# GOVERNMENT OF SEYCHELLES

## Debt Management Strategy

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## 2025 – 2027

Ministry of Finance, National Planning and Trade
Republic of Seychelles
October 2024

# Table of Contents


**List of Tables** ........ 2
**List of Figures** ........ 2
**List of Acronyms and Abbreviations** ........ 3
**Introduction** ........ 4
**Part I** ........ 5
**1.1. Debt Management Objective** ........ 5
**1.2. The Goals for Debt Management** ........ 5
**1.3. Scope of the Debt Management Strategy** ........ 5
**1.4. Legal and Institutional Framework** ........ 6
**1.5. Evolution of debt** ........ 6
**Part II** ........ 8
**2024 Developments** ........ 8
**Overview of Existing Debt** ........ 11
**2.1. External Debt Profile** ........ 12
**2.2. Domestic Debt Profile** ........ 13
**Risk Indicators** ........ 14
**3.1. Refinancing Risks** ........ 14
3.1.1. Average Time to Maturity ........ 14
3.1.2. Share of Debt Maturing within one year ........ 14
3.1.3 The Redemption Profile ........ 15
**3.2. Interest Rate Risks** ........ 16
3.2.1. Fixed Rate Debt as a Share of the Total Debt ........ 16
3.2.2. Average Time to Re-Fixing ........ 17
3.2.3. Percentage of Debt Re-Fixing within one year ........ 17
**3.3. Exchange Rate Risks** ........ 18
3.3.1. The Currency Composition ........ 19
**3.4. Cost of Debt** ........ 20
**3.5. Operational Risks** ........ 21
**3.4.1. IT Support** ........ 21
**3.4.2. Paper Based Documentations** ........ 21
**3.4.3. Risk of Fraud** ........ 22
**3.4.4. Foreign exchange risk** ........ 22
**Part III** ........ 23
**The Environment for Debt Management** ........ 23
**4.1. The Real Sector** ........ 23
**4.2. The Fiscal Sector** ........ 24
**4.3. The Monetary Sector** ........ 24
**4.4. The External Sector** ........ 26
**The Debt Management Strategy Framework** ........ 28
**5.1. Debt Management Strategy 2025-2027** ........ 28
**5.1.1. Alternative Strategies** ........ 28
**5.1.2. Analysis of the Alternative Strategies** ........ 30
**Public Debt to GDP forecast 2025-2027** ........ 36
**Conclusion** ........ 37

# List of Tables

Table 1: New external borrowings under Budget supports during Jan–Sept 2024 .......... 9
Table 2: Disbursement under existing project loans during Jan–Sept 2024 .......... 9
Table 3: New Domestic Borrowings during Jan-Sept 2024 .......... 10
Table 4: Total debt by residency of creditors as at the end of Sept-2024 .......... 11
Table 5: Total debt by Guarantee Status as at the end of Sept-2024 .......... 11
Table 6: Total External debt by Creditor Category .......... 12
Table 7: External Debt by Instrument Type .......... 12
Table 8: Domestic Debt by Instrument Type .......... 13
Table 9: Average Time to Maturity (2023 vs 2024) .......... 14
Table 10: Debt maturing within 1year (2023 vs 2024) .......... 15
Table 11: Fixed Rate Debt as a Share of the Total Debt (2023 vs 2024) .......... 16
Table 12: Average Time to Re-Fixing (2023 vs 2024) .......... 17
Table 13: Percentage of Debt Re-Fixing within one year (2023 vs 2024) .......... 18
Table 14: Foreign Exchange rate risks indicators (2023 vs 2024) .......... 18
Table 15: Cost of debt (2023 vs 2024) .......... 20
Table 16: Cost Risk Analysis of Strategies as at end of 2027 .......... 31
Table 17: Debt to GDP Forecast 2025-2027 .......... 36

# List of Figures

Figure 1: Debt to GDP ratio for selected years .......... 6
Figure 2: Percentage distribution by Creditor Category .......... 12
Figure 3: Total debt redemption profile .......... 15
Figure 4: Currency Composition as at end of Sept-2024 .......... 19
Figure 5: Interest Rate on T-bills .......... 25
Figure 6: EURIBOR SOFR Interest Rate- Jan-Sept 2024 .......... 26
Figure 7: Foreign Exchange Rate- Jan-Sept 2024 .......... 27
Figure 8: Cost-Risk Indicators as at the end of 2027 .......... 32

# List of Acronyms and Abbreviations

| | |
|---|---|
| ABP | Annual Borrowing Plan |
| AfDB | African Development Bank |
| ATM | Average time to Maturity |
| ATR | Average Time to Re-fixing |
| BADEA | Arab Bank for Economic Development in Africa |
| CBS | Central Bank Seychelles |
| CNY | Chinese Renminbi |
| DAA | Deposit Auction Arrangement |
| DMS | Debt Management Strategy |
| EFF | Extended Fund Facility |
| EOY | End of Year |
| ERGRSP | Economic Resilience and Green Recovery Support Program |
| EUR | EURO |
| EURIBOR | Euro Interbank Offered Rate |
| FEA | Foreign Exchange Auctions |
| FED | Federal Reserves |
| GBP | Great British Pounds |
| GDP | Gross Domestic Product |
| GERSP | Governance Economic Reforms Support Program |
| GFN | Gross Financing Needs |
| GIR | Gross International Reserves |
| IBRD | International Bank for Reconstruction and Development |
| IMF | International Monetary Fund |
| JPY | Japanese Yen |
| MoFNPT | Ministry of Finance, National Planning & Trade |
| MTDS | Medium Term Debt Management Strategy |
| OFID | OPEC Fund for International Development |
| RSF | Resilience and Sustainability Facility |
| SAR | Saudi Riyals |
| Saudi Riyals | SAR |
| SCF | Standing Credit Facility |
| SCR | Seychelles Rupees |
| SDF | Standing Deposit Facility |
| SDR | Special Drawings Rights |
| SOFR | Secured Overnight Financing Rate |
| T-bills | Treasury Bills |
| T-bonds | Treasury Bonds |
| UAE Dirham | AED |
| USD | United States Dollar |

# Introduction

This document 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 2008 (amended in 2009 and 2012).

The aim of the Debt Management Strategy (DMS) is to determine the most effective debt management strategy for achieving the desired future debt structure based on cost and risk implications. It is formulated using an Excel-based analytical tool developed by the IMF/World Bank that takes into account linkages between debt and the key macroeconomic fundamentals such as domestic revenues, expenditures, and Gross Domestic Product (GDP), amongst others. This strategy document is broken down into three parts.

**Part I** covers the objectives, scope and the legal framework for the DMS. It also describes the role of debt management in the macro-economic framework and provides a historical overview of the debt structure. This section also outlines the evolution of the debt and the goals for the 2025-2027 period.

**Part II** gives an overview of the performance of debt management in 2024 and the resultant debt profile at the end of the mentioned year. 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 insights into whether the existing cost and risk structures are satisfactory or what needs to be changed. It will also help to identify which of the risks are more pertinent.

**Part III** looks at the macroeconomic environment for debt management, followed by the debt management framework and strategy. Part III will conclude with the Debt projection over the medium term.

# Part I

## 1.1. Debt Management Objective

The Government's primary debt management objective is founded on international best practice for debt management. As recommended by the International Monetary Fund (IMF), World Bank and other international institutions, the Government's primary debt management objective is,

> ***"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."***

## 1.2. The Goals for Debt Management

To help achieve the primary debt management objective, the Government will pursue the following goals over the medium term;

i. 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.

ii. Work towards an optimum structure for public debt that minimizes costs and risks, including currency mismatch, adverse movement in interest rates, refinancing and operational risks.

iii. Assist the Government in achieving its objective of limiting 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.

iv. Assist towards the development of the domestic financial market and the lengthening of the debt maturity profile.

## 1.3. Scope of the Debt Management Strategy

The Debt Management Strategy will examine the total public debt for years 2025 to 2027, where the total public debt is defined as the total Government and Government guaranteed liabilities that require payment of principal and/or interest to external and domestic creditors. External and domestic debt classifications are based on the residency of the creditors. The debt stock figures for the years 2008-2023 are as at calendar year end.

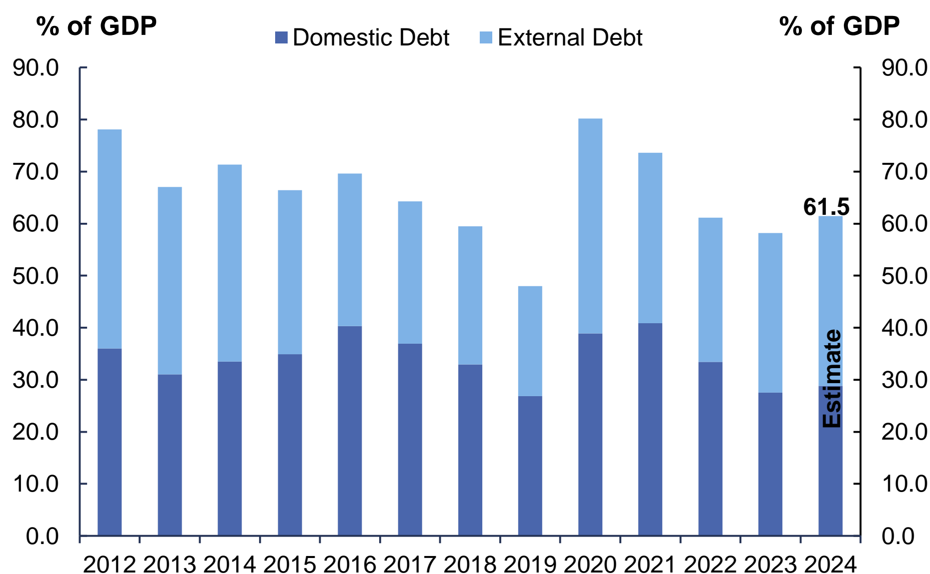
## 1.4. Legal and Institutional Framework

The primary responsibility of debt management lies with the Debt Management Division of the Ministry of Finance, National Planning & Trade (MoFNPT). The Division 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 2008 (amended in 2009 and 2012).

