Central Bank of Seychelles

Annual Report 2020

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Letter of Transmittal

Central Bank of Seychelles
P.O. Box 701
Victoria

March 29, 2021

President Wavel Ramkalawan
State House
Victoria

Dear Mr President,

In accordance with Section 47(4) of the Central Bank of Seychelles Act 2004, as amended, I have the honour to submit the Seventeenth Annual Report of the Central Bank together with a copy of the Financial Statements for the year ended December 31, 2020. The Financial Statements have been certified and signed by the Auditor General, following the audit review on behalf of the Auditor General by Deloitte Touche (South Africa) appointed under Section 19 of the Auditor General Act 2010, read with Section 47(3) of the Central Bank of Seychelles Act.

Yours sincerely,

DocuSign

C. Abel (Ms)
Governor

Our Core Values

Integrity	We value responsible behaviours
Innovation and Result-Oriented	We strive to redefine the standards of excellence
Accountability and Transparency	We value personal ownership and accountability
Humility	We believe in listening to one another and value continuous learning
Professionalism and Team Spirit	We take pride in producing quality work and encourage collaborations
Inclusivity	We value the diversity in one another and believe in inclusive participation by all
Mutual Respect and Trust	We uphold confidentiality and our actions are consistent with our commitment

Two CBS Core Values were chosen for 2020; (i) **Innovation and Result-Oriented**, and (ii) **Humility**. These values reflect the emphasis that the Bank placed on the focus area for the year – to strengthen the domestic economic and financial landscape.

Whilst the themes were set before the onset of the pandemic, they were indeed very fitting, as everyone had to find innovative ways to operate bearing in mind the health requirements. 2020 was a humbling year, as we inevitably had to reconsider our priorities. The staff were reminded that everyone can make a positive impact if we listen and support each other, as a team, and that in so doing we will be able to achieve what is expected of the institution.

CENTRAL BANK OF SEYCHELLES

Board of Directors

(as at December 31, 2020)

Caroline Abel	-	Governor and Chairperson
Christophe Edmond	-	First Deputy Governor - Member
Jenifer Sullivan	-	Second Deputy Governor - Member
Errol Dias	-	Director
Bertrand Rassool	-	Director
William Otiende Ogara	-	Director
Frank Ally	-	Director
Sherley Marie	-	Director

Secretary to the Board

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Acronyms

AD	Administration Division
AEO	Authorised Economic Operator
AfDB	African Development Bank
AFI	Alliance for Financial Inclusion
AfPI	African Financial Inclusion Policy Initiative
AML	Anti Money Laundering
AMLCFTCPF	Anti-Money Laundering, Counter Financing of Terrorism and Countering Proliferation Financing Policy
ARC	Audit and Risk Committee
ASP	Agency for Social Protection
ATI	African Training Institute
BC	Business Continuity
BCM	Business Continuity Management
BCMS	Business Continuity Management System
BCP	Business Continuity Plan
BDCs	Bureaux de Change
BIA	Business Impact Analysis
BMS	Building Management Software
BO	Beneficial Ownership
BOP	Balance of Payments
BSD	Banking Services Division
CAA	Credit Auction Arrangement
CAB	Crown Agents Bank
CBS	Central Bank of Seychelles
CBSITS	CBS Immediate Transfer System
CCBG	Committee of Central Bank Governors
CEMCWG	Consumer Empowerment and Market Conduct Working Group
CEPS	Citizens Engagement Platform Seychelles
CFT	Counter Financing of Terrorism
CIF	Cost, Insurance, Freight
CIS	Credit Information System
CISO	Chief Information Security Officer
COMESA	Common Market for Eastern and Southern Africa
CSLs	Companies' Special Licences
CU	Compliance Unit
DAA	Deposit Auction Arrangement
DAP	Digital Archiving Project
DBO	Domestic Banking Operations
DBS	Development Bank of Seychelles
DFSWG	Digital Financial Services Working Group
DICT	Department of Information Communications Technology
DR	Disaster Recovery
DRDM	Department of Risk and Disaster Management
D-SIB	Domestic Systemically Important Banks
ECC	Electronic Cheque Clearing

ECL	Expected Credit Loss
e-CoO	Electronic Certificate of Origin
EOIR	Exchange of Information on Request
ERH	Emergency Response Handbook
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
EU	European Union
EU CoCG	European Union Code of Conduct Group
EUR	Euro
FA4JR	Financial Assistance for Job Retention
FAPA	Fund for African Private Sector Assistance
FATF	Financial Action Task Force
FBO	Foreign Banking Operations
FCA	Financial Conduct Authority
FDG	First Deputy Governor
FDI	Foreign Direct Investment
FEA	Foreign Exchange Auction
FEA	Foreign Exchange Act
FIA	Financial Institutions Act
FIMCD	Financial Inclusion and Market Conduct Division
FIP	Finance and Investment Protocol
FIs	Financial Institutions
FIU	Financial Intelligence Unit
FMD	Financial Markets Division
FMIs	Financial Market Infrastructures
FOB	Free on Board
FR	Financial Reporting
FSA	Financial Services Authority
FSC	Financial Stability Committee
FSD	Financial Surveillance Division
FSS	Financial Stability Section
FTA	Free Trade Area
GBP	Great British Pound
GDP	Gross Domestic Product
GFIN	Global Financial Innovation Network
GIFCS	Group of International Finance Centre Supervisors
GLI	Gaming Laboratories International
GOP	Gainful Occupation Permit
GUI	Graphical User Interface
HFC	Housing Finance Company
HR	Human Resources
HRC	Human Resources Committee
HS	Harmonised System
IAD	Internal Audit Division
IAIS	International Association of Insurance Supervisors
IBCs	International Business Companies
IBRD	International Bank for Reconstruction and Development

IC	Investment Committee
ICT	Information and Communication Technologies
IDR	Issuer Default Rating
iEPA	Interim Economic Partnership Agreement
IFRS 9	International Financial Reporting Standard 9
IIA	Institute of Internal Auditor
IMF	International Monetary Fund
IORWG	International Operational Risk Working Group
IOSCO	International Organisation of Securities Commissions
IOT	Indian Ocean Tuna
ISIC	International Standard Industrial Classification
IT	Information Technology
ITZ	International Trade Zone
LU	Legal Unit
MEC	Macroeconomic Convergence
MER	Mutual Evaluation Report
MFSMCG	Monetary and Financial Statistics Manual and Compilation Guide
MoU	Memorandum of Understanding
MPCC	Monetary Policy Consultation Clause
MPF	Monetary Policy Framework
MPR	Monetary Policy Rate
MPSS	Micro Prudential Surveillance Section
MPTC	Monetary Policy Technical Committee
MRR	Minimum Reserve Requirement
MSMEs	Micro, Small and Medium Enterprises
NAC	National AML/CFT Committee
NBS	National Bureau of Statistics
NFA	Net Foreign Assets
NFES	National Financial Education Strategy
NGFS	Network for the Greening of the Financial System
NIR	Net International Reserves
NRA	National Risk Assessment
ODC	Other Depository Corporation
OECD	Organisation for Economic Co-operation and Development
OMO	Open Market Operation
PCI	Policy Coordination Instrument
PCR	Polymerase Chain Reaction
PFMI	Principles for Financial Market Infrastructures
PHA	Public Health Authority
PIRI	Pacific Islands Regional Initiatives
PRS	Policy and Research Section
PSP	Payment System Provider
PUC	Public Utilities Corporation
PwC	PricewaterhouseCoopers
RBS	Risk-based Supervision
RFI	Rapid Financing Instrument

RMC	Risk Management Committee
RMF	Risk Management Framework
RMU	Risk Management Unit
RSD	Research and Statistics Division
RTGS	Real Time Gross Settlement
SAA	Strategic Asset Allocation
SADC	Southern African Development Community
SADC SPSF	Southern African Development Community Private Sector Forum
SADCC	Southern African Development Coordination Conference
SAGAR	Security and Growth for All in the Region
SBA	Seychelles Bankers Association
SCCI	Seychelles Chamber of Commerce and Industry
SCF	Standing Credit Facility
SCU	Seychelles Credit Union
SDDS	Special Data Dissemination Standards
SDF	Standing Deposit Facility
SDG	Second Deputy Governor
SDR	Special Drawing Rights
SEFT	Seychelles Electronic Funds Transfer
SETS	Seychelles Employee Transition Scheme
SEYPEC	Seychelles Petroleum Company
SFA	Seychelles Fishing Authority
SFA	Strategic Focus Areas
SHTA	Seychelles Hospitality and Tourism Association
SIB	Seychelles Investment Board
SLA	Seychelles Licensing Authority
SMEFWG	SME Finance Working Group
SOP	Standard Operating Procedures
SPA	Seychelles Ports Authority
SPTC	Seychelles Public Transport Corporation
SRC	Seychelles Revenue Commission
STB	Seychelles Tourism Board
STC	Seychelles Trading Company
STP	Straight-Through Processing
SWIFT	Society for Worldwide Interbank Financial Telecommunication
T-bills	Treasury bills
T-bonds	Treasury bonds
TOR	Terms of Reference
UAE	United Arab Emirates
UN	United Nations
URS	Unemployment Relief Scheme
USD	United States Dollar
VASP	Virtual Assets Service Provider
VAT	Value Added Tax
WEO	World Economic Outlook
WTO	World Trade Organisation

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 Report are:

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

SECTION ONE

Overview

1.0 External Developments

The main international developments of 2020 were directly or indirectly related to the outbreak of a coronavirus disease – later named COVID-19 – which first appeared in Wuhan, China, at the beginning of December 2019 and which was subsequently declared as a pandemic by the World Health Organisation on March 11. To contain the spread of the virus and given its associated stress on health resources, many countries imposed restrictions on the movement of people or lockdown measures. Such restrictions – the extent of which varied across the globe – though aimed at saving lives were arguably counterintuitive to globalisation given the latter's proven benefits and were therefore detrimental to economic activity. Expectedly, the tourism and travel trade were amongst the first to be adversely impacted, while there have also been reports of disruptions in production and distribution chains in some markets. According to the World Economic Outlook (WEO) published by the International Monetary Fund (IMF), there was a "severe collapse" in growth in 2020. Global output is estimated to have contracted by 3.5 per cent in 2020 following positive growth of 2.8 per cent achieved in 2019. The IMF added that 2020 "has had acute adverse impacts on women, youth, the poor, the informally employed, and those who work in contact-intensive sectors". According to WEO, the COVID-19 pandemic had adversely impacted on medium-term growth prospects and consequently caused "a severe setback to the projected improvement in average living standards across all country groups." The IMF has also cautioned that "the pandemic will reverse the progress made since the 1990s in reducing global poverty and will increase inequality."

1.1 Domestic Economic Developments

As a small, open island developing state with limited scope for diversification, Seychelles continued to rely heavily on the rest of the world. Services is the country's main economic sector within which the tourism segment is critical given its contribution in terms of foreign exchange, employment generation, real GDP, as well as tax revenue.

2020 started on a positive note for the Seychelles economy. Notwithstanding the fact that the 2019 performance was upbeat on many fronts, the early expectation was that the economy would grow in line with its long-term trend. Such expectations primarily emanated from the tourism industry which was expected to outperform its previous year's record achievement in terms of visitor arrivals and earnings. Critical for the economy was that foreign exchange inflows were strong, on the back of a peak level achieved in 2019 when a positive net inflow was recorded for the first time in ten years. Moreover, based on the level of official reserves that was at a new high, Seychelles' external position had strengthened to become more resilient against exogenous shocks. The early forecast was that economic growth would be at around 3.5 per cent in real terms.

However, signs that the domestic economy would not perform as initially projected became apparent as early as in the first quarter following a significant downward revision in the outlook for the tourism industry. This followed evidence of rapid spread of COVID-19 across the globe including in Seychelles' key tourism markets where the reaction by the authorities was to impose restrictions on movement of people, as well as the closure of international borders. Such measures were at the detriment of economic activity and given their nature, expectedly, the tourism and travel trade were amongst the first casualties. In addition, there were supply-side constraints due to the challenges faced in maintaining production and trade activity in major markets.

Seychelles officially reported its first positive cases of the virus in March. Consistent with developments in many countries, the immediate reaction was to introduce measures to stop the spread of the virus. In order to prevent community transmission, a partial lockdown was imposed from April 09. The advice from the Public Health Authority (PHA) was that during this period, only essential services would be allowed to operate. Given that the International Airport was closed for scheduled flights this implied a complete shutdown of the tourism industry with devastating consequences on economic activity in view of the sector's importance. During the restriction period, many businesses had to temporarily cease their operations or find new innovative ways to continue their business but in conformity with health requirements put in place by PHA. The restrictions were removed on May 04, when most businesses were able to re-open their doors to the public but under new guidelines imposed by PHA.

Nonetheless, economic activity remained significantly weak. One of the reasons was that the International Airport was still closed and therefore activity in the tourism industry – the main pillar of the Seychelles economy – remained at a standstill. In the first quarter of 2020, the number of visitors who disembarked in Seychelles was 12 per cent lower than in the corresponding period in 2019. As for the second quarter, the figure was close to zero.

Such development impacted the foreign exchange market given that in 2019, tourism directly contributed an estimated 76 per cent of total foreign exchange inflows into the economy. Following the supply-side shock, in early April, foreign exchange inflows converted into rupees, fell from a normal daily average of US$3.0 million to around US$1.0 million before stabilising at a new average of around half of its pre-pandemic level. Consequently, the contribution of other export-oriented sectors such as fisheries and manufacturing gained prominence although foreign exchange earnings from these activities were unable to fully compensate for the loss in revenue from tourism. Therefore, given the importance of imports in the economy, such shock to foreign exchange supply called for appropriate policy actions to ensure orderly functioning of the market.

The natural adjustment in the external value of the domestic currency was observed in April, immediately following the supply shock. Against the US dollar, the rupee which traded at an average of R14.06 in the first quarter of 2020 weakened to R16.73 before temporarily stabilising just above R18.00 in the few months that followed. To ensure that the country's payments were guaranteed, the

Board of the Central Bank approved to support the market in the form of direct sales to the Seychelles Petroleum Company (SEYPEC) and Seychelles Trading Company (STC), as well as to commercial banks through auctions. Nevertheless, taking note of the uncertain environment, the Central Bank's assistance was strategised to ensure that international reserves remained available over the longest possible timeframe. Notwithstanding the drawing down of foreign exchange savings of the private sector which stood at US$565 million end-2019, the Central Bank concluded that there was a need for a downward adjustment in aggregate expenditure at a private as well as government level for the sustainability of international reserves to be achieved. Containing the demand for foreign exchange was deemed critical in the context of reducing inflationary threats and preserving macroeconomic stability. Such messages were conveyed through regular live press conferences delivered by the Governor, as the institution found it necessary to increase its communication to the general public. To note, as a means to help reduce demand for foreign exchange, government imposed a temporary restriction on the importation of vehicles. This measure, which took effect in April, applied for all new permit applications with the exception of specialised vehicles.

From an average of R14.03 against the US dollar in 2019, the rupee depreciated by R3.59 (26 per cent) to R17.62 in 2020, its weakest level on record. The domestic currency also depreciated by R4.51 (29 per cent) relative to the euro (EUR) and by R4.71 (26 per cent) vis-à-vis the British pound (GBP) primarily due to the aforementioned domestic factors.

A number of fiscal policy actions were introduced to support the economy, ensure food security and mitigate the financial impact of the pandemic on private businesses and individuals. Prior to their introduction, the previously approved 2020 budget had to be reviewed, an exercise that was done in the first quarter to reallocate resources to critical areas. There was the need to revisit the already approved expenditure plan, partly given the change in priority due to the pandemic, and because expectations in terms of revenue collection would not materialise. The budget allocated to most ministries, departments and agencies was therefore reduced although these revisions did not apply to specific bodies such as the Ministry of Health, the Health Care Agency, the Public Health Commission and other agencies that provide essential services. An amended budget with a total appropriation bill of just above R10 billion, at 12 per cent higher than the previously approved bill, was presented and endorsed by the National Assembly in April.

The main support to the private sector primarily aimed at avoiding redundancies, was the Financial Assistance for Job Retention (FA4JR) through which the salaries of employees, as well as self-employed individuals impacted by the pandemic, were guaranteed up to a maximum of R30,000 per month. When introduced in April, it was announced that the assistance would cover the monthly basic salaries and fixed allowances of both Seychellois and foreign workers[1] for three months. However, given the prolonged effects of the pandemic and no recovery in economic activity, the scheme was

[1] Those who were in the country

extended until the end of the year. However, as of July, only the salaries of Seychellois workers were guaranteed.

Another support to the private sector was that tax payments due by March were postponed to September. Moreover, the deadline for payment of 'corporate social responsibility tax', 'tourism marketing tax', 'business tax' and taxes on 'non-monetary benefits' were delayed until September.

To support investment in the agriculture and fisheries sectors so as to improve their contribution to food security, the interest on loans disbursed via the Fisheries Development Fund was lowered from 3.0% to 1.0% for the duration of the pandemic. In addition, as of May, the levy on imports of poultry and pork was increased. The associated revenue that was raised was added to the Livestock Trust Fund to help farmers cope with the higher cost of production.

Measures were also introduced to assist citizens in the low income bracket. A monthly allowance of R750 was offered as subsidies to cover the cost of child minding, day care services or nursery school as of April. In addition, an increase to a minimum of R3,000 was announced in the pension benefits from the 'Colonial Pension' as well as under the Public Special Pension Act of 2005 effective September. A 25 per cent reduction in the monthly payment of housing loans from September to December 2021 was also offered to clients of the Housing Finance Company (HFC).

On the part of the Central Bank, its Board approved two credit line facilities under a private sector relief scheme to support critical operating expenditures of impacted businesses. The first amounted to R500 million and was made available to Micro, Small and Medium Enterprises (MSMEs) with annual turnover not exceeding R25 million. The facility was administered by the commercial banks and Development Bank of Seychelles (DBS) and provided financial assistance at an interest rate of 1.5% with a 70 per cent government guarantee. The second facility was for a total sum of R750 million, to provide support to larger businesses. Financial assistance was provided by the commercial banks at an interest rate of 4.5% with a 50 per cent government guarantee. Financing provided under both credit line facilities were payable over three years[2]. Moreover, most loan-granting financial institutions were offering moratorium on loan repayments for both capital and interest, as well as access to relevant debt restructuring measures.

Prior to putting such measures in place, the Central Bank of Seychelles (CBS) Act, 2004, had to be amended. In addition to the amendment to allow lending to financial institutions for periods not exceeding 3 years, another revision was for the Central Bank to purchase government securities without the limitations that would normally apply. The force majeure definition was also expanded to include a health pandemic. Revision was also made to the Financial Institutions Act (FIA) to permit the suspension of certain prudential requirements during force majeure events.

[2] By the end of 2020, the necessary amendments to the existing legislation had been drafted to extend the tenure to five years and therefore offer longer repayment periods to impacted businesses.

With regards to monetary policy action, the Central Bank lowered its policy rate by 100 basis points for the second quarter and by a further 100 basis points for the third quarter, to support domestic economic activity and reduce financial stability risks. To ensure that financial stability is maintained, the Central Bank also amended the procedures that govern access to the emergency lending facility that financial institutions can call on should the need arise. The Monetary Policy Rate (MPR) was maintained at 3.0% for the remainder of the year.

Seychelles re-opened its international borders for private jets, chartered flights and yachts as of June 01 and for commercial flights in August. However, given new outbreaks of the virus in key tourism markets which implied that their citizens were under lockdown measures, tourism activity failed to pick up noticeably. As such, the tourism industry, whose performance supports activity in the services sector and therefore the economy as a whole, was at an unprecedented low level. For the year as a whole, the total number of visitors who disembarked in Seychelles amounted to 114,858, which was 70 per cent lower than the previous year. Due to the COVID-19 pandemic and therefore a fall in demand, a number of airlines servicing the Seychelles route was forced to reduce, suspend or cancel their flights for commercial reasons. Consistent with the dip in visitor arrivals, the direct income from tourism is estimated to have contracted by 62 per cent in 2020 to stand at US$221 million. Such movement in these two key indicators therefore imply an increase in average expenditure per visitor in 2020 compared to the previous year. This is explained by high net-worth individuals who were on holiday in the country and to a lesser extent, the number of visitors who were in the country for relatively longer periods pending the availability of outbound flights, or by choice in view of strict lockdown measures imposed in their home country. The total annual direct value-added contribution of tourism to the Seychelles economy, more specifically the category 'accommodation & food service activities' contracted by 67 per cent in 2020.

As the tourism industry failed to recover, the country's foreign exchange savings at both the official and private levels were stressed. On a gross basis, official reserves which was US$580 million at the end of 2019 fell to US$559 million end-December 2020. As for net international reserves (NIR), it stood at US$400 million which was lower than the US$405 million recorded in 2019, although it exceeded its period's target of US$394 million. The lower reserves level followed the provision of foreign exchange assistances to commercial banks as well as direct sales to SEYPEC and STC. This was in addition to honouring the country's official external obligations which included payment of public debt to overseas creditors as well as goods and services procured by the government. During the year, the main sources of inflows into international reserves were budget support loans and grants from international partners, primarily from the IMF, World Bank and African Development Bank (AfDB). As for the stock of residents' foreign currency deposits in domestic banks, this fell from US$565 million end-2019 to US$546 million end-2020.

Against the above backdrop, preliminary balance of payments (BOP) estimates[3] show a worsened current account deficit from 17 per cent of GDP in 2019 to 27 per cent of GDP in 2020. Such outcome was attributed to a notable reduction in earnings from exports of services although due to lower imports, there was an improvement in the shortfall under the goods account.

In terms of price development, according to official figures published by the National Bureau of Statistics (NBS), in December, prices of goods and services were on average 3.8 per cent higher than in December 2019 whilst the 12-month inflation rate was 1.2 per cent. Such inflationary impulses were lower than expected in consideration of the price structure in the economy characterised by a strong and direct correlation with exchange rate movements, particularly that of the domestic currency against the US dollar. One plausible explanation relates to the significance of administered prices in view that these were not adjusted during the year.

Given the weakened economic environment and high level of uncertainty, there was limited appetite by financial institutions to extend credit and as a result, at the end of 2020, the growth in the aggregate stock of outstanding loans disbursed to the private sector had fallen significantly. The rate of increase in local currency loans fell from 17 per cent in 2019 to only 5.1 per cent in 2020. To note, credit disbursed under the two Private Sector Credit Relief Schemes which stood at R129 million end-2020 contributed to the overall increase in outstanding loans. The majority of credit to the private sector was disbursed under the categories 'tourism facilities' (21 per cent), 'private households & non-profit institutions' (15 per cent) and 'mortgages' (14 per cent).

As regards the performance of the fiscal account for the financial year 2020, for the first time since 2008, a primary surplus was not achieved. The actual outcome was a deficit of 16 per cent of GDP which followed an underperformance on the revenue side whilst expenditure exceeded the planned amount. The deficit was financed from both domestic as well as foreign borrowings. From the domestic side, in addition to Treasury bills, this included issuance of three Treasury bonds in June with tenure of 3, 5 and 7 years. The Board of the Central Bank also approved a limit of R500 million as short-term advances to the government. Although this facility was accessed in December, the balance was cleared by the end of the year. At the end of 2020, the total stock of public debt inclusive of government guarantees, stood at 94 per cent of GDP compared to 57 per cent of GDP in 2019 following an increase in the level of both domestic and external debts.

In the labour market, the main development during 2020 related to the expected adjustment that was required following the sharp decline in economic activity due to the COVID-19 pandemic, and hence a pick-up in unemployment. However, as highlighted earlier, for the period April to June, through FA4JR, the salaries – capped at R30,000 – of both the local and foreign employees of impacted businesses were guaranteed by the government although as from July onwards, such financial assistance only

[3] A measure of the country's transactions with the rest of the world

covered the salary of the locals. In addition, emphasis was placed on, where possible, for employers to fill their vacancies from local sources. In July, a scheme – Seychelles Employee Transition Scheme (SETS) – was set up to take up the responsibility of retraining and upskilling of Seychellois workers made redundant, as well as to assist them with re-entering the labour market when job openings became available. The operation of the scheme, which was initially expected to cease by the end of 2020, was in December extended up to the end of February 2021.

In the third quarter of 2020, an average of 51,812 persons were formally employed, 65 per cent of which were in the private sector. In contrast, the government and parastatals accounted for 21 per cent and 15 per cent of total formal employment, respectively. The national unemployment rate stood at 4.0 per cent or 1.6 percentage points above the corresponding figure for 2019. To cater for the economic realities of 2020, new information was collected to better capture the impact of COVID-19 on the labour market. Hence, a special group called 'not employed' was added to the labour force categories, to classify those whose work had stopped as a result of the COVID-19 pandemic. In consideration of this category, the derived unemployment rate stood at 6.5 per cent or 2.5 percentage points above the official rate.

Based on preliminary estimates, there was an overall decline in economic activity in 2020 which to a large extent was attributed to the direct and indirect effects of the COVID-19 pandemic. Hence, from a growth of 1.9 per cent in 2019, the economy is estimated to have contracted by 13 per cent, with activity not expected to recover in the short-term. The worsened economic condition was reflected in two sovereign rating exercises undertaken by Fitch Ratings. In May, the agency downgraded the country's Long-Term Foreign-Currency Issuer Default Rating (IDR) by two notches from 'BB' to 'B+', with a Stable Outlook. Whilst the outlook remained stable, in December, Seychelles' rating for Long-Term Foreign-Currency IDR was downgraded further from 'B+' to 'B'. The underlying factor for both of these revisions was mainly related to the sustainability of public debt, coupled with concerns on the economy due to the pandemic.

In October, for the first time in the history of Seychelles, a candidate from the opposition won the presidential election; with 55 per cent of valid casted vote, Mr Wavel Ramkalawan became the fifth President of the Republic. Mr Ramkalawan's party – *Linyon Demokratik Seselwa* (Seychelles Democratic Alliance) – also won an absolute majority in the legislative election that took place simultaneously.

In the year under review, Seychelles continued its engagement with the IMF through the three-year Policy Coordination Instrument (PCI)[4] approved by the Executive Board of the Fund in December 2017.

[4] The PCI is an instrument designed to assist countries "formulate and implement a macroeconomic policy package with close monitoring of progress". The arrangement which is without financial support is expected to benefit Seychelles in the form of oversight, discipline and advice of the IMF, in consideration that the country remains inherently vulnerable to external shocks and a number of structural reforms remain outstanding.

The PCI officially ended in December and before the end of 2020, government had announced its intention to negotiate a new programme with the Fund.

During 2020, the Central Bank managed to successfully meet its NIR targets – applicable end-June and end-December – as illustrated in Table 1.1.

Table 1.1: Quantitative Performance Criteria

	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4
Net International Reserves [1/2]				**USD million**					
Target	375	392	403	403	403	405	389	386	394
Actual	406	412	409	402	430	438	440	427	400

[1]. The stated target is a floor

[2]. The target dates are end of Q2 and Q4. The Q4 target was approved by the Board of the Central Bank of Seychelles and not the IMF

The outlook for 2021 is characterised by a significant degree of uncertainty. It remained unclear when the global economy will fully recover from the COVID-19 pandemic. Reports of new waves and variants of the virus in many parts of the world were followed by lockdown measures, which although helped save lives and contain the stress on health resources, adversely impacted economic activity and in many cases livelihood. Moreover, as the world adapts to the "new normal" and manages to reap some benefits from the pandemic in terms of digitalisation of processes and services, the overall economic loss is expected to take years to recover. However, according to the IMF, world output is projected to turn positive in 2021 to achieve a growth rate of 5.5 per cent. Such forecast takes into consideration a "vaccine-powered strengthening of activity" coupled with policy support in "a few large economies". Most analysts expect the strength of the recovery to vary in different geographies, with a key determining factor being access to medical services, the effectiveness of policy support and importantly, the economy's "structural characteristics" before the pandemic.

Economic activity in Seychelles will continue to depend on the tourism sector and hence the authorities have been intensifying efforts to support a pick-up in such activity. However, a recovery in tourism domestically remained dependent on external developments, which at the end of 2020 was uncertain. Whilst the support from government and the Central Bank has helped to moderate the direct impacts of the pandemic on some businesses, substantial challenges and uncertainty remained. These included policies regarding FA4JR decisions, reluctance of employers to adjust their labour structure given the new socio-economic realities, and the implementation of an efficient framework for addressing

labour market frictions amongst others. The early indication is that a delay in the recovery of the economy beyond 2021 is likely to have devastating consequences on the country, heightening financial stability risk.

SECTION TWO

Real Sector: Production, Labour and Prices

2.0 Overview

The year 2020 had started with optimism for the Seychelles economy. The early general expectations were that the year would improve on the positive performance achieved in 2019. All indications were that economic activity would expand at a pace consistent with its long-term trend with such outcome supported by an upbeat services sector on the back of a buoyant tourism industry. The initial forecast was that the two closely monitored tourism indicators – visitor arrivals and earnings – would improve their respective record achieved in 2019. Moreover, such development would have allowed the country to enhance its ability to weather external shocks through further accumulation of international reserves.

Following the outbreak of COVID-19 that first appeared in Wuhan, China, and the subsequent declaration by the World Health Organisation on March 11 as a pandemic, the domestic tourism industry and hence the Seychelles economy as a whole braced for an unprecedented exogenous negative shock. Its impact was immediately felt after a number of countries – including key tourism markets – closed their international borders to help contain the spread of the virus. Such decision which restricted movements of people had immediate adverse effects on economic activity across the globe with the tourism and travel trade amongst the first to be impacted. The measures also adversely affected production activity in major markets leading to supply-side constraints.

In Seychelles, the impact of the pandemic was more apparent when the country recorded its positive cases of the virus. To prevent community transmission, similar to many countries, Seychelles imposed lockdown measures as of April 09, during which time only essential services were allowed to continue after it has announced the closure of its international borders in late March.

The resulted restriction on movements led to a drastic drop in overall economic activity as many businesses were forced to temporarily cease their operations. The restrictions were removed on May 04, when most businesses could re-open their doors to the public but under new guidelines imposed by PHA.

Notwithstanding such development, economic activity remained significantly weak due to the fact that the International Airport was still closed, which implied that the main pillar of the economy was at a standstill. The resulting shutdown of the tourism industry saw a year-on-year reduction of 12 per cent in visitor arrivals in the first quarter and close to zero arrivals in the second quarter despite the reopening of the border to yachts and private jets in June. Commercial scheduled flights were allowed to resume in August. Despite a slight pick-up in visitor arrivals towards the end of the year, both the number of

visitors to the country and income generated from tourism activity declined significantly in 2020 and consequently, domestic economic activity was at an unprecedented low level.

To mitigate the impact of the pandemic on the economy, government implemented some policy measures while a number of private sector operators undertook some innovative initiatives. On the policy front, this included provision of financial assistance to impacted businesses and individuals although this came with significant stress on resources with implication on public debt.

Preliminary statistics indicate a sharp contraction in overall economic output in view of the direct and indirect effects of the COVID-19 pandemic. Following a growth of 1.9 per cent in 2019, the economy is estimated to have contracted by 13 per cent in 2020. Given the structure of the economy and as indicated above, tourism bore the brunt of the downturn although the effects were generally felt across all sectors.

In the tourism sector, visitor arrivals from all European markets recorded double digit contractions, with the only positive development being the triple digit growth in the Israeli market. Tourism activity faced multiple domestic and external disruptions, and these included establishing appropriate health protocols for operations and economic considerations, whilst having no control over restrictions set externally. Additional challenges included labour market frictions, access to funding and the ability to honour existing financial obligations.

Given the food security risks, substantial effort went towards boosting productivity in the agricultural sector and in the short run, provide producers a market for their products in view of the demand shock as economic conditions worsened. In the fisheries sector, available indicators showed mixed signals although based on preliminary estimates, the sector contracted by 1.0 per cent. Fisheries activity faced similar challenges as the agricultural sector due to the pandemic, however, the former also encountered some contextual considerations, key of which being supply chain constraints in the export of fresh fish.

Double digit contractions were recorded across most categories of manufacturing activity, with an exception observed in food production. The sector not only faced a significant drop in demand but given the exchange rate shock and constrained supply chains, it also encountered supply-side challenges.

With regards to other activities in the services industry, telecommunications – a high performing sector in recent years – is estimated to have attained double-digit growth. This was evidenced by sustained, notable increase in data demand and positive performance across most services offered.

In terms of price developments, given the significant depreciation of the domestic currency, there were expectations of marked increase in the general price level. However, overall, the official figures published by NBS did not meet this expectation. The year-on-year change in the CPI showed prices

increased by 3.8% in December whilst the 12-month average inflation rate was 1.2%, which was 0.6 percentage points lower than in 2019.

2.1 Primary Sector

The primary sector comprises of activities relating to the extraction and collection of natural resources. Within the local context, this encompasses the fisheries and agriculture segments. The sector's importance was accentuated in view of the risks to food security, uncertainty surrounding the duration of the pandemic and potential impact on shipping dynamics. As such, during 2020, policies were aimed at supporting both sectors to expand, coupled with the need to mitigate possible challenges to local output in view of the drop in demand from the tourism sector.

2.1.1 Fisheries

Given the near complete shutdown of the tourism industry due to the pandemic, the fisheries sector was the key foreign exchange earner for the economy whilst simultaneously highlighting its importance for food security. Nevertheless, based on preliminary estimates, the sector contracted by 1.0 per cent in 2020. Fisheries activity was impacted by the imposed restrictions on movement, weaker domestic and external demand, and challenges relating to aviation connectivity for exports, amongst others. Moreover, such outcome came following an abnormally high growth rate of 14 per cent in 2019.

Analysis of the published statistics showed that as at the third quarter of 2020, there was an increase of 3.9 per cent in fish catch relative to the same period in 2019. Nonetheless, based on research undertaken during the year, discrepancies were highlighted between the actual statistics on the quantities and species of fish caught. According to the aforementioned research, from a historical perspective, actual catch may in effect be 1.5 times higher than reported in published statistics.

In terms of key developments, there was a temporary ban on EU vessels early during the year subject to the renewal of the Sustainable Fisheries Partnership agreement. The agreement and its 6-year protocol were eventually signed in February after which members of the European Parliament officially approved the renewal in November. Under the updated agreement, up to forty purse seiners and eight surface long-liners from select EU members in both categories are allowed to fish a total of 50,000 tonnes of tuna per year. The sector faced substantial labour challenges directly linked to the pandemic, with the most prominent example being the case of 97 expatriate mariners who tested positive for COVID-19 in June. This incident resulted in the implementation of additional, but necessary, controls to ensure such health risks are mitigated given the economic importance of maintaining activity in the industry particularly in view of the uncertainty regarding a recovery path in the tourism sector.

With regards to semi-industrial fishing, following the near-complete closure of the aviation links early in the second quarter, exporters were faced with new challenges, including increased freight costs and those associated with abiding to health regulations. Pre-pandemic, catch was mostly sold to hotels and

restaurants while some species were exported. Thus, even if restrictions were moderated in June, weaker external demand remained a major challenge. Besides, the outlook in the services sector was more pessimistic and exchange rate dynamics also caused some concerns for the sector as the year progressed.

From a policy perspective and given the COVID-19 shock, in March, artisanal fishermen were provided a guaranteed market for the sale of fish whilst simultaneously ensuring increased food security. Under this framework, prices were pre-agreed; the catch was then processed and distributed via pre-existing supply chains of STC. In addition, participants were given price concessions for ice and fish bait.

As a means to ensure long-term sustainability of fish stocks on the Mahé plateau, in December, the Seychelles Fishing Authority (SFA) announced the implementation of the 'Mahé Plateau Trap and Line Fishery Co-Management Plan'. The plan is expected to introduce soft measures to tackle overfishing and overcapacity, and continued work started in 2009 following increased signs of stock depletion in the aforementioned zones. On a related matter of sustainability and improved monitoring mechanisms, in September, the authorities announced that a health and catch certificate would be required when exporting more than 20kg of fish. SFA stated that the health certificate is necessary for phytosanitary purposes, whilst the catch certificate for traceability and as proof that the fish was caught legally.

In the aquaculture sector, SFA revised its policies regarding the criteria of ownership structure under any venture in November and this followed a reassessment of previous proposals. Under the revised policy, it is a requirement that at least 51 per cent share of the venture is owned by locals as opposed to the previous criteria of 100 per cent. This was due to the need for additional capacity building locally, high investment and infrastructure requirements and to ensure greater likelihood of success in a potential new area for foreign direct investment.

With regards to major projects in the sector, a substantial slowdown was observed, key of which being the previously delayed port extension. In August, and following new delays in 2020 due to the pandemic, the Seychelles Ports Authority (SPA) announced that it would tender out the main aspects of the Port Victoria expansion project once the designing was complete. It was also highlighted that the depreciated domestic currency will increase the cost of the project. On a related note, the extension of the existing net repair quay to accommodate long line vessels and to provide space for related activities, was approved in October.

2.1.2 Agriculture

Growth in the sector is estimated to have contracted by 0.5 per cent in 2020, primarily due to a decline in demand as well as a reduction in the size of the expatriate-dependent workforce. Such a development was despite the need to increase output from the sector seen as socio-economically critical throughout the pandemic period, owing to the growing risks to food security in the short to medium run in the midst of global uncertainties.

Nonetheless, the output was higher in multiple indicators from the sector, key of which being livestock slaughtered whereby increases of 120 per cent, 11 per cent and 20 per cent were recorded in that of cows, pigs and chickens, respectively, as at the third quarter of 2020. Moreover, and despite significant reduction in demand from the tourism sector, the production of eggs rose by 0.6 per cent with prices impacted by increased competition and oversupply. The price of eggs declined by more than 50 per cent.

With regards to crop production, namely that of cinnamon, no output was recorded in the first two quarters of the year whilst 0.9 tonnes were delivered in the third quarter. As for the production of tea, output stood at 2.5 tonnes during the first two quarters of the year, but dropped to 1.2 tonnes in the third quarter.

With regards to policy measures, the pandemic accentuated risks to food security and as such, several measures were introduced, aimed at moderating the direct and indirect risks to both producers and consumers. To minimise impact on the supply side, government requested STC to provide an appropriate market structure whilst ensuring minimal price volatility for both local meat and vegetable produce. Moreover, and considerate of medium run implications, aside from providing additional land for farming, farmers from various associations were invited to visit Coëtivy to assess the island's viability for large scale agriculture.

Table 2.1: Gross Domestic Product by kind of Economic Activity (2016 – 2020)

at constant prices

	2016[(1)]	2017[(1)]	2018[(1)]	2019[(1)]	2020[(2)]
			(R million)		
GDP at 2006 constant market prices	**8,423.0**	**8,842.9**	**8,960.3**	**9,131.9**	**7,901.2**
Change	**4.4%**	**5.0%**	**1.3%**	**1.9%**	**-13.5%**
Agriculture	103.8	106.0	126.1	136.2	135.5
Fishing	57.0	60.2	63.5	72.3	71.6
Manufacture of food	189.5	214.2	242.4	245.6	288.7
Manufacture of beverages and tobacco	168.0	178.0	189.2	212.5	176.3
Manufacture of concrete, rock products, glass etc	52.3	42.6	34.7	39.8	34.7
Manufacturing, other	109.2	108.6	114.4	128.1	117.3
Electricity, gas, steam and air conditioning supply	64.7	63.8	60.9	65.0	62.5
Water supply; sewerage, waste management and remediation activities	32.2	30.1	28.2	28.3	27.4
Construction	242.9	235.4	228.2	237.3	234.9
Wholesale and retail trade; repair of motor vehicles and motorcycles	597.9	637.4	551.6	511.0	434.3
Transportation and storage	826.3	810.2	730.1	742.0	519.4
Accommodation and food service activities	993.3	1,052.5	1,113.1	1,125.3	375.9
Information and communication	725.3	851.0	907.1	934.3	1,064.6
Financial and insurance activities	392.3	396.5	378.7	384.6	420.8
Real estate activities	483.7	478.9	408.3	354.9	354.9
Owner Occupied dwellings	699.3	761.8	909.2	933.6	933.6
Professional, scientific and technical activities	294.3	292.5	314.6	331.0	334.3
Administrative and support service activities	257.0	276.5	271.1	290.6	104.6
Public administration and defence; compulsory social security	545.8	582.4	631.7	660.1	693.1
Education	237.8	244.8	236.3	257.6	262.7
Human health and social work activities	180.3	192.6	204.4	217.6	239.3
Arts, entertainment and recreation	40.9	42.4	39.0	40.0	26.0
Other service activities	59.3	60.1	57.1	59.9	59.9
Allocation of FISIM to Nominal Sector	-146.7	-153.1	-157.6	-170.6	-204.8
Value Added at basic prices	**7,206.4**	**7,565.2**	**7,682.3**	**7,837.1**	**6,767.6**
Taxes Less subsidies	1,216.6	1,277.7	1,278.0	1,294.9	1,133.6

Notes:

[1] *Provisional Estimates- National Bureau of Statistics*

[2] *Indicative Estimates – Ministry responsible for Finance and Central Bank of Seychelles*

Table 2.2: Gross Domestic Product by Kind of Economic Activity (2016 – 2020)

at current prices

	2016[1]	2017[1]	2018[1]	2019[1]	2020[2]
			(R million)		
GDP at current market value	**18,989.2**	**20,857.5**	**21,540.1**	**22,192.3**	**19,693.4**
Change	**3.5%**	**9.8%**	**3.3%**	**3.0%**	**-11.3%**
Agriculture	227.3	236.9	277.8	295.5	293.9
Fishing	154.8	154.4	159.8	199.2	197.2
Manufacture of food	374.1	524.0	543.3	517.3	646.6
Manufacture of beverages and tobacco	388.0	390.9	423.1	483.0	400.6
Manufacture of concrete, rock products, glass etc	99.7	81.1	66.4	75.1	65.5
Manufacturing, other	231.6	238.0	261.7	299.0	273.8
Electricity, gas, steam and air conditioning supply	433.8	415.5	386.9	417.6	401.7
Water supply; sewerage, waste management and remediation activities	80.4	79.6	80.4	82.6	79.8
Construction	551.0	580.9	687.1	742.0	734.6
Wholesale and retail trade; repair of motor vehicles and motorcycles	1,327.7	1,455.8	1,306.4	1,232.1	1,047.3
Transportation and storage	2,111.0	2,147.3	2,244.4	2,340.0	1,638.0
Accommodation and Food service activities	2,369.5	2,550.1	2,590.3	2,646.1	883.8
Information and communication	955.5	1,099.9	1,172.5	1,291.1	1,678.4
Financial and insurance activities	907.5	878.6	946.8	982.2	1,074.6
Real estate activities	1,054.3	1,102.8	1,031.1	944.6	991.8
Owner Occupied dwellings	1,523.0	1,958.2	2,063.9	2,158.1	2,266.0
Professional, scientific and technical activities	498.9	496.4	535.4	579.8	608.8
Administrative and support service activities	521.1	574.1	576.9	624.8	224.9
Public administration and defence; compulsory social security	1,279.2	1,422.7	1,534.6	1,672.9	1,840.2
Education	405.2	415.1	442.5	523.1	549.2
Human health and social work activities	317.9	354.0	387.8	449.0	493.9
Arts, entertainment and recreation	96.8	100.4	91.7	100.5	65.3
Other service activities	100.6	101.9	97.2	104.9	115.4
Allocation of FISIM to Nominal Sector	-333.6	-340.3	-374.1	-417.3	-417.3
Value Added at basic prices	**15,675.4**	**17,018.4**	**17,533.8**	**18,343.2**	**16,154.1**
Taxes Less subsidies	3,313.8	3,839.1	4,006.3	3,849.1	3,539.3

Notes:

[1] *Provisional Estimates- National Bureau of Statistics*

[2] *Indicative Estimates – Ministry responsible for Finance and Central Bank of Seychelles*

2.2 Industries

The industrial segment comprises of activities in the construction and manufacturing sectors. Performances in the segment were severely impacted by the health and economic considerations due to the pandemic. From a health perspective, this was related to the challenges associated with restrictions on movement and other requirements with an impact on how business is conducted. From an economic perspective, exchange rate effects, labour challenges, decline in external and domestic demand, and global supply chain shocks for intermediate goods amongst others, were the main factors that impacted the segment quite severely.

2.2.1 Construction

The sector is estimated to have contracted by 1.0 per cent in 2020, and as highlighted earlier, such performance was largely impacted by the pandemic. To note, activity slowed down in the second quarter of the year after tighter health controls were implemented. However, with a moderation of these measures, a relative improvement was observed in subsequent months.

The sector faced direct challenges in the labour market as indicated by a contraction of 13 per cent in workforce in the third quarter relative to the corresponding figure of 2019. Such outcome was further impacted by shifts in government policies regarding expatriate labour, disruptions in flights and challenges regarding wage pricing of expatriate workers. The latter challenge is linked to the depreciation of the rupee, which has had both demand and supply side effects on the sector given the high import components of the construction sector and the decline in purchasing power in the local economy.

Market indicators showed that as at the end of the third quarter, there were contractions of 7.2 per cent each in the production of ‘crusher dust’ and ‘plastering dust’ whilst an increase of 5.1 per cent was recorded in the number of ‘blocks’ produced relative to the same period last year.

In the year, Vijay Construction – a major local construction company – faced with significant legal challenges had to temporarily halt all major projects on its books. As a result, the status of its current and future projects became uncertain whilst the company also experienced notable loss in its expatriate workforce.

Substantial delays and scale down events were reported across the sector, including on critical infrastructure projects. Four projects of the Public Utilities Company (PUC), namely the raising of the La Gogue Dam, the reinforcement of the 33KV underground and overhead networks, the refurbishment of the Praslin Power Station and the deployment of a solar PV farm on Ile de Romainville were all delayed, with the dam requiring additional fiscal support. As for the port extension project that was initially scheduled to be completed in 2021, due to financial constraints and the pandemic, the groundwork was not able to start.

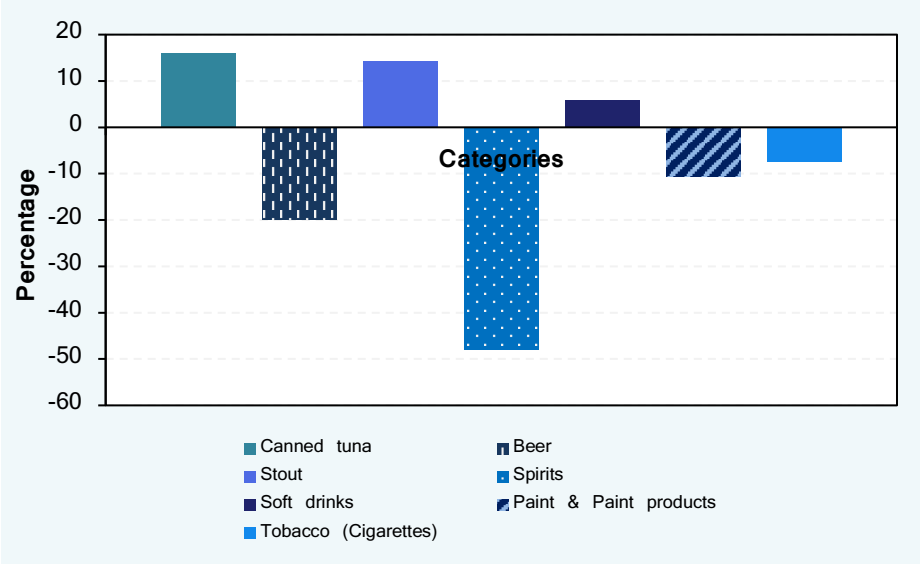
2.2.2 Manufacturing

In recent times, the sector has grown generally in line with economic trends as increased purchasing power and sustained tourism growth facilitated a rapidly evolving sector. However, indicators suggest significant challenges faced by the sector over the course of 2020, key of which being the shocks to imported prices as well as direct and indirect demand from the tourism sector. Moreover, statistics showed that as at the end of the third quarter of the year, the segment's labour workforce contracted by 5.5 per cent relative to the corresponding period of the previous year. However, on a positive note, the category of 'manufacture of food' is estimated to have grown by 18 per cent over the first three quarters compared to the corresponding period of 2019, an outcome that was primarily supported by a growth of 29 per cent in the production of canned tuna. Moreover, data from the Industrial Production Index (IPI) showed a growth of 1.2 per cent in the 'processing & preserving of fish, crustaceans & molluscs.'

With regards to the category of 'beverages & tobacco', a contraction of 17 per cent is estimated for the year under review. Declines of 30 per cent and 23 per cent were recorded in the output of 'spirits' and 'mineral water' respectively, albeit with the impact partially offset by an increase of 60 per cent in the production of 'cigarettes.'

For activities under the category of 'manufacturing of concrete, rock products, glass etc', a fall of 13 per cent is estimated, which is aligned with dynamics of lower demand and higher overheads in the construction sector. Such performance was consistent with a decrease of 5.1 per cent in the production of blocks, as well as a reduction of 6.1 per cent in output under the category of 'manufacturing of articles of concrete, cement & plaster' in the IPI as at the third quarter of the year under review.

Chart 2.1: Changes in production indicators (2020)



Source: National Bureau of Statistics

As for the 'other manufacturing' category, its value-addition activities were aligned with general economic performance, whereby a contraction of 8.4 per cent was recorded. However, the main indicators for the segment provide contrasting results. The output of 'paint & paint products' declined by 6.9 per cent, 'toilet paper' by 11 per cent, whilst there was an increase of 5.2 per cent in the production of 'animal feed'.

2.3 Services

The services sector accounts for around two thirds of economic activity, key of which being the tourism industry as the primary driver. Another important segment is telecommunications where there has been rapid advancement and innovation in recent years which in 2020 substantially facilitated the switch to digital platforms. Such development was deemed critical given the health restrictions and urgency to reduce the risks of community transmission locally.

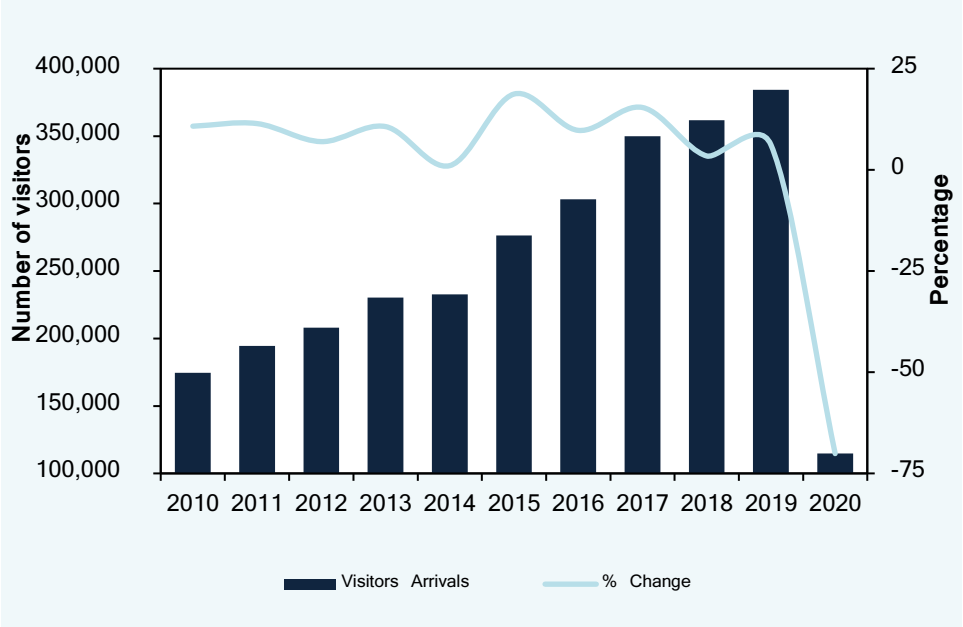
2.3.1 Tourism

In 2020, visitor arrivals amounted to 114,858, which was a decline of 70 per cent relative to the previous year. The figure is the lowest for the millennium and is indicative of the severity of the pandemic's impact on the industry. Consistently, value-added contribution from the 'accommodation & food service activities' is estimated to have contracted by 67 per cent.

Initial performance had suggested another record year for the tourism sector in terms of both visitor arrivals and earnings. In February, the year-to-date visitor arrivals statistics showed an increase of 6.9 per cent albeit certain markets – key of which being Italy – had already been impacted. In March, there

was a sharp decline of 49 per cent relative to March 2019 in the number of visitors who disembarked in the country and following closure of aviation access, visitor arrivals for the second quarter fell by 100 per cent. For the third quarter and despite some moderation of travel protocols locally subject to health provisions, the worsening of external conditions coupled with the effects of travel restrictions contributed to minimal improvements in the sector. In the fourth quarter and despite some positivity following increased numbers of high yielding clients and chartered flights, arrivals were 80 per cent below the corresponding period of 2019.

Chart 2.2: Visitor Arrivals (2010 – 2020)



Source: National Bureau of Statistics

Europe accounted for 65 per cent of total visitor arrivals and Germany accounted for the largest share (32 per cent). With regards to the performances of the traditional markets, namely Italy, United Kingdom, France and Germany, there were declines of 89 per cent, 75 per cent, 72 per cent and 67 per cent respectively. Other notable developments included contractions in the contribution from Austria (73 per cent), Switzerland (70 per cent), and Russia (59 per cent).

The Asian market decreased by 59 per cent, primarily due to declines of 77 per cent and 71 per cent in the number of tourists from China and the UAE respectively. Arguably, the only positive segment was Israel where an increase of 141 per cent in visitor arrivals was recorded to make it the second highest source country in 2020. Of note, 83 per cent of the tourists from Israel travelled in November and December following a travel corridor and aviation link put in place by the local carrier, coupled with numerous chartered flights between the two destinations.

Visitor arrivals from Africa declined by 77 per cent, with such performance primarily due to a contraction of 76 per cent in the number of tourists from South Africa.

Consistent with the above development, tourism earnings contracted by 62 per cent relative to 2019 to stand at an estimated US$221 million. The decline in earnings was not as pronounced as in that in visitor arrivals, implying that average expenditure per visitor increased (by 26 per cent). Such outcome was partly influenced by the number of visitors who stayed for relatively longer periods in the country either due to non-availability of outbound flights or by choice given imposition of lockdown measures in their home country, as well as visits by high net worth individuals in the country during the year.

With regards to policy measures, these were oriented towards market access and deriving an appropriate compromise between health and economic considerations, mindful of resource constraints, particularly debt tolerance of government. Over the course of the year, multiple provisions were implemented to minimise the health risks in view of the socio-economic urgency to restart activity in the sector and therefore the economy in general. These were formulated following multiple stakeholder and government meetings. Aligned with a plan to partially reopen the country's border in June, relevant agencies agreed on a set of operating guidelines in order to mitigate the expected risks brought about by the pandemic.

After receiving the guidelines, each business had to prepare its own Standard Operating Procedures (SOP), which was then followed by mandatory inspections. With the resumption of commercial flights in August, tourism establishments were expected to comply with additional criteria for operations as per the recommendations of PHA. Moreover, the entry criteria for visitors evolved over the year with mandatory Polymerase Chain Reaction (PCR) testing and mandatory quarantines being key discussion points given the need for a risk-tolerance framework that takes into consideration uncertainties.

