February 2003
IMF Country Report No. 03/28

St. Vincent and the Grenadines: 2002 Article IV Consultation—Staff Report; and Public Information Notice on the Executive Board Discussion

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 2002 Article IV consultation with St. Vincent and the Grenadines, the following documents have been released and are included in this package:

- the staff report for the 2002 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **November 4, 2002,** with the officials of St. Vincent and the Grenadines on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on January 17, 2003.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its January 27, 2003 discussion** of the staff report that concluded the Article IV consultation.

The document listed below will be separately released.

Statistical Appendix

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: http://www.imf.org

Price: $15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

ST. VINCENT AND THE GRENADINES

Staff Report for the 2002 Article IV Consultation

Prepared by the Staff Representative for the 2002 Consultation with St. Vincent and the Grenadines

Approved by Anthony R. Boote and Matthew Fisher

January 17, 2003

- Discussions for the 2002 Article IV consultation were conducted in Kingstown during October 22–November 2. The mission met with Prime Minister and Minister of Finance Ralph Gonsalves and other government officials, the leader of the opposition, trade union and private sector representatives. The mission consisted of Ms. Turner-Huggins (Head), Ms. Francis, Ms. Kufa and Mr. Sun (all WHD). Mr. Boote (WHD) joined the mission for the final discussions. Ms. Nathaniel and Mr. Cannonier from the Eastern Caribbean Central Bank (ECCB), and Mr. Kendall from the Caribbean Development Bank (CDB) assisted the mission. Ms. Lewis-Bynoe, Advisor, Executive Director's office and Mr. Kelvin Dalrymple (Chief Country Economist, CDB) attended the final meetings.

- St. Vincent and the Grenadines (VCT) is a member of the Eastern Caribbean Currency Union (ECCU) with a common currency, the EC dollar (pegged to the U.S. dollar at EC$2.7=US$1.0), a member of the Organization of Eastern Caribbean States (OECS) and the Caribbean Common Market (CARICOM). In 2001, the country's population totaled 112,000 with GDP per capita of US$3,116. The main economic activities are agriculture (bananas and other crops) and tourism (mainly yachting). A small offshore financial center exists.

- The authorities provide core statistical data to the Fund and participate in the General Data Dissemination System (GDDS). However, improvements in quality and coverage of the statistical data are needed as the quality of the current data hampers surveillance in some areas, particularly in the public finances, balance of payments, and unemployment data. St. Vincent and the Grenadines is an Article VIII member of the Fund. The exchange system is generally free of restrictions.

- Summaries of the Fund, World Bank, and CDB relations are provided in Attachments I, II and III respectively. Attachment IV presents Statistical Issues.

Contents

Boxes

Attachments

Executive Summary

Recent Developments: Estimates for 2002 point to a slight pick up in real GDP growth to about 1 percent, due mainly to a strong rebound in banana output, despite damage caused by tropical storm Lili in late September. This outturn followed a severe slowdown in 2001 reflecting the combined impact of a severe drought, the slowdown in the global economy, and the negative impact of the September 11 events on tourism. Unemployment appears to have remained high (no reliable data exist), while inflation was around 1 percent. The government's policy response has been moderately counter-cyclical. Consequently, the public sector deficit rose sharply in 2002, mainly related to higher capital spending and wages. On the structural front, the government made significant strides especially in public enterprise reform and governance; consultations with civil society were enhanced.

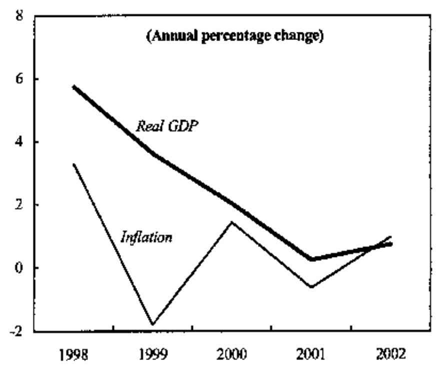
Policy discussions: Discussions focused on the near term outlook for the economy in the regional context and the authorities' medium-term objectives for consolidating the fiscal position and invigorating growth. The mission highlighted a number of challenges:

- **While GDP growth in 2002 is likely to have been positive, the economy remains sluggish.**
- **Fiscal consolidation is needed.** The overall public sector deficit rose by 4½ percentage points of GDP in 2002, to an estimated 6 percent of GDP, largely due to higher capital spending. The central government's deficit widened by 1 percent of GDP to 3½ percent of GDP, due to the higher capital program and wages. The 2003 budget—with capital spending adjusted to more realistic levels as agreed with the authorities—envisages a reduction in the central government deficit to 2½ percent of GDP. This will be achieved largely through cuts in non-wage spending.
- **The widening fiscal deficit has resulted in public sector debt rising to 72 percent of GDP by the end of 2002.** While the bulk of the debt is external, borrowed on concessional terms with long maturity, newly contracted domestic debt on commercial terms is growing rapidly. In addition to reducing the deficit, strengthened debt management is needed to avoid expensive new borrowing.
- **The financial sector has a weak domestic bank and the offshore sector is in decline.** St. Vincent and the Grenadines remains on FATF's list of non-cooperative jurisdictions, despite the recent tightening in the regulatory environment. Further efforts are needed to strengthen the supervisory regime in both the domestic and offshore sectors.
- **Medium-term prospects hinge on a favorable external environment and fiscal consolidation.** The economy will have to adjust and diversify rapidly to take advantage of the benefits of trade liberalization and greater integration.

I. Economic Background

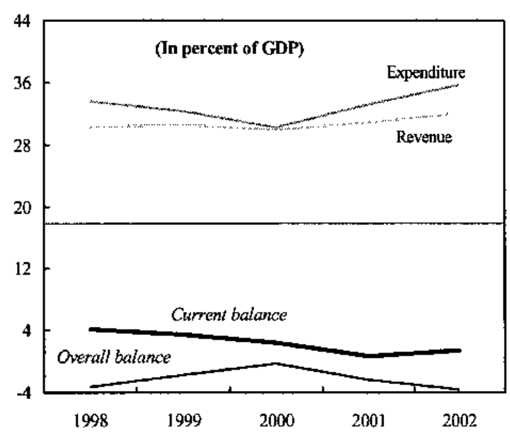
1. **Economic activity weakened considerably in 2001 from the preceding year** (Figure 1 and Table 1). The slowdown of GDP growth to ¼ percent can be attributed largely to the harsh effects of a drought on agriculture, the fall-off in stopover tourism associated mostly with the September 11 events, and the sluggish global economy. Against this background, unemployment seems to have increased while the 12-month inflation rate fell by ½ percent.

Figure 1. VCT: Output and Inflation



2. **Preliminary data point to only slightly higher growth in 2002.** Real GDP growth is estimated to have reached ¾ percent in 2002. The recovery in agriculture took hold, buoyed by a rebound in bananas; construction, mostly related to public sector projects, also contributed to the recovery. Tropical storm Lili, which damaged portions of the banana crop in late September 2002, is expected to have reduced banana output in the final quarter of 2002, but should have a positive impact in 2003 as farmers replant and rehabilitate damaged crops. The 12-month inflation rate at end-October 2002 was around 1 percent.

Figure 2. VCT: Central Government Operations



3. **The government's pursuit of counter-cyclical fiscal policy to stem the economic slowdown resulted in a substantial deterioration in the government's financial position.** The central government's overall deficit widened from ¼ percent of GDP in 2000, to 2½ percent of GDP in 2001 and an estimated 3½ percent of GDP for 2002 (Figure 2 and Table 3). Higher spending reflected a larger capital program to finance new roads, schools, and health centers, but also a rising wage bill (Box 1). Central government investment grew by 1 percent of GDP to 5 percent of GDP in 2001, and rose to an estimated 6¾ percent of GDP in 2002. The capital program was largely financed by grants and commercial borrowings. Revenues rose to over 30 percent of GDP in 2002 boosted by improvements in tax compliance (following an amnesty on interest and penalties on tax arrears), a broadening of the tax base to include other financial institutions and professional services, the removal of tax exemptions, and steps to strengthen tax administration.

Box 1. St. Vincent and the Grenadines: Salary and Wage Bill Pressures

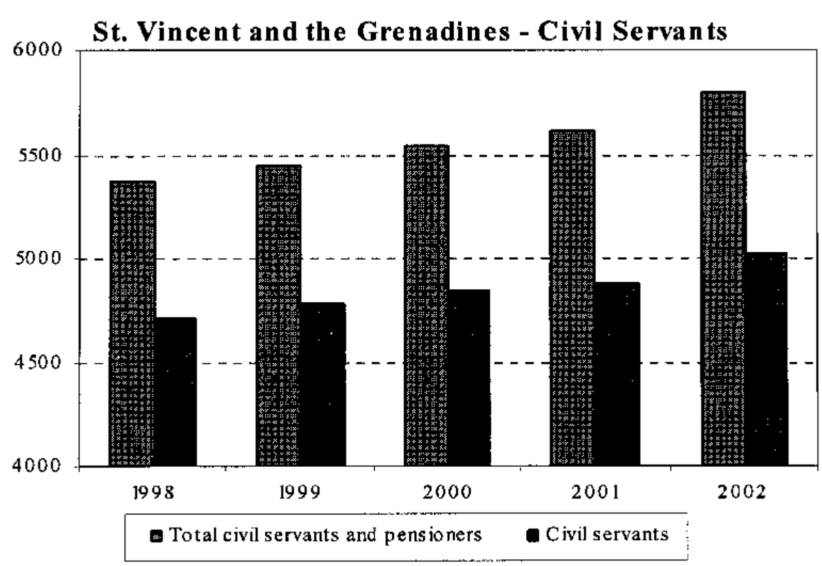
The central government's current expenditure-to-GDP ratio rose by 5 percentage points between 1998 and 2002 largely due to a higher wage bill. Despite the freeze on salaries of civil servants in 2002, the wage bill rose to an estimated 15 percent of GDP from 14 percent of GDP in 2001. The increase can be explained as follows:

- about ¼ percent of GDP due to an increase in number of civil servants employed; new hires were mainly health workers, as well as security officers at airports and tourist resort areas;
- ½ percent of GDP in 2002 related to the granting of a half-month salary bonus in lieu of a salary increase. The freeze on increases was extended into 2003, and wage negotiations were deferred until 2004;
- about ¼ percent of GDP due to the statutory salary increase for movement within grades.

Central Government Salary and Wage Bill

	1998	1999	2000	2001	2002P
	(In millions of Eastern Caribbean dollars)				
Salaries and wages including NIS contribution 1/ 2/	111.5	118.8	123.8	132.6	145.8
Salaries 1/ 2/	93.4	100.4	107.0	114.7	127.0
Wages 1/	14.5	14.5	12.8	14.0	14.5
NIS contribution	3.6	3.8	4.0	3.9	4.3
	(percent change)				
Salaries	4.7	7.6	6.5	7.2	6.5
Of which:					
Real change 2/	2.5	4.9	4.8	5.6	2.5
Employment	...	1.5	1.4	0.7	2.8
	(in percent of GDP)				
Memorandum item:					
Salaries and wages	**13.0**	**13.3**	**13.7**	**14.1**	**15.0**
ECCU average salaries and wages	**12.4**	**12.5**	**12.8**	**13.2**	**...**

Sources: Ministry of Finance and Planning.
1/ A half-month salary bonus is included in 2002.
2/ Statutory increase for movement in grade is included.



4. **The overall balance of the nonfinancial public enterprises (including the National Insurance Scheme (NIS)) deteriorated from a surplus of about 1 percent of GDP in 2001 to a deficit of about 2½ percent in 2002.**[1] This swing largely reflected higher capital spending on power expansion and the Dalaway water supply project, as well as the impact of lower savings by other public enterprises. These include the Water Authority, the electricity company (due to higher administrative and debt-service expenses) and the NIS (due to an increase in benefits and the number of beneficiaries). In addition, capital revenues fell by 1 percent of GDP, reflecting the one-off benefit of a property sale in 2001. Total public sector debt, meanwhile, rose from 67 percent to 72 percent of GDP in 2002 in line with the higher deficit. Most of the additional debt was contracted in domestic currency (loans from the banking system) and foreign currency debt fell slightly to 49 percent of GDP.[2]

5. **Sluggish economic activity in 2002 was accompanied by a sharp deceleration in deposit and credit growth in the banking system (Table 5).** The banks' average prime rate fell marginally to 10 percent in 2001, following a reduction of 1 percentage point in the ECCB's discount rate to 7 percent in October 2001. Increased competition was spurred by the ECCB's lowering of the floor interest rate on savings deposits by 1 percentage point to 3 percent in July 2002, which led to a similar decline in bank lending and deposit rates in 2002.

