INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/243

ST. VINCENT AND THE GRENADINES

2016 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT

July 2016

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2016 Article IV consultation with St. Vincent and the Grenadines, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 13, 2016 consideration of the staff report that concluded the Article IV consultation with St. Vincent and the Grenadines.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 13, 2016 following discussions that ended on March 3, 2016, 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 28, 2016.
- An **Informational Annex** prepared by the IMF staff.

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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

Press Release No. 16/345
FOR IMMEDIATE RELEASE
July 19, 2016

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

IMF Executive Board Concludes 2016 Article IV Consultation with St. Vincent and the Grenadines

On July 13, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with St. Vincent and the Grenadines.

St. Vincent and the Grenadines' recovery from the global financial crisis was hampered by a series of natural disasters, sluggish global demand and slow implementation of key infrastructure projects. Economic activity appears to have recovered in 2015—led by strong tourism inflows and a rebound in construction—while inflation has trended down due to falling food and fuel prices. Lower oil prices have also narrowed the current account deficit. The commercial banking sector appears to remain solid, enabling a modest uptick in credit to the private sector that has been supportive of economic recovery.

The new airport, now foreseen for completion in 2016, is expected to sustain the near-and medium-term economic growth. Real GDP is projected to expand by 2.2 percent in 2016 and reach
3.1 percent over the medium-term as tourist arrivals are boosted by greater airlift capacity and construction expands tourism infrastructure. The current account deficit is expected to narrow gradually, as tourism inflows increase. Additional imports to supply tourism services are expected to be financed by foreign direct investment.

Public debt, at 74 percent of GDP at end-2015, has steadily increased since 2008, owing largely to the impact of the global financial crisis, construction of the new international airport and rehabilitation spending in response to three back to back natural disasters. The authorities have

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials and private sector participants the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

committed to reducing public debt to the Eastern Caribbean Currency Union target of 60 percent of GDP by 2030. They have made some progress towards consolidating the fiscal position since 2013, with a reduction of the primary deficit from 5 percent of GDP to an estimated 1.1 percent of GDP in 2015. Despite the new tax policy measures provided in the 2016 budget and the envisaged improvement in the primary balance, higher interest costs are expected to leave the fiscal position unchanged from 2015.

Executive Board Assessment[2]

Executive Directors welcomed the incipient economic recovery and improved external and fiscal positions in St. Vincent and the Grenadines. They observed that the outlook is positive, particularly with prospects for the entry in operations of the new international airport and the development of geothermal energy, and risks are balanced. However, to bring public debt on a downward trajectory and improve competitiveness to underpin strong medium-term growth, Directors stressed the importance of strengthening the macroeconomic policy framework and pursuing critical structural reforms.

Directors welcomed the authorities' commitment to achieve the ECCU-wide public debt target of 60 percent of GDP by 2030, and underscored the importance of an ambitious yet credible medium-term fiscal consolidation to meet the debt target and build some buffers against natural disasters. In this regard, they took positive note of the authorities' willingness to adopt additional measures to support medium-term adjustment. They saw scope to further broaden the tax base, including by streamlining tax expenditure; continue to restrain the wage bill; and improve the sustainability of the public pension scheme and the national insurance service. They stressed that structural fiscal reforms would also be crucial to support adjustment, and recommended accelerating and sustaining revenue administration and public financial management reforms, while limiting contingent liabilities from public-private partnerships.

Directors noted that St. Vincent and the Grenadines has relatively sound banks and leads the region in the supervision of credit unions. They encouraged the authorities to continue to strengthen supervision of the nonbank financial sector and monitor the offshore banking sector, as well as continue to align the AML/CFT regime with international standards.

Directors highlighted the need to buttress competitiveness to leverage the growth-enhancing impact of major infrastructure projects. Enhancing the business environment, lifting labor productivity through skills upgrading and matching, ensuring access to credit for small businesses, and further trade facilitation are among critical priorities to promote private

---

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

investment, diversification, and job creation. Efforts to improve resilience to natural disasters will also be paramount.

St. Vincent and the Grenadines: Selected Social and Economic Indicators, 2012–17 [1/]

	2012	2013	2014	2015	2016	2017
				Projections		
	(Annual percentage change, unless otherwise specified)					
Output and prices						
Real GDP (factor cost)	1.3	2.3	-0.2	1.6	2.2	3.1
Nominal GDP (market prices)	2.5	4.0	1.3	3.7	3.6	4.5
Consumer prices, end of period	1.0	0.0	0.1	-2.1	1.1	1.7
Consumer prices, period average	2.6	0.8	0.2	-1.7	0.1	1.1
Banking system 2/						
Net foreign assets	1.4	7.2	1.1	1.7	7.6	7.4
Net domestic assets	5.2	1.4	8.4	3.1	-4.7	-4.5
Credit to private sector	3.2	1.1	-0.2	1.7	2.2	2.9
Central government finances (in percent of GDP)						
Total revenue	26.1	26.9	29.2	27.9	28.7	28.5
Tax revenue	23.0	21.6	23.9	23.6	24.1	24.3
Grants	0.7	1.3	2.0	1.2	2.5	2.1
Total expenditure and net lending	28.0	33.0	32.2	29.9	30.7	30.7
Current expenditure	26.2	25.2	25.8	25.1	26.0	26.3
Wages and salaries	13.0	12.9	12.6	12.6	12.7	12.5
Interest	2.4	2.5	2.3	2.2	2.5	2.8
Capital expenditure	1.8	7.8	6.4	4.9	4.7	4.3
Overall balance	-1.9	-6.2	-3.0	-2.1	-2.1	-2.2
Overall balance (excl. grants)	-2.6	-7.5	-5.0	-3.3	-4.6	-4.3
Primary balance	0.4	-3.7	-0.7	0.1	0.4	0.6
Primary balance (excl. grants)	-0.2	-5.0	-2.7	-1.1	-2.1	-1.5
External sector (in percent of GDP)						
External current account	-27.6	-30.9	-29.6	-24.8	-21.3	-20.1
Exports of goods and services	27.5	25.2	25.1	24.6	25.0	26.1
Imports of goods and services	57.9	58.1	56.5	50.6	47.5	46.7
Stayover arrivals (percentage change)	0.7	-3.5	-1.4	6.6	6.0	9.0
Public sector external debt (end of period)	40.5	42.3	45.3	43.2	47.3	44.5
External public debt service						
(In percent of exports of goods and services)	15.2	16.8	17.7	16.1	20.7	20.2
Memorandum items (in percent of GDP)						
Gross public sector debt 3/	72.0	74.7	79.5	73.4	80.1	81.5
Nominal GDP (market prices; in millions of EC$)	1,871	1,946	1,970	2,044	2,118	2,212

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

1/ Projections established at the end of the 2016 Article IV consultation mission in March 2016.

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

3/ From 2016, reflects additional debt contracted with PetroCaribe but not previously recorded (EC$ 112 million or 5.3 percent of GDP in 2016).

INTERNATIONAL MONETARY FUND

ST. VINCENT AND THE GRENADINES

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

June 28, 2016

KEY ISSUES

Context. Growth is recovering after the setbacks from the end-2013 floods and sluggish external demand post global financial crisis. While real GDP contracted by 0.2 percent in 2014, it is estimated to have grown by 1.6 percent in 2015, led by recovering tourism inflows and rebounding construction. Public debt—74 percent of GDP at end-2015—has steadily increased since 2008, owing largely to the impact of the global financial crisis, construction of the new international airport, and rehabilitation spending in response to three back-to-back natural disasters. Prime Minister Gonsalves' new five-year electoral mandate provides the opportunity to strengthen the macroeconomic policy framework, notably to anchor strong growth, meet the authorities' commitment to reduce public debt to 60 percent of GDP by 2030, and embark upon much needed structural reforms.

Strategy: The 2016 Article IV consultation was focused on establishing a strong macroeconomic framework to optimize the impact of large infrastructure projects, improve competitiveness and boost sustainable growth.

Key policy recommendations:

- A more ambitious fiscal adjustment—beyond what is currently planned—is needed to meet the authorities' public debt target. Such adjustment should internalize potential natural disasters to ensure the credibility of the fiscal framework.

- Measures could include a rationalization of tax incentives, restraining the wage bill and improving the sustainability of the public pension scheme and the National Insurance Service. Structural fiscal reforms to mobilize tax revenue and enhance public spending efficiency will also be critical.

- Concerted efforts are needed to build on recent advances to strengthen the financial sector, including its supervision.

- Improving the business environment, notably by upgrading human capital, accelerating trade facilitation and containing electricity tariffs, will help boost the economy's productive potential and anchor strong and sustainable growth.

Approved By
K. Srinivasan (WHD) and B. Traa (SPR)

Discussions took place in Kingstown during February 22–March 3, 2016. The mission comprised D. Simard (Head), F. Di Vittorio, S. Acevedo, M. Vargas (all WHD). Kelvin Dalrymple (OED) and Ronald James (IMF office in Barbados) attended policy meetings. The team was assisted from headquarters by Daniela Cortez, Hanlei Yun, RoseMarie Fonseca and Joy Villacorte. The mission met with Dr. The Honorable Ralph Gonsalves, Prime Minister and Minister of Finance; the Leader of the Opposition; senior government officials; labor unions; and private-sector representatives.

CONTENTS

BACKGROUND 4

EMERGING ECONOMIC RECOVERY 5

RISING DEBT BUT NARROWING FISCAL DEFICIT 6

OUTLOOK AND RISKS 7

KEY POLICY ISSUES 10

A. Strengthening the Fiscal Framework 10

B. Buttressing Financial Sector Supervision 15

C. Boosting Growth, Building Climate Resilience and Enhancing Competitiveness 16

D. Other issues 18

AUTHORITIES' VIEWS 18

STAFF APPRAISAL 20

BOXES

1. Risk Assessment Matrix 9
2. Fiscal Projections in 2016 11

FIGURES

1. Some Signs of Economic Recovery 22
2. Lower Oil Prices Improve External Position 23
3. Improved Fiscal Position by Restraining Outlays 24
4. A Sound Financial Sector and Recovering Profits and Credit to the Private Sector 25

TABLES

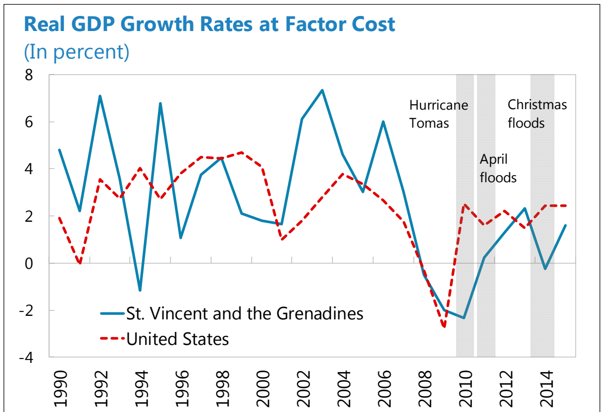
1. Selected Social and Economic Indicators, 2012–17 ____ 26
2a. Baseline Scenario, Summary of Central Government Operations, 2012–21 (In millions) ____ 27
2b. Baseline Scenario, Summary of Central Government Operations, 2012–21 (In % of GDP) ____ 28
3: Baseline Scenario, Central Government Gross Cash Flow Statement, 2013-21 ____ 29
4. Baseline Scenario, Balance of Payments Summary, 2012–21 ____ 30
5. Baseline Scenario, Monetary Survey, 2012–21 ____ 31
6. Baseline Scenario, Indicators of External and Financial Vulnerability, 2008-15 ____ 32
7. Baseline Scenario, Medium-Term Projections, 2012–21 ____ 33
8. Active Scenario, Summary of Central Government Operations, 2012–21 ____ 34
9: Active Scenario, Central Government Gross Cash Flow Statement, 2013-21 ____ 35
10. Active Scenario, Medium-Term Projections, 2012–21 ____ 36

ANNEXES

I. Implementation of Previous Staff Advice ____ 37
II. Competitiveness and External Sustainability Analysis ____ 40
III. PetroCaribe Arrangement and Public Debt ____ 43
IV. The Geothermal Energy Project ____ 44
V. Debt Sustainability Analysis ____ 46
VI. Measures for Fiscal Consolidation ____ 56

BACKGROUND

1. **The recovery from the global financial crisis was hampered by a series of natural disasters, sluggish global demand and slow implementation of key infrastructure projects.** The rebounding US growth and construction of the international airport, launched in 2008, contributed to the recovery of economic activity. However, there were setbacks from the damages caused by natural disasters in 2010, 2011 and at end-2013. Moreover, the pace of execution of large investment projects has been impacted by capacity and financing constraints.



Sources: IMF staff estimates.

2. **The government is banking on completing game-changing projects, notably the airport in 2016 and geothermal energy to boost growth over the medium-term.** Beyond their potentially sizeable growth impact, the authorities expect other benefits. In particular, the airport is expected to yield revenue, while the geothermal project will likely contribute to stable electricity prices and enhance St. Vincent and the Grenadines' reputation as an ecological tourism destination.

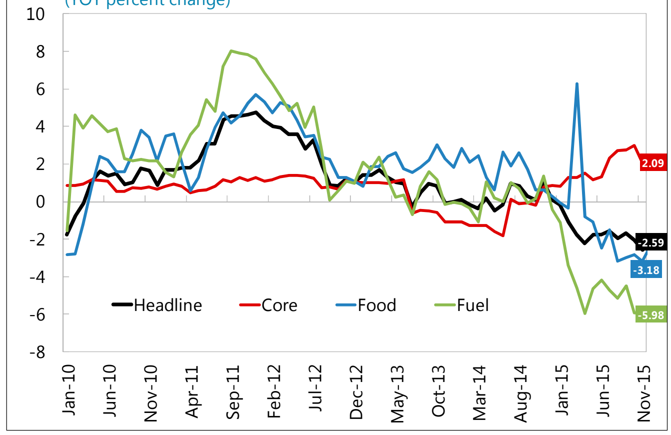
3. **The authorities seek to strengthen the macroeconomic policy framework to optimize the impact of these infrastructure projects on competitiveness and growth.** In this context, three key policy areas have been identified in the 2016 budget address. First, to effect a credible and sustainable medium-term fiscal consolidation, the authorities plan to accelerate fiscal reforms, notably in revenue administration and public financial management. Second, they plan to build on ongoing efforts to continue reforming the financial sector and improve access to credit for businesses; and third, they plan to embark upon structural reforms to improve the business environment and build climate resilience.

4. **Prime Minister Gonsalves' new electoral mandate provides a timely opportunity to embark upon macroeconomic and structural reforms to anchor strong and sustainable growth.** The Prime Minister and his democratic socialist Unity Labour Party (ULP) won a fourth consecutive five-year term in the December 2015 election.

EMERGING ECONOMIC RECOVERY

5. **Economic activity appears to have recovered in 2015, while inflation has trended down.** Following a 0.2 percent contraction in 2014, including in the aftermath of the December 2013 floods, real GDP growth is estimated at 1.6 percent in 2015, led by recovering tourism inflows and a rebound in construction. Tourist arrivals increased by 6.6 percent (y/y) between 2014 and 2015, despite the relative competitiveness of St. Vincent and the Grenadines deteriorating since late 2014 due to a strengthening US dollar (Annex II). Headline inflation has declined because of falling fuel and food prices. Core inflation is 2.1 percent.

Inflation
(YOY percent change)



6. **Lower oil prices led to a narrowing of the current account deficit.** The deficit moderated from 29.6 percent of GDP in 2014 to 24.8 percent of GDP in 2015**.** Based on indicators through end-2015, imports contracted by over 8 percent (y-o-y) between 2015 and 2014, due to the value of oil imports dropping by 48 percent. Non-oil imports increased by 3 percent.

7. **The commercial banking sector appears to remain solid, enabling a modest uptick in credit to the private sector that has been supportive of economic recovery.** Commercial banks' financial soundness indicators remained relatively stable at end-2015. Banks' performance improved compared with the rest of the region, with rising profitability, decreasing levels of reported NPLs, better provisioning for the remaining NPLs and a capital adequacy ratio well above the regulatory requirement. The net interest rate margin has increased, as some banks pursued new lending activities and the ECCB dropped the deposit interest floor from 3 to 2 percent. As a result, and following a modest contraction in 2014, real credit to the private sector has grown by 1.7 percent in 2015, led by higher personal loans. This reduced the market share of credit unions, which had risen following the global financial crisis. Banks' profitability, measured as return on assets (ROA), remains low, including with historically high excess reserves since growth in private deposits has outpaced that of credit to the private sector.

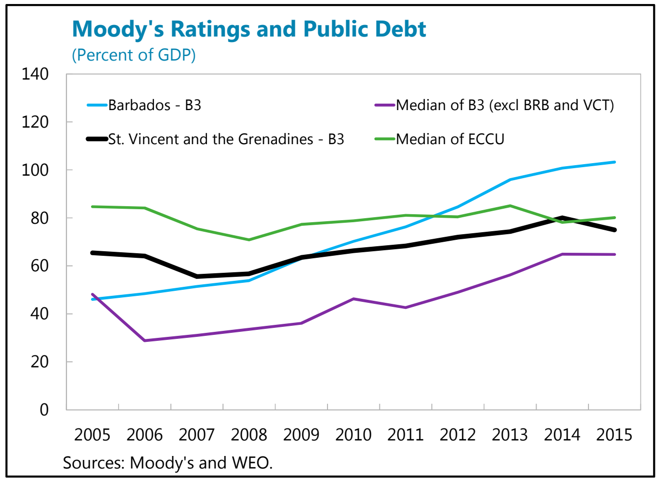
St.Vincent and the Grenadines vs. ECCU Financial Soundness Indicators (2012-2015)

		2012	2013	2014	2015
Non-Performing Loans/Total Loans	VCT	7.4	8.3	10.0	8.7
	ECCU	15.2	18.3	17.9	17.0
Provisions for Loan Losses/Non-Performing Loans	VCT	31.9	34.8	31.0	36.2
	ECCU	31.3	38.5	46.8	44.2
Liquid Assets/Current Liabilities	VCT	38.4	41.7	42.2	42.9
	ECCU	28.2	29.5	33.1	36.5
Tier 1 Capital/Risk Weighted Assets	VCT	18.4	17.9	19.6	20.2
	ECCU	16.3	11.3	9.9	13.4
Return on Avg Equity	VCT	-3.1	-2.4	-4.2	1.5
	ECCU	5.7	-4.4	0.7	2.5
Return on Avg Assets	VCT	1.0	0.5	-0.2	0.2
	ECCU	0.7	-0.1	0.2	0.3

Source: Eastern Caribbean Currency Union

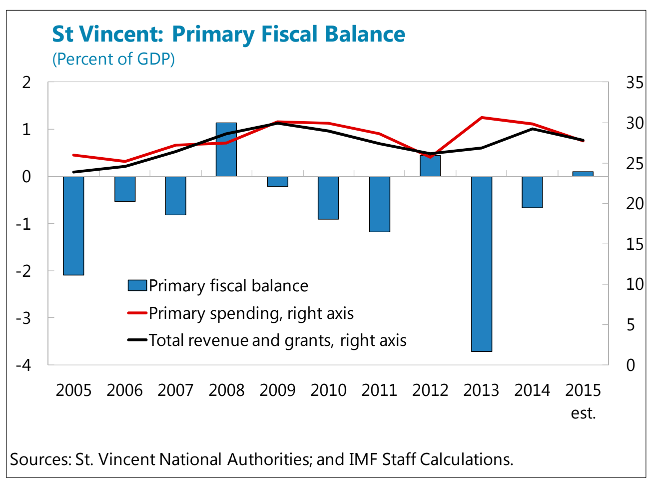
RISING DEBT BUT NARROWING FISCAL DEFICIT

8. **Without fiscal buffers, public debt has steadily increased since launching the airport project and with the rehabilitation spending following three major natural disasters.** Public debt rose from 57 percent of GDP at end-2008 to 74 percent of GDP at end-2015—near the ECCU median—due to the global financial crisis and damages caused by natural disasters in 2010, 2011 and 2013. At end-2015, St. Vincent's public debt was higher than the median public debt of other countries with Moody's sovereign rating of B3 (excluding Barbados). Without remedial measures, the risk of public debt distress has risen to high, even when abstracting from natural disasters and their additional fiscal burden.



9. **The authorities have made some progress towards consolidating the fiscal position since 2013, including by implementing past staff recommendation and lower capital outlays.** The primary deficit of the central government, excluding grants, improved from 5 percent of GDP in 2013 to an estimated 1.1 percent of GDP in 2015, beyond staff expectations presented in the 2014 staff report. This was achieved despite a decrease of tax revenue of ⅓ pp of GDP between 2014 and 2015, partly due to one-off income tax collections in 2014.

- ***The improved fiscal position reflected largely a sharp compression of investment outlays*** owing to delays in completing the airport and post-floods rehabilitation. Capital spending was executed at ⅓ of its budgeted figure for 2015, including due to shortfalls in project grants, and capacity and financing constraints.



- ***Implementation of some of the past staff recommendations also helped.*** This includes containing the wage bill through a hiring freeze and restraining the growth in wages below that of nominal GDP—despite the wage increase of 2½ percent in 2015, restraining transfers and subsidies, and mobilizing additional revenue by raising the customs service charge on imports while expanding the legal capacity of revenue administration. However, staff recommendations on increasing information sharing between the Inland Revenue

Department (IRD) and the Customs and Excises Department (CED), particularly for cross-verification of VAT declarations between the IRD and the CED, were not fully implemented.

2014 Article IV and RCF/RCI Policy Recommendations	Progress to date
Revenue measures:	
• Mobilizing revenue by enhancing legal capacity of revenue agencies and the National Insurance Service	The Inland Revenue Department now counts a lawyer on staff.
• Improving information sharing between the Internal Revenue Department (IRD) and the Customs and Excises Department (CED), including concerning recommendations from the Data Matching project.	Only initial steps were taken to improve information sharing and work on the Data Matching project.
• Increasing customs charges.	Increased from 4 to 5 percent in 2015.
• Rationalizing tax exemptions.	Streamlining of discretionary concessions is included in the 2016 budget.
Expenditure measures:	
• Containing the wage bill by 0.4 percent of GDP by 2019 by restraining employment growth	Granted a general wage increase of 2.5 percent at end-2015 and 1.5 percent in January 2016. Hiring freeze is expected to be maintained.
• Reducing transfers and subventions to public corporations by an additional 0.5 percent of GDP	Transfers and subsidies were somewhat restrained.

OUTLOOK AND RISKS

10. The new airport, now foreseen for completion in 2016, is expected to sustain the near- and medium-term economic recovery.

- *Designed to accommodate larger jets, the airport's envisaged impact on growth over the medium-term is sizeable.* [1] However, staff's medium-term growth forecast remains cautious. Growth is projected to increase to 2.2 percent in 2016, owing to a pickup in construction, and reach 3.1 percent over the medium-term, as tourist arrivals are boosted by greater airlift capacity and construction expands tourism infrastructure.[2]

- *Meanwhile, structural measures are expected to improve agricultural productivity, boosting the synergy between the hospitality and agriculture sectors*, with locally grown food increasingly meeting the needs of tourists and the local population. The buoyancy of the tourism, agriculture and construction sectors will spur financial credit to the private sector, particularly if supported

[1] The new airport will allow direct flights from the main tourism source markets; the US, the UK and Canada and its overall construction cost is estimated at US$223 million or ⅓ of 2015 GDP. Its estimated growth impact was presented in Box 3, country report no. 15/259, page 15.

[2] This additional 0.9 percentage point of growth in real GDP is estimated to correspond to an additional influx of stayover tourists by 2¼ percent, which is cautious given recent developments.

by structural reforms to improve access to information on borrowers and the resolution of impaired assets.

- *The current account deficit is expected to narrow gradually*, despite the projected slight recovery of oil prices, as tourism inflows increase and food imports decrease. Additional imports to supply tourism services are expected to be financed by FDI.

- *The geothermal energy project may potentially further raise long-term growth* (Annex IV), and position St. Vincent and the Grenadines as an environmentally friendly tourism destination. However, medium-term growth projections abstract from the project.

11. Risks to the outlook are balanced. Downside risks pertaining to natural disasters and a deterioration of the terms of the PetroCaribe financing remain as stated during the 2014 Article IV consultation. Risks of a sharp currency appreciation have increased, as have the risk of negative spillovers from oil-exporting partner countries such as Canada and Trinidad and Tobago. Risks from intensifying financing constraints could also emanate if the government does not adopt a credible medium-term fiscal framework or if financial services are reduced due to "derisking" activities of global and regional banks. Upside risks relate to the persistence of the recent lower energy prices and the opening of the new international airport spurring substantial investments in the tourism sector. Moreover, once geothermal energy enters in operations, significant savings from lower electricity tariffs could contribute upside to growth, particularly if oil prices increase over the long term.

Box. 1. Risk Assessment Matrix[1]

Source of Risk	Risk Likelihood	Impact		Policy Advice
		Rating	Channel	
Upside risks:				
Persistently lower oil prices	**High**	**Medium (Medium -Term)**	Improvements of both external and fiscal balances.	Allow pass-through of international prices, but use the opportunity to adjust excise taxation on automotive fuels.
Successful implementation of the geothermal project.	**Medium (Medium-Term)**	**Medium (Medium -Term)**	Reductions in electricity costs and savings on oil imports.	Monitor developments, including for emerging contingent fiscal liabilities.
Increase in tourism activity boosted by the new airport.	**High**	**Medium**	Increase in fiscal yields and private investment. Stronger external balance.	Assess fiscal burden implications related to the airport. Accelerate structural reforms to buttress competitiveness.
Downside risks:				
Surge in the US dollar	**High**	**High (Short-Term)**	A strong US dollar results in a strong EC dollar eroding price competitiveness relative to non-US markets.	Improve competitiveness of the tourism sector and diversify tourism-source markets.
Deterioration in the terms or level of PetroCaribe's financing	**High**	**High**	Government and BOP financing would be curtailed.	Prepare contingent sources of financing in case the agreement ends abruptly Manage PetroCaribe flows prudently.
Sharp asset price decline and decompression of credit spreads	**Medium**	**Medium (Short-Term)**	Increase in external financing costs to the government.	Maintain a prudent debt profile to reduce financing costs. Adopt a credible medium-term fiscal framework.
Natural disaster	**Medium (Short-term)**	**High**	Low growth and worsening of fiscal and external balances.	Raise primary surplus to build buffers and work with the World Bank and CDB to build resilience to climate change.
Reduced financial services by global/regional banks ("de-risking")	**Medium**	**High**	Loss of correspondent banking services significantly curtails cross-border payments, trade finance, and remittances.	Strengthen and implement the AML/CFT framework in line with international standards to minimize risks.
Slowdown in oil-exporting partner countries (Canada and Trinidad and Tobago) due to lower oil prices.	**High**	**High**	May depress tourism arrivals, remittances, FDI and bank lending.	Diversify tourism base and consolidate the fiscal position to reduce financing needs.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

KEY POLICY ISSUES

Concerted policy actions will be needed on many fronts to anchor strong and sustainable growth. Most importantly, a strong and credible macroeconomic framework will be needed to optimize the impact of the large infrastructure projects, improve competitiveness and boost the economy's productive potential. Key elements include: (i) ambitious, yet credible medium-term fiscal consolidation, (ii) reforms to buttress the financial sector and (iii) policies to improve the business environment and build climate resilience.