## 1.5. Evolution of debt

Following the 2008 global financial crisis, Seychelles faced a debt crisis. The country undertook a comprehensive macroeconomic reform, which included a massive debt-restructuring program. Since then, the Government has made significant progress in reducing the level and improving the structure of its public debt.

**Figure 1: Debt to GDP ratio for selected years**




Source: MoFNPT, Debt Management Division

As can be seen in Figure 1 above, the total debt stock fell from about 78% of GDP in 2012 to around 67% in 2013. The introduction of treasury bills (T-bills) for monetary purposes in 2014 and loosening of the fiscal policy in 2016 slowed down the rate at which the debt level was falling. Debt continued on a downward trajectory until 2019. The COVID-19 pandemic caused significant disruptions in economic activities, which affected the Government's fiscal position. Faced with a drop in revenue and a significant depreciation in the exchange rate, the Government had to resort into Budget support loans to finance the budget deficit. This resulted in a sharp rise in the debt-to-GDP ratio, reaching above 80% by the end of 2020 and putting the debt on an unsustainable path. The sharp recovery in the exchange

rate in April 2021, together with the GDP growth following re-opening of the country's border and fiscal consolidation, contributed to the strong reduction in the ratio of public debt to GDP in 2021. The debt stock decreased further in 2022 and 2023 as Government maintained a strong fiscal consolidation. For 2024, as Government continues to rely on additional budget supports, debt to GDP is forecasted to increase slightly to 61.5%. However, debt remains sustainable and the Government is committed to achieve its pre-COVID objective of reducing debt to around 50% of GDP by 2030. Despite the fact that much of the risks to keep debt sustainable have been moderated, risks continues to exist especially with the uncertainty around the geopolitical issues prevailing in certain parts of the world.

# Part II

## 2024 Developments

For the year 2024, Seychelles' real GDP growth has been revised downwards to 3.0%, compared to the Budget forecast of 3.7%. The downward adjustment is primarily due to a more cautious outlook for tourism-related sectors. There has been a drop in tourist arrivals following a recent reduction in direct flights, and tourist spending has also decreased as spending habits become more restrained compared to the exceptionally high levels observed in the two years after the pandemic.

Fiscal performance in the first half of 2024 was tighter than budgeted, driven by robust tax collection. Government spending has been largely consistent with budget projections, with a minor under-execution across wages and salaries, goods and services, and capital expenditures. Given the tight fiscal consolidation, the Government is expected to achieve a primary fiscal surplus of 1.1% in 2024—at par with 2023.

Although tourism is slowing, the external balance of payments is anticipated to improve in 2024. The decline in tourism revenue is projected to widen the current account deficit to 10.7% of GDP in 2024, compared to 7.2% in 2023. However, financial inflows from foreign direct investment will cushion this temporary downturn and facilitate an increase in central bank foreign exchange reserves to USD 806m, equivalent of 3.7 months of import cover by the end of the year.

The Central Bank of Seychelles (CBS) has maintained an accommodative monetary policy, which has helped to facilitate an increase in the growth of private sector credit. While inflation remains low -and is expected to remain so for the remainder of 2024- the CBS stands ready to act if inflationary pressures materialize. The CBS will continue its efforts to strengthen Seychelles' monetary policy framework and closely monitor financial sector soundness.

Based on the fiscal consolidation, it is anticipated that the debt-to-GDP ratio will reach around 61% by the end of 2024. This is a slight increase from the 58.2% recorded in 2023 as more funds are expected to be disbursed under existing Budget support programs with the IMF, World Bank and AfDB.

Table 1 overleaf provides a summary of all disbursements made from January to September 2024 under Budget support programs. During the year, the Government secured three new budget supports and two additional disbursements under existing programs, totalling to USD 90.2m or 4% of GDP, in order to address the country's projected Gross Financing Need of SCR 2.5bn that was initially projected for the year 2024. These budget support includes the Seychelles Third Fiscal Sustainability and Climate Resilience Development Policy Financing from IBRD, for a sum of USD 25m or 1.2% of GDP.

Furthermore, USD 33m was disbursed at the beginning of February 2024 from the AfDB under the Third Governance and Economic Reforms Support Program (GERSP III). The Government also secured a facility with the OFID for the Seychelles Fiscal Sustainability and Climate Resilience Program- amounting to USD 20m, which was disbursed towards the end of third quarter of 2024. In addition, further disbursements were made under the IMF EFF and RSF facilities.

**Table 1: New external borrowings under Budget supports during Jan–Sept 2024**

| Description | Loan Amount (USD' M) | 2024 Disbursement (USD' M) | % of GDP |
|---|---|---|---|
| IMF-Resilience and Sustainability Facility (RSF) | 46 | 4.1 | 0.0 |
| IMF-Extended Fund Facility II (EFF) | 56 | 8.1 | 0.4 |
| IBRD-Seychelles Third Fiscal Sustainability and Climate Resilience Development Policy Financing | 25 | 25 | 1.2 |
| AfDB-GERSP III | 33 | 33 | 1.5 |
| OFID-Seychelles Fiscal Sustainability and Climate Resilience Program | 20 | 20 | 0.9 |
| **Total:** | **180** | **90.2** | **4.0** |

Source: MoFNPT, Debt Management Division

Table 2 below illustrates the funds that were further disbursed under previously contracted projects throughout the year. The total disbursement as at the end of the third quarter of 2024 stands at USD 2.9m. As illustrated, the largest disbursement was under the EXIM bank of India line of credit for USD 1.3m.

**Table 2: Disbursement under existing project loans during Jan–Sept 2024**

| Description | Loan Amount (USD' M) | 2024 Disbursement (USD' M) | % of GDP |
|---|---|---|---|
| IBRD SWIOFish 3 | 5 | 0.7 | 0.000 |
| BADEA-Improvement of Electricity Network in South Mahe | 11 | 0.5 | 0.000 |
| Exim Bank of India -Line of Credit (Tranche 1 USD 10m) | 10 | 1.3 | 0.001 |
| AfDB-Mahe Sustainable Water Augmentation | 20.6 | 0.4 | 0.000 |
| **Total:** | **46.6** | **2.9** | **0.001** |

Source: MoFNPT, Debt Management Division

Table 3 captures the major development that happened on the **domestic debt side** so far in 2024. As part of the Government's strategy to lengthen the maturity of the domestic portfolio and reducing refinancing risks associated with short-term borrowings, five T-bonds in total were successfully issued between January and September 2024, worth SR 534m or 1.7% of GDP. The T-bonds issued in the first and second quarter were fully subscribed, while the ones in the third quarter were under-subscribed by about SR 80m given the low yield on the bond.

**Table 3: New Domestic Borrowings during Jan-Sept 2024**

| Description | | Targeted Amount (SR' m) | Allotted Amount (SR' m) | % of GDP |
|---|---|---|---|---|
| **Treasury Bond Q1** | 5-yr 5.0% Bond | 85 | 150.1 | 0.5 |
| | **Sub-total** | **85** | **150.1** | **0.5** |
| **Treasury Bond Q2** | 3-yr 3.50% Bond | 100 | 128.4 | 0.4 |
| | 5-yr 4.70% Bond | 100 | 134.5 | 0.4 |
| | **Sub-total** | **200** | **262.9** | **0.8** |
| **Treasury Bond Q3** | 7-yr 5.50% Bond | 100 | 69.5 | 0.2 |
| | 5-yr 4.50% Bond | 100 | 51.2 | 0.2 |
| | **Sub-total** | **200** | **120.7** | **0.4** |
| **TOTAL:** | | **485** | **533.6** | **1.7** |

Source: MoFNPT, Debt Management Division

As per the Annual Borrowing Plan (ABP) for 2024, the total amount of bond issuance was projected at SCR 342m for the year, of which SCR 762m was retired with a remaining net issuance of SCR 420m. However, following the March revision, there was a significant downward revision in Tax revenue forecast of SCR 315m, or 3.4% and the overall gross domestic financing increased from SCR 977m to SCR 1.36bn, or 39%. This is reflective in the volume of issuance of T-bonds during the first two quarters of the year thus explaining the deviation from the Borrowing Plan. There was also an observed increase in the issuance of T-bills over the period. However, as per adopted strategy the Government ensured that the overall ratio in terms of securities was roughly maintained at 35:65 between T-bills to T-bonds during the year so that the debt management strategy of lengthening the debt profile of domestic debt securities is not adversely affected.

# Overview of Existing Debt

As at the end of September 2024, the total debt stock amounted to SCR 18.5bn, or 59.5% of GDP. There is an almost equal split between the Domestic and External debt stock, with the former being higher by only SCR 19m. In volume terms, the total debt has increased by almost SCR 1.0bn, or 5.8% compared to the end of December 2023. This stems mainly from external debt which increased by SCR 955m, or 11.5% associated with disbursements from multilateral creditors under budget support facilities and ongoing projects as highlighted in the previous section. On the domestic side, the debt stock increased by SCR 51.2m, or 0.6% as a result of issuances of Government securities throughout the year, that was partially offset by the ones maturing.

**Table 4: Total debt by residency of creditors as at the end of Sept-2024**

| Description | Sept-2024 (SCR' M) | % of GDP | % Share |
|---|---|---|---|
| **Domestic** | **9,244** | **29.8** | **50.1** |
| o.w. Government | 8,672 | 27.9 | 46.9 |
| o.w. Guarantees | 572 | 1.9 | 3.2 |
| **External** | **9,225** | **29.7** | **49.9** |
| o.w. Government | 9,025 | 29.1 | 48.9 |
| o.w. Guarantees | 201 | 0.6 | 1.0 |
| **Total:** | **18,469** | **59.5** | **100.0** |

Source: MoFNPT, Debt Management Division

The table below provides a breakdown of the total debt stock in terms of central Government and Government Guaranteed debt as at the end of the third quarter of 2024. As illustrated, Central Government debt accounts for 95.8% whereas Government Guaranteed debt accounts for only 4.2% of the total debt stock.

