INTERNATIONAL MONETARY FUND

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ST. VINCENT AND THE GRENADINES

November 2022

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ST. VINCENT AND THE GRENADINES

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 2022 Article IV consultation with St. Vincent and the Grenadines, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its November 14, 2022, consideration of the staff report that concluded the Article IV consultation with St. Vincent and the Grenadines.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 14, 2022, following discussions that ended on August 31, 2022, with the officials of St. Vincent and the Grenadines on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 28, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for St. Vincent and the Grenadines.

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

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2022 Article IV Consultation with St. Vincent and the Grenadines

FOR IMMEDIATE RELEASE

Washington, DC – **November 17, 2022:** On November 14, 2022, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with St. Vincent and the Grenadines.

St. Vincent and the Grenadines is recovering from the pandemic and 2021 volcanic eruptions. The authorities' decisive policy responses—supported by two IMF Rapid Credit Facility (RCF) disbursements and financing from other International Financial Institutions—helped protect lives and livelihoods and contain economic scars. Output decline in 2020 was the lowest in the ECCU and the economy is estimated to have grown by 0.8 percent in 2021 supported by strong post-volcanic eruption reconstruction activity. Nevertheless, the recovery is facing headwinds from inflation pressures reflecting higher import prices. Despite the authorities' strong efforts to contain fiscal deficits, critical responses to the shocks pushed up public debt to about 89 percent of GDP as of end-2021. The financial system has weathered the shocks relatively well so far with adequate capital and liquidity buffers.

The economy is projected to grow by 5 percent this year, supported by large-scale investment projects and recoveries in tourism and agriculture. Growth is projected to strengthen further in 2023 as large-scale construction projects get into full swing. External inflation pressures are expected to raise the annual inflation to 5.8 percent in 2022. The outlook is subject to significant downside risks, stemming primarily from an abrupt slowdown in trading partners' growth, potential delays in investment projects including due to supply chain disruptions, and the ever-present threat of frequent natural disasters.

The authorities seek to rebuild fiscal buffers over the medium term and are balancing the need to support the vulnerable, building resilience, and maintaining fiscal prudence. While the primary deficit is estimated to widen as the port construction starts, the primary balance excluding pandemic-, volcano-, and port-related spending is expected to improve from -0.4 percent of GDP in 2021 to 1.6 percent in 2022. They also remain committed to reaching the regional debt ceiling and the medium-term fiscal strategy set out in the 2021 RCF.

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

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities' proactive responses to the pandemic and volcanic eruptions that reduced economic scarring and contributed to a small positive growth in 2021. They noted that while the outlook is favorable, supported by large-scale investment projects and continued recovery of agriculture and tourism, it is subject to significant downside risks and the economy remains vulnerable to shocks.

Directors agreed that near-term priorities continue to be health and reconstruction spending and supporting the vulnerable, while maintaining fiscal prudence. Directors encouraged the authorities to keep the generalized fiscal relief temporary as announced and continue to enhance the coverage and targeting of the social safety net. As the economy recovers, fiscal policy should move from income support to active labor market policies (ALMP) to facilitate training and employment.

Directors stressed the importance of rebuilding fiscal buffers, including by fully operationalizing the Fiscal Responsibility Framework (FRF), to withstand shocks and reinforce fiscal sustainability. They welcomed the authorities' continued commitment to reaching the regional debt target and the medium-term fiscal strategy set out in the 2021 Rapid Credit Facility (RCF). They noted that it is important to recalibrate and fully operationalize the FRF to underpin the commitment and signal a credible medium-term fiscal plan. Directors underscored the need for continued complementary fiscal institutional reforms to support the effective implementation of the FRF, and also called for building additional buffers and preparing contingency plans, which will be key to increasing resilience to external shocks.

Directors emphasized the need for continued broad-based structural reforms to support inclusive growth, promote employment, and bolster resilience to natural disasters. They noted that the recent and ongoing key infrastructure projects are instrumental for addressing supply-side constraints to growth and improving structural resilience. Directors welcomed the authorities' efforts to further improve the business climate, including through the planned new Investment Act, and to invest into human capital by improving the scope, coverage, and effectiveness of technical and vocational education and training (TVET) programs, and considered that the TVET programs should be complemented by ALMP to facilitate employment. Directors also supported the authorities' efforts to further develop the tourism sector to contribute more to the economy.

Directors noted that the financial sector remains broadly stable. They stressed the need to closely monitor asset quality following the end of the loan moratoria and bolster the provisioning levels. Directors considered that the financial authorities should continue to strengthen the supervisory and regulatory frameworks and improve crisis preparedness. They also welcomed the authorities' strong efforts to strengthen the AML/CFT framework.

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

St. Vincent and the Grenadines: Selected Social and Economic Indicators, 2018–27

Social and Demographic Indicators

Area (sq. km)	389.3	Net enrollment rate, secondary (percent, 2018)	89.0
Population (2022)		Labor market indicators (2017)	
Total (thousands)	110.9	Unemployment rate	25.8
Rate of growth (percent per year)	0.1	Youth unemployment rate	40.3
Density (per sq. km.)	284.9	Labor force participation rate	67.8
Population characteristics		Gross domestic product (2021)	
Life expectancy at birth (years, 2016)	73.0	(millions of US dollars)	872
Infant mortality (per '000 live births, 2016)	15.2	(millions of EC dollars)	2,355
Under 5 mortality rate (per '000, 2016)	17.0	(US$ per capita)	7,879

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Prel.			Proj.			
Output and Prices					(Percent change)					
Real GDP (market prices)	3.2	0.7	-3.7	0.8	5.0	6.0	4.8	3.5	2.7	2.7
Nominal GDP (market prices)	4.8	3.0	-4.6	0.4	8.5	10.6	6.9	5.6	4.8	4.8
Consumer prices, end of period	1.4	0.5	-1.0	3.4	8.0	2.1	2.0	2.0	2.0	2.0
Consumer prices, period average	2.3	0.9	-0.6	1.6	5.8	4.6	2.0	2.0	2.0	2.0
Banking System					(Percent change)					
Broad money, percent change	1.7	9.9	-4.5	12.8	1.2	5.7	6.9	5.6	4.8	4.8
Credit to private sector	-0.5	1.1	3.3	0.0	0.0	2.0	3.0	4.2	4.8	4.8
Central Government Finances					(Percent of GDP)					
Total revenue	26.7	27.7	30.5	31.4	30.0	30.7	29.3	29.6	29.4	29.4
Tax revenue	23.1	22.6	23.7	26.7	25.0	24.6	24.8	24.8	24.8	24.8
Grants	1.7	3.0	2.7	1.6	2.7	3.7	2.2	2.4	2.2	2.2
Total expenditure and net lending	27.5	30.3	35.8	38.8	38.2	36.8	38.0	31.9	28.8	28.5
Current expenditure	24.0	24.4	27.4	29.5	27.3	26.2	25.5	24.8	24.4	24.2
Of which: Wages and salaries	12.1	12.4	13.8	14.3	13.6	12.8	12.3	12.0	11.8	11.8
Interest	2.2	2.3	2.2	2.6	2.5	2.7	2.7	2.7	2.4	2.2
Capital expenditure	3.5	5.9	8.5	9.3	10.9	10.6	12.6	7.1	4.4	4.2
Overall balance	-0.8	-2.7	-5.3	-7.3	-8.2	-6.1	-8.7	-2.4	0.6	1.0
Overall balance (excl. grants)	-2.5	-5.7	-8.0	-8.9	-10.9	-9.8	-10.9	-4.8	-1.6	-1.2
Primary balance	1.4	-0.4	-3.1	-4.8	-5.7	-3.4	-6.0	0.3	3.0	3.2
External Sector					(Percent of GDP unless indicated otherwise)					
External current account	-10.2	-3.1	-15.1	-22.8	-26.5	-27.6	-19.8	-13.8	-10.2	-9.0
Exports of goods and services	36.4	36.0	21.7	15.9	22.5	29.5	36.7	38.7	39.2	39.7
Imports of goods and services	51.2	46.7	43.0	47.7	54.4	60.9	59.2	55.8	53.0	52.4
Public sector external debt (end of period)	49.3	48.1	54.8	66.3	68.9	72.6	75.4	76.0	73.5	70.3
External public debt service 1/	12.4	14.0	23.8	23.4	38.8	18.2	14.4	15.2	15.1	14.4
Memorandum Items										
Holdings of SDRs (in millions of EC$)	3.1	4.2	2.7	44.5	44.5	44.5	44.5	44.5	44.5	44.5
Gross public sector debt (in percent of GDP)	69.4	68.1	79.5	89.3	87.8	88.0	89.2	87.8	83.2	79.2
Nominal GDP (market prices; in millions of EC$) 2/	2,388	2,459	2,347	2,355	2,556	2,826	3,022	3,189	3,341	3,500

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

1/ In percent of exports of goods and services.

2/ The authorities rebased GDP to 2018 and improved methodology with support from CARTAC (2021). As a result, nominal GDP in 2018 increased by 9 percent.

INTERNATIONAL MONETARY FUND

ST. VINCENT AND THE GRENADINES

October 28, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

KEY ISSUES

Context. St. Vincent and the Grenadines is recovering from the pandemic and 2021 volcanic eruptions. Despite the authorities' strong efforts to contain deficits, critical fiscal responses to these shocks pushed up public debt, which—while assessed as sustainable—remains at high risk of distress should future shocks materialize. The economy is projected to grow by 5 percent in 2022, supported by large-scale investment projects and recoveries in tourism and agriculture. Surging commodity prices, fueled by Russia's war in Ukraine, are expected to raise inflation sharply to 5.8 percent in 2022, adding to fiscal and external pressures and weighing on the recovery. So far, the financial system has weathered the shocks relatively well. The outlook is subject to significant downside risks primarily from an abrupt slowdown in trading partners' growth, potential delays in investment projects including due to supply chain disruptions, and the ever-present threat of frequent natural disasters.

Key Policy Advice. The consultation focused on policies to support a resilient and inclusive recovery, while safeguarding debt sustainability and financial sector stability.

- Near-term fiscal policy should give priority to health and reconstruction spending and supporting the vulnerable through temporary targeted support and enhanced social me nets, while maintaining fiscal prudence. Once the recovery takes hold, the authorities should recalibrate and fully operationalize the fiscal responsibility framework (FRF) to build fiscal space, withstand shocks, and strengthen the credibility of reaching the regional debt target. Vulnerability to further shocks call for building additional buffers and making contingency plans. Continued fiscal institutional reforms are key to the effective implementation of the FRF.

- Given the importance of a sustainable and inclusive recovery for public debt sustainability, broad-based structural reforms, including supply-side reforms, building human capital, and improving business environment, are needed to improve productivity and competitiveness and to mitigate scarring effects. Continuing to build resilience to natural disasters and climate change is also vital.

- Continued close monitoring of asset quality in the financial sector is needed as loan moratoria ended. Efforts to strengthen regulatory and supervisory frameworks and improve crisis preparedness should be sustained.

Approved By
Patricia Alonso-Gamo (WHD) and Boileau Loko (SPR)

Discussions took place in Kingstown during August 18–31, 2022. The mission team comprised Nan Geng (head), Sophia Chen, Isabela Duarte, Marie Kim, and Dmitriy Kovtun (all WHD). The team was supported by Anahit Aghababyan, Beatriz Garcia-Nunes, and Archit Singhal (all WHD). Rosamund Edwards (OED) participated in several meetings, and Philip Jennings (OED) joined virtually the concluding meeting. Kimberly Waithe (CDB) also joined the mission. The mission met with Honorable Prime Minister R. Gonsalves, Honorable Minister of Finance C. Gonsalves, regulators, senior government officials, labor unions, the opposition party, and representatives from the financial and business sectors.

CONTENTS

TABLES

ANNEXES

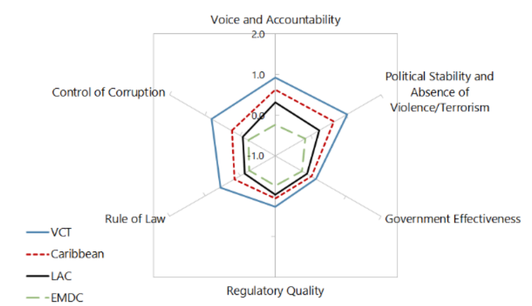
Acronyms and Abbreviations

ALMPs	Active labor market policies
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
CAD	Current account deficit
CARTAC	Caribbean Technical Assistance Center
CAT DDO	Catastrophe Deferred Drawdown Option
CBR	Correspondent Banking Relationship
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CDB	Caribbean Development Bank
CF	Contingencies Fund
CU	Credit union
ECCU	Eastern Caribbean Currency Union
CFATF	Caribbean Financial Action Task Force
FSA	Financial Services Authority
FRF	Fiscal Responsibility Framework
FRM	Fiscal Responsibility Mechanism
GDP	Gross domestic product
GIR	Gross international reserves
MoF	Ministry of Finance
MTEFO	Medium-Term Economic and Fiscal Outlook
NDC	Nationally Determined Contributions
NDRFS	National Disaster Risk Financing Strategy
NEER	Nominal effective exchange rate
NEMO	National Emergency Management Organization
NIIP	Net international investment position
NIS	National Insurance Services
NPL	Nonperforming loans
NRA	National Risk Assessment
OECS	Organization of Eastern Caribbean States
PFM	Public financial management
PIMA	Public Investment Management Assessment
RCF	Rapid Credit Facility
REER	Real effective exchange rate
VCT or St. Vincent	St. Vincent and the Grenadines
TA	Technical assistance
TAPA	Tax Administration and Procedures Act
TVET	Technical and Vocational Education and Training
VEEP	Volcanic Eruption Emergency Project
WB	The World Bank

CONTEXT

1. Prior to the pandemic, the authorities had made great strides with strengthening fundamentals. The authorities had implemented policies in line with past Fund advice (Annex I). Significant efforts were made to diversify the export base, strengthen human capital, improve the investment climate, and build climate resilience, benefiting from the relatively sound governance compared with peer averages. A new airport opened in 2017 improved tourism prospects and further plans for upgrading essential economic infrastructure were instituted, including the port modernization project and the new hospital, both with climate resilient features and financed by concessional loans (Annex II).

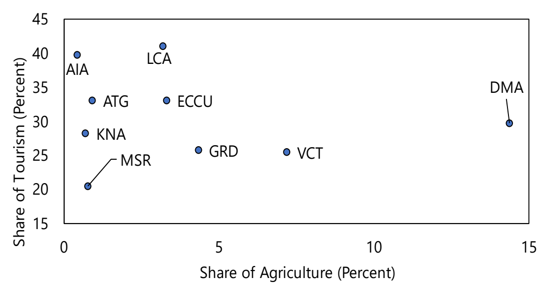
2020 Worldwide Governance Indicators



Source: World Bank WDI database.
Note: Estimate of governance ranges from approximately -2.5 (weak) to 2.5 (strong).

2. The pandemic and 2021 volcanic eruptions, compounded by the impact of the war in Ukraine, highlighted St. Vincent's significant vulnerability to external shocks and natural disasters. The shocks wielded a major blow to agriculture and tourism, two main sectors of the economy, although the impact from the eruptions was smaller than projected in the 2021 RCF.[1] The negative effects from the war in Ukraine have compounded the 2020–21 shocks through worsening terms of trade.[2]

Contribution of Tourism and Agriculture to GDP, 2019



Sources: ECCB, CTO, WB and IMF staff calculations.
Note: the Tourism sector includes Hotels and Restaurants, Transport and Storage and Wholesale and Retail Trade.

3. The proactive policy responses, supported by two RCFs and financing from other IFIs, mitigated the socio-economic impact of the shocks and helped contain economic scars.[3] The authorities swiftly introduced containment measures without resorting to full lockdowns,[4] and timely evacuated over 20,000 people before the volcanic eruptions, thus avoiding fatalities. They also

[1] The explosive eruptions took place during April 9–22, 2021, and volcanic activities ended earlier than anticipated in the 2021 RCF staff report, with the alert level reduced to yellow on September 15, 2021. The eruption-related impact on the agriculture sector is estimated to be smaller than expected in the 2021 RCF, and post-eruption reconstruction activity took place earlier and faster, contributing positively to growth.

[2] Given limited direct exposure to Russia, Belarus, or Ukraine, the impact of the war in Ukraine and sanctions imposed on Russia and Belarus is realized mainly through higher prices of food, fuel, and other imports.

[3] Two RCF disbursements were approved for VCT in recent years, of SDR 11.7 million (100 percent of quota) on May 20, 2020, to address the Covid-19 pandemic and SDR 8.17 million (69.85 percent of quota) on July 1, 2021, to address the fallout from the volcanic eruptions. They also helped catalyze financing from other multinational organizations.

[4] Containment measures include social distancing, mask mandates, distance learning at schools, etc.

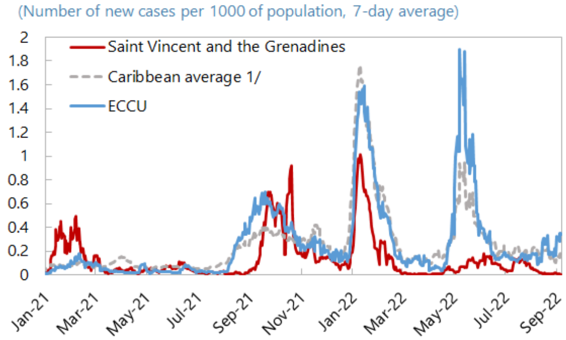
implemented two fiscal packages to provide critical support to households and firms affected by the shocks and the vulnerable. These efforts helped contain cumulative real GDP losses in 2020–21 relative to pre-pandemic projections to 7.4 percent, smaller than the ECCU average of 17.3 percent.

THE COMPOUND SHOCKS AND POLICY RESPONSE

4. **Reported Covid-19 infections and fatalities have been relatively moderate.** There have been several waves, although they were moderate relatively to the Caribbean average. The vaccination rate remains one of the lowest in the Caribbean due to strong hesitancy.

New COVID-19 Cases

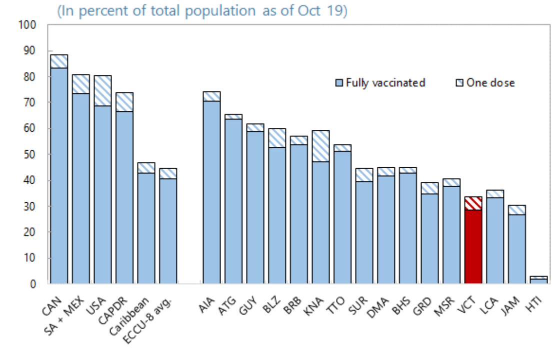
(Number of new cases per 1000 of population, 7-day average)



Sources: Our World In Data and IMF staff calculations.
1/ Average of 21 Caribbean economies.

People Vaccinated

(In percent of total population as of Oct 19)

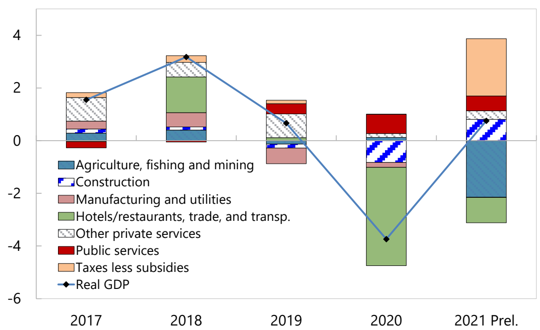


Sources: Haver, Our World in Data, Johns Hopkins, WHO, and IMF staff calculations.

5. **Following a decline of 3.7 percent in 2020, real GDP is estimated to have grown by 0.8 percent in 2021, a better outcome than previously expected.** Strong post-eruptions activity in construction and related sectors and smaller-than-expected decline in agriculture dampened the shocks. Tourism recovery has been relatively slow compared to regional averages as stayover arrivals in 2021 declined further to 28 percent of their 2019 levels, amidst the eruptions, lingering impact of the pandemic, and significant transportation bottlenecks, particularly at the intra-regional level (Annex III).[5]

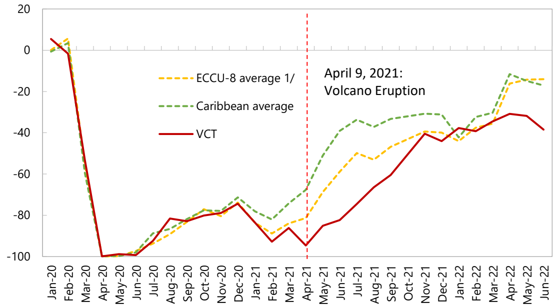
[5] The pace of tourism recovery fell below regional peers again in 2022: Q2, largely due to airlift limitations as airlines prioritized other destinations when allocating limited large aircrafts and pilots amidst various capacity constraints. The situation is expected to gradually improve as Air Canada resumes flights in November 2022 and American Airlines increase flight frequency from twice a week to daily in March 2023.

Growth Contributions by Sector
(Percent contribution)



Source: The national authorities and IMF staff estimates.

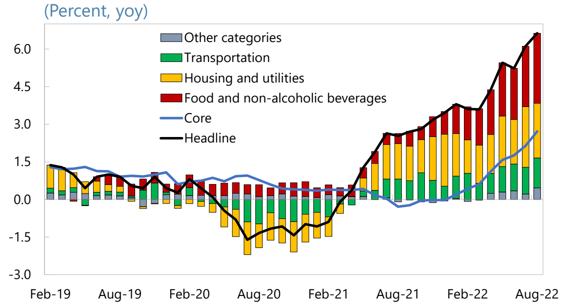
Stayover Tourist Arrivals
(As percent change relative to the same month in 2019)



Sources: Caribbean Tourism Organization, ECCB, and IMF staff calculations.
1/ No 2022 data are available for AIA.

6. **Surging commodity prices led to significant inflation pressures** (Annex IV). Headline inflation accelerated to 6.6 percent y/y in August 2022, reflecting higher imported food and energy prices and shipping costs associated with supply chain disruptions. The costs of construction materials also rose significantly, impacting ongoing investment projects. Core inflation is also rising but remained low (2.7 percent in August) reflecting the output gap.

Contributions to Headline Inflation
(Percent, yoy)



Sources: National authorities and IMF staff estimates.

7. **These shocks widened the CAD.** The CAD increased from 3.1 percent of GDP in 2019 to an estimated 22.8 percent of GDP in 2021 on account of weak tourism, higher imports, and lower exports due to the volcanic eruptions (Figure 3). Nevertheless, GIR held up well owing to strong external financing. The external position in 2021 is assessed to be moderately weaker than the level implied by the fundamentals and desirable policies (Annex V).

OUTLOOK AND RISKS

8. **Real GDP is projected to reach its pre-pandemic level in 2022 and the medium-term economic prospects are favorable.** The rebuilding activity, continued recovery in tourism and agriculture, and the start of the construction of several investment projects would support growth of 5 percent in 2022 (Annex II).[6] Growth is projected to strengthen to 6 percent in 2023 as large-scale construction projects get into full swing. Inflation is projected to accelerate to 5.8

Key Investment Projects, 2022-25

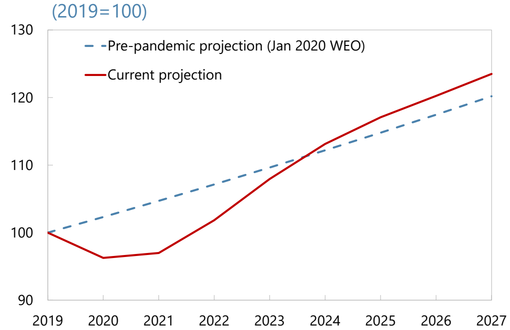
Project	Implementation period	Size, percent of 2022 GDP
Public		
Sea port 1/	2022-25	25.1
New hospital	2023-25	10.6
Private		
Sandals Resort	2022-23	21.1
Total	2022-25	56.8

Sources: National authorities and IMF staff estimates.
1/ Relative to the 2021 RCF, the cost has risen by about 6 percent of GDP. A small retention cost falls under 2026.

[6] Stayover tourism is projected to recover gradually and reach its pre-pandemic (2019) level in 2024.

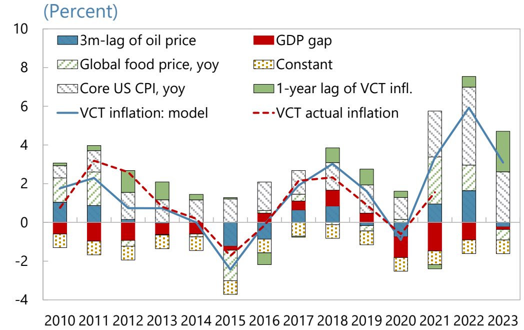
percent in 2022 on account of positive contributions from the U.S. inflation and global oil and food prices, which is partly offset by negative contribution from the output gap (Annex IV). It is projected to ease in 2023–24 in line with the projected decline in U.S. inflation and in fuel and food prices as well as the prudent public sector wage growth (Section A). The terms of trade shock and rising volume of imports for construction projects will widen the CAD to 26½ percent of GDP in 2022, but it is projected to subside over the medium term as exports recover and investment projects are completed.

Real GDP Index
(2019=100)



Source: IMF staff projections.

Inflation Model
(Percent)



Source: IMF staff estimates and projections.

9. Risks to the outlook are tilted to the downside (Annex VI). Intensifying spillovers from the war in Ukraine and commodity price shocks would result in higher food and fuel prices, which would add to inflationary pressures, further eroding incomes and weighing on economic activity. An abrupt global slowdown or recession triggered by global and idiosyncratic risk factors, including de-anchoring of inflation expectations and faster-than-anticipated tightening of global financial conditions, would dampen the recovery. Lingering supply chain disruptions, in conjunction with potential local capacity constraints, would delay planned investment projects, a key contributor to growth. Outbreaks of new Covid-19 variants, amidst low vaccination rates, could affect tourism recovery and construction activity. St. Vincent remains highly vulnerable to natural disasters and climate change. An adverse scenario where a combination of these risks is realized could entail sharply lower growth rates and higher public debt (Annex VII). On the upside, a faster-than-projected recovery in tourism could improve growth.

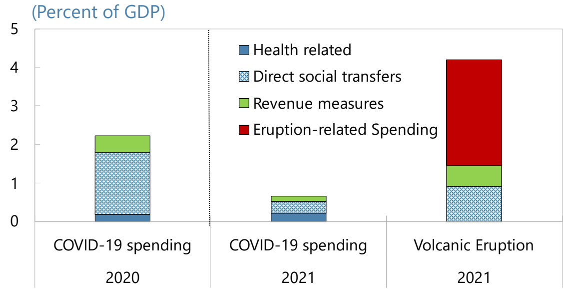
POLICY DISCUSSIONS

Policies need to be calibrated to support a resilient and inclusive recovery, while safeguarding debt sustainability and financial sector stability. As a member of the ECCU with limited fiscal space, the burden of adjustment falls on fiscal and structural policies. Near-term policy priorities are health and reconstruction spending and time-bound and targeted fiscal support while maintaining fiscal prudence. Once the recovery takes hold, fiscal buffers should be rebuilt, including by fully operationalizing the FRF, to withstand shocks and reinforce fiscal sustainability. Continued supply-side reforms to improve productivity and competitiveness and building resilience to natural disasters and climate change remain key for sustainable growth, which is critical to public debt sustainability.

A. Fiscal Policy: Safeguarding Debt Sustainability While Supporting a Resilient and Inclusive Recovery

10. The critical fiscal responses coupled with a contraction of economic activity led to a reversal of the declining trend of public debt-to-GDP ratio prior to 2020. To mitigate the socio-economic impact of the shocks, the government responded in a timely manner with measures amounting to about 7 percent of GDP in 2020–21.[7] Despite the shocks, tax revenue remained resilient in 2021 reflecting ongoing revenue mobilization efforts through both tax policy and administration measures as well as tax revenues related to a one-off land sale.[8] The government also continued to contain the deficit by cutting non-priority current spending, leading to an improvement in the underlying primary balance (PB) compared to 2020. Nevertheless, the much-needed response to address the humanitarian and healthcare crises pushed up public debt sharply to about 89¼ percent of GDP in 2021, from about 68 percent in 2019.

Discretionary Fiscal Measures: 2020-21
(Percent of GDP)



Sources: National authorities and IMF staff calculations.

Central Government Operations, 2020-22
(Percent of GDP)

	2020	2021	2022	
		Prel.	Budget	Proj.
Total Revenue and Grants	**30.5**	**31.4**	**29.4**	**30.0**
Current Revenue	25.8	28.9	26.7	27.2
Tax Revenue	23.7	26.7	24.4	25.0
Non-tax	2.2	2.3	2.2	2.2
Capital Revenues and Grants	4.7	2.5	2.8	2.8
Total Expenditure	**35.8**	**38.8**	**46.9**	**38.2**
Current Expenditure	27.4	29.5	28.6	27.3
Wages and Salaries	13.8	14.3	13.9	13.6
Interest	2.2	2.6	2.9	2.5
Transfers and Subsidies	7.5	8.3	7.3	7.0
Goods and Services	3.8	4.2	4.5	4.2
Capital Expenditure	8.5	9.3	18.3	10.9
of which: Port	0.1	0.2	4.4	4.4
Overall balance	**-5.3**	**-7.3**	**-17.5**	**-8.2**
Primary Balance (PB)	**-3.1**	**-4.8**	**-14.6**	**-5.7**
Underlying PB 1/	**-1.2**	**-0.4**	**-7.4**	**1.6**

Sources: National authorities and IMF staff estimates.
1/ Primary balance excluding excluding port and pandemic- and volcano-related spending.

11. The fiscal stance embedded in the 2022 budget strikes a balance between maintaining fiscal prudence and the need to support the vulnerable and recovery and build resilience. 2022 budget restrains current spending at levels broadly in line with policy commitments under the 2021 RCF—while prioritizing spending to provide essential support to reconstruction and economic activity and sustaining higher level of social and health spending—and continues to build the

[7] The measures included: (i) an increase in health care spending; (ii) cash payments to vulnerable households; (iii) income support during April 2020–mid-2021 for displaced workers and firms in the tourism, agriculture, and other sectors affected; (iv) public infrastructure projects to clean and reconstruct; and (v) temporary VAT and import duty exemptions on health and aid-related products. The authorities have published all awarded procurement contracts for Covid-19 spending though completing and publishing their full ex-post audit are likely to take years given the backlog.

[8] The authorities raised the Customs Service Charge (CSC) rate by 1 percentage point to 6 percent, effective from June 2021, with an estimated full-year yield of one percent of GDP. Staff estimate that one-off land sale related taxes contributed 2.5 percent of GDP to tax revenues in 2021.

Contingencies Fund. To cushion the impact of rising living costs, the authorities introduced temporary price-mitigating measures (0.5 percent of GDP).[9] The government also rolled out additional temporary income support and other targeted programs to support households heavily affected by the volcanic eruptions.[10] Preliminary data through September suggest continued improvement in revenue collections, reflecting full-year impact of the CSC rate increase and ongoing efforts with strengthening tax administration (see ¶17), well-contained current spending, and lower-than-budgeted capital spending. While the primary deficit is estimated to widen to 5.7 percent of GDP as the port construction starts, the underlying PB is expected to improve from -0.4 percent of GDP in 2021 to 1.6 percent in 2022.

12. Near-term policies should continue to give priority to health and reconstruction spending and supporting the vulnerable while maintaining fiscal prudence. Rising living costs in the environment of limited fiscal space pose difficult trade-offs. To help minimize fiscal and adverse distributional impact and promote green transformation, the authorities should keep announced generalized relief measures temporary as planned and continue to enhance the coverage and targeting of social safety nets (SSN), including by digitizing beneficiary information and payment system. As the economy recovers, fiscal policy should move from income support and job retention measures to ALMPs to facilitate labor reallocation and training.

13. The Debt Sustainability Analysis (DSA) suggests that public debt is sustainable but remains at high risk of distress for both external and overall public debt. The authorities are committed to reaching the 2035 regional debt target of 60 percent of GDP and the medium-term fiscal strategy set out in the 2021 RCF. This includes further strengthening of revenue administration, continued containment of wage and other current spending growth while safeguarding critical service delivery, and reprioritizing capital spending to balance the needs for a resilient recovery and preserving debt sustainability.[11] Supported by these adjustment efforts, the primary balance would improve to a surplus of about 3 percent of GDP in 2026, once the large-scale projects are completed.[12] The debt ratio is projected to peak at 89.2 percent of GDP in 2024 and steadily decline

[9] These include (i) a temporary reduction in fuel excise taxes by half and removal of custom service charges on fuel imports of St. Vincent Electricity Services Limited (VINLEC) from May through end-2022; (ii) direct fertilizer subsidies to farmers in 2022 and feed subsidies to livestock farmers from July until the fund is exhausted; (iii) re-introduction of the targeted food support program ('love box') from May; (iv) lower fuel surcharges on electricity bill for June only to smooth the price impact, with the cost largely borne by the VINLEC; (v) an increase in VAT exemption threshold on monthly electricity usage from 150kWh to 250kWh from July through end-2022, and (vi) a waiver of half of the CSC on flour from July. Extensions of the measures are to be reviewed.

