

Seychelles

2011



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Seychelles

Overview

In 2010, the Seychelles economy recovered after important measures were taken to address the 2008 debt crisis. The country also weathered the recent global financial and economic crisis relatively well. Driven by the tourism industry, which accounts for 25.5% of the gross domestic product (GDP), the economy grew by over 5% from 0.7% in 2009 to an estimated 6% in 2010. There were higher numbers of visitor arrivals with a longer average stay, which increased by 13% and 5%, respectively. This was supported by a rebound in the global economy, a weaker rupee and price discounting by operators. Piracy attacks and threats in the Indian Ocean continue to affect the fishing sector adversely, however. The economy is projected to grow by 4% in 2011 and 4.5% in 2012.

The authorities have eliminated the foreign currency black market and have brought price increases under control, with inflation estimated to have been contained to negative 2.4% in 2010 and projected to reach 4.2% and 2.9% in 2011 and 2012, respectively. The Central Bank of the Seychelles (CBS) foreign exchange reserves are now in excess of two months' worth of imports and are projected to increase to three months of imports by December 2012. Renewed domestic confidence is supporting macroeconomic stabilisation. Since October 2009, the nominal effective exchange rate has stabilised, the depreciation against the US dollar (USD) is offset by the appreciation against the euro (EUR) and the British pound (GBP).

The country now has a sustainable debt position after having re-structured the debt profile. The authorities continue to maintain fiscal discipline. The primary fiscal surplus is estimated at 11.9% of GDP in 2010. The current account deficit, which was 30.3% of GDP in 2009, widened to 33.2% of GDP in 2010 owing to the recovery of domestic demand and rising costs of insurance premiums due to piracy in the Indian Ocean. Foreign direct investment (FDI) resumed, thus financing a larger part of the deficit. The deficit is expected to gradually narrow in 2011 and 2012, as exports of tourism services will benefit from the global economic recovery and additional hotel accommodation.

A number of constraints still affect the business environment despite the measures that the government has recently put in place. The World Bank *2011 Doing Business* report shows that the Seychelles slipped to a rank of 95 out of 183 countries in 2010 in the ease of doing business index, compared to a ranking of 92 in 2009.

The Seychelles is an open economy that relies heavily on tourism. As a result, growth prospects in the medium term will largely remain dependent on the global economy's performance, especially in the euro zone, where 75% of the country's tourists come from as well as on the levels of piracy in the Indian Ocean.

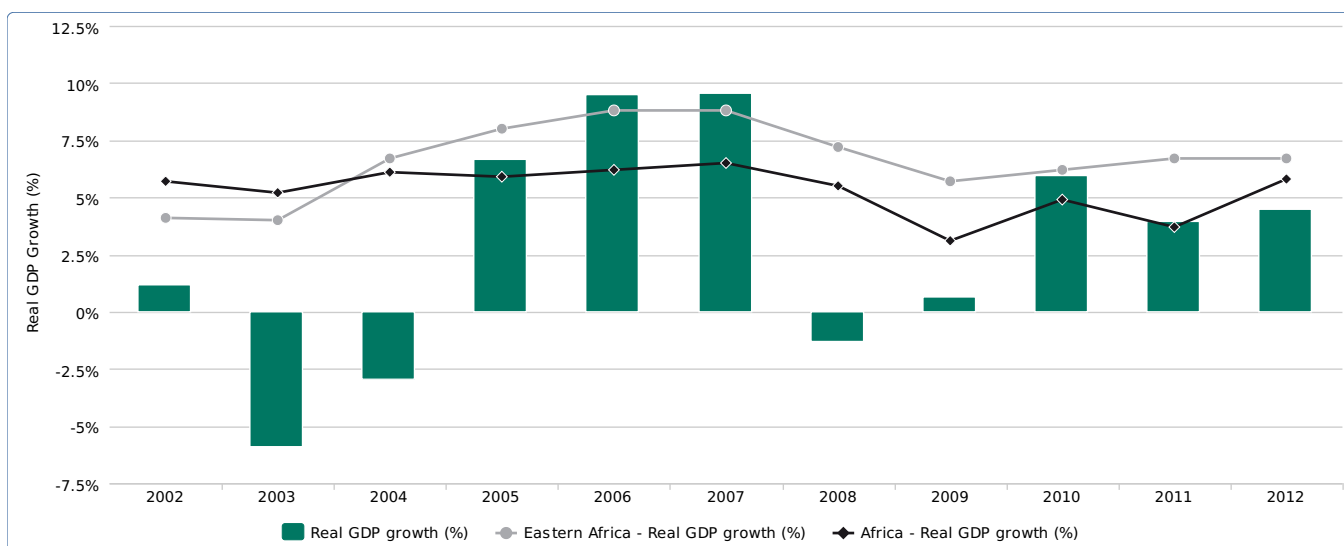
In 2009, the Seychelles received balance of payments and budget support assistance from development partners, namely the International Monetary Fund (IMF), the World Bank, the African Development Bank (AfDB) and the European Union, amounting to EUR 21.9 million to support directly the 2008 economic reform programme. The first part of the reform programme was successfully implemented, which led the IMF to approve an Extended Fund Facility (EFF) in December 2009 to replace the two-year Stand-by Arrangements (SBA). The Seychelles made a good start on its second stage of reforms under the EFF despite the global economic crisis and its external debt crisis. By the end of 2010, it had met the quantitative benchmarks under the EFF and its structural targets, and remains on track with key reforms, including an overhaul of the tax system, improving public financial management, modernising monetary operations, strengthening financial sector supervision and restructuring parastatals. It is now on a more sustainable development path.

