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St. Vincent and the Grenadines: 2009 Article IV Consultation and Request for Disbursement Under the Rapid-Access Component of the Exogenous Shocks Facility—Staff Report; Staff Supplement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for St. Vincent and the Grenadines

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the combined discussion of the 2009 Article IV consultation with St. Vincent and the Grenadines and the request for disbursement under the rapid-access component of the Exogenous Shocks Facility, the following documents have been released and are included in this package:

- The staff report for the combined 2009 Article IV consultation and Request for Disbursement Under the Rapid-Access Component of the Exogenous Shocks Facility, prepared by a staff team of the IMF, following discussions that ended on February 12, 2009, with the officials of St. Vincent and the Grenadines on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 1, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement on the joint IMF/World Bank debt sustainability analysis.

- A Public Information Notice (PIN) and Press Release summarizing the views of the Executive Board as expressed during its May 15, 2009, discussion of the staff report on issues related to the Article IV consultation and the request, respectively.

- A statement by the Executive Director for St. Vincent and the Grenadines.

The document listed below will be separately released.

Letter of Intent sent to the IMF by the authorities of St. Vincent and the Grenadines*
*Also included in Staff Report.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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ST. VINCENT AND THE GRENADINES

Staff Report for the 2009 Article IV Consultation, and Request for Disbursement Under the Rapid-Access Component of the Exogenous Shocks Facility

Prepared by the Staff Representatives for the 2009 Consultation with St. Vincent and the Grenadines

Approved by José Fajgenbaum and Philip Gerson

May 1, 2009

EXECUTIVE SUMMARY

Background: The global economic downturn has led to a significant decline in tourism, which worsened the balance of payments position and, together with lower foreign direct investment (FDI) and construction activity, led to a sharp output slowdown in 2008. Growth is expected to decline further in 2009. Although liquidity is tight, the banking system remains sound. However, insurance and investment linkages with the troubled Trinidad and Tobago-based CL Financial Group are creating uncertainties and could pose risks for the financial system. The fiscal position strengthened in 2008, and solid progress has been made toward social and poverty reduction goals.

Request for support under the Exogenous Shocks Facility (ESF): The authorities are requesting the rapid-access component of the ESF (SDR 3.735 million, 45 percent of quota) to help the economy adjust to the tourism and FDI shock. The full amount would become available upon approval.

Discussions focused on the key policy issues:

- **Restore growth through competitiveness gains.** The main challenges are to address: (i) the effects of the adverse global environment through steps to improve competitiveness, enhance the resilience of the financial sector, and develop contingency financing plans; and (ii) the limited air transportation links through construction of a new international airport without jeopardizing debt sustainability. Managing bridge financing needs for the airport in 2009–10 is likely to be a challenge in an environment of tight liquidity, and if so, a more flexible construction timetable, to the extent technically feasible, could help alleviate the possible financing bottleneck.
- **Ensure fiscal and debt sustainability.** While recent income tax reform should provide timely support to growth, there is a need to reform the tax incentive system. Staff welcomed the establishment of a Tax Reform Commission, which aims to make recommendations on a comprehensive income tax legislation that could broaden the tax base. Sustained fiscal consolidation would help provide space for the government's goal to raise social spending, and accommodate the construction of the airport without compromising debt sustainability. Key to this end will be further civil service reforms, continued improvement in the prioritization of capital spending, and additional pension reforms.
- **Reduce vulnerabilities:** Improving the regulatory and supervisory framework for nonbank institutions is a high priority. Staff welcomed the authorities' renewed participation in the Caribbean Catastrophic Risk Insurance Facility, and other enhancements to disaster preparedness and response plans.

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I. Recent Developments and Outlook[1]

1. **Following two years of brisk growth, some key macroeconomic indicators deteriorated in 2008, as global growth slowed.**

- **Real output growth** is estimated to have fallen from 7 percent in 2007 to around 1 percent in 2008, far below potential (estimated at around 4¼ percent). The tourism sector weakened, with stay-over arrivals declining by an estimated 6 percent in 2008, owing to the U.S. and global growth downturn. Construction lost some dynamism owing to the completion of major phases in some public sector projects, while the agricultural sector declined because of a disease in the banana sector. Consumption expenditure fell in line with a drop in real disposable incomes.

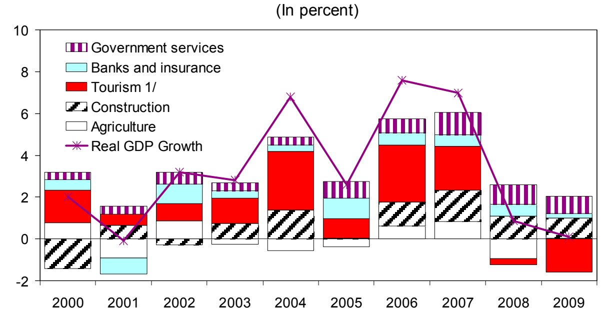
St. Vincent and the Grenadines: Selected Economic Indicators, 2005–09

	2005	2006	2007	Est. 2008	Baseline 2009
	(Percentage change)				
Real GDP	2.6	7.6	7.0	0.9	0.1
CPI, end of year	3.9	4.8	8.3	8.7	2.9
Real effective exchange rate (depreciation -)	0.0	-0.6	0.3	3.7	...
Credit to private sector	5.5	14.3	15.0	3.0	1.4
Stay-over arrivals	9.5	2.6	-8.1	-6.1	-14.0
	(In percent of GDP)				
Central government balance	-5.6	-3.9	-3.6	-1.7	-3.8
Central government primary balance	-2.6	-0.7	-0.6	1.2	-0.9
External current account balance	-22.3	-24.1	-35.1	-33.7	-28.9

Sources: Ministry of Finance and Planning; and Fund staff estimates

- **Albeit struck by tight liquidity, the financial system has been largely unaffected by the global financial crisis.**[2] The banking sector, which is dominated by subsidiaries of Canadian banks, remains well capitalized and has limited exposure to distressed financial products and institutions in industrial countries. The ratio of nonperforming to total loans remained at 3.9 percent in December 2008 and other financial indicators continue to point to banking soundness. Interbank markets have tightened as liquidity has dried up, shortening the maturity of interbank transactions. The authorities have been able to raise funds from the regional government securities market

St. Vincent and the Grenadines: Sectoral Contribution to GDP Growth
(In percent)



Source: ECCB.
1/ Tourism includes wholesale and retail trade, hotels and restaurants, air transport and half of local transport.

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[1] A staff team comprising Ms. Pattillo (Head), Mr. Dehesa, and Ms. Sun (all WHD) visited Kingstown during February 2–12, 2009. The mission met with the Prime Minister and Minister of Finance, Dr. Ralph Gonsalves, the Director General of the Ministry of Finance, other senior government officials, opposition parliamentarians and political leaders, representatives of the financial and business sectors, farmers, trade unions and civil society. Staff of the Eastern Caribbean Central Bank (ECCB) and Caribbean Development Bank (CDB) also participated. Messrs. Cashin (WHD) and O'Sullivan (OED) joined the mission for the final discussions, which overlapped with the Eastern Caribbean Currency Union (ECCU) Regional Discussions.

[2] The sector is not strongly integrated with international financial markets as discussed in Kwon, G. et al., "Financial Integration in the Caribbean," in *The Caribbean: Enhancing Economic Integration*, IMF Western Hemisphere Department, Andreas Bauer, Paul Cashin and Sanjaya Panth editors, 2008.

without significantly increased risk premia, even though oversubscription has declined markedly.

- **Inflation declined to 8.7 percent by end-2008 after peaking at 11.6 percent in September.** The inflation path reflects the trajectory of global oil and food prices and the dominant weight of these items in the consumer price index. Although declining, inflation still remains far higher than its long-term average of about 3 percent.

- **The external current account deficit remained high at 33⅔ percent of GDP in 2008.** Foreign exchange revenues declined in tandem with tourism arrivals owing to the global downturn. However, overall imports as a percent of GDP also declined due to the weakness in economic activity, offsetting the larger food and fuel import bill and resulting in a modest improvement in the external account balance. The currency appreciated by around 3 percent in real effective terms.[3]

- **Private sector credit growth slowed to 3 percent through end-2008**, compared to 15 percent in 2007, reflecting lower demand from the household sector for personal loans due to a drop in real disposable income as well as tighter lending terms and conditions. Growth of monetary aggregates also decelerated sharply.

- **The central government's finances continued to strengthen during 2008, and the overall deficit was reduced to 1.7 percent of GDP.** Larger grants, efforts at tax arrears collection and one-off non-tax revenue were complemented by solid VAT performance to attain a primary surplus of 1.2 percent of GDP, the first since 2002. The VAT, which was introduced in May 2007, exceeded expectations from both the revenue and the compliance perspectives, surpassing replaced taxes by about 0.6 percent of GDP, notwithstanding the growth slowdown. Total government spending declined marginally as lower capital expenditure made room for higher non-wage, non-interest current expenditure. The wage bill remained constant as a percent of GDP despite back pay linked to a reclassification of the salary scale and a modest wage increase. A US$16 million bond placement with a 10 year maturity helped finance the deficit, lowering domestic borrowing requirements.[4]

- **Social safety nets were expanded to cushion the impact of rising food and fuel prices.** Specific initiatives included reduced import tariffs on a number of basic food items, larger cost of living support payments to persons enrolled in the public assistance

[3] The REER exhibited high volatility in 2008 owing to U.S. dollar/euro exchange rate fluctuations as the U.S. and the European Union account for about 60 percent of the weights used to compute the REER. Nominal exchange rate changes moderated the increase in the REER from inflation differentials.

[4] The U.S. dollar bond was issued in Trinidad and Tobago, and taken up by regional investors.

program, a subsidy on the electricity surcharge and increased minimum pension payments, among others.

2. **The global economic downturn and financial crisis have significantly weakened growth prospects for 2009.** Declining tourism-related receipts and remittances will adversely affect output growth and banking sector liquidity. Foreign direct investment (FDI), which supports tourism infrastructure expansion, is also likely to slow. However, construction of the international airport is expected to continue as planned and support domestic activity during 2009–11, albeit at the risk of significantly raising the public debt burden should envisaged grants and concessional financing not fully materialize.

3. **Strains from the fallout of the Trinidad and Tobago-based CL Financial Group have created uncertainty in the local financial system, and the international financial services sector has also suffered shocks.** The troubled CL Financial Group has linkages to the local economy, including through insurance subsidiaries.[5] Regional leaders, chaired by the St. Vincent and the Grenadines' Prime Minister, have moved quickly to coordinate regional information sharing and response planning. The prompt action of the ECCB to coordinate a consortium of local banks (including National Commercial Bank of St. Vincent and the Grenadines) to manage the operations of the Bank of Antigua in neighboring Antigua and Barbuda following the Stanford International Bank crisis helped reassure depositors in the ECCU of the stability of the banking system. St. Vincent and the Grenadines' International Financial Services Authority (IFSA) appointed a receiver for Millennium Bank in March 2009, immediately following an emergency court action by the U.S. Securities and Exchange Commission (SEC) against the alleged Ponzi scheme. According to the SEC complaint, the bank and its parent company were part of a scheme that raised and misappropriated around $US68 million from investors.[6]

4. **The outlook for 2009 is especially challenging.**[7] Real GDP growth is projected to be close to zero,[8] with significant downside risks arising from a sharper downturn in U.S. and global growth. The external current account deficit is expected to decline to about 29 percent of GDP in 2009, as imports are projected to fall by more than the decline in tourism receipts (owing to the domestic growth slowdown, lower costs of imported fuel, and lower FDI with

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[5] Total exposure to the CL Financial Group is estimated at around EC$350 million, or 22 percent of GDP.

[6] The authorities had revoked Millennium Bank's license in 2003, but the bank gained reinstatement through a court action. In March 2009 IFSA also placed Union Bank under controllership.

[7] In April 2009, St. Vincent and the Grenadines joined the Bolivarian Alternative for the People of Our America (ALBA), an organization aiming at regional economic integration including mutual economic aid. It is expected to help St. Vincent and the Grenadines diversify its trade and economic cooperation linkages, including through increased aid flows from Venezuela.

[8] Real GDP growth of less than 2.2 percent per annum (one standard deviation below the historical ECCU average growth rate) is considered a recession.

high import content). Inflation is expected to ease in line with the fall in oil and food prices (Box 2).

5. **The fiscal balance for 2009 will be affected by the adverse economic environment**. Total revenue and grants are expected to decline by 2.6 percent of GDP owing to the ongoing income tax reform (see below) and lower collection of VAT and import duties as well as lower grants. Total expenditure is projected to decline slightly owing to lower expenditure on goods and services, while the wage bill is projected to remain broadly unchanged in percent of GDP.

6. **The external current account deficit, while still high, is projected to decline over the medium term.** Notwithstanding lower banana exports, the current account deficit is projected to fall below 21 percent of GDP by 2014 supported by the gradual recovery of the global economy. Subsequently, current account imbalances will decline further as construction of new tourism infrastructure tapers off and facilitates the switch in composition of tourist arrivals toward stay-over arrivals. Staff analysis indicates that medium-term current account deficits are broadly in line with equilibrium levels (Box 3). FDI flows into tourism investment projects have a very high import content, suggesting a smooth current account adjustment when such inflows decline. Nevertheless, the high external current account deficits pose risks that need to be carefully monitored—particularly in the current challenging global financing environment—and accompanied by further efforts at fiscal consolidation.

7. **The real exchange rate appears broadly in line with macroeconomic fundamentals.** The real effective exchange rate has depreciated in recent years, largely reflecting the decline in the U.S. dollar against the currencies of its major trading partners. Staff analysis suggests that the real effective exchange rate is close to its medium-term equilibrium value (Box 3).[9] Still, external competitiveness remains a challenge, as regional tourism market shares have deteriorated in recent years, and the real exchange rate measured relative to tourism competitor- or customer-based markets has appreciated (Figure 3). Though the projected debt profile is consistent with continued stability of the regional currency board arrangement, rising external debt ratios signal the need for sustained efforts at fiscal consolidation (see the companion Debt Sustainability Analysis paper).[10] On risks, in the event of a prolonged stagnation of the tourism sector, further real depreciation (some of which is expected as inflation moves gradually back to historical levels), and other nonprice measures would be necessary to maintain competitiveness.

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[9] Following the CGER procedure, time series models linking the REER to measures of St. Vincent and the Grenadines' fundamentals (productivity differentials, terms of trade, government consumption and net foreign assets) suggest that there is little evidence of overvaluation of the EC dollar. For additional details, see "Assessing Exchange Rate Competitiveness in the Eastern Caribbean Currency Union," by E. Pineda, P. Cashin, and Y. Sun, IMF Working Paper WP/09/78.

[10] St. Vincent and the Grenadines' external debt distress rating is moderate.

Box 1. The Economic Impact of the Tourism and FDI Shock

The adverse shock to tourism and FDI in 2008–09 has weakened economic activity in St. Vincent and the Grenadines and heightened balance of payments vulnerabilities. The recession in the main tourism-source countries—the U.S. and the United Kingdom—has sharply reduced tourism arrivals.[1] The contribution of tourism to real GDP growth turned negative in 2008 and is projected to reduce GDP growth by about 1.6 percent in 2009. Many FDI projects are on hold, reflecting investor's financing difficulties. Net tourism receipts and FDI are projected to fall by EC$41 million (2.9 percentage points of GDP) and EC$99 million (6.5 percentage points of GDP) in 2009, respectively. In addition, the global slowdown is expected to lower remittances and to reduce demand for St. Vincent and the Grenadines' exports. Imports are lower, due to both exogenous factors: lower food and fuel prices and lower FDI-related imports; and endogenous compression associated with weak economic activity. The exogenous reduction in imports will not fully offset the declines in tourism receipts and FDI (together with lower exports and private transfers), contributing to a decline of EC$14.2 million in net international reserves and a financing gap of EC$14.9 million. There are significant downside risks of a potentially larger negative shock to tourism and FDI.

The tourism and FDI shock and ensuing growth slowdown have created a balance of payments financing gap and widened the fiscal deficit despite some adjustment. Revenue is projected to decrease by 1.9 percentage points of GDP, associated with lower imports and weak growth following the shock. The authorities have responded appropriately through reducing expenditure and seeking concessional budget support from the Caribbean Development Bank. The proposed ESF purchase (45 percent of quota, or around EC$14.9 million) would close the external financing gap, and contribute about 0.9 percent of GDP toward the financing of the fiscal deficit of 3.8 percent of GDP projected for 2009. The ESF financing of the budget would imply less projected net domestic financing, appropriate given past trends and the tight liquidity environment in 2009.

St. Vincent and the Grenadines: Estimted Net Impact of Tourism and FDI Shock

	2008	2009	Difference
	(In millions of EC dollars)		
Current Account	-547.3	-485.2	62.1
Of which			
(A) Exports	148.9	142.1	-6.7
(B) Imports	-806.4	-677.2	129.2
Of which			
(C) FDI-related (both fuel and nonfuel)	…	…	68.9
(D) Fuel and Food (price effect)	…	…	36.9
(E) Endogenous adjustment	…	…	23.3
(F) Travel (net)	201.0	159.8	-41.2
(G) Private transfers	32.6	25.7	-7.0
Capital and Financial Account 1/	537.9	456.1	-81.8
Of which (H) Direct investment	326.6	228.2	-98.5
Overall balance	-9.4	-29.1	…
Financing	9.4	29.1	…
Change in imputed reserves	8.8	14.2	…
Requested ESF	0.0	14.9	…
(I) Gross impact (A+F+G+H)	…	…	-153.3
(J) Net impact (I+C+D)	…	…	-47.5
Memorandum items:			
Central government operations	(In percent of GDP)		
Total Revenue and grants	32.4	29.8	-2.6
Of which Current revenue	29.8	27.9	-1.9
Total expenditure	34.1	33.7	-0.4
Overall balance	-1.7	-3.8	-2.1
Financing			
Net external financing	1.0	2.0	…
Net domestic financing	1.0	0.9	…
Requested ESF	…	0.9	…

Sources: Ministry of Finance and Planning; ECCB; and Fund staff projections.

1/ Includes net errors and omissions

[1] Stayover visitors declined in the second half of 2008 by 6.5 percent, compared to the same period in 2007.

II. Policy Discussions [11]

8. **The discussions focused on managing near-term risks and implementing policies to enhance the economy's growth potential, while ensuring fiscal and debt sustainability**. The relatively high debt ratios allow little room for counter-cyclical fiscal policy in response to the global growth slowdown. The authorities agreed that they have limited policy options, and that enhancing competitiveness will help build a foundation for a growth recovery. They felt, however, that a balance had to be sought between the fiscal and debt sustainability objectives and policies to support employment and income growth.

A. Managing Risks in the Near Term

9. **There is a need to enhance the resilience of the financial system, and develop contingency financing plans.** Though the banking sector remains fundamentally sound, further strengthening the regulation and supervision of nonbank institutions is a priority.

- **The global financial crisis underscores the need for stronger prudential supervision of asset quality, including assets held abroad by banks operating in St. Vincent and the Grenadines.** There is a significant risk that slowing economic growth and remittances after a period of rapid credit expansion would lead to a deterioration in banks' asset quality. The declining trend in provisioning, particularly in foreign banks, points to the need for heightened vigilance. Staff supported the prompt liaison of the authorities with the ECCB to continue to strengthen on-site inspection, examine cross-border transactions, and prioritize higher frequency monitoring of commercial banks' liquidity positions. Staff welcomed the work of a regional task force, chaired by the St. Vincent and the Grenadines' authorities, which is developing response plans for the exposure to an insurance subsidiary of the Trinidad and Tobago-based CL Financial Group.

- Improving the regulatory and supervisory framework for nonbank institutions is a high priority, particularly in light of the recent shocks in the region's offshore and insurance sectors. Building societies have recently been placed under the authority of a domestic nonbank unit in the Ministry of Finance, which is also expected to begin regulating and supervising credit unions by mid-2009. Staff encouraged the authorities to pass legislation to establish a single regulatory unit (SRU) for all nonbank financial institutions, as other

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[11] St. Vincent and the Grenadines is a member of the Eastern Caribbean Currency Union (ECCU), a regional currency board arrangement with a fixed peg of the EC dollar to the U.S. dollar. The discussions were complemented by the 2009 ECCU Common Policies Discussions (IMF Country Report No. 09/175), the report for which covers common regional issues.

ECCU jurisdictions are aiming to do during 2009.[12] The authorities are considering this, which would involve merging the operations of the regulators of the international financial services and domestic nonbank sectors to achieve efficiencies and a system-wide perspective. Work underway to update the Insurance Act, the Money Transfer Services Act, and the Cooperatives Act will deliver legislation consistent with international best practices. The government prepared well for a Fund AML/CFT assessment, which was carried out in February–March 2009, and found need for strengthening AML/CFT supervision, including of the offshore and nonbanking sectors.[13]

- **A deeper and more prolonged global downturn and financial crisis than currently envisaged poses severe risks that warrant development of contingency plans for buffer financing.** The risks include sharper-than-envisaged declines in tourism receipts, remittances and FDI, and difficulties in borrowing in regional capital markets. Such a scenario would have serious consequences for growth and the fiscal position. Staff encouraged the authorities to develop contingency plans for access to buffer financing from international financial institutions—in addition to the resources requested through the Fund's Exogenous Shocks Facility.

B. Improving Competitiveness and Enhancing Sustainable Growth

10. **Addressing the adverse impact of the current global downturn requires steps to improve competitiveness and growth potential.**

- **Recent income tax reforms should provide timely support to growth in 2009.** The income tax reform implemented in 2008 appropriately rewards effort and enhances the competitiveness of St. Vincent and the Grenadines as a business location. Personal and corporate tax rates were lowered from 37.5 percent to 35 percent, and the 2009 Budget speech announced a further reduction to 32.5 percent. Staff welcomed the establishment of a Tax Reform Commission, which will make recommendations by end-2009 on new comprehensive income tax legislation to broaden the tax base. The Commission will prioritize revamping the tax incentive system, which staff strongly supported, recommending replacing inefficient and discretionary corporate tax concessions with investment credits, accelerated depreciation and loss carry-forward provisions**.**

11. **The forward-looking public sector wage policy of increasing compensation by 12 percent over three years (2009–11) avoids entrenching high inflation and contributes**

[12] The nonbank financial institutions sector is comprised of: (i) 6 offshore banks, 12 international insurance companies, 36 mutual funds, 169 trusts and over 9000 international business companies; (ii) 23 domestic insurance companies and 12 brokers, 14 pension funds, 4 money service business, 9 credit unions and a building society. Financial and prudential information on some of these entities is largely unavailable. A SRU would establish reporting requirements and enforce timely provision of data for offsite monitoring.

[13] The Caribbean Financial Action Task Force (CFATF) will use the Fund's assessment report in their current round of mutual evaluations, under agreed procedures.

to improving external competitiveness. This wage policy will allow for a gradual recovery in real incomes, help limit second-round effects from the 2008 spike in global food and fuel prices and moderate demands for private sector wage increases. These factors would support external competitiveness by containing domestic pressures on the real exchange rate.

12. **Raising medium-term growth potential remains a key challenge.** Diversifying the economy away from the banana sector to the tourism and services sectors requires better air transport links, enhancing the investment and business environment and boosting productivity. The authorities are working to ease infrastructure bottlenecks and institutional rigidities, including through:

- **Construction of a new international airport.** Diversifying and developing the tourism industry will require a new airport. However, staff has concerns regarding the financing challenges of the project, especially in the current juncture, and its potential impact on debt sustainability. The authorities' goal is to have the new airport completed by 2011. The total cost is now estimated at about EC$608 million (37½ percent of GDP). Identified grant and concessional financing (mostly in-kind from Venezuela and Cuba) falls short of total funding requirements by approximately EC$185 million (11½ percent GDP). The planned contribution of government land sales to the financing gap is progressing, albeit at a slow pace, and could now be even more difficult in light of the global slowdown and financial crisis. There is also a risk that the global financial turmoil could delay some of the expected grants and concessional financing.

- **To mitigate the above risks, the mission recommended that the authorities** (i) adopt a comprehensive fiscal reform package to help cover the airport financing gap without compromising debt sustainability (see below) (ii) implement, to the extent technically feasible, a more flexible construction timetable for the airport (which may also be more realistic) to help minimize domestic bridge financing needs and avoid crowding out the private sector; and (iii) continue efforts on seeking additional grant and concessional financing. The authorities noted that continued fiscal reforms remain on the agenda, and these could reduce recourse to commercial borrowing. However, they expressed their intention to complete the project as scheduled to provide the foundation for tourism-led growth, and noted that any commercial borrowing would be of a bridge finance nature, as they remained optimistic about the sale of state-owned land.

