GOVERNMENT OF SEYCHELLES
Debt Management Strategy:

For the years 2017 - 2019

Ministry of Finance, Trade & Economic Planning
Republic of Seychelles
December 2016

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INTRODUCTION

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

The DMS aims at determining the most effective debt management strategies for achieving the desired future debt structure based on cost and risk considerations in line with other macroeconomic policies. This strategy document is broken down into three components; Parts I, II and III.

Part I covers the objectives, scope and the legal framework for the MTDS. It also describes the role of debt management in the macro economic framework and provides a historical overview of the debt structure. The section will also outline the evolution of debt and goals for the 2017-2019 period.

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

Part III looks at the environment for debt management and followed by the debt management framework and strategy. Part III will conclude with the borrowing plan for 2017, taking into account the fiscal balances.

PART 1

1. Debt Management Objective

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

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

2. The Goals for Debt Management

In order to achieve the primary debt management objective, for the years 2017 to 2019, the following goals will be pursued;

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 cost 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.

3. Scope of the DMS

The 2017-2019 strategy will examine total public debt which is defined as the total Government and Government guaranteed liabilities that require payment of principal and/or interest to external and domestic creditors.

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

4. Legal and Institutional Framework

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

5. Evolution of debt

Over the past eight years the government has actively engaged in various strategies and initiatives to steer its total public debt on a sustainable path. Some of the key measures undertaken were as follows;

- A comprehensive debt restructuring programme in 2008 was implemented in two phases during 2009 and 2010.

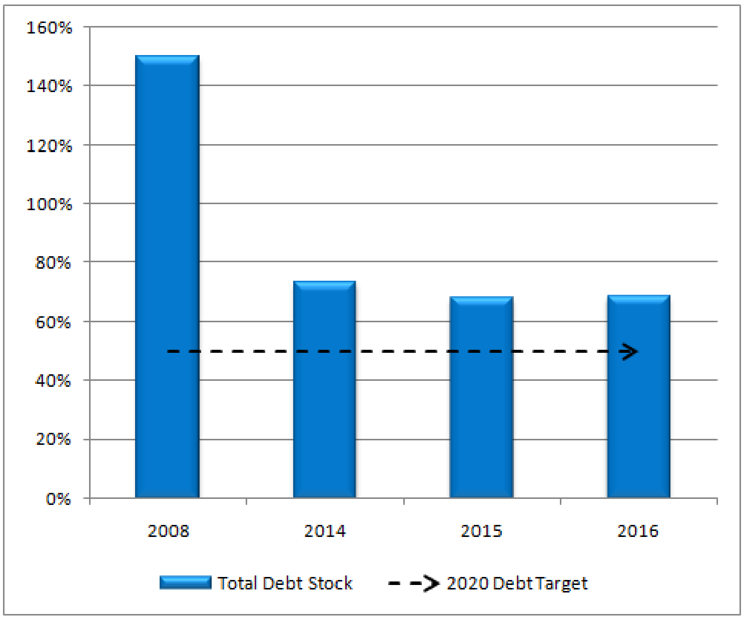
- In 2014 a currency conversion was effected through the African Development Bank. This involved converting two multi-currency loans with the bank to a single currency.

- In 2016, Seychelles concluded the Debt Swap initiative with the Paris Club Secretariat by buying back a portion of its bilateral debt. The agreement was signed with the Paris Club in 2015.

- Since 2008, the amount of new external debt that can be contracted or guaranteed each year by the government is constrained by debt ceiling targets agreed with the International Monetary Fund (IMF).

As such the total public debt stock, as illustrated in Figure 1, has since 2008 maintained a downward trend. The total debt stock has reduced from over 150% of GDP at the end of 2008 to 68% of GDP at the end of October 2016.

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

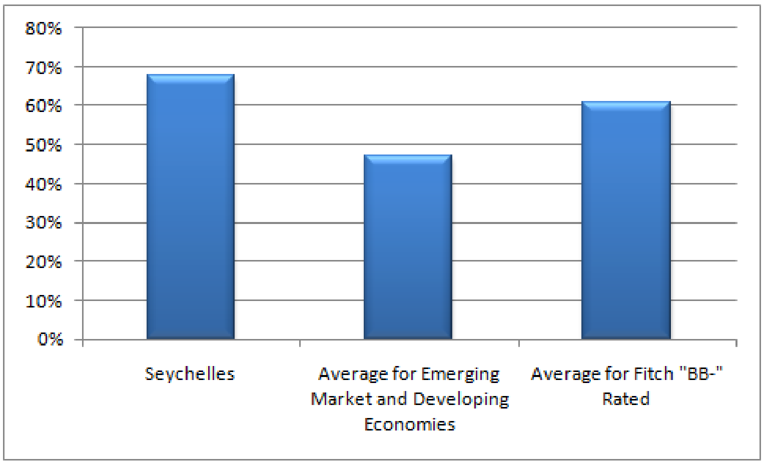


Source: Ministry of Finance, Trade and Economic Planning

In spite of the significant achievements made during the past eight years, there is still some progress to be made to put the Seychelles total public debt stock closer to the average for countries at similar level of development and credit rating.

As can be seen in Figure 2, the Seychelles total public debt stock as a percentage of GDP is still slightly above the 61% average of countries with a Fitch rating of “BB-”. In comparison to the average for Emerging Markets and Developing Economies the Seychelles total public debt is about 21% higher.