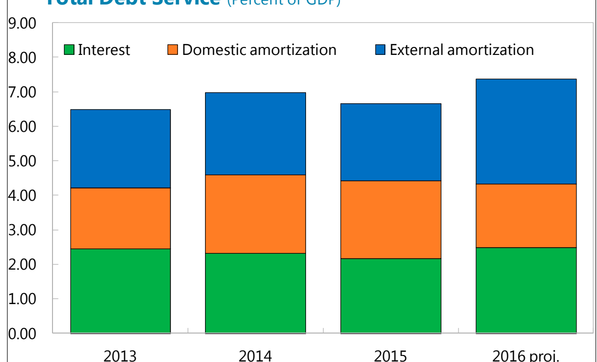
A. Strengthening the Fiscal Framework

Near-Term Fiscal Framework

12. Despite the new tax policy measures provided in the 2016 budget, staff projects that higher interest expenses are expected to leave the fiscal position unchanged from 2015 (Box 1). The baseline projection is informed by the policy measures provided in the 2016 budget, adjusted by staff projections for the tax revenue yields, execution of the capital budget according to expected financing, and implementation of the wage bill based on attrition. Staff projects that higher revenue and grants will contribute to both a higher primary balance and additional primary current outlays for health, pensions and operating the international airport. Staff projects that the overall fiscal deficit will be 2.1 percent of GDP in 2016 despite the improved primary balance, due to a higher interest rate on a new bilateral loan and the cost of servicing the portion of PetroCaribe financial flows previously omitted from official public debt statistics.[3]

13. Growing debt service obligations are placing a strain on the government's cash flow and the provision of public services. Debt service obligations are projected to grow to 7½ percent of GDP in 2016, from 6½ percent of GDP in 2013, as historically large amortization payments on external debt are due in 2016 and over the medium-term, and interest payments are projected to grow (table 3). Moreover, the stock of arrears should decline, with CARTAC assistance, until it is completely eliminated at end-2017, helping to boost private sector activity.

Total Debt Service (Percent of GDP)



Sources: National Authorities

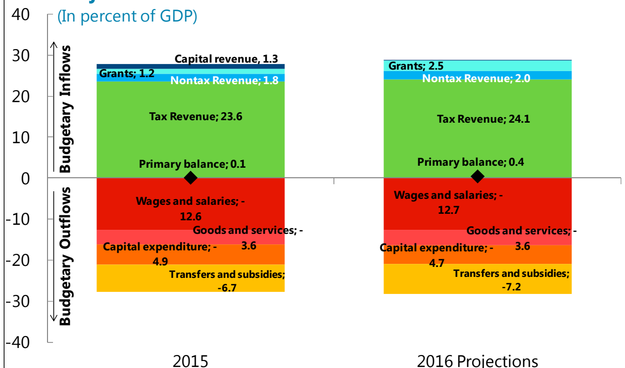
[3] The overall fiscal balances in 2015 and 2016 are fully comparable to one another. This is because the budget is on a cash basis and, under the moratorium expiring at end-June 2016, no interest was paid on the portion of PetroCaribe financial flows not previously included in public debt statistics.

Box 2. Fiscal Projections in 2016

The 2016 budget provides for additional revenue measures that broaden the tax base and raise excise duties and fees. Staff projects that the revenue from these measures will contribute to improving the primary balance while funding more current outlays, with higher interest costs expected to absorb the primary savings.

Tax measures include a broadening of the VAT base and increases in excise duties, property taxes and fees related to motor vehicles. The authorities have aptly streamlined the relatively extensive list of goods which are VAT-exempt or zero-rated and adjusted the property tax rates. They also have appropriately raised excises on beverages, and increased fees concerning motor vehicles. Staff project that these measures will yield 0.5 percent of GDP in 2016 and 0.7 of GDP in 2017 and over the medium-term, when their full year effect materializes. Staff expects the higher tax revenue to compensate for lower capital revenue relative to 2015 and contribute to both a higher primary balance and higher primary spending. Based on staff's projected revenue and grants of 28.7 percent of GDP in 2016 (a gain of 0.8 pp of GDP relative to 2015) and projected implementation of budget outlays, the primary balance is envisaged to improve from 0.1 percent of GDP in 2015 to 0.4 percent of GDP in 2016, with the higher projected revenue and grants mostly absorbed by additional primary current spending.

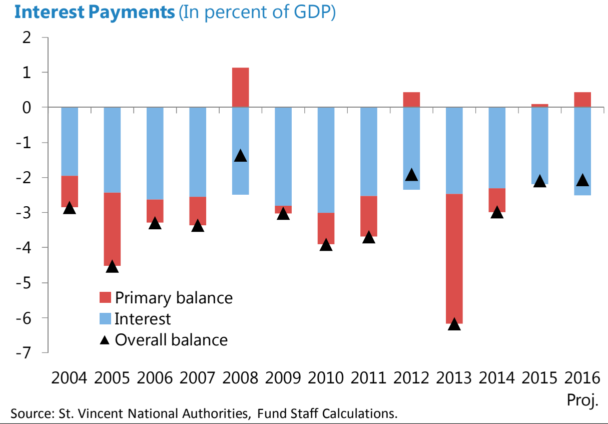
St. Vincent and the Grenadines: 2015 Outturn and 2016 Projections
(In percent of GDP)



Sources: St. Vincent National Authorities; Ministry of Finance; and Fund Staff Calculations.

Staff projects the higher primary spending to be entirely directed to current outlays, including for the scaled up operational needs of the new airport and the higher wage bill. In particular, 0.5 pp of GDP in additional subsidies and transfers (relative to 2015) are expected to be needed in 2016 to fund, notably, the entry in operations of Argyle International Airport, and higher pension and health expenditures. Meanwhile, however, the authorities intend to contain the increase in wage bill to 0.1 pp of GDP—following the generalized wage increase of 1½ percent in January 2016— by continuing to restrain filling positions in non-priority sectors. Staff projects capital spending to be reduced by 0.2 pp of GDP (according to projected available financing), despite a new allocation of ½ pp of GDP for the government's equity investment in the geothermal project, as capacity constraints continue to hamper the full implementation of the capital budget.

St. Vincent and the Grenadines: Primary Fiscal Balance vs. Interest Payments (In percent of GDP)



Source: St. Vincent National Authorities, Fund Staff Calculations.

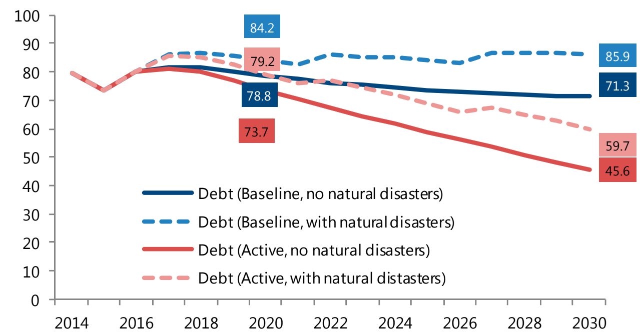
The projected gain in primary balance between 2015 and 2016 is envisaged to be fully absorbed by higher interest expenses. The rise in interest costs is mainly driven by an increase in the cost of foreign debt, notably a higher interest rate on a bilateral loan and the cost of servicing the additional PetroCaribe debt.

Medium-Term Fiscal Framework

14. More ambitious fiscal consolidation is needed over the medium-term to meet the authorities' public debt target of 60 percent of GDP by 2030.

- *The baseline scenario is projected to result in the public debt overshooting the target.* The medium-term primary surplus is projected to reach 1.6 percent of GDP by 2019 and result in a debt to GDP ratio of 71.3 percent of GDP in 2030. This reflects the projected full year impact of current revenue measures, and assumes continued expenditure restraint and no more natural disasters.

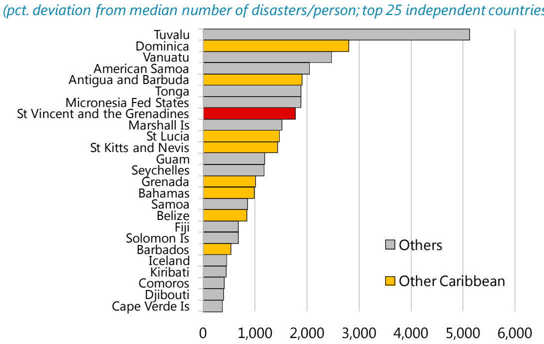
Public Debt: Active and Baseline Policy Scenarios, with and without Natural Disasters[1]
(percent of GDP)



Source: Fund staff estimates.
[1] Assumes that natural disasters occur at 5-year intervals, lowering GDP growth in the first year and causing a 3-year primary balance deterioration associated to fiscal costs.

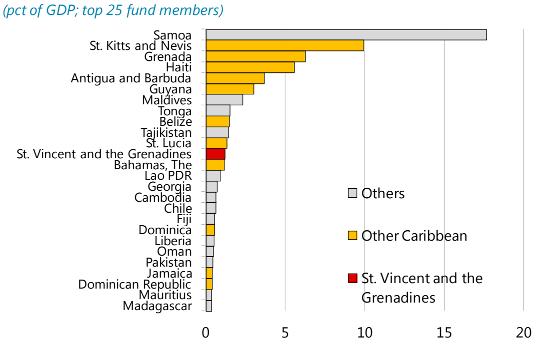
- *Furthermore, if natural disasters materialize at their historical magnitude and frequency, staff projects that public debt would be even more elevated*, at 85.9 percent of GDP in 2030. This is based on historical data indicating that average annual damages from natural disasters in St. Vincent and the Grenadines are 1.2 percent of GDP, of which about ¾ have typically been the responsibility of the government.

Frequency of Natural Disasters since 1990
(pct. deviation from median number of disasters/person; top 25 independent countries)



Sources: EMDAT; World Development Indicators; and Fund staff estimates.

Average Annual Losses from Disasters, 1990-2013
(pct of GDP; top 25 fund members)



Sources: EMDAT; USAID; WDI; and Fund Staff Estimates.

15. Against this backdrop, the government would need to target a higher primary surplus over the medium-term to meet its public debt target, especially given recurrent natural disasters. A primary surplus reaching 3.3 percent of GDP by 2019 and sustained over the long-term is deemed adequate to help the authorities achieve their public debt target in 2030, even if natural disasters materialize. This would require well-specified tax and expenditure policy measures with annual yield of about 1.7 percent of GDP beyond the projected yield from the government's current policies, including to provide 0.9 percent of GDP to address natural disasters.

- **A credible plan for medium-term fiscal consolidation is needed,** anchored by well-specified measures to further broaden the tax base and restrain expenditure (Annex VI). In particular, it would be helpful to:

  i. *Streamline ad hoc tax concessions and other tax incentives*. This would boost tax revenue by recovering currently foregone revenue and facilitating the revenue administration, through a simplified application of the tax code and the tariff.[4] While the foregone revenue of discretionary customs duties concessions at end-2015 is estimated at 1.8 percent of GDP, the overall revenue foregone from all customs concessions is estimated at 4.8 percent of GDP and the revenue loss from all tax incentives have been assessed near 7 percent of GDP.

  ii. *Continue to restrain the wage bill*, particularly since real wages of public sector employees have increased by 45 percent between 2000 and 2014, resulting in the second highest public sector wages relative to productivity in the ECCU. This could be achieved through attrition and containing future wage increases.

  iii. *Improve the sustainability of the public service pension system and the National Insurance Service*. Expenditure on pensions and retirement benefits have grown from 2½ percent of GDP in 2011 to 3 percent of GDP in 2015 and is expected to keep rising, since the five pension systems of public servants are all non-contributory and unfunded. This risks undermining the medium-term fiscal position, which can be addressed by implementing parametric reforms among the options suggested by the actuarial analysis published in 2015.

- If fiscal policy included financial defenses against natural disasters, this would help prevent resulting increases in public debt to GDP (Annex V). Financing the rehabilitation, reconstruction and immediate response to a natural disaster is particularly challenging when funding depends on international partners if concessional funds are scarce. Natural disasters may contribute to raise the public debt to GDP ratio, as the authorities may be pressured to either turn to more expensive financing sources or delay reconstruction and postpone the growth recovery. Self-insurance against the risk of natural disasters alleviates this dependency on external resources.

16. Proactive implementation of structural reforms is also critical to support fiscal consolidation. The National Economic Advisory Council, to be established by end-July, may be helpful in monitoring progress in these reforms, particularly if their announcement includes the government's commitment to a timetable and key milestones for the completion of measurable actions. Specifically:

- *Reforms in revenue administration need to be accelerated and sustained*. Following the recent appointment of the Comptroller of the Customs and Excises Department (CED), it is essential to

[4] The VAT in St. Vincent and the Grenadines is markedly less efficient than in neighbor countries (Figure 3) which suggests there is much scope for improving revenue by reforming the revenue administration.

hire the staff needed to spearhead the reforms. To improve the cross-checking of tax returns by the CED and the IRD and timely reception of compliance information, issuance of a single Tax Identification Number (TIN) per taxpayer must be finalized without delay and upgrade of information technology needs to continue.

- *The efficiency of public spending needs to be improved.* Adopting the draft Procurement Bill would be a key milestone. This requires clarifying its provisions to facilitate its application—based on expertise already provided by the World Bank. Improving control over transfers to public entities starts with enforcing requirements for their timely financial reporting. To prevent the accumulation of new budgetary arrears, it is critical to strengthen the Ministry of Finance's capacities in internal audit, financial management information systems and cash management. An accountability framework for public sector employees would also eventually need to be in place to provide traction for these reforms.

Additional Fiscal Measures (relative to the baseline scenario)

(annual differences between the active and baseline scenarios, In percent of GDP)

Active Policy Scenario

	2017	**2018**	**2019**
Tax Revenue Measures	0.3	0.7	1.1
• Taxes on International Trade (VAT) - (streamline ad-hoc exemptions)	0.1	0.3	0.5
• Taxes on International Trade (Import duties) -(streamline ad-hoc exemptions)	0.2	0.4	0.6
• Improve control over the issuance of the Tax Identification Number (TIN) at the Inland Revenue Department and strengthen enforcement of the use of the TIN at the Customs Department.	...	...	...
• Customs and Inland Revenue Departments to sign the Memorandum of Understanding on their enhanced cooperation and start joint audits by June 2016.	...	...	...
• Strengthen enforcement capacities and raise penalties for non-compliance	...	...	...
• Penalize brokers who are not compliant with paying their customs duties by cancelling their import license.	...	...	...
• Adopt the Customs Management Act and implementing regulations	...	...	...
• Improve appeals mechanism	...	...	...
• Rationalization of tax concessions granted through special legislation	...	...	...
Expenditure measures	0.2	0.4	0.6
• Contain wage bill by limiting wage increases and retrenching and redeploying public sector employees rather than net increase in hiring	0.2	0.4	0.6
• Tighten expenditure commitment controls	...	...	...
• Strengthen oversight of public entities by enforcing the requirement for them to produce timely audited financial statements.	...	...	...
• Improve the Public Sector Investment Plan, with more systematic analysis of projects and their recurrent cost implications	...	...	...
• Adopt and enact the Procurement Bill and implementing regulations	...	...	...
Difference in Primary Balances (Active minus Baseline)	0.5	1.1	1.7

Source: IMF staff calculations.

17. Adopting a legal framework for Public Private Partnerships (PPPs), would help limit their contingent fiscal liabilities. Several PPPs are currently envisaged or under way, including the geothermal, marina, and agriculture projects.[5] There is a risk that negotiations with private partners

[5] Contracts with private service providers to operate the upcoming airport are not PPPs but concession contracts of much shorter duration (about three years), which include performance bonds.

culminate in direct and implicit guarantees leading to eventual budgetary liabilities, with negative impact on fiscal balances. The government can set overall limits on accumulated PPP liabilities by establishing a codified enunciation of PPP principles providing safeguards against possible contingent liabilities—including on-lending to PPP partners combined with undue sharing of risk. This may strengthen the government's negotiation position with private partners.

B. Buttressing Financial Sector Supervision

18. The modest expansion of bank credit has been coupled with some tightening of regulatory lending requirements. The current pace of overall credit expansion remains moderate by historical standards, with credit to the private sector having increased from 52.6 percent of GDP in 2014 to 54.3 percent of GDP in 2015. While continued monitoring by the regulatory authority will be needed, banks have been required to apply tighter standards. These include the ECCB regulation, effective since March 2015, lowering the lending limit on an unsecured loan from 100 to 50 percent of the borrower's salary. Moreover, the new ECCB regulation on appraisal and valuation has introduced a minimum of two criteria for collateral appraisals, such as the market appraised value and the typically used replacement cost method. Banks have also tightened conditions on mortgage loans for members of the diaspora. Nonetheless, banks' competition for good loans has intensified, lowering rates and fees and prompting the extension of maturities and credit limits in some banks. Full implementation of the new insolvency law should help curtail NPLs.

19. Further strict monitoring of non-bank financial institutions will support financial stability in St. Vincent and the Grenadines, the regional leader in non-bank supervision. The Financial Services Authority (FSA) has continued to strengthen the supervision of the non-bank financial sector by formalizing a risk based supervisory framework, which is operational and should be published once technical impediments are addressed. Moreover, the FSA expects draft regulations, including on governance, to be formally approved by end-2016.

- *The authorities have strengthened supervision of credit unions, which feature prominently in the local economy*, with a loan portfolio representing 68 percent of their total assets at end-June 2015 and a 21 percent share in total assets of the financial sector in 2015. Since end-2013, they have gained many small borrowers from banks, including for consumer loans, and increased their total share of the market for bank and non-bank loans. Credit unions' lending terms are softer than those of banks and they are not as proactive in repossessing nonperforming assets. The FSA is appropriately continuing to strengthen supervision, improve governance, and closely monitor and address developments in these institutions, including efforts to recover debt and reduce operating costs and NPLs.

- *The authorities have issued binding prudential guidelines for the insurance sector***,** which is relatively stable. These guidelines address the governance and compliance relative to statutory deposits and insurance funds. They also aim to lower concentration of risks by promoting portfolio diversification. To mitigate the transmission of shocks caused by financial interconnectedness, a swift adoption and entry in operation of the regionally harmonized insurance law is needed. The law would provide for the establishment of an ECCU common insurance and pension market under the supervision of a single regional independent regulator.

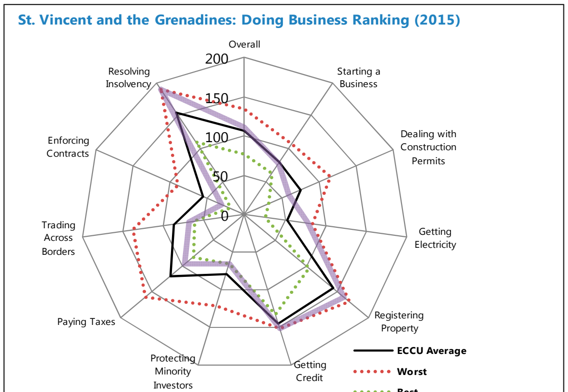
- *The offshore banking sector is subject to frequent on-site inspections.* The FSA has completed its reporting framework for risk-weighted capital and is working with offshore banks to have it fully implemented along with increasing their capital.

20. De-risking has increased the cost of maintaining correspondent banking relationships, with no significant impact on domestic activity. Complying with de-risking requirements has increased the cost for local financial institutions of maintaining correspondent relationships with foreign banks. While some foreign banks have discontinued banking relationships that could be clearly identified as third party transactions, this has impacted mostly the off-shore sector. The domestic commercial banking sector did curtail some of its money services agency business, but this impacted only very small traders and some remittance flows. To mitigate reputational risks for the national financial system, the FSA is currently strengthening the AML/CFT in line with international standards and introducing improvements in the data-entry management of the offshore sector. Furthermore, the Foreign Account Tax Compliance Act (FATCA) software has been fully implemented at the IRD and the authorities plan to start sharing information after signing the OECD multilateral tax convention on the automatic exchange of information in August 2016.

C. Boosting Growth, Building Climate Resilience and Enhancing Competitiveness

21. Accelerating structural reforms to buttress competitiveness is essential to leverage the growth-enhancing impact of the airport and geothermal projects. Areas reported as key constraints by private sector representatives are the short supply of skilled labor in certain niche areas, access to affordable credit and electricity, and lengthy trade procedures. Lifting these constraints require to:

St. Vincent and the Grenadines: Doing Business Ranking (2015)



Source: World Bank Doing Business Indicators, 2015.

- *Promote human capital and align labor costs with competitiveness gains.* St. Vincent and the Grenadines' hiring costs relative to worker productivity are among the highest in the region (Annex II), reflecting the cumulative increases in salary for public sector employees and its influence on private sector compensation. To lift labor productivity, the newly established Hospitality Institute—once fully operational— can help upgrade the work force's skills to match business requirements. Furthermore, future extension of training to maritime tourism activities would be beneficial, particularly since St. Vincent and the Grenadines is particularly well-suited for yachting, with higher value-added than cruise tourism. Finally, the tourism industry is improving its operations to meet the government's new minimum standards, aiming for full compliance by end-2017. Enforcement will be critical in that regard. These measures aim to support the recovery of St. Vincent and the Grenadines' tourism nearer pre-crisis levels (Figure 2).

- *Facilitate the private sector's access to affordable credit and predictable electricity tariffs.* Introducing the new insolvency law[6] in 2014 helped improve St. Vincent's Doing Business ranking.[7] To address remaining areas of concern, the authorities plan to appoint an Office of Private Sector Development. Access to affordable credit by small businesses remains a priority. To reduce credit risk and improve accessibility, progress in credit facilitation through the formation of a credit bureau—as part of a CARICOM initiative—is needed. Concerning access to electricity, geothermal energy is expected to reduce the variability in electricity tariffs over the long-run.

- *Accelerate the adoption of trade facilitation measures.* Structural inadequacies and administrative efficiencies of the Kingstown Port and the Customs and Excises Department need to be addressed to meet the targets established by the authorities in the implementation of ASYCUDA, including to reduce the maximum clearance time, and accelerate initiatives to strengthen the links between ASYCUDA and the Port Authority. In particular, this would involve sharing information in a single manifest, merging the information needed by the Port in real time and producing automated receipts.

22. There are signs that the real effective exchange rate (REER) is overvalued. Most estimates of misalignment of the real exchange rate point to an overvaluation (Annex II). These estimates remain highly uncertain, however, since balance of payment statistics are currently being revised throughout the ECCU. Following improvements in the ECCB's survey to gather data, exports of travel services appear to have been underreported to date, suggesting that the current account balances may be stronger than currently reported.

23. Since climate change presents unique challenges, the policy agenda to improve climate resilience would benefit from faster implementation. St. Vincent and the Grenadines' preparedness for hurricanes has improved, as have building codes, roads' designs and housing stocks. The authorities' comprehensive disaster management approach, developed with multilateral partners, is being reviewed by Cabinet. It includes the legal and regulatory framework supporting upgrades in the physical infrastructure, building codes, and the data for land management. It needs to be adopted and enacted without delay. Floods reconstruction capital spending also needs to be prioritized among budgetary outlays.

---

[6] St. Vincent and the Grenadines made resolving insolvency easier by introducing provisions for a rehabilitation procedure to facilitate the continuation of the debtor's business during insolvency proceedings and allow creditors greater participation in important decisions during the proceedings; and establishing a public office responsible for the general administration of insolvency cases.

[7] St. Vincent and the Grenadines ranks at the bottom of the list in the "Resolving Insolvency" subcomponent of the Doing Business indicators for methodological reasons. Particularly, the country has no record of cases involving a judicial reorganization, judicial liquidation or debt enforcement procedures which triggers a score of 0. However, the Doing Business report highlights the new Law as a positive development.

D. Other issues

24. Data provision is broadly adequate for key areas of surveillance, but needs improvements. Limited availability of labor market indicators is being addressed by the Labor Survey expected by end-2016. BoP statistics, undergoing revisions based on BPM6 and improved surveys and including IIP statistics, are expected by end-2016. The authorities are also improving fiscal statistics with the new chart of accounts, compliant with GFS 2014, in place since the 2016 budget was approved. Moreover, statistical coverage of the operations of state-owned enterprises is weak, given their non-compliance with financial reporting requirements. The authorities should aim to have more timely and updated information by end-2016.

25. The 2016 updated safeguards assessment found that the Eastern Caribbean Central Bank (ECCB) continues to maintain a governance framework that provides for independent oversight. Transparency in financial reporting has been maintained and the external audit mechanism is sound. However, the internal audit function only partially conforms to international standards, with steps underway to address this weakness.

AUTHORITIES' VIEWS

26. The authorities agree that public debt must be reduced over the medium-term, according to their commitment to the ECCU debt target. They expect the debt to GDP ratio to decline with economic growth, the completion of the airport, and the end of the disaster-related budgetary outlays. However, they agree on the need to adopt additional policies to support further medium-term fiscal consolidation. They do not consider that the baseline scenario represents their policy intent over the medium-term, since they are prepared to take additional measures in the future to meet the public debt target of 60 percent of GDP by 2030. Concerning adding the previously omitted proportion of the financing flows from PetroCaribe, the authorities note that every project financed by these flows is reviewed and approved by the cabinet. They are discussing with Venezuela the treatment of these financing resources going forward. Finally, they agree that growing debt service obligations are a challenge for the budget's cash flow and the provision of public services.

27. The authorities intend to effect medium-term fiscal consolidation mostly by continuing to improve revenue administration and control expenditure. They note the Inland Revenue Department (IRD)'s progress in collecting tax arrears and intend to further strengthen collection enforcement through legislative, IT and organizational reforms, and introducing a code of conduct for employees of the Customs and Excises Department. They agree that tax compliance should be a prerequisite for obtaining government contracts and tax concessions. However, they stress that some flexibility would be required to avoid repercussions on economic activity. They also intend to continue rationalizing the system for granting customs duties concessions to reduce the revenue loss. Regarding expenditure, the authorities noted the large budgetary resources assigned to the wage bill and retirement benefits of civil servants. They intend to assess how to improve the delivery of public services, including through training civil servants. Concerned about improving the sustainability of the public service pension system, they intend to consult stakeholders about its reform path. While the authorities do intend to accelerate the reform of the public procurement system, they note that it is already operating based on well-defined principles and rules overseen by the central supply tenders' board.

