
CENTRAL BANK OF SEYCHELLES



QUARTERLY REVIEW

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CENTRAL BANK OF SEYCHELLES

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Technical Note

Owing to rounding of figures, the sum of separate items may not always add up to the total shown.

Abbreviations used in this Review are:

<i>R</i>	=	<i>Seychelles Rupee</i>
<i>CBS</i>	=	<i>Central Bank of Seychelles</i>
<i>n.a.</i>	=	<i>Figure not available</i>
<i>..</i>	=	<i>Negligible</i>
<i>-/0</i>	=	<i>Nil</i>

REVIEW OF THE ECONOMY

First Quarter, 2000

1. OVERVIEW

General Macroeconomic Developments

Economic developments in the first quarter of 2000, were highlighted by events in the fiscal sector as the government continued where it left at the end of 1999. Other main economic indicators suggest that whilst there were no new significant policy developments, at the fundamental level the economy showed further signs of stabilising at the start of 2000.

The fiscal deficit, the primary target of the government's economic consolidation efforts, was cut significantly compared to the level that had been budgeted. Against a projected R91million deficit, the shortfall in revenue over outlays amounted to R44 million only. Much of this positive result rested on cuts in the capital budget. Capital spending for the first three months of the year totalled R29

million, some R52 million short of target. Current expenditure was also kept in check, totalling R304 million against a budgeted R354 million.

On the other hand, the performance of revenue was less than encouraging, falling R51 million short of expectations. Notwithstanding this shortfall, it was comforting to note that all taxable revenue came in above budget whilst the items that fell short were non-tax revenue. In particular "dividend & interest" explained much of the shortfall.

With the positive impact of the fiscal restraint spilling over into the monetary sector, movements in the main monetary aggregates remained fairly stable. Credit grew by 17 per cent, the same rate as in the previous quarter.

The impact of the tighter fiscal policy was also reflected in a slowdown in the rate of growth of money supply. The broad money aggregate M2(p) rose by 7.0 per cent (annualised) in the first quarter this year. In addition to being significantly slower than the growth observed in the previous quarter, broad money expansion also slowed down sharply compared to the corresponding period in 1999.

Real sector developments were highlighted by the continued recovery of the tourism sector. In the first three months of 2000, tourism arrivals rose by 11 per cent compared to the corresponding period in 1999. More significantly was that whilst at this rate, growth in arrivals was in line with the rate observed in the same period last year, there was a substantial improvement in revenue from this sector. Tourism income rose to R167 million, which represented an increase of 7.9 per cent over the January-March 1999 period. Among the factors that explained the marked improvement in the performance of tourism at the start of 2000, could be the increase in the number of beds and in the yield as a result of the opening of new, higher standard establishments, and improved marketing strategy implemented by the new tourism marketing agency, the Seychelles Tourism Marketing Authority.

In manufacturing, canned tuna production slowed down in the first quarter. This resulted in a drop in export earnings through the domestic banking system of R7.3 million. Output also decreased compared to the first quarter of 1999. From 9,233 tonnes between January to March 1999, output of the Indian Ocean Tuna canning factory for the same period in 2000 totalled 7,985. However, exports rose by R3.3 million compared to the same period last year. This implied that the slowdown in production at the start of 2000 is likely to have resulted from excess inventory.

Despite the continued strong showing of tourism and tuna, developments in other areas remained subdued, inevitably due to the foreign exchange shortage, which showed little sign of abating. Clearing of the foreign exchange backlog remained slow as reflected in the stock of deposits in the foreign exchange pipeline (frozen and current). Between January and March this year, only R7.1 million of arrears were paid in respect of the pipeline.

Besides the constraint for producers imposed by the foreign exchange shortage, at a fundamental level inflation remains a major threat to real economic growth. Whilst inflation during the quarter rose by only 2.8 per cent in annualised terms, for

the year ending March 2000, it rose to 6.6 per cent, up from the high of 6.3 per cent for the year ending December 1999. The shortage of foreign exchange itself constitutes one of the major sources of inflation as the shortage encourages activity through the parallel market, in which hard currency is traded at significantly depreciated rates.

Efforts to contain rising prices nevertheless continued in the first quarter, albeit through indirect measures. Following the Vice President's announcement in the 2000 budget speech that the Seychelles Marketing Board (SMB) would review its prices, price reductions were effected on some of the commodities that the parastatal imports. Similar price reduction measures introduced in 1995 resulted in lower cost of living. However, as the experience of recent months have indicated, these gains would remain in danger of being eroded as long as the foreign exchange problem remains, as higher parallel market premium is likely to continue to exert upward pressure on prices. Furthermore, the practice of over-invoicing has also contributed importantly to rising inflation in Seychelles.

Reserves continued to be depleted in the first quarter, as indicated by the exchange record, which showed that the country's reserves (official and commercial bank

reserves) contracted by R25 million. Current account transactions recorded a deficit of R19 million whilst the capital account showed an outflow of R14 million. This represented a turnaround from the R7.8 million surplus recorded in the previous quarter and this deterioration owed mainly to a combination of an expansion of the trade deficit and a contraction of the services account surplus. During the first quarter, the trade deficit narrowed by R9.6 million to R119 million whilst the surplus in the services account fell by R28 million to R104 million.

There were significant developments in the exchange rate in the first quarter resulting from developments in the international foreign exchange market. As the euro nose-dived against the dollar, this forced the rupee to lose on average 2.4 per cent against the US currency during the quarter. In contrast the rupee appreciated by an average of 2.8 per cent against euro currencies in the Seychelles Trade and Tourism Weighted basket.

The offshore sector recorded significant results in the first quarter. The authority granted licenses to 416 new international companies (IBCs), the highest number recorded since the authority started operations in 1995. To date, the total number of registered IBCs stands at 5224.

2. DOMESTIC SECTOR

Selected Macroeconomic Indicators

1. Prices

The first quarter of 2000 saw a moderation in inflation. According to the retail price index (RPI), inflation rose only marginally - by 70 basis points or 2.8 per cent in annualised terms. Nevertheless, on an annual basis, inflation continued to creep upwards, attaining a growth of 6.6 per cent for the period April 1999 to March 2000.

In terms of the main categories of items, the RPI moved in similar directions to the previous quarter. Prices of fish continued to fall whilst they increased in respect of "non-food" and "other food" items. It is worth noting, however, that the rate of increase in the price level of these two categories slowed down.

Table 1
Retail Price Index; 1998-2000

	Q1	1 9 9 8	Q2	Q3	Q4	Q1	1 9 9 9	Q2	Q3	Q4	2000 Q1
	(per cent)										
Quarterly average ¹	0.6	0.9	0.4	1.9	2.2	1.2	0.2	4.5	0.7		
Quarterly end-of-period ¹	0.7	0.3	3.0	-0.5	2.7	1.5	-0.4	6.5	-1.3		
Annualized quarterly average ²	2.4	3.4	1.4	8.0	9.2	4.8	0.9	19.5	2.8		
Annualized end-of-period ²	2.8	1.2	12.6	-1.9	11.1	6.1	-1.5	28.7	-5.1		
Annual average ³	1.0	1.4	2.0	2.6	3.5	4.3	5.2	6.3	6.6		
Annual end-of-period ³	2.2	1.7	4.7	3.5	5.6	6.8	3.3	10.6	6.3		

¹ Percentage change with respect to previous quarter.

² Percentage change with respect to previous quarter on a compounded annualized basis.

³ Percentage change with respect to same period previous year.

Following an 11 per cent drop in the previous quarter, fish prices fell by a further 5.8 per cent during the period under review. The overall increase in prices during the quarter, was explained by the "other food" category which registered a growth of 1.3 per cent.

However, at this rate, growth slowed down compared to the 3.3 per cent recorded in the last quarter of 1999. After having increased by 5.6 per cent in the previous quarter, the inflation rate in relation to the "non food" category

slowed down sharply, by a modest 82 basis points.

The minimal increase in the price of “non-food” was attributable to three main items in that category, namely “services & recreation”, “personal items” and “household items”, for which prices fell by 13 per cent, 6.4 per cent and 4.6 per cent respectively during the quarter. On the other hand, the rise in “housing costs” and that of “clothing and footwear” gathered pace, recording growth of 10 per cent and 5.7 per cent respectively.

Prices of “fruits & vegetables” and those of “dairy products, oil & fats” contributed significantly towards the increase in the price of “other food” during the quarter, rising by 3.5 per cent. However, the price of “cereals” fell by 25 basis points, this after it had risen by 5.8 per cent during the previous quarter.

The slowdown in inflation in relation to certain food items in the first quarter could be related to price reductions implemented by the Seychelles Marketing Board in March. However, since these measures were implemented towards the end of the quarter, the impact of these measures should be felt more in the coming months.

In terms of imported versus local products, it was observed that overall the price of imported goods fell by 2.7 per cent during the quarter, whilst prices of locally produced goods recorded an overall increase of 2.5 per cent, despite the further drop in fish prices. The drop in imported prices was attributable to “non-food” which fell by 3.9 per cent. In contrast, prices of imported foods increased marginally.

The 2.5 per cent growth in local prices was accounted for mainly by non-food products, which recorded an increase of 3.1 per cent. This was complemented by a 1.7 per cent rise in prices of locally sourced “other foods” (excluding fish).

Over the past twelve months the inflation rate was 6.6 per cent. This represented an increase of 30 basis points over the inflation rate for the year ending December 1999. Between April 1999 and March 2000, fish prices dropped by 17 per cent. However, prices of “non-foods” and “other foods” rose by 8.7 per cent and 3.4 per cent respectively.

