1.0 Key Economic Developments
A further decline in year-on-year inflation was observed in November 2012, with the rate falling to 6.2% from 7.6% in the previous month. Given expectation of easing inflationary risks, the Central Bank’s monetary policy started to be loosened compared to the preceding quarter, a stance which is expected to be maintained at least until the end of the year, ceteris paribus. An important contribution to the reduced inflationary threats is the observed relative stability of the domestic currency. The Seychelles rupee (SCR) continued to trade at an average of 13 rupees to the US dollar (USD) whilst the month also saw an appreciation of the rupee against the euro (EUR), consistent with the on-going crisis in the euro area. Furthermore, the number of tourists from Europe and elsewhere remained strong with total visitor arrivals for 2012 being expected to reach 200,000 before the year end.

1.1 Tourism
A total of 16,245 tourists visited the country during November 2012, which was a slight drop of 0.7 per cent in comparison to the same period in 2011. However, on a year-to-date basis, the total number of visitors stood at 187,422, being 6.2 per cent higher than in 2011. As is customary, the majority of visitors originated from the European continent, accounting for 71 per cent of the total. France remained the leading market, supplying 19 per cent of visitors, followed by Germany with a contribution of 16 per cent.

Although tourists originating from Asia have contributed significantly to growth in visitor arrivals this year, figures also show a decline of 5.8 per cent in Asian tourists compared to November 2011, and by 35 per cent relative to the previous month.

1.2 Inflation
The month-on-month change in the November 2012 Consumer Price Index (CPI) shows an increase of 0.1%. Year-on-year inflation fell from 7.6% in October 2012 to 6.2% during the month under review confirming further easing in inflationary pressures.

As for the 12-month average inflation rate, this stood at 7.1%, which is an increase of 0.1 percentage points over that of the previous month.
1.3 Exchange Rates

For the month under review, the SCR traded at an average of 13.0699 against the USD, representing a slight depreciation of 1.0 cents or 0.1 per cent compared to the previous month. Against the EUR, the rupee appreciated by 10 cents, trading at an average of 16.7969 compared to 16.8984 in the previous month. The period’s appreciation of the domestic currency vis-à-vis the euro was consistent with the depreciation of the euro against major currencies in the international markets, reflecting economic conditions in Europe.

On a year-on-year basis, the rupee has weakened by 20 cents or 1.6 per cent against the US dollar, but has strengthened by 78 cents or 4.5 per cent relative to the euro.

1.4 Foreign Exchange Transactions

Gross purchases of foreign exchange by authorised dealers¹ for the month of November 2012 amounted to US$40 million. Total sales were US$42 million, which implies a net sale of US$2.7 million during the month. The majority of foreign exchange transactions were channelled through the commercial banks, accounting for 67 per cent and 71 per cent of total purchases and total sales, respectively.

1.5 Commercial Banks’ Interest Rates

An overall increase was observed in interest rates at commercial banks in November 2012. The overall average effective return on fixed-term rupee deposits increased from 4.63% in October 2012 to 5.60% or by 96 basis points. Analysis of the main term-deposit instruments shows that the most notable increase in yield was by 196 basis points recorded on deposits under the maturity profile “less than 7 days”. This was followed by the interest rates on instruments in the maturity bracket “above 6 months and up to 12 months” which rose by 126 basis points to 7.43%.

¹ Commercial banks and bureaux de change.
As for the savings rate, it moved from 1.94% in October 2012 to 1.93% in November 2012. By contrast, the average effective lending rate increased from 13.24% to 13.32% over the same period. This resulted in a further widening of the spread between the lending and savings rates from 11.30% in October 2012 to 11.39% in the month under review.

1.6 Reserve Money, Money Supply and Credit

1.6.1 Reserve Money

At the end of November 2012, the stock of reserve money stood at R1,932 million, overshooting its target of R1,850 by a margin of R82 million.

The Bank issued a total of R1,007 million DAA exclusive of interest, whilst R969 million worth of the same instrument matured.

As illustrated in Table 01, interest rates declined considerably during November, notably on instruments on the shorter term maturities offered, which were consistent with the loosening of monetary policy.

In comparison to October 2012, a sharp decline was observed in interest rates on DAA with maturities of 7-days and 14-days; this was from 13.85% to 3.99% on the former, and from 13.95% to 4.08% on the latter.