28. The proposed fiscal buffers to address natural disaster are likely underestimated since they are calibrated on historical average costs of damages. Given that the frequency and costs of natural disasters have increased during the last decade, the authorities assess that small island developing states do not have the fiscal capacity to fully self-insure against such disasters. Instead, they expect to also benefit from mitigation and adaptation resources within the context of the United Nations' Sustainable Development Goals (SDG), which would be more substantial than existing facilities to address natural disasters provided by multilateral institutions. The authorities consider that SDG resources could help further bolster the resilience of St. Vincent and the Grenadines to the harmful effects of natural disasters brought on by climate change. Concerning the execution of the post-2013 flood reconstruction capital expenses, the authorities note that some bottlenecks are due to capacity challenges for small contractors to comply with requirements by multilateral fund providers. They also consider that these efforts are constrained by the scarcity of government lands available for reconstruction.

29. The authorities agree on establishing a codified enunciation of PPP principles to provide safeguards against possible contingent liabilities. However, they caution against a "one size fits all" approach and consider that each PPP needs to be treated as a specific case.

30. The authorities agree on the benefit from the new insolvency law for the financial system and support implementation of the regionally harmonized insurance law. They see a swift adoption and entry in operation of the latter as critical for mitigating the transmission of shocks caused by financial interconnectedness.

31. St. Vincent and the Grenadines is an attractive destination for private investment and will continue to improve in that regard. Labor costs and the delivery of building permits compares favorably to the rest of the ECCU. Soft loans for agriculture offered under the government's Farmers' Support Program, implemented in 2014, are contributing to the pickup of the agribusiness sector, including its diversification towards high value-added crops. In order to further improve the private sector's access to credit, the authorities support the ECCU Monetary Council initiative to set up a regional development bank that would lend exclusively to the private sector. Furthermore, to further improve the business environment, the authorities intend to computerize the search for property titles. Moreover, the entry in operations of the international airport will open up new export and tourism source markets. Finally, the availability of geothermal energy is expected to reduce the variability in electricity tariffs over the medium-term, hence alleviating a critical cause of uncertainty for investors.

STAFF APPRAISAL

32. Economic activity is picking up and is expected to be further sustained by the airport's entry in operations. Activity seems to have recovered in 2015, prompted by recovering construction, and tourism inflows. The latter and lower oil prices—which also contributed to maintaining low inflation—have narrowed the current account deficit in 2015. However, due to the stronger US dollar since 2014, the relative competitiveness of St. Vincent and the Grenadines has deteriorated in non-US and non-ECCU markets. The fiscal position improved due to buoyant tax receipts from raising customs duties but also due to expenditure restraint partly imposed by financing constraints. Growth is projected to further increase in 2016 and over the medium-term, spurred by investment prompted by the new airport. This game-changing project is expected to boost tourist arrivals and agriculture exports through expanded airlift capacity and direct routes to main markets. Risks to this projection are balanced.

33. A strong and detailed commitment by the authorities to reduce public debt through fiscal consolidation is critical. Public debt rose after launching the international airport project, during a challenging period of global economic financial crisis and damages caused by three natural disasters. The authorities have committed to reducing the public debt from 80 percent of GDP at end-January 2016 to 60 percent of GDP by 2030, according to the agreement among ECCU countries. A firm commitment on reforms based on a defined timetable, measurable actions, and quantitative targets would strengthen the credibility of the authorities' fiscal consolidation plans.

34. Additional revenue from the 2016 budget measures and expenditure restraint are expected to improve the fiscal position over the medium-term. The measures broaden the tax base and address harmful behaviors through higher excises and fees. Their expected revenue would contribute to both higher primary current spending and a strengthened primary balance in 2016. However, higher interest payments are projected to leave the overall fiscal position unchanged. Nonetheless, the full year impact of the revenue measures and expenditure restraint over the medium-term are projected to improve the overall fiscal position by 2019.

35. More ambitious fiscal consolidation is needed to meet the authorities' long-term public debt target, and build adequate buffers against natural disasters. In particular, the government needs to target a primary surplus of 3.3 percent of GDP over the medium-term to meet its public debt commitment by 2030. This represents additional measures yielding 1.7 percent of GDP beyond current plans, of which 0.9 percent of GDP is deemed appropriate to address recurrent natural disasters. There is significant scope to mobilize additional revenue by further broadening the tax base, including by streamlining tax incentives, which is expected to improve the primary balance by 1.1 percent of GDP over the medium-term. Concerning expenditures, continued restraint of the wage bill will be crucial, particularly since public sector employees have high real wages relative to their productivity. The public pension scheme and the National Insurance Service (NIS) also need to be more sustainable, with the 2015 actuarial study providing sound options for reform.

36. **Proactive implementation of structural reforms is critical to support fiscal consolidation.** Reforms in revenue administration and public financial management need to be accelerated and sustained, with a public commitment to a timetable and key milestones. The National Economic Advisory Council may be helpful in monitoring progress in these reforms, which need to be spearheaded by leaders appointed without delay. For all these reforms to gain traction, however, it would be helpful to implement an accountability framework for public sector employees.

37. **Limiting contingent fiscal liabilities from Public Private Partnerships (PPPs) is essential to protect the gains expected from fiscal consolidation.** The authorities are encouraged to implement very soon a codified enunciation of PPP principles that provides safeguards against possible large contingent liabilities. This would guide the government in setting overall limits on PPP liabilities, strengthening its negotiating position with private partners.

38. **Accelerating structural reforms to buttress competitiveness is critical to leverage the growth-enhancing impact of the airport and geothermal projects.** Labor productivity needs to be lifted by upgrading the work force's skills and improving their matching with key sectors' needs. Furthermore, enforcement of minimum standards of quality in these industries is critical. Continuing to secure access by small businesses to affordable credit remains highly desirable while vigilance is needed to secure repayment. Finally, trade needs further facilitation, including by better integrating the activities of the CED and the Port Authority.

39. **St. Vincent and the Grenadines has relatively sound banks and leads the region in the supervision of credit unions, but continued monitoring of the financial system is necessary.** The new insolvency law introduced in 2014, and its regulations issued in 2015, is an important step to support the resolution of NPLs and facilitate the extension of credit. Introducing credit bureaus and registries to reduce credit risk, as a region-wide initiative, would be another key step. The Financial Service Authority (FSA) is encouraged to continue strengthening the supervision of the non-bank financial sector, including closely monitoring the offshore banking sector, particularly in the context of complying with capital and AML/CFT requirements.

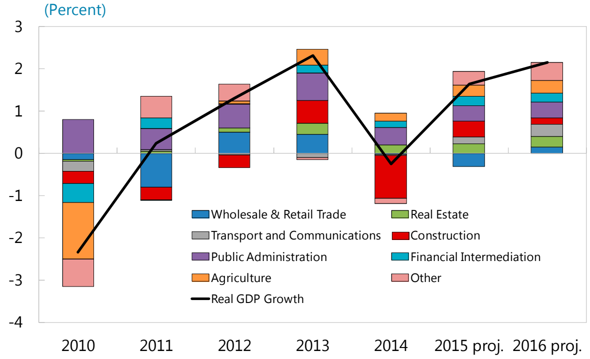
40. **It is recommended that the next Article IV consultation take place within the next 12 months.**

Figure 1. St. Vincent and the Grenadines: Some Signs of Economic Recovery

Real GDP growth in 2015 is estimated to have been led by a recovery in tourism-dependent sectors…

Contribution to Growth by Sector

(Percent)

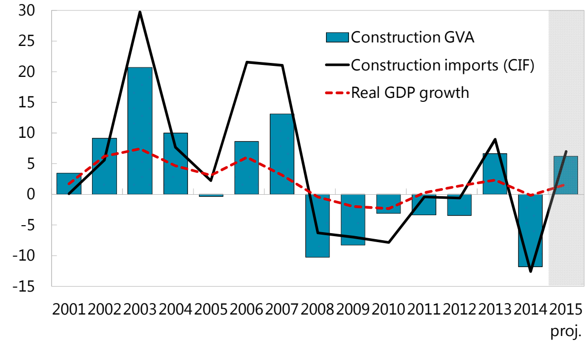


Sources: ECCB; and IMF staff estimates.

… a rebound in the construction sector

Construction and Real GDP

(YOY percent change)

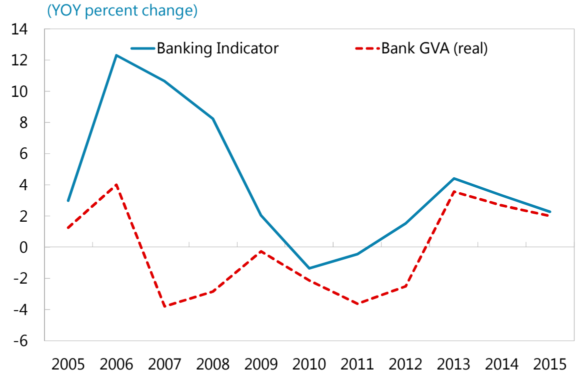


Sources: ECCB; and IMF Staff estimates.

…and a continued recovery of the financial intermediation sector

Financial Intermediation

(YOY percent change)



Sources: Authorities and IMF staff Estimates

but somewhat constrained by a weak performance of the wholesale and retail sector

Wholesale & Retail Trade and Non-fuel Imports

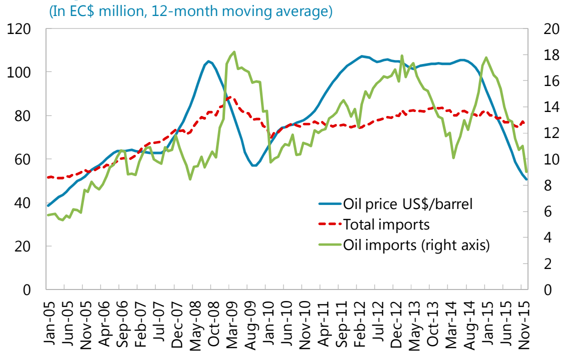
(YOY percent change)

Sources: ECCB; and IMF Staff Estimates.

Figure 2. St. Vincent and the Grenadines: Lower Oil Prices Improve External Position

With lower oil prices imports of oil have declined by 46 percent, and total imports are down by 11 percent…

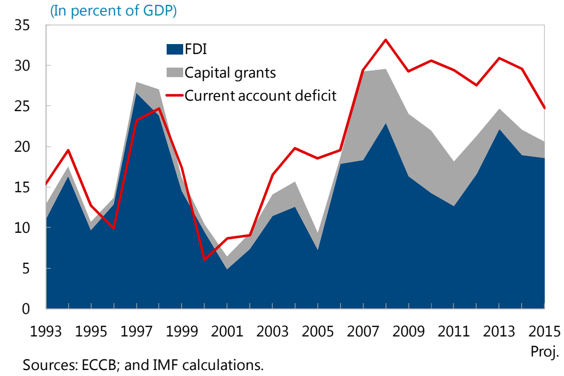
Imports and Oil Prices
(In EC$ million, 12-month moving average)



Sources: Authorities; WEO; and IMF staff calculations.

… this is expected to reduce the current account deficit in 2015, still largely financed by FDI, by about 5 pp of GDP.

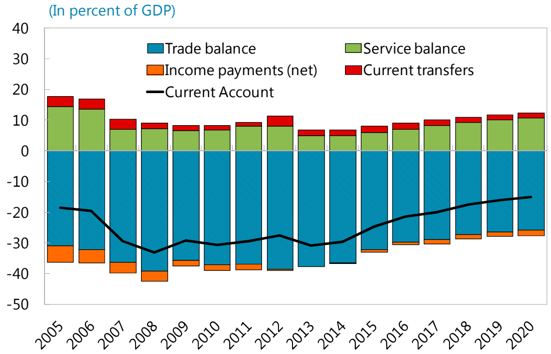
Current Account Deficit and Sources of Finance
(In percent of GDP)



Sources: ECCB; and IMF calculations.

Over the medium-term the current account deficit will decline with higher tourism exports due to the new airport.

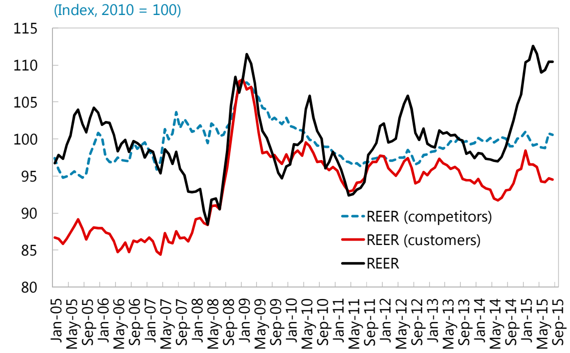
Current Account Balance
(In percent of GDP)



Sources: ECCB; and IMF staff calculations.

The REER and US dollar have recently appreciated, as did the REER relative to tourism source countries, with no impact against competing tourism destinations.

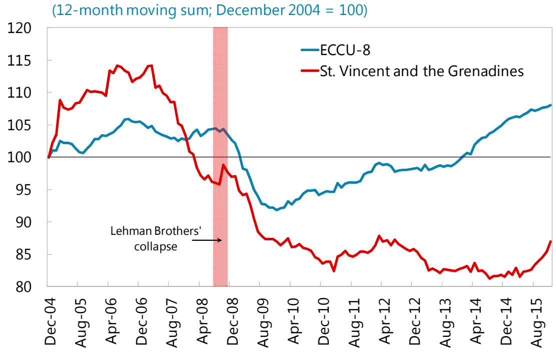
Real Effective Exchange Rate
(Index, 2010 = 100)



Sources: INS; and IMF staff calculations.

The tourism sector has not recovered since the crisis while the rest of the ECCU has returned to pre-crisis levels…

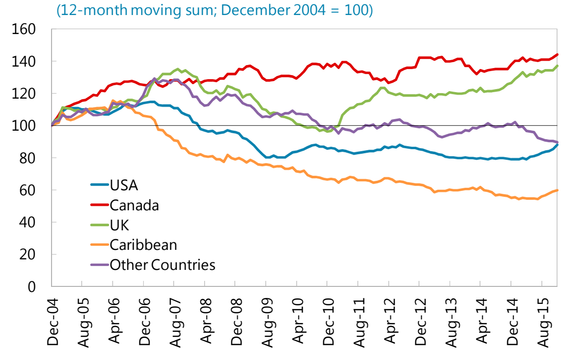
Tourist Arrivals
(12-month moving sum; December 2004 = 100)



Sources: ECCB and IMF staff calculations.

…this is explained by the lack of recovery in St. Vincent and the Grenadines' US and Caribbean markets.

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

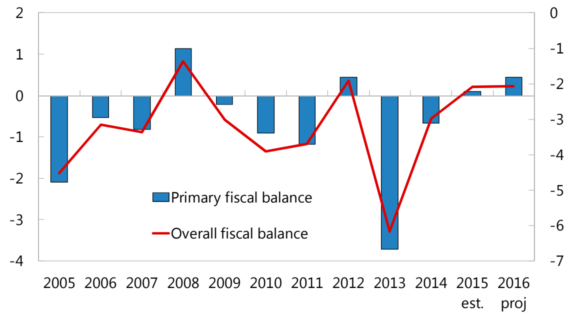


Sources: ECCB; and IMF Staff Calculations.

Figure 3. St. Vincent and the Grenadines: Improved Fiscal Position by Restraining Outlays

The primary fiscal position has been steadily consolidated from 2013 to 2015…

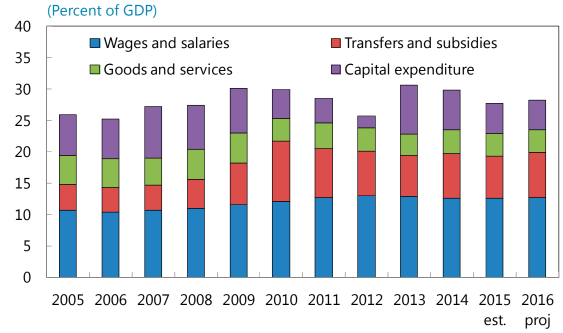
St Vincent: Overall and Primary Fiscal Balance
(Percent of GDP)



Sources: St. Vincent National Authorities; and IMF Staff Calculations.

…with a contained wage bill through 2015, and restrained capital outlays—envisaged to further decline in 2016.

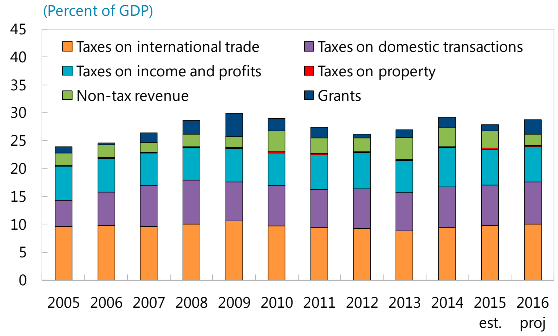
St. Vincent: Primary Expenditure Composition
(Percent of GDP)



Sources: St. Vincent National Authorities; and IMF Staff Calculations.

Tax receipts, slightly lower in 2015 than in 2014, have increased back to pre-crisis levels…

St. Vincent: Revenue Composition
(Percent of GDP)



Sources: St. Vincent National Authorities; and IMF Staff Calculations.

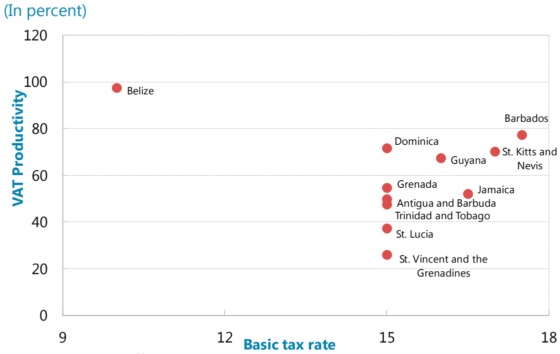
…but still only barely cover current primary outlays.

St Vincent: Current Primary Outlays
(Percent of total tax revenue)

Sources: St. Vincent National Authorities; and IMF Staff Calculations.

There is scope for sharply improving VAT productivity.

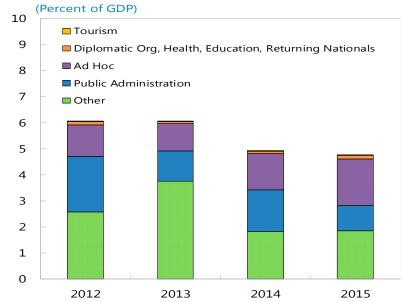
Productivity of VAT Compared with Basic Tax Rate, 2012
(In percent)



Sources: IMF Staff Calculations

The estimated foregone cost of customs duties concessions has declined, but their further containment could markedly boost tax revenue.

Customs Duties Concessions: Estimated Costs
(Percent of GDP)

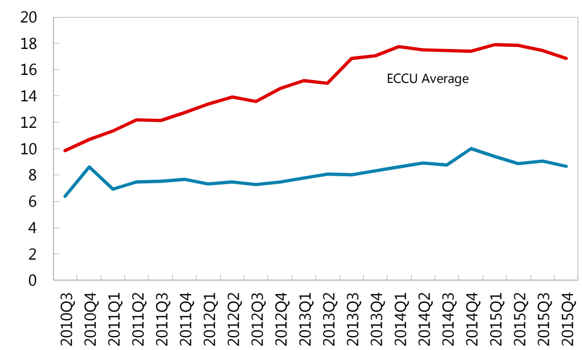


Sources: St. Vincent National Authorities; and IMF Staff Calculations.

Figure 4. St. Vincent and the Grenadines: A Sound Financial Sector and Recovering Profits and Credit to the Private Sector.

Although NPLs are well below the regional average, banks' excess reserves reached an historical high in 2014…

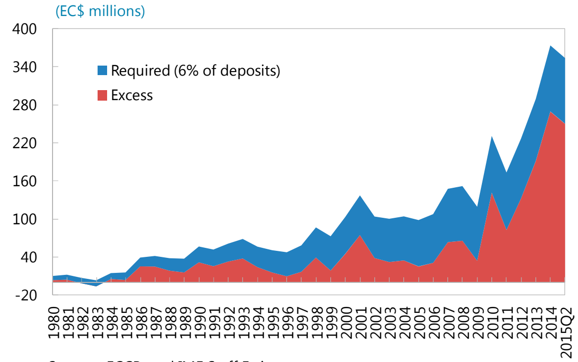
Commercial Banks: NPLs/Total Loans
(Percent)



Sources: ECCB; and IMF Staff Estimates.

… due to banks' higher lending standards and self-insurance against potential liquidity shocks.

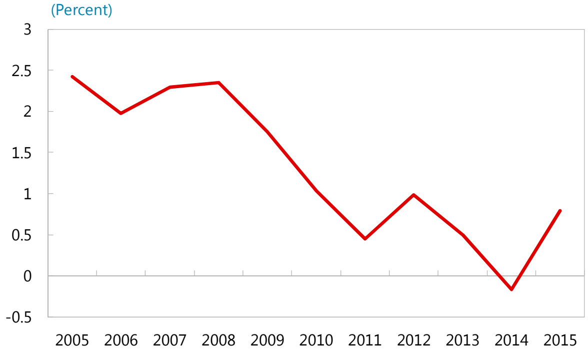
St. Vincent and the Grenadines: Reserves
(EC$ millions)



Sources: ECCB; and IMF Staff Estimates.

Banks' profitability continues to be very low…

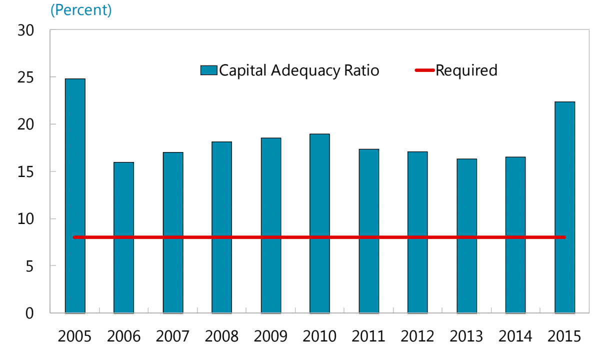
Commercial Banks: ROA
(Percent)



Sources: National Authorities; and IMF Staff Estimates.

…but they remain highly capitalized

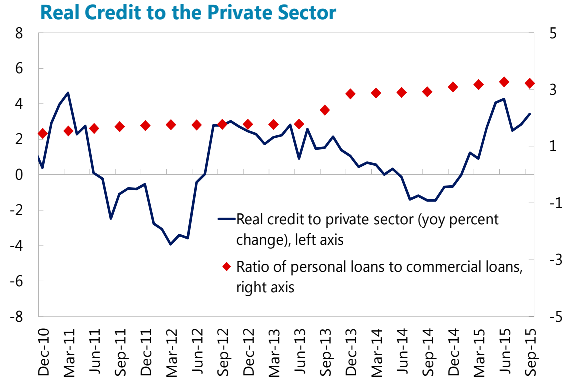
Commercial Banks: Capital Adequacy Ratio
(Percent)



Sources: ECCB; and IMF Staff Estimates.

Banks are starting to compete again in the sector of personal loans in 2015, after sluggish credit growth in 2014

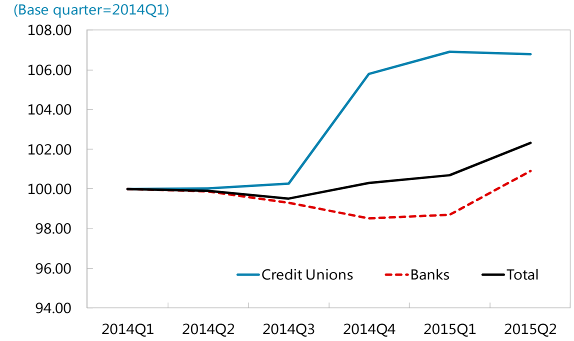
Real Credit to the Private Sector



Sources: ECCB; and IMF Staff Calculations.

…containing the recent expansion of the credit union sector.

Lending index
(Base quarter=2014Q1)



Sources: National Authorities; and IMF Staff Estimates

Table 1. St. Vincent and the Grenadines: Selected Social and Economic Indicators, 2012–17

Social and Demographic Indicators

Area (sq. km)	389.3	Adult literacy rate (percent, 2001)	89.0
Population (2012)		Health and nutrition	
Total (thousands)	109.9	Calorie intake (per capita a day, 2004)	2,660
Rate of growth (percent per year)	0.08	Population per physician (thousand, 2004)	1.2
Density (per sq. km.)	282.3	AIDS incidence rate (per 100,000, 2005)	32
Population characteristics (2012)		Gross domestic product (2014)	
Life expectancy at birth (years)	72.5	(millions of US dollars)	730
Infant mortality (per thousand live births)	17.7	(millions of EC dollars)	1,970
Under 5 mortality rate (per thousand)	20.0	(US$ per capita, 2012)	6,319

	2012	2013	2014	2015 Art IV	2015 Proj.	2016	2017
	(Annual percentage change, unless otherwise specified)						
Output and prices							
Real GDP (factor cost)	1.3	2.3	-0.2	1.8	1.6	2.2	3.1
Nominal GDP (market prices)	2.5	4.0	1.3	2.8	3.7	3.6	4.5
Consumer prices, end of period	1.0	0.0	0.1	1.7	-2.1	1.1	1.7
Consumer prices, period average	2.6	0.8	0.2	1.4	-1.7	0.1	1.1
Banking system 1/							
Net foreign assets	1.4	7.2	1.1	-0.3	1.7	7.6	7.4
Net domestic assets	5.2	1.4	8.4	3.1	3.1	-4.7	-4.5
Credit to private sector	3.5	1.3	-0.2	1.9	2.4	3.0	4.0
Central government finances (in percent of GDP)							
Total revenue	26.1	26.9	29.2	27.2	27.9	28.7	28.5
Tax revenue	23.0	21.6	23.9	22.5	23.6	24.1	24.3
Grants	0.7	1.3	2.0	1.9	1.2	2.5	2.1
Total expenditure and net lending	28.0	33.0	32.2	32.3	29.9	30.7	30.7
Current expenditure	26.2	25.2	25.8	25.4	25.1	26.0	26.3
Wages and salaries	13.0	12.9	12.6	13.0	12.6	12.7	12.5
Interest	2.4	2.5	2.3	2.4	2.2	2.5	2.8
Capital expenditure	1.8	7.8	6.4	6.9	4.9	4.7	4.3
Overall balance	-1.9	-6.2	-3.0	-5.1	-2.1	-2.1	-2.2
Overall balance (excl. grants)	-2.6	-7.5	-5.0	-7.0	-3.3	-4.6	-4.3
Primary balance	0.4	-3.7	-0.7	-2.7	0.1	0.4	0.6
Primary balance (excl. grants)	-0.2	-5.0	-2.7	-4.6	-1.1	-2.1	-1.5
External sector (in percent of GDP)							
External current account	-27.6	-30.9	-29.6	-29.0	-24.8	-21.3	-20.1
Exports of goods and services	27.5	25.2	25.1	26.3	24.6	25.0	26.1
Imports of goods and services	57.9	58.1	56.5	55.4	50.6	47.5	46.7
Stayover arrivals (percentage change)	0.7	-3.5	-1.4	2.0	6.6	6.0	9.0
Public sector external debt (end of period)	40.5	42.3	45.3	42.6	43.2	47.3	44.5
External public debt service							
(In percent of exports of goods and services)	15.2	16.8	17.7	17.3	16.1	20.7	20.2
Memorandum items (in percent of GDP)							
Gross public sector debt 2/	72.0	74.7	79.5	77.4	73.4	80.1	81.5
Nominal GDP (market prices; in millions of EC$)	1,871	1,946	1,970	2,041	2,044	2,118	2,212

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

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

2/ From 2016, reflects additional debt contracted with PetroCaribe but not previously recorded (EC$ 112 million or 5.3 percent of GDP in 2016). It includes debt of central government and state-owned enterprises.

