INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/157

ST. VINCENT AND THE GRENADINES

July 2021

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ST. VINCENT AND THE GRENADINES

In the context of the REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 1, 2021, following discussions that ended on May 27, 2021, 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 June 22, 2021.
- A **Statement by the Executive Director** for St. Vincent and the Grenadines.

The documents listed below have been or will be separately released:

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

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR 21/205

IMF Executive Board Approves a Disbursement of US$11.6 Million for St. Vincent and the Grenadines to Address the Fallout from the Volcanic Eruption

FOR IMMEDIATE RELEASE

- *The IMF Executive Board approved the request by St. Vincent and the Grenadines for emergency financing assistance of about US$11.6 million under the Large Natural Disaster Window (LNDW) of the Rapid Credit Facility (RCF). The RCF will help address the urgent balance of payment needs associated with the explosive eruption of the La Soufrière volcano.*
- *The ongoing eruption is hitting St. Vincent and the Grenadines hard, compounding the economic and social/humanitarian impact of the pandemic and by IMF staff's estimates, may result in economic losses amounting to around 30 percent of GDP as infrastructure, housing and crops are damaged.*
- *This will be the first request under the LNDW of the RCF. A member may qualify for the LNDW when urgent balance of payments needs stem from a natural disaster that results in damages of at least 20 percent of the member's GDP.*

Washington, DC – July 1, 2021: The Executive Board of the International Monetary Fund (IMF) approved today a disbursement to St. Vincent and the Grenadines following its request under the Large Natural Disaster Window (LNDW) of the Rapid Credit Facility (RCF) for SDR 8,172,450 (US$11.6 million). The RCF will help cover its balance of payment and fiscal needs stemming from the explosive eruption of the La Soufrière volcano that began on April 9, 2021. This request is the first of its kind under the LNDW.

St. Vincent and the Grenadines is a small state, vulnerable to external shocks, including large natural disasters. The explosive volcanic eruption is hitting St. Vincent and the Grenadines hard, creating an urgent balance of payments need and a humanitarian crisis while the country continues to deal with the fallout from the global pandemic. The economy is estimated to have contracted in 2020 by 3.8 percent as tourism activity fell 70 percent. While considerable uncertainty about the evolution of the eruption remains, IMF staff estimate the infrastructure damage to exceed 20 percent of GDP and for the economy to contract by 6.1 percent in 2021, with agriculture and related sectors severely affected. A drop in fiscal revenues, combined with additional social, cleanup and reconstruction expenditures, will increase the fiscal deficit and financing needs. IMF support will help cover some of these needs and allow the government to ease the impact on the population.

Following the Executive Board discussion of the requests, Mr. Tao Zhang, Deputy Managing Director and acting Chair, made the following statement:

"The ongoing eruption of the La Soufriere volcano has compounded the economic and social impact from the COVID-19 pandemic, creating humanitarian challenges and immediate fiscal and balance of payments needs. The eruption has destroyed livelihoods and a significant part of agricultural crops, and has caused structural damage to public infrastructure.

“The authorities responded to the emergency swiftly. A fiscal package includes humanitarian support, income support for affected sectors and displaced workers, and cleanup and reconstruction spending. Large rebuilding expenses will be required given the magnitude of the damages.

“The authorities remain committed to meeting the debt target set by the Eastern Caribbean Central Bank (ECCB). Once the eruption subsides, the authorities intend to undertake measures to ensure debt sustainability and rebuild fiscal buffers, including replenishing the Contingencies Fund and adhering to the Fiscal Sustainability Framework.

“The ECCB and the Financial Services Authority (FSA) are collaborating to safeguard financial stability. Efforts to strengthen crisis management plans and enhance the AML/CFT framework will help contain financial risks.

“IMF emergency support under the Large Natural Disaster window of the Rapid Credit Facility will help fill St. Vincent and the Grenadines’ balance of payments needs. This represents the first time the window is used. Fund financing is expected to help catalyze additional donor support. The authorities remain committed to ensuring transparency and good governance in the use of humanitarian and crisis-related spending.”

For information on the emergency financing requests approved by the IMF Executive Board, please see a link to the IMF Lending Tracker: https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker

For upcoming discussions on the emergency financing requests, please see a link to the calendar of the IMF Executive Board meetings:
https://www.imf.org/external/NP/SEC/bc/eng/index.aspx

Factsheet: “IMF Rapid Credit Facility (RCF)”
https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/08/Rapid-Credit-Facility

INTERNATIONAL MONETARY FUND

ST. VINCENT AND THE GRENADINES

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

June 22, 2021

EXECUTIVE SUMMARY

Context. An explosive volcanic eruption that began on April 9 is hitting St. Vincent and the Grenadines hard, creating an urgent balance of payments need and a humanitarian crisis as the country continues to deal with the fallout from the global pandemic. The economy is estimated to have contracted in 2020 by 3.8 percent as tourism activity fell 70 percent. Before the eruption, economic growth was expected to be flat in 2021, as the global pandemic continued, and tourism remained depressed. While there is considerable uncertainty about the evolution of the eruption, staff estimate the infrastructure damage to exceed 20 percent of GDP and for the economy to contract by 6.1 percent in 2021 with agriculture and related sectors severely affected.

Request for Fund support. Reflecting the large external financing gaps arising from the sharp deterioration of the balance of payments position and the large fiscal needs to address the humanitarian crisis and cleanup operation, which come on top of financing needs to support the most vulnerable and maintain public health spending in the context of the pandemic, the authorities are seeking immediate financial assistance under the Large Natural Disaster Window (LNDW) within the Rapid Credit Facility (RCF) of SDR 8.17245 million, equivalent to 69.85 percent of quota, to address the urgent balance of payment need. The resources will be on-lent for urgent immediate budget support and to address expected economic losses, that according to staff's estimates exceed 30 percent of 2021 GDP. This request is the first of its kind under the LNDW. Staff supports this request and will continue close engagement with the authorities in the coming months.

Main Policy Recommendations.

- In the short term, adopt measures to alleviate the humanitarian crisis, address the pandemic and support the economy. The authorities estimate the fiscal support in the order of 7¾ percent of GDP.
- Once the volcanic eruption and pandemic shock subside and the economy recovers, rebuild the Contingencies Fund, and resume fiscal consolidation to put public debt on a firmly downward trajectory. Both revenue and expenditure measures, including the reprioritization of public investment projects are required.
- Continue to enhance monitoring of financial sector vulnerabilities and capacity for prompt action to ameliorate the effects of the twin crises.

Approved By
Patricia Alonso-Gamo (WHD) and Chad Steinberg (SPR)

Discussions took place via conference calls on May 25–27, 2021. The team comprised E. Fernandez-Corugedo (head), J. Hukka, M. Rosales Torres, M. Vargas, and C. Pizzinelli (all WHD). R.J. Edwards (OED) participated in the discussions. The IMF team held meetings with Prime Minister Honorable R. Gonsalves; Finance Minister Honorable C. Gonsalves, other senior government officials, and other international financial institutions. A. Aghababyan and T. Khan provided excellent assistance.

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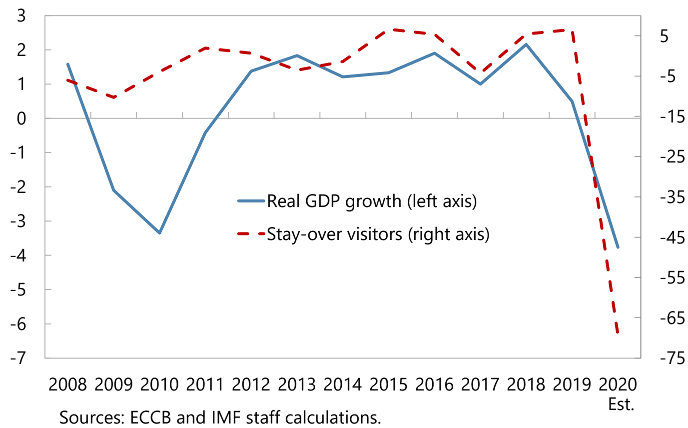
CONTEXT AND THE IMPACT OF THE COVID-19 SHOCK

1. **Prior to the start of the global pandemic, economic growth was projected to improve as the structural reforms advanced by the authorities gained traction.** The authorities had intensified efforts to diversify the export base, strengthen human capital, improve the investment climate, and build infrastructure resilient to natural disasters. A new airport had reinvigorated tourist and investor interest. Following a period of underperformance following the global financial crisis, growth was expected to improve this decade, supported by increased tourism arrivals and construction projects—including a large-scale port modernization project—and a pick-up of crops and fisheries' exports.

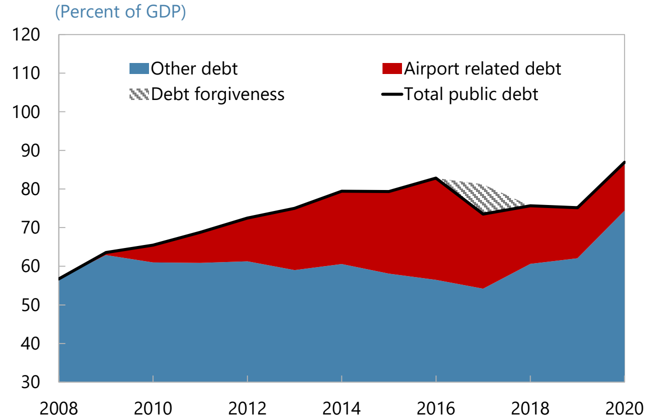
St. Vincent and the Grenadines: Real GDP and Tourist Arrivals
(Year-on-year growth, percent)



Sources: ECCB and IMF staff calculations.

2. **The authorities had strived to put the public finances in order.** They had maintained a relatively prudent fiscal policy stance, instituted a contingencies fund for natural disasters, strengthened the oversight of state-owned enterprises and in 2020 introduced a Fiscal Responsibility Framework (FRF) incorporating fiscal rules.[1] However, the construction of a new port costing around 20 percent of 2020 GDP, originally scheduled to start in 2020, was expected to put pressure on public finances. Nonetheless, public debt was projected to firmly decline as the authorities adhered to the fiscal rules embodied in the FRF and the adoption of fiscal consolidation measures once the pandemic was under control.

St. Vincent and the Grenadines: Public Debt
(Percent of GDP)



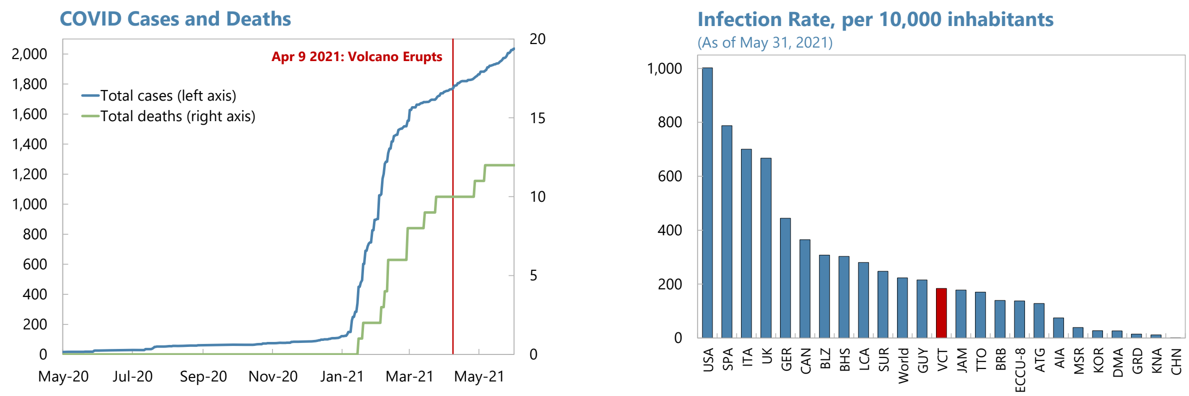
Sources: Ministry of Finance and IMF staff calculations.

3. **The authorities have navigated the pandemic relatively well.** The authorities responded swiftly, initially introducing 14-day quarantines for persons arriving from Asian economies with

[1] The fiscal rules include: (i) reducing public debt to no more than 60 percent of GDP by 2030 in line with the ECCB's regional target; (ii) targeting an improvement in the primary balance to a surplus of one percent of GDP to 2.7 percent; and (iii) ensure that nominal current expenditure in a fiscal year does not reasonably exceed the growth in nominal GDP in the year. The authorities suspended these rules in response to the pandemic and are recalibrating these parameters with a view of operationalizing the rules in 2022–23. The ECCB Monetary council decided to extend the debt target date from 2030 to 2035.

COVID-19 outbreaks and following the first domestic case, introduced social distancing and health measures to contain the spread of the virus. The government did not declare a state of emergency, and all businesses were permitted to continue activities.[2] Infection rates were relatively contained but rose at the end of 2020 and into 2021 as Vincentians returned from abroad and some tourists arrived during the Christmas holidays. Prior to the first volcanic explosion, infection rates had fallen, and the authorities had started a vaccination campaign following the arrival of around 40,000 doses from India. An additional 46,000 doses were committed through the COVAX Facility, 24,000 of which were delivered on April 6.

St. Vincent and the Grenadines: COVID-19



Sources: Ministry of Health and IMF staff calculations.

Sources: Johns Hopkins University and IMF staff calculations.

4. The pandemic took a heavy toll on the economy with a protracted recovery anticipated prior to the volcanic eruption. GDP is estimated to have contracted by 3.8 percent in 2020, driven by sluggish activity in tourism-related sectors which compounded negative growth rates in the agriculture and manufacturing sectors that had preceded the pandemic. Prior to the volcanic eruption, staff had projected the recovery to begin in 2022 as tourism returned and the construction of the new port as well as new tourist accommodation started in earnest.[3] In response to the fall in tourism receipts, the current account deficit widened to 16.3 percent of GDP in 2020. Expecting a gradual return of tourism to start only in 2022, the current account deficit was projected to worsen in 2021 to 19.3 percent of GDP before converging towards historical levels.

5. The fiscal position did not deteriorate as initially expected in 2020 despite the significant size of the COVID-19 shock, though it was expected to worsen in 2021 prior to the eruption. Total revenue rose 2½ percentage points of GDP in 2020 relative to 2019 as robust revenue collection in 2020 from personal income tax, excise duties and capital revenue more than offset a fall in VAT receipts. However, due mainly to the COVID-19 fiscal response measures,

[2] All ECCU countries except for St. Vincent and the Grenadines declared a state of emergency or much tighter restrictions on economic activities.

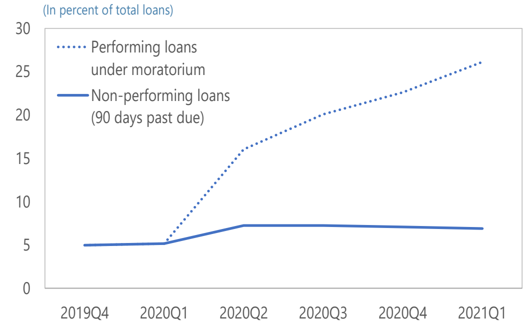
[3] Tourism have not recovered as strongly as was projected at the time of the disbursement under the Rapid Credit Facility (RCF) in May 2020. Prior to the volcanic eruption, staff had lowered the tourism projections based on the evolution of the pandemic, with tourism not expected to reach pre-pandemic levels until 2024 (vs 2023 at the time of the 2020 RCF).

expenditure rose by 4¾ percentage points in 2020 and the deficit widened to 5¾ percent of GDP in 2020 from 3 percent in 2019.[4] Nonetheless, public debt rose 12 percentage points to 87 percent of GDP. The 2021 Budget, published in February, had envisaged a further widening of the overall deficit to 13¾ percent of GDP in response to a substantial increase in capital outlays driven by the port construction, continued pandemic-related spending measures and a projected weaker recovery.[5] Over the past few years, however, the government has presented ambitious budgets envelopes but implemented them prudently. Accordingly, staff expected the fiscal deficit to be contained at around 6 percent of GDP broadly in line with the 2020 outturn.

6. A SDR 11.7 million disbursement under the Rapid Credit Facility (RCF) was approved on May 20, 2020. The disbursement under the RCF at around US$16 million or 2 percent of GDP helped to cover much the balance of payments and fiscal needs stemming from the pandemic in 2020, estimated at around 3.6 percent of GDP. In line with their commitments at the time of the RCF approval, the authorities are planning—subject to legal[6] considerations—to publish the procurement documentation and added information on the beneficial owners of the companies that received crisis-related procurement contracts, and have reported to staff monthly COVID-19 related expenditures.

7. The financial system has remained stable. The system remains highly liquid as deposits continued to grow over the pandemic period. Bank and credit union NPLs increased modestly to around 7 percent of total loans, contained by broad uptake on the extended loan moratoria set to expire in September 2021.[7] Entities in both sectors have increased loss provisions over the pandemic to a coverage ratio averaging about 60 percent of NPLs and retain capital buffers well above the regulatory minima.[8] The

St. Vincent and the Grenadines: Credit Unions - Loan Quality Indicators over the Pandemic
(In percent of total loans)



Source: Financial Services Authority, IMF staff calculations.

[4] COVID-related fiscal expenditure measures included: i) increased funding for the health sector (construction of an isolation unit, purchases of drug and equipment, hiring of extra medical staff); ii) public infrastructure projects to generate jobs; iii) support to the agriculture and fishery sectors; iv) income support programs for displaced workers and firms in the tourism sector; and v) temporary widening of the social safety net to cover vulnerable households. On the revenue front measures included: VAT and import duty exemptions on health and hygiene productions, tax relief for local airlines and a reduction of airport departure fees.

[5] The Budget also took measures to boost domestic revenue mobilization, including increasing the customs service charge.

[6] The Attorney General is reviewing the government's request to publish this information to ensure it is compliant with the Constitution.

[7] In March 2020, the ECCB and the ECCU Bankers' Association announced broad-based loan repayment moratoria and waivers of late fees and charges, which were extended in September 2021 in a more targeted manner based on banks' assessment of borrower's financial conditions (see 2021 ECCU Discussion on Common Policies). The national Financial Services Authority (FSA) has issued similar advisories for non-bank deposit taking institutions. Moratoria uptake has varied over the extension period in in each sector within a range of about 15–25 percent.

[8] One moderately sized building and loans society (about 5 percent of total sector assets) remains under enhanced FSA supervision, including on account of a large portfolio of long-overdue loans.

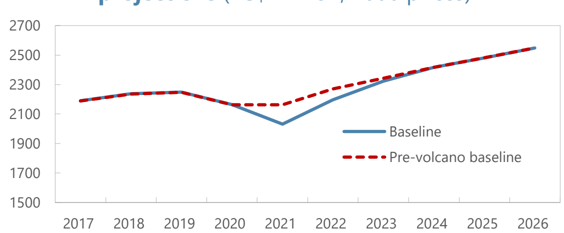
pandemic has so far had limited impact on the insurance sector, primarily through a decline in premium income.

ERUPTING LA SOUFRIERE: A HUMANITARIAN AND ECONOMIC CRISIS

8. **The authorities have acted swiftly and over 20,000 people have been evacuated.** On April 8, one day before the volcanic eruption, the Prime Minister issued an evacuation order for individuals living in hazardous areas near the volcano (Annex I). The authorities are providing support to all displaced persons (see below).

9. **The fallout from the volcanic eruption will compound the economic and social impact from the pandemic and likely result in economic losses amounting 30 percent of GDP (Annex I).** A Global Rapid Post Disaster Damage Estimation (GRADE) report conducted by the authorities and the World Bank on April 20 suggests that most agricultural output and a substantial share of livestock has been lost in the surrounding area of the volcano, and that the estimated direct damage to infrastructure and buildings alone would exceed US$150 million (20.5 percent of GDP). Manufacturing production and construction projects were disrupted temporarily by the ash accumulation and by disruptions to energy and water supplies. Staff do not anticipate further falls in tourism since other islands (Bequia, Mustique, Canouan) have not been materially affected and are still expected to receive tourists. Overall, the economy is expected to further contract by 6.1 percent in 2021 with the cumulative lost economic output relative to the pre-volcano projections (embodied in the April World Economic Outlook) amounting to around 11 percent of 2021 GDP.

St. Vincent and the Grenadines: Real GDP projections (EC$ million, 2006 prices)



Source: IMF staff estimates and ECCB historical data.

St. Vincent and the Grenadines: Impact of the 2021 Volcanic Explosion
(Percent of GDP; unless otherwise indicated)

	2021			2022		
	Pre-volcano	**Post-volcano**	**Change**	**Pre-volcano**	**Post-volcano**	**Change**
Output and Prices						
Real GDP Growth (percent)	0.0	-6.1	-6.1	4.9	8.3	3.4
Inflation (percent)	1.4	2.0	0.5	2.0	2.1	0.2
External Sector						
Current account balance	-19.3	-22.2	-2.9	-13.5	-12.2	1.3
Of which: Tourism exports	7.5	8.0	0.5	20.7	20.9	0.1
Net Private Transfers	3.3	3.3	0.0	3.3	3.3	0.0
Central Government Finances						
Revenue	32.4	31.7	-0.7	34.5	37.0	2.5
Of which: Current revenue	29.7	28.9	-0.8	29.7	29.7	0.0
Expenditure	38.3	44.3	6.0	40.4	41.1	0.6
Overall balance	-5.9	-12.6	-6.7	-5.9	-4.0	1.9

Source: Fund staff calculations.

