

SEYCHELLES

Key conditions and challenges

Table 1 2023

Population, million	0.1
GDP, current US\$ billion	2.1
GDP per capita, current US\$	20446.9
International poverty rate (\$2.15) ^a	0.5
Lower middle-income poverty rate (\$3.65) ^a	1.2
Upper middle-income poverty rate (\$6.85) ^a	6.7
Gini index ^a	32.1
School enrollment, primary (% gross) ^b	97.6
Life expectancy at birth, years ^b	73.4
Total GHG emissions (mtCO2e)	1.0

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2018), 2017 PPPs.
 b/ Most recent WDI value (2021).

Economic growth is expected to reach 3.5 percent in 2024, supported by tourism and the rebuilding of infrastructure damaged by extreme weather and the blast at an explosives depot in 2023. Despite these shocks, average earnings have increased by 4.8 percent and the poverty rate remained stable at 5.9 percent in 2023. The government has prioritized support for vulnerable groups and investments to enhance climate resilience while maintaining its commitment to fiscal prudence.

The Seychelles is a high-income country with the highest GDP per capita in Sub-Saharan Africa but is highly vulnerable to external shocks. Tourism accounts for 31 percent of GDP and 41 percent of exports. Over 90 percent of production inputs are imported, making the country highly vulnerable to global commodity shocks and pandemics. In 2020, during the COVID-19 pandemic, the economy shrunk by 8.5 percent, and the fiscal deficit widened to 16.4 percent of GDP, while poverty rates based on the upper-middle-income line of US\$6.85 per person per day rose to 8.0 percent. Moreover, the Seychelles is vulnerable to climate shocks. The heavy rains and the explosion that occurred in December 2023 highlight the country's vulnerability to climate change.

Prudent macroeconomic management has helped the Seychelles manage shocks and sustain growth. Measures implemented to mitigate the pandemic supported a quick recovery and were subsequently phased out. The government has implemented fiscal consolidation since 2021 and has taken measures to improve the resilience of the economy while also addressing the effect of external shocks. Adaptation investments to strengthen climate resilience use mostly concessional financing, complemented by private sector efforts. Fiscal measures such as the 2023 tourism environmental sustainability levy help raise resources for climate initiatives, with more

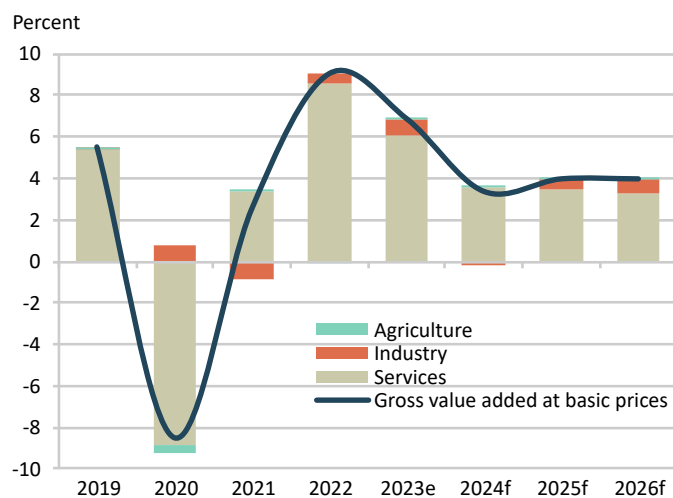
than 4 percent of the Seychelles' budget allocated to climate resilience.

Further improvements to the business environment and a renewed focus on employment are needed to maintain inclusive growth. Labor earnings have been central to reducing poverty, yet labor and skills shortages and a growing rate of drug and alcohol addiction constrain further advances. Labor shortages were partly addressed through migration, with migrants representing 22 percent of the working-age population. The 2023 Enterprise Survey indicates that firms identified a low supply of skilled labor (20 percent of firms) and limited land (25 percent of firms) as major obstacles in doing business.

Recent developments

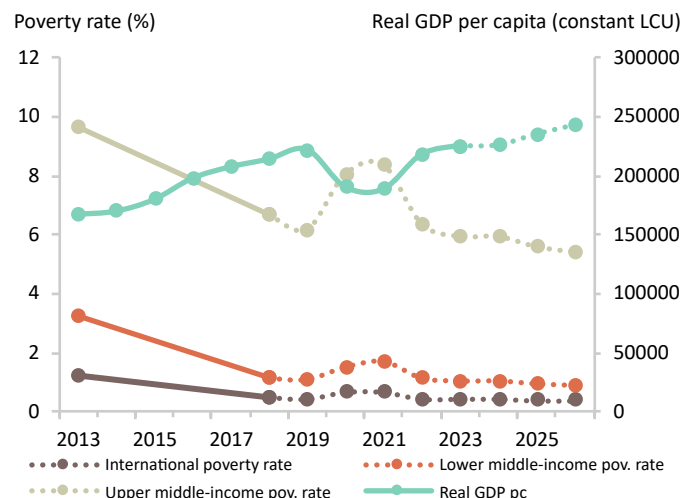
Growth was an estimated 3.3 percent in 2023 compared to 8.9 percent in 2022, driven by modest increases in tourism, particularly from key markets in Europe impacted by tight monetary conditions and the war in Ukraine. Furthermore, geopolitical issues in Israel affected tourist arrivals from Asia. In 2023Q3, employment decreased by 0.2 percent, while average earnings saw a 4.8 percent increase compared with the same quarter in 2022 due to an upward revision to public sector wages. Heavy rainfall, landslides, and floods in the north of Mahé island, coupled with a massive explosion in a key industrial zone, damaged commercial buildings, houses, and public infrastructure at the end of 2023. This incident has impacted growth and increased household

FIGURE 1 Seychelles / Real GDP growth and sectoral contributions to real GDP growth



Sources: National Bureau of Statistics and World Bank staff calculations.