Table 2a. St. Vincent and the Grenadines: Baseline Scenario, Summary of Central Government Operations, 2012–21

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

				Est.	Projection					
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total revenue and grants	**488.9**	**522.9**	**575.4**	**569.3**	**607.4**	**629.8**	**640.6**	**672.1**	**705.3**	**740.6**
Current revenue	471.3	462.6	535.2	518.3	552.7	582.5	610.4	640.4	672.1	705.8
Tax revenue	430.4	420.6	471.2	482.4	509.8	537.7	563.5	591.2	620.4	651.5
Of which										
Taxes on income and profits	122.3	111.3	140.0	129.6	133.5	141.0	147.9	155.1	162.8	170.9
Taxes on property	2.7	4.0	4.0	4.4	4.7	5.1	5.1	5.4	5.6	5.9
Taxes on international trade	172.9	170.6	186.7	199.8	212.3	223.7	234.5	246.1	258.2	271.2
Of Which: VAT	69.0	68.4	72.9	76.5	81.8	86.8	91.0	95.5	100.2	105.3
Taxes on domestic transactions	132.5	134.7	140.5	148.6	159.3	167.9	176.0	184.6	193.8	203.5
Of Which: VAT	65.0	62.3	65.1	67.3	72.3	76.9	80.6	84.5	88.7	93.2
Non-tax	40.9	41.9	64.0	36.0	42.9	44.8	46.9	49.3	51.7	54.3
Of which										
Fees, Fines and Permits	17.8	17.6	18.0	18.1	21.7	22.7	23.8	25.0	26.2	27.5
Interest, Rent and Dividends	10.7	7.1	17.0	6.5	6.7	7.0	7.4	7.7	8.1	8.5
Other Revenue	12.4	17.3	29.1	11.4	14.4	15.0	15.8	16.5	17.4	18.2
Capital Revenue	5.2	34.3	0.7	26.2	1.0	0.0	0.0	0.0	0.0	0.0
Of which: Sale of crown lands	1.1	29.6	0.7	1.2	1.0	0.0	0.0	0.0	0.0	0.0
Grants	12.4	26.0	39.5	24.8	53.7	47.3	30.2	31.6	33.2	34.9
Total expenditure and net lending	**524.6**	**643.1**	**634.1**	**612.1**	**651.1**	**678.6**	**693.0**	**709.4**	**744.3**	**780.5**
Current	490.0	491.3	508.9	512.1	551.1	582.4	602.3	619.0	649.5	680.9
Of which										
Wages and salaries 1/	242.8	250.9	247.9	257.2	268.7	276.3	285.0	294.2	303.6	313.5
Interest	44.0	47.9	45.7	44.6	53.0	62.2	70.9	76.4	79.7	82.8
Domestic	22.9	29.4	27.3	26.7	28.8	36.4	45.1	50.4	53.6	57.0
Foreign	21.1	18.5	18.4	18.0	24.1	25.8	25.8	25.9	26.0	25.8
Transfers and subsidies	134.0	126.3	140.8	137.7	153.1	170.6	173.4	176.5	179.6	183.0
Goods and services	69.2	66.1	74.5	72.6	76.2	73.3	73.0	72.0	86.6	101.6
Capital expenditure	34.6	151.8	125.2	99.9	100.0	96.1	90.7	90.4	94.8	99.6
Current balance (before grants)	-18.6	-28.7	26.3	6.2	1.6	0.1	8.1	21.4	22.6	24.9
Overall balance	**-35.7**	**-120.1**	**-58.7**	**-42.7**	**-43.6**	**-48.8**	**-52.4**	**-37.3**	**-39.1**	**-39.8**
Overall balance (excl. grants)	**-48.0**	**-146.1**	**-98.2**	**-67.5**	**-97.4**	**-96.1**	**-82.6**	**-69.0**	**-72.3**	**-74.7**
Primary balance	8.3	-72.2	-13.1	1.9	9.3	13.5	18.4	39.1	40.6	43.0
Primary balance (excl. grants)	-4.1	-98.2	-52.5	-22.9	-44.4	-33.8	-11.7	7.4	7.4	8.1
Identified financing	35.7	120.1	58.7	42.7	43.6	48.8	52.4	37.3	39.1	39.8
Net external financing	-19.6	79.2	58.5	5.0	42.5	7.7	1.6	0.0	0.4	-4.2
Disbursements	25.3	123.4	105.6	50.6	107.0	76.9	68.0	63.3	61.7	59.8
Amortization	44.9	44.1	47.0	45.6	64.5	69.2	66.4	63.3	61.3	64.0
Change in government assets	-5.7	-5.5	-7.6	-7.6	-22.0	-22.0	-22.0	-6.3	-6.3	-6.3
Net domestic financing 2/	24.4	36.1	-28.4	74.3	53.1	93.4	72.9	43.6	45.0	50.4
SDR Allocation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0	3.0
Sale of Equity (privatization proceeds)	0.0	17.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	36.6	-6.9	19.0	-29.0	-30.0	-30.3	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.0	0.0	17.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	17.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:				*In percent of Revenue and Grants*						
Wage and salaries	49.7	48.0	43.1	45.2	44.2	43.9	44.5	43.8	43.0	42.3
Transfers and subsidies	27.4	24.2	24.5	24.2	25.2	27.1	27.1	26.3	25.5	24.7
Goods and services	14.2	12.6	13.0	12.8	12.6	11.6	11.4	10.7	12.3	13.7
Capital expenditure	7.1	29.0	21.8	17.6	16.5	15.3	14.2	13.4	13.4	13.4
Stock of arrears (in million of EC$)	77.3	70.3	89.3	60.3	30.3	0.0	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 2b. St. Vincent and the Grenadines: Baseline Scenario, Summary of Central Government Operations, 2012–21

(In percent of GDP, unless otherwise stated)

				Est.	Projection					
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total revenue and grants	**26.1**	**26.9**	**29.2**	**27.9**	**28.7**	**28.5**	**27.6**	**27.6**	**27.6**	**27.6**
Current revenue	25.2	23.8	27.2	25.4	26.1	26.3	26.3	26.3	26.3	26.3
Tax revenue	23.0	21.6	23.9	23.6	24.1	24.3	24.3	24.3	24.3	24.3
Of which										
Taxes on income and profits	6.5	5.7	7.1	6.3	6.3	6.4	6.4	6.4	6.4	6.4
Taxes on property	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on international trade	9.2	8.8	9.5	9.8	10.0	10.1	10.1	10.1	10.1	10.1
Of Which: VAT	3.7	3.5	3.7	3.7	3.9	3.9	3.9	3.9	3.9	3.9
Taxes on domestic transactions	7.1	6.9	7.1	7.3	7.5	7.6	7.6	7.6	7.6	7.6
Of Which: VAT	3.5	3.2	3.3	3.3	3.4	3.5	3.5	3.5	3.5	3.5
Non-tax	2.2	2.2	3.3	1.8	2.0	2.0	2.0	2.0	2.0	2.0
Of which										
Fees, Fines and Permits	1.0	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0	1.0
Interest, Rent and Dividends	0.6	0.4	0.9	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other Revenue	0.7	0.9	1.5	0.6	0.7	0.7	0.7	0.7	0.7	0.7
Capital Revenue	0.3	1.8	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Sale of crown lands	0.1	1.5	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.7	1.3	2.0	1.2	2.5	2.1	1.3	1.3	1.3	1.3
Total expenditure and net lending	**28.0**	**33.0**	**32.2**	**29.9**	**30.7**	**30.7**	**29.9**	**29.2**	**29.1**	**29.1**
Current	26.2	25.2	25.8	25.1	26.0	26.3	26.0	25.4	25.4	25.4
Of which										
Wages and salaries 1/	13.0	12.9	12.6	12.6	12.7	12.5	12.3	12.1	11.9	11.7
Interest	2.4	2.5	2.3	2.2	2.5	2.8	3.1	3.1	3.1	3.1
Domestic	1.2	1.5	1.4	1.3	1.4	1.6	1.9	2.1	2.1	2.1
Foreign	1.1	0.9	0.9	0.9	1.1	1.2	1.1	1.1	1.0	1.0
Transfers and subsidies	7.2	6.5	7.1	6.7	7.2	7.7	7.5	7.3	7.0	6.8
Goods and services	3.7	3.4	3.8	3.6	3.6	3.3	3.1	3.0	3.4	3.8
Capital expenditure	1.8	7.8	6.4	4.9	4.7	4.3	3.9	3.7	3.7	3.7
Current balance (before grants)	-1.0	-1.5	1.3	0.3	0.1	0.0	0.3	0.9	0.9	0.9
Overall balance	**-1.9**	**-6.2**	**-3.0**	**-2.1**	**-2.1**	**-2.2**	**-2.3**	**-1.5**	**-1.5**	**-1.5**
Overall balance (excl. grants)	-2.6	-7.5	-5.0	-3.3	-4.6	-4.3	-3.6	-2.8	-2.8	-2.8
Primary balance	**0.4**	**-3.7**	**-0.7**	**0.1**	**0.4**	**0.6**	**0.8**	**1.6**	**1.6**	**1.6**
Primary balance (excl. grants)	-0.2	-5.0	-2.7	-1.1	-2.1	-1.5	-0.5	0.3	0.3	0.3
Identified financing	**1.9**	**6.2**	**3.0**	**2.1**	**2.1**	**2.2**	**2.3**	**1.5**	**1.5**	**1.5**
Net external financing	-1.0	4.1	3.0	0.2	2.0	0.3	0.1	0.0	0.0	-0.2
Disbursements	1.4	6.3	5.4	2.5	5.1	3.5	2.9	2.6	2.4	2.2
Amortization	2.4	2.3	2.4	2.2	3.0	3.1	2.9	2.6	2.4	2.4
Change in government assets	-0.3	-0.3	-0.4	-0.4	-1.0	-1.0	-0.9	-0.3	-0.2	-0.2
Net domestic financing 2/	1.3	1.9	-1.4	3.6	2.5	4.2	3.1	1.8	1.8	1.9
Sale of Equity (privatization proceeds)	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	2.0	-0.4	1.0	-1.4	-1.4	-1.4	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Gross Public sector debt (in percent of GDP) 3/	72.0	74.7	79.5	73.4	80.1	81.5	81.6	80.2	78.8	77.3
Central government debt service to revenues excluding grants	23.8	23.6	22.3	21.4	26.2	27.8	28.1	27.5	26.7	26.6
Stock of arrears (in percent of GDP)	4.1	3.6	4.5	3.0	1.4	0.0	0.0	0.0	0.0	0.0
GDP at market prices (EC$ millions)	1,871	1,946	1,970	2,044	2,118	2,212	2,319.33	2,433	2,554	2,682

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.

3/ From 2016, reflects additional debt contracted with PetroCaribe but not previously recorded (EC$ 112 million or 5.3 percent of GDP in 2016). It includes debt of central government and state-owned enterprises.

Table 3: St Vincent and the Grenadines: Baseline Scenario, Central Government Gross Cash Flow Statement, 2013-21

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

				Projection					
	2013	2014	2015	2016	2017	2018	2019	2020	2021
Deposits at beginning of the period	**142**	**105**	**94**	**71**	**71**	**71**	**71**	**71**	**71**
Gross cash inflows	**195.4**	**186.9**	**142.6**	**191.3**	**210.6**	**192.0**	**197.8**	**202.7**	**212.5**
Primary surplus	...	...	1.9	9.3	13.5	18.4	39.1	40.6	43.0
Domestic debt placement	54.8	62.4	62.9	74.9	120.2	105.5	95.5	100.4	109.8
External debt placement	123.4	105.6	50.6	107.0	76.9	68.0	63.3	61.7	59.8
Arrears accumulation	...	19.0	...	...	...	0.0	0.0	0.0	0.0
Asset sales	17.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	...	...	27.2	0.0	0.0	0.0	0.0	0.0	0.0
Gross cash outflows	**232.0**	**198.3**	**165.1**	**191.3**	**210.6**	**192.0**	**197.8**	**202.7**	**212.5**
Primary deficit	72.2	13.1	...	...	...	...	...	...	...
Interest payments	47.9	45.7	44.6	53.0	62.2	70.9	76.4	79.7	82.8
Domestic debt amortization	34.2	44.7	46.0	43.8	48.8	54.7	58.1	61.7	65.8
External debt amortization	44.1	47.0	45.6	64.5	69.2	66.4	63.3	61.3	64.0
Arrears payments	6.9	0.0	29.0	30.0	30.3	....	....	....	....
Others	26.6	47.8	...	0.0	0.0	0.0	0.0	0.0	0.0
Net cash flow	**-36.6**	**-11.4**	**-22.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Deposits at end of period	**105**	**94**	**71**	**71**	**71**	**71**	**71**	**71**	**71**
Of *which*: Freely available	71	82	52	30	26	34	71	71	71
Sinking Fund 1/	34	12	19	41	45	37	0	0	0
Memorandum items									
Nominal GDP	1,946	1,970	2,044	2,118	2,212	2,319	2,433	2,554	2,682
Overall fiscal balance	-120.1	-58.7	-42.7	-43.6	-48.8	-52.4	-37.3	-39.1	-39.8
Stock of debt 2/	1,224	1,344	1,337	1,516	1,587	1,661	1,705	1,750	1,796
Domestic	501	538	526	549	612	685	728	773	824
Of *which:* Arrears	70	89	60	30	0	0	0	0	0
External	723	806	811	968	975	977	977	977	973
In percent of GDP									
Deposits	5.4	4.8	3.5	3.4	3.2	3.1	2.9	2.8	2.7
Overall fiscal balance	-6.2	-3.0	-2.1	-2.1	-2.2	-2.3	-1.5	-1.5	-1.5
Stock of debt	62.9	68.2	65.4	71.6	71.7	71.6	70.1	68.5	67.0
Domestic	25.7	27.3	25.7	25.9	27.6	29.5	29.9	30.3	30.7
Of *which:* Arrears	3.6	4.5	3.0	1.4	0.0	0.0	0.0	0.0	0.0
External	37.2	40.9	39.7	45.7	44.1	42.1	40.1	38.3	36.3

Source: data provided by the authorities; and Fund staff calculations.

1/ Saving account earmarked to meet bullet payments coming due on bonds. Projections are based on the authorities' expected inflows and ouflows through end-2018.

2/ From 2016, reflects additional debt contracted with PetroCaribe but not previously recorded (EC$ 112 million or 5.3 percent of GDP in 2016). Debt of central government only.

Table 4. St. Vincent and the Grenadines: Baseline Scenario, Balance of Payments Summary, 2012–21

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

				Est.	Projection					
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Current account	**-516**	**-602**	**-583**	**-507**	**-452**	**-444**	**-407**	**-392**	**-387**	**-384**
Trade balance	-719	-735	-718	-657	-628	-639	-630	-640	-657	-680
Exports f.o.b.	129	147	145	138	140	150	159	166	174	182
Imports f.o.b.	848	882	863	795	768	789	789	805	831	862
Of which: Mineral fuels 1/	178	140	181	95	66	80	90	99	106	111
Services (net)	150	96	99	125	152	184	216	245	273	303
Travel	217	211	212	220	237	265	295	325	354	386
Other nonfactor services	-67	-115	-113	-95	-85	-82	-79	-79	-81	-84
Income payments (net)	-10	0	0	-14	-16	-31	-34	-39	-46	-50
Current transfers	64	37	36	40	40	42	41	42	43	43
Net private transfers	34	26	25	29	29	29	28	29	30	30
Net official transfers	30	11	11	11	12	13	13	13	13	14
Capital and financial account	**571**	**694**	**654**	**529**	**573**	**566**	**540**	**539**	**554**	**569**
Capital	92	53	66	45	58	51	34	36	37	39
Financial (net)	479	641	588	484	516	515	506	504	517	530
Official capital	-35	102	72	-2	26	-9	-15	-17	-16	-14
Commercial banks	42	-20	47	0	10	10	10	10	10	10
Net Foreign Direct Investment	311	431	373	380	377	410	409	408	420	431
Others	161	127	96	107	103	103	103	103	103	103
Errors and omissions	1	-23	-9	0	0	0	0	0	0	0
Overall balance	57	70	62	23	122	122	133	148	167	185
Available financing	-57	-70	-62	-23	-122	-122	-133	-148	-167	-185
Change in ECCB NFA	-57	-70	-62	-23	-122	-122	-133	-148	-167	-185
Change in net imputed reserves (increase -)	-57	-70	-62	-23	-122	-122	-133	-148	-167	-185
of which: IMF purchases and disbursments 2/	0	0	-39	0	5	6	7	9	7	4
Change in SDR Allocation	0	0	0	0	0	0	0	0	0	0
Change in medium- and long-term net liabilities	0	0	0	0	0	0	0	0	0	0
Change in govt. foreign assets	0	0	0	0	0	0	0	0	0	0
Other financing	0	0	0	0	0	0	0	0	0	0
				(In percent of GDP, unless otherwise stated)						
Memorandum items:										
Current account	-27.6	-30.9	-29.6	-24.8	-21.3	-20.1	-17.5	-16.1	-15.2	-14.3
Exports f.o.b.	6.9	7.6	7.3	6.7	6.6	6.8	6.9	6.8	6.8	6.8
Imports f.o.b.	45.3	45.3	43.8	38.9	36.3	35.6	34.0	33.1	32.5	32.2
Net private transfers	1.8	1.3	1.3	1.4	1.4	1.3	1.2	1.2	1.2	1.1
Foreign direct investment	16.6	22.1	18.9	18.6	17.8	18.5	17.6	16.8	16.4	16.1
Tourism receipts	13.6	12.8	12.8	12.8	13.2	14.0	14.7	15.4	15.9	16.4
Terms of Trade of Goods and Services	71	70	72	84	93	91	91	93	94	96
Total trade of goods and nonfactor services	85.4	83.3	81.5	75.2	72.5	72.9	71.7	71.1	70.9	70.8
Exports of goods and nonfactor services	27.5	25.2	25.1	24.6	25.0	26.1	26.9	27.4	27.9	28.4
Imports of goods and nonfactor services	57.9	58.1	56.5	50.6	47.5	46.7	44.8	43.6	42.9	42.4

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

1/ Includes an increase of fuel imports of about EC$10 million in 2014 to replace electricity generation from the damaged hydroelectric plants during the December 2013 floods.

2/ Net IMF financing in 2014 includes the disbursement of the RCF-RFI blend of EC$17.3 million (50 percent of quota), and the repayment to the IMF of EC$1.5 million from the 2009 ESF-RAC loan which starts in 2014.

Table 5. St. Vincent and the Grenadines: Baseline Scenario, Monetary Survey, 2012–21

(In millions of Eastern Caribbean dollars)

				Est.	Projection					
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Net foreign assets	409	494	508	532	644	755	879	1,016	1,173	1,349
ECCB	295	359	421	445	566	688	822	969	1,136	1,322
Of which: Imputed reserves	295	359	421	445	566	688	822	969	1,136	1,322
Commercial banks	114	135	87	87	77	67	57	47	37	27
Net domestic assets	775	792	900	944	874	806	746	674	596	493
Public sector credit (net)	-75	-49	-25	-1	73	184	280	357	437	518
Central government	50	61	89	111	130	180	238	273	309	350
ECCB	-18	-11	-9	-2	-2	-2	-2	-2	-2	-2
Commercial banks	67	72	97	113	132	182	240	275	311	351
Net credit to rest of public sector	-124	-110	-114	-112	-56	4	41	84	128	168
National Insurance Scheme	-87	-68	-61	-73	-73	-73	-73	-73	-73	-73
Other	-37	-42	-52	-39	16	77	114	156	201	241
Credit to private sector	1,034	1,048	1,045	1,070	1,102	1,146	1,192	1,240	1,289	1,341
Net credit to nonbank financial institutions	17	16	16	15	16	17	18	18	19	20
Other items (net)	-184	-207	-120	-126	-317	-542	-743	-941	-1,150	-1,386
Broad money (M2)	1,184	1,286	1,409	1,476	1,518	1,561	1,625	1,690	1,770	1,842
Money	361	374	426	438	450	450	470	489	520	543
Currency in circulation	44	48	54	65	66	51	54	57	71	75
Demand deposits	311	320	364	364	375	390	405	421	438	456
EC$ Cheques and Drafts issued	6	6	8	9	9	10	10	11	11	11
Quasi-money	823	912	982	1,038	1,068	1,111	1,155	1,201	1,249	1,299
Time deposits	154	136	130	127	131	136	141	147	153	159
Savings deposits	633	717	779	821	844	878	913	950	988	1,027
Foreign currency deposits	36	58	73	90	93	97	101	105	109	113
				(Annual percentage change)						
Net foreign assets	4.0	20.9	2.8	4.7	21.0	17.3	16.4	15.7	15.5	14.9
Net domestic assets	8.1	2.2	13.7	4.8	-7.4	-7.8	-7.4	-9.7	-11.5	-17.2
Credit to private sector	3.5	1.3	-0.2	2.4	3.0	4.0	4.0	4.0	4.0	4.0
Broad money (M2)	6.6	8.6	9.5	4.8	2.9	2.8	4.1	4.0	4.7	4.1
Money	8.9	3.7	13.9	2.7	2.8	0.1	4.3	4.1	6.4	4.4
Quasi-money 1/	5.7	10.8	7.7	5.7	2.9	4.0	4.0	4.0	4.0	4.0
				(Contribution to M2 growth)						
Net foreign assets	1.4	7.2	1.1	1.7	7.6	7.4	7.9	8.5	9.3	9.9
Net domestic assets	5.2	1.4	8.4	3.1	-4.7	-4.5	-3.8	-4.4	-4.6	-5.8
Public sector credit (net)	1.6	2.2	1.9	1.7	5.0	7.3	6.1	4.8	4.7	4.6
Of which: Central government	0.5	1.0	2.1	1.6	1.3	3.3	3.7	2.1	2.1	2.3
Credit to private sector	3.2	1.1	-0.2	1.7	2.2	2.9	2.9	2.9	2.9	2.9
Other items (net)	0.5	-1.9	6.8	-0.4	-13.0	-14.8	-12.9	-12.2	-12.3	-13.3
Memorandum item:										
Income velocity 2/	1.6	1.5	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.5

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

1/ Including resident foreign currency deposits.

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

Table 6. St. Vincent and the Grenadines: Baseline Scenario, Indicators of External and Financial Vulnerability, 2008–15

(Annual percentage changes, unless otherwise specified)

	2008	2009	2010	2011	2012	2013	2014	2015
External indicators								
Merchandise exports	11.4	-6.7	-15.7	-3.5	10.0	14.0	-1.7	-4.7
Merchandise imports	14.2	-10.6	1.3	-1.8	7.4	4.0	-2.2	-7.8
Terms of trade deterioration (-)	-17.5	25.2	-15.1	-7.8	3.5	-0.3	2.3	16.2
Tourism earnings	-12.7	-8.8	-1.5	6.4	2.7	-1.9	0.9	3.8
Banana export earnings	-29.8	3.6	-35.0	-86.8	29.4	-3.1	0.6	43.4
Current account balance (in percent of GDP)	-33.1	-29.2	-30.6	-29.4	-27.6	-30.9	-29.6	-24.8
Capital and financial account balance (in percent of GDP) 1/	32.7	29.9	34.3	26.0	30.6	34.5	32.7	25.9
Of which								
Foreign direct investment (in percent of GDP)	22.9	16.3	14.3	12.7	16.6	22.1	18.9	18.6
Gross international reserves of the ECCB								
In millions of U.S. dollars	759.0	800.8	926.1	1,007.6	1,124.7	1,169.1	1,411.2	1,512.2
In percent of broad money	17.0	17.8	20.2	21.3	22.4	22.7	25.3	26.3
Net imputed reserves								
In millions of U.S. dollars	82.9	75.2	110.8	87.8	109.1	133.1	156.1	164.7
Commercial banks' net foreign assets (in millions of U.S. dollars)	59.7	58.6	64.9	57.8	42.3	50.0	32.1	32.3
External public debt (in percent of GDP)	29.8	32.0	40.8	43.1	40.5	42.3	45.3	43.2
External debt service (in percent of exports of goods and services)	4.8	13.9	15.5	16.3	15.2	16.8	17.7	16.1
Of which								
Interest	4.8	4.9	4.8	5.0	4.4	4.6	4.5	4.1
Nominal exchange rate (EC$ per US$, end period)	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Real effective exchange rate depreciation (-), end period	-0.5	6.3	-2.0	-4.1	6.1	-2.1	-0.1	11.8
Financial indicators								
Broad money	1.4	1.4	2.6	-0.3	6.6	8.6	9.5	4.8
Credit to the private sector	3.0	1.8	1.8	4.1	3.5	1.3	-0.2	2.4
Prudential indicators (in percent)								
Regulatory capital to risk-weighted assets	17.9	18.7	18.7	16.8	16.2	15.7	16.0	22.1
Nonperforming loans net of provisions to capital	31.7	23.7	15.8	20.9	19.0	24.2	36.4	21.4
Nonperforming loans to total loans	3.9	8.4	8.6	7.7	7.4	8.3	10.0	8.7
General government loans to total loans	23.1	17.5	8.7	8.5	9.7	9.0	9.2	8.4
Return on assets	2.3	1.8	1.0	0.4	1.0	0.5	-0.2	0.2
Liquid assets to total assets	34.2	30.7	35.9	33.3	32.8	36.2	37.6	38.3
Spread between reference lending and deposit rates	6.8	6.2	6.2	6.2	6.6	6.8	6.8	7.3
Total loans to total deposits	87.2	85.6	75.3	74.2	75.1	72.7	68.1	67.9
Foreign-currency-denominated liabilities to total liabilities	5.7	5.2	7.7	7.5	5.4	6.3	6.5	7.7

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

1/ Includes errors and omissions.