---

2 Reserve money consists of currency in circulation and depository corporations’ reserves at the Central Bank. Under the adopted monetary targeting framework, the Central Bank has to ensure the level of reserve money does not exceed a predetermined ceiling.
As regards to government securities, at the end of November 2012, the yield stood at 11.71%, 11.96% and 10.00% on the 91-day, 182-day, and 365-day Treasury bills, respectively. This represents a significant decline compared to 18.79%, 19.23% and 19.59%, respectively, at the end of the previous month.

### Table 01: Weekly Summary of Deposit Auction Arrangement (DAA) Interest Rates

<table>
<thead>
<tr>
<th>Week Ending</th>
<th>DAA Seven (7) Days</th>
<th>DAA Fourteen (14) Days</th>
<th>DAA Twenty One (21) Days</th>
<th>DAA Twenty Eight (28) Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-Nov-12</td>
<td>7.50</td>
<td>7.65</td>
<td>7.75</td>
<td>13.50</td>
</tr>
<tr>
<td>9-Nov-12</td>
<td>6.81</td>
<td>6.88</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>16-Nov-12</td>
<td>5.30</td>
<td>6.88</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>23-Nov-12</td>
<td>4.25</td>
<td>4.30</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>30-Nov-12</td>
<td>3.99</td>
<td>4.08</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

### 1.6.2 Money Supply

In November 2012, the broadest monetary aggregate, M3, recorded positive growth for the first time in five months and this was by 1.8 per cent. Such monthly expansion in liquidity reflected an improvement in net foreign assets at the commercial banks coupled with a growth in domestic assets.

Monetary statistics show an increase across all the major components of money, with a 3.4 per cent rise in foreign currency deposits (in rupee terms) being the most significant. In US dollar terms, foreign currency deposits ended the month at US$190 million from US$185 million in the preceding period.

On a year-on-year basis, the growth in broad money was by 1.0 per cent on account of a 13 per cent expansion in residents’ foreign currency deposits in view that M2 contracted by 4.1 per cent. The latter reflected a decline in the stock of M1 by 6.7 per cent despite the observed expansion of 2.2 per cent in currency with public, whilst quasi money fell by 1.3 per cent following a contraction in all of its main components.

---

3 Latest applicable interest rates
1.6.3 Credit
At the end of November 2012, the stock of commercial banks’ outstanding credit stood at R5,894 million, representing growth of 2.2 per cent relative to the previous month. This was due to an increase of 4.4 per cent and 0.9 per cent in claims on government and the private sector respectively, whilst the liabilities of parastatals with domestic commercial banks fell by 0.9 per cent.

In comparison to November 2011, a 4.0 per cent growth was recorded in credit allocated to the private sector. This was primarily as a result of credit extended to the ‘building and construction’ and ‘trade’ sectors.

1.7 International Reserves
At the end of November 2012, gross international reserves stood at US$293 million which was a decline of US$10.1 million compared to the previous month. In terms of import cover, this was equivalent to 2.7 months against 2.8 months recorded in October 2012. The net international reserves (NIR)\(^4\) fell short of its end-December 2012 target by US$2.1 million, ending the month at US$ 222 million.

---
\(^4\) The calculation of NIR excludes *blocked deposits* at the Central Bank.
1.8 Fiscal Outcome
For the month of November 2012, the fiscal report shows a primary deficit of R53 million (equivalent to 0.4 per cent of GDP) relative to the budgeted deficit of R97 million (0.7 per cent of GDP). Most tax lines underperformed, and in aggregate, such receipts were below forecast by 3.3 per cent. In contrast, the non-tax category over-performed by 10 per cent. This was mainly on account of higher than expected collection of fees and charges. Total revenue (including grants) stood at R396 million, which was below projection by R65 million (or 14 per cent).

Aggregated expenditure (plus net lending) for November 2012 was R475 million, which was R117 million or 20 per cent less than planned. This was mainly attributed to 21 per cent or R78 million savings under the primary current expenditure.

On a year-to-date basis, the primary balance was a surplus equivalent to 6.8 per cent of GDP and higher than the forecasted surplus of 3.8 per cent of GDP.

1.9 Public Debt
At the end of October 2012, the aggregated stock of public debt stood at R11,000 million (US$841 million).

Total domestic debt has increased by 1.2 per cent (or US$128 million) in comparison to October 2012 but remains at 34 per cent of GDP, similar to the previous month. However, this also represents a rise of 11 per cent in comparison to November 2011. The notable rise in domestic debt is associated with the issuance of government securities in support of monetary policy - the proceeds of which are not used to meet fiscal needs.
As regards to the stock of external debt, it has declined from 45 per cent of GDP in the previous month to 42 per cent of GDP in the month under review. Year-on-year, this figure also represents a fall from November 2011, when the stock of external debt stood at 48 per cent of GDP.
2.0 Key Financial Sector Developments

2.1 General Financial Soundness Indicators

Minimal growths were observed across the industry’s general soundness indicators, for the month under review. This is illustrated in Chart 10.

