INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/400

ST. VINCENT AND THE GRENADINES

2017 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

December 2017

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 2017 Article IV consultation with St. Vincent and the Grenadines, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on November 2, 2017, 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 December 1, 2017.
- An **Informational Annex** prepared by the IMF Staff.

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

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International Monetary Fund
Washington, D.C.

Press Release No. 17/504
FOR IMMEDIATE RELEASE
December 18, 2017

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

IMF Executive Board Concludes 2017 Article IV Consultation with St. Vincent and the Grenadines

On December 15, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with St. Vincent and the Grenadines, and considered and endorsed the staff appraisal without a meeting.[2]

Growth in 2017 is expected to remain relatively flat, with a projected boost in tourism arrivals in the second half of the year from new air connections offsetting a decline in the first half of the year. Consumer inflation rose from 1 percent in 2016 to 1.9 percent y-o-y in September 2017, reflecting increases in the VAT and minimum wages. The current account deficit is expected to narrow reflecting additional profit repatriation by telecommunication companies. The domestic banking system remains stable, but credit to the private sector has been flat. The fiscal situation is projected to worsen substantially in 2017 due to a projected decline in tax revenue after exceptional receipts in 2016 and higher outlays for transfers, subsidies and public investment. Reflecting debt relief obtained from a bilateral creditor, public sector debt is expected to decline but remain elevated at 77.5 percent of GDP in 2017.

Growth is expected to pick up to 2.1 percent in 2018 and reach its potential over the medium-term, reflecting improved connectivity and supported by the expected reopening of the large hotel. Over the medium term, inflation is projected to converge to 1.5 percent and the current account deficit to decline as food imports diminish and tourism takes off; reserves should remain at comfortable levels.

[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.

[2] The Executive Board takes decision under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Executive Board Assessment[3]

In concluding the 2017 Article IV Consultation with St. Vincent and the Grenadines, Executive Directors endorsed staff's appraisal as follows:

Economic activity is expected to remain relatively flat in 2017 but recover in 2018 owing to enhanced connectivity with key tourism source countries. The fiscal position is expected to deteriorate in 2017-18, as new revenue measures only partially cover higher outlays. Public debt will resume rising despite some debt relief. Moreover, risks to this projection are tilted to the downside given the inadequate policy stance, the uncertain global environment, and vulnerability to natural disasters. However, strong spillovers from the new airport, the construction of a modern port, and launching the geothermal project could support growth in the medium term.

Additional fiscal measures are needed in 2018 and over the medium-term to pay arrears and put public debt on a clear downward path, mitigate debt distress, and achieve the regional debt target. Under current policies, public debt is projected to continue to rise from its already high level. In this context, the authorities should implement measures yielding 1.8 percent of GDP over the next two years, which would provide the needed savings to a contingency fund to address natural disasters.

Containing the wage bill and curbing the growth of public pensions should be key pillars of the fiscal consolidation strategy. On the revenue side, there is ample scope for broadening the tax base by streamlining tax concessions and exemptions, and for collecting tax arrears, where practical. This would limit the need for further increasing tax rates.

Structural fiscal reforms need to accelerate to mobilize additional revenue and strengthen overall public financial management. Preparing and implementing legislation on tax administration procedures, with a provision for assigning a Tax Identification Number (TIN) to each taxpayer, is critical. Improving the efficiency of public expenditure and cash management practices is critical to stop the accumulation of budgetary arrears. Fiscal reporting should be expanded to capture the widest possible fiscal perimeter beyond the focus on the central government budget, and present fiscal risks explicitly, particularly given PPPs in the pipeline or already in operation and the substantial role of SOEs. The operating losses at the state owned-and-run airport need to be addressed, while the purchase by the state of a bank should be a short transitory step to facilitate moving ahead with the ECCU's bank consolidation strategy.

The government should increase resources for the contingencies fund and implement initiatives to build resilience against natural disasters. The authorities have earmarked revenue for the contingencies fund, but the resources are insufficient. Moreover, the

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

authorities need to promote more resilient infrastructure. It would also be important to move forward with their plans to strengthen and further enforce the Building Code and Physical Planning Law, enhance the powers of the NEMO through legislation, and articulate and implement a strategy to rezone areas and relocate populations deemed at risk.

The external position appears stable but the real effective exchange rate is overvalued relative to fundamentals and desirable policies. The private sector would benefit more from enhanced connectivity if competitiveness and the business climate were improved. To that end, it would be critical to moderate wage growth and accelerate implementation of risk management practices at Customs and significantly reduce container inspections. It would also be beneficial to move ahead with the preparation of the Investment Act to streamline regulations, development of the vocational training program, and improvement of land title registration. Moreover, enhanced labor market flexibility and improved access to credit is essential. Enforcement of the government's new tourism standards is needed. In agriculture, swift execution of the World Bank project to reorient the sector from subsistence to agribusiness and strengthen its links to tourism will be important. Furthermore, intensified actions are needed to bridge infrastructure gaps, facilitate access to property by the younger generation, and improve risk-sharing mechanisms.

While the financial sector remains stable, decisive measures are needed to buttress it and foster credit growth Implementing the OECS Harmonised Credit Reporting Act will improve information about borrowers. Moreover, the full operationalization of the Eastern Caribbean Asset Management Corporation, combined with the country's new insolvency law, will help banks unwind their NPLs. To strengthen the supervision of non-banks swift approval of implementing regulations to the Financial Supervisory Authority Act is needed. The authorities should continue addressing AML/CFT shortcomings by swiftly issuing a regulation on non-profit organizations and moving towards compliance with the 2012 FATF recommendations, including to reduce correspondent banking relationships risks. Following the recent buyback of the Bank of St Vincent and the Grenadines, which effectively ends an envisaged merger, the authorities are encouraged to redouble their efforts to explore alternative amalgamation options.

Table 1. St. Vincent and the Grenadines: Selected Social and Economic Indicators, 2013–18

Social and Demographic Indicators

Area (sq. km)	389.3	Adult literacy rate (percent, 2001)	89.0
Population (2016)		Health and nutrition	
Total (thousands)	110.1	Calorie intake (per capita a day, 2007)	2,810
Rate of growth (percent per year)	0.09	Population per physician (thousand, 2004)	1.2
Density (per sq. km.)	282.8	Health expenditure per capita, PPP-2011 (2014)	917
Population characteristics		Gross domestic product (2016)	
Life expectancy at birth (years, 2015)	73.1	(millions of US dollars)	770
Infant mortality (per thousand live births, 2016)	15.2	(millions of EC dollars)	2,079
Under 5 mortality rate (per thousand, 2016)	16.6	(US$ per capita)	6,992

	2013	2014	2015	2016 Est.	2017 Est.	2018 Proj.
Output and prices	(Annual percentage change, unless otherwise specified)					
Real GDP (factor cost)	2.5	0.3	0.9	0.8	1.0	2.1
Nominal GDP (market prices)	4.1	0.8	3.8	1.9	4.1	4.2
Consumer prices, end of period	0.0	0.1	-2.1	1.0	2.2	1.5
Consumer prices, period average	0.8	0.2	-1.7	-0.2	2.0	1.5
Banking system 1/						
Net foreign assets	7.2	1.1	1.7	8.8	-0.7	-1.7
Net domestic assets	1.4	8.4	3.1	-5.8	5.7	6.7
Credit to private sector	1.1	-0.2	1.7	1.0	0.7	0.7
Central government finances (in percent of GDP)						
Total revenue	26.9	29.3	27.9	29.8	28.4	29.0
Tax revenue	21.6	24.0	23.7	25.5	24.7	25.2
Grants	1.3	2.0	1.2	1.2	1.0	1.4
Total expenditure and net lending	33.0	32.3	30.0	28.7	30.8	31.1
Current expenditure	25.2	25.9	25.1	24.9	26.7	27.3
Wages and salaries	12.9	12.6	12.6	13.2	13.1	13.2
Interest	2.5	2.3	2.2	2.1	2.6	2.5
Capital expenditure	7.8	6.4	4.9	3.8	4.0	3.8
Overall balance	-6.2	-3.0	-2.1	1.1	-2.4	-2.0
Overall balance (excl. grants)	-7.5	-5.0	-3.3	-0.1	-3.4	-3.4
Primary balance	-3.7	-0.7	0.1	3.2	0.2	0.5
Primary balance (excl. grants)	-5.0	-2.7	-1.1	1.9	-0.8	-0.9
External sector (in percent of GDP)						
External current account	-30.9	-25.7	-14.9	-15.8	-14.3	-13.6
Exports of goods and services	25.2	34.4	37.0	37.1	37.1	37.7
Imports of goods and services	58.0	60.6	54.5	53.7	52.9	52.2
Stayover arrivals (percentage change)	-3.5	-1.4	6.6	7.4	0.0	3.0
Public sector external debt (end of period)	43.2	45.5	46.4	56.7	50.1	47.7
External public debt service						
(In percent of exports of goods and services)	16.8	12.9	10.4	28.5	9.6	13.2
Memorandum items (in percent of GDP)						
Gross public sector debt 2/	75.9	79.5	79.4	82.9	77.5	78.5
Nominal GDP (market prices; in millions of EC$)	1,947	1,963	2,039	2,079	2,164	2,255

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

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

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

ST. VINCENT AND THE GRENADINES

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

December 1, 2017

KEY ISSUES

Context. With the international airport's entry in operations, the government has completed a key step of its strategy to spur still lackluster growth and tackle persistently high unemployment. The authorities' remaining challenge is to foster a strong investment response from better international connectivity and ensure that its benefits are widespread across the population. Growth remains low and stayover tourism has slowed down, mainly due to setbacks in available tourism infrastructure. Fiscal space needs to be created to provide for the additional costs of operating and marketing the international airport until it can generate sufficient own revenue, and boost resilience to natural disasters. Meanwhile, the authorities need to articulate their medium-term fiscal strategy to reduce public debt to the ECCU regional target of 60 percent of GDP by 2030, in a context of recurrent natural disasters.

Strategy. The 2017 Article IV consultation centered on strengthening the macroeconomic framework to maximize inclusive growth benefits from improved connectivity.

Key policy recommendations:

- Improve the business climate by streamlining regulations, enhancing labor productivity and labor market flexibility, improve access to credit, and help agriculture transition from subsistence to agribusiness.

- Effect a stronger fiscal consolidation to meet the medium-term debt target. The tax system should be reviewed, including to broaden the VAT base and improve the progressivity of the income tax. Containing the wage bill and pension outlays to civil servants is also necessary.

- Strengthen the financial system, including with improving information on borrowers, developing markets for distressed assets and improving mechanisms for their resolution. Further refinements in supervision are also needed.

Approved By
Trevor Alleyne (WHD)
Bob Traa (SPR)

The staff team comprising Dominique Simard (head), Takuji Komatsuzaki, and Mauricio Vargas (all WHD) visited Kingstown during October 23-November 2, 2017. The mission met with the Honorable Ralph Gonsalves, Prime Minister and Minister of Finance; the leader of the opposition; senior government officials; labor unions; and private sector representatives. Mr. Williams from the Office of the Executive Director participated in the discussions. The team received contributions from Fabio Di Vittorio and was assisted from headquarters by Yuebo Li, Steve Brito, Malika El Kawkabi and Sheng Tibung.

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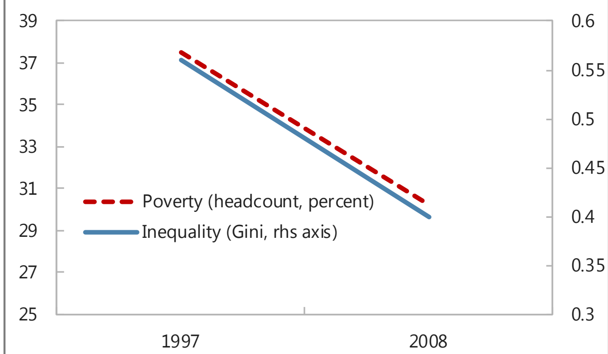
TABLES

ANNEXES

BACKGROUND

1. **With the international airport now operational, the government has completed a key step of its strategy to spur still anemic growth and tackle persistently high unemployment.** Construction of the international airport was completed in February 2017, after starting in 2008 before the global financial crisis and several challenging natural disasters. By enabling larger aircrafts and improving connectivity to main tourism markets, the government expects to boost investment and growth, reduce unemployment, and improve standards of living. Poverty and income inequality have declined between 1997 and 2008, when growth averaged 3.6 percent.[1] This coincides with intensified poverty reduction programs, the introduction of universal access to primary and secondary education, a relatively robust system of primary health care and gains in female labor force participation. However, growth has been persistently low since the global financial crisis, averaging 0.2 percent over 2009-2016. The unemployment rate has remained over 20 percent since 2001.

Inequality and Poverty Indices



Source: St. Vincent and the Grenadines Country Poverty Assessment (1997, 2008)

2. **The challenge is now to foster a strong private investment response to better connectivity and maximize benefits across the population.** The authorities aim to improve the business environment and training of the work force. The ongoing fiscal consolidation measures would redirect funds currently used for debt service to growth-enhancing outlays. The 2017 budget builds buffers against natural disasters to reinforce a declining debt path over the medium-term. Finally, ongoing financial reforms seek to strengthen the financial sector's capacity to fund private investments.

RECENT ECONOMIC DEVELOPMENTS

3. **Continued low growth in 2016 reflected the slowdown of tourism at end-2016 and contracting construction with the airport nearing completion.** Notwithstanding well performing non-traditional crops, the economy grew at 0.8 percent, slightly below 0.9 percent in 2015. Strong tourism activity during the first half of the year weakened in the last quarter, with the closure of a large hotel. This year, tourist arrivals fell by 3.7 percent y-o-y through July 2017 but the number of cruise passengers rose sharply (40 percent). Consumer inflation was low near 1 percent in 2016, but reached 1.9 percent y-o-y in September 2017, reflecting increases in the VAT and minimum wages.

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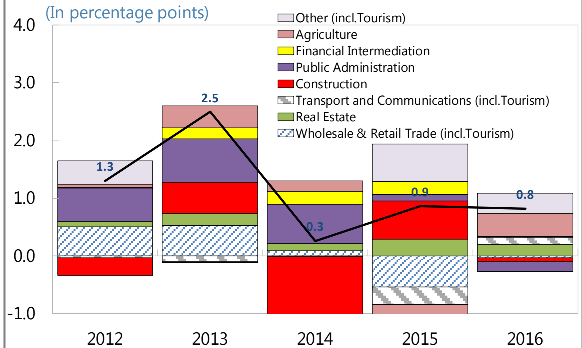
[1] United Nations (2016), Human Development Index (HDI), UNDP. St. Vincent and the Grenadines is ranked 99th, within the group of high-human-development countries but slightly below ECCU peers, reflecting continuous improvements in the country's life expectancy at birth, years of schooling, and GNI per capita.

4. The current account deficit widened in 2016 and the real exchange rate is overvalued, but the international reserves remain adequate. Additional profit repatriation by telecommunication companies contributed to widen the current account deficit from 14.9 percent of GDP in 2015 to 15.8 percent of GDP in 2016, despite buoyant tourism receipts (Box 1). The EBA-lite models and external stability assessment indicate that the external position is weaker than the level consistent with fundamentals and desirable policies and that the country faces competitiveness challenges. Imputed foreign reserves rose to comfortable levels (5.6 months of imports), well above the reserve-adequacy metrics (Annex II).

Contribution to Growth by Sector

(In percentage points)



Sources: ECCB; and IMF staff Estimates.

Selected Tourist arrivals in January-July

Sources: St. Vincent National Authorities

Box 1. ECCU Balance of Payment Data Revision and St. Vincent and the Grenadines

The Eastern Caribbean Central Bank (ECCB) published the revised estimate of member countries' BOP data in July 2017. The data, revised for 2014-16, was enhanced by improved tourism surveys, wider coverage, and transition to BPM6 methodology.

2016 BOP: April 2017 WEO v. July 2017 ECCU Revision

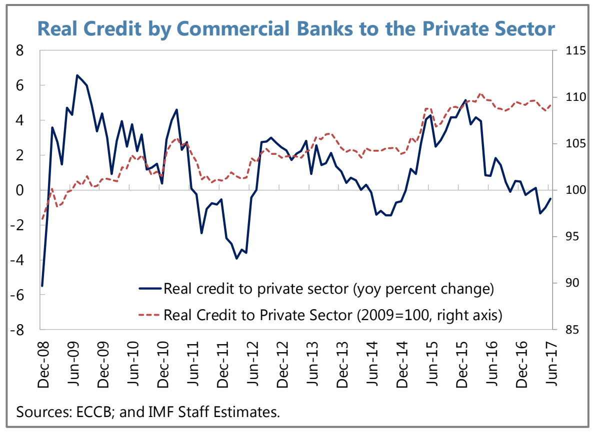
	2016 (Percent of GDP)	
	April 2017 WEO	July 2017 ECCU 1/
Current Account	-18.9	-15.8
Goods	-32.1	-32.2
Services	7.6	15.6
Income	5.5	0.7
Capital Account	1.2	1
Financial Account	-17.7	-6.5
Net Errors and Omissions	0.0	8.3

Source: ECCB and IMF staff estimates

1/ Figures are first estimates that are likely to be revised.

The current account deficit declined moderately for St. Vincent and Grenadines as the services balance improved, partially offset by deteriorating income accounts. The balance on goods trade was barely altered.

5. The domestic banking system remains stable, but credit to the private sector has been flat. Banks's capital and liquidity ratios are comfortably above the regulatory requirements and regional averages. However, returns on equity and assets are near zero, and NPLs are at 9.7 percent.



Real credit to the private sector remained relatively flat since end-2015. Banks have preserved their correspondent banking relationships (CBRs), albeit at a higher cost, including by intensifying engagement with correspondent banks and devoting more resources for AML/CFT compliance. In July 2017, the government repurchased 31 percent of the Bank of St. Vincent and the Grenadines (BoSVG) from the foreign-owned consortium that also owns the Bank of St. Lucia. This transaction, seven years after the sale to the consortium, transfers controlling interest of the bank back to Vincentian interests since the social security retains 20 percent of the shares.

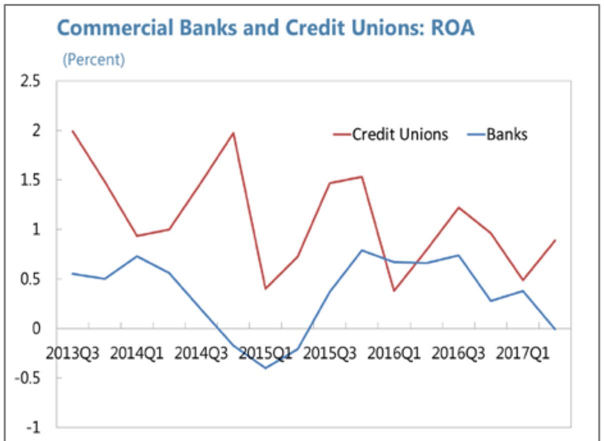
St. Vincent and the Grenadines vs. ECCU Financial Soundness Indicators (2013-2017Q2)

		2013	2014	2015	2016	2017Q2
Non-Performing Loans/Total Loans	VCT	8.3	10.0	8.7	9.5	9.7
	ECCU	18.1	17.6	16.8	10.9	11.3
Provisions for Loan Losses/Non-Performing Loans	VCT	34.8	31.0	36.2	41.0	n.a.
	ECCU	38.5	46.8	44.4	45.6	n.a.
Liquid Assets/Current Liabilities	VCT	41.7	42.2	42.9	44.7	43.2
	ECCU	29.5	33.1	36.5	37.5	38.8
Tier 1 Capital/Risk Weighted Assets	VCT	17.9	19.6	20.2	24.7	n.a.
	ECCU	12.0	9.9	13.8	16.4	n.a.
Return on Avg Equity	VCT	4.6	-1.7	10.6	3.9	-0.1
	ECCU	-1.9	4.0	20.3	14.6	13.6
Return on Avg Assets	VCT	0.5	-0.2	0.8	0.3	0.0
	ECCU	-0.1	0.2	0.8	0.8	0.8

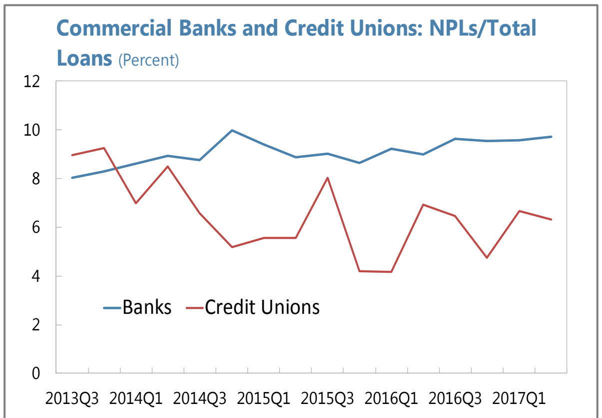
Source: Eastern Caribbean Currency Union

6. **Credit unions continue to gain prominence.** Their assets have stabilized near 20 percent of GDP since 2015, while their share of total financial sector's loans to the private sector has steadiliy increased to 18 percent at end-June 2017. Overall, credit unions' reported NPLs remain stable and lower than in the banking sector.[2]

[2] However, credit unions are developing a methodology for more accurate measurement of its NPLs.



Sources: ECCB; and IMF Staff Estimates.



Sources: ECCB; and IMF Staff Estimates.

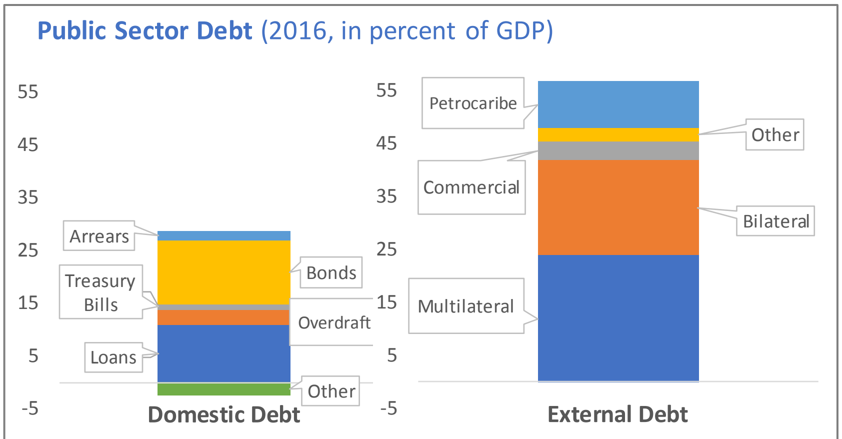
St. Vincent and the Grenadines: Fiscal Outturns

(In percent of GDP)

	2015	2016	Jan-Sep 2016	Jan-Sep 2017
Tax Revenue	23.7	25.5	17.1	16.6
Nontax Revenue	1.8	3.0	2.6	2.5
Capital revenue	1.3	0.1	0.1	0.2
Grants	1.2	1.2	0.8	0.6
Wages and salaries	12.6	13.2	9.9	9.5
Goods and services	3.6	3.3	2.2	2.2
Transfers and subsidies	6.8	6.4	5.0	5.9
Capital expenditure	4.9	3.8	2.3	3.3
Primary balance	**0.1**	**3.2**	**1.3**	**-0.9**
Interest	2.2	2.1	1.5	1.5
Overal fiscal balance	**-2.1**	**1.1**	**-0.2**	**-2.4**
Net External Debt	**0.3**	**-0.9**	**-0.7**	**-0.9**
Loan Disbursement	2.5	1.5	0.6	0.8
Loan Amortisation	-2.2	-2.4	-1.3	-1.6
Net Domestic Debt	**0.2**	**1.3**	**-1.2**	**1.2**
Loan Disbursement	2.4	3.9	0.4	2.6
Loan Amortisation	-2.3	-2.7	-1.5	-1.4

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

7. **Notwithstanding new revenue measures (Box 2), the fiscal position worsened in 2017.** The overall balance of the central government is expected to deteriorate from a surplus of 1.1 percent of GDP in 2016 to a deficit of 2.4 percent of GDP in 2017. Excluding one-off items (see below), the overall deficit would widen from 0.4 percent of GDP to 0.9 percent.. Public sector debt is expected to decline, mainly due to already completed debt relief (3.7 percent of GDP) provided by a bilateral creditor but remain elevated at 77.5 percent of GDP in 2017.