- **Reducing costs of doing business**. Staff welcomed efforts to modernize customs procedures to reduce the time and cost of importing, which has been identified as a key impediment to private business. The authorities are simultaneously modernizing port operations which they regard as a key to fostering competitiveness. Shortening the time for business registration through developing a one-stop process is also underway. However, the costs of registering property remain high, and procedures for closing a business are cumbersome, hindering investment. The authorities are addressing these areas through development of a land registry and a new bankruptcy law.

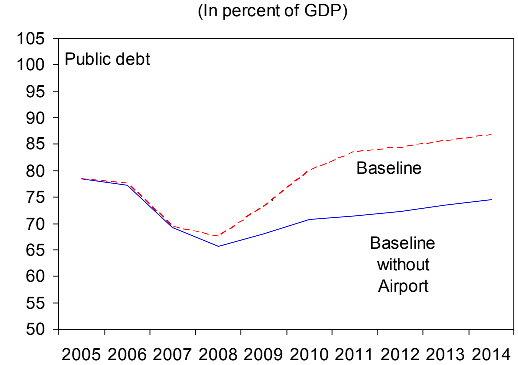
C. Fiscal Policy and Debt Sustainability

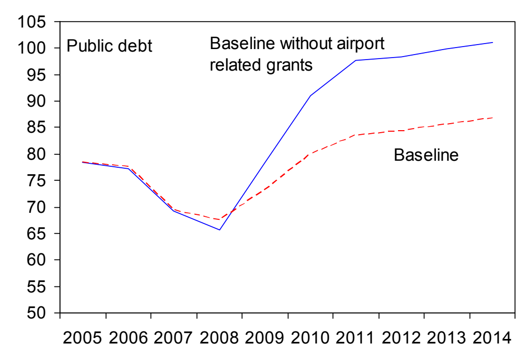
13. **The government has made solid progress in fiscal consolidation in recent years but faces a challenging global environment.** The adverse global conditions, and the resulting slowdown in output growth have put downward pressure on revenues. Continuation of current policies would imply relatively considerable overall deficits in the medium term and, when potential borrowing for the new airport is included, lead to a significant increase in public sector debt. To avoid such an outcome, staff recommended the prompt adoption of comprehensive fiscal reforms to generate sustained primary surpluses over the medium term.

14. **The 2009 Budget envisages an increase in the fiscal deficit.** The budget communication prudently recognizes that the high debt-to-GDP ratio and tight global financing conditions constrain fiscal policy options. The net impact of discretionary fiscal measures is small; while the reduction in personal and corporate tax rates is expected to reduce revenues by around 0.4 percent of GDP, current expenditure (excluding utilities) is expected to decline by around 0.2 percent of GDP from 2008, including savings from containment of the public sector wage bill. However, even after adjusting official budget estimates with historical rates of capital spending and materialization of budgeted grants, the primary deficit and the overall fiscal deficit would increase to 0.9 percent and 3.8 percent of GDP, respectively, raising central government debt to about 56½ percent of GDP in 2009. The authorities noted that attaining this fiscal target would require keeping current expenditure some 2 percentage points of GDP below budgeted levels (Box 4).

15. **Debt dynamics are unfavorable in the baseline scenario.** Under current policies, which would result in a small primary deficit in the medium term, the debt-to-GDP ratio is projected to rise to nearly 87 percent by 2014 and unlikely to reach the 60 percent mark by 2020 (the ECCB's target for the region). Expected borrowing for the new international airport is the main reason for this debt profile. In a worst-case scenario, where the expected grants and concessional financing do not materialize, the debt-to-GDP ratio would reach 101 percent by 2014.

St. Vincent and the Grenadines: Public Sector Debt Dynamics
(In percent of GDP)





Source: Fund Staff estimates.

- Even if all the concessional financing materializes, significant bridge financing from domestic sources would be needed in the next few years, which will increase considerably the banks' exposure to the public sector. Moreover, a financing bottleneck may arise this year, as liquidity is expected to be tight. Given the projected modest growth in bank deposits, banks may have to reduce their net foreign assets to generate the bridge financing necessary for the airport.

16. **The government's welcome progress on fiscal reforms bodes well for sustained fiscal consolidation.** The mission recommended a set of fiscal measures to increase the primary surplus to about 2.6 percent of GDP over the medium term, from a projected deficit of 0.9 percent in 2009. On the revenue side, further tax policy and administrative reforms are required to continue broadening the tax base, following the successful introduction of the VAT and the planned introduction of a market-based property tax in mid-2011.[14] In addition, the ongoing income tax reform would need to go hand-in-hand with revamping the tax incentive system to phase out discretionary concessions. Staff looks forward to the new Tax Reform Commission's recommendations on these areas. On the expenditure side, key measures include deepening the civil service reform, and continued improvement in prioritization of capital spending. During the current downturn, staff supported well-targeted transfers to mitigate hardships faced by vulnerable groups, but emphasized that the public sector should not become "the employer of last resort."

17. **Other measures that would support medium-term fiscal consolidation include:**

- **Customs reform.** The mission supported a continued timely implementation of the customs reform plan, including the adoption of risk management practices and a post-clearance audit program, continued upgrade of information technology, client services and public information, and improvements in efficiency, especially in processing time.

- **Civil service reform**. The recent job reclassification exercise—the first in the ECCU—is a useful starting point for a wider reform to streamline pay and career structures, provide performance incentives, better match qualifications to job assignments, and improve the delivery of public services.

- **Medium-term expenditure framework (MTEF)**. A MTEF would improve the quality of the budget process, provide greater predictability to government expenditure, and contribute to internalize the recurrent cost implications of capital investment. The authorities are exploring CARTAC technical assistance for public financial management reforms including MTEF development.

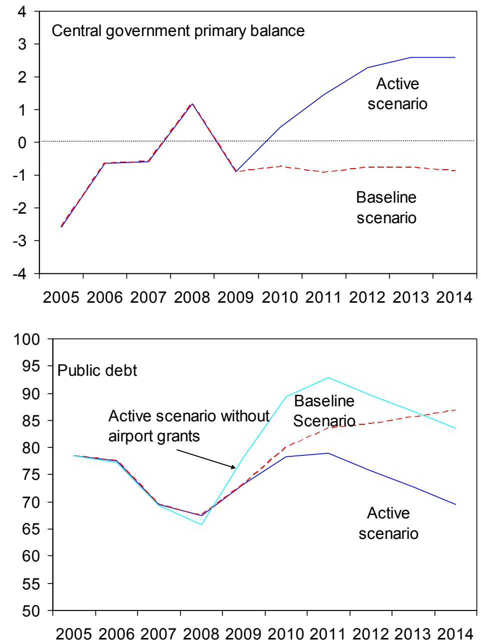
- **Maintain automatic fuel pricing mechanism**. The greater frequency of domestic fuel price adjustments in 2008 has increased the pass-through of

[14] With the signing of the Economic Partnership Agreement with the EU and the corresponding changes in licensing policies, the structure of trade taxes will have to be revisited and the revenue implication of these changes will have to be examined.

international price changes, including with the adoption in August 2008 of a three-month rolling average pricing rule to smooth price fluctuations, which the staff welcomed. On PetroCaribe, the government needs to ensure timely reporting from VINLEC, the state electricity company, on the resources generated by the concessional financing from Venezuela.

18. **The fiscal consolidation program outlined above would allow financing the new airport without compromising debt sustainability, if promised grants, concessional financing and land sales materialize.**[15] Under the active scenario of intensified fiscal reforms, public debt would rise temporarily and then decline to around 69½ percent of GDP by 2014. The 60 percent debt-to-GDP target would be reached in 2017, ahead of the 2020 target date for the ECCU region.

St. Vincent and the Grenadines: Public Sector Debt Dynamics
(In percent of GDP)



Sources: Ministry of Finance and Planning; and Fund staff estimates and projections.

19. **The authorities agreed that maintaining the integrity of the VAT system is critical for helping address fiscal vulnerabilities.** The VAT has performed well in terms of revenue yield and compliance, and now accounts for one third of tax revenues. The authorities demonstrated their commitment to maintaining the integrity of the VAT system, by resisting strong pressures for further exemptions and concessions, which the staff welcomed. Staff recommended the strengthening of audit, collections enforcement and information technology capabilities to minimize the risk of an increase in VAT non-compliance, and the absorption of the VAT unit into mainstream tax operations to ensure efficiency and coordination of tax administration. The authorities welcomed continued CARTAC and Fund technical assistance in these areas.

20. **Meeting the needs of vulnerable groups more efficiently will help the government continue its solid efforts at pursuing social and poverty reduction goals.** Staff welcomed the forthcoming poverty assessment report due in the first half of 2009, which is expected to demonstrate substantial progress in poverty reduction, particularly in tackling extreme poverty. The report and the planned poverty reduction action plan could be used to develop a well-targeted social protection scheme. This could help strengthen the impact of social programs, including the public assistance program, the children against poverty, the rural development facility, home-help-for the elderly and the school feeding programs.

[15] As noted, however, there are substantial risks associated with the financing strategy for the new airport.

Social Indicators in St. Vincent and the Grenadines

Despite being one of the poorest countries in the ECCU, social indicators are strong. Average life expectancy at birth is close to the ECCU average, and adult literacy is near universal. This reflects targeted interventions to reduce poverty and access to free education, including at the secondary level. More recent poverty and social indicator data will be available from the forthcoming poverty assessment report.

St. Vincent and the Grenadines: Social and Demographic Indicators

	St. Vincent and the Grenadines	ECCU
Population (in thousand), estimate 2006	109	568
HDI rank, out of 179 countries, 2008 1/	92	73
Life expectancy at birth (years), 2006	71	74
Adult illiteracy rate (percent), 2004	12	8
AIDS incidence per 100,000, 2005	32	29
Immunization coverage (percent), 2000	99	93
Per capita energy availability (calories per day), 2004	2,660	2,695
Infant mortality rate (per 100,000 live births), 2006	17	14
GDP per capita (US$) in 2008, estimates	5,615	8,079

Sources: World Bank, WDI 2007; and United Nations, Human Development Report 2008.
1/ For ECCU, average of six Fund member countries.

D. Reducing Vulnerabilities

21. **The uncertainties associated with the financing strategy for the new airport pose risks to the sustainability of public debt.** If there were significant delays in the expected grants and concessional financing or in the land sales, it would be prudent to extend the construction timetable for the airport to the extent technically feasible to avoid a major increase in public debt.

22. **Fiscal risks associated with the National Insurance Scheme (NIS) also need to be addressed.** Staff welcomed the increase in NIS contribution rates from 6 to 8 percent in January 2008 to help place the pension scheme on a sustainable footing. Nonetheless, contribution rates remain low relative to international standards and to the large and growing financing requirements of the pay-as-you-go pension system. Staff advised the early implementation of a reform plan (based on the findings of the Seventh Actuarial Review and the Fund technical assistance report) which would include further increases to the contribution rate, increases to the retirement age, and reductions to the average replacement rate. Staff encouraged the rationalization of the public pension system by integrating it with the NIS.

23. **Resolving the difficulties in the insurance sector caused by the CL Financial Group failure and subsequent intervention will be a challenge.** The authorities have determined exposure to the subsidiaries CLICO Life Insurance and British American Insurance. The national and regional authorities are taking an appropriate regional approach

to assessing the liquidity and solvency positions of the companies, and to developing a resolution plan that will contribute to maintaining confidence in the financial system.[16] However, the region's limited fiscal space and high debt burdens will most likely influence the choice of resolution option.

24. **Natural disasters are a perennial threat to sustained growth.** Supported by International Development Agency (IDA) credits to pay insurance premia, St. Vincent and the Grenadines renewed its participation in the Caribbean Catastrophic Risk Insurance Facility in June 2008. The mission welcomed the prudent development of further disaster contingency response plans, including through public safety programs.

25. **The European Union (EU) has committed funds to ameliorate the social impact of the secular decline of the banana sector, but disbursements have been slow.** The authorities' efforts to speed disbursements of EU commitments have not been successful and they are requesting the EU to transform all commitments into budgetary support, which staff supported.

E. Measures to Ameliorate the Shock to Tourism

26. **The broad policy framework discussed above would help address the tourism shock through fiscal and structural policies to maintain competitiveness and support the restoration of growth.** Other measures being implemented to mitigate the impact of the tourism shock on employment and growth and the balance of payments, with negligible expected fiscal impact, include the following:

- Special incentives for the tourism sector,[17] including a reduction in corporate income tax rates from 30 percent to 20 percent, and lower electricity charges by the state electricity company. Staff agreed on the need to ensure that the incentives are time-bound, and are linked to progress on enhancing efficiency in the tourism sector.

- LIAT airline's flight schedule was restructured to ease air travel;[18] a Tourism Authority was established to provide greater focus to marketing efforts; and the government coordinated with hoteliers to develop special packages for visitors.

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[16] In April 2009 Ministers of Finance and central banks of the ECCU, Trinidad and Tobago and Barbados announced that a US$80 million Liquidity Support Fund will be established, designed to support the liquidity position of British American Insurance operations in the ECCU.

[17] A January 2009 communiqué of the Organization of Eastern Caribbean States suggested that regional governments use temporary incentives to help the tourism industry weather the global slowdown.

[18] LIAT is an airline owned by a consortium of regional governments, including St. Vincent and the Grenadines.

III. Request for an ESF and Capacity to repay the Fund

27. **Fund support under the rapid-access component of the ESF would contribute to alleviate the financing burden of the shock.** A disbursement of SDR 3.735 million (45 percent of quota) from the ESF would close the external financing gap in 2009, assist the authorities to adjust to the tourism and FDI shock, and could help catalyze donor budget support.

28. **St. Vincent and the Grenadines has adequate capacity to repay the Fund (Table 10)**. St. Vincent and the Grenadines has no outstanding credit from the Fund and future repayments to the Fund would be negligible in relation to exports of goods and services (on average 0.2 percent of exports of goods and services over the 2014-19 period). The ESF disbursement would not materially worsen the debt profile. A safeguards assessment of the ECCB was conducted in 2007 and most of the recommendations of the assessment have been implemented.

IV. Staff Appraisal

29. **Following two years of record-high growth St. Vincent and the Grenadines has been impacted severely by the global slowdown.** Economic growth is estimated to have fallen to around 1 percent in 2008, due to sharply weakened activities in the tourism and agriculture sectors, and is projected to decline further in 2009. The global crisis also has affected the balance of payments through declines in tourism receipts and FDI. Restoring sustainable growth will be a challenge requiring continued reforms to improve competitiveness, enhance the business and investment climate, and heighten the efficiency of government spending. The new airport should also raise medium-term growth potential.

30. **Staff supports the authorities' request for the rapid-access component of the ESF**. Tight global liquidity conditions and a sharp output slowdown make it difficult to close external and fiscal financing gaps without additional external assistance. The authorities have appropriately implemented measures to mitigate the impact of the external shock, including time-bound special incentives for the tourism sector, and are committed to policies to enhance competitiveness and support a growth recovery.

31. **Prudent management is needed to move forward with the international airport project while also putting debt on a solid downward path.** While construction of a new airport is necessary to further develop the tourism industry, it needs to be accompanied by sustained fiscal consolidation and timely availability of concessional financing to avoid jeopardizing debt sustainability. Staff encourages the authorities to minimize the need to undertake bridge domestic financing on commercial terms in 2009, including by continuing efforts to mobilize grant and concessional resources and being flexible with the construction timetable, to the extent technically feasible.

32. **Fiscal measures should be supportive of external competitiveness.** The adjustment needed to absorb the adverse shock should also be useful to address long standing challenges. Staff welcomed reforms aimed at further reducing corporate tax rates and plans for broadening of its base, and the prudent public sector wage policy. Sustained fiscal consolidation will also increase the fiscal room to address poverty alleviation and social needs.

33. **Building on the recent progress made on tax policy and tax administration, a next phase of tax reforms is welcome.** The authorities' commitment to maintaining the integrity and stability of the VAT supports a strong and stable source of revenue; to improve the administration of this tax and minimize the risk of a deterioration in compliance, staff recommends strengthening of audit and collections. Revamping the tax incentive system would allow for further reductions in the corporate income tax, and introduction of a market-based property tax will provide another revenue source.

34. **Further reforms to the social security system are necessary.** The recent increase in contribution rates is a positive initial step that needs to be supplemented by additional parametric reforms. Staff also encourages the authorities to rationalize the public pension system by transforming it into a complement to the NIS.

35. **Improving the regulatory and supervisory framework for nonbanks is a high priority.** Staff welcomes the steps underway to improve the framework for building and loan societies and credit unions. Establishment of a single regulatory unit for domestic nonbanks and the international financial services sector would create efficiencies and allow a system-wide perspective. Improving the regulatory and supervisory framework for the insurance sector has gained added urgency following the financial meltdown of the Trinidad and Tobago-based CL Financial Group.

36. **Data provision has some shortcomings in terms of coverage and timeliness, but is broadly adequate for surveillanc**e. In particular, improvements are needed in national accounts (tourism and agriculture), fiscal data for public enterprises, fiscal financing, and labor statistics.

37. **It is recommended that the next Article IV consultation take place on the standard 12-month cycle.**

Box 2. The Impact of VAT and Global Commodity Prices on CPI Inflation

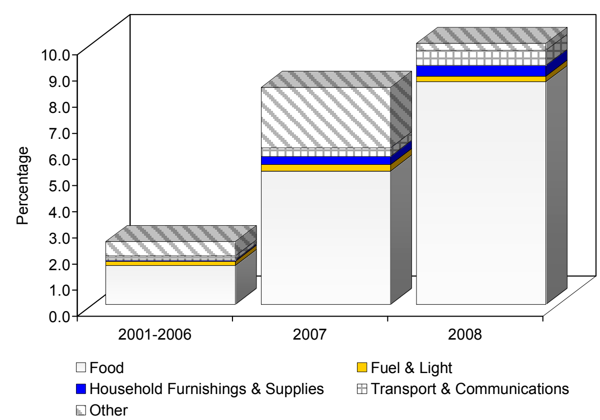
Inflation increased significantly since the end of 2006. During 2001–06 the CPI rose at an annual (geometric) average rate of about 2.4 percent. By contrast, 12-month inflation exceeded 8 percent in December 2007 and reached a peak of 12 percent in September 2008, before it started falling (to 8.7 percent by December 2008). While real GDP growth in excess of potential played a role in increasing price pressures in 2007–08, 'one-off' factors were the main contributors.

Introduction of the Value-Added Tax (VAT) had a one-off effect on the price level, contributing to the increase in measured inflation for 2007. The VAT was introduced in May 2007 with a rate of 15 percent for goods and services and 10 percent for tourist accommodation. A statistical decomposition of the movements in inflation into its long- and short-run components identifies a spike in monthly inflation for April 2007 of approximately 3.7 percent (or 4½ times the standard deviation of inflation relative to its long-run average). This result suggests that the VAT was anticipated and resulted in an increase in prices about a month before the official commencement date, and that the inflationary impact tapered off rather quickly.

Statistically significant spikes were detected in most components of the CPI. These spikes account for nearly 95 percent of the total CPI basket. Interestingly, there is no evidence of multiple spikes in any CPI category during 2007, confirming that the VAT had the expected one-off "step" effect on the general price level. The fact that inflation was only 8 percent relative to its annual average of 3 percent reflects the large weight on the partially exempt food component (53 percent).

The increase in global fuel and food prices during 2008 was the main factor behind the spike in inflation in 2008. A standard decomposition analysis of the movements in the CPI shows that the food, fuel and light, and transportation categories together accounted for approximately 97 percent of the 2008 inflation. This outcome reflects the global surge in food and fuel prices, the relatively large weight of food items in the CPI, and the authorities' policy of passing on crude oil price increases, albeit with a lag. These results suggest that inflation is likely to decline fairly rapidly starting in 2009 in line with the unwinding of global fuel and food prices.

St. Vincent and the Grenadines: Decomposition of Inflation, 2002-2008



Source: Ministry of Finance and Planning.

Box 3. Assessment of External Stability

In 2007, the external current account deficit of St. Vincent and the Grenadines deteriorated by more than 10 percentage points of GDP, owing to lower receipts from tourism-related services, and higher imports. Total imports represent over 50 percent of GDP; food and fuel items account for 40 percent of the total, while FDI and tourism-related imports account for 50 percent.

St. Vincent and the Grenadines: The Underlying Current Account Balance
(In percent of GDP)

	2007	2014
Observed Current Account (a)	**-35.1**	**-20.8**
Temporary Effects (b)	**-2.5**	…
Exports		
Higher international food prices	0.3	
Imports		
Higher international food prices	0.7	…
Higher fuel prices	1.4	…
Above potential growth	0.8	…
Underlying Current Account (a-b)	**-32.6**	**-20.8**
FDI	21.5	15.9
Grants 1/	3.7	2.0
Import content of FDI and Grants 2/	22.6	16.9
Current Account Excluding Import content of FDI and Grants	**-10.0**	**-3.9**
Memorandum item		
Fuel imports	**7.9**	**5.4**

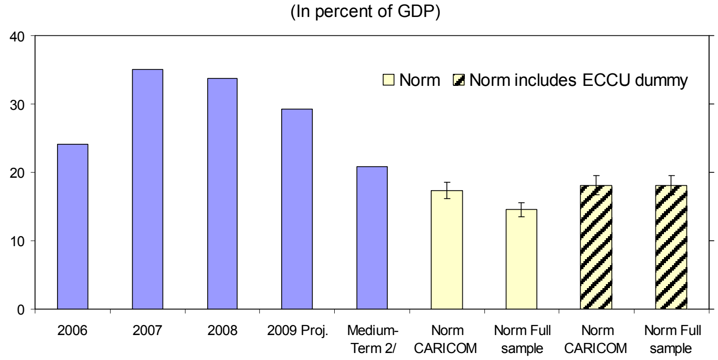
Sources: Ministry of Finance and Planning; and Fund staff estimates and projections.
1/ Grants actually used during the year.
2/ Assumes that 90 percent of FDI and used grants are spent on imports.

Staff analysis indicates that FDI, grants and temporary factors explain a large part of the 2007 current account imbalance. Adjusting for these elements, the current account deficit for 2007 is estimated at around 10 percent of GDP. This deficit is projected to fall to around 3.9 percent by 2014, in line with an expected decline in commodity prices, FDI and grants.

The medium-term equilibrium current account is in line with estimates derived for tourism-based economies. Using either (i) a CARICOM-only sample or (ii) an extended sample of tourism-dependent countries (see IMF Working Paper WP/09/78), the equilibrium current account deficit (or current account 'norm') for St. Vincent and the Grenadines is estimated at around 20 percent of GDP. This suggests that the equilibrium exchange rate is statistically aligned with its medium-term fundamentals.

A further widening of the current account deficit remains a key risk. The construction of the new international airport, for example, is projected to cost around 37½ percent of 2008 GDP, and will involve a significant increase in construction-related imports during 2009–2011. It will be important to ensure that the financing of the project does not turn a transitory departure from the current account equilibrium into a disorderly external adjustment.

St. Vincent and the Grenadines: Current Account Deficit, Actual and Estimated Norms 1/
(In percent of GDP)



Sources: Fund staff estimates and projections.
1/ In computing the norms, medium-term values of the fiscal balance, oil-balance, output growth, and relative income are drawn from staff projections. Band is ±1 standard error of the prediction. CARICOM sample includes ECCU countries and The Bahamas, Barbados, Belize, and Jamaica. Full sample includes 24 tourism-dependent economies as defined by Bayoumi and others (2005).
2/ Based on Fund staff estimates. Medium-term is 2014.

Box 4. The 2009 Budget

The budget introduced in December 2008 recognizes the effects of the global financial turmoil. The central themes revolve around macro-economic stability, sharpened business competitiveness, and socio-economic progress. Priorities include: (i) investment in education, (ii) targeted social programs, (iii) further reductions in corporate and personal taxes, (iv) prioritization of public sector investment in infrastructure, and (v) mobilization of private investment including through regulatory reform.

As in previous years, the 2009 Budget communication includes an ambitious capital expenditure program partly financed by expected grants. If fully implemented, the budget will worsen the fiscal deficit and increase public debt to nearly 60 percent of GDP. However, taking into account the historical rates of capital spending implementation and materialization of grants, as well as financing constraints, the staff's baseline scenario projects that the primary deficit and the overall fiscal deficit will widen to 0.9 percent and 3.8 percent of GDP, respectively, increasing the government debt to about 56½ percent of GDP.

Budgeted current spending would increase the overall fiscal balance. Relative to the 2008 outturn, the wage bill increases by 0.9 percent of GDP while spending on transfers and goods and services rise by about 1.3 percent of GDP. In the staff's view, there is room to reduce current spending in line with the thrust of the Budget communication that emphasizes public service reform and a more focused public assistance guided by the Country Poverty Assessment that is underway and is consistent with the strong efforts observed in the last few years to keep spending under control.

