



ST. VINCENT AND THE GRENADINES

2014 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT

September 2015

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 2014 Article IV consultation with St. Vincent and the Grenadines, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 8, 2015, following discussions that ended on November 18, 2014, with the officials of St. Vincent and the Grenadines on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 23, 2015.
- An **Informational Annex** prepared by the IMF staff.

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

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IMF Executive Board Concludes 2014 Article IV Consultation with St. Vincent and the Grenadines

On February 6, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with St. Vincent and the Grenadines, and considered and endorsed the staff appraisal without a meeting².

St. Vincent and the Grenadines' economic recovery from the global economic crisis has been curbed by a series of significant natural disasters. These, combined with the economic downturn following the global financial crisis, have prevented the economy from returning to its long-run potential real GDP growth. Although a modest recovery had begun in 2011, it has been virtually halted by severe flooding and landslides in December 2013 that caused massive damage to infrastructure, housing and agriculture, and a severe drought in the second quarter of 2014. After an estimated 1.1 percent growth rate in 2014, growth is projected to pick up modestly to 2.1 percent in 2015 on improvements in tourism and agriculture and enhanced implementation of much-needed rehabilitation and reconstruction projects.

The overall fiscal balance is estimated to have narrowed to 4.75 percent of GDP in 2014. Part of the reason is revenue outperformance due to improvements in tax collection and significant one-off revenues. However, most of the deficit reduction is due to under-execution of the capital budget, apart from rebuilding houses for those most impacted by the floods. Domestic arrears are rising amid a tightening of domestic financing conditions, which may pose a serious headwind to economic activity.

Risks to short term growth are to the downside due to uncertainty about the authorities' capacity to implement fully the needed development projects. In the medium term, growth has upside potential as the completion of the new international airport may have a larger-than-projected impact on tourism, although significantly larger than average natural disasters are a downside risk.

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

² The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

St. Vincent and the Grenadines: Selected Social and Economic Indicators, 2010–15

	2010	2011	2012	2013	Projections			
					2014		2015	
					RCF/RFI		RCF/RFI	
Output and prices								
Real GDP (factor cost)	-2.3	0.2	1.1	2.4	1.7	1.1	2.6	2.1
Nominal GDP (market prices)	0.9	-0.7	2.5	2.3	3.4	3.7	3.6	3.1
Consumer prices, end of period	0.9	4.7	1.0	0.0	2.2	0.6	1.7	0.1
Consumer prices, period average	0.8	3.2	2.6	0.8	1.2	0.2	1.5	0.2
Banking system 1/								
Net foreign assets	10.4	-7.3	1.4	7.2	-1.4	0.0	-2.7	1.7
Net domestic assets	-7.8	7.0	5.2	1.4	5.3	4.3	6.4	1.5
Credit to private sector	1.6	3.5	3.2	1.1	1.2	1.4	2.6	2.1
Central government finances (in percent of GDP)								
Total revenue	29.0	27.9	27.0	27.3	28.3	28.3	27.2	27.2
Tax revenue	22.9	22.1	22.8	22.0	21.5	22.2	21.9	22.5
Grants	2.3	2.5	1.7	1.4	2.9	2.5	1.9	1.9
Total expenditure and net lending	32.9	31.1	29.0	33.6	34.9	33.1	32.7	32.2
Current expenditure	28.3	31.1	26.1	25.6	25.9	25.7	25.7	25.4
Wages and salaries	12.1	12.7	13.0	13.1	12.8	13.1	12.7	13.0
Interest	3.0	2.5	2.4	2.5	2.6	2.5	2.6	2.3
Capital expenditure	4.5	4.0	2.9	7.9	9.1	7.4	7.1	6.9
Overall balance	-3.9	-3.2	-2.1	-6.3	-6.7	-4.8	-5.5	-5.1
Overall balance (excl. grants)	-6.2	-5.7	-3.7	-7.6	-9.6	-7.3	-7.4	-7.0
Primary balance	-0.9	-0.7	0.3	-3.8	-4.1	-2.3	-2.9	-2.7
Primary balance (excl. grants)	-3.2	-3.2	-1.3	-5.1	-7.0	-4.8	-4.8	-4.6
External sector (in percent of GDP)								
External current account	-30.6	-29.4	-27.5	-31.3	-32.7	-29.4	-30.2	-27.6
Exports of goods and services	26.9	27.0	27.5	26.2	27.1	25.8	27.6	25.9
Imports of goods and services	57.1	55.7	57.9	59.4	61.9	56.3	59.3	53.7
Stayover arrivals (percentage change)	-3.9	1.9	0.7	-3.5	3.0	1.0	5.0	2.0
Public sector external debt (end of period)	40.8	42.2	39.8	40.0	43.4	41.2	44.6	42.5
External public debt service								
(In percent of exports of goods and services)	13.7	14.9	14.0	15.2	16.9	12.6	18.8	17.5
Memorandum items (in percent of GDP)								
Gross public sector debt	65.4	67.8	72.3	73.4	76.4	75.1	78.6	77.1
Nominal GDP (market prices; in millions of EC\$)	1,839	1,826	1,872	1,915	2,011	1,986	2,084	2,048

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

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



ST. VINCENT AND THE GRENADINES

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

January 23, 2015

KEY ISSUES

Economic outlook: St. Vincent and the Grenadines' economic recovery from the global economic crisis has been curbed by a series of significant natural disasters, while rehabilitation and reconstruction costs have pushed current account and fiscal deficits higher. After an estimated 1.1 percent growth rate in 2014, growth is projected to pick up modestly to 2.1 percent in 2015 on a pickup in tourism, agriculture and enhanced implementation of much-needed rehabilitation and reconstruction projects. Risks to short term growth are to the downside due to uncertainty about the authorities' capacity to implement fully the needed development projects. In the medium term, growth has upside potential as the completion of the new international airport may have a larger-than-projected impact on tourism, with significantly larger than average natural disasters a downside risk.

Policy Challenges: A stronger medium-term fiscal consolidation effort will be critical to build much needed fiscal space, not least in case of future natural disasters. Measures to ensure fiscal sustainability include improving the efficiency of revenue collection, eliminating domestic arrears, and reducing current spending as a share of GDP. Structural reforms, to ease the costs of doing business and increase agricultural productivity, are critical to improving competitiveness and ensuring medium-term growth and current account sustainability. Improving resilience to adverse weather events will help reduce tail risks to growth and fiscal sustainability.

Policy response to past advice: The authorities have made some progress in implementing policies previously outlined. Tax compliance has improved significantly and an arrears monitoring and management system has been developed. Progress has been limited on rationalizing tax exemptions and limiting transfers to state-owned enterprises.

Approved By
**Krishna Srinivasan and Bob
 Traa**

Discussions took place in Kingstown from November 5–18, 2014. The staff team comprised Mr. E. Canetti (head), Messrs. S. Acevedo, F. Di Vittorio and J. Reynaud (all WHD). Mr. S. Dupont, Executive Director for Canada and the ECCU, K. Dalrymple, Advisor, and Mr. R. James, from the IMF Regional Representative Office attended part of the meetings. Representatives from the ECCB and the CDB also participated in the mission as observers.

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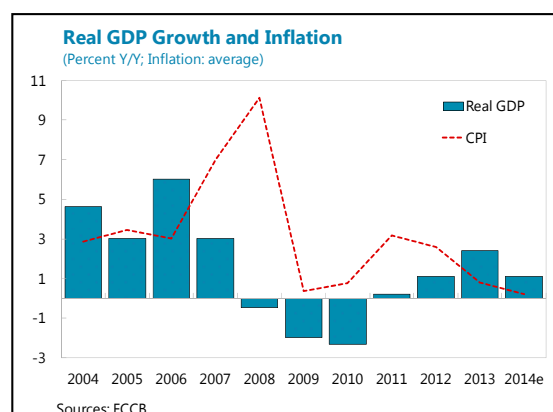
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CONTEXT

- 1. A series of weather shocks has severely impaired St Vincent and the Grenadines' economic recovery.** These, combined with the economic downturn following the global financial crisis, have prevented the economy from returning to robust growth. Although a modest recovery had begun in 2011, it has been virtually halted by severe flooding and landslides in December 2013 that caused massive damage to infrastructure, housing and agriculture, and a severe drought in the second quarter of 2014.
- 2. The Fund has provided significant emergency assistance to address the resultant balance of payments needs.** Most recently, in August 2014, the IMF's Executive Board approved a disbursement of an amount equivalent to SDR 4.15 million (US\$6.4 million), drawn equally from the Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI) at SDR 2.075 million (US\$3.2 million each).¹
- 3. Imbalances have widened due to the shocks as well as the construction of an international airport.** Imports for building the airport and for disaster reconstruction have led to a widening of fiscal and current account deficits. Combined with weak growth, this increased the public sector debt to GDP ratio by more than 20 percentage points from 2007, to 75.1 percent in 2014.

BACKGROUND

- 4. Real GDP growth is estimated to have fallen in 2014.** After a modest recovery that had brought growth to 2.4 percent in 2013, growth is estimated at 1.1 percent for 2014. Preliminary data point to an expansion of manufacturing and sectors directly supported by current government spending (health, education, public administration). Tourism has weakened and agriculture is estimated to have contracted owing to the floods and drought. The government's limited capacity to implement flood-related reconstruction projects has pushed some capital expenditures into the future, constraining the public sector's contribution to growth in 2014.

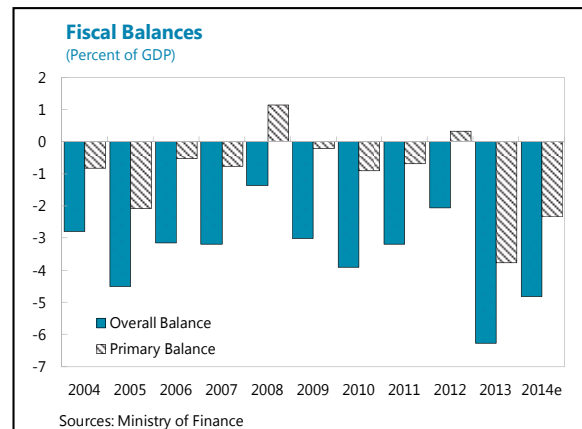


¹ In May 2009, St. Vincent and the Grenadines received assistance under the Exogenous Shock Facility (ESF-RAC) in an amount equal to 45 percent of quota (SDR 3.74 million) to help mitigate the adverse impact of the global slowdown on the economy. In February 2011, the IMF's Executive Board approved a request from the authorities for emergency assistance under the RCF for SDR2.075 million (25 percent of quota) after Hurricane Tomas. In July 2011, the Board approved a request for emergency assistance under the RCF for SDR1.245 million (15 percent of quota), following torrential rains, flooding and landslides in April 2011 (IMF Country Report No. 14/360).

Moreover, uncertainty surrounding the timing of the completion of the new airport has delayed complementary private sector investment. Risks to the GDP estimate are to the downside and hinge mainly on airport construction. These construction plans were heavily back-loaded into the fourth quarter (consistent with the phasing in 2012), but if it turns out fourth quarter construction fell short then growth could be considerably lower. Average inflation is estimated to have fallen to 0.2 percent (from 0.8 percent in 2013) despite the supply-side impact of the floods.

5. The overall fiscal balance is estimated to have narrowed to 4¾ percent of GDP in 2014 on higher-than-anticipated revenues and under-execution of the capital budget.

The revenue outperformance is due to improvements in tax collection and significant one-off revenues, such as increased import duty concessions for rebuilding. However, most of the deficit reduction is due to under-execution of the capital budget, apart from rebuilding houses for those most impacted by the floods (Text table). Capital spending is now estimated at EC\$ 147 million compared to a budgeted EC\$330 million (including a supplementary budget following the floods).



6. Nonetheless, domestic arrears are rising amid a tightening of domestic financing conditions.

The authorities were able to roll over only about EC\$21 million of a 10-year EC\$30 million bond over the summer, and at shorter average maturities. The government's accounts payable, including on VAT refunds, have continued to mount, although some of these arrears, such as subventions to statutory bodies, were expected to have been written off by the end of December. Nonetheless, by constraining cash flows for public and private enterprises, arrears may now be serving as a serious headwind to economic activity.

St. Vincent and the Grenadines: Estimated Flooding Damages, Financing and Expenditures

	Estimated losses As of May 2014		Estimated expenditures As of November 2014	
	EC\$ million	% of GDP	EC\$ million	% of GDP
Sectors	231.1	11.6	18.4	0.9
Roads, bridges and river defenses	182.4	9.2	3.6	0.2
Electricity and water	22.5	1.1	7.5	0.4
Housing	18.3	0.9	6.1	0.3
Education and health	4.9	0.2	1.3	0.1
Other	4.0	0.2	0.0	0.0
Reconstruction financing for 2014	69.4	3.5	46.7	2.4
Grants	31.7	1.6	11.2	0.6
Mexico	13.5	0.7	0	-
PetroCaribe	10.0	0.5	9	0.5
Taiwan, Province of China	3.4	0.2	2.2	0.1
Other	4.8	0.2	4.7	0.2
Loans	37.7	1.9	35.5	1.8
IMF RCF-RFI (net) 1/	15.8	0.8	15.8	0.8
World Bank	11.9	0.6	8.6	0.4
Caribbean Development Bank	10.0	0.5	11.1	0.6
<i>Memorandum items:</i>				
Nominal GDP in 2014	1,986.2			

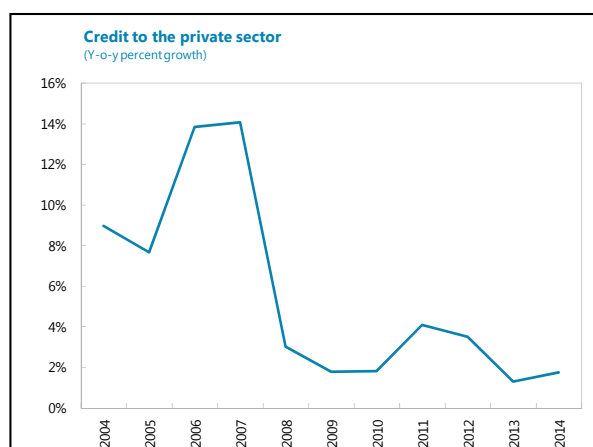
Sources: DaLA and St. Vincent and the Grenadines authorities.
1/ Repayment to the IMF of EC\$1.5 million from the 2009 ESF-RAC loan.

7. Financial soundness indicators deteriorated slightly, with the erosion concentrated in smaller banks. Non-performing loans (NPLs) rose to nearly 9 percent of total loans in 2014, Q2, although the ratio has been fairly low and stable for indigenous banks, it remains high for one foreign bank. Provisioning has declined from 34.8 percent of NPLs in 2013 to 27.2 percent in 2014 Q2. The tier 1 capital to risk weighted assets ratio was 17.8 percent (2014 Q2), well above regulatory requirements, although this masks some variation, with one bank just marginally above the minimum.

8. Credit growth remains weak.

Private sector bank credit growth fell to -0.4 percent, yoy over the first eight months of 2014, although it was partially offset by an expansion of consumer and small business lending by credit unions. There were no recent signs of a significant rise in credit costs and dollarization. The credit union sector, already with the highest rate of penetration in the ECCU (90.8 percent as of December 2013), is continuing to expand, benefiting from its income tax-free status and a reduction in lending by banks. As of January 2014, credit union assets had grown 5 percent yoy to EC\$330 million, compared to EC\$ 2122 in total bank assets at end-October 2014. The sector has been strengthened through consolidation, shrinking from eight institutions at the beginning of 2013 to four by end-2014.² At the same time, there is some risk that as credit unions expand, they will gain market share primarily in higher-risk lending categories such as mortgages and loans to small businesses, although they try to manage their risks by keeping loan maturities relatively short.

Financing Soundness Indicators (2008-2014)					
		2011	2012	2013	2014Q2
Non-performing Loans/Total Loans	VCT	7.7	7.4	8.3	8.9
	ECCU	12.8	15.2	18.3	18.6
Provisions for Loan Losses/Non-Performing	VCT	22.8	31.9	34.8	27.2
	ECCU	29.0	31.3	38.5	46.3
Liquid Assets/Current Liabilities	VCT	39.2	38.4	41.7	43.0
	ECCU	26.5	28.2	29.5	32.6
Tier 1 Capital/Risk Weighted Assets	VCT	20.0	18.4	17.9	17.8
	ECCU	16.8	16.3	11.3	9.7
Return on Average Equity	VCT	-1.7	-3.1	-2.4	0.1
	ECCU	3.4	5.7	-4.4	0.4
Return on Average Assets	VCT	0.4	1.0	0.5	0.0
	ECCU	0.7	0.7	-0.1	0.0



9. The Financial Services Authority (FSA) has closely monitored the non-bank financial sector and stabilized the Building and Loan Association (BLA) through active management of NPLs and recapitalization.³ The recapitalization entailed the conversion of matured and delinquent redeemable shares into permanent shares and the purchase of additional permanent shares by existing shareholders, so that all costs were borne by shareholders. Moreover, deposit maturities were rescheduled to improve the liquidity situation of the BLA. In 2013, the BLA made a profit, albeit modest, for the first time in several years. It remains under the enhanced supervision of the FSA. In addition, the FSA has conducted onsite examinations of all credit unions over the last two years, which has led to re-capitalization plans for three of them and to a successful process of consolidation.

² The sector is fairly concentrated, with the largest credit union having a 54 percent market share.

³ The Financial Services Authority took control of the Building and Loan Association (BLA) on February 1, 2013 due to runs on the BLA's deposits following a media rumor about its imminent collapse.

10. Progress has been made to limit the adverse consequences of the failures of the insurance companies CLICO and BAICO on local savers, but negative spillovers persist. The third and final phase of the ECCU Policyholders' Relief Program started in November 2013 and is expected to be concluded with the full receipt of funds committed by the government of Trinidad and Tobago.⁴ Despite the financial assistance provided by the ECCU governments, the magnitude of the shock on local wealth has been regarded as a significant cause of the slowdown of local private investment.

11. The current account deficit is estimated to have declined slightly in 2014 to 29.4 percent of GDP, but remains high (Box 1). The decline is due primarily to a fall in imports given lower international food and fuel prices and lower than expected implementation of capital expenditure projects. FDI inflows have fallen in parallel, resulting in lower imports of construction materials.

