CENTRAL BANK OF SEYCHELLES

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C O N T E N T S

S T A T I S T I C A L A P P E N D I X

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:

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

REVIEW OF THE ECONOMY

Third Quarter, 2000

1. OVERVIEW

Most indicators of economic activity point to a further slowdown in economic growth in the third quarter. Furthermore, with the upward trend in inflation persisting, real growth is likely to have declined in the third quarter.

There were nevertheless, some positive developments in other areas of the economy. Firstly, there was a reversal in the fiscal position of the government as the budget moved into a quarterly surplus for the first time since the fourth quarter of 1994. Furthermore, growth in money supply abated after it had picked up some pace over the previous quarter. However, despite the overall positive fiscal outcome, credit expansion accelerated as government increased its level of borrowing to accommodate an increase in its cash balances.

Tourism statistics and production indicators for the third quarter released by the Management and Information Systems Division (MISD), point to a slowdown in activity. Whilst tourism arrivals grew by 3.4 per cent during the three months under review, at this rate, growth was significantly slower than in the third quarter of 1999. Moreover, compared to 14 per cent increase in revenue during that period, it fell by 7.2 per cent during the third quarter this year. There were also more subdued performances in respect of production of canned tuna, which fell relative to both the previous quarter and the third quarter of 1999. Furthermore, output of most other manufacturing activity fell compared to that period. Nevertheless, the primary sector (agriculture and fishing) performed generally positively.

The indictors of growth noted above suggest therefore, a general downturn in nominal economic activity in the third quarter. The direction of real growth, however, was more clear cut, as a further acceleration in inflation would most likely have driven real economic growth further downwards during the third quarter. Over the period June to September, inflation, as indicated by the Retail Price Index (RPI) rose by 1.4 per cent, pushing up the annual inflation rate (October 1999 to September 2000) to 7.3 per cent.

On to other developments, the most encouraging was the fiscal outcome which was a budget surplus of R89 million. A R172 million deficit had been budgeted. This highly favourable outcome relative to budget was attributable to both receipts and payments. On the revenue side, collection totalled R359 million compared to a budgeted R352 million, though the excess income represented entirely grant receipts, as current fell R1.6 million short of budget. Grants totalled R9.0 million above expectations. The surplus owed, nevertheless, to the substantial tightening of expenditure during the third quarter. Compared to a budgeted R524 million, expenditure for the quarter under review aggregated to R270 million, a saving of 48 per cent. Capital expenditure posted a saving of R108 million whereas current was, in aggregate, R29 million below budget. Net lending also performed exceptionally well, registering a net repayment of R116 million, in contrasted to the expected outlay of R225,000.

In spite of the R89 million surplus, credit to the government from the banking sector increased by R116 million or 3.5 per cent during the quarter. This reflected the fact that despite the surplus, the government increased its cash balances by R140 million during the period under review. Despite a 7.0 per cent slowdown in parastatal sector credit, total credit grew by 3.4 per cent due to increases of 3.4 per cent and 3.5 per cent in lending to the private sector and to the government. At this rate, growth in credit was 2.24 percentage points higher than in the previous quarter.

Notwithstanding the negative performance of credit in the third quarter, the stable growth over the previous months, in particular, the last quarter contributed to an improvement in the liquidity situation as indicated by a slowdown in the rate of monetary expansion. For the three months ending September, the broad money aggregate M2(p) grew by 1.4 per cent (5.6 per cent in annualised terms), which represented a growth rate of less than half the rate recorded in the last quarter, when, at an annualised rate, M2(p) rose by 12 per cent. Furthermore, it compared favourably to the 11 per cent annualised growth recorded in the same period in 1999.

With no new monetary policy measures, other monetary variables remained broadly unchanged. A general downward movement was observed in interest rates with lower rates than in the previous quarter being registered in most cases with the exception of interest on deposits of maturity between "3 months to 6 months" and those within the "7-days" maturity brackets. The most significant fall was observed on "7 days to 3 months" deposits, which fell by 48 basis points to an average of 4.44 per cent. The highest increase was a 16 basis point rise in interest on deposits maturing between "3 and 6 months".

Developments in the external sector were highlighted by a surplus in the Exchange Record, which reflected a net increase in foreign exchange of the banking system i.e. Central Bank and the commercial banks. From a R9.5 million deficit in the previous quarter, the overall balance in the Exchange Record was a surplus of R8.9 million. However, this overall improvement was attributable to a net capital inflow as indicated by the capital account, which reverted from a deficit of R5.8 million in the previous quarter to a surplus of R22 million. On a less encouraging note, the current account deficit more than doubled relative to the previous quarter, standing at R33 million.

The overall increase in reserves of the banking system reflected growth in both official reserves (Central Bank and government) and reserves of the banking system. At the end of September, gross official reserves stood at R169 million which was equivalent to 3.8 weeks of (1999, c.i.f.) imports. This compared to R167 million at the end of June, which then translated into 3.7 weeks of imports.

There were again mixed movements in the exchange rate of the Seychelles rupee vis-à-vis the major world currencies and currencies of the Seychelles Trade and Tourism Weighted Basket (STTWB). With the further strengthening of the US dollar in the third quarter, the rupee lost 1.7 per cent against the US currency during that period. In contrast, the domestic currency appreciated by 2.0 per cent against the sterling and 1.2 per cent against the Euro and currencies that make up the Eurozone.

2. DOMESTIC SECTOR

1. Real Sector and Prices

1.1 Real Sector

Developments in the real sector during the third quarter were overall subdued, in particular when compared to the same period in 1999. Whilst tourism arrivals picked up in line with normal trend, at 3.4 per cent the growth was more than five times slower than in the third quarter of 1999. More significantly was that whilst revenue rose by 14 per cent in the corresponding period last year, it fell by 7.2 per cent during the period under review. It may be worth noting that besides the fall in numbers, the substantially worse performance of revenue could be a reflection of the depreciation of the euro as over 80 per cent of tourists to Seychelles are Europeans.

With regards to manufacturing, there was also a general downturn. Canned tuna, the country's largest manufacturing concern, recorded a 8.9 per cent drop in output compared to the previous quarter, though this decline reflected seasonal patterns. Compared to the third quarter of 1999, production declined by 12 per cent. One reason for the decline in production might be the fall in prices on world markets due to an increase in canned tuna internationally.

Production indicators published by MISD also point to a slackening in production of beverages and tobacco. Production of soft drink by the two domestic producers in the third quarter fell by 23 per cent compared to the previous quarter, whilst relative to the same period in 1999, output declined by 22 per cent. A similar trend was observed in production of beer and stout by the Seychelles Breweries, which recorded a decline of 19 per cent and 9.1 per cent over the previous quarter and the corresponding quarter of last year respectively. Whilst production of mineral water more than doubled compared to the three months ending September 1999, local production of cigarettes dropped to 8 million from 17 million in the same period last year.

On the positive side, the agricultural sector, in particular livestock production, registered highly encouraging results during the third quarter. Data from the Le Rocher Abbatoir showed that the number of chicken, pigs and cattle slaughtered all increased relative to the previous quarter. The increases were in the order of 9.8 per cent, 7.2 per cent and 5.4 per cent respectively. However, production of crops remained sluggish.

With weather conditions remaining favourable, fish catch improved over the third quarter. Artisanal catch rose by 64 per cent to 1,430 tonnes. This contrasted sharply the 18 per cent decline in catch in the same period last year. At 1,430 tonnes, catch was also 32 per cent higher than during the three months ending September last year. Production of prawns totalled 54 tonnes compared to 147 tonnes in the previous quarter. Despite this sharp decline output was still slightly higher – 2.7 per cent - than during the corresponding period last year.

1.2 Prices

The rate of inflation picked up in the third quarter, as the retail price index (RPI) rose by 1.4 per cent (5.9 per cent in annualised terms). This increase in the general price level was nevertheless in line with normal trends as during this period fish prices, which constitutes a substantial share of the RPI basket, normally increases as rough weather conditions affects supply. More notable however was that this further quarterly rise in prices brought the rate of inflation for the year ending September 2000 to an all-time high of 7.3 per cent.

Fish prices over the quarter under review rose by a substantial 15 per cent. This was accompanied by a 1.6 per cent growth in prices of ‘non-food’ items. In contrast, a 1.2 per cent decline was observed in prices under the ‘other food’ category.

In terms of domestic versus import prices, the RPI reveals that whilst prices of imported ‘other food’ remained unchanged during the quarter, the price of the same category of goods produced locally fell by 2.1 per cent. On the other hand, imported ‘non-food’ items rose by a sharp 4.6 per cent compared to a slight increase of 0.2 per cent in its local component.