6. **The offshore sector contracted sharply in 2002, as the authorities strengthened the regulatory and supervisory framework in line with international best practices**. The number of offshore banks is expected to have declined to 20 by end-2002 from 38 at end 2001. St. Vincent and the Grenadines was removed from the OECD's list of tax havens earlier in 2002, but remains on the Financial Action Task Force's (FATF) list of non-cooperative countries and territories in the fight against money laundering. The government expects the country to be removed from the FATF list soon as it has fulfilled all of the FATF requirements and awaits an onsite inspection by FATF officials.

7. **The external current account deficit in 2002 is estimated to have been broadly unchanged at 11¾ percent of GDP (Table 6).** Despite an increase in volume, export receipts from bananas remained flat because of lower international prices. Tourist receipts are expected to be somewhat lower than in 2001 reflecting a significant drop in arrivals, especially in yachting business. The **financial and capital accounts** are expected to be broadly the same as last year. **The real effective exchange rate**, which was roughly

---

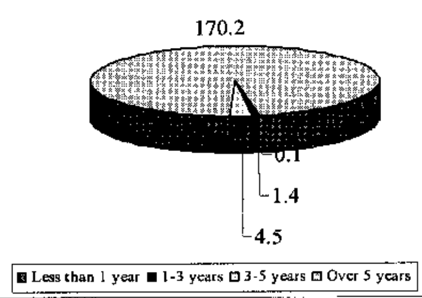
[1] See Tables 15 and 16, Statistical Appendix, SM/03/14.

[2] Banks have limited investment opportunities given the sluggish economy and the low private sector demand for credit.

unchanged in 2001, depreciated by close to 3 percent through end-October 2002,[3] largely reflecting the weakening of the U.S. dollar.

8. **Total external debt is expected to have fallen slightly to 49 percent of GDP by end 2002 (Figure 3 and Table 4).** Debt service as a share of exports of goods and service is around 6½ percent. Most of the external debt is contracted on concessional terms and of a long maturity.

Figure 3. Public Sector External Debt in 2002
(US$ million)



II. Medium-Term Outlook

9. **The outlook in 2003 is for modest growth, but there are a number of downside, mostly external, risks.** Real GDP is projected to increase by just over 2 percent, reflecting a projected strong recovery in the banana sector following the rehabilitation of crops following tropical storm Lili and the somewhat improved outlook for the global economy. Risks include a prolonged sluggishness in the global economy and the adverse impact on tourism from a possible conflict in the Middle East or further terrorist attack. There is also the risk of domestic policy slippage particularly in the fiscal area.

10. **The authorities expressed a sanguine view of the medium-term growth prospects, and projected and that real GDP will grow by an annual average rate of 3 percent.** They predicated their assessment on the strength of: (i) several ongoing and planned residential and tourist-related construction projects; and (ii) growth in tourism related to the expected "demonstration effect" from the return of a major cruise line in the latter part of 2003, and the new operations of the Moorings Yacht Charter Company in

[3] On a 12-month basis.

late 2002. Growth in agriculture is expected to be moderate, however, as banana preferences for the EU markets expire in 2005, and diversification into other crops is still in progress.

11. **Staff emphasized that achieving this positive outcome would require continuing fiscal adjustment.** In the staff's active scenario (Table 9), fiscal adjustment and average growth of around 3 percent are assumed. The central government balance shifts from a deficit of about 3½ percent of GDP in 2002 to ½ percent in 2007. This reflects initiatives to improve the tax system and streamline expenditures (after the World Bank's public expenditure review). Beginning in 2004, public sector savings are expected to improve from 4¼ percent of GDP to around 10½ percent of GDP by 2007, which will help finance a public sector investment program of about 10 percent of GDP.[4] Under this scenario, the public sector debt is reduced from around 72 percent of GDP in 2002 to about 60 percent of GDP by 2007.[5]

12. **The active scenario is predicated on implementation of key structural reforms.** Improvements in the banking system, steps to strengthen development capacity for farmers and small enterprises, and actions to reduce energy costs through higher efficiency are important to help create a more enabling environment for private sector growth.

13. **An alternative scenario shows the impact of a lack of fiscal adjustment and slower reforms (Table 9).** The assumption is that the government fails to deliver on expenditure management and public enterprise reforms, leaving the public sector deficit at around 4 percent of GDP, while GDP growth averages only 1 percent. This underscores the importance of persistent fiscal consolidation and measures to promote private sector-led growth.

14. **The medium-term outlook is subject to an uncertain external environment as well as domestic policy slippage and to challenges posed by further regional and global integration.** Downside risks are significant. If the global economy continues to be sluggish (because of conflict in the Middle East, terrorism or other factors), tourism growth will remain weak. Agricultural exports and growth are vulnerable to the failure of the banana sector to become more competitive or to diversify. Sensitivity analysis performed on the medium-term active scenario shows that the public sector debt, as well as the external debt, would either remain largely unchanged or decline very slowly if growth is lower or if interest rates or external current account deficits are higher.

---

[4] The completion of VINLEC's project expansion in 2003, accounts for the bulk of the 4 percentage points of GDP reduction in public sector investment in 2004.

[5] Given that the bulk, if not all, of the public debt is government guaranteed, the mission considers the ECCB's 60 percent of GDP target (see footnote 7) to apply to total public sector debt. The authorities' medium-term debt target is 70 percent of GDP (50 percent external and 20 percent domestic).

III. Policy Discussions

15. **While the 18-month old administration of Prime Minister Gonsalves has made significant strides on the reform front, the public sector's financial position has deteriorated in the face of a sluggish economy.** Against this background, the government's record of policy implementation since the last Article IV discussion has been mixed (Box 2). Major advances have been made in improving public sector governance, restructuring the banana sector, and building consensus for difficult policy issues, including a wage freeze in the public sector. Public enterprises have come under increased financial scrutiny aimed at improved performance. The recent counter-cyclical fiscal stance—while temporarily stemming economic weakness—has led to a deterioration in the overall public financial position and to rising debt. The mission's discussions focused on policies to consolidate the fiscal position in the near and medium term, and on structural reforms needed to promote private sector led growth.

Box 2. St. Vincent and the Grenadines: Policy Recommendations and Implementation

At the conclusion of the 2001 Article IV consultation on January 28, 2002 (SM/02/17), Directors expressed concern about the decline in economic growth and weakening public finances. They emphasized that, while public sector investment could play an important role in supporting growth, government savings should be increased to avoid an unsustainable debt build up. They also saw the need for urgent fiscal measures: wage restraint, a curb in other recurrent expenditures, broadening of the tax base, and removing tax exemptions. Directors urged the authorities to streamline public spending to core areas, improve budget transparency, and implement capacity building. They stressed the need to improve the management of public enterprises. Directors commended the government for consulting civil society in undertaking ambitious policy reforms.

Implementation of Fund advice over the years has been mixed. Since the 2001 consultation, progress has to be viewed against the very difficult macroeconomic environment. The new government has succeeded in improving transparency, engaging in open dialogue with all stakeholders and establishing a framework for regular financial oversight of public enterprises. However, while the public sector investment program has been expanded, the increase was not financed by higher public sector savings. More needs to be done to control the central government's wage bill as a share of GDP, which reached its highest level in recent years, despite a wage freeze in 2002.

A. Fiscal Policy

16. **The authorities viewed an expansionary fiscal stance as key to avoiding the recession experienced by some of St. Vincent and the Grenadines' neighbors in the ECCU (Table 7).** They defended the higher wage bill in 2002 on the grounds of additional essential hires (health and security), as well as the need to absorb some temporary workers given the weak economy.[6] In lieu of a wage increase in 2003, government employees received a half-month salary bonus for December 2002 (EC$4.8 million for an effective increase of around 4 percent). The authorities considered the payment of the bonus as crucial to maintaining goodwill with the public service and as partial recompense for the delayed wage increase.[7]

17. **In light of the deterioration in the central government's position since 2001, the authorities agreed that a 1-percentage point of GDP reduction in the deficit to around 2½ percent of GDP was appropriate for 2003.** They also reiterated their commitment to maintaining a prudent fiscal stance over the medium term. The 2003 budget presented to Parliament is consistent with a 2½ percent of GDP deficit—after an adjustment to reduce capital spending to more realistic levels reflecting the country's limited implementation capacity.[8] The budget also proposes a tightening in non-wage spending, such as in travel and overseas representation (Table 3).

18. **The mission stressed the importance of controlling wage as well as non-wage spending.** In light of high expenditure levels, the mission expressed disappointment with the growth in the wage bill since 2001, and suggested that an effective freeze on employment was warranted.[9] Accordingly, only posts created through attrition should be filled, while rationalization of employment could form the basis of a wider civil service reform.[10] The

---

[6] Nurses, police, and security in tourist areas.

[7] Wage negotiations on salary increases have been postponed until 2004; the wage "freeze" applies to the negotiated settlements that occur every three years, the last being in 1999 for 1999-2001.

[8] As usual, capital spending in the budget presented to Parliament is inflated on political grounds beyond what realistically can be spent. With the agreement of the Minister of Finance, lower capital spending estimates are presented in Table 3. Staff recommended that on fiscal transparency grounds, this practice should be discontinued.

[9] VCT's wage bill exceeds the ECCU average as share of GDP. It is unclear from the data available whether or not this reflects a higher wage rate or size of employment or both.

[10] Civil service reform needs to be carefully planned as it is costly (severance payments) and could increase unemployment.

Public Expenditure Review with the World Bank could help to improve the efficiency of spending, while contributing to faster adjustment.

19. **The authorities have embarked on tax reform with a view to simplifying the tax system.** Major steps include the introduction of a value-added tax, a review of property tax, and the elimination of ad hoc tax exemptions—consistent with the OECS mandate.[11] The mission considered this approach consistent with the need to improve efficiency of the tax system by broadening the tax base and reducing tax concessions. Over the medium term, it will be crucial for VCT to reduce its dependence on tariff revenues to facilitate a smooth transition to integration into the CARICOM single market and the Free Trade Area of the Americas (FTAA). [12] The authorities shared this assessment and looked forward to the upcoming technical assistance from the Fiscal Affairs Department on tax reform, in conjunction with the work of the regional Tax Commission.

20. The authorities expressed broad commitment to the ECCB's fiscal guidelines (see Table 8). [13] The authorities regarded the targets as achievable medium-term goals especially in the context of the OECS four-year stabilization and transformation program (SATAP), which is being facilitated with CARTAC assistance. The mission expressed concern that, in the absence of binding targets or agreed penalties for non-observance, it remained questionable how quickly ECCU members—including St. Vincent and the Grenadines—could meet these guidelines. In 2001, St. Vincent and the Grenadines observed only two of the four guidelines.

21. **The authorities view the public sector investment program (PSIP) as key to stimulating economic activity and providing the basis for private sector-led growth.** The PSIP is projected to increase to 13½ percent of GDP in 2003 from 12 percent in 2002 (Table 2).[14] The monthly monitoring by a cabinet committee of key projects should help to keep the PSIP on track. A number of major projects—including electricity expansion, the

---

[11] In September 2001, the OECS heads of government agreed on curtailing widespread concessions.

[12] Trade revenues account for about half of total tax revenue, 12½ percent of GDP.

[13] The ECCB's proposed guidelines are the following four targets: central government current account surplus of 4-6 percent of GDP; an overall government budget deficit of no more than 3 percent of GDP; total outstanding central government debt of no more than 60 percent of GDP; and debt service payments by the central government of no more than 15 percent of current revenue.

[14] After adjustment. Planning officials consider that the PSIP could be as high as EC$100 million annually. However, implementation capacity based on past trends is only around EC$60 million.

Windward water and road system, and emergency recovery disaster management (including post-Lili rehabilitation)—build up into 2003. Most of these projects are expected to be completed by 2004, after which the PSIP drops sharply. The authorities agreed that the PSIP should reflect realistic projects that are ready to be implemented with financing identified—particularly from external concessional sources. They assured the mission that they have identified financing for the 2003 capital budget and are determined to complete the projects as scheduled. Staff encouraged the government to work with donors, especially the European Union (EU),[15] to ensure timely disbursements of project support.