[10] These programs are largely supported by the WB's VEEP (2022–26), including the additional temporary income support during 2022:H2 and other targeted programs, e.g., to facilitate employment and the agriculture recovery.

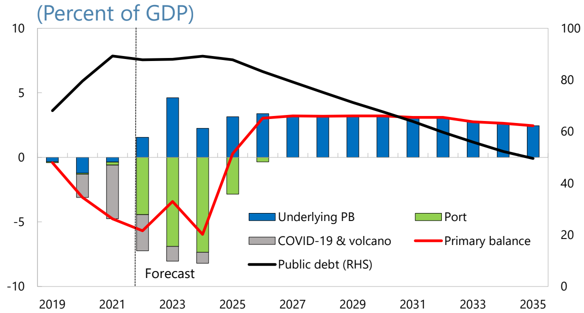
[11] The authorities could consider functional reviews to ensure that both level and skill composition of government employment is consistent with the effective delivery of public services and a benchmark study of compensation to calibrate it to retain the required talent and incentivize performance. The baseline assumes that the total amount of capital spending during 2021–26 is capped at about EC$1.6 billion compared to EC$1.2 billion in the 2021 RCF, reflecting higher cost of the port modernization project and the new hospital project.

[12] The baseline projections incorporate (i) the recently concluded public sector wage negotiation which implies a cumulative wage growth of about 7 percent over 2023-25; and (ii) the recently announced reduction of the top

(continued)

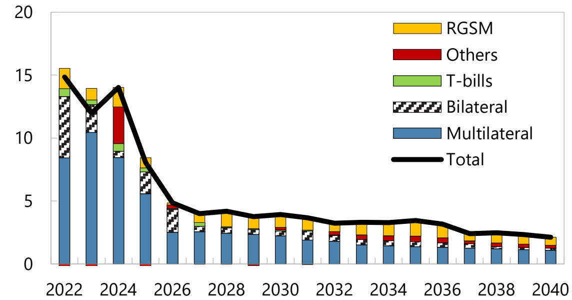
thereafter to fall below 60 percent of GDP before the regional target date of 2035.[13] Gross financing needs will remain elevated in the near term—largely reflecting concessional financing for large investment projects—before declining sharply from 2025.[14] The undrawn SDR holdings (at about US$14 million or 1.5 percent of GDP as of September 30, 2022) remain a key contingency reserve. Given the elevated macroeconomic uncertainty and the economy's high vulnerability to external shocks and natural disasters, the baseline projections are subject to large downside risks (DSA, Figure 2, Table 4). An adverse scenario with sharply lower growth (Annex VII) could give rise to significant financing gap and put debt on an unsustainable path.

Primary Balance and Public Debt
(Percent of GDP)



Sources: National authorities and IMF staff forecasts.

Gross Financing Needs
(In percent of GDP)



Sources: National authorities and IMF staff forecasts.

14. Once the recovery takes hold, it will be important to recalibrate and fully operationalize the FRF to underpin the commitments and reinforce fiscal credibility (Annex VIII). Shortly after its adoption in January 2020, the FRF was suspended due to multiple shocks. The resulted recent surge in debt and higher cost of key infrastructure projects have made the current debt and operational targets inconsistent with the new reality. The potential increase in external borrowing costs due to tighter global financial conditions and elevated debt underscores the need to fully operationalize a well-designed FRF to signal credible medium-term fiscal plans. Aligning the timing of the debt target date with the revised regional one (from 2030 to 2035) would create the needed fiscal space for resilience building and development needs to strike an appropriate balance between supporting the recovery and ensuring debt sustainability. An average primary balance of about 3¼ percent of GDP over 2026–35 (consistent with staff's baseline projections and compared to the current FRF target of 2.7 percent) would be needed to achieve the debt anchor of 60 percent

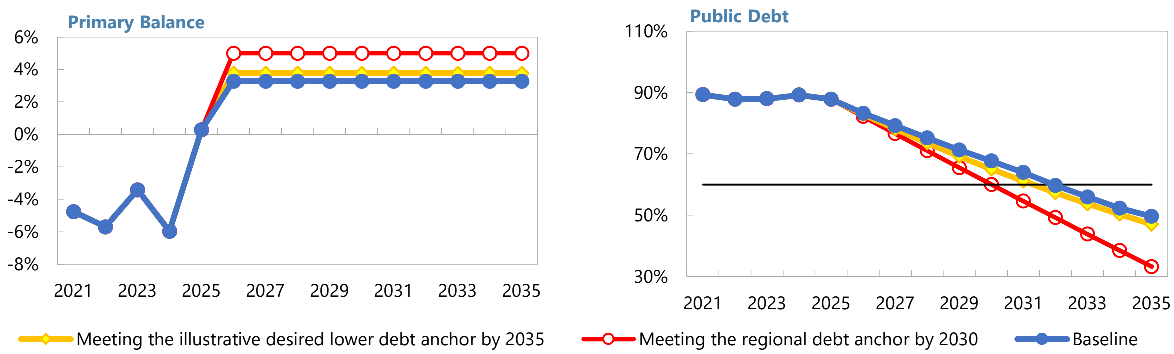
income tax rate from 30 to 28 percent and increase of the standard personal income tax deductions from EC$20,000 to EC$22,000, taking effect from 2023, with an estimated annual cost of 0.4 percent of GDP. The projections also incorporate contingency planning for an expected annual fiscal cost from natural disasters of 1.1 percent of GDP, estimated based on the magnitude and frequency of those occurred during 1980-2021. This includes an average annual contribution to the contingency fund of about 0.7 percent of GDP and contingent spending of goods and services and transfers of 0.4 percent of GDP. CF has an existing balance of about 1.2 percent of GDP as of end-2021 and CCRIF has an average payout of 0.2 percent of GDP for VCT, based on the historical payout information, in the event of natural disasters.

[13] Staff also incorporated a debt relief from Venezuela of 4.2 percent of GDP in 2022. The amount represents the remaining debt outstanding from the debt forgiveness by PetroCaribe in 2017.

[14] Despite global financial tightening, interest rates in the regional debt market remained at low levels given the ample liquidity in the financial system.

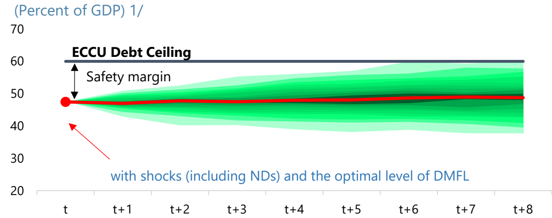
of GDP before 2035 and public debt sustainability. Aligning the current FRF wage ceiling target of 12.5 percent of GDP with the current baseline could also be considered.[15] An automatic adjustment mechanism, e.g., linking primary balance targets to debt-to-GDP ratio, could also strengthen the credibility and adaptability of the framework.

Primary Balance and Debt Path Under Various Scenarios
(Percent of GDP)



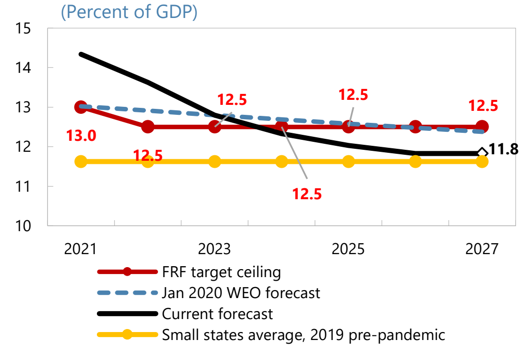
Sources: IMF FAD (2018) and IMF staff estimations.

Debt Target in the Presence of Shocks (including NDs), With the Optimal Level of Disaster Mitigating Financial Layering (DMFL)
(Percent of GDP) 1/



Sources: IMF staff estimates
1/ The fan chart represents debt path simulations based on shocks derived from the historical and natural disaster data. The results depend on several chosen parameters, including the length of the simulation period and the percentage of simulations that should stay below a given threshold.

Wage Bill
(Percent of GDP)



Sources: IMF WEO database, national authorities, and IMF Staff forecast.

15. **Given the high vulnerability to external shocks, including from frequent natural disasters, it would be prudent to build additional buffers and prepare contingency plans.** The economy faces frequent natural disasters, leading to large, unexpected increase in debt in the past (Annex VIII & DSA). Continued build-up of the Contingencies Fund is a move in the right direction. An illustrative scenario suggests that stronger adjustment would ensure the regional debt target and public debt sustainability are met with a high probability (Annex VIII).[16] In this scenario, a primary surplus of around 3¾ percent of GDP in the medium term would provide a stronger reduction of public debt to build a safety margin that could be used in the presence of shocks. It will be useful to

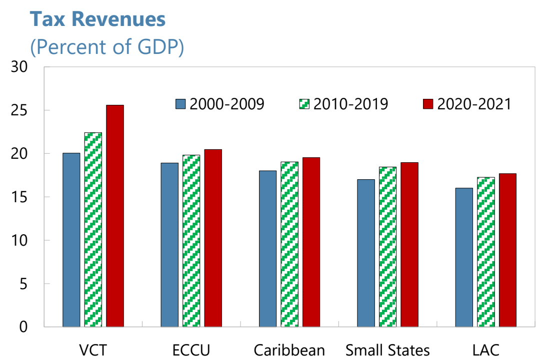
[15] The lower medium-term wage-to-GDP ratio under the current baseline (compared to the current FRF wage bill ceiling)—reflecting higher rebased GDP as well as stronger wage adjustment as committed under the 2021 RCF—is broadly in line with the small states average.

[16] An illustrative calibration exercise suggests a debt anchor of 47 percent of GDP would provide a safety margin against shocks and keep debt below the regional debt ceiling of 60 percent of GDP with 95 percent probability. This draws on the methodology in 2022 ECCU Selected Issues Paper (IMF Country Report No. 22/254).

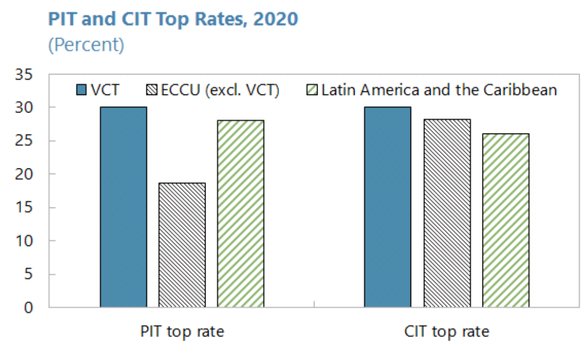
develop a detailed contingency plan, drawing on existing buffers (i.e., the Contingencies Fund and special SDR allocation) and a list of contingent measure options (see ¶16), to return debt to the baseline should adverse shocks materialize (Annex VII).

16. To build additional fiscal space to guard against risks and support resilient and inclusive growth, growth-friendly and equity-enhancing measures on both revenue and expenditure sides should be considered.

- ***Revenue.*** Tax revenues fare well compared to peers, but there is scope to make the tax system more equitable and efficient, including by: (i) streamlining VAT exemptions and import concessions, (ii) raising the recurrent property tax, and (iii) improving the design of PIT and CIT to broaden the base and increase the progressivity of PIT.



Sources: National authorities and IMF staff calculations.



Source: IMF staff calculations.

- ***Expenditure***. Undertaking the long-standing parametric pension reform (Annex IX) will help build fiscal space, including for productive and resilience investment (Section B) and strengthening the SSN. Whereas the ongoing targeted food support program helps support the vulnerable, administratively simpler and less costly programs, such as targeted cash transfers and vouchers, could be further explored. The authorities are also considering establishing a permanent unemployment insurance program, which would help strengthening the SSN provided that the scheme is carefully designed to encourage labor force participation and formality in the labor market and ensure its sustainability.[17] Expanding existing public works schemes (e.g., cash-for-work) could also be considered as a highly effective way in providing employment guarantee in times of need and productively engaging beneficiaries to develop community infrastructure/assets.[18]

[17] A temporary unemployment insurance program was introduced during the pandemic.

[18] The authorities introduced a Labor-Intensive Temporary Employment (LITE) program which targets hiring people (especially women) from poor households for short-term critical community work, supported by the WB's VEEP. It builds on the existing experience of the Roads, Buildings, and General Services Authority (BRAGSA) in implementing the Road Clean-Up Program, which is a cash-for-work seasonal program aimed at basic public infrastructure maintenance and the creation of short-term employment benefiting unemployed working-age people.

Measures Options for Further Fiscal Adjustment		
Measure options for additional adjustment	**Estimated yield** (Percent of GDP)	**Notes**
Tax Measures		
Reduce exemptions on import duties and VAT on imports	>1.3	According to authorities' latest estimates, total relief on imports is estimated at around 4 percent of GDP annually.
Streamline zero-rated and exempted goods and services from domestic VAT	<2.0	The domestic VAT base could be broadened through reducing the list of exempted supplies and zero-rated domestic supplies.
Strengthen compliance and increase recurrent property tax rate	tbd	Raise tax rates from the currently low level (ranging between 0.04 to 0.08 percent) as part of a reform package aiming to make the system fairer and more effective in raising revenues. Measures should be accompanied by a basic hardship relief regime.
Reform the structure of personal income tax (PIT)	> 0.3	While the recent reduction of top rate from 30 to 28 percent helps reduce the relatively high labor tax wedge towards the regional averages and support the economic recovery from multiple shocks, the tax rate cut should be complemented by a comprehensive tax reform to improve the progressivity and enhance revenues, including (i) broadening the base to include other types of income, especially capital income, (ii) improving the design of the tax brackets given that currently over 90 percent of those who file tax returns are paying at the top rate; and (iii) replacing the standard deduction with a tax credit having an approximately equivalent impact on taxpayers in the lower tax bracket(s).
Reform the structure of corporate income tax (CIT)	>0.6	Unify tax rates at the standard rate, reduce exemptions, update the depreciation schedules, and introduce thin-capitalization rules.
Collect outstanding tax arrears	tbd	The outstanding arrears of PIT, CIT, and VAT stood at 11 percent of GDP as of August 2022.
Expenditure Measures		
Reform Public Service Pension System (PSPS) and National Insurance Service (NIS)	tbd	Implement parametric reforms, including (i) increasing contribution rate and introducing mandatory employee contributions for the PSPS, (ii) applying a uniform accrual rate to all years of service while closing the PSPS to new entrants and reducing benefit accrual rate for the PSPS, and (iii) eliminating early pension and linking retirement age to life expectancy while increasing retirement age for civil servant under PSPS in line with the increase for NIS.

Sources: IMF Country Report No.19/66, IMF FAD TA report on VCT Tax Policy Review (2017), IMF FAD TA report "Tax Incentives and Property Taxation in the ECCU" (2015), National authorities, and IMF staff estimates.

17. **Continued efforts with fiscal institutional reforms, with the support from CARTAC, are key to underpin the effective implementation of the FRF.**[19] Priority areas include:

- *Strengthening tax administration*. The authorities should sustain the ongoing intensified efforts to enhance taxpayer's compliance through fully implementing the single Tax Identification Number (TIN) and the enacted TAPA, digitalizing the tax system, strengthening fuel imports control, as well as modernizing customs legislation.[20]

- *Enhancing the PFM*. The authorities should expedite their efforts to improve the budget process and medium-term fiscal planning. It is critical to improve the credibility of annual budget and leveraging the MTEFO to guide medium-term budget preparation in accordance with fiscal targets. Publishing FRM's reports regularly and ensuring legal and financial independence of the FRM will further enhance the transparency and accountability of the FRF.

- *Improving public investment management*. Despite some progress made in recent years, there remains significant under-execution of the capital budget, stemming from underlying issues with

[19] CARTAC TAs continue to support fiscal institutional reforms in multiple areas, which has included strengthening tax administration, the operationalization of the FRF, assessing the disaster resilience capacities of the government's PFM processes, systems and institutions, strengthening the SOE oversight, improving bank reconciliation, and supporting the implementation of cash basis International Public Sector Accounting Standard (IPSAS).

[20] The main objective of the TAPA is to improve compliance, transparency, overall effectiveness of the tax policy. The ongoing digital transformation initiative through e-Payment (e.g., social program), e-Tax system, and securing electronic identification system, will streamline the custom process, lower administrative costs, and enhance the overall efficiency. A petroleum unit was created in the Customs to exercise better control petroleum supply chain and reduce revenue leakage.

project implementation and planning. The PIMA with a climate module that the authorities plan to undertake with IMF support will help improve the planning, allocation, and implementation of investment projects and strengthen climate resilience. Given the large infrastructure needs, the planning should be consistent with the government's strategic long-term development goals and prioritized based on resilient growth implication, the certainty of project funding, and the likelihood of successful implementation.

- *Strengthening SOE oversight and the cash management system.* The adoption of the regulations and creation of a monitoring unit for SOE oversight are steps in the right direction, but further enhancement of the oversight function is needed to ensure timely submission of all SOEs' financial performance to the MOF.[21] The authorities should also continue efforts to strengthen cash management, including preparing cash flow forecasts periodically and separating arrears from accounts payable.

B. Supporting Resilient and Inclusive Growth and Promoting Job Opportunities

18. Continued structural reforms are needed to improve productivity and competitiveness, minimize scarring from past shocks, and support sustainable growth. The recent and ongoing key infrastructure investments are instrumental for addressing supply-side constraints to growth. To unlock their full potential, continued improvement in business and investment environment is needed to foster private sector activity and create jobs, including through the planned Investment Act and single windows for land registration and trade. Participation in the regional initiatives to integrate and ensure food security, including by removing intra-regional trade barriers, and to undertake digital transformation, would boost productivity, which has been constrained by the small size of local markets and high costs.[22] Ongoing efforts to improve the scope, coverage, and effectiveness of TVET programs across the country should be complemented by ALMPs, e.g., creating employment service centers, to provide less formal but structured services to facilitate training and employment. This would help reduce the long-standing skill mismatches and reduce the persistent youth unemployment, especially in view of the ample job opportunities upcoming from the large investment projects.

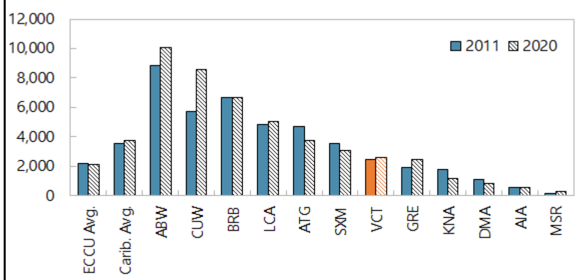
19. The tourism sector is well-positioned to contribute more to growth. The authorities are preparing a 10-year masterplan that will guide the development for the sector. The combination of attractive nature, the modern airport opened in 2017, and the rich agricultural base creates

[21] In 2019, The government adopted the Finance Administration Monitoring and Oversight of Statutory Bodies regulations and established a high-level Monitoring and Oversight Committee and an oversight unit, but the oversight function remains limited to one officer allocated on a part time basis.

[22] The WB-supported OECS Digital Transformation Project is underway to help create a digital enabling environment, build digital government infrastructure, and enable digital skills and technology adoption.

conditions for increasing the value added of the sector and job opportunities. The ongoing expansion of the room capacity (e.g., the Sandals Resort) is a move in the right direction and needs to be accompanied by strengthened air connectivity, including at the intra-regional level, and further enhancement of road infrastructure. There is potential for strengthening the linkages between tourism and agriculture/fisheries sectors through building supply platforms to promote greater use of local produce by resorts and for developing ecotourism. Planned increase in capacity of the health sector could promote St. Vincent's attractiveness as a safe destination that can cater to tourists with medical needs.

Rooms in Tourism Accommodations



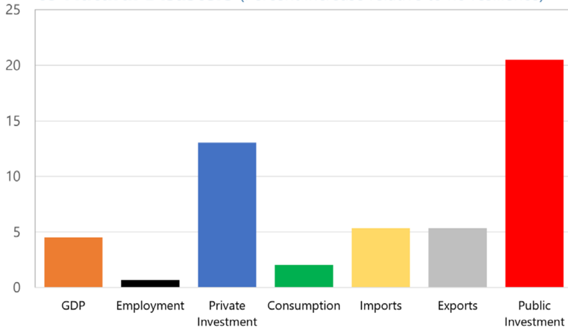
Source: Caribbean Tourism Organization (CTO).
Note: The chart includes destinations with total area within 1,000 square km.

20. Building resilience to natural disasters and climate change remains a priority. The authorities are implementing a comprehensive National Adaptation Plan (2018–30) and have already made significant efforts to enhance the country's structural and financial resilience, including legislating the CF's governance and operational framework and strengthen the capacity of the NEMO. Under the WB's VEEP, the authorities are also preparing for a major review of the National Disaster Plan in 2022, including clarifying the terms of reference for various agencies during a disaster, reviewing the hazard management plan, and updating procedures, and a comprehensive review of the National Emergency and Disaster Act is envisaged for 2023. To improve long-term outlook and fiscal sustainability, they should continue to strengthen structural resilience, complemented by financial resilience, especially during the transition period:

- ***Structural resilience.*** Resilient public capital lowers expected losses from natural disasters and hence needed reconstruction spending and increase expected returns to private investment and increases employment and wages. Staff analysis calibrated to St. Vincent illustrates that public investment in resilience of about 0.9 percent of GDP per year would yield long-run benefits of about 1.2 percent of GDP per year.[23] To support cost-effective resilience-building, the authorities should continue to seek concessional financing from the international community, including climate funds, as well as to mobilize private sector investment.

[23] See 2018 ECCU Regional Consultation Report (IMF Country Report No. 19/62) and Western Hemisphere Regional Economic Outlook (October 2021) for the model. The model is calibrated here to St. Vincent and using the EM-DAT dataset.

Long-Term Return on Public Investment in Resilience to Natural Disasters (Percent increase relative to no resilience)



Source: Fund staff calculations based on data from the authorities and EM-DAT.

Average Annual Fiscal Return of Investment in Resilience
(Percent of steady state GDP)

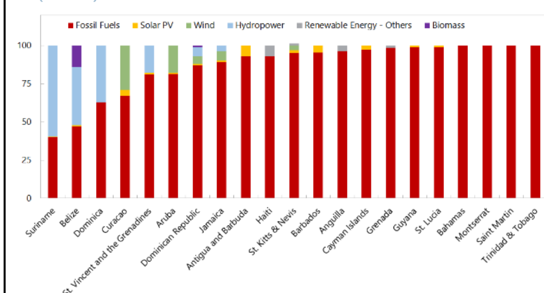
Total Return		**1.18**
Stock saving	Decrease in reconstruction cost after NDs	0.08
Flow saving	Moderation of output decline after NDs	0.02
Steady state	Increse in output, investment, employment	1.08
Cost of resilience 1/	Increase of public investment spending due to resilience cost	**0.90**
Net annual saving		**0.28**

Sources: Model-based estimates by IMF staff.
1/ Based on an assumption that switching to climate-resilient investment increases the cost of public investment by 20 percent.

- ***Financial resilience.*** The authorities introduced three layers of instruments to improve financial resilience and alleviate fiscal pressure. They (i) created a CF in 2017 as a self-insurance Fund to cover post-disaster emergency measures, (ii) enrolled in the regional risk-sharing facility CCRIF and under the WB's Blue Economy project, enabled access to the regional climate risk insurance for fisheries,[24] and (iii) arranged contingent credit lines, the WB's CAT DDO in 2020, from which St. Vincent received a disbursement in 2021. With the WB's support, the authorities are exploring the possibility of a Caribbean Regional Catastrophe Bond and also developing a Disaster Risk Financing Strategy (DRFS) that is expected to strengthen their ability to assess, reduce, and manage disaster-related fiscal risk.[25] Promoting a deeper use of insurance by the private sectors, especially agriculture and fishery, would enhance their resilience.

- ***Moving to renewable energy.*** The authorities are moving towards renewable energy sources to improve resilience, competitiveness, and energy security. There are various tax incentives in place (e.g., for purchasing solar equipment),[26] but the Electricity Act remains to be revised to provide an enabling environment to further support the shift. The transition will be important for de-carbonizing the energy production and moving closer to their NDC targets.[27]

Electricity Generation Mix in 2020
(Percent)



Source: U.S. Department of Energy.

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[24] The WB's Blue Economy project will enable VCT's participation in the COAST facility, a regional insurance scheme for fisheries designed to increase resilience to extreme weather events such as hurricanes and storms. COAST also enhances inclusiveness by covering not only fishers, but also fish vendors and processors, most of whom are women.

[25] The DRFS is setting out four strategic priorities, namely (i) strengthening data collection and management, (ii) strengthening PFM, (iii) improving fiscal protection and timely access to financing, and (iv) increasing collaboration with private sector to improve availability, affordability and use of catastrophe risk insurance and other financial products that encourage risk reduction.

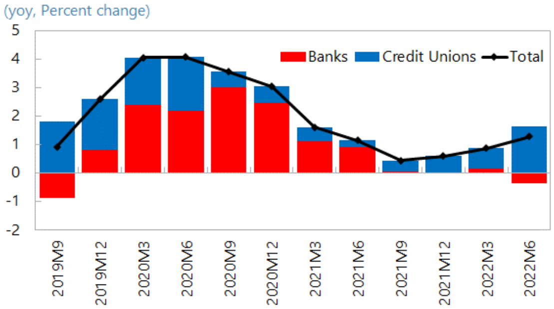
[26] About 150 private owners of solar panels are already supplying electricity back to the grid. Several ongoing and planned projects are expected to nearly double the current share of solar power to about 5 percent within two years.

[27] St. Vincent intends to achieve an unconditional, economy-wide reduction in greenhouse gas emissions of 22 percent by 2025 compared to the business-as-usual scenario.

C. Maintaining Financial Sector Stability While Supporting the Recovery

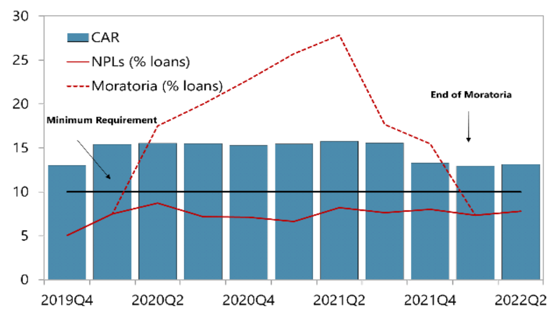
21. The financial sector has weathered the shocks relatively well so far. Capital buffers remain well above regulatory requirements and the regional average. NPLs have increased compared to pre-pandemic levels to 9.9 percent for banks and 7.8 percent for CUs as of June 2022 but remained below the regional average. The provisioning levels for the banking system have recently declined to below the ECCB's recently introduced more stringent guidance and should be bolstered.[28] Loans under moratorium for both banks and CUs have declined significantly as shares of total loans as of end-2021 and financial institutions are taking measures to prudently manage and mitigate the potential impact of the expiration of the moratoria on asset quality, including case-by-case loan restructuring, sales of NPLs, and planned increase in loan loss provisioning.[29] Credit growth rebounded in late 2021 and early 2022 driven by CUs while bank credit declined marginally despite ample liquidity. Profitability indicators for banks have remained positive. While St. Vincent has become the front-runner in the ECCU in the uptake of DCash (the digital EC dollar) since the launch of the pilot in August 2021, the momentum waned following the early 2022 outage.

Contributions to Private Sector Growth by Banks and CUs
(yoy, Percent change)



Sources: ECCB, FSA and IMF staff calculations.

Credit Unions: Selected Prudential Indicators
(Percent)



Sources: FSA and IMF staff calculations.

[28] The ECCB has recently increased provisioning requirements under its Treatment of Impaired Assets Standards and banks are now required to maintain a coverage ratio of minimum 60 percent of all NPLs in effect from 2022. The technical requirements for the planned phased increase of banks' minimum provisioning ratio to 100 percent for long-standing NPLs by 2024 are currently being reviewed by the ECCB based on industry consultations, and the revised guidance is due to be formally articulated in the ECCB's 2022 review of the Treatment of Impaired Assets Standard (TIAS).

[29] Loan moratoria, which were initially applied system wide and extended selectively in March 2021 and September 2021 to sectors and households most hit by the shocks, have expired at end-March 2022 for both banks and CUs.

Financial Soundness Indicators (Percent)					
	2018	2019	2020	2021	2022Q2 1/
Banks					
Deposit-to-loan Ratio	144.6	160.2	168.0	185.7	181.8
Non-performing Loan Ratio	6.5	6.4	7.4	7.8	9.9
Capital Adequacy Ratio (CAR)	23.1	22.2	22.5	22.4	21.9
Provisions for Loan Losses to NPLs	69.5	58.8	64.0	59.2	47.7
Liquid Assets/ Total Assets	37.7	41.4	44.0	47.2	47.6
Return on Average Assets (ROA)	0.5	1.1	0.1	0.4	0.4
Credit Unions					
Deposit-to-loan Ratio	126.2	130.4	138.6	149.2	152.2
Non-performing Loan Ratio	5.2	5.0	7.1	8.0	7.8
Capital Adequacy Ratio (CAR)	13.9	13.0	15.3	13.3	13.1
Provisions for Loan Losses to NPLs	43.9	66.4	53.3	54.3	58.0
Liquid Assets/ Total Assets	20.8	27.7	31.4	30.0	31.8
Return on Average Assets (ROA)	1.3	1.3	0.7	0.9	0.3
ECCU Average (Banks)					
Deposit-to-loan Ratio	170.0	169.8	165.2	174.4	180.8
Non-performing Loan Ratio	11.4	10.1	11.4	11.7	11.8
Capital Adequacy Ratio (CAR)	19.1	21.2	20.9	20.0	15.8
Provisions for Loan Losses to NPLs	44.0	43.0	50.9	48.4	47.7
Liquid Assets/ Total Assets	36.4	40.2	41.6	41.2	42.9
Return on Average Assets (ROA)	1.1	1.4	1.0	0.9	0.3

Sources: ECCB, FSA, and IMF staff calculations.
1/ 2022Q1 data if 2022Q2 is not availble.

22. **The FSA should continue to closely monitor asset quality in the non-bank financial sector following the end of the loan moratoria.** After the onset of the pandemic, the FSA appropriately enhanced reporting requirements for deposit-taking institutions and the frequency and intensity of oversight, including by requesting institutions to incorporate pandemic and volcanic eruption-related risks into stress testing exercises. The authorities should maintain a vigilant approach, as the impact of the moratoria on asset quality is still unfolding with potential further increase in NPLs considering fragile borrower balance sheets, slow recovery of the tourism industry, and inflation headwinds.[30] CUs have increased their share in total credit in recent years, mostly through the expansion in mortgages and consumer loans, and the FSA should maintain close monitoring of lending standards.[31] Further progress is needed in rolling out stress testing to

[30] Delinquency rates for credit unions, which includes loans 30 days past due, reached 9.4 percent of total loans in 2022: Q2.

[31] The Building and Loan Association has been under enhanced supervision since 2013.

insurance companies and in tackling the challenges related to the insurance sector's transition to IFRS 17.

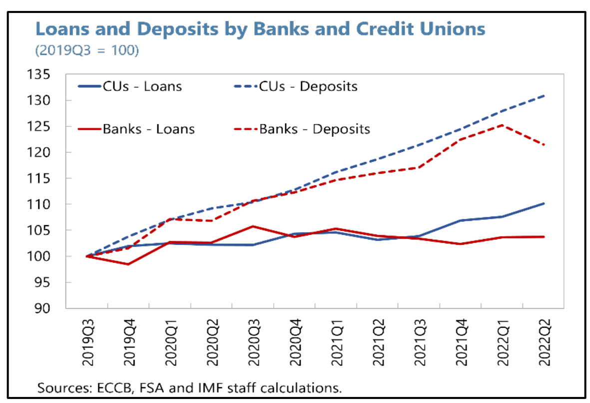
23. The authorities should continue strengthening the regulatory and supervisory frameworks and improve crisis preparedness and management. CUs have successfully implemented IFRS 9 with no significant impact on provisioning levels. Regulatory provisions for friendly societies and cooperative societies were strengthened under the new Friendly Societies Act and the recently approved amendments to the Cooperative Societies Act, and risk management and internal control guidelines for insurance companies published. The harmonized Virtual Asset Business Act was approved by Parliament and an action plan for its implementation has been prepared.[32] The pending priorities are:

- *Transition to risk-based supervision, including incorporating risks related to climate change and cyber threats*. With CARTAC's support, significant progress has been made with transitioning to risk-based supervision, including pilot application of the framework and the publication of a guideline detailing the methodology. Incorporating climate risks in the supervisory and risk assessment frameworks and developing regulatory measures that support climate risk-aware business practices would help enhance climate resilience.

