INTERNATIONAL MONETARY FUND

ST. VINCENT AND THE GRENADINES

July 17, 2014

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—DEBT SUSTAINABILITY ANALYSIS

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Prepared by the Staff of the International Monetary Fund.

The current Debt Sustainability Analysis (DSA) indicates that St. Vincent and the Grenadines' risk of debt distress remains moderate, based on an assessment of public external debt. However, the DSA reveals the potential for heightened overall risk of debt distress under different scenarios, reflecting vulnerabilities related to domestic debt, and given the deterioration in the fiscal position since the previous DSA in 2012.[1] Despite rising in recent years, the public debt to GDP ratio is projected to return to a sustainable trajectory over the medium term in light of the authorities' commitment to undertake fiscal consolidation measures and the projected recovery in economic growth.

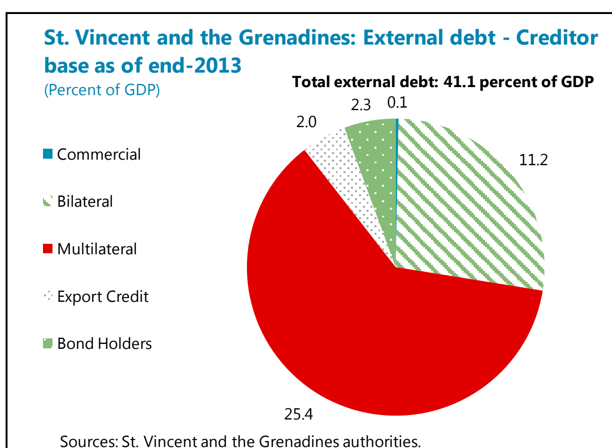
[1] St. Vincent and the Grenadines' average Country Policy and Institutional Assessment Ratings over 2010-12 is 3.77.

BACKGROUND

1. **St. Vincent and the Grenadines' economy has been buffeted by a string of adverse shocks over the last five years.** Economic activity contracted by about 4½ percent cumulatively during 2008–11, reflecting the impacts of the global slowdown that began in 2007, the international commodity price increases in 2008-09, Hurricane Tomas in 2010 and floods in 2011. More recently, on December 24th 2013, the country was hit by floods, causing unusually massive economic losses estimated at 15 percent of GDP, more than twice the damages inflicted by either of the two previous natural disasters in 2010 and 2011.[2]

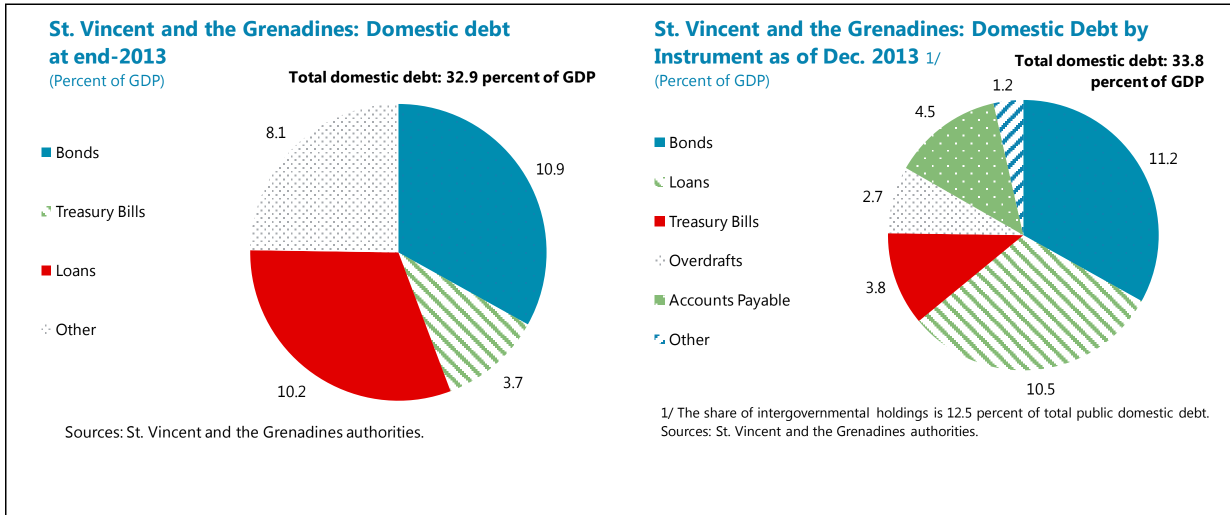
2. **Consequently, the nascent rebound from the weak macroeconomic performance of recent years is likely to be delayed.** Prior to the floods, the economy had started to rebound, growing by an estimated 2.3 percent in 2013, and inflation has been low and stable since the global crisis. Reflecting strong FDI inflows and imports related to the construction of the international airport, the current account deficit increased in 2013 to 29.2 percent of GDP.

3. **These adverse exogenous shocks and the government's efforts to counter them resulted in a worsened debt position.** The central government debt-to-GDP ratio increased by about 15 percent of GDP over 2008-2013. By 2013, total public debt stood at 74 percent of GDP, with external debt amounting to about 41.1 percent of GDP.[3] While these ratios are elevated, several factors temper the risk, notably that about two-thirds of external debt is multilateral debt and one-fourth is on concessional terms. In addition, rollover risk is relatively low as the average maturity of government domestic bonds is 9.5 years, and the creditor base is stable.



[2] The World Bank described the rains that caused the floods as a once in 100 year event.

[3] As of end-2013, central government commercial external debt represented 100 percent of total public external commercial debt and about 90 percent of total bilateral and multilateral external debt.