FIGURE 2: PUBLIC DEBT TO GDP - PEER COMPARISON



Source: IMF World Economic Outlook Database

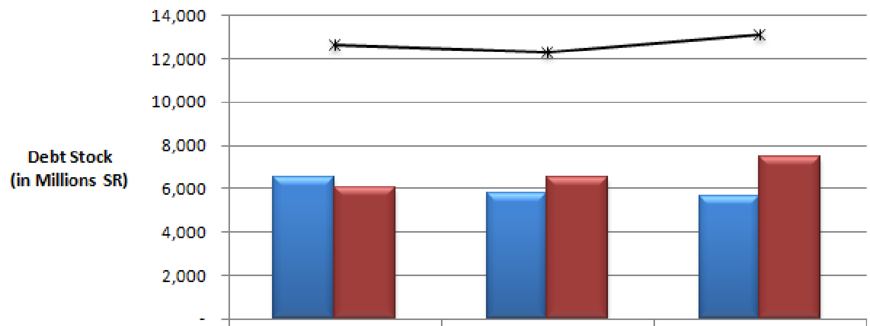
The Seychelles public debt is currently on a sustainable path and the government remains committed towards its debt reduction objectives. Over the medium term, the government will endeavour to achieve a debt to GDP ratio of 50% by 2020.

PART II

1. OVERVIEW OF EXISTING DEBT

At the end of October 2016, the total government and government guaranteed debt stood at SR 13,130 million or 68% of GDP. Compared to the 2015 levels, the total debt stock has increased by about 6.6%. The rise in the total debt stock was mostly attributed to an increase of about 15.2% in the total domestic debt stock, mainly Treasury Bills intake, as can be seen in Figure 3A. On the other hand, the total external debt stock continues on its downward trend, falling by about 3% from the 2015 levels.

FIGURE 3A: COMPOSITION OF TOTAL PUBLIC DEBT

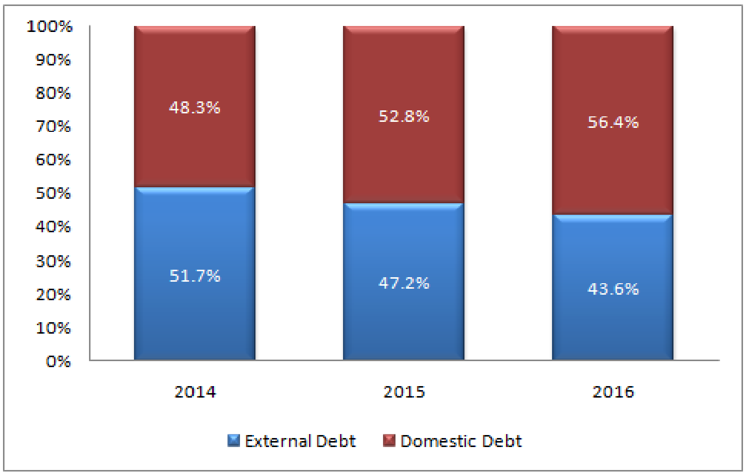


	2014	2015	2016
External Debt	6,528.52	5,812.82	5,635.71
Domestic Debt	6,088.21	6,504.94	7,494.50
Total	12,616.73	12,317.76	13,130.20

Source: Ministry of Finance, Trade & Economic Planning

Since 2015, the total domestic debt stock has accounted for the largest share of the total debt stock. As highlighted by Figure 3B, the domestic component of the total debt stock has increased from 52.8% in 2015 to 56.4% in October 2016.

FIGURE 3B: COMPOSITION OF TOTAL PUBLIC DEBT



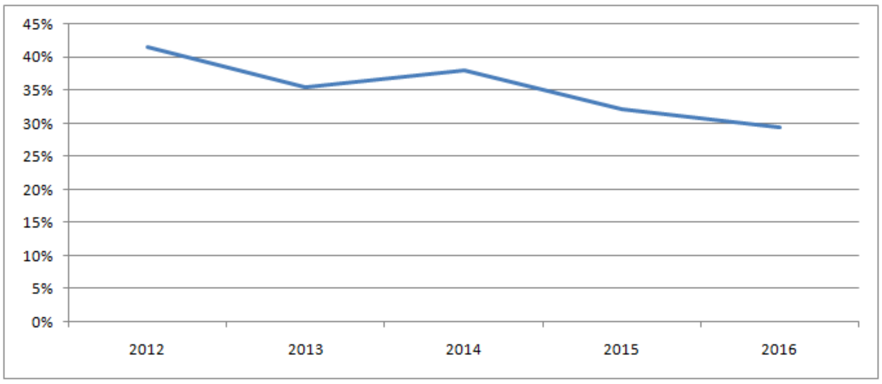
Source: Ministry of Finance, Trade & Economic Planning

1.1 External Debt Profile

The external debt is defined as *the outstanding amount of those actual current, and not contingent, liabilities that require payment(s) of principal and/or interest by the debtor at some point(s) in the future and that are owed to non residents by residents of an economy.*

At the end of October 2016, the external debt stock inclusive of guarantees amounted to SR 5,635.71 million (equivalent to USD 421.01 million). In terms of GDP, the external debt stock is continuously decreasing, falling from about 42% in October 2012 to about 29% in October 2016 as can be seen in Figure 4.

FIGURE 4: TOTAL EXTERNAL DEBT AS A SHARE OF GDP



Source: Ministry of Finance, Trade & Economic Planning

The total external debt stock are owed to four groups of creditors listed in Figure 5. The Private category is the largest group of creditors accounting for 38.1% of the external debt. These private creditors are the subscribers to the external notes USD 168.89 million at face value, which will mature in 2026.

FIGURE 5: EXTERNAL DEBT BY CREDITOR CATEGORY

	2016 External Debt Stock (in Millions SR)	**%**
Multilateral	1,769.82	31.4
Bilateral *of which;*	1,184.51	21.0
Paris Club	614.30	
Non-Paris Club	570.21	
Commercial Banks	532.82	9.5
Private	2,148.55	38.1
TOTAL	**5,635.71**	**100.0**

Source: Ministry of Finance, Trade and Economic Planning

Multilateral organizations make up the second largest group of creditors accounting for 31.4% of the external debt. The largest multilateral banks are the African Development Bank and the World Bank which together account for 68% (i.e. SR 1,212.29 million) of the total Multilateral debt.