- *Regulatory reforms to strengthen the framework and FSA's enforcement and resolution powers,* including amendments to the FSA Act and the Building Societies Act and the implementation of the regional Harmonized Credit Union Regulation.

- *Strengthening crisis preparedness*, including by developing a crisis management framework for the non-bank financial sector, in consultation with the MOF and the ECCB.

- *Improving analysis and transparency*, including preparing and publishing periodical financial stability assessments.



24. Leveraging regional and national initiatives to promote private sector credit growth and digitalization would help bolster the recovery and financial inclusion. Structural reforms (Section B) can help increase the number of bankable projects. As mentioned in the 2022 ECCU staff report, to remove bottlenecks that hinder financial inclusion and foster inclusive recovery, continued efforts are needed to move ahead with several regional and national initiatives, including (i) establishing the regional credit bureau which will help encourage prudent risk-taking in lending;[33] (ii) leveraging

[32] See 2022 ECCU Regional Consultation Report, IMF Country Report No. 22/253.

[33] St. Vincent has already approved the supporting national legislation for its establishment.

the recently launched regional credit guarantee scheme, that is expected to help relax collateral constraints to access to credit by micro-, small- and medium-sized enterprises; and (iii) digitalizing financial services in the context of the ongoing Caribbean Digital Transformation Program supported by the WB. The authorities have recently partnered with a local financial institution to promote the use of digital payment by recipients of VEEP and other cash transfer programs, an initiative that is expected to improve social assistance spending efficiency and boost financial inclusion.

25. **The authorities are prioritizing efforts to strengthen the AML/CFT framework ahead of the March 2023 assessment by CFATF to minimize the risks of losing CBRs.** They assessed the country's ML/TF risks in 2018-2020 and, on the basis of their findings, developed an Action Plan. Significant progress has been made with the implementation of the Action Plan, including the development of an AML/CFT Risk-Based Supervisory Framework and the recent approval of Non-Regulated Service Provider Guidance. Legislative amendments required to enable authorities to establish an effective administrative sanctions regime for non-compliant reporting entities are expected to be discussed in Parliament soon. The authorities should continue the ongoing strong efforts to further strengthen the framework and its effectiveness, including by fully implementing the recently revised FATF Recommendation 24.

D. Data Issues

26. **The data framework should be improved to enhance data-driven policymaking.** Data provision is broadly adequate for surveillance, but there is scope to improve its timeliness, availability, and granularity, including for high-frequency indicators (e.g., tourism), the national accounts data, and key surveys (e.g., labor market and household budget surveys), which would require adequate resources and training for the statistics agency. The regional Data for Decision Making Project (2022-27) supported by the WB is expected to improve the infrastructure, processes and capacity of the National Statistical System and support compilation and dissemination of quality statistical data for country- and regional-level analytics.

AUTHORITIES' VIEWS

27. **The authorities broadly agreed with the staff's macroeconomic outlook.** They noted that their strong efforts to address the shocks led to a much better 2021 outcome than expected at the time of the volcanic eruptions. They expected a slightly stronger GDP growth in 2022 compared to staff's projections, supported by a robust recovery in tourism, agriculture, continued growth in construction and related sectors. They noted that current investments can offer upside potential in the medium term. The authorities broadly shared staff's assessment of risks, noting that their efforts to develop tourism, agriculture and fisheries could result in faster-than-projected growth.

28. **The authorities broadly shared staff's views on the near-term priorities.** They will continue their efforts to support post-volcanic eruption rebuilding and the affected households. The authorities emphasized their plan to keep generalized price-mitigating measures time-bound to

ensure fiscal sustainability and agreed with the need for further efforts to improve the coverage and targeting of the social safety net. On the revenue side, they plan to continue their strong efforts to fully implement the TAPA and single TIN, and digitalize the system, modernize customs legislation, strengthen fuel import control, and intensify collection of the sizable tax arrears.

29. The authorities remain committed to the regional debt target and the medium-term fiscal strategy set out in the 2021 RCF. They will continue pursuing prudent wage policy, as manifested in the recently concluded public sector wage negotiation for 2023–25. They agreed with the need to recalibrate the FRF before the next stipulated amendment date of 2025 to reflect developments since the framework's introduction in early 2020 and facilitate its full operationalization once the recovery takes hold. They also stressed the need for investment to support growth and resilience building, which are key for reducing the debt burden, and plan to carry out the C-PIMA in early 2023, which will strengthen the effectiveness of capital investment as well as climate resilience. The authorities agreed with the need for pension reforms and plan to begin the tripartite dialogue soon. They consider the establishment of the FRM an important step of fully operationalizing the FRF and expect the FRM to provide independent and important feedback and inputs into the budget process.

30. The authorities concurred with the need for additional buffers and contingency planning in view of the elevated uncertainty and vulnerability to external shocks and natural disasters. They broadly agreed with staff's proposed contingent measure options and are considering including a contingency plan in the 2023 Budget. They are building the CF, preparing a DRFS with assistance from the WB, and exploring financing options like state-contingent bonds and a regional CAT bond. The authorities plan to continue their debt management strategy to lower borrowing costs including by utilizing more concessional financing and lengthening maturities, and to monitor interest and exchange rate risks. They concurred that the risks warrant pursuing a somewhat lower debt anchor to ensure that the regional debt target is met.

31. The authorities shared staff's view that structural reforms are vital for supporting medium-term growth and public debt sustainability. They are making efforts to further improve the business climate, including through single windows for land registration and trade, and the preparation of a new Investment Act that would streamline investment procedures. They recognized the need for further developing skills in the local labor market and agreed with staff on the merits of expanding ALMPs to seize the upcoming ample job opportunities from large-scale investment and facilitate employment. The authorities acknowledged the headwinds to the tourism sector, but agreed with staff on the positive outlook, noting that expected increase in hotel room capacity is attracting additional flights. They stressed the importance of promoting economic diversification by developing the agriculture sector, including by exploring synergies with the tourism sector, and of improving energy security by shifting to renewable energy sources.

32. The authorities broadly agreed with staff's assessment of the financial sector. They are closely monitoring asset quality following the end of the moratoria and noted that, despite the expected further increase in NPLs, the current trajectory is not envisaged to pose significant risks to the system. They are prioritizing the implementation of their NRA recommendations in view of the upcoming 2023 CFATF evaluation. Nevertheless, the FSA is committed to other reform agenda and expects to approve key legislations, including amendments to the FSA Act, in coming months. They agreed on the importance of developing a crisis management framework, which is part of their strategic plan for 2022-24. While recognizing the need for supporting credit growth, they believe it is important to continue monitoring risks as CUs increase their share in total outstanding credit.

STAFF APPRAISAL

33. St. Vincent and the Grenadines is recovering from multiple shocks under a challenging external environment. The authorities' commendable response to the pandemic and volcanic eruptions reduced economic scarring and contributed to a small positive growth in 2021. At the same time, the inflationary pressure stemming from rising import prices poses a challenge. The external position in 2021 was moderately weaker than the level implied by the fundamentals and desirable policies. The outlook is favorable, supported by large-scale investment projects and continued recovery of agriculture and tourism, but is subject to large downside risks, stemming primarily from intensifying spillovers from the war in Ukraine, an abrupt global slowdown or recession, and delays in investment projects including due to supply chain disruptions, and the ever-present threat of frequent natural disasters.

34. Near-term policy priorities continue to be health and reconstruction spending and time-bound targeted fiscal support while maintaining fiscal prudence. The reconstruction efforts and temporary support for households heavily affected by the eruptions have been instrumental for the post-volcanic eruption recovery, and price-mitigating measures helped cushion the impact of surging inflation. To help minimize fiscal and adverse distributional impact, the authorities should keep the generalized fiscal relief temporary as announced and continue to enhance the coverage and targeting of the SSN. Fiscal policy should move from income support to ALMPs to facilitate training and employment.

35. Once the recovery takes hold, fiscal buffers should be rebuilt, including by fully operationalizing the FRF, to withstand shocks and reinforce fiscal sustainability. The authorities' continued commitment to reaching the regional debt target and the medium-term fiscal strategy set out in the 2021 RCF is welcome and critical to public debt sustainability. Given the potential increase in public sector borrowing costs, it is important to recalibrate and fully operationalize the FRF to underpin the commitment and signal a credible medium-term fiscal plan. An automatic adjustment mechanism could strengthen the credibility and adaptability of the framework. Complementary fiscal institutional reforms will be key to the effective implementation of the FRF, including continued strengthening of tax administration, enhancing public financial management, improving public investment management, and strengthening SOE oversight and cash management.

36. Building additional buffers and preparing contingency plans will be key to increasing resilience to external shocks, including from frequent natural disasters. The continuous building of the Contingencies Fund is an important step. Given the high vulnerability to frequent shocks that result in higher debt, building buffers and pursuing a stronger adjustment would provide a safety margin that could be used when shocks materialize and ensure that the regional debt target and public debt sustainability are met with a higher probability. It will be also useful to develop a contingency plan to return debt to the baseline should adverse shocks materialize. To these ends, growth-friendly and equity-enhancing measures on both revenue and expenditure sides should be considered, including streamlining VAT exemptions and import concessions, raising the recurrent property tax, improving design of PIT/CIT, and undertaking the long-standing parametric pension reform.

37. Continued broad-based structural policies are needed to support inclusive growth, promote employment, and bolster resilience to natural disasters. The recent and ongoing key infrastructure investments are instrumental for addressing supply-side constraints to growth. To unlock their full potential, continued improvement in business environment is needed to foster economic activity and create jobs. The authorities should continue building structural resilience, including via resilient and cost-effective public investments that are financed on concessional terms and would reduce expected losses from natural disasters, and enhancing financial resilience. Ongoing efforts to improve the scope, coverage, and effectiveness of TVET programs should be complemented by ALMPs to reduce skill mismatches and facilitate employment. The tourism sector is well-positioned to contribute more to growth, including by strengthening air connectivity and fostering its synergies with agriculture and fisheries.

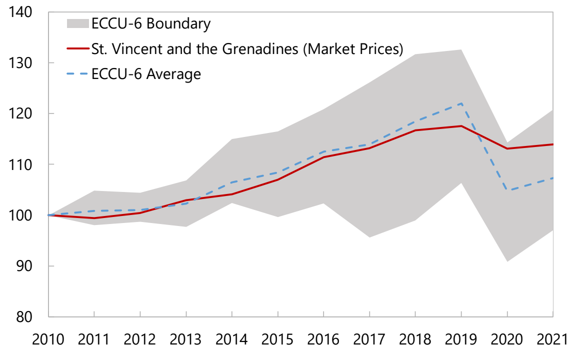
38. The financial sector has weathered the crisis relatively well so far. With the impact of the moratoria on asset quality is still unfolding, financial regulators should, however, continue the close monitoring. Provisioning levels for the banking system should be bolstered. The financial authorities should continue to strengthen the supervisory and regulatory frameworks and improve crisis preparedness. Ongoing efforts to strengthen the AML/CFT framework should continue to minimize the risk of losing CBRs.

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

Figure 1. St. Vincent and the Grenadines: Key Macroeconomic Indicators

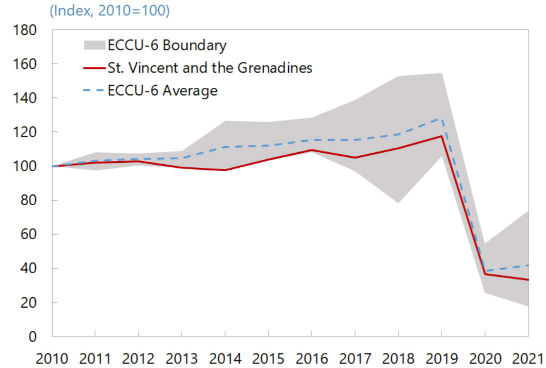
The economy was hit hard by the shocks, although the GDP loss was smaller than in other ECCU countries.

Real GDP
(2010 = 100)



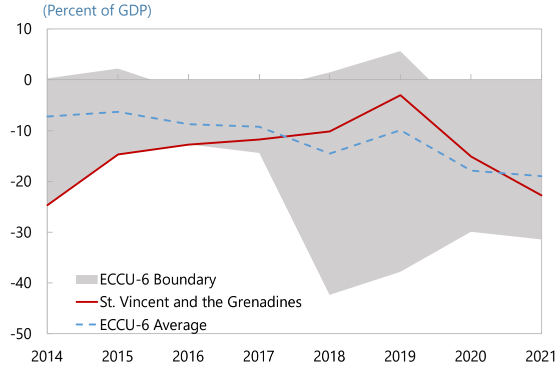
The shocks produced a major blow to the tourism sector, with the 2021 outcome weaker than the ECCU average.

Stay-over Tourists Arrivals
(Index, 2010=100)



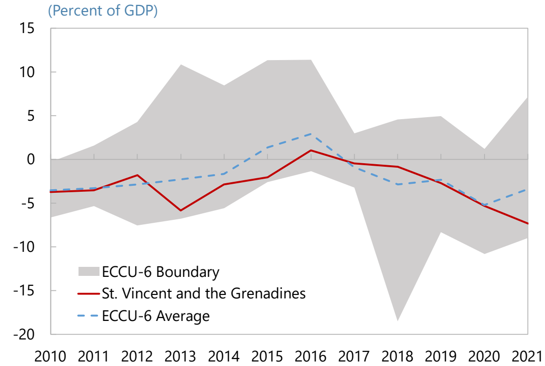
The current account deficit widened more than in the ECCU.

Current Account 1/
(Percent of GDP)



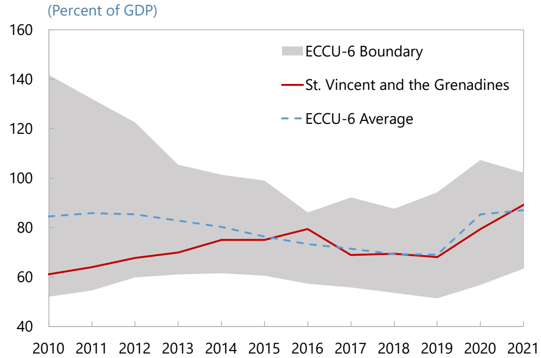
The shocks worsened the fiscal balance.

Fiscal Overall Balance
(Percent of GDP)



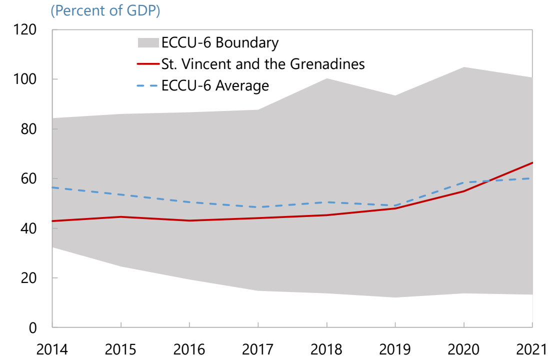
Public debt rose in line with the ECCU average, ...

Public Debt
(Percent of GDP)



..., financed largely by external creditors.

Public External Debt
(Percent of GDP)



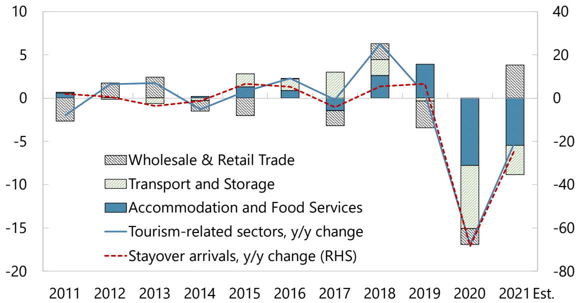
Sources: Government Statistical Office, ECCB, and IMF staff calculations.

1/ Based on BPM6.

Figure 2. St. Vincent and the Grenadines: Real Sector Developments

The 70-percent drop in stayover arrivals in 2020 led to a strong decline in the tourism-related sectors, …

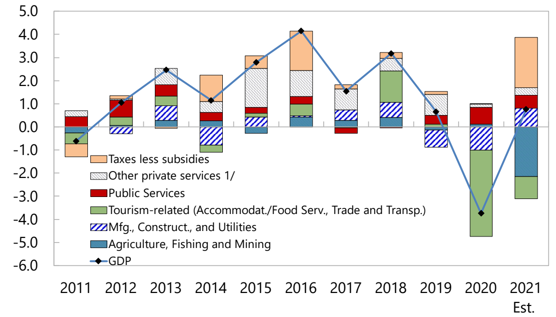
Stayover Visitors and Tourism-Related GDP
(Percent and percent contribution)



Note: Tourism-related GDP is defined as as sum of (i) wholesale and retail trade; (ii) Accommodation and Food Services, Wholesale and Retail Trade; and Transport and Storege Services. Its pre-pandemic historical (2015 -2019) average is 22 percent of GDP.

…producing a large negative contribution to GDP. The volcanic eruptions in 2021 impacted the agriculture sector.

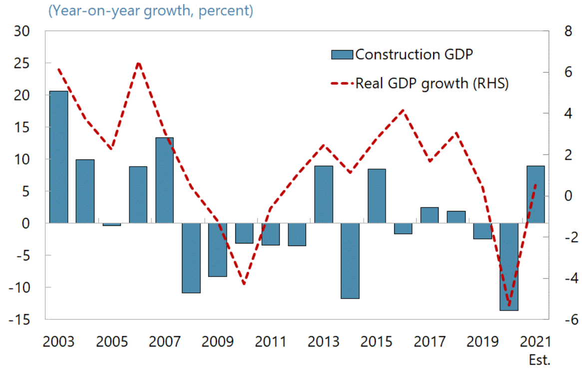
Contribution to Growth by Sector
(Percent contribution)



1/ Others include Information and Communication Financial and Insurance; Real Estate; Professional, Scientific and Technical Activities; Administrative and Support Services; Private Education and Health Services; Arts, Entertainment and recreation; and Other service activities.

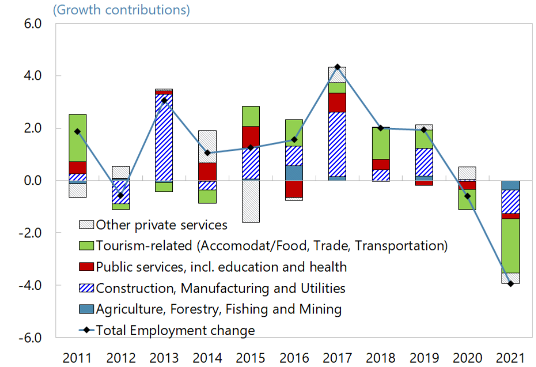
A pickup of construction activity in the aftermath of the volcanic eruptions dampened the impact on GDP in 2021.

Construction Sector
(Year-on-year growth, percent)



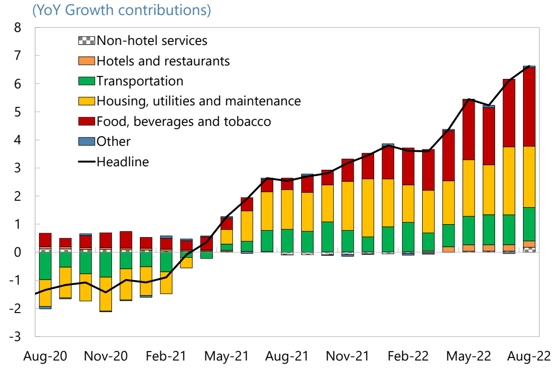
Registered employment fell, with the largest negative contribution from the tourism sector.

Employment by sector
(Growth contributions)



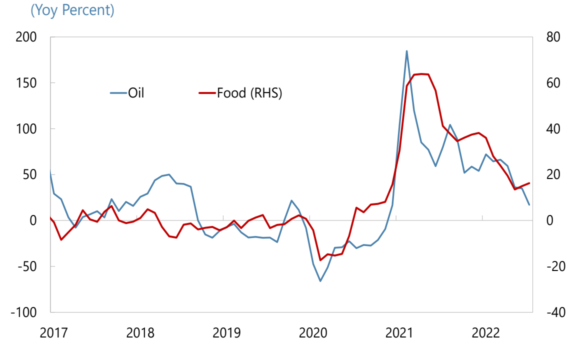
Headline inflation is accelerating with largest contributions from food, housing and utilities, and transportation components, …

Contributions to Headline Inflation
(YoY Growth contributions)



…driven by surging global oil and food prices.

Global Prices
(Yoy Percent)



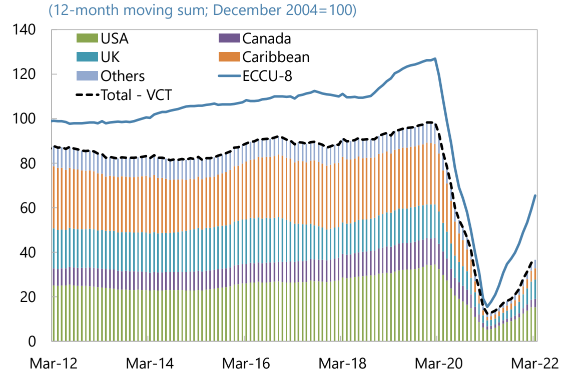
Sources: Government Statistical Office, ECCB, Haver analytics, and IMF staff calculations.

Figure 3. St. Vincent and the Grenadines: External Sector Developments

The pandemic led to a halt of tourism in 2020….

Stayover Tourist Arrivals

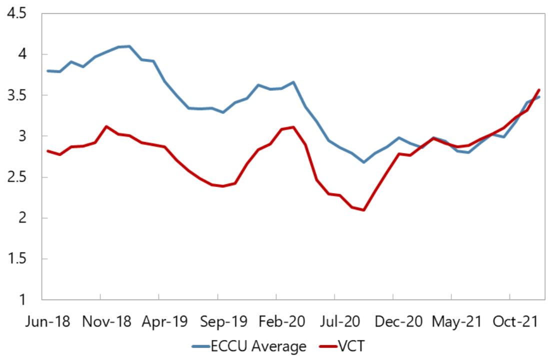
(12-month moving sum; December 2004=100)



…and the volcanic eruptions and the terms of trade shock had a significant impact on the trade balance in 2021.

Merchandise Trade Deficit to GDP

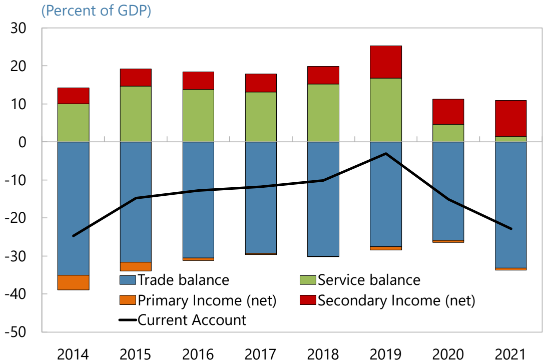
(Percent, 6-months moving average)



As a result, the CAD widened significantly.

Current Account Balance

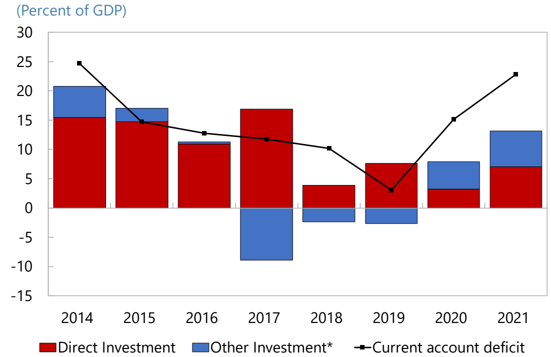
(Percent of GDP)



Support from the international community, mostly at concessional terms, and the recovery of FDI helped finance the deficit, …

Current Account Deficit and Sources of Finance

(Percent of GDP)

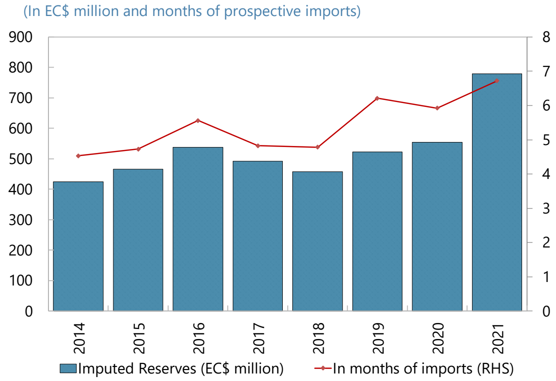


*Includes general government loans.

…, which combined with the recent special SDR allocation, strengthened international reserves.

Gross International Reserves

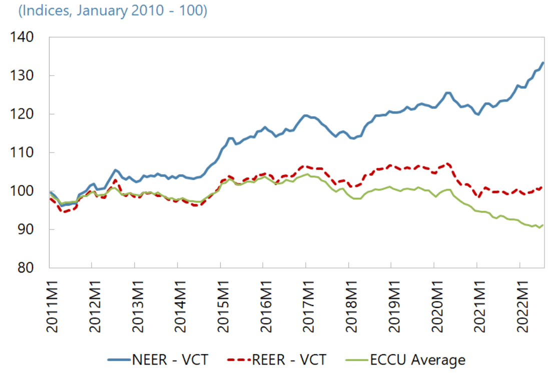
(In EC$ million and months of prospective imports)



Despite nominal appreciation, the REER depreciated since 2019.

Nominal and Real Effective Exchange Rates

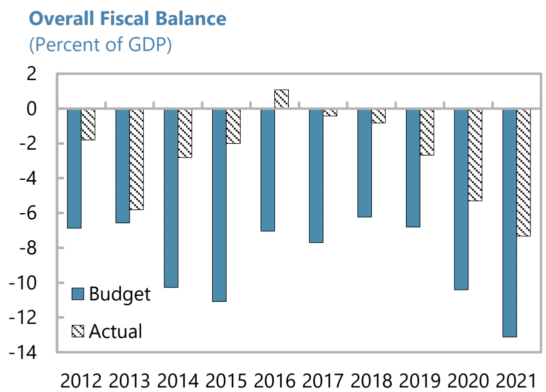
(Indices, January 2010 - 100)



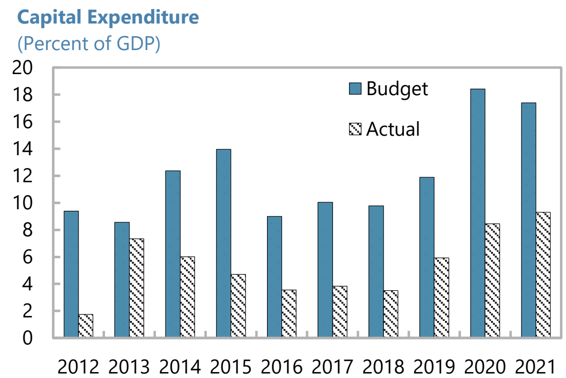
Sources: Government Statistical Office, Information Notice System (INS), ECCB. and IMF staff calculations.

Figure 4. St. Vincent and the Grenadines: Fiscal Sector Developments

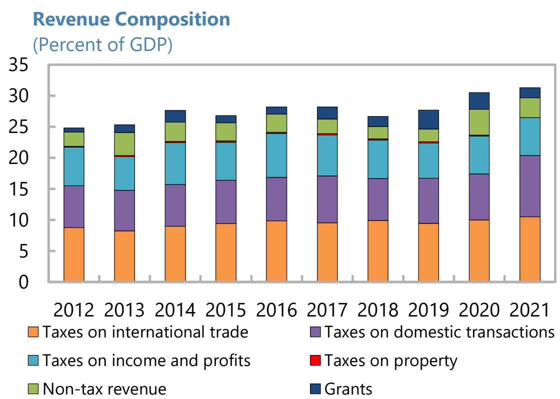
Actual deficits have been consistently below budget targets...



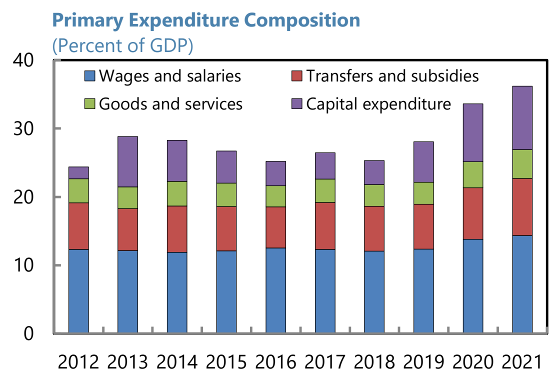
... in part due to under-execution of the capital budget.



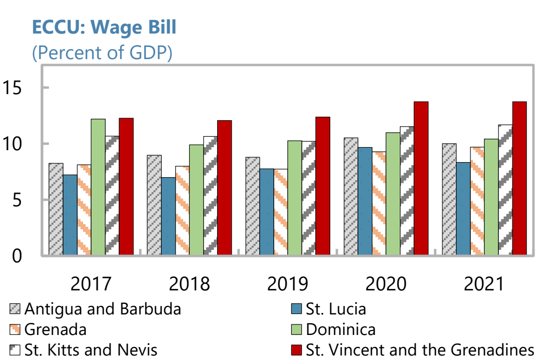
Despite the shocks, tax revenues remained resilient, reflecting ongoing tax policy and administration measures, ...



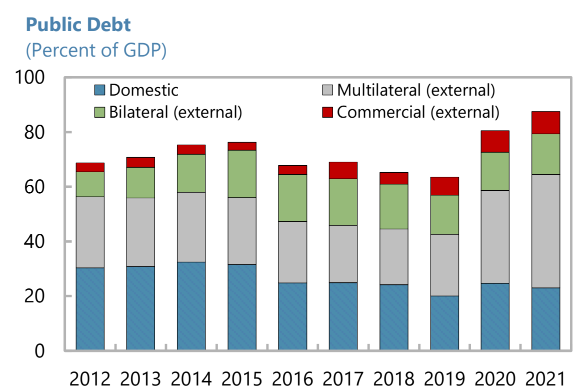
...while critical fiscal responses to the pandemic and volcanic eruptions drove up government spending.



St. Vincent's wage bill is high compared to peer countries in the ECCU.



Post-pandemic debt increase is mostly financed by multilateral and bilateral donors at concessional terms.

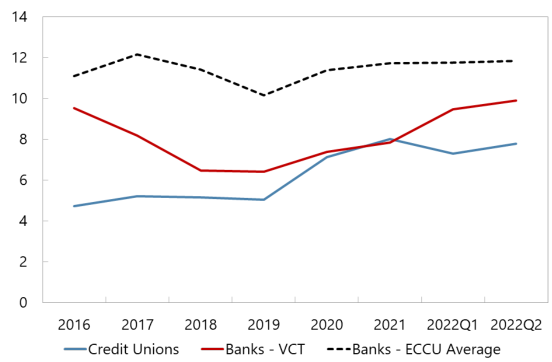


Sources: St. Vincent and the Grenadines authorities and IMF staff's estimates and calculations.

Figure 5. St. Vincent and the Grenadines: Financial Sector Developments

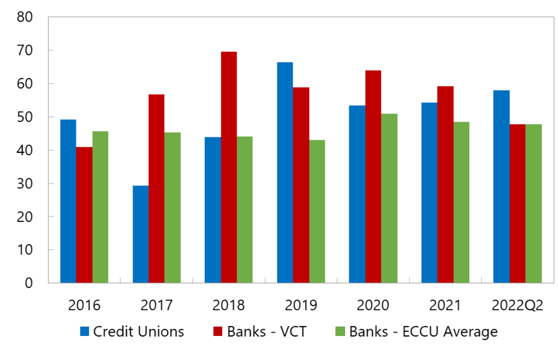
In 2022:H1, banks' NPL ratio increased, though still well below the ECCU average, while CUs' NPLs remained broadly the same.

