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ST. VINCENT AND THE GRENADINES

2012 ARTICLE IV CONSULTATION

August, 2014

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 2012 Article IV consultation with St. Vincent and the Grenadines, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 6, 2013, following discussions that ended on November 1, 2012, 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 January 16, 2013.
- An **Informational Annex** prepared by the IMF.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Press Release**

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

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INTERNATIONAL MONETARY FUND

ST. VINCENT AND THE GRENADINES

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION

January 16, 2013

KEY ISSUES

Background: Activity is slowly recovering after a cumulative decline of about 5 percent during 2008–10. Expansionary fiscal policies—largely to counteract the impact of the global slowdown and the two successive natural disasters—led to a deterioration in fiscal balances, with public debt up by about 10½ percent of GDP over this period. The fiscal deficit, however, is expected to narrow this year, largely reflecting cuts in capital spending. In the financial sector, non performing loans remain above prudential guidelines; provisioning and profitability are low; and supervision remains weak.

Policy Challenges: Further fiscal consolidation—including by rebalancing government expenditure toward growth and employment generating public sector projects—is required to ensure medium-term sustained growth as well as keep public sector debt on a downward trajectory. In this regard, improving the efficiency of revenue collection and reducing current spending—especially on the wage bill, which is high relative to revenues—will be crucial to allow the government to maneuver fiscal policy. Financial sector weaknesses also need to be addressed, including through strengthening of supervisory and regulatory standards, to promote effective financial intermediation that supports private sector growth. Structural reforms, including infrastructure enhancements and labor market reforms are critical to improve competitiveness and ensure medium-term growth and current account sustainability.

Approved By
Gian Maria Milesi-Ferretti and Elliott Harris

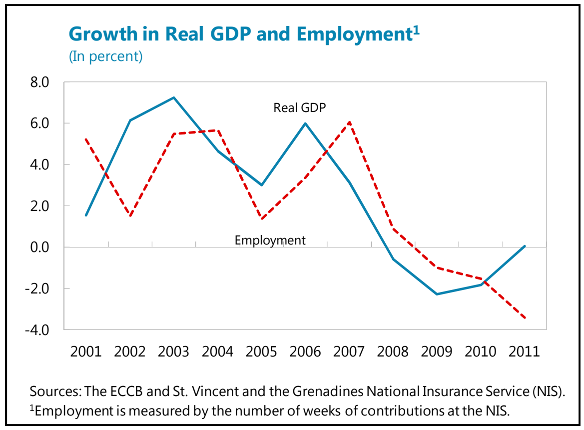
Discussions took place in Kingstown from October 22–November 1, 2012. The staff team comprised Ms. N. Thacker (head), Ms. J. Gieck, Mr. J. Okwuokei and Mr. M. Tashu (all WHD). The IMF Regional Representative, Mr. W. Mitchell and Mr. C. de Resende from the OED also attended the meetings. Representatives from the ECCB and the CDB also participated in the mission as observers.

CONTENTS

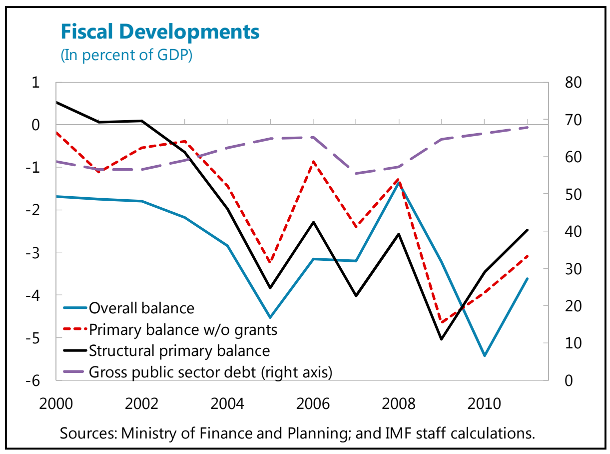
ANNEXES

CONTEXT

1. **After three years of negative growth, a slow recovery appears to be underway**. Like most small island economies, St. Vincent and the Grenadines (VCT) is heavily dependent on tourism, remittances, and FDI from advanced countries and external demand is a major driver of growth. The global crisis put a significant dent in these flows. In 2010 and 2011, the country was hit by two natural disasters (Hurricane Tomas in October 2010 and destructive torrential rains and floods in April 2011).[1] Real GDP saw a cumulative decline of about 4.6 percent since 2008, mainly reflecting the impact of the global economic crisis and the natural disasters. However, a recovery appears to be underway.



2. **Public finances deteriorated through 2010, but show some improvement recently**. The overall balance deteriorated significantly, particularly in 2009 and 2010, as revenues declined and expenditures increased in the face of the global slowdown and the natural disasters.[2] Increased borrowing to finance these deficits and the decline in GDP led to a jump in public sector debt by about 10½ percentage points of GDP from its level in 2008 to 67.8 percent in 2011, erasing the gains from the Ottley Hall debt relief in 2007.[3] That said, the underlying fiscal policy stance has started to improve (as reflected in improvements in the structural primary balance) and the growth of public sector debt has begun to stabilize recently.



[1] The Fund provided two consecutive disbursements under the Rapid Credit Facility in 2011 to help mitigate the impact of the natural disasters. The Caribbean Development Bank, the World Bank, and other donors have also provided funds to help improve the country's resilience to natural disasters. Many of these projects have commenced (see Box 1).

[2] For 2010, this also reflects a one-time transfer (2.7 percent of GDP) to settle SOE debt with the National Commercial Bank before government divestment.

[3] In 1999, the government of St. Vincent and the Grenadines assumed a large private external debt of EC$156 million (17½ percent of 1999 GDP) for the construction of the Ottley Hall shipyard (a yacht repair facility). However, the project later failed and in 2007, the government secured a debt cancellation in an amount of EC$150.8 million from the government of Italy.

Box 1. The Authorities' Progress with Building Climate Resilience

There are ongoing efforts to rehabilitate vulnerable public buildings and damaged infrastructure caused by the hurricane. Damaged infrastructure, including roads, schools, community centers, water ways, and bridges, are under repair and reconstruction, and these projects are being undertaken under the Public Sector Investment Program (PSIP). Similarly, emergency shelters are being retrofitted—this is required for more than half of the 100 buildings identified to prepare them for use during emergencies. Project activities also involve strengthening river defenses and building warehouses to store emergency relief materials.

A comprehensive approach to disaster vulnerability reduction will take off in the medium term. Supported by the World Bank, a major ongoing project—the Disaster Vulnerability Reduction Project (DVRP)—aims to measurably reduce the country's vulnerability to adverse natural events, including climate change. This is a region-wide initiative, which complements the ongoing efforts of the government and other donors. It includes comprehensive interventions in disaster risk reduction measures – preventative maintenance, climate change adaption, appropriate zoning, hazard mapping, land use planning, and a disaster information system.

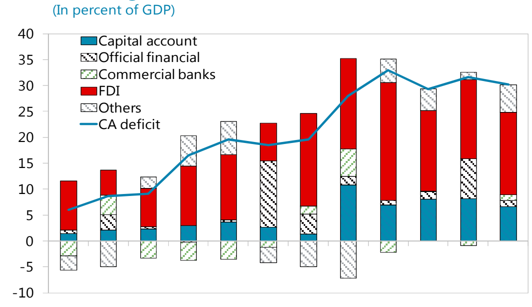
The authorities have started implementing the new national building regulations. This commenced in late 2011 to ensure that new buildings are constructed to higher standards. Under the new building codes and guidelines, the authorities will conduct inspections at different phases of building construction and issue a certificate of occupancy upon completion. However, enforcement of the regulations is weak owing to insufficient manpower for monitoring.

Additional investments would be needed to further enhance disaster risk management. Discussions with the authorities revealed that in addition to ongoing efforts, the country needs an early warning or seismic monitoring system to boost emergency preparedness. The national emergency agency is hampered by the reliance on the periodic tsunami watch alerts issued by the Pacific Tsunami Warning Centre (PTWC) located in the US, to make a national warning and evacuation call in the event of a hurricane.

The authorities agreed with staff on the importance of having a contingency fund to build buffers against exogenous shocks. However, they argued that setting up such a fund will not be feasible now given the limited fiscal space and the need to meet developmental priorities on infrastructure, and in the education and health sector.

3. **Deterioration in the competitiveness of tourism and exports and increased construction-related imports have led to a sustained widening of the current account deficit over the last decade.** Declines in tourism and export receipts and high commodity prices have contributed to keep the current account deficit high despite weak aggregate demand. The deficit has so far been financed mainly by FDI and official capital flows (capital grants and disbursements).

Financing the Current Account
(In percent of GDP)

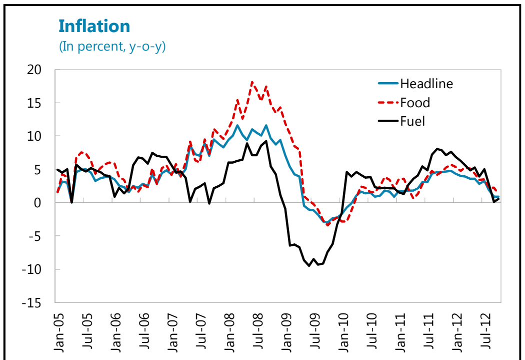


Source: The ECCB and Fund staff calculations.

BACKGROUND

4. The economy is showing signs of recovery, but at a slower pace than expected last year. After three consecutive years of negative growth, real GDP grew by about ½ percent in 2011. Economic activity indicators for the first six months of 2012 suggest a modest pick-up in tourism arrivals, manufacturing, and agricultural activity. However, delays in public sector capital projects, in part reflecting cash constraints, and weak private sector credit growth continue to act as a drag on growth.

5. Inflation has moderated in recent months. The pressure from international food and fuel prices led to an increase in inflation last year with end-period and average headline inflation peaking at 4.7 percent and 3.2 percent, respectively, in December 2011.[4] However, the decline in international prices since then has helped to ease inflation with end-period inflation declining to 0.3 percent by October this year.



Sources: St. Vincent and the Grenadines Statitical Office; and IMF staff calculations.

6. The fiscal deficit is expected to narrow this year. Based on data through the first 10 months of the year, the overall fiscal deficit is expected to be around 2¾ percent of GDP, lower by about a percentage point of GDP compared to last year. Revenues have been lower than projected due to both the sluggish recovery as well as an apparent decline in tax compliance. Spending on the wage bill is expected to be somewhat higher given the recent announcement of a retroactive wage increase of 1½ percent for civil service workers for 2011 and 2012. As has been the case in recent years, cash flow constraints are being met by cuts in capital spending and some accumulation of domestic arrears.[5] Earlier in the year, the government issued an EC$40 million 10−year bond on the Regional Government Securities Market (RGSM) to help finance the deficit.[6]

7. The 2012 current account deficit is expected to improve marginally by one percentage points of GDP to 27.8 percent compared to 2011. Preliminary estimates for the first eight months of 2012 suggest that there was a modest rebound in agricultural exports as well as an increase in manufacturing exports. However, imports were also up more than expected, driven largely by FDI-related imports as well as imports of fuel and construction materials for the international airport project.

[4] This also includes the increase in telecommunication prices last year.

[5] The expected sale of government shares in the Bank of St. Vincent was not realized due to technical problems and is now planned for next year.

[6] This was in line with the plan at the time of the budget. The coupon rate was 7.5 percent. Meanwhile, coupon rates on 91-day T-bills have declined from an average of 4¼ percent last year to 3¼ percent in recent months.

8. Private sector credit growth remains sluggish, with a slight uptick in recent months. Since the crisis, private sector credit growth has been in the range of 2–4 percent (y/y, nominal terms). While this reflects a tightening of lending standards by banks in the wake of the financial crisis and slowdown in growth which have led to high NPLs and reduced profitability, banks also indicated a lack of demand from the business sector.[7] Most of the new loans have been mortgages as these are perceived to be less risky because they are backed by collateral.

9. Weak growth has also affected the performance of the financial sector.

- **Non-performing loans (NPLs) at banks remain in the 7–7½ percent range, almost twice their pre-crisis level**.[8] The size of NPLs varies across banks, ranging from 5–15 percent. Bank profitability has declined significantly since 2009. While capital adequacy ratios are relatively high at around 20 percent, inadequate provisioning against NPLs (around 30 percent) calls for caution in interpreting these ratios.

Financial Soundness Indicators (in percent)

					2012		
	2008	2009	2010	2011	Q1	Q2	Q3
Tier 1 Capital/Risk Weighted Assets	16.6	19.8	26.4	20.7	20.2	19.9	18.3
Return on Average Assets	0.5	0.4	0.3	0.1	0.2	0.0	0.5
Return on Average Equity	2.7	3.3	0.3	-0.4	0.2	0.2	2.9
Liquid Assets/Short-term Liabilities	39.6	38.8	38.7	39.2	38.9	38.8	37.3
Non-Performing Loans/Total Loans	3.6	7.4	7.8	7.4	7.3	7.5	7.3
Provisions for Loan Losses/Non-Performing Loans	38.6	33.7	25.2	25.3	23.5	28.6	31.0

Source: Eastern Caribbean Central Bank.

- **The balance sheets of non-bank financial institutions continue to remain under stress**.[9] Average NPLs at credit unions are similar to those at banks, and profitability remains low. Available data on NPLs at the Building and Loan (B&L) association indicate that half of its loan portfolio was overdue in 2011. Although exposures to the two failed insurance companies— the British American Insurance Company (BAICO) and the Colonial Life Insurance Company (CLICO)— were partly written off in 2011 by two credit unions and the B&L association, a considerable amount still remains on their books (6 percent and 2.7 percent of their assets, respectively). It is estimated that the B&L association would need considerable additional capital to achieve the minimum capital adequacy ratio of 10 percent of total assets.

[7] This is not to say that banks do not get requests for loans from the business sector, but many of these are not backed by sound cash flow projections or a viable business plan.

[8] The ECCU's operational guideline is for NPLs not to exceed 5 percent. All the banks are foreign owned, with the government holding a 40 percent share in the Bank of St. Vincent.

[9] The non-bank financial sector includes credit unions, the B&L association, insurance companies, and a small offshore sector. Assets of credit unions and the B&L association are around 13 percent of GDP each.

- **Progress is being made to resolve the fallout from the BAICO/CLICO**. Last year, the Medical Support Fund was established to address the needs of BAICO's medical policyholders. Negotiations for selling BAICO's life insurance portfolio to a regional insurance company are well advanced. Most recently, it was announced that BAICO and CLICO annuity holders will start receiving partial payments before the end of 2012.[10]

10. Policy reform measures, in line with the commitments at the time of the two Rapid Credit Facility requests in 2011, are being implemented. Regarding fiscal measures, the Large Taxpayers Unit (LTU) is functioning although further strengthening is needed and a market-based property tax is expected to be implemented starting next year. However, the wage bill will not decline as had been expected given the recent agreement to grant a wage increase of 1½ percent retroactively from 2011. That said, this is half of the agreed increase during the last wage negotiation. Little progress has been made in setting up a framework for monitoring state-owned enterprises (SOEs), although data collection on their financial operations has improved (see Annex III). In the financial sector, the Financial Services Authority (FSA), which will supervise the non-banking sector, was officially launched in mid-November.

OUTLOOK AND RISKS

11. The near-term outlook remains challenging, but a gradual recovery is expected over the medium term. Real GDP growth is expected to be around ½ percent this year, as weak construction activity partly offsets modest upticks in manufacturing and tourism. Growth is expected to improve over the medium term, albeit gradually, on the back of projected improvements in economic activity in advanced economies and the expected completion of the international airport in the next 12–18 months, which is expected to boost tourism. The recent opening of two medical universities is also expected to contribute importantly to growth over time. Inflation is expected to return to its historical average of around 2½ percent, as international commodity prices moderate in line with WEO baseline projections.

12. The authorities agreed with the baseline growth projections, but saw significant upside potential from the completion of the international airport. While the authorities agreed that near-term growth prospects will remain subdued, especially in light of the external environment, they were optimistic that the international airport would boost economic activity, both directly by making the country more accessible for tourists but equally importantly by attracting more FDI in the tourism sector, especially in the hotel industry. In this context, they noted that land sales had already improved in anticipation of the airport and several foreign investors had indicated plans to expand their existing investments. In addition, the domestic private sector would also get a boost by providing support services.

[10] Money will be distributed at different stages with annuity holders under EC$30,000 to be compensated first (by Christmas) followed by annuity holders with higher investments. It is not clear at this time to what extent institutional annuity holders will be paid.

13. Risks to the outlook, however, remain on the downside. External risks arise from continued uncertainties about the global economic environment, including a further intensification of the European debt crisis, which could jeopardize the expected recovery in tourism and FDI assumed in the baseline (see Annex I). Higher food and fuel prices are also a major source of external risk and could undermine growth through their impact on inflation and the current account. In the financial sector, weaknesses in domestic non-banks and spillover effects from weaknesses elsewhere in the regional financial sector could undermine confidence. In addition, contingent liabilities from the weak financial sector and weakly monitored SOEs could disrupt fiscal consolidation. A delay in the completion of the airport project could also dampen medium-term growth prospects. Finally, potential natural disasters are a perennial threat to economic stability.

POLICY ISSUES AND RECOMMENDATIONS

14. Against this background, discussions focused on reform measures to improve growth prospects while continuing to reduce debt and enhance the country's resilience to exogenous shocks. Given the constraints of operating within the currency board arrangement, discussions focused on three principal areas: (i) tax and expenditure measures that could enhance revenues, improve the efficiency of government spending, and rebalance spending toward growth-supporting capital projects; (ii) strengthening financial sector supervision to restore confidence in the financial sector and enhance financial intermediation; and (ii) structural reforms to improve competitiveness and encourage private sector-led growth.

A. Fiscal Policy: Continuing Fiscal Consolidation While Supporting Growth

15. Staff and the authorities agreed that a credible medium-term fiscal framework would help to ensure that debt remains on a downward trajectory while supporting growth. To date, shortfalls in revenues and lower-than-expected donor flows have largely been offset by cuts in capital expenditures, which have declined from about 7 percent of GDP in 2008 to under 4 percent of GDP in 2011. This has led to unplanned delays in many priority projects including rehabilitation and maintenance of basic infrastructure like roads and bridges. Over the same period, the wage bill has increased from 11 percent of GDP to about 12½ percent of GDP: almost 50 percent of revenues are now going toward the wage bill, compared to an average of about 40 percent in the rest of the ECCU. Social expenditures have doubled, in part to help mitigate the impact of the recession and the natural disasters, but also because of possible overlaps in coverage. In this context, the authorities agreed that fiscal adjustment is necessary to ensure debt sustainability over the medium term. They also agreed with staff on the need for a strong medium-term fiscal framework with multi-year projections to promote a stable fiscal management and ensure that fiscal consolidation measures are implemented as planned. In the near term, however, the authorities signaled that given the recent exogenous shocks adjustments in the fiscal framework will have to be modest.

16. Preliminary discussions on the 2013 budget indicate that the fiscal stance will remain largely unchanged. At the time of the mission, the budget was still under discussion. Staff projections suggest that modest adjustments in current expenditure will be offset by a projected increase in capital expenditure.[11] The overall fiscal deficit is expected to remain broadly the same as in 2012. Financing is expected to come from external sources, including the CDB and the EU, as well as domestic financing from the sale of government shares in the Bank of St Vincent.

17. Going forward, staff emphasized that efforts would have to focus on raising revenues and cutting current expenditure. Toward this end, staff discussed a menu of options for the medium term, which could yield up to 4½ percent of GDP in additional revenues and expenditure cuts. This would make room for higher capital expenditures while putting public sector debt on a sustainable path.

Fiscal Measures and Expected Savings 1/
(In percent of GDP)

	2013	2014	2015	2016	2017
Revenue measures	**0.0**	**0.5**	**0.8**	**1.0**	**1.0**
Inland revenue reform	0.0	0.2	0.4	0.4	0.4
Income taxes	0.0	0.1	0.2	0.2	0.2
VAT	0.0	0.1	0.1	0.2	0.2
Market valuation of properties	0.0	0.1	0.1	0.1	0.1
Customs 2/	0.0	0.2	0.4	0.5	0.5
Expenditure measures	**0.3**	**1.5**	**2.2**	**3.0**	**3.6**
Containing wage bill increases	0.2	0.6	1.2	1.7	2.2
Streamlining transfers and subsidies	0.2	0.5	0.7	0.8	0.9
Rationalizing spending on goods and services	0.1	0.3	0.4	0.5	0.5

Source: Fund staff estimates.

1/ Active policy scenario. Savings compared to the 2012 level.

2/ Improvements in efficiency of tax collections, including through reduction of tax exemptions.

18. On the revenue side, authorities shared staff's views on the need to close tax loopholes, strengthen administrative capacity, and improve tax compliance. More specifically:

- *Eliminating discretionary exemptions:* Pervasive granting of non-legislated discretionary concessions has contributed to the recent decline in corporate income tax and VAT revenues (by as much as 2 percent of GDP). In addition, ad hoc exemptions at customs have almost doubled between 2008 and 2011. The authorities agreed that there was scope to reduce tax exemptions and pointed out that they were already working on proposals to streamline these exemptions, with the exception of those transparently given to religious organizations.

[11] The authorities' preliminary budgeted capital spending was much higher than staff projections, which are estimated based on financing availability and historical budget execution rates.

- *Improving compliance and enforcing tax laws:* A recent CARTAC mission found that tax compliance has declined by about 20 percentage points since 2008 to the current estimated level of 65 percent. This reflects several factors, including lax enforcement of tax laws, weak auditing capacity at the Inland Revenue Department (IRD), and lack of progress in establishing post-clearance auditing and risk management at the Customs and Excises Department (CED). This has also resulted in a significant build up of tax arrears, including VAT arrears (estimated at about 1½ percent of GDP as of September 2012). Moreover, the property tax legislation passed last year has yet to be implemented. That said, preparations are underway to implement the property tax starting in 2013. The authorities also expressed concern about the weak auditing capacity and noted that enhancing capacity is critical to ensure tax compliance as well as further strengthening of the LTU. With this in mind, they are seeking further assistance from CARTAC, both in the form of TA and training.[12] Finally, in line with previous CARTAC recommendations, the CED plans to implement risk based assessment and post-clearance audits, and an IRD-CED auditing team has been established to reconcile customs declarations for imports with VAT refund applications.