To bolster business competitiveness and reward effort the budget announces further reductions in income tax rates. Continuing with the income tax reform introduced in 2008, both the standard rate of company tax and the top marginal rate of the personal income tax are projected to decline from 35 percent to 32.5 percent while the threshold for the personal income tax will be raised. The estimated annual tax forgone amounts to about ½ percent of GDP.

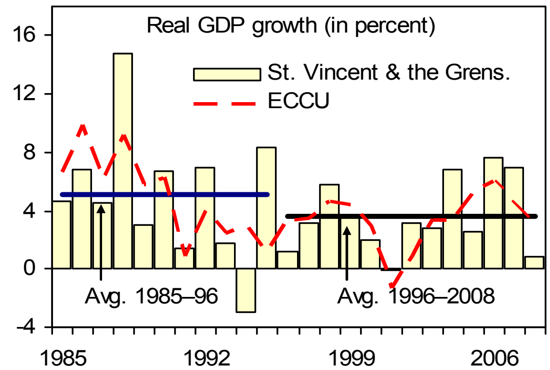
St. Vincent and the Grenadines: Summary of Central Government Operations, 2007–09
(In percent of GDP, unless otherwise stated)

		2008		2009	
	2007	Budget	Est.	Budget	Baseline
Total revenue and grants	**30.9**	**34.4**	**32.4**	**33.2**	**29.8**
Current revenue	29.2	27.2	29.8	28.9	27.9
Grants	1.7	7.1	2.5	4.3	1.8
Total expenditure and net lending	**34.6**	**41.8**	**34.1**	**40.5**	**33.7**
Current	25.6	27.2	26.6	28.7	26.2
Capital expenditure	8.9	14.6	7.5	11.7	7.5
Current balance (before grants)	**3.6**	**0.0**	**3.3**	**0.1**	**1.8**
Overall balance	**-3.6**	**-7.4**	**-1.7**	**-7.3**	**-3.8**
Of which: **Primary balance**	**-0.6**	**-4.1**	**1.2**	**-4.3**	**-0.9**
Memorandum items:					
Gross central government debt	57.2	58.6	54.4	59.8	56.4
GDP at market prices (EC$ millions)	1,475	1,646	1,622	1,678	1,678

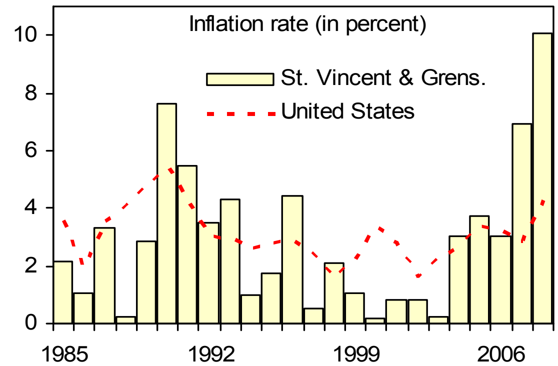
Sources: Ministry of Finance and Planning; and Fund staff estimates and projections.

Figure 1. St. Vincent and the Grenadines: Overview

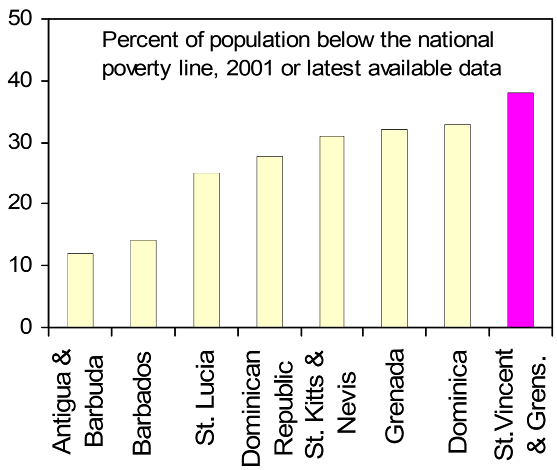
Economic growth is volatile, reflecting vulnerability to external shocks such as the 2008 financial crisis...



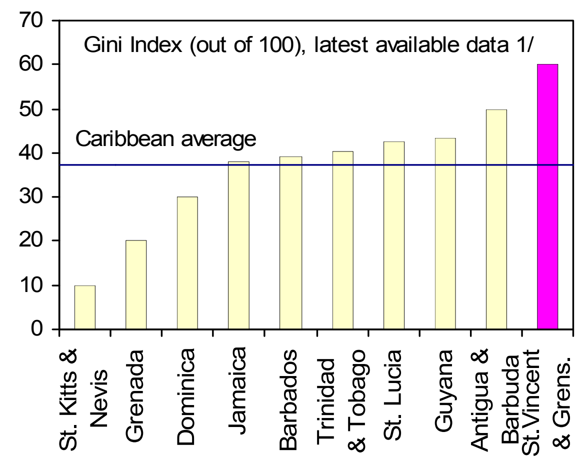
...and global fuel and food price movements, which have pushed domestic inflation above its long-term anchor...



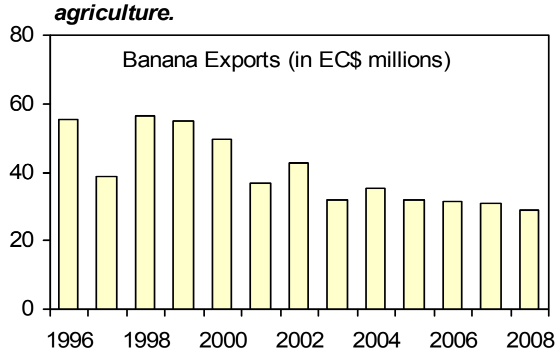
Poverty rates are among the highest in the region...



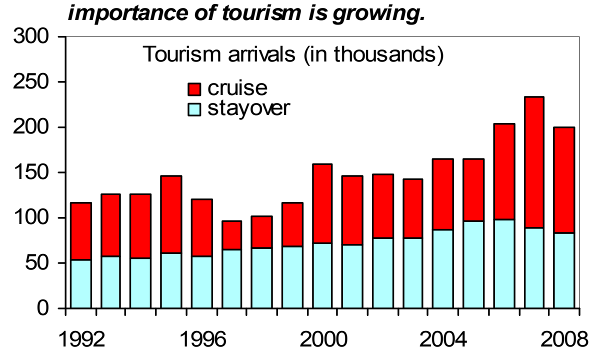
...and so is income inequality...



...partly reflecting the decline in traditional agriculture.



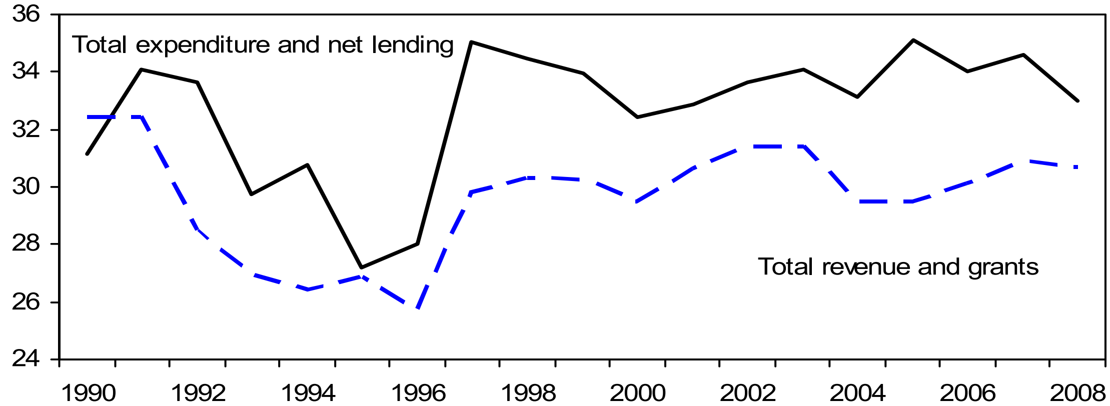
Though vistors have declined recently, the importance of tourism is growing.



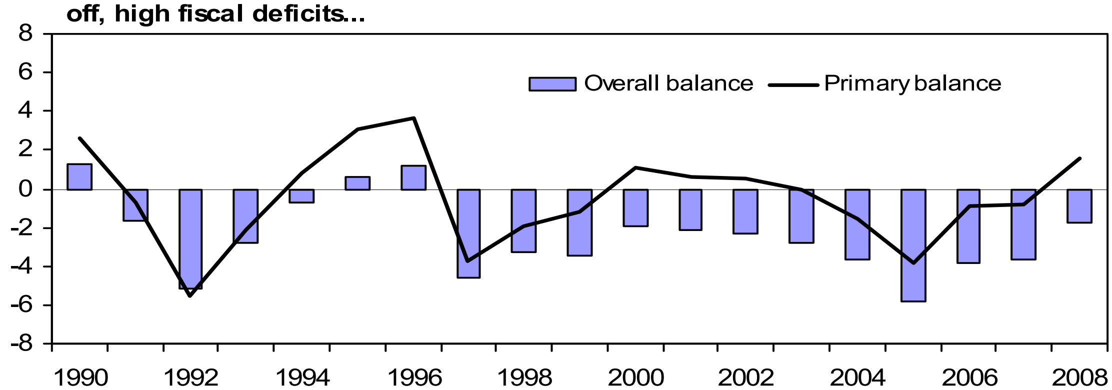
Sources: ECCB; World Bank; and Fund staff estimates.
1/ A larger value indicates greater income inequality.

Figure 2. St. Vincent and the Grenadines: Fiscal Developments, 1990–2008
(In percent of GDP, unless otherwise indicated)

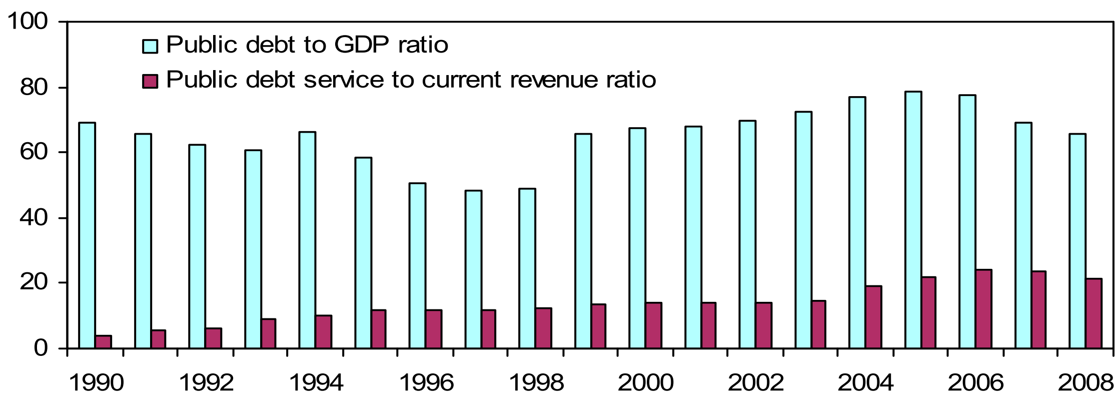
Expenditures have trended upwards since 1996, while revenues have been relatively flat.



Despite some fiscal consolidation since 2006 and the 2007 Ottley Hall Debt write-off, high fiscal deficits...

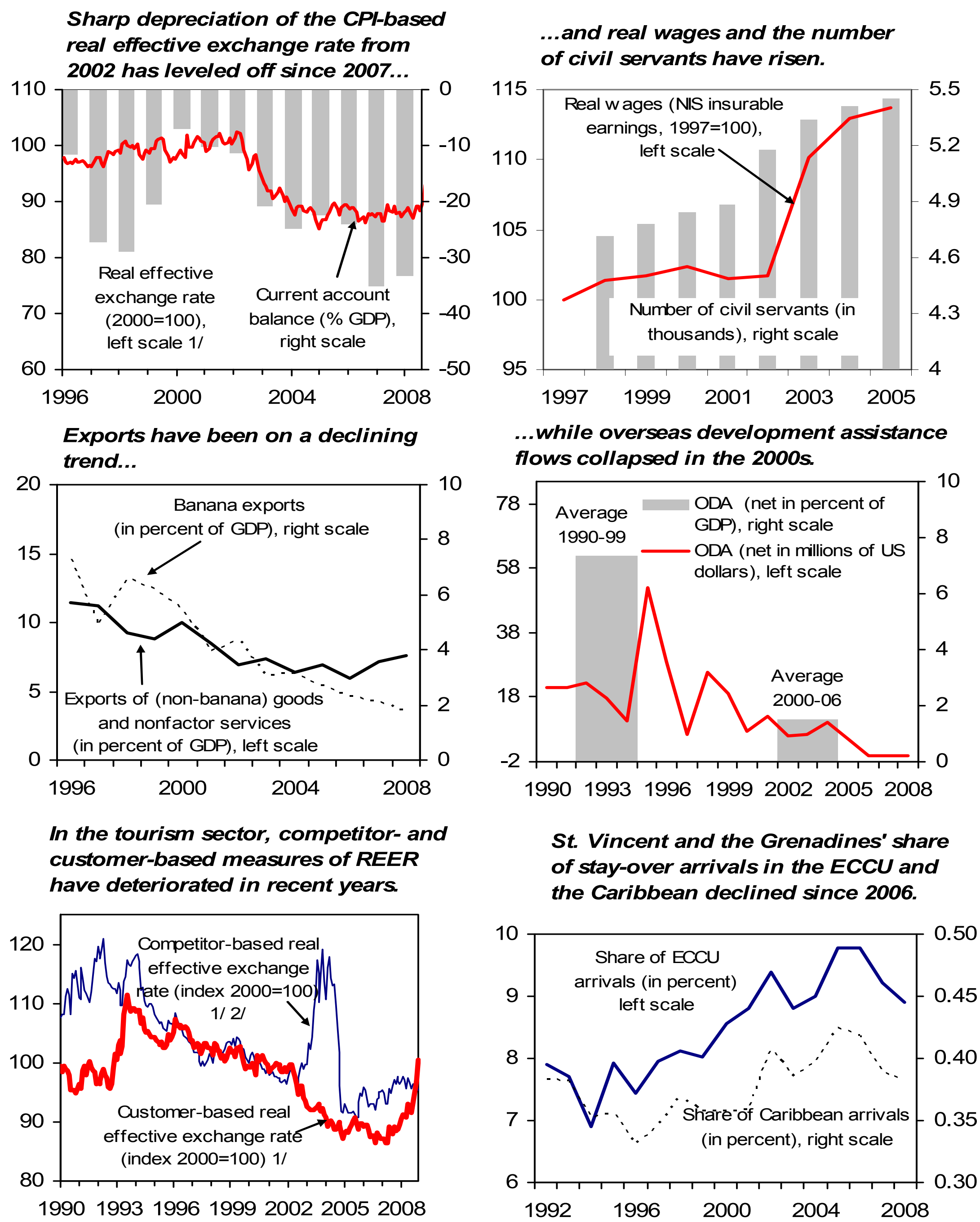


...have led to high debt and debt servicing costs.



Sources: St. Vincent and the Grenadines authorities; and Fund staff estimates.

Figure 3. St. Vincent and the Grenadines: External Competitiveness, 1990–2008



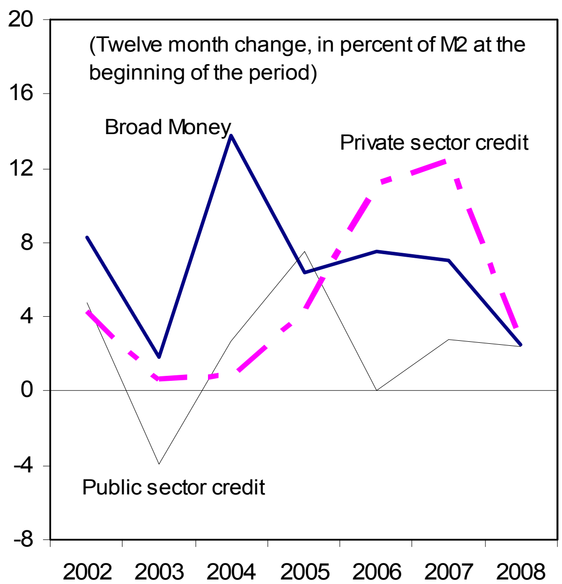
Sources: ECCB; Caribbean Tourism Organization; St. Vincent and the Grenadines authorities; and Fund staff calculations.

1/ An increase (decrease) indicates an appreciation (depreciation).

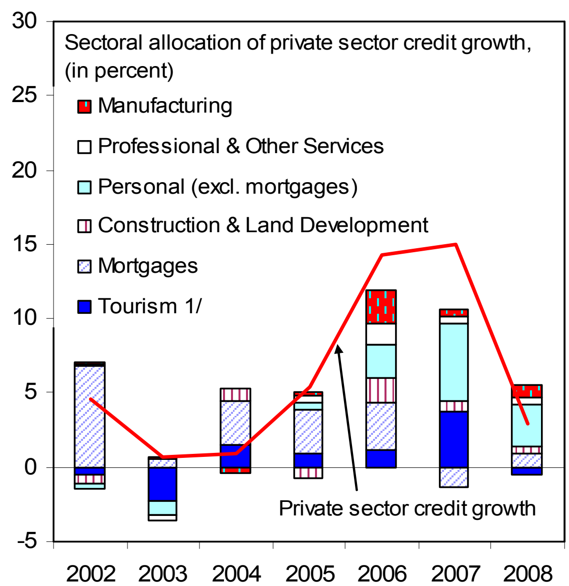
2/ The sharp movements in the competitor-based real exchange rate in 2002–04 were largely driven by movements in the Dominican Republic's peso.

Figure 4: St. Vincent and the Grenadines: Monetary Developments, 2002–08

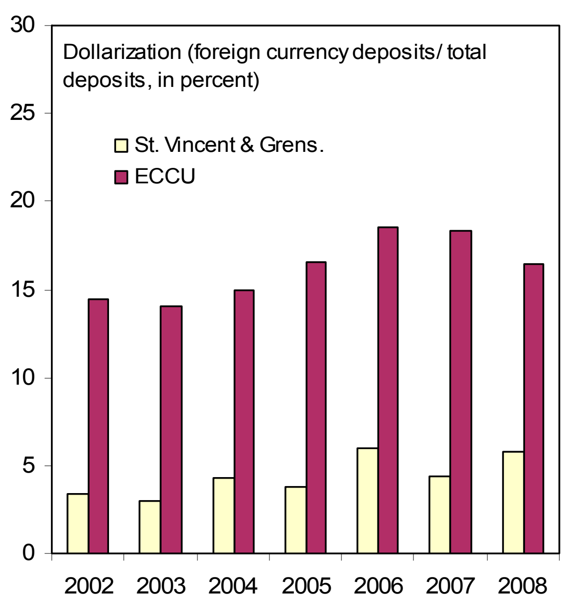
Private sector credit growth eased significantly in 2008…



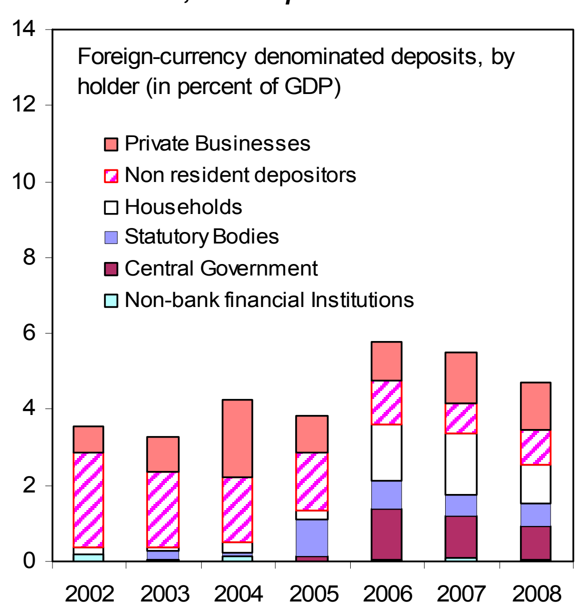
…largely reflecting a slowdown in loans to the tourism and personal sectors.



Dollarization has increased somewhat, following the removal of capital controls in 2004…

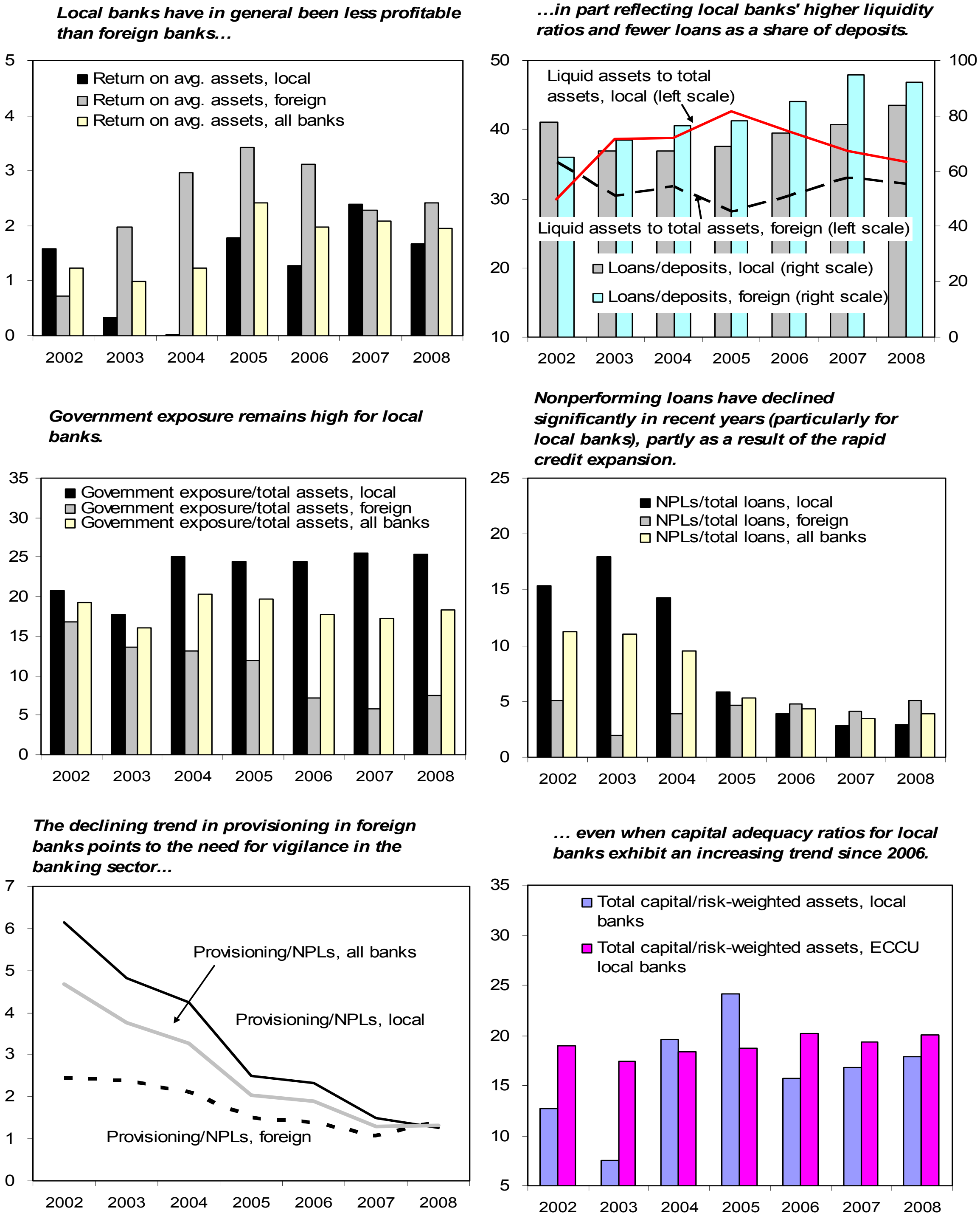


…with foreign-currency denominated deposits now largely held by households, private businesses, and the public sector.