Table 1
Retail Price Index; 1998-2000

	1998		1999				2000		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	(per cent)								
Quarterly average[1]	0.4	1.9	2.2	1.2	0.2	4.5	0.7	0.8	1.4
Quarterly end-of-period[1]	3.0	-0.5	2.7	1.5	-0.4	6.5	-1.3	1.1	1.1
Annualized quarterly average[2]	1.4	8.0	9.2	4.8	0.9	19.5	2.8	3.4	5.9
Annualized end-of-period[2]	12.6	-1.9	11.1	6.1	-1.5	28.7	-5.1	4.6	4.6
Annual average[3]	2.0	2.6	3.5	4.3	5.2	6.3	6.6	6.8	7.3
Annual end-of-period[3]	4.7	3.5	5.6	6.8	3.3	10.6	6.3	5.9	7.5

[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.*

The major factors contributing to the overall 1.2 per cent decrease in the price of ‘other food’ were "fruit & vegetables" and "meat & tinned fish" which fell by 4.5 per cent and 2.7 per cent respectively. Cereal prices, on the other hand, rose slightly, by 1.0 per cent.

As for the ‘non food’ index, increases were recorded across the board, with the price of “clothing and footwear” being the most influential, registering a rise of 9.2 per cent. This was in sharp contrast to the 1.6 per cent fall registered in that category the previous quarter. A growth of 4.0 per cent was registered under "personal items", this after prices of the same group of items had fallen of 7.9 per cent during the previous quarter.

Over the past twelve months, the inflation rate was 7.3 per cent. This represented an increase of 50 basis points over the inflation rate for the year ending June 2000. Between October 1999 and September 2000, fish prices dropped by 10 per cent. However, prices of 'other foods and 'non-foods' rose by 4.2 per cent and 8.9 per cent, respectively.

2. Monetary Developments

2.1 Credit

During the quarter under review, growth in aggregate domestic credit picked up pace, rising by 3.4 per cent (14 per cent in annualised terms). At the end of September, the stock of claims on the domestic economy stood at R4.0 billion. It may be worth noting that during the previous four quarters, growth in credit had stabilised. This acceleration in growth during the period under review resulted mainly from an increase in credit granted to government by the central bank.

In aggregate, claims to the government from the entire banking system grew by R116 million or 3.5 per cent whilst total commercial bank credit increased by R109 million or 3.3 per cent. In both cases, these represented accelerated growth compared to the previous quarter.

Private sector credit (from commercial banks) rose by a further 3.4 per cent to reach a total of R560 million at the end of the quarter. The major beneficiaries were the tourism, fishing, manufacturing, building and construction and mortgage sectors. Commercial bank credit to parastatals on the other hand, fell by a further 7.0 per cent. The decrease was most prominent in borrowings by the transport sector and financial institutions.

Table 2
Credit;[1] 1998-2000

	1998		1999				2000		
	Q3	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**
				(R million)					
Total credit	**2922**	**3198**	**3288**	**3436**	**3569**	**3713**	**3861**	**3905**	**4038**
Commercial banks	**2422**	**2623**	**2683**	**2868**	**2935**	**3073**	**3187**	**3288**	**3397**
Claims on private sector	485	460	434	461	496	503	531	541	560
Claims on parastatal sector	62	56	53	68	47	43	24	21	20
Claims on government	1875	2107	2197	2339	2391	2527	2631	2726	2817
Central Bank	**500**	**575**	**605**	**568**	**634**	**640**	**674**	**617**	**641**
Claims on government	500	575	605	568	634	640	674	617	641

[1] *End-of-period data.*
Figures do not necessarily add up due to rounding.

Despite the increase in Central Bank credit to the government, the bulk of the government's additional claims during the period under review was incurred in vis-à-vis the commercial banking sector. At R2,817 million at the end of September, commercial bank credit to the government was R92 million higher than at the end of June. Central bank credit - which goes solely to the government - rose by R24 million. Whilst this was significantly lower than the growth in commercial banks' claims, it represented a major deviation from the R56 million or 8.3 per cent decline observed in the previous quarter. This increase reflected on the one hand, the purchase of R7.0 million worth of treasury bills and a rise of R17 million in the stock of advances.

It was also interesting to note that government credit increased in spite of the government running a budgetary surplus in the third quarter and the fact that there was only a small net repayment of foreign loans. The explanation was that during the period under review, the government effected a net replenishment of its cash balances to the tune of R140 million (see *Budget*).

2.2 Money Supply

Following the slowdown in credit expansion in the previous quarter, the rate of monetary growth slowed down during the period under review. The broad money aggregate M2(p) grew by 1.4 per cent (5.6 per cent in annualised terms) compared to 2.9 per cent (12 per cent annualised) in the previous quarter. In terms of the two major components of M2(p), this deceleration was mainly attributed to the considerable slowdown in M2, which grew by 1.5 per cent compared to 3.2 per cent in the three months ending June. Whilst the stock of pipeline deposits - the other broad item constituting M2(p) - fell further, the decrease was less prominent, falling by 1.4 per cent only, to reach R136 million at the end of September 2000.

The slower growth in M2 over the third quarter reflected mainly the reduced pace of growth in M1. From an increase of 5.6 per cent in the previous quarter, M1 registered only a slight increase - 78 basis points - during the period under review.

Looking more closely at the components of M1, it could be observed that demand deposits was the main factor explaining the slack in the growth of M1. Demand deposits grew by a mere 54 basis points to abridge the effect of the 1.6 per cent growth in currency with public. With the former just over three times the size of the latter, the weighted impact was the 78 basis points growth in M1. During the previous quarter, increases of 1.4 per cent and 6.9 per cent were recorded in currency with public and demand deposits respectively.

Table 3
Money Supply;[1] 1998-2000

	1998		1999				2000		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	(R million)								
Money Supply, M2(p)	**2485**	**2568**	**2661**	**2836**	**2909**	**3057**	**3109**	**3200**	**3245**
Money Supply, M2	**2297**	**2390**	**2491**	**2673**	**2754**	**2909**	**2968**	**3062**	**3109**
Money, M1	**730**	**781**	**847**	**900**	**923**	**1071**	**998**	**1053**	**1062**
Currency with public	190	206	210	217	228	248	241	244	248
Demand deposits	541	574	637	683	695	823	757	809	814
of which:									
Private sector	397	450	499	512	537	649	597	628	643
Parastatal sector	144	124	138	171	158	174	160	182	171
Quasi-money	**1567**	**1609**	**1644**	**1773**	**1830**	**1838**	**1971**	**2009**	**2047**
Time deposits	1094	1124	1135	1241	1277	1254	1356	1378	1404
of which									
Private sector	972	1005	1021	1114	1145	1127	1213	1220	1235
Parastatal sector	122	119	114	126	133	127	143	158	169
Savings deposits	473	485	509	533	553	584	615	631	643
Pipeline deposits	**187**	**178**	**170**	**163**	**155**	**148**	**141**	**138**	**136**

[1] End-of-period data.
Figures do not necessarily add up due to rounding.

Private sector and parastatal demand deposits moved in opposite direction during the quarter, resulting in the moderate increase of 54 basis points in aggregated demand deposits. An increase of 2.4 per cent was registered in respect of private sector deposits, which denoted a slowdown in growth relative to the previous quarter when it increased by 5.2 per cent. However, following a 14 per cent growth in the last quarter, parastatal deposits fell by 5.9 per cent during the period under review.

A slower growth was also registered in respect of quasi-money. At R2.0 billion at the end of the quarter, quasi-money grew by 1.9 per cent relative to the previous quarter. The two components of quasi-money, namely time and savings deposits, had almost identical impact on the increase. Time deposits grew by 1.9 per cent whilst savings deposits rose by 2.0 per cent, totalling R1.4 billion and R0.6 billion respectively. Parastatal time deposits grew at a slower pace during the quarter, rising by 7.3 per cent compared to 10 per cent over the previous quarter. However, growth in private time deposits picked up pace, rising by 1.2 per cent compared to an increase of 68 basis points the previous quarter.

2.3 Deposits at commercial banks[1]

Despite increasing further, growth in total commercial banks' deposits slowed down during the quarter under review. Total deposits rose by a slight 0.59 percentage points (2.4 per cent in annualised terms)

[1]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".

to finish the quarter at R3.1 billion. The increase was mainly accounted for by the rise in private sector deposits, which rose by 1.7 per cent. Parastatal deposits also increased although rising by only 25 basis points. Government deposits however, fell by a further 11 per cent following a 1.5 per cent fall the previous quarter, to heavily restrict the growth in the total deposits.

Table 4
Commercial Bank Deposits;[1] 1998-2000

	1998		1999				2000		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	(R million)								
Total deposits	**2284**	**2364**	**2466**	**2648**	**2718**	**2864**	**2959**	**3046**	**3064**
Private sector deposits	1841	1940	2029	2159	2235	2360	2424	2479	2521
Parastatal deposits	266	244	252	298	291	301	303	339	340
Government deposits	177	181	185	191	192	203	232	228	203

[1] End-of-period data.
Figures do not necessarily add up due to rounding.

2.4 Commercial bank liquidity

During the third quarter 2000, the commercial banks' credit/deposit ratio increased further, rising by 2.7 percentage points to end the quarter on 110.9 per cent. This indicated a further regression in the commercial banks' liquidity position with a higher growth in credit (3.3 per cent) against deposits (59 basis points).