Source: St. Vincent and the Grenadines national authorities; and IMF staff calculations

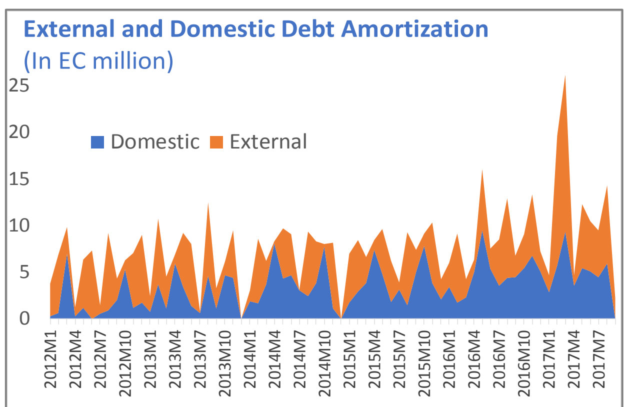
- ***Revenue is expected to decline despite the new tax measures of 0.4 percent of GDP.*** Revenues in 2016 had been buoyed by one-off receipts (1.1 percent of GDP in tax arrears collections and 0.4 percent of GDP in exceptional dividends from the electricity company). Collectible tax arrears are estimated at some 8½ percent of GDP.

- ***The wage bill is expected to remain above 13 percent of GDP with the recruitment of new police officers and medical personnel.*** It had already increased in 2016 after civil servants received salary raises at end-2015 and January 2016.

- ***Transfers, and capital outlays are expected to increase.*** Transfers are projected to increase by over 1 pp to fund the higher operation and marketing costs of the new airport, pensions for new retirees from the civil service, and the contingencies fund. One-off outlays to reacquire a majority share in the BoSVG (1.5 percent of GDP) have increased capital spending despite the completion of the airport.

- ***External amortization needs have intensified*** with the scheduled repayment of EC$128 million (5.9 percent of GDP) on multiple commercial loans coming due in 2017 compared with EC$55 million (2.7 percent of GDP) in 2016.

- ***Budgetary arrears have slightly increased relative to end-2016.*** Up to end-September 2017, arrears reached $EC 39.9 million (1.8 percent of GDP), slightly above $EC 36.7 million at end-2016 (1.8 percent of GDP) but below EC$43.5 million at end-October 2016 (2 percent of GDP).



Source: IMF staff calculations based on national authorities' data.

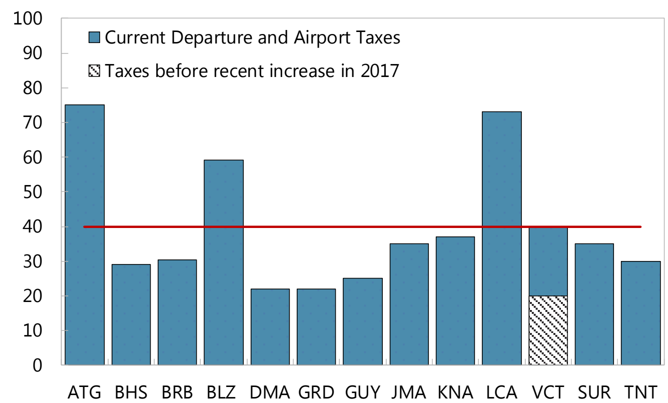
Box 2. Key Features of the 2017 Budget

The budget raises some taxes and fees to finance the higher operation and marketing costs of the airport, strengthen financial buffers., The buyback of BoSVG was financed by issuing a new bond.

Concerning revenue:

- ***The airport service charge was doubled*** to EC$100 per departure to help pay for the airport's operating costs.

Caribbean Countries: Departure and Airport Taxes, 2017
(In USD)



Sources: Tax Authorities, Tourism Board/Associations, Press Releases and Fund Staff Caculations.

- **The *VAT rate was raised, effective May 2017,*** from 15 to 16 percent and from 10 to 11 percent for tourism accommodations and activities. Proceeds were earmarked for capitalizing the Contingencies Fund (0.5 percent of GDP from 2018 onwards and 0.3 percent of GDP in 2017), including to address fiscal costs of natural disasters. The VAT registration threshold was increased from EC$120,000 to EC$300,000 to help the revenue administration focus on larger taxpayers, following best practices.

2017 Budget Measure Estimated Yields
(In percent of GDP)

	Yield
Increase in VAT rate by 1 pp.	0.3
Increase in the VAT registration threshold	-0.2
Increase in aliens' landholding license rate (from 6 to 7½ percent)	0.1
Increase in airport service charge (from EC$ 50 to EC$100)	0.2

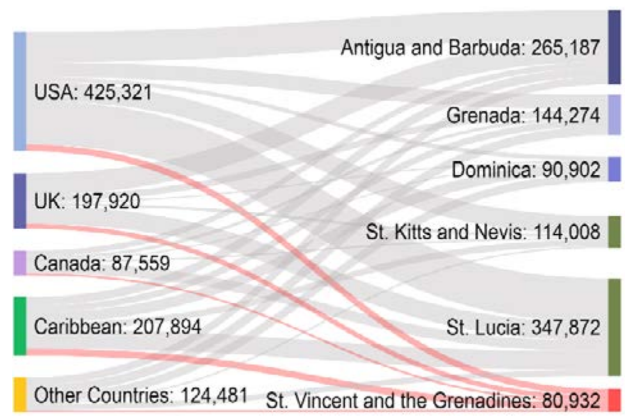
Source: IMF staff calculations.

- **The *aliens' landholding license rate was raised*** from 6 to 7½ percent on properties exceeding EC$100,000.
- The 2 percent ***telecommunication levy base was broadened*** from telephone calls to incoming calls and data. Proceeds are earmarked for the Zero Hunger Trust Fund, dedicated to nutritional support for the poor and training programs. It operates as an off-budget account.
- ***New expenditure reflects the airport's entry in operations, the establishment of a fund to address contingencies, and the bank buyback.*** Outlays for the airport include a subsidy (0.2 percent of GDP) to finance operations,.

OUTLOOK AND RISKS

8. Growth is expected to remain relatively flat in 2017 at 1 percent before picking up and reaching its potential over the medium-term, reflecting improved connectivity. Tourists and medical students transferring from Caribbean countries devastated by the September 2017 hurricanes, and tourists traveling on new air connections are expected to boost output in the second half of the year and into 2018. Growth next year is projected to increase to 2.1 percent and will be supported by the reopening of the large hotel. Growth is projected to reach 3 percent over the medium term, as increasing direct flights to the island are expected to propel private investment in tourism infrastructure and agriculture.[3] Inflation is projected to reach 2 percent this year and 1.5 percent over the medium term. The current account deficit is projected to decline as food imports diminish and tourism takes off; reserves should remain at comfortable levels.

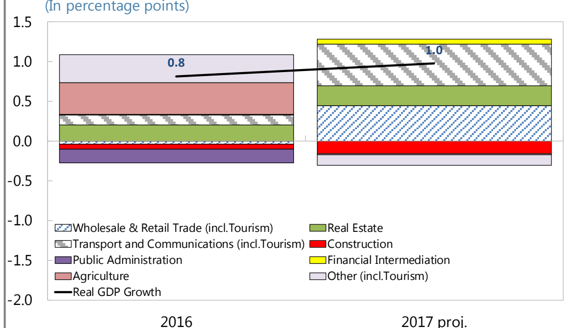
Tourism Flows, 2016 (Stay-over Arrivals)



Source: ECCB, IMF staff calculations.

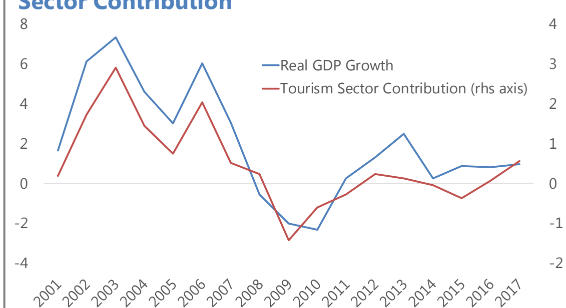
Contribution to Growth by Sector

(In percentage points)



Sources: ECCB; and IMF staff Estimates.

GDP Total Growth and Tourism-related Sector Contribution



Source: IMF staff calculations based on ECCB data.

9. Risks to the medium-term outlook are skewed to the downside. Risks include weaker-than-expected global growth; a tighter financial environment which could raise borrowing costs while strengthening the currency and eroding competitiveness; and natural disasters. Loss of CBRs could lead to curtailing cross-border financial services and dampening economic activity. Upside risks are stronger-than-expected spillovers from the airport, continued oil-price weakness, the construction of a modern port, and the entry in operations of the geothermal project. The airport's impact remains uncertain, however. While Antigua and Barbuda exemplifies a country which

[3] The forthcoming direct Air Canada flight from Toronto to St. Vincent would moderately increase tourism flows, increasing Canadian tourist arrivals by 15-30 percent, and overall tourist arrivals by 1.5-3 percent (based on previously announced flights' frequency and jet capacity).

successfully boosted its airlift after expanding its airport, it already had direct airline connections to main tourism source countries and a well-developed tourism infrastructure. In contrast, St. Vincent and the Grenadines' strategy is to use the airport as a catalyst to develop tourism infrastructure on the main island.

Box. 3. Risk Assessment Matrix[1]

Source of Risk	Risk Likelihood	Impact		Policy Advice
		Rating	Channel	
Upside risks:				
Lower oil prices.	**Low**	**Medium (Medium-Term)**	Improvements of both external and fiscal balances.	Allow pass-through of international prices, but use the opportunity to adjust excise taxation on automotive fuels.
Successful implementation of the geothermal project.	**Medium**	**Medium (Medium-Term)**	Reductions in electricity costs and savings in oil imports.	Monitor developments, including for emerging contingent fiscal liabilities.
Increased activity boosted by the new airport.	**Medium**	**High**	Increase in fiscal yields and private investment. Stronger external balance.	Assess full fiscal impact of the airport. Accelerate structural reforms to buttress competitiveness in agriculture and tourism-related activities.
Downside risks:				
Tighter global financial conditions.	**High**	**Medium (Short term)**	Increase in external financing costs to the government.	Maintain a prudent debt profile to reduce financing costs. Adopt a credible medium-term fiscal framework.
Deterioration in the terms or level of PetroCaribe's financing.	**High**	**High**	Government and BOP financing would be curtailed.	Prepare contingent sources of financing in case the agreement ends abruptly. Manage PetroCaribe flows prudently.
Structurally weak growth in advanced economies which are key tourism source countries or weak implementation of policies to boost competitiveness in St. Vincent and the Grenadines.	**High/ Medium**	**Medium**	Lower potential growth affecting negatively tourism activity and trade.	Improve competitiveness vis-a-vis regional competitors. Diversify the economy and tourism base.
Larger and more frequent natural disasters.	**Medium (Short-term)**	**High**	Low growth and worsening of fiscal and external balances.	Develop comprehensive disaster management combining adaptation policies, risk transfer policies, and building fiscal buffers.
Reduced financial services by correspondent banks ("de-risking").	**Medium**	**Medium**	Loss of correspondent banking services significantly curtails cross-border payments, trade finance, and remittances.	Continue to strengthen AML/CFT and international tax cooperation frameworks; promote bank consolidation. Explore alternative options to existing arrangements for correspondent banking services.

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

POLICY DISCUSSIONS

To optimize growth opportunities from enhanced connectivity, the government needs to accelerate implementation of policies to improve competitiveness, lower debt, build buffers against natural disasters, and continue to bolster the financial system. Traction with Fund policy recommendations has been mixed (Annex I).

A. Boosting Resilience to Natural Disasters and Climate Change

10. While the government is improving preparedness and infrastructure resilience to natural disasters, the contingencies fund needs more resources to adequately address their fiscal costs. Based on historical data, average annual damages from natural disasters in St. Vincent and the Grenadines have been estimated at 1.2 percent of GDP, of which about 0.9 percent of GDP are considered fiscal costs.[4] To address these costs, the authorities funded the Contingencies Fund with a projected 0.3 percent of GDP in 2017 and an envisaged 0.5 percent of GDP in 2018 onwards. Although this is a promising first step, these amounts fall short of what is needed on an annual basis. The authorities also continue to enhance the resilience of their infrastructure by rehabilitating roads damaged during the December 2014 and November 2016 tropical depressions.

11. To be fully prepared when natural disasters strike, the authorities need to accelerate implementation of planned measures. In particular, the Building Code and Physical Planning Laws should be strengthened, and enforcement improved. The powers of the National Emergency Management Office (NEMO) should be enhanced through legislation. The authorities also should articulate and implement a strategy to rezone areas and relocate populations deemed at risk.

12. The authorities continue to proceed towards their goal of reducing reliance on fossil fuels by developing the geothermal energy industry.[5] While public infrastructure investments needed by the private partners have progressed, a Power Purchase Agreement between the partners and the state electricity company VINLEC remains pending.

B. Reducing Unemployment and Boosting Growth

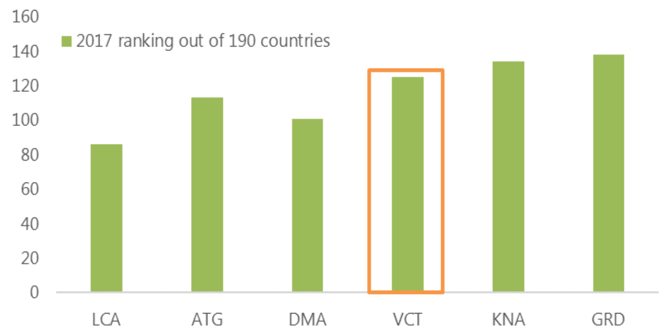
13. A competitive real exchange rate and business environment would help the private sector benefit from better connectivity. The real exchange rate (REER) has appreciated since 2010 (Annex II), with estimated overvaluation between 11 and 45 percent. Given the fixed nominal exchange rate, reducing the overvaluation and improving competitiveness hinges on moderating wage growth and boosting productivity, including by improving the business environment in key areas such as: (a) accelerating the implementation of risk management practices at Customs by optimizing the use of ASYCUDA World and significantly reducing containers inspections; (b) Further improving access to credit, which is hampered by the absence of a credit registry and bureau. The

[4] International Monetary Fund, Country Report No. 16/243.

[5] Annex IV. Country Report No. 16/243.

2014 insolvency law has improved procedures to resolve impaired assets and released more resources for lending by financial institutions. Moreover, The Eastern Caribbean Partial Credit Guarantee Corporation, enacted in August, aims to facilitate access to credit by SMEs by guaranteeing up to 75 percent of the loans by regulated lenders. Finally, procedures to register land titles need to be streamlined, particularly since the required time has increased from 38 days in 2015 to 47 in 2016. The authorities are preparing an Investment Act to streamline regulations.

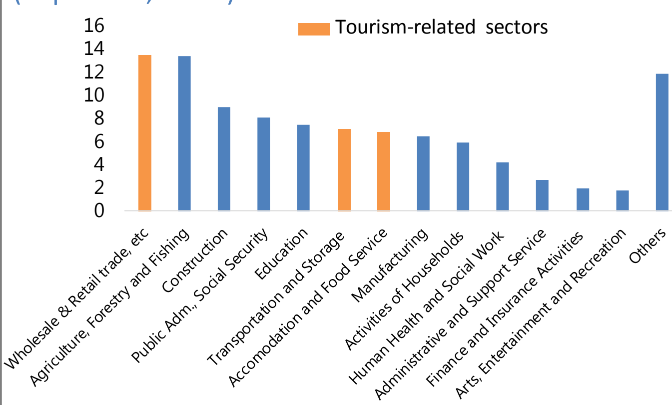
Doing Business Ranking - ECCU countries



Source: World Bank Doing Business Indicators.

14. Boosting labor productivity and moderating wage growth will also improve competitiveness. Beyond upgrading the economy's overall infrastructure, the government is developing policies to improve labor skills, with World Bank and CDB assistance. These aim to strengthen the delivery of education, enhance its access by the poor, and improve vocational training. Combined with moderating wages, this should reduce unit labor costs and bridge the skills gap between employers' needs and employees' qualifications, labor market rigidities should also be addressed. These include inflexible employment regulations that potentially discourage labor supply or demand, such as the recent inclusion of a one hour lunch break in the statutory daily work hours.

Employment by Industry
(In percent, 2015)



Source: St. Vincent and the Grenadines' Statistical Office.

15. Sectoral strategies are needed, particularly for tourism and agriculture, which represent 38 percent of GDP, employ about 40 percent of workers (including many low-income), and are critical for growth.

- **Expand and upgrade tourism infrastructure.** A high-end development project opened in mid-November, others are underway, and the new marina in Canouan is nearly operational. The authorities should limit the use of tax concessions to develop tourism, as these undermine the effectiveness of the revenue administration and have contributed to the erosion of tax systems throughout the region. Accommodations owners are upgrading their facilities to meet the government's tourism standards, but improved enforcement is critical.

- **Agriculture must transition from subsistence to agribusiness**. The authorities aim to improve productivity and linkages between tourism and agriculture, with European Union and World Bank assistance. Farmers face challenges such as poor access to markets due to the dearth of feeder roads, inadequate water supply and irrigation, technological gaps, difficulties for young persons to access property, and underdeveloped risk-sharing mechanisms. Enhanced public infrastructure would help farmers reach new markets, including through the OECS Agri-Export Strategy Initiative.

16. To more effectively gauge the impact of its policies, the authorities will benefit from continuing to develop social statistics. Building on its significant progress with quantifying the unemployment rate (Annex III), the government should improve the availability and quality of data on social statistics, including poverty and inequality estimates, and labor market constraints.

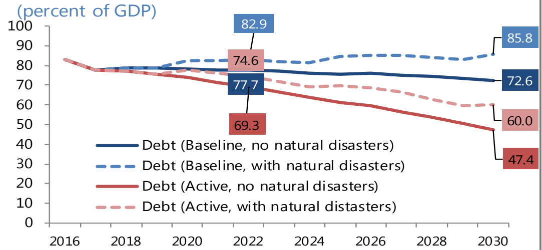
C. Strengthening the Fiscal Framework

To reach the regional debt target over the medium-term, the fiscal position needs to improve by addressing intensifying budgetary pressures and recurrent natural disasters while accelerating the implementation of fiscal reforms.

17. Without additional measures, the fiscal position is projected to only slightly improve in 2018. Tax revenue is expected to increase with the full year effect of the 2017 revenue measures. Meanwhile, higher airport's operations and tourism marketing expenses, and contributions to the contingencies fund over a full year are envisaged to raise transfers. The overall deficit is projected to decline from 2.4 percent of GDP in 2017 to 2.0 percent in 2018 and the primary surplus to increase from 0.2 percent of GDP in 2017 to 0.5 percent of GDP in 2018, respectively.

18. Additional fiscal measures are needed to permanently raise the primary balance and achieve the ECCU debt target of 60 percent of GDP by 2030, especially given the prospect of recurrent natural disasters. Assuming that natural disasters occur at their historical frequency and magnitude, on current policies, public debt would reach 86 percent of GDP by 2030.

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



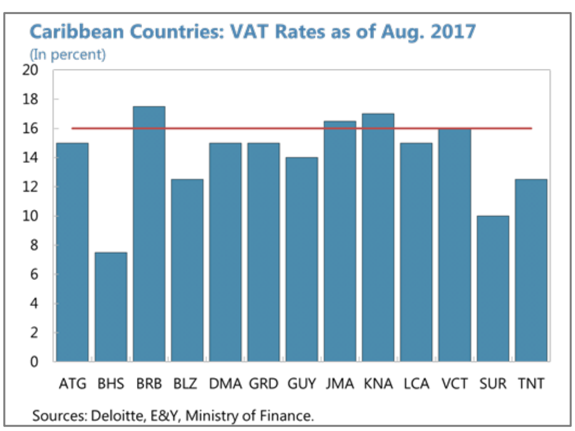
Source: Fund staff estimates.
[1] Assumes that natural disasters occur at 5-year intervals, lowering GDP growth in the first year and causing a 3-year primary balance deterioration associated to fiscal costs.

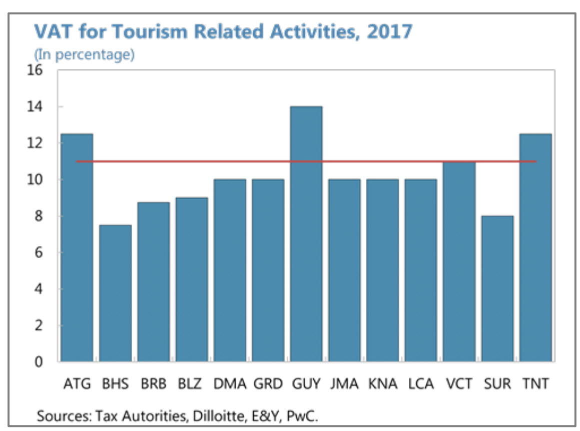
- ***To meet the public debt target, the authorities should implement adjustment measures*** yielding to 1 percent of GDP in 2018 and 1.8 percent of GDP in 2019 and onwards. This would allow the primary surplus to reach 1.5 percent of GDP in 2018 and 2.5 percent of GDP in 2019 until 2030.[6]

[6] Annex II details the key measures which should be considered.

- **St. Vincent and the Grenadines has the highest tax revenue (Annex IV) and wage bill (Figure 3) to GDP of the ECCU.** While this reflects St. Vincent's higher cost of delivering public services in a multi-island state, it also suggests that containing the wage bill is essential to the fiscal consolidation strategy. Combined with curbing the growing public pensions, this would help redirect funds to growth-enhancing human capital and infrastructure investments. Concerning revenue measures, there is significant scope for broadening the tax base, including improving the progressivity of the income tax, reducing ad hoc exemptions and reviewing the VAT structure—with exempt and zero-rated goods and services amounting to one-third of the value of items taxable under the VAT. While the list of items not subject to the VAT is motivated by social considerations, these can be better achieved with well-targeted social transfers. The government's current revision of social transfers, with World Bank assistance, should be helpful in that regard. More generally, broadening the tax base would limit the need for increasing tax rates and even provide room for decreasing them over time. This would help improve St. Vincent's competitiveness. By recently increasing VAT rates by 1 pp, St. Vincent and the Grenadines is now among the Caribbean destinations with higher VAT rates.

19. Medium-term fiscal consolidation would benefit from firm commitments and timelines for structural fiscal reforms to upgrade revenue administration and public financial management. In particular, effective revenue mobilization hinges on preparing and implementing legislation on tax administration procedures, including to assign a unique Tax Identification Number (TIN) to each taxpayer to properly facilitate the routine identification of taxpayers and cross checking of tax declarations by the Customs and Excises and Inland Revenue departments. Accelerating reforms in public financial management is key to improve public expenditure efficiency and cash management practices. In particular, it would be helpful to swiftly implement better IPSAS-based cash accounting, reporting and management practices linking expenditure commitments to available cash and thus helping prevent the accumulation of budgetary arrears. Moreover, a plan for clearing existing arrears should be articulated and executed, as they increase the cost of public spending, disrupt economic activity, and undermine the business climate. The medium-term fiscal strategy should also present fiscal risks explicitly, particularly given Public Private Partnership (PPPs) in the pipeline or already in operation.





D. Safeguarding Financial System Stability

20. Financial stability risks remain contained and financial and monetary conditions are stable. St. Vincent and the Grenadines' scores in the Country Financial Stability Map (CFSM) (Box 4) exhibit low to moderate risks which have declined over time. While credit and macroeconomic risks have been relatively stable since 2010, the CFSM suggests declining vulnerabilities associated to market and liquidity, and inward spillover risks.

