

Central Bank of Seychelles



Monetary Policy Report

January 2024



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1.0 Overview

In 2023, the global economy continued to recover from the abating effects of the COVID-19 pandemic, the negative consequences of the war between Russia and Ukraine, high foreign inflation, and as of October 07, the escalation in the conflict between Israel and Hamas. Headline inflation subsided in most countries on account of the tight monetary policy conditions and a decline in international commodity prices. Consequently, the International Monetary Fund (IMF) World Economic Outlook (WEO) published in January 2024, indicated a slowed down in global growth to 3.1 per cent in 2023 as compared to 3.5 per cent in the previous year. As compared to the WEO update of October 2023, the outlook for 2024 was revised upwards by 0.2 percentage point on account of stronger economic activity in China, the United States, as well as in large emerging markets and developing economies. Relative to 2023, the global growth for 2024 is expected to remain unchanged at 3.1 per cent.

Domestic economic activity in 2023 was underpinned by the positive performance of the tourism sector. Visitor arrivals totalled 350,879, which was an expansion of 5.7 per cent compared to 2022. Such outcome was on account of the increase in tourists from traditional western European markets such as Germany and Italy, as well as Russia and the Middle-Eastern countries. In year-on-year terms, tourism earnings were estimated to have increased by 5.8 per cent to stand at US\$989 million.

There was a rise in the volume of transactions in the foreign exchange market in the second half of 2023, in line with the increase in domestic economic activity. Both purchases and sales of foreign currency were higher when compared to 2022. With the exception of December 2023, demand exceeded supply of foreign exchange during the latter half of 2023. This development supported the overall weakening of the Seychelles Rupee (SCR) in the second half of the year as compared to the first six months of 2023. However, in annual average terms, the Seychelles rupee strengthened against the US dollar in 2023 relative to 2022. As for price developments, a deflationary trend in the average prices of goods and services was observed as of May 2023. This outcome was mainly underpinned by the stronger domestic currency in annual average terms, moderation in global inflation, reduction in international fuel and food prices as well as the decline in freight costs.

As for the outlook for 2024, economic growth is expected to be mainly supported by the tourism sector. However, the intensification of geopolitical tensions may negatively affect global demand for travel and lead to a decline in the supply of foreign exchange. Furthermore, geo-economic fragmentation as well as the attacks on cargo ships in the Red Sea and Persian Gulf, may cause disruptions in international trade. Subsequently, the forecasted rise in international commodity prices is expected to lead to higher demand for foreign exchange. If the decline in the supply of foreign currency and the rise in demand for foreign currency materialises, the Seychelles rupee is anticipated to weaken. Consequently, domestic inflation is forecasted to increase in 2024 relative to 2023. As such, heightened uncertainty is expected to prevail in 2024, on account of the probable worsening of the geopolitical tensions and geo-economic fragmentation.



2.0 Recent external developments

2.1 Global growth

Global economic growth remained slow and uneven during 2023. The divergence in economic activity between advanced and emerging countries widened, as the slowdown was more pronounced in the former category. This outcome was attributed to the tight global monetary policy conditions, geo-economic fragmentation and increased geopolitical tensions namely between Russia and Ukraine, as well as the escalation of the conflict between Hamas and Israel. As such, global economic growth was estimated at 3.1 per cent in 2023, as compared to 3.5 per cent in the preceding year.

2.2 International commodity prices

International oil prices rebounded as of July 2023, following the gradual reduction in the first six months of the year. This outcome was predominantly attributed to oil production cuts effected by the Organisation of the Petroleum Exporting Countries plus selected partner countries (OPEC+) in addition to further voluntary reduction in oil supply by Saudi Arabia and Russia. In September 2023, both countries announced that the voluntary cuts would be extended through to the end of the year. This led to a further spike in international fuel prices to US\$94 per barrel in September 2023 as compared to US\$80 per barrel in July 2023. Nevertheless, oil prices gradually declined to US\$83 per barrel and US\$78 per barrel in November 2023 and December 2023, respectively, as oil supply from non-OPEC countries helped stabilise the market. Given the aforementioned movements, Brent crude oil prices averaged US\$82 per barrel in 2023, relative to US\$101 in the previous year.

As regard to food prices, the normalisation of supply chains led to a decline in overall prices in 2023, as opposed to the highs recorded in 2022. Notwithstanding this fact, food prices remained elevated when compared to pre-pandemic levels. A major development in the second half of 2023 was Russia's exit from the Black Sea Grain Initiative in July, which impeded the export of Ukrainian grains, related foodstuffs and fertilisers to the global market. Furthermore, in the same month, India enforced an export ban on non-basmati rice which tightened the global rice market. Whilst these developments led to some uncertainty, the Food and Agricultural Organisation (FAO) Food Price Index maintained a declining trend throughout the year. As at December 2023 and in relation to the same period in 2022, overall food prices were lower by 10 per cent. From an annual perspective, the index declined by 14 per cent in 2023 when compared to the previous year. Whilst the price of vegetable oils, dairy, cereals, and meat were lower by 33 per cent, 17 per cent, 15 per cent and 3.5 per cent, correspondingly, sugar prices were higher by 27 per cent. The increase in global supply contributed towards the aforementioned price reductions whereas, the rise in sugar prices reflected shipping bottlenecks in Brazil, in addition to adverse weather conditions associated with the El Niño event in other major sugar producing countries.



2.3 Foreign inflation and monetary policy conditions

Foreign inflation continued to subside throughout the second half of 2023, although it remained above the respective target of many central banks in emerging markets and advanced economies. There was a deceleration in the pace of monetary policy tightening by major central banks whereby, the majority paused interest rate hikes, and therefore maintained their policy rates. Nonetheless, the effects of the tight monetary and financial conditions contributed to the moderation in demand, consumption and global economic activity.

