INTERNATIONAL RESERVES MANAGEMENT REPORT

2024



CENTRAL BANK OF SEYCHELLES

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List of Acronyms

ACI	Association Cambiste Internationale
AfDB	African Development Bank
ARC	Audit and Risk Committee
AUD	Australian dollar
BIS	Bank for International Settlements
BofA	Bank of America
BOC	Bank of Canada
BOE	Bank of England

BOP	Balance of Payments
BSD	Banking Services Division
CAD	Canadian dollar
CAIM	Crown Agent Investment Management
CBS	Central Bank of Seychelles
CIA	Certified Internal Auditor
CFA	Chartered Financial Analyst
CNY	Chinese renminbi
CU	Compliance Unit
ECB	European Central Bank
EFF	Extended Fund Facility
EUR	Euro
FEA	Foreign Exchange Auction
Fed	Federal Reserve Bank
FMD	Financial Markets Division
FRM	Financial Risk Manager
FSD	Financial Surveillance Division
FX	Foreign Exchange
GBP	Great British pound
GIR	Gross International Reserves
IAD	Internal Audit Division
IBRD	International Bank for Reconstruction and Development
IC	Investment Committee
ICE	Intercontinental Exchange
IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
MMF	Money Market Fund
NAV	Net Asset Value
NIR	Net International Reserves
OPEC	Organisation for Petroleum Exporting Countries
ORM	Operational Risk Management
PATII	Portfolio Analytical Tool II
PBOC	People’s Bank of China

RAMP	Reserve Advisory and Management Partnership
RMU	Risk Management Unit
RSD	Research and Statistics Division
RSF	Resilience and Sustainability Facility
SAA	Strategic Asset Allocation
SCR	Seychelles Rupee
SDR	Special Drawing Rights
UBS	Union Bank of Switzerland
UK	United Kingdom
US	United States
USD	United States dollar
UST	United States Treasuries

Message from the Governor

In 2024, the Central Bank of Seychelles ensured the continuous growth of the country's international reserves while safeguarding the position through prudent investment strategies. Aligned with the Bank's commitment to remain transparent and accountable to the general public, I am pleased to present the tenth edition of the International Reserves Management Report. This years' report explains the key activities undertaken by the Bank and highlights the challenges brought about by both domestic and international developments.

2024 was a year of recovery from post pandemic challenges, as countries saw results of policy efforts to regain economic momentum. However, uncertainties remained given various geopolitical conflicts which had disruptive effects on trade and supply chains. Despite these uncertainties, major central banks implemented expansionary monetary policies given the achievement of lower inflation after the interest rate hike cycle in 2023. In response to the shift in monetary policies in major economies, market participants had to carefully assess investment strategies. Internally, risk-based strategies were maintained in line with the optimal currency and asset compositions of the reserves. As a result, the Bank recorded positive returns, supported by the performance of fixed deposits and bond portfolios.

The international reserves increased by 13 per cent over the year, to end at US$774 million. Contributing to the growth, was the prudent accumulation of excess foreign exchange (FX) from the domestic market, through the Foreign Exchange Auction (FEA). This underscored efforts to enhance the country's resilience against external shocks. Moreover, receipts from international partners such as the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), the African Development Bank (AfDB) and the Organisation for Petroleum Exporting Countries' (OPEC) Fund for International Development also supported the growth in the international reserves level.

Additionally, the Bank continued with capacity building for its staff to ensure the adoption of international best practices in reserves management. These programmes were facilitated by key partners, including the World Bank's Reserve Advisory and Management Partnership (RAMP), the Crown Agents Investment Management (CAIM), the Union Bank of Switzerland (UBS), counterparts within the Southern African Development Community (SADC) and the IMF.

For the coming years and as the global financial landscape evolves, the Bank will continue with its development objectives in line with the five-year strategic plan of 2024 to 2028. Efforts will remain to improve the international reserves position in a sustainable manner and consistent with international best practices.



C. Abel

1.0 Introduction

This report discusses the activities and developments in international reserves management in 2024. It begins with an overview of the governance and operational framework, which are essential for decision-making and daily activities in reserves management. Then, the report explains key performance topics including portfolio growth and investment return as well as the associated risks. Discussions also expand on the challenges encountered and the aspects of development and capacity building in reserves management activities. The report concludes by providing an outlook for the upcoming years.

2.0 Governance Structure

The Central Bank of Seychelles (the Bank) is mandated to manage the international reserves under Part VI of the CBS Act 2004 as amended. The Board of Directors (the Board) as the highest governing authority provides strategic guidance in the Investment Policy (the Policy) for International Reserves Management. Thereafter, the Investment Committee (IC) operationalises the Policy directives through the Investment Guidelines (the Guidelines). The operational units within the Financial Markets Division (FMD) and the Banking Services Division (BSD) are tasked with undertaking the daily activities related to international reserves management.

The IC consists of six members and the Second Deputy Governor serves as the Chairperson. The other members are the First Deputy Governor and the Heads or representatives of the Banking Services Division (BSD), the Financial Markets Division (FMD), the Financial Surveillance Division (FSD) as well as the Research and Statistics Division (RSD). The role of the IC is to ensure compliance to the Policy through its monitoring of the application of the Guidelines in the day-to-day activities of the FMD and the BSD. The Risk Management Unit (RMU), the Compliance Unit (CU) and the Internal Audit Division (IAD) also attend the IC meetings to observe and report any concern to the Audit and Risk Committee (ARC) which is a subcommittee of the Board.

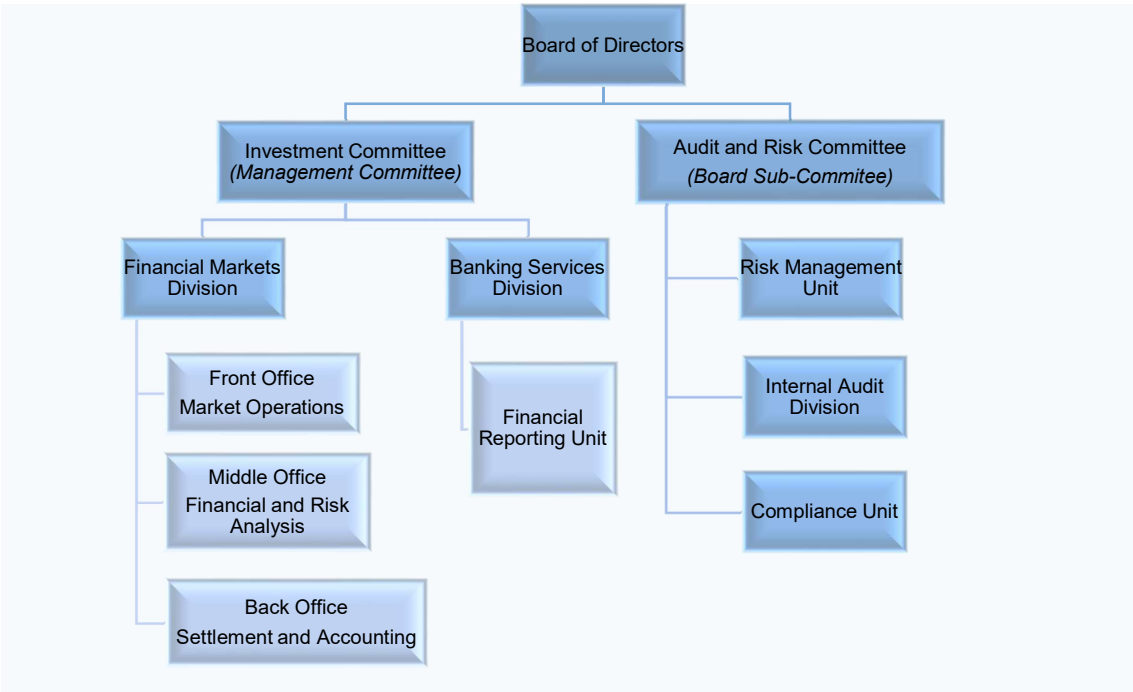
The Policy also sets the objectives for the investment of the international reserves in the following order of priority; capital preservation, liquidity and return generation. The investment objectives ensure that investments are in line with the macroeconomic objectives of holding the international reserves, primarily to maintain confidence in monetary and exchange rate policies as well as the ability to meet its foreign obligations. Moreover, the reserves are held to protect the economic well-being of the nation, particularly in the event of national disaster or external shocks. The Guidelines, as derived from the Policy, also specify the Strategic Asset Allocation (SAA) detailing the optimal tranche sizes and currency composition, eligible asset classes and counterparties, as well as allowable risk limits.

