



# CENTRAL BANK OF SEYCHELLES

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## PRESS COMMUNIQUÉ

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### **Central Bank of Seychelles explains the depreciation of the Rupee**

The Central Bank of Seychelles has given its insight into the depreciation of the Seychelles rupee, which seems to be accelerating in 2018.

Speaking to the local media yesterday morning at a press conference held at the Central Bank Building, the Governor Ms Caroline Abel, stated that the weaker rupee can be explained by external as well as domestic factors.

The external factors relate to the performance of the US dollar, primarily against the euro and British pound. The euro, the currency in which the majority of the country's earnings are denominated, has appreciated against the US dollar. Consequently, local foreign exchange earners have demanded more rupees for their euro, consistent with what is happening abroad.

The domestic factors are a reflection of the strong demand for foreign exchange compared to supply. The Governor explained that the main sources of the higher demand were from an increase in disposable income, as well as an increase in the amount of loans being given to the private sector. This is resulting into a higher demand for imported goods, considering the fact that most of what is consumed locally is sourced from abroad. A rise in imports implies higher demand for foreign currency and therefore, more pressure on the exchange rate.

Two other highlighted sources of demand were the increase in the number of individuals who travelled abroad, primarily for holiday purposes, as well as higher transfers of salaries to overseas accounts of non-Seychellois working in Seychelles. Recently, a large number of expatriates have been recruited across all sectors of the economy and these foreign workers repatriate some earnings to their home country.

The Governor further explained that the depreciation of the rupee serves as a signal of readjustment in the economy to reflect the growing demand. She stated that if the situation persists, the depreciation of the rupee will continue until it reaches its new market clearing level, which is the rate at which the depreciation will stop and the value of the rupee will stabilise against the US dollar.

However, Ms Abel noted that the Central Bank is concerned that continued depreciation will translate into rising inflation, which can adversely affect the Central Bank's primary objective of promoting domestic price stability.

The Central Bank has been monitoring the situation closely and stands ready to tighten monetary policy earlier than its usual policy revision cycle, if the depreciation of the rupee continues. Such action would remove liquidity from the system triggering a rise in interest rates on both savings and loans, and as a result, causing the exchange rate to adjust to potentially lower demand.

Individuals and businesses are therefore encouraged to be mindful when effecting their demand for foreign exchange, taking note that additional pressure on the rupee has implications on the exchange rate, the general price level and eventually the cost of living.