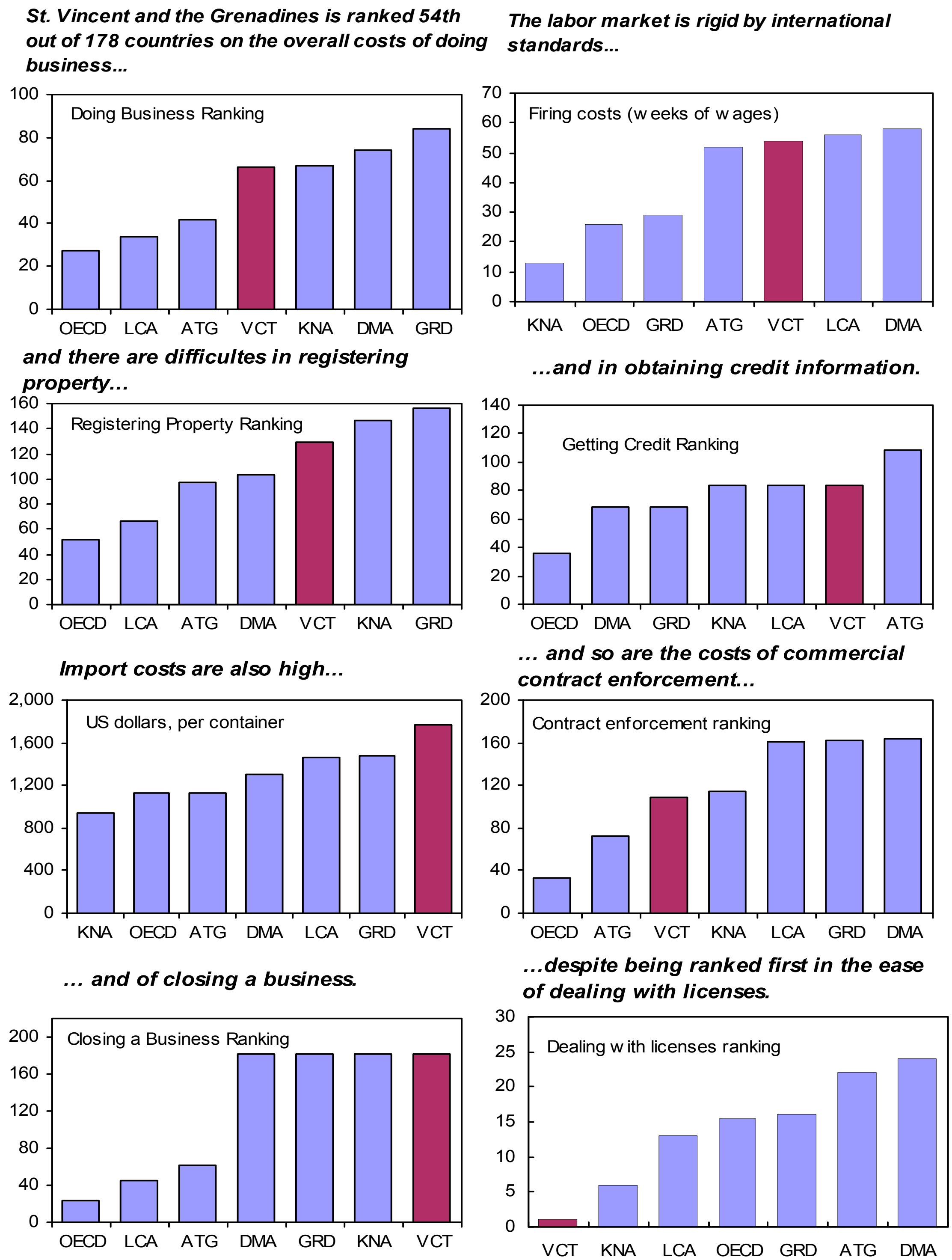
Sources: ECCB; and Fund staff calculations.
1/ Includes tourism, entertainment, and half of transport, distributive trade and professional services.

Figure 5. St. Vincent and the Grenadines: Banking System Vulnerabilities 1/



Sources: ECCB; and Fund staff calculations.
1/ Prudential indicators are reported by commercial banks, with infrequent onsite verification by the ECCB.

Figure 6. St. Vincent and the Grenadines: Doing Business Indicators, 2008 1/



Sources: World Bank, 2009 Doing Business Indicators (2008); and Fund staff calculations.
Notation: Antigua and Barbuda (ATG), Dominica (DMA), Grenada (GRD), St. Kitts and Nevis (KNA), St. Lucia (LCA) and St. Vincent and the Grenadines (VCT).
1/ Smaller numbers represent greater ease in doing business. The rankings are across 178 countries.

Table 1. St. Vincent and the Grenadines: Selected Social and Economic Indicators, 2004–10

Social and Demographic Indicators

Area (sq. km)	389.0	Adult illiteracy rate (percent, 2001)	11.0
Population		Health and nutrition	
Total (thousands, 2007)	109.2	Calorie intake (per capita a day, 2004)	2,660
Rate of growth (percent per year, 2007)	0.10	Population per physician (thousand, 2004)	1.2
Density (per sq. km., 2007)	280.7	AIDS incidence rate (per 100,000, 2005)	32
Population characteristics (2007)		Gross domestic product (2008)	
Life expectancy at birth (years)	71.0	(millions of US dollars)	601
Infant mortality (per thousand live births)	17.0	(millions of EC dollars)	1,622
Under 5 mortality rate (per thousand)	20.0	(US$ per capita)	5,615

					Est.	Proj.	
	2004	2005	2006	2007	2008	2009	2010
	(Annual percentage change, unless otherwise specified)						
Output and prices							
Real GDP (factor cost)	6.8	2.6	7.6	7.0	0.9	0.1	1.2
Nominal GDP (market prices)	8.3	7.5	11.9	9.7	10.0	3.5	3.4
Consumer prices, period average	3.0	3.7	3.0	6.9	10.1	4.2	2.9
External sector							
Real effective exchange rate (- = depreciation)	-3.5	0.0	-0.6	0.3	3.7	...	...
External terms of trade (- = deterioration)	-8.1	4.4	1.3	-13.8	-7.3	2.0	13.2
Banking system							
Net foreign assets 1/	15.7	-4.6	4.5	-8.1	3.2	-3.4	-2.3
Net domestic assets 1/	-2.0	11.0	3.0	15.2	-0.7	5.6	6.1
Of which							
Credit to private sector 1/	0.8	4.3	11.1	12.4	2.6	1.2	1.7
	(In percent of GDP, unless otherwise specified)						
Central government finances							
Total revenue and grants	29.5	29.5	30.1	30.9	32.4	29.8	29.9
Total expenditure and net lending	33.1	35.1	34.0	34.6	34.1	33.7	34.0
Current expenditure	25.9	27.1	26.4	25.6	26.6	26.2	26.5
Of which							
Wages and salaries	13.1	13.2	12.7	12.8	12.7	12.4	12.3
Interest	2.5	3.0	3.2	3.0	2.9	2.9	3.3
Capital expenditure	7.1	8.0	7.5	8.9	7.5	7.5	7.5
Overall balance	-3.6	-5.6	-3.9	-3.6	-1.7	-3.8	-4.0
Of which							
Primary balance	-1.1	-2.6	-0.7	-0.6	1.2	-0.9	-0.8
Public sector overall balance 2/	-7.5	-9.0	-3.9	-7.4	-0.5	-8.0	-9.1
Public sector primary balance 2/	-4.5	-5.0	-0.4	-3.7	3.1	-4.2	-4.8
Public sector investment 2/	12.9	12.4	12.2	16.7	13.3	20.1	19.9
External sector							
External current account	-24.8	-22.3	-24.1	-35.1	-33.7	-28.9	-29.7
Of which							
Exports of goods and services	44.6	45.1	42.6	38.9	33.3	29.3	32.0
Imports of goods and services	65.7	65.4	65.9	73.6	67.0	56.7	60.2
Stayover arrivals (percentage change)	10.4	9.5	2.6	-8.1	-6.1	-14.0	10.0
Public sector external debt (end of period)	52.9	52.0	46.4	37.0	35.0	37.2	41.3
External public debt service							
(In percent of exports of goods and services)	11.6	11.6	13.4	12.8	13.6	18.5	18.2
Memorandum items:							
Gross public sector debt 3/	78.6	80.2	77.5	69.5	67.5	73.2	80.0
Nominal GDP at market prices (in millions of E.C. dollars)	1,118	1,202	1,344	1,475	1,622	1,678	1,735

Sources: ECCB; Ministry of Finance and Planning; and Fund staff estimates and projections.

1/ Annual changes relative to the stock of broad money at the beginning of the period.

2/ The consolidated public sector includes the central government, the NIS, Kingstown Board, and ten nonfinancial public enterprises.

3/ Net of intra-public sector debt (mainly central government debt to the National Insurance Scheme (NIS)).

Table 2. St. Vincent and the Grenadines: Summary of Central Government Operations, 2006–14

(In millions of Eastern Caribbean dollars)

			Est.	Baseline Proj.					
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total revenue and grants	**405**	**456**	**525**	**501**	**519**	**552**	**592**	**628**	**668**
Current revenue	393	431	484	469	487	523	561	595	633
Tax revenue	337	374	415	406	422	453	487	516	549
Taxes on income and profits	99	104	110	108	104	112	119	126	134
Taxes on property	3	3	2	2	4	8	9	9	10
Taxes on international trade	162	165	183	179	188	200	217	230	244
Of Which: VAT		55	83	82	87	92	102	108	115
Taxes on domestic transactions	98	102	119	117	125	133	142	151	160
Of Which: VAT		32	67	67	71	76	81	86	91
Non-tax	32	57	69	63	65	69	74	79	84
Capital Revenue	11	26	41	32	33	30	32	34	36
Sale of crown lands	6	1	2	2	2	2	2	2	2
Grants	6	25	40	30	31	28	30	32	33
Total expenditure and net lending	**457**	**510**	**553**	**565**	**589**	**631**	**676**	**720**	**770**
Current	355	378	431	439	459	492	528	562	600
Wages and salaries 1/	171	188	207	207	214	229	244	259	275
Interest	43	45	47	49	57	62	68	75	82
Of which: Foreign interest	23	21	23	23	28	31	35	40	45
Goods and services	76	76	91	87	90	96	103	109	116
Transfers 2/	65	70	86	95	98	105	112	119	127
Capital expenditure	101	131	122	126	130	139	148	158	170
Net lending	0	0	0	0	0	0	0	0	0
Current balance (before grants)	**38**	**52**	**53**	**30**	**27**	**30**	**33**	**33**	**32**
Overall balance	**-52**	**-53**	**-28**	**-64**	**-70**	**-79**	**-84**	**-91**	**-102**
Of which: Primary balance	-9	-9	19	-15	-13	-17	-15	-16	-20
Identified financing	106	51	32	64	70	79	84	91	102
Net external financing	59	20	17	34	33	52	62	61	65
Disbursements	97	60	62	88	91	111	119	126	136
Amortization	38	40	46	55	58	59	57	65	71
Change in government foreign assets	-8	9	0	0	0	0	0	0	0
Net domestic financing	55	23	16	16	36	27	22	30	37
Of which: Banking system	-3	5	16	6	14	24	20	27	33
Exceptional financing	0	0	0	0	0	0	0	0	0
IMF financing				15					
Memorandum items:									
Total VAT/Replaced taxes before 2007	112.3	128.9	151.1	149.1	157.6	168.4	182.6	193.7	206.0
Wage and salaries as a share of recurrent expenditures	48.2	49.7	48.0	47.2	46.6	46.5	46.3	46.1	45.9
Goods and services as a share of recurrent expenditures	21.3	20.0	21.1	19.9	19.6	19.6	19.5	19.4	19.4
Capital expenditure as a share of total expenditures	22.2	25.8	22.1	22.3	22.1	22.0	22.0	21.9	22.0

Sources: Ministry of Finance and Planning; and Fund staff estimates and projections.

1/ Wages and salaries including social security contributions, commissions, rewards, allowances, and incentives.

2/ Mainly contributions to households and international organizations.

Table 2a. St. Vincent and the Grenadines: Summary of Central Government Operations, 2006–14
(In millions of Eastern Caribbean dollars)

			Est.	Active Proj.					
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total revenue and grants	**405**	**456**	**525**	**501**	**536**	**588**	**645**	**694**	**741**
Current revenue	393	431	484	469	503	558	613	660	705
Tax revenue	337	374	415	406	438	488	538	580	620
Taxes on income and profits	99	104	110	108	113	135	155	169	181
Taxes on property	3	3	2	2	4	10	11	11	12
Taxes on international trade	162	165	183	179	196	209	229	246	263
Of Which: VAT		55	83	82	87	93	103	110	117
Taxes on domestic transactions	98	102	119	117	125	134	144	154	164
Of Which: VAT		32	67	67	71	77	82	87	93
Nontax	32	57	69	63	65	70	75	80	85
Capital Revenue	11	26	41	32	33	30	32	34	36
Sale of crown lands	6	1	2	2	2	2	2	2	2
Grants	6	25	40	30	31	28	30	32	34
Total expenditure and net lending	**457**	**510**	**553**	**565**	**585**	**621**	**663**	**705**	**750**
Current	355	378	431	439	460	487	520	552	587
Wages and salaries 1/	171	188	207	207	214	223	238	254	271
Interest	43	45	47	49	57	61	64	66	67
Of which: Foreign interest	23	21	23	23	28	31	35	39	44
Goods and services	76	76	91	87	90	97	104	111	119
Transfers 2/	65	70	86	95	99	106	114	121	129
Capital expenditure	101	131	122	126	129	135	143	153	163
Net lending	0	0	0	0	0	0	0	0	0
Current balance (before grants)	**38**	**52**	**53**	**30**	**44**	**71**	**93**	**108**	**118**
Overall balance	**-52**	**-53**	**-28**	**-64**	**-48**	**-33**	**-18**	**-11**	**-8**
Of which: Primary balance	-9	-9	19	-15	8	27	46	55	59
Identified financing	106	51	32	64	48	33	18	11	8
Net external financing	59	20	17	34	32	49	58	57	59
Disbursements	97	60	62	88	90	108	115	122	131
Amortization	38	40	46	55	58	59	57	65	71
Change in government foreign assets	-8	9	0	0	0	0	0	0	0
Net domestic financing	55	23	16	16	16	-16	-39	-47	-51
Of which: Banking system	-3	5	16	6	-2	-14	-36	-42	-46
Exceptional financing	0	0	0	0	0	0	0	0	0
IMF financing				15					
Memorandum items:									
Total VAT/Replaced taxes before 2007	112.3	128.9	151.1	149.1	158.0	169.7	184.8	197.0	210.5
Wage and salaries as a share of recurrent expenditures	48.2	49.7	48.0	47.2	46.5	45.8	45.8	46.0	46.3
Goods and services as a share of recurrent expenditures	21.3	20.0	21.1	19.9	19.7	20.0	20.0	20.1	20.2
Capital expenditure as a share of total expenditures	22.2	25.8	22.1	22.3	22.0	21.8	21.6	21.7	21.8

Sources: Ministry of Finance and Planning; and Fund staff estimates and projections.

1/ Wages and salaries including social security contributions, commissions, rewards, allowances, and incentives.
2/ Mainly contributions to households and international organizations.

Table 3. St. Vincent and the Grenadines: Summary of Central Government Operations, 2006–14

(In percent of GDP, unless otherwise stated)

			Est.	Baseline Proj.					
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total revenue and grants	**30.1**	**30.9**	**32.4**	**29.8**	**29.9**	**29.8**	**29.9**	**29.9**	**29.9**
Current revenue	29.3	29.2	29.8	27.9	28.0	28.2	28.3	28.3	28.3
Tax revenue	25.1	25.3	25.6	24.2	24.3	24.4	24.6	24.6	24.6
Taxes on income and profits	7.3	7.0	6.8	6.4	6.0	6.0	6.0	6.0	6.0
Taxes on property	0.2	0.2	0.1	0.1	0.2	0.4	0.4	0.4	0.4
Taxes on international trade	12.1	11.2	11.3	10.7	10.9	10.8	10.9	10.9	10.9
Of Which: VAT		3.7	5.1	4.9	5.0	5.0	5.1	5.1	5.1
Taxes on domestic transactions	7.3	6.9	7.3	7.0	7.2	7.2	7.2	7.2	7.2
Of Which: VAT		2.1	4.1	4.0	4.1	4.1	4.1	4.1	4.1
Non-tax	2.3	3.9	4.2	3.7	3.7	3.7	3.7	3.7	3.7
Capital Revenue	0.9	1.7	2.5	1.9	1.9	1.6	1.6	1.6	1.6
Sale of crown lands	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.4	1.7	2.5	1.8	1.8	1.5	1.5	1.5	1.5
Total expenditure and net lending	**34.0**	**34.6**	**34.1**	**33.7**	**34.0**	**34.0**	**34.2**	**34.3**	**34.5**
Current	26.4	25.6	26.6	26.2	26.5	26.5	26.7	26.8	26.9
Wages and salaries 1/	12.7	12.8	12.7	12.4	12.3	12.3	12.3	12.3	12.3
Interest	3.2	3.0	2.9	2.9	3.3	3.3	3.5	3.6	3.7
Of which: Foreign interest	1.7	1.4	1.4	1.4	1.6	1.7	1.8	1.9	2.0
Goods and services	5.6	5.1	5.6	5.2	5.2	5.2	5.2	5.2	5.2
Transfers 2/	4.8	4.7	5.3	5.7	5.7	5.7	5.7	5.7	5.7
Capital expenditure	7.5	8.9	7.5	7.5	7.5	7.5	7.5	7.5	7.6
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current balance (before grants)	**2.8**	**3.6**	**3.3**	**1.8**	**1.6**	**1.6**	**1.7**	**1.6**	**1.5**
Overall balance	**-3.9**	**-3.6**	**-1.7**	**-3.8**	**-4.0**	**-4.3**	**-4.2**	**-4.3**	**-4.5**
Of which: Primary balance	-0.7	-0.6	1.2	-0.9	-0.8	-0.9	-0.8	-0.8	-0.9
Identified financing	7.9	3.5	2.0	3.8	4.0	4.3	4.2	4.3	4.5
Net external financing	4.4	1.3	1.0	2.0	1.9	2.8	3.1	2.9	2.9
Disbursements	7.2	4.1	3.8	5.3	5.3	6.0	6.0	6.0	6.1
Amortization	2.8	2.7	2.8	3.3	3.3	3.2	2.9	3.1	3.2
Change in government foreign assets	-0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic financing	4.1	1.5	1.0	0.9	2.1	1.4	1.1	1.4	1.7
Of which: Banking system	-0.2	0.3	1.0	0.3	0.8	1.3	1.0	1.3	1.5
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF financing				0.9					
Memorandum items:									
Total VAT/Replaced taxes before 2007	8.4	8.7	9.3	8.9	9.1	9.1	9.2	9.2	9.2
Gross central government debt (in percent of GDP)	71.2	57.2	54.4	56.4	58.6	59.1	59.6	60.5	61.5
Public sector debt (in percent of GDP)	77.5	69.5	67.5	73.2	80.0	83.6	84.3	85.6	86.8
Debt service to revenues excluding grants	21.4	21.6	18.6	24.4	26.5	26.8	26.9	26.3	24.8
GDP at market prices (EC$ millions)	1,344	1,475	1,622	1,678	1,735	1,854	1,980	2,100	2,233

Sources: Ministry of Finance and Planning; and Fund staff estimates and projections.

1/ Wages and salaries including social security contributions, commissions, rewards, allowances, and incentives.

2/ Mainly contributions to households and international organizations.

Table 3a. St. Vincent and the Grenadines: Summary of Central Government Operations, 2006–14

(In percent of GDP, unless otherwise stated)

			Est.	Active Proj.					
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total revenue and grants	**30.1**	**30.9**	**32.4**	**29.8**	**30.8**	**31.5**	**32.2**	**32.5**	**32.5**
Current revenue	29.3	29.2	29.8	27.9	28.9	29.9	30.6	30.9	30.9
Tax revenue	25.1	25.3	25.6	24.2	25.2	26.1	26.9	27.2	27.2
Taxes on income and profits	7.3	7.0	6.8	6.4	6.5	7.2	7.7	7.9	7.9
Taxes on property	0.2	0.2	0.1	0.1	0.2	0.5	0.5	0.5	0.5
Taxes on international trade	12.1	11.2	11.3	10.7	11.3	11.2	11.4	11.5	11.5
Of Which: VAT		3.7	5.1	4.9	5.0	5.0	5.1	5.1	5.1
Taxes on domestic transactions	7.3	6.9	7.3	7.0	7.2	7.2	7.2	7.2	7.2
Of Which: VAT		2.1	4.1	4.0	4.1	4.1	4.1	4.1	4.1
Non-tax	2.3	3.9	4.2	3.7	3.7	3.7	3.7	3.7	3.7
Capital Revenue	0.9	1.7	2.5	1.9	1.9	1.6	1.6	1.6	1.6
Sale of crown lands	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.4	1.7	2.5	1.8	1.8	1.5	1.5	1.5	1.5
Total expenditure and net lending	**34.0**	**34.6**	**34.1**	**33.7**	**33.6**	**33.3**	**33.1**	**33.0**	**32.9**
Current	26.4	25.6	26.6	26.2	26.4	26.1	25.9	25.8	25.7
Wages and salaries 1/	12.7	12.8	12.7	12.4	12.3	11.9	11.9	11.9	11.9
Interest	3.2	3.0	2.9	2.9	3.3	3.2	3.2	3.1	2.9
Of which: Foreign interest	1.7	1.4	1.4	1.4	1.6	1.6	1.7	1.8	1.9
Goods and services	5.6	5.1	5.6	5.2	5.2	5.2	5.2	5.2	5.2
Transfers 2/	4.8	4.7	5.3	5.7	5.7	5.7	5.7	5.7	5.7
Capital expenditure	7.5	8.9	7.5	7.5	7.4	7.3	7.2	7.2	7.2
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current balance (before grants)	**2.8**	**3.6**	**3.3**	**1.8**	**2.5**	**3.8**	**4.6**	**5.1**	**5.2**
Overall balance	**-3.9**	**-3.6**	**-1.7**	**-3.8**	**-2.8**	**-1.8**	**-0.9**	**-0.5**	**-0.4**
Of which: Primary balance	-0.7	-0.6	1.2	-0.9	0.5	1.5	2.3	2.6	2.6
Identified financing	7.9	3.5	2.0	3.8	2.8	1.8	0.9	0.5	0.4
Net external financing	4.4	1.3	1.0	2.0	1.9	2.6	2.9	2.7	2.6
Disbursements	7.2	4.1	3.8	5.3	5.2	5.8	5.7	5.7	5.7
Amortization	2.8	2.7	2.8	3.3	3.3	3.2	2.8	3.0	3.1
Change in government foreign assets	-0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic financing	4.1	1.5	1.0	0.9	0.9	-0.8	-2.0	-2.2	-2.2
Of which: Banking system	-0.2	0.3	1.0	0.3	-0.1	-0.8	-1.8	-2.0	-2.0
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF financing				0.9					
Memorandum items:									
Total VAT/Replaced taxes before 2007	8.4	8.7	9.3	8.9	9.1	9.1	9.2	9.2	9.2
Gross central government debt (in percent of GDP)	71.2	57.2	54.4	56.4	57.2	55.1	52.2	49.5	46.7
Public sector debt (in percent of GDP)	77.5	69.5	67.5	73.2	78.4	78.9	75.7	72.7	69.6
Debt service to revenues excluding grants	21.4	21.6	18.6	24.4	25.7	25.0	23.8	22.3	20.1
GDP at market prices (EC$ millions)	1,344	1,475	1,622	1,678	1,740	1,869	2,004	2,136	2,282

Sources: Ministry of Finance and Planning; and Fund staff estimates and projections.

1/ Wages and salaries including social security contributions, commissions, rewards, allowances, and incentives.

2/ Mainly contributions to households and international organizations.

Table 4. St. Vincent and the Grenadines: Balance of Payments Summary, 2006–14

			Est.	Baseline Proj.					
	2006	2007	2008	2009	2010	2011	2012	2013	2014
				(In millions of Eastern Caribbean dollars)					
Current account	**-324**	**-518**	**-547**	**-485**	**-515**	**-507**	**-491**	**-478**	**-463**
Trade balance	-536	-640	-658	-535	-606	-661	-710	-759	-820
Exports f.o.b.	111	138	149	142	152	164	173	179	188
Of which									
Bananas	31	31	31	30	32	34	36	37	40
Manufactured exports	51	68	85	73	80	85	90	96	101
Imports f.o.b.	647	777	806	677	758	825	884	938	1008
Of which									
Mineral fuels	102	116	142	82	91	98	106	113	120
Services (net)	222	128	111	75	116	175	238	297	368
Travel	263	246	201	160	207	268	335	400	479
Other nonfactor services	-41	-117	-90	-85	-91	-93	-97	-103	-111
Income payments (net)	-65	-61	-56	-67	-75	-81	-85	-90	-95
Current transfers	54	54	55	41	50	60	65	74	84
Net private transfers	39	32	33	26	29	37	41	49	58
Net official transfers	16	23	22	16	20	24	25	25	26
Capital and financial account	**357**	**513**	**506**	**456**	**519**	**512**	**500**	**487**	**474**
Capital	22	54	120	143	133	88	40	42	45
Financial (net)	335	459	386	313	385	424	460	445	429
Official capital	-10	4	53	43	93	60	76	71	70
Commercial banks	-10	98	-41	20	28	26	25	21	3
Private capital	355	356	374	250	265	337	360	353	356
Of which: Net direct investment	255	317	327	228	264	286	312	335	353
Errors and omissions	0	150	32	0	0	0	0	0	0
Overall balance	33	145	-9	-29	3	6	9	10	10
Available financing	-33	-145	9	14	-3	-6	-9	-10	-10
Change in imputed reserves (increase -)	-25	-22	9	14	-3	-6	-9	-10	-10
Change in govt. foreign assets 1/	-8	-123	1	0	0	0	0	0	0
Other financing (interest moratorium)	0	0	0	0	0	0	0	0	0
Financing Gap				15					
				(In percent of GDP, unless otherwise stated)					
Memorandum items:									
Current account	-24.1	-35.1	-33.7	-28.9	-29.7	-27.3	-24.8	-22.7	-20.8
Exports f.o.b.	8.3	9.3	9.2	8.5	8.8	8.8	8.7	8.5	8.4
Imports f.o.b.	48.1	52.7	49.7	40.3	43.7	44.5	44.6	44.7	45.1
Net private transfers	2.9	2.1	2.0	1.5	1.7	2.0	2.1	2.3	2.6
Foreign direct investment	18.9	21.5	20.1	13.6	15.2	15.4	15.8	15.9	15.8
Tourism receipts	22.7	20.3	15.3	12.2	14.6	17.3	20.0	22.4	25.0
Total trade	56.4	62.0	58.9	48.8	52.5	53.3	53.4	53.2	53.6
Exports of goods and nonfactor services	42.6	38.9	33.3	29.3	32.0	35.0	37.8	39.9	42.4
Imports of goods and nonfactor services	65.9	73.6	67.0	56.7	60.2	61.2	61.6	61.9	62.6
Indicators of diversification 2/									
Banana exports	5.5	5.4	5.7	6.1	5.8	5.2	4.8	4.4	4.2
Tourism receipts	53.4	52.3	46.1	41.6	45.7	49.3	53.0	56.1	59.0

Sources: Ministry of Finance and Planning; ECCB; and Fund staff estimates and projections.