2. Monetary Developments

2.1 Credit

During the quarter under review, growth in domestic credit remained relatively stable, as it has done for the past three quarters. On an annualised basis, the rate of credit expansion was unchanged

compared to the previous quarter, standing at 17 per cent. However, in simple terms it rose by 4.0 per cent to reach an all time record of R3.9 billion.

The growth in total domestic debt reflected increased lending by both central bank and commercial banks. The central bank's portfolio of domestic debt, which consists solely of lending to the government, grew by 5.2 per cent. This represented an acceleration in the growth

rate following the modest 0.9 per cent increase over the previous three months. The increase in central bank debt portfolio was accounted for by a rise in the Bank's holding of government securities. The Bank made no advances to the government during the quarter, and this followed an amendment to the Central Bank Act at the end of 1999 that introduced a legal limit on the amount of advances that the Bank's can provide to government.

Table 2
Credit;¹ 1998-2000

	1 9 9 8	1 9 9 8	1 9 9 8	1 9 9 8	1 9 9 9	1 9 9 9	1 9 9 9	2000	2000
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
	(R million)								
Total credit	2656	2739	2922	3198	3288	3436	3569	3713	3861
Commercial banks	1595	1667	2422	2623	2683	2868	2935	3073	3187
Claims on private sector	408	428	485	460	434	461	496	503	531
Claims on parastatal sector	65	72	62	56	53	68	47	43	24
Claims on government	1122	1167	1875	2107	2197	2339	2391	2527	2631
Central Bank	1061	1073	500	575	605	568	634	640	674
Claims on government	1061	1073	500	575	605	568	634	640	674

¹ End-of-period data.

Figures do not necessarily add up due to rounding.

Commercial bank credit, which consists of lending to the private sector, parastatals, as well as the government, rose by 3.7 per cent. Contrary to the central bank, commercial bank credit grew at a slower pace than in the previous quarter when it rose by 4.7 per cent. Analysis of the portfolio of commercial bank credit indicates that the slower growth was attributable to the significant decline of claims on parastatals, which fell by 43 per

cent. This completely outweighed the increases of 5.5 per cent in credit extended to the private sector and 4.1 per cent to the government.

2.2 Money Supply

Monetary expansion moderated significantly in the first quarter. The broad money aggregate M2(p), one of the principal indicators of the level of liquidity in the economy, grew by 7.0 per cent in

the decline in demand deposits, falling by 8.0 per cent in both cases. Whilst to some extent the drop in demand deposits of the parastatal sector reflected the continued scaling down of the operations of these organisations, the decline in deposits of the private sector was more significant. This was the first time since the third quarter of 1998 that a downward movement in private sector deposits had been observed. A look at data on the composition of government securities reveals that part of the explanation of this decline has been at the expense of an increase in this sector's investment in government papers. However, the magnitude of the drop in private sector deposits suggest that there may also be other factors. One of them could have been an increase in the level of activity in the unofficial economy, which could in turn be related to the shortage of foreign exchange in the banking system.

Growth in the less liquid component of the money supply – quasi-money – accelerated significantly during the quarter compared to the modest 40 basis

points increase in the previous quarter. This occurred on account of a notable rise in time deposits, which grew by 8.2 per cent compared to the decline of 1.9 per cent in the previous three months. Growth in savings deposits remained stable at just over 5.0 per cent.

Both components of time deposits increased during the current period. Deposits of the private sector rose by 7.6 per cent compared to a fall of 1.5 per cent in the previous quarter, whilst that of the parastatals rose by a notable 13 per cent.

2.3 Deposits at commercial banks¹

Despite an overall increase in commercial bank deposits during the quarter under review, the rate of growth slowed down. In aggregate deposits grew by a modest 3.3 per cent which brought the level to R3.0 billion. Increases were registered in respect of all sectors, though the increase in government deposits was the most influential. Government deposits grew by 14 per cent whilst private sector and parastatal deposits rose by 2.7 per cent and 74 basis points respectively.

¹This measure, which includes all deposits except those in the pipeline, is similar to M2; however, government deposits are excluded in the latter. Furthermore, currency with public is an M2 component, but obviously not part of “deposits at commercial banks”.

Table 4
Commercial Bank Deposits;¹ 1998-2000

	1 9 9 8	1 9 9 9	2000						
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
	(R million)								
Total deposits	2131	2272	2284	2364	2466	2648	2718	2864	2959
Private sector deposits	1712	1855	1841	1940	2029	2159	2235	2360	2424
Parastatal deposits	230	242	266	244	252	298	291	301	303
Government deposits	188	176	177	181	185	191	192	203	232

¹ End-of-period data.

Figures do not necessarily add up due to rounding.

2.4 Commercial bank liquidity

Relative to the previous quarter, the commercial banks' liquidity position decreased during the period under review. This was illustrated by the 43 basis points increase in the credit/deposit ratio, which stood at 108 per cent at the end March. It

reflected the faster growth in the level of credit compared to deposits. This less favourable liquidity position of banks was one of the factors explaining increased commercial banks' short-term borrowings from the central bank during the quarter (*see activities*).

Table 5
Liquidity Indicator of Commercial Banks;¹ 1998-2000

	1 9 9 8	1 9 9 9	2000						
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
	(per cent)								
Credit/deposit Ratio	74.8	73.3	106.0	110.9	108.8	108.3	108.0	107.3	107.7

¹ End-of-period data.

² This measure covers commercial bank deposits (inclusive of government but exclusive of pipeline) and total commercial bank domestic claims except on the Central Bank.

2.5 Money multiplier²

During the quarter under review, the money multiplier increased by a further 42 basis points. It stood at 6.39 at the end of the quarter.

The movement in this indicator reflects the larger decline in high-powered money relative to the moderate increase in the money supply.

²The broad money multiplier measures the ratio of M2(p) to high-powered money. The latter is defined as the sum of currency with public, cash reserves and banks' reserves held at the Central Bank.

2.6 Interest rate

There were no significant movements in interest rates during the quarter. The minimum savings rate and the maximum lending, which are set by the central bank, remained at 3.00 per cent and 10.0

per cent respectively. Likewise the yield on government securities, which are issued on a tap (fixed) basis remained unchanged, standing at 4.50 per cent for 91-day bill, 5.00 per cent for 182-day bill and 5.50 per cent for 365-day bill.

Table 6
Interest Rates;¹ 1998-2000

	Q1	1 9 9 8 Q2	Q3	Q4	Q1	1 9 9 9 Q2	Q3	Q4	2000 Q1
Savings deposits rate	7.33	7.00	5.67	3.00	3.00	3.00	3.00	3.00	3.00
Time deposits rate									
<7 days	7.67	7.37	6.29	2.75	2.87	2.96	2.95	2.95	2.75
>7 days ≤ 3 months	8.72	8.21	7.18	6.03	5.57	5.17	4.70	5.09	4.76
>3 months ≤ 6 months	9.02	8.70	8.59	6.94	4.62	4.77	4.86	4.61	4.90
>6 months ≤ 12 months	9.57	9.36	9.00	7.64	6.39	5.34	4.35	4.12	4.25
>12 months	7.30	7.43	6.81	5.23	5.20	5.16	5.18	4.98	4.89
Average lending rate	15.23	15.12	14.30	12.92	12.63	12.16	11.71	11.54	11.61
Average treasury bill rate	10.01	9.49	6.11	5.00	5.00	5.00	5.00	5.00	5.00

¹Data are averages of monthly data compiled on an end-of-period basis.

Rates on the various time deposits - which are set by the commercial banks - moved in contrasting directions (Table 6). Interest rates on deposits with shorter maturity, namely deposits for a period of 7 days and those with maturity between 7

days and 3 months declined, as did deposits with maturity exceeding 12 months. On the other hand, rates increased in respect of deposits maturing between 3 and 6 months and those between 6 and 12 months.

The table below illustrates the magnitudes of the changes in the time deposits rates.

Maturity	Change (%) (Q1, 2000)	Average rate (Q1, 2000)
< 7 days	↓ 20 basis points	2.75
> 7 days < 3 mths	↓ 33 basis points	4.76
> 3 mths < 6 mths	↑ 29 basis points	4.90
> 6 mths < 12 mths	↑ 13 basis points	4.25
> 12 mths	↓ 9 basis points	4.89

where - represents an increase and ^ a decrease.

3. Budget performance

3.1 Summary

The tight fiscal policy that was implemented by the government in 1999 was maintained during the first quarter of 2000 as the deficit came in at only half the budgeted level. It stood at R44 million. The principal factor explaining the favourable fiscal performance was capital expenditure, which continued to be squeezed. Overall, total outlays were 22 per cent below budget whilst a saving was also realised in recurrent expenditure. However, an overrun was recorded under net lending. There was also disappointment on the revenue side as inflows fell 15 per cent short of target.

The domestic market provided the bulk of the financing. Domestic financing was made up primarily of government securities. Total domestic financing stood at R154 million on a net basis. On the foreign side, the government effected a net repayment on its foreign commitments.

When compared to the same period of last year, the overall deficit for the quarter under review was twice as high. This reflected a combination of higher recurrent expenditure and significantly lower inflows in the first quarter of 2000.

3.2 Revenue

Revenue collected by the government in the first quarter amounted to R295 million, which was R51 million below budget. The deficiency relative to budget was explained by shortfalls in both current receipts and grants, which were R40 million and R11 million short of their respective targets.

Current revenue totalled R293 million compared to the budgeted R333 million. This disappointing performance was attributable to three items, namely "fees & fines", "dividends and interest" and "miscellaneous receipts". At R20 million, "fees and fines" were R2.1 million or 10 per cent short of budget. "Dividends and interest" came in at R9.2 million or 77 per cent short of target whilst the shortfall in respect of "miscellaneous receipts" amounted to R22 million or 91 per cent short of expectations. Grants totalled a disappointing R2.0 million compared to the forecasted R13 million.

