FY 2023

Annual Borrowing Plan

MINISTRY OF FINANCE, NATIONAL PLANNING AND TRADE

DEBT MANAGEMENT OFFICE

Contents

Introduction

The 2023 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 2023 budget year. It has been developed in accordance with the targets and benchmark indicators of the 2023-25 Medium-Term Debt Management Strategy (MTDS) and is based on the macroeconomic and fiscal frameworks presented in the 2023 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 with the IMF on a supported 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's 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

Following the economic recovery in 2021, economic activities remained on a positive trajectory during the year 2022. The real GDP growth is forecasted to reach 10.6% by the end of the year. For 2023, GDP growth is projected at 5.4% in line with a stronger 2022 position. Once more, tourism is expected to spearhead the growth of economic activity as the trend of growing visitor arrivals continues. This will sustain growth in the main activities under tourism such as ‘Accommodation and food service’ and ‘Administrative and support service’ sector. 2023 growth will also be supported by continued strong performance in ‘ICT’ and steady growth of manufacturing activities, Seychelles is expected to continue along its recovery path with average real GDP growth projections of about 5 per cent over the medium term.

The positive performance in tourism will translate into an increase in tourism earnings, which is expected to contribute positively to the overall economic activity across all sectors and will contribute positively to the current account balance. Current account deficit for 2023 is projected to narrow from 6.7% in 2022 to about 5.5% of GDP in 2023. Despite the favorable recovery, the Russia/Ukraine crisis continues to pose external risks associated with increase in commodity prices, shocks in the tourism markets or war related disruptions. Continuous support remains essential to encourage economic activity for a more robust recovery. However, if global commodity prices remain elevated, foreign inflationary pressures are expected to filter into the economy. Therefore, mindful of its objectives, CBS may adjust its policies if necessary. The monetary policy stance remained accommodative for the first three quarters of 2022, a stance that was unchanged since the second quarter of 2020. Potential worsening of supply-side constraints associated with the lingering effects of the pandemic and the geopolitical tensions could lead to further inflationary pressures.

In line with the accommodative stance, market interest rates have continued to decline. As at September 2022, the yield on T-bills stood at 0.89% on the 91-day T-bills, 1.58% on the 182-day T-bills and 2.18% on the 365-day T-bills. The domestic yield is expected to remain supportive in view of the abundant liquidity and weak private credit demand. Contrarily, as of January 2022, the USD LIBOR is being gradually replaced by a new reference rate, SOFR[1]. Between January to September 2022, the referenced interest rates have increased significantly from around 0.5% to slightly above 2.5% in September. Broadly speaking, nominal policy rates are now above pre-pandemic levels in both advanced and emerging market and developing economies. With elevated inflation, real interest rates have generally not yet reverted to pre-pandemic levels.

[1] Secured Overnight Financing Rate

For 2023, an overall balance of minus SCR 539m and primary surplus of SCR 330m, or 1.1% of GDP are projected. This will be driven by Government's continuous fiscal consolidation effort and will have a positive impact on the debt to GDP ratio, which is anticipated to reduce even further by the end of 2023. The pandemic has impeded Government's target to reduce debt to around 50% of GDP by 2021. However, with the gradual improvement in economic activities and through prudent fiscal disciplinary measures, Government is committed to achieve its pre-COVID objective by 2026. The table below shows a snap shot of the key economic indicators for 2023 in comparison to 2022 and 2021.

Table 1: Selected Economic Indicators

Description	2021	2022 Est.	2023 Est.
National income and prices			
Nominal GDP (millions of Seychelles rupees)	24,611	27,785	30,553
Real GDP growth	7.9	10.6	5.4
CPI (annual average)	9.8	3.0	4.2
Government Budget (% GDP)			
Total revenue, including grants	34.0	33.2	35.0
Expenditure and net lending	40.0	36.5	36.8
Overall balance	-5.8	-1.7	-0.2
Primary balance (accrual basis), including grants	-3.0	-1.1	1.1
External sector (USD'm, unless otherwise indicated)			
Current account balance including official transfers	-153	-131	-99
Gross official reserves (USD'm)	702	652	708
In months of imports, c.i.f.	3.7	3.2	3.4
Total debt outstanding (% of GDP)[2]	**76.2**	**67.9**	**64.6**
Total debt outstanding (SR'm)	18,742	18,938	19,769
Domestic debt (% of GDP)	41.8	36.0	32.8
External debt (% of GDP)	34.4	32.0	31.9

Source: MoFNPT, Macroeconomic Working Group.

