PESA Editorial

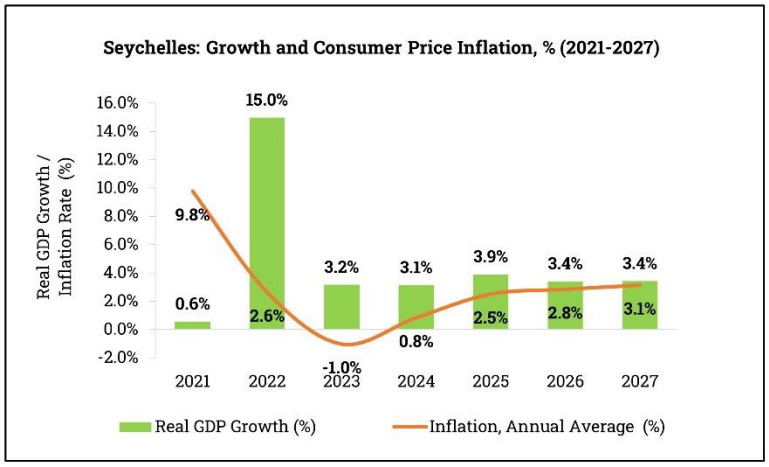
Republic of Seychelles

2H2024/25

Accurate and balanced analysis of the political economy in Seychelles.

Seychelles's economy has had a slow recovery from the most recent global economic shocks caused by the Russia-Ukraine conflict. Real GDP growth is projected to decrease to 3.1% in 2024, from 3.2% in 2023 after reaching an annual average growth rate of 6.2% for 2021 to 2023. Economic growth has been largely driven by information and communication, administrative and support business services and construction[1]. Inflation is projected to increase to 0.8% in 2024, from disinflation of -1.0% in 2023 after reaching an annual average rate of 3.8% for 2021 to 2023[2]. Inflation has been largely affected or driven by food inflation (fish, bread and cereals, and milk), housing and utilities, and furniture and household equipment[3].

Figure 1: Seychelles Growth and Consumer Price Inflation, % (2021-2027)



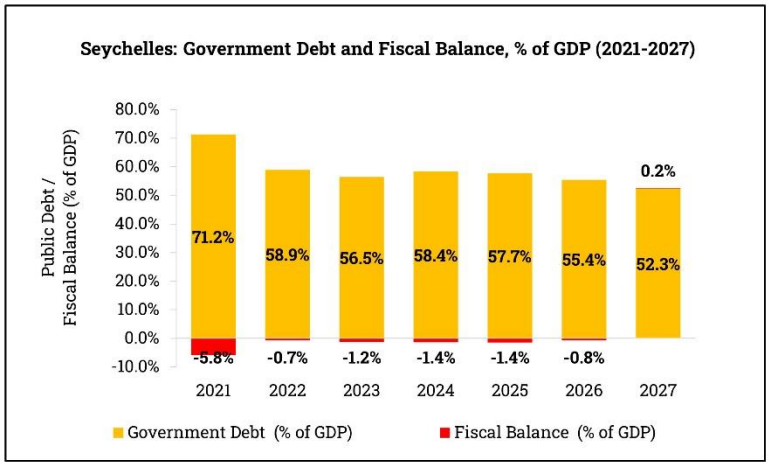
Source(s): IMF 2024, *World Economic Outlook Database: October 2024*, International Monetary Fund: Washington, D.C. Available At: https://www.imf.org/ [Last Accessed: 13 December 2024].

The Southern African Development Community (SADC) macroeconomic convergence criteria aim to promote economic stability and harmonisation across member states by targeting specific economic indicators. The criteria focus on inflation rates, fiscal deficits, debt-to-GDP ratios, and the stability of exchange rates. SADC's criteria include maintaining inflation rates below 5% and fiscal deficits below 3% of GDP, alongside a public debt ratio of under 60% of GDP. In 2024, Seychelles' inflation levels are well below the SADC benchmark at 0.8% due to currency

[1] https://www.nbs.gov.sc/downloads/1678-qna-2024-q3/viewdocument/1678.
[2] Data from the National Bureau of Statistics Seychelles (NBS) reflects an annual average inflation rate of 0.3% for 2024, which suggests greater than expected real GDP growth for 2024. See https://www.cbs.sc/Downloads/publications/MonetaryPolicy/Reports/Monetary%20Policy%20Report%20January%202025.pdf.
[3] https://www.nbs.gov.sc/downloads/1686-cpi-december-2024/viewdocument/1686.

depreciation and increased utility prices[4]. At these inflation levels, according to the rule of seventy, the purchasing power or value of the SCR* is halved every 87 years and 6 months[5]. Inflation is projected to increase to 2.5% in 2025 before reaching an annual average of 2.8% for 2025 to 2027. At these levels, inflation is expected to remain below the SADC benchmark. Nevertheless, Seychelles' inflation is expected to increase due to higher international food prices, rising freight costs, and a weaker SCR in the medium-term[6]. Hence, according to the rule of seventy, this level of inflationary pressure would halve the purchasing power or value of the SCR within 25 years. This highlights the importance of the Central Bank of Seychelles (CBS) maintaining a responsive monetary policy approach to align the monetary policy stance with inflationary expectations. Lastly, Seychelles also needs to continue pursuing economic diversification to insulate the economy from external shocks.