1/ The large change in government foreign assets in 2007 is the result of the Ottley-Hall debt write-off.
2/ In percent of exports of goods and nonfactor services

Table 5. St. Vincent and the Grenadines: Monetary Survey, 2006–10

	2006	2007	2008	Proj. 2009	2010
	(In millions of Eastern Caribbean dollars)				
Net foreign assets	428	352	385	350	326
ECCB (imputed reserves)	210	233	224	210	213
Commercial banks	218	120	161	141	113
Net domestic assets	511	654	646	704	768
Public sector credit (net)	8	35	59	111	157
Central government	69	88	108	114	128
ECCB	-16	-1	3	3	3
Commercial banks	84	89	105	111	125
Net credit to rest of public sector	-60	-53	-49	-3	29
National Insurance Scheme	-71	-72	-63	-63	-63
Other	11	19	14	59	91
Credit to private sector	775	891	918	931	948
Net credit to nonbank financial institutions	-23	-42	-31	-32	-32
Other items (net)	-249	-230	-299	-305	-305
Broad money	940	1006	1031	1045	1080
Money	344	372	355	340	346
Currency in circulation	80	90	81	69	69
Demand deposits	264	282	274	271	277
Quasi-money	595	635	677	704	734
Time deposits	88	82	105	114	590
Savings deposits	477	513	535	568	118
Foreign currency deposits	31	40	36	23	25
	(Annual percentage change)				
Net foreign assets	10.2	-17.7	9.2	-9.0	-7.0
Net domestic assets	5.4	27.9	-1.1	9.0	9.0
Credit to private sector	14.3	15.0	3.0	1.4	1.9
Broad money	7.5	7.1	2.5	1.3	3.3
Money	5.1	7.9	-4.5	-4.1	1.5
Quasi-money 1/	9.0	6.6	6.6	4.1	4.2
	(Percent contribution compared to M2 at the beginning of the year)				
Net foreign assets	4.5	-8.1	3.2	-3.4	-2.3
Net domestic assets	3.0	15.2	-0.7	5.6	6.1
Public sector credit (net)	0.1	2.8	2.4	5.0	4.4
Of which: Central government	-0.7	2.0	2.0	0.6	1.4
Credit to private sector	11.1	12.4	2.6	1.2	1.7
Net credit to nonbank financial inst.	1.0	-2.0	1.1	-0.1	0.0
Other items (net)	-9.2	2.0	-6.9	-0.5	0.0
Memorandum item:					
Income velocity 2/	1.4	1.5	1.6	1.6	1.6

Sources: ECCB; Ministry of Finance and Planning; and Fund staff estimates.

1/ Including resident foreign currency deposits.

2/ Nominal GDP at market prices divided by liabilities to the private sector.

Table 6. St. Vincent and the Grenadines: Medium-Term Projections, 2006–14

(In percent of GDP, unless otherwise specified)

			Est.	Proj.					
	2006	2007	2008	2009	2010	2011	2012	2013	2014
				I. Baseline Scenario					
Output and prices									
Real GDP growth at factor cost (in percent)	7.6	7.0	0.9	0.1	1.2	3.8	4.3	3.9	4.1
Consumer prices, end-of-period (percent change)	4.8	8.3	8.7	2.9	2.9	2.9	2.9	2.9	2.9
Nonfinancial public sector									
Central government									
Total revenue and grants	30.1	30.9	32.4	29.8	29.9	29.8	29.9	29.9	29.9
Total expenditure and net lending	34.0	34.6	34.1	33.7	34.0	34.0	34.2	34.3	34.5
Of which									
Wages and salaries	12.7	12.8	12.7	12.4	12.3	12.3	12.3	12.3	12.3
Interest	3.2	3.0	2.9	2.9	3.3	3.3	3.5	3.6	3.7
Capital expenditure	7.5	8.9	7.5	7.5	7.5	7.5	7.5	7.5	7.6
Overall balance	-3.9	-3.6	-1.7	-3.8	-4.0	-4.3	-4.2	-4.3	-4.5
Of which									
Primary balance	-0.7	-0.6	1.2	-0.9	-0.8	-0.9	-0.8	-0.8	-0.9
Gross public sector debt 1/	77.5	69.5	67.5	73.2	80.0	83.6	84.3	85.6	86.8
Public sector overall balance 1/	-3.9	-7.4	-0.5	-8.0	-9.1	-8.8	-6.0	-6.1	-6.3
Public sector primary balance 1/	-0.4	-3.7	3.1	-4.2	-4.8	-4.2	-1.0	-1.0	-1.0
External sector									
Current account balance	-24.1	-35.1	-33.7	-28.9	-29.7	-27.3	-24.8	-22.7	-20.8
Gross public sector external debt (end of period)	46.4	37.0	35.0	37.2	41.3	41.9	43.1	44.0	44.5
External public debt service									
(In percent of exports of goods and services)	13.4	12.8	13.6	18.5	18.2	16.7	14.9	13.6	11.7
				II. Active Policies Scenario					
Output and prices									
Real GDP growth at factor cost (in percent)	7.6	7.0	0.9	0.1	1.5	4.3	4.8	4.4	4.6
Consumer prices, end-of-period (percent change)	4.8	8.3	8.7	2.9	2.9	2.9	2.9	2.9	2.9
Nonfinancial public sector									
Central government									
Total revenue and grants	30.1	30.9	32.4	29.8	30.8	31.5	32.2	32.5	32.5
Total expenditure and net lending	34.0	34.6	34.1	33.7	33.6	33.3	33.1	33.0	32.9
Of which									
Wages and salaries	12.7	12.8	12.7	12.4	12.3	11.9	11.9	11.9	11.9
Interest	3.2	3.0	2.9	2.9	3.3	3.2	3.2	3.1	2.9
Capital expenditure	7.5	8.9	7.5	7.5	7.4	7.3	7.2	7.2	7.2
Overall balance	-3.9	-3.6	-1.7	-3.8	-2.8	-1.8	-0.9	-0.5	-0.4
Of which									
Primary balance	-0.7	-0.6	1.2	-0.9	0.5	1.5	2.3	2.6	2.6
Gross public sector debt 1/	77.5	69.5	67.5	73.2	78.4	78.9	75.7	72.7	69.6
Public sector overall balance 1/	-3.9	-7.4	-0.5	-8.0	-7.7	-5.9	-2.1	-1.7	-1.5
Public sector primary balance 1/	-0.4	-3.7	3.1	-4.2	-3.4	-1.4	2.6	2.8	2.9

Sources: ECCB; Ministry of Finance and Planning; and Fund staff estimates and projections.

1/ The consolidated public sector includes the central government, the NIS, Kingstown Board, and ten nonfinancial public enterprises.

Table 7. St. Vincent and the Grenadines: Indicators of External and Financial Vulnerability, 2004–08
(Annual percentage changes, unless otherwise specified)

	2004	2005	2006	2007	Est. 2008
External indicators					
Merchandise exports	-2.0	8.4	-3.3	24.0	8.0
Merchandise imports	12.5	6.7	12.8	20.1	3.7
Terms of trade deterioration (-)	-8.1	4.4	1.3	-13.8	-7.3
Tourism earnings	4.8	8.7	9.0	-1.9	-17.0
Banana export earnings	10.0	-8.9	-2.6	-0.9	-1.2
Current account balance (in percent of GDP)	-24.8	-22.3	-24.1	-35.1	-33.7
Capital and financial account balance (in percent of GDP) 1/	30.9	21.7	26.6	44.9	33.2
Of which					
Foreign direct investment (in percent of GDP)	15.9	9.0	18.9	21.5	20.1
Gross international reserves of the ECCB					
In millions of U.S. dollars	632.4	600.8	696.0	764.5	759.0
In percent of broad money	20.4	17.9	18.6	18.6	17.9
Gross imputed reserves					
In millions of U.S. dollars	74.2	68.8	77.9	86.2	82.9
Commercial banks' net foreign assets (in millions of U.S. dollars)	83.9	75.2	80.7	44.4	59.7
External public debt (in percent of GDP)	52.9	52.0	46.4	37.0	35.0
External debt service (in percent of exports of goods and services)	11.6	11.6	13.4	12.8	13.6
Of which					
Interest	3.9	4.9	5.5	4.9	5.8
Nominal exchange rate (EC$ per US$, end period)	2.7	2.7	2.7	2.7	2.7
Real effective exchange rate depreciation (-), end period	-3.5	0.0	-0.6	0.3	3.7
Financial indicators					
Broad money	13.7	6.4	7.5	7.1	2.5
Credit to the private sector	0.9	5.5	14.3	15.0	3.0
Prudential indicators (in percent)					
Capital adequacy ratio (local banks)	19.6	24.2	15.7	16.8	17.9
NPLs to total loans ratio	9.6	5.3	4.3	3.4	3.9
Of which					
Local banks	14.3	5.9	3.9	2.8	3.0
Foreign banks	3.9	4.7	4.8	4.1	5.1
Loan loss provision to NPLs ratio	34.3	38.4	43.6	37.9	34.2
Of which					
Local banks	29.8	42.5	58.7	53.3	42.6
Foreign banks	53.5	32.0	28.6	25.8	27.7
Gross government claims to total assets ratio	20.3	19.8	17.7	17.2	18.4
Foreign currency deposits to total deposits ratio	4.2	3.8	6.0	5.4	5.9
Net foreign currency exposure to capital (local banks)	207.6	227.3	136.4	77.5	26.6
Contingent liabilities to capital (local banks)	51.7	49.3	87.5	79.8	70.4
(Pre-tax) return on average assets	1.2	2.4	2.0	2.1	2.0

Sources: ECCB; Ministry of Finance and Planning; and Fund staff estimates and projections.

1/ Includes errors and omissions.

Table 8. St. Vincent and the Grenadines: Public Sector Debt, 2004–08 1/

	2004	2005	2006	2007	2008
	(In millions of Eastern Caribbean dollars, end-period)				
Debt stock					
Public sector debt net of borrowing from the NIS	870	953	1032	995	1042
Domestic debt net of borrowing from the NIS	279	328	408	450	475
Domestic debt including borrowing from the NIS	288	339	418	479	528
By type of creditor					
ECCB	10	9	7	5	6
Commercial banks	139	212	215	235	232
Other (includes NIS and insurance companies)	139	118	196	239	290
Public sector external debt 2/	591	625	624	545	567
By type of creditor					
Official bilateral	83	79	75	72	108
Official multilateral	203	231	266	304	314
Commercial	306	315	284	169	145
	(In percent of GDP)				
Total debt	78.6	80.2	77.5	69.5	67.5
Domestic debt	25.7	28.2	31.1	32.5	32.6
External debt	52.9	52.0	46.4	37.0	35.0
	(In percent of government revenues)				
Total debt	272.9	285.6	261.0	237.4	225.7
Domestic debt	89.4	100.4	104.6	111.1	108.8
External debt	183.6	185.2	156.3	126.3	116.9
	(In millions of Eastern Caribbean dollars, end-period)				
Debt service					
Total debt service	74	87	96	150	153
Amortization	40	39	50	95	94
Domestic 3/	…	…	…	48	46
External	40	39	50	47	48
Interest	34	48	46	55	58
Domestic	16	24	19	28	33
External	18	24	27	27	25
	(In percent of GDP)				
Total debt service	6.6	7.2	7.1	10.2	9.4
Interest	3.0	4.0	3.5	3.7	3.6
Amortization	3.5	3.3	3.7	6.5	5.8
In percent of government revenue excluding grants	22.9	25.8	24.1	34.8	31.4
In percent export of goods and services	14.8	16.1	16.8	26.1	28.3
In percent of broad money 4/	9.0	10.0	10.2	14.9	14.8
Domestic debt service					
In percent of government revenue excluding grants	5.0	7.2	4.8	17.7	16.4
In percent export of goods and services	3.2	4.5	3.4	13.3	14.7
In percent of broad money 4/	2.0	2.8	2.0	7.6	7.7
External debt service					
In percent of government revenue excluding grants	17.9	18.6	19.3	17.1	15.1
In percent export of goods and services	11.6	11.6	13.4	12.8	13.6
In percent of broad money 4/	7.0	7.2	8.2	7.3	7.1
Memorandum items:					
Debt structure (in percent)	100.0	100.0	100.0	100.0	100.0
Domestic debt	32.7	35.2	40.1	46.8	48.2
ECCB	1.2	1.0	0.7	0.5	0.6
Commercial banks	15.8	22.0	20.6	22.9	21.2
Other (includes NIS and insurance companies)	15.8	12.2	18.8	23.3	26.5
External debt	67.3	64.8	59.9	53.2	51.8
Official bilateral	9.4	8.2	7.2	7.1	9.9
Official multilateral	23.1	24.0	25.5	29.6	28.7
Commercial	34.8	32.7	27.2	16.5	13.3
Effective average interest rate 5/	4.4	5.5	4.8	5.2	5.7
Domestic debt	6.7	8.5	5.7	6.7	6.9
External debt	3.4	4.0	4.4	4.3	4.6

Sources: Ministry of Finance and Planning; and Fund staff estimates.

1/ Net of intra-public sector debt (mainly central government debt to the NIS). The consolidated public sector includes the government, the NIS, Kingstown Board, and ten nonfinancial public enterprises.
2/ Includes the assumption of private debt for Ottley Hall shipyard in 1999.
3/ Calculated from domestic debt balance for 2006–08.
4/ Including foreign currency deposits.
5/ Interest payment as percent of the average debt stock at beginning and end period.

Table 9. St. Vincent and the Grenadines: Millennium Development Goals Country Profile

Descriptor	1995	2000	2001	2002	2003	2004	2005	2006
1. Eradicate extreme poverty and hunger								
Prevalence of undernourishment (% of population)	..	..	..	..	12.00	10.00	..	..
2. Achieve universal primary education								
School enrollment, primary (% net)	..	90.51	92.70	93.59	91.71	91.75	90.44	..
Primary completion rate, total (% of relevant age group)	..	..	73.54	76.95	79.02	89.33	92.04	..
Persistence to grade 5, total (% of cohort)	..	81.84	..	..	..	..	..	..
3. Promote gender equality								
Ratio of girls to boys in primary and secondary education (%)	..	105.47	101.39	100.07	100.04	99.10	100.61	..
Proportion of seats held by women in national parliament (%)	..	5.00	5.00	23.00	23.00	23.00	22.70	18.20
4. Reduce child mortality								
Mortality rate, under-5 (per 1,000)	21.91	23.11	..	..	..	..	20.41	20.03
Mortality rate, infant (per 1,000 live births)	17.96	19.46	..	..	..	..	17.42	17.09
Immunization, measles (% of children ages 12-23 months)	99.00	96.00	98.00	99.00	94.00	99.00	97.00	99.00
5. Improve maternal health								
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	..	..	..	..	..
Births attended by skilled health staff (% of total)	..	100.00	100.00	..	..	100.00	100.00	..
6. Combat HIV/AIDS, malaria and other diseases								
Prevalence of HIV, female (percent ages 15–24)	..	..	..	..	..	..	..	..
Contraceptive prevalence (% of women ages 15-49)	..	..	..	..	..	..	48.00	..
Number of children orphaned by HIV/AIDS	..	..	..	..	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	32.70	31.22	30.94	30.66	30.37	30.10	29.82	29.55
Tuberculosis cases detected under DOTS (%)	..	55.24	18.49	..	37.25	31.16	37.53	50.23
7. Ensure environmental sustainability								
Forest area (% of land area)	..	25.64	..	..	..	..	28.21	..
Nationally protected areas (% of total land area)	..	..	..	..	..	11.28	..	..
CO2 emissions (metric tons per capita)	1.13	1.33	1.51	1.56	1.65	1.67	..	..
Access to an improved water source (percent of population)	..	..	..	..	..	..	..	..
Access to improved sanitation (percent of population)	..	..	..	..	..	..	..	..
8. Develop a global partnership for development								
Unemployment, youth total (% of total labor force ages 15-24)	..	..	..	..	..	..	..	..
Fixed line and mobile phone subscribers (per 100 people)	16.33	23.52	28.80	31.83	71.36	76.82	78.17	92.07
Personal computers (per 100 people)	..	10.35	11.15	11.95	12.73	13.50	13.85	..
Internet users (per 100 people)	0.12	3.02	4.72	5.12	5.94	6.75	8.39	29.22
General indicators								
Population (thousands)	112.98	115.95	116.57	117.20	117.85	118.49	119.14	119.77
Gross national income (Millions US$ constant LCU)	200.85	259.78	260.72	278.78	280.35	..	..	..
GNI per capita (in U.S. dollars)	1777.74	2240.48	2236.68	2378.68	2378.92	..	..	..
Fertility rate, total (births per woman)	2.57	2.34	..	2.30	..	..	2.24	2.22
Life expectancy at birth, total (years)	70.01	70.42	..	70.58	..	..	71.18	71.38
Aid (% of GNI)	18.70	1.95	2.63	1.38	1.59	2.71	1.08	1.03

Sources: *World Development Indicators* database, November 2008; and Fund staff estimates.

Table 10. St. Vincent and the Grenadines: Indicators of Capacity to Repay the Fund, 2007–19 1/
(In millions of SDRs unless otherwise indicated)

			Proj.										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Fund obligations based on existing credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases and repayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.8	0.8	0.8	0.8	0.4
Repurchases and repayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.8	0.8	0.8	0.8	0.4
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit													
In millions of US$	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6	1.2	1.2	1.2	1.2	0.6
In percent of exports of goods and services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.3	0.3	0.2	0.2	0.1
In percent of debt service 2/	0.0	0.0	0.1	0.1	0.1	0.1	0.1	1.5	2.5	2.2	2.1	1.9	0.9
In percent of GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
In percent of Imputed Net International Reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	1.3	1.2	1.1	1.1	0.5
In percent of quota	0.0	0.0	0.1	0.2	0.2	0.2	0.2	4.7	9.3	9.2	9.2	9.0	4.5
Outstanding Fund credit (end of period)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In millions of SDRs	0.0	0.0	3.7	3.7	3.7	3.7	3.7	3.4	2.6	1.9	1.1	0.4	0.0
In millions of US$	0.0	0.0	5.8	5.8	5.8	5.8	5.8	5.2	4.1	2.9	1.7	0.6	0.0
In percent of exports of goods and services	0.0	0.0	3.2	2.8	2.4	2.1	1.9	1.5	1.0	0.7	0.4	0.1	0.0
In percent of debt service 2/	0.0	0.0	30.3	21.3	18.0	16.3	15.4	13.3	8.6	5.5	3.0	0.9	0.0
In percent of GDP	0.0	0.0	0.9	0.9	0.8	0.8	0.7	0.6	0.5	0.3	0.2	0.1	0.0
In percent of Imputed Net International Reserves	0.0	0.0	7.5	7.4	7.2	6.9	6.6	5.7	4.3	2.9	1.7	0.5	0.0
In percent of quota	0.0	0.0	45.0	45.0	45.0	45.0	45.0	40.5	31.5	22.5	13.4	4.4	0.0
Net use of Fund credit	0.0	0.0	3.7	0.0	0.0	0.0	0.0	-0.4	-0.8	-0.8	-0.8	-0.8	-0.4
Disbursements	0.0	0.0	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.8	0.8	0.8	0.8	0.4
Memorandum items:													
Exports of goods and services (in millions of US$)	212.7	199.8	182.1	205.4	240.3	276.9	310.2	350.3	390.3	435.1	485.6	542.3	606.0
Debt service (in millions of US$) 2/	16.5	17.3	19.2	27.3	32.3	35.6	37.7	39.4	47.1	53.0	57.5	61.2	63.5
GDP (in millions of US$)	546.4	600.8	621.6	642.5	686.8	733.2	777.9	827.1	883.3	943.4	1007.5	1076.0	1149.2
Imputed Net International Reserves (in millions of U	86.2	82.9	77.7	78.9	81.0	84.2	87.8	91.7	95.3	99.2	103.1	107.2	111.5
Quota (in millions of SDR)	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3

Source: Fund staff estimates and projections.

1/ Assumes prospective disbursements of SDR 3.735 million in May 2009.
2/ Total debt service including the Fund.

Annex I. Medium-Term Outlook Under Alternative Fiscal Scenarios

The risk of current fiscal policies leading to an unsustainable level of public debt is high, given the increasing pressure for higher capital and social spending. In the absence of prioritization of expenditures, notably in capital spending, and a significant increase in revenues, current debt dynamics remain unfavorable.

Two scenarios are considered—baseline and active. Under the baseline, the debt stock and debt servicing costs continue to rise; under the active scenario, the stock of debt declines gradually over the medium term. Under both scenarios, the airport is expected to be completed by 2011.

Baseline Scenario. The authorities continue current expansionary policies with overall deficits that are financed with commercial borrowing and some grants from nontraditional donors, such as Venezuela, Cuba, Taiwan Province of China. Financing is assumed to continue to be available. The current financing gap for the international airport—estimated at around EC$185 million net of expected land sales—is assumed to be borrowed by the public sector. In the medium term, growth remains lower (by about ½ percent) than under the active scenario. On the revenue side, the maximum corporate income tax rate is reduced to 30 percent by 2010, reducing corporate tax revenues as a share of GDP by 0.5 percentage points. On the expenditure side, after 2008 the wage bill as a share of GDP remains constant, while capital expenditures remain at around 7½ percent of GDP. Overall, the primary balance remains in deficit throughout the forecast horizon, and public debt reaches about 86¾ percent of GDP by 2014.

Active Scenario. Over the medium term, revenue measures would focus on: (i) substituting tax holidays and exemptions with investment credits, accelerated depreciation, and improving loss carry-forward provisions (conservatively expected to yield, as a group, 1.9 percent of GDP), and (ii) efficiency gains in customs collections, estimated to yield ½ percent of GDP. On the expenditure side, to create room for planned additional social spending, a civil service reform yields cost savings of 0.4 percent of GDP. Reforms to the public service pension system are adopted gradually. Capital expenditure is reduced by the elimination or postponement of low-priority projects, although it would remain above its long-run average of 6.6 percent of GDP. With the impetus from public sector capital projects and greater activity in the private sector, the underlying growth rate is expected to accelerate to about 4⅔ percent over the medium term. Under this scenario, public debt would decline to about 69½ percent of GDP by 2014.

Annex II. Summary of Appendices

Fund Relations

St. Vincent and the Grenadines does not have outstanding obligations to the Fund. St. Vincent and the Grenadines is a member of the Eastern Caribbean Central Bank (ECCB), which manages monetary policy and the exchange system for its eight members. The common currency, the Eastern Caribbean dollar, has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976. St. Vincent and the Grenadines has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. The last Article IV consultation was concluded by the Executive Board on February 4, 2008 (IMF Country Report No. 09/118). Several missions from the Caribbean Regional Technical Assistance Centre (CARTAC), the Fiscal Affairs Department (FAD), the Legal Department (LEG) have visited St. Vincent and the Grenadines since the beginning of 2006 to assist the authorities. An updated safeguards assessment of the ECCB was undertaken in July 2007 and did not note any new significant vulnerabilities.