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

	1998		1999				2000		
	(per cent)								
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Credit/deposit Ratio	106.0	110.9	108.8	108.3	108.0	107.3	107.7	107.9	110.9

[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 multiplier [2]

The money multiplier picked up pace during the quarter under review, rising by 11 basis points to end the quarter at 6.56. This rise represented a higher growth in the money stock in relation to the rate of increase in high-powered money.

[2]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

As in the previous quarter, there were no major changes in interest rates during the period under review. The minimum savings rate remained unchanged at 3.00 per cent. There was also no change in the yield of government securities; the average rate on treasury bills stood at 5.00 per cent at the end of September.

Mixed developments were observed in interest rates on time deposits. Lower rates were registered in most cases with the exception of "3 months to 6 months" and "7-days" maturities. The most significant fall was observed in the "7 days to 3 months" bracket, which fell by 48 basis points to an average of 4.44 per cent. The rate on the "6 months to 12 months" and "12 months plus" brackets fell by 12 basis points and 8 basis points respectively. However a rise of 16 basis points was registered in the rate on the "3 months to 6 months" bracket whilst the rate on the "7-days" bracket remained stable.

Table 6
Interest Rates;[1] 1998-2000

	1998		1999				2000		
	Q3	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**
	(per cent)								
Savings deposits rate	5.67	3.00	3.00	3.00	3.00	3.00	3.00	3.01	3.03
Time deposits rate									
<7 days	6.29	2.75	2.87	2.96	2.95	2.95	2.75	2.81	2.81
>7 days ≤ 3 months	7.18	6.03	5.57	5.17	4.70	5.09	4.76	4.92	4.44
>3 months ≤ 6 months	8.59	6.94	4.62	4.77	4.86	4.61	4.90	4.56	4.72
>6 months ≤ 12 months	9.00	7.64	6.39	5.34	4.35	4.12	4.25	4.38	4.26
>12 months	6.81	5.23	5.20	5.16	5.18	4.98	4.89	5.27	5.19
Average lending rate	14.30	12.92	12.63	12.16	11.71	11.54	11.51	11.54	11.37
Average treasury bill rate	6.11	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00

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

The average lending rate fell by 17 basis points to end the quarter at 11.37 per cent. It should be noted however, that the maximum lending rate is 10.0 per cent and the 11.37 rate represents loans lent out at higher rates prior to the reduction to 10.0 per cent. Once these loans mature, it is expected that the lending rate will converge to the 10.0 per cent maximum lending rate.

3. Budget performance

3.1 Summary

The budgetary outcome improved significantly in the third quarter. After the deficit had exceeded the budgeted level in the previous quarter, a surplus of R89 million was realised over the three months ending September. This was a significant deviation from the R172 million deficit that had been forecast. A fiscal surplus had not been achieved since the fourth quarter of 1994, when it amounted to R120 million.

The better than expected outcome was attributable to both receipts and payments. Revenue inflows, which consist of current receipts and grants, totalled R359 million compared to a budgeted R352 million. At this level revenue were R7.4 million or 2.1 per cent above forecast. It was nevertheless the substantial tightening of expenditure that proved to be the determining factor in the realisation of the surplus. Compared to a budgeted R524 million, expenditure for the quarter under review aggregated to R270 million, a saving of 48 per cent.

The higher than expected fiscal receipts during the quarter was attributable mainly to grants. At R22 million, grant receipts were 71 per cent above budget. This was a gratifying outcome particularly in light of the R1.6 million shortfall in current receipts. On the expenditure side, the substantial saving was the result of lower spending under all the major headings, namely current and capital expenditures and net lending.

With the achievement of the fiscal surplus, the government made a net repayment of R4.6 million on its foreign debt. Furthermore, it increased its cash balances by R140 million, partly financed by domestic borrowing - mainly through the sale of government paper. On a net basis, domestic loans amounted to R55 million.

Despite the surplus during the current period, the year-to-date fiscal balance at September was a deficit of R110 million. At this level, it was R279 million or 72 per cent below budget. Besides the third quarter outcome, the favourable fiscal position to date relative to budget also reflected partly, lower than expected deficit in the first quarter.

In aggregate, the lower deficit to date has been achieved entirely through a curtailment of expenditure. So far this year, expenditure under the three broad categories has all been below their respective budgets. Current and capital outlays have realised savings of R95 million and R160 million respectively whilst a repayment of R92 million has been registered under net lending.

3.2 Revenue

Third quarter revenue amounted to R359 million, R7.4 million in excess of budget. Grant proceeds - which comprise capital project grants and other forms of grants - were R9.0 million above budget, compensating for the slight shortfall of R1.6 million in current receipts. Current receipts have throughout the year been falling short of expectations, though during this quarter, the shortfall was marginal. Current receipts for the period under review were R44 million and R36 million higher, than the first and second quarter respectively.

Analysing developments in terms of different components of current receipts during the third quarter, it was observed that despite a fall in aggregate current receipts, there were some cases in which inflows came in above forecast. The most noticeable was "business/income tax" which, compared to a budgeted R56 million, totalled R86 million. This was mainly on account of "business tax". Other higher than expected revenues were recorded under "rents & royalties", "reimbursements", "other indirect taxes" and "income public service". The first two were more significant, being R4.4 million and R3.3 million above their respective targets, whilst the last two recorded higher revenue in the order of R0.3 million and R0.2 million. Transfers from the Social Security Fund on the other hand, were strictly on target.

"Trades tax" remained the most important contributor to government revenue, though it fell R8.1 million or 5.5 per cent short of the targeted R148 million. The shortfall occurred in respect of all sources of "trades tax", namely tax on imports and excise on locally manufactured goods and services. Income from locally manufactured goods recorded the largest shortfall which amounted to R5.5 million, whilst in respect of trades tax on imports and on locally rendered services, the shortfalls were minimal.

Other shortfalls were recorded as follows:

	Budget (Rm)	**Actual (Rm)**	**Shortfall (Rm)**
Fees and fines	19	16	2.8
Administration fees & charges	32	30	2.7
Dividends and interests	28	16	12
Miscellaneous	16	1.9	15

A comparison of total revenue with the same period last year reveals a R25 million increase during the quarter under review. With the exception of "dividends and interests", "fees and fines" and "other indirect taxes", all other revenue streams registered growth. The most significant increase was recorded under grant receipts, which rose by R18 million. Other important increases were in respect of "trades tax" (R6.8 million), "rents and royalties" (R4.8 million), "business/income tax" (R3.0 million), "transfers from Social Security Fund" (2.9 million) and "administration fees and charges" (R2.1 million).

Table 7
Government Budget; 1999-2000
Summary

	1999 Q3 Actual[1]	**2000 Q3 Budget**	**2000 Q3 Actual[1]**	**2000 Budget**
		(R million)		
Total Receipts	**334**	**352**	**359**	**1528**
Current receipts	330	339	337	1477
of which:				
Trades tax	[133]	[148]	[139]	[591]
Transfers from Social Security Fund	[17]	[20]	[20]	[80]
Business/income tax	[83]	[56]	[86]	[205]
Grants	4	13	22	51
Total Outlays	**444**	**524**	**270**	**1989**
Current outlays	361	349	319	1415
Appropriation items	260	279	269	1124
Of which:				
Ministries/departments	[185]	[181]	[181]	[723]
Social Security contributions	[30]	[30]	[30]	[119]
Current outlays to parastatals	[6]	[6]	[8]	[32]
Charges	101	69	50	291
Of which:				
Interest payments	[99]	[66]	[48]	[280]
Capital outlays	103	175	67	573
Net lending	-20	0	-116	1
Of which:				
Parastatals	[-20]	[0]	[6]	[0]
Primary Balance[2]	**-11**	**-106**	**137**	**-181**
Overall Balance	**-110**	**-172**	**89**	**-461**
Financing (net)	**110**	**172**	**-89**	**461**
Foreign loans (net)	-22	58	-5	208
Domestic loans (net)	164	114	55	252
Cash movements	-32	0	-140	0
Memorandum Items:				
Amortisation of loans	**518**	**91**	**133**	**390**
Of which:				
Foreign loans	38	22	7	112
Domestic loans	480	70	126	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.*

On a year-to-date basis, however, revenue was R67 million or 6.5 per cent below the budgeted R1.0 billion. Current receipts up to September amounted to R931 million and this was 6.9 per cent short of target. Grants receipts, on the other hand, were R1.5 million or 4.0 per cent above expectations.

3.3 Expenditure

After overshooting its budget in the previous quarter, total expenditure was significantly curtailed during the period under review. As mentioned above, all categories of spending, namely current and capital expenditures and net lending, were all substantially below their respective allocations. At R270 million, total expenditure was R254 million or 48 per cent below forecast. Current spending recorded a saving of R29 million whilst capital expenditure came in R108 million below target. Net lending registered a net repayment of R116 million, this against an allocation of R225,000.

As far as the individual categories of expenditure, the saving achieved under current outlays was attributable mainly to lower than budgeted spending under "current outlays on regulatory bodies" (R3.2 million), "centralised payments" (R13 million), and "charges" (R19 million) mostly on account of lower public interest payments - an actual disbursement of R50 million against a budget of R69 million. Expenditure by ministries/departments and contributions by the government to the Social Security Fund and to the Pension Scheme were all on target. The only overspending occurred under "pensions and gratuities" (R4.4 million) and "current outlays on parastatals" (R1.5 million).