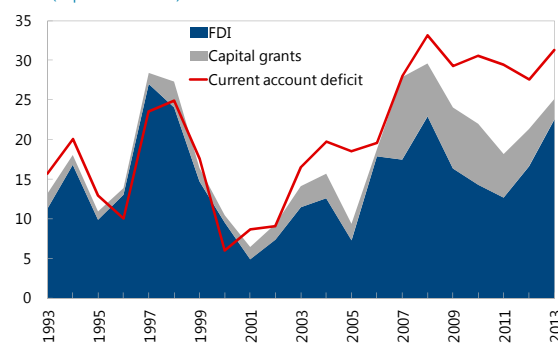
Box 1. Why is the Current Account Deficit So High?

The current account deficit in St. Vincent has increased considerably since the early 2000s, averaging about 30 percent of GDP. However, most of the deficit is financed with non-debt creating flows that historically account for 90 percent of the deficit, notably foreign direct investment (FDI) and capital grants.¹ The correlation between FDI and the current account is about 0.7, with low levels of FDI resulting in lower deficits as in 2000-01, and larger inflows of FDI fueling higher levels of imports and resulting in larger deficits.²

The construction of the new international airport has contributed to the larger deficits since 2008.

Airport construction (see Box 3) has required large imports of construction materials and equipment, cumulating so far to some EC\$100 million (2008 through October 2014), and accounting for about 1.5 percent of GDP over the last two years. Once the airport is complete, imports should decline accordingly, and the consequent expected boost to tourism and related industry exports should also help narrow the current account deficit over the medium term.

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



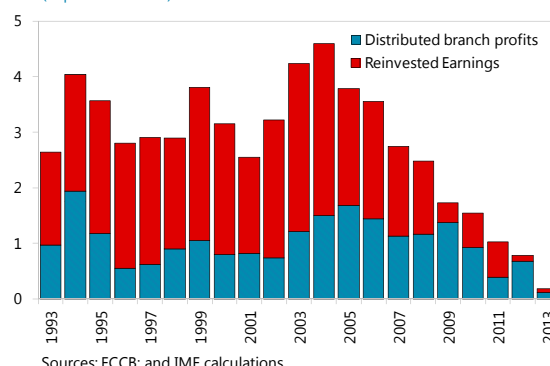
⁴ The ECCU Policyholders Relief Program was established by ECCU Governments to provide some financial assistance for individuals holding annuities issued by BAICO in exchange for the termination of their policies and the extinguishment of their relative rights. The first two phases, now completed, covered policies of EC\$30,000 or less and cost EC\$23.4 million (1.2 percent of GDP). The third phase compensates policy holders with balances over EC\$ 30,000.

Box 1. Why is the Current Account Deficit So High? (Concluded)

The increase in international oil prices until the recent swoon also played a role, contributing a third of the current account deficit since 2000, with the fuel import bill more than doubling from 2000 to 2013 to over 8 percent of GDP. The projected fuel price decline (to an average of about US\$51 per barrel) will lower the current account deficit by about 1.6 percent of GDP in 2015.

Repatriation of profits abroad has declined significantly since the onset of the global recession. Between 1993 and 2008 the return on FDI averaged 3.3 percent of GDP, but has since declined steadily to 0.2 percent of GDP in 2013. This is a consequence of the lack of recovery in the tourism sector. However, with gradual recovery in the main tourism source markets (the US, the UK, and Canada) and the opening of the new airport, the return on FDI is expected to return to historical levels by 2019.

Profit Transfers Abroad (Income on Equity)
(In percent of GDP)



¹ Between 2010 and 2012 a significant portion of the current account deficit was financed by government long term loans (in 2010) and other investments (in 2011-12).

² FDI in St. Vincent, compared to other countries, is lumpy relative to the size of the economy. The standard deviation of the FDI to GDP ratio in St. Vincent is 6.6, while the average in the world is 3.6, in other small states is 4.2 and in the ECCU is 5.4.

OUTLOOK AND RISKS

12. Economic activity is expected to recover over the medium term, in particular as the new airport becomes operational. After an estimated 1.1 percent growth rate in 2014, growth is projected to pick up modestly to 2.1 percent in 2015 on a pickup in tourism, agriculture and enhanced implementation of much-needed rehabilitation and reconstruction projects. The baseline scenario is predicated on the authorities' intention to reach a primary surplus of 2 percent of GDP by 2019. The expected recovery in tourist arrivals, in particular from North America, will help the economy to converge to a higher level of output. Investment related to tourism is expected to pick up once there is a greater degree of confidence on the timing of the airport coming into operation, currently expected by 2016 under the staff's baseline scenario. Tourism should also be boosted by an upgrading of existing tourism facilities and declining energy prices. Agriculture should also pick up, notably the banana sector as the cultivated area is expanded and mandatory certification standards for export to the UK are implemented.

13. Risks to growth are to the downside in the short term but to the upside over the medium term. In the short term, weak implementation could slow the airport and other public capital projects, although debt levels would be lower than projected. There is also a significant increase in the domestic financing requirement for 2015 that could constitute a challenge in view

of recent indicators of a reduction in appetite for domestic longer-term securities.⁵ Persistent weakness in external demand could also slow growth, as could the potential for a reduction of concessional financing associated with Venezuela's PetroCaribe arrangement. Natural disasters remain a critical source of potential shocks, but staff's baseline builds in some conservatism by incorporating past natural disasters in calculating potential output.⁶ Staff also sees its assumptions regarding the airport's impact on growth as relatively cautious.

14. The Debt Sustainability Analysis (DSA) indicates that St. Vincent's risk of external debt distress remains moderate under the baseline.⁷ The baseline assumes that the authorities generate primary surpluses averaging 2 percent of GDP over the medium term, in accordance with their policy intentions under the RCF/RFI. Capital expenditure gradually falls from 7 percent of GDP in 2015 to 5 percent in 2017 as flood rehabilitation and reconstruction winds down. Domestic arrears (which are included in domestic debt figures) gradually decline and are assumed fully eliminated by 2018. The baseline also assumes significant external and domestic financing in 2015 and 2016 to finalize the airport. Under these assumptions, public sector debt would fall to 75 percent of GDP by 2020, down from a peak of 79.1 percent in 2017 (Tables 9 and 10). This would bring St. Vincent and the Grenadines to the ECCU debt-to-GDP target of 60 percent only by 2031.

POLICY ISSUES AND RECOMMENDATIONS

A. Fiscal Policy: Creating Fiscal Space and Ensuring Debt Sustainability⁸

15. The authorities have made some progress in implementing policies outlined at the time of the RCF/RFI. Tax compliance has improved significantly, including due to the implementation of e-filing of income taxes, and an arrears monitoring and management system has been developed. The wage bill as a percent of GDP is intended to begin to decline in 2015. Progress has been limited on rationalizing tax exemptions and limiting transfers to state-owned enterprises (Text table). Under the baseline policies scenario, the authorities intend to start fiscal consolidation in 2016, once rehabilitation and

Fiscal Measures and Expected Savings: Baseline Scenario					
(In percent of GDP, policies discussed under the RCF/RFI compared to no policies)					
	2015	2016	2017	2018	2019
Revenue measures	0.3	0.5	0.8	1.1	1.4
Rationalize tax exemptions	0.1	0.1	0.1	0.2	0.3
Improve tax compliance (VAT)	0.1	0.3	0.4	0.5	0.7
Implement CED/IRD DMP 1/	0.1	0.2	0.3	0.4	0.4
Expenditure measures	0.2	0.5	0.7	1.0	1.1
Contain the wage bill	0.1	0.2	0.3	0.4	0.4
Limit transfers to SOEs	0.1	0.3	0.4	0.6	0.7
Source: Fund staff estimates					
1/ Custom and Excise Dept., Internal Revenue Dept., Data Matching Project.					

⁵ However, nearly half of the domestic financing requirement in 2015 is to clear arrears, and is intended to be met through issuing domestic government securities.

⁶ Staff outlined to the authorities an explicit disaster scenario (see below).

⁷ For the latest DSA, please refer to Country Report No. 14/360.

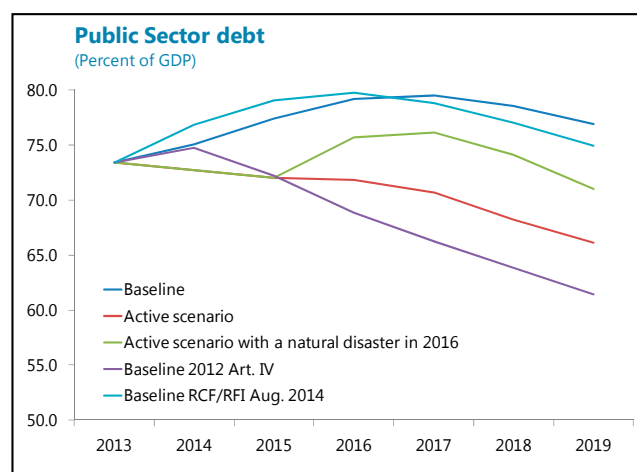
⁸ The 2015 budget (calendar year) has not yet been introduced and has not been seen by staff.

reconstruction efforts are well advanced, bringing the primary balance to a surplus of 2 percent of GDP by 2019 with a mix of revenue enhancing measures and expenditure constraint.

Measures contained in the authorities' LOI for the RCF/RFI	Progress to date
<p>Revenue measures:</p> <ul style="list-style-type: none"> i. Rationalize existing tax exemptions; ii. Implement of the recommendations of the Report on the Data Matching Project between Customs and Excise Department (CED) and the Inland Revenue Department (IRD); iii. Enhance tax compliance for the VAT; <p>Expenditure measures:</p> <ul style="list-style-type: none"> iv. Contain the wage bill by 0.4 of GDP by 2019 by restraining employment growth; v. Limit transfers to Public Corporations; vi. Implement a pension reform vii. Establish an arrears monitoring and management system. 	<p>Revenue measures:</p> <ul style="list-style-type: none"> i. Limited progress; ii. Progress at the CED, limited progress at IRD; iii. Capacity and frequency of onsite examinations and audits have been enhanced at IRD; <p>Expenditure measures:</p> <ul style="list-style-type: none"> iv. Expected to start in 2015; v. Progress on limiting subventions but limited progress on transfers; vi. Limited progress: draft legislation is ready and the government is still defining the scope of the reform; vii. Progress: establishment of a database and a tracking system.

16. Staff emphasized the need for a stronger medium-term fiscal effort to reverse the rise in the debt to GDP ratio and build much needed fiscal space. The ratio of gross public

debt as a percent of GDP has risen nearly 20 percentage points since 2007, and it will be critical to arrest and reverse that increase once the period of high capital expenditures associated with the airport and flood rebuilding ends. The criticality of the task is underscored by the risks to growth, especially from natural disasters (see below), but also due to the potential loss of the preferential arrangement on energy financing via PetroCaribe. The fiscal effort should incorporate the full clearance of government arrears, thus removing an important headwind to business activity.



17. Additional fiscal consolidation can be credibly delivered. In particular, staff recommended consolidation that would yield a primary surplus of 3 percent of GDP by 2018. This would bring forward the meeting of the ECCU debt target to 2024. Such an "active" scenario

would include bringing down the wage bill by an additional one percent of GDP beyond the baseline over the next four years, via some blend of wage and hiring restraint. In addition, staff proposed reducing transfers and subventions to public corporations by an additional ½ percent of GDP over the same period. At the same time, efforts need to be made to improve the rate of implementation of the capital budget. On revenues, there needs to be greater enforcement of existing tax laws, including ensuring that institutions that benefit from tax exempt status receive those exemptions only on those activities specifically granted under the law. Additional fiscal consolidation would be needed if a new natural disaster were to hit St. Vincent and the Grenadines. Staff and the authorities discussed a scenario in which a somewhat larger than average-sized natural disaster hits in 2016. Based on an emergency policy response in line with past experience, and an additional 0.5 percent of GDP fiscal effort, staff projected that the public debt-to-GDP ratio would reach 60 percent of GDP by 2026 instead of 2025.⁹

Fiscal Measures and Expected Savings: Active Scenario					
<small>(In percent of GDP, active policy measures compared to no policies)</small>					
	2015	2016	2017	2018	2019
Revenue measures	0.3	0.5	0.8	1.1	1.1
Rationalize tax exemptions	0.1	0.1	0.1	0.2	0.2
Improve tax compliance (VAT)	0.1	0.3	0.4	0.5	0.5
Implement CED/IRD DMP 1/	0.1	0.2	0.3	0.4	0.4
Expenditure measures	0.6	1.3	1.9	2.4	2.4
Contain the wage bill	0.4	0.7	1.1	1.4	1.4
Limit transfers to SOEs	0.1	0.4	0.5	0.7	0.8
Limit subsidies	0.1	0.2	0.3	0.3	0.3
<small>Source: Fund staff estimates</small>					
<small>† Custom and Excise Dept., Internal Revenue Dept., Data Matching Project.</small>					

18. The authorities broadly agreed on the need to build fiscal buffers and were open to considering a range of fiscal measures to do so, although they did not commit to specific timetables for adoption:

- Reducing tax exemptions: There is scope to eliminate tax exemptions on non-wage sources of income, such as rents. In addition, credit unions' exemption from corporate taxation could be limited to their core activities as originally intended, rather than being given blanket exemptions even as they expand into commercial bank-like activities.
- Increasing customs charges: Customs charges could be increased from 4 percent to 6 percent, generating an estimated EC\$ 16 million annually.

⁹ The probability of at least one damaging natural disaster over the next 5 years is estimated at 52.3 percent, with average damages calculated at 3.5 percent of GDP. However, in the context of a risk analysis, staff modeled an event that would have damages of 5.1 percent of GDP. Such a scenario assumes the government responds to the disaster with increases in capital expenditures and in transfers, subsidies and tax exemptions for affected households, in line with past experience. It also assumes donors increase grants by 0.4 percent of GDP in 2016 and 2017. The immediate impact on GDP growth would be a reduction from 3.1 percent to 2.2 percent. Under this scenario, the Government would need additional consolidation measures starting in 2018 to reach a primary surplus of 3 percent of GDP in 2019. These could include additional efforts beyond the active policies scenario to reduce the wage bill by a further 0.3 percent of GDP and increase taxes on licenses and stamp duties by an extra 0.2 percent of GDP.

- Imposing a broad hiring freeze: The authorities intend to keep the size of the civil service unchanged in 2015, with the exception of creating a small number of additional positions in the customs service and police. Wage rates are intended to remain virtually flat.
- Increase information sharing between IRD and CED: Upgrading IRD's IT system is required in order to be able to share taxpayers' information with the CED. This is expected to enhance VAT receipts.
- Enhancing the legal capacity of revenue agencies and the National Insurance Service (NIS): Revenue agencies lack the legal capacities to enforce payment of fines and judgments, while the NIS lacks the legal capacity to enforce the collection of contributions. The authorities intend to support capacity development in these agencies.
- Making self-employed contributions to the NIS compulsory: Risks to the NIS's long-term sustainability include declining contributions, a falling number of contributors and limited investment opportunities. Staff emphasized that such contributions of the self-employed should be compulsory, to recover contributors lost since the global financial crisis as more self-employed move into the informal sector. While the authorities agreed in principle, they argued that enhancing the legal capacity of the NIS was a higher priority in the short-term, to recover past-due contributions.
- Settling arrears: Clearing arrears would likely improve the culture of tax compliance in the long run. In view of arrears owed by the private sector on their tax obligations, the authorities are considering a systematic netting of obligations via exchanges of checks. Where arrears will not be cleared expeditiously in cash, the authorities would issue debt securities, as they did in 2013 and 2014.

19. Staff urged the authorities to implement recent TA recommendations to formulate a well-specified medium-term framework to anchor fiscal adjustment. While the authorities produce multiyear budget estimates, estimates for the outer years are mere incremental adjustments to current budget year figures. Staff also encouraged the authorities to explicitly incorporate the risk of future natural disasters in their framework. While the authorities agreed in principle, they did not indicate a timeframe for the implementation.

20. While welcoming the recently implemented parametric reforms of the NIS pension system, staff advocated further reforms. In particular, a separate public service pension system needs to be merged into the NIS to ease the long-term burden on public finances. The authorities agreed and intend to go forward with the reform, but noted that existing participants need to be grandfathered.

B. Improving Competitiveness and Sustaining Growth

21. The real effective exchange rate shows signs of overvaluation, but the fact that tourism is lagging behind neighboring countries in the ECCU currency union suggests other factors are at play in the country's competitiveness (Box 2). A combination of measures is needed to improve competitiveness and growth.

Box 2. Competitiveness and External Sustainability

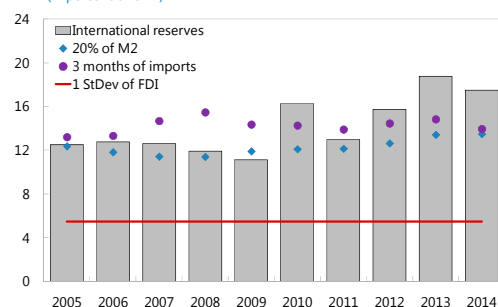
CGER-type methodologies show signs of overvaluation of the real effective exchange rate (REER). The macro-balance (MB) approach shows overvaluation of 63 percent, and the external sustainability (ES) approach indicates that stabilizing the net foreign asset position of St. Vincent would require a real depreciation of 30 percent. On the other hand, the equilibrium real exchange rate approach suggests there is no misalignment. At the ECCU level, the various CGER-type methodologies indicate the real exchange rate is overvalued by 4 to 32 percent.

However, the large overvaluation appears exaggerated.

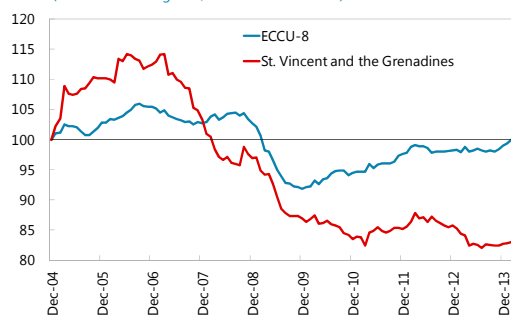
On average over the last decade, almost 80 percent of the current account deficit has been financed by non-debt creating flows, notably FDI and capital grants, with FDI not included in CGER as an explanatory variable. It is likely the deficit would be much smaller in the absence of these large inflows, as in 2000-01.

An apparent loss of competitiveness compared to the rest of the ECCU suggests the importance of factors other than the exchange rate. Tourist arrivals are still below the 2004 level in St. Vincent, while tourism has recovered almost to pre-crisis levels in the rest of the ECCU. Supply factors appear important as St. Vincent lost over 9,000 potential airline passengers per year when a major U.S. airline moved its hub from Puerto Rico to Miami, with the existing airport unable to accommodate the now larger planes required, in contrast to Caribbean destinations with larger airports.