Additional Tax and Expenditure Policy Measures (Relative to the baseline scenario)

(Annual differences between the active and baseline scenarios, in percent of GDP)

Active policy scenario

	2018	2019	2020
Tax Revenue Measures			
• Income taxes (replace personal income tax exemption by revenue neutral tax credit for lower bracket)	0.1	0.3	0.3
• Taxes on International Trade (VAT) - (streamline ad-hoc exemptions)	0.3	0.5	0.5
• Taxes on International Trade (Import duties) -(streamline ad-hoc exemptions)	0.4	0.8	0.8
• (VAT) - (streamline list of zero-rated or exempt goods and services)	to be implemented over the medium-term		
• Income taxes (unifying corporate tax rates, removing exemptions and updated depreciation schedules)	to be implemented over the medium-term		
• Increase tax rates for all of the present property classes significantly and increase the minimum tax to EC$40	to be implemented over the medium-term		
Expenditure Measures			
Contain wage bill by limiting wage increases and retrenching and redeploying public sector employees rather than net increase in hiring	0.2	0.2	0.2
Reform public pensions	to be implemented over the medium-term		
Increase public investment	0	0	0
streamline the social safety net	to be implemented over the medium-term		
Difference in Primary Balances (Active minus Baseline)	1.0	1.8	1.8

Source: IMF staff calculations.

21. Decisive measures are needed to create an environment favorable to credit growth and buttressing the banking system. Capital and liquidity are high, but reportedly scarce bankable projects and high NPLs contribute to low profitability and inhibit banks from extending loans. The rise of NPLs since the global financial crisis has resulted largely from low growth and tourism setbacks.[7] The full operationalization of the Eastern Caribbean Asset Management Corporation (ECAMC) by the Eastern Caribbean Central Bank (ECCB), combined with St. Vincent and the

[7] Beaton, K., Dowling, T., D. Kovtun, F. Loyola, A. Myrvoda, J. Okwuokei, I. Otker and J. Turunen (2017), "Problem Loans in the Caribbean: Determinants, Impact and Strategies for Resolution, Working Paper 17/xx, International Monetary Fund.

Grenadines' insolvency law, will facilitate collection and disposal of distressed assets. As elsewhere in the region, legal bottlenecks hamper the legal resolution process. Out of court settlement mechanisms to facilitate resolution would be helpful. To reduce information gaps about borrowers, the authorities continue preparations towards the 2018 implementation of the *Organization of Eastern Caribbean States (OECS) Harmonised Credit Reporting Act*, enacted in St. Vincent and the Grenadines in August 2017.

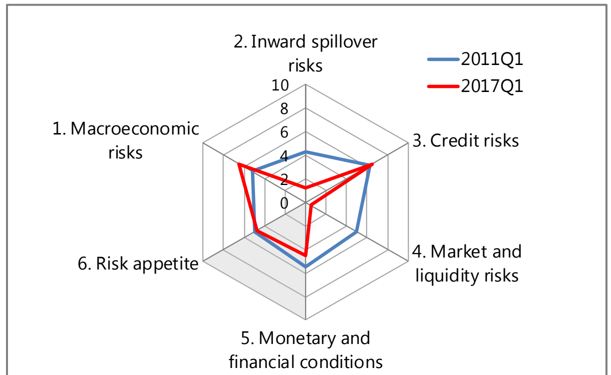
22. The recent buyback of the BoSVG effectively blocks an envisaged merger which could have helped improve competitiveness through regional diversification. However, the authorities are exploring alternative possibilities of consolidation/amalgamation. Recent evidence shows that low diversification is a key factor for the relative lack of competitiveness of ECCU indigenous banks.[8] The high correlation across economic sectors within small undiversified economies amplifies the negative effects of business cycle downturns on banks profitability and raises the risk of bank insolvency caused by idiosyncratic sectoral shocks. Intra-regional bank mergers may reduce this risk through scale and diversification effects

[8] F. Di Vittorio, Delong Li, Hanlei Yun: "On bank consolidation in a Currency Union", forthcoming IMF working paper.

Box 4. Country Financial Stability Map (CFSM) [1]

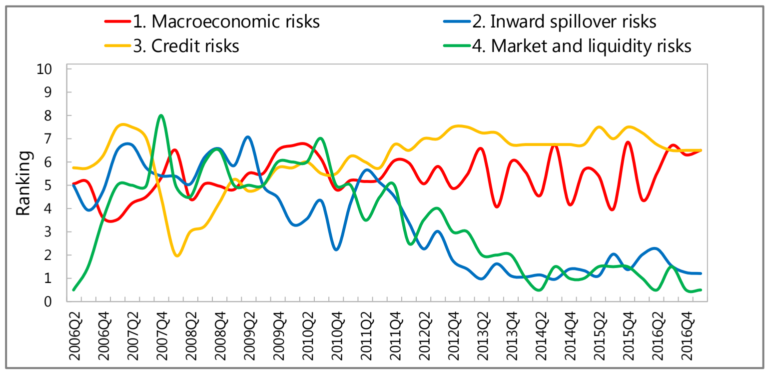
- St. Vincent and the Grenadines' market and liquidity risks and inward spillover risks were low in 2016, while most of other financial risks and conditions have been contained since 2010.

- **Market and liquidity risks and inward spillover risks have declined sharply**, driven by a reduced exposure to stresses in funding and liquidity at banks. Inward spillover risks have narrowed primarily due to a sharp increase in the ECCB's external reserves.

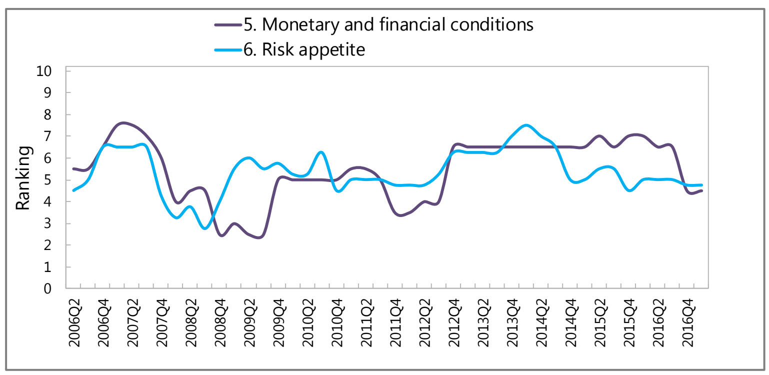


Note: Away from center signifies higher risks, easier monetary and financial conditions, or higher risk appetite.

- **Credit and macroeconomic risks have remained moderate since 2013**. Credit risks rose after 2008 as public debt increased. It reached its peak in 2013 and has remained broadly unchanged since then. Macroeconomic risk indicators have been stable since 2010, reflecting modest GDP and credit growth and high current account deficits.



- **Monetary and financial conditions, and risk appetite are relatively less favorable**. They are primarily driven by relatively low real growth of broad money and low FDI, respectively.



[1] Framework by Cervantes, Jeasakul, Maloney, and Ong (2014), "Ms. Muffet, the Spider(gram) and the Web of Macro-Financial Linkages.", which quantifies the linkages between the real economy and the financial sector, and the inter-relationships between global and individual country risks.

23. Continuing to strengthen the supervision of credit unions and improving their governance is key to address their vulnerabilities. Banks are increasingly vulnerable to credit union shocks given the latter's large size and concentration of deposits in the domestic banking system. However, credit unions are beyond the ECCB's supervisory perimeter and subject to looser supervisory regulations from the Financial Supervisory Authority (FSA), whose supervisory powers should be strengthened by approving implementing regulations of the FSA Act. Adopting the Building Societies Act would also modernize the regulatory framework, including regarding corporate governance and financial reporting. Moreover, the FSA should:

- Continue to closely monitor and address developments in credit unions and building societies, particularly as they implement the International Financial Reporting Standards (IFRS) 9 required by January 2018, including efforts to recover debt and reduce operating costs and NPLs.

- Expand the quarterly reporting requirements from credit unions to the Financial Supervisory Authority to include more granularity on NPLs, provisioning, lending distribution and short term collateral.

- Compile and publish data on balance sheet/income statements and indicators on the performance of credit unions.

- Introduce routine stress testing as a main supervisory tool of credit unions.

24. The government and banks should intensify collaboration to reduce CBR risks and safeguard the stability of financial and external sectors. AML/CFT compliance is critical to ensure transparent banking system operations, and continue building confidence with correspondent banks. The 2014 enactment of AML/CFT Regulations to bridge gaps related to customer due diligence requirements and irregular transaction reporting by the financial services sector including the offshore sector, has addressed several deficiencies identified in the country's 2010 Mutual Evaluation Report (MER). In this regard, the swift issue of a regulation on non-profit organizations is encouraged to move toward compliance with the 2012 FATF recommendations.

E. Other Issues

25. Further advances are needed for data provision, which are broadly adequate for key areas of surveillance. The recent publication of the 2015 Labour Force Survey greatly improved the provision of labor market indicators. BoP statistics, revised according to BPM6 and improved surveys and including IIP statistics were released in 2017Q3. The authorities' chart of accounts is compliant with GFS 2014. However, statistical coverage of the operations of public entities is weak, given that several do not comply with financial reporting requirements, including due to lack of capacity in some cases.

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

AUTHORITIES' VIEWS

27. **With the support of external partners, the authorities expect their actions to adequately build resilience and address the costs of natural disasters.** They are elaborating regulations on using the Contingencies Fund, which they hope to endow with external resources that would supplement the earmarked revenue from the VAT rate increase. In addition to progressing with the geothermal energy project, the authorities are contemplating more green energy projects, mainly solar, for the Grenadines. They are planning more resilient roads and sea defenses and are committed to further enforce the Building Code and Physical Planning Law. They also plan to articulate and implement a strategy to rezone areas and relocate population deemed at risk and agreed that the powers of the National Emergency Management Organization (NEMO) should be enhanced through legislation.

28. **The authorities acknowledged the need for more structural reforms to improve competitiveness, but stressed that business operations in the Caribbean are most significantly impeded by difficulties in securing correspondent banking relationships.** Concerning reducing the number of container inspections at Customs, the authorities noted that many importers opted out of the Customs' fast track status since they preferred inspections to a possible post clearance audit. The authorities also stressed that container inspections were needed to safeguard Customs revenue collections. Finally, the authorities mentioned that the recent Possession Recovery Land Act has been helpful to regularize land ownership.

29. **Further developing tourism is the foundation of the authorities' growth strategy.** They are engaging extensively with airlines from tourism source countries to further improve the country's connectivity and are prioritizing reopening the large hotel under new management. They strive to upgrade tourism infrastructure, including ports and marinas, public transportation, and human capital. They noted that St. Vincent and the Grenadines is a regional leader in establishing standards for all local stakeholders for the tourism industry.

30. **The authorities see improving the links from tourism to agriculture as paramount for inclusive and sustainable growth.** The authorities underscored the importance of improved direct air connectivity to large markets in boosting agriculture, including new agribusiness initiatives in cocoa, coffee and seafood. They recognized that some concessions for food imports by tourism operators compete with locally produced agriculture, but were needed by larger hotels until the consistency of supply of local products improve.

31. **The authorities expect the 2018 budget to be consistent with the ongoing fiscal consolidation while accommodating pressing staffing and investment needs.** They are reviewing possible measures for revenue mobilization, including streamlining the set of currently offered tax and customs concessions. They aim to adjust the salaries and positions of teachers who are recent college graduates, staff the modern medical complex, and address growing security needs. They also intend to better support public investment.

32. The authorities told the mission that they are elaborating a Medium-Term Fiscal Framework, and will present a parliamentary resolution on fiscal responsibility. They intend to include structural fiscal measures to the framework, particularly since they prefer mobilizing budgetary resources by improving the revenue administration and streamlining exemptions instead of raising the fiscal burden on existing taxpayers. The authorities reported that the framework will pay attention to the evolution of the wage bill and pensions over the medium-term and to improving expenditure efficiency, including concerning the performance of public entities. While the authorities see the merit of proposing to parliament a resolution on fiscal responsibility, they do not support legislation on fiscal responsibility since non compliance with that legislation cannot be properly sanctioned, unlike deviations from other legislation, which depreciates the notion of a country's laws.

33. The authorities consider that they have fostered a sound environment for the financial system. They clarified the motivation behind the buyback of Bank of St. Vincent and the Grenadines as resulting from a difference in strategic vision with the foreign consortium which has emerged over time. They stated their intention to resell the bank in the medium term after enhancing its value.. They expect to continue collaborating with indigenous banks in the region to seek scope for consolidating bank functions. They noted that St. Vincent and the Grenadines foreclosure laws are better suited to facilitate assets disposal than those in the rest of the region. Concerning the supervision of credit unions, the authorities consider that they receive sufficient data from credit unions for regular monitoring, but will request more granular data in preparing for the next stress testing exercise planned in mid-2018. They see their AML/CFT supervision as sound, with the expansion of the AML code in August 2017 addressing most of the outstanding 2012 FATF recommendations.

STAFF APPRAISAL

34. Economic activity is expected to remain relatively flat in 2017 but recover in 2018 owing to enhanced connectivity with key tourism source countries. The fiscal position is expected to deteriorate in 2017-18, as new revenue measures only partially cover higher outlays. Public debt will resume rising despite some debt relief. Moreover, risks to this projection are tilted to the downside given the inadequate policy stance, the uncertain global environment, and vulnerability to natural disasters. However, strong spillovers from the new airport, the construction of a modern port, and launching the geothermal project could support growth in the medium term.

35. Additional fiscal measures are needed in 2018 and over the medium-term to pay arrears and put public debt on a clear downward path, mitigate debt distress, and achieve the regional debt target. Under current policies, public debt is projected to continue to rise from its already high level. In this context, the authorities should implement measures yielding 1.8 percent of GDP over the next two years, which would provide the needed savings to a contingency fund to address natural disasters.

36. Containing the wage bill and curbing the growth of public pensions should be key pillars of the fiscal consolidation strategy. On the revenue side, there is ample scope for broadening the tax base by streamlining tax concessions and exemptions, and for collecting tax arrears, where practical. This would limit the need for further increasing tax rates.

37. Structural fiscal reforms need to accelerate to mobilize additional revenue and strengthen overall public financial management. Preparing and implementing legislation on tax administration procedures, with a provision for assigning a Tax Identification Number (TIN) to each taxpayer, is critical. Improving the efficiency of public expenditure and cash management practices is critical to stop the accumulation of budgetary arrears. Fiscal reporting should be expanded to capture the widest possible fiscal perimeter beyond the focus on the central government budget, and present fiscal risks explicitly, particularly given PPPs in the pipeline or already in operation and the substantial role of SOEs. The operating losses at the state owned-and-run airport need to be addressed, while the purchase by the state of a bank should be a short transitory step to facilitate moving ahead with the ECCU's bank consolidation strategy.

38. The government should increase resources for the contingencies fund and implement initiatives to build resilience against natural disasters. The authorities have earmarked revenue for the contingencies fund, but the resources are insufficient. Moreover, the authorities need to promote more resilient infrastructure. It would also be important to move forward with their plans to strengthen and further enforce the Building Code and Physical Planning Law, enhance the powers of the NEMO through legislation, and articulate and implement a strategy to rezone areas and relocate populations deemed at risk.

39. The external position is weaker than the level consistent with fundamentals and desirable policies. The private sector would benefit more from enhanced connectivity if competitiveness and the business climate were improved. To that end, it would be critical to moderate wage growth and accelerate implementation of risk management practices at Customs and significantly reduce container inspections. It would also be beneficial to move ahead with the preparation of the Investment Act to streamline regulations, development of the vocational training program, and improvement of land title registration. Moreover, enhanced labor market flexibility and improved access to credit is essential. Enforcement of the government's new tourism standards is needed. In agriculture, swift execution of the World Bank project to reorient the sector from subsistence to agribusiness and strengthen its links to tourism will be important. Furthermore, intensified actions are needed to bridge infrastructure gaps, facilitate access to property by the younger generation, and improve risk-sharing mechanisms.

40. While the financial sector remains stable, decisive measures are needed to buttress it and foster credit growth Implementing the OECS Harmonised Credit Reporting Act will improve information about borrowers. Moreover, the full operationalization of the ECAMC, combined with the country's new insolvency law, will help banks unwind their NPLs. To strengthen the supervision of non-banks swift approval of implementing regulations to the FSA Act is needed. The authorities should continue addressing AML/CFT shortcomings by swiftly issuing a regulation on non-profit organizations and moving towards compliance with the 2012 Financial Action Task Force (FATF) recommendations, including to reduce CBR risks. Following the recent buyback of the BoSVG, which effectively ends an envisaged merger, the authorities are encouraged to redouble their efforts to explore alternative amalgamation options.

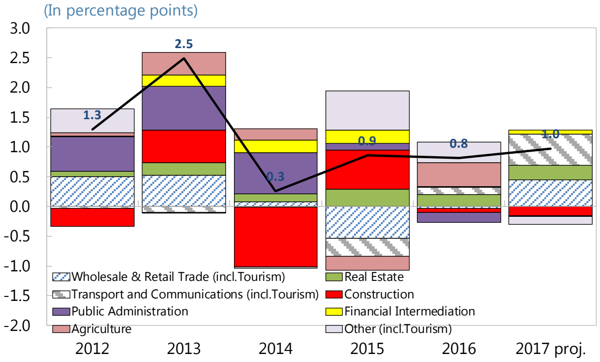
41. It is recommended that the next Article IV consultation take place within the next 12 months.

Figure 1. St. Vincent and the Grenadines: Moderate Economic Growth

Boosted by second-half acceleration in tourism sectors, the economy is expected to grow by 1.0 percent in 2017.

Contribution to Growth by Sector

(In percentage points)



Sources: ECCB; and IMF staff Estimates.

Improved connectivity may help St. Vincent and the Grenadines recover some of its tourism market share.

St. Vincent and the Grenadines: Market Share of Stay-Over Tourists in ECCU-8 Countries

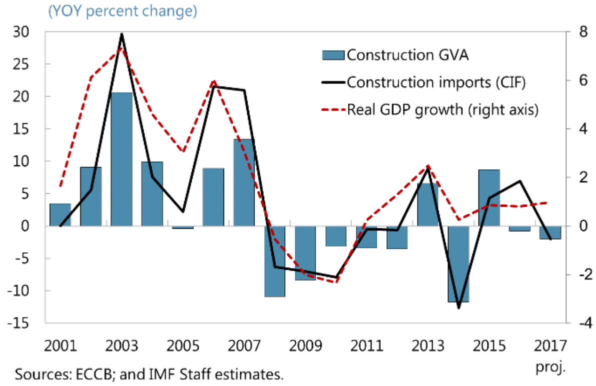
(in percent)

Sources: ECCB and IMF staff calculations.

The construction sector is not expected to expand in 2017 …

Construction and Real GDP

(YOY percent change)

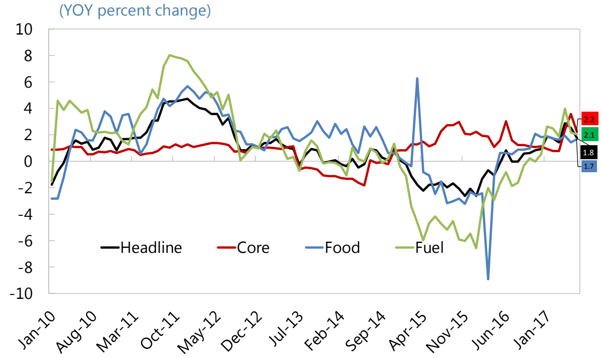


Sources: ECCB; and IMF Staff estimates.

… while higher VAT rates and minimum wages caused a slight uptick in CPI inflation.

Inflation

(YOY percent change)

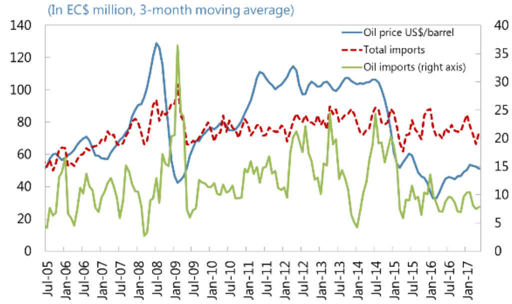


Sources: ECCB; and IMF Staff Estimates.

Figure 2. St. Vincent and the Grenadines: Improved External Position with Balanced Risks

Total imports remain flat amid relatively stable oil prices.

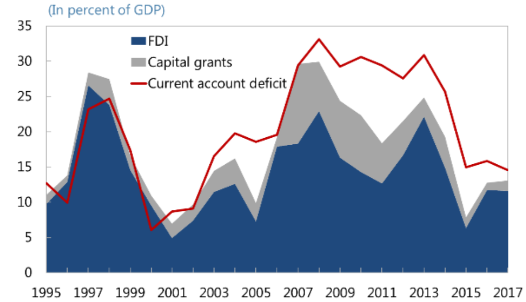
Imports and Oil Prices
(In EC$ million, 3-month moving average)



Sources: Authorities; WEO; and IMF Staff Estimates.

The current account deficit in 2017 is expected to slightly narrow relative to 2016.

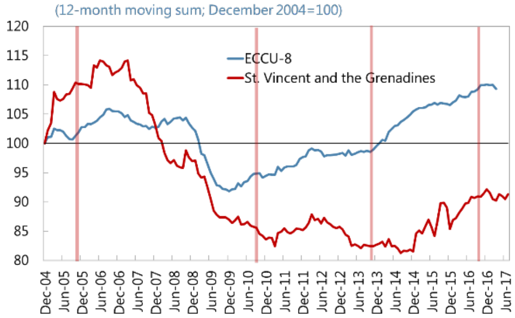
Current Account Deficit and Sources of Finance
(In percent of GDP)



Starting with the year 2014 data are provided by the authorities in BPM6.
Sources: ECCB; and IMF Staff Estimates.

Stayover tourism slowed down in early 2017, after trending up since early 2016...

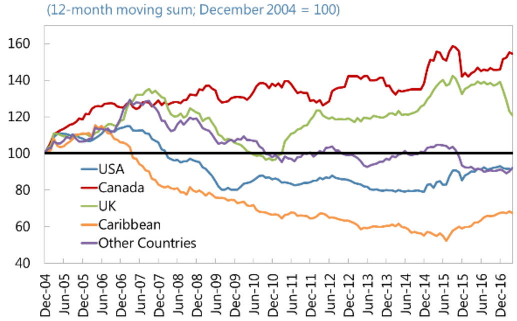
St. Vincent: Stayover Tourist Arrivals
(12-month moving sum; December 2004=100)



Sources: ECCB and IMF staff calculations.
Shaded bars represent major storm events in St. Vincent

... with fewer tourists from the UK offset by tourists from elsewhere.

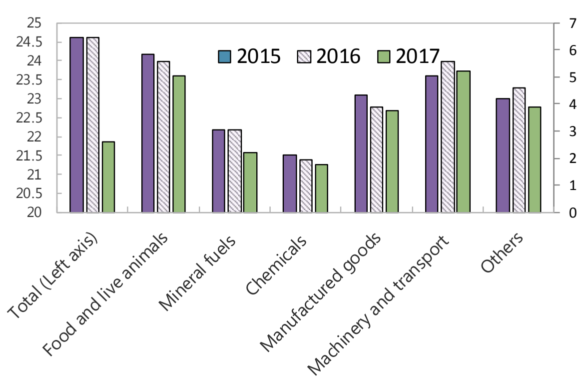
Tourist Arrivals by Country
(12-month moving sum; December 2004 = 100)



Sources: ECCB; and IMF Staff Estimates.

Lower imports contribute to improve the goods and trade balance in 2017.

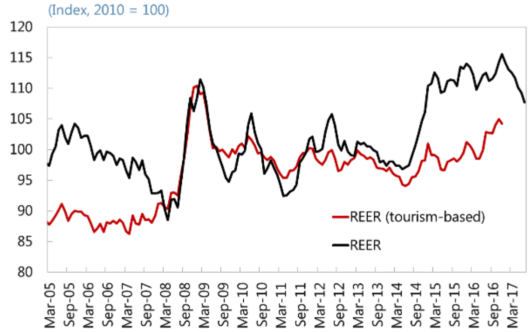
Imports in Jan.-July, 2015-17
(Percent of Annual GDP)



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

Both the CPI-based and the tourism-based exchange rates have appreciated since 2015 prior to partially reversing in 2017. reflecting the recent depreciation in the U.S. dollar.

