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PRESS COMMUNIQUÉ

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Monetary Policy discussions and decisions

In view of expected inflationary pressures, the CBS Board unanimously resolves to maintain a tight monetary policy stance for the second quarter of 2017.

The Central Bank held its first Monetary Policy Meeting for the year on March 27, 2017. The Board of Directors was briefed on key international developments which are most likely to impact the Seychelles economy. Amongst the issues discussed were the recent interest rate hike by the US Federal Reserve, the current developments in the Euro Area and Brexit. In the global commodity markets, whilst oil prices have been stagnant since the start of the year, food prices have reached its highest value since February 2015.

The Board was also apprised of recent domestic economic developments through a detailed review of latest statistics and policy measures taken. Monetary data revealed a 9.2 per cent growth in the money supply, whilst credit to the private sector expanded at a slower pace from 10.3 per cent in December 2016 to 8.3 per cent in February this year.

Real sector developments highlighted the positive performance of the tourism industry, with a year to date growth of 21 per cent in visitor arrivals as at March 19. For the year 2016, total tourist arrivals stood at 303,177, an increase of 9.8 per cent translating into an estimated rise of 5.3 per cent in tourism earning compared to the previous year. In the domestic foreign exchange market, the local currency has remained on a depreciating trend.

According to the Consumer Price Index published by the National Bureau of Statistics, inflation levels were relatively subdued throughout 2016 primarily underpinned by weak global commodity prices, in particular oil. Similar disinflationary trends were observed in the first two months of 2017, with the annualised inflation standing at *negative* 1.1% in February.

Nonetheless, due to the foreseen inflationary implications of some of the policies announced in the 2017 Budget, the anticipated surge in international commodity prices coupled with developments in the domestic foreign exchange market, the Board unanimously decided to maintain a tight monetary policy stance for the second quarter of 2017 so as to preserve domestic price stability.

From an operational perspective, the reserve money target has been marginally increased from its Q1 level in order to provide for increased demand for money emanating from more economic activities.

	2017	
	Q1	**Q2**
Reserve Money Target (SCRm)	3,095	3,169

Going forward, the Bank is looking to boost the interest rate sensitivity of its monetary policy through the implementation of an interest rate corridor. It is envisaged that the interest rate corridor would improve the transmission mechanism of monetary policy to the real economy.

As such, the Bank will be embarking on an awareness programme aimed at sensitising relevant stakeholders including the general public on the implications of the change in monetary policy implementation.

The Bank remains vigilant and continues to actively monitor developments locally and internationally, while standing ready to adjust its policies should the need arise.