19. The authorities agreed in principle that current expenditures need to be contained to finance growth-enhancing capital projects and reduce debt, but pointed out that gains would be limited. The following areas were discussed:

- *Containing the wage bill*: Staff recommended freezing employment and limiting wage increases in the short term and undertaking comprehensive civil service reforms over the medium term to contain the wage bill and improve the efficiency of the public sector, including through attrition, better reallocation and coordination of jobs and staff skills, and establishing performance-based salary increases. While the authorities acknowledged that the wage bill is high relative to revenues, they noted that staff-recommended savings over the medium term are unlikely to be achievable given their planned emphasis on expanding education and health services. They indicated that any meaningful gains in the wage bill could only come from comprehensive civil service reforms, on which they agreed to explore TA from possible donors.

- *Limiting transfers to SOEs:* On the backdrop of the recent increases in transfers and subsidies, partly reflecting the hiving off of a number of new SOEs out of central government departments,[13] the mission urged the authorities to limit transfers and to put in place a time–bound action plan for sustainable financing schemes to preclude these agencies from becoming a burden on the budget. Staff also cautioned the authorities against the proliferation of autonomous agencies, since it undermines the civil service model, earmarks significant shares of total funding, and prevents the government from keeping track of total wages. The mission also underscored the need for closer oversight of SOEs to strengthen their accountability,

[12] The IRD has sent many of its auditors for further training abroad to address capacity weaknesses; but this has affected its auditing activity in the short term.

[13] This was done with the anticipation that it will improve efficiency and reduce central government spending on goods and services.

minimize contingent liabilities to the government, and contain potential fiscal risks (see Annex III). The authorities broadly agreed with the staff assessment and the need for streamlining transfers and ensuring that operational costs are minimized. Furthermore, they noted that transfers have been cut in a few cases recently and further streamlining is envisaged, although it is difficult in some cases where SOEs provide non-marketable public goods like roads.

- *Targeting social safety nets:* Given the large number of social assistance programs, staff reiterated the need to move to a central registry system, consolidate social assistance programs where possible and encouraged the authorities to improve targeting, including through means–testing. The authorities recognized the importance of putting in place a central registry system and indicated that plans are underway on this front. Meanwhile, the ministries are working together to avoid duplication of service and ensure that beneficiaries are well targeted.

- *Pension reforms:* The mission welcomed the authorities' plans to undertake parametric reforms of the National Insurance Service (NIS) pension system (Box 2). It also urged the authorities to reform the public service pension system to ease the burden on public finances, including by merging it with the NIS. On the latter, the authorities argued that past efforts had not been successful and for the time being they planned to focus on the planned parametric reforms of the NIS pension system.[14]

- *Investing in human capital and infrastructure:* The mission encouraged the authorities to improve cost recovery for education and health services, while ensuring that the poor and vulnerable groups are not affected. Savings from these measures could be used to improve access to and quality of health and education services by training teachers and health workers, building new schools and health centers, and ensuring that medical supplies are available. The mission also stressed the need to reallocate resources into priority infrastructure projects, which are necessary to spur growth, including enhancing the road network (especially in rural areas), improving port facilities, and exploring alternative energy sources. The authorities indicated that cash constraints combined with their desire to limit debt had constrained spending on capital projects; and going forward a rebalancing of spending to focus on these areas was required. That said, expediting existing donor-financed projects in the education and health sectors as well as infrastructure projects, especially those financed by the CDB and WB, remain key priorities in the near term.

- *Improving cash management and strengthening commitment controls:* The authorities shared staff's views that weaknesses in cash management and commitment controls need to be addressed to strengthen budget transparency and accountability and minimize payments arrears. In this respect, they noted that, in line with SEMCAR[15] recommendations, they plan to

[14] In 1983, an attempt to merge the two pension systems had to be reversed given the public outcry.

[15] St. Vincent and the Grenadines is one of the 12 countries participating in the World Bank/IMF's Supporting Economic Management in the Caribbean (SEMCAR) program, which provides TA in Public Finance Management (cash management, financial reporting, budget formulation and execution, commitments control, etc).

put in place measures to ensure that purchase orders are approved only after due check of funds availability and to impose penalties for non-compliance.

Box 2. Pension Reform

The National Insurance Service (NIS), a state-owned pension company, is facing long term sustainability challenges. The recently completed eighth actuarial review indicates that under the existing parameters—8 percent contribution rate, 60 year retirement age, and 60 percent replacement rate—the NIS could face sustainability issues, especially given the increasing rate of unemployment and high outward migration of the working age population. In particular, it is estimated that contribution income will not be sufficient to cover total expenditures starting from 2015; the reserve fund would need to be tapped to finance expenses starting from 2025; and the reserves are expected to be depleted by 2036.

The government is considering a number of reform options. Based on the recommendations of the actuarial review, the authorities are considering a number of options to make the NIS sustainable. These measures, which are expected to be implemented gradually starting in 2014, include: (i) increasing the minimum years of service for eligibility to a full pension from 10 years to 15 years; (ii) increasing the retirement age to 65 years; (iii) increasing the contribution rate over the next few years to 12 percent. Assuming that (i) and (ii) are fully in place by 2028 and (iii) is implemented over the next four years, the contribution income would continue to cover expenses up to 2034 and the reserve fund ratio will be increased up to 13 years.

Despite increasingly becoming a burden on public finances, reforming the Public Service (PS) pension system is not on the agenda yet. The PS pension system is a non-contributory scheme for eligible public servants, on top of their NIS pension, with a replacement rate of up to 66⅔ percent and a minimum retirement age of 55 years. The central government carries the full burden of the costs, which consumes about 10 percent of total revenues each year. While there is an ongoing study with the support of the International Labor Organization on reform options of the PS pension system, discussions with the authorities and the opposition party leaders indicate that significant changes to the system are not politically feasible. In fact, the system was closed for new entrants in 1992 only to be repealed and retroactively implemented in 1998 due to political pressure. To make it sustainable and reduce its burdens on public finances, the PS system would need to be contributory and fully funded.

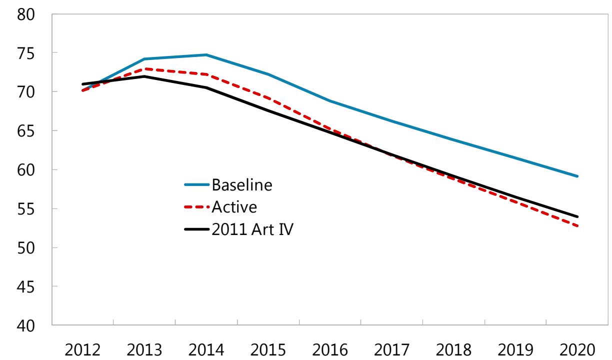
[1/] The mission was able to obtain only a brief summary of the results of the actuarial review and proposed measures since the full report was not readily available.

20. The authorities reiterated their commitment to generate primary surpluses over the medium term to bring down public sector debt below the ECCB's target of 60 percent of GDP by 2020. In light of the authorities' willingness to implement the revenue measures (paragraph 18) but their doubts about the feasibility of a significant reduction in current expenditure (paragraph 19), the baseline scenario assumes implementation of the revenue-enhancing measures discussed above but with only limited adjustment on the expenditure side. This could generate primary surpluses in the range of 1 percent of GDP over the medium term, sufficient only to achieve the ECCB debt-to-GDP target of 60 percent by 2020. Staff argued that a more rapid decline in the debt-to-GDP ratio, in line with the scenario in last year's Article IV consultation, is warranted given the high vulnerability to exogenous shocks. The authorities indicated that they aim to be more ambitious over the medium term in terms of streamlining current expenditures and generating primary surpluses in the range of 1½ to 2 percent of GDP.

21. The mission urged the authorities to continue their cautious approach to borrowing and further improve debt management. In line with their commitments at the time of the RCF request and again during the last Article IV Consultation, the authorities have so far shown restraint in borrowing on commercial terms and relied principally on grants and concessional resources from multilateral institutions. Financing shortfalls have been offset largely by cuts in capital spending despite favorable terms on the RGSM. However, efforts are underway to mobilize commercial borrowing (long-term loan) to expedite the completion of the airport project.[16] Nevertheless, staff urged the authorities to ensure that such borrowing does not jeopardize their fiscal and debt sustainability objectives.

22. The Debt Sustainability Analysis (DSA) indicates that St. Vincent and the Grenadines' risk of external debt distress remains moderate. The baseline scenario sketched above assumes commercial borrowing of about 3 percent of GDP (estimated financing gap) for the airport project. Under these assumptions, and assuming that the authorities take measures to generate average primary surpluses of 1 percent of GDP over the medium term, the external debt distress will be moderate and the public sector debt could fall to 59 percent of GDP by 2020, just below the ECCU's recommended target. A more proactive approach to streamlining current expenditure could provide more room to increase capital spending, reduce debt, and build buffers against future shocks (see Box 3).

Public Sector Debt
(In percent of GDP)



Sources: Fund staff projections

[16] Despite earlier reservations by staff, the authorities have pushed ahead with this project at a total cost of US$250 million (35 percent of GDP). About two-thirds of the project has been completed, and so far the bulk of financing has come from grants and concessional loans (Cuba, Taiwan POC, and Venezuela), and land sales. To expedite the completion of the project, the authorities are now planning to borrow EC$60 million (around 3 percent of GDP) on commercial terms. The departure tax (airport service charge) is expected to be raised from EC$20 to EC$50 per traveler to help service this debt.

Box 3. Active Scenario: Additional Expenditure Measures

Reflecting the authorities' concerns about the feasibility of a significant reduction of current expenditures in the medium term, the baseline scenario assumes only partial realization (less than half) of staff-recommended medium-term savings. As a result, capital expenditure is projected to remain around 4 percent of GDP, well below the pre-crisis level. This limits the potential output growth to 3 percent.

The active scenario, which incorporates all of staff-recommended measures, would generate central government primary surpluses of around 2 percent of GDP by 2017, compared to around 1 percent in the baseline scenario. In addition, savings from current spending can be used to boost capital expenditure up to 6 percent of GDP. This will improve the medium-term growth prospects, raising the potential output growth to 3½ percent in the medium term.

Another assumption of the active scenario is on financing of the airport project. The baseline scenario assumes commercial borrowing of around 3 percent of GDP to expedite the completion of the project. However, staff advised against borrowing on commercial terms and encouraged the authorities to explore external grants, selling assets, and concessional financing. Hence, the active scenario assumes no commercial borrowing, with a quarter of the financing gap coming from concessional borrowing and the remaining equally split between external grants and asset sales.

These measures will help to reduce the public sector debt to around 52½ percent of GDP by 2020 through the direct impact of limited borrowing by the airport project and the growth impact of the additional infrastructure investment. In addition to solidifying the sustainability of the public sector debt, this will open up fiscal space to start building buffers against future shocks.

B. Containing Risks and Reducing Vulnerability in the Financial System

23. The authorities were in broad agreement with staff that vulnerabilities in the financial sector need to be addressed expeditiously through improvements in regulation and supervision. Since 2008, financial sector balance sheets in the ECCU region have deteriorated significantly with some institutions more affected than others. While the slowdown in the individual economies and regional factors like the failure of BAICO/CLICO explain part of this deterioration, weak regulations and supervision also had a role to play. Therefore, there is an overriding need to strengthen legislation and supervision to ensure that the financial sector remains resilient. Discussions focused on the need to address these weaknesses expeditiously, both for banks and non-banks.

Banking sector

24. The authorities agreed with staff on the importance of implementing the recommendations of the joint Financial Sector Task Force (FSTF) in order to strengthen bank supervision. The banking sector is supervised by the ECCB, although licensing of banks is done by the individual Ministries of Finance in each country. While noting that all four commercial banks are now majority foreign-owned, staff expressed concerns that NPLs at most banks continued to remain above the ECCU prudential guidelines and provisioning and profitability have declined sharply since 2009. Moreover, an intensification of financial sector problems in other jurisdictions could have spillover effects, especially by derailing confidence. In this context, staff emphasized the role that the authorities can play through the Monetary Council to ensure that the recommendations of the joint FSTF are implemented. In particular, staff emphasized the need to update the current legal and regulatory framework, including loan classifications and provisioning requirements, define triggers for prompt corrective action by supervisors, and establish a region-wide deposit insurance scheme and crisis management framework. While aware of spillover risks, the authorities recognized the need to improve bank supervision and indicated that the ECCB and the Monetary Council are working jointly to ensure that the recommendations of the FSTF are implemented, as rapidly as feasible.

Non-bank financial sector

25. Staff emphasized the urgency of addressing weaknesses and improving supervision of this sector. As noted above, NPLs at credit unions are in the 7–8 percent range and profitability is low. The B&L association faces a significant capital shortfall with half its loan portfolio non-performing. Although most of its loan portfolio is backed by collateral, the latter is quite illiquid given current market conditions. Moreover, these institutions have much narrower interest margins on their loans given the ECCB floor on the saving rate and the need to compete against commercial banks. Also, due to the membership nature of these institutions and the lax supervision, some of these institutions have continued to pay dividends even in years when there were losses, thereby deteriorating their position even further.

26. The authorities noted that the establishment of the FSA and legislative updates are expected to improve significantly the supervision of this sector. The FSA, which started operations in mid-November, is now in charge of regulating and supervising money remitters, building societies, insurers and insurance intermediaries, and credit unions.[17] The FSA Act empowers the FSA, among other things, to give directives to ensure compliance, suspend or cancel licenses, seize the management, reorganize or wind up and exempt any non-bank financial entity. The authorities also noted that the Harmonized Cooperatives Societies Act has been passed and the Insurance and Mutual Funds Acts have been modernized. A new Building Societies Act is currently under consideration. Meanwhile, the World Bank is providing technical assistance to help the B&L association strengthen its balance sheet. The FSA is also seeking technical assistance from CARTAC to help build supervisory capacity.

C. Sustaining Growth and Improving Competitiveness

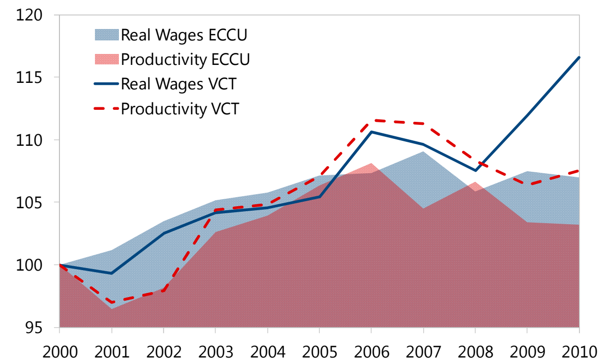
27. St. Vincent and the Grenadines' external competitiveness has deteriorated over the last decade, with staff analysis suggesting that the current account deficit is excessive and the real exchange rate overvalued (Annex II). These large current account deficits underscore the need to improve external competitiveness and reduce reliance on imports. While real effective

[17] The FSA is currently staffed with 7 people (expected to increase to 14 in the future) and is financed by the government though it is expected to be self-financed in the long run.

exchange rate indices have depreciated since 2008, this has not been enough to stem the decline in competitiveness. An assessment of the real effective exchange rate using methodologies based on CGER analysis suggests an overvaluation ranging from 2 to 20 percent,[18] with the sizable projected current account deficit leading to further accumulation of already large net external liabilities. Assessment of the underlying causes of weaknesses in competitiveness points to structural factors (Figure 1). In particular, weaknesses in infrastructure, a high cost of electricity, and burdensome customs clearance are often identified as major bottlenecks to doing business in the country. These have resulted in losses in regional market shares in exports, tourism, and FDI since the early 2000s.

28. The latest diverging trend between real wages and labor productivity in St. Vincent and the Grenadines is worrisome. Historically, real wages in St. Vincent and the Grenadines have moved closely with labor productivity and with wages in the rest of the ECCU. However, since the crisis real wages increased by 6.4 percent while productivity has declined by more than 3 percent. Furthermore, real wages have increased faster in St. Vincent and the Grenadines than in other ECCU countries since 2008, which has contributed to a loss in competitiveness with respect to the region. The gap between real wages and productivity may reflect structural rigidities in the labor market, as well as shortage of qualified personnel and skills mismatches. In this regard, increasing labor market flexibility, building human capital, and containing the growth of public sector wages are essential.

Real Wages and Labor Productivity
(Index, 2000=100)



Sources: National Insurance Corporations; and IMF staff calculations.

29. The authorities agreed with staff on the urgent need to expedite structural reforms to boost competitiveness and lay a foundation for sustained medium-term growth. The authorities agreed with staff's assessment of the competitiveness challenges and they noted that weak infrastructure is being addressed with donor assistance although alleviating the problem will take time. They also highlighted the ongoing modernization at the Customs and Excise Department and Port Authorities to improve clearance procedures and efforts to make the public sector more efficient. They also pointed to various other initiatives that are underway to improve competitiveness, including:

- *Reducing cost of business*: In order to reduce the cost of electricity, the government last year reduced the 'demand charge,' levied on businesses in addition to the regular tariff. They are also exploring alternative energy sources (hydro, wind, and geothermal) in partnership with donors and the private sector to reduce the cost of electricity over the medium to long term.

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[18] These are likely to be underestimated as explained in Annex II.

- *Efforts to boost tourism*: The completion of the international airport project is expected to boost the competitiveness of the tourism sector by improving access and reducing both cost and time of travel. The establishment of the Tourism and Hospitality Institute, initiatives to strengthen synergies between the tourism and exports and the agriculture sector with technical assistance from donors (for example, the EU Funded-Banana Accompanying Measures), credit support to farmers and the agriculture modernization program, are all expected to boost competitiveness.

- *Building skills and improving productivity:* Improvements in the education system, including better training of teachers, establishment of two new universities last year, various initiatives at the community college to introduce vocational training and certification, are expected to improve the quality of the labor force.

OTHER ISSUES

30. Exchange Rate Regime: St. Vincent and the Grenadines is a member of the Eastern Caribbean Currency Union, which has a common central bank and a common currency and operates as a currency board. Since July 1976, the Eastern Caribbean dollar has been pegged to the US dollar at the rate of EC$2.7 per US dollar. St. Vincent and the Grenadines has accepted the obligation 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.

31. Data provision and quality needs to be improved: Data provision has significant shortcomings in some areas although it is broadly adequate for surveillance. Data relating to central government accounts is generally adequate and available on a monthly basis. Monetary data and banking sector soundness indicators are available but with long lags and there are significant gaps in data for the nonbank financial sector. There are also significant lags in the availability of national accounts data and there is no systematic reporting of labor market indicators which hampers an assessment of real sector developments. Balance of payments data suffer from significant weaknesses, especially capital account data, and data on the international investment position, which is critical given the large external liabilities, is not available. That said, the authorities are working closely with CARTAC to improve the timeliness and availability of statistical data, including through capacity building at the Central Statistical Office.

STAFF APPRAISAL

32. A fragile recovery appears to be underway, but significant challenges remain. A modest recovery in tourism and manufacturing appears to have contributed to the recent turnaround in growth, although it remains subdued. The limited scope for domestic policy response given the high debt levels and the currency board arrangement combined with weaknesses in financial sector balance sheets continue to weigh down on growth. Growth is expected to pick up over the medium term reflecting a recovery in tourism source countries and the completion of the airport project, which is expected to improve access to the country. That said, structural reforms aimed at improving competitiveness will be critical in determining whether growth can be sustained.

33. Staff welcomes the authorities' commitment to medium-term fiscal consolidation, but urges them to adopt more ambitious expenditure measures. In particular, staff emphasized that containing the growth of the wage bill is critical to create fiscal space for badly needed capital expenditures and reduce public debt more rapidly, while helping narrow the real wage-productivity differential. In addition, staff urged the authorities to implement market-based property taxes, further strengthen the LTU, limit transfers to SOEs, and rationalize the various social assistance programs. These measures will help to generate primary surpluses in the range 1½–2 percent of GDP over the medium term. In addition to the reform efforts assumed in the baseline, a more ambitious agenda for fiscal structural reforms, including civil service and pension reforms to streamline wages and pension payments, could potentially generate significant savings and enhance the government's ability to address exogenous shocks.

34. Staff urges the government to continue to remain prudent on debt. After a jump in fiscal deficits in 2009 and 2010, reflecting decline in revenues and increased spending to help mitigate the impact of the global slowdown and natural disasters, the fiscal balances have improved over the last two years. While in part these reflect financing constraints, staff welcomes the authorities' commitment to avoid commercial borrowing to finance public spending despite favorable terms in the RGSM. Looking ahead, streamlining current expenditures and rebalancing of spending toward capital spending will be necessary to undertake priority capital projects. In this context, staff urged the authorities to limit the planned commercial borrowing for the completion of the international airport to safeguard the authorities' medium-term objectives on fiscal and debt sustainability.

35. The authorities need to monitor financial sector vulnerabilities. While the domestic banking sector appears to be resilient thus far, NPLs at credit unions and most importantly the B&L association remain a significant concern. In this context, staff welcomed the establishment of the FSA and urged the authorities to monitor these institutions closely. The authorities plan to seek TA from CARTAC to improve the capacity of the supervisory staff.

36. Staff welcomes the authorities continued efforts to diversify the economy. Staff underscored the importance of structural reforms to improve the business climate and improve competitiveness, as these are keys to private sector investment. Notably, the completion of the international airport project is expected to boost competiveness and growth by improving access and reducing both cost and travel time. Over the medium term, the economy will benefit from ongoing initiatives to enhance climate resilience, reduce energy cost, improve labor productivity, and modernize customs and port services. It will also be essential to strengthen the synergies among the tourism, exports, and the agriculture sector.

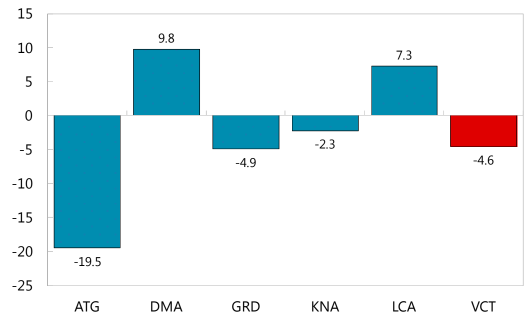
37. Staff would like to encourage the authorities to improve data quality. It will be important to work closely with CARTAC and implement its recommendations to help improve the quality and timeliness of data quality. In addition, greater focus on building capacity in the central statistical office as well as greater accountability of reporting agencies are also important to ensure that data is reliable and timely.

38. It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

Figure 1. St. Vincent and the Grenadines: Regional Comparison, 2007–11

Economic activity contracted, reflecting the impacts of the global economic crisis and two successive natural disasters.

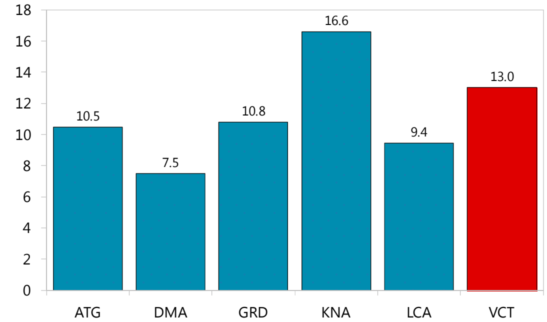
Real GDP
(Cummulative change 2007-2011, in percent)



Sources: ECCB; and IMF staff calculations.

