

Central Bank of Seychelles

Financial Education for Adults

June 17, 2021



Understanding CBS Monetary Policy in the Context of the Individual



Four sectors of the economy

Real sector

- Gross Domestic Product (GDP)
- Tourism indicators
- Employment statistics
- Production indicators
- Inflation rates

Monetary and financial sector

- Monetary Policy Rate (MPR)
- Money supply
- Credit
- Interest rates
- Reserve money

Fiscal sector

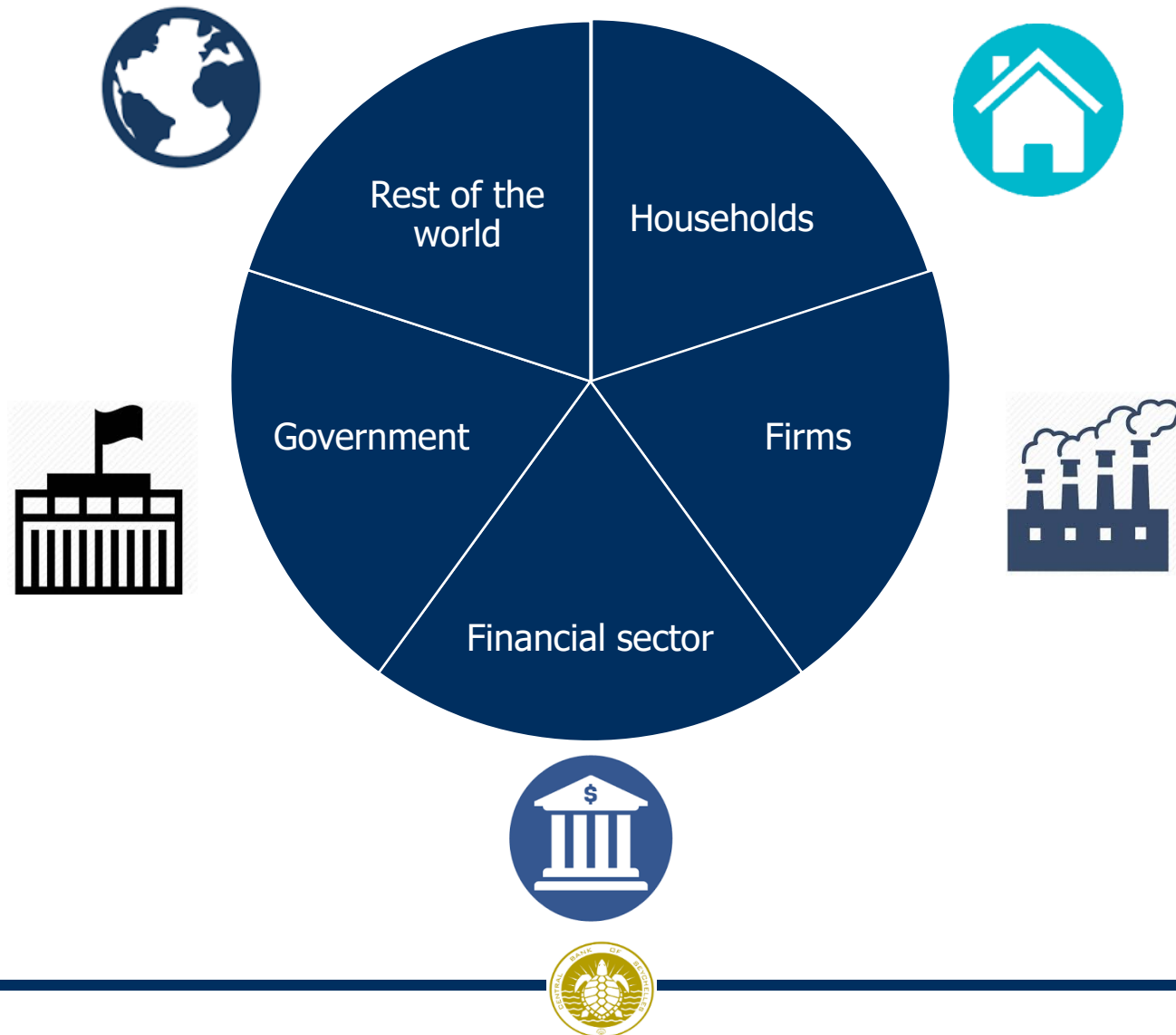
- Government revenue
- Government expenditure
- Treasury bills
- Treasury bonds
- Budget financing:
 - Domestic debt
 - External debt