The risk management framework is established with three distinct lines of defence. The first layer is the FMD and the BSD, as owners of the risks arising from the day-to-day operations. The second line of defence comprise of the governance functions in the RMU and the CU. The RMU is responsible for identifying, measuring, monitoring and reporting risks on an enterprise level, while the CU ensures that reserves management activities are compliant to legislations, standards and procedures adopted by

the Bank. As the last line of defence, the IAD conducts risk-based audits with the objective of providing assurance that the governance framework is effective and that policies and procedures are being implemented effectively.

Figure 1 illustrates the Bank's governance structure for international reserves management.

Figure 1: Governance Structure for International Reserves Management



3.0 Operational Aspects of International Reserves Management

The operational units are organised in accordance to international best practice for investment and reserves management. The units within the FMD are segregated as the front, middle and back offices. The front office duties are performed by the Portfolio Analysts from the Market Operations section. They are responsible for the management of portfolios, negotiation and execution of trades. The middle office duty is performed by the Financial and Risk Analysis section, which conducts market research, risk analysis, performance reporting, and recommend changes to the framework. The middle office also monitors the operations of the front and back offices to ensure compliance to the approved benchmarks and limits. The back office functions are undertaken by the Settlement and Accounting section, which works in close collaboration with the BSD, with the responsibility for settling the trades initiated by the front office. They also maintain accounting records of the activities in line with the International Financial Reporting Standards (IFRS).

As mentioned in Section 2.0, the management of the international reserves is conducted in adherence to the three main investment objectives. To enable this, the reserves are segregated into three sub-categories called tranches. The operational tranche provides the working capital for the daily undertakings of the government and its agencies as well as potential FX interventions. Therefore, the

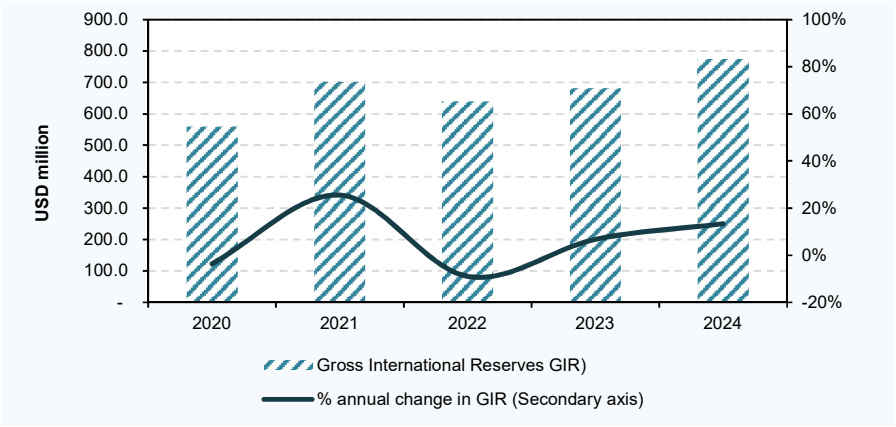
tranche is subject to a short investment horizon of up to three months and includes the most liquid and low risk investments. The liquidity tranche is used to service the country's debt obligations of up to one year and the cover of three months' worth of imports. It also serves to replenish the operational tranche as it is used up throughout the year. Investments in the liquidity tranche are low-risk liquid assets with an investment horizon of not more than one year. The investment tranche is targeted towards return generation in line with the last investment objective. As such, it has a longer investment horizon of up to five years. The investment tranche is made up of the excess funds from the operational and liquidity tranches. This tranche allows the country to tackle longer-term contingencies, including debt obligations, national emergencies or severe economic crises.

4.0 Performance

4.1 International Reserves Position

At the end of 2024, the Gross International Reserves (GIR) was US$774 million. This represented a 13 per cent growth from the US$682 million recorded in 2023. The leading contributors to the higher level of international reserves were the external financing in the form of budget support loans and grants received from international organisations such as the AfDB, the IBRD, the OPEC Fund for International Development and the IMF. Moreover, purchases of FX from the domestic market through the FEA conducted by the Bank, also supported the improved GIR position for 2024. Chart 1 illustrates the shifts in the GIR position over a five-year period, whereby a growth of 38 per cent was observed from US$559 million in 2020.

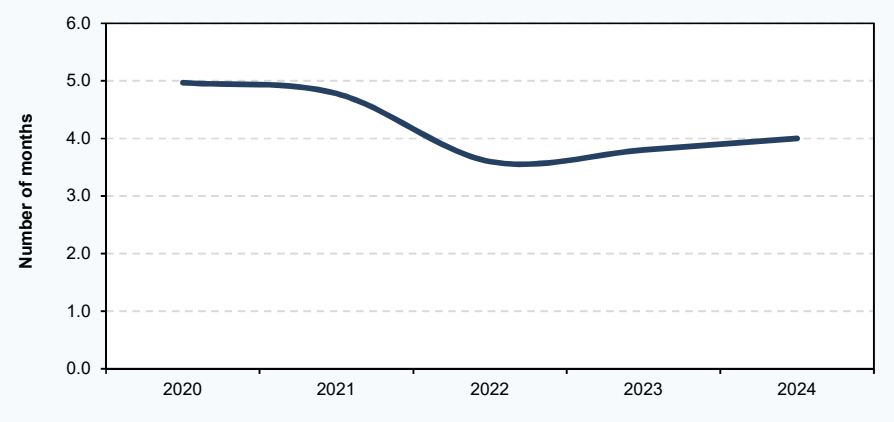
Chart 1: Gross International Reserves; 2020 – 2024



Note: End of year figures
Source: Central Bank of Seychelles

Generally, countries ensure that an adequate level of reserves are maintained to attain all its objectives for holding reserves. One way in which a country's reserves adequacy can be measured is in terms of months of imports coverage. A broad rule is that the ideal level should be a minimum of 3.0 months of import coverage. By the end of the year, the country achieved 4.0 months' worth of imports coverage, a slight improvement compared to 3.8 months in 2023. As displayed in Chart 2, the figure remained above the recommended 3.0 months benchmark for the past five years.

