

SEYCHELLES

Table 1 **2021**

Population, million	0.1
GDP, current US\$ billion	1.4
GDP per capita, current US\$	13991.5
International poverty rate (\$1.9) ^a	0.5
Lower middle-income poverty rate (\$3.2) ^a	1.1
Upper middle-income poverty rate (\$5.5) ^a	5.2
Gini index ^a	32.1
School enrollment, primary (% gross) ^b	100.8
Life expectancy at birth, years ^b	73.9
Total GHG Emissions (mtCO2e)	0.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

Real GDP increased by 7.9 percent in 2021 and is projected moderate to 4.6 percent in 2022 as tourist arrivals decline because of the impact of the Russian invasion of Ukraine. In the medium-term the fiscal balance is expected to return to a sustainable path as the government undertakes fiscal consolidation and the economy continues to recover. Poverty declined in 2021 due to improvement in economic growth.

Key conditions and challenges

Tourism and fisheries are the key sectors of the Seychelles' economy. The fishing industry, which is host to one of the largest tuna canneries in the world, contributes to between 8 and 20 percent to GDP annually and the tourism sector contributes 30 percent to GDP. The country is also dependent on imports. This lack of economic diversification exposes Seychelles to external shocks. These shocks are transmitted through disruptions in international travel and tourism demand, as well as through fluctuations in fishing stocks and instabilities in the price of essential commodities such as food and fuel prices.

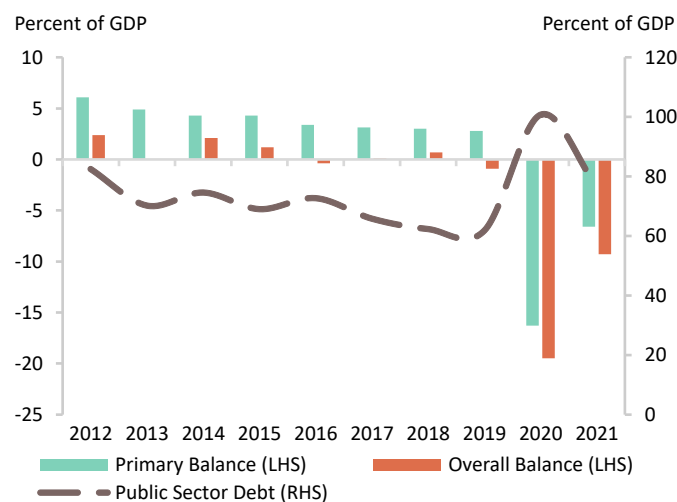
Before the pandemic, Seychelles was on a steady path to decrease poverty, reaching around 5.0 percent in 2019 (when measured against the poverty line for upper middle-income countries of USD 5.5 a day per capita in PPP terms). While the decline in the poverty rate has been driven by a rise in incomes from paid employment and self-employment and substantial benefits from various social protection programs, salary cuts and job losses in the tourism industry due to COVID-19 increased poverty rates to 6.6 percent in 2020. To limit the poverty impacts of the crises, the government introduced several social protection programs and some low-income households opened

temporary roadside stalls to sell fruits and seafood products to cope with the shock. As tourism started to return, social protection programs were ended as they became a burden to the national budget. While the end of social protection programs reduced government fiscal pressures, there are reasons to believe that poverty may have been negatively affected.

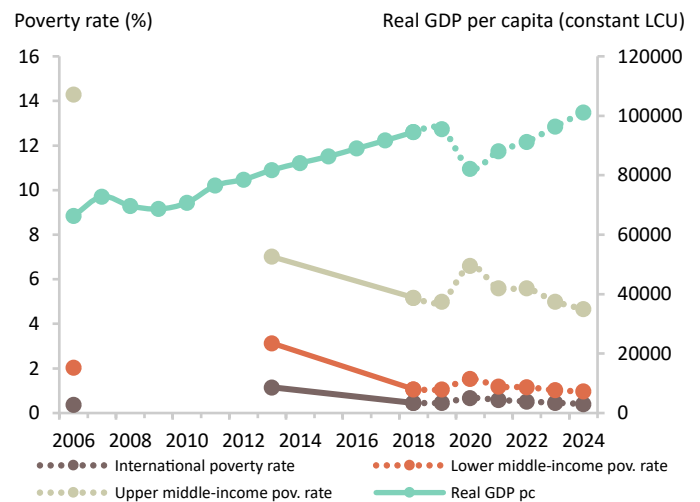
The recovery process may be hindered by the emergence of new COVID-19 variants. In addition, Russia's attack on Ukraine is expected to increase the concerns around inflation since Russia is among the world's biggest oil exporters and a major grain exporter along with Ukraine, whose Black Sea ports have been closed to shipping.