Given that tourism was the main sector to be directly impacted by the COVID-19 pandemic, many businesses that directly and indirectly depend on the sector benefited from assistance from the government. The objective of such was to moderate the short-term economic and financial impact on these entities. The assistance was primarily in the form of wage support through the FA4JR programme which took effect in April.

Despite numerous domestic efforts, the country's tourism activity remained severely constrained by the implemented external policies – key of which being lockdown measures in key markets – amid global fear of diminishing likelihood of a quick recovery from the pandemic.

Table 2.3: Tourism Indicators

	2016	2017	2018	2019	2020
Visitors arrivals	303,177	349,861	361,844	384,204	114,858
Average length of stay (nights)	9.9	9.5	10.3	9.9	8.8[1]
Tourism Earnings (US$ million)	414	483	559	590	221
Average expenditure per diem – Rupees	1,717	1,983	2,087	2,176	3,538
Memorandum					
Hotel bed occupancy rate (%)	60	60	66	68	28[2]

(1) Data available for the period Jan-Mar 2020 only

(2) Hotel bed occupancy rate for 2020 as at Q3 2020

Sources: *National Bureau of Statistics, (except tourism earnings which are from Central Bank of Seychelles)*

2.3.2 Telecommunications

Telecommunications was one sector which managed to achieve strong positive growth in 2020. Following a moderation in its previously observed growth rates to 3.0 per cent in 2019, output in the sector is estimated to have increased by 14 per cent in 2020. Hence, despite the health measures put in place and reduced tourism-related revenue, telecommunications was the sole major economic segment to experience double digit growth in output.

The sector contributed to moderate the socio-economic effects of the pandemic by facilitating work-from-home arrangements, digitalising certain longstanding paper-based processes and supporting plans put forth for the educational process to continue amongst others. However, it has also accentuated the need to address the impact of growing local digital inequalities at a socio-economic level and the perceived high costs of digitalising the economy.

Analysis of market indicators showed that the sector's performance was mainly fuelled by the demand for data, an expected result given the context of realities experienced in 2020. As at the end of the third quarter, data traffic was 17 per cent higher than in the corresponding period of 2019. Notable, annual double-digit growth in demand for data was maintained during the year. Whilst the growth in such demand was linked to the pandemic, third quarter results showed a continuation of the trend observed during the pre-pandemic period as a potential contributing factor. The move to more technologically oriented platforms was also reflected by a growth of 5.8 per cent in internet connections.

There were however mixed outcomes portrayed by other indicators. There were contractions in hours of 'local calls' and 'land lines' by 4.9 per cent and 7.6 per cent respectively, whilst growth was recorded in total airtime for 'international calls' (21 per cent) and 'cable TV connections' (1.9 per cent). Such dynamics are indications of how the availability and use of data have altered the choice and means of communications in the economy.

With regards to a key development in the sector, in March, a specialised ship undertook survey works in preparation for a second submarine cable. It was announced that the cable is expected to land in July 2021. In June, Cable and Wireless Seychelles launched its 5G network in partnership with Huawei, a Chinese multinational telecommunications company.

2.3.3 Financial Services

The financial services sector is estimated to have expanded by 9.4 per cent in 2020. Despite the challenges faced, the sector's robust growth was in part due to exchange rate gains and increased investment in risk-free government papers. Nonetheless, the sector faced critical financial stability challenges given the risks of COVID-19, with its impact potentially worse than what was experienced in 2008. Whilst the policies proposed by the Central Bank, government and private sector mitigated some of the adverse impact during 2020, the sector accumulated substantial risks with additional negative developments expected ahead.

The worsened economic condition was confirmed by Fitch Ratings after the rating agency downgraded Seychelles' Long-Term Foreign-Currency IDR rating from 'BB' to 'B+' with a stable outlook in the second quarter of the year. In December, there was a further downward revision in the country's sovereign rating from 'B'+ to 'B' although the outlook remained stable.

With regards to other developments in the sector, in February, Barclays Bank Seychelles officially changed its name to Absa Bank Seychelles following a complete rebranding exercise. The month also saw the country added to the EU's list of non-cooperative jurisdictions for tax purposes and as such, increased the likelihood of the country facing a complete blacklisting by the region subject to immediate actions. In September, the growing importance of cybersecurity at a national level was highlighted following a ransomware attack on the Development Bank of Seychelles.

2.4 Other Key Segments

Given the direct and indirect links to tourism, most services were impacted by the COVID-19 pandemic. Notable declines were recorded in activities falling in the categories of 'administrative & support service activities' (64 per cent), 'arts, entertainment & recreation' (35 per cent) and 'Wholesale & retail trade; repair of motor vehicles & motorcycles' (15 per cent). The majority of operators in the services sectors were required to abide to the health regulations due to the fact that the nature of most of these businesses necessitates interaction with individuals.

With regards to 'transportation & storage', a contraction of 30 per cent is estimated for 2020. The sector was severely impacted by the performance of Air Seychelles, which substantially downscaled its operations in view of the restrictions imposed on travel due to the pandemic. To minimise losses, the airline operated several special repatriation flights coupled with increased freight activities. Moreover,

it resumed scheduled flights as and when domestic and external health considerations were aligned. These included flights to pre-existing routes key of which being Israel and Johannesburg.

With regards to 'water supply, sewage, waste management & remediation' and 'electricity, gas, steam & air conditioning supply' contractions of 3.2 per cent and 3.8 per cent respectively, were posted. The two sectors are linked to the activities of PUC and serve as key indicators of the level of economic activity. Statistics show that, as of the third quarter of the year under review, the production of water declined by 3.6 per cent whereas output of electricity fell by 7.5 per cent.

Given the added resources required to address the health challenges linked directly to the pandemic, the category 'human health & social work activities' is estimated to have grown by 10 per cent. Such result was consistent with an increase of 8.4 per cent in the number of employees in the sector in the third quarter of 2020 relative to the corresponding figure of 2019.

2.5 Labour Market

The pandemic resulted in substantial frictions within the labour market during 2020. Owing to sustained growth post-2008, the demand for labour has expanded considerably and beyond what the domestic economy could supply. As such, the country has been increasing its dependence on imported labour in order to remain on its growth path. This condition was impacted by the shallow labour market and reported skills gap of a large segment of the population. However, with the sharp decline in economic activity due to the COVID-19 pandemic, a labour adjustment was expected, particularly by the final quarter of the year when it became clear that the economic effects would be prolonged. Thus, as labour demand dampened and foreign workers' earnings reduced due to the foreign exchange shocks, to the extent possible, there was greater incentive for employers to source locally. To note, for the period April to June, the financial assistance to businesses impacted by the pandemic under the FA4JR covered the salaries for both the local and foreign employees. From July onwards, such financial aid was for the salaries of local workers only. Whilst the support from the government and the Central Bank has helped to moderate the direct impacts of the pandemic on some businesses, substantial challenges and uncertainty remained. These included policies regarding FA4JR decisions, reluctance of employers to adjust their labour structure given the new socio-economic realities, and the implementation of an efficient framework for addressing labour market frictions amongst others.

As at the end of the third quarter of 2020, the private sector accounted for 65 per cent of formally employed persons, a contraction of 1.5 percentage points in market share relative to the third quarter of 2019. As per historical norms, the largest number of employees in the private sector were in the 'accommodation & food service activities', followed by the 'construction' industry and the 'Wholesale & retail trade; repair of motor vehicles & motorcycle' segment.

2.5.1 Employment

In the third quarter of 2020, an average of 51,812 persons were formally employed. As highlighted earlier, 65 per cent were employed in the private sector whereas the government and parastatals accounted for 21 per cent and 15 per cent of total formal employment, respectively. Relative to the corresponding period of 2019, the average number of individuals employed declined by 4.2 per cent overall. There were contractions of 6.3 per cent and 3.2 per cent in employment at the private and parastatal sectors, respectively, which offset a growth of 2.6 per cent in public sector employees.

Such development, which followed years of increased employment opportunities in the economy, was expectedly due to the impact of the pandemic, albeit the full impact on employment levels – mitigated in part due to policy instruments in place and private sector initiatives – is yet to be observed. Notable contractions were observed in the segments of 'accommodation & food service activities' (14 per cent), 'real estate' (14 per cent) and 'construction' (13 per cent) relative to the corresponding period of 2019. In terms of employment losses 'accommodation & food service activities' recorded a decline of 1,418 employment opportunities followed by 'construction' (833 losses), albeit with the latter primarily as a result of adverse legal developments in a major local construction company as highlighted earlier.

Table 2.4: Employment Statistics (2016 – 2020)

	2016	2017	2018	2019	2020 (1)
Average Employment	**46,646**	**48,190**	**50,688**	**55,804**	**51,812**
Private Sector	30,184	30,630	32,681	37,409	33,467
Parastatals	7,367	7,562	7,523	7,882	7,646
Government	9,095	9,998	10,484	7,882	10,699

[1] *Figures are as at Q3 2020*

Source: National Bureau of Statistics

On a policy front, whilst initial fiscal support through FA4JR was extended to businesses as per previous operations (including labour expenses), in July, the revised condition supporting only local wages was effected. Moreover, August marked a historic shift in policy, whereby Gainful Occupation Permits (GOPs) of foreign workers outside of the country were revoked whilst a GOP Committee was established to re-assess the merits of all posts.

The year was also characterised by increased number of grievances in the labour market, a number of which was related to the direct effects of health measures (adaptability costs, reduced opening hours at short notice) as well as indirect economic effects. There was a number of manifestations in December as employees of various organisations, including PUC and STC, protested against the decision not to pay a 13th month salary. This followed amendments to the legal obligation (Suspension of Thirteenth Month Pay and End of Year Gratuity Act, 2020) in light of the pandemic. Strikes and labour disputes relating to contract conditions for non-Seychellois workers were also observed, primarily

relating to the effects of a weaker rupee on remittances for salaries paid in local currencies, as well as non-payment of salaries by some employers.

2.5.2 Unemployment

At the end of the third quarter of 2020, the national unemployment rate was 4.0 per cent or 1.6 percentage points above the corresponding figure for 2019. The female unemployment rate stood at 3.2 per cent (2.3 per cent in 2019) whereas that for the male population was 4.8 per cent (2.5 per cent in 2019). Statistics show that 56 per cent of unemployed individuals had attained secondary level of education or below, implying the situation was more pronounced in the segment of the lower-skilled workforce.

In 2020, a revised measure was needed to better capture the impact of COVID-19 on the labour market. More specifically, this was to quantify those affected by the pandemic that had started seeking alternative employment, rather than waiting for the lessened (work-related) impact. Therefore, a special grouping called 'not employed' was added to the labour force categories, to classify those whose work had stopped as a result of the COVID-19 pandemic. Hence, the derived unemployment rate stood at 6.5 per cent, or 2.5 percentage points above the official rate. Within age demographics, the most marked shift has been an increase in youth unemployment from 6.3 per cent to 19 per cent (adjusted for COVID-19 effects). Moreover, under the category of 'Youth Not in Employment, Education or Training', the rate stood at 25 per cent and served as further evidence of short run challenges in the labour market given the expected slow recovery and current labour market rigidities.

2.5.3 Earnings

In terms of earnings, as at the end of the third quarter of 2020, the average stood at R14,866, which was a growth of 4.5 per cent when compared to the corresponding period of the previous year. At R18,284, the average earnings of an employee in the public sector was highest compared to R13,463 in the private sector and R16,227 for parastatal workers. There were therefore increases in average earnings across all three sectors, by 8.0 per cent, 2.3 per cent and 4.9 per cent in that of public, private and parastatal sectors, correspondingly.

Whilst wage dynamics may be counterintuitive to economic reasoning given the pandemic, institutional effort, primarily that of the Ministry of Employment and the impact of FA4JR support, substantially moderated downward wage pressures, albeit arguably at unsustainable levels given government's debt considerations and the expected slow and uncertain recovery.

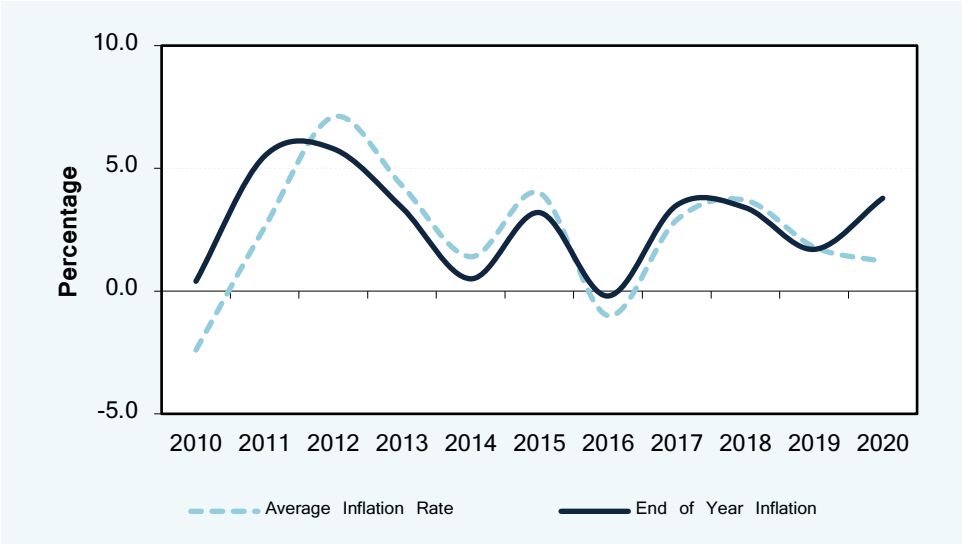
2.6 Prices

As at December 2020, the CPI, which is the official measure of inflation and published by NBS, showed an increase of 3.8% in the average prices of goods and services in comparison to December 2019. Hence, whilst the price of fresh 'fish' – one of the three main components of the CPI – declined by 7.2 per cent, the index for the two other components, namely 'other food' and 'non-food' items rose by 9.5 per cent and 3.1 per cent respectively.

Prices of 'other food' items accelerated notably in the second half of the year, in part due to the depreciated domestic currency. This was despite such impact being moderated by the period's relatively weaker domestic demand. Notable changes in this component included increases in the prices of 'meat (fresh, chilled, frozen)' (19 per cent), 'sugar, jam, honey & confectionery' (12 per cent), and 'vegetable' (11 per cent).

With regards to the component of 'non-food items', with the exception of an upward tax revision on alcoholic beverages announced in the National Budget, no additional tax effects on prices were recorded. Moreover, given the negative oil price shocks observed globally and government policies regarding energy costs during the COVID-19 pandemic, this resulted in limited inflationary pressures emanating from energy imports. Notable price increases observed in this component included that of 'alcoholic beverages' (12 per cent), 'recreation & culture' (9.7 per cent) and 'transport' (8.5 per cent).

Chart 2.3: Price Movements (2010 – 2020)



Source: National Bureau of Statistics

With regards to the 12-month average inflation rate, this stood at 1.2% in 2020 in comparison to 1.8% in 2019. A decline in the 'fish' component (by 9.6 per cent) was offset by increases of 3.6 per cent and 1.0 per cent in the index for 'other food' and 'non-food' items, respectively.

Changes of note in the 'other food' component were recorded in the prices of 'meat' (7.0 per cent), 'vegetables' (6.8 per cent) and 'sugar, jam, honey & confectionery' (5.4 per cent). With regards to the 'non-food' component, notable price changes included that of 'alcoholic beverages' (6.3 per cent), 'recreation & culture' (6.2 per cent) and 'health' (3.9 per cent).

An important development observed in domestic prices was the decline in the category of 'housing, water, electricity, & gas' (by 3.5 per cent), which was indicative of the negative price shock observed in global oil prices and its policy application locally. As such core inflation, which omits the direct effects of electricity, fuel items and more volatile prices, namely that of 'fresh fish', stood at 2.3%. This was 1.1 percentage points higher than the 12-month average CPI and reflected the moderation effects of energy prices.

As highlighted earlier, overall, inflationary impulses as reported by published official statistics were lower than expected given the notable depreciation of the domestic currency and the country's heavy reliance on imports.

Table 2.5: Inflation Rates (2016 – 2020)

	2016	2017	2018	2019	2020
Annual Average			**Per cent (%)**		
All Items	**-1.0**	**2.9**	**3.7**	**1.8**	**1.2**
Fish	0.1	-5.6	-2.0	9.5	-9.6
Other Food Items	0.0	0.9	0.1	-0.8	3.6
Non-Food Items	-1.2	3.3	4.4	2.1	1.0
Year-on-year					
All Items	**-0.2**	**3.5**	**3.4**	**1.7**	**3.8**
Fish	-13.2	1.9	7.6	7.9	-7.2
Other Food Items	0.3	2.2	-3.4	1.3	9.5
Non-Food Items	-0.1	3.7	4.4	1.7	3.1

SECTION THREE

Monetary and Financial Sector

3.0 Monetary Policy Developments

In its last monetary policy meeting of 2019, the Central Bank had forecasted no notable threat to its primary objective of promoting domestic price stability in the first quarter of 2020. As such, the accommodative monetary policy stance adopted for the final three months of 2019 was maintained for the first quarter of 2020. This was on account of modest inflationary pressures anticipated in the short to medium term arising from weak growth in global commodity prices and a relatively stable domestic currency. The MPR was therefore kept unchanged at 5.0% whilst the interest rates on the Standing Deposit Facility (SDF) and Standing Credit Facility (SCF) remained at 2.0% and 8.0%, respectively. The Bank had anticipated that economic activity would grow at a pace consistent with its long-term trend and that the economy would build further resilience against external shocks whilst the appropriate policy mix is implemented to ensure inflation is contained.

However, one of the Bank's assessments of the economy undertaken in the first quarter of 2020 suggested major adverse impact on the domestic tourism sector. Such risks were exogenous in nature and related to the negative effects of the COVID-19 pandemic on the global tourism and travel trade. Given Seychelles' reliance on the tourism industry, such development suggested a slowdown in overall economic activity, which therefore warranted the appropriate policy reaction from the Central Bank.

Therefore, as of the second quarter of the year, monetary policy was predominantly geared towards supporting the domestic economy. The key monetary policy decision was the cut in the MPR by an unprecedented 200 basis points over two quarters. Hence, the MPR was reduced to 4.0% for the second quarter and 3.0% for the subsequent three months.

Consistent with the reductions in the MPR, the interest rate on the SDF was reduced to 1.0%, a position that was maintained in the third quarter. As for the SCF, it was lowered to 7.0% in the second quarter and 6.0% in the third quarter. Considering the potential risks on the liquidity position of deposit-taking institutions, the Board approved for the Minimum Reserve Requirement (MRR) to be lowered from 13 per cent to 10 per cent of applicable deposit liabilities should condition warrant such adjustment.

To provide additional support to the domestic economy in light of increasing challenges and uncertainties that were adversely impacting economic activity, similar to other central banks across the globe, CBS undertook other measures aimed at limiting the adverse impact of the pandemic on the economy. Most indicators were suggesting direct loss of income from the services industry, private sector revenue constraints and labour market frictions which were expected to become more pronounced as the year unfolded.

To assist businesses impacted by COVID-19, the Board of the Central Bank approved two credit line facilities under a private sector relief scheme to support critical operating expenditures. The first one amounted to R500 million and was made available to MSMEs at an interest rate of 1.5% with a 70 per cent guarantee by the government, accessible via commercial banks and DBS. The size of the approved second facility was R750 million and available to larger businesses at an interest rate of 4.5% with 50 per cent government guarantee and accessible via commercial banks. At the end of the period under review, both facilities were payable over a maximum of three years pending approval by the National Assembly to extend their tenures to five years.

Given the forecasted contraction in economic activity, government revenue was projected to be significantly lower than initial expectation. Hence, as per the provision of the CBS Act, the Board approved R500 million as short-term advances to government to cover any shortfall in revenue. Consistent with the legal provision and amended CBS Act to include a health pandemic as a force majeure event, the facility was made available at an interest rate of 0.0%, payable over three years.

With a number of measures introduced to minimise economic loss and ensure financial stability, the accommodative policy stance was maintained in the fourth quarter of 2020. Hence, the MPR was kept at 3.0% and the interests on the SDF and SCF remained unchanged at 1.0% and 6.0%, respectively.

In response to the easing of monetary policy, an overall reduction was observed in the average interest rates on both loans and savings deposits. Given the uncertain economic environment, compared to the previous year, growth in credit to the private sector moderated significantly in real terms with the credit line facilities introduced by the Bank to assist businesses contributing to this overall growth.

In terms of monetary policy implementation, the main strategy was ensuring ample liquidity is available in the system such that there is enough buffer to meet the needs of commercial banks in addition to supporting the financing needs of the government. The latter was to allow for the application of its fiscal policy measures in response to the COVID-19 pandemic. Therefore, there was an overall reduction in liquidity absorbing operations in the open market, both in terms of frequency and volume. During the year under review, the main monetary policy instruments employed were the Deposit Auction Arrangement (DAA) and the overnight standing facilities.

To note, the significant reduction in the external value of the domestic currency, which against the US dollar was by 26 per cent, partly explained in rupee terms, the overall movement in monetary indicators denominated in foreign currency.

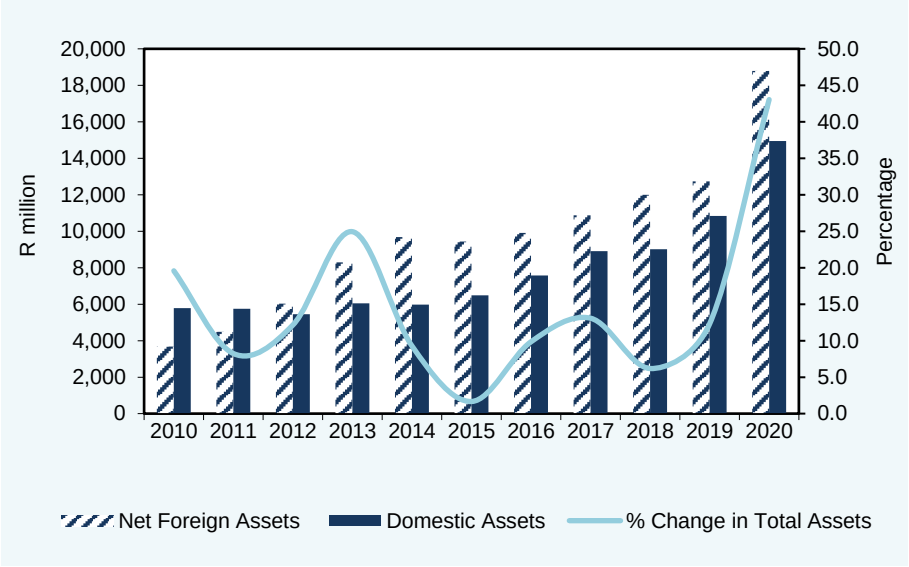
3.1 Net Foreign and Domestic Assets

In 2020, total net foreign assets (NFA) of the Central Bank and other depository corporations (ODCs) grew by 48 per cent (or R6,051 million) to stand at R18,793 million. NFA of the Central Bank increased by 50 per cent (or R3,878 million) whilst that of ODCs rose by 44 per cent (or R2,172 million). As

highlighted earlier, such results were primarily on account of the sharp depreciation of the rupee against its main counterparts. In US dollar terms, there was a decline in the NFA position of both the Central Bank (by 2.4 per cent) and that of ODCs (by 6.1 per cent). The aggregate contraction was from US$904 million to US$869 million or by US$35 million (3.9 per cent).

Growth was also observed in the stock of domestic assets. This was by 38 per cent (or R4,109 million) to stand at R14,949 million as a result of increases across all of its three components. Credit to the private sector grew by 20 per cent (R1,658 million) and claims on public entities was also higher by 20 per cent (equivalent to R148 million). The increase in net claims on government was by 123 per cent (R2,302 million), an outcome mainly attributed to the three solidarity bonds issued for fiscal purposes in June.

Chart 3.1: Net Foreign and Domestic Assets (2010 – 2020)



Source: Central Bank of Seychelles

Table 3.1: Monetary Survey[1/3] (2016 – 2020)

	2016	2017	2018	2019	2020
Net Foreign Assets [2]	**9,916.4**	**10,868.9**	**11,998.1**	**12,742.4**	**18,792.9**
Central Bank	6,550.4	6,982.4	7,247.7	7,806.7	11,685.1
Commercial Banks	3,366.1	3,886.4	4,750.4	4,935.7	7,107.8
Domestic Assets	**7,578.4**	**8,913.8**	**9,007.2**	**10,840.0**	**14,948.9**
Claims on private sector	5,122.7	6,032.3	6,748.3	8,230.3	9,888.6
Claims on public entities	630.8	636.7	539.0	732.8	880.9
Claims on government (net)	1,824.9	2,244.8	1,719.9	1,876.9	4,179.4
Money Supply, M3	**13,647.8**	**15,887.8**	**17,115.5**	**19,458.8**	**25,179.8**
Money Supply, M2	**8,618.7**	**9,773.0**	**10,055.9**	**11,496.0**	**13,369.1**
Money Supply, M1	**4,602.4**	**5,099.3**	**4,931.3**	**5,642.9**	**6,602.9**
Currency with public	1,026.5	1,116.4	1,169.0	1,228.4	1,460.4
Transferable deposits	3,575.9	3,982.8	3,762.3	4,414.5	5,142.5
(of which public entities)	524.0	699.5	399.3	800.6	970.7
Quasi-Money	**4,016.3**	**4,673.7**	**5,123.6**	**5,852.1**	**6,766.2**
Fixed Term deposits	1,102.2	1,241.4	1,222.5	1,419.6	1,368.0
(of which public entities)	228.3	208.2	230.1	253.7	185.7
Savings deposits	2,914.1	3,432.3	3,901.1	4,432.5	5,398.2
Foreign Currency Deposits	**5,029.1**	**6,114.8**	**7,059.6**	**7,962.8**	**11,809.8**
Other items, net	**3,847.0**	**3,894.9**	**3,890.7**	**4,124.6**	**8,563.0**

Figures do not necessarily add up due to rounding off conventions

[1] End of period

[2] Excludes government balances

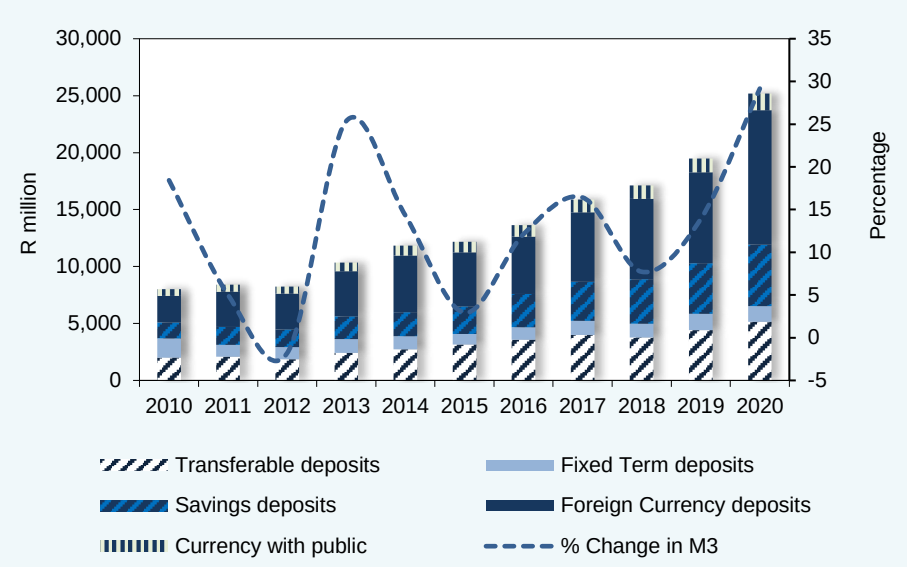
[3] Changes in previous figures are due to revisions

Source: Central Bank of Seychelles

3.2 Money Supply

The broadest monetary aggregate, M3, grew by 29 per cent (R5,721 million) to stand at R25,179 million on account of expansions under all of its main components, and hence deposits denominated in rupees as well as in foreign currency. The narrowest monetary aggregate, M1, increased by 17 per cent (or R960 million), driven by growth of 19 per cent and 17 per cent in currency with public and transferable deposits, correspondingly. The total value of quasi money grew by 16 per cent (or R914 million), following an increase of 22 per cent (R966 million) in the stock of savings deposits, whilst fixed-term deposits declined by 3.6 per cent (R52 million). As a result, M2 expanded by 16 per cent (or R1,874 million).

Chart 3.2: Money Supply (2010 – 2020)



Source: Central Bank of Seychelles

At end-2020, the stock of foreign currency deposits held by residents in domestic banks rose by 48 per cent to stand at R11,810 million. In US dollar terms, the total value of foreign currency deposits was US$546 million, which was a contraction of 3.3 per cent compared to US$565 million at end-2019. Such deposits were primarily held by businesses which by the nature of their activity earn revenue in foreign currency. During the year under the review, part of such deposits was converted in order to cover for rupee expenses which simultaneously helped to support the foreign exchange market that had experienced a supply shock due to the sharp reduction in tourism activity, the main source of inflows.

3.3 Reserve Money[5]

The stock of reserve money is a measure of the most liquid monetary aggregate and therefore a key source of inflationary impulses. As of December 2018, following the second country review under the PCI[6] arrangements with IMF, reserve money which was previously a quantitative target was replaced with a Monetary Policy Consultation Clause (MPCC). The latter is based on an agreed quarterly 12-month average inflation path which lies within a ±2.0% outer band, whereby a breach would trigger consultation with the IMF Board and a breach of an inner band of ±1.5% requires consultation with the IMF staff.

Reserve money, however, remains a key variable monitored by the Bank when the evolution of liquidity level in the system is being analysed, particularly in the context of policy formulation consistent with the domestic price stability objective of the Bank.

[5] Often referred to as base or high-powered money and is comprised of currency in circulation and ODCs' deposits held at the Central Bank.

[6] A three-year IMF-supported programme approved by the Executive Board of the Fund on December 13, 2017. The PCI aims to reinforce the country's efforts to strengthen macroeconomic stabilisation and promote sustained and inclusive growth.

The quarterly levels of reserve money for 2020 are illustrated in Table 3.2 and Chart 3.3 below.

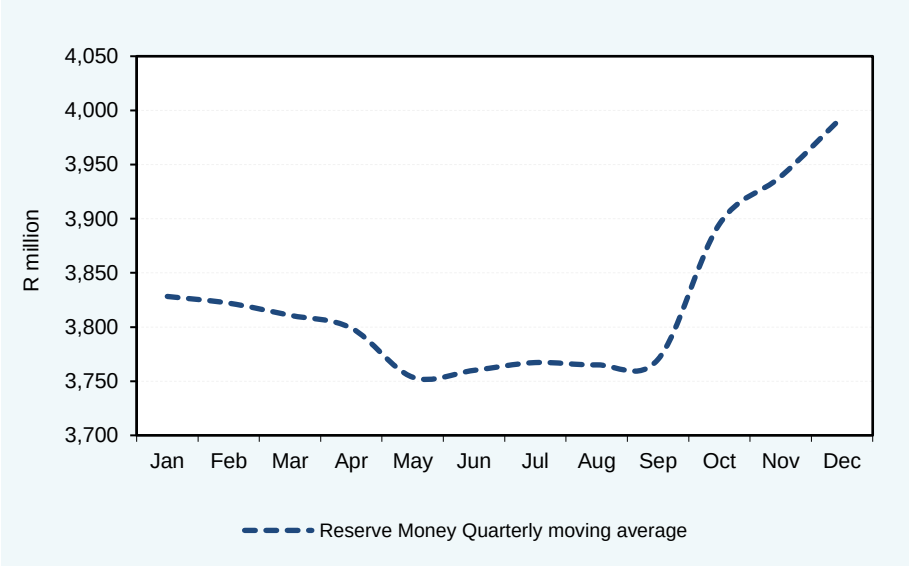
Table 3.2: Reserve Money (Q4 2019 to Q4 2020)

	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
			(R million)		
Reserve money (quarterly average)	**3,993.8**	**4,196.0**	**5,177.9**	**5,548.7**	**5,925.4**
Reserve Money (Actual) [1]	**4,564.3**	**4,249.4**	**5,114.4**	**5,795.8**	**6,407.7**
Currency in Circulation	1,510.3	1,481.1	1,545.4	1,569.7	1,729.4
Other Depository Corporations' reserves	3,031.0	2,768.3	3,568.9	2,766.2	4,308.4
Standing Deposit Facility	23.0	-	-	1,460.0	370.0

[1] Figures are as at the last day of the quarter

Source: Central Bank of Seychelles

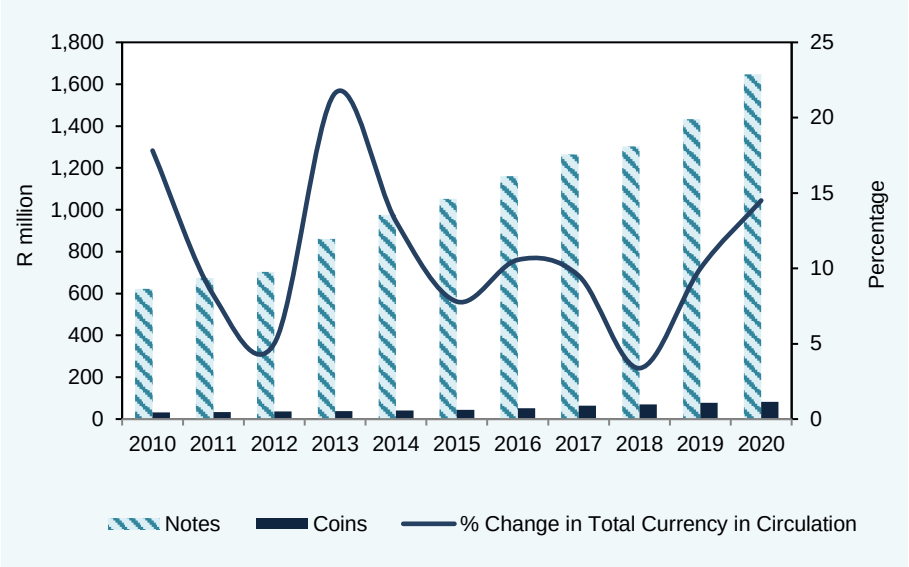
Chart 3.3: Reserve Money (2020)



Source: Central Bank of Seychelles

At the end of 2020, the stock of reserve money stood at R6,408 million, which was an expansion of 40 per cent compared to the same period in 2019. This growth was driven by an increase of 42 per cent in ODCs' reserves and a rise of 15 per cent in currency in circulation. The higher balance held by ODCs was primarily due to the lower volume of liquidity absorbed from the system compared to the previous year, whilst the growth in currency in circulation portrayed increased use of cash to settle transactions despite intensified efforts to promote the use of digital platforms.

Chart 3.4: Notes and coins in circulation (2010 – 2020)



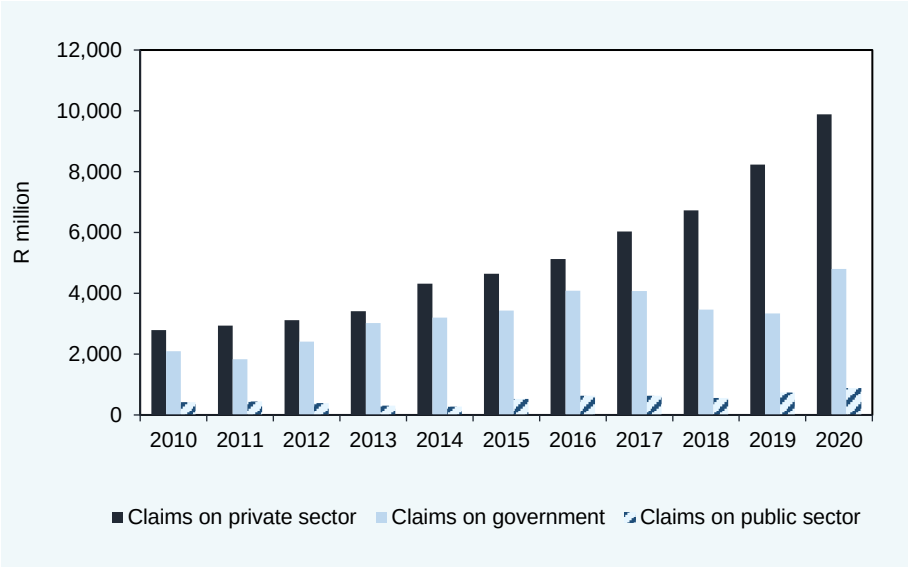
Source: Central Bank of Seychelles

3.4 Domestic Credit

3.4.1 Central Bank and Other Depository Corporations

The total stock of outstanding domestic credit ended the year at R15,574 million; a growth of 27 per cent relative to the previous year. This increase in total credit was primarily due to an expansion of 20 per cent (R1,658 million) in loans disbursed to the private sector which was largely explained by the valuation effect of foreign exchange loans following the significant depreciation of the domestic currency. The aggregate claims on public entities increased by 20 per cent (R148 million) whilst claims on government was 44 per cent (R1,465 million) higher, consistent with the need to finance the fiscal deficit.

Chart 3.5: Total Domestic Credit (2010 – 2020)



Source: Central Bank of Seychelles

3.4.2 Sectoral Allocation of Credit to the Private Sector[7]

A breakdown of the sectoral allocation of credit to the private sector showed that 'tourism' – which accounted for the largest share or 22 per cent of total private sector credit, rose by 48 per cent (or R686 million). Increases were also recorded in credit extended under the categories 'mortgages' and 'trade' – representing 14 per cent and 11 per cent of total private sector loans – by 11 per cent (or R128 million) and 32 per cent (or R260 million), respectively. Conversely, loans disbursed to 'Private households and non-profit organisations', which accounted for 15 per cent of total private sector credit, contracted by 13 per cent (or R233 million).

In reference to December 2019, the total value of foreign currency denominated loans disbursed to the private sector grew by 64 per cent in rupee terms, and as highlighted earlier, the valuation effects following the depreciation of the domestic currency was one of the primary factors. The resulted increase in the share of non-rupee loans was to 35 per cent in 2020, from 26 per cent in the previous year. As regards local currency loans, the rate of growth fell from 17 per cent in 2019 to only 5.1 per cent, with the latter partly driven by the Private Sector Credit Relief Schemes provided by the Bank.

Table 3.3: Credit; [1/2/3] 2016 – 2020

	2016	2017	2018	2019	2020
			(R million)		
Total Credit	**11,027.8**	**11,925.1**	**11,935.1**	**13,488.3**	**16,759.3**
Commercial banks	**9,842.7**	**10,740.1**	**10,750.1**	**12,303.2**	**15,574.3**
Claims on private sector	5,122.7	6,032.3	6,748.3	8,230.3	9,888.6
Claims on public entities	630.8	636.7	539.0	732.8	880.9
Claims on government	4,089.2	4,071.1	3,462.8	3,340.1	4,804.8
of which:					
Treasury bonds	378.0	350.7	349.6	295.7	813.7
Treasury bills	2,985.7	3,072.8	2,432.6	2,415.5	3,205.7
Central Bank	**1,185.1**	**1,185.1**	**1,185.1**	**1,185.1**	**1,185.1**
Claims on government	1,185.1	1,185.1	1,185.1	1,185.1	1,185.1
of which:					
Treasury bills	-1,185.1	-1,185.1	-1,185.1	-1,185.1	-1,185.1

Figures do not necessarily add up due to rounding off
[1] End of period
[2] All figures for stocks, bonds and bills are at cost value
[3] Changes in previous figures are due to revisions

Source: Central Bank of Seychelles

[7] Effective January 2014, submissions pertaining to sectoral allocation of credit to the private sector were revised to more accurately capture the disaggregated loans portfolio.

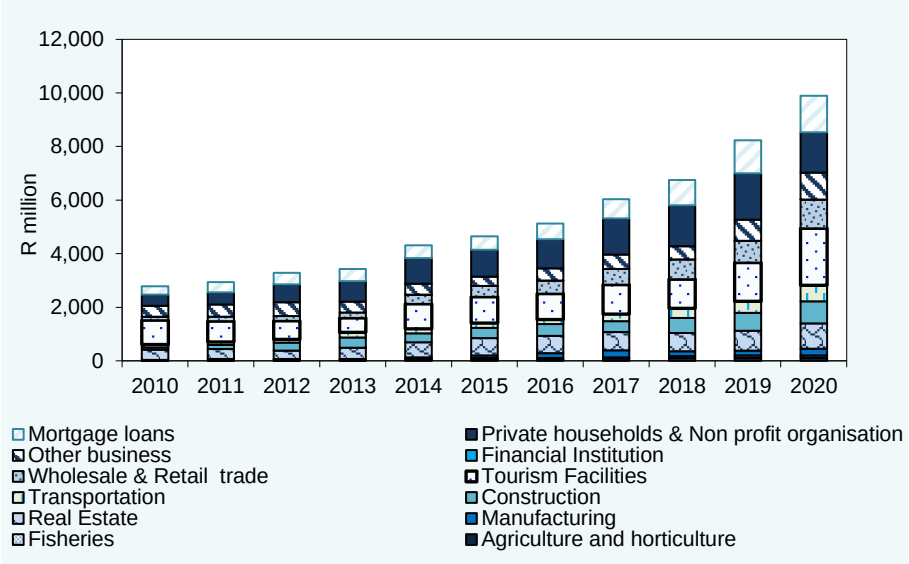
Table 3.4: Other Depository Corporations – Loans and Advances To Non-Governmental Sector by Economic Sectors[1/2] 2016 – 2020

	2016	2017	2018	2019	2020
			(R million)		
Total Advances	**5,122.7**	**6,032.3**	**6,748.2**	**8,230.3**	**9,888.6**
of which:					
Foreign Currency Loan	1,174.0	1,584.2	1,518.2	2,100.4	3,446.4
Agriculture and horticulture	61.5	94.6	109.4	117.5	113.3
Fisheries	44.9	42.0	67.2	87.6	84.7
Manufacturing	184.2	253.0	184.1	175.5	259.8
Real Estate	636.5	679.5	679.8	742.8	934.2
Construction	444.0	410.7	558.7	664.6	828.3
Transportation	172.5	265.4	355.8	437.9	602.8
Tourism Facilities	959.7	1,103.4	1,089.1	1,437.4	2,123.0
Wholesale & Retail trade	495.9	584.3	739.8	816.5	1,076.1
Financial institutions	0.9	0.6	1.1	1.6	1.0
Other business	447.6	535.3	487.1	782.0	1,002.7
Private households & Non-profit organisations	1,096.5	1,349.7	1,532.0	1,740.2	1,507.4
Mortgage loans	578.4	713.9	944.2	1,226.8	1,355.2

Figures do not necessarily add up due to rounding off
[1] End of period
[2] Changes in previous figures are due to revisions

Source: Central Bank of Seychelles

Chart 3.6: Loans and Advances to Non-Government Sectors (2010 – 2020)



Source: Central Bank of Seychelles

3.4.3 Development Bank's Credit[8/9]

The Development Bank of Seychelles (DBS) has a specific mandate to provide credit to productive sectors that contribute to economic development and where such facilities are not necessarily available at other financial institutions; loans extended by DBS generally come with less stringent terms, and at rates that are relatively lower in comparison to those of the industry in several categories.

As at end-July, DBS' total loan portfolio has contracted by R1.0 million (or 0.1 per cent) relative to December 2019 to stand at R847 million. In absolute terms and by loan category, the largest reductions over that period were of R5.9 million (6.4 per cent), R5.8 million (13 per cent) and R2.6 million (7.3 per cent) and observed under 'other services', 'industry' and 'fishing', correspondingly. These categories represented 10 per cent, 4.6 per cent and 4.0 per cent of the bank's total loan portfolio. Total credit under the 'building & construction' category, which accounted for the largest share or 49 per cent of DBS' total loans portfolio, declined by R0.7 million (0.2 per cent). In contrast, loans under the categories of 'tourism' and 'agriculture', which represented 22 per cent and 3.3 per cent of DBS' total loans disbursed grew by R16 million (9.3 per cent) and R0.7 million (2.7 per cent), respectively.

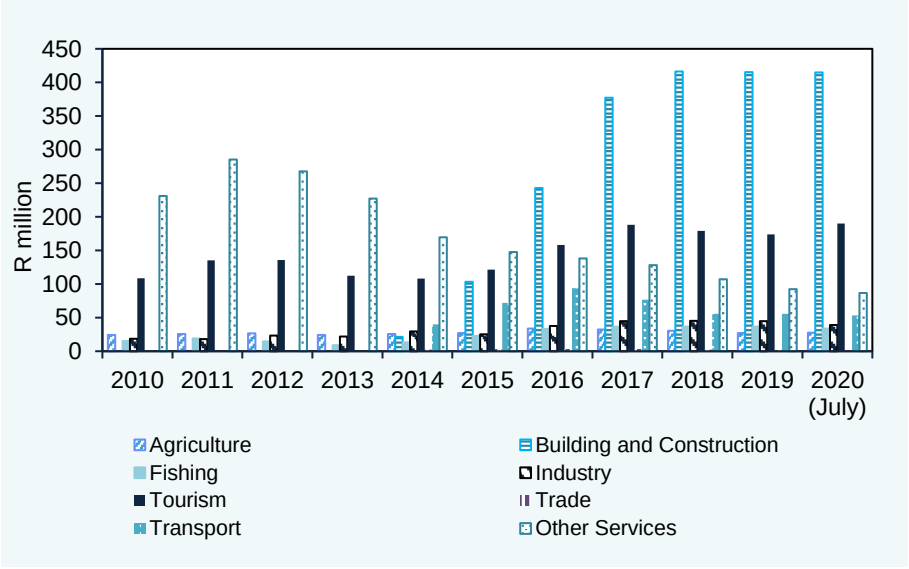
Table 3.5: **Loans by Development Bank by Economic Sectors[1] (2016 – 2020)**

	2016	2017	2018	2019	2020[2]	2016	2017	2018	2019	2020[2]
	(R million)					(Percentage %)				
Total Advances	**740.7**	**887.5**	**873.0**	**847.5**	**846.6**	**100**	**100**	**100**	**100**	**100**
Agriculture	33.6	32.6	30.6	26.9	27.6	4.5	3.7	3.5	3.2	3.3
Building and Construction	243.0	377.3	416.4	415.5	414.8	32.8	42.5	47.7	49.0	49.0
Fishing	33.1	36.7	36.6	36.5	33.9	4.5	4.1	4.2	4.3	4.0
Industry	37.6	44.9	45.3	44.8	39.0	5.1	5.1	5.2	5.3	4.6
Tourism	158.1	188.1	178.9	173.7	189.8	21.3	21.2	20.5	20.5	22.4
Trade	3.5	3.2	2.6	2.0	1.7	0.5	0.4	0.3	0.2	0.2
Transport	93.8	76.8	55.5	55.6	53.1	12.7	8.7	6.4	6.6	6.3
Other services	137.9	128.0	107.3	92.5	86.6	18.6	14.4	12.3	10.9	10.2

Figures do not necessarily add up due to rounding off
[1] End of period
[2] As at July 2020
Source: Development Bank of Seychelles

[8] DBS was established in 1977 under Decree No. 21 as a development financing institution with a specific mandate to assist in the economic development of Seychelles. DBS finances new modernisation and expansion projects in the fields of agriculture, fishery, industry, service and tourism, as well as construction of commercial and residential complex. To be eligible for a credit facility, the applicant must be a Seychellois citizen or a company incorporated in Seychelles with at least 51 per cent Seychellois ownership.
[9] In view of technical difficulties encountered by DBS following a ransomware attack in September, the latest data available for the purpose of this analysis is the stock of outstanding credit as at end July 2020.

Chart 3.7: Sectoral Allocation of DBS Domestic Credit (2010 – 2020)



Source: Development Bank of Seychelles and Central Bank of Seychelles

3.5 Interest rates

3.5.1 The Monetary Policy Rate

The MPR which became effective as of January 2019 serves as the key policy rate that signals the monetary policy stance of the Bank. It complements the interest rate corridor comprising the SDF and SCF, which respectively serves as its floor and ceiling.

For the first quarter of 2020, the MPR was kept at 5.0% and the interest rate on the SDF and SCF remained at 2.0% and 8.0%. The decision not to revise the loose monetary policy stance and therefore maintain the same stance as adopted since the last quarter of 2019, was due to expectation of modest inflationary pressures in the short to medium term after both domestic and external developments had been analysed.

In light of the macroeconomic risks and uncertainty on domestic economic activity and financial stability arising from the COVID-19 pandemic, the MPR was lowered to 4.0% for the second quarter of the year. Consistently, the interest rate on the SDF and SCF was reduced to 1.0% and 7.0%, respectively. The revision in the MPR, hence a loosening of monetary policy, was one of the policy measures undertaken by the Bank as part of its recovery package in response to the challenges brought about by the pandemic.

For the third quarter of 2020, the MPR was lowered by a further 100 basis points to 3.0% and the interest rate on the SCF was reduced to 6.0% whilst the SDF remained unchanged at 1.0%. The MPR was kept unchanged at 3.0% for the last quarter of the year, and subsequently, the interest rates on the SDF and SCF ended the year at 1.0% and 6.0%, correspondingly.

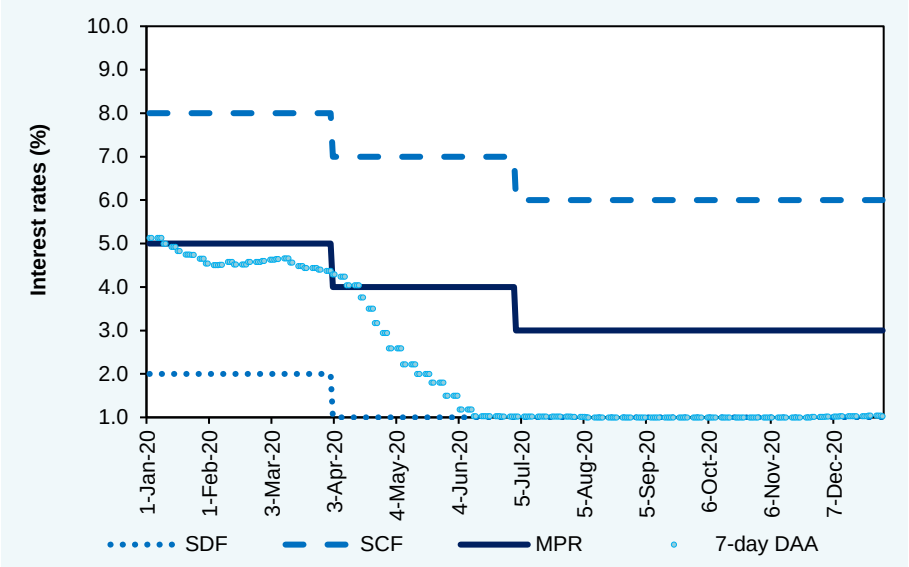
The MPR, hence the quarterly monetary policy signals are illustrated in Table 3.6 and Chart 3.8 below.

Table 3.6: Monetary Policy Rate (2020)

	Q1	Q2	Q3	Q4
		Per cent (%)		
MPR	5.0	4.0	3.0	3.0

Source: Central Bank of Seychelles

Chart 3.8: Interest Rate Corridor (2020)



Source: Central Bank of Seychelles

3.5.2 Interest rates of Other Depository Corporations (ODCs)

Consistent with the loose monetary policy stance of 2020, an overall reduction was observed in key market interest rates.

The average yield on fixed-term rupee deposits fell from 3.94% at end-2019 to 3.62% or by 24 basis points. Declines were observed in the return on instruments in the maturity brackets of 'less than 7 days' and 'above 6 months up to 12 months' by 34 basis points and 31 basis points, respectively. On the contrary, there was an increase in the return on deposits in the maturity bracket of 'above 3 months up to 6 months' and this was by 19 basis points. As for the average interest rate on savings deposits, this fell by 69 basis points to 2.19% in 2020 from 2.88% in the preceding year.

With regards to interest rates on Treasury bills, at the close of the year, the yield on the 91-day, 182-day and 365-day bills stood at 2.92%, 4.52% and 5.56%, respectively. Relative to the previous year-end, these were decreases of 2.3 percentage points, 1.1 percentage point and 73 basis points in the average interest rate on the 91-day, 182-day and 365-day Treasury bills, respectively.

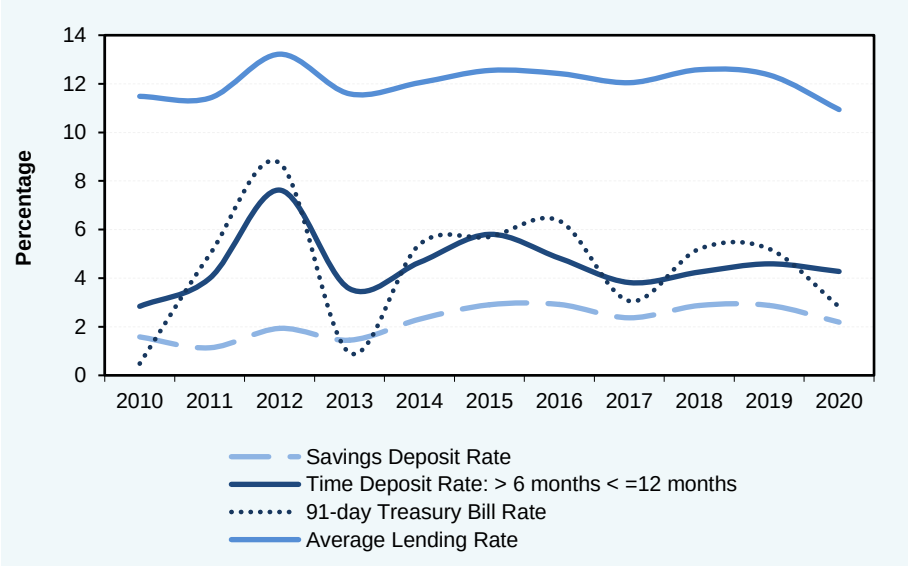
Table 3.7: Interest Rates[1/2] (2016 – 2020)

	2016	2017	2018	2019	2020
			(Percentage)		
Volume-weighted Average Deposits					
Savings Rate	2.92	2.37	2.87	2.88	2.19
Fixed Term Deposits Rate	**3.55**	**3.34**	**3.56**	**3.94**	**3.62**
<= 7 days	1.11	1.05	1.38	2.16	0.97
> 7 days <= 3 months	3.54	3.46	3.53	3.81	3.47
> 3 months <= 6 months	3.17	2.94	3.30	3.98	4.16
> 6 months < =12 months	4.82	3.82	4.25	4.59	4.28
> 12 months	5.08	5.45	5.35	5.16	5.20
Volume-weighted					
Average lending rate	12.42	12.05	12.58	12.36	10.94
91-day Treasury bill rate	6.50	3.16	5.31	5.22	2.92
182-day Treasury bill rate	7.11	4.92	5.48	5.63	4.52
365-day Treasury bill rate	7.33	5.34	5.89	6.29	5.56

[1] All data are taken on an end of period basis
[2] Changes in previous figures are due to revisions
Source: Central Bank of Seychelles

On a similar trend, the effective lending rate which stood at 12.36% in the previous year declined by 1.4 percentage points to 10.94% in 2020. As a result, the interest rate spread – the difference between the lending and savings rates – narrowed by 74 basis points relative to the preceding year to stand at 8.75 per cent.