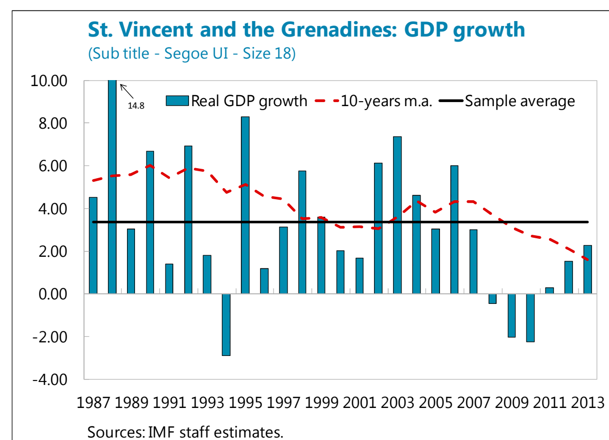


4. The authorities intend to place the debt on a downward path going forward. Apart from their response to natural disasters, the authorities have shown fiscal restraint, posting primary surpluses in non-disaster years of 1.1 percent of GDP in 2008 and 0.3 percent of GDP in 2012. They are committed to make advances on a number of revenue-enhancing measures as indicated in their Letter. Their track-record in implementing commitments under previous RCFs is good, notably improving tax administration, including broadening the property tax base and fully operationalizing the Large Taxpayer Unit. They will continue to improve public finance management, with help from a range of technical assistance.[4]

UNDERLYING DSA ASSUMPTIONS

5. The DSA analysis is based on the following macroeconomic assumptions:[5]

6. Growth and inflation: The DSA template is generating historical scenarios based on 10-year moving averages, which yields average growth during 2004-2013 of only 1.6 percent a year, as the result of major global macroeconomic shocks. However, this is the country's lowest 10-year growth performance since independence in 1978



[4] The authorities have received technical assistance from CARTAC as well as on public debt sustainability (FAD) and debt management (MCM).

[5] The DSA is performed at the general government level.

(text chart) and well below the 3.4 percent annual average over the last 25 years. In this context, staff is basing the DSA on a long-term growth assumption of 3.1 percent, especially given that the completion of the international airport over the next 18 months is expected to significantly increase medium-term tourism arrivals and growth.[6,7] End-period inflation is projected to reach around 2.1 percent in 2014, reflecting mainly imported inflation related to the rehabilitation and reconstruction activities. Over the medium term, inflation is projected to revert to its long-term average of around 2 percent, anchored by the currency board arrangement.

7. **Fiscal balance**: While the central government's primary balance is projected to register a deficit of 4.1 percent of GDP in 2014, in the baseline scenario it is projected that the primary balance will register surpluses around 2 percent of GDP by 2019 to reflect the government's commitment in their Letter of Intent. Revenue is projected to increase over the medium term, reflecting the authorities' implementation of a number of revenue enhancing measures such as a market-based property tax, improvements in tax compliance, including enhancements of tax audits, and streamlining exemptions. With the end of the large expenditures related to the construction of the airport and the floods, capital expenditures are expected to average about 4 percent of GDP in the medium term, diminishing significantly the overall fiscal deficits and external financing needs. Central government external grants, which are expected to peak in 2014 at about 3 percent of GDP, are projected to decline to about 1 percent of GDP over the medium and long term.

8. **External Sector**: The current account deficit is projected to narrow to pre-flood levels in 2015 and is expected to continue narrowing to around 18½ percent of GDP by 2019. Tourism and FDI are assumed to rebound as economic recovery strengthens in source countries (mainly North America and Europe) together with the completion of the airport, over the medium term. The grant element of new external borrowing is projected to decline over the long term, reflecting difficulty of accessing concessional resources as per capita income increases.

EVALUATION OF EXTERNAL DEBT SUSTAINABILITY

9. **Even thought St. Vincent and the Grenadines' external debt is projected to increase significantly until 2015, the risk of debt distress remains moderate under the baseline scenario.** The PV of public sector external debt is projected to peak at 38½ percent of GDP in 2016 and is expected to decline to 35 percent of GDP by 2019, well below the threshold value of 50 percent. The present values of debt and debt service to export and revenue ratios also remain below the respective thresholds under the baseline scenario. Such outcomes are caused by the

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[6] The 2012 DSA Update projection of long-term growth was 3½ percent.

[7] See Culiuc, Alexander, "Determinants of International Tourism", Draft IMF Working Paper (IMF WP/14/82), which shows that tourism to small islands is highly sensitive to the introduction/removal of direct flights.

high share of debt subject to concessional terms, as about two-thirds of the external debt is due to multilateral institutions, and by the fact that most of the capital expenditures related to the recent and past floods have been financed by grants.

10. Sensitivity analysis shows that St. Vincent and the Grenadines' external debt dynamics are vulnerable to changes in growth and net official and FDI flows. Given that St. Vincent and the Grenadines finances its current account deficit mainly through FDI, assuming lower FDI would put St. Vincent and the Grenadines' external debt under distress. In such a case, the PV of external debt-to-GDP ratio would reach 52 percent by 2016, breaching the country-specific threshold of 50 percent. In addition, a scenario of low growth would also put external debt under distress.

