PRESS COMMUNIQUÉ

Victoria – March 23, 2020

Monetary Policy Rate is cut to 4.0 per cent for Q2 2020

The Board of the Central Bank of Seychelles (CBS) has decided to cut the Monetary Policy Rate (MPR) to 4.0%. This is in view of the substantial macroeconomic risks presented by the Covid-19 pandemic in the short to medium term, as well as its implications on long run economic growth, financial stability and social coherence. Consistent with this reduction, the interest rate on the Standing Deposit Facility (SDF) and the Standing Credit Facility (SCF) will be lowered to 1.0 per cent and 7.0 per cent, respectively.

The revision in the MPR forms part of the policy impulse under CBS’ recovery package, which is the first phase of the Bank’s response to the challenges of Covid-19. These include resource allocation issues, the direct loss of income from tourism and other related economic activities as well as labour capacity conditions. This implies high levels of uncertainty in all sectors of the economy. Given these challenges, economic growth is forecasted to contract by double-digits in 2020.

As such, coordinated and urgent policy responses are needed to moderate the impacts of Covid-19. However, even with the alignment of monetary, financial and fiscal policies, large drops in consumption and shifts in social behaviour are critical in maintaining economic stability given the external uncertainty.

On the external front, moderate inflationary pressure is likely in the short run, due to a general decline in global demand as a result of the Covid-19 pandemic and a large shock in oil prices. However, in view of closure of borders in most countries, limited inflows are forecasted from the services sector as from the second quarter, due to uncertainty pertaining to the duration of its effects. This is likely to place severe pressure on the exchange rate and requires a significant decline in national consumption if the economy is to sustain a stable exchange rate.

On the domestic front, preliminary estimate shows that the annual growth in tourism earnings is to contract by 70 per cent in Euro terms relative to 2019. It is unclear whether the current capacity of the fisheries industry and other export-oriented sectors can compensate for the loss of earnings in tourism.
The main aim of the reduction in MPR is to support a decline in interest rates as a means of alleviating future stress on borrowers.

The decision to lower the MPR to 4.0 per cent was taken at the Monetary Policy meeting held on Monday March 23, 2020. As such, the interest rate on the SDF will be set at 1.0 per cent, and that on the SCF will be at 7.0 per cent. The Minimum Reserve Requirement (MRR) remains unchanged at 13 per cent of applicable deposit liabilities.

The CBS remains vigilant and stands ready to adjust its policies as needed to promote price stability.