

IMF– Seychelles Conference

Enhancing the Effectiveness of Monetary
Policy and Promoting Financial Deepening

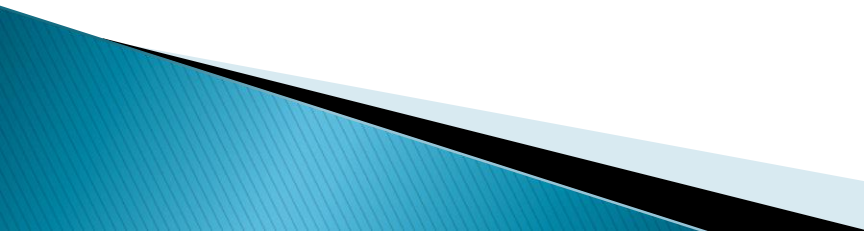
October 2013



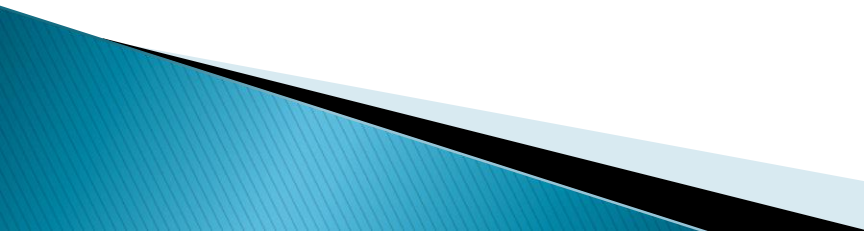
Change in Monetary Policy Framework Introduced in 2008

- ▶ Adoption of a monetary targeting framework where the achievements include:
 - Promotion of liquidity management with the use of indirect instruments
 - Introduction of instruments for liquidity management purposes
 - Elimination of exchange rate and interest rate controls
 - Assistance from IMF TA–Missions in developing appropriate and tailor–made instruments
 - Improving Forecasting Framework
 - Improving Operational Capacity and decision–making process
 - Measures in modernising organisational structure of the Bank

Monetary Policy Implementation Challenges

- ▶ Liquidity withdrawals and associated interest costs to CBS
 - Increases with accumulation of international reserves which is important given the country's vulnerability to external shocks
 - ▶ Interest rate volatility
 - ▶ Changes in banks' behaviour
 - ▶ The inability of CBS to influence import and administered prices
 - ▶ The limited transmissions of interest rates from CBS money market instruments to banks' clients
 - ▶ Importance to coordinate policies
 - The requirement for government to issue securities in support of monetary policy purposes
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CBS' Reactions to the Challenges

- Assessment of the monetary targeting framework
 - Relooking at how monetary policy is implemented
 - Developing appropriate and tailor-made instruments
 - Introduction of instruments that offer more flexibility
 - Increase communications with commercial banks
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Introduction of more flexibility in monetary policy Implementation

- ▶ Following approval by CBS Board in August 2013, monetary policy implementation by CBS
 - Reserve money to remain an important target but the focus will be on stabilising banks' reserves
 - Liquidity forecasting to be forward looking and consistent with the minimum reserve requirements maintenance window
 - To improve the pricing of liquidity
 - Achieve stability in interest rate
 - Improve the interest rate transmission mechanism
 - To have a functional yield curve

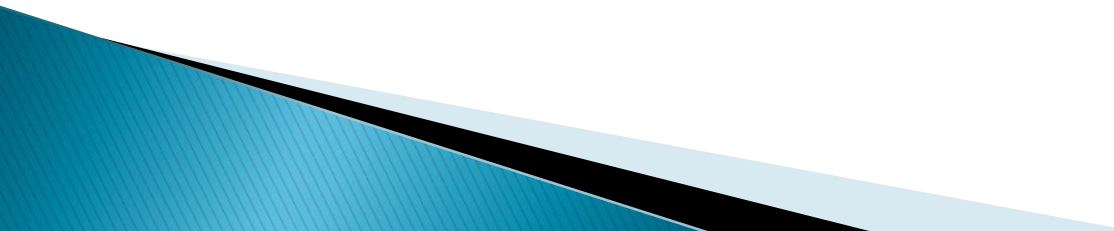
Introduction of more Flexibility in Monetary Policy Implementation

- ▶ Following approval by CBS Board in August 2013, monetary policy implementation by CBS
 - Take into consideration broader macroeconomic conditions when making monetary policy decisions
 - Board and MOC members are appraised on the current economic situation
 - Increased communications by CBS
 - Financial literacy programme
 - Quarterly economic forum with financial institutions