Figure 2: Seychelles Government Debt and Fiscal Balance, % of GDP (2021-2027)



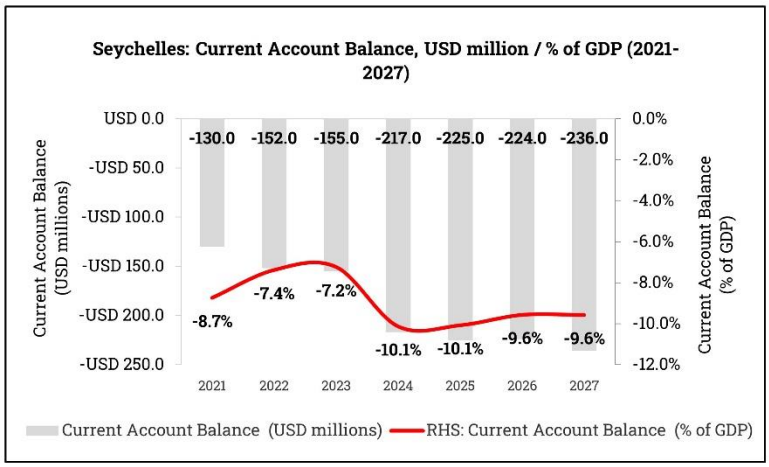
Sources: IMF 2024, *World Economic Outlook Database: October 2024*, supra.

The Government of Seychelles' fiscal balance is well below the SADC benchmark at -1.4% of GDP due fiscal consolidation and stronger-than-expected increase in tax revenue due to strong business tax collection[7]. At these fiscal balance levels, the Government of Seychelles' debt should increase in 2024. Public debt is projected to increase to 58.4% of GDP in 2024, from 56.5% of GDP in 2023 after reaching an annual average of 62.2% of GDP for 2021 to 2023. At these levels, public debt remains below the SADC benchmark in 2024. Seychelles' fiscal deficit is projected to narrow to -0.7% of GDP for 2025 to 2027. Meanwhile, Seychelles' public debt is expected to decrease to 57.7% of GDP in 2025 before reaching an annual average of 55.1% of GDP due to fiscal consolidation through a balanced increase in revenues and reduction in current spending by about 3% of GDP, while increasing public investment by 1% of GDP over the medium-term[8]. Strong commitment to fiscal

[4] https://www.imf.org/-/media/Files/Publications/CR/2024/English/1sycea2024002-print-pdf.ashx.
[5] The Rule of 70 is a simple method to estimate how long it takes for a variable to double or halve, given its fixed annual growth rate or depreciation rate, by dividing 70 by the growth rate or depreciation rate percentage.
[6] https://www.cbs.sc/Downloads/publications/MonetaryPolicy/Reports/Monetary%20Policy%20Report%20January%202025.pdf.
[7] https://www.imf.org/-/media/Files/Publications/CR/2024/English/1sycea2024002-print-pdf.ashx.
[8] https://www.imf.org/-/media/Files/Publications/CR/2024/English/1sycea2024002-print-pdf.ashx.

consolidation and domestic resource mobilisation are the key drivers for the Government of Seychelles' debt strategy, alongside reforms to improve accountability and transparency. The strict fiscal discipline and debt management strategy are expected to improve the Government of Seychelles' fiscal position and gradually reduce public debt levels over the medium. However, the strict fiscal consolidation needs to create fiscal space to increase public investment to encourage economic diversification reforms which should help to reduce import dependence and improve the external sector and balance of payment for Seychelles.

Figure 3: Seychelles Current Account Balance, USD million / % of GDP (2021-2027)*



Sources: IMF 2024, *World Economic Outlook Database: October 2024*, supra.

In 2024, Seychelles' current account deficit is projected to widen to -USD 217.0 million (approx. -10.1% of GDP), from -USD 155.0 million (approx. -7.2% of GDP) in 2023 after reaching an annual average current account balance of -USD 145.7 million (approx. -7.8% of GDP) for 2021 to 2023. This is well above the SADC benchmark of a current account deficit of no greater than -3.0% of GDP. The current account deficit is projected to widen due to underperformance in tourism. In the medium-term from 2025 to 2027, Seychelles' current account deficit is projected to widen to -USD 228.3 billion (approx. -9.7% of GDP). The current account deficit is projected to remain well above the SADC benchmark. The current account deficit is projected to widen due to weakness in the tourism and fisheries sectors over the medium-term[9]. Strong commitment to diversifying Seychelles' economy and exports is necessary to reduce the dependence on tourism and fisheries. Meanwhile, rising global commodity prices, external shocks to tourism demand, and climate change remain major downside risks that may affect the Seychelles economy and external sector in the medium-term[10]. Nevertheless, despite the current account deficit, Seychelles' overall balance of payments surplus should be supported by a modest improvement in the goods and services balance and

[9] https://www.imf.org/-/media/Files/Publications/CR/2024/English/1sycea2024002-print-pdf.ashx; https://www.cbs.sc/Downloads/publications/MonetaryPolicy/Reports/Monetary%20Policy%20Report%20January%202025.pdf.
[10] https://www.cbs.sc/Downloads/publications/MonetaryPolicy/Reports/Monetary%20Policy%20Report%20January%202025.pdf.

continued foreign direct investment (FDI) related to the development of Assumption Island over the medium term[11].

[11] https://www.imf.org/-/media/Files/Publications/CR/2024/English/1sycea2024002-print-pdf.ashx.

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PESA Editorial

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Note (*):
In this publication, "SCR" refers to Seychellois Rupee and "USD" refers to United States Dollars. Unless otherwise indicated, all percentage comparisons are year-on-year.

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