The third largest group of creditors is Bilateral made up of debts to sovereign countries. These account for 21% of the total external debt. About 52% (i.e. SR 614.30 million) of the total bilateral debts are owed to creditors which are members of the Paris Club and 48% (i.e. SR 570.21 million) are non-members.

The share of debts owed to commercial banks accounts for the smallest share of the total debt stock at 9.5%. This is in line with the government's strategy since the 2008 economic reform program to restrict new borrowings to multilaterals and concessional debts.

Figure 6 gives an indication of the types of instruments that makes up the total external debt portfolio. Loans account for most of the external debt at 60.75%, followed by securities at 39.20% and finally advances at 0.05%.

FIGURE 6: EXTERNAL DEBT BY INSTRUMENT TYPE

	2016 *(In Millions SCR)*	***%***
Loans	3,423.56	60.75
Securities	2,209.47	39.20
Advances	2.68	0.05
Total Debt	**5,635.71**	**100.00**

Source: Ministry of Finance, Trade and Economic Planning

1.2 Domestic Debt Profile

The Domestic Debt is defined as debt liabilities owed by residents to residents of same economy.

The total domestic debt inclusive of guarantees at the end of October 2016 stood at about SR 7,494.50 million. As indicated by Figure 7A, securities accounts for the largest share (80%) of the total domestic debt at about SR 6,013.97 million. A breakdown of the securities category in Figure 7B, shows that most of these securities are in the form of Treasury Bills which accounts for 87.2% of total securities followed by Treasury Bonds at 8.5%.

FIGURE 7A: DOMESTIC DEBT BY INSTRUMENT TYPE

	2016 (In Millions SR)
Loans	1,400.14
Securities	6,013.97
Other Debt Liabilities	80.39
Total Debt	**7,494.50**

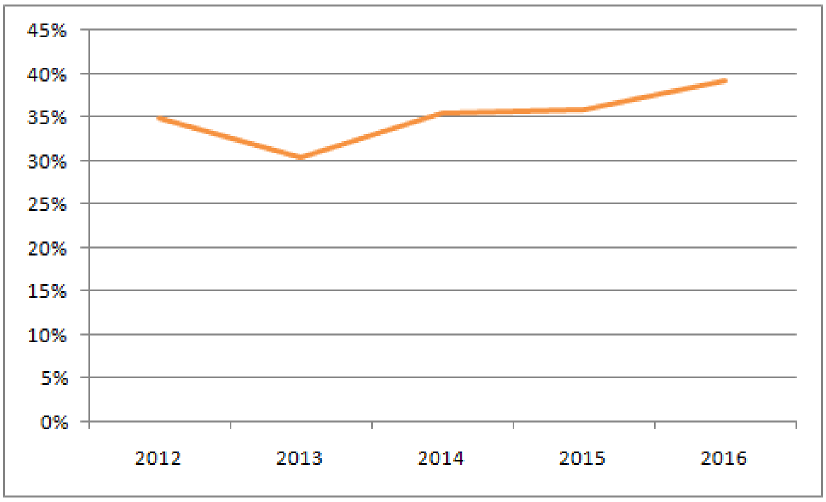
FIGURE 7B: COMPOSITION OF SECURITIES

	2016 (In Millions SR)	%
Treasury Bills	*5,243.99*	*87.2%*
Treasury Bonds	*512.58*	*8.5%*
Stocks	*30.00*	*0.5%*
Deposits	*32.12*	*0.5%*
Notes	*195.28*	*3.2%*
Total Securities	**6,013.97**	**100.0%**

Source: Ministry of Finance, Trade & Economic Planning

Despite the initial fall in 2013, the total domestic debt has been on the rise in the past two years. In the period between 2013 and 2016 it has increased by about 55%. This was primarily attributed to an increase in the stock of treasury bills, a significant portion which were issued for monetary purposes. The stock of securities for monetary purposes as at October 2016 was SR2.9 million.

FIGURE 8: DOMESTIC DEBT AS A PERCENTAGE OF GDP



Source: Ministry Of Finance, Trade and Economic Planning

2. GOVERNMENT GUARANTEES

Publicly guaranteed debt is defined as debt liabilities of public and private sector units, the servicing of which is contractually guaranteed by public sector units.

At the end of October 2016, the total stock of publicly guaranteed debt amounted to SR1,041.4 million, equivalent to 7.9% of the total debt stock or 5.4% of GDP as shown in Figure 9. About 92% of the total debt guarantees are domestic and 8% are external.

FIGURE 9: PUBLICLY GUARANTEED DEBT

	Stock of Guarantees *(in millions SR)*	Share of Total Debt Stock	Share of GDP
External	80.7	0.61%	0.42%
Domestic	960.7	7.32%	5.02%
Total Guarantees	1,041.4	7.93%	5.44%

Source: Ministry of Finance, Trade & Economic Planning

From January to October 2016, five new guarantees for a total sum of about SR 394.9 million have been issued to public sector entities. These guarantees are listed in Figure 10 below.