Inflation subsided much faster in the United States (US) in comparison to economies in Europe. At the December 2023 meeting, the US Federal Reserve Bank (US Fed) kept the main policy rates unchanged for the fourth consecutive month. As such, the benchmark overnight borrowing rate remained in the target range of 5.25% to 5.50%. In the same month, the European Central Bank (ECB) maintained the key policy rates for the second consecutive meeting and thus, signalled a pause in the interest rate tightening cycle that was initiated since July 2022. The main refinancing operations remained at 4.50%, whilst the marginal lending facility and deposit facility were kept at 4.75% and 4.00%, respectively. The tighter monetary and financial conditions dampened demand, which contributed to the faster-than-anticipated moderation in inflation. At the December 2023 meeting, the Bank of England (BoE) left its main policy rate unchanged at 5.25%, for the third successive meeting. Notably, average prices of goods and services in the United Kingdom has taken longer to respond to monetary policy, as inflation remained persistently higher than other countries in Europe.

In emerging economies, the South African Reserve Bank (SARB) in its November 2023 meeting, kept its policy rate at 8.25%, unchanged since May 2023. Inflation remained well within its target range of 3.00% to 6.00%. Within the region, in November 2023, the Bank of Mauritius (BoM) maintained its policy rate at 4.50%, for its third successive meeting. Inflation continued to moderate, in view that the lagged effects of past monetary policy actions were being transmitted to the real economy through different channels.



3.0 Recent domestic developments

3.1 Tourism performance

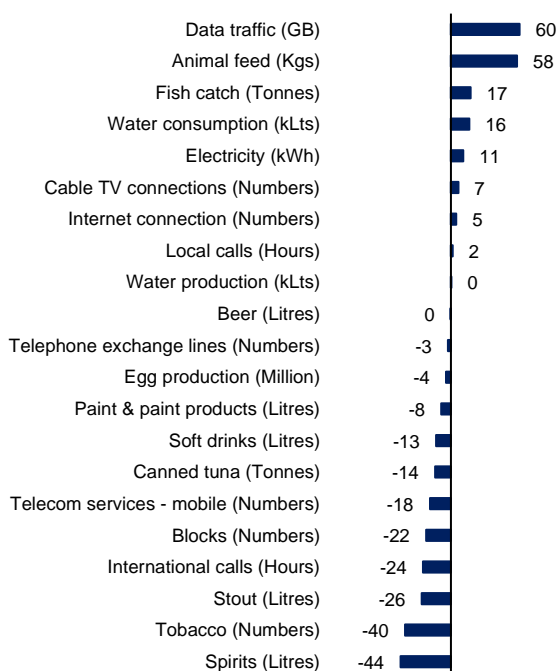
A total of 178,834 tourists visited Seychelles in the second half of 2023, which was a year-on-year increase of 1.7 per cent. Over the same period, tourism earnings were estimated at US\$510 million, an expansion of 15 per cent when compared to US\$445 million in 2022.

In annual terms, the total number of tourists in 2023 amounted to 350,879. This was an increase of 5.7 per cent relative to the outcome for the previous year. In regard to earnings generated by the sector, it stood at US\$989 million, which was 5.8 per cent higher than the recorded level for 2022.

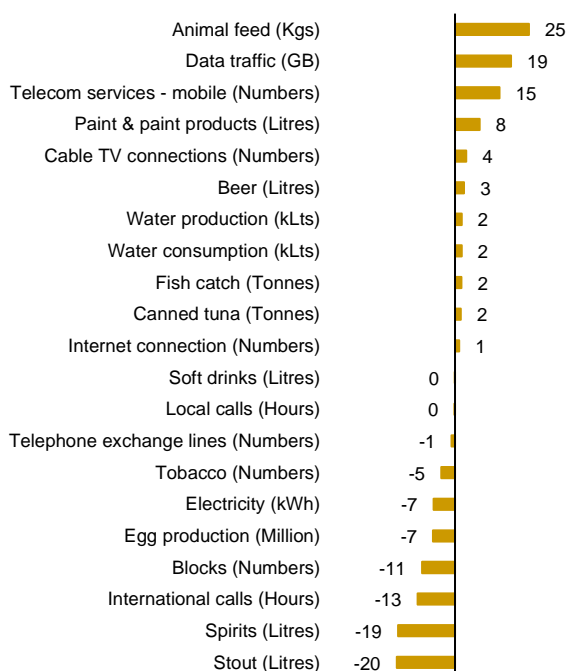
3.2 Production indicators

Production statistics for the third quarter of 2023 showed mixed movements in the output of several indicators. As compared to the same period in 2022, there were declines in some of the production indicators that were attributed to lower demand. Conversely, higher demand for goods and services underpinned the quarter-on-quarter increase in the output of certain indicators.

**Figure 1: Production indicators (YoY, %)
(Q3 2023/ Q3 2022)**



**Figure 2: Production indicators (QoQ, %)
(Q3 2023/ Q2 2023)**



Source: National Bureau of Statistics

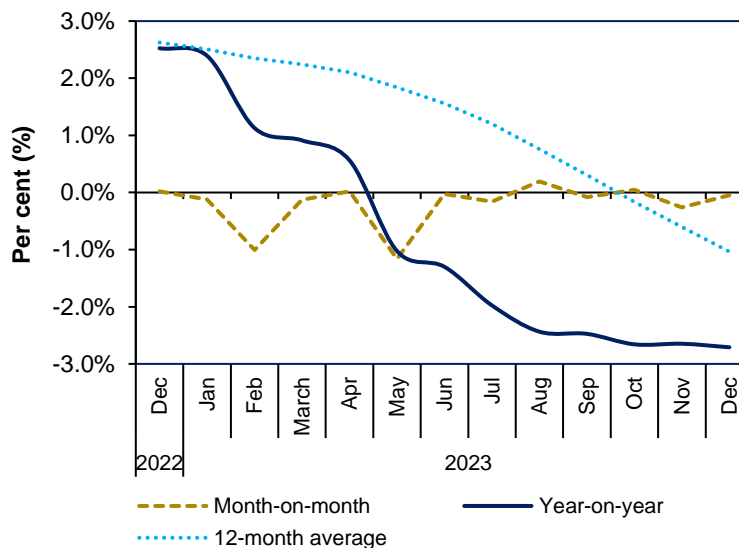


3.3 Inflation

The deflationary trend in the average prices of goods and services in year-on-year terms, continued in the second half of 2023. As for the 12-month average inflation rate, the deflationary trend was observed as of October 2023. This outcome was largely driven by the fall in international fuel and food prices as well as the decline in freight costs.