The most established emerging partners (EPs) of the Seychelles are China, United Arab Emirates (UAE), India, Saudi Arabia and Brazil. Others include Malaysia, Indonesia, Singapore and Turkey. Most of these EPs are involved in trade, investment and aid. In the past five years (2006-10), the countries that have most intensified their relationships are China, India and UAE.

The on-going socio-economic reforms have led to a more transparent and less partisan society. However, challenges related to building a more independent judiciary and improving press freedom remain.

The Seychelles has one of the highest GDPs per capita in Africa and is one of Africa's six upper-middle-income countries. It leads the continent in human development according to its ranking of 57 in the 2009 Human Development Index (HDI) of the United Nations Development Programme (UNDP), a level comparable to many countries of the Organisation for Economic Co-operation and Development (OECD). It allocated about 43% of the budget in 2010 or 5% of GDP to the social sectors of health and education, reflecting the government's concerns on poverty and social welfare programmes. The Seychelles has already met the target for five of the eight Millennium Development Goals (MDGs); only the sixth to eighth remain.

Figure 1: Real GDP growth (E)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932404522>

Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	0.7	6	4	4.5
CPI inflation	31.7	-2.4	4.2	2.9
Budget balance % GDP	5.1	3.2	0.3	-0.2
Current account % GDP	-30.3	-33.2	-24.8	-22.2

Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Recent Economic Developments and Prospects

Table 2: GDP by sector (in percentage)

	2005	2009
Agriculture, forestry, fishing & hunting	3.9	2.8
Agriculture, livestock, fishery, forestry and logging	-	-
of which agriculture	-	-
of which food crops	-	-
Mining and quarrying	-	-
Mining, manufacturing and utilities	-	-
of which oil	-	-
Manufacturing	10.8	9.4
of which hydrocarbon	-	-
Electricity, gas and water	1.8	1.6
Electricity, water and sewerage	-	-
Construction	7.6	6.3
Wholesale and retail trade, hotels and restaurants	7.5	11
of which hotels and restaurants	-	-
Transport, storage and communication	16.8	13.4
Transport and storage, information and communication	-	-
Finance, real estate and business services	18.9	21.7
Financial intermediation, real estate services, business and other service activities	-	-
General government services	10.6	6.1
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	-	-
Public administration, education, health & other social & personal services	-	-
Public administration, education, health & social work, community, social & personal services	-	-
Public administration, education, health & social work, community, social services	-	-
Other community, social & personal service activities	-	-
Other services	22.1	27.7
Gross domestic product at basic prices / factor cost	100	100

Source: AfDB Statistics Department based on data from Statistics Seychelles.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932407847>

In 2010, the economy recovered well from the 2008 debt crisis and the global financial and economic crisis.

Driven by the tourism industry, which accounts for 25.5% of GDP, the economy grew by over 5% from 0.7% in 2009 to an estimated rate of 6% in 2010. Piracy attacks and threats in the Indian Ocean continue to affect the fishing sector adversely, however. The economy is projected to grow by 4% in 2011 and 4.5% in 2012.

The authorities brought inflation under control, with the rate estimated to have been negative during 2010. The primary sources of growth are tourism and communication as well as construction activities, with the latter partly influenced by an expansion in FDI. Key domestic production in some areas, especially beverage and food processing, has also increased. Tourism, services, fishing and, in recent years, activities of tanker operations continue to be the main drivers of the economy.

The major factors affecting the economy in 2010 include the global recession and domestic economic reform. The increasing acts of piracy in the region have had a direct effect on the country's imports of food and other essentials. This has led to increases in insurance and shipping costs, changes in shipping routes and delays in delivery. It has affected tourism especially, with a decline of yachts and cruise ships in the Indian Ocean. Environmental conditions, particularly an exceptional drought season adversely affected the agricultural sector in 2010, while rising sea-level temperatures are affecting marine life, notably juvenile fish stock. The depreciation of the euro against the US dollar has had a direct impact on the balance of payments (BOP) given that Seychelles imports using US dollars but receives most of its revenue in euros. Recent economic crises in Greece, Ireland and Spain aggravate the BOP further, which in turn affects tourism as the vast majority of the tourists are from Europe. Since the Seychelles is not a major exporting country, it did not experience the full impact of the 2009 export slump. However, it was affected in terms of imports due to export quotas and bans by some trading partners, as well as extreme climatic events and rising international food prices, particularly of maize, flour, rice and onions.

In 2010, Seychelles recorded higher numbers of visitor arrivals and a longer average stay, which increased by 13% and 5%, respectively. This was supported by a rebound in the global economy, a weaker rupee and price discounting by operators, as well as the hold put on construction of three major hotel developments. The increase in tourism arrivals in 2010 is due to pro-active marketing by the Seychelles Tourism Board (STB) in the development of new markets; an increase in flights to Seychelles; and improvements in service through the Seychelles Tourism Academy (STA). The government considers tourism as the principal pillar of the economy and given the current difficulties in the European market, it will continue to invest in this sector by providing funds to the STB and the STA. It will also continue to work with the private sector to sustain the expansion of the industry.

