FitchRatings

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Fitch Affirms Seychelles at 'BB-'; Outlook Positive

Fitch Ratings - London - 07 Mar 2025: Fitch Ratings has affirmed Seychelles' Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BB-' with a Positive Outlook.

A full list of rating actions is at the end of this rating action commentary.

Key Rating Drivers

Rating Fundamentals: Seychelles' 'BB-' rating is supported by relatively high income levels, strong World Bank Governance Indicators (WBGI; fourth highest among 'BB' rated sovereigns), and support from multilateral creditors. These strengths are balanced by the economy's small size and high concentration in the tourism sector, which heightens vulnerability to external shocks, the limited effectiveness of monetary policy, and medium- to long-term risks associated with climate change.

Flat Tourism Sector Performance: The tourism sector was relatively flat in 2024 compared with 2023. Tourist arrivals rose by 0.5% and revenues were down by 0.8%. Arrivals were 8.2% below their 2019 level with spending 15.2% above. Growth in the sector was below the authorities' expectations due to reduced flight connectivity, part of which may reflect cost considerations. The fall in revenue reflected an increased number of cruise passengers. With international sporting events in the offseason, when some new airline routes should start, and a modest increase in air seat capacity, Fitch assumes an increase in tourist arrivals of around 2% in 2025. Hotel room capacity will increase in line with new hotel projects, but flight connections remain the main constraint on sectoral growth.

Stronger Non-Tourism Growth: Non-tourism activity outpaced growth in the tourism sector in 2024, resulting in a preliminary official estimate of real GDP growth at 3% (BB median 3.1%). Some of this was tourism-related, with construction growth of 6% due to major hotel projects. Information and communication technology growth was estimated at 10% based on the volume of data traffic, but output from the fisheries sector was flat.

Growth Forecast at Around Potential: Higher tourist arrivals, a rebound in manufacturing of fisheries products (the main tuna canner is anticipating production growth of 8%), still solid tourism-related construction spending ahead of the September 2025 elections are forecast to lift real GDP growth to 4% in 2025. We then project growth to ease to the trend level of around 3.5% in 2026.

Budgetary Outperformance: Preliminary official data put the 2024 budget surplus at 0.1% of GDP (primary surplus of 3.3%), against a budgeted target of a 1.3% deficit and a 1.1% deficit in 2023. (The authorities anticipate this 2024 outturn may be revised down). Budget outperformance largely reflected another significant underperformance of budgeted capex, some of which was offset by much lower than budgeted receipt of grants.

Current spending was up by 6.6%, reflecting higher spending on goods and services and a jump in external interest payments, but less than budgeted due to lower than anticipated public-sector employment. Tax revenues climbed by 9.8%, reflecting an increase in business tax resulting from strong corporate performance in 2023, and a broader improvement in revenue collection. Non-tax revenue jumped by 20% due to an increase in dividend income.

Declining Debt: Fitch projects a deficit of 1.3% of GDP for 2025. Capex will be up on 2024 (while still significantly underperforming the budget) due to construction needs for sporting events. Elections will also add to spending pressures. Stronger tourism and improved collection should boost revenues. The deficit is forecast to narrow in 2026 as one-off capex costs fade and policy tightens slightly post-elections. Fitch's forecast fiscal path is consistent with a further fall in government debt/GDP, which it projects to reach 54.3% by end-2026 (forecast 'BB' median 54%).

Large CADs Fully Financed: The current account deficit (CAD) was broadly unchanged in 2024, with Fitch estimating a 7.3% of GDP deficit based on preliminary official data. Lower tourism revenues and higher payments for other business services caused the services balance to narrow. However, this was offset by an improved goods balance driven by higher re-exports and reduced tourism related imports. Net FDI inflows (estimated at 11.7% of GDP) more than fully covered the current account deficit. Gross international reserves were 3.5 months of current external payments at end-2024 ('BB' median 4.9), with net reserves comfortably above the benchmark in the IMF programme.

Fitch forecasts a widening of the deficit in 2025 to 8.4% of GDP reflecting the import-intensive nature of the projected increase in capex. This is despite higher tourism revenues and tuna exports. A slowdown in imports will narrow the deficit to 8% in 2026. Net direct investment inflows into tourism projects will remain well above the CAD. Performance against the IMF programmes has been strong, with all quantitative benchmarks under the Extended Fund Facility hit in the most recent review. IFI inflows will support the reserve position, which will stay around 3.5 months of current external payments over 2025-26.

Low Inflation: Inflation has risen from very low levels. It averaged 0.3% in 2024, underpinned by low food and fuel prices. However, it picked up over the final months of the year to 1.7% in December, driven by a weaker exchange rate, utility tariff adjustments and a seasonal rise in demand for imported food towards the end of the year. We assume an easing in the pace of rupee depreciation (as tourism revenues pick up) and lower international oil prices, and project inflation to be relatively stable and average around 2% over 2025 and 2026.

Weak Monetary Policy Transmission: Policy rates have been unchanged since the last cut in April 2024, by 25 bp, which took the monetary policy rate (MPR) to 1.75%. The authorities are enhancing their monetary policy toolkit in a path agreed with the IMF. Reverse repos have been reintroduced, and liquidity management has improved. However, transmission remains weak. Only two banks participated in the reverse repo operation and the same number adjusted their local-currency lending rates in response to the MPR cut.

