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PRESS COMMUNIQUÉ

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Monetary Policy is tightened to contain forecasted inflationary pressures

In order to ensure that domestic price stability is maintained, the Central Bank of Seychelles (CBS) Board has decided to tighten monetary policy for the second quarter of 2018 in light of expected 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, in particular the price of oil, is anticipated to rise gradually. On the domestic front, the main contributing factor is the strong growth in aggregate demand as depicted by a depreciation in the external value of the rupee given the country's heavy reliance on the rest of the world. In line with the tightened monetary policy stance, interest rates on the standing facilities will be raised. The Standing Deposit Facility (SDF) will increase from 1.0 per cent to 2.0 per cent while the Standing Credit Facility (SCF) from 6.0 per cent to 8.0 per cent effective April 1, 2018. The SCF and SDF rates form the ceiling and the floor for short-term money market interest rates i.e. the interest rate corridor. Consistent with the tightening of monetary policy, the reserve money target is to be reduced by 0.8 per cent compared to the first quarter of 2018.

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

The gradual increase in global commodity prices, in particular oil prices are expected to filter through domestic prices. With the rupee already on a depreciating trend, this will add further pressures on the exchange rate and therefore, a threat to domestic price stability.

Tourism continues to boost economic activity, despite some setback observed early during 2018

The tourism industry remains the key contributor to the country's economic performance. Tourist arrivals in 2018 so far has outperformed last year's levels, which in turn has translated into increased earnings. However, the growth in visitor arrivals is being mainly influenced by the contribution from the traditional European markets whilst the number of visitors from the Asian continent is lower than in the same period last year. Nonetheless, increased air connectivity by British Airways, Air France (Joon) and Edelweiss Air is expected to give a boost to the overall performance of the tourism sector.

From January to March 18, 2018, total visitor arrivals amounted to 74,893 compared to 72,351 in the same period last year, which was a year-to-date growth of 3.5 per cent. For the period January to February 2018, tourism earnings are estimated to have increased by 32 per cent in US dollar terms.

Pick-up in money supply growth and credit

In the domestic financial markets, interest rates on the 7-day Deposit Auction Arrangement (DAA) as well as the 91-day Treasury bills has been increasing. As at March 23, interest on the 7-day DAA stood at 3.87 per cent. The average yield on the 91-day Treasury bills was 4.08 per cent, an increase from 3.06 per cent at the end of the fourth quarter of 2017.

Monetary statistics for February 2018 revealed a year-on-year growth of 19 per cent in the money supply as compared to 9.2 per cent in February 2017. Over the same period, credit to the private sector grew by 20 per cent, largely driven by a growth in loans to finance consumption.

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

A gradual increase in inflation is being observed in 2018. In February 2018, year-on-year inflation stood at 4.9 per cent while the 12-month average rate was 3.4 per cent. In the near term, rising inflationary pressures are expected to persist in view a pick-up in global commodity prices, increase in aggregate domestic demand which include capital projects by government and parastatal companies, strong increase in credit to the private sector fuelled by loans for consumption purposes and a continuous weakening of the domestic currency.

Tightening of monetary policy in light of rising inflationary pressures

At its Monetary Policy Meeting on March 26, 2018, the Board decided to tighten monetary policy for the second quarter of 2018 in view of rising external inflationary pressures emanating from an increase in global commodity prices as well as the second-round effects of the depreciated local currency. The Board also took note of domestic developments such as increased capital spending and a rapid rise in credit allocated to the private sector, all of which are expected to translate into further inflationary pressures.

Growth in economic activity remains generally positive. Nonetheless, inflationary pressures continue to pose a threat to domestic price stability. As a result, a tightening of monetary policy is deemed necessary to ensure that price stability is maintained.

In line with an interest rate-focused monetary policy framework, the CBS Board also decided on an upward re-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 interest rate on the SDF will be increased from 1.0 per cent to 2.0 per cent and that on the SCF from 6.0 per cent to 8.0 per cent effective April 1, 2018.**

The reserve money target has been set at R3,402 million for the second quarter of 2018, which is a contraction of 0.8 per cent compared to the previous quarter, consistent with the tightened monetary policy stance.

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	Q2
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	3,402
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	-0.8

TABLE 2. FINANCIAL MARKET INDICATORS

		2015				2016				2017				2018
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1 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	3.87
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	4.08
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	17.0
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
Gross FX Reserves (end of period)		475	505	519	539	541	551	538	538	549	559	549	545	551
Net International Reserves (end of period)	Target	356	367	417	409	429	412	418	401	405	413	415	424	406
	Actual	373	398	364	424	436	420	429	415	438	446	428	424	428

TABLE 3. MAIN ECONOMIC INDICATORS

	CHANGES (%)												
	2015				2016				2017				2018
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1 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	3.4
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	4.9
Real GDP (quarterly change)	-2.0	-2.2	5.3	2.1	-0.7	-2.6	4.9	4.2	1.0	-0.6	2.9	n.a	na
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	14.3
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	5.0
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