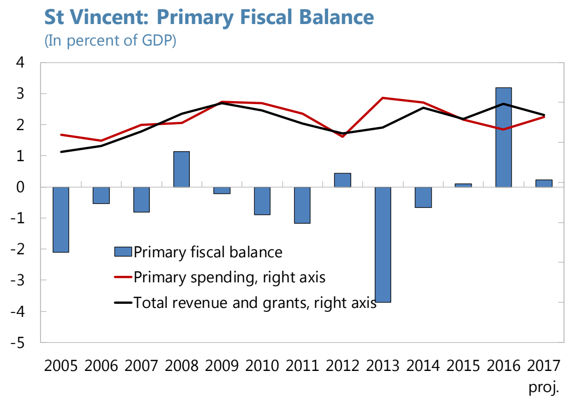
Real Effective Exchange Rate
(Index, 2010 = 100)



Sources: INS; and IMF Staff Estimates.

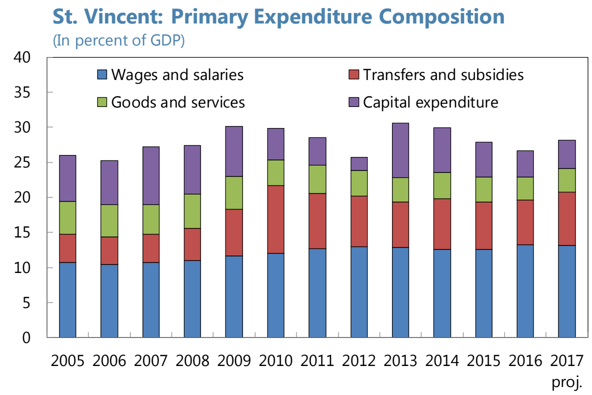
Figure 3. St. Vincent and the Grenadines: Improved Fiscal Position by Restraining Outlays

The primary fiscal position is expected to deteriorate in 2017



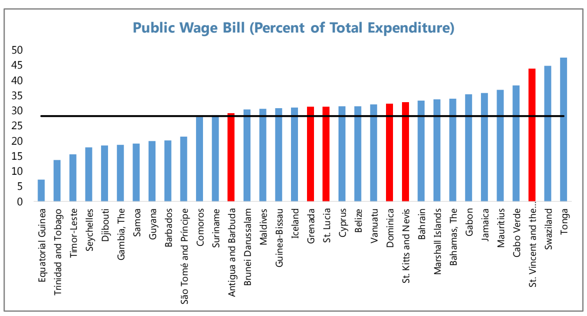
Sources: St. Vincent National Authorities; and IMF Staff Estimates.

…driven by higher capital outlays and transfers…

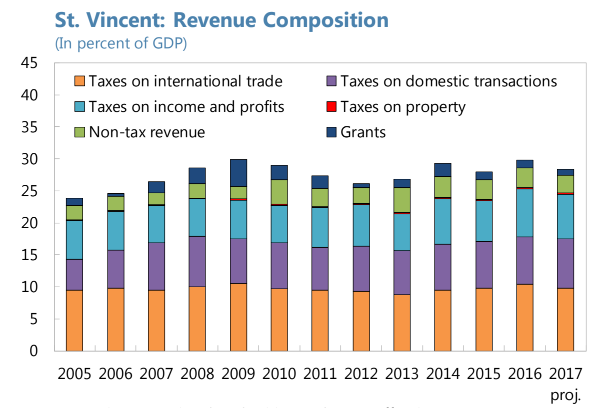


Sources: St. Vincent National Authorities; and IMF Staff Estimates.

… and a persistent relatively high wage bill.

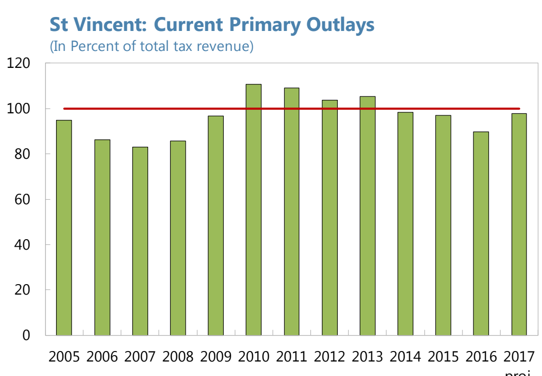


Tax receipts are projected below their 2016 level…



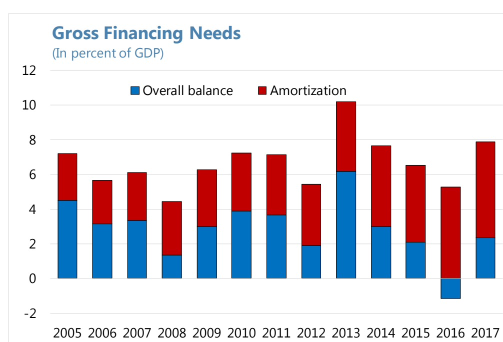
Sources: St. Vincent National Authorities; and IMF Staff Estimates.

…just slightly above primary outlays.



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

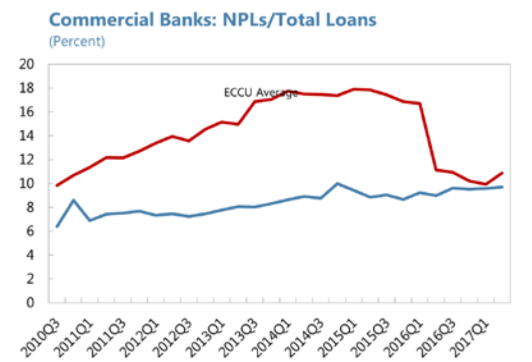
The projected 2017 overall budget deficit puts additional pressure on overall financing needs, adding to growing amortization.



Sources: Country Authorities; and IMF Staff Estimates.

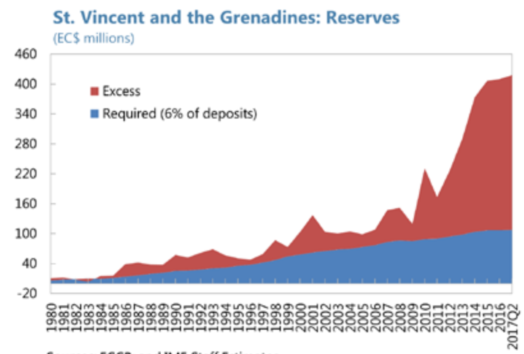
Figure 4. St. Vincent and the Grenadines: A Stable Financial Sector with a Larger Prominence of Credit Unions

Banks' NPLs have remained relatively stable but declined elsewhere in the region reflecting exceptional measures to repair balance sheets



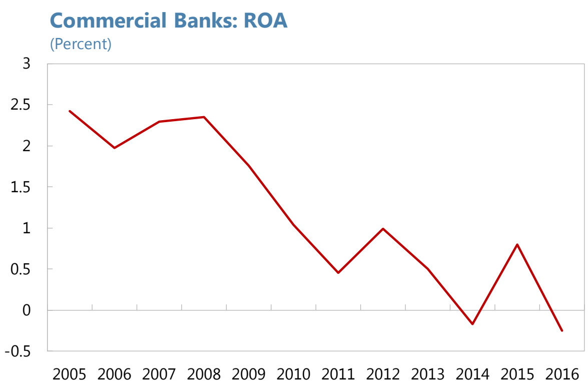
Sources: ECCB; and IMF Staff Estimates.

Banks' excess reserves are near historical levels....



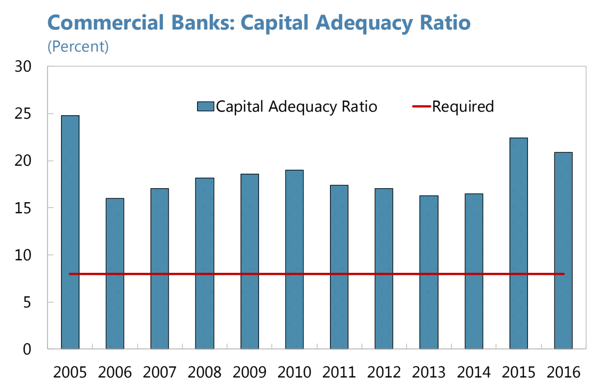
Sources: ECCB; and IMF Staff Estimates.

...as banks' profitability has declined to very low levels.



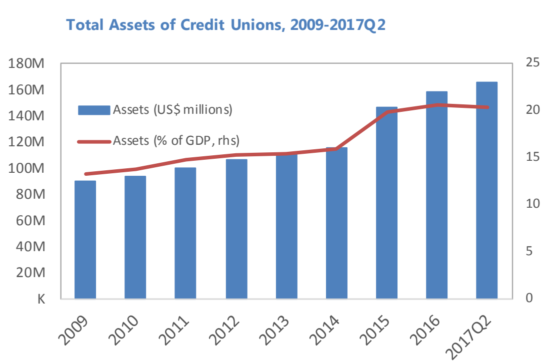
Sources: National Authorities; and IMF Staff Estimates.

Nonetheless, commercial banks remain well capitalized.



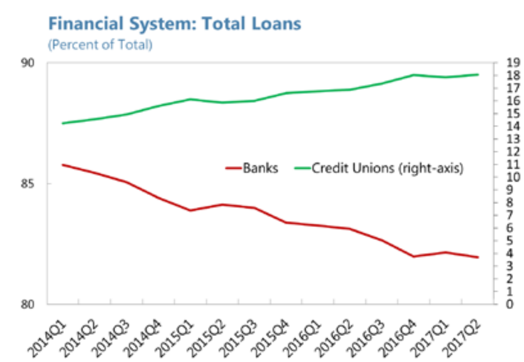
Sources: ECCB; and IMF Staff Estimates.

Credit unions have gained prominence since the global crisis...



Source: National Authorities and IMF staff estimates.

...including with increasing their share of total loans extended by the financial system.



Sources: National Authorities; and IMF Staff Estimates.

Table 1. St. Vincent and the Grenadines: Selected Social and Economic Indicators, 2013–18

Social and Demographic Indicators

Area (sq. km)	389.3	Adult literacy rate (percent, 2001)	89.0
Population (2016)		Health and nutrition	
Total (thousands)	110.1	Calorie intake (per capita a day, 2007)	2,810
Rate of growth (percent per year)	0.09	Population per physician (thousand, 2004)	1.2
Density (per sq. km.)	282.8	Health expenditure per capita, PPP-2011 (2014)	917
Population characteristics		Gross domestic product (2016)	
Life expectancy at birth (years, 2015)	73.1	(millions of US dollars)	770
Infant mortality (per thousand live births, 2016)	15.2	(millions of EC dollars)	2,079
Under 5 mortality rate (per thousand, 2016)	16.6	(US$ per capita)	6,992

	2013	2014	2015	2016	2017	2018
					Est.	Proj.
	(Annual percentage change, unless otherwise specified)					
Output and prices						
Real GDP (factor cost)	2.5	0.3	0.9	0.8	1.0	2.1
Nominal GDP (market prices)	4.1	0.8	3.8	1.9	4.1	4.2
Consumer prices, end of period	0.0	0.1	-2.1	1.0	2.2	1.5
Consumer prices, period average	0.8	0.2	-1.7	-0.2	2.0	1.5
Banking system 1/						
Net foreign assets	7.2	1.1	1.7	8.8	-0.7	-1.7
Net domestic assets	1.4	8.4	3.1	-5.8	5.7	6.7
Credit to private sector	1.1	-0.2	1.7	1.0	0.7	0.7
Central government finances (in percent of GDP)						
Total revenue	26.9	29.3	27.9	29.8	28.4	29.0
Tax revenue	21.6	24.0	23.7	25.5	24.7	25.2
Grants	1.3	2.0	1.2	1.2	1.0	1.4
Total expenditure and net lending	33.0	32.3	30.0	28.7	30.8	31.1
Current expenditure	25.2	25.9	25.1	24.9	26.7	27.3
Wages and salaries	12.9	12.6	12.6	13.2	13.1	13.2
Interest	2.5	2.3	2.2	2.1	2.6	2.5
Capital expenditure	7.8	6.4	4.9	3.8	4.0	3.8
Overall balance	-6.2	-3.0	-2.1	1.1	-2.4	-2.0
Overall balance (excl. grants)	-7.5	-5.0	-3.3	-0.1	-3.4	-3.4
Primary balance	-3.7	-0.7	0.1	3.2	0.2	0.5
Primary balance (excl. grants)	-5.0	-2.7	-1.1	1.9	-0.8	-0.9
External sector (in percent of GDP)						
External current account	-30.9	-25.7	-14.9	-15.8	-14.3	-13.6
Exports of goods and services	25.2	34.4	37.0	37.1	37.1	37.7
Imports of goods and services	58.0	60.6	54.5	53.7	52.9	52.2
Stayover arrivals (percentage change)	-3.5	-1.4	6.6	7.4	0.0	3.0
Public sector external debt (end of period)	43.2	45.5	46.4	56.7	50.1	47.7
External public debt service						
(In percent of exports of goods and services)	16.8	12.9	10.4	28.5	9.6	13.2
Memorandum items (in percent of GDP)						
Gross public sector debt 2/	75.9	79.5	79.4	82.9	77.5	78.5
Nominal GDP (market prices; in millions of EC$)	1,947	1,963	2,039	2,079	2,164	2,255

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

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

2/ From 2016, reflects additional debt contracted with PetroCaribe but not previously recorded (EC$ 112 million or 5.4 percent of GDP in 2016). It includes debt of central government and state-owned enterprises.

Table 2a. St. Vincent and the Grenadines: Baseline Scenario, Summary of Central Government Operations, 2013–22

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

					Est.	Projection				
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total revenue and grants	**522.9**	**575.4**	**569.3**	**619.8**	**614.3**	**654.9**	**690.5**	**720.8**	**753.7**	**786.7**
Current revenue	462.6	535.2	518.3	592.6	586.4	623.4	657.5	686.4	717.8	749.2
Tax revenue	420.6	471.2	482.4	530.1	533.9	568.7	600.5	626.9	655.5	684.3
Of which										
Taxes on income and profits	111.3	140.0	129.6	155.8	150.4	157.7	166.7	174.4	182.3	190.3
Taxes on property	4.0	4.0	4.4	4.0	4.2	4.4	4.6	4.8	5.0	5.2
Taxes on international trade	170.6	186.7	199.8	216.7	212.3	229.1	244.0	254.5	266.2	277.8
Of Which: VAT	68.4	72.9	76.5	82.1	85.0	90.8	95.7	99.9	104.4	109.0
Taxes on domestic transactions	134.7	140.5	148.6	153.5	167.1	177.5	185.2	193.2	202.0	210.9
Of Which: VAT	62.3	65.1	67.3	71.7	76.1	82.7	86.3	90.0	94.1	98.2
Non-tax	41.9	64.0	36.0	62.5	52.5	54.7	57.0	59.5	62.2	65.0
Of which										
Fees, Fines and Permits	17.6	18.0	18.1	28.9	30.1	31.4	32.8	34.2	35.7	37.3
Interest, Rent and Dividends	7.1	17.0	6.5	16.9	8.9	9.3	9.7	10.1	10.5	11.0
Other Revenue	17.3	29.1	11.4	16.7	13.5	14.0	14.6	15.3	16.0	16.7
Capital Revenue	34.3	0.7	26.2	1.5	6.5	0.0	0.0	0.0	0.0	0.0
Of which: Sale of crown lands	29.6	0.7	1.2	0.0	6.5	0.0	0.0	0.0	0.0	0.0
Grants	26.0	39.5	24.8	25.7	21.4	31.6	32.9	34.4	35.9	37.5
Total expenditure and net lending	**643.1**	**634.1**	**612.1**	**596.2**	**665.5**	**701.1**	**736.3**	**765.8**	**799.2**	**833.0**
Current	491.3	508.9	512.1	518.1	578.2	614.5	644.1	669.1	698.2	727.5
Of which										
Wages and salaries 1/	250.9	247.9	257.2	275.1	283.9	298.0	310.9	324.3	339.2	354.0
Interest	47.9	45.7	44.6	42.7	56.2	56.8	60.7	62.6	63.9	65.5
Domestic	29.4	27.3	26.7	27.8	24.8	32.0	35.5	39.2	42.8	46.0
Foreign	18.5	18.4	18.0	14.9	31.5	24.9	25.2	23.4	21.2	19.4
Transfers and subsidies	126.3	140.8	137.7	132.5	165.5	182.4	190.4	194.8	203.7	212.6
Goods and services	66.1	74.5	72.6	67.7	72.6	77.2	82.2	87.4	91.4	95.4
Capital expenditure	151.8	125.2	99.9	78.2	87.3	86.6	92.2	96.7	101.1	105.5
Current balance (before grants)	-28.7	26.3	6.2	74.5	8.1	8.9	13.4	17.3	19.6	21.7
Overall balance	**-120.1**	**-58.7**	**-42.7**	**23.5**	**-51.3**	**-46.2**	**-45.8**	**-45.0**	**-45.6**	**-46.3**
Overall balance (excl. grants)	**-146.1**	**-98.2**	**-67.5**	**-2.2**	**-72.7**	**-77.7**	**-78.8**	**-79.4**	**-81.5**	**-83.8**
Primary balance	-72.2	-13.1	1.9	66.3	5.0	10.7	14.9	17.6	18.4	19.2
Primary balance (excl. grants)	-98.2	-52.5	-22.9	40.5	-16.4	-20.9	-18.1	-16.8	-17.6	-18.3
Identified financing	120.1	58.7	42.7	-23.5	42.0	55.4	55.0	54.2	54.7	55.5
Net external financing	68.3	91.0	44.6	-10.2	-18.9	17.0	1.1	1.4	7.2	11.4
Disbursements	112.4	138.0	89.4	45.3	109.4	88.5	69.6	73.1	76.7	80.2
Amortization	44.1	47.0	44.7	55.4	128.3	71.6	68.5	71.8	69.5	68.8
Change in government assets	-5.5	-7.6	-7.6	-12.1	1.7	-20.0	-6.3	-6.3	-6.3	-6.3
Net domestic financing 2/	47.1	-60.9	34.7	22.4	49.9	67.6	69.4	68.3	63.0	59.6
SDR Allocation	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0	3.0	4.0
Sale of Equity (privatization proceeds)	17.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	-6.9	19.0	-29.0	-23.6	9.2	-9.2	-9.2	-9.2	-9.2	-9.2
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.0	17.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	17.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Wage and salaries	48.0	43.1	45.2	44.4	46.2	45.5	45.0	45.0	45.0	45.0
Transfers and subsidies	24.2	24.5	24.2	21.4	26.9	27.9	27.6	27.0	27.0	27.0
Goods and services	12.6	13.0	12.8	10.9	11.8	11.8	11.9	12.1	12.1	12.1
Capital expenditure	29.0	21.8	17.6	12.6	14.2	13.2	13.4	13.4	13.4	13.4
Stock of arrears	70.3	89.3	60.3	36.7	45.9	36.7	27.6	18.4	9.2	0.0

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

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

2/ Includes other non-banking sector domestic financing.

Table 2b. St. Vincent and the Grenadines: Baseline Scenario, Summary of Central Government Operations, 2013–22

(In percent of GDP, unless otherwise stated)

					Est.	Projection				
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total revenue and grants	**26.9**	**29.3**	**27.9**	**29.8**	**28.4**	**29.0**	**29.3**	**29.4**	**29.4**	**29.4**
Current revenue	23.8	27.3	25.4	28.5	27.1	27.6	27.9	28.0	28.0	28.0
Tax revenue	21.6	24.0	23.7	25.5	24.7	25.2	25.5	25.5	25.5	25.5
Of which										
Taxes on income and profits	5.7	7.1	6.4	7.5	7.0	7.0	7.1	7.1	7.1	7.1
Taxes on property	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on international trade	8.8	9.5	9.8	10.4	9.8	10.2	10.4	10.4	10.4	10.4
Of Which: VAT	3.5	3.7	3.8	4.0	3.9	4.0	4.1	4.1	4.1	4.1
Taxes on domestic transactions	6.9	7.2	7.3	7.4	7.7	7.9	7.9	7.9	7.9	7.9
Of Which: VAT	3.2	3.3	3.3	3.5	3.5	3.7	3.7	3.7	3.7	3.7
Non-tax	2.2	3.3	1.8	3.0	2.4	2.4	2.4	2.4	2.4	2.4
Of which										
Fees, Fines and Permits	0.9	0.9	0.9	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Interest, Rent and Dividends	0.4	0.9	0.3	0.8	0.4	0.4	0.4	0.4	0.4	0.4
Other Revenue	0.9	1.5	0.6	0.8	0.6	0.6	0.6	0.6	0.6	0.6
Capital Revenue	1.8	0.0	1.3	0.1	0.3	0.0	0.0	0.0	0.0	0.0
Of which: Sale of crown lands	1.5	0.0	0.1	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Grants	1.3	2.0	1.2	1.2	1.0	1.4	1.4	1.4	1.4	1.4
Total expenditure and net lending	**33.0**	**32.3**	**30.0**	**28.7**	**30.8**	**31.1**	**31.3**	**31.2**	**31.1**	**31.1**
Current	25.2	25.9	25.1	24.9	26.7	27.3	27.4	27.3	27.2	27.2
Of which										
Wages and salaries 1/	12.9	12.6	12.6	13.2	13.1	13.2	13.2	13.2	13.2	13.2
Interest	2.5	2.3	2.2	2.1	2.6	2.5	2.6	2.6	2.5	2.4
Domestic	1.5	1.4	1.3	1.3	1.1	1.4	1.5	1.6	1.7	1.7
Foreign	0.9	0.9	0.9	0.7	1.5	1.1	1.1	1.0	0.8	0.7
Transfers and subsidies	6.5	7.2	6.8	6.4	7.6	8.1	8.1	7.9	7.9	7.9
Goods and services	3.4	3.8	3.6	3.3	3.4	3.4	3.5	3.6	3.6	3.6
Capital expenditure	7.8	6.4	4.9	3.8	4.0	3.8	3.9	3.9	3.9	3.9
Current balance (before grants)	-1.5	1.3	0.3	3.6	0.4	0.4	0.6	0.7	0.8	0.8
Overall balance	**-6.2**	**-3.0**	**-2.1**	**1.1**	**-2.4**	**-2.0**	**-1.9**	**-1.8**	**-1.8**	**-1.7**
Overall balance (excl. grants)	-7.5	-5.0	-3.3	-0.1	-3.4	-3.4	-3.3	-3.2	-3.2	-3.1
Primary balance	**-3.7**	**-0.7**	**0.1**	**3.2**	**0.2**	**0.5**	**0.6**	**0.7**	**0.7**	**0.7**
Primary balance (excl. grants)	-5.0	-2.7	-1.1	1.9	-0.8	-0.9	-0.8	-0.7	-0.7	-0.7
Identified financing	**6.2**	**3.0**	**2.1**	**-1.1**	**1.9**	**2.5**	**2.3**	**2.2**	**2.1**	**2.1**
Net external financing	3.5	4.6	2.2	-0.5	-0.9	0.8	0.0	0.1	0.3	0.4
Disbursements	5.8	7.0	4.4	2.2	5.1	3.9	3.0	3.0	3.0	3.0
Amortization	2.3	2.4	2.2	2.7	5.9	3.2	2.9	2.9	2.7	2.6
Change in government assets	-0.3	-0.4	-0.4	-0.6	0.1	-0.9	-0.3	-0.3	-0.2	-0.2
Net domestic financing 2/	2.4	-3.1	1.7	1.1	2.3	3.0	3.0	2.8	2.5	2.2
Sale of Equity (privatization proceeds)	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	-0.4	1.0	-1.4	-1.1	0.4	-0.4	-0.4	-0.4	-0.4	-0.3
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Gross Public sector debt (in percent of GDP) 3/	75.9	79.5	79.4	82.9	77.5	78.5	78.6	78.4	77.9	77.7
Central government debt service to revenues excluding grants (in percent of GDP)	23.6	22.3	21.2	20.5	35.6	25.3	24.6	24.7	23.9	23.3
Stock of arrears (in percent of GDP)	3.6	4.5	3.0	1.8	2.1	1.6	1.2	0.7	0.4	0.0
GDP at market prices (EC$ millions)	1,947	1,963	2,039	2,079	2,164	2,255	2,353	2,454	2,566	2,679

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

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

2/ Includes other non-banking sector domestic financing.

3/ From 2016, reflects additional debt contracted with PetroCaribe but not previously recorded (EC$ 112 million or 5.4 percent of GDP in 2016). It includes debt of central government and state-owned enterprises.

