

Seychelles

In 2010, the Seychelles economy recovered strongly because of strong measures to address the 2008 debt crisis. It also weathered the recent global financial and economic crisis relatively well, growing at an estimated rate of 6%.

The government continued with reforms in public financial management, public expenditure and public enterprise during 2010, introducing a medium-term budgeting framework for its fiscal and economic projections over a 3-year period in the 2011 budget.

The most established emerging partners of the Seychelles – China, United Arab Emirates (UAE) and India – focus on trade, investment and aid and have intensified their relationships in the past five years.

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 Millenium Development Goals (MDGs); only the sixth to eighth remain.

Table 1: Macroeconomic indicators

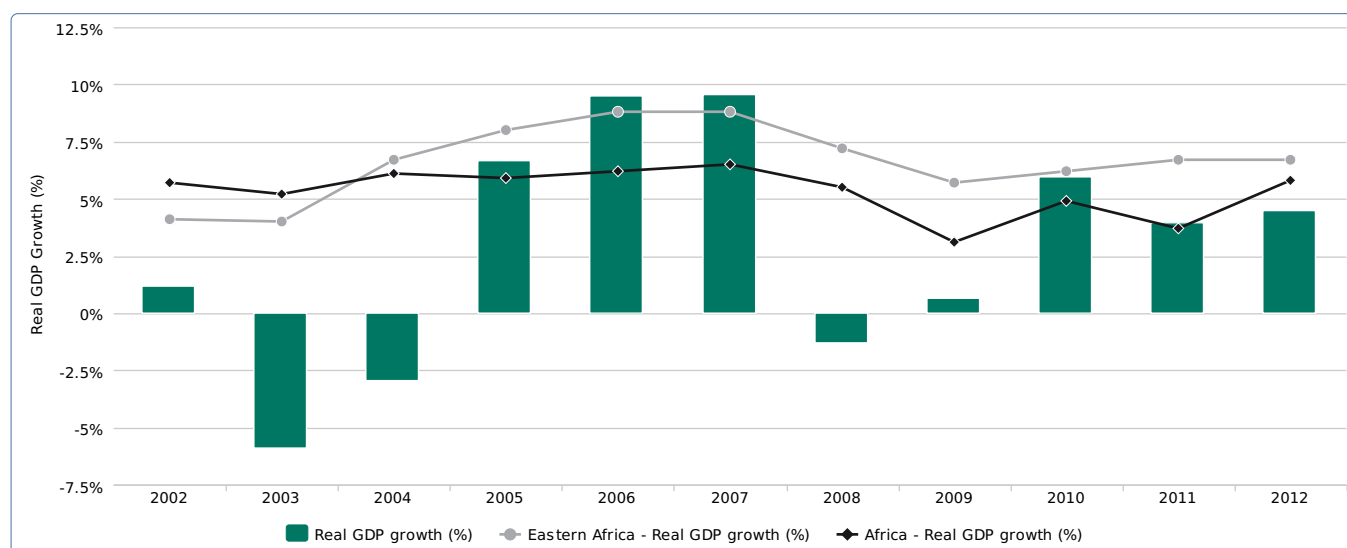
	2009	2010	2011	2012
Real GDP growth	0.7	6	4	4.5
CPI inflation	31.7	-2.4	4.2	2.9
Budget balance % GDP	5.1	3.2	0.3	-0.2
Current account % GDP	-30.3	-33.2	-24.8	-22.2

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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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.

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