As at end-December 2023, the year-on-year inflation rate stood at *negative* 2.7% whilst the 12-month average inflation rate was at *negative* 1.0%.

Figure 3: CPI Inflation

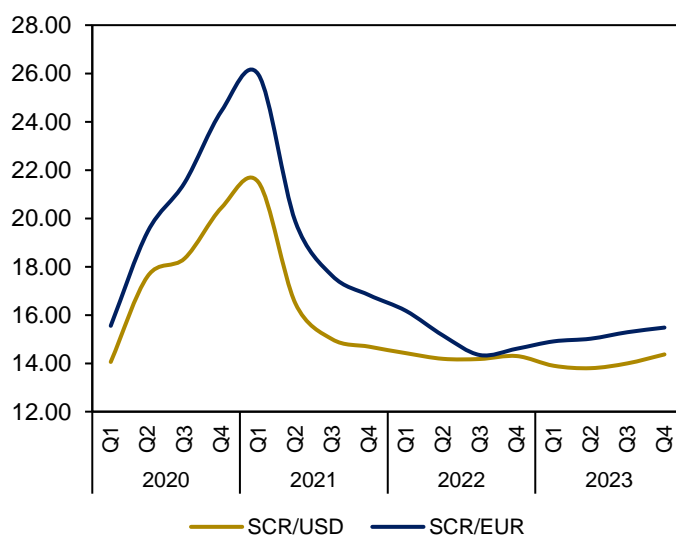


Source: National Bureau of Statistics

3.4 Exchange rate

The SCR weakened against the US dollar (USD) in the second half of 2023. This was on account of higher demand for foreign currency, mainly associated with the increased level of imports ahead of the end-of-year festivities. However, on an annual average perspective, the rupee strengthened against the USD.

Figure 4: Nominal exchange rate (level)



Source: Central Bank of Seychelles

Against the Euro (EUR), the rupee was on a depreciating trend since April 2023, due to movements in international currency markets. Consistent with the aforementioned developments, the SCR traded at an average of 14.2156 against the USD and 15.5513 relative to the EUR in December 2023.



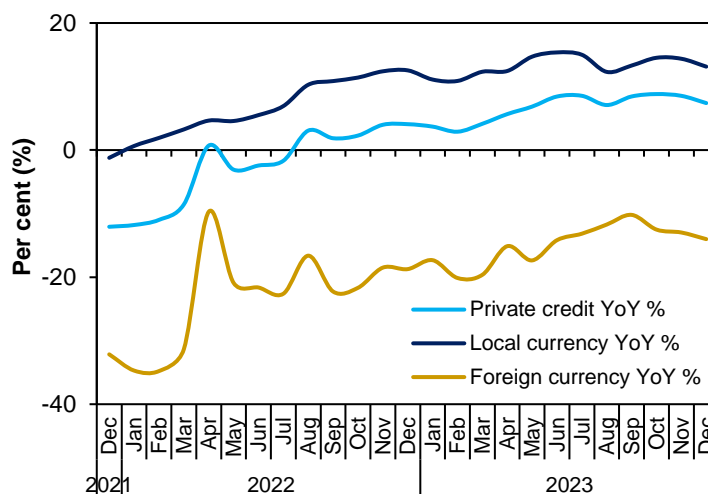
As for the transactions in the domestic foreign exchange market, a total of US\$465 million was purchased by authorised dealers from July to December 2023, whilst total sales amounted to US\$489 million. As compared to the same period in 2022, this represented expansions of 5.4 per cent and 4.6 per cent in purchases and sales, respectively. Overall, for the second half of 2023, there was a net outflow of US\$24 million.

3.5 Private sector credit

There was an increase in credit disbursed to the private sector, due to the uptick in economic activity supported by the accommodative monetary conditions.

In December 2023, the stock of outstanding credit to the private sector expanded by 7.4 per cent relative to the same period last year. This outcome was primarily driven by an increase of 13 per cent in local currency-denominated loans. Conversely, credit extended in foreign currency contracted by 14 per cent in rupee terms.

Figure 5: Growth in private sector credit



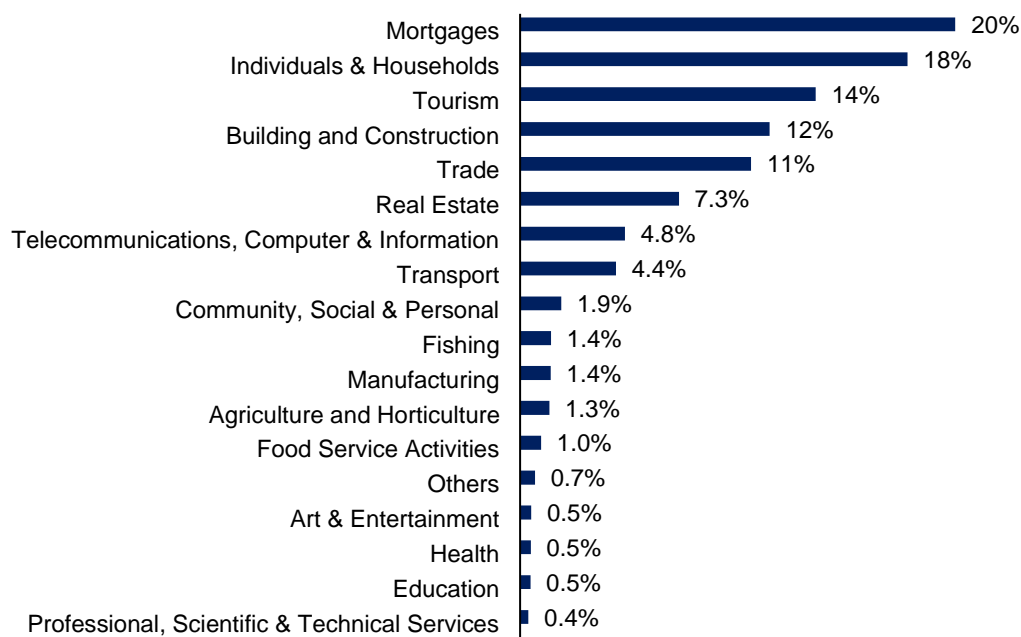
Source: Central Bank of Seychelles

Notably, with the exception of December 2023, foreign currency-denominated loans held by the private sector increased as of October 2023, which marked a reversal in the trend following five consecutive months of decline. The rise in foreign currency-denominated loans aligned with the moderation in the pace of increase in the average lending rate on foreign currency loans.