In terms of capital expenditure, the R108 million saving was recorded at the expense of all its headings, namely developments grants to parastatals, compensation for land acquisition and capital projects. However, the most notable curtailment in spending under capital expenditure was capital projects, which was R103 million below forecast.

The period under review saw a significant turnaround in net lending, with a net repayment of R116 million being made to government. Despite an overrun of R6.0 million in net lending to parastatals, this was outweighed by the repayment under net advances (general) of R122 million. The overspending on net advances to parastatals was attributable to housing improvement loans to the Seychelles Housing Development Corporation (SHDC) of R2.6 million and a R4.0 million advance to the Island Development Corporation (IDC).

In aggregate, when compared to the same period last year, the performance of expenditure improved during the period under review. For the July to September 2000 period, total expenditure was R174 million or 39 per cent below the level in the same period last year. Net lending, current spending and capital outlays fell by R96 million, R42 million and R36 million respectively. The reduced amount of advances under net lending reflected the higher repayment of loans during the third quarter of this year whilst in respect of current outlays, it was due mainly to savings in a number of items of which the most significant were "ministries/departments" and "pension and gratuities". As for the decline in capital outlays, the saving emanated principally from lower expenditure on capital projects.

On a year-to-date basis, total expenditure fell R346 million short of budget, again on account of all the three headings of spending. Of this saving, the bulk has been attributable to capital spending (R160 million) whilst current outlays and net lending have recorded savings of R95 million and R92 million respectively.

3.4 Financing

Despite the overall fiscal surplus during the third quarter, government still made a net domestic borrowing of R55 million. This allowed the government to repay R4.6 million (net) in foreign debt and to make a R140 million replenishment of its cash balances being held at commercial banks and the Central bank.

During the period under review, gross domestic borrowings amounted to R182 million compared to a repayment of R126 million. From abroad, the government gained R2.1 million, whilst it repaid R6.7 million.

The year-to-date financing requirement of the government from the domestic market has grown to R308 million on a net basis, R81 million above forecast. Gross domestic loans have amounted to R496 million compared to amortisation of R188 million. Compared to previous years when short term, Central Bank advances represented the primary source of domestic funding, for the nine months of this year, it has been principally through the issue of government securities, mainly to commercial banks. Between January and September this year, the stock of net foreign loans have also risen, albeit marginally.

4. Offshore sector

4.1 International companies and trusts

A total of 285 new international business companies (IBCs) were registered with the Seychelles International Business Authority (SIBA), during the third quarter of 2000. This brought the total number of IBCs incorporated during this year to 1023 and 5831 since the formation of SIBA in 1995.

3. EXTERNAL SECTOR

1. Introduction

The exchange record, which registers foreign exchange flows through the banking system, showed a net increase in reserves in the third quarter of 2000. From a deficit of R9.5 million in the previous period, the overall foreign exchange balance moved into a surplus of R8.9 million during the period under review, an improvement of R18 million. This overall improvement was attributable to the capital account, which moved from a deficit of R5.8 million to a surplus of R22 million. In contrast the current account deficit more than doubled relative to the previous quarter, standing at R33 million.

Other developments in the external sector over the July to September period included the continued increase in the price of oil on the international market. In addition, the euro weakened further, which saw the intervention of the major central banks on the foreign exchange markets in September. On the other hand, developments within the domestic economy, particularly the foreign exchange flows declined relative to the previous quarter and the same period last year. Inflows for the three months ending September totalled R174 million. This represents decreases of R6.5 million and R18 million relative to the previous quarter and the same period last year. Furthermore, after introducing a 2.5 per cent foreign exchange allocation to airlines in April, this was increased to 5.0 per cent in August.

2. Current Account

The R22 million deterioration in the current account relative to the previous quarter reflected worsened performance across all three major types of current transactions. The primary cause of the widening of the current account deficit was the services account balance which though remaining in surplus, worsened by R12 million to R103 million. Though less significant, the recurrent deficit was also attributable to the trade balance and net transfers. The trade deficit widened by R5.6 million to R124 million whilst at R11 million, the net outflow in transfers represented a deterioration of R5.0 million or 79 per cent.

The current account deficit also worsened when compared to the third quarter of 1999. Over that period, the deficit was R25 million. Nevertheless, the trade deficit was higher, amounting to R134 million, however, the surplus in respect of services was significantly more favourable as it stood at R116 million. The net transfer deficit was also much lower, standing at R6.4 million only.

2.1 Trade

At an aggregate level, the widening of the trade deficit in the third quarter was attributable to the credit side. Overall, exports fell by R21 million or 19 per cent with oil re-exports dropping by R8.5 million, accompanied by a R6.0 million decline in canned tuna exports.

These negative developments were nevertheless mitigated by an overall reduction in import payments in the order of R15 million or 6.5 per cent. Whilst oil imports rose by R12 million, this was outweighed by a R17 million decline in private sector imports and a R9.8 million fall in those of government. Notwithstanding an increase in other import payments, the increase was marginal - R0.2 million or less than one per cent.

The performance of exports compared to the same period in 1999 was significantly more favourable. During the period under review, total exports rose by R25 million with oil re-exports and canned tuna exports growing by R21 million and R6.7 million respectively. Whilst imports also increased, the growth amounted to R15 million only, which explains the reduction in the trade balance deficit compared to the three months ending September 1999. The growth in imports over the same period was attributable mostly to oil imports, which rose by R39 million, a sharp increase, which reflected both increased volume re-exports and higher oil prices on the world market. In contrast, private sector and government imports fell by R20 million and R7.0 million respectively, reflecting the shortage of foreign exchange and the tighter fiscal stance on behalf of the government.

2.2 Services

The R12 million contraction of the services account surplus resulted from a R24 million or 9.9 per cent drop in revenue. This more than offset a R12 million decline in payments. With the exception of "airlines and shipping" which recorded a R6.5 million growth in inflows, the remaining revenue items all fell relative to the previous quarter. Tourism revenue dropped by R10 million or 7.2 per cent to R134 million. "Official sector" receipts and also fell by R10 million, as did the rest of services revenue aggregated together.

At an individual level, the reduction in payments compared to the previous quarter was attributable to foreign travel, which fell by R5.1 million. Payment by hotels and those under "airlines and shipping" rose by R5.1 million and R4.0 million respectively. However, these were outweighed by other payments, which in aggregate, fell by R16 million.

Table 8
External Account Balance;[1] 1999-2000

	1999	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3
			(R million)				
Current Account Balance	**3**	**-10**	**-25**	**8**	**-19**	**-10**	**-33**
Receipts	1322	288	328	385	368	360	314
Payments	1319	298	353	377	387	370	347
Trade Balance	**-458**	**-112**	**-134**	**-109**	**-119**	**-118**	**-124**
Exports	294	61	65	96	104	111	91
Of which:							
Oil re-exports	(178)	(29)	(40)	(62)	(79)	(70)	(61)
Imports	752	173	199	205	222	230	215
Private sector	251	56	72	66	62	69	52
Oil	198	43	51	62	82	78	89
Government	105	26	27	26	21	30	20
Other	199	49	50	51	57	53	53
Services	**496**	**108**	**116**	**132**	**104**	**115**	**103**
Receipts	1011	222	259	286	257	245	221
Tourism	596	132	151	158	167	144	134
Airlines & Shipping	98	21	22	31	27	19	25
Official Sector	86	13	15	34	18	26	15
Others	231	55	71	63	44	57	47
Payments	515	114	143	155	153	131	118
Foreign travel	90	22	24	24	20	24	19
Airlines & Shipping	13	3	3	3	6	6	10
Hotels	39	9	10	10	13	15	20
Others	374	79	106	117	115	86	70
Transfers	**-35**	**-6**	**-6**	**-15**	**-4**	**-6**	**-11**
Receipts	17	5	4	3	7	3	2
Of which:							
FXM1 bonds	(-)	(-)	(-)	(-)	(-)	(-)	(-)
Payments	52	11	11	17	11	10	14
Capital Account Balance	**100**	**-15**	**103**	**15**	**3**	**-6**	**22**
Official loans, net	17	-26	80	-19	-14	-29	-9
Official grants	22	2	5	15	2	3	0
Private capital, net	0	1	-2	-3	-1	-2	3
Receipts	20	7	3	3	2	1	5
Payments	20	6	5	6	3	3	2
Interbank capital movements	50	8	11	22	17	22	9
Direct investment	10	0	9	1	0	0	18
Errors and Omissions	**-47**	**-6**	**-24**	**-1**	**-9**	**7**	**20**
Overall Balance	**56**	**-30**	**55**	**21**	**-25**	**-10**	**9**
Change in Reserves[2]	**-56**	**30**	**-55**	**-21**	**25**	**10**	**-9**

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.
[2] (-) sign indicates increase in reserves.

