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ST. VINCENT AND THE GRENADINES

December 2011

2011 ARTICLE IV CONSULTATION

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 2011 Article IV consultation with St. Vincent and the Grenadines, the following documents have been released and are included in this package:

- **Staff Report** for the 2011 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on August 19, 2011, 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 October 13, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- **Debt Sustainability Analysis** prepared by the IMF
- **Informational Annex** prepared by the IMF.
- **Public Information Notice** (PIN)

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

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INTERNATIONAL MONETARY FUND

ST. VINCENT AND THE GRENADINES

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION

October 13 2011

KEY ISSUES

Setting: In addition to the adverse impact of the global slowdown and higher commodity prices, St. Vincent and the Grenadines was hit by two successive natural disasters in the last twelve months. As a result, real GDP contracted by a cumulative 4.7 percent since 2007 and is expected to remain slightly negative this year. Going forward, growth is expected to improve gradually toward its potential, but significant downside risks remain, largely related to developments in the global economy.

Creating fiscal space and ensuring debt sustainability: The fiscal deficit in 2011 is expected to be smaller than last year, mainly reflecting cuts in capital spending to offset shortfalls in revenues and external loans. Over the medium-term, the authorities remain committed to generating a primary surplus averaging about 2 percent of GDP by 2016. A more ambitious fiscal consolidation path would allow for a faster reduction in debt and would help building cushions against future exogenous shocks.

Safeguarding against financial stability risks: The authorities are encouraged to closely monitor developments in both the banking and non-banking sectors, including contagion risks from weaknesses in the regional financial sector. It is also urgent to establish the Single Regulatory Unit and ensure effective supervision of the non-banking sector, especially given the deterioration in balance sheets at some of the institutions in this sector.

Ensuring sustainable growth: Policies should focus on enhancing competitiveness and improving the business climate, including easing access to credit as well as improving infrastructure and labor skills.

Exchange Rate Regime: St. Vincent and the Grenadines is a member of the Eastern Caribbean Currency Union, which has a common central bank and a common currency and operates as a currency board. Since July 1976, the Eastern Caribbean dollar has been pegged to the US dollar at the rate of EC$2.7 per US dollar. St. Vincent and the Grenadines has accepted the obligation of Article VIII, Sections 2, 3, and 4 and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

Approved By
David Vegara and /s/
Jan Kees Martijn /s/

The discussions took place in Kingstown during August 10–19, 2011. The staff team comprised N. Thacker (head), M. Tashu, S. Acevedo (all WHD), and S. Ospina (INS).

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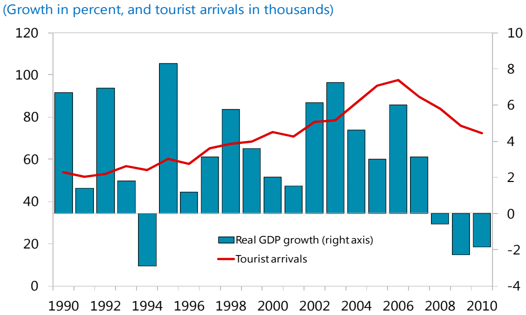
BOXES

CONTEXT

1. **St. Vincent and the Grenadines was hit by two natural disasters in the last twelve months, in addition to being adversely affected by the continued slowdown in the global economy.** Following robust growth of 5 percent per annum during 2002–07, the global slowdown and the rise in food and fuel prices resulted in a significant contraction of economic activity. In 2008, real GDP growth contracted by 0.6 percent, followed by a contraction of 2.3 percent in 2009. A drought in the first half of 2010 followed by Hurricane Tomas in October, led to a decline in economic activity by a further 1.8 percent.[1] In April this year, torrential rains, floods and landslides took a toll on agriculture and infrastructure. The outlook for growth remains negative for this year.

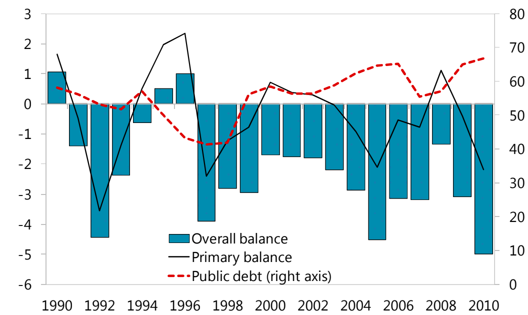
Growth and Tourism
(Growth in percent, and tourist arrivals in thousands)



Sources: Authorities and Fund staff calculations.

2. **Public debt has risen and the scope for countercyclical fiscal policy is constrained**. Unlike many developing countries which entered the crisis with strong public finances, St. Vincent and the Grenadines had been running deficits for several years and

Key Fiscal Indicators
(In percent of GDP)



Sources: Authorities and Fund staff calculations

by 2007 public debt had risen to 55.7 percent of GDP, compared with 43.3 percent of GDP in 1996.[2] With increased expenditure pressures and a decline in GDP in the wake of the global slowdown, the structural primary deficit worsened from 2.3 percent of GDP in 2008 to 3.7 percent of GDP in 2010, and public debt increased by a further ten percentage points to 66.8 percent.

3. **Against this backdrop, the Article IV consultation focused on policies to address the underlying structural vulnerabilities and increase the country's resilience to shocks.** Along with other donors, the Fund provided significant emergency assistance to St. Vincent and the Grenadines to address the immediate balance of payments need arising from the impact of the global financial crisis and the two recent natural disasters.[3] The key policy challenge facing the government now is to

[1] The authorities have revised down their growth numbers for 2008 and 2009 from -0.3 and -0.6 percent to -0.6 and -2.3 percent, respectively, compared to those reported earlier this year.

[2] In 2006, the debt-to-GDP ratio was even higher at 65 percent, prior to the Ottley-Hall debt relief.

[3] The Fund provided US$5.6 million (45 percent of quota) in May 2009 under the Exogenous Shocks Facility to help mitigate the impact of the global financial crisis, US$3.26 million (25 percent of quota) in February 2011 under the Rapid Credit Facility (RCF) to deal with the impact of Hurricane Tomas, and US$2.0 million (15 percent of quota) under the RCF in July 2011 to deal with the impact of torrential rains and floods.

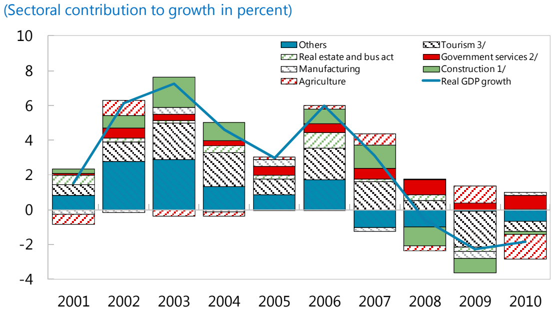
design a medium-term policy framework which improves the country's resilience and capacity to respond to exogenous shocks. Given the currency union, the burden of policy adjustment falls squarely on fiscal policy. A strong financial sector that facilitates financial flows and structural reforms that improve the competitiveness of the economy are also critical to improve the prospects of long-term sustained growth.

RECENT ECONOMIC DEVELOPMENTS

4. Preliminary indicators suggest that economic activity remains sluggish. The two main sources of growth—tourism and FDI-related construction—continue to be affected by the slowdown and heightened uncertainty in advanced countries. On the domestic side, the private sector remains subdued as banks remain wary of lending and the scope for fiscal stimulus is limited by the government's financing constraints. That said, an expected rebound in agricultural exports in the second half, and some reconstruction activity, are expected to help moderate the decline in activity.

Drivers of Growth

(Sectoral contribution to growth in percent)

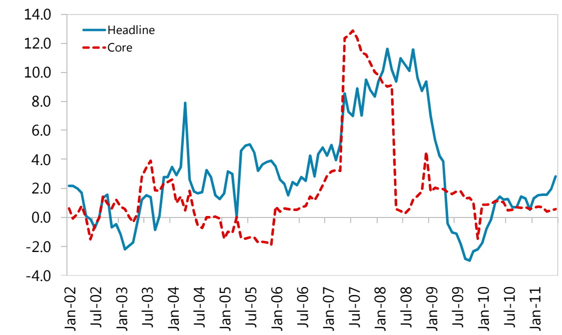


Sources: Authorities and Fund staff calculations.
1/ Includes mining and quarrying
2/ Includes public administration, eduation, and health
3/ Includes wholesale and retail trade, hotel and restaurants, air transport and half of ground and sea transportation.

5. Inflation has picked up reflecting higher international commodity prices.[4] The

Headline and Core Inflation

(In percent, y/y)



Sources: Statistics Office and Fund staff calculations.

pass-through from higher food and fuel prices (with a combined weight of 34 percent in the CPI) resulted in headline inflation accelerating to about 2.8 percent (y/y) by June this year compared to about ½ percent at the end of last year. Meanwhile, core inflation remained unchanged at 0.6 percent since December last year.

6. Despite lower revenues, the overall fiscal deficit for the first seven months was broadly in line with staff projections at the time of the July RCF. External disbursements were significantly lower-than-projected due partly to delays in project implementation and also due to slower flows of pledged assistance. The shortfall was offset by significant cuts in capital expenditures, while spending on wages (including temporary workers hired for cleanup and rehabilitation) and social assistance were somewhat higher, mainly to meet some of the

[4] The authorities have recently rebased the CPI with CARTAC assistance. The weight of the food basket has been lowered substantially to 21.9 percent from 53.6 percent in the old series.

immediate needs following the natural disasters.[5]

Key Fiscal Indicators- 2011
(In millions of EC$)

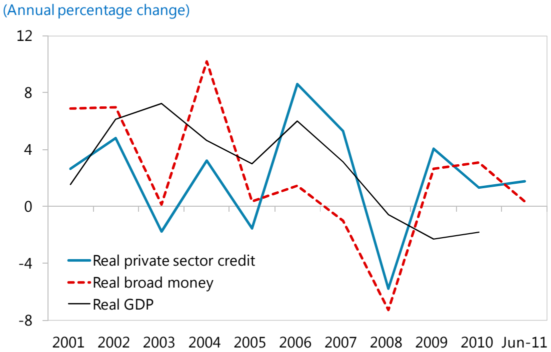
	Jan-July		Annual proj.	
	Proj.	Outturn	RCF	Rev.
Revenue and grants	**302.5**	**280.0**	**553.4**	**509.3**
of which:				
Tax revenue	255.1	231.7	447.8	413.0
Grants	22.7	21.6	63.3	49.8
Total Expenditure	**338.3**	**318.4**	**640.1**	**568.3**
of which:				
Wages and salaries	128.2	133.0	229.2	227.7
Transfers and subsidies	94.1	97.2	163.7	142.1
Capital expenditure	50.0	23.9	123.9	69.6
Overall balance	**-35.8**	**-38.4**	**-86.7**	**-59.1**
Primary balance	**-8.1**	**-15.1**	**-33.4**	**-5.8**
Identified financing	**35.8**	**38.4**	**86.7**	**59.1**
Net external financing	-7.8	-26.6	35.7	-23.7
Disbursements	26.1	7.3	89.3	29.9
Amortization	33.9	33.9	53.6	53.6
Net domestic borrowing	16.9	33.7	18.9	38.7
Sinking fund contribution	-6.0	-6.0	-6.0	-6.0
Sale of Equity	24.0	4.1	24.0	24.0
IMF/RCF	8.7	8.7	14.0	14.1
Arrears	0.0	24.5	0.0	12.0

Source: Authorities and Fund staff estimates and projections.

7. The current account is expected to narrow this year, largely reflecting lower imports. After declining by 12 percent last year, exports are expected to pickup reflecting a recovery in agricultural production and strong growth in manufacturing. Despite a higher import bill for food and fuel, overall imports are expected to continue to decline in the second half reflecting the slowdown in economic activity, decline in FDI, delays in project implementation and cuts in capital spending.

8. Monetary aggregates remain flat; financial sector soundness indicators suggest continued weaknesses in balance sheets. The year-on-year growth in real private sector credit and broad money was nearly flat as of June 2011, reflecting banks' wariness to make new loans in an uncertain environment. Banking sector NPLs decreased somewhat from 8½ percent at end-December 2010 to 7½ percent at end-June 2011, partly reflecting clearance of the government's outstanding loans (banks have also restructured private loans, although the information available does not point to a significant magnitude).[6] While some credit unions have stepped up efforts to monitor loan servicing, average NPLs in the sector remain high at about 8 percent. Despite some improvements in governance problems at the building and loan association (B&LA) after it was brought under the direct supervision of the Ministry of Finance, half of its loan portfolio remains overdue. Moreover, two credit unions and the B&LA still have exposure to BAICO and CLICO (see below).

Monetary Indicators
(Annual percentage change)



Sources: Authorities, ECCB, and Fund staff calculations.

[5] Arrears, mainly on suppliers' credit, have also increased, but the authorities plan to clear more than half by the end of the year.

[6] As part of the precondition for the sale of the National Commercial Bank (NCB) last year to a St. Lucia based bank holding company (the government still holds 29 percent of the shares), the government was required to clear a significant part of its NPLs on NCB's balance sheet.

9. Efforts continue to help resolve the fallout from the failure of the two insurance companies, BAICO and CLICO. A Health Insurance Fund was set up to settle medical claims of BAICO's policyholders. An announcement was recently made inviting interested parties to bid for BAICO's life insurance policy portfolio and discussions are also ongoing on how to compensate BAICO's annuity holders. On CLICO, following the appointment of the Judicial Manager (JM) by Barbados, a JM has been appointed by the government to assess the balance sheet of the local CLICO branch.

OUTLOOK AND RISKS

10. The outlook for near-term growth remains subdued, but economic activity is expected to recover gradually over the medium term. Real GDP growth is expected to recover somewhat in the second half of this year, reflecting a modest pickup in construction activity and agricultural production, although growth will be slightly negative in 2011. Next year, growth is expected to get a boost from construction at the airport, donor-financed projects that were approved following the natural disasters and from the opening of two new universities. Over the medium term, the economy is expected to improve toward its potential growth of 3½ percent, but the recovery to potential output is slower and more protracted than expected at the time of the July RCF, reflecting the downward revision in the outlook for advanced countries' growth. On the price front, inflation is expected to moderate to its long term historical path of 2.5 percent, anchored by the currency board arrangement.

11. However, risks to growth are squarely on the downside. The main risks include slower-than-expected disbursements from donors which could undermine reconstruction activity, continued weakness in external demand due to delayed recovery in advanced economies, an erosion of confidence caused by possible spillovers from financial sector problems, including in the region, and protracted delays in resolving the fallout from BAICO and CLICO. Moreover, as seen in the last twelve months, natural disasters continue to be another potential source of risk (See Box 1).

POLICY DISCUSSIONS AND RECOMMENDATIONS

The global financial and economic crisis combined with the recent natural disasters have brought to the fore the underlying weaknesses in the economy and the urgent need to address these vulnerabilities to ensure sustainable growth. Given the policy limitations in the context of the currency board arrangement, the burden of adjustment falls squarely on fiscal policy and structural reforms.

A. Creating Fiscal Space and Ensuring Debt Sustainability

12. Financing constraints in 2011 will result in a more contractionary fiscal stance than expected earlier. Lower-than-expected revenues and the delay in the disbursement on a large expected concessional loan (about 2½ percent of GDP) will result in a significant shortfall and limit fiscal spending this year. The authorities have significantly revised down the capital budget (to half of what was expected at the time of the July RCF) and limiting transfers to state owned enterprises.[7] However, this will still leave a shortfall of about 1 percent of GDP which would be met by higher-than-planned borrowing on the regional securities market (RGSM). The overall deficit is expected to end the year at 3.2 percent of GDP, 1.4 percentage points of GDP lower than projected at the time of the July RCF. While agreeing that some additional borrowing from the RGSM may become necessary, staff emphasized the need to contain the already high debt and debt service (public sector debt is expected to rise by 2.4 percentage points of GDP this year). Staff also pointed out that enforcing tax compliance and reducing ad-hoc exemptions could generate additional savings.

13. The authorities reiterated their commitment, in line with the July RCF, to generate primary surpluses in the range of 2 percent of GDP by 2016 to put debt on a downward trajectory and build financial buffers. Under the baseline scenario, the primary balance will deteriorate somewhat next year, before starting to improve from 2013. The larger fiscal deficit reflects higher capital spending, including co-financing for donor financed projects that were delayed from the second half of this year to next year (many of these are related to rehabilitation of infrastructure destroyed by the two natural disasters). At the same time, there was broad agreement between staff and authorities that a number of measures to enhance revenues and rationalize current expenditures will have to be implemented over the next few years to help generate the planned primary surpluses and reduce debt.

Fiscal policy measures and expected savings 1/
(In percent of GDP)

	2012	2013	2014	2015	2016
Revenue measures	***0.6***	***1.1***	***1.5***	***1.9***	***2.2***
Inland revenue reform	0.4	0.7	1.1	1.3	1.5
Corporate tax	0.1	0.2	0.3	0.4	0.5
Taxes on domestic transactions	0.3	0.5	0.7	0.9	1.0
Market valuation of properties	0.1	0.1	0.2	0.2	0.2
Customs administrative reform	0.1	0.3	0.3	0.4	0.5
Expenditure measures	***0.5***	***0.6***	***1.1***	***1.7***	***1.8***
Containing wage bill increases	...	0.0	0.3	0.7	0.7
Streamlining transfers and subsidies	0.3	0.4	0.5	0.5	0.6
Rationalizing spending on goods and services	0.2	0.2	0.3	0.4	0.5

Source: Fund staff estimates
1/ Compared to the 2011 level

Revenue measures:

- *Introduce market-based property taxes:* The authorities reiterated their commitment to introduce these in the 2012 budget. The Inland Revenue Department (IRD) estimates that moving to a market value system could double the collection of property taxes.

- *Enhance revenue collections*: While there have been significant improvements in tax collections since the mid-2000s, reflecting the introduction of VAT and excise taxes, and tax administration reforms, there is room for further improvement. In particular, three areas were identified for action: (i) reviewing and streamlining ad-hoc exemptions; (ii) strengthening the

[7] Capital spending is expected to decline to 3.7 percent of GDP this year from 7.2 percent of GDP in 2009.

enforcement capacity of the IRD, especially the recently established Large Taxpayer Unit (LTU); and (iii) increased accountability of the customs departments including to address the concerns on clearance delays by the private sector. The authorities have requested technical assistance from CARTAC in these areas.

Expenditure measures:

- *Reduce the wage bill:* Real wages have increased an average of 2½ percent per year over the last 5 years and the wage bill is among the highest in the region. The authorities agreed that anchoring average wage increases to inflation could generate significant savings.

- *Limit transfers to state-owned enterprises (SOEs).* With technical assistance from CARTAC, the authorities have been making efforts to improve the governance and monitoring of SOEs to contain potential fiscal risks.[8] The authorities pointed out that privatization of the NCB (and the consequent elimination of the NCB as a financing source) has reduced a potential source of financing for SOEs and reduced fiscal risks for the central government. Authorities agreed that further streamlining was necessary and agreed to reenergize the Oversight Committee to ensure systematic reporting, closer monitoring and increased accountability from SOEs.

- *More targeted social assistance*: There are about thirty social assistance programs. While most of these programs have aimed at reducing poverty and mitigating the impact of the crisis, including on unemployment (the unemployment rate is about 25–30 percent), the lack of a central registry of beneficiaries makes it difficult to monitor who gets the benefits. Also, programs are available to all irrespective of income levels. Staff encouraged the authorities to move to a central registry system and recommended the use of cost recovery principles to the extent possible, while continuing to subsidize the poor and vulnerable groups. The authorities agreed that there is scope for improving efficiency, but argued that the programs broadly cover those in need.