On the other hand, there were a number of positive developments. Revenue collected from trades tax, the largest contributor to government revenue, was almost R10 million above its forecast. This was mainly on account of high revenue on locally manufactured goods. Revenue from "other indirect taxes", "administrative fees & fines", "rents & royalties", "income from public service",

Table 7
Government Budget; 1999-2000
Summary

	1999 Q1 Actual ¹	2000 Q1 Budget	2000 Q1 Actual ¹	2000 Budget
	(R million)			
Total Receipts	338	346	295	1528
Current receipts	336	333	293	1477
Of which:				
Trades tax	[128]	[130]	[140]	[591]
Transfers from Social Security Fund	[28]	[20]	[20]	[80]
Business/income tax	[52]	[48]	[46]	[205]
Grants	2	13	2	51
Total Outlays	360	437	340	1989
Current outlays	296	354	304	1415
Appropriation items	232	284	259	1124
Of which:				
Ministries/departments*	[154]	[181]	[156]	[723]
Social Security contributions	[30]	[30]	[30]	[119]
Current outlays to parastatals	[12]	[13]	[12]	[32]
Charges	64	70	45	291
Of which:				
Interest payments	[62]	[67]	[43]	[280]
Capital outlays	50	82	29	573
Net lending	13	0	6	1
Of which:				
Parastatals	[-0]	[0]	[-1]	[0]
Primary Balance²	40	-23	-2	-181
Overall Balance	-21	-91	-44	-461
Financing (net)	21	91	44	461
Foreign loans (net)	-13	58	-15	208
Domestic loans (net)	111	33	154	252
Cash movements	-77	0	-94	-0
Memorandum Items:				
Amortisation of loans	39	92	37	390
Of which:				
Foreign loans	13	22	15	112
Domestic loans	25	70	22	278

Figures do not necessarily add up due to rounding.

¹ These are subject to audit and might be revised accordingly.

² The primary balance is obtained by excluding interest payments from the overall balance.

* The figures for some ministries/departments have been revised.

and "reimbursements" were also higher than expected. The most significant of these were "other indirect taxes" and "reimbursements" which exceeded their targets by R3.1 million and R3.8 million respectively.

A comparison with the first quarter of 1999 reveals that total revenue during the quarter under review was R43 million lower. This was largely on account of the shortfall in current receipts, more specifically "dividends and interest" which fell by R41 million over the corresponding period last year. Other notable reductions in revenue relative to the same period in 1999 were observed in relation to "transfers from the social security fund", "business tax" and "miscellaneous receipts".

3.3 Expenditure

The government's desire to minimise unnecessary expenditure remained the focal point of the fiscal strategy. The result has been a sustained period of cuts in expenditure.

Current outlays during the quarter under review were R50 million below forecast. This was on account of significant savings of between 13 per cent and 37 per cent, with the most important ones being "ministries/departments" and "public debt interest". These headings recorded savings of R25 million. The only

noticeable overspending was observed under "centralised payments" and this amounted to R4.6 million, explained mainly by increased promotion of Seychelles abroad.

In line with recent trends, government spending on its capital programme remained significantly below the planned level. In the first quarter of 2000 capital expenditure totalled R29 million and this was R52 million short of budget. Further cuts were mostly on capital projects, which accounted for 97 per cent of total capital spending.

Notwithstanding the squeeze on current and capital spending, there was an overrun of R5.6 million in net lending. This overrun was attributable to general advances, which comprises mainly of advances – including motor vehicle and general purpose advances - to civil servants. It was encouraging to observe a net repayment of R1.1 million in respect of advances to parastatals during the quarter.

Contrary to revenue, expenditure during the quarter under review performed more satisfactorily than during the corresponding period of 1999. This owed to reduced expenditure on capital outlays and net lending. On the negative side, current spending increased by R8.3 million in the first three months of 2000.

3.4 Financing

The R44 million deficit for the first three months of the year was funded mainly through the domestic market, while the government continued to repay its foreign loans. Domestic loans amounted to R154 million on a net basis. The bulk of domestic loans were raised through sale of government paper.

An important development relating to financing during the quarter under review was that the government did not take any advances from the central bank. This reflects the commitment by the government to reduce monetisation of its deficits and followed by an amendment to the central bank Act, 1982, which limits central bank advances to the government to R500 million. It should be noted that

the balance of R624 million in advances outstanding on 31st December 1999 was converted into a new long-term bond.

4. Offshore sector

4.1 International companies and trusts

The Seychelles International Business Authority (SIBA), announced a new record in international business company registration for the first quarter of this year. This autonomous body registered 416 IBCs over the first three months of this year, a nine per cent increase over the last quarter of 1999 when 381 IBCs were registered. This good performance is attributed to the fact that SIBA is now very visible on the international scene and has established itself as an offshore centre.

3. EXTERNAL SECTOR

1. Introduction

The exchange record, which covers foreign exchange transactions through the banking system on a cash basis, moved into a deficit in the first quarter of 2000. From the surplus of R21 million in the previous quarter, the exchange record registered a deficit of R25 million. This outcome also represented a marked deterioration in the external position relative to the corresponding period in

1999 when a R10 million surplus was recorded.

With the exchange record in an overall deficit, this represented a deterioration in the reserve position. Both the Central bank and the commercial banking sector observed further depletion in reserves during the period under review. At the end March, gross official reserves - Central Bank and government - stood at R162 million.

A highly positive observation in the first quarter was that tourism showed strong signs of recovery. As numbers improved, so did income through commercial banks. Whilst the number of visitors during the January - March period rose some 1.2 per cent compared to the first quarter of 1999, revenue collected increased by R12 million or 7.9 per cent over the same period, totalling R167 million.

Other notable developments in the external sector in the first quarter of 2000 included a sharp depreciation in the value of the Seychelles rupee against the US dollar. On average, the rupee lost 2.4 per cent against the dollar during the three months under review. This reflected mainly the weakening of the euro against the dollar and to some extent the further loss in the value of the South African rand.

2. Current Account

The net foreign exchange outflow in the first quarter owed largely to the current account, which was R19 million in deficit. The current account deficit was the result of deficits of R119 million in trade and R4 million in net transfers outweighing the surplus of R104 million in the services account.

2.1 Trade

At R119 million, the trade deficit widened by R9.6 million during the first

quarter. Moreover, the deficit deteriorated by R16 million over the corresponding quarter of 1999.

The deterioration in the trade balance during the period under review was attributable mainly to developments on the payment side. Exports rose by R7.7 million as oil re-exports continued to grow, partly boosted by further increases in oil prices. Oil receipts grew by R17 million during the quarter. Furthermore, it rose by R32 million or 69 per cent over the same period in 1999.

The gains in re-exports of oil in the first quarter was however, partly eroded by a drop in receipts from domestic exports. For the first three months of 2000 canned tuna receipts fell by a third to R14 million. This decline however, reflected an element of seasonality as revenue from export of this commodity was R3.3 million above the level during the same period last year. There was also a slight drop in other domestic exports relative to the previous quarter.

Besides lower domestic export revenue, higher import payment also contributed to the deterioration in the trade balance over the previous quarter. Imports for the first three months of 2000 totalled R222 million, an increase of R17 million or 8.4 per cent over the last quarter of 1999.

Table 8
External Account Balance;¹ 1999-2000

	1999	1 9 9 9 Q1 Q2 Q3 Q4 (R million)			2000 Q1	
Current Account Balance	7	29	-5	-25	8	-19
Receipts	1322	320	288	328	385	368
Payments	1315	291	294	353	377	387
Trade Balance	-457	-103	-112	-134	-109	-119
Exports	294	72	61	66	96	104
Of which:						
Oil re-exports	(178)	(47)	(29)	(40)	(62)	(79)
Imports	752	174	173	199	205	222
Private sector	251	57	56	72	66	62
Oil	198	43	43	51	62	82
Government	105	26	26	27	26	21
Non-oil public entities	199	49	49	50	51	57
Services	500	140	113	115	132	104
Receipts	1011	243	222	259	286	257
Tourism	596	155	132	151	158	167
Airlines & Shipping	98	23	21	22	31	27
Official Sector	86	23	13	15	34	18
Others	231	42	55	70	63	44
Payments	511	103	109	143	155	153
Foreign travel	90	19	22	24	24	20
Airlines & Shipping	13	4	3	3	3	6
Hotels	39	10	9	10	10	13
Others	369	71	75	106	117	115
Transfers	-35	-8	-6	-6	-15	-4
Receipts	17	5	5	4	3	7
Of which:						
FXM1 bonds	(-)	(-)	(-)	(-)	(-)	(-)
Payments	52	13	11	11	17	11
Capital Account Balance	50	-12	-22	92	-7	-14
Official loans, net	17	-17	-26	80	-19	-14
Official grants	22	0	2	5	15	2
Private capital, net	0	4	1	-2	-3	-1
Receipts	20	7	7	3	3	2
Payments	20	3	6	5	6	3
Direct investment	10	0	0	9	1	0
Errors and Omissions	-1	-7	-2	-13	21	8
Overall Balance	56	10	-30	55	21	-25
Change in Reserves	-56	-10	30	-55	-21	25

Figures do not necessarily add up due to rounding.

¹ *This table is on a cash basis, and should not be construed as a balance of payment.*

This increase was primarily explained by a significant increase in oil imports, as reflected in the higher oil re-exports. As oil prices soared, imports rose by R20 million, indicating that despite the R17 million rise in re-exports, Seychelles was still around R3 million worse off as a result of developments in the international oil market.

Besides oil imports, there was also an increase in non-oil public entities imports of R5.4 million. Government and private sector imports dropped by R5.3 million and R3.1 million, respectively.