Relations with the World Bank Group[19]

In September 2005, the Eastern Caribbean Sub-Region Country Assistance Strategy (CAS) for FY 2006–09 was presented to the Board of the World Bank. The strategy supports the sub-region’s development agenda through two main pillars: (1) stimulating growth and improving competitiveness; and (2) reducing vulnerability, by promoting greater social inclusion and strengthening disaster risk management. There are four active World Bank projects in St. Vincent and the Grenadines for a net commitment of approximately US$14.44 million: OECS Catastrophe Insurance Project, Telecommunications & ICT Development Project, Education Reform Project, and The HIV/AIDS Prevention and Control Program.

Relations with the Caribbean Development Bank[20]

St. Vincent and the Grenadines has continued to receive financing from the Caribbean Development Bank (CDB) mostly for infrastructure and human resource development. As of February 28, 2009, CDB has approved loans totaling US$168 million, of which US$26 million are undisbursed.

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[19] Adapted from text prepared by the World Bank staff in March 2009.

[20] Adapted from text prepared by the Caribbean Development Bank staff in March 2009.

Statistical Issues

St. Vincent and the Grenadines participates in the Fund's General Data Dissemination System (GDDS). While in areas central to surveillance—notably central government accounts, indicators of the financial sector and external sector accounts—the data are adequate for surveillance purposes, information on the rest of the public sector and nonbank financial intermediaries is limited. Major improvements are needed to facilitate effective surveillance, particularly in the coverage of national accounts (especially the tourism sector and related services), and on data used to monitor labor markets.

Attachment. Letter of Intent

April 30, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

The global economic downturn and financial crisis is exerting severe external pressures on the economy of St. Vincent and the Grenadines. The global downturn has led to large declines in tourism receipts and foreign direct investment, with a severe adverse impact on our balance of payments position and economic activity. Following two years of record-high growth, our preliminary estimates suggest that real GDP growth in St. Vincent and the Grenadines could stall in 2009 following a serious slowdown in 2008. The shock, will also weaken our fiscal position, threatening to undermine our recent progress toward fiscal consolidation.

The recession in our main tourism-source countries (the U.S. and the United Kingdom) has sharply reduced tourism arrivals to St. Vincent and the Grenadines. Net foreign exchange receipts from tourism declined by around US$16.6 million in 2008 (4.3 percentage points of GDP), which contributed to the decline of US$3.3 million in our net international reserves. Tourism receipts are projected to decline further in 2009 as the global environment worsens, taking the cumulative decline in 2008–09 to US$31.8 million (7.2 percentage points of GDP). FDI, a traditionally stable source of financing for our current account deficit, is also projected to decline by close to 7.9 percentage points of GDP in 2008-09.

Our government is committed to a framework that will help address the shock to tourism and FDI through fiscal and structural policies to maintain competitiveness and support a growth recovery. As outlined in my 2009 Budget speech, sharpened competitiveness, and continuing socio-economic progress are the priorities in this period of international economic uncertainty. To support competitiveness, we are enhancing the efficiency and technological capacity of customs and port operations, maintaining a prudent public sector wage policy that will contribute to containing inflation, and reducing corporate tax rates. The construction of a new international airport, and our focus on improving the business environment, will help provide the foundation for growth of a diversified tourism and service sector based economy.

We are implementing several specific measures to mitigate the impact of the tourism shock on employment and growth and the balance of payments, including: (i) special time-bound incentives for the tourism sector, namely a reduction in corporate income tax rates from 30 percent from 20 percent, and lower electricity charges by the state electricity company; (ii) working with the regional airline on improved flight schedules, establishing a Tourism Authority to strengthen marketing, and coordinating with hoteliers to develop special packages for visitors.

In light of the above, the government of St. Vincent and the Grenadines requests a stand-alone disbursement equivalent to SDR 3.74 million (45 percent of quota) under the Rapid-Access Component of the Fund's Exogenous Shocks Facility. The disbursement will help alleviate the financing burden stemming from the shock to tourism and FDI, which will contribute to maintaining confidence in our external position.

The government will continue to cooperate with the Fund in an effort to strengthen St. Vincent and the Grenadines' balance of payments situation and maintain economic stability. The government does not intend to impose or intensify restrictions on trade or on the making of payments and transfers for current international transactions.

Sincerely yours,

/s/

Ralph Gonsalves
Prime Minister of St. Vincent and the Grenadines

ST. VINCENT AND THE GRENADINES

Staff Report for the 2009 Article IV Consultation and Request for Disbursement Under the Rapid-Access Component of the Exogenous Shocks Facility—Informational Annex

Prepared by the Western Hemisphere Department

May 1, 2009

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Appendix I. St. Vincent and the Grenadines: Relations with the Fund
(As of March 31, 2009).

I. Membership Status: Joined: December 28, 1979; Article VIII

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	8.30	100.00
Fund holdings of currency	7.80	93.98
Reserve Position	0.50	6.02
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	0.35	100.00
Holdings	0.00	0.16

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements: None

VI. Projected Payments to Fund: None

VII. Exchange Rate Arrangement: St. Vincent and the Grenadines is a member of the Eastern Caribbean Currency Union, which has a common central bank (the Eastern Caribbean Central Bank) and currency (the Eastern Caribbean dollar). Since July 1976, the Eastern Caribbean dollar has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar. St. Vincent and the Grenadines has accepted the obligations of Article VIII, Sections 2, 3, and 4. St. Vincent and the Grenadines maintains an exchange system free of restrictions on the making of payments and transfer for current international transactions.

VIII. Safeguards Assessment: Under the Fund's safeguards assessment policy, the Eastern Caribbean Central Bank (ECCB), of which St. Vincent and the Grenadines is a participating government, is subject to a full safeguards assessment under a four-year cycle. The most recent assessment was completed in July 2007, and concluded that the ECCB continues to have appropriate control mechanisms in place, which have strengthened since the first safeguards assessment completed in 2003. ECCB management places emphasis on good governance and sound controls, and has enhanced the bank's transparency and accountability since the last assessment, including the publications of financial statements that comply with International Financial Reporting Standards. The assessment made some recommendations to sustain the ECCB's safeguards framework going forward.

IX. Last Article IV Consultation: St. Vincent and the Grenadines is currently on the 12-month cycle. The last Article IV consultation was concluded by the Executive Board on February 4, 2008; the relevant documents are IMF Country Report No. 09/118.

X. Technical Assistance (January 2006–): Several missions from the Caribbean Regional Technical Assistance Centre (CARTAC), the Fiscal Affairs Department (FAD), and the Legal Department (LEG) have visited St. Vincent and the Grenadines since the beginning of 2006 to assist the authorities.

In the area of **public finance**, CARTAC/LEG assisted with the introduction of the VAT and excise taxes at all different stages. CARTAC also assisted to monitor the central government's fiscal performance relative to its annual targets presented in the budget. CARTAC has provided technical assistance in **statistics** to develop export-import prices, national accounts, and balance of payments statistics. CARTAC has also provided technical assistance in the areas of collection enforcement and projections of public finance and GDP. On the **financial** front CARTAC provided technical assistance to review and upgrade the International Insurance Act, and to develop regulations for Credit Unions. CARTAC also provided technical assistance in conducting off-site and on-site examinations on banks in international financial services industry. FAD provided technical assistance in improving tax administration, including reform and modernization of both inland revenue and customs and excise tax. FAD also provided advice on selected tax policy issues.

Appendix II. St. Vincent and the Grenadines: Relations with the World Bank Group
(as at March 6, 2009)

The World Bank's Management presented to its Board the Eastern Caribbean Sub-Region Country Assistance Strategy (CAS), on September 13, 2005. The World Bank Group's strategy for the four years covered by this CAS (FY06–09) supports the sub-region's development agenda through two main pillars: (1) stimulating growth and improving competitiveness; and (2) reducing vulnerability, by promoting greater social inclusion and strengthening disaster risk management. Recognizing the Organization of Eastern Caribbean States (OECS) countries' weakened creditworthiness due to high debt ratios, Bank activities will focus on leveraging available donor grant financing. Following the recommendations of the recently completed growth and competitiveness study for the OECS, IBRD and IDA support would focus on providing technical and financial assistance for interventions to support the two main pillars. An indicative Base Case lending scenario consists of about US$51.3 million in IDA resources for the four OECS blend countries (Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines). This amount includes the estimated IDA country allocations for each of the four countries during FY06–09, and an IDA Regional allocation of US$15.2 million for two regional projects: US$12 million for Catastrophe Risk Insurance and US$3.2 million for Infrastructure and Utilities Reform.

I. Projects

There are four active World Bank projects in St. Vincent and the Grenadines for a net commitment of approximately US$14.44 million of which US$5.92 million has been disbursed.

The **OECS Catastrophe Insurance Project** was approved in March 2007 for US$0.7 million. The objective of the project is to reduce the participating OECS governments' financial vulnerability to natural disasters through insurance coverage against earthquakes and hurricanes. This will be achieved through the establishment of the Caribbean Catastrophe Risk Insurance Facility (CCRIF) and the financing of catastrophe insurance coverage from the Facility. The project will include the following two components: (a) payment of entrance fee; and (b) payment of annual insurance premium for the first three years. The objective of the first component is to assist the participating OECS countries to join the CCRIF through the financing of the entrance fee. This fee is equal to the first year's insurance premium. The aim of the second component is to assist the participating OECS countries to purchase the catastrophe insurance coverage offered by the CCRIF during the first three years.

The **Telecommunications & ICT Development Project**, approved in September 2005, aims at improving the access, quality, and use of telecommunications and ICT services to achieve socioeconomic development in the OECS. The project has the following four components: Component (1) will strengthen the national and regional regulatory frameworks and promote additional competition in the telecommunications sector. Emphasis will be given to capacity building of Eastern Caribbean Telecommunications Authority (ECTEL) and the National Telecommunications Regulatory Commissions (NTRCs) by providing them with assistances to revise the regional and national sector legislation, and develop a modem interconnection regime. Component (2) will review current universal access policy, create related guidelines, and provide financial support to establish a Universal Service Fund (USF).
Component (3)will improve growth and competitiveness in ICT-enabled services through utilization of broadband infrastructure. Component (4) will finance management and administration of the overall project. The project will finance related technical assistance by providing complementary resources.

The **St. Vincent and the Grenadines Education Reform Project** was approved in June 2004 for US$6.2 million. The overall objective of this project is to build human capital which, in turn, will contribute to the diversification of the economy and more sustainable growth. This objective will be achieved by: (i) increasing equitable access to secondary education; (ii) improving the quality of the teaching and learning process, with more direct interventions at the school level and a focus on student-centered learning; and (iii) strengthening management of the education sector and governance of schools.

The HIV/AIDS Prevention and Control Program, which was approved in July 2002, is funded under the Multi-Country Adaptable Program Loan for the Caribbean Region, with the following objectives: (i) curbing the spread of HIV/AIDS epidemic; (ii) reducing the morbidity and mortality attributed to HIV/AIDS; (iii) improving the quality of life for persons living with HIV/AIDS (PLWAs); and (iv) developing a sustainable organizational and institutional framework for managing the HIV/AIDS epidemic over the longer term.

II. ECONOMIC AND SECTOR WORK

The Bank's program in St. Vincent and the Grenadines is further supported by a comprehensive series of completed, ongoing and planned analytical and advisory activities including the following: "Towards a New Agenda for Growth"—OECS growth and competitiveness study (2005); An OECS Skills Enhancement Policy Note (2006); a Caribbean Air Transport Report (2006); and a regional study on Crime, Violence, and Development: Trends, Costs, and Policy Options in the Caribbean (2007); an OECS Private Sector Financing Study (2008); the OECS Tourism Backward Linkages Study (2008); the report "Caribbean—Accelerating Trade Integration: Policy Options for Sustained Growth, Job Creation and Poverty Reduction" (2008); a CARICOM study on Managing Nurse Migration (ongoing) and a preparatory study aimed at developing a Caribbean-wide Regional Energy Strategy (ongoing).

III. Financial Relations

(In millions of U.S. dollars)

Operation	Original Principal	Disbursed*	Undisbursed*
OECS Catastrophe Insurance	0.70	0.57	0.12
OECS Telecom and ICT Development	0.54	0.25	0.30
OECS Education Development Project	6.20	1.92	4.53
HIV/AIDS Prevention and Control	7.00	3.18	4.12
Total	**14.44**	**5.92**	**9.07**

* Amounts may not add up to Original Principal due to changes in the SDR/US exchange rate since signing.

Disbursements and Debt Service (Fiscal Year Ending June 30)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009**
Total disbursements	0.02	0.36	1.46	1.73	1.20	2.48	4.55	3.06	1.48	1.22
Repayments	0.13	0.12	0.12	0.29	0.14	0.27	0.30	0.31	0.63	0.62
Net Disbursements	0.10	0.24	1.34	1.44	1.06	2.21	4.25	2.75	0.85	0.6
Interest and fees	0.00	0.03	0.07	0.12	0.13	0.19	0.21	0.30	0.34	0.30

**Data as of March 6, 2009.

Appendix III. St. Vincent and the Grenadines: Relations with the Caribbean Development Bank

(As of February 29, 2009)

CDB has approved loans totalling US$168 million, of which US$26 million are undisbursed.

Major Projects:

1. *Third Power Project*—is geared towards improving the operational capability and reliability of St. Vincent Electricity Services Limited (VINLEC) in order to meet the projected demand for electricity to the end of 2008.

2. *Basic Education Project* (Second Loan)—is to assist GOSVG in enhancing the learning environment through improvements in delivery of pre-primary and basic education within SVG. Components include the construction of four schools; the upgrading of knowledge, skills and competencies of education managers, planners and supervisors; and professional development of teachers, trainers, principals and other key school personnel.

3. *3rd Road Project—Windward Highway (Add. Loan)* – to construct approximately 3 kilometres of highway to bypass the site of the new international airport at Argyle.

4. *Support For The Transformation Process—LIAT (1974) Limited*—involving the financing of activities associated with the financial and institutional restructuring of LIAT.

5. *Student Loan Scheme* (Sixth Loan)—to provide loans to student for upgrading skills at the professional, technical and vocation levels.

6. *Student Loan Scheme* (Seventh Loan)—to provide loans to student for upgrading skills at the professional, technical and vocation levels. This line of credit includes a component to address the needs of students who have the capacity but insufficient financial resources (such as low and/or irregular income, the level of contribution required and their inability to provide adequate security) to qualify for assistance under the regular SLS programme.

I. CURRENT PORTFOLIO
(in millions of U.S. dollars)

	Approved	Undisbursed
Third Power Project	18.3	4.3
Basic Education (Second Loan)	17.6	6.6
3rd Road Project—Windward Highway (Add. Loan)	5.2	1.7
Support For The Transformation Process—LIAT (1974) Limited	5.5	1.4
Student Loan Scheme (Sixth Loan)	3.5	1.0
Student Loan Scheme (Seventh Loan)	10.0	10.0

II. LOAN DISBURSEMENT
(in millions of U.S. dollars)

	2004	2005	2006	2007	2008	2009[1]
Net Disbursement	1.52	4.01	8.31	12.85	6.17	-0.27
Disbursement	4.61	7.35	11.35	16.08	10.14	0.41
Amortization	3.09	3.34	3.04	3.23	3.97	0.68
Interest and charges	1.99	2.11	2.60	3.41	3.81	0.90
Net resource flow	-0.47	1.90	5.71	9.04	2.36	-1.17

1/ As of February 28.

APPENDIX IV. ST. VINCENT AND THE GRENADINES—STATISTICAL ISSUES As of April 13, 2009
I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance. Statistical databases remain weak in terms of coverage, consistency, periodicity, and timeliness. While in areas central to surveillance—notably central government accounts, indicators of the financial sector and external sector accounts—the data are adequate for surveillance purposes, information on the rest of the public sector and nonbank financial intermediaries is limited. Major improvements are needed to facilitate effective surveillance, particularly in the coverage of national accounts (especially the tourism sector and related services), and on data used to monitor labor markets. Efforts to address the weaknesses in the statistical base have been hampered by low response rates to surveys (less than 50 percent) and high turnover of staff.
National Accounts: GDP by industry is provided with a one-year lag, with inadequate coverage of economic activity in the informal sector. There is a need to upgrade national accounting methodology from the 1968 System of National Accounts to the 1993 System of National Accounts. In addition, data on GDP broken down by type of expenditure are not available at constant prices, while data at current prices are not reliable due to weaknesses in estimating gross capital formation. Private final consumption expenditure is estimated as a residual. CARTAC is now finalizing a project for improving the national accounts through the development of Supply and Use tables. Data generated will be used to revise and rebase the GDP series. In October 2007 CARTAC also launched a project for strengthening tourism statistics in the OECS, including St. Vincent and the Grenadines. The project covers the core tourism datasets relating to visitor arrivals, visitor expenditure, tourist accommodation and statistics for other key tourism-related enterprises. The project will also seek to standardize and harmonize tourism concepts, definitions and classification schemes across these countries.
Price statistics: CPI data are reported regularly with a one-month lag. CARTAC, as part of the Fund-assisted program on Constructing Weights for the Harmonized Consumer Price Index in the ECCU, has assisted in linking the 1981-based to the 2001-based CPI series. The Statistical Office is currently undertaking a combined Country Poverty Assessment and Household Budgetary Survey.
Government finance statistics: Due to delays in reporting capital expenditures by some ministries, quarterly revenue and expenditure data for the central government are provided to the Fund with some lag. Discrepancies exist between the fiscal and monetary accounts, between above and below the line for budget data, and between financing and debt data. Although domestic debt figures are now available following implementation of the Commonwealth Secretariat—Debt Recording and Management System, the domestic debt amortization figures are incomplete. The financial reports of public enterprises are not timely, with about a two-year lag.

Monetary statistics: Monetary data are compiled by the ECCB on a monthly basis and reported regularly to the Fund. There is a need to improve the institutional coverage that currently only comprises the ECCB and commercial banks. Full implementation of recommendations made by the 2003 and 2005 monetary and financial statistics missions should ensure consistency with international best practice.

While noting some recent improvements, the 2007 data ROSC mission identified the following main shortcomings in the ECCB's monetary statistics: (i) the methodological soundness of monetary statistics can be improved by adopting internationally accepted concepts and definitions, expanding institutional coverage, and revising the classifications of financial instruments and the basis for recording; (ii) transparency can be improved, for example, by releasing monetary data to all users at the same time and strengthening the validation of the disseminated data; (iii) the timeliness of the dissemination of data on broad money and credit aggregates can be improved to meet best international practices; and (iv) the access to officially disseminated data and metadata can be improved.

Balance of payments: Balance of payments estimates are compiled on an annual basis by the national statistical office, in collaboration with the ECCB. Quarterly estimates and the international investment position statement are not compiled. The estimates lack sufficient detail due to the unavailability of source data, and the statistical techniques used to estimates some components are weak. In particular, no estimates are available on transportation services by type or mode of transport and of travel by purpose. Further, a breakdown of portfolio and other investment by instrument or sector is not available. There is a need to compile quarterly balance of payments estimates and the annual international investment position statement; however, developing these new statistics will have to be undertaken in conjunction with the ECCB, which coordinates the compilation of the external sector statistics for all its member countries.

II. Data Standards and Quality

Participates in the General Data Dissemination System since September 2000.	The 2007 regional data ROSC on monetary statistics provides an assessment of the ECCB's monetary statistics. No data ROSC is available for other sectors.

III. Reporting to STA (Optional)

The *International Financial Statistics* page includes data on exchange rates, international liquidity, monetary statistics, prices, balance of payments, national accounts, and population.

The ECCB provides the data to the IMF for publication in the Balance of Payments Yearbook.

The IMF publishes annual data for the consolidated general government in the *GFS Yearbook,* with the 2008 edition showing annual data to 2004. No new data have been received for more recent years. Only cash data are shown, with a detailed classification of revenue and a functional, but not economic, classification of expenditure. No financing information is provided. The 2008 *GFS Yearbook* shows no balance sheet data but the 2004 edition published domestic and foreign liabilities for 2001.

St. Vincent and the Grenadines: Table of Common Indicators Required for Surveillance

(As of April 23, 2009)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Fixed Rate	n.a.	n.a.	n.a.	n.a.
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	02/09	04/09/09	M	M	M
Reserve/Base Money	02/09	04/09/09	M	M	M
Broad Money	02/09	04/09/09	M	M	M
Central Bank Balance Sheet	02/09	04/09/09	M	M	M
Consolidated Balance Sheet of the Banking System	02/09	04/09/09	M	M	M
Interest Rates[2]	02/09	04/09/09	M	M	M
Consumer Price Index	12/08	02/09	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	12/08	02/09	Q	Q	A
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	12/08	02/09	Q	Q	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/08	02/09	A	A	A
External Current Account Balance	2008	03/10/09	A	A	A
Exports and Imports of Goods and Services	2008	03/10/09	M	M	Q
GDP/GNP	2008	03/10/09	A	A	A
Gross External Debt	12/08	02/09	A	A	A
International Investment Position [6]					

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6.] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA)
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA)

INTERNATIONAL MONTETARY FUND

ST. VINCENT AND THE GRENADINES

External and Public Debt Sustainability Analysis

Prepared by the Staff of the International Monetary Fund

May 1, 2009

St. Vincent and the Grenadines' debt outlook is being adversely affected by the current economic downturn, and there are significant downside risks to growth in the near term. The debt sustainability analysis (DSA) suggests that public debt will trend upward in the medium term if sizable commercial borrowing is used to finance the airport construction. A key challenge is to continue progress toward achieving sound public finances over the medium term. St. Vincent and the Grenadines' external debt distress rating is moderate.

I. Background

1. Following a period of robust growth, macroeconomic outcomes were mixed in 2008. Amid a global slowdown, real GDP growth decelerated from an annual average of almost 6 percent during 2004–07 to 0.9 percent in 2008, owing to sharply weakened activities in the tourism, construction and agriculture sectors. Reflecting solid VAT performance, more grants, and lower capital expenditures, the central government fiscal balance strengthened by about 2 percent of GDP, achieving a primary surplus of 1.2 percent of GDP, the first since 2002. Due to strong growth and an agreement with Italy to write-off the Ottley Hall debt obligation, the public sector debt in nominal terms declined to about 67½ percent of GDP at end-2008 from 77½ percent in 2006.

II. Underlying DSA Assumptions

2. The **baseline scenario** assumes continued declines in real growth for 2009–10, reflecting the global economic slowdown and financial crisis. In the medium term, growth is expected to return to its potential of around 4 percent, driven mostly by large-scale public sector construction and a recovery in tourism. Notwithstanding the recent progress in fiscal consolidation, sizeable overall fiscal deficits are expected to continue, financed commercially and with some grants from the European Union and nontraditional donors, such as Venezuela, Cuba, and Taiwan Province of China. Under this scenario, the central government primary deficit is projected to stay close to around 0.9 percent of GDP during 2009–14. Compared to the projections in the DSA accompanying the 2007 Article IV consultation, the current growth projections for 2009–10 have been marked down, given the global slowdown and financial strains while projections for medium- to long-term are similar. Overall public sector fiscal projections for 2009–14 are also more conservative,

reflecting the uncertainties surrounding the financing of the international airport as well as the length and depth of the current economic downturn.[1]

Box 1. Baseline Macroeconomic Assumptions (2009–29)

a. Real GDP growth is projected to average about 1.7 percent during 2009–11, well below the historical average (around 4.2 percent during 1999–2008), and to return to its potential over the medium term. Inflation, after sharply accelerating in 2007–08 with high world food and fuel prices, is projected to return to low levels, consistent with historical averages and the currency board arrangement.

b. The primary balance of the central government is projected to deteriorate sizably in 2009 and then remain broadly stable. On the revenue side, the maximum corporate income tax rate is reduced to 30 percent by 2010, reducing corporate tax revenues as a share of GDP by ½ percentage points, while the property tax reform is expected to bring a revenue gain of about ⅓ percent of GDP. On the expenditure side, after 2008 the wage bill as a share of GDP remains constant, while capital expenditure remains at around 7½ percent of GDP. Under this scenario, the public sector primary deficit would remain sizable (peaking at about 4.8 percent of GDP by 2010).

c. Annual disbursements of external capital grants are expected to be around 1½ percent of GDP, consistent with the historical average.

d. Given the ongoing repricing of risk and tight global liquidity conditions, it is assumed that average nominal interest rates on foreign debt increase to around 6 percent in the medium term.

e. Amid the economic slowdown, the current account deficit is projected to decline moderately from the elevated level during 2007–08, although it will remain high during the period when the airport is constructed. It is expected to return to a more sustainable level, due to a pickup in tourism receipts over the medium term. The expansion of tourist arrivals is underpinned by an expansion of the hotel capacity over the medium term and the construction of the new international airport.

f. FDI, following a sharp decline in 2008–09, is assumed to return to its historical average of around 15¾ percent of GDP over the medium term.