Inflation remains high consistent with commodity price pressures.

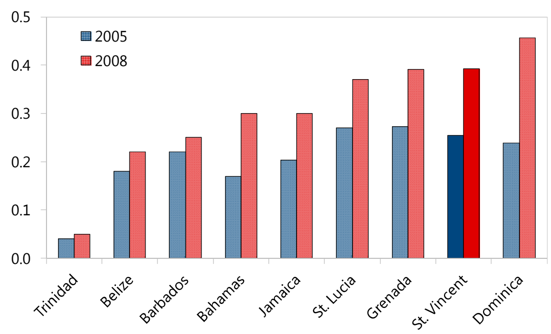
Inflation
(Cummulative change 2007-2011, in percent)



Sources: ECCB; and IMF staff calculations.

Electricity tariff rates in St. Vincent and the Grenadines are among the highest in the region.

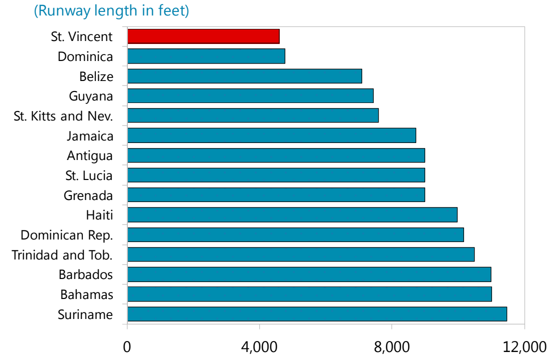
Electricity Tariffs in the Caribbean
(US$ cents per Kwh)



Sources: Respective Country Power Companies and CARILEC.

Airport capacity is the lowest in the region.

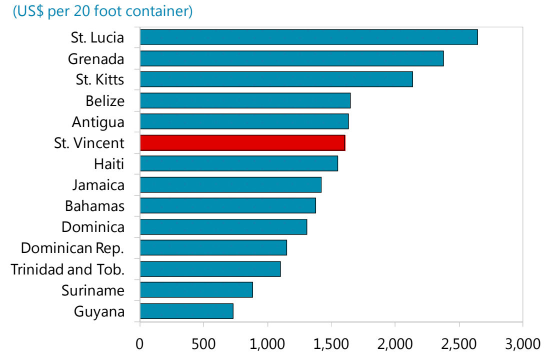
Airport Capacity
(Runway length in feet)



Sources: www.azworldairports.com

Cost to import is above average.

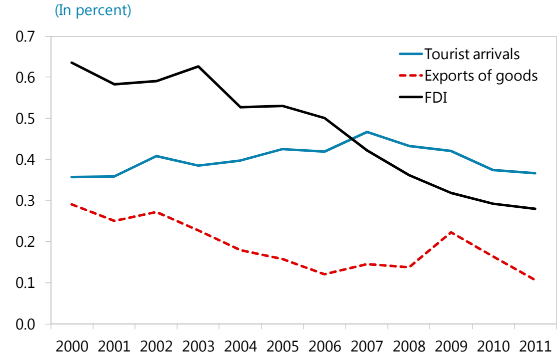
Import Costs, 2008-09
(US$ per 20 foot container)



Sources: World Bank, Doing Business Indicators.

Market shares are declining.

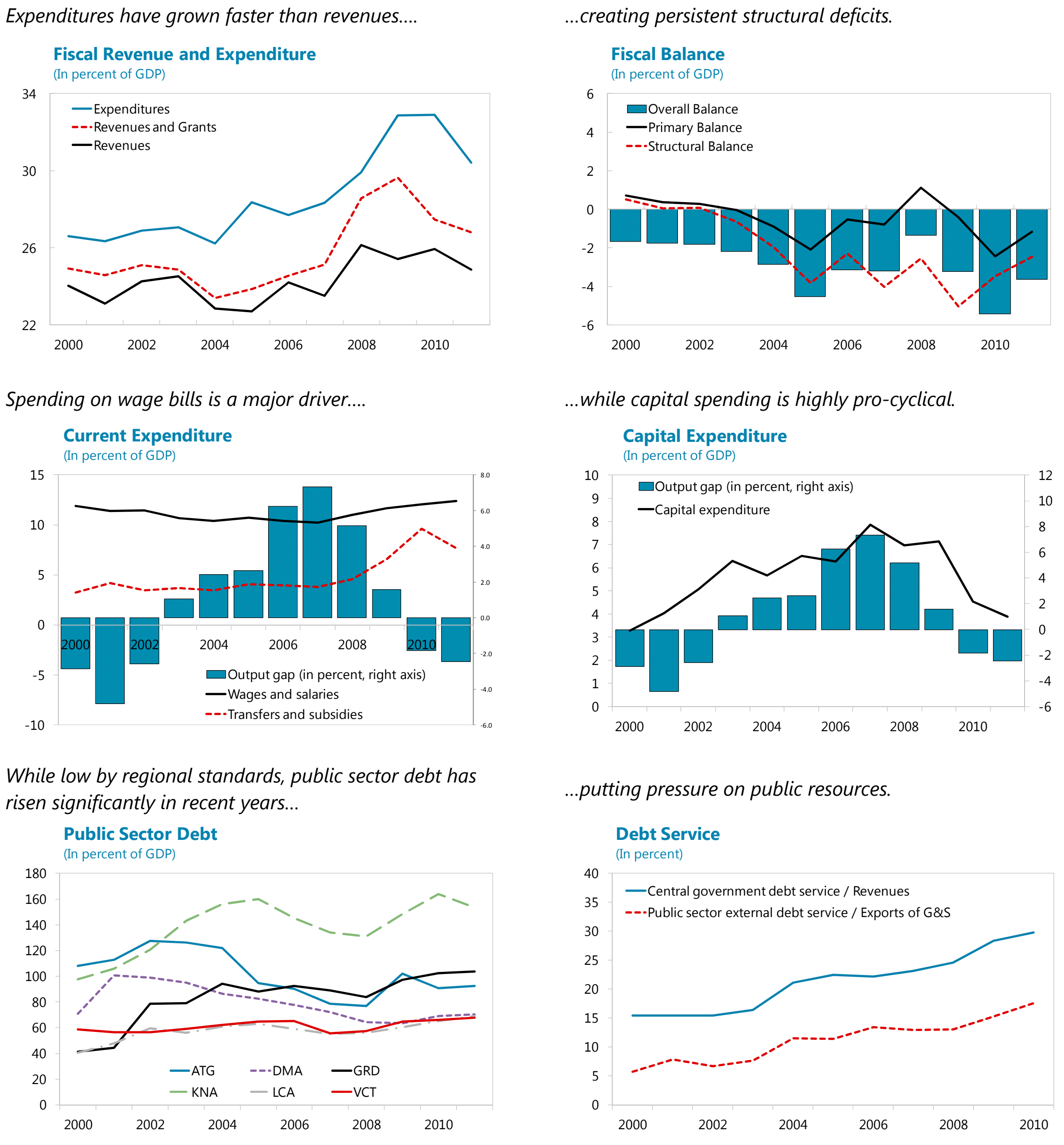
Market Shares with respect to the Caribbean
(In percent)



Sources: Caribbean Tourism Organization, UNCTAD Statistics, and IMF staff calculations.

Note: Antigua and Barbuda (ATG), Dominica (DMA), Grenada (GRD), St. Kitts and Nevis (KNA), St. Lucia, St. Vincent and the Grenadines (VCT).

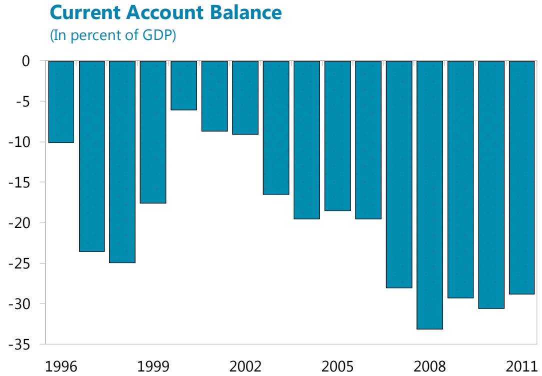
Figure 2. St. Vincent and the Grenadines: Fiscal Developments, 2000–11



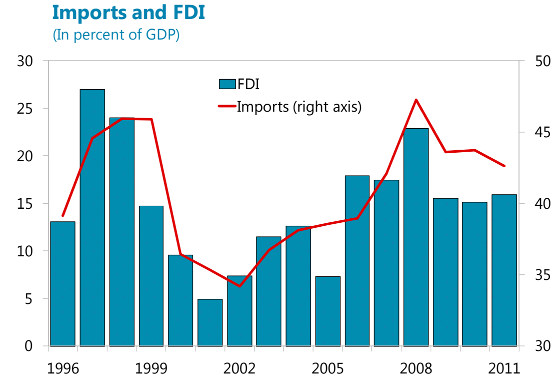
Source: St. Vincent and the Grenadines' authorities and Fund staff estimates.

Figure 3. St. Vincent and the Grenadines: External Sector Indicators, 1996–2011

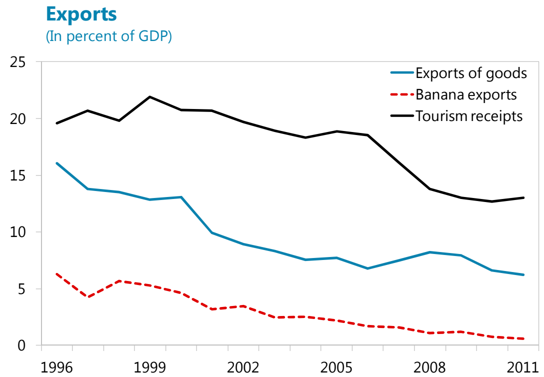
The current account balance has deteriorated significantly since 2000....



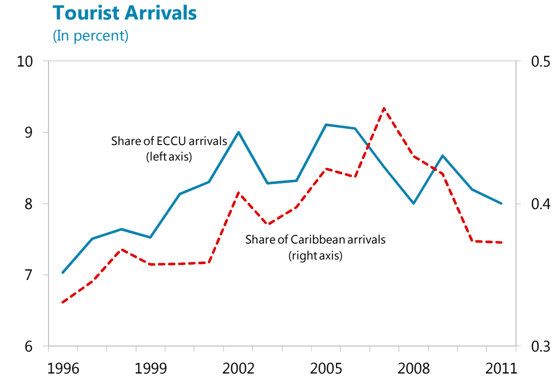
.... driven by FDI-related imports....



....and declines in exports and tourism receipts ...



.... reflecting deteriorations in competitiveness.



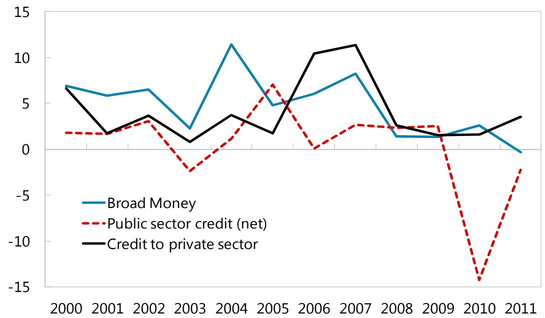
Source: ECCB, St. Vincent and the Grenadines authorities, and Fund staff calculations.

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, 2000–11

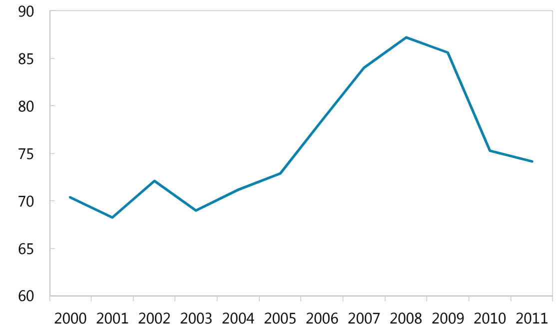
The growth in broad money and credit to the private sector remain subdued due to weak economic activity…

Broad Money and Credit Growth 1/
(In percent, 12 month change in percent of M2)



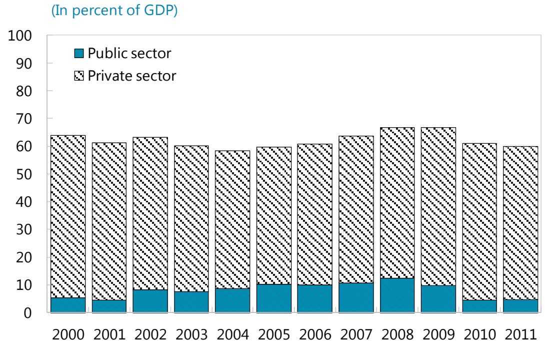
….which is also reflected in a decrease in the loan to deposit ratio.

Loans to Deposits Ratio 3/
(In percent)



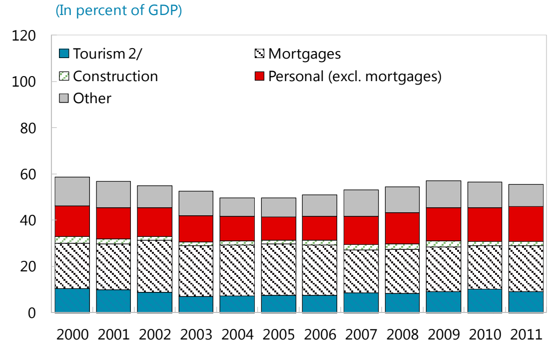
The private sector remains the dominant receiver of commercial loans …

Distribution of Credit
(In percent of GDP)



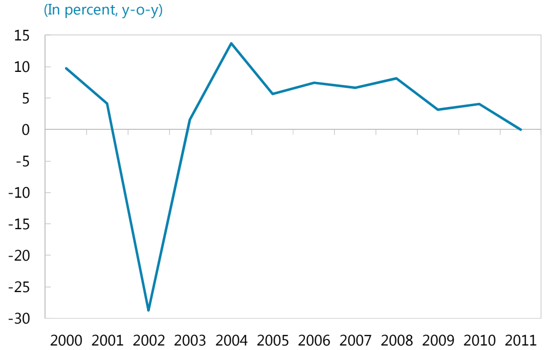
….mainly for consumer and mortgage loans.

Private Sector Credit by Economic Sector
(In percent of GDP)



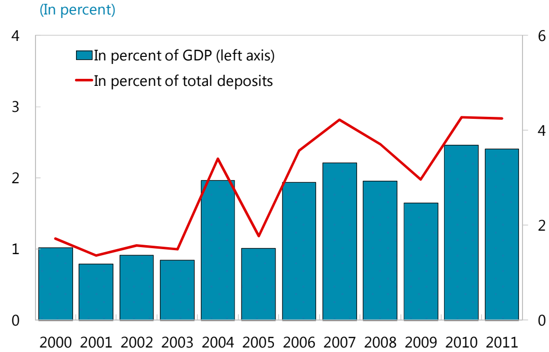
While deposit growth remains sluggish…

Private Sector Deposit Growth 3/
(In percent, y-o-y)



…the share of foreign deposits has increased in the last two years.

Foreign-Currency Denominated Deposits
(In percent)

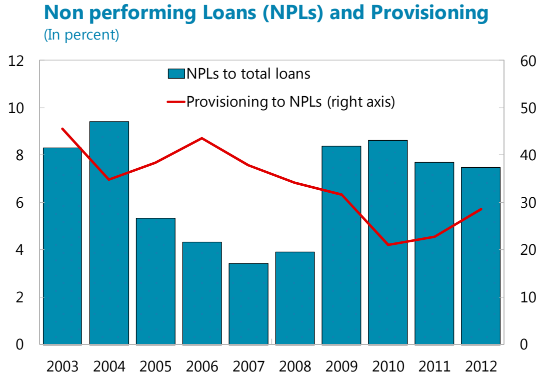


Source: ECCB; and Fund staff calculations.

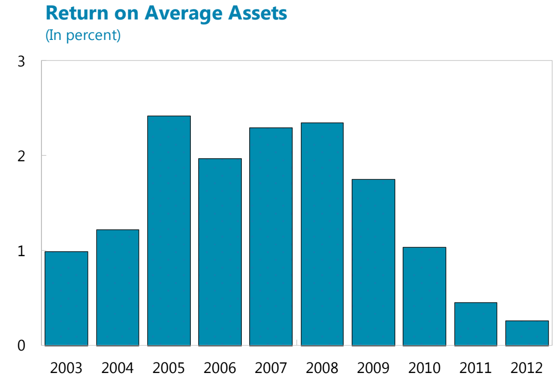
1/ Government reduced liabilities ahead of the privatization of NCB.
2/ Includes tourism, entertainment, and half of transport, distributive trade and professional services.
3/ Data up to September 2012.

Figure 5. St. Vincent and the Grenadines: Banking System Vulnerabilities, 2003–12 1/

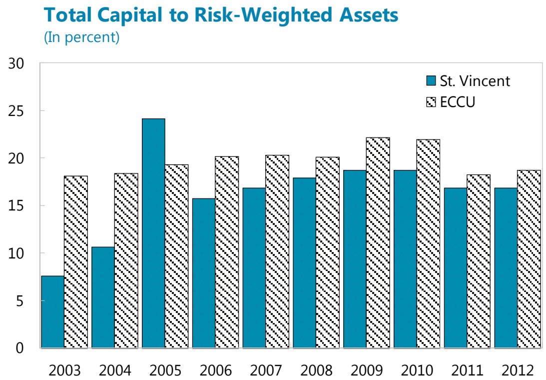
Although non performing loans have decreased over the last 3 years they are still above ECCU's operational guideline of 5 percent and provisioning is below 30 percent...



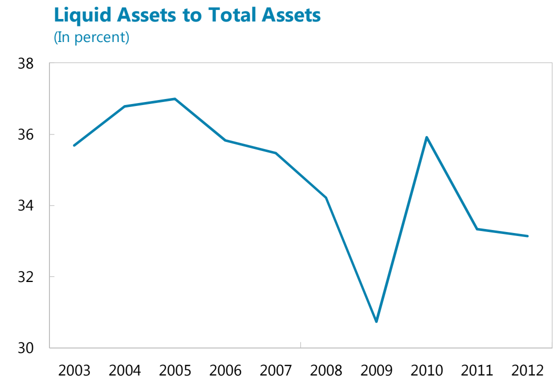
...since the financial crisis returns have been steadily declining, reflecting the difficult environment for banks..



The high capital adequacy ratios need to be interpreted with caution given low provisioning.



Liquidity has increased since 2009, reflecting banks' reluctance to lend.



Source: ECCB; and Fund staff calculations.

1/ Data for the second quarter of 2012.

Table 1. St. Vincent and the Grenadines: Selected Social and Economic Indicators, 2008–13

Social and Demographic Indicators

Area (sq. km)	389.0	Adult literacy rate (percent, 2001)	89.0
Population		Health and nutrition	
Total (thousands, 2011)	109.3	Calorie intake (per capita a day, 2004)	2,660
Rate of growth (percent per year, 2011)	0.03	Population per physician (thousand, 2004)	1.2
Density (per sq. km., 2011)	281.0	AIDS incidence rate (per 100,000, 2005)	32
Population characteristics (2010)		Gross domestic product (2010)	
Life expectancy at birth (years)	72.1	(millions of US dollars)	681
Infant mortality (per thousand live births)	19.2	(millions of EC dollars)	1,839
Under 5 mortality rate (per thousand)	21.2	(US$ per capita)	6,222

				Est.	Proj.	
	2008	2009	2010	2011	2012	2013
	(Annual percentage change, unless otherwise specified)					
Output and prices						
Real GDP (factor cost)	-0.5	-2.2	-2.3	0.4	0.5	1.0
Nominal GDP (market prices)	1.7	-3.0	1.0	1.5	3.0	3.0
Consumer prices, end of period 1/	9.4	-2.2	0.9	4.7	0.8	2.4
Consumer prices, period average 1/	10.1	0.4	0.8	3.2	2.6	1.7
Banking system						
Net foreign assets 2/	3.1	-2.2	10.4	-7.3	-7.0	-4.0
Net domestic assets 2/	-1.7	3.6	-7.8	7.0	10.8	8.4
Credit to private sector 2/	2.6	1.5	1.6	3.5	4.5	4.7
Central government finances (in percent of GDP)						
Total revenue and grants	28.6	29.6	27.5	26.8	25.9	26.2
Total expenditure and net lending	29.9	32.9	32.9	30.4	28.6	29.0
Current expenditure	22.9	25.7	28.4	26.5	26.1	25.7
Of which						
Wages and salaries	11.0	11.6	12.1	12.4	12.8	12.8
Interest	2.5	2.8	3.0	2.5	2.7	2.5
Capital expenditure	7.0	7.1	4.5	3.9	2.5	3.3
Overall balance	-1.4	-3.2	-5.4	-3.6	-2.7	-2.8
Overall balance (excl. grants)	-3.8	-7.4	-7.0	-5.6	-4.1	-4.6
Primary balance	1.1	-0.4	-2.4	-1.2	0.0	-0.3
Primary balance (excl. grants)	-1.3	-4.6	-3.9	-3.1	-1.4	-2.0
Central government debt	47.0	51.0	56.2	57.6	58.4	58.9
External sector (in percent of GDP)						
External current account	-33.1	-29.3	-30.6	-28.8	-27.8	-26.8
Of which						
Exports of goods and services	30.2	28.5	26.9	26.4	27.7	28.9
Imports of goods and services	61.9	57.6	57.2	54.5	54.9	55.2
Stayover arrivals (percentage change)	-6.1	-10.3	-3.9	1.9	3.0	4.0
Public sector external debt (end of period)	30.3	33.1	41.6	42.7	41.5	42.6
External public debt service						
(In percent of exports of goods and services)	13.0	15.3	17.5	17.4	17.2	16.2
Memorandum items:						
Gross public sector debt	57.3	64.6	66.2	67.8	70.2	74.2
Net public sector debt	54.5	61.6	63.2	65.1	67.1	70.8
Nominal GDP (market prices; in millions of EC$)	1,878	1,821	1,839	1,866	1,921	1,979

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

1/ Based on the re-based (2010) CPI.