As regard to the sectoral distribution of credit disbursed to the private sector in December 2023, 'Mortgages' and 'Individuals & Households' accounted for 20 per cent and 18 per cent, respectively. This was followed by 'Tourism' with a share of 14 per cent.

Figure 6: Sectoral distribution of private sector credit for December 2023

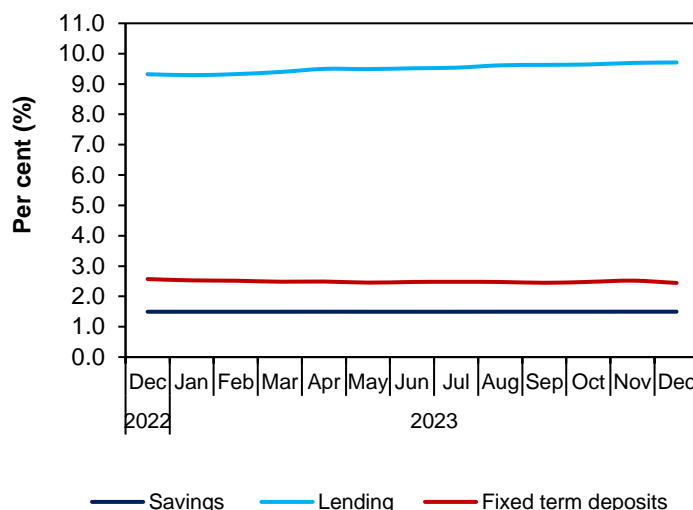


Source: Central Bank of Seychelles



3.6 Interest rates

Figure 7: Interest rates

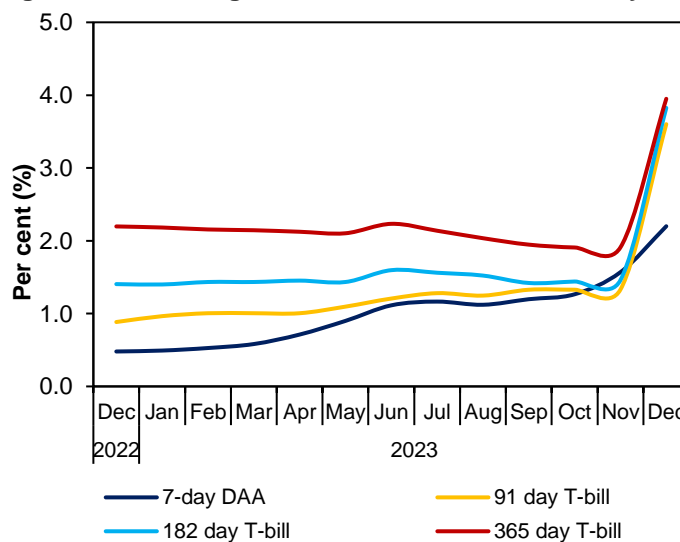


Source: Central Bank of Seychelles

December 2023. Such development aligned with a change in the prevailing pool of foreign currency-denominated loans with variable contracts, to higher interest rate tiers. This shift continued to be associated with tight external financial conditions, as interest rates globally, remained elevated to address inflation concerns. In July 2023, the average interest rate on rupee-denominated loans reached a historic low of 9.98%. Subsequently, the average lending rate for local currency-denominated credit facilities increased since July 2023, primarily as a result of higher interest rates on loans disbursed to certain sectors such as 'Trade' and 'Transport' during that period. As such, the average interest rate on credit denominated in local currency rose by 12 basis points to stand at 10.17% in December 2023 relative to 10.05% in the same period last year.

Given government's preference for longer-term maturities coupled with the accommodative monetary policy stance and higher liquidity conditions, the return on government securities on the shorter-end of the yield curve were low and stable, with the exception of December 2023. As at end-2023, the return on T-bills stood at 3.60% on the 91-day bills, 3.83% on the 182-day bills and 3.95% on the 365-day bills.

Figure 8: Yield on government securities and 7-day DAA



Source: Central Bank of Seychelles



In comparison to the same period in the previous year, this was an increase of 2.7 percentage points, 2.4 percentage points and 1.8 percentage points in the yield on the 91-day T-bills, 182-day T-bills and 365-day T-bills, respectively. The uptick in the average return on T-bills in December 2023 partly reflected the rise in the yield on the 7-day DAA rate. As for the return on the 7-day DAA, it increased from 0.49% in January 2023 to stand at 2.20% in December 2023. As compared to December 2022, the interest rate on the 7-day DAA rose by 1.7 percentage points at end-2023. The resumption of optimal liquidity absorption operations using the 7-day DAA as well as the reinstatement of the 1-month and 2-month DAA in the fourth quarter of 2023, underpinned the upward trend in the yield of the 7-day DAA observed as of October 2023. As such, this signalled a reversal away from the higher-than-optimal liquidity conditions that was instituted in response to the COVID-19 pandemic.

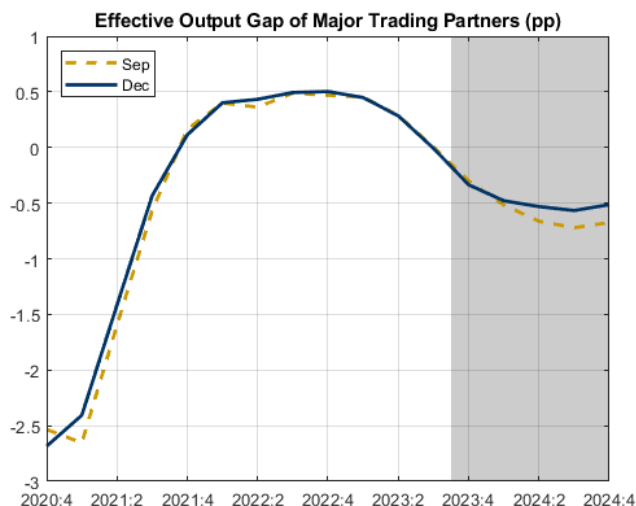
Consistent with government's debt strategy of issuing longer-term maturities, Treasury bonds with a tenor of 10 years were allotted on two separate occasions in the second half of 2023, namely in September and November, at an average yield to maturity of 7.12% and 6.91%, respectively. Additionally, a Development Bank of Seychelles (DBS) T-bond with a tenor of 5 years was issued in November 2023 with an average yield to maturity of 5.18%.