In 2010, fish trans-shipment and landing that had declined by 15% in 2009 are expected to have increased, particularly in the artisanal sector. However, fish exports receipts fell by 34% in 2010. The government and its partners continued to make efforts to tackle piracy in the Indian Ocean in 2010 as one way of supporting the industry. Given the importance of the fishing industry in the economy, the government, with the support of Japan through the World Bank, invested in infrastructure development of two new facilities for the fishing community at Providence Fishing Quay Zone 6 and the ice plant at Bel-Ombre during 2010. In 2011, the government will develop facilities to allow fishers to purchase fuel.

The manufacturing sector, which accounts for about 10% of GDP improved in 2010 mainly due to increased local demand and improved access to foreign exchange. Canned tuna production rose by 2%; further increases are projected in 2011. The strong increase in the construction sector, which accounts for about 7% of GDP, during 2010, was powered partly by the construction of a massive private palace at La Misere as well as other FDI related projects. Block production rose by 18% in 2010 because of increased construction works.

Seychelles has about 350 registered farmers engaged in various agricultural activities. The agriculture and food production sector continue to face challenges. In addition, the government has yet to implement its draft food security policy, although a review workshop on the Food Strategy 2008-2011 was held in June 2010.

In 2010, about 70% of poultry farmers stopped their farming activities as the liberalisation of imports of meat led to stockpiling. The cultivation of crops was subsequently affected as fertiliser inputs in the form of manure were less available. The shortage of manure coupled with erratic weather conditions (droughts, climate change) affected both the quality and quantity of crops. In addition, there has been no major national investment in agricultural infrastructure in 2010 and nothing is planned for in the 2011 budget. The abattoir, animal feed factory and laboratories, which were given to farmers in 2009 after the liberalisation of the economy, are in poor condition and need revamping.

Oil exploration entered a new phase in 2010, with the government authorising a research company to carry out seismic studies covering 18 000 square kilometres in Seychelles' territorial waters. There are already two oil companies in Seychelles - Houston-based Petroquest International Incorporated and Dubai-based East African Exploration (EAX) - with production agreements with the government. The two companies will use the results of this study to determine the location of oil drilling that is expected to start by the end of 2012. The

government will receive technical assistance in training, regulation and management of oil industry from the United States.

Gross capital formation increased by an estimated 21.4% in 2010, which contributed to the strong GDP growth. This increase was largely due to construction sector growth. Public investment grew at a higher rate (27%) than the private sector (20%) during 2010. Private consumption increased by 6.1% as purchasing power was supported by negative inflation. Growth in exports also supported GDP growth in 2010. During 2011-12, investment and consumption will be the main drivers of growth.

Table 3: Demand composition

	Percentage of GDP (current price)		Percentage changes, volume			Contribution to real GDP growth		
	2002	2009	2010	2011	2012	2010	2011	2012
Gross capital formation	32	29.3	21.4	14.1	11.2	5.1	3.8	3.3
Public	3.4	5.7	27	30	22	1.2	1.7	1.5
Private	28.6	23.6	20	10	8	3.8	2.2	1.8
Consumption	73.2	98.3	5.8	1.5	1.6	5.8	1.5	1.6
Public	31.6	13.3	3.4	2.7	2.7	0.5	0.4	0.4
Private	41.6	85	6.1	1.3	1.4	5.3	1.1	1.2
External sector	-5.2	-27.6	-	-	-	-4.9	-1.3	-0.5
Exports	65.7	103.4	2.4	4.5	4.8	1.7	3.1	3.3
Imports	-70.9	-131	6.9	4.5	3.9	-6.6	-4.4	-3.8
Real GDP growth rate	-	-	-	-	-	6	4	4.5

Source: Data from IMF and local authorities' data; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Macroeconomic Policy

The macroeconomic stabilisation policies put in place in November 2008 are yielding results. Since then, Seychelles has continued with prudent fiscal and monetary policies that have granted credibility to the currency float. Inflation has been curbed, international reserves have been rebuilt and key interest rates have been reduced. In 2010, the government created a Stabilisation Fund to dampen the effects of sudden fluctuation in oil prices by drawing from the fund and adjusting prices gradually. However, the country remains highly exposed to external shocks from piracy threats, the European economic situation and further depreciation of the euro. A further depreciation of the euro could affect the country's still fragile external position.

Fiscal Policy

During 2010, Seychelles continued with policies in line with the public debt reduction strategy. These include consolidating the government's fiscal position, achieving a primary surplus, re-investing in priority sectors and continuing to keep public debt at a sustainable level.