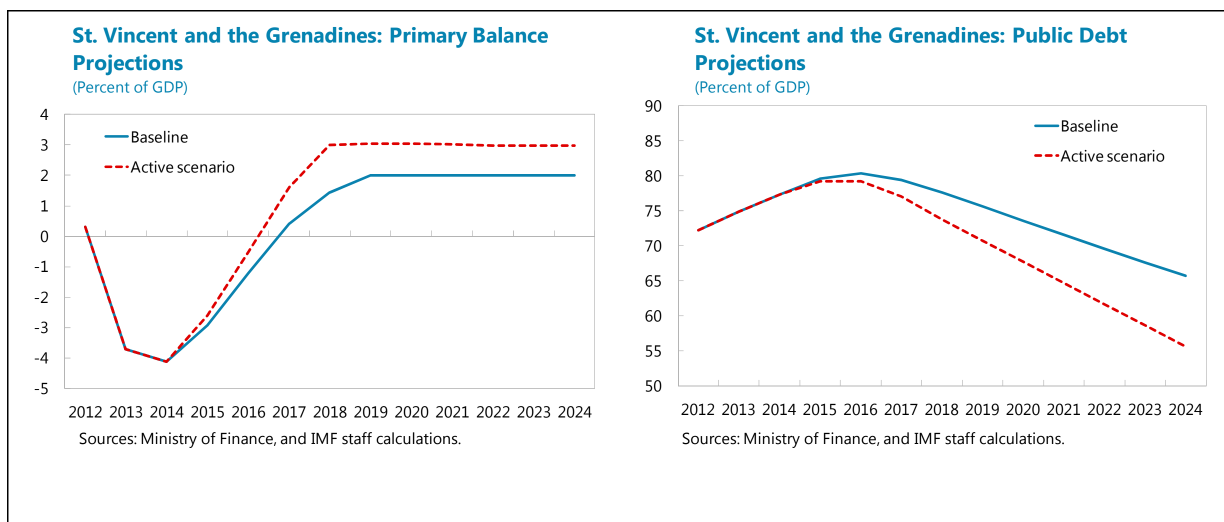
EVALUATION OF PUBLIC DEBT SECTOR SUSTAINABILITY

11. Although public sector debt has risen in recent years, the authorities' planned fiscal measures should put debt on a downward trajectory within two years. The public sector debt-to-GDP ratio is projected to peak at almost 80 percent of GDP in 2016, when the construction of the new airport is expected to be completed, approaching the threshold related to the Present Value (PV) of 74 percent. Yet, debt is expected to start to fall by 2017, reflecting both the unwinding of the main flood-related expenditures and fiscal consolidation measures that the authorities plan to take, combined with the projected rebound in economic growth.

12. Sensitivity analysis shows that sustained high primary deficits and lower growth would be key vulnerabilities for St. Vincent and the Grenadine's debt dynamics. Under a scenario where the primary balance is unchanged at the 2014 level, the Present Value (PV) of the debt-to-GDP ratio would reach 87 percent in 2019 compared to 71 percent in the baseline. If this scenario is replicated with the 2008-2013 primary deficit average of 0.7 percent of GDP starting in 2014, then the PV of debt-to-GDP ratio would fall to 75 percent in 2019. However, implementing the policies to return to a path consistent with the authorities' commitment to reduce public sector debt to 60 percent of GDP (in line with the regional target) may be challenging. In this context, while the authorities will only seek grants and concessional loans to finance rehabilitation and reconstruction, the ability to deal with the additional debt burden would be at risk from revenue underperformance in scenarios in which either domestic or international growth does not pick-up. However, in the event that funding does not become available, the authorities plan to adjust spending and non-flood related capital expenditures.

13. Active policy scenario: In the context of the 2012 Article IV consultation (when public debt was projected to reach 70 percent of GDP), the authorities' intention was to generate a primary fiscal surplus of the central government of about 1½ percent of GDP in order to bring the debt-to-GDP ratio below the ECCB indicative target of 60 percent by 2020. Given the impact of the large recent exogenous shocks on debt, it seems reasonable to extend the time frame for

achieving this indicative target to 2023 under an active scenario (the target is expected to be achieved in 2026 under the baseline), which could be achieved if the authorities reached, and thereafter maintained, a central government's primary surplus of 3 percent of GDP by 2018.[8] This would require further modest consolidation measures, including revenue enhancements through limiting discretionary exemptions of value-added and corporate taxes that would increase revenues by ½ percent of GDP per annum by 2019, and additional savings of ½ percent of GDP, also by 2019, of which 2/3 would come from attrition and efficiency gains on the wage bill and the remaining from cuts on transfers and subsidies to SOEs.



14. Natural disasters: St. Vincent and the Grenadines is subject to frequent natural disasters and the authorities are enhancing their efforts to build resilience against them. Since Hurricane Tomas in 2010, the authorities have been stepping up their Emergency Recovery and Disaster Management Program, supported by the Organization of Eastern Caribbean States, which coordinates immediate responses across the region. In the aftermath of the December 2013 floods, the World Bank has agreed on additional financing of US$40.6 million over the next 3 years to scale up their Regional Disaster Vulnerability Reduction Project. This will support institutional strengthening to address disaster preparedness and climate change impacts, but also measures that should help improve the physical resilience of the national infrastructure against future natural disasters. Such initiatives and programs are expected to reduce the fiscal costs of future natural disasters. In addition, the Caribbean Catastrophe Risk Insurance Facility (CCRIF) only recently started offering coverage for excessive rainfall events, which the authorities intend to purchase this year, although the coverage limit is low for such events at US$0.8 million. Still, with this, St. Vincent and the Grenadines will have at least some coverage against the most

[8] The active scenario is designed to reach a primary balance of the central government of 3 percent of GDP by 2018 (see Table 9 of the Staff Report).