2.2 Services

The widening of the trade deficit was accompanied by a narrowing of the services account balance. The surplus in services fell by R28 million or 21 per cent compared to the previous quarter, to R104 million. This outcome reflected mainly a drop in revenue whilst outflows fell marginally.

Service-related revenue totalled R257 million for the three months ending March 2000, which was R30 million less compared to the previous quarter. The outcome could have been significantly worse if tourism, the largest earner of foreign exchange, had not recovered strongly, as all other revenue items fell in the first quarter.

Income from "airlines and shipping", "official sector" and other non-tourism sources, fell by R4.1 million, R16 million and R19 million respectively compared to the previous quarter. However, tourism income surged to R167 million. Furthermore it rose by R12 million relative to the first quarter of 1999.

During the January to March 2000 period, arrivals rose by 11 per cent, matching the growth over the same period in 1999. However, whilst revenue in the first quarter of last year dropped by R4.2 million (2.6 per cent) it increased by R9.1 million (5.8 per cent) during the period under review.

On the payment side, "hotels" and "airlines and shipping" recorded moderate increases of R3.1 million and R2.1 million respectively. However, these were more than compensated for by reduced expenditure overseas in respect of foreign travel and all other payments. Foreign travel dropped by R4.4 million whilst other payments in aggregate, posted declined by R2.6 million.

2.3 Transfers

There was a marked improvement in net transfers in the first quarter as the deficit shrank from R15 million to R4.1 million. This notable amelioration resulted from a R6.1 million decline in outflows, and a R4.6 million increase in transfer inflows.

At R4.1 million, the deficit was also down relative to the first quarter of 1999 when it stood at R8.2 million. Compared to that same period, inflows increased by R2.4 million. This improvement was complemented by a R1.7 million drop in payments.

3. Capital Account

The capital account remained in deficit in the first quarter. Moreover, the deficit almost doubled compared to the last quarter of 1999. From R7.4 million during the previous quarter, the shortfall rose to R14 million.

The expansion of the capital account deficit owed largely to a sharp drop in official grant receipts from R15 million in the previous quarter to a mere R1.7 million during the period under review. It should be noted, however, that by recent standards, the R15 million received in the previous quarter was rather exceptional. As such the decline during the period under review reflected more exceptional developments in the period before rather than a poor performance during the quarter under review *per se*.

This important reduction in official grants was accompanied by a drop in official loan receipts. Loan receipts fell by R46 million to R19 million. However, with foreign loan repayments falling by R51 million - to R33 million - this caused a narrowing of the deficit in respect of

official loans, thereby compensating for the drop in grants.

Developments in other items were insignificant with net private capital remaining in deficit, though at R1.3 million, this represented a R1.9 million improvement over the previous quarter.

4. Reserves

As a result of the deficit in the overall balance of the exchange record, reserves fell by R25 million during the first quarter of 2000. This reflected a combination of a drop in both official and the commercial bank reserves. In aggregate commercial bank reserves dropped by R24 million whilst official reserves fell by R1.0 million.

At the end of March, gross official reserves stood at R162 million, which translated into 3.6 weeks of 1999 c.i.f. imports. At the end of the same period last year, reserves amounted to 3.0 weeks (of 1998 c.i.f. imports).

5. Exchange rates

Developments in the exchange rate in the first quarter was highlighted by the slump of the euro against the US dollar. This decline in the rate of the euro, along with the further slide in the South African rand, which account for a combined 43 per cent in the Seychelles Trade and Tourism

Weighted Basket (STTWB), caused the rupee to depreciate by 2.4 per cent relative to the US dollar. From US 1 = SR 5.3141 in the previous quarter, the rupee fell to an average of US 1 = SR 5.4405 against the US dollar in the first quarter. On March 8, the rupee reached a quarterly low of US 1 = SR 5.5320 against the dollar. In terms of other STTWB currencies, the rupee also lost 1.1 per cent and 0.84 per cent against the Singapore dollar and the sterling respectively.

With the euro taking a dive - to a record low of 0.9524 against the US dollar on March 30 - the Seychelles rupee gained 2.8 per cent against the three euro-currency in the STTWB, namely the French franc, the German mark and the Italian lira. As the South African rand weakened further, the rupee appreciated by 0.5 per cent against this currency. The domestic currency also rose slightly - by 0.1 per cent - against the Japanese yen.

ACTIVITIES

First Quarter, 2000

1. Advances to Banks

1.1 CBS Advances to Commercial Banks¹

Advances made to the commercial banks during the quarter – a facility that is offered by the central bank to help short-term liquidity constraints – amounted to R172 million (*Table 9*), a level that has not been reached since the last quarter of 1994. The main explanation for the tight

liquidity situation at the banks was that credit was rising at a much faster pace than deposits during the period under review, which thus rendered banks to borrow. At that level, advances to commercial banks were 270 per cent higher than in the previous quarter. Furthermore, it rose by 116 per cent compared to the corresponding quarter of 1999.

Table 9
CBS Advances to Commercial banks; 1999-2000

	1 9 9 9				2000	1999	2 0 0 0		
	Q1	Q2	Q3	Q4	Q1	Dec.	Jan.	Feb.	Mar.
	(R million)								
Advances	79.6	108.1	83.8	46.5	172.2	0.0	17.0	98.2	57.0
Repayments	89.6	104.1	87.8	46.5	162.2	15.0	14.5	84.7	63.0
Stock of credit ¹	7.3	7.7	6.3	5.0	9.5	0.0	2.5	16.0	10.0

¹ Quarterly data are averages of monthly data, compiled on an end-of-period basis.

¹ Commercial banks can make use of this facility to increase their liquidity on a short-term basis. Advances may not exceed 14 days. Since December 1993, all government securities can be used as collateral; previously treasury bills only were permitted. For treasury bills the rates for each maturity is set at 50 basis points above the average of the last tender rate, rounded to 1/8 of 1 per cent. From 15 September 1998, treasury bills have been placed on a tap system. For bonds and stocks the rate is equivalent to that which the security yields.

Repayments effected during the first quarter amounted to R162 million, R10 million below the total disbursements. With advances outweighing repayments, this explained the two-fold increase in the average stock of credit to R10 million.

1.2 Government Concessionary Re-finance Scheme²

The average quarterly stock of credit in respect of the Concessionary Re-finance scheme, receded by R10 million during the period under review (*Table 10*). It stood at R8.8 million, 56 per cent below the level recorded during the same period last year.

This decline was explained primarily by a rise in repayment effected by export-oriented companies. Repayments by these enterprises amounted to five times the level registered during the fourth quarter of 1999. During the period under review, the bulk of activity was concentrated in February when repayments stood at R15 million. The overall decline in the stock of credit under the scheme is that most of the companies that are now borrowing under the scheme have nearly reached their five-year period that they can use this facility.

**Table 10
Government Concessionary Re-finance Scheme; 1999-2000**

	1 9 9 9	2 0 0 0	2 0 0 0	2 0 0 0	2 0 0 0	2 0 0 0	2 0 0 0	2 0 0 0	2 0 0 0
	Q1	Q2	Q3	Q4	Q1	Dec.	Jan.	Feb.	Mar.
	(R million)								
Stock of credit ¹	20.1	23.9	22.5	18.8	8.8	18.8	18.8	3.8	3.8
Of which:									
Export-oriented:									
Private sector	5.1	8.9	7.5	3.8	3.8	3.8	3.8	3.8	3.8
Public sector	15.0	15.0	15.0	15.0	5.0	15.0	15.0	0.0	0.0
Advances	21.3	3.0	15.8	3.0	0.8	1.5	0.0	0.0	0.8
Repayments	44.8	2.5	21.3	3.0	15.8	1.5	0.0	15.0	0.8

¹ Quarterly data are averages of monthly data, compiled on an end-of-period basis.

2. CBS Credit to Government³

Central Bank credit, which extended to the government solely, increased on an average basis by R27 million in the first quarter of 2000, relative to the last three months, to stand at R657 million. This

overall increase was mainly on account of the Bank's holdings of government paper and this is now the main credit instrument that the Bank is disbursing to the government.

² Under this scheme commercial banks provide credit for purposes of working capital to export-oriented or import-substitution enterprises at an annual interest rate not exceeding 3 per cent; whilst the Central Bank refinances the facility at a 2 per cent annual rate (Table 6, appendix).

³ The Central Bank makes funds available to government through advances and purchases of government securities. From 15 September 1998, treasury bills have been issued on a tap basis. All advances made to the government from that date are charged a flat interest rate of 5 per cent.

Advances, which was in the past the primary form of government borrowing from the Central Bank, became nil in the quarter. This is a direct consequence announced by the minister for finance in the 2000 budget address. The

announcement, which portrayed the government's commitments towards consolidating its expenditure and reducing monetisation of its deficits, was the main reason why there were no advances during the period under review.

Table 11
Credit to Government; 1999-2000

	1 9 9 9	2000	1999	2 0 0 0					
	Q1	Q2	Q3	Q4	Q1	Dec.	Jan.	Feb.	Mar.
	(R million)								
Total Credit	606.8	581.9	599.8	629.3	656.6	640.1	639.9	656.3	673.5
Advances	466.3	527.2	582.2	613.1	0.0	623.9	0.0	0.0	0.0
Treasury bills	140.5	54.6	17.5	16.2	32.6	16.2	15.9	32.3	49.6
Treasury bonds	0.1	0.1	0.1	0.1	624.0	0.1	624.0	624.0	624.0

¹ Quarterly data are averages of monthly data, compiled on an end-of-period basis.