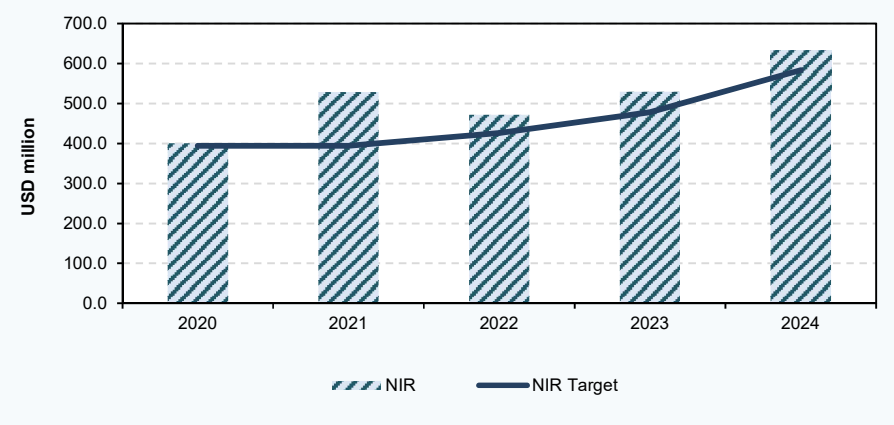
Chart 2: Import Cover; 2020 – 2024



Note: End of year figures
Source: Central Bank of Seychelles

Under the Extended Fund Facility (EFF) and the Resilience and Sustainability Facility (RSF) arrangements, which were approved in May 2023, the country was subject to economic performance criteria agreed with the IMF. One measure is the end of quarter Net International Reserves (NIR) targets, of which quarters two and four being the key performance dates. By the end of the year under review, the NIR stood at US$632 million, surpassing the fourth quarter target of US$583 million as illustrated in Chart 3. This represented an improvement of 19 per cent in the NIR level compared to the preceding year.

Chart 3: Net International Reserves against Target; 2020 – 2024



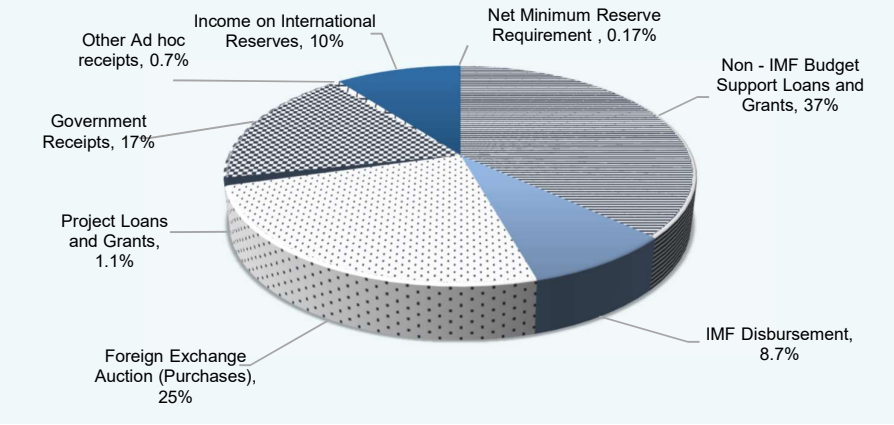
Note: End of year figures
Source: Central Bank of Seychelles

4.2 Sources and Uses of International Reserves

FX flows greatly influence the level of the international reserves the country is able to maintain. For 2024, the primary source of FX inflows was the receipt of funds from multilateral and bilateral partners amounting to US$130 million, contributing 47 per cent towards the overall inflows. Under this category, as highlighted above, the country received budget support loans and grants comprising of US$58 million from the AfDB, US$25 million from the IBRD and US$20 million from the OPEC Fund for International Development; all of which accounted for 37 per cent of FX inflows. Additionally, a total of US$24 million

worth of budget support loan was received from the IMF, whereby the country received US$16 million under the EFF and US$8.2 million under the RSF programmes, which represented 8.7 per cent of total FX inflows. The country also secured support in the form of project loans and grants, whereby US$3.2 million was received during the year from multilateral and bilateral partners. The second significant source of FX inflows was the purchase of FX from the domestic market, which accounted for 25 per cent of the total FX inflows, whereby the equivalent of US$70 million was accumulated through the FEA. Government inflows contributed 17 per cent towards total FX inflows, which mostly comprised of receipts relating to leasing of property, fishing licence fees and inflows from various ministries. Lastly, net income generated from the investment of the international reserves amounted to US$28 million, being 10 per cent of the total FX inflows for the year. Chart 4 depicts the sources of FX inflows for 2024.

Chart 4: FX Inflows; 2024

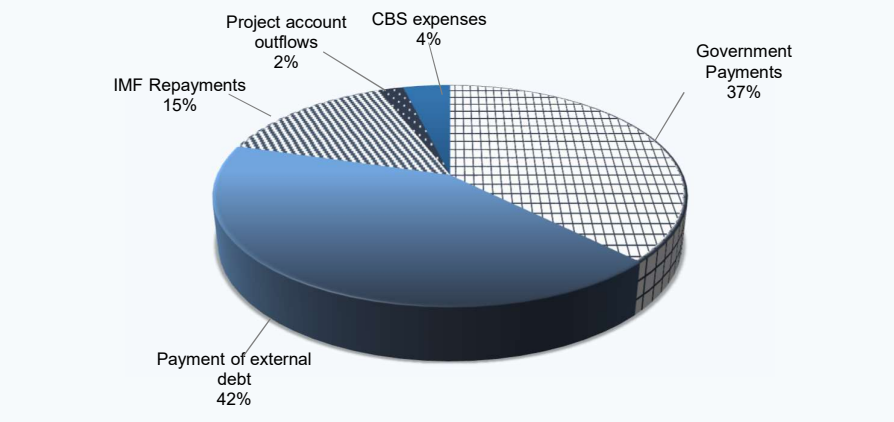


Note: End of year figures[1]
Source: Central Bank of Seychelles

With regard to FX outflows, by the end of the year, the total stood at US$182 million. Usage of the international reserves was primarily driven by the repayment of external debt, representing 57 per cent of total FX outflows. These included debt payments to multilateral and bilateral creditors which accounted for 42 per cent, in addition to repayments to the IMF which featured at 15 per cent of total FX outflows, as illustrated in Chart 5. The other leading contributor was the purchase of goods and services by the government and public bodies, which accounted for 37 per cent of the total FX outflows, for an amount of US$68 million.

[1] In view of decimals, figures may be subject to rounding error.

Chart 5: FX Outflows; 2024



Note: End of year figures[2]
Source: Central Bank of Seychelles

4.3 Asset Allocation and Currency Composition of International Reserves

The SAA is a set of currencies and assets aimed at achieving the macroeconomic objectives for holding international reserves, considering domestic and international economic fundamentals and accompanying risks. The Bank reviews the SAA annually to ensure effective allocation of currencies and assets at tranche levels in accordance with the country's foreign currency obligations and investment objectives.

Table 1 outlines the strategic currency composition per tranche for the year. The currency composition of each tranche is measured as a weight of the total value of the tranche, excluding Special Drawing Rights (SDR) and any other non-reserve currencies. Each benchmark is allocated with a 5.0 per cent minimum and maximum deviation from the ideal position at tranche level. In extraordinary circumstances, the IC may allow for deviations from the set strategic composition benchmark.