Table 3. St Vincent and the Grenadines: Baseline Scenario, Central Government Gross Cash Statement

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

					Projection					
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Deposits at beginning of the period	**142**	**105**	**94**	**71**	**98**	**98**	**98**	**98**	**98**	**98**
Gross cash inflows	**170.4**	**201.6**	**141.8**	**204.2**	**229.2**	**203.2**	**190.8**	**195.8**	**191.8**	**192.7**
Primary surplus	...	...	1.9	66.3	5.0	10.7	14.9	17.6	18.4	19.2
Domestic debt placement	40.8	44.6	49.4	81.9	103.9	104.0	106.4	105.1	96.8	93.4
External debt placement	112.4	138.0	89.4	45.3	109.4	88.5	69.6	73.1	76.7	80.2
Arrears accumulation	...	19.0	...	...	9.2	...	...	...	...	...
Asset sales	17.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	...	...	1.1	10.7	1.8	0.0	0.0	0.0	0.0	0.0
Gross cash outflows	**207.0**	**213.0**	**164.3**	**177.1**	**229.2**	**203.2**	**190.8**	**195.8**	**191.8**	**192.7**
Primary deficit	72.2	13.1	...	...	...	...	...	...	...	...
Interest payments	47.9	45.7	44.6	42.7	56.2	56.8	60.7	62.6	63.9	65.5
Domestic debt amortization	34.2	44.7	46.0	55.3	44.7	45.6	46.2	46.0	43.0	43.0
External debt amortization	44.1	47.0	44.7	55.4	128.3	71.6	68.5	71.8	69.5	68.8
Arrears payments	6.9	0.0	29.0	23.6	...	9.2	9.2	9.2	9.2	9.2
Others	1.7	62.5	0.0	0.0	0	20.0	6.3	6.3	6.3	6.3
Net cash flow	**-36.6**	**-11.4**	**-22.5**	**27.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Deposits at end of period	**105**	**94**	**71**	**98**	**98**	**98**	**98**	**98**	**98**	**98**

Source: National Authorities; and Fund staff calculations.

Table 4. St. Vincent and the Grenadines: Baseline Scenario, Balance of Payments Summary, 2013–22 1/

(In millions of Eastern Caribbean, unless otherwise stated)

					Est.	Projection				
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Current account	**-602**	**-505**	**-304**	**-329**	**-310**	**-307**	**-313**	**-307**	**-299**	**-291**
Trade balance	-735	-729	-671	-669	-684	-696	-714	-732	-751	-771
Exports f.o.b.	147	134	125	126	131	139	142	146	149	152
Imports f.o.b.	882	863	796	795	815	836	857	878	900	922
Of which: Mineral fuels 2/	140	181	95	93	95	97	99	102	105	108
Services (net)	96	214	314	325	341	371	398	424	450	476
Travel	211	416	483	497	523	555	588	621	652	686
Other nonfactor services	-115	-202	-169	-172	-182	-184	-191	-197	-203	-209
Income payments (net)	0	-74	-38	-67	-49	-60	-72	-73	-72	-72
Current transfers	37	84	90	82	82	79	76	75	75	75
Net private transfers	26	89	81	61	62	58	55	53	53	53
Net official transfers	11	-4	9	21	21	20	21	22	23	23
Capital	**53**	**87**	**31**	**21**	**21**	**32**	**33**	**34**	**36**	**38**
Financial (net)	**-641**	**-363**	**-206**	**-135**	**-288**	**-275**	**-280**	**-272**	**-263**	**-254**
Official capital	-102	-152	-99	138	44	57	73	58	63	65
Commercial banks	20	30	16	-65	-6	-19	-30	-18	-22	-24
Net Foreign Direct Investment	-431	-292	-129	-243	-251	-261	-272	-291	-296	-309
Others	-127	-9	-36	-18	-36	-35	-38	-37	-37	-37
Available financing	-70	-60	-42	-54	39	18	13	-16	-30	-51
Change in ECCB NFA	-70	-60	-42	-54	39	18	13	-16	-30	-51
Change in net imputed reserves (increase -)	-70	-62	-41	-53	39	18	13	-16	-29	-51
of which: IMF purchases and disbursments 3/	0	-39	0	4	3	7	7	5	5	2
Change in SDR Allocation	0	2	0	0	0	0	0	0	0	0
Change in medium- and long-term net liabilities	0	0	0	0	0	0	0	0	0	0
Change in govt. foreign assets	0	0	0	0	0	0	0	0	0	0
Other financing	0	0	0	0	0	0	0	0	0	0
Errors and omissions	-23	55	67	172	0	0	0	0	0	0
	(In percent of GDP, unless otherwise stated)									
Memorandum items:										
Current account	-30.9	-25.7	-14.9	-15.8	-14.3	-13.6	-13.3	-12.5	-11.6	-10.9
Exports f.o.b.	7.6	6.8	6.1	6.1	6.1	6.2	6.0	5.9	5.8	5.7
Imports f.o.b.	45.3	43.9	39.0	38.3	37.7	37.1	36.4	35.8	35.1	34.4
Net private transfers	1.3	4.5	4.0	2.9	2.9	2.6	2.3	2.1	2.0	2.0
Foreign direct investment	-22.1	-14.9	-6.3	-11.7	-11.6	-11.6	-11.6	-11.9	-11.5	-11.5
Tourism receipts	12.8	24.1	26.8	27.1	27.3	27.8	28.2	28.5	28.6	28.7
Terms of Trade of Goods and Services	75	76	87	94	92	93	95	96	98	100
Total trade of goods and nonfactor services	83.2	95.0	91.5	90.8	90.0	89.9	89.2	88.4	87.4	86.5
Exports of goods and nonfactor services	25.2	34.4	37.0	37.1	37.1	37.7	37.8	37.9	37.8	37.7
Imports of goods and nonfactor services	58.0	60.6	54.5	53.7	52.9	52.2	51.3	50.5	49.6	48.7

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

1/ Starting with the year 2014 data are provided by the authorities in BPM6. Data for prior years are converted by the staff from BPM5.

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

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

Table 5. St Vincent and the Grenadines: Baseline Scenario, Monetary Survey, 2013–22

(In millions of Eastern Caribbean dollars)

					Est.	Projection				
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Net foreign assets	494	508	532	662	651	623	607	618	638	672
ECCB	359	421	445	516	477	459	446	461	490	541
Of which: Imputed reserves	359	421	445	516	477	459	446	461	490	541
Commercial banks	135	87	87	146	174	165	161	157	148	130
Net domestic assets	792	900	944	859	945	1,052	1,152	1,227	1,299	1,362
Public sector credit (net)	-49	-25	-1	-39	-1	88	172	254	327	367
Central government	61	89	111	60	108	154	203	250	293	333
ECCB	-11	-9	-2	-3	-3	-3	-3	-3	-3	-3
Commercial banks	72	97	113	64	111	158	206	254	297	337
Net credit to rest of public sector	-110	-114	-112	-99	-109	-66	-31	4	34	34
National Insurance Scheme	-68	-61	-73	-53	-53	-53	-53	-53	-53	-53
Other	-42	-52	-39	-46	-55	-13	23	57	87	87
Credit to private sector	1,048	1,045	1,070	1,084	1,095	1,106	1,117	1,128	1,139	1,151
Net credit to nonbank financial institutions	16	16	15	23	24	25	26	28	29	30
Other items (net)	-207	-120	-126	-187	-173	-168	-164	-182	-196	-187
Broad money (M2)	1,286	1,409	1,476	1,521	1,596	1,675	1,758	1,845	1,937	2,033
Money	374	426	438	480	503	527	553	580	609	638
Currency in circulation	48	54	65	92	95	100	104	108	113	118
Demand deposits	320	364	364	380	399	418	439	461	484	509
EC$ Cheques and Drafts issued	6	8	9	9	9	9	10	10	11	11
Quasi-money	912	982	1,038	1,041	1,093	1,148	1,205	1,265	1,329	1,395
Time deposits	136	130	127	114	120	126	132	139	146	153
Savings deposits	717	779	821	845	887	932	978	1,027	1,079	1,133
Foreign currency deposits	58	73	90	81	86	90	94	99	104	109
				(Annual percentage change)						
Net foreign assets	20.9	2.8	4.7	24.4	-1.6	-4.2	-2.7	1.9	3.3	5.3
Net domestic assets	2.2	13.7	4.8	-9.0	10.0	11.3	9.5	6.6	5.8	4.8
Credit to private sector	1.3	-0.2	2.4	1.3	1.0	1.0	1.0	1.0	1.0	1.0
Broad money (M2)	8.6	9.5	4.8	3.0	4.9	5.0	5.0	5.0	5.0	5.0
Money	3.7	13.9	2.7	9.6	4.8	4.9	4.9	4.9	4.9	4.9
Quasi-money 1/	10.8	7.7	5.7	0.3	5.0	5.0	5.0	5.0	5.0	5.0
				(Contribution to M2 growth)						
Net foreign assets	7.2	1.1	1.7	8.8	-0.7	-1.7	-1.0	0.6	1.1	1.7
Net domestic assets	1.4	8.4	3.1	-5.8	5.7	6.7	6.0	4.3	3.9	3.2
Public sector credit (net)	2.2	1.9	1.7	-2.6	2.5	5.6	5.0	4.6	4.0	2.1
Of which: Central government	1.0	2.1	1.6	-3.4	3.1	2.9	2.9	2.7	2.3	2.1
Credit to private sector	1.1	-0.2	1.7	1.0	0.7	0.7	0.7	0.6	0.6	0.6
Other items (net)	-1.9	6.8	-0.4	-4.1	0.9	0.3	0.2	-1.0	-0.8	0.5
Memorandum item:										
Income velocity 2/	1.5	1.4	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.3

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

1/ Including resident foreign currency deposits.

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

Table 6. St. Vincent and the Grenadines: Baseline Scenario, Indicators of External and Financial Vulnerability, 2009–16

(Annual percentage changes, unless otherwise specified)

	2009	2010	2011	2012	2013	2014	2015	2016
External indicators								
Merchandise exports	-6.7	-15.7	-3.5	10.0	14.0	-9.0	-6.7	1.0
Merchandise imports	-10.6	1.3	-1.8	7.4	4.0	-2.1	-7.8	-0.1
Terms of trade deterioration (-)	20.3	-14.6	-6.1	2.2	0.8	1.4	14.2	8.2
Tourism earnings	-8.8	-1.5	6.4	2.7	-1.9	89.7	15.5	3.0
Banana export earnings	3.6	-35.0	-86.8	29.4	-3.1	0.6	14.2	-11.1
Current account balance (in percent of GDP)	-29.2	-30.6	-29.4	-27.6	-30.9	-25.7	-14.9	-15.8
Gross international reserves of the ECCB								
In millions of U.S. dollars	800.8	926.1	1,007.6	1,124.7	1,169.1	1,411.2	1,512.2	1,474.3
In percent of broad money	17.8	20.2	21.3	22.4	22.7	25.3	26.3	25.6
Net imputed reserves								
In millions of U.S. dollars	75.2	110.8	87.8	109.1	133.1	156.1	164.7	191.2
Commercial banks' net foreign assets (in millions of U.S. dollars)	58.6	64.9	57.8	42.3	50.0	32.1	32.3	53.9
External public debt (in percent of GDP)	32.0	43.1	43.6	40.5	43.2	45.5	46.4	56.7
External debt service (in percent of exports of goods and services)	4.9	15.5	16.3	15.2	16.8	12.9	10.4	28.5
Of which								
Interest	4.9	4.8	5.0	4.4	4.6	3.3	2.6	2.6
Nominal exchange rate (EC$ per US$, end period)	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Real effective exchange rate depreciation (-), end period	6.3	-2.0	-4.1	6.1	-2.1	0.0	11.7	1.1
Financial indicators								
Broad money	1.4	2.6	-0.3	6.6	8.6	9.5	4.8	3.0
Credit to the private sector	1.8	1.8	4.1	3.5	1.3	-0.2	2.4	1.3
Prudential indicators (in percent)								
Regulatory capital to risk-weighted assets	18.7	18.7	16.8	16.2	15.7	16.0	20.6	20.1
Nonperforming loans net of provisions to capital	23.7	15.8	20.9	19.0	24.2	36.4	27.8	28.8
Nonperforming loans to total loans	8.4	8.6	7.7	7.4	8.3	10.0	8.7	9.2
General government loans to total loans	17.5	8.7	8.5	9.7	9.0	9.2	8.4	8.5
Return on assets	1.8	1.0	0.4	1.0	0.5	-0.2	0.2	0.0
Liquid assets to total assets	30.7	35.9	33.3	32.8	36.2	37.6	38.3	40.0
Spread between reference lending and deposit rates	6.2	6.2	6.2	6.6	6.8	6.8	7.3	7.3
Total loans to total deposits	85.6	75.3	74.2	75.1	72.7	68.1	67.9	66.8
Foreign-currency-denominated liabilities to total liabilities	5.2	7.7	7.5	5.4	6.3	6.5	7.7	7.0

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

Table 7. St. Vincent and the Grenadines: Baseline Scenario, Medium-Term Projections, 2013–22

(In percent of GDP, unless otherwise specified)

	2013	2014	2015	2016	Est. 2017	Projection 2018	2019	2020	2021	2022
Output and prices										
Real GDP growth at factor cost (in percent)	2.5	0.3	0.9	0.8	1.0	2.1	2.5	2.8	3.0	3.0
Nominal GDP	4.1	0.8	3.8	1.9	4.1	4.2	4.3	4.3	4.6	4.4
Consumer Price Index, end-of-period (percent change)	0.0	0.1	-2.1	1.0	2.2	1.5	1.5	1.5	1.5	1.5
Consumer Price Index, average (percent change)	0.8	0.2	-1.7	-0.2	2.0	1.5	1.5	1.5	1.5	1.5
Central government finances										
Total revenue and grants	26.9	29.3	27.9	29.8	28.4	29.0	29.3	29.4	29.4	29.4
Of which:										
Tax revenue	21.6	24.0	23.7	25.5	24.7	25.2	25.5	25.5	25.5	25.5
Taxes on income and profits	5.7	7.1	6.4	7.5	7.0	7.0	7.1	7.1	7.1	7.1
Taxes on property	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on international trade	8.8	9.5	9.8	10.4	9.8	10.2	10.4	10.4	10.4	10.4
Taxes on domestic transactions	6.9	7.2	7.3	7.4	7.7	7.9	7.9	7.9	7.9	7.9
Grants	1.3	2.0	1.2	1.2	1.0	1.4	1.4	1.4	1.4	1.4
Total expenditure and net lending	33.0	32.3	30.0	28.7	30.8	31.1	31.3	31.2	31.1	31.1
Of which:										
Wages and salaries 1/	12.9	12.6	12.6	13.2	13.1	13.2	13.2	13.2	13.2	13.2
Transfers and subsidies	6.5	7.2	6.8	6.4	7.6	8.1	8.1	7.9	7.9	7.9
Capital expenditure	7.8	6.4	4.9	3.8	4.0	3.8	3.9	3.9	3.9	3.9
Overall balance	-6.2	-3.0	-2.1	1.1	-2.4	-2.0	-1.9	-1.8	-1.8	-1.7
Of which: Primary balance	-3.7	-0.7	0.1	3.2	0.2	0.5	0.6	0.7	0.7	0.7
Financing	6.2	3.0	2.1	-1.1	1.9	2.5	2.3	2.2	2.1	2.1
Net external financing	3.5	4.6	2.2	-0.5	-0.9	0.8	0.0	0.1	0.3	0.4
Net domestic financing	2.4	-3.1	1.7	1.1	2.3	3.0	3.0	2.8	2.5	2.2
Other	0.2	1.5	-1.8	-1.7	0.5	-1.3	-0.7	-0.6	-0.6	-0.6
Gross public sector debt 2/	75.9	79.5	79.4	82.9	77.5	78.5	78.6	78.4	77.9	77.7
External sector										
Current account balance	-30.9	-25.7	-14.9	-15.8	-14.3	-13.6	-13.3	-12.5	-11.6	-10.9
Gross public sector external debt (end of period)	43.2	45.5	46.4	56.7	50.1	47.7	44.9	42.4	40.2	38.5
External public debt service										
(In percent of exports of goods and services)	16.8	12.9	10.4	28.5	9.6	13.2	12.4	11.1	10.4	9.8

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

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

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

Annex I. Implementation of Previous Staff Advice

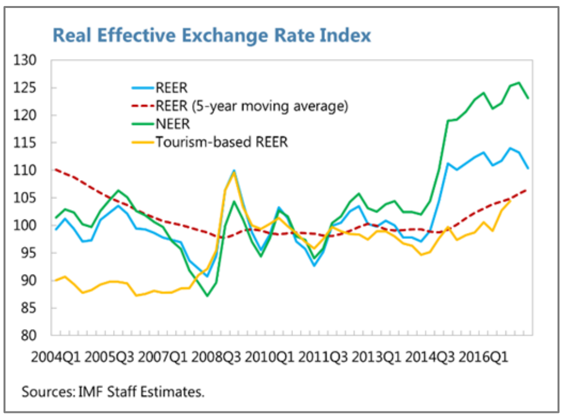
2016 Article IV Recommendations	Policy Actions
Strengthening the Fiscal Framework	
Staff stressed the need for an ambitious yet credible fiscal consolidation to meet the ECCU regional debt target of 60 percent of GDP in 2030, given recurrent natural disasters at their historical frequency and magnitude.	.
i. Create a fiscal buffer for natural disasters	The 2017 budget provides for the creation of a contingencies funds, including to address the impact of natural disasters.
ii. Streamline ad-hoc concessions and tax incentives.	Policy guidelines are currently being reviewed with a view to streamlining ad-hoc exemptions. To be submitted for Cabinet approval.
iii. Continue restraining the wage bill	Following the 1.5 percent salary increase in January 2016, the wage bill restraint is ongoing, including due to an exceptional number of retirements from the civil service in 2016. There was no further salary increase to date.
iv. Improve the sustainability of the public service pension scheme and the National Insurance Service (NIS)	No progress on the public pension scheme, but parametric reforms of the NIS recommended in 2014 are ongoing.
v. Upgrade the information technology at the IRD	No progress.
vi. Implementing recommendations on the report on the Data Matching Projects between the IRD and the CED	No progress
vii. Adopt and enact the Procurement Bill and implementing regulations	Work in progress. TA is being provided by the World Bank to complete the draft legislation and prepare a Procurement Reform Strategic Plan.
viii. Accelerate adoption of trade facilitation measures	Despite the recent upgrade to the ASYCUDA World declaration processing system the cargo clearance process does not conform to modern standards of best practices, including with extensive physical examinations, determined on an ad hoc basis.

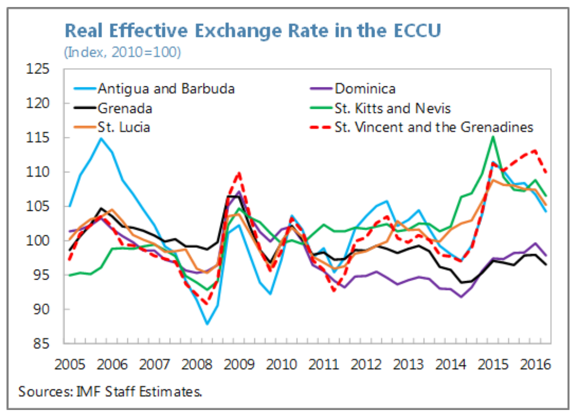
2016 Article IV recommendations	Policy Actions
Strengthening the Fiscal Framework	
ix. Enforce requirements for timely reporting of public enterprises	Not yet implemented.
x. Strengthen the capacities of the Ministry of Finance in internal audit, financial management information systems, and cash management	Cabinet approved establishing a Cash Management Committee
Boosting Growth, Building Climate Resilience and Enhancing Competitiveness	
Staff recommended reforms to ease the cost of doing business and boost productivity:	
i. Appoint Office of Private Sector Development	Not yet implemented.
ii. Formation of a credit bureau	Under way, as part of a regional project by the ECCU.
iii. Accelerate implementation of policy agenda to improve climate resilience	No progress.
iv. Adopt comprehensive disaster management policy	No progress.

Annex II. External Stability Assessment and Competitiveness

The overvalued real effective exchange rate (REER), high unemployment and relatively large current account deficit—even without sizeable government projects or reconstruction from natural disasters—reflect competitiveness challenges which must be addressed.

1. **The appreciation of the CPI-based real effective exchange rate in recent years could undermine the country's competitiveness vis-à-vis trading partners.** After a significant appreciation following the global financial crisis, the REER remained relatively stable until a spike in 2015, when the REER appreciated by roughly 12 percent relative to 2014 (though this upturn is not as large for the REER relative to tourism source countries). This was driven by the appreciation in the nominal exchange rate (NEER), reflecting the strengthening of the US dollar to which the regional currency is pegged, but was partially mitigated by St. Vincent's low CPI in 2015-16 relative to its trading partners. However, St. Vincent's REER appreciated against the rest of the currency union especially in 2016, as the rest of the currency union had even lower CPI.





2. **The standard EBA-lite model estimates show that the external position is weaker than implied by the fundamentals and desirable policies.** Based on the revised BOP statistics that complies with BPM6, the models suggest an overvaluation ranging from 11 percent to 45 percent.[1] The REER model indicates an overvaluation of 11 percent. The current account model finds that St. Vincent's current account balance of -15.8 percent of GDP in 2016 was weaker than the estimated norm of -4.3 percent of GDP. This implies that a 45 percent of REER depreciation would be needed to close the current account gap. Nonetheless, staff believes that the current account model has a poor fit for small, tourism-dependent countries.

[1] The combined effect of enhanced data collection through improved surveys and larger coverage and transition to BPM6 methodology moderately reduced the current account deficit in 2016—to 15.8 percent of GDP--from 18.9 percent previously reported (WEO, April 2017). Services balance improved by about 8 pp of GDP, partially offset by deteriorating primary and secondary income accounts, while the balance on goods trade was barely altered.

St. Vincent and the Grenadines: Exchange Rate Assessment

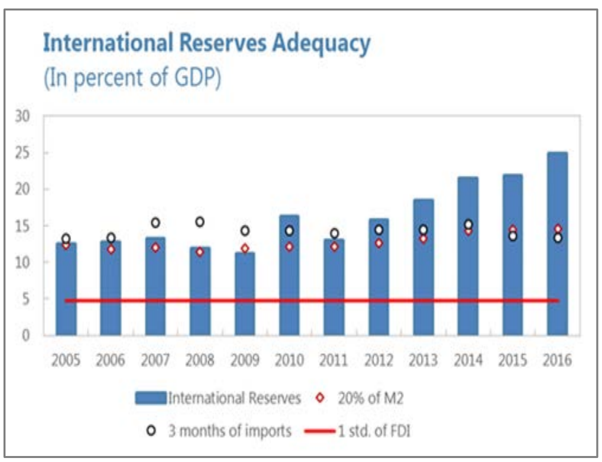
	Underlying Current Account Balance (2022)	Assessment					
		CA Norms					REER
		Norm	2016 Actual	Gap	Policy Gap	Residual	Gap 2/
CA Model 1/	-11.2	-4.3	-15.8	-11.5	3.3	-14.8	45.4
REER Model							11

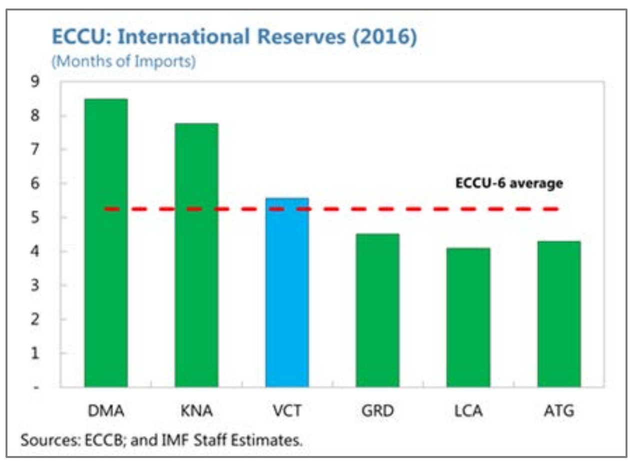
1/ Percent of GDP

2/ Positive number indicates overvaluation.

In general, these economies run very large current account deficits, reflecting sizable inflows of FDI and grants that increase imports, or large government construction or reconstruction projects financed by grants or concessional loans. Therefore, large current account deficits in tourism-dependent economies which are also small states do not necessarily indicate challenges in competitiveness per se.