As already pointed out, at R103 million, the services account surplus was R13 million below the level in the third quarter of 1999. Revenue fell by R38 million with tourism income shrinking by R17 million. This was a particularly disappointing outcome as in the first and second quarter of this year, tourism revenue had on both occasions exceeded the level in the corresponding periods in 1999. Nevertheless, because of the gains over the first six months of this year, tourism revenue as at the end of the third quarter, was still R7.5 million over the level for the first nine months of last year.

Notwithstanding the drop in receipts during the period under review compared to the third quarter of 1999, this was partly compensated for by a fall in payments. However, since the fall in the latter amounted to R25 million only, compared to the R38 million drop in revenue, this explained the overall contraction in the surplus. Besides a R9.9 million increase in payment by hotels, all other payment items recorded lower outflows during the quarter under review.

2.3 Transfers

Net transfers deteriorated sharply in the third quarter as the deficit swelled by 79 per cent to R11 million. This was in most part due to payments, which rose by R4.0 million, though to a lesser extent it also reflected a drop in receipts. At R2.3 million, receipts were R1.1 million or 32 per cent below the previous quarter's level.

At R11 million, the shortfall in net transfers was also substantially above the level in the corresponding period in 1999. Over that period, the shortfall grew by R5.0 million, which again reflected a combination of lower receipts and higher payments.

3. Capital Account

Significant movements were recorded under the major capital account headings in the third quarter. Overall, the capital account showed a surplus of R22 million, a significant deviation from the R5.8 million deficit recorded in the previous quarter.

From a shortfall of R29 million in the previous quarter, net official loans showed an improvement of R20 million, standing at *negative* R8.8 million. Whilst inflows shrank by R19 million to R34 million, this was more than offset by a R39 million reduction in amortisation, which totalled R43 million during the period under review. In another significant development, official flows in respect of direct investment totalled R18 million in the third quarter, after it had been nil over the previous three months.

Still on the positive side, private capital moved into a R3.0 million surplus, following the R1.6 million deficit in the previous quarter. This R4.7 million improvement reflected a combination of improved inflows and lower outflows. Receipts rose by R3.6 million and this was accompanied by a R1.0 million fall in payments.

On the negative side, however, net capital movements between domestic banks and those overseas fell from a surplus of R22 million to R9.2 million only, due mainly to developments on the credit side. Whilst outflows fell only marginally, inflows were R14 million short of the level recorded over the previous quarter.

4. Reserves

As indicated by the exchange record, there was an overall improvement of R8.9 million in the reserve position of the banking system in the third quarter. This contrasted the R9.5 million decline observed in the last quarter. This turnaround reflected improved reserve positions of both the Central Bank and commercial banks.

At the end of September, gross official reserves (Central Bank plus Government) totalled R169 million, equivalent to 3.8 weeks of imports (1999 c.i.f. imports). Central Bank reserves alone was R166 million. At the end of the same period in 1999, gross official reserves stood at R150 million, which then translated into 3.9 weeks of (1998, c.i.f.) imports.

With Central Bank short term liabilities totalling R174 million, net official reserves amounted to *negative* R5.1 million. Despite being negative, the position was nevertheless R12 million better than in the last quarter. At the end of September 1999, the net official reserve position was *negative* R82 million.

5. Exchange rates

As the US dollar continued to strengthen on the international foreign exchange market, in particular, against the euro, the Seychelles rupee slid further against the greenback whilst in the process it appreciated vis-à-vis the euro.

On average, the rupee lost 1.7 per cent against the US dollar relative to the previous quarter. In respect of the Seychelles Trade and Tourism Weighted Basket (STTWB), depreciations were also recorded in relation to the Singapore dollar (1.1 per cent), the Japanese yen (0.8 per cent) and the South African rand (0.3 per cent). It should be noted that this was the first time since the third quarter of 1999 that the domestic currency had lost grounds against the rand over a quarter.

With the further weakening of the euro, the rupee gained 1.2 per cent against the Euroland currencies during the quarter. In terms of the STTWB, this represented equivalent gains in the value of the rupee vis-à-vis the French franc, German mark, and the Italian lira. The most significant appreciation of the domestic currency, however, was relative to the UK sterling, against which the rupee gained 2.0 per cent.

ACTIVITIES

Third Quarter, 2000

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1. Advances to banks

1.1 Advances against government securities[1]

Advances to commercial banks from the Central Bank rose slightly during the third quarter to reach R56 million. However, at this level, it was 34 per cent lower than the value disbursed during the same period in 1999. The bulk of advances were recorded in July with R33 million being disbursed in that month. In light of the 14 day-maturity of these loans, the entire amount was repaid during the same period so that there was no balance outstanding at the end of the period.

Table 9
CBS Advances to Commercial banks; 1999-2000

	1999		2000			2000			
	Q3	**Q4**	**Q1**	**Q2**	**Q3**	**Jun.**	**Jul.**	**Aug.**	**Sep.**
				(R million)					
Advances	83.8	46.5	172.2	49.5	55.7	28.0	33.0	14.0	8.7
Repayments	87.8	46.5	162.2	59.5	55.7	28.0	33.0	14.5	8.7
Stock of credit[1]	6.3	5.0	9.5	0.2	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.*

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[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.

1.2 Government Concessionary Re-finance scheme[2]

The stock of credit under the Government's concessionary re-finance scheme remained unchanged at R3.8 million in comparison to the last quarter. The downward trend that has been observed in the amount of advances disbursed recently persisted during the quarter under review, signifying a further reduction in the amount borrowed under the scheme by companies. With new credit facilities being initiated recently by the government for export-oriented industries and a tendency for businesses previously benefiting under the scheme increasing reliance on their own finances, this has reduced the utilisation of the scheme.

A mere R800, 000 was disbursed in respect of advances under the scheme during the quarter. At this level it represented a decline of 95 per cent when compared to the same period last year. Repayment was again in line with advances but likewise, it was lower than the level reported in the third quarter of 1999. The export-oriented companies continued to account for the bulk of the stock of credit, which stood at R3.8 million.

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

	1999		2000			2000			
	Q3	Q4	Q1	Q2	Q3	Jun.	Jul.	Aug.	Sep.
	(R million)								
Stock of credit[1]	22.5	18.8	8.8	3.8	3.8	3.8	3.8	3.8	3.8
Of which:									
Export-oriented:									
Private sector	7.5	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Public sector	15.0	15.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0
Advances	15.8	3.0	0.8	3.0	3.0	1.4	0.0	0.0	0.8
Repayments	21.3	3.0	15.8	3.0	3.0	1.5	0.0	0.0	0.8

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

2. CBS Credit to Government[3]

Credit to government rose by 2.8 per cent in the third quarter totalling R646 million. The growth was accounted for by the increase in borrowing in the form of advances from the Central Bank. The stock of advances rose by more than four times relative to the previous quarter, reaching an average R43 million for the quarter. In-spite of the rise it was however still lower that the level recorded in the same period in the precedent year. Furthermore, it remained well within the R500 million limit in respect of the Central Bank Act.

[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.

Contrary to advances, holdings of treasury bills and bonds by the Central Bank dropped by 58 per cent and 1.6 per cent respectively when compared to the previous quarter. The drop was attributed to maturity of both these two securities.

Table 11
Credit to Government; 1999-2000

	1999		2000			2000			
	Q3	**Q4**	**Q1**	**Q2**	**Q3**	**Jun.**	**Jul.**	**Aug.**	**Sep.**
	(R million)								
Total Credit	599.8	629.3	656.6	628.6	645.9	617.4	654.5	641.8	641.3
Advances	582.2	613.1	0.0	7.4	43.4	19.5	56.7	36.9	36.5
Treasury bills	17.5	16.2	32.6	16.1	6.8	2.1	2.1	9.2	9.1
Treasury bonds	0.1	0.1	624.0	605.1	595.7	595.7	595.7	595.7	595.7

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

3. Government Securities

3.1 Treasury Bills[4]

The average annual yield in the treasury bills market remained unchanged at 4.998 per cent. A total value of R1.1 billion worth of bills was sold during the quarter, representing an increase of 7.5 per cent when compared to the previous quarter and 5.7 per cent when compared to the same quarter of the previous year. The 91-day bill continued to account for the largest share of the market, constituting 60 per cent of total sales. The value of the 365-day bill sold in this quarter represents an increase of more than three-fold when compared to the previous quarter but was equal to the value sold during the same quarter in the previous year. It stood at R177 million.

Notwithstanding the increase in the value of bills sold, the average stock outstanding at cost value dropped by R14 million relative to the previous quarter. The drop was accounted for by the increase in repayment effected during the quarter, which outweighed the value of bills sold by R22 million.

[4]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.