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

Table 2. St. Vincent and the Grenadines: Summary of Central Government Operations, 2008–17[1/]

(In millions of Eastern Caribbean dollars, unless otherwise stated)

					2012 Proj.		Projection				
	2008	2009	2010	2011	Budget	Staff 2/	2013	2014	2015	2016	2017
Total revenue and grants	**536.2**	**539.7**	**505.0**	**500.1**	**569.7**	**497.6**	**518.7**	**556.0**	**597.7**	**643.6**	**682.6**
Current revenue	489.5	461.3	476.1	462.5	507.3	465.6	482.6	518.0	557.4	600.8	637.3
Tax revenue	447.9	428.0	421.4	412.1	471.2	431.7	445.1	477.6	514.2	554.3	588.2
Taxes on income and profits	110.4	110.6	108.8	114.4	123.0	119.6	123.2	131.9	141.7	151.0	159.9
Taxes on property	2.2	2.7	2.9	2.8	6.2	2.9	3.5	4.3	5.2	6.3	6.7
Taxes on international trade	188.6	187.9	178.4	172.6	196.4	178.3	183.6	196.4	209.9	224.9	237.7
Of Which: VAT	86.0	78.2	74.1	71.2	80.0	71.2	73.3	80.8	87.2	94.7	100.1
Taxes on domestic transactions	146.7	126.8	131.3	122.3	145.5	130.9	134.8	145.1	157.5	172.0	183.9
Of Which: VAT	67.5	64.3	62.5	61.1	68.0	65.1	67.0	71.8	77.5	84.2	89.0
Non-tax	41.6	33.3	54.7	50.3	36.2	33.9	37.5	40.3	43.2	46.5	49.1
Fees, Fines and Permits	18.2	18.9	21.5	17.7	21.3	17.8	19.3	20.3	21.5	22.8	24.1
Interest, Rent and Dividends	11.6	10.0	13.4	11.2	7.8	8.3	10.2	11.3	12.0	12.7	13.5
Other Revenue	11.8	4.3	19.8	21.5	7.1	7.7	8.0	8.8	9.8	10.9	11.5
Capital Revenue	1.6	1.5	0.9	1.4	1.0	5.3	1.1	1.3	1.3	1.4	1.5
Of which : Sale of crown lands	1.6	1.5	0.9	1.4	1.0	1.0	1.1	1.3	1.3	1.4	1.5
Grants	45.2	76.9	28.0	36.2	61.3	26.7	35.0	36.7	38.9	41.4	43.8
Total expenditure and net lending	**561.8**	**598.3**	**604.9**	**567.7**	**713.6**	**549.8**	**574.4**	**602.9**	**643.8**	**690.6**	**732.5**
Current	430.8	468.3	521.3	495.2	528.7	501.6	509.4	531.2	566.4	602.0	635.6
Wages and salaries 3/	206.8	212.0	221.8	231.2	250.6	245.7	253.0	265.6	281.3	299.4	316.5
Interest	46.8	51.0	55.3	46.0	51.5	51.5	50.2	50.6	58.9	63.4	66.2
Domestic	23.8	28.4	33.9	23.4	26.7	26.7	28.8	31.1	35.4	40.9	46.0
Foreign	23.0	22.5	21.5	22.6	24.8	24.8	21.4	19.5	23.6	22.4	20.2
Transfers and subsidies	86.2	119.7	177.1	143.6	150.5	132.3	135.2	140.6	147.4	155.3	164.2
Goods and services	91.0	85.6	67.2	74.3	76.1	72.2	70.9	74.5	78.9	84.0	88.8
Capital expenditure	131.0	130.0	83.5	72.5	184.9	48.2	65.0	71.7	77.4	88.6	96.9
Current balance (before grants)	58.6	-7.0	-45.2	-32.7	-21.3	-36.1	-26.8	-13.3	-9.0	-1.3	1.7
Overall balance	**-25.6**	**-58.6**	**-99.9**	**-67.6**	**-143.9**	**-52.3**	**-55.7**	**-46.9**	**-46.1**	**-47.0**	**-49.9**
Overall balance (excl. grants)	**-70.7**	**-135.6**	**-127.9**	**-103.8**	**-205.3**	**-79.0**	**-90.7**	**-83.7**	**-85.1**	**-88.4**	**-93.7**
Primary balance	21.2	-7.7	-44.6	-21.5	-92.5	-0.8	-5.4	3.7	12.8	16.4	16.3
Primary balance (excl. grants)	-23.9	-84.6	-72.5	-57.8	-153.8	-27.5	-40.4	-33.1	-26.1	-25.1	-27.5
Identified financing	25.6	58.6	99.9	67.6	43.2	52.3	55.7	46.9	46.1	47.0	49.9
Net external financing	16.7	26.2	149.9	17.8	-10.3	-33.4	-22.1	3.7	8.5	8.6	10.6
Disbursements	62.4	74.0	202.2	70.4	44.6	21.5	33.0	57.3	58.0	57.6	58.1
Amortization	45.7	47.8	52.2	52.5	54.9	54.9	55.0	53.7	49.6	48.9	47.6
Change in government assets	-5.2	-6.0	-12.0	-6.0	-6.0	-6.0	-6.0	-6.0	0.0	0.0	0.0
Net domestic financing	14.1	22.8	-106.0	14.9	40.4	87.4	89.0	71.7	37.7	38.3	39.3
Sale of Equity (privatization proceeds)	0.0	0.0	42.0	8.9	19.2	0.0	17.2	0.0	0.0	0.0	0.0
Change in arrears	0.0	0.0	23.0	17.6	0.0	4.3	-22.5	-22.5	0.0	0.0	0.0
Exceptional financing	0.0	15.6	3.0	14.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	15.6	0.0	14.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CCRIF	0.0	0.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	100.7	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:					*In percent of Revenue and Grants*						
Wage and salaries	38.6	39.3	43.9	46.2	44.0	49.4	48.8	47.8	47.1	46.5	46.4
Transfers and subsidies	16.1	22.2	35.1	28.7	26.4	26.6	26.1	25.3	24.7	24.1	24.0
Goods and services	17.0	15.9	13.3	14.9	13.4	14.5	13.7	13.4	13.2	13.0	13.0
Capital expenditure	24.4	24.1	16.5	14.5	32.5	9.7	12.5	12.9	12.9	13.8	14.2
Stock of arrears (in million of EC$)	0.0	0.0	23.0	40.7	…	45.0	22.5	0.0	0.0	0.0	0.0

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

1/ The baseline policy scenario assumes no significant adjustment in expenditure.

2/ Based on the outturn up to October 2012.

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

Table 3. St. Vincent and the Grenadines: Summary of Central Government Operations, 2008–17[1/]

(In percent of GDP, unless otherwise stated)

					2012 Proj.		Projection				
	2008	2009	2010	2011	Budget	Staff 2/	2013	2014	2015	2016	2017
Total revenue and grants	**28.6**	**29.6**	**27.5**	**26.8**	**29.6**	**25.9**	**26.2**	**26.8**	**27.2**	**27.5**	**27.6**
Current revenue	26.1	25.3	25.9	24.8	26.4	24.2	24.4	24.9	25.3	25.7	25.7
Tax revenue	23.9	23.5	22.9	22.1	24.5	22.5	22.5	23.0	23.4	23.7	23.8
Taxes on income and profits	5.9	6.1	5.9	6.1	6.4	6.2	6.2	6.4	6.4	6.4	6.5
Taxes on property	0.1	0.1	0.2	0.2	0.3	0.1	0.2	0.2	0.2	0.3	0.3
Taxes on international trade	10.0	10.3	9.7	9.2	10.2	9.3	9.3	9.5	9.5	9.6	9.6
Of Which: VAT	4.6	4.3	4.0	3.8	4.2	3.7	3.7	3.9	4.0	4.0	4.0
Taxes on domestic transactions	7.8	7.0	7.1	6.6	7.6	6.8	6.8	7.0	7.2	7.3	7.4
Of Which: VAT	3.6	3.5	3.4	3.3	3.5	3.4	3.4	3.5	3.5	3.6	3.6
Non-tax	2.2	1.8	3.0	2.7	1.9	1.8	1.9	1.9	2.0	2.0	2.0
Fees, Fines and Permits	1.0	1.0	1.2	0.9	1.1	0.9	1.0	1.0	1.0	1.0	1.0
Interest, Rent and Dividends	0.6	0.6	0.7	0.6	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Other Revenue	0.6	0.2	1.1	1.2	0.4	0.4	0.4	0.4	0.4	0.5	0.5
Capital Revenue	0.1	0.1	0.0	0.1	0.1	0.3	0.1	0.1	0.1	0.1	0.1
Of which : Sale of crown lands	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants	2.4	4.2	1.5	1.9	3.2	1.4	1.8	1.8	1.8	1.8	1.8
Total expenditure and net lending	**29.9**	**32.9**	**32.9**	**30.4**	**37.1**	**28.6**	**29.0**	**29.0**	**29.3**	**29.5**	**29.6**
Current	22.9	25.7	28.4	26.5	27.5	26.1	25.7	25.6	25.7	25.7	25.7
Wages and salaries 3/	11.0	11.6	12.1	12.4	13.0	12.8	12.8	12.8	12.8	12.8	12.8
Interest	2.5	2.8	3.0	2.5	2.7	2.7	2.5	2.4	2.7	2.7	2.7
Domestic	1.3	1.6	1.8	1.3	1.4	1.4	1.5	1.5	1.6	1.7	1.9
Foreign	1.2	1.2	1.2	1.2	1.3	1.3	1.1	0.9	1.1	1.0	0.8
Transfers and subsidies	4.6	6.6	9.6	7.7	7.8	6.9	6.8	6.8	6.7	6.6	6.6
Goods and services	4.8	4.7	3.7	4.0	4.0	3.8	3.6	3.6	3.6	3.6	3.6
Capital expenditure	7.0	7.1	4.5	3.9	9.6	2.5	3.3	3.4	3.5	3.8	3.9
Current balance (before grants)	3.1	-0.4	-2.5	-1.8	-1.1	-1.9	-1.4	-0.6	-0.4	-0.1	0.1
Overall balance	**-1.4**	**-3.2**	**-5.4**	**-3.6**	**-7.5**	**-2.7**	**-2.8**	**-2.3**	**-2.1**	**-2.0**	**-2.0**
Overall balance (excl. grants)	**-3.8**	**-7.4**	**-7.0**	**-5.6**	**-10.7**	**-4.1**	**-4.6**	**-4.0**	**-3.9**	**-3.8**	**-3.8**
Primary balance	1.1	-0.4	-2.4	-1.2	-4.8	0.0	-0.3	0.2	0.6	0.7	0.7
Primary balance (excl. grants)	-1.3	-4.6	-3.9	-3.1	-8.0	-1.4	-2.0	-1.6	-1.2	-1.1	-1.1
Identified financing	**1.4**	**3.2**	**5.4**	**3.6**	**2.3**	**2.7**	**2.8**	**2.3**	**2.1**	**2.0**	**2.0**
Net external financing	0.9	1.4	8.2	1.0	-0.5	-1.7	-1.1	0.2	0.4	0.4	0.4
Disbursements	3.3	4.1	11.0	3.8	2.3	1.1	1.7	2.8	2.6	2.5	2.3
Amortization	2.4	2.6	2.8	2.8	2.9	2.9	2.8	2.6	2.3	2.1	1.9
Change in government assets	-0.3	-0.3	-0.7	-0.3	-0.3	-0.3	-0.3	-0.3	0.0	0.0	0.0
Net domestic financing	0.7	1.3	-5.8	0.8	2.1	4.5	4.5	3.5	1.7	1.6	1.6
Sale of Equity (privatization proceeds)	0.0	0.0	2.3	0.5	1.0	0.0	0.9	0.0	0.0	0.0	0.0
Change in arrears	0.0	0.0	1.3	0.9	0.0	0.2	-1.1	-1.1	0.0	0.0	0.0
Exceptional financing	0.0	0.9	0.2	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.9	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CCRIF	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	5.2	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Gross central government debt (in percent of GDP)	47.0	51.0	56.2	57.6	58.4	58.4	58.9	59.7	58.5	56.9	55.9
Gross Public sector debt (in percent of GDP)	57.3	64.6	66.2	67.8	70.2	70.2	74.2	74.7	72.2	68.9	66.2
Net Public sector debt (in percent of GDP)	54.5	61.6	63.2	65.1	67.1	67.1	70.8	71.2	68.7	65.4	62.9
Central government debt service to revenues excluding grants	21.3	25.3	25.9	24.9	23.8	25.7	25.4	24.0	22.2	21.2	20.2
Stock of arrears (in percent of GDP)	0.0	0.0	1.3	2.2	...	2.3	1.1	0.0	0.0	0.0	0.0
GDP at market prices (EC$ millions)	1,878	1,821	1,839	1,866	1,921	1,921	1,979	2,077	2,200	2,342	2,475

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

1/ The baseline policy scenario assumes no significant adjustment in expenditure.

2/ Based on the outturn up to October 2012.

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

Table 4. St. Vincent and the Grenadines: Balance of Payments Summary, 2008–17

	2008	2009	2010	Prel. 2011	Projection 2012	2013	2014	2015	2016	2017
	(In millions of Eastern Caribbean dollars)									
Current account	**-622**	**-533**	**-562**	**-537**	**-534**	**-530**	**-524**	**-493**	**-474**	**-452**
Trade balance	-733	-649	-682	-672	-683	-696	-711	-691	-695	-700
Exports f.o.b.	154	144	122	117	133	150	170	188	202	215
Of which: Bananas	20	21	14	11	14	17	20	23	25	27
Manufactured exports	68	65	65	78	84	89	94	99	106	112
Imports f.o.b.	887	793	804	789	816	846	881	879	897	915
Of which: Mineral fuels	131	144	118	140	172	177	182	186	192	197
Services (net)	137	121	126	149	161	176	196	232	253	278
Travel	212	197	193	212	224	244	268	300	319	342
Other nonfactor services	-74	-77	-67	-64	-63	-68	-72	-68	-66	-64
Income payments (net)	-62	-35	-33	-35	-39	-41	-41	-69	-69	-68
Current transfers	36	31	27	21	27	32	33	36	37	38
Net private transfers	36	31	29	27	35	39	41	42	43	44
Net official transfers	-1	0	-2	-6	-7	-7	-7	-7	-6	-6
Capital and financial account	**571**	**550**	**617**	**480**	**499**	**530**	**514**	**499**	**482**	**465**
Capital	132	146	148	104	103	69	46	43	42	41
Financial (net)	439	404	469	375	396	461	468	456	440	425
Official capital	15	25	141	33	-1	47	28	4	-3	-2
Commercial banks	-41	3	-17	19	42	45	49	40	18	9
Net Foreign Direct Investment	430	298	262	231	253	275	300	324	347	371
Others	35	78	82	92	102	93	91	89	78	47
Errors and omissions	42	-5	14	-5	0	0	0	0	0	0
Overall balance	-9	13	68	-62	-35	-1	-10	6	8	13
Available financing	9	-13	-68	62	35	1	10	-6	-8	-13
Change in ECCB NFA	9	-13	-68	62	36	1	10	-6	-8	-14
Change in net imputed reserves (increase -)	9	21	-96	62	36	1	10	-6	-8	-14
of which: IMF purchases and disbursments	0	-16	0	-14	0	0	0	0	0	0
Change in SDR Allocation	0	-33	28	0	0	0	0	0	0	0
Change in medium- and long-term net liabilities	0	0	0	0	0	0	0	0	0	0
Change in govt. foreign assets	0	0	0	0	0	0	0	0	0	0
Other financing	0	0	0	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0	0
	(In percent of GDP, unless otherwise stated)									
Memorandum items:										
Current account	-33.1	-29.3	-30.6	-28.8	-27.8	-26.8	-25.2	-22.4	-20.3	-18.3
Exports f.o.b.	8.2	7.9	6.6	6.3	6.9	7.6	8.2	8.5	8.6	8.7
Imports f.o.b.	47.3	43.6	43.7	42.3	42.5	42.8	42.4	39.9	38.3	37.0
Net private transfers	1.9	1.7	1.6	1.4	1.8	2.0	2.0	1.9	1.8	1.8
Foreign direct investment	22.9	16.3	14.3	12.4	13.1	13.9	14.4	14.7	14.8	15.0
Tourism receipts	13.8	13.0	12.7	13.3	13.6	14.2	14.8	15.5	15.5	15.7
Total trade of goods and nonfactor services	92.2	86.1	84.1	80.9	82.7	84.1	84.7	82.7	80.8	79.3
Exports of goods and nonfactor services	30.2	28.5	26.9	26.4	27.7	28.9	29.9	30.9	30.9	31.1
Imports of goods and nonfactor services	61.9	57.6	57.2	54.5	54.9	55.2	54.7	51.8	49.8	48.1

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

Table 5. St. Vincent and the Grenadines: Monetary Survey, 2008–13

	2008	2009	2010	2011	Projection 2012	2013
	(In millions of Eastern Caribbean dollars)					
Net foreign assets	385	361	474	393	315	269
ECCB	224	203	299	237	201	200
Of which: Imputed reserves	224	203	299	237	201	200
Commercial banks	161	158	175	156	114	68
Net domestic assets	686	725	640	717	837	934
Public sector credit (net)	59	86	-68	-93	-42	46
Central government	108	128	22	44	123	203
ECCB	3	-18	-17	5	5	5
Commercial banks	105	146	39	40	119	199
Net credit to rest of public sector	-49	-41	-90	-137	-166	-157
National Insurance Scheme	-63	-82	-72	-88	-88	-88
Other	14	41	-18	-49	-77	-69
Credit to private sector	926	943	960	999	1,049	1,104
Net credit to nonbank financial institutions	8	6	7	28	0	0
Other items (net)	-299	-305	-252	-190	-170	-216
Broad money (M2)	1,071	1,086	1,114	1,110	1,152	1,203
Money	375	359	346	331	344	360
Currency in circulation	81	64	51	47	49	52
Demand deposits	294	285	289	276	287	299
EC$ Cheques and Drafts issued	0	11	6	9	9	10
Quasi-money	697	727	768	779	807	842
Time deposits	115	122	129	140	145	151
Savings deposits	545	575	594	594	616	643
Foreign currency deposits	37	30	45	45	46	48
	(Annual percentage change)					
Net foreign assets	9.2	-6.2	31.4	-17.1	-19.9	-14.7
Net domestic assets	-2.5	5.6	-11.7	12.1	16.7	11.6
Credit to private sector	3.0	1.8	1.8	4.1	5.0	5.2
Broad money (M2)	1.4	1.4	2.6	-0.3	3.8	4.4
Money	-4.2	-4.1	-3.8	-4.1	3.9	4.6
Quasi-money 1/	4.7	4.3	5.7	1.3	3.7	4.3
	(Contribution to M2 growth)					
Net foreign assets	3.1	-2.2	10.4	-7.3	-7.0	-4.0
Net domestic assets	-1.7	3.6	-7.8	7.0	10.8	8.4
Public sector credit (net)	2.3	2.5	-14.2	-2.2	4.5	7.7
Of which: Central government	1.9	1.8	-9.7	2.0	7.1	7.0
Credit to private sector	2.6	1.5	1.6	3.5	4.5	4.7
Other items (net)	-6.6	-0.5	4.8	5.6	1.8	-4.0
Memorandum item:						
Income velocity 2/	1.8	1.7	1.7	1.7	1.7	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: Indicators of External and Financial Vulnerability, 2008–12

(Annual percentage changes, unless otherwise specified)

	2008	2009	2010	2011	2012
External indicators					
Merchandise exports	11.4	-6.7	-15.7	-3.5	...
Merchandise imports	14.2	-10.6	1.3	-1.8	...
Terms of trade deterioration (-)	-16.4	23.7	-14.5	-0.9	...
Tourism earnings	-12.7	-8.8	-1.5	6.4	...
Banana export earnings	-29.8	3.6	-35.0	-21.3	...
Current account balance (in percent of GDP)	-33.1	-29.3	-30.6	-28.8	...
Capital and financial account balance (in percent of GDP) 1/	32.7	30.0	34.3	25.4	...
Of which					
Foreign direct investment (in percent of GDP)	22.9	16.3	14.3	12.4	...
Gross international reserves of the ECCB					
In millions of U.S. dollars	759.0	800.8	926.1	1007.6	1057.3 (September)
In percent of broad money	17.0	17.8	20.2	21.3	21.9 (September)
Gross imputed reserves					
In millions of U.S. dollars	82.9	75.2	110.8	87.8	97.1 (September)
Commercial banks' net foreign assets (in millions of U.S. dollars)	59.7	58.6	64.9	57.8	37.1 (September)
External public debt (in percent of GDP)	30.3	33.1	41.6	42.7	...
External debt service (in percent of exports of goods and services)	13.0	15.3	17.5	17.4	...
Of which					
Interest	4.8	5.3	4.9	5.4	...
Nominal exchange rate (EC$ per US$, end period)	2.7	2.7	2.7	2.7	...
Real effective exchange rate depreciation (-), end period	-0.5	6.3	-2.2	-4.0	...
Financial indicators					
Broad money	1.4	1.4	2.6	-0.3	1.6 (September)
Credit to the private sector	3.0	1.8	1.8	4.1	4.9 (September)
Prudential indicators (in percent)					
Regulatory capital to risk-weighted assets	17.9	18.7	18.7	16.8	19.3 (September)
Nonperforming loans net of provisions to capital	31.7	21.6	14.0	19.5	15.2 (September)
Nonperforming loans to total loans	3.9	8.4	8.6	7.7	7.3 (September)
General government loans to total loans	23.1	17.5	8.7	8.5	9.5 (September)
Return on assets	2.3	1.8	1.0	0.4	0.5 (September)
Liquid assets to total assets	34.2	30.7	35.9	33.3	31.8 (September)
Spread between reference lending and deposit rates	6.8	6.2	6.2	6.2	6.4 (September)
Total loans to total deposits	87.2	85.6	75.3	74.2	76.3 (September)
Foreign-currency-denominated liabilities to total liabilities	5.7	5.2	7.7	7.5	5.5 (September)

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

1/ Includes errors and omissions.

