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# CENTRAL BANK OF SEYCHELLES



## QUARTERLY REVIEW

APRIL – JUNE 2000

# CENTRAL BANK OF SEYCHELLES

## QUARTERLY REVIEW

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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>

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# REVIEW OF THE ECONOMY

*Second Quarter, 2000*

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## 1. OVERVIEW

The second quarter saw a further recovery in the tourism sector and this was the highlight of developments in the real economy during these three months. Other positive developments included a stabilisation of inflation and a further moderation in the rate of credit expansion. However, on a negative note, for the first time in five quarters, there was a budgetary slippage as the deficit exceeded the targeted level. Furthermore, the rate of monetary expansion accelerated in the second quarter, after it had moderated over the previous three months.

The recovery of the tourism sector was sustained in the second quarter. Whilst arrivals declined over the first quarter, this was in line with seasonal trends and when compared with the same period in 1999, the performance during the period under review was in most respects more

favourable. At 29,401, arrivals were 3,663 higher than in the corresponding period last year and this translated into an increase of 14 per cent. To add to this positive outcome, revenue from tourism as reported by commercial banks increased by 9.1 per cent over the same period, totalling R144 million. Nevertheless, since the number of visitor nights increased by 34,000, this caused per diem expenditure to fall from R485 in the second quarter of last year to R471 over the period under review.

On the production side, however, the second quarter saw a general downturn. Canned tuna production, the country's largest manufacturing activity, declined by 6.1 per cent compared to the previous quarter, totalling 7,499 tonnes. Given the seasonality factor associated with fish catch, production normally falls in the

second quarter. Nevertheless, production was still 16 per cent below the level recorded during the same period in 1999. On a more encouraging note, production of prawns, which over the previous two years had become Seychelles' second largest export after tuna, recovered over the same period, rising by almost three times to 147 tonnes.

Notwithstanding the positive performance of the tourism sector and the fact that despite the decline in output during the second quarter, canned tuna production remained strong. However, activity in the rest of the real economy was hampered primarily by the shortage of foreign exchange. Another serious threat to the prospects for real economic growth, however, remains the rising inflation rate. Over the three months ending June 2000, inflation grew only marginally, by 0.8 per cent. Nevertheless, over the past twelve months, the inflation rate stood at an uncomfortable 6.8 per cent.

Containing inflation has become one of the authorities' major concerns in recent months and it would not have given much comfort to note an acceleration in the rate of growth of broad money over the previous quarter. Nevertheless, the second quarter increase in  $M2(p) - M2$  plus pipeline deposits - was consistent with the

movement in this broad money aggregate over the same period last year. More encouragingly though, was that at 12 per cent (annualised), the growth rate slowed down by 17 percentage points relative to the same period in 1999.

There were further positive developments on the monetary front as the rate of credit expansion slowed down, after it had stabilised over the previous two quarters. Between March and June this year, aggregate credit expanded at an annualised rate of 4.7 per cent, which represented a marked slowdown from the 17 per cent increase over the previous three months. Furthermore, it compared favourably with the 19 per cent increase in the second quarter of 1999.

The slowdown in the rate of credit creation in the economy reflected in most part the tight fiscal policy that government continues to implement. It would be recalled that at the end of 1999, government indicated that it was going to limit borrowing from the Central Bank. After having paid off the stock of outstanding advances at the end of last year, the Bank made no advances to the government in the first quarter. Despite the fact that the Bank did make some advances during the period under review, this averaged a minimal R7.4 million. In broad terms, the slowdown in the rate of credit expansion reflects the slower multiplier effect when government

borrow from the rest of the economy than when it borrows from the Central Bank. The latter implies the printing of new money whilst borrowing from the banking system and the private sector means utilisation of money already in the system.

The fact that the government did borrow from the Central Bank indicates a higher demand for funds during the quarter. After five consecutive quarters during which the deficit had been contained within budget, there was a R29 million slippage during the period under review as the shortfall rose to R155 million, against a budgeted R126 million. During that period, revenue totalled R317 million whilst expenditure stood at R472 million. Despite this quarterly overrun, the cumulative deficit for the first half of the year stood at R199 million, some R18 million short of budget.

The interest rate floor and ceiling remained fixed at 3.0 per cent and 10.0 per cent in respect of the minimum savings and maximum lending rates respectively. Furthermore, interest on government securities remained fixed. With regards to time deposits, there was a general increase in interest rates during the period under review, the most important being a 73 basis points rise in interest on deposits maturing beyond twelve months. There was only one

category of deposits, which recorded a drop in its return, namely deposits maturing between 3 months to 6 months. It posted a 29 basis points decline.

In the context of the external sector, a net foreign exchange outflow of R9.5 million was recorded during the quarter, as reflected by an equivalent decline in the country's net foreign assets. Nevertheless, gross official reserves grew by R4.9 million over the period, implying that the overall foreign exchange outflow was attributable to the commercial banking sector.

The current account recorded on a cash basis, showed a R10 million deficit over the three months ending June, which represented an improvement of R8.7 million or 46 per cent over the previous quarter. With the trade deficit declining marginally and the shortfall in net transfers also growing, this improvement stemmed from an R11 million growth in the services account surplus.

With regards to the capital account, a deficit of R5.8 million was recorded and this represented a R9.35 million deterioration over the first quarter. Net official capital outflows remained in deficit with the shortfall of official loans payments over receipts rising by R15 million to R29 million.

During the second quarter, official foreign exchange inflows through commercial banks dropped by some R29 million compared to the previous quarter, though this decline was consistent with seasonal trends. More significantly however, was that at R181 million, inflows over the three months ending June 2000 were R9.6 million or 5.0 per cent short of the amount collected during the corresponding period in 1999.

With inflows worsening, this continued to cause greater levels of concern from both government as well as the private sector. Partly due to this, at the beginning of April the government stepped in to assist foreign airlines operating from

Seychelles, to transfer some of the funds that these operators had been unable until recently to remit overseas. This took the form of a 2.5 per cent surrender by all commercial banks to finance these remittances.

The rate of exchange of the Seychelles rupee moved in generally the same direction as during the first quarter. With the euro taking a further dive against the dollar, the rupee gained a further 2.0 per cent against *Euroland* currencies, which includes the German mark, French franc, and Italian lira. In contrast, the domestic currency continued its slide against the US dollar as it lost a further 3.6 per cent.

## 2. DOMESTIC SECTOR

### Selected Macroeconomic Indicators

#### 1. Prices

Inflation, as measured by the retail price index (RPI) remained stable in the second quarter, rising by only 0.8 per cent (3.4 per cent in annualised terms). This was 0.1 per cent above the first quarter's average increase. As a result of this slight increase, the inflation rate for the last twelve months rose to 6.8 per cent (Table 1).

This further increase in the price level was influenced by higher prices of fish and of non-food items. However, growth in fish prices was significantly more pronounced, attaining 11 per cent relative to the previous quarter. In line with normal trends, the higher prices during the April-June period reflected deteriorating weather conditions that characterises the South-East Monsoon. At these times, fish catch is normally down causing prices to increase.

**Table 1**  
**Retail Price Index; 1998-2000**

	1 9 9 8			1 9 9 9			2 0 0 0		
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	(per cent)								
Quarterly average <sup>1</sup>	0.9	0.4	1.9	2.2	1.2	0.2	4.5	0.7	0.8
Quarterly end-of-period <sup>1</sup>	0.3	3.0	-0.5	2.7	1.5	-0.4	6.5	-1.3	1.1
Annualized quarterly average <sup>2</sup>	3.4	1.4	8.0	9.2	4.8	0.9	19.5	2.8	3.4
Annualized end-of-period <sup>2</sup>	1.2	12.6	-1.9	11.1	6.1	-1.5	28.7	-5.1	4.6
Annual average <sup>3</sup>	1.4	2.0	2.6	3.5	4.3	5.2	6.3	6.6	6.8
Annual end-of-period <sup>3</sup>	1.7	4.7	3.5	5.6	6.8	3.3	10.6	6.3	5.9

<sup>1</sup> Percentage change with respect to previous quarter.

<sup>2</sup> Percentage change with respect to previous quarter on a compounded annualised basis.

<sup>3</sup> Percentage change with respect to same period previous year.

Despite the non-food category also posting an increase in prices, this was only marginal at 1.0 per cent. In terms of the RPI basket, this increase owed primarily to alcoholic beverages & tobacco, which rose by 3.1 per cent. Whilst prices of alcoholic beverages have remained generally stable, the foreign exchange shortage have periodically affected supply of both locally produced and imported cigarettes. Therefore, notwithstanding the existence of price controls, prices of cigarettes have at times surged in recent months, only to go down when supply increased.

To a lesser extent, the inflation in non-food items has also been attributable to a growth in housing costs. This is no surprise given the hike in prices of building materials observed of late.

The RPI also shows that the import component of the non-food category has been the main influence on the increase in the price of items in this subgroup. After a decline of 3.9 per cent in the previous quarter, the import index rose by 0.9 per cent. The same factors that have caused prices to increase over the last few years are likely to again have provided the explanation for this further growth in prices. Among these factors are increasing parallel market rate for hard currency, over-invoicing by importers and stiffer terms by foreign suppliers resulting from delays in remitting payments. Whilst the local component also recorded an increase in prices, the rate of growth slowed down. From 3.1 per cent in the previous quarter growth moderated to 1.2 per cent over the three months ending June.

In contrast to fish and non-food prices, the other major subgroup that makes up the RPI – "other foods" – registered a decline in prices. Overall, prices of goods in that category fell by 1.3 per cent. Three out of five items in this group recorded declines in their respective prices. Prices of "cereals", "meat & tinned fish" and "dairy products, oils & fats", declined by 1.6 per cent, 5.6 per cent and 4.0 per cent respectively, relative to the previous quarter. On the other hand, "fruits & vegetables" and "other food & non-alcoholic beverages" showed price increases of 0.9 per cent and 1.0 per cent respectively.