The government achieved an estimated primary surplus of 11.9% of GDP in 2010. This is projected to decline to 7.8% and 6.2% in 2011 and 2012, respectively. In the medium term, the government's target is to reduce debt to 70% of GDP by 2012 and 50% of GDP by 2018. The authorities continued to implement tax reforms, which are progressing well. Revisions to business tax legislation were introduced in January 2010. It also expanded the sales-tax base while phasing out concessional rates. The government also introduced a withholding-based personal income tax in July 2010, which replaces the social security contributions previously levied on employers and employees. As a part of the general overhaul of the tax system, a value added tax (VAT) to replace the goods and services tax will be introduced at the end of 2012. Another prong of the economic reform programme is the modernisation of customs, which is an important step toward establishing a business-friendly environment. This will facilitate trade as well as help the Seychelles in negotiating its accession to the World Trade Organization (WTO).

A Treasury Single Account (TSA), which was introduced in late 2009, represents a major step forward in the government's capacity to both monitor and control public expenditure and manage cash balances. The government expects revenue collection to increase by 17% above its projected targets in 2011 with the projected total to equal to 31% of GDP. Non-tax revenue will represent 4.4% of GDP in 2011. The increase in tax revenues is mainly due to economic growth. However, a few policy changes in 2010 will affect the 2011 revenues. These include an increase in GST on tourism services from 10% to 12%; harmonisation of income tax rates for all workers, which increases the rate for expatriates from 10% to 15% in line with the rate applicable to citizens; and a substantial increase in revenue from grants receipts, mainly from capital projects. The government expects dividends from investments to be 128% above 2009 estimates arising from investments in both *Nouvobanq* and Indian Ocean Tuna.

The 2010 estimates for government expenditure were exceeded by 7%. Total expenditures and net lending, excluding debt interests, is forecast to be equivalent to 37.3% of GDP in 2011. The government remains committed to social spending. In 2011, it will allocate approximately half of the total primary current expenditure to social spending. The education sector, employment and human resources expenditure accounts for 5.3% of GDP or 14.8% of the budget, while the health sector accounts for 4.2% of GDP or 12% of the 2011 budget.

The overall budget balance (excluding grants), as a percentage of GDP, declined from 5.1% in 2009 to 3.2% in 2010 as a result of increased capital expenditure. Expenses for wages declined slightly from 7.1% of GDP in 2009 to 7% in 2010, and are projected to remain at 6.6% and 6.3% in 2011 and 2012, respectively, which is in line with the medium-term strategy.

The total stock of debt (public and publicly guaranteed) amounted to USD 789 million as in October 2010, accounting for 84.3% of GDP, out of which, 57% was external and 43% internal. The country's debt stock, as a percentage of GDP, declined from 140.1% in 2009 to 84% in 2010, and is projected to decline to 75% by 2012. This decline is a result of the restructuring of the external debt under the new debt management strategy and strong fiscal performance under the reform programme.

In 2010, the government reduced its stock of T-bills due to negative domestic borrowing requirements. Under the new debt management strategy, the government is introducing new maturities in consultation with its creditors to develop a long-term yield curve and phase out illiquid instruments, such as government stocks and treasury deposits, as they mature.

Table 4: Public finances (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Total revenue and grants	32.2	32.2	36.6	38.8	37	37.6	36.7
Tax revenue	22.9	23.8	28.2	30.9	31.1	31	30.6
Oil revenue	-	-	-	-	-	-	-
Grants	0.1	0.2	3.7	3.5	1.5	2.2	1.7
Other revenues	9.2	8.1	4.7	4.4	4.4	4.4	4.4
Total expenditure and net lending (a)	46.2	40.9	40	33.8	33.7	37.3	36.9
Current expenditure	37.5	36.3	28.7	31	30	28.5	26.8
Excluding interest	30.4	29.7	21.5	21.3	21.4	21	20.4
Wages and salaries	14.7	10.2	7.9	7.1	7	6.6	6.3
Goods and services	7.5	7.3	5.6	6.7	7.3	7.4	7.2
Interest	7.1	6.6	7.2	9.8	8.7	7.5	6.4
Capital expenditure	7.8	5.5	2.1	5.7	7.1	8.8	10
Primary balance	-6.9	-2.1	3.9	14.8	11.9	7.8	6.2
Overall balance	-14	-8.7	-3.4	5.1	3.2	0.3	-0.2

a. Only major items are reported.

Source: Data from IMF; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Monetary Policy

The objectives of the monetary policy are to control inflation, modernise the financial system and increase banking supervision. The CBS is to bring under its supervision non-commercial financial institutions such as the Development Bank of Seychelles (DBS) and the Housing Finance Company (HFC). Operations of the CBS have been modernised to ensure an independent monetary policy and strengthened supervision. The CBS will coordinate with the treasury on the issuance of T-bills, improving liquidity management and providing a more predictable environment for banks.

The inflation rate is estimated at negative 2.4% in 2010. However, it is projected to increase to 4.2% in 2011 before easing to 2.9% in 2012. The intense competition in the trade sector during 2010 contributed to the easing of inflationary pressures. The Seychelles rupee (SCR) value has remained stable against most major currencies at around SCR 12 per US dollar.

During 2010, interest rates fell as the economy realised a fiscal surplus. The rate for treasury bills (TB), which stood at 4% in 2009, declined to 2% in 2010; while commercial bank lending rates fell to 12.2% in 2010 from 14.9% in 2009. This decline is attributed to the measures taken by the two government-owned banks, namely Nouvobanq and the Savings Bank, to cut their prime lending rates to 7.0% in 2010.