**Table 5: Total debt by Guarantee Status as at the end of Sept-2024**

| Description | Sept-2024 (SCR' M) | % Share |
|---|---|---|
| Government | 17,696 | 95.8 |
| Guarantees | 773 | 4.2 |
| **Total:** | **18,469** | **100.0** |

Source: MoFNPT, Debt Management Division

## 2.1. External Debt Profile

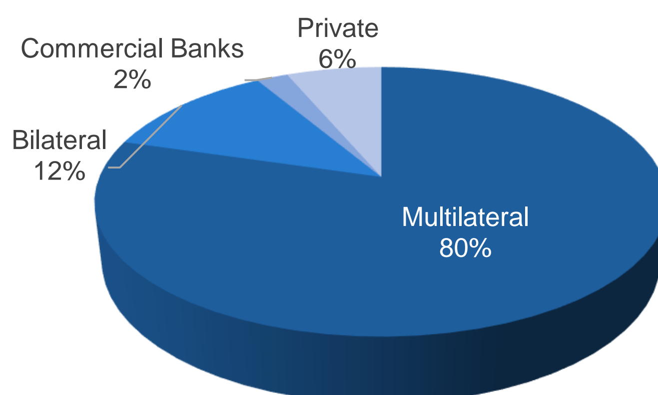
The table below gives a more detailed breakdown of the external debt profile as at the end of September 2024. The total external debt amounted to SCR 9.2bn in comparison to the same period last year, which stood at SCR 8.2bn. This increase is mainly attributed to the disbursements from multilateral creditors previously stated and also a weakening of the local currency. By the end of September 2024, the Seychelles rupees was trading at SCR 14.65 to a dollar compared to the same period last year whereby the SCR/ USD rate stood at SCR 14.18- a depreciation of 3.3%.

Figure 2 below shows the distribution of creditor categories across the total external debt stock. Multilateral creditors remains as the main component at 80% followed by bilateral creditors at 12%. The remaining 6% and 2% of the overall external debt stock are represented by private creditors and Commercial Banks respectively.

**Table 6: Total External debt by Creditor Category**

| Description | Sept-2024 (SCR' M) |
|---|---|
| **Multilateral** | **7,337** |
| **Bilateral *of which;*** | **1,102** |
| *Paris Club* | *543* |
| *Non-Paris Club* | *558* |
| **Commercial Banks** | **196** |
| **Private** | **591** |
| **Total:** | **9,225** |

**Figure 2: Percentage distribution by Creditor Category**




Source: MoFNPT, Debt Management Division

There are two main types of instruments under the external debt portfolio; loans and securities. External loans makes up the majority of the portfolio at 92.9% whereas securities accounts for the remaining 7.1%.

**Table 7: External Debt by Instrument Type**

| Description | Sept-2024 (SCR' M) | % Share |
|---|---|---|
| Loans | 8,567 | 92.9 |
| Securities | 658 | 7.1 |
| **Total:** | **9,225** | **100** |

Source: MoFNPT, Debt Management Division

## 2.2. Domestic Debt Profile

The domestic debt stock comprises of all the debt liabilities owed to residents of the Seychelles economy. At the end of the third quarter of 2024, the domestic debt stock amounted to SCR 9.2bn in contrast to September 2023, which was SCR 9.3bn. The SCR 97m, or 1.0% decrease within the domestic debt stock was mainly due to the repayment of a 7% 3-year fiscal bond worth SCR 300m as well as a 5.75% 3-year T-bond worth SCR 475m. This was partially offset by the issuance new domestic securities over the period.

**Table 8: Domestic Debt by Instrument Type**

| Description | Sept-2024 (SCR' M) | % Share |
|---|---|---|
| **Loans** | **782** | **8.5** |
| **Securities *of which;*** | **8,416** | **91.0** |
| *T-bills* | *2,337* | *25.3* |
| *T-bonds* | *5,709* | *61.8* |
| *Deposits* | *45* | *0.5* |
| *Notes* | *325* | *3.5* |
| **Other Debt Liabilities** | **46** | **0.5** |
| **Total:** | **9,244** | **100** |

Source: MoFNPT, Debt Management Division

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# Risk Indicators

*Sound risk management, debt and organisational structures are important elements in reducing exposures to risks such as interest risks, currency risks, liquidity risks and operational risks.*

## 3.1. Refinancing Risks

Refinancing risk refers to the risk that the existing debt will have to be refinanced at an unusually high cost or, in extreme circumstances, cannot be refinanced at all. The Average Time to Maturity (ATM), the debt redemption profile of the outstanding debt stock and the percentage of debt maturing within one year, are important measures of the exposure to refinancing risk. These are analyzed below.

### 3.1.1. Average Time to Maturity

The Average Time to Maturity (ATM) quantifies the weighted average duration until the debt within a portfolio matures. For 2024, the estimated average life of the total portfolio is approximately 5.7 years, an increase from 4.8 years or 18.7% from what it was in 2023. This trend suggests an extension in the average period until the maturity of the portfolio.

The rise in ATM for the external portfolio can be attributed to ongoing disbursements from multilateral creditors through budget supports and longer-term project loans from bilateral sources. As a result, the external portfolio is now more favorable, providing the Government with some additional fiscal space for the medium term. Conversely, the domestic portfolio has seen a reduction in its ATM from 2.8 years in 2023 to 2.2 years in 2024. This can be explained by the previously issued bonds that is gradually approaching maturity.

**Table 9: Average Time to Maturity (2023 vs 2024)**

| ATM (Years) | 2023 | 2024 | Diff. (%) |
|---|---|---|---|
| **External Debt** | **6.7** | 7.8 | 16.4 |
| **Domestic Debt** | **2.8** | 2.2 | -21.4 |
| **Total Debt** | **4.8** | **5.7** | **18.7** |

Source: MoFNPT, Debt Management Division

### 3.1.2. Share of Debt Maturing within one year

As indicated in the table below, approximately 19.7% of the total debt is set to mature within one year, representing a decrease of 2.9 percentage points from 2023, when 22.6% of the debt was due within

the same timeframe. This decline can be primarily attributed to the external debt side as a result of Government securing external funds which bears longer maturity period. Domestically, the ratio shows an increase in the proportion of debt maturing within one year. This is reflective of the fact that some previously issued bonds, such as the solidarity T-bonds, are approaching maturity as previously stated.

**Table 10: Debt maturing within 1year (2023 vs 2024)**

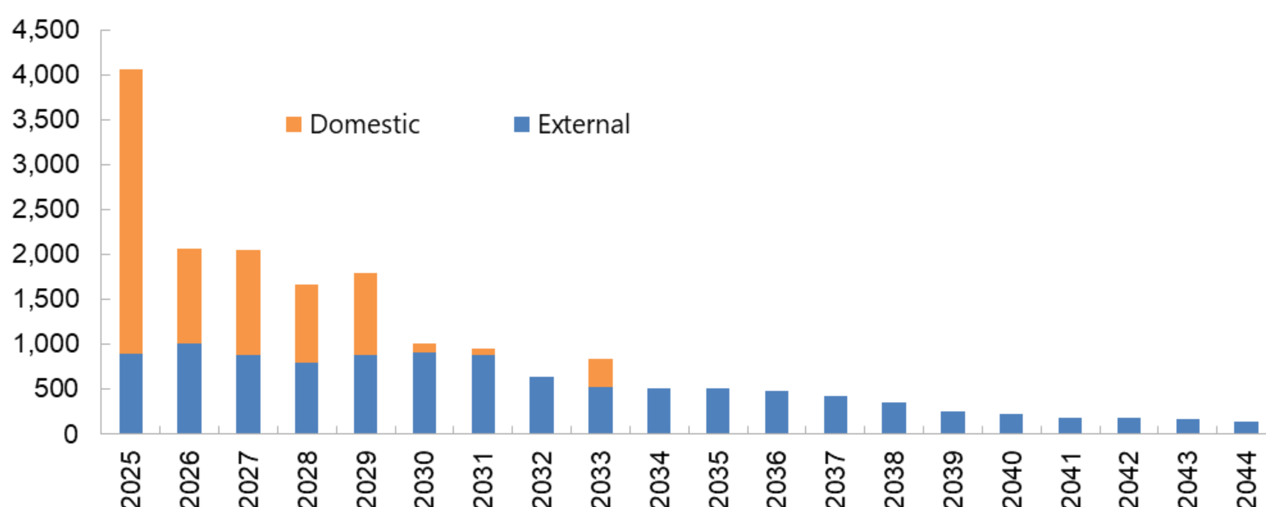
| Debt maturing in 1yr (% of total) | 2023 | 2024 | Diff. (%) |
|---|---|---|---|
| **External Debt** | 11.2 | 7.0 | -37.5 |
| **Domestic Debt** | 34.3 | 41.5 | 21.0 |
| **Total Debt** | **22.6** | **19.7** | **-12.8** |

Source: MoFNPT, Debt Management Division

3.1.3 The Redemption Profile

The debt maturity/ redemption profile shows the total principal payments falling due each year over the life of the portfolio.

**Figure 3: Total debt redemption profile**




Source: MoFNPT, Debt Management Division

As illustrated in the figure above, approximately SCR 4.1bn of debt is projected to mature in 2025. Notably, around 77% of the current domestic debt stock is set to mature in the same year, highlighting a concentrated redemption profile between 2025 and 2027. This concentration is largely due to a significant portion of short-term instruments, particularly T-bills- which include marketable securities. Within the domestic debt portfolio, T-bills account for about SCR 2.0bn of the total debt due in 2025, including an annual rollover of SCR 1.2m in marketable securities bills. As part of its debt

management strategy, the Government remains committed to extending the maturity of the domestic debt portfolio to limit refinancing risks but at the same time maintain the right balance of short-term securities. Furthermore, the redemption profile from 2030 to 2044 mirrors that of the external debt, which predominantly consists of longer-term instruments. The current external debt profile suggests a low exposure to refinancing risks; however, this strategy introduces a notable exchange rate risk, particularly as about 23% of the total external debt is expected to mature by the end of 2025. The total external principal repayments are anticipated to peak in 2026, coinciding with the amortization of restructured Paris Club debt and the maturity of the Blue Bond. This necessitates careful monitoring and strategic planning to balance refinancing needs and manage exposure to potential currency fluctuations.