In analysing the import contribution to the price change against that of the domestic component of the other food subgroup, the observation is that the import index fell by 3.2 per cent whilst the local index rose by a moderate 0.2 per cent. The latter reflected mainly a slight increase in the prices of some of the locally produced fruits and vegetables. These results tend to support the common view that the increase in inflation prevailing at present, are generally import driven.

Movements in the price level over the past twelve months indicate that notwithstanding the developments during the period under review, inflation over the past twelve months have been influenced by the movements in prices under both the "other food" and "non-food" categories. These groups have witnessed growth in prices in the order of

by 4.1 per cent and 8.5 percent respectively. Again the import component of these items have registered the most notable movements in prices. During that period, the import component of "other food" rose by 3.1 per cent whilst that of "non-food" increased by 9.5 per cent, resulting in an average increase in the overall import index by 7.8 per cent. On the other hand, fish prices have declined by 16 per cent over the last year, again reflecting the general improvement in weather conditions.

## **2. Monetary Developments**

### **2.1 Credit**

The moderation in the expansion of domestic credit, which has been observed since last year continued further during the quarter under review. At R3.9 billion, total commercial banks and central bank claims increased by 1.2 per cent (4.7 per cent annualised) relative to the last quarter (Table 2). This slower growth in credit - from 17 per cent in annualised terms in the first quarter - reflected a decline in the central bank portfolio of debt i.e. a net repayment by the government and a virtually constant rate of growth in commercial bank credit relative to the first quarter.

On a month-on-month basis credit grew on average by 0.4 per cent compared to 1.3 per cent in the previous quarter whilst on a year-on-year basis, it grew on average by 14 per cent compared to 17 per cent over the twelve months ending March this year.

**Table 2**  
**Credit;<sup>1</sup> 1998-2000**

	1 9 9 8	1 9 9 9	2 0 0 0	
	Q2	Q3	Q4	
	Q1	Q2	Q3	
	Q4	Q1	Q2	
	(R million)			
<b>Total credit</b>	<b>2739</b>	<b>2922</b>	<b>3198</b>	<b>3288</b>
<b>Commercial banks</b>	<b>1667</b>	<b>2422</b>	<b>2623</b>	<b>2683</b>
Claims on private sector	428	485	460	434
Claims on parastatal sector	72	62	56	53
Claims on government	1167	1875	2107	2197
<b>Central Bank</b>	<b>1073</b>	<b>500</b>	<b>575</b>	<b>605</b>
Claims on government	1073	500	575	605

<sup>1</sup> *End-of-period data.*

*Figures do not necessarily add up due to rounding.*

The slowdown in the rate of credit expansion was attributable to both the commercial banks and the Central bank. With regards to the commercial banks, whilst it increased, it did so at a slower pace. Credit by these banks to the private sector and the government grew by 1.9 per cent and 3.6 per cent respectively. This compared to growth of 5.5 per cent and 4.1 per cent respectively during the first quarter. The increased demand for commercial bank loans from the private sector was accounted for mainly by the "manufacturing", "building and construction" and " fishing" sectors, in addition to mortgage loans to private households. The increase in the claims on government was mainly through the commercial banks purchases of government paper. As in the previous

quarter, credit to the parastatal sector declined, in this instance by a further 12 per cent.

Central bank credit - which goes entirely to the government decreased by 8.3 per cent relative to the previous quarter. The determining factor in this development was a R76 million redemption of securities that took place during the quarter.

Despite the overall reduction in lending to the government, it still accounts for the lion's share of total debt. At the end of the quarter under review, government debt to the banking system accounted for 86 per cent of total claims whilst that of the private and parastatal sectors stood at 4 per cent and 0.5 per cent, respectively.

## 2.2 Money Supply

Liquidity growth accelerated during the second quarter. M2(p), the broadest money supply indicator, rose by 12 per cent in annualised terms compared to 7.0 per cent in the previous quarter, totalling R3.2 billion (Table 3). Looking at the different components of the broadest money aggregate, it could be observed that M2 was the primary factor explaining this acceleration, as it overshadowed a further decline in pipeline deposits. The

increase in the money supply came against a backdrop of a moderation in the increase in credit.

M1, the most liquid component of broad money supply, was the principal cause of the sharper growth in M2 during the period under review. Whilst M2 rose by 3.2 per cent (in simple terms) M1 grew by 5.6 per cent compared to a moderate 1.9 per cent increase in quasi-money.

**Table 3**  
**Money Supply,<sup>1</sup> 1998-2000**

	1 9 9 8	1 9 9 8	1 9 9 8	1 9 9 9	1 9 9 9	1 9 9 9	2 0 0 0	2 0 0 0	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	(R million)								
<b>Money Supply, M2(p)</b>	<b>2454</b>	<b>2485</b>	<b>2568</b>	<b>2661</b>	<b>2836</b>	<b>2909</b>	<b>3057</b>	<b>3109</b>	<b>3200</b>
<b>Money Supply, M2</b>	<b>2279</b>	<b>2297</b>	<b>2390</b>	<b>2491</b>	<b>2673</b>	<b>2754</b>	<b>2909</b>	<b>2968</b>	<b>3062</b>
<b>Money, M1</b>	<b>719</b>	<b>730</b>	<b>781</b>	<b>847</b>	<b>900</b>	<b>923</b>	<b>1071</b>	<b>998</b>	<b>1053</b>
Currency with public	183	190	206	210	217	228	248	241	244
Demand deposits	536	541	574	637	683	695	823	757	809
of which:									
Private sector	412	397	450	499	512	537	649	597	628
Parastatal sector	125	144	124	138	171	158	174	160	182
<b>Quasi-money</b>	<b>1560</b>	<b>1567</b>	<b>1609</b>	<b>1644</b>	<b>1773</b>	<b>1830</b>	<b>1838</b>	<b>1971</b>	<b>2009</b>
Time deposits	1087	1094	1124	1135	1241	1277	1254	1356	1378
of which									
Private sector	970	972	1005	1021	1114	1145	1127	1213	1220
Parastatal sector	117	122	119	114	126	133	127	143	158
Savings deposits	473	473	485	509	533	553	584	615	631
<b>Pipeline deposits</b>	<b>174</b>	<b>187</b>	<b>178</b>	<b>170</b>	<b>163</b>	<b>155</b>	<b>148</b>	<b>141</b>	<b>138</b>

<sup>1</sup> End-of-period data.

Figures do not necessarily add up due to rounding.

The relatively stronger expansion of M1 during the quarter was attributable to both of its components, namely currency with public and demand deposits. After growth of these two variables had declined in the previous quarter, the upward movements were resumed as they grew by 1.4 per cent and 6.9 per cent, respectively. The increase in demand deposits was explained by both parastatals and private deposits, which recorded growth of 14 per cent and 5.2 per cent respectively.

The moderate increase in quasi-money occurred on account of both time and savings deposits. They grew by 1.6 per cent and 2.6 per cent relative to the previous three months. It is worth noting that the slowdown in the growth of time deposits occurred despite an overall increase in the interest rates on these deposits. (*see section on interest rates*).

The stock of pipeline deposits continued to fall, in this instance, by a further R3.3 million or 2.3 per cent relative to the first quarter. Nevertheless, reflective of

sluggish foreign exchange inflows, the decline in the current period was somewhat slower than in the previous quarter, when deposits fell by 4.8 per cent.

### **2.3 Deposits at commercial banks<sup>1</sup>**

Commercial banks' stock of deposits increased further during the quarter under review, however, it did so at a slower rate than in the previous period. In aggregate, deposits rose by 2.9 per cent to reach a total of R3.0 billion. The further increase was accounted for mainly by the parastatal sector, which saw an expansion of their deposits by R36 million or 12 per cent. Private sector deposits also increased, by another 2.2 per cent. However, after rising by 14 per cent in the previous three months, government deposits declined by 1.5 per cent. The decrease observed during the quarter under review was explained partly by the higher than expected budget deficit over that period, which resulted in government drawing down on its deposits (*see section on budget*).

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<sup>1</sup>This 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;<sup>1</sup> 1998-2000**

	1 9 9 8	1 9 9 9	2 0 0 0						
	Q2	Q3	Q4						
	Q1	Q2	Q3						
	Q4	Q1	Q2						
	(R million)								
<b>Total deposits</b>	<b>2272</b>	<b>2284</b>	<b>2364</b>	<b>2466</b>	<b>2648</b>	<b>2718</b>	<b>2864</b>	<b>2959</b>	<b>3046</b>
Private sector deposits	1855	1841	1940	2029	2159	2235	2360	2424	2478
Parastatal deposits	242	266	244	252	298	291	301	303	339
Government deposits	176	177	181	185	191	192	203	232	228

<sup>1</sup> End-of-period data.

Figures do not necessarily add up due to rounding.

#### 2.4 Commercial bank liquidity

The commercial bank liquidity position remained somewhat tight during the period under review, as indicated by the credit-deposit ratio, which increased by a further 25 basis points. Whilst on an end-of-period basis, the change in the ratio was minimal, there was initially an

increase in the liquidity level, particularly in the months of April and May. It was in June that the liquidity squeeze set in, forcing the banks to raise their borrowing from the central bank, through short-term advances during that period (*see Activities*).

**Table 5**  
**Liquidity Indicator of Commercial Banks;<sup>1</sup> 1998-2000**

	1 9 9 8	1 9 9 9	2 0 0 0						
	Q2	Q3	Q4						
	Q1	Q2	Q3						
	Q4	Q1	Q2						
	(per cent)								
Credit/deposit Ratio	73.3	106.0	110.9	108.8	108.3	108.0	107.3	107.7	107.9

<sup>1</sup> End-of-period data.