10. **The headline and current account deficits are expected to widen.** The current account deficit is projected to widen to 22.2 percent of GDP in 2021, reflecting lower exports of agriculture, and higher imports of relief supplies and construction materials, partially offset by a reduction in imports of consumption goods (Table 2 and Figure 2). While there is considerable uncertainty, experts note that volcanic eruptions could continue for at least a few weeks, possibly for four-to-six

months intermittently, adding pressure to public finances. The cost of the crisis response measures (see below), together with additional pressures on fiscal revenues, could increase the fiscal deficit from the pre-eruption estimate of 5.9 percent of GDP to 12½ percent of GDP and put pressure on public debt.

11. An urgent balance of payment need has arisen, which if not addressed, would result in an immediate and severe economic disruption and would further compound the humanitarian crisis. Alongside the projected deterioration of the current account deficit, a decline in FDI inflows on account of the partial postponement of large hotel construction projects disrupted by the eruption will lead to a deterioration of the financial account. As a result, without additional official financing, the stock of imputed reserves could fall by 62 percent relative to 2020 and could reach EC$209 million (2.3 months of projected imports of goods and services in 2022). Staff estimate that the external financing gap is EC$ 342 million (16.8 percent of GDP). This gap is projected to be filled through the support of official financing from multilateral and bilateral sources (EC$240 million, equivalent to 11.8 percent of GDP), which would allow reserves to be maintained at about EC$449 million (5 months of projected imports).

St. Vincent and the Grenadines: External Accounts, 2020–21

	Millions of EC$		Percent of GDP	
	2020	2021	2020	2021
Current account balance	**-348**	**-451**	**-16.3**	**-22.2**
Trade	-506	-579	-23.7	-28.5
Services	76	32	3.6	1.6
Of which: tourism receipts	203	140	9.5	6.9
Primary income	-25	-19	-1.2	-0.9
Secondary income	106	114	5.0	5.6
Capital account	**51**	**45**	**2.4**	**3.5**
Financial account 1/	**297**	**304**	**13.9**	**15.0**
Direct Investment	148	94	6.9	4.6
Portfolio investment	-9	-13	-0.4	-0.6
Other investment	158	222	7.4	11.0
Commercial banks	11	45	0.5	2.2
Net errors and omissions	37	0	1.7	0.0
Overall balance (deficit -)	**36**	**-102**	**1.7**	**-5.0**

	Millions of EC$		Percent of GDP	
	2020	2021	2020	2021
Prospective official financing	**...**	**240**	**...**	**11.8**
IMF (RCF)	...	32	...	1.5
WB	...	54	...	2.5
Other 2/	...	154	...	7.2
Reserve assets (increase -)	**-36**	**102**	**-1.7**	**5.0**
Imputed reserves stock	**551**	**449**	**25.8**	**22.1**
In months of total imports	7.0	5.0		
Memorandum item:				
Imputed reserves stock (w/o prospective official financing)	...	209		
In months of total imports	...	2.3		
Nominal GDP	2,132	2,032		

1/ Excludes reserves.

2/ Includes debt and grants.

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

12. Once both the volcanic eruption and pandemic crises recede, economic prospects would become more favorable. Under staff's baseline, volcanic eruptions would cease by August 2021 (in line with the 1979 eruption and the authorities' projections), permitting cleanup operations in all affected areas (mainly for housing in the north).[9] On tourism, it is assumed that: i) the global pandemic crisis would subside by the second half of 2021 as vaccinations gain traction, and ii) the number of visitors will increase strongly in the last quarter of the year. Real GDP is projected to rebound by about 8.3 percent in 2022 driven by strong activity in the tourism, manufacturing and construction sectors that will be sustained over the medium term, and a recovery in agriculture. Inflation is projected to stay at around 2 percent (broadly in line with inflation in the United States). Beyond assumptions about volcanic activity and the evolution of the pandemic, staff assume that: (i) construction of the new port project gets into full swing in the second half of 2022, boosting demand for construction; (ii) hotel and resort projects recover over time, accompanied by higher FDI inflows; and (iii) exports of non-traditional crops and fisheries gradually strengthen.

13. Risks to the medium term are skewed to the downside. On the external side, the global pandemic could be more prolonged resulting in continued damage to the tourism sector. On the domestic side, more prolonged volcanic eruptions coupled with substantial pandemic outbreaks, or further delays in the vaccination program would result in a more severe recession. Moreover, with the onset of the hurricane season in June, St. Vincent and the Grenadines could also be hit by another natural disaster.

14. The eruption's financial stability impact will likely mirror its indirect effects on the broader economy. Due to high natural disaster susceptibility, property loans in the region typically require insurance coverage and insurance companies cede about 90 percent of such liabilities to overseas reinsurance, significantly mitigating any direct balance sheet impact. Furthermore, credit exposures to sectors with potentially more lasting damage (agriculture) or already under pressure (tourism) are very modest, and distressed borrowers may benefit from the existing pandemic moratoria window that remains in effect through the baseline eruption period. Nonetheless, in anticipation of an eruption, the FSA instructed non-banks in early 2021 to undertake loss-scenario exercises, ensuring borrowers' insurance contracts remain up to date, and to review operational business continuity plans. In late May the FSA also issued an advisory to non-bank deposit taking institutions introducing a targeted extension of the moratoria window through end-December 2021 to support borrowers adversely affected by the eruptions. The ECCB also stands ready to support the banking system as required.

POLICY DISCUSSIONS: NAVIGATING THE CRISIS WHILE ENSURING DEBT AND FINANCIAL SUSTAINABILITY

15. The authorities estimate that a fiscal package of about US$55.1 million (7¼ percent of GDP) will be needed to address the immediate humanitarian and healthcare crises in 2021 (Tables 3 and 4). The authorities' immediate measures, announced in a supplementary budget on May 11, are targeted to address urgent humanitarian and healthcare needs as well as support measures for affected sectors and for displaced workers, amounting to US$44 million. These

[9] On May 5, the authorities reduced the alert level from red to orange thereby allowing orange zone evacuees to return to their homes and for the cleanup operation to begin in that area.

measures are expected to remain in place while the volcano remains active. Once the explosive volcanic eruptions cease, the authorities will focus on the cleanup as well as reconstruction projects to rebuild affected infrastructure, with the construction of destroyed housing stock a priority (around US$11.1 million). On the revenue side, the government has announced tax relief measures (amounting to ½ percent of GDP) on aid-related supplies.

16. The impact of the volcanic eruptions will temporarily weaken the fiscal position. Revenue is projected to decline in line with the fall in economic activity, but a material collapse of the revenue base is unlikely. Prior to the volcanic eruption, total revenue and grants had slightly exceeded staff's estimates driven by new measures introduced in the 2021 Budget and improved tax administration pertaining to property taxes. Despite disruptions in the aftermath of the explosive eruptions, sectors producing the main sources of revenue remain operational (financial, retail, and utility sectors). The continued weakness of tourism activity since last year has had limited direct impact on fiscal revenue given large tax exemptions. Under the baseline scenario, staff expect total revenue and grants to fall modestly from 32.4 percent of GDP in 2020 to 31¾ percent of GDP. On the expenditure side the authorities plan to make room for the additional spending needs by reprioritizing current and capital spending programs to limit the increase in total expenditure to 6.2 percentage points of GDP (from 38.1 percent of GDP in 2020 to 44.3 percent of GDP in 2021).[10] The overall deficit is expected to rise to EC$256 million (12.6 percent of GDP). Excluding the impact from the volcanic eruptions on public finances (i.e., reduction in revenues and the fiscal package to address the humanitarian emergency and the temporary tax relief measures), the fiscal deficit will be contained to 1½ percent of GDP in 2021.

St. Vincent and the Grenadines: Fiscal Accounts, 2020–21

Announced Supplementary Fiscal Measures

	EC$ Million	US$ Million	Percent of GDP
Expenditure Measures	**148.9**	**55.1**	**7.3**
Emergency reflief	118.9	44.0	5.9
Pandemic-related measures	39.0	14.4	1.9
Volcano-related measures	79.9	29.6	3.9
Public works program	30.0	11.1	1.5
Tax Measures	**10.0**	**3.7**	**0.5**
VAT and import duty waivers on aid related supplies	…	…	…
Total Costs	**158.9**	**58.9**	**7.8**

Sources: Ministry of Finance and Planning and IMF staff calculations.

Central Government Operations, 2020-21 1/ (Above-the-line)

	Millions of EC$			Percent of GDP		
	2020	2021		2020	2021	
	Prel.	Budget	Staff proj.	Prel.	Budget	Staff proj.
Total revenue and grants	**691**	**706**	**644**	**32.4**	**32.7**	**31.7**
Current revenue	605	647	586	28.4	30.0	28.9
Tax revenue	554	554	532	26.0	25.6	26.2
Non-tax	51	93	54	2.4	4.3	2.7
Capital Revenue	36	3	3	1.7	0.1	0.1
Grants	51	56	55	2.4	2.6	2.7
Total expenditure	**813**	**1002**	**899**	**38.1**	**46.4**	**44.3**
Current	638	698	805	29.9	32.3	39.6
Wages and salaries	324	346	335	15.2	16.0	16.5
Interest	52	73	65	2.4	3.4	3.2
Transfers and subsidies	174	177	216	8.2	8.2	10.6
Goods and services	89	102	190	4.2	4.7	9.3
Capital expenditure 2/	175	304	94	8.2	14.1	4.6
Reconstruction *(La Soufriere)*	…	…	30	…	…	1.5
Port 3/	12	41	10	0.6	1.9	0.5
Others	163	263	54	7.7	12.2	2.7
Overall balance	**-122**	**-296**	**-255**	**-5.7**	**-13.7**	**-12.6**
Exc. COVID-19 & volcano shocks & port	-122	-296	-34	-5.7	-13.7	-1.7
Primary balance	**-70**	**-223**	**-190**	**-3.3**	**-10.3**	**-9.4**
Exc. COVID-19 & volcano shocks & port	-70	-223	31	-3.3	-10.3	1.5
Memorandum item:						
Gross public sector debt	…	…	…	75.2	…	86.9

Sources: Ministry of Finance and Planning; and Fund staff estimates and projections.
1/ Staff projections reflect the authorities' May 11 supplementary budget.
2/ The capital expenditure reported for the 2021 Budget is an envelope. Historically, implementation rates have been below 50 percent and staff assume that many projects have been postponed due to the eruption.
3/ No construction in 2021. EC$ 10 million has been allocated for the expense to reallocate businesses and families which need to move from the port construction site.

[10] Prior to the volcano eruption, the authorities were seeking to contain current expenditure by containing the wage bill (keeping unfilled vacancies and containing the wages paid to public servants).

17. The RCF would contribute to alleviate sizeable official financing needs. On March 18, the authorities signed a Memorandum of Understanding (MoU) under the Debt Service Suspension Initiative (DSSI). Under the MoU, all amounts of principal and interest due between January 1, 2021 to December 2021, can be postponed to December 2022, whereupon all corresponding amounts are to be paid in ten installments every six months. Taking into account the DSSI and given all other existing external disbursements—pledged prior to the crisis, including US$20 million in a CAT DDO from the World Bank approved in 2020—as well as amortization, and net domestic financing, official financing needs are estimated at US$85 million (11¼ percent of GDP). The timely disbursement of the RCF would play a catalytic role and pave the way for external financing from other multilaterals and ease the immediate pressures emanating from the catastrophe. The authorities are engaging the World Bank and the Caribbean Development Bank for potential budget support to address the humanitarian crisis. Without the RCF and prospective lending from other donors), the authorities would face difficulties in dealing with the humanitarian crisis without drastically cutting other expenditure programs. The authorities tapped their savings from the Contingencies Fund for US$3.7 million in 2020 to help address the COVID-19 pandemic and have already drawn US$5.6 million (0.7 percent of GDP) to address the current emergency, leaving its untapped balance at around US$9 million (1¼ percent of GDP) to address potential needs from the 2021 hurricane season. If the SDR allocation is approved, this would provide an additional US$16 million (2 percent of GDP) in potential financing, which provides a welcome buffer in the event of unexpectedly higher BOP needs or shortfalls in other donor financing.

St. Vincent and the Grenadines: Gross Financing Needs, 2021

(Million EC$ and US$, and percent of GDP

	Million		Percent
	EC$	US$	of GDP
Total GFN	**468.9**	**173.7**	**23.1**
Overall deficit	264.8	98.1	13.0
Domestic Amortizations	103.0	38.1	5.1
Short term	39.6	14.7	1.9
Medium and long term	43.4	16.1	2.1
External amortizations	101.1	37.4	5.0
Short term	40.4	15.0	2.0
Medium and long term	60.6	22.4	3.0
Financing	**468.9**	**173.7**	**23.1**
Rollover of T-Bills (100%)	80.0	29.6	3.9
External Financing	361.8	134.0	17.8
Official	361.8	134.0	17.8
Existing	185.8	68.8	9.1
WB: IDA	48.1	17.8	2.4
WB: CAT DDO	54.0	20.0	2.7
CDB	50.4	18.7	2.5
Others	33.3	12.3	1.6
Prospective	176.0	65.2	8.7
IMF (RCF)	31.9	11.8	1.6
Others[1]	144.1	53.4	7.1
Domestic Financing	27.0	10.0	1.3
Drawdown of deposits	15.0	5.6	0.7

Source: St. Vincent and the Grenadines Ministry of Finance and IMF staff estimates.

[1] Includes prospective resources from World Bank, Caribbean Development Bank, and others.

18. More than half of the gross financing needs in 2021 rely on prospective official financing. Total gross financing needs are estimated at EC$469 million (23 percent of GDP) in 2021. A total of EC$212 million (10.4 percent of GDP) would be financed through: (i) rolling over TBs; (ii) drawing from existing official financing; (iii) drawing down government deposits; and (iv) issuing bonds and borrowing from banks. The remaining EC$257 million (12.7 percent of GDP) would be financed by prospective official financing: (i) Fund disbursements under the RCF; and (ii) other prospective sources, including the World Bank and the Caribbean Development Bank.

19. Public debt will rise temporarily and remain at high risk of distress but would remain sustainable on a forward-looking basis if the authorities implement fiscal consolidation

measures, once the humanitarian and pandemic crisis end and the economy recovers (Annex II). The phased execution of the port project will keep the pressure on the public finances,[11] on top of the impact stemming from the global pandemic and volcanic eruption. Under the baseline scenario, which includes consolidation measures introduced in the pre-eruption 2021 budget, and the authorities' commitments to adhere to the FRF's primary balance targets of around 3 percent of GDP by 2026, staff expect the public debt to GDP ratio to peak at around 103.7 percent of GDP in 2021 and to fall to 64.5 percent of GDP by 2030.[12] The improvement in the primary balance of 4½ percentage points of GDP between 2022–26 envisaged in staff's baseline scenario—which includes reconstruction activity and the construction of the port (which is fully financed)—would ensure that the public debt to GDP ratio would fall below 60 percent of GDP by 2031 four years ahead of the ECCU's regional target. Excluding the reconstruction activity, pandemic-related spending and the port project, the primary balance embodied in staff's baseline would amount to 3½ percent of GDP in 2021–26 on average, and would improve from 1½ percent of GDP in 2021 to 3 percent of GDP in 2026, in line with the FRF.

St. Vincent and the Grenadines: Fiscal Assumptions

(Percent of GDP; unless otherwise indicated)

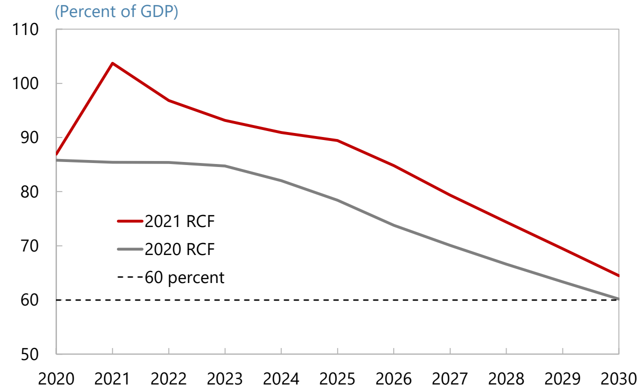
	2020-2030 ave.	
	2020 RCF	2021 RCF
Real GDP growth (percent)	2.2	2.3
Central government (CG)		
Revenue and grants	30.2	32.7
Total expenditure	31.9	35.4
Of which; capital expenditure	5.7	6.7
Overall balance	-1.7	-2.7
Primary balance	0.6	0.0
Public sector (PS) primary balance	0.8	0.1
	2021-23 ave.	
CG primary balance	-1.6	-4.0
CG underlying primary balance 1/	3.1	3.1
	2021-26 ave.	
CG primary balance	0.2	-1.8
CG underlying primary balance 1/	2.6	3.6

Source: IMF staff calculations and projections.

1/ Excludes COVID-19, volcano and port-related spending and grants.

St. Vincent and the Grenadines: Public Debt

(Percent of GDP)



Sources: Ministry of Finance and IMF staff calculations.

20. **The authorities remain committed to taking both revenue and expenditure measures from 2022 and to rebuild depleted buffers.** On the expenditure side, the authorities plan to (i) limit the growth of the wage bill to 2.0 percent in the central government each year between

[11] The total size of the port project is US$185 million, of which US$100 million will be financed through the Caribbean Development Bank.

[12] The projected path for public debt prior to the volcanic eruption was higher than that assumed at the time of the 2020 RCF. This is due to the projected weaker recovery from 2021, as tourist arrivals return more gradually than previously anticipated due to the more protracted COVID-19 shock. Compared to the 2020 RFC, the authorities are also seeking to contain expenditures, other than those associated with the volcano, the pandemic and port, in line with the FRF.

2021-26; (ii) cap the total amount of capital spending at EC$1.2 billion during 2021–26, focusing on the reconstruction activities and the execution of the port project while cutting back other projects; and (iii) withdraw humanitarian and pandemic-related expenditures once the pandemic and eruption end. On the revenue side, the authorities remain committed to building upon the measures taken in 2020 and in early 2021 and (i) enhancing taxpayer compliance by adhering to the recently enacted Tax Administration and Procedures Act; and (ii) rationalizing exemptions on import duties and VAT on imports. Moreover, the authorities are committed to rebuild the Contingencies Funds to create fiscal buffers for future natural disasters. The authorities will continue to gather COVID-related expenditures with a view of publishing this information[13] and undertake a full ex-post financial and operational audit of COVID-19 spending at the time of the annual audit.

21. Going forward, the authorities need to fully implement and adhere to the FRF and make further efforts to strengthen public infrastructure management. Implementing fiscal rules and adhering to the FRF will help to place public debt on a firmly declining path. To do so, the authorities should: i) Strengthen the budget process; ii) Enhance their framework to prepare the Medium-Term Economic and Fiscal Outlook; iii) Further clarify the legal framework; and iv) Establish the fiscal rules consistent with reaching a debt target of 60 percent of GDP no later than 2035. Consistent with these aims, the authorities have recently sanctioned the creation of an independent fiscal council (a Fiscal Responsibility Mechanism). Given the large infrastructure needs, and to complement the FRF, there are merits in developing a long-term national infrastructure plan to improve the infrastructure planning process and project selection in line with the government's strategic development goals, the likelihood of successful implementation, and the certainty of project funding. Adhering to the continued transfers of budgeted resources to the Contingencies Funds should contribute to rebuilding fiscal buffers for future natural disasters.

22. The still uncertain indirect financial stability impact through the broader economy calls for strengthening crisis management preparedness. Maintaining granular high-frequency reporting of asset quality is critical for early detection of weaknesses, and this could be further enhanced by closer monitoring of restructured loans as the moratoria windows come to close. Where needed, forbearance measures should continue to carefully assess borrower repayment capacity, favoring prudently tailored restructurings over further extensions of temporary moratoria periods beyond the currently approved bounds. The authorities should also review and formalize crisis management plans in collaboration with the ECCB and complete amendments to the FSA Act and supporting regulations to ensure the plans are backed by sufficient intervention, recovery and resolution powers. The planned comprehensive risk-based AML/CFT monitoring framework and follow-up measures to the recently concluded National Risk Assessment are important to help contain financial integrity risks.

[13] See footnote 6.

MODALITIES OF SUPPORT

23. The RCF under the LNDW is the most appropriate instrument given the size of the natural disaster that created the balance of payment need. Staff's preliminary estimates point to economic damage over 30 percent of 2020 GDP, exceeding the threshold to qualify under the RCF Large Natural Disaster (LND) window (20 percent of GDP). A disbursement under the LNDW will represent the first time that a country uses this window. Given the rapid development of the shock, uncertainty over its full impact and duration, and the current practical difficulties, it is not feasible to put in place a UCT-quality Fund-supported program. Staff will remain closely engaged with the authorities in the coming months to explore further modalities of Fund support if needed. The authorities also continue to engage with the World Bank and the Caribbean Development Bank (CDB), and timely IMF involvement will play a catalytic role in securing external financing from these multilateral institutions.

24. Staff considers an immediate access of up to 69.85 percent of quota (SDR 8.17245 million, equivalent to about US$11.7 million) to be appropriate at this stage. Staff estimates that the RCF will cover about 13 percent of the projected official external financing gap (US$85 million). The authorities are actively engaging with the World Bank and the CDB on other budget support options, as well as securing other financing from bilateral donors. Staff expects that, with the participation of these IFIs institutions, the external financing gap will be fully filled. St. Vincent and the Grenadines received two prior RCF loans from the Fund, in 2014 an RCF loan for an amount of SDR 2.075 million (equivalent to 25 percent of quota at the time of approval or 17.74 percent of current quota) was approved, and in 2020 an RCF loan for an amount of SDR 11.7 million (100 percent of quota) was approved. A new RCF equivalent to 69.85 percent of quota is within the applicable cumulative access limit under the RCF, as recently approved by the IMF Board (IMF 2021).[14]

25. The RCF funds will be disbursed to the East Caribbean Central Bank (ECCB) and be on-lent to the government of St. Vincent and the Grenadines to provide immediate fiscal support. Consistent with the ECCB Agreement, the authorities are committed to hold all foreign exchange from the IMF disbursement at the ECCB, pending use. The ECCB has provided Fund staff with the necessary central bank audit reports and has also authorized the external auditors to hold discussions with staff.