Solid Banks: The banking sector remained healthy in 2024. High net interest margins kept profitability indicators robust, with return on assets of 2.2% and return on equity at 21.8% at end-2024. Capital adequacy (Tier 1) was 14.1% at end-2024, while non-performing loans fell to 5.5% from 8.1% at end-2023 largely due to restructurings at one large bank. Private sector credit grew by 12% in 2024, driven by local-currency household and mortgage financing (foreign-currency credit contracted by 14). Solid domestic activity should drive low double digit credit growth over 2025.

ESG - Governance: Seychelles has an ESG Relevance Score (RS) of '5[+]' for both Political Stability and Rights and for the Rule of Law, Institutional and Regulatory Quality, and Control of Corruption. These scores reflect the high weight that the WBGI have in our proprietary Sovereign Rating Model. Seychelles has a high WBGI ranking at the 72nd percentile, reflecting its track record of stable and peaceful political transitions, well-established rights for participation in the political process, strong institutional capacity, effective rule of law, and a low level of corruption.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/ Downgrade

Public Finances: A stabilisation of general government debt/GDP due, for example, to wider fiscal deficits, currency depreciation, or slower growth

Macro: Insufficient confidence that the economic policy framework would enhance the resilience of the economy to external shocks

External Finances/Macro: A sharp and sustained drop in tourism receipts that leads to balance of payment pressures and a deterioration in external liquidity and/or weaker economic growth over the medium term

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Public Finances: Continued primary fiscal surpluses that keeps general government debt/GDP on a sustained downward trajectory

Macro: Strengthening of the economic policy framework that would help improve policy effectiveness and economic resilience to external shocks

External Finances: A significant build-up of international reserves, aided by continued positive FDI coverage of the current account deficit

Sovereign Rating Model (SRM) and Qualitative Overlay (QO)

Fitch's proprietary SRM assigns Seychelles a score equivalent to a rating of 'BB+' on the Long-Term Foreign-Currency (LT FC) IDR scale.

Fitch's sovereign rating committee adjusted the output from the SRM to arrive at the final LT FC IDR by applying its QO, relative to SRM data and output, as follows:

- **Macro**: -1 notch to reflect limitations in policy effectiveness and flexibility, given weak monetary transmission and limited fiscal buffers, that hinder scope to manage the shocks to which the economy is exposed given its heavy reliance on tourism.

- **External Finances:** -1 notch to reflect the very high exposure to the tourism industry, which leaves the balance of payments and broader economy highly vulnerable to shocks.

Country Ceiling

The Country Ceiling for Seychelles is 'BBB-', 3 notches above the LT FC IDR. This reflects very strong constraints and incentives, relative to the IDR, against capital or exchange controls being imposed that would prevent or significantly impede the private sector from converting local currency into foreign currency and transferring the proceeds to non-resident creditors to service debt payments.

Fitch's Country Ceiling Model produced a starting point uplift of +2 notches above the IDR. Then Fitch's rating committee applied a further +1 notch qualitative adjustment to this, under the Near-term Macro-Financial Stability Risks and Exchange Rate Risks pillar to reflect that these risks are likely overstated by volatility in the real effective exchange rate and inflation, and fairly high dollarisation levels, that adversely affect the Country Ceiling Model score.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Seychelles has an ESG Relevance Score of '5[+]' for Political Stability and Rights as WBGI have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. As Seychelles has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Seychelles has an ESG Relevance Score of '5[+]' for Rule of Law, Institutional & Regulatory Quality, and Control of Corruption as WBGI have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight. As Seychelles has a percentile rank above 50 for the respective Governance Indicators, this has a positive impact on the credit profile.

Seychelles has an ESG Relevance Score of '4[+]' for Human Rights and Political Freedoms as the Voice and Accountability pillar of the WBGI is relevant to the rating and a rating driver. As Seychelles has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Seychelles has an ESG Relevance Score of '4' for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Seychelles, as for all sovereigns. As the last default/restructuring event occurred less than 20 years ago, this has a negative impact on the credit profile.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Seychelles	LT IDR	BB- ⊕	Affirmed		BB- ⊕
	ST IDR	B	Affirmed		B

ENTITY/DEBT	RATING			RECOVERY	PRIOR
	LC LT IDR	BB- ⊕	Affirmed		BB- ⊕
	LC ST IDR	B	Affirmed		B
	Country Ceiling	BBB-	Affirmed		BBB-
• senior unsecured	LT	BB-	Affirmed		BB-

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	◈	◆
STABLE	▣	

Applicable Criteria

Country Ceiling Criteria (pub.24 Jul 2023)

Sovereign Rating Criteria (pub.24 Oct 2024) (including rating assumption sensitivity)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Country Ceiling Model, v2.0.3 (1)

Debt Dynamics Model, v1.3.2 (1)

Macro-Prudential Indicator Model, v1.5.0 (1)

Sovereign Rating Model, v3.14.2 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Seychelles	UK Issued, EU Endorsed

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