Although deposit rates fell to 1.7% in 2010 from 1.9% in 2009, the spread between the lending and savings rates remains high at around 10%. This is higher than the spread level before November 2008.

During 2010, credit grew by 11%. The main beneficiaries included tourism projects, trade activities, mortgages as well as expenditure of private households. However, lack of competition in the banking sector, poses challenges to the financial system as it affects credit growth and the banking sector development.

External Position

The main merchandise exports are canned tuna, frozen and fresh fish, prawns and re-export of oil products. The main imports were machinery and transport goods, fuel, food, live animals and manufactured goods. Export growth is attributed to four main drivers: privatisation, continued economic reforms, legislative reviews and the stability of the currency. The Seychelles' main export markets during 2009/10 were the United Kingdom, France, Italy, Mauritius and Japan; while the main imports originated from Saudi Arabia, India, Spain, South Africa and France.

In 2010, the current account deficit as a percentage of GDP is estimated to have increased to 33.2% from 30.3% in 2009, mainly due to a surge in imports. This increase in imports was due to the improved economic situation and increased construction activities, which are being financed mainly by foreign investments. The deficit is projected to decline to 24.8% of GDP and 22.2% of GDP in 2011 and 2012, respectively, due to robust export growth.

Official international reserves are projected to reach the target of 3 months' worth of official international reserves by 2012. As of mid-November 2010, gross reserves were equivalent to 2.3 months' worth of imports, compared to 1.6 months at the end of 2009. International reserves are projected to reach 2.7 months' worth of imports in 2011.

The Seychelles is not yet a member of the WTO; however, accession proceedings are underway. In 2009, the Seychelles established a working group comprising government, civil society and private sector representatives mandated to update related documentation and prepare the negotiating position for accession to the WTO. In November 2010, the working group held a second meeting as part of renewed membership negotiations.

A few development partners reside in the country. The UNDP and the World Health Organization (WHO) are the only the United Nations (UN) agencies that maintain liaison offices in the Seychelles; their country co-ordinators operate from Mauritius. The European Union is currently the most active among the multilateral donors and its country co-ordinator is also based in Mauritius. The 10th European Development Fund (EDF) programme for the period 2008-13 allocated EUR 5.9 million for the Seychelles, with the bulk earmarked for the environment (EUR 5 million). It also provided budget support through a grant in 2009.

For the first time in 2008, the Seychelles received funding from the IMF in the form of a two-year Stand-By-Arrangement (SBA), which was replaced by an Extended Fund Facility (EFF) in December 2009. In 2009, the World Bank formulated, in parallel with the AfDB, an Interim Strategy Note (ISN) for the fiscal year 2010/11, providing two development policy loans (DPLs) to support the macroeconomic stabilisation programme and structural reforms required for private sector led growth. During 2010, the Seychelles received grants from a number of multilateral partners to support capacity building and the implementation of medium- to long-term structural reforms. These included: the European Union's budget support of EUR 7.5 million and technical assistance of EUR 1 million; USD 432 973 for the formulation of a Seychelles Mariculture Master Plan from the AfDB; the World Bank's USD 425 800 for capacity building of the Department of Public Administration; and USD 250 000 for an institutional study of the Public Utilities Corporation from the Arab Bank for Economic Development in Africa (*Banque arabe pour le développement économique en Afrique* [BADEA]).

Among the bilateral donors, China, Cuba, France, India, Russia and the United Kingdom have representation in the Seychelles. These donors are mostly involved in capacity building, although China is providing a combination of grants and soft loans for water supply, sewerage and energy. Japan has been active in the fisheries sector since the early 1990s, with assistance amounting to over USD 30 million. There has been an increase in Australian technical assistance in late 2010 in support of the economic reform programme. Finally, a regional co-operation agreement has been signed with Réunion Island (France), which focuses on the sharing of a wide range of technical expertise in areas such as health, training, the environment and natural-disaster management. France and the United Kingdom provided support at the Paris Club negotiation on debt restructuring and the United States is providing technical, regulatory and management expertise in oil exploration. The CBS is strengthening the Seychelles presence in regional groupings - the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC) and the Indian Ocean Commission (IOC). The Seychelles is a member of the COMESA free trade agreement. In 2010, the Eastern and Southern African Trade and Development Bank, also known as the Preferential Trade Area (PTA) Bank expressed interest to fund well-established projects in the country.

The comprehensive, external debt-restructuring programme put in place in 2008/09 has enabled the Seychelles to overhaul its public debt stock and facilitate repayment. The external debt, which stood at USD 789 million in 2008 (of which 35% was owed to bilateral donors, 7% to multilaterals and 58% to private creditors), declined to USD 449 million.

The ratio of external debt to GDP declined from 118.8% in 2009 to 53.6% in 2010 and is projected to decline

further to 52.9% in 2011 and 53.4 in 2012. The Seychelles now has a sustainable domestic and external debt portfolio, which has reduced its credit risk and supports FDI.