3. Government Securities

3.1 Treasury Bills⁴

Sales of treasury bills in the first quarter of this year amounted to R1.033 billion. This represented a 22 per cent decline over the previous quarter's level. The decline was attributable to a drop in the sale of 365-day bills of 66 per cent. Nevertheless, the bulk of activity was concentrated in February when total sales amounted to

R434 million, of which R355 million, were 91-day bills.

In spite of the drop in sales, the stock outstanding rose to R1.9 billion during the first quarter, since the value sold exceeded redemption. Of the total amount sold, 91-day bills accounted for 35 per cent whilst 182-day and 365-day bills accounted for 33 per cent and 32 per cent respectively.

⁴Since September 1993 bills are issued on tender. The penalty rate for discounting is set at 12.5 basis points above the last average tender rate. For purchases on the secondary market, it is 3.5 percentage points above the minimum savings rate (Table 6, appendix). Prior to September 1993 penalty rates were not imposed. From 15 September 1998, treasury bills have been put on a tap system with penalty rate remaining the same.

Table 12
Treasury Bills; 1999-2000

	Q1	1 9 9 9 Q2	Q3	Q4	2000 Q1	1999 Dec.	2 0 0 0 Jan.	Feb.	Mar.
	(per cent)								
Annual yield (average)	4.998	4.998	4.998	4.998	4.998	4.998	4.998	4.998	4.998
91-day bills ³	4.502	4.502	4.502	4.502	4.502	4.502	4.502	4.502	4.502
182-day bills ³	4.995	4.995	4.995	4.995	4.995	4.995	4.995	4.995	4.995
365-day bills ³	5.496	5.496	5.496	5.496	5.496	5.496	5.496	5.496	5.496
	(R million)								
Amount issued¹	754.0	901.5	1076.2	1326.8	1032.5	327.8	237.1	433.8	361.6
91-day bills ³	537.8	547.7	696.7	686.2	658.2	188.9	134.9	354.8	168.6
182-day bills ³	116.9	298.2	202.3	349.6	276.6	94.0	89.0	58.8	128.8
365-day bills ³	99.4	55.6	177.2	291.0	97.7	45.0	13.2	20.2	64.3
Stock outstanding^{1/2/}	1183.3	1221.7	1397.9	1757.0	1899.6	1845.4	1913.4	1900.8	1884.7
91-day bills (tap issue)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
91-day bills ³	552.5	549.7	609.9	685.3	664.7	677.1	687.9	663.3	643.0
182-day bills ³	474.0	435.4	470.5	526.1	621.5	552.6	614.4	624.1	626.0
365-day bills ³	156.9	236.7	317.4	545.6	613.4	615.7	611.1	613.4	615.7

¹ At cost value.

² Quarterly data are averages of monthly data, compiled on an end-of-period basis.

³ With effect from September 15, 1998, new issues of 91-day, 182-day and 365-day bills were placed on tap.

3.2 Treasury Bonds

Following a period of strong sales in the last quarter, all issues of bonds were fully subscribed. As a result, the period under review was one of limited activity. The significant event during the first quarter was the introduction of a new bond issue in February, namely the 7.5 per cent, 3-year bond, with a limit of R300 million. Just under half of this new issue - R147 million - was sold within two months.

Meanwhile, the redemption of the 12 per cent, 3-year bond, which started maturing in 1998 was completed during the period

under review. February also saw the commencement of the redemption of the 11 per cent, 3-year bond with a total of R9.2 million being redeemed in the first quarter only.

With the value of sales outweighing redemption, the average stock of credit increased by 2.4 per cent relative to the previous quarter, totalling R1.03 billion (*Table 13*). The market continued to be dominated by the commercial banks, which accounted for 70 per cent of total stock outstanding.

Table 13
Treasury Bonds; 1999-2000

	Q1	1 9 9 9 Q2	Q3	Q4	2000 Q1	1999 Dec.	2 0 0 0 Jan.	Feb.	Mar.
	(R million)								
Amount sold	45.9	11.5	266.9	0.0	147.4	0.0	0.0	106.2	41.3
6.0%, 1-yr	0.0	-	-	-	-	-	-	-	-
6.75%, 2-yr	9.8	0.0	-	-	-	-	-	-	-
6.75%, 2yr*	-	-	250.0	0.0	0.0	-	-	-	-
7.5%, 3-yr	24.3	0.0	-	-	-	-	-	-	-
7.5%, 3-yr**	-	-	-	-	147.4	-	-	106.2	41.3
8.0%, 5-yr	11.9	11.5	16.9	0.0	0.0	-	-	-	-
Stock outstanding¹	1365.6	1375.3	1271.0	1011.2	1035.0	955.5	955.5	1055.8	1093.7
6.0%, 1-yr	500.0	500.0	390.5	50.9	0.0	0.0	0.0	0.0	0.0
6.75%, 2-yr	198.5	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0
6.75%, 2yr*	-	-	83.3	250.0	250.0	250.0	250.0	250.0	250.0
7.5%, 3-yr	146.3	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0
7.5%, 3-yr**	-	-	-	-	84.5	-	-	106.2	147.4
8.0%, 5-yr	15.6	28.6	44.4	50.0	50.0	50.0	50.0	50.0	50.0
11.0%, 3-yr	200.0	200.0	200.0	200.0	195.0	200.0	200.0	194.2	190.8
11.5%, 5-yr	105.5	105.5	105.5	105.5	105.5	105.5	105.5	105.5	105.5
12.0%, 3-yr	199.7	191.2	97.3	4.8	0.0	0.0	0.0	0.0	0.0

¹ Quarterly data are averages of monthly data, compiled on an end-of-period basis.

* New issue introduced in September 1999.

** New issue introduced in February 2000.

3.3 Government Stocks

After there were no sales for this long-term government paper in the last quarter, government stocks sales were R3.5 million during the first quarter of 2000. Stocks sold were in respect of the 8.0 per cent,

2009 issue as the other two outstanding stocks are already fully subscribed. Consequent to these movements, the average stock outstanding rose by 1.6 per cent, to R98 million.

Table 14
Government Stocks; 1999-2000¹

	Q1	1 9 9 9 Q2	Q3	Q4	2000 Q1	1999 Dec.	2 0 0 0 Jan.	Feb.	Mar.
	(R million)								
Amount sold	0.9	0.0	6.2	0.0	3.5	0.0	0.0	1.0	2.5
8.50%, 2005/07	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8.00%, 2009	-	-	6.2	0.0	3.5	0.0	0.0	1.0	2.5
Stock outstanding²	89.4	90.0	92.1	96.2	97.7	96.2	96.2	97.2	99.7
8.00%, 2004	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0
8.50%, 2005/07	29.4	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
8.00%, 2009	-	-	2.1	6.2	7.7	6.2	6.2	7.2	9.7

¹ At cost value.

² Quarterly data are averages of monthly data, compiled on an end-of-period basis.

4. Administrative Matters

Mr Pierre Laporte, Director General of Research & Statistics, attended a meeting associated with the SADC Payment System Project held in Pretoria, South Africa, from February 17 to 18, 2000. The aim of the meeting was to discuss the ideas for the direction and focus of the project for the coming year, following recent changes. The Project was launched in June 1996 and falls under the auspices of the Committee of SADC Central Bank Governors.

Mr Norman Lucas, Director Banking & Currency Operations, attended the Common Market for East and Southern African countries (COMESA) Monetary Co-operation meetings held in Mauritius over the period March 20 to 25, 2000. There were three meetings in all: at the ministerial level, central banks' governor level and for experts from central bank/ministry of finance.

Miss Maryline Joseph, Bank Supervision Officer, and Miss Caroline Abel, Research Officer, participated in a workshop on the "Legal and Operational Frameworks of SADC Central Banks", held in South Africa from March 21 to 23, 2000. The workshop focused on the endorsement of the final report and recommendations to be submitted to governors, as well as the drafting of guiding principles for the "Finance and Investment Sector Protocol".

Mrs Marylene Simeon, Public Debt Supervisor, attended the 32nd Central Banking course held in Pakistan from February 28 to April 29, 2000. The objective of the course is to give participants a broad perspective of the principles and practices of central banking and its relationship with the changing socio-economic problems of developing countries.

NEWS NOTES

First Quarter, 2000

1. LOCAL

1. Politics and Diplomacy

1.1 New Israeli Ambassador appointed

In February the Ministry of Foreign Affairs welcomed His Excellency Mr. Yaacov Amitai, as the new ambassador of Israel for Seychelles. Mr. Amitai who will be based in Nairobi, replaced Mr. Menashe Zipori who served from 1994 to 1999. Seychelles and Israel established diplomatic relation in June 1992 and Mr. Amitai is now the third Israeli ambassador to be accredited to Seychelles.

2. Government business

2.1 United Nation conference on trade and development

Seychelles was represented at the first global economic gathering in the new millennium by Vice-President James Michel in February. This was the tenth session of the UN Conference on Trade and Development (UNCTAD), which was held in Bangkok, Thailand. The conference dealt with strategies and

policies which are likely to ensure the successful integration of developing states into the world economy on an equitable basis and to avoid the risk of further marginalisation.

2.2 Visit from new ILO Regional Director

The regional director of the International Labour Organisation (ILO) for the Indian ocean region, Mrs. Catherine Hein visited Seychelles on February 15. During her visit, she met the Minister for Land Use and Habitat, Mr. Joseph Belmont, as well as other senior government officials. Seychelles benefits from the ILO through provision of consultancy and funding of seminars/workshops relating to the employment field.

2.3 Seychelles represented at global conference for small states

Seychelles was represented at the Global Conference for small States in London by

Mr. Bertrand Rassool, High Commissioner of Seychelles to the United Kingdom. Small island states have been seeking support of the international community to reduce their vulnerability as well as to strengthen and foster capacity building in their respective economies.