4.0 External outlook

4.1 Global growth projections

Figure 9: Effective output gap of major trading partners (percentage points)



Source: Global Projection Model Network projections – December 2023

As compared to September 2023, the outlook on the effective output gap of major trading partners was marginally revised upwards in December 2023. Nevertheless, some of the key trading partners are expected to experience mild recession going into 2024. The latter is on account of dampened household spending owing to tight financial conditions.

As per the IMF's WEO published in January 2024, global growth is projected at 3.1 per cent in 2024, an increase of 0.2 percentage point when compared to the October 2023 publication. However, the

global growth projections for 2024 and 2025 are below that of the historical average observed from 2000 to 2019. Such outlook represents a continuation in the slowdown of economic activity associated with tight monetary and financial conditions, specifically in the performance of advanced economies. Consequently, economic growth in 2024 is anticipated to be primarily driven by emerging and developing economies.

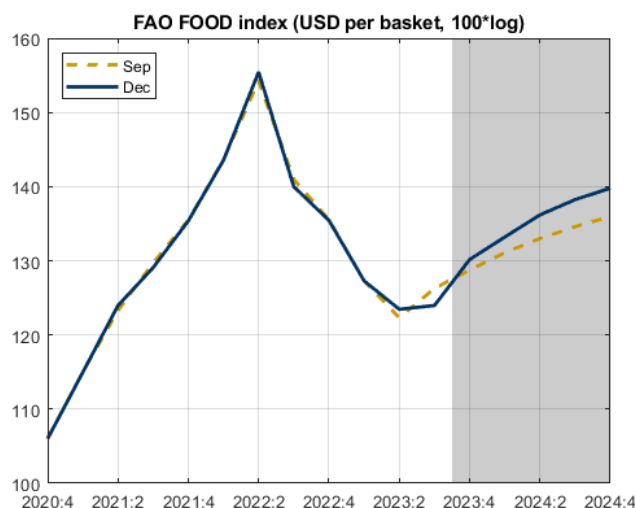


4.2 Global commodity price and inflation outlook

Global commodity prices are forecasted to remain subject to several risks in the medium term. The outlook is highly dependent on shipping concerns related to the attacks on cargo ships in the Red Sea and Persian Gulf, supply constraints associated with international trade fragmentation as well as negative weather events.

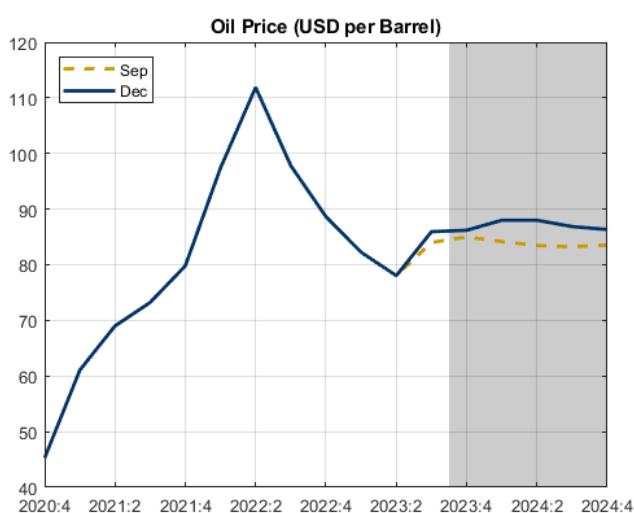
As compared to the first six months of 2024, international food prices are anticipated to increase in the second half of 2024, although remaining below the peaks observed in 2022. Crop failures related to adverse weather events such as heat waves, droughts, flooding and the El Niño phenomenon, may lead to spikes in food prices and worsen food insecurity. The cessation of the Black Sea Grain Initiative in July 2023 as well as continued export restrictions on agricultural products associated with geo-economic fragmentation, may lead to supply constraints in international markets.

Figure 10: FAO Food Price Index (USD per basket, 100*log)



Source: Global Projection Model Network projections – December 2023

Figure 11: Oil Price (USD per barrel)



Source: Global Projection Model Network projections – December 2023

Global fuel prices are forecasted to be higher in 2024 relative to 2023. Notwithstanding the subdued global economic outlook, oil production cuts implemented by OPEC+ countries and voluntary reductions by Saudi Arabia and Russia as well as shipping concerns in the Red Sea and Persian Gulf, are anticipated to underpin the increase in international fuel prices.

The price of Brent Crude is forecasted to average US\$87 per barrel in 2024, a rise of 5.0 per cent when compared to 2023.

Nonetheless, the forecast is subject to a high level of uncertainty, on account of shipping concerns in the Red Sea and the Persian Gulf, as well as the decision of OPEC+ countries regarding the supply of oil.



The IMF WEO of January 2024 projects global inflation to be at 5.8% in 2024, a decline from 6.8% in 2023. This outcome is primarily expected to be driven by the moderation in average prices in advanced economies from 4.6% to 2.6% in 2023 and 2024, respectively. Furthermore, inflation in emerging markets and developing economies is anticipated to subside from 8.4% in 2023 to 8.1% in 2024. However, consistent with the aforementioned factors, the outlook will change if the increase in international commodity prices is faster-than-expected.

4.3 Expected monetary policy stance

Whilst most economies are viewed as having reached the peak of their tightening cycles, there may be a reversal in monetary policy in the near-term, due to the anticipated softening in inflationary pressures. The US Fed has signalled cuts in interest rates in 2024, whilst the ECB and the BoE are expected to maintain rates for a longer period in order to support a further moderation in prices. As for the SARB, it is anticipated to maintain its repo rate at 8.50% until mid-2024, before contemplating a reduction. This strategic approach by policymakers is aimed at carefully navigating the challenges associated with inflationary risks and the timing of when global interest rates will start to fall.