External sector

- Balance of Payments (BOP)
 - Imports
 - Exports
- International Investment Position (IIP)
- International reserves
- Exchange rates



Structure of the Macroeconomy



Main pillars of the economy

1. Tourism:

- Traditional Markets:
 - Germany
 - France
 - United Kingdom
 - UAE
- New markets:
 - Israel
 - Austria
 - Switzerland
 - Eastern European countries

2. Fisheries

3. Financial services



Trade with the rest of the world

Inflow of foreign exchange



1. Tourism
2. Fisheries exports e.g. canned tuna

1. Imports of goods and services
2. Remittances

Outflow of foreign exchange



Mandate and functions of the Central Bank



The Role of Central Banks - Mandate

	..."to achieve three goals specified by Congress: maximum employment, <u>stable prices</u>, and moderate long-term interest rates in the United States"
 EUROPEAN CENTRAL BANK EUROSISTEM	To maintain <u>price stability</u>...the Eurosystem shall also "support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union". These include inter alia "full employment" and "balanced economic growth".
	"The primary object of the Bank shall be to maintain <u>price stability</u> and to promote orderly and balanced economic development"
	The primary objective of the Bank is to promote domestic <u>price stability</u>...The other objectives of the Bank are to advise government ...and to promote a sound financial system.



The Primary Objective of CBS

The CBS Act, 2004 (as amended 2020);

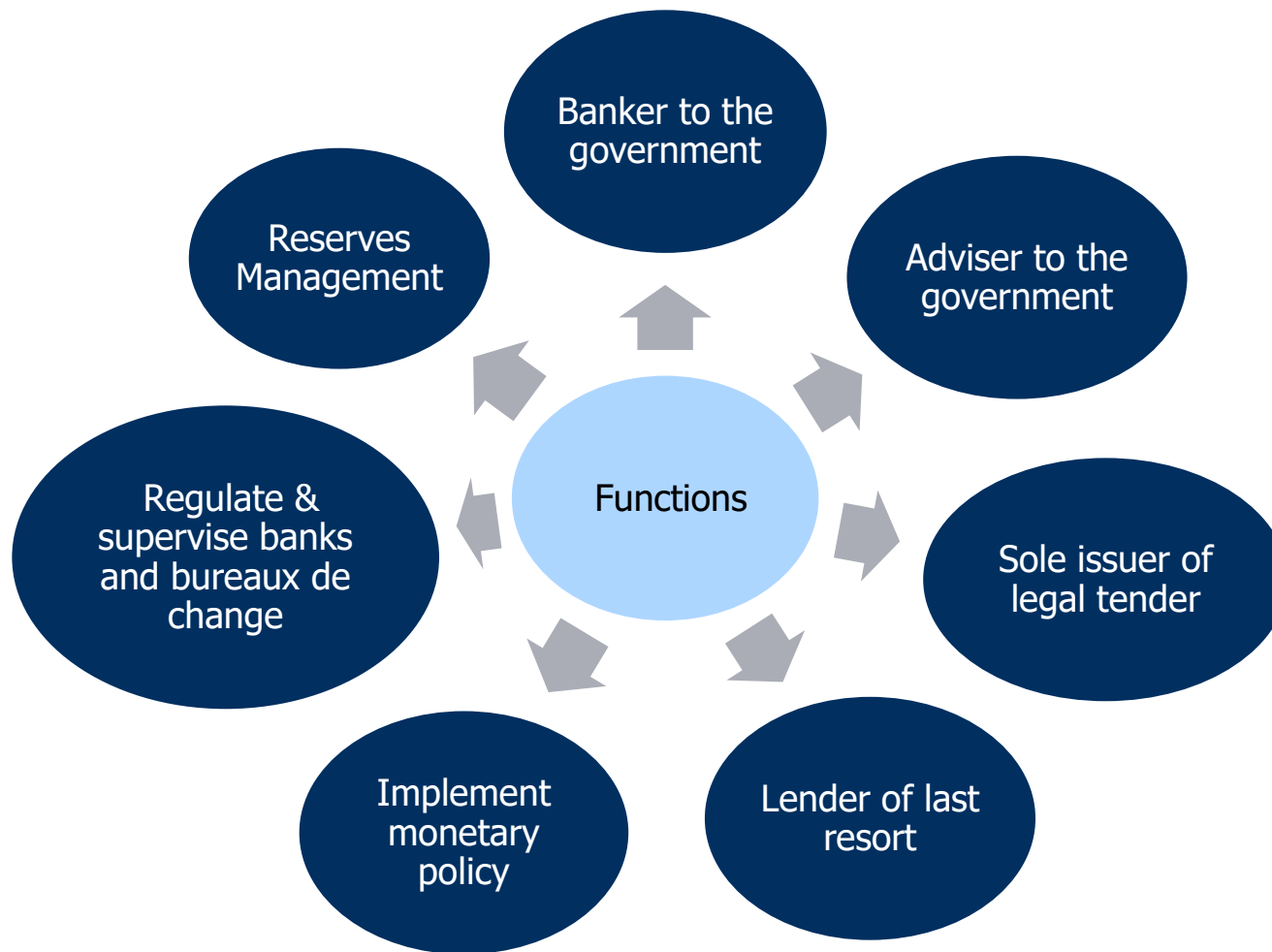
The **primary objective** of the Bank is to **promote domestic price stability**.