Recent developments

Economic growth is estimated at 7.9 percent for 2021 due primarily to a recovery in the tourism sector. Tourist arrivals rebounded in 2021 following the reopening of borders in late March 2021, and the emergence of new tourist markets (Russia, UAE and Israel). With the fishery sector selling about 50 percent of the domestic artisanal catches to resorts and restaurants, the fishery sector grew by 2.5 percent in 2021 as the tourism sector recovered. Private consumption also contributed to the recovery in the economy. The average inflation rate was 10.0 percent in

FIGURE 1 Seychelles / Fiscal balance and public sector debt


Sources: WDI and World Bank staff estimates.

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


Source: World Bank. Notes: see table 2.

2021 due to increased domestic demand and rising imported inflation due to tight supply conditions. Despite a gradual revival of tourist activity, the current account deficit remained high at -20.3 percent of GDP in 2021 (compared to -29.7 percent in 2020). Gross international reserves stood at US\$ 702 million at end-December 2021 (4.8 months of imports). Due to the withdrawal of the COVID-19 fiscal support package, the fiscal balance deficit improved from 17.8 percent of GDP in 2020 to 9.1 percent of GDP in 2021. The decline in transfers (to around 9.0 percent of GDP in 2021 from 18.0 percent of GDP in 2020), reflects the removal of COVID-19 measures such as the guarantee of salaries to the private sector and the increase in allocation to social protection to finance the unemployment relief scheme program which were all stopped in early 2021.

As a result of the increase in visitor arrivals, poverty is expected to decrease from 5.3 percent in 2021 to 5.2 percent in 2022. However, due to the end of the financial assistance for job retention program that the government had introduced to

mitigate the poverty impacts of COVID-19, poverty numbers for 2021 and 2022 could be higher than the above projection.

Outlook

Economic growth is projected to average 5.1 percent over the medium-term. Given the structure of the domestic economy, its recovery is conditional on external developments, specifically the revival of the global travel and tourism industry. Tourist arrivals are projected to moderate to a growth rate of 14 percent in 2022, relative to 59 percent in 2021 (due to projected lost in tourist arrivals from Russia and Ukraine (23 percent of arrivals in 2021)) and the economy is projected to grow by 4.6 percent. In 2023 and 2024, economic growth is projected to be 5.6 percent and 5.0 percent, respectively, as tourism continues to rebound. Food and oil prices are expected to remain elevated in 2022 as the Russian invasion of Ukraine continues and cause supply disruptions in commodity (wheat and maize) and fuel.

The fiscal deficit is expected to contract over the medium-term, as the government continues fiscal adjustment. The GOS introduced expenditure-saving measures in 2021 that are expected to continue in the medium term, including: limiting new recruitments to key positions in certain ministries and departments; freezing salaries for public service employees; freezing long term service allowance; and limiting the introduction of new schemes of government service. In the medium-term, revenue collection will increase, driven by a resumption of economic activities as well as measures to improve tax policy such as: (i) the prevention of base erosion of the corporate tax base through international profit shifting; (ii) streamlining of VAT exemptions.

Poverty is projected to continue to decline gradually to 5.1 percent and 5.0 percent by 2023 and 2024 (\$5.5 a day per capita line), respectively. Nevertheless, this depends on the ability of the tourism and services sectors to fully bounce back to their pre-COVID-19 levels over the next few years.

TABLE 2 Seychelles / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.0	-13.3	7.9	4.6	5.7	5.0
Private Consumption	4.8	-10.8	8.8	6.8	7.0	4.7
Government Consumption	-0.2	4.3	2.3	0.4	-3.8	4.0
Gross Fixed Capital Investment	-2.7	-37.7	22.1	7.1	9.7	3.5
Exports, Goods and Services	2.0	-39.6	12.2	16.8	17.8	17.4
Imports, Goods and Services	0.9	-38.2	14.3	15.3	14.4	14.9
Real GDP growth, at constant factor prices	1.8	-13.4	7.9	4.6	5.6	5.0
Agriculture	1.1	-0.2	3.1	1.0	1.4	1.1
Industry	2.1	0.7	3.6	2.4	2.0	2.0
Services	1.7	-15.4	8.7	5.0	6.2	5.5
Inflation (Consumer Price Index)	2.0	1.2	10.0	5.7	1.6	1.2
Current Account Balance (% of GDP)	-18.8	-29.7	-20.3	-27.7	-23.0	-18.4
Net Foreign Direct Investment (% of GDP)	17.7	10.1	13.1	11.0	14.6	13.1
Fiscal Balance (% of GDP)	1.0	-17.8	-9.1	-5.7	-1.6	0.9
Debt (% of GDP)	58.7	102.3	76.5	79.6	76.8	73.5
Primary Balance (% of GDP)	3.6	-14.3	-6.6	-3.2	0.9	3.2
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	0.5	0.7	0.6	0.5	0.5	0.4
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	1.1	1.5	1.2	1.2	1.0	1.0
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	5.0	6.6	5.3	5.2	5.1	5.0
GHG emissions growth (mtCO2e)	3.7	-2.8	7.3	5.8	6.3	5.3
Energy related GHG emissions (% of total)	79.8	80.6	81.5	82.1	82.8	83.3

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

a/ Calculations based on 2018-HBS. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.

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