Table 12
Treasury Bills; 1999-2000

	1999		2000			2000			
	Q3	**Q4**	**Q1**	**Q2**	**Q3**	**Jun.**	**Jul.**	**Aug.**	**Sep.**
	(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]	4.502	4.502	4.502	4.502	4.502	4.502	4.502	4.502	4.502
182-day bills[3/4]	4.995	4.995	4.995	4.995	4.995	4.995	4.995	4.995	4.995
365-day bills[3/4]	5.496	5.496	5.496	5.496	5.496	5.496	5.496	5.496	5.496
	(R million)								
Amount issued[1]	**1076.2**	**1326.8**	**1032.5**	**1058.3**	**1137.9**	**272.0**	**264.7**	**458.5**	**414.8**
91-day bills[3]	696.7	686.2	658.2	687.1	685.6	169.3	158.5	359.7	167.4
182-day bills[3]	202.3	349.6	276.6	330.6	274.9	85.6	90.5	56.9	127.5
365-day bills[3]	177.2	291.0	97.7	40.5	177.4	17.1	15.7	41.8	119.9
Stock outstanding[1/2/]	**1398.2**	**1754.5**	**1898.2**	**1894.3**	**1884.6**	**1891.9**	**1884.2**	**1883.2**	**1886.4**
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]	609.9	688.5	664.7	682.3	683.5	687.1	679.9	684.9	685.6
182-day bills[3]	470.6	520.9	621.5	604.5	603.3	607.2	606.0	601.0	602.9
365-day bills[3]	317.7	545.2	612.0	607.5	597.8	597.7	598.2	597.3	598.0

[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

With all the issues of treasury bonds introduced in 1998 and 1999 being fully subscribed, a new bond was issued during the third quarter, more specifically on September 25, to absorb the existing demand by government to finances its fiscal programme. The new issue, for a limit of R200 million, bears interest of 6.75 per cent and is redeemable in two years.

With the introduction of this new bond and the existing 7.5 per cent, 3-year bond on sale since February this year, a significant growth was recorded in the value sold during the period under review. A total of R176 million worth of treasury bonds was sold, more than double the level in the previous quarter. Sale was most remarkable in respect of the new issue, which attained R81 million between the time of its introduction and the last working day of the month. The only other bond available until this quarter was fully subscribed in September, providing a need for the issue of the new bond. A total of R95 million of this particular bond was sold, which represented an increase of 66 per cent over the previous quarter.

Consequently, the stock of treasury bonds outstanding soared to an average of R1.2 billion, a rise of R75 million or 6.7 per cent over the previous quarter. Sale outweighed redemption by a significant R62 million or 55 per cent, thus resulting in the rise in the stock outstanding. Redemption amounted to R100 million in respect of the 6.75 per cent, 2-year bond issued in September 1998, and R14 million in respect of the 11.0 per cent, 3-year bond.

Table 13
Treasury Bonds; 1999-2000

	1999		2000			2000			
	Q3	**Q4**	**Q1**	**Q2**	**Q3**	**Jun.**	**Jul.**	**Aug.**	**Sep.**
	(R million)								
Amount sold	**266.9**	**0.0**	**147.4**	**57.3**	**175.9**	**41.3**	**12.6**	**22.2**	**22.6**
6.75%, 2yr*	250.0	0.0	0.0	0.0	0.0	-	-	-	-
6.75%, 2-yr***	-	-	-	-	80.7	0.0	0.0	0.0	80.7
7.5%, 3-yr**	-	-	147.4	57.3	95.2	22.6	47.9	14.8	32.5
8.0%, 5-yr	16.9	0.0	0.0	57.3	0.0	-	-	-	-
Stock outstanding[1]	**1271.0**	**1011.2**	**1035.0**	**1126.1**	**1201.2**	**1148.0**	**1195.2**	**1198.1**	**1210.2**
6.0%, 1-yr	390.5	50.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6.75%, 2-yr	200.0	200.0	200.0	200.0	166.7	200.0	200.0	200.0	100.0
6.75%, 2yr*	83.3	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0
6.75%, 2yr***	-	-	-	-	26.9	0.0	0.0	0.0	80.7
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	273.4	204.8	252.7	267.5	300.0
8.0%, 5-yr	44.4	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
11.0%, 3-yr	200.0	200.0	195.0	188.3	178.7	187.7	187.0	175.2	174.0
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	97.3	4.8	0.0	0.0	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.*
**** New issue introduced in September 2000.*

3.3 Government Stocks

With the demand for government paper being concentrated in the bills and bonds markets, there were no sales of government stocks during the third quarter. The increase in the average stock outstanding of R300,000 was caused by the effect of the sales in the previous quarter.

Table 14
Government Stocks; 1999-2000[1]

	1999		2000			2000			
	Q3	Q4	Q1	Q2	Q3	Jun.	Jul.	Aug.	Sep.
	(R million)								
Amount sold	**6.2**	**0.0**	**3.5**	**1.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
8.50%, 2005/07	0.0	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	1.0	0.0	0.0	0.0	0.0	0.0
Stock outstanding[2]	**92.1**	**96.2**	**97.7**	**100.4**	**100.7**	**100.7**	**100.7**	**100.7**	**100.7**
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	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	10.7	10.7	10.7	10.7	10.7

[1] *At cost value.*
uarterly data are averages of monthly data, compiled on an end-of-period basis.

4. Administrative Matters

Mr Norman Lucas, Director Banking and Currency Operations, attended the Operations Management course organised by the Information Technology Forum from August 14 to 18, 2000 in South Africa.

Mr Philip Moustache, Bank Supervision Officer attended the International conference of Banking Supervisors and seminar on Co-operation and Information Sharing- Principles and Practices. The conference was held in Switzerland from September 17 to 21, 2000.

Mr Francis Chang-Leng, General Manager and Mr Pierre Laporte, Director General Research and Statistics, attended the International Monetary Fund/World Bank Annual Meetings which was held in Czech Republic from September 26 to 28, 2000.

NEWS NOTES

Third Quarter, 2000

1. LOCAL

1. Politics and Diplomacy

1.1 New Ambassador of Portugal accredited

His Excellency Mr. José Manuel de Carvalho Lameiras of Portugal, who would be based in Nairobi, presented his credecency letters to the President of the Republic, Mr. F.A.René in July. He is the fourth ambassador to be accredited here since Seychelles and Portugal established diplomatic relations in 1976.

1.2 Newly accredited Egyptian Ambassador

A new Egyptian ambassador, His Excellency Dr. Refaat El-Ansary presented his credentials to the President Mr. France Albert Rene, in July. He vowed towards increased bilateral co-operation between Egypt and Seychelles.

1.3 Austrian outgoing ambassador

The outgoing Austrian ambassador who was based in Nairobi, H.E. Franz Hörlberger paid a farewell visit to the President and the Vice-President in August.

1.4 First Turkey ambassador

Turkey's first ambassador to the Seychelles, H.E. Osman Mengü Büyükdavras, who will be based in Nairobi, presented his credential to the President in August.

1.5 Seychelles/Saudi Arabia relations.

The Seychelles Ministry of Foreign Affairs announced at the end of September, 2000 that the Republic of Seychelles and the Kingdom of Saudi Arabia has established diplomatic relations. The signing of documents to that effect would further enhance the existing friendly relations.

1.6 Seychelles/Namibia diplomacy

The first Seychelles High Commission to the Republic of Namibia, Mr. Peter Sinon, presented his credential to the Namibian

President H.E. Dr Sam Nujoma in Namibia in September. Mr. Sinon is based in South Africa.

2. Government business

2.1 British Parliament Official visits

Six parliamentarian from the United Kingdom branch of Commonwealth Parliament Association (CPA) officially visited Seychelles in August. The visit formed part of an exchange program between the local CPA branch and that of the UK. The Seychelles National Assembly Secretariat organised meetings to visit with the Speaker of the Assembly, the Deputy Speaker, the Leader of Government Business and the Leader of the Opposition. While on visit, they also called on several government ministers, officials and various representatives of non-governmental organisations.

2.2 Seychelles at joint World Bank/IMF meeting

A vice-presidential delegation represented Seychelles at the joint World Bank and International Monetary Fund (IMF) annual meeting held in the Czech Republic in September. The meeting stresses on the need to address the growing inequalities between developing and developed countries, the growing awareness about poverty, equity and globalisation. The delegation also participated in the First Annual Small States Forum which discussed the work of the Joint Task Force on Small States.

2.3 Government and Private Sector consultation

Members of the Joint Economic Council (JEC) formed by the private sector met with government officials in September. It is expected that the private sector council would meet with the public one, in a forum in which a partnership can be formed whereby a platform for exchange of views and development of a productive environment can be established, all in the spirit of consultation and dialogue.

3. Foreign Assistance

3.1 WHO donation

The Ministry of Health has received supplies of drugs and medical equipment for its HIV/AIDS program from the World Health Organisation (WHO). The US$12,000 (R60,000) worth of supplies consist of various drugs, plastic mats, gloves, stethoscope, equipment to test blood pressure and carrier bags, all of which are items that can be given to patient for home based treatment.

4. Other Assistance

4.1 Local businesses demonstrate genuine partnership with government

Five local companies have contributed a total of R187, 000 which will be used to buy furniture and equipment for the North East Point Regional Home for the elderly currently under construction. The donations have been described as a commendable gesture reflecting the genuine partnership that should exist between the government and the economic community.