5.0 Domestic outlook

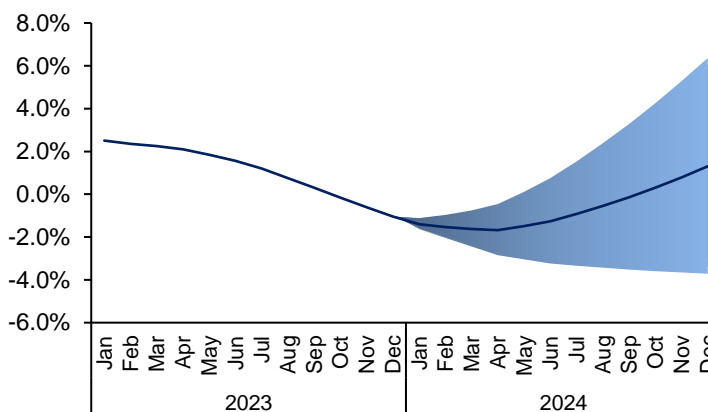
5.1 Exchange rate

In line with the anticipated positive performance of the tourism industry, a sustained inflow of foreign exchange is expected in 2024. Notwithstanding such, demand for foreign currency is projected to rise on account of the anticipated increase in international commodity prices as well as freight costs, given the attacks on cargo ships in the Red Sea and Persian Gulf, oil production cuts by OPEC+ countries, the effects of climate-related events such as the El Niño, and the escalation in other geopolitical tensions. Furthermore, imports of goods are forecasted to be higher in 2024. In particular, a rise in imports of construction-related materials is anticipated, given the need to rebuild or repair damaged properties that were impacted by the disasters that occurred in December 2023. This is in addition to the import of new stock by businesses to replace those that were destroyed during the explosion on December 07, 2023. Aside from such, the projected increase in credit in 2024 is also expected to result in higher demand for foreign currency. Given the aforementioned factors, the domestic currency will weaken if demand for foreign exchange exceeds supply.

5.2 Inflation

Global inflation is expected to subside as a consequence of the tight monetary conditions that have prevailed since 2022. Inflation in advanced and emerging economies are projected to moderate in 2024 relative to the preceding year. On the contrary, international food and fuel prices are anticipated to remain subject to significant risks in 2024. The increase in global commodity prices may be faster-than-projected on account of several risks namely, higher freight costs related to the attacks on cargo ships in the Red Sea and Persian Gulf, potential extension in oil production cuts by OPEC+ countries and supply shocks attributed to adverse weather events.

Figure 12: 12-month average inflation (%) forecast



Source: National Bureau of Statistics / Central Bank of Seychelles

As a result of the high dependence on imports, the potential increase in international commodity prices is expected to filter through to the domestic economy vis-à-vis the import channel. Consequently, the 12-month average inflation rate is estimated at 1.3% in December 2024. Nevertheless, the domestic price outlook may change in line with global developments and movements in the external value of the domestic currency.



5.3 Monetary policy stance for Q1 2024

The Board decided to maintain an accommodative monetary policy stance for the first quarter of 2024. This took into consideration the high level of uncertainty in the external environment and the impacts of the disasters that occurred in December 2023 which affected businesses and households. Mindful of these economic realities, the Board decided that it was imperative for the Bank to continue supporting the local economy. As a result, the Monetary Policy Rate (MPR) remained at 2.00% whilst the interest rates on the Standing Deposit Facility (SDF) and Standing Credit Facility (SCF) were kept at 0.50% and 3.50%, respectively. The Minimum Reserve Requirement (MRR) remained unchanged at 13% of applicable deposit liabilities. However, as approved by the Board, the MRR may be reduced to 12% on rupee-denominated deposits to ensure sufficient liquidity in the system, should it be required. This will complement the other measures being implemented at the national level to support those affected by the disasters in December 2023.

5.4 Private sector credit

Total credit extended to the private sector is forecasted to rise by 7.8 per cent in 2024 as compared to 2023, primarily driven by local currency loans. As was the case in 2023, loans extended to the non-traditional sectors are anticipated to rise, in line with greater emphasis on economic diversification.

Externally, inflationary pressures have eased, prompting key central banks such as the US Fed, ECB and BoE to signal a relaxation in monetary policy during 2024, albeit at different times. In line with this, the expected normalisation of foreign interest rate is anticipated to lead to increased demand for foreign currency-denominated loans on the domestic market, particularly in USD terms, as interest rates on these facilities reduces. When valued in rupee terms, such an expansion in credit in USD terms, would likely result in an even higher stock of outstanding loans, if there is a depreciation of the Seychelles rupee.



5.5 Interest rates

Government remains dedicated to its debt strategy, emphasising the holding of longer-term instruments. Depending on overall liquidity conditions, it is expected that returns on government securities at the shorter end of the yield curve will persist at low and stable levels. Despite the increase in the yield on the 7-day DAA since the beginning of 2023, the upward trend is likely to slow down in 2024 following the resumption of optimal liquidity operations as of October 2023.

Consequently, the interest rate environment across the term structure is anticipated to remain relatively low. However, due to the economic setbacks caused by the recent disasters, there is a possibility of a broader interest rate spread driven by a higher risk premium. In anticipation of this scenario, various authorities are expected to implement policy measures to mitigate such risks. Launched on January 22, 2024, the '7th December Micro Business Scheme' allows for tax-compliant micro businesses with an annual gross turnover of less than R2.0 million in 2022, to be eligible for the interest-free loan of up to R100,000. This facility, which will be administered through DBS, offers a grace-period of 12 months and subsequent repayment plan of 36 months whereby, applications can be made until end-June 2024.

The assumptions discussed thus far pertain to interest rates on facilities denominated in the local currency. As previously highlighted, external developments in financial markets may continue to influence the existing portfolio of foreign currency-denominated loans with variable rates.

5.6 Other expected developments

A fiscal budget of R10.6 billion was approved for 2024 by the National Assembly on December 04, 2023. The proposed budget places more emphasis on social aspects, with upward revisions in several existing benefits. These include benefits for orphaned, semi-orphaned and foster children; survivor benefits; allowance for expectant mothers from inner islands; as well as maternity and paternity benefits applicable to self-employed parents or those working on a casual basis. In addition, a new benefit will be introduced for women who are having multiple births.

