, c.i.f.	3.7	3.1
Total debt outstanding (% of GDP)	**76.8**	**69.6**
Total debt outstanding (SR'm)	18,901	19,545
Domestic debt (% of GDP)	42.4	37
External debt (% of GDP)	34.4	32.6

Source: Mid-Year Economic and Fiscal Outlook, 2022

Borrowing Requirements

Gross and net financing needs are the basis of the ABP: Net Financing Needs (NFN) contain only the primary balance (deficit) and the interest payments; Gross Financing Needs (GFN) also take account of the maturing public debt, which needs refinancing in the given year.[1] According to the latest projections, the GFN for 2022 amounts to SCR 3,919m, equivalent to 14% of GDP compared to 32% in 2021. The lower GFN in 2022 is mainly due to continued fiscal consolidation, lower domestic amortization ensuing from reduction of T-Bills stock in 2021 and lower external debt amortization due to the continued exchange rate appreciation of the Seychelles rupee. Taking into consideration of the amortization over the period, this is translated into a lower NFN of only SCR 884m or 3.1% of GDP in 2022 compared to SCR 1,382m, or 5.6% in 2021. **Table 2** below summarizes the financing requirements for 2022 in comparison with 2021. In order to meet its financing needs, the Government intends to seek funds from both foreign and domestic sources.

Table 2: Financing requirements (2021 vs 2022)

Description	SCR' M		% of GDP	
	2021	2022	2021	2022
Primary balance	**-643**	**-265**	**-2.6**	**-0.9**
Interest payments	**-739**	**-628**	**-3.0**	**-2.2**
o/w Domestic	-480	-428	-2.0	-1.5
External	-259	-200	-1.1	-0.7
Net Financing Needs	**-1,382**	**-884**	**-5.6**	**-3.1**
Amortization	**-6,685**	**-3,035**	-27.2	**-10.8**
o/w Domestic	-6,047	-2,497	-24.6	-8.9
External	-638	-538	-2.6	-1.9
Gross Financing Needs	**-8,067**	**-3,919**	**-32.8**	**-14.0**

Source: MoFNPT, Debt Management Office

The Government's financing plan for 2022 is reflective of the debt management strategy adopted with greater focus on concessional multilateral financing to minimize cost of borrowings and domestic bond issuance aimed at domestic market development. As illustrated on **Table 2** above, gross redemptions in 2022 amounts to SCR 3.0bn, which is dominated by T-bills redemptions. The optimal stock of T-bills in circulation would be an important consideration for the ABP while aiming to continue reducing rollover risks.

[1] Changes in the TSA cash buffer or other "below the items" like privatization receipts may impact the size of the net financing and GFN.

Financing Plan

In what follows, the borrowing plan is broken down into the different sources of financing and different instruments that will be used respectively. In net terms, the financing needs will be met principally through external financing via budget support loans, at SCR 764m, or 86% of overall net financing. In 2021, external borrowing more than covered the overall financing. The excess borrowing was used to reduce the domestic financing need by SCR 27m. Net external financing in 2022 at 2.7% of GDP (compared to 6.0% in 2021) will be relatively higher than net domestic financing at 0.4% of GDP (compared to -0.1% in 2021). **Table 3** below indicates the composition of Overall Net Financing for 2022 compared with 2021.

Table 3: Overall Net financing (2021 vs 2022)

Description	SCR'M		% of GDP	
	2021	2022	2021	2022
Total Financing (overall budget deficit)	**1,382**	**884**	**5.6**	**3.1**
Foreign financing, net	1,480	764	6.0	2.7
Domestic financing, net	-27.5	120	-0.1	0.4
Change in Float	-70	-	-0.3	-

Source: MoFNPT, Debt Management Office

External

The Government is expected to increase its foreign debt by SCR 764m (USD 54m equivalent), for the year 2022. Gross borrowing will amount to SCR 1,302m whilst amortization of foreign debt totals to SCR 538m. The new debt that will be incurred in fulfilling the borrowing requirements will be used to finance existing projects and for budget support facilities in line with the IMF reform program. **Table 4** below provides a detailed breakdown of external financing. The majority of borrowings will be from further disbursements under existing and new Budget support loans from multilateral creditors.