The other objectives of the Bank are:

- (a) to advise the Government on banking, monetary and financial matters, including the monetary implications of proposed fiscal, credit policies or operations of the Government; and
- (b) to promote a sound financial system.



Functions of the Central Bank of Seychelles



What is Price Stability?

Price stability is when prices remain **stable over time**, or when they are **rising at a very low and predictable rate**.

How are prices measured?

Consumer prices in Seychelles are measured by the Consumer Price Index (CPI) which is compiled by the National Bureau of Statistics (NBS) on a monthly basis.



What is INFLATION?

Inflation is defined as a **sustained increase** in the general level of prices for goods and services.



1970s



1980s



2020



Monetary Policy Transmission Mechanism



Central Bank

Monetary policy formulation

Tightening of Monetary Policy	Loosening of Monetary Policy
Foreseeing inflationary pressures CBS tightens Monetary Policy	Foreseeing deflationary pressures CBS loosens MP
CBS raises its Monetary Policy Rate	CBS lowers its Monetary Policy Rate
Commercial banks increase interest rates on deposits and loans	Commercial banks decrease interest rates on deposits and loans
Private sector borrowing decreases	Private sector borrowing increases
Spending/consumption decreases	Spending/consumption increases
Demand and production/imports decrease	Demand and production/imports increase



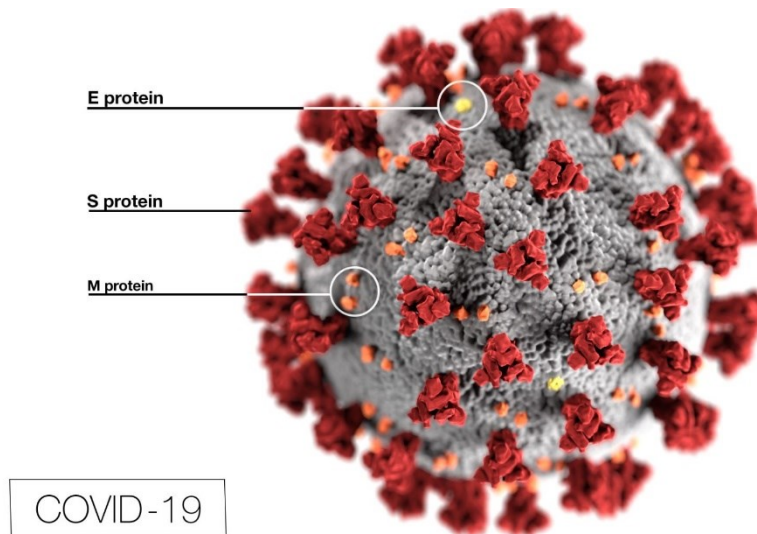
How does Monetary Policy affect me as an individual?