## 3.2. Interest Rate Risks

Interest rate risks refers to the risk of increases in the cost of the debt arising from changes in interest rates. This risk can occur when interest rates on floating rate debt are reset and/or maturing fixed rate debt needs to be refinanced. Indicators of Interest rate risks 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.

### 3.2.1. Fixed Rate Debt as a Share of the Total Debt

The share of fixed rate debt within the portfolio is another indicator of interest risks. It indicates the portion of debt that bears fixed interest rate. The higher the share of fixed rate debt, the lower the exposure to interest rate risks.

**Table 11: Fixed Rate Debt as a Share of the Total Debt (2023 vs 2024)**

| Fixed Rate Debt (% of total) | 2023 | 2024 | Diff. (%) |
|---|---|---|---|
| **External Debt** | 28.9 | 43.9 | 35.0 |
| **Domestic Debt** | 94.1 | 99.8 | 6.0 |
| **Total Debt** | **60.9** | **64.5** | **6.0** |

Source: MoFNPT, Debt Management Division

The domestic debt portfolio comprises 99.8% fixed-rate debt, whereas the external debt portfolio includes only 43.9% fixed-rate debt. The proportion of fixed-rate external debt has increased by nearly 35% compared to the previous year, driven mainly by the inclusion of the outstanding debt to Russia, which the Government this year managed to agree on a settlement agreement for the facility. Additionally, loan facilities have been signed for some projects that bears fixed interest rate component,

which is being taken into consideration in the forecast. The increase on the domestic side is primarily due to the volume of securities in the portfolio. To note, a tranche of SCR 30m of a *variable* domestic commercial loan in the portfolio partially matured this year hence explaining the increase in fixed rate debt. The overall risk in the debt portfolio remains moderate. This upward trend in total fixed-rate debt will contribute to better risk management and financial stability.

### 3.2.2. 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. Assessing the proportion of debt that needs re-fixing shows the extent to which the portfolio is vulnerable to a higher funding cost as a result of higher market interest rate.

**Table 12: Average Time to Re-Fixing (2023 vs 2024)**

| Average Time to Re-fixing (ATR) (years) | 2022 | 2023 | Diff. (%) |
|---|---|---|---|
| **External Debt** | 1.4 | 2.6 | 85.7 |
| **Domestic Debt** | 2.4 | 2.2 | -8.3 |
| **Total Debt** | **1.9** | **2.4** | **27.0** |

Source: MoFNPT, Debt Management Division

At the end of 2024, the ATR on the external and domestic portfolio stood at 2.2 and 2.6 years respectively. As can be seen in the table below, the ATR on the total debt portfolio increased from 1.9 years in 2023 to 2.4 years in 2024, equivalent to a 27% increase. The increase is observed mainly on the external side, which increased by 1.2 years or 86%, linked to the new loans disbursed that has longer maturity with an average grace period of 5 years. On the other hand, the decline in the domestic portfolio is indicative of some fixed-interest rate bonds approaching their maturity dates. The risk on the debt portfolio remains moderately high.

### 3.2.3. Percentage of Debt Re-Fixing within one year

The percentage of debt that needs to be rolled-over within one year out of the total debt is another indicator of interest rate risks. Debt is roll-over because either they are maturing or they are debt with variable rate. Table 13 below summarizes the change in percentage of debt Re-Fixing within one year as at the end of 2023 compared to last year.

About 61% of the external debt and 42% of the domestic debt will be subject to a new interest rate within one year. There has been a 5% increase on the percentage of domestic debt that needs re-fixing in a year. This is associated with the increase in issuance of more government securities and also

capturing the fact that some loans are slowly approaching their maturities. On the external side, debt that needs re-fixing has decreased by 22% reflecting the increase in the new external borrowings with fixed rate and a longer maturity profile. The overall risk remains moderate for this indicator.

**Table 13: Percentage of Debt Re-Fixing within one year (2023 vs 2024)**

| Debt re-fixing in 1yr (% of total) | 2023 | 2024 | Diff. (%) |
|---|---|---|---|
| **External Debt** | 77.7 | 61.1 | -21.4 |
| **Domestic Debt** | 39.6 | 41.5 | 4.8 |
| **Total Debt** | **59.0** | **53.9** | **-8.6** |

Source: MoFNPT, Debt Management Division

## 3.3. Exchange Rate Risks

Exchange rate risks relate to the risk of increase in the cost of debt arising from changes in exchange rates. Measures of exchange rate risk include the share of foreign currency denominated debt in the total debt portfolio and the ratio of short-term external debt to international reserves. These are summarized in the table below.

**Table 14: Foreign Exchange rate risks indicators (2023 vs 2024)**

| Risk Indicators | 2023 | 2024 | Diff. (%) |
|---|---|---|---|
| **FX debt (% of total debt)** | 50.9 | 56.9 | 11.8 |
| **ST FX debt (% of reserves)** | 9.4 | 7.5 | -20.2 |

Source: MoFNPT, Debt Management Division

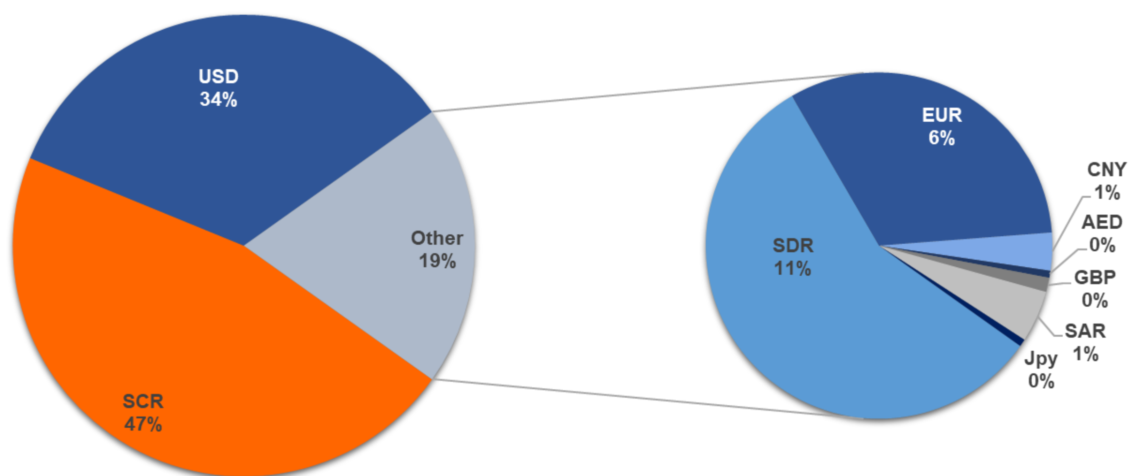
As of September 2024, foreign exchange debt constitutes approximately 56.9% of the total debt, reflecting an 11.8% increase compared to 2023. This rise indicates a growing reliance on foreign-currency-denominated loans, primarily from multilateral creditors. However, despite this increase in FX debt, the composition still suggests a moderate exchange rate risk within the debt portfolio. Moreover, the share of external debt as a percentage of reserves stands at 7.5%, marking an improvement of 20.2% from the previous year. This reduction indicates improved foreign exchange liquidity and a lower risk of liquidity crises, suggesting that the Government is better positioned to manage its foreign obligations without straining the reserves.

**3.3.1. The Currency Composition**

The currency composition of the debt portfolio provides valuable insights into the exposure to exchange rate risks. As illustrated in Figure 4, the total debt stock is predominantly composed of four main currencies: the Seychelles Rupee (SCR) at 47%, the United States Dollar (USD) at 34%, Special Drawing Rights (SDR) at 11%, and the Euro (EUR) at 6%. This distribution suggests a moderate level of exchange rate risk. Notably, there has been a 4% increase in the proportion of USD-denominated debt, primarily driven by new loans from multilateral creditors such as the International Bank for Reconstruction and Development (IBRD), the African Development Bank (AfDB), and the OPEC Fund for International Development (OFID). Additionally, SDR allocation has risen by 1%, reflecting further disbursements under the Extended Fund Facility (EFF) and the Resilience and Sustainability Facility (RSF) programs.

Conversely, SCR-denominated debt has decreased by 3% compared to the previous year, largely due to a reduction in the stock of T-bills, which has subsequently diminished exposure to SCR-denominated instruments. Furthermore, five other currencies forms part of the total debt portfolio composition. These includes the Saudi Riyals (SAR), British Pound (GBP), Chinese Renminbi (CNY), UAE Dirham (AED) and Japanese Yen (JPY) and which together accounts for about 2% of the total debt stock. This minor representation underscores a focused reliance on the main currencies while indicating a diversification strategy that may help mitigate exchange rate risks. Overall, the current composition reflects both the opportunities and vulnerabilities inherent in the portfolio's currency mix.

**Figure 4: Currency Composition as at end of Sept-2024**




Source: MoFNPT, Debt Management Division

## 3.4. Cost of Debt

The weighted average implied interest rate gives an indication of the cost of debt on the portfolio. As shown in the table below, the cost of total debt increased to 5.8% in 2024 compared to 5.0% in 2023. This stems from the external side, whereby the average interest rate on the external debt increased by about 200 basis points, from 4.7% in 2022 to 6.7%. This is directly linked to the increase in new borrowings undertaken over the period that bears a variable interest rate component and aligns to the global interest rate. Compared to last year, the weighted average IR on the domestic debt is lower than on the external side. The weighted average decreased to 4.6% and this is reflective of the observed lower interest rates prevailing on the domestic market and also due to a change in the debt stock composition, whereby the external stock has increased from 46.7% to approximately 50%- at par with the domestic stock.