<sup>2</sup> 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 multiplier<sup>2</sup>

The money multiplier increased further during the period under review albeit at a slower pace of 7 basis points. It stood at 6.45 at the end of the quarter. The

expansion in the indicator reflects the slightly higher growth of the money stock in relation to the rate of increase in high-powered money.

<sup>2</sup>The 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 major movements in interest rate during the quarter under review. The two commercial bank rates under the ambit of the central bank, namely the minimum savings rate and the maximum lending rate, remained at 3.00 per cent and 10.00 per cent respectively (Table 6). Furthermore, the yield on government securities remained stable, as the average treasury bill rate of the 91-day, 182-day, and the 365-day bills, stood at 5.00 per cent. Individually, the yield on these three securities stood 4.50 per cent, 4.99 per cent and 5.50 per cent respectively.

On the other hand, there was a general upward movement in time deposits, with the exception of 3-6 months deposits, which declined by 29 basis points on average. The most significant increase was in respect of deposits maturing after 12 months, which recorded a growth of 73 basis points to average 5.62 per cent. Deposits in the 7 days, "7 days to 3 months" and "6 months to 12 months" brackets rose by 9.6, 6.0 and 13 basis points, respectively.

**Table 6**  
**Interest Rates;<sup>1</sup> 1998-2000**

	1 9 9 8				1 9 9 9				2 0 0 0	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
	(per cent)									
Savings deposits rate	7.00	5.67	3.00	3.00	3.00	3.00	3.00	3.00	3.01	
Time deposits rate										
<7 days	7.37	6.29	2.75	2.87	2.96	2.95	2.95	2.75	2.84	
>7 days ≤ 3 months	8.21	7.18	6.03	5.57	5.17	4.70	5.09	4.76	4.82	
>3 months ≤ 6 months	8.70	8.59	6.94	4.62	4.77	4.86	4.61	4.90	4.61	
>6 months ≤ 12 months	9.36	9.00	7.64	6.39	5.34	4.35	4.12	4.25	4.38	
>12 months	7.43	6.81	5.23	5.20	5.16	5.18	4.98	4.89	5.62	
Average lending rate	15.12	14.30	12.92	12.63	12.16	11.71	11.54	11.51	11.54	
Average treasury bill rate	9.49	6.11	5.00	5.00	5.00	5.00	5.00	5.00	5.00	

<sup>1</sup>Data are averages of monthly data compiled on an end-of-period basis.

## 3. Budget performance

### 3.1 Summary

The budget outcome for the second quarter of the current year was generally disappointing. After five consecutive quarters that the deficits were contained below their respective forecasts, there

was a R29 million slippage during the period under review as the shortfall rose to R155 million. This larger than expected deficit was attributable principally to a shortfall in fiscal receipts, with inflows totalling R317 million compared to a budgeted R341 million. At

this level, revenue was R24 million or 7.1 per cent short of target. On the expenditure side, developments were also unfavourable relative to budget, however, the overrun amounted to 1.0 per cent only. Expenditure totalled R472 million, R4.9 million above budget.

The shortfall in revenue during the current period was attributable primarily to current receipts which fell R28 million short of budget whilst the overrun in expenditure owed primarily to net lending which exceeded the targeted level by R19 million. This overrun in net lending eclipsed a R15 million saving in current expenditure. Capital spending on the other hand was more or less on target.

The deficit was financed mainly through the domestic market. On a net basis, domestic borrowing amounted to R100 million whilst a net inflow of foreign loans in the order of R19 million was recorded. A R37 million draw-down in government cash balances made up for the rest of the budgetary shortfall.

The cumulative deficit for the first half of the year stood at R199 million, some R18 million short of budget. This was despite the higher than budgeted deficit in the second quarter and reflects, therefore, the favourable outcome during the first quarter. During that period, the actual

deficit was only half of the budgeted level.

The saving over the first six months has been achieved at the expense of a sharp cut in expenditure, with current and capital outlays recording savings of R66 million and R52 million respectively. During these six months, however, there was an overrun of R25 million in net lending and a R75 million shortfall in revenue, including grants.

### **3.2 Revenue**

During the second quarter, revenue totalled R317 million, R24 million less than forecast. This shortfall was entirely attributable to current receipts, which aggregated to R301 million. Grant receipts, which comprise of capital project grants and other forms of grants, came in at R3.3 million or 25 per cent above expectations.

Notwithstanding the shortfall in current revenue, it was less than half the level recorded in the first quarter. As during the last three months, "dividends/interest" and "miscellaneous receipts" accounted for the bulk of the shortfall - R42 million and R7.4 million respectively. Other revenue flows falling short of target were "income from public service" and "rents/royalties". These shortfalls, however, were partly compensated by

higher than projected revenue flows through most other categories. These were namely, trades tax, "income/business tax", "fees and fines",

"administration fees/charges" and "reimbursements". Income through these sources were as follows:

	<b>Budget (Rm)</b>	<b>Actual (Rm)</b>
Trades tax	140	144
Income/Business tax	47	51
Fees and fines	19	25
Administration fees/charges	31	32
Reimbursements	6	14

At R144 million trades tax revenue were R3.4 million or 2.4 per cent above the targeted level and this favourable outcome occurred on account of imports and domestically provided services. Of the higher than expected fees and fines, over half was explained by fishing licences from foreign vessels. Transfers from the Social Security Fund were in line with forecast.

period of 1999, fell by R5.5 million and R3.8 million respectively. Nevertheless, there were some distinct increases, particularly in respect of "business taxes" (R6.4 million), "fishing licences" (R10 million) and "reimbursements" (R6.7 million). Furthermore, compared to R13 million during this quarter, grants totalled R2.6 million only over the same period last year.

A comparison of revenue with the same period last year reveals a R28 million decline during the period under review. For the quarter ending June 1999, revenue totalled R345 million. This decline reflected primarily a sharp drop in "dividends/interest", which fell from R59 million last year to R238,000 only during the three months ending June this year. Other factors explaining the drop in revenue were "trades tax" and "other indirect taxes", which relative to the same

On a year-to-date basis, revenue was R75 million or 11 per cent below the budgeted R687 million. Current receipts so far this year has amounted to R594 million, 10 per cent short of target. Grant receipts have also not performed to expectations, recording a shortfall of R7.5 million.

### **3.3 Expenditure**

After five consecutive quarters during which aggregate government expenditure had been contained within limits, total

outlays overshot its budget slightly during the quarter under review. At R472 million, this represented an overrun of R4.9 million. Whilst there was also a slight overrun under capital outlays of R438,000, the determining factor was "net lending" which exceeded its budget by R19 million. These overshadowed a R15 million saving in current expenditure.

The overrun in net lending was explained primarily by "net advances to other", which comprises mainly of advances to civil servants including motor vehicle and general purpose advances. During the quarter under review, these advances totalled R19 million compared to the forecast of a net repayment of R25,000. Net advances to parastatals totalled R383,000. Activity in respect of advances to parastatals were highlighted by a net advance of R2.3 million to the Seychelles Housing Development Corporation (SHDC) which was partly compensated for by a net repayment of R1.9 million from the Indian Ocean Tuna Ltd.

The R438,000 overrun in capital outlays was attributable entirely to spending on capital projects. Capital project spending exceeded the budgeted level by R3.5 million. However, this was mitigated by

savings under "land acquisitions" and "development grants", which fell R2.7 million and R378,000 short of their respective targets.

The saving of R15 million under current expenditure was an encouraging outcome, in particular that it was realised mostly through the fiscal discipline of ministries and departments, which spent only R168 million against the allocated R181 million - a variation of R12 million. The lower than forecasted expenditure was on account of all ministries with the exception of the ministries of Local Government, Youth and Sport and Environment and Transport.

Besides ministries and government departments, there were also savings through "centralised payments" and "advances to regulatory bodies" which were R4.6 million and R1.3 million respectively below forecast. Spending in respect of these two categories totalled R35 million and R11 million respectively. Minor savings were also achieved in current outlays to parastatals and expenditure on constitutional appointments. As already pointed out, contributions to the Social Security Fund was in line with its budget, as was pension scheme contributions and outlays to political parties.

**Table 7**  
**Government Budget; 1999-2000**  
**Summary**

	1999 Q2 Actual <sup>1</sup>	2000 Q2 Budget	2000 Q2 Actual <sup>1</sup>	2000 Budget
	(R million)			
<b>Total Receipts</b>	<b>345</b>	<b>341</b>	<b>317</b>	<b>1528</b>
Current receipts	342	328	301	1477
of which:				
Trades tax	[149]	[140]	[144]	[591]
Transfers from Social Security Fund	[19]	[20]	[20]	[80]
Business/income tax	[44]	[47]	[51]	[205]
Grants	3	13	16	51
<b>Total Outlays</b>	<b>405</b>	<b>467</b>	<b>472</b>	<b>1989</b>
Current outlays	315	355	341	1415
Appropriation items	246	279	262	1124
Of which:				
Ministries/departments*	[168]	[181]	[168]	[723]
Social Security contributions	[30]	[30]	[30]	[119]
Current outlays to parastatals	[8]	[7]	[6]	[32]
Charges	69	76	79	291
Of which:				
Interest payments	[66]	[73]	[76]	[280]
Capital outlays	60	112	112	573
Net lending	29	0	20	1
Of which:				
Parastatals	[29]	[0]	[0]	[0]
	<b>6</b>	<b>-53</b>	<b>-79</b>	<b>-181</b>
<b>Primary Balance<sup>2</sup></b>				
	<b>-60</b>	<b>-126</b>	<b>-155</b>	<b>-461</b>
<b>Overall Balance</b>				
	<b>60</b>	<b>126</b>	<b>155</b>	<b>461</b>
<b>Financing (net)</b>				
Foreign loans (net)	-18	46	19	208
Domestic loans (net)	48	80	100	252
Cash movements	30	0	37	-0
<b>Memorandum Items:</b>				
	<b>53</b>	<b>103</b>	<b>64</b>	<b>390</b>
<b>Amortisation of loans</b>				
Of which:				
Foreign loans	23	34	24	112
Domestic loans	30	70	39	278

Figures do not necessarily add up due to rounding.