[2] The numbers include funds disbursed under the old and new IMF reform programs and also the SDRs allocation.

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.[3] According to the latest projections, the GFN for the year 2023 amounts to SCR 2,765m, equivalent to 9.0% of GDP compared to SCR 4,013m, or 14.4% in 2022. The lower GFN in 2023 is mainly due to continued fiscal consolidation and lower domestic amortization ensuing from continuous reduction of T-Bills stock in 2022. Taking into consideration of the amortization over the period, this is translated into a lower NFN of only SCR 539m, or 1.8% of GDP in 2023 compared to SCR 927m, or 3.3% in 2022. **Table 2** below summarizes the financing requirements for 2023 in comparison with 2022. In order to meet its financing needs, the Government intends to seek funds from both foreign and domestic sources.

Table 2: Financing requirements (2022 vs 2023)

Description	SCR' M		% of GDP	
	2022 EOY	2023 Est.	2022 EOY	2023 Est.
Primary balance	**-299**	**330**	**-1.1**	**1.1**
Interest payments	**-628**	**-870**	**-2.3**	**-2.8**
o/w Domestic	-428	-662	-1.5	-2.2
External	-200	-208	-0.7	-0.7
Net Financing Needs	**-927**	**-539**	**-3.3**	**-1.8**
Amortization	**-3,086**	**-2,226**	**-11.1**	**-7.3**
o/w Domestic	-2,547	-1,375	-9.2	-4.5
External	-538	-851	-1.9	-2.8
Gross Financing Needs	**-4,013**	**-2,765**	**-14.4**	**-9.0**

Source: MoFNPT, Debt Management Office

The Government's financing plan for 2023 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 2023 amounts to SCR 2.2bn, 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 and maintaining a positive approach in market development.

[3] 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 line with the Medium Term Debt strategy adopted which envisages relatively more domestic market issuance. This strategy takes into consideration that access to concessional borrowings will be reduced following the completion of the EFF program. In net terms, the financing needs will be met principally through external financing via budget support loans, at SCR 305m, or 57% of overall net financing. This is a significant reduction compared to 2022, whereby almost 90% of the net financing was external. Net external financing in 2023 is at 1.0% of GDP (compared to 3.0% in 2022) slightly higher than net domestic financing at 0.8% of GDP (compared to 0.4% in 2022). **Table 3** below indicates the composition of Overall Net Financing for 2023 in comparison to 2022.

Table 3: Overall Net financing (2022 vs 2023)

Description	SCR' M		% of GDP	
	2022 EOY	2023 Est.	2022 EOY	2023 Est.
Total Financing (overall budget deficit)	**927**	**539**	**3.3**	**1.8**
Foreign financing, net	826	305	**3.0**	**1.0**
Domestic financing, net	101	234	**0.4**	**0.8**

Source: MoFNPT, Debt Management Office

External

The Government is expected to increase its foreign debt by SCR 305m (equivalent to USD 20m), for the year 2023. Gross borrowing will amount to SCR 1,156m whilst amortization amounts to SCR 851m. The new debt that will be incurred in fulfilling the borrowing requirements will be used to finance existing projects and for budget support facilities. **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 2023

Description	SCR' M	USD' M
Net Foreign Financing	**305**	**20.3**
Total Borrowings	**1,156**	**76.8**
Multilateral	**841**	**55.9**
IMF	262	17.4
IBRD	278	18.5
AfDB	301	20
Bilateral	**-**	**-**
Project Loans	**315**	**20.9**
Total Amortization	**-851**	**-56.6**

Source: MoFNPT, Debt Management Office

Loans

For the 2023 Budget, Government is not foreseeing any new external loans. All disbursements will be done on existing loans. As illustrated in the table above, approximately 73% 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 262m by the IMF under the EFF. The World Bank and the African Development Bank will provide about SCR 278m and SCR 301m respectively.