3. Foreign Assistance

3.1 Paris gives out R13 million

Seychelles will benefit from a donation of R13 million from the French Government following the signing of a treaty between the Seychelles and French governments in mid February. The fund will be used to finance the activities of the Technical Corporation as well as projects to be submitted to the French government.

3.2 Kenya offers teachers

During a visit in March by Kenyan Minister for Education, Mr. Stephen Musyoka, Mr. Danny Faure, the Seychelles Minister for Education announced that Kenyan teachers could be expected to assist Seychelles to cope with teacher shortages. Minister Faure said that the existing shortage of Science teachers stands at 26, whilst his Kenyan counterpart expressed their capability to help out Seychelles as they actually have a surplus of teachers.

4. Other assistance

4.1 The Ministry of Health benefits from donation

The Ministry of Health accepted a cheque worth R50,000 in January from the Managing Director of Bestway Plumbing Company, Mr. Ralph Vel. The money will go towards the purchase of electrocardiogram machines. Donations by the private sector is greatly encouraged by the government, noted by the Health Minister, Mr. Jaquelin Dugasse. This donation, he said, exemplifies what individuals can do towards the economic development of Seychelles.

5. Economic Sectors

5.1 Tourism

5.1.1 Five-star, 35-suite resort for Carana Beach

The Hospitality Management Company Limited has announced that it will be building a new five-star, 35-suite resort at Carana beach, North East Point. Mauritian Architect Jean Marc Eynaud, is designing the resort and the project will be managed by Hooloomann and Associates, also from Mauritius.

5.1.2 Work on 120-suite Port Launay hotel to start this year

With the announcement that promoters are putting the final touches to plans to build a luxury hotel at Port Launay,

where the National Youth Service once stood, Seychelles will have attracted US\$120 million of foreign direct investment by the end of year 2000. The 5-star resort, with room sizes averaging 55 sq. metres and the design of the facilities featuring the island's architectural styles, will cost about US\$60 million to develop, and is expected to be ready by early 2002.

5.2 Transport

5.2.1 SPTC to receive 34 new buses

An agreement for the purchase of 34 new buses by the Seychelles Public Transport Corporation (SPTC) and Tata International of India under an Indian government US \$2 million credit line was finalised on February 11. Under this agreement, SPTC will receive twenty-four 41-seater and ten 60-seater buses.

5.2.2 Seychellois replaces expatriate as SPTC MD

In late February the Ministry of Administration appointed Seychellois Daniel Gappy to the post of managing director of the SPTC with effect from 1st March 2000. Mr. Gappy replaced South African Gert Meinjtes whose term of appointment expired at the end of February. Mr. Gappy has previously served as manager of Hunt Deltel & Co. and was recently a principal at the Seychelles Institute of Management.

6. Development and Infrastructure projects

6.1 Dredger Marco Polo arrives in early April

The dredger Marco Polo returned to Seychelles in April and immediately started reclaiming land near Seychelles International Airport on Sunday April 19. This work will form part of the greater East Coast Reclamation project (phase III). This project will be the third and biggest land reclamation contract in Seychelles and will involve reclaiming around 340 hectares of land.

6.2 PUC to undertake R75m project

The Beau Vallon area and part of Bel Ombre are expected to get their own sewage treatment in about two years, when a US\$14 million project to be undertaken by PUC is completed. The signing for the project's foreign exchange component of US\$6.7 million was done at the Seychelles Marketing Board headquarters, New Port, by PUC executive chairman, Mukesh Valabhji, on the 7th of March.

6.3 VP Michel inaugurates R50m project

The R50 million South Mahe water supply project was inaugurated on the 23rd March by Vice President James Michel. This project will enable under-utilised water resources to be tapped, facilitate

the transfer of water from east to west Mahe and vice versa as well as have some

7. Local Industry and Business

7.1 SMB Launches Mountain Spring Sparkling Water

The Seychelles Marketing Board has launched a new product, the Mountain Spring Sparkling water. According to SMB's communication's manager, Mr. Amitesh Banerjee, the product has good potential for export. Noting that there have already been interest from Mauritius and Kenya, he also added that SMB has invested SR30 million in terms of equipment and technology for its Bois De Rose factory. He also said that the benefits were multiple in that it was an import substitution, thereby saving foreign exchange, heightening employment and giving the customers value for their money.

7.2 SMB hopes to export coconut oil to Singapore

Efforts are now under way to negotiate an export agreement with a Singaporean company for SMB to start supplying it with coconut oil, which is a by-product from pressing copra at the Animal Feed factory. SMB is already exporting raw coconut oil to Mauritius which is used in soap production.

7.3 Kreol' Or's venture takes off successfully.

According to Kerol Or, the local company producing gold jewellery

reservoir function as blending facility for water produced by desalination plants.

articles, production of gold jewellery sets with diamonds has proven increasingly successful among Seychellois. Introduced before last Christmas, 5 sets of diamond jewellery are currently being produced. The price varies from SR6,300 to SR8,800 per set or separately from SR1,550 for a ring to SR3,920 for a necklace. The products are aimed towards local customers whose responses have been, according to the company, been generally positive.

8. Offshore

8.1 New SITZ Company to supply cans exclusively to IOT

The Impress Packaging Limited based in Amsterdam has entered into a partnership with Heinz seafood for a metal packaging supply agreement. Using latest technology equipment, this new business venture is bound to create scope for more employment.

9. Other news

9.1 Increase in Balance of Trade in fish

According to a report released by the Ministry of Agriculture and Marine Resources at the beginning of this year, a positive balance of trade in fish and fish products was realised in 1998. The surplus is put at R441 million, representing an increase of 5.7 percent over 1997. While fish and fish products

constituted a major component of the fishing sector's contribution to the economy in 1998, visible exports amounted to 22,5496 metric tonnes which translated into a value of R461 million, whereas revenue generated from the tuna fishing activity was valued at around R197 million.

9.2 Prices reduced

During the first quarter, SMB announced a reduction in prices of some of its commodities. Immediately after, most shops in Seychelles followed suit. To ensure implementation of the latest price

regulation, Price Control Unit officers have been conducting inspections in several shops on the islands. SMB's action follows the Government's announcement in the 2000 budget address that it would undertake measures to curb inflation which rose sharply in 1999. Similar price-reduction measures introduced in 1995 resulted in lower cost of living. However, this has been eroded by recent increases in prices which have been attributed to a number of factors, *inter alia* over-invoicing, higher premium in the parallel market for foreign exchange, excess demand in the economy and high liquidity.

2. FOREIGN

1. World Economic Conditions

1.1 Interest rates

The upward movement in interest rates that started in the third quarter of last year in most developed economies continued in the first three months of the new year. In the **United Kingdom**, the Bank of England through its Monetary Policy Committee, announced its first interest rate rise on January 13, by raising its key interest rate – the repo rate – by 0.25 percentage points to 5.75 per cent, a margin that was widely expected. This decision was based on the outlook of a strengthening world economy. Prospective growth in domestic demand also remained strong, particularly increases in wealth, labour income and

household borrowing. Inflation was below its 2.5 per cent target and the Committee believes that it would rise above target further in the coming months, reflecting mainly the pressures in the labour market and on productive capacity. To that effect the Committee concluded that an increase in interest rates was needed to meet the inflation target in the medium term. The decision however, did not satisfy trade unions and businesses, particularly the exporters, as the pound rose to its strongest level for nineteen months.

The Bank again increased its repo rate on February 3 by a further 25 basis points to reach 6.0 per cent. Again the decision

was based on the buoyant domestic demand and a tight labour market, which could generate inflation in the domestic economy. Nevertheless, inflation could remain below its target of 2.5 per cent if the strength of sterling persisted.

In the **11-member euro area**, the European Central Bank (ECB) raised its interest rates by 25 basis points on February 3. This change in the interest rate regime of the ECB, made it the third rate change since the ECB took control of monetary policy in the euro-zone. This took the key refinancing rate from 3.0 per cent to 3.25 per cent.

Mr. Wim Duisenberg, the ECB president, said that one of the main reasons behind this change was the euro's fall on foreign exchange markets. He noted that, by the end of January, the euro's nominal effective exchange rate had fallen by about 11.5 per cent when compared with the first quarter of last year.

However, there were other inflationary pressures underlying the increase in interest rates. High money growth, generous levels of credit to the private sector and the risk of high wage settlements in the euro area were the indicators that were signs of concerns for the Bank.

The Bank again raised its interest rate on March 16, by a further 0.25 percentage point, taking its main refinancing rate to 3.5 per cent. The governing council noted that economic conditions and prospects for the euro zone were getting better and that at the same time there were upside risks to price stability. It was the latter that was a sign for a more cautious move by the Bank, which would maintain a favourable outlook for the euro area economy. The strong rise in oil prices and the downward movement of the exchange rate of the euro were putting upward pressure on import costs and producer prices were seen as factors, which would have lasting effects on consumer prices.

In the **United States**, the Federal Reserve emphasised its concerns that the record breaking US economic expansion was proceeding at too fast a pace by raising short-term interest rates to their highest level in more than four years. This move hinted that it might need to tighten its monetary policy stance again in the near future. The US central bank, through its policy making body – the Federal Open Market Committee (FOMC) – raised its key interest rate instrument, the Fed funds target rate, 0.25 percentage points to 5.75 per cent at the conclusion of a two-day meeting held on the 1st and 2nd of February. It also increased the discount

rate by the same margin to 5.25 per cent. Bond prices continued their strong rally, and the yield on the 30-year Treasury bond edged down to 6.45 per cent. The pace of the current economic expansion, which has become the longest in US history, has accelerated in recent months, pointedly in the last six months of 1999, when the economy expanded at annual rate of 5.5 per cent. Analysts envisaged that interest rates might be needed to rise further to bring back the rate of expansion to a sustainable level.