<sup>1</sup> These are subject to audit and might be revised accordingly.

<sup>2</sup> The primary balance is obtained by excluding interest payments from the overall balance.

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

Despite the overall savings in current expenditure, there were a few cases where overruns were recorded. The most significant was public debt interest which exceeded the target by R3.0 million whilst "pension and gratuities" were R1.2 million above budget.

As was the case with revenue, the performance of expenditure was also less favourable than during the corresponding period of 1999. From R405 million during the quarter ending June last year, total outlays during the period under review rose to R472 million. This R68 million increase was due to overruns of R52 million and R26 million in capital and current expenditure respectively. The bulk of the increased spending under the capital budget represented investment towards the East Coast (Phase III) reclamation project. With regards to current spending, the growth relative to the second quarter of last year reflected increased public debt interest and centralised payments, which together accounted for 96 per cent of the R26 million recurrent overspending. In turn, the higher public interest payment during the period under review resulted from higher domestic debt, mainly treasury bills.

On a year-to-date basis nevertheless, total expenditure falls R92 million short of budget, on account of current expenditure and capital outlays. On the other hand,

net lending has thus far overran its budget by R25 million.

### **3.4 Financing**

Domestic borrowing was again the main source of financing to meet the budgetary shortfall. Gross domestic loans amounted to R139 million whereas amortisation stood at R39 million, implying a net increase in domestic indebtedness of R100 million. Foreign loans contributed R44 million on a gross basis, while at the same time the government repaid R24 million to foreign creditors. The balance of R37 million was met through movement in cash balances held mainly with the Central Bank.

On a year-to-date basis, domestic loans have grown to R253 on a net basis and this is R140 million above forecast. During the first six months of the year, gross domestic loans have amounted to R315 million compared to amortisation of R61 million. During that period, the stock of foreign loans also increased, but by a lesser amount. It rose by R4.4 million (net) with drawdown standing at R44 million against amortisation of R40 million.

## **4. Offshore sector**

### **4.1 International companies and trusts**

The offshore sector, managed by the Seychelles International Business Authority (SIBA), recorded further

positive results during the quarter. The Authority granted licenses to 322 new IBCs. This result brought the total number of licences since the beginning of the year to 738, which represented a 17

per cent increase over the corresponding period of last year. The aggregate number of IBCs registered in Seychelles so far stands at 5,546.

### 3. EXTERNAL SECTOR

#### 1. Introduction

The balance of payments, as recorded on a cash basis through the *Exchange Record*, showed that during the second quarter, there was a net foreign exchange outflow of R9.5 million, as reflected by an equivalent decline in gross reserves of the banking system (Central Bank plus commercial banks). At the end of June, total gross reserves stood at R111 million compared to R120 million at the end of March. Despite the reduction in aggregate gross reserves, gross official reserves grew by R4.9 million, reflecting a significant depletion of reserves of the commercial banking sector.

Other significant developments in the external sector over the April to June period included the continued surge in oil prices on the international market and a further significant slide in the exchange rate of the euro, which in both cases, had important repercussions on the domestic economy. As far as developments within the Seychelles economy itself is concerned, the foreign exchange shortage showed no sign of improving as inflows

dipped by some R29 million compared to the previous quarter, though this decline was consistent with seasonal trends. Inflows, which totalled R181 million over the three months ending June, were R9.6 million or 5.0 per cent less than during the corresponding period in 1999. Whilst most of the economy have been feeling the impact of the shortage, some agents have felt it more strongly than others and one group that have been hard hit has been foreign airlines operating from Seychelles. In a move to assist these airlines, the Central Bank has since the beginning of April, put aside 2.5 per cent of inflows that would be used by airlines for remittance abroad.

#### 2. Current Account

The current account remained in deficit during the quarter under review. The shortfall totalled R10 million. This improvement of R8.7 million or 46 per cent over the previous period, reflected mainly a more favourable outcome in respect of the service account, which posted an R11 million increase in its surplus. This improvement

complemented a slight narrowing of the trade deficit. However, there was a R2.2 million deterioration in net transfers.

Despite a worsening of the current account relative to the second quarter of 1999 the deterioration was marginal - R0.6 million. This occurred at the expense of the trade deficit, which grew by R6.5 million or 5.8 per cent. Net transfers also worsened only slightly, by R0.3 million. However, the services account improved by R6.1 million over the same period.

## 2.1 Trade

Whilst the trade balance worsened somewhat sharply compared to the second quarter of last year, the deficit narrowed marginally relative to the previous quarter. It stood at R118 million, an improvement of R0.1 million.

Exports rose by 7.2 per cent to R111 million. This increase owed primarily to canned tuna exports which more than doubled, rising by R15 million to R29 million. Coupled with a marginal growth in other domestic exports this more than compensated for a R9.5 million drop in petroleum re-exports. Total exports also increased compared to the second quarter of 1999 when it amounted to R61 million. Relative to the three months ending June last year, exports during the period under review increased by R50 million, a development that was attributable to both oil re-exports and canned tuna, which

rose by R41 million and R13 million respectively.

On the import side, the quarter saw a R7.3 million growth relative to the first quarter, to a total of R230 million. There were however, mixed developments with regards to the individual import items. On the increase were government and private sector imports which grew by R8.5 million and R6.8 million respectively whilst oil imports and imports other than these three categories - mainly parastatal imports - declined by R4.2 million and R3.8 million respectively.

As in the case of exports, imports also increased significantly compared to the second quarter of last year. From R173 million over the April-June 1999 level, import payments rose by R56 million. This increase occurred on account of all the categories with the most notable growth being observed in respect of oil imports, which grew by R35 million. Besides the growth in volume, this increase also reflected the higher oil prices that have been observed worldwide over the past year or so.

## 2.2 Services

The services account surplus expanded to R115 million in the second quarter. At an

aggregated level, this expansion was at the expense of a decline in outflows even though inflows also dropped. However, with the former more dominant, the impact was an overall expansion. Receipts totalled R245 million, R11 million or 4.4 per cent lower than during the three months ending March. This was due to a R23 million decline in tourism, the largest service-related revenue item. The decline in tourism inflows though was in line with seasonal trends. Nevertheless, at R144 million, income rose by R12 million or 9.1 per cent compared to the corresponding period in 1999. Tourism revenue increased as arrivals rose by 14 per cent compared to the same period. It totalled 29,401.

"Airlines and shipping" also recorded a decline relative to the previous quarter, totalling R19 million. At R8.1 million this was equivalent to a 30 per cent fall. In contrast, "official sector" receipts rose by R7.1 million. Furthermore, aggregate inflows not classified above rose by R12 million.

As noted above, payments declined at a faster rate than revenue. At R131 million, outflows dropped by R22 million. Notwithstanding this reduction, there were increases in outflows in respect of individual items. Foreign travel rose by R3.6 million to R24 million whilst "hotels" increased to R15 million from R13 million in the previous quarter.

The overall decline in outflows was thus attributable to services other than those in respect of travel, "airlines and shipping" and hotels. Added together, those outflows - classified under "others" - fell by R29 million during the second quarter.

### 2.3 Transfers

The net transfer position worsened somewhat over the second quarter as the deficit expanded from R4.1 million over the previous three months to R6.4 million. This R2.2 million deterioration owed in most part to receipts, which declined by R3.9 million, overshadowing a R1.6 million reduction in payments.

As already pointed out, at R6.4 million net transfers were only marginally higher than during the second quarter last year. Relative to that period, receipts decreased by R1.7 million whilst payments recorded a R1.4 million decline.

### 3. Capital Account

The capital account recorded a deficit of R5.8 million in the second quarter, after a surplus of R3.4 million over the previous three months. This represents a deterioration of R9.3 million. On the official side, there was a sharp increase in the deficit in respect of official loans even though there was an increase in official grant receipts.

Net official loans amounted to *negative* R29 million, just over double the shortfall

recorded in the previous quarter. Loans drawdown totalled R53 million - a R34 million growth - whilst amortisation, which rose by R49 million totalled R82 million. Grant receipts stood at R2.6 million. Compared to the previous quarter, this was equivalent to a 46 per cent growth.

Private capital recorded a shortfall of R1.6 million, a marginal deterioration over the first quarter. This deterioration stemmed entirely from a decrease in receipts, which totalled R1.5 million. Outlays remained unchanged at R3.1 million.

Commercial banks regularly make use of short-term flows from banks abroad including their head office to enable them to meet shortfalls when these arise<sup>3</sup>. During the quarter under review, such receipts totalled R70 million, up R2.6 million from the previous quarter. On the debit side there was a R48 million outflow, which represented a decline of R2.1 million over the previous three months. Over the three months ending June therefore, there was net inflow of R22 million, which was R4.7 million higher than over the previous quarter.

#### 4. Reserves

As the exchange record indicates, there was an improvement in the official reserve position in the second quarter. From R162 million at the end of March, gross official reserves (Central Bank and Government) rose to R167 million at the end of June. In weeks of imports, reserves at the end of the quarter under review were equivalent to 3.7 weeks (1999 c.i.f. imports). At the end of the same period in 1999, gross reserves stood at R90 million or 2.3 weeks (1998, c.i.f. imports).

The improvement in gross official reserves over the previous quarter was accompanied by a R13 million decline in Central Bank's short-term foreign liabilities. This implies that on a net basis, official reserves improved by R18 million, despite remaining in the red. At the end of June, net official reserves stood at *negative* R17 million.

#### 5. Exchange rates

Following developments in the foreign exchange market worldwide, the rupee continued to register mixed movements

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<sup>3</sup> This item has for the first time been shown as a capital account item and this is to reflect the fact that these are short-term capital flows. They were previously netted out as part of *errors and omissions*.