Introduction of more Flexibility in Monetary Policy Implementation

- ▶ Following approval by CBS Board in August 2013, monetary policy implementation by CBS
 - Involvement of CBS Board in monetary policy decision and discussions
 - Quarterly Board Meeting with Monetary Policy as the specific agenda item
 - Policy decisions elevated to Board level
 - CBS to communicate policy decision to the general public following its quarterly Board meeting
 - Expectation on domestic prices become more important

Expected Achievements

- Improving the transmission mechanism of monetary policy
 - Addressing expectations of prices in the short and medium term
 - Harmonisation of fiscal and monetary policy actions
 - Contribute to improving underlying rigidities in the financial system
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Seychelles Conference on International Monetary Fund Program

October 2013

Structural measures to promote financial
deepening



Financial Sector Reform

Introduction of new laws & amendments to existing laws

The FIA was amended in December 2011

- Single licensing regime
 - Facilitate entry in domestic market
 - More level playing field in banking sector
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- ▶ **Bank Charges and Fees Regulations**
 - Ban fees deemed to impede competition
 - Facilitate switching of banks by clients

Financial Sector Reform –measures to foster competition in banking sector

Barriers to Competition	Action taken
Difficult to access credit: Difficulty to assess riskiness of clients, high personal contribution, excessive securities requested	Credit Information System: This will enable financial institutions to assess a client credit worthiness which is one of the tools used in the credit approval process
Lack of transferability of clients' credit history within the banking sector	
Exit Fees: loan pre-payment fees, account closure fees	Charges and Fees Regulations: ban on certain fees: e.g: loan prepayment, account closure

Financial Sector Reform –measures to foster competition in banking sector

Barriers to Competition	Action taken
Lack of consolidated standards of good banking practice	Code of Banking Practice: setting out standards of good banking practice which banks should observe when dealing with customers and potential customers
Slow resolution of financial breaches	Commercial List: This will deal specifically with issues pertaining to institutions which make up the financial system
Registration fee for transfer of pledges between banks	Only administration fee payable to transfer a pledge to another bank

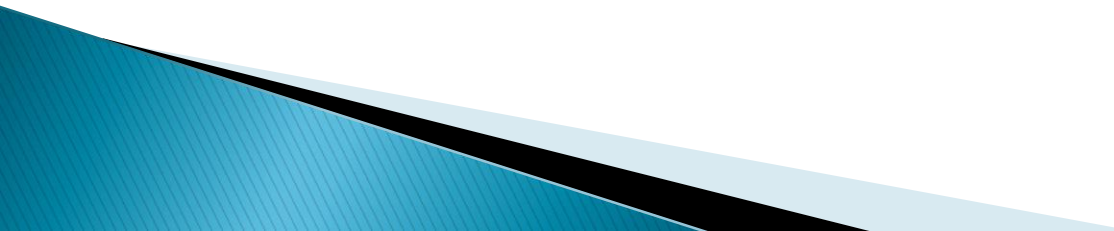
Financial Sector Reform –measures to foster competition in banking sector

Barriers to Competition	Action taken
Low consumer knowledge of charges and fees	Disclosure guidelines for banks to improve the manner in which banks disclose fees and charges: issue instructions as to the regularity and manner in which banks inform clients of their fees and terms
Low Financial Literacy	Articles Interviews