Nonperforming Loans to Total Loans Ratio
(Percent)



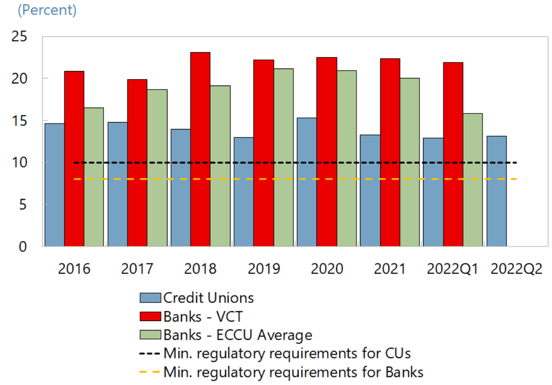
There is a need for raising provisioning to meet tighter regulatory requirements.

Provision for Loan Losses
(Percentage of nonperforming loans)



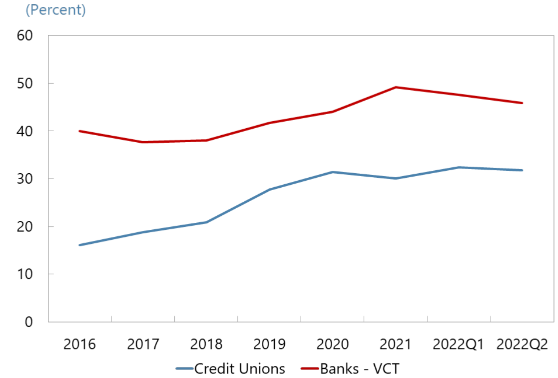
Capital buffers for banks and credit unions remained well above regulatory requirements.

Capital Adequacy Ratio
(Percent)



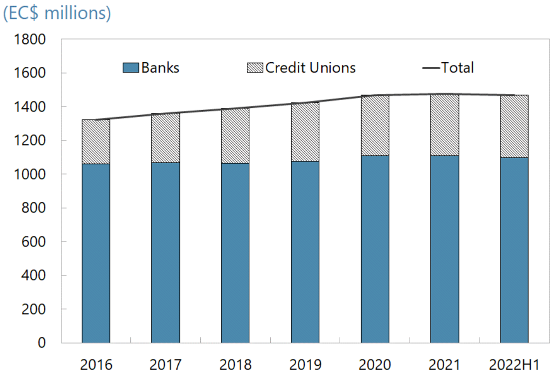
Both banks and credit unions increased their liquid assets.

Liquid Assets to Total Assets Ratio
(Percent)



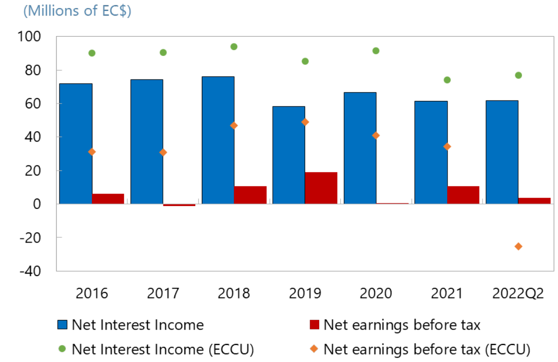
Credit unions have been increasing their share in the total outstanding credit to the private sector.

Outstanding Credit: Banks and CUs
(EC$ millions)



Bank profitability indicators remained below the regional averages.

Margins and Profitability - VCT and ECCU Average 1/
(Millions of EC$)



1/ ECCU average excludes VCT.

Sources: Government Statistical Office, ECCB, and IMF staff calculations.

Table 1. St. Vincent and the Grenadines: Selected Social and Economic Indicators, 2018–27

Social and Demographic Indicators

Area (sq. km)	389.3	Net enrollment rate, secondary (percent, 2018)	89.0
Population (2022)		Labor market indicators (2017)	
Total (thousands)	110.9	Unemployment rate	25.8
Rate of growth (percent per year)	0.1	Youth unemployment rate	40.3
Density (per sq. km.)	284.9	Labor force participation rate	67.8
Population characteristics		Gross domestic product (2021)	
Life expectancy at birth (years, 2016)	73.0	(millions of US dollars)	872
Infant mortality (per '000 live births, 2016)	15.2	(millions of EC dollars)	2,355
Under 5 mortality rate (per '000, 2016)	17.0	(US$ per capita)	7,879

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Prel.	Projections					
Output and Prices	(Percent change)									
Real GDP (market prices)	3.2	0.7	-3.7	0.8	5.0	6.0	4.8	3.5	2.7	2.7
Nominal GDP (market prices)	4.8	3.0	-4.6	0.4	8.5	10.6	6.9	5.6	4.8	4.8
Consumer prices, end of period	1.4	0.5	-1.0	3.4	8.0	2.1	2.0	2.0	2.0	2.0
Consumer prices, period average	2.3	0.9	-0.6	1.6	5.8	4.6	2.0	2.0	2.0	2.0
Banking System	(Percent change)									
Broad money, percent change	1.7	9.9	-4.5	12.8	1.2	5.7	6.9	5.6	4.8	4.8
Credit to private sector	-0.5	1.1	3.3	0.0	0.0	2.0	3.0	4.2	4.8	4.8
Central Government Finances	(Percent of GDP)									
Total revenue	26.7	27.7	30.5	31.4	30.0	30.7	29.3	29.6	29.4	29.4
Tax revenue	23.1	22.6	23.7	26.7	25.0	24.6	24.8	24.8	24.8	24.8
Grants	1.7	3.0	2.7	1.6	2.7	3.7	2.2	2.4	2.2	2.2
Total expenditure and net lending	27.5	30.3	35.8	38.8	38.2	36.8	38.0	31.9	28.8	28.5
Current expenditure	24.0	24.4	27.4	29.5	27.3	26.2	25.5	24.8	24.4	24.2
Of which: Wages and salaries	12.1	12.4	13.8	14.3	13.6	12.8	12.3	12.0	11.8	11.8
Interest	2.2	2.3	2.2	2.6	2.5	2.7	2.7	2.7	2.4	2.2
Capital expenditure	3.5	5.9	8.5	9.3	10.9	10.6	12.6	7.1	4.4	4.2
Overall balance	-0.8	-2.7	-5.3	-7.3	-8.2	-6.1	-8.7	-2.4	0.6	1.0
Overall balance (excl. grants)	-2.5	-5.7	-8.0	-8.9	-10.9	-9.8	-10.9	-4.8	-1.6	-1.2
Primary balance	1.4	-0.4	-3.1	-4.8	-5.7	-3.4	-6.0	0.3	3.0	3.2
External Sector	(Percent of GDP unless indicated otherwise)									
External current account	-10.2	-3.1	-15.1	-22.8	-26.5	-27.6	-19.8	-13.8	-10.2	-9.0
Exports of goods and services	36.4	36.0	21.7	15.9	22.5	29.5	36.7	38.7	39.2	39.7
Imports of goods and services	51.2	46.7	43.0	47.7	54.4	60.9	59.2	55.8	53.0	52.4
Public sector external debt (end of period)	49.3	48.1	54.8	66.3	68.9	72.6	75.4	76.0	73.5	70.3
External public debt service 1/	12.4	14.0	23.8	23.4	38.8	18.2	14.4	15.2	15.1	14.4
Memorandum Items										
Holdings of SDRs (in millions of EC$)	3.1	4.2	2.7	44.5	44.5	44.5	44.5	44.5	44.5	44.5
Gross public sector debt (in percent of GDP)	69.4	68.1	79.5	89.3	87.8	88.0	89.2	87.8	83.2	79.2
Nominal GDP (market prices; in millions of EC$) 2/	2,388	2,459	2,347	2,355	2,556	2,826	3,022	3,189	3,341	3,500

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

1/ In percent of exports of goods and services.

2/ The authorities rebased GDP to 2018 and improved methodology with support from CARTAC (2021). As a result, nominal GDP in 2018 increased by 9 percent.

Table 2. St. Vincent and the Grenadines: Balance of Payments, 2018–27

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Prel.	Projections					
	(EC$ million; unless otherwise stated)									
Current Account	**-243**	**-75**	**-355**	**-537**	**-679**	**-781**	**-599**	**-440**	**-341**	**-314**
Trade balance	-717	-677	-607	-782	-931	-1185	-1170	-1169	-1171	-1197
Exports f.o.b.	125	120	157	103	125	146	172	195	216	241
Imports f.o.b.	842	798	764	885	1056	1331	1342	1365	1387	1439
Of which: Mineral fuels	120	93	84	110	202	169	167	164	162	162
Services (net)	364	413	108	34	116	297	488	624	709	755
Travel (net)	579	591	212	142	311	536	775	869	915	963
Other nonfactor services (net)	-215	-177	-104	-108	-195	-240	-288	-245	-206	-209
Primary income (net)	-1	-20	-13	-13	-52	-77	-92	-67	-53	-48
Secondary income (net)	111	209	157	224	189	183	174	173	173	177
Private transfers	74	150	113	180	141	144	143	146	149	152
Official transfers	37	59	43	44	48	40	32	27	25	25
Capital Account	**15**	**12**	**13**	**47**	**70**	**104**	**65**	**75**	**72**	**79**
Financial Account	**-83**	**-8**	**-116**	**-70**	**-609**	**-677**	**-534**	**-365**	**-269**	**-235**
Direct investment	-92	-187	-77	-167	-329	-457	-279	-306	-319	-350
Portfolio investment	-14	50	38	14	12	19	11	5	11	11
Other investment	57	64	-109	-144	-275	-212	-257	-58	14	68
Assets	32	60	55	84	22	29	-9	46	77	86
Liabilities	25	4	-165	-228	-296	-241	-249	-103	-63	-18
General Government loans 1/	23	-75	-143	-251	-251	-246	-167	-105	-1	12
of which RCF disbursement	0	0	-43	-31	0	0	0	0	0	0
Other liabilities	2	79	-21	23	-46	5	-82	1	-62	-30
Reserve assets	-34	64	32	226	-17	-27	-10	-6	24	36
Net Errors and Omissions	**144**	**55**	**226**	**420**	**0**	**0**	**0**	**0**	**0**	**0**
Imputed International Reserves 2/	**458**	**522**	**554**	**779**	**762**	**735**	**725**	**720**	**744**	**779**
In months of imports of good and services	4.8	6.2	5.9	6.7	5.3	4.9	4.9	4.9	4.9	4.9
	(Percent of GDP, unless otherwise stated)									
Current account	-10.2	-3.1	-15.1	-22.8	-26.5	-27.6	-19.8	-13.8	-10.2	-9.0
Exports f.o.b.	5.2	4.9	6.7	4.4	4.9	5.2	5.7	6.1	6.5	6.9
Imports f.o.b.	35.3	32.4	32.6	37.6	41.3	47.1	44.4	42.8	41.5	41.1
Net private transfers	3.1	6.1	4.8	7.6	5.5	5.1	4.7	4.6	4.4	4.4
Tourism exports	27.0	26.5	10.2	6.8	12.9	19.7	26.4	28.0	28.1	28.3
Direct investment	3.9	7.6	3.3	7.1	12.9	16.2	9.2	9.6	9.6	10.0
Memorandum Items										
Terms of trade of goods (Index 2002=100)	110.8	115.4	129.1	132.1	115.7	120.6	120.5	118.8	119.1	118.8
Total trade of goods and nonfactor services	87.6	82.7	64.7	63.6	77.0	90.5	95.9	94.4	92.1	92.1
Exports of goods and nonfactor services	36.4	36.0	21.7	15.9	22.5	29.5	36.7	38.7	39.2	39.7
Imports of goods and nonfactor services	51.2	46.7	43.0	47.7	54.4	60.9	59.2	55.8	53.0	52.4

Sources: Ministry of Finance and Planning; Eastern Caribbean Central Bank; and IMF staff estimates and projections.
1/ The 2021 value is explained mostly by loans from the World Bank.
2/ Includes SDR holdings.

Table 3. St. Vincent and the Grenadines: Central Government Operations, 2018–27
(Millions of Eastern Caribbean dollars, unless indicated otherwise)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Prel.	Projections					
Total Revenue and Grants	**637**	**680**	**716**	**740**	**766**	**868**	**887**	**943**	**983**	**1,030**
Current revenue	596	602	606	681	695	758	815	860	904	947
Tax revenue	551	555	555	628	638	695	748	790	829	869
Of which										
Taxes on income and profits	148	140	143	144	157	165	178	189	202	211
Taxes on property	5	4	4	4	4	5	5	6	5	6
Taxes on international trade	236	233	235	247	282	310	330	348	364	381
Of which: VAT	92	94	91	96	110	117	125	132	139	145
Taxes on domestic transactions	162	178	174	233	195	215	234	247	259	271
Of which: VAT	78	96	88	87	94	104	115	122	128	134
Non-tax	46	47	51	54	57	63	67	71	74	78
Capital Revenue	1	4	46	21	1	6	6	6	6	6
Grants	40	74	63	38	70	104	65	77	73	77
Total Expenditure and Net Lending	**657**	**746**	**840**	**913**	**975**	**1,040**	**1,149**	**1,019**	**964**	**996**
Current	573	600	642	694	697	739	769	792	816	848
Of which										
Wages and salaries 1/	288	304	324	338	348	362	373	384	395	414
Interest	52	56	52	60	64	75	83	85	82	78
Domestic	32	35	32	37	31	33	33	30	31	30
Foreign	20	21	19	23	33	42	50	54	51	49
Transfers and subsidies	156	161	177	196	178	190	199	205	215	225
Goods and services	77	80	90	100	107	113	115	118	124	130
Capital Expenditure	**84**	**146**	**198**	**219**	**278**	**301**	**380**	**227**	**148**	**148**
Port	…	2	2	6	113	195	222	91	12	0
Hospital	…	…	…	…	0	54	108	108	0	0
Reconstruction (La Soufriere): capital spending	…	…	…	64	58	32	26	0	0	0
Others	84	144	196	213	107	20	24	28	136	148
Current balance (before grants)	23	1	-36	-13	-2	19	46	69	88	99
Overall Balance	**-20**	**-66**	**-124**	**-172**	**-210**	**-172**	**-263**	**-75**	**20**	**34**
Overall balance (excl. port project)	-20	-64	-122	-167	-96	23	-41	16	32	34
Overall Bal. (exc. Covid-19, volcano one-offs, and port)	-20	-64	-80	-69	-24	55	-15	16	32	34
Primary Balance	32	-10	-73	-112	-145	-97	-180	9	102	112
Primary balance (excl. port project)	32	-8	-71	-106	-32	98	42	100	113	112
Prim. Bal. (exc. Covid-19, volcano one-offs, and port)	32	-8	-29	-8	40	131	68	100	113	112
Identified Financing	**20**	**66**	**124**	**172**	**210**	**172**	**263**	**75**	**-20**	**-34**
Net external financing	15	40	74	260	237	247	167	105	3	-10
Disbursements	89	113	126	313	340	358	271	233	144	105
Amortization	74	73	52	53	102	111	104	128	142	115
Change in government assets 2/	56	27	23	-89	-43	-73	60	-38	-3	-27
Net domestic financing 3/	-77	6	27	1	15	-2	36	8	-20	2
Change in account payable and arrears	26	-7	0	0	0	0	0	0	0	0
Memorandum Items 4/										
Public debt	1,657	1,674	1,866	2,102	2,244	2,486	2,695	2,800	2,781	2,771
Covid-19 and volcano-related expenditure	…	…	42	98	72	32	26	0	0	0

Sources: Ministry of Finance and Planning; and IMF staff estimates and projections.
1/ Wages and salaries including social security contributions, commissions, rewards, allowances, and incentives.
2/ (-) implies accumulation of government assets, including deposits, sinking fund, and contingency fund.
3/ Includes other non-banking sector domestic financing.
4/ Includes central government debt relief of 4.2 percent of GDP from Venezuela (2022).

Table 4. St. Vincent and the Grenadines: Central Government Operations, 2018–27

(Percent of GDP, unless indicated otherwise)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Prel.			Projections			
Total Revenue and Grants	**26.7**	**27.7**	**30.5**	**31.4**	**30.0**	**30.7**	**29.3**	**29.6**	**29.4**	**29.4**
Current revenue	25.0	24.5	25.8	28.9	27.2	26.8	27.0	27.0	27.0	27.0
Tax revenue	23.1	22.6	23.7	26.7	25.0	24.6	24.8	24.8	24.8	24.8
Of which										
Taxes on income and profits	6.2	5.7	6.1	6.1	6.1	5.8	5.9	5.9	6.0	6.0
Taxes on property	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on international trade	9.9	9.5	10.0	10.5	11.0	11.0	10.9	10.9	10.9	10.9
Of Which: VAT	3.9	3.8	3.9	4.1	4.3	4.2	4.2	4.2	4.2	4.2
Taxes on domestic transactions	6.8	7.2	7.4	9.9	7.6	7.6	7.7	7.7	7.7	7.7
Of Which: VAT	3.3	3.9	3.7	3.7	3.7	3.7	3.8	3.8	3.8	3.8
Non-tax	1.9	1.9	2.2	2.3	2.2	2.2	2.2	2.2	2.2	2.2
Capital Revenue	0.0	0.2	2.0	0.9	0.0	0.2	0.2	0.2	0.2	0.2
Grants	1.7	3.0	2.7	1.6	2.7	3.7	2.2	2.4	2.2	2.2
Total Expenditure and Net Lending	**27.5**	**30.3**	**35.8**	**38.8**	**38.2**	**36.8**	**38.0**	**31.9**	**28.8**	**28.5**
Current	24.0	24.4	27.4	29.5	27.3	26.2	25.5	24.8	24.4	24.2
Of which										
Wages and salaries 1/	12.1	12.4	13.8	14.3	13.6	12.8	12.3	12.0	11.8	11.8
Interest	2.2	2.3	2.2	2.6	2.5	2.7	2.7	2.7	2.4	2.2
Domestic	1.3	1.4	1.4	1.6	1.2	1.2	1.1	1.0	0.9	0.8
Foreign	0.8	0.8	0.8	1.0	1.3	1.5	1.7	1.7	1.5	1.4
Transfers and subsidies	6.5	6.5	7.5	8.3	7.0	6.7	6.6	6.4	6.4	6.4
Goods and services	3.2	3.2	3.8	4.2	4.2	4.0	3.8	3.7	3.7	3.7
Capital Expenditure	**3.5**	**5.9**	**8.5**	**9.3**	**10.9**	**10.6**	**12.6**	**7.1**	**4.4**	**4.2**
Port	...	0.1	0.1	0.2	4.4	6.9	7.3	2.9	0.3	0.0
Hospital	...	...	...	...	0.0	1.9	3.6	3.4	0.0	0.0
Reconstruction (La Soufriere): capital spending	...	...	...	2.7	2.3	1.1	0.9	0.0	0.0	0.0
Others	3.5	5.8	8.4	9.1	4.2	0.7	0.8	0.9	4.1	4.2
Current balance (before grants)	1.0	0.1	-1.5	-0.5	-0.1	0.7	1.5	2.2	2.6	2.8
Overall Balance	**-0.8**	**-2.7**	**-5.3**	**-7.3**	**-8.2**	**-6.1**	**-8.7**	**-2.4**	**0.6**	**1.0**
Overall balance (excl. grants)	-2.5	-5.7	-8.0	-8.9	-10.9	-9.8	-10.9	-4.8	-1.6	-1.2
Overall balance (excl. port project)	**-0.8**	**-2.6**	**-5.2**	**-7.1**	**-3.8**	**0.8**	**-1.4**	**0.5**	**0.9**	**1.0**
Overall Bal. (exc. Covid-19, volcano one-offs, and port)	**-0.8**	**-2.6**	**-3.4**	**-2.9**	**-1.0**	**2.0**	**-0.5**	**0.5**	**0.9**	**1.0**
Primary Balance	**1.4**	**-0.4**	**-3.1**	**-4.8**	**-5.7**	**-3.4**	**-6.0**	**0.3**	**3.0**	**3.2**
Primary balance (excl. port project)	**1.4**	**-0.3**	**-3.0**	**-4.5**	**-1.3**	**3.5**	**1.4**	**3.1**	**3.4**	**3.2**
Prim. Bal. (exc. Covid-19, volcano one-offs, and port)	**1.4**	**-0.3**	**-1.2**	**-0.4**	**1.6**	**4.6**	**2.2**	**3.1**	**3.4**	**3.2**
Identified Financing	**0.8**	**2.7**	**5.3**	**7.3**	**8.2**	**6.1**	**8.7**	**2.4**	**-0.6**	**-1.0**
Net external financing	0.6	1.6	3.2	11.0	9.3	8.7	5.5	3.3	0.1	-0.3
Disbursements	3.7	4.6	5.4	13.3	13.3	12.7	9.0	7.3	4.3	3.0
Amortization	3.1	3.0	2.2	2.2	4.0	3.9	3.4	4.0	4.2	3.3
Change in government assets 2/	2.3	1.1	1.0	-3.8	-1.7	-2.6	2.0	-1.2	-0.1	-0.8
Net domestic financing 3/	-3.2	0.2	1.2	0.1	0.6	-0.1	1.2	0.3	-0.6	0.1
Change in account payable and arrears	1.1	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items										
Gross public sector debt	69.4	68.1	79.5	89.3	87.8	88.0	89.2	87.8	83.2	79.2
GDP at market prices (EC$ millions)	2,388	2,459	2,347	2,355	2,556	2,826	3,022	3,189	3,341	3,500
Real GDP growth (percent)	3.2	0.7	-3.7	0.8	5.0	6.0	4.8	3.5	2.7	2.7
Covid-19 and volcano-related expenditure	...	...	1.8	4.2	2.8	1.1	0.9	0.0	0.0	0.0

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

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

2/ (-) implies accumulation of government assets, including deposits, sinking fund, and contingency fund.

3/ Includes other non-banking sector domestic financing.

Table 5. St. Vincent and the Grenadines: Monetary Survey, 2018–27
(Millions of Eastern Caribbean dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
						Projections				
Net Foreign Assets	**599**	**826**	**905**	**1,238**	**1,159**	**1,102**	**1,071**	**1,046**	**1,054**	**1,072**
ECCB	455	518	551	735	717	691	681	675	699	735
Of which: Imputed reserves	455	518	551	735	717	691	681	675	699	735
Commercial banks	144	309	353	503	441	412	390	371	355	337
Net Domestic Assets	**966**	**894**	**739**	**616**	**717**	**881**	**1,050**	**1,192**	**1,291**	**1,384**
Public sector credit (net)	4	-67	3	-49	-76	-151	-55	-85	-107	-132
Central government	106	40	128	48	20	-55	41	12	-11	-35
ECCB	1	-16	26	2	-20	-57	-27	-45	-47	-60
Commercial banks	105	56	102	47	40	2	68	57	36	25
Net credit to other public sector institutions	-102	-107	-125	-97	-97	-97	-97	-97	-97	-96
National Insurance Scheme	-74	-70	-79	-79	-79	-79	-79	-79	-79	-79
Other	-28	-37	-47	-19	-19	-19	-19	-19	-19	-19
Net credit to nonbank financial institutions	40	26	16	16	16	16	17	18	18	19
Credit to private sector	1,063	1,074	1,109	1,109	1,109	1,131	1,165	1,214	1,272	1,332
Other items (net)	-141	-139	-389	-461	-332	-115	-77	45	108	165
Broad Money (M2)	**1,565**	**1,720**	**1,643**	**1,854**	**1,876**	**1,983**	**2,120**	**2,238**	**2,345**	**2,456**
Money	516	580	586	694	807	853	912	963	1,008	1,056
Currency in circulation	107	131	157	194	197	168	179	189	200	209
Demand deposits	409	449	429	500	610	685	733	773	809	847
Quasi-money	1,049	1,140	1,057	1,159	1,069	1,130	1,208	1,275	1,336	1,400
Local currency deposits	981	1,023	941	980	904	956	1,022	1,078	1,130	1,183
Foreign currency deposits	68	116	116	179	165	175	187	197	206	216
					(Percent change)					
Net foreign assets	-1.4	37.9	9.5	36.8	-6.4	-4.9	-2.8	-2.3	0.7	1.7
Net domestic assets	3.7	-7.5	-17.4	-16.7	16.5	22.9	19.1	13.5	8.3	7.2
Credit to private sector	-0.5	1.1	3.3	0.0	0.0	2.0	3.0	4.2	4.8	4.8
Broad money (M2)	1.7	9.9	-4.5	12.8	1.2	5.7	6.9	5.6	4.8	4.8
Money	8.4	12.5	1.0	18.4	16.2	5.7	6.9	5.6	4.8	4.8
Quasi-money 1/	-1.3	8.6	-7.3	9.7	-7.8	5.7	6.9	5.6	4.8	4.8
					(Contributions to M2 growth)					
Net foreign assets	-0.6	14.5	4.6	20.3	-4.3	-3.0	-1.6	-1.1	0.3	0.8
Net domestic assets	2.3	-4.6	-9.0	-7.5	5.5	8.8	8.5	6.7	4.4	4.0
Public sector credit (net)	0.9	-4.5	4.0	-3.1	-1.5	-4.0	4.8	-1.4	-1.0	-1.0
Of which: Central government	0.7	-4.2	5.1	-4.9	-1.5	-4.0	4.8	-1.4	-1.0	-1.0
Credit to private sector	-0.4	0.7	2.0	0.0	0.0	1.2	1.7	2.3	2.6	2.6
Other items (net)	1.2	0.1	-14.5	-4.4	7.0	11.6	1.9	5.8	2.8	2.4
Memorandum Item										
Income velocity 2/	1.53	1.43	1.43	1.27	1.36	1.43	1.43	1.43	1.43	1.43

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

1/ Including resident foreign currency deposits.

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

Annex I. Implementation of Past Fund Policy Advice

Recommendations from the 2018 Article IV Consultation	Authorities' Actions
Fiscal Policy	
Develop a long-term infrastructure plan closely linked to the MTFF. Prioritize developmental project plans, considering capacity and budget constraints, while seeking concessional financing and containing procurement costs.	**Ongoing.** The government continued efforts to prioritize capital spending on reconstruction, resilience building, and essential infrastructure and expects to receive a C-PIMA to strengthen capital investment planning, allocation, and implementation as well as climate resilience. Investment projects are largely financed by concessional financing.
Introduce additional fiscal measures, for example by broadening the tax base, limiting the growth of the wage bill, and moving resolutely with the plan to reform the pension system.	**Ongoing.** The authorities introduced revenue-enhancing measures, including raising excise taxes on selected items (2019), increasing the customs service charge (2021), and continuously improving tax administration. On the expenditure side, they have been implementing prudent wage and non-priority current spending policies. Pension reforms are under consideration.
Strengthen the fiscal institutional framework, including improving revenue administration by adopting risk-based framework and completing the various reform initiatives, publishing a MTFF together with the budget, introducing fiscal rules, and improving cash management and SOE oversight.	**Ongoing.** The authorities undertook significant efforts to improve tax administration, including enacting TAPA and establishing a compliance management unit for large taxpayers in 2019. The FRF was approved in January 2020. Enhancement of cash management is pending. In 2019, the government adopted the Finance Administration Monitoring and Oversight of Statutory Bodies regulations and established a high-level Monitoring and Oversight Committee and an oversight unit, but the regulations and oversight function remain to be implemented.
Legislate the CF's governance and operational framework to ensure its effectiveness and transparency and seek additional fiscal buffers in anticipation of natural disasters (e.g., expanding the coverage of disaster insurance; setting aside expenditure reserves for emergency operations).	**Ongoing.** The CF's framework was legislated in 2019 and the authorities have been making transfers to the fund. The authorities are considering including a contingency plan in the 2023 budget and are preparing a Disaster Risk Financing Strategy with support from the WB.
Structural Reforms	
Strengthen the investment and business environment, including by streamlining the procedural and legislative requirements for investment in a standalone investment law, transforming Invest SVG (the government's investment promotion agency) into a one-stop shop, and improving land title registration, to reduce the administrative burden for investors.	**Ongoing.** The authorities are working on a comprehensive Investment Act and single windows for land registration and trade, which will facilitate investment and trade.

Recommendations from the 2018 Article IV Consultation	Authorities' Actions
Continue efforts to improve productivity in the agriculture and fishery sector.	**Ongoing.** The authorities recently attracted private investment for a new seafood processing plant and are providing affordable fleet expansion loans to fishers. They are building supply platforms to promote greater use of local agricultural produce by the tourism sector.
Continue efforts to develop human capital and address the labor skill mismatch problem.	**Ongoing.** The authorities are making efforts to improve the scope, coverage, and effectiveness of the TVET programs.
Continue efforts to make economic infrastructure more resilient to natural disasters, particularly irrigation, water supply, roads, and ports.	**Ongoing.** The authorities launched a climate-resilient port modernization project and are undertaking significant efforts to repair and rebuild infrastructure with strengthened climate-resilience features after the volcanic eruptions.
Continue working on disaster preparedness, including updating the National Emergency and Disaster Act and river basin risk maps, enhancing public education and awareness, and increasing resources for the NEMO to ensure its effective post-disaster emergency operations.	**Ongoing.** The resources for NEMO have been increased and the river basin risk maps have been updated. The update of the National Emergency and Disaster Act is pending.
Financial Sector Policy	
Strengthen financial sector oversight, and regulatory and supervisory framework. FSA should extend stress testing and communicate its financial stability assessment to the public more periodically.	**Ongoing.** Financial soundness indicators for banks and credit unions are published on a quarterly basis and credit unions have implemented IFRS 9. The FSA has enhanced the frequency and intensity of oversight and included publishing the financial sector stability report under its strategic plan for 2022-24. The implementation of stress testing by insurance companies is deferred due to other priorities, including transition to IFRS 17.
Advance the ongoing reform initiatives. Enact pending legislation, including amendments to the FSA Act, the Building Societies Act and the Friendly Societies Act. Formulate a crisis management plan for the non-bank financial sector and establish a Financial Crisis Management Committee.	**Ongoing.** A new Friendly Societies Act and the Cooperative Societies (Amendment) Act as well as a Virtual Asset Business Act have recently been approved. Authorities are working on finalizing proposed amendments to the FSA Act and the Building Societies Act. Formulation of a crisis management framework is still pending, but it is part of FSA's strategic plan for 2022-2024.
Address remaining legal deficiencies in the AML/CFT framework, including by completing the National Risk Assessment.	**Largely completed.** The National Risk Assessment was published in 2020 and an Action Plan was prepared with strategies to address the deficiencies. The authorities are focused on implementing the Action Plan in time for their CFATF evaluation scheduled for March 2023.

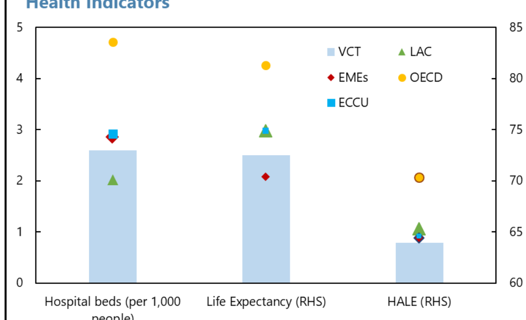
Annex II. Macroeconomic Impact of the Large-Scale Investment Projects[1]

Three large-scale investment projects—including public sector projects on port modernization and the construction of a new hospital and a private sector project on the construction of the Beaches Resort—will shape the macroeconomic outlook in St. Vincent and the Grenadines in the coming years. These projects collectively amount to about 57 percent of 2022 GDP and will have significant macroeconomic impact on growth, employment, current account deficit, and fiscal outcomes in both short and long term. Public sector projects, financed by grants and loans on concessional terms, will add to gross financing needs and public debt in the coming years. Nevertheless, they will strengthen resilience to climate change and natural disasters, improve living conditions and equity, and bolster St. Vincent's economic potential.

A. Project Background

1. Port Modernization. In December 2019, the authorities reached an agreement with the CDB on a large-scale port modernization project with the objective to replace the existing port in Kingstown built more than 50 years ago as its physical assets passed the end of their design life.[2] The relocation of residents on the new site—mostly low-income families—started in 2019, but the construction was delayed due to the pandemic and 2021 volcanic eruptions, and only launched recently in mid-2022 and is expected to be completed by 2025. Key benefits include strengthening resilience to natural disasters, improving shipping and operational efficiency, reducing transportation costs (as the location of the new port is closer to the importers) and increasing capacity. Due to the delay, the cost of the project rose to 25 percent of 2022 GDP (US$238 million), about 6 percent of GDP more than expected at the time of the 2021 RCF. It is financed by a combination of grants from the United Kingdom and loans from the CDB (about US$110 million) and from bilateral creditors at similar terms.