International Reserves Adequacy
(In percent of GDP)



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



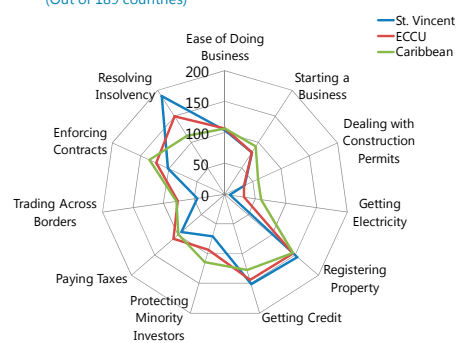
Sources: Caribbean Tourism Organization, ECCB and IMF staff calculations.

Box 2. Competitiveness and External Sustainability (Concluded)

International reserves (imputed) have remained above 3 months of imports since 2012. This is equivalent to 1 standard deviation of FDI, and 20 percent of M2. This indicates that the level of reserves is in general adequate for the proper functioning of the Vincentian economy.

St. Vincent and the Grenadines' business climate rankings have broadly lost ground, in line with the region. St. Vincent ranks 103rd out of 189 countries on the World Bank's Doing Business Indicators, compared to 61st out of 178 countries in 2007.¹ The worsening of the ranking does not necessarily reflect an absolute deterioration in the business environment, but suggests reform progress has not kept pace with the rest of the world. In particular, more efforts are needed to improve access to credit, registering property, and resolving insolvency.

Ease of Doing Business Ranks
(Out of 189 countries)



1/ The Doing Business rankings have undergone important methodological changes and increases in coverage of indicators and countries, so the comparison of rankings through time is not straightforward. Nonetheless, it gives a broad indication of a country's relative progress.

22. The authorities' growth strategy is three pronged. First, while the new airport is the linchpin of the tourism strategy (Box 3), other elements include the development of a Maritime and Hospitality Institute and the introduction of minimum standards for tourism sector operators. Second, educational services for export are being developed, including offshore medical schools (there are currently four, with a total of over 600 students) and a new Community College program to teach English as a Second Language. Third, agriculture is being revived after the recent string of natural disasters. Staff welcomed the overall strategy, further advocating fostering closer collaboration between tourism and agriculture to reduce the import needs of hotels and restaurants.

23. Staff recommended keeping labor costs in line with productivity gains to enhance competitiveness. In this context, staff welcomed the introduction of annual labor surveys starting in 2015 to track unit labor costs and productivity and inform policy decisions. Given the influence of the public sector collective bargaining agreements on private sector wages, it will be important for the government to contain wage increases.

Box 3. Estimated Economic Impact of the International Airport

The coming into operation of Argyle International Airport is likely to constitute a turning point for the Vincentian economy. Construction commenced in August 2008 and the authorities expect the airport to become operational by mid-2015. The total cost is estimated at EC\$700 million (US\$260 million), about 1/3 of 2014 GDP. The airport is expected to affect potential output directly (via higher stay-over arrivals and new tourism-related investment) and indirectly (via spillovers to construction, financial intermediation, agriculture and manufacturing).

Recent studies suggest tourist arrivals from advanced economies to small islands increase dramatically in response to the addition of direct flights. The literature (see e.g. Culiuc, 2014) shows that economic development in peripheral regions benefits extensively from direct connections to main global economic hubs. This is particularly true for small island states since the high level of competition in the tourism industry makes these countries very sensitive to the introduction of direct flights.

Staff estimates that a 1 percent growth in tourist stay-over arrivals would lead to a 0.4 percent increase in real GDP. This is despite the relatively low direct contribution of tourism to total GDP (6.2 percent of GDP in 2013), since the total economic contribution of tourism to GDP is estimated to be considerably higher (26.2 percent). This is consistent with estimated results for other Caribbean islands (see Croes, 2011, and Ridderstaat, Croes and Peter, 2013). In turn, staff estimated in a simple regression model that a 1 percent change in tourist arrivals would lead to a 1.6 percent increase in tourism value added. The results are robust to different econometric specifications.

Staff anticipates that the airport could increase tourist arrivals by 10 percent yearly over the three years following its completion, with a cumulative impact on real GDP up to 4.2 percent. Based on discussions with air carriers, the authorities expect to add up to eight direct flights: six from North America and two from Europe. In order to account for downside risks, staff's assumption was considerably more conservative, with one direct weekly flight added in each of 2015, 2016, and 2017. While growth in stay-over arrivals may be curbed by a limited supply of rooms and delays in construction projects, historical data suggest there is potential to accommodate up to a 38 percent increase in tourist arrivals with the current room capacity.

References:

Culiuc, A., (2014). Determinants of International Tourism. IMF Working Paper, 14/82.

Croes, R. (2011). Measuring and Explaining Competitiveness in the Context of Small Island Destinations. *Journal of Travel Research*, 50 (4).

Ridderstaat, J., Croes, R., and Nijkamp, P., (2013). Tourism and Long-run Economic Growth in Aruba. *International Journal of Tourism Research*, 16 (5).

24. It is important to reduce the cost of energy to maintain competitiveness. The high cost of energy is related primarily to the difficulties of achieving economies of scale in power generation, particularly in a multi-island context. For the most part, the full costs of imported

energy are passed on to consumers so that price signals are effectively transmitted to end users, and the plant and equipment used to generate electricity is reportedly fairly modern and efficient. Thus, the main prospect for reducing the cost of energy appears to be the development of alternative energy sources, most notably geothermal, which is currently under active study (hydroelectricity is expected to remain an important part of the energy generation mix). At the moment, the scope for solar power and natural gas appears to be limited until more cost effective methods of production are developed, while staff agreed with the authorities' view that the potential for switching to liquefied natural gas (LNG) for electricity generation is currently limited, given the lack of infrastructure in the region. Staff welcomed the authorities' actions to explore geothermal generation and promote the use of solar energy, and anticipate that, if implemented, the authorities' energy action plan could cut electricity prices by almost ½ in the medium term.

25. Staff welcomed initiatives to ease the costs of doing business and increase training for small and medium-sized enterprises. The customs department has implemented the ASYCUDA World platform to adopt a risk-based management system. This should help reduce clearance times and reduce costs of enforcement. However, staff urged the authorities' to continue streamlining clearance times as they increased during the transition period. In addition, there is need for legislation to codify and unify procurement procedures, in order to give businesses greater certainty and a more level playing field.

26. The authorities agreed with staff on an urgent need to speed up the execution of the Banana Accompanying Measures (BAM) project to significantly increase productivity in the agricultural sector. The program, sponsored by the EU, focuses on increasing banana, fruit, vegetable and livestock production by improving the agricultural infrastructure, promoting commercial production and marketing activities, expanding access to credit, promoting good land use practices and environmental management, developing agro-business incubators and strengthening public-private partnerships in the agro-business value chain. Implementation has been very slow (only EC\$2 m have been spent out of EC\$35 m) because of procurement delays.

C. Building Climate Resilience

27. St. Vincent and the Grenadines is likely to experience more natural disasters due to climate change. Small island states are more vulnerable to natural disasters than other countries. Moreover, the effects of climate change will be felt more strongly in small islands such as St. Vincent and the Grenadines that have large portions of their populations and infrastructures on the coastline.

28. Accordingly, staff welcomed the authorities' emphasis on measure to mitigate and adapt to climate change, and urged them to increase insurance coverage (Box 4). In addition to ongoing programs supported by the World Bank and the Caribbean Development Bank, the authorities are developing programs to improve emergency response capabilities and enhance the robustness of physical infrastructure (e.g. bridges, coastal and river defenses and slope stabilization). Also, the government is relocating houses where necessary, enforcing compliance

with building codes and rezoning areas found to be at risk. The authorities purchased additional insurance from the Caribbean Catastrophe Risk Insurance Facility (CCRIF).¹⁰ However, they expressed some reservations about purchasing further insurance, noting that the parametric nature of the insurance means that some potentially devastating events might not be covered.¹¹

Box 4. The Economic Impact of Climate Change in St. Vincent and the Grenadines

On current trends, average global temperatures are expected to increase by over 2°C by the end of this century, leading to rising sea levels, higher intensity and devastation of hurricanes, and more severe droughts and floods. These changes are of particular concern for small islands that have most of their population and infrastructure on the coastline.

The likely increase in hurricane intensities will exacerbate the impacts of disasters, resulting in lower growth rates, and higher debt levels. On average, a severe natural disaster in the ECCU (defined as one that affects more than 1 percent of the population) is estimated to reduce growth by close to 2 percent of GDP the year the disaster strikes, and increase debt by about 5 percentage points over 5 years (Acevedo 2014).

Coastal erosion is already a significant issue in St. Vincent and the Grenadines, and will get worse with rising sea levels. It is estimated that in parts of the country as much as 1.5 meters per year are already lost to the sea. Much of the road network and population, and an estimated 90 percent of buildings are near the coastline, as are tourism facilities, which are vulnerable to rapid beach erosion. The costs of relocation to safer areas are likely prohibitive.

St. Vincent and the Grenadines derives many economic benefits from its forests and mountains; however, there have been no systematic efforts to measure them.¹² These include that mountain catchments are used to store water and to distribute it using gravity, resulting in the lowest water tariffs in the ECCU. Additionally, about 20 percent of electricity generation is from hydroelectricity. However, these benefits are being impaired by changing weather patterns, with a longer dry season and a rainy season with fewer rainy days but of higher intensity. Furthermore, the higher frequency of natural disasters has slowed forest regeneration, negatively impacting the water cycle.

Although it is difficult to quantify the current benefits of the ecosystem, and the potential costs of disrupting it, it is clear that climate change could impose a significant cost on St. Vincent and the Grenadines. Hence, adaptation and mitigation measures, and building physical resilience, are vitally important for growth and development.

Reference: Acevedo, 2014, "Debt, Growth, and Natural Disasters: A Caribbean Trilogy," IMF Working Paper 14/125.

¹⁰ CCRIF only recently started offering coverage for excessive rainfall events, which the authorities purchased in 2014. However, the coverage would have fallen far short of the actual damages in December 2013, with the maximum payout in case of excessive rain being only US\$0.8 million.

¹¹ For example, a slow-moving tropical storm would probably not be covered, even though it might cause considerably more damage than a fast-moving level one hurricane.

¹² The Ministry of Agriculture plans to partner with the FAO to conduct a study to quantify the economic benefits that the country derives from its forests.

D. Supporting Financial Sector Development

29. The FSA has played a critical role in stabilizing the Building and Loan Association (BLA), but continued vigilance is needed. The authorities point to initial successes in the unfreezing of deposits and the turning of a profit by the BLA as significant steps on the path to its full regularization. Nonetheless, they recognize that NPLs remain high at EC\$61 million (as of November 2014) out of EC\$280 million of total assets, and that there is an urgent need to improve the credit administration process.

30. Staff welcomes the consolidation of the credit union sector and encourages the FSA to enhance supervision. Credit unions perform meaningful social roles for their members, as demonstrated by their high rate of penetration in St Vincent and the Grenadines. The FSA has actively promoted consolidation of the credit union sector in order to improve efficiency and stability through economies of scale and diversification of the deposit base. On the other hand, the expansion of the credit unions' role in financial intermediation, often at the expense of banks, requires improvements in risk-based supervision to adequately address credit unions' risk profiles and minimize systemic financial risk. In particular, the FSA should evaluate whether it is appropriate for credit unions to engage in noncore activities such as business lending, given that they are afforded certain benefits vis-à-vis commercial banks, notably, exemption from corporate income taxes.¹³ The FSA noted that it has been paying closer attention to credit unions, conducting onsite examinations on all of them over the last two years as input into the recapitalization and consolidation process.

31. Staff welcomed the Authorities' intention to fully support the creation of the Eastern Caribbean Finance Service Authority (ECFSA). The regional authority, which is expected to become fully operational in 2015, will supervise insurance companies and pension funds within the region. In addition, staff advocated the formation of a credit bureau to reduce lending institutions' costs of due diligence, thereby facilitating access to credit.

32. The authorities have reiterated their support for the regional bank resolution and restructuring strategy. They also concurred with staff that potential risks to financial stability from banking sector challenges in other ECCU members should be closely monitored.

OTHER ISSUES

33. 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

¹³ Credit unions were given this exemption because they were often the sole source of financing for disadvantaged communities whose members had few assets and were unable to prove their creditworthiness. However, they increasingly are competing with banks in a wider array of activities.

the obligations 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.

34. Data provision and quality needs to be improved. Data provision has significant shortcomings in some areas, although it is broadly adequate for surveillance. Data relating to central government accounts is generally adequate and available on a monthly basis. However, there is a lack of timely and adequate data on the operations of state-owned enterprises that hampers the compilation of consolidated general government accounts. Monetary data and banking sector soundness indicators are available but with long lags and there are significant gaps in data for the nonbank financial sector. There are also significant lags in the availability of national accounts data and there is no systematic reporting of labor market indicators, which hampers an assessment of real sector developments. Balance of payments data suffer from significant weaknesses, especially capital account data, and data on the international investment position, which is critical given the large external liabilities, is not available.

STAFF APPRAISAL

35. After three years of modest recovery, growth is estimated to have been sluggish in 2014, with downside risks to the estimate. High debt levels and the currency board arrangement limit the scope for stimulative policy responses, which, combined with weaknesses in financial sector balance sheets, continue to weigh on growth in the near term. However, growth should pick up over the medium term, reflecting both an increase in demand from tourism source countries and an alleviation of the supply constraint upon the completion of the airport. That said, a greater sense of urgency is needed with actual pro-active fiscal policy measures to bolster confidence, and structural reforms aimed at improving competitiveness, will be critical to support sustainable growth.

36. The fiscal balance is estimated to be better than expected for 2014, but will remain in deficit for a longer period than anticipated. The 2014 improvement is due in part to higher-than-anticipated revenues, but mostly to under-execution of flood-related capital projects for which implementation will now be pushed into the outer years.

37. Progress continues in implementing the government's policies outlined at the time of the RCF/RFI, disbursed in August. Tax compliance has improved significantly while an arrears monitoring and management system has been developed. The wage bill as a percent of GDP is intended to begin to decline in 2015. Given uncertainties about the degree to which tax compliance will improve, the authorities should twin their intent to virtually freeze the size of the civil service with tight wage constraints. Progress to date has been limited in rationalizing tax exemptions and limiting transfers to state-owned enterprises. If fully implemented, staff projects that these sets of measures would yield a primary surplus of 2 percent of GDP by 2019.

38. A stronger medium-term fiscal consolidation effort would be critical to build much needed fiscal space and bring forward the achievement of the ECCU's debt-to-GDP target. While there is considerable scope for the new airport to raise growth, it would be imprudent to

place too much reliance on such a growth boost as the primary strategy for reducing debt ratios. Additional fiscal measures relative to the baseline that include bringing down the wage bill by an additional one percent of GDP, reducing transfers and subventions to public corporations by one-half percent of GDP, and better enforcing existing tax laws should be implemented to yield a primary surplus of 3 percent of GDP by 2018. Under this scenario, the ECCU debt target would be met by 2025, instead of 2031 in the authorities' baseline scenario. There is also a need for a more credible and well specified medium-term fiscal framework to serve as an anchor for fiscal adjustment efforts.

39. Further reforms to the NIS are necessary. Contributions from the self-employed should be compulsory, a reform that is already in process. In addition, government employees receiving pension benefits in both the NIS and the government employees' pension plan is unsustainable and reforms will be needed, although current participants should be grandfathered.

40. Ongoing efforts to improve the business and investment climate should be complemented with reforms aimed at promoting economic diversification. Efforts to foster entrepreneurship through training and facilitating the availability of finance should be complemented with the formation of a credit bureau to facilitate lending institutions' credit decisions by reducing the costs of their due diligence. Additional structural reforms could help diversify the economy by strengthening links between tourism and other sectors, for instance through efforts to improve the marketing of agricultural produce. In addition, procurement legislation is needed to assure businesses of a more level playing field.

41. A key challenge is to alleviate the high cost of energy in St. Vincent and Grenadines. While energy pricing policy appears broadly appropriate and electricity generation efficient given the difficulties of achieving economies of scale in a small, multi-island country, the authorities should actively explore the potential for expanding the scope of alternative energies, notably geothermal.

42. Building resilience against natural disasters is an imperative given that their intensity is likely to increase due to climate change. The authorities' development and implementation of programs to improve emergency response capabilities, and to enhance the robustness of physical infrastructure, must be prioritized (and accelerated where possible) to build up resilience in those areas most subject to setbacks from future natural disasters. In addition, further insurance coverage should be considered.

43. The FSA has taken steps to improve financial sector soundness, but high NPLs remain a concern. Staff encourages the authorities to support the regional efforts to resolve banking problems within the ECCU.

44. The quality of data should be improved. This will require a greater focus on institutional strengthening of the central statistical office, as well as greater enforcement of its

legal authority to collect data and greater accountability of reporting agencies. The IMF stands ready to provide further technical assistance in this area.

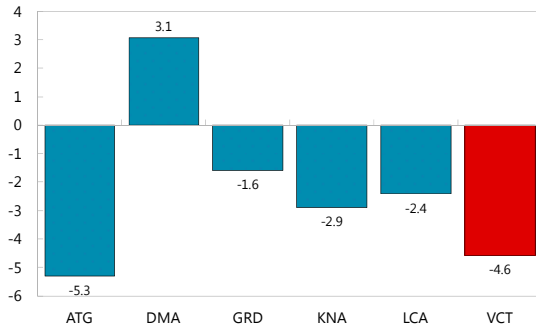
45. It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

Figure 1. St. Vincent and the Grenadines: Regional Comparison, 2009–13

A wave of exogenous shocks has severely affected St Vincent and the Grenadines' economic recovery over the last years.

Real GDP

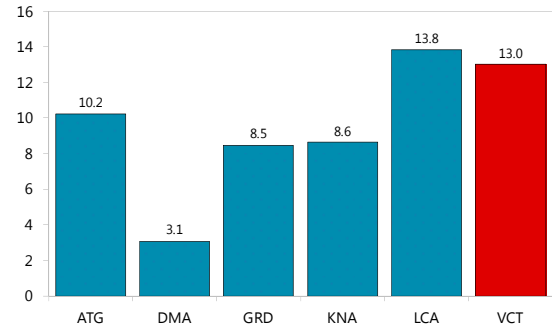
(Cumulative change 2009-2013, in percent)



Sources: ECCB; and IMF staff calculations.