- Credit
- Savings
- Investment Plans
- Consumption

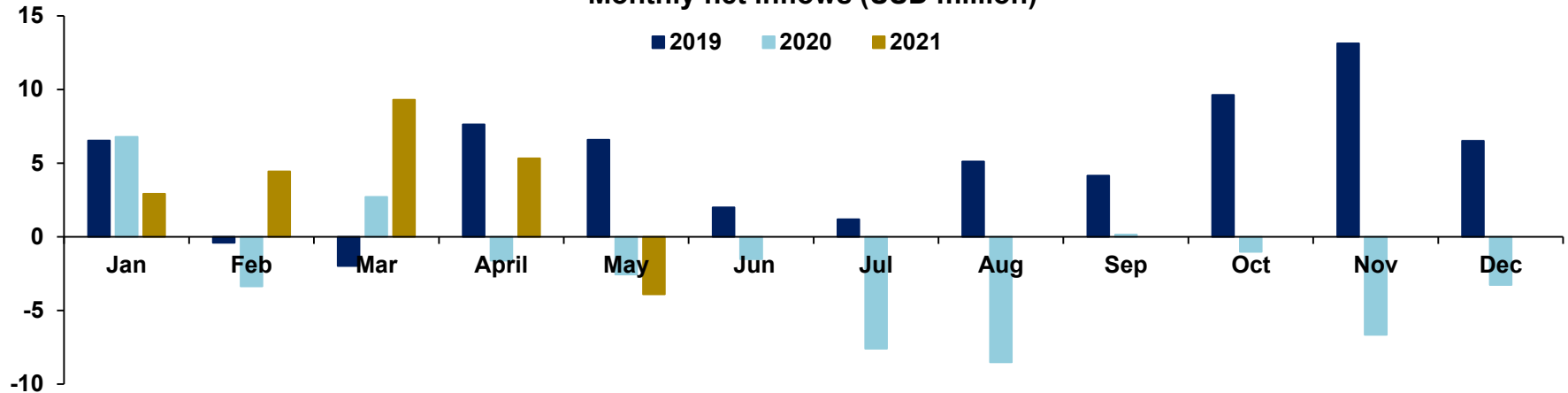


The New Economic Realities

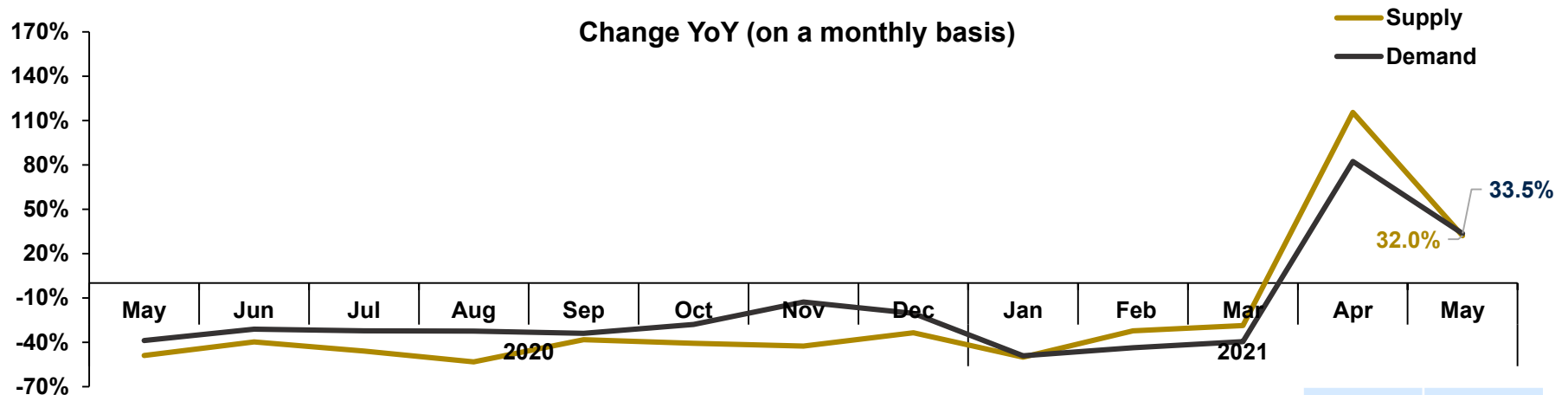


With net outflows being observed in May

Monthly net inflows (USD million)