Government also announced several revisions in its tax policies that are to be implemented in 2024. One of which is a change in taxes applicable on bonuses and salaries paid in respect of annual performance. Under the new structure, the sum up to one month's salary will be exempt from tax. Furthermore, any bonus up to 15 per cent of the annual salary will be taxed at 15% and above this amount, a tax rate of 20% will be applied. This new structure aims to incentivise employees given that the performance-related take-home pay would be higher when compared to the previous calculation. Amendments were also made to the Income and Non-monetary Benefits Tax Act whereby as of January 01, 2024, employers will not be charged the 15% tax applicable on voluntary (non-mandatory) and private pension contributions made by an employer, provided these contributions represent less than 8.0 per cent of the employee's salary. The removal of the 15% tax is to encourage retirement planning as well as increase participation in voluntary pension contributions.



Another objective of the budget is to encourage more businesses to invest in renewable energy. Taking into consideration the high costs associated with these investments, businesses will get an additional five years under the new policy to carry-forward losses, resulting in a ten-year carry-forward of losses.

To support economic diversification and reduce reliance on tourism, a ‘tax holiday’ will be provided to businesses in three priority sectors: the blue economy, the digital economy and manufacturing. Businesses in these sectors will be exempt from paying tax for the first five years but will still be required to submit their tax returns to the Seychelles Revenue Commission (SRC).

In an effort to encourage the switch to more environmentally-friendly transportation, hybrid vehicles with a battery capacity of 200 volts or higher will be categorised as full hybrids so as to benefit from lower excise tax and environment levies. The main policies that became effective as of January 01, 2024 include:

Vehicle Engine Capacity	Current Excise Tax Rate	New Excise Tax Rate	Current Environmental Levy	New Environmental Levy
Up to 1600CC	12.5%	10%	R0	R0
Over 1600CC but not exceeding 2000CC	75%	50%	R100,000	R50,000
Over 2000CC but not exceeding 2500CC	100%	75%	R175,000	R75,000
Over 2500CC	100%	75%	R175,000	R100,000

As for the different categories of plug-in hybrids, there was a reduction in the excise tax whilst the environmental levy was maintained at R0. The changes are highlighted below:

Vehicle Engine Capacity	Current Excise Tax Rate	New Excise Tax Rate
Up to 1600CC	10%	5.0%
Over 1600CC but not exceeding 2000CC	15%	10%
Over 2000CC but not exceeding 2500CC	20%	15%
Over 2500CC	25%	20%



Policies were also devised in regard to pick-up trucks and twin cabs, in an effort to reduce the cost of these vehicles that are largely used by small and medium contractors. The excise tax was reduced to a flat rate of 40% as opposed to the tax rates that varied between 50% to 100% based on the cylinder capacity. In addition, the environmental levy was lowered from the range of R70,000-R175,000 to R40,000.

5.7 Perception on the economic environment

On the global front, economic growth is expected to remain unchanged at 3.1 per cent in 2024 when compared to 2023. Nevertheless, several downside risks such as tight monetary conditions, increasing geopolitical tensions and possible international trade disruptions, may dampen economic activity. Concurrently, various factors are anticipated to affect global trade and thereby, lead to a rise in international commodity prices in 2024. These include the geopolitical tensions caused by the Russia – Ukraine war and the escalation of the conflict between Israel and Hamas, oil production cuts by the OPEC+ countries, cessation of the Black Sea Grain Initiative since July 2023, attacks on cargo ships in the Red Sea and Persian Gulf as well as climate-related events such as the El Niño.

On the domestic front, despite the year-on-year decline in the average prices of goods and services since May 2023, the deflationary trend is anticipated to be short-lived, given the potential increase in global commodity prices.

Additionally, the disasters that occurred in December 2023 impacted many households and businesses. These events brought forth many challenges and uncertainties relating to the reconstruction works and the resumption of operations for businesses impacted by the explosion. Whilst there is a concerted effort by various local stakeholders as well as bilateral partners to assist in this endeavour, the full restoration of the damages caused will be dependent on several factors, such as the timing and extent of insurance claim payouts and the availability of construction materials. On the fiscal side, the support being extended to those affected is expected to increase government expenditure. Conversely, lower fiscal revenue is anticipated in light of the reduced economic activity in the first half of 2024. Mindful of these realities and risks, appropriate policy alignment may help address the challenges ahead and ensure macroeconomic stability.

Notwithstanding the aforementioned points, domestic economic activity is expected to pick up in the second half of 2024 as reconstruction efforts gain momentum and more businesses resume operations. In line with such, an anticipated increase in imports of construction materials and other goods to replenish damaged stock are expected to lead to higher demand for foreign exchange. The Bank is cognisant of the potential inflationary pressures associated with the pick-up in economic activity in the second half of 2024 as well as the potential rise in international commodity prices. At the same time, it also recognises the need to support the domestic economy during the challenging times following the disasters of December 2023. As such, the Bank remains committed to supporting the economy, whilst being cognisant of the impact from prevailing and emerging local and external developments on domestic inflation.



5.8 Update on the TA recommendations

To address challenges in the transmission mechanism of interest rates and to develop the secondary market, two Technical Assistance missions were delivered by the IMF on monetary policy implementation and operations in May 2022 and on secondary market development in July 2022. Subsequently, a reform plan was devised which encompassed recommendations related to the monetary policy operating framework and instruments as well as the interbank and foreign exchange market.

As compared to the update provided in the Monetary Policy Report of July 2023, the recommendation on addressing excess liquidity in line with the monetary policy stance was completed in Q4 2023. The Bank resumed optimal liquidity absorption operations through the 7-day DAA and reinstated the issuance of the 1-month and 2-month DAA. Furthermore, the Bank issued a 364-day DAA to help address the liquidity overhang in the system.

For more details on the list of recommendations, kindly refer to **Annex 1: CBS workplan on the modernisation of the Monetary Policy Framework and Operations**.