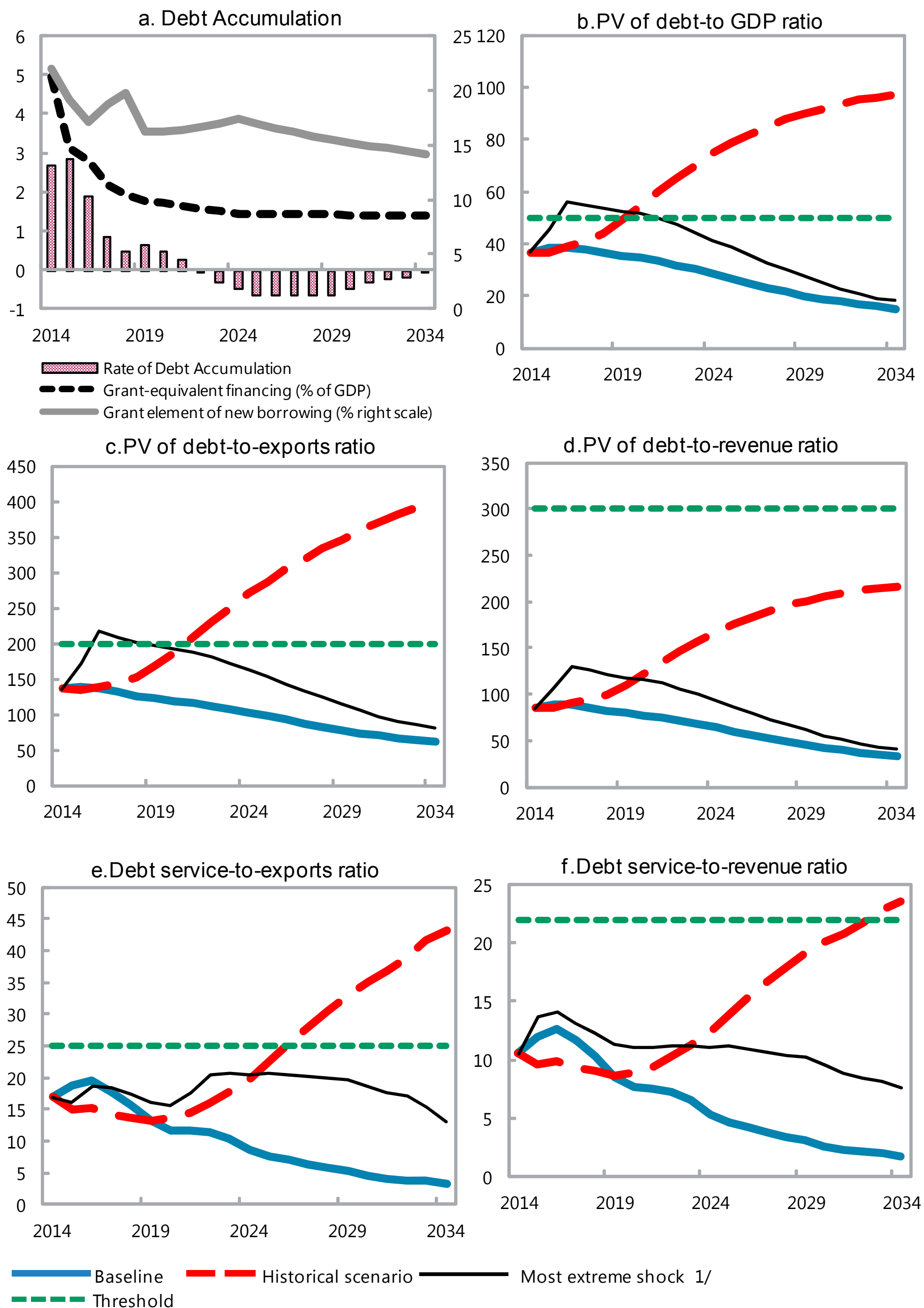
common disasters in the region, i.e. storms, floods, and earthquakes. Nonetheless, the risk of more extreme weather events due to climate change cannot be ruled out.

CONCLUSION

15. St. Vincent and the Grenadines' risk of external debt distress remains moderate, based on an assessment of public external debt. While the fiscal situation was adversely impacted given the series of adverse exogenous shocks that affected the country, both the nature and scale of the December 2013 shock were unprecedented, while the airport constitutes a significant, but highly growth-enhancing, investment. Thus, the recent deterioration in debt ratios is largely the result of one-off factors.

16. Nonetheless, the DSA reveals the potential for a heightened overall risk of debt distress under a number of different scenarios reflecting vulnerabilities related to domestic debt, in particular, lower growth or a failure to implement the needed fiscal adjustments. However, the authorities appear committed to intensifying fiscal consolidation measures in order to ensure sustainable public finances, and they have a good track record in implementing commitments under their previous RCFs. These policy measures, along with projected improvements in economic prospects, are expected to improve the fiscal situation and reduce the public debt-to-GDP ratio over the medium-term.

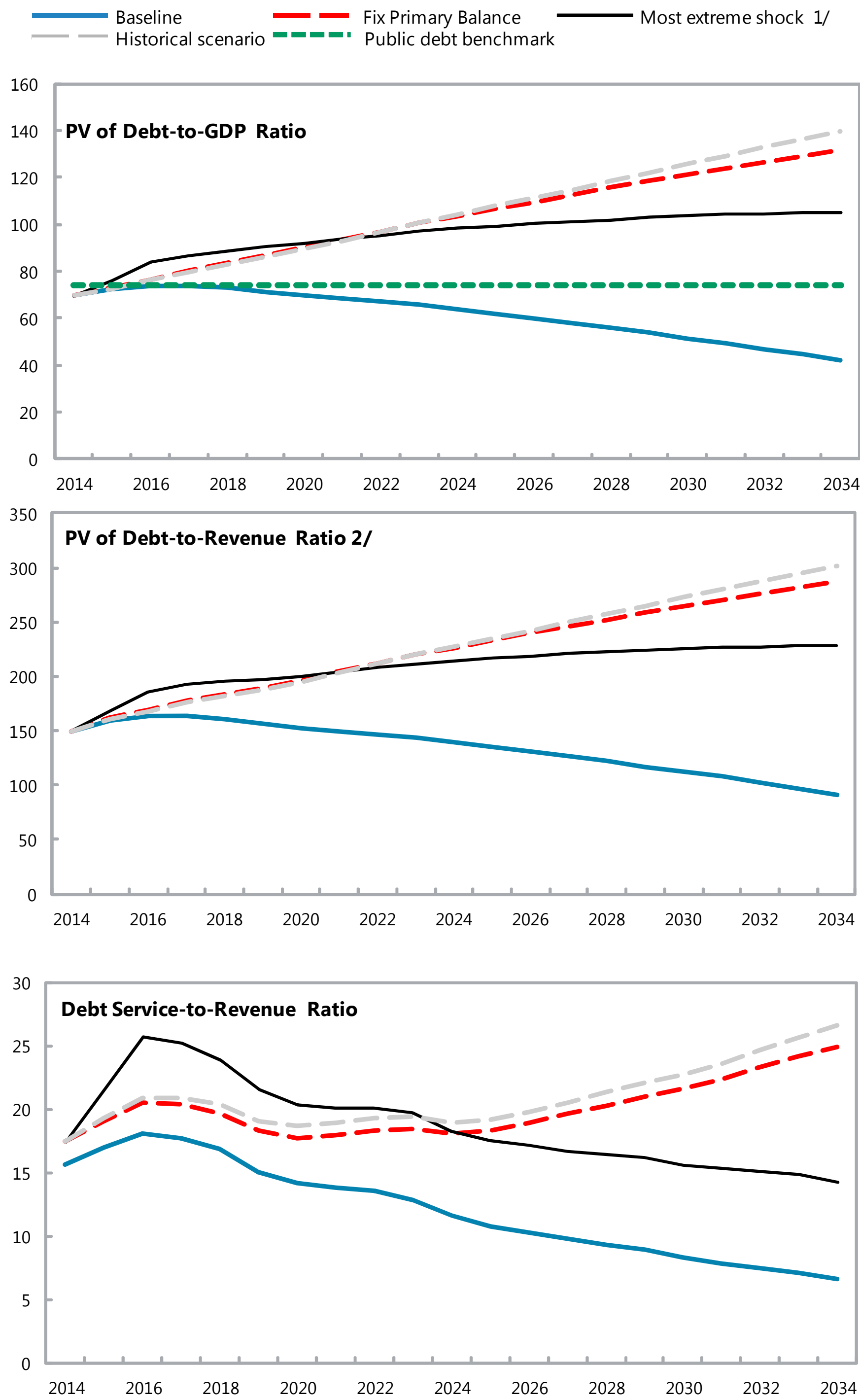
Figure 1. St. Vincent and the Grenadines: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2014-2034 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Combination shock and in figure f. to a One-time depreciation shock