Table 7. St. Vincent and the Grenadines: Medium-Term Projections, 2008–17
(In percent of GDP, unless otherwise specified)

	2008	2009	2010	Prel. 2011	Projection 2012	2013	2014	2015	2016	2017
Output and prices										
Real GDP growth at factor cost (in percent)	-0.5	-2.2	-2.3	0.4	0.5	1.0	2.0	3.0	3.5	3.0
Consumer prices, end-of-period (percent change)	9.4	-2.2	0.9	4.7	0.8	2.4	2.5	2.5	2.5	2.5
Central government finances										
Total revenue and grants	28.6	29.6	27.5	26.8	25.9	26.2	26.8	27.2	27.5	27.6
Of which:										
Tax revenue	23.9	23.5	22.9	22.1	22.5	22.5	23.0	23.4	23.7	23.8
Taxes on income and profits	5.9	6.1	5.9	6.1	6.2	6.2	6.4	6.4	6.4	6.5
Taxes on property	0.1	0.1	0.2	0.2	0.1	0.2	0.2	0.2	0.3	0.3
Taxes on international trade	10.0	10.3	9.7	9.2	9.3	9.3	9.5	9.5	9.6	9.6
Taxes on domestic transactions	7.8	7.0	7.1	6.6	6.8	6.8	7.0	7.2	7.3	7.4
Grants	2.4	4.2	1.5	1.9	1.4	1.8	1.8	1.8	1.8	1.8
Total expenditure and net lending	29.9	32.9	32.9	30.4	28.6	29.0	29.0	29.3	29.5	29.6
Of which:										
Wages and salaries 1/	11.0	11.6	12.1	12.4	12.8	12.8	12.8	12.8	12.8	12.8
Transfers and subsidies	4.6	6.6	9.6	7.7	6.9	6.8	6.8	6.7	6.6	6.6
Capital expenditure	7.0	7.1	4.5	3.9	2.5	3.3	3.4	3.5	3.8	3.9
Overall balance	-1.4	-3.2	-5.4	-3.6	-2.7	-2.8	-2.3	-2.1	-2.0	-2.0
Of which: Primary balance	1.1	-0.4	-2.4	-1.2	0.0	-0.3	0.2	0.6	0.7	0.7
Financing	1.4	3.2	5.4	3.6	2.7	2.8	2.3	2.1	2.0	2.0
Net external financing	0.9	1.4	8.2	1.0	-1.7	-1.1	0.2	0.4	0.4	0.4
Net domestic financing	0.7	1.3	-5.8	0.8	4.5	4.5	3.5	1.7	1.6	1.6
Other	-0.3	0.5	3.0	1.9	-0.1	-0.6	-1.4	0.0	0.0	0.0
Gross public sector debt	57.3	64.6	66.2	67.8	70.2	74.2	74.7	72.2	68.9	66.2
External sector										
Current account balance	-33.1	-29.3	-30.6	-28.8	-27.8	-26.8	-25.2	-22.4	-20.3	-18.3
Gross public sector external debt (end of period)	30.3	33.1	41.6	42.7	41.5	42.6	41.9	39.8	37.2	35.1
External public debt service										
(In percent of exports of goods and services)	13.0	15.3	17.5	17.4	17.2	16.2	15.1	14.3	13.9	12.9

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

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

ANNEX I. RISK ASSESSMENT MATRIX WITH POLICY ACTIONS

Nature/Source of Main Threats and Likelihood of Realization in 1-3 Years	Expected Impact if Threat is Realized (high, medium or low)	Possible Policy Options
1. Increased bank and sovereign stress in the Euro area Likelihood: **Medium**	**High** The Euro area crisis is a major threat to the global economic recovery. An intensification could drag fragile growth of St. Vincent's main tourist partners like the US down, leading to not only lower tourist expenditure but also to a decline in FDI. Tourism constitutes 68 percent of exports and 30 percent of output (29 percent of tourists come from US and 25 percent from Europe). A drop in tourist arrivals by 10 percent would reduce GDP growth in St. Vincent and the Grenadines by 3 percent and increases the current account deficit by 2 percentage points of GDP. A decline in FDI by 10 percent would decrease construction activity by 1 percent and GDP by 0.1 percent.	Diversify growth drivers, for instance, by building a broader tourist base (tourist campaigns in other markets like Asia), rebalance fiscal spending towards capital projects, and build financial buffers.
2. Continued financial deterioration of the indigenous banking sector in the ECCU Likelihood: **Medium**	**Low/Medium** The banking sector in St. Vincent and the Grenadines is dominated by foreign banks, with only one bank part of a regional ECCU bank. The impact from a deterioration in this sector is expected to be small. However, if the slow pace of resolution of these banks creates financial uncertainty and a loss in confidence, this could have more significant impact on the economy, including derailing the economic recovery.	Play a more proactive role in the ECCU through the Monetary Council and demand a quick implementation of the recommendation of the Financial Sector Task Force.
3. Deterioration in domestic non-bank sector especially B&L association Likelihood: **Medium**	**Medium/High** Half of total loans of B&L association are non-performing. B&L association also has exposures to BAICO/CLICO worth EC$12.2 million (4.9 percent of total assets) though they increased provisions for BAICO to EC$5.6.	Implement a framework to closely monitor and gradually improve the balance sheet of B&L association. One of the first tasks of the newly established Financial Services Authority should be an onsite visit to the B&L association to get clarity over their books. This would help both parties in establishing a convincing strategy as to how to improve the balance sheet of the B&L association in the near future.

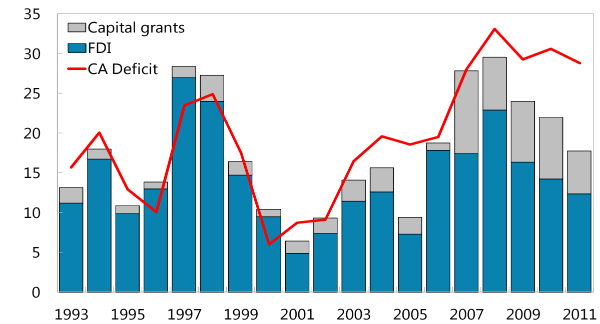
ANNEX I. RISK ASSESSMENT MATRIX WITH POLICY ACTIONS (CONTINUED)

4. Natural disaster (hurricanes, torrential rains, and floods) Likelihood: **High**	**Medium/High** Given the country's dependence on agriculture and tourism, both vulnerable to hurricanes and flooding, the expected impact of such incidences could range from medium to high depending on the strength of the rains and the hurricanes. For instance, hurricane Thomas led to a decrease in GDP by 0.3 percent. The torrential rains and floods in 2011 caused a decline in GDP by 1 percent.	Build climate resilience with the help of the World Bank and other donors to address disaster vulnerability. The government should complement these efforts by ensuring strict enforcement of regulatory standards for buildings and other infrastructure. In addition, build financial buffers to ensure room for action in the event of natural disasters.
5. Oil supply shock and nonfuel commodity price shock Likelihood: **Low**	**Medium** 80 percent of St. Vincent and the Grenadines energy supply depends on oil. An increase in oil prices by 10 percent, all other things being equal, would increase CPI by roughly 2 percent, worsen the current account by 0.5 percentage points of GDP, and reduce GDP by 0.2 percent. The share of food in the CPI basket of St. Vincent and the Grenadines is 22 percent. If food prices go up by 10 percent, CPI increases by 4 percent, current account deficit worsens by 0.9 percentage points of GDP, and GDP declines by 0.6 percent.	St. Vincent and the Grenadines should allow for a full pass through of international prices with a cautious use of targeted subsidies to protect the poor and vulnerable if necessary.

ANNEX II. EXTERNAL SECTOR ASSESSMENT

The persistent deterioration of the current account deficit since the early 2000s, partly reflecting weaknesses in external competitiveness, raises concerns about its sustainability.

Financing of the Current Account
(In percent of GDP)



Sources: ECCB and Fund staff calculations.

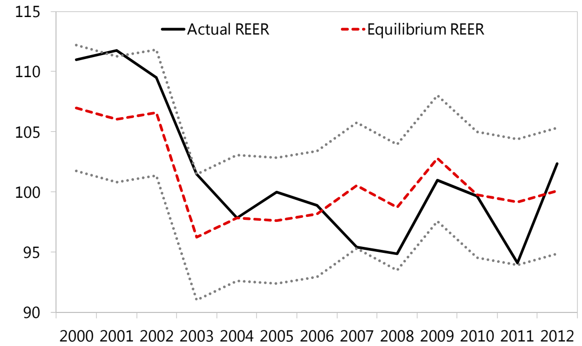
While FDI and capital grants have significantly contributed to financing the growing current account deficit, the widening gap between these flows and the deficit more recently highlights a deterioration in external competitiveness.[1] Furthermore, net external liabilities are estimated to be very high (over 200 percent of GDP), reflecting primarily a large stock of FDI but also external debt, implying significant future outflows in the form of profit transfers and loan amortizations. This suggests that improving export competitiveness and reducing the high reliance on imports are absolutely critical to ensure current account sustainability over the medium term.

Assessments of the appropriateness of the real effective exchange rate also point to overvaluation. Quantitative assessments based on CGER-type methodologies show that the real exchange rate is overvalued, with the current account-based methodologies pointing to a higher overvaluation. Specifically, the external sustainability approach, assuming that net foreign assets (NFA) are stabilized at the historical 10-year average, shows an overvaluation of 20 percent and the macro balance approach shows an overvaluation of some 15 percent as the underlying current account deficit is much higher than the norm. The equilibrium real exchange rate (ERER) method points to a lower overvaluation also reflecting the REER depreciation over the past decade.[2] The rate of REER overvaluation for the ECCU is estimated to be in the range of 3.8 percent (ERER approach) to 11.6 percent (external sustainability approach).

[1] St. Vincent and the Grenadines' shares of exports, tourist arrivals, and FDI vis-à-vis the Caribbean have declined considerably in recent years (Figure 1).

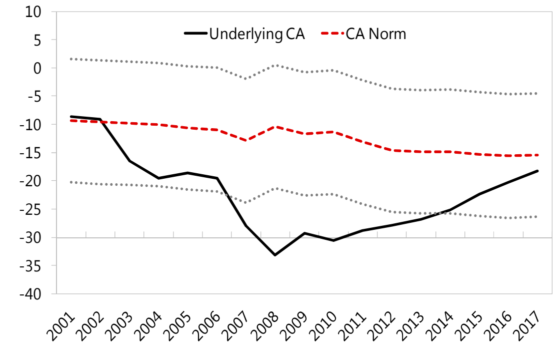
[2] The ERER method is likely to have underestimated the overvaluation given the country's large negative NFA position. Estimates from the other 2 CGER methods might also have understated the degree of overvaluation. For instance, the ES approach stabilizes NFA at -175 percent of GDP, but such a high level of NFA is not sustainable over the long term.

St. Vincent: CGER ERER Approach
(Index, 2005 = 100)



Note: Dotted gray lines indicate 90 percent confidence interval.

St. Vincent: CGER Macro Balance Approach
(In percent of GDP)



Note: Dotted gray lines indicate 90 percent confidence interval.

Assessment of the underlying causes of the weaknesses in external competitiveness points to structural factors. (Figure 1) Both data and perception-based assessments indicate that there are several bottlenecks to doing businesses, including high cost of electricity (the second highest in the region), limited air access from major tourist source countries due to small size of the airport, limited capacity at ports, limited supply of skilled labor, and burdensome customs clearance. These constraints highlight the pressing need for structural reforms to improve external competitiveness and jumpstart private sector-led growth.

ANNEX III. FINANCIAL PERFORMANCE OF STATE-OWNED ENTERPRISES

There are around 25 State-owned Enterprises (SOEs) in St. Vincent and the Grenadines with total debt of around 10 percent of GDP (15 percent of total public sector debt) as of 2011. Despite explicitly guaranteeing their external debt and implicitly assuming a contingent liability on their domestic debt, the central government has a limited oversight of their operations apart from monitoring their debt holdings. Among other factors, limited availability of timely financial data on the operations of SOEs has been the main constraint. To help the authorities start monitoring the financial performance of SOEs and the overall public sector in general, this mission built a framework for consolidating SOEs' financial reports. The resulting consolidated SOEs' and public sector operations data, based on recent and latest financial reports of major SOEs obtained through a concerted effort with the help of the Ministry of finance is shown in Annex Tables 1 & 2.

Due to the nature of the public services they provide, some of the SOEs such as the Tourism Authority, the Community College, the International Finance Services Authority, and the Roads, Building and General Services Authority (BRAGSA) do not have their own revenue sources and are run entirely on central government subventions. Consequently, their finances are implicitly reflected in the central government's finance. Of the remaining SOEs, St. Vincent Electricity Services Limited (VINLEC), National Insurance Services (NIS), International Airport Development Corporation (IADC), Central Water and Sewerage Authority (CWSA), the Port Authority, the National Lotteries Authority, the Agricultural Input Warehouse Limited, and the National Properties Limited (NPL) are the largest by the sizes of their operations and their debt holdings. With the exception of the IADC, which is partially self-financing, these SOEs are fully self-financing though they enjoy implicit government assistance including through tax exemptions and duty free imports. They constitute over 90 percent of SOE's total revenues and owe 100 percent of SOEs' total debt as of 2011. Consequently, a consolidated public finance report based on the operations of the central government and these SOEs can fairly reflect the financial situation of the overall public sector.

The resulting consolidated data for the self-financing SOEs, including the IADC, shows that their financial performance is generally better than previously estimated. That said, there are variations among these SOEs. For instance, the IADC and NPL have been running persistent deficits. VINLEC—the largest of all—runs significant deficits at times when it undertakes big capital projects financed through external borrowing. Given the authorities' plans to pursue alternative energy sources, VINLEC is expected to run deficits over the medium term. On the other hand, the global financial crises have turned NIS's historically persistent surplus into a deficit in 2011 through its impact on both contribution and investment incomes. The deficit is expected to continue until the planned pension reforms are implemented in the medium term, after which it is expected to revert to surplus.

The situation at the NPL, however, warrants the authorities' attention. The primary function of the NPL is to manage and sell real properties (mainly land) on behalf of the government. Its main revenue sources are rental income, management fees, and commissions. Even though NPL is a very small entity by the size of its operations, it has a sizeable domestic debt (about 3 percent of GDP as of 2011 against its total revenue of around 0.3 percent of GDP), most of which was transferred from IADC with a land swap. Given limited progress on land sales due to a depressed real estate market, NPL's ability to repay its debt is currently in doubt. More importantly, the creditor for 95 percent of this loan is the NIS and NPL's ability to service its debt has a broader consequence on the overall public finance, highlighting the need for closer monitoring.

Annex Table 1. St. Vincent and the Grenadines: Operations of State-Owned Enterprises
(Millions of EC$)

	2008	2009	2010	2011
Revenue and grants	**398.1**	**340.3**	**338.6**	**357.4**
Current revenue	288.0	282.6	286.0	284.6
NIS	62.0	65.1	63.0	61.2
Non-financial SOEs	226.0	217.5	222.9	223.5
Capital revenue	43.9	8.0	0.4	14.6
NIS	0.0	0.0	0.0	0.0
Non-financial SOEs	43.8	8.0	0.4	14.6
External grants	66.2	49.7	52.3	58.2
NIS	0.0	0.0	0.0	0.0
Non-financial SOEs	66.2	49.7	52.3	58.2
Total expenditure	**394.8**	**350.1**	**352.0**	**328.5**
Current expenditure	218.1	218.4	221.8	231.5
NIS	32.0	38.7	39.5	45.4
Non-financial SOEs	186.1	179.7	182.3	186.1
Capital expenditure	176.8	131.8	130.3	97.0
NIS	29.4	27.2	21.7	18.1
Non-financial SOEs	147.4	104.6	108.6	79.0
Current balance	**70.0**	**64.2**	**64.2**	**53.2**
Overall balance	**3.3**	**-9.8**	**-13.4**	**28.9**
Memo: Consolidated Public Finance				
Revenue and grants	***934.3***	***880.0***	***843.6***	***857.5***
Central government	*536.2*	*539.7*	*505.0*	*500.1*
SOEs	*398.1*	*340.3*	*338.6*	*357.4*
Total expenditure	***956.6***	***948.4***	***956.9***	***896.2***
Central government	*561.8*	*598.3*	*604.9*	*567.7*
SOEs	*394.8*	*350.1*	*352.0*	*328.5*
Current balance	***128.6***	***57.2***	***19.0***	***20.4***
Central government	*58.6*	*-7.0*	*-45.2*	*-32.7*
SOEs	*70.0*	*64.2*	*64.2*	*53.2*
Overall balance	***-22.3***	***-68.5***	***-113.3***	***-38.7***
Central government	*-25.6*	*-58.6*	*-99.9*	*-67.6*
SOEs	*3.3*	*-9.8*	*-13.4*	*28.9*

Source: Ministry of Finance, Annual Financial Reports of SOEs, and Fund staff calculations

Annex Table 2. St. Vincent and the Grenadines: Operations of the Consolidated Public Sector
(Percent of GDP)

	2008	2009	2010	2011
Revenue and grants	**21.2**	**18.7**	**18.4**	**19.2**
Current revenue	15.3	15.5	15.6	15.3
NIS	3.3	3.6	3.4	3.3
Non-financial SOEs	12.0	11.9	12.1	12.0
Capital revenue	2.3	0.4	0.0	0.8
NIS	0.0	0.0	0.0	0.0
Non-financial SOEs	2.3	0.4	0.0	0.8
External grants	3.5	2.7	2.8	3.1
NIS	0.0	0.0	0.0	0.0
Non-financial SOEs	3.5	2.7	2.8	3.1
Total expenditure	**21.0**	**19.2**	**19.1**	**17.6**
Current expenditure	11.6	12.0	12.1	12.4
NIS	1.7	2.1	2.1	2.4
Non-financial SOEs	9.9	9.9	9.9	10.0
Capital expenditure	9.4	7.2	7.1	5.2
NIS	1.6	1.5	1.2	1.0
Non-financial SOEs	7.9	5.7	5.9	4.2
Current balance	**3.7**	**3.5**	**3.5**	**2.8**
Overall balance	**0.2**	**-0.5**	**-0.7**	**1.5**
Memo: Consolidated Public Finance				
Revenue and grants	**49.8**	**48.3**	**45.9**	**46.0**
Central government	28.6	29.6	27.5	26.8
SOEs	21.2	18.7	18.4	19.2
Total expenditure	**50.9**	**52.1**	**52.0**	**48.0**
Central government	29.9	32.9	32.9	30.4
SOEs	21.0	19.2	19.1	17.6
Current balance	**6.9**	**3.1**	**1.0**	**1.1**
Central government	3.1	-0.4	-2.5	-1.8
SOEs	3.7	3.5	3.5	2.8
Overall balance	**-1.2**	**-3.8**	**-6.2**	**-2.1**
Central government	-1.4	-3.2	-5.4	-3.6
SOEs	0.2	-0.5	-0.7	1.5
GDP (in millions of EC$)	1,878	1,821	1,839	1,866

Source: Ministry of Finance, Annual Financial Reports of SOEs, and Fund staff calculations

ST. VINCENT AND THE GRENADINES

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 16, 2013

Prepared By

The Western Hemisphere Department
(In collaboration with other departments).

CONTENTS

FUND RELATIONS

(As of December 31, 2012)

I. Membership Status Joined 12/28/79; Article VIII

		SDR Million	Percent of Quota
II.	**General Resources Account**	**SDR Million**	**Percent of Quota**
	Quota	8.30	100.00
	Fund holdings of currency	7.80	93.98
	Reserve Tranche Position	0.50	6.02
III.	**SDR Department**	**SDR Million**	**Percent of Allocation**
	Net cumulative allocation	7.91	100.00
	Holdings	0.73	9.21
IV.	**Outstanding Purchases and Loans:**	**SDR Million**	**Percent of Quota**
	RCF Loans	3.32	40.00
	ESF RAC Loan	3.74	45.00

V. Latest Financial Arrangements: None

VI. Projected Payments to the Fund (SDR Millions)[1]

[1] Based on existing use of resources and present holdings of SDRs

			Forthcoming		
	2013	**2014**	**2015**	**2016**	**2017**
Principal		0.37	0.75	0.95	1.41
Charges/Interest	0.00	0.00	0.02	0.02	0.01
Total	**0.00**	**0.38**	**0.77**	**0.97**	**1.42**

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 member, is subject to a full safeguards assessment under a four year cycle. The most recent assessment was completed in April 2012, and did not identify any significant safeguards risks. 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. **Article IV consultation**: The last Article IV consultation was concluded by the Executive Board on November 16, 2011; the relevant document is Country Report No. 11/343. St. Vincent and the Grenadines is on a 12-month cycle.

X. **Technical assistance (January 2006–)**: Several missions from the Caribbean Regional Technical Assistance Centre (CARTAC), the Fiscal Affairs Department (FAD), the Support of Economic Management for the Caribbean (SEMCAR), 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. A workshop for Permanent Secretaries on strategic budgeting reforms together with general public finance training has also been delivered. 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 and expenditure rationalization. In CY 2011/2012, CARTAC delivered technical assistance to review the revenue performance of the Value Added Tax and recommended measures to enhance and safeguard VAT revenues. CARTAC also supported a capacity building program in audit and assisted with the development of Inland Revenue Department's revised function-based organizational structure that resulted in a full integration of VAT administration into mainstream IRD. In Customs, CARTAC focused on modernization of the operations by strengthening risk management and post clearance (PCA) programs. In 2011/2012 SEMCAR assisted the authorities in introducing a performance orientation in the budget of three ministries, reviewed the treasury and modernized the budget execution process. In addition SEMCAR helped setting up a cash management unit and introduced cash flow forecasting.

RELATIONS WITH THE WORLD BANK GROUP

(January 10, 2013)

In June 2010, the Board of Executive Directors of the World Bank discussed a joint Bank/IFC Regional Partnership Strategy (RPS or Strategy) for the six independent territories of the Organization of Eastern Caribbean States[1] (OECS). The Strategy covers a five year period which coincides with the duration of the election cycles in all six countries, although the timing of the elections in the countries is not aligned. The inter-related strategic objectives of the RPS are: (a) building resilience; and (b) enhancing competitiveness and stimulating growth over the medium term. A Progress Report that assesses the implementation of the Strategy at the mid-term and outlines how the Bank will position itself strategically for the remainder of the RPS period has been presented to the Board in May 2012.

The OECS countries were among the countries in the world hardest hit by the global financial and economic crisis and have experienced a significant lag in recovery relative to other countries in the Latin American region. Economic growth in the OECS has been severely undermined, with ripple effects across the economies, particularly through a decline in tourism activity and the FDI related construction sectors upon which these countries depend. Furthermore, the agriculture sector contracted due to pest infestation, drought and Hurricane Tomas in October 2010. The global slowdown also exacerbated existing weaknesses in the financial sector, increasing the risk of spillovers across countries. In addition, limited fiscal space, the result of high debt and debt service, severely constrained the governments' ability to implement countercyclical policies to cushion the impact of the crisis. As a consequence, vulnerability across the region has increased and remains a major element of concern going forward. On the positive side, however, the OECS continued to pursue ambitious goals for further political and economic integration with the implementation of the OECS Economic Union.

The OECS are also among the countries most adversely affected by the impacts of climate variability. Climate shocks represent a dominant factor driving output fluctuations in the region, which severely affecting development prospects. In the OECS, natural disasters account on average for almost 20 percent of the variance of real GDP growth and the evidence shows that an adverse natural event in one country has a statistically significant spillover effect on neighboring countries in the region.