Total assets grew by R10 million in November 2012 or by 0.1 per cent. This was mainly attributed to an increase of R144 million in balances with financial institutions abroad.

Total deposit liabilities rose by a mere R2.1 million. Although increases were observed in “other deposit liabilities” (R31 million) and savings deposits (R15 million), this was mitigated by a significant decline of R102 million in checkable deposits denominated in foreign currency.

As to the industry’s loans and advances, this grew by R38 million, following a general increase in all the loan categories. The highest growths were observed in foreign currency denominated loans and overdrafts, which both grew by R17 million.

As for equity capital, an increase of R28 million was observed in the month under review. This was attributed to a growth of R38 million in the industry’s current unaudited profit. It should be noted that a dividend amounting to R10 million was also paid out in November 2012.

On a year-on-year basis, the industry observed growths in its total assets (4.0 per cent), total loans and advances (2.0 per cent), total deposits liabilities (3.0 per cent) and equity capital (21 per cent).

---

5 Excluding government securities
6 This includes paid-up capital, statutory reserve fund, other reserves, undistributed profit or loss and current unaudited profit or loss.
2.2 Capital Adequacy Indicators

The Financial Institutions Act, 2004 stipulates a minimum Capital Adequacy Ratio (RWCR)\(^7\) of 12 per cent. As illustrated in Chart 11, the industry’s RWCR stood at 28% in November 2012, which is an increase of 0.3 per cent from October 2012. The ratio thus remained well above the minimum required level.

With regards to net tangible capitalisation ratio, a marginal increase was observed compared to the previous month. As at November 2012, it stood at 11 per cent, which was well above the recommended 6.0 per cent. This shows that the industry is well capitalised and thus well cushioned in case of unexpected future losses.

2.3 Asset Quality Indicators

An increase was observed in both the industry’s non-performing loans\(^8\) (NPLs) and specific provisions during the month under review.

NPLs went up by R11 million, driven by a general increase in all categories of NPLs. The most significant increase was observed in loans classified as substandard and this was by R9.0 million.

Specific provision\(^9\) grew by R1.6 million which was as a result of an increase in provisions on loans classified in the loss category.

The ratio of NPLs to gross loans stood at 9.5 per cent, whilst that of provisions as a percentage of NPLs moved to 29 per cent, from 30 per cent in the previous month.

---

\(^7\) Capital base (mainly paid-up capital, statutory reserve fund, undistributed profit or loss, year to date net profit and general provision) divided by risk adjusted assets (on balance sheet and off balance sheet assets that have been weighted according to their risks plus the operational risk capital charge).

\(^8\) These include loans classified as substandard, doubtful and loss category as per the Credit Classification and Provisioning Regulations 2010, as amended in 2011.

\(^9\) Specific provisions are on special mentions loans and NPLs.
2.4 Earnings and Other Indicators

In November 2012, Return on Assets (ROA) and Return on Equity (ROE) declined to 4.8 per cent and 45 per cent, respectively. The movement in both ratios was driven by a decrease in their numerator. This was in turn brought about by a reduction in the industry’s interest income, more specifically, what is earned on Central Bank’s instruments (Deposit Auction Arrangement and Reverse Repurchase Agreement). The month saw a reduction in such instruments as well as a decline in their interest rates. This is in line with the Bank loosening monetary policy and encouraging credit growth.

The industry’s broad liquid assets\(^{10}\) to total liabilities increased by 1.1 per cent to reach 61 per cent in November 2012, which was driven by a rise in liquid assets. This shows that the industry’s broad liquid assets could match 61 per cent of its total liabilities\(^{11}\).

For the month under review, the industry’s total long and total short position to capital ratio remained within the 30 per cent limit as prescribed by the Foreign Currency Exposure Regulations, 2009. The total long and total short position was recorded at 9.7% and -1.0% respectively, giving a net open position to capital ratio of 8.7%.

\(^{10}\)Consist of cash, balances with CBS, balances with other banks and Government securities.

\(^{11}\)This is in line with the Liquidity Risk Management Regulations, 2009 which stipulates that a bank shall maintain liquid assets in an amount which shall not, as a daily average each month, be less than 20 per cent of the bank’s total liabilities.
3.0 Key Developments in the National Payments System

3.1 Mobile Payment Market Research
CBS officially launched the countrywide mobile payment project in the Seychelles (SeyMPay), which is to be carried out by ProgressSoft Corporation (ProgressSoft). This followed the presentation of the project to the Cabinet of Ministers, mobile network operators and relevant financial institutions.