Inflation

(Cumulative change 2007-2011, in percent)

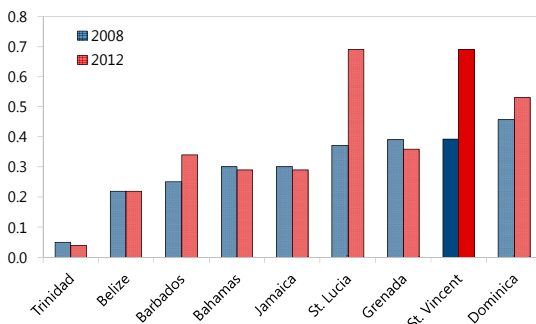


Sources: ECCB; and IMF staff calculations.

Competiveness has been affected by high electricity tariffs

Electricity Tariffs in the Caribbean

(US\$ cents per Kwh)

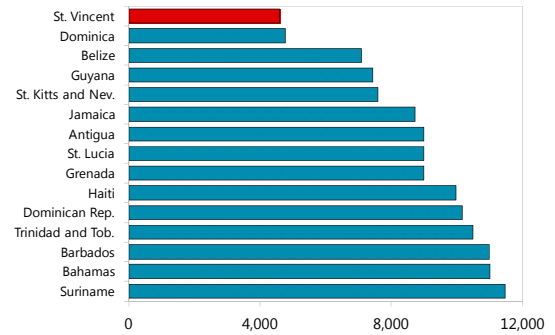


Sources: Respective Country Power Companies and CARILEC.

... and limited airport capacity

Airport Capacity

(Runway length in feet)

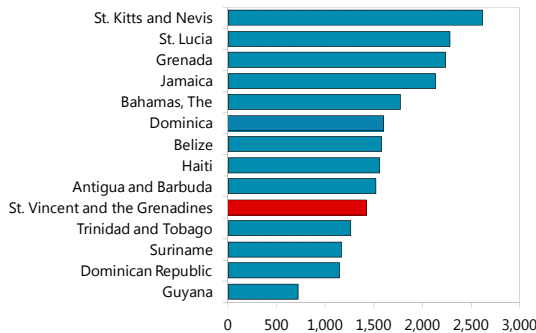


Sources: www.azworldairports.com

Although import costs have been improving...

Import Costs, 2012-13

(US\$ per 20 foot container)

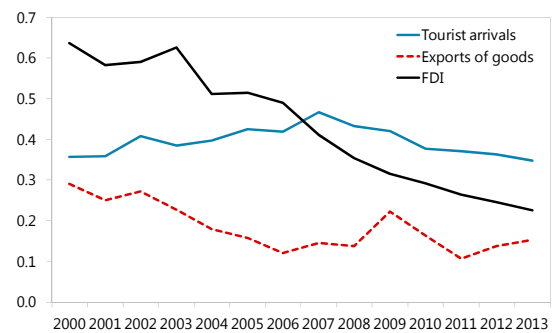


Sources: World Bank, Doing Business Indicators.

... market shares are still on the decline.

Market Shares with respect to the Caribbean

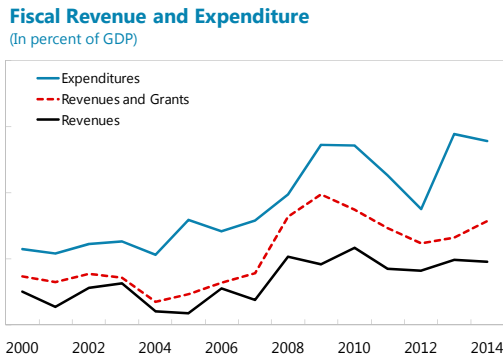
(In percent)



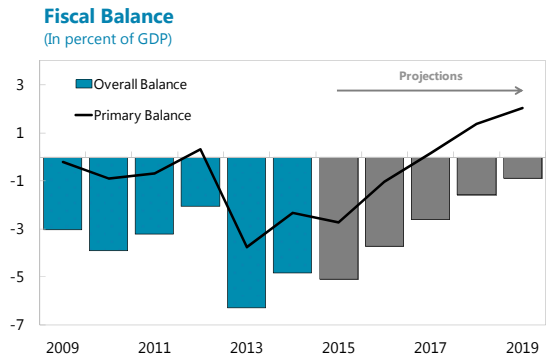
Sources: Caribbean Tourism Organization, UNCTAD Statistics, and IMF staff calculations.

Figure 2. St. Vincent and the Grenadines: Fiscal Developments, 2000–13

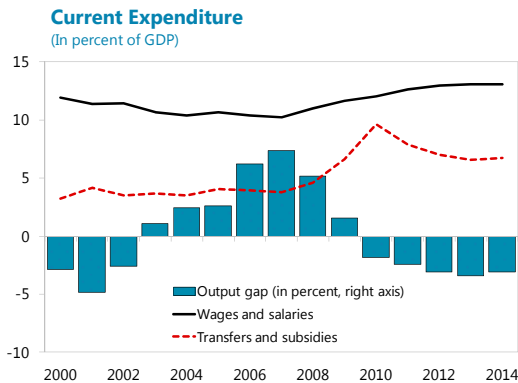
Revenue has been on the decline while expenditures were mostly driven upward by exogenous shocks.



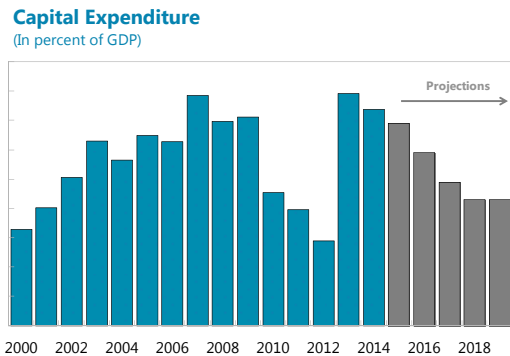
As a result, and with the large expenditure relating to the construction of the airport, the overall deficit is growing.



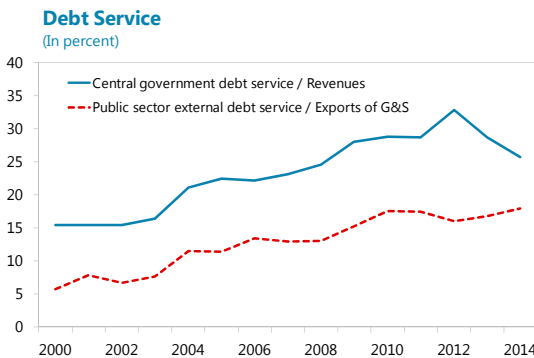
Current expenditures have increased...



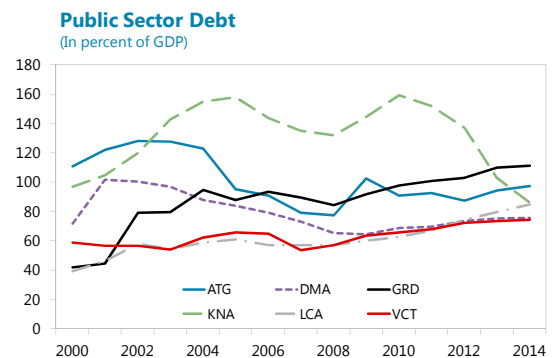
...while the finalization of the airport is pushing capital expenditure to historical levels.



Debt service is growing...



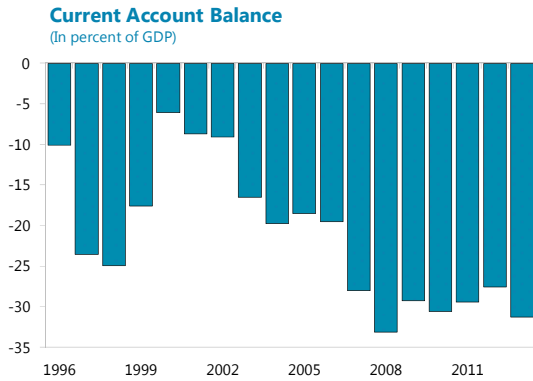
...as debt levels are mounting, although VCT's debt-to-GDP ratio is the lowest in the ECCU.



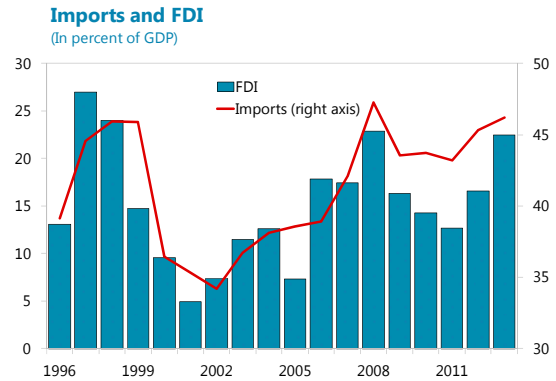
Source: St. Vincent and the Grenadines authorities, and IMF staff estimates.

Figure 3. St. Vincent and the Grenadines: External Sector Indicators, 1996–2013

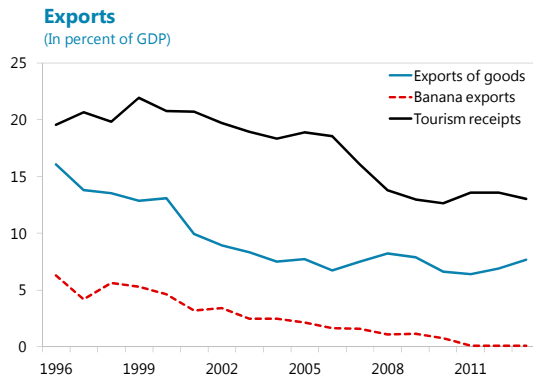
The current account deficit remains high...



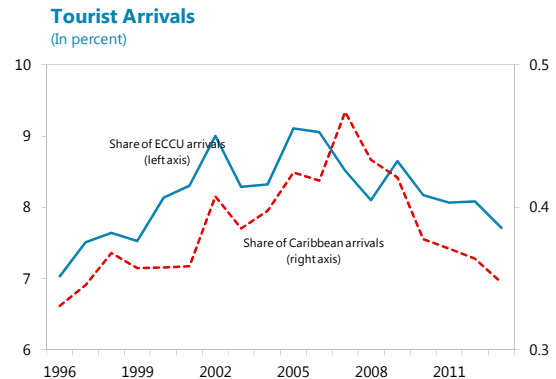
...on the back of large FDI inflows that result in high imports of goods.



Exports of goods and services continue to decline...



...with the tourism sector still not having recovered from the crisis.

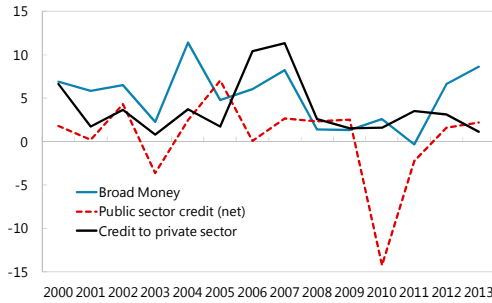


Source: ECCB, St. Vincent and the Grenadines authorities, and IMF staff calculations.

Figure 4. St. Vincent and the Grenadines: Monetary Developments, 2000–13

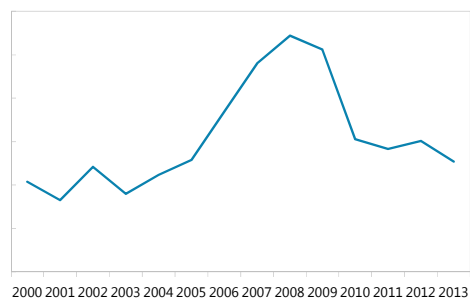
Credit to the private sector is sluggish...

Broad Money and Credit Growth 1/
(In percent, 12 month change in percent of M2)



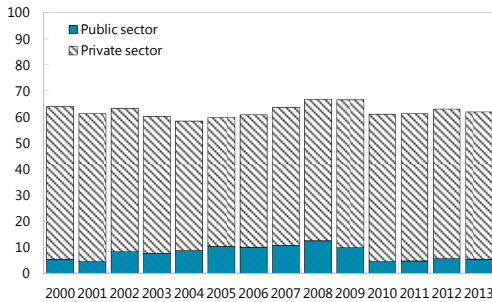
... and lending activity has been declining as a percentage of total deposits.

Loans to Deposits Ratio 3/
(In percent)



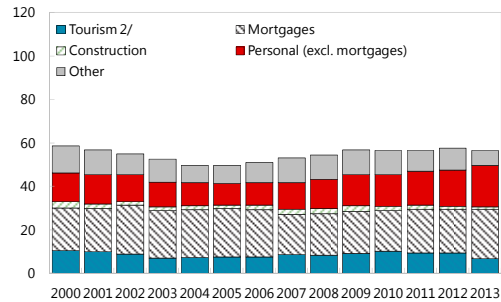
Banks have reduced their exposure to the public sector...

Distribution of Credit
(In percent of GDP)



...but consumer loans extended by banks are growing.

Private Sector Credit by Economic Sector
(In percent of GDP)



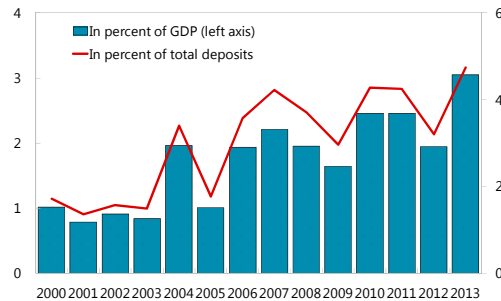
Private sector deposits continue to grow...

Private Sector Deposit Growth 3/
(In percent, y-o-y)



...including foreign-currency denominated deposits.

Foreign-Currency Denominated Deposits
(In percent)



Source: ECCB; and Fund staff calculations.

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

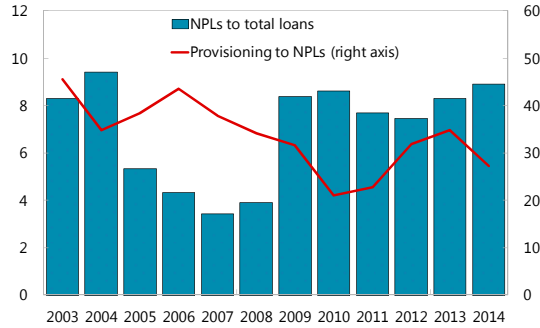
2/ Includes tourism, entertainment, and half of transport, distributive trade and professional services.

3/ Data up to December 2013.

Figure 5. St. Vincent and the Grenadines: Banking System Vulnerabilities, 2003–14^{1/}

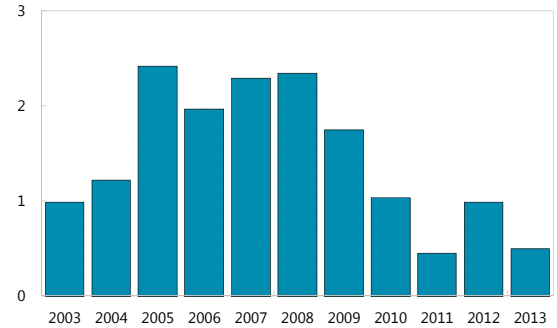
Despite a growing NPL ratio, provisioning has recently declined...

Non performing Loans (NPLs) and Provisioning
(In percent)



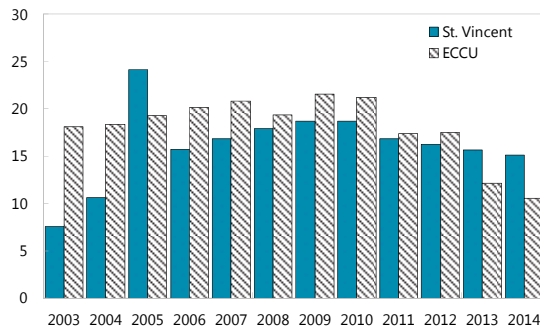
...while profitability of the banking sector continues to fall.

Return on Average Assets
(In percent)



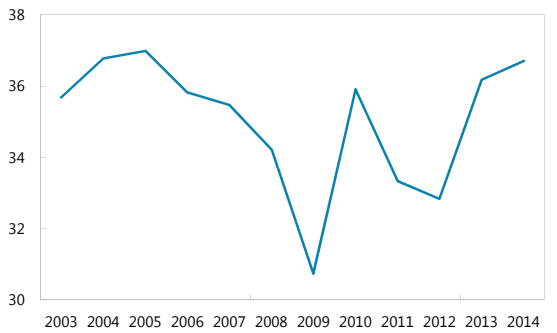
However, banks continue to be well capitalized...

Total Capital to Risk-Weighted Assets
(In percent)



...and liquid

Liquid Assets to Total Assets
(In percent)



Source: ECCB; and Fund staff calculations.

^{1/} Data for the second quarter of 2014.