That was what happened a month later. On 21 March, the FOMC increased its interest rates by a further 25 basis points, which put its target for the federal funds rate at 6.0 and that of the discount rate at 5.5 per cent. The reasons underlying the change were essentially the same as when the Committee met in February. The Committee remained concerned that increases in demand will continue to exceed the growth in potential supply, which could foster inflationary pressures that would undermine the economy's record economic expansion.

In **Sweden**, its Central Bank moved to prevent any overheating in the country's booming economy by increasing its main key interest rate on February 6. The half percentage point rise to 3.5 per cent surprised the market, which had only expected half that amount, following the European Central Bank's 0.25 percentage hike to 3.25 per cent. However, Sweden's

economy grew at its strongest rate for a decade last year, rising by nearly 4.0 per cent, and it is believed that the trend could again accelerate this year. The country is enjoying strong export growth, rising private consumption, and healthy investment levels. But as the economy cycle is moving upwards, interest rates cannot continue to remain low if inflation is to be kept at a sustainable target level of 1.9 per cent. Thus, a strengthening of the Krona would also be needed to curb inflationary pressures. Sweden, like the UK, Greece and Denmark is a member of the European union but outside the single currency.

While the general movement in interest rates in the above economies was on an upward trend that of **Japan** remain stable. During the quarter, the Bank of Japan maintained its zero interest rate policy, a policy regime that the Bank is convinced would be able to remove the deflation in the economy.

1.2 Growth

1.2.1 United States

The main reason behind the interest rate rise in February, which came in as little surprise to the market participants, was the rapid pace of economic growth. In the last three months of 1999, output expanded at a 5.8 per cent rate, following a 5.7 per cent rate in the previous

quarter. Output for 1999 as whole expanded at 4 per cent, faster than the Federal Reserve expected.

Furthermore, just as forecasts of a slowdown in the US economy in recent years have proven wrong, so have forecasts of rising inflation. Inflation rose by 2.7 per cent in 1999, but that does not mean that there were no inflationary pressures. The employment cost index rose by 1.1 per cent in the last three months of 1999. Particularly significant was the increase in the cost of employee benefits – which rose by 1.3 per cent in the last quarter, the fastest pace in six years. Employers reported a growing shortage of skilled and unskilled labour. Nevertheless, there have been significant improvements in the underlying performance of the economy. Labour productivity grew at a 2.25 per cent rate over the last five years, more than double the 1.0 per cent rate of the previous decade.

The Fed made clear however, that demand was growing at an unsustainable pace. Real domestic demand has been rising at around 5.0 per cent for the last four years, the result of an investment boom and a consumer confidence that is high. The result of this has been a current account deficit set to rise above 4 per cent of GDP. Together with a strong dollar, this has helped to restrain

inflation. But the chairman of the Fed, Mr. Alan Greenspan, has noted that the pace of economic expansion cannot continue indefinitely. Following 107 months of uninterrupted growth in January 2000, the US was enjoying its longest ever expansion and Mr. Greenspan has noted that it would be the Fed's job to extent this growth further by *“by containing the imbalances and avoiding the very recession that would complete a business cycle”*.

1.2.2 Japan

Japan's economy expanded at the fastest rate for four years in the first quarter of this year, boosting hopes that the world's second largest economy may now be finally starting to recover. Gross domestic product rose 2.4 per cent in the first quarter, or up an annualised 10 per cent - the highest growth rate since 1996, according to government data. Figures fell slightly short of economists' predictions, however, which had been for a 2.9 per cent quarterly rise in GDP. And this meant that the government did not quite achieve its growth target in fiscal 1999 of 0.6 per cent, only hitting 0.5 per cent instead for the year. Public spending was lower than what economists expected, with government investment actually falling, 7.5 per cent on the quarter.

However, personal spending rose 1.8 per cent on a quarterly basis, with housing rising a strong 6.6 per cent. This was believed to have reflected the fact that the government introduction of a number of subsidies into the housing market over the last 18 months, were finally starting to take effect on consumer confidence. Meanwhile, capital spending which has been on an unusually downward slump during the last two years rose 4.2 per cent. Exports grew by 5.4 per cent, reflecting strong demand in South East Asia, which is recovering from the 1998 Asian financial crisis.

1.2.3 Asia

Trade within Asia is set to grow strongly this year as the region's economic recovery continued in the first three months of the new year. However, rising domestic demand and higher oil prices would put some pressure on imports. Forecasts show that imports in South Korea would rise by 24 per cent this year, while Thailand's imports will grow by 18 per cent and those of Indonesia by 15 per cent. The trend followed strong import growth in many of those countries in 1999. This outcome showed that the regional crisis, which started with a collapse in exports in 1997, was finally abating with a mirror image recovery of imports. There was as well a sharp fall in the current account surplus of many countries. In Korea, this is expected to

halve, to 2.4 per cent of gross domestic product from 5.9 per cent. In China, the surplus is expected to slip 1.1 per cent from 1.5 per cent, and will almost disappear over the medium term. Since Asia's foreign exchange reserves have been replenished, the region can afford to run smaller surpluses on the current account. Strong exchange rates will also help promote imports. However, economists are questioning to what degree Central Banks will allow exchange rates to rise in the face of capital inflows.

1.2.4 India

India was within striking distance of achieving annual economic growth, which was close to the East Asian tiger levels. India's growth of 6.0 per cent in its last fiscal year was amongst the world's best, but good harvest masked a deceleration in other sectors, sparked by a slowdown in the pace of reform and the large public sector deficit. Many observers say that current rates of investment could theoretically continue to support growth in the 5.0 per cent to 6.0 per cent ranges, provided they were accompanied by increases in productivity. However, this is threatened by a range of problems, including the deterioration of infrastructure, investor uncertainty over the slower pace of reform and lack of agricultural deregulation. India was also facing the problem of competition from a slowly recovering East Asia. A good

element in the current account was the rapid growth of computer service exports, but it is said that even telecom infrastructure might lag and cause possible problems. But on a more satisfying note, the newly elected Government should be congratulated for several measures including the move to liberalize insurance and cut diesel subsidies, and suggests that the government may now enjoy a sufficient majority to push reform through.

1.2.5 IMF views on the world economy

In a statement published early February, Mr Stanley Fisher, the IMF's first deputy managing director, outlined that 1999 was seen as a year of significant turnarounds in world economic fortunes compared to a year earlier. According to him, the improvement in the global economy was based on the recovery in the crisis-hit Asian countries, the strong performance in Brazil, despite the exchange rate depreciation early in the year, improved performance in Europe and blistering growth in the United States, which was the important factor that kept world growth of the upward trend.

Among the emerging market economies, the 10 per cent growth in South Korea was outstanding and the 5 per cent in Thailand as well. Mr Fisher also drew the attention of how China weathered the

shocks of the financial crisis of 1997-1998, while India also managed a satisfactory year. The African economies also showed signs of improvement. On the United States, he pointed to the 'reserves' of policy freedom available to the authorities, which was also underlined by the US Treasury Secretary – Mr Lawrence Summers. He noted that the strong performance of the US economy was helped by the improved performance of the fiscal position since 1992.

2. International Economic Survey

2.1 Prices

2.1.1 Euro-zone

The annual inflation rate in the 11-nation Euro-zone rose to 1.7 per cent in December last year, the highest rate since August 1997. Inflation in November 1999 was revised down to 1.5 per cent, from an earlier reported 1.6 per cent. Furthermore, figures showed that German consumer price rose at a two-year high of 1.7 per cent in January 2000. It foreshadowed the possibility that the Euro-zone inflation rate would have tested the European Central Bank's 2.0 per cent ceiling in January this year. Most of December's rise was due to higher oil prices and their effect on transport and heating costs. The rate of increase is expected to slow later this year as last year's steep energy price rises are stripped out of the consumer price index.

2.2 Employment

2.2.1 Brussels

On February 23rd, the European Union committed itself to cutting the unemployment rate to 6.0 per cent in 2005 and to creating full employment for its citizens by 2010. The targets were among options being considered to find ways to boost EU competitiveness and employment. The target for raising the employment rate is currently at 61 per cent to 65 per cent by 2005 and 70 per cent by 2010. Measures to stimulate private investment in research were also under consideration.

2.2.2 Germany

Unemployment in Germany fell by a surprisingly strong 68,000 in December last year, reducing the seasonally adjusted total to just over the politically sensitive 4 million mark. The fall, which brought the jobless total down to 10.2 per cent of the workforce from 10.4 per cent in November 1999, was particularly strong in the East, where unemployment fell from 18.1 per cent to 17.7 per cent. The drop reflects accelerating economic growth in the second half of last year caused by rising exports. Unemployment is expected to fall further this year as the economy continues to expand. However, the impacts of higher growth of jobs will be masked by productivity improvements, as employers remain wary of hiring more staff.

2.2.3 United States

Pressure for further increases in US interest rates eased a little after government figures showed that unemployment rose slightly in February and the number of jobs created was the lowest since May 1999. Statistics showed that US labor market might be loosening, which gave a boost to stocks and bonds. The government warned however, that the small growth in jobs might be a seasonal factor following a January in which unusually warm weather had fuelled employment increases in agriculture and the construction industries. Economists were expecting the Federal Reserve to tighten monetary policy in February, but the bias towards increases would have eased if job growth continued to slow. Unemployment rose to 4.1 per cent from January 30-year, 4.0 per cent low, while the number of jobs grew only by 43,000. On the other hand, wages grew only 0.3 per cent, keeping the annual rate at 3.6 per cent - well below the peak of 4.4 per cent reached in April 1998.