26. The authorities are also committed to collaborating with staff in undertaking a safeguard assessment. An update of the safeguards assessment of the ECCB is underway. Under the Fund's safeguards policy for periodic assessments of regional central banks, the ECCB is subject to a full safeguards assessment on a four-year cycle. The last safeguards assessment was conducted in 2016 and found broadly sound governance arrangements with independent oversight, and financial reporting practices and external audits that were aligned with international standards. All

[14] "Temporary Modifications to Access Limits Under the Large Natural Disaster Window of the Rapid Credit Facility and of the Rapid Financing Instrument," (SM/21/96; 06/09/2021).

safeguards recommendations have been implemented, except for proposed changes to the ECCB Agreement that will be followed up on in the context of the current assessment.

27. St. Vincent and the Grenadines possesses adequate capacity to repay the Fund. The authorities' plans, in line with the FRF will put public debt on a sustainable downward trajectory. At its peak in 2021, St. Vincent and the Grenadines' outstanding use of GRA resources would account for 5.3 percent of public external debt, and 18.4 percent of net international reserves. (table 5). The debt service to revenue ratio continues to be manageable and the debt service to exports ratio is projected to improve in line with improving agriculture and tourism exports (Annex II). St. Vincent and the Grenadines' projected obligations to the Fund would peak in 2028–29 at SDR 2.3 million, around ½ percent of GDP (around 9½ percent of total public debt service), or around 1.2 percent of exports of goods and services, before quickly falling to more moderate levels from 2030. Risks to St. Vincent and the Grenadines' capacity to repay are mitigated by several positive factors. These include: (i) the authorities' positive track record from previous financing programs with the Fund, (ii) their ability in recent years to enact fiscal consolidation measures to reduce debt, (iii) the introduction of the FRF, and (iv) their continued close dialogue with the Fund.

AUTHORITIES' VIEWS

28. The authorities concurred with staff's assessment of the outlook and risks. While the full extent of the impact of the volcanic eruption is not yet known, the authorities' preliminary assessments point to the destruction of all crops in the areas close to the volcano (red and orange zones which comprise over fifty percent of all agricultural production)[15], and to some damage in other areas on account of ashfall. The loss of agricultural output, volcanic-related disruptions—water, electricity, displaced labor—and continued weakness in tourism-related activities on account of the pandemic, is expected to result in a severe contraction whose magnitude will depend on the duration of the volcanic eruption. The authorities project the contraction to range between 4 percent (benign scenario with no further volcanic disruptions) and 7½ percent (worst-case scenario based prolonged eruptions to year end). While a strong recovery is projected in 2022–24 as the agricultural sector recovers, tourism gradually returns, reconstruction activity and port construction commence, the authorities note that there remains significant downside risk on account of both the volcano and the pandemic.

29. The authorities are focusing on the immediate humanitarian response and reconstruction planning while seeking to secure external official financing. They stress the urgent need to provide humanitarian assistance to those displaced by the eruption, to provide income and production support to those whose livelihoods have been severely affected, and to begin cleanup and some reconstruction activities once it is safe. The authorities' May 11 supplementary budget—funded through the Contingency Fund, grants and concessional financing—covers these urgent needs, and together with UN and other aid agencies constitute the initial policy response. Interministerial subcommittees (comprising politicians and technical experts)

[15] See Annex I for a description of these zones.

have been set up to address the rehabilitation and recovery response, with a focus on rebuilding key infrastructure, schools and housing, for which the authorities are seeking further external official financing.

30. The authorities note that these expenditures as well as weaker revenue prospects will lead to higher deficits and public debt in the near term but are committed to implementing measures consistent with the FRF. The authorities remain committed to further improve tax administration, rationalizing exemptions on import duties and VAT imports, reprioritize capital expenditure and control current expenditure and wage bill growth. These measures, consistent with the FRF, should achieve a primary surplus of around 3 percent by 2026.

31. The authorities concur that continued enhanced supervision of the financial system is warranted even as the conditions remain stable. Non-banks have been instructed to pay due attention to borrower repayment capacity and to provide transparent disclosure of the loan deferral terms, as well as to refrain from automatic moratoria extensions. Similarly, high-frequency reporting arrangements are to remain in place through the moratorium period. The authorities also expect to enhance their crisis management preparedness and resolution framework, with amendments to the FSA Act expected to be submitted to parliament this year. On AML/CFT the authorities plan to resume follow-up actions to the recently concluded National Risk Assessment, including completion of related regulatory amendments in the coming months. The authorities also report continued training by staff and improvements to their risk assessment toolkit.

STAFF APPRAISAL

32. Staff assessment is that St. Vincent and the Grenadines qualifies for support under the LNDW within the RCF, and despite RCF use last year, supports the request given the sudden and exogenous shock from the volcanic eruption. Lower expected net financial inflows and the government's large external borrowing requirements due the volcanic eruption has given rise to a large and urgent balance of payments need. The authorities have committed to policies ensuring macroeconomic stability, including through fiscal policy adjustment to safeguard fiscal sustainability. The authorities have indicated their commitment to implement the FRF, with an associated fiscal adjustment of about 4½ percent of GDP over 2022-26, once the twin crises subside, with an aim for public debt to reach 60 percent of GDP ahead of the ECCU's 2035 regional target. This is consistent with the staff's recommended fiscal adjustment strategy to ensure medium-term debt sustainability. Overall, staff assess policies are appropriate to address the balance of payments difficulties and make progress towards a stable and sustainable macroeconomic position.

33. The economy is being hit hard by both the pandemic and the volcano, but economic prospects should be favorable after both shocks subside. The dual impact first on tourism-related and then agricultural related sectors are projected to leave the level of economy activity in 2021 around 10 percent lower than prior to the arrival of the pandemic and the volcanic eruption. A robust recovery is projected thereafter, driven by strong rebounds in the agriculture and construction sectors and a gradual return of tourism activities. The authorities' growth agenda focused on boosting agricultural and fisheries output, increased tourism capacity, building natural disasters' resilient infrastructure and human capital, and improving the business environment will support growth over the medium-term.

34. The proposed disbursement does not impair St. Vincent and the Grenadine's debt sustainability or capacity to repay the Fund.

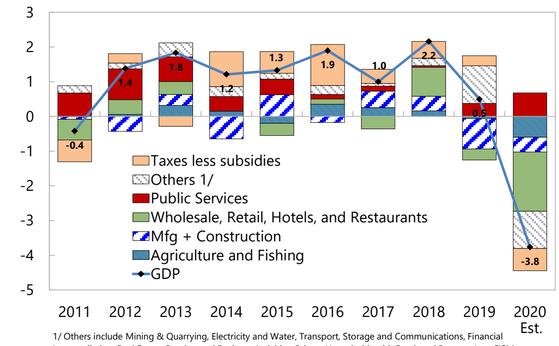
Figure 1. St. Vincent and the Grenadines: Real Sector Developments

Amid the global pandemic, GDP contracted in 2020…

…driven by sluggish growth of tourism-related activities.

Contribution to Growth by Sector

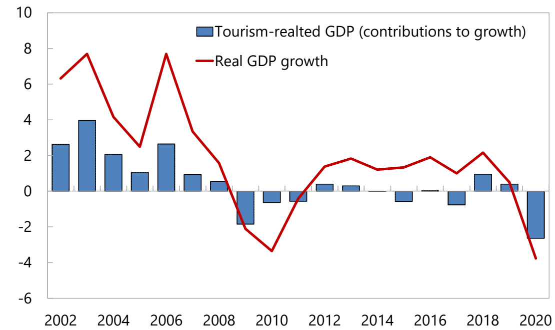
(Percent contribution)



1/ Others include Mining & Quarrying, Electricity and Water, Transport, Storage and Communications, Financial Intermediation, Real Estate, Renting and Business Activities, Private Households with Employed Persons, Less FISM

Tourism-related GDP

(Year-on-year growth, percent)



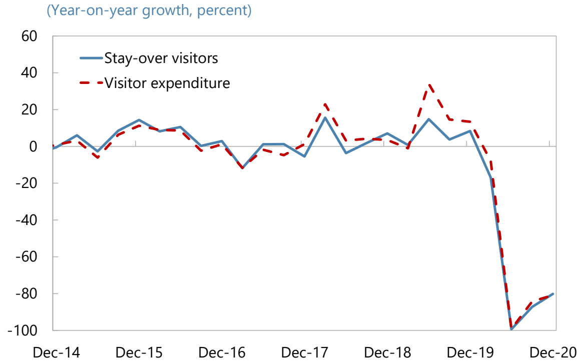
Note: Tourism related GDP is comprised by: (i) wholesale and retail trade; (ii) hotels and restaurants; and (iii) transportation services, which together account for 30 percent of GDP..

Tourism sector is expected to recover to pre-COVID-19 levels just in the medium term…

…as augmented downside risks from the volcano pose new challenges to the industry.

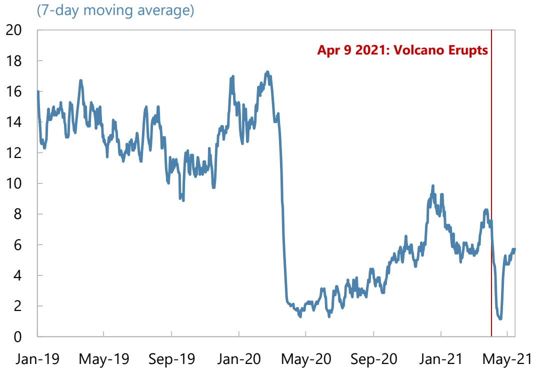
Stay-over Visitors

(Year-on-year growth, percent)



Total International Flight Arrivals

(7-day moving average)

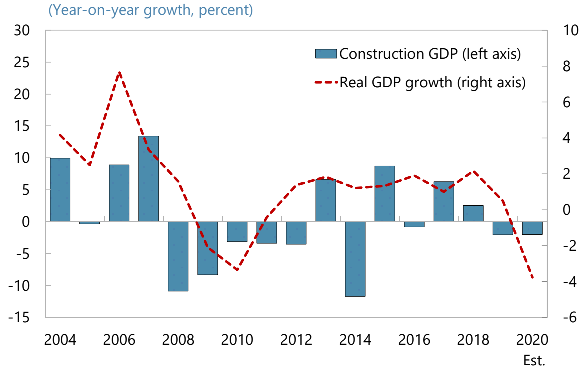


Reconstruction works and large public and private projects will support the construction sector, after previous setbacks

Inflation was negative in 2020, but it is projected to increase in 2021, driven by oil and other imported goods.

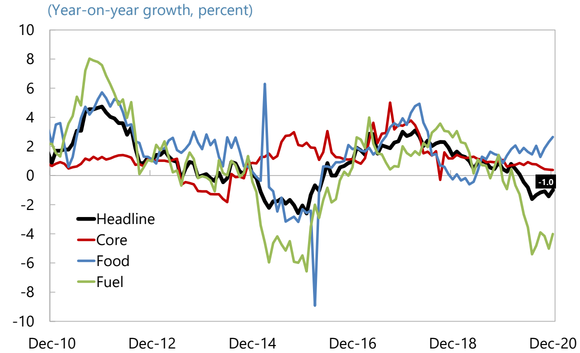
Construction Sector

(Year-on-year growth, percent)



Inflation

(Year-on-year growth, percent)

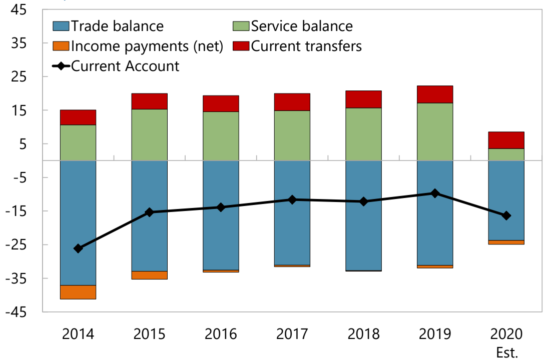


Source: Government Statistical Office; ECCB; FlightRadar24; and IMF staff calculations.

Figure 2. St. Vincent and the Grenadines: External Sector Developments

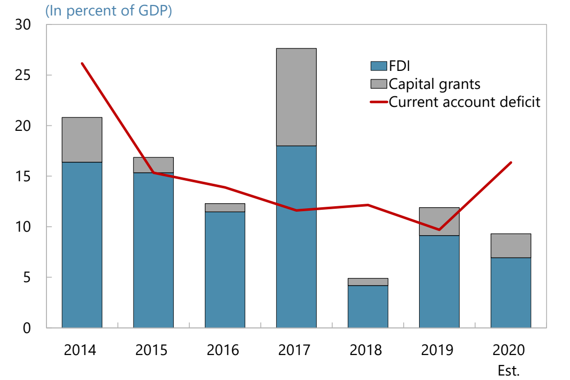
Current account deficit widened in 2020 due to the global pandemic…

Current Account Balance
(In percent of GDP)



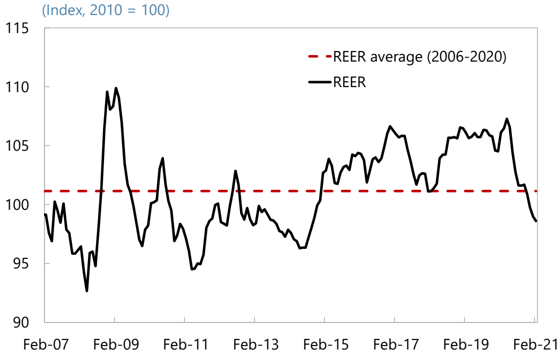
… but remains largely financed by FDI inflows.

Current Account Deficit and Sources of Finance
(In percent of GDP)



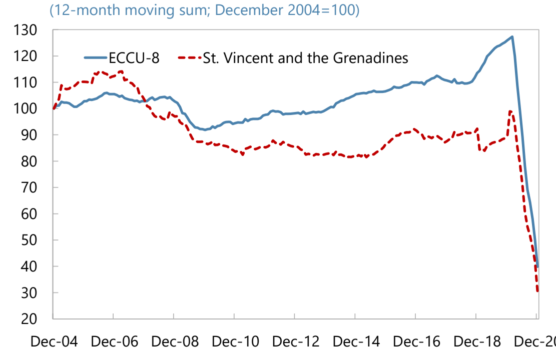
Real effective exchange rate had slightly appreciated in 2020 due to a stronger dollar.

Real Effective Exchange Rate
(Index, 2010 = 100)



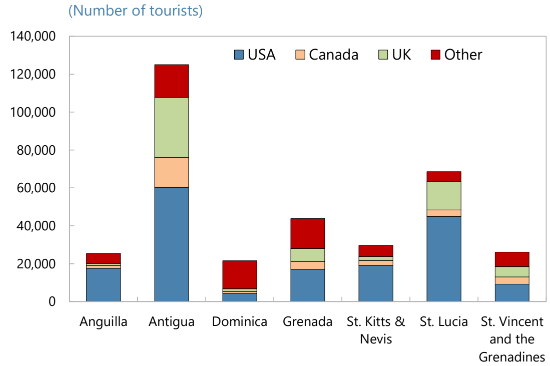
Stayover tourist arrivals remain depressed …

St. Vincent: Stayover Tourist Arrivals
(12-month moving sum; December 2004=100)



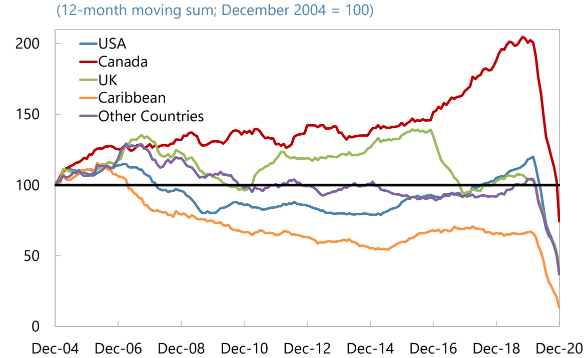
…and are still below many ECCU economies

Stayover tourist arrivals, 2020
(Number of tourists)



Tourist arrivals from Canada, had grown strongly with direct flights.

Tourist Arrivals by Country
(12-month moving sum; December 2004 = 100)



Source: Government Statistical Office; ECCB; Caribbean Tourism Organization; and IMF staff calculations.

Table 1. St. Vincent and the Grenadines: Selected Social and Economic Indicators, 2017–26

Social and Demographic Indicators

Area (sq. km)	389.3	Adult literacy rate (percent, 2001)	89.0
Population (2017)		Health and nutrition	
Total (thousands)	110.2	Calorie intake (per capita a day, 2007)	2,810
Rate of growth (percent per year)	0.1	Population per physician (per '000, 2004)	1.2
Density (per sq. km.)	283.1	Health expenditure per capita (PPP-2011, 2004)	917
Population characteristics		Gross domestic product (2018)	
Life expectancy at birth (years, 2016)	73.0	(millions of US dollars)	811
Infant mortality (per '000 live births, 2016)	15.2	(millions of EC dollars)	2,191
Under 5 mortality rate (per '000, 2016)	17.0	(US$ per capita)	7,354

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
							Proj.			
	(Annual percentage change, unless otherwise specified)									
Output and prices										
Real GDP (market prices)	1.0	2.2	0.5	-3.8	-6.1	8.3	6.1	4.2	3.3	2.7
Nominal GDP (market prices)	2.3	2.4	1.7	-4.3	-4.7	11.4	8.7	6.6	5.5	4.8
Consumer prices, end of period	3.0	1.4	0.5	-1.0	2.2	2.0	2.0	2.0	2.0	2.0
Consumer prices, period average	2.2	2.3	0.9	-0.6	2.0	2.1	2.1	2.0	2.0	2.0
Banking system 1/										
Net foreign assets	-3.3	-0.6	14.5	4.5	-17.0	15.3	6.5	-2.5	2.1	6.0
Net domestic assets	4.5	2.3	-4.6	-9.0	7.9	-4.3	1.8	8.8	2.5	-1.4
Credit to private sector	1.1	0.1	-0.2	0.5	0.6	0.9	1.0	1.1	1.2	0.6
Central government finances 2/										
Total revenue	30.0	29.1	30.5	32.4	31.7	37.0	34.6	32.3	32.3	32.1
Tax revenue	25.4	25.1	24.9	26.0	26.2	27.0	27.0	27.0	27.0	27.0
Grants 3/	2.1	1.8	3.3	2.4	2.7	7.2	4.8	2.5	2.5	2.3
Total expenditure and net lending	30.5	30.0	33.5	38.1	44.3	41.1	39.5	36.4	35.8	32.0
Current expenditure	26.4	26.2	27.0	29.9	39.6	30.1	29.1	28.2	27.5	27.1
Of which : Wages and salaries	13.1	13.2	13.7	15.2	16.5	15.3	14.6	14.2	13.9	13.7
Interest	2.3	2.4	2.5	2.4	3.2	3.0	3.3	3.2	3.0	2.8
Capital expenditure	4.1	3.8	6.5	8.2	4.6	11.0	10.4	8.2	8.3	4.9
Overall balance	-0.4	-0.9	-3.0	-5.7	-12.6	-4.0	-4.9	-4.1	-3.5	0.1
Overall balance (excl. grants)	-2.5	-2.7	-6.3	-8.1	-15.3	-11.2	-9.7	-6.6	-6.0	-2.2
Primary balance	1.9	1.5	-0.5	-3.3	-9.4	-1.0	-1.6	-0.9	-0.6	3.0
External sector 2/										
External current account	-11.6	-12.1	-9.7	-16.3	-22.2	-12.2	-14.2	-11.3	-10.5	-9.6
Exports of goods and services	37.0	38.0	39.3	21.4	19.4	32.6	38.2	43.9	43.6	42.3
Imports of goods and services	53.3	55.1	53.2	41.6	46.3	47.9	54.2	54.8	55.0	55.1
Public sector external debt (end of period)	46.9	49.3	53.0	60.3	76.9	74.6	73.6	73.5	73.6	70.5
External public debt service 4/	9.5	11.0	14.9	11.1	13.0	12.7	12.4	11.8	12.5	13.2
Memorandum items										
Gross public sector debt (in percent of GDP)	73.5	75.6	75.2	86.9	103.7	96.8	93.2	90.9	89.4	84.8
Nominal GDP (market prices; in millions of EC$)	2,139	2,191	2,227	2,132	2,032	2,263	2,460	2,623	2,766	2,899

Sources: Eastern Caribbean Central Bank; Ministry of Finance and Planning; and Fund staff estimates and projections.

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

2/ Percent of GDP.

3/ The large increase in grants in 2021-22 corresponds to volcano and port-related grants.

4/ In percent of exports of goods and services.