**Table 15: Cost of debt (2023 vs 2024)**

| Weighted Average IR (%) | 2023 | 2024 | Diff. (%) |
|---|---|---|---|
| **External Debt** | 4.7 | 6.7 | 43.0 |
| **Domestic Debt** | 5.3 | 4.6 | -12.3 |
| **Total Debt** | **5.0** | **5.8** | **16.2** |

Source: MoFNPT, Debt Management Division

## 3.5. Operational Risks

Operational risks relate to various types of risks including transaction errors in the various stages of executing and recording transactions; inadequacies or failures in internal controls, or in systems and services; reputation risk; legal risk; security breaches; or natural disasters that affect the debt management's ability to pursue activities required to meet the debt management objectives. Some of the main operational risks identified are as follows;

### 3.4.1. IT Support

In line with IT risks, there is the risk of failure of the database used to administer the loan. The software is managed by the Commonwealth Secretariat and the necessary backup is ensured on their end. The Debt Management Division migrated to a new, more user-friendly database in 2023, Meridian Commonwealth. The software will still be managed by the Commonwealth Secretariat and relevant training is being given to both IT and debt management staff. It is critical that additional IT personnel are given the necessary training to provide the required support. This will be needed to help minimize long delays whenever there are issues with the debt management system which prevents the department to perform efficiently and in a timely manner. There is also the risk of cyberattacks that prevails with the use of technology that the Division. This is being mitigated by the supplier of the system through effective security measures in place.

Failure in the core banking system may also result in delayed payments both externally and domestically. The T-bills auction process is undertaken via the core banking system and any issues to the core banking may affect the process. CBS is currently doing the necessary to upgrade its core banking system. This will mitigate any potential risk in the current system and include additional features that will ensure smooth running of the T-bonds process which is currently being done manually outside the core banking.

### 3.4.2. Paper Based Documentations

Most of the debt management documentations such as loan agreements, bank statements and transactions confirmations are held in paper format. Constraints relating to storage facilities expose these documents to risks of being misplaced or difficulty to locate. Other risks of paper-based documentations include the risks of physical deterioration, risk of total destruction in the event of a fire or natural disaster. The risk of this has been mitigated substantially as the Ministry has adopted longer-term solutions with its push for digitalization. This will be further enhanced as part of the Ministry's medium term plan of setting up a proper archive system. Furthermore, the new debt management software makes provision to upload documents such as invoices, loan agreements, and official gazette amongst others. This will help to minimise the amount of paper based documents needed. In addition, the Ministry will need to ensure proper back-up systems of all digital form by investing in back-up servers and looking at alternative solutions.

### 3.4.3. Risk of Fraud

The Debt Management Division ensures it settles all debt repayment with the creditors in a timely manner. The creditors always provide their invoices for the Division to effect the necessary payment. There is the risk that false invoices are provided by hackers and repayments are made in their account instead. However, this is mitigated by ensuring due diligence process are followed if there is a change of account and also the accounts are cross-checked and ensure it is for the respective creditors. The majority of creditors have long-time established relationship with the Seychelles and proper historical details of their accounts are kept digitally as well as in hard copies.

### 3.4.4. Foreign exchange risk

The primary source of foreign exchange in the country is from tourism receipts. Any significant impact on the market will decrease the country's foreign exchange earnings and may constraint the Government in settling its debt obligations. This is mitigated by the Central Bank ensuring that the country has adequate reserves to meet all its primary foreign expenditure, which includes debt repayments. Additionally, the Ministry has started discussion on whether there is the need to create a buffer account for debt repayments. This will ensure that in the event of a force majeure, debt repayment is not jeopardized.

# Part III

# The Environment for Debt Management

Seychelles economy remain resilient post pandemic. Real GDP growth is projected to grow by 3% in 2024. Fiscal performance in the first half of 2024 was tighter than budgeted, driven by robust tax collection. However, Government spending was largely consistent with budget projections, with a minor under-execution across wages and salaries, goods and services, and capital expenditures. Based on the aforementioned, for 2024, it is expected that Government will achieve a primary balance of 1.1%. The strong fiscal consolidation will ensure that debt remains on a sustainable path. Given the country's high vulnerability to external shocks and climate change, the outlook remains subject to considerable risks. The ongoing geo-political issues in the middle-east poses significant external risks associated with increase in commodity prices, shocks in the tourism markets or war related disruptions.

## 4.1. The Real Sector

Economic growth in Seychelles appears to have slowed relative to earlier forecasts. Tourist arrivals have declined in the wake of a recent decrease in direct flights, and spending per tourist has also weakened as spending patterns tighten relative to very high levels seen in the two years following the pandemic. Real GDP is projected to grow by 3% in 2024.

For 2025, GDP growth is projected at 4.3%, which is mainly attributed to growth in tourism related activities such as 'Accommodation and food service', and 'Administrative and support service'. This is attributed to a 3.5% growth in visitor arrivals anticipated for 2025. The combination of increased visitors and major public events will help to boost growth in the manufacturing of beverages industry as well as the wholesale and retail sector. Growth will also be supported by activities in the ICT sector, which is also supported by growing tourism in addition to the country's goal of increased digitalisation. Furthermore, the concrete and rock material production sector is expected to begin recovery and further support an estimated 6% growth of the construction sector.

Over the ***medium term***, real GDP growth is projected to average 3.5 per cent supported by the steady visitor arrivals growth trajectory and the continuous development of various sectors, particularly tourism and ICT.

## 4.2. The Fiscal Sector

The Government is expected to achieve a primary fiscal surplus of 1.1% in 2024. This follows tighter fiscal performance in the first half of 2024, driven by robust tax collection and higher tax revenues and dividend income than anticipated. Additionally, Government spending remained largely consistent with budget projections.

Despite a lower GDP growth forecast for 2024, the Government remains committed to maintaining the primary fiscal balance of 1.1% per the initial Budget. Budgetary performance for the first six months shows a primary surplus of 2.2% of GDP. Revenue performed better than expected during the same period. For 2024, revenue excluding grants is expected to reach 33.9% of GDP, up from 31.5% in 2023. Expenditures for 2024 are now expected to stand at SR 11.5bn. As a share of GDP, total expenditure and net lending stands at 37%.

The ongoing program with IMF as well as other Budget support program will help fill the financing gap in the short to medium term. Furthermore, the RSF will ease fiscal pressure and open more avenues for financing and investing in climate related projects. The positive economic growth back up with robust Government revenues and fiscal consolidation, has reduced debt vulnerability. The Government remains committed in maintaining a resilient fiscal consolidation over the medium term, with an average primary surplus of 1.6%. This will enable debt to continue on its downward trajectory and achieve a debt to GDP ratio of 50% before 2030.

## 4.3. The Monetary Sector

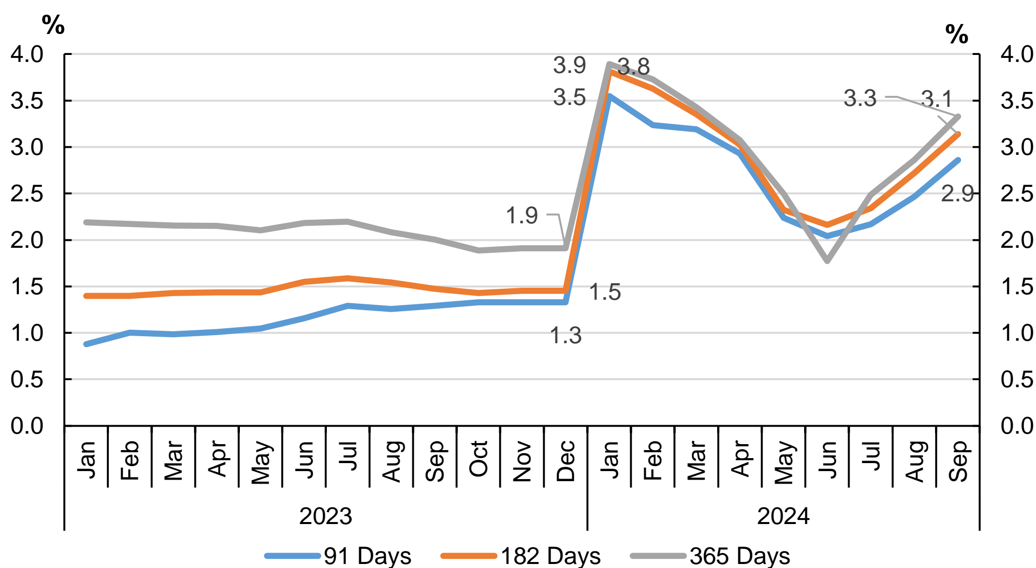
As at the end of September 2024, the year-on-year rate of inflation stood at 0.6% whilst the 12-month average was negative 0.7%, reflecting stable utility rates and the impact of stable or declining prices for fuel and other commodities. The year-on-year and 12-month average rate of inflation are forecast at 2.5% and 0.5%, respectively, by December 2024 due to expected increases in electricity tariff and weaker currency.

The Central Bank of Seychelles (CBS) has maintained an accommodative monetary policy, which has helped to facilitate an increase in the growth of private sector credit. The Monetary Policy Rate (MPR) was lowered by 25 basis points, from 2.0% to 1.75% for the second quarter of 2024, and maintained at that level thereafter. Consequently, the interest rate on the Standing Deposit Facility (SDF) and Standing Credit Facility (SCF) was reduced to 0.25% and 3.25%, respectively. The accommodative monetary policy stance led to a decline in short-term interest rates, with the yield on the 7-day Deposit Auction Arrangement (DAA) standing at 1.75% at end-August 2024 relative to 2.45% at end-March 2024. While inflation remains low, the CBS stands ready to act if inflationary pressures materialize. The CBS will continue its efforts to strengthen Seychelles' monetary policy framework and closely monitor financial sector soundness.

There was a decline of 3.6 basis points in the average interest rate on rupee-denominated savings deposits in August 2024 relative to March 2024, whilst the interest rate on local currency loans remained relatively unchanged. Conversely, there was an increase of 28 basis points in the rate of interest on foreign currency-denominated loans. With regard to government securities, there was an increase in the yield on all three maturities of T-bills, mainly on account of higher issuance. As at September 2024, the 91-day, 182-day and 365-day T-bills stood at 2.86%, 3.14% and 3.33%, respectively.