**Table 8**  
**External Account Balance;<sup>1</sup> 1999-2000**

	1999	1 9 9 9	1 9 9 9	1 9 9 9	1 9 9 9	2 0 0 0	2 0 0 0
		Q1	Q2	Q3	Q4	Q1	Q2
		(R million)					
<b>Current Account Balance</b>	<b>3</b>	<b>29</b>	<b>-10</b>	<b>-25</b>	<b>8</b>	<b>-19</b>	<b>-10</b>
Receipts	1322	320	288	328	385	368	360
Payments	1319	291	298	353	377	387	370
<b>Trade Balance</b>	<b>-458</b>	<b>-103</b>	<b>-112</b>	<b>-134</b>	<b>-109</b>	<b>-119</b>	<b>-118</b>
Exports	294	72	61	65	96	104	111
Of which:							
Oil re-exports	(178)	(47)	(29)	(40)	(62)	(79)	(70)
Imports	752	174	173	199	205	222	230
Private sector	251	57	56	72	66	62	69
Oil	198	43	43	51	62	82	78
Government	105	26	26	27	26	21	30
Other	199	49	49	50	51	57	53
<b>Services</b>	<b>496</b>	<b>140</b>	<b>108</b>	<b>116</b>	<b>132</b>	<b>104</b>	<b>115</b>
Receipts	1011	243	222	259	286	257	245
Tourism	596	155	132	151	158	167	144
Airlines & Shipping	98	23	21	22	31	27	19
Official Sector	86	23	13	15	34	18	26
Others	231	42	55	71	63	44	57
Payments	515	103	114	143	155	153	131
Foreign travel	90	19	22	24	24	20	24
Airlines & Shipping	13	4	3	3	3	6	6
Hotels	39	10	9	10	10	13	15
	374	71	79	106	117	115	86
	<b>-35</b>	<b>-8</b>	<b>-6</b>	<b>-6</b>	<b>-15</b>	<b>-4</b>	<b>-6</b>
Receipts	17	5	5	4	3	7	3
Of which:							
FXM1 bonds	(-)	(-)	(-)	(-)	(-)	(-)	(-)
Payments	52	13	11	11	17	11	10
<b>Capital Account Balance</b>	<b>100</b>	<b>-3</b>	<b>-15</b>	<b>103</b>	<b>15</b>	<b>3</b>	<b>-6</b>
Official loans, net	17	-17	-26	80	-19	-14	-29
Official grants	22	0	2	5	15	2	3
Private capital, net	0	4	1	-2	-3	-1	-2
Receipts	20	7	7	3	3	2	1
Payments	20	3	6	5	6	3	3
Inter-bank capital movements	50	9	8	11	22	17	22
Direct investment	10	0	0	9	1	0	0
<b>Errors and Omissions</b>	<b>-47</b>	<b>-16</b>	<b>-6</b>	<b>-24</b>	<b>-1</b>	<b>-9</b>	<b>7</b>
<b>Overall Balance</b>	<b>56</b>	<b>10</b>	<b>-30</b>	<b>55</b>	<b>21</b>	<b>-25</b>	<b>-10</b>
<b>Change in Reserves<sup>2</sup></b>	<b>-56</b>	<b>-10</b>	<b>30</b>	<b>-55</b>	<b>-21</b>	<b>25</b>	<b>10</b>

Figures do not necessarily add up due to rounding.

<sup>1</sup> This table is on a cash basis, and should not be construed as a balance of payment.

<sup>2</sup> (-) sign indicates increase in reserves.

vis-à-vis the major world currencies. As the euro took a further tumbling against the US dollar, the rupee appreciated by another 2.0 per cent against this struggling currency. With *Euroland* currencies irrevocably fixed to the euro, this caused an equivalent appreciation of these currencies (including the German mark, French franc and Italian lira) relative to the rupee. In terms of the Seychelles Trade and Tourism Weighted Basket (STTWB) however, the strongest gain was against the South African rand

as the rupee posted a 5.2 per cent appreciation.

The relative strength of the US dollar worldwide was reflected in a 3.6 per cent depreciation of the rupee against the US currency. In respect of the STTWB, the most significant loss was in relation to the Japanese yen, against which the domestic currency lost 3.9 per cent. Relative to the Singapore dollar, the rupee depreciated by 2.1 per cent.

## ACTIVITIES

*Second Quarter, 2000*

### 1. Advances to Banks

#### 1.1 CBS Advances to Commercial Banks<sup>1</sup>

During the second quarter, the value of advances disbursed to commercial banks amounted to R50 million, a sharp decline of 71 per cent relative to the amount recorded during the previous quarter (Table 9). The drop could be explained by

the slight improvement in the liquidity position of banks during the period under review. The bulk of the borrowing occurred in June, when a total of R28 million was disbursed. This represented 57 per cent of total credit. An equivalent amount was repaid during the same month.

**Table 9**  
**CBS Advances to Commercial banks; 1999-2000**

	1 9 9 9	2 0 0 0	2 0 0 0						
	Q2	Q3	Q4	Q1	Q2	Mar.	Apr.	May.	Jun.
	(R million)								
Advances	108.1	83.8	46.5	172.2	49.5	57.0	14.5	7.0	28.0
Repayments	104.1	87.8	46.5	162.2	59.5	63.0	24.0	7.5	28.0
Stock of credit <sup>1</sup>	7.7	6.3	5.0	9.5	0.2	10.0	0.5	0.0	0.0

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

<sup>1</sup> 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.

Commensurate with the drop in advances, total repayments declined to R60 million, 63 per cent lower than the total repayment effected during the last quarter. At this level, it was also 43 per cent or R45 million less than the amount recorded during the same period last year. With repayments rising faster than advances, this resulted in a lower stock of credit, which stood at R200,000.

### 1.2 Government Concessionary Re-finance Scheme<sup>2</sup>

The average stock of credit under the concessionary refinance scheme decreased by R5.0 million relative to the previous quarter (Table 10). The decline was attributable to the public sector (export-oriented) for which R15 million that was

outstanding was repaid entirely in February. Advances for the quarter totalled R3.0 million, the same as the amount disbursed during the same period last year. Coincidentally, a similar amount was repaid during the present period.

As explained in the previous *Quarterly Review*, the decline in the stock of credit is due to the nearing of the expiry date that the companies, which are now using the scheme can borrow. This facility has been available to what are considered "infant industries" and these are those industries engaged in import-substitution or export-promotion during the first five years of existence. Moreover, there has been no new application for funds under the scheme.

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

	1 9 9 9	1 9 9 9	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
	Q2	Q3	Q4	Q1	Q2	Mar.	Apr.	May.	Jun.
	(R million)								
Stock of credit <sup>1</sup>	23.9	22.5	18.8	8.8	3.8	3.8	3.8	3.8	3.8
Of which:									
Export-oriented:									
Private sector	8.9	7.5	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Public sector	15.0	15.0	15.0	5.0	0.0	0.0	0.0	0.0	0.0
Advances	3.0	15.8	3.0	0.8	3.0	0.8	0.0	1.6	1.4
Repayments	2.5	21.3	3.0	15.8	3.0	0.8	0.0	1.5	1.5

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

<sup>2</sup> 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).

**2. CBS Credit to Government<sup>3</sup>**

Average Central Bank lending to government declined by 3.1 per cent relative to the previous quarter, amounting to R629 million (Table 11). This drop was accounted for by the reduction in the Bank's holding of government securities, namely in treasury bills and bonds. Redemption exceeded new purchases, in respect of both instruments, with the most important decline being recorded in respect of treasury bills, which fell by 51 per cent relative to the previous quarter.

Advances, on the other hand, averaged R7.4 million. This followed a quarter during which no advances were made. The resort to advances during this quarter resulted from a larger than expected deficit on the part of the government. Nevertheless, at this level advances remained within the R500 million limit introduced with the amendment to the Central Bank Act last year. As shown in Table 11, advances was at its highest in June, when the deficit was at its highest relative to the other two months.

**Table 11**  
**Credit to Government; 1999-2000**

	<b>1 9 9 9</b>	<b>2 0 0 0</b>	<b>2 0 0 0</b>	<b>2 0 0 0</b>	<b>2 0 0 0</b>	<b>2 0 0 0</b>	<b>2 0 0 0</b>	<b>2 0 0 0</b>	<b>2 0 0 0</b>
	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Mar.</b>	<b>Apr.</b>	<b>May.</b>	<b>Jun.</b>
	(R million)								
Total Credit	581.9	599.8	629.3	656.6	628.6	673.5	652.2	616.3	617.4
Advances	527.2	582.2	613.1	0.0	7.4	0.0	0.0	2.8	19.5
Treasury bills	54.6	17.5	16.2	32.6	16.1	49.6	28.3	17.8	2.1
Treasury bonds	0.1	0.1	0.1	624.0	605.1	624.0	624.0	595.7	595.7

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

**3. Government Securities**

**3.1 Treasury Bills<sup>4</sup>**

The market for treasury bills continued to remain buoyant during the quarter with sales amounting to R1.1 billion, R26 million higher than what was recorded in

the previous quarter. The increase was mainly in respect of bills with medium term maturity (182-day bills), which recorded a 20 per cent rise in its value sold for the quarter.

<sup>3</sup> 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.

<sup>4</sup> Since 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.

The bulk of sales took place in May, when an amount of R545 million worth of bills were sold, principally to commercial banks. During that particular month, sale of the 91-day bills accounted for the lion share of total sales, at a total value of R352 million. It is worth noting that the increase in sales during the quarter under review might be a reflection of the limited

amount of bonds on the market. (*see 3.2 below*)

Notwithstanding the increase in sales, the stock outstanding of treasury bills taken at cost value dropped slightly by R800, 000, to reach R1.9 billion. Of this, 91-day bills accounted for 36 per cent while 182 and the 365-day bills, shared the remaining 64 per cent.

