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PRESS COMMUNIQUÉ

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Monetary Policy discussions and decisions

In light of foreseen inflationary pressures, the CBS Board unanimously resolves to maintain a tight monetary policy stance for the first quarter of 2017.

The Central Bank held its fourth and final quarterly Monetary Policy Meeting for the year 2016 on December 27. As customary, the Board of Directors was apprised of global developments which are of particular relevance to the country, especially the conduct of monetary policy. Members of the Board discussed the following; the interest rate hike by the US Federal Reserve, developments in global commodity markets, namely the implications of the agreement reached between the Organisation of the Petroleum Exporting Countries (OPECs) and some non-OPEC countries to reduce oil production and stabilise prices. The meeting also deliberated on the downward revision in the economic growth forecasts of the United Kingdom and some Eurozone countries for 2016 and going into 2017 and potential impact to the Seychelles economy.

Recent domestic economic developments were analysed through an extensive review of the latest statistics and announced policies. As at November 2016 year-to-date, growth in money supply was 10 per cent. In line with the prevailing tight monetary stance, credit to the private sector has been limited to single digits growth of 9.9 per cent year-on-year compared to 11 per cent the previous year.

In terms of real sector activity, the positive performance of the tourism industry ensured that it remains the main driver of the economy. An increase of 10 per cent in visitor arrivals was recorded year-to-date as at November-end. As at December 18, 2016, a total of 287,225 visitors had landed in Seychelles surpassing the end of year total of 2015 which was 276,233. It is estimated that at the end of December 2016, the direct earnings would have grown by about 7.6 per cent compared to the preceding year.

This increase in earnings is reflected in developments in the domestic foreign exchange market whereby a growth in supply has been recorded. This has contributed to ensure overall stability of the domestic currency against the main traded currencies despite periods of depreciation against the US dollar observed when demand had strengthened markedly. To note that depreciating pressures are expected in the coming year if a prolonged period of strong demand relative to supply is experienced. In view of development in the foreign exchange market, the Bank's reserve accumulation opportunities have been limited this year whilst foreign obligations remained. Consequently the country's gross foreign reserves fell from US$544 million at the end of September to US$524 as at December 27, 2016.

Consistent with the recent tight monetary policy stances, inflation remains subdued according to latest data from the National Bureau of Statistics (NBS) and is forecasted to stay that way come year end after peaking to 4.0 per cent in December 2015.

The Board took note of the recent downward revisions in the interest rates of some commercial banks and discussed at length the need to enhance the interest rate sensitivity of the monetary policy framework as means of improving the transmission mechanism of monetary policy.

The potential risks to inflation were also deliberated by the Board. These included the anticipated increase in international commodity prices in 2017, especially oil. Furthermore, the Board also noted the potential inflationary impact of some of the policies being proposed in the 2017 Government Budget.

Taking into account the increase in disposable income stemming from the anticipated approval of policies for 13th month salary across the public and private sectors, there were also discussions on the sustained demand for credit and foreign exchange driven by household consumption rather than investment. On the international scene, the rate hike and the policies of the new administration in the U.S. coupled with the OPEC production cut were identified as the key potential supply side shocks in the near term.

In light of these conditions, which support a rise in inflationary pressures in the short to medium term, the Board unanimously decided to maintain a tight monetary policy stance for the first quarter of 2017 in order to ensure that domestic price stability is maintained.

The reserve money target is set at a slightly higher level relative to Q4 in order to cater for structural movements in money supply as a result of the country's sustained economic growth and to reflect payment system requirements.

	2016		**2017**
	Q3	**Q4**	**Q1**
Reserve Money Target (SCRm)	2,954	3,051	3,095

The Bank remains vigilant and continues to actively monitor developments locally and internationally, while standing ready to adjust its policies should the need arise.