Chart 3.9: Interest Rates (2010 – 2020)



Source: Central Bank of Seychelles

3.6 Monetary Policy Instruments

In 2020, money market interventions were mainly geared towards ensuring that liquidity in the system is at the level that support economic activity. Such strategy was the underlying determinant of the parameters used in determining the Bank's conduct in open market operations.

3.6.1 Minimum Reserve Requirement (MRR)

MRR applicable on average residents' deposit liabilities remained at 13 per cent in 2020. In general, throughout the year, institutions liable to MRR maintained reserves above the prescribed minimum requirement. As has been the case since July 15, 2011, MRR was not remunerated. At the year-end, the applicable system-wide MRR on rupee-denominated deposit liabilities stood at R1,661 million, whilst that on the US dollar and euro deposits amounted to US$43 million and €25 million, correspondingly.

Conscious of the potential impact on liquidity conditions within the financial system following the onset of the COVID-19 pandemic, in June, the Board approved a reduction in MRR on rupee deposits from 13% to 10% should liquidity conditions warrant such a change. To note, this change was not required during 2020 and at the end of the year, MRR on applicable deposit liabilities remained at 13%.

3.6.2 Deposit Auction Arrangement

DAA was the main monetary policy instrument used to withdraw excess liquidity from the banking system. Nonetheless, given the above-stated money market intervention strategy, there was a reduction in DAA offered during the year, both in terms of frequency and volume. At the end of 2020, the stock of outstanding DAA stood at R635 million, which was lower than the balance of R873 million recorded at the end of the previous year. During 2020, the main maturity of DAA offered was 7 days.

The table below shows the average interest rates on the main maturities of DAA offered during 2020.

Table 3.8: Weighted Average Deposit Auction Arrangement Rates[1] (2020)

	Q1	Q2	Q3	Q4
Maturity Period		**Per cent (%)**		
7 days	4.37	1.02	1.00	1.03
28 day	4.70	1.60	1.05	1.06
35 day	4.59	1.51	1.09	1.05
56 day	5.00	3.84	1.10	1.08
63 day	4.60	1.57	1.18	1.07

[1] End-of-period data

Source: Central Bank of Seychelles

3.6.3 Credit Auction Arrangement (CAA)

The liquidity-injecting policy tool, CAA, was not used during the year given that all interventions by the Central Bank in the open market were to absorb liquidity.

3.6.4 Repurchase Operations

Repurchase operations comprising of reverse repurchase and repurchase agreements involve the use of Treasury bills as underlying securities to either withdraw or inject liquidity. Such instruments were not utilised in the Bank's open market operations in 2020.

3.6.5 Standing Facilities

Standing facilities are instruments offered by some central banks to assist ODCs with their short-term liquidity management, by providing deposit and lending arrangements on an overnight basis.

3.6.5.1 Standing Deposit Facility (SDF)

SDF serves as the floor of the interest rate corridor. This facility allows ODCs to place their end-of-day excess funds in an overnight deposit at an interest rate set by the Central Bank. Interest rate on SDF is consistent with the prevailing monetary policy stance.

In the first three months of 2020, the SDF rate remained the same as in the fourth quarter of the previous year at 2.0%. In the second quarter, the rate was reduced to 1.0% in line with the loosening of monetary policy to support economic activity. It was then maintained at 1.0% for the remainder of the year, despite the downward shifts in both the MPR and SCF rate in the third quarter.

Total SDF placements amounted to R180 billion in 2020.

3.6.5.2 Standing Credit Facility (SCF)

SCF provides credit to ODCs on an overnight basis when funding is unavailable on the interbank market and serves as the ceiling of the interest rate corridor. The SCF rate was kept unchanged at 8.0% in the first quarter of 2020 as the Bank maintained its loose monetary policy stance adopted in the last quarter of 2019. In the second quarter of 2020, with a further loosening of monetary policy, the rate was reduced to 7.0%. As the Bank continued its effort to support the domestic economy, the SCF rate was further lowered to 6.0% in the third quarter, the level at which it remained for the remainder of 2020.

There was no request for SCF during the year under review.

3.6.6 Foreign Exchange Auction (FEA)

FEA is a policy tool which can be used by the Central Bank for both liquidity and reserve management purposes. Purchases from the market add liquidity and increase international reserves, whereas a sale has the opposite effect. Foreign exchange purchases, through FEAs, were only possible at the start of the year, through which the Bank purchased a total of US$11 million from the domestic market.

As of the second quarter of the year and following the supply shock in the domestic foreign exchange market due to the impact of COVID-19 on the tourism sector, the Bank supported the economy through sales of reserves. A total of US$29 million was sold to commercial banks through the FEA facility.

3.6.7 Foreign Exchange Swaps

Foreign exchange swaps are used for fine-tuning liquidity conditions in the system and may also be used to manage external reserves. The instrument is yet to be used by the Bank since its inception in 2010.

SECTION FOUR

Government Finance[10]

4.0 Overview

The initial budget approved for the financial year 2020 had assumed further expansion in economic activity during the period under review and a primary surplus of 2.5 per cent of GDP. Key to this projection was a buoyant tourism industry which was set to improve on its record performance achieved in 2019. Hence, growth in tourism, the main sector of the Seychelles economy in terms of its importance to foreign exchange supply, contribution to GDP, employment generation as well as government revenue would have been the underlying driver for the overall expansion in output.

However, as early as the first quarter, it was apparent that the domestic economy would perform significantly below initial expectation. This followed reports that the coronavirus outbreak which started in China was spreading rapidly across the globe, particularly in Europe, a key source of tourists to Seychelles. Lockdown measures were being imposed to contain the spread of the virus but these were at the detriment of economic activity, particularly tourism and travel trade. As the pandemic was causing major health and economic challenges worldwide, it was a matter of when rather than if Seychelles would be impacted. Many local establishments were experiencing significant reduction in occupancy level due to numerous travel restrictions imposed in various countries. The situation worsened when positive cases of the virus were recorded in Seychelles followed by the closure of the country's international borders.

Given this new reality, the government undertook a thorough review of its 2020 budget. Considering the anticipated, unprecedented contraction in economic activity, revenue was expected to decline and despite reprioritisation of expenditure resulting in cuts in some areas, the fiscal account would end up with a primary balance that is in deficit. This was a first for Seychelles since 2008 when it started the implementation of a comprehensive macroeconomic reform with the support of IMF.

An amended budget with a total appropriation bill of just above R10 billion was therefore presented and approved by the National Assembly in April. This was 12 per cent higher than the previous one approved in October 2019. The increase in expenditure was deemed necessary to cater for the different policies put forth by government to support the economy in light of the challenges brought about by the COVID-19 pandemic. The amended 2020 budget was geared towards more efficient resource allocation as well as providing support to private businesses and individuals affected by the COVID-19 pandemic.

[10] Statistics and analysis are based on GFS 2020, as per latest data available as at March 05, 2021.

A supplementary budget of R1.1 billion was approved by the National Assembly in December. This was to cater for unforeseen expenses that had to be incurred during the year, due partly to the depreciation of the domestic currency. As a result, the actual primary balance was a deficit of 16 per cent of GDP. There was therefore a growth in public debt following an increase in the financing needs of government and these were from both domestic and external sources. Consequently, the ratio of total public debt to GDP rose from 57 per cent in 2019 to 94 per cent at the end of 2020. In view of the forecasted spill-over effects of the pandemic in 2021, it was evident that the government's commitment to reducing public debt to below 50 per cent of GDP by end-2021 would not be attained.

4.1 Policy Changes

As indicated above, during 2020, fiscal policy was largely dominated by measures to support the economy, ensure food security and mitigate the financial impact of the pandemic on businesses and individuals.

As Seychelles started to feel the impact of the pandemic on its economy, there was a need to revise the previously approved budget given that with the new realities, it was clear that expectation in terms of revenue collection will not materialise which therefore called for appropriate adjustment on the expenditure side. Moreover, similar to many economies that were facing such challenges, the government had to re-align its priorities and therefore conducted a thorough review of its expenditure in order to allocate resources in areas where it was most needed, and provide support to businesses and individuals affected by the pandemic. Part of this process involved an in-depth assessment of the budget allocated to the ministries, departments and agencies. Whilst most of these bodies reduced their respective budgets, these revisions did not apply to the Ministry of Health, the Health Care Agency, the Public Health Commission and other agencies that provide essential services given the need for additional resources by these entities during the challenging period. In the case of the Ministry of Health, an additional R50 million was also allocated for the completion of projects.

Prominence was also given to the Agency for Social Protection (ASP) and the Unemployment Relief Scheme (URS) to which additional funding was provided. Such allocations were deemed critical, in view of their role in providing support to the most vulnerable, the unemployed and those in the informal sector.

In regards to capital projects, whilst the ongoing works had to be completed, new projects were put on hold. However, the budget allocation for capital projects was revised upwards given the impact of the depreciated domestic currency on the cost of projects for components that have to be settled in foreign currency.

Other cost cutting measures were introduced and these included a freeze on recruitment in government, and the cancellation of hosting and participation in all international sports activities, amongst others.

The national population census scheduled for the year by the National Bureau of Statistics was also postponed.

Despite the challenges, government guaranteed the employment of graduates in areas of the public service such as health and education whilst the scheme, 'My First Job', under the Employment Department provided support to graduates who were looking for employment. As the year progressed and economic activity continued to slow down, this led to increased job scarcity on the local market. This situation prompted government to introduce a new internship scheme for returning and local-based graduates as well as post-secondary students in July. Under the scheme, which acted as a safety net, the applicants were allowed to work temporarily, though not in their related field of study, until relevant jobs in their chosen profession were available. Government guaranteed monthly allowances of R8,550 and R5,800 per month to the graduates and post-secondary students, respectively.

As part of its measures to support the private sector and in turn avoid redundancies, government introduced the FA4JR scheme through which the salaries of employees in the private sector as well as self-employed individuals were guaranteed. The assistance was extended to both Seychellois and foreign workers, covering the monthly basic salaries and fixed allowances which was capped at R30,000. Upon initiation in April, the scheme was for 3 months with the possible extension to 6 months. However, given the prolonged effects of the pandemic and therefore no recovery in economic activity, the scheme was extended until the end of the year. As of July, only the salaries of Seychellois workers were guaranteed.

Whilst the FA4JR scheme was aimed at providing some form of security in terms of employment for workers, the harsh realities of the pandemic showed that there would still be some redundancies as businesses struggled to stay afloat. In this light, SETS was set up to cater for Seychellois workers who were made redundant from July 01 to December 31. The scheme was responsible for retraining and upskilling of the applicants as well as assisting them with re-entering the labour market when job openings became available. Towards the end of the year, the operation of SETS was extended up to the end of February 2021.

Another measure taken to support the private sector was the suspension of taxes to help towards maintenance of business' liquidity. In line with such, all tax payments that were due by March were postponed to September. Moreover, 'corporate social responsibility tax', 'tourism marketing tax', 'business tax' and taxes on 'non-monetary benefits' were also postponed until September.

Given the overall loss in revenue, it was decided that the price of Mogas sold to the domestic market should be maintained at a floor of R15.76 irrespective of the actual market price which due to the reduction in global demand and therefore sharp drop in oil prices internationally meant extra revenue for government. In addition, the decision to remove value added tax (VAT) on food, which was expected to take effect in 2020, was postponed.

The pandemic also brought out the importance of food security for the country. In this light, continuous investment in the agriculture and fisheries sectors was deemed a top priority. As such, the interest on loans granted via the Agricultural Development Fund was reduced from 2.5% to 1.0%. This aimed at assisting farmers with resources to continue investing in the sector. In regards to the fisheries sector, the interest rate on loans disbursed via the Fisheries Development Fund was also reduced from 3.0% to 1.0%. Such reductions were expected to last for the duration of the pandemic.

In order to reduce the dependency on imported meat and promote more local production, the levy on imported pork and poultry was increased in May. The levy for poultry was raised from R5.00 to R7.00 per kilo whilst that on pork products went up from R5.00 to R8.13 per kilo. These were aimed at reducing the demand for foreign exchange in the market where given the economic realities of 2020, supply was at a relatively lower level. The associated revenue raised went towards the Livestock Trust Fund that was put in place to help farmers cope with the cost of production challenges.

Due to concerns over the level of demand for imports and the limited supply of foreign exchange, the government imposed a temporary restriction on the importation of vehicles. This measure, which took effect in April, applied for all new permit applications with the exception of specialised vehicles.

Aside from financial support to the private sector, measures were also introduced to assist private individuals. Parents whose children were cared for by registered child minding, day care services or attending nursery schools benefitted from a monthly allowance of R750. This was paid directly to the respective services/schools whilst the parents had to settle the difference. The assistance, which was only extended to Seychellois citizens took effect in April.

The pension of individuals who were benefitting from the ‘Colonial Pension’ and those that fell under the Public Special Pension Act of 2005 was increased to a minimum of R3,000. The increase took effect in September. In addition, financial support was extended to citizens who had housing loans with HFC, whereby a 25 per cent reduction was applied on their monthly payments. This measure was effective from September and expected to last up to December 2021.

Table 4.1: Government Budget Summary
(2019 – 2020)

	2019 Budget	2019 Actual	2020 Budget	2020 Actual [1]
		R ('000)		
Total revenue and grants	**8,948,880**	**8,435,400**	**7,418,530**	**7,314,520**
Total revenue	**8,739,642**	**8,341,201**	**6,788,218**	**7,157,326**
of which:				
Tax	**7,490,901**	**7,424,852**	**5,903,742**	**6,369,460**
Personal Income Tax	885,430	974,980	899,651	1,023,230
Social Security Tax-Arrears	-	439	-	(26)
Customs Duties	329,584	313,123	287,108	259,549
Excise Tax	1,445,329	1,385,436	1,328,260	1,268,094
GST Tax Arrears	-	2,923	-	1,738
Value Added Tax	2,603,009	2,590,657	1,863,750	2,115,347
Business tax	1,433,911	1,396,939	1,066,725	1,203,899
Corporate Social Responsibility Tax	112,634	108,746	80,905	101,871
Tourism Marketing Tax	73,632	71,453	38,703	61,511
Other Tax	567,372	580,158	298,640	333,454
Property Tax	40,000	-	40,000	793
Nontax	**1,248,741**	**916,348**	**884,476**	**787,866**
Fee and Charges	426,420	339,840	299,763	263,486
Dividends Income	664,799	477,410	383,575	413,564
Other Nontax	45,655	44,181	54,382	48,182
Proceeds from sale of assets	111,867	54,917	146,757	62,634
Grants	**209,238**	**94,200**	**630,312**	**157,193**
Expenditure and net lending	**9,082,395**	**8,379,341**	**11,123,325**	**11,430,629**
Current expenditure	**7,802,868**	**7,509,015**	**9,452,346**	**10,032,195**
Primary Current Expenditure	**7,079,802**	**6,950,452**	**8,756,172**	**9,391,854**
Interest due	723,066	558,564	696,174	640,341
Transfers	52,778	92,121	273,971	435,004
Capital expenditure	**884,677**	**534,487**	**1,219,549**	**881,566**
Net lending	**221,746**	**148,942**	**171,978**	**222,311**
Contingency	**50,000**	**49,989**	**105,000**	**148,621**
Primary balance, Accrual basis (GFS)[2]				
Including grants	**589,550**	**614,623**	**-3,008,621**	**-3,475,768**
In per cent of GDP	2.5%	2.6%	-14.0%	-16.2%
Excluding grants	**380,313**	**520,424**	**-3,638,934**	**-3,632,962**
In per cent of GDP	1.6%	2.2%	-17%	-16.9%
Overall balance, Accrual basis (GFS)	**-133,516**	**56,060**	**-3,704,795**	**-4,116,110**
In per cent of GDP	-0.6%	0.2%	-17%	-19.1%
Overall balance, cash basis (after grants)	**-133,516**	**-196,375**	**-3,704,795**	**-4,304,793**
Financing	**133,516**	**196,375**	**3,704,795**	**4,304,793**
Foreign Financing (accrual basis, net)	**-470,383**	**-45,271**	**802,972**	**890,971**
Domestic Financing, net	**27,046**	**265,171**	**2,901,823**	**2,693,736**
Bank Financing	24,341	175,577	2,500,000	2,226,139
Non-Bank Financing	2,705	89,595	401,823	467,598

Figures do not necessarily add up due to rounding.

[1] The series is subject to audit and might be revised accordingly.

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

Source: Ministry responsible for Finance

4.2 Public Debt

As highlighted above, the policy measures introduced to support the economy had implications on the fiscal accounts. Given the revised budget has resulted in a deficit, there was a need to raise additional financing. Therefore, the government increased its borrowings from both the domestic market as well as foreign sources. On the domestic front, this included an increase in Treasury bills and the issuance of three Treasury bonds in June. In addition, the country also accessed budget support loans from international organisations such as the IMF, the World Bank and AfDB.

Consequently, at the end of 2020, the total stock of public debt, inclusive of government guarantees, stood at R19,395 million (US$897 million) which was equivalent to 94 per cent of GDP. This was a growth of 45 per cent relative to 2019. The increase in the overall debt level was mainly driven by an expansion of 72 per cent in external debt to stand at R10,063 million in 2020. In US dollar terms, this grew by 12 per cent to stand at US$466 million. Hence, aside from the uptake of budget support loans by government, the depreciation of the domestic currency was also a key driver behind the surge in external debt in rupee terms.

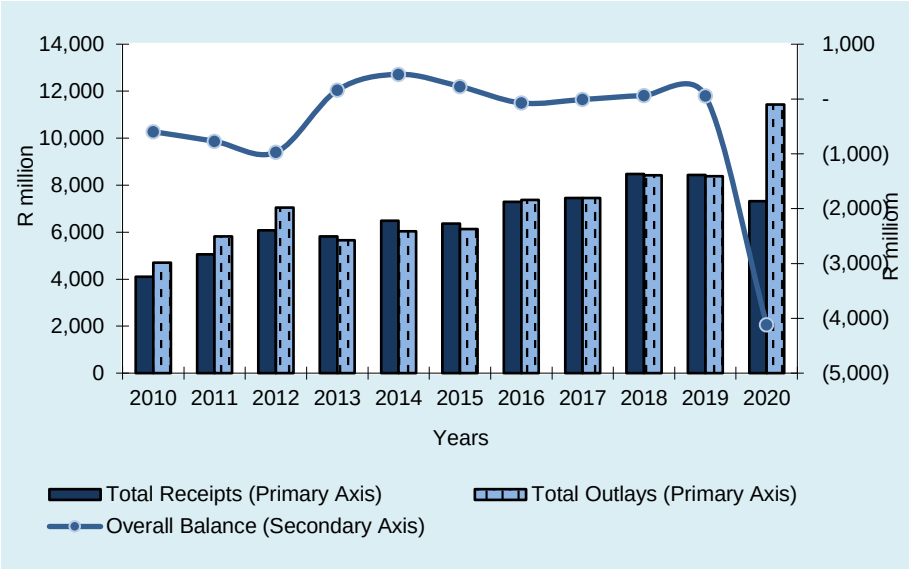
With regards to the stock of domestic debt, this expanded by 25 per cent to stand at R9,332 million. The rise in domestic debt was primarily due to the increased uptake in government securities which was up by 35 per cent relative to the previous year.

In consideration of the above development and taking into account that the primary balance was in deficit for the first time since 2008, there was a temporary setback in the debt reduction strategy of the government. Hence, considering the 2020 results and in view that the spill-over effects of the pandemic was expected to filter through to at least into 2021, it was evident that government would not be able to meet its target to reduce total public debt to below 50 per cent of GDP by 2021.

4.3 Outcome for 2020

At the end of 2020, a primary deficit of 16 per cent of GDP was realised. As stated earlier, this was the first primary shortfall since 2008 when Seychelles started the implementation of a comprehensive macroeconomic reform programme with the support of IMF. Total actual revenue was below forecast whilst expenditure and net lending exceeded the planned amount. To a large degree, the outcome reflected the budget implications of policies introduced during the year to support the economy faced with the COVID-19 pandemic. Most analysts were of the opinion that the economic implications of the pandemic would be felt for the next few years amid significant uncertainty of the timing of a recovery.

Chart 4.1: Government Finance Outcome (2010 – 2020)



Source: Ministry responsible for Finance

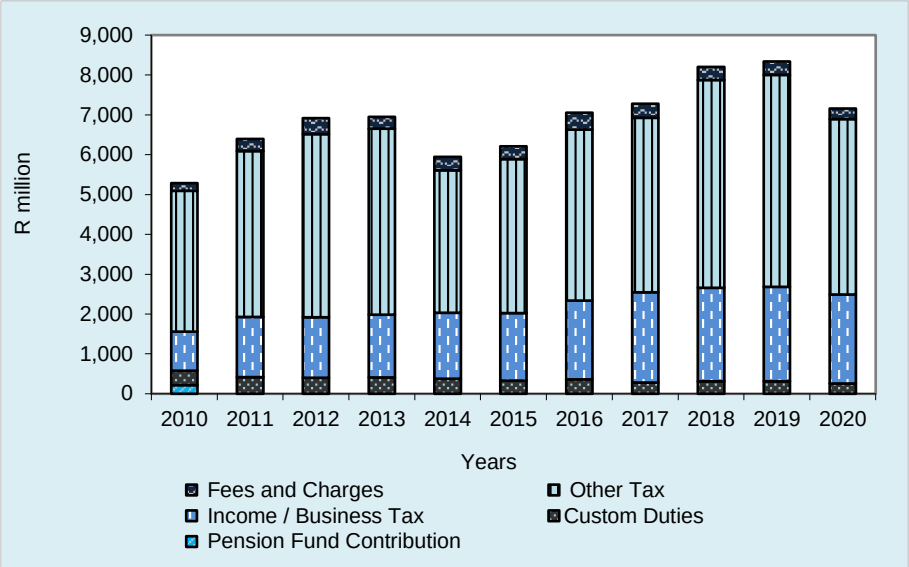
4.4 Revenue

Total annual revenue (inclusive of grants) amounted to R7,315 million, which was 1.4 per cent below forecast. Such outcome was mainly driven by an underperformance in non-tax receipts.

At R788 million, non-tax revenue was 11 per cent below the projected figure. This followed lower-than-expected receipts across all of its components with the exception of 'dividends income' which was 7.8 per cent above forecast. In particular, receipts from 'grants' and 'proceeds from sale of assets' were 75 per cent and 57 per cent below their respective budgeted amount.

Tax revenue stood at R6,369 million or over performed by 7.9 per cent. This outcome was as a result of higher-than-expected tax receipts under most of its sub-components, with the exception of 'property tax', 'custom duties' and 'excise tax' which were 98 per cent, 9.6 per cent and 4.5 per cent below their respective budgeted figure. The main over performances were in the categories 'tourism marketing tax' (59 per cent), 'corporate social responsibility tax' (26 per cent), 'value added tax' (14 per cent) and 'income tax' (14 per cent). The outcome under the tax component was largely influenced by the requirement for tax returns of businesses to be in order before receipt of assistance from the government.

Chart 4.2: Major Revenue Flows in Current Receipts (2010 – 2020)



Source: Ministry responsible for Finance

4.5 Expenditure and Net Lending

Total expenditure and net lending stood at R11,431 million compared to the budgeted R11,123 million. This outcome reflected the increased spending consistent with introduced policy measures. The total for net lending amounted to R222 million, which was R50 million higher than the budgeted outcome.

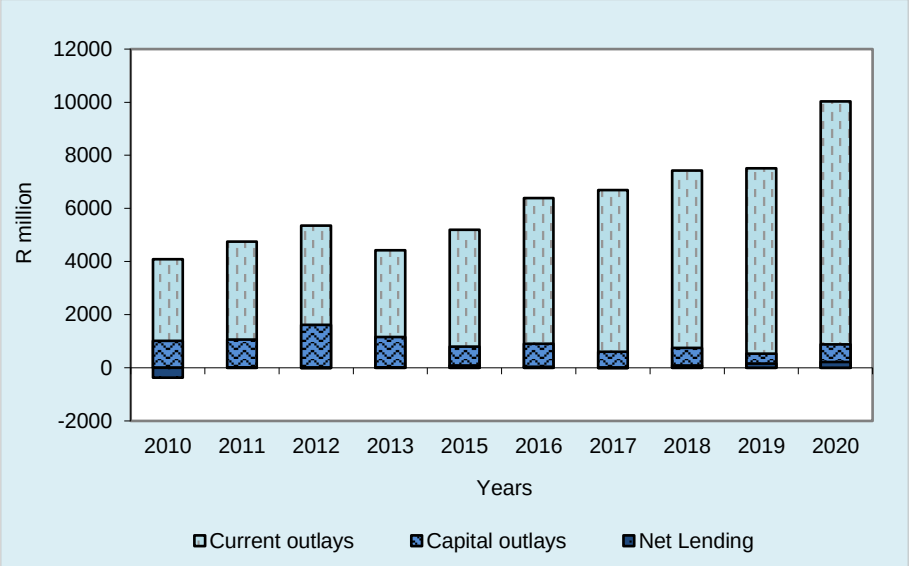
4.5.1 Current Outlays

Total current outlays stood at R10,032 million or R580 million above the planned amount. The result reflected higher-than-anticipated spending under most of its sub-components, and this was, with the exception of 'wages & salaries', 'interest due' and 'others', which were below the allocated amounts by R92 million, R56 million and R3.7 million, respectively. By contrast, the key components with the largest upward deviations from their respective budgets were 'social programme of government' by R249 million, 'goods & services' by R173 million, 'transfers to public enterprises' by R161 million and 'Benefits & approved programmes of ASP' by R149 million. Such results reflected the increased financial support to the vulnerable and the unemployed segments of the economy.

4.5.2 Capital Outlays

An aggregate R1,250 million was spent as capital outlays for 2020, which was 20 per cent below the planned amount. As per past trends, the funding of projects accounted for the larger share of capital expenses and this stood at R882 million in 2020. The sum disbursed as development grants stood at R146 million, and this was appropriated to PUC (R61 million), Property Management Corporation (R83 million) and the Seychelles Public Transport Corporation (SPTC) (R1.6 million).

Chart 4.3: Government Capital Expenditure (2010 - 2020)



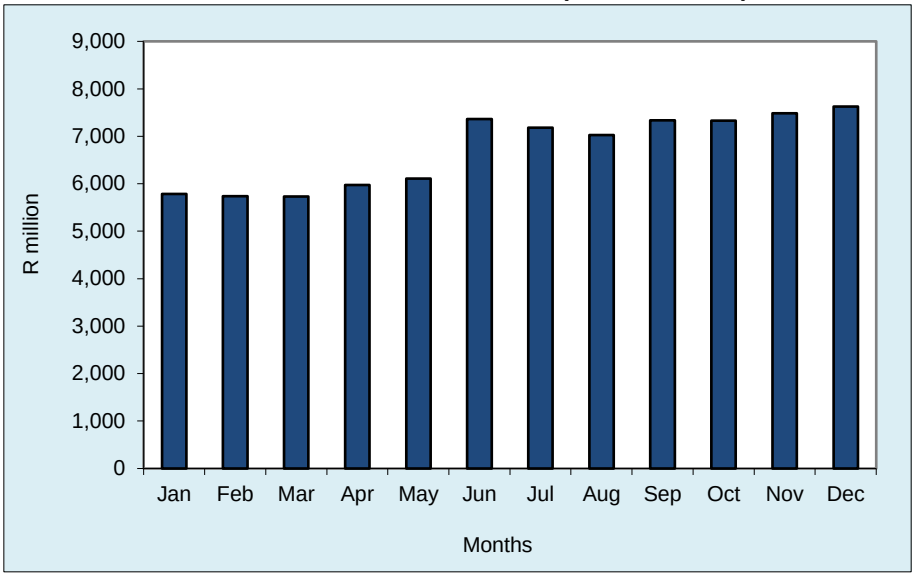
Source: Ministry responsible for Finance

4.6 Financing

As can be deduced from above, the government's financing need was relatively more pronounced in 2020 in view of the increased expenditure and limited scope for revenue collection. Funding was sourced from both domestic and foreign sources. Domestic financing was in the form of Treasury bills and three Treasury bonds issued on tap in June. Government also sought financing in the form of budget support loans from international organisations such as the IMF, World Bank and AfDB. In addition, short-term advances of R500 million to cover temporary revenue shortfall was made available by the Central Bank under the 'force majeure' clause of the Central Bank of Seychelles Act. The facility which was accessed in December, was fully repaid by the end of the year.

The actual total financing of the government's budget for 2020 was R4,305 million as compared to the forecasted R3,705 million.

Chart 4.4: Stock of Domestic Debt (Jan – Dec 2020)



Source: Ministry responsible for Finance; Central Bank of Seychelles

4.6.1 Treasury Bills

Treasury bills was one of the main short-term instruments used to meet the domestic financing needs of government during 2020. In view of increased issuances for fiscal purposes, at the end of 2020, the stock of outstanding Treasury bills was higher than in 2019. The growth was by 16 per cent at cost value and 14 per cent at face value.

Despite the increased issuance of Treasury bills, the return on all three maturities declined compared to the previous year. Yields[11] on the 91-day, 182-day and 365-day Treasury bills, ended the year at 2.92%, 4.52% and 5.56%, respectively. This was lower than the same securities for end-2019 whereby the average yields of 5.22%, 5.63% and 6.29% were registered.

[11] Treasury bills rates as at closing date.

Table 4.2: Treasury Bills [1/2/3/4] (2016 – 2020)

	2016	2017	2018	2019	2020
			R (million)		
Stock outstanding [1/3/4]	**4,005.0**	**3,859.5**	**3,554.4**	**3,668.3**	**4,242.1**
91-day bills (tender issue)	510.8	566.1	366.5	327.9	672.0
182-day bills (tender issue)	1,055.4	1,108.4	726.7	770.5	1,320.5
365-day bills (tender issue)	2,438.8	2,185.1	2,461.1	2,569.9	2,249.6
Stock outstanding [2/3/4]	**4,218.2**	**4,023.6**	**3,722.9**	**3,844.3**	**4,399.0**
91-day bills (tender issue)	518.1	570.4	371.1	332.1	676.3
182-day bills (tender issue)	1,088.6	1,132.6	746.9	790.8	1,348.7
365-day bills (tender issue)	2,611.5	2,320.5	2,604.9	2,721.3	2,374.0
Held By [2/3]					
Commercial banks	3,114.7	3,158.6	2,546.9	2,546.8	3,401.4
Other financial institutions	510.0	324.2	392.4	363.2	146.9
Others	593.5	540.8	783.5	934.3	850.6

[1] At cost value

[2] At face value

[3] End-of-period data

[4] Balances exclude stock of bills held by the Central Bank and includes stock issued for monetary policy purposes

Source: Central Bank of Seychelles

4.6.2 Treasury Bonds

In order to finance the increase in expenditure in 2020 amid limited scope to increase revenue, three bonds were issued in June. The bonds, "Solidarity Bonds", were for a total value of R500 million each, and had tenure of 3 years, 5 years and 7 years at an interest of 7%, 10% and 12%, respectively. At the end of 2020, the total stock of outstanding bonds stood at R2,000 million.

Table 4.3: Treasury Bonds[1] (2016 – 2020)

	2016	2017	2018	2019	2020
			R (million)		
Stock outstanding	**512.6**	**600.0**	**600.0**	**550.0**	**2,000.0**
4.0%, 2-yr	-	-	-	-	-
4.5%, 3-yr	262.6		-	-	-
5.5%, 5-yr	250.0	250.0	250.0	-	-
6.0%, 3-yr		50.0	50.0	50.0	-
6.5%, 5-yr		150.0	150.0	150.0	150.0
7.0%, 7-yr		150.0	150.0	150.0	150.0
7.0%, 7yr 1770 Bond				200.0	200.0
7 %, 3-yr Solidarity Bond (Jun 2020)					500.0
10 %, 5-yr Solidarity Bond, Issue (Jun 2020)					500.0
12 %, 7-yr Solidarity Bond, Issue (Jun 2020)					500.0
Held by					
Commercial banks	330.3	302.0	302.0	242.0	902.0
Other financial institutions	91.4	129.4	129.4	149.0	223.0
Others	90.9	168.5	168.5	159.0	875.0

[1] End-of-period data

Source: Central Bank of Seychelles

SECTION FIVE

External Sector[12]

5.0 Overview

The various challenges brought about by the COVID-19 pandemic in 2020 contributed towards a deterioration of the country's external position. The current account, which is inherently in deficit widened from a shortfall of US$272 million (or 17 per cent of GDP) in 2019 to US$328 million (or 27 per cent of GDP). This outcome was largely as a result of a decline in the export of services, particularly driven by a sharp reduction in tourism earnings as a result of the marked contraction in tourism activity that was prominent as from the second quarter of the year. In line with the decrease of 70 per cent in the number of visitors, earnings from tourism is estimated at US$221 million, which was a fall of 62 per cent relative to the outcome of the previous year. Whilst imports also decreased, this was insufficient to offset the decline in the total value of exports, which therefore resulted to a widening of the current account. Given the unprecedented fall in tourism activity, there was an increased dependency on the fisheries industry as well as other export-oriented sectors in terms of the main interim sources of foreign exchange for the economy. Notwithstanding this fact, earnings from these segments were not sufficient to offset the direct loss of income from tourism.

With regards to the developments in the foreign exchange market, the sudden and unanticipated decline in tourism earnings as of the second quarter of the year translated into an exchange rate shock, resulting in a sharp depreciation of the domestic currency in April. As demand for foreign currency remained relatively elevated, the rupee weakened, a trend that was maintained throughout the year. In light of this, for 2020, on average, the rupee depreciated by 26 per cent each against the US dollar and GBP, and by 29 per cent relative to the EUR.

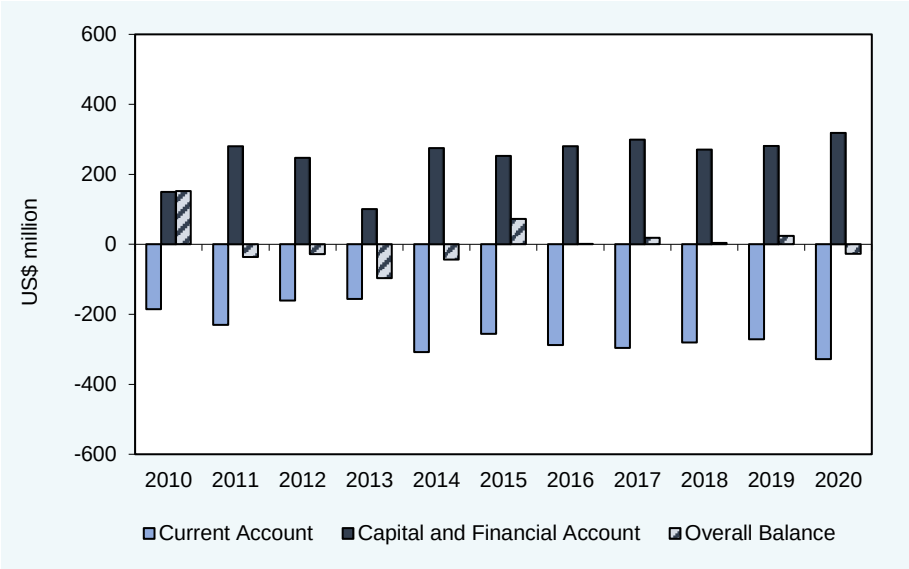
Against the above backdrop, the Central Bank had to support the domestic foreign exchange market through a drawdown of reserves and this was done through foreign exchange auctions to commercial banks. The Bank also supported the economy through direct foreign exchange sales to SEYPEC and STC for the purchase of fuel and essential goods, correspondingly. Given the conditions in the market, opportunistic purchases of foreign exchange for reserves accumulation was only feasible in January. However, the reserves position was strengthened from the support of loans from international partners. At the year-end, gross official reserves stood at US$559 million, equivalent to 5.0 months of imports of goods and services. Moreover, at US$400 million, net international reserves (NIR) was US$6.5 million above its target.

[12] Since 2015, the Bank includes offshore sector data, particularly the activities of entities registered as Company Special Licence (CSLs), in the Balance of Payments (BOP) statistics. This was a prerequisite for the country's subscription to the IMF Special Data Dissemination Standards (SDDS). The new offshore data has significantly altered the country's BOP in particular the capital and financial account. To note, that the BOP has been revised as far back as 2012 in order to include the offshore sector data.

5.1 Current account

As has traditionally been the case, the current account remained inherently in deficit, reflecting the country's heavy reliance on imports. However, the shortfall worsened from US$272 million in 2019 to US$328 million in 2020 or equivalent to 27 per cent of GDP. Such outcome was attributed to a notable contraction in net inflows of services which outweighed an improvement in the deficit under the goods account that followed a reduction in the total value of imports. The decline in imports of goods was predominantly driven by a fall of 20 per cent in payments for mineral fuel, in addition to the value of imports of other commodities which was consistent with the general contraction in economic activity experienced during 2020.

Chart 5.1: Overall balance, current account and capital & financial account of the BOP (2010 – 2020)

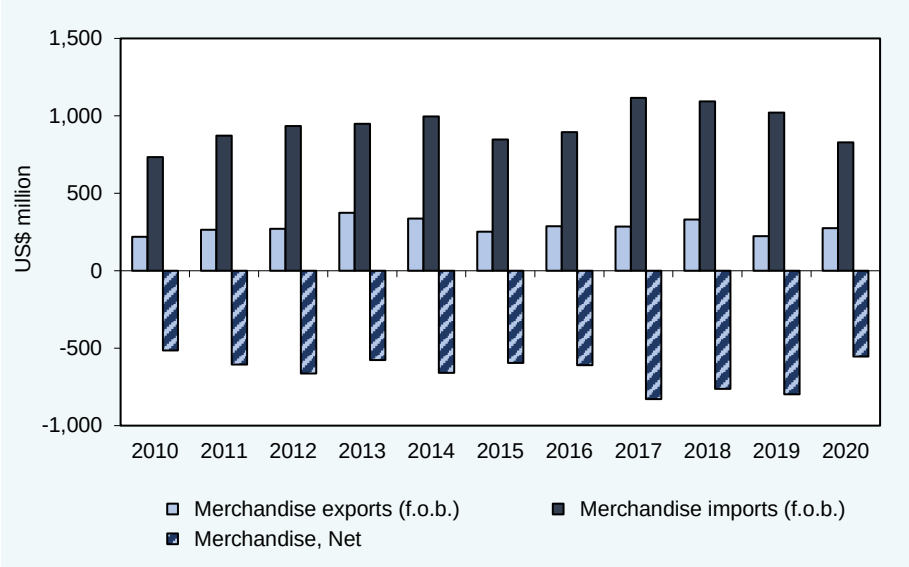


Source: Central Bank of Seychelles

5.1.1 Trade in goods

In 2020, the country's trade deficit narrowed by a considerable 31 per cent to stand at US$433 million relative to US$631 million in the previous year. Notwithstanding the fact that total credit under the goods account fell by 13 per cent despite a growth in the value of exported merchandise, this outcome was mostly driven by a decline of 23 per cent in imports.

Chart 5.2: Trade in Goods (2010 – 2020)



Source: National Bureau of Statistics & Central Bank of Seychelles

Table 5.1: Seychelles Balance of Payments[1] (2016 – 2020)

	2016	2017	2018	2019	2020 *Prov.*
CURRENT ACCOUNT (US$ million)	**-287.4**	**-295.7**	**-280.2**	**-271.6**	**-328.0**
Goods,	**-531.9**	**-590.3**	**-615.4**	**-630.6**	**-432.6**
Credits (of which:)	459.2	525.3	572.7	483.2	419.8
Merchandise exports (f.o.b.)	286.5	286.4	330.7	223.7	274.9
Debits (of which:)	991.0	1,215.7	1,188.1	1,113.8	852.4
Merchandise imports (f.o.b.)	895.5	1,115.6	1,092.9	1,022.0	828.9
Services, net	**386.3**	**446.5**	**438.7**	**447.0**	**178.4**
Credits (of which:)	893.7	998.1	1,108.3	1,126.0	670.1
Tourism Earnings	413.7	482.7	559.2	589.7	221.3
Debits	507.4	551.6	669.7	679.1	491.7
Primary Income, net	**-132.2**	**-136.2**	**-105.0**	**-81.6**	**-60.6**
Compensation of employees	-7.5	-8.9	-8.3	-7.6	-4.7
Credits	5.1	4.7	4.7	4.7	2.6
Debits	12.5	13.6	13.0	12.3	7.2
Investment income	-124.8	-127.3	-96.7	-74.0	-55.9
Credits	8.2	10.8	18.7	19.4	10.5
Debits	133.0	138.1	115.4	93.4	66.5
Secondary Income, net	**-9.7**	**-15.7**	**1.5**	**-6.4**	**-13.3**
General government	30.7	22.4	42.2	37.8	18.4
Credits	30.7	22.4	42.2	37.8	18.4
Fishing licence fees	7.5	10.9	8.6	8.0	13.5
Other grants	23.2	11.5	33.7	29.8	4.9
Debits	0.0	0.0	0.0	0.0	0.0
Other sectors	-40.4	-38.0	-40.7	-44.2	-31.6
Credits	17.1	20.1	21.1	22.0	9.0
Debits	57.5	58.1	61.8	66.2	40.6
CAPITAL AND FINANCIAL ACCOUNT	280.4	317.4	274.5	287.1	294.4
CAPITAL ACCOUNT	54.2	52.3	49.8	38.3	20.9
FINANCIAL ACCOUNT	-226.2	-265.1	-224.7	-248.8	-273.5
Direct investment	**-119.3**	**-206.3**	**-315.4**	**-262.0**	**-155.7**
Net acquisition of financial assets	-78.4	-81.9	-10.3	-8.1	-6.5
Net incurrence of liabilities	40.9	124.5	305.2	253.9	149.2
Portfolio investment	**51.8**	**53.5**	**-30.4**	**11.3**	**76.2**
Net acquisition of financial assets	61.1	38.5	-33.1	1.2	37.6
Net incurrence of liabilities	9.3	-15.0	-2.7	-10.1	-38.6
Other investment	-158.8	-130.7	117.3	-22.1	-167.2
Net acquisition of financial assets	-91.0	-30.6	131.7	59.1	-50.4
Net incurrence of liabilities	67.8	100.1	14.4	81.2	116.8
Reserve assets	0.1	18.4	3.8	24.0	-26.8
Net errors and omissions	**7.1**	**-3.4**	**9.5**	**8.5**	**6.8**
OVERALL BALANCE	**0.1**	**18.4**	**3.8**	**24.0**	**-26.8**
Memorandum items:					
Current account (percentage of GDP)	-18.4	-20.0	-17.8	-16.5	-27.4
Trade Balance (f.o.b.) (merchandise exports less imports)	-609.0	-829.2	-762.2	-798.3	-554.0
Stock of Reserves (Gross) (US$ million)	524.0	545.2	549.5	580.5	559.2
Stock of Reserves (Gross) (months of imports)	4.1	4.2	3.8	3.8	5.0
Exchange Rate (Rupee/US$; period average)	13.3194	13.6481	13.9115	14.0335	17.6242

[1]Data series may differ from previous publications due to revisions.

Source: Central Bank of Seychelles

5.1.2 Merchandise exports

At US$275 million, the preliminary estimates showed an improvement of 23 per cent in total exports of merchandise in 2020 in comparison to US$224 million in 2019. As customary, canned tuna was the main contributor to export revenue. In 2020, in value terms, exports of caned-tuna increased by 24 per cent to US$252 million from US$203 million in the previous year, primarily due to higher demand for such goods when lockdown measures were imposed. As indicated earlier, this was also one of the economy's main sources of foreign exchange revenue given that tourism earnings were at an unprecedented lower level.

5.1.3 Merchandise imports

Preliminary estimates showed that the total value of merchandise imports (fob)[13] amounted to US$829 million. This was a decrease of US$193 million when compared to US$1,022 million in 2019. Whilst part of this decline was attributed to lower tourism and FDI-related imports hence the overall contraction in economic activity, an overall decrease in fuel prices on the international market was a contributing factor. The key components of imports in 2020 were 'food, live animals & vegetables oils' and 'machinery & transport equipment', accounting for 35 per cent and 20 per cent of total value of import, respectively. Other noteworthy import components were 'mineral fuels' (at 19 per cent) and 'manufactured goods & miscellaneous manufactured articles' (at 15 per cent).

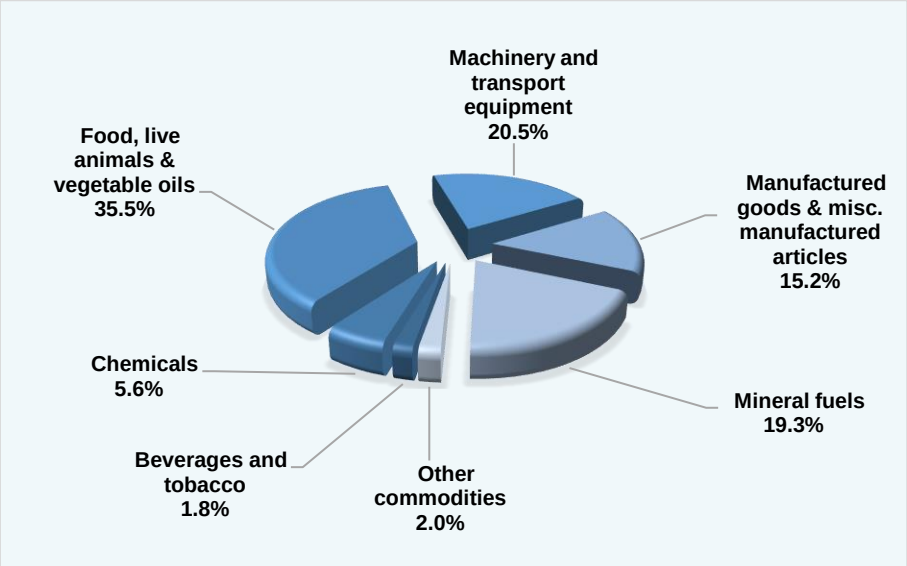
Table 5.2: Imports (f.o.b.) – by HS[1] Sections (2016 – 2020)

Description	2016	2017	2018	2019	2020
	(US$ million)				
Total Imports	**1,042**	**1,116**	**1,093**	**1,022**	**829**
Beverages and tobacco	27	23	23	22	16
Chemicals	63	50	55	54	49
Food, live animals & vegetable oils	277	286	293	256	293
Machinery and transport equipment	275	338	289	274	167
Manufactured goods & misc. manufactured articles	215	196	174	188	123
Mineral fuels	165	210	238	204	164
Other commodities	20	13	21	23	18

Notes:
[1] Harmonised System
Source: National Bureau of Statistics & Central Bank of Seychelles

[13] "Free on Board" (FOB) means what it costs to get the goods to the boat (or equivalent). The alternative is CIF which means "Cost, Insurance, Freight", and includes additional costs to get the good to a foreign customer.

Chart 5.3: Imports (f.o.b.) 2020



Source: National Bureau of Statistics

5.2 Services

The country's services account remained in surplus in 2020. However, as a result of the decline in economic activity, specifically in the tourism sector on account of the global pandemic, preliminary estimates show a contraction of US$456 million in exports of services to stand at US$670 million.

The immediate impact of COVID-19 on the tourism industry became evident as of April. As part of preventive measures, all overseas scheduled flights were halted following the announced closure of the international airport in late March that brought the tourism industry to a standstill. Despite the re-opening of the airport in June for private jets followed by the resumption of commercial flights in August, only a minor recovery was experienced. This was due to the fact that most countries, including key markets in Europe which in 2019 supplied the majority of visitors to Seychelles were under strict travel restrictions. The fall in visitor arrivals from the European countries was by 72 per cent compared to the previous year. The Italian, French, German and Russian markets declined by 89 per cent, 72 per cent, 67 per cent and 59 per cent, respectively. Decreases were also recorded in the number of visitors originating from the continents of Asia and Africa, and this was by 62 per cent and 77 per cent, correspondingly.

Notably, towards the end of the year, Israel proved to be a lucrative market for the industry owing in large to increased frequency of direct flights from Tel Aviv. Nonetheless, such development was not enough to support a recovery in the sector with both tourist arrivals and earnings remaining significantly below the pre-pandemic levels. Consequently, at US$221 million, tourism earnings are estimated to have decreased by 62 per cent relative to 2019, an outcome that was consistent with the total decline of 70 per cent in visitor arrivals over the same period.

As for the value of services acquired from non-residents, this dropped by US$187 million (or 28 per cent) to stand at US$492 million, consistent with the general tendency observed in the tourism and travel trade across the globe.

5.3 Primary Income

The primary income account remained expectedly in deficit, although an improvement was observed. The shortfall is estimated at US$61 million for 2020, from US$82 million in the previous year. Such outcome was attributed to a decrease in outflows of investment income, with interest, dividend payments, and management fees due being the main contributors.

5.4 Secondary Income

The country's balance for secondary income transactions remained in deficit which widened to US$13 million in 2020 when compared to US$6.4 million in the previous year. Although the preliminary estimates show a drop of US$26 million in the aggregate outward transfers in 2020, there was also decline in inward transfers. Such result was primarily due to lower receipts to government in terms of grants, coupled with outward transfers, the majority of which were worker's remittances associated with the number of expatriates employed in the domestic economy, the majority of whom were employed in the tourism, construction and manufacturing industries.

5.5 Capital and financial accounts

In 2020, the capital and financial accounts remained in surplus and estimated to have increased from US$287 million in 2019 to US$294 million.

5.5.1 Capital account

The capital account surplus stood at US$21 million, which was a reduction of US$17 million (or 45 per cent) compared to 2019. Official capital transfers remained the main component of this account. Inward official capital transfers were representative of projects financed by the country's bilateral partners and donations in the form of high-value capital goods.

5.5.2 Financial account

Preliminary estimates showed US$274 million financing of the current account deficit from the financial account compared to US$249 million in 2019. The main source of financing was attributed to transactions under 'other investment', significant of which was an increase in liabilities of the government sector and attributed to new loans received from multilateral partners, namely the IMF, World Bank and AfDB. Gross inflows of foreign direct investment (FDI) were estimated at US$149 million and this was US$105 million lower than in 2019. Such outcome was primarily because a number of investments were put on hold as economic activity was adversely impacted by the COVID-19 pandemic. Of note, the estimated total FDI which includes offshore activity, is also influenced by the

value of liabilities of international business companies, namely entities registered under Companies' Special Licences (CSLs).

5.6 External reserves

During 2020, official reserves held by the Central Bank which have been accumulated for the purpose of safeguarding and supporting the economy during challenging periods were used to cushion the impact of the shock in the domestic foreign exchange market. Following a sharp reduction in the overall supply of foreign exchange as a result of declines in visitor arrivals and hence tourism earnings, the Central Bank stepped in to support the market. A total of US$29 million was sold through FEAs to commercial banks. In addition, the Bank also provided assistance through direct sales of foreign exchange to two key entities – namely STC and SEYPEC – and these were for the purchase of essential goods and fuel, respectively. As per the table below, direct sales (in USD equivalent) to STC and SEYPEC amounted to US$22 million.

Table 5.3: Direct assistance to entities in 2020

	Direct assistance to entities (in USD million)[1]									
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
SEYPEC	3.74		3.5					3.3		10.54
STC		1.82	0.46	2.91	1.06	1.56	0.73	1.28	1.46	11.28
									Total Sales (in USD m)	**21.83**

[1] End of period data
Source: Central Bank of Seychelles

During 2020, the Bank managed to purchase only US$11 million from the market for the purpose of enhancing its reserves position and this was done in January and before the country started to feel the impact of the COVID-19 pandemic. Given the need to support the domestic foreign exchange market, and the uncertainty relating to the pandemic, it was imperative to prevent the depletion of reserves and to maintain an adequate reserves buffer. Given these exigencies, the country sought budget support in the form of concessionary loans from international partners and these were primarily the IMF, World Bank and AfDB. However, whilst such support has positively impacted the country's reserves position, it has also raised the level of external debt.

As at the end of December, the stock of gross official reserves held at the Central Bank stood at US$559 million, which was US$21 million (3.6 per cent) lower than in the previous year. In terms of reserves adequacy, due to a reduction in the country's total import of goods and services, this was equivalent to 5.0 months of cover.

As regards to NIR, the year-end level was US$400 million, exceeding the target of US$394 million by US$6.5 million.

Table 5.4

External Reserves [1] (2016 – 2020)

	2016	2017	2018	2019	2020
			(US$ million)		
Gross official reserves	523.5	545.2	549.5	580.5	559.7
Central Bank	523.0	544.7	549.0	580.0	559.2
Government	0.5	0.6	0.5	0.5	0.5
Central Bank's External liabilities	38.1	41.8	34.5	27.2	21.2
Net official reserves (including blocked deposits)	485.4	503.4	515.0	553.3	538.5
Net official reserves (excluding blocked deposits)	415.0	424.3	407.7	430.0	400.5

[1] End of period data

Source: Central Bank of Seychelles

5.7 Exchange rates

The Seychelles rupee started the year generally stable against the three major traded currencies. However, as the advent of the COVID-19 pandemic led to the imposition of travel restrictions by many countries, the resulted near-collapse of the global travel and tourism industry started to impact domestic activity. As Seychelles imposed its own restrictions, key of which being the closure of its borders, foreign exchange inflows converted into domestic currency, which was an average of US$3.0 million per day initially, fell to less than US$1.0 million per day. Such supply shock resulted in a sharp depreciation of the domestic currency. Initially, the rupee depreciated from an average of R14.0856 per US dollar at the end of March to R17.8666 at the end of April. A period of stability was experienced in late May, although this was short-lived as the local currency continued to weaken against the main traded currencies in the remaining months due to strong demand relative to supply.