**Figure 5** below demonstrates the trend of T-bills average yield from the year 2023 to the end of September 2024. The T-bills fluctuated between averages of 0.7% on the 91-day bills to 2.0% on the 365-day bills over the year 2023. Given that the rate was not attractive, the market responded, and there was a sudden spike at the beginning of 2024 in the interest rate across all bills following the competitive auction process.

**Figure 5: Interest Rate on T-bills**




Source: Central Bank of Seychelles

*Moving forward,* the increase in economic activity is anticipated to be accompanied by a rise in the import of goods and services. Considering the anticipated rise in global food and oil prices, demand for foreign exchange is likely to rise, which may result in a year-on-year depreciation of the rupee in 2025. As such, domestic prices of goods and services are anticipated to increase in 2025 and remains subject to several risks such as the geopolitical risks, geo-economic fragmentation and trade disruptions.

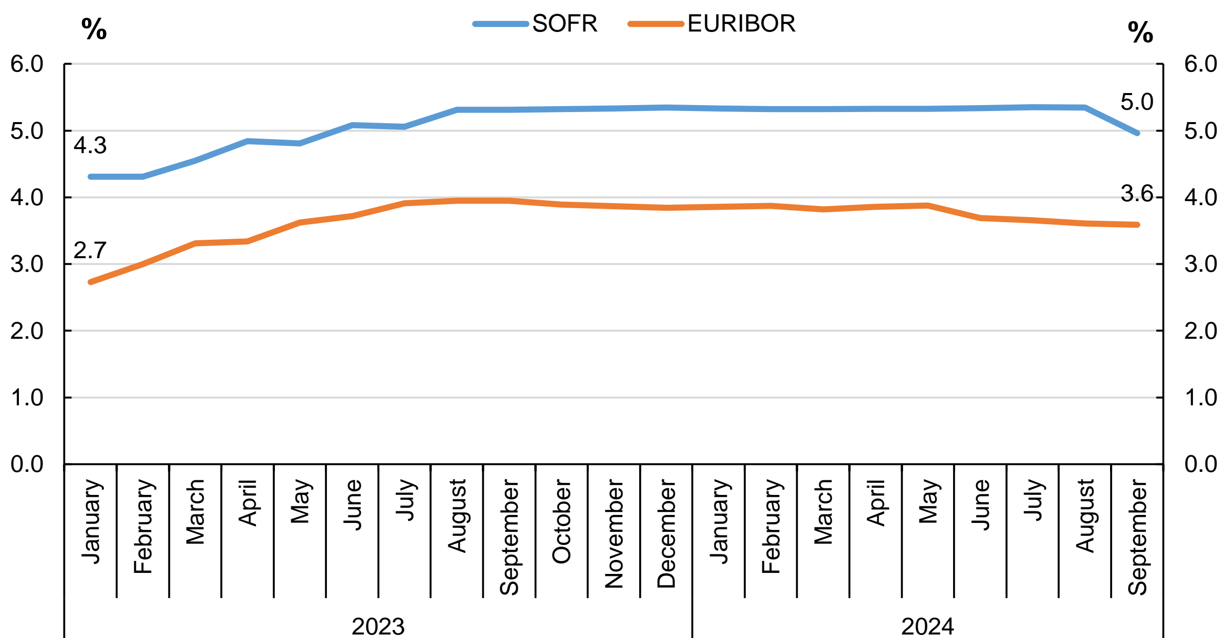
## 4.4. The External Sector

Despite the slowdown in tourism, the external balance of payments is expected to strengthen in 2024. Weaker income from tourism is expected to expand the current account deficit to USD 229m or 10.7% of GDP in 2024 compared to at USD 155m or 7.2% in 2023, even with higher tuna and other exports. However, financial inflows—in the form of foreign direct investment—will cushion this temporary downturn and facilitate an increase in central bank foreign exchange reserves to the equivalent of 3.7 months of import cover by end-year.

Gross International Reserves (GIR) amounted to USD 753m as at end-August 2024, which was an increase of 2.2% from USD 737m recorded at end-March 2024. The rise in GIR was primarily attributed to inflows for budget support, as well as purchases from the market, whereby CBS accumulated approximately USD 47m during the first half of the year, through its Foreign Exchange Auctions (FEA).

*Reference Interest Rate*

**Figure 6: EURIBOR SOFR Interest Rate- Jan-Sept 2024**




Source: Global Rates

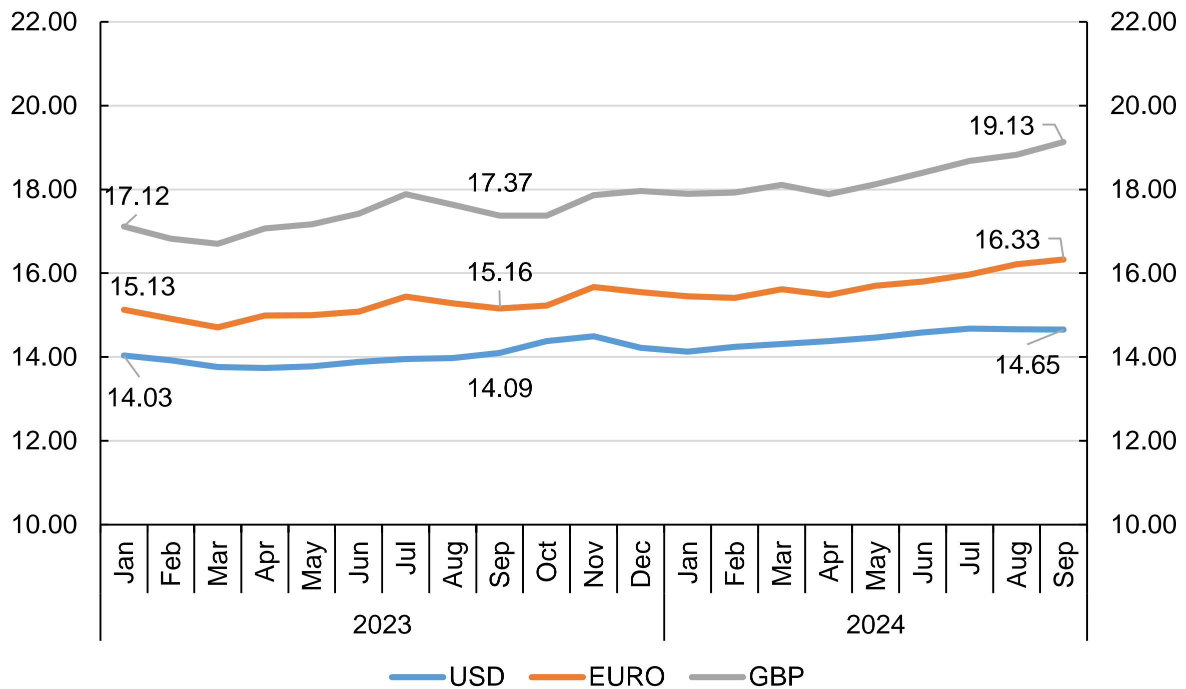
As of January 2022, the USD LIBOR had been replaced by a new reference rate, SOFR. There was a significant increase in the interest rates since 2022. From January 2023 to August 2023, the rate has increased by about 100 basis point, from 4.3% to 5.3%. The rate has fluctuated around the same level since then up until September 2024, where there was a sudden decline of 30 basis points to reach 5.0%. This follows the Federal Reserve's announcement to lower interest rate by 50 basis points, easing monetary policy for the first time in four years. On the other hand, the rate on the 6-Months EURIBOR is relatively lower. However, the EURIBOR follows the same pattern as the SOFR, with an upward

trajectory over the past year but more or less stable. By the end of September 2024, the rate stood at 3.6%, or 90 basis point higher than at the beginning of the year 2023. The high reference rates over the past year has significantly increase the cost of borrowings. Following FED's announcement, it is anticipated that the rates will start moving on a downward trajectory to eventually reach a new equilibrium.

*Foreign Exchange*

The Seychelles rupee depreciated against the major traded currencies from January to September 2024 relative to the same period in 2023. In annual average terms, the domestic currency weakened by 4.0% against the USD. This reflected developments in the domestic foreign exchange market, whereby there was an increase of 3.1% in demand, whilst supply grew by 0.5% over that period. As at the end of September the Seychelles rupee was trading at SCR 19.31, SCR 16.33 and SCR 14.65 to the GBP, EURO and USD respectively.

**Figure 7: Foreign Exchange Rate- Jan-Sept 2024**




Source: Central Bank of Seychelles

# The Debt Management Strategy Framework

## 5.1. Debt Management Strategy 2025-2027

This section looks at different strategies to help the Government make an informed decision in terms of debt management in the medium term. Government needs to ensure that the debt remains sustainable thus needs to adopt a strategy that is both cost effective and less risky. Four feasible financing options were evaluated under baseline macroeconomic assumptions for 2025-2027 and shock scenarios to ensure that the most effective debt management strategy is adopted for achieving the desired future debt structure based on cost and risk implications. The 2025-2027 MTDS will guide the Government's borrowing and intends to ensure a well-balanced composition of its debt portfolio in terms of costs and risks.

The Debt Management Strategies for the Seychelles debt portfolio has been guided by the following choices;

- Concessional / semi-concessional / bilateral/ commercial
- External versus domestic financing
- Currency composition
- Short- and long-term maturities
- Variable and fixed rate debt

### 5.1.1. Alternative Strategies

In what follows, four feasible financing strategies are considered to meet the financing needs. The analysis considers a set of feasible strategies within the current envelope of available external concessional/semi-concessional finance and with respect to the potential of tapping into domestic and international market borrowings. The four strategies reflect different borrowing composition to cover the Gross Financing Needs (GFN) during the MTDS horizon period of 2025-27. Borrowing composition for each strategy varies with respect to the share of multilateral, bilateral and international capital market sources of external borrowings and domestic market financing through T-bills and T-bonds with different tenors. As the strategies exactly cover the GFN during each year, without any over-borrowing/pre-funding or under-borrowing through utilization of financial assets, there is an implicit steady end-year cash balance between end-2024 and end-2027.