- *Rationalize spending on goods and services:* The authorities and staff agreed that ongoing measures to improve procurement, use solar power, cut non-essential travel, and reduce the number of government vehicles, would help to generate some savings.

14. While increasing in the short term, the public sector debt is projected to revert to a sustainable trajectory over the medium term, and the risk of external debt distress is moderate. After peaking at 72 percent by 2013, the public sector debt-to-GDP ratio is projected to fall to 54 percent of GDP by 2020, below the ECCU's 2009 "Eight Point Stabilization Program" threshold of 60 percent, driven by the authorities' commitment to fiscal consolidation. That said, St. Vincent and the Grenadines' risk of external debt distress remains moderate, similar to the assessment at the time of the RCF in February 2011.

[8] There are around 28 SOEs in St. Vincent and the Grenadines. The central government provides significant transfers to most SOEs and also guarantees their loans. As of 2010, SOE's debt stood at 11.6 percent of GDP, a 50 percent increase from its level in 2006.

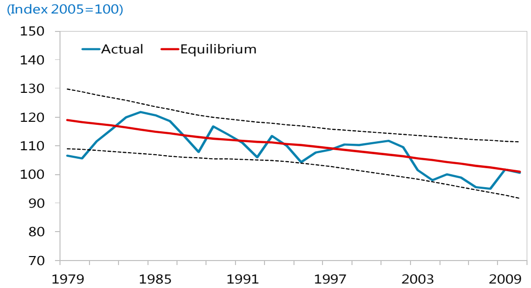
15. Staff also discussed the merits of a more ambitious fiscal adjustment scenario which could help to reduce debt faster and allow a more rapid build-up of financial buffers to counter exogenous shocks. The significant disruptions caused by the global crisis, the hurricane and the torrential rains all point to the inherent vulnerabilities in the economy. In addition, the ongoing financial sector problems in the region could have significant fiscal consequences and possible adverse impact on the regional securities market, a significant source of financing for St. Vincent and the Grenadines. The mission, therefore, highlighted the need to improve the country's resilience to shocks and build financial buffers, including to address potential spillover effects from regional and global developments and to develop contingency plans in case financing in the region dries up. In this regard, the mission underscored that a debt target of 45-50 percent of GDP, similar to that of other emerging and developing market economies, may be more suitable. In this context, staff pointed out two additional areas that could help to both generate such savings and at the same time improve the efficiency of the public service. First, pension reforms including a gradual increase in the contribution rate and the retirement age, aligning the NIS and Public Service (PS) pension system retirement ages, and considering a merger of the two systems could provide significant savings as well as make the system more robust (see Box 2). Second, civil sector reforms, including introduction of a performance based system, could help to reduce costs and improve the efficiency of the civil service. The authorities agreed on the merits of the structural reforms and indicated that they are exploring these areas to generate further savings. That said, they argued that the proposed lower debt-to-GDP target may be too ambitious, given the competing claims on the budget and the role the government plays in the economy.

16. Staff welcomes the authorities' commitment to avoid external commercial borrowing. In this context, staff urged the authorities to continue to finance the airport project from a combination of grants, concessional loans, and land sales. At the same time, staff underscored the need to cut current spending and ensure that, in addition to the airport, other priority capital projects are undertaken.

B. Improving the Medium-Term Outlook for the External Current Account

17. The large external current account deficits are not sustainable over the longer term. The external current account deficit has increased six fold since 2000, financed largely by FDI. Going forward, such large deficits cannot be sustained indefinitely as net inflows are likely to decline when loan amortization increases and profit transfers begin to kick in. Export competitiveness, especially in the service sector, will be key to sustain import

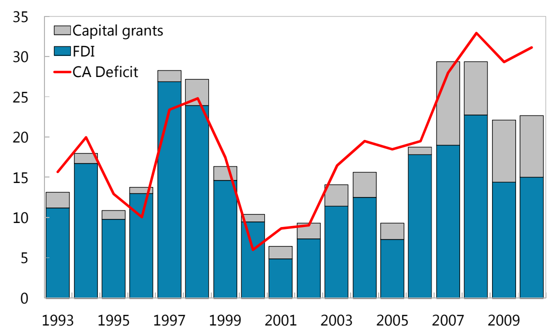
Actual and Equilibrium REER, 1979–2010 1/
(Index 2005=100)



Sources: IMF, Information Notice System; and Pineda, Cashin and Sun (2009).
1/ The dotted lines around the equilibrium exchange rate represents 90 percent confidence intervals of the prediction.

needs given the narrow production base and the small size of the economy.

Financing of the Current Account
(In percent of GDP)



Sources: ECCB and Fund staff calculations.

18. An assessment of the real effective exchange rate (REER) using the standard Fund-wide CGER methodology gives mixed results, but overall suggests some overvaluation (see Box 3). The equilibrium real exchange rate approach suggests there is no misalignment. On the other hand, the macro-balance (MB) approach and the external sustainability (ES) approach both indicate that the exchange rate is overvalued. The MB approach suggests an average overvaluation of about 8 percent, while the ES approach, using the debt stabilizing current account as the norm, indicates an overvaluation of about 15 percent.

19. In addition to fiscal reforms, staff underscored that given the quasi-currency board arrangement, the required adjustment in the current account will have to come through structural reforms. The authorities argued that a number of initiatives currently under way—development of agro-processing for export markets by VincyFresh, a public-private business venture, completion of two large hotel projects and the Argyle International Airport—would boost exports of goods and services and improve the external position of the country.

C. Addressing Risks and Vulnerabilities in the Financial Sector

Banking Sector

20. Banking sector soundness indicators underscore the need for close monitoring. Banks' liquidity and capital adequacy ratios are reportedly above the ECCB's prudential guidelines, NPLs have remained consistently high since 2008 and profitability has declined significantly.

21. The mission underscored the need to monitor the banking sector very closely including developments in the regional indigenous banks. While the banking sector in St. Vincent and the Grenadines is mostly foreign-owned[9] and dominated by banks with parent companies outside the ECCU region, headwinds from problems at other indigenous banks in the region could potentially result in a loss of confidence and severe disruption of economic activity. Staff stressed the need to enhance monitoring of cross-institution and cross-border holdings, in addition to bank specific soundness indicators. Staff also underscored the need for

[9] With the exception of the government's minority share in one commercial bank.

the government to monitor closely systematically reported data and outcomes of the on-site inspections and audits that the ECCB has available and ensure that prudential guidelines are met by banks in its jurisdiction.

Banking Sector Financial Soundness Indicators
(In percent)

	Dec-08	Dec-09	Dec-10	Jun-11
Non-performing Loans/Total Loans	3.9	8.4	8.6	7.4
Liquid Assets/Current Liabilities	40.0	37.0	42.9	40.0
Gross Government Exposure/Total Assets	18.4	19.0	11.5	11.3
Total Capital/Risk Weighted Assets	18.5	18.7	18.7	17.5
Provision for Loan Losses/Total Loans	1.3	2.7	1.8	2.1
Net Profit before Taxes/Average Assets	2.3	1.8	1.0	0.2
Loan/Deposit	87.2	85.6	75.3	74.7

Source: ECCB.

Non-Banking Financial Sector

22. **The supervision of the non-banking sector is spread out across a number of agencies.** The non-banking financial sector is comprised of credit unions, building and loan association (B&LA), insurance companies, and a small offshore sector. Both credit unions and B&LA, with assets of about 13 percent of GDP each, are relevant players in the mortgage market, with the former also providing consumer loans. Supervision of these institutions, however, is spread across a number of government agencies, with no overarching framework. Also, the lack of an appropriate legal framework to require systematic reporting and enforce prudential guidelines, combined with capacity limitations, poses a serious challenge.

23. **The authorities agreed on the need to strengthen supervision of the non-banking sector and the importance of setting up the Single Regulatory Unit (SRU).** Despite some write-offs of BAICO and CLICO on their balance sheets, some large credit unions and the B&LA still have significant exposure. The authorities noted that the B&LA was being monitored closely by the Ministry of Finance, but the lack of proper legislation is a serious handicap. The legislation to establish the SRU, with the legal mandate to supervise all non-bank financial institutions and enforce prudential norms, is expected to go to parliament in October 2011 and the SRU will be set up by year-end.

Insurance Sector

24. **Staff encouraged the authorities to continue seeking a regional solution for BAICO and CLICO, while minimizing fiscal costs**. The total exposure (in terms of outstanding liabilities) amounts to about EC$384.8 million or about 21 percent of GDP. Provisioning for the non-performing BAICO and CLICO assets on financial institutions' and NIS's balance sheets has been ongoing, but some institutions still carry significant un-provisioned liabilities on their balance sheets. Staff urged the authorities to expedite provisioning and enforce regulatory standards at all institutions. Staff also urged, and the authorities agreed, that the fiscal costs of the resolution should be minimized through the revision of existing terms, including lowering interest rates, lengthening of the tenor, and conversion of some liabilities into equity.

Estimated Exposure to CLICO and BAICO

	St. Vincent	ECCU
CLICO 1/		
In millions of EC$	174.0	989.0
In percent of GDP 2/	9.4	6.8
BAICO 3/		
In millions of EC$	204.0	1,051.0
In percent of GDP 2/	11.0	7.2
Total 4/		
In millions of EC$	384.8	2,111.0
In percent of GDP 2/	20.8	14.5

Source: Data provided by country authorities.
1/ As of end-2008, except for Dominica, which is as of March 2010.
2/ Nominal GDP in 2010.
3/ As of end-June 2009, according to the Nov. 2009 judicial managers' report.
4/ Includes small amount to Clico Investment Bank, CMMB, and the CL Financial Group.

Offshore Financial Sector

25. In line with the Fund technical assistance mission, the International Financial Services Authority (IFSA) has intensified efforts to strengthen its regulatory functions and supervisory capacity. Twenty Tax Information Exchange Agreements have been signed and there are ongoing negotiations on three more. In addition to strengthening its human resources capacity through extensive training and adopting a more efficient operating system, IFSA conducted a full scope review of all registered entities during the last quarter of 2010 and beginning of 2011. IFSA has worked on improving compliance with the Financial Action Task Forces 40+9 Recommendations against money laundering and terrorist financing.

D. Improving the Business Climate and Revitalizing Growth

26. The slowdown in growth reflects both cyclical and structural factors. On the cyclical side, growth in St. Vincent and the Grenadines is vulnerable to business cycles in advanced countries, through tourism and FDI flows. Structural factors, including the lack of diversification in the economy, have exacerbated the impact of cyclical factors. Discussions with the private sector suggest that access to credit, the high cost of electricity and the lack of appropriate labor skills are key factors holding back domestic private sector development.

27. The mission highlighted the need to enhance growth potential, including through improvements in the business climate and the underlying infrastructure. Policy recommendations included; (i) working closely with CARICOM to establish credit bureaus to ease access to credit, (ii) improving the efficiency of customs (iii) enhancing the ongoing efforts to expand hydroelectric generation and explore options for wind farms to reduce dependence on imported fuel and hence reduce energy costs, and (iv) improving the telecommunication network. In addition, the mission encouraged the authorities to facilitate private sector development by (i) exploring the scope for increasing collaboration between the Chamber of Commerce, the Center for Enterprise Development (CED) and the banks to provide assistance to small and medium enterprises[10], and (ii) improving the quality and relevance of technical training to address the mismatch between available jobs and labor skills.

28. The authorities pointed out that a number of initiatives are under way to enhance diversification and competitiveness of the economy. These include (i) the establishment of the North Windward Vegetables Group; a partnership with farmers that will facilitate the transportation, packaging, grading and marketing of agricultural products, and (ii) establishment of the Agriculture Training Institute and the Hospitality School with the help of donors, to promote technical education in agriculture and tourism, (iii) expansion of the accreditation program to provide skill certification and (iv) the two new medical universities.

[10] CED is a government's institution that promotes private sector activity and economic diversification, including the facilitation of non-tourism services investments and the promotion of small enterprise development.

E. Future Fund Program

29. The mission discussed the merits of a possible medium-term Fund program, including its role in catalyzing donor support. The authorities agreed with staff on the need for a medium-term policy framework to address the underlying structural vulnerabilities and the need for sustainable financing to help increase the country's resilience to shocks. They reiterated their commitment to continue implementing policies agreed under the July RCF and the current Article IV discussions and underscored that donor financing already in the pipeline would help to meet the expected financing needs.

STAFF APPRAISAL

30. St. Vincent and the Grenadines continues to face significant challenges. The recent exogenous shocks, including the global slowdown and the two successive natural disasters, have brought to the fore the underlying structural vulnerability, including the strong dependence of the economy on advanced country flows and the vulnerabilities to natural disasters. With limited tools and little fiscal space, donor flows have been key to help mitigate some of the impact from these exogenous shocks. Growth is expected to remain negative for a fourth year in a row , with a pick up next year largely reflecting implementation of reconstruction projects, the ongoing airport construction and the establishment of two new universities.

31. Staff urges the authorities to streamline current spending, while protecting the poor and vulnerable groups. While, in part, the increase in current spending reflects government efforts to protect the poor and vulnerable groups from the impact of the adverse shocks, recent increases have come at the cost of capital spending undermining the economy's long-term potential for growth. Staff urged the authorities to streamline current spending, and the risks of financing non-discretionary spending from new borrowing.

32. Staff welcomes the authorities' commitment to medium-term fiscal consolidation, including generating primary surpluses in the range of 2 percent of GDP. Over time, this will help to reduce debt service and free up fiscal space for more productive spending as well as build financial buffers and strengthen the government's ability to respond to exogenous shocks. Toward this end, staff encourages the authorities to introduce the market based property tax, further strengthen the LTU, gradually reduce the wage bill to pre-crisis levels, limit transfers to SOEs, and rationalize the various social assistance programs. In this context, staff welcomes the authorities' commitment not to borrow on commercial terms.

33. Staff urges the authorities that a stronger and more rapid fiscal adjustment is necessary to build financial buffers to address future exogenous shocks. In addition to the reform efforts assumed in the baseline, a more ambitious agenda for structural fiscal reforms, including civil service and pension reforms, would enhance the government's ability to address exogenous shocks.

34. Staff underscored the importance of monitoring financial sector vulnerabilities. While the domestic banking sector appears to be resilient thus far, NPLs at credit unions and most importantly the B&LA remain a significant concern. In this context, staff would encourage the authorities to continue to monitor these institutions closely and expedite the passage of the legislation and establish the Single Regulatory Unit as soon as possible.

35. Staff welcomes the authorities continued efforts to diversify the economy. Given the quasi-currency arrangement and the potential overvaluation of the exchange rate, as indicated by staff's assessment of the REER, staff underscored the importance of further structural reforms to improve the business climate, including reducing the cost of doing business, enhancing infrastructure and improving competitiveness.

36. It is expected that the next Article IV Consultation with St. Vincent and the Grenadines will take place on the standard 12-month cycle.

Box 1. Building Climate Resilience

1. Major efforts are underway to build climate resilience with the help of the World Bank and other donors. The World Bank approved a total of US$20.9 million (EC$ 56.4 million) earlier this year, in a combination of grants and IDA term loan, to address disaster vulnerability and enhance climate resilience. In particular, the project is aimed at (i) rehabilitation of damaged and vulnerable infrastructure, caused by the passage of Hurricane Tomas, including, school buildings and associated school infrastructure, community centers, and strengthening a river defense site; and (ii) strengthening the government's ability to evaluate natural hazard and climate change risks. This is expected to reduce economic losses due to weak urban infrastructure of potential future natural disasters.

2. The mission emphasized the importance of complementary efforts by the government to ensure strict enforcement of regulatory standards for buildings and other infrastructure. Discussions in the context of the July RCF request indicate that the extensive damages from Hurricane Tomas and the recent flooding to the housing stock and the associated fiscal costs could have been limited if the houses were built up to the standards of the 2008 Building Code. Furthermore, most of the houses damaged during the April 2011 landslides and floods were built near river banks and river mouths as there are no zoning laws currently outside Kingstown area. The mission encouraged the authorities to design zoning laws to avoid construction in disaster vulnerable areas.

Box 2: Ensuring Long Term Solvency and Limiting the Fiscal Cost of the Pension System

1. There are two government run pension systems in St. Vincent and the Grenadines: the National Insurance Service (NIS) and the Public Service (PS). In addition, there are a number of private pension systems. The private pension systems are fully run and managed by private enterprises and have no bearing for government operations. On the other hand, the PS system is fully paid and managed by the central government and the NIS pension system is run by a state-owned company. This box focuses on the long term solvency and potential fiscal risks of the latter two systems.

2. The NIS is one of the most generous pension systems in the region. The system has a low contribution rate (8 percent, recently increased from 6 percent), a young retirement age (60 years), and a generous replacement rate (60 percent) by international standards, and also in comparison to other countries in the region. It is a relatively new system (started operation in 1987) and for now the NIS has been running cash flow surpluses and accumulated reserve levels sufficient to pay out 10 years of current expenses, in the absence of contributions, at end-2010. However, the latest actuarial review shows that, in the absence of parametric reforms, the contributions collected will not be sufficient to cover expenses after the year 2016, and investment income will have to be used as a supplement.[1] The review also showed that reserves are projected to start falling in 2027 and will be depleted by 2040.

3. Latest financial reports underscore the need for reforms to ensure long-term viability. Costs are increasing at a faster rate than projected; the total cost of the scheme in percent of insurable earnings has increased from 5.6 percent in 2007 to 7.3 percent in 2010, against the projected level of 6.2 percent. Net income has shrunk from EC$ 27.1 million in 2008 to EC$5.7 million in 2010, reflecting the impact of the economic downturn on investment incomes and insurable earnings. The long-term viability of the NIS could be seriously undermined in the absence of parametric reforms.

4. The PS pension benefits are received by qualified public servants on top of their NIS benefits.[2] The PS pension system is a non-contributory scheme with replacement rates of up to 66⅔ percent; hence, allowing a replacement rate of up to 127 percent in combination with the NIS benefits. Fully funded by the central government, PS retiring benefits grew at 13.6 percent per annum during 2007–10 (9 percent in real terms) and consumed about 10 percent of total revenues as of 2010. Given the aging population and hence rising number of pensioners (number of PS pensioners increased by 31 percent between 2006 and 2011), this trend is likely to continue and pose significant risk to fiscal sustainability.

5. Pension reforms are necessary to ensure the long-term solvency of the system and reduce the fiscal burden. The NIS needs a parametric reform, including gradual increases of the contribution rate, the retirement age, and the pension-qualifying minimum years of service. To reduce the fiscal burden, the PS system should be converted into a fully funded system with possible mergers with the NIS system. In this regard, the authorities are conducting an actuarial review to assess options for reform, including the merger between the NIS and PS pension systems.

[1] NIS (2008), Actuarial Valuation Report as of January 1, 2008.

[2] Currently, 60 percent of PS employees are qualified as pensionable workers for the PS pension system.

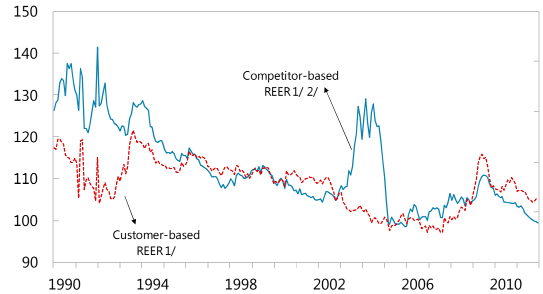
Box 3. Exchange Rate Assessment

1. **Staff estimates suggest that the real exchange rate is likely to be somewhat overvalued**. Three different methods are used, two of which—the equilibrium real exchange rate approach (ERER) and the macroeconomic balance approach (MB)—follow standard Fund-wide CGER methodology used by the IMF. The third approach—the external sustainability approach (ES)—is based on the debt stabilizing current account. Depending on the methodology used, the real exchange rate appears to range from being in equilibrium to being overvalued by about 15 percent. At the ECCU level, the different CGER methodologies do not provide an unambiguous result either, but there are some signs that the exchange rate is overvalued.