The total public debt (domestic and foreign) was nearly 150% of the 2009 GDP and unsustainable. In April 2009, the Seychelles restructured bilateral debts with the Paris Club, and most of the Paris Club countries signed individual agreements with the Seychelles government in 2010. The external debt levels have been reduced in the last two years by USD 388 million, which is equivalent to 43% of the GDP. The government expects to sign the last remaining restructuring agreements with four non-Paris-Club countries in early 2011. The average life of the debt portfolio has increased from 6 months to 13 years and is now sustainable.

Inflows of FDI soared to a new record of USD 364 million in 2008 – according to the 2009 *World Investment Report* by the United Nations Conference on Trade and Development (UNCTAD) – spurred by investment in tourism projects, especially at the luxury end of the market. However, while some tourism projects have been cancelled and delayed, others are going ahead, and the IMF estimated in July 2010 that inflows would total USD 183 million in 2009, which is about one-half of the 2008 level.

Table 5: Current account (percentage of GDP)

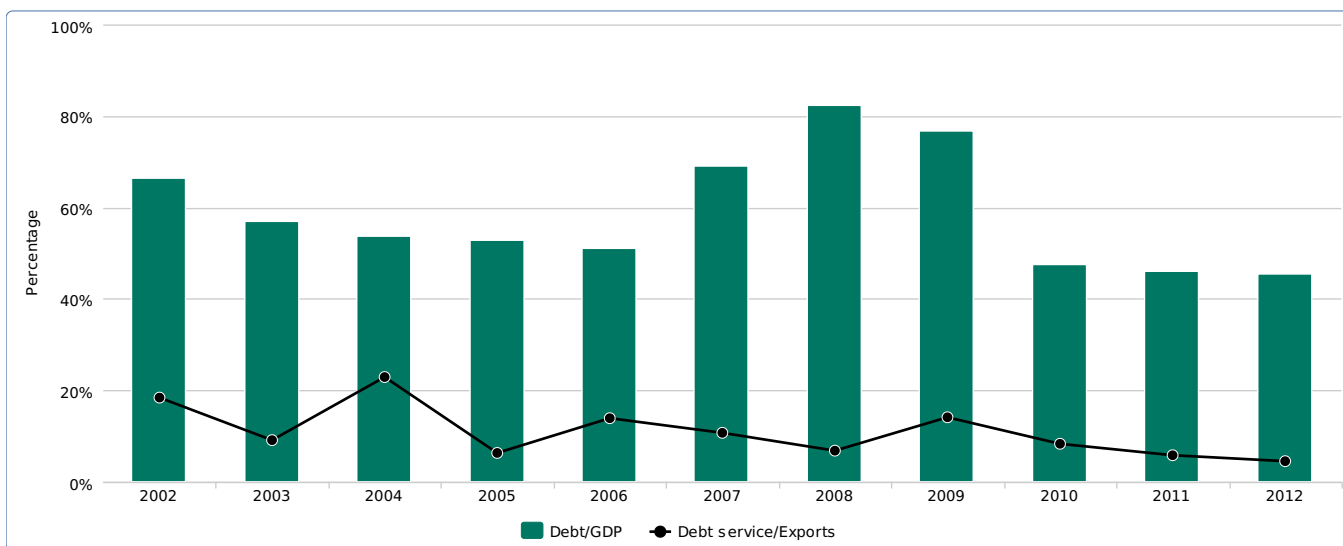
	2002	2007	2008	2009	2010	2011	2012
Trade balance	-17.1	-41.6	-55.1	-33.8	-32.6	-31.2	-28.3
Exports of goods (f.o.b.)	28.3	38.5	54.5	44.9	52.6	55.8	56.3
Imports of goods (f.o.b.)	45.4	80.1	109.6	78.7	85.2	86.9	84.6
Services	11.8	16.4	10.3	9.8	6.6	9.4	9.2
Factor income	-8.1	-6.6	-10.2	-10.6	-8.2	-4	-4
Current transfers	1.6	2.9	6.2	4.3	1	0.9	0.8
Current account balance	-11.9	-28.9	-48.8	-30.3	-33.2	-24.8	-22.2

Source: Data from IMF; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Structural Issues

Private Sector Development

The government is working with the International Finance Corporation (IFC) to encourage private sector development. It has prepared legislation to put in place a credit rating agency in mid-2011. In 2010, the government continued to implement measures to improve the business environment. Despite these measures, a number of constraints remain. The World Bank *2011 Doing Business* report shows that the Seychelles slipped to a rank of 95 out of 183 countries in 2010 in the ease of doing business index, compared to a ranking of 92 in 2009. Though the methodology has altered, the absolute ranking in the 2011 Doing Business index, using the earlier methodology, reflects the same three-point slippage in rank.

Since 2009, the government has introduced a number of measures to make it easier to do business in the Seychelles. A new legal framework re-aligned a number of procedures to encourage investors, including those associated with licensing and access to financing. Measures to improve applications for work permits and thus improve factors related to employment are being implemented. Other measures adopted in 2010 to eliminate red tape and bottlenecks are contained in the New Investment Act, the Licensing Act, the Fair Trading Commission, the Customs Management Act and tax reforms. A new bill to modify the Companies Act will be presented in 2011 for parliamentary approval.