Further to the above, the Bank in collaboration with ProgressSoft started the market research process for the Mobile Payments project, which is targeted towards major stakeholders in the business community as well as the government. The purpose of the research was to:
• Introduce the ProgressSoft representatives and the project
• Explain the purpose of the market research
• Acquire statistical data relevant to the project
• Describe the role of the stakeholders in the project

Moreover, local companies have also expressed interest in offering similar mobile payment services.

3.2 Electronic Funds Transfer System
It was agreed by all stakeholders that April 30th 2013 is the revised Go Live date for the Seychelles Electronic Fund Transfer (SEFT) system. As such, ProgressSoft will mobilise a team in December to commence the initial phase of the SEFT project and start the preparation for training and market rehearsal.

3.3 Seychelles Securities Exchange
Trop-X (Seychelles) Limited was granted a securities exchange license in July 2012. However, the Seychelles Securities Exchange opened its doors for the first time on Friday 30th November. Consequently, Trop-X has consulted the Bank to discuss the settlement of Rupee transactions between the Clearing Participants of the Exchange.

Whilst this has been observed as not required at the moment, once the Securities Exchange move to T+3 Settlement, clearing participants of rupee denominated securities will be required to settle directly to other participants. Therefore, stakeholders need to have a clear understanding on how settlement transactions will be effected.
## Appendix:

### Table 01: Summary of Financial Indicators (Ratios)

<table>
<thead>
<tr>
<th>Figures are in SCR’000</th>
<th>Nov-11</th>
<th>Dec-11</th>
<th>Jan-12</th>
<th>Feb-12</th>
<th>Mar-12</th>
<th>Apr-12</th>
<th>May-12</th>
<th>Jun-12</th>
<th>Jul-12</th>
<th>Aug-12</th>
<th>Sep-12</th>
<th>Oct-12</th>
<th>Nov-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total deposits liabilities</td>
<td>11,494,403</td>
<td>11,814,363</td>
<td>11,975,066</td>
<td>12,328,831</td>
<td>12,363,619</td>
<td>12,706,970</td>
<td>12,518,465</td>
<td>12,548,904</td>
<td>12,090,627</td>
<td>11,460,457</td>
<td>12,926,022</td>
<td>11,873,797</td>
<td>11,876,112</td>
</tr>
<tr>
<td>Total assets</td>
<td>13,705,475</td>
<td>14,242,361</td>
<td>14,268,867</td>
<td>14,757,765</td>
<td>14,780,042</td>
<td>15,089,670</td>
<td>14,995,053</td>
<td>15,092,958</td>
<td>14,591,081</td>
<td>13,839,418</td>
<td>15,388,628</td>
<td>14,266,598</td>
<td>14,277,212</td>
</tr>
<tr>
<td>Loans &amp; advances</td>
<td>4,045,297</td>
<td>4,008,378</td>
<td>4,126,549</td>
<td>4,121,746</td>
<td>4,107,398</td>
<td>4,071,552</td>
<td>4,031,623</td>
<td>4,071,870</td>
<td>4,033,696</td>
<td>4,018,417</td>
<td>4,103,493</td>
<td>4,068,772</td>
<td>4,107,079</td>
</tr>
<tr>
<td>Equity Capital</td>
<td>1,259,652</td>
<td>1,285,468</td>
<td>1,328,328</td>
<td>1,368,572</td>
<td>1,351,290</td>
<td>1,397,025</td>
<td>1,412,915</td>
<td>1,433,249</td>
<td>1,458,351</td>
<td>1,471,259</td>
<td>1,501,116</td>
<td>1,496,513</td>
<td>1,524,901</td>
</tr>
<tr>
<td>Non-performing loans (NPLs), gross</td>
<td>379,256</td>
<td>325,592</td>
<td>336,382</td>
<td>341,076</td>
<td>338,896</td>
<td>349,258</td>
<td>354,085</td>
<td>376,049</td>
<td>366,693</td>
<td>370,847</td>
<td>338,785</td>
<td>376,980</td>
<td>388,438</td>
</tr>
<tr>
<td>Actual Provisions (Specific)</td>
<td>83,968</td>
<td>110,131</td>
<td>115,245</td>
<td>114,377</td>
<td>114,950</td>
<td>118,456</td>
<td>118,376</td>
<td>120,562</td>
<td>117,001</td>
<td>113,450</td>
<td>114,729</td>
<td>112,373</td>
<td>113,960</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Figures are in percentage (%)</th>
<th>Nov-11</th>
<th>Dec-11</th>
<th>Jan-12</th>
<th>Feb-12</th>
<th>Mar-12</th>
<th>Apr-12</th>
<th>May-12</th>
<th>Jun-12</th>
<th>Jul-12</th>
<th>Aug-12</th>
<th>Sep-12</th>
<th>Oct-12</th>
<th>Nov-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Adequacy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulatory capital to risk weighted</td>
<td>24.1</td>
<td>24.2</td>
<td>24.9</td>
<td>25.2</td>
<td>24.9</td>
<td>25.5</td>
<td>25.8</td>
<td>25.9</td>
<td>26.8</td>
<td>27.6</td>
<td>26.2</td>
<td>27.2</td>
<td>27.5</td>
</tr>
<tr>
<td>assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net tangible capitalization ratio</td>
<td>9.3</td>
<td>9.1</td>
<td>9.4</td>
<td>9.4</td>
<td>9.3</td>
<td>9.4</td>
<td>9.5</td>
<td>9.6</td>
<td>10.1</td>
<td>10.8</td>
<td>9.9</td>
<td>10.6</td>
<td>10.8</td>
</tr>
<tr>
<td>Asset Quality</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-performing loans to gross loans</td>
<td>9.4</td>
<td>8.1</td>
<td>8.2</td>
<td>8.3</td>
<td>8.3</td>
<td>8.6</td>
<td>8.8</td>
<td>9.2</td>
<td>9.1</td>
<td>9.2</td>
<td>8.3</td>
<td>9.3</td>
<td>9.5</td>
</tr>
<tr>
<td>Provision as % of non-performing</td>
<td>22.1</td>
<td>33.8</td>
<td>34.3</td>
<td>33.5</td>
<td>33.9</td>
<td>33.9</td>
<td>33.5</td>
<td>32.1</td>
<td>31.9</td>
<td>30.6</td>
<td>33.3</td>
<td>29.8</td>
<td>29.3</td>
</tr>
<tr>
<td>loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings &amp; Profitability</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on assets</td>
<td>3.9</td>
<td>5.6</td>
<td>5.0</td>
<td>3.6</td>
<td>3.5</td>
<td>3.7</td>
<td>3.6</td>
<td>3.9</td>
<td>4.5</td>
<td>4.0</td>
<td>4.2</td>
<td>5.0</td>
<td>4.7</td>
</tr>
<tr>
<td>Return on equity</td>
<td>43.0</td>
<td>61.6</td>
<td>54.4</td>
<td>38.7</td>
<td>38.3</td>
<td>40.2</td>
<td>39.1</td>
<td>40.8</td>
<td>45.9</td>
<td>38.7</td>
<td>41.3</td>
<td>49.9</td>
<td>44.8</td>
</tr>
<tr>
<td>Liquidity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Broad liquid assets to total liabilities</td>
<td>62.2</td>
<td>64.7</td>
<td>63.9</td>
<td>64.9</td>
<td>65.3</td>
<td>63.4</td>
<td>63.0</td>
<td>64.0</td>
<td>63.3</td>
<td>63.5</td>
<td>66.1</td>
<td>59.7</td>
<td>60.8</td>
</tr>
<tr>
<td>Sensitivity to Market Risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total long position in foreign exchange to capital</td>
<td>4.6</td>
<td>5.7</td>
<td>7.0</td>
<td>5.7</td>
<td>6.4</td>
<td>5.5</td>
<td>5.6</td>
<td>2.5</td>
<td>4.4</td>
<td>6.4</td>
<td>5.2</td>
<td>5.7</td>
<td>9.7</td>
</tr>
<tr>
<td>Total short position in foreign exchange to capital</td>
<td>-1.5</td>
<td>-3.9</td>
<td>-1.2</td>
<td>-2.0</td>
<td>-3.5</td>
<td>-3.6</td>
<td>-4.0</td>
<td>-6.4</td>
<td>-3.6</td>
<td>-5.8</td>
<td>-6.1</td>
<td>-4.0</td>
<td>-1.0</td>
</tr>
<tr>
<td>Net open position to capital</td>
<td>3.1</td>
<td>1.9</td>
<td>5.8</td>
<td>3.6</td>
<td>2.9</td>
<td>1.9</td>
<td>1.6</td>
<td>-3.9</td>
<td>0.8</td>
<td>0.6</td>
<td>-0.8</td>
<td>1.6</td>
<td>8.7</td>
</tr>
</tbody>
</table>