[1] The authorities plan to complete the construction of a new international airport by 2011 with an estimated cost of EC$608 million.

III. Evaluation of Public Sector Debt Sustainability

3. At end-2008 the NPV of public debt was high at 66.8 percent of GDP (67½ percent in nominal terms), albeit still among the lowest in the ECCU. Expansionary budgets in 2002–05 sharply raised the fiscal deficit and debt-to-GDP ratio. Fiscal imbalances remained high in 2006–07, owing to increased CWC-related capital expenditures. A large degree of fiscal adjustment was achieved in 2008, thanks to higher tax revenue collection and lower capital expenditure.

4. The external debt stood at 35 percent of GDP, and domestic debt at 32½ percent of GDP at end-2008. The largest share of the external debt stock is owed to multilateral creditors (around 55½ percent), followed by commercial creditors (around 25½ percent). In the future, most new external requirements are expected to be financed through the ECCU Regional Government Securities Market (RGSM), although some financing from IFIs such as the Caribbean Development Bank (CDB) is expected. On the domestic front, commercial banks are the most important lenders to the public sector.

Baseline Scenario

5. Under the baseline scenario St. Vincent and the Grenadines' NPV of public debt-to-GDP ratio would rise to about 83 percent by 2014 (86¾ percent in nominal terms), and increase further in the long term to around 102 percent of GDP by 2029 (106½ percent in nominal terms). Similarly, the NPV of debt-to-revenue ratio increases from 183½ percent in 2009 to around 255 percent by 2014.

Alternative Scenarios

Active scenario

6. Under this scenario, a fiscal adjustment would raise the primary surplus of the central government to 2⅔ percent of GDP over the medium term. The adjustment would be supported by revenue measures, including: (i) substituting tax holidays and exemptions with investment credits, accelerated depreciation, and improving loss carry-forward provisions (conservatively expected to yield 1.9 percent of GDP); (ii) efficiency gains in customs collections, estimated to yield 0.5 percent of GDP; and (iii) the gradual reduction by 2012 of the corporate income tax from 37.5 to 30 percent along with the gradual reduction of tax concessions (revenue neutral). It is assumed that donors would support the reform strategy, and additional grants would be provided by the European Union and Taiwan Province of China. On the expenditure side, to create room for planned additional social spending, a civil service reform yields cost savings of 0.4 percent of GDP. Reforms to the public service pension system are adopted gradually. Capital expenditure is reduced by the elimination or postponement of low-priority projects (yielding ⅓ percent of GDP), although it would remain above its long-run average of 6.6 percent of GDP. With the impetus from public sector capital projects and greater activity in the private sector, the underlying growth rate is expected to accelerate to about 4⅔ percent over the medium term.

7. Under this active scenario, St. Vincent and the Grenadines' NPV of public debt-to-GDP would decline to about 65 percent by 2014, and down further to 17 percent by 2029 (Table 2, Active Scenario).[2] All other indicators of debt sustainability would register continual improvements; particularly debt service as a share of current revenue, which would fall to around 11 percent by 2029.

Lower growth and natural disasters

8. The sensitivity analysis (which is applied to the baseline scenario) shows that lower economic growth and a lower primary balance are the two key vulnerabilities for St. Vincent and the Grenadines' debt dynamics. Assuming that growth remains at one standard deviation below the level in the baseline scenario, the NPV of debt-to-GDP ratio reaches 154 percent of GDP by 2029 (Table 2, Scenario A3). If the primary deficit is unchanged from the high level projected in 2009, the NPV of debt-to-GDP ratio reaches 157 percent of GDP by 2029 (Table 2, Scenario A2). The impact of a natural disaster on St. Vincent and the Grenadines' debt dynamics is also very significant (Table 2, Scenario A4). Under this scenario, the government incurs a fiscal cost of 9 percent of GDP and real GDP growth is zero during 2010–12, reverting to the baseline levels thereafter.[3] This shock accelerates the deterioration of the NPV of debt-to-GDP ratio which reaches 99 percent of GDP by 2014.

Borrowing for the Airport

9. Sensitivity analysis (which is applied to the baseline scenario) shows the importance of containing borrowing for the construction of the new international airport. In a worst-case scenario, if the in-kind grants do not materialize, land sales are lower than expected, and the government needs to borrow around 50 percent of the airport cost, then by 2014 the NPV of debt-to-GDP ratio rises to 95 percent (Table 2, Scenario A5).

IV. Evaluation of External Debt Sustainability

10. St. Vincent and the Grenadines' external debt sustainability analysis covers only public sector debt, since data on private sector external borrowing is not available. As a result, debt dynamics in the external DSA follow a similar pattern to those of the public sector DSA.

11. Under the baseline scenario the NPV of external debt gradually increases up to nearly 42½ percent of GDP by 2017 (47 percent in nominal terms), before declining to 38½ percent

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[2] The nominal public debt-to-GDP ratio would fall below the 60 percent benchmark of the ECCB by 2017.

[3] The actual impact of this shock could be lower given the participation of St. Vincent and the Grenadines in the Caribbean Catastrophe Risk Insurance Facility—a regional insurance pool organized by the World Bank.

by 2029 (43 percent in nominal terms), but remains within the prudential threshold of 50 percent.[4] The NPV of debt-to-exports ratio remains below 125 percent throughout the period, comfortably below the indicative threshold of 200 percent.

12. Sensitivity analysis (which is applied to the baseline scenario) shows that the level of external debt is very sensitive to a combination of negative shocks to output growth, export growth, and FDI flows. In light of the current global environment, which is sharply lowering tourism receipts, FDI and economic growth, this is a relevant shock scenario. Under this scenario, the NPV of external debt-to-GDP ratio would increase to 59 percent by 2011, breaching the debt-to-GDP threshold of 50 percent (Table 4, Scenario B5). If FDI were to fall to one standard deviation below its historical average, the NPV of external debt-to-GDP ratio would increase to 51 percent by 2011 (Table 4, Scenario B4). Similarly, with export value growth at one standard deviation below its historical average, the NPV of external debt-to-GDP ratio increases to 54 percent by 2011 (Table 4, Scenario B2). As the majority of external debt is denominated in U.S. dollars, a one-time 30 percent nominal depreciation in 2010 will raise the NPV of external debt-to-GDP ratio to 55 percent in 2010, breaching the debt-to-GDP threshold (Table 4, Scenario B6).

V. Conclusion

13. Sound public finances are key to achieving debt sustainability, particularly given the uncertainties associated with the current economic slowdown and financing for the airport project. Public sector imbalances would remain relatively high without continued fiscal adjustment, leaving the ECCB's public debt benchmark of 60 percent of GDP by 2020 out of reach for St. Vincent and the Grenadines. Staff analysis shows that with a fiscal adjustment that achieves a central government primary surplus (including grants) of around 2⅔ percent of GDP by 2014, St. Vincent and the Grenadines would reach a nominal public debt-to-GDP ratio below 60 percent—the ECCB benchmark—by 2017.

14. St. Vincent and the Grenadines faces a moderate risk of external debt distress. The debt trajectory under the baseline scenario does not breach the NPV of debt-to-GDP indicative threshold; however, various stress tests underline the country's vulnerabilities to natural disasters, lower FDI, and lower output growth and suggest several breaches of the NPV of debt-to-GDP threshold. As private external debt data are unavailable, some caution should be used when interpreting these results, which cover public external debt only.

[4] The DSA uses policy-dependent external debt-burden thresholds. Policy performance is measured by the Country Policy and Institutional Assessment (CPIA) index, compiled annually by the World Bank. The CPIA divides countries into three performance categories (strong, medium, and poor) based on the overall quality of macroeconomic policies, with strong performers having higher prudential thresholds than poor performers. St. Vincent and the Grenadines is classified by the CPIA as a strong performer, implying prudential thresholds on NPV of debt-to-GDP and debt-to-exports ratios of 50 and 200 percent, respectively.

Table 1. St. Vincent and the Grenadines: Public Sector Debt Sustainability Framework, Baseline Scenario, 2006–2029
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Projections									
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009–14 Average	2019	2029	2015–29 Average
Public sector debt 1/	77.5	69.5	67.5			73.2	80.0	83.6	84.3	85.6	86.8		92.8	106.4	
Of which : Foreign-currency denominated	46.4	37.0	35.0			37.2	41.3	41.9	43.1	44.0	44.5		46.9	43.0	
Change in public sector debt	-2.7	-8.0	-2.0			5.7	6.7	3.6	0.7	1.3	1.2		1.4	1.4	
Identified debt-creating flows	-6.6	0.0	-8.4			5.2	6.2	3.2	0.6	1.2	1.1		1.3	1.3	
Primary deficit	0.4	3.7	-3.1	1.4	3.0	4.2	4.8	4.2	1.0	1.0	1.0	2.7	1.1	1.1	1.2
Revenue and grants	35.0	35.6	40.1			39.1	38.4	35.5	32.5	32.5	32.5		32.6	32.6	
Of which: Grants	1.6	3.7	4.8			8.1	7.2	4.2	1.5	1.5	1.5		1.5	1.5	
Primary (noninterest) expenditure	35.4	39.3	37.0			43.4	43.1	39.6	33.5	33.5	33.6		33.8	33.8	
Automatic debt dynamics	-5.1	-3.2	-2.7			1.5	2.0	-0.5	-0.3	0.3	0.2		0.2	0.2	
Contribution from interest rate/growth differential	-4.7	-3.2	-0.4			2.2	2.1	-0.1	-0.2	0.3	0.2		0.5	0.5	
O fwhich:: Contribution from average real interest rate	1.0	1.8	0.2			2.3	3.0	2.8	3.3	3.5	3.6		4.1	4.7	
Of which: Contribution from real GDP growth	-5.6	-5.0	-0.6			-0.1	-0.9	-2.9	-3.5	-3.2	-3.4		-3.6	-4.1	
Contribution from real exchange rate depreciation	-0.4	0.0	-2.3			-0.7	-0.1	-0.4	-0.2	-0.1	-0.1		...	...	
Other identified debt-creating flows	-2.0	-0.5	-2.6			-0.6	-0.6	-0.4	-0.1	-0.1	-0.1		-0.1	-0.1	
Privatization receipts (negative)	-2.0	-0.5	-2.6			-0.6	-0.6	-0.4	-0.1	-0.1	-0.1		-0.1	-0.1	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	3.9	-8.1	6.5			0.6	0.6	0.4	0.1	0.1	0.1		0.1	0.1	
Other Sustainability Indicators															
PV of public sector debt	...	...	66.8			71.8	77.7	80.9	81.0	81.9	82.9		87.9	102.0	
Of which : Foreign-currency denominated	...	...	34.3			35.8	39.1	39.2	39.8	40.3	40.6		42.0	38.5	
Of which : External	...	...	34.3			35.8	39.1	39.2	39.8	40.3	40.6		42.0	38.5	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	7.5	10.6	3.5			11.8	13.0	12.5	9.4	9.2	8.7		10.0	10.7	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	166.7			183.5	202.7	228.0	249.3	251.9	254.8		269.5	312.6	
PV of public sector debt-to-revenue ratio (in percent)	...	...	189.5			231.1	249.2	259.0	261.3	264.1	267.2		282.5	327.7	
Of which : External 3/	...	...	97.2			115.2	125.4	125.5	128.4	130.0	130.8		135.0	123.8	
Debt service-to-revenue and grants ratio (in percent) 4/	20.4	19.4	16.4			19.4	21.5	23.6	25.7	25.1	23.6		27.0	29.4	
Debt service-to-revenue ratio (in percent) 4/	21.4	21.6	18.6			24.4	26.5	26.8	26.9	26.3	24.8		28.3	30.8	
Primary deficit that stabilizes the debt-to-GDP ratio	3.1	11.7	-1.1			-1.5	-2.0	0.5	0.3	-0.3	-0.2		-0.2	-0.2	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.6	7.0	0.9	3.6	2.6	0.1	1.2	3.8	4.3	3.9	4.1	2.9	4.1	4.1	4.1
Average nominal interest rate on forex debt (in percent)	4.4	4.3	4.6	3.8	0.9	4.8	5.3	5.5	5.7	5.9	6.1	5.5	7.1	7.1	6.9
Average real interest rate on domestic debt (in percent)	1.6	4.0	-1.9	4.2	3.0	3.4	4.8	3.9	4.6	4.8	4.8	4.4	4.3	4.3	4.3
Real exchange rate depreciation (in percent, + indicates depreciation)	-0.7	0.1	-6.2	-1.0	2.3	-1.9	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.0	2.6	9.0	2.9	2.6	3.3	2.1	3.0	2.3	2.1	2.1	2.5	2.6	2.6	2.6
Growth of real primary spending (deflated by GDP deflator, in percent)	0.0	0.2	-0.1	0.1	0.1	0.2	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	15.6	12.4	12.6	12.5	12.8	12.8	13.1	12.0	12.4	...

Sources: St. Vincent and the Grenadines authorities; and Fund staff estimates and projections.
1/ Gross debt of the public sector.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

Table 2.St. Vincent and the Grenadines: Sensitivity Analysis for Key Indicators of Public Debt 2009–2029

	Projections							
	2009	2010	2011	2012	2013	2014	2019	2029
PV of Debt-to-GDP Ratio								
Baseline	72	78	81	81	82	83	88	102
Active Scenario	71	76	76	72	69	65	48	17
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	72	72	73	74	76	77	86	107
A2. Primary balance is unchanged from 2009	72	77	80	84	88	93	113	157
A3. Permanently lower GDP growth 1/	72	78	82	84	86	88	103	154
A4. Natural Disaster 2/	72	82	91	97	98	99	107	137
A5. Airport Financing 3/	72	83	90	93	94	95	101	128
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	72	78	84	86	88	89	99	123
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	72	77	81	81	82	83	88	102
B3. Combination of B1-B2 using one half standard deviation shocks	72	75	78	78	79	80	86	102
B4. One-time 30 percent real depreciation in 2010	72	94	97	97	98	100	109	138
B5. 10 percent of GDP increase in other debt-creating flows in 2010	72	89	91	92	92	93	98	111
PV of Debt-to-Revenue Ratio 4/								
Baseline	184	203	228	249	252	255	270	313
Active Scenario	182	193	204	206	195	185	135	49
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	184	190	206	228	232	238	263	328
A3. Permanently lower GDP growth 1/	184	204	232	257	263	270	316	469
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	184	203	237	263	269	275	305	377
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	184	202	228	249	251	254	269	312
B3. Combination of B1-B2 using one half standard deviation shocks	184	196	219	240	244	247	264	312
B4. One-time 30 percent real depreciation in 2010	184	244	273	298	302	307	335	422
B5. 10 percent of GDP increase in other debt-creating flows in 2008	184	231	258	282	284	287	300	341
Debt Service-to-Revenue Ratio 4/								
Baseline	19	22	24	26	25	24	27	29
Active Scenario	19	21	22	23	21	19	18	11
A. Alternative scenarios								
A2. Primary balance is unchanged from 2009	19	22	24	25	25	25	33	46
A3. Permanently lower GDP growth 1/	19	22	24	26	26	25	31	44
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	19	22	24	27	26	25	30	36
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	19	22	24	26	25	24	27	29
B3. Combination of B1-B2 using one half standard deviation shocks	19	21	23	25	24	23	26	29
B4. One-time 30 percent real depreciation in 2010	19	25	31	34	34	33	41	51
B5. 10 percent of GDP increase in other debt-creating flows in 2010	19	22	25	29	28	27	30	33

Sources: St. Vincent and the Grenadines authorities; and Fund staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the length of the projection period.

2/ Assumes zero growth and a fiscal cost for the government of 9 percent of GDP between 2010 and 2012.

3/ Assumes in-kind grants do not materialize and the government needs to borrow 50 percent of the airport cost.

4/ Revenues are defined inclusive of grants.

Table 3. External Debt Sustainability Framework, Baseline Scenario, 2006–2029 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections									
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009–2014 Average	2019	2029	2015–202 Average
External debt (nominal) 1/	**46.4**	**37.0**	**35.0**			**37.2**	**41.3**	**41.9**	**43.1**	**44.0**	**44.5**		**46.9**	**43.0**	
Of which : Public and publicly guaranteed (PPG)	46.4	37.0	35.0			37.2	41.3	41.9	43.1	44.0	44.5		46.9	43.0	
Change in external debt	-5.6	-9.5	-2.0			2.3	4.1	0.6	1.2	0.9	0.5		-0.1	-0.3	
Identified net debt-creating flows	-0.3	9.5	10.3			15.3	14.0	10.4	7.4	5.2	3.3		3.1	3.3	
Non-interest current account deficit	**22.1**	**33.3**	**32.2**	**19.5**	**9.8**	**27.3**	**27.8**	**25.2**	**22.6**	**20.4**	**18.2**		**17.6**	**17.9**	17.8
Deficit in balance of goods and services	23.3	34.7	33.7			27.4	28.2	26.2	23.9	22.0	20.2		20.2	20.2	
Exports	42.6	38.9	33.3			29.3	32.0	35.0	37.8	39.9	42.4		42.4	42.4	
Imports	65.9	73.6	67.0			56.7	60.2	61.2	61.6	61.9	62.6		62.6	62.6	
Net current transfers (negative = inflow)	-4.0	-3.7	-3.4	-3.8	0.5	-2.5	-2.9	-3.3	-3.3	-3.5	-3.8		-3.8	-3.8	-3.8
Of which : Official	-1.2	-1.5	-1.4			-0.9	-1.2	-1.3	-1.2	-1.2	-1.2		-1.2	-1.2	
Other current account flows (negative = net inflow)	2.8	2.3	1.9			2.4	2.4	2.2	2.0	1.9	1.8		1.2	1.4	
Net FDI (negative = inflow)	**-18.9**	**-21.5**	**-20.1**	**-14.3**	**5.2**	**-13.6**	**-15.2**	**-15.4**	**-15.8**	**-15.9**	**-15.8**		**-15.8**	**-15.8**	-15.8
Endogenous debt dynamics 2/	**-3.5**	**-2.3**	**-1.8**			**1.6**	**1.5**	**0.6**	**0.5**	**0.8**	**0.8**		**1.3**	**1.2**	
Contribution from nominal interest rate	2.0	1.8	1.5			1.6	1.9	2.1	2.2	2.4	2.5		3.1	2.9	
Contribution from real GDP growth	-3.5	-2.9	-0.3			0.0	-0.4	-1.5	-1.7	-1.6	-1.7		-1.8	-1.7	
Contribution from price and exchange rate changes	-2.0	-1.2	-3.1			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**-5.2**	**-19.0**	**-12.3**			**-13.0**	**-9.9**	**-9.8**	**-6.2**	**-4.3**	**-2.7**		**-3.2**	**-3.6**	
Of which : Exceptional financing	-1.6	-3.7	-7.4			-8.5	-7.7	-4.8	-2.0	-2.0	-2.0		-2.0	-2.0	
PV of external debt 4/	...	...	34.3			35.8	39.1	39.2	39.8	40.3	40.6		42.0	38.5	
In percent of exports	...	...	103.0			122.2	122.3	111.9	105.5	101.1	95.8		99.2	91.0	
PV of PPG external debt	**...**	**...**	**34.3**			**35.8**	**39.1**	**39.2**	**39.8**	**40.3**	**40.6**		**42.0**	**38.5**	
In percent of exports	**...**	**...**	**103.0**			**122.2**	**122.3**	**111.9**	**105.5**	**101.1**	**95.8**		**99.2**	**91.0**	
In percent of government revenues	**...**	**...**	**97.2**			**115.2**	**125.4**	**125.5**	**128.4**	**130.0**	**130.8**		**135.0**	**123.8**	
Debt service-to-exports ratio (in percent)	**13.4**	**12.8**	**13.6**			**18.5**	**18.2**	**16.7**	**14.9**	**13.6**	**11.7**		**13.9**	**13.1**	
PPG debt service-to-exports ratio (in percent)	**13.4**	**12.8**	**13.6**			**18.5**	**18.2**	**16.7**	**14.9**	**13.6**	**11.7**		**13.9**	**13.1**	
PPG debt service-to-revenue ratio (in percent)	**17.1**	**15.7**	**12.8**			**17.5**	**18.6**	**18.8**	**18.1**	**17.5**	**15.9**		**19.0**	**17.8**	
Total gross financing need (Millions of U.S. dollars)	44.2	92.0	99.6			118.9	118.0	107.4	91.2	76.7	61.0		89.0	169.2	
Non-interest current account deficit that stabilizes debt ratio	27.7	42.8	34.2			25.0	23.7	24.6	21.4	19.5	17.7		17.7	18.2	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.6	7.0	0.9	3.6	2.6	0.1	1.2	3.8	4.3	3.9	4.1	2.9	4.1	4.1	4.1
GDP deflator in US dollar terms (change in percent)	4.0	2.6	9.0	2.9	2.6	3.3	2.1	3.0	2.3	2.1	2.1	2.5	2.6	2.6	2.6
Effective interest rate (percent) 5/	4.4	4.3	4.6	3.8	0.9	4.8	5.3	5.5	5.7	5.9	6.1	5.5	7.1	7.1	6.9
Growth of exports of G&S (US dollar terms, in percent)	5.7	0.3	-6.1	2.6	5.8	-8.8	12.8	17.0	15.2	12.0	12.9	10.2	6.8	6.8	6.8
Growth of imports of G&S (US dollar terms, in percent)	12.7	22.6	0.0	5.4	10.8	-12.4	9.7	8.7	7.4	6.5	7.6	4.6	6.8	6.8	6.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	15.6	12.4	12.6	12.5	12.8	12.8	13.1	12.0	12.4	12.3
Government revenues (excluding grants, in percent of GDP)	33.4	31.9	35.3			31.1	31.2	31.2	31.0	31.0	31.0		31.1	31.1	31.1
Aid flows (in Millions of US dollars) 7/	8.1	20.1	39.4			65.0	58.4	42.7	24.0	23.7	26.4		32.2	33.3	
Of which : Grants	8.1	20.1	29.0			50.0	46.0	29.2	11.0	11.7	12.4		17.2	33.3	
Of which: Concessional loans	0.0	0.0	10.5			15.0	12.3	13.5	13.0	12.0	14.0		15.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			9.2	8.3	5.1	2.4	2.3	2.2		2.2	2.1	2.2
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			60.0	50.6	45.6	27.6	29.3	31.3		30.3	32.2	31.6
Memorandum items:															
Nominal GDP (Millions of US dollars)	497.9	546.4	600.8			621.6	642.5	686.8	733.2	777.9	827.1		1149.2	2218.8	
Nominal dollar GDP growth	11.9	9.7	10.0			3.5	3.4	6.9	6.8	6.1	6.3	**5.5**	6.8	6.8	6.8
PV of PPG external debt (in Millions of US dollars)			205.8			222.5	251.2	269.0	292.0	313.7	335.6		482.9	854.7	
(PVt-PVt-1)/GDPt-1 (in percent)						2.8	4.6	2.8	3.3	2.9	2.8	3.2	2.7	2.4	2.6

Source: Staff simulations.