Table 2. St. Vincent and the Grenadines: Balance of Payments Summary, 2017–26

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
				Projections						
	(In EC$ million; unless otherwise stated)									
Current account	**-248**	**-266**	**-216**	**-348**	**-451**	**-276**	**-350**	**-295**	**-291**	**-278**
Trade balance	-666	-717	-693	-506	-579	-648	-843	-906	-949	-988
Exports f.o.b.	120	125	103	146	139	165	186	210	233	254
Imports f.o.b.	785	842	797	652	717	813	1029	1116	1183	1242
Of which: Mineral fuels	73	120	93	84	126	128	131	133	136	143
Services (net)	318	343	382	76	32	302	449	620	632	617
Travel (net)	503	543	605	203	140	425	584	764	785	777
Other nonfactor services (net)	-185	-199	-223	-127	-108	-122	-135	-144	-153	-160
Primary income (net)	-10	-4	-18	-25	-19	-44	-78	-136	-107	-46
Secondary income (net)	109	112	113	106	114	113	121	128	133	139
Private transfers	75	75	76	70	66	74	80	86	90	95
Official transfers	34	37	38	37	48	40	41	42	43	44
Capital account	**206**	**15**	**61**	**51**	**45**	**164**	**117**	**66**	**69**	**67**
Financial account 1/	**154**	**61**	**119**	**297**	**64**	**177**	**183**	**240**	**247**	**171**
Direct Investment	385	92	203	148	94	126	169	187	195	213
Portfolio investment	-28	14	-27	-9	-13	-13	-10	-14	-12	-12
Other investment	-202	-44	-57	158	-18	64	24	68	64	-30
Commercial banks	-34	6	120	11	45	49	32	31	27	20
Net errors and omissions	**-140.3**	**155.4**	**99.4**	**37.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall Balance (deficit -)	**-28**	**-34**	**64**	**36**	**-342**	**65**	**-50**	**11**	**26**	**-40**
Official Financing 2/	**…**	**…**	**…**	**…**	**208**	**…**	**…**	**…**	**…**	**…**
WB					54					
Other 3/					154					
Financing	**28**	**34**	**-64**	**-36**	**134**	**-65**	**50**	**-11**	**-26**	**61**
Reserve assets (- increase)	28	34	-64	-36	102	-65	50	-11	-26	61
IMF 2/	…	…	…	…	32	…	…	…	…	…
Stock of imputed international reserve	**487**	**455**	**518**	**551**	**449**	**514**	**463**	**473**	**498**	**436**
In months of imports of good and services	4.8	4.6	7.0	7.0	5.0	4.6	3.9	3.7	3.7	3.1
	(In percent of GDP, unless otherwise stated)									
Current account	-11.6	-12.1	-9.7	-16.3	-22.2	-12.2	-14.2	-11.3	-10.5	-9.6
Exports f.o.b.	5.6	5.7	4.6	6.9	6.8	7.3	7.6	8.0	8.4	8.8
Imports f.o.b.	36.7	38.4	35.8	30.6	35.3	35.9	41.8	42.5	42.8	42.8
Net private transfers	3.5	3.4	3.4	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Tourism exports	26.6	27.8	30.2	10.6	8.0	20.9	26.3	31.7	30.9	29.4
Direct investment	18.0	4.2	9.1	6.9	4.6	5.6	6.9	7.1	7.1	7.4
Gross External Financing Needs 4/	-4.3	9.5	3.8	12.2	21.3	9.9	10.2	6.7	6.3	5.4
Memorandum items:										
Terms of Trade of Goods (Index 2002=100)	123.7	121.4	124.4	134.6	141.5	138.9	138.9	138.1	136.9	135.4
Total trade of goods and nonfactor services	90.3	93.1	92.5	63.0	65.8	80.4	92.4	98.8	98.6	97.5
Exports of goods and nonfactor services	37.0	38.0	39.3	21.4	19.4	32.6	38.2	43.9	43.6	42.3
Imports of goods and nonfactor services	53.3	55.1	53.2	41.6	46.3	47.9	54.2	54.8	55.0	55.1

Sources: Ministry of Finance and Planning; Eastern Caribbean Central Bank; and Fund staff estimates and projections.

1/ Excludes net international reserve flows, IMF financing, and other official debt and grant financing related to La Soufrière eruption.

2/ Includes official debt and grant financing related to disaster relief in response to La Soufrière eruption.

3/ Includes additional debt and grants from WB, CDB, ECCB, DSSI.

4/ Gross External Financing Needs is euqal to the current account deficit plus the public sector external debt amortization minus the net inflow of non-debt FDI. Private sector external debt amortization and interest payments are unavailable.

Table 3. St. Vincent and the Grenadines: Summary of Central Government Operations, 2017–26

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

	2017	2018	2019	2020 RCF	2020	2021	2022	2023	2024	2025	2026
Total revenue and grants	**643**	**637**	**680**	**612**	**691**	**644**	**838**	**851**	**847**	**894**	**931**
Current revenue	592	596	602	551	605	586	671	730	778	821	860
Tax revenue	544	551	555	508	554	532	611	664	708	747	782
Of which											
Taxes on income and profits	151	148	140	133	143	138	157	170	181	191	201
Taxes on property	4	5	4	4	4	4	5	5	5	6	6
Taxes on international trade	218	236	233	209	234	223	259	282	301	317	332
Of which: VAT	86	92	94	84	90	85	98	107	114	120	126
Taxes on domestic transactions	172	162	178	163	174	167	190	207	220	233	244
Of which: VAT	74	78	96	89	88	81	94	103	110	115	121
Non-tax	48	46	47	42	51	54	61	66	70	74	78
Of which				0							
Fees, Fines and Permits	18	10	7	6	6	6	6	7	8	8	8
Interest, Rent and Dividends	8	7	9	8	10	12	13	14	15	16	17
Other Revenue	22	29	31	29	34	37	41	45	48	50	53
Capital Revenue	6	1	4	1	36	3	3	3	4	4	4
Grants	45	40	74	61	51	55	164	117	66	69	67
Total expenditure and net lending	**652**	**657**	**746**	**745**	**813**	**899**	**929**	**971**	**954**	**991**	**927**
Current	565	573	600	626	638	805	681	715	739	761	786
Of which											
Wages and salaries 1/	281	288	304	311	324	335	347	359	371	384	398
Interest	50	52	56	55	52	65	68	81	83	82	83
Domestic	31	32	35	30	32	38	27	26	26	25	25
Foreign	19	20	21	25	19	27	42	55	57	56	58
Transfers and subsidies	156	156	161	176	174	216	179	186	192	199	206
Goods and services	78	77	80	85	89	190	87	90	93	96	99
Capital expenditure	**88**	**84**	**146**	**119**	**175**	**94**	**248**	**257**	**215**	**230**	**141**
Reconstruction *(La Soufriere)*	…	…	…	…	…	30	119	95	27	…	…
Port	…	…	9	12	12	10	75	100	158	95	0
Others	88	84	137	107	163	54	54	62	30	135	141
Current balance (before grants)	28	23	1		-33	-219	-10	15	39	59	74
Overall balance	**-10**	**-20**	**-66**	**-133**	**-122**	**-255**	**-91**	**-121**	**-106**	**-98**	**4**
Overall balance (excl. port project)	-10	-20	-57	-121	-110	-245	-16	-21	51	-3	4
Overall Bal. (exc. COVID-19 & volcano shocks and port)	-10	-20	-57	-121	-110	-34	17	21	78	-3	4
Primary balance	40	32	-10	-78	-70	-190	-23	-40	-24	-16	86
Primary balance (excl. port project)	40	32	-1	-66	-58	-180	52	60	134	79	86
Prim. Bal. (exc. COVID-19 & volcano shocks and port)	40	32	-1	-66	-58	31	86	101	161	79	86
Identified financing	**10**	**20**	**66**	**133**	**122**	**255**	**91**	**121**	**106**	**98**	**-4**
Net external financing	-4	15	40	154	174	141	110	123	115	107	6
Disbursements	86	89	113	231	256	225	212	226	217	224	138
Amortization	89	74	73	77	82	84	102	103	102	117	132
Change in government assets	-14	-22	-32	0	-45	0	0	0	0	0	0
Net domestic financing 2/	68	1	65	-21	-7	-48	-19	-2	-9	-9	-10
Sale of Equity (privatization proceeds)	-35	0	0	0	0	0	0	0	0	0	0
Change in account payable and arrears	-6	26	-7	0	0	0	0	0	0	0	0

Sources: Ministry of Finance and Planning; and Fund staff estimates and projections.
1/ Wages and salaries including social security contributions, commissions, rewards, allowances, and incentives.
2/ Includes other non-banking sector domestic financing.

Table 4. St. Vincent and the Grenadines: Summary of Central Government Operations, 2017–26

(In percent of GDP, unless otherwise stated)

	2017	2018	2019	2020 RCF	2020	2021	2022	2023	2024	2025	2026
					Projections						
Total revenue and grants	**30.0**	**29.1**	**30.5**	**28.7**	**32.4**	**31.7**	**37.0**	**34.6**	**32.3**	**32.3**	**32.1**
Current revenue	27.7	27.2	27.0	25.8	28.4	28.9	29.7	29.7	29.7	29.7	29.7
Tax revenue	25.4	25.1	24.9	23.9	26.0	26.2	27.0	27.0	27.0	27.0	27.0
Of which											
Taxes on income and profits	7.1	6.7	6.3	6.2	6.7	6.8	6.9	6.9	6.9	6.9	6.9
Taxes on property	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on international trade	10.2	10.8	10.5	9.8	11.0	11.0	11.5	11.5	11.5	11.5	11.5
Of Which: VAT	4.0	4.2	4.2	4.0	4.2	4.2	4.4	4.4	4.4	4.4	4.4
Taxes on domestic transactions	8.0	7.4	8.0	7.6	8.1	8.2	8.4	8.4	8.4	8.4	8.4
Of Which: VAT	3.5	3.6	4.3	4.2	4.1	4.0	4.2	4.2	4.2	4.2	4.2
Non-tax	2.2	2.1	2.1	2.0	2.4	2.7	2.7	2.7	2.7	2.7	2.7
Capital Revenue	0.3	0.0	0.2	0.1	1.7	0.1	0.1	0.1	0.1	0.1	0.1
Of which : Sale of crown lands	0.3	0.0	0.0	0.1	1.7	0.1	0.1	0.1	0.1	0.1	0.1
Grants	2.1	1.8	3.3	2.8	2.4	2.7	7.2	4.8	2.5	2.5	2.3
Total expenditure and net lending	**30.5**	**30.0**	**33.5**	**35.0**	**38.1**	**44.3**	**41.1**	**39.5**	**36.4**	**35.8**	**32.0**
Current	26.4	26.2	27.0	29.4	29.9	39.6	30.1	29.1	28.2	27.5	27.1
Of which											
Wages and salaries 1/	13.1	13.2	13.7	14.6	15.2	16.5	15.3	14.6	14.2	13.9	13.7
Interest	2.3	2.4	2.5	2.6	2.4	3.2	3.0	3.3	3.2	3.0	2.8
Domestic	1.5	1.5	1.6	1.4	1.5	1.9	1.2	1.0	1.0	0.9	0.8
Foreign	0.9	0.9	0.9	1.2	0.9	1.3	1.8	2.2	2.2	2.0	2.0
Transfers and subsidies	7.3	7.1	7.2	8.2	8.2	10.6	7.9	7.6	7.3	7.2	7.1
Goods and services	3.7	3.5	3.6	4.0	4.2	9.3	3.8	3.6	3.5	3.5	3.4
Capital expenditure	**4.1**	**3.8**	**6.5**	**5.6**	**8.2**	**4.6**	**11.0**	**10.4**	**8.2**	**8.3**	**4.9**
Reconstruction *(La Soufriere)*		…	…	…	…	1.5	5.3	3.8	1.0	…	…
Port	…	…	0.4	0.6	0.6	0.5	3.3	4.1	6.0	3.4	0.0
Others	4.1	3.8	6.1	5.0	7.7	2.7	2.4	2.5	1.1	4.9	4.9
Current balance (before grants)	**1.3**	**1.1**	**0.1**	**-3.5**	**-1.5**	**-10.8**	**-0.4**	**0.6**	**1.5**	**2.1**	**2.6**
Overall balance	**-0.4**	**-0.9**	**-3.0**	**-6.2**	**-5.7**	**-12.6**	**-4.0**	**-4.9**	**-4.1**	**-3.5**	**0.1**
Overall Bal. (exc. COVID-19 & volcano shocks and port)	**-0.4**	**-0.9**	**-2.6**	**0.0**	**-5.1**	**-1.7**	**0.8**	**0.8**	**3.0**	**-0.1**	**0.1**
Primary balance	**1.9**	**1.5**	**-0.5**	**-3.7**	**-3.3**	**-9.4**	**-1.0**	**-1.6**	**-0.9**	**-0.6**	**3.0**
Prim. Bal. (exc. COVID-19 & volcano shocks and port)	**1.9**	**1.5**	**-0.1**	**0.0**	**-2.7**	**1.5**	**3.8**	**4.1**	**6.1**	**2.9**	**3.0**
Identified financing	**0.4**	**0.9**	**3.0**	**6.2**	**5.7**	**12.6**	**4.0**	**4.9**	**4.1**	**3.5**	**-0.1**
Net external financing	-0.2	0.7	1.8	7.2	8.2	7.0	4.9	5.0	4.4	3.9	0.2
Disbursements	4.0	4.0	5.1	10.8	12.0	11.1	9.4	9.2	8.3	8.1	4.8
Amortization	4.2	3.4	3.3	3.6	3.9	4.1	4.5	4.2	3.9	4.2	4.6
Change in government assets	-0.7	-1.0	-1.5	0.0	-2.1	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic financing 2/	3.2	0.1	2.9	-1.0	-0.3	-2.4	-0.9	-0.1	-0.3	-0.3	-0.3
Sale of Equity (privatization proceeds)	-1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in account payable and arrears	-0.3	1.2	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Gross public sector debt	73.5	75.6	75.2	85.8	86.9	103.7	96.8	93.2	90.9	89.4	84.8
GDP at market prices (EC$ millions)	2,139	2,191	2,227	2,131	2,132	2,032	2,263	2,460	2,623	2,766	2,899
Real GDP growth (percent)	1.0	2.2	0.5	-5.5	-3.8	-6.1	8.3	6.1	4.2	3.3	2.7

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

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

2/ Includes other non-banking sector domestic financing.

Table 5. St. Vincent and the Grenadines: Indicators of Capacity to Repay the Fund
(SDR million unless otherwise stated)

	Projections										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Obligations from existing drawings 1/	0.3	0.4	0.4	0.4	1.2	2.3	2.3	2.3	2.3	1.2	0.0
Principal	0.3	0.4	0.4	0.4	1.2	2.3	2.3	2.3	2.3	1.2	0.0
Charges/interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Obligations from existing and prospective drawings 1/	0.3	0.4	0.4	0.4	1.2	3.2	4.0	4.0	4.0	2.8	0.8
Principal	0.3	0.4	0.4	0.4	1.2	3.2	4.0	4.0	4.0	2.8	0.8
Charges/interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total existing and prospective obligations 1/											
In millions of U.S. dollars	0.5	0.6	0.6	0.6	1.7	4.7	5.9	5.9	5.9	4.2	1.2
In percent of exports of goods and services	0.3	0.2	0.2	0.1	0.4	1.0	1.2	1.2	1.1	0.8	0.2
In percent of debt service	1.1	1.2	1.2	1.1	3.1	7.5	8.6	9.3	9.4	6.5	1.9
In percent of quota	2.8	3.6	3.6	3.6	10.0	27.0	34.0	34.0	34.0	24.0	7.0
In percent of net international reserves	0.3	0.3	0.4	0.4	0.9	2.9	3.6	3.6	3.6	2.6	0.8
In percent of GDP	0.1	0.1	0.1	0.1	0.2	0.4	0.5	0.5	0.5	0.3	0.1
Fund credit outstanding 1/											
In millions of SDRs	21.2	20.7	20.3	19.9	18.7	15.6	11.6	7.6	3.6	0.8	0.0
In millions of U.S. dollars	30.6	30.2	29.8	29.2	27.6	23.0	17.1	11.2	5.4	1.2	0.0
In percent of exports of goods and services	20.9	11.1	8.6	6.9	6.2	5.1	3.6	2.3	1.0	0.2	0.0
In percent of debt service	72.9	61.4	56.4	52.6	49.0	36.9	25.0	17.7	8.6	1.9	0.0
In percent of quota	180.8	177.2	173.7	170.1	160.1	133.1	99.1	65.0	31.0	7.0	0.0
In percent of net international reserves	18.4	15.9	17.3	16.7	15.0	14.3	10.6	7.0	3.3	0.8	0.0
In percent of GDP	4.1	3.6	3.3	3.0	2.7	2.1	1.5	1.0	0.4	0.1	0.0
Net use of Fund credit 1/ *(In millions of SDRs)*	-0.3	-0.4	-0.4	-0.4	-1.2	-3.2	-4.0	-4.0	-4.0	-2.8	-0.8
Disbursements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	0.3	0.4	0.4	0.4	1.2	3.2	4.0	4.0	4.0	2.8	0.8
Memorandum items:											
Quota (millions of SDRs)	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7
Quota (millions of U.S. dollars)	16.9	17.1	17.1	17.2	17.2	17.3	17.3	17.3	17.3	17.3	17.3
Net imputed international reserves (US$ million)	166	190	172	175	184	161	161	161	161	161	161
GDP (millions of U.S. dollars)	753	838	911	971	1024	1074	1125	1179	1236	1295	1357
SDRs per U.S. dollar 2/	0.69	0.69	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68

Sources: St. Vincent and the Grenadines authorities; Eastern Caribbean Central Bank; and Fund staff estimates and projections.

1/ Includes the RCF approved in 2014 and 2020.

2/ WEO Global Assumptions (GAS), dated April, 2020 up to 2026, after which the exchange rate is fixed at the 2019 level.

Annex I. The Macroeconomic Impact of the Volcanic Eruption

BACKGROUND

1. **La Soufrière is a stratovolcano situated at the north of the island of St. Vincent.** The poverty headcount in the areas at the greatest risk from the volcano is high and exceeds the national rate of 30%. The area is an intensive farming region for both crops and livestock, with many rivers that are important for the water supply starting at the Soufrière mountain. Unlike other volcanos that have been recently reported in the news such as the Fagradalsfjall in Iceland, La Soufrière has a more explosive and erratic eruption style that makes it more difficult to predict. Effusive eruptions were first detected in late December 2020, after seismic activity in November 2020. A new dome formed by effusive eruptions since December continued to grow and exceeded the rim of the old crater from previous eruptions in early April.

2. **Five eruptions of La Soufrière have been documented since 1718, making it the most active subaerial volcano in the Caribbean.** According to available records, the explosion of 1902 was the most damaging in terms of casualties. Social and economic damages from volcanic eruptions tend to be substantial. For instance, the strong explosion of a volcano in Montserrat in 1995 contracted the economy at double digit rates and let to a large migration process (population fell by around 50 percent).

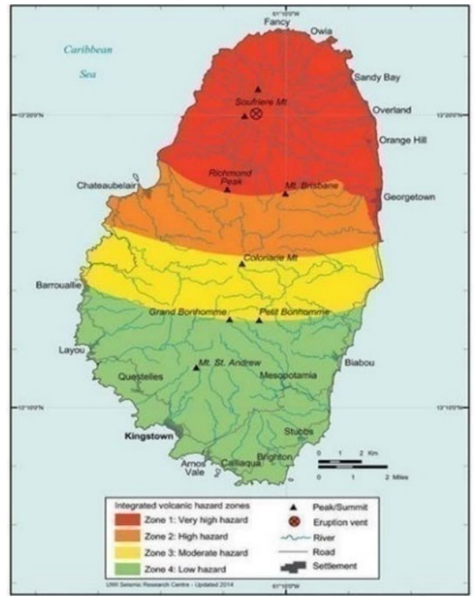
Text Table 1. St. Vincent and the Grenadines:
La Soufriere – Historical Episodes of Eruptions

1718	Explosive eruption. Unknown number of casualties
1812	Explosive eruption. About 80 deaths.
1902	Explosive eruption. About 1,600 deaths. Official reported economic costs at the time were GBP£125,000 (around US$25 million),[1/] latest estimates report losses up to US$200 million.[2/]
1971	Nonexplosive eruption
1979	Moderate eruption. No causalities. 20,000 people evacuated. Economic costs, US$150 million (~20 percent of GDP)
Other regional volcanos	
1995	Montserrat Soufriere: No deaths. Economic costs, US$850 million

[1/] See Daniel and other (2015), "Global Earthquake and Volcanic Eruption Economic Losses and Costs from 1900 to 2014: 115 years of the CATDAT database-Trends, Normalization and Visualization.
[2/] University of West Indies: http://uwiseismic.com/general.aspx?id=19

3. The authorities were well prepared prior to the explosive eruption and evacuation orders were issued swiftly. The National Emergency Management Organization (NEMO) is tasked with monitoring and planning for the disaster with support from the Caribbean Disaster Emergency Management Agency (CDEMA). The country counts with a National Emergency Plan, in which the island of St. Vincent is divided into four volcanic hazard zones, and four alert levels (green, yellow, orange and red; from riskless to riskiest). The authorities warned in December 2020 that the volcano had renewed activity and raised the alert level to orange (no evacuation needed but possible at short notice). The orange alert level stayed in place until April 8, when it was raised to level red, responding to an imminent explosive eruption of the volcano. The order of evacuation was issued for the orange and red hazard zones.