Table 5.5: Exchange Rates[1] (2016 – 2020)

	2016	2017	2018	2019	2020
			(Seychelles Rupees per currency unit)		
Euro	14.7605	15.4618	16.4671	15.7539	20.2604
US Dollar	13.3194	13.6481	13.9115	14.0335	17.6242
Pound Sterling	18.0142	17.5237	18.5043	17.8705	22.5799
Japanese Yen	0.1230	0.1221	0.1260	0.1288	0.1655
South African Rand	0.9096	1.0270	1.0566	0.9727	1.0759
Singapore Dollar	9.6284	9.8952	10.3128	10.2872	12.8004

[1] Period Averages

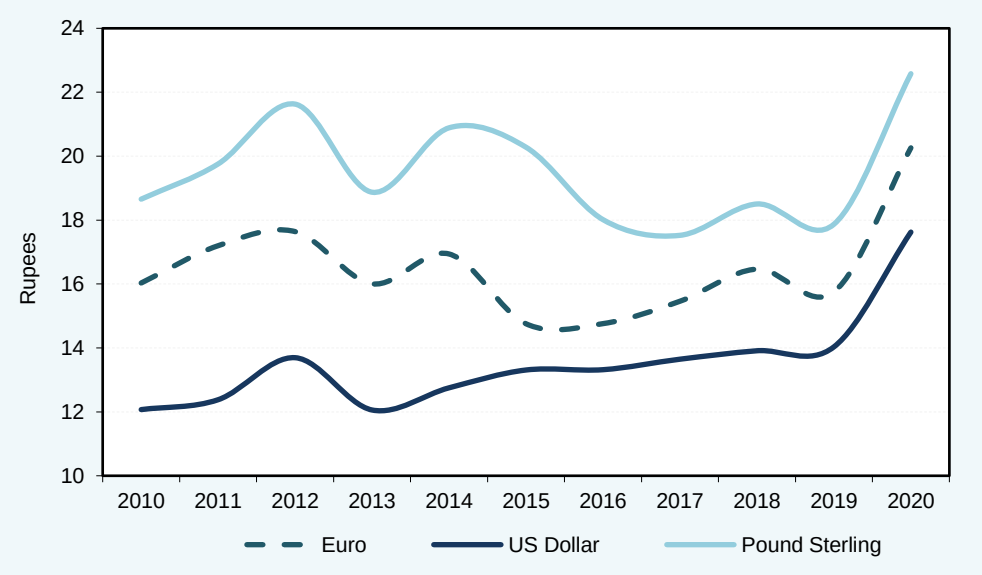
Source: Central Bank of Seychelles

At the year-end, the rupee stood at 21.6173 vis-à-vis the US dollar and R7.53 (53 per cent) weaker relative to its end of 2019 level. Such significant depreciation has also been observed against the EUR

and GBP; the end-of period average rates have increased from R15.7357 to R26.4231 (68 per cent depreciation) for the former currency, and from R18.4435 at end-2019 to R28.9884 for the latter currency (57 per cent depreciation).

On average, the rupee has depreciated by R3.59 (26 per cent) from R14.0335 per US dollar in 2019 to R17.6242 in 2020. It has also weakened by R4.51 (29 per cent) relative to the EUR and by R4.71 (26 per cent) vis-à-vis the GBP.

Chart 5.4: Exchange rate movements of the three main currencies (2010 - 2020)



Source: Central Bank of Seychelles

5.8 Developments in Financial Services

Insurance sector

In 2020, the Financial Services Authority (FSA) continued with its application to become a signatory to the Memorandum of Understanding (MoU) with the International Association of Insurance Supervisors (IAIS[14]), of which it is a member. As part of this process, FSA continued to work on the necessary administrative, legislative and regulatory changes with the objective to allow FSA to co-operate and exchange information with its foreign counterparts. Being a signatory of an international body such as the IAIS will increase Seychelles' visibility in the global environment, and improve its transparency and accountability by adhering to the IAIS core principles.

[14] The IAIS is the international body that brings together the world's insurance supervisors and regulators and is recognised as the global setter of standards for the insurance sector.

Pension sector

There were ongoing discussions with the Ministry responsible for Finance to establish a legislative framework for the supervision of market conduct and the prudential regulation of private and public pensions in Seychelles by FSA. It is anticipated that a policy direction will be finalised during the second quarter of 2021.

International Trade Zone (ITZ)

In 2020, FSA undertook reforms in the International Trade Zone (ITZ) regime to comply with the European Union – Code of Conduct Group on Business Taxation standards and requirements for Base Erosion and Profit Shifting of foreign-sourced income – in lieu of the current territorial business tax regime. Phase one of the reforms included the removal of business tax exemptions for ITZ companies under the ITZ Act. Phase two involved the imposition of substance requirements for ITZ companies to benefit with business tax exemption for those deriving foreign-sourced income for ITZ companies with permanent establishment in Seychelles.

Hire Purchase and Credit Sales

During the year under review, FSA received various propositions to include new items or goods that can be sold on a hire purchase and credit sales basis. In 2021, a cost and benefit analysis will be conducted on the merit of expanding the products that can be sold under such arrangements.

Fintech Innovation

FSA continued work on the setup and operationalisation of the Regulatory Sandbox for Capital Markets during the first quarter of 2020 by putting in place the necessary procedures, workflows and guidelines for its operationalisation. The Sandbox Regulations, gazetted in June 2019, is a framework set up by the Authority to allow for the offering and testing of innovative-eligible financial services within a regulated environment with defined conditions and restrictions, but exempted from licensing, disclosure and reporting requirements under the Securities Act. Under this framework, FSA will consider two broad categories of projects: digital market places that would encompass projects such as crypto-exchanges and digital custodians, and securities token offerings.

During the third quarter of 2020, FSA successfully registered its first Regulatory Sandbox participant undertaking digital custodian services. In 2020, FSA engaged with other potential investors for innovative services to be registered in the Regulatory Sandbox. To note, during the fourth quarter of 2020, FSA, CBS and FIU, through the National Anti-Money Laundering and Terrorist Financing Committee, initiated discussions pertaining to putting in place a legislative framework to govern Virtual Asset Service Providers, Virtual Asset Services and Virtual Assets.

Upon becoming a member of the Global Financial Innovation Network (GFIN)[15] in 2019, in 2020, FSA and GFIN engaged in various virtual conferences and meetings to seek ways of providing a more efficient way for innovative firms to interact with regulators, helping them navigate between countries as they look to scale new ideas. This includes a pilot initiative for firms wishing to test innovative products, services or business models across more than one jurisdiction. It also aims to create a new framework for co-operation between regulators of financial services on innovation-related topics, and share different experiences and approaches.

Gambling

In 2019, the consulting services of the Gaming Laboratories International (GLI) Africa was procured by FSA, to review and revamp the existing Seychelles Gambling legislative and regulatory framework to bring them at par with international standards and best practices, taking into consideration the rapid advances in technology. The project commenced in July 2019 and remained ongoing by the end of the year under review.

Capital Market and Collective Investment Scheme

In 2019, FSA had endeavoured to acquire Ordinary Membership of the International Organisation of Securities Commissions (IOSCO)[16] further to becoming an Associate member in 2018. This involved implementing the necessary legislative and regulatory changes prior to applying to become an ordinary member and a signatory of a Memorandum of Understanding (MoU) with IOSCO. These changes will allow FSA to co-operate and exchange information with its foreign counterparts. Being an Associate member of such an international body will not only increase Seychelles' visibility in the global environment, but will also improve its transparency and accountability by adhering to the IOSCO principles. The application exercise continued during 2020.

Fiduciary Services

Seychelles, through FSA and CBS, officially became a member of the Group of International Finance Centre Supervisors (GIFCS)[17] in November 2019. GIFCS' collective membership (including Seychelles) account for a market share of nearly 10 per cent of global international banking assets. The Group has become a highly prominent contributor in promoting compliance among its members with the Basel Core Principles and the Financial Action Task Force (FATF) recommendations. The GIFCS is also recognised as a leading authority on the regulation of Trusts and Company Service Providers, and the

[15] GFIN is a network of 50 organisations committed to the support of financial innovation in the interest of consumers. It was formally launched in January 2019 by an international group of financial regulators and related organisations, including the UK's Financial Conduct Authority (FCA) (built on the FCA's early 2018 proposal to create a global sandbox).

[16] The IOSCO is the international body that brings together the world's securities regulators and is recognised as the global setter of standards for the securities sector.

[17] GIFCS is a long established group of financial services supervisors with a core interest of promoting the adoption of International regulatory standards especially in the banking, securities, fiduciary and Anti Money Laundering (AML)/Counter Finance Terrorism (CFT) arena.

interface of these intermediaries with AML/CFT standards. In the second quarter of 2020, FSA initiated work for a gap analysis of the ICSP Act, regulations and codes, to align with the GIFCS standard requirements.

EU Compliance for tax matters

In February 2019, Seychelles was informed by the EU Code of Conduct Group (CoCG) that its territorial tax system did not comply with the international standards. Through further clarifications and guidance sought from EU, it was understood that Seychelles should amend its tax regime and introduce substance to capture foreign passive income in Seychelles. This includes an updated definition of permanent establishment to clearly dictate taxing rights of income where it is sourced. Thus, this would resolve issues of double non-taxation amongst jurisdictions and clarify where taxes are paid in line with the OECD and UN model of business taxation. However, no subsequent action was taken by the short deadline set by CoCG to carry out the necessary amendments in the tax regime as this requires industry-wide consultations. Consequentially, on February 18, the Council of the European Union added Seychelles to its list of non-cooperative jurisdictions.

In order to comply and be removed from the list of non-cooperative jurisdictions, Seychelles reviewed and amended the Business Tax Act, which was tabled to parliament in December.

OECD Global Forum on Exchange of Information on Request (EOIR)

The Global Forum is the multilateral framework within which work in the area of tax transparency and exchange of information is carried out by over 160 jurisdictions, one of which is Seychelles. All Global Forum members, as well as non-members, are assessed through a peer review process on their implementation of the EOIR standard as set out in the 2016 Terms of Reference (TOR).

Seychelles underwent a second round of reviews in 2019 against the 2016 TOR, and in respect of EOI requests received and sent during the review period (from July 01, 2015 to June 30, 2018). The report identified several deficiencies that Seychelles needed to address, such as:

- The definitions of 'beneficial owner' under AML Law applicable to legal entities and legal arrangements do not fully meet the standard.
- The enforcement measures in respect of IBCs were not effective to support the availability of ownership information to the standards.
- There was a lack of monitoring and enforcement obligations in respect of keeping information for Trusts and Foundations.
- The system of supervision over the accurateness of beneficial ownership and the need to strengthen collected information.

Other deficiencies identified in the report which was approved at the Peer Review Group of the Global Forum in February, were adopted by the Global Forum on March 27. Following the report, Seychelles got downgraded from Largely Compliant to Partially Compliant.

In order to be upgraded to Largely Compliant, Seychelles sought to review and amend the International Business Companies Act, Foundations Act and Trust Act, which are to be tabled before parliament in the first quarter of 2021.

Memorandum of Understanding

In 2020, CBS, FSA and FIU took a step further into fostering greater collaboration in the discharge of their regulatory and supervisory functions, following the enactment of a new Anti-Money Laundering and Countering the Financing of Terrorism Act (AML/CFT Act 2020). The three supervisory authorities entered into a tripartite MoU to allow for mutual cooperation and information exchange, particularly regarding their respective functions and duties under the relevant laws and regulations governing AML/CFT framework in Seychelles.

Furthermore, in an effort to promote collaboration among enforcement authorities, a second MoU was signed between FSA and the Anti-Corruption Commission of Seychelles (ACCS). The MoU aims to facilitate the exchange of information on the premise of prevention of corruptive activities within the non-banking financial services sector. A similar MoU was also being finalised between CBS and ACCS.

By end-2020, FSA was working on two other MoUs which are expected to be finalised in 2021; the first is with the Seychelles Investment Board for the establishment of a framework to collaborate on the promotion of the non-banking financial sector; the second with the Seychelles Revenue Commission for the exchange of information on licensees under the purview of FSA in the interest of fulfilling their respective regulatory mandates.

5.9 International Relations

Seychelles upheld strong relations with its diplomatic partners, both on bilateral and multilateral levels during 2020. While the pandemic did not permit travel for physical attendance at meetings and summits, relations were maintained through virtual platforms. The COVID-19 pandemic however, did have some impact on the number of agreements being signed relative to previous years.

5.9.1 Multilateral Institutions

Seychelles' cordial relations with its multilateral partners proved ever more valuable in 2020 in light of the unanticipated pandemic and its impact on the economy, where support from its development partners was vital.

5.9.1.1 International Monetary Fund

The complex challenges brought about by COVID-19 made it very difficult for the Seychelles authorities to pursue the objectives agreed under the non-financing PCI in 2020 with as much vigour as in previous years. In view of travel restrictions, consultations with the IMF were conducted virtually.

The unprecedented impact on the economy brought about by the pandemic necessitated the revision in a number of plans set out by the Authorities key of which was the fiscal targets. Financial support to the government became necessary to mitigate the social and economic impacts and consequently, the fiscal targets were pushed forward. In addition, the debt-to-GDP target of below 50 per cent – that the government committed to achieving in 2021 – became unattainable. Against the above backdrop, on May 08, the Executive Board of the IMF approved the country's request for emergency financing of SDR22.9 million (approx. US$31 million) under the Rapid Financing Instrument (RFI).

Nearing the end of the year, discussions were initiated on a possible programme with the IMF as a successor to the PCI which came to an end in December.

5.9.1.2 World Bank

The World Bank extended a line of credit worth US$6.9 million in April, which enhanced Seychelles' foreign exchange reserves given the need to strengthen the country's ability to weather external shocks, particularly those associated with the pandemic. In June, the World Bank approved a loan of US$15 million from the International Bank for Reconstruction and Development (IBRD) to support the country's response to the economic and social fallout from the COVID-19 pandemic. In the following month, they agreed to assist with technical support for Seychelles to implement its coastal management and erosion plan. This followed a visit in February by Mr Mark Lundell, the Country Director for Seychelles at the World Bank, where such was discussed with the President of the Republic.

5.9.1.3 World Trade Organisation (WTO)

Seychelles' participation at the World Trade Organisation (WTO) continued more than 5 years after becoming its 161st member. With the aim of benefitting and contributing towards trade negotiations at the multilateral level, Seychelles' main areas of interest remained in fisheries subsidies; market access; agriculture; trade in services 'domestic regulation' and electronic commerce. The country closely follows ongoing discussions on WTO reforms to ensure that existing flexibilities are not eroded through the reform agenda.

5.9.1.4 African Development Bank (AfDB)

The AfDB maintained its position as one of the country's longstanding allies and continued to provide its invaluable support during 2020. In March, the institution signed an agreement with the Seychelles government to support MSMEs in its Blue Economy sector through a grant of US$800,000 from the Fund for African Private Sector Assistance (FAPA). This was aimed at developing the country's marine

biotechnology sector, strengthening the capacity of public institutions and private operators, creating a knowledge platform on emerging business opportunities, and providing technical and financial training to MSMEs.

Following the onset of the pandemic and the urgent need for financing, Seychelles received a loan of US$10 million from the AfDB in June. The purpose of the loan was for macroeconomic stabilisation, strengthening national health responses, and safeguarding livelihoods and social safety nets.

5.9.2 Bilateral Relations

Seychelles continued to enjoy excellent relations with its bilateral partners, especially in the wake of the health pandemic.

India

The government of India provided much needed assistance during the year, in light of their standing as one the world's leading producers of pharmaceutical products. They strengthened their stance as being one of the country's most loyal allies in April when they made a special exemption at the request of the Seychelles government for a consignment of Hydroxychloroquine tablets, when exports of such were being restricted. This was part of four tonnes of medicine from India used in the treatment of COVID-19 patients. In the months that followed, Seychelles received several consignments of COVID-19 related essential medicines and other critical medications as part of the Indian government's 'Mission SAGAR' (Security and Growth for All in the Region) initiative.

China

China also contributed generously towards the nation's fight against the pandemic. In the first half of the year, the China-based – Jack Ma Foundation – donated three consignments consisting of medical testing kits, equipment and medicine to Seychelles as part of humanitarian aid for combatting COVID-19. The Chinese embassy also made several donations during the year, which comprised of protective gears, face masks, gloves, protective suits, infrared thermometers and other vital medical supplies.

United Arab Emirates (UAE)

In January, UAE agreed to fund and assist in the design of a drug rehabilitation centre at the cost of US$3.6 million. The cooperation and assistance also included the training of Seychellois personnel who will staff the rehabilitation centre once it becomes operational. That same month, the Ministry of Health received a state-of-the-art radiology information system valued at US$1.0 million from Sheikh Mohamed bin Zayed Al Nahyan, within the framework of his humanitarian initiatives at a regional and global level. This was a positive step towards the upgrade and modernisation of the ministry's information system.

Seychelles received a donation of eleven tonnes of medical supplies from the government of UAE in March to help contain and mitigate the spread of the disease in the country.

Following the Presidential elections and change in administration, the newly elected President, Mr Wavel Ramkalawan undertook a five-day working visit to the UAE in December, showcasing the countries' unwavering friendship. At this visit, the UAE donated 50,000 Sinopharm COVID-19 vaccines, thus effectively making Seychelles the first country in Africa with the ability to roll-out its COVID-19 vaccination campaign. Another outcome of the visit was the savings of US$2.0 million, on the cost of renal dialysis treatment following discussions between the President and the head of AMSA renal care, where the cost of treatment per session per patient was reduced from US$250 to US$175, which will translate into savings estimated at US$2.0 million in 2021.

5.9.2.1 European Union (EU)

Over the years, EU has been an avid contributor towards the country's development objectives, particularly in the areas of fisheries, environmental sustainability and climate change, in addition to supporting various other social and economic programmes.

A new sustainable fisheries partnership agreement and protocol[18] between Seychelles and EU came into force in February, following the expiry of the previous agreement the previous month. The agreement was for six years under which EU's financial contribution was €5.3 million per year. From that, €2.5 million is payment for the right to access Seychelles' waters, corresponding to a reference tonnage of 50,000 tonnes of tuna per year; the remaining €2.8 million provides sectoral support for the development of the fisheries policy of the island nation. In June, it was also unveiled that an annual fund of US$200,000 for the sustainable management of the environment and ecosystem would be part of the new agreement.

In February, Seychelles was added to the EU's list of non-cooperative jurisdictions for tax purposes on the grounds that it had a harmful preferential tax regime, and the jurisdiction along with three others, did not implement the tax reforms to which they had committed by the agreed deadline of December 2019. This was a major setback for the country as much improvement had been made in this area. During the year, progress was made to correct the existing deficiencies, particularly through the required legal amendments such that Seychelles is removed from the list.

In the area of trade, the country began negotiations to enlarge the scope of the Interim Economic Partnership Agreement (iEPA) with the EU, which would add on areas of interest for both parties, as listed below:

[18] A longstanding cooperation agreement between Seychelles and the EU in existence since 1987, which enables EU vessels to fish in Seychelles' territorial waters.

- Free movement of goods
- Rules of Origin
- Customs and trade facilitation
- Sanitary and phytosanitary measures
- Technical barriers to trade
- Trade defence mechanism
- Export taxes
- Trade in services and investment
- Public procurement
- Intellectual property rights
- Competition and related matters
- Trade and sustainable development
- Agriculture
- Dispute avoidance and settlement
- Institutional structure
- Economic development and cooperation
- Fisheries

5.9.3 Regional Integration

On the regional stage, Seychelles continued to actively participate in the various initiatives of SADC and COMESA. It was also highly involved in ESAAMLG initiatives, in line with its objective of implementing international best standards and improving the jurisdiction's reputation internationally.

5.9.3.1 Southern African Development Community (SADC)

SADC commemorated forty years of existence in 2020, following its establishment in 1980 as the Southern African Development Coordination Conference (SADCC) comprising nine states in Southern Africa. It eventually transformed into SADC in 1992 following the signing of the Declaration and Treaty by the Summit of Heads of State and Government in Windhoek, Namibia. Seychelles became a member of Southern African Development Community (SADC) in September 1997, but withdrew in 2004. In 2008, Seychelles renewed its membership with the regional bloc and became a party to the SADC Trade Protocol in May 2015.

This momentous forty-year milestone however, was overshadowed by the COVID-19 pandemic which necessitated that the Summit of Heads of States be held virtually and this took place in August. The theme was centred around celebrating 40 years of 'Building Peace and Security while Promoting Development and Resilience in the Face of Global Challenges'. The event was attended by the Vice-President who stood in for the President. His intervention focused on the pronounced socio-economic impact of COVID-19 in the SADC region, in addition to reiterating his message of solidarity and pragmatism to mitigate the effects of the pandemic. Particular emphasis was made on the effects of COVID-19 on the economic pillars of small island developing states (SIDS), heavily reliant on the tourism industry. Being highly vulnerable to crises, the Vice-President called for special consideration to be given to SIDS such as Seychelles in order to boost the economic recovery of the Southern African region.

In June, the SADC's Private Sector Forum (SPSF) launched the revolutionary SADC Labour Law Guide, an online tool that provides up-to-date labour laws from the region in one central location to allow easier access and sharing of information across countries.

On the agenda of regional trade, work progressed under various headings of the Protocol on Trade. This was mainly in regard to the review of the SADC Rules of Origin, customs cooperation and trade facilitation, as well as other areas of negotiations, such as trade in services. SADC also continued work on establishing an e-certificate of origin to facilitate trade within its community. In that regard, it launched a survey to assess the readiness and preparedness of private sector stakeholders to implement the SADC electronic Certificate of Origin (e-CoO).

5.9.3.1.1 SADC Committee of Central Bank Governors

Consistent with its mandate, the Committee of Central Bank Governors (CCBG) in SADC continued to provide a platform for greater partnership among member central banks, with the aim of promoting the development of financial institutions and markets in the SADC region through harmonisation of relevant policies and frameworks.

In addition to the regular CCBG meetings, the CCBG met for a virtual Strategy Planning Session in November to agree on the Strategic Focus Areas (SFA) and cross-cutting enablers that will form the basis for the CCBG Strategy for 2020-2022. Whilst the SFAs of the previous Strategy remained highly relevant, certain amendments in the objectives have been made in line with priority areas that have been identified. The approved SFAs for the period 2020-2022 are as follows:

SFA 1: Promote macroeconomic convergence (MEC) in SADC countries in support of the objectives of the Finance and Investment Protocol (FIP), within the mandates of central banks

As per the requirements of the FIP, CCBG monitored member states' performance relative to the macroeconomic convergence criteria for the year 2020. This followed a requirement that member states implement measures to achieve low and stable levels of inflation; pursue sound and prudent fiscal policies; ensure debt sustainability; maintain reserves at an adequate level; attain economic growth and have a sustainable current account deficit. However, 2020 was a major setback in terms of the progress made by member states to converge as the global pandemic negatively impacted their respective economies, resulting in none of the members successfully meeting all the criteria.

SFA 2: Pursue financial stability

During the year under review, emphasis was placed on creating the necessary frameworks to prevent, predict and withstand shocks that may arise from both internal and external conditions further to effective monitoring of the financial system to ensure that it remains robust. Significant progress was made in several areas which included: the development and roll out of a macro-prudential framework for systemic risk identification, monitoring and mitigation; and the development of a crisis management and resolution framework for cross border banking and spill-over risks.

SFA 3: Foster financial integrity

The aim of this SFA is to promote financial integrity by ensuring adherence to agreed international principles and implementation of internationally accepted standards in the transactions undertaken by financial institutions across the SADC region. This implies ensuring a safe, sound and well-functioning payment and clearing system. In that respect, work continued on safeguarding the proper functioning of the SADC Real Time Gross Settlement (SADC-RTGS) System. This was in addition to putting in place the necessary framework to enable low-value cross border credit transfers as well as the inclusion of non-bank financial institutions on the current platform.

SFA 4: Enhance financial inclusion

This is a relatively new area. Its aim is to identify and develop innovative financial services and products that facilitate access to the domestic and regional payment services, to promote financial inclusion.

SFA 5: Promote financial market integration in SADC countries

This SFA focuses on developing strategies aimed at strengthening and deepening financial markets, and ensuring a coordinated approach to financial market development in collaboration with relevant financial market role players in the region. Thus, members are encouraged to adopt international best practices and collaborate in terms of sharing of information and expertise for their mutual benefit. In 2020, work continued on harmonising policies for financial markets across the region and a Financial Markets Development Index was developed. However, challenges in certain areas among member states, including Seychelles, act as impediments to the development of financial markets.

In addition, the CCBG also considered various cross-cutting issues that are meant to support the approved SFAs, such as capacity building, FinTech innovation, enhancing communication, ICT, central bank governance and leveraging of the region's interests in international fora.

5.9.3.2 Common Market for Eastern and Southern Africa (COMESA) Integration Programme

During 2020, Seychelles' contributions in COMESA were principally in the initiatives targeting the facilitation of trade, in line with the country's participation in the Free Trade Area (FTA). Amongst others, these include; the establishment of an Electronic Certificate of Origin and the Authorised Economic Operator (AEO) framework.

Within the framework of the COMESA Treaty also lies the mandate for member states to liberalise Trade in Services within the COMESA region. Seychelles participated in these negotiations which resulted in specific commitments to liberalise priority services sectors, and as per the commitments adopted by the COMESA Council of Ministers in 2017. The subsequent step is negotiations in other sectors, such as energy and construction related services. It is expected that involvement in the COMESA Trade in Services negotiations will provide Seychelles' service suppliers enhanced access to markets within the region to tap into and improve the country's balance of trade in services.

5.9.3.3 Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)

The aim of ESAAMLG is to combat money laundering by implementing the recommendations of FATF, which sets the standards and measures for combating money laundering, terrorist financing and other threats that may affect the global financial system.

At the ESAAMLG meetings held during the year, Seychelles highlighted the initiatives undertaken as part of its efforts to address the deficiencies identified in the 2017 National Risk Assessment (NRA) and the 2018 Mutual Evaluation Report (MER), as well as measures to strengthen the Seychelles AML/CFT regime. Initiatives included the enforcement of two key pieces of legislation – the new AML/CFT Act, 2020 and Beneficial Ownership Act, 2020, in addition to ongoing work to draft and amend other relevant laws. Furthermore, a new three-year National AML/CFT Strategy was finalised and launched in the second half of the year.

SECTION SIX

Central Bank Operations

6.1 Research and Statistics Division

The Research and Statistics Division's (RSD) core functions are linked with the Bank's primary mandate of promoting domestic price stability. The main roles of the Division are to conduct research on issues pertaining to the economy, assess and formulate policies, as well as collect and disseminate statistics on the financial sector. These responsibilities are shared between two sections, namely the Policy and Research Section (PRS) and Statistics Section. The Division also interacts with internal and external stakeholders to gather information for the Bank's Annual Report, Monthly Reviews and Statistical Bulletins.

The Division conducts confidence and expectation surveys with the commercial banks and the Seychelles Credit Union (SCU) on a quarterly basis to get a better understanding of the local economy from their perspective. In addition, RSD also conducts and collaborates with other Divisions in events that aim to promote economic awareness and increase understanding of the Bank's policies among the general population. In that endeavour, the Division was actively involved in numerous economic awareness exercises undertaken during the year. Aside from the regular live press conferences held by the Governor to keep the public informed about developments in the domestic foreign exchange market, the changed economic realities due to COVID-19, and other undertakings pertaining to the banking sector, members of staff participated in organised events to sensitise targeted groups, such as the civil society, public entities and private sector organisations that requested for such economic awareness sessions. Some organisations felt the need to bring such initiatives closer to their staff and partners, to better understand the context of messages conveyed about the economy, especially during times of uncertainty as was the case in 2020. For instance, a forum for civil society also served as a "train the trainer" platform whereby the members used skills and knowledge gathered to assist the more vulnerable in society.

The Division also actively participated in data submissions and technical contribution as part of its cooperation with the regional blocs and international organisations such as IMF, SADC, AfDB, COMESA and the World Bank. In view of the ongoing pandemic, all interactions were done virtually. This proved beneficial as it allowed maximum participation which would not have been possible previously given the financial and human resource constraints implied where overseas travels are concerned.

6.1.1 Capacity Building and Development

The enhancement of technical knowledge and skills remained a priority to the Division as it builds capacity in areas that were lacking and consolidated other competencies that staff had acquired. In line with this, members of staff participated in several online classes, workshops and seminars related

to finance, statistics, balance of payments, macroeconomics and policy formulation. On a positive note, the pandemic underscored the importance of business continuity which is at the core of central banking. As such, all relevant institutions, worldwide, had to move towards a more digitalised way of operation. This meant that training facilities were also more readily available online and accessible to a wider potential audience.

6.1.2 Policy and Research Section (PRS)

The main role of PRS is to continuously monitor and update the Bank's monetary and exchange rate policy to incorporate developments in the domestic and global economic conditions. This is achieved by making the necessary changes to the Bank's Monetary Policy Framework (MPF) to accommodate the current economic environment.

The macroeconomic modelling and forecasting framework used in the monetary policy decision-making process was improved during the year. The framework, which ensures consistency with economic theory while providing for qualitative input from staff was enhanced to reflect the new economic realities of 2020. In that respect, members of staff from PRS worked in close collaboration with a team of consultants who provided input to improve the effectiveness of the framework. During 2020, output from the framework was used to derive the MPR and subsequently to determine the applicable rates on the SDF and SCF.

As noted above, in order to increase economic knowledge and awareness, PRS delivered presentations to members of the Seychelles Chamber of Commerce and Industry (SCCI), Seychelles Hospitality and Tourism Association (SHTA), Department of Local Government, Ministry of Employment, Seychelles Defence Academy, Citizens Engagement Platform Seychelles (CEPS) and school students, among others.

The Section maintained regular interactions with stakeholders across all sectors of the economy to remain abreast of developments happening on the field and better understand the impact of the various policies introduced to assist businesses and individuals during the economic downturn. In particular, staff followed developments in the local foreign exchange market closely and, in order to improve decision-making in regards to Foreign Exchange Auctions (FEA), an exercise was conducted with the commercial banks to enhance the understanding of the FX market in the COVID-19 environment.

6.1.3 Statistics Section

The compilation and dissemination of data in accordance with the Special Data Dissemination Standards (SDDS) guidelines remained the foremost objective of the Statistics Section. In doing so, staff ensured that reliable and consistent data for an array of economic and financial indicators were available in a timely manner. The Section's own surveys, in conjunction with statistics from other agencies such as NBS and the Ministry responsible for Finance, also aided in data compilation. Following the change in dynamics in foreign exchange market, the Section intensified its monitoring of

developments in the domestic market and collected additional statistics as required, such as the use of foreign exchange purchased from the external reserves by commercial banks. This facilitated more in-depth analysis and improved the general understanding of the condition in the foreign exchange market. Moreover, the Section continued to promote accurate and prompt submission of data from various economic stakeholders.

6.1.3.1 Monetary and Financial Statistics

In 2020, the banking sector remained the main contributor of monetary and financial data. The compilation was done as per the Monetary and Financial Statistics Manual and Compilation Guide (MFSMCG) 2016. As at the end of the third quarter, the main reporting forms were revised to capture more details pertaining to the loan portfolios of reporting institutions. Of note, the MFSMCG (2016) has a more standardised approach in the treatment and classification of credit allocated to the private and public non-financial sectors, based on their economic activities, which is guided by the International Standard Industrial Classification (ISIC) of all economic activities. The aim is to have a clearer and more concise picture of the performing sectors.

The plan to extend the coverage of the monetary and financial statistics to other non-financial sectors is on-going, with the aim of including data from insurance companies and the pension fund.

6.1.3.2 External Sector Statistics

In 2020, the annual survey to collect statistics from the offshore sector continued to be done in collaboration with FSA. In spite of the challenges faced with data collection, the information gathered remained essential for the compilation of the BOP and IIP statistics. The Division also represented the Bank on several external committees such as the Tourism Task Force and met with various key stakeholders such as Indian Ocean Tuna (IOT), Seychelles Tourism Board (STB) and Seychelles Investment Board (SIB) to obtain essential data needed for the compilation of external sector statistics.

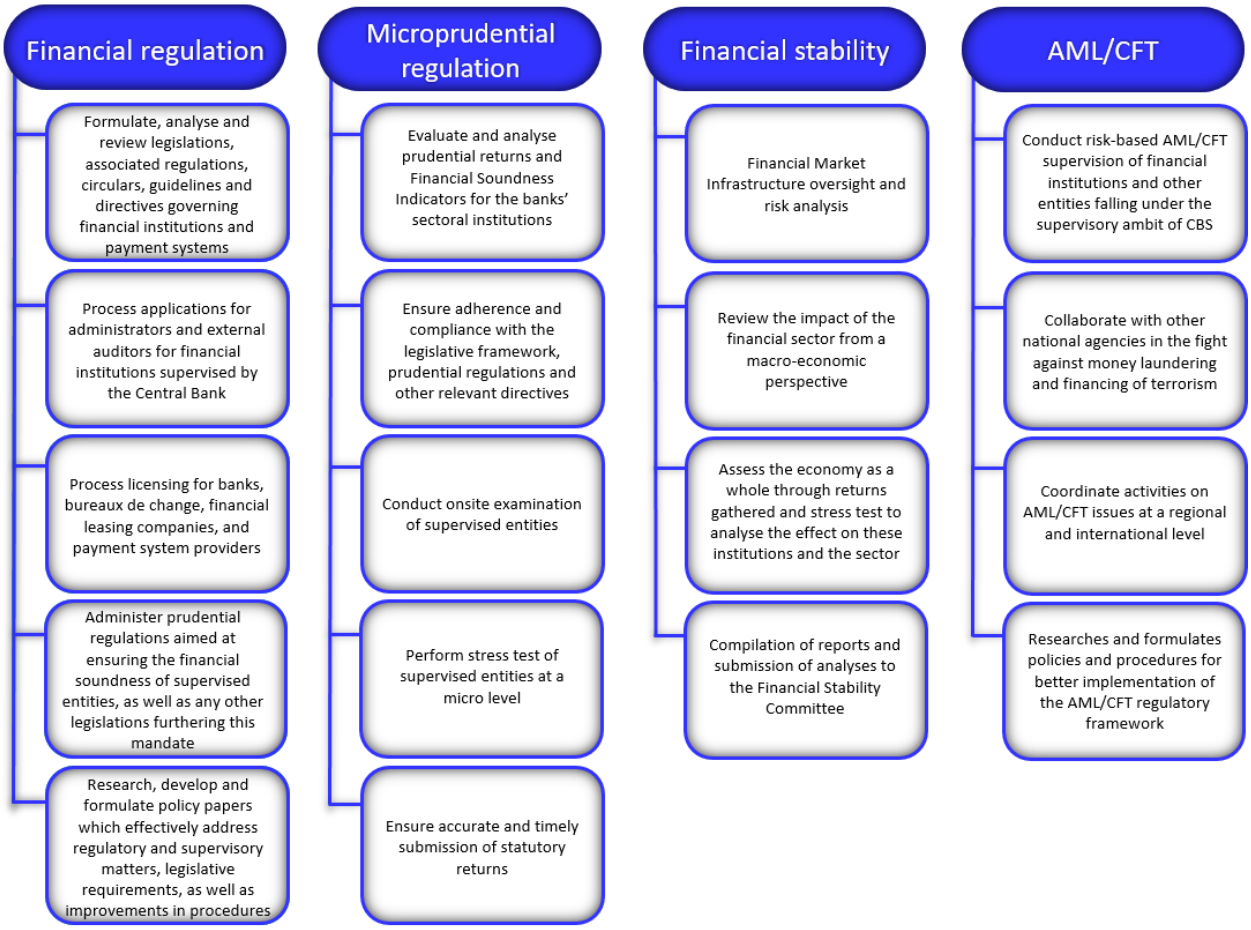
In addition, staff of the Section also participated in sectoral surveys conducted with various stakeholders to improve or enhance established relationships.

6.2 Financial Surveillance Division

The primary objective of the Financial Surveillance Division (FSD) is to promote a sound financial system. This is mainly achieved by (a) ensuring effective regulation and supervision of entities under the portfolio of the Bank at both micro and macro levels; and (b) regulating and overseeing the national payment system to ensure it is safe, secure, efficient and operates effectively. Entities falling under the purview of FSD include banks, bureaux de change (BDCs), financial leasing companies, non-deposit taking financial institutions, credit unions, payment system providers (PSPs) and financial market infrastructures (FMIs).

FSD is organised into four sections, whose roles and functions are summarised below:

Chart 6.1: Summary of FSD's Sections



6.2.1 Regulatory and Supervisory Portfolio

6.2.1.1 The Financial Sector

In terms of the number of licensees, there were 12 Class A[19] BDCs at the year-end. The overall number of Class B[20] BDCs has decreased to 8 following the surrender of three licences during the year. This was as a result of the downturn in economic activity due to the COVID-19 pandemic which forced these business owners to cease their operations. As for the total number of PSPs, this stood at 13[21] at the end of 2020.

During the year under review, the Bank approved for the voluntary closing down of SBM Bank (Seychelles) Limited resulting in the subsequent revocation of its banking licence in December. As such, there were 8 commercial banks in operation at the end of 2020. The Bank also authorised a new

[19]A Class A BDC is licensed to buy and sell foreign currency in the form of notes, coins, traveller's cheques and also engage in money transmission.
[20] A Class B BDC is licensed to buy and sell foreign currency in the form of notes, coins and traveller's cheques only.
[21] The additional PSP licence refers to the provision of e-money services by Airtel Mobile Commerce (Seychelles) Limited for its Airtel Money services initiated in April 2015.

operator of a payment, clearing or settlement system thereby adding to the portfolio of FMIs under its oversight.

6.2.2 Developments in the Supervisory Framework

The Bank continued with its work to enhance its regulatory and supervisory framework in light of the ever-evolving financial landscape from the adoption of international standards and best practices to responding to emerging external and internal developments in the financial services space.

Most notably, the onset of the COVID-19 pandemic highlighted the need for the Bank to have appropriate powers in the event of a force majeure to not apply, exempt or modify certain provisions of the existing regulatory framework in a prompt and simplified manner. Accordingly, as the principal piece of legislation governing the operation of commercial banks, the amended FIA 2004 was revised in this regard in April. The amendment served as an enabling legal provision to support other policy responses to the COVID-19 pandemic which are further described under section 6.2.2.1.

Alongside these initiatives, in September, the Bank obtained the support of the Cabinet of Ministers for revisions to the Foreign Exchange Act, 2009 (FEA) and the Financial Institutions (Capital Adequacy) Regulations, 2010 (CAR). Following the elections in the subsequent month, these proposed amendments were presented to the new Cabinet of Ministers in November that gave its endorsement to the proposals. In short, the approved changes to the FEA expand the list of authorised dealers to include PSPs and credit unions. As for the CAR proposals, they broadly focus on further aligning the capital framework of commercial banks with the Basel II Pillar 1 standard. The process for drafting and enacting the revisions to the FEA and CAR is planned to take place in 2021.

In 2020, the Bank progressed on its project to implement a risk-based supervision (RBS) framework together with Pillar 2 of Basel II. In November, the CBS' Board of Directors approved for the rollout of the overall framework in 2021, which was developed with the assistance of an external consultant. Broadly speaking, the RBS framework will allow the Bank to direct its supervisory resources towards institutions of higher-risk in a more judgement-based and forward-looking manner while leveraging on the Internal Capital Adequacy Assessment Process and the Supervisory Review and Evaluation Process of Pillar 2 of Basel II.

6.2.2.1 COVID-19 Pandemic Policy Measures

The exceptional circumstances brought about by the COVID-19 pandemic prompted authorities worldwide to act to mitigate the economic impact of the virus on their economies. Regulators were not isolated in these efforts. Many jurisdictions issued specific policy interventions while working with government authorities and other stakeholders in the design and implementation of broader COVID-19 relief measures for businesses and individuals at a national level. This proved to be the case in Seychelles which saw several such measures put in place as elaborated hereafter.

6.2.2.1.1 Private Sector Relief Schemes

The Bank established two relief schemes to provide financing to businesses impacted by the COVID-19 outbreak in order to sustain their operations and alleviate their economic distress thereby supporting the overall economy. This followed extensive consultation and collaboration with the government, Seychelles Bankers Association (SBA)[22] and the private sector as represented by the Seychelles Chamber of Commerce and Industry. The relief schemes for the private sector are financed by two separate credit line facilities made available by the Bank to participating institutions[23] which then on-lend these funds to businesses.

MSMEs, which have an annual turnover not exceeding R25 million can obtain funding through the Private Sector (MSMEs) Relief Scheme, which can provide R500 million worth of credit, and borrowings to participating financial institutions is 70 per cent guaranteed by the government.

Conversely, large enterprises with an annual turnover above R25 million can seek financial assistance under the Private Sector (Large Enterprises) Relief Scheme. It can provide R750 million worth of funding, and borrowing to participating financial institutions, and is 50 per cent guaranteed by the government. Both credit line facilities from the Central Bank are provided to participating institutions at an interest rate of zero per cent.

The Private Sector (MSMEs) Relief Scheme and the Private Sector (Large Enterprises) Relief Scheme came into operation in May and June, respectively. The main features of each relief scheme as at the year-end[24] are described below:

a) Private Sector (MSMEs) Relief Scheme
    i. Financial assistance requested to meet the critical expenditures of the business for a period of 12 months in the form of term loans or overdraft facilities;
    ii. Fixed lending rate of 1.5% per annum;
    iii. Moratorium of 12 months on principal and interest repayments for loans;
    iv. Moratorium not applicable for overdraft facilities;
    v. A maximum repayment period of 3 years, inclusive of the 12-month moratorium for loans;
    vi. Existing facilities, at a minimum, must have been in good order as at the end of February;
    vii. Applications are subject to credit and business viability assessments.

b) Private Sector (Large Enterprises) Relief Scheme
    i. Financial assistance requested to meet the critical expenditures of the business for a period of 12 months in the form of term loans or overdraft facilities;

[22] Members of the SBA comprise all the commercial banks, Development Bank of Seychelles (DBS) and the Seychelles Credit Union (SCU).
[23] Being commercial banks, credit unions or the DBS depending on the scheme they choose to participate in.
[24] Changes to certain features of the schemes were made during the course of the year subsequent to review.

ii. Fixed lending rate of 4.5% per annum;
iii. Moratorium of 12 months on principal and interest repayments for loans;
iv. Moratorium not applicable for overdraft facilities;
v. A maximum repayment period of 3 years, inclusive of the 12-month moratorium for loans;
vi. Existing facilities, at a minimum, must have been in good order as at the end of February;
vii. Applications are subject to credit and business viability assessments.

In April, several amendments were made to the CBS Act, 2004, to allow the Bank, in the event of a force majeure to make loans, advances and rediscounts to financial institutions in Seychelles for periods not exceeding 3 years. The new provisions to the CBS Act provide the underlying legal support for the overall working and funding mechanism behind the relief schemes. In this respect, the Bank obtained the approval of the Cabinet of Ministers in November to further revise the CBS Act to extend such loans, advances and rediscounts to financial institutions for up to 5 years thereby augmenting the general repayment capacity of businesses. The drafting and enactment process is anticipated to take place in 2021.

Additionally, the following modifications and exemptions were made to certain provisions of the FIA and its subsidiary statutory instruments in relation to the relief schemes:

a) The Financial Institutions (Credit Classification and Provisioning) Regulations, 2010 was modified to inter-alia, recognise the government guarantee provided to participants under the relief schemes as eligible collateral;
b) The CAR was modified to attribute a risk weight of zero per cent for the portion of claims granted under the relief schemes that is guaranteed by the government; and
c) The FIA was modified to include in the exemption from credit concentration requirements, transactions under the relief schemes whereby a guarantee was granted by the government.

6.2.2.1.2 Moratorium and Debt Restructuring Measures

The economic and financial hardship caused by the onset of the pandemic left many businesses and individuals struggling to keep up with their debt obligations, with economic recovery unforeseeable in the short-run. Accordingly, the Bank engaged the SBA to provide recourse to borrowers facing difficulties in repayment. To this end, the majority SBA members, were open to providing moratorium and debt restructuring on facilities, depending on customers' specific circumstances.

As a related measure, additional modifications were made to certain provisions of the Financial Institutions (Credit Classification and Provisioning) Regulations, 2010. Firstly, loans which were in good order at the end of February and for which the repayment was being adversely impacted by the COVID-19 outbreak, were not downgraded classification-wise if they had been restructured or renegotiated (including the granting of moratorium) by the end of July. Moreover, the modifications also aimed at

preventing the automatic downgrade in classification of a loan due to deterioration in economic conditions as a result of the pandemic. Similar measures were also made applicable to DBS and SCU.

6.2.2.1.3 Other Policy Measures

Seychelles joined other countries worldwide in implementing travel restrictions and temporarily closing its borders to international travellers in an effort to contain the spread of the pandemic. Consequently, the country's primary earner of foreign currency, the tourism sector, was severely impacted leading to a reduction in the supply of foreign currency in the domestic market and hence, depreciation of the SCR. As a result, commercial banks faced a greater risk of breaching their foreign currency exposure limit, namely, the total short position to capital ratio limit of 30 per cent. This relates to the limit on the extent to which foreign currency liabilities of a commercial bank may exceed its foreign currency assets in consideration of its total capital base. Accordingly, the Bank modified the Financial Institutions (Foreign Currency Exposure) Regulations, 2009, to vary the previously-mentioned limit from 30 per cent to 50 per cent, due to these developments in the foreign exchange market.

The Bank also prohibited the declaration and payment of dividends by all commercial banks, DBS and SCU with respect to the financial years ending December 31, 2019 and December 31, 2020. As such, these institutions were required to transfer their profits to their retained earnings instead of being used as dividend pay-out to shareholders and members. This policy stance was aimed at increasing the amount of capital buffer available by institutions to absorb potential future losses as exacerbated by the ongoing health crisis and resulting deterioration in economic conditions. Ultimately, this measure will contribute to boosting the resilience of each institution and promoting the stability of the financial system as a whole.

6.2.3 Enhancing Compliance with AML/CFT Requirements

During the first quarter of 2020, a new Anti-Money Laundering (AML) Act 2020 and the Beneficial Ownership (BO) Act 2020, were deliberated on by the National Assembly and gazetted in March. Subsequently, both Acts came into force in August. Moreover, Regulations which supplemented the Acts were issued in that same month.

In anticipation of the new mandate assigned by the AML Act 2020, the Bank set up a Section within FSD to take on the responsibility of Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) supervision for institutions under the Bank's purview. The Section caters for onsite, offsite and policy work pertaining to supervision from an AML/CFT perspective and continues to assist with the national AML/CFT strategy as part of its membership on the National Technical AML Committee.

From November 24 to December 04, the country participated in the combined 39th and 40th Task Force of the Senior Officials Meetings of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). The meeting was attended by members of the National AML/CFT Committee (NAC) which includes the Central Bank of Seychelles, Ministry responsible for Finance, FSA, FIU, Attorney

General's office, Seychelles Police, Seychelles Revenue Commission (SRC), Seychelles Licensing Authority (SLA), Seychelles Intelligence Services, Office of the Designated Minister and Office of the Registrar General. During the meetings, the enforcement of the new Acts, ongoing work to draft and amend other relevant laws, the formulation and implementation of a three-year National AML/CFT Strategy were amongst initiatives that were highlighted.

To note, the Mutual Evaluation conducted by the ESAAMLG in 2018, which assessed Seychelles' compliance to the FATF 40 recommendations, rated the country to be compliant in 20 areas, partially compliant in 16 and non-compliant in 4 others. Seychelles has submitted a re-rating request for:

- Recommendation 1; relating to assessing risks and applying a risk-based supervision from Partially Compliant to Compliant;
- Recommendation 26; relating to regulation and supervision of financial institution from Partially Compliant to Largely Compliant; and
- Recommendation 29; relating to financial intelligence units from Partially Compliant to Largely Compliant.

These requests are to be reviewed by the global network during the first quarter of 2021.

6.2.4 Micro Prudential Supervision Section

The Micro Prudential Surveillance Section (MPSS) is responsible for the prudential offsite and onsite surveillance of banks, special finance companies, development banks, credit unions, bureaux de change, and payment service providers.

The MPSS team consists of analysts for each entity responsible for conducting offsite monitoring in accordance with their respective portfolio and acting as the lead examiner when conducting onsite examination of these entities.

In 2020, a full scope examination of a bank, and limited scope examinations of a development bank and a bureaux de change were conducted. This was in line with section 33(1) of the CBS Act which states that "the Bank may, at any time, cause a verification, examination or inspection, of any bank or other financial institution'', and further provided for under section 42 of the FIA. Through the full scope examination, the examiners covered material risks within the institution using the CAMELS[25] Bank Rating System. The objective was to review and assess the bank's operations in terms of its governance structure, performance, risk management structure and compliance to legal and regulatory directives as well as the measures put in place to avoid, manage and mitigate those risks. As for the limited scope examination, only specific areas of concern were reviewed. To note, at the end of each examination, a report highlighting the significant findings along with recommendations to address areas of weaknesses was submitted to the institution.

[25] Capital, Asset Quality, Management, Earnings, Liquidity and Sensitivity to market risk.

In light of the impact of the COVID-19 pandemic on the financial sector, the offsite monitoring[26] was enhanced during the year under review. The MPSS increased its oversight and monitoring amongst which, a new return template capturing key prudential indicators was developed as allowed by section 40 of the FIA. The objective was to increase the frequency of reporting and provide the Bank with weekly updates on banks' financial position and performance. Furthermore, stress tests were conducted to assess the impact of adverse effects on financial institutions' capital, liquidity, profitability and solvency.

Further development was with regards to strengthening the supervision and oversight of licensed entities under the regulatory ambit of the Bank. With this in mind, the MPSS engaged the consultancy services of Deloitte Touche Tohmatsu India LLP for the implementation of a risk-based supervision framework. This will allow the Bank to adopt a more risk-focused supervisory approach that is designed to identify critical risks faced by the Financial Institutions (FIs), their impact on the financial system and an assessment of the entity's control environment and capital to mitigate and cover the risks, through a focused supervisory review. In 2020, the firm provided capacity building to MPSS staff to implement the framework.

Other tasks performed by the team during the year included:

- assist in formulating the framework relating to private sector credit line facilities;
- process the FI's credit line facilities for approval;
- assist in conducting stress test of the financial sector to assess impact of policy decisions taken during the COVID-19 pandemic;
- engage with the FIs on areas of improvement relating to the implementation of International Financial Reporting Standard 9 (IFRS 9);
- monthly review of the banking industry's key financial sector indicators, highlighting the performance of the banks; and
- coordinate and/or assist with projects relating to bank supervision or payment systems oversight.

6.2.5 Financial Stability Section

The main responsibility of the Financial Stability Section (FSS) is to monitor and assess risks within the domestic financial system that could potentially create instability. This is achieved by identifying potential build-up of systemic risks (both domestically and internationally) and subsequently propose relevant mitigating measures to the Financial Stability Committee (FSC) whose mandate is to contribute to financial stability. Furthermore, the Section has oversight of the national payment system.

The primary risks for financial stability in 2020 were the ones stemming directly from or related to the COVID-19 pandemic. It has provided the world a fresh perspective on the potential risk which a

[26] Monitoring of supervised entities is carried out through desk reviews to assess compliance with prudential requirements.

pandemic still holds in the twenty first century and it has had a significant impact on the tourism industry and rippled throughout the entire domestic economy. It has led to reduced economic activity which has trickled through and adversely impacted government revenue through lower tax collection as well as reduced earnings in the form of dividend payments from state-owned enterprises. Although the authorities have put in place a number of measures geared towards mitigating the impact of the pandemic on households and the domestic financial system by providing salary support and credit facilities for businesses in need, the financial stability risks remained ever present.

Two other prominent persistent risk factors continued to be the loss of correspondent banking relationships, and the heightened risk of cybersecurity threats as the pandemic forced a lot of services to move to a more digital sphere at an unprecedented pace.

6.2.5.1 Principles for Financial Market Infrastructures (PFMI) Assessment

As part of its payment systems oversight mandate, FSS oversaw the first assessment of the market infrastructures in Seychelles against the PFMI[27] during the year 2019. During the year under review, a comprehensive action plan to address the shortcomings was formulated and implementation commenced in different regards.

The 2019 assessment revealed five systems which met the FMI definition, three of which were payment systems operated by the Bank whilst the other two were securities post-trade systems operated by MERJ Exchange. This remained unchanged in 2020, such that the payment systems being operated by the Bank were as follows:

- the CBSITS, an interbank transfer system which provides for the finality of interbank transfers directly across the general ledger of the Bank;
- the Electronic Cheque Clearing (ECC), an interbank electronic image-based system for clearing and settling cheques and;
- the Seychelles Electronic Funds Transfer (SEFT), an interbank domestic funds transfer system.

6.2.5.2 IFRS 9

Work to enhance the quality of implementation of IFRS 9 by the banking industry progressed in 2020 albeit the focus shifted to assessing the impact of the pandemic on banks' provisioning from an IFRS 9 perspective.

[27] The PFMIs are the international standards for financial market infrastructures, i.e. payment systems, central securities depositories, securities settlement systems, central counterparties and trade repositories. They were issued in April 2012 by the Committee on Payments and Market Infrastructures of the Bank for International Settlements (BIS) and the Technical Committee of the International Organisation of Securities Commissions (IOSCO).

The recent economic developments relating to the pandemic have highlighted the importance of provisioning for credit risk to ensure financial stability. In light of the circumstances, an internal working group within the Bank conducted a survey in August with banks and other FIs. To note, certain concerns were identified on the implementation and application of the standard. This was followed and addressed with a one-on-one session with the survey participants. The purpose of the meetings was to seek clarifications on some of the answers provided and confirm whether credit risk exposures in relation to COVID-19 were reflected in the provisions as per the standard requirements. Furthermore, the meetings provided insight into the challenges faced by these institutions to update and operate their individual Expected Credit Loss (ECL) model. Accordingly, the Bank is to provide further guidance to FIs on the application of IFRS 9 in early 2021.

Furthermore, in the year under review, the Bank released forward-looking macroeconomic information to commercial banks to assist them in running of their ECL models, albeit at their own discretion.

6.2.5.3 Domestic Systemically Important Banks

A Domestic Systemically Important Banks (D-SIBs)[28] framework was approved by the Bank's Board in August and an awareness session was conducted with the banks to brief them on the proposed framework. The first D-SIBs assessment is scheduled to be conducted in the second quarter of 2021. Nonetheless, in light of the pandemic, work on a number of frameworks aimed at enhancing the stability of the domestic financial system as well as ensuring an efficient payment system had to be put on hold in order to address more pressing matters.

6.3 Financial Markets Division

The Financial Markets Division (FMD) has the responsibility to effectively implement the Bank's monetary policy and manage the country's international reserves. It is also responsible for the issuance and management of government and government-guaranteed securities. The Division is segregated into the front, middle and back offices in line with good governance practices.

The responsibilities of the Market Operations Section, also referred to as the front office, include the conduct of the open market operations (OMOs) of the Bank, as well as the issuance and management of government (Treasury) and government-guaranteed securities in the domestic financial market. The objective is to ensure that these operations are undertaken effectively, while implementing the Bank's monetary policy decisions and ensuring efficiency in its role as government's agent. Furthermore, guided by the Bank's Investment Policy and Guidelines, the front office manages the country's international reserves.

[28] A framework for dealing with DSIBs to mitigate their impact on the financial system and overall economy in the event of failure.

In line with the objective to ensure that the operations are conducted effectively and efficiently, the Financial and Risk Analysis Section, also referred to as the middle office, works in close collaboration with the front and back offices. This is in line with the primary function of the middle office, which is to measure and report financial risks by monitoring compliance of the activities of the front and back offices against set limits, guidelines, policies and approved strategies. This section also provides added support to the Monetary Policy Technical Committee (MPTC) and Investment Committee (IC) through research and analyses, in the area of domestic and international markets developments.

The back office role falls under the Settlement and Accounting Section which has as its core function to ensure the effective conclusion of the transactions conducted by the front office. This includes confirmation and settlement of trades conducted by the front office. In addition, the Section is responsible for the accounting and maintenance of the various portfolios and products throughout its life cycle.