Table 7. St. Vincent and the Grenadines: Baseline Scenario, Medium-Term Projections, 2012–21

(In percent of GDP, unless otherwise specified)

				Est.	Projection					
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Output and prices										
Real GDP growth at factor cost (in percent)	1.3	2.3	-0.2	1.6	2.2	3.1	3.1	3.1	3.1	3.1
Nominal GDP	2.5	4.0	1.3	3.7	3.6	4.5	4.8	4.9	4.9	5.0
Consumer Price Index, end-of-period (percent change)	1.0	0.0	0.1	-2.1	1.1	1.7	1.7	1.7	1.8	1.9
Consumer Price Index, average (percent change)	2.6	0.8	0.2	-1.7	0.1	1.1	1.7	1.7	1.8	1.9
Central government finances										
Total revenue and grants	26.1	26.9	29.2	27.9	28.7	28.5	27.6	27.6	27.6	27.6
Of which:										
Tax revenue	23.0	21.6	23.9	23.6	24.1	24.3	24.3	24.3	24.3	24.3
Taxes on income and profits	6.5	5.7	7.1	6.3	6.3	6.4	6.4	6.4	6.4	6.4
Taxes on property	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on international trade	9.2	8.8	9.5	9.8	10.0	10.1	10.1	10.1	10.1	10.1
Taxes on domestic transactions	7.1	6.9	7.1	7.3	7.5	7.6	7.6	7.6	7.6	7.6
Grants	0.7	1.3	2.0	1.2	2.5	2.1	1.3	1.3	1.3	1.3
Total expenditure and net lending	28.0	33.0	32.2	29.9	30.7	30.7	29.9	29.2	29.1	29.1
Of which:										
Wages and salaries 1/	13.0	12.9	12.6	12.6	12.7	12.5	12.3	12.1	11.9	11.7
Transfers and subsidies	7.2	6.5	7.1	6.7	7.2	7.7	7.5	7.3	7.0	6.8
Capital expenditure	1.8	7.8	6.4	4.9	4.7	4.3	3.9	3.7	3.7	3.7
Overall balance	-1.9	-6.2	-3.0	-2.1	-2.1	-2.2	-2.3	-1.5	-1.5	-1.5
Of which: Primary balance	0.4	-3.7	-0.7	0.1	0.4	0.6	0.8	1.6	1.6	1.6
Financing	1.9	6.2	3.0	2.1	2.1	2.2	2.3	1.5	1.5	1.5
Net external financing	-1.0	4.1	3.0	0.2	2.0	0.3	0.1	0.0	0.0	-0.2
Net domestic financing	1.3	1.9	-1.4	3.6	2.5	4.2	3.1	1.8	1.8	1.9
Other	1.6	0.2	1.5	-1.8	-2.5	-2.4	-0.9	-0.3	-0.2	-0.2
Gross public sector debt 2/	72.0	74.7	79.5	73.4	80.1	81.5	81.6	80.2	78.8	77.3
External sector										
Current account balance	-27.6	-30.9	-29.6	-24.8	-21.3	-20.1	-17.5	-16.1	-15.2	-14.3
Gross public sector external debt (end of period)	40.5	42.3	45.3	43.2	47.3	44.5	41.6	38.5	35.6	32.8
External public debt service										
(In percent of exports of goods and services)	15.2	16.8	17.7	16.1	20.7	20.2	18.2	16.6	15.1	13.5

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

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

2/ Includes debt of central government and state-owned enterprises.

Table 8. St. Vincent and the Grenadines: Active Scenario, Summary of Central Government Operations, 2012–21

(In percent of GDP, unless otherwise stated)

				Est.	Projection					
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total revenue and grants	**26.1**	**26.9**	**29.2**	**27.9**	**28.7**	**28.7**	**28.3**	**28.7**	**28.7**	**28.7**
Current revenue	25.2	23.8	27.2	25.4	26.1	26.6	27.0	27.4	27.4	27.4
Tax revenue	23.0	21.6	23.9	23.6	24.1	24.6	25.0	25.4	25.4	25.4
Of which										
Taxes on income and profits	6.5	5.7	7.1	6.3	6.3	6.4	6.4	6.4	6.4	6.4
Taxes on property	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Taxes on international trade	9.2	8.8	9.5	9.8	10.0	10.4	10.8	11.2	11.2	11.2
Of Which: VAT	3.7	3.5	3.7	3.7	3.9	4.0	4.2	4.4	4.4	4.4
Taxes on domestic transactions	7.1	6.9	7.1	7.3	7.5	7.6	7.6	7.6	7.6	7.6
Of Which: VAT	3.5	3.2	3.3	3.3	3.4	3.5	3.5	3.5	3.5	3.5
Non-tax	2.2	2.2	3.3	1.8	2.0	2.0	2.0	2.0	2.0	2.0
Of which										
Fees, Fines and Permits	1.0	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0	1.0
Interest, Rent and Dividends	0.6	0.4	0.9	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other Revenue	0.7	0.9	1.5	0.6	0.7	0.7	0.7	0.7	0.7	0.7
Capital Revenue	0.3	1.8	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Sale of crown lands	0.1	1.5	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.7	1.3	2.0	1.2	2.5	2.1	1.3	1.3	1.3	1.3
Of which: Floods related			1.0							
Total expenditure and net lending	**28.0**	**33.0**	**32.2**	**29.9**	**30.8**	**30.5**	**29.5**	**28.5**	**28.4**	**28.2**
Current	26.2	25.2	25.8	25.1	26.0	26.2	25.6	24.8	24.7	24.5
Of which										
Wages and salaries 1/	13.0	12.9	12.6	12.6	12.7	12.3	11.9	11.5	11.3	11.1
Interest	2.4	2.5	2.3	2.2	2.5	2.8	3.1	3.1	2.9	2.8
Domestic	1.2	1.5	1.4	1.3	1.4	1.6	1.9	2.0	1.9	1.8
Foreign	1.1	0.9	0.9	0.9	1.2	1.2	1.1	1.1	1.1	1.0
Transfers and subsidies	7.2	6.5	7.1	6.7	7.2	7.7	7.5	7.3	7.0	6.8
Goods and services	3.7	3.4	3.8	3.6	3.6	3.3	3.1	3.0	3.4	3.8
Capital expenditure	1.8	7.8	6.4	4.9	4.7	4.3	3.9	3.7	3.7	3.7
Current balance (before grants)	-1.0	-1.5	1.3	0.3	0.1	0.4	1.4	2.7	2.8	2.9
Overall balance	**-1.9**	**-6.2**	**-3.0**	**-2.1**	**-2.1**	**-1.8**	**-1.2**	**0.2**	**0.4**	**0.5**
Overall balance (excl. grants)	-2.6	-7.5	-5.0	-3.3	-4.6	-3.9	-2.5	-1.1	-0.9	-0.8
Primary balance	**0.4**	**-3.7**	**-0.7**	**0.1**	**0.4**	**1.1**	**1.9**	**3.3**	**3.3**	**3.3**
Primary balance (excl. grants)	-0.2	-5.0	-2.7	-1.1	-2.1	-1.1	0.6	2.0	2.0	2.0
Identified financing	**1.9**	**6.2**	**3.0**	**2.1**	**2.1**	**1.8**	**1.2**	**-0.2**	**-0.4**	**-0.5**
Net external financing	-1.0	4.1	3.0	0.2	2.0	0.4	0.1	0.0	0.0	-0.2
Disbursements	1.4	6.3	5.4	2.5	5.1	3.5	2.9	2.6	2.4	2.2
Amortization	2.4	2.3	2.4	2.2	3.0	3.1	2.9	2.6	2.4	2.4
Change in government assets	-0.3	-0.3	-0.4	-0.4	-1.0	-1.0	-0.9	-0.3	-0.2	-0.2
Net domestic financing 2/	1.3	1.9	-1.4	3.6	2.5	3.8	2.1	0.0	-0.1	-0.1
Sale of Equity (privatization proceeds)	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	2.0	-0.4	1.0	-1.4	-1.4	-1.4	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Gross Public sector debt (in percent of GDP) 3/	72.0	74.7	79.5	73.4	80.1	81.2	80.1	76.9	73.7	70.5
Central government debt service to revenues excluding grants	23.8	23.6	22.3	21.4	26.2	27.6	27.2	25.6	24.1	23.2
Stock of arrears (in percent of GDP)	4.1	3.6	4.5	3.0	1.4	0.0	0.0	0.0	0.0	0.0
GDP at market prices (EC$ millions)	1,871	1,946	1,970	2,044	2,118	2,210	2,318	2,433	2,553	2,680
Savings for Natural Disasters					0.0	0.9	0.9	0.9	0.9	0.9
Cumulative Savings for Natural Disasters					0.0	0.9	1.8	2.6	3.4	4.1

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.

3/ From 2016, reflects additional debt contracted with PetroCaribe but not previously recorded (EC$ 112 million or 5.3 percent of GDP in 2016). It includes debt of central government and state-owned enterprises.

Table 9: St Vincent and the Grenadines: Active Scenario, Central Government Gross Cash Flow Statement, 2013-21

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

				Projection					
	2013	2014	2015	2016	2017	2018	2019	2020	2021
Deposits at beginning of the period	**142**	**105**	**94**	**71**	**71**	**71**	**71**	**71**	**71**
Gross cash inflows	**195.4**	**186.9**	**142.6**	**191.6**	**210.4**	**189.4**	**190.0**	**187.9**	**189.9**
Primary surplus	...	...	1.9	9.3	23.4	43.4	80.7	84.5	89.0
Domestic debt placement	54.8	62.4	62.9	75.2	110.1	78.0	46.0	41.7	41.1
External debt placement	123.4	105.6	50.6	107.0	77.0	68.0	63.3	61.6	59.7
Arrears accumulation	...	19.0	...	...	...	0.0	0.0	0.0	0.0
Asset sales	17.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	...	...	27.2	0.0	0.0	0.0	0.0	0.0	0.0
Gross cash outflows	**232.0**	**198.3**	**165.1**	**191.6**	**210.4**	**189.4**	**190.0**	**187.9**	**189.9**
Primary deficit	72.2	13.1	...	...	...	...	...	...	...
Interest payments	47.9	45.7	44.6	53.3	62.8	71.0	74.8	74.9	74.5
Domestic debt amortization	34.2	44.7	46.0	43.8	48.1	52.0	52.0	51.7	51.4
External debt amortization	44.1	47.0	45.6	64.5	69.2	66.4	63.3	61.3	64.0
Arrears payments	6.9	0.0	29.0	30.0	30.3	....	....	....	....
Others	26.6	47.8	...	0.0	0.0	0.0	0.0	0.0	0.0
Net cash flow	**-36.6**	**-11.4**	**-22.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Deposits at end of period	**105**	**94**	**71**	**71**	**71**	**71**	**71**	**71**	**71**
Of *which*: Freely available	71	82	52	30	26	34	71	71	71
Sinking Fund 1/	34	12	19	41	45	37	0	0	0
Memorandum items									
Nominal GDP	1,946	1,970	2,044	2,118	2,210	2,318	2,433	2,553	2,680
Overall fiscal balance	-120.1	-58.7	-42.7	-43.9	-39.4	-27.5	6.0	9.6	14.6
Stock of debt 2/	1,224	1,344	1,337	1,516	1,578	1,627	1,628	1,624	1,616
Domestic	501	538	526	549	603	651	651	647	643
Of *which:* Arrears	70	89	60	30	0	0	0	0	0
External	723	806	811	968	975	977	977	977	973
In percent of GDP									
Deposits	5.4	4.8	3.5	3.4	3.2	3.1	2.9	2.8	2.7
Overall fiscal balance	-6.2	-3.0	-2.1	-2.1	-1.8	-1.2	0.2	0.4	0.5
Stock of debt	62.9	68.2	65.4	71.6	71.4	70.2	66.9	63.6	60.3
Domestic	25.7	27.3	25.7	25.9	27.3	28.1	26.8	25.4	24.0
Of *which:* Arrears	3.6	4.5	3.0	1.4	0.0	0.0	0.0	0.0	0.0
External	37.2	40.9	39.7	45.7	44.1	42.2	40.1	38.3	36.3

Source: data provided by the authorities; and Fund staff calculations.

1/ Saving account earmarked to meet bullet payments coming due on bonds. Projections are based on the authorities' expected inflows and ouflows through end-2018.

2/ From 2016, reflects additional debt contracted with PetroCaribe but not previously recorded (EC$ 112 million or 5.3 percent of GDP in 2016). Debt of central government only.

Table 10. St. Vincent and the Grenadines: Active Scenario, Medium-Term Projections, 2012–21

(In percent of GDP, unless otherwise specified)

				Est.	Projection					
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Output and prices										
Real GDP growth at factor cost (in percent)	1.3	2.3	-0.2	1.6	2.2	2.7	2.7	2.7	3.1	3.1
Nominal GDP	2.5	4.0	1.3	3.7	3.6	4.3	4.9	5.0	4.9	5.0
Consumer Price Index, end-of-period (percent change)	1.0	0.0	0.1	-2.1	1.1	1.7	1.7	1.7	1.8	1.9
Consumer Price Index, average (percent change)	2.6	0.8	0.2	-1.7	0.1	1.1	1.7	1.7	1.8	1.9
Central government finances										
Total revenue and grants	26.1	26.9	29.2	27.9	28.7	28.7	28.3	28.7	28.7	28.7
Of which:										
Tax revenue	23.0	21.6	23.9	23.6	24.1	24.6	25.0	25.4	25.4	25.4
Taxes on income and profits	6.5	5.7	7.1	6.3	6.3	6.4	6.4	6.4	6.4	6.4
Taxes on property	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Taxes on international trade	9.2	8.8	9.5	9.8	10.0	10.4	10.8	11.2	11.2	11.2
Taxes on domestic transactions	7.1	6.9	7.1	7.3	7.5	7.6	7.6	7.6	7.6	7.6
Grants	0.7	1.3	2.0	1.2	2.5	2.1	1.3	1.3	1.3	1.3
Total expenditure and net lending	28.0	33.0	32.2	29.9	30.8	30.5	29.5	28.5	28.4	28.2
Of which:										
Wages and salaries 1/	13.0	12.9	12.6	12.6	12.7	12.3	11.9	11.5	11.3	11.1
Transfers and subsidies	7.2	6.5	7.1	6.7	7.2	7.7	7.5	7.3	7.0	6.8
Capital expenditure	1.8	7.8	6.4	4.9	4.7	4.3	3.9	3.7	3.7	3.7
Overall balance	-1.9	-6.2	-3.0	-2.1	-2.1	-1.8	-1.2	0.2	0.4	0.5
Of which: Primary balance	0.4	-3.7	-0.7	0.1	0.4	1.1	1.9	3.3	3.3	3.3
Financing	1.9	6.2	3.0	2.1	2.1	1.8	1.2	-0.2	-0.4	-0.5
Net external financing	-1.0	4.1	3.0	0.2	2.0	0.4	0.1	0.0	0.0	-0.2
Net domestic financing	1.3	1.9	-1.4	3.6	2.5	3.8	2.1	0.0	-0.1	-0.1
Other	1.6	0.2	1.5	-1.8	-2.5	-2.4	-0.9	-0.3	-0.2	-0.2
Gross public sector debt 2/	72.0	74.7	79.5	73.4	80.1	81.2	80.1	76.9	73.7	70.5
External sector										
Current account balance	-27.6	-30.9	-29.6	-24.8	-21.3	-20.0	-17.4	-15.9	-15.0	-14.1
Gross public sector external debt (end of period)	40.5	42.3	45.3	43.2	47.3	44.6	41.6	38.5	35.6	32.8
External public debt service										
(In percent of exports of goods and services)	15.2	17.9	17.9	16.1	20.7	20.2	18.2	16.6	15.1	13.5

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

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

2/ Includes debt of central government and state-owned enterprises.

Annex I. Implementation of Previous Staff Advice

2014 Article IV and RCF/RCI Policy recommendations	Policy Actions
Creating Fiscal Space and Ensuring Debt Sustainability	
Staff stressed the need for intensified medium-term fiscal consolidation to reverse the rise in the debt to GDP ratio, build much needed fiscal space and bring forward, to 2024, achievement of the ECCU regional debt target of 60 percent of GDP.	.
Target a primary surplus of 3 percent of GDP by 2018 by reducing the wage bill by 1 percent of GDP below the baseline over the next four years through:	
i. Containing the wage bill by 0.4 percent of GDP by 2019 by restraining employment growth.	No increase in the number of persons employed. A general wage increase of 2.5 percent was granted in 2015, following by another increase of 1.5 percent in January 2016.
ii. Hiring freeze to maintain the size of the civil service unchanged, with some additional positions in the customs and police services	Hiring freeze is expected to be maintained
iii. Reducing transfers and subventions to public corporations by an additional 0.5 percent of GDP	Target will not be met. Subventions and net lending to the Argyle International Airport Corporation to operationalize the airport.
iv. Mobilizing revenue by enhancing legal capacity of revenue agencies and the National Insurance Service	A lawyer was hired at the Inland Revenue Department.
v. Increasing information sharing between the Internal Revenue Department (IRD) and the Customs and Excises Department (CED)	Not achieved.
vi. Implementing recommendations on the report on the Data Matching Projects between the IRD and the CED	No progress
vii. Rationalizing tax exemptions	Streamlining of discretionary concessions is included in the 2016 draft budget.
viii. Increasing Customs service charge	Increased from 4 percent to 5 percent in 2015
ix. Making self-employed contributions to the National Insurance Service compulsory	NIS has taken steps to enforce a 1997 agreement to extend coverage to all self-employed persons.

Implementation of Previous Staff Advice (continued)

x. Implement a Pension Reform	The NIS embarked on parametric reform, effective January 1, 2014. There was no progress in 2015, but the process is expected to start in 2016.
Improve the rate of implementation of the capital budget.	Relatively low implementation of capital projects, at 30 percent of budget target. The authorities have substantially reduced their budget projections and are depending more on externally-funded PSIP projects.
Fully clear government arrears	Arrears were reduced from EC$89 million at end-2014 to EC$60 million at end-2015. CARTAC is providing training on a cash and expenditure management framework.
Agenda to Improve Competitiveness and Sustain Growth	
Staff recommended reforms to ease the cost of doing business and boost productivity:	*The authorities have moved ahead on some items.*
i. Streamline customs clearance times	Between 2013 and 2015, clearance time has improved from 5 hours for imports of less than 6 lines to 4 hours, and from 72 hours for imports of over 15 lines to 48 hours.
ii. Reform procurement procedures	Refining the Draft Public Procurement Bill, following comments by World Bank.
iii. Improve agriculture productivity	Financing has been received from the EU through the Banana Accompanying Measures (BAM) program to improve irrigation and feeder roads systems.
iv. Develop geothermal energy industry	Geothermal Development Act passed in August 2015. Government has already engaged a private sector entity to be part of a PPP to undertake the project (Emera Caribbean and Reykjavík Geothermal Ltd). Drilling of production wells is slated to begin November 2016 and end in 2018.
v. Foster entrepreneurship through training	The Centre for Enterprise Development, formerly a statutory company, has been brought under the Ministry of Economic Planning with the intention of improve its outreach and training programs.
vi. Facilitating access to credit and formation of a credit bureau	Under way, as part of a regional project by the ECCU.

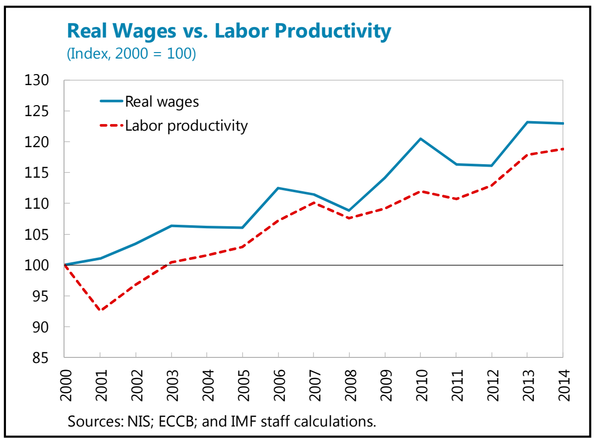
Implementation of Previous Staff Advice (concluded)

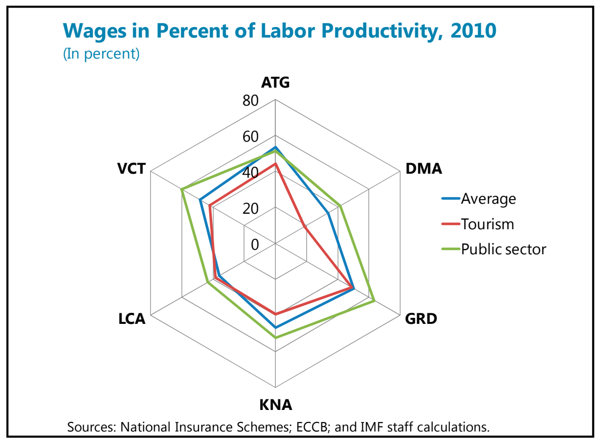
Building Climate Resilience	
Staff welcomed the authorities' focus on measures to mitigate and adapt to climate change:	
Improve emergency response capacities Buttress physical infrastructure	Road rehabilitation project is ongoing
Enforce compliance with building codes	Ongoing work undertaken by the Ministry of Planning
Rezone areas deemed at risk	
Relocate houses if necessary	
Supporting Financial Sector Development	
Staff recommended both local and regional reforms to bolster the financial system.	*The authorities have moved forward, including in the context of a major regional initiative*
Continue with the regional strategy to strengthen the ECCU banking system Enhance the supervision of the credit union sector	The New Banking Act 2015 has been passed in Parliament. The harmonized credit unions act is in place.

Annex II. Competitiveness and External Sustainability Analysis

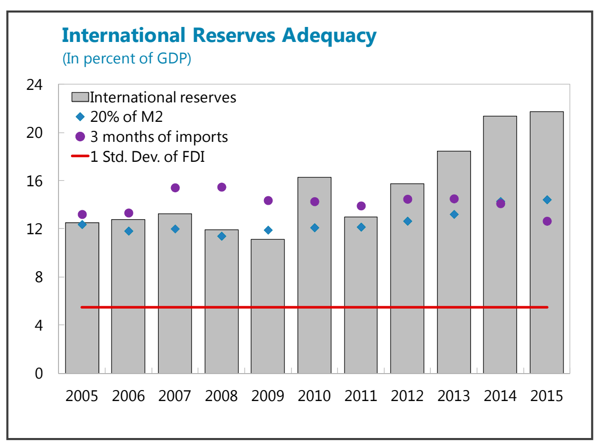
The external position of St. Vincent and the Grenadines in 2015 could be improved through policies fostering gains in competitiveness. Reserves are assessed to be adequate and sufficient to absorb most shocks. There are signs that the real effective exchange rate is overvalued. However, ongoing revisions to balance of payment statistics confer significant uncertainty about the exchange rate assessment.

St. Vincent would benefit from containing labor costs in line with productivity gains. Real wages have increased by 23 percent over the last 15 years, while productivity has only improved by 18 percent. Real wage increases have outpaced productivity gains every year since 2000. This has resulted in St. Vincent being one of the ECCU countries with the highest hiring costs relative to productivity levels, in the public sector (2nd place) and in the tourism industry (3rd place).[1] Real wages of public sector employees increased by 45 percent for the period 2000-2014, and while their productivity more than doubled during the same time, their wages relative to their productivity are among the worst in the ECCU region.





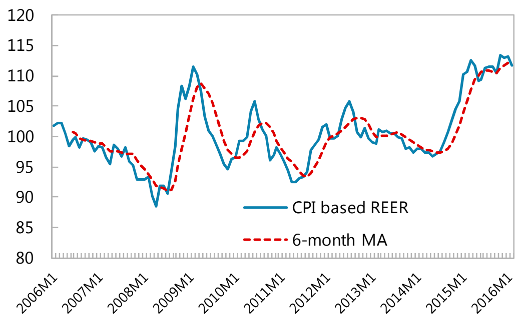
The level of the international reserves is adequate. Reserves have been above 3 months of imports since 2012. Reserves are also above 20 percent of broad money (M2), and above one standard deviation of FDI inflows, which are benchmarks used to evaluate the coverage of reserves against external risks.



[1] The comparison on wages in percent of labor productivity across the ECCU is for 2010, which is the latest year with available data for all ECCU countries. In 2010, St. Vincent was the fourth most productive country in the ECCU region with the average worker producing EC$39,885 per year (in 2006 constant EC dollars).

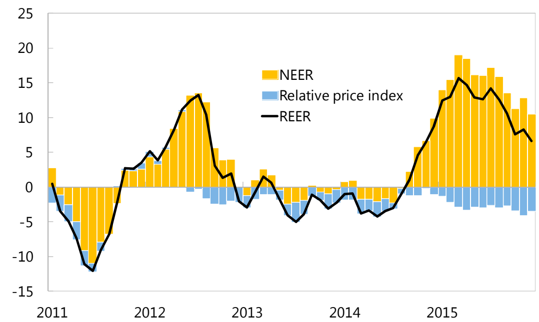
The real effective exchange rate (REER) has rapidly appreciated in the last 18 months. After a significant appreciation in the run up to the global financial crisis, the REER returned gradually to relatively stable and lower levels. However, an analysis of the CPI-based real effective exchange rate confirms a loss of competitiveness vis-à-vis trade partners since the second half of 2014. This appears mainly caused by the appreciation of the US dollar, to which the EC dollar is pegged. A persistent strong EC dollar might erode competitiveness in the tourism sector.

St. Vincent and the Grenadines: Real Effective Exchange rate
(2010 =100)



Source: IMF Staff estimates and calculations

St. Vincent: REER Appreciation
(In percent, year-on-year contribution to growth)



Source: IMF Staff estimates and calculations

Model-based assessment suggest that there are signs of overvaluation of the REER relative to the level implied by fundamentals; however, the degree of overvaluation differs greatly depending on the method used. [2] Estimates by staff[3] indicate an average overvaluation of about 13 percent, with the macro-balance (MB) approach showing the highest overvaluation (35 percent), and the equilibrium REER showing the lowest overvaluation (5 percent).[4] However, the external sustainability method suggests a slight undervaluation of the real exchange rate of about 2 percent. Nonetheless, the EBA-lite methodologies show an average overvaluation of

Estimated Misalignment of the REER

	St. Vincent	ECCU
Staff estimates based on CGER		
Macro Balance	35.1	24.8
Equlibrium REER	5.4	5.3
External Sustainability	-2.3	-4.0
Average	**12.7**	**8.7**
EBA-lite		
Macro Balance	148.3	
Equlibrium REER	2.5	
Average	**75.4**	

[2] The large current account deficits in St. Vincent are mostly generated by large inflows of FDI and grants that increase imports. It is likely the deficit would be much smaller in the absence of these large inflows, as in 2000-01 (see Box 1 of the 2014 Article IV, Country Report 15/259). On average over the last decade, almost 80 percent of the current account deficit has been financed by non-debt creating flows, notably FDI and capital grants. However, FDI is not included in desk estimates or EBA as an explanatory variable.