Health Indicators



Source: University of Oxford, World Development Indicators, St. Vincent & Grenadines National Insurance Services and IMF staff calculations.

2. Arnos Vale Acute Referral Hospital. The authorities are planning to construct a state-of-the-art hospital as part of a broader reform of the health sector with an objective to broaden access to health services and improve their quality and move hospital beds closer to the ECCU averages.[3] The new hospital

[1] Prepared by Dmitriy Kovtun (WHD).

[2] This project primarily involves designing and building a cargo port, relocating a sewer outfall line, and upgrading and strengthening roads within Kingstown's port area. Additional scope includes reclaiming 6.5 hectares of seaward reclaimed land for the terminal, a container storage yard, and maintenance areas for break-bulk vehicles. An administration and customs building, workshops, warehouses, and a container freight station will be included in the terminal buildings.

[3] The new hospital will have 134 beds and employ 528 staff members.

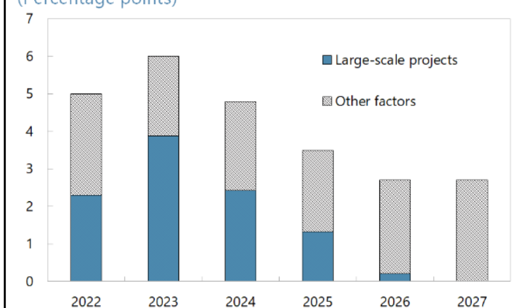
has an estimated total cost of about 10½ percent of 2022 GDP, of which the World Bank (WB) is expected to finance around two-thirds of the total at concessional terms, with the remaining financing expected from multilateral and bilateral creditors at similar terms. The construction is expected to begin in 2023 and finish by 2025. The new hospital will increase the capacity of the health sector, improve profile and quality of health services, and strengthen overall resilience of the sector, as the old hospital was prone to floods.

3. **New Beaches Resort.** Sandals Resorts International is constructing a 350-room Beaches Resort at Buccament Bay, replacing the previous Buccament Bay Resort and Spa, which was closed in 2016. Baseline projections assume that the total project amounts to US$200 million (about 21 percent of 2022 GDP), financed by Sandals' own resources that would be recorded as FDI. The new resort is expected to open by early 2024. The new resort will significantly expand the capacity the tourism sector, particularly its high-end segment. It is also expected to bring more direct flights to St. Vincent and thus utilize the potential of the new airport.[4] It will also have a significant effect on employment, as Sandals already hired and sent for training over 400 hospitality workers.

B. Macroeconomic Impact

4. **Growth impact.** Given the small size of the economy, the local content of these projects is likely to be modest. All projects are likely to employ low-skilled labor from the local labor market and high-skilled labor from abroad. Baseline projections assume a conservative long-term output multiplier of 0.2, with the main growth channel being through the employment of low-skilled labor. On the basis of these assumptions, the three projects are likely to add about 10 percentage points to growth during 2022–26. To the extent that the current output gap and likely sizeable unemployment rate put a lid on local wage growth, the impact of these projects on local inflation should be limited.

Growth Contributions From Large-Scale Projects
(Percentage points)



Sources: IMF staff estimates and projections.

5. **Fiscal impact.** The port modernization and hospital projects imply significant increase in capital spending and the overall balance. Public debt is projected to remain around the current high level in the near term and peak at about 89 percent of GDP in 2024. Once the projects are completed, the debt-to-GDP ratio is projected to return to a declining path.

6. **Balance of payments impact.** High import intensity of the projects implies a significant increase in imports, widening the current account deficit. The projects are expected to widen the CAD to 27½ percent of GDP in 2023. Given that the bulk of financing is external, the imports should

[4] Air Canada announced that it will resume weekly flights in November 2022, increasing the frequency to twice a week from December 2022. American Airlines recently also announced to increase the frequency of non-stop flights from Miami from twice a week to daily from March 2023.

not create pressure on gross international reserves. In the medium term, the port and the Sandals Resort would improve St. Vincent's potential to export agriculture goods, strengthen the tourism sector as a leading engine of economic growth and therefore contribute to reducing the CAD closer to the norm.

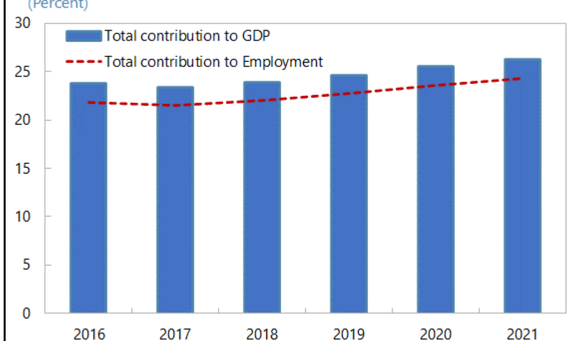
Annex III. Tourism in St. Vincent and the Grenadines: The Impact of Recent Shocks and Opportunities for the Future[1]

Tourism is a significant contributor to output and employment in St. Vincent and the Grenadines and is well-positioned to become a stronger engine of growth given the country's unique comparative advantages and the sector's relatively small size compared with regional peers. The tourism sector was growing steadily following the opening of the new airport in 2017 but was hard hit by the pandemic and volcanic eruptions and its recovery pace has fallen behind regional peers again since last April as airlines prioritize long-established destinations amidst capacity constraints. Nevertheless, the outlook is positive as recent and ongoing investment projects will increase room capacity and attract more direct flights and renewed interest. To fully unlock the potential, continued efforts are needed to invest in human capital, move up the value-chains, strengthen air connectivity, foster innovation and digitalization, and develop greater linkages between tourism and other sectors, especially agriculture.

The Tourism Sector Before the Pandemic and 2021 Volcanic Eruptions

1. **Tourism contributes significantly to employment and economic activity.** The tourism sector is a major contributor to GDP in St. Vincent and the Grenadines (VCT), with direct contribution of 6 percent of GDP and total contribution, if considering linkages with other sectors, of a quarter of GDP in 2019. These are slightly up from about 6 and 24 percent of GDP in 2016. The industry—accounting for on average about 83 percent of the country's exports over 2016–19—is also key for the sustainability of the country's external position. In addition, it is an important source of jobs with the accommodation and food service industry directly employing 8 percent of employees and 19 percent of self-employed workers who contributed to the National Insurance Service (NIS) in 2019. According to the NIS, more than half of the sector's formal employees are women (at about 57 percent in 2019). If considering the high informal employment in the tourism sector and the sector's indirect contribution to connected sectors, the World Travel & Tourism Council (WTTC) estimates that employment in tourism contributed to about 23 percent of total employment in 2019.

Contribution of Travel & Tourism
(Percent)

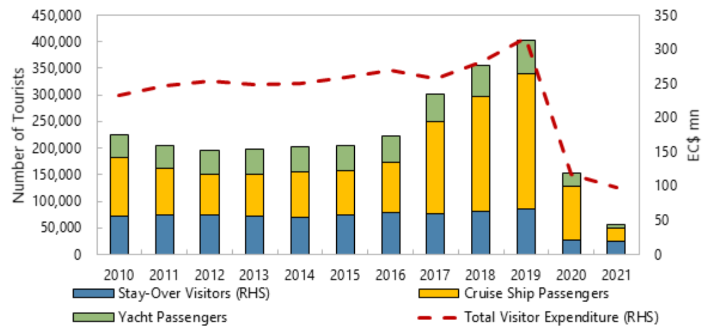


Source: WTTC.

[1] Prepared by Isabela Duarte with research assistance from Beatriz Garcia-Nunes (both WHD).

2. Before the 2020–21 shocks, tourist arrivals were steadily rising on the back of a strong performance of the cruise sector, with the impact of the new airport on stay-over arrivals remained to fully materialize. Between 2017 and 2019, number of cruise ship passengers grew rapidly with an average yoy growth of about 42 percent. With the new Argyle International Airport opened in 2017, connectivity has improved, with international carriers establishing direct flights to the country.[2] Overall price competitiveness is strong. According to the Week at the Beach index, the cost of vacation in St. Vincent, as of September 2022, was below the averages for the ECCU, Caribbean, and North and Central America. These have helped reinvigorate tourists' interest in the country, as the number of stay-over visitors gradually increased during 2017-19, at an average annual rate of 2.6 percent. The number of yacht passengers, another important market segment, increased by 8.7 percent between 2017 and 2019. Hotel room capacity in VCT is below the Caribbean average and has increased only slightly from 2011 to 2020, which has been a major bottleneck for attracting more international flights and for stayover tourism growth.[3]

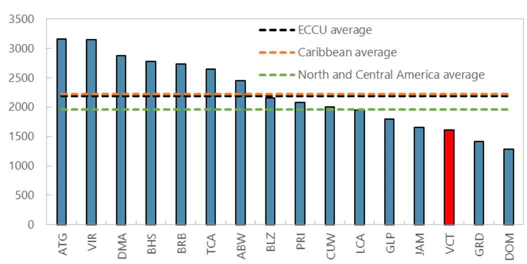
Tourism Sector Performance, 2016-21



Source: ECCB.

Week at the Beach Index

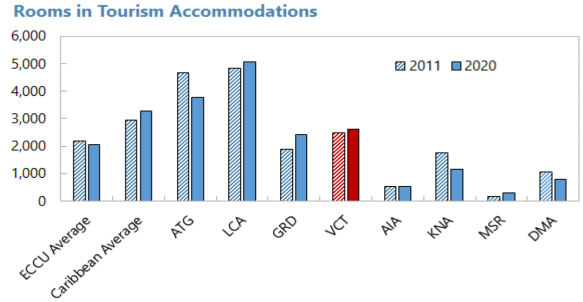
(12-month moving average, as of September 2022)



Source: IMF and TripAdvisor and IMF staff calculations.

Note: The North and Central America average includes beach destinations in the USA, MEX, CRI and PAN.

Rooms in Tourism Accommodations



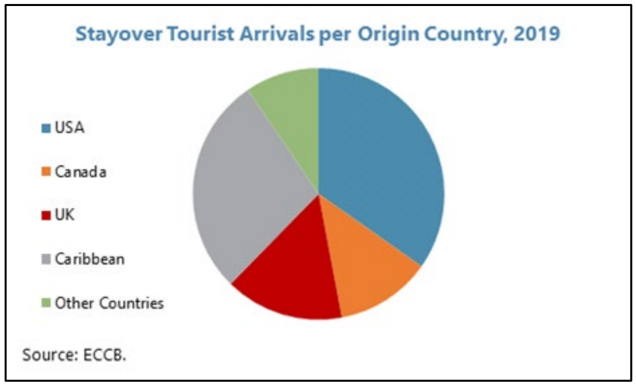
Source: Caribbean Tourism Organization (CTO).

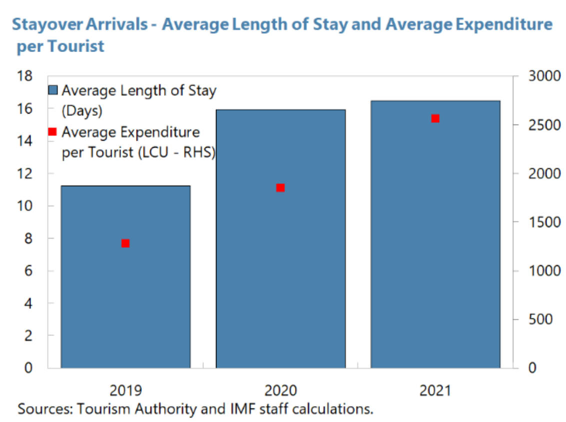
Note: The Caribbean average includes 19 destinations with total area within 1,000 square kilometers.

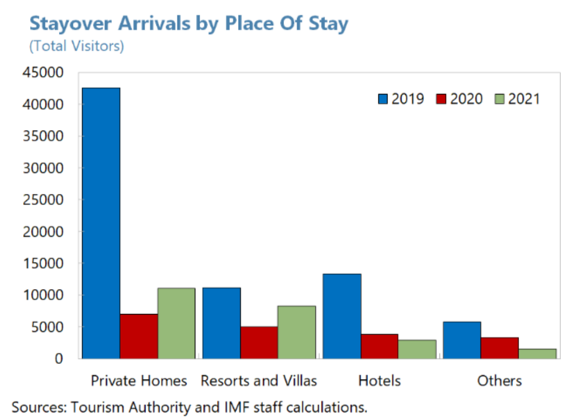
[2] Carriers that established routes to St. Vincent during at least some part of the period between 2017 and 2019 include Caribbean Airlines, SunWing, Air Canada, and American Airlines.

[3] See 2018 VCT Article IV Consultation Report, IMF Country Report No. 19/66.

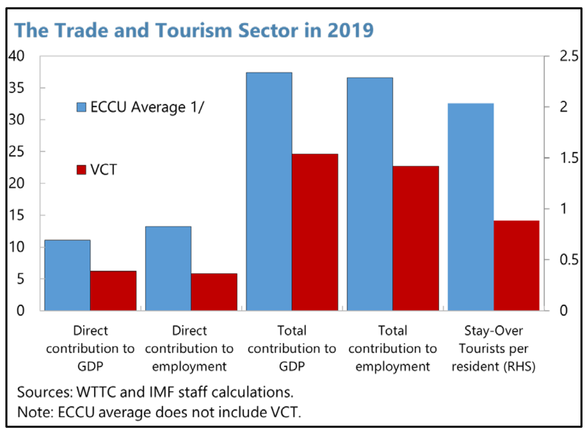
3. Stayover arrivals in St. Vincent and the Grenadines rely heavily on the intra-regional visitors. In 2019, 28 percent of total stayover arrivals in St. Vincent and the Grenadines were from other Caribbean countries, compared to a 21 percent average for the ECCU. Other important source countries of stay-over visitors are the USA (35 percent), the UK (15 percent), and Canada (12 percent). Before the pandemic, stayover visitors stayed in the country for 11.2 days, spent EC$114 daily on average, and stayed mostly in private homes.







4. Despite its importance, the tourism sector in VCT is significantly smaller than that in most other ECCU economies, implying ample room to reach its full potential. Partly reflecting the limited hotel capacity, the trade and tourism direct contribution to gross value added in VCT was 5.1 percent in 2019, well below the ECCU average of 11.9 percent and 25.1 percent for neighboring St. Lucia. Tourist arrivals per resident were only 43.4 percent of the ECCU average. As such, total contributions of tourism to GDP and employment were 24 and 23 percent, respectively, between 2016 and 2019, well below the ECCU average contribution (excluding VCT) of 36 percent for both.

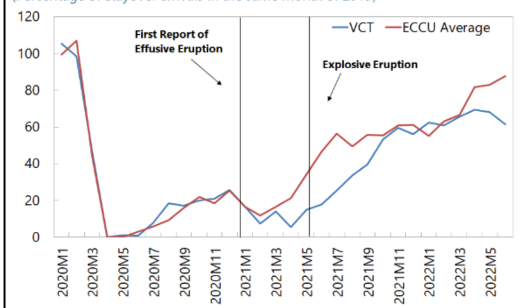


The Impact of the 2020–21 Shocks and Tourism Recovery

5. 2021 volcanic eruptions have compounded the blow to the tourism sector wielded by the pandemic. The pandemic and necessary containment measures have had a disproportionate impact on contact intensive industries. The export of services in the ECCU on average shrunk by half in 2020 and remained at about 57 percent of the 2019 level in 2021. On top of the pandemic, VCT's tourism sector was also hit by the La Soufrière eruptions in 2021. VCT's tourism recovery trajectory after the Covid-19 shock was initially broadly in line with the average performance of the ECCU. Nonetheless, the volcanic eruptions led to a reversal in the recovery trend and underperformance compared to the ECCU average during January to November 2021. The number of stayover arrivals in VCT would have been approximately 57 percent higher during this period, had VCT followed the average tourism recovery path of other ECCU countries.

Post-Pandemic Tourism Recovery

(Percentage of stayover arrivals in the same month of 2019)



Sources: ECCB, CTO and IMF staff calculations.

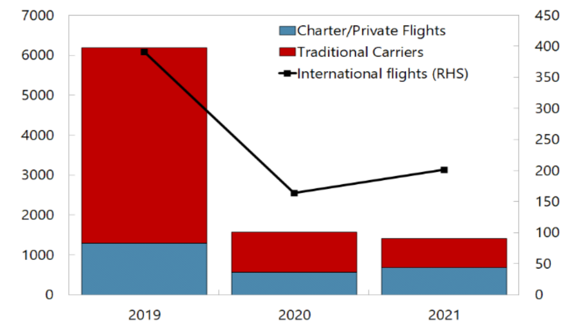
6. The pace of tourism recovery in VCT fell below the regional peers again in the second quarter of 2022. By 2021: Q4, the tourism recovery had caught up pace with the ECCU average and the number of stayover arrivals increased further in Q1, reaching 65 percent of the pre-pandemic level in March. The recovery pace, however, started to lose momentum at the end of 2021/22 peak season, falling below regional peers, including compared with St. Lucia which has a similar vaccination rate. In June 2022, stayover arrivals as a share of the 2019 level were at 61 percent against the ECCU average of 87 percent.

7. The main bottleneck constraining the recovery of tourism in VCT is airline capacity and connectivity. The availability of frequent and direct flights at competitive prices plays an important role in promoting tourism.[4] The connectivity of VCT to international destinations outside of the Caribbean was improving slowly following the opening of the Argyle International Airport, but the trend was interrupted by the pandemic. The number of flights by traditional carriers decreased sharply at the onset of the pandemic. The recovery has been slow since, affecting tourist arrivals from multiple countries. Air Canada, which resumed flights to VCT in December 2021, suspended flights again in end-January 2022 and is expected to resume weekly flights in November 2022. International flights recovered in the peak season of 2021–22 but are dominated by charter flights and the recovery slowed in 2022: Q2 as airlines prioritize long-established destinations with higher hotel capacity when allocating limited pilots and large aircrafts amidst capacity constraints. The number of international flights arrivals in VCT significantly lagged the regional average and neighboring St. Lucia. Data for August 2022 show that only a very small share of flights arriving in St. Vincent come from outside the Caribbean, very different from St. Lucia. In addition, intra-regional air transportation has become a big challenge since 2020 with the regional airline LIAT operating with

[4] See Acevedo et al. (2016).

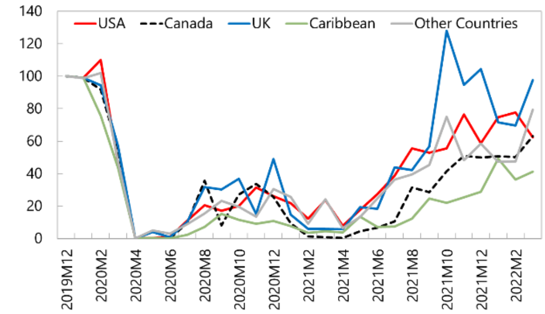
reduced capacity. With only a few airlines offering connections to the region on small aircrafts, demand outweighs supply, putting upward pressure on air ticket prices especially in the context of increasing and volatile costs.[5]

Monthly Arrivals by Type of Carrier



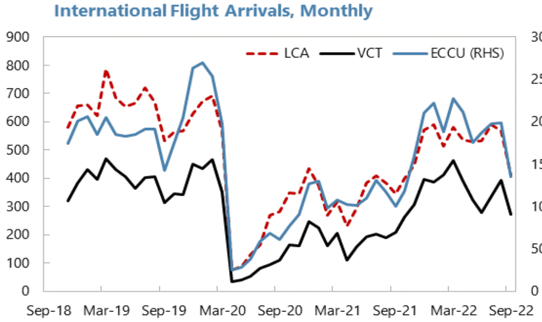
Sources: FlightRadar24 and IMF staff calculations.

Tourist Stayover Arrivals by Source Country
(Percentage of total arrivals for the same month of 2019)



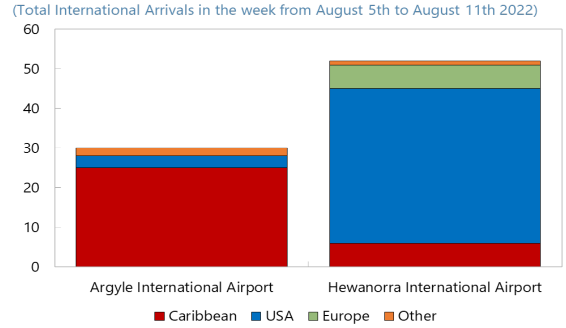
Sources: ECCB, CTO, and IMF staff calculations. 2022Q1 data estimated by staff following data revision.

International Flight Arrivals, Monthly



Sources: FlightRadar24 and IMF staff calculations.
Note: the ECCU sum does not account for flights to VCT and LCA.

Direct Flights by Region
(Total International Arrivals in the week from August 5th to August 11th 2022)



Sources: flightstats.com and IMF staff calculations.

Opportunities for the Future and Policy Implications

8. **The stunning natural endowments render the tourism sector in VCT high potential to be a stronger engine of growth.** The unique comparative advantage that combines numerous islands of top-notch fine sand beaches, beautiful rain forests, pristine ocean, rich cultural heritage, and a solid base of agriculture and fisheries put the country in a privileged position to accommodate new travel habits and protocols in the post-Covid world and develop tourism beyond traditional beach-focused travel and into nature-, agri-, and culture-based tourism.

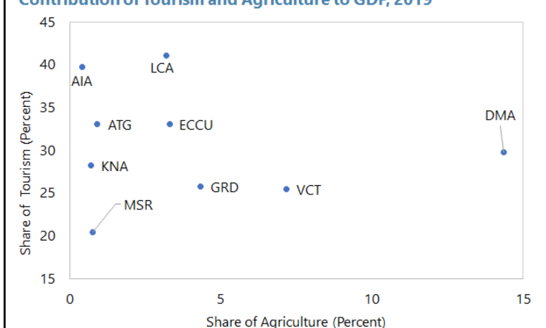
9. **The recent and ongoing key investment projects help address bottlenecks and offer opportunities for tourism growth.** The conclusion of the Argyle airport in 2017 created the infrastructure needed to accommodate larger planes, which was an important supply constraint for

[5] Market participants have highlighted limited airlift capacity and high prices for air travel to VCT as main constraints for tourism recovery.

attracting international direct flights and has revigorated tourists' and investors' interest in the country. The ongoing and planned construction of new hotels, including the Holiday Inn by the new airport, will help address the existing challenge of small stock of hotel rooms. In particular, a family-oriented resort with an estimated investment of US$200 million by the Sandals group, which is currently under construction and expected to open by end-2023, will add 350 rooms and at least 400 jobs. As hotel capacity expands and interest in VCT as an emerging tourism destination consolidate, airlines are expected to respond by increasing airlift frequency and connectivity. Recently, American Airlines announced that it will increase the frequency of non-stop flights to the country from twice a week to daily in March 2023. In addition, the ongoing climate-resilient port modernization project, once completed in 2025, is expected to remove shipping bottlenecks that could affect the supply chains of the hospitality industry. The planned new modern hospital would help strengthen the quality of healthcare, which could cater visitors in need of medical assistance, including attracting retirees, by mitigating health concerns.

10. **Further growth potential could come from greater innovation and investment in niche markets to increase domestic value added of the sector and move up the value-chains.** The recent and ongoing key infrastructure investments are instrumental for alleviating supply-side constraints. Continued efforts to increase vaccination rates are important to build resilience to new Covid-19 outbreaks. To unlock their full potential, continued improvement in business environment and efforts to attract investment in niche markets are needed. This should be accompanied by strengthened connectivity, including exploring alternative intra-regional transportation at lower costs which will support tourism during low seasons. Continued efforts to increase vaccination rates are important to build resilience to new Covid-19 outbreaks. Digital transformation, better access to financing opportunities, and greater marketing and standardization efforts could boost productivity and create the conditions for higher participation of local and small providers in the industry. Developing linkages between tourism and other sectors, especially agriculture which accounts for a significant share of total output, would create synergies for economic development, including through the ongoing efforts to establish a local agriculture and fishery produce supply platform for the hospitality industry. To fully support and reap the benefits of a growing tourism industry, the country should continue to invest in training and reskilling programs to reduce labor market frictions and skill mismatches.

Contribution of Tourism and Agriculture to GDP, 2019



Sources: ECCB, CTO, WB and IMF staff calculations.
Note: the Tourism sector includes Hotels and Restaurants, Transport and Storage and Wholesale and Retail Trade.

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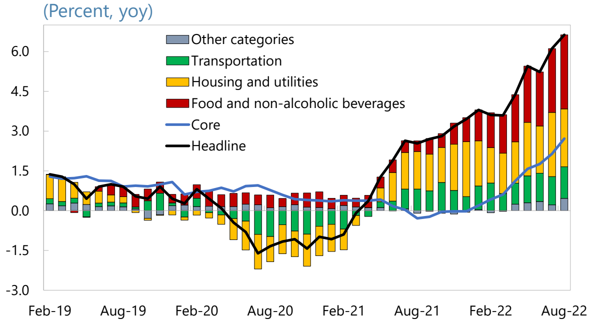
Annex IV. Inflation Outlook[1]

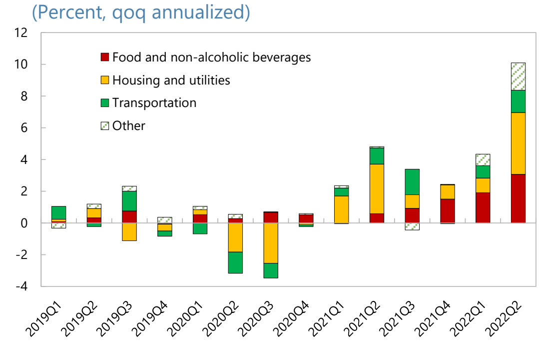
1. As a small open economy heavily relying on imports, St. Vincent and the Grenadines is highly vulnerable to external price shocks. About two-fifths of imports come from the U.S., making the U.S. prices an important driver of VCT's inflation. Three categories, namely (i) food and non-alcoholic beverages, (ii) housing and utilities, and (iii) transportation, make up the bulk of contributions to headline inflation. These are largely driven by import food and fuel prices as housing and utilities include electricity prices which, in turn, depend on the cost of imported fuel, a key input to the energy sector.

Contributions to Headline Inflation
(Percent, yoy)



Sources: National authorities and IMF staff estimates.

Quarterly Headline Inflation and Contributions
(Percent, qoq annualized)



Sources: National authorities and IMF staff estimates.

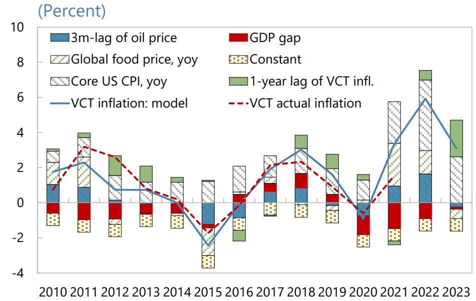
2. A simple regression model summarizes inflation drivers. Taking the annual period average inflation rate as the dependent variable, the model includes core inflation in the U.S., changes in the global food price index, changes in a global oil price index lagged by a quarter to reflect delays in its pass-through onto domestic fuel prices, the estimated GDP gap, and also the inflation lagged by one period. All coefficients have expected signs and reasonable values, although not all of them are statistically significant, most likely due to the small sample size. Based on the model and the global assumptions in October 2022 WEO, the point estimates of period average inflation rates in 2022 and 2023 are 5.9 and 3.1 percent, respectively, although they should be viewed as indicative as the model is subject to considerable standard errors. As expected, the U.S. core inflation, food prices, and oil prices would exert significant pressures in 2022, only partially offset by the effect of the negative output gap. In 2023, the model suggests that the projected decline in oil and food prices and the lingering output gap would result in disinflation.

Inflation Model

Regressors	Coeff.	T-stat.	P-val.
1-year lag of VCT CPI, % ch.	0.353	2.45	0.03
Core US CPI, % ch.	0.664	1.03	0.32
3-m lag of global oil price, % ch.	0.029	1.76	0.10
Global food price index, % ch.	0.093	1.92	0.08
GDP gap, percent	0.264	2.47	0.03
Constant	-0.708	-0.53	0.61

Notes: The OLS regression is estimated using 21 obs.
R-squared is equal to 78 percent.
Source: IMF staff estimates.

Inflation Model
(Percent)



Source: IMF staff estimates and projections.

[1] Prepared by Dmitriy Kovtun (WHD).

Annex V. External Sector Assessment

Overall Assessment: *The external position of St. Vincent and the Grenadines in 2021 was moderately weaker than the level implied by fundamentals and desirable policies. Nevertheless, this assessment is subject to large uncertainty considering the use of preliminary data for the current account and the challenges of assessing the impact of the pandemic and the volcanic eruption.*

Potential Policy Responses: *Given the unprecedented socio-economic fallout from multiple shocks, near-term policies should continue to support a resilient and inclusive recovery while maintaining fiscal prudence. Once the recovery takes hold, efforts to strengthen the fiscal framework should continue to safeguard fiscal sustainability. Structural reforms to unleash growth potential and build resilience to national disasters and climate changes can help boost competitiveness and strengthen the external position.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The net international investment position (NIIP) deficit, which averaged about 128 percent of GDP between 2015–19, slightly increased from 137 percent of GDP in 2020 to 140 in 2021. In 2021, other investment (mostly currency and deposits) and reserve assets comprised the largest components on the asset side (37 and 36 percent of gross assets). On the liability side, two largest components were direct investment (69 percent of gross liabilities) and other investment, particularly long-term general government loans.[1]

Assessment. The NIIP is expected to deteriorate in the near term on account of the implementation of large capital investment projects on hotels and resilient infrastructure, financed through both private direct investment and general government loans on concessional terms. Nevertheless, the IIP position is expected to stabilize and improve over the medium term as tourism and agricultural exports recover from the shocks in 2020–21 and exports grow faster with improved connectivity and cargo capacity.

2021 (% GDP)	NIIP: -140	Gross Assets: 92	Debt Assets: 19	Gross Liab.: 232	Debt Liab.: 13

Current Account

Background. The current account *deficit,* which averaged about 10.5 percent of GDP over 2015–19, increased to 15 percent of GDP in 2020 and to 22.8 percent of GDP in 2021. The widening *deficit* largely reflects the sharp decline in tourism receipts in the aftermath of the pandemic and the volcanic eruptions. Exports of travel services declined to 10 percent of GDP in 2020 and to 7 percent of GDP in 2021 against an average of 26 percent between 2015–19. The impact of the volcanic eruption on the exports of goods and higher imports of relief supplies and reconstruction materials also contributed to the larger *deficit.* In the near term, the *deficit* is expected to widen further

St. Vincent and the Grenadines: EBA-lite Model Results, 2021

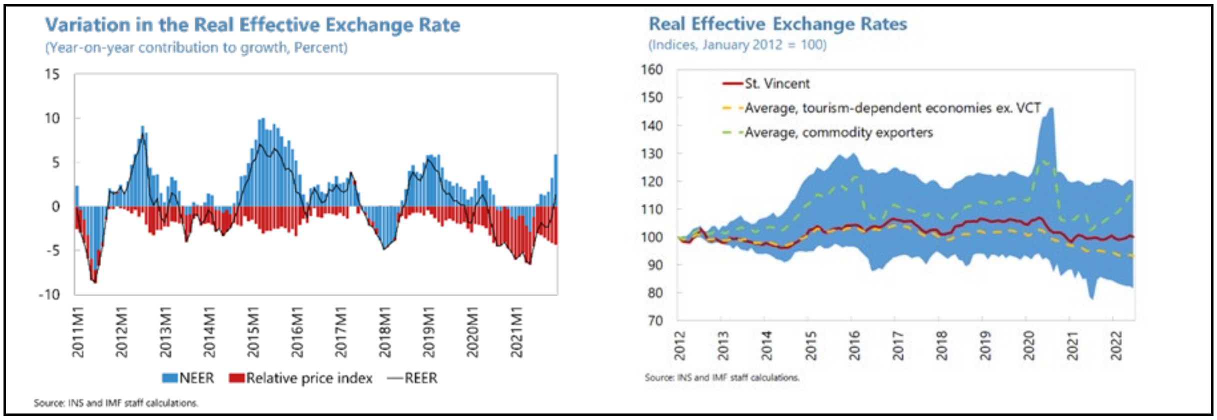
	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	**-22.8**	
Cyclical contributions (from mc	0.7	
COVID-19 adjustor (-) 2/	-8.7	
Additional temporary/statistica	-5.4	
Natural disasters and conflicts (	1.0	
Adjusted CA	**-10.4**	
CA Norm (from model) 3/	**-9.0**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-9.0**	
CA Gap	**-1.4**	**-0.3**
o/w Relative policy gap	5.1	
Elasticity	-0.27	
REER Gap (in percent)	**5.2**	**1.2**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (8.7 percent of GDP) and of the volcanic eruption on trade (5.4 percent of GDP).
3/ Cyclically adjusted, including multilateral consistency adjustments.

reflecting high import content of large investment projects and surging costs of imports of fuels and other goods. Going forward, the CA is expected to reach the level implied by fundamentals and desirable policies in the medium term as these construction projects are completed and tourism fully recovers.