6.3.1 Open Market Operations

In 2020, the Bank conducted OMOs once per week with the aim of managing the level of liquidity in the system. The DAAs were the only monetary policy instrument used to absorb excess liquidity using maturities from 7-day to 1-month, and 2-month. The total volume of DAA issued in 2020 amounted to R18,533 million; a decrease of 49 per cent from R36,286 million in 2019. During the year, the stock of reported outstanding DAA varied from R100 million to R597 million, being the lowest and highest level, respectively. The end of year DAA stock stood at R400 million. The significant reduction in OMO volume was aimed to ensure enough liquidity was available at commercial banks given increased demand for domestic financing by the government, amid unprecedented fall in revenue collection due to lower economic activity attributed to the COVID-19 pandemic. As a result of the relatively lower issuance volume, interest cost decreased to R20 million from R65 million in 2019.

6.3.2 Standing Facilities

An increase in the total number of placements in SDF was observed in 2020, more specifically from 445 in 2019 to 1,070 in 2020. In value terms, SDF placements increased from R23,504 million in 2019 to R180,223 million in 2020. Such development was due to limited avenues for investment of excess liquidity throughout the year, following the reduction in the offered amounts for the DAA. No SCF request was recorded during the year under review.

Table 6.1: Standing Facility Placements in 2020

	Standing Deposit Facility (SDF)		Standing Credit Facility (SCF)	
	(SCR million)			
	Amount	**Interest paid**	**Amount**	**Interest earned**
Q1	9,532.00	0.52	-	-
Q2	36,990.00	1.01	-	-
Q3	65,490.00	1.79	-	-
Q4	68,211.00	1.87	-	-
Total	**180,223.00**	**5.20**	-	-

Source: Central Bank of Seychelles

6.3.3 Management of Government Securities

As agent to the government, the Bank, through FMD, administers the issuances of government and guaranteed-securities. The government maintained its issuance of Treasury bills (T-bills) and Treasury bonds (T-bonds) in the year under review for fiscal purposes. To support the government's fiscal policy response, the Bank drastically reduced the issuance of government securities for monetary policy purposes during the year.

6.3.3.1 Treasury Bills

Auctions for T-bills were conducted once per week in 2020. In total, the volume of issuances for fiscal and monetary policy purposes in 2020 amounted to R6,684 million and R300 million respectively. In effect, the outstanding stock of T-bills for monetary policy purposes decreased by R605 million (86 per cent). This was from R704 million at the end of 2019 to R99 million as at the end of 2020. The decline was to allow government to meet its financing needs in order to support the fiscal policy measures introduced to cater to the effect of the COVID-19 pandemic. Conversely, the outstanding stock of T-bills for fiscal purposes increased by R1,179 million (approximately 40 per cent); from R2,964 million as at end of 2019 to R4,143 million as at end of 2020.

6.3.3.2 Treasury and Government-Guaranteed Bonds

As part of the measures to meet the financial obligations of the government, three T-bonds were issued in 2020, named the *Solidarity* bonds. These securities were issued in June 2020 for a total value of R1,500 million. Each of the bonds was issued for R500 million with tenors of three-year, five-year and seven-year earning 7.00%, 10% and 12% interest rates per annum, respectively. The interest rate for the three-year bond is compounded, whereby all interest payments will be paid upon maturity. As for the five-year and seven-year bonds, interest is payable half-yearly, calculated using the simple interest method.

The 6.00% three-year *Aldabra* bond and the 6.00% three-year DBS government-guaranteed bond, both issued in 2017, matured during the year. At the end of the review period, the outstanding stock of bonds for monetary policy remained unchanged compared to 2019, at R500 million whereas the stock of bonds

issued for fiscal purposes has increased to R1,662 million compared to R350 million in 2019. To note, the stock of bonds for fiscal purposes included bonds that are guaranteed by government, mainly bonds issued by the DBS.

6.3.3.3 Central Bank's Holdings of Treasury Bills

The Bank continued to roll-over its holdings of T-bills upon maturity throughout the year under review. To this end, the Bank maintained its holdings of T-bills with a total of R1,185 million being R747 million and R438 million in the 182-day and 365-day tenors, respectively.

6.3.3.4 Management of External Reserves

As per the CBS Act, 2004, as amended, the Bank has the mandate to manage the country's international reserves.

The role of international reserves management is primarily to ensure that the country has an adequate level of foreign exchange to respond to a range of macro-level rationales. For Seychelles, these are to support the domestic monetary and foreign exchange policies, allow the repayment of foreign currency debts and other operational obligations as well as the provision of a buffer for balance of payments shocks at times of crises, national disasters or other emergencies.

Through the Investment Policy approved by the Board, investment objectives and risk limits are laid out, translated from the abovementioned macro-level rationales. The investment objectives in order of priority start with capital preservation; which is to safeguard the level of international reserves through careful selection of investment products and strategies. This is followed by preservation of liquidity, which means that the international reserves should be maintained in positions that may be quickly liquidated to satisfy the macro-level needs mentioned above. The third objective is the generation of return. This allows the international reserves to be invested in higher yielding strategies to add value to the capital levels and help achieve the rationales for holding the international reserves.

During 2020, as with most areas of the Bank, the economic challenges arising from the COVID-19 pandemic had its bearing on the international reserves' management activities. The holdings of international reserves remained heavily concentrated in US dollar, which was opportune as this tends to be the less volatile currency at times of crises. Nonetheless, as the US also braced the impact of the COVID-19 pandemic, the Federal Reserve introduced several accommodative policy measures to bolster the US economy. This implied a dampening of interest rates in the already low interest rate environment since the last global financial crisis. As a result, the interest income on the international reserves declined significantly compared to previous years. However, this benefitted the holdings in the bond portfolios which increased in value following both the decline in interest rates and flight to better quality assets.

In addition to the conditions externally, the domestic economy experienced a supply shock in the foreign exchange market. This meant that the country had to make use of the international reserves for financial support. It also implied a complete halt of international reserves accumulation, given the shortage of foreign currency in the domestic market. The prime reason for this shortage was the significant decline in visitor arrivals, hence a reduction in income from tourism related activities. The shortage was also due to the fact that the reduction in supply outweighs the fall in demand for foreign exchange. Following a total purchase of US$11 million from the domestic market in the first quarter of the year, the Bank injected a total of US$29 million into the domestic market to ease the pressure in the market and these were through the Foreign Exchange Auction (FEA). In addition, a total of US$22 million was sold to STC and SEYPEC, about US$11 million each.

Table 6.2: Foreign Exchange Auctions (2020)

Purchase of Foreign Exchange			
	US$ millions	**Average Exchange Rate**	**Equivalent in SCR millions**
Q1	11	14.2208	156
Total	**11**	**14.2208**	**156**
Sale of Foreign Exchange			
	US$ millions	**Average Exchange Rate**	**Equivalent in SCR millions**
Q2	10.8	17.2721	186
Q3	9.2	18.5010	170
Q4	9.0	20.9072	187
Total	**29.0**	**18.7097**	**543**

Source: Central Bank of Seychelles

As expected the GIR, declined to reach US$559 million at the end of the year under review. This was approximately 3.6 per cent lower than the previous year's level of US$580 million. The quantitative performance criteria, the NIR, stood at US$400 million, which surpassed the target of US$394 million by US$6.5 million.

In regards to return generation, as highlighted earlier, 2020 was a challenging year given that most financial products around the globe were yielding low returns. The overall return on the international reserves decreased by 22 per cent, from US$14 million in 2019 to US$11 million in 2020. Nonetheless, a considerable portion of this return was associated with the rally in security prices due to the inverse relation between interest rates and prices. Despite, low yield on interest bearing products, through tactical investment strategies, the Bank was able to re-distribute its investments such that the returns from the various portfolios were at its optimum.

6.4 Banking Services Division

The Banking Services Division (BSD) has the responsibility for domestic and foreign banking, currency and numismatics, and the financial reporting functions of the Bank. BSD is structured into two sections; the Banking and Financial Reporting Section and the Currency and Numismatics Section.

6.4.1 Banking and Financial Reporting Section

The Banking and Financial Reporting Section is divided into three units, namely the Foreign Banking Operations (FBO), Domestic Banking Operations (DBO) and Financial Reporting (FR) Units. The FBO and DBO Units essentially function in operational capacities as banker to and manager of customers' accounts held with the Bank, besides managing the Bank's internal accounts and accounting processes. Furthermore, DBO Unit is the operator of the domestic payment system platforms. On the other hand, coordination of the Bank's annual budget preparation, budget monitoring and the preparation of the financial statements are the responsibilities of the FR Unit.

6.4.1.1 Foreign Banking Operations

The FBO Unit is responsible for managing the foreign currency denominated accounts held by the Bank on behalf of government, commercial banks and other financial institutions. It is also responsible for the accounting of all foreign currency related transactions affecting these customers' accounts and the Bank's administrative and operational activities, with the exception of reserves management transactions which falls under FMD. Moreover, the Unit also administers the IMF accounts in respect of repurchases related to the country's borrowing arrangements with the Fund.

6.4.1.1.1 Correspondent Banking Relationship

The good working relationship between the FBO Unit and its correspondent banks, namely Federal Reserve Bank of New York, Bank of England, Banque de France, JP Morgan Chase and Crown Agents Bank (CAB) remained resilient as the Unit continued to ensure compliance to their respective requirements, despite the sudden changes to its operational environment with the adoption of remote working. This also meant that any 2020 planned meetings with the correspondent banks' representatives were done virtually via online platforms. The Unit increased its interactions and collaborations with the Compliance Unit of the Bank to further consolidate efforts in the implementation of best international practices for payment transparency, and adoption of AML/CFT tools and practices to improve vigilance and compliance. The Unit has also been carrying out research on AML/CFT requirements aimed towards continuous capacity building. Moreover, the Unit made use of the different e-banking facilities offered by the correspondent banks to facilitate operations, improve efficiency and remain resilient to a range of business disruption scenarios.

6.4.1.1.2 SADC Real Time Gross Settlement System - Integrated Regional Electronic Settlement System

In 2020, the Bank maintained use of the SADC Real Time Gross Settlement (RTGS) platform for processing ZAR-denominated payment instructions across the SADC region. The first quarter of 2020

recorded the highest average total number and value of settled transactions for the year and on average. The first three months of the year observed a 17 per cent decrease in terms of volume, but a 28 per cent increase in terms of value of transactions compared to the same period in 2019. However, on average, the first four months of the year observed a decrease of 23 per cent and 19 per cent in terms of both volume and value of transactions, respectively, when compared to the same period in 2019.

In addition, a general reduction of 27 per cent was observed in the total value of transactions, as well as a decline of 28 per cent in the total number of transactions settled in 2020 compared to 2019 as a result of reduced volumes of payment instructions received amid the COVID-19 pandemic.

Table 6.3: Total number and value of settled SADC RTGS transactions (2019 - 2020)

	Total number of settled transactions		Total value of settled transactions (ZAR '000)	
Month	2019	2020	2019	2020
January	83	56	2,658	2,845
February	37	47	2,084	2,412
March	72	57	856	1,887
April	95	62	5,875	2,126
May	56	46	2,204	3,080
June	45	32	819	420
July	98	50	8,067	1,742
August	44	45	1,466	1,397
September	60	57	2,869	2,247
October	85	45	2,346	2,908
November	45	36	989	128
December	82	48	2,780	2,799
Total	**802**	**581**	**33,013**	**23,991**

Source: Central Bank of Seychelles

6.4.1.1.3 SWIFT Sanctions Screening Solution, Payment Confirmation and Payments Security Control

The Society for Worldwide Interbank Financial Telecommunication (SWIFT) Sanctions Screening Solution was maintained as part of the Bank's effort to adhere to best practices in transaction processing. The automatic screening of the Bank's financial transactions against international Sanctions lists and flagging of any suspicious activities were extended to include domestic currency transactions in addition to foreign currency-denominated ones. The system provides real-time monitoring and decision-making for transactions deemed to be potential threats, or in violation of the 30 international Sanctions lists, which include the US OFAC list, UN Sanctions list and EU countries embargoes. This AML/CFT screening tool is just one of the many initiatives that the Bank was working with to further improve its internal process of transaction screening and become more proactive in adhering to the international standards for AML/CFT compliance.

As of November, the Bank also started to make use of the Basic Tracker tool from SWIFT, which is a Graphical User Interface (GUI) that enables SWIFT users to trace inbound and outbound customer payment instructions. This new development helps the Bank to adhere to the new requirements from SWIFT, which requires confirmation of the payment status of all customer payment instructions within a maximum of two business days following its value date. This solution enables transparency and visibility over both payments and receipts done via the SWIFT platform.

In addition, the Bank has been undergoing self-attestation against the SWIFT Customer Security Controls Framework to further enhance the Cybersecurity resilience aspect of its Systems. As part of this requirement, the Bank started the process of acquiring the SWIFT Secure Payments Solution, which will allow for an additional layer of monitoring of users' activities and payment flows on the SWIFT platform.

6.4.1.1.4 CBS Foreign Exchange Financial Assistance

In line with its efforts to assist the country amid the COVID-19 pandemic, the Bank provided foreign exchange assistance through the direct sales of foreign currency to two entities, namely STC and SEYPEC. The aim was to ensure the continued importation of essential goods into the country. The Unit engaged closely with both entities to ensure that the policy action on behalf of the Bank, was carried out in an orderly and timely manner.

6.4.1.2 Domestic Banking Operations

The DBO Unit manages and processes transactions relating to the local currency denominated accounts of the Bank and those of the Bank's customers. The Unit manages the SCR denominated accounts of the government, providing close monitoring of incoming and outgoing transactions, account balances and account related queries. Hence, it assesses on a daily basis, the need to provide advances to government as per the MoU between CBS and MOF. DBO Unit is also responsible for providing back office settlement and accounting services to FMD for financial transactions relating to OMOs and issuance of government securities administered by the Bank.

Besides its role as a participant and the primary settlement agent, the DBO Unit operates and maintains the payment systems' infrastructure that are under the responsibility of the Bank. These systems include the ECC, SWIFT-based CBSITS and SEFT. As part of its mandate as operator, the Unit provides technical support to the systems' participants with the assistance of TSD on the technical aspects relating to information technology. The DBO Unit also acts as the project owner for the implementation of all projects linked to the development of these systems and other similar local payments and settlement systems initiatives.

6.4.1.2.1 Operational changes in light of COVID-19 pandemic

With VPN access to the Bank's network and payment system platform in place, the DBO Unit was able to operate and conduct its operational activities remotely under the "work from home" arrangement, with the exception of government cheques deposited over the counter. All internal payment instructions, including any supporting documents, were received and processed electronically. This was facilitated by the adoption and usage of digital signatures for instructions as well as payment processing. With regards to external payment requests, an indemnity agreement was adopted between the Unit and other external stakeholders to allow for the use of electronic payment instructions.

6.4.1.2.2 SEFT System

In light of the COVID-19 situation, concerted effort was made to digitalise daily operational activities and encourage the move towards usage of electronic payment facilities as the preferred payment mode. In this optic, TSD team in close collaboration with the DBO Unit, designed and implemented a new portal to be used by the Bank's clients to facilitate payment through the SEFT system. The SEFT payment upload portal became operational in April. The portal was initially used to process government salary payments whereby authorised Treasury staff uploaded bulk salary files to be processed through the SEFT system. This implementation has enabled Straight Through Processing (STP) of government salaries, directly into employees' bank accounts at their respective institution with the possibility of email and/or text message notifications, provided that sufficient information is available to do so. Hence, the portal alleviates pressure on banks to manually process government salaries. Following the successful implementation of the SEFT portal facility for government salaries, the Agency for Social Protection was also on-boarded in August to facilitate the processing of pension payments and other social benefits. At the end of 2020, efforts to continue with the on-boarding of other government-related entities were ongoing.

In line with the above, the usage of the SEFT system increased significantly in 2020, compared to 2019, as evidenced by the number of transactions routed through it by all participants and online customers effecting transactions directly on the SEFT system.

In 2020, the Bank in collaboration with Department of Information Communications Technology (DICT) on-boarded the Seychelles Planning Authority on the government e-Services Gateway, a platform that enables government entities to use the SEFT system as an option for facilitating online payment processing for services they offer. Work was ongoing with DICT to on-board other ministries, departments and government agencies onto the gateway and connect them to the SEFT system. This is in line with the strategy to ensure the continued modernisation of the national payment systems and government's strategy to digitalise its payment services.

Table 6.4: Total volume and value of SEFT transactions (2019 - 2020)

	Total volume of transactions ('000)		Total value of transactions (SCR millions)	
	2019	2020	2019	2020
SEFT Transactions	304	734	12,827	18,233
Increase		141 per cent		42 per cent

Source: Central Bank of Seychelles

6.4.1.2.3 Changes to Participants in SEFT and ECC Systems

In line with the rules governing the ECC and SEFT payment system platforms, the DBO Unit ensured that the necessary was done to register or terminate participants in the two payment system platforms, as and when required. In December, SBM Bank (Seychelles) Limited, which started operations in August 2019, ceased its business in Seychelles and surrendered its licence. As such, the bank was removed as a participant from the two platforms mentioned above in an orderly manner as per the rules of the systems. No new participant was added to these platforms during the year.

6.4.1.2.4 SWIFT Basic Tracker

As mentioned under 6.4.1.1.3 above, the SWIFT Basic Tracker tool was implemented in November as mandated by SWIFT. This allows for all SWIFT customer payments to be tracked end-to-end in real time by providing the status confirmation for each and every customer payment transaction. In this regard, on a daily basis in conjunction with the FBO Unit, the DBO Unit monitors and confirms the status of all pending SWIFT messages on the Basic Tracker to ensure the Bank is compliant with SWIFT's Universal Confirmation Rule Book.

6.4.1.2.5 Changes to ECC and SEFT systems operating hours

Following the restrictive measures announced by PHA due to the COVID-19 pandemic and the subsequent reduction in banking hours agreed in conjunction with the banking community, adjustments were made to the systems' operating hours in line with the governing rules to align these requirements and ensure the smooth operations of the systems.

6.4.1.3 Financial Reporting Unit

The Unit is responsible for the preparation of management accounts and financial statements, which include the monthly and annual statements of financial position published in the Official Gazette. The Unit also coordinates the preparation of the Bank's annual budget, based on input from the different Divisions and Units, which is subsequently approved by the Board. Moreover, the daily, monthly and quarterly income and expenditure reports are compiled and circulated to Senior Management. Periodic reports on the budget and financial performance are also presented to Senior Management and the Board. The Unit also monitors the Bank's recurrent and capital budget performances as well as prepares and analyses other financial reports. Taking into consideration the significant impact of the COVID-19 pandemic, the Unit coordinated the full and extensive review exercise of the approved 2020

budget and submitted a revised budget through its usual half-yearly budget virement process for the Board's consideration and approval.

In addition, the Unit conducts assessments on the impact of new financial reporting standards on the Bank's reporting requirements and coordinates the preparation for their adoption and implementation. The Bank's financial statements are prepared annually in accordance with IFRS and the CBS Act, 2004, as amended. These are audited by the Office of the Auditor General, with the assistance of an independent external auditor. For 2020, the external auditor remained unchanged, with Deloitte Touche Tohmatsu Limited (Deloitte) from South Africa taking up the audit work for the third year. In view of the pandemic, the audit work by Deloitte for 2020 was conducted remotely.

In May, after extending for an additional month, the contract with PricewaterhouseCoopers (PwC) Advisory (Ltd) (Mauritius) came to an end; the firm had provided expert assistance and capacity building towards the implementation of the 'IFRS 9 – Financial Instruments'.

6.4.2 Currency and Numismatics Section

The Currency and Numismatics Section is responsible for the issuance and management of local currency. It also manages the issue and sale of numismatics items such as commemorative gold and silver coins and coin packs produced by the Bank.

6.4.2.1 Management of Local Currency

As part of its mandate under the CBS Act, 2004, as amended, the Bank through the Currency and Numismatics Section, continued to supply local currency to the banking system in the form of banknotes and coins and withdrew those that were soiled or unusable, to help maintain high quality of currency in circulation.

6.4.2.2 Changes and operational measures due to COVID-19 pandemic

The Currency and Numismatics Section was compelled to adopt new procedures and adapt to new ways of working during the pandemic with the aim of ensuring staff safety and minimising the risk of transmission as the Section delivered on its mandate. Sanitising hands upon entering the CBS building and before effecting cash transactions over the counters, temperature checks, compulsory wearing of masks, more regular and periodic disinfection of the counters and work spaces, implementation of segregated work groups to maintain business continuity, temporary quarantine and isolation of cash deposits from commercial banks, SCU and government entities were amongst the new measures enforced by the Section. In addition, during the period with heightened restrictions on movement imposed by the PHA, the Bank suspended its over-the-counter services pertaining to sales of all numismatics items as well as exchange of coins and demonetised banknotes with members of the public. Processes such as banknote destruction, which require a number of individuals to be present in the same room, were evaluated to conform with the public health measures and therefore, such activities were suspended until an appropriate process is adopted or the situation improves.

6.4.2.3 Issuance of Banknotes

The Bank issued approximately 1.8 million pieces of fresh banknotes into circulation in 2020, amounting to approximately R140 million. The table below provides the breakdown in terms of denomination and the total value of issuance.

Table 6.5: New banknotes issued into circulation (2020)

Denomination	Number of Pieces ('000)	Value in R million
R500	1	0.5
R100	1,263	126
R50	2	0.1
R25	537	13
Total	**1,803**	**140**

Source: Central Bank of Seychelles

6.4.2.4 Destruction of Soiled and Mutilated Banknotes

In its ongoing endeavour to help maintain high quality of currency in circulation, soiled and mutilated banknotes were continuously removed from circulation and set aside for destruction. However, as mentioned above, due to the pandemic, no destruction exercise was conducted to adhere to the measures put in place by the health authorities. The destruction exercises are expected to resume as and when procedures are adapted to fit the current health obligations or when the situation improves.

6.4.2.5 Demonetisation

Demonetisation is the act of withdrawing the legal tender status of a currency by the issuing authority and once demonetised, the currency is no longer accepted as a means of payment or settlement for goods and services. Following the introduction of the new currency series in December 2016, the banknotes from the previous series were subsequently demonetised by February 2018. Nonetheless, all coins previously issued remained as legal tender and thus, co-circulated alongside the current series.

Below is the tabulation of the denominations withdrawn from circulation as at end-2020. It is to be noted however, that collection of demonetised banknotes was suspended during the second and third quarters of 2020 along with other over the counter services in light of the ongoing pandemic. This table represents the value of the five denominations that were in circulation on December 5, 2016; the date on which the new family of banknotes and coins was issued. To note, Table 6.6 below shows a revision in the 2019 data following a correction in the statistics of total banknotes collected for the R500 and R50 denomination which was previously overstated in the 2019 CBS Annual Report. Table 6.7 shows the data of total banknotes collected up to the end of 2020 which has been minimal in view of the operational changes due to the existing restrictions given the pandemic.

Table 6.6: Demonetised banknotes (revised table for 2019)

Denomination	Balance of previous banknotes in circulation as at December 04, 2016 (R million)	Previous series banknotes withdrawn from circulation from December 05, 2016 to December 31, 2019 (R million) (Revised)	Revised % withdrawn from circulation as at December 31, 2019
R500	785	746	95
R100	205	159	78
R50	29	16	55
R25	20	11	55
R10	25	8	32
Total	**1,064**	**940**	**88**

Source: Central Bank of Seychelles

Table 6.7: Demonetised banknotes (2020)

Denomination	Balance of previous banknotes in circulation as at December 04, 2016 (R million)	Previous series banknotes withdrawn from circulation from December 05, 2016 to December 31, 2020 (R million)	% withdrawn from circulation as at December 31, 2020
R500	785	747	95
R100	205	159	78
R50	29	16	55
R25	20	11	55
R10	25	8	32
Total	**1,064**	**941**	**88**

Source: Central Bank of Seychelles

6.4.2.6 Numismatic Items

During the year under review, suspension of over-the-counter sales of fresh uncirculated banknotes and coins remained in force. However, the Bank officially proposed to facilitate availability of such banknotes and coins to the commercial banks and SCU for them to offer the service to their customers as per their own internal policies. Apart from ABSA Bank Seychelles which started to offer this service in 2020, all other commercial banks and SCU are yet to pronounce themselves on this arrangement. Nonetheless, certain collectable items which included commemorative coins, the uncirculated coin packs of the old series and the currency booklet were on sale to the public at CBS' counters during the first and fourth quarters of the year but not during the second and third quarters, given precautionary measures adopted due to the pandemic. Moreover, the Bank entered into new agreements to expand its range of commemorative coins available for sale on the international markets, from which the Bank receives royalty payments.

6.4.2.6.1 New agreements to issue commemorative coins

Two new agreements were signed with Münzhandelsgesellschaft mbH & Co. KG Deutsche Münze (MDM) to issue two new coins of different sizes and metal contents to commemorate the following event and theme that were deemed to be of interest to numismatics' collectors worldwide.

i. Premium Silver Coin – '125th Death Anniversary of Alfred Nobel'

As part of the Premium Silver Coin series, the Bank opted for the '125th Death Anniversary of Alfred Nobel' as the theme for the coin. This coin has been designed in honour of the many achievements of Mr Alfred Nobel, being the well-known donator to the Nobel foundation, the Swedish Chemist, engineer, inventor, amongst others. The coin, which is made up of Ag999 silver, measures 38.61mm in diameter, weighs 31.1g and has a maximum mintage of 2,500 pieces. The main motif on the reverse of the coin is the image of the late Mr Nobel. Also depicted, on the same side of the coin, are the words 'ALFRED NOBEL 1833-1896', illustrations showing molecular structure of compound and lab instruments such as pipette and flask. This side also shows the metal content, weight and the issuing year '2021'. The obverse of the coin has the Coat of Arms of the Republic of Seychelles along with the face value of R10.

ii. Titanium Coin – 'Titan Jewellery'

The 'Titan Jewellery' coin which is part of MDM's Titanium Coins series, is made of Ti990, anodised Ti000 Titanium. The reverse of the coin features a watch, a ring and a charm bracelet, and the words 'TITAN JEWELLERY 2021. The obverse features a R5 face value, the Coat of Arms of the Republic of Seychelles, with its approximate weight of 10g and its metal content. The coin has a diameter of 36.10mm and its maximum mintage is 7,500 pieces.

6.5 Financial Inclusion and Market Conduct Division

The Financial Inclusion and Market Conduct Division (FIMCD) is responsible to initiate and administer relevant legislations, as well as devise and implement strategies to enhance financial inclusion, supervise market conduct of entities and for the modernisation of financial services including the national payment system. The Division is divided into two sections, namely the Financial Inclusion, and Market Conduct Sections.

6.5.1 Financial Inclusion Section

The Financial Inclusion Section has the primary aim of supporting the advancement of financial inclusion which is to ensure access to quality and affordable financial services.

6.5.1.1 Modernisation of the NPS

The National Payment System Modernisation plan was officially approved in August and has commenced implementation as per the 3-year timeline. On the modernisation of critical information systems operated by the Bank, the necessary work started to implement a new Core Banking System, a Central Securities Depository and other related systems or functionalities. The Bank has been engaging with key stakeholders that have an important role to play in promoting the digital economy

agenda, comprising of local and international partners. The aim is to support and allow market players to further develop and promote digital payment platforms. It further aims to address factors that deter the usage and access to digital financial services locally.

The COVID-19 pandemic more than ever brought forth the importance of digitalising the economy, and more so financial services. A number of urgent initiatives were conducted in order to accelerate some aspects of the modernisation plan. Notably, work was undertaken with SBA to facilitate the account opening process to streamline the procedure for those without bank accounts and who were receiving aid under the FA4JR. To encourage the use of digital payments, all charges pertaining to the use of the SEFT customer platform and fees associated with SEFT payments initiated through a digital banking platform were removed.

6.5.1.2 National Financial Education Strategy

In consideration of the National Financial Education Strategy (NFES), an action plan for 2020 was drafted. The main objectives were to address some of the challenges highlighted in the NFES, thereby improving the financial capability of Seychellois by enabling them to take responsibility for their financial well-being and better manage their personal and business finances. The activities targeted four different groups, i.e. the Youth, Adults, MSMEs and the socially and financially vulnerable. The vision of the plan was to make an impact by getting the people involved and educated so that they better understand financial products, concepts and risks on the basis of good information, instructions and objective advice. This included developing the skills and confidence to take effective measures for improving their wealth.

However, on March 14, given the changes in circumstances due to the pandemic, the financial literacy campaign was reviewed to adapt to the socio-economic changes noted. In May, a new Financial Education and digital literacy Action Plan was presented to the Steering Committee. The plan sought to address such matters as social distancing and health concerns, focusing on the vulnerable especially the elderly at risk; economic uncertainty; limited understanding of the economic implications of monetary policy and the effect this may have on the youth. These matters were conceptualised into four key pillars as follows:

1. Promoting safe use of digital financial services
2. Digital empowerment for the vulnerable
3. Financial literacy during economic uncertainty
4. Youth as champions of the financial literacy and digital literacy agenda

Accordingly, the initiatives undertaken in 2020 included publications of awareness materials in the daily newspapers, on Facebook, WhatsApp and DICT server; airing of videos on TV, YouTube, and Facebook; interviews on the radio, TV; and delivery of presentations to different groups. In addition, awareness was undertaken during the period of restrictions of movement to educate the public on the different digital channels available to perform transactions, knowing their rights as customers, how to

protect themselves from the financial fraud schemes and how to make a complaint. The campaign addressed financial literacy during economic uncertainty, including topics such as budgeting and savings, and the current economic environment. The Secretariat also participated in the International Fraud Awareness Week whereby the youth and general public were educated about the safe and secure use of the internet. Furthermore, engagement continued with all stakeholders whereby an open forum for retailers was held. 2020 also saw the launching of the first edition of Youth 4 Youth – Financial Education Youth Ambassador Programme. The programme aims to empower youths and to encourage peer-to-peer learning and advocacy on financial education. This is particularly important in the "new normal", where economic performance has been reduced considerably, and the need to create more awareness among the population on financial education has increased.

6.5.1.3 Financial Technologies

As a complement to the National Payment System Modernisation Plan which aims at creating an enabling environment for further introduction and adoption of Digital Financial Services locally, the Bank was during the year in the process of developing a National Fintech Strategy in collaboration with the World Bank. The strategy will serve as the national "blue print" in regards to the adoption of fintech in the country. Throughout the year, a series of stakeholder consultations was undertaken as a diagnostic assessment, to gather key information which would assist with the formulation of the strategy. This comprised of stakeholders from both the public and private sectors.

The fintech landscape also comprises virtual assets (also known as virtual currencies, crypto currencies, crypto assets) which are seen as innovation to the payments services sector. However, virtual assets are exposed to financial crime risks. Customers are exposed to potential losses due to the risk of cyber security and volatility in the price of these currencies. In this regard and in light of the increased interest in virtual assets related activities locally and internationally, the National AML Committee (NAC) which comprises of representatives from key institutions in various sectors and of which the Bank is a member, was tasked with developing a country position on virtual assets and virtual assets service providers (VASPs). This goes in line with the policies being developed at ESAAMLG level, which is the regional body subscribing to global standards to combat money laundering and financing of terrorism and proliferation, as well as the standards and recommendations introduced by the Financial Action Task Force (FATF). It is anticipated that a country position will be developed in 2021.

6.5.1.4 Credit Information System

During the year, the Bank continued its work to enhance the Credit Information System (CIS). The project was presented to the Bank's Board of Directors in August, to enact a new law for CIS which will broaden the scope for collection and dissemination of credit information. In September, the project was presented to the Cabinet of Ministers and approval was granted. With the recent change in government, the project was presented to the new Cabinet to ensure that it also had its support. Through collaborative assistance from the World Bank, the CIS law has been submitted to the AG's Office for

drafting. The World Bank was also assisting with the procurement of a software solution provider to design and implement the new system. This is through the Reimbursable Advisory Services, with anticipation of concluding the project by the first quarter of 2022.

6.5.1.5 Membership under the Alliance for Financial Inclusion

Since becoming a member of the Alliance for Financial Inclusion (AFI) network in 2014, the Bank remains active in its engagement. AFI is an organisation that has as its ultimate objective to empower members and policymakers in bringing quality financial services to every citizen. The Bank is committed in ensuring that the public gets access to convenient, affordable, reliable, efficient and safe financial services. Given the different initiatives being undertaken, at the end of 2020, the Bank was being represented within the Consumer Empowerment and Market Conduct Working Group (CEMCWG); the Digital Financial Services Working Group (DFSWG) and the SME Finance Working Group (SMEFWG). In addition, the Bank is part of two regional AFI initiatives, namely: Pacific Islands Regional Initiatives (PIRI) and the African Financial Inclusion Policy Initiative (AfPI).

From a regional initiative perspective, a notable achievement for the Bank, in 2020, was when Governor Caroline Abel assumed vice-chairmanship of AfPI – the primary platform for AFI's African members, to support and develop financial inclusion policy and regulatory frameworks in Africa – for a two-year term.

In keeping with the commitment to advance financial inclusion further across the globe, the AFI network engaged in various dedicated initiatives, particularly on post COVID-19 recovery. An AFI policy response and dashboard was created which aims to deliver systematic, effective and coordinated policy responses to help AFI members mitigate the effects of COVID-19 on financial inclusion policy implementation, especially for MSMEs and the most vulnerable segments of the population. Through the working groups and other workstreams, work was undertaken in the formulation of a Regional Policy Framework for Enhancing MSME Financing Ecosystem in Africa and the formulation of a policy framework on Consumer Protection for Digital Financial Services.

The Bank has since it joined the AFI network made commitments under the Maya Declaration, which is a statement of common principles regarding the development of financial inclusion by members of AFI. Below is a summary and the status of the commitments made thus far:

Table 6.8: Maya Commitments

Policy Area of Maya Commitment	Target	Status
National Strategy on Financial Education	Formulate a national strategy on financial education by December 2017	Completed in December 2017
Financial Consumer Protection	Enact a consumer protection law for financial services and supporting Regulations by December 2017	Ongoing. The law is expected by be enacted in 2021
Digital Financial Services	Issue regulations relating to mobile financial services and promote cross-border remittances through mobile payments by December 2018	Work was ongoing towards the drafting of the e-money regulations.
Financial Education	Empower youths through ongoing work on financial education for youths in schools as well as financial education and entrepreneurial skills aimed at young entrepreneurs and submit annual progress report	Ongoing exercise within the ambit of the National Strategy on Financial Education.
Gender Inclusive Finance/Disaggregated Data	Collect sex-disaggregated data by December 2020 to quantify the gender gap and identify barriers to financial inclusion for women and youth, and formulate an action plan on the most value-added fintech innovations to meet their needs based on the economic activities that they are more active in.	Ongoing exercise: The enhanced financial inclusion return would feed into the overall statistical framework of the Bank.

Source: Central Bank of Seychelles

6.5.1.6 Inclusive Green Finance

Increasingly, green finance policies and regulations that aim to manage environmental, social and inclusion risks created by climate change are being highlighted as key. At a national level, Seychelles has been working on various solutions through adaptation and mitigation strategies, in view that the country has not been spared from the effects of climate change as a Small Island Developing State and Large Ocean State. In 2020, the CBS started engagement in this area, particularly geared towards broadening its understanding on climate change and green finance, to make informed policy decisions that will contribute towards reducing climate risk and the scaling up of sustainable finance. Ultimately, these will assist with attaining the Sustainable Development Goals and Paris Agreement, amongst other international commitments and best practice.

In August, CBS co-hosted a virtual in-country training on Inclusive Green Finance alongside AFI, aimed at building staff capacity. Subsequently, an action plan was developed which will chart the next steps for CBS' work on developing and implementing Inclusive Green Finance initiatives in Seychelles.

In addition, during the period under review, CBS became a member of the Central Banks and Supervisors Network for the Greening of the Financial System (NGFS). This was done to leverage the

works done and ongoing by NGFS, to build capacity and gain insights of what can be considered for the local context and share best practices in a global arena.

Going forward, greater engagement is expected in the area of green and sustainable finance, including the drafting of a Roadmap on Sustainable Finance for Seychelles, which will require the involvement and engagements with relevant stakeholders.

6.5.2 Market Conduct Section

Market Conduct Supervision governs the manner in which financial service providers design their financial services or products and how they manage the relationship with their customers and other key players in the financial services space. It serves to enhance institutional frameworks, and protect the public from unfair market practices by setting minimum standards, market monitoring, on-site examinations and complaints handling.

6.5.2.1 Financial Consumer Protection Law

In support of the various modernisation initiatives being implemented by the Bank and the national agenda to digitise the economy, a legal framework that provides the various players in the market with the comfort and confidence to move digital, is equally important. Therefore, a Financial Consumer Protection Act to promote equitable and fair treatment of consumers, through increased transparency, promotion of responsible lending, prevention of over-indebtedness and a more efficient complaint handling process have been proposed.

Having obtained and agreed on a Financial Consumer Protection Bill, the Bank and FSA embarked on the white paper stage from June. This comprised of various awareness sessions on the three main islands, Mahé, Praslin and La Digue, as well as through television and radio appearances. Work was ongoing at year-end to have the Bill enacted before June 2021.

6.5.2.2 COVID-19 Initiatives from a Market Conduct Section Perspective

In support of efforts addressing the COVID-19 challenges, the below initiatives were undertaken:

- Set-up of the 24-hour hotline for complaints and queries, bringing the Bank closer to the public and facilitating the process of not only handling complaints, but also queries as regards to the private sector relief schemes.
- Worked with banks across the banking community to create acceptance of electronic statements of customers' accounts from other banks upon application for new products and services. Further work was being carried out to create acceptance of electronic bank statements by Government departments and agencies.

6.5.2.3 Complaint Handling

The aggregate number of complaints lodged at commercial banks in 2020 was 3,605, with 60 per cent of these lodged in the first half of the year, and the remaining 40 per cent in the second half. In comparison to 2019 where 2,260 complaints were recorded, the total number of complaints augmented

by 37 per cent in 2020. Out of the 3,605 complaints, 2,557 were upheld. The categories of complaints with the highest number of received grievances were 'Other lending' (35 per cent) and 'Debit cards' (27 per cent). Complaints in the 'Other lending' category were those concerning non-approval of loan applications and default payments. In contrast, those relating to debit cards were in connection to issues such as card details not updated on Visa, disputed card transactions, delays in merging of card files/settlement, fraud attempts, accounts insufficiently funded, and cards blocked due to accounts not being KYC compliant. For the period under review, BDCs reported to have received a total of 57 complaints. These were primarily associated with delays in effecting transactions.

6.6 Technical Services Division

The reliance on technology was significantly enhanced in 2020, as the Bank, similar to other organisations locally and across the globe, found ways to continue operations given the new realities brought about by the COVID-19 pandemic. With working from home, virtual meetings and digitalised processes becoming the 'new normal', TSD readjusted and accelerated the implementation of planned initiatives and ongoing projects where required. This was crucial to keeping the Bank's operations running smoothly and ensuring that staff and the Bank continue delivering on their functions.

Staff in TSD are responsible for providing support towards networks, desktop and business applications and on governing Information Technology (IT), through the following core functions:

- **Network Support:** Managing the server and network systems hardware and software and ensuring the security of the Bank's IT infrastructure and data against potential threats.

- **Desktop Support:** Providing technical support for the upkeep and maintenance of desktop and laptop PCs, mobile devices, hardware, associated peripherals such as printers and scanners, operating systems and all generic software installed on them, collectively referred to as desktop systems.

- **Business Applications Support:** Managing the Bank's core business applications including payment systems applications, key spreadsheets and databases, collectively referred to as banking systems, upkeep and maintenance of the website and the development of new applications to cater for the Bank's needs, depending on the required level of expertise.

- **IT Governance:** Coordinating the adoption of IT best practices to assist in delivering value to the Bank's functions and managing IT risks.

The main projects executed by TSD in 2020 to enhance the efficiency of the Bank's operations and enable effective collaboration and communication between all relevant stakeholders include:

Implementation of remote access technology

In view of the COVID-19 situation, remote working was widely adopted by the Bank. To assist the institution in maintaining its operations, TSD implemented a remote access Virtual Private Network (VPN) technology, allowing staff to have secure remote access to the Bank's network. To mitigate any potential cyber threats, TSD also implemented a two-factor authentication method for VPN access. This adds an extra layer of security, which also helps to ensure the confidentiality and integrity of the Bank's information.

Bank-wide deployment of digital signatures

TSD embarked on an exercise to implement the use of digital signatures. The Bank invested in a digital signature application in 2013, which reduces the need for printing and paper consumption, as part of its efforts to make its operations more environmentally friendly. Following the completion of the necessary upgrade of appliances, software and applications used by the Bank to facilitate the use of digital signatures, approval of the Digital Signature Policy by the Board in November 2018 and recognition of the Certifying Authority, in March, TSD rolled out a phased implementation of the use of digital signature for internal communications. This was accelerated in April to facilitate the signing and issuing of the Bank's communication, both internally and externally, to lessen the impact of the COVID-19 situation on the Bank's operational aspects.

Transition to Microsoft Teams

As already announced, Microsoft is planning to replace its Skype for Business online service with Microsoft Teams on July 31, 2021. Microsoft Teams is a comprehensive collaboration platform providing a shared workspace for a chat and threaded conversations, meetings and video conferencing, calling, and content collaboration, among other useful features designed for business communications. With remote collaboration, such as online meetings and training, gaining prominence due to the reduced traditional face-to-face interactions, TSD accelerated the switch from Skype for Business, making Microsoft Teams the official platform used by the Bank. The new virtual communication platform was successfully deployed and went live on November 01.

Network upgrade at the Disaster Recovery site

As part of the ongoing network upgrade project, the final improvement of the network infrastructure at the Bank's Disaster recovery (DR) site was completed in the fourth quarter of 2020. Numerous technologies have been introduced to improve business continuity, which has enhanced the resiliency, stability and security of the DR site. One noticeable upgrade was the addition of a backup remote access VPN to ensure continuity of operation from any location.

SEFT/ECC Virtualisation Project

TSD upgraded the infrastructure to enhance the performance of SEFT and ECC, and optimise the use of the two systems by both the banks and the public. The existing infrastructure of SEFT and ECC applications designed to cater for five years. From the go-live to date, both systems' databases have

grown significantly, hence the available space on the servers have become inadequate. The upgrade also provided compliance to some end of line software from the vendors, especially the operating system, which was no longer providing adequate support.

SEFT integration portal

TSD designed a new portal to assist the processing of government salaries by Treasury as well as the benefits and assistance paid by the Agency for Social Protection, which by the end of the year were being channelled through SEFT. The government's move to channel these payments through the electronic platform led to a significant increase in the number of payments processed through SEFT, from an average of 1,000 payments per day on regular days to more than 15,000 on peak payment days. Before this, the number of payments processed through SEFT was around 100 per day on regular days to around 1,000 payments on peak days. The integration portal was launched in June to assist BSD in improving workflows, to expedite the payment process and make it more efficient. Several validation processes have been incorporated in the system, in order to prevent duplication of payments and keep records of transactions, which helps mitigate potential risks.

Optimisation of the website for mobile

The Bank's website is the gateway through which a wide range of information is accessible to the public. In 2020, TSD collaborated with several Divisions/Units as new features were introduced on the website, such as a new page dedicated to Bank's response to COVID-19. Given increased traffic to the website, TSD completed a project to make all pages responsive to mobile devices and tablets. As the Bank is yet to have a mobile app, this has been a more flexible and cost-effective way to ensure that users choosing the mobile view option have a more streamlined browsing experience.

IT Governance Initiatives

IT Governance remained of utmost importance for the Bank, and in that regard, several initiatives were implemented in 2020 to ensure compliance with the policies and processes in place. The IT Operations Management Policy and Procedures were approved by the Board and came into effect in August. The Policy covers the general daily operations performed by TSD and aims to standardise the procedures, increase efficiency and encourage consistency in service delivery.

With the ever-growing need to protect the Bank's information and related technology resources, TSD also developed a User Access Management Policy and Procedures, which were presented to the Board for approval in November. The Policy's objective is to ensure that all users of any system within the Bank, both staff and third parties, are granted the appropriate level of access at the appropriate time. The Policy and Procedures clearly outline users' responsibilities while using their access rights and when requesting a new or change of access rights. The documents also detail the technical team's duties to fulfil access requests, including controls that need to be in place to ensure access and information security.

Awareness remained a vital tool for successfully implementing the IT Governance framework and achieving alignment with the organisation's objectives. In 2020, TSD deployed several awareness initiatives, particularly infographic emails, to educate staff about the Bank's IT Governance's framework and model, as well as best practices for using technology at work, including while working from home.

6.7 Administration Division

The Administration Division (AD) is responsible for providing general administrative, logistical and project management support to the Bank.

As part of the ongoing exercise to update its set of operating policies and procedures, progress was made in this regard, with the status at year-end varying. Relevant documents were submitted to the Board for approval. Additionally, a series of policies and procedures remained work in progress, for which the timeframe for finalising has been set for 2021.

Given the new requirements aimed at mitigating the risk of COVID-19 transmission, especially given that the Bank is a publicly accessible institution, Admin collaborated with HRD to put in place the necessary precautionary measures to ensure that the CBS building remained a safe work place. In line with this, consideration for use of new technologies was also explored in 2020, and consequently, a project to put in place an electronic visitors' management system is expected to be implemented during the first half of 2021.

In terms of improvement to the building infrastructure, the procurement process for acquiring the services of a contractor to provide servicing, upgrade and repair of the aircon system was carried out in the first half of 2020. The component of the project relating to the replacement of aircon equipment and installation of a new Building Management Software (BMS) was in progress by the end of the year and is set to be completed by Q3 2021.

With regards to remedial actions to address the tilting of the CBS Annex Building, the demolition process was successfully carried out in the first half of 2020, as per the methodology approved by the Seychelles Planning Authority.

The uncertainties brought about by the COVID-19 pandemic as well as technological adoption that had been fast tracked to adapt to the "new normal", necessitated the Bank to look at some of the projects in the pipeline. Although the Disaster Recovery (DR) and reconstruction of the Annex building remained on the table, the actual work has inevitably been pushed forward.

The Digital Archiving Project (DAP) aimed at preserving records and facilitating access, progressed through to the penultimate stage in 2020, and is planned to conclude during the first half of 2021.

In relation to the management of projects under the ownership of other Divisions/ Units, the Admin team's involvement focused on the following in 2020:

- New CIS – The project proceeded with testing of the developed software. However, the project was put on hold and a decision was made to procure the services of an audit firm for auditing the current system, scheduled to start in the first quarter of 2021. The World Bank will be assisting the Bank with drafting of the RFP and engaging with reputable software providers for the new CIS.

- e-HRIS – The project was at an advanced stage and the software scheduled to undergo user testing in the first quarter of 2021, followed by internal system auditing once the software is handed over to the Bank.

- New CORE Banking System – The purpose of the project is to replace the existing CORE Banking infrastructure, to mitigate the issues encountered internally, with the aim of improving CBS internal operational environment and the National Payment System. Initial work started in 2019, consisting of information gathering and system requirements from all stakeholders and ARC was presented with the findings and recommendation for consideration. The Board approved the budget for the CORE Banking System in 2019 for the 2020 budget. However, due to the imposed restrictions pertaining to the pandemic, work has halted. Work will continue during the course of 2021 with the procurement of technical assistance and software. The project is expected to be completed in the second quarter of 2023.

6.8 Human Resources Division

In 2020, the Human Resources (HR) Division continued to be responsible for the strategic utilisation of employees and maximising capability and performance, while guiding and supporting employees to evolve knowledge into applied skills. Due to the unprecedented challenges faced with the COVID-19 pandemic, the Division strived to deliver its functions to a high standard while adjusting to the new ways of working remotely with the aim of streamlining its key HR processes to meet its strategic objectives.

There were 5 persons who left the services of the Bank during the year, and employee movements which resulted in promotions and internal transfers. The headcount as at end December was 194.

In the spirit of solidarity towards those that were impacted by the pandemic and also for humanitarian reasons, the Bank through its Social Committee, set up a fund where employees and Board members were able to contribute towards various charitable external projects. These were voted on by members of staff, through a secure online system.

Furthermore, in line with HRD's initiative to streamline and improve its service delivery, as well as adapt to the "new normal", the Division re-looked at its key HR processes and introduced digitalised online means to facilitate their execution.

Moreover, with the current demands on central banking and as part of its succession planning, it was deemed necessary that the Bank remained focused on the development of its future leaders despite the challenges of the pandemic. As such, the Executive Development Programme which was initially done face-to-face was facilitated through the use of various online platforms, whereby participants were able to engage with the facilitators virtually and complete their assessments.

In line with the Bank's focus to improve employee behaviour and morale despite working remotely throughout the year, the Division shared various key sections from the CBS Employee Code of Conduct and Ethics via interactive screensavers. Additionally, in line with developments brought about by the COVID-19 pandemic and to understand how the change in ways of working impacted on employees and to closely monitor the impact of this change, the Division conducted an online survey. The positive results based on feedbacks received depicted that employees had adapted to the new ways of working remotely and received the support and guidance from their line managers.

In the spirit of promoting continuous learning and development of its employees, the Bank offered opportunities for staff to attend short courses locally and internationally with the purpose of building both technical and functional capabilities. In view of the restriction on overseas travel in 2020 due to the COVID-19 outbreak, most of the training were attended via webinar or online. These trainings and courses were offered mainly from institutions such as the African Training Institute (ATI), AFRITAC South jointly with the IMF Institute for Capacity Development, IMF, Alliance for Financial Inclusion (AFI), SADC, Koenig Solutions, MEFMI, CAIM and RAMP, ACAMS, Frankfurt School of Finance and

Management to name but a few. Moreover, employees were given the opportunity to attend soft skills training conducted during the second half of the year to enhance the delivery of their duties. These training sessions were organised by the Guy Morel Institute and conducted at the Institute's campus – Employees from BSD, Admin Division and FIMCD attended as per their respective Division's training plan.

In 2020, no new scholarship was offered for long-term studies in view of the unprecedented challenges of COVID-19. However, one employee who deferred his studies from the previous year opted to proceed via distance learning. In relation to the internal competitive scholarship, this was also put on hold. In March, the Bank awarded two external recipients the 'Guy Morel High Achievement Scholarship' for an undergraduate degree in Banking & Finance and a postgraduate degree in Anti-Money Laundering & Compliance. However, in view of the health crisis, the scholarships were deferred to 2021.

6.9 Internal Audit Division

The Internal Audit Division (IAD) provides objective and independent assurance on the adequacy and effectiveness of the Bank's governance, risk management and control processes. IAD reports functionally to the Audit and Risk Committee (ARC) and administratively to the Governor. ARC approves the Internal Audit Charter, which governs all IAD activities. IAD's risk-based approach to auditing aligns to the Institute of Internal Auditors' (IIA) International Professional Practice Framework. External quality assurance reviews of the Internal Audit Function are undertaken every five years. The most recent review was undertaken in 2018, whereby it identified both strengths and opportunities and offered recommendations for improving the effectiveness of the internal audit activity.

Amid the widespread concerns and economic hardship of the COVID-19 outbreak, IAD remained committed to proactively provide independent, objective assurance and consulting activities that add value and provide high quality services in a manner that is accountable, efficient, effective and ethical. Early during the COVID-19 pandemic, it was felt that the approved Multi-Year Audit Plan 2020-2022 needed to be adjusted to capture the top risks that the Bank was facing such as cybersecurity, information security, business continuity, as well as giving due consideration to any new Management requests. Concurrently, it was important for the IAD to closely monitor the Bank's existing inherent risks and keep sight of the measures implemented by the Bank such as the Private Sector Relief Schemes and monetary policy implementation. It was necessary to ensure that the mandatory internal audit activities were accomplished, the objectivity threats associated with the new priorities were managed, and the best use of the internal audit staff resources and capabilities were made.

The IAD's business continuity plan was revised, whereby IAD staff had to limit their presence at the Bank and work remotely. This meant that face to face interactions with the Bank's stakeholders were

limited. IAD leveraged technological tools such as Skype, Microsoft Teams, emails and telephone calls to communicate and engage effectively with the stakeholders.
IAD reviewed the Bank's Business Continuity plans, monitored the Virtual Private Network connections to ensure that the networks were secure whilst working remotely and reviewed the Core Banking transactions to ensure that they were of usual nature. IAD staff also attended to a request from the Ministry of Finance Trade and Economic Planning and the Bank's Senior Management to help in vetting the FA4JR applications for five weeks, in order to assist the Ministry with clearing of the initially accumulated backlog.

During the year, IAD continued to provide assurance on the Bank's operations to the Board and Management. In compliance with the Programme Statement, under the IMF's PCI, the Division also performed half yearly audits of the NIR to ensure conformity with the programme definition and calculation methods. The Division conducted one IT assignment as per Management's request and assessed the IT infrastructure and Internal Audit's structure of the Development Bank of Seychelles in relation to a ransomware attack that occurred in September. Extra verification exercise was conducted to ensure the vault and cashier's hand balances were complete and have been properly recorded. Verification exercises were also performed on the Bank's Expected Credit Loss model to ensure accuracy and completeness of figures.

The new realities impacted the timeline for the performance of three planned risk-based audits; the audit of Risk Management Function, the audit of the Project and Contract Management and the audit of the Fixed Assets which were pushed to quarter three of 2020. Subsequently, one audit relating to the calculation of exchange rates was deferred to 2021.

Due to the impact of COVID-19 and its related travel limitations, the interim audit was performed remotely by the Bank's external auditors – Deloitte South Africa – for a duration of two weeks during the month of October and the audit was completed within the set deadline. The travel limitations also impacted the external auditor's attendance for the 2020 year-end vault and cashier balances' verification. Therefore, they relied on the representatives from the Office of the Auditor General to confirm the year-end balances.

In terms of quarterly reporting, the agreed Management actions were followed-up and progress was reported to ARC as per the approved Multi-Year Audit Plan. ARC also approved all changes made to the Multi-Year Audit Plan.

6.10 Governance

Mindful of the pivotal role it plays in the domestic economy, the Bank has over the years strengthened its governance structure.

6.10.1 Governor's Office

6.10.1.1 Legal Unit

The Legal Unit's primary role is the identification and mitigation of legal risk in the operation and management of the Bank. Legal support is provided in the form of opinions and advice, contract reviews and other legal services. At the end of 2020, the Unit consisted of four staff including two qualified attorneys-at-law. The Unit's major activities for the year are set out below:

Litigation

The Bank was involved in two legal proceedings in 2020. The first involved the Bank being added as a respondent in an application for an order of attachment in the case of Zarine Dhanjee vs Bharti Dhanjee, the Mauritius Commercial Bank, the Central Bank of Seychelles (2020 SCSC 705, MA 133/2020). The Central Bank effected the necessary payment to the judgment creditor and the matter is concluded.

The second legal proceeding concerned an action brought against the Central Bank by one of its former governors, Mr. Pierre Laporte, in case No. CS 0091/2020. The basis of the action is the formula being used by the Bank to calculate his monthly pension. The case has been mentioned before the Supreme Court a number of times for filing of pleadings. As at December 31, no hearing date had been set.

Legislation

The Legal Unit was heavily involved in the preparatory work for the amendments to the CBS Act, 2004 and the FIA 2004. The amendments were made in light of the COVID-19 pandemic and were as follows:

(1) added a new provision to the CBS Act to permit the Central Bank to grant loans to financial institutions for periods of up to 3 years,
(2) expanded the definition of "force majeure",
(3) allowed the Central Bank to purchase government securities without the limitations that would normally apply.