2. **The ERER approach suggests that the real exchange rate is broadly in line with its long-run equilibrium value**.[1] The actual and the equilibrium real exchange rate have both been depreciating since 2010, reflecting the slide of the U.S. dollar against other major currencies. The competitor- and customer-based real effective exchange rates also show that the country has benefited from the decline in the U.S. dollar in the last year. However, given the peg to the U.S. dollar and a largely import-determined CPI, the ERER approach may be less useful compared to the two other approaches below in assessing exchange rate valuations.

3. **The MB approach points to an overvaluation of 8 percent .** The standard CGER methodology (using a sample of 114 countries including the ECCU) gives the current account (CA) norm as -15.4 percent of GDP. However, the underlying CA is -16.7 percent of GDP, implying that the real exchange rate is overvalued by about 8 percent.

External Competitiveness, 1990–2011 (July)
(Real Effective Exchange Rate, Index 2005=100)



Sources: Fund staff estimates.
1/ An increase (decrease) indicates an appreciation (depreciation).
2/ The sharp movements in the competitor-based real exchange rate in 2002–04 were largely driven by the Dominican Republic's peso.

4. **Finally, the external sustainability approach (ES) points to an overvaluation of 14.8 or 28.5 percent, depending on whether grants are included or not**.[2] The ES norm was calculated using the debt stabilizing current account from the Debt Sustainability Analysis (DSA). If grants are included, there is a gap of about 2½ percentage points of GDP between the debt-stabilizing CA (-14.2) and the underlying CA. In both cases, but with grants included the overvaluation is much smaller. A real depreciation is required to restore the equilibrium in the medium term.

[1] The estimation of the equilibrium exchange rate takes into account productivity differentials in the tourism sector (using per capita tourist arrivals instead of per capita GDP); terms of trade for tourism; government consumption; and net foreign assets. For a detailed explanation of the methodology see: Pineda, Cashin and Sun, 2009, "Assessing Exchange Rate Competitiveness in the ECCU," IMF Working Paper 09/78 (Washington: International Monetary Fund).

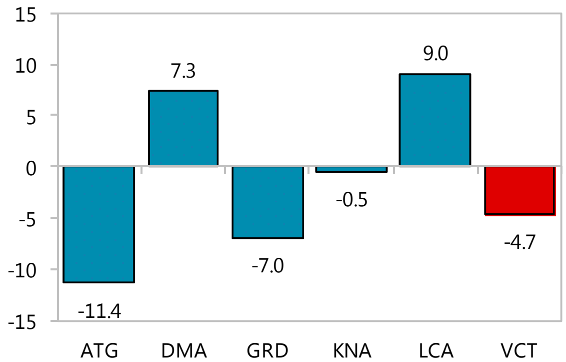
[2] In countries where there is a large inflow of grants, (as is the case for Saint Vincent and the Grenadines) that are not debt-creating, the CA norm is higher and consequently the implied overvaluation is lower.

Figure 1. St. Vincent and the Grenadines: Regional Comparison, 2007-10

Despite low growth, St. Vincent and the Grenadines was not the worst affected by the global slowdown...

Real GDP

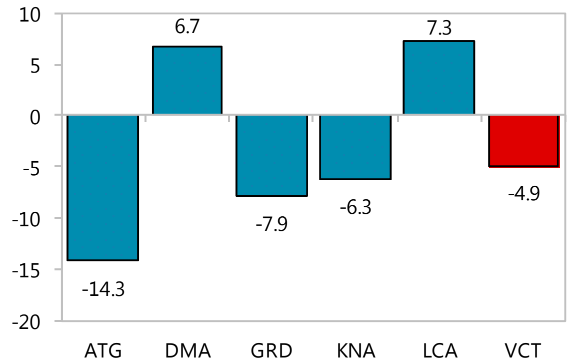
(Cumulative change 2007-2010, in percent)



...although growth has not kept pace with population growth...

Real per capita GDP

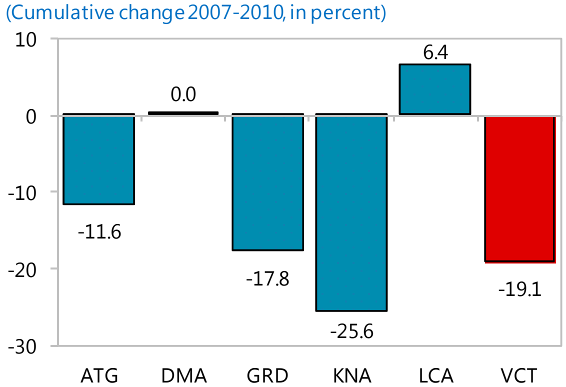
(Cumulative change 2007-2010, in percent)



...reflecting a decrease in tourism from advanced economies.

Tourist Arrivals

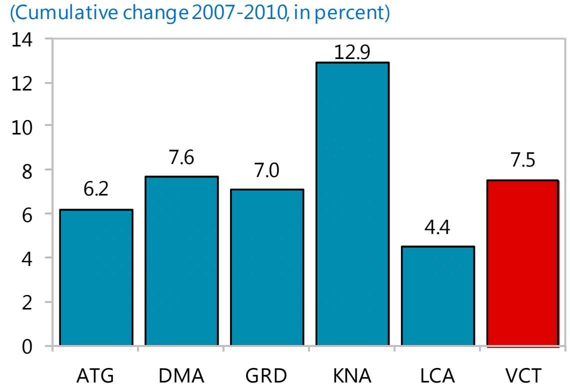
(Cumulative change 2007-2010, in percent)



Higher international food and fuel prices have also taken a toll on inflation.

Inflation

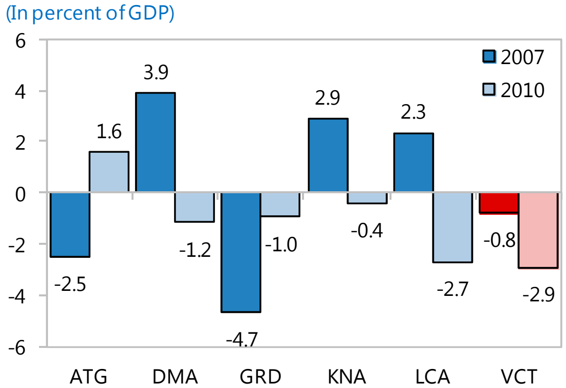
(Cumulative change 2007-2010, in percent)



The fiscal deficit has increased in the wake of the crisis,...

Primary Balance

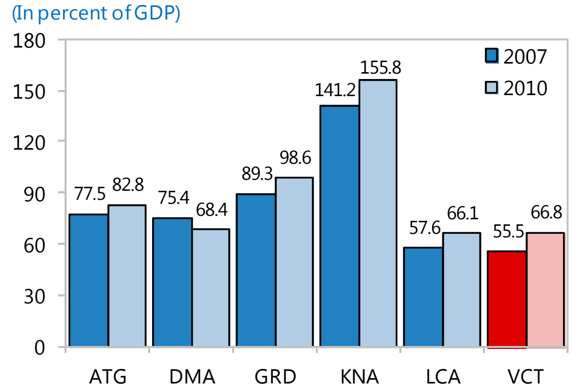
(In percent of GDP)



...and together with low growth led to an increase in debt levels, more so than in some of its peers.

Public Sector Debt

(In percent of GDP)

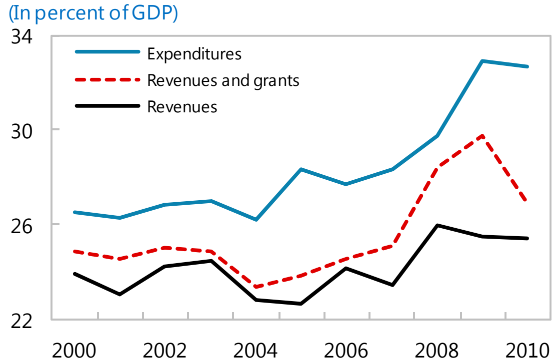


Source: ECCB, country authorities, and Fund staff estimates.

Figure 2. St. Vincent and the Grenadines: Fiscal Developments, 2000–10

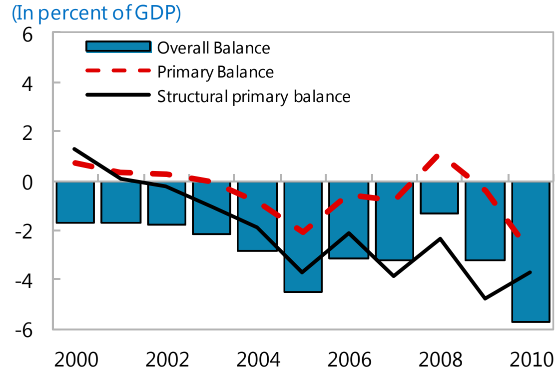
Expenditures have grown faster than revenues...

Fiscal Revenue and Expenditure
(In percent of GDP)



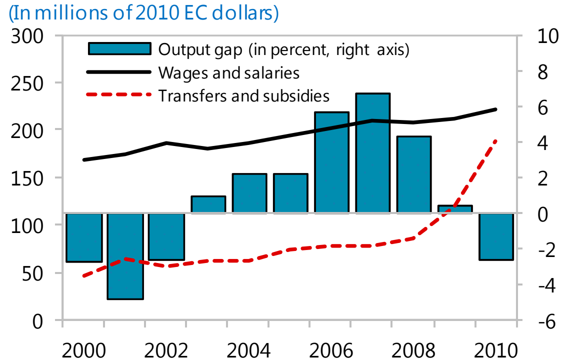
...creating persistent structural deficits.

Fiscal Balance
(In percent of GDP)



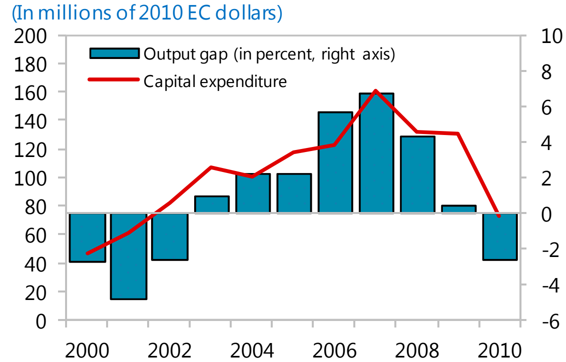
Spending on wages and salaries and transfers and subsidies are major drivers...

Current Expenditure
(In millions of 2010 EC dollars)



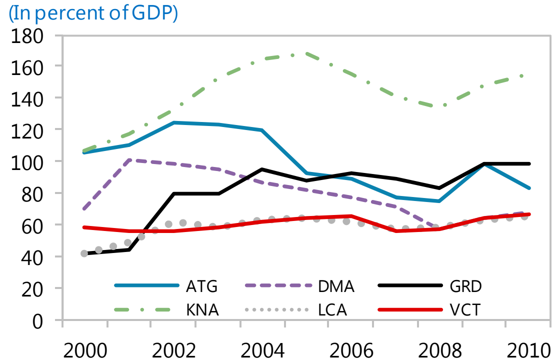
...while capital expenditure is highly procyclical.

Capital Expenditure
(In millions of 2010 EC dollars)



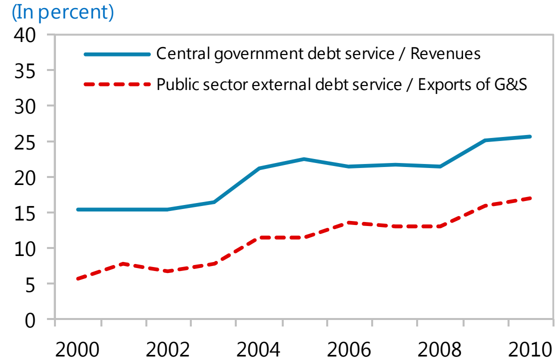
While low by regional standards public sector debt has been on the rise...

Public Sector Debt
(In percent of GDP)



...creating a heavy burden on public resources.

Debt Service
(In percent)

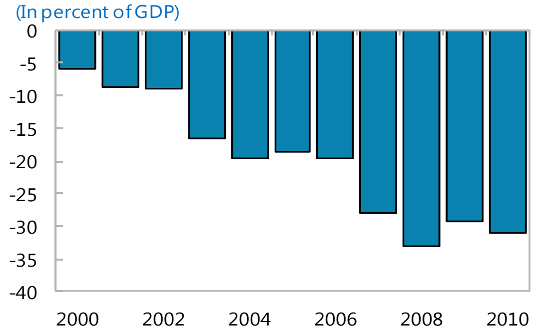


Source: St. Vincent and the Grenadines authorities, and Fund staff estimates.

Figure 3. St. Vincent and the Grenadines: External Sector Indicators, 2000–10

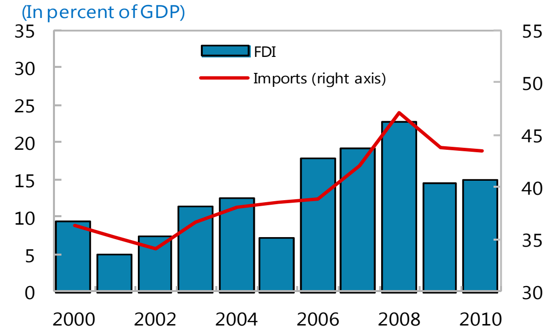
The current account balance has deteriorated significantly over time....

Current Account Balance
(In percent of GDP)



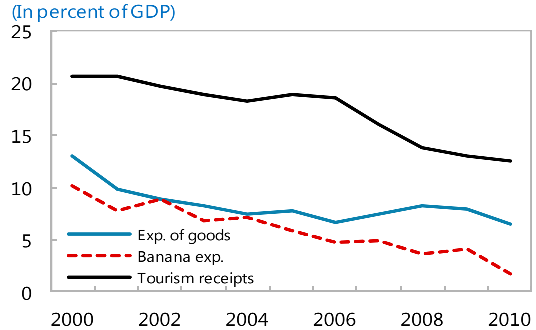
.... as a result of higher imports mostly fueled by foreign direct investment flows...

Imports and FDI
(In percent of GDP)



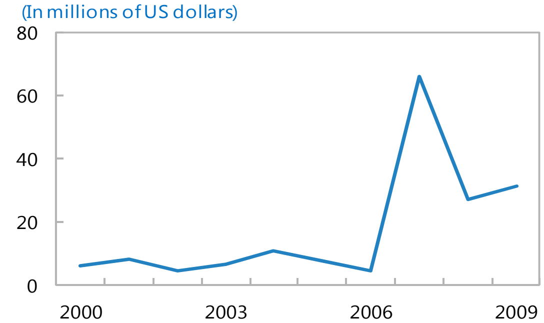
...and lower exports, with tourism receipts being severely affected by the global crisis.

Exports
(In percent of GDP)



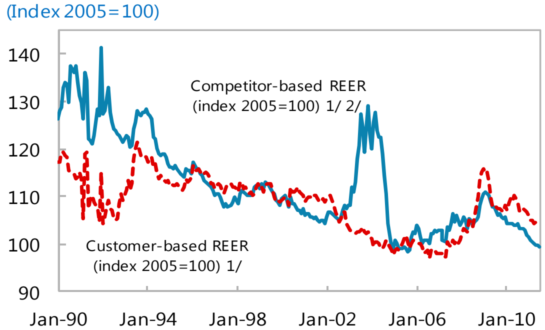
Overseas Development Assistance (ODA) has increased over the last two years.

Overseas Development Assistance (ODA)
(In millions of US dollars)



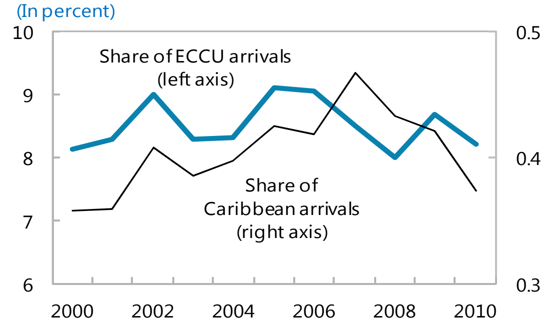
The competitor- and customer-based measures of REER show an improvement in recent months.

Real Effective Exchange Rate (REER)
(Index 2005=100)



The country's share of stay-over arrivals in the ECCU increased in the 1990s but declined after 2006.

Tourism Arrivals
(In percent)



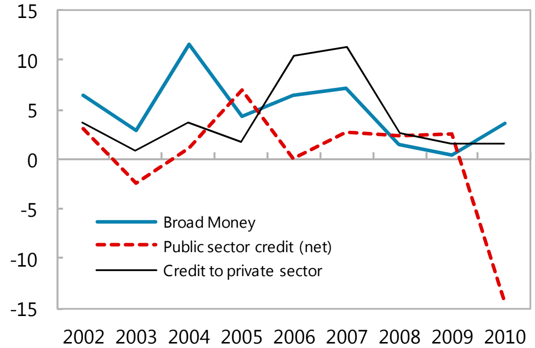
Source: ECCB, St. Vincent and the Grenadines authorities, and Fund staff calculations.
1/ An increase (decrease) indicates an appreciation (depreciation).
2/ The sharp movements in the competitor-based real exchange rate in 2002–04 were largely driven by movements in the Dominican Republic's peso.

Figure 4. St. Vincent and the Grenadines: Monetary Developments, 2002–10

The growth in broad money and credit to the private sector remain subdued due to weak economic activity...

Broad Money and Credit Growth 1/

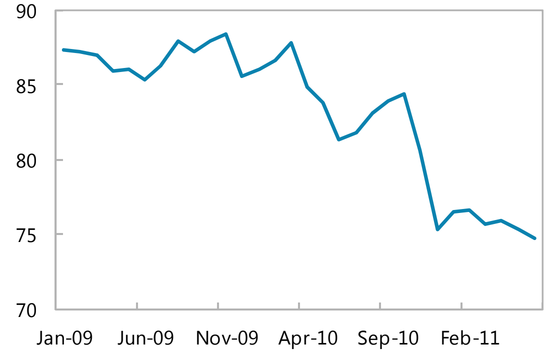
(In percent, 12 month change in percent of M2)



which is also reflected in the drop in the loan to deposit ratio in recent months.

Loans to Deposits Ratio 3/

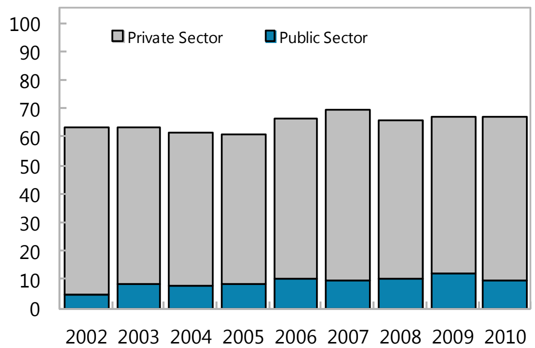
(In percent)



While credit to the public sector has increased slightly in recent years, private sector credit remains dominant...

Distribution of Credit

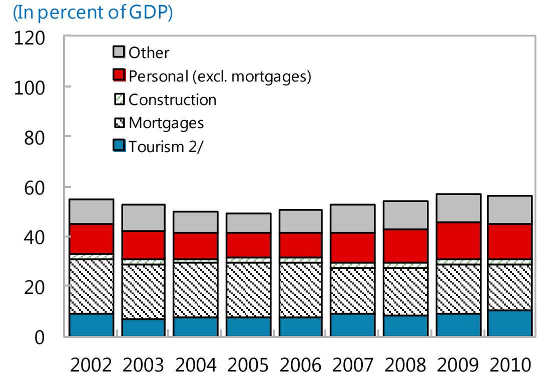
(In percent of GDP)



...with increases in personal loans and loans to tourism.

