CENTRAL BANK OF SEYCHELLES

P. O. Box 701, Victoria, Seychelles

Tel: + (248) 4 282 000; Fax: + (248) 4 226 104

Website: www.cbs.sc

PRESS COMMUNIQUÉ

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CBS maintains the Monetary Policy Rate at 2.0% for Q4 2021

The Board of the Central Bank of Seychelles (CBS) has decided to maintain the Monetary Policy Rate (MPR) at 2.0% for the fourth quarter of 2021. Despite a pick-up in domestic economic activity, the economy has not fully recovered from the effects of the COVID-19 pandemic. Activities in the tourism sector have relatively improved since the relaxation of entry requirements for visitors on March 25, 2021, although visitor arrivals and earnings remain far below pre-pandemic levels. This is also due to the gradual easing of travel restrictions in key tourism source markets in line with their vaccination progress and the ongoing recovery of the global economy. Nonetheless, the uneven rate of vaccinations globally and setbacks caused by the emergence of variants still pose a risk to the domestic recovery path. Despite the strengthening of the domestic currency, rising international commodity prices and high global shipping costs have also kept domestic inflationary pressures elevated. However, this is expected to lessen with the gradual normalisation of the global economy. Mindful of the elevated domestic price level and persisting challenges, CBS considers continued support to the economy as crucial to set the conditions for a full economic recovery. This is also in view of the fact that limited interest rate transmission has been observed in the economy, despite the recent structural shift in the interest rate corridor. Consistent with the unchanged MPR, the interest rate on the Standing Deposit Facility (SDF) and Standing Credit Facility (SCF) will remain at 0.5% and 3.5%, respectively.

Domestic economic activity has somewhat improved since the relaxation of entry requirements for visitors at the end of the first quarter of 2021. This, in addition to the heightened level of air connectivity - provided by the return of several airlines and the increased frequency of flights by existing carriers - have led to a much needed boost in visitor arrivals. Such has also been facilitated by the gradual lifting of travel restrictions in key tourism source markets and overall willingness for travel given vaccine availability and vaccination progress. There are promising signs of a partial recovery, with some improvement in production statistics and overall domestic activity, although the effects of the pandemic are still being felt across various sectors of the economy. In order to ensure interest rates in the market are aligned with prevailing macroeconomic fundamentals, the Bank implemented a structural shift in the interest rate corridor in July 2021. Whilst this realignment of the corridor led to the expectation of a general reduction in interest rates, the Board expressed disappointment that this has not been fully transmitted in the banking sector.

One of the main impediments in the labour market remains the issue of skills mismatch; the ongoing re-skilling and placement programmes by the relevant authorities aim to address such challenges. Furthermore, the easing of restrictions on entry requirements for foreign labour is expected to lead to some pick-up in activity in some sectors, such as construction and agriculture.

In the domestic foreign exchange market, a further strengthening of the rupee was observed in the third quarter of 2021 relative to the previous quarter, owing to the increase in the supply of foreign exchange exceeding the growth in demand. However, statistics for September 2021 thus far show that demand for foreign exchange exceeds supply. Whilst the exchange rate has remained relatively stable, it continues to be dependent on movements in the aggregate level of supply and demand, and consequently, the underlying factors that influence these indicators.

On the external front, oil and food prices continued to increase as a result of rising demand following a pick-up in global economic activity coupled with supply-side challenges. The latter included disruptions in production and transportation, amongst other constraints, which have resulted in higher commodity prices. Additionally, the final landing cost of commodities have been impacted by high shipping and freight costs, which have increased considerably in 2021 compared to 2020. The challenges in regards to shipping were exacerbated by the globally uneven vaccination progress, resurgences in infections in commodity supply markets and strict COVID-19 measures in key shipping ports. Oil and food prices are expected to remain elevated but gradually decline in 2022 on the prospect of better supply outlooks. However, shipping constraints and high freight costs are set to persist in the near term and are anticipated to affect global consumer prices for the remainder of the year.

Whilst mindful of the increased costs associated with shipping and transportation during the year, the downward adjustment in the exchange rate, even to below pre-COVID levels at some point, the Board is concerned that this is not reflected in domestic consumer prices. The Board has requested the broadening of the analysis being conducted to assess factors impacting prices in the domestic economy.

Given the structure of the local economy, its recovery is conditional on external developments, key of which being the revival of the global travel and tourism industry. This is dependent on the general response to the vaccination programmes and the easing of travel restrictions, particularly in our main tourism markets. However, the emergence of new variants and the effectiveness of existing vaccines to the new strains may hinder the recovery process. Domestic factors such as fiscal and debt sustainability, policy alignments and improved labour market conditions are also critical elements. Despite the prolonged uncertainties arising from the current environment, there are promising signs of a partial recovery, although it is still below pre-pandemic levels.

The decision to maintain an accommodative stance was taken by the Board at its Monetary Policy Meeting held on September 27, 2021. In line with this, the MPR remains at 2.0% and the interest rates on the SDF and SCF will be kept at 0.5% and 3.5%, respectively. The Minimum Reserve Requirement (MRR) applicable on rupee-denominated deposit liabilities was reduced from 13 per cent to 10 per cent of on July 14, 2021 and will be maintained at 10 per cent for the upcoming quarter.

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