Table 4: Foreign Financing in 2022

Description	SCR' M	USD' M
Net Foreign Financing	**764**	**53.9**
Total Borrowings	**1,302**	**91.9**
Multilateral	**939**	**66.3**
IMF	256	18.1
IBRD	401	28.3
ADB	282	19.9
Commercial- TDB[2]	**182**	**12.8**
Project Loans	**181**	**12.8**
Total Amortization	**-538**	**-38.0**

Source: MoFNPT, Debt Management Office

Loans

As illustrated in the table above, approximately 72% of the total external borrowings will be in the form of Budget support. This will be mainly through further disbursement on some **existing loans**, which will comprise of approximately SCR 256m by the IMF under the EFF. The World Bank and the African Development Bank will provide about SCR 401m and SCR 282m respectively. Furthermore, Government will borrow USD 13m as a **new loan** from the East and Southern African Trade Development Bank (TDB) that will be used to pay off Etihad[3]. Finally, about SCR 181m of the external borrowings will be used to cater for project loans.

In addition to the forecasted external financing, the Special Drawing Rights (SDR) allocation with the CBS will also be available as a buffer to the Government. This facility currently amounts to USD 28m and the

[2] East and Southern African Trade Development Bank.
[3] This debt was assumed by the government for resolution of Air Seychelles debt.

necessary amendment will be made to the CBS Act to allow for its use, as emergency financing in case of any exigencies.

Project Loans

The table below provides a breakdown of the forecasted disbursement on existing project loans for 2022. The major disbursement is under the PUC 33KV Project followed by the La Gogue Dam project at SCR 50.7m and SCR 35.6m respectively.

Table 5: Forecasted Project Loans

Description	SCR' M
Indian reschedule Loan of US $ 4 million: Health Information system	15.8
Indian Line of Credit	21.2
*Blue Bond – DBS	29.8
*Blue Bond – SEYCCAT	7.3
Swiofish3 (IBRD)	20.9
PUC:33KV South Mahe	50.7
PUC La Gogue raising of Dam	35.6
Total Project Loans	**181.3**

Source: MoFNPT, Debt Management Office

Domestic

As depicted in **Table 6** below, the Gross retirement on outstanding domestic debt amounts to SCR 2.5bn, whilst gross issuance will be SCR 2.6bn, or almost two third of the total Government financing needs for 2022 will be financed domestically. This will result into an increase of SCR 120m only in the stock of domestic debt.[4]

Table 6: Domestic Net financing (2021 vs 2022)

Description	SCR' M		% of GDP	
	2021	2022	2021	2022
Gross Issuance	**6,074**	**2,617**	**24.7**	**9.3**
Gross Retirements	**-6,047**	**-2,497**	**-24.6**	**-8.9**
**T-Bills*	-5,966	-2,436	-24.2	-8.7
T-Bonds	-	-	-	-
Loans from Commercial Banks	-81	-61	-0.3	-0.2
Net Domestic Issuance	**27**	**120**	**0.1**	**0.4**

Source: MoFNPT, Debt Management Office

** Based on the methodology recommended by the OECD for short-term debt, Gross issuance and redemption data on T-Bills during a financial year takes redemptions of T-Bills only once into account (based on the stock of opening balance) to avoid multiple counting.*

Financing on the domestic side will be done through two instruments only, i.e. T-bills and T-bonds which will be split equally with focus on market development and shorter term bonds. This represents a total of SCR 1.3bn being issued between bills and bonds each as illustrated in the table below.