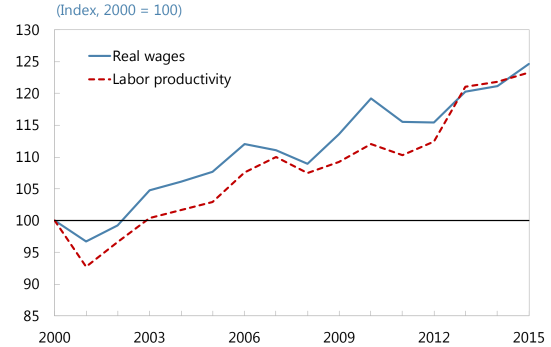
3. The level of international reserves remains well above the various metrics of reserve adequacy, providing ample buffers. ECCU has seen a sharp rise in reserves, including due to CBI inflows, which has benefitted the imputed reserves in St. Vincent as well. As of 2016, imputed reserve coverage is at a comfortable level based on the traditional benchmark of 3 months of imports of goods and services. Reserves in the same year are also well above the 20 percent of broad money (M2) benchmark, and above one standard deviation of FDI inflows, which is a key benchmark in assessing coverage of reserves against external risks. St. Vincent's reserves at 5.6 months of imports are near the ECCU average and are projected to remain stable over the medium-term.





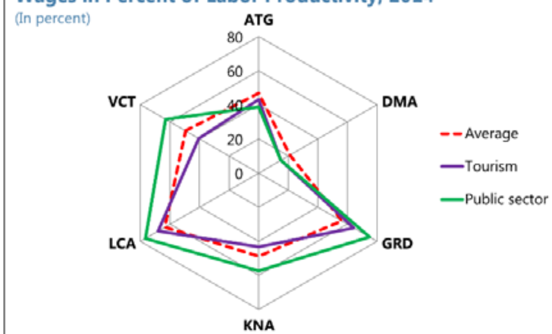
4. Continuing to align labor costs with productivity gains and moderating wages going forward is key to address competitiveness challenges. Real wages have increased by 25 percent over the last 15 years, while productivity has improved by 23 percent. Real wages outpaced productivity gains every year since 2000 and until recently, while there was a catch up in recent years.[2] In addition, St. Vincent has high hiring costs relatively to productivity levels in the public sector, being the second highest in the ECCU. However, we would expect relatively high wage bill in St. Vincent and the Grenadines and St. Kitts and Nevis, given the countries' multi-island structure.

Real Wages vs. Labor Productivity
(Index, 2000 = 100)



Sources: NIS; ECCB; and IMF Staff Estimates.

Wages in Percent of Labor Productivity, 2014
(In percent)



Sources: National Insurance Schemes; ECCB; and IMF Staff Estimates.
1/ Data for St. Lucia correspond to 2010 and 2012 for St. Kitts and Nevis (latest available).

5. Doing Business indicators also suggest weak competitiveness with respect to other countries in the ECCU. The Doing Business Ranking by the World Bank suggest that St. Vincent outperforms its ECCU peers in "enforcing contracts", "paying taxes" and "dealing with construction permits". Nonetheless, with major weaknesses in the areas of "getting electricity" and "registering property", St. Vincent's overall Ease of Doing Business ranking is slightly below the ECCU average at 125 out of 190. As the 2014 insolvency law becomes tested by legal proceedings, the criteria for resolving insolvency should improve St. Vincent's DB rank going forward.

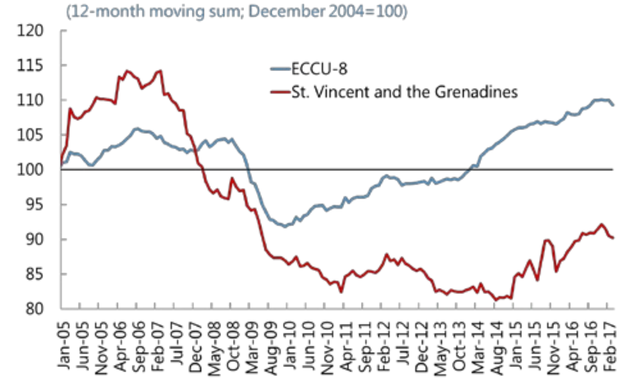
St. Vincent and the Grenadines: Doing Business Ranking
(2017, Out of 190 countries)

Source: WBDoing Business Indicators (2017).
1/ Median

[2] The catch up in labor productivity is also affected by the upward revision of GDP for 2013-15 which took place in 2016.

6. **Growth in tourist arrivals has been on an upward path, but is still well below the ECCU level.** Tourism receipts have recovered since the Global Financial Crisis and natural disasters in 2013, driven by an increase in stayover visitors, although a setback has been observed in 2017, particularly with the decline of UK stayover visitors. Nonetheless, St. Vincent has lagged behind the Union since 2007, highlighting the importance of non-exchange rate factors. The new international airport is expected to improve connectivity and help fill the competitiveness gap.

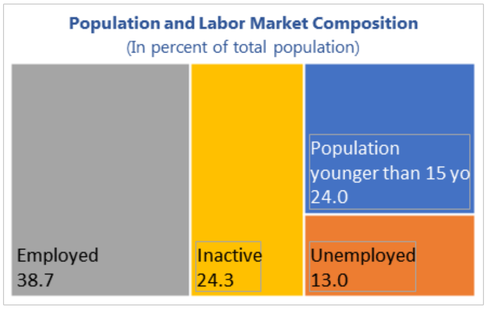
St. Vincent: Stayover Tourist Arrivals
(12-month moving sum; December 2004=100)



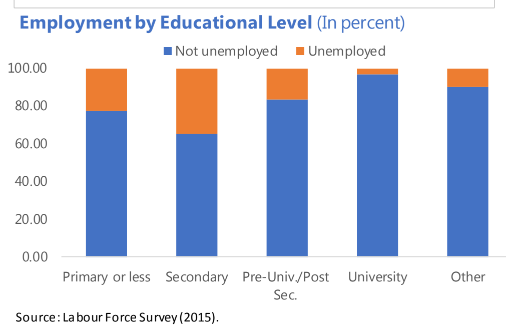
Sources: ECCB and IMF staff calculations.

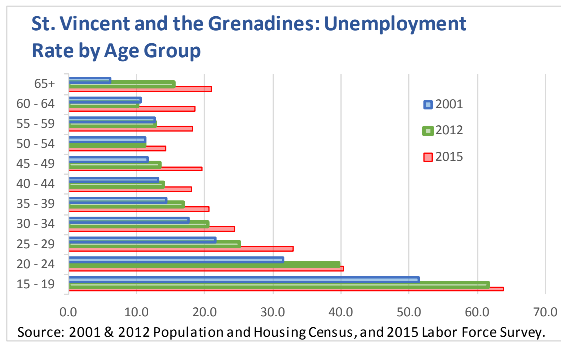
Annex III. Snapshot of the Labor Market in 2015

The unemployment rate is high, particularly for the youth, the less educated, and women. The latter sharply increased their labor market participation since 2001.



- **The overall unemployment rate was 25 percent and reached around 46 percent among the youth (15-24 years of age).** Unemployment was 20.9 and 21.5 percent in 2001 and 2012[1], respectively.





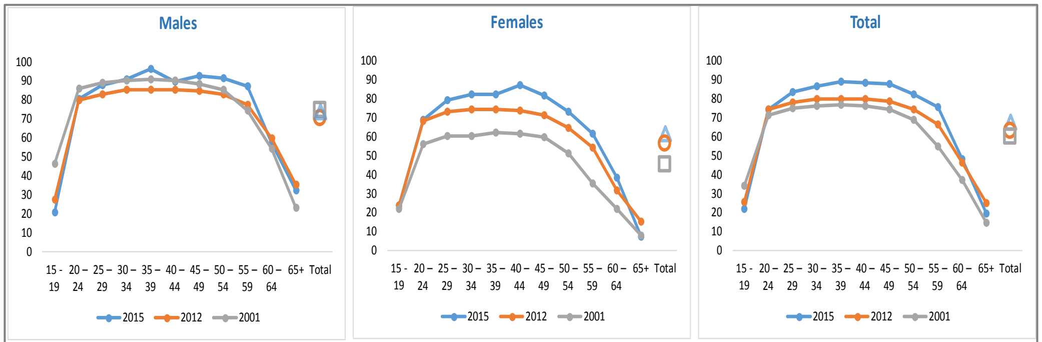
- **Unemployment was highest among graduates of secondary schools, while most university graduates were employed** reflecting more international labor mobility and professional opportunities. Agriculture, and wholesale and retail absorb more workers (each around 13 percent of total workers). Agriculture employs mostly low-skilled workers (Primary or less educational level), while wholesale and retail workers are equally distributed among most educational levels except a university degree. 55 percent of university graduates work either in the public sector, education or health services.

- **The high and persistent overall unemployment rate coincides with the increase of females' labor market participation rate.** [2] Labor market participation of women significantly increased from 45 to 62 percent between 2001 and 2015, while males' participation remained stable. Meanwhile, female unemployment rose from 18 to 30 percent.

[1] Defined as the ratio of unemployed population to total workforce.

[2] 2001 and 2012 figures were obtained from the corresponding Population and Housing Census.

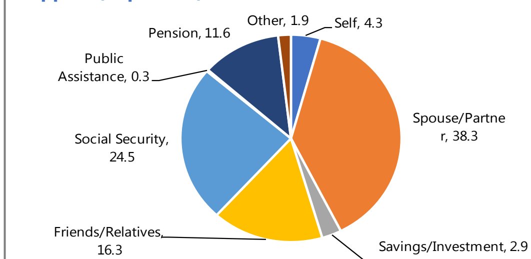
St. Vincent and the Grenadines: Labor Force Participation Rates by Age Groups



Source: Census 2001, 2012, and Labor Force Survey 2015

- **Around 24.3 percent of the population is inactive.** Nearly one-half of inactive are retired or in school. Health conditions, labor market restrictions and household obligations are other factors preventing people from seeking employment

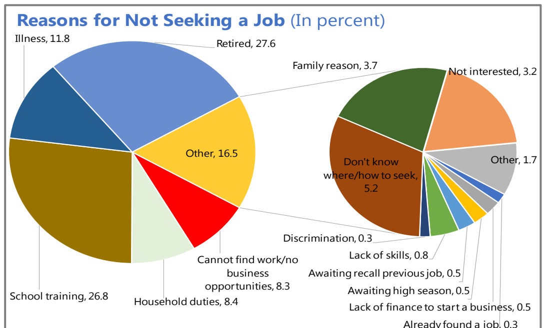
Inactive Population - Main Means of financial support (In percent)



Source: IMF staff calculations based on Labor Force Survey 2015.

- **Inactive people relied on diverse sources of main financial support,** including from remittances, pensions and social security transfers.

Reasons for Not Seeking a Job (In percent)

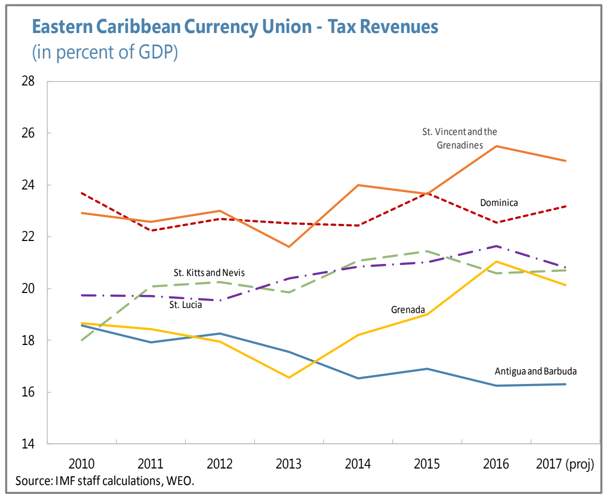


Source: IMF calculations based on Labour Force Survey (2015).

Source: 2001 & 2012 Population and Housing Census, and 2015 Labour Force Survey.

Annex IV. Policies and Actions for Fiscal Adjustment

1. There is scope to improve the design of the tax system and enhance its revenue yield.[1] St. Vincent and the Grenadines has the highest tax to GDP ratio in the ECCU because it tends to rely relatively more on tax receipts to fund its budget, including game changing projects and financial buffers, than other countries in the region.[2] Furthering progress achieved with the adoption of the 2016-17 tax measures, St. Vincent and the Grenadines should streamline its tax sytem to improve its yield (Box II.1). In particular, in the short-term, the authorities could consider: narrowing the list of VAT exempt or zero-rated goods and services; replacing the basic PIT exemption by a tax credit; unifying the rates of the corporate income tax, removing its exemptions and updating its depreciation schedules; curbing tax and customs incentives; and increasing property tax rates.



Box 1. Structure of the Tax System

The tax system of St. Vincent and the Grenadines has been adjusted over the years, on a tax by tax basis. A global assessment suggests that simplifying its structure, broadening its base, and updating its parameters would likely yield tangible revenue benefits.

The amount of VAT exempted and zero-rated goods and services is high, at one-third of goods and services subject to the VAT in 2015. While these items are mostly guided by social considerations, a preferable policy instrument would be to use well-targeted social transfers.

The Personal Income Tax (PIT) could be simplified, its base broadened, and its progressivity could increase. Its almost unused itemized deductions could be eliminated while several of its exemptions (including the farming and fishing income, payments to members of public bodies, bonuses paid in the private and public sectors, rental income for accommodations less than 10 years old) could be repealed. Moreover, pension and capital income should be included in the tax base by: eliminating the additional allowance for the first EC$40,000 of pension income; tax benefits paid on early withdrawals; set a final withholding tax on interest on banks' deposits, dividends and accommodations' rental income; and gradually repeal the interest levy on interest bearing deposits held by financial institutions. Finally, the

[1] Based on the recommendation from Krelove, R. and F. Di Vittorio (2017), "St. Vincent and the Grenadines: Tax Policy Review—Preliminary Findings, January 2017, Fiscal Affairs Department, International Monetary Fund.

[2] Antigua and Barbuda, Dominica, Grenada and St. Kitts and Nevis all have Citizenship by Investment programs which are subject to sizeable risks but have yielded significant revenue for some countries in recent years, IMF Country Report No. 17/150.

Box 1. Structure of the Tax System (concluded)

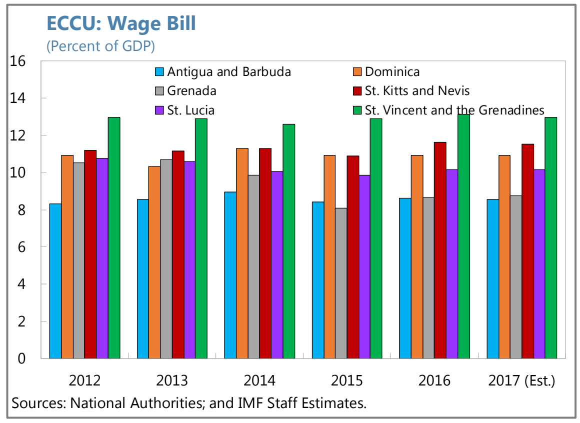
effective structure of the PIT is relatively flat, since over 92 percent of taxpayers are concentrated in the top two brackets due to fixed bracket ranges which did not keep pace with income growth and the top two marginal tax rates are very similar. If the basic exemption of EC$18,000 was replaced with a EC$1,800 tax credit, this would have no effect on the tax burden of taxpayers in the 10 percent bracket but increase the tax burden in higher tax brackets, which would increase the progressivity of the PIT. The yield from this last measure is projected at 0.6 percent of GDP.

Simplifying the Corporate Income Tax (CIT) is a key step to rationalize investment tax incentives. The CIT's multiple rates need to be unified, its depreciation schedules updated and its exemptions for the construction of residential buildings, farming and fishing income eliminated. With a more generous system of capital allowances extended to commercial buildings with increased rates and longer loss carry-forward period, the existing host of tax incentives would be even less justified. In particular, discretionary tax incentives should no longer be granted, tax concessions should be rationalized by setting clear eligibility criteria, there should be a sunset clause for all duty incentives, accelerated depreciation should be used instead of tax holidays and a cap for discretionary duty concessions should be considered. Rationalizing tax incentives has a strong revenue potential, as the foregone revenue of ad-hoc exemptions was estimated at 1.7 percent of GDP in 2016.

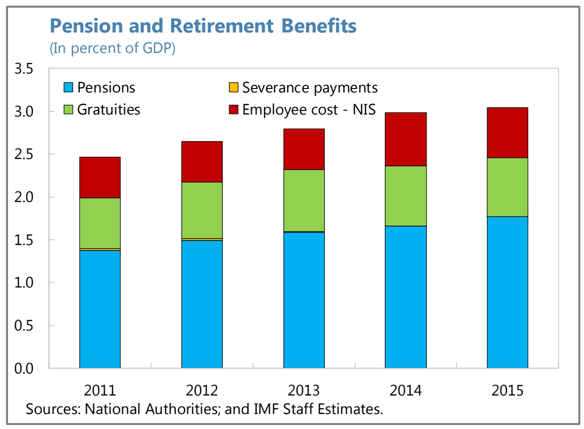
Property tax rates need to be increased, rules-based and the legal enforcement mechanisms should be observed. Along with all rates, the minimum tax should be increased to EC$40 but accompanied by a basic hardship relief regime. A stronger application of the law on data sharing between agencies and government departments could be strengthened and defaulters should be subject to active enforcement.

2. **Rebalancing public expenditure is critical for both creating additional space for growth-enhancing outlays and ensuring a lasting fiscal consolidation.** While total expenditure should be restrained to strengthen fiscal buffers, outlays for growth-enhancing infrastructure and human capital should be facilitated by containing the wage bill and reducing transfers. This would include improving public service efficiency and reforming the public pension and social security schemes to improve their sustainability, and targeting of social transfers.

- **Both the salary and the size of the civil service should be contained.** At 13.1 percent of GDP, the wage bill is the highest in the ECCU. Following the salary increases of 2015 and 2016, it would be helpful to ensure that future nominal pay increases are consistent with productivity trends and achieving the government's medium-term debt reduction objectives. The size of the civil service should continue to be contained with hiring by attrition and redeployments facilitated.



- **Growing outlays for public pension and retirement benefits underscore the need for pension reform.** Public pension spending, at 3 percent of GDP, represented half of public transfers at end-2015, sharply increased since 2011. Although public pensions growth may moderate as retirements decline over the medium-term, a reform is needed to contain the benefits spending. In particular, the replacement rate should be capped to avoid that public employees cumulating two pensions (they are also eligible for pensions by the National Insurance Fund (NIS)) end up with an overall pension higher than their pre-retirement income.



- **Additional measures are also needed to improve the sustainability of the NIS**, particularly given the aging of the population. Recent studies suggest that the contribution rate should at least double the current one for the NIS to break even.[3] There is therefore scope to improve the NIS's administrative efficiency and explore increasing contributor coverage and reducing benefits.

- **Although the authorities have streamlined and rationalized their social protection system since 2010, further progress is needed.** St. Vincent and the Grenadines social assistance outlays amounted to 1.7 percent of GDP in 2015, in line with upper middle income countries. However, programs suffer from fragmentation and their

[3] Nassar, K., Okwuokei, J., Li, M., Robinson, T. and Thomas, S. (2016), "National Insurance Scheme Reforms in the Caribbean", IMF Working Paper 16/206.

administration could be modernized. The authorities are taking steps to articulate a comprehensive national social protection strategy in collaboration with the World Bank.

3. **A detailed plan of sustained reforms in revenue administration should underpin the consolidation.** Issuing a unique Tax Identification Number (TIN) to all taxpayers, controlled by the tax administration and used for all taxes, is paramount for the proper cross-matching of tax declarations. Furthermore, tax compliance would be greatly improved by instituting it as a prerequisite for receiving transfers from the National Insurance System (NIS), government contracts or any other payment from the government. Moreover:

- **At the Customs and Excises department,** it would be helpful to accelerate the implementation of key FAD and CARTAC TA recommendations such as the full adoption of ASYCUDA to automate and control all core activities and implement the risk management module. Reducing the ratio of cargo examination from 80 to 30 percent—contingent on an importer's track record—would redeploy Customs resources to activities more productive for revenue mobilization, lift excessive burden on businesses and limit rent-seeking opportunities. The implementation of key performance indicators will help track progress in the pace of reforms.

- **At the Inland Revenue Department,** it is encouraged to accelerate implementation of the new organizational structure, upgrade management information systems, and adopt stricter enforcement measures on stamp duty for land transfers.

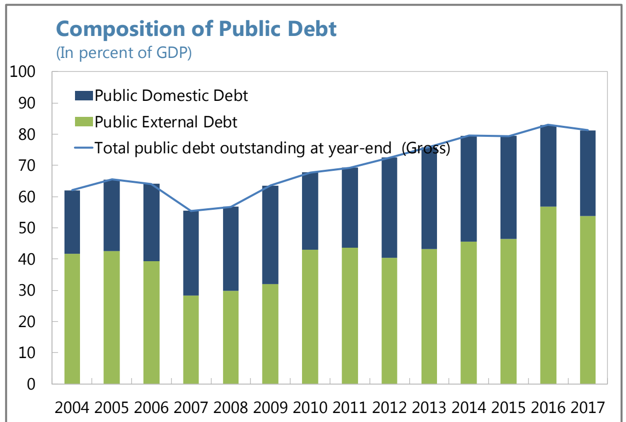
4. **Further reforms in Public Financial Management are needed to enhance the efficiency of public expenditure.** The authorities have recently adopted measures to improve cash management practices, including by approving the Cash Management Committee and are encouraged to introduce procedures for cash planning across the central government. This is expected to help tackle expenditure arrears, lower the cost of goods and services and support private sector growth. To boost expenditure efficiency, it would also be particularly helpful to establish an internal audit unit at the Ministry of Finance, which would follow a risk-based plan. Finalizing and adopting the procurement bill, with World Bank assistance, would further improve the tendering process and hence the proper allocation resources.

Annex V. Debt Sustainability Analysis[1]

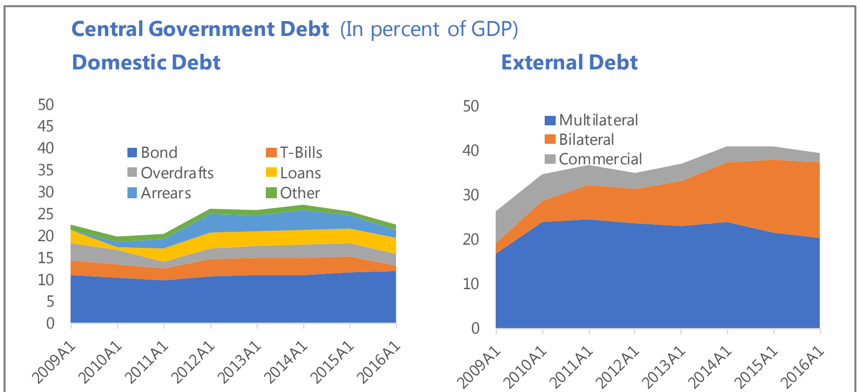
The risk of public debt distress is high, acutely evidenced by the government's sizeable stock of arrears. Proactive adoption of measures for fiscal consolidation and improved competitiveness is needed to place debt on a downward path and provide fiscal buffers to mitigate unexpected fiscal imbalances resulting from recurrent adverse shocks.

Background

1. St. Vincent's risk of public debt distress remains high under a passive scenario, where no further fiscal measures are adopted. Between 2013 and 2017, public sector debt has risen from 75.9 to 77.5 percent of GDP. Key drivers have been the construction of the new airport, the reconstruction in the aftermath of the end-2013 floods, and persistent anemic growth following the global financial crisis. Including the PetroCaribe debt (5.4 percent of GDP), starting in 2016, improved the quality of public records but also increased the debt figure.



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

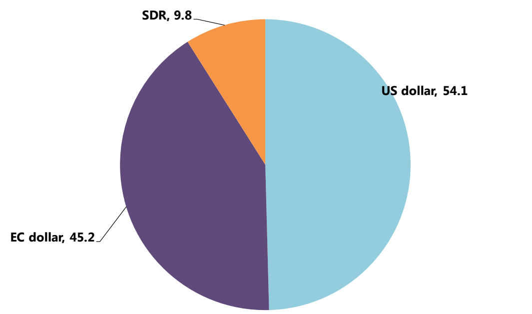


Sources: St. Vincent and the Grenadines national authorities; and IMF staff calculations.

