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PRESS COMMUNIQUÉ

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Monetary Policy Rate is lowered to 1.75% for Q2 2024

The Board of the Central Bank of Seychelles (CBS) has decided to lower the monetary policy rate from 2.0% to 1.75% for the second quarter of 2024. Domestic economic activity in the first quarter of the year was primarily driven by the positive performance of the tourism industry, which contributed towards a sustained inflow of foreign exchange. In turn, this led to an appreciation of the domestic currency against the US dollar (USD) relative to the last quarter of 2023. The deflationary trend in the average price of goods and services observed since May 2023, has continued thus far in 2024 in year-on-year terms. On the external front, the high interest rate environment, coupled with the decline in international commodity prices and improvements in supply chains, have resulted in a moderation in inflationary pressures in most regions. In January 2024,the International Monetary Fund (IMF) revised its global growth projections for the year from 2.9 per cent to 3.1 per cent. Despite this improved outlook, the tight monetary conditions that prevail globally are anticipated to dampen economic activity in the short term. Additionally, the escalation of the attacks in the Red Sea, which could impact transit times and shipping costs, remain a global concern. Domestic inflation is projected to remain low in the upcoming quarters. As such, this provides policy space to stimulate further economic activity. Taking this into consideration and cognisant of the global developments as well as the associated uncertainties, the CBS Board decided to reduce the MPR from 2.0% to 1.75% for the second quarter of 2024. Subsequently, the interest rate on the Standing Deposit Facility (SDF) and Standing Credit Facility (SCF) will be lowered to 0.25% and 3.25%, respectively.

Foreign inflation continued to subside in most regions, as a result of elevated interest rates, lower international commodity prices as well as improvements in supply chains. Given this outcome, key central banks such as the Federal Reserve Bank, the European Central Bank (ECB) and the Bank of England have held rates steady since the latter part of 2023. According to the IMF World Economic Outlook (WEO) update in January 2024, global headline inflation is expected to fall to 5.8 per cent in 2024, from 6.8 per cent in 2023. Inflation is forecasted to subside faster in advanced economies compared to other regions. As such, it is anticipated that the aforementioned central banks will start easing monetary policy as of the second half of 2024. In terms of global growth, the IMF revised its forecast upwards to 3.1 per cent for this year, from 2.9 per cent in the previous publication. This revision was on account of greater-than-expected resilience in the United States and several large emerging markets and developing economies, as well as fiscal support in China. Despite the improved global outlook, the prevailing tight monetary conditions are expected to weigh down on economic activity in the upcoming quarters, particularly in the advanced economies.

International commodity prices have moderated compared to the last quarter of 2023. Oil prices have declined on account of subdued global demand, particularly in China. Whilst the worsening geopolitical tensions and the extension in voluntary production cuts by OPEC+ countries could pose upward pressures in oil prices, this may be partially offset by growth in supply by Non-OPEC members, as well as dampened global demand. As for food prices, there was a decline in the first two months of the year, reflecting improved harvest, despite the non-renewal of the Black Sea Grain Initiative. Going forward, prices are expected to ease further on account of improved global supply outlook. However, upside risks remain and these include adverse weather conditions, climate change risks and global supply chain disruptions linked to the conflicts in the Middle East and in Ukraine.

On the domestic front, as at March 17, 2024, Seychelles welcomed a total of 81,421 tourists, which was an increase of 10 per cent compared to the same period in 2023. This growth primarily stemmed from a rise in visitor arrivals from the traditional western European markets, particularly Germany, Italy and Russia. Estimated tourism earnings expanded by 22 per cent in the first two months of the year as compared to the same period last year. Despite the positive performance of the tourism sector, the subdued economic outlook in key tourism source markets as well as the aforementioned global challenges may adversely impact the domestic economy.

Transactions in the foreign exchange market increased in line with positive economic activity. As at March 14, 2024, the total volume of purchases and sales was higher than in the same period in 2023. In terms of exchange rate movements, the domestic currency strengthened against the USD as compared to the last quarter of 2023. The anticipated uptick in economic activity could result in increased demand for foreign exchange, which if not matched with a sustained inflow of foreign currency, could lead to a depreciation of the Seychelles rupee.

The deflationary trend in the average prices of goods and services in year-on-year terms, which has been observed since May 2023, has continued thus far in 2024. This was largely attributed to the reduction in global food and energy prices as well as the appreciation of the domestic currency. In February 2024, the year-on-year inflation rate was *negative* 0.3%, whilst the 12-month average inflation rate was *negative* 1.5%. Inflation is anticipated to remain low in the upcoming quarters. Considering the aforementioned developments and outlook, the CBS Board has concluded that there is enough space to loosen monetary policy to stimulate further economic activity. Hence, at its Monetary Policy Meeting held on March 25, 2024, the Board decided to lower the MPR from 2.0% to 1.75% for the second quarter of 2024. Consequently, the interest rates on the SDF and SCF will be reduced to 0.25% and 3.25%, respectively. The Minimum Reserve Requirement (MRR) remains unchanged at 13% of applicable deposit liabilities, but as previously approved by the Board, it may be reduced to 12% on rupee-denominated deposits should it be required.

In line with its objectives, the Central Bank remains vigilant and stands ready to adjust its policies if necessary.