Private Sector Credit by Economic Sector

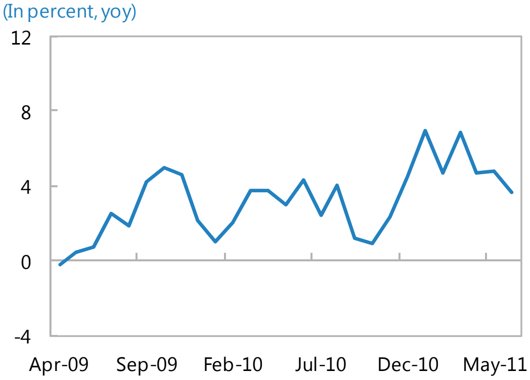
(In percent of GDP)



While deposit growth remains sluggish...

Private Sector Deposit Growth 3/

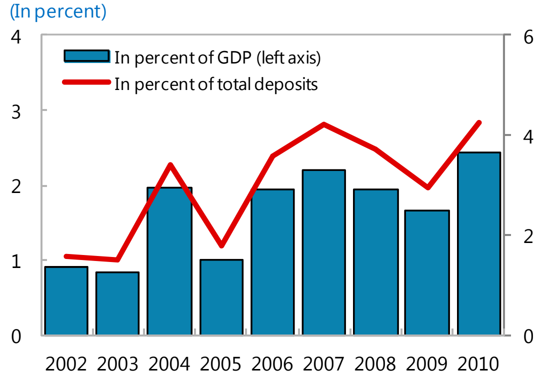
(In percent, yoy)



...foreign currency denominated deposits increased for the first time in two years.

Foreign-Currency Denominated Deposits

(In percent)



Source: ECCB; and Fund staff calculations.

1/ Government reduced liabilities ahead of the privatization of NCB.

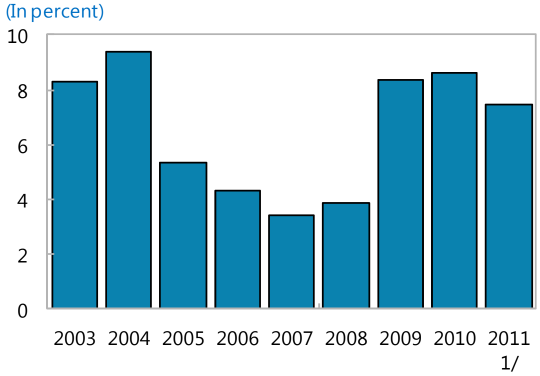
2/ Includes tourism, entertainment, and half of transport, distributive trade and professional services.

3/ Data up to June 2011.

Figure 5. St. Vincent and the Grenadines: Banking System Vulnerabilities, 2003–11

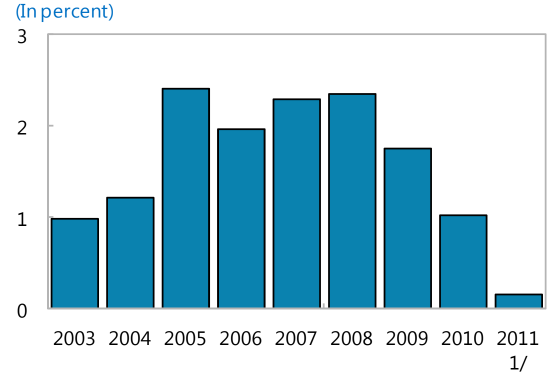
As non performing loans have increased in 2009 and 2010 as a result of weak economic activity...

Nonperforming Loans (NPLs) to Total Loans
(In percent)



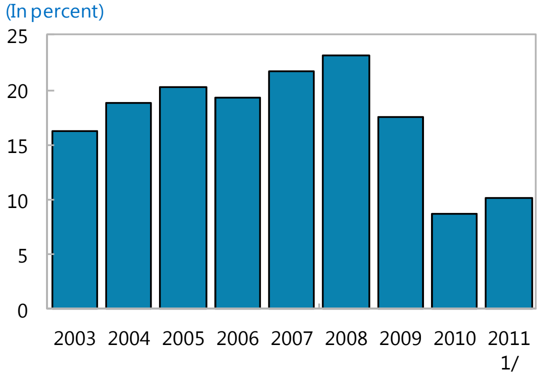
.... profitability of the banks has declined in recent years.

Return on Average Assets
(In percent)



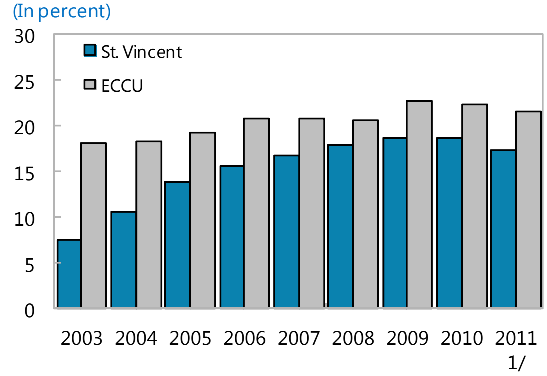
And though government exposure has declined after the privatization of the Bank of St. Vincent...

Government Loans to Total Loans
(In percent)



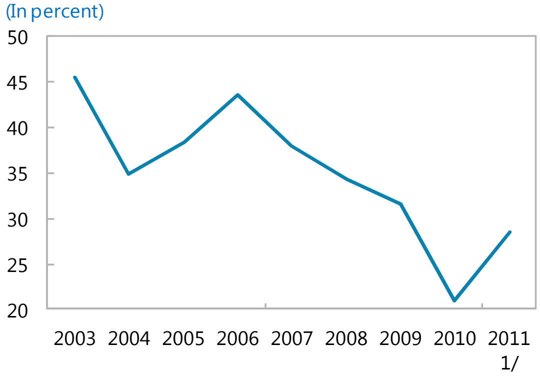
... and capital adequacy remains stable...

Total Capital to Risk-Weighted Assets
(In percent)



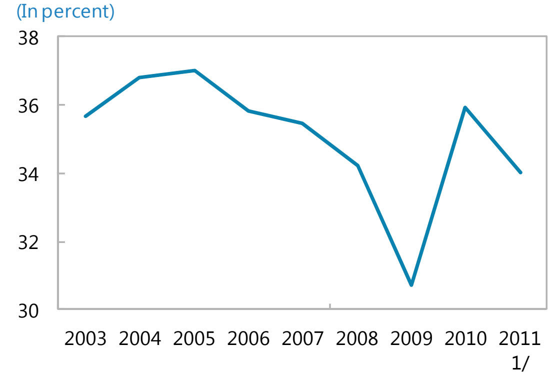
...provisioning for NPLs has substantially declined...

Provisioning to NPLs
(In percent)



... while at the same time the ratio of liquid assets to total assets has recently recovered.

Liquid Assets
(In percent)



Source: ECCB; and Fund staff calculations.
1/ Data for the second quarter of 2011.

Table 1. St. Vincent and the Grenadines: Selected Social and Economic Indicators, 2008-12

Social and Demographic Indicators

Area (sq. km)	389.0	Adult illiteracy rate (percent, 2001)	11.0
Population		Health and nutrition	
Total (thousands, 2007)	109.1	Calorie intake (per capita a day, 2004)	2,660
Rate of growth (percent per year, 2007)	0.10	Population per physician (thousand, 2004)	1.2
Density (per sq. km., 2007)	280.5	AIDS incidence rate (per 100,000, 2005)	32
Population characteristics (2007)		Gross domestic product (2010)	
Life expectancy at birth (years)	71.7	(millions of US dollars)	684
Infant mortality (per thousand live births)	11.9	(millions of EC dollars)	1,847
Under 5 mortality rate (per thousand)	13.2	(US$ per capita)	6,381

				Projections	
	2008	2009	2010	2011	2012
	(Annual percentage change, unless otherwise specified)				
Output and prices					
Real GDP (factor cost)	-0.6	-2.3	-1.8	-0.4	2.0
Nominal GDP (market prices)	2.1	-3.8	1.8	1.1	4.2
Consumer prices, end of period 1/	9.4	-2.2	0.5	3.1	0.5
Consumer prices, period average 1/	10.1	0.4	0.6	2.5	1.4
Banking system					
Net foreign assets 2/	3.1	-2.2	10.5	-7.3	-3.5
Net domestic assets 2/	-1.7	3.6	-7.9	7.6	7.9
Credit to private sector 2/	2.6	1.5	1.6	1.0	4.3
Central government finances (in percent of GDP)					
Total revenue and grants	28.4	29.7	26.9	27.3	28.0
Total expenditure and net lending	29.8	32.9	32.7	30.4	31.7
Current expenditure	22.8	25.8	28.7	26.7	26.5
Of which					
Wages and salaries	11.0	11.7	12.0	12.2	12.5
Interest	2.5	2.8	2.8	2.9	2.8
Capital expenditure	6.9	7.2	4.0	3.7	5.1
Overall balance	-1.4	-3.2	-5.7	-3.2	-3.7
Overall balance (excl. grants)	-3.7	-7.4	-7.2	-5.8	-6.3
Primary balance	1.1	-0.4	-2.9	-0.3	-0.8
Primary balance (excl. grants)	-1.3	-4.7	-4.4	-3.0	-3.5
Central government debt	46.8	50.2	55.2	56.1	57.8
External sector (in percent of GDP)					
External current account	-32.9	-29.4	-31.1	-27.6	-24.8
Of which					
Exports of goods and services	30.1	28.6	26.8	27.0	26.7
Imports of goods and services	61.6	57.7	56.9	53.6	50.7
Stayover arrivals (percentage change)	-6.1	-9.9	-4.4	-2.0	4.0
Public sector external debt (end of period)	30.2	33.3	41.7	42.0	39.9
External public debt service					
(In percent of exports of goods and services)	13.0	15.8	17.0	18.3	18.1
Memorandum items:					
Gross public sector debt	57.0	64.9	66.8	69.2	71.0
Net public sector debt	54.2	61.9	63.8	66.3	67.7
Nominal GDP (market prices; in millions of EC$)	1,888	1,815	1,847	1,868	1,947

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

1/ Based on the re-based (2010) CPI.

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

Table 2. St. Vincent and the Grenadines: Summary of Central Government Operations, 2008-12

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

	2008	2009	2010	2011 Proj. Budget	2011 Proj. Staff 1/	Proj. 2012
Total revenue and grants	**536.2**	**539.7**	**497.5**	**560.4**	**509.3**	**545.5**
Current revenue	489.5	461.3	468.7	504.8	458.1	492.0
Tax revenue	447.9	428.0	421.4	464.2	413.0	444.3
Taxes on income and profits	110.4	110.6	108.8	117.5	112.8	121.1
Taxes on property	2.2	2.7	2.9	6.2	3.0	5.0
Taxes on international trade	188.6	187.9	178.4	194.4	172.3	182.0
Of Which: VAT	86.0	78.2	74.1	81.5	71.6	78.3
Taxes on domestic transactions	146.7	126.8	131.3	146.0	124.9	136.2
Of Which: VAT	67.5	64.3	62.5	68.0	61.4	67.2
Non-tax	41.6	33.3	47.2	40.6	45.1	47.6
Fees, Fines and Permits	18.2	18.9	21.5	21.7	19.6	21.1
Interest, Rent and Dividends	11.6	10.0	13.4	10.3	10.3	10.7
Other Revenue	11.8	4.3	12.3	8.7	15.2	15.8
Capital Revenue	1.6	1.5	0.9	1.0	1.4	1.6
Of which: Sale of crown lands	1.6	1.5	0.9	1.0	1.4	1.6
Grants	45.2	76.9	28.0	54.7	49.8	51.9
Total expenditure and net lending	**561.8**	**597.9**	**603.5**	**708.7**	**568.3**	**616.6**
Current	430.8	467.8	529.7	542.1	498.8	516.6
Wages and salaries 2/	206.8	212.0	221.8	243.6	227.7	243.6
Interest	46.8	50.5	52.2	53.3	53.3	55.2
Domestic	23.8	28.4	31.5	26.6	26.6	27.1
Foreign	23.0	22.1	20.7	26.7	26.7	28.0
Transfers and subsidies	86.2	119.7	189.5	169.9	142.1	142.1
Of which:						
Hurricane related	...	...	0.9	9.3	9.3	...
Flood related	...	...	...	...	15.0	...
Goods and services	91.0	85.6	66.2	75.3	75.7	75.7
Capital expenditure	131.0	130.0	73.8	166.7	69.6	100.0
Of which:						
Hurricane related	...	...	2.5	7.6	7.6	...
Flood related	...	...	...	...	4.3	
Current balance (before grants)	58.6	-6.6	-61.0	-37.3	-40.7	-24.6
Overall balance	**-25.6**	**-58.2**	**-106.0**	**-148.3**	**-59.1**	**-71.1**
Overall balance (excl. grants)	**-70.7**	**-135.1**	**-133.9**	**-203.0**	**-108.9**	**-123.0**
Primary balance	21.2	-7.7	-53.8	-95.0	-5.8	-16.0
Primary balance (excl. grants)	-23.9	-84.6	-81.7	-149.7	-55.6	-67.9
Identified financing	25.6	58.2	106.0	73.9	59.1	71.1
Net external financing	16.7	2.6	154.0	28.3	-23.7	6.9
Disbursements	62.4	50.1	202.7	81.9	29.9	58.0
Amortization	45.7	47.4	48.7	53.6	53.6	51.1
Change in government assets	-5.2	-6.0	-12.0	-6.0	-6.0	-6.0
Net domestic financing 3/	14.1	46.0	-104.1	18.9	38.7	70.2
Sale of Equity (privatization proceeds)	0.0	0.0	42.0	24.0	24.0	0.0
Arrears	0.0	0.0	23.0	0.0	12.0	0.0
Exceptional financing	0.0	15.6	3.0	8.7	14.1	0.0
IMF/ESF	...	15.6	...	...	...	...
CCRIF	...	...	3.0		...	...
IMF/RCF	...	...	...	8.7	14.1	...
Financing gap	0.0	0.0	0.0	74.4	0.0	0.0
Memorandum items:			*In percent of Revenue and Grants*			
Wage and salaries	38.6	39.3	44.6	43.5	44.7	44.7
Transfers and subsidies	16.1	22.2	38.1	30.3	27.9	26.1
Goods and services	17.0	15.9	13.3	13.4	14.9	13.9
Capital expenditure	24.4	24.1	14.8	29.7	13.7	18.3

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

1/ Similar to the recent RCF projection as there is no additional information.

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

3/ For 2012, financing is expected to come from RGSM and form a drawdown of deposits.

Table 3. St. Vincent and the Grenadines: Summary of Central Government Operations, 2008–12

(In percent of GDP, unless otherwise stated)

	2008	2009	2010	2011 proj. Budget	2011 proj. Staff 1/	Proj. 2012
Total revenue and grants	**28.4**	**29.7**	**26.9**	**30.0**	**27.3**	**28.0**
Current revenue	25.9	25.4	25.4	27.0	24.5	25.3
Tax revenue	23.7	23.6	22.8	24.8	22.1	22.8
Taxes on income and profits	5.8	6.1	5.9	6.3	6.0	6.2
Taxes on property	0.1	0.1	0.2	0.3	0.2	0.3
Taxes on international trade	10.0	10.4	9.7	10.4	9.2	9.3
Of Which: VAT	4.6	4.3	4.0	4.4	3.8	4.0
Taxes on domestic transactions	7.8	7.0	7.1	7.8	6.7	7.0
Of Which: VAT	3.6	3.5	3.4	3.6	3.3	3.5
Non-tax	2.2	1.8	2.6	2.2	2.4	2.4
Fees, Fines and Permits	1.0	1.0	1.2	1.2	1.1	1.1
Interest, Rent and Dividends	0.6	0.6	0.7	0.5	0.5	0.5
Other Revenue	0.6	0.2	0.7	0.5	0.8	0.8
Capital Revenue	0.1	0.1	0.0	0.1	0.1	0.1
Of which: Sale of crown lands	0.1	0.1	0.0	0.1	0.1	0.1
Grants	2.4	4.2	1.5	2.9	2.7	2.7
Total expenditure and net lending	**29.8**	**32.9**	**32.7**	**37.9**	**30.4**	**31.7**
Current	22.8	25.8	28.7	29.0	26.7	26.5
Wages and salaries 2/	11.0	11.7	12.0	13.0	12.2	12.5
Interest	2.5	2.8	2.8	2.9	2.9	2.8
Of which: Foreign interest	1.2	1.2	1.1	1.4	1.4	1.4
Transfers and subsidies	4.6	6.6	10.3	9.1	7.6	7.3
Of which:						
Hurricane related	...	...	0.0	0.5	0.5	...
Flood related	...	...	...	...	0.8	...
Goods and services	4.8	4.7	3.6	4.0	4.1	3.9
Capital expenditure	6.9	7.2	4.0	8.9	3.7	5.1
Of which:						
Hurricane related	...	...	0.1	0.4	0.4	...
Flood related	...	...	...	...	0.2	
Current balance (before grants)	3.1	-0.4	-3.3	-2.0	-2.2	-1.3
Overall balance	**-1.4**	**-3.2**	**-5.7**	**-7.9**	**-3.2**	**-3.7**
Overall balance (excl. grants)	**-3.7**	**-7.4**	**-7.2**	**-10.9**	**-5.8**	**-6.3**
Primary balance	1.1	-0.4	-2.9	-5.1	-0.3	-0.8
Primary balance (excl. grants)	-1.3	-4.7	-4.4	-8.0	-3.0	-3.5
Identified financing	**1.4**	**3.2**	**5.7**	**4.0**	**3.2**	**3.7**
Net external financing	0.9	0.1	8.3	1.5	-1.3	0.4
Disbursements	3.3	2.8	11.0	4.4	1.6	3.0
Amortization	2.4	2.6	2.6	2.9	2.9	2.6
Change in government assets	-0.3	-0.3	...	-0.3	-0.3	-0.3
Net domestic financing 3/	0.7	2.5	-5.6	1.0	2.1	3.6
Sale of Equity (privatization proceeds)	0.0	0.0	2.3	1.3	1.3	0.0
Arrears	0.0	0.0	1.2	0.0	0.6	0.0
Exceptional financing	0.0	0.9	0.2	0.5	0.8	0.0
IMF/ESF	...	0.9	...	...	...	...
CCRIF	...	...	0.2	...	...	...
IMF/RCF	...	...	...	...	0.8	...
Financing gap	0.0	0.0	0.0	4.0	0.0	0.0
Memorandum items:						
Gross central government debt (in percent of GDP)	46.8	50.2	55.2	...	56.1	57.8
Gross Public sector debt (in percent of GDP)	57.0	64.9	66.8	...	69.2	71.0
Net Public sector debt (in percent of GDP)	54.2	61.9	63.8	...	66.3	
Central government debt service to revenues excluding grants	21.3	25.2	25.5	...	27.2	26.3
GDP at market prices (EC$ millions)	1,888	1,815	1,847	1,868	1,868	1,947

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

1/ The difference with latest RCF projections reflects the changes in GDP.

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

3/ For 2012, financing is expected to come from RGSM and form a drawdown of deposits.