To help build resilience, the Bank Group is supporting interventions aimed at promoting fiscal and debt sustainability, protecting and improving human capital—particularly social safety nets, education and health—and strengthening climate resilience. To help enhance competitiveness and stimulate sustainable growth, it focuses its support on two critical areas: strengthening the countries' domestic financial sectors and improving access to quality services to create more competitive

[1] While the OECS comprises six independent countries and three British Overseas Territories, the RPS covers only the six independent countries, namely: Antigua and Barbuda; Dominica; Grenada; St. Kitts and Nevis; Saint Lucia; and St. Vincent and the Grenadines. Excepting St. Vincent and the Grenadines which did not join IFC, all are members of the World Bank Group.

business environments. The Strategy provides urgent remedial measures to address the crippling effects of the global and regional crises, while supporting key policy reforms that establish a platform for growth in the medium term.

The planned program of support indicate in the RPS will entail new commitments totaling up to about US$120 million on IBRD terms for the six Bank Members of the OECS and up to US$73 million of IDA financing (depending on their Country Policy and Institutional Assessment-CPIA) for the four OECS (Dominica, Grenada, St. Lucia, St. Vincent and the Grenadines) which are also eligible to IDA (blend).

Like its OECS partners, the key policy priorities for St. Vincent and the Grenadines are to jump-start growth while keeping debt and deficits at reasonable level and maintaining economic gains by reducing vulnerability to exogenous shocks. In the area of tourism, progress can be made to revive the tourism product more broadly, including further investments in infrastructure. In the area of fiscal consolidation, the policy priority has been to increase revenues, contain expenditures and introduce a public sector modernization agenda.

World Bank Group engagement

Comprehensive Debt Framework - At the request of the Heads of Government of CARICOM, the Bank put together a Comprehensive Debt Framework that proposes a strategy for addressing the high debt challenge faced in the OECS in a sustainable way. This Framework proposes a holistic approach around four interdependent pillars (Supporting private sector led growth, including private sector development and financial sector stability; Enhancing fiscal sustainability; Improving climate change resilience and Disaster Risk Management; and Debt resolution). The Framework is being rolled out in the OECS, including St. Vincent and the Grenadines, where the World Bank conducted a scoping mission in July 2012. The Government expressed interest in principle, in working jointly with the World Bank and other development partners to develop policy measures that could help stimulate growth and reduce debt in the country.

The Caribbean Growth Forum (CGF) – The Caribbean Growth Forum (CGF) is an initiative led by the Inter-American Development Bank, the Caribbean Development Bank and the World Bank, in collaboration with the United Kingdom Agency for International Development (DFID) and the Canadian International Development Agency (CIDA), to identify policies and initiatives aimed at inducing growth and creating jobs in the Caribbean region through analytical work, knowledge exchange and inclusive dialogue. The CGF will provide an action oriented forum for governments and other key non-traditional stakeholders (youth, private sector, Diaspora) to engage in a dialogue around the growth and development challenges with a view to identify—through a participatory bottom-up approach—practical and implementable solutions that inspire action. The CGF will then support and facilitate the implementation by the Government of key reforms to stimulate private sector led growth according to a detailed schedule and in a transparent and accountable fashion. In FY2013, the CGF dialogue will focus on 3 themes, namely "Logistics and Connectivity", "Investment Climate", and "Skills and Productivity". St. Vincent and the Grenadines has expressed interest in holding a national CGF event on January 17, 2013 to engage both traditional and non-traditional stakeholders in an action-oriented national dialogue around growth and development challenges. CGF national events have already taken place in Dominican Republic (November 1, 2012), Antigua and Barbuda (November 19, 2012) and Grenada (December 11, 2012), and have been scheduled in St. Lucia (January 22, 2013) and Dominica (January 24, 2013) as well.

Projects

The **OECS E-Government for Regional Integration Program** was approved by the Board in May 2008. The loan to St. Vincent and the Grenadines was approved in December 2009 and consists of a US$2.3 million IDA Credit designed to promote the efficiency, quality, and transparency of public services through the delivery of regionally integrated e-government applications that take advantage of economies of scale. The idea behind EGRIP is that countries can purchase eGovernment applications together and obtain volume discounts. The program focuses on generating regional consensus and designing cross-sectoral e-government applications for all four countries, including (i) a front-end eTax Filing System that allows businesses and citizens to file their taxes online, (ii) an OECS-wide eTendering System for Pharmaceuticals that facilitates OECS countries' purchase of pharmaceuticals in bulk, and (iii) Multipurpose Identification System to be installed in all countries, and generating unique personal identification numbers.

The **Caribbean Regional Communication Infrastructure Project (CARCIP)** - Phase 1, was approved by the WB Board in May 2012 with Grenada (US$10 million IDA), St. Lucia (US$6million IDA) and St. Vincent and the Grenadines (US$6 million IDA) as participating countries. The Dominican Republic is preparing its inclusion to CARCIP ($30m IDA), while other Caribbean islands have formally expressed interest in joining. CARCIP is a broad umbrella program to include all interested CARIFORUM countries. It offers a menu of choices with specific components to be tailored to each country's priorities. The menu of options are: (a) ICT Connectivity, to increase access and affordability of broadband communications networks within region and countries; (b) e-Government, to contribute to improved Government efficiency and transparency through the delivery of e-services, including e-government and e-society applications; and (c) IT Industry, to contribute to the development of the regional and national IT industry. The sources of financing are a mix of World Bank, CDB, IDB lending, donor grant funding, the government's own resources and substantial amounts of private sector investment. The instrument chose for this program (APL) allows countries to join on a readiness basis. Phase 1 of CARCIP was declared effective in December 2012.

The **Hurricane Tomas Emergency Recovery Credit** was approved in January 2011 for US$5 million and aims at rehabilitating damaged infrastructure caused by the passage of Hurricane Tomas and strengthening the Government's ability to analyze location-specific risks. The project has three components: i) Component 1 will rehabilitate and reconstruct vulnerable and damaged infrastructure; ii) Component 2 will improve the capacity of the Ministry of Housing, Informal Human Settlements, Lands and Surveys and Physical Planning (MoHILP) and the National Emergency Management Organization (NEMO) to evaluate natural hazard and climate change risks by training their staff and providing technical advisory services and acquisition of goods; and iii) Component 3 will strengthen and develop the institutional capacity of the Public Sector Investment Program Management Unit (PSIPMU) for project management and execution, including procurement, financial management and supervision of project activities, through the acquisition of goods, provision of technical advisory services, training, and operating costs.

The **OECS Disaster Vulnerability Reduction Project** was approved in June 2011. St. Vincent and the Grenadines will receive a total of US$20.92 million, including a US$10.92 million zero-interest credit from IDA repayable in 35 years with a 10-year grace period; a US$7 million grant from the Pilot Program for Climate Resilience (PPCR); and a US$3 million zero-interest loan from the PPCR repayable in 40 years with a 10-year grace period. The project aims to create understanding of the vulnerability of key structures and increase resilience of critical public infrastructure, which will complement the work and goals of the PPCR. Component 1 will implement a broad spectrum of interventions aimed at building resilience in public buildings and infrastructure. Component 2 will support regional efforts in the Eastern Caribbean to build capacity to conduct assessment of natural risks and integrate such knowledge into policy- and decision-making for development investments, disaster risk mitigation, climate change adaptation, and disaster response planning across sectors. Component 3 will re-categorize financing or provide additional financing to cover early recovery and rehabilitation costs following an adverse natural event, and subject to a Government's declaration of emergency in accordance with national law and the submission of a recovery action plan satisfactory to the Association. Component 4 will strengthen and develop the institutional capacity for project management and implementation.

Economic and Sector Work

The Bank has completed a series of analytical products relating to public expenditure, fiscal and debt sustainability, growth and competitiveness, the financial sector, public sector management and social protection. The ongoing dissemination of these reports represents a key instrument for policy dialogue with the OECS governments, including St. Vincent and the Grenadines.

In the context of the Support of Economic Management for the Caribbean (SEMCAR) program, a team is working with the authorities on an Action Plan for Customs improvements and has assessed the system by using the Customs Assessment Trade Toolkit (CATT). The CATT assessment measures 120 high level indicators which are combined and aggregated into seven intuitive dimensions: Process orientation, Strategic thinking, Transparency, Control, Efficiency, Effectiveness and Facilitation. The distinctive feature of the CATT is that it is evidence base framed by a set of international best practices which are compared against the practice that currently is used.

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); 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 titled "Caribbean – Accelerating Trade Integration: Policy Options for Sustained Growth, Job

Creation and Poverty Reduction" (2009); a study on the Nurse Labor & Education Markets in the English-Speaking CARICOM: Issues and Options for Reform (2009); and Caribbean Regional Electricity Supply Options: Toward Greater Security, Renewable and Resilience (2011).

Projects Financed by the World Bank in the OECS

Operation	Country	Loan	Original Principal (USD)	Disbursed Balance	Undisbursed Balance
Regional Disaster Vulnerability Reduction Project	Grenada	IDA 49860	10,000,000.00	425,000.00	9,575,000.00
	Grenada	PPCR	8,000,000.00	292,768.90	7,707,231.10
	St. Vincent and the Grenadines	IDA 49850	10,920,000.00	287,000.00	10,633,000.00
	St. Vincent and the Grenadines	PPCR	7,000,000.00	175,000.00	6,825,000.00
Hurricane Tomas Emerg Recov Proj	St. Vincent and the Grenadines	IDA 48520	5,000,000.00	1,154,177.26	3,845,822.74
OECS E-Gove Reg Integr (EGRIP)	Regional	IDA 46500	2,300,000.00	1,326,395.99	973,604.01
Telecomunications and ITC Development Project	Grenada	IDA 40560*	306,296.00	306,069.52	226.48
		IBRD 47750*	272,161.00	271,669.84	491.16
	St. Kitts and Nevis	IBRD 47760	544,322.00	544,322.00	-
	St. Lucia	IDA 40570*	306,296.00	305,203.98	1,092.02
		IBRD 47770*	272,161.00	250,162.99	21,998.01
	St. Vincent and the Grenadines	IDA 40580*	306,296.00	250,098.11	56,197.89
		IBRD 74480*	272,161.00	235,514.92	36,646.08
	Dominica	IDA 40590*	612,592.00	583,452.48	29,139.52
St. Vincent and the Grenadines: OECS Education Develop Project	St. Vincent and the Grenadines	IDA 39430	3,100,000.00	3,350,835.55	-
		IBRD 72430*	3,100,000.00	2,536,030.38	563,969.62
Total			**$ 52,312,285.00**	**$12,293,701.92**	**$40,269,418.63**

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

Disbursements and Debt Service (Fiscal Year Ending June 30 (in millions of U.S. dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Total disbursements	1,459,847.28	1,726,800.63	1,196,122.03	2,480,129.15	4,549,769.20	3,057,855.20	1,478,067.40	1,776,261.24	2,503,990.18	4,308,009.91	1,846,175.06
Repayments	117,014.20	288,962.71	136,634.19	272,921.04	303,116.52	305,250.99	627,306.51	684,083.65	733,165.11	889,908.60	1,168,675.66
Net disbursements	1,342,833.08	1,437,837.92	1,059,487.84	2,207,208.11	4,246,652.68	2,752,604.21	850,760.89	1,092,177.59	1,770,825.07	3,418,101.31	677,499.40
Charges	59,216.50	72,399.51	98,467.48	126,637.69	141,163.86	259,254.26	234,506.45	158,018.43	142,999.14	151,452.17	191,206.91
Fees	6,025.03	49,486.64	26,126.05	63,794.58	71,564.58	41,351.28	101,585.78	162,355.60	168,982.55	164,038.84	174,529.69

*Data as of November 15, 2012.

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK (CDB)

(As of December 13, 2012)

A small open economy, St. Vincent and the Grenadines is particularly vulnerable to economic shocks and natural hazards. Since 2008, a series of such adverse exogenous shocks have caused major economic losses, weakening the country's macroeconomic position. Even as the direct impact of the global slowdown has lessened, weather-induced shocks associated with Hurricane Tomas, a severe drought and torrential rainfall and flooding in 2010 and 2011 have added to macroeconomic weaknesses.

In the aftermath of these recent disasters, CDB's assistance to the Government of Saint Vincent and the Grenadines has focused on providing grant and loan funding to assist with emergency relief and economic rehabilitation and recovery efforts. The Bank will be providing a loan of US$12.62 million (approved in July 2011) to rehabilitate and reconstruct critical infrastructure, and upgrade and improve affected emergency shelters to internationally accepted standards. The project also provides for technical assistance to the Government of St. Vincent and the Grenadines to undertake a hydraulic assessment study of major watersheds in the central and north windward region of the island, for developing standard operating procedures for disaster responses for the Ministry of Transport and Works, and for undertaking a coastal study as well as medium to long-term sea defense designs for capital works at Sandy Bay and Dark View. A substantial part of this financing is being provided on concessionary terms through the Bank's Special Development Fund.

In December 2011, the Bank approved a concessionary loan of US$5.0 million for the development of technical and vocational education and training. The purpose of the project is to increase the supply of skilled and employable labor with regionally acceptable certification by approximately 4000 by 2016. An important component of project is teacher training with 230 persons targeted for training by 2016. A total of 23 classrooms/workshops/laboratories will be built or upgraded. The targeted beneficiaries are secondary school students, unemployed and at-risk youth and adult learners. The project will also establish the institutional and informational infrastructure for the ensuring that training is market demand driven.

In December 2012, the Bank approved a loan of US$13.6 million of which US$7.1 million was concessionary financing for the purpose of rehabilitating and upgrading the South Leeward Highway. The project will involve the building and upgrading of 11.4 kilometers of roadway, the upgrading of two bridges and of drainage infrastructure. The target completion date of the project is March 2016.

At December 2012, cumulative loans approved by CDB to the Government and Statutory Authorities stood at US$278.1million, of which US$221.9 million was disbursed, while total loans outstanding amounted to US$139.0 million. Of the total loans approved, US$62 million was borrowed during 2009 and 2010 under the framework for policy-based lending to help mitigate the effects of the global crisis on public finances, and to support a range of macroeconomic and financial sector reforms. Those loans have been fully disbursed.

Since 2010, the disbursement of CDB financing has fallen off significantly as flows normalized following the accelerated rate of disbursement in prior years. At the same time, however, CDB project operations have been adversely affected by the Government's constrained fiscal position which impinged on the Government's ability to adequately provide counterpart financing. Given the lower disbursements, there was a negative net transfer of resources (that is, disbursements of loans less repayments of principal, interest and charges) between CDB and St Vincent and the Grenadines.

St. Vincent and the Grenadines: Loan Disbursement

(In millions of U.S. dollars)

	2005	2006	2007	2008	2009	2010	2011	2012
Net disbursement	4.01	8.31	12.09	9.05	16.77	46.4	-3.76	-5.70
Disbursement	7.35	11.35	15.32	13.02	21.60	52.7	1.63	1.81
Amortization	3.34	3.04	3.23	3.97	4.83	6.3	5.39	7.51
Interest and charges	2.11	2.60	3.22	3.65	3.53	3.7	3.57	4.78
Net resource flow	1.9	5.71	8.87	5.40	13.24	42.7	-7.33	-10.5

STATISTICAL ISSUES

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 expenditure based national accounts), and on data used to monitor labor markets.

National Accounts: A new rebased GDP series (using 2006 as the base year instead of 1990) was released in January 2011 with assistance from CARTAC. The new series improved coverage, data sources, and methodology. The revision disaggregated some industries previously classified under government into separate sectors that now include private sector activity; these are health, education, and social development. The new series also improved the level of detail by estimating value added for business services, computer and related services, and private households with employed persons which were not accounted for in the previous series. A CARTAC Mission is assisting the authorities to revise the estimates of GDP by expenditure at constant and current prices. 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: A new CPI index series (with January 2010 as the base) was introduced in June 2011 with assistance from CARTAC. The new index introduced updated methods and procedures used for compiling the CPI that are in accordance with international standards and allows comparisons among the ECCU member states. The new index uses a Household Budget and Expenditure Survey (HBES) that took place in 2008, replacing the old HBES conducted in 1996, to construct an updated CPI basket. As part of the CARTAC's assistance with the new CPI index it helped link the 2001 based to the 2010-based CPI series.

Government finance statistics: Due to delays in reporting capital expenditures by some ministries, monthly 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. The financial reports of public enterprises are not timely, with about a two-year lag.

Monetary statistics: Monetary statistics are compiled and reported to the Fund by the ECCB on a monthly basis based on a standardized report form since July 2006. The institutional coverage of monetary statistics needs to be improved by including the accounts of mortgage companies, building societies, credit unions, and insurance companies. In this respect, close coordination between the ECCB and the new established FSA (which is supervising financial institutions other than those licensed under the Banking Act) will be crucial.

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 data are compiled by the ECCB on an annual basis. Data reported to STA are becoming more timely, although quality, frequency and coverage need to be improved. 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.

External debt: The Ministry of Finance maintains a database on public and publicly-guaranteed external loans that provides detailed and current information on disbursements, debt service, and debt stocks. The Treasury maintains the data on bonds placed abroad. Data from the two databases as well as information on payments by creditor (actual and scheduled) need to be further consolidated to produce timely debt stock data.

II. Data Standards and Quality

St. Vincent and the Grenadines 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 2010 edition showing annual data to 2002. No new data have been received for more recent years.

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

(As of December, 2012)

	Date of latest observation	**Date received** [7]	**Frequency of Data** [7]	**Frequency of Reporting** [7]	**Frequency of Publication** [7]
Exchange Rates[1]	Fixed Rate	NA	NA	NA	NA
International Reserve Assets and Reserve Liabilities of the Monetary Authorities [1, 2]	September 2012	11/15/12	M	M	Q
Reserve/Base Money	September 2012	11/15/12	M	M	Q
Broad Money	September 2012	11/15/12	M	M	Q
Central Bank Balance Sheet	September 2012	11/15/12	M	M	Q
Consolidated Balance Sheet of the Banking System	September 2012	11/15/12	M	M	Q
Interest Rates[3]	September 2012	11/15/12	Q	Q	Q
Consumer Price Index	October 2012	12/12/12	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4] – General Government[5]	2011	10/29/12	A	A	A
Revenue, Expenditure, Balance and Composition of Financing[4] – Central Government	October 2012	10/29/12	M	M	A
Stocks of Central Government and Central Government-Guaranteed Debt[6]	December 2011	04/10/12	M	M	A
External Current Account Balance	2011	12/03/12	A	A	A
Exports and Imports of Goods and Services	2011	12/12/12	A	A	A
GDP/GNP	2011	12/03/12	A	A	A
Gross External Debt	December 2011	04/10/12	M	M	A
International Investment Position	N/A	N/A	N/A	N/A	N/A

[1] St. Vincent and the Grenadines is a member of the Eastern Caribbean Currency Union, in which the common currency of all member states (E.C. dollar) is pegged to the U.S. dollar at US$1=EC$2.70.
[2] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[3] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[4] Foreign, domestic bank, and domestic nonbank financing.
[5] The general government consists of the central government and state and local governments.
[6] Currency and maturity composition are provided annually.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA); Not applicable (n.a).

ST. VINCENT AND THE GRENADINES

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

January 16, 2013

Approved By
Gian Maria Milesi-Ferretti and Elliot Harris

Prepared by the Staff of the International Monetary Fund.

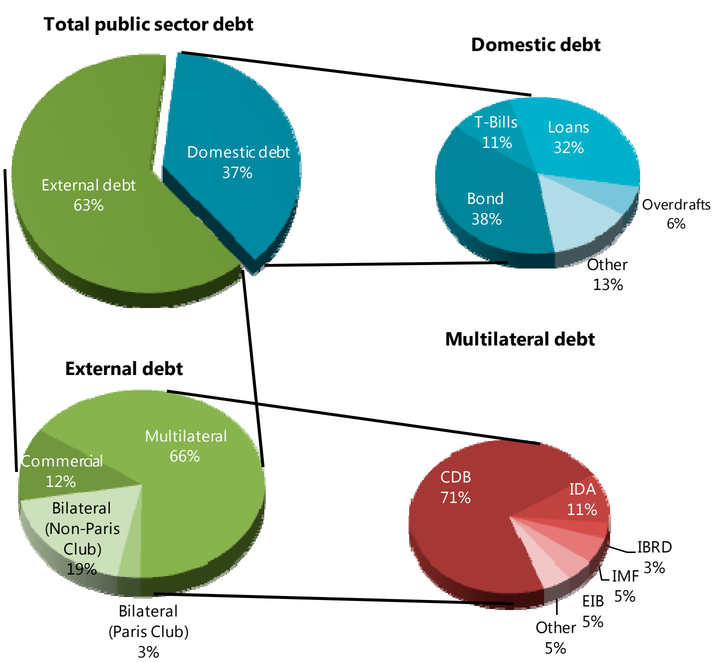
The current Debt Sustainability Analysis (DSA) indicates that, under the baseline scenario discussed in the Staff Report, St. Vincent and the Grenadines' risk of external debt distress remains moderate. While the public sector debt will increase further in the coming two years owing to anticipated borrowing for the airport project, the public debt to GDP ratio is projected to revert to a sustainable trajectory over the medium term in light of the authorities' commitment to undertake fiscal consolidation measures and the projected rebound in economic growth.

INTRODUCTION

1. **Slow recovery appears to be underway after three consecutive years of output contraction.** Economic activity contracted by about 1.7 percent per annum, on average, during 2008–10, reflecting the impacts of the global slowdown, the international commodity price increases in 2008–09, and draught and Hurricane Tomas in 2010. Another weather shock, torrential rains and floods, in April 2011 derailed the ongoing recovery; as a result, growth remained tepid at around ½ percent last year. Government efforts to counter the impacts of these shocks resulted in a reversal of the 1.1 percent of GDP primary surplus in 2008 to a persistent deficit since then. At the same time, the public sector debt-to-GDP ratio increased by 10½ percentage points to 67.8 percent in 2011. External debt constituted around 63 percent of the public sector debt at end-2011, of which about two-thirds is multilateral debt. The Caribbean Development Bank is the creditor for the bulk of the multilateral debt. The central government owed about 85 percent of the total public sector debt at end-2011, with the rest owed by state-owned enterprises.[1]

Public Sector Debt, end-2010

(In percent)



2. **The fiscal stance is expected to be tighter this year, reflecting financing shortfalls.** Revenue outturns and external disbursements for the first 10 months of the year fell short of expectations. As usual, the brunt of financing shortages falls on capital expenditure, where only a quarter of the planned projects

[1] See Appendix III of the Staff Report for further discussion of the financial performance of state-owned enterprises.

are expected to be executed. The overall deficit is expected to be 2¾ percent of GDP, lower by about a percentage point of GDP compared to last year.