The amendment made to the FIA was to permit the Central Bank to suspend the application of certain prudential requirements during force majeure events.

SADC Legal Subcommittee Participation

The SADC Legal Subcommittee meeting was held virtually in 2020 due to the COVID-19 pandemic. The meeting which was attended by staff of the Legal Unit discussed amongst other matters, the Banking Model Law, the status of domestication of the Central Bank Model Law and the status of the registration of SADC-Real Time Gross Settlement in member countries.

External Legal Counsel

The Legal Unit continued to retain the services of Georges & Co Attorneys and the Attorney General's Office.

6.10.1.2 Risk Management Unit

The Risk Management Unit (RMU) is responsible for the overall monitoring of Bank-wide risks as set out in its Risk Management Framework (RMF), approved by the Board in 2017. These risks are, in nature, strategic, operational, financial or reputational. The Unit comprises the Business Continuity Management function as part of the wider risk management landscape. RMU also works in close collaboration with other Divisions and Units as part of the Bank's governance functions.

6.10.1.2.1 Enterprise Risk Management

The year 2020 in which a health pandemic was declared, was one that brought about many changes in the regulations and operations of the Bank – changes that were not without challenges. As the Unit that manages Bank-wide risks, RMU was challenged to operate in the "new normal" environment that involved rethinking, reinventing and reorganising the way it operates to ensure that the Unit remained supportive of the Bank's core objectives. Despite the harsh realities, all members of staff had to adjust and RMU took the approach to be continuously and proactively present around the Bank. The nature of the pandemic made it necessary for the Bank to evoke its Business Continuity Framework to ensure that it continued its operation while remaining in compliance with guidelines issued by the health authorities. The RMU team worked from home for most of the year, with work facilitated by the digital platforms introduced by TSD to cater for virtual meetings and secure remote access to the Bank's network. Nevertheless, the team has been able to foster good collaboration with other Units and Divisions during this time, coming up with innovative solutions to issues presented. Staff and other stakeholders were cooperative, projecting confidence and resilience during this unprecedented period.

Despite the challenges, RMU continued to drive the risk assessment process, whereby all Divisions and Units identified risks attached to their processes and adopted appropriate internal controls to negate or mitigate these risks. In 2020, risk identification was mainly centred around the effects of COVID-19 on internal processes, financials, and the Bank's strategy in general. In light of the pandemic, RMU also took a proactive approach to be more engaged with Divisions and Units during the year, to provide support and assist with risk mitigation strategies as were required. This also included providing guidance and assisting Divisions to conduct risk assessments for specific projects being undertaken.

Risks identified in 2019 were also reviewed and analysed in June to see how they had changed and/or moved relative to this pandemic year. The documented register was reviewed and agreed by members of the Risk Management Committee (RMC). The top risks were further discussed at ARC meetings prior to Board endorsement of the register.

In terms of further operational risk monitoring, RMU also gathered risk issues/events on a regular basis across the Bank for which the respective Division or Unit assumed ownership of, and advised appropriate treatment options. The risk champions met during the year to discuss new and existing risks. As part of the general risk awareness in 2020, and consistent with the Unit's effort to continually improve on the Bank's risk culture, e-mails regarding risk management matters were sent to staff during the International Risk Management week (October 12-16). In addition, the RMU disclosed its respective risk management process, risk coverage and appetite statement on the website, in line with the IMF Transparency Code, to which the Bank has become one of the early adopters.

The Unit also contributed to sections 41 and 42 (Financial Risk Management), of the yearly financial statement and worked closely with other governance functions, namely IAD, the Chief Information Security Officer (CISO), the Compliance Unit (CU) and the Legal Unit (LU) on risk-based matters. Furthermore, RMU has also expanded its scope to other risk-based functions of the Bank and maintained a close working relationship with them to bridge gaps and prevent unnecessary duplications of risk coverage.

On an international front, the Unit is also part of the International Operational Risk Working Group (IORWG), which is a network of central bankers sharing global risk management best practices.

6.10.1.2.2 Business Continuity Management

Business Continuity (BC) is an organisation's strategic and tactical capability to plan for and respond to incidents and business disruptions to ensure it can continue its operations at an acceptable predefined level, whereas, Business Continuity Management (BCM) is a holistic management process that identifies potential threats to an organisation and their impacts on business operations.

Business Continuity Incident: COVID-19

In 2020, the Bank's resilience and ability to adapt to a disruptive situation was brought to the test, as a result of the COVID-19 pandemic. A working group was set up to come up with a preparedness plan related to COVID-19 and outline the most effective strategies that would allow the Bank to continue its operations. The existing framework and policies in place greatly assisted the Bank to respond and adapt to the unprecedented pandemic, as the Business Continuity Plan (BCP) developed and tested over the last decade was quickly adopted and re-adjusted along the way to adapt to the evolving situation. While the existing Emergency Response Handbook (ERH) briefly outlines the Bank's response to a pandemic, the realities and challenges brought about by COVID-19 have shown the need for a more comprehensive plan. As such, a new plan detailing all the steps that should be taken prior to, during and post a pandemic was being developed, considering lessons learnt from the prevailing situation that would allow the Bank to respond to such an eventuality in the future. The comprehensive plan is expected to be finalised in the second quarter of 2021.

With its advocacy of the BC mindset not only geared internally, the Bank also worked in collaboration with the financial institutions under its regulatory purview, particularly the BCM coordinators of the banks to understand their BCPs in response to COVID-19 and provided them with regular guidance. In view that the Bank has a well-established BCP and accompanying policies such as the work from home guidelines, it was contacted by both public and private sector organisations and was forthcoming in sharing and creating awareness of the BC concept in addition to assisting these organisations on getting started on developing their own plans.

The Bank also engaged with the Department of Risk and Disaster Management (DRDM) to understand its strategy for the country and contingency plan designed for particular sectors that are considered essential, including the Bank and financial institutions. Consequently, the Bank became part of the emergency notification network set by DRDM, which adds to proactive steps being taken towards the institution's preparedness to face any national emergency.

Business Continuity Management System

While great emphasis was placed on successfully continuing business operations amid COVID-19 challenges, efforts were also placed on other aspects. One of the main accomplishments was the Board approval of the updated Business Continuity Management System (BCMS) in November. The BCMS includes the BC Policy, the ERH, the Business Impact Analysis (BIA) Template and the Guideline for conducting a BC Test.

Business Continuity testing and awareness initiatives

Having a BCP is important, but testing the plan and the different procedures to ensure they work is equally important. The consequences of failing to resume business could severely impact the country's financial sector and affect the Bank's reputation. Initiatives conducted throughout 2020 to ensure that the Bank has a BCP that works and is up-to-date include:

- Update and testing of the employee and emergency contact lists
- Update of the call tree and testing of its procedure
- Monthly generator switchover tests, at the Bank's main building and Disaster Recovery (DR) site. The tests initiated in January, were aimed at ensuring that the Bank's generator operates effectively during a power failure. All tests were successfully conducted, with no impact on the Bank's infrastructure and IT services.
- Testing the integrity and accessibility of the Bank's backup processes
- Aside from testing the infrastructure and processes, efforts were also invested to enhance the awareness of BC Champions on their roles and responsibilities. On a day-to-day basis, BC Champions have a crucial role to play in identifying risks, and provide solutions to help manage and mitigate them. During a crisis they assist in recovery efforts.
- Bank-wide BC awareness was also conducted throughout the year, to educate staff on the importance of business continuity, the roles and responsibilities of the BC teams at the Bank, as well as their own responsibilities. The awareness was intensified during the Business

Continuity Awareness Week, held between May 18-22, during which an article was also published in the local newspapers to advocate the business continuity mindset at a national level.

Despite some challenges encountered, it was an eventful and productive year for the Bank on the BC aspect. COVID-19 has tested the Bank's ability to respond to a crisis, particularly a global pandemic, which has not only resulted in health implications but also had severe impact on the economic and social aspects. Moreover, the pandemic has reinforced the need for preparedness, adaptation and recovery to be an essential part of an organisation's resilience strategy.

6.10.1.3 Communications Unit

The visibility and credibility of the Bank were greatly enhanced in 2020, along with the ensued public confidence in view of the Bank's constant and regular interaction with key stakeholders, particularly the media, both local and international. With the many changes in the policies and regulations in response to COVID-19, communication was key to keep stakeholders and the general public abreast with the Bank's efforts to manage the impact of the pandemic on the local economy. The Communications Unit was the key coordinator in most aspects of external communications, in line with its major function as well as its role in ensuring the Bank move towards enhancing financial awareness and increased stakeholder and public engagement.

The Communications Unit falls directly under the Governor's Secretariat and its tasks generally include:

- Managing and coordinating the overall internal and external communications, in line with the Bank's communication strategy.
- Managing the public image of the Bank and protecting its reputation.
- Managing the press office – draft or assist in finalising and reviewing press releases for publication; monitor national and international press for the Bank-related news; handle press enquiries; assist in organising press interviews and other media-related events.
- Reviewing the communication strategy on a regular basis, drafting and advising on communication activities, on topical and crisis issues.
- Overseeing the content of the Bank's website and other online profiles, ensuring information is clear, accurate and up-to-date.
- Producing or help to develop articles, videos and other awareness materials.
- Receiving, documenting and responding to request for information in accordance to the Access to Information Act, 2018.

2020 was a busy year for the Bank in terms of communications engagement with the public, as well as with other stakeholders, in view of the increased pronouncements on the policy and regulatory responses to the COVID-19 pandemic. The Communications Unit was involved throughout and mainly

coordinated press-related matters including interviews, press releases, advertising, speeches and intervention points, as well as content creation.

Public & Media Engagements and Events

The Bank held 21 live press conferences related to the Bank's response to the pandemic covering topics such as regulatory changes, the Private Sector Relief Schemes, Reserves Management Strategy and Monetary Policy Decisions. The live press conferences, a first for the Bank, allowed the institution to enhance its efforts at improving transparency and provided the public with the opportunity to receive the Bank's messages as delivered. Other media engagements including press interviews on topical issues and live interaction on television and radio were also held, totalling around 22 events.

The Bank issued 54 press releases (compared to 34 for 2019) on various subjects, including regular communication of its monetary policy stance, financial stability, procurement plan, government bond issuance and publication of reports. The increase in press releases was mostly due to communication of operational measures to adhere to health guidelines and policy measures adopted to assist businesses and the country in general to mitigate the economic challenges brought about by the COVID-19 pandemic.

Due to the unprecedented situation, many scheduled events for the year were cancelled. However, the Bank employed the use of technology to participate in some events held virtually, including international meetings, conferences and training. There were also a few events held physically, in strict adherence to guidelines from the Health Authorities. Events to which the Communications Unit provided assistance, which mainly included drafting and finalising speeches, issuing notices and getting press coverage, were the following:

- Launch of the CBS Executive Development Programme (January 29)
- The Bank's Board and Management Retreat (February 15-16)
- Public Consultation on Financial Consumer Protection Bill (June 20 Praslin & La Digue; June 27 Mahé)
- 8th African Financial Inclusion Policy Initiative (AfPI) Virtual Meetings, during which the Governor was appointed Vice Chair of AfPI (August 20)
- Inclusive Green Finance Capacity Building Virtual Training organised by AFI (August 25)
- African Banker Awards 2020, during which Governor Caroline Abel won the award for Central Bank Governor of the Year (August 26)
- Launch of the Seychelles National Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Strategy (August 28)
- Signing of MoU between the Bank, FSA and FIU for the supervisory authorities to enhance co-operation and coordination through joint inspections where required, sharing of experiences and exchange of information, among other collaborative efforts, for the effective implementation

of the AML/CFT Act, the Beneficial Ownership Act and other relevant laws and regulations (September 2)

- CBS-SBA-Retailers Forum (November 25)
- Launch of a Financial Literacy Booklet by Absa Bank Seychelles, with a forward contributed by Governor Caroline Abel (December 4)
- Africa Leadership Awards 2020, during which the Governor Caroline Abel was one of the recipients of the Africa's Woman Leaders Award(December 8)

Publications and Public Awareness

With accountability and transparency being two of the Bank's core values, coupled with becoming one of the early adopters of the IMF Central Bank Transparency Code in August, the year saw a surge in external communication by the institution. The Communications Unit assisted various Divisions and Units in the Bank with the finalisation and publication of a number of articles, notices and awareness materials in the two daily newspapers, mainly related to financial education, financial stability and business continuity, as well as various actions taken with regards to financial institutions under its purview. The Unit's interaction with the press, including the provision of responses to questions related to the Bank's functions and policy decisions, was not limited to the local media landscape but also extended to the international media. The Unit was also part of the review process of three CBS reports published annually, notably the Financial Surveillance Report in September, the Board Secretary Report in October and the Financial Stability Report in November. In addition, the Unit was also the main point of contact between the Bank and the contracted graphics designer for the Financial Surveillance and Financial Stability Reports.

Access to Information

With regards to the Access to Information Act, the designated Information Officer received and responded to four requests submitted under ATI. In accordance with Section 54 of the Act, the Information Officer submitted the Bank's first Annual Report to the Information Commission on March 31, which covered the period of July 2018, when the law came into force, to December 2019.

Challenges and Opportunities

The socio-economic challenges that ensued in the wake of the COVID-19 pandemic saw a marked surge in the Bank's communication, which stretched the capacity and human resources of the small Unit. Major challenges included covering multiple meetings held simultaneously, working on various documents with close release dates within tight deadlines and managing the general running of the office with half the team, during times when the working-from-home option had to be availed. Press events were all held in person, which meant that the Communications Officers had to be present on site despite the risks of transmission of the COVID-19, although all safety precautions were maintained.

Regardless of the challenges, the Unit maximised the use of the digital platforms made available by TSD to gain secure remote access to the Bank's network to complete tasks and digitally sign documents which improved the efficiency of the approval process, as well as participate in virtual meetings held simultaneously. The Unit leveraged on the availability of online capacity building opportunities, through attendance of training on various areas of central banking, including sharing experiences with peers from SADC central banks on how they are addressing communication challenges in the midst of the COVID-19 pandemic. By availing of these opportunities, along with the support and collaboration of other Divisions and Units, the Communications Unit managed to complete its work plan for the year.

6.10.1.4 Compliance Unit

The Board approved the Anti-Money Laundering, Counter Financing of Terrorism and Countering Proliferation Financing Policy (AMLCFTCPF) in February. The Policy expressly states the role of the Bank in combatting money laundering, terrorism financing and proliferation financing activities. The Policy stresses that the Bank holds itself to the highest standards of integrity in the conduct of engagements to fulfil its role as an accountable institution and a supervisory body in terms of the AML/CFT Act, the Prevention of Terrorism Act and all the international standards.

Throughout the year, the Unit has worked in collaboration with Divisions, in particular BSD as well as the FMD , to strengthen their procedures and policies, and align the controls in accordance with the AMLC/FTC/PF Policy and the relevant legislations and standards. The Unit responded to a number of requests for information from correspondent banks on credits and debits made from the accounts held with them. With the commencement of the AML/CFT Act 2020, the Unit also engaged with internal and external stakeholders to ensure compliance with the provisions.

Additionally, the Board approved the Compliance Management Policy and Compliance Management Framework in September. The Policy communicates the Bank's recognition that it is accountable to its stakeholders for complying with regulatory requirements applicable in its mandate and daily functions. It reinforces the commitment of the Bank to adhere to a high level of compliance with relevant legislations, regulations as well as internal policies and sound governance principles.

In relation to compliance management activities, the Unit participated in working groups with other Divisions to enforce compliance to regulatory obligations. The Unit also highlighted compliance obligations to Divisions for their operation. Additionally, the Unit has worked with the HR Division on communications to the staff on obligations in the Code of Conduct and Ethics.

The Unit has throughout the year engaged in consultation with the Risk Management Unit, the Legal Unit and IAD to ensure efficient use of resources and in an effort to obtain a holistic picture of risk. It also engaged with other local stakeholders, such as the Ministry responsible for Finance, SRC and FSA, to address matters of concern for all parties such as payment transparency and the parties within

their regulatory ambit. The Unit also liaised with international stakeholders, notably the correspondent banks and the companies which provide screening solutions, pertaining to the information required and to explore the coverage of the Bank.

During the year, the Unit participated in trainings, with the majority held virtually. The training sessions covered topics such as regulatory compliance, integrated risk management, fintech and regulatory innovation, ethics in the public service and corruption. Such trainings have enhanced knowledge in these areas so that the concepts can be applied in the daily duties.

6.10.2 Internal Committees

6.10.2.1 Investment Committee

The Investment Committee (IC) is delegated by the Board, to oversee the day-to-day management of the international reserves. IC operationalises the Investment Policy approved by the Board through the formulation of the Investment Guidelines. As part of its mandate, IC approves procedures and investment strategies in line with the Investment Policy and Guidelines. Another important role of IC is to make sure that there are adequate frameworks to manage operational and financial risks in reserves management activities. In line with its TOR as approved by the Board, the Second Deputy Governor (SDG) is the Chairperson of IC. Other members include the First Deputy Governor (FDG) and Heads of RSD, FSD, BSD and FMD.

In 2020, several operational aspects of IC were re-visited in order to ensure its efficiency. The reviews were guided by the High-Level Investment Forum for Board and Management held in December 2019, under the World Bank's Reserves Advisory and Management Partnership. It was also an opportune time as the Bank re-examined its operational efficiency under the various restrictions on movement due to the COVID-19 pandemic. Consequently, the frequency of the scheduled meetings was reduced from twelve to at least six times per year to coincide with key happenings internationally, with three ad-hoc meetings held. Also, the monthly reports submitted to IC which were long and detailed in content, were revised to a more focused and exception-based reporting style. Furthermore, the set-up of meetings, which were previously face-to-face arrangement, was re-configured to virtual meetings through the use of video conferencing applications. As a consequence of the reduction in the number and ease of conducting meetings, the extent of secretarial duties required by the staff reduced significantly. This allowed for allocation of resources to other tasks and projects within the Bank.

Noteworthy decisions made by IC in 2020 included the Strategic Asset Allocation (SAA), which was the outcome of simulation and optimisation of the various assets and portfolios in the international reserves. The volatile international market conditions and the necessity to maintain liquidity to support the domestic foreign exchange market, prompted IC to recommend the maintenance of the strategic position of the Bank. The Board approved this proposal, requiring a near term review in six months rather than one year. Moreover, in the year under review, IC also proposed for additional delegation in

certain areas of decision making, such as counterparty approvals. Approval was granted by the Board in order to improve the turnaround time for decision making.

6.10.2.2 Monetary Policy Technical Committee

The Monetary Policy Technical Committee (MPTC) has the mandate to provide analytical support and advice to the Board in the formulation of monetary policies. Subsequently, another crucial role of MPTC is to ensure the effective implementation of the policy decisions taken by the Board. As per its TOR, also approved by the Board, FDG is the Chairperson of the MPTC while other representatives feature SDG and the Heads of BSD, FIMCD, FMD, FSD, and RSD.

During the year, there were twelve scheduled meetings held on the second Wednesday of every month[29]. However, due to the severe impacts of the COVID-19 pandemic on the domestic economy, in addition to the scheduled ones, eight ad-hoc meetings were conducted. MPTC meetings were also held virtually through the usage of online meeting platforms. This reduced the health risk of physical contact and improved the efficiency of meetings.

As previously mentioned, the discussions during the year centred on measures to contain the economic and financial impacts of the pandemic. This included recommendation of changes to the CBS Act.

6.10.3 Board of Directors

In 2020, the Board remained vigilant and proactive towards the early challenges brought about by the COVID-19 pandemic. The highlights of the year revolved around policy measures aimed to support the economy. For instance, the CBS Recovery Package which included revised Monetary Policy Stance, revisions of the CBS Act and FIA, the Emergency Loan Facility Guidelines, the Private Sector Relief Schemes, the Loan Repayment Moratorium and Relaxed Provisioning Requirements, Relaxation of Foreign Currency Exposure Limits, change in Reserve Management Policies, Provisions for Digital Payments and other measures.

The Board also engaged in several sessions to discuss various governance matters and scrutinised its existing practices. An activity which enabled such discussion was the combined Board and Management Retreat held on February 15 and 16 under the theme *"Nurturing a culture of inclusive growth"*. The members of the Board and Management appreciated several presentations on topics such as the Progress Mark of Strategy 2023, Self-Care and Worth, Staff Performance, Training and Development Initiatives, Empowering Effective Teams as well as Wealth Creation and Distribution for the country. The participants also engaged in thought-provoking interactions on "Cultivating an Effective Governance Culture" and "Personal Branding and Embodying Integrity" with the Guest Speaker Mr Mohammed Nyaoga, the Chairman of the Board of the Central Bank of Kenya. The output

[29] The meetings coincided with the start of the MRR maintenance period

of those sessions was a series of recommendations and the Board and Management's Pledges to employees captured in the event's report.

Throughout 2020, the Board remained committed to addressing recommendations made in the previous year's Board evaluation, which were monitored and acted upon. To that effect, a number of amendments were made to the ARC Charter which addressed several gaps and warranted that adequate focus and accountability is placed on the Committee as emphasised by the IMF Safeguards' recommendations. The Board Remuneration Policy was approved early during the year to standardise the remuneration package of Board members of the CBS and ensure transparency in how Board benefits are set and seeks to remunerate the Directors for their roles and responsibilities vis-à-vis the Bank's mandate and objectives. In some instances, the Board faced certain setbacks to implement the 2019 evaluation especially relating to capacity building in emerging technical areas in light of time constraint and reprioritisation of projects in view of the dynamic situation which kept the Directors preoccupied with unprecedented matters.

Nevertheless, the Board was consistent in carrying out another Board Evaluation for 2020 and concluded that the meetings were well organised, although there was a surge in complexity and number of documents submitted which meant that the meetings remained quite long. The majority of meetings were held virtually in light of the measures pertaining to restriction of movement. The Board adapted well to the digital transitions in view of the existing business continuity plans of the Bank. The evaluation also expanded towards the assessment of Board Committees and it allowed for self and peer evaluation of Directors. Overall, the members felt that they were encouraged to be open and discuss matters freely, and there was high participation throughout the year both at Board and Committee levels.

The Board placed great emphasis in ensuring that the Bank's policy decisions, operation and governance practices were highly transparent and displayed accountability. This was supported through approvals of several key reports and in particular the second edition of the Board Secretary Report 2019, which provided greater insight on the role of the Bank and its governance structure as well as details relating to the Board's activities in discharging its duties. The Board also granted approval for the early adoption of the IMF Central Bank Transparency Code as a guide for the Bank to maintain its integrity in the discharge of its duties and in achieving the highest standards of good governance when balancing its independence with principles of transparency and accountability.

6.10.3.1 Board Meetings

The Board usually meets monthly but should not have less than 8 meetings per year. In 2020, the Board held 23 meetings which was an increase compared to 17 sessions in 2019. This included 19 normal scheduled Board meetings. Among those, there were the quarterly Monetary Policy discussions and Financial Stability presentations. In addition, the Board held 4 extraordinary meetings which had also increased compared to 2019 when there was only 1 extraordinary meeting. This was in relation to urgent matters, mostly associated with reserve management to respond to the needs of the economy.

Throughout the year, the Board attended to approximately 161 agenda items, with the majority relating to reports, policy approvals, projections and specific Bank assignments. This was also a slight increase compared to 153 items in 2019.

During the course of 2020, the Board received reports spanning from various functions, which included the CBS Annual Report 2019 inclusive of the Bank's Financial Statements for 2019, the Annual Reserve Management Report, the Annual Risk Assessment Report, the Annual Financial Surveillance and Financial Stability reports, Board Committee Reports, Market Conduct Bi-Annual Report and the FIU Annual Report.

The Board was also kept updated on various matters through quarterly reports such as in the area of domestic money market developments, international reserves management, middle office reports, and updates on IFRS 9 implementation at commercial banks, to name a few. Moreover, the Board also received reports on AML/CFT on-site examinations conducted on commercial banks and BDCs, and updates on the Private Sector Relief Schemes which the Bank had put in place given the challenging economic environment.

In addition, the Board discussed and approved various matters around the Bank's policies, strategies, planning and budget allocation. This included the Risk-Based Supervision Framework, Procurement Plan, amendments to the Domestic Systemically Important Banks Framework, the Modernisation of the National Payment System, the Credit Information System Policy proposal and expansion of Business Continuity Policy and procedures. A significant amount of the Board's time was also allocated to discussions on Monetary Policy stance and Financial Stability issues.

Furthermore, the Board approved for the setting up of the CBS Solidarity Fund and its TOR. The Fund is aimed to consolidate voluntary contributions from staff, and Board, and assist with initiatives that would help individuals and organisations facing challenges brought on by the COVID-19 pandemic as well as other projects, on humanitarian grounds. This was reflected in several donations and support provided throughout the year.

6.10.3.2 Audit and Risk Committee

The main purpose of ARC is to assist the Board in fulfilling its oversight responsibilities of the financial reporting process, the systems of risk management and internal control, the audit process (both internal and external) as well as compliance management. The Committee's activities are guided by the ARC Charter, which was largely amended in 2020. The amendments took into consideration the recommendations from previous IMF Safeguard Assessments, the IMF Central Bank Transparency Code, international best practices especially those advocated by the International Standards Model Audit Committee Charter (MACC) and issued by the Institute of Internal Auditors.

ARC comprises 3 Non-Executive Board Members, the Chairman – Professor William Otiende Ogara, Mr Bertrand Rassool and Mr Errol Dias. During the year under review, ARC held 6 meetings in which it reviewed, approved and provided guidance on the work done by IAD, RMU and Compliance Unit which included the Multi-year Audit Plan for 2020-2023 and the progress of the Internal Audit Plan, the Compliance Policy and Framework, the Business Continuity Policy, Emergency Response Handbook and Guidelines for Business Continuity Test and Impact Analysis template.

In addition, ARC received several reports such as the Enterprise Risk Management Quarterly Reports, the Internal Audit Quarterly Reports, Audit Findings from Internal Audit conducted, the Chief Information Security Officer Report amongst others. ARC also considered the Financial Statements of the Bank for the year 2019. ARC was kept abreast of the Bank's risk appetite through the revised risk register in light of the changing environment due to COVID-19 and was apprised of matters observed with processing certain transactions as well as requests from correspondent banks for information. ARC recommended the External Audit scope of work and audit fees for both audit and non-audit services to the Board for approval. Additionally, the Committee was apprised of the Bank's Business Continuity Plan and its management through quarterly reports.

The Committee also undertook an evaluation which concluded that the quality of meetings and engagements were satisfactory. Going forward, ARC will reassess its work plan against its revised Charter and the outcome of the evaluation to accommodate the overall changing landscape of the functions to discharge its duty of oversight.

6.10.3.3 Human Resources Committee (HRC)

The purpose of HRC is to set the over-arching principles and parameters of strategic people management across the organisation. HRC is guided by its own TOR and comprises 2 Non-Executive Board members, the Chairman – Mr Errol Dias and Dr Sherley Marie.

For the year under review, the Committee met 4 times, and it discharged its responsibilities by considering and providing guidance on the Business Interest Framework, New Ways of Working for employees to accommodate the increased health and safety measures at the Bank and work from home provisions. HRC also approved the suspension of the 13th month salary in the employees' contracts and established a Welfare Support Scheme to assist staff in financial distress due to the impact of COVID-19.

HRC undertook an evaluation which concluded that the quality and engagements were satisfactory. Going forward, HRC's role will be strengthened through the implementation of the HRC Charter replacing the HRC TOR. In 2020, the HRC Charter was reviewed and approved by the Committee to take into consideration the fast-changing context of central banking realities within Seychelles and the

IMF Safeguards recommendations. The HRC Charter expands the scope of the Committee and will take effect in January 2021 further to approval by the Board.

6.11 Appreciation

The Board and Management of the Central Bank wish to express their appreciation to all staff members for their valuable contributions and absolute commitment to the operation of the institution. Despite the challenging environment and the increased exigencies of the "new normal", the Bank's staff have continued to discharge their responsibilities in a professional, ethical and exemplary manner as befitting a central monetary institution and in doing so, further assisted the Bank to attain its statutory objectives, amongst other things. The Board and Management urge staff members to take on the opportunities that the changing central banking landscape offers to broaden their knowledge for their own personal development as well as that of the Bank. On this note, the Board and Management look forward to another successful year ahead.

Annex I

CENTRAL BANK OF SEYCHELLES
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

Management's commentary on the audited financial statements for the year ended December 31, 2020

The financial statements of the Central Bank of Seychelles for the year ended December 31, 2020 were approved and signed by the Board on March 25, 2021. The Auditor General certified and signed the financial statements on March 29, 2021 following the audit review by the external auditors, Deloitte Touche Tohmatsu Limited (South Africa). These financial statements are being prepared in accordance with the CBS Act, 2004 as amended and are in line with the International Financial Reporting Standards (IFRS). The financial statements comprise of the following primary statements; the statement of financial position, the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows, as well as the statement of distribution. In addition, the notes to the financial statements are also included.

The Bank's financial statements for 2020 have been audited by the Bank's external auditors, Deloitte Touche Tohmatsu Limited (South Africa), on behalf of the Auditor General as per Section 47(3) of the CBS Act, 2004 as amended. Deloitte Touche Tohmatsu Limited (South Africa) has been appointed for a period of five years, subject to annual reviews, and 2020 is the third year of audit assignment with the Bank. In the auditors' opinion these financial statements give a true and fair view of the financial position, the financial performance and the cash flows of the Bank, which are in line with IFRS and in accordance with the CBS Act, 2004 as amended.

The presentation of the figures in the statement of financial position is consistent with the prior year and shows all foreign and local currency comparative figures for the year 2019 and 2020. For the year 2020, total assets stood at R13,708 million, total liabilities were R9,768 million and total equity stood at R3,940 million. Total value of foreign currency assets increased from R8,214 million as at the end of 2019 to R12,153 million as at the end of 2020, which is an increase of approximately 48 per cent. This large increase was predominantly as a result of the significant depreciation of the domestic currency against all the major foreign currencies as a result of the impact of the COVID-19 pandemic. Another key factor was the increase in fair valuation gains from the upward movement of prices due to the decrease in the interest rates by the Federal Reserve Bank. The total foreign assets as at December 31, 2020 after adjusting for expected credit loss, comprised of R7,214 million as cash and cash equivalents with short-term maturities, R87 million as other balances and placements with maturities of more than three months, and R4,852 million as financial assets at fair value through profit or loss (FVTPL). The latter represents an aggregate of funds with the Bank's external fund managers, investments in shares as well as US dollar treasury securities and money market funds being managed internally.

The statement of profit or loss and other comprehensive income shows a total comprehensive income of R3,080 million for the year 2020. This is made up of R28 million as actual operating profit as well as other non-distributable earnings in the form of unrealised revaluation gains arising from foreign currency monetary assets and liabilities at R1,389 million, unrealised gains from fair valuation of financial assets at FVTPL at R1,654 million and actuarial gains amounting to R8.5 million. The revaluation gains recorded are a direct result of the overall depreciation of the Rupee vis-à-vis the other major foreign currencies, in particular the US dollar, and are treated as unrealised gains and do not form part of the computation of distributable earnings to the Government. In addition, the effects of the actuarial gains on the employee benefit obligations are treated as other comprehensive income and these do not form part of distributable earnings but are accumulated under actuarial reserve. Prior years' unrealised gains and losses on FVTPL are only considered for distribution upon disposal of these financial assets in the following year. For the year 2020, these net realised gains amounted to R14 million. Prior year's unrealised gains and losses are included in the Bank's computation of distributable earnings for the year 2020 prior to distribution or offsetting against General reserve as required thus contributing to the total distributable earnings of R42 million.

The Bank's actual operating profit and distributable earnings for the year 2020 were made up primarily of interest income, interest expense, fees and commission, staff costs, professional charges, expected credit loss on financial assets as well as other income and expenses. Key contributors to the total revenue of R3,283 million were non-interest income items relating to fair valuation on financial assets and revaluation on foreign currency assets and liabilities which recorded significant gains of R1,737 million and R1,389 million, respectively. This represented a significant increase in gains arising from fair valuation of financial assets at FVTPL of R1,627 million from transactions in the Bank's investments held in the portfolio with Crown Agents Investment Management, Afreximbank, Union Bank of Switzerland Money Market Fund and Reserves Advisory and Management Partnership as well as within the Bank's managed portfolio, mainly due to the depreciation of the domestic currency against the US dollar and other foreign currencies. Also significant is the increase of R1,364 million due to gains arising from revaluation of foreign currency monetary assets and liabilities which relates mainly to the increase in foreign exchange rates in 2020 compared to 2019 as a result of the adverse effects of the COVID-19 pandemic.

Another factor impacting the increase in non-interest income is gains from dealing in foreign currency transactions which also increased from R4.0 million in 2019 to R30 million in 2020. This was mainly as a result of the Bank's support of domestic foreign exchange market given the external shock that had impeded the supply of foreign currency. This was done by the Bank conducting Foreign Exchange Auctions by selling an amount of US$29 million to the local commercial banks and direct sales of US$22 million to the Seychelles Trading Company and Seychelles Petroleum Company to support the importation of essential goods and fuel, respectively. Additionally, the Bank recorded gains of R13 million in 2020 compared to R4.3 million in 2019 on foreign exchange trades conducted while managing benchmark positions in the operational accounts and for returns generation purposes. Also noteworthy in non-interest income is the observed increase in fees and commission income, from R27 million in

2019 to R33 million in 2020 mainly as a result of Government budget support funds received among other Government receipts and payments in respect of Government expenses, of which there were drawdowns for foreign currency loan repayments. Moreover, the increase was due to the effect of the depreciation of the currency.

In terms of interest income, a decrease of R75 million, was recorded. Interests earned from the Bank's holdings of Government treasury bills were the main source of interest income, recording an income of R66 million for the year 2020. By contrast, interest expense decreased from R65 million in 2019 to R28 million in 2020 mainly due to lower volume of transactions in respect of the Deposit Action Arrangement (DAA) monetary policy instrument in light of the relaxed monetary policy stance and also the increased demand for credit by the Government through issuance of treasury bills and treasury bonds on the local market. It is to be noted that the bulk of the Bank's monetary policy cost was incurred through the DAA monetary policy instrument.

On the expenditure side, staff related costs decreased from R121 million in 2019 to R104 million in 2020 mainly due to COVID-19 pandemic related factors such the public health restrictions on physical movement which prevented staff from physically attending conferences, training and development opportunities and the suspension of the payment of the 13th month salary. Policy costs, which is directly linked to the Bank's objective of prudently accumulating foreign reserves, decreased from R10 million in 2019 to R1.8 million in 2020. The Bank purchased only US$11 million in 2020 compared to US$65 million in 2019. Given the support to the market, the gross international reserves decreased from US$580 million, equivalent to 3.8 months of imports in 2019, to US$559 million, equivalent to 5.0 months of imports in 2020. The observed increase in the months of import cover was predominantly influenced by the impact of COVID-19 pandemic which resulted in a decline in imports in 2020 given the reduction in the level of trade activities during the year. Professional charges decreased from R12 million in 2019 to R5.5 million in 2020, mainly due to a shift in the Bank's priorities in view of the COVID-19 pandemic, with the Bank undertaking a reduced number of consultancy projects in 2020 in order to make more efficient and prudent use of its resources.

On the equity side, the current aggregate balance under authorised capital and General reserve of the Bank, which stood at 4.3 per cent, fell short of the minimum 10 per cent of total monetary liabilities required at the end of every year. Total monetary liabilities increased from R5,437 million in 2019 to R7,132 million in 2020. The entire 50 per cent of total distributable earnings which amounted to R21 million was utilised to build up authorised capital to reach 2.1 per cent of total monetary liabilities but no transfer was made to build up General reserve. The remaining 50 per cent of total distributable earnings, amounting to R21 million will be paid to the Government Consolidated Fund as dividends for the year.

The full set of the Bank's audited financial statements and detailed explanatory notes prepared for the year ended December 31, 2020 are shown overleaf.

CENTRAL BANK OF SEYCHELLES

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2020

CENTRAL BANK OF SEYCHELLES

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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OPINION OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE CENTRAL BANK OF SEYCHELLES FOR THE YEAR ENDED 31 DECEMBER 2020

Opinion

The accompanying financial statements set out on pages 5 to 90, which comprise of the statement of financial position as at 31 December 2020, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies, have been audited on my behalf by Deloitte & Touche (South Africa) auditors, appointed under Section 19 of the Auditor General Act, 2010 read with Section 47(3) of the Central Bank of Seychelles Act, 2004 (as amended). As per the agreement with the auditors, they have reported to me the results of their audit and on the basis of their report, I am satisfied that all information and explanations which, to the best of my knowledge and belief, where necessary for the purpose of the audit have been obtained.

Accordingly, in my opinion,

(a) proper accounting records have been kept by the Bank as far as it appears from examination of those records; and

(b) the financial statements on pages 5 to 90 give a true and fair view of the financial position of the Bank as at 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Central Bank of Seychelles Act, 2004 (as amended).

Basis for Opinion

The audit was conducted in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the *'Auditor-General's responsibilities for the audit of financial statements'* section of my report. I am independent of the Bank in accordance with the INTOSAI Code of Ethics applicable to its members, together with other ethical requirements that are relevant to the audit of financial statements in Seychelles, together with other ethical requirements that are relevant to the audit of financial statements in Seychelles. I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my opinion.

Other Information

The Board of Directors is responsible for the other information which comprises the information included in the annual report. The other information does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance or conclusion thereon.

In connection with the audit of the financial statements, my responsibiiity is to read the other information and , in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work performed on the other information that was obtained prior to the date of the audit report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibility of the Board of Directors of the Bank for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in compliance with the requirements of the Central Bank of Seychelles Act, 2004, (as amended) and for such internal control as Board of Directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in accordance with Part IV of the Central Bank of Seychelles Act 2004, (as amended).

Responsibilities of the Auditor General

The audit objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and issue an auditor's report in accordance with the Central Bank of Seychelles Act, 2004 (as amended). Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of the audit in accordance with ISAs, the auditor exercises professional judgement and maintains professional scepticism throughout the audit. The auditor also:

- Identifies and assesses that risk of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for the opinion. The risk of not detecting material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omission or misrepresentation, or the override of internal control;
- obtains an understanding of the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- evaluates the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- concludes on the appropriateness of the Board of Directors' use of going concern basis of accounting and, based on the audit evidence obtained, concludes whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial statements or if such disclosures are inadequate, to modify the opinion. My conclusions are based on audit evidence obtained to the date of my auditor's report. However, future unforeseeable events or conditions may cause the Bank to cease to continue as a going concern;
- evaluates the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtains sufficient appropriate audit evidence regarding the financial information of the entity or business activities within the Bank to express an opinion on the financial statements. The auditor is responsible for the direction, supervision and performance of the audit. I remain responsible for the audit opinion;
- communicates with directors among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Gamini Herath
Auditor General

29 March 2021
Victoria, Seychelles

CENTRAL BANK OF SEYCHELLES

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	2020 Foreign Currency SCR' 000	2020 Local currency SCR' 000	2020 Total SCR' 000	2019 Foreign currency SCR' 000	2019 Local currency SCR' 000	2019 Total SCR' 000
ASSETS							
Cash and cash equivalents	7	**7,214,442**	**-**	**7,214,442**	4,443,838	-	4,443,838
Other balances and placements	8	**86,795**	**-**	**86,795**	746,482	-	746,482
Financial assets at fair value through profit or loss	9	**4,851,994**	**-**	**4,851,994**	3,023,720	-	3,023,720
Investment securities	10	**-**	**1,190,368**	**1,190,368**	-	1,195,094	1,195,094
Loans and advances	11	**-**	**180,476**	**180,476**	-	45,344	45,344
Other assets	12	**-**	**62,715**	**62,715**	-	45,324	45,324
Currency replacement costs	13	**-**	**23,396**	**23,396**	-	23,407	23,407
Property and equipment	14	**-**	**97,135**	**97,135**	-	98,904	98,904
Intangible assets	15	**-**	**746**	**746**	-	2,212	2,212
Total assets		**12,153,231**	**1,554,836**	**13,708,067**	8,214,040	1,410,285	9,624,325
LIABILITIES							
Currency in circulation	16	**-**	**1,729,374**	**1,729,374**	-	1,510,295	1,510,295
Deposits from Government	17	**1,072,593**	**741,422**	**1,814,015**	721,349	1,975,141	2,696,490
Deposits from banks	18	**2,010,929**	**2,596,468**	**4,607,397**	1,071,831	1,858,735	2,930,566
Deposits from other financial institutions	19	**-**	**99,634**	**99,634**	-	78,249	78,249
Other deposits	20	**28,789**	**41,925**	**70,714**	13,658	35,254	48,912
Open Market Operations	21	**-**	**635,220**	**635,220**	-	875,329	875,329
Other liabilities	22	**-**	**94,302**	**94,302**	-	57,433	57,433
International Monetary Fund obligations	23	**716,373**	**1,412**	**717,785**	545,335	1,125	546,460
Total liabilities		**3,828,684**	**5,939,757**	**9,768,441**	2,352,173	6,391,561	8,743,734
EQUITY							
Capital and reserves							
Authorised capital	24	**-**	**151,377**	**151,377**	-	130,227	130,227
General reserve	24	**-**	**153,437**	**153,437**	-	153,437	153,437
Revaluation reserve	25	**-**	**3,623,133**	**3,623,133**	-	593,768	593,768
Actuarial reserve	26	**-**	**11,679**	**11,679**	-	3,159	3,159
Total equity		**-**	**3,939,626**	**3,939,626**	-	880,591	880,591
Total equity and liabilities		**3,828,684**	**9,879,383**	**13,708,067**	2,352,173	7,272,152	9,624,325

These financial statements were approved and authorised for issue on 25 March 2021 by the undersigned:

Caroline Abel Mar 25 2021 11:43 AM
C. Abel
Governor

Christophe Edmond Mar 25 2021 11:46 AM
C. Edmond
First Deputy Governor

Errol Dias Mar 25 2021 12:49 PM
E. Dias
Director

Bertrand Rassool Mar 25 2021 12:41 PM
B. Rassool
Director

Prof Ogara Mar 25 2021 12:43 PM
W. Ogara
Director

Sherley Marie Mar 25 2021 1:14 PM
S. Marie
Director

The notes on pages 10 to 90 form an integral part of these financial statements.

CENTRAL BANK OF SEYCHELLES

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 SCR' 000	2019 SCR' 000
Interest income	**27**	**111,706**	186,672
Interest expense	**28**	**(28,051)**	(64,659)
Net interest income		**83,655**	122,013
Fees and commission income	**29**	**33,332**	27,128
Other income	**30**	**9,692**	4,334
Gains arising from dealings in foreign currency transactions	**31**	**30,084**	3,999
Gains arising from fair valuation of financial assets at fair value through profit or loss	**31**	**1,737,292**	110,157
Gains arising from revaluation of foreign currency monetary assets and liabilities	**31**	**1,389,160**	24,705
Revenue		**3,283,215**	292,336
Staff costs	**32**	**(104,174)**	(121,052)
Currency expenses	**33**	**(11,273)**	(10,634)
Depreciation charge	**14**	**(9,599)**	(9,809)
Amortisation charge	**15**	**(1,466)**	(1,515)
Professional charges	**34**	**(5,459)**	(11,561)
International Monetary Fund ("IMF") charges		**(10,353)**	(10,534)
Policy costs		**(1,834)**	(10,159)
Financial stability costs		**-**	(12,032)
Expected credit loss on financial assets	**35**	**(4,571)**	1,277
Administrative expenses	**36**	**(18,243)**	(20,833)
Other operating expenses	**37**	**(44,578)**	(38,262)
Profit for the year		**3,071,665**	47,222
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Actuarial gains	**22(a)**	**8,520**	6,323
		8,520	6,323
Items that are or may be reclassified to profit or loss		**-**	-
Other comprehensive income		**8,520**	6,323
Total comprehensive income for the year		**3,080,185**	53,545

The notes on pages 10 to 90 form an integral part of these financial statements.

CENTRAL BANK OF SEYCHELLES

STATEMENT OF DISTRIBUTION
FOR THE YEAR ENDED 31 DECEMBER 2020

	2020	2019
	SCR' 000	SCR' 000
Total comprehensive income for the year	**3,080,185**	53,545
Adjusted as follows:		
Realised gains transferred to revaluation reserve	**13,751**	1,025
Unrealised gains transferred to revaluation reserve	**(3,043,116)**	(69,649)
Actuarial gains as per IAS 19	**(8,520)**	(6,323)
Distributable earnings	**42,300**	(21,402)
Amount distributed		
Distributed as specified by the Central Bank of Seychelles Act, 2004 as amended		
Transfer to authorised capital	**21,150**	-
Transfer from General reserve	**-**	(21,402)
Transfer to Government Consolidated Fund (Note 6)	**21,150**	-
	42,300	(21,402)

The above information has been compiled from information contained in the statement of changes in equity as set out on page 8 and does not form part of the primary statements.

CENTRAL BANK OF SEYCHELLES

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Authorised Capital SCR' 000	General Reserve SCR' 000	Revaluation Reserve SCR' 000	Actuarial Reserve SCR' 000	Retained Earnings SCR' 000	Total Equity SCR' 000
At 1 January 2019	130,227	174,839	525,144	(3,164)	-	827,046
Profit for the year	-	-	-	-	47,222	47,222
Other comprehensive income:						
Actuarial gains	-	-	-	6,323	-	6,323
	130,227	174,839	525,144	3,159	47,222	880,591
Transfer to revaluation reserve (realised gains)	-	-	(1,025)	-	1,025	-
Transfer to revaluation reserve (unrealised gains)	-	-	69,649	-	(69,649)	-
Transfer from General reserve	-	(21,402)	-	-	21,402	-
At 31 December 2019	**130,227**	**153,437**	**593,768**	**3,159**	**-**	**880,591**
Profit for the year	**-**	**-**	**-**	**-**	**3,071,665**	**3,071,665**
Other comprehensive income:						
Actuarial gains	**-**	**-**	**-**	**8,520**	**-**	**8,520**
	130,227	**153,437**	**593,768**	**11,679**	**3,071,665**	**3,960,776**
Transfer to revaluation reserve (realised gains)	**-**	**-**	**(13,751)**	**-**	**13,751**	**-**
Transfer to revaluation reserve (unrealised gains)	**-**	**-**	**3,043,116**	**-**	**(3,043,116)**	**-**
Transfer to authorised capital	**21,150**	**-**	**-**	**-**	**(21,150)**	**-**
Transfer to Government Consolidated Fund	**-**	**-**	**-**	**-**	**(21,150)**	**(21,150)**
At 31 December 2020	**151,377**	**153,437**	**3,623,133**	**11,679**	**-**	**3,939,626**

The notes on pages 10 to 90 form an integral part of these financial statements.

CENTRAL BANK OF SEYCHELLES

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020	2019
		SCR' 000	SCR' 000
Net cash (outflow)/inflow from operating activities	**38**	**(662,705)**	176,716
Cash flows from investing activities			
Proceeds from other balances and placements		**672,364**	448,025
Payments for acquisition of financial assets at fair value through profit or loss		**(2,252,107)**	(3,689,609)
Proceeds from sale of financial assets at fair value through profit or loss		**1,500,261**	1,931,890
Payments for currency replacement	**13**	**(11,112)**	(2,493)
Payments for acquisition of property and equipment	**14**	**(8,798)**	(8,151)
Proceeds from disposal of property and equipment		**16**	63
Dividends received		**1,206**	828
Interest received		**120,696**	163,528
Net cash used in investing activities		**22,526**	(1,155,919)
Cash flows from financing activities			
Net cash used in financing activities		**-**	-
Net decrease in cash and cash equivalents		**(640,179)**	(979,203)
Cash and cash equivalents at 1 January		**4,443,838**	4,952,541
Effects of exchange rate changes on cash and cash equivalents		**3,410,783**	470,500
Cash and cash equivalents at 31 December	**7**	**7,214,442**	4,443,838

The notes on pages 10 to 90 form an integral part of these financial statements.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

1. GENERAL INFORMATION

The Central Bank of Seychelles (the "Bank") is established and domiciled in the Republic of Seychelles. The address of its registered office is Independence Avenue, Victoria, Mahé, Seychelles. The Bank is established by statute under Section 3 of the CBS Act, 2004 as amended, hereafter referred to as the CBS Act. Section 3 of the CBS Act states; "there is hereby established the Central Bank of Seychelles which shall be a body corporate with perpetual succession and a common seal."

The financial statements for the year ended 31 December 2020 have been approved for issue by the Board of Directors on 25 March 2021. Neither the Bank nor the Government has the power to amend the financial statements after issue.

The primary objective of the Bank is to promote domestic price stability.

The other objectives of the Bank are:

- to advise the Government on banking, monetary and financial matters, including the monetary implications of proposed fiscal policies, credit policies and operations of the Government; and
- to promote a sound financial system.

2. CHANGES IN ACCOUNTING POLICIES

Except for the changes below, the Bank has consistently applied the accounting policies set out in Note 3 to all periods presented in these financial statements.

The Bank has adopted the following new standards and amendments to standards with a date of initial application of 1 January 2020.

Standard/Interpretation		Effective date Periods beginning on or after
Amendments to IAS 1 and IAS 8	Definition of Material	1 January 2020
Revised Conceptual Framework for Financial Reporting	Amendments to References to the Conceptual Framework in IFRS	1 January 2020

The amendments to IAS1 and IAS 8 and the revised conceptual framework for financial reporting did not have a significant impact on the financial statements of the Bank for the year ended 31 December 2020.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

3.1 *Basis of preparation*

In accordance with Section 45(2) of the CBS Act, the financial statements of the Bank shall be maintained at all times in conformity with the applicable law, if any, and an internationally recognised financial reporting framework.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the CBS Act.

The disclosures on risks from financial instruments are presented in the financial risk management disclosures contained in Note 41.

The financial statements comprise the statement of financial position, the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows and the notes, as well as the statement of distribution in accordance with the CBS Act.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates which are reviewed and updated as and when required. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions for the year are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement and complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

3.2 *Foreign currency translation*

(a) Functional and presentation currency

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the Bank operates (the functional currency). The financial statements are presented in Seychelles Rupees ("SCR"), rounded to the nearest thousand, which is the Bank's functional and presentation currency.

(b) Transactions and balances

Transactions denominated in foreign currencies are translated into SCR and recorded at the rates of exchange prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are translated into SCR at the closing exchange rates ruling on the reporting date.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 ***Foreign currency translation (continued)***

(b) Transactions and balances (continued)

Foreign exchange differences resulting from the settlement of foreign currency transactions and from the translation at year end closing exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. All foreign exchange gains and losses recognised in profit or loss are presented net.

Unrealised foreign exchange gains and losses are transferred from retained earnings to revaluation reserve, in accordance with the CBS Act, as these are not allowed for distribution. Unrealised foreign exchange gains and losses consist of revaluation of monetary asset and liabilities denominated in foreign currencies as a result of translation. Where financial assets at fair value through profit or loss ("FVTPL") are re-invested and the portfolios are not exited, the foreign exchange gains and losses as a result of translation are treated as unrealised.

Realised foreign exchange gains and losses are considered for distribution in accordance with the CBS Act (see Note 6). These realised foreign exchange gains and losses result from the settlement of foreign currency receipts and payments as well as foreign exchange gains or losses, due to price movements on financial assets at FVTPL disposed during the year.

The exchange rate of the SCR is determined by the market and the rates applied on all foreign currency transactions are the weighted average trading exchange rates of authorised dealers which include commercial banks, hereafter referred to as banks, and bureau de change, except for the IMF Special Drawing Rights ("XDR") rate which applies the international market rate. The XDR is defined in terms of a basket of currencies. Its value is determined as the weighted sum of exchange rates of the five major currencies (Euro, Japanese Yen, British Pound Sterling, United States Dollar and Chinese Yuan Renminbi). For accounting purposes, XDR is treated as a foreign currency.

The following rates of exchange were applied:

	31 December 2020	31 December 2019
IMF Special Drawing Rights	**XDR 1 = SCR 31.1354**	XDR 1 = SCR 19.4867
United States Dollar	**USD 1 = SCR 21.6173**	USD 1 = SCR 14.0922
British Pound Sterling	**GBP 1 = SCR 28.9884**	GBP 1 = SCR 18.4435
Euro	**EUR 1 = SCR 26.4231**	EUR 1 = SCR 15.7357
Australian Dollar	**AUD 1 = SCR 16.6324**	AUD 1 = SCR 9.8984
Canadian Dollar	**CAD 1 = SCR 16.9307**	CAD 1 = SCR 10.8580
South African Rand	**ZAR 1 = SCR 1.4624**	ZAR 1 = SCR 0.9831
Chinese Yuan Renminbi	**CNY 1 = SCR 3.3118**	CNY 1 = SCR 2.0236

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 ***Financial instruments***

A financial instrument is defined as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. The Bank recognises all financial instruments on its statement of financial position when it becomes a party to the contractual provision of the instrument.

(a) Initial recognition of financial assets and liabilities

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets designated at FVTPL are recognised on settlement-date. In line with settlement-date accounting for financial assets designated at FVTPL, any fair value gains or losses between trade-date and settlement-date are recognised in profit or loss.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss.

(b) Classification and subsequent measurement of financial assets

Up to 31 December 2020, the Bank classified its financial assets into one of the following categories:

- as loans and receivables; or
- at FVTPL, and within this category as:
  - held for trading; or
  - designated at FVTPL.

All financial liabilities were measured at amortised cost.

(i) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value plus any directly attributable transaction costs and measured subsequently at amortised cost using the effective interest method. Interest on financial assets is recognised in profit or loss and is reported as ‘interest income’.

The Bank uses settlement-date accounting for regular way contracts when recording financial asset transactions. Financial assets, consisting of investment securities, that are transferred to a third party but do not qualify for de-recognition remain within investment securities but disclosed as “pledged as collateral”, if the transferee has the right to sell or re-pledge them.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 ***Financial instruments (continued)***

(b) Classification and subsequent measurement of financial assets (continued)

(ii) *Financial assets at FVTPL*

FVTPL category comprises of financial assets designated at FVTPL. These are initially recognised at fair value, with transaction costs recognised in profit or loss and subsequently measured at fair value. Interest on financial assets is recognised in profit or loss and is reported as gains arising from fair valuation of financial assets at FVTPL. Dividend income is recognised in profit or loss on the date on which the right to receive payment is established.

The Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- at amortised cost; or
- at FVTPL.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and Government bonds. Classification and subsequent measurement of debt instruments depend on:

- the Bank's business model for managing the asset; and
- the cash flow characteristics of the asset.

Business model

The business model reflects how the Bank manages its assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and how risks are assessed and managed.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 ***Financial instruments (continued)***

(b) Classification and subsequent measurement of financial assets (continued)

(ii) *Financial assets at FVTPL (continued)*

Solely Payments of Principal and Interest ("SPPI") test

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "SPPI" test). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The Bank reclassifies debt instruments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Based on these factors, the Bank classifies its debt instruments into one of the following measurement categories:

- *Amortised cost*

Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss ("ECL") allowance recognised and measured as described in Note 3.3(c). Interest income from these financial assets is included in interest income using the effective interest method.