5. Economic Sectors

5.1 Tourism

5.1.1 Luxury resort to open on Anonyme

A high-class tourism establishment on Anonyme Island - Anonyme Resort - whose restaurant is already operational, is due to open in October. The six-star resort has three villas which house six suites designed for the "up market" clientele. According to the manager, the suites will attract a bed and breakfast charge of US$800 each. The facility has also a US$1500 per night presidential suite, a staff force of nine, who include Reunion-trained French Chef Hughes Rosset who has worked in Paris for seven years.

5.2 Education

5.2.1 University of Seychelles-American Institute of Medicine launched

President France Albert René officially launched the University of Seychelles - American Institute of Medicine (UOS - AIM) in July, which he described as an important initiative in efforts to position the islands as a centre for learning and training. The President said that the government had concluded discussions with a group of US medical professionals, allowing them the opportunity of setting up the institution in Seychelles. The American Institute of Medicine has a facility in Washington D.C, the UOS-AIM would be a separate and independent entity. It will be modelled on American medical schools, and is expected to uphold stringent examinations. The idea to establish a medical institution in Seychelles to train doctors came up a year ago, when a group of doctors realised that many students from all over the world were refused entry into the US and Caribbean medical institutions because of fierce competition and limited places. A website would be launched in August to publicise itself and invite applications from potential students from all over the world. It expects to start its course in January next year with locally available doctors as lecturers. The UOS-AIM would collaborate with the Seychelles Polytechnic at Anse Royale to establish a pre-medical facility, but the UOS-AIM is expected to establish its own infrastructure elsewhere. Once fully operational, the campus will accommodate up to 2,000 students. The initiative is to boost the economy through employment, provision of housing and supplies to the international students, raising the medical standards locally and savings for local students, as 3 Seychellois students will be granted free scholarships every year.

5.2.2 Manchester University/Polytechnic

A team from Manchester University, UK, visited Seychelles in August, to validate the Polytechnic's capabilities to conduct a twinning degree programme. The mission of the team was to look at the Polytechnic's staff qualifications, its library and information technology facilities and the quality management within the Polytechnic. The twinning programme, which would start in June 2001, depending on the findings of the visiting team, would involve local students taking their first year at the Polytechnic and the last two years at the Manchester University. The two Degrees being offered are BA (Bachelor of Arts) Degree in Economics and Social Sciences and BA in international Business, Finance and Economics.

6. Development and Infrastructure projects

6.1 Plan to make La Digue a centre for crafts

The La Digue Development Board and the Ministry of Industry and International Business (MIIB) are putting together a plan to make La Digue one of the centres of craft industry in Seychelles. One of the key projects discussed was one that falls within the scope of the Seychelles new millennium programme - a Creole house with adjoining craft workshops which will serve as sales outlets to visitors. Among the special areas which will receive special attention will be woodcraft, natural fibres, tincraft, pottery, glassworking as well as recycling projects and production of essential oils.

6.2 R17 m modern power supply project on schedule

A R17 million modern power supply project to improve and upgrade the power supply system at the Seychelles International Airport is under way and can even be completed before its October deadline. The project involves the improvement of the existing power supply system, including the setting up of two new HV distribution networks; improvement of the existing visual aid facilities, including the replacement of the power supply cables and rehabilitation of the existing lead in approach lights and the setting up of a new control and monitoring system devoted to the essential facilities and installations of the airport. The project is being financed partly by the Seychelles Government and the Arab Bank for development in Africa (BADEA).

7. Local Industry and Business

7.1 SODIPLAS factory leased to private company

The Ministries of Finance and Industries and International Business announced in July that a private company registered under the name BM Plastic has taken over SODIPLAS factory in the Providence industrial estate following the government's decision to lease out the parastatal's assets. BM plastic vowed that they would continue manufacturing plastic products.

7.2 Local Bank of Baroda deposits rise 29 per cent to R194 million

Total deposits at the local branch of Bank of Baroda rose by 29.3 per cent from R150 million in its financial year April 1999 - March 2000. The branch said in a statement that out of these deposits, the savings deposits grew from R13 million to R17 million representing a growth of 30.8 per cent. Net profit rose by 8.0 per cent from R2.5 million to R2.7 million, while investment rose by R61 million to R191 million at the close of the financial year. Non-performing assets stood at 0.39 per cent of total customers' assets. World-wide, the bank's net profit grew by 19.3 per cent and crossed the 5 billion Indian rupees (IR) mark to IR5, 027.7 million (about R653 million) which is a new record. Operating profit grew by 11.7 per cent to IR10.5 billion (about R1.4 billion), the highest recorded to date by the over 2,700 branch bank which exists in 15 countries including Asia, Middle East, Europe, Africa and South America.

7.3 Barclays Bank (Seychelles) Limited

In August, the Barclays Bank PLC and the Central Bank of Seychelles announced plans to incorporate Barclays existing branch business in Seychelles. Barclays Bank (Seychelles) Limited, effective as from October 1, 2000 will be a wholly owned subsidiary of Barclays Bank PLC, although shares in the corporation will subsequently be offered for sale to staff, Seychellois and external investors. In this new venture, Barclays Bank Seychelles Limited will assume all assets and liabilities of the current operation, ensuring continuity of service for customers and employment for staff.

7.4 Air Seychelles/Avis partnership

Air Seychelles, the local airline and international car rental company Avis have launched a joint initiative. The joint "Flydrive" programme, as it has been named would allow passengers travelling the local airline to benefit from cheaper rental rates with Avis.

7.5 Incentive for small business

A package of incentive for small business took effect on September 1, 2000. The incentives would come in the form of mechanism which would gear small businesses towards export-orientated activities. The Export Development and Promotion Facility would provide technical assistance whilst the Small Business Finance would provide funds at an interest rate of 6% per annum for rupees and relevant rates for US dollars and European currency.

8 Offshore

8.1 SIBA conference

In September, the Seychelles International Business Authority (SIBA), conducted Seychelles first ever offshore conference with the theme of "Future of Offshore Centres in the Cyber Age". The two-day conference which was attended by numerous professional world-wide, focussed on the growing influence of commerce on the International Financial Services Industry.

9 Other News

9.1 Health

9.1.1 Minister Dugasse attends International Aids 2000 conference in Durban

The Minister for health Mr. Jacquelin Dugasse headed a five-strong delegation to the International Aids 2000 Conference, which was held in Durban, South Africa, from July 9 to 14. This was the first time that the regular international Aids conference was held in Africa. The conference was a leading scientific meeting on HIV and AIDS where the latest discoveries and development in prevention, treatment and care were presented to the scientific community.

9.2 Workshop on intellectual properties

The African Regional Industrial Property Organisation (ARIPO) and the European Patent Office (EPO) jointly conducted a workshop on intellectual properties in Seychelles in August. The workshop had the aim of raising awareness for the protection of ideas and inventions. The workshop was attended by organisations dealing with patents, trademarks and copyrights.

2. FOREIGN

1. World Economic Conditions

1.1 Interest rates

In the third quarter, movements in interest rates of the major economies were partly dependent on the countries own economic situation and on developments in the world markets, particularly oil prices. Most of the changes in interest rates happened during the month of August.

In the **11-member euro zone**, the governing council of European Central Bank (ECB) raised its main refinancing rate by 0.25 percentage point on 31 August to 4.50 per cent after it had remained stable since June 8.

The underlying factor influencing the rate rise was that economic growth conditions and prospects in the euro area were very favourable. In order to maintain this environment, the council believed that price stability in the medium term was vital.

In **Australia**, the Board of the Reserve Bank decided to increase its cash rate by a further 25 basis points on August 2. The decision to keep interest rates on the rise was based on statistics on economic growth and inflation, which have tended to exceed the forecast level over the past twelve months. The broadest economywide measures of activity – GDP and employment – pointed to an economy that continues to perform strongly. Although growth in some areas of domestic demand was falling, the value of exports rose by 28 per cent during the past year. Moreover, the robust world economy should assist further growth. The value of imports has also increased strongly over the year by 21 per cent reflecting trend in demand.

Measures of underlying inflation showed that it was around 2.5 per cent. This is within the target band but the trend has been upwards for a year or so and the analysts expect some upward drift to occur. Producer price indexes suggest increased upstream inflationary pressure. Excluding the direct effects of oil prices, output prices of the manufacturing sector rose by over 4.5 per cent in the year to June 2000, the fastest rate of increase for about ten years. The rise in the Consumer Price Index of 3.2 per cent over the year to June quarter this year was affected primarily by higher international oil prices.

The second largest economy changed its interest rate for the first time since February 1999, when it adopted a zero interest rate policy to help the economy overcome the deflationary situation and prevent further deterioration in economic conditions. On August 11, the monetary policy committee of the **Bank of Japan** decided by majority vote to increase the key interest rate – the uncollaterised overnight call rate – by 25 basis points to 0.25 per cent.

According to the Bank, over the past one-year and a half, Japan's economy has substantially improved, due to such factors as support from macroeconomic policy, recovery of the world economy, diminishing concerns over the financial system, and technological innovation in the broad information and communications area. At present the economy is showing signs of recovery and this gradual upturn, led mainly by business fixed investment, was likely to continue. Under such circumstances, the downward pressure on price stemming from weak demand has markedly receded. Considering these developments, the Bank of Japan felt confident that the economy had reached the stage where deflationary concern had been dispelled, which it believes provided the right condition for lifting the zero interest rate policy.

