



## CENTRAL BANK OF SEYCHELLES

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### PRESS COMMUNIQUÉ

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#### **Financial Stability Committee discussions**

The four members of the Financial Stability Committee (FSC) met on October 14, 2016 for the second session for the year 2016. Minister Jean-Paul Adam, the then Minister of Finance, Trade and Blue Economy also attended this session. Discussions covered risk assessment analysis and developments over the course of the second quarter of 2016 that have had and could have implications upon financial stability.

Similarly to the previous meeting, the Committee's discussion touched upon probable events which had been graded according to both likelihood and potential impact upon the domestic economy. Such deliberations were undertaken from a qualitative perspective. Topics covered both subject matters which are one-offs as well as ever-persistent potential events and included but were not limited to political events both domestically and internationally, performance of the tourism sector, continued Brexit potential impact, and likely global interest rate developments.

Members discussed lengthily on the global de-risking move by international correspondent banks and the implications which such moves are having upon domestic banks. Correspondent banks, through which domestic banks route their international transactions, have increasingly been closing off their relationships with several banks across the globe, thus rendering the latter unable to effect their international transactions. This trend stems from the increasing cost being incurred by these correspondent banks in undertaking the required investigations (commonly referred to as due diligence) prior to processing transactions. Failure on the part of correspondent banks to undertake the appropriate due diligence has resulted in the imposition of numerous fines from various regulators across the globe. The issue of de-risking is compounded for smaller banks, from which correspondent banks derive a very small portion of their revenue in relation to the extent of due diligence required. The members agreed on the need for serious actions to be taken at a national level to ensure that the jurisdiction's international reputation is improved going forward, and thus reduce in as much as possible domestic banks' exposure to such de-risking initiatives.

The Governor also pointed out that this matter is receiving the regulatory authorities' immediate attention, and that the Central Bank is working closely with the banks and other stakeholders in the immediate formulation of an action plan and its swift implementation. Amongst structural improvements mentioned, was the possibility of having more prominent

disclosure of enforcement actions taken by the various local regulatory authorities to ensure that local regulatees are abiding to best international practices in regards to Anti-Money Laundering and Combating the Financing of Terrorism. This would provide for an international publicly available record of enforcement actions to depict to the world the fact that Seychelles Authorities are taking actions against offenders.

Another key topic discussed was the current domestic demand side pressures on the foreign exchange market and the impact which these demand levels have had up to this point in the year, particularly in terms of the exchange rate of the US Dollar in relation to the Seychelles Rupee. It was noted that there has been a rise in terms of the country's earnings from tourism, although demand had remained persistently high up to this point and that upcoming seasonal pressures are being monitored. In addition, the outlook for oil price was also discussed as well as the resulting impact which this could have upon domestic fuel price and the second round inflationary impact which such could lead to. It was noted that the Central Bank stands ready to take action as part of its underlying objective of price stability.

The global evolution of cyber-threat was also pointed out as a risk to the country as a whole, particularly in respect to banks and the need to ensure that this matter is taken very seriously and key preventive measures are implemented in this regard.

The members were also presented with some quantitative analysis covering various metrics relating to the broader economy and indicators of the financial sector performance during the course of the second quarter, including credit-to-Gross Domestic Product, loans-to-deposit ratios, inflation, and foreign exchange market developments. Relatively stable trends in these regards were noted over the course of the second quarter of the year. This led the discussions to touch upon some of the international developments taking place, such as the aftermath of the 'Brexit vote'.

The upcoming United States Presidential elections was also touted as an international event that will most certainly have global implications, as well as the ever more likely hike in interest rates in the United States before the end of the year.

The presentation concluded that the overall financial system appears stable but took account of known evolving risks, whether these be known as a certainty or not. The FSC will continue to monitor market developments, amongst which are the expected fourth quarter seasonal developments tending towards the end of the year.