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

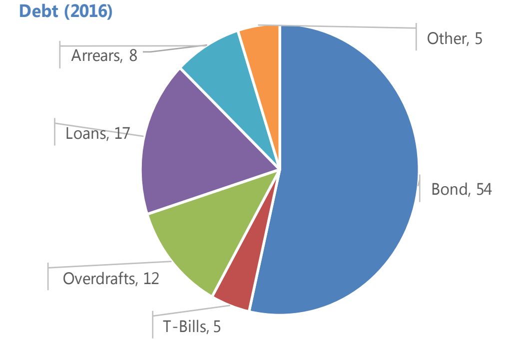
2. Most public sector debt is comprised of external loans, while securities instruments form the bulk of domestic debt. Public sector debt reached 79.5 percent of GDP in 2017 (as of August), of which 53.2 percent of GDP as external debt, and 26.3 percent of GDP as domestic debt. Securities instruments such as bonds and T-Bills represent about 58 percent the entire domestic debt. Overdraft and accounts payables continue to remain important sources of domestic financing, each representing about 12 percent and 8 of the stock of domestic debt, respectively.

Total Debt by Currency, 2015



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

Composition of Central Government Domestic Debt (2016)

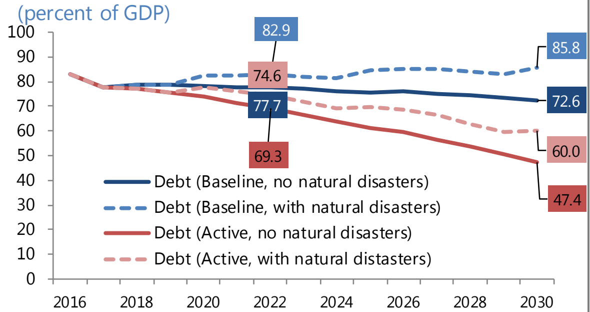


Sources: St. Vincent National Authorities; and IMF Staff Calculations.

3. Interest rate risk and refinancing risk continue to be the main risks of the debt portfolio. About 40 percent of the external debt had been contracted at variable rates, which would may be pushed up if an increase in US interest rates materialized.

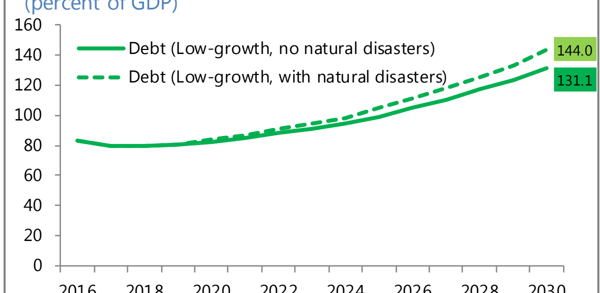
Baseline Policy Scenario

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



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

Public Debt: Low-Growth Scenario, with and without Natural Disasters[1]
(percent of GDP)



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

4. The baseline scenario is a passive scenario where the authorities do not adopt any additional measures. Assuming that the financing gap is closed by domestic debt and natural disasters occur at their historical magnitude and frequency, the resulting public debt trajectory implied by current policies would result in public debt projected at 85.8 percent of GDP in 2030, above from reaching the ECCU target of 60 percent of GDP by 2030.

Low Growth Scenario

5. **Additional stress testing scenarios suggest that the public debt trajectory would become unsustainable if growth in real GDP remains persistently low**, even without natural disasters. This scenario assumes 1 percent growth rate over the medium and long terms, starting in 2018 and public expenditure maintained at their projected level (in EC$ million) for 2017. It assumes that domestic financing remains available to bridge any financing gap, which is a very strong assumption given that, historically, public expenditure has been scaled down to adjust to available financing. This scenario illustrates that boosting growth by addressing competitiveness and connectivity challenges are necessary factors in improving the fiscal position over the medium-term.

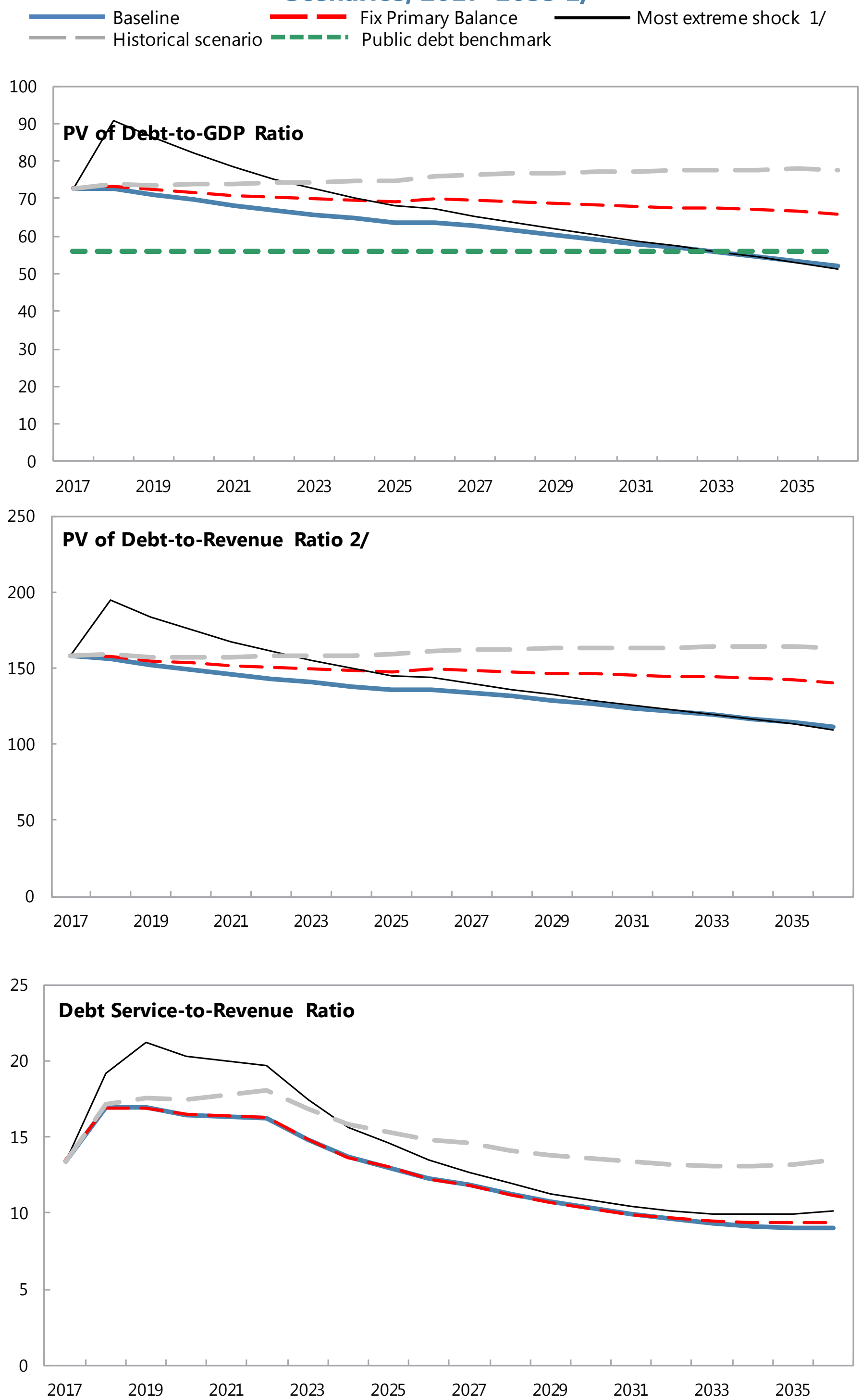
Active Policy Scenario

6. **This scenario considers proactive fiscal measures to reach the ECCU-wide public debt target by 2030, including with building buffers to mitigate the fiscal impact of potential natural disasters.** The key difference between the active and baseline policy scenarios is the budgetary savings of 1 percent of GDP in 2018 and 1.8 in 2019 and beyond, to reach the 60 percent of GDP debt ratio and create buffers to address fiscal costs of natural disasters. Under the active policy scenario, in the absence of natural disasters, public debt is projected to decline steadily to 47.4 percent of GDP by 2030. However, when a recurrent natural disaster occurs, the debt still follows a downward trajectory but declines more slowly, reaching about 60 percent of GDP just by 2030. The mix of expenditure and tax policy measures to be adopted in the medium term fiscal framework are envisaged to contribute to a medium-term primary surplus of the central government of 2.5 percent of GDP in 2022, 1.8 percent of GDP in budgetary savings added to the medium-term primary surplus under the baseline policy scenario, which is 0.7 percent of GDP.

External Debt Sustainability Analysis

7. **The significant envisaged improvement in the current account balance over the medium-term is projected to place external debt on a downward trajectory**. While external debt represents 50.1 percent of GDP in 2017, staff projects that it would narrow to about 33 percent of GDP by 2030. The main driver of this envisaged improvement is the expansion of the tourism industry. Under the scenario with key variables held at historical levels, external debt would be on an upward trajectory, although staff considers such scenario an unlikely outturn.

Figure 1. St. Vincent and the Grenadines: Indicators of Public Debt Under Alternative Scenarios, 2017–2035 1/

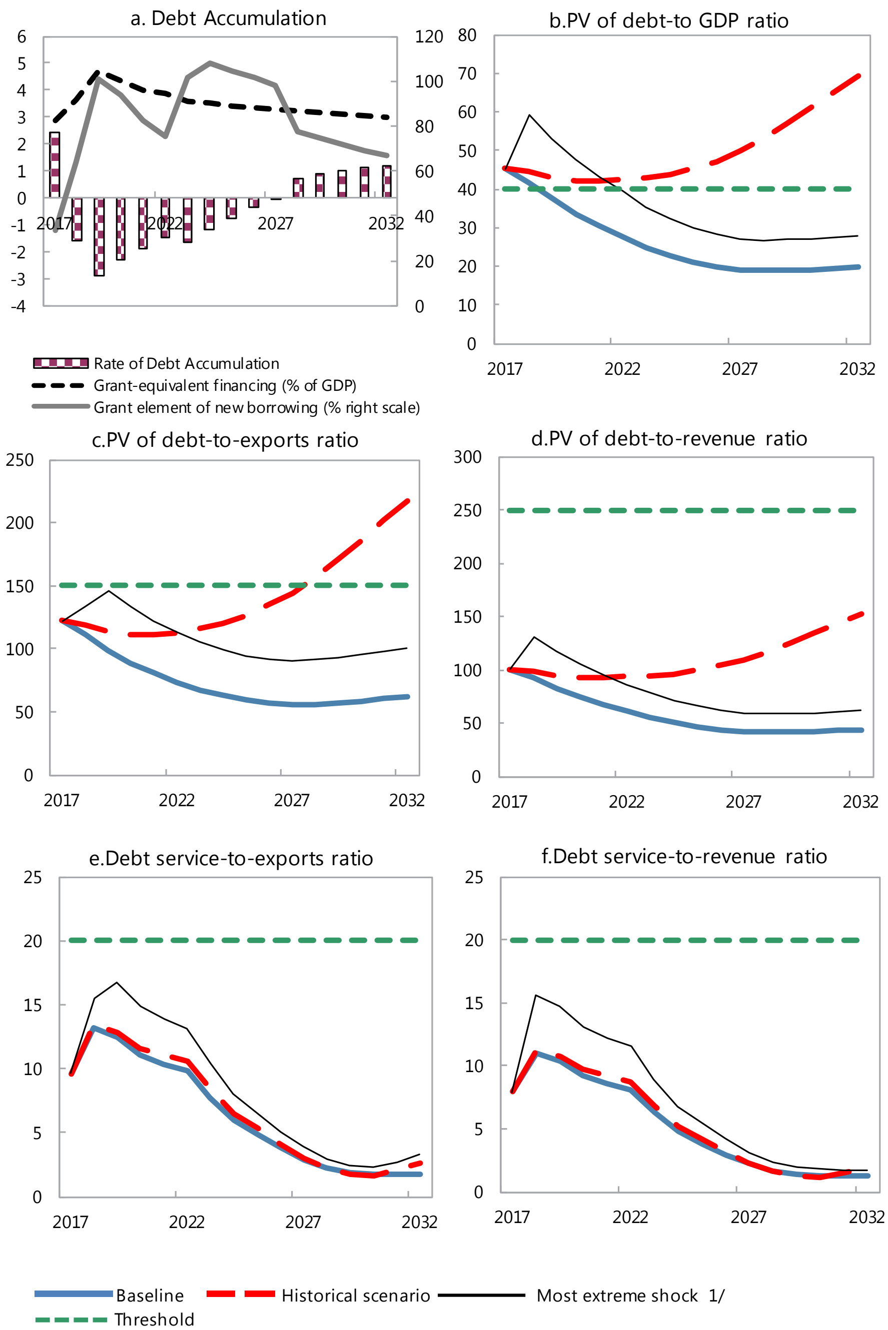


Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027.

2/ Revenues are defined inclusive of grants.

Figure 2. St. Vincent and the Grenadines: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2017–2032



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 2027. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Table 1. St. Vincent & the Grenadines: Public Sector Debt Sustainability Framework, Baseline Scenario,2014–2036

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections												
	2014	2015	2016	Average 5/	Standard Deviation 5/	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-22 Average	2027	2036	2023-36 Average
Public sector debt 1/	79.5	79.4	82.9			77.5	78.5	78.6	78.4	77.9	77.7	77.0	76.3	75.5	75.9		75.1	65.9	
of which: foreign-currency denominated	45.5	46.4	56.7			50.1	47.7	44.9	42.4	40.2	38.5	36.2	34.4	33.0	32.0		31.5	35.0	
Change in public sector debt	3.6	-0.1	3.5			-5.4	1.0	0.1	-0.2	-0.5	-0.2	-0.7	-0.7	-0.8	0.4		-0.8	-1.5	
Identified debt-creating flows	1.6	-2.8	-2.1			-1.6	-0.6	-0.7	-0.8	-1.0	-0.9	-1.0	-1.0	-1.0	0.2		-1.0	-1.4	
Primary deficit	-0.8	-2.6	-3.3	-0.3	2.0	-0.3	-0.4	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.4	-0.5	-0.7	-0.5
Revenue and grants	48.5	47.7	47.3			45.9	46.5	46.8	46.8	46.8	46.8	46.8	46.8	46.8	46.8		46.8	46.8	
of which: grants	4.1	2.0	1.2			1.0	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4		1.4	1.4	
Primary (noninterest) expenditure	47.7	45.1	44.0			45.6	46.1	46.4	46.3	46.3	46.3	46.3	46.3	46.3	46.3		46.3	46.1	
Automatic debt dynamics	2.4	-0.2	1.1			-1.3	-0.2	-0.3	-0.3	-0.5	-0.4	-0.5	-0.5	-0.5	0.7		-0.5	-0.8	
Contribution from interest rate/growth differential	1.9	0.6	1.0			-0.6	0.0	-0.4	-0.6	-0.8	-0.7	-0.5	-0.6	-0.6	0.5		-0.6	-0.9	
of which: contribution from average real interest rate	2.1	1.3	1.7			0.2	1.5	1.5	1.5	1.5	1.6	1.2	1.2	1.2	2.4		1.4	0.8	
of which: contribution from real GDP growth	-0.2	-0.7	-0.6			-0.8	-1.6	-1.9	-2.1	-2.3	-2.3	-1.7	-1.8	-1.9	-1.9		-2.0	-1.8	
Contribution from real exchange rate depreciation	0.5	-0.8	0.1			-0.7	-0.2	0.2	0.3	0.3	0.3	0.0	0.1	0.1	0.1		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	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	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	0.0	0.0		0.0	0.0	
Residual, including asset changes	2.0	2.7	5.7			1.3	1.2	0.8	0.6	0.6	0.7	0.3	0.3	0.2	0.2		0.2	-0.1	
Other Sustainability Indicators																			
PV of public sector debt	...	...	81.9			80.5	80.3	78.1	76.1	74.2	72.6	71.0	69.4	67.9	66.4		65.0	52.9	
of which: foreign-currency denominated	...	...	55.7			53.0	49.4	44.5	40.0	36.4	33.4	30.1	27.5	25.4	22.5		21.4	22.0	
of which: external	...	...	55.7			53.0	49.4	44.5	40.0	36.4	33.4	30.1	27.5	25.4	22.5		21.4	22.0	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...	...	...	...	...		...	...	
Gross financing need 2/	11.8	8.3	10.6			9.2	7.7	8.0	7.9	7.5	7.5	7.0	6.4	6.1	6.9		5.4	3.7	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	173.1			175.5	172.5	166.8	162.4	158.3	155.1	151.6	148.3	145.0	141.9		138.9	113.2	
PV of public sector debt-to-revenue ratio (in percent)	...	...	177.7			179.3	177.9	171.9	167.4	163.2	159.9	156.3	152.8	149.5	146.3		143.2	116.7	
of which: external 3/	...	...	120.8			118.2	109.6	97.9	88.1	80.2	73.5	66.3	60.5	55.8	49.6		47.1	48.5	
Debt service-to-revenue and grants ratio (in percent) 4/	16.4	15.2	29.3			20.6	17.5	18.1	18.0	17.2	17.0	16.0	14.8	14.0	15.7		12.5	9.3	
Debt service-to-revenue ratio (in percent) 4/	17.9	15.9	30.1			21.0	18.0	18.6	18.6	17.7	17.5	16.5	15.2	14.4	16.2		12.9	9.5	
Primary deficit that stabilizes the debt-to-GDP ratio	-4.4	-2.5	-6.8			5.2	-1.4	-0.5	-0.3	0.0	-0.3	0.2	0.2	0.3	-0.9		0.3	0.9	
Key macroeconomic and fiscal assumptions																			
Real GDP growth (in percent)	0.3	0.9	0.8	0.4	1.7	1.0	2.1	2.5	2.8	3.0	3.0	2.3	2.4	2.5	2.6	2.4	2.7	2.7	2.6
Average nominal interest rate on forex debt (in percent)	2.7	2.2	2.1	3.4	1.1	1.1	2.9	2.7	2.4	2.2	1.9	1.6	1.3	1.0	4.6	2.2	0.9	0.9	1.2
Average real interest rate on domestic debt (in percent)	5.2	2.4	4.1	4.7	2.5	2.1	3.8	4.1	4.3	4.3	4.5	3.7	3.8	3.9	4.0	3.8	4.1	3.9	
Real exchange rate depreciation (in percent, + indicates depreciation)	1.2	-1.8	0.2	-0.3	2.3	-1.3	...	...	...	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.6	3.0	1.1	2.0	2.5	3.1	2.1	1.8	1.5	1.5	1.3	2.0	1.9	1.8	1.7	1.9	1.6	1.6	1.7
Growth of real primary spending (deflated by GDP deflator, in percent)	1.1	-4.6	-1.6	-0.5	1.6	4.6	3.3	3.1	2.6	3.0	3.0	2.3	2.4	2.5	2.6	3.3	2.7	2.3	
Grant element of new external borrowing (in percent)	...	...	...	...	...	33.9	64.0	101.1	93.5	82.7	75.2	101.6	107.9	104.7	101.3	75.1	97.9	57.6	...

Sources: Country authorities; and staff estimates and projections.

1/ Refers to non-financial public sector gross debt. From 2016, reflects additional debt contracted with PetroCaribe but not previously recorded (EC$ 112 million or 5.4 percent of GDP in 2016).

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

3/ Revenues excluding grants.

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

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

Table 2. St. Vincent and the Grenadines: External Debt Sustainability Framework, Baseline Scenario 2014–2037 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical [6/] Average	Standard [6/] Deviation	Projections									
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-2022 Average	2027	2036	2023-2037 Average
External debt (nominal) 1/	**45.5**	**46.4**	**56.7**			**50.1**	**47.7**	**44.9**	**42.4**	**40.2**	**38.5**		**31.5**	**35.0**	
of which: public and publicly guaranteed (PPG)	45.5	46.4	56.7			50.1	47.7	44.9	42.4	40.2	38.5		31.5	35.0	
Change in external debt	2.3	0.9	10.3			-6.7	-2.4	-2.7	-2.6	-2.2	-1.7		-0.5	0.2	
Identified net debt-creating flows	10.5	6.9	3.2			2.2	1.0	0.6	-0.6	-1.1	-1.8		-1.4	-1.4	
Non-interest current account deficit	**24.6**	**14.0**	**14.9**	**25.4**	**6.1**	**13.7**	**12.2**	**12.0**	**11.4**	**10.8**	**10.1**		**9.6**	**8.3**	9.1
Deficit in balance of goods and services	26.2	17.5	16.5			15.9	14.4	13.5	12.6	11.8	11.0		10.0	8.7	
Exports	34.4	37.0	37.1			37.1	37.7	37.8	37.9	37.8	37.7		34.5	29.8	
Imports	60.6	54.5	53.7			52.9	52.2	51.3	50.5	49.6	48.7		44.5	38.5	
Net current transfers (negative = inflow)	-4.3	-4.4	-3.9	-2.7	1.2	-3.8	-3.5	-3.2	-3.0	-2.9	-2.8		-2.6	-2.2	-2.5
of which: official	-0.6	-0.9	-1.4			-1.4	-1.4	-1.3	-1.3	-1.3	-1.2		-1.1	-1.0	
Other current account flows (negative = net inflow)	2.7	0.9	2.2			1.6	1.3	1.8	1.9	1.9	1.9		2.2	1.8	
Net FDI (negative = inflow)	**-14.9**	**-6.3**	**-11.7**	**-15.6**	**4.9**	**-11.6**	**-11.6**	**-11.6**	**-11.9**	**-11.5**	**-11.5**		**-10.5**	**-9.1**	-10.1
Endogenous debt dynamics 2/	**0.8**	**-0.7**	**0.1**			**0.1**	**0.4**	**0.1**	**-0.2**	**-0.4**	**-0.4**		**-0.6**	**-0.6**	
Contribution from nominal interest rate	1.1	1.0	1.0			0.6	1.4	1.2	1.0	0.9	0.7		0.3	0.3	
Contribution from real GDP growth	-0.1	-0.4	-0.4			-0.5	-1.0	-1.2	-1.2	-1.2	-1.2		-0.8	-0.9	
Contribution from price and exchange rate changes	-0.2	-1.3	-0.5			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-8.1**	**-6.0**	**7.1**			**-8.9**	**-3.4**	**-3.3**	**-2.0**	**-1.1**	**0.1**		**0.9**	**1.6**	
of which: exceptional financing	-2.0	0.0	0.2			0.1	0.3	0.3	0.2	0.2	0.1		0.0	0.0	
PV of external debt 4/	...	...	55.7			53.0	49.4	44.5	40.0	36.4	33.4		21.4	22.0	
In percent of exports	...	...	149.9			143.1	131.0	117.5	105.6	96.3	88.5		62.0	73.9	
PV of PPG external debt	**...**	**...**	**55.7**			**53.0**	**49.4**	**44.5**	**40.0**	**36.4**	**33.4**		**21.4**	**22.0**	
In percent of exports	**...**	**...**	**149.9**			**143.1**	**131.0**	**117.5**	**105.6**	**96.3**	**88.5**		**62.0**	**73.9**	
In percent of government revenues	**...**	**...**	**120.8**			**118.2**	**109.6**	**97.9**	**88.1**	**80.2**	**73.5**		**47.1**	**48.5**	
Debt service-to-exports ratio (in percent)	**12.9**	**10.4**	**28.5**			**18.5**	**13.9**	**13.9**	**13.0**	**11.4**	**10.7**		**3.8**	**3.4**	
PPG debt service-to-exports ratio (in percent)	**12.9**	**10.4**	**28.5**			**18.5**	**13.9**	**13.9**	**13.0**	**11.4**	**10.7**		**3.8**	**3.4**	
PPG debt service-to-revenue ratio (in percent)	**10.0**	**8.4**	**22.9**			**15.3**	**11.6**	**11.6**	**10.9**	**9.5**	**8.9**		**2.9**	**2.2**	
Total gross financing need (Billions of U.S. dollars)	0.1	0.1	0.1			0.1	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Non-interest current account deficit that stabilizes debt ratio	22.3	13.0	4.6			20.4	14.6	14.7	14.0	12.9	11.9		10.1	8.1	
Key macroeconomic assumptions															
Real GDP growth (in percent)	0.3	0.9	0.8	0.4	1.7	1.0	2.1	2.5	2.8	3.0	3.0	2.4	2.7	2.7	2.6
GDP deflator in US dollar terms (change in percent)	0.6	3.0	1.1	2.0	2.5	3.1	2.1	1.8	1.5	1.5	1.3	1.9	1.6	1.6	1.7
Effective interest rate (percent) 5/	2.6	2.2	2.1	3.4	1.1	3.2	2.9	2.7	2.4	2.2	1.9	2.6	0.7	0.9	1.2
Growth of exports of G&S (US dollar terms, in percent)	37.4	11.7	2.3	3.7	13.1	3.9	6.1	4.6	4.5	4.3	4.2	4.6	2.7	2.7	2.6
Growth of imports of G&S (US dollar terms, in percent)	5.3	-6.6	0.4	2.8	9.2	2.7	2.7	2.6	2.6	2.7	2.6	2.7	2.7	2.7	2.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	33.9	64.0	101.1	93.5	82.7	75.2	75.1	97.9	57.6	76.2
Government revenues (excluding grants, in percent of GDP)	44.4	45.7	46.1			44.9	45.1	45.4	45.4	45.4	45.4		45.4	45.4	45.4
Aid flows (in Billions of US dollars) 7/	0.0	0.0	0.0			0.0	0.0	0.1	0.1	0.1	0.1		0.1	0.1	
of which: Grants	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
of which: Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			2.9	3.6	4.7	4.4	4.0	3.9		3.3	2.8	3.1
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			43.9	74.2	100.8	95.5	88.1	82.7		98.8	73.4	84.1
Memorandum items:															
Nominal GDP (Billions of US dollars)	0.7	0.8	0.8			0.8	0.8	0.9	0.9	1.0	1.0		1.2	1.8	
Nominal dollar GDP growth	0.8	3.8	1.9			4.1	4.2	4.3	4.3	4.6	4.4	4.3	4.4	4.4	4.4
PV of PPG external debt (in Billions of US dollars)			0.4			0.4	0.4	0.4	0.4	0.3	0.3		0.3	0.4	
(PVt-PVt-1)/GDPt-1 (in percent)						-0.5	-1.5	-3.0	-2.7	-1.9	-1.6	-1.9	-0.2	1.1	0.5
Gross workers' remittances (Billions of US dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	53.3			50.8	47.4	42.7	38.5	35.1	32.2		20.7	21.4	
PV of PPG external debt (in percent of exports + remittances)	...	...	133.9			127.9	117.8	106.0	95.5	87.4	80.6		56.5	67.3	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	25.4			16.5	12.5	12.5	11.8	10.4	9.8		3.5	3.1	

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).