22. **The mission emphasized the need to improve fiscal transparency, particularly in the budget**. In line with the OECS fiscal guidelines, the CARTAC-assisted effort to establish a system to guide and monitor fiscal management reforms should be pursued vigorously.[16] In this connection, the Auditor General should publish annual reports in a timely manner. The authorities agreed with fiscal transparency, indicating that they already regularly publish and discuss fiscal performance and actively engage civil society on economic issues.

23. **The authorities emphasized that most of their debt is concessional and contracted with long-term maturities.** They remain conscious of a potential debt build up, but see current debt levels as manageable.[17] Total public sector debt is projected to increase from 72 percent of GDP in 2002 to 76 percent of GDP in 2003, in line with a public sector borrowing requirement of 6¼ percent of GDP. The mission cautioned against the continuing rapid increase in public sector debt in recent years, particularly as domestic debt has been contracted at higher commercial interest rates and with shorter maturities.[18]

24. **The United Kingdom wrote-off external loans of EC$9.5 million and the Ottley Hall debt of EC$105 million is on track for a favorable resolution.**[19] However, in the past year, the central government has assumed debt totaling EC$23 million from public enterprises, including the Banana Growers Association (BGA), Campden Park Container

---

[15] The EU has set up a local project unit to facilitate project monitoring and disbursements.

[16] This was also discussed during the regional surveillance exercise, which recommended that a fiscal ROSC would be helpful.

[17] See Appendix I for debt sustainability analysis.

[18] On average new domestic debt carries interest rates of around 10 percent compared with 6 percent on external loans, and is of shorter maturity (less than one year in the case of treasury bills).

[19] The Ottley Hall loan has been under dispute with the creditors. The government has recently reached a negotiable settlement. A moratorium on interest payments has been in effect during the settlement period.

port, and the Development Bank. The mission emphasized the need to monitor public enterprise borrowings and to limit government guarantees including financial exposure to LIAT, the regional airline. The mission encouraged the government to make use of the Regional Government Securities Market (RGSM) for new debt issues, in order to access a wider range of investors and at more competitive (lower) rates. Given the captive market for government securities from local banks, the authorities face little or no funding risk for the rollover of securities.

B. Monetary and Financial Issues

25. **The banking system has a strong foreign-owned sector (dominated by a few large banks), but the ratio of nonperforming loans to total loans for the banking sector as a whole rose from 13 to 14½ percent in 2002.** On a broader level, commercial banks continue to face competition from an essentially unsupervised nonbank sector. The plans for setting up an umbrella agency to supervise and regulate all nonbank institutions, drawing on CARTAC's assistance, should be completed as soon as possible. Contrary to the advice of CARTAC, the authorities do not intend for the planned umbrella agency to cover the supervision of registered agents and trust companies, which is expected to remain under the Offshore Financial Authority (OFA).

26. **Additional steps are underway to strengthen the regulation of the offshore financial sector. However, the sector appears to be in decline.** On the regulatory environment, the banking legislation has been upgraded and is under review.[20] Upgrades include the *International Banking Act* designed to address the issue of bearer shares, one of the main concerns of the FATF; the *Trust Act*; and the *Proceeds of Crime and Money Laundering (Prevention) Act* to strengthen anti-money laundering (AML) and efforts to combat the financing of terrorism (CFT).[21] *The Financial Intelligence Unit (FIU) Act* created a FIU. A review of the AML/CFT is planned in conjunction with the scheduled FSAP for the ECCB in the third quarter of 2003. The tightening of regulation has led to closure of a number of banks, and the total fell to 22 in 2002 compared with 38 at end 2001.

[20] See Statistical Appendix (Item II) SM/03/14.

[21] In its analysis of responses to the AML/CFT Questionnaire received September 9, 2002, MAE identified some issues for clarification, and some perceived weaknesses in the legislation, which are being addressed by the authorities.

27. **The authorities saw the potential for a recovery by the offshore sector from current difficulties.** They expect that, with the sector's reputation restored in a strengthened supervisory environment, new business would emerge since St. Vincent and the Grenadines should be an attractive offshore center to yachting clients in the Grenadines. However, staff viewed the sector as being in a more precarious position and questioned the comparative advantage of the country in this area given the strong competition from already well-established offshore sectors. The mission stressed that the cost of supervision of the offshore sector should not outweigh the overall economic benefits of the sector. Some reduction of costs might be obtained by combining supervision of the offshore sector with that of domestic nonbanks (as recommended by CARTAC).

C. External Sector Prospects and Policies

28. **While the government has made progress in restructuring the banana sector, the medium-term prospects for the sector remain poor given the imminent loss of trade preferences.** Initiatives to diversify into other crops (dasheen, sweet potatoes, and yams) and agro-processing (banana and plantain chips) are encouraging and the government should seek the full support of the EU Diversification Fund in these efforts.[22] Moving to large-scale organic banana production, while a possible option, would take considerable time and would be a challenge given the vulnerability of bananas to disease.[23] The restructured BGA has been effective in encouraging qualified farmers to deal directly with marketing agencies and in fostering a greater response to market conditions.

29. **Steps have been taken to revitalize the tourist industry in the aftermath of September 11, 2001.** The new operations of a major yachting company (Moorings) in the Grenadines, the expected return of Princess Cruise Lines in late 2003, and the hub arrangement with St. Lucia and, possibly, Barbados, should boost arrivals. Recognizing that there may have been some erosion in the competitiveness of the hotel industry, the government, is working closely with private sector partners and Canadian assistance to develop ways to help hotel operators (especially small property owners) to improve quality and service, including by establishing good practice codes and standards and by strengthening linkages with the agricultural sector to increase value added.

30. **Staff noted that the fixed exchange rate under a currency board arrangement has served St. Vincent and the Grenadines well.** Among the key benefits is low inflation and exchange rate stability. However, these arrangements need to be supported by fiscal consolidation and steps to enhance competitiveness, including wage restraint throughout the

---

[22] Established to help farmers diversify out of bananas.

[23] Existing fields need to be fallow for 4-5 years to decompose pesticide residues before they are ready for organic production.

economy and flexible labor and product markets.[24] The depreciation of the real effective exchange rate by close to 3 percent through October 2002 has only partly offset the earlier sustained real appreciation when the U.S. dollar was much stronger (Figure 5).

D. Structural and Regional Issues

31. **The authorities reiterated that while their strategy is to promote private sector initiative, the public sector is still expected to continue to play an important and catalytic role.** Staff stressed that medium-term goals should focus on accelerating structural reforms for sustained long-term growth. The mission commended the authorities' success in involving all stakeholders in policy discussions, including engagement through the National Economic and Social Development Council (NESD) and the Tripartite Council. The NESD's has played a valuable role in strengthening links between productivity and wages to enhance competitiveness given the fixed exchange rate; in improving infrastructure and human capital; and in encouraging agricultural diversification and in combating crime. The authorities expect that these activities will encourage an emphasis on productivity based wage increases, and in this regard, the shift to performance-based merit pay in the labor market is a step in the right direction.

32. **The authorities emphasized that plans are underway to promote and foster a friendly and efficient investment climate.** Efforts include lowering energy costs (by increasing efficiency in VINLEC) and improving the supply of skilled labor through vocational training. Impediments to regional labor mobility will be addressed, including legislation for the provision of work permits to meet OECS requirements. The mission saw room for investment opportunities to be expanded through privatization of some public enterprises (VINLEC, NCB, and Marketing Corporation) and listing the commercial public enterprises on the Eastern Caribbean Stock Exchange. The authorities do not have a policy on privatization nor plans to divest, but they are open to strategic partnerships for the NCB and the Marketing Corporation.

33. **The government initiated a number of institutional changes in 2002 including a three-year rolling budget, aimed at strengthening public sector management, and improving fiscal transparency and governance**. To enhance the capital project management process, all planning functions of line ministries have been centralized within the Ministry of Planning, which regularly monitors the status of the PSIP. For public expenditure management, the mission stressed the need for implementing the advice from the Bank's Public Expenditure Review and from CARTAC's technical assistance.

[24] For the ECCB's views, see the Regional Surveillance Report SM/03/06.

34. **Notwithstanding some progress towards restructuring public enterprises in the last 12 months, further efforts are required to address rising losses (lower profitability) in 2001.** The authorities imposed limits on the amount of NIS exposure to other public institutions and have begun to restructure the portfolios of National Commercial Bank and National Development Bank to improve their efficiency. Quarterly financial performance reviews and implementing strategic corporate plans for all public enterprises should help to improve their financial performance. While some progress was evident in 2002, there is room for more accountability with an explicit set of financial targets.

35. **The fifth actuarial valuation assessment of the NIS completed in 2001 recommended that the contribution rate of 6 percent must be reviewed soon, as the scheme is projected to become insolvent in 2016 (if current demographic trends and investment returns persist).** Further, it recommended that some short-term investments (76 percent of reserves) should be converted to long-term investments. In view of this assessment, the mission expressed concern about the medium-term prospects of the NIS and urged the authorities to consider an early review. The authorities agreed to a review of the pension system in a regional context and saw a need to harmonize pension schemes within the ECCU to facilitate the free movement of labor within the region.

36. **On regional developments, the authorities were aware of the problems faced by the ECCU, particularly the weakness in economic activity, high public sector deficits leading to rising debt levels and the associated risks to the stability of the currency board.** They agreed that the sustainability of the currency board and its benefits to the region, would require greater fiscal discipline, and adhering to fiscal targets as proposed by the ECCB, including cooperative enforcement mechanisms. They support the OECS/CARICOM Regional Stabilization and Transformation program to assist countries restructure their economies for integration into CARICOM and FTAA.[25] The authorities agreed to harmonize macroeconomic policy and structural reforms with other ECCU members, including adhering to the ECCB's fiscal guidelines, adopting a VAT-type tax and a common investment promotion strategy. The FTAA, with appropriate domestic adjustment, should provide employment and economic opportunities.

E. Social and Other Issues

37. **The authorities reiterated that lowering unemployment and poverty alleviation remain at the forefront of their economic program.**[26] The government has instituted a

---

[25] The program aims at stabilizing and transforming member country economies towards integration into the FTAA and CARICOM single market between 2003-07.

[26] The NESD has just completed an Interim Poverty Reduction Strategy Paper.

Youth Empowerment Service as a temporary measure to address youth unemployment.[27] On HIV/AIDS, the government began to address the issue with the launching of a Strategic Plan in December 2001. A special unit of the Ministry of Health is responsible for prevention and education programs.

38. **While the statistical base has improved in recent years, weaknesses remain that adversely affect the quality of economic analysis**. Areas for improvement include public sector debt (especially domestic debt amortization), the capital account of the balance of payments, the finances of public enterprises, and labor statistics. The staff urged the authorities to seek external technical assistance including from CARTAC to improve the reliability and timeliness of these data and to ensure that the statistics office is adequately staffed. The mission welcomed the government's commitment to the GDDS.

IV. Staff Appraisal

39. **The authorities have been successful in maintaining macroeconomic stability in a very difficult regional and global environment.** Economic activity weakened considerably in the last two years from the more rapid growth of preceding years, but is expected to pick up in 2003 as domestic demand (mostly led by the public sector) strengthens, banana output recovers (despite tropical storm Lili) and the more positive global economy improves tourism prospects. Higher capital spending played an important role in this positive outcome. However, the corollary was deterioration in the overall fiscal position, which threatens fiscal sustainability, with a rise in public sector debt. Inflation remains subdued and unemployment remains high. Nevertheless, St. Vincent and the Grenadines achieved modest real growth in 2002, above the average for the ECCU as a whole.

40. **Looking ahead to 2003 and beyond, it is crucial that the authorities focus their efforts on strengthening the fiscal position and reducing public debt**. Decisive action will be required to meet the government's target of a central government deficit close to 2½ percent of GDP in 2003, including additional measures to rein in recurrent expenditures. Continued efforts to improve the operations of public enterprises will be necessary over the medium term. The quarterly monitoring by the Cabinet of financial operations of public enterprises is welcome. The government should avoid expensive overseas borrowing and limit additional assumption of debt. Government guarantees of new debt should be limited and financial exposure to LIAT be kept to a minimum. Progress on the resolution of the Ottley Hall debt is encouraging and options to further reduce the obligations through an early sale of the Ottley Hall facility should be explored.