Figure 2. St. Vincent and the Grenadines: Indicators of Public Debt Under Alternative Scenarios, 2014-2034 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.
2/ Revenues are defined inclusive of grants.

Table 1a. St. Vincent and the Grenadines: External Debt Sustainability Framework, Baseline Scenario, 2011-2034 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/	Standard 6/	Projections									
				Average	Deviation							2014-2019			2020-2034
	2011	2012	2013			2014	2015	2016	2017	2018	2019	Average	2024	2034	Average
External debt (nominal) 1/	**42.1**	**39.8**	**41.1**			**43.4**	**44.6**	**43.9**	**42.1**	**40.1**	**38.6**		**28.9**	**15.5**	
of which: public and publicly guaranteed (PPG)	42.1	39.8	41.1			43.4	44.6	43.9	42.1	40.1	38.6		28.9	15.5	
Change in external debt	1.4	-2.4	1.3			2.3	1.1	-0.7	-1.8	-2.0	-1.5		-1.9	-0.7	
Identified net debt-creating flows	17.0	10.1	10.2			14.5	11.4	7.6	6.8	4.8	3.2		2.1	2.0	
Non-interest current account deficit	**27.9**	**26.6**	**27.9**	**25.1**	**5.3**	**31.4**	**28.7**	**25.3**	**22.6**	**20.4**	**18.6**		**16.7**	**15.0**	16.3
Deficit in balance of goods and services	28.6	30.8	32.0			34.8	31.8	28.2	25.4	23.0	21.1		18.7	16.4	
Exports	27.0	27.1	26.9			27.1	27.6	27.9	28.6	28.8	28.9		27.7	24.3	
Imports	55.6	57.9	59.0			61.9	59.3	56.1	54.0	51.9	50.0		46.3	40.7	
Net current transfers (negative = inflow)	-1.2	-3.6	-3.4	-2.5	0.9	-3.2	-3.1	-3.0	-3.0	-2.9	-2.8		-2.6	-2.3	-2.5
of which: official	-0.4	-2.0	-2.0			-2.0	-1.9	-1.9	-1.8	-1.8	-1.7		-1.6	-1.4	
Other current account flows (negative = net inflow)	0.5	-0.7	-0.8			-0.3	0.1	0.1	0.2	0.3	0.4		0.6	1.0	
Net FDI (negative = inflow)	**-12.6**	**-16.6**	**-17.6**	**-15.6**	**4.2**	**-17.6**	**-17.7**	**-17.9**	**-16.0**	**-15.8**	**-15.7**		**-14.8**	**-13.2**	-14.3
Endogenous debt dynamics 2/	**1.7**	**0.2**	**-0.1**			**0.7**	**0.4**	**0.2**	**0.2**	**0.2**	**0.2**		**0.2**	**0.1**	
Contribution from nominal interest rate	1.5	1.2	1.3			1.3	1.5	1.5	1.5	1.5	1.4		1.1	0.6	
Contribution from real GDP growth	-0.1	-0.6	-0.9			-0.7	-1.1	-1.3	-1.3	-1.2	-1.2		-0.9	-0.5	
Contribution from price and exchange rate changes	0.4	-0.4	-0.6			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-15.6**	**-12.5**	**-8.8**			**-12.1**	**-10.3**	**-8.3**	**-8.5**	**-6.9**	**-4.7**		**-4.0**	**-2.7**	
of which: exceptional financing	-0.8	0.0	0.0			-0.8	0.1	0.2	0.2	0.4	0.3		0.0	0.0	
PV of external debt 4/	...	...	35.3			36.7	38.2	38.4	37.5	36.3	35.4		28.4	15.1	
In percent of exports	...	...	131.0			135.4	138.5	137.3	131.2	126.0	122.2		102.5	62.2	
PV of PPG external debt	**...**	**...**	**35.3**			**36.7**	**38.2**	**38.4**	**37.5**	**36.3**	**35.4**		**28.4**	**15.1**	
In percent of exports	**...**	**...**	**131.0**			**135.4**	**138.5**	**137.3**	**131.2**	**126.0**	**122.2**		**102.5**	**62.2**	
In percent of government revenues	**...**	**...**	**81.8**			**84.5**	**88.1**	**88.7**	**86.1**	**82.4**	**79.6**		**63.7**	**33.7**	
Debt service-to-exports ratio (in percent)	**17.4**	**16.2**	**16.1**			**16.9**	**18.8**	**19.6**	**17.9**	**15.7**	**13.1**		**8.5**	**3.2**	
PPG debt service-to-exports ratio (in percent)	**17.4**	**16.2**	**16.1**			**16.9**	**18.8**	**19.6**	**17.9**	**15.7**	**13.1**		**8.5**	**3.2**	
PPG debt service-to-revenue ratio (in percent)	**11.0**	**10.3**	**10.0**			**10.5**	**11.9**	**12.7**	**11.7**	**10.3**	**8.5**		**5.3**	**1.7**	
Total gross financing need (Billions of U.S. dollars)	0.1	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.0	0.0	
Non-interest current account deficit that stabilizes debt ratio	26.6	28.9	26.5			29.0	27.6	25.9	24.3	22.5	20.2		18.6	15.7	
Key macroeconomic assumptions															
Real GDP growth (in percent)	0.3	1.5	2.3	1.6	2.7	1.7	2.6	3.0	3.1	3.1	3.1	2.8	3.1	3.1	3.1
GDP deflator in US dollar terms (change in percent)	-0.9	1.0	1.5	2.5	2.8	1.7	1.0	1.3	1.4	1.6	1.3	1.4	1.3	1.3	1.3
Effective interest rate (percent) 5/	3.6	3.0	3.4	4.0	0.7	3.3	3.5	3.6	3.6	3.6	3.6	3.6	3.8	3.8	3.6
Growth of exports of G&S (US dollar terms, in percent)	-0.2	3.0	3.1	1.3	5.3	4.1	5.3	5.8	7.0	5.5	4.9	5.4	3.1	3.1	3.2
Growth of imports of G&S (US dollar terms, in percent)	-3.2	6.8	5.7	6.2	9.2	8.6	-0.7	-1.2	0.6	0.5	0.7	1.4	3.1	3.1	3.0