UNDERLYING ASSUMPTIONS IN THE BASELINE SCENARIO

3. **The DSA analysis is based on the following macroeconomic framework, assuming that the authorities will implement the policies discussed in baseline scenario of the staff report.**

- **Growth and Inflation**: Growth is expected to be around ½ percent in 2012 and to increase to 1 percent in 2013. Over the medium term, growth is projected to reach its potential level of 3 percent, reflecting improved employment and consumption conditions in tourism and FDI source countries and the expected completion of the international airport project. End-period inflation is expected to have eased to around ¾ percent in 2012, reflecting declining international food and fuel prices. Over the medium term, inflation is projected to revert to its long-term path of around 2½ percent, anchored by the currency board arrangement.

- **Fiscal Balance**: While a small surplus of around ½ percent of GDP is expected for this year, the public sector primary balance is projected to deteriorate significantly next year to a deficit of 3½ percent of GDP due to expected increasing activity at the international airport project financed mainly by borrowing. Over the medium term, however, the primary balance is projected to register surpluses in the range of 2 percent of GDP, mainly reflecting the central government's commitment to generate primary surpluses in the range of 1 percent of GDP, and the expected completion of the airport project[2]. Revenue is projected to increase over the medium term, reflecting the authorities' plan to implement a number of revenue enhancing measures such as implementation of market-based property tax, improvements in compliance and enhancement of tax audits, and streamlining exemptions. External grants, which peaked in 2009, are projected to decline to around 2 percent of GDP over the medium term and further fall to 1½ percent of GDP in the long term. On the other hand, expenditures in percent of GDP are expected to remain high as there is limited appetite for expenditure cutting measures.

- **External Sector**: The current account deficit is expected to remain high at around 28 percent of GDP in 2012, but it is projected to narrow continuously to around 18 percent of GDP by 2017. Tourism and FDI are assumed to rebound as economic recovery strengthens in source countries (mainly North America and Europe), over the medium term. The grant element of new external borrowing is projected to fall over the medium to long term, reflecting difficulty of accessing concessional resources as per capita income increases, however, the grant element will continue

[2] The SOE's projected primary deficit in the coming two years is primarily due to the international airport project, which is managed by a state-owned enterprise (the International Airport Development Corporation). After the completion of the project in 2014, the SOEs combined are expected to generate primary surpluses in the range of 1 percent of GDP.

to remain high in the near to medium term in line with the central government's commitment not to borrow on non-concessional terms.

EVALUATION OF PUBLIC SECTOR DEBT SUSTAINABILITY

4. **The public sector debt will continue to increase in the near term, but is projected to revert to a downward trajectory over the medium term as long as the authorities generate primary surpluses in the range of 1 percent of GDP**. The public sector debt-to-GDP ratio is projected to peak at 74.7 percent by 2014, mainly reflecting borrowing for the International Airport project. However, the debt trajectory is expected to start a downward trend afterwards, reflecting fiscal consolidation measures that the authorities plan to take combined with the projected rebound in economic growth, as discussed in the staff report. The public debt-to-GDP ratio is projected to fall to 59 percent of GDP by 2020, just below the ECCB's recommended threshold of 60 percent.

5. **Sensitivity analysis shows that permanently lower GDP growth is a key vulnerability for St. Vincent and the Grenadine's debt dynamics**. Under a scenario where growth is permanently lower by one standard deviation divided by the square root of the length of the projection period, the Present Value (PV) of debt-to-GDP ratio would reach 71 percent by 2022 and over 97 percent by 2032, compared to the base line levels of 51 percent and 32 percent in 2022 and 2032, respectively (Table 1b, Scenario A2).

EVALUATION OF EXTERNAL DEBT SUSTAINABILITY

6. **St. Vincent and the Grenadines' risk of external debt distress remains moderate**. Under the baseline scenario, the PV of public sector external debt is estimated at 39 percent of GDP in 2012 and is projected to decline to 24 percent of GDP by 2022, half of the threshold value of 50 percent[3] (Table 2b). The present values of debt and debt service to export and revenue ratios also remain below the respective thresholds under the baseline scenario. Nevertheless, these ratios would permanently exceed the respective prudential thresholds under the 'Historical' scenario, where key macroeconomic variables such as real GDP growth, GDP deflator, growth of exports, and non-debt creating flows are assumed to be at their respective averages for the last 10 years.[4] This highlights the pressing need for implementing fiscal consolidation and structural reform measures, as discussed in the staff report, to improve competitiveness and jumpstart economic activity.

[3] The DSA uses policy-dependent external debt burden indicators. Policy performance is measured by the Country Policy and Institutional Assessment Index (CPIA), compiled annually by the World Bank, categorizing countries into three groups based on the quality of their macroeconomic policies (strong, medium, and poor). St. Vincent and the Grenadines is classified as a strong performer, with the thresholds on PV of debt-to-GDP, debt-to-exports, and debt-to-revenue of 50, 200 and 300 percent, respectively.

[4] The historical scenario for this year's DSA differs significantly from that of last year's DSA because the 10-year historical averages for this year drops one 'good' year (2000) and includes one 'bad' year (2011) for key macroeconomic variables.

7. **Sensitivity analysis shows that St. Vincent and the Grenadines' external debt dynamics is vulnerable to changes in non-debt creating flows and the nominal exchange rate**. The stress test assuming that net non-debt creating flows are at historical average minus one standard deviation in 2013-2014 shows that the PV of external debt-to-GDP ratio would jump to 52 percent in 2013, breaching the country-specific threshold of 50 percent, and will remain above 50 until 2019. Similarly, the PV of external debt-to-GDP ratio would jump to 56 percent in 2013 and remain above 50 percent until 2016 under the scenario of a one-time 30 percent nominal depreciation relative to the baseline in 2013 (Table 2b, Scenario B6).

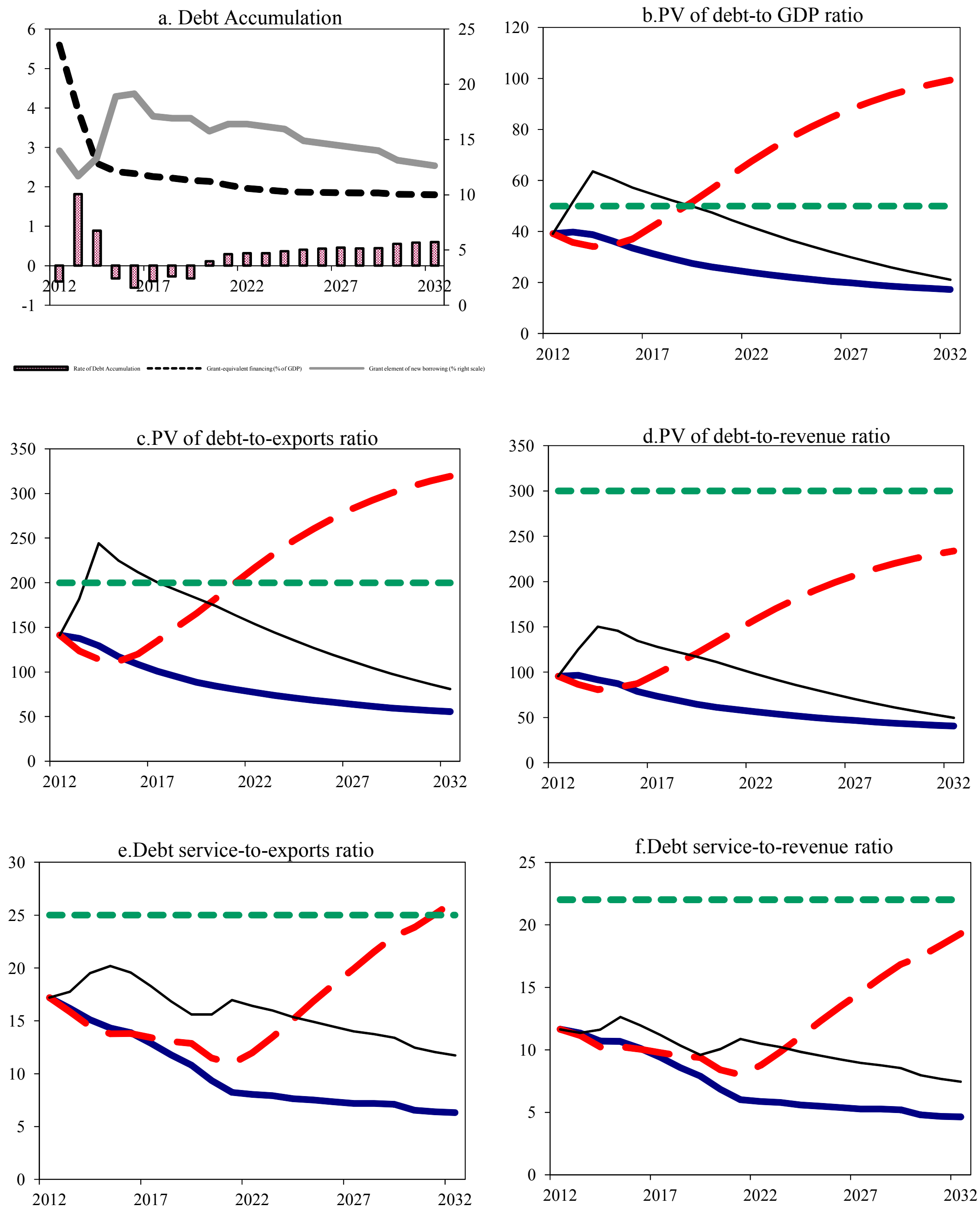
ACTIVE SCENARIO: HIGHER CAPITAL SPENDING AND NO COMMERCIAL BORROWING FOR THE AIRPORT

8. **Re-orientation of central government spending into infrastructure and avoiding commercial borrowing for the airport would reduce the public sector debt to a more desirable level**. Additional investment in infrastructure, financed through savings from current expenditure, would increase medium-term growth by about ½ a percentage point. This would help reduce the public sector debt in percent of GDP. Further reduction in public sector debt would be achieved if the government continues to rely on external grants, land sales and some concessional resources for the airport project, avoiding the planned commercial borrowing assumed in the baseline. Under this scenario, the public sector debt would fall to 52½ percent of GDP by 2020. While the external debt distress still remains in the moderate range, the PV of public sector external debt would be at 38 percent of GDP in 2013 and is projected to decline to 25 percent of GDP by 2022, well below the threshold value of 50 percent (Figure 3).

CONCLUSION

9. **St. Vincent and the Grenadines' public debt is projected to revert to a sustainable trajectory over the medium term and the external debt distress remains moderate**. While the fiscal situation has been deteriorating in recent years, the authorities are committed to fiscal consolidation measures, in particular on the revenue side. These, along with projected improvements in economic prospects, are expected to improve the fiscal situation and ensure debt sustainability over the medium term. Re-orientation of spending into capital projects would improve the medium-term growth prospects and bring down public sector debt to a more desirable level.

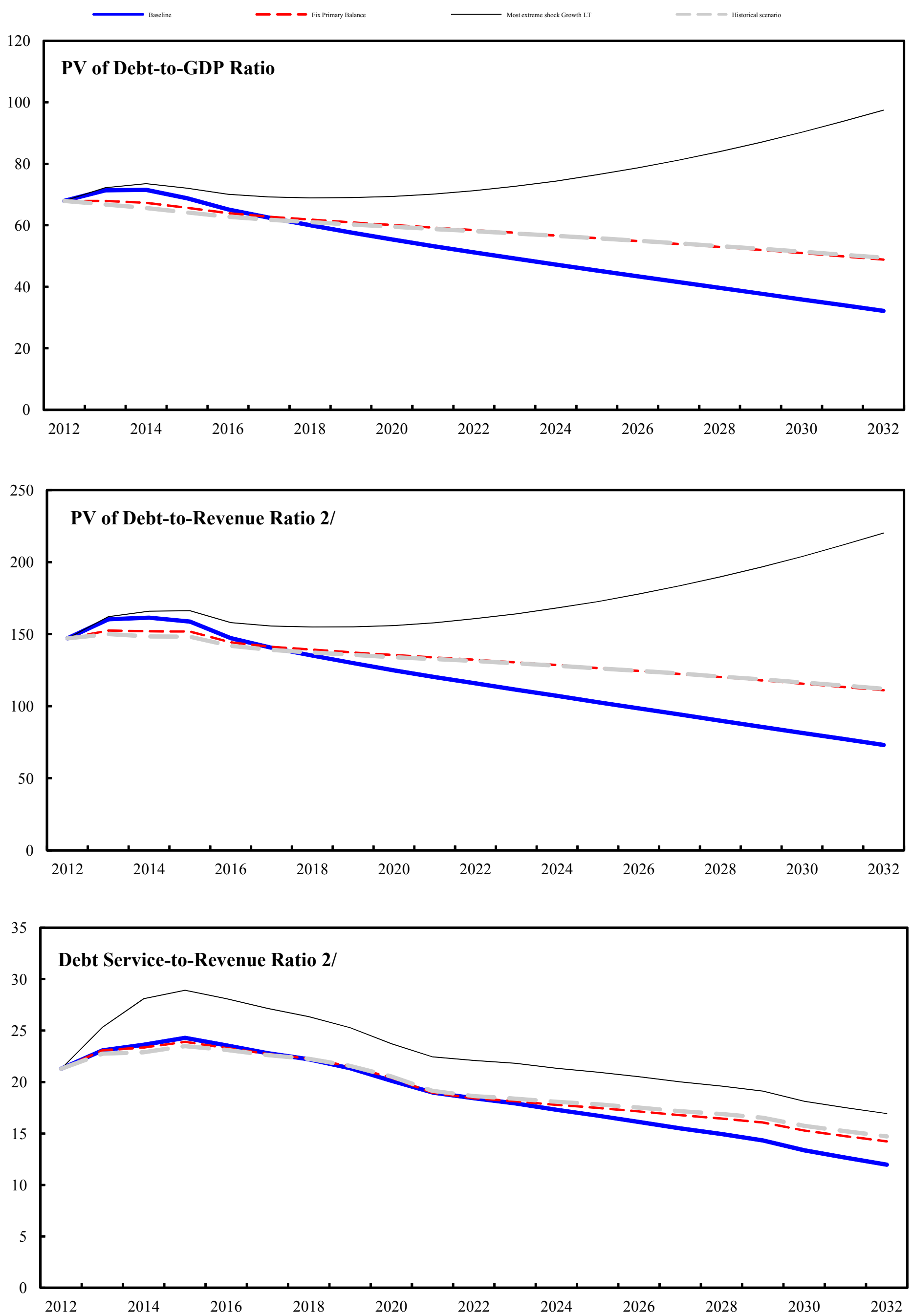
Figure 1. St. Vincent and the Grenadines: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2012–32[1/]



Sources: Country authorities; and staff estimates and projections.

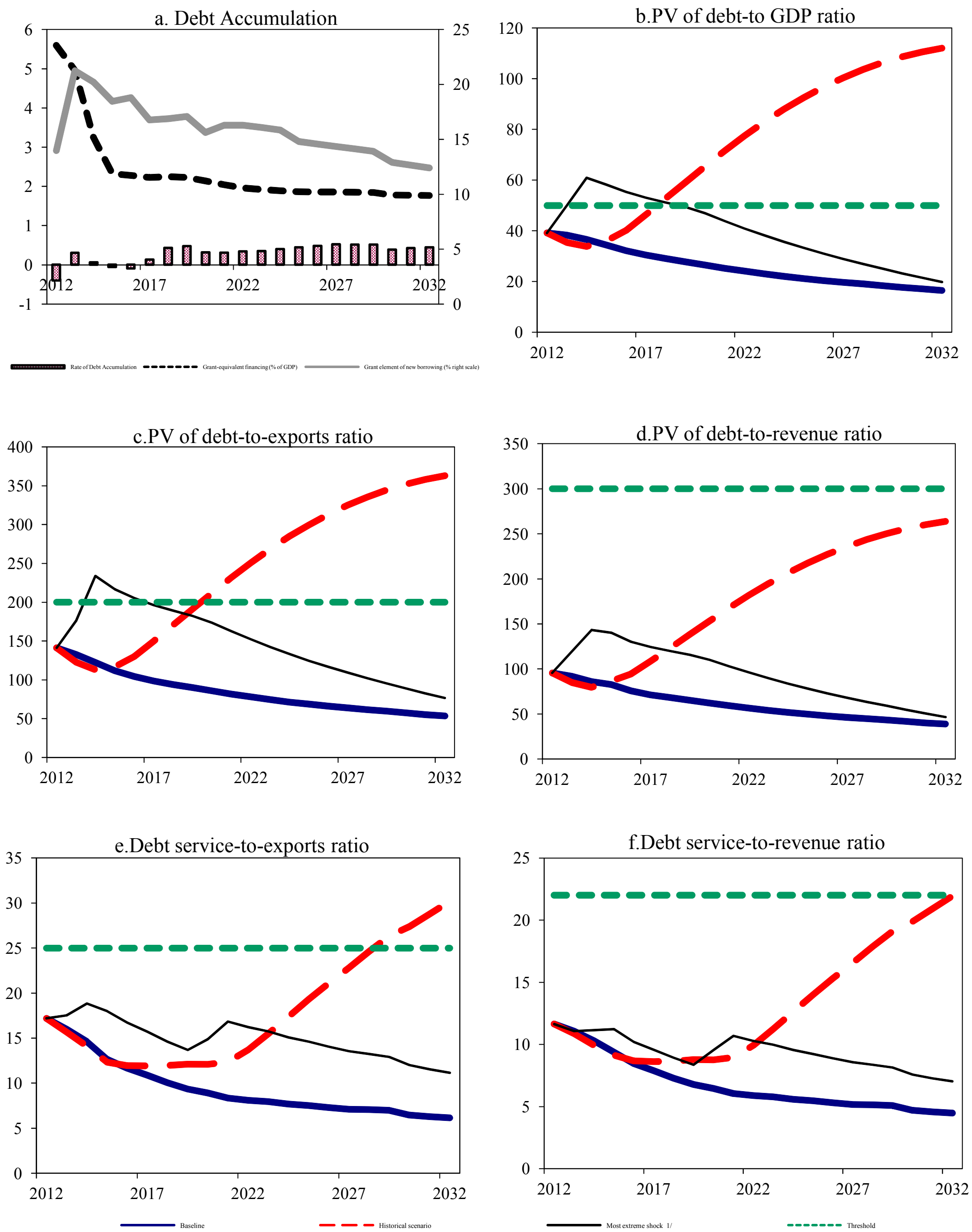
1/ The most extreme stress test is the test that yields the highest ratio in 2022. In figure b. it corresponds to a Non-debt flows shock; in c. to a Combination shock; in d. to a Non-debt flows shock; in e. to a Combination shock and in figure f. to a Non-debt flows shock

Figure 2. St. Vincent and the Grenadines: Indicators of Public Debt Under Alternative Scenarios, 2012–32[1/]



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2022.
2/ Revenues are defined inclusive of grants.

Figure 3. St. Vincent and the Grenadines: Indicators of Public and Publicly Guaranteed External Debt under the Active Scenario, 2012–32[1/]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022. In figure b. it corresponds to a Non-debt flows shock; in c. to a Combination shock; in d. to a Non-debt flows shock; in e. to a Combination shock and in figure f. to a Non-debt flows shock.

Table 1a. St. Vincent and the Grenadines: Public Sector Debt Sustainability Framework, Baseline Scenario, 2009–32
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2009	2010	2011	Average 6/	Standard Deviation 6/	2012	2013	2014	2015	2016	2017	2012-17 Average	2022	2032	2018-32 Average
Public sector debt 1/	64.6	66.2	67.8			70.2	74.2	74.7	72.2	68.9	66.2		54.8	35.5	
o/w foreign-currency denominated	33.1	41.6	42.7			41.5	42.6	41.9	39.8	37.2	35.1		27.6	20.5	
Change in public sector debt	7.3	1.6	1.6			2.3	4.1	0.5	-2.5	-3.4	-2.6		-2.1	-1.9	
Identified debt-creating flows	4.6	1.8	-0.3			1.0	3.8	0.2	-2.5	-3.4	-2.6		-2.1	-1.9	
Primary deficit	-1.1	1.4	-1.9	-0.6	1.9	-0.4	3.4	0.4	-1.6	-2.2	-2.1	-0.4	-1.8	-1.6	-1.8
Revenue and grants	48.3	45.9	46.0			46.1	44.5	44.3	43.3	44.3	44.4		44.2	44.0	
of which: grants	7.0	4.4	5.1			5.1	3.3	2.0	1.8	1.8	1.8		1.6	1.5	
Primary (noninterest) expenditure	47.3	47.3	44.1			45.8	47.9	44.7	41.7	42.1	42.4		42.4	42.4	
Automatic debt dynamics	5.7	2.6	2.0			1.3	1.3	-0.2	-0.9	-1.2	-0.6		-0.3	-0.3	
Contribution from interest rate/growth differential	5.1	3.3	1.6			1.6	1.5	0.4	-0.4	-0.8	-0.3		-0.1	-0.2	
of which: contribution from average real interest rate	3.8	1.8	1.9			2.0	2.2	1.9	1.7	1.7	1.7		1.5	0.9	
of which: contribution from real GDP growth	1.3	1.5	-0.3			-0.3	-0.7	-1.4	-2.2	-2.5	-2.0		-1.7	-1.1	
Contribution from real exchange rate depreciation	0.6	-0.7	0.4			…	…	…	…	…	…		...	...	
Other identified debt-creating flows	0.0	-2.3	-0.5			0.0	-0.9	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	-2.3	-0.5			0.0	-0.9	0.0	0.0	0.0	0.0		0.0	0.0	
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 2/	2.7	-0.2	1.9			1.1	0.0	-0.4	-0.5	-0.4	-0.2		-0.2	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	65.8			67.9	71.4	71.5	68.7	65.2	62.5		51.2	32.2	
o/w foreign-currency denominated	...	...	40.7			39.2	39.8	38.8	36.3	33.6	31.4		24.0	17.3	
o/w external	...	...	40.7			39.2	39.8	38.8	36.3	33.6	31.4		24.0	17.3	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 3/	9.4	12.3	7.6			9.4	13.7	10.9	9.0	8.2	8.1		6.3	3.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	143.3			147.1	160.3	161.5	158.8	147.2	140.5		115.8	73.1	
PV of public sector debt-to-revenue ratio (in percent)	…	…	161.0			165.6	173.1	169.1	165.5	153.3	146.3		120.2	75.8	
o/w external 4/	…	…	99.6			95.6	96.5	91.7	87.4	78.9	73.5		56.2	40.7	
Debt service-to-revenue and grants ratio (in percent) 4/	21.7	23.7	20.6			21.3	23.1	23.6	24.3	23.6	22.8		18.4	12.0	
Debt service-to-revenue ratio (in percent) 5/	25.3	26.2	23.2			24.0	24.9	24.8	25.3	24.5	23.7		19.1	12.4	
Primary deficit that stabilizes the debt-to-GDP ratio	-8.4	-0.2	-3.5			-2.7	-0.6	-0.1	0.9	1.2	0.6		0.3	0.3	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	-2.2	-2.3	0.4	2.5	3.5	0.5	1.0	2.0	3.0	3.5	3.0	2.2	3.0	3.0	3.0
Average nominal interest rate on forex debt (in percent)	4.8	4.0	3.5	3.9	0.7	3.7	3.7	3.5	3.3	3.2	3.1	3.4	2.7	2.8	2.7
Average real interest rate on domestic debt (in percent)	9.4	2.7	5.4	5.2	3.0	4.7	4.5	3.2	3.3	3.7	4.2	3.9	4.9	5.0	4.9
Real exchange rate depreciation (in percent, + indicates depreciation)	1.7	-2.0	1.0	0.0	2.7	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-0.8	3.4	1.1	2.3	3.1	2.5	1.9	2.9	2.8	2.8	2.6	2.6	2.6	2.6	2.6
Growth of real primary spending (deflated by GDP deflator, in percent)	0.0	0.0	-0.1	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	14.0	11.7	13.3	18.9	19.2	17.1	15.7	16.4	12.6	...

