

## **The Role of Central Bank of Seychelles**

In November 2008, Seychelles embarked on a macroeconomic reform program which required the implementation of several measures and new policy actions across the economy. The Central Bank of Seychelles (CBS), alongside Government, has continuously communicated the success of the reform program to the public. As part of its strategy to keep improving the public and relevant stakeholders' understanding of the economic and financial environment, CBS will issue a number of articles throughout 2011. Today's edition is the first article and focuses on the role of CBS.

### **History of CBS**

The first foundation toward establishment of a Seychelles Central Bank was laid in 1978 with the establishment of the Seychelles Monetary Authority. In 1983 the CBS came into existence with the enactment of the Central Bank of Seychelles Act, 1983. This Act was then replaced by the Central Bank of Seychelles Act, 2004.

### **Functions of CBS**

#### **1) Monetary policy**

The promotion of price stability is the main objective of CBS and this is ensured through the monetary policies that are implemented. Monetary policy refers to, amongst other things, how CBS affects key monetary aggregates in the economy. For example to attain its inflation target CBS controls the amount of money in the economy through Reserve Money (RM) targeting. RM is the amount of currency in circulation and deposits of financial institutions held with CBS. Some central banks use interest rates as their main monetary policy target. The CBS envisages at some point in the future to also move in that direction. Interest rates can be viewed as the price of money and as such affects the demand and supply of money in the economy.

At relatively low interest rates, people are in a better position to borrow money for investment as well as private consumption purposes and therefore total demand for goods and services in the economy will increase. Whilst credit is critical for economic growth, excessive credit can result in inflation. As demand grows and credit are available relatively "cheap", this causes prices to rise. In such a case, to contain inflation CBS would have to tighten monetary policy. A tightening of monetary policy implies a reduction in the quantity of money that is supplied in the economy, which is achieved by CBS requiring or offering banks to place more of their deposits with CBS. This is what is commonly referred to as "mopping up" of liquidity. In countries where interest rates are used as the primary monetary policy instrument the central bank achieves this through an increase in interest rate. A higher interest rate makes it more expensive to borrow and at the same time encourage people to save more.

#### **2) Banker to Government**

One of the key roles of CBS is to advise Government on issues of economic significance such as on banking, financial matters, credit policies and operations of the Government. It also acts as a banker to the Government by holding accounts on behalf of the Government and also administers the issuance of Government securities (treasury bills and bonds) on its behalf.

#### **3) Other accounts held by CBS**

CBS is also the banker of other banks. It holds and administers accounts on behalf of commercial banks, Development Bank, Credit Union etc. It also holds accounts of international Government agencies, as well as bilateral and multilateral agencies.

#### **4) Issuer of currencies (notes and coins)**

CBS has the sole right and obligation to issue Seychelles rupee notes and coins that are legal tender in the Seychelles, including legal tender commemorative gold and silver coins. It orders and issues

fresh notes and coins on a regular basis to replace the old and worn out ones which are then cancelled, destroyed and disposed. From time to time it reviews the need for upgrading and redesigning the notes and coins to be in line with technological advancements, such as improved security features. CBS also monitors the level of each denomination in circulation and may decide to introduce new denominations of higher value, as was the case with the issue of the Rs.500 in 2005, in order to reduce the volume proportion of the highest denomination in circulation.

#### **5) Holder and manager of official foreign reserves**

CBS holds and manages the official foreign exchange reserves of Seychelles. Presently it holds foreign currency deposits in Euro, United States Dollar, Australian Dollar and Pounds Sterling. Reserves are critical for any country as it assists the Government in meeting its foreign exchange needs and provide a level of confidence that Seychelles can meet its external debt obligations. Reserves also serves as a contingency as they help countries manage external shocks such as oil price or food price shocks.

#### **6) National payments: clearance and settlement system**

CBS provides and manages the national payments system. There is currently a project under way to modernise the country's payments system by introducing new standards and means of clearing and settlement of cheques and other payment instruments. In this context CBS may also establish or assist banks and other institutions in establishing facilities for the clearing and settlement of payments, including payments of cheques and other payment instruments.

#### **7) Supervision of financial institutions and other institutions**

CBS is responsible for ensuring that banks, bureaux de change and insurance companies (including their intermediaries) conduct their operations in line with the laws and regulations. With regards to banks and insurance companies, supervision ensures that they operate in a safe and sound manner in order to protect clients' interest so as to avoid loss of money - as has recently happened in some other jurisdictions as a result of the latest financial crisis.

Since 2009 CBS has also been responsible for the supervision of the Seychelles Credit Union, the Development Bank of Seychelles and the Housing Finance Company.

To conclude, CBS remains focused in its mission to promote and maintain an economic order characterised by price stability, sustainable economic growth and a viable external position.

For additional information about CBS' roles and functions, you may visit CBS website at [www.cbs.sc](http://www.cbs.sc)