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PRESS COMMUNIQUÉ

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Monetary Policy Rate remains unchanged at 1.75% for Q3 2025

The Board of the Central Bank of Seychelles (CBS) has decided to maintain an accommodative Monetary Policy stance, keeping the Monetary Policy Rate (MPR) at 1.75% for the third quarter of 2025. A review of the performance of the second quarter of the year showed that the domestic economy continued to be largely supported by the tourism sector, which remained the primary source of foreign exchange. Compared to 2024, both the supply and demand for foreign exchange have increased in line with economic activity. Consistent with developments in the international currency market, the Seychelles rupee appreciated against the US dollar (USD) while it depreciated against the Euro during the second quarter. As for domestic price movements, there has been a gradual increase in the average prices of goods and services in year-on-year terms. On the external front, oil prices declined while food prices continued to increase during the second quarter of 2025. Although foreign inflation has generally eased, the monetary policy stance of major central banks is expected to diverge, depending on the economic and political conditions within their respective regions. Furthermore, ongoing geopolitical conflicts and unpredictable foreign policies pose significant risks to the outlook. These developments could adversely affect the supply and pricing of key commodities in international markets. Domestically, inflation is projected to rise over the medium term. Taking these factors into consideration, the CBS Board decided to continue providing the necessary support to the domestic economy as it remains highly susceptible to external shocks. Thus, the MPR will be maintained at 1.75% for the third quarter of 2025. Likewise, the interest rate on the Standing Deposit Facility (SDF) and Standing Credit Facility (SCF) will be kept at 0.25% and 3.25%, respectively.

The global economic outlook remains highly uncertain, largely due to persistent geopolitical conflicts and unpredictable foreign policy developments. In particular, the tariff measures announced by the United States (US) have heightened uncertainty and increased tensions with major trading partners. While a 90-day pause in tariff implementation has created space for negotiations, external risks remain elevated. Nevertheless, foreign inflation has generally subsided, primarily as a result of lower energy prices. In the Eurozone, inflation fell slightly below the European Central Bank's (ECB) 2.0 per cent target in May. Furthermore, economic performance improved in the first quarter of 2025 compared to the previous quarter. This was supported by strong consumer spending, increased investor confidence and a rebound in business activity. In contrast, the US economy contracted in the first quarter of 2025. The downturn was driven by a surge in imports ahead of anticipated tariffs and a reduction in government spending. With regard to inflation, it remained above the Federal Reserve’s target. According to the International Monetary Fund (IMF)’s World Economic Outlook published in April, global growth projection has been revised downwards to 2.8 per cent for this year, from 3.3 per cent in the previous publication.

Brent crude oil prices continued to decline in the second quarter of 2025, averaging US$64 per barrel in May. However, following the escalation of the conflicts in the Middle East, there are growing concerns that there could be disruptions in the supply of oil from that region to the global market, which could lead to a surge in oil prices. As for international food prices, they have generally increased since the beginning of the year driven by strong demand relative to tight supply conditions. Food prices remain subject to upside risks, including adverse weather conditions, escalating trade tariff tensions and persistent geopolitical conflicts.

As at June 08, 2025, a total of 173,534 visitors disembarked in Seychelles, representing an increase of 8.2 per cent compared to the corresponding period in 2024. Despite seasonal declines in flight connectivity during the second quarter, both tourist arrivals and earnings showed notable improvement. However, the second half of the year may be challenging, given the potential spillover effects of the escalation of conflicts in the Middle East. The war has led to the cancellation of flights by some airlines; closure of airspace over certain countries which implies longer routes, and thereby resulting in an increase in the cost of travel. As the Middle East is a major hub for travellers, the conflict may affect the demand for travel. This is amidst existing uncertainties surrounding the US tariffs and their impact on disposable income of households. As such, the outlook for the tourism sector remains subject to external developments and rising competition from other destinations in the region.

Total foreign exchange inflows and outflows, as at June 06, 2025, were higher, relative to the same period in recent years. In terms of exchange rate developments, there were mixed movements in the value of the Seychelles rupee (SCR) against major traded currencies during the second quarter. The SCR generally appreciated against the USD while it depreciated vis-à-vis the Euro. This reflected dynamics in the global currency market, where the USD has generally weakened due to heightened political uncertainty, rising fiscal deficit and unpredictable trade policies in the US. Conversely, the Euro has strengthened in view of moderating inflation and improved economic performance in the Eurozone. Looking ahead, demand for foreign exchange on the domestic market is expected to remain elevated, in view of the anticipated higher cost of imports. If not matched by a sustained increase in the supply of foreign currency, the Seychelles rupee may weaken in the second half of the year. Nevertheless, the availability of foreign exchange will continue to depend on the performance of the tourism sector, which now faces adverse risks stemming from the escalation of conflicts in the Middle East.

In terms of domestic price developments, there was a slight decline in inflation in May 2025 compared to the previous month. However, the year-on-year inflation rose slightly to 0.4% mainly driven by higher food prices. The 12-month average inflation rate remained at 0.6% for the fifth consecutive month. As for the outlook, an increase in inflation is anticipated over the medium term.

Considering the aforementioned developments and the inflation outlook, at its Monetary Policy Meeting held on June 23, 2025, the CBS Board decided to maintain an accommodative monetary policy stance for the third quarter of 2025, aimed at supporting the economy in view of its vulnerability to external shocks. Hence, the MPR will remain at 1.75%, while the interest rates on the SDF and SCF will be kept at 0.25% and 3.25%, respectively. The Minimum Reserve Requirement (MRR) remains unchanged at 13% of applicable deposit liabilities.

Given the various geopolitical conflicts and their potential repercussions on the domestic economy, the Central Bank remains vigilant and stands ready to adjust its policies if necessary, in line with its objectives.