Sources: Country authorities; and staff estimates and projections.
1/ Gross public sector external debt (central government and state-owned enterprises).
2/ Also includes contributions from the real exchange rate in the projection period.
3/ 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.
4/ Revenues excluding grants.
5/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 1b. St. Vincent and the Grenadines: Sensitivity Analysis for Key Indicators of Public Debt 2012–32

	Projections											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2032
PV of Debt-to-GDP Ratio												
Baseline	68	71	72	69	65	62	60	58	55	53	51	32
A. Alternative scenarios												
A1. Real GDP growth and primary balance are at historical averages	68	67	66	64	63	62	61	60	60	59	58	49
A2. Primary balance is unchanged from 2012	68	68	67	66	64	63	62	61	60	59	58	49
A3. Permanently lower GDP growth 1/	68	72	74	72	70	69	69	69	69	70	71	97
B. Bound tests												
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	68	74	78	77	75	74	73	73	72	71	71	66
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	68	69	70	68	64	61	59	57	54	52	50	31
B3. Combination of B1-B2 using one half standard deviation shocks	68	69	70	68	65	62	60	59	57	55	54	39
B4. One-time 30 percent real depreciation in 2013	68	88	88	85	80	77	75	72	69	67	65	45
B5. 10 percent of GDP increase in other debt-creating flows in 2013	68	81	81	78	74	71	68	66	63	61	59	38
PV of Debt-to-Revenue Ratio 2/												
Baseline	147	160	161	159	147	141	135	130	125	120	116	73
A. Alternative scenarios												
A1. Real GDP growth and primary balance are at historical averages	147	150	148	148	142	139	137	136	134	133	131	112
A2. Primary balance is unchanged from 2012	147	153	152	152	144	141	139	137	135	134	132	111
A3. Permanently lower GDP growth 1/	147	162	166	166	158	156	155	155	156	158	161	220
B. Bound tests												
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	147	165	176	177	169	166	165	163	162	161	160	149
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	147	156	159	156	145	138	133	128	123	118	114	72
B3. Combination of B1-B2 using one half standard deviation shocks	147	154	157	156	146	140	136	132	128	125	122	89
B4. One-time 30 percent real depreciation in 2013	147	199	199	195	182	174	168	162	156	151	147	102
B5. 10 percent of GDP increase in other debt-creating flows in 2013	147	181	182	179	167	160	154	148	143	138	133	87
Debt Service-to-Revenue Ratio 2/												
Baseline	21	23	24	24	24	23	22	21	20	19	18	12
A. Alternative scenarios												
A1. Real GDP growth and primary balance are at historical averages	21	23	23	24	23	23	22	22	21	19	19	15
A2. Primary balance is unchanged from 2012	21	23	23	24	23	23	22	22	20	19	18	14
A3. Permanently lower GDP growth 1/	21	23	24	25	24	24	24	23	22	21	21	21
B. Bound tests												
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	21	24	25	26	25	24	24	23	22	21	21	17
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	21	23	23	24	24	23	22	21	20	19	18	12
B3. Combination of B1-B2 using one half standard deviation shocks	21	23	24	24	24	23	22	22	20	19	18	13
B4. One-time 30 percent real depreciation in 2013	21	25	28	29	28	27	26	25	24	22	22	17
B5. 10 percent of GDP increase in other debt-creating flows in 2013	21	23	24	25	24	23	23	22	21	21	20	13

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Table 2a. External Debt Sustainability Framework, Baseline Scenario, 2009–32[1/]
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average [6/]	Standard Deviation [6/]	Projections									
	2009	2010	2011			2012	2013	2014	2015	2016	2017	2012-2017 Average	2022	2032	2018-2032 Average
External debt (nominal) 1/	**33.1**	**41.6**	**42.7**			**41.5**	**42.6**	**41.9**	**39.8**	**37.2**	**35.1**		**27.6**	**20.5**	
o/w public and publicly guaranteed (PPG)	33.1	41.6	42.7			41.5	42.6	41.9	39.8	37.2	35.1		27.6	20.5	
Change in external debt	2.7	8.5	1.2			-1.3	1.2	-0.7	-2.2	-2.5	-2.1		-1.1	-0.4	
Identified net debt-creating flows	-13.9	-8.3	-5.3			-7.9	-11.1	-14.6	-18.5	-21.1	-23.2		-23.0	-22.8	
Non-interest current account deficit	**27.8**	**29.3**	**27.3**	**21.9**	**7.6**	**26.3**	**25.3**	**23.8**	**21.1**	**19.1**	**17.2**		**17.5**	**17.7**	17.6
Deficit in balance of goods and services	29.0	30.3	28.0			27.2	26.3	24.8	20.9	18.9	17.0		17.0	17.0	
Exports	28.5	26.9	26.4			27.7	28.9	29.9	30.9	30.9	31.1		31.1	31.1	
Imports	57.6	57.2	54.5			54.9	55.2	54.7	51.8	49.8	48.1		48.1	48.1	
Net current transfers (negative = inflow)	-1.7	-1.5	-1.1	-2.4	0.8	-1.4	-1.6	-1.6	-1.6	-1.6	-1.5		-1.5	-1.5	-1.5
o/w official	-0.5	-0.7	-0.4			-0.4	-0.4	-0.3	-0.3	-0.3	-0.3		-0.3	-0.3	
Other current account flows (negative = net inflow)	0.4	0.5	0.4			0.5	0.6	0.6	1.8	1.7	1.7		2.0	2.2	
Net FDI (negative = inflow)	**-44.1**	**-38.5**	**-33.5**	**-37.8**	**13.1**	**-35.5**	**-37.5**	**-39.0**	**-39.7**	**-40.0**	**-40.4**		**-40.4**	**-40.4**	-40.4
Endogenous debt dynamics 2/	**2.5**	**1.0**	**0.8**			**1.3**	**1.1**	**0.6**	**0.1**	**-0.1**	**0.0**		**-0.1**	**-0.1**	
Contribution from nominal interest rate	1.5	1.3	1.4			1.5	1.5	1.4	1.3	1.2	1.1		0.7	0.5	
Contribution from real GDP growth	0.7	0.8	-0.2			-0.2	-0.4	-0.8	-1.2	-1.3	-1.1		-0.8	-0.6	
Contribution from price and exchange rate changes	0.3	-1.1	-0.4			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**16.7**	**16.8**	**6.5**			**6.6**	**12.3**	**13.9**	**16.3**	**18.6**	**21.2**		**21.9**	**22.3**	
o/w exceptional financing	1.9	10.0	-9.0			-5.0	-0.1	-1.3	0.7	0.9	1.4		1.4	1.4	
PV of external debt 4/	...	...	40.7			39.2	39.8	38.8	36.3	33.6	31.4		24.0	17.3	
In percent of exports	...	...	154.1			141.2	137.7	129.5	117.4	108.5	100.9		77.0	55.5	
PV of PPG external debt	**...**	**...**	**40.7**			**39.2**	**39.8**	**38.8**	**36.3**	**33.6**	**31.4**		**24.0**	**17.3**	
In percent of exports	**...**	**...**	**154.1**			**141.2**	**137.7**	**129.5**	**117.4**	**108.5**	**100.9**		**77.0**	**55.5**	
In percent of government revenues	**...**	**...**	**99.6**			**95.6**	**96.5**	**91.7**	**87.4**	**78.9**	**73.5**		**56.2**	**40.7**	
Debt service-to-exports ratio (in percent)	**15.3**	**17.5**	**17.4**			**17.2**	**16.2**	**15.1**	**14.3**	**13.9**	**12.9**		**8.0**	**6.3**	
PPG debt service-to-exports ratio (in percent)	**15.3**	**17.5**	**17.4**			**17.2**	**16.2**	**15.1**	**14.3**	**13.9**	**12.9**		**8.0**	**6.3**	
PPG debt service-to-revenue ratio (in percent)	**10.5**	**11.4**	**11.3**			**11.6**	**11.3**	**10.7**	**10.7**	**10.1**	**9.4**		**5.9**	**4.6**	
Total gross financing need (Billions of U.S. dollars)	-0.1	0.0	0.0			0.0	-0.1	-0.1	-0.1	-0.1	-0.2		-0.2	-0.4	
Non-interest current account deficit that stabilizes debt ratio	25.0	20.8	26.2			27.6	24.1	24.5	23.3	21.6	19.3		18.6	18.1	
Key macroeconomic assumptions															
Real GDP growth (in percent)	-2.2	-2.3	0.4	2.5	3.5	0.5	1.0	2.0	3.0	3.5	3.0	2.2	3.0	3.0	3.0
GDP deflator in US dollar terms (change in percent)	-0.8	3.4	1.1	2.3	3.1	2.5	1.9	2.9	2.8	2.8	2.6	2.6	2.6	2.6	2.6
Effective interest rate (percent) 5/	4.8	4.0	3.5	3.9	0.7	3.7	3.7	3.5	3.3	3.2	3.1	3.4	2.7	2.8	2.7
Growth of exports of G&S (US dollar terms, in percent)	-8.5	-4.7	-0.2	0.5	5.4	8.0	7.3	8.7	9.4	6.5	6.3	7.7	5.7	5.7	5.7
Growth of imports of G&S (US dollar terms, in percent)	-9.9	0.3	-3.2	6.4	9.5	3.8	3.5	4.1	0.2	2.4	2.2	2.7	5.7	5.7	5.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	14.0	11.7	13.3	18.9	19.2	17.1	15.7	16.4	12.6	15.0
Government revenues (excluding grants, in percent of GDP)	41.4	41.5	40.9			41.0	41.2	42.3	41.5	42.5	42.7		42.6	42.5	42.6
Aid flows (in Billions of US dollars) 7/	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
o/w Grants	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
o/w Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.6	3.9	2.6	2.4	2.3	2.3		2.0	1.8	1.9
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			67.1	44.4	40.3	47.3	49.3	48.8		51.4	49.1	50.3
Memorandum items:															
Nominal GDP (Billions of US dollars)	0.7	0.7	0.7			0.7	0.7	0.8	0.8	0.9	0.9		1.2	2.1	
Nominal dollar GDP growth	-3.0	1.0	1.5			3.0	3.0	5.0	5.9	6.5	5.7	4.8	5.7	5.7	5.7
PV of PPG external debt (in Billions of US dollars)			0.3			0.3	0.3	0.3	0.3	0.3	0.3		0.3	0.4	
(PVt-PVt-1)/GDPt-1 (in percent)						-0.4	1.8	0.9	-0.3	-0.6	-0.4	0.2	0.3	0.6	0.3
Gross workers' remittances (Billions of US dollars)	0.02	0.02	0.02			0.02	0.02	0.02	0.02	0.02	0.03		0.03	0.06	
PV of PPG external debt (in percent of GDP + remittances)	...	...	39.4			37.9	38.6	37.6	35.3	32.6	30.5		23.3	16.8	
PV of PPG external debt (in percent of exports + remittances)	...	...	136.5			126.0	124.0	117.5	107.1	99.3	92.6		70.7	51.0	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	15.5			15.3	14.6	13.7	13.1	12.7	11.8		7.4	5.8	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = 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 changes.

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 2b. St. Vincent and the Grenadines: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012–32
(In percent)

	Projections							
	2012	2013	2014	2015	2016	2017	**2022**	2032
PV of debt-to GDP ratio								
Baseline	39	40	39	36	34	31	**24**	17
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	39	36	34	35	37	42	**68**	99
A2. New public sector loans on less favorable terms in 2012-2032 2	39	41	41	40	38	36	**31**	29
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	39	41	41	38	35	33	**25**	18
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	39	43	48	45	42	40	**31**	19
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	39	41	41	39	36	33	**26**	18
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	39	52	64	61	57	55	**42**	21
B5. Combination of B1-B4 using one-half standard deviation shocks	39	49	63	60	56	54	**41**	22
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	39	56	55	51	48	44	**34**	24
PV of debt-to-exports ratio								
Baseline	141	138	130	117	108	101	**77**	56
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	141	124	114	112	120	135	**217**	319
A2. New public sector loans on less favorable terms in 2012-2032 2	141	142	138	128	121	116	**100**	94
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	141	138	130	117	108	101	**77**	56
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	141	167	206	188	176	165	**126**	78
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	141	138	130	117	108	101	**77**	56
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	141	179	213	196	185	176	**134**	68
B5. Combination of B1-B4 using one-half standard deviation shocks	141	182	244	225	212	201	**154**	81
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	141	138	130	117	108	101	**77**	56
PV of debt-to-revenue ratio								
Baseline	96	97	92	87	79	74	**56**	41
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	96	87	81	83	87	98	**159**	234
A2. New public sector loans on less favorable terms in 2012-2032 2	96	99	97	95	88	84	**73**	69
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	96	98	96	92	83	77	**59**	43
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	96	104	113	109	99	94	**72**	44
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	96	99	98	93	84	78	**60**	43
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	96	125	150	146	135	128	**98**	50
B5. Combination of B1-B4 using one-half standard deviation shocks	96	118	149	144	133	126	**97**	51
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	96	137	130	124	112	104	**80**	58

Table 2b. St. Vincent and the Grenadines: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012–32 (Cont'd.)
(In percent)

Debt service-to-exports ratio								
Baseline	17	16	15	14	14	13	**8**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	17	16	14	14	14	13	**12**	26
A2. New public sector loans on less favorable terms in 2012-2032 2	17	16	15	13	12	12	**9**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	17	16	15	14	14	13	**8**	6
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	17	18	20	20	19	18	**13**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	17	16	15	14	14	13	**8**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	17	16	16	17	16	15	**14**	10
B5. Combination of B1-B4 using one-half standard deviation shocks	17	18	20	20	20	18	**16**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	17	16	15	14	14	13	**8**	6
Debt service-to-revenue ratio								
Baseline	12	11	11	11	10	9	**6**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	12	11	10	10	10	10	**9**	19
A2. New public sector loans on less favorable terms in 2012-2032 2	12	11	10	10	9	9	**7**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	12	12	11	11	11	10	**6**	5
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	12	11	11	11	11	10	**8**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	12	12	11	11	11	10	**6**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	12	11	12	13	12	11	**11**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	12	12	12	13	12	11	**10**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	12	16	15	15	14	13	**8**	7
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	8	8	8	8	8	8	**8**	8

Sources: Country authorities; and staff estimates and projections.

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 assuming an 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.

INTERNATIONAL MONETARY FUND

COM COMMUNICATIONS DEPARTMENT

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International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2012 Article IV Consultation with St. Vincent and the Grenadines

On February 6, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with St. Vincent and the Grenadines.

The economy of St. Vincent and the Grenadines shows signs of recovery, but at a slower pace than expected in 2011. After three consecutive years of negative growth, reflecting the impact of the global financial crisis, higher commodity prices and natural disasters**,** real GDP grew by about ½ percent in 2011. Economic activity indicators for the first six months of 2012 suggest a modest pick-up in tourism arrivals, manufacturing, and agricultural activity. Real GDP growth is expected to be around ½ percent this year, as weak construction activity partly offsets the modest upticks in manufacturing and tourism. Pressures on prices have eased, consistent with declining commodity prices, with year-on-year inflation reaching a low of 0.9 percent in September 2012, after peaking at 4.7 percent at the end of 2011. The external current account deficit remains high at around 30 percent of GDP, largely reflecting higher than expected imports relating to foreign direct investments (FDI), fuel, and international airport construction. Private sector credit growth remains sluggish and continues to drag on growth. While this reflects a tightening of lending standards by banks in the wake of the financial crisis and high non-performing loans (NPLs), it also shows banks' hesitation to lend to private businesses despite excess liquidity.

The fiscal deficit is expected to narrow by about one percentage point compared to last year to about 2¾ percent of GDP, as lower-than-projected revenues were offset by cuts in capital expenditure due to financing constraints. That said, spending on wages and salaries is expected to be somewhat higher given the recent announcement of a retroactive wage

[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.

increase of 1½ percent for civil service workers for 2011 and 2012. Earlier in the year, the government issued a EC$40 million 10-year bond on the Regional Government Securities Market (RGSM) to help finance the deficit.

Weak growth performance has taken a toll on the financial sector. NPLs at banks remain in the 7–7½ percent range, almost twice their pre-crisis level, with considerable variation across banks. Similarly, bank profitability has declined significantly since 2009. While capital adequacy ratios at around 20 percent are relatively high, inadequate provisioning against NPLs (less than 30 percent) calls for caution in interpreting these ratios.

Non-bank financial institutions endure low profitability and their balance sheets continue to come under stress with average NPLs at credit unions broadly similar to those at banks. Available data on NPLs at the Building and Loan (B&L) Association indicate that half of its loan portfolio was overdue in 2011. Although exposures to BAICO and CLICO were partly written off in 2011 by two credit unions and the B&L association, a considerable amount remains on their books and a further write-off could worsen their balance sheets.

Regional efforts to resolve the fallout from the BAICO/CLICO failure are underway. In addition to the establishment of the Medical Support Fund last year to address the needs of medical policyholders, negotiations for selling BAICO's life insurance portfolio to a regional insurance company are well advanced. It is also expected that with the help of the money committed by Trinidad and Tobago, annuity holders may start receiving partial payments by the end of 2012.

Growth is expected to improve over the medium term, albeit gradually, on the back of projected improvements in economic activity in advanced economies and the expected completion of the international airport, which is expected to boost tourism.

Executive Board Assessment[2]

Executive Directors noted that the St. Vincent and the Grenadines' economy is showing signs of recovery following a series of negative shocks. Nevertheless, the near-term outlook for growth is challenging due to the high level of public debt and weaknesses in the financial sector. Directors considered that continued commitment to prudent macroeconomic and financial policies as well as structural reforms to improve competitiveness are key to sustaining growth and enhancing the economy's resilience to shocks.

[2] 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. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors welcomed the authorities' commitment to fiscal consolidation and to the realization of primary surpluses in the medium term. They emphasized that ensuring fiscal and debt sustainability, making room for growth-enhancing capital expenditures, and building buffers against potential future shocks will require further efforts to increase revenues and reduce current expenditure. To this end, Directors encouraged steps to contain the wage bill, limit transfers to state-owned enterprises, and reform of public pensions system. They also called for elimination of discretionary exemptions, strengthening administrative capacity, and improving tax compliance. While recognizing the need for commercial borrowing for the international airport project, Directors urged the authorities to continue to pursue a prudent debt policy to safeguard fiscal and debt sustainability.

Directors underscored the need to monitor the bank and the non-bank financial sectors and to address the vulnerabilities by strengthening supervisory and regulatory standards. In this context, they welcomed the recently established Financial Services Authority and encouraged expeditious resolution of issues at any domestic financial institutions, drawing on technical assistance from international financial institutions.

St. Vincent and the Grenadines: Selected Economic Indicators, 2008–13

	2008	2009	2010	Est. 2011	Proj. 2012	Proj. 2013
Output and prices						
Real GDP (factor cost)	-0.5	-2.2	-2.3	0.4	0.5	1.0
Nominal GDP (market prices)	1.7	-3.0	1.0	1.5	3.0	3.0
Consumer prices, end of period 1/	9.4	-2.2	0.9	4.7	0.8	2.4
Consumer prices, period average 1/	10.1	0.4	0.8	3.2	2.6	1.7
Banking system						
Net foreign assets 2/	3.1	-2.2	10.4	-7.3	-7.0	-4.0
Net domestic assets 2/	-1.7	3.6	-7.8	7.0	10.8	8.4
Credit to private sector 2/	2.6	1.5	1.6	3.5	4.5	4.7
Central government finances (in % of GDP)						
Total revenue and grants	28.6	29.6	27.5	26.8	25.9	26.2
Total expenditure and net lending	29.9	32.9	32.9	30.4	28.6	29.0
Current expenditure	22.9	25.7	28.4	26.5	26.1	25.7
Of which						
Wages and salaries	11.0	11.6	12.1	12.4	12.8	12.8
Interest	2.5	2.8	3.0	2.5	2.7	2.5
Capital expenditure	7.0	7.1	4.5	3.9	2.5	3.3
Overall balance	-1.4	-3.2	-5.4	-3.6	-2.7	-2.8
Overall balance (excl. grants)	-3.8	-7.4	-7.0	-5.6	-4.1	-4.6
Primary balance	1.1	-0.4	-2.4	-1.2	0.0	-0.3
Primary balance (excl. grants)	-1.3	-4.6	-3.9	-3.1	-1.4	-2.0
Central government debt	47.0	51.0	56.2	57.6	58.4	58.9
External sector (in percent of GDP)						
External current account	-33.1	-29.3	-30.6	-28.8	-27.8	-26.8
Of which						
Exports of goods and services	30.2	28.5	26.9	26.4	27.7	28.9
Imports of goods and services	61.9	57.6	57.2	54.5	54.9	55.2
Stayover arrivals (percentage change)	-6.1	-10.3	-3.9	1.9	3.0	4.0
Public sector external debt (end of period)	30.3	33.1	41.6	42.7	41.5	42.6
External public debt service						
(In percent of exports of goods and services)	13.0	15.3	17.5	17.4	17.2	16.2
Memorandum items:						
Gross public sector debt	57.3	64.6	66.2	67.8	70.2	74.2
Net public sector debt	54.5	61.6	63.2	65.1	67.1	70.8
Nominal GDP (market prices; in millions of EC$)	1,878	1,821	1,839	1,866	1,921	1,979

1/ Based on the re-based (2010) CPI.

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