Table 7: Domestic Financing Instruments (SR' M)

Instrument	Amortization	Issuance	Net Issuance
Domestic Bonds	-	1,300	1,300
Domestic T-bills	-2,436	1,317	-1,119
Domestic Loans	-61	-	-61

Source: MoFNPT, Debt Management Office

[4] Note that for the purpose of the ABP, the amortization and issuance of T-bills issued to the CBS is not considered as part of the amortization and new issuance as this will be rolled over.

Treasury Bills

In reducing the roll-over risk associated with short term borrowings, Government will be paying off more of its short-term T-bills, SCR 2.4bn, in comparison to the new issuances of only SCR 1.3bn. This will result in a decrease of SCR 1.1bn on T-bills stock and help to reduce the roll-over risk. Issuance of T-bills will be guided by the need to maintain an adequate supply, which will be allocated amongst the three tenors (91,182 and 365 Days) based on market demand[5].

Treasury Bonds

As part of its strategy to lengthen the maturity of the domestic debt profile in the medium-term, in 2022 the Government will issue bonds on a quarterly basis, through the auction mechanism similar to the T-bills and supported by a quarterly issuance plan for bonds. Issuance of 3-, 5- and 7-year benchmark tenors will be continued as initiated in 2021 through the liability management operation. T-bonds issuance will be supported by improving their liquidity by initiating trading reforms in Government securities and through repo operations by developing the secondary market. The moderate issuance of bonds will ensure avoidance of any potential absorption capacity of bonds by banks due to maturity considerations.

Loans

Government does not foresee any new Domestic Loans for its financing needs in 2022. It will continue to fulfill its debt obligations on its existing domestic loans throughout the year. However, it is to be noted that as per President's announcement and from the 2021 Budget speech, in order to better manage public finances, the activities of Societe Seychelloise D'Investissement Ltd (SSIL) is being transferred to Government bodies that have more or less the same responsibilities. As such, Government will have to undertake all SSIL's assets and liabilities, which include an outstanding loan of EURO 3,683,853.04 with the Mauritius Commercial Bank (Seychelles).

[5] The legacy holdings of T-bills issued off-market amounting to SCR 1.2bn by the central bank will be maintained through rollover at prevailing market prices resulting in no new net financing.

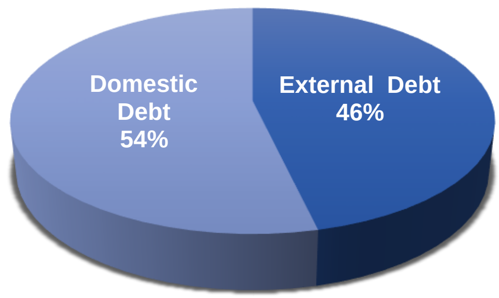
Debt stock composition

Table 8 and **Figure 1** below shows the breakdown of the debt stock for the year 2021 and 2022 projection. As illustrated, the total debt stock as a percentage of GDP is forecasted to reduce from 75.3% to 69.1%, despite the slight increase of SCR 884m, or 4.8% in nominal terms reflecting the net financing needs previously stated. Based on the proposed borrowing strategy, the domestic debt will remain the main component of the total stock forecasted at 56% of total debt by the end of 2022.

Table 8: Debt stock Breakdown (SR' M)

Description	SR'M		% GDP	
	2021	2022 (Est.)	2021	2022 (Est.)
External	8,235	8,999	33.5	32.0
Domestic	10,288	10,408	41.8	37.1
Total Debt	18,523	19,407	75.3	69.1

Figure 1: Debt stock composition (2021)



Source: MoFNPT, Debt Management Office

The total debt stock is mostly made up of three main currencies, which are the Seychelles Rupee (SCR), United States Dollars (USD) and Euros (EUR). The currency composition provides an overall indication of the exposure to exchange rate risks to the portfolios. As at the end of 2021, about 54% of the total debt stock was denominated in the local currency, indicating moderate risks. A similar composition is being foreseen for 2022.