2.3 Budget

2.3.1 Mexico

While oil price rises was becoming an increasing cost and presented a disadvantage to some countries, it was on the other hand, becoming a prospect for others. This was seen in the case of Mexico whose budget deficit target was

beaten last year by higher oil prices and lower foreign debt payments, which placed the country on a solid fiscal footing.

The budget deficit was 1.15 per cent of gross domestic product, narrower than the 1.25 per cent target in the 1999 budget. Tax revenues rose by 10 per cent, reaching 11.4 per cent of GDP, which was the highest in 20 years. The Finance Ministry said that 32.5 per cent of its income last year came from Pemex, the state Oil Company, and taxes related to the oil sector. In the first two months of 2000, Mexican oil prices have also been sharply higher than the US\$16 per barrel forecast in the 2000 budget. That was positive for the economy, but higher oil prices reduce the pressure to promote politically difficult but more stable sources of revenues such as a new tax regime.

2.3.2 Italy

In early March, the national statistical office – Istat – published the figures on government finances for the year 1999. It revealed that despite the continued low growth, the deficit figure being experienced in Italy came in at 1.9 per cent of GDP for 1999. The figure was not only an improvement on the original target but it was the lowest deficit figure Italy has achieved since 1961. The

improvement in the deficit occurred because the government enjoyed a surge in tax receipts in the second half of last year that had not been expected at the time that Italy called for the widening of the target. The extra tax raised equivalent to L10,000bn or US\$5bn had been enough to push total taxation as a proportion of GDP from 43 per cent to 43.3 per cent last year. Another factor bringing down the deficit was lower-than-expected interest payments on Italy's debt. This happened partly because the European Central Bank kept short-term rates at low levels for longer than expected.

2.3.3 South Africa

South Africa's Finance minister, Mr. Trevor Manuel, put his budget to the parliament on 23rd February, a budget, which he called "*a very strong focus on growth*", after years of belt-tightening designed to establish the country's international credibility.

South Africa's budget deficit for the current fiscal year would be a full percentage point lower than expected at 2.4 per cent of GDP. The figure would be allowed to rise slightly to 2.6 per cent of GDP for the year starting in April 2000, before falling to 2.2 per cent by 2002-2003. As expected, he announced further easing of foreign exchange controls for companies, financial institutions and individuals. He also said

that some South African companies would be allowed to move their primary stock exchange listings overseas.

With tax revenues continuing to improve and expenditure under firm central control, he said that the government would spend R8.3bn more than previously predicted for the coming year on public services, reduce the tax burden on small companies and hand back R9.9bn to individual tax payers through income tax adjustments.

3. Other Economic Developments

3.1 IMF

The Group of seven governments, (G7), agreed in late January to a comprehensive review of financing procedures used by the International Monetary Fund (IMF) and to examine the roles of the World Bank and the Regional Development Banks. The meeting called for the IMF to focus more narrowly on providing emergency support for countries in crisis and to reduce significantly its long-term financing role in developing economies. The IMF review looked at the pricing of its loans, the questions of long-term funding and the repetitive use of financing by countries.

3.2 Rising oil prices and its impact on the world economy

Many worried that the supply of energy would be disrupted, caused by the

millennium bug at the beginning of the new year. But with the millennium come and gone, with minimal disruption, oil prices continued to increase. As oil prices reached a nine-year high on Friday 21st January, at US\$29.66 for Texas crude and US\$26.35 for Brent crude, the surge brought fears of a global economic slowdown. The fundamental force driving the oil price higher is the intersection of demand and supply that is exceptionally favourable for producers. The price increase was because firstly demand has risen, as the world economy recovered from the Asian financial crisis of 1997-98. Demand has outstripped supply, as at the end of December 1999, world oil stocks fell to the lowest for two years and their lowest year-end level of the 90's. Thus, a strengthening world economy has led to growing demand while the Organisation of Petroleum Exporting Countries has since last February (1999) been able to hold the line on agreeing to limit production. The latest surge of prices came after Saudi Arabia suggested it saw no reason to expand production when the agreed cuts formally expire at the end of March of this quarter. The decision was likely to stir up inflation, as Americans were seeing big rises in the price of domestic heating oil and the retail price of diesel fuel rose ten cents a gallon in mid-February. Many airlines, including American and United, imposed fuel surcharges. Federal Express also

imposed a surcharge, and UPS raised prices. It has been argued that when oil becomes more expensive, real wages will have to fall so that companies can restore their profits. To drive real wages down unemployment has to rise. So an oil shock leads to both higher inflation and higher unemployment. The price of crude oil continued to pressure up inflation as the latter was now actually running at a 2.0 per cent annual rate. A year ago, the rate was 1.1 per cent and this imbalance between demand and supply would make further price spikes more likely, affecting profit margins.

4. Currency Developments

4.1 Euro plunged below dollar parity

The Euro plunged to its lowest level yet against the dollar, decisively breaching the parity level on February 27th this year. After a promising start at the beginning of the year, the Euro resumed a steady fall, which last year saw it lose 15 percent of its initial value against the US currency. The Euro's plunge, which came at a time of mounting international unease about the weakness of the currency, also dragged down Euro-denominated bond prices. The European Central Bank's (ECB) governing Council could raise interest rates to defend the Euro's value, particularly if the US Federal Reserve announces a rate rise.

US authorities were also thought to be uncomfortable about the Euro's weakness, which was contributing to the US's growing trade deficit. The fall on the 27th February took the Euro to a lifetime low of US\$0.9918 against the dollar. The fall also pushed sterling to a record high against the Euro of US\$0.6033, equivalent to DM3.24 to the pound. The Euro's decline was accelerated by a report of strong durable goods orders in the US in December, which underlined the robust performance of the US economy relative to Europe's. Since October 1999, the yield offered by the 10-year US Treasury bond has outpaced that offered by German bonds, increasing the attraction to the dollar.

4.2 Greece

On 15th January, Greece revalued its currency (the drachma) central rate, by 3.5 per cent in the European Monetary System (EMS). This change showed Greece determination to join the Monetary Union at the start of next year. Nevertheless, the currency would continue to fluctuate in a margin of plus or minus 15 per cent around its EMS central rate. Greece decision to revalue the central rate by 3.5 per cent was seen among monetary official in Brussels as a success for the Bank of Greece in securing a strong parity to underline the country's commitment to stable prices.

5. Trade and Investment

5.1 Lomé Trade Convention

The EU and former colonies have finally drawn up a trade and aid package that should last for years. The 17-month negotiations that concluded in Brussels in mid-February dealt with the biggest financial and political framework for co-operation between North and South in the world. The non-reciprocal trade preferences enjoyed by ACP countries will be partly replaced by a clutch of regional free trade agreements with the EU. Up to 2008, the EU would negotiate free trade deals with the most advanced ACP countries and regions, and work to build up their capacity to benefit from them. The European commission originally proposed that non-least developed ACP states that did not enter free trade deals would simply benefit from the EU's standard generalized system of tariff preferences for all developing countries. That would have meant erosion of their market access. Whilst the 38 poorest ACP countries will not negotiate trade deals, but benefit instead from the EU moves to allow free access to substantially all products from LDCs by 2005. Other innovations included identifying a role for non-governmental organizations in development policies. ACP states accepted efforts to stop aid money ending up in official's pockets as a "fundamental element" of the new agreement.

5.2 World Trade

On 24th January, nations again failed to agree on how to handle compliance with WTO investment rules. A meeting of the WTO's council on goods, heard requests from eight developing nations for extensions of the expired January 1st deadline to eliminate illegal trade conditions imposed on foreign investors. Seven of the eight requests concerned local contents requirements and other trade related restrictions in the vehicles sector. The US, European Union, Japan and Canada continue to insist that extension requests be considered on a case by case basis. However, a number of influential developing countries notably Pakistan, Mexico, and Malaysia, argued that poorer nations should be granted a blanket extension of perhaps five years without the need to bargain individually with trading partners. On the other hand, the US warned that it reserved its WTO rights and Trade diplomats said the extension issue needed to be dealt with quickly if disputes were to be avoided.

5.3 Latin America

In a report published early February by the United Nations Conference on Trade and Development (UNCTAD), 1999 Latin America and the Caribbean overtook Asia as the most attractive developing region for foreign investment. UNCTAD preliminary estimates showed that foreign direct investment (FDI) into

Latin America and the Caribbean rose by 32 per cent in 1999 to US\$97bn from US\$73bn in 1998. FDI into south, east and south-east Asia damped by the impact of the region's financial crisis, rose by just 1.0 per cent to US\$84bn.

The surge in Latin American FDI was largely due to a four-fold increase in FDI flows to Argentina, from US\$6bn in 1998 to US\$25bn in 1999. This in turn mainly reflected a single huge company take-over – the US\$17bn purchase of YPF, Argentina's largest Oil Company – by the Spanish Oil Company Repsol.

FDI flows into Brazil, the biggest FDI recipient in the region, rose to US\$31bn last year from US\$28.5bn in 1998. The proportion of inflows related to Brazil's privatisation programme increased to 28 per cent in 1999 from 22 per cent the previous year. The US is the most important single investor in Latin

America but European, especially Spanish, companies have also been actively buying stakes in the electricity, oil and gas and telecommunications industries.

6. Financial issues

6.1 Asian Bankers renew pact

Central bankers from five Asian countries renewed a year-old agreement, in late January, to give short-term liquidity to each other in times of need. Representatives from Indonesia, Malaysia, the Philippines, Singapore and Thailand signed the currency swap agreement, aimed at providing finance to ease temporary balance of payments needs, at a South East Asian Central Banks (Seacen) conference in Kuala Lumpur. The bank governors at the meeting also made a general call for closer collaboration to protect their reviving economies against the adverse effect of capital flows.