In addition to the forecasted external financing, the Special Drawing Rights (SDR) allocation with the CBS will also be available as a buffer for the Government. This facility currently amounts to USD 28m and the 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 2023. The major disbursement is under Indian Line of credit at SCR 123m followed by social housing project by MLUH amounting to SCR 39.3m.

Table 5: Forecasted Project Loans in 2023 compared to 2022 (SCR' M)

Description	2022	2023
Indian reschedule Loan of US $ 4 million: Health Information system	15	22.4
Indian Line of Credit	20.2	123.4
*Blue Bond – DBS	28.5	30.1
*Blue Bond – SEYCCAT	7.3	7.5
Swiofish3 (IBRD)	19.9	20.3
PUC:33KV South Mahe	60.1	24.2
PUC La Gogue raising of Dam	82.6	19.0
Reconstruction of La digue School- Saudi Arabia	-	28.4
Social Housing Project- MLUH	-	39.3
Total Project Loans	**233.6**	**314.7**

Source: MoFNPT, Debt Management Office

New Guarantees

In regards to external guarantees, USD 3.0m is being anticipated to be disbursed to DBS from the European Investment Bank. Additionally, a total of USD 3.8m will be disbursed to SPA as part of the Phase II of the Port Victoria Rehabilitation & Extension project. Note that both facilities were already guaranteed by the Government.

Table 6: External Debt Stock Guarantee forecast (2022 VS 2023) SR' M

Instrument	2022	2023
Opening Stock	**133**	**144**
Disbursements	32	95
Amortization	21	20
Stock of Guarantees	**144**	**219**

Source: MoFNPT, Debt Management Office

Domestic

As depicted in **Table 7** below, the Gross retirement on outstanding domestic debt is expected to amount SCR 1.4bn, or 4.5% of GDP in 2023, whilst gross issuance is projected at SCR 1.6bn, or 5.3% of GDP. This will result into an increase of SCR 234m in the stock of domestic debt.[4]

Table 7: Domestic Net financing (2022 vs 2023)

Description	SCR' M		% of GDP	
	2022 EOY	2023 Est.	2022 EOY	2023 Est.
Gross Issuance	**2,649**	**1,609**	**9.5**	**5.3**
Gross Retirements	**-2,547**	**-1,375**	**-9.2**	**-4.5**
**T-Bills*	-2,487	-794	-8.9	-2.6
T-Bonds	-	-500	-	-1.6
Loans from Commercial Banks	-61	-81	-0.2	-0.3
Net Domestic Issuance	**101**	**234**	**0.4**	**0.8**

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 the two main instruments, i.e. T-bills and T-bonds, which will approximately be split into a 55:45 ratio. Since the investor base is dominated by banks, absorption capacity may be tilted towards the relatively shorter-end of the yield curve. The split will depend on market appetite for the respective instruments.

Table 8: Domestic Financing Instruments (SR' M)

Instrument	Amortization	Issuance	Net Issuance
Domestic Bonds	-500	724	224
Domestic T-bills	-794	885	91
Domestic Loans	-81	-	-81

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

During 2023, Government will be paying off about SCR 794m of T-bills compared SCR 885m new issuances, resulting in SCR 91m net issuance. 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 continuous effort to lengthen the maturity of the domestic debt profile in the medium-term, the Government will continue to 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. Government also plan to issue a 10- year Bond at some point in 2023 to see the market appetite for longer term Bonds. 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 2023. It will continue to fulfill its debt obligations on its existing domestic loans throughout the year. About SCR 81m will be repaid during 2023.

[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.

New Guarantees

For the 2023 fiscal year, provision has been made for another SCR 200m guarantee to DBS. The fund will be used for DBS' operations as it resumes lending activities. With the aim of diversifying the economy, financing will target specific activities/sectors. Furthermore, a provision of SCR 50m is projected to be disbursed to HFC under a previously issued guarantee. The table below summarizes the stock of domestic guaranteed debt.