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 ***Financial instruments (continued)***

(b) Classification and subsequent measurement of financial assets (continued)

(ii) *Financial assets at FVTPL (continued)*

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

- *FVTPL*

Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income ("FVOCI") are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL is recognised in profit or loss and presented in profit or loss within gains arising from fair valuation of financial assets at FVTPL in the period in which it arises.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Bank subsequently measures all equity instruments at FVTPL. Dividends, when representing a return on such investments, continue to be recognised in profit or loss under 'other income' when the Bank's right to receive payments is established. Gains and losses on equity investments at FVTPL are included in the 'gains arising from fair valuation of financial assets at FVTPL line in profit or loss.

(c) Impairment

Immediately after initial recognition, an ECL allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated. At 31 December 2020, the Bank did not have any financial assets measured at FVOCI (2019 – Nil).

The Bank assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and with the exposure arising from loan commitments.

The Bank recognises a loss allowance for such losses at the end of each reporting period. The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 ***Financial instruments (continued)***

(d) Classification and subsequent measurement of financial liabilities

All the financial liabilities are measured at amortised cost under IFRS 9. The Bank recognises all its financial liabilities initially at the value of the consideration received for those liabilities, excluding transaction costs and subsequently measures them at amortised cost.

(e) De-recognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to receive cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards of ownership have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent de-recognition).

Financial liabilities are derecognised only when the obligation is discharged, cancelled or expired

(f) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would consider in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation wholly supported by observable market data or the transaction is closed out.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 ***Financial instruments (continued)***

(f) Fair value measurement (continued)

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3.4 ***Repurchase agreements***

In the course of its financial market operations, the Bank may engage in repurchase agreements involving investment securities.

Securities sold and contracted for repurchase under reverse repurchase agreements ("reverse repos") remain classified as investment securities and are disclosed as pledged assets, when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterpart obligation to repurchase the securities is reported in the statement of financial position as part of the Open Market Operations and carried at amortised cost. Securities purchased under agreements to resell ("repos") are recorded as loans and advances. The difference between the sale and repurchase price is treated as interest and accrued over the term of the agreements using the effective interest method.

3.5 ***Balances with International Monetary Fund ("IMF")***

(a) Receivables

Deposits with the IMF are included in cash and cash equivalents and represent the membership quota of the Seychelles with the IMF. Holdings of Special Drawing Rights relates to the amounts with the IMF that are available for day-to-day operations of the Bank.

Reserve tranche position is the extent to which the IMF's holdings of a member's currency are less than the member's quota. This excludes holdings obtained by members through the use of IMF credit. Also excluded are holdings in the IMF number two account that are less than one tenth of one percent quota. The reserve tranche position is part of the member country's external reserves.

(b) Liabilities

Borrowings from the IMF are financial liabilities held by the Bank on behalf of the Government of Seychelles, denominated in XDR and are included under the IMF obligations in the statement of financial position. Borrowings from the general resources of the IMF bear interest at rates set by the IMF twice weekly and are repayable according to the agreed repayment schedules. The interest rate amounted to **0.08 percent** per annum as at 31 December 2020 (2019 – 0.74 percent per annum).

All borrowings from the IMF are guaranteed by promissory notes which are issued by the Government and are payable on demand.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 ***Impairment of financial assets***

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

a) significant financial difficulty of the issuer or obligor;

b) a breach of contract, such as a default or delinquency in interest or principal payments;

c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

d) it becomes probable that the borrower will enter bankruptcy or another financial reorganisation;

e) the disappearance of an active market for that financial asset because of financial difficulties; or

f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

- adverse changes in the payment status of borrowers in the portfolio; and
- national or local economic conditions that correlate with defaults on the assets in the portfolio.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 *Impairment of financial assets (continued)*

If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

Impairment charges relating to loans and advances are classified in "impairment charges" in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

3.7 *Impairment of non-financial assets*

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the assets' recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other groups of assets.

The 'recoverable amount' of a group of assets is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the group of assets.

An impairment loss is recognised if the carrying amount of a group of assets exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of the assets allocated within the group of assets on a pro rata basis.

An impairment loss in respect of non-financial assets is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 ***Offsetting of financial assets and financial liabilities***

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's operations.

3.9 ***Cash and cash equivalents***

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including foreign currency notes, balances held with banks abroad, holdings of IMF Special Drawing Rights and Reserve tranche with IMF. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.10 ***Other balances and placements***

Other balances and placements comprise balances with more than three months' maturity from the date of acquisition, including deposits held with banks abroad. These are medium to long-term deposits that are classified as and are carried at amortised cost.

These are initially measured at fair value plus incremental direct transaction costs, and subsequently accounted for at amortised cost.

3.11 ***Financial assets at FVTPL***

Financial assets at FVTPL represents investments in money market funds, securities, equity shares and funds outsourced to Fund Managers and comprise of medium to long-term deposits, securities and bonds, held for investment purposes. These have been designated at FVTPL with the changes in fair value recognised immediately in profit or loss.

3.12 ***Other assets***

Other assets are made up of cheques held for clearing and settlement after the reporting date, items due but not yet received, prepaid employee benefits, currency and other prepayments made by the Bank as well as settlement receivables. These are measured at their carrying amounts and are subject to impairment and ECL (see Note 12).

3.13 ***Currency replacement costs***

Currency banknote printing and coin minting costs incurred are deferred and are charged to profit or loss. Useful lives are currently estimated to be 5 years but this is reviewed at least annually. Unamortised costs of purchased banknotes and coins in issue is included in currency replacement costs in the statement of financial position. Fully amortised costs of past replacements are treated as disposals and derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 ***Property and equipment***

(a) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the items. If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in profit or loss.

(b) Subsequent costs

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

(c) Depreciation

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	-	25 – 50 years;
Office furniture and fittings	-	2 – 10 years;
Office machine and equipment	-	4 years;
Motor vehicles	-	5 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

(d) Impairment

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property and equipment were impaired as at 31 December 2020 (2019 – Nil). As at the end of the financial year 2020, the annex building was fully demolished. A consideration of **SCR 10.3 million** was paid as compensation by the Seychelles Pension Fund (SPF) to the Bank as per the signed agreement of 24 January 2020, between SPF and the Bank.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 ***Leases***

(a) The Bank as lessee

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The Bank does not have any leases with lease terms longer than 12 months or leases of low value assets.

(b) The Bank as lessor

The Bank enters into lease agreements as a lessor with respect to portions of its buildings. Leases for which the Bank is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

3.16 ***Intangible assets***

Intangible assets comprise computer software licences which are recognised at cost less accumulated amortisation and any accumulated impairment losses. The computer software has a definite useful life and is amortised using the straight-line method over its useful economic life.

At the end of each reporting period, intangible assets are reviewed for indicators of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

The Bank chooses to use the cost model for the measurement after recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 ***Intangible assets (continued)***

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which do not exceed five years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.17 ***Currency in circulation***

Currency in circulation represents money released to the public for circulation in the form of banknotes and coins measured at face value. This represents an un-serviced liability of the Bank and is recorded in the statement of financial position.

When banknotes and coins are returned to the Bank by the banks, Seychelles Credit Union (“SCU”), Government entities and the general public, they are removed from currency in circulation. Depending on their condition or legal tender status, they are either sent for destruction or held for re-issue.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 ***Deposits***

Deposits held by the Bank from banks and the Government, whether SCR or foreign currency deposits are initially measured at fair value and subsequently carried at amortised cost in the statement of financial position. Both SCR and foreign currency deposits are not allowed to be overdrawn and foreign currency deposits are revalued to reflect the market exchange rates at the reporting date.

(a) Deposits from banks

As at the reporting date, banks' demand deposits were earning no interest (see Notes 18). These deposits are not normally allowed to be overdrawn. In the event that banks cannot meet daily settlement of payments and the minimum reserve requirement in SCR, the banks make use of the inter-bank market in the first instance to manage their liquidity positions and to meet their payment and settlement obligations. In the event that they fail to obtain the required funds to manage their liquidity positions and to meet their payment and settlement obligations, they are able to request short-term advances from the Bank through the form of the Standing credit facility ("SCF") which is an overnight collateralised lending facility and for more severe and persistent short-term liquidity problems they may access the Emergency lending facility ("ELF") provided they have adequate and sufficient collateral. The applicable interest rates on SCF ranged from **6.0 percent** to **8.0 percent** per annum for the year 2020 (2019 – 8.0 percent to 8.50 percent per annum) whilst the ELF was not used during the year 2020 and 2019.

(b) Deposits from Government

Deposits from the Government, in whether SCR or foreign currency are not normally allowed to be overdrawn. In accordance with Section 40(1) and 40A of the CBS Act, the Bank may grant temporary short-term advances in SCR to the Government.

Under Section 40(1), the Bank may grant temporary advances in SCR to the Government in respect of temporary deficiencies in revenue on the Government general account. These advances may be at such rates and on such terms and conditions determined by the Board of Directors. Under Section 40A, the Bank may grant temporary advances in SCR to the Government in the event of force majeure, defined by the CBS Act, where there is a temporary deficiency of revenue. These advances provided under Section 40A may be approved by the Board of Directors in the event of force majeure supported by explanation of the event and the means by which the event has impacted the Government budget and at the discretion of the Board of Directors these may be granted with longer repayment period or at lower interest rates than for those under Section 40(1). Under both sections the advances granted shall be consistent with the objectives of the Bank, the monetary policy and the established limit on public debt.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 ***Deposits (continued)***

(b) Deposits from Government (continued)

With the negative impact of the 'COVID-19' pandemic at the start of the financial year 2020, the definition of force majeure in the CBS Act was amended to include a public health emergency declared under the Public Health Act, 2015 in order to cover the global pandemic situation. The limits on the advances are approved by the Board of Directors annually in line with Section 40(2) and 40A(1) of the CBS Act.

The approved limit granted by the Board of Directors for short-term advances to the Government under Section 40A was **SCR 500.0 million** in 2020 and these advances were granted at an interest rate of zero percent per annum and a repayment period of not more than 3 years after the end of the financial year. In 2019, the approved limit under Section 40(1) was SCR 100.0 million and these advances were charged at the applicable interest rates which was the latest average 91-day Government treasury bill rate plus a margin of 50 basis points (0.50 percent per annum) and had a repayment period of not more than 6 months after the end of the financial year.

As per the Memorandum of Understanding ("MoU") of June 2020 between the Bank and the Government, disbursements of advances were made in tranches of SCR 100.0 million by the Bank when the balance of the Government general account fell below SCR 50.0 million. The Government accessed the facility on 4 days in December 2020 which resulted in the disbursement of six tranches of SCR 100.0 million from December 28 to 31, 2020 and all the tranches were fully repaid by the Government as at the end of the year 2020.

(c) Deposits from other financial institutions

Deposits held from other financial institutions are SCR demand deposits and are initially measured at fair value and subsequently carried at amortised cost in the statement of financial position. As at the reporting date, these demand deposits from the SCU, the Seychelles Pension Fund ("SPF") and the Development Bank of Seychelles were earning no interest (see Note 19).

These deposits are not normally allowed to be overdrawn, however in the event of an overdraft on the demand deposit account of SCU only, the Bank will grant temporary short-term advances in the form of the SCF outlined in (a) above.

(d) Other deposits

These other deposits comprise mainly of local and foreign currency denominated abandoned properties, unclaimed funds and special (project funds) deposits. Apart from the special (project funds) deposits which earn a fixed interest of 2.0 percent per annum every six months on the daily balance, all other deposits are non-interest bearing. These deposits are not allowed to be overdrawn and are payable on demand.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 ***Other liabilities***

Other liabilities are made up primarily of provisions for employee benefits (gratuities, compensation, termination and post-employment benefits), items due and yet to be paid, cheques issued, income received in advance and other payables.

3.20 ***Employee benefits***

(a) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

(b) Defined benefit plan – Compensation

The Bank's defined benefit plan is calculated by estimating the amount of future benefits that employees have earned in the current and prior periods and this is usually dependent on one or more factors such as age, years of service and compensation rate.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited immediately to other comprehensive income in actuarial reserve in the case of the defined benefit plan and are charged or credited to profit or loss in the case of other long-term employee benefits. Past service costs are recognised immediately in profit or loss.

(c) Other long-term employee benefits – Retirement gratuity (Retirement benefit)

The Bank provides for the payment of retirement benefit to long serving employees. As at the end of 2019 permanent employees of the Bank on continuous contract who have accumulated a minimum of 20 years of continuous service are entitled to a retirement benefit upon retirement or resignation. The amount provided for every year is based on the discounted present value of the future obligations attributable to all employees of the Bank except for key management personnel who are not entitled to this benefit.

Both types of employee benefits, compensation and the retirement gratuity have characteristics of a defined benefit plan. The liability recognised in the statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the reporting date less fair value of plan assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 ***Employee benefits (continued)***

(d) Other long-term employee benefits – End of term gratuity

The Bank provides for a payment of end of term gratuity to certain key management personnel, namely the Governor, First Deputy Governor and Second Deputy Governor, at the end of their contracts. The amount provisioned every year is based on the discounted present value of future obligations attributable to the completed years of service.

(e) Other post-employment benefits

As from 2018, the Bank provides for a one-off payment to certain key management personnel, namely the Governor, First Deputy Governor and Second Deputy Governor, upon ceasing to hold office, in view that they are restricted from seeking employment within the domestic financial system for a period of twelve months immediately after they cease to hold office. The amount provisioned every year is based on the discounted present value of this future obligation attributable to the completed years of service.

(f) Termination benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement age, or whenever an employee accepts voluntary redundancy in exchange to these benefits.

(g) Defined contribution plan

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity.

The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient amount to pay all employees the benefits relating to employee service in the current and prior period. The Bank contributes towards one defined contribution plan. This contribution goes to the SPF in accordance with the SPF Act. Payments to SPF are charged as an expense as they fall due.

Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in the future payments is available.

3.21 ***Provisions***

Provisions for restructuring costs and legal claims are recognised when; the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are not recognised for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation based on the current market assessment of the time value of money and risks specific to the obligation.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 ***Authorised capital and General reserve***

The statutory capital (which comprises the authorised capital and General reserve) of the Bank was established by the CBS Act. The Bank maintains the General reserve to provide for events which are contingent and non-foreseeable, including covering losses from exceptionally large falls in the market value of its holdings of domestic and foreign securities that cannot be absorbed by its other resources. The initial authorised capital of the Bank was SCR 1.0 million and thereafter it shall be built to 3.33 percent of monetary liabilities by transferring from retained earnings. All capital stock of the Bank as and when issued shall be for the sole account of the Government and shall not be transferable or subject to encumbrances. As per CBS Act, all authorised capital shall be deemed to be fully paid up.

3.23 ***Revaluation reserve***

The Bank also holds Revaluation Reserve Accounts. These comprise of unrealised gains and losses arising from changes in the revaluation of the Bank's assets and liabilities including financial assets held at FVTPL denominated in foreign currencies. This is as a result of alterations of parity of the SCR which are credited or charged to profit or loss and are subsequently transferred to the Revaluation Reserve Account, in accordance with Sections 45(5) and 45(6) of the CBS Act.

3.24 ***Actuarial reserve***

The Bank holds an actuarial reserve in which cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are transferred.

3.25 ***Interest income and expense***

Interest income and interest expense are recognised in profit or loss for all financial instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments to the net carrying amount of these instruments.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or group of similar financial assets have been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.26 ***Fees and commission income***

Commission on foreign exchange dealings are recognised on the dates of transactions. Fees and commissions are generally recognised in profit or loss on an accrual basis when the service has been provided.

3.27 ***International Monetary Fund ("IMF") charges***

Charges incurred for IMF membership and on the facilities from the IMF are recognised in profit or loss on an accrual basis for the period in which the charges relate.

3.28 ***Policy costs***

Policy expenses are incurred on foreign currency dealings relating to policy decisions vis-à-vis purchases and sales as part of the foreign reserves management activities. These costs are recognised in profit or loss on the dates of the transactions.

3.29 ***Administrative expenses***

The costs of maintaining the premises, motor vehicles and equipment and providing support services to the Bank are recognised in profit or loss on an accrual basis for the period in which the expenses relate.

3.30 ***Other operating expenses***

The costs related to utilization of digital technologies, maintenance of equipment, fees, contributions and subscriptions to services required for the Bank's daily operations as well the services offered by World Bank through the Reimbursable Advisory Services ("RAS") are recognised in profit or loss on an accrual basis for the period in which the expenses relate.

3.31 ***Gains and losses from financial assets at FVTPL***

Net gain or loss from financial assets at FVTPL includes all realised and unrealised fair value changes on securities sold short and foreign exchange differences. Net realised gain or loss from financial assets at FVTPL is calculated using the average cost method.

3.32 ***Distributable earnings***

Under Section 16(2) of the CBS Act, the Bank is required to transfer between 50 to 100 percent of its distributable earnings to the Government Consolidated Fund on the basis described in Note 6 of the financial statements.

4. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2021, and have not been applied in preparing these financial statements. Those which may be relevant to the Bank are set out overleaf. The Bank does not plan to early adopt these standards. These will be adopted in the period that they become mandatory unless otherwise indicated.

At the date of authorisation of the financial statements for the year ended 31 December 2020, the Bank has evaluated the standards and interpretations that were in issue but not yet effective and have listed overleaf the ones that are deemed applicable to the operations of the Bank and may have a possible impact on the financial statements:

	Standard/Interpretation	**Effective date Periods beginning on or after**
Amendments to IAS 16	Property, Plant and Equipment - Proceeds before Intended Use	1 January 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to IFRS Standards 2018–2020		1 January 2022
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current	1 January 2023

4.1 *Property, Plant and Equipment - Proceeds before Intended Use (Amendments to IAS 16)*

The amendments relate to proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management.

The amendments are to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

The Bank does not anticipate that the application of the amendments in the future will have an impact on the Bank’s financial statements.

4. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

4.2 *Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)*

The amendments relate to the costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous.

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The Bank is currently assessing the potential impact on the financial statements resulting from the adoption of the amendments to IAS 37 (Onerous Contracts - Cost of Fulfilling a Contract).

4.3 *Annual Improvements to IFRS Standards 2018 – 2020 (IFRS 9 and IFRS16)*

Amendments to IFRS 9 aim to clarify which fees an entity includes when it applies the '10 percent' test of IFRS 9 in assessing whether to derecognise a financial liability.

Amendments to IFRS 16 aim to remove the potential for confusion by deleting from Illustrative Example 13 the reimbursement relating to leasehold improvements.

The Bank is currently assessing the potential impact on the financial statements resulting from the Annual Improvements to IFRS Standards 2018 – 2020.

4.4 *Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)*

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

The Bank is currently assessing the potential impact on the financial statements resulting from

the adoption of the amendments to IAS 1 (Classification of Liabilities as Current or Non-Current).

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Bank's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management's judgement, which necessarily have to be made in the course of preparing the financial statements.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standards. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The following estimates were made by management:

5.1 *Measurement of the ECL allowance*

The measurement of the ECL allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of default and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Explanation of the inputs, assumptions and estimation techniques used in measuring ECL along with information about the judgements and estimates made by the Bank in the above areas is further detailed in Note 41, which also sets out key sensitivities of the ECL to changes in these elements.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

5.2 *Employee benefits*

The present value of the employee benefits, consisting of compensation and retirement gratuity (retirement benefit), depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of the employee benefit obligations.

The main assumption used in determining the net cost or income for employee benefits is the discount rate. The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the employee benefit obligations.

In determining the appropriate discount rate, the Bank considers the interest rates of Government bonds or its equivalent that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related liability.

5.3 *Termination and post-employment benefits*

The present value of both termination and post-employment benefits depends on assumption of an appropriate discount rate. The Bank determines the appropriate discount rate at the date of making the provision.

This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the termination benefit obligations. In determining the appropriate discount rate, the Bank considers the interest rates of Government bonds or its equivalent that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related liability. The Bank also considers expected rate of increase in remuneration and this is estimated from the expected rate of inflation.

Other key assumptions for the employee benefits obligations are based on current market conditions.

The carrying amount of the defined benefit obligations at 31 December 2020 is **SCR 8.5 million** (2019 – SCR 15.3 million). Details of the defined benefit obligation is disclosed in Note 22(a).

The financial assumptions used for purposes of these calculations are as follows:

- Discount rate: **12.0 percent** per annum (2019 – 7.0 percent per annum)
- Salary increase rate: **3.5 percent** per annum (2019 – 3.5 percent per annum)

It has been assumed that all employees will opt for retirement on reaching the age of 63.

No allowance has been made for withdrawal from service or pre-retirement mortality as the benefits payable in such circumstances are not materially significant and the turnover ratio for cases other than death, retirement or dismissal is low.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

5.4 ***Determination of fair value***

Information about assumptions and estimation uncertainties relating to the determination of fair value of financial instruments is included in Note 42.

6. TRANSFER TO GOVERNMENT CONSOLIDATED FUND

Transfer to the Government Consolidated Fund has been carried out in accordance with Section 16(2) of the CBS Act.

Movements during the year are as follows:

	2020	2019
	SCR' 000	SCR' 000
At 1 January	**-**	-
Paid to Government Consolidated Fund	**-**	-
Transfer from retained earnings	**21,150**	-
At 31 December	**21,150**	-

Central Bank of Seychelles Act, 2004 as amended.

Section 16 of the CBS Act requires that the distributable earnings of the Bank be calculated as follows:

a) net profit, less an amount equal to the total amount of unrealised gains, included in the net profit; and
b) by adding to the amount remaining after applying paragraph (a), the total amount of unrealised gains, if those unrealised gains, included in the net profit of a previous year, are realised; and
c) by the retention of the unrealised revaluation losses to the extent that they exceed any balance in the relevant Revaluation Reserve Account.

Where the Bank has distributable earnings for any financial year, 50 percent of those earnings shall be distributed in the following priority to the statutory capital until;

a) authorised capital reaches 3.33 percent of monetary liabilities; and
b) the General reserve reaches 6.67 percent of monetary liabilities.

Provided that any residual distributable earnings remaining after a distribution in paragraphs (a) and (b) shall be transferred to the Consolidated Fund.

Where the distributable earnings of the Bank is less than zero, they shall be offset against the General reserve.

7. CASH AND CASH EQUIVALENTS

	2020	2019
	SCR' 000	SCR' 000
Balances held abroad and foreign currency notes	**7,005,587**	4,303,833
Provision for ECL on Balances held abroad	**(67)**	(117)
Holdings of Special Drawing Rights	**99,068**	71,373
Reserve tranche with IMF (see Note 17)	**109,855**	68,755
Provision for ECL on holdings of Special Drawing Rights and Reserve tranche with IMF	**(1)**	(6)
	7,214,442	4,443,838
Current	**7,214,442**	4,443,838

Included in cash and cash equivalents are pledged and encumbered balances held abroad equivalent to **SCR 2,887.7 million** and **SCR 86.0 million** respectively (2019 – SCR 1,661.5 million and SCR 63.0 million). These represent funds held by the Bank on behalf of Government and earmarked for the purpose of developing projects by the Government and Government related entities and funds earmarked as foreign currency minimum reserve requirements of local banks or other pledges and contingent liabilities.

The Reserve tranche with IMF is held on behalf of the Government and is not available for use by the Bank (see Note 17).

8. OTHER BALANCES AND PLACEMENTS

	2020	2019
	SCR' 000	SCR' 000
Other balances and placements held abroad	**86,796**	746,490
Provision for ECL on other balances and placements	**(1)**	(8)
	86,795	746,482
Current	**86,795**	746,482

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 **SCR' 000**	2019 SCR' 000
Financial assets at fair value through profit or loss – fund manager's investments	**2,827,607**	1,809,606
Financial assets at fair value through profit or loss – investments in shares	**57,652**	36,479
Financial assets at fair value through profit or loss – investments in money market funds	**227,290**	147,323
Financial assets at fair value through profit or loss – others	**1,739,445**	1,030,312
	4,851,994	3,023,720
Current	**67,889**	155,918
Non-current	**4,784,105**	2,867,802
	4,851,994	3,023,720

The financial assets at FVTPL comprise of underlying investments in treasury bills, notes and bonds from funds outsourced to fund managers, namely Crown Agents Investment Management ("CAIM") and the World Bank under the Reserves Advisory and Management Partnership ("RAMP"), investment in shares with the African Export-Import Bank ("Afreximbank"), investments in money market funds as well as funds being managed by the Bank.

10. INVESTMENT SECURITIES

	2020 **SCR' 000**	2019 SCR' 000
Investment in Government treasury bills	**1,196,146**	1,197,550
Provision for ECL on investment in Government treasury bills	**(5,778)**	(2,456)
	1,190,368	1,195,094
Current	**1,190,368**	1,195,094

For the year 2020, the Bank's holding of Government treasury bills as at the reporting date carried interest rates as follows: **4.55 percent** to **4.62 percent** per annum for 182-day treasury bills (2019 – 5.59 percent to 5.71 percent) and **5.66 percent** to **6.1 percent** per annum for the 365-day treasury bills (2019 – 5.83 percent to 6.7 percent).

Securities pledged as collateral

As at the reporting date, the balance under repurchase agreements was **Nil** (2019 – Nil) and as such the amount of Government treasury bills pledged as collateral was **Nil** (2019 – Nil).

11. LOANS AND ADVANCES

	2020 SCR' 000	2019 SCR' 000
Staff loans	**49,785**	45,531
Provision for ECL on staff loans	**(348)**	(187)
Private sector relief credit line facility	**55,440**	-
Provision for ECL on private sector relief credit line facility	**(485)**	-
Private sector (large enterprise) relief credit line facility	**76,756**	-
Provision for ECL on private sector (large enterprise) relief credit line facility	**(672)**	-
	180,476	45,344
Current	**3,588**	3,367
Non-current	**176,888**	41,977
	180,476	45,344

The Bank grants loans to its employees at preferential rates. The loans are initially recognised at fair value, based on the market interest rates and the difference between the fair value on initial recognition and the loans proceeds is accounted for as prepaid employee benefits and is amortised over the lower of the life of the loan or the remaining working lives of employees. The loans are subsequently measured at amortised cost, using the effective interest method, with the effective interest being the market rate of interest of the type of loan at the initial recognition date. In 2020, the Bank established two relief credit line facilities in the form of the private sector relief credit line facility and the private sector (large enterprise) relief credit line facility to assist eligible micro, small, medium and large enterprises with loans facilities through their respective banks (see Note 40.5).

12. OTHER ASSETS

	2020 SCR' 000	2019 SCR' 000
Cheques held for clearing (including for the ECC)	**4,604**	89
Settlement receivables for SEFT	**725**	331
Items due and not yet received	**14,805**	6,826
Prepaid employee benefit	**29,091**	27,410
Currency prepayments	**11,291**	7,238
Others	**2,208**	3,446
Provision for ECL on other assets – stage 3	**(9)**	(16)
	62,715	45,324
Current	**62,715**	45,324

Seychelles Electronic Funds Transfer ("SEFT") is a domestic currency denominated electronic funds transfer system operated and used by the Bank which facilitates funds transfers between all banks and SCU.

12. OTHER ASSETS (CONTINUED)

The Electronic Cheque Clearing ("ECC") is a domestic currency denominated electronic cheque clearing system operated and used by the Bank which facilitates same day cheque clearing and electronic cheque image exchange between all banks and SCU.

13. CURRENCY REPLACEMENT COSTS

	SCR' 000
Cost	
Balance as at 1 January 2019	50,109
Additions	2,493
Disposals	(1,343)
Balance as at 31 December 2019	**51,259**
Additions	**11,112**
Disposals	**(2,664)**
Balance as at 31 December 2020	**59,707**
Accumulated amortisation	
Balance as at 1 January 2019	18,987
Amortisation charge	10,208
Disposals	(1,343)
Balance as at 31 December 2019	**27,852**
Amortisation charge	**11,123**
Disposals	**(2,664)**
Balance as at 31 December 2020	**36,311**
Carrying amounts	
31 December 2019	23,407
31 December 2020	**23,396**

Disposals relate to fully amortised costs derecognised.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

14. PROPERTY AND EQUIPMENT

	Land	Buildings	Buildings (Work in progress)	Office furniture and fittings	Office machine and equipment	Motor vehicles	Total
	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000
Cost							
Balance as at 1 January 2019	5,617	82,562	-	21,883	31,440	3,744	145,246
Transfer	-	-	9,661	-	-	-	9,661
Additions	-	579	3,484	1,095	2,115	878	8,151
Disposals	-	-	-	(162)	(635)	-	(797)
Balance as at 31 December 2019	**5,617**	**83,141**	**13,145**	**22,816**	**32,920**	**4,622**	**162,261**
Additions	**-**	**541**	**6,949**	**721**	**587**	**-**	**8,798**
Reclassified	**-**	**-**	**(934)**	**-**	**-**	**-**	**(934)**
Disposals	**-**	**-**	**-**	**(211)**	**(24)**	**-**	**(235)**
Balance as at 31 December 2020	**5,617**	**83,682**	**19,160**	**23,326**	**33,483**	**4,622**	**169,890**
Accumulated depreciation							
Balance as at 1 January 2019	-	20,753	-	13,329	18,768	1,437	54,287
Depreciation charge	-	1,830	-	3,001	4,621	357	9,809
Disposals	-	-	-	(116)	(623)	-	(739)
Balance as at 31 December 2019	**-**	**22,583**	**-**	**16,214**	**22,766**	**1,794**	**63,357**
Depreciation charge	**-**	**1,837**	**-**	**3,016**	**4,335**	**411**	**9,599**
Disposals	**-**	**-**	**-**	**(184)**	**(17)**	**-**	**(201)**
Balance as at 31 December 2020	**-**	**24,420**	**-**	**19,046**	**27,084**	**2,205**	**72,755**
Carrying amounts							
31 December 2019	5,617	60,558	13,145	6,602	10,154	2,828	98,904
31 December 2020	**5,617**	**59,262**	**19,160**	**4,280**	**6,399**	**2,417**	**97,135**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

15. INTANGIBLE ASSETS

	Computer software SCR' 000
Cost	
Balance as at 1 January 2019	28,128
Balance as at 31 December 2019	**28,128**
Balance as at 31 December 2020	**28,128**
Accumulated amortisation	
Balance as at 1 January 2019	24,401
Amortisation charge	1,515
Balance as at 31 December 2019	**25,916**
Amortisation charge	**1,466**
Balance as at 31 December 2020	**27,382**
Carrying amounts	
31 December 2019	2,212
31 December 2020	**746**

16. CURRENCY IN CIRCULATION

	2020	2019
	SCR' 000	SCR' 000
Banknotes issued	**1,646,944**	1,432,493
Coins issued	**82,430**	77,802
	1,729,374	1,510,295
Current	**1,729,374**	1,510,295
Movements were as follows:		
Opening Balance	**1,510,295**	1,373,111
Total deposits by banks and SCU for the year	**(2,173,972)**	(1,947,690)
Total withdrawals by banks and SCU for the year	**2,417,131**	2,138,399
Net deposits by the Bank for the year	**(24,080)**	(53,525)
Closing Balance	**1,729,374**	1,510,295

Banknotes and coins in circulation are shown at face value.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

17. DEPOSITS FROM GOVERNMENT

	2020 SCR' 000	2019 SCR' 000
Government Rupee deposits	**741,422**	1,975,141
Government foreign exchange deposits (project accounts)	**955,789**	641,143
Government deposits with IMF (see Note 7)	**109,855**	68,755
Central Bank of Seychelles blocked foreign exchange deposits	**6,949**	11,451
	1,814,015	2,696,490
Current	**1,814,015**	2,696,490

Government foreign exchange deposits (project accounts) represent amounts deposited by the Government at the Bank and have been earmarked for specific local projects to be undertaken by the Government. These deposits are denominated in foreign currencies and are non-interest bearing.

18. DEPOSITS FROM BANKS

	2020 SCR' 000	2019 SCR' 000
Demand deposits	**2,226,458**	1,835,734
Foreign currency minimum reserve requirement	**2,010,929**	1,071,831
Standing deposit facility	**370,010**	23,001
	4,607,397	2,930,566
Current	**4,607,397**	2,930,566

18.1 ***Demand deposits***

Banks hold demand deposit accounts with the Bank to facilitate settlement of inter-bank transactions. Furthermore, as per regulations issued under the CBS Act, they are required to maintain a minimum statutory reserve amount which is adjusted on the basis of the monetary policy stance as approved by the Board of Directors. In 2020, the minimum statutory reserves requirement was maintained at **13.0 percent** (2019 – 13.0 percent) on each bank's customers' Rupee deposits (held as demand, savings and time deposits held by residents, excluding inter-bank deposits). The remuneration on the total minimum statutory reserves remained at **zero percent** (2019 – zero percent).

18.2 ***Foreign currency Minimum Reserve Requirement***

All banks are required to maintain a minimum level of statutory reserves of their foreign currency by way of minimum deposits with the Bank.

18. DEPOSITS FROM BANKS (CONTINUED)

18.2 *Foreign currency Minimum Reserve Requirement (continued)*

In 2020 the minimum deposit was maintained at **13.0 percent** (2019 – 13.0 percent) on each bank's customers' foreign currency deposits (held as demand, savings and time deposits held by residents excluding foreign currency deposits held by non-residents). Since its introduction in April 2009 up to the end of 2020 the Bank has not paid any interest on foreign currency minimum statutory reserves requirement.

18.3 *Standing deposit facility*

All banks and SCU can place their excess funds into overnight deposits with the Bank for remuneration, upon request, at a predetermined rate which is set by the Bank. This facility has been offered by the Bank since August 2014. As of June 2017, the interest rate corridor mechanism was adopted, whereby the Board of Directors also approves the interest rates applicable on the Standing deposit facility ("SDF") that is consistent with the Bank's monetary policy stance. The applicable interest rate on SDF was **2.0 percent** for the first quarter and **1.0 percent** for the second to fourth quarter of 2020 (2019 – 2.5 percent for the first, second and third quarter and 2.0 percent for the fourth quarter).

19. DEPOSITS FROM OTHER FINANCIAL INSTITUTIONS

	2020	2019
	SCR' 000	SCR' 000
Demand deposit	**99,634**	78,249
Current	**99,634**	78,249

Other financial institutions hold demand deposit accounts with the Bank to facilitate external transactions. These deposits are non-interest bearing and repayable on demand. SCU which forms part of other financial institutions is also required by the Bank to maintain minimum statutory reserves requirement at **13.0 percent** for the year 2020 (2019 – 13.0 percent)**,** similarly to all banks (see Note 18.1).

20. OTHER DEPOSITS

	2020	2019
	SCR' 000	SCR' 000
Special deposits	**4,828**	1,941
Abandoned properties		
- Local currency	**31,380**	29,105
- Foreign currency	**28,771**	13,647
Unclaimed funds		
- Local currency	**461**	471
- Foreign currency	**18**	11
Others	**5,256**	3,737
	70,714	48,912
Current	**70,714**	48,912

As per the Financial Institutions Act, 2004 as amended ("FIA"), banks are required to publish and report to the Bank abandoned accounts or other properties, namely contents of safe deposit boxes, for which no transaction has been made for at least 10 years. In the 11th year, unclaimed properties are transferred to the Bank. Funds transferred to the Bank are maintained in non-interest-bearing accounts whilst content of safe deposit boxes are kept in the Bank's vault. These abandoned properties are refundable to the clients on demand.

In line with section 8(1) of schedule 5 of the FIA which states that unclaimed funds which are not subject to other provisions of FIA shall, on the direction of the Bank, be transferred to a special account with the Bank. As at the reporting date, the Bank holds **SCR 0.46 million** (2019 – SCR 0.47 million) in the domestic currency and **SCR 0.02 million** (2019 – SCR 0.01 million) in foreign currencies, namely US Dollars and Euros as unclaimed funds following the winding down of one bank in 2019 and another in 2020.

21. OPEN MARKET OPERATIONS

	2020	2019
	SCR' 000	SCR' 000
Deposit Auction Arrangement	**635,220**	875,329
Current	**635,220**	875,329

The Deposit Auction Arrangement ("DAA") is a liquidity management tool used by the Bank for Open Market Operations. It is made available by the Bank to the banks and SCU for better liquidity management by both parties. The Bank uses the instrument to mop up excess liquidity in the system whilst the banks and SCU use it as a means for them to invest their excess reserves and earn a return. The maturities offered ranges from two (2) days to three hundred and sixty-five (365) days.

21. OPEN MARKET OPERATIONS (CONTINUED)

Banks and SCU are called to state the amount of funds they would like to bid and their respective bid interest rates in any of the maturities on offer. Each maturity on offer is set by the Bank and it is up to the Bank to decide on whether to accept or reject any bid.

At the reporting date, an amount of **SCR 635.2 million** was held by the Bank with maturity periods of 7 days (SCR 200.0 million), 28 days (SCR 140.0 million), 35 days (SCR 115.1 million), 56 days (SCR 60.0 million) and 63 days (SCR 120.1 million). For 2019, the corresponding figure stood at **SCR 875.3 million** with maturity periods of 7 days (SCR 236.1 million), 28 days (SCR 194.3 million), 56 days (SCR 234.0 million) and 63 days (SCR 210.9 million).

22. OTHER LIABILITIES

	2020	2019
	SCR' 000	SCR' 000
Payable to Government Consolidated Fund (Note 6)		
- Transfer from retained earnings	**21,150**	-
Settlement payable for SEFT	**12,000**	4
Provision for accrued leave	**4,604**	-
Provision for staff gratuities – contractual	**12,667**	14,241
Provision for staff compensation – continuous (Note 22(a))	**6,272**	11,319
Provision for termination benefits	**2,929**	3,711
Provision for post-employment benefits	**11,303**	9,569
Items due and not yet paid	**10,318**	9,881
Local currency cheques issued	**200**	200
Other payables	**6,216**	4,020
Income received in advance	**3,058**	3,088
Others	**3,585**	1,400
	94,302	57,433
Current	**76,084**	33,337
Non-current	**18,218**	24,096
	94,302	57,433

As at the reporting date, all permanent employees were on contracts which are considered continuous in nature whilst key management personnel, namely the Governor, First Deputy Governor and Second Deputy Governor are on fixed term contracts. Continuous employment refers to a permanent employment with no pre-determined end date.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

22. OTHER LIABILITIES (CONTINUED)

(a) ***Employee Benefit Obligations***

	Total		Compensation		Retirement gratuity	
	2020	2019	**2020**	2019	**2020**	2019
	SCR' 000	SCR' 000	**SCR' 000**	SCR' 000	**SCR' 000**	SCR' 000
Present value of obligation:						
At 1 January	**15,341**	18,749	**11,319**	14,326	**4,022**	4,423
Included in profit or loss						
Current service cost	**1,345**	1,812	**1,003**	1,394	**342**	418
Interest cost	**1,050**	1,289	**768**	979	**282**	310
Past service cost	**-**	584	**-**	-	**-**	584
	2,395	3,685	**1,771**	2,373	**624**	1,312
Included in OCI						
Actuarial (gains)/losses arising from:						
- Financial assumptions	**(8,919)**	(5,684)	**(6,560)**	(4,254)	**(2,359)**	(1,430)
- Experience adjustment	**399**	(639)	**446**	(442)	**(47)**	(197)
	(8,520)	(6,323)	**(6,114)**	(4,696)	**(2,406)**	(1,627)
Others						
Employer contributions paid	**(704)**	(770)	**(704)**	(684)	**-**	(86)
Balance at 31 December	**8,512**	15,341	**6,272**	11,319	**2,240**	4,022
Represented by:						
Net defined benefit liability – Compensation	**6,272**	11,319	**6,272**	11,319	**-**	-
Net defined benefit liability – Retirement gratuity	**2,240**	4,022	-	-	**2,240**	4,022
Expected employer contribution	**(171)**	(328)	**(171)**	(328)	**-**	-
Discount rate			**12.0%**	7.0%	**12.0%**	7.0%
Future salary increases			**3.5%**	3.5%	**3.5%**	3.5%

The Bank does not have any plan assets as the employee benefit relates to unfunded obligation in relation to compensation and gratuities.

22. OTHER LIABILITIES (CONTINUED)

(a) ***Employee Benefit Obligations (continued)***

Compensation plan

All employees of the Bank, except for key management personnel, are entitled to compensation for their years of continuous service at retirement or upon leaving the services of the Bank. Provisions for this compensation cost is made on an annual basis for every year completed by the employee and payments are made immediately after the last day of service. The Bank has recognised a reduced net liability of **SCR 6.3 million** for this compensation plan as at 31 December 2020 (2019 – SCR 11.3 million).

Retirement gratuity plan (Retirement benefit plan)

The Bank provides for a payment of ex-gratia retirement benefit to permanent employees reaching a minimum period of continuous service. This criterion was revised in 2019 from a minimum period of 25 years applied in previous years to 20 years of continuous service upon retirement or resignation. The Bank has recognised a reduced net liability of **SCR 2.2 million** for this retirement gratuity plan (retirement benefit plan) as at 31 December 2020 (2019 – SCR 4.0 million).

Funding

The Bank provides for the compensation and retirement gratuity costs for its permanent employees on an accrual basis and expenses the accrued amount in the financial year in which the service is rendered.

Duration

At 31 December 2020, the weighted-average duration of the defined benefit obligation is **12 years** for the compensation plan and **12 years** for the retirement benefit plan (2019 – 17 years for the compensation plan and 18 years for the retirement benefit plan).

(b) ***Sensitivity analysis***

Possible reasonable changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown overleaf.

	Compensation plan		**Retirement gratuity plan**	
	Increase	**Decrease**	**Increase**	**Decrease**
	SCR' 000	**SCR' 000**	**SCR' 000**	**SCR' 000**
2020				
Discount rate (1% increase)	**-**	**695**	**-**	**250**
Discount rate (1% decrease)	**837**	-	**301**	**-**
2019				
Discount rate (1% increase)	-	1,739	-	626
Discount rate (1% decrease)	2,191	-	790	-

22. OTHER LIABILITIES (CONTINUED)

(b) ***Sensitivity analysis (continued)***

Although the analysis does not take account of the full distribution of cash flows expected under the plans, it does provide an approximation of the sensitivity of the assumptions shown.

The sensitivity analysis has been carried out by recalculating the present value of obligations at end of each period after increasing or decreasing the discount rate while leaving all other assumptions unchanged. Any similar variation in the other assumptions would have shown smaller variations in the defined benefit obligation.

23. INTERNATIONAL MONETARY FUND OBLIGATIONS

	2020	2019
	SCR' 000	SCR' 000
Purchases outstanding		
- Extended Fund Facility	**458,495**	383,937
Allocation of Special Drawing Rights	**257,878**	161,398
IMF no. 1 account	**1,391**	1,108
IMF no. 2 account	**21**	17
	717,785	546,460
Current	**127,990**	98,104
Non-current	**589,795**	448,356
	717,785	546,460

Seychelles became a member of the IMF on 30 June 1977 and was initially assigned a quota of XDR 1.0 million. The quota allocation determines the financial and organisational relation with the IMF. Subsequent increases in quota subscription were effected over the years which have brought the quota subscription to **XDR 22.9 million** (2019 – XDR 22.9 million). The portion payable in SCR is paid by way of non-negotiable, non-interest-bearing promissory notes issued by the Government in favour of the IMF, which are payable on demand. These promissory notes are lodged with the Bank acting as custodian for the IMF.

Seychelles continues to maintain the following balance sheet accounts with the IMF under heading IMF Obligations: IMF Purchases Outstanding account for the Extended Fund Facility ("EFF"), SDR Allocation account, IMF no.1 account and IMF no. 2 account. Other balance sheet accounts classified under cash and cash equivalents include: SDR Holdings account and Reserve Tranche account, both denominated in XDR. SDR Allocations are subject to charges while SDR holdings earn interest on a quarterly basis.

23. INTERNATIONAL MONETARY FUND OBLIGATIONS (CONTINUED)

Seychelles holds off balance sheet records, in order to report the account movements and balances to the IMF on behalf of the Government, for the IMF Securities account backed by Government issued promissory notes amounting to **SCR 1,383.5 million** as at the reporting date (2019 – SCR 755.0 million) and the IMF Purchases Outstanding account for the Rapid Financial Instrument ("RFI") amounting to **XDR 22.9 million** (2019 – Nil). On 8 May 2020 the IMF approved financial assistance for Seychelles under the RFI. A MoU was signed between the Government and the Bank to establish a framework on the modalities for the repayment and the servicing of interest and other charges. The MoU, signed in August 2020, shall remain in force until all repayments related to the RFI disbursement, charges, fees, interest payments have been made in full to the IMF.

In June 2017 the Government successfully completed a three-year EFF which was the second EFF program that the Seychelles had with the IMF under its reform initiatives. Total repayments made throughout the year 2020 under the EFF amounted to **XDR 4.98 million** (2019 – XDR 5.08 million). As at 31 December 2020, the outstanding repurchase amount relating to the EFF stood at **XDR 14.7 million** (2019 – XDR 19.7 million). These repayments will continue until December 2025.

In December 2017, the Government's request for a new macroeconomic and structural reform program which was supported by a Policy Coordination Instrument (PCI) was approved. This non-financing program, which demonstrated the commitment on the part of the Government, was a continuation of the implementation of its structural reform agenda. This three-year program which ended December 2020 was to safeguard macroeconomic stability and debt sustainability whilst promoting sustainable and inclusive growth. In view of the pandemic, the fifth and sixth reviews did not happen as initially planned in 2020 unlike all the previous reviews. In May 2020, the Government's request for emergency funding under the RFI amounting to XDR 22.9 million (equivalent to 100 percent of quota) was approved. The funds received were used primarily help to address the urgent balance of payments needs and to provide budget support to the Government as a result of the negative impact of the 'COVID-19' pandemic on the economy.

The Bank revalues the IMF accounts in its statement of financial position in accordance with the practices of the IMF's Treasury Department. In general, the revaluation is effected annually on 30 April and whenever the Fund makes use of SCR in accordance with the IMF designated plan. For accounting purposes, the IMF accounts have been revalued using exchange rates as at the reporting date.

23. INTERNATIONAL MONETARY FUND OBLIGATIONS (CONTINUED)

The repayment terms for the purchases outstanding are as follows:

	2020 XDR' 000	**2020 SCR' 000**	2019 XDR' 000	2019 SCR' 000
1 – 3 years	**10,502**	**326,987**	12,746	248,383
Over 3 years	**4,224**	**131,508**	6,956	135,554
Total	**14,726**	**458,495**	19,702	383,937

24. STATUTORY CAPITAL

	2020 SCR' 000	2019 SCR' 000
Authorised capital	**151,377**	130,227
General reserve	**153,437**	153,437
	304,814	283,664

As per Section 14 of the CBS Act, the initial authorised capital of the Bank shall be SCR 1.0 million and accumulate as per the distributable earnings under Section 16 of the CBS Act (see Note 6). The statutory capital of the Bank shall accumulate until it reaches 10.0 percent of monetary liabilities of which 3.33 percent shall relate to authorised capital and the remaining 6.67 percent shall relate to General reserve.

As at the reporting date the statutory capital of the Bank stood at **4.27 percent** of total monetary liabilities (2019 – 5.21 percent). As at the reporting date the authorised capital was fully paid up.

As indicated in Note 6, where the Bank has distributable earnings for any financial year, 50 percent of those distributable earnings shall be distributed to authorised capital and General reserve, subject to the limits stated therein. However, where the distributable earnings of the Bank is less than zero, they shall be offset against the General reserve. For the year 2020, the Bank recorded distributable earnings amounting to **SCR 42.3 million** (2019 – negative distributable earnings of SCR 21.4 million). This has resulted in an amount of **SCR 21.15 million** (2019 – Nil) which was transferred to authorised capital and **Nil** (2019 – Nil) to be transferred to General reserve.

Following the above, the authorised capital and General reserve stand at **2.12 percent** (2019 – 2.39 percent) and **2.15 percent** (2019 – 2.82 percent) of monetary liabilities, respectively.

Where the General reserve accumulates a balance of less than zero, the Government shall within 30 days of publication of the annual accounts, recapitalise the Bank by transferring marketable securities to the ownership of the Bank to restore the General reserve to zero. For the year 2020, no recapitalisation was required (2019 – Nil).

25. REVALUATION RESERVE

Unrealised gains and losses arising from changes in the valuation of the Bank's assets and liabilities and fair valuation of financial assets at FVTPL denominated in foreign currencies and other units of account as a result of alterations of parity of the Seychelles Rupee have been credited or charged to profit or loss and subsequently transferred to the Revaluation Reserve Account in accordance with Section 45(5) and 45(6) of the CBS Act. Revaluation gains and losses do not form part of distributable earnings and are offset against Revaluation Reserve Account. As a direct result of the significant depreciation of the Seychelles rupee against the other major foreign currencies, in light of the impact of the 'COVID-19' pandemic on the domestic foreign exchange market, the total revaluation reserve for the year 2020 increased significantly and amounted to **SCR 3,623.1 million** (2019 – SCR 593.8 million).

26. ACTUARIAL RESERVE

As a result of the adoption of IAS 19 (Revised), the actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited immediately to other comprehensive income and the accumulated gains and losses form part of the actuarial reserve. Actuarial gains and losses do not form part of distributable earnings and are accumulated in Actuarial reserve. The total Actuarial reserve for the year 2020 amounts to a positive reserve of **SCR 11.7 million** (2019 – SCR 3.2 million).

27. INTEREST INCOME

	2020	2019
	SCR' 000	SCR' 000
Interest on investment securities	**65,860**	72,972
Interest on deposits with banks	**40,442**	108,932
Interest on advances to staff and local banks	**5,404**	4,768
	111,706	186,672

28. INTEREST EXPENSE

	2020	2019
	SCR' 000	SCR' 000
Interest on Deposit Auction Arrangement	**22,199**	62,647
Interest on Standing deposit facility	**5,199**	1,529
Other interests	**653**	483
	28,051	64,659

29. FEES AND COMMISSION INCOME

	2020	2019
	SCR' 000	SCR' 000
Commission income	**26,637**	21,253
Licence fees – Financial institutions	**5,878**	5,632
Licence fees – Payment service providers	**52**	105
Others	**765**	138
	33,332	27,128

30. OTHER INCOME

	2020	2019
	SCR' 000	SCR' 000
Rent and contribution for building maintenance	**274**	303
Contributions received for participation in SEFT and ECC	**878**	2,093
Net compensatory damages	**5,586**	-
Dividends received	**1,206**	828
Others	**1,748**	1,110
	9,692	4,334

All banks and SCU as participants in the SEFT and ECC systems contribute annually to the two systems based on their previous year's average usage levels. For the year 2020, contributions were made for the ECC system only. The Bank absorbed the costs related to the SEFT system to encourage the development and use of more digital payment platforms in response to the 'COVID-19' pandemic. In March 2020, the participants in the SEFT system agreed to waive the SEFT transfer fees and charges for their customers' payments done electronically.

During the year 2020, the Bank received the total sum of **SCR 10.3 million** from SPF in respect of its claim for compensatory damages as a result of the damages to the Bank's annex building in 2018. During the year the annex building was dismantled and demolished at a total cost of **SCR 4.7 million**. The net of the compensation for damages paid by the SPF amounted to **SCR 5.6 million**.

31. GAINS AND LOSSES ARISING FROM FOREIGN CURRENCY TRANSACTIONS

	2020	2019
	SCR' 000	SCR' 000
Gains arising from dealings in foreign currency transactions – realised	**30,084**	3,999
Gains arising from fair value of financial assets at fair value through profit or loss – realised	**83,336**	65,213
Gains arising from fair value of financial assets at fair value through profit or loss – unrealised	**1,653,956**	44,944
Gains arising from revaluation of foreign currency monetary assets and liabilities – unrealised	**1,389,160**	24,705
	3,156,536	138,861

32. STAFF COSTS

	2020	2019
	SCR' 000	SCR' 000
Salaries and allowances	**68,097**	76,909
Staff accrued leave	**4,603**	-
Staff training and development	**5,156**	15,338
Gratuity costs	**16,933**	15,117
Compensation costs	**1,591**	2,563
Termination benefits	**320**	1,369
Post-employment benefits	**2,810**	4,331
Other staff costs	**4,664**	5,425
	104,174	121,052

33. CURRENCY EXPENSES

	2020	2019
	SCR' 000	SCR' 000
Banknotes and coins expense	**150**	426
Amortisation of currency replacement costs (Note 13)	**11,123**	10,208
	11,273	10,634

34. PROFESSIONAL CHARGES

	2020	2019
	SCR' 000	SCR' 000
Fees payable to auditor:		
- Statutory audit (including disbursements)	**1,606**	1,611
Consultancy fees	**2,614**	7,255
Legal fees	**279**	72
Directors fees and allowances	**900**	975
Others	**60**	1,648
	5,459	11,561

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

35. EXPECTED CREDIT LOSS ON FINANCIAL ASSETS

	2020 SCR' 000	2019 SCR' 000
Net gains from expected credit loss on Balances held abroad	**(40)**	(106)
Net gains from expected credit loss on holdings of Special Drawing Rights and Reserve tranche with IMF	**(6)**	(1)
Net gains from expected credit loss on other balances and placements held abroad	**(18)**	(22)
Net losses/(gains) from expected credit loss on investment in Government treasury bills	**3,322**	(99)
Net losses/(gains) from expected credit loss on staff loans	**161**	(541)
Net gains from expected credit loss on staff loans – stage 3	**(7)**	(508)
Net losses from expected credit loss on private sector relief credit line facilities	**486**	-
Net losses from expected credit loss on private sector (large enterprise) relief credit line facilities	**673**	-
	4,571	(1,277)

36. ADMINISTRATIVE EXPENSES

	2020 SCR' 000	2019 SCR' 000
Utilities costs	**2,500**	2,428
Upkeep of premises, motor vehicles and equipment	**4,992**	5,622
Insurance costs	**4,856**	4,994
Archiving costs	**901**	2,184
Security expenses	**2,783**	2,803
Telephone expenses	**1,194**	1,132
Loss on disposal of fixed assets	**27**	12
Communications and advertising expenses	**214**	246
Others	**776**	1,412
	18,243	20,833

37. OTHER OPERATING EXPENSES

	2020 SCR' 000	2019 SCR' 000
Upkeep of intangible assets	**12,951**	13,251
Upkeep of office machines	**1,752**	1,619
Subscriptions	**8,134**	5,451
Reserve management fees	**7,408**	5,362
Reimbursable Advisory Services	**6,539**	3,948
Membership fees and contributions	**2,947**	3,529
SWIFT costs	**1,423**	1,466
Financial education and consumer protection	**107**	10
Board development and related costs	**439**	-
Guy Morel High Achievement Scholarship	**568**	809
Others	**2,310**	2,817
	44,578	38,262

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

38. NET CASH FLOWS FROM OPERATING ACTIVITIES

	2020	2019
	SCR' 000	SCR' 000
Profit for the year	**3,071,665**	47,222
Adjustments for:		
- Interest income	**(111,706)**	(186,672)
- Interest expense	**28,051**	64,659
- Depreciation and amortisation charges	**11,065**	11,324
- Amortisation of currency replacement costs	**11,123**	10,208
- Prepaid employee benefits	**3,178**	2,770
- Expected credit loss on financial assets	**4,571**	(1,277)
- Loss/(profit) on disposal of property and equipment	**18**	(4)
- Unrealised fair valuation and exchange gains on assets	**(4,418,217)**	(66,938)
- Realised fair valuation and exchange gains on assets	**(83,336)**	(65,213)
	(1,483,588)	(183,921)
Changes in:		
- Loans and advances	**(135,132)**	(6,337)
- Other assets	**(17,391)**	30,652
- Currency in circulation	**219,079**	137,184
- Deposits	**837,543**	335,669
- Open Market Operations	**(240,109)**	28,000
- Other liabilities	**16,784**	(4,094)
- Provisions for employee benefits	**(1,065)**	2,946
- International Monetary Fund obligations	**171,325**	(99,526)
Cash (used in)/from operating activities	**(632,554)**	240,573
Interest paid	**(30,151)**	(63,857)
Net cash (outflow)/inflow from operating activities	**(662,705)**	176,716

39. RELATED PARTY TRANSACTIONS

In the normal course of its operations, the Bank enters into transactions with related parties. Related parties include Government and key management personnel, consisting of members of the Board of Directors. Unless stated, all transactions with related parties take place at arm's length.