---

[27] This involves short term, up to one-year, attachment to government ministries on a rotation basis.

41. **The wage bill has grown by over 1 percent of GDP since 2001, despite a freeze in wage increases, and needs to be brought under tighter control.** Civil service employment should be capped, and the bonus paid in December 2002 should be taken into account to minimize any negotiated wage increases in 2004, especially in light of the increase in real wages for civil servants in recent years. Any further increases would undermine the economy-wide need for wage restraint in order to enhance competitiveness. Capital spending should be prioritized focusing on projects that will promote growth and poverty reduction and taking advantage of availability of external funding, especially from concessional sources.

42. **On the revenue side, efforts should focus on reform of the tax system in the medium term.** A further reduction in discretionary exemptions is needed to allow for a reduction in some tax rates. In order to broaden the tax base, and reduce reliance on trade tariffs, a VAT-type tax should be introduced well in advance of the trade liberalization deadlines imposed by CARICOM and FTAA.

43. **The health of the financial system would be bolstered by improvements in the prudential framework of the non-bank sector.** The planned uniform supervisory agency needs to be completed as soon as possible. Plans to restructure the NCB are welcome and should provide a basis for the early divestment of the bank. The future prospects for the offshore sector are not encouraging, and steps should be taken to amalgamate supervision and close banks if necessary to avoid a drain on the budget.

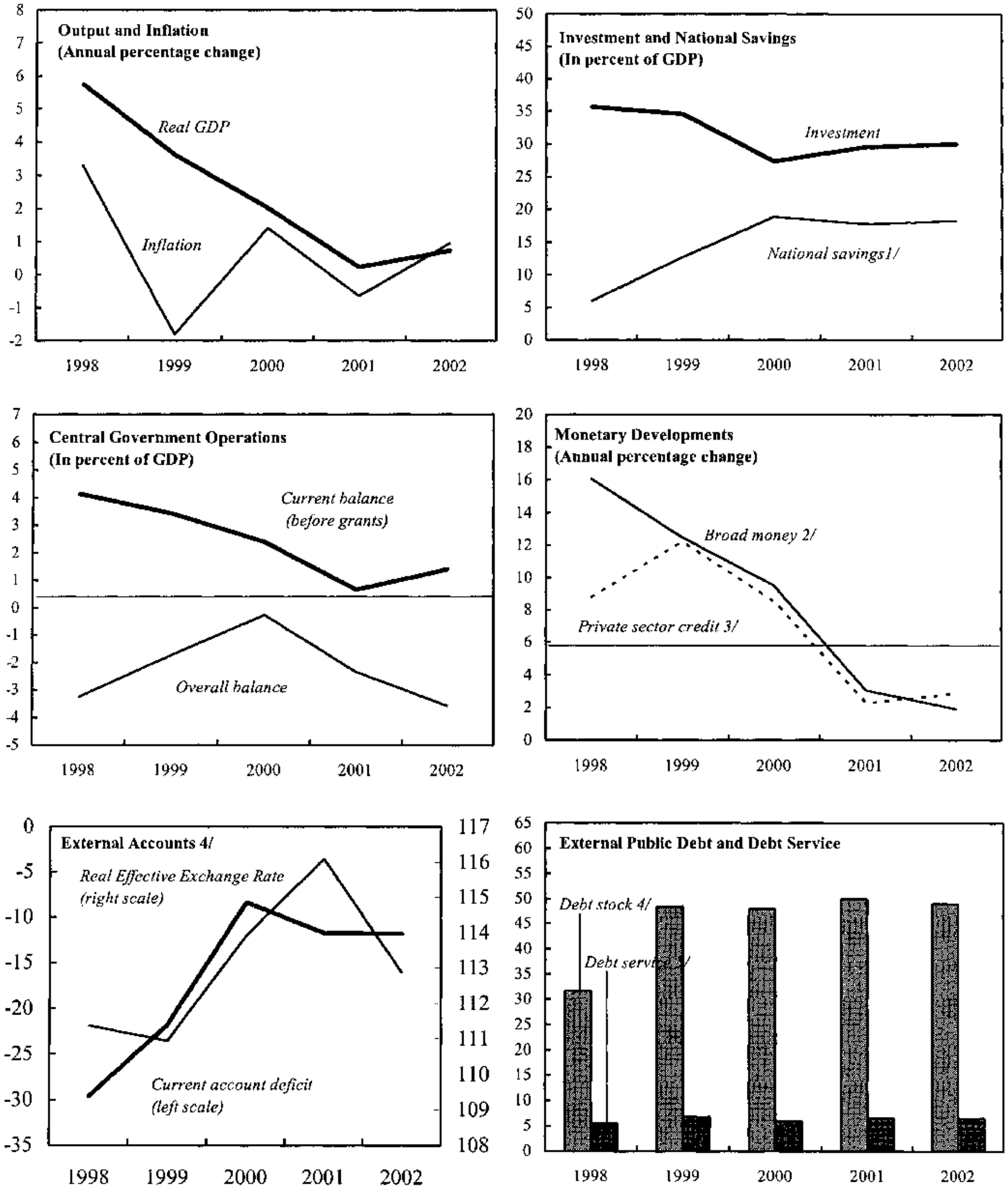
44. **Over the medium term, the economy continues to be vulnerable to external shocks and to challenges posed by further regional and global integration.** Efforts to strengthen the tourism sector and agriculture diversification will be critical. The medium-term strategy should focus on consolidating the fiscal position and accelerating structural reforms to promote private sector-led growth. Given the fixed exchange rate, emphasis on improving competitiveness is crucial. This can be achieved through public sector wage restraint, productivity enhancing reforms, and creating an enabling business environment. Opportunities to enhance public sector efficiency through privatization should be explored.

45. **The stability of the ECCB's currency board arrangement is central to the long-term stability of the region and its members.** The government's commitment to the ECCB's guidelines on fiscal targets and to a stabilization and transformation program beginning in 2003 is welcome, and will need to be reflected in their future actions.

46. **St. Vincent and the Grenadines' data need improvement as the poor quality, timeliness, and coverage hamper economic analysis.** While progress has been made in some areas, through the assistance of CARTAC, several major deficiencies still exist in key areas, including public sector debt, the capital account of the balance of payments, the finances of public enterprises, and labor statistics.

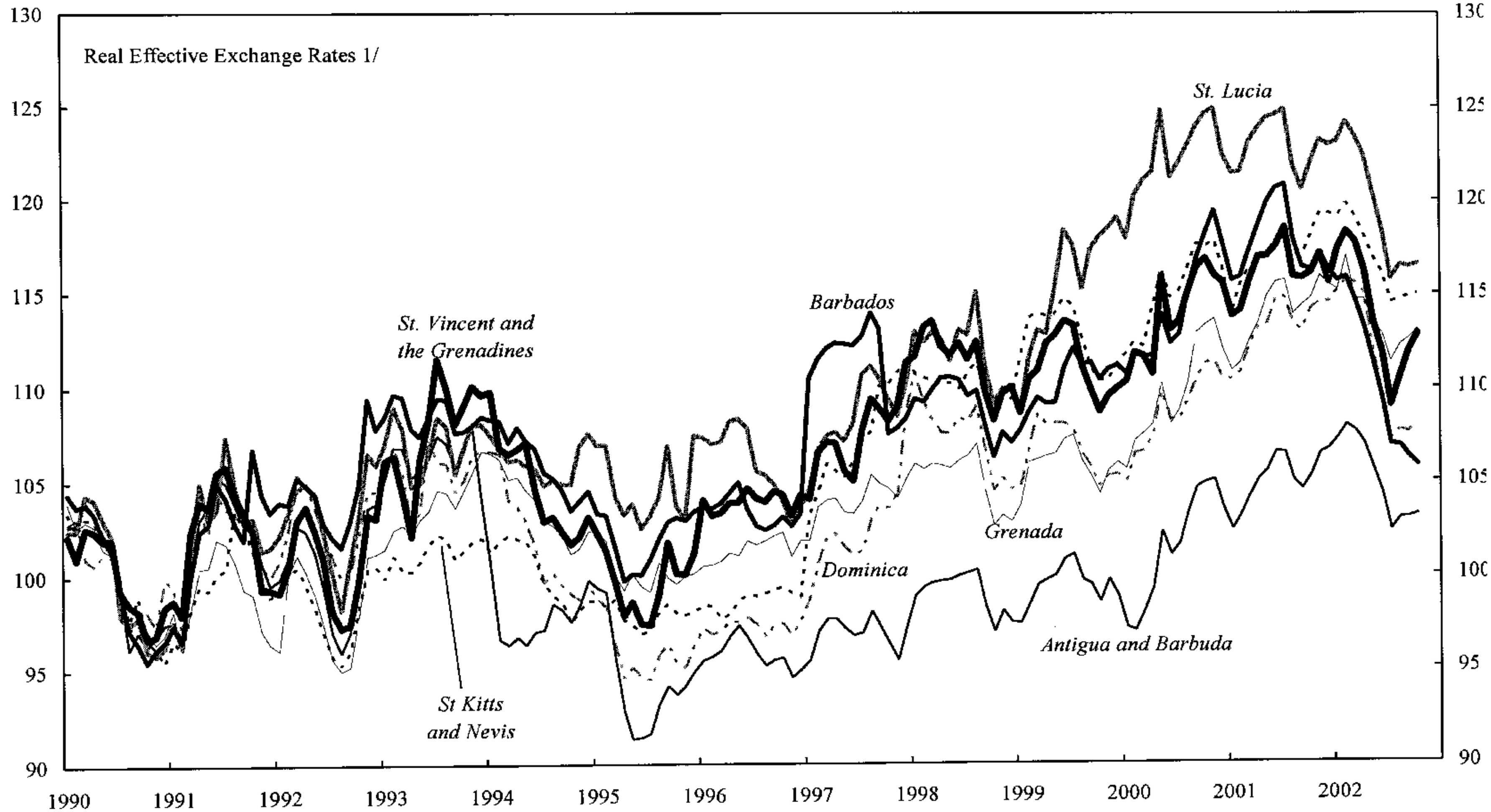
It is proposed that the next Article IV consultation with St. Vincent and the Grenadines take place on the standard 12-month cycle..

Figure 4. St. Vincent and the Grenadines: Selected Economic Indicators, 1998-2002



Sources: Data provided by the St. Vincent and Grenadine authorities; and Fund staff estimates and projections.
1/ National savings figures were revised following the revision of BOP figures by the ECCB.
2/ Including foreign currency deposits.
3/ Including net credit to nonbank financial institutions.
4/ Left scale in percent of GDP, right scale in index 1990 = 100, increase is an appreciation.
5/ In percent of exports of goods and services.

Figure 5. St. Vincent and the Grenadines: Exchange Rate Developments in Selected Caribbean Countries
(Index 1990=100)



Sources: IMF Information Notice System; and staff estimates.

1/ Trade-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices. An increase (decrease) indicates an appreciation (depreciation).