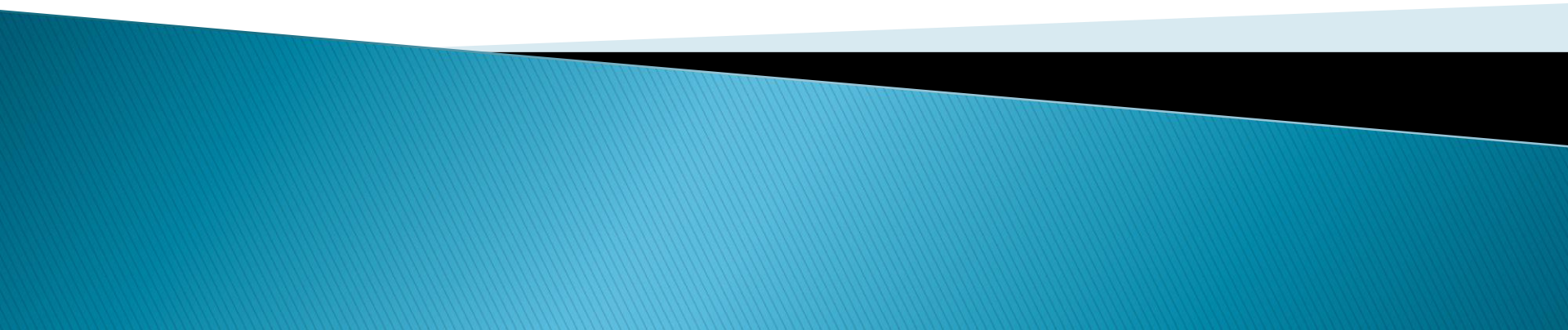
Future Structural Measures

- ▶ Financial Sector Development Implementation Plan
 - Development of roadmaps for;
 - Harmonising the Legal framework
 - Financial System Infrastructure development
 - Greater Access to Finance by SMEs
 - Growth of Financial Markets

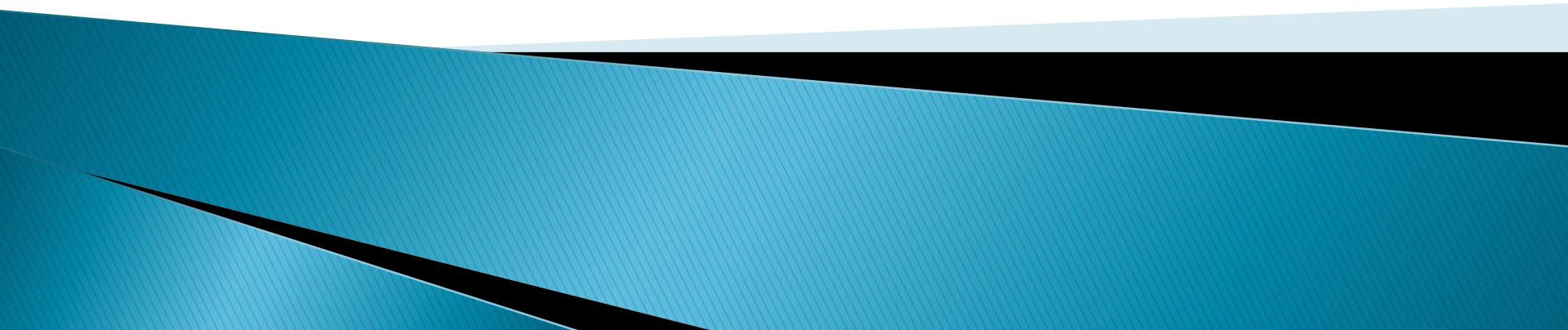
Future Structural Measures

- ▶ Development of Secured Lending and Collateral Registry
 - Facilitate loans against movable collateral
 - Supports financial leasing
 - ▶ Financial leasing
 - No security deposits or upfront money typically required
 - Increase access of credit to SMEs
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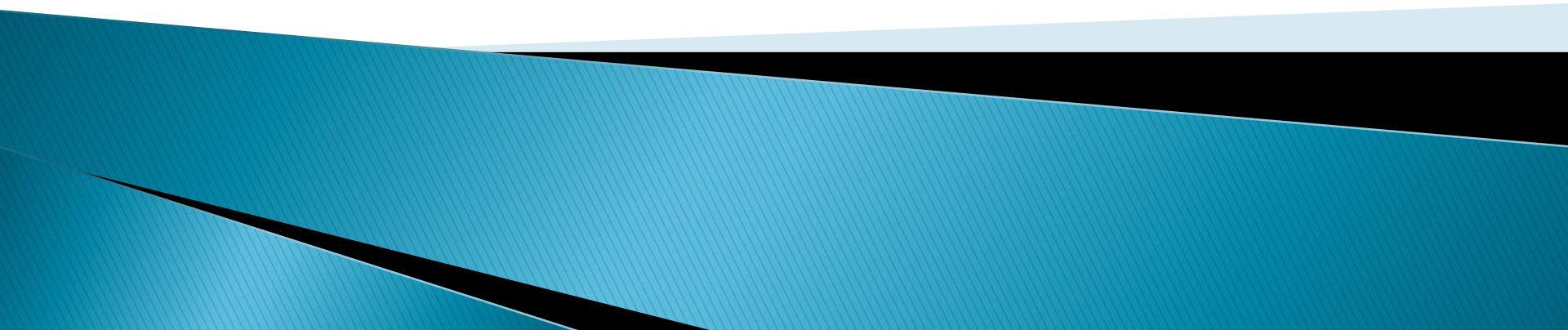
Modernising the Banking Services and the National Payments System



