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PRESS COMMUNIQUÉ

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CBS maintains a tightened Monetary Policy stance to contain forecasted inflationary pressures

In order to ensure stability in domestic prices, the Board of the Central Bank of Seychelles (CBS) has decided to maintain a tight monetary policy stance for the third quarter of 2018. This is in view of unchanged forecast of a rise in inflationary pressures in the short to medium term.

Inflation is expected to pick up due to external as well as domestic factors. Global commodity prices, is anticipated to rise further although the recent decision by OPEC to increase oil supplies starting July 1, 2018, may dampen the overall external inflationary risks. In addition, decisions of the US Federal Reserve and the European Central Bank may imply a weaker euro against the US dollar that could result in pressures on the external value of the rupee. On the domestic front, the main contributing factor is the sustained growth in aggregate demand that is expected to increase further following the rise in disposable income with the implementation of the final phase of the Progressive Income Tax (PIT) in June 2018. Indication of the strong demand is reflected through sustained demand for credit and foreign exchange. In view of persisting threat to domestic price stability, the CBS Board decided that monetary policy shall remain tight in the third quarter of 2018 with interest rates on the standing facilities remaining unchanged. Hence, the Standing Deposit Facility (SDF) shall continue to be at 2.0 per cent while the Standing Credit Facility (SCF) at 8.0 per cent. The SCF and SDF rates form the ceiling and floor for short-term money market interest rates i.e. the interest rate corridor.

Rising external inflationary pressures are expected to adversely impact domestic price stability

The forecasted increase in global commodity prices are expected to filter through domestic prices. Recent announcements by the US Federal Reserve indicate further interest rates rise anticipated. On the other hand, the European Central Bank have committed to maintain rates at its current level in 2018. This suggests a weaker euro against the US dollar, with the potential to add depreciating pressures on the external value of the domestic currency which would eventually threaten domestic price stability.

Tourism continues to boost economic activity

The tourism industry remains the key contributor to the country's economic performance although the growth in visitor arrivals have declined in 2018 relative to the previous year's level. Such outcome continued to be mainly influenced by the contributions from the traditional European markets whilst by mid-June 2018, the number of tourists from the Asian continent was 5 per cent lower than in the same period last year although overall growth in visitor arrivals was 2 per cent. This is supported by increased air connectivity by British Airways, Air France (Joon) and Edelweiss Air, and is expected to give a boost to the overall performance of the tourism sector.

Tourism earnings remained positive. For the first half of the year, growth in earnings are forecasted at 24 per cent in US dollar terms.

Pick-up in money supply growth and credit

In the domestic financial markets, relative to the previous quarter, interest rates on the 7-day Deposit Auction Arrangement (DAA) increased to stand at 5.25 per cent as at June 22. The average yield on the 91-day Treasury bills stood at 4.28 per cent compared to 4.24 per cent in the previous quarter.

Provisional monetary statistics for May 2018 revealed a year-on-year growth of 15 per cent in the money supply as compared to 8 per cent in May 2017. Over the same period, credit to the private sector grew by 16 per cent, which continued to be largely driven by a growth in loans to finance consumption, namely to the categories private households and wholesale & retail trade.

Pick up in inflationary pressures expected in the short to medium term

A gradual increase in inflation is being observed in 2018. In May 2018, year-on-year inflation stood at 3.6 per cent while the 12-month average rate was 3.8 per cent. In the near term, rising inflationary pressures are expected to persist in view of a pick-up in global commodity prices, and domestically, due to a rise in aggregate demand. This includes an increase in consumption loans which may in turn contribute to a weakening of the domestic currency.