Text Figure 1. St. Vincent and the Grenadines: Volcano risk map for explosive eruption



Source: NEMO

DEVELOPMENTS AND POLICY RESPONSE

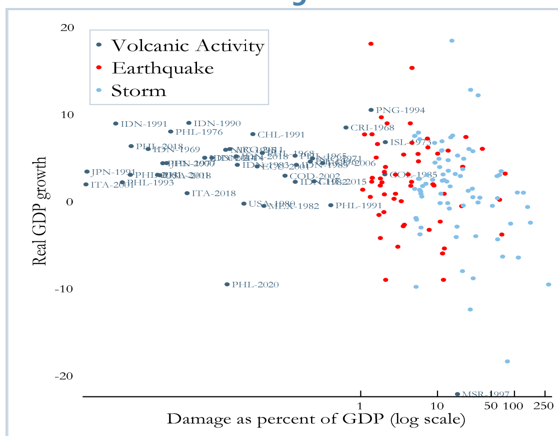
4. The first explosive eruption occurred on 9 April 2021, and as of June 1st, there have been further 32 explosions, with the last recorded explosion on April 22nd. Preliminary information suggests that the accumulated ashfall as of April 20th, exceeds that of the 1979 eruption, but not that of the 1902 eruption. The evacuation of the two riskiest zones surrounding the volcano, ordered on April 8th, affected more than 20,000 people. On May 6th, the authorities reduced the Volcano Alert Level to orange, implying that residents in the orange zone (except the cities of Chateaubelair and Fitz-Hughes) could return to their homes. On May 9th, nearly 4,500 people were officially registered in public shelters and around 19,000 people residing with family and friends. As of May 24th, around 4,000 people remained in shelters. Thus far, there has been a limited increase in the number of COVID cases. As of June 1st, seismic and gas activity confirm that the volcano remains active and may return to an explosive state, consistent with prior episodes.

5. The authorities are providing support to all registered evacuees. Other than coordinating the evacuation on April 8–9, authorities' humanitarian support has focused on providing basic necessities (food, water, mattresses, etc.) as well as health care and transportation to the workplace for those working on the yellow and green zones. While leaders of various neighboring countries had offered to accommodate Vincentians and cruise ships arrived to St. Vincent to transport people to neighboring islands, the take up has been low as evacuees expressed a wish to remain in St. Vincent. Support from CARICOM as well as regional governments was swiftly mobilized with police officers and supplies (mainly water) arriving from various countries. International organizations (various UN agencies, the Red Cross, CDEMA, among many) and are supporting evacuees and various countries have provided experts to monitor and assess the impact of the volcano. The heavy ashfall compromised the water supply and led to a temporary power outage in the aftermath of the first eruption, since resolved. During the first days, one of the most prominent needs was a shortage of water as much of the water is sourced from the northern part of country and local reserves were contaminated by the ashes.

NATURAL DISASTER DAMAGES AND MACROECONOMIC IMPACT

6. Staff's preliminary estimates point to economic damages in excess of 30 percent of GDP (greater than the 20 percent threshold to qualify St. Vincent and the Grenadines for access under the RCF Large Natural Disaster (LND) window).[1] Staff estimate total damages to exceed 30 percent of GDP, of which around 20 percent correspond to physical damages and 11 percent to economic losses over the next 5-year period. Historically, volcanic activity has been associated with lower damages (measured as percent of GDP) compared to earthquakes and storms. However, St. Vincent's particular geographical and demographic characteristics have placed the island in a highly vulnerable situation, only comparable to the volcanic eruption of Montserrat in 1997.

Text Figure 2. St. Vincent and the Grenadines: Natural Disaster Damage versus GDP Growth



7. Losses of physical assets are likely to be significant but are still highly uncertain. In the last eruption in 1979, without fatalities, the total economic loss was estimated at about 20 percent of GDP (around US$150 million in today's value). An initial report released by the World Bank on April 21, estimates direct damages of over US$150 million, affecting buildings and infrastructure but not including building contents, machinery and equipment. This amount represents about 20 percent of 2020 GDP. A complete assessment of the extent of damages hinges on the duration of the eruptions. Preliminary information on ashfall suggests the ongoing eruption is not as severe as the 1902 (with a duration of 11 months) but presents a more severe volcanic hazard than the 1979 eruption (with a duration of 7 months). The capital stock—residential, non-

[1] Economic damage is defined as the combination of (a) destruction of physical assets due to a natural disaster, and (b) projected ongoing economic losses during the period of recovery from the natural disaster. For the second component, economic losses refer to foregone economic production and incomes as a result of damage to infrastructures and other economic assets. See IMF Policy Paper "Large Natural Disasters - Enhancing the Financial Safety Net for Developing Countries", May 2017.

residential and infrastructure—in the red and orange zones of the island was estimated at around 50 percent of GDP.

Text Table 2. St. Vincent and the Grenadines: Natural Disaster Damages

Real US million (2021=100)	Value
2021 Real GDP	752
a) Physical assets	158
b) Economic Losses (2021-2026)	83
Natural Disaster Damages (a +b)	241
Percent of GDP	
c) Physical assets	21
d) Economic Losses (2021-2026)	11
Natural Disaster Damages (c + d)	32

Source: IMF staff estimates based on the World Bank's GRADE Report.

Note: Economic losses is defined as the difference in GDP (over the period 2021-26) attributed to the volcano explosion (that is the difference in the pre-eruption and post-eruption projections).

Text Table 3. St. Vincent and the Grenadines: Exposure by Zone

	Red Zone	Orange Zone	Yellow Zone	Green Zone
Total Exposure of Capital Stock (in US millions)	243.5	139.5	329.9	3571.7
Total Exposure of Capital Stock (in percent of the 2020 GDP)	31	18	42	452

Source: Country Disaster Risk Profile (CDRP) developed by the World Bank's D-RAS Risk Analytics Team.

8. **Agricultural losses are expected to be substantial.** The area surrounding the volcano is an intensive agricultural zone. Experts suggest that most of the crops in the northern part of the island will likely be lost for the rest of the year, with preliminary assessments pointing to losses equivalent to around US$50 million.[2]

9. **The expected downturn in agriculture-related sectors is projected to be partially offset by activity from reconstruction.** Staff's estimates are based on a significant contraction of the agriculture sector with respect to 2019, a stagnant tourism sector and a strong rebound of construction sector, the latter mainly based on reconstruction works, as large projects such as the

[2] Since the value of crop losses largely corresponds to foregone economic production and the latter is part of staff's estimates of economic losses, the total damage calculation in Table A1 excludes the agriculture component from the estimate of expected physical assets damages reported in the GRADE assessment.

new port and public and private tourism initiatives might face delays for the rest of the year. A recent IMF Policy Paper ("Building Resilience in Developing Countries Vulnerable to Large Natural Disasters") indicates that the average impact of large disasters[3] on GDP per capita is around two percent in the first year of the shock. However, that result partly hinges on the capacity of countries to offset the initial losses by reconstruction activity, which is dubious in the case of St. Vincent due to the uncertainty associated with the duration of the volcanic activity and the pandemic disruption.

10. The combined effects of the pandemic and the volcano are expected to lead to a contraction in the economy of around 6.1 percent of GDP in 2021. However, these estimates are subject to high levels of uncertainty associated with both shocks.[4] Regarding the pandemic, staff estimates assume that tourism activity will recover in the last quarter of the year, with annual arrivals slightly below those observed in 2020, corresponding to the still elevated number of active cases observed in Europe and North America as well as St. Vincent. Moreover, the COVID-19 outlook is expected to deteriorate due to inability to properly socially distance in shelters, where a number of cases has already been reported. Over the period of 2021 to 2026, the cumulative loss of GDP, compared to the pre-volcano explosion projections, would be equivalent to around 11 percent of 2020 GDP.

11. A downturn in the agriculture-related sectors is expected to be partially offset by solid activity from reconstruction. Likely, most of the crops in the northern part of the island might be lost for the rest of the year. Staff's estimates are based on a significant contraction of the agriculture sector with respect to 2019, and a strong rebound of construction sector, mainly based on reconstruction works, as large projects such as the new port and public and private tourism initiatives might face delays for the rest of the year.[5]

[3] Large disasters include those with damage greater than 20 percent of GDP (based on average growth rate from 25 episodes in developing countries between 1960 and 2016). The mean damage in percent of GDP in the sample is around 75.

[4] Each natural disaster is different and can affect countries with varying absolute and relative intensities. Experts working on the volcano currently expect a prolonged but still uncertain duration of the eruptions and earthquakes in the area. On the COVID-19 shock, a full return of tourism activities depends not only on the country's response but also on the responses of tourist-source countries and airline and cruise ship companies.

[5] The World Bank's damage assessment of 20.5 percent of GDP only corresponds to buildings and infrastructure damage. Staff's estimates in excess of 30 percent of GDP comprise those damages plus the loss of economic output relative to staff's pre volcano eruption projections.

Annex II. Debt Sustainability Analysis[1]

Risk of external debt distress:	High
Overall risk of debt distress	High
Granularity in the risk rating	Sustainable on a forward-looking basis
Application of judgement	No

The debt sustainability analysis (DSA) indicates that St. Vincent and the Grenadines' public debt is sustainable on a forward-looking basis but remains at high risk of distress for both external and overall public debt, broadly unchanged from the 2020 DSA.[2] The pandemic took a heavy toll on the economy and the humanitarian crisis created by the explosive volcanic eruption is expected to deteriorate the near-term outlook and to add stress to the public finances. Total public and publicly guaranteed debt is expected to increase from 87 percent of GDP in 2020 to around 104 percent in 2021 due to the contraction in economic activity and the government's response to the eruption. Public debt is expected to start declining in 2022 as the pandemic and eruption dissipate and the economy recovers strongly, with the pace of decline notably increasing in 2025 once the port project and reconstruction projects are completed.

The authorities remain committed to fiscal consolidation once the recovery is entrenched and to increase the central government primary balance from a deficit of 9.4 percent of GDP in 2021 to a surplus of at least 3.0 percent of GDP by 2026, mainly through expenditure-side measures (e.g., containing the growth of current spending and reprioritizing capital programs). This will put the debt-to-GDP ratio on a solid downward path and make debt sustainable on a forward-looking basis. Under staff's baseline scenario, the present value (PV) of public debt and of external debt as a percent of GDP are projected to start falling in 2022 and meet indicative benchmarks by 2031 and 2034, respectively. Reflecting the resilience of tax revenues, the PV of debt to revenue and debt service to revenue ratios remain close to the 2020 RCF request and below indicative thresholds. The PV of external debt-to-exports and the debt service-to-exports ratios would fall below the indicative threshold by 2024.

BACKGROUND ON PUBLIC SECTOR DEBT

1. **There are no data gaps in public sector debt coverage (Text Table 1).** Public sector debt includes central government and state-owned enterprises (SOEs) debt. There are no local governments and all of SOEs' debt is guaranteed by the central government. Thus, the combined contingent liability stress test excludes contingent liabilities from SOEs. As of end-2020, the outstanding stock of total public debt was EC$1.9 billion (86.9 percent of GDP) up from EC$1.7 billion in 2019 (75.2 percent of GDP). Central government debt was EC$1.7 billion

[1] This joint Bank-Fund DSA has been cleared by Patricia Alonso-Gamo, Chad Steinberg (IMF) and Marcello Estevão, Robert R. Taliercio (IDA).

[2] St. Vincent and the Grenadines' score in the Composite Indicator (CI) is 2.95, implying that the country's debt carrying capacity is classified as medium. St. Vincent and the Grenadines' CI was calculated based on the October 2020 WEO and the 2019 CPIA. The classification determines the corresponding debt and debt service benchmarks for the external public and publicly guaranteed external debt and for total public debt.

(79.5 percent of GDP) in 2020, up from EC$1.5 billion in 2019 (67.7 percent of GDP), and SOEs debt was EC$0.16 billion (7.4 percent of GDP) in 2020 down from EC$0.17 billion (7.6 percent of GDP).[2]

Text Table1. St. Vincent and the Grenadines: Coverage of Public Sector Debt

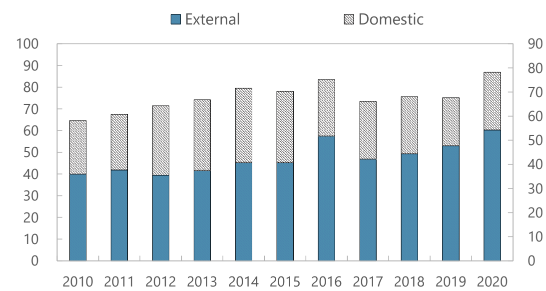
	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	
8	Non-guaranteed SOE debt	

2. The composition of public debt is dominated by external debt (Text Figure 1). As of end 2020, the stock of external debt accounted for 69 percent of total public debt, while domestic debt accounted for 31 percent of total.[3] The authorities report no arrears to external or domestic creditors.

3. External public debt increased from 53 percent of GDP in 2019 to 60 percent of GDP in 2020. The increase in the external public debt-to-GDP ratio reflects the COVID-19 shock on the economy (i.e., 3.8 percent contraction) and the cost of the government response to the pandemic (2.5 percent of GDP). Most public external debt is with multilateral and bilateral donors (58.7 percent and 20.2 percent of total, respectively) on concessional terms. The remaining 21.1 percent is mainly with regional private creditors, including banks, pension funds, and other regional financial institutions (Text Figure 2 and Text Table 2).

Text Figure 1. St. Vincent and the Grenadines: Public Sector Debt

(Percent of GDP)



Sources: St. Vincent and the Grenadines authorities and IMF staff calculations.

4. The majority of domestic debt is in the form of treasury bills and government bonds (53 percent of total domestic debt). The remainder consists of loans in local currency (25 percent of total), and accounts payable (about 7 percent).[4] Most of the government securities are held by the buy-and-hold national and regional pension systems, insurance companies, and commercial banks.

[2] There is an EC$0.3 billion limit on SOEs' total debt.

[3] For the purpose of the DSA, external debt is defined as non-EC$ denominated debt.

[4] Debt classification is based on a residency basis, treating local currency-denominated debt issued in the local debt market and held by non-residents as external debt.

Text Table 2. St. Vincent and the Grenadines: Public Sector External Debt

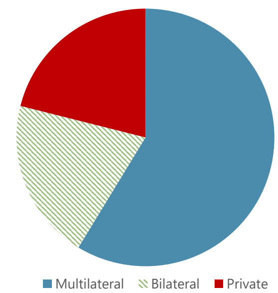
(Percent of total and percent of GDP)

	2019		2020	
	Total	GDP	Total	GDP
Total	**100.0**	**53.0**	**100.0**	**60.3**
Multilateral	**47.1**	**24.9**	**58.7**	**35.4**
World Bank	16.4	8.7	29.6	17.9
Caribbean Development Bank	28.5	15.1	24.0	14.5
IMF	0.9	0.5	4.1	2.5
Other	1.3	0.7	1.0	0.6
Bilateral	**34.1**	**18.1**	**20.2**	**12.2**
Paris Club	2.9	1.5	1.8	1.1
Non-Paris Club	31.2	16.5	18.4	11.1
Private Creditors[1, 2]	**18.8**	**10.0**	**21.1**	**12.7**

Source: Ministry of Finance, St. Vincent and the Grenadines.
[1] Includes external debt contracted to build the new port.
[2] Includes T-bills held by ECCB, regional banks, insurance companies, pension funds, among others.

Text Figure 2. St. Vincent and the Grenadines: Public and Publicly Guaranteed External Debt

(Percent of total)



Sources: St. Vincent and the Grenadines' authorities and IMF staff calculations.

CHANGE IN THE MACROECONOMIC FORECAST RELATIVE TO PREVIOUS DSA

5. The fallout from the COVID-19 and the humanitarian crisis created by the explosive volcanic eruption shocks are severely affecting the near and medium-term macroeconomic outlook.

- St. Vincent and the Grenadines navigated the COVID-19 shock relatively well. Throughout 2020, the number of confirmed cases were successfully contained due to the swift response of the government, including by the introduction of social distancing measures, requiring the use of face masks, and the closing of schools, among others. The spread of the coronavirus in source markets, however, dampened the tourism demand, with tourism-related activity falling by around 70 percent. The absence of full-lockdown measures and the effective implementation of a fiscal package partly offset the impact on the COVID-19 shock on the economy.[5] Against this background, the GDP contraction in 2020 was relatively moderate when compared to more tourism-dependent economies in the ECCU region.

- Prior to the eruption of the La Soufriere volcano, the confirmed number of COVID-19 cases had surged at the beginning of 2021 in tandem with the increase in tourist arrivals and in the number of nationals returning to St. Vincent for the Christmas holiday season, but had fallen sharply by the end of February. In the April 2021 World Economic Outlook, growth was expected to remain flat in 2021 and to accelerate to 5 percent in 2022 reflecting an expected recovery in

[5] Expenditure measures included: (i) an increase in funding for the health sector to construct an isolation unit (recently finished), purchase drugs and equipment, and hire extra medical staff; (ii) various construction projects to generate jobs; (iii) support to agriculture, fishery and tourism sectors; (iv) temporary increase of the social safety net to protect the most vulnerable; and (v) an income support program for workers displaced in the tourism sector.

the second half of 2021 driven by the return of tourists during the high season and the pick-up of construction activity.[6]

- The explosive eruption of the La Soufriere Volcano on April 9, 2021 has compounded the economic and social fallout from the COVID-19 pandemic. Preliminary damage assessment conducted by the authorities and the World Bank on April 20 suggests that most agricultural output and a substantial share of livestock has been lost in the areas surrounding the volcano, and that the estimated direct damage to infrastructure and buildings would exceed US$150 million (20.5 percent of GDP). Despite uncertainty about the duration of the eruption of the volcano, experts estimate that volcanic eruptions could continue over the next few weeks, possibly months. Tourism in the high-end Grenadines has not been affected significantly. Against this background, the economy is expected to further contract by 6.1 percent in 2021.

- The fiscal performance was relatively robust despite the pandemic. Revenue collection improved in 2020, with total revenues and grants reaching 32½ percent of GDP, up 2 percentage points of GDP from 2019. On the spending front, due to the COVID-19 response measures, total expenditure increased by 4½ percentage points to 38 percent of GDP in 2020. As a result, the overall deficit widened from 3 percent of GDP in 2019 to 5¾ percent of GDP in 2020. Public debt rose from 75 percent of GDP in 2019 to 87 percent of GDP in 2020.

- In 2021, the fiscal position is expected to weaken due to the humanitarian crisis created by the explosive eruption of La Soufriere volcano. While estimated revenues are projected to fall in line with economic activity, a collapse in collection is not expected. On the expenditure side, the government's preliminary fiscal package to address the humanitarian crisis and healthcare needs, estimated at US$55.1 million equal to 7¼ percent of GDP, will put pressure on the public finances. Reflecting the authorities' efforts to reprioritize spending programs to create room for the emergency-related spending, the increase in total expenditure will be limited to about 6 percentage points of GDP. The overall deficit is projected to widen to 12½ percent of GDP in 2021 (up from the projected 5.9 percent of GDP prior to the volcanic eruptions). Public debt is projected to increase to around 104 percent of GDP.

- Once the explosive volcanic eruptions stop, the authorities' plans include the clean-up and reconstruction of the damages caused by the volcano. The fiscal costs initially estimated by the government could reach US$100 million (13 percent of GDP).

- On the external side, the current account deficit is projected to widen further in 2021 to 22.2 percent of GDP, due to a 31 percent decline in tourist receipts, a fall in agriculture and fishing exports and an increase in emergency-related imports to address the volcanic eruptions. Net FDI is also expected to fall by 2¼ percent of GDP reflecting delays in the execution of private sector investments. With the worsening of the current account balance and the financial account, the level of imputed international reserves is expected to decline from 7 months of

[6] Tourism-related sectors (hotels, restaurants, transport, and retail trade) and wholesale sector (which cannot be stripped out due to data limitation) account for about 30 percent of GDP in national accounts.

total imports of goods and services in 2020 to 5 months in 2021.[7] In the absence of external financing to assist St. Vincent and the Grenadines to address the humanitarian crises, the reserves coverage could fall to around two months of imports.

6. The execution of the port modernization project has been delayed further. The delays largely reflect the fallout from the volcanic eruptions. Its construction is now expected to commence only in the second half of 2022. While the construction of the new port, which is fully financed, would support construction demand, it will also put pressure on public finances.

7. Over the medium term, the economic prospects are more favorable. Staff projects real GDP growth to rebound to 8.3 percent in 2022, with relatively high levels of growth through 2025 before stabilizing to a more sustainable level of 2.7 percent thereafter. Key assumptions include: (i) the effective rollout of the COVID-19 vaccines in source markets and in St. Vincent and the Grenadines; (ii) the volcanic eruptions cease by August 2021 as estimated by the expert volcanologists permitting cleanup and reconstruction activities to commence shortly after that; (iii) a moderate rebound in stayover tourism arrivals in the next tourism season (December 2021-March 2022); (iv) the construction of the new port project to commence in the second half of 2022; and (v) over the medium term, net FDI inflows continue to rise, particularly in the tourism sector and the investment climate is improved. Inflation is projected to stay at around 2 percent (broadly in line with inflation expectation in the United States).[8] The current account deficit would narrow, and with a recovery in net FDI inflows, the level of imputed international reserves would stay over 4 months of prospective imports of goods and services.