Table 4. St. Vincent and the Grenadines: Balance of Payments Summary, 2008–16

			Prel.	Projections					
	2008	2009	2010	2011	2012	2013	2014	2015	2016
	(In millions of Eastern Caribbean dollars)								
Current account	**-622**	**-533**	**-575**	**-513**	**-490**	**-485**	**-472**	**-437**	**-419**
Trade balance	-733	-649	-682	-626	-623	-636	-650	-659	-676
Exports f.o.b.	154	144	122	127	132	139	144	148	154
Of which: Bananas	20	21	8	5	8	9	9	9	9
Manufactured exports	68	65	72	78	79	84	87	91	94
Imports f.o.b.	887	793	804	753	755	775	794	807	830
Of which: Mineral fuels	131	144	118	145	146	150	153	157	161
Services (net)	137	121	127	132	149	169	198	242	278
Travel	212	197	193	192	206	225	253	295	330
Other nonfactor services	-74	-77	-66	-60	-57	-56	-55	-52	-52
Income payments (net)	-62	-35	-47	-54	-57	-60	-63	-67	-70
Current transfers	36	31	27	35	41	43	44	46	48
Net private transfers	36	31	29	34	39	41	42	44	45
Net official transfers	-1	0	-2	2	2	2	2	3	3
Capital and financial account	**571**	**520**	**605**	**463**	**488**	**423**	**420**	**423**	**432**
Capital	132	146	148	117	120	68	58	56	55
Financial (net)	439	374	457	346	368	356	362	367	376
Official capital 1/	15	25	143	-5	9	12	16	22	19
Commercial banks	-41	3	-17	32	38	18	15	8	6
Net Foreign Direct Investment	430	262	278	244	248	252	257	263	277
Others	35	83	53	76	74	74	74	74	74
Errors and omissions	42	25	38	0	0	0	0	0	0
Overall balance	-9	13	68	-50	-2	-61	-52	-14	12
Available financing	9	-13	-68	50	2	61	52	14	-12
Change in ECCB NFA	9	-13	-68	49	1	61	52	14	-12
Change in net imputed reserves (increase -)	9	21	-96	49	1	61	52	14	-12
of which: IMF purchases and disbursments	0	-15	0	-14	0	0	0	0	0
Change in SDR Allocation	0	-33	28	0	0	0	0	0	0
Change in medium- and long-term net liabilities	0	0	0	0	0	0	0	0	0
Change in govt. foreign assets	0	0	0	0	0	0	0	0	0
Other financing	0	0	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0
	(In percent of GDP, unless otherwise stated)								
Memorandum items:									
Current account	-32.9	-29.4	-31.1	-27.6	-24.8	-23.1	-21.1	-18.3	-16.7
Exports f.o.b.	8.2	7.9	6.6	6.8	6.7	6.6	6.4	6.2	6.1
Imports f.o.b.	47.0	43.7	43.5	40.6	38.2	36.9	35.5	33.8	33.1
Net private transfers	1.9	1.7	1.6	1.8	2.0	1.9	1.9	1.8	1.8
Foreign direct investment	22.8	14.4	15.0	13.1	12.5	12.0	11.5	11.0	11.0
Tourism receipts	13.7	13.0	12.6	12.5	12.6	12.9	13.5	14.5	15.3
Total trade	55.2	51.6	50.1	47.4	44.9	43.6	41.9	40.0	39.3
Exports of goods and nonfactor services	30.1	28.6	26.8	27.0	26.7	26.9	27.1	27.8	28.5
Imports of goods and nonfactor services	61.6	57.7	56.9	53.6	50.7	49.1	47.3	45.2	44.4

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

1/ Official capital in 2010 includes new borrowing from ALBA and CDB.

Table 5. St. Vincent and the Grenadines: Monetary Survey, 2008–12

	2008	2009	2010	Projections 2011	Projections 2012
	(In millions of Eastern Caribbean dollars)				
Net foreign assets	385	361	474	393	354
ECCB	224	203	299	250	248
Of which: Imputed reserves	224	203	299	250	248
Commercial banks	161	158	175	144	106
Net domestic assets	686	725	640	727	817
Public sector credit (net)	59	86	-68	-22	51
Central government	108	128	22	57	120
ECCB	3	-18	-17	5	5
Commercial banks	105	146	39	52	115
Net credit to rest of public sector	-49	-41	-90	-79	-69
National Insurance Scheme	-63	-82	-72	-72	-72
Other	14	41	-18	-6	3
Credit to private sector	926	943	960	971	1019
Other items (net)	-299	-305	-252	-222	-254
Broad money	1071	1075	1114	1127	1177
Money	375	348	346	350	367
Currency in circulation	81	64	51	52	56
Demand deposits	294	285	289	292	305
Quasi-money	697	727	768	777	810
Time deposits	115	122	129	131	136
Savings deposits	545	575	594	601	626
Foreign currency deposits	37	30	45	46	48
	(Annual percentage change)				
Net foreign assets	9.2	-6.2	31.4	-17.1	-10.0
Net domestic assets	-2.5	5.6	-11.7	13.8	12.3
Credit to private sector	3.0	1.8	1.8	1.1	5.0
Broad money	1.4	0.4	3.6	1.2	4.4
Money	-4.2	-7.0	-0.8	1.2	4.9
Quasi-money 1/	4.7	4.3	5.7	1.1	4.2
	(Contribution M2 growth)				
Net foreign assets	3.1	-2.2	10.5	-7.3	-3.5
Net domestic assets	-1.7	3.6	-7.9	7.6	7.9
Public sector credit (net)	2.3	2.5	-14.4	4.2	6.5
Of which: Central government	1.9	1.8	-9.8	3.1	5.6
Credit to private sector	2.6	1.5	1.6	1.0	4.3
Other items (net)	-6.6	-0.5	4.9	2.8	-2.9
Memorandum item:					
Income velocity 2/	1.8	1.7	1.7	1.7	1.7

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: Indicators of External and Financial Vulnerability, 2008–11

	2008	2009	2010	2011
External indicators				
Merchandise exports	11.4	-6.7	-15.7	...
Merchandise imports	14.2	-10.6	1.3	...
Terms of trade deterioration (-)	-14.8	15.4	-11.9	...
Tourism earnings	-12.7	-8.8	-1.5	...
Banana export earnings	-27.9	3.4	-60.6	...
Current account balance (in percent of GDP)	-32.9	-29.4	-31.1	...
Capital and financial account balance (in percent of GDP) 1/	32.5	30.0	34.8	...
Of which				
Foreign direct investment (in percent of GDP)	22.8	14.4	15.0	...
Gross international reserves of the ECCB				
In millions of U.S. dollars	759.0	800.8	926.1	988.6 (July)
In percent of broad money	17.0	17.5	19.7	20.9 (July)
Gross imputed reserves				
In millions of U.S. dollars	82.9	75.2	110.8	87.7 (July)
Commercial banks' net foreign assets (in millions of U.S. dollars)	59.7	58.6	64.9	60.2 (July)
External public debt (in percent of GDP)	30.2	33.3	41.7	...
External debt service (in percent of exports of goods and services)	13.0	15.8	17.0	...
Of which				
Interest	4.8	5.5	5.2	...
Nominal exchange rate (EC$ per US$, end period)	2.7	2.7	2.7	2.7
Real effective exchange rate depreciation (-), end period	-0.5	6.3	-1.3	...
Financial indicators				
Broad money	1.4	0.4	3.6	4.5 (July)
Credit to the private sector	3.0	1.8	1.8	3.0 (July)
Prudential indicators (in percent)				
Regulatory capital to risk-weighted assets	17.9	18.7	18.7	17.5 (June)
Nonperforming loans net of provisions to capital	31.7	23.7	14.0	18.5 (")
Nonperforming loans to total gross loans	3.9	8.4	8.6	7.4 (")
General Government Loans to Total Loans	23.1	17.5	8.7	10.1 (")
Return on assets	2.3	1.8	0.2	0.2 (")
Liquid assets to total assets	33.9	30.9	35.9	34.0 (")
Spread between reference lending and deposit rates	5.3	6.4	6.2	6.0 (")
Total Loans/Total Deposits	87.2	85.6	75.3	74.7 (")
Foreign-currency-denominated liabilities to total liabilities	5.9	5.1	7.7	7.2 (")

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

1/ Includes errors and omissions.

Table 7. St. Vincent and the Grenadines: Medium-Term Projections, 2008–16

(In percent of GDP, unless otherwise specified)

			Prel. est.	Projection					
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Output and prices									
Real GDP growth at factor cost (in percent)	-0.6	-2.3	-1.8	-0.4	2.0	2.0	2.5	3.5	3.5
Consumer prices, end-of-period (percent change)	9.4	-2.2	0.5	3.1	0.5	2.5	2.5	2.5	2.5
Central government finances									
Total revenue and grants	28.4	29.7	26.9	27.3	28.0	28.4	28.7	28.9	29.0
Of which:									
Tax revenue	23.7	23.6	22.8	22.1	22.8	23.3	23.7	24.1	24.4
Taxes on income and profits	5.8	6.1	5.9	6.0	6.2	6.3	6.5	6.6	6.6
Taxes on property	0.1	0.1	0.2	0.2	0.3	0.3	0.3	0.4	0.4
Taxes on international trade	10.0	10.4	9.7	9.2	9.3	9.5	9.5	9.6	9.7
Taxes on domestic transactions	7.8	7.0	7.2	6.7	7.0	7.2	7.4	7.6	7.6
Grants	2.4	4.2	1.5	2.7	2.7	2.5	2.4	2.2	2.0
Total expenditure and net lending	29.8	32.9	32.7	30.4	31.7	31.0	30.4	29.8	29.5
Of which:									
Wages and salaries 1/	11.0	11.7	12.0	12.2	12.5	12.2	11.8	11.4	11.4
Transfers and subsidies	4.6	6.6	10.3	7.6	7.3	7.2	7.2	7.1	7.0
Capital expenditure	6.9	7.2	4.0	3.7	5.1	5.1	5.1	5.1	5.1
Overall balance	-1.4	-3.2	-5.7	-3.2	-3.7	-2.6	-1.7	-0.9	-0.6
Of which: Primary balance	1.1	-0.4	-2.9	-0.3	-0.8	0.0	0.8	1.5	1.8
Financing	1.4	3.2	5.7	3.2	3.7	2.6	1.7	0.9	0.6
Of which:									
Net external financing	0.9	0.1	8.3	-1.3	0.4	0.5	0.6	0.8	0.7
Net domestic financing	0.7	2.5	-5.6	2.1	3.6	2.4	1.4	0.1	-0.1
Gross public sector debt	57.0	64.9	66.8	69.2	71.0	71.9	70.5	67.6	64.7
External sector									
Current account balance	-32.9	-29.4	-31.1	-27.6	-24.8	-23.1	-21.1	-18.3	-16.7
Gross public sector external debt (end of period)	30.2	33.3	41.7	41.7	40.5	39.5	38.2	36.9	35.7
External public debt service									
(In percent of exports of goods and services)	13.0	15.8	17.0	18.3	18.1	16.2	14.9	13.5	13.5

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

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

INTERNATIONAL MONETARY FUND

ST. VINCENT AND THE GRENADINES

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

October 13, 2011

Approved By
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Prepared by the Staff of the International Monetary Fund.

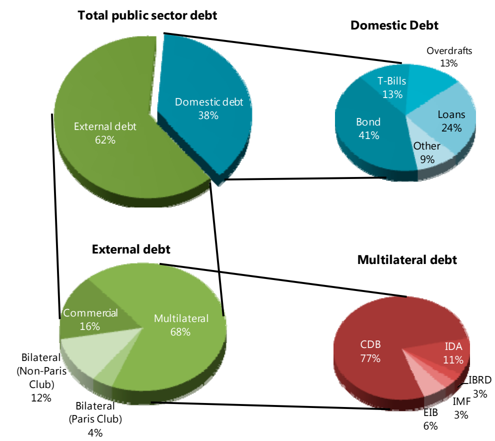
The current Debt Sustainability Analysis (DSA) indicates that, under the baseline scenario discussed in the staff report, St. Vincent and the Grenadines' risk of external debt distress remains moderate. Despite rising in recent years, the public debt to GDP ratio is projected to resume to a sustainable trajectory over the medium term in light of the authorities' commitment to undertake fiscal consolidation measures and the projected rebound in economic growth.

INTRODUCTION

1. St. Vincent and the Grenadines' economy has been buffeted by a string of adverse shocks in the last 3 years. Economic activity contracted by about 1.6 percent per annum, on average, during 2008–10, reflecting the impacts of the global slowdown that began in 2007, the international commodity price increases in 2008-09, and more recently the draught in the first half of 2010 and Hurricane Tomas at end-2010. Government efforts to counter these impacts resulted in a reversal of the 1.1 percent of GDP primary surplus in 2008 to a deficit of 2.9 percent of GDP in 2010. At the same time, the public sector debt-to-GDP ratio increased by 9.8 percentage points over the two year period to 66.8 percent in 2010. External debt constituted around 62 percent of the public sector debt at end-2010, of which about two-thirds is multilateral debt. The Caribbean Development Bank (CDB) is owed the bulk of the multilateral debt.[1] The central government owed about 83 percent of the total public sector debt at end-2010, with the rest owed by state-owned enterprises

[1] CDB's share at end-2010 was inflated partly by the EC$100 million disbursement made in 2010 to help facilitate the privatization of the former National Commercial Bank.

Public Sector Debt, end-2010
(In percent)



2. The fiscal stance for this year is expected to be tighter than earlier projections, reflecting financing shortfalls. Revenue outturns and external disbursements for the first 7 months of the year fell short of expectations. While marginal improvements in revenues are expected, the outlook for external disbursement remains gloomy for the rest of the year. As usual, the brunt of financing shortfalls will fall on capital expenditure, where less than half of the planned projects are expected to be executed. The overall deficit is expected to be lower by 1.4 percentage points of GDP than earlier projections and the central government debt for 2011 is projected at 56 percent of GDP, 2 percentage points lower than projected at the time of the RCF.

UNDERLYING DSA ASSUMPTIONS

3. The DSA analysis is based on the following macroeconomic framework, assuming that the authorities will implement the policies discussed in the staff report.

- **Growth and Inflation**: While expected to decline by 0.4 percent this year, the economy is projected to grow by 2 percent in 2012, supported by a rebound in agriculture and construction activities and modest recovery in tourism and FDI flows. Over the medium term, growth is projected to reach its potential level of 3½ percent, reflecting improved employment and consumption conditions in tourism and FDI source countries. End-period inflation is projected to reach around 3.1 percent in 2011, reflecting the uptick in international food and fuel prices. Over the medium term, inflation is projected to revert to its long-term path of around 2½ percent, anchored by the currency board arrangement.

- **Fiscal Balance**: While the central government's primary balance is projected to register a deficit of 0.3 percent of GDP in 2011, over the medium-term it is assumed that the primary balance will register surpluses in the range of 2 percent of GDP, in line with the authorities' commitment in the context of the recent RCF discussions.[2] Revenue is projected to increase over the medium term, reflecting the authorities' plan to implement a number of revenue enhancing measures such as implementation of market-based property tax, improvements in compliance and enhancement of tax audits, and streamlining exemptions. Central government external grants, which peaked in 2009, are projected to decline to around 2 percent of GDP over the medium term and further fall to 1½ percent of GDP in the long term. On the other hand, expenditures in percent of GDP are assumed to gradually fall to the pre-crisis level, reflecting the planned expenditure saving measures discussed in the staff report.

- **External Sector**: The current account deficit is projected to narrow in 2011 primarily due to falls in imports and is expected to continue narrowing to around 16.7 percent of GDP by 2016. Tourism and FDI are assumed to rebound as economic recovery strengthens in source countries (mainly North America and Europe), over the medium term. The grant element of new external borrowing is projected to fall over the medium to long term, reflecting

[2] The fiscal balance numbers discussed in the assumptions reflect only that of central government, whereas the DSA includes both the central government and state-owned enterprises. The primary deficit for the consolidated public sector, that is, including both the central government and the state owned enterprises, is somewhat higher in the short-term reflecting increased capital spending by the electricity company and the International Airport Development Corporation.

difficulty of accessing concessional resources as per capita income increases, however, the grant element will continue to remain high in the near to medium term in line with the central government's commitment not to borrow on non-concessional terms.

EVALUATION OF PUBLIC SECTOR DEBT SUSTAINABILITY

4. **Although the public sector debt has risen in recent years, the authorities' planned fiscal measures are expected to ensure debt sustainability over the medium-term.** The public sector debt-to-GDP ratio is projected to peak at 72 percent by 2013, the year when the International Airport project is expected to be completed. The debt trajectory is expected to start a downward trend afterwards, reflecting fiscal consolidation measures that the authorities plan to take combined with the projected rebound in economic growth, as discussed in the staff report. The public debt-to-GDP ratio is projected to fall to 54 percent of GDP by 2020, below the ECCB's recommended threshold of 60 percent.

5. **Sensitivity analysis shows that higher primary deficits are key vulnerabilities for St. Vincent and the Grenadine's debt dynamics.** Under a scenario where the primary balance is unchanged at the 2011 level, the Present Value (PV) of debt-to-GDP ratio would reach 78 percent in 2021 and 85 percent in 2031, compared to the base line levels of 49 percent and 34 percent in 2021 and 2031, respectively (Table 1b, Scenario A2). A scenario with permanently lower GDP growth also poses a significant risk, increasing the PV of debt-to-GDP ratio to 65 percent in 2021 and 84 percent in 2031.[3]

[3] The permanently lower GDP growth is calculated as the baseline level minus one standard deviation divided by the square root of the projection period.

EVALUATION OF EXTERNAL DEBT SUSTAINABILITY

6. St. Vincent and the Grenadines' risk of external debt distress remains moderate. Under the baseline scenario, the PV of public sector external debt is estimated at 41 percent of GDP in 2011 and is projected to decline to 26 percent of GDP by 2021, well below the threshold value of 50 percent[4] (Table 2b). The present values of debt and debt service to- export and revenue ratios also remain below the respective thresholds under the baseline scenario. Nevertheless, some of these ratios including the PV of debt-to-GDP ratio and the PV of debt-to-export ratio would briefly exceed the respective prudential thresholds under the alternative scenario of 'most extreme shocks' (Figure 1 and Table 2b).

7. Sensitivity analysis shows that St. Vincent and the Grenadines' external debt dynamics is vulnerable to changes in the nominal exchange rate. The stress test assuming a one-time 30 percent nominal depreciation relative to the baseline in 2012 indicates that the PV of external debt-to-GDP ratio would jump to 55 percent, breaching the country-specific threshold of 50 percent (Table 2b, Scenario B6).

[4] The DSA uses policy-dependent external debt burden indicators. Policy performance is measured by the Country Policy and Institutional Assessment Index (CPIA), compiled annually by the World Bank, categorizing countries into three groups based on the quality of their macroeconomic policies (strong, medium, and poor). St. Vincent and the Grenadines is classified as a strong performer, with the thresholds on PV of debt-to-GDP, debt-to-exports, and debt-to-revenue of 50, 200 and 300 percent, respectively.

