



Central Bank of Seychelles

Press Release

Victoria, Seychelles, August 17, 2009, *For immediate release*

Central Bank Announces Major Monetary Policy Changes

A fundamental policy change in the context of the economic reform program initiated in November 2008 includes a move away from direct monetary policy instruments toward market-based, indirect instruments.

The Central Bank of Seychelles (CBS) today announced important changes to the two major direct instruments which remain in place to date, namely the Local Asset Ratio (LAR) and the Minimum Reserve Requirement (MRR).

The LAR was instituted in 1986 and requires commercial banks to invest a percentage of their local deposit base in government securities. The LAR, which currently stands at 35 percent, is thus a direct and guaranteed source of financing for the government. However, it can also have adverse effects, such as crowding out of private sector bank financing.

Consistent with the objectives of the monetary policy reforms, which among other things, aim at modernising the financial system, the CBS is of the view that the LAR is no longer useful or needed as a monetary instrument. The disciplined fiscal stance adopted by the Ministry of Finance recently has curtailed its financing needs from the banking system, while the adoption of numerous indirect monetary instruments by the CBS has rendered the LAR a redundant

policy instrument. In the light of this, the CBS has taken a decision to abolish this instrument with effect from August 17, 2009.

The MRR requires banks to deposit a percentage of their deposit liabilities (both foreign currency and rupee) with the CBS. This allows the Central Bank to control liquidity in the banking system. With the introduction of more market-oriented instruments as part of the macroeconomic reforms, the role of the MRR as a policy tool has been significantly reduced. The MRR, which currently stands at 12 percent, will be reduced to 11 percent on September 1, 2009, and to 10 percent on October 1, 2009. The CBS will consider further reductions and eventual elimination of this instrument as and when appropriate.

The International Monetary Fund mission that was in Seychelles last week was consulted over the CBS decision and it endorsed these moves.