[3] Based on the previous CGER methodology.

[4] The overvaluation pressures have subsided somewhat compared to the CGER assessment done in the previous Article IV consultation, which showed an average overvaluation of 31 percent across the three methods.

75 percent, due to an extremely high overvaluation shown in the MB approach of 148 percent, which staff believes is overstated because EBA-lite's fit of the model for St. Vincent and the Grenadines is poor. At the ECCU level, staff estimates indicate the real exchange rate is undervalued by about 9 percent. It is important to note that the ECCB, with CARTAC support, is revising the balance of payments for all the ECCU countries and preliminary numbers indicate that the current account deficit for St. Vincent and the Grenadines would be about 5 percent of GDP lower using the new methodology.[5]

[5] The ECCB has improved the surveys used to collect information resulting in larger exports of travel services that were before unreported.

Annex III. PetroCaribe Arrangement and Public Debt

St. Vincent and the Grenadines joined the PetroCaribe agreement since 2005. The structure of the agreement in St. Vincent is as follows: the governments of Venezuela and St. Vincent and the Grenadines created a joint venture company (PDVSVG) to import fuel (diesel and LPG) into St. Vincent and operate as a wholesaler. In this company Venezuela has a 51 percent equity stake and the government of St. Vincent and the Grenadines owns the other 49 percent. PDVSVG sells fuel to VINLEC (the public energy generation company) and to Sol (a private retailer). From the fuel sales PDVSVG pays upfront 40 to 60 percent of its oil imports to Venezuela, and the rest is lent to PetroCaribe St. Vincent Ltd., a company 100 percent owned by the government of St. Vincent and the Grenadines. PetroCaribe St. Vincent is then in charge of investing the proceeds from the sale of fuels it receives from PDVSVG. These investments should then generate a sufficient return for PetroCaribe St. Vincent to repay the loans back to PDVSVG, and to fund social assistance programs.[1]

Only part of PetroCaribe St. Vincent's debt to Venezuela is fully accounted in the public sector debt statistics. At end-January 2016 the total debt to Venezuela under the agreement stood at EC$183.8 million, of which only EC$71 million is recorded as government debt, to fund the construction of the international airport. This suggest that the public sector debt should be about 5.3 percent of GDP (EC$112 million) higher to reflect the full debt to Venezuela. This includes EC$90 million that has been provided to the government in the form of soft loans and grants for a host of social assistance programs and investments which have been reviewed by the cabinet.

In 2015 the government of St. Vincent and the Grenadines requested and obtained a one year moratorium of payments to Venezuela. The request was made due to financing constraints arising from the December 2013 floods. Under this moratorium PetroCaribe St. Vincent was allowed to stop debt service and also to retain the cash portion (i.e. the upfront payment) of the oil imports in 2015. The moratorium was extended at end-2015 until June 2016 at which time the debt service to Venezuela will resume.

Financing from PetroCaribe to the government in 2016 will be significantly lower. With lower oil prices it is expected that available financing from PetroCaribe St. Vincent to the government will be less than half of what it was in 2015. PetroCaribe St. Vincent has limited liquid assets (EC$4.8 million) and most of its assets are tied in concessional long-term loans to the airport and the government.

[1] If the oil price is above US$40 per barrel, Venezuela finances 60 percent of oil imports with a 25 year loan (2 years grace period) at an interest rate of 1 percent, if the price falls below US$40 then Venezuela finances only 40 percent of the oil imports with a 15 year loan (2 years grace period) at an interest rate of 2 percent.

Annex IV. The Geothermal Energy Project

The government of St. Vincent and the Grenadines plans to build a 10-15 MW geothermal plant using the geothermal reservoir at the La Soufrière volcano. Construction of the plant is expected to begin in 2016 and be completed by 2018 although it might be extended up to 2021. It is estimated that the plant could generate about 60 percent of the country's energy needs; and combined with the currently installed hydro generation capacity, renewable energy would account for almost 80 percent of St. Vincent's energy demand.

The project is a public private partnership (PPP) with Emera Caribbean and Reykjavik Geothermal.[1] The required investment is estimated to be around US$82 million (10.5 percent of 2016 GDP), of which the government will inject US$8.2 million (1 percent of GDP) for a 25 percent equity stake. The government financing is expected to come from a US$15 million concessional loan (20 year maturity with 5 years of grace period and a 2 percent interest rate) from the International Renewable Energy Agency (IRENA) and the Abu Dhabi Fund for Development (ADFD), and a US$5.5 million grant from the UK government. Additionally, the government is exploring obtaining risk capital from the Caribbean Development Bank (CDB) under a facility developed by the Inter-American Development Bank (IDB), where the grant can be converted to a loan if the project is successful. The government plans to on lend to the project any financing it obtains above its equity contribution. It also plans to relinquish future royalties for the use of the geothermal resource by the private partners, with their amount converted into additional government equity.

The government and its partners have finalized their business plan, which is being reviewed by the Clinton Foundation, the TA provider. Details of the plan remain undisclosed. A key point in the negotiations would be the price at which the project would sell its energy to VINLEC (the state owned producer and distributor of electricity). To bridge the gap between the tariff proposed by the private partners and the one expected by the government, the risk premium demanded by the private sector partners would need to decrease. This would require more concessional financing and a higher equity participation by the government.

Depending on the medium-term price of oil, significant savings can potentially be achieved by switching from fossil fuels to geothermal energy generation (Arnold McIntyre et al., 2016. "Caribbean Energy; Macro-Related Challenges," IMF Working Papers 16/53, International Monetary Fund.). McIntyre et al estimate that a 10 MW geothermal plant investment in St. Vincent (US$92 million estimated investment) would need to reduce operating expenses by 19 percent (with respect to the 2012-15 average) for the investment to pay for itself over a 20 year horizon. These estimates are consistent with average future oil prices of about US$67 per barrel over the next 20 years, but if lower oil prices persist for a long period, the savings from switching to geothermal energy generation will decline. It is estimated that between 2012 and 2015 the average operating

[1] Emera Caribbean is a Barbados company with multiple energy investments throughout the Caribbean, and Reykjavik Geothermal is an Icelandic company with experience in geothermal exploration and generation.

expense of VINLEC was US$0.26 per kWh[2]. Hence, St. Vincent could experience reductions in energy generation costs from switching to geothermal generation.

In addition to lowering energy prices for consumers the government expects to save on oil imports, by about US$13 million (out of US$21-US$22 million in oil imports for energy generation in 2014). The government is counting on its lower oil bill to reduce its current account deficit and increase its international reserves holdings; however, the repatriation of profits by its private partners will counterbalance this effect in the current account, while the outflows to service the project's debt will also temper the gains on international reserves. Furthermore, the authorities' estimates are based on oil prices considerably higher than the ones expected over the medium-term.

[2] See Table 8 in McIntyre et al., 2016. "Caribbean Energy; Macro-Related Challenges," IMF Working Papers 16/53, International Monetary Fund.

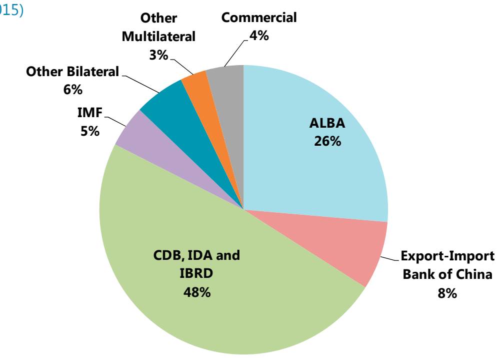
Annex V. Debt Sustainability Analysis[1]

In the absence of remedial measures, the risk of public debt distress has risen to high, even when abstracting from natural disasters and their additional fiscal burden, and other downside risks, which are not included in the baseline scenario. To better ensure a downward public debt path even in case of natural disasters, it is recommended to proactively adopt measures for fiscal consolidation and actively build a fiscal buffer to mitigate unexpected fiscal imbalances resulting from adverse shocks.

A. Background

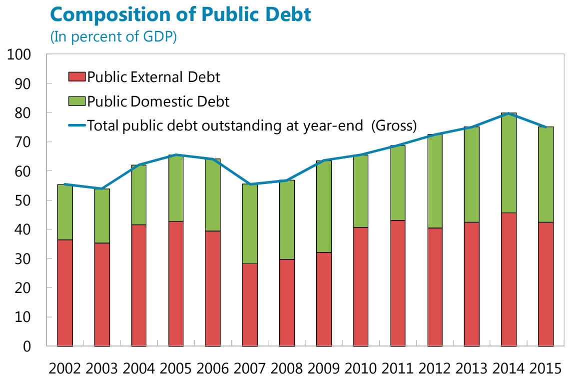
St. Vincent's risk of public debt distress has increased to high under the baseline scenario where the authorities adopt no further fiscal measures. Between 2008 and 2015, total public debt has risen from 57 to 73.4 percent of GDP, including to fund the construction of the new airport and the reconstruction in the aftermath of the end-2013 floods. The PetroCaribe agreement has represented an important financing source for the government. At end-January 2016, the debt of PetroCaribe St. Vincent to Venezuela stood at EC$183 million (8.7 percent of GDP), of which only EC$71 million is recorded as government debt. The other EC$112 million (5.3 percent of GDP) has not been entered in the government's public debt statistics, but is included in IMF projections. After peaking in 2018, total public debt is projected to decline—provided that the authorities do not take any additional fiscal measures to the ones already in place—to 71.3 percent of GDP by 2030, which is the year when ECCU countries have committed to achieve a goal of 60 percent in the public debt to GDP ratio.

Structure of Central Government External Debt
(2015)

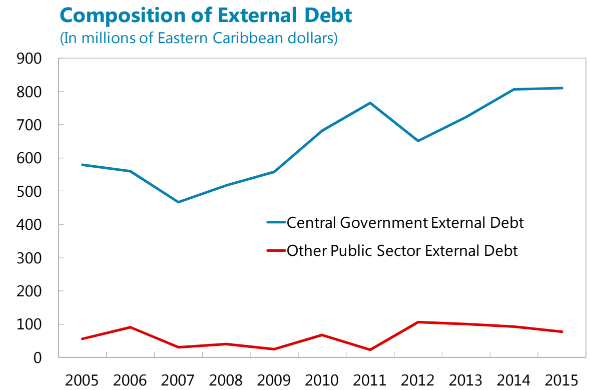


Source: St. Vincent National Authorities; and IMF Staff Calculations.

[1] St. Vincent and the Grenadines, classified as an upper-middle income country, has an IDA-blend status from the World Bank. Staff has been using the LIC country DSA.

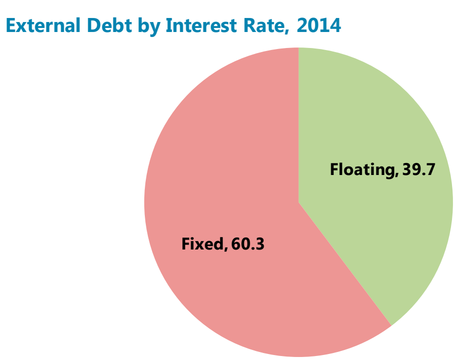


Sources: St. Vincent National Authorities; and IMF Staff Calculations.

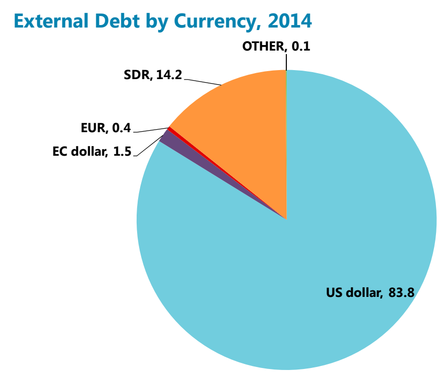


Sources: St. Vincent National Authorities; and IMF Staff Calculations.

Most public debt is financed by external concessional financing, with the share of the central government rising until 2015. Public debt reached 73.4 percent of GDP in 2015, of which 43.2 percent of GDP as external debt, and 30.1 percent of GDP as domestic debt. Central government obligations have been rising until 2015, and amounting to 90 percent the public external debt. In contrast, other public sector external debt has been declining in recent years. Most external debt is in multilateral and bilateral debt—the Caribbean Development Bank and Venezuela's ALBA Bank being the main creditors—with commercial external debt representing just 4 percent of the obligations.



Sources: St. Vincent National Authorities; and IMF Staff Calculations.



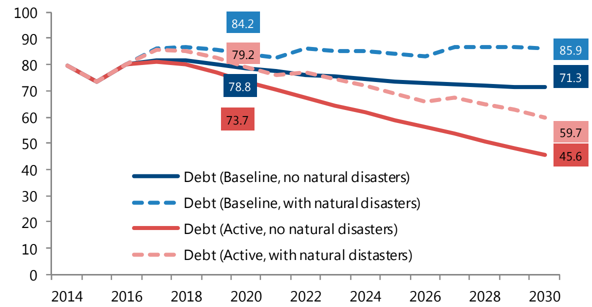
Sources: St. Vincent National Authorities; and IMF Staff Calculations.

While the latest available data shows that most of the debt is protected from exchange rate risk, interest rate risk is more of a concern. In 2014, 40 percent of the external debt had been contracted at variable rates, which would be susceptible to a re-adjustment after an increase in US interest rates.

B. Baseline Policy Scenario

Under this scenario, the authorities adhere to their policies adopted to date without taking any additional measure. The medium-term primary fiscal surplus of the public sector is projected to be 1.5 percent of GDP. The output gap is expected to close by 2021, with real GDP growth approaching 2.9 percent in the long run. Inflation, which has been historically low in St. Vincent, is expected to remain low in the medium term. The resulting public debt trajectory would decline to 71.3 percent of GDP, well above from 60 percent of GDP by 2030, the common ECCU target.

Public Debt: Active and Baseline Policy Scenarios, with and without Natural Disasters[1]
(percent of GDP)



Source: Fund staff estimates.
[1] Assumes that natural disasters occur at 5-year intervals, lowering GDP growth in the first year and causing a 3-year primary balance deterioration associated to fiscal costs.

C. Introducing Natural Disasters

The occurrence of a natural disaster is modeled as an additional stress test. The average natural disaster in St. Vincent and the Grenadines causes 5.5 percent of GDP in damages. A disaster of this magnitude would typically result in a drop in GDP growth of about 2 percentage points the year of the disaster, which accelerates by 0.5 percentage points the year after the disaster (boosted by reconstruction). Based on the past distribution of damages between the public and the private sectors, it is assumed that the government would cover 4 percent of GDP of the damages, and this additional fiscal expenditure is assumed to be spread over 3 years (2 percent of GDP in the first year, 1.2 percent of GDP in the second year and 0.8 percent of GDP in the third year). Additionally, revenues are assumed to be reduced by the fall in economic activity. Our representation of natural disasters considers a sequence of recurrent negative shocks (every 5 years) starting in 2017 which coincides with the second year of additional fiscal adjustments.

In the case of recurring natural disasters, the baseline policy scenario results in an increasing public debt trajectory which ends at 86 percent of GDP in 2030. This growing debt also enhances its vulnerability to simultaneous shocks of another nature.

The annual contribution towards an amount that would adequately cover the fiscal cost of natural disasters is calibrated to the historical record for natural disasters in St. Vincent and the Grenadines. Based on these records, staff estimates[2] that St. Vincent and the Grenadines would need to improve its primary fiscal balance by an additional 0.9 percent of GDP each year to adequately buffer a natural disaster. This is based on EM-DAT data showing that, between 1970 and 2014, St. Vincent experienced 10 natural disasters (3 floods and 7 storms) which caused a total of

[2] For more details, see Acevedo, S., "Gone with the Wind: Estimating Hurricane and Climate Change Costs in the Caribbean" (forthcoming IMF Working Paper).

55.3 percent of GDP in damages. Hence, on average, the country lost 1.2 percent of GDP annually from 1970 to 2014. Furthermore, the damage and loss assessments from the most recent disasters (hurricane Tomas in 2010, April floods in 2011, and December floods in 2013) show that the fiscal burden associated to the damages represents 73 percent of the total.

D. Active Policy Scenario

This scenario considers proactive fiscal measures to reach the ECCU-wide public debt target by 2030, including with building buffers to mitigate the fiscal impact of potential natural disasters. The key difference between the active and baseline policy scenarios is the budgetary savings of 1.7 percent of GDP of which 0.9 percent of GDP assigned each year to eventually address the fiscal cost of natural disasters. Under the active policy scenario, in the absence of natural disasters, public debt is projected to decline steadily to 60 percent of GDP by 2025. However, when a recurrent natural disaster occurs, the debt still follows a downward trajectory but declines more slowly, reaching 60 percent of GDP by 2030.

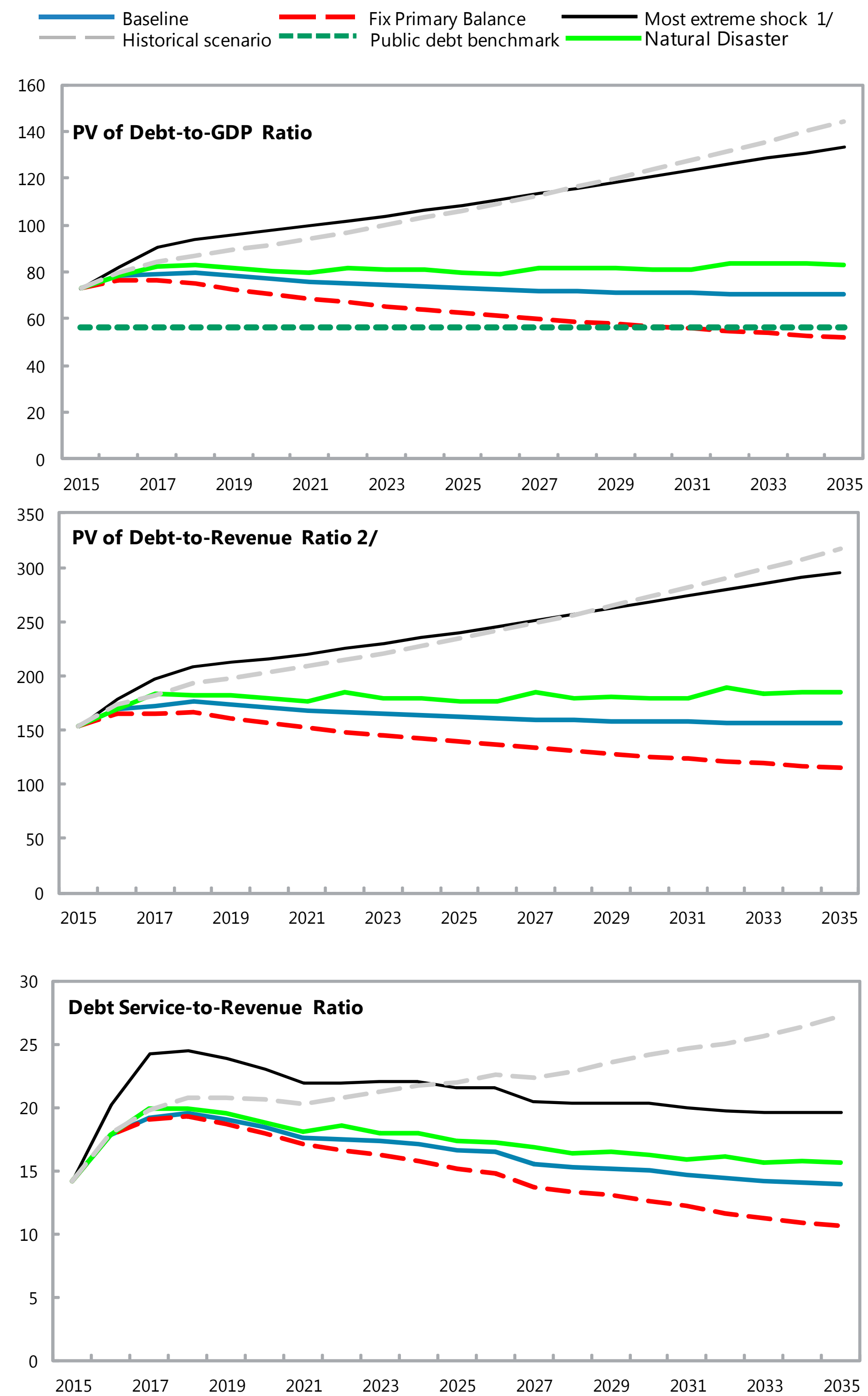
Fiscal measures supporting the active policy scenario aim to restrain expenditure and enhance tax revenue. These measures range from limiting wage bill increases, including by intensifying attrition, to tax policy changes such as raising the customs charge and curbing ad hoc exemptions. They also feature accelerating measures to improve revenue administration and public financial management. While revenue administration measures have strong potential to increase the yield of the VAT, income and profit taxes, and customs duties, these gains are not reflected in the fiscal projections. Similarly, although reforms in public financial management are envisaged to yield budgetary savings by improving the efficiency of public outlays, these savings are not reflected in the fiscal projections. The expenditure and tax policy measures are envisaged to contribute to a medium-term primary surplus of the public sector of 3.2 percent of GDP, 1.7 percent of GDP in budgetary savings added to the medium-term primary surplus of the public sector of 1.5 percent of GDP under the baseline policy scenario.[3]

E. External Debt Sustainability Analysis

The projected improvement in the current account balance over the medium-term is projected to place external debt on a downward trajectory. While external debt represents 43.2 percent of GDP in 2015, staff projects that it would narrow to less than 16 percent of GDP by 2030. This is driven by improvements in the current account balance caused by imports declining at a faster pace than exports, and transfers mirroring the GDP growth rate. While external debt is expected to decline over time, it remains vulnerable to potential adverse shocks. Under the scenario with key variables held at historical levels, external debt would be on an upward trajectory, although this is not considered a likely outturn.

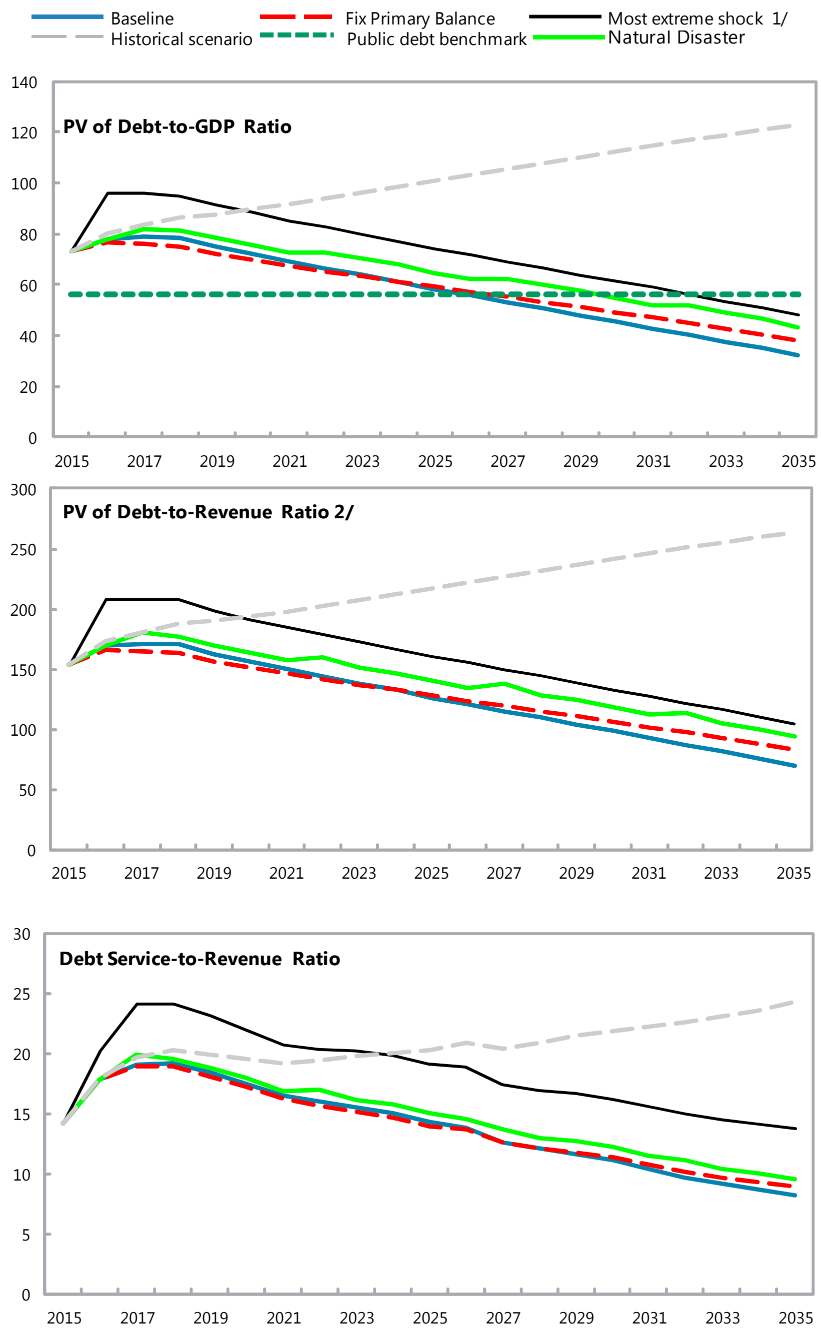
[3] This corresponds to a primary surplus of the central government of 1.6 percent of GDP under the current policies baseline scenario and a primary surplus of 3.3 percent of GDP under the active policy scenario.