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

Social and Demographic Indicators								
Area (sq. km)	389.0				Adult literacy rate (percent, 2001)			89.0
Population					Health and nutrition			
Total (thousands, 2011)	109.3				Calorie intake (per capita a day, 2004)			2,660
Rate of growth (percent per year, 2011)	0.03				Population per physician (thousand, 2004)			1.2
Density (per sq. km., 2011)	281.0				AIDS incidence rate (per 100,000, 2005)			32
Population characteristics (2010)					Gross domestic product (2010)			
Life expectancy at birth (years)	72.1				(millions of US dollars)			681
Infant mortality (per thousand live births)	19.2				(millions of EC dollars)			1,839
Under 5 mortality rate (per thousand)	21.2				(US\$ per capita)			6,224
					Projections			
					2014		2015	
					RCF/RFI		RCF/RFI	
					(Annual percentage change, unless otherwise specified)			
Output and prices								
Real GDP (factor cost)	-2.3	0.2	1.1	2.4	1.7	1.1	2.6	2.1
Nominal GDP (market prices)	0.9	-0.7	2.5	2.3	3.4	3.7	3.6	3.1
Consumer prices, end of period	0.9	4.7	1.0	0.0	2.2	0.6	1.7	0.1
Consumer prices, period average	0.8	3.2	2.6	0.8	1.2	0.2	1.5	0.2
Banking system 1/								
Net foreign assets	10.4	-7.3	1.4	7.2	-1.4	0.0	-2.7	1.7
Net domestic assets	-7.8	7.0	5.2	1.4	5.3	4.3	6.4	1.5
Credit to private sector	1.6	3.5	3.2	1.1	1.2	1.4	2.6	2.1
Central government finances (in percent of GDP)								
Total revenue	29.0	27.9	27.0	27.3	28.3	28.3	27.2	27.2
Tax revenue	22.9	22.1	22.8	22.0	21.5	22.2	21.9	22.5
Grants	2.3	2.5	1.7	1.4	2.9	2.5	1.9	1.9
Total expenditure and net lending	32.9	31.1	29.0	33.6	34.9	33.1	32.7	32.2
Current expenditure	28.3	31.1	26.1	25.6	25.9	25.7	25.7	25.4
Wages and salaries	12.1	12.7	13.0	13.1	12.8	13.1	12.7	13.0
Interest	3.0	2.5	2.4	2.5	2.6	2.5	2.6	2.3
Capital expenditure	4.5	4.0	2.9	7.9	9.1	7.4	7.1	6.9
Overall balance	-3.9	-3.2	-2.1	-6.3	-6.7	-4.8	-5.5	-5.1
Overall balance (excl. grants)	-6.2	-5.7	-3.7	-7.6	-9.6	-7.3	-7.4	-7.0
Primary balance	-0.9	-0.7	0.3	-3.8	-4.1	-2.3	-2.9	-2.7
Primary balance (excl. grants)	-3.2	-3.2	-1.3	-5.1	-7.0	-4.8	-4.8	-4.6
External sector (in percent of GDP)								
External current account	-30.6	-29.4	-27.5	-31.3	-32.7	-29.4	-30.2	-27.6
Exports of goods and services	26.9	27.0	27.5	26.2	27.1	25.8	27.6	25.9
Imports of goods and services	57.1	55.7	57.9	59.4	61.9	56.3	59.3	53.7
Stayover arrivals (percentage change)	-3.9	1.9	0.7	-3.5	3.0	1.0	5.0	2.0
Public sector external debt (end of period)	40.8	42.2	39.8	40.0	43.4	41.2	44.6	42.5
External public debt service (In percent of exports of goods and services)	13.7	14.9	14.0	15.2	16.9	12.6	18.8	17.5
Memorandum items (in percent of GDP)								
Gross public sector debt	65.4	67.8	72.3	73.4	76.4	75.1	78.6	77.1
Nominal GDP (market prices; in millions of EC\$)	1,839	1,826	1,872	1,915	2,011	1,986	2,084	2,048

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

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

Table 2a. St. Vincent and the Grenadines: Authorities Baseline Scenario, Summary of Central Government Operations, 2010–19

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

	2010	2011	2012	2013	Projections					
					2014	2015	2016	2017	2018	2019
Total revenue and grants 1/	533.0	509.0	504.6	522.9	562.2	556.5	591.6	617.7	652.8	693.1
Current revenue	490.1	439.0	446.5	462.6	506.6	510.8	543.8	576.6	614.6	653.1
Tax revenue	421.5	388.7	404.4	420.6	441.7	460.3	490.6	521.0	556.3	592.2
<i>Of which</i>										
Taxes on income and profits	108.8	114.4	122.4	111.3	122.0	125.8	133.7	142.3	153.7	165.5
Taxes on property	2.9	2.8	2.7	4.0	4.1	4.4	4.7	5.0	5.4	5.8
Taxes on international trade	178.4	172.6	173.0	170.6	176.0	183.4	194.8	204.9	218.2	231.7
<i>Of Which: VAT</i>	74.1	71.2	69.1	68.4	69.4	72.6	77.4	80.9	86.5	92.2
Taxes on domestic transactions	131.3	98.9	106.4	134.7	139.6	146.8	157.5	168.8	179.0	189.2
<i>Of Which: VAT</i>	62.5	61.1	64.9	62.3	63.7	67.3	72.1	77.3	83.0	88.9
Non-tax	68.6	50.3	42.0	41.9	64.9	50.5	53.2	55.6	58.3	60.9
<i>Of which</i>										
Fees, Fines and Permits	21.5	17.7	17.8	17.6	20.2	20.8	21.8	22.8	23.9	24.9
Interest, Rent and Dividends	13.5	11.2	10.9	7.1	20.8	11.2	11.7	12.2	12.8	13.4
Other Revenue	33.6	21.5	13.3	17.3	23.9	18.5	19.7	20.6	21.6	22.6
Capital Revenue	0.9	10.4	5.2	34.3	6.6	6.8	7.1	7.5	7.8	8.2
<i>Of which: Sale of crown lands</i>	0.9	1.4	1.1	29.6	1.0	1.0	1.1	1.1	1.2	1.2
Grants	42.1	45.1	30.9	26.0	49.0	38.9	40.6	33.5	30.5	31.8
<i>Of which: Floods related</i>					19.9					
Total expenditure and net lending 1/	604.9	567.7	543.1	643.1	658.1	660.1	670.6	675.3	691.3	716.9
Current	521.4	495.2	488.9	491.3	511.4	519.3	545.0	566.2	591.0	612.2
<i>Of which</i>										
Wages and salaries 2/	221.8	231.2	242.9	250.9	259.8	265.8	275.5	285.9	297.3	310.7
Interest	55.3	46.0	44.4	47.9	49.6	48.1	57.6	61.6	69.0	71.6
Domestic	33.9	23.4	23.3	29.4	30.5	28.4	34.0	37.6	43.9	45.1
Foreign	21.5	22.6	21.1	18.5	19.1	19.6	23.6	24.0	25.1	26.5
Transfers and subsidies	177.1	143.6	131.2	126.3	133.4	134.7	137.9	141.4	143.7	147.2
Goods and services	67.2	74.3	70.5	66.1	68.6	70.8	73.9	77.3	81.0	82.7
Capital expenditure	83.5	72.5	54.2	151.8	146.7	140.8	125.7	109.1	100.2	104.7
<i>Of which: Floods related</i>					9.7	24.9	21.7	15.5	6.2	
<i>Of which: Airport related</i>					77.6	55.5	24.5			
Current balance (before grants)	-31.3	-56.1	-42.4	-28.7	-4.8	-8.5	-1.2	10.4	23.5	40.9
Overall balance	-71.9	-58.7	-38.5	-120.1	-95.8	-103.6	-79.1	-57.6	-38.4	-23.8
Overall balance (excl. grants)	-114.0	-103.8	-69.4	-146.1	-144.8	-142.5	-119.7	-91.2	-68.9	-55.6
Primary balance	-16.6	-12.6	5.9	-72.2	-46.3	-55.5	-21.5	3.9	30.6	47.8
Primary balance (excl. grants)	-58.7	-57.8	-25.0	-98.2	-95.3	-94.4	-62.1	-29.6	0.1	16.0
Identified financing	71.9	58.5	38.5	120.1	95.8	103.6	79.1	57.6	38.4	23.8
Net external financing	149.9	17.8	8.7	54.3	74.4	49.0	59.0	34.9	28.3	29.9
Disbursements	202.2	70.4	76.6	112.8	122.3	99.4	113.1	87.3	75.2	73.3
Amortization	52.2	52.5	67.8	58.6	47.9	50.4	54.1	52.3	46.9	43.4
Change in government assets	-12.0	-6.0	-4.0	-5.5	-6.6	-6.3	-6.3	-6.3	-6.3	-6.3
Net domestic financing 3/	-134.1	5.8	-2.8	61.1	-1.3	90.9	56.3	51.3	16.5	0.2
SDR Allocation	28.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Sale of Equity (privatization proceeds)	42.0	8.9	0.0	17.2	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	23.0	17.6	36.6	-6.9	12.0	-30.0	-30.0	-22.3	0.0	0.0
Financing gap 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	3.0	14.3	0.0	0.0	17.3	0.0	0.0	0.0	0.0	0.0
IMF	0.0	14.3	0.0	0.0	17.3	0.0	0.0	0.0	0.0	0.0
CCRIF	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:					<i>In percent of Revenue and Grants</i>					
Wage and salaries	41.6	45.4	48.1	48.0	46.2	47.8	46.6	46.3	45.5	44.8
Transfers and subsidies	33.2	28.2	26.0	24.2	23.7	24.2	23.3	22.9	22.0	21.2
Goods and services	12.6	14.6	14.0	12.6	12.2	12.7	12.5	12.5	12.4	11.9
Capital expenditure	15.7	14.2	10.7	29.0	26.1	25.3	21.2	17.7	15.4	15.1
Stock of arrears (in million of EC\$)	23.0	40.7	77.3	70.3	82.3	52.3	22.3	0.0	0.0	0.0

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

1/ From 2010 to 2013, total revenues and expenditures and their sub-components do not add-up due to inconsistencies in the data provided by authorities.

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

3/ Includes other non-banking sector domestic financing.

4/ For 2010 and 2011, exceptional financing was used to close the financing gap at the end of the year and are included in the line Net External Financing - Disbursements.

Table 2b. St. Vincent and the Grenadines: Authorities Baseline Scenario, Summary of Central Government Operations, 2010–19
(In percent of GDP, unless otherwise stated)

	2010	2011	2012	2013	Projection					
					2014	2015	2016	2017	2018	2019
Total revenue and grants 1/	29.0	27.9	27.0	27.3	28.3	27.2	27.7	27.6	27.8	28.3
Current revenue	26.6	24.0	23.9	24.2	25.5	24.9	25.4	25.8	26.2	26.7
Tax revenue	22.9	21.3	21.6	22.0	22.2	22.5	22.9	23.3	23.7	24.2
<i>Of which</i>										
Taxes on income and profits	5.9	6.3	6.5	5.8	6.1	6.1	6.3	6.4	6.6	6.8
Taxes on property	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on international trade	9.7	9.4	9.2	8.9	8.9	9.0	9.1	9.2	9.3	9.5
<i>Of Which: VAT</i>	4.0	3.9	3.7	3.6	3.5	3.5	3.6	3.6	3.7	3.8
Taxes on domestic transactions	7.1	5.4	5.7	7.0	7.0	7.2	7.4	7.5	7.6	7.7
<i>Of Which: VAT</i>	3.4	3.3	3.5	3.3	3.2	3.3	3.4	3.5	3.5	3.6
Non-tax	3.7	2.8	2.2	2.2	3.3	2.5	2.5	2.5	2.5	2.5
<i>Of which</i>										
Fees, Fines and Permits	1.2	1.0	1.0	0.9	1.0	1.0	1.0	1.0	1.0	1.0
Interest, Rent and Dividends	0.7	0.6	0.6	0.4	1.0	0.5	0.5	0.5	0.5	0.5
Other Revenue	1.8	1.2	0.7	0.9	1.2	0.9	0.9	0.9	0.9	0.9
Capital Revenue	0.0	0.6	0.3	1.8	0.3	0.3	0.3	0.3	0.3	0.3
<i>Of which: Sale of crown lands</i>	0.0	0.1	0.1	1.5	0.1	0.1	0.1	0.1	0.1	0.1
Grants	2.3	2.5	1.7	1.4	2.5	1.9	1.9	1.5	1.3	1.3
<i>Of which: Floods related</i>					1.0					
Total expenditure and net lending 1/	32.9	31.1	29.0	33.6	33.1	32.2	31.4	30.2	29.5	29.3
Current	28.3	27.1	26.1	25.6	25.7	25.4	25.5	25.3	25.2	25.0
<i>Of which</i>										
Wages and salaries 2/	12.1	12.7	13.0	13.1	13.1	13.0	12.9	12.8	12.7	12.7
Interest	3.0	2.5	2.4	2.5	2.5	2.3	2.7	2.8	2.9	2.9
Domestic	1.8	1.3	1.2	1.5	1.5	1.4	1.6	1.7	1.9	1.8
Foreign	1.2	1.2	1.1	1.0	1.0	1.0	1.1	1.1	1.1	1.1
Transfers and subsidies	9.6	7.9	7.0	6.6	6.7	6.6	6.4	6.3	6.1	6.0
Goods and services	3.7	4.1	3.8	3.5	3.5	3.5	3.5	3.5	3.5	3.4
Capital expenditure	4.5	4.0	2.9	7.9	7.4	6.9	5.9	4.9	4.3	4.3
<i>Of which: Floods related</i>					0.5	1.2	1.0	0.7	0.3	
Airport related					3.9	2.7	1.1			
Current balance (before grants)	-1.7	-3.1	-2.3	-1.5	-0.2	-0.4	-0.1	0.5	1.0	1.7
Overall balance	-3.9	-3.2	-2.1	-6.3	-4.8	-5.1	-3.7	-2.6	-1.6	-1.0
Overall balance (excl. grants)	-6.2	-5.7	-3.7	-7.6	-7.3	-7.0	-5.6	-4.1	-2.9	-2.3
Primary balance	-0.9	-0.7	0.3	-3.8	-2.3	-2.7	-1.0	0.2	1.3	2.0
Primary balance (excl. grants)	-3.2	-3.2	-1.3	-5.1	-4.8	-4.6	-2.9	-1.3	0.0	0.7
Identified financing	3.9	3.2	2.1	6.3	4.8	5.1	3.7	2.6	1.6	1.0
Net external financing	8.2	1.0	0.5	2.8	3.7	2.4	2.8	1.6	1.2	1.2
Disbursements	11.0	3.9	4.1	5.9	6.2	4.9	5.3	3.9	3.2	3.0
Amortization	2.8	2.9	3.6	3.1	2.4	2.5	2.5	2.3	2.0	1.8
Change in government assets	-0.7	-0.3	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Net domestic financing 3/	-7.3	0.3	-0.2	3.2	-0.1	4.4	2.6	2.3	0.7	0.0
Sale of Equity (privatization proceeds)	2.3	0.5	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	1.3	1.0	2.0	-0.4	0.6	-1.5	-1.4	-1.0	0.0	0.0
Financing gap 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.2	0.8	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.8	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0
CCRIF	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Gross Public sector debt (in percent of GDP)	65.4	67.8	72.3	73.4	75.1	77.1	78.8	79.1	78.1	76.5
Net Public sector debt (in percent of GDP)	62.4	64.8	69.4	69.5	70.8	72.7	73.5	73.2	72.0	70.6
Central government debt service to revenues excluding grants	25.8	25.2	28.8	26.3	23.7	24.2	25.4	24.6	23.5	22.0
Stock of arrears (in percent of GDP)	1.3	2.2	4.1	3.7	4.1	2.6	1.1	0.0	0.0	0.0
GDP at market prices (EC\$ millions)	1,839	1,826	1,872	1,915	1,986	2,048	2,139	2,237	2,345	2,450

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

1/ From 2010 to 2013, total revenues and expenditures and their sub-components do not add-up due to inconsistencies in the data provided by authorities.

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

3/ Includes other non-banking sector domestic financing.

4/ For 2010 and 2011, exceptional financing was used to close the financing gap at the end of the year and are included in the line Net External Financing - Disbursements.

**Table 3. St. Vincent and the Grenadines: Authorities Baseline Scenario, Central Government
Gross Cash Flow Statement, 2010–19**

(In millions of Eastern Caribbean dollars, unless otherwise stated) 1/

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
						Projections				
Deposits at beginning of the period	139.7	139.7	139.7	139.7	139.7	139.7	139.7	139.7	139.7	139.7
Gross cash inflows	270.2	117.1	119.1	191.1	151.6	190.3	169.5	142.5	122.3	121.2
Primary surplus			5.9					3.9	30.6	47.8
Domestic debt placement		5.8		61.1		90.9	56.4	51.3	16.5	0.2
External debt placement	202.2	84.7	76.6	112.8	139.6	99.4	113.1	87.3	75.2	73.2
Arrears accumulation	23.0	17.6	36.6		12.0					
Asset sales	42.0	8.9		17.2						
Other	3.0									
Gross cash outflows	270.2	117.1	119.1	191.1	151.6	190.3	169.5	142.6	122.2	121.3
Primary deficit	16.6	12.6		72.2	46.3	55.5	21.5			
Interest payments	55.3	46.0	44.4	47.9	49.6	48.1	57.6	61.6	69.0	71.6
Domestic debt amortization	134.1		2.8		1.3					
External debt amortization	52.2	52.5	67.8	58.6	47.9	50.4	54.1	52.3	46.9	43.4
Arrears payments				6.9		30.0	30.0	22.3		
Asset purchases	12.0	6.0	4.0	5.5	6.6	6.3	6.3	6.3	6.3	6.3
Other										
Net cash flow	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposits at end of period	139.7	139.7	139.7	139.7	139.7	139.7	139.7	139.7	139.7	139.7
<i>Memorandum items</i>										
Nominal GDP	1,839	1,826	1,872	1,915	1,986	2,048	2,139	2,237	2,345	2,450
Overall fiscal balance	-71.9	-58.5	-38.5	-120.1	-95.8	-103.6	-79.1	-57.6	-38.4	-23.8
Stock of debt	1,019	1,055	1,146	1,209	1,299	1,439	1,555	1,641	1,686	1,716
Domestic	364	373	487	501	500	591	647	698	715	715
External	655	682	659	708	800	849	908	943	971	1,001
Arrears	23.0	40.7	77.3	70.3	82.3	52.3	22.3	0.0	0.0	0.0
<i>In percent of GDP</i>										
Deposits	7.6	7.6	7.5	7.3	7.0	6.8	6.5	6.2	6.0	5.7
Overall fiscal balance	-3.9	-3.2	-2.1	-6.3	-4.8	-5.1	-3.7	-2.6	-1.6	-1.0
Stock of debt	55.4	57.8	61.2	63.1	65.4	70.3	72.7	73.3	71.9	70.0
Domestic	19.8	20.4	26.0	26.2	25.2	28.8	30.2	31.2	30.5	29.2
External	35.6	37.4	35.2	37.0	40.3	41.4	42.4	42.1	41.4	40.8
Arrears	1.3	2.2	4.1	3.7	4.1	2.6	1.0	0.0	0.0	0.0

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

1/ Debt placements and amortizations are net, but that the authorities are working on providing gross flow data.

