CENTRAL BANK OF SEYCHELLES

P. O. Box 701, Victoria, Seychelles

PRESS COMMUNIQUÉ

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Current Monetary Policy stance is maintained in view of modest forecasted inflationary pressures

The Central Bank (CBS) Board has decided to maintain its current monetary policy stance for the first quarter of 2018. Modest inflationary pressures are foreseen in the near term, which are not expected to reach levels that will threaten the CBS' objective to maintain domestic price stability. This is on account of low external inflationary pressures as global commodity prices are anticipated to increase marginally whilst the depreciation of the Seychelles rupee (SCR) against the US dollar remains modest. The Board also maintained the position of the interest rate corridor such that the rate on the Standing Deposit Facility (SDF) stands at 1.0 per cent while that on the Standing Credit Facility (SCF) at 6.0 per cent. The SCF and SDF rates form the ceiling and the floor for short-term money market rates. A reduction in the reserve money target is set for the first quarter of 2018 compared to the fourth quarter of 2017 to cater for seasonal changes in liquidity level in the system.

Global factors are expected to pose limited threat to domestic price stability
The world economic outlook is projected to show further signs of improvement despite remaining on a fragile recovery path. Going forward, moderate increases are expected, both in global food and oil prices. Nonetheless, the slight uptick in inflationary pressures externally and the continued depreciation of the SCR are likely to result in a modest increase in domestic inflation.

Tourism continues to boost economic activity
The tourism industry remains the key contributor to the country's economic performance. The positive growth in tourist arrivals in 2017 so far has outperformed last year's levels, which in turn has translated in increased tourism earnings.

From January to November 2017, total visitor arrivals stood at 320,132 compared to 274,336 for the same period in 2016, representing a year-to date growth of 17 per cent. In 2017 up to November, tourism earnings are estimated to have increased by 16 per cent in US dollar terms.

Pick up in money supply growth
The quarterly average interest rate on the 7-day Deposit Auction Arrangement (DAA) stood at 2.90 per cent as at December 22, while the average return on the 91-day Treasury bills was 3.3 per cent from 3.4 per cent at the end of the third quarter of 2017.

Monetary statistics for November 2017 revealed a year-on-year growth of 18 per cent in the money supply compared to 11 per cent in November 2016. Consistently, credit to the private sector has grown by 18 per cent in November 2017 on a year-on-year basis, largely driven by an increase in consumer loans.

Modest inflationary pressures expected in the short-term
Since the beginning of 2017, the increase in the general price level has been higher than in the previous year. In November 2017, year-on-year inflation stood at 3.0 per cent while the 12-month average rate was 2.5 per cent. In the near term, inflationary pressures are expected to pick-up largely due to revisions in administrative prices as well as a rebound in global commodity prices and a weakening of the domestic currency.

Maintain the current monetary policy stance in light of modest inflationary pressures
At its last Monetary Policy Meeting for the year on December 26, 2017, the Board decided to maintain the current monetary policy stance for the first quarter of 2018 in view that inflationary pressures are forecasted to remain modest in the near term.

Economic activity has picked up since the previous quarter whilst inflation remained within an acceptable level. Maintaining the current monetary policy stance should not compromise the Bank's primary objective of promoting domestic price stability.

In line with an interest rate-focused monetary policy framework, the Board also decided on the positioning of the corridor for short-term money market interest rates to provide guidance to the market and which are in line with projected economic conditions for the coming quarter. **The rate on the SDF remains at 1.0 per cent and the rate on the SCF at 6.0 per cent.**

Reserve money which serves as a measure of liquidity into the system is projected to be at an average of R3,429 million for Q1 2018. This is a contraction of 3.5 per cent compared to the last quarter of 2017 to be aligned with the seasonal change in demand for liquidity in the first quarter of the year.

The minimum reserve requirement (MRR) was kept unchanged at 13 per cent of applicable deposit liabilities. The primary purpose of the minimum reserve requirement is to regulate the amount of money circulating in the economy, and as such this requirement is part of the CBS's overall policy stance.

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

STATISTICAL ANNEX *(Tables and Charts)*

TABLE 1. POLICY STANCE INDICATORS

	2015				2016				2017				2018
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Reserve Money (SCR million quarterly avg.)	2,455	2,455	2,478	2,700	2,736	2,763	2,868	2,962	3,005	3,077	3,255	3,553	3,429
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

TABLE 2. FINANCIAL MARKET INDICATORS

		2015				2016				2017			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4 to date
7D DAA rate (end of period in %)		3.8	5.5	5.8	4.3	3.6	3.8	4.4	4.7	4.7	3.0	2.9	2.9
91D T Bill Rate (end of period in %)		6.3	7.4	7.2	6.7	5.4	5.4	6.2	5.8	6.1	5.2	3.4	3.3
EUR/SCR FX rate (average of period)		15.5	14.7	14.3	14.6	14.6	15.0	14.9	14.5	14.5	15.0	16.1	16.2
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
Gross FX Reserves (end of period in US $m)		475	505	519	539	541	551	538	538	549	559	549	544
Net International Reserves (end of period in US$ m)	Target	356	367	417	409	429	412	418	401	405	413	415	391
	Actual	373	398	364	424	436	420	429	415	438	446	428	425

TABLE 3. MAIN ECONOMIC INDICATORS

	CHANGES (%)											
	2015				2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4 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	2.5
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	3.0
Real GDP (quarterly change)	-1.7	-2.2	4.7	1.1	-0.7	-2.9	2.4	2.8	0.5	0.7	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	8.5
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
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