**Government guarantees are not taken into consideration in this analysis**.

Strategy 1- *Great Reliance on Concessional External Borrowings*

Strategy 1 (S1) assumes that the Government will continue to rely on high external concessional financing over the medium-term as was the case over the past three years. The strategy envisages meeting an average of almost 60% of GFN through concessional external financing over 2025-2027, mainly in the form of budgetary support loans sourced from multilateral and bilateral creditors. However, it is important to note that there could be constraints to this strategy as expectations about bilateral financing may not materialize in the absence of firm commitments. The residual financing from domestic sources is assumed to be met by T-bills and T-bonds in the ratio of 60:40 respectively, with 20% of the latter being allocated for 10-year Bonds and the remainder being evenly spread across tenors of 3-, 5- and 7-year bonds. Net external financing under this strategy during this period would amount to an average of 2.6% of GDP while net domestic financing would be negative.

Strategy 2 - *Balanced Domestic and External Financing*

Strategy 2 (S2) reflects a balance borrowing strategy between domestic and external. Compared to S1, this scenario assumes a reduction in multilateral budgetary financing which may be limited in the medium term. This is substituted by a 10% in commercial financing. Net external financing under this scenario will reduce by around 9% compared to S1. On the domestic market, issuances will be split between T-bills and T-bonds in the ratio of 50:50. This strategy will lower the rollover risk of T-bills by slightly over 20% given more focus on bond issuance, especially for 10 and 7 year bonds. This strategy is considered under the assumption of a continuous appetite for Government securities on the domestic

Strategy 3 - *International Sovereign Bond Issuance*

Under this strategy (S3), the reduction in concessional external financing is offset by issuance of a sovereign bond in the international market. As in S2, there is a significant reduction in bilateral financing, along with a reduction in project loans. The option of international bond issuance has been considered in this strategy for an amount of almost USD 100m, offsetting the decline in external concessional financing that is expected in 2026 and beyond as access to budget support diminishes. The residual domestic market financing is distributed in the ratio of 60:40 between T-bills and T-bonds, respectively.

Strategy 4- *Greater focus on domestic market development towards shorter maturities*

Strategy 4 (S4) envisages relatively more domestic market issuance with a focus toward shorter-term bonds. Although this strategy experiences a reduction in concessional external financing (similar to S3), it deviates from S3 by relying exclusively on domestic market financing to cover the financing gap. The residual financing from domestic sources in this strategy is assumed to take place with a heavy reliance of T-bills- 80% of domestic financing will be through bills. Since the investor base is dominated by banks, absorption capacity would be tilted towards the relatively shorter-end of the yield curve. Net external financing will be the lowest under this strategy while net domestic financing will be the highest. In comparison to other strategies, net issuance of T-bills would decline the least under this strategy.

### 5.1.2. Analysis of the Alternative Strategies

***Cost-risk indicators***

The table below presents the risk indicators associated with the different proposed strategies. The MTDS exercise points to a reduction in public debt burden across all strategies under the baseline scenario in-line with the objectives of Government's debt strategy. The debt-GDP ratio is expected to decline over the end-2024 level by an average of 3 percentage points of GDP to a level of around 56.2% – 56.5% of GDP at the end of 2027 across all strategies[1]. It is worth emphasizing that this analysis does not take into consideration any guarantees in the baseline analysis.

The continuous debt reduction over the period is mainly due to favorable macroeconomic conditions such as buoyant economic growth and gradual reduction in global interest rate being anticipated. Additionally, the strong fiscal discipline over the medium term will enable debt to decrease over the medium term.

Assessing the cost and risk indicators, the presented strategies provide an implied portfolio interest rate lower than the current implied rate. S4 shows the lowest implied rate given the heavy reliance on domestic securities, which currently is at a slightly more favorable rate than the prevailing global interest rate. All strategies analyzed shows a decline in the interest payment over the medium term given the forecasted decline in interest rate.

The refinancing risks is projected to be more favorable under S1 given the heavy reliance on concessional and semi-concessional loans under external debt with long maturities of between 25 and 40 years. S1 shows that only 20.8% of debt will mature within a year- lower than the current scenario. S4 provides the shortest ATM of only 1.8 years on the domestic portfolio and this is attributed to the larger proportions of T-bills which is a very short-term debt instrument. The ATM of the complete portfolios averages to 4.7 years under S1-S3 in comparison to S4 which is 3.7 years only. The percentage of debt maturing within one year is only significantly higher in S4 compared to the other strategies given the high concentration of T-bills previously mentioned.

Looking at the interest rate risk, the ATR increases across all strategies with the exception of S4 under which the ATR falls from 2.4 years to 1.8 years. Similar, the 62.5% of the Debt under S4 will need re-fixing within a year in comparison to only 43.4% under S1. Only S4 is showing a higher percentage of debt re-fixing within a year by the end of 2027 in comparison to the current year.

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[1] It is important to note that this take into consideration the interest rate and exchange rate shocks considered in the exercise. This is explain further in the next section.

Under all strategies there is the risks associated with foreign exchange rate risk is minimized significantly. This is attributed to gradual reduction in the stock of external debt as a substantial portion will mature over the medium term. The share of FX debt will average to 39.0% by the end of 2027 under all strategies with slightly lower exposure under S3.

**Table 16: Cost Risk Analysis of Strategies as at end of 2027**

| Risk Indicators | | 2024 | As at end FY 2027 | | | |
|---|---|---|---|---|---|---|
| | | Current | S1 | S2 | S3 | S4 |
| Nominal debt as percent of GDP | | 59.3[2] | 56.4 | 56.5 | 56.4 | 56.2 |
| Present value debt as percent of GDP | | 65.2 | 60.1 | 60.2 | 60.1 | 59.9 |
| Interest payment as percent of GDP | | 3.8 | 3.5 | 3.5 | 3.5 | 3.3 |
| Implied interest rate (%) | | 6.4 | 6.2 | 6.2 | 6.2 | 5.7 |
| **Refinancing risk** | Debt maturing in 1yr (percent of total) | 21.6 | 20.8 | 22.3 | 27.1 | 39.9 |
| | Debt maturing in 1yr (% of GDP) | 13.1 | 11.7 | 12.6 | 15.3 | 22.4 |
| | ATM External Portfolio (years) | 7.5 | 6.6 | 6.6 | 6.5 | 6.5 |
| | ATM Domestic Portfolio (years) | 2.2 | 3.4 | 3.6 | 3.4 | 1.8 |
| | ATM Total Portfolio (years) | 5.4 | 4.7 | 4.8 | 4.7 | 3.7 |
| **Interest rate risk** | ATR (years) | 2.4 | 2.8 | 2.9 | 2.8 | 1.8 |
| | Debt refixing in 1yr (% of total) | 52.9 | 43.4 | 45.0 | 49.6 | 62.5 |
| | Fixed rate debt incl T-bills (% of total) | 67.3 | 76.1 | 76.0 | 76.1 | 76.0 |
| | T-bills (percent of total) | 10.5 | 10.2 | 14.0 | 18.7 | 31.5 |
| **FX risk** | FX debt as % of total | 56.9 | 39.1 | 39.0 | 38.9 | 39.0 |
| | ST FX debt as % of reserves | 7.5 | 5.7 | 5.7 | 5.7 | 5.7 |
| | | 56.9 | 39.1 | 39.0 | 38.9 | 39.0 |

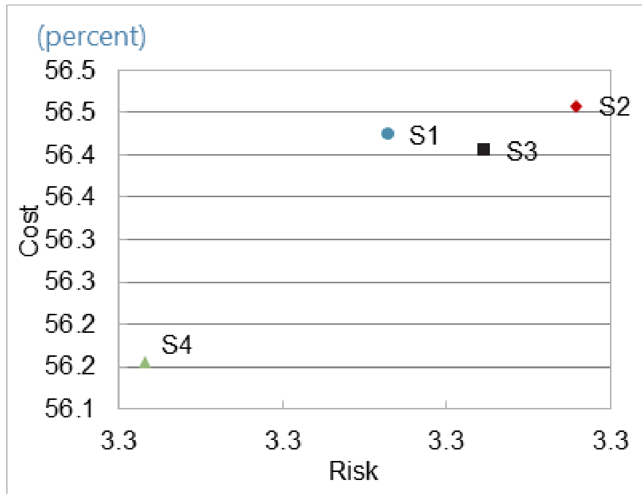
Source: MTDS Tool, Debt Management Division assumptions

**Figure 8** overleaf shows the cost-risk indicators associated to the different strategies. As can be observed, S4 is superior to all strategies when it comes to debt to GDP ratio, present value of debt and also interest to revenue. This is followed by S1 when it comes to the cost in reference to the depicted indicators. S2 involves slightly higher risks than other strategies given the mix of exposure to exchange rate risks and also refinancing risks. Under S1, the interest rate risk is lower than the other strategies given the nature of the financing strategy. The debt to GDP ratio will reduce moderately by 2027 under all strategies. It is expected that over the long term as financial consolidation improves further, Government will attain its debt objective of 50% debt to GDP ratio before 2030.

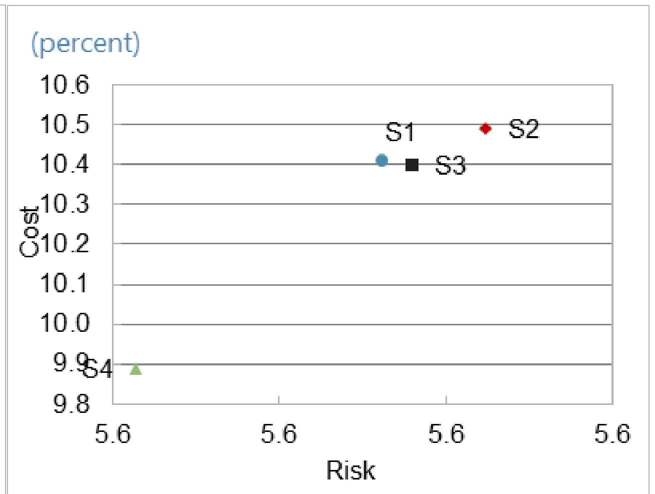
[2] This excludes Guarantees and the SDR allocation.