Table 4. St. Vincent and the Grenadines: Authorities Baseline Scenario, Balance of Payments Summary, 2010–19

	2010	2011	2012	Prel. 2013	2014	2015	Projection			2019
	(In millions of Eastern Caribbean dollars)									
Current account	-562	-537	-516	-599	-583	-566	-544	-512	-496	-490
Trade balance	-682	-672	-719	-738	-712	-693	-696	-692	-691	-694
Exports f.o.b.	122	117	129	147	154	154	159	167	177	184
Imports f.o.b.	804	789	848	885	866	848	854	860	868	878
<i>Of which: Mineral fuels 1/</i>	118	140	178	140	141	100	102	104	107	110
Services (net)	126	149	150	102	106	125	154	189	216	245
Travel	193	212	217	211	211	217	235	258	283	309
Other nonfactor services	-67	-64	-67	-110	-106	-92	-81	-68	-66	-64
Income payments (net)	-33	-35	-10	0	-20	-40	-47	-55	-67	-87
Current transfers	27	21	64	37	42	43	44	46	45	46
Net private transfers	29	27	34	26	32	32	32	33	32	33
Net official transfers	-2	-6	30	12	11	11	12	13	13	13
Capital and financial account	617	479	571	692	568	593	586	591	584	602
Capital	148	104	92	53	94	59	44	37	34	36
Financial (net)	469	375	479	639	474	534	542	554	550	566
Official capital	141	32	-35	102	40	49	27	6	-2	7
Commercial banks	-17	19	42	-21	-15	5	5	5	5	5
Net Foreign Direct Investment	262	231	311	431	324	347	376	407	410	415
Others	82	92	161	127	125	133	133	136	137	139
Errors and omissions	14	-4	1	-29	0	0	0	0	0	0
Overall balance	68	-62	57	65	-15	27	42	79	88	111
Available financing	-68	62	-57	-65	15	-27	-42	-79	-88	-111
Change in ECCB NFA	-68	62	-57	-65	15	-27	-42	-79	-88	-111
Change in net imputed reserves (increase -)	-96	62	-57	-65	15	-27	-42	-79	-88	-111
of which: IMF purchases and disbursements 2/	0	-14	0	0	-16	3	4	4	9	7
Change in SDR Allocation	28	0	0	0	0	0	0	0	0	0
Change in medium- and long-term net liabilities	0	0	0	0	0	0	0	0	0	0
Change in govt. foreign assets	0	0	0	0	0	0	0	0	0	0
Other financing	0	0	0	0	0	0	0	0	0	0
	(In percent of GDP, unless otherwise stated)									
Memorandum items:										
Current account	-30.6	-29.4	-27.5	-31.3	-29.4	-27.6	-25.4	-22.9	-21.2	-20.0
Exports f.o.b.	6.6	6.4	6.9	7.7	7.8	7.5	7.4	7.5	7.5	7.5
Imports f.o.b.	43.7	43.2	45.3	46.2	43.6	41.4	39.9	38.4	37.0	35.8
Net private transfers	1.6	1.5	1.8	1.3	1.6	1.6	1.5	1.5	1.4	1.3
Foreign direct investment	14.3	12.7	16.6	22.5	16.3	17.0	17.6	18.2	17.5	16.9
Tourism receipts	12.7	13.6	13.6	13.0	12.6	12.6	13.0	13.5	14.0	14.6
Terms of Trade of Goods and Services	126	122	124	122	123	138	136	136	137	140
Total trade of goods and nonfactor services	84.0	82.7	85.4	85.6	82.0	79.6	78.5	77.7	76.5	75.6
Exports of goods and nonfactor services	26.9	27.0	27.5	26.2	25.8	25.9	26.6	27.6	28.1	28.6
Imports of goods and nonfactor services	57.1	55.7	57.9	59.4	56.3	53.7	51.9	50.1	48.4	46.9

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

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

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

Table 5. St. Vincent and the Grenadines: Authorities Baseline Scenario, Monetary Survey, 2010–15

	2010	2011	2012	2013	Projection	
					2014	2015
(In millions of Eastern Caribbean dollars)						
Net foreign assets	474	393	409	494	494	516
ECCB	299	237	295	359	344	371
<i>Of which: Imputed reserves</i>	299	237	295	359	344	371
Commercial banks	175	156	114	135	150	145
Net domestic assets	640	717	775	792	847	867
Public sector credit (net)	-68	-93	-75	-49	-14	10
Central government	22	44	50	61	60	109
ECCB	-17	5	-18	-11	-11	-11
Commercial banks	39	40	67	72	71	120
Net credit to rest of public sector	-90	-137	-124	-110	-75	-99
National Insurance Scheme	-72	-88	-87	-68	-68	-68
Other	-18	-49	-37	-42	-7	-31
Credit to private sector	960	999	1,034	1,048	1,066	1,095
Net credit to nonbank financial institutions	7	28	17	16	17	18
Other items (net)	-252	-190	-184	-207	-222	-255
Broad money (M2)	1,114	1,110	1,184	1,286	1,341	1,383
Money	346	331	361	374	389	402
Currency in circulation	51	47	44	48	49	51
Demand deposits	289	276	311	320	334	344
EC\$ Cheques and Drafts issued	6	9	6	6	6	6
Quasi-money	768	779	823	912	952	981
Time deposits	129	140	154	136	142	147
Savings deposits	594	594	633	717	749	772
Foreign currency deposits	45	45	36	58	61	63
(Annual percentage change)						
Net foreign assets	31.4	-17.1	4.0	20.9	-0.1	4.5
Net domestic assets	-11.7	12.1	8.1	2.2	7.0	2.3
Credit to private sector	1.8	4.1	3.5	1.3	1.7	2.7
Broad money (M2)	2.6	-0.3	6.6	8.6	4.2	3.1
Money	-3.8	-4.1	8.9	3.7	4.0	3.3
Quasi-money 1/	5.7	1.3	5.7	10.8	4.4	3.1
(Contribution to M2 growth)						
Net foreign assets	10.4	-7.3	1.4	7.2	0.0	1.7
Net domestic assets	-7.8	7.0	5.2	1.4	4.3	1.5
Public sector credit (net)	-14.2	-2.2	1.6	2.2	2.7	1.8
<i>Of which: Central government</i>	-9.7	2.0	0.5	1.0	-0.1	3.6
Credit to private sector	1.6	3.5	3.2	1.1	1.4	2.1
Other items (net)	4.8	5.6	0.5	-1.9	-1.2	-2.5
Memorandum item:						
Income velocity 2/	1.7	1.6	1.6	1.5	1.5	1.5

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

1/ Including resident foreign currency deposits.

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

Table 6. St. Vincent and the Grenadines: Authority Baseline Scenario, Indicators of External and Financial Vulnerability, 2008–14

(Annual percentage changes, unless otherwise specified)

	2008	2009	2010	2011	2012	2013	2014
External indicators							
Merchandise exports	11.4	-6.7	-15.7	-3.5	10.0	13.9	...
Merchandise imports	14.2	-10.6	1.3	-1.8	7.4	4.4	...
Terms of trade deterioration (-)	-20.1	23.3	-14.3	-3.5	1.5	-1.3	...
Tourism earnings	-12.7	-8.8	-1.5	6.4	2.7	-1.9	...
Banana export earnings	-29.8	3.6	-35.0	-86.8	29.4	-3.1	...
Current account balance (in percent of GDP)	-33.1	-29.2	-30.6	-29.4	-27.5	-31.3	...
Capital and financial account balance (in percent of GDP) 1/	32.7	29.9	34.3	26.0	30.6	34.7	...
<i>Of which</i>							
Foreign direct investment (in percent of GDP)	22.9	16.3	14.3	12.7	16.6	22.5	...
Gross international reserves of the ECCB							
In millions of U.S. dollars	759.0	800.8	926.1	1,007.6	1,124.7	1,169.1	1,362.1 (Oct.)
In percent of broad money	17.0	17.8	20.2	21.3	22.9	22.7	25.3 (Oct.)
Net imputed reserves							
In millions of U.S. dollars	82.9	75.2	110.8	87.8	109.1	133.1	139.5 (Oct.)
Commercial banks' net foreign assets (in millions of U.S. dollars)	59.7	58.6	64.9	57.8	42.3	50.0	41.7 (Oct.)
External public debt (in percent of GDP)	30.1	31.9	40.8	42.2	39.8	40.0	...
External debt service (in percent of exports of goods and services)	13.0	12.7	13.7	14.9	14.0	15.2	...
<i>Of which</i>							
Interest	4.8	5.3	4.9	5.4	4.5	5.1	...
Nominal exchange rate (EC\$ per US\$, end period)	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Real effective exchange rate depreciation (-), end period	-0.5	6.3	-2.2	-3.9	6.1	-1.8	...
Financial indicators							
Broad money	1.4	1.4	2.6	-0.3	6.6	8.6	7.0 (Oct.)
Credit to the private sector	3.0	1.8	1.8	4.1	3.5	1.3	-1.4 (Oct.)
Prudential indicators (in percent)							
Regulatory capital to risk-weighted assets	17.9	18.7	18.7	16.8	16.2	15.7	15.3 (Sept.)
Nonperforming loans net of provisions to capital	31.7	23.7	15.8	20.9	19.0	24.2	43.8 (Sept.)
Nonperforming loans to total loans	3.9	8.4	8.6	7.7	7.4	8.3	8.7 (Sept.)
General government loans to total loans	23.1	17.5	8.7	8.5	9.7	9.0	9.2 (Sept.)
Return on assets	2.3	1.8	1.0	0.4	1.0	0.5	-0.3 (Sept.)
Liquid assets to total assets	34.2	30.7	35.9	33.3	32.8	36.2	36.2 (Sept.)
Spread between reference lending and deposit rates	6.8	6.2	6.2	6.2	6.6	6.8	6.8 (Sept.)
Total loans to total deposits	87.2	85.6	75.3	74.2	75.1	72.7	71.2 (Sept.)
Foreign-currency-denominated liabilities to total liabilities	5.7	5.2	7.7	7.5	5.4	6.3	5.9 (Sept.)

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: Authorities Baseline Scenario, Medium-Term Projections, 2010–19

(In percent of GDP, unless otherwise specified)

	2010	2011	2012	Est. 2013	Projection					
					2014	2015	2016	2017	2018	2019
Output and prices										
Real GDP growth at factor cost (in percent)	-2.3	0.2	1.1	2.4	1.1	2.1	3.1	3.2	3.2	3.2
Nominal GDP	0.9	-0.7	2.5	2.3	3.7	3.1	4.5	4.6	4.8	4.5
Consumer Price Index, end-of-period (percent change)	0.9	4.7	1.0	0.0	0.6	0.1	1.6	1.7	1.8	1.8
Consumer Price Index, average (percent change)	0.8	3.2	2.6	0.8	0.2	0.2	0.9	1.5	1.7	1.8
Central government finances										
Total revenue and grants	29.0	27.9	27.0	27.3	28.3	27.2	27.7	27.6	27.8	28.3
<i>Of which:</i>										
Tax revenue	22.9	21.3	21.6	22.0	22.2	22.5	22.9	23.3	23.7	24.2
Taxes on income and profits	5.9	6.3	6.5	5.8	6.1	6.1	6.3	6.4	6.6	6.8
Taxes on property	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on international trade	9.7	9.4	9.2	8.9	8.9	9.0	9.1	9.2	9.3	9.5
Taxes on domestic transactions	7.1	5.4	5.7	7.0	7.0	7.2	7.4	7.5	7.6	7.7
Grants	2.3	2.5	1.7	1.4	2.5	1.9	1.9	1.5	1.3	1.3
Total expenditure and net lending	32.9	31.1	29.0	33.6	33.1	32.2	31.4	30.2	29.5	29.3
<i>Of which:</i>										
Wages and salaries 1/	12.1	12.7	13.0	13.1	13.1	13.0	12.9	12.8	12.7	12.7
Transfers and subsidies	9.6	7.9	7.0	6.6	6.7	6.6	6.4	6.3	6.1	6.0
Capital expenditure	4.5	4.0	2.9	7.9	7.4	6.9	5.9	4.9	4.3	4.3
Overall balance	-3.9	-3.2	-2.1	-6.3	-4.8	-5.1	-3.7	-2.6	-1.6	-1.0
<i>Of which: Primary balance</i>	-0.9	-0.7	0.3	-3.8	-2.3	-2.7	-1.0	0.2	1.3	2.0
Financing	3.9	3.2	2.1	6.3	4.8	5.1	3.7	2.6	1.6	1.0
Net external financing	8.2	1.0	0.5	2.8	3.7	2.4	2.8	1.6	1.2	1.2
Net domestic financing	-7.3	0.3	-0.2	3.2	-0.1	4.4	2.6	2.3	0.7	0.0
Other	3.0	1.9	1.7	0.2	1.1	-1.8	-1.7	-1.3	-0.3	-0.3
Gross public sector debt	65.4	67.8	72.3	73.4	75.1	77.1	78.8	79.1	78.1	76.5
External sector										
Current account balance	-30.6	-29.4	-27.5	-31.3	-29.4	-27.6	-25.4	-22.9	-21.2	-20.0
Gross public sector external debt (end of period)	40.8	42.2	39.8	40.0	41.2	42.5	42.6	41.5	39.7	38.2
External public debt service (In percent of exports of goods and services)	13.7	14.9	14.0	15.2	12.6	17.5	18.0	16.8	15.3	13.6

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.

Table 8a. St. Vincent and the Grenadines: Active Policy Scenario, Summary of Central Government Operations, 2010–20
(In percent of GDP, unless otherwise stated)

	2010	2011	2012	2013	Projection					
					2014	2015	2016	2017	2018	2019
Total revenue and grants 1/	29.0	27.9	27.0	27.3	28.3	27.2	27.7	27.6	27.8	27.9
Current revenue	26.6	24.0	23.9	24.2	25.5	24.9	25.4	25.8	26.2	26.2
Tax revenue	22.9	21.3	21.6	22.0	22.2	22.5	22.9	23.3	23.7	23.8
<i>Of which</i>										
Taxes on income and profits	5.9	6.3	6.5	5.8	6.1	6.1	6.3	6.4	6.6	6.6
Taxes on property	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on international trade	9.7	9.4	9.2	8.9	8.9	9.0	9.1	9.2	9.3	9.3
<i>Of which: VAT</i>	4.0	3.9	3.7	3.6	3.5	3.5	3.6	3.6	3.7	3.7
Taxes on domestic transactions	7.1	5.4	5.7	7.0	7.0	7.2	7.4	7.5	7.6	7.6
<i>Of which: VAT</i>	3.4	3.3	3.5	3.3	3.2	3.3	3.4	3.5	3.5	3.5
Non-tax	3.7	2.8	2.2	2.2	3.3	2.5	2.5	2.5	2.5	2.5
<i>Of which</i>										
Fees, Fines and Permits	1.2	1.0	1.0	0.9	1.0	1.0	1.0	1.0	1.0	1.0
Interest, Rent and Dividends	0.7	0.6	0.6	0.4	1.0	0.5	0.5	0.5	0.5	0.5
Other Revenue	1.8	1.2	0.7	0.9	1.2	0.9	0.9	0.9	0.9	0.9
Capital Revenue	0.0	0.6	0.3	1.8	0.3	0.3	0.3	0.3	0.3	0.3
<i>Of which: Sale of crown lands</i>	0.0	0.1	0.1	1.5	0.1	0.1	0.1	0.1	0.1	0.1
Grants	2.3	2.5	1.7	1.4	2.5	1.9	1.9	1.5	1.3	1.3
<i>Of which: Floods related</i>					1.0					
Total expenditure and net lending 1/	32.9	31.1	29.0	33.6	33.1	31.9	30.3	28.8	27.7	27.6
Current	28.3	27.1	26.1	25.6	25.7	25.0	24.5	23.9	23.3	23.5
<i>Of which</i>										
Wages and salaries 2/	12.1	12.7	13.0	13.1	13.1	12.7	12.4	12.0	11.7	11.7
Interest	3.0	2.5	2.4	2.5	2.5	2.3	2.7	2.7	2.8	2.6
Domestic	1.8	1.3	1.2	1.5	1.5	1.4	1.6	1.6	1.7	1.6
Foreign	1.2	1.2	1.1	1.0	1.0	1.0	1.1	1.1	1.1	1.1
Transfers and subsidies	9.6	7.9	7.0	6.6	6.7	6.5	6.1	5.9	5.7	5.6
Goods and services	3.7	4.1	3.8	3.5	3.5	3.4	3.3	3.3	3.1	3.5
Capital expenditure	4.5	4.0	2.9	7.9	7.4	6.9	5.9	4.9	4.4	4.1
<i>Of which: Floods related</i>					0.5	1.2	1.0	0.7	0.3	
Airport related					3.9	2.7	1.1			
Current balance (before grants)	-1.7	-3.1	-2.3	-1.5	-0.2	-0.1	1.0	1.9	2.9	2.8
Overall balance	-3.9	-3.2	-2.1	-6.3	-4.8	-4.7	-2.7	-1.2	0.2	0.3
Overall balance (excl. grants)	-6.2	-5.7	-3.7	-7.6	-7.3	-6.6	-4.6	-2.7	-1.1	-1.0
Primary balance	-0.9	-0.7	0.3	-3.8	-2.3	-2.4	0.0	1.5	3.0	3.0
Primary balance (excl. grants)	-3.2	-3.2	-1.3	-5.1	-4.8	-4.3	-1.9	0.0	1.7	1.7
Identified financing	3.9	3.2	2.1	6.3	4.8	4.7	2.7	1.2	-0.2	-0.3
Net external financing	8.2	1.0	0.5	2.8	3.7	2.4	2.7	1.5	1.3	1.1
Disbursements	11.0	3.9	4.1	5.9	6.2	4.9	5.3	3.9	3.3	2.9
Amortization	2.8	2.9	3.6	3.1	2.4	2.5	2.5	2.4	2.0	1.8
Change in government assets	-0.7	-0.3	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Net domestic financing 3/	-7.3	0.3	-0.2	3.2	-0.1	4.1	1.6	0.9	-1.2	-1.1
Sale of Equity (privatization proceeds)	2.3	0.5	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	1.3	1.0	2.0	-0.4	0.6	-1.5	-1.4	-1.0	0.0	0.0
Financing gap 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.2	0.8	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.8	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0
CCRIF	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Real GDP growth (in percent)	-2.3	0.2	1.1	2.4	1.1	2.1	2.6	2.9	2.9	2.9
Gross Public sector debt (in percent of GDP)	65.4	67.8	72.3	73.4	75.1	76.8	77.8	77.0	74.5	72.0

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

1/ From 2010 to 2013, total revenues and expenditures and their sub-components do not add-up due to inconsistencies in the data provided by authorities.

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

3/ Includes other non-banking sector domestic financing.

4/ For 2010 and 2011, exceptional financing was used to close the financing gap at the end of the year and are included in the line Net External Financing - Disbursements.