Figure 10: NEW GUARANTEES IN 2016

Borrower	Creditors	Purpose	Amounts
Development Bank of Seychelles	Al Salam Bank	Balance Sheet Funding	USD 5,000,000[1]
Development Bank of Seychelles	Mauritius Commercial Bank	Financing SME's Loan	SR 50,000,000
Development Bank of Seychelles	Nouvobanq	Financing of SME's Loan	SR 100,000,00
Housing Finance Company Limited	Seychelles Commercial Bank	Housing loan Financing	SR 148,000,000
Small Business Financing Agency	Seychelles Commercial Bank	Financing of SME's Loan	SR 30,000,000

Source: Ministry of Finance, Trade & Economic Planning

[1] USD 5,000,000.00 equivalent to SR 66,930,750.00

3. RISK INDICATORS

Sound risk management, institutional and debt structures are important elements in reducing exposures to risks such as interest risks, currency risks, liquidity risks and other risks. Some key risk indicators for the current portfolio is given in Figure 11 below.

FIGURE 11: SELECTED RISK INDICATORS

Risk Indicators		External debt	Domestic debt	Total debt
Refinancing risk	ATM (years)	7.8	2.9	5
	Debt maturing in 1yr (% of total)	9.5	77.5	48.3
Interest rate risk	ATR (years)	6.8	1.2	4.3
	Debt re-fixing in 1yr (% of total)	31.6	22.3	26.3
	Fixed rate debt (% of total)	69	92	82
Cost of debt	Weighted Av. IR (%)	3.9	6.1	5.1

SOURCE: MINISTRY OF FINANCE, TRADE AND ECONOMIC PLANNING

3.1 Refinancing Risks

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

Average Time to Maturity

The Average Time to Maturity (ATM) measures the weighted average length of time the debt will mature on the portfolio. The average life of the total debt portfolio is about 5 years indicating moderate risks. The ATM for the external debt is about 8 years and 3 years for the domestic debt. In order to minimize the risks associated with the low ATM on the domestic debt, the government will continue with its efforts to lengthen maturities of the domestic debt, by issuing longer term instruments.

Refinancing risks are also indicated by the percentage of debt that will mature within one year. Within one year starting from November 2016 about 48% of the total debt stock will mature indicating moderate risks. As can be seen in Figure 11, the refinancing risks are much greater for domestic debt as about 78% of these debts are expected to mature within one year.

The Redemption Profile

The debt maturity profile (i.e. redemption profile) gives an indication of the rollover or refinancing risk associated with the debt portfolio by looking at the amount of debt maturing each year until the end of the portfolio's life. The redemption profiles for the total public debt, the external debt and the domestic debt for the years 2017-2040 are shown in Figure 12.

Table A shows that 29.8% of the total public debt stock will mature in 2017 indicating relatively high rollover risk. About 76% (SR 2,962.66 million) of the total debt due in 2017 are in the form of Treasury Bills. Given the relatively stable current macroeconomic conditions, there is a high probability that most of these treasury bills will be rolled over. From 2018-2040, the total debt redemption is rather smooth indicating low risks.

The external debt profile in Table B, indicates that the total debt repayment are expected to decrease over the medium term and then increase again to reach a peak in 2026. Following the external notes repayment in 2026, the total external debt falling due each year is expected to decrease gradually until 2040. About 3.4% of the external debt stock will mature in 2017 indicating relatively low refinancing risks.

The domestic debt profile as shown in Table C, indicates relatively high risks as previously explained because most of the total domestic debt stock is made up of treasury bills. These treasury bills are short term instrument with a maturity of less than one year. In order to reduce this risk there is a need to lengthen the maturity of the domestic profile.

FIGURE 12: REDEMPTION PROFILES

TABLE A: TOTAL PUBLIC DEBT REDEMPTION PROFILE

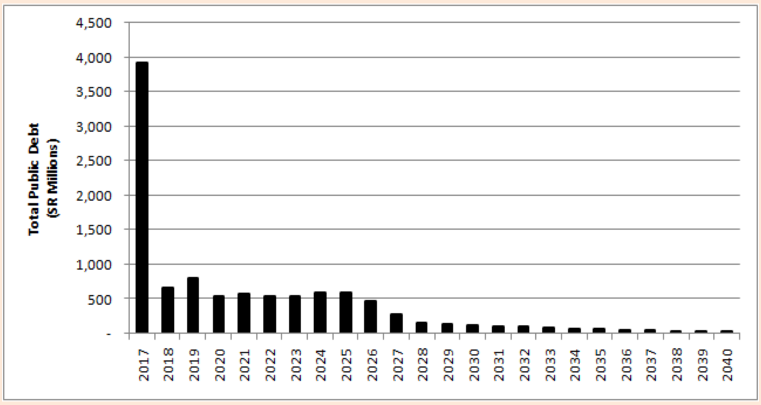


TABLE B: EXTERNAL DEBT REDEMPTION PROFILE

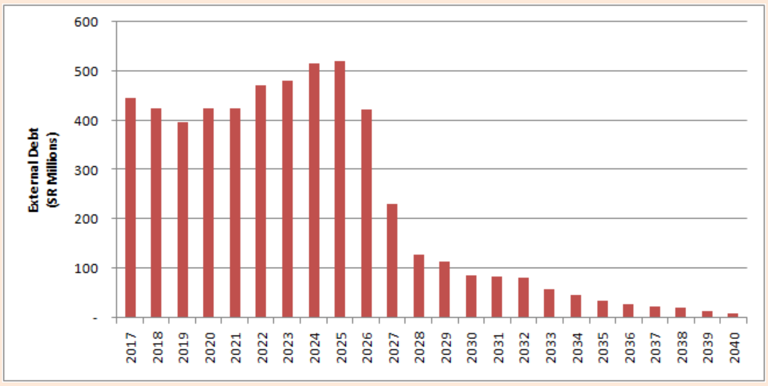
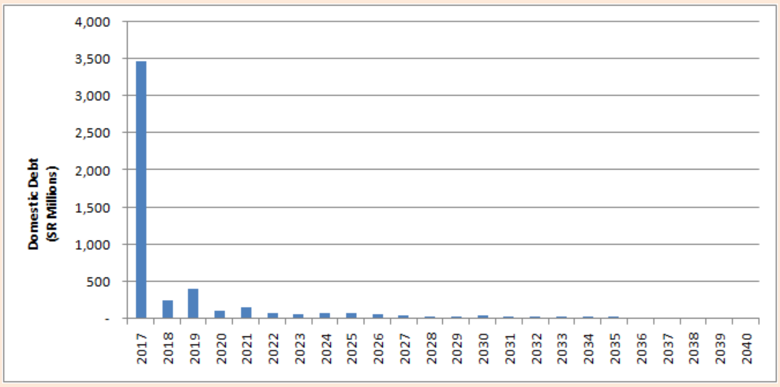