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	22.0	19.1	17.1	18.7	19.8	16.3	18.8	17.3	14.2	15.8
Government revenues (excluding grants, in percent of GDP)	42.7	42.8	43.2			43.5	43.3	43.2	43.6	44.0	44.5		44.5	44.8	44.6
Aid flows (in Billions of US dollars) 7/	0.038	0.040	0.023			0.026	0.016	0.017	0.014	0.013	0.013		0.014	0.021	
of which: Grants	0.038	0.038	0.021			0.023	0.015	0.015	0.013	0.011	0.012		0.013	0.020	
of which: Concessional loans	...	0.002	0.002			0.002	0.002	0.002	0.001	0.001	0.001		0.001	0.001	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			4.9	3.1	2.8	2.2	1.9	1.8		1.4	1.4	1.5
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			43.6	37.7	39.4	42.2	43.5	42.3		48.6	46.6	46.8
Memorandum items:															
Nominal GDP (Billions of US dollars)	0.677	0.694	0.720			0.745	0.772	0.806	0.842	0.882	0.921		1.143	1.763	
Nominal dollar GDP growth	-0.6	2.6	3.7			3.4	3.6	4.4	4.5	4.7	4.4	4.2	4.4	4.4	4.4
PV of PPG external debt (in Billions of US dollars)			0.25			0.27	0.29	0.31	0.32	0.32	0.33		0.32	0.27	
(PVt-PVt-1)/GDPt-1 (in percent)						2.7	2.9	1.9	0.8	0.5	0.6	1.6	-0.5	-0.1	-0.3
Gross workers' remittances (Billions of US dollars)	0.024	0.024	0.024			0.025	0.025	0.025	0.025	0.025	0.025		0.029	0.039	
PV of PPG external debt (in percent of GDP + remittances)	...	...	34.2			35.6	37.0	37.2	36.4	35.3	34.4		27.7	14.8	
PV of PPG external debt (in percent of exports + remittances)	...	...	116.7			120.7	123.9	123.7	118.9	114.6	111.6		94.0	57.0	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	14.3			15.1	16.8	17.7	16.2	14.3	12.0		7.8	2.9	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Table 1b. St. Vincent and the Grenadines: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-2034

(continued)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to GDP ratio								
Baseline	37	38	38	38	36	35	**28**	15
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	37	37	39	41	44	49	**75**	97
A2. New public sector loans on less favorable terms in 2014-2034 2	37	39	40	40	39	39	**34**	25
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	37	40	42	41	39	38	**31**	16
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	37	40	45	44	43	42	**33**	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	37	39	40	39	37	36	**29**	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	37	45	52	51	50	49	**38**	17
B5. Combination of B1-B4 using one-half standard deviation shocks	37	45	56	55	54	53	**41**	18
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	37	54	55	53	52	50	**40**	21
PV of debt-to-exports ratio								
Baseline	135	139	137	131	126	122	**103**	62
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	135	133	139	142	152	168	**270**	399
A2. New public sector loans on less favorable terms in 2014-2034 2	135	141	143	139	136	134	**124**	103
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	135	139	137	131	126	122	**103**	62
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	135	160	193	185	178	174	**145**	79
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	135	139	137	131	126	122	**103**	62
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	135	163	185	178	172	168	**139**	70
B5. Combination of B1-B4 using one-half standard deviation shocks	135	172	217	209	202	198	**163**	81
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	135	139	137	131	126	122	**103**	62
PV of debt-to-revenue ratio								
Baseline	85	88	89	86	82	80	**64**	34
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	85	85	90	93	100	110	**167**	217
A2. New public sector loans on less favorable terms in 2014-2034 2	85	90	92	92	89	87	**77**	56
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	85	91	96	93	89	86	**69**	36
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	85	93	103	100	97	94	**74**	36
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	85	89	91	89	85	82	**66**	35
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	85	103	120	117	113	110	**86**	38
B5. Combination of B1-B4 using one-half standard deviation shocks	85	105	129	126	122	118	**93**	40
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	85	125	126	122	117	113	**91**	48