The Seychelles Licensing Authority has been reconfigured with additional powers and is required to deal with most applications within 14 days. An appeals board was set up to arbitrate disputes. Replacing a 2005 law, the Investment Act 2010 has remodelled the Seychelles Investment Bureau (SIB) to provide a better service for foreign investors and establish an appeals panel. It will co-ordinate public and private investment projects. The government also amended the excise and business tax laws and the foreign exchange act. Hotels no longer need a licence to exchange small amounts of foreign currency for guests and businesses are no longer obliged to use the CBS exchange.

Communication between the government and the Seychelles Chamber of Commerce and Industry (SCCI) has improved. The SCCI meets every month with the Ministry of Finance, the Ministry of Employment, the Seychelles Investment Bureau and immigration authorities to discuss measures to improve the country's business environment.

In 2010, the Concessionary Credit Agency (CCA) financed 364 small and medium enterprises (SMEs), which it will continue to fund in 2011. The maximum loan that the CCA will disburse to businesses will reduce by half to SCR 150 000 in 2011. The SMEs will also receive free training in accounting, bookkeeping, management, marketing, tax liabilities and tender procedures so that they may become more competitive.

The offshore industry, international business centres (IBCs), grew at an impressive rate during 2010, with the Seychelles International Business Authority (SIBA) revenues increasing by 35%, while the number of companies registering as IBCs increased by 12%. The SIBA introduced 'foundations' as a new product during 2010, with 29 foundations registering in 2010. The SIBA's New Securities and Financial Market Division is now operational. The country is the fourth largest jurisdiction in IBC registration. The Seychelles continues to maintain its commitments to the OECD regarding the global forum on transparency and exchange of information for tax purposes. During 2010, the OECD carried out a peer review that maintained the Seychelles' status as an international financial services centre.

Despite the global financial crisis, the banking system is well capitalised and profitable. Banks remain fully compliant with current standards. In December 2009, rules regarding minimum capital holdings for banks changed. With three years to comply, all banks will be required to double their minimum capital to SCR 20 million.

Other Recent Developments

The government continued with reforms in public financial management, public expenditure and public enterprises during 2010. In the 2011 budget, the government introduced a medium-term budgeting framework, which presents its fiscal and economic projections over a 3-year horizon. In addition, it introduced several new measures including a public bodies classification policy, a revised financial instructions and accounting manual and a public finance law.

Under its public reform programme, the government approved a detailed work plan for the public enterprise monitoring division (PEMD). This aims to reinforce the monitoring and control of public enterprises, strengthen governance, reduce dependence on public funding and minimise financial crisis to the state. The authorities are strengthening the management and oversight of publicly owned financial institutions, which are to be privatised. The government is currently assessing the timing for and modalities of the divestiture from these institutions,

which include Nouvobanq, Seychelles Savings Bank and the Housing Finance Company. A privatisation strategy is to be developed by June 2011.

Public sector reforms will continue during 2011, focusing on: downsizing the number of public servants to 7 500 from 10 000; reviewing service and retention schemes of professionals and technical staff; removing existing non-core positions, which will be absorbed by private firms or co-operatives; reviewing salary structures; the reclassification of public bodies; and capacity building. A policy of outsourcing will also continue in 2011. In 2010, a number of services, such as cleaning and security, were outsourced, leading to greater efficiency in the public service. Further outsourcing may occur in areas for which the government has insufficient resources, such as architecture, installation of street lights and project supervision and management.

The Seychelles will continue investing in public infrastructure such as roads, water and energy in 2011. Other investments are being made in housing and submarine cables. In 2010, the government entered into new partnerships with two companies, Cable and Wireless and Airtel, to increase the country's telecommunication bandwidth. The system is due to come online in mid-2012.

In 2011, the government, in partnership with the Energy Commission and the Seychelles Public Utilities Corporation, will implement the first phase of a programme geared at reducing the consumption of electricity through the usage of solar-powered water heaters. This policy is to promote greater utilisation of renewable energy sources.

The environment continues to be a central concern in development planning. The government has, to some degree, implemented its second Environment Management Plan of Seychelles (EMPS) 2000-2010, which seeks to protect the environment. The authorities are now preparing the third EMPS for the period 2010-2020. Forest covers almost 90% of the country's land surface. The area under protection now accounts for 50% of the total land area.

Emerging Economic Partnerships

The most established emerging partners (EPs) of Seychelles are China, the United Arab Emirates (UAE), India, Saudi Arabia and Brazil. Others include Malaysia, Indonesia, Singapore and Turkey. Relationships with most of these EPs involve trade, investment and aid. Since 2006, China, India and the UAE have intensified their relationships with Seychelles the most.

India's engagement with Seychelles started in 1976. It maintains technical and financial co-operation with Seychelles, and provides scholarships and exchanges with several Indian universities. Through the Pan African Network System with the African Union (AU), India is establishing a satellite terminal station to facilitate tele-medicine, tele-education, and video-conferencing for the 53 heads of state in Africa. Victoria hospital is connected to six specialised hospitals in India through this tele-equipment. In tele-education, the University of Seychelles is connected to three Indian universities through distance learning since September 2010. India is also to provide an information technology (IT) centre to be commissioned in March 2011 at a cost of USD 1 million, which is part of its support for the Seychelles University.