TABLE C: DOMESTIC DEBT REDEMPTION PROFILE



3.2 Interest Rate Risks

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

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 becomes subject to a new interest rate. It will take an average of about 4 years for the interest rate to re-set on the total portfolio. About 26% of the total debt portfolio has a variable interest rates and they will be subject to interest rate re-fixing within the next year.

Figure 11 also indicate that it will take about 7 years for interest to re-set on the external portfolio and 1 year to re-set on the domestic portfolio. This indicates a moderate interest rate risks for the external debt but high risks on the domestic side.

In addition about 32% of the external debt portfolio will be subject to interest rate re-fixing within one year in comparison with 22% on the domestic portfolio. This again indicates moderate interest rate risks on the external debt. However this indicator in relation to the domestic debt is applicable only in the short term. In the longer term interest rate re-fixing tends to be very high on the domestic portfolio indicating high exposure to interest rate risks. This is primarily because most of the domestic debt are in the form of treasury bills which rolls over each year and thus exposed to interest rate changes.

Fixed Rate Debt

The share of fixed to floating rate debt provides an indication of exposure of the debt portfolio to interest rate risk. About 82% of the total portfolio has fixed interest rate indicating low exposure to risks associated with interest rate fluctuations. About 69% of the external debt has fixed interest rate whilst 92% of the domestic debt has fixed interest rate.

3.3 Cost of Debt

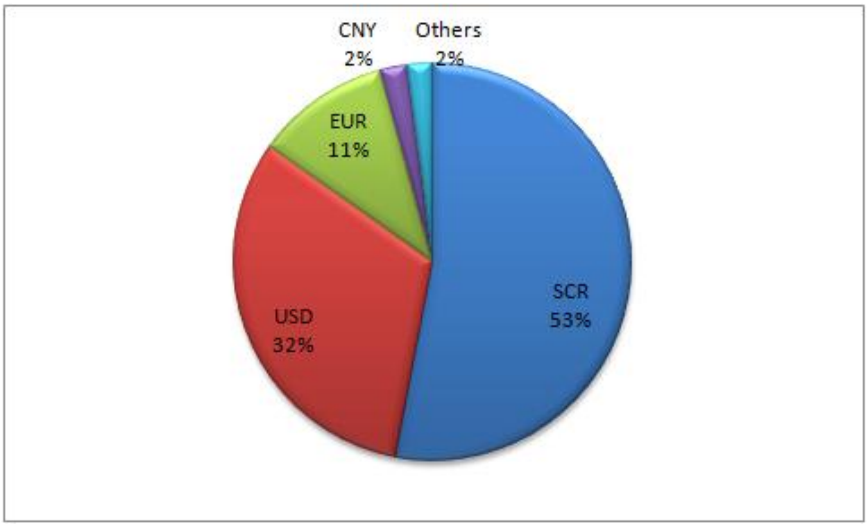
The weighted average interest rate on the debt portfolio gives an indication of the cost of debt. As indicated in Figure 11, the cost of debt is 5% on the total portfolio, 6% on the external debt and 4% on the domestic debt.

3.4 Foreign Exchange Risks

The currency composition provides an overall indication of the foreign exchange rate risks to the portfolios. The higher the percentage of debt denominated in a foreign currency, the higher the exposure to foreign exchange risks.

The total debt portfolio's has a moderate exposure to foreign exchange as a little over half of the portfolio is dominated in the local currency as indicated by Figure 13. About 32% of the total debt portfolio is denominated in United States Dollar. The Euro and the Chinese Renminbi are the third and fourth largest currency of denomination at 11% and 2% respectively.

FIGURE 13: CURRENCY COMPOSITION



Source: Ministry of Finance, Trade & Economic Planning

The six other currencies listed in Figure 14 below make up the "Others" group of currency which together account for about 2% of the total debt stock.

FIGURE 14: CURRENCY COMPOSITION

Currencies	United Arab Emirates Dirham (AED)	Canadian Dollar (CAD)	Great Britain Pound (GBP)	Japanese Yen (JPK)	Kuwaiti Dinar (KWD)	Russian Ruble (RUR)
% of Debt Stock	0.583%	0.006%	0.498%	0.495%	0.452%	0.004%

Source: Ministry of Finance Trade & Economic Planning

4. RECENT DEVELOPMENTS

The Debt Swap Initiative

In 2015 Seychelles reached an agreed with its Paris Club creditors to exchange its debts with its Paris Club Creditors for Marine Conservation and adaptation to climate change financing.

The buy-back was effected in February 2016, whereby the government bought back at a discount, debts of USD 21.4 million at face value with the governments of Belgium, France, Italy and the United Kingdom.

This was financed by grants from a group of international marine conservation foundations and a concessional loan from the Nature Conservancy (TNC) through the Seychelles Conservation and Climate Adaptation Trust (SeyCCAT). The funds from the repayment of the loan by the government will be used by SEYCCAT to finance critical marine conservation and climate change adaptation work in Seychelles and to service the TNC loan.