Table 1b. St. Vincent and the Grenadines: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-2034

(concluded)

	Projections							
	2014	2015	2016	2017	2018	2019	2024	2034
Debt service-to-exports ratio								
Baseline	17	19	20	18	16	13	**8**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	17	15	15	14	14	13	**20**	43
A2. New public sector loans on less favorable terms in 2014-2034 2	17	15	15	14	13	11	**13**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	17	15	15	14	13	12	**12**	10
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	17	17	19	18	17	16	**18**	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	17	15	15	14	13	12	**12**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	17	15	16	16	15	14	**17**	11
B5. Combination of B1-B4 using one-half standard deviation shocks	17	16	19	18	17	16	**20**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	17	15	15	14	13	12	**12**	10
Debt service-to-revenue ratio								
Baseline	11	12	13	12	10	9	**5**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	11	10	10	9	9	9	**12**	23
A2. New public sector loans on less favorable terms in 2014-2034 2	11	10	10	9	8	7	**8**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	11	10	11	10	9	9	**8**	6
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	11	10	10	10	9	8	**9**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	11	10	10	10	9	8	**8**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	11	10	11	10	10	9	**11**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	11	10	11	11	10	10	**12**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	11	14	14	13	12	11	**11**	8
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	14	14	14	14	14	14	**14**	14

Sources: Country authorities; and staff estimates and projections.

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

Table 2a. St. Vincent and the Grenadines: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011-2034

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2011	2012	2013	Average 5/	Standard Deviation 5/	2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	67.7	72.2	74.0			76.4	78.6	79.3	78.4	76.6	74.5		64.5	42.5	
of which: foreign-currency denominated	42.1	39.8	41.1			43.4	44.6	43.9	42.1	40.1	38.6		28.9	15.5	
Change in public sector debt	2.3	4.5	1.8			2.4	2.2	0.7	-0.9	-1.8	-2.1		-2.0	-2.4	
Identified debt-creating flows	6.9	2.7	1.6			4.5	2.9	1.3	-0.2	-1.2	-1.4		-1.5	-2.1	
Primary deficit	3.9	1.6	1.8	2.0	1.7	3.4	2.1	1.0	-0.6	-1.6	-2.2	0.3	-2.3	-2.9	-2.5
Revenue and grants	48.4	48.3	46.0			46.6	45.2	45.1	45.1	45.3	45.8		45.7	45.9	
of which: grants	5.7	5.5	2.9			3.1	1.9	1.9	1.5	1.3	1.3		1.1	1.1	
Primary (noninterest) expenditure	52.3	49.9	47.8			50.0	47.4	46.2	44.4	43.7	43.6		43.4	43.1	
Automatic debt dynamics	3.5	1.2	0.7			1.1	0.7	0.3	0.4	0.5	0.7		0.8	0.7	
Contribution from interest rate/growth differential	2.3	0.9	0.7			1.2	0.4	0.1	0.1	0.3	0.4		0.6	0.6	
of which: contribution from average real interest rate	2.5	1.9	2.3			2.4	2.3	2.4	2.5	2.6	2.7		2.6	1.9	
of which: contribution from real GDP growth	-0.2	-1.0	-1.6			-1.2	-1.9	-2.3	-2.4	-2.3	-2.3		-2.0	-1.3	
Contribution from real exchange rate depreciation	1.2	0.3	0.0			-0.1	0.3	0.3	0.3	0.2	0.3		...	...	
Other identified debt-creating flows	-0.5	0.0	-0.9			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.5	0.0	-0.9			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-4.6	1.7	0.2			-2.1	-0.6	-0.7	-0.7	-0.7	-0.6		-0.5	-0.2	
Other Sustainability Indicators															
PV of public sector debt	...	...	68.2			69.7	72.3	73.8	73.8	72.8	71.3		63.9	42.1	
of which: foreign-currency denominated	...	...	35.3			36.7	38.2	38.4	37.5	36.3	35.4		28.4	15.1	
of which: external	...	...	35.3			36.7	38.2	38.4	37.5	36.3	35.4		28.4	15.1	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	14.0	10.7	12.4			14.3	13.3	12.6	10.6	9.1	7.7		5.4	1.7	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	148.1			149.6	159.7	163.5	163.7	160.6	155.9		139.9	91.7	
PV of public sector debt-to-revenue ratio (in percent)	...	...	158.0			160.4	166.7	170.6	169.3	165.4	160.4		143.4	94.0	
of which: external 3/	...	...	81.8			84.5	88.1	88.7	86.1	82.4	79.6		63.7	33.7	
Debt service-to-revenue and grants ratio (in percent) 4/	14.2	13.4	14.8			15.6	17.0	18.1	17.7	16.8	15.1		11.6	6.6	
Debt service-to-revenue ratio (in percent) 4/	16.1	15.2	15.8			16.8	17.7	18.9	18.3	17.3	15.5		11.9	6.7	
Primary deficit that stabilizes the debt-to-GDP ratio	1.6	-2.9	0.0			1.0	-0.1	0.3	0.3	0.2	-0.1		-0.3	-0.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	0.3	1.5	2.3	1.6	2.7	1.7	2.6	3.0	3.1	3.1	3.1	2.8	3.1	3.1	3.1
Average nominal interest rate on forex debt (in percent)	3.6	3.0	3.4	4.0	0.7	3.3	3.5	3.6	3.6	3.6	3.6	3.6	3.8	3.8	3.6
Average real interest rate on domestic debt (in percent)	7.5	5.5	4.8	4.9	2.6	5.2	5.1	5.1	5.3	5.7	6.0	5.4	6.0	6.0	6.0
Real exchange rate depreciation (in percent, + indicates depreciation	2.9	0.7	0.0	-0.4	2.3	-0.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-0.9	1.0	1.5	2.5	2.8	1.7	1.0	1.3	1.4	1.6	1.3	1.4	1.3	1.3	1.3
Growth of real primary spending (deflated by GDP deflator, in percer	6.2	-3.2	-2.0	0.1	2.4	6.3	-2.9	0.4	-0.7	1.3	2.8	1.2	3.0	3.1	3.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	22.0	19.1	17.1	18.7	19.8	16.3	18.8	17.3	14.2	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

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

3/ Revenues excluding grants.