Table 1: Benchmark for Strategic Currency Composition per Tranche

	Lower (-5%)	Operational Tranche (Ideal)	*Upper (+5%)*	*Lower (-5%)*	Liquidity Tranche (Ideal)	*Upper (+5%)*	Lower (-5%)	Investment Tranche (Ideal)	Upper (+5%)
USD	*65%*	**70%**	*75%*	*73%*	**78%**	*83%*	45%	**50%**	55%
EUR	*16%*	**21%**	*26%*	*10%*	**15%**	*20%*	-	-	-
GBP	*4%*	**9%**	*14%*	*0%*	**1%**	*6%*	-	-	-
CNY	-	-	-	*0%*	**4%**	*9%*	45%	**50%**	55%
AUD	-	-	-	*0%*	**1%**	*6%*	-	-	-
CAD	-	-	-	*0%*	**1%**	*6%*	-	-	-
		100%			**100%**			**100%**	

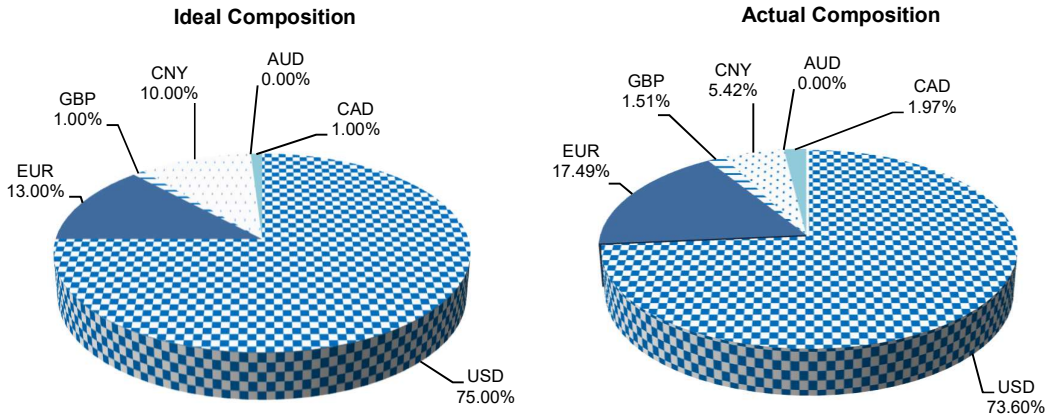
Source: Central Bank of Seychelles – Investment Guidelines

The same set of investable currencies were maintained in the review of the SAA in 2024. As such, the Bank continued to maintain the country's international reserves in US Dollar (USD), Euro (EUR), Pound

[2] In view of decimals, figures may be subject to rounding error.

Sterling (GBP), Chinese Renminbi (CNY), Canadian Dollar (CAD) and Australian Dollar (AUD). Chart 6 illustrates the overall currency composition of the international reserves at the end of 2024, comparing the ideal levels against the actuals

Chart 6: Currency Composition of GIR at the end of 2024



Note: End of year figures
Source: Central Bank of Seychelles

While its concentration reduced over the years, the majority of the international reserves were held in USD. At the end of 2024, the currency accounted for 74 per cent of the GIR, a minor deviation of 1.4 per cent from benchmark of 75 per cent. In line with the payment obligations of the country, the USD composition of the operational tranche was revised to 70 per cent from 69 per cent. The liquidity tranche composition also increased to 78 per cent from 75 per cent which allowed for more short-dated investments. As regards to the investment tranche, since 2022, half of the tranche has been invested in USD, with the remainder allocated to CNY to further diversify the tranche composition.

Overall, the actual composition of EUR was 17 per cent of the GIR, surpassing the benchmark of 13 per cent. This was largely due to the purchases of EUR through the FEA on the domestic market. Similar to USD, the currency composition of EUR in the operational tranche was revised upward to 21 per cent, from 20 per cent, to meet operational payment requirements. On the other hand, the composition of EUR in the liquidity tranche was reduced from 16 per cent to 15 per cent.

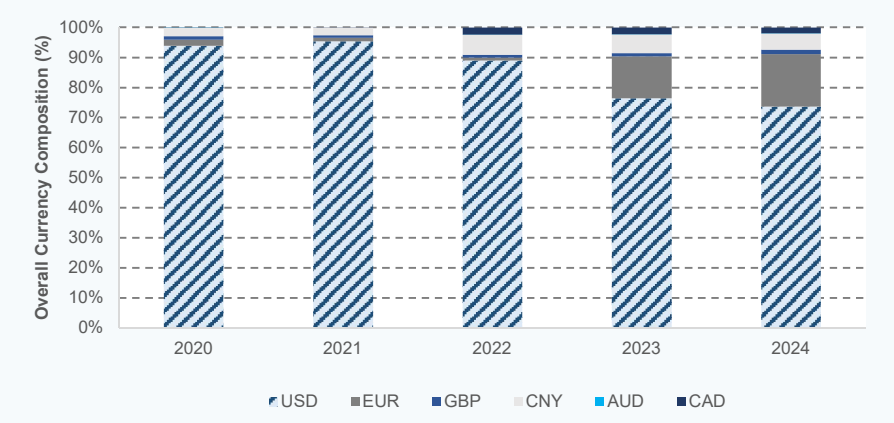
As for the holding of GBP, by the end of the year, it stood at 1.5 per cent of the GIR, with funds maintained for operational requirements and fixed deposit investments. The ideal level for the GBP was adjusted to 9.0 per cent from 11 per cent in the operational tranche. There was no adjustment to the composition of the currency in the liquidity tranche.

Aside the allocation of CNY within the investment tranche, investments in the currency continued to be featured within the liquidity tranche. For 2024, the CNY composition within the liquidity tranche was

adjusted downward to 4.0 per cent, from the 6.0 per cent in the previous year, and mostly featured investments in fixed deposit.

As regards to the composition of CAD within the liquidity tranche, this was within the prescribed limits at about 2.0 per cent and comprised solely of fixed-term deposit investments. As for AUD, similar to preceding years, the Bank did not undertake any investments in the currency, and a small portion of funds were maintained with the Bank for International Settlements (BIS). Notably, the minimal holdings of the aforementioned currencies were in line with the ideal currency compositions as per the SAA. Chart 7 illustrates the trend in the overall foreign currency allocation over a five-year period.