Change YoY (on a monthly basis)

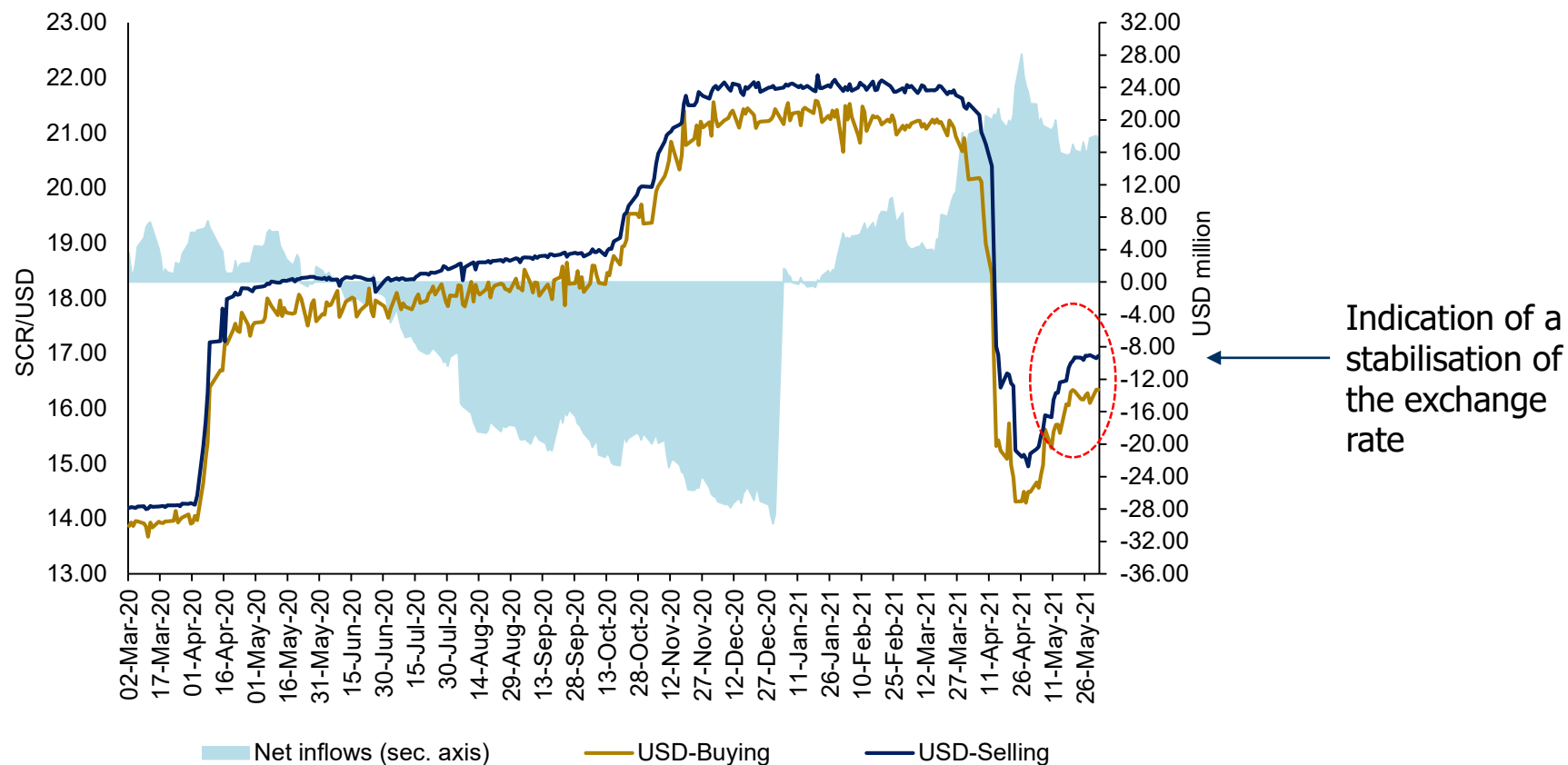


Previous Press Conference
(May 18th)