The Blue Bond

The blue bonds concept is an innovative strategy aimed at making use of impact investors to finance ocean-related environmental projects and programmes. Discussions are currently being held with various stakeholders into the possibility of raising a US$15 million blue bond with a guarantee from our multilateral partners, with a view of bringing down the cost of issuing the bond to favourable levels.

Risk & Cost Management

In order to take advantage of the conditions in the market for Euro denominated debt, the government is exploring the possibilities of undertaking either a liability management or currency swap for its external bond due 2026. The debt outstanding on the bond as at the end of October 2016 was USD160.45. The currency swap aims at converting the bonds from USD to Euros. It is expected to bring benefits in terms of lower interest rates applicable to the bond and closer alignment of the debt portfolio’s currency composition to that of the country’s earnings which is mainly in Euros. The liability management's objective on the other hand is to lengthen the maturity profile of the bond and hence reducing the foreign exchange outflows over the medium term.

New Loans Contracted

The four new loans shown in Figure 15, amounting to a total sum of USD 46 million has been contracted from January to October 2016.

Figure 15: NEW LOANS CONTRACTED IN 2016

Creditors	Purpose	Amounts
Saudi Fund For Development	Electrification of South Mahé Island Project Second Phase	USD 20,000,000
Arab Bank for Economic Development in Africa	Improvement of electricity network in South Mahé Project	USD 11,000,000
African Development Bank	Inclusive Private Sector Development & Competitiveness Programme Phase 2	USD 10,000,000
International Bank of Reconstruction & Development	Accelerated Programme For Economic Integration	USD 5,000,000

Source: Ministry of Finance, Trade & Economic Planning

PART III

1. THE ENVIRONMENT FOR DEBT MANAGEMENT

1.1 The Fiscal Sector

The government's fiscal policy was loosened in 2016 in order to accommodate the prioritization of new social reform programmes aimed at addressing income inequality and poverty alleviation. In order to achieve these objectives, the government's primary budget surplus was reduced from 3.8% to 3% of GDP. The primary budget surplus is expected to remain at 3% in 2017. As such, the government has extended its target of achieving a 50% Debt to GDP ratio from 2018 to 2020.

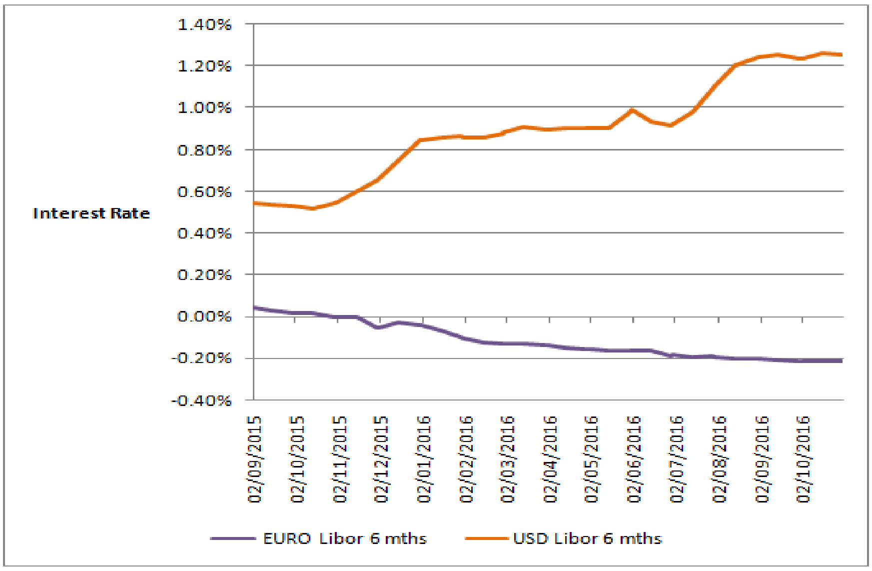
As has been the case in recent years, a significant portion of Treasury Bills issued in 2016 were for monetary policy purposes and the medium term forecast indicates that the Central Bank will continue with the current issuance of Treasury Bills for liquidity management. This will, however, increase our exposure to rollover risks since Treasury Bills being issued are short term. Longer term instruments will assist in mitigating rollover risks, while more domestic funding will reduce foreign exchange risk exposure.

1.2 Monetary Sector

Despite an initial drop in the interest rate during the fourth quarter of 2015, the USD 6 months Libor rate has been on a general upward trend in 2016 as shown in Figure 16. The rate has more than doubled, increasing from 0.54% at beginning of September 2015 to reach 1.26% at the end of October 2016. The effect of this is an increase in the cost of debts servicing for our US$ loans with variable rates.

On the other hand, the euro Libor six months interest rate has continued on its general downward trend. At beginning of September 2015, the euro Libor 6 months rate fell from 0.05% to reach -0.19% mid 2016. Since then, this rate has declined at a much slower pace of about 0.01% each month. This negative and declining euro libor rate is currently very favorable for debt management in terms of low interest costs. In light of this the government is exploring the various possible means to exploiting this unique opportunity though its liability management scheme.