In the other major economies notably in the **United States** and the **United Kingdom**, interest rates remained stable. In the US, the Federal Open Market Committee – the monetary policy body – kept its key interest rate, the federal funds rate at 6.5 per cent. The decision to keep rates unchanged during the quarter was based on the information provided by the main economic indicators. These showed that the expansion of aggregate demand was moderating towards a pace closer to rate of growth of the economy's potential to produce. The data also have indicated that more rapid advances in productivity have been containing costs and holding down underlying price pressures. Nevertheless, the Committee remained concerned about the risk posed by the continuing gap between the growth of demand and potential supply at a time when the utilisation of the pool of available workers remained at a high level.

In the UK, the Bank of England Monetary Policy Committee voted in all three months to keep the repo rate at 6.0 per cent. Various arguments were put forward to leave the interest rate regime unchanged. One argument was that there were signs that domestic demand growth in general, and consumption growth in particular were moderating. Commensurate to that, housing wealth and nominal earnings were both slowing faster than expectations.

1.2 Growth

1.2.1 The IMF and OECD outlook for the world economy

The outlook for the global economy looks very good. In its *World Economic Outlook*, published in September, the IMF forecasts that the world economy will grow by 4.7 per cent this year and 4.2 per cent in 2001 – the fastest two consecutive years of growth since the mid-1980s. The IMF expects growth in the rich industrial countries to slow from 3.9 per cent to a still robust 3.0 per cent, as America experiences a soft landing.

On the other hand, the Organisation for Economic Co-operation and Development (OECD) in its twice-yearly review noted that the US may be forced to raise interest rates next year to cool off the US economy even though inflation already appears to be in check. It said that the US economy should slow to 3.5 per cent next year and 3.3 per cent after hitting 5.2 per cent this year. This assertion is based on assumption that there would be a hike of 50 basis points to 7.0 per cent sometime during the first six months of the year. The OECD forecasts the hike in US rates even though US equity prices have fallen and a 60 per cent rise in oil prices has cut into US household incomes and spending. However, US rates may start falling in 2002 once there is proof the economy has slowed enough and there are still no hints of inflation.

Overall, the OECD expects the global economy to expand at 4.75 per cent next year even with the slowing US growth. That is because it expects the European Union to see more stable times and Japan to finally move out of its recessionary state. It noted that global economic growth appears to have peaked during the first half of 2000, and world economic prospects remain relatively bright, adding that growth among its 29 members should average about 4.3 per cent, down one percentage point from this year.

And even the huge leap in oil prices has had far less impact than the OPEC oil crises of the 1970s, although that may yet change if there is an unusually cold winter. The OECD's predictions were based on the assumption of a world oil price of US$30 a barrel until the middle of 2001 and a dip to US$27 a barrel in the second half of 2002.

Furthermore, according to the OECD, the bright light on the horizon is Japan, which has been struggling to get out of a major economic dip for the past several years. Growth this year is a stronger-than-expected 1.9 per cent, something that is seen to increase to 2.3 per cent next year before easing back to 2.0 per cent in 2002.

1.2.2 United States

According to the economic data released in November by the US Department of Commerce, the economy's GDP grew at an auualised rate of only 2.4 per cent in the third quarter, having increased by 5.6 per cent in the previous three months. The Federal Reserve has been seeking to take the edge of the growth in GDP for some months, increasing interest rates six times in the last 18 months. Despite the determination of the Fed to provide soft landing to the unprecedented economic boom of the last two years, some observers now fear that the central bank may have gone too far, and that there are calls for interest rates to be cut back.

1.2.3 United Kingdom

In the UK, growth in GDP in real terms was up 0.7 per cent in the third quarter, according to data released by National Statistics (NS) in November. NS said that the growth during the quarter was driven by increases in distribution, hotels and restaurants sector, with retail sales up 1.3 per cent. Overall, the services sector saw a decline in growth. The reduced activity in that sector was due to a slowdown in growth of business services, in particular in relation to housing and real estate, computer services, architects and advertising.

1.2.4 Germany

According to the finance ministry's monthly report, Germany's gross domestic product growth was seen slowing down in the third quarter from the second quarter. However, full year GDP should post a real growth of 3.0 per cent. The report said that the second quarter had an unusually strong growth of 1.1 per cent adjusted for price and seasonal effects. It added that up until now, the economy was able to cope well with the oil price increases, so much that the continuing economic growth has not been jeopardised at all. But is said that the dynamism in domestic growth has slowed down based on the preliminary second half results.

The second half data showed that indicators, such as business climate and the new orders in manufacturing sector, pointed to early signs of negative effects stemming from oil price increases. The data also showed that the increasing crude oil prices triggered a decline in the domestic purchasing power and subsequently curbed consumer spending. On the other hand, German exports continued to increase, industrial production in the third quarter hardly lost its upswing and the labour market showed improvements.

1.2.5 China

China's gross domestic product increased by 8.2 per cent year-on-year in the first three quarters of the year. The growth rate was 0.8 percentage points higher than the same period of last year. The individual rates of growth for the three quarters stood at 8.1 per cent, 8.3 per cent and 8.2 per cent respectively. Both imports and exports recorded growth rates of over 30 per cent growth rate for the first half of the year, while the fall in the consumer price index slowed. The country's full-year GDP is forecast to grow by about 8.0 per cent this year and 8.1 per cent next year.

1.2.6 Malaysia

According to data released in November by Malaysia's Central Bank, Bank Negara, the economy grew by 7.7 per cent in the third quarter, slower than the first six months of the year. Despite this outcome, analysts believe that GDP growth for the whole year will exceed the official estimate of 7.5 per cent. The governor of Bank Negara, Dr Aziz, noted that for the first three quarters, GDP growth has average 9.3 per cent, which brings the official forecasts well within reach. The third quarter was the fifth consecutive quarter of growth exceeding 7.0 per cent, which also saw a new record of quarterly GDP of RM53.3 billion being achieved. Strong external and domestic demand coupled with healthy external reserves and low inflation, which have been the underlying factors underpinning growth so far, are expected to maintain the momentum for growth in the fourth quarter.

The July-September performance was supported by further expansion in the manufacturing and services sector, with activities in both the export and domestic-oriented industries well sustained. The electronics sector expanded by 46.3 per cent and real aggregate demand by 12.2 per cent. During the period under review, exports rose 21.5 per cent and that of manufactured goods 23.9 per cent. This was due to both higher export volume and prices of 20.4 per cent and 2.1 per cent, respectively. Private consumption growth meanwhile slowed to 12.1 per cent from 13.7 per cent in the previous quarter. Similarly, the services sector grew by 4.1 per cent from 5.2 per cent in the previous three months. Services, which account for about half of the GDP, were affected by a weak stock market.

2. International Economic Survey

2.1 Employment

2.1.1 France

Job creation in France registered a year-on-year 3.5 per cent growth in the third quarter, the highest level for thirty years. 491,800 jobs have been created in a year. Employee purchasing power, however, is falling. According to employment ministry figures, the rise of the average salary in the third quarter was 1.9 per cent over a year, whilst the retail price index excluding tobacco rose 2.1 per cent. Such a fall in purchasing power has not been seen since 1995, when there was a sudden brake on economic growth.

3. Currency Market Developments

3.1 Major economies come to the rescue of the Euro

The third quarter was rather a difficult time for the European single currency. Since its launch in January 1999, the currency has lost about 25 per cent of its value. In a concerted effort, the European Central Bank (ECB), the Federal Reserve and the Bank of Japan intervened on the foreign exchange market on September 22 to help the euro to new highs. The unexpected intervention initially boosted the euro by 5.0 per cent to US$0.90 cents. The last time the world's three biggest economies stepped into foreign exchanges together was in 1995.

At the initiative of the ECB, the monetary authorities of the US and Japan joined with the ECB because of their shared concern about the potential implications of the recent movements in the euro for the world economy. The news stunned traders, because such an action by the Federal Reserve to weaken the dollar was seen as highly unlikely, as the US Treasury secretary had mentioned during that week that Washington was leaving its strong-dollar policy unchanged. However, traders suggested the Fed must have mean business since it was dipping into its own reserves to buy euros, rather than acting on behalf of the ECB.

4. Other Economic Developments

4.1 G8 Summit

On July 23, the leaders from the Group of Eight (G8) nations (United States, Japan, Italy, France, Britain, Canada, Germany and Russia) concluded their three-day summit in Okinawa, Japan. Over the three days, the G8 leaders discussed issues like diseases such as Aids, the threat of terrorism and environmental degradation, regional conflicts and poverty reduction and, the challenge of digital divide widened with the development of information technology (IT).

During the summit, the leaders adopted a charter for information technology, which was one of the hottest topics on the agenda. The charter defines IT's purpose as being to support sustained economic growth, and having the potential to foster international peace and stability.