1/ Includes only public sector external debt.
2/ Derived as [i - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with i = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate change
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 4. St. Vincent and the Grenadines: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009–29
(In percent)

	Projections							
	2009	2010	2011	2012	2013	2014	2019	2029
PV of debt-to GDP ratio								
Baseline	36	39	39	40	40	41	42	39
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	36	27	19	15	13	13	17	28
A2. New public sector loans on less favorable terms in 2009-2029 2/	36	41	44	47	50	52	60	59
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	36	39	40	41	42	42	43	40
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	36	44	54	54	55	55	54	42
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	36	40	41	42	42	42	44	40
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	36	45	51	52	52	52	52	42
B5. Combination of B1-B4 using one-half standard deviation shocks	36	45	59	60	60	61	59	44
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	36	55	55	56	57	57	59	55
PV of debt-to-exports ratio								
Baseline	122	122	112	105	101	96	99	91
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	122	85	56	40	32	30	40	66
A2. New public sector loans on less favorable terms in 2009-2029 2/	122	130	126	125	125	123	141	139
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	122	122	112	105	101	96	99	91
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	122	159	216	203	194	183	180	141
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	122	122	112	105	101	96	99	91
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	122	140	146	137	131	124	122	98
B5. Combination of B1-B4 using one-half standard deviation shocks	122	161	220	206	196	186	180	136
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	122	122	112	105	101	96	99	91
PV of debt-to-revenue ratio								
Baseline	115	125	125	128	130	131	135	124
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	115	87	62	49	42	40	54	90
A2. New public sector loans on less favorable terms in 2009-2029 2/	115	133	141	153	161	168	192	189
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	115	126	129	132	134	135	139	128
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	115	140	172	175	177	178	174	136
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	115	128	131	134	136	137	141	129
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	115	144	164	167	168	169	166	133
B5. Combination of B1-B4 using one-half standard deviation shocks	115	145	190	193	194	195	188	142
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	115	177	178	182	184	185	191	175

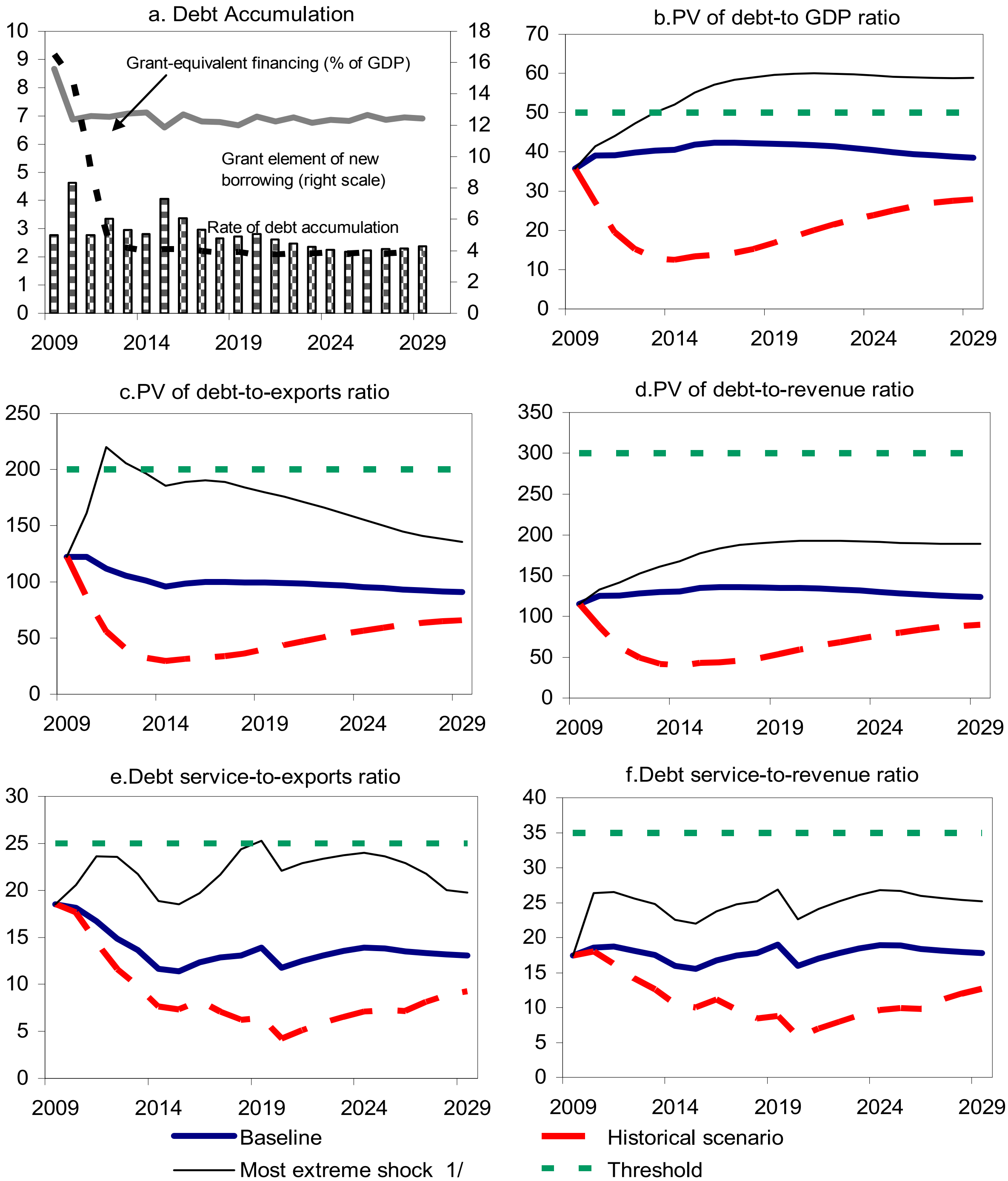
Table 4. St. Vincent and the Grenadines: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029 (continued)
(In percent)

	Projections							
	2009	2010	2011	2012	2013	2014	2019	2029
Debt service-to-exports ratio								
Baseline	19	18	17	15	14	12	14	13
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	19	18	14	12	10	8	6	9
A2. New public sector loans on less favorable terms in 2009-2029 2/	19	18	16	15	14	12	10	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	19	18	17	15	14	12	14	13
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	19	21	25	24	22	19	25	20
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	19	18	17	15	14	12	14	13
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	19	18	18	17	15	13	17	14
B5. Combination of B1-B4 using one-half standard deviation shocks	19	21	24	24	22	19	25	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	19	18	17	15	14	12	14	13
Debt service-to-revenue ratio								
Baseline	17	19	19	18	18	16	19	18
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	17	18	16	14	13	10	9	13
A2. New public sector loans on less favorable terms in 2009-2029 2/	17	19	18	18	18	16	14	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	17	19	19	19	18	16	20	18
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	17	19	20	21	20	19	24	20
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	17	19	20	19	18	17	20	19
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	17	19	20	20	20	18	23	19
B5. Combination of B1-B4 using one-half standard deviation shocks	17	19	20	22	22	20	26	21
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	17	26	27	26	25	23	27	25
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	0	0	0	0	0	0	0	0

Sources: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assumingan offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

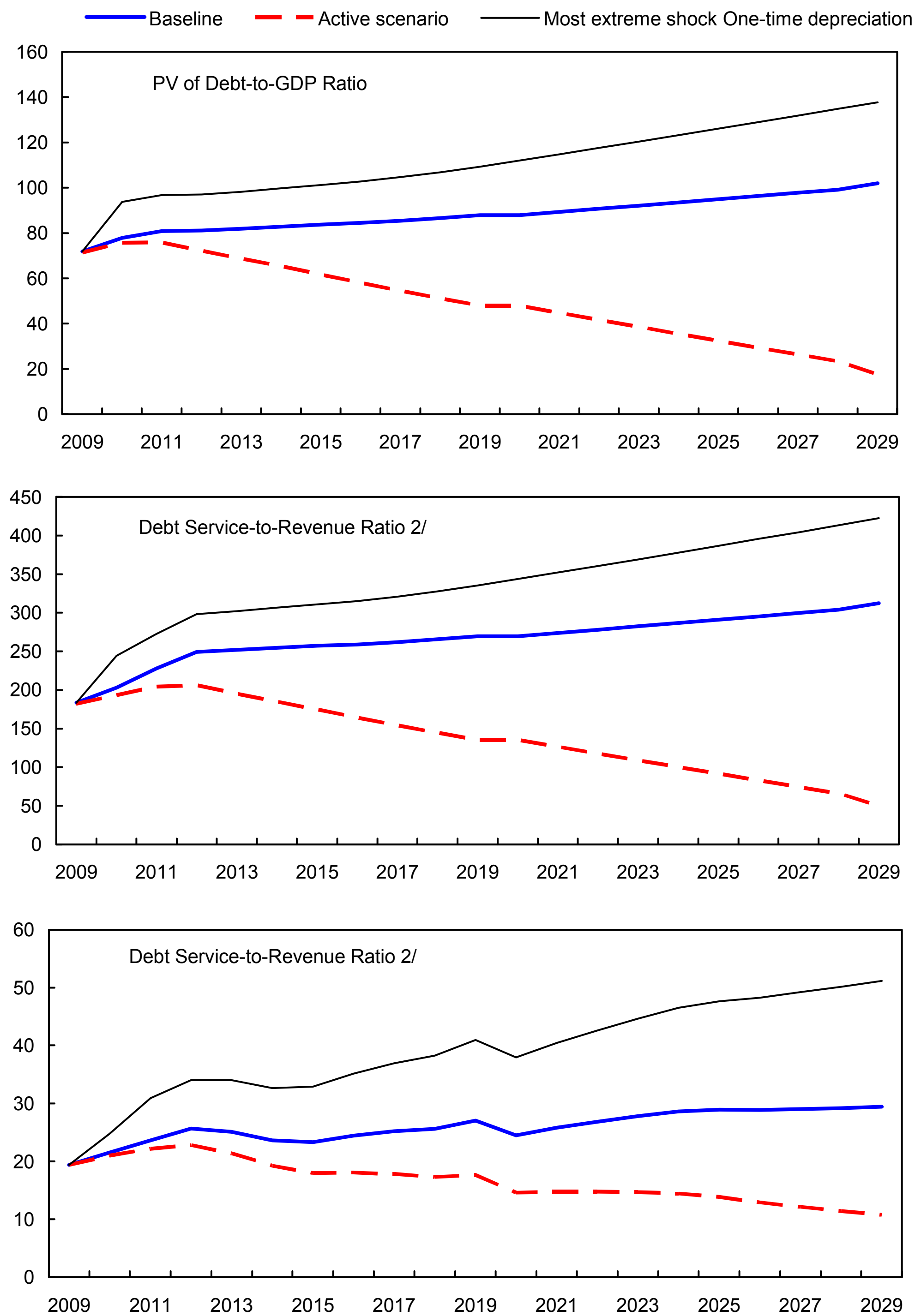
Figure 1. St. Vincent and the Grenadines: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2009-2029 1/



Sources: Staff projections and simulations.

1/ The most extreme stress test is the test that yields the highest ratio in 2019. In figure b. it corresponds to a Terms shock; in c. to a Combination shock; in d. to a Terms shock; in e. to a Combination shock and in picture f. to a One-time depreciation shock

Figure 2. St. Vincent and the Grenadines: Indicators of Public Debt Under Alternative Scenarios, 2009–29 1/



Sources: St. Vincent and the Grenadines authorities; and Fund staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2019.
2/ Revenues are defined inclusive of grants

INTERNATIONAL MONETARY FUND
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EXTERNAL
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Public Information Notice (PIN) No. 09/63
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International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2009 Article IV Consultation with St. Vincent and the Grenadines

On May 15, 2009, the Executive Board of the International Monetary Fund (IMF) concluded the 2009 Article IV consultation with St. Vincent and the Grenadines.[1]

Background

Following two years of strong growth, the economy has been negatively affected by the global slowdown and financial turmoil. Real output growth is estimated to have fallen from 7 percent in 2007 to around 1 percent in 2008, far below potential (estimated at 4½ percent). The tourism sector weakened owing to the U.S. and global growth downturn, and construction lost some dynamism owing to the completion of major phases in some public sector projects. Inflation, which peaked at 11.6 percent in September, declined to 8.7 percent by end-2008, reflecting declines in world food and fuel prices.

While still high, the external current account deficit improved modestly in 2008, as lower imports, resulting from the weakness in economic activity, offset the lower foreign exchange revenues from tourism and the larger food and fuel import bill. Private sector credit growth slowed to 3 percent in 2008, compared to 15 percent in 2007, reflecting the weakened economic activity, including lower demand from the household sector.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

The banking sector has been largely unaffected by the global financial crisis and remains well capitalized. The ratio of nonperforming to total loans remained low and other financial indicators continue to point to banking soundness. However, strains from the fallout of the Trinidad and Tobago-based CL Financial Group have created uncertainty in the local financial system, and the international financial services sector has also suffered shocks. An update of a 2004 Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) assessment took place in February–March 2009.

The fiscal position continued to strengthen in 2008 and the overall deficit was reduced to 1.7 percent of GDP. Larger grants, efforts at tax arrears collection and one-off non-tax revenue were complemented by solid VAT performance to attain a primary surplus, the first since 2002. The VAT exceeded expectations from both the revenue and the compliance perspectives, surpassing replaced taxes, notwithstanding the growth slowdown. Lower capital expenditure helped contain total government spending. The public sector debt-to-GDP ratio declined to 67½ percent of GDP at end-2008.

The authorities have requested support under the Fund's Exogenous Shocks Facility (ESF) to help the economy adjust to the tourism and foreign direct investment (FDI) shock. The authorities are requesting the rapid-access component of the ESF (SDR 3.735 million, 45 percent of quota). Fund financing is expected to partly offset the balance of payments impact as well as contribute toward the financing of the fiscal deficit.

Executive Board Assessment

Executive Directors noted that, following a period of brisk growth, St. Vincent and the Grenadines has been impacted severely by the global slowdown, leading to a marked decline in real GDP growth due to sharply weaker activity in the tourism and construction sectors. The balance of payments is adversely affected by declines in tourism receipts, foreign direct investment and remittances. Directors welcomed the authorities' commitment to mitigate the impact of the external shock, with Fund support under the Exogenous Shock Facility, and to enhance the economy's growth potential, while ensuring fiscal and debt sustainability.

Directors commended recent steps toward fiscal consolidation and the solid progress on social and poverty reduction goals. They welcomed the ongoing tax reform, including the recent establishment of a Tax Reform Commission, and the authorities' commitment to maintain the integrity and stability of the VAT. Continued spending restraint through a prudent public sector wage policy and prioritization of capital expenditure will be important, particularly given the lower revenues due to the external shock. Directors encouraged reforms to support medium-term fiscal consolidation, including tax and customs reform, civil service reform, and adoption of a medium-term expenditure framework.

Directors noted the staff's assessment that the real exchange rate appears broadly in line with macroeconomic fundamentals. Looking forward, they encouraged steps to improve external competitiveness, including by easing infrastructure bottlenecks and institutional rigidities, and lowering the cost of doing business.

Directors noted that the construction of a new international airport is necessary to further develop the tourism industry and improve medium-term growth potential. They stressed the importance of sustained fiscal consolidation and timely availability of concessional financing to accommodate the airport project without compromising debt sustainability. Directors also noted that a more flexible timetable for implementation of the project, to the extent technically feasible, would help alleviate a possible financing bottleneck in 2009, given the tight liquidity environment.

Directors emphasized that improving the regulatory and supervisory framework for nonbanks is a high priority, particularly in light of the recent shocks to the region's offshore and insurance sectors. They encouraged the authorities to establish a single regulatory unit for domestic nonbanks and the international financial service sector. Directors welcomed the authorities' efforts to coordinate with other regional governments to address the regional financial turmoil resulting from the fallout of the Trinidad and Tobago-based CL Financial Group.

St. Vincent and the Grenadines: Selected Economic Indicators, 2004–09

	2004	2005	2006	2007	Est. 2008	Proj. 2009
	(Annual percentage change, unless otherwise specified)					
Output and prices						
Real GDP (factor cost)	6.8	2.6	7.6	7.0	0.9	0.1
Nominal GDP (market price)	8.3	7.5	11.9	9.7	10.0	3.5
Consumer prices, end of period	1.7	3.9	4.8	8.3	8.7	2.9
Consumer prices, period average	3.0	3.7	3.0	6.9	10.1	4.2
Banking system						
Net foreign assets 1/	15.7	-4.6	4.5	-8.1	3.2	-3.4
Net domestic asses 1/	-2.0	11.0	3.0	15.2	-0.7	5.6
Of which: Credit to private sector 1/	0.8	4.3	11.1	12.4	2.6	1.2
Broad money	13.7	6.4	7.5	7.1	2.5	1.3
	(In percent of GDP, unless otherwise specified)					
Public sector						
Central government finances						
Total revenues and grants	29.5	29.5	30.1	30.9	32.4	29.8
Total expenditure and net lending	33.1	35.1	34.0	34.6	34.1	33.7
Current expenditure	25.9	27.1	26.4	25.6	26.6	26.2
Capital expenditure	7.1	8.0	7.5	8.9	7.5	7.5
Overall balance	-3.6	-5.6	-3.9	-3.6	-1.7	-3.8
Of which: Primary balance	-1.1	-2.6	-0.7	-0.6	1.2	-0.9
Gross public sector debt 2/	78.6	80.2	77.5	69.5	67.5	73.2
External sector						
External current account	-24.8	-22.3	-24.1	-35.1	-33.7	-28.9
Stayover arrivals (percentage change)	10.4	9.5	2.6	-8.1	-6.1	-14.0
Public sector external debt (end of period)	52.9	52.0	46.4	37.0	35.0	37.2
External public sector debt service (In percent of exports of goods and services)	11.6	11.6	13.4	12.8	13.6	18.5
Real effective exchange rate (- = depreciation) (Annual percentage change)	-3.5	0.0	-0.6	0.3	3.7	...
External terms of trade (- = depreciation) (Annual percentage change)	-8.1	4.4	1.3	-13.8	-7.3	2.0

Sources: ECCB; Ministry of Finance and Planning; and Fund staff estimates and projections.

1/ Annual changes relative to the stock of broad money at the beginning of the period.

2/ Net of intra-public sector debt (mainly central government debt to the National Insurance Scheme (NIS).

Press Release No. 09/171
FOR IMMEDIATE RELEASE
May 15, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$5.7 Million Disbursement for St. Vincent and the Grenadines Under the Exogenous Shock Facility

The Executive Board of the International Monetary Fund today approved an SDR 3.735 million (about US$5.7 million) disbursement for St. Vincent and the Grenadines under the Exogenous Shock Facility (ESF).

The global economic slowdown has caused a significant decline in tourism to the country, which has worsened the balance of payments. At the same time, a decline in Foreign Direct Investment (FDI) and construction activity has led to a sharp output slowdown in 2008. Growth is expected to decline further in 2009, reflecting declining tourism receipts, FDI, and remittances. The country's authorities are requesting the rapid-access component of the ESF to help the economy adjust to the tourism and FDI shock.

The Executive Board's decision will enable the St. Vincent and the Grenadines to draw an amount equivalent to SDR 3.735 million (about US$5.7 million) from the IMF immediately.

Following the Executive Board discussion, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, issued the following statement:

"St. Vincent and the Grenadines has been impacted severely by the global slowdown, leading to a marked decline in real GDP growth due to sharply weakened activities in the tourism and construction sectors. The balance of payments has been negatively affected by declines in tourism receipts, foreign direct investment and remittances. The St. Vincent and the Grenadines' authorities are implementing appropriate measures to mitigate the impact of the external shock and enhance the economy's growth potential, while ensuring fiscal and debt sustainability. Fund support under the Exogenous Shocks Facility will help to alleviate the balance of payments financing burden of the shock.

"The authorities have made good progress in fiscal consolidation as well as on social and poverty reduction goals. They are demonstrating their commitment to maintain the integrity and stability of the VAT and pursuing ongoing tax reform, including the recent establishment of a Tax Reform Commission. Given the lower revenues due to the external shock, continued spending restraint through a prudent public sector wage policy and prioritization of capital expenditure will be necessary.

"The government is constructing a new international airport to further develop the tourism industry and raise medium-term growth potential. Sustained fiscal consolidation and additional concessional financing should accommodate the airport project without compromising debt sustainability. A more flexible timetable for implementation of the project, to the extent technically feasible, would help alleviate a possible financing bottleneck in 2009, stemming from the tight liquidity environment," Mr. Portugal said.

Statement by Michael Horgan, Executive Director for St. Vincent and the Grenadines and Shawn Ladd, Advisor to Executive Director
May 15, 2009

At the outset, my Vincentian authorities express their appreciation to the staff for a well-balanced report and for pointing out the benefits of requesting support under the Exogenous Shocks Facility (Rapid Access Component) as one element of tackling their short-term financing challenge. All the Eastern Caribbean islands have common vulnerabilities to global economic and financial conditions and natural shocks, and this statement should be viewed in the context of today's ECCU regional discussion, and the related Buff statement.

Among the countries of the Eastern Caribbean, St. Vincent and the Grenadines (SVG) is one of the lower income, less developed economies. It has a large poor rural population, suffers from difficult and expensive access and has been disproportionately impacted by the decline of the banana industry. St. Vincent, home to the bulk of the population, has been an agriculturally-based economy that is only now moving towards a tourism and services driven economy. In doing so, it will have to surmount the internal transportation challenges posed by its topography. The Grenadines are known for their small number of wealthy visitors. These islands, their small size and ecological fragility notwithstanding, have potential for further tourism development.

Economic Performance

Real GDP growth in 2008 declined dramatically from the rates of the previous two years, which featured a construction boom. The long-term secular decline of the banana industry was compounded in 2008 by disease. The authorities accept the Fund's 2009 forecast of 0.1 percent growth in 2009, though all agree that the risks are to the downside. Although considerable progress has recently been made in reducing the incidence of basic poverty, very substantial challenges remain in tackling rural poverty and enhancing the skills of the younger generation.

The strong peg of the EC dollar to the US dollar has always provided monetary stability, but the combination of the pass-through of high oil prices, the introduction of VAT, rising global food prices (which have a large weight in the CPI basket), and the weak US dollar combined to push inflation above 8 percent at the end of 2007, peaking in 2008 at 10.1 percent, and coming down only slowly. The current account deficit remained high and private-sector credit grew only slowly.

The recession in the United States and the United Kingdom has sharply reduced tourist arrivals. Net foreign exchange receipts from tourism declined by 4.3 percent of GDP in 2008, contributing to a US$3.3 million decline in net international reserves. The authorities have to plan on the basis of at least one more bad season (2009-10) and a further decline in net tourism receipts, but there is a major downside risk of a more protracted global recession extending into additional seasons.

Notwithstanding the end of the construction boom and the unpleasant external environment, St. Vincent and the Grenadines managed to post a primary surplus of 1.2 percent in 2008, one of three primary surpluses in the ECCU. Measures to cope with the higher cost of food and fuel in 2008 were "textbook" and affordable with increased tax effort and holding the line on public sector pay (as a share of GDP). The December 2008 budget lays out an agenda to preserve macro stability, improve the environment for business investment and enhance critical social programs.

Fiscal Policy

As the staff acknowledges, the authorities have made steady progress on fiscal consolidation in recent years. The cost of providing infrastructure and public services across a multi-island country with a small population is always a major challenge. The progressive loss of traditional donor support and trade preferences, and the cost of weather-related disasters have added to fiscal pressures. At 67.5 percent of GDP, the public sector debt ratio is not unsustainably high. Nonetheless, the authorities are concerned that total debt service (amortization and interest) crowds out needed social spending. Accordingly, they have reiterated their commitment to prudent fiscal policy, with a sharpened focus on growth-enhancing public sector investment, including renewable energy and transportation infrastructure.

Over the past few years, the authorities have tightened fiscal policy with action on both the revenue and expenditure sides. While the authorities have not adopted a fully automatic pricing mechanism for fuel products, oil price increases are passed through on a monthly basis and the fiscal burden has been eliminated. The introduction of VAT in May 2007 was effected very smoothly and the revenue results have been positive (for which the authorities are grateful to CARTAC for invaluable technical assistance). While the 2008 budget contained some adjustments to the VAT regime, its integrity has been maintained into the 2009 budget. For 2009, the top marginal rate of income tax will be reduced from 35 percent to 32.5 percent, the threshold for personal income tax will be raised from EC$17,000 to EC$18,000 and the corporate tax rate will also be reduced from 35 to 32.5 percent. The authorities are contemplating further income tax reforms and will continue efforts to improve collection and administration and tackle property tax reform.

The New International Airport

The staff report describes well the specific measures taken to mitigate the impact of the short-term shock on tourism. However, there is considerable untapped tourism potential in the medium term. There are many significant planned and proposed private-sector capital projects contingent on improved air access to the islands. It is therefore critical that SVG be served by a modern international airport. The Argyle International Airport project is indeed massive relative to the GDP of the island, but it is almost fully financed with concessional cash and in-kind resources. The authorities understand the staff's concern about the project's risk to the debt dynamics in the baseline scenario, but they have been frank with the public about the financial risk and offer assurances that the financing will be handled "cautiously, skillfully and prudently." It is fully expected that this public investment project will prove to be growth-enhancing and more than sustainable. Moving ahead now, in an investment downturn, would be more countercyclical and increase the probability that the project could be completed in time for an extra tourism season.

The Domestic and International Financial Sectors

The staff rightly points out that the SVG banking sector continues to be well capitalized with limited exposure to distressed assets or financial institutions. That said, the leadership of SVG is playing a key role in coordinating the regional response to local and idiosyncratic financial shocks, i.e. CL Financial Group and Bank of Antigua. The Vincentian authorities continue to support the ECCB's role as lender of last resort, while strengthening their own regulatory framework for local non-banks and for international financial service providers. The authorities have intervened strongly in two local institutions and their Financial Intelligence Unit has been instrumental in successful prosecutions, convictions and asset recoveries. Like other members in our Constituency with substantial and legitimate international financial service activities, the SVG authorities are keenly aware of the risk that advanced-country pursuit of non-cooperative jurisdictions could have negative unintended consequences for countries that comply with international standards.

Exogenous Shocks Facility (ESF) Request

The Vincentian authorities pride themselves on having taken strong policy measures, as and when required, without a Fund program. However, as one of four PRGF-eligible members in our Constituency, St. Vincent is in a position to consider the ESF if conditions warrant. Under the circumstances, the authorities recognize that ESF assistance would make an important contribution to their efforts to contend with the transitory, but significant, shocks to tourism receipts and FDI. The authorities would greatly appreciate a favorable response by the Board to their request for rapid access to the ESF in the amount of 45 percent of their quota.