Table 8b. St. Vincent and the Grenadines: Active policy scenario with a natural disaster in 2016, Summary of Central Government Operations, 2010–19
(In percent of GDP, unless otherwise stated)

	2010	2011	2012	2013	Projection					
					2014	2015	2016	2017	2018	2019
Total revenue and grants 1/	29.0	27.9	27.0	27.3	28.3	27.2	27.3	27.4	27.7	27.7
Current revenue	26.6	24.0	23.9	24.2	25.5	24.9	24.6	25.2	25.7	25.7
Tax revenue	22.9	21.3	21.6	22.0	22.2	22.5	22.1	22.7	23.2	23.2
<i>Of which</i>										
Taxes on income and profits	5.9	6.3	6.5	5.8	6.1	6.1	6.0	6.2	6.4	6.4
Taxes on property	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on international trade	9.7	9.4	9.2	8.9	8.9	9.0	8.8	8.9	9.0	9.0
<i>Of Which: VAT</i>	4.0	3.9	3.7	3.6	3.5	3.5	3.5	3.5	3.6	3.6
Taxes on domestic transactions	7.1	5.4	5.7	7.0	7.0	7.2	7.2	7.4	7.5	7.5
<i>Of Which: VAT</i>	3.4	3.3	3.5	3.3	3.2	3.3	3.3	3.4	3.4	3.4
Non-tax	3.7	2.8	2.2	2.2	3.3	2.5	2.5	2.5	2.5	2.5
<i>Of which</i>										
Fees, Fines and Permits	1.2	1.0	1.0	0.9	1.0	1.0	1.0	1.0	1.0	1.0
Interest, Rent and Dividends	0.7	0.6	0.6	0.4	1.0	0.5	0.5	0.5	0.5	0.5
Other Revenue	1.8	1.2	0.7	0.9	1.2	0.9	0.9	0.9	0.9	0.9
Capital Revenue	0.0	0.6	0.3	1.8	0.3	0.3	0.3	0.3	0.3	0.3
<i>Of which: Sale of crown lands</i>	0.0	0.1	0.1	1.5	0.1	0.1	0.1	0.1	0.1	0.1
Grants	2.3	2.5	1.7	1.4	2.5	1.9	2.3	1.9	1.7	1.7
<i>Of which: Floods related</i>					1.0					
Total expenditure and net lending 1/	32.9	31.1	29.0	33.6	33.1	31.9	31.7	29.6	28.1	27.6
Current	28.3	27.1	26.1	25.6	25.7	25.0	25.2	24.3	23.3	22.9
<i>Of which</i>										
Wages and salaries 2/	12.1	12.7	13.0	13.1	13.1	12.7	12.4	12.0	11.5	11.2
Interest	3.0	2.5	2.4	2.5	2.5	2.3	2.7	2.8	3.0	2.9
Domestic	1.8	1.3	1.2	1.5	1.5	1.4	1.6	1.7	1.8	1.7
Foreign	1.2	1.2	1.1	1.0	1.0	1.0	1.1	1.1	1.1	1.1
Transfers and subsidies	9.6	7.9	7.0	6.6	6.7	6.5	6.6	6.0	5.5	5.5
Goods and services	3.7	4.1	3.8	3.5	3.5	3.4	3.5	3.4	3.4	3.4
Capital expenditure	4.5	4.0	2.9	7.9	7.4	6.9	6.5	5.3	4.8	4.7
<i>Of which: Floods related</i>					0.5	1.2	1.0	0.7	0.3	
Airport related					3.9	2.7	1.2			
Current balance (before grants)	-1.7	-3.1	-2.3	-1.5	-0.2	-0.1	-0.6	0.8	2.3	2.8
Overall balance	-3.9	-3.2	-2.1	-6.3	-4.8	-4.7	-4.4	-2.2	-0.4	0.1
Overall balance (excl. grants)	-6.2	-5.7	-3.7	-7.6	-7.3	-6.6	-6.7	-4.1	-2.1	-1.6
Primary balance	-0.9	-0.7	0.3	-3.8	-2.3	-2.4	-1.7	0.6	2.6	3.0
Primary balance (excl. grants)	-3.2	-3.2	-1.3	-5.1	-4.8	-4.3	-4.0	-1.3	0.9	1.3
Identified financing	3.9	3.2	2.1	6.3	4.8	4.7	4.4	2.2	0.4	-0.1
Net external financing	8.2	1.0	0.5	2.8	3.7	2.4	3.3	1.8	1.5	1.5
Disbursements	11.0	3.9	4.1	5.9	6.2	4.9	5.8	4.2	3.6	3.3
Amortization	2.8	2.9	3.6	3.1	2.4	2.5	2.6	2.4	2.0	1.8
Change in government assets	-0.7	-0.3	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Net domestic financing 3/	-7.3	0.3	-0.2	3.2	-0.1	4.1	2.9	1.7	-0.9	-1.3
Sale of Equity (privatization proceeds)	2.3	0.5	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	1.3	1.0	2.0	-0.4	0.6	-1.5	-1.4	-1.0	0.0	0.0
Financing gap 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.2	0.8	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.8	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0
CCRIF	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Real GDP growth (in percent)	-2.3	0.2	1.1	2.4	1.1	2.1	2.2	2.9	3.0	3.0
Gross Public sector debt (in percent of GDP)	65.4	67.8	72.3	73.4	75.1	76.8	80.3	80.4	78.3	75.7

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

1/ From 2010 to 2013, total revenues and expenditures and their sub-components do not add-up due to inconsistencies in the data provided by authorities.

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

3/ Includes other non-banking sector domestic financing.

4/ For 2010 and 2011, exceptional financing was used to close the financing gap at the end of the year and are included in the line Net External Financing - Disbursements.

**Table 9. St. Vincent and the Grenadines: Public Sector Debt Sustainability Framework,
Baseline Scenario, 2011-2034**
(In percent of GDP, unless otherwise stated)

	Actual			Average ^{5/}	Standard Deviation ^{5/}	Estimate					Projections			2020-34 Average	
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-19 Average	2024		2034
Public sector debt 1/	67.8	72.3	73.4			75.1	77.1	78.8	79.1	78.1	76.5		69.9	54.7	
<i>of which: foreign-currency denominated</i>	42.2	39.8	40.0			41.2	42.5	42.6	41.5	39.7	38.2		30.1	16.4	
Change in public sector debt	2.4	4.5	1.0			1.7	2.1	1.7	0.3	-1.0	-1.6		-1.5	-1.4	
Identified debt-creating flows	7.2	3.8	1.7			2.2	2.5	1.6	0.4	-0.6	-0.9		-1.0	-1.2	
Primary deficit	4.1	2.5	0.9	2.1	1.8	1.4	1.3	1.2	0.0	-1.1	-1.7	0.2	-1.8	-2.2	-2.0
Revenue and grants	48.3	46.3	47.5			47.5	46.4	45.3	45.2	45.4	45.9		45.8	46.1	
<i>of which: grants</i>	5.7	4.8	3.6			4.6	2.7	1.9	1.5	1.3	1.3		1.1	1.1	
Primary (noninterest) expenditure	52.4	48.9	48.4			48.8	47.7	46.5	45.3	44.4	44.2		44.0	43.9	
Automatic debt dynamics	3.5	1.2	1.7			0.8	1.3	0.4	0.4	0.5	0.7		0.9	1.0	
Contribution from interest rate/growth differential	2.3	1.1	1.1			1.2	1.0	0.2	0.0	0.2	0.4		0.6	0.8	
<i>of which: contribution from average real interest rate</i>	2.4	1.8	2.8			2.0	2.5	2.5	2.4	2.6	2.8		2.8	2.5	
<i>of which: contribution from real GDP growth</i>	-0.1	-0.7	-1.7			-0.8	-1.5	-2.3	-2.4	-2.4	-2.4		-2.2	-1.7	
Contribution from real exchange rate depreciation	1.2	0.2	0.6			-0.4	0.3	0.2	0.4	0.2	0.3		...	...
Other identified debt-creating flows	-0.5	0.0	-0.9			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.5	0.0	-0.9			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-4.8	0.8	-0.7			-0.5	-0.5	0.1	-0.2	-0.4	-0.7		-0.6	-0.2	
Other Sustainability Indicators															
PV of public sector debt	...	...	70.7			72.2	73.9	75.3	75.6	74.8	73.5		68.2	53.5	
<i>of which: foreign-currency denominated</i>	...	...	37.3			38.3	39.2	39.1	38.0	36.5	35.3		28.3	15.2	
<i>of which: external</i>	...	...	37.3			38.3	39.2	39.1	38.0	36.5	35.3		28.3	15.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...
Gross financing need 2/	13.6	11.2	11.3			11.0	12.0	12.2	10.9	9.6	8.5		6.2	3.2	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	148.7			152.2	159.1	166.4	167.2	164.7	160.3		148.9	116.2	
PV of public sector debt-to-revenue ratio (in percent)	...	...	161.0			168.4	168.9	173.7	172.9	169.6	164.9		152.6	119.1	
<i>of which: external 3/</i>	...	...	84.9			89.3	89.6	90.2	86.9	82.7	79.2		63.4	33.9	
Debt service-to-revenue and grants ratio (in percent) 4/	12.8	12.9	13.6			12.4	15.4	16.7	16.8	16.5	15.5		12.4	8.2	
Debt service-to-revenue ratio (in percent) 4/	14.5	14.4	14.8			13.7	16.4	17.4	17.3	16.9	15.9		12.7	8.4	
Primary deficit that stabilizes the debt-to-GDP ratio	1.8	-2.0	-0.2			-0.3	-0.8	-0.4	-0.2	-0.1	0.0		-0.3	-0.7	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	0.2	1.1	2.4	1.6	2.8	1.1	2.1	3.1	3.2	3.2	3.2	2.6	3.2	3.2	3.2
Average nominal interest rate on forex debt (in percent)	3.6	3.0	3.4	4.0	0.7	3.4	3.5	3.6	3.6	3.6	3.6	3.6	3.7	3.8	3.6
Average real interest rate on domestic debt (in percent)	7.5	5.1	6.4	5.0	2.7	3.9	5.3	5.2	5.4	5.7	6.0	5.3	6.0	6.0	6.0
Real exchange rate depreciation (in percent, + indicates depreciation)	3.0	0.4	1.6	-0.3	2.4	-1.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-0.9	1.4	-0.1	2.4	2.9	2.6	1.0	1.3	1.4	1.6	1.3	1.5	1.3	1.3	1.3
Growth of real primary spending (deflated by GDP deflator, in percent)	6.2	-5.7	1.5	0.2	2.8	1.9	-0.3	0.5	0.4	1.2	2.8	1.1	3.1	3.1	3.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	23.6	17.0	17.8	18.8	15.4	13.6	17.7	14.7	12.6	...

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

Table 10. St. Vincent and the Grenadines: External Debt Sustainability Framework, Baseline Scenario, 2011-2034
(In percent of GDP, unless otherwise stated)

	Actual			Historical ^{6/} Average	Standard ^{6/} Deviation	Projections						2014-2019		2020-2034	
	2011	2012	2013			2014	2015	2016	2017	2018	2019	Average	2024	2034	Average
External debt (nominal) 1/	42.2	39.8	40.0			41.2	42.5	42.6	41.5	39.7	38.2			30.1	16.4
<i>of which: public and publicly guaranteed (PPG)</i>	42.2	39.8	40.0			41.2	42.5	42.6	41.5	39.7	38.2			30.1	16.4
Change in external debt	1.4	-2.3	0.2			1.2	1.3	0.2	-1.1	-1.8	-1.5			-1.9	-0.6
Identified net debt-creating flows	17.0	9.9	7.9			12.7	9.9	6.6	3.4	2.4	1.9			0.8	1.3
Non-interest current account deficit	27.9	26.3	29.9	25.3	5.4	28.1	26.2	24.0	21.4	19.7	18.6			16.3	14.7
Deficit in balance of goods and services	28.7	30.4	33.2			30.5	27.8	25.3	22.5	20.2	18.3			15.5	13.6
Exports	27.0	27.5	26.2			25.8	25.9	26.6	27.6	28.1	28.6			27.7	24.3
Imports	55.7	57.9	59.4			56.3	53.7	51.9	50.1	48.4	46.9			43.2	37.9
Net current transfers (negative = inflow)	-1.2	-3.4	-1.9	-2.4	0.8	-2.1	-2.1	-2.1	-2.0	-1.9	-1.9			-1.7	-1.5
<i>of which: official</i>	-0.4	-1.9	-1.1			-1.1	-1.0	-1.0	-1.0	-1.0	-0.9			-0.9	-0.8
Other current account flows (negative = net inflow)	0.5	-0.7	-1.4			-0.3	0.6	0.7	1.0	1.4	2.2			2.6	2.6
Net FDI (negative = inflow)	-12.7	-16.6	-22.5	-16.0	4.7	-16.3	-17.0	-17.6	-18.2	-17.5	-16.9			-15.7	-13.5
Endogenous debt dynamics 2/	1.8	0.2	0.4			0.9	0.6	0.2	0.2	0.2	0.2			0.2	0.1
Contribution from nominal interest rate	1.5	1.2	1.3			1.3	1.4	1.5	1.5	1.4	1.4			1.1	0.6
Contribution from real GDP growth	-0.1	-0.4	-0.9			-0.4	-0.8	-1.3	-1.3	-1.2	-1.2			-1.0	-0.5
Contribution from price and exchange rate changes	0.4	-0.6	0.0			...	...	...	...	...	...			...	...
Residual (3-4) 3/	-15.6	-12.3	-7.7			-11.5	-8.6	-6.4	-4.5	-4.2	-3.4			-2.7	-1.9
<i>of which: exceptional financing</i>	-0.8	0.0	0.0			-0.8	0.1	0.2	0.2	0.4	0.3			0.0	0.0
PV of external debt 4/	...	...	37.3			38.3	39.2	39.1	38.0	36.5	35.3			28.3	15.2
In percent of exports	...	...	142.5			148.7	151.2	147.1	137.6	129.7	123.4			102.3	62.6
PV of PPG external debt	...	...	37.3			38.3	39.2	39.1	38.0	36.5	35.3			28.3	15.2
In percent of exports	...	...	142.5			148.7	151.2	147.1	137.6	129.7	123.4			102.3	62.6
In percent of government revenues	...	...	84.9			89.3	89.6	90.2	86.9	82.7	79.2			63.4	33.9
Debt service-to-exports ratio (in percent)	14.9	14.0	15.2			12.6	17.5	18.0	16.8	15.3	13.6			8.8	3.2
PPG debt service-to-exports ratio (in percent)	14.9	14.0	15.2			12.6	17.5	18.0	16.8	15.3	13.6			8.8	3.2
PPG debt service-to-revenue ratio (in percent)	9.5	9.3	9.1			7.6	10.4	11.1	10.6	9.7	8.7			5.5	1.7
Total gross financing need (Billions of U.S. dollars)	0.1	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.1			0.0	0.0
Non-interest current account deficit that stabilizes debt ratio	26.6	28.7	29.8			26.9	24.9	23.8	22.6	21.5	20.1			18.3	15.3
Key macroeconomic assumptions															
Real GDP growth (in percent)	0.2	1.1	2.4	1.6	2.8	1.1	2.1	3.1	3.2	3.2	3.2	2.6	3.2	3.2	3.2
GDP deflator in US dollar terms (change in percent)	-0.9	1.4	-0.1	2.4	2.9	2.6	1.0	1.3	1.4	1.6	1.3	1.5	1.3	1.3	1.3
Effective interest rate (percent) 5/	3.6	3.0	3.4	4.0	0.7	3.4	3.5	3.6	3.6	3.6	3.6	3.6	3.7	3.8	3.6
Growth of exports of G&S (US dollar terms, in percent)	-0.2	4.3	-2.7	0.8	5.5	2.1	3.6	7.3	8.5	6.8	6.3	5.8	3.2	3.2	3.4
Growth of imports of G&S (US dollar terms, in percent)	-3.2	6.6	5.0	6.1	9.2	-1.8	-1.7	1.1	0.9	1.2	1.4	0.2	3.2	3.2	3.0
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	23.6	17.0	17.8	18.8	15.4	13.6	17.7	14.7	12.6	13.7
Government revenues (excluding grants, in percent of GDP)	42.6	41.5	43.9			42.9	43.7	43.4	43.7	44.1	44.6			44.7	44.9
Aid flows (in Billions of US dollars) 7/	0.038	0.035	0.028			0.037	0.022	0.017	0.014	0.013	0.013			0.014	0.021
<i>of which: Grants</i>	0.038	0.033	0.026			0.034	0.021	0.015	0.012	0.011	0.012			0.013	0.020
<i>of which: Concessional loans</i>	...	0.002	0.002			0.003	0.002	0.002	0.001	0.001	0.001			0.001	0.001
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.8	3.8	2.8	2.2	1.8	1.7			1.4	1.4
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			58.9	42.3	39.5	41.3	39.8	39.7			46.2	44.9
Memorandum items:															
Nominal GDP (Billions of US dollars)	0.676	0.693	0.709			0.736	0.758	0.792	0.829	0.868	0.907			1.131	1.756
Nominal dollar GDP growth	-0.7	2.5	2.3			3.7	3.1	4.5	4.6	4.8	4.5	4.2	4.5	4.5	4.5
PV of PPG external debt (in Billions of US dollars)	...	...	0.26			0.28	0.30	0.31	0.31	0.32	0.32			0.32	0.27
(Pvt-Pvt-1)/GDPT-1 (in percent)	...	...	...			2.4	2.1	1.7	0.6	0.3	0.4	1.2	-0.4	0.0	-0.3
Gross workers' remittances (Billions of US dollars)	0.024	0.024	0.024			0.024	0.025	0.025	0.025	0.025	0.025			0.028	0.039
PV of PPG external debt (in percent of GDP + remittances)	...	...	36.1			37.1	38.0	38.0	36.9	35.5	34.3			27.6	14.9
PV of PPG external debt (in percent of exports + remittances)	...	...	126.4			131.8	134.4	131.6	124.1	117.7	112.5			93.8	57.4
Debt service of PPG external debt (in percent of exports + remittances)	...	...	13.5			11.2	15.5	16.1	15.2	13.8	12.4			8.1	3.0

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Appendix I. Risk Assessment Matrix¹

Source of Risk	Risk Likelihood	Impact		Policy Advice
		Rating	Channel	
Protracted period of slower growth in advanced economies	High	High	Low growth and worsening of external balance (low FDI and slowdown in tourism)	<ul style="list-style-type: none"> • Increase pace of fiscal consolidation to create buffers • Accelerate structural reforms
Natural disaster	Medium (over a 12-month period)	High	Low growth and worsening of fiscal and external balances	<ul style="list-style-type: none"> • Raise primary surplus to build buffers and work with the World Bank and CDB to build resilience to climate change
Deterioration in the terms or level of PetroCaribe's financing	High	High	Government and BOP financing would be curtailed, requiring a rapid adjustment	<ul style="list-style-type: none"> • Prepare contingent sources of financing in case the agreement ends abruptly • Manage PetroCaribe flows prudently
Heightened geopolitical risks in the Middle East leading to a sharp rise in oil prices	Medium	High	Worsening of both external and fiscal balances	<ul style="list-style-type: none"> • Allow pass-through of international prices • Increase the pace of fiscal consolidation to create buffers
Risks to Domestic Financing	Medium	Medium	Forced expenditure cuts that could fall on development spending	<ul style="list-style-type: none"> • Implement fiscal measures expeditiously to improve the fiscal current balance

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



ST. VINCENT AND THE GRENADINES

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 23, 2015

Prepared By

Western Hemisphere Department (in consultation with other departments and the Caribbean Regional Technical Assistance Center, CARTAC)

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FUND RELATIONS

(As of June 30, 2014)

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

General Resources Account:	SDR Million	Percent of Quota
Quota	8.30	100.00
Fund holdings of currency	9.88	118.98
Reserve Tranche Position	0.50	6.02

SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	7.91	100.00
Holdings	0.39	4.91

Outstanding Purchases and Loans:	SDR Million	Percent of Quota
RCF Loans	5.40	65.00
Emergency Assistance ^{1/}	2.08	25.00
ESF RAC Loan	3.36	40.50

^{1/}Emergency Assistance may include ENDA, EPCA, and RFI.