Table 1. St. Vincent and the Grenadines: Selected Economic Indicators

	1998	1999	2000	Prel. 2001	Est. 2002	Proj. 2003
Real GDP growth (at factor cost; percent)	5.7	3.6	2.0	0.2	0.7	2.2
Inflation (average; percent)	2.1	1.0	0.2	0.8	1.0	0.3
Inflation (end of period; percent)	3.3	-1.8	1.4	-0.6	1.0	2.0
Banana export volume (thousands of metric tons)	38.9	37.4	42.0	31.0	35.3	36.4
Banana export earnings (millions of US$) 1/	20.6	19.5	17.9	13.0	12.9	13.5
Banana export unit value (US$ per ton)	528.3	520.8	425.6	419.2	365.9	371.4
Total number of visitors (thousands)	199.7	223.1	256.0	254.1	245.8	251.2
Of which						
Stay-over visitors (thousands)	67.2	68.3	72.9	70.7	77.8	76.6
Tourism expenditure (millions of US$)	73.2	76.5	75.3	80.2	78.4	80.9
Nominal effective exchange rate (percentage change) 2/	-2.5	4.7	6.6	2.3	-2.8	..
Real effective exchange rate (percentage change) 2/	-1.1	-0.1	5.1	0.1	-2.8	..
External terms of trade (percentage change)	-2.9	-10.7	-4.7	2.8	1.3	0.4
Weighted deposit interest rate 2/	4.9	4.6	4.6	4.5	4.5	...
Weighted lending interest rate 2/	11.8	11.6	11.5	11.9	11.5	...
Banks' prime loan rate (average) 2/	11.0	11.0	10.3	10.0	10.0	...
Non performing loans to total loans 2/	13.3	13.1	10.9	13.0	14.6	...
Deposit liabilities to capital base 2/	13.1	12.9	12.6	12.3	12.8	...
Liabilities to the private sector (in percent of GDP)	60.1	65.0	69.8	68.5	68.5	68.5
Liabilities to the private sector (percent change)	16.1	12.5	9.5	3.0	1.9	3.6
Of which						
Narrow money	16.6	21.2	16.2	3.3	1.9	3.6
Quasi money	15.8	8.9	6.4	2.9	1.9	3.6
Net domestic assets of the banking system (percent change) 3/	5.2	5.5	-1.7	7.2	0.1	3.6
Public sector overall balance 4/ 5/ 6/	-1.2	-6.3	0.3	-1.4	-6.0	-6.2
Public sector savings-without moratorium (percent of GDP) 4/ 5/ 6/	7.8	6.4	5.9	4.1	4.3	5.5
Central government overall balance (percent of GDP) 4/ 5/	-3.3	-1.7	-0.3	-2.4	-3.6	-2.7
Central government savings-without moratorium (percent of GDP) 4/ 5/	4.1	3.4	2.4	0.7	1.4	2.5
Central government savings-with moratorium (percent of GDP) 4/ 5/	4.1	3.4	2.4	1.0	2.2	2.5
External current account balance (percent of GDP)	-29.7	-21.8	-8.4	-11.8	-11.8	-12.4
Total public sector debt (percent of GDP) 7/ 8/	46.9	65.5	67.3	67.1	72.3	76.0
Public sector external debt 8/						
end of period (millions of US$)	100.6	160.0	160.9	173.7	176.2	191.1
(in percent of GDP)	31.6	48.4	48.0	49.8	48.9	51.2
External public debt service (millions of US$ at end-period)	8.7	11.8	10.6	11.8	11.3	14.9
(in percent of exports of goods and services)	5.6	6.7	5.9	6.7	6.6	8.4
(in percent of central government revenue excluding grants)	10.1	12.4	11.9	12.3	11.4	14.0
Memorandum item:						
Nominal GDP (millions of US$ at market prices)	318.3	330.6	335.6	348.5	360.6	373.4

Sources: Eastern Caribbean Central Bank; Ministry of Finance and Planning; Department of Tourism; Banana Growers Association; and Fund staff estimates and projections.

1/ Excludes small amounts of banana exports to regional markets.

2/ The 2002 figures for effective exchange rate are end-October and the others are end-June.

3/ In relation to banking system liabilities to the private sector at the beginning of the period.

4/ Interest payments are based on accrual accounting. The government has sought a moratorium on Ottley hall shipyard debt pending an amicable settlement on issues under dispute with the creditors.

5/ The figures quoted here were accepted by the authorities. Budget estimates presented to Parliament following normal practice, has higher totals.

6/ Public sector includes central government, National Insurance Scheme and nonfinancial public enterprises.

7/ Indicate coverage of gross public sector net of NIS borrowings, e.g., general government and nonfinancial public sector.

8/ The government tookover a private debt for the Ottley Hall shipyard in 1999 and provided a loan guarantee to LIAT in 2002.

Table 2. St. Vincent and the Grenadines: Summary of Consolidated Public Sector Operations 1/

	1998	1999	2000	Prel. 2001	Est. 2002	Proj. 2003
(In millions of Eastern Caribbean dollars)						
Revenue and grants	383	395	412	447	470	489
Current revenue	362	377	397	417	453	471
Capital revenue 2/	6	5	5	13	1	1
Grants 5/	14	13	10	17	16	16
Expenditure	393	451	409	461	528	551
Current 3/	295	319	344	379	411	416
Capital	98	132	65	82	117	135
Central Government 5/	84	64	35	47	65	70
National Insurance Scheme	0	0	0	14	6	0
Rest of the public sector 4/	14	68	30	21	46	65
Overall balance 3/	-10	-56	3	-14	-58	-62
Net external financing	40	4	6	35	15	40
Disbursements	55	21	23	51	29	62
Amortization	15	17	16	16	14	22
Net domestic financing	-22	49	-5	-25	35	22
Banking system	-29	11	11	2	21	2
Other 6/	7	38	-17	-27	14	21
Implicit financing 3/	...	...	...	3	8	...
(In percent of GDP)						
Revenue and grants	44.5	44.2	45.4	47.6	48.3	48.5
Current revenue	42.1	42.2	43.8	44.4	46.5	46.7
Expenditure	45.7	50.5	45.1	49.0	54.3	54.7
Current 3/	34.3	35.8	37.9	40.3	42.2	41.3
Capital	11.4	14.7	7.2	8.7	12.1	13.4
Current balance without moratorium (before grants) 3/	7.8	6.4	5.9	4.1	4.3	5.5
Primary balance 3/	1.4	-2.9	3.7	2.3	-2.3	-2.0
Overall balance 3/	-1.2	-6.3	0.3	-1.4	-6.0	-6.2
Net external financing	4.7	0.4	0.7	3.7	1.6	4.0
Net domestic financing	-2.6	5.5	-0.6	-2.6	3.6	2.2

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

1/ The figures quoted here were accepted by the authorities. Budget estimates presented to Parliament following normal practice, has higher totals.
2/ In 2001, a major capital inflow was from the Kingstown Property EC$11.5 million sold by the Arrowroot Industry.
3/ Interest payments are based on accrual accounting. The government has sought a moratorium on Ottley hall shipyard debt pending an amicable settlement on issues under dispute with the creditors.
4/ Major capital projects included Port Authority navigation equipment in 1999, and VINLEC power expansion in 2002 and 2003.
5/ The 2003 figures include post-Lili rehabilitation program.
6/ Other net domestic financing figures are a residual, because domestic debt amortization figures are not accurate.

Table 3. St. Vincent and the Grenadines: Summary of Central Government Operations 1/

	1998	1999	2000	Prel. 2001	Est. 2002	Proj. 2003
	(In millions of Eastern Caribbean dollars)					
Total revenue and grants	261	273	272	290	312	325
Current revenue	240	256	261	272	296	308
Tax	210	215	216	231	252	263
Income	73	71	72	71	80	83
Property	2	2	2	3	2	2
Goods and services	28	32	41	45	49	51
International trade	107	111	102	112	121	127
Nontax	30	41	44	42	43	45
Capital (land sales only)	6	5	1	1	1	1
Grants 5/	14	13	10	17	16	16
Expenditure	289	289	274	313	348	352
Current	205	225	239	266	282	282
Wages and salaries 2/	111	119	124	133	146	144
Interest 3/	16	24	24	28	28	33
Other goods and services	45	51	53	53	59	57
Transfers 4/	33	32	38	53	49	48
Capital 5/	84	64	35	47	65	70
Current balance (without moratorium)	35	30	22	6	13	26
Overall balance 3/	-28	-16	-3	-22	-35	-28
Net external financing	40	4	8	14	23	7
Disbursements	54	17	21	29	35	28
Amortization	14	13	13	15	12	21
Net domestic financing	-12	12	-5	5	5	21
Banking system	-18	9	6	-18	38	-7
Other 6/	6	3	-11	23	-33	28
Implicit financing 3/	...	...	...	3	8	...
	(In percent of GDP)					
Revenue and grants	30.3	30.6	30.0	30.9	32.1	32.2
Current revenue	27.9	28.6	28.8	28.9	30.4	30.5
Expenditure	33.6	32.3	30.3	33.2	35.7	34.9
Current	23.8	25.2	26.4	28.3	29.0	28.0
Wages and salaries 2/	13.0	13.3	13.7	14.1	15.0	14.3
Interest 3/	1.9	2.6	2.6	3.0	2.8	3.3
Other goods and services	5.2	5.7	5.9	5.6	6.1	5.6
Transfers 4/	3.8	3.6	4.2	5.6	5.1	4.8
Capital 5/	9.8	7.1	3.9	5.0	6.7	6.9
Current balance (without moratorium) 3/	4.1	3.4	2.4	0.7	1.4	2.5
Current balance (with moratorium) 3/	4.1	3.4	2.4	1.0	2.2	2.5
Primary balance 3/	-1.4	0.9	2.3	0.6	-0.8	0.5
Overall balance 3/	-3.3	-1.7	-0.3	-2.4	-3.6	-2.7
Net external financing	4.6	0.4	0.9	1.5	2.4	0.7
Net domestic financing	-1.3	1.3	-0.6	0.5	0.5	2.1
Memorandum item:						
Wages and salaries percent of current revenues	46.4	46.5	47.5	48.7	49.3	46.9

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

1/ The figures quoted here were accepted by the authorities. Budget estimates presented to Parliament following normal practice, has higher totals.
2/ Including contribution to the National Insurance Scheme.
3/ Interest payments are based on accrual accounting. The government has sought a moratorium on Ottley hall shipyard debt pending an amicable settlement on issues under dispute with the creditors.
4/ Mainly contributions to households and international organizations.
5/ The 2003 figures include post-Lili rehabilitation program.
6/ Other net domestic financing figures are a residual, because domestic debt amortization figures are not accurate.

Table 4. St. Vincent and the Grenadines: Public Sector Debt

	1998	1999	2000	Prel. 2001	Est. 2002	Proj. 2003
(In millions of Eastern Caribbean dollars at end-period)						
Public sector debt net borrowings from the NIS 1/	403	585	610	631	704	767
Domestic debt net borrowing from the NIS	131	153	175	162	228	251
Domestic debt	148	170	193	180	246	268
Central government	116	131	151	165	200	221
Of which						
Treasury bills	7	26	48	48	48	48
Government borrowing from the NIS 1/	17	17	18	18	18	18
Debt takeover	27	26	25	32	55	55
Public enterprises	32	39	43	15	46	47
External 2/	272	432	434	469	476	516
Central government 2/	251	413	413	427	440	447
Public enterprises	21	19	21	42	35	69
Debt service	37	47	47	51	52	66
Amortization	15	17	16	16	14	22
Domestic 3/	...	...	...	...	...	...
External	15	17	16	16	14	22
Central government	14	13	13	15	12	21
Public enterprises	1	4	4	1	1	1
Interest	22	30	31	36	38	44
Domestic	13	15	19	19	21	26
Central government	9	10	12	13	13	17
Public enterprises	4	5	6	7	9	9
External 4/	9	15	12	16	17	18
Central government 4/	7	14	11	15	15	16
Public enterprises	1	1	1	1	2	2
(In percent of GDP unless otherwise stated)						
Public sector debt net borrowings from the NIS 1/	46.9	65.5	67.3	67.1	72.3	76.0
Domestic debt	15.3	17.1	19.3	17.2	23.5	24.9
External debt	31.6	48.4	48.0	49.8	48.9	51.2
Total debt service percent of revenue excluding grants	10.1	12.4	11.9	12.3	11.4	14.0
External debt service percent of exports of goods and services	5.6	6.7	5.9	6.7	6.6	8.4
External debt service percent of broad money 5/	4.6	5.5	4.5	4.9	4.6	5.8
Effective interest rate 6/	5.7	7.1	5.1	5.7	5.8	6.1
Domestic debt	9.0	10.1	11.0	10.0	11.8	10.5
External debt	3.7	5.5	2.8	3.8	3.5	3.8
(In millions of Eastern Caribbean dollars, unless otherwise stated)						
Memorandum items:						
External interest subject to moratorium: Ottley Hall 4/	...	...	...	3.3	7.9	...
Debt forgiveness: UK loan	...	...	1.1	0.5	9.5	...
Government debt held by NIS, percent of GDP 1/	2.0	1.9	2.0	1.9	1.8	1.7

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

1/ The 2001 Actuarial Valuation reports that the NIS is solvent until 2016 at the current 6 percent contribution rate.
2/ The government tookover a private debt for the Ottley Hall shipyard (EC$156 million) in 1999 and provided a loan guarantee to LIAT (EC$1.1 million) in 2002.
3/ There is no accurate information of domestic debt amortization.
4/ Interest payments are based on accrual accounting. The government has sought a moratorium on Ottley hall shipyard debt pending an amicable settlement on issues under dispute with the creditors.
5/ Including foreign currency deposits.
6/ Interest payment as percent of the previous period debt stock.