India has provided a soft loan of USD 10 million to the Development Bank of Seychelles and a line of credit of USD 5 million to the Seychelles Marketing Board/Seychelles Trading Company with a moratorium of five years at a low interest rate of 1.75%. It has also provided one surveillance aircraft and two helicopters to fight piracy in the Seychelles' waters and is assisting with military personnel (two lieutenants and two colonels).

China is providing a combination of grants and soft loans for water supply, sewerage and energy. China has also contributed to scholarships and is helping to build the new National Assembly and two public schools.

The UAE has recently intensified its relationships with the country and is providing support for a coast guard base, military equipment, buses and medical equipment. It is implementing an e-learning project, which is setting up networks in schools. Under this project, primary schools are being equipped with laptops. This project will cater for an IT curriculum that will bring a new dimension to teaching and learning while helping to build capacity in the education sector. This partnership and the national policy of developing information and communications technology (ICT) in schools is being managed by the University of Seychelles, under a committee from the Ministry of Education, the University of Seychelles and Abu Dhabi. The UAE has also provided a new diagnostic centre and a grant of USD 50 million for health-sector reform.

Cuba and Russia have provided the Seychelles with health professionals in various speciality areas. Turkey is in the process of signing a free trade agreement and is providing two education scholarships at the tertiary level.

The EPs' interest in the Seychelles is similar to those of the traditional partners'. In the short term, the EPs are mainly interested in Seychelles as a destination for FDI and a source of cheap labour, while the fishing industry is also of interest. Access to natural resources, if exploration confirms commercially viable hydrocarbon deposits, is a longer-term objective.

Investments from EPs are mostly concentrated in construction (led by China, followed by the UAE); professional, scientific and technical activities (China and India); public administration and defence, compulsory social security (India and UAE); education and professional training (India and China); and health and social work (China and India).

The Seychelles' traditional partners are focusing on economic growth, governance and increasing human capital; while the multilaterals focus on economic growth; governance; transport, water and energy infrastructure; poverty reduction; education; promoting gender equality; and environmental sustainability. On the other hand, the EPs are extending their support in both traditional and new areas, such as: economic growth; governance; increasing human capital; promoting innovation; improving the transport, water and energy infrastructure; providing special infrastructures (e.g. stadium, palaces); expanding education; improving health; reducing poverty; environmental sustainability; exports promotion; and stimulating domestic employment.

Political Context

Presidential elections are due to be held in mid-2011 and parliamentary elections in mid-2012. President James Michel will be seeking re-election for the second time, which is of critical significance, as this will be the first election since the economic crisis and subsequent sweeping economic reforms of 2008-09. The results will signal either the confidence or non-confidence of the electorate in the government's extensive reforms. The economy has now stabilised and is expected to rebound over the next few years after two years of decline, which give the incumbents high chances of re-election.

The socio-economic reforms have resulted in a more transparent and less partisan society. However, challenges related to building a more independent judiciary and improving press freedom remain. Seychelles performs better than most of sub-Saharan Africa in political rights, civil liberty and political stability, however, and it ranks well on measures of governance and corruption.

Social Context and Human Resource Development

Seychelles has the second highest GDP per capita (after Equatorial Guinea, an oil exporter) in Africa, and is one of the six upper-middle-income countries of the continent. In addition, it leads the continent in human development. It is ranked 57th in the UNDP's Human Development Index of 2009, a level comparable to many OECD countries. In 2010, it allocated about 43% of the country's budget, or 5% of GDP, to health and education, reflecting that poverty and social welfare programmes rank high on the government's priorities. The Seychelles has already met most of the eight MDGs targets. Seychelles hopes to attain MDGs 6 to 8, in which it currently falls short of the 2015 targets.

According to the government's report on the Status of MDGs 2010, extreme poverty does not exist in the Seychelles, although there are pockets of poverty. In this regard, the government has put in place welfare programmes for those in extreme need and safety nets for the vulnerable and disadvantaged groups. Adult literacy in the Seychelles is about 96%, while universal education approaches 100%. The current national food poverty line of USD 3 per day is above the World Bank's absolute poverty line.

In addition, the government has invested heavily in infrastructure over the past decade; as a result 93% of the population has access to treated water supply.

Seychelles maintains free access to education and health for all citizens. Primary and secondary levels of education are free and compulsory (10 years), while 80% of secondary school graduates proceed to tertiary institutions, making the country an achiever in MDGs 2 and 3. The authorities are reviewing the curriculum of secondary schools to combine vocational and academic subjects, allowing students to be connected to working institutions. The review will also identify the needs of businesses and industries and channel students accordingly.

The health sector needs to be reformed by introducing targets to measure progress, planning health services accordingly and exploring measures for effective partnerships with NGOs and churches. More research is needed on new diseases and the impact of HIV/AIDS and Hepatitis C on the economy. Incidence of Hepatitis C is increasing: in 2009, there were 37 known cases, but between January to October 2010, 50 cases were registered.

Drug and alcohol abuse are on the rise, and the government is spending a considerable sum to address illnesses such as Hepatitis B and C. Mental health problems are also on the rise, with over 300 cases treated in 2010. The government plans to build a new wellness centre for those suffering from mental illnesses and drug or alcohol addiction.