Chart 7: Trend in Overall Currency Composition as a percentage of the GIR; 2020 – 2024



Note: End of year figures
Source: Central Bank of Seychelles

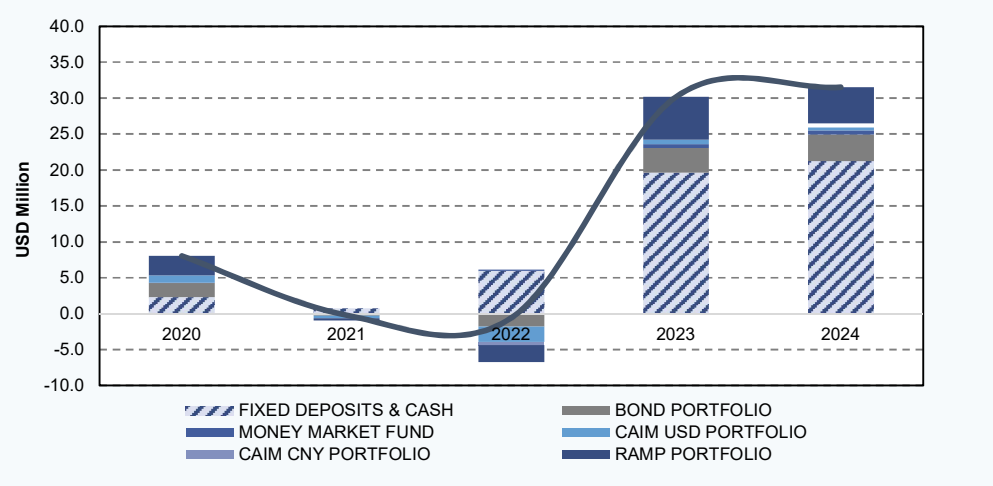
4.4 Return Generated

Diversification of investments provides various benefits, as it supports income generation across different classes of investments, in consideration of the dynamic nature of risks in the financial markets. As the Bank continued to maintain a diverse portfolio mix managed internally, it also continued to engage the services of external managers. In-house management included money market investments, primarily in fixed-term deposits and fixed-income investments through the US Treasury (UST) bond portfolio. As for investments falling under external management mandates, these included

investments maintained with the UBS Money Market Fund (MMF), as well as the CAIM and the RAMP for more active management purposes.

With the evolution of the economic landscape such as the lowering of inflation, many central banks moved towards monetary policy normalisation. Chart 8 illustrates the performance of the overall investments of the Bank, whereby US$31.5 million was recorded as interest return for the review period. This represented an improvement of 4.4 per cent from 2023, and over three times higher than what was posted in 2020. Notably, while all investment portfolios contributed to the improvement in total return, the lead contributor was the income generated on fixed-term deposit investments. This was principally supported by a higher fixed deposit base maintained for the year despite lower money market deposit rates.

Chart 8: Interest Return on International Reserves per Investment Portfolio; 2020 – 2024

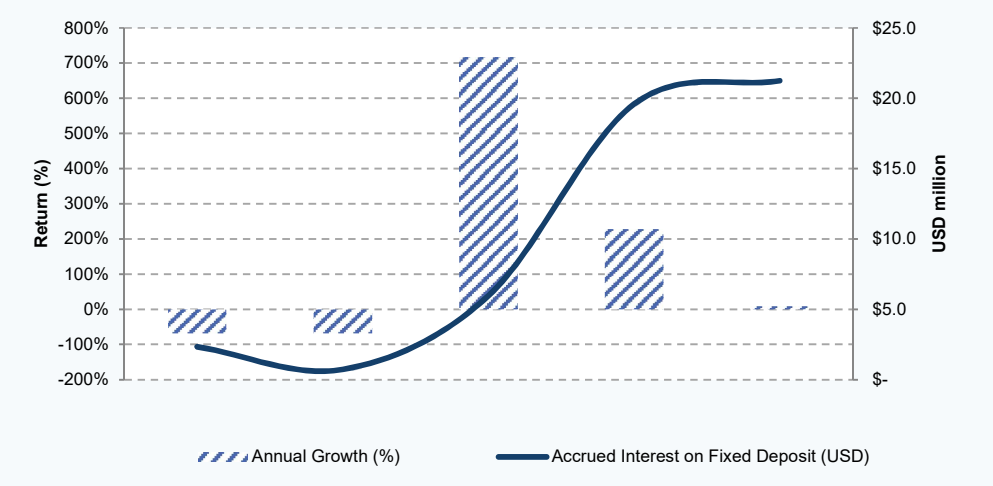


Note: End of year figures
Source: Central Bank of Seychelles

4.4.1 Return Generated from Fixed Deposits

Contrary to the tightening cycle of 2023, in 2024 most major central banks kept interest rates constant before pronouncing looser monetary policy conditions in the second half of the year. Regardless of the lower interest rate environment in 2024, the higher fixed deposit base provided a buffer against the lower interest return generated on fixed deposit investments. As illustrated in Chart 9, the total return generated for the year in USD terms for the fixed deposit portfolio stood at US$21.3 million, representing an increase of 9.0 per cent compared to US$19.6 million recorded in 2023.

Chart 9: Interest Return Generated from Fixed Deposits; 2020 – 2024



Note: End of year figures
Source: Central Bank of Seychelles

Similar to preceding years, the majority of fixed deposit investments were denominated in the USD, and therefore contributed the most towards total return generated on money market investments. This was despite a slight reduction of 3.0 per cent in returns generated on the USD portfolio, as investments were impacted by lower deposit rates from consecutive interest rate cuts by the Federal Reserve Bank (Fed) between September and December. In contrast, return generated on EUR fixed deposit investments increased by 107 per cent as more investments were initiated in the currency following inflows from the FEA. The Bank also held fixed deposit investments in GBP, CAD and CNY, whereby an increase of 9.8 per cent and 0.3 per cent in interest return was recorded on the GBP and CAD portfolios respectively. As for CNY, a drop of 14 per cent was recorded in returns generated. This was driven by lower deposit rates on existing CNY fixed deposit investments as the People's Bank of China (PBOC) maintained low interest rates throughout the year.

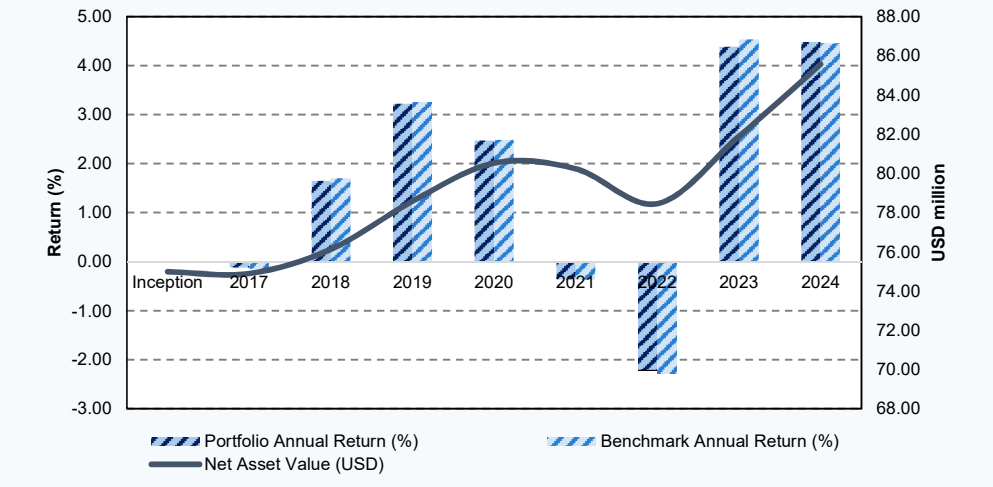
4.4.2 Return on Internally Managed Fixed Income Securities

In September 2017, a sum of US$75 million was allocated towards an in-house US Treasury bond portfolio to promote diversification and additional return generation. During 2024, the portfolio continued to follow a passive management strategy in line with the Intercontinental Exchange (ICE) Bank of America (BofA) Merill Lynch 0-3 Year US Treasury Index.