8. Fiscal assumptions under the DSA baseline scenario are as follows (Text Table 3).

- The primary balance for the public sector is projected to average a deficit of 3½ percent of GDP in 2021–24, worse than at the time of the 2020 DSA due mainly to the humanitarian crisis and the ensuing reconstruction needs stemming from the explosive eruption of La Soufriere, a more protracted recovery of the economy due to the COVID-19 shock with tourism activity expected to return to 2019 levels by 2024 compared to 2023 at the time of the RCF, and the continued COVID-19-related government support to people and sectors affected by the pandemic. Excluding the port, reconstruction activity and COVID-related spending, the primary balance would average a surplus of 4 percent of GDP exceeding the projected surplus of 3 percent of GDP at the time of the RCF. Once the reconstruction efforts and the port project are completed, the primary balance would improve to a surplus of 3½ percent of GDP in 2026–28.

[7] Calculated as the stock of imputed international reserves in year T divided by total imports of goods and services in year T+1. For 2021, the import coverage ratio assumes prospective official financing from IMF and the World Bank.

[8] St. Vincent and the Grenadines is a member of the Eastern Caribbean Currency Union, and the exchange rate peg against the U.S. dollar (EC$2.7 per dollar) provides an anchor for inflation.

- Natural disasters (i.e., hurricanes and floods) occur at the magnitude and frequency of the last 15 years. The average annual fiscal cost is estimated at 1.4 percent of GDP, of which 0.7 percent of GDP is covered by the contingency fund and the remaining 0.7 percent from current allocations in goods and services and transfers.

Text Table 3. St. Vincent and the Grenadines: Selected Macroeconomic Indicators Assumptions

	2020	2021	2022	2023	2024	2025	2026
2020 RCF DSA							
Nominal GDP (EC$, millions)	2,131	2,255	2,370	2,487	2,607	2,731	2,862
Real GDP growth, (percent change), market price	-5.5	4.1	3.0	2.9	2.7	2.7	2.7
Inflation (GDP deflator, percent change)	0.9	1.6	2.0	2.0	2.0	2.0	2.0
Current account balance (percent of GDP)	-17.5	-12.1	-12.7	-10.8	-9.6	-8.3	-8.3
Central government, primary balance (percent of GDP)	-3.7	-1.9	-1.8	-1.1	1.1	2.1	2.8
Central government, underlying primary balance (percent of GDP) 1/	-3.1	1.9	4.1	3.2	1.7	2.1	2.8
Central government, fiscal balance (percent of GDP)	-6.2	-4.5	-4.5	-4.1	-1.7	-0.4	0.2
Central government, underlying fiscal balance (percent of GDP) 1/	-5.7	-0.6	1.4	0.2	-1.1	-0.4	0.2
Public sector, primary balance (percent of GDP)	-3.6	-2.0	-1.5	-0.6	1.6	2.5	3.3
Public sector, underlying primary balance (percent of GDP) 1/	-3.0	1.9	4.5	3.7	2.2	2.5	3.3
Public sector, fiscal balance (percent of GDP)	-6.4	-4.7	-4.3	-3.4	-1.2	-0.1	0.9
Public sector, underlying fiscal balance (percent of GDP) 1/	-5.8	-0.9	1.6	0.9	-0.6	-0.1	0.9
Total public debt (percent of GDP)	85.8	85.5	85.4	84.8	82.1	78.5	73.8
2021 RCF DSA							
Nominal GDP (EC$, millions)	2,132	2,032	2,263	2,460	2,623	2,766	2,899
Real GDP growth, (percent change), market price	-3.8	-6.1	8.3	6.1	4.2	3.3	2.7
Inflation (GDP deflator, percent change)	-0.6	2.0	2.1	2.1	2.0	2.0	2.0
Current account balance (percent of GDP)	-16.3	-22.2	-12.2	-14.3	-11.3	-10.5	-9.6
Central government, primary balance (percent of GDP)	-3.3	-9.4	-1.0	-1.6	-0.9	-0.6	3.0
Central government, underlying primary balance (percent of GDP) 1/	-2.7	1.5	3.8	4.1	6.1	2.9	3.0
Central government, fiscal balance (percent of GDP)	-5.7	-12.6	-4.0	-4.9	-4.1	-3.5	0.1
Central government, underlying fiscal balance (percent of GDP) 1/	-5.1	-1.7	0.8	0.8	3.0	-0.1	0.1
Public sector, primary balance (percent of GDP)	-3.2	-9.6	-1.1	-1.4	-0.8	-0.5	3.2
Public sector, underlying primary balance (percent of GDP) 1/	-2.7	1.3	3.6	4.3	6.2	2.9	3.2
Public sector, fiscal balance (percent of GDP)	-6.1	-13.0	-4.2	-4.5	-3.8	-3.4	0.5
Public sector, underlying fiscal balance (percent of GDP) 1/	-5.5	-2.1	0.6	1.2	3.2	0.0	0.5
Total public debt (percent of GDP)	86.9	103.7	96.8	93.2	90.9	89.4	84.8

Source: St. Vincent and the Grenadines Ministry of Finance and IMF Staff calculations and projections.
1/ Excludes COVID-19, volcano and port-related spending.

- Projected external loan disbursements for 2021–30 include those from existing loan contracts (US$390 million) and new loans (US$275 million). The former include financing for the port project, Regional Disaster Vulnerability Reduction Program, tourism competitiveness project, agriculture competitiveness program, water and energy sectors, and the construction of government owned hotels, among others. Most of the new external financing is expected to come from multilateral and bilateral donors, including prospective financing (US$85 million) to cover the financing gap that has emerged due to the explosive volcanic eruptions. The authorities are engaging with the World Bank, the Caribbean Development Bank for budget support financing, and other donors to respond to the emergency. These will contribute to maintaining an average grant element of new debt at 35 percent during 2021–30.

REALISM OF THE MACROFRAMEWORK

9. Debt dynamics (Figure 3). The fiscal position will weaken amid the needs created by explosive volcanic eruptions and the lingering effects of the COVID-19 shock. Total public and publicly guaranteed debt is expected to increase from 86.9 percent of GDP in 2020 peaking at 103.7 percent in 2021. Thereafter, public debt is projected to decline gradually, supported by the expected strong rebound in economic activity post COVID-19 shock, the conclusion of the reconstruction activities, the port, and the authorities' commitment to implement fiscal consolidation measures once the twin shocks are under control, including (i) adherence to the Fiscal Responsibility Framework (FRF), (ii) strengthening tax administration; (iii) restraining the growth of recurrent spending; and (iv) prioritizing and re-evaluating public investment projects in the pipeline.

10. The baseline scenario reflects staff's most realistic estimates (Figure 4). Prior to the global pandemic, the authorities had maintained a relatively prudent fiscal policy stance, instituted a contingencies fund for natural disasters, strengthened the oversight of state-owned enterprises and introduced a FRF in 2020. The fiscal position did not deteriorate as expected at the time of the 2020 DSA despite the significant size of the COVID-19 shock as total revenue rose 2½ percentage points of GDP in 2020 relative to 2019 in response to robust revenue collection in 2020 from personal income tax, excise duties and capital revenue more than offset a fall in VAT receipts.[9] Ahead of the volcanic eruption, the 2021 Budget had taken further measures to boost domestic revenue mobilization, including increasing the customs service charge. The projected widening of the fiscal balance in the near and medium-term reflects the twin impact from the COVID-19 shock and the eruption of the La Soufriere volcano. Beyond 2021, growth will be supported by the phased construction of the new port, increased tourist arrivals, reconstruction activity, other public investment projects and private and public investments in hotels.

COUNTRY CLASSIFICATION

11. St. Vincent and the Grenadines' debt-carrying capacity is medium (Text Table 4). St. Vincent's Composite Indicator (CI) index (which determines the indicative thresholds to assess a country's debt sustainability) is calculated as 2.95, corresponding to a "medium" rating.[10] St. Vincent's debt carrying capacity is unchanged compared to the rating under the previous Country Policy and Institutional Assessment (CPIA) methodology.[11] The corresponding scores for the CI index

[9] The better-than-expected revenue performance relative to the 2020 DSA was driven by a stronger growth outturn and tax revenue measures, notably from tax administration.

[10] The CI index captures the impact of the weighted average of the World Bank's CPIA score, the country's real economic growth, remittances, international reserves, and world growth. The CI calculation is based on 10-year averages of the variables including 5 years of historical data and 5 years of projections. The index was calculated using the October 2020 WEO data and the 2019 CPIA.

[11] Countries are rated based on a set of 16 backward-looking criteria grouped into four areas including economic management, structural policies, policies on social inclusion and equity, and public-sector management and institutions.

determine the relevant thresholds for St. Vincent and the Grenadines for both external and total public debt (Text Table 4).

Text Table 4. St. Vincent and the Grenadines: Debt-Composite Indicator and Threshold Tables

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.650	1.41	48%
Real growth rate (in percent)	2.719	1.406	0.04	1%
Import coverage of reserves (in percent)	4.052	41.624	1.69	57%
Import coverage of reserves^2 (in percent)	-3.990	17.326	-0.69	-23%
Remittances (in percent)	2.022	5.632	0.11	4%
World economic growth (in percent)	13.520	2.928	0.40	13%
CI Score			2.95	100%
CI rating			Medium	

Applicable Thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	180
GDP	40
Debt service in % of	
Exports	15
Revenue	18

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	55

12. The combined contingent liability stress test is aligned to St. Vincent's specific risks (Text Table 5)**.** The stress test includes risks pertaining to financial markets. SOEs' debt, which is guaranteed by the government, is excluded from the stress test as it is already included in total public debt.[12]

Text Table 5. St. Vincent and the Grenadines: Combined Contingent Liability Shock

1	**The country's coverage of public debt**	The central government, government-guaranteed debt		
		Default	**Used for the analysis**	**Reasons for deviations from the default settings**
2	Other elements of the general government not captured in 1.	0 percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	0.0	
4	PPP	35 percent of PPP stock	0.0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)		5.0	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

[12] Potential contingent liabilities from the pension system are not included. Parametric reforms introduced in 2014 improved the sustainability of the National Insurance System (NIS), but only temporary, as its reserves are projected to be depleted by around 2033. Currently, the government is assessing options to further strengthen NIS's financial position and to reduce the burden from the public service pension system.

DEBT SUSTAINABILITY ANALYSIS

A. External Debt Sustainability Analysis

13. The risk of external debt distress is high.

- **Under the baseline scenario, the PV of external debt-to-GDP ratio** would meet the indicative threshold of 40 percent of GDP by 2034 (Figure 1 and Table 1). It remains above the threshold during the projection period under stress test scenarios, including due to shocks to growth, exports, and a hypothetical one-time 30 percent depreciation (Tables 3 and 4). The shock that generates the largest impact on the PV of debt-to-GDP ratio is a combination of the mentioned shocks with the PV of external debt potentially reaching 110 percent of GDP by 2023, but then gradually declining to below 70 percent of GDP by 2033.

- **The PV of external debt-to-exports ratio and the PPG external debt service-to-exports ratio** would both temporarily breach (through 2023) the indicative thresholds under the baseline scenario. A shock to exports pushes the debt service-to-exports ratio to 60 percent in 2023, well above the 15 percent threshold. The shock to exports keeps the PV of external debt-to-exports ratio above its indicative threshold (180 percent) over the projection period.

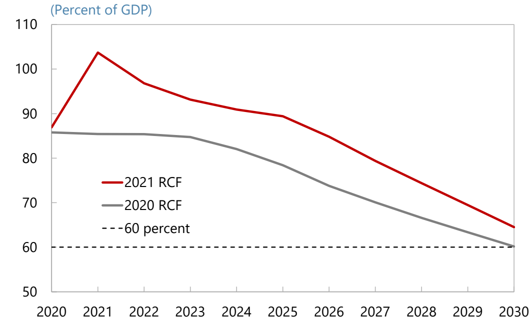
- **Reflecting the resilience of tax revenues as well as measures taken in 2021, the PV of debt-to-revenue and the debt service to revenue ratios** remain close to the 2020 RCF. Only with the combined shock does the debt service to revenue ratio breach its threshold in 2026 (18 percent).

B. Public Debt Sustainability Analysis

14. The overall risk of debt distress remains high (Figure 2 and Table 2). The PV of public debt is estimated to peak at 101.6 percent of GDP in 2021 before starting to decline in 2022. Once reconstruction efforts and the port project are completed, the PV of public debt is projected to fall to 60 percent by 2030 and meet the benchmark of 55 percent of GDP by 2031. The public debt to GDP ratio is also expected to fall to below 60 percent in 2031, meeting the ECCU's debt target ahead of the 2035 goal reflecting the consolidation efforts assumed under the baseline scenario. Under the "most extreme stress scenario," which assumes real GDP growth equal to its historical average (10 years) minus one standard deviation for 2021 and 2022, the PV of public debt could reach 150 percent of GDP by 2028. Under other alternative scenarios including a shock to exports, the PV of public debt (as a share of GDP) would reach 118 percent by 2023 but fall below 100 percent by 2028, meeting the 55 percent threshold by 2035.

15. A natural disaster scenario was conducted reflecting St. Vincent and the Grenadines' exposure to natural disasters.[13] Under the tailored test of "one-time natural disaster" the PV of public debt would peak at 102 percent of GDP in 2022 and decline to 66 percent of GDP by 2031. Under the current baseline scenario that includes the eruption of the volcano, the expected fiscal consolidation measures will contribute to a faster reduction in the PV of public debt and to meet the 55 percent of GDP by 2031. The custom recurrent natural disaster tailored scenario was not applied given that the baseline already includes a large natural disaster that exceeds by far the standard natural disaster stress test.

Text Figure 3. St. Vincent and the Grenadines: Public Debt
(Percent of GDP)



Sources: Ministry of Finance and IMF staff calculations.

RISK RATING AND VULNERABILITIES

16. St. Vincent and the Grenadines' debt is at high risk of distress but is deemed sustainable on a forward-looking basis, broadly unchanged from the 2020 DSA assessment. The debt to GDP increase is driven by once-in-a-generation natural disaster following a once in a century global pandemic Once these two shocks recede and the authorities' fiscal plans are implemented, debt should be placed in a firmly downside path. Before the pandemic, the authorities had maintained a relatively prudent fiscal policy stance and sought to improve the fiscal framework. The authorities remain committed to fiscal prudence and are targeting an increase to the central government primary balance from a deficit of 9.4 percent of GDP in 2021 to a surplus of around 3.0 percent of GDP by 2026, consistent with the FRF. Revenue measures, including increase in the customs' service charge (expected to yield 1 percent of GDP) were approved in February 2021 at the time of the approval of the budget. Additional consolidation measures include: (i) enhanced taxpayers compliance, especially by focusing on large taxpayers and by adhering to the recently enacted Tax Administration Procedures Act;[14] (ii) rationalizing exemptions from import duties and VAT on imports; (iii) and expenditure-side measures such as containing the growth of non-interest recurrent spending and partially creating room for the additional spending needs created by the eruption of La Soufriere by reprioritizing the government investment program.[15] Altogether, the authorities' measures will ensure that the debt-to GDP ratio peaks in 2021 and declines thereafter, with the debt-to-GDP ratio and debt service on a solid downward path once the port project and the reconstruction efforts are completed in 2025. Staff estimate that absent of the volcano,

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[13] This scenario, unchanged relative to the 2018 DSA, assumes that the fiscal costs due to the damages from this severe disaster are assumed to be 10 percent of GDP, in addition to the 1.4 percent of GDP assumed in baseline. Under this scenario, real GDP growth is assumed to be 2 p.p. lower relative to the baseline in 2022, but it further rebound in 2023 reflecting the reconstruction efforts. The government is assumed to finance the fiscal costs through new debt.

[14] The authorities report tax administration gains and collection of past arrears amounting to 2 percent of GDP prior to the volcanic eruption.

[15] Among the measures already taken in 2021 include constraining wage costs through moderating wage payments and keeping vacancies unfilled.

pandemic and port-related spending, the primary deficits over 2021–26 would have resulted in primary surpluses of around 3 ½ percent of GDP. Beyond the authorities' fiscal plans, there are mitigating factors such as no roll-over risks associated with short-term debt and favorable external debt service schedule due to the DSSI[16] and relatively favorable terms given the large share of concessional financing. Moreover, revenues exceed 30 percent of GDP and have proved to be resilient during the pandemic and in the aftermath of volcanic eruption. Combined with the authorities' strong commitment to long-term fiscal consolidation as embodied in the FRF, a commitment to honor its creditors, and cautious debt management strategy, St. Vincent and the Grenadines' debt is assessed as sustainable on a forward-looking basis while risks to debt sustainability remain elevated.

17. Risks to the medium term are tilted to the downside consistent with a "high" risk rating for external and public debt distress. The COVID-19 shock could be more prolonged than assumed, resulting in a deeper and more protracted damage to the tourism sector. In addition, were wider local outbreaks to erupt amid the fallout from the explosive eruption of La Soufriere, or the volcanic eruptions extend beyond August 2021, the economic recession would be more severe and protracted. Furthermore, once the hurricane season starts in June, St. Vincent and the Grenadines could be hit by another natural disaster. Given these substantial uncertainties around growth and debt-service capacity, the authorities' LOI commitment to prudent fiscal management once the twin crisis are under control including by adhering to the FRF and the timely transfer of budgeted appropriations to the Contingencies Fund will help ensure debt sustainability.

18. To reduce vulnerabilities, the authorities should seek concessional loans and further strengthen fiscal institutions. Large scale public investments, if financed through less concessional financing terms, could undermine debt sustainability. Accordingly, efforts are needed to keep new borrowing on concessional terms. Furthermore, the authorities should continue efforts to strengthen public investment management, and further improve the medium-term fiscal policy framework. Additional fiscal measures will be needed to bolster fiscal buffers and protect public finances from the impact of natural disasters and climate change.

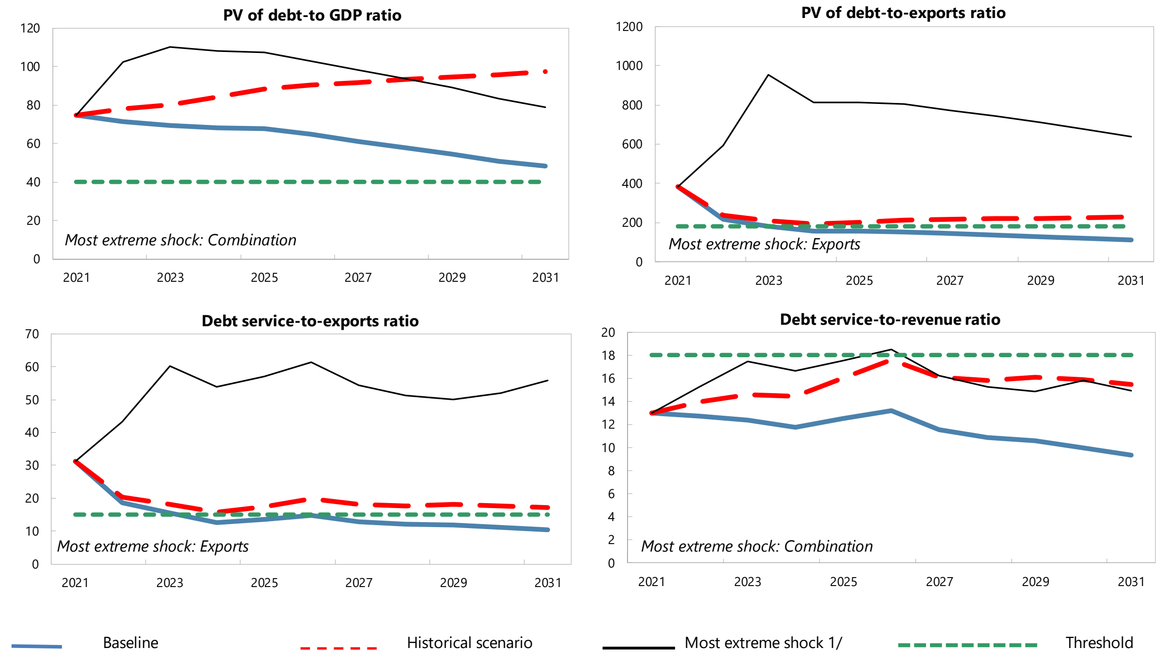
AUTHORITIES' VIEWS

19. The authorities agreed with the debt sustainability assessment under the baseline scenario. They noted that their commitment to the FRF will help them to put public debt on a sustainable path once the COVID-19 shock and the phased construction of the port and the reconstruction efforts are completed. They agreed that external shocks such as the COVID-19 pandemic and natural disasters such as the explosion of La Soufriere volcano pose risks to debt dynamics but reiterated their commitment to fiscal discipline to put the debt-to-GDP ratio on a firmly downward trajectory by implementing fiscal consolidation measures once the twin crisis are under control. In this context, they commit to the timely transfer of budgeted appropriations to the

[16] Through the DSSI, payments worth USD 1.9 million between January-June 2021 have been postponed to December 2022 whereupon all corresponding amounts are to be paid in ten installments every six months. The authorities have applied for an extension under the DSSI covering July-December 2021.

contingencies fund to rebuild fiscal buffers. They agreed that additional fiscal reforms would be needed to create additional fiscal space to support their capital spending program, and especially so if the country continues to be hit by natural disasters.