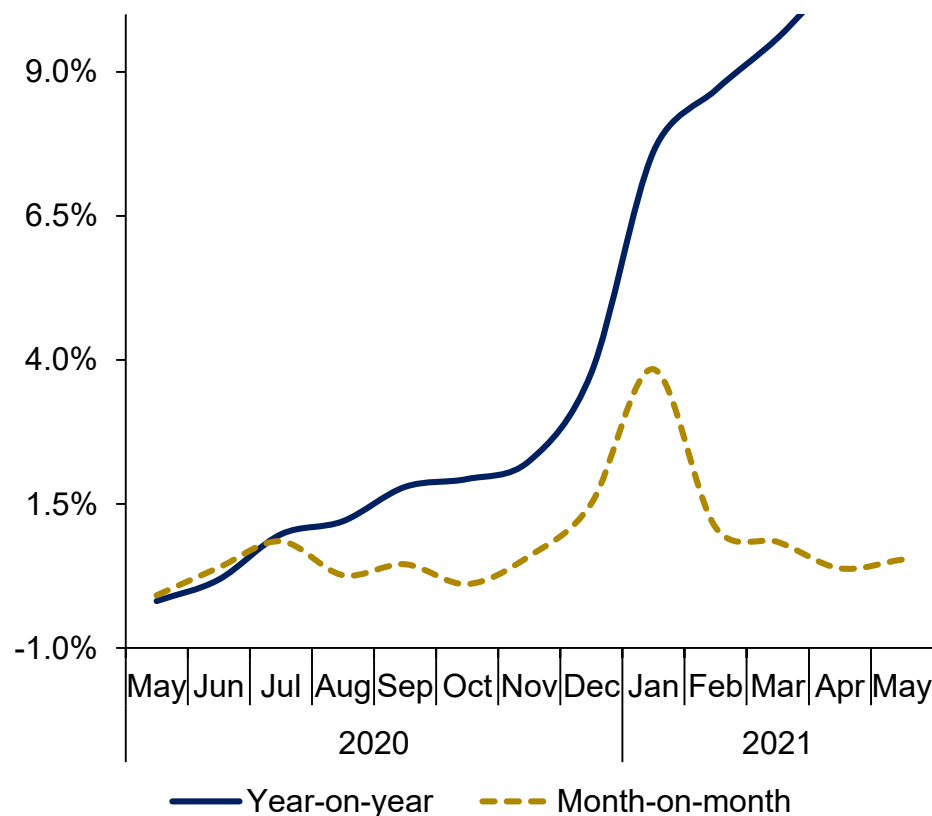
Supply	55.4%
Demand	23.2%



Foreign Exchange Market



Moderation in month-on-month inflation



APRIL 2021	
Month-on-month inflation	0.5%
Year-on-year inflation	11.4%
12-month average	5.0%



Central Bank Policy Reaction and Role



Monetary Policy Decisions

CBS loosens Monetary Policy as of Q2 2020

- Monetary Policy Rate (MPR) was cut to 4.0%
- SDF and SCF were lowered to 1.0% and 7.0%, respectively

In Q3 2020:

- Monetary Policy Rate (MPR) was lowered further to 3.0%
- SCF was lowered to 6.0%
- SDF remained unchanged at 1.0%

CBS maintains a loose Monetary Policy Stance for Q4 2020 and Q2 2021

- Monetary Policy Rate (MPR) maintained at 3.0%
- SCF and SDF maintained at 6.0% and 1.0% respectively



Other Policy Measures

- **Regulatory Measures:**

- Amendments to the CBS Act, 2004 and the Financial Institutions Act, 2004

- **Policy Measures:**

- CBS advances to government
- Private Sector Relief Scheme for MSMEs and Large Enterprises
- Moratorium and re-structuring of loans
- Reserves management strategy:
 - CBS committed itself to the purchase of fuel for SEYPEC, medical supplies and essential goods
 - Supported the market through sale of foreign exchange



Importance of Communication

- **Frequent press conferences**
- **Key messages for the public:**
 - Divergent recovery paths in key tourism markets
 - Shifts in individual and collective behavior are critical
 - Anchoring expectations in the foreign exchange market
 - Collective responsibility, accountability and sharing of losses for a new sustainable economic landscape



Thank you