Figure A1. St. Vincent & the Grenadines: Indicators of Public Debt Under Baseline Alternative Scenarios, 2015-2035 1/



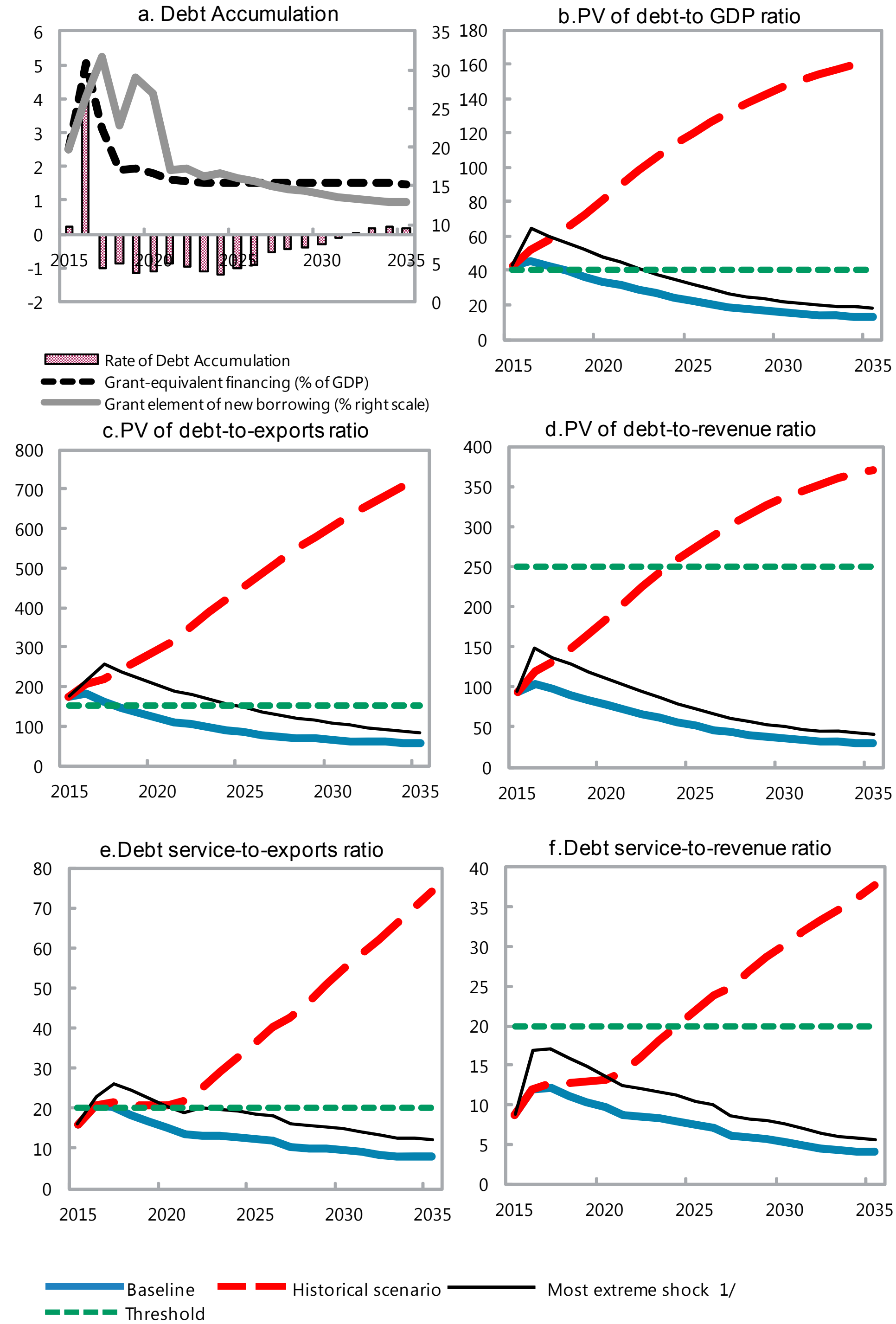
Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.
2/ Revenues are defined inclusive of grants.

Figure A2. St. Vincent & the Grenadines: Indicators of Public Debt Under Active Alternative Scenarios, 2015-2035 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.
2/ Revenues are defined inclusive of grants.

Figure A3. St. Vincent & the Grenadines: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2015-2035 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a One-time depreciation shock; in c. to a Combination shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Table A1. St. Vincent & the Grenadines: Public Sector Debt Sustainability Framework, Baseline Scenario, 2012-2035

(In percent of GDP, unless otherwise indicated)

	Actual					Est.	Projections								
	2012	2013	2014	Average 5/	Standard Deviation 5/	2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035	2021-35 Average
Public sector debt 1/	72.0	74.7	79.5			73.4	80.1	81.5	81.6	80.2	78.8		73.6	70.6	
of which: foreign-currency denominated	40.5	42.3	45.3			43.2	47.3	44.5	41.6	38.5	35.6		23.0	13.0	
Change in public sector debt	3.2	2.7	4.8			-6.2	6.8	1.4	0.1	-1.4	-1.4		-0.8	-0.1	
Identified debt-creating flows	3.4	0.5	1.3			-2.6	-0.1	-0.6	-0.6	-1.3	-1.2		-0.6	-0.1	
Primary deficit	2.3	0.3	-0.8	0.7	1.8	-2.5	-0.6	-0.7	-0.8	-1.5	-1.5	-1.3	-1.5	-1.4	-1.5
Revenue and grants	44.8	47.1	48.4			47.6	46.1	45.9	45.1	45.1	45.1		45.0	45.0	
of which: grants	3.8	3.6	4.1			2.0	2.5	2.1	1.3	1.3	1.3		1.3	1.3	
Primary (noninterest) expenditure	47.1	47.3	47.6			45.0	45.6	45.2	44.3	43.6	43.6		43.2	43.6	
Automatic debt dynamics	1.2	0.3	2.1			-0.1	0.5	0.1	0.2	0.2	0.3		1.2	1.3	
Contribution from interest rate/growth differential	0.9	0.3	2.0			0.4	0.6	0.0	-0.1	0.0	0.1		1.1	1.3	
of which: contribution from average real interest rate	1.8	1.9	1.8			1.7	2.1	2.4	2.4	2.5	2.5		3.2	3.3	
of which: contribution from real GDP growth	-0.9	-1.6	0.2			-1.3	-1.5	-2.4	-2.5	-2.5	-2.4		-2.1	-2.0	
Contribution from real exchange rate depreciation	0.3	0.0	0.1			-0.5	-0.1	0.1	0.2	0.2	0.2		...	...	
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	
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	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-0.2	2.1	3.6			-3.6	6.8	2.0	0.7	-0.1	-0.3		-0.2	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	78.5			73.0	78.0	79.3	79.5	78.3	77.0		72.9	70.2	
of which: foreign-currency denominated	...	...	44.3			42.9	45.2	42.3	39.5	36.6	33.8		22.2	12.7	
of which: external	...	...	44.3			42.9	45.2	42.3	39.5	36.6	33.8		22.2	12.7	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	11.9	11.4	10.4			4.2	7.7	8.1	8.0	7.1	6.8		5.7	4.8	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	162.3			153.5	169.1	172.7	176.5	173.7	170.9		161.9	156.1	
PV of public sector debt-to-revenue ratio (in percent)	...	...	177.4			160.3	178.9	181.1	181.7	178.8	176.0		166.7	160.7	
of which: external 3/	...	...	100.1			94.2	103.7	96.6	90.3	83.6	77.3		50.9	29.1	
Debt service-to-revenue and grants ratio (in percent) 4/	15.6	15.5	15.4			14.2	17.8	19.2	19.6	19.1	18.4		16.6	13.9	
Debt service-to-revenue ratio (in percent) 4/	17.1	16.8	16.8			14.8	18.8	20.1	20.1	19.7	19.0		17.1	14.4	
Primary deficit that stabilizes the debt-to-GDP ratio	-1.0	-2.4	-5.6			3.6	-7.3	-2.1	-0.8	-0.1	-0.1		-0.7	-1.4	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	1.3	2.3	-0.2	1.1	2.6	1.6	2.2	3.1	3.1	3.1	3.1	2.7	2.9	2.9	2.9
Average nominal interest rate on forex debt (in percent)	2.9	3.0	2.7	3.8	0.9	2.3	3.2	3.1	3.1	3.1	3.2	3.0	4.5	3.8	3.5
Average real interest rate on domestic debt (in percent)	5.2	4.6	4.3	5.0	2.4	3.3	4.3	5.4	5.6	5.6	5.5	5.0	5.6	5.6	5.5
Real exchange rate depreciation (in percent, + indicates depreciation	0.7	0.0	0.1	-0.3	2.2	-1.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	1.2	1.6	1.5	2.4	2.5	2.1	1.4	1.3	1.7	1.7	1.8	1.7	1.8	1.8	1.8
Growth of real primary spending (deflated by GDP deflator, in percer	0.6	2.8	0.3	0.4	0.9	-3.8	3.4	2.3	1.0	1.5	3.1	1.2	2.2	2.9	2.9

Sources: Country authorities; and staff estimates and projections.

1/ Refers to non-financial public sector gross debt. From 2016, reflects additional debt contracted with PetroCaribe but not previously recorded (EC$ 112 million or 5.3 percent of GDP in 2016).

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

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

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table A2. St. Vincent & the Grenadines: Public Sector Debt Sustainability Framework, Active Scenario, 2012-2035

(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Est.	Projections								
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035	2021-35 Average
Public sector debt 1/	72.0	74.7	79.5			73.4	80.1	81.2	80.1	76.9	73.7		58.9	32.4	
of which: foreign-currency denominated	40.5	42.3	45.3			43.2	47.3	44.6	41.6	38.5	35.6		23.0	13.0	
Change in public sector debt	3.2	2.7	4.8			-6.2	6.8	1.1	-1.1	-3.2	-3.2		-2.8	-2.7	
Identified debt-creating flows	3.4	0.8	1.3			-2.6	-0.1	-1.0	-1.7	-3.1	-2.9		-2.6	-2.7	
Primary deficit	2.3	0.3	-0.8	0.7	1.8	-2.5	-0.6	-1.1	-1.9	-3.2	-3.2	-2.1	-3.2	-3.2	-3.2
Revenue and grants	44.8	47.1	48.4			47.6	46.1	46.2	45.8	46.2	46.2		46.2	46.1	
of which: grants	3.8	3.6	4.1			2.0	2.5	2.1	1.3	1.3	1.3		1.3	1.3	
Primary (noninterest) expenditure	47.1	47.3	47.6			45.0	45.6	45.0	43.9	43.0	43.0		42.6	43.0	
Automatic debt dynamics	1.2	0.6	2.1			-0.1	0.5	0.2	0.1	0.1	0.3		0.9	0.4	
Contribution from interest rate/growth differential	0.9	0.6	2.1			0.4	0.6	0.2	0.1	0.1	0.1		0.7	0.4	
of which: contribution from average real interest rate	1.8	2.2	1.9			1.7	2.1	2.3	2.2	2.2	2.4		2.5	1.4	
of which: contribution from real GDP growth	-0.9	-1.6	0.2			-1.3	-1.5	-2.1	-2.1	-2.1	-2.3		-1.7	-1.0	
Contribution from real exchange rate depreciation	0.3	0.0	0.1			-0.5	-0.1	0.0	0.0	0.0	0.2		...	...	
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	
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	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-0.2	1.9	3.5			-3.6	6.8	2.0	0.7	-0.1	-0.3		-0.2	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	78.5			73.0	78.0	78.9	78.1	75.0	72.0		58.2	32.1	
of which: foreign-currency denominated	...	...	44.3			42.9	45.2	42.4	39.6	36.6	33.8		22.3	12.7	
of which: external	...	...	44.3			42.9	45.2	42.4	39.6	36.6	33.8		22.3	12.7	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	11.9	12.0	10.5			4.2	7.7	7.7	6.9	5.3	4.9		3.1	0.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	162.3			153.5	169.1	170.9	170.6	162.4	155.8		126.1	69.6	
PV of public sector debt-to-revenue ratio (in percent)	...	...	177.4			160.3	178.9	179.2	175.6	167.1	160.4		129.7	71.6	
of which: external 3/	...	...	100.1			94.2	103.7	96.2	89.0	81.6	75.4		49.6	28.4	
Debt service-to-revenue and grants ratio (in percent) 4/	15.6	16.7	15.5			14.2	17.8	19.1	19.2	18.4	17.5		14.3	8.2	
Debt service-to-revenue ratio (in percent) 4/	17.1	18.1	17.0			14.8	18.8	20.0	19.8	18.9	18.0		14.7	8.4	
Primary deficit that stabilizes the debt-to-GDP ratio	-1.0	-2.4	-5.6			3.6	-7.3	-2.2	-0.8	0.0	0.0		-0.4	-0.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	1.3	2.3	-0.2	1.1	2.6	1.6	2.2	2.7	2.7	2.7	3.1	2.5	2.9	2.9	2.9
Average nominal interest rate on forex debt (in percent)	2.9	3.7	2.8	3.9	0.8	2.3	3.2	3.1	3.1	3.1	3.2	3.0	4.5	3.8	3.5
Average real interest rate on domestic debt (in percent)	5.2	4.6	4.3	5.0	2.4	3.3	4.3	5.1	5.1	5.0	5.5	4.7	5.5	5.6	5.6
Real exchange rate depreciation (in percent, + indicates depreciation	0.7	0.0	0.1	-0.3	2.2	-1.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	1.2	1.6	1.5	2.4	2.5	2.1	1.4	1.6	2.1	2.2	1.8	1.9	1.8	1.8	1.8
Growth of real primary spending (deflated by GDP deflator, in percer	0.6	2.8	0.3	0.4	0.9	-3.8	3.4	1.4	0.1	0.5	3.1	0.8	2.1	2.9	2.9

Sources: Country authorities; and staff estimates and projections.

1/ Refers to non-financial public sector gross debt. From 2016, reflects additional debt contracted with PetroCaribe but not previously recorded (EC$ 112 million or 5.3 percent of GDP in 2016).

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

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

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table A3. St. Vincent & the Grenadines: External Debt Sustainability Framework, Baseline Scenario, 2012-2035 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Est.	Projections								
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-2020 Average	2025	2035	2021-2035 Average
External debt (nominal) 1/	**40.5**	**42.3**	**45.3**			**43.2**	**47.3**	**44.5**	**41.6**	**38.5**	**35.6**		**23.0**	**13.0**	
of which: public and publicly guaranteed (PPG)	40.5	42.3	45.3			43.2	47.3	44.5	41.6	38.5	35.6		23.0	13.0	
Change in external debt	-2.6	1.9	3.0			-2.1	4.1	-2.8	-3.0	-3.1	-2.9		-2.0	-0.4	
Identified net debt-creating flows	9.9	7.2	10.1			5.5	2.6	0.1	-1.4	-1.9	-2.4		-2.3	-1.8	
Non-interest current account deficit	**26.4**	**29.8**	**28.4**	**26.4**	**4.9**	**23.8**	**20.0**	**18.7**	**16.2**	**14.9**	**14.0**		**12.3**	**10.7**	12.0
Deficit in balance of goods and services	30.4	32.8	31.4			26.0	22.5	20.6	17.9	16.2	15.0		13.1	11.0	
Exports	27.5	25.2	25.1			24.6	25.0	26.1	26.9	27.4	27.9		26.4	22.2	
Imports	57.9	58.1	56.5			50.6	47.5	46.7	44.8	43.6	42.9		39.6	33.2	
Net current transfers (negative = inflow)	-3.4	-1.9	-1.8	-2.3	0.9	-2.0	-1.9	-1.9	-1.8	-1.7	-1.7		-1.5	-1.3	-1.4
of which: official	-1.9	-1.1	-1.1			-1.0	-1.0	-1.0	-1.0	-0.9	-0.9		-0.8	-0.7	
Other current account flows (negative = net inflow)	-0.7	-1.2	-1.1			-0.3	-0.6	0.0	0.1	0.4	0.6		0.7	1.0	
Net FDI (negative = inflow)	**-16.6**	**-22.1**	**-18.9**	**-16.7**	**4.6**	**-18.6**	**-17.8**	**-18.5**	**-17.6**	**-16.8**	**-16.4**		**-15.0**	**-12.6**	-14.3
Endogenous debt dynamics 2/	**0.2**	**-0.4**	**0.6**			**0.3**	**0.5**	**0.0**	**0.0**	**0.0**	**0.0**		**0.4**	**0.1**	
Contribution from nominal interest rate	1.2	1.2	1.1			1.0	1.4	1.4	1.3	1.2	1.2		1.1	0.5	
Contribution from real GDP growth	-0.5	-0.9	0.1			-0.7	-0.9	-1.4	-1.3	-1.2	-1.1		-0.7	-0.4	
Contribution from price and exchange rate changes	-0.5	-0.7	-0.6			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-12.5**	**-5.4**	**-7.1**			**-7.6**	**1.5**	**-2.9**	**-1.6**	**-1.1**	**-0.5**		**0.3**	**1.4**	
of which: exceptional financing	0.0	0.0	-2.0			0.0	0.2	0.3	0.3	0.4	0.3		...	...	
PV of external debt 4/	...	...	44.3			42.9	45.2	42.3	39.5	36.6	33.8		22.2	12.7	
In percent of exports	...	...	176.8			174.5	180.9	161.9	146.9	133.4	121.1		84.1	57.3	
PV of PPG external debt	**...**	**...**	**44.3**			**42.9**	**45.2**	**42.3**	**39.5**	**36.6**	**33.8**		**22.2**	**12.7**	
In percent of exports	**...**	**...**	**176.8**			**174.5**	**180.9**	**161.9**	**146.9**	**133.4**	**121.1**		**84.1**	**57.3**	
In percent of government revenues	**...**	**...**	**100.1**			**94.2**	**103.7**	**96.6**	**90.3**	**83.6**	**77.3**		**50.9**	**29.1**	
Debt service-to-exports ratio (in percent)	**15.2**	**16.8**	**17.7**			**16.1**	**20.7**	**20.2**	**18.2**	**16.6**	**15.1**		**12.2**	**7.8**	
PPG debt service-to-exports ratio (in percent)	**15.2**	**16.8**	**17.7**			**16.1**	**20.7**	**20.2**	**18.2**	**16.6**	**15.1**		**12.2**	**7.8**	
PPG debt service-to-revenue ratio (in percent)	**10.2**	**9.8**	**10.0**			**8.7**	**11.9**	**12.0**	**11.2**	**10.4**	**9.6**		**7.4**	**4.0**	
Total gross financing need (Billions of U.S. dollars)	0.1	0.1	0.1			0.1	0.1	0.0	0.0	0.0	0.0		0.0	0.0	
Non-interest current account deficit that stabilizes debt ratio	29.0	27.9	25.4			25.9	15.9	21.5	19.2	17.9	16.9		14.3	11.1	
Key macroeconomic assumptions															
Real GDP growth (in percent)	1.3	2.3	-0.2	1.1	2.6	1.6	2.2	3.1	3.1	3.1	3.1	2.7	2.9	2.9	2.9
GDP deflator in US dollar terms (change in percent)	1.2	1.6	1.5	2.4	2.5	2.1	1.4	1.3	1.7	1.7	1.8	1.7	1.8	1.8	1.8
Effective interest rate (percent) 5/	2.9	3.0	2.7	3.8	0.9	2.3	3.2	3.1	3.1	3.1	3.2	3.0	4.5	3.8	3.5
Growth of exports of G&S (US dollar terms, in percent)	4.3	-4.6	0.5	0.0	5.2	1.8	5.4	9.2	8.0	6.9	6.8	6.3	2.9	2.9	3.2
Growth of imports of G&S (US dollar terms, in percent)	6.6	4.2	-1.5	4.6	9.1	-7.0	-2.8	2.8	0.5	2.2	3.3	-0.2	2.9	2.9	3.0
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	19.6	26.5	31.8	22.7	28.9	26.8	26.1	16.1	12.8	14.8
Government revenues (excluding grants, in percent of GDP)	41.0	43.5	44.2			45.6	43.6	43.8	43.8	43.8	43.8		43.7	43.7	43.7
Aid flows (in Billions of US dollars) 7/	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
of which: Grants	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
of which: Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			2.5	5.0	3.1	1.9	1.9	1.8		1.5	1.5	1.5
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			55.8	42.0	59.5	48.1	55.3	56.4		58.1	53.7	55.1
Memorandum items:															
Nominal GDP (Billions of US dollars)	0.7	0.7	0.7			0.8	0.8	0.8	0.9	0.9	0.9		1.2	1.9	
Nominal dollar GDP growth	2.5	4.0	1.3			3.7	3.6	4.5	4.8	4.9	4.9	4.4	4.7	4.7	4.8
PV of PPG external debt (in Billions of US dollars)			0.3			0.3	0.4	0.3	0.3	0.3	0.3		0.3	0.2	
(PVt-PVt-1)/GDPt-1 (in percent)						0.2	4.0	-1.0	-0.9	-1.2	-1.1	0.0	-1.0	0.2	-0.5
Gross workers' remittances (Billions of US dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	42.9			41.6	43.9	41.1	38.5	35.6	33.0		21.7	12.5	
PV of PPG external debt (in percent of exports + remittances)	...	...	156.3			154.5	161.1	145.5	132.9	121.4	110.9		77.4	52.7	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	15.7			14.3	18.5	18.1	16.4	15.1	13.8		11.3	7.2	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

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

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

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Annex VI. Measures for Fiscal Consolidation

The authorities correctly consider that reforming the revenue administration provides considerable scope to enhance tax revenue, currently only adequate to cover current primary outlays (Figure 3)**.** Guided by CARTAC recommendations, the authorities intend to develop the capacity of the Customs and Excises Department (CED) to clear imports arriving at the new airport. They also aim to improve the physical infrastructure of the Inland Revenue Department (IRD) and reform its procedures. They seek to strengthen the monitoring of tax compliance by harmonizing tax identification numbers with identifiers from other registries, and improving communication between the CED and IRD, and the National Insurance Scheme. Moreover, enforcement capacities should be buttressed, and penalties should be increased and extended. Finally, the functionality of the IRD's appeals mechanism needs to be perfected. While these measures should raise the yield of income and sales taxes, including the productivity of the VAT (as measured by the ratio of VAT revenue to GDP divided by the VAT standard rate), currently low by regional standards (Figure 3), they are not reflected into the revenue projections.

Efficiency gains are needed in public expenditure, through improvements in public financial management. CARTAC is also supporting the authorities in this area. Tightening expenditure controls requires staffing the internal audit unit at the Ministry of Finance, upgrading the financial management information systems and setting up a cash management system unit at the Treasury, including to prevent the accumulation of new arrears. The predictability and control of transfers to public entities would benefit from tightening the oversight of public enterprises and strengthening their reporting requirements and sanctions regime, along with extending monitoring to the National Insurance Scheme (NIS) and the Kingstown Town Board (KTB). Developing a more proactive liquidity management strategy would improve predictability in funds availability. The Draft Procurement Bill, currently under revision following the World Bank's suggestions, aims to upgrade the competitiveness and efficiency of procurement procedures. The Public Sector Investment Plan (PSIP) is being improved by a more systematic analysis of projects and their impact on recurring costs. The authorities expect that these elements will be published in the macro fiscal documents underpinning the 2017 budget. While these measures should contribute to budgetary savings while enhancing the efficiency of public spending, they are not reflected into expenditure projections.

Reforms in tax and expenditure policy, politically more difficult to implement, would provide tangible support to the fiscal consolidation.

- **The authorities are considering curtailing discretionary tax and customs concessions**, with the latter reportedly amounting to nearly 1.8 percent of GDP at end- 2015. While this policy action would be beneficial, including because it would facilitate revenue administration procedures, there is also scope for deeper reforms. In particular, a thorough review of concessions granted through special legislation (mainly for large and upscale tourism projects and the airport's development) with a publication of their budgetary costs (foregone revenue of Customs concessions is currently estimated at 3.8 percent of GDP) would be very helpful.

- **An important pillar of any fiscal consolidation is to contain the wage bill, which is relatively high in St. Vincent and the Grenadines, even by regional standards** (Country Report No. 14/360, paragraph 15)**.** The experience of smaller states has confirmed that successful and sustained episodes of large fiscal consolidation have relied on curbing the wage bill as a key component of their strategy.[1] While this can be effected for a few years by a simple wage and hiring freeze, a more durable, if lengthy, solution is to reform the civil service. This would include retrenching certain positions and re-deploying staff towards new positions. While the authorities have previously attempted a first step towards civil service reform— instituting a performance management system—without success, this may be a more viable option once the private sector recovers and offers additional employment opportunities.

- **Improving the sustainability of the public pension scheme and the National Insurance Service would be a key element of the fiscal consolidation.** Expenditure on pensions and retirement benefits have grown from 2½ percent of GDP in 2011 to 3 percent of GDP in 2015 and is expected to keep rising, since the five pension schemes of public servants are all non-contributory and unfunded. This risks undermining the medium-term fiscal position, which can be addressed by implementing parametric reforms among the options suggested by the actuarial analysis published in 2015.

[1] Simard, D., Lonkeng, C, and G. Lindow (2015) "Small States and Large Fiscal Adjustments: Recent Experience", in Caribbean Corner, Issue No. 04, September 2015, International Monetary Fund.

INTERNATIONAL MONETARY FUND

ST. VINCENT AND THE GRENADINES

June 28, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By	Western Hemisphere Department (in consultations with other departments).

CONTENTS

FUND RELATIONS 2

RELATIONS WITH THE WORLD BANK 5

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK (CDB) 11

STATISTICAL ISSUES 13

FUND RELATIONS

(As of April 30, 2016)

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

General Resources Account:	SDR Million	Percent of Quota
Quota	11.70	100.00
Fund holdings of currency	13.28	113.46
Reserve Tranche Position	0.50	4.27

SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	7.91	100.00
Holdings	0.41	5.18

Outstanding Purchases and Loans:	SDR Million	Percent of Quota
RCF Loans	5.40	46.11
Emergency Assistance [1/]	2.08	17.74
ESF RAC Loan	2.61	22.35

[1/]Emergency Assistance may include ENDA, EPCA, and RFI.

Latest Financial Arrangements: None

Projected Payments to the Fund[2/]

	Forthcoming				
	2016	2017	2018	2019	2020
Principal	0.95	1.67	2.45	1.82	1.08
Charges/Interest	0.02	0.03	0.02	0.01	0.00
Total	0.97	1.70	2.47	1.82	1.08

[2/]When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

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

Safeguards Assessment: Under the Fund's safeguards policy, the Eastern Caribbean Central Bank (ECCB) is subject to a full safeguards assessment on a four-year cycle. An update assessment was completed in April 2016 and found that the ECCB has maintained generally strong controls over its key operations. External audit and financial reporting practices remain sound. The ECCB financial statements are compliant with International Financial Reporting Standards and are published on a timely basis. The internal audit function needs to be reformed to align it with leading international practices and oversight could be further strengthened by enhancing the financial expertise of the audit committee.

Article IV consultation: St. Vincent and the Grenadines is currently on a 12-month cycle. The last Article IV consultation was concluded on February 8, 2015 by the Executive Board; the relevant document is Country Report 15/259.

Technical Assistance: Several missions from the Caribbean Regional Technical Assistance Centre (CARTAC), the Fiscal Affairs Department (FAD), the Supporting Economic Management in the Caribbean (SEMCAR), the Fiscal Management in the Caribbean Programme (FMCP) and the Legal Department (LEG) have visited St. Vincent and the Grenadines since the beginning of 2006 to assist the authorities.