Figure 1. St. Vincent & the Grenadines: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2021–31



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	No	No
Commodity price	n.a.	n.a.
Market financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

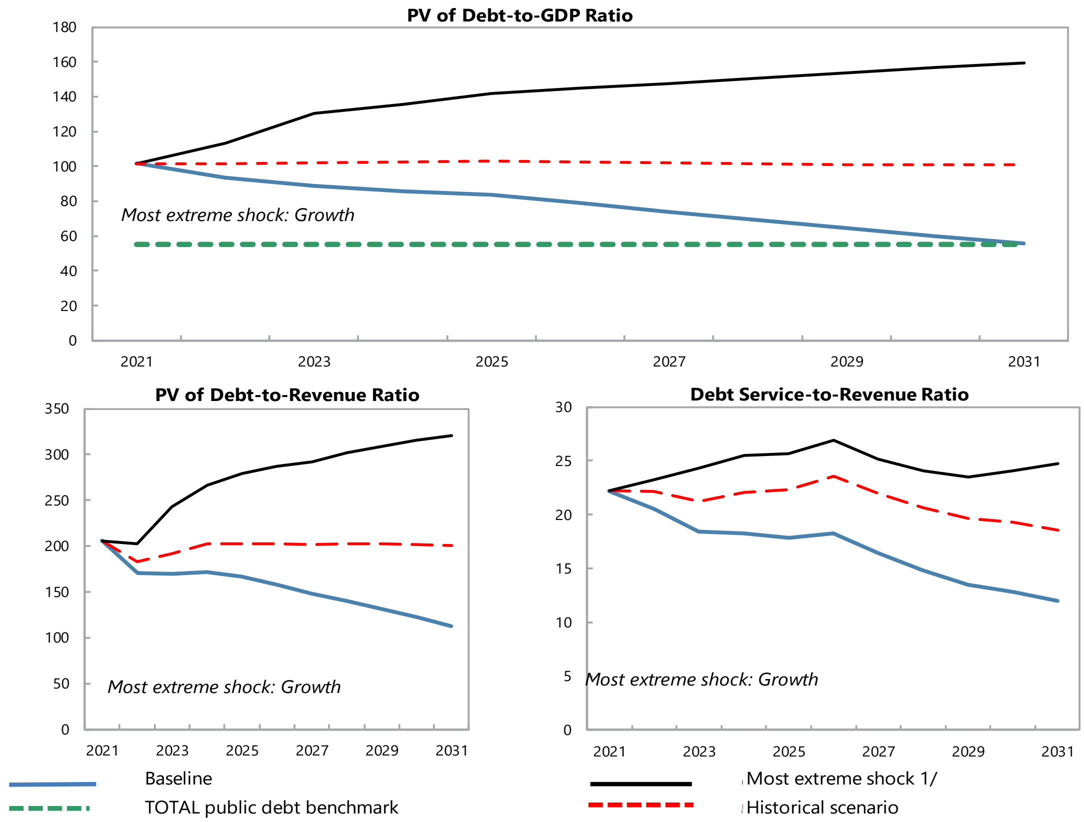
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.9%	1.9%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	30	30
Avg. grace period	7	7

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. St. Vincent & the Grenadines: Indicators of Public Debt Under Alternative Scenarios, 2021–31



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	87%	87%
Domestic medium and long-term	9%	9%
Domestic short-term	5%	5%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.9%	1.9%
Avg. maturity (incl. grace period)	30	30
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	5.4%	5.4%
Avg. maturity (incl. grace period)	9	9
Avg. grace period	5	5
Domestic short-term debt		
Avg. real interest rate	-0.7%	-0.7%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

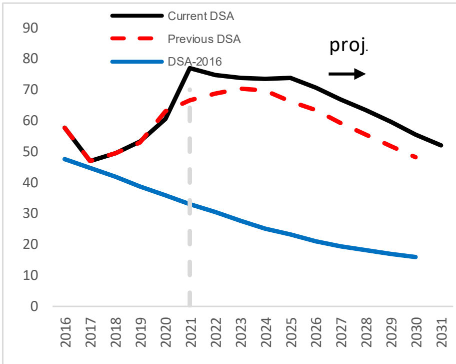
1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. St. Vincent & the Grenadines: Drivers of Debt Dynamics - Baseline Scenario

External debt

Gross Nominal PPG External Debt

(in percent of GDP; DSA vintages)

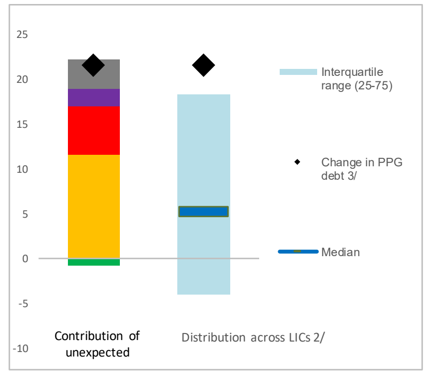


Debt-creating flows

(percent of GDP)

Unexpected Changes in Debt 1/

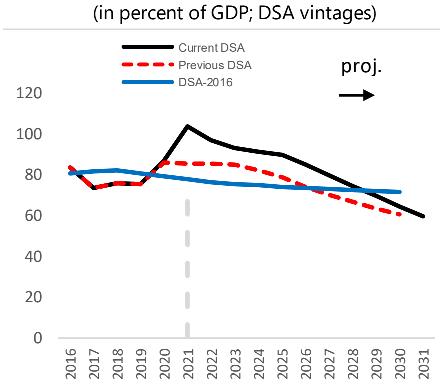
(past 5 years, percent of GDP)



Public debt

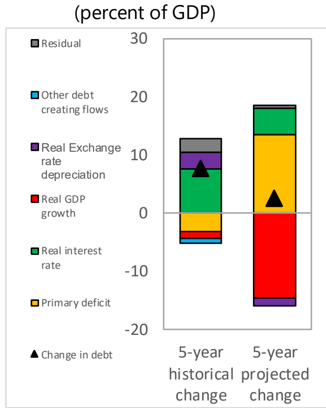
Gross Nominal Public Debt

(in percent of GDP; DSA vintages)



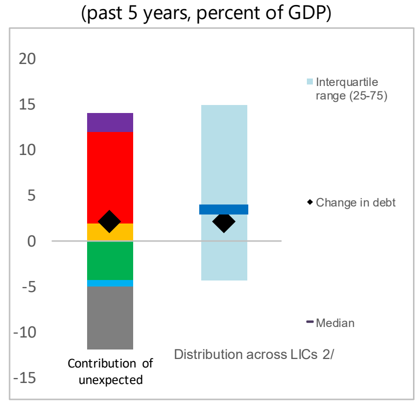
Debt-creating flows

(percent of GDP)



Unexpected Changes in Debt 1/

(past 5 years, percent of GDP)



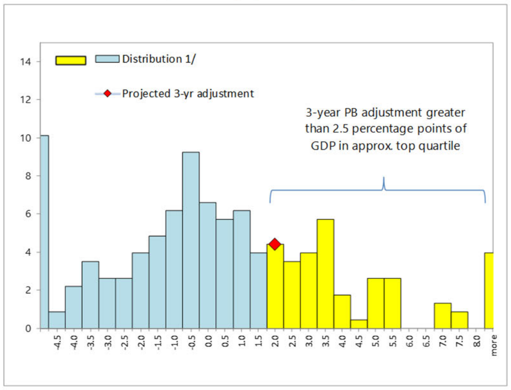
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

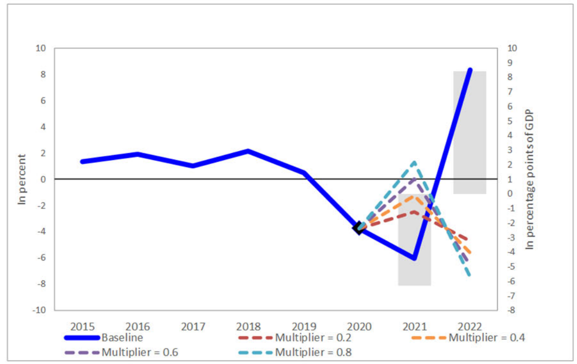
Figure 4. St. Vincent & The Grenadines: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



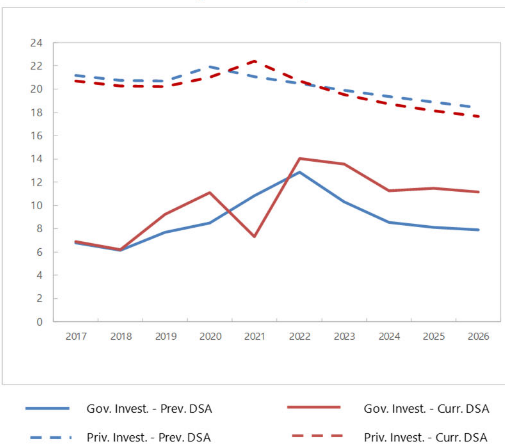
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

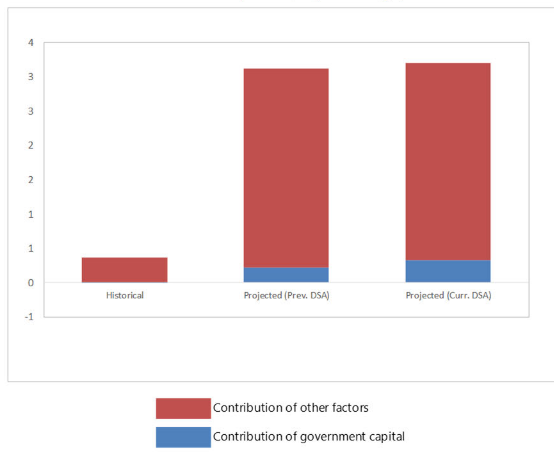
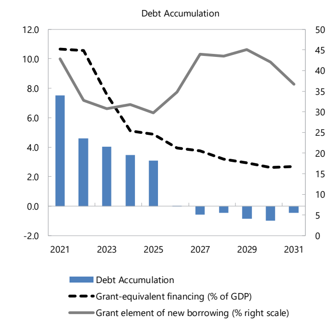


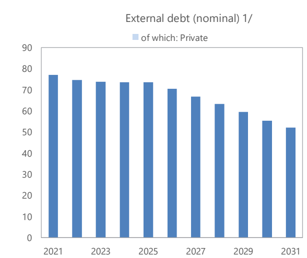
Table 1. St. Vincent & the Grenadines: External Debt Sustainability Framework, Baseline Scenario, 2018–41

(In percent of GDP, unless otherwise indicated)

	Actual			Projections														Average 8/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2030	2031	2032	2033	2034	2035	2040	2041	Historical	Projections
External debt (nominal) 1/	49.3	53.0	60.3	76.9	74.6	73.6	73.5	73.6	70.5	55.3	52.0	47.2	42.6	38.5	34.8	19.4	17.2	48.5	67.2
of which: public and publicly guaranteed (PPG)	49.3	53.0	60.3	76.9	74.6	73.6	73.5	73.6	70.5	55.3	52.0	47.2	42.6	38.5	34.8	19.4	17.2	48.5	67.2
Change in external debt	2.4	3.7	7.3	16.6	-2.3	-1.0	-0.1	0.1	-3.1	-4.1	-3.3	-4.8	-4.6	-4.1	-3.8	-2.6	-2.2		
Identified net debt-creating flows	6.8	-0.2	11.8	21.4	0.9	3.2	1.2	1.1	0.3	0.7	0.8	0.9	1.0	1.1	1.2	1.7	2.2	5.4	2.8
Non-interest current account deficit	11.0	8.3	15.1	21.1	10.7	12.5	9.5	8.7	7.8	8.3	8.4	8.4	8.6	8.7	8.7	9.0	9.2	18.1	10.1
Deficit in balance of goods and services	17.0	14.0	20.1	26.9	15.3	16.0	10.9	11.5	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.9	22.1	14.3
Exports	38.0	39.3	21.4	19.4	32.6	38.2	43.9	43.6	42.3	42.3	42.3	42.3	42.3	42.3	42.3	42.3	42.8		
Imports	55.1	53.2	41.6	46.3	47.9	54.2	54.8	55.0	55.1	55.1	55.1	55.1	55.1	55.1	55.1	55.1	55.8		
Net current transfers (negative = inflow)	-5.1	-5.1	-5.0	-5.6	-5.0	-4.9	-4.9	-4.8	-4.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-4.1	-2.7
of which: official	-0.7	-2.8	-2.4	-2.2	-7.2	-4.8	-2.5	-2.5	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3		
Other current account flows (negative = net inflow)	-0.9	-0.6	-0.1	-0.2	0.5	1.4	3.4	2.0	-0.2	-4.5	-4.4	-4.3	-4.2	-4.1	-4.1	-3.8	-3.7	0.1	-1.5
Net FDI (negative = inflow)	-4.2	-9.1	-6.9	-4.6	-5.6	-6.9	-7.1	-7.1	-7.4	-7.4	-7.4	-7.4	-7.4	-7.4	-7.4	-7.4	-7.4	-13.3	-6.9
Endogenous debt dynamics 2/	0.0	0.6	3.6	4.9	-4.3	-2.5	-1.1	-0.5	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	0.0	0.5		
Contribution from nominal interest rate	1.1	1.4	1.3	1.1	1.5	1.8	1.8	1.8	1.8	1.3	1.2	1.1	1.0	0.9	0.9	0.6	0.5		
Contribution from real GDP growth	-1.0	-0.2	2.1	3.8	-5.8	-4.2	-2.9	-2.3	-1.9	-1.5	-1.4	-1.3	-1.2	-1.1	-1.0	-0.6	-0.1		
Contribution from price and exchange rate changes	-0.1	-0.6	0.3	...	...	...	...	...	...	...	...	...	...	...	...	...	...		
Residual 3/	-4.5	3.9	-4.5	-4.8	-3.1	-4.2	-1.3	-1.0	-3.4	-4.8	-4.1	-5.7	-5.6	-5.2	-5.0	-4.3	-4.4	-3.4	-3.6
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators																			
PV of PPG external debt-to-GDP ratio	...	...	64	75	71	69	68	68	65	51	48	44	40.7	37	34	21	19		
PV of PPG external debt-to-exports ratio	...	...	297	385	219	181	155	155	152	120	114	105	96	88	81	49	44		
PPG debt service-to-exports ratio	13	17	25	31	19	15	13	14	15	11	10	10	10	9	9	7	6		
PPG debt service-to-revenue ratio	11	15	11	13	13	12	12	13	13	10	9	9	9	8	8	6	6		
Gross external financing need (Million of U.S. dollars)	95.2	48.1	106.1	169.5	93.6	104.8	77.1	77.6	71.8	73.2	73.8	75.6	78.8	81.6	82.7	93.0	96.0		
Key macroeconomic assumptions																			
Real GDP growth (in percent)	2.2	0.5	-3.8	-6.1	8.3	6.1	4.2	3.3	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	0.3	0.7	2.9
GDP deflator in US dollar terms (change in percent)	0.2	1.2	-0.5	1.5	2.8	2.4	2.3	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.8	0.8	2.1
Effective interest rate (percent) 4/	2.5	2.9	2.3	1.7	2.2	2.6	2.6	2.6	2.6	2.3	2.3	2.3	2.3	2.3	2.5	2.7	2.7	2.5	2.4
Growth of exports of G&S (US dollar terms, in percent)	5.1	5.0	-47.7	-13.6	86.6	27.4	22.6	4.6	1.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.3	1.7	14.0
Growth of imports of G&S (US dollar terms, in percent)	5.8	-1.7	-25.2	6.2	15.0	23.1	7.9	5.8	5.0	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.3	-1.2	7.9
Grant element of new public sector borrowing (in percent)	...	...	...	42.9	32.8	30.7	31.7	29.7	34.7	42.1	36.7	44.9	44.9	38.7	38.7	38.7	38.7	...	37.6
Government revenues (excluding grants, in percent of GDP)	44.8	44.9	47.8	46.7	47.5	47.5	47.5	47.5	47.5	47.5	47.5	47.5	47.5	47.5	47.5	47.5	47.7	44.6	47.4
Aid flows (in Million of US dollars) 5/	340.6	381.9	403.1	98.1	81.8	59.0	45.7	43.1	41.1	36.4	34.0	30.2	31.4	32.7	34.0	41.6	42.8		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	10.7	10.6	7.6	5.1	4.9	3.9	2.6	2.7	2.0	2.0	2.1	2.1	2.0	2.0	...	5.3
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	50.1	60.8	54.5	47.6	46.4	56.1	68.7	63.1	85.6	86.1	80.2	80.8	83.7	84.1	...	58.7
Nominal GDP (Million of US dollars)	811	825	790	753	838	911	971	1,024	1,074	1,295	1,357	1,422	1,491	1,562	1,637	2,070	2,135		
Nominal dollar GDP growth	2.4	1.7	-4.3	-4.7	11.4	8.7	6.6	5.5	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	3.1	1.5	5.1
Memorandum items:																			
PV of external debt 7/	...	...	63.8	74.8	71.3	69.3	68.2	67.6	64.6	50.9	48.1	44.4	40.7	37.4	34.2	20.7	18.7		
In percent of exports	...	...	297.3	384.6	218.7	181.4	155.4	155.2	152.5	120.2	113.7	104.8	96.1	88.3	80.8	48.8	43.6		
Total external debt service-to-exports ratio	12.9	17.0	24.8	31.2	18.6	15.4	12.7	13.6	14.8	11.2	10.4	10.0	9.7	9.3	8.9	6.7	6.4		
PV of PPG external debt (in Million of US dollars)			503.3	562.8	597.3	631.0	662.8	692.9	693.2	659.4	653.5	631.0	606.8	584.2	560.5	427.7	398.6		
(PVt-PVt-1)/GDPt-1 (in percent)				7.5	4.6	4.0	3.5	3.1	0.0	-1.0	-0.5	-1.7	-1.7	-1.5	-1.5	-1.4	-1.4		
Non-interest current account deficit that stabilizes debt ratio	8.6	4.6	7.8	4.5	13.0	13.5	9.6	8.6	10.9	12.4	11.6	13.3	13.2	12.7	12.4	11.6	11.4		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**





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/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ 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).

7/ Assumes that PV of private sector debt is equivalent to its face value.

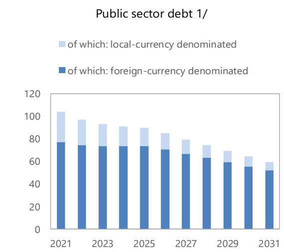
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

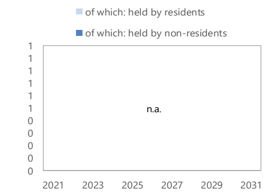
Table 2. St. Vincent & the Grenadines: Public Sector Debt Sustainability Framework, Baseline Scenario, 2018–41

(In percent of GDP, unless otherwise indicated)

	Actual			Projections											Average 6/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2030	2031	2035	2040	2041	Historical	Projections
Public sector debt 1/	**75.6**	**75.2**	**86.9**	**103.7**	**96.8**	**93.2**	**90.9**	**89.4**	**84.8**	**64.5**	**59.4**	**42.9**	**30.8**	**29.1**	**77.0**	**82.4**
of which: external debt	**49.3**	**53.0**	**60.3**	**76.9**	**74.6**	**73.6**	**73.5**	**73.6**	**70.5**	**55.3**	**52.0**	**34.8**	**19.4**	**17.2**	**48.5**	**67.2**
Change in public sector debt	2.1	-0.5	11.8	16.8	-6.9	-3.6	-2.2	-1.5	-4.7	-5.0	-5.1	-3.4	-2.2	-1.6		
Identified debt-creating flows	**-0.7**	**1.8**	**9.3**	**16.0**	**-6.2**	**-3.2**	**-2.0**	**-1.3**	**-4.5**	**-4.8**	**-4.9**	**-3.3**	**-2.2**	**-1.5**	**1.0**	**-2.3**
Primary deficit	**-1.5**	**0.5**	**3.2**	**9.6**	**1.1**	**1.4**	**0.8**	**0.5**	**-3.2**	**-3.6**	**-3.8**	**-2.7**	**-2.0**	**-2.0**	**-0.4**	**-0.7**
Revenue and grants	46.7	48.2	50.2	49.4	54.8	52.3	50.0	50.0	49.8	49.2	49.3	49.2	49.2	49.4	**47.5**	**50.3**
of which: grants	1.8	3.3	2.4	2.7	7.2	4.8	2.5	2.5	2.3	1.8	1.8	1.8	1.8	1.8		
Primary (noninterest) expenditure	45.2	48.7	53.4	59.0	55.9	53.7	50.8	50.5	46.6	45.6	45.4	46.6	47.3	47.4	**47.1**	**49.6**
Automatic debt dynamics	**0.8**	**1.3**	**6.0**	**6.4**	**-7.3**	**-4.6**	**-2.8**	**-1.8**	**-1.3**	**-1.1**	**-1.1**	**-0.6**	**-0.2**	**0.5**		
Contribution from interest rate/growth differential	-0.2	1.0	5.1	6.4	-7.3	-4.6	-2.8	-1.8	-1.3	-1.1	-1.1	-0.6	-0.2	0.5		
of which: contribution from average real interest rate	1.3	1.4	2.1	0.8	0.7	1.0	1.0	1.1	1.1	0.7	0.6	0.6	0.7	0.6		
of which: contribution from real GDP growth	-1.6	-0.4	2.9	5.6	-8.0	-5.6	-3.8	-2.9	-2.4	-1.8	-1.7	-1.2	-0.9	-0.1		
Contribution from real exchange rate depreciation	1.0	0.3	1.0	...	...	...	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.2**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (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	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	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**2.9**	**-2.3**	**2.5**	**0.8**	**-0.7**	**-0.5**	**-0.2**	**-0.2**	**-0.2**	**-0.2**	**-0.2**	**-0.1**	**0.0**	**-0.2**	**1.1**	**-0.2**
Sustainability indicators																
PV of public debt-to-GDP ratio 2/	**...**	**...**	**90**	**101.6**	**93**	**89**	**86**	**83**	**79**	**60**	**55**	**42**	**32**	**31**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**180**	**206**	**171**	**170**	**171**	**167**	**158**	**122**	**113**	**86**	**65**	**62**		
Debt service-to-revenue and grants ratio 3/	**20**	**24**	**20**	**22**	**20**	**18**	**18**	**18**	**18**	**13**	**12**	**10**	**10**	**10**		
Gross financing need 4/	7.8	11.8	13.4	20.5	12.3	11.1	9.9	9.4	5.9	2.7	2.1	2.5	2.8	2.8		
Key macroeconomic and fiscal assumptions																
Real GDP growth (in percent)	2.2	0.5	-3.8	-6.1	8.3	6.1	4.2	3.3	2.7	2.7	2.7	2.7	2.7	0.3	**0.7**	**2.9**
Average nominal interest rate on external debt (in percent)	2.5	2.9	2.3	1.7	2.2	2.6	2.6	2.6	2.6	2.3	2.3	2.5	2.7	2.7	**2.5**	**2.4**
Average real interest rate on domestic debt (in percent)	5.0	3.2	6.6	3.1	1.7	2.4	2.7	3.2	3.3	4.0	4.1	4.2	4.6	4.0	**4.8**	**3.2**
Real exchange rate depreciation (in percent, + indicates depreciation)	2.2	0.6	1.7	...	...	...	...	...	...	...	...	...	...	...	**0.9**	**...**
Inflation rate (GDP deflator, in percent)	0.2	1.2	-0.5	1.5	2.8	2.4	2.3	2.1	2.0	2.0	2.0	2.0	2.0	2.8	**0.8**	**2.1**
Growth of real primary spending (deflated by GDP deflator, in percent)	1.1	8.3	5.6	3.8	2.7	2.0	-1.4	2.7	-5.3	2.4	2.2	3.4	2.7	0.7	**1.7**	**1.4**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-3.6	0.9	-8.5	-7.2	8.0	5.1	3.1	2.0	1.4	1.4	1.3	0.7	0.2	-0.4	**-3.7**	**1.8**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, government-guaranteed debt . Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ 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 and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. St. Vincent & the Grenadines: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2021–31