FIGURE 2 Seychelles / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

vulnerability. Consequently, the government has provided support to households and businesses to rebuild and re-occupy their premises.

Inflation remained low, prompting the Central Bank of Seychelles to maintain the monetary policy rate at 2 percent. In 2023, appreciation of the rupee and moderation in global commodity prices contributed to declining domestic prices, with year-end inflation of -2.71 percent. The primary fiscal balance was 1.4 percent of GDP, as revenue increased, led by strong business and property tax collections, despite higher government expenditure due to higher public sector wages and the establishment of the Home Care Agency. Although the budget allocated to capital expenditure was higher than in 2022, project under-execution of 32 percent resulted in budget savings. Public debt declined to 60.1 percent of GDP due to repayments of external debt. The current account deficit narrowed to an estimated 5.6 percent of GDP. The deficit is financed by foreign direct investments, equivalent to 13.8 percent of GDP, primarily from investments in hotels and resorts. Foreign exchange reserves increased to US\$681 million in 2023, covering 3.8 months of imports.

Outlook

The economy is expected to grow by 3.5 percent in 2024, supported by tourism and increases in flight seat capacity to the islands. Additionally, with 450 new hotel rooms expected to become available during the year, tourism receipts are projected to increase. However, weak trade and commerce within the Providence industrial zone due to the gradual recovery from last year's explosion are expected to weigh on growth. Fiscal measures and reconstruction efforts to restore businesses' operationality by end-2024 are expected to support the economic recovery beyond 2024.

Following the December incidents, the government's priorities are to support vulnerable groups whose homes were damaged and to invest in strengthening resilience to climate events, including building and maintaining structures like bridges, watersheds, canals, retaining walls, and coastal blockades. Additional spending beyond already planned investments is needed to rebuild better.

This is expected to contribute to an increase in public debt to 62 percent of GDP. However, the government remains committed to containing public debt in the medium term and developing the government securities market by issuing bonds to reduce refinancing risk. In the context of low inflation expectations, the monetary authority is expected to maintain the monetary policy rate at 2 percent in 2024. More robust tourism earnings are expected to contribute to a stable rupee, even though the current account deficit is projected to widen as imports increase for consumption and reconstruction efforts.

The country's reliance on the European tourist market is a risk, and delays in the opening of new and renovated hotels could also result in a lower-than-expected yield from tourism in 2024. Additionally, attacks on commercial vessels in the Red Sea could increase inflation through higher import prices, which may disproportionately affect the poor. Lastly, climate shocks pose a significant risk, underscoring the importance of sustainable growth and poverty reduction strategies.

TABLE 2 Seychelles / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	2.5	8.9	3.3	3.5	3.4	3.4
Private consumption	1.3	6.6	6.4	1.4	6.5	3.7
Government consumption	4.3	2.5	6.0	5.5	5.2	5.0
Gross fixed capital investment	0.4	2.7	34.3	8.6	-1.2	2.1
Exports, goods and services	6.2	9.1	5.7	8.7	6.2	6.0
Imports, goods and services	4.7	3.1	15.0	9.4	5.4	5.5
Real GDP growth, at constant factor prices	2.5	9.0	3.3	3.5	3.4	3.4
Agriculture	0.8	-1.0	4.2	2.1	2.1	2.1
Industry	-4.9	3.3	5.1	-1.5	3.5	4.5
Services	4.2	10.5	2.9	4.5	3.4	3.2
Inflation (consumer price index)	7.9	2.5	-2.7	3.4	2.8	2.3
Current account balance (% of GDP)	-8.9	-7.1	-6.9	-7.4	-7.2	-6.4
Net foreign direct investment inflow (% of GDP)	9.3	11.3	13.6	11.2	10.2	9.9
Fiscal balance (% of GDP)	-5.8	-1.5	-1.3	-1.4	-0.9	0.1
Revenues (% of GDP)	33.0	31.2	32.6	35.1	35.7	35.2
Debt (% of GDP)	73.1	63.6	60.1	62.0	60.1	57.2
Primary balance (% of GDP)	-2.9	0.7	1.7	1.0	1.1	1.6
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	0.7	0.5	0.5	0.5	0.4	0.4
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	1.7	1.2	1.1	1.1	1.0	0.9
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	8.4	6.4	5.9	5.9	5.6	5.4
GHG emissions growth (mtCO₂e)	6.9	10.0	11.5	11.9	12.1	11.9
Energy related GHG emissions (% of total)	78.4	79.6	81.0	82.3	83.4	84.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Calculations based on 2018-HBS. Actual data: 2018. Nowcast: 2019-2023. Forecasts are from 2024 to 2026.

b/ Projection using neutral distribution (2018) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.