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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 February 10, 2017 for the first session for the year 2017. Discussions covered risk assessment analysis and developments over the course of the third quarter of 2016, in addition to monthly data for the rest of the year 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, including but not limited to political events both domestically and internationally, performance of the tourism sector, continued potential impact of BREXIT, and likely global interest rate developments.

The Committee discussed probable events, graded according to likelihood and potential impact upon the domestic economy. Additionally, potential mitigating actions were raised and discussed by the members. These deliberations were of a qualitative nature, allowing for risks that do not appear in the quantitative financial sector and macroeconomic data to be highlighted. The risks identified were both one-offs of a more topical nature and the ever-persistent threats to financial stability. Included in the matrix of risks were cyber-crime and terrorist threats as well as legislative arbitrage. With regards to risks arising from external developments, the Committee was appraised of the potential legislative and policy changes impacting global financial forums following the inauguration of President Trump. Furthermore, the ongoing negotiations following the United Kingdom's decision to leave the EU were discussed at length given the trade implications for Seychelles – 33% of the country's tuna exports are aimed at the UK market and this is only one example of why it is of the utmost importance that trade negotiations between the UK and Seychelles are undertaken at the earliest.

Further to the previous meeting's extensive deliberations on the issue of global de-risking, and the Governor's assurances that efforts were ongoing, a high-level committee has been established to assess the developments with regards to global de-risking and correspondent banking relationships. The high-level Committee focused on de-risking, which met prior to the FSC meeting, agreed to implement a set of recommendations as approved by Cabinet.

These recommendations were: to ensure the AML/CFT regulatory framework is consistent with international standards; to engage with foreign regulators and correspondent banks such that their concerns are understood and addressed; to launch a PR campaign to show the actions undertaken by the jurisdiction in ensuring the regulatory framework is at par with international standards; and, a review of the offshore sector model. Notwithstanding the efforts being undertaken, the Financial Stability Unit will continue to monitor and assess the risks facing the jurisdiction as a result of global de-risking.

Another key topic of discussion was the changes to the Financial Intelligence Unit and the need for adequate training of all law enforcement involved with “white collar” crimes. Members discussed the innovation occurring in this area of crime and thus the need for law enforcement to have access to adequate intelligence and information.

As the National Assembly prepares to open in mid-February, the financial stability risk of an unapproved budget were raised. It was highlighted that the delay in approval has cost the Government due to the delay in project start dates, however various other developments should cover these losses. The Principal Secretary for Finance and Trade, Mr Patrick Payet advised that the Members of the National Assembly have agreed to give the budget priority such that it can be approved as soon as possible following necessary deliberations.

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 third quarter, including credit-to-Gross Domestic Product, loans-to-deposit ratios, inflation, and foreign exchange market developments. Furthermore, monthly results were presented up to and including December. Relatively stable trends in these regards were noted over the course of the third quarter of the year.

The presentation concluded that the overall financial system appears stable but took account of known evolving risks. The FSC will continue to monitor market developments and where possible take necessary action to mitigate risk exposures.