(In Percent)

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	PV of debt-to GDP ratio										
Baseline	**75**	**71**	**69**	**68**	**68**	**65**	**61**	**58**	**54**	**51**	**48**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	**75**	**78**	**80**	**84**	**88**	**90**	**92**	**93**	**94**	**96**	**97**
B. Bound Tests											
B1. Real GDP growth	**75**	**83**	**90**	**88**	**88**	**84**	**79**	**75**	**70**	**66**	**62**
B2. Primary balance	**75**	**72**	**72**	**71**	**70**	**67**	**63**	**60**	**57**	**53**	**50**
B3. Exports	**75**	**86**	**104**	**102**	**101**	**97**	**93**	**90**	**86**	**81**	**77**
B4. Other flows 3/	**75**	**76**	**79**	**78**	**77**	**74**	**70**	**67**	**63**	**60**	**56**
B5. Depreciation	**75**	**90**	**83**	**81**	**81**	**77**	**73**	**69**	**64**	**60**	**57**
B6. Combination of B1-B5	**75**	**102**	**110**	**108**	**107**	**103**	**98**	**94**	**89**	**83**	**79**
C. Tailored Tests											
C1. Combined contingent liabilities	**75**	**74**	**72**	**71**	**70**	**67**	**64**	**61**	**57**	**54**	**51**
C2. Natural disaster	**75**	**78**	**77**	**76**	**76**	**73**	**70**	**67**	**64**	**61**	**58**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
	PV of debt-to-exports ratio										
Baseline	**385**	**219**	**181**	155	155	152	144	137	128	120	114
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	**385**	**239**	**210**	**192**	**203**	**213**	**216**	**220**	**223**	**226**	**230**
B. Bound Tests											
B1. Real GDP growth	**385**	**219**	**181**	155	155	152	144	137	128	120	114
B2. Primary balance	**385**	**222**	**188**	161	161	158	150	142	134	126	119
B3. Exports	**385**	**594**	**953**	**814**	**811**	**806**	**774**	**744**	**712**	**676**	**638**
B4. Other flows 3/	**385**	**234**	**207**	177	177	175	166	158	150	141	133
B5. Depreciation	**385**	**219**	172	148	147	145	136	129	121	113	106
B6. Combination of B1-B5	**385**	**538**	**218**	**535**	**534**	**528**	**504**	**481**	**457**	**429**	**405**
C. Tailored Tests											
C1. Combined contingent liabilities	**385**	**227**	**189**	162	161	159	151	143	135	127	120
C2. Natural disaster	**385**	**241**	**202**	173	174	173	165	158	151	144	138
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
	Debt service-to-exports ratio										
Baseline	**31**	**19**	**15**	13	14	15	13	12	12	11	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	**31**	**20**	**18**	**16**	**17**	**20**	**18**	**18**	**18**	**18**	**17**
B. Bound Tests											
B1. Real GDP growth	**31**	**19**	**15**	13	14	15	13	12	12	11	10
B2. Primary balance	**31**	**19**	**16**	13	14	15	13	12	12	11	11
B3. Exports	**31**	**43**	**60**	**54**	**57**	**61**	**54**	**51**	**50**	**52**	**56**
B4. Other flows 3/	**31**	**19**	**16**	13	14	**15**	14	13	12	12	12
B5. Depreciation	**31**	**19**	**15**	13	13	15	13	12	12	11	10
B6. Combination of B1-B5	**31**	**38**	**47**	**39**	**42**	**45**	**40**	**37**	**36**	**39**	**36**
C. Tailored Tests											
C1. Combined contingent liabilities	**31**	**19**	**16**	13	14	**15**	13	12	12	11	11
C2. Natural disaster	**31**	**19**	**16**	13	14	**16**	14	13	13	12	11
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
	Debt service-to-revenue ratio										
Baseline	13	13	12	12	13	13	12	11	11	10	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	13	14	15	14	16	18	16	16	16	16	15
B. Bound Tests											
B1. Real GDP growth	13	15	16	15	16	17	15	14	14	13	12
B2. Primary balance	13	13	12	12	13	13	12	11	11	10	10
B3. Exports	13	13	14	14	15	16	14	13	13	13	14
B4. Other flows 3/	13	13	13	12	13	14	12	11	11	11	11
B5. Depreciation	13	16	16	15	15	16	14	13	13	12	11
B6. Combination of B1-B5	13	15	17	17	18	**18**	16	15	15	16	15
C. Tailored Tests											
C1. Combined contingent liabilities	13	13	13	12	13	13	12	11	11	10	9
C2. Natural disaster	13	13	13	12	13	14	12	11	11	10	10
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

Table 4. St. Vincent & the Grenadines: Sensitivity Analysis for Key Indicators of Public Debt, 2021–31

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	PV of Debt-to-GDP Ratio										
Baseline	**102**	**93**	**89**	**86**	**83**	**79**	**74**	**69**	**64**	**60**	**55**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	**102**	**101**	**102**	**102**	**103**	**103**	**102**	**102**	**101**	**101**	**101**
B. Bound Tests											
B1. Real GDP growth	**102**	**113**	**130**	**135**	**142**	**145**	**148**	**151**	**154**	**157**	**159**
B2. Primary balance	**102**	**95**	**92**	**88**	**86**	**82**	**76**	**72**	**67**	**63**	**58**
B3. Exports	**102**	**105**	**118**	**114**	**112**	**107**	**101**	**96**	**92**	**87**	**81**
B4. Other flows 3/	**102**	**98**	**99**	**95**	**93**	**88**	**83**	**78**	**74**	**69**	**64**
B5. Depreciation	**102**	**110**	**101**	**94**	**88**	**81**	**73**	**66**	**59**	53	46
B6. Combination of B1-B5	**102**	**98**	**99**	**100**	**98**	**93**	**88**	**83**	**79**	**74**	**69**
C. Tailored Tests											
C1. Combined contingent liabilities	**102**	**97**	**92**	**89**	**87**	**82**	**77**	**72**	**67**	**63**	**58**
C2. Natural disaster	**102**	**102**	**97**	**95**	**93**	**88**	**84**	**79**	**75**	**71**	**66**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
	PV of Debt-to-Revenue Ratio										
Baseline	206	171	170	171	167	158	148	140	131	122	113
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	206	183	192	202	203	203	201	203	202	202	201
B. Bound Tests											
B1. Real GDP growth	206	203	243	267	279	287	292	302	309	315	320
B2. Primary balance	206	173	175	177	172	164	153	145	136	127	118
B3. Exports	206	192	226	228	223	214	204	196	186	176	163
B4. Other flows 3/	206	180	189	190	186	177	167	159	149	140	130
B5. Depreciation	206	204	195	189	178	163	148	134	120	107	94
B6. Combination of B1-B5	206	178	188	198	195	186	176	168	159	150	140
C. Tailored Tests											
C1. Combined contingent liabilities	206	177	176	178	173	165	154	146	137	128	119
C2. Natural disaster	206	186	186	189	185	177	168	160	152	144	135
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Debt Service-to-Revenue Ratio										
Baseline	22	20	18	18	18	18	16	15	13	13	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	22	22	21	22	22	24	22	21	20	19	19
B. Bound Tests											
B1. Real GDP growth	22	23	24	26	26	27	25	24	23	24	25
B2. Primary balance	22	20	19	19	18	18	17	15	14	13	12
B3. Exports	22	20	19	20	19	20	18	16	15	15	16
B4. Other flows 3/	22	20	19	19	18	19	17	15	14	14	13
B5. Depreciation	22	21	21	21	21	21	19	17	16	15	13
B6. Combination of B1-B5	22	21	20	20	20	21	19	17	16	15	14
C. Tailored Tests											
C1. Combined contingent liabilities	22	20	19	18	18	18	17	15	14	13	12
C2. Natural disaster	22	21	20	19	19	19	17	16	15	14	13
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Appendix I. Letter of Intent

June 23, 2021

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund Washington, D.C. 20431

Dear Ms. Georgieva,

1. The explosive eruption of the La Soufrière volcano has resulted in immense humanitarian challenges just as St. Vincent and the Grenadines was emerging from the midst of the COVID-19 pandemic, which has severely affected lives and livelihoods. While the volcano had been warning us about its possible explosive eruption since December last year, and plans had been put in place, it was impossible to foretold the impact that a once-in-a-generation event would have had on the country.

2. We are therefore facing additional financing needs due to the explosive volcanic eruption coupled with the continuation of the pandemic, which is making relief efforts even more challenging. Further budgetary demands have emerged to support over 20,000 thousand people (around 1/5 of the total population) that have been displaced and now reside in shelters or with family and friends. Moreover, the number of new COVID-19 cases has risen due to the evacuation. On May 11, the Parliament approved a fiscal package, amounting to 7¼ percent of GDP with a number of measures to address the immediate humanitarian needs: (i) resources to evacuate the affected population; (ii) support to those living in shelters or with family or friends (food, water and shelter supplies); (iii) increased funding for the health sector; (iv) construction projects to rebuild infrastructure and housing; (iii) direct financial support to the farming, fishing, and agriculture industries; and (v) VAT and import duties exemptions on relief goods. Given the expected economic contraction, revenues are projected to fall relative to 2020 and to our 2021 budget targets.

3. While it is too early to know the impact on the economy as the explosive eruption phase continues, our preliminary estimates indicate that real GDP growth in 2021 could decline between 4 and 7½ percent, as agriculture, livestock and fishing have been severely affected, notably on the northern one third of the island of St. Vincent. Moreover, other activities were temporarily disrupted in the aftermath of the explosive eruption, including the temporary closure of the international airport. Tourism arrivals remain depressed and are not expected to return until year-end. Beyond this year, we expect the economy to stage a strong rebound as agriculture, fishing and tourism stage a recovery and reconstruction projects begin in earnest. We project real GDP growth to be

around 10 percent in 2022. In response to the measures put in place and the drop to GDP, our fiscal deficit is likely to reach around 13 percent of GDP this year (from 5.7 percent of GDP in 2020). The current account deficit is also expected to widen further from -16.3 percent of GDP in 2020 to - 22 percent of GDP in 2021, mainly due to the loss of agricultural, fishery and tourism exports and an increase in imports to support the humanitarian crisis and rebuild destroyed buildings and infrastructure.

4. Against this background, the government of St. Vincent and the Grenadines requests emergency financing from the IMF in the equivalent of SDR 8,172,450 (about US$11.65 million), corresponding to a disbursement of 69.85 percent of our quota under the Rapid Credit Facility (RCF). This IMF assistance to be used for urgent immediate budget support will help us meet the urgent balance of payments needs that are associated with the humanitarian, health and immediate reconstruction needs. We are in close communication and are expecting that the World Bank and the Caribbean Development Bank will follow suit so that our fiscal operations will be fully financed.

5. With the support of the Caribbean Development Bank and the United Kingdom, we remain committed to start a large-scale port modernization project, for which is expected to commence by the second half of 2022. As we mentioned to you last year, the existing port was built nearly 50 years ago, and we have concerns about its safety and limited capacity to accommodate increased traffic. These limitations have come to the fore at this crucial time as relief cargo has had to await outside the port while other relief supplies are offloaded. The cost of building the new port, however, is quite large for a small economy like St. Vincent and the Grenadines, amounting to nearly 20 percent of GDP.

6. We remain committed to maintaining macroeconomic stability, fostering broad-based economic growth, and supporting our most vulnerable, especially during these difficult times. Our fiscal plans prior to the tragic eruption were consistent with these goals. We also understand the need to ensure fiscal sustainability and rebuild depleted buffers. For those reasons the government will take the following measures: (i) work towards rebuilding the contingency fund; (ii) limiting the growth of the wage bill to 2.0 percent in the central government a year between 2021-26; (iii) capping the total amount of capital spending at EC$1.2 billion during 2022–26, focusing on the port project and cutting back non-port projects; (iv) withdraw humanitarian and pandemic-related expenditures once the pandemic and eruption end; (v) continue to enhance taxpayer compliance by adhering to the Tax Administration and Procedures Act; and (v) rationalizing exemptions on import duties and VAT on imports. In addition, to reduce the debt service burden, we have recently signed a Memorandum of Understanding under the Debt Service Suspension Initiative (DSSI) which will bring much needed room to address immediate costs associated with the volcano and the

pandemic. We are also committed to implementing the Fiscal Responsibility Framework outlined in 2020, with a view of achieving a primary balance surplus of around 3 percent of GDP by 2026. In line with these commitments, Cabinet recently sanctioned the appointment of an independent Fiscal Responsibility Mechanism (Fiscal Council) which will become operational during 2022. These measures will strengthen our fiscal position and put public debt on a more solid downward trajectory.

7. We plan to strengthen public infrastructure management, and we are working towards the development a long-term national infrastructure plan. Such plan will be linked closely to our Medium-term Fiscal Framework and will prioritize projects based on our strategic development goals, the likelihood of successful implementation, and the certainty of project funding. The plan will include resilient infrastructure projects.

8. We remain committed to our continuing engagement with the IMF on fiscal management, including to fully implement the Fiscal Responsibility Framework, to protect St. Vincent and the Grenadines' debt sustainability. We will also ensure, as we have done over the last year, that our fiscal plans will keep debt on a sustainable plan consistent with the DSA conducted with both the IMF and World Bank.

9. In line with IMF safeguards policy, we stand ready to collaborate with IMF staff in undertaking a safeguards assessment, providing IMF staff with the ECCB most recently completed external audit reports. We are also committed to report monthly on COVID-related expenditures and undertake a full ex-post financial and operational audit of COVID-19 spending at the time of the annual audit. We also intend to accommodate any need for virtual meetings with IMF staff.

10. We do not intend to introduce or intensify exchange and trade restrictions and other measures or policies that would compound St. Vincent and the Grenadine's balance of payments difficulties.

11. The challenges and uncertainties we currently face are truly unprecedented. Nonetheless, we are determined to succeed. We anticipate that our country's efforts along with the solidarity of the Vincentian people, of our neighbors and of those further afield will allow us to emerge stronger. We seek your support in our endeavors to overcome our challenges. We look forward to an expeditious approval of our request for financial assistance. We would like to underline our appreciation for the speed and determination that the Fund has shown in responding to the needs of its membership over recent months.

12. We authorize the Fund to publish this letter and the request for a disbursement under the RCF.

Sincerely yours,

/s/

Prime Minister

Ralph Gonsalves

Statement by Ms. Levonian, Executive Director, and Ms. Edwards, Advisor to the Executive Director on St. Vincent and the Grenadines

July 1, 2021

The Vincentian authorities thank staff, management, and the Executive Board for the speedy response to the request for emergency financing. The volcanic eruption took place amidst the ongoing COVID-19 pandemic and the combined effect of these events have taken a heavy economic and social toll on St. Vincent and the Grenadines. The authorities request a purchase of SDR 8,172,450 equivalent to 69.85 percent of quota, under the Large Natural Disaster (LND) Window of the Rapid Credit Facility of the Poverty Reduction and Growth Trust. This support will help address an urgent balance of payments need and catalyze additional finances from other international financial institutions.

St. Vincent and the Grenadines had early success with the management of the pandemic since the Government took decisive action including the imposition of 14-day quarantines, the cancelation of large public events, the closure of schools, and increased testing capacity. The number of COVID-19 cases, however, rose at the end of 2020 and early 2021 as travel restrictions eased and Vincentians returned for the holidays. Infections had fallen prior to the volcanic eruption but have increased since. As of June 24, there were 2,216 cases and 12 fatalities. The increase in infection rates was compounded by the need to accommodate displaced citizens in emergency shelters after being evacuated from the red and orange zones of the volcanic eruption and some remain in shelters. To date, St Vincent and the Grenadines has received around 40,000 doses of vaccines from India and an additional 46,000 doses are expected through the COVAX Facility. So far, 13.2 percent of the population have received one vaccine shot and 7.9 percent have received two shots. Going forward, timely access to vaccination will be important to the management of the pandemic.

Appropriately, the authorities have prioritized the immediate humanitarian response. This included providing humanitarian assistance to those displaced by the eruption as well as income and production support to those whose livelihoods have been severely affected. They have begun the cleanup process and some reconstruction activities as it becomes possible to do so. Our authorities have drawn down some of their fiscal buffers and are hopeful that international partners will help meet the additional financing needs for the recovery process. In that regard, the approval of Fund support could have a catalytic effect.

Before the onslaught of the volcanic eruption, the St. Vincent and the Grenadines economy was estimated to have declined owing to the impact of the COVID-19 pandemic. Growth was estimated then to have declined by 3.8 percent in 2020 and was expected to be flat in 2021. With the impact of the volcanic eruption, further economic contraction of 6.1 percent is now estimated in 2021 with the cumulative lost economic output relative to the pre-volcano projections amounting to around 11 percent of 2021 GDP. For 2022, real GDP is projected to improve by about 8.3 percent piloted by strong recoveries in the tourism, manufacturing, construction, and agriculture sectors. After declining in 2020, the tourism sector has been further impacted by the eruption. On the expectation that the pandemic will be substantially controlled with the global rollout of vaccines, the tourism sector is expected to rebound in the last quarter of 2021, although it is not expected to reach pre-pandemic levels until 2024. Output in the agriculture sector is also expected to decline after the widespread destruction of crops in the mostly agricultural red and orange zones but is expected to rebound in 2022.

The combined impact of the pandemic and the volcanic eruptions will weaken the fiscal position. Prior to the pandemic, the authorities put in place several measures including a fiscal responsibility framework to enhance fiscal sustainability. However, the fiscal position has been affected by the twin events. Loss of revenue was somewhat mitigated by new measures introduced in the 2021 budget and improved tax administration pertaining to property taxes, while expenditure increased due mainly to the COVID-19 and the eruption related fiscal response measures. Looking ahead, revenue and expenditure measures will be required to resume the fiscal consolidation effort to put public debt on a downward track. In that regard, the authorities are committed to continuing revenue reforms, reducing tax exemptions, limiting the growth of the wage bill, withdrawing humanitarian and pandemic□related expenditures at the appropriate time, and reprioritizing and capping the total amount of capital spending at EC$1.2 billion during 2021–26.

Preserving financial stability is crucial and is an important part of the authorities plans. The authorities have worked with Eastern Caribbean Central Bank (ECCB), to mitigate the impact of the pandemic and the volcanic eruption on the financial sector. The sector has demonstrated resilience to the pandemic shock and the ECCB stands ready to support the banking system as required. The authorities will continue to monitor the sector very closely to identify any areas of weakness that may arise and to be able to respond quickly should any downside risks materialize. To that end, they propose to formalize the Crisis Management Plan and complete amendments to the FSA Act and supporting regulations. They will pursue follow-up measures to the recently concluded National Risk Assessment and enhance the AML/CFT monitoring framework.

Climate change remains a macro-critical matter for St. Vincent and the Grenadines. The hurricane season began on June 1 and could pose challenges for the authorities especially if the volcanic eruption persists. The authorities are keenly aware of the need to have adequate contingency plans to be able to respond.

The authorities of St. Vincent and the Grenadines are fully committed to public transparency and good governance. They have reported monthly COVID-19 related expenditures to staff and, led by the office of the Attorney General, they are reviewing the government's request to publish procurement documentation and information on the beneficial owners of the companies that received crisis-related procurement contracts. The authorities have also consented to the Fund's publication of the staff paper and Letter of Intent requesting the disbursement under the RCF.

Our authorities highly value the engagement with the Fund and appreciate the work of the mission team and the Fund's responsiveness during these crises. Given the authorities commitment to reform, together with support from the international community, St. Vincent and the Grenadines should recover from the current challenges.