Table 9: Domestic Debt Stock Guarantee forecast (2022 VS 2023) SR' M

Instrument	2022	2023
Opening Stock	**814**	**760**
Disbursements	213	250
Amortization	267	226
Stock of Guarantees	**760**	**784**

Source: MoFNPT, Debt Management Office

Debt stock composition

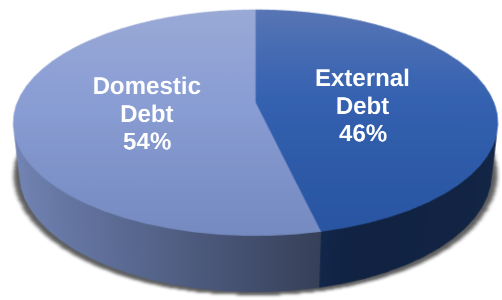
Table 10 and

Figure 1 below shows the forecasted breakdown of the debt stock for 2022 and 2023. As illustrated, the total debt stock as a percentage of GDP is forecasted to reduce from 66.7% to 63.1%, despite an increase of SCR 739m, or 3.9% in nominal terms reflecting the net financing needs and new guarantee previously stated.[6] Based on the proposed borrowing strategy, the domestic debt will remain the main component of the total stock forecasted at 54% of total debt by the end of 2023.

Table 10: Debt stock Breakdown (SR' M)

Description	SR' M		% GDP	
	2022 EOY	2023 Est.	2022 EOY	2023 Est.
External	**8,488**	**8,793**	**30.5**	**28.8**
Domestic	**10,038**	**10,473**	**36.1**	**34.3**
Total Debt	**18,526**	**19,266**	**66.7**	**63.1**

Figure 1: Debt stock composition (2023)



Source: MoFNPT, Debt Management Office

The total debt stock is mostly made up of four main currencies, which are the Seychelles Rupee (SCR), United States Dollars (USD), Special Drawing Rights (SDR) and Euros (EUR). The currency composition provides an overall indication of the exposure to exchange rate risks to the portfolio. For 2022, about 56% of the total debt stock is forecasted to be in the local currency, indicating moderate risks. A similar composition is being foreseen for 2023.

A more detailed breakdown of the debt stock composition is given in **Table 11** and **Table 12** overleaf for external and domestic debt respectively. On the external side, debt with multilateral creditors will account for three quarters 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[7] will account for 12% and 9% respectively of the external portfolio. Amongst the four main components, for 2023 the debt from Private creditors and commercial banks are anticipated to decline in nominal terms, whereas multilateral loans and

[6] The numbers exclude funds disbursed under the old and new IMF reform programs and also the SDRs allocation.

[7] Private loans comprises of Euro Bond

bilateral loans will increase resulting from additional disbursements under current and new Budget support loans and loans under ongoing projects.

Table 11: External Debt stock Breakdown (SR' M)

Description	2022 EOY	2023 Est.	% Diff
Multilateral	**6,007**	**6,556**	**9.1**
Bilateral	**998**	**1,138**	**14.0**
Commercial Banks	**415**	**286**	**-31.2**
Private	**1,067**	**813**	**-23.8**
Total	**8,488**	**8,793**	**3.6**

Source: MoFNPT, Debt Management Office

On the domestic side, Government securities will make up over 85% of the domestic debt. Securities are mainly dominated by T-bonds at 58.9% whilst T-bills accounts for 25.9% of the stock. Loans with commercial banks accounts for 7.2% and other debt liabilities accounts for only 7.6%. As at the end of 2023, the stock of domestic debt is forecasted at SCR 10.4bn compared to a SCR 10.0bn forecast for 2022.

Table 12: Domestic Debt stock Breakdown (SR' M)

Description	2022 EOY	2023 Est.	% Diff
Loans	**800**	**757**	**-5.3**
Securities *of which;*	**8,610**	**8,925**	**3.7**
Treasury Bills	2,463	*2,714*	**10.2**
Treasury Bonds	6,102	*6,165*	**1.0**
Deposits	45	*45*	**-**
Other Debt Liabilities	**629**	**791**	**25.8**
Total Debt	**10,038**	**10,473**	**4.3**

Source: MoFNPT, Debt Management Office

Based on the debt composition, the Average Time to Maturity (ATM) of the debt portfolio is estimated at 7.0 years and 2.9 years in 2022 for the external and domestic debt portfolio respectively. The ATM for the total portfolio is estimated at 4.9 years. It is important to note also that almost 33% 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 based on appetite for the respective instruments. 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 2023 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 will be 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.