Tightening of monetary policy in light of rising inflationary pressures

At its Monetary Policy Meeting on June 25, 2018, the Board of CBS decided to maintain a tight monetary policy stance for the third quarter of 2018 in view of rising inflationary pressures. Externally, this would emanate from an increase in global commodity prices whilst the main domestic factor relate to the sustained increase in aggregate demand which will have depreciating second-round effects on the local currency. The Board also took note of domestic developments such as forecasted increase in capital investment, a rapid rise in credit to the private sector and potential stimulus in aggregate demand due to the associated increase in disposable income following the latest phase in the implementation of PIT. Most indicators suggest that these developments have the potential to add inflationary impulses.

Growth in economic activity remains generally positive, a situation that is forecasted to persist in the medium term. Nonetheless, threats to domestic price stability continued to exist. As a result, an unchanged current tight monetary policy stance is deemed necessary in order to ensure that price stability is maintained. Consistently, the width of the interest rate corridor will remain unchanged in line with the projected economic conditions for the coming quarter. **The interest rate on the SDF will remain at 2.0 per cent and that on the SCF will be unchanged at 8.0 per cent**.

The minimum reserve requirement (MRR) is kept at 13 per cent of applicable deposit liabilities.

The Bank remains vigilant and stands ready to adjust its policies as needed to promote price stability.

STATISTICAL ANNEX *(Tables)*

TABLE 1. POLICY STANCE INDICATORS

	2015				2016				2017				2018		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Reserve Money (SCR million quarterly avg)	2,529	2,529	2,552	2,781	2,818	2,846	2,954	3,051	3,095	3,169	3,353	3,553	3,429	3,419	3,645
Reserve Money (q/q growth rate in %)	3.6	0.0	0.9	9.0	1.3	1.0	3.8	3.3	1.4	2.4	5.8	9.1	-3.5	-0.3	6.6

TABLE 2. FINANCIAL MARKET INDICATORS

		2015				2016				2017				2018	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2 to date
7D DAA rate (end of period)		3.8	5.5	5.8	4.3	3.6	3.8	4.3	4.6	4.7	3	2.9	2.9	4.07	5.25
91D T Bill Rate (end of period)		6.3	7.4	7.2	6.7	5.4	5.4	6.2	5.8	6.1	5.2	3.4	3.06	4.24	4.28
EUR/SCR FX rate (average of period)		15.5	14.7	14.3	14.6	14.6	15	14.9	14.5	14.5	15	16.1	16.2	17.0	16.6
USD/SCR FX rate (average of period)		13.8	13.3	13.1	13.1	13.2	13.3	13.3	13.4	13.6	13.6	13.7	13.7	13.9	13.9
Gross FX Reserves (end of period)		475	505	519	539	541	551	538	538	549	559	549	545	554	569
Net International Reserves (end of period)	**Target**	356	367	417	409	429	412	418	401	405	413	415	424	406	393
	Actual	373	398	364	424	436	420	429	415	438	446	428	424	429	447

TABLE 3. MAIN ECONOMIC INDICATORS

	CHANGES (%)													
	2015				2016				2017				2018	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2 to date
CPI (12-month average)	1.8	2.4	3.3	4.0	2.6	1.3	-0.1	-1.0	-0.3	0.8	1.9	2.9	3.6	3.8
CPI (y/y change)	5.8	4.3	4.5	3.2	-3.2	-1.4	-1.0	-0.2	1.9	3.7	3.2	3.5	4.7	3.6
Real GDP (quarterly change)	0.5	0.6	2.2	0.1	1.4	0.1	1.7	2.7	2.2	1.9	-0.4	-0.3	n.a	n.a
Credit growth (y-o-y change)	17.0	16.0	7.7	10.6	7.9	5.8	13.9	14.3	13.1	8.0	7.2	9.1	10.9	13.5
EUR/SCR FX rate (quarterly change)	-11.4	-5.2	-2.7	2.1	0.0	2.7	-0.7	-2.7	-0.3	3.5	7.3	0.8	4.8	-1.9
USD/SCR FX rate (quarterly change)	-1.2	-3.6	-1.5	0.0	0.8	0.8	0.0	0.8	0.9	0.4	0.5	0.4	0.7	0.3