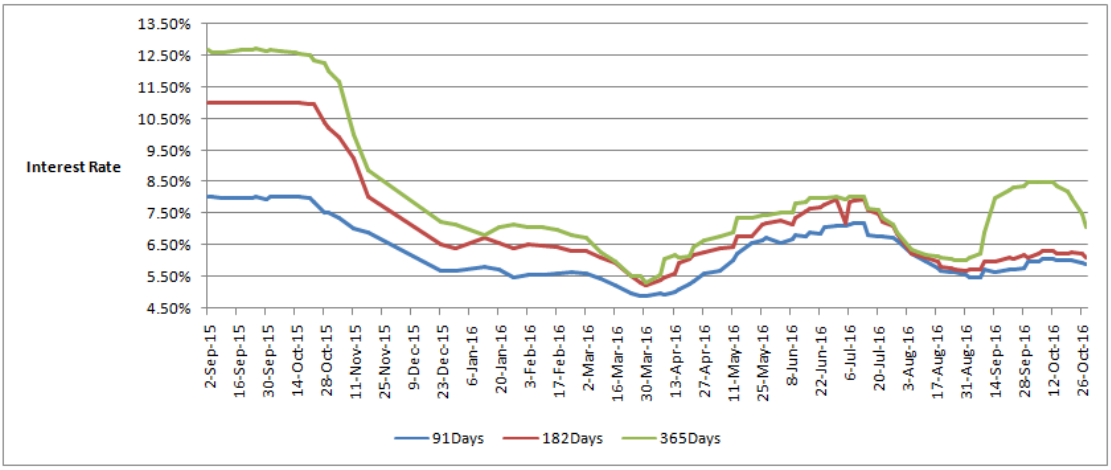
FIGURE 16: LIBOR INTEREST RATE



Source: The Wall Street Journal

In the domestic debt market, interest rates on all Treasury bill maturities continue to fluctuate in cycles as can be seen in figure 17. From the beginning of September to mid October 2015, interest rates on the Treasury bills were stable on all three maturities. However, for all three instruments, interest rates were on a general downward trend during the last quarter of 2015, and then changed to a slow upward trend at the start of 2016 for the 91 and 365 day bills. Treasury Bills remains an active policy instruments used by the Central Bank of Seychelles to mop up the excess liquidity in the system.

FIGURE 17: INTEREST RATE ON TREASURY BILLS

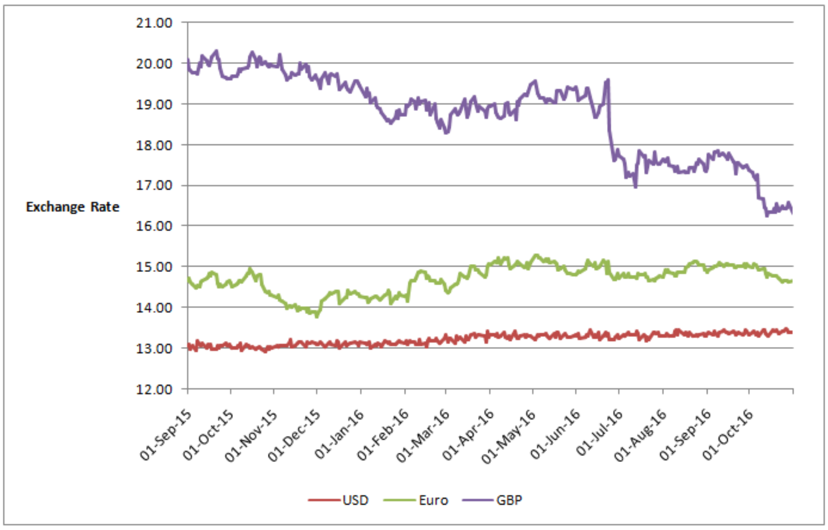


Source: Central Bank of Seychelles

1.3 The External Sector

Half (50%) of the government and government guaranteed debt are exposed to foreign exchange risks. Since last year, the exchange rate for the British Pound (GBP) has been on a general downward trend, it fell from about SR20.10 to SR16.30 per pound at the end of October 2016. On average the over the past year the Euro has tended to fluctuate between SR14 to SR15 per Euros. The United States dollar (USD) was stable towards the end of the fourth quarter 2015 but increased slightly during the last quarter of 2015 up to the first quarter of 2016. From the second quarter of 2016 up to the end of October 2016, the exchange rate for the dollar stabilized at about an average of SR13.34 per dollar. The trend in exchange rates for the three main currencies can be viewed in figure. This has helped to maintain a constant cost of servicing debt and even reducing the cost for loans in Pound Sterling.

FIGURE 18: FOREIGN EXCHANGE RATES

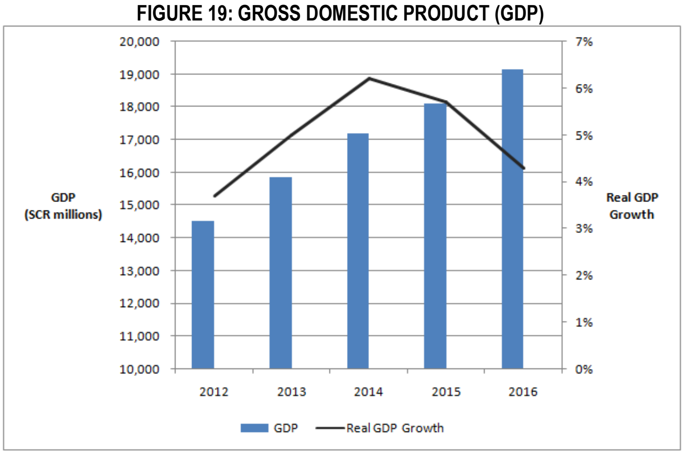


Source: Central Bank of Seychelles

1.4 The Real Sector

The Gross Domestic Product (GDP) is a very important contributor in achieving the government's debt reduction target of 50% of GDP by 2020. The forecasted slowdown in the economic growth rates for 2016 is also expected to adversely affect the speed with which the 2020 debt reduction target is achieved. However, it is expected that growth will pick up in 2017 as a result of continued good performances in tourism and planned projects in constructions. The trend in the nominal GDP and the real GDP growth rates are displayed in Figure 19.