Corresponding to the dovish monetary policy stance in the United States (US) and consecutive interest rate cuts by the Fed, yields on shorter term UST securities were lower in the year. As such, given the opposing relationship between bond yields and prices, the portfolio benefitted from higher price valuations. Chart 10 illustrates the performance of the portfolio with the Net Asset Value (NAV) of US$85.6 million at the end of 2024, representing a growth of 14 per cent since inception. From an

annual standpoint, the Bank recorded a positive return of US$3.7 million, being a 4.5 per cent increase compared to 2023.

Chart 10: US Treasury Portfolio Performance against the ICE BofA Merrill Lynch Benchmark since Inception; 2017 – 2024

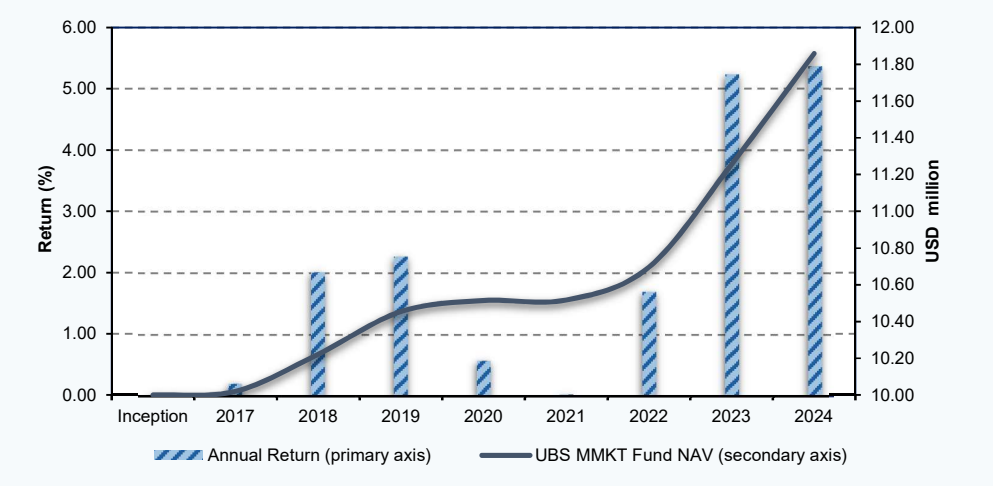


Note: End of year figures
Source: Central Bank of Seychelles

4.4.3 Return Generated from Money Market Fund

The Bank maintained the investment in the UBS MMF, which was initiated in 2017 at amount of US$10 million. As shown in Chart 11, at the end of the year, the portfolio generated an annual growth of 5.4 per cent, representing a NAV of US$11.9 million. The increase in the portfolio's NAV represented a growth of 19 per cent since its inception, attributable to the higher fair market value as a result of cuts in yields due to the inverse relationship between yield and price.

Chart 11: UBS MMF Performance since Inception; 2017 – 2024

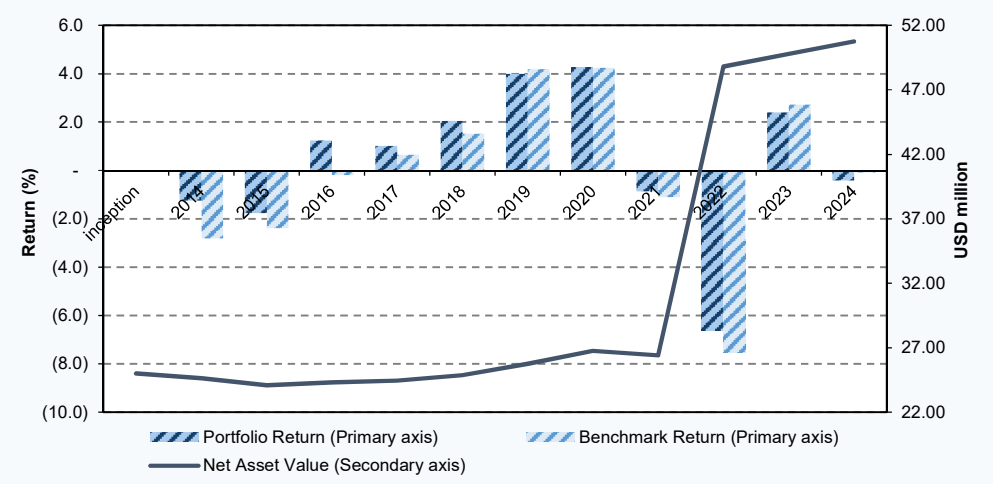


Note: End of year figures
Source: Central Bank of Seychelles

4.4.4. Return generated from the Crown Agents Investment Management

CAIM manages a portfolio of fixed income securities of US$ 50 million. The engagement was initiated in 2014, with a funding amount of US$25 million for active management. In April 2022, an additional funding of US$25 million was converted to an equivalent of CNY162 million for investment in CNY denominated bonds. As such, the portfolio has been managed in a 50-50 allocation against the ICE BofA 1-5 Year US Treasury Index and the ICE BofA 1-5 Year China Government Index. At the end of the year under review, the NAV of the CAIM portfolio, including both USD and CNY investments, was US$50.8 million, compared to US$49.8 million in 2023, representing a yearly growth of 1.9 per cent. Chart 12 displays the performance of the CAIM overall portfolio since its inception.

Chart 12: CAIM Externally Managed Portfolio Performance against the 50-50 ICE BofA Benchmark since inception; 2014 – 2024

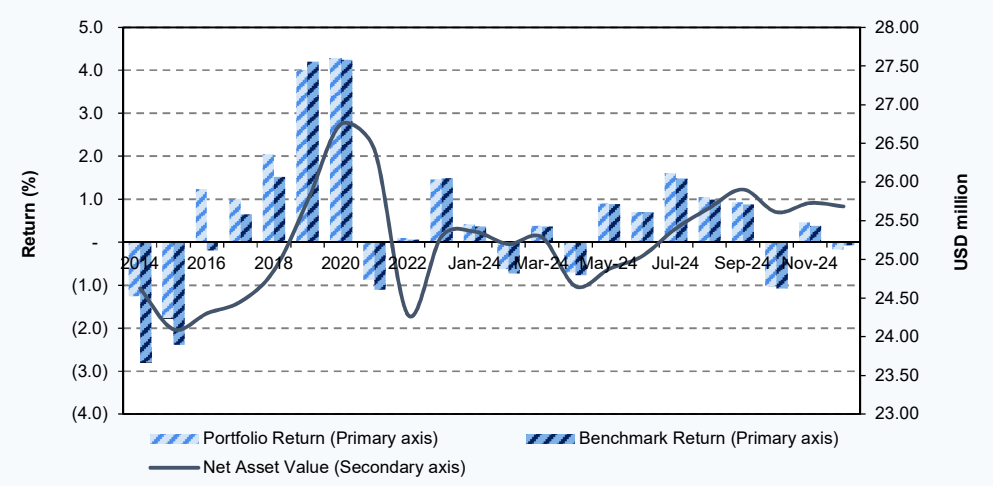


Note: End of year figures
Source: Central Bank of Seychelles

4.4.4.1 Return Generated from the USD-denominated portfolio

The USD denominated sub-portfolio of the CAIM portfolio closed at US$25.7 million, an increase of 1.5 per cent over the previous year's closing position of US$25.3 million. The USD bond investments benefitted from price gains as a result of the lower yield environment, given interest rate cuts in the US. Additionally, market expectations of lower interest rates allowed the external manager to take advantage of credit spreads to generate returns. This has helped to produce positive performance for investments in the USD bonds. As regards to its performance, the sub-portfolio remained generally in line with the benchmark. Chart 13 highlights the performance of the CAIM USD sub-portfolio since inception.