Table 5. St. Vincent and the Grenadines: Monetary Survey

	1998	1999	2000	Prel. 2001	Est. 2002	Proj. 2003
(In millions of Eastern Caribbean dollars)						
Net foreign assets	180	215	280	254	266	266
ECCB (imputed reserves)	103	113	147	164	142	142
Commercial banks	77	103	133	90	123	123
Net domestic assets	337	365	355	401	401	425
Net credit to public sector	-101	-90	-79	-77	-56	-54
Net credit to central government	47	56	62	44	82	75
ECCB	9	17	10	8	3	3
Commercial banks	39	39	53	36	79	72
Net credit to rest of public sector	-148	-146	-141	-121	-137	-129
National Insurance Scheme	-151	-147	-152	-139	-140	-143
Other	3	1	11	18	3	14
Credit to private sector	486	546	592	605	623	645
Net credit to nonbank financial inst.	-19	-45	-38	-60	-53	-53
Other assets (net)	-30	-46	-120	-68	-113	-113
Broad money	516	580	636	655	667	691
Money	151	183	212	219	223	231
Currency in circulation	36	57	52	52	52	54
Demand deposits	114	125	160	168	171	177
Quasi-money	365	398	423	436	444	460
Time deposits	101	112	137	143	146	151
Savings deposits	252	269	278	285	290	301
Foreign currency deposits	12	17	9	8	8	8
(Annual percentage change)						
Net foreign assets	37.0	20.0	30.1	-9.4	4.6	0.0
Net credit to public sector	39.8	-10.9	-12.4	-2.4	-27.6	-2.8
Of which						
Central government	-27.3	18.6	10.9	-29.2	85.4	-8.6
Credit to private sector	8.8	12.2	8.5	2.3	2.9	3.6
Broad money	16.1	12.5	9.5	3.0	1.9	3.6
Money	16.6	21.2	16.2	3.3	1.9	3.6
Quasi-money 1/	15.8	8.9	6.4	2.9	1.9	3.6
(Percent contribution to growth in broad money) 2/						
Net foreign assets	10.9	7.0	11.2	-4.1	1.8	0.0
Net domestic assets	5.2	5.5	-1.7	7.2	0.1	3.6
Net credit to public sector	-6.5	2.1	1.9	0.3	3.2	0.2
Of which						
Central government	-4.0	1.7	1.1	-2.9	5.7	-1.0
Credit to private sector	8.8	11.5	8.0	2.1	2.6	3.3
Net credit to nonbank financial inst.	-1.2	-5.0	1.2	-3.5	1.1	0.0
Other assets (net)	4.0	-3.1	-12.8	8.3	-6.9	0.0
Broad money	16.1	12.5	9.5	3.0	1.9	3.6
Memorandum item:						
Income velocity 3/	1.7	1.5	1.4	1.5	1.5	1.5

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

1/ Including resident foreign currency deposits.

2/ Change in relation to the stock of broad money at the beginning of the period.

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

Table 6. St. Vincent and the Grenadines: Balance of Payments Summary

	1998	1999	2000	Prel. 2001	Est. 2002	Proj. 2003
(In millions of Eastern Caribbean dollars)						
Current account 1/	-255	-195	-76	-111	-115	-125
Trade balance	-324	-344	-250	-297	-298	-310
Exports, f.o.b.	135	134	140	123	114	119
Of which						
Bananas	56	53	48	35	35	36
Manufactured exports	55	50	48	46	47	47
Imports, f.o.b.	459	478	390	420	412	429
Services (net)	76	160	175	195	189	192
Credits	289	340	341	354	350	360
Travel	198	207	203	216	212	218
Other nonfactor services	92	133	137	138	138	142
Debits	213	179	166	159	161	168
Travel	20	25	26	27	27	27
Other nonfactor services	193	155	139	133	134	141
Income payments (net) 1/	-37	-53	-52	-51	-48	-51
Current transfers	30	42	51	41	42	43
Net private transfers	29	39	43	43	43	44
Net official transfers	1	2	7	-1	-1	-1
Capital and financial account	286	169	76	191	93	125
Capital 2/	36	21	33	23	20	20
Financial (net)	250	148	43	169	73	105
Official capital	40	4	6	35	16	40
Commercial banks	-28	-26	-31	43	-33	0
Private capital	238	170	68	90	90	65
Of which						
Net direct investment	240	151	79	86	87	89
Errors and omissions	-13	36	38	-56	0	0
Overall balance 3/	17	10	38	25	-22	0
(In percent of GDP, unless otherwise stated)						
Current account	-29.7	-21.8	-8.4	-11.8	-11.8	-12.4
Total trade 4/	69.1	68.6	58.4	57.8	54.0	54.4
Exports of goods and nonfactor services	49.4	53.0	53.0	50.8	47.6	47.5
Imports of goods and nonfactor services	78.2	73.7	61.3	61.5	58.8	59.2

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

1/ Interest payments are based on accrual accounting. The government has sought a moratorium on Ottley hall shipyard debt pending an amicable settlement on issues under dispute with the creditors.

2/ Debt forgiveness on UK loan totalling EC$1.06 million in 2000, EC$0.51million in 2001, and EC$9.5 million in 2002.

3/ The counterpart to the BOP financing is partly an adjustment in imputed reserves held at the ECCB.

4/ Exports (f.o.b.) and imports (f.o.b.) relative to nominal GDP at current market prices.

Table 7. St. Vincent and the Grenadines: Comparative Economic Performance

	St. Vincent and the Grenadines	ECCU1/
I. Social and Demographic Indicators		
Area, sq. km.	389	2810
Arable land, percent	10	9
Population characteristics, 2001		
Population ('000; 2001 est.)	112	570
Life expectancy at birth, years	73	73
Crude death rate per thousand	6	7
Crude birth rate per thousand	18	20
Social indicators		
Literacy, percent of population over 15 years	96	87
Population per physician 2/	1110	1453
Population per hospital bed 2/ 3/	526	288
II. Economic Indicators		
GDP per capita (US$; 2001 est.)	3,116	4,731
Real GDP growth at factor cost (percent; 1998–2001)	2.9	2.3
Unemployment rate (percent; 2001 est.)	...	15.0
Inflation (percent; average rate; 1998–2001)	1.0	2.7
Prime lending rate (2001)	10.0	12.0
Central government revenue and grants (percent of GDP; 1998–2001)	30.7	28.2
Central government expenditure (percent of GDP; 1998–2001)	32.8	32.1
Central government wage bill (percent of GDP; 1998–2001)	13.8	12.6
Central government balance (percent of GDP; 1998–2001)	-2.1	-3.9
Central government saving (percent of GDP; 1998–2001)	2.2	1.1
Tourism growth, stay–overs (percent; 1997–2001)	3.7	0.2
Export volume growth (percent, 1997–2000) 2/	7.6	7.0
External current account balance (percent of GDP; 1998–2001) 4/	-17.9	-14.9
Public sector external debt (percent of GDP, 2001) 5/	49.8	49.9
Total public sector debt (percent of GDP, 2001) 5/ 6/	68.9	79.8

Sources: CIA World Factbook, Eastern Caribbean Central Bank; and Fund staff estimates.

1/ Comprises the ECCB member countries, which are Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

2/ Data unavailable for Antigua and Barbuda.

3/ Data unavailable for St. Kitts and Nevis.

4/ Including migrants' remittances.

5/ Government and government-guaranteed debt, end of period.

6/ This includes borrowing from the NIS.

Table 8. ECCU: Compliance with Proposed Central Government Fiscal Guidelines 1/
(in percent of GDP, unless otherwise indicated)

Convergence Criteria	Status of Implementation of Guidelines in 2001 by Country						Number of Countries Meeting the Guidelines			
	Antigua and Barbuda	**Dominica**	**Grenada**	**St. Kitts and Nevis**	**St. Lucia**	**St. Vincent and the Grenadines**	**2001**	**2000**	**1999**	**1998**
Current account surplus (guideline: 4 - 6 percent of GDP)	**-5.1**	**-4.1**	**2.3**	**-4.9**	**0.5**	**0.7**	**0**	**1**	**1**	**1**
Overall deficit (guideline: < or = 3 percent of GDP)	**-9.7**	**-11.0**	**-8.6**	**-12.4**	**-3.8**	**-2.4**	**1**	**2**	**2**	**1**
Govt & govt guar. debt outstanding 2/ (guideline: < or = 60 percent of GDP)	**84.5**	**92.1**	**85.0**	**138.0**	**42.7**	**68.1**	**1**	**2**	**1**	**3**
Debt service payments 3/ (guideline: < or = 15 percent of current revenue)	**9.4**	**19.3**	**2.4**	**13.5**	**5.5**	**5.0**	**5**	**5**	**5**	**5**
Number of guidelines met in 2001	1	0	1	1	2	2				
Number of guidelines met in 2000	1	0	2	1	4	2				
Number of guidelines met in 1999	0	0	3	1	3	2				
Number of guidelines met in 1998	0	1	2	1	3	3				

Sources: ECCU member country authorities, and Fund staff estimates.

1/ Excludes the territories of Anguilla and Montserrat.
2/ Includes external arrears.
3/ Excludes domestic debt amortization.

Table 9. St. Vincent and the Grenadines: Medium-Term Projections

	2002	2003	2004	2005	2006	2007
Active scenario - with fiscal adjustment						
Real GDP growth (at factor cost; percent)	0.7	2.2	2.9	3.3	3.3	3.3
Inflation (period average; percent)	1.0	0.3	2.0	2.0	2.0	2.0
(In millions of Eastern Caribbean dollars)						
Nominal GDP	973.5	1008.3	1065.1	1129.4	1192.0	1257.4
Current account balance	-114.7	-125.1	-139.1	-156.7	-187.1	-233.5
Exports, f.o.b.	113.9	119.1	120.3	125.9	122.5	116.2
Imports, f.o.b.	411.6	428.9	450.4	475.2	501.0	533.8
Services (net)	188.9	192.0	199.7	203.1	203.8	198.5
Income (net)	-48.2	-50.6	-53.4	-56.7	-59.8	-63.1
Current transfers (net)	42.3	43.4	44.7	46.1	47.4	48.7
Capital and financial account	93.1	125.1	139.1	156.7	187.1	233.5
Overall balance	-21.7	0.0	0.0	0.0	0.0	0.0
(In percent of GDP, unless otherwise stated)						
External current account balance	-11.8	-12.4	-13.1	-13.9	-15.7	-18.6
Exports of goods and services	47.6	47.5	46.7	45.9	44.3	42.3
Imports of goods and services	58.8	59.2	59.0	58.9	59.0	59.7
Total public debt net of NIS (end-period) 2/ 3/	72.3	76.0	73.8	69.5	64.7	60.3
Public external debt (end-period) 3/	48.9	51.2	50.4	47.5	44.0	40.7
Public sector overall balance 1/	-6.0	-6.2	-1.8	0.1	1.1	1.1
Public sector savings (without moratorium) 1/	4.3	5.5	7.6	9.5	10.5	10.5
Overall central government balance 1/	-3.6	-2.7	-1.7	-1.6	-0.6	-0.6
Central government primary balance 1/	-0.8	0.5	1.5	1.5	2.4	2.3
Central government savings (without moratorium) 1/ 4/	1.4	2.5	3.3	4.0	5.0	5.0
National savings	18.2	18.1	17.9	17.7	17.6	17.5
Public	4.3	5.5	7.6	9.5	10.5	10.5
Private	13.9	12.6	10.4	8.2	7.1	7.0
Investment	30.0	30.5	31.0	31.6	33.3	36.1
Public	12.1	13.4	10.5	10.5	10.5	10.5
Private	17.9	17.1	20.5	21.1	22.8	25.6
Alternative scenario - without fiscal adjustment						
Real GDP growth (at factor cost; percent)	0.7	2.2	2.0	1.0	1.0	1.0
Total public debt net of NIS (end-period) 2/ 3/	72.3	76.0	76.6	77.4	78.4	79.6
Public external debt (end-period) 3/	48.9	51.2	52.9	54.7	56.6	58.4
Public sector overall balance 1/	-6.0	-6.2	-4.0	-3.5	-3.5	-3.5
Public sector savings (without moratorium) 1/	4.3	5.5	4.4	4.4	4.4	4.4
Public investment	12.1	13.4	9.5	9.0	9.0	9.0
Overall central government balance 1/	-3.6	-2.7	-3.5	-3.5	-3.5	-3.5
Central government primary balance 1/	-0.8	0.5	-0.1	-0.1	0.0	0.1
Central government savings (without moratorium) 1/ 4/	1.4	2.5	1.5	1.5	1.5	1.5
Memorandum items:						
Total number of visitors (in thousands)	245.8	251.2	257.7	264.4	271.0	277.8
Of which						
Stay-over visitors	77.8	76.6	78.6	80.6	82.6	84.7
Tourism receipts (in millions of U.S. dollars)	78.4	80.9	86.0	90.0	94.1	96.9

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

1/ The figures quoted here were accepted by the authorities. Budget estimates presented to Parliament following normal practice, has higher totals.