FIGURE 19: GROSS DOMESTIC PRODUCT (GDP)



Source: National Bureau of Statistics & Ministry of Finance, Trade & Economic Planning

2. THE DMS FRAMEWORK

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

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

2.1 DMS 2016-2018

2.1.1 Alternative Strategies

Strategy 1

Seven years on from 2008 when the economic reform programme was initiated, Seychelles can now decide whether it will borrow commercially on the international market. Reserves have been accumulated to reasonable levels, the economy is stable, debt has been reduced by half and the market conditions are favourable. This strategy proposes that Government projects are financed by external bonds issued at market rates. Domestic issuances will be curtailed to lower the domestic debt stock.

Strategy 2

For this strategy, the assumption is that we will borrow mostly domestically with greater emphasis on short term treasury bills to manage the liquidity, at fixed rates. The majority of domestic securities is for commercial borrowings, while external borrowings will be minimal.

Strategy 3

Due to the high percentage of debt maturing in the short term, this strategy places emphasis on gradually lengthening the maturity of the domestic debt portfolio and choosing instruments with fixed rates. On the external debt side, the aim is to borrow more from multilateral creditors with a mixture of variable and fixed rates. In this strategy, emphasis is more on domestic debt as opposed to external debt.

Strategy 4

The fourth strategy can be defined as a mixed strategy whereby there is an equal mix of domestic borrowings for both variable and fixed rates and similarly the same mix for external borrowing for both variable and fixed rates. The strategy though assumes a greater percentage of domestic borrowings. There is also similarly a lengthening of maturities on domestic debt, at a more aggressive rate than strategy 3.

2.1.2 Analysis of the Alternative Strategies

With the strong fiscal performance and GDP growth forecast in the medium term, public debt is expected to reach below 50% of GDP in 2020. Of the four proposed strategies, Strategy 3 and Strategy 4 appear more favourable in terms of cost and risks. Strategy 3 indicates a higher level of domestic debt on longer term debt whilst borrowing externally from concessional creditors, showing a moderate level of risk and the cost of borrowings. Strategy 3 indicates a relatively mixed strategy for costs with both variable and fixed interest rates being applied equally. Although the conditions for going to the international markets in Strategy 1 appears reasonable, we have to consider the risks involved and whether we can absorb those risks. Despite our debt levels being reduced, we are still above the average for BB Fitch rating as explained earlier.

As Seychelles is still under an IMF reform programme, the conclusion from proposed strategies could be that we should continue maximizing concessional borrowings and gradually extend maturities on the domestic debt. A mixed strategy will also offer the flexibility of adapting to changes in the economic environment. This will be a combination of Strategies 3 and 4.

ANNEX: 2017 BORROWING PLAN

a) Overall Financing Plan

According to the latest projections, an overall balance of SR 215 million (US$ 16 million) is forecasted on a cash basis in 2017. This will increase the Government's overall indebtedness in net terms by SR 114 million. Long-term leases will provide SR101 million in financing. Concessional external debt being raised for projects will result in a net increase of external debt of SR181 million. The Government will use the resulting surplus to repay domestic debt of SR67 million in net terms.

Figure 20: Overall Financing

	US$ million	SR million
Total Financing (overall budget deficit)	**-16**	**-215**
Foreign financing, net	14	181
Domestic financing, net	-5	-67
Privatisation and long-term leases	7	101

b) External Debt

Requirements

The gross external borrowing requirement is forecasted to be approximately US$46 million in 2017, in line with the target under the Government's IMF supported programme, to be used primarily for project loans.

Sources

The borrowing requirement will be filled with long-term financing from multilateral and bilateral development institutional sources. Specifically BADEA, OFID, Kuwait Fund, India, AFD and EIB will provide disbursement for project loans. Net foreign financing is expected to be SR181 million, with scheduled foreign debt repayments of SR444 million (US$ 33 million) compensated for by disbursements of loans of SR625 million (US$47 million).

Figure 21 : External Net Financing

	US$ million	SR million
Foreign financing, net	**13.5**	**181.5**
Total Borrowing	**46.6**	**625.4**
Perseverance Social Service (Badea)	1.3	18.1
Perseverance Social Service (Ofid)	1.1	15.6
Perseverance Infrastructure (Badea/Ofid)	2.1	27.9
PUC La Gogue Dam (AfDB)	8.0	106.5
Agriculture Development (IFAD)	0.6	8.0
Health Information system (India)	2.0	27.0
Line of credit (India)	3.2	43.3
Agriculture/Horticulture school (Kuwait Fund)	0.5	6.6
Procurement Primary school/creche (Kuwait Fund)	0.8	11.1
La Rosiere School (Kuwait Fund)	1.0	14.6
PUC Projects (EIB/AFD)	10.0	133.2
PUC 33kv (Badea/Saudi Fund)	10.0	133.2
PUC Sewerage SouthEast Coast (AfDB)	1.0	13.3
Blue Bond SWIOFISH	5.0	66.6
Total Amortisations	**33.3**	**443.9**

c) Domestic Debt

Requirements

Under the current expectations for the overall balance, foreign financing, and privatisation, total domestic public debt would be reduced by approximately SR67 million in net terms in 2017.

Sources

Gross domestic debt issued would total approximately SR5.51 billion, mostly in the form of Treasury Bills and Treasury Bonds sold at auction. The Government would retire approximately SR5.58 billion of domestic debt as it matures, as follows:

Figure 22 : Domestic Net Financing

Domestic Debt Financing Table

	SR million
Gross Issuance	**5,518.6**
Gross Retirements	**-5,585.7**
**T-Bills Stock*	-5,244.0
91 day bills	-488.2
182 day bills	-1,072.8
365 day bills	-3,683.1
Bond Maturities	-262.5
4.5% three year bond	-262.5
Loans from Commercial Banks	-79.1
Net Domestic Issuance	**-67.1**

**Outstanding stocks are as at October 2016*

.Note: CBS is expected to issue additional Treasury Bills for monetary purposes.