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PRESS COMMUNIQUÉ

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CBS maintains tight Monetary Policy stance for the fourth quarter of 2018

Consistent with its objective to ensure stability in domestic prices, the Board of the Central Bank of Seychelles (CBS) has decided to maintain the current tight monetary policy stance for the fourth quarter of 2018. This is in view that inflationary pressures anticipated in the short to medium term, continue to have the ability to adversely impact domestic price stability.

Inflationary pressures would originate from both external and domestic sources. The main external inflationary risks relate to the projected increase in energy prices. On the domestic front, the prominent contributing factor is the sustained rise in aggregate demand that is expected to increase further. This is largely due to strong growth in credit to the private sector, as well as the direct and indirect spill-over effects associated with the implementation of large capital projects that have already been announced. The rise in aggregate demand has contributed to a depreciation of the domestic currency in view of the country's high dependence on the rest of the world. Importantly, the tariff rebalancing programme and quarterly tariff revisions by the Public Utilities Corporation (PUC) are expected to add further inflationary pressures. The Board also took note of the potential risks to domestic price stability that may emanate from the fiscal side and will reassess its position once new information becomes available.

In view of the persisting threat to domestic price stability, the CBS Board has decided to maintain a tight monetary policy stance for the fourth quarter of 2018. Interest rates on the standing facilities remain unchanged. Hence, the Standing Deposit Facility (SDF) shall remain at 2.0 per cent and the Standing Credit Facility (SCF) at 8.0 per cent. The SDF and SCF rates form the floor and ceiling for short-term money market interest rates and together form the interest rate corridor.

Inflation from external sources are anticipated to adversely impact domestic price stability

The projected increase in global commodity prices, particularly oil prices, are expected to filter through to domestic prices, given the country's high reliance on the rest of the world. This development has the potential to support a depreciation of the rupee against the US dollar, hence increasing the risk for a rise in the general price level.

Performance of the tourism sector remained positive despite a slowdown in the third quarter of 2018

The tourism industry remains the key contributor towards economic growth. However, there was a slowdown in performance in the third quarter of 2018, where the total number of visitors and yield were both lower compared to the same period in 2017. As at mid-September, the year-to-date growth in visitor arrivals stood at 0.6 per cent. For the period of January to August 2018, the industry's earnings have risen by 7.6 per cent in US dollar terms. This outcome was supported by positive growth in visitor arrivals from the European market facilitated by increased direct air connectivity following the arrival of new airlines in 2018, namely British Airways and Joon (Air France).

Slowdown in money supply growth and rise in private sector credit

Interest rates on the 7-day Deposit Auction Arrangement (DAA) as well as the 91-day Treasury bills continued to increase. As at September 24, interest on the 7-day DAA stood at 5.21 per cent. The average yield on the 91-day Treasury bills was 4.99 per cent on September 25, an increase from 4.26 per cent compared to the end of the second quarter of 2018.

Provisional monetary statistics for August 2018, revealed a year-on-year growth of 7.4 per cent in the money supply, as compared to 15 per cent in August 2017. Over the same period, credit to the private sector grew by 13 per cent. This continued to be largely driven by growth in credit allocated to the 'individuals and households' category, which are mainly consumption loans.

Inflationary pressures expected in the short to medium term

A rise in inflation is being anticipated in the short to medium term despite a moderation in price increase registered in August 2018. Year-on-year inflation stood at 2.8 per cent while the 12-month average rate was 3.7 per cent. Inflationary pressures are projected to remain significant in view of higher energy prices externally, which are expected to filter through to domestic prices. The implementation of the tariff rebalancing programme, along with quarterly tariff revisions by PUC also pose inflation risks. In addition, prices are also expected to reflect the second-round effects of the depreciated domestic currency. Other noteworthy factors include the increase in aggregate domestic demand resulting from the implementation of large capital projects by both government and parastatal companies, as well as sustained demand for credit to the private sector.

Tightening of monetary policy in light of rising inflationary pressures

Following its Monetary Policy deliberations, which for the first time was done over two sittings (September 24/25), the CBS Board made the final decision on the second day to maintain a tight monetary policy stance for the fourth quarter of 2018, in view of persisting inflationary pressures. Externally, this primarily emanates from an increase in global energy prices. The Board also considered developments on the domestic front, which include increased capital investments, rise in credit allocated to the private sector and other domestic policies, which are expected to contribute towards further inflationary impulses. The Board also took into consideration potential threats to domestic price stability that could originate from the fiscal side and if required will reassess its monetary policy stance.

Growth in economic activity nonetheless continues to be generally positive. Threats to domestic price stability however remain and as a result, an unchanged 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) remains unchanged 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 and Charts)*

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	3,766	3,635	3,624	3,864
Reserve Money (q/q growth rate in %)	3.6	0	0.9	9	1.3	1	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	Q3 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	3.0	2.9	2.9	4.07	5.22	5.21
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	4.26	4.99
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	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	13.9	13.9	13.9
Gross FX Reserves (end of period)		475	505	519	539	541	551	538	538	549	559	549	545	554	553	543
Net International Reserves (end of period)	**Target**	356	367	417	409	429	412	418	401	405	413	415	424	406	393	393
	Actual	373	398	364	424	436	420	429	415	438	446	428	424	429	430	419

TABLE 3. MAIN ECONOMIC INDICATORS

	CHANGES (%)														
	2015				2016				2017				2018		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3 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	3.7
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	3.0	2.8
Real GDP (quarterly change)	-2.0	-2.2	5.3	2.1	-0.7	-2.6	4.9	4.2	0.5	-1.0	2.7	0.9	1.9	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	12.3	5.6
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	5.1	-2.7	-2.3
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	0.8	0.1	0.3