Assessment. The CA model suggests that the external position was moderately weaker than the level implied by fundamentals and desired policies.[2] The smaller gap compared to that assessed by the 2018 Article IV Consultation likely reflects recent improvements in competitiveness, as the government intensified efforts to diversify the export base, strengthen human capital, upgrade the transportation and climate resilient infrastructure, and contain production costs.[3] However, the uncertainty around the assessment remains high considering the challenge of estimating the impact of the shocks.

Real Exchange Rate



Background. In 2021, the real effective exchange rate (REER) depreciated by 3.7 percent, largely driven by differences in inflation. After appreciating 1.6 percent on average between 2015–19, the REER depreciated by 2.2 percent in 2020. Despite the recent trend, the cumulative appreciation of REER (relative to 2012 levels) remains slightly above the average for tourism dependent economies.

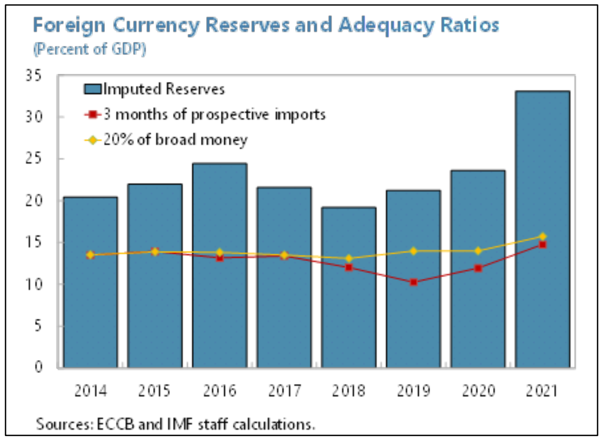
Assessment. The REER gap, derived from the EBA-Lite CA model and an estimated elasticity of -0.27, was 5.2 percent. Meanwhile, the EBA-Lite REER model suggests a REER gap of 1.2 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. Foreign direct investment (FDI), which averaged 10.8 percent of GDP during 2015–19, declined substantially to 3.3 percent of GDP in 2020 but rebounded slightly in 2021 to about 7 percent of GDP.

Assessment. Net FDI inflows are expected to increase substantially in the near term reaching around 16 percent of GDP in 2023, as large investment projects in the tourism sector come into fruition, and to return to pre-pandemic levels in the medium term (around 10 percent of GDP). Downside risks to the projections are related to the impact of natural disasters and the tightening of global financial conditions.

FX Intervention and Reserves Level



Background. The reserve position improved substantially in 2021, on account of the external support received in the aftermath of the volcanic eruption. In 2021, imputed reserves, a proxy for net foreign assets held at the Eastern Caribbean Central Bank (ECCB),[4] increased by 9.5 percent of GDP from US$205 million to US$288 million, equivalent to about 7 months of imports and 42 percent of broad money.

Assessment. Imputed reserves in 2021 were above typical benchmarks for reserve adequacy in terms of months of imports and percent of broad money. In 2021, St. Vincent and the Grenadines received a special SDR allocation of 11.2 million SDRs (approximately US$15.7 million at the time of the allocation) which have been kept mostly as reserves.

[1] 2020 BOP data is preliminary and based on the April 2022 ECCB release. 2021 data is a combination of the ECCB and IMF staff estimates.

[2] For the CA model we include two adjustors, a Covid-19 adjustor that incorporates information on the observed and expected losses in export of travel services and an additional temporary adjustor, that incorporates the impact of the volcanic eruption on trade balance. To calculate the additional adjustor, we estimate a model that compares the monthly trade balance of St. Vincent and Grenadines against other ECCU country before and after the eruption, controlling for country, year, and month fixed effects. We use information on monthly trade balance as a percentage of GDP, provided by the ECCB, for the period between Jan-2015 and Dec-2021 to estimate the model. Estimates, which are significant at the 5 percent level, suggest that the volcanic eruption has deteriorated St. Vincent and the Grenadines trade balance by an average of 0.6 percent of GDP per month after the eruption.

[3] St. Vincent and the Grenadines contained public sector wage growth in recent years and has one of the lowest energy prices among countries in the region.

[4] As an ECCU member, St. Vincent and the Grenadines is subject to a quasi-currency board arrangement. Foreign assets and liabilities at the ECCB cannot be assigned to individual countries, but reserves are imputed to individual member countries based on their balance of net domestic assets and reserve money. The Easter Caribbean dollar, the currency of St. Vincent and the Grenadines, is pegged to the U.S. dollar.

Table 1. Classification of the Overall Assessments [1/]

CA gap	Description in overall assessment
> 4%	... substantially stronger...
[2%, 4%]	... stronger...
[1%, 2%]	... moderately stronger...
[-1%, 1%]	The external position is broadly in line with the level implied by fundamentals and desirable policies
[-2%, -1%]	... moderately weaker...
[-4%, -2%]	... weaker...
< -4%	... substantially weaker...

1/ The qualitative assessment of the external position is primarily based on the CA gap. Due to different elasticities, the same CA gap could be associated with different REER gaps for different economies.

Annex VI. Risk Assessment Matrix[1]

Risks	Relative Likelihood	Impact	Policy Response
Intensifying spillovers from Russia's war in Ukraine and/or commodity price shocks. Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility, with Europe, LICs and commodity-importing EMs among the worst hit. A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility and social and economic instability.	High	**High.** Inflation pressures intensify, eroding incomes, dampening demand, widening fiscal and trade deficits, and threatening food and energy security.	Provide temporary and targeted transfers to the vulnerable. Allow a gradual pass-through of international prices and phase out generalized subsidies. Continue to improve coverage and targeting of social safety nets. Accelerate transition to renewable energy sources.
De-anchoring of inflation expectations and stagflation. Supply shocks to food and energy prices sharply increase headline inflation and pass through to core inflation, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets. Central banks tighten monetary policy more than envisaged leading to weaker global demand, currency depreciations in EMDEs, and sovereign defaults. Together, this could lead to the onset of stagflation.	Medium	**Medium.** Higher imported inflation triggers demand for higher wages, intensifying inflation pressures. Domestic currency appreciates given U.S. dollar peg, weakening competitiveness. Higher borrowing costs add fiscal strains.	Continue restraints in wage growth while providing temporary and targeted support to the vulnerable. Strengthen the fiscal framework to rebuild buffers and communicate credible medium-term fiscal plan. Implement structural reforms to improve competitiveness. Intensify monitoring of financial institutions.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth slowdown, with outright recessions in some countries, spillovers through trade and financial channels, and downward pressures on some commodity prices.	Medium	**Medium.** A global slowdown hinders tourism recovery, weakens remittances and FDI, and reduces growth.	Accelerate structural reforms to support economic recovery. Adopt credible medium-term plan to preserve fiscal sustainability. Provide targeted support to the vulnerable.
Local Covid-19 outbreaks. Outbreaks in slow-to-vaccinate countries or emergence of more contagious vaccine-resistant variants force new lockdowns or inhibit commerce. This results in extended supply chain disruptions, slower growth, capital outflows, and debt distress in some EMDEs.	Medium	**Medium.** Tourism recovery is stalled or reversed, and domestic activity disrupted, deepening scarring effects and worsening fiscal and external positions.	Ensure adequate access to essential items, such as food and medicine. Extend targeted pandemic relief measures to support the vulnerable and prioritize health spending. Adopt credible medium-term plan to preserve fiscal sustainability. Continue public education campaign to address vaccine hesitancy.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Risks	Relative Likelihood	Impact	Policy Response
Natural disasters related to climate change. More frequent natural disasters deal severe damage to infrastructure (especially in smaller vulnerable economies) and amplify supply chain disruptions and inflationary pressures, causing water and food shortages and reducing medium-term growth.	Medium	**High.** Lower growth and worsen fiscal and external positions.	Recalibrate the fiscal responsibility framework (FRF) to internalize exposure to natural disasters. Implement national adaptation plans with investment in structural and financial resilience, and appropriate *ex ante* financing.
Delays in investment project implementation. Implementing several large-scale projects at the same time could stretch available capacity. In conjunction with supply chain disruptions and rising project costs, this could delay the schedule.	High	**High.** Lower growth. Slower-than-expected investment would slow down the recovery and resilience building.	Strengthen public financial management and project implementation capacity, including through undertaking PIMA, C-PIMA and CARTAC TAs.
Unexpected rise in spending needs that are inconsistent with the FRF, including higher than expected public sector wage increase and pension benefits.	Medium	**High.** It would slow down fiscal consolidation and endanger fiscal sustainability.	Recalibrate and operationalize the FRF once the recovery takes hold. Adopt parametric reforms of the pension system. Identify and implement revenue and expenditure measures to mitigate the impact.
Higher NPLs and market risk in indigenous banks and non-banks trigger a confidence shock.	Medium	**Medium.** Financial sector instability disrupts economic activity.	Monitor asset quality and ensure adequate loan loss provisioning. Enhance regulatory and supervisory frameworks for non-banks.
Loss of correspondent banking relationships. Curtailment of cross-border financial services may intensify amid the exit of global banks.	Medium	**Low.** Fees of cross-border payments rise, raising business costs and reducing remittance inflows.	Strengthen compliance with AML/CFT and tax transparency standards.

Annex VII. An Adverse Scenario and Contingency Planning

Given highly uncertain global environment and elevated risks, staff have developed an illustrative adverse scenario where several risks materialize simultaneously in 2023–24. A complicating factor is that the risks are not orthogonal to one another and may interact to magnify some of the adverse effects.[1] Unsurprisingly, the adverse scenario shows lower growth, worsened external and fiscal positions, sizeable fiscal financing gap, and higher public debt (Figure AVII.1). Preparing a contingency plan would be critical to guard against the risks and mitigate the impact of the shocks.

1. **The scenario assumes a realization of external and domestic risks in 2023–24 that significantly worsen St. Vincent and the Grenadines' macroeconomic outlook. On the** external side, the scenario assumes lingering Covid-19 effects, an increase in oil and food prices stemming from continuing supply disruptions, intensifying spillovers from the war in Ukraine, and de-anchoring of inflation expectations in the global economy, an abrupt global slowdown, and higher-than-anticipated tightening of global financial conditions. These factors, in combination with local capacity constraints, are assumed to delay implementation of major investment projects by 1–2 years relative to the baseline and delay the tourism recovery. As a result, real GDP growth is reduced by 3.5 and 1.8 percentage points, from 6 and 4.8 percent in the baseline, respectively. The scenario also assumes that the combination of the shocks reduces medium-term potential growth to 2.3 percent from 2.7 percent in the baseline. Inflation would accelerate to 6.6 percent in 2023, about 2 percentage points higher than in the baseline, driven by higher import prices.

2. **The growth slowdown and delayed recovery would translate into larger current account deficits, exerting pressure on international reserves.** In 2023, the current account deficit would widen slightly compared to the baseline projections as the loss of tourism receipts and higher fuel and food imports would be partly offset by lower investment project-related imports. The CAD will remain elevated in 2024 as imports pick up, driven by re-phased investments, before subsiding thereafter as the shocks wane and the project construction are completed by 2027. In the adverse scenario, international reserves would decline to about 2 months of imports by 2027.

3. **The fiscal position would worsen, creating fiscal financing gaps in the coming years should additional financing dry up.** Despite lower capital spending relative to the baseline due to delays in port and hospital construction, the overall fiscal deficit would worsen to 7.5 and 8.2 percent of GDP in 2023 and 2024, respectively, on account of lower tax revenue and higher current spending needs, including higher cost from extension of price-mitigating measures. Assuming no additional financing from local or regional markets, this would result in fiscal financing gaps of 3.3 and 2.3 percent of GDP in 2023 and 2024, respectively. Higher deficit, coupled with lower GDP growth, would push the public debt to 94 percent of GDP in 2025 and lead to a slower pace of decline afterwards, keeping it above 90 percent of GDP by 2027.

[1] See October 2022 World Economic Outlook.

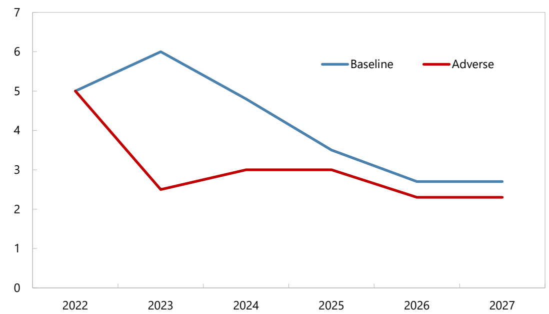
4. **Slower economic activity could also weaken financial institutions' balance sheets.** Asset quality has already deteriorated relative to pre-pandemic levels and could weaken further as NPLs usually peak a few years after crises (Ari et al., 2021). Prolonged recessions followed by slow economic recoveries have been associated with increasing NPLs in the ECCU, with a higher impact on institutions with low profitability and more exposed to volatile sectors as construction and tourism (Beaton et al., 2016). A panel regression in Beaton et al. (2017) suggested that asset quality in the Caribbean deteriorates as a function of low real GDP growth, both at local and in advanced economies. Thus, sharply lower growth in St. Vincent, in conjunction with a global slowdown, could raise NPLs and exert pressure on the capital buffers, although the currently strong capital buffers would allow banks to absorb losses without breaching their minimum regulatory requirements.

5. **Preparing a contingency plan will be critical to guard against the risks and mitigate the impact of the shocks.** The plan could draw on the existing buffers (i.e., the Contingencies Fund and special SDR allocation) to cover the liquidity needs and include growth-friendly and equity-enhancing measures on both revenue and expenditure sides to return debt to the baseline. On the revenue side, the authorities could consider further streamlining VAT exemptions and import concessions (See ¶16). On the expenditure side, they could reprioritize spending, while safeguarding resources for critical areas and the vulnerable. Continued containment of public sector wage growth would help avoid second-round inflationary pressures.

Figure AVII.1. Baseline and Adverse Scenarios, 2022–27

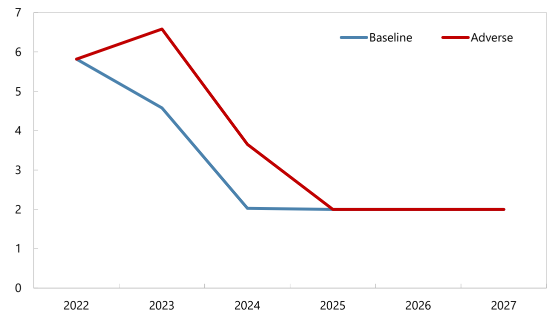
If realized, the shocks would worsen growth outlook...

Real GDP Growth
(Percent)



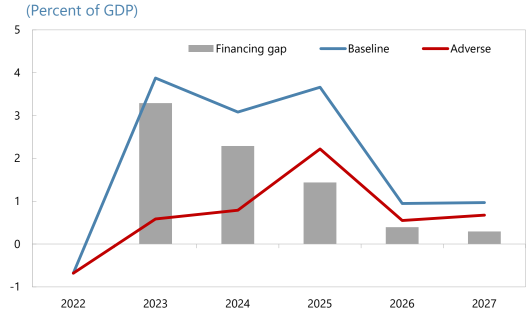
...and increase inflation.

Inflation
(Percent, average)



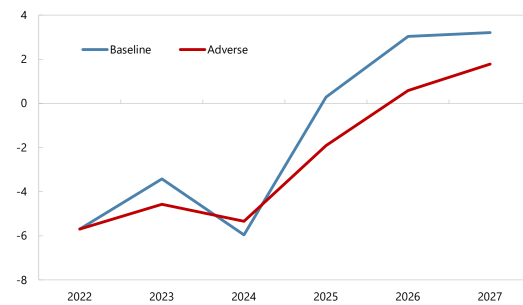
The loss of revenue and higher spending needs would worsen the underlying fiscal balance and create sizeable financing gaps in the coming years.

Financing Gap and Overall Fiscal Balance Excluding Covid-19, Volcano, Port, and Hospital
(Percent of GDP)



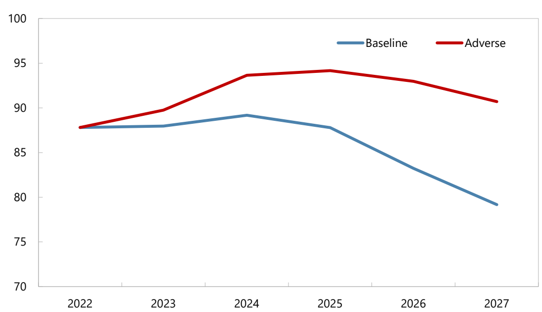
The primary deficits would increase....

Primary Balance
(Percent of GDP)



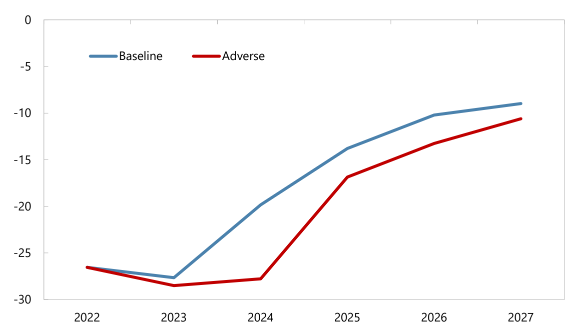
..., together with higher interest payments, pushing public debt higher.

Public Sector Debt
(Percent of GDP)



The shocks would also weaken the external position.

Current Account
(Percent of GDP)



Sources: IMF staff projections and estimates.

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Kimberly Beaton, Thomas Dowling, Dmitriy Kovtun, Franz Loyola, Alla Myrvoda, Shelton Nicholls, Joel Okwuokei, Inci Ötker, and Jarkko Turunen, 2017, "Problem Loans in the Caribbean: Determinants, Impact and Strategies for Resolution" IMF Working Paper 17/230.

Annex VIII. Fully Operationalizing St. Vincent and the Grenadines' Fiscal Responsibility Framework[1]

St. Vincent and the Grenadines introduced a rules-based fiscal responsibility framework (FRF) in January 2020. Shortly thereafter, the country was hit hard by the pandemic, followed by the volcanic eruptions, which delayed the full operationalization of the FRF and have significantly widened the distance between the fiscal position and the envisaged targets. This annex reviews and provides options for updating the existing FRF for an effective full implementation to signal credible medium-term fiscal plans and safeguard debt sustainability. Key recommendations include: (i) lowering debt ceiling to internalize external shocks and natural disaster risks as well as aligning with the revised regional target date; (ii) recalibrating operational targets to ensure sufficient convergence towards the debt target; and (iii) discussing additional considerations to strengthen the resilience of the framework.

Context

1. **The authorities adopted a Fiscal Responsibility Framework (FRF) right before the onset of the pandemic.** Prior to the pandemic, the authorities had been making critical efforts to put the public finances in order while investing in natural disaster (ND) resilient infrastructure. They maintained a prudent fiscal stance, introduced tax measures,[2] strengthened tax administration, and set up the Contingencies Fund (CF), including legislating its governance and operational framework. In addition, the FRF was approved by Parliament in January 2020 and updated in May 2020 to reflect the port modernization project.[3] The FRF includes operational targets on primary balance and current spending to achieve the public debt-to-GDP ratio of 60 percent by 2030 (Table AVIII.1).

2. **The pandemic and the volcanic eruptions in 2021 have delayed the full implementation of the FRF.** Shortly after adoption, the escape clause was triggered and the full implementation of the FRF was delayed due to the multiple shocks (Table AVIII.1). The government plans to fully implement the FRF once the recovery takes hold but recognizes the need to first update the framework to reflect the developments since the adoption. The recent surge in debt and delay and higher costs of key infrastructure have made the current debt and operational targets inconsistent with the new reality.

[1] Prepared by Marie Kim (WHD).

[2] The authorities introduced revenue-enhancing measures, including raising excise taxes on selected items (2019), and increasing the Customs Service Charge (2021).

[3] It was approved as Resolution by Parliament, as part of World Bank's First Fiscal Reform and Resilience Development Policy Credit (2019). The updated FRF incorporated the original construction cost of 18 percent of 2022 GDP, which is about 40 percent lower than the current cost. The construction timeline has also been significantly delayed due to the recent shocks.

3. **The government is making efforts to strengthen the institution to underpin the effective implementation of the FRF.** The government appointed five members of the Fiscal Responsibility Mechanism (FRM), i.e., fiscal council, in September 2021, following the amendment to the FRF made in February 2021, with CARTAC support. The FRM is currently preparing its first report to review fiscal performance in 2021–22 and the 2022 Budget. Following the CARTAC TA, the authorities also plan to improve the budget process and leverage the Medium-term Economic and Fiscal Outlook (MTEFO) to guide medium-term budget preparation in accordance with fiscal targets.

Table AVIII.1. Summary of St. Vincent and the Grenadine's Fiscal Responsibility Framework

	Numerical Target	Target Date
Primary balance	1.2 percent of GDP 2.7 percent of GDP	2021-2023 2024 onwards
Current spending ceiling	Nominal current growth to be less than nomianl GDP growth in the same year	through 2030
Wage bill ceiling	13.0 percent of GDP 12.5 percent of GDP	through 2021 2022 onwards
Government debt 1/	60 percent of GDP	2030
Key Design Features		
Coverage	Central Government	
Compliance margin	0.55 percent of GDP	
Summary		
Escape Clause and Triggers	Subject to the approval of Cabinet, the Minister may suspend fiscal rule under: (i) natural disaster declared by the National Emergency Management Act, (ii) declared public health epidemic, (iii) real GDP contracts by 2 percent or more in a year or cumulatively by 3 percent or greater over two consecutive years, and (iv) a financial crisis certified by the ECCB and with fiscal costs has occurred or is imminent.	
Oversight Committee	Fiscal Responsibility Mechanism (i.e. Fiscal Council), appointed by Cabinet, monitors compliance with the fiscal rule and reports to the Cabinet and the Finance Committee.	
Review	The Government shall review the requirements in 2025 and every five years thereafter.	

1/ The ECCU regional debt target of 60 percent of GDP was extended to achieve from 2030 to 2035 on February 12th, 2021.
Sources: National authorities and IMF staff calculations.

Current Targets in the Post-Pandemic and Volcanic Eruptions World

4. **The pandemic and the 2021 volcanic eruptions opened a large gap between the current fiscal landscape and existing fiscal targets, making the latter inconsistent with the current economic outlook and revised regional debt target.**

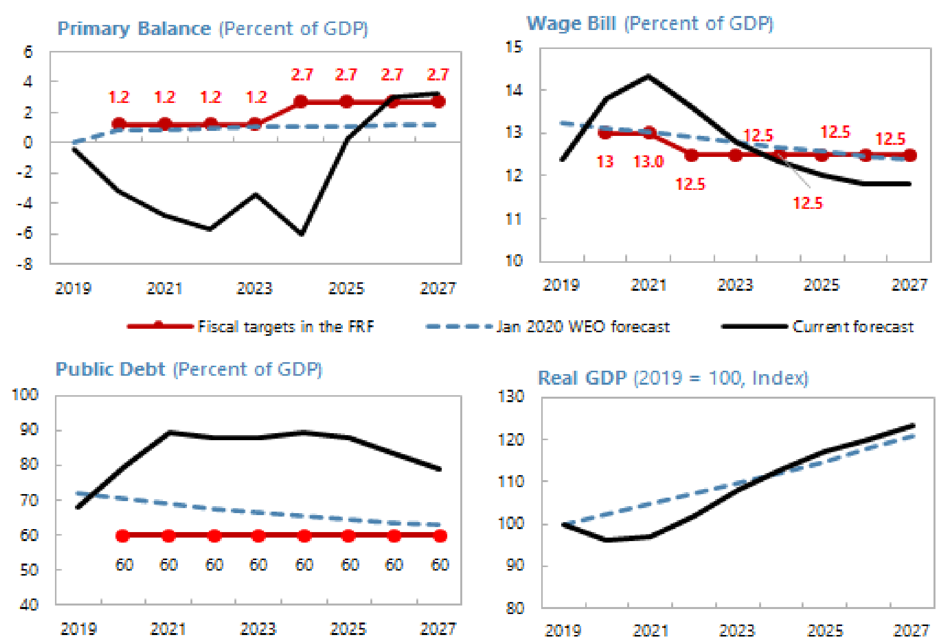
- **The distance between the current fiscal indicators and envisaged fiscal targets has significantly widened.** Pre-pandemic forecast suggests that the debt target of 60 percent of GDP by 2030 and associated operational targets in the FRF were achievable at the time.[4] However, GDP declined by 3.7 percent in 2020. Despite the authorities' strong efforts to mobilize revenue and contain non-priority spending, the critical volcanic eruption- and pandemic-related fiscal responses to the humanitarian crises, coupled with lower economic activity, have pushed

[4] The January 2020 WEO forecast was close to the target stipulated in the FRF, approved in January 2020.

up the debt level to 89.3 percent of GDP in 2021 from 68.1 percent in 2019. Meanwhile, higher cost of the port project, together with the new hospital project, imply a lower near-term primary balance. As such, the medium-term primary balance targets in the current FRF no longer ensure sufficient convergence of the debt ratio towards the debt target.

- **The ECCB Monetary Council extended the date for reaching the regional debt target of 60 percent of GDP from 2030 to 2035 in February 2021.**[5] This is to recognize the challenges posted by the socio-economic impact of the pandemic, including the considerable deterioration in growth, fiscal and debt positions in 2020–21, as well as the need to create the fiscal space needed for resilience building and development needs.

Comparison of Fiscal Targets with Fiscal Projections Before and After the Pandemic



Sources: IMF WEO database, National authorities, and IMF staff forecast.

Options and Considerations for the Framework Review

5. **To strike an appropriate balance between supporting the recovery and ensuring debt sustainability, recalibrating the fiscal rule targets and their timeframe is necessary.** Given the potential increase in external borrowing costs due to tighter global financial conditions and elevated debt, the need to fully operationalize a credible and well-designed FRF has become more pressing to signal credible medium-term fiscal plans and increase fiscal discipline and transparency. In addition, given the economy's high vulnerability to external shocks, the resilience of the FRF could be enhanced to explicitly account for the presence of macroeconomic uncertainty and sizable

[5] See 2021 ECCU Regional Consultation Report, IMF Country Report No. 21/86.

natural disaster risks. Such considerations call for revisiting the current calibration now rather than at the next scheduled review in 2025.

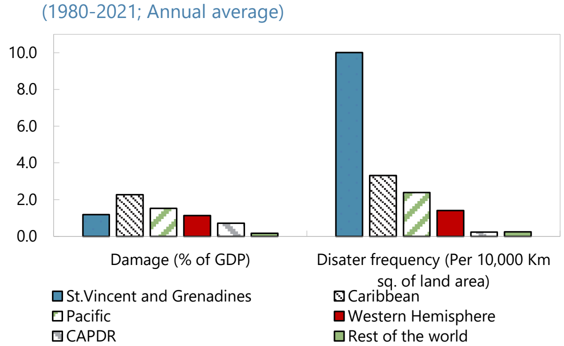
6. The country's significant exposure to external shocks, including natural disasters, warrants a lower prudent debt anchor, unless financial buffers and other mitigating mechanisms are in place.

- **As a small open island economy, St. Vincent and the Grenadines (VCT) is highly vulnerable to external shocks, including from natural disasters.** The economy faces more frequent natural disasters compared to the peer countries, incurring a fiscal cost of 1.1 percent of GDP based on the historical data since 1980. Unlike adverse demand and inflation shocks, natural disasters also represent often large and asymmetric supply shocks that lower output and increase inflation, reducing the fiscal and external sector's ability to respond to the crisis. Moreover, the country's reliance on tourism and agriculture exacerbates the impact of natural disasters. This requires large financing needs to rebuild the economy rapidly and to minimize scarring effects.

- **A stochastic simulation featuring external shocks including natural disasters illustrates that incorporating a safety margin into the debt anchor would improve chances of keeping debt below the regional debt ceiling over the long term.** The analysis of the optimal debt anchor extends the original IMF's fiscal rule calibration toolkit (Eyraud and others, 2018) to incorporate large and asymmetric supply shocks from natural disasters, tailored to VCT, in addition to the shocks implied by the historical data.[6] The model, calibrated based on the historical data (including the frequency and growth impact of natural disasters), suggests that a debt anchor of 47 percent of GDP would provide a safety margin against shocks and keep debt below the regional debt ceiling of 60 percent of GDP with 95 percent probability.

Effects of Natural Disaster

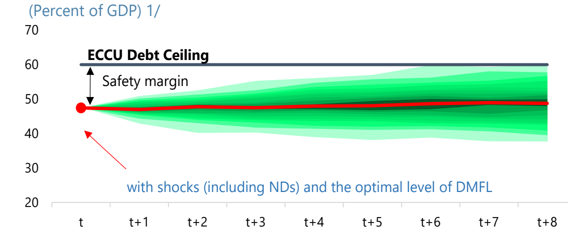
(1980-2021; Annual average)



Sources: EMDAT, World Development Indicators (WDI), and IMF Staff caluclations

Debt Target in the Presence of Shocks (including NDs), With the Optimal Level of Disaster Mitigating Financial Layering (DMFL)

(Percent of GDP) 1/

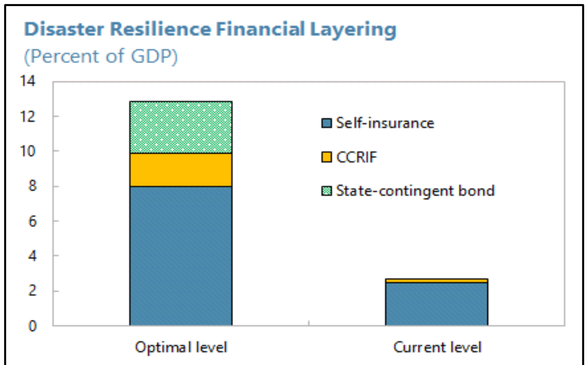


Sources: IMF staff estimates

1/ The fan chart represents debt path simulations based on shocks derived from the historical and natural disaster data. The results depend on several chosen parameters, including the length of the simulation period and the percentage of simulations that should stay below a given threshold.

[6] Natural disaster shocks are modeled parametrically as a combination of a binomial distribution, to capture the frequency of natural disasters, and a pareto distribution, to capture the growth impact conditional on the materialization of a disaster (Gbohoui and Akanbi, 2022).

- **The safety margin should be set depending on the size of financial buffers in place,** including the government's self-insurance, insurance policies, disaster clauses in debt securities, access to grants conditional on disasters, and private self-insurance. The government introduced three layers of instruments, in line with the IMF advice, to improve climate financial resilience and alleviate fiscal pressures, including: (1) establishing the CF in 2017 as a self-insurance fund to cover emergency relief in the event of natural disasters; (2) enrolling in regional risk-sharing facilities, Caribbean Catastrophe Risk Insurance Facility (CCRIF); and (3) arranging contingent credit lines, the World Bank's Catastrophe Deferred Drawdown Option, from which VCT already received a disbursement in 2021.[7] Nevertheless, staff simulations indicate that a framework with potential funding of 13 percent of GDP would be needed to cover ND costs in 99 percent of the events,[8] which is well above the current available disaster mitigating financial layering (DMFL). Such optimal DMFL framework would strengthen debt sustainability by internalizing ND cost in the budget, accelerating economic recovery after each event, and reducing the dispersion of public debt outcomes—hence allowing a higher prudent debt anchor. Considering the high cost and imperfect damage-payout correlation of sovereign insurance, the country could prioritize building the CF and further explore the use of state-contingent debt instruments for extreme events.[9] Given that the CF is debt financed, building CF rather than paying debt would imply a net negative return for the government due to the relatively lower returns from the liquid CF compared to the higher interest rates on higher debt. Therefore, the government's policy choice for building buffers should strike an appropriate balance between building CF and paying down debt to ensure adequate coverage of immediate liquidity needs after natural disasters while minimizing cost.



