

Recent macroeconomic and financial developments

GDP is estimated to have rebounded by 7.9% in 2021 after contracting by 7.7% in 2020 due to the COVID-19 pandemic. On the supply side, growth is driven by tourism and fisheries, which are the major contributors to GDP, foreign exchange, and employment. On the demand side, growth is driven by household consumption and investment. With an accommodative monetary policy by the central bank, inflation in 2021 is estimated to have risen to 9.7% from 1.8% in 2020 owing to supply disruptions. The fiscal deficit is estimated to have narrowed in 2021 to 6.0% of GDP from 18.9% in 2020 as revenue collection improved. The current account deficit narrowed slightly in 2021 to 19.8% from 23.1% in 2020, reflecting the recovery. Fiscal and current account deficits were financed by concessional loans and domestic borrowing.

As tourism revenues declined, the exchange rate depreciated from an average of 13.8 SCR/\$ in 2019 to 21.3 in February 2021. External reserves remained strong at 4.5 months of import cover in 2021. Debt is estimated to have declined in 2021 to 81.2% of GDP from 92.2% in 2020. The financial sector is well developed, with eight banks and five nonbank financial institutions. Yet, the banks are highly concentrated, with the three largest holding 80% of banking sector assets, deposits, and loans. Poverty is low overall at 1.1% and most social indicators are strong. With about 15 social welfare programs, the impact of COVID-19 on poverty was not huge, though unemployment increased in 2020 to 4.8% from 2.3% in 2019. The SDR allocation to Seychelles was 21.9 million, more than twice the previous cumulative allocation of 8.3 million and equivalent to about 4% of foreign exchanges reserves.

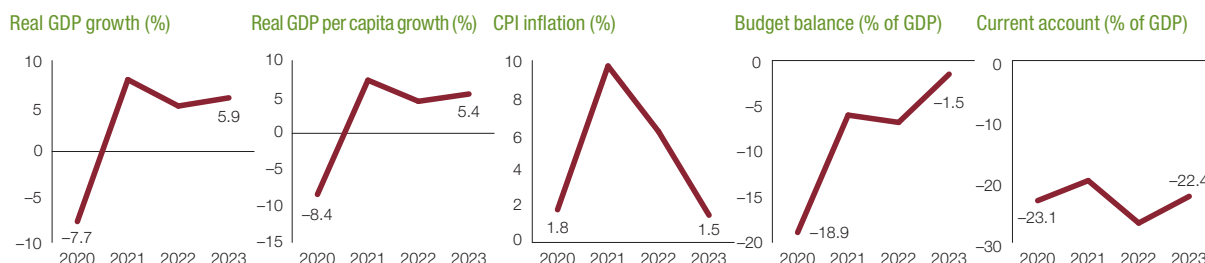
Outlook and risks

The medium-term outlook remains positive. GDP is projected to grow by 5.0% and 5.9% in 2022 and 2023 as the economy continues rebounding. The fiscal deficit is projected to further narrow to 1.5% in 2023 after slightly widening to 6.8% in 2022 as revenue collection

increases. The current account deficit is projected to widen to 26.8% and 22.4% in 2022 and 2023 due to uncertainty in global economic recovery and the situation in Russia, where most of the tourists in 2021 came from. Debt stock is expected to decline to 76% of GDP in 2022 and to below 70% in 2023. Inflation is projected to decline to 6.1% and 1.5% in 2022 and 2023 as supply chains improve. Tourism and fisheries will remain key growth drivers, but opportunities in knowledge-intensive services, including digital finance and ICT (the latter projected to grow by 7% in 2022) will also contribute to economic growth. Uncertainty about the global post-pandemic economic recovery, vaccination rollout, and the Russia–Ukraine conflict and related effects on global supply chains and travel restrictions are downside risks. To reduce vulnerability and uncertainty of growth, Seychelles should continue to diversify economically to reduce its overdependence on tourism.

Climate change issues and policy options

As an oceanic nation, Seychelles is prone to tsunamis, hurricanes, and tidal surges, which can wipe out assets and reduce economic activity. Seychelles is 130 on the 2021 GCRI. Most recently (April 2021) tropical cyclone Jobo passed through the Outer Islands. Seychelles releases 5.38 tons of CO₂ per person annually, which is very high, 95% from electricity generation and transport. Still, the country remains committed to climate change: in 2021, it finalized a climate change strategic plan with targets for adaptation programs in transport, energy, and infrastructure. It introduced the world's first debt refinancing for ocean conservation, such that one-third of its ocean territory is protected against climate change and unregulated economic exploitation. Its NDC targets include 15% of energy from renewable sources and switching 30% of vehicles from fossil fuels to electricity by 2030. The updated NDC lists mitigation and adaptation projects with a financing cost of about \$670 million, split roughly equally. With a continued focused approach and partnership with global partners, Seychelles is likely to meet SDG 13 by 2030.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.