➢ In the area of ***public finance***, CARTAC/LEG assisted with the introduction of the VAT and excise taxes at all different stages. In CY 2011/2012, CARTAC delivered technical assistance to review the revenue performance of the Value Added Tax and recommended measures to enhance and safeguard VAT revenues. FAD provided technical assistance to reform and modernize the Inland Revenue and the Customs and Excise departments. CARTAC also supported a capacity building program in audit and assisted with the development of the Inland Revenue Department's (IRD) revised function-based organizational structure that resulted in a full integration of VAT administration into the mainstream IRD. In Customs, CARTAC focused on modernizing operations by strengthening risk management and post clearance (PCA) programs. More recently, it trained 22 officers and advised on customs procedures to prepare for the opening of the Argyle International Airport. In 2013/2014, progress was made in tax and customs administration as the authorities started to implement some of the CARTAC recommendations. In 2016, CARTAC TA is being provided on reorganizing the IRD along functional lines, with the management of taxpayers by segment and a clear separation of roles and responsibilities between operations and HQ functions. IT support is also being provided to improve the functionality of SIGTAS. FAD also provided advice on selected tax policy issues. Concerning budgetary execution, CARTAC assisted to monitor the central government's fiscal performance relative to its annual budget targets. A workshop for Permanent Secretaries on strategic budgeting reforms together with general public finance training has also been delivered. FAD also offered advice on expenditure rationalization. In 2011/2012 SEMCAR assisted the authorities in introducing a performance orientation in the budget of three ministries, reviewed the treasury and modernized the budget execution process. In addition, the FMCP assisted in implementing the new GFS-compliant chart of accounts in the FY2016 budget, adopting Cash Basis IPSAS and developing a strategy to liquidate the expenditure arrears and prevent the occurrence of new arrears. Some progress has also been made in the program budgeting framework after the CARTAC mission, and the new 2015 Budget was set to be a pilot, with the objective to fully implement program budgeting at the time of preparation of the 2017 budget. A medium-term debt management strategy (MTDS) has been developed by the authorities and will be published in 2016, based on the outcome of a joint IMF/World Bank mission (in collaboration with the ECCB). An update to the strategy is expected to be published later in 2016, following a recent mission by CARTAC.

- CARTAC has provided technical assistance in ***statistics*** to develop export and import prices, national accounts, and balance of payments statistics. Furthermore, work on constructing expenditure based GDP has been completed and the new data is expected to be published in 2016.

- On the ***financial front*** CARTAC provided technical assistance to review and upgrade the International Insurance Act, and to develop regulations for Credit Unions. CARTAC also provided technical assistance in conducting off-site and on-site examinations on banks in international financial services industry. Progress in supervision of non-bank financial institutions has advanced with the legislation for the Single Regulatory Unit (SRU) passed by Parliament and its establishment already completed.

FSAP: A joint IMF/World Bank team performed an assessment of the financial sector of the member states of the ECCU, in two missions—September 1–19 and October 20–31, 2003. The missions assisted the authorities in assessing the development needs and opportunities for the financial sector, identifying potential vulnerabilities of financial institutions and markets to macroeconomic shocks, as well as assessing risks to macroeconomic stability from weaknesses in the financial sector. The Financial System Stability Assessment (FSSA) was discussed by the Executive Board on May 5, 2004, and subsequently published on the IMF's external website, including the Report on the Observance of Standards and Codes (ROSC) on Banking Supervision.

AML/CFT: With support from LEG, the Caribbean Financial Action Task Force (CFATF) conducted an on-site assessment of the AML/CFT regime of St. Vincent and the Grenadines in 2009, and published the detailed mutual evaluation report in 2010. The country was placed under CFATF's enhanced follow-up process in 2013, owing to outstanding shortcomings in its AML/CFT regime. The enactment of the Anti-Terrorist Financing Proliferation Act in 2015 had a positive impact on several FATF recommendations. However, since compliance with several other recommendations is still outstanding and dependent on legislative amendments to the AML/CFT framework, the CFATF retained the country under its enhanced follow-up and required the authorities to report back to the Plenary in June 2016.

RELATIONS WITH THE WORLD BANK

(As of February, 2016)

World Bank Group OECS Regional Partnership Strategy: On November 13, 2014, the Board of the Executive Directors of the World Bank Group has endorsed the new OECS Regional Partnership Strategy ((RPS) which will cover the period FY15-19. The high-level objective of the new RPS is to contribute to lay the foundations for sustainable inclusive growth, in line with the OECS governments' priorities. In order to achieve this goal, the program is planned to be organized around three main areas of engagement. Under the first one, the WBG is planning to support "competitiveness". Growth and job creation in the private sector will be supported both horizontally – by improving the business environment– and vertically – by focusing on specific sectors with a high potential to generate inclusive sustainable growth (particularly tourism, agribusiness and their respective linkages). The second area of engagement is "public sector modernization", with particular focus on public financial management (PFM) and institutional capacity, including for statistics and public private partnerships (PPPs), to better leverage private investment in infrastructure and service provision. The third area is "resilience", with the objective to address both social vulnerabilities (in education, health and social protection), and exposure to natural disasters.

Constrained in general by the small size of investments in the OECS, **the IFC and MIGA** will contribute to the RPS objectives through selective investment support, depending on opportunities. The IFC will focus on crisis response; job creation and inclusive growth; innovation, competitiveness, and integration; and climate change. MIGA faces limited opportunities for engagement because of the small market size of the OECS countries.

The RPS is grounded in a holistic approach to tackling the long-standing issues of low growth and debt sustainability in the Caribbean: the Comprehensive Debt Framework, developed in 2010 by the Bank at the request of the Heads of Government of CARICOM countries. Structured around four pillars, the Comprehensive Debt Framework (CDF) is designed to address the interdependent structural causes of high debt and low growth in small island states by (i) promoting private-sector led growth, (ii) strengthening fiscal management, (iii) building resilience to natural disasters, and (iv) improving debt management. Governments of the OECS recognize the multifaceted nature of the challenges they face and understand that improvements in competitiveness, reduction in sovereign debt levels, fiscal adjustments to ensure macro sustainability, and enhanced sustainability and resilience to shocks are interrelated aspects that are critical to resume and sustain inclusive growth. As a result, they have used the CDF to frame their own reform strategies and activities.

The indicative IBRD lending program for the six OECS countries is expected to be around US$120 million, or up to a maximum of US$20 million for each OECS country for the period of the RPS (FY15-19), subject to country and program performance, IBRD's lending capacity, and exposure management parameters. In addition to the IBRD envelope, four OECS countries

(Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines) can also count on an IDA national allocation. The IDA17 (FY15-17) allocation for the OECS is equal to SDR61.3 million, an increase of around 22 percent over the IDA16 OECS allocation (SDR50.3 million). With regard to St. Vincent and the Grenadines, the national IDA-17 allocation is equal to SDR 14.8 million (about USD 20.7 million).

World Bank Group engagement

Projects

The World Bank Group has currently two lending operations active in the country,

The **Caribbean Regional Communication Infrastructure Project (CARCIP)** – Phase 1, was approved by the WB Board in May 2012 with Grenada (US$10 million IDA), St. Lucia (US$6million IDA) and St. Vincent and the Grenadines (US$6 million IDA) as participating countries. The objective of the CARCIP Phase I is to increase access to regional broadband networks and advance the development of an ICT-enabled services industry in the Caribbean Region. The program is structured along two main components: (i) Regional connectivity infrastructure, aimed at increasing access and affordability of broadband communications networks in the region and within countries. This will primarily be achieved through implementation of national broadband infrastructure networks and a new submarine cable connecting SVG and Grenada under PPP arrangements. By pooling the procurement regionally and structuring as a PPP, the countries are expected to gain significant savings and attract interest from top notch operators compared with proceeding in isolation; (ii) ICT-led innovation, aimed at leveraging the regional broadband infrastructure to contribute to the development of the regional and national IT/IT-enabled services (ITES) industry and job creation through business incubation/acceleration services and IT/ITES skills trainings.

The World Bank team is currently discussing with the Government a possible restructuring of the project to address some operational issues (e.g. review of cost estimates; review of indicators to make them more realistic) and make sure to achieve meaningful results by the closing date.
The **OECS Disaster Vulnerability Reduction Project** was approved in June 2011. St. Vincent and the Grenadines will receive a total of US$20.92 million, including a US$10.92 million zero-interest credit from IDA repayable in 35 years with a 10-year grace period; a US$7 million grant from the Pilot Program for Climate Resilience (PPCR); and a US$3 million zero-interest loan from the PPCR repayable in 40 years with a 10-year grace period. The project aims to create understanding of the vulnerability of key structures and increase resilience of critical public infrastructure, which will complement the work and goals of the PPCR. Component 1 will implement a broad spectrum of interventions aimed at building resilience in public buildings and infrastructure. Component 2 will support regional efforts in the Eastern Caribbean to build capacity to conduct assessment of natural risks and integrate such knowledge into policy- and decision-making for development investments, disaster risk mitigation, climate change adaptation, and disaster response planning across sectors. Component 3 will re-categorize financing or provide additional financing to cover early recovery and rehabilitation costs following an adverse natural event, and subject to a

Government's declaration of emergency in accordance with national law and the submission of a recovery action plan satisfactory to the Association. Component 4 will strengthen and develop the institutional capacity for project management and implementation. An Additional Financing (AF) operation of US$40.6 million was approved for St. Vincent and the Grenadines in May 2014, increasing the Project envelope from US$20.92 million to US $61.52 million and extending the closing date to December 31, 2018. The additional funds will scale up project activities and cover a cost overrun, the AF would: (i) support emergency recovery and construction activities; (ii) enhance development impact; (iii) increase the number of beneficiaries, including women; (iv) meet an unanticipated financing gap in the Parent Project; (v) replenish the Emergency Response Component; and (vi) allocate strengthen project management and implementation support capacity. About 50 percent of project proceeds would be used to support the Government of St. Vincent's emergency recovery efforts.

Economic and Sector Work

The Caribbean Growth Forum (CGF)
The Caribbean Growth Forum (CGF) is a multi-stakeholder platform designed to identify, prioritize and implement a set of activities to improve the growth enabling environment in the Caribbean, while promoting participatory public policy making. It has so far engaged more than 2,500 representatives from business associations, civil society organizations, Government, private sector, media, indigenous groups, and international development agencies on themes such as Logistics and Connectivity; Investment Climate; and, Skills and Productivity.

Low growth, high unemployment, especially for youth and women, high debt ratios (eight of the top twelve most indebted countries in the world are in Caribbean), high incidence of crime, and, growing vulnerability to external shocks characterize the region. In the wake of the global financial crisis, the high debt/low growth challenge has become even more acute.

A number of Caribbean countries reached out to international donors to find an innovative approach to the growth challenge in the region. A suggestion was made to launch a genuinely participatory growth initiative. Following consultations and some preparatory work, the program started in mid-2012 with a regional launch event in Jamaica. The process is supported and facilitated by the World Bank, the Inter-American Development Bank, the Caribbean Development Bank, Compete Caribbean and the European Union.

Key Outcomes

Positive outcomes are tangible: twelve countries formally joined the process by establishing their national CGF chapter and have completed the first phase of national dialogue. This effort has led to the prioritization of concrete and actionable activities and draft action plans are now available, with details on each activity' implementation plan (e.g., accountabilities, milestones, timeline, funding). The results of each country's dialogue were presented at three regional forum in The Bahamas in June 2013, in St. Kitts and Nevis in 2014, and in St. Lucia in June 2015. This allowed national stakeholders from government, private sector and civil society to compare notes on each other's' priorities and exchange ideas on solutions to each identified challenges with technical specialists and peers. Each government involved in the CGF also committed to follow-up on implementation of the reform agenda, to report back periodically on progress (every 4-5 months) and to enable independent monitoring of the reforms by private sector and civil society representatives.

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

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

The Bank's program in St. Vincent and the Grenadines is further supported by a comprehensive series of completed, ongoing and planned analytical and advisory activities, including the following: "Towards a New Agenda for Growth" – OECS growth and competitiveness study (2005); An OECS Skills Enhancement Policy Note (2006); a Caribbean Air Transport Report (2006); a regional study on Crime, Violence, and Development: Trends, Costs, and Policy Options in the Caribbean (2007); an OECS Private Sector Financing Study (2008); the OECS Tourism Backward Linkages Study (2008); the report titled "Caribbean – Accelerating Trade Integration: Policy Options for Sustained Growth, Job Creation and Poverty Reduction" (2009); a study on the Nurse Labor & Education Markets in the English-Speaking CARICOM: Issues and Options for Reform (2009); and Caribbean Regional Electricity Supply Options: Toward Greater Security, Renewable and Resilience (2011).

Projects Financed by the World Bank in the OECS					
Operation	**Country**	**Loan**	**Original Principal (USD)**	**Disbursed Balance**	**Undisbursed Balance**
Regional Disaster Vulnerability Reduction Project	St. Vincent and the Grenadines	IDA 49860	10,920,000.00	4,316,291.83	5,269,533.17
	St. Vincent and the Grenadines	IDA 54500	35,600,000.00	3,508,325.00	32,091,675.00
	St. Vincent and the Grenadines	PPCR	7,000,000.00	5,634,546.00	4,975,402.29
	St. Vincent and the Grenadines	PPCR	3,000,000.00	874,091.35	2,125,908.65
	St. Vincent and the Grenadines	PPCR	5,000,000.00	0.00	5,000,000.00
	Grenada	PPCR	8,200,000.00	2,814,036.29	5,385,963.71
	Grenada	PPCR	3,800,000.00	0.00	3,800,000.00
	Grenada	PPCR	5,000,000.00	0.00	5,000,000.00
	Grenada	IDA 49850	10,000,000.00	5,580,471.75	3,028,228.25
Caribbean Regional Communications Infrastructure Program	St. Vincent and the Grenadines	IDA 51180	5,415,150.00	1,012,427.37	4,402,722.63
	St. Lucia	IDA 51170	5,415,150.00	2,378,400.92	3,036,749.08
	Grenada	IDA 51190	9,025,250.00	2,254,530.60	6,770,719.40
	Caribbean Telecom Union	IDA H7720	2,777,000.00	1,468,878.32	1,308,121.68
Total (St. Vincent and the Grenadines Only)			**66,935,150.00**	**15,345,681.55**	**53,865,241.74**

Projects Financed by the World Bank in the OECS (Concluded)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016*
Total dis-bursement	3,619,366.57	4,078,901.85	1,961,396.99	1,706,713.43	1,987,738.70	3,919,572.14	3,091,368.55	1,603,745.78	4,973,323.19	3,446,612.40	1,616,380.06	14,748.00
Repayment	295,667.15	294,977.86	462,614.04	648,536.87	719,002.88	775,517.52	1,049,073.99	1,285,194.40	1,307,517.29	1,337,810.80	1,375,339.14	677,666.55
Net dis-bursement	3,323,699.42	3,783,923.99	1,498,782.95	1,058,176.56	1,268,735.82	3,144,054.62	2,042,294.56	318,551.38	3,665,805.90	2,108,801.60	241,040.92	-662,918.55
Charges	134,452.48	166,105.67	315,417.86	165,007.44	150,974.86	138,915.41	174,926.89	197,468.89	176,287.51	150,519.62	126,360.10	53,878.85
Fees	89,399.44	52,687.45	33,008.20	168,308.59	161,732.80	161,868.25	180,265.64	164,773.09	179,503.18	213,064.80	208,422.41	62,734.58

Data as of February 29, 2016.

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

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK (CDB)

(As of May 23, 2016)

The strategic objectives of CDB's country assistance strategy for St. Vincent and the Grenadines (2014-18), are to (i) accelerate and sustain inclusive economic growth; (ii) promote human and social development; and (iii) enhance environmental sustainability and disaster risk management. The related assistance program entails financing commitments of up to US$86.7 million inclusive of $21 million from Special Funds Resources (SFR), and the remaining $65.7 from the Bank's Ordinary Capital Resources to help GOSVG implement selected components of its National Economic and Social Development Plan (NESDP), 2013-2025. The SDF facility, in addition to providing grants, offers loans with longer maturities and grace periods as well as lower rates of interest than financing sourced from the Bank's ordinary operations.

Since the start of 2016, the Bank has approved loans and grants to GOSVG for 3 major projects. An amount of US$7.4 million was approved in March 2016 from the SFR to assist GOSVG to expand the supply of skilled and employable labor with regionally acceptable certification. The skills-enhancing project provides for policy and institutional reforms of the Technical and Vocational Education and Training (TVET) system to improve its responsiveness as a vehicle for workforce development, the enhancement of the learning environment and teacher/instructor training, as well vocational training targeted at out-of-school and "at risk" unemployed youth and adults.

SVG is exposed to high levels of risk to meteorological and geophysical hazards, which have significant negative impacts on SVG's economic and fiscal stability. These natural hazards are being exacerbated by the adverse impacts of climate variability and climate change, which place increased stress on water availability, coastal protection investments, food security, national infrastructure and livelihoods, especially of the poor and vulnerable groups in SVG.

In March 2016, CDB approved a loan of US$11.2 million to GOSVG to finance a project to reduce the vulnerability of certain communities to extreme rainfall and other climate change impacts through: (a) the upgrade of roads, bridges and river defences; (b) slope stabilization; (c) enhancement of the national early warning system (NEWS); and (d) monitoring and evaluation (M&E). Since 2010, GOSVG has received financing of up to US$34.2 million from CDB for disaster risk reduction, which includes financing for a flood risk reduction study on eight windward watersheds.

To address the climate change challenges and achieve sustainable development, mitigation measures are being addressed by CDB through increased focus on the energy sector. Options such as climate resilience and low carbon energy are key elements being considered in the transformation process of the energy sector. SVG is heavily dependent on imported petroleum products to meet its energy requirements. Electricity production on all of the islands is entirely diesel-based, except for the main island of St. Vincent where 80% of the electricity is produced by diesel generators and the remaining 20% by small hydropower plants. As volcanic islands with an active volcano, La Soufrière, in the north of the main island, St. Vincent is expected to have excellent geothermal potential. CDB approved, in May 2016, grants to the St. Vincent Geothermal Company Limited (SVGCL), a joint venture established between GOSVG and St. Vincent Geothermal Holdings Limited, of (i) four million Pounds to contribute to the capital of SVGCL, and (ii) USD9.5 million to assist SVGCL in financing exploratory drilling to assess the geothermal resource in the La Soufrière region in northern St. Vincent for electricity production. Once the adequacy of the geothermal resources is proven and independently certified, the contingently recoverable grant of US$9.5 million converts to a loan to SVGCL.

Cumulative loans approved by CDB to St Vincent since 1970 stands at US$296 million of which US$242 million is disbursed. Total loans outstanding amounts to US$132.1 million.

The disbursement of loans to St Vincent during 2015 and 2016 are tied to project financing for the South Leeward Highway road upgrade; the rehabilitation and reconstruction of critical infrastructure damaged by Hurricane Tomas in 2010; and technical and vocational educational development.

Government of St. Vincent and the Grenadines: Loan Disbursement

(In millions of U.S. dollars)

	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016 April**
Net disbursement	16.77	46.4	-3.76	-5.70	-0.3	-1.2	-3.3	-5.5
Disbursement	21.60	52.7	1.63	1.81	7.2	6.6	6.5	0.6
Amortization	4.83	6.3	5.39	7.51	7.5	7.8	9.8	6.1
Interest and charges	3.53	3.7	3.57	4.78	4.7	5.0	4.8	2.0
Net resource flow	13.24	42.7	-7.33	-10.5	-5.0	-6.2	-8.1	-7.5

STATISTICAL ISSUES

(As of March 14, 2016)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance with some key data shortcomings in national accounts and balance of payments statistics.
National Accounts: A new rebased GDP by economic activity series (using 2006 as the base year instead of 1990) was released in January 2011 with assistance from CARTAC. The new series improved coverage, data sources, and methodology. Subsequent technical assistance missions undertaken over 2011 to 2014 have assisted in developing the GDP by expenditure estimates that are expected to be released in 2016. The latest mission undertaken in October 2015 assisted with improvements to the GDP by economic activity estimation methodology. Advice was also provided to improve the GDP by expenditure estimates; develop quarterly GDP estimates; compile supply and use tables; and to rebase the GDP. A medium-term action plan to improve and expand the national accounts aggregates has been developed. It will be necessary to increase the staffing and other resources of the CSO in order to implement the action plan. In addition, improvements are needed on data used to monitor labor markets.
Price Statistics: A new CPI index series (with January 2010 as the base) was introduced in June 2011 with assistance from CARTAC. The new index introduced updated methods and procedures used for compiling the CPI in accordance with international standards and enables comparisons among the ECCU member states. The new index uses a Household Budget and Expenditure Survey (HBES) that took place in 2008, replacing the old HBES conducted in 1996, to construct an updated CPI basket. As part of the CARTAC's assistance with the new CPI index it helped link the 2001 based to the 2010-based CPI series.
Government Finance Statistics: Due to delays in reporting capital expenditures by some ministries, monthly revenue and expenditure data for the central government are provided to the International Monetary Fund with some lag. Discrepancies exist between the fiscal and monetary accounts, between above and below the line for budget data, and between financing and debt data. The financial reports of public enterprises are not timely, with about a two-year lag.
Monetary and Financial Statistics: Monthly monetary statistics are compiled and reported to the Fund by the ECCB, based on standardized report forms (SRF) for the central bank (SRF 1SR) and for other depository corporations (SRF 2SR), since July 2006. In April 2007, a data ROSC mission assessed the monetary statistics with reference to the GDDS and the Data Quality Assessment Framework (DQAF, July 2003). It indicated that the institutional coverage of other depository corporations is incomplete, as data for mortgage companies, finance companies, building societies, and credit unions—all of which accept deposits—are excluded. Also, accrued interest is not incorporated in the value of the interest-bearing assets and liabilities, and valuation adjustments are included in other liabilities. In addition, source data for the commercial banks do not provide the disaggregation recommended by the *Monetary and*

Financial Statistics Manual and *Compilation Guide*. Close coordination between the ECCB and the single regulatory unit (which supervises financial corporations other than those licensed under the Banking Act) is crucial. The ECCB is currently working on implementing a new reporting system for commercial banks that is envisaged to address the recommendations made by the April 2007 data ROSC mission. It is expected that the new reporting system would be implemented in 2016-17.
Financial Soundness Indicators (FSI): Although the ECCB compiles, for internal use, a core set of financial soundness indicators (banking system) for national member states, including St. Vincent, and the ECCU region as a group, hardly any of this information is disseminated on a regular basis in official statistical publications or on the ECCB's website. A limited set of core FSI indicators for the ECCU banking sector is expected to be published in the inaugural version of the Regional Financial Stability Report, slated for release by the CCMF at the end of the first quarter of 2016. CARTAC plans to undertake a TA Mission on financial soundness and macro-prudential indicators at the ECCB in November 2016 with a view to helping that Institution re-organize its processes to prepare and publish core financial soundness for the banking system on a sustainable basis.
External sector statistics: Balance of payments data are compiled and disseminated by the ECCB on an annual basis. The ECCB released preliminary summary estimates of 2014 balance of payments and—for the first time—international investment position statistics following the latest international standard methodology (*BPM6*) for the eight ECCU member territories in January 2016. The ECCB plans to publish comprehensive balance of payments data in October 2016. The estimates benefited from CARTAC TA to develop and administer new surveys, and train data compilers and survey respondents. Given the lack of detail of 2014 data, more work is needed to review the recent revisions and identify balance of payments components that need further improvement. Methodological soundness, coverage, and classification need to be improved. Further work has been identified to: i) improve timeliness of annual data dissemination (the most current data reported to STA pertains to 2013); and ii) review and produce, as far back as reasonably possible, time series that are consistent with *BPM6* methodological changes. Data periodicity should also be improved. Actions will have to be undertaken in conjunction with the ECCB, which coordinates the compilation of the external sector statistics for all its member countries. The Ministry of Finance maintains a database on public and publicly-guaranteed external loans that provides detailed and current information on disbursements, debt service, and debt stocks. The Treasury maintains the data on bonds placed abroad. Data from the two databases as well as information on payments by creditor (actual and scheduled) need to be further consolidated to produce timely debt stock data.
II. Data Standards and Quality
St. Vincent and the Grenadines has been participating in the General Data Dissemination System since September 2000 and currently participates in its successor initiative, the e-GDDS. The 2007 regional data ROSC provides an assessment on the ECCB's monetary statistics. No data ROSC is available for other sectors.

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

(As of March 14, 2016)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items: Data Quality – Methodological soundness[8]	Memo Items: Data Quality – Accuracy and reliability[9]
Exchange rate	Fixed rate 12/2014	1/2015	M	M	M		
Exchange rate	Fixed rate	NA	NA	NA	NA		
International reserve assets and reserve liabilities of the monetary authorities[1]	11/2015	2/2/2016	M	Q	Q		
Reserve/base money	11/2015	2/2/2016	M	Q	Q	LO	LO
Broad money	11/2015	2/2/2016	M	Q	Q	LO	LO
Central bank balance sheet	11/2015	2/2/2016	M	Q	Q	LO	LO
Consolidated balance sheet of the banking system	11/2015	2/2/2016	M	Q	Q	LO	LO
Interest rates	11/2015	2/2/2016	M	Q	Q		
Consumer price index	1/2016	2/17/2016	M	M	M		
Revenue, expenditure, balance and composition of financing—central government[3]	6/2015	11/25/2015	M	M	H		
Revenue, expenditure, balance and composition of financing—general government[3, 4]	9/2014	11/14/2014	M	M	M		
Stock of central government and central government-guaranteed debt[5]	9/2014	11/14/2014	Q	H	H		
External current account balance	2013	10/6/2014	A	H	H		
Exports and imports of goods and services	2013	10/6/2014	A	Q	Q		
GDP/GNP	2013	10/6/2014	A	A	A		
Gross external debt	9/2014	12/18/2014	A	Q	A		
International Investment Position[6]	NA	NA	NA	NA	NA		

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

Stock of central government and central government-guaranteed debt[5]	9/2014	11/14/2014	Q	H	H		
External current account balance	2013	10/6/2014	A	H	H		
Exports and imports of goods and services	2013	10/6/2014	A	Q	Q		
GDP/GNP	2013	10/6/2014	A	A	A		
Gross external debt	9/2014	12/18/2014	A	Q	A		
International Investment Position[6]	NA	NA	NA	NA	NA		

[1] Any reserves assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially determined, including discounts rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] St. Vincent and the Grenadines does not yet produce IIP data due to lack of capacity, but is currently receiving technical assistance on IIP compilation from CARTAC.

[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Half-yearly (H), Annually (A), Irregular (I), Not available (NA).

[8] Reflects the assessment provided in the data ROSC published on August 21, 2007 and based on the findings of the mission that took place during April 10-18, 2007 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

[9] Same as footnote 8, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs and revision studies