ALTERNATIVE SCENARIO: ADDITIONAL BORROWING FOR THE AIRPORT PROJECT

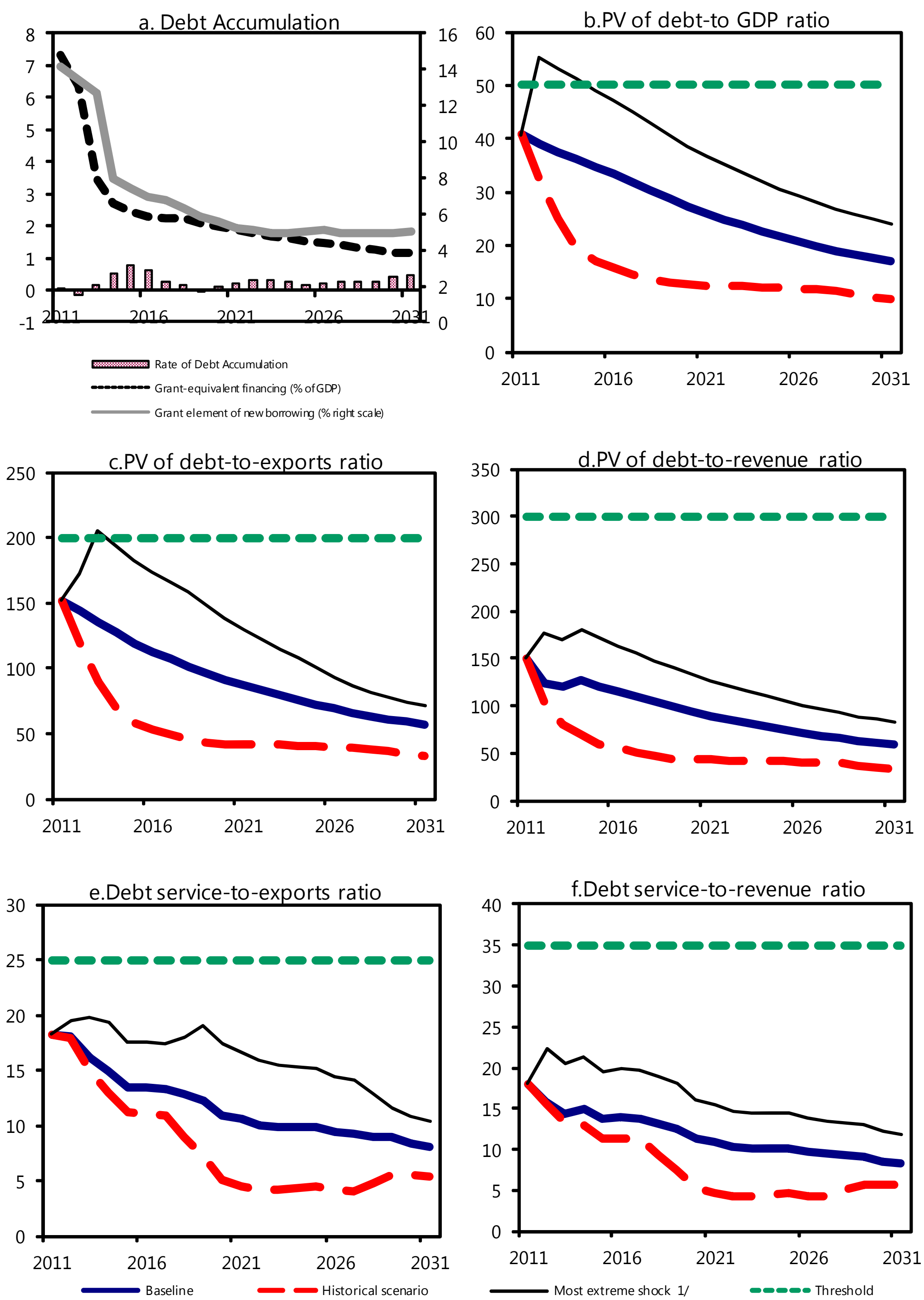
8. Additional borrowing in commercial terms to finance the airport project, in the rare event that all expected grants, concessional borrowing, and revenues from land sales are not available in 2012 and 2013, would increase the risk of debt distress. To date, financing for the airport project has largely come from external grants and concessional loans from donors (mainly from Cuba, Venezuela, Taiwan POC with small amounts from a number of other donors) and through land sales and privatization receipts. Going forward, financing is expected to come from the same sources.[5] In the event that these funds are not available and the government decides to finance the project through commercial borrowing, the public sector debt-to-GDP ratio would jump to 82 percent and the PV of public sector external debt will jump to 47 percent, closer to the 50 percent threshold, in 2013. While the rating for the risk of external debt distress remains moderate, the debt dynamics is highly vulnerable to macroeconomic shocks. The PV of external debt-to-GDP ratio, the PV of external debt to export ratio, and the PV of debt service to export ratio, would breach the corresponding country-specific thresholds under the 'extreme shocks' scenario (Figure 3).

[5] The project is expected to be completed by end-2013.

CONCLUSION

9. **St. Vincent and the Grenadines' public debt is projected to revert to a sustainable trajectory over the medium term and the external debt distress remains moderate.** While the fiscal situation has been deteriorating in recent years, the authorities have stepped up fiscal consolidation measures, both on the revenue and expenditure fronts. These, along with projected improvements in economic prospects are expected to improve the fiscal situation and reduce the public debt-to-GDP ratio to 52 percent by 2021.

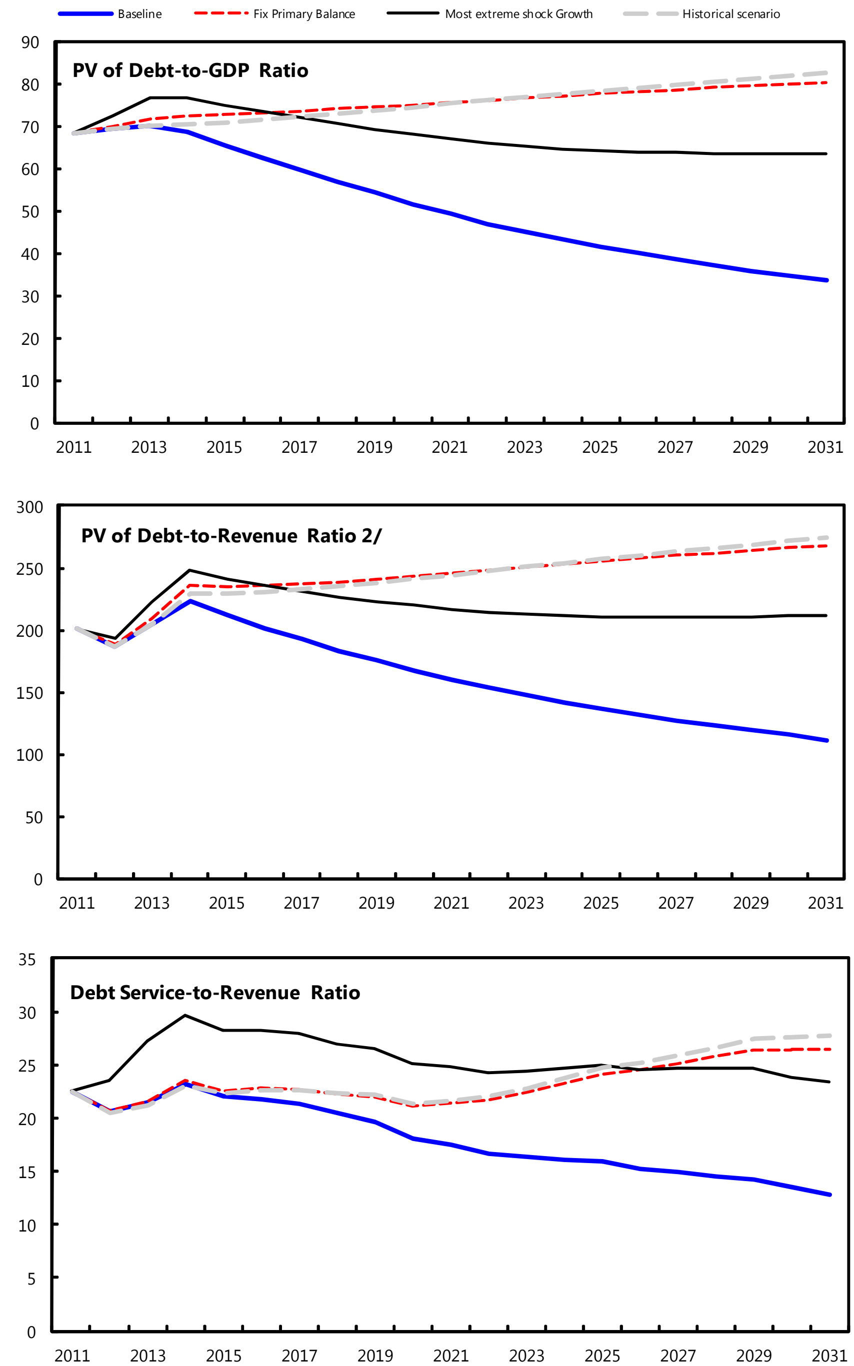
Figure 1. St. Vincent & the Grenadines: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2011-2031 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress shock in Figures b-f refers to a combination of shocks to key macroeconomic variables such as real GDP, primary balance, and the exchange rate.

Figure 2. St. Vincent & the Grenadines: Indicators of Public Debt Under Alternative Scenarios, 2011-2031 1/

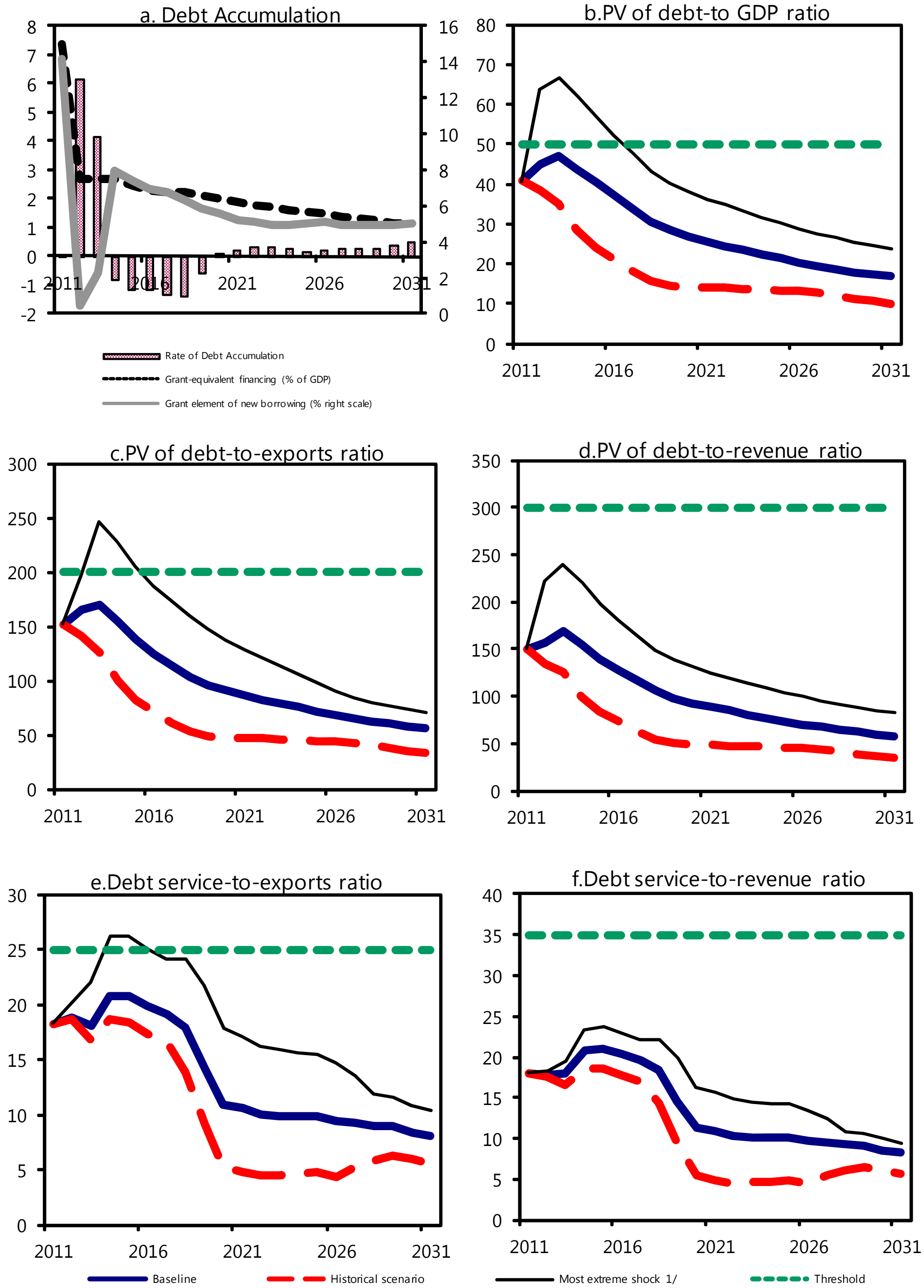


Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress shock in Figures b-f refers to a combination of shocks to key macroeconomic variables such as real GDP, primary balance, and the exchange rate.

2/ Revenues are defined inclusive of grants.

Figure 3. St. Vincent & the Grenadines: Indicators of Public and Publicly Guaranteed External Debt under 'Commercial Borrowing for the Airport' Scenario, 2011-2031 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress shock in Figures b-f refers to a combination of shocks to key macroeconomic variables such as real GDP, primary balance, and the exchange rate.

Table 1a.St. Vincent & the Grenadines: Public Sector Debt Sustainability Framework, Baseline Scenario, 2008-2031
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2008	2009	2010	Average 5/	Standard Deviation 5/	2011	2012	2013	2014	2015	2016	2011-16 Average	2021	2031	2017-31 Average
Public sector debt 1/	57.0	64.9	66.8			69.2	71.0	71.9	70.5	67.6	64.7		51.5	35.6	
o/w foreign-currency denominated	30.2	33.3	41.7			41.7	40.5	39.5	38.2	36.9	35.7		28.2	19.2	
Change in public sector debt	1.5	7.9	1.9			2.4	1.7	0.9	-1.4	-2.9	-2.9		-2.4	-1.2	
Identified debt-creating flows	-2.0	7.0	5.0			2.7	1.4	0.6	-1.7	-2.9	-2.9		-2.4	-1.2	
Primary deficit	-3.8	1.4	5.2	1.4	2.7	1.7	1.1	0.6	-0.7	-1.5	-1.7	-0.1	-1.5	-0.5	-1.1
Revenue and grants	36.0	34.2	31.0			34.0	37.1	34.2	30.7	30.9	31.0		30.7	30.0	
of which: grants	5.9	7.0	4.9			6.8	5.8	3.0	2.4	2.2	2.0		1.7	1.0	
Primary (noninterest) expenditure	32.1	35.6	36.3			35.7	38.3	34.9	30.0	29.4	29.3		29.2	29.4	
Automatic debt dynamics	1.8	5.6	2.1			2.3	0.3	0.0	-1.0	-1.4	-1.1		-0.9	-0.7	
Contribution from interest rate/growth differential	2.0	4.7	2.9			2.1	0.8	0.5	-0.3	-1.0	-0.9		-0.7	-0.5	
of which: contribution from average real interest rate	1.7	3.4	1.7			1.8	2.2	1.9	1.5	1.4	1.4		1.1	0.7	
of which: contribution from real GDP growth	0.3	1.3	1.2			0.3	-1.4	-1.4	-1.8	-2.4	-2.3		-1.8	-1.2	
Contribution from real exchange rate depreciation	-0.1	0.9	-0.8			0.3	-0.5	-0.5	-0.8	-0.5	-0.2		...	...	
Other identified debt-creating flows	0.0	0.0	-2.3			-1.3	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	-2.3			-1.3	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	3.5	0.9	-3.1			-0.3	0.3	0.3	0.3	0.0	0.0		0.0	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	66.3			68.2	69.4	70.0	68.4	65.4	62.5		49.2	33.4	
o/w foreign-currency denominated	...	...	41.2			40.7	38.9	37.5	36.1	34.7	33.4		25.9	17.0	
o/w external	...	...	41.2			40.7	38.9	37.5	36.1	34.7	33.4		25.9	17.0	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	3.3	9.0	13.1			9.3	8.8	8.0	6.4	5.3	5.0		3.8	3.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	213.4			200.8	186.8	204.4	222.7	211.6	201.4		160.2	111.6	
PV of public sector debt-to-revenue ratio (in percent)	...	...	253.2			251.1	221.7	224.2	241.6	227.5	215.6		169.9	115.6	
o/w external 3/	...	...	157.3			149.9	124.3	120.3	127.4	120.8	115.4		89.3	58.9	
Debt service-to-revenue and grants ratio (in percent) 4/	19.9	22.3	25.4			22.5	20.7	21.5	23.2	22.0	21.8		17.5	12.9	
Debt service-to-revenue ratio (in percent) 4/	23.8	28.1	30.2			28.2	24.5	23.6	25.2	23.7	23.3		18.6	13.3	
Primary deficit that stabilizes the debt-to-GDP ratio	-5.3	-6.5	3.3			-0.7	-0.6	-0.3	0.7	1.4	1.1		0.9	0.7	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	-0.6	-2.3	-1.8	2.7	3.4	-0.4	2.0	2.0	2.5	3.5	3.5	2.2	3.5	3.5	3.5
Average nominal interest rate on forex debt (in percent)	4.9	5.0	4.3	4.0	0.8	3.8	4.2	3.7	3.6	3.6	3.6	3.7	3.5	3.6	3.5
Average real interest rate on domestic debt (in percent)	3.3	8.0	2.0	3.8	3.7	4.5	3.3	2.6	1.5	1.8	2.3	2.7	2.5	1.9	2.4
Real exchange rate depreciation (in percent, + indicates depreciation	-0.5	2.7	-2.4	-0.5	3.1	0.6	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.7	-1.6	3.7	2.9	3.5	1.5	2.2	2.1	2.9	2.5	2.2	2.2	2.2	2.2	2.2
Growth of real primary spending (deflated by GDP deflator, in percer	0.0	0.1	0.0	0.1	0.1	0.0	0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	14.2	13.4	12.7	7.9	7.4	7.0	10.4	5.3	5.0	...