6.0 Projections

Table 1: Economic and Financial Indicators				
	2021	2022	2023	2024
	Act.*	Act.*	Act.*	Proj.
(Annual per cent change, unless otherwise indicated)				
National income and prices				
Nominal GDP (millions of Seychelles rupees)	25,347	28,221	29,094	30,317
Real GDP	2.5	8.9	3.8	4.0
CPI (annual average)	9.8	2.6	-1.0	1.3
CPI (end-of-period)	7.9	2.5	-2.7	3.4
Money and credit				
Broad money	-5.1	0.6	5.8	1.6
Reserve money (end-of-period)	11.2	-3.2	-3.5	-2.7
Velocity (GDP/broad money)	1.1	1.2	1.2	1.2
Money multiplier (broad money/reserve money)	3.3	3.4	3.7	3.9
Credit to the private sector	-12.1	4.1	7.4	7.9
Government budget				
	Per cent of GDP			
Total revenue, excluding grants	30.2	30.8	32.9	34.5
Expenditure and net lending	38.8	32.7	37.0	37.2
Current expenditure	33.5	29.8	32.7	31.6
Capital expenditure	5.2	2.4	4.2	5.3
Overall balance, including grants	-5.5	-1.3	-2.8	-1.5
Primary balance	-2.9	0.8	0.0	1.1
Total debt outstanding	73.9	64.1	64.4	65.6

* Nominal and real GDP are estimates, whereas all other indicators are actual figures.

Source: Central Bank of Seychelles; Ministry of Finance; National Bureau of Statistics and IMF staff estimates and projections



Table 2: Monetary Survey						
	Nov-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
	Act.	Act.	Proj.	Proj.	Proj.	Proj.
	(in SCR million)					
Net foreign assets	19,255	19,034	18,852	18,714	18,104	17,890
Central bank	9,166	9,058	8,514	8,201	8,012	7,628
Other Deposit-taking banks	10,088	9,976	10,337	10,512	10,092	10,262
Net domestic assets + OIN	6,081	5,971	6,446	7,094	7,498	8,057
Domestic Assets	15,668	15,693	15,739	15,842	15,533	15,836
Net claims on the government	4,887	4,937	4,975	4,816	4,358	4,244
Credit to the parastatal	1,047	1,020	1,037	1,050	1,076	1,096
Credit to the Private Sector	9,735	9,736	9,727	9,976	10,100	10,496
Other items, net	(9,587)	(9,722)	(9,292)	(8,748)	(8,035)	(7,779)
Broad money	25,336	25,005	25,298	25,808	25,603	25,947
Currency with public	1,332	1,374	1,335	1,284	1,310	1,326
Foreign currency deposits	10,123	9,664	9,940	10,108	9,704	9,868
Local currency deposits	13,881	13,967	14,023	14,416	14,589	14,754

Source: Central Bank of Seychelles



Table 3: Balance of Payments					
	2020	2021	2022	2023	2024
	Act.	Act.	Prel.	Prel.	Proj.
(in US\$ millions unless otherwise stated)					
Current account	-173	-154	-142	-144	-164
<i>In per cent of GDP</i>	-15%	-12%	-8.3%	-6.9%	-7.8%
Trade balance	-359	-507	-731	-886	-924
Exports of goods	473	516	563	538	565
<i>of which: oil re-exports</i>	149	162	193	197	208
<i>of which: tuna exports</i>	252	276	283	250	255
Imports of goods	832	1,023	1,294	1,425	1,490
<i>of which: Oil imports</i>	144	197	299	279	297
Other	617	750	853	966	1,035
Services, net	266	437	680	831	858
Exports of services	767	1,235	1,684	1,826	1,885
<i>of which: tourism earnings</i>	327	588	935	989	1,044
Imports of services	500	798	1,004	995	1,027
Capital and financial account	172	145	156	132	164
Capital account	21	24	17	22	24
Financial account, net	-151	-121	-139	-110	-140
Direct investment, net	-135	-160	-226	-279	-244
Portfolio investment, net	96	-13	3.6	-10	12
Other investment, net	-86	-92	135	150	63
Overall balance	-27	145	-51	30	29

Source: Central Bank of Seychelles

* Incorporates a revised series as of 2016, following the change in methodology for estimating tourism earnings



Annex 1: CBS workplan on the modernisation of the Monetary Policy Framework and Operations

CBS workplan on the modernisation of the Monetary Policy Framework and Operations

	Recommendation	Implementation Timeline	Under consideration	Continuous process	In progress	Completed
Monetary Policy Framework	Review the composition of the Monetary Policy Technical Committee (MPTC)	Q1 2024				
	Analyse monetary policy decision-making process	Q1 2024				
	Reinforce the modelling team	Q2 2024				
	Enhance monetary policy communication	Continuous				
	Introduce a Monetary Policy Report	Q3 2022				
	Formalise monetary policy process manual	Continuous				
	Improve understanding of monetary policy shock transmission	Q2 2023				
	Conduct inflation expectations surveys	Q4 2024				
	Use Forecasting and Policy Analysis System (FPAS) tools in policymaking	Continuous				
Monetary Policy Implementation	Review the rollover mechanism of CBS' holding of Treasury bills	Q2 2024				
	Address excess liquidity in line with the monetary policy stance	Q4 2023				
	Assess the parameters of the Deposit Auction Arrangement	Q4 2024				
	Develop legal framework for repos repurchase and reverse repurchase agreements	Q4 2024				
	Re-introduce reverse repos	Q4 2024				
	Consider instruments for longer-term liquidity absorption	Q4 2025				
	Test all open market operations instruments with each bank on an annual basis	Q4 2024				
	Conduct fine-tuning operations when there are liquidity imbalances	Q4 2024				
	Introduce a collateralised intraday lending facility	Q4 2025				
	Review the structure of the CBS balance sheet	Q4 2025				
Interbank Market	Develop a money market benchmarks project for reference rate in the rupee interbank market	Q4 2025				
	Draft Seychelles annex of the Global Master Repurchase Agreement and develop appropriate legal background to repos for the interbank market	Q4 2028				
Foreign Exchange Market	Review the foreign exchange auction strategy	Continuous				
	Review the net open position limit	Q4 2024				
As at January 2024	Number of recommendations by each level of progress		15	4	1	3
	As a proportion of total recommendations		65%	17%	4.3%	13%