Chart 13: CAIM Externally Managed USD Portfolio Performance against the ICE BofA Benchmark since inception; 2014 – 2024

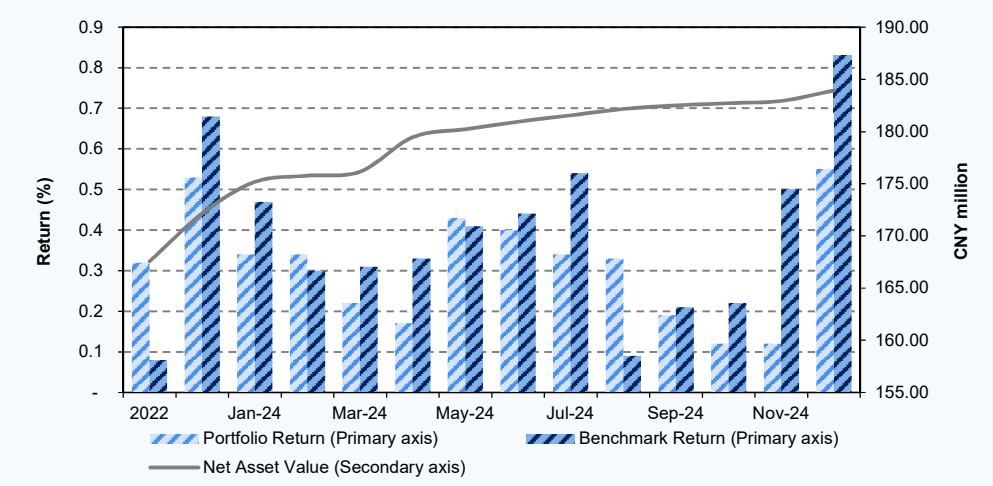


Note: End of year figures
Source: Central Bank of Seychelles

4.4.4.2 Return Generated from the CNY-denominated portfolio

The CNY sub-portfolio ended the year at CNY184 million representing an increase of 6.8 per cent in NAV compared to CNY172.2 million the previous year. As for the return generated since inception of the CNY sub-portfolio, this stood at 14 per cent for the year. Chart 14 shows the performance of the CAIM CNY sub-portfolio since its inception.

Chart 14: CAIM Externally Managed CNY Portfolio Performance against the ICE BofA Benchmark since inception; April 2022 – December 2024

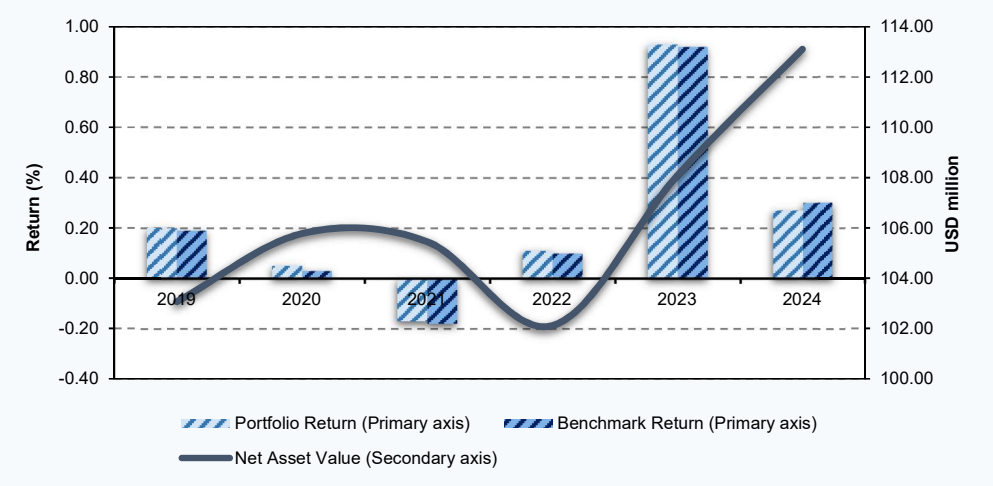


Note: End of year figures
Source: Central Bank of Seychelles

4.4.5 Return Generated from the Reserve Advisory and Management Partnership

In regards to the largest externally managed securities portfolio, the Bank maintained the asset management relationship with the World Bank through the RAMP. The portfolio was initially funded in 2019 with US$100 million to be managed against the ICE BofA UST 0-3 Year Index. At the end of 2024, the RAMP portfolio stood at US$113.1 million, representing an increase in the NAV of 4.7 per cent over the previous year. This also represented a 2.10 per cent return since its inception, overperforming the benchmark return of 1.97 per cent. Overall, the portfolio generally remained in line with the benchmark return for the year under review. Chart 15 illustrates the annual performance of the RAMP portfolio since its inception.

Chart 15: RAMP Externally Managed Portfolio Performance against the ICE BofA 0-3 Years Benchmark since inception; 2019 – 2024



Note: End of quarter figures
Source: Central Bank of Seychelles

5.0 Risk Management

The Policy and the Guidelines outline the oversight levels for reserves management and the controls required to support risk management. Furthermore, supporting risk guidelines and procedures manuals for the operational units ensure that specific risks are managed diligently. The risks in international reserves management activities include market, liquidity, credit and operational risks.

5.1 Market Risk

Market risk is the potential for financial losses due to changes in market factors, specifically, interest rates, exchange rates and asset prices. The value of international reserves is primarily affected by movements in exchange and interest rates. The former arises due to translation of investments held in foreign currency into Seychelles Rupee (SCR) and USD for reporting purposes. For the year under review, the SCR remained relatively stable against the invested foreign currencies. Additionally, the Bank continuously maintained a natural currency hedge by mirroring the foreign currency liabilities of the country through the approved strategic currency composition.

Interest rate movements remained the main market risk affecting the international reserves during the year under review. In the last half of 2024, there were significant changes in interest rates compared to the past two years. Major central banks started to implement expansionary monetary policies through series of interest rate cuts. As such, lower yields on fixed income investments in USD and lower rollover interest rates on fixed deposits were recorded for the year. Nonetheless, gains were recorded on the market value of the fixed income instruments due to the inverse relationship between bond prices and yield.

The Bank managed the market risk through the conduct of the annual SAA exercise at the start of the year, to reposition the currency and asset allocation in line with the fundamental market outlook.

5.2 Liquidity Risk

Consistent with the second investment objective of international reserves management, the Bank continued to invest in assets that either have an active and liquid secondary market or that can be readily converted to cash when needed.

5.3 Credit Risk

Credit risk is the probability of an issuer or counterparty failing to meet its payment obligations. Investments remained in line with the approved credit rating and concentration limits for issuers and counterparties throughout the year under review. The credit ratings of issuers and counterparties were continuously monitored through monthly compliance and risk reports done by the middle office. Moreover, a due diligence examination was conducted on a new potential counterpart for brokerage services. The due diligence exercise ensures alignment with the credit risk tolerance of the Bank prior to approval of the engagement.

5.4 Operational Risk

Operational risk is the potential for loss due to inadequate or failed procedures, systems, policies, or any event that disrupts business processes. The Bank continued to monitor and record occurrences of operational risk for analysis and implementation of corrective actions. This was in line with the Operational Risk Management (ORM) framework approved by the Board since 2021.