**Table 12**  
**Treasury Bills; 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
	Q2	Q3	Q4	Q1	Q2	Mar.	Apr.	May.	Jun.
	(per cent)								
<b>Annual yield (average)</b>	<b>4.998</b>	<b>4.998</b>	<b>4.998</b>	<b>4.998</b>	<b>4.998</b>	<b>4.998</b>	<b>4.998</b>	<b>4.998</b>	<b>4.998</b>
91-day bills <sup>3/4</sup>	4.502	4.502	4.502	4.502	4.502	4.502	4.502	4.502	4.502
182-day bills <sup>3/4</sup>	4.995	4.995	4.995	4.995	4.995	4.995	4.995	4.995	4.995
365-day bills <sup>3/4</sup>	5.496	5.496	5.496	5.496	5.496	5.496	5.496	5.496	5.496
	(R million)								
<b>Amount issued<sup>1</sup></b>	<b>901.5</b>	<b>1076.2</b>	<b>1326.8</b>	<b>1032.5</b>	<b>1058.3</b>	<b>361.6</b>	<b>241.8</b>	<b>544.5</b>	<b>272.0</b>
91-day bills <sup>3</sup>	547.7	696.7	686.2	658.2	687.1	168.6	165.6	352.3	169.3
182-day bills <sup>3</sup>	298.2	202.3	349.6	276.6	330.6	128.8	63.2	181.8	85.6
365-day bills <sup>3</sup>	55.6	177.2	291.0	97.7	40.5	64.3	13.0	10.4	17.1
<b>Stock outstanding<sup>1/2/</sup></b>	<b>1221.7</b>	<b>1397.9</b>	<b>1757.0</b>	<b>1899.6</b>	<b>1898.7</b>	<b>1884.7</b>	<b>1891.2</b>	<b>1911.5</b>	<b>1893.4</b>
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 <sup>3</sup>	549.7	609.9	685.3	664.7	682.4	677.1	673.5	686.6	687.1
182-day bills <sup>3</sup>	435.4	470.5	526.1	621.5	604.5	552.6	600.8	605.5	607.2
365-day bills <sup>3</sup>	236.7	317.4	545.6	613.4	611.9	615.7	616.9	619.5	599.2

<sup>1</sup> At cost value.

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

<sup>3</sup> 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

During the second quarter, sales of treasury bonds fell by 61 per cent to reach R57 million. The fact that only the 7.5 per cent, 3-year bond was available for sale, this provided part of the explanation as to why sales of this particular instrument was low compared to the previous quarter. Nevertheless, sales were R46 million

above the level recorded at the same period last year. Amortisation totalled R3.1 million, and the whole amount was in respect of the 11.0 per cent, 3-year bond.

Consequently, with redemption amounting to only R3.1 million, sales outweighed amortisation by more than eight times,

which therefore explains the increase of 8.8 per cent or R91 million in the stock outstanding, which stood at R1.1 billion.

**Table 13**  
**Treasury Bonds; 1999-2000**

	1 9 9 9			2 0 0 0		2 0 0 0			
	Q2	Q3	Q4	Q1	Q2	Mar.	Apr.	May.	Jun.
	(R million)								
<b>Amount sold</b>	<b>11.5</b>	<b>266.9</b>	<b>0.0</b>	<b>147.4</b>	<b>57.3</b>	<b>41.3</b>	<b>12.6</b>	<b>22.2</b>	<b>22.6</b>
6.75%, 2yr*	-	250.0	0.0	0.0	-	-	-	-	-
7.5%, 3-yr**	-	-	-	147.4	57.3	41.3	12.6	22.2	22.6
8.0%, 5-yr	11.5	16.9	0.0	0.0	-	-	-	-	-
<b>Stock outstanding<sup>1</sup></b>	<b>1375.3</b>	<b>1271.0</b>	<b>1011.2</b>	<b>1035.0</b>	<b>1126.1</b>	<b>1093.7</b>	<b>1104.5</b>	<b>1125.7</b>	<b>1148.0</b>
6.0%, 1-yr	500.0	390.5	50.9	0.0	0.0	0.0	0.0	0.0	0.0
6.75%, 2-yr	200.0	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	250.0
7.5%, 3-yr	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0
7.5%, 3-yr**	-	-	-	84.5	182.3	147.4	160.0	182.2	204.8
8.0%, 5-yr	28.6	44.4	50.0	50.0	50.0	50.0	50.0	50.0	50.0
11.0%, 3-yr	200.0	200.0	200.0	195.0	188.3	190.8	189.1	188.0	187.7
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	191.2	97.3	4.8	0.0	0.0	0.0	0.0	0.0	0.0

<sup>1</sup> 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.

### 3.2 Government Stocks

This longer-term security on offer, which is issued by the Central bank on behalf of the government, recorded a fall in sales during the quarter under review. Only R1.0 million was sold during the quarter, and this was taken up by commercial

banks, the main economic agent holding this instrument. In spite of the decrease in sales and with no redemption, the average stock outstanding continued to increase, a rise of 2.7 per cent compared to the first quarter, standing at R100 million.

**Table 14**  
**Government Stocks; 1999-2000<sup>1</sup>**

	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
	Q2	Q3	Q4	Q1	Q2	Mar.	Apr.	May.	Jun.
	(R million)								
<b>Amount sold</b>	<b>0.0</b>	<b>6.2</b>	<b>0.0</b>	<b>3.5</b>	<b>1.0</b>	<b>2.5</b>	<b>0.0</b>	<b>1.0</b>	<b>0.0</b>
8.00%, 2009	-	6.2	0.0	3.5	1.0	2.5	0.0	1.0	0.0
<b>Stock outstanding<sup>2</sup></b>	<b>90.0</b>	<b>92.1</b>	<b>96.2</b>	<b>97.7</b>	<b>100.4</b>	<b>99.7</b>	<b>99.7</b>	<b>100.7</b>	<b>100.7</b>
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	30.0	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	10.4	9.7	9.7	10.7	10.7

<sup>1</sup> At cost value.

<sup>2</sup> 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, participated in the SADC Payments Systems Harmonisation Workshop on Payments Systems held in Pretoria, South Africa, from May 8 to 10, 2000. The workshop was a follow up of

the February meeting and its purpose was to identify those areas of development within the payment system which were common or which should be developed according to the common principles or standard within the region.

## **NEWS NOTES**

*Second Quarter, 2000*

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### **1. LOCAL**

#### **1. Politics and Diplomacy**

##### **1.1 New Seychelles ambassador to Indonesia accredited.**

The new Seychelles ambassador to the Republic of Indonesia, Mr Sylvestre Radegonde, presented his credentials to the President H.E.K.H. Abdurrahman Wahid on May 16 in Jakarta. Mr Radegonde, who is based in Malaysia and accredited to various Asian countries, is the second Seychellois Ambassador to be accredited to Indonesia.

##### **1.2 New ambassador for Morocco presents his credentials**

Morocco and Seychelles hopes to engage in an exchange for a fruitful and experience-sharing co-operation, as the new ambassador for Morocco announced on June 6 upon his accreditation. His Excellency Mr. Mohammed Chraibi will be the first Moroccan ambassador to be

based in Victoria since diplomatic relations were developed between Seychelles and Morocco back in December 1988.

##### **1.3 Dr Todorovic appointed Honorary Consul of Yugoslavia**

The Government of Seychelles has approved the appointment of Dr Miodrag Todorovic as the Honorary Consul for the Federal Republic of Yugoslavia in Seychelles. Dr Todorovic's appointment was effected on June 7.

#### **2. Government business**

##### **2.1 Vice-President Michel at South Summit in Cuba**

Vice-President James Michel represented President René at the April South-South Summit of developing nations held in Havana, Cuba. Leaders at the Summit deliberated on the four themes of the

conference, which were globalisation, knowledge and information, South-South co-operation and North-South Relations. Member countries were also expected to work on a common strategy for the coming 54th Session of the United Nations General Assembly in New York, known also as the "Millennium Summit". The meeting was chaired by President Fidel Castro of Cuba and President Olusegun Obasanjo of Nigeria, the latter, the current chairman of the Group of 77.

### **3. Foreign assistance**

#### **3.1 France brings its financial support**

France and Seychelles have signed an agreement whereby Paris has agreed to support Seychelles with a loan of 480,000 French francs (R400,000) on an environmental management plan. Signed by the Principal Secretary for Environment, Mr. Maurice Lousteau Lalanne, the loan would serve to further sustain environmental protection and development. It was also mentioned that part of the funds would be used to create a web-site on the Seychelles' environment in French.

#### **3.2 R1.7 m grant for capacity building at Tourism College**

The European Union (EU) has signed an agreement with the Seychelles Government for a grant of R1.7 million, to be used to finance capacity building activities at the Seychelles Hotel and Tourism Training College (SHTTC) at La

Misère. The agreement was signed on behalf of the Seychelles Government by the Minister for Tourism, Mrs. Simone de Comarmond and Mr. Gerd Jarchow, head of the EU delegation in Seychelles for the regional tourism seminar held at the beginning of April. During the signing of the agreement, Mr. Jarchow highlighted the importance of tourism to the Seychelles economy, which he noted, employs more than one fifth of the labour workforce and generated an important part of foreign exchange earnings.

### **4. Economic sectors**

#### **4.1 Transport**

##### **4.1.1 Air Seychelles to get Boeing 737-700 in November 2001.**

Air Seychelles will be acquiring a third aircraft, a Boeing 737-700, to add to its international fleet next year, while the present 767-200 will be replaced with a B767-300 in April 2001. The announcement was made by the Chief Executive Officer (CEO), David Savy, in mid-April. The company also announced a R10.5 million profit, underlining two consecutive profitable years.