Sources: Guerson (2020), IMF (2022), and IMF staff estimates.

7. Primary balance targets and the time frame of the debt target need to be reviewed to strike a good balance between supporting the recovery and ensuring debt sustainability. Three scenarios are presented below to illustrate the primary balance targets needed under the current and desired debt anchors and target dates that are consistent with the current outlook:

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7 The CCRIF has an average payout of 0.2 percent of GDP for St. Vincent and the Grenadines, based on the historical payout information, in the event of natural disasters. Staff's baseline projections incorporate an expected annual fiscal cost from natural disasters of 1.1 percent of GDP—estimated based on the magnitude and frequency of those occurred during 1980–21—of which the Contingencies Fund is expected to cover 0.7 percent of GDP annually, with the remaining from current allocations in goods and services and transfers.

8 The simulations are based on a Monte Carlo experiments that simulated the impact of natural disasters on output and government finances. It assumes that a portion of reconstruction spending is covered by the reallocation of resources originally allotted to pre-existing investment projects. See IMF working paper series No. 20/266 for a technical presentation of the methodology.

9 The WB is currently working towards to issue a regional CAT bond for the 2024 hurricane season.

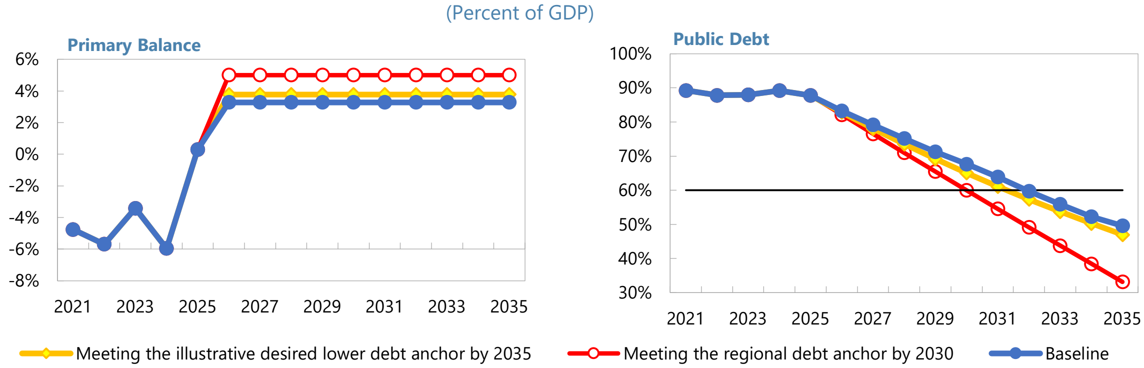
- **Scenario 1: Keeping the debt target in the current FRF.** An average primary balance of 5 percent of GDP is required over 2026–30 to achieve the debt anchor of 60 percent of GDP by 2030, following the target date stipulated in the current FRF.

- **Scenario 2: Baseline projections.** An average primary balance of about 3¼ percent of GDP over 2026-35 would allow the authorities to achieve the debt anchor of 60 percent of GDP before 2035—in line with the revised regional debt target date and meet the public debt sustainability. Nevertheless, the debt paths under both scenarios 1 & 2 are subject significant risks in the presence of external shocks and NDs.

- **Scenario 3**: **External shock and ND-resilient scenario.** Targeting the illustrative debt anchor of 47 percent of GDP by 2035 will keep 95 percent of debt path realizations below the ceiling of 60 percent of GDP under simulations incorporating shocks, including stemming from natural disasters. Reaching the illustrative debt anchor would require an average primary surplus of about 3¾ percent of GDP over 2026-35, ½ percent of GDP more than in baseline projections.

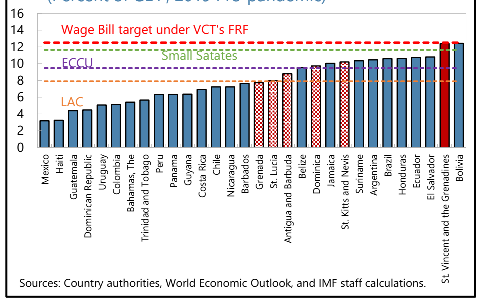
8. **An automatic adjustment mechanism could help strengthen the credibility of the framework.** Linking primary balance targets to debt-to-GDP ratio could also be considered so as to avoid unduly tight primary balance targets once the debt target is reached, allow auto-corrections when shocks lead to a deviation from the adjustment path, and improve predictability and adaptability of the FRF (IMF, 2018). A correction mechanism the transitional arrangement can be time-bound (requiring return to compliance with the rule in a fixed number of years, e.g., Georgia) or data-driven (specifying a state-dependent transition period, e.g., Canada's guardrails to maintain fiscal support measures as long as employment is below a certain level).

Primary Balance and Debt Path Under Various Scenarios
(Percent of GDP)



Sources: IMF FAD (2018) and IMF staff estimations.

Wage Bill
(Percent of GDP; 2019 Pre-pandemic)



Sources: Country authorities, World Economic Outlook, and IMF staff calculations.

9. The wage bill ceiling remains useful, but it should be aligned with the current baseline to reflect higher rebased GDP and stronger wage adjustment committed under the 2021 RCF. International experience suggests that wage rules have played an important role in anchoring wage negotiation in the public sector. Keeping the wage rule as a key feature of the FRF is desirable for maintaining fiscal discipline, especially given the current relatively large public wage bill compared to regional and peer averages. The authorities could consider aligning the current FRF wage ceiling target of 12.5 percent of GDP with the current baseline, which is broadly in line with the small states average, to anchor the committed adjustments.

10. Strong fiscal institutions are key to underpin the effective operationalization of the FRF. Priority areas are:

- *Strengthening tax administration*. Sustained efforts are needed to enhance taxpayer's compliance through focusing on large taxpayers, digitalizing the tax system, fully incorporating the TAPA, strengthening petroleum imports control, as well as modernizing customs legislation, will help support fiscal adjustment and create the needed space for resilience building.

- *Enhancing the public financial management (PFM)*, including improving the credibility of annual budget and leveraging the MTEFO to guide medium-term budget preparation in accordance with fiscal targets, with support from CARTAC. To further enhance transparency and accountability of the FRM, it is important to (i) publish FRM's reports regularly, (ii) amend the current FRF to ensure independent appointment of FRM members,[10] and (iii) ensure legal and financial independence of the FRM (IMF, 2021). In general, the FRF and FRM could increase its enforceability by legally supporting the framework (IMF, 2022).

- *Improving public investment management* (PIM) to support effective planning, allocation, and implementation and mitigate fiscal costs and risks, supported by an IMF PIMA, incorporating the new climate module (C-PIMA). To reap the benefits of investment projects as well as to better plan the new ones, VCT should identify strengths and weaknesses in PIM procedures and ensure climate change mitigation and adaptation are appropriately addressed in the public investment cycle. In this regard, C-PIMA will also provide a roadmap with priority reform measures for future PIM reforms including for resilient public investment. Given the large infrastructure needs, the planning should be consistent with the government's strategic long-term development goals and prioritized based on resilient growth implication, the certainty of project funding, and the likelihood of successful implementation.

[10] Currently, the FRM members are appointed by the Cabinet of Ministers, which could put FRM's independency and transparency at risk.

- *Strengthening SOE oversight and cash management*. SOE oversight needs to be further strengthened by effectively implementing the 2019 regulations to ensure timely submission of all SOEs' financial reports. The authorities should also continue efforts to strengthen cash management, including preparing cash flow forecasts periodically and separating arrears from accounts payable.

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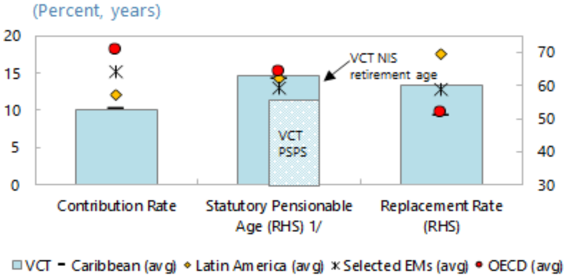
Annex IX. The Pension System and Reform Options[1]

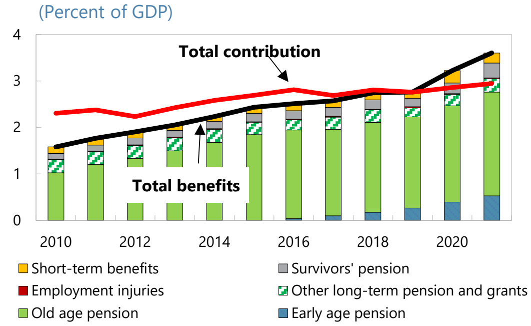
1. **The current pension system in St. Vincent and the Grenadines consists of two earnings-related defined benefit pension schemes:** (i) the non-contributory Public Sector Pension System (PSPS) for civil servants, funded through budget revenues, and (ii) the contributory National Insurance Service (NIS) for public and private sector employees, self-employed, and voluntary contributors. The PSPS is viewed as too generous and costly, with civil servants entitled to full pension of up to two-thirds of their highest pensionable earnings at the age of 60 without making contributions.[2] To qualify for old-age pension benefits under the NIS plan, a minimum contribution period of 650 weeks is required to receive the minimum accrual rate of 30 percent,[3] followed by one percent increases for every 50 weeks to reach 60 percent replacement rate. While the maximum replacement rate of the NIS plan is broadly in line with Caribbean and Latin American (LAC) averages, for pensionable civil servants who are also covered under the PSPS, the maximum combined replacement rate could reach 127 percent (60 percent under the NIS plan and 67 percent under the PSPS. In addition, the frontloaded accrual rates under the NIS plan create an incentive for workers to shorten their formal work histories so as only to contribute for the period with the higher accrual rate.

Key Indicators of Pension Systems
(Percent, years)



Sources: OECD/IDB/The World Bank (2014), OECD (2020, 2021), Nassar et. al (2016), and IMF staff claculations.
1/ PSPS retirement age is either 58 or 60, depending on when they joined.

NIS: Total Contribution and Benefits
(Percent of GDP)



Sources: NIS and IMF staff calculations.

2. **Reflecting relatively low contributions and generous payouts, the financial sustainability of the NIS pension system was already under strain prior to the pandemic and volcanic eruptions.** Recognizing the deteriorating financial situation of the NIS, the government introduced parametric reforms in 2014, including a gradual increase in the statutory retirement age from 60 to 65 over 15 years (currently at 63) and an increase in the contribution rate from 8 percent to 10 percent. However, these reforms improved the NIS' financial situation only temporarily, with the contribution rate still well below LAC, emerging market, and OECD averages. In addition, benefits paid under the

[1] Prepared by Marie Kim (WHD).

[2] For those who joined before and on August 3rd, 1983, the statutory retirement age is 55.

[3] Reduced pension requires minimum contribution of 500 weeks, and the program is available from 2016 through 2027.

early age pension schemes that was introduced in 2016 have grown fast and reached 16 percent of total benefits paid in 2021.[4] As a result, total benefits have surpassed total contributions since 2019, and the latest actuarial report completed in 2021 projected the NIS' reserves to be depleted by 2034.

3. **The impact of the shocks, combined with the rapid population ageing, has increased the urgency for further reforms.** The severe impact of the pandemic and volcanic eruptions on the labor market has worsened the NIS' financial situation further as contribution growth plunged and benefit payments surged, including due to the temporary unemployment benefit scheme, sickness benefits related to Covid-19 cases, and the rising number of early retirees. In addition, the old-age dependency ratio—currently already above the LAC average—is expected to rise rapidly from 2025, which calls for immediate pension reforms to allow for gradual implementation and prevent the need for an abrupt adjustment in the future. In this context, timely implementation of pension reforms would help address the key weaknesses in pension system design and improve the fiscal sustainability of the program. A comprehensive parametric reform that combines measures to increase contribution rate and retirement age and reduce replacement rate should be considered to safeguard the long-term sustainability and to incentivize long careers.

Policy Options for Pension Reforms

Increase Contribution Rate

- Increase contribution rate from current 10 percent to closer to LAC and EM averages (12 and 15 percent)
- Introduce mandatory employee contributions for the PSPS

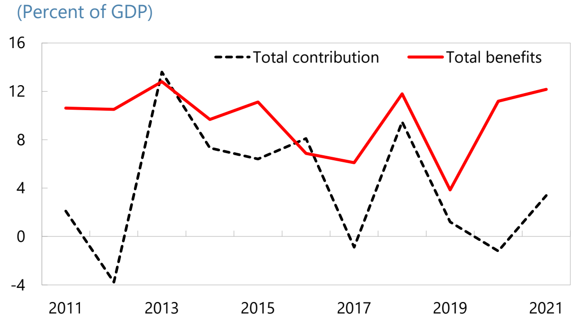
Reduce Replacement Rate

- Apply a uniform accrual rate applicable to all years of service
- Close the PSPS to new entrants
- Reduce benefit accrual rate for PSPS

Increase Retirement Age

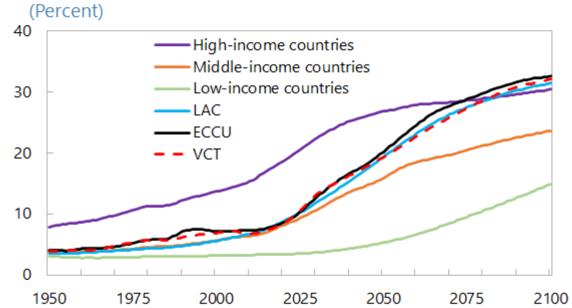
- Eliminate early pension
- Link retirement age to life expectancy
- Increase retirement age for civil servant under PSPS in line with the increase for NIS

NIS: Total Benefits and Contribution
(Percent of GDP)



Sources: NIS, and IMF staff calculations.

Share of Population Aged 65+
(Percent)



Source: University of Oxford and IMF staff calculations.

[4] Early age pension allows workers to receive benefits as early as age 60 with a penalty of 6 percent pension reduction for each year of retirement before the worker's statutory pensionable age.

INTERNATIONAL MONETARY FUND

ST. VINCENT AND THE GRENADINES

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

October 28, 2022

Prepared By — The Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of September 30, 2022)

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

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	11.70	100.00
Fund holdings of currency	11.20	95.73
Reserve Tranche Position	0.50	4.27

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	19.13	100.00
Holdings	10.84	56.69

Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
RCF Loans	20.70	176.94

Latest Financial Arrangements: None

Outright Loans:

Type	**Date of Commitment**	**Date Drawn/Expired**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
RCF	Jul 01, 2021	Jul 07, 2021	8.17	8.17
RCF	May 20, 2020	May 22, 2020	11.70	11.70
RCF	Aug 01, 2014	Aug 12, 2014	2.08	2.08

Projected Payments to the Fund[1]

	Forthcoming				
	2022	2023	2024	2025	2026
Principal		0.42	0.42	1.17	2.34
Charges/Interest	0.04	0.17	0.17	0.17	0.17
Total	0.04	0.58	0.58	1.34	2.51

Implementation of HIPC Initiative: Not Applicable
Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable
Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

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

Exchange Arrangements: The exchange rate arrangement is a currency board. St. Vincent and the Grenadines participates in a currency union with seven other members of the Eastern Caribbean Currency Union and has no separate legal tender. The Eastern Caribbean Central Bank (ECCB) manages monetary policy and the exchange system for its eight members. The common currency, the Eastern Caribbean dollar, has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976. 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 and multiple currency practices.

Safeguards Assessment: An update safeguards assessment of the ECCB, finalized in August 2021, found strong external audit and financial reporting practices that continue to be aligned with international standards, and further improvement in the capacity of the internal audit function. Legal reforms were recommended to further strengthen operational autonomy of the ECCB and align its Agreement Act with leading practices. The issuance of digital currency (DCash) introduced new risks that require additional control and oversight, including strengthening the related project-governance framework.

Article IV Consultation: St. Vincent and the Grenadines is on a 12-month cycle. The last Article IV consultation was concluded on February 15, 2019, by the Executive Board: Country Report 19/66.

Technical Assistance: Several missions from MCM, FAD, STA, supported by the Caribbean Regional Technical Assistance Centre (CARTAC), have visited the country. Below the compilation of the TA delivered from 2019–22.

St. Vincent and the Grenadines: Fund Technical Assistance, 2019–22		
Start date	**End date**	**Mission description**
Jan. 28, 2019	Feb. 01, 2019	Quarterly GDP current price estimates
May 15, 2019	May 19, 2019	Customs administration - strengthen risk management capacity and develop a trusted trader program
Jul. 15, 2019	Jul. 26, 2019	Arrears management and returns processing
Aug. 26, 2019	Aug. 31, 2019	BOP/IIP - enhance source data
Sep. 16, 2019	Sep. 27, 2019	Consumer prices - review the HBS data
Oct. 7, 2019	Oct. 9, 2019	Development of the regional government securities market
Oct. 7, 2019	Oct. 18, 2019	National accounts statistics - compilation of SUT
Dec. 16, 2020	Jan. 8, 2021	Fiscal Responsibility Framework
Jan. 20, 2020	Jan. 24, 2020	Preparation of an annual borrowing plan
Jan. 27, 2020	Jan. 31, 2020	Customs administration – strengthening risk management
Mar. 18, 2021	Mar. 31, 2021	(Virtual mission) National accounts - rebasing of GDP
Mar. 22, 2021	Mar. 26, 2021	Customs administration - WAH strengthening risk management and PCA
May 1, 2021	Apr. 30, 2022	(Virtual mission) St Vincent and the Grenadines - LTX desk work
May 3, 2021	Aug. 31, 2021	FY21 St. Vincent and the Grenadines real sector - national accounts
May 25, 2021	Jun. 28, 2021	Strengthening HQ functions – Client Relations Management (CRM) Program for large and medium taxpayers
Jun. 7, 2021	Jun. 11, 2021	Customs administration - review of customs law
Sep. 1, 2021	Jan. 31, 2022	Strengthening the Fiscal Responsibility Framework FY22
Oct. 1, 2021	Oct. 29, 2021	(Virtual mission) Strengthening SOEs FY22
Oct. 18, 2021	Oct. 29, 2021	(Virtual mission) Strengthening customs control of petroleum imports
Oct. 25, 2021	Oct. 29, 2021	(Virtual mission) Customs administration - developing performance targets and KPI
Nov. 8, 2021	Nov. 12, 2021	(Virtual mission) BOP/IIP - improve source data
Dec. 13, 2021	Mar. 31, 2022	(Virtual mission) Bank reconciliation FY22
Jan. 17, 2022	Apr. 29, 2022	(Virtual mission) Support IPSAS compliance FY22
Mar. 4, 2022	Mar. 15, 2022	(Virtual mission) Implementation of risk-based supervision across non-banks, follow-up mission
Apr. 25, 2022	Apr. 29, 2022	(Virtual mission) Customs administration - strengthening customs control of petroleum imports
Mar. 28, 2022	Apr. 13, 2022	(Virtual mission) Customs administration - developing performance targets and KPI
Jul. 11, 2022	Jul. 22, 2022	(Virtual mission) Customs administration - review of customs law
Jul. 18, 2022	Jul. 29, 2022	Customs administration - strengthening customs control of petroleum imports
Sep. 5, 2022	Oct. 4, 2022	Support to internal audit FY23
Sep. 19, 2022	Sep. 23, 2022	BOP/IIP - improve source data

FSAP: A joint IMF/World Bank team assessed the financial sector of the ECCU member countries in two missions: September 1–19 and October 20–31, 2003. The missions evaluated development needs and opportunities for the financial sector, identified potential vulnerabilities of markets and financial institutions, and identified 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.

RELATIONS WITH OTHER FINANCIAL INSTITUTIONS

(As of October 28, 2022)

- World Bank

WBG Finances - Country Details - St. Vincent and the Grenadines (worldbank.org)

- Caribbean Development Bank

Saint Vincent and the Grenadines | Caribbean Development Bank (caribank.org)

STATISTICAL ISSUES

(As of October 28, 2022)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but is broadly adequate for surveillance.
National Accounts: The Statistical Office (SO) has published annual GDP estimates by economic activity and expenditure at current and constant 2018 prices, changing the base from 2006. The SO commenced releasing quarterly GDP estimates by economic activity at constant prices in July 2018. A CARTAC mission in January 2019 assisted with development the framework for the 2018 Supply and Use Tables and the compilation of quarterly GDP estimates at current prices and constant 2018 prices, and the SO has subsequently published them. A medium-term action plan to improve and expand the national accounts aggregates has been developed. It will be necessary to increase the staffing and other resources of the SO in order to implement the action plan. In addition, improvements are needed on data used to monitor labor markets.
Price Statistics: A current CPI index series (with January 2010 as the base) was introduced in June 2011 with assistance from CARTAC. The current index uses a Household Budget and Expenditure Survey (HBES) that took place in 2008. As part of the CARTAC's assistance with the current CPI index, it helped link the 2001 based to the 2010-based CPI series. The CSO has not produced producer price index (PPI), and export and import price indices (XMPIs). The SO conducted a HBES in 2018 and the CPI basket was reweighted in 2019. The SO is testing the new CPI series with the 2019 base, with support from CARTAC.
Government Finance Statistics: Central government monthly revenue and expenditure data are provided regularly. Capital expenditure data have some reporting lags and include some income supporting programs that should be categorized and reported under subsidies and transfers. 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 available with a significant delay. However, public debt data are published at a timely basis. Fiscal data provided for surveillance are based on the Government Finance Statistics Manual (GFSM) 1986 framework. It is desirable to develop capacity and migrate to reporting based on the GFSM 2014 framework.
Monetary and Financial Statistics: Monthly monetary statistics are compiled and reported to the Fund by the ECCB, based on standardized report forms (SRF) for the central bank (SRF 1SR) and for other depository corporations (SRF 2SR), since July 2006. The main shortcomings of the monetary statistics relate to incomplete institutional coverage of other depository corporations. Specifically, mortgage companies, finance companies, building societies, and credit unions—all of which accept deposits—are not covered by the monetary statistics. Also,

accrued interest is not incorporated in the value of the interest-bearing assets and liabilities, and valuation adjustments are included in other liabilities. To achieve better coverage, close coordination between the ECCB and the single regulatory unit (which supervises financial corporations other than those licensed under the Banking Act) is crucial. The ECCB has implemented a new reporting system for commercial banks addressing the recommendations made by the 2014 MFS mission and has been reporting data in the new format since 2020.
Financial Sector Surveillance: The ECCB reports all core and 10 additional financial soundness indicators (FSIs) for commercial banks in St. Vincent. The Financial Services Authority (FSA) compiles and publishes FSIs for credit unions and insurance companies on a quarterly basis.
External sector statistics: Since 2017, annual balance of payments and international investment position (IIP) data are compiled and disseminated following the latest international standard methodology (*BPM6*). Education-related services provided to nonresident students by the offshore universities, which were omitted in the former methodology, are now included as travel services exports. The response rate to the business and visitor expenditure surveys is low and more granularity of administrative information is needed for analytical purposes. The CARTAC continues to assist ECCU member countries in strengthening their ESS compilation framework, including through the development of a work plan to improve business registry focusing on relevant respondents and the revision of debt securities issued in the Regional Government Securities Market according to residence of holders. Actions for improvements are coordinated by the SO with the ECCB, which jointly compiles the ESS of the country and the rest of the ECCU.
II. Data Standards and Quality
St. Vincent and the Grenadines has been participating in the General Data Dissemination System since September 2000 and currently participates in its successor initiative, the e-GDDS. The 2007 regional data ROSC provides an assessment on the ECCB’s monetary statistics. No data ROSC is available for other sectors.

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

(As of October 28, 2022)

	Date of Latest Observation	Date Received	Frequency of Data[5]	Frequency of Reporting[5]	Frequency of Publication[5]
Exchange rate[1]	Fixed rate	NA	NA	NA	NA
International reserve assets and reserve liabilities of the monetary authorities	Aug. 2022	Oct. 2022	M	M	M
Reserve/base money	Aug. 2022	Oct. 2022	M	M	M
Broad money	Aug. 2022	Oct. 2022	M	M	M
Central bank balance sheet	Aug. 2022	Oct. 2022	M	M	M
Consolidated balance sheet of the banking system	Aug. 2022	Oct. 2022	M	M	M
Interest rates	June 2022	Sep. 2022	Q	Q	Q
Consumer price index	Aug. 2022	Oct. 2022	M	M	M
Revenue, expenditure, balance and composition of financing—central government	Sep. 2022	Oct. 2022	M	M	H
Revenue, expenditure, balance and composition of financing—general government[2]	NA	NA	NA	NA	NA
Stock of central government and central government-guaranteed debt[3]	Dec. 2021	June 2022	Q	H	H
External current account balance	2020	April 2022	A	A	A
Exports and imports of goods and services	June 2022	Sep. 2022	A	Q	Q
GDP/GNP	2021	Oct. 2022	A	A	A
Gross external debt	NA	NA	NA	NA	NA
International Investment Position[4]	2020	April 2022	A	A	A

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

[2] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state-owned enterprises.

[3] Including domestic and external composition and maturity.

[4] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[5] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

INTERNATIONAL MONETARY FUND

ST. VINCENT AND THE GRENADINES

October 28, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
Patricia Alonso-Gamo and Boileau Loko (IMF); Marcello Estevão, Robert R. Taliercio (IDA)

Prepared by the Staffs of the International Monetary Fund and the International Development Association.

St. Vincent and the Grenadines: Joint Bank-Fund Debt Sustainability Analysis[1]	
Risk of external debt distress	*High*
Overall risk of debt distress	*High*
Granularity in the risk rating	*Sustainable*
Application of judgement	*No*

The debt sustainability analysis (DSA) indicates that St. Vincent and the Grenadines' public debt is sustainable but remains at high risk of distress for both external and overall public debt, broadly unchanged from the 2021 DSA assessment.[2] *The economy was hit hard by the shocks of the ongoing pandemic and the 2021 volcanic eruptions. Real GDP is estimated to have increased by 0.8 percent in 2021, after shrinking by 3.7 percent in 2020. Despite the authorities' strong efforts to mobilize revenue and contain non-priority spending, the critical volcanic eruption- and pandemic-related fiscal responses to the humanitarian crisis pushed total public and publicly guaranteed debt up from 79½ percent of GDP in 2020 to 89¼ percent of GDP in 2021, leaving*

[1] The latest published DSA for St. Vincent and the Grenadines can be accessed here. This DSA follows the Guidance Note of the Join Bank-Fund Debt Sustainability Framework for Low Income Countries, February 2018.

[2] St. Vincent and the Grenadines' score in the Composite Indicator (CI) is 3.02, implying that the country's debt carrying capacity is classified as medium. St. Vincent and the Grenadines' CI was calculated based on the April 2022 WEO and the 2020 CPIA, published in July 2021. The classification determines the corresponding debt and debt service benchmarks for the external public and publicly guaranteed external debt and for total public debt.

limited fiscal space to deal with future shocks.[3] Reflecting fiscal pressures from the sizable port modernization project (about 25 percent of 2022 GDP) and the planned modern hospital project (about 10½ percent of 2022 GDP) as well as post-volcanic eruption reconstruction, public debt is expected to remain around the current level in the near-term, before starting to decline steadily in 2025 once these projects approach their completion.

The authorities remain committed to fiscal adjustment and reaching a central government primary surplus of at least 3 percent of GDP by 2026 to reach the regional debt target by 2035, through further strengthening tax administration and expenditure-side measures (e.g., containing the growth of wages and non-priority current spending and prioritizing capital programs). The adjustment, if fully implemented as planned, will underpin an improvement of about 1½ percent of GDP in the underlying primary balance (excluding pandemic-, volcano-, and port-related spending) by the end of the medium term from the projected 1½ percent of GDP in 2022. This will put the debt-to-GDP ratio on a downward path from 2025, and debt is deemed sustainable. Under staff's baseline scenario, the present value (PV) of public debt to GDP ratio is estimated to have peaked at 86 percent of GDP in 2021 and is expected to start declining in 2022 but breaches the indicative benchmark throughout most of the projection period before meeting the indicative benchmark by 2031. The PV of external debt as a percent of GDP is projected to start falling in 2025 but breaches the indicative benchmark throughout most of the projection period before meeting the indicative benchmark by 2034. Reflecting the resilience of tax revenues, the external debt service to revenue ratio remains below indicative thresholds from 2023. The PV of external debt-to-exports would fall below the indicative threshold by 2024 and the debt service-to-exports ratios would be close to the indicative threshold before falling below in 2027.[4] Adverse scenarios suggest the public debt path is subject to large downside risks, including from lower growth and natural disasters.

[3] The debt ratio is lower than in the 2021 RCF in part due to authorities' rebasing of the national accounts from 2006 to 2018 with the Caribbean Regional Technical Assistance Centre (CARTAC)'s support in early 2022, which resulted in an upward revision of nominal 2018 GDP by about 9 percent.

[4] The PV of external debt to revenue and PV of external debt to exports ratios are slightly higher than those in the 2021 RCF due to the shift of external debt definition for projections from currency basis to residency basis so as to be consistent with the definition of historical debt data. As a result, projected local currency-denominated debt to be issued in the local debt market but held by non-residents is now classified as external debt.

BACKGROUND ON PUBLIC SECTOR DEBT

1. **There are no data gaps in public sector debt coverage.** Public sector debt includes central government and, state-owned enterprise (SOE) debt (Text Table 1). There is no local government, and all SOE debt is guaranteed by the central government. Thus, the combined contingent liability tests exclude contingent liabilities from SOEs. As of end-2021, the outstanding stock of total public debt was EC$2.1 billion (89.3 percent of GDP), up from EC$1.9 billion in 2020 (79.5 percent of GDP). Central government debt was EC$1.9 billion (82.8 percent of GDP) in 2021, up from EC$1.7 billion in 2020 (72.8 percent of GDP), and SOEs debt was EC$0.15 billion (6.5 percent of GDP) in 2021, down from EC$0.16 billion (6.8 percent of GDP).[5]

Text Table 1. St. Vincent and the Grenadines: Coverage of Public Sector Debt

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	
8	Non-guaranteed SOE debt	

2. **The composition of public debt is dominated by external debt (Text Figure 1).** The share of external debt in total public debt increased from about 69 percent in 2020 to 74¼ percent in 2021, reflecting the authorities' debt management efforts to lengthen maturity while lowering borrowing costs through more reliance on concessional external loans. The authorities report no arrears to external or domestic creditors.

Text Table 2. St. Vincent and the Grenadines: Public Sector External Debt

(Percent of total and percent of GDP)

	2020		2021	
	Total	GDP	Total	GDP
Total	**100.0**	**54.8**	**100.0**	**66.3**
Multilateral	**54.6**	**29.9**	**62.4**	**41.4**
World Bank	23.3	12.8	34.1	22.6
CDB	26.0	14.2	22.3	14.8
IMF	4.0	2.2	5.1	3.4
Other	1.4	0.7	0.9	0.6
Bilateral	**31.2**	**17.1**	**25.2**	**16.7**
Paris Club	1.8	1.0	1.5	1.0
Non-Paris Club	29.4	16.1	23.7	15.7
Private Creditors 1/	**14.2**	**7.8**	**12.4**	**8.2**

Sources: National authorities and IMF staff calculations
1/Includes T-bills held by ECCB, regional banks, insurance companies, pension funds, among others.

3. **External debt rose further in 2021 to 66.3 percent of GDP from 54.8 percent of GDP in 2020** (Text Table 2).[6] The increase in the external public debt-to-GDP ratio largely reflects cost of government responses to the shocks—estimated at 4.8 percent of GDP in 2021—and the contraction of economic activity. Public external debt is mostly financed by multilateral and bilateral loans on concessional terms (62.4 percent and 25.2 percent of the total, respectively). The remainder (12.4 percent of the total) is with private creditors, including regional banks, pension funds, and other regional financial institutions.

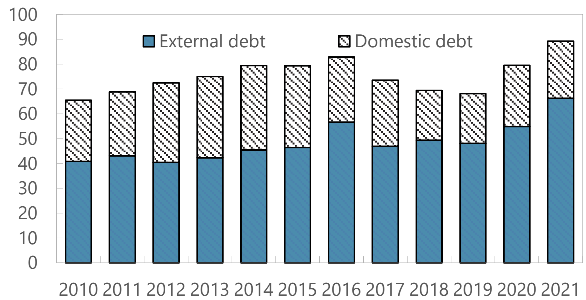
4. **The majority of domestic debt is in the form of treasury bills and government bonds (56.7 percent of total domestic debt).** The remainder consists of loans in local currency (23.4 percent of

[5] There is an EC$0.3 billion limit on SOEs' total debt.