Sources: Country authorities; and staff estimates and projections.
1/ Gross debt of central government and nonfinancial state-owned enterprises.
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 1b.St. Vincent & the Grenadines: Sensitivity Analysis for Key Indicators of Public Debt 2011-2031

	Projections							
	2011	2012	2013	2014	2015	2016	2021	2031
PV of Debt-to-GDP Ratio								
Baseline	68	69	70	68	65	62	49	33
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	68	69	70	70	71	71	75	82
A2. Primary balance is unchanged from 2011	68	70	72	72	73	73	75	80
A3. Permanently lower GDP growth 1/	68	70	72	71	70	68	65	83
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-20	68	72	77	77	75	73	67	63
B2. Primary balance is at historical average minus one standard deviations in 2012-201	68	72	76	75	72	69	55	38
B3. Combination of B1-B2 using one half standard deviation shocks	68	72	75	74	72	69	58	47
B4. One-time 30 percent real depreciation in 2012	68	87	88	86	82	79	66	51
B5. 10 percent of GDP increase in other debt-creating flows in 2012	68	80	80	78	75	72	58	41
PV of Debt-to-Revenue Ratio 2/								
Baseline	201	187	204	223	212	201	160	112
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	201	187	205	230	229	230	244	274
A2. Primary balance is unchanged from 2011	201	188	209	236	235	235	246	268
A3. Permanently lower GDP growth 1/	201	189	209	232	224	219	210	277
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-20	201	194	223	248	241	236	217	211
B2. Primary balance is at historical average minus one standard deviations in 2012-201	201	195	223	243	232	221	179	128
B3. Combination of B1-B2 using one half standard deviation shocks	201	193	219	241	231	222	189	155
B4. One-time 30 percent real depreciation in 2012	201	235	256	279	266	255	214	172
B5. 10 percent of GDP increase in other debt-creating flows in 2012	201	214	234	255	243	233	189	137
Debt Service-to-Revenue Ratio 2/								
Baseline	23	21	21	23	22	22	18	13
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	23	21	21	23	22	23	22	28
A2. Primary balance is unchanged from 2011	23	21	22	23	23	23	21	27
A3. Permanently lower GDP growth 1/	23	21	22	24	23	23	20	25
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-20	23	21	23	25	24	24	21	21
B2. Primary balance is at historical average minus one standard deviations in 2012-201	23	21	22	24	23	23	20	14
B3. Combination of B1-B2 using one half standard deviation shocks	23	21	22	24	23	23	20	17
B4. One-time 30 percent real depreciation in 2012	23	23	27	30	28	28	25	23
B5. 10 percent of GDP increase in other debt-creating flows in 2012	23	21	23	25	23	23	21	15

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

Table 2a.: External Debt Sustainability Framework, Baseline Scenario, 2008-2031 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2008	2009	2010			2011	2012	2013	2014	2015	2016	2011-2016 Average	2021	2031	2017-2031 Average
External debt (nominal) 1/	**30.2**	**33.3**	**41.7**			**41.7**	**40.5**	**39.5**	**38.2**	**36.9**	**35.7**		**28.2**	**19.2**	
o/w public and publicly guaranteed (PPG)	30.2	33.3	41.7			41.7	40.5	39.5	38.2	36.9	35.7		28.2	19.2	
Change in external debt	0.6	3.1	8.5			0.0	-1.3	-1.0	-1.3	-1.2	-1.2		-1.3	-0.5	
Identified net debt-creating flows	9.6	16.1	15.5			14.5	11.6	10.7	9.1	6.4	4.7		5.0	5.3	
Non-interest current account deficit	**31.5**	**27.8**	**29.7**	**19.9**	**8.7**	**25.9**	**23.5**	**22.5**	**20.7**	**18.0**	**16.2**		**16.5**	**16.8**	16.6
Deficit in balance of goods and services	31.6	29.1	30.0			26.4	24.4	23.0	21.2	18.3	16.6		-28.0	-27.9	
Exports	30.1	28.6	26.8			26.8	27.1	27.8	28.4	29.3	29.8		29.8	29.8	
Imports	61.6	57.7	56.9			53.2	51.5	50.8	49.5	47.6	46.4		1.8	1.9	
Net current transfers (negative = inflow)	-1.9	-1.7	-1.5	-2.5	0.6	-1.9	-2.1	-2.1	-2.1	-2.0	-2.0		-0.5	-0.5	-0.6
o/w official	-0.6	-0.5	-0.7			-0.7	-0.7	-0.6	-0.6	-0.6	-0.6		0.0	0.0	
Other current account flows (negative = net inflow)	1.8	0.4	1.2			1.3	1.3	1.5	1.6	1.7	1.7		45.1	45.1	
Net FDI (negative = inflow)	**-22.8**	**-14.4**	**-15.0**	**-13.3**	**5.7**	**-13.1**	**-12.7**	**-12.4**	**-12.0**	**-11.6**	**-11.5**		**-11.5**	**-11.5**	-11.5
Endogenous debt dynamics 2/	**0.8**	**2.8**	**0.8**			**1.7**	**0.9**	**0.7**	**0.4**	**0.0**	**0.0**		**0.0**	**0.0**	
Contribution from nominal interest rate	1.4	1.6	1.4			1.6	1.7	1.4	1.4	1.3	1.2		1.0	0.7	
Contribution from real GDP growth	0.2	0.7	0.6			0.2	-0.8	-0.8	-0.9	-1.3	-1.2		-1.0	-0.7	
Contribution from price and exchange rate changes	-0.8	0.5	-1.2			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-9.0**	**-13.0**	**-7.0**			**-14.5**	**-12.9**	**-11.7**	**-10.4**	**-7.6**	**-5.9**		**-6.3**	**-5.8**	
o/w exceptional financing	0.0	-0.8	0.0			-0.7	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	41.2			40.7	38.9	37.5	36.1	34.7	33.4		25.9	17.0	
In percent of exports	...	...	153.4			152.0	143.5	135.0	127.2	118.6	112.2		86.9	57.2	
PV of PPG external debt	**...**	**...**	**41.2**			**40.7**	**38.9**	**37.5**	**36.1**	**34.7**	**33.4**		**25.9**	**17.0**	
In percent of exports	**...**	**...**	**153.4**			**152.0**	**143.5**	**135.0**	**127.2**	**118.6**	**112.2**		**86.9**	**57.2**	
In percent of government revenues	**...**	**...**	**157.3**			**149.9**	**124.3**	**120.3**	**127.4**	**120.8**	**115.4**		**89.3**	**58.9**	
Debt service-to-exports ratio (in percent)	**13.0**	**15.8**	**17.0**			**18.3**	**18.1**	**16.2**	**14.9**	**13.5**	**13.5**		**10.5**	**8.0**	
PPG debt service-to-exports ratio (in percent)	**13.0**	**15.8**	**17.0**			**18.3**	**18.1**	**16.2**	**14.9**	**13.5**	**13.5**		**10.5**	**8.0**	
PPG debt service-to-revenue ratio (in percent)	**13.0**	**16.5**	**17.4**			**18.0**	**15.7**	**14.4**	**15.0**	**13.7**	**13.9**		**10.8**	**8.3**	
Total gross financing need (Millions of U.S. dollars)	88.5	120.0	131.7			122.5	113.2	109.2	102.3	86.6	77.6		95.5	157.7	
Non-interest current account deficit that stabilizes debt ratio	30.9	24.7	21.3			25.9	24.8	23.5	22.0	19.2	17.4		17.8	17.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	-0.6	-2.3	-1.8	2.7	3.4	-0.4	2.0	2.0	2.5	3.5	3.5	2.2	3.5	3.5	3.5
GDP deflator in US dollar terms (change in percent)	2.7	-1.6	3.7	2.9	3.5	1.5	2.2	2.1	2.9	2.5	2.2	2.2	2.2	2.2	2.2
Effective interest rate (percent) 5/	4.9	5.0	4.3	4.0	0.8	3.8	4.2	3.7	3.6	3.6	3.6	3.7	3.5	3.6	3.5
Growth of exports of G&S (US dollar terms, in percent)	-1.0	-8.5	-4.5	0.4	5.4	1.0	5.5	6.8	7.5	9.5	7.6	6.3	5.7	5.7	5.7
Growth of imports of G&S (US dollar terms, in percent)	7.1	-9.9	0.3	7.2	8.9	-5.3	0.8	2.9	2.7	2.0	3.0	1.0	6.8	6.8	-0.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	14.2	13.4	12.7	7.9	7.4	7.0	10.4	5.3	5.0	5.3
Government revenues (excluding grants, in percent of GDP)	30.1	27.3	26.2			27.2	31.3	31.2	28.3	28.7	29.0		29.0	28.9	29.0
Aid flows (in Millions of US dollars) 7/	41.2	46.9	33.4			47.2	44.3	24.8	21.1	20.3	20.1		21.8	23.5	
o/w Grants	41.2	46.9	33.4			47.2	42.2	22.7	19.1	18.2	18.1		20.5	21.4	
o/w Concessional loans	0.0	0.0	0.0			0.0	2.1	2.1	2.1	2.1	2.0		1.3	2.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			7.4	6.3	3.5	2.7	2.4	2.3		1.9	1.2	1.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			69.2	66.6	52.2	44.7	42.2	40.7		44.7	34.6	40.9
Memorandum items:															
Nominal GDP (Millions of US dollars)	699.1	672.3	684.2			691.9	721.2	751.1	792.2	840.7	888.9		1175.0	2052.8	
Nominal dollar GDP growth	2.1	-3.8	1.8			1.1	4.2	4.1	5.5	6.1	5.7	4.5	5.7	5.7	5.7
PV of PPG external debt (in Millions of US dollars)			281.6			281.9	280.7	281.9	285.8	291.8	297.1		304.2	349.7	
(PVt-PVt-1)/GDPt-1 (in percent)						0.0	-0.2	0.2	0.5	0.8	0.6	0.3	0.2	0.5	0.2
Gross workers' remittances (Millions of US dollars)	23.5	22.4	23.2			23.2	25.3	25.8	26.3	27.0	27.6		5.9	8.5	
PV of PPG external debt (in percent of GDP + remittances)	...	...	39.8			39.4	37.6	36.3	34.9	33.6	32.4		25.8	17.0	
PV of PPG external debt (in percent of exports + remittances)	...	...	136.2			135.0	127.0	120.1	113.9	106.9	101.6		85.5	56.4	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	15.1			16.2	16.0	14.4	13.4	12.1	12.2		10.4	7.9	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and publicly guaranteed 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. The relatively large residual reflects the significant role of capital grants in financing the current account.

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

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

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

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

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

Table 2b.St. Vincent & the Grenadines: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011-2031
(In percent)

	Projections							
	2011	2012	2013	2014	2015	2016	**2021**	2031
PV of debt-to GDP ratio								
Baseline	41	39	38	36	35	33	**26**	17
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	41	32	25	20	17	16	**12**	10
A2. New public sector loans on less favorable terms in 2011-2031 2	41	40	39	38	38	37	**32**	29
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	41	40	39	38	36	35	**27**	18
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	41	42	45	44	42	41	**31**	18
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	41	40	40	38	37	35	**27**	18
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	41	45	49	47	46	44	**33**	18
B5. Combination of B1-B4 using one-half standard deviation shocks	41	44	51	49	47	46	**34**	19
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	41	55	53	51	49	47	**37**	24
PV of debt-to-exports ratio								
Baseline	152	143	135	127	119	112	**87**	57
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	152	119	90	69	58	53	**42**	33
A2. New public sector loans on less favorable terms in 2011-2031 2	152	146	141	135	129	125	**108**	97
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	152	143	135	127	119	112	**87**	57
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	152	169	202	191	179	170	**129**	74
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	152	143	135	127	119	112	**87**	57
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	152	165	175	166	156	148	**111**	61
B5. Combination of B1-B4 using one-half standard deviation shocks	152	172	205	194	182	173	**130**	72
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	152	143	135	127	119	112	**87**	57
PV of debt-to-revenue ratio								
Baseline	150	124	120	127	121	115	**89**	59
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	150	103	80	69	59	55	**43**	34
A2. New public sector loans on less favorable terms in 2011-2031 2	150	126	125	135	131	128	**111**	99
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	150	127	126	134	127	121	**94**	62
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	150	133	146	155	147	141	**107**	62
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	150	128	128	135	128	122	**95**	62
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	150	143	156	166	158	152	**114**	63
B5. Combination of B1-B4 using one-half standard deviation shocks	150	142	162	173	165	158	**119**	66
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	150	176	170	180	171	163	**126**	83

Table 2b.St. Vincent & the Grenadines: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011-2031 (continued)
(In percent)

Debt service-to-exports ratio								
Baseline	18	18	16	15	13	13	**11**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	18	18	15	13	11	11	**5**	5
A2. New public sector loans on less favorable terms in 2011-2031 2	18	18	16	14	13	12	**11**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	18	18	16	15	14	14	**11**	8
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	18	20	20	20	18	18	**16**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	18	18	16	15	14	14	**11**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	18	18	17	17	15	15	**14**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	18	19	20	19	18	18	**17**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	18	18	16	15	14	14	**11**	8
Debt service-to-revenue ratio								
Baseline	18	16	14	15	14	14	**11**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	18	15	13	13	11	11	**5**	6
A2. New public sector loans on less favorable terms in 2011-2031 2	18	16	14	14	13	12	**12**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	18	16	15	16	14	15	**11**	9
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	18	16	15	16	15	15	**14**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	18	16	15	16	15	15	**12**	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	18	16	15	17	15	15	**15**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	18	16	16	17	16	16	**15**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	18	22	20	21	20	20	**15**	12
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	-1	-1	-1	-1	-1	-1	**-1**	-1

Sources: Country authorities; and staff estimates and projections.

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

INTERNATIONAL MONETARY FUND

ST. VINCENT AND THE GRENADINES

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

October 13, 2011

Prepared By

The Western Hemisphere Department
(In collaboration with other departments)

CONTENTS

APPENDIX I. ST. VINCENT AND THE GRENADINES: FUND RELATIONS

(As of August 31, 2011)

I. Membership Status Joined 12/28/79; Article VIII

II. General Resources Account	**SDR Million**	**Percent of Quota**
Quota	8.30	100.00
Fund holdings of currency	7.80	93.98
Reserve Tranche Position	0.50	6.02

III. SDR Department	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	7.91	100.00
Holdings	0.72	9.09

IV. Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
RCF Loans	3.32	40.00
ESF RAC Loan	3.74	45.00

V. Latest Financial Arrangements: None

VI. Projected Payments to the Fund (SDR Millions)[1]

			Forthcoming		
	2011	**2012**	**2013**	**2014**	**2015**
Principal				0.37	0.75
Charges/Interest	0.01	0.04	0.04	0.04	0.04
Total	**0.01**	**0.04**	**0.04**	**0.42**	**0.79**

VII. Exchange rate arrangement: St. Vincent and the Grenadines is a member of the Eastern Caribbean Currency Union, which has a common central bank (the Eastern Caribbean Central Bank) and currency (the Eastern Caribbean dollar). Since July 1976, the Eastern Caribbean dollar has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar. St. Vincent and the Grenadines has accepted the obligations of Article VIII, Sections 2, 3, and 4. St. Vincent and the

[1] Based on existing use of resources and present holdings of SDRs.

Grenadines maintains an exchange system free of restrictions on the making of payments and transfer for current international transactions.

VIII. **Safeguards Assessment:** Under the Fund's safeguards assessment policy, the Eastern Caribbean Central Bank (ECCB), of which St. Vincent and the Grenadines is a member, is subject to a full safeguards assessment under a four year cycle. The most recent assessment was completed in July 2007, and concluded that the ECCB continues to have appropriate control mechanisms in place, which have strengthened since the first safeguards assessment completed in 2003. ECCB management places emphasis on good governance and sound controls, and has enhanced the bank's transparency and accountability since the last assessment, including the publications of financial statements that comply with International Financial Reporting Standards. The assessment made some recommendations to sustain the ECCB's safeguards framework going forward.

IX. **Article IV consultation**: The last Article IV consultation was concluded by the Executive Board on July 26, 2010; the relevant document is Country Report No. 10/184. St. Vincent and the Grenadines is on a 12-month cycle.

X. **Technical assistance (January 2006–)**: Several missions from the Caribbean Regional Technical Assistance Centre (CARTAC), the Fiscal Affairs Department (FAD), 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. CARTAC also assisted to monitor the central government's fiscal performance relative to its annual targets presented in the budget. CARTAC has provided technical assistance in statistics to develop **export-import prices, national accounts, and balance of payments statistics**. CARTAC has also provided technical assistance in the areas of collection, enforcement, and projections of public finance and GDP. On the **financial** front CARTAC provided technical assistance to review and upgrade the International Insurance Act, and to develop regulations for Credit Unions. CARTAC also provided technical assistance in conducting off-site and on-site examinations on banks in international financial services industry. FAD provided technical assistance in improving **tax administration**, including reform and modernization of both inland revenue and customs and excise tax. FAD also provided advice on selected tax policy issues and expenditure rationalization.

APPENDIX II. ST. VINCENT AND THE GRENADINES: RELATIONS WITH THE WORLD BANK GROUP

(September 6, 2011)

The World Bank Group's Management presented to its Board the Organization of the Eastern Caribbean States (OECS) Regional Partnership Strategy (RPS) on June 8, 2010. The RPS covers the five year period July 2009-June 2014. It sets forth the terms of engagement of the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA) and the International Finance Corporation (IFC) with the countries of the Eastern Caribbean, sub-regional organizations and other development partners in pursuit of the following strategic objectives: (a) building resilience; and (b) enhancing competitiveness and stimulating growth over the medium term.

To help build resilience, the Bank Group will support interventions aimed at promoting fiscal and debt sustainability, protecting and improving human capital—particularly social safety nets, education and health—and strengthening climate resilience. To help enhance competitiveness and stimulate sustainable growth, it will focus its support on two critical areas: strengthening the countries' domestic financial sectors and improving access to quality services to create more competitive business environments. The Strategy will provide urgent remedial measures to address the crippling effects of the global and regional crises, while supporting key policy reforms that establish a platform for growth in the medium term.

The planned program of support will entail new commitments totaling up to about $120 million on IBRD terms and up to $73 million of IDA financing for the six Bank Members of the OECS, including St. Vincent and the Grenadines. St. Vincent and the Grenadines is eligible to borrow from IDA and IBRD during the period of the RPS.

A. Projects

There are five active World Bank projects in St. Vincent and the Grenadines for a net commitment of approximately US$27.9 million. The OECS Disaster Vulnerability Reduction Project, which was recently approved for US$13.92 million, is not yet effective.

The **OECS E-Government for Regional Integration Program** was approved by the Board in May 2008. The loan to St. Vincent and the Grenadines was approved in December 2009 and consists of a US$2.3 million IDA Credit designed to promote the efficiency, quality, and transparency of public services through the delivery of regionally integrated e-government applications that take advantage of economies of scale. The program is structured in phases. Phase 1 focuses on cross-sectoral e-government issues, as well as on specific applications in the public finance area (including Public Financial Management or PFM, tax, customs and procurement), and also includes an e-government in health pilot project (possibly together with preparatory and complementary activities in other social and productive sectors). Subsequent phases of the program are expected to deepen the assistance provided under Phase 1, while expanding the program to cover other sectors, in particular, education, agriculture, tourism, postal, among others, that may emerge during the early stages of implementation of Phase 1.

The **Telecommunications & ICT Development Project**, approved in May 2005 for US$0.5 million, aims at improving the access, quality, and use of telecommunications and ICT services to achieve socio-economic development in the OECS. The project has four components. Component 1 will strengthen the national and regional regulatory frameworks and promote additional competition in the telecommunications sector. Emphasis will be given on providing capacity building to the Eastern Caribbean Telecommunications Authority (ECTEL) and the National Telecommunications Regulatory Commissions (NTRCs) by assisting them in revising the regional and national sector legislation, and in developing a modern interconnection regime. Component 2 will review current universal access policy, create related guidelines, and provide financial support to establish a Universal Service Fund (USF). Component 3 will improve growth and competitiveness in ICT-enabled services through utilization of broadband infrastructure. Component 4 will finance the management and administration of the overall project. The project will finance related technical assistance by providing complementary resources.

The **St. Vincent and the Grenadines Education Development Project** was approved in June 2004 for US$6.2 million. The overall objective of this project is to build human capital which, in turn, will contribute to the diversification of the economy and more sustainable growth. This objective will be achieved by: (a) increasing equitable access to secondary education; (b) improving the quality of the teaching and learning process, with more direct interventions at the school level and a focus on student-centered learning; and (c) strengthening sector management and governance of schools.

The **Hurricane Tomas Emergency Recovery Credit** was approved in January 2011 for US$5 million and aims at rehabilitating damaged infrastructure caused by the passage of Hurricane Tomas and strengthening the Government's ability to analyze location-specific risks. The project has three components. Component 1 will rehabilitate and reconstruct vulnerable and damaged infrastructure. Component 2 will improve the capacity of the Ministry of Housing, Informal Human Settlements, Lands and Surveys and Physical Planning (MoHILP) and the National Emergency Management Organization (NEMO) to evaluate natural hazard and climate change risks by training their staff and providing technical advisory services and acquisition of goods. Component 3 will strengthen and develop the institutional capacity of the Public Sector Investment Program Management Unit (PSIPMU) for project management and execution, including procurement, financial management and supervision of project activities, through the acquisition of goods, provision of technical advisory services, training, and operating costs.