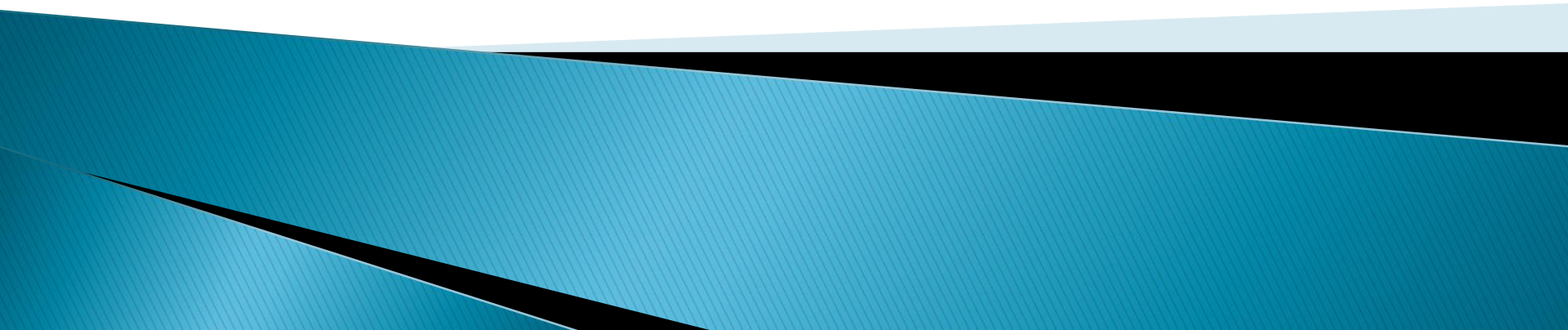
Deliverables Achieved

- ▶ Kick start of the National Payment Systems (NPS) initiatives in October 2008.
 - ▶ Development of the NPS Framework & Strategy document in 2009 and setting up of the National Payments Council (NPC).
 - ▶ Development of the Seychelles' Cheques Standards document in 2009.
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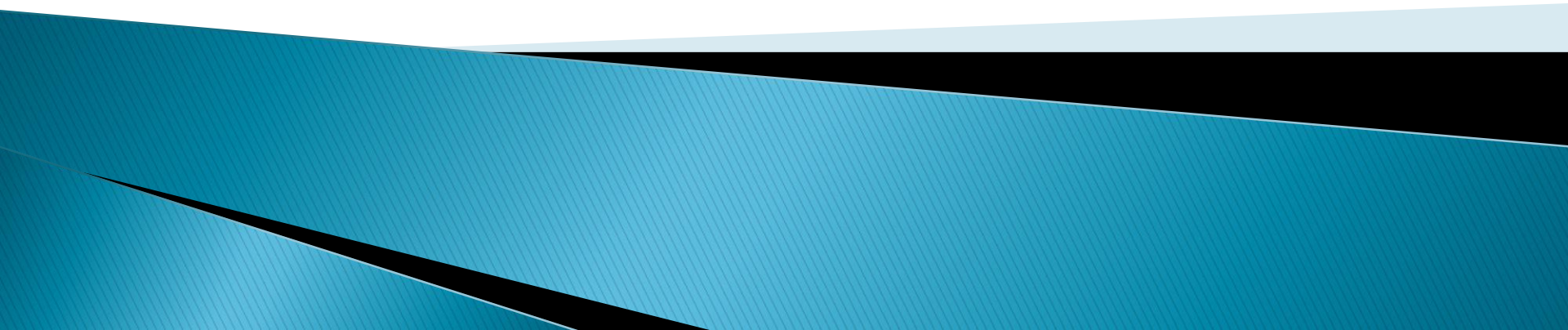
Deliverables Achieved (Cont'd)

- ▶ Introduction of the National Clearance and Settlement Systems Act 2010, the Act is currently under review.
 - ▶ Development of the interbank payments and settlement systems started in 2009 to improve the interbank financial transactions.
 - ▶ Implementation of the new CORE Banking System in December 2010 to improve controls and provide a platform to improve the efficiency of interbank transactions using straight through processing and same day settlement.
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Deliverables Achieved (Cont'd)

- ▶ Introduction of new standardized cheques with MICR Code Line (August 2012)
 - ▶ Implementation of the new Electronic Cheque Clearing (August 2012)
 - ▶ The introduction of the Seychelles Electronic Funds Transfer system – Phase 1 (August 2013).
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Upcoming Projects

- ▶ Complete Phase 2 of the Seychelles Electronic Funds Transfer system – (First Quarter 2014).
 - ▶ Review and Enactment of the new Payments and Settlement Systems Act (First Quarter 2014).
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End