2/ The 2001 Actuarial Valuation reported that the NIS is solvent until 2016 at the current 6 percent contribution rate.

3/ The government provided a loan guarantee of EC$1.1 million to LIAT in 2002.

4/ Interest payments are based on accrual accounting. The government has sought a moratorium on Ottley hall shipyard debt pending an amicable settlement on issues under dispute with the creditors.

Table 10. St. Vincent and the Grenadines: Public Sector Assets and Liabilities

Public debt: Total public sector debt has increased steadily since 1998 reflecting the deterioration in the fiscal position and weakening economy. At end-December 2002, total public debt is estimated to be EC$ 704 million (72 percent of GDP) External debt (2/3 of the total) is largely concessional at fixed interest rates with long term maturity.

	1998	1999	2000	Prel. 2001	Est. 2002	Proj. 2003
(In percent of GDP)						
Public sector liabilities 1/ 2/	47	66	67	67	72	76
Domestic	15	17	19	17	23	25
External	32	48	48	50	49	51
Central government liabilities net NIS borrowing	41	59	60	61	64	65
Domestic	11	13	15	16	19	20
External	29	46	46	45	45	44
Public sector assets	35	37	41	42	40	40
Net imputed foreign reserves	12	13	16	17	15	14
Public sector deposits in banking system	23	25	25	25	25	26
Central government 3/	3	5	6	7	9	10
NIS	18	18	16	17	15	14
Other	2	2	2	1	2	2

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

1/ Indicate coverage of gross public sector net of NIS borrowings, e.g., general government and nonfinancial public sector.
2/ The government took over a private debt, Ottley Hall Shipyard about 17 percent of GDP in 1999.
3/ The deposits include sinking fund accounts and unused balances of grant and loan disbursements.

Public sector deposits with the banking system at end December is estimated to be EC$243 million (25 percent of GDP). About two thirds of the deposits are NIS funds; central government deposits are unused balances from revenue and other sources, including grants and loans.

St. Vincent and the Grenadines: Fund Relations
(As of November 30, 2002)

I. **Membership status**: Joined 12/28/79; Article VIII.

II. **General resources account**:	**SDR Million**	**Percent of Quota**
Quota	8.30	100.0
Fund holdings of currency	7.80	94.0
Reserve position in Fund	0.50	6.0

III. **SDR department**:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	0.35	100.0
Holdings	0.02	5.17

IV. **Outstanding purchases and loans**: None.

V. **Financial arrangements**: None.

VI **Projected obligations to Fund** (SDR million; based on existing use of resources and present holdings of SDRs): None.

VII. **Exchange rate arrangement**: 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 system is free of restrictions on the making of payment and transfers for current international transactions. However, a few import goods require import license.

VIII. **Article IV consultation**: The last Article IV consultation was concluded by the Executive Board on January 28, 2002. St. Vincent is on the 12-month consultation cycle. The authorities have not accepted the Fourth Amendment to the Fund's Articles of Agreement.

IX. **Technical assistance**: (2001–present)

Caribbean Regional Technical Assistance Centre (CARTAC):

- In December an FAD/CARTAC mission assisted the government in a comprehensive study of the tax systems and administration.
- In September a mission assisted the OECS member country governments on developing indicators for the compilation of quarterly BOP for ECCU countries and updating GDDS metadata for the financial and external sectors.
- In September a mission assisted the OECS member country governments in the first workshop (which is part of a series over 18 month period) on statistics Sweden program for implementing System of National Accounts, 1993.

- In October 2002 a mission assisted the OECS member country governments in a financial sector supervision seminar.
- In September 2002 a mission assisted the ECCB and member country governments in a stabilization/financial programming workshop under the Structural Adjustment Technical Assistance project (SATAP).
- In September 2002, a mission assisted the government in a workshop on Onsite Inspection.
- In July 2002, a mission assisted the government linking the new CPI basket based on the 1995/96 Household Budget and Expenditure survey (HBES) to the old basket based on 1976 HBES. The base year was changed from 1981 to 2001.
- In June 2002, a mission assisted the ECCB in a seminar on launching major fiscal reform programs in the ECCB member countries.
- In April 2002, a mission assisted the ECCB in conducting a regional workshop in strengthening compilation of national accounts and coordinating efforts to link the CPI indices for all the ECCU countries.
- In September 2001, a workshop jointly sponsored by the ECCB, and the Fund on "Estimating and Forecasting Techniques for Financial Programming" was held at the ECCB for officials of ECCB member countries.

STA: In July 2002, a mission assisted the ECCB and member country governments in a debt management workshop.

MAE: In September 2001, a mission assisted the government to complete the OFC Module 1, and prepare an aide-memoire on the principal issues.

STA: In July 2001, a mission assisted ECCB countries to complete GDDS metadata for socio-demographic topics, and GDDS external metadata.

St. Vincent and the Grenadines: Relations with the World Bank Group
(As of December 17, 2002)

I. Projects / Economic and Sector Work

1. There were three active World Bank projects in St. Vincent and the Grenadines with net commitments of just over US$10 million. All of these projects are part of the OECS sub-regional programs of the World Bank.

2. The **OECS Telecommunications Reform Program**, approved in FY98, seeks to introduce pro-competition reforms in the telecommunications sectors and increase the supply of informatics-related skills in five OECS borrowing member countries: the Commonwealth of Dominica,Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. The project has helped the OECS countries negotiate with the sub-regional telecom monopoly and lower the long distance and regional telephone rates. St. Vincent and the Grenadines' share of the US$6.0 million loan is US$1.2 million in IBRD loan and IDA credit. This project is currently active.

3. The **OECS Emergency Recovery Projects** were approved on March 8, 2002, for Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines to support efforts in each country to revitalize tourism, which had fallen off as a result of the events of September 11, 2001. St. Vincent and the Grenadines' share of the US$20.9 million in IBRD loans and IDA credits is for US$3.2 million. This project is currently active.

5. St. Vincent and the Grenadines is also participating in the **Disaster Management Project** approved in FY99, part of a regional program for the five OECS borrowing countries to fortify, reconstruct, and rehabilitate key economic and social infrastructure and facilities to minimize damage caused by natural and man-made disasters and to speed-up emergency recovery following such disasters. Additionally, the project aims to strengthen countries' institutional capacities to prepare for and respond to disaster emergencies efficiently and effectively. The total program size is US$46 million, and the St. Vincent and the Grenadines component, which was approved in May 2002 is for US$5.91 million in IBRD loan and IDA credit.

6. The World Bank's Management presented to its Board an Eastern Caribbean Sub-Region Country Assistance Strategy (CAS), on June 4, 2001. The CAS for World Bank fiscal years 2002-06 covers St. Vincent and the Grenadines and proposes new commitments of US$107 million for the five OECS World Bank borrowers.

7. In FY04, US$4 million of the US$20 million sub-regional OECS Education Reform Project, and US$4 million out of a US$150 million Caribbean-wide HIV/AIDS program, are expected to be allocated to St. Vincent and the Grenadines. The CAS also foresees lending to St. Vincent and the Grenadines as part of an OECS-wide Regulatory Reform Project in the

electricity sector (US$5.0 million) and a Public Sector Reform project (US$4.0 million), both in FY05.

8. In addition, the Bank is preparing reports in the area of OECS institutional development and fiduciary issues: the OECS Institutional and Organizational Capacity Review; the Country Procurement Assessment Review; and the County Financial Accountability Assessment all expected to be finalized and disseminated in FY03. Additionally, a Fiscal Issues paper is expected to be finalized in FY04.

9. In June 2002, St. Vincent participated in the biannual meetings of the Caribbean Group for Cooperation in Economic Development (CGCED), in Washington. Four reports were presented by the Bank, with specific emphasis on the OECS: *Natural Hazard Risk Management in the Caribbean: Revisiting the Challenge; Youth Development in the Caribbean; Development Assistance and Economic Development in the Caribbean Region: Is there a Correlation?;* and *Caribbean Economic Overview 2002: Macroeconomic Volatility, Household Vulnerability, and Institutional and Policy Responses.* St. Vincent and the Grenadines presented its *Medium Term Economic Strategy Paper* (for 2002-2004) at the conference.

II. Financial Relations

IBRD and IDA Operations
(In millions of U.S. dollars)

Operations	Principal	Disbursed	Undisbursed
OECS Telecommunications Reform	1.20	0.43	0.77
St. Vincent Emergency Recovery Project	3.20	1.36	1.84
St. Vincent Disaster Management Project	6.00	0..13	5.87

	Actual								
Fiscal year 1/	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total disbursements	0.10	0.10	0.10	0.00	0.20	0.00	0.36	1.46	1.63
Repayments	0.20	0.20	0.20	0.20	0.10	0.10	0.13	0.12	2.23
Net disbursements	-0.10	-0.10	-0.10	-0.20	0.10	-0.10	0.24	1.34	-0.6
Canceled	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest and fees	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.07

Source: The World Bank Group.

1/ All years are World Bank fiscal years (ending June 30).

St. Vincent and the Grenadines: Relations with the Caribbean Development Bank
(As of November 30, 2002)

CDB has approved loans totaling US$ 97.9 million, of which US$ 9.76 million are undisbursed.

Major projects:

1. *The Grenadines Multi-Project III*—US$ 3.6 million undisbursed—is geared towards further development of the Multi-Project II tourist sector in the Grenadines through construction of roads in Bequia, Canouan, and Union Islands and a jetty in Mayreau.
2. *The Basic Education Project*—US$ 1.5 million undisbursed—is for the construction of schools, teacher training, and curriculum development.
3. *The Solid Waste Management Improvement Project*—US$ 1.8 million undisbursed—is intended to improve waste management through the establishment/upgrading of landfills, the provision of equipment, and the strengthening of the legal framework.
4. *Third Line of Credit*—US$ 1.0 million undisbursed - to provide mortgage finance, student loans and to provide credit to people engaged in micro and small-scale enterprises.
5. *Sixth Student Loan Scheme*—US$ 3.5 million undisbursed—to provide loans to students for upgrading skills at the professional, technical and vocational levels.

I. Current Portfolio
(In millions of U.S. dollars)

	Approved	Undisbursed
Total	19.48	8.6
Lines of credit	2.4	1.0
Multi-project III	5.6	1.3
Student Loan	3.5	3.5
Solid waste management	1.9	1.8
Basic education	6.08	1.0

II. Loan Disbursements
(In millions of U.S. dollars)

	1998	1999	2000	2001	2002 1/
Net disbursement	4.23	0.94	0.07	3.85	3.49
Disbursement	7.05	3.37	2.15	5.88	4.74
Amortization	2.82	2.43	2.08	2.03	1.25
Interest and charges	1.55	1.78	1.42	1.86	1.63
Net resource flow	2.68	-0.84	-1.35	1.99	1.36

1/ January-November only.

ST. VINCENT AND THE GRENADINES: STATISTICAL ISSUES

St Vincent and the Grenadines' statistical database remains weak in terms of coverage, consistency, periodicity, and timeliness. Efforts to address the weaknesses in the statistical base have been hampered by low response rates to surveys (less than 50 percent), and high turnover of staff.

1. **Prices:** Data on consumer price index are reported regularly with a two-month lag. CARTAC assisted in linking the CPI based on 1981 series to the CPI based on 2001 series. This was part of the program on Constructing Weights for the Harmonized Consumer Price Index in the ECCU. St. Vincent and the Grenadines conducted the Household Budget and Expenditure survey (HBES) in 1995/96, whilst all the other five ECCU member countries conducted HBES surveys for 1998/99. Harmonized CPI compilers thus will have to use a method for updating the St. Vincent expenditure weights to 1998/99 to properly align its CPI with those of the other ECCU member countries before all eight are combined into an ECCU -harmonized CPI.