**Figure 8: Cost-Risk Indicators as at the end of 2027**

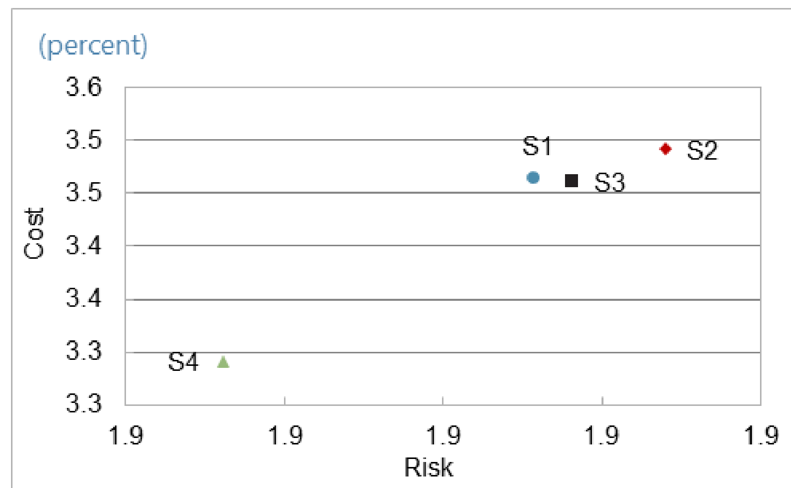
**Debt to GDP**




**Interest to Revenue**




**Interest to GDP**




Source: MTDS Tool, Debt Management Division assumptions

***Shocks***

It is important to note that the MTDS illustrates the impact of some shocks applied on the exchange rate and interest rates to assess the sensitivity of changes in market rates on the debt portfolios that result from implementing the different debt strategies. For the purpose of the analysis two specific shocks are considered throughout the risk analysis. One on the exchange rate and one on the interest rate.

On the **exchange rate**, two shocks are analysed as follows;

- moderate shock; an additional depreciation (on top of the depreciation assumed in the baseline) of 15% in 2025, which is applied in combination with the interest rate shock;
- extreme shock: a depreciation of 30% in 2026.

For the **interest rate** two shocks are also analysed as follows

- moderate shock: it is assumed that there is an increase of external and domestic interest rates of 250 bps over the period 2025-26. This shock will affect external and commercial (variable rate) as well as domestic debt.
- extreme shock (stand-alone): in this shock, the interest rate increase is 500 bps. Finally, it is assumed that given the size of the shock, official external creditors adjust the cost of lending by increasing the concessional rate by 100 bps (on average) for fixed-rate loans to adjust their funding cost based on a sharp market re-pricing.

A combined moderate shock on exchange rate and interest rate was applied to capture the impact on the debt portfolio.

***Other strategic considerations***

In addition to cost-risk considerations, macroeconomic and financial market implications associated with specific strategies are also important in identifying the preferred strategy.

Given that Seychelles is a high-income country, accessing adequate concessional finance as implied in S1 may be limited. Therefore, the Government may need to rely more on market financing, both domestic and international in the medium term. Furthermore, given the recent increase in global interest rate, the cost of variable interest rate bearing loans has increase, even for that of multilateral creditors. Additionally, absence of firm commitments from bilateral credits is another cause of concern.

The strategies analyzed do not consider any change in the end-2024 Government cash balance. Any reduction in the current level of cash balance would imply a lower level of residual domestic financing and vice versa. The minimum cash balance is currently set at SCR 300m, around 1.0% of GDP. Changes in the cash balance will influence the domestic financing component of the adopted strategy.

Furthermore, the preferred strategy aims to strike a balance between required level of T-bills available in the market and the maximum threshold of refinancing risk that the Government can endure. Given the relatively under-developed money market and the systemic importance of T-bills for liquidity management by banks, there is a need to maintain a minimum stock of T-bills in the market. Until the time the money market benefits from the development of an active inter-bank market, it may be imperative to support the T-bills supply.

The injection in supply of T-bonds could have implications for market absorption capacity due to maturity mismatches in banks' balance sheet. Increase in demand for private sector credit could result in lower capacity to absorb longer-term bonds, especially when there is no secondary market for bonds and repo facilities. With the aim of developing a secondary market of Government securities, the Government in collaboration with the CBS will develop a draft operational framework and launch a 6-month pilot retail investor-oriented purchase window as a prelude to a full-scale buyback facility for the trading of Government securities through commercial banks by the end of 2025.

Seychelles economy is highly dependent on the Tourism industry hence subjected to externally induced shocks arising from the global economy. This can have significant impact on the exchange rate. It may therefore be preferable to have local currency debt to mitigate exchange rate risks as implied by S3 & S4.

### Conclusion

There is no clear alternative strategy that is the best under all cost-risk indicators. Mitigation of exchange rate risk would suggest that strategies S3 and S4 are preferred. However, should lower refinancing risk be the priority, then strategies S1 and S2 deliver better results. On the other hand, in terms of interest cost and better redemption profile, S1 would be preferred. However, access to concessional external financing may be limited and will need further negations and firm commitments from the creditors.

Looking at it deeper, both S3 and S4 could be good strategies especially with the retrenchment of external concessional finance in the medium term and the debt portfolio tends to be more resilient to the macro-fiscal shock. However, S3 has higher budgetary risk and entails risk on the redemption profile with high probability of roll over risks. S4 is an ideal strategy but there is a great element of uncertainty associated with it given the concern of the absorption capacity of the domestic market and also the high level of associated refinancing risk.

Looking at it globally, S1 will be adopted for debt management by the Government for 2025-2027. The Government will benefit from concessional loans and also from increase credit worthiness given the support of multilateral creditors. The global interest rate has recently move on a downward trajectory compared to the past year after the sharp spike. The Debt Management Division will be monitoring closely the movement and will be liaising with some of the creditors and assess the feasibility of fixing

some of those loans when the interest rates becomes even more favorable hence moderating the fluctuations in cost under the proposed strategy. This will be done with the aim of reducing public debt sustainability risk. The foreign exchange risk is fairly moderate under this strategy and the foreign exchange reserves is healthy to accommodate the foreign exchange demand.

On the domestic side, the aim is to initiate a regular bond issuance plan through the auction mechanism and at the same time maintain T-bills issuances to around 4%-6% of GDP hence reducing the refinancing risks and ensuring that there is a right balance in the stock of T-bills for banks' liquidity management needs. Bonds issuance will be supported by initiating trading reforms in Government securities previously mentioned.

The proposed debt strategy will depend on firm fiscal discipline in order to achieve the necessary surpluses accompanied by steady economic recovery. The implementation of the MTDS will be supported by the publication of the Annual Borrowing Plan along with an auction calendar for all Government securities to help market participants plan their liquidity management and reduce uncertainty. Additionally, interagency coordination will continue on a quarterly basis, at a high level, between the Ministry of Finance and Central Bank through the existing National Public Debt Management Committee to determine the quarterly borrowing plan.

# Public Debt to GDP forecast 2025-2027

The table below summarizes the estimated forecast for the debt to GDP ratio for 2025-2027. Note that the forecast is based on the best information available at the time of publication in line with the macro assumptions adopted by the Ministry of Finance, National Planning and Trade's for the 2025 Budget. The estimates are based on a range of economic and other parameters. In comparison to the MTDS analysis, the ratios covered under this section includes the guarantees and consistent with the IMF forecasts by taking into consideration the SDR allocations.

As can be seen, the debt to GDP ratio is anticipated to decrease slightly by 0.6 percentage point in 2025 reflecting Government's strategic approach to finance infrastructure projects through sustained borrowings and also through the use of additional Budget supports from multilateral and bilateral creditors. Provision has also been made to cater for Government guaranteed loans especially to accommodate for the Port expansion project. The ratio will decline faster over the medium term to reach about 55.9% of GDP by 2027. This will be achieved through maintaining a resilient fiscal consolidation to achieve sustainable primary surpluses over the medium-term and steady economic growth previously highlighted. Borrowings will be done through a mixture of external and domestic borrowings as per strategy adopted following the MTDS analysis, being cautious of the risks on the portfolio as highlighted in the debt strategies in the previous section.

**Table 17: Debt to GDP Forecast 2025-2027**[3]

| Indicator | 2024 Est. | 2025 | 2026 | 2027 |
|---|---|---|---|---|
| **Debt to GDP (%)** | **61.5** | **60.8** | **59.1** | **55.9** |

Source: MoFNPT, and IMF Tables

Albeit external risks still prevails, based on the latest macro-economic indicators and forecasted fiscal position, Government remains committed in keeping the debt on a sustainable path. The latest analysis on the debt dynamic indicates a gradual reduction of debt to GDP ratio over the medium-term to reach about 50% before 2030; aligned with the pre-COVID target as per Government's commitment. This reduction will be primarily driven by robust real GDP growth and favorable primary balances, underpinned by prudent fiscal discipline and targeted policy measures over the medium term.

[3] The numbers are based on the baseline scenario and do not take into considerations the shocks considered under the Debt Management Strategy section

# Conclusion

The MTDS will be implemented through annual borrowing plans that meets the funding requirements of the Government for each fiscal year. The borrowing plan takes into account the desired composition assumed in the MTDS analysis. The information of the Government's domestic borrowing plan will be disseminated to the market on a quarterly basis through the publication of auction calendar. Additionally, Government will announce auction calendar of T-bills every month. The auction calendar contains tenor wise and target amounts which the government intends to borrow from domestic securities for financing its cashflow requirements during any particular quarter. This will ensure that investors and market participants are aware of Government's plan for them to better plan their investments.

Government will continue working with development partners to deepen the domestic debt market. To create a secondary market for Government securities, the Government, in partnership with the CBS, will draft an operational framework and introduce a 6-month pilot program focused on retail investors. This initiative will pave the way for a comprehensive buyback facility for trading Government securities through commercial banks by the end of 2025.

Government will ensure transparency on debt management in accordance with international best practices through provision of accurate and timely information on public debt through publication of its quarterly debt bulletin, as part of the Government audited Annual Financial Statements and other publications needed.