##### **4.1.2 SPTC to introduce gas-driven buses on Praslin**

The Seychelles Public Transport Corporation (SPTC) plans to replace the fleet of buses on Praslin in the future. The first phase would be to introduce a more modern and "easier-to-maintain" type of buses. The second phase would see the introduction of other buses that

can run on either Liquid Petroleum Gas (LPG) in cylinders or on Compressed natural gas (CNG), widely used to power forklifts or other machinery within factories that cannot tolerate pollution. This decision has arisen in line with the company's effort to internalise the negative impact of its operations on the environment.

## **4.2 Telecommunication**

### **4.2.1 Space 95 opens first Internet bureau on Praslin**

The booming tourism industry and more affluent residents among other things, and the increased application of information technology (IT) and need for the related maintenance and services that normally accompany such phenomena, have attracted IT company Space95 to open a branch on Praslin. The opening of this bureau is expected to carry Praslin towards an increased level of efficiency in the tourism sector, especially where service is concerned.

### **4.2.2 Airtel secures mobile phone provision contract services**

Following the outcome of recent tendering, the contract for the provision of cellular phone services to government has been awarded to Airtel (Telecom Seychelles Ltd). The announcement was made by the Ministry of Administration on May 22. Current subscriptions with other cellular phone operators will cease with effect from July 1.

## **4.3 Manufacturing**

### **4.3.1 Fairline Industries invests R1.5m into mattress production.**

A newly set up company, Fairline Industries Pty Ltd, has invested a total of R1.5m into a spring mattress production business. Fairline industries will be importing its material from China. Its manager, Mr. Jean Dingwall, said that this would reduce the cost of freight and subsequently the price of mattress on the market to the benefit of consumers.

### **4.3.2 Good response to SMB' s new potato crisps**

The test launch on SMB' s new potato crisps in two flavours in the second week of May met with excellent response, according to SMB supermarket manager Quentin Slabbert. Made from fresh potato available on the market, the new product provides consumers with a wider range of snacks in addition to those that are already on the market. SMB's communications manager, Mr. Amitesh Banerjee also commented that the parastatal would be introducing 45 more products between now and the end of the year.

## **4.4 Tourism**

### **4.4.1 STMA presents new advertising campaign**

Following what has been described as "a highly successful presentation" made to the cabinet of ministers, the Seychelles

Tourism Marketing Authority (STMA) presented its final advertising strategy to the public on June 7. The logo has been changed from "100 per cent pure" to "as pure as it gets" following several discussions over the fact that New Zealand had also chosen the former as its logo. Mr David Wright, the strategic planner, said that the new logo is beyond comparison, ignores competition and explains the visual beauty of the islands.

#### 4.5 Trade

##### 4.5.1 SMB continues to lower prices

As part of ongoing efforts to combat inflation, the Seychelles Marketing Board announced further price reductions on May 18. The goods on which prices were reduced include the Liqui-Fruit juice, powdered milk, as well as women toiletries. It was also indicated that this exercise would be continuous throughout the year for both essential and non-essential goods.

#### 5. Development and Infrastructure projects

##### 5.1 SEPEC equips islands with fuelling stations

Island Development Company (IDC) will soon improve aviation safety on outlying islands with the installation of aircraft fuelling stations on some of the islands managed by this parastatal. Commissioned by the Seychelles Petroleum Company (SEPEC), the mini

fuelling stations which will regularly be replenished through a cart mounted on beach-landing craft *Cinq Juin*, will soon be fitted on the islands of Alphonse, Desroches and Assumption.

##### 5.2 Seychelles International Airport under renovation

A R3.0 million project to renovate the arrival and departure lounges of the Seychelles International Airport at Pointe Larue was well progressing, said the airport manager Mr. Patrick Hoareau in May. This project is being carried out to improve the existing facilities for the benefit of the passengers as the main work to construct the new terminal is quite complex and will involve extensive planning and construction time.

##### 5.3 Cargo terminal capacity doubles with R1.5m expansion

The cargo terminal at Seychelles International Airport has expanded in capacity from 640 square metres to 1,180 square metres after a R1.5 million extension works. The extension is expected to provide enough storage room until the new passenger terminal building, due to be constructed, becomes operational.

##### 5.4 R3.5 m project nears completion

The construction of a collecting chamber at La Misère to filter off gravel from

water being collected from the Les Mamelles river catchment areas before it is transferred to the Rochon and La Gogue dams is nearing completion. With this new project, PUC will be in a position to treat on average, an additional 1,000 cubic metres of water per day, which means serving an additional 7,500 people in times of drought.

### **5.5 Inauguration of the Providence Highway – a milestone project**

On June 16, Vice-President James Michel opened the Providence highway, the country's first dual carriageway, which connects Providence to the Airport. The project to build the 3.4-km stretch of road started in January 1997 at a cost of R22 million. It has been designed for a maximum speed of 80km/hr. Each lane has a width of 3.25 metres and can cope with 2,950 vehicles per hour in each direction.

### **5.5 The President inaugurates US\$50m Victoria power station**

President F.A.René pushed the start button of the Victoria power station on June 17, as part of events commemorating the National day celebrations. The power station would have a capacity to supply up to 50 megawatts into the national grid. Consumers currently tap 28 megawatts during peak hours. The project has been financed partly by the Public Utilities Corporation (PUC) and partly by a

US\$44 million loan from the ABN AMRO Bank of Netherlands.

## **6. Local Industry and Business**

### **6.1 Incentives for small businesses**

Taxi operators will now benefit from the same rate as commercial vehicle owners since they will be charged only 50 cents per cc instead of R1. However, payment of the road license is subject to a minimum of R1,000. The concession is part of the latest package of incentives the Vice-President's office is starting to implement, following the announcement in the Budget Address 2000 that Government would give additional help to small businesses. It will thus offset increased operating costs in the taxi business while protecting the public from any rise in fares at a time when the government is fighting inflation.

## **7. Other news**

### **7.1 Education**

#### **7.1.1 Manchester degree could commence at Polytechnic in 2001**

Education Minister, Mr Danny Faure has announced, after his visit in UK, that the University of Manchester has agreed in principle for the Polytechnic to run its first year degree programmes in Finance, Economics, Accountancy and Social Science. He pointed out that if the Manchester University approved the Polytechnic as its extension this could mean significant cost savings, especially in foreign exchange for the country. The

minister has also managed to secure a 15 per cent discount on the tuition fees of students that will study at the University of Manchester as from this year.

## 7.2 Banking

### 7.2.1 SSB install ATM

The Seychelles Savings Bank (SSB) has jumped into the modern age with three

brand new NCR automated teller machines (ATMs) installed at its main branch in Victoria, and at its branches on Praslin and La Digue. It is expected that the bank's clients will be able to use it soon, to help alleviate the long queues, particularly around payday, normally at the end of the month.

## 2. FOREIGN

### 1. World Economic Conditions

#### 1.1 Interest rates

The upward trend in interest rates worldwide continued into the second quarter. In the **11-member euro zone**, the European Central Bank (ECB) raised interest rates twice during the quarter. Following the regular examination of the outlook for price developments in the euro area on the basis of information on monetary, financial and other economic developments, the governing council of the ECB increased its main refinancing rate by 0.25 percentage point to 3.75 per cent on April 27. On June 8, it raised it further, but this time by a larger margin of 0.50 percentage point, taking it to 4.50 per cent at the end of the quarter.

The decision to increase interest rates was based on the risks to price stability, which has tended to increase. This assessment has been supported by information from

the first pillar and second pillar of the Eurosystem's monetary policy. With regard to the first pillar, strong growth of money and credit throughout 1999 and the pronounced expansion of the two monetary aggregates over the first four months of the current year have strengthened the view that liquidity conditions are sufficient. As regards the second pillar, strong economic growth means a risk to price stability as there are spillover of rising import prices to consumer prices, owing both to the lagged effects of the exchange rate depreciation and to rising oil prices.

In the **United States** as well, the Federal Open Market Committee of the Federal Reserve took a similar action, by increasing interest rates. On May 16, the Committee raised the key federal funds rate by 50 basis points to 6.50 per cent. It also increased the discount rate by a

similar margin. It was the continued increase in demand - which remained above potential supply - that was the underlying factor affecting such a decision on the rate change. The committee was concerned that the disparity in the growth of demand and supply would continue and that this would foster inflationary pressures that would undermine the economy's outstanding performance.

Like the ECB, the Reserve Bank of **Australia** also changed its interest rates twice over the quarter. The first increase was effected on April 5, when the Bank raised its cash rate by 25 basis points. The fundamental reason underlying the move was that the degree of monetary stimulus that was needed after the Asian financial crisis was no longer needed. While there is no evidence of overheating in the Australian economy, some areas point to likely emerging pressures. Credit, particularly to households, was growing quickly, and speculative activity in asset markets has increased. In some areas skill shortages has emerged. Pressure for higher wage rises appeared to be building, even though wage growth to date has been restrained.

The second change was effected on May 3, an increase of 25 basis points in the cash rate to 6.00 per cent. At that point, there were some indications that domestic

demand had moderated from the very high rates in the second half of 1999, but the economy was benefiting from strong exports and rising terms of trade. Inflation on the other hand was on the upside. The rise in the price of oil has played an important role in the increase in overall prices.

Whilst interest rates were on the rise in most economies, in **Japan and the UK** there were no changes to their monetary regimes over the quarter under review. Japan maintained its zero rate policy, whilst in the UK the repo rate remained at 6.00 per cent.

## 1.2 Growth

### 1.2.1 United States

The US economy expanded at an annual rate of 5.2 per cent in the second quarter after a revised 4.8 per cent in the first quarter. This was announced by the Commerce Department in late July in a report that shattered speculation that growth had slowed.

The second quarter result was sharply higher than had been forecasted on Wall Street, where analysts foresaw a growth of only 3.5 per cent. The surprising surge in activity in the April to June period unnerved bond traders, who saw the trend increasing the chances that the Federal Reserve would intervene to raise interest rates to avert a spike in inflation.