2. **Labor**: The Statistical Office has not published official data on unit labor costs, employment and unemployment. However, these indicators could be derived after the population census (conducted in June 2001) computations are completed.

3. **National Accounts**: National accounts data by sector are provided with one year lag, but the coverage of economic activity in the informal sector is inadequate. There is need to fully upgrade compilation of statistics from 1968 System of National Accounts to 1993 Systems of National Accounts.

4. **Public finance:** STA's publishes annual data for the central government revenue and expenditure excluding financing, in the GFS Yearbook. Quarterly revenue and expenditure data for the central government are provided to Fund with some lag. Implementing ministries delay reporting on capital expenses. There are large discrepancies between the fiscal and monetary accounts, and unexplained discrepancies between the budget financing need (computed from income expenditure side) and financing data from debt accumulation. Although domestic debt figures are now available following the implementation of the CS-DRMS system, the domestic debt amortization figures are incomplete. The public enterprises are now being monitored by the Ministry of Finance, but the financial reports are subject to lags.

5. **Monetary statistics:** Monetary data are compiled by the ECCB on a monthly basis. The data are reported regularly to the Fund, although the timeliness of data could be improved. The monetary and financial data do not include other deposit taking institutions such as the credit unions. The ECCB is aware of the need to improve the coverage of the financial statistics and has taken steps to collect data on credit unions (the savings and loans of credit unions account for 20-30 percent of market share).

6. **Balance of payments:** The ECCB compiles annual balance of payment statistics for St. Vincent and the Grenadines, which are submitted to STA. The latest published data in the IFS (December 2002), are for 2001. There is need to improve the compilation of capital and financial account transactions in the balance of payments. In addition, the recording of the stock of private and public debt should be improved.

St. Vincent and the Grenadines: Core Statistical Indicators
(As of January 3, 2003)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt/ Debt Service
Date of Latest Observation	Fixed Rate	08/02	08/02	08/02	9/02	9/02	11/02	10/02	09/01	09/02	2001	09/02
Date Received	n.a.	10/02	10/02	10/02	12/02	12/02	12/02	12/02	10/02	10//02	04/02	10/02
Frequency of Data	n.a.	M	M	M	M	M	M	M	A	Q	A	A
Frequency of Reporting	n.a.	Q,V	Q,V	Q,V	Q,V	Q,V	M	Q,V	A,V	Q,V	A,V	A.V
Source of Update	n.a.	ECCB	ECCB	ECCB	ECCB	ECCB	CSO	CSO	CSO	MOF	CSO	ECCB
Mode of Reporting	n.a.	M,E,C	M,E,C	M,E,C	M,E,C	M,E,C	M,E	M,E	M,E	E	E	M,E
Confidentiality	n.a.	U	U	U	U	U	U	U	U	U	U	U
Frequency of Publication	n.a.	Q	Q	Q	Q	Q	M	Q	A	A	A	A

[1] D-daily, W-weekly, M-monthly, Q-quarterly, A-annually, V-irregularly, and O-other. A "V" added to a "Q" or an "A" indicates that the latest observation has been received upon request.
[2] A-direct reporting by Central Bank, Ministry of Finance, or other official agency, N-official publication of press release, P-commercial publication, C-commercial electronic data provider, E-EIS, O-other.
[3] E-electronic data transfer, C-cable or facsimile, T-telephone, M-mail, V-staff visits, and O-other.
[4] A-for use by the staff only, B-for use by the staff and Executive Board, C-unrestricted, D-preliminary data available to staff prior to official publication or E-subject to other use restrictions.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No.03/14
FOR IMMEDIATE RELEASE
February 14, 2003

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

IMF Concludes 2002 Article IV Consultation with St. Vincent and the Grenadines

On January, 27, 2003, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with St. Vincent and the Grenadines.[1]

Background

St. Vincent and the Grenadines, one of the Windward Islands of the Caribbean, is a small open economy largely agriculture-based (bananas and other crops) with a growing services sector including tourism, telemarketing, and a small offshore financial center. Real GDP grew by a modest ¼ percent in 2001 well below the 4 percent average for the previous three years largely due to the harsh effects of a drought on agriculture and the fall-off in stopover tourists associated with the September 11 attacks and the sluggish global economy. Preliminary estimates for 2002 indicate about a pick up in real GDP growth to around 1 percent due to a strong rebound in agriculture prior to tropical storm Lili in late September, and construction activity as public sector projects were implemented. Inflation was around 1 percent in 2001 and 2002, and unemployment is reported to remain high.

The government of the St. Vincent and the Grenadines is to be commended for achievements in its first eighteen months in a difficult regional and global environment. These include consecutive growth in 2001 and 2002; improvement in overall public sector savings through

---

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

better enterprise performance, reduced tax exemptions, and improved tax collections. These achievements were underpinned by monitoring of public sector enterprise performance on a quarterly basis; regular consultation with civil society on economic matters; and progress in restructuring the banana industry.

The government's counter cyclical policy helped to avoid a recession and mitigate further loss of employment. The result while positive on the side of economic growth led to degeneration in the overall fiscal position. The public sector overall balance reversed from a ¼ percent of GDP surplus in 2000 to a deficit of 1½ percent of GDP in 2001, and 6 percent of GDP in 2002. This reflected a drop in public sector savings to around 4 percent in 2001 and 2002 from an average of above 8 percent of GDP in previous years. Public investment expanded from 7 percent in 2000 to 9 percent in 2001 and around 12 percent of GDP in 2002, largely financed by grants and commercial borrowings. The central government's overall balance recorded a deficit of 3½ percent in 2002, as the wage bill and capital program increased significantly. Preliminary estimates indicate that public sector debt rose to 72 percent of GDP in 2002 from 67 percent in 2001, of which about three quarters is external on concessional terms and of long-term maturity.

St Vincent and the Grenadines was removed from the Organization for Economic Cooperation and Development's (OECD) list of tax havens in 2002, but remains on the Financial Action Task Force's (FATF) list of non-cooperative countries and territories in the fight against money laundering. The authorities are strengthening the regulatory and supervisory framework in line with international best practices. The number of offshore banks fell from 38 in 2001 to around 20 at end-2002.

The external current account deficit remains broadly unchanged at 11¾ percent of GDP in 2002 largely financed by official capital inflows and foreign direct investment. Export receipts from bananas, despite an increase in volume, will remain flat because of lower international prices. Tourist receipts are expected to be somewhat lower than 2001 reflecting significant declines in excursionists, yacht, and cruise passenger arrivals.

The government has made significant progress in improving public sector governance, restructuring the banana sector, strengthening the financial sector, and building consensus for difficult policy issues, including a wage freeze in the public sector. Public enterprises have come under increased financial scrutiny in an effort to improve their financial performance. Poverty reduction remains at the center of the government's economic strategy.

Executive Board Assessment

Directors agreed with the thrust of the staff appraisal. They commended the authorities for their success in maintaining macroeconomic stability in a very difficult regional and global environment. They noted that, despite recent external setbacks—including the recent tropical storm, the events of September 11, and the global economic slowdown—St. Vincent and the Grenadines had achieved modest real growth in 2002, above the average for the Eastern

Caribbean Currency Union (ECCU) as a whole, and that inflation was subdued. However, unemployment remained high.

Directors expressed concern about the overall fiscal deterioration and the rise in public sector debt, and urged early fiscal consolidation. Strong actions, including additional measures to rein in recurrent expenditures, will be required to meet the government's target for the central government deficit. Over the medium term, continued efforts will also be necessary to improve the operations of public enterprises. Directors cautioned against expensive overseas borrowing, welcomed the progress on the resolution of the Ottley Hall debt, and urged the government to limit additional borrowing.

Directors expressed concern about the recent growth in the public sector wage bill. Tighter control, including a cap on civil service employment, would be important, and the government should consider the bonus paid in December 2002 as part of any negotiated wage increases for 2004. Any further increases in public sector wages would undermine the economy-wide need for wage restraint in order to enhance competitiveness. On capital spending, Directors underlined the need to prioritize and focus on projects that will promote growth and poverty reduction, while taking advantage of available concessional funding.

Turning to revenues, Directors emphasized that efforts should focus on reform of the tax system over the medium term. A reduction in discretionary exemptions could permit a further lowering in tax rates. With the deadlines imposed by the Caribbean Community (CARICOM) and the Free Trade Area of the Americas (FTAA), the authorities were encouraged to broaden the tax base, and to reduce reliance on trade tariffs. In this connection, a VAT-type tax should be introduced—preferably on a regional basis—in advance of the trade liberalization.

Directors noted that the health of the financial system needed to be bolstered by improvements in the prudential framework of the non-bank sector. The planned unified supervisory agency should be introduced as soon as possible. Directors welcomed plans to restructure the National Commercial Bank, which should provide a basis for the early divestment of the bank. The prospects for the offshore sector were seen to be weak, and the authorities were urged to take steps to intensify supervision and close banks if necessary, to avoid a drain on the budget.

Directors welcomed the recent efforts to strengthen the mechanisms to combat money laundering and the financing of terrorism. Such efforts should be continued.

The medium-term strategy should focus on consolidating the fiscal position and accelerating structural reforms to promote private sector-led growth. Given the fixed exchange rate, they emphasized improving competitiveness as a crucial objective, achievable through public sector wage restraint, productivity enhancing reforms, and an enabling business environment. The government should seek opportunities to enhance public sector efficiency through privatization.

Directors noted that economic data need improvement in key areas, including public sector debt, the capital account of the balance of payments, the finances of public enterprises, and labor statistics.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2002 Article IV Consultation with St. Vincent and the Grenadines is also available.

St. Vincent and the Grenadines: Selected Economic Indicators
(Annual percent changes, unless otherwise indicated)

	1998	1999	2000	2001	2002P
Real Sector					
Nominal GDP at factor cost	8.6	3.6	1.7	2.8	2.4
Real GDP growth at factor cost	5.7	3.6	2.0	0.2	0.7
Inflation consumer prices (average)	2.1	1.0	0.2	0.8	1.0
Inflation consumer prices (end of period)	3.3	-1.8	1.4	-0.6	1.0
Public Sector 1/					
Central government finances 2/					
Revenue and grants	30.3	30.6	30.0	30.9	32.1
Expenditures	33.6	32.3	30.3	33.2	35.7
Current expenditures 3/	23.8	25.2	26.4	28.3	29.0
Capital expenditures	9.8	7.1	3.9	5.0	6.7
Savings 3/	4.1	3.4	2.4	0.7	1.4
Overall balance 3/	-3.3	-1.7	-0.3	-2.4	-3.6
Public sector finances					
Public sector investment program	11.4	14.7	7.2	8.7	12.1
Public sector savings	7.8	6.4	5.9	4.1	4.3
Overall balance	-1.2	-6.3	0.3	-1.4	-6.0
Public sector debt 4/	46.9	65.5	67.3	67.1	72.3
Money and interest rate 5/					
Net domestic assets of the banking system	5.2	5.5	-1.7	7.2	0.1
Public sector	-6.5	2.1	1.9	0.3	3.2
Private sector	8.8	11.5	8.0	2.1	2.6
Liabilities to the private sector	16.1	12.5	9.5	3.0	1.9
Average weighted lending interest rate	11.8	11.6	11.5	11.9	11.5
External sector 1/					
External current account balance	-29.7	-21.8	-8.4	-11.8	-11.8
Public external debt	31.6	48.4	48.0	49.8	48.9
Public external debt service 6/	5.6	6.7	5.9	6.7	6.6
Real effective exchange rate (minus is depreciation)	-1.1	-0.1	5.1	0.1	-2.7

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

1/ In percent of GDP.
2/ The figures quoted here were accepted by the authorities. The Budget presented in December 2002, following normal practice, has higher totals.
3/ Interest payments are based on accrual accounting. The government has sought a moratorium on Ottley hall shipyard debt pending an amicable settlement on issues under dispute with the creditors.
4/ Indicate coverage of gross public sector net of NIS borrowings, e.g., general government and nonfinancial public sector.
5/ In relation to banking system liabilities to the private sector at the beginning of the period.
6/ In percent of exports of goods and services.