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

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

Table 2b. St. Vincent and the Grenadines: Sensitivity Analysis for Key Indicators of Public Debt 2014-2034

	Projections							
	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt-to-GDP Ratio								
Baseline	70	72	74	74	73	71	64	42
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	70	73	76	79	83	86	104	140
A2. Primary balance is unchanged from 2014	70	73	77	80	83	87	104	132
A3. Permanently lower GDP growth 1/	70	73	75	76	76	76	80	99
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-20	70	76	84	87	89	90	98	105
B2. Primary balance is at historical average minus one standard deviations in 2015-201	70	73	77	77	76	75	68	48
B3. Combination of B1-B2 using one half standard deviation shocks	70	74	80	81	82	83	85	83
B4. One-time 30 percent real depreciation in 2015	70	88	89	90	89	87	82	62
B5. 10 percent of GDP increase in other debt-creating flows in 2015	70	81	82	82	81	79	72	52
PV of Debt-to-Revenue Ratio 2/								
Baseline	150	160	163	164	161	156	140	92
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	150	161	168	176	182	188	228	302
A2. Primary balance is unchanged from 2014	150	162	170	177	184	189	227	287
A3. Permanently lower GDP growth 1/	150	161	166	169	168	167	176	214
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-20	150	168	185	192	195	197	214	228
B2. Primary balance is at historical average minus one standard deviations in 2015-201	150	162	171	171	168	163	149	104
B3. Combination of B1-B2 using one half standard deviation shocks	150	164	176	180	181	181	187	180
B4. One-time 30 percent real depreciation in 2015	150	195	198	199	196	191	179	136
B5. 10 percent of GDP increase in other debt-creating flows in 2015	150	178	182	182	179	174	159	113
Debt Service-to-Revenue Ratio 2/								
Baseline	16	17	18	18	17	15	12	7
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	17	19	21	21	20	19	19	27
A2. Primary balance is unchanged from 2014	17	19	20	20	20	18	18	25
A3. Permanently lower GDP growth 1/	17	19	21	20	20	18	16	18
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-20	17	20	22	22	21	20	19	21
B2. Primary balance is at historical average minus one standard deviations in 2015-201	17	19	21	20	19	18	15	10
B3. Combination of B1-B2 using one half standard deviation shocks	17	20	21	21	20	19	17	17
B4. One-time 30 percent real depreciation in 2015	17	22	26	25	24	22	18	14
B5. 10 percent of GDP increase in other debt-creating flows in 2015	17	19	21	21	20	18	16	11

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$6.4 Disbursement under the Rapid Credit Facility And the Rapid Financing Instrument for St. Vincent and the Grenadines

The Executive Board of the International Monetary Fund (IMF) on August 1, 2014 approved a disbursement of an amount equivalent to SDR 4.15 million (about US$6.4 million) for St. Vincent and the Grenadines to be drawn equally from the Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI) at SDR 2.075 million or about US$3.2 million each. This disbursement will help the country meet an urgent balance-of-payments need due to severe flooding and landslides in December 2013 that caused massive damage to infrastructure, housing and agriculture.

Following the Executive Board's discussion of St. Vincent and the Grenadines, Mr. Min Zhu, Deputy Managing Director and Acting Chair, issued the following statement:

"St. Vincent and the Grenadines suffered massive damages to infrastructure, housing, and agriculture as a result of severe floods in December 2013. Emergency relief and high rehabilitation costs have weakened the fiscal position and created an urgent balance of payments need at a time when the economy is striving to recover from previous natural disasters and the global economic downturn.

"Rehabilitation and reconstruction spending is expected to widen the fiscal deficit this year. Mindful of the high and growing public debt, the authorities have reiterated their intention to rely mainly on grants and concessional resources to finance the recovery. At the same time, they will step up their efforts to mobilize budgetary resources by increasing revenue collection, containing the wage bill, and reducing transfers to state-owned enterprises.

"Looking ahead, the authorities remain committed to securing a sustainable fiscal position. To this end, they intend to generate a primary surplus of at least 2 percent of GDP in the medium term to ensure that the debt-to-GDP ratio is put on a declining path.
"The authorities are also stepping up structural reforms to enhance resilience to natural disasters and climate change, and to ensure strong and lasting growth. They are developing programs to improve emergency responses and to strengthening physical infrastructure. Efforts are also ongoing to enhance the business environment, improve access to the country

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by air, and streamline customs clearance. The authorities also intend to carry out civil service and pension reforms, which will boost competitiveness and employment."

Background

The RCF (http://www.imf.org/external/np/exr/facts/rcf.htm) was created under the newly established Poverty Reduction and Growth Trust (PRGT) and provides rapid financial assistance for low-income countries with an urgent balance-of-payments need.

The RFI (http://www.imf.org/external/np/exr/facts/rfi.htm) provides the same type of financial support for all member countries. Neither requires any explicit program-based conditionality or review. However, economic policies are expected to address the underlying balance-of-payments difficulties to support broader policy objectives, including growth. and in the case of the RCF, poverty reduction. Financing under the RCF carries zero interest (at least until end-2014), has a grace period of 5.5 years, and a final maturity of 10 years.[1] Financing under the RFI is at the adjusted rate of charge, currently [1.08] percent, has a grace period of 3.25 years, and a final maturity of 5 years.

[1] The Fund reviews the level of interest rates for all concessional facilities under the PRGT every two years, with the next review expected for end-2014.