The **OECS Disaster Vulnerability Reduction Project** was approved in June 2011. St. Vincent and the Grenadines will receive a total of US$20.92 million, including a US$10.92 million zero-interest credit from IDA repayable in 35 years with a 10-year grace period; a US$7 million grant from the Pilot Program for Climate Resilience (PPCR); and a US$3 million zero-interest loan from the PPCR repayable in 40 years with a 10-year grace period. The project aims to create understanding of the vulnerability of key structures and increase resilience of critical public infrastructure, which will complement the work and goals of the PPCR. Component 1 will implement a broad spectrum of interventions aimed at building resilience in public buildings and infrastructure. Component 2 will support regional efforts in the Eastern Caribbean to build capacity to conduct assessment of natural risks and integrate such knowledge into policy- and decision-making for development investments, disaster risk mitigation, climate change adaptation, and disaster response planning across sectors. Component 3 will re-categorize financing or provide additional financing to cover early recovery and rehabilitation costs following an adverse natural event, and subject to a Government's declaration of emergency in accordance with national law and the submission of a recovery action plan satisfactory to the Association. Component 4 will strengthen and develop the institutional capacity for project management and implementation.

B. Economic and Sector Work

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

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

Financial Relations

Operation	Loan	Original Principal (USD Eq)	Undisbursed Balance (USD Eq)*	Disbursed (USD Eq)*
Regional Disaster Vulnerability Reduction	IDA 49860	10,920,000.00	11,045,106.00	0.00
	PPCR	3,000,000.00	3,000,000.00	0.00
Hurricane Tomas Emergency Recovery Loan	IDA 48520	5,000,000.00	4,785,341.95	498,086.37
OECS E-Government for Regional Integration	IDA 46500	2,300,000.00	1,974,438.28	427,166.72
Telecommunications & ICT Development Project	IBRD 47780	272,161.00	173,065.56	39,095.44
	IDA 40580	270,800.00	58,751.50	261,462.50
St. Vincent and the Grenadines: OECS Education Development Project	IDA 39430	3,100,000.00	0.00	3,522,354.00
	IBRD 72430	3,100,000.00	690,070.59	2,264,112.67
Total		**27,962,961.00**	**21,726,773.88**	**7,012,277.70**

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

Disbursements and Debt Service (Fiscal Year Ending June 30, in millions of U.S. dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Total disbursements	1,459,847.28	1,726,800.63	1,196,122.03	2,480,129.15	4,549,769.20	3,057,855.20	1,478,067.40	1,776,261.24	2,503,990.18	4,308,009.91	890,690.54
Repayments	117,014.20	288,962.71	136,634.19	272,921.04	303,116.52	305,250.99	627,306.51	684,083.65	733,165.11	889,908.60	499,515.09
Net disbursements	1,342,833.08	1,437,837.92	1,059,487.84	2,207,208.11	4,246,652.68	2,752,604.21	850,760.89	1,092,177.59	1,770,825.07	3,418,101.31	391,175.45
Charges	59,216.50	72,399.51	98,467.48	126,637.69	141,163.86	259,254.26	234,506.45	158,018.43	142,999.14	151,452.17	88,751.73
Fees	6,025.03	49,486.64	26,126.05	63,794.58	71,564.58	41,351.28	101,585.78	162,355.60	168,982.55	164,038.84	85,289.56

*Data as of September 6, 2011.

APPENDIX III. ST. VINCENT AND THE GRENADINES: RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK (CDB)

(As of August, 2011)

A small open economy, St. Vincent and the Grenadines is particularly vulnerable to economic shocks and natural hazards. Since 2008, a series of such adverse exogenous shocks have caused major economic losses, weakening the country's macroeconomic position. Even as the direct impact of the global slowdown has lessened, weather-induced shocks associated with Hurricane Tomas, a severe drought and torrential rainfall and flooding in 2010 and 2011 have added to macroeconomic weaknesses.

In the aftermath of these recent disasters, CDB's assistance to the Government of Saint Vincent and the Grenadines has focused on providing grant and loan funding to assist with emergency relief and economic rehabilitation and recovery efforts. The Bank will be providing a loan of US$12.62 million (approved in July 2011) to rehabilitate and reconstruct critical infrastructure, and upgrade and improve affected emergency shelters to internationally accepted standards. The project also provides for technical assistance to the Government of St. Vincent and the Grenadines to undertake a hydraulic assessment study of major watersheds in the central and north windward region of the island, for developing standard operating procedures for disaster responses for the Ministry of Transport and Works, and for undertaking a coastal study as well as medium to long-term sea defense designs for capital works at Sandy Bay and Dark View. A substantial part of this financing is being provided on concessionary terms through the Bank's Special Development Fund.

At August 2011, cumulative loans approved by CDB to the Government and Statutory Authorities stood at US$245.3 million, of which US$218.9 million was disbursed, while total loans outstanding amounted to US$144.9 million. Of the total loans approved, US$62 million was borrowed during 2009 and 2010 under the framework for policy-based lending to help mitigate the effects of the global crisis on public finances, and to support a range of macroeconomic and financial sector reforms. Those loans have been fully disbursed.

For the year to August 2011, the disbursement of CDB financing fell-off significantly as flows normalized following the accelerated rate of disbursement in prior years. At the same time, however, CDB project operations were adversely affected by the Government's constrained fiscal position which impinged on the Government's ability to adequately provide counterpart financing. Given the lower disbursements, there was a negative net transfer of resources (that is, disbursements of loans less repayments of principal, interest and charges) between CDB and St Vincent and the Grenadines.

St. Vincent and the Grenadines: Loan Disbursement

(In millions of U.S. dollars)

	2005	2006	2007	2008	2009	2010	2011
Net disbursement	4.01	8.31	12.09	9.05	16.77	46.4	-3.76
Disbursement	7.35	11.35	15.32	13.02	21.60	52.7	1.63
Amortization	3.34	3.04	3.23	3.97	4.83	6.3	5.39
Interest and charges	2.11	2.60	3.22	3.65	3.53	3.7	3.57
Net resource flow	1.9	5.71	8.87	5.40	13.24	42.7	-7.33

APPENDIX IV. ST. VINCENT AND THE GRENADINES: STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but is broadly adequate for surveillance. Statistical databases remain weak in terms of coverage, consistency, periodicity, and timeliness. While in areas central to surveillance—notably central government accounts, indicators of the financial sector and external sector accounts—the data are adequate for surveillance purposes, information on the rest of the public sector and nonbank financial intermediaries is limited. Major improvements are needed to facilitate effective surveillance, particularly in the coverage of national accounts (especially the tourism sector and related services), and on data used to monitor labor markets. Efforts to address the weaknesses in the statistical base have been hampered by low response rates to surveys (less than 50 percent) and high turnover of staff.

National Accounts: A new rebased GDP series (using 2006 as the base year instead of 1990) was released in January 2011 with assistance from CARTAC. The new series improved coverage, data sources, and methodology. The revision disaggregated some industries previously classified under government into separate sectors that now include private sector activity; these are health, education, and social development. The new series also improved the level of detail by estimating value added for business services, computer and related services, and private households with employed persons which were not accounted for in the previous series. However, some weakness remain; data on GDP broken down by expenditure is not available at constant prices, while data at current prices is not reliable due to weaknesses in estimating gross capital formation. Private final consumption expenditure is estimated as a residual. In October 2007 CARTAC also launched a project for strengthening tourism statistics in the OECS, including St. Vincent and the Grenadines. The project covers the core tourism datasets relating to visitor arrivals, visitor expenditure, tourist accommodation and statistics for other key tourism-related enterprises. The project will also seek to standardize and harmonize tourism concepts, definitions and classification schemes across these countries.

Price statistics: A new CPI index series (with January 2010 as the base) was introduced in June 2011 with assistance from CARTAC. The new index introduced updated methods and procedures used for compiling the CPI that are in accordance with international standards and allows comparisons among the ECCU member states. The new index uses a Household Budget and Expenditure Survey (HBES) that took place in 2008, replacing the old HBES conducted in 1996, to construct an updated CPI basket. As part of the CARTAC's assistance with the new CPI index it helped link the 2001 based to the 2010-based CPI series.

Government finance statistics: Due to delays in reporting capital expenditures by some ministries, monthly revenue and expenditure data for the central government are provided to the Fund with some lag. Discrepancies exist between the fiscal and monetary accounts, between above and below the line for budget data, and between financing and debt data. The financial reports of public enterprises are not timely, with about a two-year lag.

Monetary statistics: Monetary statistics are compiled and reported to the Fund by the ECCB on a monthly basis based on a standardized report form since July 2006. The institutional coverage of monetary statistics needs to be improved by including the accounts of mortgage companies, building societies, credit unions, and insurance companies. In this respect, close coordination between the ECCB and the single regulatory unit (which will supervise financial institutions other than those licensed under the Banking Act) will be crucial.

While noting some recent improvements, the 2007 data ROSC mission identified the following main shortcomings in the ECCB's monetary statistics: (i) the methodological soundness of monetary statistics can be improved by adopting internationally accepted concepts and definitions, expanding institutional coverage, and revising the classifications of financial instruments and the basis for recording; (ii) transparency can be improved, for example, by releasing monetary data to all users at the same time and strengthening the validation of the disseminated data; (iii) the timeliness of the dissemination of data on broad money and credit aggregates can be improved to meet best international practices; and (iv) the access to officially disseminated data and metadata can be improved.

Balance of payments: Balance of payments data are compiled by the ECCB on an annual basis. Data reported to STA are becoming more timely, although quality, frequency and coverage need to be improved. Quarterly estimates and the international investment position statement are not compiled. The estimates lack sufficient detail due to the unavailability of source data, and the statistical techniques used to estimates some components are weak. In particular, no estimates are available on transportation services by type or mode of transport and of travel by purpose. Further, a breakdown of portfolio and other investment by instrument or sector is not available. There is a need to compile quarterly balance of payments estimates and the annual international investment position statement; however, developing these new statistics will have to be undertaken in conjunction with the ECCB, which coordinates the compilation of the external sector statistics for all its member countries.

External debt: The Ministry of Finance maintains a database on public and publicly-guaranteed external loans that provides detailed and current information on disbursements, debt service, and debt stocks. The Treasury maintains the data on bonds placed abroad. Data from the two databases as well as information on payments by creditor (actual and scheduled) need to be further consolidated to produce timely debt stock data.

II. Data Standards and Quality

St. Vincent and the Grenadines participates in the General Data Dissemination System since September 2000. The 2007 regional data ROSC on monetary statistics provides an assessment of the ECCB's monetary statistics. No data ROSC is available for other sectors.

III. Reporting to STA (Optional)

The International Financial Statistics page includes data on exchange rates, international liquidity, monetary statistics, prices, balance of payments, national accounts, and population. The ECCB provides the data to the IMF for publication in the Balance of Payments Yearbook. The IMF publishes annual data for the consolidated general government in the GFS Yearbook, with the 2008 edition showing annual data to 2004. No new data have been received for more recent years.

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

(As of July, 2011)

	Date of latest observation	Date received [7]	Frequency of Data [7]	Frequency of Reporting [7]	Frequency of Publication [7]
Exchange Rates[1]	Fixed Rate	NA	NA	NA	NA
International Reserve Assets and Reserve Liabilities of the Monetary Authorities [1, 2]	July 2011	09/09/11	M	M	Q
Reserve/Base Money	July 2011	09/09/11	M	M	Q
Broad Money	July 2011	09/09/11	M	M	Q
Central Bank Balance Sheet	July 2011	09/09/11	M	M	Q
Consolidated Balance Sheet of the Banking System	July 2011	09/09/11	M	M	Q
Interest Rates[3]	June 2011	08/19/11	Q	Q	Q
Consumer Price Index	June 2011	08/16/11	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4] – General Government[5]	2008	05/21/10	A	A	A
Revenue, Expenditure, Balance and Composition of Financing[4] – Central Government	July 2011	08/19/11	M	M	A
Stocks of Central Government and Central Government-Guaranteed Debt[6]	July 2011	08/19//11	M	M	A
External Current Account Balance	2010	08/17/11	A	A	A
Exports and Imports of Goods and Services	2010	08/17/11	A	A	A
GDP/GNP	2010	07/01/11	A	A	A
Gross External Debt	July 2011	08/19/11	M	M	A

[1] St. Vincent and the Grenadines is a member of the Eastern Caribbean Currency Union, in which the common currency of all member states (E.C. dollar) is pegged to the U.S. dollar at US$1=EC$2.70.

[2] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

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

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

[5] The general government consists of the central government and state and local governments.

[6] Currency and maturity composition are provided annually.

[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA); Not applicable (n.a).

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

On November 16, 2011, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with St. Vincent and the Grenadines.[1]

Background

Growth in St. Vincent and the Grenadines continues to be affected by the global slowdown through its impact on tourism and FDI. In addition, the two recent natural disasters—hurricane Tomas in October 2010 and torrential rains and floods in April 2011—have also taken a toll. After a contraction of 1.8 percent in 2010, growth in 2011 is expected to remain negative, albeit to -0.4 percent, moderated by reconstruction activity after Hurricane Tomas. Along with other donors, the Fund has provided significant emergency assistance to St. Vincent and the Grenadines to address the immediate balance of payments need arising from the impact of the global financial crisis and the two recent natural disasters.[2]

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[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 Fund provided US$5.6 million (45 percent of quota) in May 2009 under the Exogenous Shocks Facility to help mitigate the impact of the global financial crisis, US$3.26 million (25 percent of quota) under the Rapid Credit Facility (RCF) to deal with the impacts of Hurricane Tomas, and US$2.0 million (15 percent of quota) under the RCF to deal with the impact of the April 2011 torrential rains and floods.

Inflation has picked up reflecting higher international commodity prices. The pass-through from higher food and fuel prices (with a combined weight of 34 percent in the CPI) resulted in headline inflation accelerating to about 2.8 percent (y/y) by June this year compared to about ½ percent at the end of last year. Meanwhile, core inflation remained unchanged at 0.6 percent compared to December last year.

The fiscal deficit is expected to be smaller than last year, mainly reflecting cuts in capital spending to offset shortfalls in revenues and delayed disbursement of external loans. Current expenditure has been rising, in part, to mitigate the impact of the adverse shocks on the poor and vulnerable. Over the medium-term, the authorities remain committed to generating a primary surplus averaging about 2 percent of GDP. A more ambitious fiscal consolidation path would allow for a faster reduction in debt and room to build a cushion against future exogenous shocks.

Monetary aggregates remain flat, with the year-on-year growth in real private sector credit and broad money supply nearly flat as of June 2011, reflecting banks wariness to make new loans in an uncertain environment. With regard to the financial sector, non-performing loans at commercial banks in the country decreased somewhat from 8½ percent at end-December 2010 to 7½ percent at end-June 2011, but bank profitability has also been declining. NPLs remain elevated in the non-banking financial sector, although efforts are ongoing to improve performance. In order to improve supervision in the non-bank sector, the government is planning to establish the Single Regulatory Unit by year-end.

Efforts continue to help resolve the fallout from the failure of the two insurance companies, BAICO and CLICO. A Health Insurance Fund was set up to settle medical claims of BAICO's policyholders. An announcement was recently made inviting interested parties to bid for BAICO's life insurance policy portfolio and discussions are also ongoing to find a solution for BAICO's annuity holders. On CLICO, the authorities continue to work with other governments in the region to find a solution.

Executive Board Assessment

The Executive Directors noted that St. Vincent and the Grenadines' economy has been adversely affected by two natural disasters in the last twelve months, on top of the impacts of the global slowdown and higher commodity prices. As a result, real GDP has contracted and public sector debt has risen. Directors welcomed the authorities' commitment to prudent macroeconomic policies and encouraged them to press ahead with efforts to enhance the economy's resilience to shocks and foster sustainable growth.

Directors commended the authorities' intention to generate primary fiscal surpluses in the range of 2 percent of GDP by 2016 and to avoid external commercial borrowing to ensure debt sustainability. They welcomed their plans to introduce market based property taxes, strengthen revenue administration, contain the public sector wage bill, limit transfers to state owned enterprises, and rationalize spending on goods and services. While the difficult trade-offs with current pro-growth and social spending needs were recognized, many Directors noted that a more ambitious consolidation, including pension and civil service reforms, would help to build buffers against potential future shocks.

Directors underscored the need for close monitoring of both the banking and nonbank financial sectors. They noted that regional financial sector concerns could affect confidence and ultimately impact economic activity. Directors supported enhanced monitoring of cross-institution and cross-border holdings, in coordination with regional authorities. They also encouraged the authorities to expedite the establishment of the Single Regulatory Unit for the nonbank sector.

Directors highlighted the need to increase the growth potential and diversify the economy, including by improving the business climate and enhancing competitiveness. This would help to reduce the large and unsustainable current account deficit. Directors welcomed the authorities' efforts to ease access to credit and invest in infrastructure and education. They noted that technical assistance and donor support would be important to underpin the country's reform agenda.

St. Vincent and the Grenadines: Selected Social and Economic Indicators, 2006–12

	2006	2007	2008	2009	2010	Projections 2011	2012
Output and prices	(Annual percentage change, unless otherwise specified)						
Real GDP (factor cost)	6.0	3.1	-0.6	-2.3	-1.8	-0.4	2.0
Nominal GDP (market prices)	10.8	12.1	2.1	-3.8	1.8	1.1	4.2
Consumer prices, end of period[1/]	3.0	7.0	9.4	-2.2	0.5	3.1	0.5
Consumer prices, period average[1/]			10.1	0.4	0.6	2.5	1.4
Real effective exchange rate (- = depreciation)	-1.1	-3.4	-0.5	6.3	-1.3	...	...
Banking system							
Net foreign assets[2/]	-0.2	-7.7	3.1	-2.2	10.5	-7.3	-3.5
Net domestic assets[2/]	6.2	15.9	-1.7	3.6	-7.9	7.6	7.9
Credit to private sector[2/]	10.3	11.3	2.6	1.5	1.6	1.0	4.3
Central government finances	(In percent of GDP, unless otherwise specified)						
Total revenue and grants	24.5	25.1	28.4	29.7	26.9	27.3	28.0
Total expenditure and net lending	27.7	28.3	29.8	32.9	32.7	30.4	31.7
Current expenditure	21.5	20.5	22.8	25.8	28.7	26.7	26.5
Of which							
Wages and salaries	10.4	10.2	11.0	11.7	12.0	12.2	12.5
Interest	2.6	2.4	2.5	2.8	2.8	2.9	2.8
Capital expenditure	6.1	7.9	6.9	7.2	4.0	3.7	5.1
Overall balance	-3.2	-3.2	-1.4	-3.2	-5.7	-3.2	-3.7
Overall balance (excl. grants)	-3.5	-4.8	-3.7	-7.4	-7.2	-5.8	-6.3
Primary balance	-0.5	-0.8	1.1	-0.4	-2.9	-0.3	-0.8
Primary balance (excl. grants)	-0.9	-2.4	-1.3	-4.7	-4.4	-3.0	-3.5
Central government debt	58.1	45.6	46.8	50.2	55.2	56.1	57.8
External sector (in percent of GDP)							
External current account	6.7	7.5	-32.9	-29.4	-31.1	-27.6	-24.8
Of which							
Exports of goods and services	53.3	58.7	30.1	28.6	26.8	27.0	26.7
Imports of goods and services	0.0	0.0	61.6	57.7	56.9	53.6	50.7
Stayover arrivals (percentage change)	2.6	-8.1	-6.1	-9.9	-4.4	-2.0	4.0
Public sector external debt (end of period)	12.7	11.9	30.2	33.3	41.7	42.0	39.9
External public debt service							
(In percent of exports of goods and services)	13.4	12.9	13.0	15.8	17.0	18.3	18.1
Memorandum items:							
Gross public sector debt	65.1	55.5	57.0	64.9	66.8	69.2	71.0
Nominal GDP (market prices; in millions of EC$)	1,650	1,849	1,888	1,815	1,847	1,868	1,947

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

[1/] Based on the re-based (2010) CPI.

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