As banker to the Government, the following are transactions entered into:

- Banking services;
- Foreign exchange transactions;
- Payment and settlement facility;
- Investment in Government Securities; and
- Agent to the Government in raising domestic debt.

Material transactions with the Government are as follows:

39.1 *Foreign Exchange Transactions*

	2020 **SCR' 000**	2019 SCR' 000
Purchase of foreign currency	**838,198**	611,621
Sale of foreign currency	**1,662,869**	1,218,838

The Bank, in its capacity as fiscal agent to the Government in raising domestic debt, executes auctions, carries out back office operations, promotes financial education and the development of financial markets and works towards improving trading and settlement infrastructure.

39.2 *Investment in Government Securities*

	2020 **SCR' 000**	2019 SCR' 000
182-day treasury bills	**747,053**	747,053
365-day treasury bills	**438,000**	438,000
Total face value	**1,185,053**	1,185,053
Accrued interest	**11,093**	12,497
Total Investment in Government Securities	**1,196,146**	1,197,550

Other transactions with the Government consist of receipts and payments in SCR made on behalf of the Government.

39. RELATED PARTY TRANSACTIONS (CONTINUED)

39.2 *Investment in Government Securities (continued)*

Outstanding balances from the Government consist of investment securities whilst outstanding balances to the Government consist of deposits from Government and payables to the Government Consolidated Fund under other liabilities, as disclosed in the financial statements and corresponding notes.

39.3 *Deposits from Government*

The deposits from Government as at 31 December 2020 are disclosed in Note 17.

39.4 *Key Management Personnel*

Key management personnel comprises the Governor, First Deputy Governor, Second Deputy Governor and the Non-Executive Board members. The latter are considered to be part of the key management personnel as they have the authority and responsibility for planning, directing and controlling the activities of the Bank.

The aggregate remuneration provided for and paid to key management personnel comprised:

	2020	2019
	SCR' 000	SCR' 000
Salary and allowances	**4,059**	4,644
Gratuity costs	**1,781**	2,591
Car benefits	**446**	360
Post-employment benefits	**2,186**	3,001
Others	**308**	304
Total	**8,780**	10,900

In 2020, there were no loans disbursed to key management personnel and the outstanding loan balance was **Nil** (2019 – Nil). Loans to key management personnel are approved and disbursed as per the Bank's loan policy. In accordance with Section 44(1) of the CBS Act no loans are granted to Non-Executive Board members.

40. COMMITMENTS

Commitments not otherwise provided for in the financial statements and which existed at 31 December 2020 are as follows:

40.1 Capital subscription in Afreximbank

The Bank has a commitment to pay on call **USD 0.96 million** (2019 – USD 0.87 million) of nominal share value for capital subscription in Afreximbank. This amount has not been accounted for as a liability in the financial statements due to the unknown factor of the time and expected value of the shares to be called up. Furthermore, during the year the Bank has applied part of its accumulated dividend earnings towards the acquisition of additional shares in Afreximbank.

40.2 Advances made to the Government

The Bank is mandated under Section 40(1) and 40A of the CBS Act to grant temporary advances in SCR to the Government (see Note 3.18(b)). For the year 2020, no advances were made to the Government under Section 40(1) (2019 – Nil). Under Section 40A the Government accessed the facility on 4 days in December 2020 which resulted in the disbursement of six tranches of SCR 100.0 million from 28 to 31 December 2020 and all the tranches were fully repaid by the Government as at the end of the year.

The overall borrowing limit for the year 2020 of **SCR 1.69 billion** (2019 – SCR 1.29 billion) comprised of investment securities of **SCR 1.19 billion** (2019 – SCR 1.19 billion) and the Board of Directors approved short-term advances to the Government of **SCR 500.0 million** under Section 40A (2019 – SCR 100.0 million under Section 40(1)). For the year 2020 under Section 40A, the advances should not at any time exceed **SCR 500.0 million** (2019 – under Section 40(1) should not at any time exceed SCR 100.0 million and stood at 16.0 percent of the previous year's total Government revenue).

40.3 Employee loans approved but not yet disbursed

The Bank has a loans policy under which it disburses loans for its staff at a preferential rate. For the year 2020, staff loans approved but not yet disbursed amounted to **SCR 1.95 million** (2019 – SCR 3.2 million). Employees shall be eligible for loans under the loans policy if they have worked with the Bank for a continuous period of at least 2 years from the date of appointment. All loans are disbursed in full in one instalment except for loans for personal residential housing which are disbursed in a minimum of three instalments and in the case of loans for further education whereby the amount of the loan shall be drawn in annual instalments.

40. COMMITMENTS (CONTINUED)

40.4 **Emergency lending facility**

As part of its prudential toolkit, the Bank has an emergency liquidity support facility primarily aimed at preventing severe and persistent short-term liquidity problems and thus minimising bank runs. In light of the 'COVID-19' pandemic, amendments were made to the ELF Guidelines to cater for force majeure events and increase flexibility of operations. As at year end 2020, the total lending under this facility was **Nil** (2019 – Nil). Access to this facility requires banks and SCU to provide adequate and sufficient collateral among other pre-requisites.

40.5 **Private sector relief credit line facilities (micro, small, medium and large enterprises)**

The 'COVID-19' pandemic has led to significant disruptions in the economic activities of micro, small, medium and large enterprises. The Bank in partnership with the participating banks, DBS and the Government have availed two relief credit line facilities which are financed by the Bank and implemented by the participating banks and other financial institutions to assist in the provision of loan facilities to eligible micro, small, medium and large enterprises impacted by the 'COVID-19' pandemic. The two facilities are the Private Sector Relief Credit Line Facility ("PSRCLF") and the Private Sector (Large Enterprises) Relief Credit Line Facility ("PSLERCLF"). The relief credit line facilities make funds available to the banks and DBS in order for them to lend to the private sector to meet specific expenditure needs as follows:

- The day-to-day operating expenditure of an enterprise including but not limited to rent, utilities, salaries, taxes, goods and services contracts;
- Such expenditure as may be necessary to implement the Sectoral Guidelines for Workplaces issued by the Public Health Authority; and
- Such expenditure associated with the redundancy of workers subject to relevant capping and business viability assessment.

The overall borrowing limits approved by the Board for the year 2020 was set at **SCR 500.0 million** in the case the PSRCLF for the micro, small and medium enterprises with an annual turnover not exceeding SCR 25.0 million. The limit was set at **SCR 750.0 million** for the PSLERCLF for the large enterprises with an annual turnover of SCR 25.0 million and above. The two relief credit line facilities are guaranteed by the Government at **70.0 percent** for PSRCLF and **50.0 percent** for PSLERCLF. With respect to any amount advanced to the institutions by the Bank, the interest charge is set at **zero percent** for both the PSRCLF and PSLERCLF.

41. FINANCIAL RISK MANAGEMENT

The Bank's risks are principally attributed to its functional obligations. The Bank is exposed to a variety of financial risks: market risk, credit risk and liquidity risk.

41.1 *Market risk*

Market risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risks: interest rate risk, currency risk and other price risk.

The Bank's exposure to market risk comes in the form of general and specific market fluctuations which affect the investments in interest bearing and foreign currency denominated financial instruments. Further to that, the exposure to market risk is generated from both trading and asset/liability management activities. The measures taken by the Bank to manage such risk are disclosed below:

(a) Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risk is managed as follows:

- Foreign reserve interest rate risk management

  Interest rate risk increases or reduces the total return on the portfolio which consists mainly of demand and short-term deposits and is measured by daily calculation of the weighted average portfolio duration of the foreign exchange reserves as prescribed in the Bank's Investment Policy and Guidelines. Limits are set on interest rate risk with the aim of avoiding reporting losses as a result of market valuation changes over one-year reporting period.

- Domestic market operations interest rate risk

  The Bank's exposure to domestic market interest rate risk arises from its domestic market operations which are short-term in nature. These may include standing deposit and credit facilities, deposit and credit auctions, short-term repurchase and reverse repurchase agreements with banks and investment in Government treasury bills. The Bank cannot eliminate domestic market interest rate risk as it is a function of its monetary policy.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 ***Market risk (continued)***

(a) Interest rate risk (continued)

The table below summarises concentration of the interest rate re-pricing risk categorised by the earlier of contractual re-pricing or maturity dates:

	Demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2020	**SCR' 000**	**SCR' 000**	**SCR' 000**	**SCR' 000**	**SCR' 000**	**SCR' 000**	**SCR' 000**
Financial assets							
Cash and cash equivalents	**4,395,433**	**2,802,448**	**-**	**-**	**-**	**16,561**	**7,214,442**
Other balances and placements	**86,795**	**-**	**-**	**-**	**-**	**-**	**86,795**
Financial assets at fair value through profit or loss	**-**	**-**	**67,889**	**4,499,163**	**227,290**	**57,652**	**4,851,994**
Investment securities[1]	**-**	**-**	**1,190,368**	**-**	**-**	**-**	**1,190,368**
Loans and advances	**276**	**557**	**2,755**	**15,261**	**30,472**	**131,155**	**180,476**
Total financial assets	**4,482,504**	**2,803,005**	**1,261,012**	**4,514,424**	**257,762**	**205,368**	**13,524,075**
Financial liabilities							
Currency in circulation	**-**	**-**	**-**	**-**	**-**	**1,729,374**	**1,729,374**
Deposits from Government	**-**	**-**	**-**	**-**	**-**	**1,814,015**	**1,814,015**
Deposits from banks	**370,010**	**-**	**-**	**-**	**-**	**4,237,387**	**4,607,397**
Deposits from other financial institutions	**-**	**-**	**-**	**-**	**-**	**99,634**	**99,634**
Other deposits	**-**	**-**	**-**	**-**	**-**	**70,714**	**70,714**
Open Market Operations	**525,183**	**110,037**	**-**	**-**	**-**	**-**	**635,220**
International Monetary Fund obligations	**7,991**	**-**	**118,587**	**319,190**	**270,605**	**1,412**	**717,785**
Total financial liabilities	**903,184**	**110,037**	**118,587**	**319,190**	**270,605**	**7,952,536**	**9,674,139**
Net financial position	**3,579,320**	**2,692,968**	**1,142,425**	**4,195,234**	**(12,843)**	**(7,747,168)**	**3,849,936**

[1] Though Investment securities mature within 12 months, it is the intention of the Bank to hold the asset to perpetuity.

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41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 *Market risk (continued)*

(a) Interest rate risk (continued)

The table below summarises concentration of the interest rate re-pricing risk categorised by the earlier of contractual re-pricing or maturity dates:

As at 31 December 2019	Demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000
Financial assets							
Cash and cash equivalents	3,341,074	1,093,264	-	-	-	9,500	4,443,838
Other balances and placements	-	746,482	-	-	-	-	746,482
Financial assets at fair value through profit or loss[2]	-	-	155,918	2,684,001	147,322	36,479	3,023,720
Investment securities[3]	-	-	1,195,094	-	-	-	1,195,094
Loans and advances	274	536	2,557	14,341	27,352	284	45,344
Total financial assets	3,341,348	1,840,282	1,353,569	2,698,342	174,674	46,263	9,454,478
Financial liabilities							
Currency in circulation	-	-	-	-	-	1,510,295	1,510,295
Deposits from Government	-	-	-	-	-	2,696,490	2,696,490
Deposits from banks	23,001	-	-	-	-	2,907,565	2,930,566
Deposits from other financial institutions	-	-	-	-	-	78,249	78,249
Other deposits	-	-	-	-	-	48,912	48,912
Open Market Operations	651,907	223,422	-	-	-	-	875,329
International Monetary Fund obligations	5,002	3,573	88,405	151,404	296,952	1,124	546,460
Total financial liabilities	679,910	226,995	88,405	151,404	296,952	7,242,635	8,686,301
Net financial position	2,661,438	1,613,287	1,265,164	2,546,938	(122,278)	(7,196,372)	768,177

[2] The amounts have been reclassified as non-interest bearing as they do not bear any interest.
[3] Though Investment securities mature within 12 months, it is the intention of the Bank to hold the asset to perpetuity.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 ***Market risk (continued)***

(a) Interest rate risk (continued)

Sensitivity to interest rate risk

A sensitivity analysis is performed for each type of market risk to which the Bank is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date.

The table below presents the sensitivity analysis of the Bank's financial assets and liabilities in relation to changes in interest rates.

	Total gain/(loss) impacting equity 2020 SCR' 000	Total gain/(loss) impacting equity 2019 SCR' 000	**Total gain/(loss) impacting profit or loss 2020 SCR' 000**	Total gain/(loss) impacting profit or loss 2019 SCR' 000
Impact of:				
An increase of 100 basis points in the domestic market interest rates	**435**	452	**435**	452
A decrease of 100 basis points in the domestic market interest rates	**(435)**	(452)	**(435)**	(452)
An increase of 100 basis points in the market interest rates for foreign currencies	**652**	535	**652**	535
A decrease of 100 basis points in the market interest rates for foreign currencies	**(652)**	(535)	**(652)**	(535)

The Bank's exposure to interest rate risk might remain unchanged on both its local and foreign financial assets, despite the Guidelines for the latter allowing for a more active approach and the former being solely inclusive of Government treasury bills in the Bank's portfolio of securities.

(b) Currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 ***Market risk (continued)***

(b) Currency risk (continued)

The Bank's foreign reserve management function requires it to operate internationally and assume exposures to changes in prices of one currency against another, notably on its financial position and cash flows primarily with respect to the United States Dollar, the Euro, British Pound Sterling, Canadian Dollar, Australian Dollar, South African Rand, Chinese Yuan Renminbi and IMF Special Drawing Rights. Nonetheless, the Bank attempts to manage currency risk to some extent through its determination of the benchmark currency composition whereby in certain circumstances the Bank might limit its holding of a particular currency which is seen to be extremely volatile or risky. This approach has been adopted on the basis that hedging against currency risk is not being done at present. Exchange gains and losses arising from the revaluation of assets and liabilities denominated in foreign currencies are recognised in profit or loss and are transferred to the Revaluation Reserve Account in accordance with Section 16 of the CBS Act.

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41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 ***Market risk (continued)***

(b) Currency risk (continued)

The table below discloses the financial assets and financial liabilities by concentration of currency risk.

	EUR	USD	GBP	XDR	SCR	CAD	AUD	ZAR	CNY	TOTAL
	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000
As at 31 December 2020										
Financial assets										
Cash and cash equivalents	245,598	6,264,488	134,661	208,922	-	43	93	8,653	351,984	7,214,442
Other balances and placements	-	86,795	-	-	-	-	-	-	-	86,795
Financial assets at fair value through profit or loss	-	4,851,994	-	-	-	-	-	-	-	4,851,994
Investment securities	-	-	-	-	1,190,368	-	-	-	-	1,190,368
Loans and advances	-	-	-	-	180,476	-	-	-	-	180,476
Total financial assets	245,598	11,203,277	134,661	208,922	1,370,844	43	93	8,653	351,984	13,524,075
Financial liabilities										
Currency in circulation	-	-	-	-	1,729,374	-	-	-	-	1,729,374
Deposits from Government	569,982	392,658	98	109,855	741,422	-	-	-	-	1,814,015
Deposits from banks	1,046,225	964,704	-	-	2,596,468	-	-	-	-	4,607,397
Deposits from other financial Institutions	-	-	-	-	99,634	-	-	-	-	99,634
Other deposits	4,058	23,658	1,072	-	41,926	-	-	-	-	70,714
Open Market Operations	-	-	-	-	635,220	-	-	-	-	635,220
International Monetary Fund obligations	-	-	-	716,373	1,412	-	-	-	-	717,785
Total financial liabilities	1,620,265	1,381,020	1,170	826,228	5,845,456	-	-	-	-	9,674,139
Net financial position	(1,374,667)	9,822,257	133,491	(617,306)	(4,474,612)	43	93	8,653	351,984	3,849,936

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 ***Market risk (continued)***

(b) Currency risk (continued)

The table below discloses the financial assets and financial liabilities by concentration of currency risk.

	EUR	USD	GBP	XDR	SCR	CAD	AUD	ZAR	CNY	TOTAL
As at 31 December 2019	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000
Financial assets										
Cash and cash equivalents	87,895	3,864,175	137,219	140,122	-	27	56	3,702	210,642	4,443,838
Other balances and placements	-	746,482	-	-	-	-	-	-	-	746,482
Financial assets at fair value through profit or loss	-	3,023,720	-	-	-	-	-	-	-	3,023,720
Investment securities	-	-	-	-	1,195,094	-	-	-	-	1,195,094
Loans and advances	-	-	-	-	45,344	-	-	-	-	45,344
Total financial assets	87,895	7,634,377	137,219	140,122	1,240,438	27	56	3,702	210,642	9,454,478
Financial liabilities										
Currency in circulation	-	-	-	-	1,510,295	-	-	-	-	1,510,295
Deposits from Government	331,616	320,910	68	68,755	1,975,141	-	-	-	-	2,696,490
Deposits from banks	449,835	621,996	-	-	1,858,735	-	-	-	-	2,930,566
Deposits from other financial Institutions	-	-	-	-	78,249	-	-	-	-	78,249
Other deposits	600	12,643	415	-	35,254	-	-	-	-	48,912
Open Market Operations	-	-	-	-	875,329	-	-	-	-	875,329
International Monetary Fund obligations	-	-	-	545,335	1,125	-	-	-	-	546,460
Total financial liabilities	782,051	955,549	483	614,090	6,334,128	-	-	-	-	8,686,301
Net financial position	(694,156)	6,678,828	136,736	(473,968)	(5,093,690)	27	56	3,702	210,642	768,177

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 ***Market risk (continued)***

(b) Currency risk (continued)

Sensitivity to currency risk

A sensitivity analysis is performed for each type of market risk to which the Bank is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date.

The table below presents the sensitivity analysis of the Bank's financial assets and liabilities in relation to changes in foreign exchange rates.

	(Increase)/Decrease in impact on equity		**(Increase)/Decrease in profit or loss**	
	2020	2019	**2020**	2019
	SCR' 000	SCR' 000	**SCR' 000**	SCR' 000
Impact of:				
An appreciation of 5% in the value of the Seychelles Rupee against all other currencies	**416,227**	293,093	**416,227**	293,093
A depreciation of 5% in the value of the Seychelles Rupee against all other currencies	**(416,227)**	(293,093)	**(416,227)**	(293,093)

Adherence to its Investment Policy and Guidelines implies that the Bank will continue to be exposed to foreign currency risk. Nonetheless, the Bank's foreign currency risk is limited by its investment in cash and cash equivalents, short-term investment and financial assets at FVTPL.

(c) Other price risk

Other price risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Management is assisted by external fund managers in its strategy to maximise investment returns. All assets managed by fund managers and all buy and sell decisions are approved by same in compliance with the agreement which reflects compliance to the Investment Policy and Guidelines.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 *Market risk (continued)*

(c) Other price risk (continued)

Other price risks stemming from the money market fund and foreign treasury securities portfolio are generally managed according to parameters stipulated within the Investment Policy and Guidelines. However, since the money market fund is not a standalone eligible asset class as stipulated in the Investment Policy and Guidelines, it was expressly authorised by the Board of Directors. Therefore, the management of associated risks is conducted with reference made to the underlying assets making up the fund. In addition, the nature of the fund requires that consideration is also given to tolerable risk thresholds related to external asset management.

Sensitivity to price risk

The table below presents the sensitivity analysis of the Bank's financial assets and liabilities in relation to changes in market price.

	Increase/(Decrease) in impact on equity		**Increase/(Decrease) in profit or loss**	
	2020	2019	**2020**	2019
	SCR' 000	SCR' 000	**SCR' 000**	SCR' 000
Impact of:				
An increase of 5% in the market price of foreign investments	**242,600**	151,186	**242,600**	151,186
A decrease of 5% in the market price of foreign investments	**(242,600)**	(151,186)	**(242,600)**	(151,186)

The Bank's foreign price risk is limited by its investment in financial assets classified as financial assets at FVTPL.

41.2 *Credit risk*

Credit risk refers to the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Credit risk also arises from loans and advances. Staff loans are managed by the Bank under the ambit of the staff loans policy which is approved by the Board. Depending on the staff loans category, appropriate security or collateral is taken in order to limit the impact of any potential default event. For staff still employed with the Bank the risk of default is very unlikely in view that loan repayments made from salary deductions and other dues to service the loans. The two relief credit line facilities, the PSRCLF and PSLERCLF are also subject to credit risk in view that the Bank provides loans to banks to further assist eligible micro, small, medium and large enterprises impacted by the 'COVID-19' pandemic.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.2 *Credit risk (continued)*

In the event of a default by the enterprises, the banks shall be liable to settle 30 percent of the loans under PSRCLF and 50 percent of the loans under PSLERCLF. The Government has provided a guarantee to cover 70 percent of the loans for micro, small and medium enterprises under the PSRCLF and 50 percent of the loans for the large enterprises under the PSLERCLF.

(a) Credit risk measurement

The Bank's maximum exposure is reflected in the carrying amount of financial assets in the statement of financial position.

The Bank's investments in short-term deposit instruments coupled with institutions of acceptable credit worthiness allows it to manage its credit risk effectively. As such, the Bank is not exposed to significant credit risk, which is the risk that its counterparts will be unable to fulfil their contractual obligations.

Credit risk related to the placement of deposits with international banks and other financial institutions, including correspondent banks, is guided by credit ratings obtained from Standard and Poor's, Moody's Investors Services, or Fitch Ratings. To be eligible for deposits, including holdings on correspondent account, the international bank must be rated investment grade and above.

To limit credit risk, no more than 35.0 percent of reserves are invested in claims on international banks and other financial institutions with a minimum credit rating of 'A-'. Reflecting uncertainties regarding international banks and other financial institutions, the maturity of these deposits should not exceed 6 months.

The exposure to credit risk in the local markets is limited due to the largest amount of domestic financial assets in the Bank's portfolio being Government securities which carry sovereign risk. Furthermore, given that the Bank is the regulatory authority for banks, any investment and transactions with them such as reverse repurchase agreements and foreign exchange swaps will be treated as low risk as such transactions are secured.

The following table presents the Bank's financial assets based on a composite of Standard and Poor's, Fitch and Moody's credit ratings. 'AAA' is the rating used for identification of highly reliable international financial institutions. This rating indicates that the entity has an extremely strong capacity to pay interest and principal. 'AA' is a high-grade rating and 'A' is an upper-medium grade rating, indicating a very strong capacity to pay interest and principal, respectively. 'BBB' is the lowest investment grade rating, indicating an adequate capacity to pay interest and principal. Ratings lower than 'AAA' can be modified by '+' or '–' signs to indicate relative standing within the major categories. 'N/R' indicates the entity has not been rated by any of the above-mentioned rating agencies.

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41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.2 *Credit risk (continued)*

(a) Credit risk measurement (continued)

	Credit Rating	2020 Amount SCR' 000	2020 % of Financial Assets	2019 Amount SCR' 000	2019 % of Financial Assets
Financial assets					
Cash and cash equivalents – Demand deposits	AA+	**565,885**	**4.18%**	684,737	7.24%
	AA	**248,892**	**1.84%**	94,918	1.01%
	AA-	**476,822**	**3.53%**	370,343	3.92%
	A+	**28,914**	**0.21%**	20,985	0.22%
	A	**1,078,573**	**7.98%**	477,275	5.05%
	A-	**-**	**0.00%**	371,233	3.93%
	BB+	**-**	**0.00%**	3,701	0.04%
	BB	**32,066**	**0.24%**	18,340	0.19%
	BB-	**8,653**	**0.06%**	-	0.00%
	N/R	**4,549,154**	**33.64%**	2,252,684	23.83%
– SDR holdings and reserve tranche	N/R	**208,922**	**1.54%**	140,122	1.48%
– Foreign currency cash	No risk	**16,561**	**0.12%**	9,500	0.10%
Other balances and placements	AA-	**86,795**	**0.64%**	-	0.00%
	N/R	**-**	**0.00%**	746,482	7.89%
Financial assets at fair value through profit or loss	AAA	**4,290,240**	**31.74%**	2,741,560	29.00%
	AA+	**-**	**0.00%**	57,094	0.60%
	AA	**385,888**	**2.85%**	-	0.00%
	AA-	**-**	**0.00%**	41,264	0.44%
	A+	**118,214**	**0.87%**	-	0.00%
	BBB	**57,652**	**0.43%**	147,323	1.56%
	N/R	**-**	**0.00%**	36,479	0.38%
Investment in Government securities	BB	**-**	**0.00%**	1,195,094	12.64%
	B	**1,190,368**	**8.80%**	-	0.00%
Loans and advances	N/R	**180,476**	**1.33%**	45,344	0.48%
		13,524,075	**100.00%**	9,454,478	100.00%

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.2 *Credit risk (continued)*

(a) Credit risk measurement (continued)

The estimation of credit exposure for risk management purposes requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD").

Balances with other banks and financial institutions, including other central banks

The Bank uses external credit risk ratings that reflect its assessment of the probability of default of individual and sovereign counterparties. The credit grades are calibrated such that the risk of default increases at each higher risk grade.

Staff loans

After the date of initial recognition, for staff loans, the default event is determined as the staff leaving the Bank, having loans and not settled within 6 months as per stated policy.

Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.

- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to Note 41.2 for a description of how the Bank determines when a significant increase in credit risk has occurred.

- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to Note 41.2 for a description of how the Bank defines credit-impaired and default.

- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to Note 41.2 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.2 ***Credit risk (continued)***

(a) Credit risk measurement (continued)

- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information. Note 41.2 includes an explanation of how the Bank has incorporated this in its ECL models.

Further explanation is also provided on how the Bank determines appropriate groupings when ECL is measured on a collective basis (refer to Note 41.2).

The key judgements and assumptions adopted by the Bank in addressing the requirements of the standard are discussed below:

Significant increase in credit risk (SICR)

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

The remaining lifetime PD at the reporting date has increased, compared to the residual lifetime PD expected at the reporting date when the exposure was first recognised.

Balances with other banks and financial institutions, including other central banks: This is determined by a change/downgrade in external rating and depending on the original rating more than one may be needed to trigger a SICR transfer. Many of these exposures are short-term so it should be noted that the ratings changes required to trigger SICR would have to happen in a very short-timeframe.

Investment Securities will follow a similar approach to other counterparty exposures above. This is a longer-term exposure and the effect to moving to a lifetime ECL would be significant.

Qualitative criteria

The assessment of SICR incorporates forward-looking information in so far as the external ratings are constructed to reflect macro-economic outlook and impact.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.2 *Credit risk (continued)*

(a) Credit risk measurement (continued)

Backstop

A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 90 days past due on its contractual payments.

The Bank has not used the low credit risk exemption for any financial instruments for the year ended 31 December 2020.

Definition of default and credit-impaired assets

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower has failed to meet contractual obligations on repayment being either 90 days in arrears or in the case of staff lending has left the Bank and failed to meet contractual requirement on settling the outstanding loan.

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance
- The borrower is insolvent
- The borrower is in breach of financial covenant(s)
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by the lender relating to the borrower's financial difficulty
- It is becoming probable that the borrower will enter bankruptcy

The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the Bank's expected loss calculations.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.2 ***Credit risk (continued)***

(a) Credit risk measurement (continued)

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months.

Measuring ECL — Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the PD, EAD and LGD, defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.2 *Credit risk (continued)*

(a) Credit risk measurement (continued)

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.

- For revolving products, the EAD is predicted by taking current drawn balance and adding a 'credit conversion factor' which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Bank's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type. LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and price.

Forward-looking economic information is also included in determining the 12-month and lifetime PDs, EADs and LGDs. These assumptions vary by product type. Refer to the note overleaf for an explanation of forward-looking information and its inclusion in ECL calculations.

The assumptions underlying the ECL calculation, such as how the maturity profile of the PDs and how collateral values change are monitored and reviewed on a quarterly basis or upon new parameters being released by the ratings agencies.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.2 *Credit risk (continued)*

(a) Credit risk measurement (continued)

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information on the corporate and sovereign exposures derived through the external rating and outlook.

On staff lending the data is very sparse and does not practically lend itself to macroeconomic modelling without undue cost and effort. A Pluto-Tasche adjustment is applied to the staff loan parameters to allow for volatility and prudence.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Management overlays can also be applied where justified, as approved by the Risk Management Committee (“RMC”)

Sensitivity analysis

The most significant assumptions affecting the ECL allowance are as follows:

- The level of rating downgrade needed to trigger SICR on corporate and sovereign exposure and invoke a lifetime ECL calculation. Depending on the rating at origination, a downgrade of 1, 2 or 3+ notches is required to trigger a significant increase in credit risk and set using the ratings PD ranges.

- The adoption of an LGD of 45.0 percent on corporate and sovereign exposures.
  Recent industry research has shown this LGD to range between 13.0 percent and 73.0 percent with an average in the range of 35.0 percent to 45.0 percent. Applying the LGD at the upper end of the range as a sensitivity has an ECL impact of **SCR 1.56 million** (2019 – SCR 1.61 million)
- The benchmarking and assumptions used in setting the ECL parameters for staff lending given the low loan volumes and very limited default history. This has been offset by invoking a Pluto-Tasche calculation to set some upper confidence limits. Additional information will need to be gathered and incorporated over time.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.2 *Credit risk (continued)*

(a) Credit risk measurement (continued)

Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Bank has considered benchmarking internal/external supplementary data to use for modelling purposes. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Bank. The characteristics and any supplementary data used to determine groupings are outlined below:

Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.2 *Credit risk (continued)*

(a) Credit risk measurement (continued)

The following table explain the changes in the loss allowance between the beginning and the end of the year:

	Stage 1	**Stage 2**	**Stage 3**	**2020**	2019
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**Total**	Total
	SCR' 000	**SCR' 000**	**SCR' 000**	**SCR' 000**	SCR'000
Loss allowance as at 1 January 2020	**2,774**	**-**	**16**	**2,790**	4,067
Movements with P&L impact					
Modification of contractual cash flows of financial assets	**4,578**	**-**	**(7)**	**4,571**	(1,277)
Loss allowance	**7,352**	**-**	**9**	**7,361**	2,790

There were no transfers between stages during the year.

Write-off

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (a) ceasing enforcement activity and (b) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Bank may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off for the year ended 31 December 2020 was **Nil** (2019 – Nil). The Bank will seek to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.2 *Credit risk (continued)*

(a) Credit risk measurement (continued)

Exposure to Credit Risk

Maximum exposure to credit risk — Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amounts (including loans not yet disbursed) of financial assets below also represent the Bank's maximum exposure to credit risk on these assets.

	2020				2019
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**	Total
	SCR' 000	**SCR' 000**	**SCR' 000**	**SCR' 000**	SCR' 000
Investment grade	**8,480,890**	**-**	**-**	**8,480,890**	6,378,502
Standard monitoring	**183,936**	**-**	**-**	**183,936**	48,729
Default	**-**	**-**	**39**	**39**	39
Gross carrying amount	**8,664,826**	**-**	**39**	**8,664,865**	6,427,270
Loss allowance	**(7,352)**	**-**	**(9)**	**(7,361)**	(2,790)
Carrying amount	**8,657,474**	**-**	**30**	**8,657,504**	6,424,480

There were no transfers between stages during the year.

Collateral and other credit enhancements

The Bank has collateral for certain categories of staff loans in the form of guarantees, charges, property and pledge of insurance.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.2 *Credit risk (continued)*

(b) Concentration of risk – Geographical sectors

The table below breaks down the Bank's main credit exposure at the carrying amounts, as categorised by geographical region as of 31 December 2020. Exposures have been allocated by region of the country of domicile of the relevant counterparties.

	Europe	America	Seychelles	Asia	Middle East	Africa	Australia	Total
	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000
At 31 December 2020								
Financial assets								
Cash and cash equivalents	**4,825,698**	**808,135**	**16,561**	**1,003,217**	**552,178**	**8,653**	**-**	**7,214,442**
Other balances and placements	**-**	**-**	**-**	**86,795**	**-**	**-**	**-**	**86,795**
Financial assets at fair value through profit or loss	**1,027,633**	**3,555,566**	**-**	**99,598**	**-**	**101,764**	**67,433**	**4,851,994**
Investment securities	**-**	**-**	**1,190,368**	**-**	**-**	**-**	**-**	**1,190,368**
Loans and advances	**-**	**-**	**180,476**	**-**	**-**	**-**	**-**	**180,476**
Total financial assets	**5,853,331**	**4,363,701**	**1,387,405**	**1,189,610**	**552,178**	**110,417**	**67,433**	**13,524,075**
At 31 December 2019								
Financial assets								
Cash and cash equivalents	2,752,952	830,067	9,500	476,688	370,929	3,702	-	4,443,838
Other balances and placements	746,482	-	-	-	-	-	-	746,482
Financial assets at fair value through profit or loss	279,601	2,707,641	-	-	-	36,478	-	3,023,720
Investment securities	-	-	1,195,094	-	-	-	-	1,195,094
Loans and advances	-	-	45,344	-	-	-	-	45,344
Total financial assets	3,779,035	3,537,708	1,249,938	476,688	370,929	40,180	-	9,454,478

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.3 *Liquidity risk*

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities. It refers to the possible difficulties in selling (liquidating) large amounts of assets quickly, possibly in a situation where market conditions are also unfavourable, resulting in adverse price movement. As the Bank is the sole issuer of the national currency this channels its liquidity risk towards its foreign currency positions. On that basis, the liquidity of each financial instrument eligible for investment is duly considered by the Bank before an investment is made.

To reduce liquidity risk, the Bank can only invest in instruments under the liquidity tranche that can be liquefied within five business days and preferably same day for the working capital tranche.

(a) Contractual maturity of financial assets and liabilities

The table overleaf analyses the Bank's financial assets and liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the maturity table are the undiscounted cash flows which are adjusted for ECL. Such undiscounted cash flows differ from the amount included in the statement of financial position which is based on discounted cash flows. Balances due within one month equal their carrying balances, as the impact of discounting is not significant.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.3 *Liquidity risk (continued)*

(a) Contractual maturity of financial assets and liabilities (continued)

	Demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Gross nominal inflow/ (outflow)	Carrying amount
	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000
At 31 December 2020							
Financial liabilities							
Currency in circulation	**1,729,374**	**-**	**-**	**-**	**-**	**(1,729,374)**	**1,729,374**
Deposits from Government	**1,814,015**	**-**	**-**	**-**	**-**	**(1,814,015)**	**1,814,015**
Deposits from banks	**4,607,397**	**-**	**-**	**-**	**-**	**(4,607,397)**	**4,607,397**
Deposits from other financial institutions	**99,634**	**-**	**-**	**-**	**-**	**(99,634)**	**99,634**
Other deposits	**70,714**	**-**	**-**	**-**	**-**	**(70,714)**	**70,714**
Open Market Operations	**525,396**	**110,192**	**-**	**-**	**-**	**(635,588)**	**635,220**
International Monetary Fund obligations	**9,403**	**3,333**	**127,800**	**347,918**	**271,861**	**(760,315)**	**717,785**
Total financial liabilities	**8,855,933**	**113,525**	**127,800**	**347,918**	**271,861**	**(9,717,037)**	**9,674,139**
Financial assets							
Cash and cash equivalents	**4,412,836**	**2,803,558**	**-**	**-**	**-**	**7,216,394**	**7,214,442**
Other balances and placements	**86,810**	**-**	**-**	**-**	**-**	**86,810**	**86,795**
Financial assets at fair value through profit or loss	**-**	**-**	**67,889**	**4,499,163**	**284,942**	**4,851,994**	**4,851,994**
Investment securities	**-**	**-**	**1,221,851**	**-**	**-**	**1,221,851**	**1,190,368**
Loans and advances	**716**	**1,428**	**23,204**	**149,401**	**57,081**	**231,830**	**180,476**
Total financial assets	**4,500,362**	**2,804,986**	**1,312,944**	**4,648,564**	**342,023**	**13,608,879**	**13,524,075**
Net liquidity gap	**4,355,571**	**(2,691,461)**	**(1,185,144)**	**(4,300,646)**	**(70,162)**	**(3,891,842)**	**(3,849,936)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.3 *Liquidity risk (continued)*

(a) Contractual maturity of financial assets and liabilities (continued)

	Demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Gross nominal inflow/ (outflow)	Carrying amount
	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000
At 31 December 2019							
Financial liabilities							
Currency in circulation	1,510,295	-	-	-	-	(1,510,295)	1,510,295
Deposits from Government	2,696,490	-	-	-	-	(2,696,490)	2,696,490
Deposits from banks	2,930,566	-	-	-	-	(2,930,566)	2,930,566
Deposits from other financial institutions	78,249	-	-	-	-	(78,249)	78,249
Other deposits	48,912	-	-	-	-	(48,912)	48,912
Open Market Operations	653,015	224,994	-	-	-	(878,009)	875,329
International Monetary Fund obligations	6,126	5,527	93,477	160,745	309,626	(575,501)	546,460
Total financial liabilities	7,923,653	230,521	93,477	160,745	309,626	(8,718,022)	8,686,301
Financial assets							
Cash and cash equivalents	3,351,982	1,096,156	-	-	-	4,448,138	4,443,838
Other balances and placements	-	749,261	-	-	-	749,261	746,482
Financial assets at fair value through profit or loss	-	-	155,918	2,684,000	183,802	3,023,720	3,023,720
Investment securities	-	-	1,231,438	-	-	1,231,438	1,195,094
Loans and advances	701	1,381	6,207	33,215	52,000	93,504	45,344
Total financial assets	3,352,683	1,846,798	1,393,563	2,717,215	235,802	9,546,061	9,454,478
Net liquidity gap	4,570,970	(1,616,277)	(1,300,086)	(2,556,470)	73,824	(828,039)	(768,177)

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.4 *Capital management*

The statutory capital of the Bank which comprises the authorised capital and General reserve shall be built up to 10.0 percent of monetary liabilities and can be more in one year should the monetary liabilities decrease. Section 16(2) of the CBS Act states that where the Bank has distributable earnings for any financial year, 50.0 percent of those earnings shall be distributed in the following priority, to the statutory capital until:

a) authorised capital reaches 3.33 percent of monetary liabilities; and
b) the General reserve reaches 6.67 percent of monetary liabilities.

As at 31 December 2020 statutory capital stood at **4.27 percent** of monetary liabilities (2019 – 5.21 percent). In the event that the General reserve accumulates a balance of less than zero, the Government shall within 30 days of publication of the annual accounts, recapitalise the Bank by transferring marketable securities to the ownership of the Bank to restore the General reserve to zero.

41.5 *Non-financial risk management*

(a) Operational risk management

Operational risk is the risk of direct or indirect loss as a result of inadequate control or failures in internal processes and systems. This also covers activities of employees and external events. The Bank's typical general risk areas include reputational, strategic, financial, compliance and operational risks. Whilst it is understood that such risks cannot be entirely eliminated and the cost for mitigating these risks may outweigh the potential benefits to the Bank, the RMC is dedicated to try and manage these risks.

As part of the implementation of the Bank's risk management framework, autonomous checks on the risk issues are carried out by the Risk Management Unit ("RMU"). RMU conducted frequent discussions with divisions and units to review emerging risks and changes in process and procedures due to 'COVID-19' impact. RMC reviewed quarterly risk reports to take stock of the risks identified and the controls put in place to mitigate them.

42. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

42.1 *Fair value of financial assets and liabilities*

The table below summarises the carrying amounts and fair values of investment securities which are not presented on the Bank's statement of financial position at fair value:

	2020		2019	
	Carrying value SCR' 000	**Fair value SCR' 000**	Carrying value SCR' 000	Fair value SCR' 000
Financial assets				
Investment securities	**1,190,368**	**1,186,214**	1,195,094	1,184,093
	========	========	========	========

The fair value of investment securities classified at amortised cost is based on market prices of Government treasury bills as at the reporting date. The fair value of Government treasury bills has been computed using the compounded interest method at interest rates of **4.52 percent** per annum for the 182-day treasury bills (2019 – 5.63 percent per annum) and **5.56 percent** per annum for the 365-day treasury bills (2019 – 6.29 percent per annum). For all other financial assets and liabilities, their carrying amounts are a reasonable approximation of fair value.

42.2 *Valuation models*

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within level 1 that are observables either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.2 *Valuation models (continued)*

- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

42.3 *Accounting classifications and fair values*

The following tables overleaf set out the fair values of financial instruments measured at fair value and analyse them by the level in the fair value hierarchy into which each fair value measurement is categorised. The tables also set out the other financial instruments not measured at fair value.

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.3 *Accounting classifications and fair values (continued)*

	Carrying amount				Fair value			
	At fair value through profit or loss	At Amortised Cost	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000
At 31 December 2020								
Financial assets measured at fair value								
Financial assets at fair value through profit or loss	**4,851,994**	**-**	**-**	**4,851,994**	**4,794,342**	**-**	**57,652**	**4,851,994**
Financial assets not measured at fair value								
Cash and cash equivalents	**-**	**7,214,442**	**-**	**7,214,442**	**-**	**7,214,442**	**-**	**7,214,442**
Other balances and placements	**-**	**86,795**	**-**	**86,795**	**-**	**86,795**	**-**	**86,795**
Investment securities	**-**	**1,190,368**	**-**	**1,190,368**	**-**	**1,186,214**	**-**	**1,186,214**
Loans and advances	**-**	**180,476**	**-**	**180,476**	**-**	**-**	**180,476**	**180,476**
Total assets not measured at fair value	**-**	**8,672,081**	**-**	**8,672,081**	**-**	**8,487,451**	**180,476**	**8,667,927**
Financial liabilities not measured at fair value								
Currency in circulation	**-**	**-**	**1,729,374**	**1,729,374**	**-**	**-**	**-**	**-**
Deposit from Government	**-**	**-**	**1,814,015**	**1,814,015**	**-**	**-**	**-**	**-**
Deposit from banks[4]	**-**	**-**	**4,607,397**	**4,607,397**	**-**	**370,010**	**-**	**370,010**
Deposit from other financial Institutions	**-**	**-**	**99,634**	**99,634**	**-**	**-**	**-**	**-**
Other deposits	**-**	**-**	**70,714**	**70,714**	**-**	**-**	**-**	
Open Markets Operations	**-**	**-**	**635,220**	**635,220**	**-**	**635,220**	**-**	**635,220**
International Monetary Fund obligations	**-**	**-**	**717,785**	**717,785**	**-**	**717,785**	**-**	**717,785**
Total liabilities not measured at fair value	**-**	**-**	**9,674,139**	**9,674,139**	**-**	**1,723,015**	**-**	**1,723,015**

[4] Included in the deposits from banks is a carrying amount of SCR 370.0 million for which its fair value has been disclosed at Level 2.

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.3 *Accounting classifications and fair values (continued)*

	Carrying amount				Fair value			
	At fair value through profit or loss	At Amortised Cost	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000	SCR' 000
At 31 December 2019								
Financial assets measured at fair value								
Financial assets at fair value through profit or loss[5]	3,023,720	-	-	3,023,720	2,987,241	-	36,479	3,023,720
Financial assets not measured at fair value								
Cash and cash equivalents	-	4,443,838	-	4,443,838	-	4,443,838	-	4,443,838
Other balances and placements	-	746,482	-	746,482	-	746,482	-	746,482
Investment securities	-	1,195,094	-	1,195,094	-	1,184,093	-	1,184,093
Loans and advances	-	45,344	-	45,344	-	-	45,344	45,344
Total assets not measured at fair value	-	6,430,758	-	6,430,758	-	6,374,413	45,344	6,419,757
Financial liabilities not measured at fair value								
Currency in circulation	-	-	1,510,295	1,510,295	-	-	-	-
Deposit from Government	-	-	2,696,490	2,696,490	-	-	-	-
Deposit from banks[6]	-	-	2,930,566	2,930,566	-	23,001	-	23,001
Deposit from other financial Institutions	-	-	78,249	78,249	-	-	-	-
Other deposits	-	-	48,912	48,912	-	-	-	-
Open Markets Operations	-	-	875,329	875,329	-	875,329	-	875,329
International Monetary Fund obligations	-	-	546,460	546,460	-	546,460	-	546,460
Total liabilities not measured at fair value	-	-	8,686,301	8,686,301	-	1,444,790	-	1,444,790

[5] Financial assets measured at fair value through profit or loss of SCR 1,809.6 million have been reclassified from Level 2 to Level 1 as these instruments are quoted on active markets. In addition, SCR 147.3 million has been reclassified from Level 3 to Level 1 as these instruments are quoted on active markets.

[6] Included in the deposits from banks is a carrying amount of SCR 23.0 million whose fair value has been disclosed at Level 2.

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.3 *Accounting classifications and fair values (continued)*

There have been no transfers during the year between levels 1 and 2. A reconciliation of fair value measurements in level 3 is set out below:

	Equity Securities	
	2020	2019
	SCR' 000	SCR' 000
Balance as at 1 January	**36,479**	31,628
Additions	**1,320**	855
Change in fair value	**19,853**	3,996
Balance as at 31 December[7]	**57,652**	36,479

Reasonable possible changes to one of the significant unobservable inputs at reporting date would have no material effect on the fair value of the equity securities.

42.4 *Valuation techniques used*

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For the other financial instruments, the Bank determines fair values using the valuation technique as per table below:

Description	**Valuation technique**	**Sensitivity analysis**
Investments in shares with Afreximbank	Net asset value of the investee company	The estimated fair value would increase/decrease if the net asset value of the investee company increases/decreases

43. TAXATION

The Bank is exempted from taxation under Section 49 of the CBS Act but is subject to payments of value added tax and makes retention in respect of withholding taxes on services acquired from foreign entities.

44. CURRENCY

The financial statements are presented in Seychelles Rupees and figures are stated in thousands of Seychelles Rupees.

[7] A financial instrument with a fair value of SCR 147.3 million at 31 December 2019, was reclassified from Level 3 to Level 1 as these instruments are quoted on active markets.

45. EVENTS AFTER THE REPORTING DATE

Impact of the 'COVID-19' virus outbreak

The 'COVID-19' pandemic continues to have an adverse effect on the Seychelles' economy since one of the main pillars, tourism, continues to be severely affected. The national vaccination campaign which was launched on 10 January 2021 continues as Seychelles aims to immunise at least 70,000 people in order to attain herd immunity.

On 4 March 2021, the Government announced the re-opening of the Seychelles borders set for 25 March 2021 for the majority of foreign visitors and tourists irrespective of their vaccination status although a negative 'COVID-19' test result 72 hours prior to boarding the flight is mandatory. The revival of the tourism industry in Seychelles is conditional on the success of vaccination campaigns in the key tourism source markets which is hoped will lead to easing of restrictions of movement and travel in those countries. Another concern is the issue of new variants which pose an additional uncertainty to public health globally.

In the traditional key European markets, uptake of the vaccination programmes has been slow, however, there are promising interest being shown by markets such as Israel and Russia. The Bank anticipates a potential pick up in tourism activity but a high degree of uncertainty remains with regards to the recovery path, the impact on the economy as well as the threat of new variants of the 'COVID-19' virus globally.

Annex II

CBS List of Officers

Secretariat	Designation
Ms Caroline Abel	Governor
Mr Christophe Edmond	First Deputy Governor
Ms Jenifer Sullivan	Second Deputy Governor
Mr Jude Woodcock	Chief Information Security Officer
Communications Unit	
Mrs Marie-Angele Thomas	Communications Officer
Mrs Sharon Uranie	Communications Officer
Compliance Unit	
Ms Martine Faure	Director
Mr Colin Appoo	Compliance Officer
Legal Unit	
Ms Shannon Jolicoeur	Director
Mrs Tanya Thyroomoody	Senior Legal Officer
Ms Vivienne Confiance	Legal Officer
Ms Annarose Clarisse	Legal Officer
Internal Audit Division	
Mrs Danielle Michaud	Director
Ms Vanessa Chang-Lam	Internal Auditor
Ms Juliette Malbrook	Internal Auditor
Mr Lenin Thyroomoody	Information Systems Auditor
Risk Management Unit	
Ms Laureenda Mathiot	Risk Manager
Ms Antoinette Bistolet	Risk Officer
Ms Prisila Laurence	Risk Officer
Mr Kevin Fabien	Business Continuity Manager
Administration Division	
Vacant	Head of Division
Mr Francis Payet	Director
Ms Nelcie Pierre	Finance and Admin Officer
Mr Russel Moustache	Building and Project Manager
Mr Philip Simeon	Security Manager
Ms Yvonne Legaie	Health and Safety Officer

Banking Services Division

Mr Mike Tirant	Head of Division
Mrs Noemie Gobine	Director
Mrs Patricia Padayachy	Senior Banking Officer
Mr Govani Valentin	Banking Officer
Mr Terry Adrienne	Banking Officer
Mr Michel Moustache	Banking Officer
Mrs Cynthia Sophola	Banking Officer
Ms Shannon Confiance	Banking Officer
Mr Allen Marie-Therese	Banking Officer
Mrs Jeannette Payet	Senior Banking Officer
Ms Claire Pragassen	Banking Officer
Mr Samuel Chang-Sam	Banking Officer
Mr Charles Ally	Banking Officer
Mr Aubrey Yocette	Banking Officer
Ms Vanessa Bijoux	Senior Financial Reporting Officer
Ms Dianne Pillay	Financial Reporting Officer
Ms Diane Alvis	Financial Reporting Officer
Ms Sabrina Henriette	Financial Reporting Officer
Mrs Angelique Korajkar	Financial Reporting Officer
Mr Jude Adolphe	Senior Currency and Numismatics Officer
Mr Christopher Rousseau	Chief Vault Custodian
Ms Sylvia Woodcock	Chief Cashier
Ms Irianna Aglae	Currency and Numismatics Officer

Financial Markets Division

Ms Moyra Alexis	Head of Division
Mrs Gina Rosette	Director
Ms Vaithegi Naidu	Senior Portfolio Analyst
Mr Adolf Nourrice	Senior Financial and Risk Analyst
Ms Vanessa Valentin	Senior Financial and Risk Analyst
Mrs Shireen Jumaye-Hoareau	Portfolio Analyst
Ms Aneesha Coopoosamy	Portfolio Analyst
Ms Jessica Morel	Portfolio Analyst
Ms Sheera Philoe	Financial and Risk Analyst
Mr Ron Bonne	Financial and Risk Analyst
Ms Melissa Naiken	Financial and Risk Analyst
Ms Shirley Mendes	Market Operations Officer
Ms Marylene Chang-Him	Market Operations Officer
Ms Elaine Desnousse	Market Operations Officer
Mr Chris Loizeau	Senior Settlement and Accounts Officer
Ms Sophie Morel	Accounts Officer
Mr Fabien Bristol	Accounts Officer
Ms Beverly Labiche	Accounts Officer
Ms Emma Larue	Accounts Officer
Ms Sumita Zelia	Settlement Officer
Ms Anna Sinon	Settlement Officer

Financial Surveillance Division

Vacant	Head of Division
Mr Aaron Leong Pon	Director
Mrs Samanta Esparon	Senior Financial Surveillance Analyst
Ms Shirlee Agricole	Senior Financial Surveillance Analyst
Mr Edouard Rose	Senior Financial Surveillance Analyst
Ms Daniele Chetty	Senior Financial Surveillance Analyst
Ms Joan Lespoir	Senior Financial Surveillance Analyst
Ms Mikaella Joubert	Senior Financial Surveillance Analyst
Ms Vivienne Volcere	Financial Surveillance Analyst
Mrs Audrey Pothin	Financial Surveillance Analyst
Mr Tyron Scholastique	Financial Surveillance Analyst
Ms Rebecca David	Financial Surveillance Analyst
Ms Selma Valentin	Financial Surveillance Analyst
Mrs Nella Souris	Financial Surveillance Analyst
Ms Stephanie Pillay	Financial Surveillance Analyst
Mrs Charmine Fanchette	Financial Surveillance Analyst
Ms Lana Woodcock	Financial Surveillance Analyst
Ms Nathalie Violette	Financial Surveillance Analyst
Mrs Lynn Commettant	Financial Surveillance Analyst
Mrs Tracy Julienne	Financial Surveillance Analyst
Mr Cyril Benoiton	Financial Surveillance Analyst
Ms Franchesca Melanie	Financial Surveillance Analyst
Ms Lanna Jacques	Financial Surveillance Analyst
Ms Sophia Servina	Financial Surveillance Analyst
Mr Naddy Marie	Senior Financial Stability Analyst
Mr Nicholas Cetoupe	Financial Stability Analyst
Mrs Tahiri Laporte	Financial Stability Analyst
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Human Resources Division

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Mrs Vanessa Dewea	Director
Mrs Levina Françoise	Senior Human Resources Officer
Ms Sacha Accouche	Senior Human Resources Officer
Ms Christie Michel	Human Resources Officer

Financial Inclusion and Market Conduct Division

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Ms Liz Julienne	Director
Ms Beggita Vital	Senior Market Conduct Analyst
Mrs Audrey Chetty	Senior Financial Inclusion Analyst
Ms Pauline Moustache	Market Conduct Analyst
Ms Nadia Marcelin	Market Conduct Analyst
Mrs Rose Larue	Market Conduct Analyst
Ms Sophie-Anne Larue	Financial Inclusion Analyst
Mr Jonathan Valentin	Financial Inclusion Analyst
Ms Brigitte Lucas	Financial Inclusion Analyst

Research and Statistics Division

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Mrs Hilda Palconit	Director
Mr Lenny Palit	Senior Economist
Ms Nadine Boniface	Economist
Ms Audrey Rath	Economist
Ms Trudy Lucas	Economist
Ms Raghavi Naidu	Economist
Mr Ragul Pillay	Economist
Ms Dorotha Michel	Senior Statistician
Mr Terence Payet	Statistician
Ms Kathleen Nicette	Statistician
Ms Suza Roselie	Statistician
Mrs Jenny Sinon	Statistician
Mr Craig Joseph	Statistician
Ms Stephanie Jean-Louis	Statistician
Mr Graham Adeline	Statistician
Mr Andy Ally	Statistician

Technical Services Division

Mr Darell Edmond	Head of Division
Mr Desire Larue	Director
Mr Riyad Moustache	Business Applications Administrator
Mrs Shanthi Pillay	Business Applications Administrator
Mr Rondy Monnaie	Business Applications Administrator
Ms Gracey Johnson	Business Applications Administrator
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