6.0 Challenges

In 2024, the global economy began to echo on inflation progress following the price pressures that emerged after the 2020 COVID-19 pandemic. Many economies adopted a more accommodative stance and reinforced on market expectations for looser monetary conditions, as major central banks announced interest rate cuts in the second half of the year. Geopolitical risks remained a major concern for many countries as the ongoing Russia-Ukraine war and the conflict in the gulf region further affected supply chains and commodity prices.

After much anticipation by financial markets, the Fed did its first 50 basis-points interest rate cut in September 2024, bringing the Fed fund rate to 5.00% from 5.50%. This was the first interest rate cut since the Fed lowered borrowing costs to near 0.00% in 2020, to safeguard the US economy. As the Fed reaffirmed on its commitment to steer inflation towards the ideal 2.00% target, a second round of

policy rate cuts was pronounced in November and the Fed fund rate was revised to 4.75%. A smaller reduction of 25 basis-points was applied in December as the Fed's view of inflation levels improved by the end of 2024. In the midst of such policy directions, interest return on USD money market investments began to lose pace in the final quarter of the year. Fixed deposits were allocated longer term, given expectations of further downward rate revisions. Furthermore, to safeguard against unforeseen FX outflows, precautionary balances were maintained as a buffer against possible breaches in prescribed risk limits and to satisfy any liquidity requirements for operational purposes.

The outcome of the US presidential election also presented uncertainties in anticipation of the actions of the new US government. Of note, longer dated yields surged following the result of the US elections. This was consistent with concerns about the future path of interest rates and associated inflationary risks, as the new administration had campaigned on expansionary fiscal policies to stimulate economic growth. However, the inversion of the US Treasury yield curve remained, given uncertainties surrounding the future direction of monetary policy. Nonetheless, price gains were recorded for shorter-dated portfolios, both being managed internally and externally as yields declined.

The monetary policy stance of the Eurozone was also revised by the European Central Bank (ECB), during the year. There was a series of interest rate cuts in June, September, October and December, given improved inflation, since the previous interest rate hike cycle in 2023. By the end of 2024, the ECB's interest rates on its main refinancing operations stood at 3.15%. Similar to the investments in USD fixed deposits, EUR fixed deposit investments were allocated to longer tenors to sustain interest returns, given anticipation of interest rate cuts. Investments in the currency was supported by FEA purchases of EUR from the domestic market, throughout the year.

Similar to peers, the Bank of England (BOE) also cut interest rates in 2024, with the first downward revision in August to bring the BOE's official interest rate to 5.00%. Using a more cautious approach to monetary policy adjustments, the BOE kept interest rates stable at 5.00% through to November, when it implemented an additional 25 basis-point reduction. The BOE's official rate was maintained at 4.75% until the end of 2024, with concerns of remaining inflationary risks arising from geopolitical tensions and market uncertainties.

The PBOC kept interest rates low to stimulate the Chinese economy, as the country faced slower economic recovery since the pandemic of 2020. The PBOC maintained its injection of liquidity into the banking system and used necessary monetary policy tools to promote economic recovery throughout the year. As a result, the returns on CNY fixed deposit investments were adversely impacted by the lower interest rates. Therefore, investments were placed in the longer-term deposits to mitigate rollover risk given the declines in CNY interest rates.

Internally, the Bank also faced operational challenges as it managed an increased volume of reserves and corresponding activities. Amongst primary concerns was the element of counterparty risks in the investment of the reserves. For example, in terms of broker/dealer services, the Bank did not engage with new counterparties, which limited market access and price discovery. Hence, the Bank could not explore investment opportunities in the other allowable asset classes under the Policy and the

Guidelines. The ability to pursue other investments was also limited by resource constraints throughout the year, as the Bank prioritised several key projects.

7.0 Training and Capacity Building

The Bank continued to support the development of staff by ensuring access to physical and virtual trainings, forums and workshops. These opportunities were facilitated by the World Bank's RAMP, the IMF, the SADC and other counterparts such as the CAIM and the UBS. Similar to previous years, the topics were related to portfolio management, risk management, operations, legal and governance aspects of international reserves management.

Through the engagement with the RAMP, ten workshops were selected according to priority areas for further development. Attendees had the opportunity to develop their knowledge in the areas of active management, settlement and custodial relationships, auditing, market risk, and applying the IFRS to investment portfolios. The sessions equipped the staff on contemporary developments in the different areas to ensure that the Bank continues to adhere to industry standards and best practices. For example, the active management workshop discussed low-risk active management techniques, for its eventual adoption in the internally managed bond portfolio. In the auditing and IFRS seminars, participants were equipped to reinforce assurance and financial reporting of investment activities. The settlement and custodial relationship workshop covered the management of the lifecycle of transactions from an operational perspective. The market risk fundamentals workshop provided an overview of the key concepts and techniques require in market risk analysis and measurement.

Moreover, the RAMP sponsored five staff for professional qualification exams. One staff pursued certification from the Certified Internal Auditor (CIA), two staff attempted the Association Cambiste Internationale (ACI) exams, one staff undertook the Financial Risk Manager (FRM) exam and another the Chartered Financial Analyst (CFA) qualification exam. The RAMP also conducted an onsite mission to provide capacity building for replacement of the system used for reserves management. The training involved sessions to identify and prepare the scope of work for the system replacement project.

The Bank continued to give exposure to staff involved in reserves management activities to best practices by its international counterparts. A group of seven staff participated in a five-day attachment with the CAIM. Similar to previous years, the attachment involved in-person meetings with financial houses in London to discuss trends and expectations of different assets and currencies. Participants in the attachment also gained insight on the CAIM's outlook on macroeconomic developments and strategies for portfolio management, in light of changing conditions, primarily in the US and China, and other major economies. The CAIM also conducted a Central Bank Seminar whereby two participants had the opportunity to engage with staff from other institutions and deepen their knowledge on topics of asset allocation and adapting to the changing trends in major markets.

As per previous years, the UBS invited the Bank for its Annual Reserves Management Seminar and a staff had the opportunity to network and engage in a week-long discussion on current topics in reserves management.

8.0 Way Forward

Looking towards 2025, the Bank aims to continue growing the level of the international reserves to meet the quarterly NIR targets. In turn, this would enhance the country's resilience against potential external balance of payments (BOP) shocks. The growth in the international reserves level would primarily be supported by the prudent purchase of FX from the domestic market, using the FEAs.

In an effort to further enhance work being done to diversify the reserves, the Bank intends to explore other investment opportunities and potential assets to consider investing in during the year. Additionally, the search for more counterparts will continue.

Similar to 2024, the Bank will continue its ongoing effort to work towards the acquisition of the reserves management system. This new system, will replace the current software – the Portfolio Analytical Tool (PAT II) – which is approaching its sunset in 2026. To assist, in 2025, the CBS is expected to receive further technical assistance through a RAMP mission to continue building internal capacity in the area of procurement. Following from the mission conducted by the RAMP, the Bank plans to complete and publish the Request for Proposal (RFP) for the new system. The RFP will seek to ensure an industry-standard system that supports efficient and effective processes. Furthermore, it seeks to guarantee appropriate assurance and control parameters are in place within the reserves management function.



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