A more detailed breakdown of the debt stock composition is given in **Table 9** and **Table 10** overleaf for external and domestic debt respectively. On the external side, debt with multilateral creditors will account for the biggest portion, 67% of the external debt stock. These loans are from three main sources- IMF, World Bank and the African Development Bank. The Bilateral loans and Private loans[6] will account for 16% and 13% respectively of the external portfolio. Amongst the four main components, for 2022 the debt from Private creditors and Bilateral creditors is anticipated to decline in nominal terms, whereas multilateral loans and commercial bank loans will increase resulting from additional disbursements under current and new Budget support loans and the TDB loan.

[6] Private loans comprises of Euro Bonds

Table 9: External Debt stock Breakdown (SR' M)

Description	2021	2022	% Diff
Multilateral	**5,184**	**6,014**	**16.0**
Bilateral o.w.	**1,458**	**1,441**	**-1.2**
Paris Club	*751*	*681*	*-9.3*
Non-Paris Club	*707*	*760*	*7.4*
Commercial Banks	**255**	**415**	**62.7**
Private	**1,338**	**1,129**	**-15.6**
Total	**8,235**	**8,999**	**9.3**

Source: MoFNPT, Debt Management Office

Government securities will make up over 87% of the domestic debt. Securities is mainly dominated by T-bonds at 69% whilst T-bills accounts for 29% of the stock. Loans with commercial banks accounts for 11% and other debt liabilities accounts for only 2%. As at the end of 2022, the stock of domestic debt is forecasted at SCR 10.4bn compared to SCR 10.2bn at the end of 2021. This is mainly attributed to the increase in T-bonds issuance.

Table 10: Domestic Debt stock Breakdown (SR' M)

Description	2021	2022	% Diff
Loans	**1,178**	**1,117**	**-5.2**
Securities *of which;*	**8,871**	**9,052**	**2.0**
Treasury Bills	3,710	*2,591*	-30.2
Treasury Bonds	4,956	*6,256*	26.2
Deposits	47	*47*	**-**
Others	158	158	**-**
Other Debt Liabilities	**239**	**239**	**-**
Total Debt	**10,288**	**10,408**	**1.2**

Source: MoFNPT, Debt Management Office

Based on the debt composition, the Average Time to Maturity (ATM) of the debt portfolio is estimated at 7.1 years and 2.8 years for the external and domestic debt portfolio respectively. The ATM for the total portfolio is estimated at 4.8 years. It is important to note also that almost 43% of the debt in the domestic portfolio will mature within a year, reflecting the composition of T-bills in the portfolio.

Conclusion

It must be emphasized that while sources of external financing for budgetary purposes (except for certain bilateral loans) can be drawn with high certainty, the domestic market may offer several variations for the issuance of T-bills and bonds. The issuance of T-bills may be more aligned with the cash flow forecast also taking into consideration the needs of the banking sector for liquid short-term instruments, and the benefits of reducing somewhat the volatility of cash flows over the Treasury account.

The success of implementation of the proposed bond issuance program is largely dependent on the size of demand for medium- and long-term Government securities. In view of the limited domestic investor base and current low-interest rate environment, which is transitory, it is difficult to ascertain how deep and sustainable is the demand for longer-term securities. Also, an increase in the demand for private sector credit could reduce the banks' appetite for Government bonds. Therefore, the 2022 bond issuance program will be carefully monitored and adjusted if needed.

The sustainability of the borrowing program in the medium run will require the development of other segments of the domestic capital market. With the aim to develop horizontal repos in the money market, development of the investor base and the financial market infrastructure should contribute to the development of the secondary market of Government securities, at least to a formative stage given the constraints with the size of the market. The legal and regulatory framework needs to be adjusted accordingly.

Given the uncertainty prevailing in the economic environment, for internal monitoring, the ABP is being broken down into quarterly borrowing plans. This will enable the Government to monitor the implementation and, if needed, to make the necessary adjustment in the issuance plan. The ABP has been revised as part of the mid-year revision process.