Government reports had pointed to a slowdown in momentum and had raised hopes that the rapidly growing US economy was in for a soft landing without further credit tightening moves by the Fed. Inventory build-up and government spending underpinned the acceleration in the second quarter, according to the Commerce Department report. Nevertheless, despite this rapid growth, inflation remained in check during that period. As measured by one index, inflation came in at 2.3 per cent from 3.5 per cent in the first quarter. Excluding volatile food and energy prices, the price index was up 1.7 per cent from a 2.2 per cent gain the first three months of the year.

### **1.2.2 France**

Lower unemployment in France have boosted household confidence. Following a slight slowdown in May, the opinion poll carried out by the French Statistics Office Insee showed that levels of confidence reached a new record in June. It has been estimated that consumption will grow by 3.2 per cent this year: apart from the expectation of continuing low levels of unemployment, confidence has been boosted by tax cuts and lower VAT since April 1.

Other factors, such as increased emphasis on shareholders in the stock markets and the French victory at Euro 2000, are also

being taken into consideration. More households believed that it was a good time to make large purchases, and were very optimistic about their current financial circumstances. The only worry on the horizon for households is pessimism about their potential for saving because of the risk of increased inflation.

### **1.2.3 Germany**

The German economy is expected to grow by between 3.0 per cent and 3.5 per cent in the first half of 2000 compared with the previous year, according to estimates by the finance ministry. The ministry said that in adjusted terms, GDP rose by 1.0 per cent in the second quarter relative to the first quarter. The ministry noted that economic growth has picked up further and all indicators point to a continuation of the upswing. The world economy is seen as the main engine for growth, with German first half goods exports rising by 17.4 per cent from the previous year.

Manufacturing output during the first six months rose 6.8 per cent compared with a year earlier. The West German labour market also showed an improvement from the previous year, but the decline in unemployment recently lost its pace, according to the ministry. The continuing high oil prices as well as the rising import prices following the weak euro were

beginning to burden the overall price climate.

#### **1.2.4 Canada**

According to figures published by Statistics Canada late August, the market for technology exports was boosting economic growth. The data showed that the economy was riding a US-style technology-led growth increase, with an annualised growth rate of 4.7 per cent and the gross domestic product growing by 1.1 per cent in the second quarter of the year. While Canadian businesses have lagged behind their US counterparts in terms of technology spending by some two to four years, recent GDP figures demonstrate that this trend was changing. Though technology exports have continued to drive growth, domestic purchasing statistics were also impressive and the outlook for domestic spending looked very good.

#### **1.2.5 South Korea**

A report published by the central bank in mid-May showed that the economy grew by 12.8 per cent year-on-year in the first quarter of 2000, driven by buoyant exports and an upsurge in capital investment and consumer spending. The growth in gross domestic product in the three months to March compared to a 5.4 per cent expansion a year earlier and 13 per cent in the fourth quarter of last year.

An analysis of the main factors that contributed to this overall positive result showed that investment in plants surged 64 per cent year-on-year in the first quarter and household consumption was up 11.4 per cent. Manufacturing sector output rose 23 per cent year-on-year in the first quarter, helped by strong sales of semiconductors, computers and automobiles. Merchandise exports rose 28.6 per cent. The service sector expanded by 11.7 per cent compared to a 7.6 per cent rise a year ago. Agriculture and fisheries, however shrank 1.0 per cent against a 9.3 per cent rise during the same period in 1999.

The double-digit growth since the second quarter of last year has triggered fears of inflation and overheating, with economists urging the government to revise its macro-economic targets. The Finance and Economy Ministry said the government would closely monitor the trade balance, price movements and economic growth before revising its macro-economic forecasts and policies.

#### **1.2.6 Malaysia**

Data on GDP growth for the first quarter of the year as released at the end of May by the governor of Bank Negara – Zeti Akhtar Aziz – showed that GDP rose 11.7 per cent year-on-year, up from 10.8

per cent in the last quarter of 1999. Both aggregate demand and supply underpinned this rapid growth. Governor Aziz said that strong external demand and a pickup in private sector expenditure helped the magnitude of the expansion.

Reviewing the sectoral performance in the first quarter, the Governor said that the construction sector growth reflected expansion in housing and infrastructure development. The mining sector turnaround mainly due to higher crude oil production to meet higher domestic demand. The services sector increase was supported by high growth in the transport, storage and communications and the utilities subsectors.

Agriculture output grew on the back of strong growth in crude palm oil production, which was partly offset by lower rubber production. In the manufacturing sector, the output of export-oriented industries grew by 36 per cent while that of domestic-oriented industries rose by 24 per cent. Aggregate domestic demand during the quarter grew by 12.2 per cent, with the 12.1 per cent rise in consumption expenditure being the main contributor to economic growth.

## **2. International Economic Survey**

### **2.1 Prices**

#### **2.1.1 Euro zone**

European economic and monetary affairs commissioner Mr Pedro Solbes considers that it was urgent to speed up

liberalisation in key sectors of the euro zone economies, like telecommunications to counterbalance the effects of the inflationary pressures of higher oil prices and exchange rate movements.

Commenting on Eurostat figures, which showed that euro zone annual inflation had risen to 2.4 per cent in June from 1.9 per cent in May, he said that high energy prices was an important component of the harmonised index of consumer prices and that it was now showing its first signs that it would influence the core inflation indicator.

However, he pointed out that the inflation outlook could not be judged on the basis of a single month's data as April and May showed better than expected outcomes. The impact of energy prices on consumer prices differs from country to country and in some countries inflationary pressures were also due to overheating. In these countries even more prudence was needed and fiscal policy is seen as a way to achieve the price stability objective.

#### **2.1.2 United Kingdom**

In early July, the National Statistics (NS) in the UK announced that the retail price index rose by 0.2 per cent in the month of June giving a 3.3 per cent year-on-year increase, which was close to some analysts' forecast. According to the Office, the largest upward effect on the annual rate came from changes in

motoring costs due mainly to petrol pump prices, which rose 18.4 per cent year-on-year – the fastest rate since February 2000.

It added that petrol and oil contributed 0.24 points to the annual rate of change in headline inflation. Further upward effects came from vehicle tax and insurance costs as last year's falls in vehicle excise duties on cars with smaller engines dropped out of the 12-month comparison. Another upward effect came from the rise in seasonal food prices due to wet weather conditions in April and May, as well as changes in housing costs.

Underlying inflation RPI-X (RPI excluding mortgage interest payments) – the measure of inflation targeted by the Bank of England – was up 0.2 per cent on the month in June for a year-on-year increase of 2.2 per cent. This compares with expectations for a 0.1 per cent month-on-month rise and a 2.1 per cent annual rate.

## **2.2 Employment**

### **2.2.1 France**

The upturn on the French job market, which started at the end of 1996, continued in the second quarter of the year 2000. Over a year, employment rose by 463,000 or 3.3 per cent, the best performance registered in thirty years.

Despite criticism of the government over legislation on the 35-hour working week, the employment situation in France has constantly improved. Unemployment is falling in all European countries and in the industrialised world. The upturn in economic growth seems to be the only real cause of the phenomenon.

## **3. Trade and investment**

### **3.1 The signing of the ACP-EU Agreement**

On 23 June, the European Union and the 77 countries of the African, Caribbean and Pacific region (ACP) signed a new trade and investment partnership in Cotonou, Benin. This agreement, which will last for another 20 years, is a true and deep relationship, which builds on the success of Lomé. The Agreement renews and strengthens the commitment between the developing and developed countries to working together to combat poverty, the principal aim on the development agenda, and provides a powerful and effective mechanism for political dialogue. It is also a framework for new partnerships for trade and investment and the gradual integration of the ACP countries into the world economy.

Furthermore, at the centre of the partnership is capacity building to establish real ownership. For the first time, non-state actors are brought into the

process – NGOs, civil society as well as the private sector are all involved: the partners believe that to get results on the ground, all those involved must take part and not just governments.

#### **4. Currency market developments**

##### **4.1 The Euro**

After falling below parity in the first quarter of the year, the weakness of the euro continued during the current period under review, particularly in the month of May, but recovered somewhat in June. Waves of selling sent the euro tumbling below US\$0.90 on May 3 for the first time since its launch 16 months ago.

Dealers took fright at the lack of intervention by the European Central Bank (ECB) and ignored attempts by politicians and central bankers to ‘talk up’ the euro’s value. The currency fell almost two US cents in London trading, prompting some analysts to warn that the currency was on the brink of a free fall. It fell against the pound to 58p. The turmoil spilled over into equity market across Europe and North America.

Nevertheless, the ECB vice-president Christian Noyer said that he was very optimistic about the outlook for growth in the euro zone, though it would depend on structural reforms. Dealers said that there was no obvious trigger for the euro

weakness, but news that the European Commission had given Greece the go-ahead to become the 12<sup>th</sup> member of the euro zone next January rattled nervous markets.

#### **5. Other economic developments**

##### **5.1 ILO report on the cause of child poverty**

According to a report published at the end of June by the International Labour Organisation (ILO), child poverty has risen sharply in the world since the mid-1960s because of a breakdown in conventional families, unemployment and widening income inequality. Even in the industrialised countries where special help is provided for lone-parent families through social assistance and family allowances, a large proportion of them are living in poverty.

The ILO report indicates that poverty rates for households headed by a single mother are at least three times higher than for two-parent households in Australia, Canada, Germany and the US. Only Italy and the Nordic countries are the differences smaller because of access to childcare facilities and gainful employment. The report also reveals as many as three quarters of the world’s 150 million unemployed lack any unemployment insurance benefits the vast majority of the population in most countries have no social protection at all.

Although the ILO says that the percentage of gross domestic product spent on social security rose in most countries between 1975 and 1992, there was a decline in such expenditure during that period in Africa and Latin American. It believes

social security expenditure will rise as a percentage of GDP over the next half century but the projected increase will account for only about 20 per cent of the real growth in average earnings.