INTERNATIONAL MONETARY FUND

ST. VINCENT AND THE GRENADINES

December 1, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By	The Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of October 31, 2017)

Membership Status:	Joined: December 28, 1979; Article VIII	
General Resources Account:	SDR Million	Percent of Quota
Quota	11.70	100.00
Fund holdings of currency	13.28	113.46
Reserve Tranche Position	0.50	4.27
SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	7.91	100.00
Holdings	0.33	4.15
Outstanding Purchases and Loans:	SDR Million	Percent of Quota
RCF Loans	4.52	38.66
Emergency Assistance [1/]	2.08	17.74
ESF RAC Loan	1.49	12.77
Latest Financial Arrangements:	None	

Projected Payments to the Fund[2/]

	Forthcoming				
	2017	2018	2019	2020	2021
Principal	0.63	2.45	1.82	1.08	0.87
Charges/Interest	0.02	0.07	0.05	0.05	0.05
Total	0.65	2.52	1.87	1.13	0.92

Implementation of HIPC Initiative: Not Applicable

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

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

Exchange Rate Assessment: St. Vincent and the Grenadines is a member of the Eastern Caribbean Currency Union, which has a common central bank (the Eastern Caribbean Central Bank) and currency (the Eastern Caribbean dollar). Since July 1976, the Eastern Caribbean dollar

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

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

has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar. The exchange rate arrangement is classified as a currency board. St. Vincent and the Grenadines has accepted the obligations of Article VIII, Sections 2(a), 3 and 4, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

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

Article IV consultation: St. Vincent and the Grenadines is currently on a 12-month cycle. The last Article IV consultation was concluded on July 13, 2016 by the Executive Board; the relevant document is Country Report 16/243.

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

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

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

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

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

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

RELATIONS WITH THE WORLD BANK GROUP

(As of November 13, 2017)

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

Constrained in general by the small size of investments in the OECS, **the IFC and MIGA** are expected to contribute to the RPS objectives through selective investment support, depending on opportunities. The IFC would focus on crisis response; job creation and inclusive growth; innovation, competitiveness, and integration; and climate change. MIGA faces limited opportunities for engagement because of the small market size of the OECS countries, although there are some prospects of future engagement now under the new IDA18 Guarantees Facility.

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

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

(Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines) can also count on an IDA national allocation. The IDA18 (FY18-20) allocation for the OECS is equal to SDR 192.6 million, an increase of around 214 percent over the IDA17 OECS allocation (SDR 61.3 million). With regard to St. Vincent and the Grenadines (SVG), the national IDA18 allocation is equal to SDR 47.8 million (about USD 67.1 million).

World Bank Group engagement

Projects

The World Bank Group currently has five active lending operations in the country, only one of which is country-specific; the remainder being regional projects where SVG is one of the participating countries. The detail of operations can be found below.

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

The **Regional Disaster Vulnerability Reduction Project** was approved by the WBG Board in June 2011 with an allocation for SVG in the amount of US$16.5 million. (Grenada is also a participating country in the operation.) The project aims to create understanding of the vulnerability of key structures and increase resilience of critical public infrastructure. Component 1 is implementing a broad spectrum of interventions aimed at building resilience in public buildings and infrastructure. Component 2 is supporting regional efforts in the Eastern Caribbean to build capacity to conduct assessment of natural risks and integrate such knowledge into policy- and decision-making for development investments, disaster risk mitigation, climate change adaptation, and disaster response planning across sectors. Component 3 provides contingency financing to cover early recovery and rehabilitation costs following an adverse natural event, and subject to a Government's declaration of emergency in accordance with national law and the submission of a recovery action plan satisfactory to the Association. Finally, Component 4 is strengthening and developing the institutional capacity for project management and implementation. A series of Additional Financing (AF) operations, in a total amount of US$48.9 million, was approved for SVG at different points in time since then, increasing the original Project envelope from US$16.5 million to US $65.4

million and extending the closing date to December 31, 2018. The additional funds aim at scaling up project activities and cover a cost overrun through: (i) supporting emergency recovery and construction activities; (ii) enhancing development impact; (iii) increasing the number of beneficiaries, including women; (iv) meeting an unanticipated financing gap in the Parent Project; (v) replenishing the Emergency Response Component; and (vi) allocating funding for strengthening project management and implementation support capacity. About 50 percent of project proceeds would be used to support the Government of SVG's emergency recovery efforts.

The **OECS Regional Tourism Competitiveness Project** was approved by the WB Board in April 2017. St. Vincent and the Grenadines received US$5 million in IDA funding. (St. Lucia and Grenada are other participating countries.) The objectives of the project are to: (i) facilitate the movement of tourists within the participating countries using ferries, (ii) improve selected tourism sites, and (iii) strengthen implementation capacity for regional tourism market development. There are four components to the project, the first component being facilitation of the movement of people. This component aims to strengthen regional integration and facilitate movement of people in the region through: (a) support for developing a single regional space for immigration and customs entry of international tourists; and (b) development of a pilot ferry system through TA, information technology (IT), and small infrastructure improvements. The second component is the pilot tourism infrastructure investments, supporting market development and promotion capacity-building. This component aims to, (i) support the refinement and operationalization of tourism plans for each of the participating countries and (ii) develop a regional market development effort to position the participating countries as one travel destination. This component includes two subcomponents: support for tourism development, and preparation and implementation of a regional tourism market development program. Finally, the fourth component is the project implementation support.

The **Human Development Service Delivery Project** was approved by the WB Board in May 2017 in the amount of US$10.7 million IDA. The objectives of the project are to strengthen the quality of service delivery in education, to improve efficiency of social protection systems, and to improve effectiveness of labor market systems in Saint Vincent and the Grenadines. The Project would be structured around four components. First component, strengthening pedagogy for basic and special needs education aims to strengthen the capacity of teachers to deliver, and of school leaders to support, high-quality classroom instruction, with the ultimate goal of improved learning outcomes for primary and secondary school students in SVG. The Component will be delivered through two sub-components: (i) strengthening teaching capacity; and (ii) developing capacity of school leaders to support teachers in improving pedagogy and help build a pipeline of effective future school leaders; Second component, building responsive social protection service delivery systems will aim to: (i) improve Social Protection and Labor (SPL) service delivery instruments to support a household approach to providing safety net benefits; (ii) strengthen human resource capacity for provision of SPL programs and services; and (iii) enhance institutional mechanisms and strategy for more efficient, coordinated, and transparent service delivery, and improved communication and education strategies for safety net beneficiaries. The Project will also finance poverty data collection to ensure evidence-based decision making in identification of beneficiaries and program responses to address poverty challenges. The Project will provide support to three implementing agencies under this component. (i) support in completing an enhanced country poverty assessment (eCPA); and (ii) support in strengthening the SP system (MONM); Third component, strengthening labor market systems.

The **OECS Regional Agriculture Competitiveness** Project was approved by in May of 2017 for Grenada and St. Vincent and the Grenadines, which received an allocation of US$4.3 million. The objective of the project is to enhance access to markets and sales for competitively selected farmers and fishers, as well as their allied aggregators and agro-processors, in Grenada and St. Vincent and the Grenadines. This project has four components. 1) The first component, Support for Preparation of Business Plans, aims to: (a) promote an understanding of the Project's scope and objectives through outreach to potential stakeholders and beneficiaries (such as individual and organized Farmers and fishers (FFs), Aggregators and Agro-processors (AAs), buyers, and lenders); (b) identify potential business opportunities for prioritized value chains and their translation into viable and profitable business proposals; and (c) prepare full business plans for selected proposals. 2) The second component, Implementation of Business Plans, aims to provide matching grants to co-finance the implementation of technically feasible, financially viable, economically profitable, socially responsible, and environmentally sustainable business plans, which, when implemented, will contribute to a consistent and timely supply of sufficient quantities of quality produce to buyers while providing a reliable income to allied FFs. 3) The third component, General Agricultural Services and Enabling Environment, aims to strengthen general agricultural public services directly linked to the subprojects described in Component 2 and needed to enhance the probability of success. 4) The fourth component, Project Management, Monitoring, and Evaluation, aims to ensure effective project implementation, monitoring of activities and final project evaluation.

Analytical Services and Advisory (ASA)

The Bank's operational program in St. Vincent and the Grenadines is further supported by a comprehensive series of completed, ongoing and planned ASA. Although most of the ASA was of a regional nature (i.e., supporting more than 1 OECS country), there were a couple of country-specific ASA, like the "St. Vincent and the Grenadines Debt Management Performance Assessment (DEMPA)", finalized in March 2017, and the ongoing "Strengthening Social Protection System for Disaster Preparedness and Response in Saint Vincent and the Grenadines", scheduled to be completed by June 2018. Among the most relevant regional pieces that have been completed during the period of the ongoing RPS, we find the following: "Programmatic Engagement in Disaster Risk Management & Climate Change Adaptation" (completed in May 2015); "Linking Farmers and Agro-processors to the Tourism Industry in the OECS" (completed in December 2015); "OECS Growth Report" (completed in June 2016); "OECS Social Resilience and Human Development Technical Assistance" (completed in December 2016); and "Programmatic TA for the Support for Economic Management in the Caribbean Region (SEMCAR) Phase 1" (completed in May 2017). Among the most relevant regional ongoing ASA, we find the statistical capacity building being supported by the "Caribbean: Poverty and Equity Programmatic Approach"; the support for private sector-led growth spearheaded by the "Caribbean Growth Forum – Phase II", and the South-South cooperation on social protection systems through the "Knowledge Exchange on Adaptive Social Protection Systems as a Disaster Risk Mitigation Mechani

Projects Financed by the World Bank in Saint Vincent and the Grenadines				
Operation	**Loan**	**Original Principal (USD)**	**Disbursed Balance**	**Undisbursed Balance**
Regional Disaster Vulnerability Reduction Project	IDA 49860	10,920,000.00	5,199,972.02	5,720,027.98
	IDA 54500	35,600,000.00	3,162,980.00	32,437,020.00
	PPCR	7,000,000.00	5,485,159.34	1,514,840.66
	PPCR	3,000,000.00	1,123,196.92	1,876,803.08
	PPCR	5,000,000.00	0.00	5,000,000.00
Caribbean Regional Communications Infrastructure Program	IDA 51180	6,000,000.00	3,914,186.67	2,085,813.33
OECS Regional Tourism Competitiveness	IDA 60010	5,000,000.00	0.00	5,000,000.00
Human Development Service Delivery Project	IDA 60600	10,700,000.00	0.00	10,700,000.00
OECS Regional Agriculture Competitiveness Project	IDA 60640	4,300,000.00	0.00	4,300,000.00
Total (St. Vincent and the Grenadines Only)		**87,520,000.00**	**18,885,494.95**	**68,634,505.05**

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

Projects Financed by the World Bank in Saint Vincent and the Grenadines											
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017***
Total disbursement	1,961,396.99	1,706,713.43	1,987,738.70	3,919,572.14	3,091,368.55	1,603,745.78	4,973,323.19	3,446,612.40	1,616,380.06	1,845,062.54	500,000.00
Repayment	462,614.04	648,536.87	719,002.88	775,517.52	1,049,073.99	1,285,194.40	1,307,517.29	1,337,810.80	1,375,339.14	1,393,520.75	1,388,321.20
Net disbursement	1,498,782.95	1,058,176.56	1,268,735.82	3,144,054.62	2,042,294.56	318,551.38	3,665,805.90	2,108,801.60	241,040.92	451,541.79	-888,321.20
Charges	315,417.86	165,007.44	150,974.86	138,915.41	174,926.89	197,468.89	176,287.51	150,519.62	126,360.10	102,603.61	78,717.75
Fees	33,008.20	168,308.59	161,732.80	161,868.25	180,265.64	164,773.09	179,503.18	213,064.80	208,422.41	215,798.98	195,084.74

Data as of November 2, 2017.

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK

(As of October 12, 2017)

The strategic objectives of CDB's country strategy for St. Vincent and the Grenadines (2014-18), are to (i) accelerate and sustain inclusive economic growth; (ii) promote human and social development; and (iii) enhance environmental sustainability and disaster risk management. The related assistance program entails financing commitments of up to US$86.7 million inclusive of $21 million from Special Funds Resources (SFR), and the remaining $65.7 million from the Bank's Ordinary Capital Resources to help GOSVG implement selected components of its National Economic and Social Development Plan, 2013-2025.

SVG's National Energy Action Plan identifies the goal of reducing reliance on fossil fuels by generating 60% of all electricity output from renewable energy (RE) sources by 2020. During 2017, GOSVG reinforced its commitment to a higher share of RE in its energy matrix with a CDB financed Energy Efficiency Measures and Solar Voltaic Plant project to: (a) replace all high pressure sodium and mercury vapour street lamps (approximately 7,220) with high efficiency light-emitting diode street lamps; (b) implement energy efficiency measures in 20 Government buildings; and (c) construct a 400 kW solar photovoltaic plant. The project is estimated to cost US$6.026 million, with counterpart contribution from GOSVG and St. Vincent Electricity Services Limited of US$0.545 million and US$0.306 million respectively. The expected outcome of the project is reduced consumption of fossil-fuel generated electricity through energy efficiency measures and renewable energy substitution, contributing to lower greenhouse gas emissions. In 2016, CDB assisted with the financing of exploratory drilling to assess the geothermal resource in the La Soufrière region in northern St. Vincent for electricity production.

SVG's seaport assets are over 40 years old and not designed for current natural hazard events, modern cargo (stacked containers), heavy equipment and machinery, and for contemporary shipping safety and environmental regulations. Following a review of existing port operations and infrastructure completed in 2015, GOSVG has adopted a plan to build a new port as part of its Port Rationalisation Master Plan to modernise and expand the seaport in a manner that would improve border security, improve overall efficiency in seaport operations and enhance trade facilitation, economic activity and revenue. During 2017, CDB approved the provision of technical assistance grants of two million, four hundred and twenty-four thousand pounds (£2,424,000) for financing consultancy services to conduct studies and assessments to inform the development of design build specifications for the new cargo port facility in Kingstown. These studies will include geotechnical studies, topographical and bathymetric surveys, Met-Ocean Data Collection, Wave and Storm Surge Modelling Report, Economic Impact Assessment, Climate Vulnerability and Impact Assessment, and Environment, Social and Gender Impact Assessment. These funds will disburse in 2018.

Poverty reduction is a key development goal of GOSVG which has recognised the urgent need to address this issue in a systematic and coordinated manner. SVG is a beneficiary of CDB's Basic Needs Trust Fund Programme, BNTF, one of the Bank's key instruments for addressing poverty reduction through improving the livelihoods of beneficiaries from the poorest communities. Through the BNTF 7th and 8th project cycles currently being implemented, a grant envelope of US$5.18 million has been made available for the administration of the programme in SVG over the period 2012 to 2017 to finance project implementation in social and physical infrastructure development and skills training. To date, the Bank has appraised and approved the implementation of 29 sub-projects valued at US$ 5.08 million. In March 2017, US$ 2.9 million was approved for allocation under BNTF 9.

For 2017 to date, CDB has approved US$4.2 million and disbursed US$ 3.1 million to GOSVG. Cumulative loans approved since 1970 stands at US$214.2 million of which US$171.5 million is disbursed. The disbursed debt outstanding amounts to US$110.3 million. Details of the active loan portfolio are highlighted in table 1.

I. Current Loan Portfolio

(In millions of U.S. dollars)

	Approved	Undisbursed
Rehab/ Reconstruction – Hurricane Tomas	12.6	7.9
South Leeward Highway Rehabilitation	13.6	5.2
Rehab/ Reconstruction – Dec 2013 Trough	9.0	7.9
Technical and Vocational Education and Training Development	12.3	11.1
Energy Efficiency Measures and Solar Voltaic Plant	4.2	4.2

II. Government of St. Vincent and the Grenadines: Loan Disbursement

(In millions of U.S. dollars)

	2013	2014	2015	2016	2017 Oct.
Net disbursement	1.5	-0.6	-3.0	-2.8	-4.7
Disbursement	7.2	6.6	4.6	7.1	3.1
Amortization	5.7	6.0	7.6	9.9	7.8
Interest and charges	4.1	4.4	4.1	3.4	2.6
Net resource flow	-2.6	-3.8	-7.1	-6.2	-7.3

STATISTICAL ISSUES

(As of October 24, 2017)

ST. VINCENT AND THE GRENADINES—STATISTICAL ISSUES As of October 24, 2017
I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but is broadly adequate for surveillance.
National Accounts: The Central Statistical Office (CSO) has produced and released annual GDP estimates by economic activity and expenditure at current and constant 2006 prices, but has not disseminated quarterly GDP estimates. The latest mission undertaken in June 2016 assisted with development of the quarterly GDP estimates and improvement in the data sources and methodologies used to compile the annual GDP estimates, including consistency with *the System of National Accounts 2008 (2008 SNA)*. A medium-term action plan to improve and expand the national accounts aggregates has been developed. It will be necessary to increase the staffing and other resources of the CSO in order to implement the action plan. In addition, improvements are needed on data used to monitor labor markets.
Price Statistics: A current CPI index series (with January 2010 as the base) was introduced in June 2011 with assistance from CARTAC. The current index uses a Household Budget and Expenditure Survey (HBES) that took place in 2008. As part of the CARTAC's assistance with the current CPI index, it helped link the 2001 based to the 2010-based CPI series. The CSO has not produced producer price index (PPI), and export and import price indices (XMPIs).
Government Finance Statistics: Due to delays in reporting capital expenditures by some ministries, monthly revenue and expenditure data for the central government are provided to the International Monetary Fund with some lag. Discrepancies exist between the fiscal and monetary accounts, between above and below the line for budget data, and between financing and debt data. The financial reports of public enterprises are not timely, with about a two-year lag. Fiscal data provided for surveillance are based on the Government Finance Statistics Manual (GFSM) 1986 framework, and it is desirable for the country to develop capacity and migrate to reporting based on the GFSM 2014 framework.
Monetary and Financial Statistics: Monthly monetary statistics are compiled and reported to the Fund by the ECCB, based on standardized report forms (SRF) for the central bank (SRF 1SR) and for other depository corporations (SRF 2SR), since July 2006. The main shortcomings of the monetary statistics relate to incomplete institutional coverage of other depository corporations. Specifically, mortgage companies, finance companies, building societies, and credit unions—all of which accept deposits—are not covered by the monetary statistics. Also, accrued interest is not incorporated in the value of the interest-bearing assets and liabilities,

and valuation adjustments are included in other liabilities. To achieve better coverage, close coordination between the ECCB and the single regulatory unit (which supervises financial corporations other than those licensed under the Banking Act) is crucial. The ECCB is currently working on implementing a new reporting system for commercial banks that is envisaged to address the recommendations made by the 2014 MFS mission. It is expected that the new reporting system would be implemented in the next few years.
Financial Sector Surveillance: The ECCB compiles financial soundness indicators (FSIs) for its member countries, including St. Vincent. The official reporting to the IMF is being finalized in fall 2017.
External sector statistics: Balance of payments and international investment position (IIP) data are compiled and disseminated by the ECCB on an annual basis. In July 2017, the ECCB released detailed balance of payments statistics and—for the first time— comprehensive international investment position statistics following the latest international standard methodology (*BPM6*) for the eight ECCU member territories. Education-related services provided to nonresident students by the offshore universities are now included in travel services exports. Further work is required to improve the recording of financial account transactions and positions of the nonfinancial private sector and to improve the data sources used to compile ESS, the response rate to the ESS surveys is one of the lowest in the ECCU. Methodological soundness, coverage, and classification need to be improved. Actions will have to be undertaken in conjunction with the ECCB, which coordinates the compilation of the external sector statistics for all its member countries.
II. Data Standards and Quality
St. Vincent and the Grenadines has been participating in the General Data Dissemination System since September 2000 and currently participates in its successor initiative, the e-GDDS. The 2007 regional data ROSC provides an assessment on the ECCB's monetary statistics. No data ROSC is available for other sectors.

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

(As of November 14, 2017)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:	
						Data Quality – Methodological soundness[8]	Data Quality – Accuracy and reliability[9]
Exchange rate	Fixed rate 11/2017	11/2017	M	M	M		
Exchange rate	Fixed rate	NA	NA	NA	NA		
International reserve assets and reserve liabilities of the monetary authorities[1]	6/2017	10/2/2017	M	Q	Q		
Reserve/base money	6/2017	10/2/2017	M	Q	Q	LO	LO
Broad money	6/2017	10/2/2017	M	Q	Q	LO	LO
Central bank balance sheet	6/2017	10/2/2017	M	Q	Q	LO	LO
Consolidated balance sheet of the banking system	6/2017	10/2/2017	M	Q	Q	LO	LO
Interest rates[2]	6/2017	10/2/2017	M	Q	Q		
Consumer price index	9/2017	10/31/2017	M	M	M		
Revenue, expenditure, balance and composition of financing—central government[3]	9/2017	10/25/2017	M	M	H		
Revenue, expenditure, balance and composition of financing—general government[3, 4]	9/2014	11/14/2014	M	M	M		
Stock of central government and central government-guaranteed debt[5]	8/2017	9/27/2017	Q	H	H		
External current account balance	2016	7/26/2017	A	H	H		
Exports and imports of goods and services	2016	7/26/2017	A	Q	Q		
GDP/GNP	2016	11/2/2017	A	A	A		

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

Gross external debt	8/2017	9/27/2017	A	Q	A		
International Investment Position[6]	2016	7/26/2017	A	A	A		

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

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

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

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

[5] Including currency and maturity composition.

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

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

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

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