Latest Financial Arrangements: None

Projected Payments to the Fund^{2/}

	Forthcoming			
	2015	2016	2017	2018
Principal	0.75	0.95	1.67	2.45
Charges/Interest	0.05	0.05	0.05	0.03
Total	0.80	1.00	1.71	2.48

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

Implementation of HIPC Initiative: Not Applicable

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

Implementation of Post-Castrophe Debt Relief (PCDR): Not Applicable

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

Safeguards Assessment: Under the Fund's safeguards 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 on April 16, 2012 and did not identify any significant safeguards risks. The assessment made some recommendations to sustain and advance the ECCB's safeguards framework going forward. The authorities broadly agreed with the recommendations and have commenced implementation.

Article IV consultation: St. Vincent and the Grenadines is currently on a 12-month cycle. The last Article IV consultation was concluded on February 6, 2013 by the Executive Board; the relevant document is Country Report 14/251.

Technical Assistance: Technical assistance: Several missions from the Caribbean Regional Technical Assistance Centre (CARTAC), the Fiscal Affairs Department (FAD), the Support of Economic Management for the Caribbean (SEMCAR), 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. A workshop for Permanent Secretaries on strategic budgeting reforms together with general public finance training has also been delivered. CARTAC has provided technical assistance in statistics to develop export and 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. In CY 2011/2012, CARTAC delivered technical assistance to review the revenue performance of the Value Added Tax and recommended measures to enhance and safeguard VAT revenues. CARTAC also supported a capacity building program in audit and assisted with the development of Inland Revenue Department's revised function-based organizational structure that resulted in a full integration of VAT administration into mainstream IRD. In Customs, CARTAC focused on modernization of the operations by strengthening risk management and post clearance (PCA) programs. In 2011/2012 SEMCAR assisted the authorities in introducing a performance orientation in the budget of three

ministries, reviewed the treasury and modernized the budget execution process. In addition SEMCAR helped setting up a cash management unit and introduced cash flow forecasting. In 2013/2014, progress has been made in tax and customs administration and the authorities already have started to implement some recommendations of the Tax Administration and the Tax and Customs Administration missions delivered by CARTAC. Some progress has also been made in budgeting framework after the CARTAC mission and the new 2015 Budget is set to be a pilot. A medium-term debt management strategy (MTDS) has been developed by the authorities and is awaiting publication, after a joint IMF/World Bank mission (in collaboration with the ECCB). Progress in supervision of non-bank financial institutions has advanced with the legislation for the Single Regulatory Unit (SRU) passed by Parliament and its establishment already completed. In Statistics, work on constructing expenditure based GDP has been completed but the authorities have not yet published the new data.

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

AML/CFT: With support from LEG, the Caribbean Financial Action Task Force (CFATF) conducted an on-site assessment of the AML/CFT regime of St. Vincent and the Grenadines in 2009, and published the detailed mutual evaluation report in 2010. The country was placed under CFATF’s enhanced follow-up process in 2013, owing to outstanding deficiencies in its AML/CFT regime. Authorities were requested to report to the CFATF Plenary in May 2015 on progress made in implementing its action plan to address the deficiencies.

RELATIONS WITH THE WORLD BANK GROUP

(December 23, 2014)

World Bank Group OECS Regional Partnership Strategy: On November 13, 2014, the Board of the Executive Directors of the World Bank Group has endorsed the new OECS Regional Partnership Strategy ((RPS) which will cover the period FY15-19. The high-level objective of the new RPS is to contribute to lay the foundations for sustainable inclusive growth, in line with the OECS governments’ priorities. In order to achieve this goal, the program is planned to be organized around three main areas of engagement. Under the first one, the WBG is planning to support “competitiveness”. Growth and job creation in the private sector will be supported both horizontally – by improving the business environment– and vertically – by focusing on specific sectors with a high potential to generate inclusive sustainable growth (particularly tourism, agribusiness and their respective linkages). The second area of engagement is “public sector

modernization”, with particular focus on public financial management (PFM) and institutional capacity, including for statistics and public private partnerships (PPPs), to better leverage private investment in infrastructure and service provision. The third area is “resilience”, with the objective to address both social vulnerabilities (in education, health and social protection), and exposure to natural disasters.

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

The indicative IBRD lending program for the six OECS countries is expected to be around US\$120 million, or up to a maximum of US\$20 million for each OECS country for the period of the RPS (FY15-19), subject to country and program performance, IBRD’s lending capacity, and exposure management parameters. In addition to the IBRD envelope, four OECS countries (Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines) can also count on an IDA national allocation. The IDA17 (FY15-17) allocation for the OECS is equal to SDR61.3 million, an increase of around 22 percent over the IDA16 OECS allocation (SDR50.3 million)

World Bank Group engagement

Comprehensive Debt Framework - At the request of the Heads of Government of CARICOM, the Bank put together a Comprehensive Debt Framework that proposes a strategy for addressing the high debt challenge faced in the OECS in a sustainable way. This Framework proposes a holistic approach around four interdependent pillars (Supporting private sector led growth, including private sector development and financial sector stability; Enhancing fiscal sustainability; Improving climate change resilience and Disaster Risk Management; and Debt resolution). The Framework is being rolled out in the OECS, including St. Vincent and the Grenadines. The Government expressed interest in principle, in continue to work with the World Bank and other development partners to develop policy measures that could help stimulate growth and reduce debt in the country.

The Caribbean Growth Forum (CGF)

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

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

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

Key Outcomes

Positive outcomes are tangible: twelve countries formally joined the process by establishing their national CGF chapter and have completed the first phase of national dialogue. This effort has led to the prioritization of concrete and actionable activities and draft action plans are now available, with details on each activity' implementation plan (e.g., accountabilities, milestones, timeline, funding).

The results of each country's dialogue were presented at a regional forum in The Bahamas in June 2013. This allowed national stakeholders from government, private sector and civil society to compare notes on each other's' priorities and exchange ideas on solutions to each identified challenges with technical specialists and peers. *The Bahamas Communiqué* issued by the Government of The Bahamas during the event on behalf of CGF participating countries, attested to the commitment of all parties to inclusive and participatory policy-making, accountability and transparency in policy implementation as well as the CGF reform process itself.

By then, each government also committed to follow-up on implementation of the reform agenda, to report back periodically on progress (every 4-5 months) and to enable independent monitoring of the reforms by private sector and civil society representatives.

As of June 2014, six countries have completed their First Accountability Workshop (Dominican Republic, Jamaica, Saint Lucia, Saint Vincent, Saint Kitts and Nevis, and Grenada).

Projects

The **Caribbean Regional Communication Infrastructure Project (CARCIP)** – Phase 1, was approved by the WB Board in May 2012 with Grenada (US\$10 million IDA), St. Lucia (US\$6million IDA) and St. Vincent and the Grenadines (US\$6 million IDA) as participating countries. The Dominican Republic is preparing its inclusion to CARCIP (\$30m IDA), while other Caribbean islands have formally expressed interest in joining. CARCIP is a broad umbrella program to include all interested CARIFORUM countries. It offers a menu of choices with specific components to be tailored to each country's priorities. The menu of options are: (a) ICT Connectivity, to increase access and affordability of broadband communications networks within region and countries; (b) e-Government, to contribute to improved Government efficiency and transparency through the delivery of e-services, including e-government and e-society applications; and (c) IT Industry, to contribute to the development of the regional and national IT industry. The sources of financing are a mix of World Bank, CDB, IDB lending, donor grant funding, the government's own resources and substantial amounts of private sector investment.

The instrument chose for this program (APL) allows countries to join on a readiness basis. Phase 1 of CARCIP was declared effective in December 2012.

The **OECS Disaster Vulnerability Reduction Project** was approved in June 2011. St. Vincent and the Grenadines will receive a total of US\$20.92 million, including a US\$10.92 million zero-interest credit from IDA repayable in 35 years with a 10-year grace period; a US\$7 million grant from the Pilot Program for Climate Resilience (PPCR); and a US\$3 million zero-interest loan from the PPCR repayable in 40 years with a 10-year grace period. The project aims to create understanding of the vulnerability of key structures and increase resilience of critical public infrastructure, which will complement the work and goals of the PPCR. Component 1 will implement a broad spectrum of interventions aimed at building resilience in public buildings and infrastructure. Component 2 will support regional efforts in the Eastern Caribbean to build capacity to conduct assessment of natural risks and integrate such knowledge into policy- and decision-making for development investments, disaster risk mitigation, climate change adaptation, and disaster response planning across sectors. Component 3 will re-categorize financing or provide additional financing to cover early recovery and rehabilitation costs following an adverse natural event, and subject to a Government's declaration of emergency in accordance with national law and the submission of a recovery action plan satisfactory to the Association. Component 4 will strengthen and develop the institutional capacity for project management and implementation. An Additional Financing (AF) operation of US\$40.6 million was approved for St. Vincent and the Grenadines in May 2014, increasing the Project envelope from US\$20.92 million to US \$61.52 million and extending the closing date to December 31, 2018. The additional funds will scale up project activities and cover a cost overrun, the AF would: (i) support emergency recovery and construction activities; (ii) enhance development impact; (iii) increase the number of beneficiaries, including women; (iv) meet an unanticipated financing gap in the Parent Project; (v) replenish the Emergency Response Component; and (vi) allocate strengthen project management and implementation support capacity. About 50 percent of project proceeds would be used to support the Government of St. Vincent's emergency recovery efforts.

Economic and Sector Work

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

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

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

Projects Financed by the World Bank in the OECS

Operation	Country	Loan	Original Principal (USD)	Disbursed Balance	Undisbursed Balance
Regional Disaster Vulnerability Reduction Project	St. Vincent and the Grenadines	IDA 49860	10,920,000.00	3,105,748.82	6,919,399.00
	St. Vincent and the Grenadines	IDA 54500	35,600,000.00		33,562,452.00
	St. Vincent and the Grenadines	PPCR	7,000,000.00		5,634,546.00
	St. Vincent and the Grenadines	PPCR	3,000,000.00		2,408,398.00
	Grenada	PPCR	8,200,000.00	1,937,999.37	6,262,000.73
	Grenada	IDA 49850	10,000,000.00	3,063,686.49	5,944,417.51
	Grenada	IDA 49930	5,000,000.00	1,886,220.32	2,763,123.68
	Grenada	IDA 55230	14,093,324.00	14,093,324.00	
OECS E-Gove Reg Integr (EGRIP)	Regional	IDA 46500	2,179,380.00	2,300,000.00	0.00
Telecommunications and ITC Development Project	Grenada	IDA 40560*	306,296.00	306,069.52	0.00
		IBRD 47750*	272,161.00	271,669.84	CLOSED
	St. Kitts and Nevis	IBRD 47760	544,322.00	544,322.00	CLOSED
	St. Lucia	IDA 40570*	290,584.00	289,540.00	10.00
		IBRD 47770*	272,161.00	250,162.99	CLOSED
	St. Vincent and the Grenadines	IDA 40580*	290,584.00	237,268.88	0.00
		IBRD 74480*	272,161.00	235,514.92	36,646.08 - CLOSED
	Dominica	IDA 40590*	581,168.00	553,523.25	0.00
St. Vincent and the Grenadines: OECS Education Develop Project	St. Vincent and the Grenadines	IDA 39430	3,196,424.00	3,196,424.00	CLOSED
		IBRD 72430*	3,100,000.00	2,536,030.38	CLOSED
	Dominica	IDA 54950	15,982,120.00	729,144.50	15,252,975.50
Total					

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014*
Total disbursement	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	1,846,175.06	3,231,557.02	4,427,909.21
Repayment	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	1,168,675.66	1,348,816.10	1,274,247.19
Net disbursement	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	677,499.40	1,882,740.92	3,153,662.02
Charges	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	191,206.91	190,830.96	162,936.50
Fees	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	174,529.69	166,985.59	199,630.17
Data as of July 28, 2014 .												

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK (CDB)

(As of 9 January, 2015)

In March 2014, CDB approved its latest 5-year country strategy for St. Vincent and the Grenadines (2014-18), with a portfolio of projects estimated to cost US\$86.72million with the possibility of an additional US\$14.8million. The assistance program gives priority to providing support to: (i) accelerated, sustainable and inclusive growth; (ii) inclusive social development; and (iii) enhanced environmental sustainability and disaster risk management. The portfolio consists of US\$21million in grants and concessionary loan resources and US\$65.72 million in ordinary capital resources.

St. Vincent and the Grenadines is particularly vulnerable to economic shocks and natural hazards. The adverse impacts of shocks continued to be felt during 2014 with major floods at the end of December 2013 causing widespread damage to physical and economic infrastructure. In the aftermath of this event, CDB's assistance has focused on providing grant and loan funding to assist with the emergency relief, recovery and rehabilitation process.

During 2014, the Bank approved loans amounting to US\$9.79million to aid the Government of St. Vincent and the Grenadines in its rehabilitation and reconstruction efforts in addition to a grant of US\$0.225million to finance the cost of equipment for rainfall and stream flow measurement, and training of hydrological technicians. Approximately 40% of the loan (US\$3.6million) is in the form of soft resources. The financing is to be used for the restoration of critical infrastructure along the Windward and Vigie Highways; road embankment and slope improvement; construction and rehabilitation of river defenses; the rehabilitation of sections of the feeder road network; and for enhancing institutional capacity for planning, design and risk reduction.

The disbursement of loans and grants to St Vincent during 2014 amounted to US\$7.61 million. Of this amount, US\$6.88 million was disbursed as loans comprising US\$4.518 million to the Government of St. Vincent and the Grenadines to finance the South Leeward Highway road upgrade; the rehabilitation and reconstruction of critical infrastructure damaged by Hurricane Tomas in 2011; and technical and vocational educational development, while US\$2.36 million was provided through lines of credit to the Bank of St. Vincent and the Grenadines to on-lend for student loans.

As of December 2014, cumulative loans approved by CDB to St Vincent and the Grenadines stood at US\$277.8 million. Cumulative loans approved to the Government of St. Vincent and the Grenadines amounted to US\$242.7 million of which US\$204.0 million was disbursed, while total loans outstanding amounted to US\$121.8 million. Undisbursed loans to the Government of St. Vincent and the Grenadines stood at US\$39.19 million.

Government of St. Vincent and the Grenadines: Loan Disbursement

(In millions of U.S. dollars)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net disbursement	4.01	8.31	12.09	9.05	16.77	46.4	-3.76	-5.70	0.2	1.5
Disbursement	7.35	11.35	15.32	13.02	21.60	52.7	1.63	1.81	7.6	4.5
Amortization	3.34	3.04	3.23	3.97	4.83	6.3	5.39	7.51	7.4	6.0
Interest and charges	2.11	2.60	3.22	3.65	3.53	3.7	3.57	4.78	4.5	4.38
Net resource flow	1.9	5.71	8.87	5.40	13.24	42.7	-7.33	-10.5	-4.3	-1.62

STATISTICAL ISSUES

A. Assessment of Data Adequacy for Surveillance

General: Data provision is broadly adequate for surveillance with some key data shortcomings in national accounts and balance of payments statistics.

National Accounts: A new rebased GDP 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. A CARTAC Mission assisted the authorities to revise the estimates of GDP by expenditure at constant and current prices in 2013. However, improvements are needed in the coverage of national accounts (especially expenditure based national accounts) and on data used to monitor labor markets.

Price statistics: A new CPI index series (with January 2010 as the base) was introduced in June 2011 with assistance from CARTAC. The new index introduced updated methods and procedures used for compiling the CPI in accordance with international standards and 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 have been 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 nonbank deposit takers licensed by the ECCB, credit unions, and other financial corporations. In this respect, close coordination between the ECCB and the Financial Services Authority (which is supervising financial institutions not licensed by the ECCB under the Banking Act) is crucial. While noting some improvements, the 2014 MFS technical assistance mission identified the following main shortcomings in the ECCB's monetary statistics: (i) the methodological soundness of monetary statistics can be improved by expanding institutional coverage (particularly of the ODC sector), and revising the classifications of some financial instruments and sectors to align the reporting to international standards; (ii) transparency can be improved by adopting a single monetary survey for publication on the ECCB website and in IFS, to be released to all users at the same time; (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.

Financial Soundness Indicators (FSIs) for the ECCU area are not published.

External sector statistics: 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 estimate 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.

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.

B. Data Standards and Quality

St. Vincent and the Grenadines participates in the General Data Dissemination System since September 2000. The metadata for the financial sector was updated in 2012, and for the real, fiscal, external, and socio-demographic sectors – in 2011. 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.

St. Vincent and the Grenadines: Table of Common Indicators Required for Surveillance (As of January 13, 2015)

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

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

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

³ Foreign, domestic bank, and domestic nonbank financing.

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

⁵ Including currency and maturity composition.

⁶ St. Vincent and the Grenadines does not yet produce IIP data, but is interested in receiving technical assistance on IIP compilation.

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

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

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