[6] Debt classification for both historical data and projections is based on a residency basis, treating local currency-denominated debt issued in the local debt market and held by non-residents as external debt.

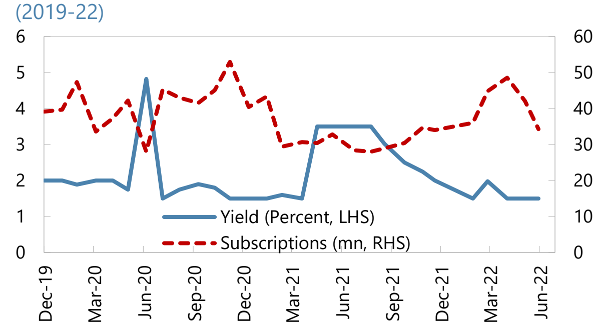
total), accounts payable, and overdraft. Most government securities are held by the buy-and-hold national and regional pension systems, insurance companies, and commercial banks. In 2021, domestic public debt decreased by 1¾ percent of GDP from a year ago, reflecting a decline in both loan and treasury bill balances. After several months of muted investor interest following the volcanic eruptions, access to the regional market resumed in late 2021 and interest rates have remained low (Text Figure 2).

Text Figure 1. Public Sector Debt Composition
(Percent of GDP)



Sources: National authorities and IMF Staff calculations.

Text Figure 2. T-bills, Number of Subscriptions
(2019-22)



Sources: ECCB, the Regional Governments Securities Market and IMF staff calculations.

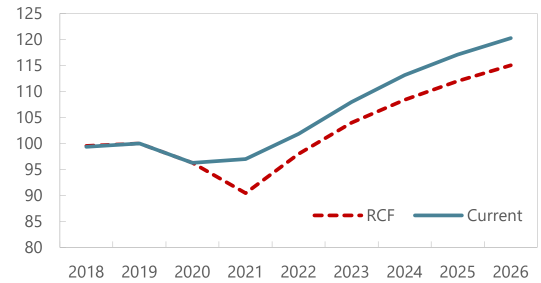
CHANGE IN THE MACROECONOMIC FORECAST RELATIVE TO PREVIOUS DSA

St. Vincent and the Grenadines is recovering from the ongoing pandemic and the volcanic eruptions. Overall, cumulative GDP decline in 2020–21 is estimated to be milder than expected in the 2021 Rapid Credit Facility (RCF) mostly due to smaller-than-expected GDP impact from the volcanic eruptions, helped by the government's decisive policy responses. Real GDP is projected to exceed the pre-pandemic level in 2022. The outlook is shaped by large public and private investment projects, notably the construction of the climate-resilient port and hospital and the Sandals resort. However, strong inflationary pressures from surging import prices are creating a drag. The outlook is subject to significant uncertainty and risks, including from further increases in commodity prices, sharper-than-expected slowdown in trading partners' growth, delays in investment projects including due to lingering supply chain disruptions, the ever-present threat of frequent natural disasters, and outbreaks of new Covid-19 variants.

Developments in 2020–21

5. **The growth impact of the pandemic in 2020 was similar to what was expected in the 2021 RCF, though still milder compared to more tourism-dependent regional peers.** With a 70-percent drop in stayover arrivals, GDP contracted by 3.7 percent in 2020 (vs. 3.8 percent under the RCF). The recovery in the tourism sector has been slow, with tourist arrivals in 2021 at only 28 percent of the pre-pandemic level.

Text Figure 3. Real GDP Index
(2019 = 100)



Sources: National authorities, and IMF staff estimates.

6. **Estimated economic impact from the volcanic eruptions in 2021 was smaller than expected under the RCF.** The government's swift policy responses were instrumental in mitigating the socio-economic impact. Immediately after the eruptions, the authorities announced a supplementary budget amounting to US$44 million to target urgent humanitarian and healthcare needs as well as to support affected sectors and displaced workers. Strong post-eruption reconstruction efforts and a robust recovery in agriculture resulted in an estimated GDP increase of 0.8 percent as opposed to the 6.1 percent decline projected under the RCF.

7. **The overall fiscal deficit widened by 2 percent of GDP in 2021 compared to 2020, a much better outcome than envisaged in the RCF.** The better-than-expected fiscal outturn in 2021 was supported by robust revenues and efforts to contain current spending. Tax revenue is estimated at 26.7 percent of GDP, 3 percent of GDP higher than in 2020, largely driven by the government's revenue mobilization efforts through both tax policy and administration measures as well as a one-off land sale.[7] Meanwhile, the government continued efforts to prioritize capital spending on reconstruction and cut non-priority current spending. As a result, capital spending in 2021 was higher and the current spending lower than projected under the 2021 RCF. Nevertheless, the critical eruption- and pandemic-related fiscal responses still pushed public debt from 79.5 percent of GDP in 2020 to 89.3 percent of GDP in 2021.

Outlook

8. **Baseline projections include three major capital investment projects from both the public and private sides that significantly affect the macroeconomic outlook.**[8]

- **The climate-resilient port modernization project.** The existing port was built more than 50 years ago, raising capacity and safety concerns. The port modernization project, a key strategic project to strengthen resilience to natural disasters, will improve port capacity and efficiency. Along with rising global prices, the cost of the port modernization project rose to about 25 percent of 2022 GDP, 40 percent higher compared to the original estimate. Baseline projections are based on the signed construction contract where the construction was launched in May 2022 and will be completed in 2025. The project is financed by a combination of grants

[7] The authorities raised Customs Service Charge rate by 1 percentage point to 6 percent, effective from June 2021. Staff estimate one-off land sale related taxes contributed to tax revenues by 2.5 percent of GDP.

[8] Growth impact from these projects is estimated using conservative output multiplier assumptions. While the current cost estimates of infrastructure projects include a buffer for further price increase, sharper-than-expected increase in global prices imply risks of further increases in project costs, adding pressure on public finances.

from the United Kingdom and loans from the CDB (about US$110 million) and from bilateral creditors at similar terms.

- **A new climate-resilient hospital.** The baseline includes construction of a modern hospital during 2023–25 as the old one is prone to floods. The new hospital has an estimated total cost of about 10½ percent of 2022 GDP, of which the World Bank (WB) is expected to finance around two-thirds of the total at concessional terms, with the remaining financing expected from multilateral and bilateral creditors at similar terms.

- **Hotel projects.** Several hotel projects are either under construction or in the pipeline, including the Sandals Resort (about 21 percent of 2022 GDP financed by FDI) and the Holiday Inn, construction of which started in 2022 and is expected to be completed by end-2023.

9. Near-term (2022–23) outlook. The continued recovery in tourism and agriculture, post-eruption rebuilding, and the start of several investment projects would support growth of 5 percent in 2022.[9] Despite relatively low vaccination rates, daily new Covid-19 cases are in single digits and stayover arrivals are projected to improve to 70 percent of the pre-Covid levels by 2023, although outbreaks of new variants remain a risk factor (¶12). As tourism continues to recover and large-scale construction projects get into full swing, growth is projected to strengthen to 6.0 percent in 2023. Headline inflation is projected to subside to 4.6 percent in 2023, after accelerating to 5.8 percent in 2022 driven by rising food, fuel, and transportation prices as the war in Ukraine compounds existing supply disruptions and transportation bottlenecks.[10] The current account deficit (CAD) is expected to widen significantly to around 27 percent of GDP on average in 2022-23 on account of the terms of trade shock as well as significant imports for the investment projects. Despite large CAD, imputed international reserves are projected to remain at around 5 months of projected imports of goods and services, supported by direct investment and external financing.

10. Over the medium term (2024–27), economic prospects are favorable. Staff project growth to stay above potential through 2025, supported by major construction projects. Inflation is projected to return to 2 percent in the medium term considering the easing of U.S. inflation to its steady-state level with the projected normalization of global fuel and food prices.[11] The CAD is projected to narrow as tourism fully recovers from the shocks and construction projects are completed. In the medium term, net FDI flow is expected to subside to historical trend and the reserve coverage would stabilize at around 5 months of imports.

[9] Staff expect stayover tourism to recover to the pre-pandemic (2019) levels by 2024.

[10] Given concerns with food and energy security and the less developed safety nets, the authorities introduced temporary price-mitigating measures at fiscal costs of 0.5 percent of GDP. However, these measures are expected to temper inflationary pressures only marginally.

[11] St. Vincent and the Grenadines (VCT) is a member of the Eastern Caribbean Currency Union, and the exchange rate peg against the U.S. dollar (EC$2.7 per dollar) provides an anchor for inflation. The U.S. price level is a significant determinant of VCT's inflation given that about 40 percent of VCT's imports are from the U.S.

11. Long-term (2028–42) projections assume that the economy expands at its potential growth rate of 2.7 percent, in line with the 2021 RCF. The potential growth incorporates an increase in tourism sector capacity supported by the ongoing tourism projects and unlocking benefits from the new airport, as well as a strengthening of the primary sector, benefiting from the authorities' recent and ongoing efforts with broad-based structural reforms aimed to improve productivity and competitiveness. Inflation is projected to remain at 2 percent, in line with the U.S. inflation. The CAD is projected to remain at the level implied by fundamentals and desirable policies, mostly financed by net FDI flows.

12. Risks to the outlook are tilted to the downside. A further escalation of the war in Ukraine and sanctions imposed on Russia and Belarus would result in higher food and energy prices, which would add to inflationary pressures, further eroding incomes and weighing on activity. Sharper-than-expected slowdown of growth in advanced economies due to tighter monetary policy would dampen tourism recovery. Escalating disruptions of supply chains, higher cost of logistics, and capacity constraints of public investment management could delay planned investment projects, a key contributor to growth. Outbreaks of new Covid-19 variants, amidst low vaccination rates, could affect tourism recovery and construction activity. St. Vincent and the Grenadines remains highly vulnerable to the ever-present threat of natural disasters and climate change.

13. Fiscal assumptions under the DSA baseline scenario are as follows (Text Table 3).

- **Primary balance.** The primary balance for the public sector for 2022–25 is projected to be worse than in the 2021 RCF DSA forecast on account of higher and delayed spending on the more costly port project and the new hospital project.[12] Excluding the pandemic-, volcano-, and port-related spending, the primary balance would average 2.9 percent of GDP, lower than the average surplus of 4.2 percent of GDP projected under the 2021 RCF, largely reflecting the new hospital project. Once these two projects are completed, the primary balance is forecast to remain around 3 percent of GDP, in line with assumptions under the 2021 RCF DSA.

- **Financing.** As the government continues its debt management efforts to lengthen the maturity and lower financing costs, most new financing is expected to come from multilateral and bilateral donors at concessional terms, maintaining an average grant element of new debt at 35 percent during 2022–31. Projected external loan disbursements for 2022–31 include those from existing loan contracts (US$475 million) and new loans (US$221 million). The former includes the CDB and other loans for the port project, the World Bank and Organization of the Petroleum Exporting Countries loans for the hospital, World Bank financing for the Volcanic Eruption Emergency Project (VEEP), Regional Disaster Vulnerability Reduction Program, tourism competitiveness project, agriculture competitiveness program, water and energy sectors, and the construction of government owned hotels, among others. New external financing is expected to mainly come from multilateral and bilateral donors.

[12] 2022 primary balance also incorporated the budgetary impact of temporary policy measures to mitigate the impact of rising living costs as the war in Ukraine compounds existing supply chain disruptions and transportation bottlenecks.

- **Debt relief.** The government received 50 percent debt forgiveness in 2017 from PetroCaribe, and the Venezuela government has agreed to forgive the rest of St. Vincent and the Grenadines' debt to PetroCaribe, conservatively estimated by staff at 4.2 percent of GDP.

- **Climate resilience costs.** St. Vincent and the Grenadines experienced frequent natural disasters, with an estimated average annual fiscal cost of 1.1 percent of GDP during 1980–21. The baseline projections incorporate the Contingencies Fund to cover 0.7 percent of GDP annually of the expected fiscal cost, with the remaining from current allocations in goods and services and transfers. Continuing global inflationary pressure could increase costs of rebuilding capital stock after natural disasters and thus warrants considering a higher accumulation of the Contingencies Fund.

Text Table 3. St. Vincent and the Grenadines: Selected Macroeconomic Indicators Assumptions

	2015-19 (avg)	2020	2021	2022	2023	2024	2025	2026	2027	2028-41 (avg.)
		In percent of GDP, unless otherwise mentioned								
2021 RCF										
Nominal GDP (EC$, million)	...	2,132	2,032	2,263	2,460	2,623	2,766	2,899	3,038	...
Real GDP growth (percent change)	1.4	-3.8	-6.1	8.3	6.1	4.2	3.3	2.7	2.7	2.7
Inflation (avg, percent change)	0.7	-0.6	2.0	2.1	2.1	2.0	2.0	2.0	2.0	2.0
Current account balance	-12.5	-16.3	-22.2	-12.2	-14.2	-11.3	-10.5	-9.6	-9.6	-9.6
CG: Overall balance	-1.1	-5.7	-12.6	-4.0	-4.9	-4.1	-3.5	0.1	0.9	1.2
CG: Primary balance	1.2	-3.3	-9.4	-1.0	-1.6	-0.9	-0.6	3.0	3.6	2.7
CG: Underlying primary balance 1/	1.3	-2.7	1.5	3.8	4.1	6.1	2.9	3.0	3.6	2.7
Port project	0.1	0.6	0.5	3.3	4.1	6.0	3.4	0.0	0.0	0.0
Hospital project	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PS: Overall balance	-0.9	-6.1	-13.0	-4.2	-4.5	-3.8	-3.4	0.5	1.3	1.4
PS: Primary balance	1.8	-3.2	-9.6	-1.1	-1.4	-0.8	-0.5	3.2	3.8	2.8
Total public debt	77.3	86.9	103.7	96.8	93.2	90.9	89.4	84.8	79.4	...
2022 Article IV										
Nominal GDP (EC$, million)	...	2,347	2,355	2,556	2,826	3,022	3,189	3,341	3,500	...
Real GDP growth (percent change)	2.5	-3.7	0.8	5.0	6.0	4.8	3.5	2.7	2.7	2.7
Inflation (avg, percent change)	0.7	-0.6	1.6	5.8	4.6	2.0	2.0	2.0	2.0	2.0
Current account balance	-10.5	-15.1	-22.8	-26.5	-27.6	-19.8	-13.8	-10.2	-9.0	-9.0
CG: Overall balance	-1.0	-5.3	-7.3	-8.2	-6.1	-8.7	-2.4	0.6	1.0	1.2
CG: Primary balance	1.2	-3.1	-4.8	-5.7	-3.4	-6.0	0.3	3.0	3.2	2.7
CG: Underlying primary balance 1/	1.2	-1.2	-0.4	1.6	4.6	2.2	3.1	3.4	3.2	2.7
Port project	0.0	0.1	0.2	4.4	6.9	7.3	2.9	0.3	0.0	0.0
Hospital project	0.0	0.0	0.0	0.0	1.9	3.6	3.4	0.0	0.0	0.0
PS: Overall balance	-0.9	-5.8	-7.5	-8.0	-5.8	-8.8	-2.1	0.8	1.0	1.4
PS: Primary balance	1.7	-3.0	-4.7	-5.8	-3.1	-6.0	0.5	3.3	3.3	2.8
Total public debt	74.6	79.5	89.3	87.8	88.0	89.2	87.8	83.2	79.2	...

Sources: National authorities and IMF Staff calculations and projections.
1/ Excludes COVID-19, volcano one-offs, and port spending.

REALISM OF THE MACROFRAMEWORK

14. Debt Dynamics (Figure 3). The fiscal position is expected to deteriorate in the near term reflecting the post-eruption rebuilding needs and in line with the updated construction plan of the port and hospital projects. Despite the sizable project spending, total public and publicly guaranteed debt as a share of GDP is expected to remain around the 2021 level until 2024, before starting to decline thereafter as the projects approach their completion. This is supported by strong economic growth underpinned by public and private investment, recovery of the tourism and agriculture sectors, the debt relief, and the authorities' commitment to implement fiscal adjustment set out in the 2021 RCF to achieve the regional debt target, including (i) continued strengthening of tax administration, (ii) containing the growth of wages and non-priority current spending, (iii) focusing public investment programs on reconstruction, resilience building, and essential infrastructure by capping the total capital spending during 2021–26,[13] and (iv) achieving a central government primary surplus of at least 3 percent of GDP by 2026. Nevertheless, the debt path is subject to large risks, including from frequent natural disasters, as suggested by the higher unexpected debt increase than most of its peers over the past five years, largely due to the once-in-a-generation natural disaster following a once-in-a-century global pandemic (Figure 3).

15. The baseline projections reflect staff's most realistic estimates (Figure 4). Prior to the pandemic, the authorities had maintained a relatively prudent fiscal policy stance, instituted a contingencies fund for natural disasters, strengthened the oversight of state-owned enterprises, and introduced a Fiscal Responsibility Framework (FRF) in 2020. Despite the critical pandemic- and volcano-related spending, the fiscal position in 2020 and 2021 did not deteriorate as much as projected at the time of the 2020 and 2021 RCFs, owing to strong revenue mobilization efforts as well as cuts in non-priority current spending (¶17). The baseline projections also incorporate the recently agreed public sector wage growth for 2023–25 and announced changes to income taxes, with the latter as a continuation of government's efforts to align the income tax burden towards the regional averages.[14] Growth in 2022-24 is supported by significant investment from both public and private sectors, cumulatively at 57 percent of 2022 GDP, a rebound of tourism from the very low base in 2021 and post-eruption recovery in agriculture. The large-scale public investment projects are projected to keep the primary deficit elevated in 2022–24 (Text Table 3). The primary deficit will improve significantly during 2025-26 when these projects approach their completion.

COUNTRY CLASSFICIATION AND DETERMINATION OF SCENARIO STRESS TESTS

16. St. Vincent and the Grenadines' debt-carrying capacity is medium (Text Table 4). The country's Composite Indicator (CI) index (which determines the indicative thresholds to assess a country's debt sustainability) is 3.02, corresponding to a "medium" rating (marginally lower than the threshold for "strong" rating (3.05)).[15] The debt-carrying capacity is unchanged compared to the rating under the previous Country Policy and Institutional Assessment (CPIA) methodology.[16] The corresponding scores for

[13] This is capped at about EC$1.6 bn under staff's current baseline, compared to EC$1.2 billion in the 2021 RCF, reflecting higher cost of the port modernization project and the new hospital project.

[14] The recently concluded public sector wage negotiation implies a cumulative wage growth of 7 percent over 2023–25. The recently announced tax policy changes include (i) a reduction of the top personal income tax (PIT) and corporate income rate from 30 percent to 28 percent, and (ii) an increase of the standard PIT deductions from EC$20,000 to EC$22,000, taking effect from 2023, with an estimated annual cost of about 0.4 percent of GDP.

[15] The CI index captures the impact of the weighted average of the World Bank's CPIA score, the country's real economic growth, remittances, international reserves, and world growth. The CI calculation is based on 10-year averages of the variables including 5 years of historical data and 5 years of projections. The index was calculated using the April 2022 WEO data and the 2020 CPIA.

[16] Countries are rated based on a set of 16 backward-looking criteria grouped into four areas including economic management, structural policies, policies on social inclusion and equity, and public-sector management and institutions.

the CI index determine the relevant thresholds for St. Vincent and the Grenadines for both external and total public debt.

Text Table 4. St. Vincent and the Grenadines: Debt-Composite Indicator and Threshold Tables

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.670	1.41	47%
Real growth rate (in percent)	2.719	1.951	0.05	2%
Import coverage of reserves (in percent)	4.052	43.434	1.76	58%
Import coverage of reserves^2 (in percent)	-3.990	18.865	-0.75	-25%
Remittances (in percent)	2.022	6.490	0.13	4%
World economic growth (in percent)	13.520	3.050	0.41	14%
CI Score			3.02	100%
CI rating			Medium	

Applicable Thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	180
GDP	40
Debt service in % of	
Exports	15
Revenue	18

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	55

17. The combined contingent liability stress test is aligned to the country's specific risks (Text Table 5). The stress test includes risks pertaining to financial markets. SOEs' debt, which is already included in total public debt, and PPP, given no existing arrangement, are excluded from the stress test.[17]

Text Table 5. St. Vincent and the Grenadines: Combined Contingent Liability Shock

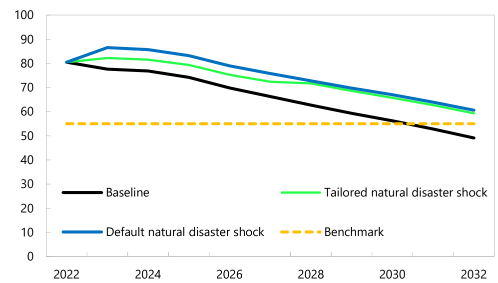
		Default		Used for the analysis	Reasons for deviations from the default settings
1	The country's coverage of public debt	The central government, government-guaranteed debt			
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	0.0	
4	PPP	35	percent of PPP stock	0.0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			5.0	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

[17] Potential contingent liabilities from the pension system are not included. Parametric reforms introduced in 2014 improved the sustainability of the National Insurance System (NIS), but only temporarily, as its reserves are projected to be depleted by around 2034. Currently, the government is assessing options to further strengthen NIS's financial position and to reduce the burden from the public service pension system.

18. **Two natural disaster scenarios are conducted to better reflect St. Vincent and the Grenadines' exposure to natural disasters** (Text Figure 4). The first scenario assumes a one-time severe natural disaster, following the default settings of the natural disaster-tailored test that would lower growth by 1.5 ppt and incur fiscal costs of 10 percent of GDP. In this scenario, the PV of public debt would peak at 87 percent of GDP in 2023 and decline to 61 percent by 2032 (Table 4). The second (tailored) scenario is based on the country's own historical data and assumes more frequent natural disasters (every 5 years) with a smaller economic impact, resulting in 1 percentage point lower growth and 2 percent of GDP fiscal costs.[18] In the tailored scenario, the PV of public debt would peak at around 82 percent of GDP in 2023–24 and decline to 59 percent of GDP by 2032 (Figure 2 and Table 4).

Text Figure 4. PV of Public Sector Debt under ND shocks
(Percent of GDP)



DEBT SUSTAINABILITY ANALYSIS

A. External Debt Sustainability Analysis

19. **The risk of external debt distress is high** (Figure 1 and Table 1 and 3).

- **Under the baseline scenario, the PV of external debt-to-GDP ratio** would fall below the indicative threshold of 40 percent of GDP by 2034 (Figure 1 and Table 1). It remains above the benchmark during the projection period under stress test scenarios, including due to shocks to growth, primary balance, exports, and a hypothetical one-time 30 percent depreciation (Table 3). The largest impact on the PV of external debt-to-GDP ratio is produced by the export shock that raises the PV of external debt, potentially reaching 99 percent of GDP by 2024, but then gradually declining to below 74 percent of GDP by 2032. Under the default settings of the natural disaster tailored test, the PV of external debt would peak at 72 percent of GDP in 2024 and gradually decline to 56 percent of GDP by 2032 (See ¶18).

- **The PV of external debt-to-exports ratio** would meet the indicative threshold by 2024 under the baseline scenario and **the PPG external debt service-to-exports ratio** by 2027, which incorporated DSSI payments through 2027.[19] A shock to exports pushes the debt service-to-

[18] Under the baseline, natural disaster hits the country every 15 years and estimated to have 1.1 percent of GDP fiscal costs, based on historical data from 1980–21. The country-specific scenario uses parameters that amplifies the historical average impact as to take into account future price increase to some extent. Other assumptions remain the same as in the case of the severe natural disaster case, including the timing of the GDP shock and fiscal costs applied (starting 2023).

[19] Government benefitted from Debt Service Suspension Initiative (DSSI) of total US$ 3.7 million. The repayment is expected to commence December 2022 through June 2027.

exports ratio to peak at 65 percent in 2031, well above the 15 percent threshold. The shock to exports keeps the PV of external debt-to-exports ratio above its indicative threshold (180 percent) over the projection period.

- **The external debt service to revenue ratios,** after a short-lived breach of the 18 percent threshold in 2022, will remain well below the threshold from 2023, reflecting resilient tax revenues and ongoing tax measures. With both the shock to exports and the most extreme combination shock does the debt service to revenue ratio beach its threshold temporarily over the forecast horizon.

B. Public Debt Sustainability Analysis

20. The overall risk of debt distress remains high (Figure 2 and Table 2 and 4). The PV of public debt is estimated to have peaked at 86 percent of GDP in 2021 and is expected to start to decline in 2022. The public debt to GDP ratio is expected to remain elevated in the near term before steadily declining afterwards, noticeably as construction of large investment projects is completed. Building on recent and continued fiscal adjustment efforts assumed under the baseline scenario, the PV of public debt is projected to meet the benchmark of 55 percent of GDP by 2031 and the public debt to GDP ratio to fall under the Eastern Caribbean Currency Union (ECCU) debt ceiling (of 60 percent of GDP) by 2032. Public debt path is particularly sensitive to the growth shock: under the most extreme stress scenario, which assumes real GDP growth equal to its 10-year historical average minus one standard deviation for 2021 and 2022, the PV of public debt could continue to rise and reach 126 percent of GDP by 2032. Under other alternative scenarios including a shock to exports, the PV of public debt would reach 106 percent of GDP by 2024 but fall below 100 percent of GDP by 2026, meeting the threshold of 55 percent of GDP by 2037.

RISK RATING AND VULNERABILITIES

21. St. Vincent and the Grenadines' debt is at high risk of distress but is deemed sustainable, broadly unchanged from the 2021 DSA assessment. The increase in the debt to GDP ratio is driven by (i) once-in-a-generation natural disaster following a once-in-a-century global pandemic, (ii) a significant increase in the cost of the port modernization project by about 6 percent of 2022 GDP, and (iii) a new hospital project (of about 10½ percent of 2022 GDP). Before the pandemic, the authorities had maintained a relatively prudent fiscal policy stance and sought to improve the fiscal framework. Even with the economic fallout from the shocks and the humanitarian crisis from the volcanic eruptions, the government managed to reduce the underlying primary deficit (excluding port-, pandemic-, and volcanic eruption-related spending) from 1.2 percent of GDP in 2020 to 0.4 percent in 2021 by mobilizing revenues and containing non-priority spending. The authorities remain committed to fiscal prudence and are targeting to improve the central government primary balance to a surplus of at least 3 percent of GDP by 2026, consistent with the FRF, once the shocks recede and the large investment projects approach their completion in 2025.[20] The improvement is supported by continued fiscal adjustment efforts, including: (i)

[20] With the support from CARTAC TAs, the authorities have started working on improving budget process and medium-term fiscal planning to underpin effective implementation of the FRF.

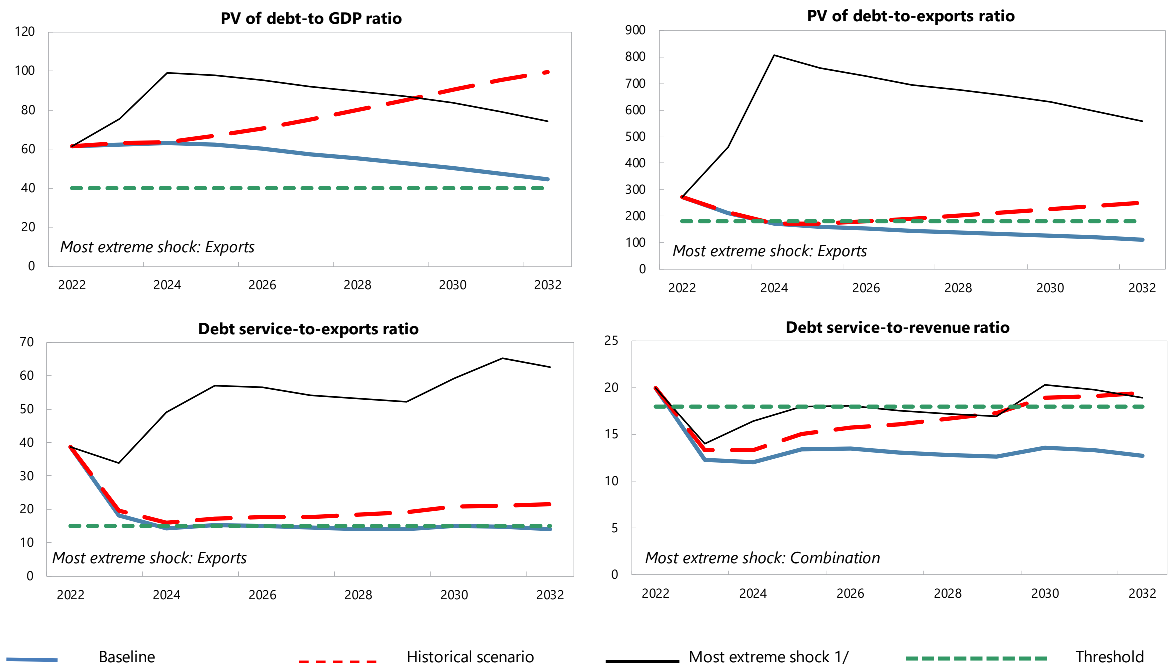
enhancing taxpayers' compliance, especially by focusing on large taxpayers, digitalizing the tax system, fully implementing the Tax Administration Procedures Act, and improving customs legal framework, supported by the CARTAC; (ii) containing growth of wages and non-priority current spending, and (iii) re-prioritizing capital investment to balance the needs for a resilient recovery and preserving debt sustainability. If the authorities' measures are fully implemented, the debt-to GDP ratio is expected to peak in 2024 and decline thereafter, with debt-to-GDP and debt service ratios following downward paths once reconstruction efforts and port and hospital projects approach their completion in 2025. Beyond the authorities' fiscal plans, there are mitigating factors such as no roll-over risks associated with the short-term debt, declining interest rates in the regional debt market despite tightening global financial market, and relatively favorable borrowing terms given the large share of concessional financing. Combined with the authorities' strong commitment to long-term fiscal adjustment as embodied in the FRF as well as their cautious debt management strategy, public debt is assessed as sustainable while risks to debt sustainability remain elevated.

22. **Risks to the medium term are tilted to the downside and consistent with a "high" risk rating for external and public debt distress.** The Covid-19 shock could be more prolonged than assumed, resulting in a more protracted recovery to the tourism sector. The war in Ukraine has compounded existing supply disruptions and transportation bottlenecks and exacerbated already high commodity prices, which could further increase the cost of the government's investment projects and/or incur further relief measures to mitigate the impact of higher living costs. Moreover, St. Vincent and the Grenadines remains highly susceptible to climate change and the ever-present threat of frequent natural disasters.

23. **To reduce vulnerabilities and to ensure debt sustainability, the authorities should continue to seek concessional loans, further strengthen fiscal institutions, and fully operationalize the FRF once the recovery is on a solid footing.** Large-scale public investment projects, if financed through less concessional financing terms, could undermine debt sustainability. Accordingly, the authorities should continue keeping new borrowing on concessional terms. Continued policy efforts to build resilience to natural disasters and strengthen public investment management, including through an IMF Public Investment Management Assessment with a climate module (expected in early 2023), would help address vulnerability and long-term debt sustainability. Furthermore, the authorities should continue to improve the budget process and medium-term fiscal policy framework and strengthen SOE oversight and cash management. The FRF, approved in January 2020, should be recalibrated considering the pandemic- and volcanic eruption-related surge in debt and sizable critical climate resilience investment needs to facilitate its full operationalization once the recovery takes hold. Given the high risks and vulnerability to external shocks, it would be prudent to build additional buffers and prepare contingency plans to return debt to the baseline should fiscal slippages and external shocks materialize.

24. **Under the IDA Sustainable Development Financing Policy, the authorities effectively implemented required Performance and Policy Actions in FY21 and FY22.** These included: the strengthening of the production and publication of the annual Debt Portfolio Review, requiring publication by end-September annually, as well as the inclusion in the report of all government-guaranteed and SOE debt to further debt transparency; the creation of the Fiscal Responsibility Mechanism (FRM – i.e., a fiscal council); and establishment of the FRM's reporting standards, timelines for the FRM's reports, its annual budget assessment and annual compliance reports, and final operating principles for the FRM.

Figure 1. St. Vincent and the Grenadines: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2022–32



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	No	No
Commodity price 2/	n.a.	n.a.
Market financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.8%	2.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	26	26
Avg. grace period	6	6

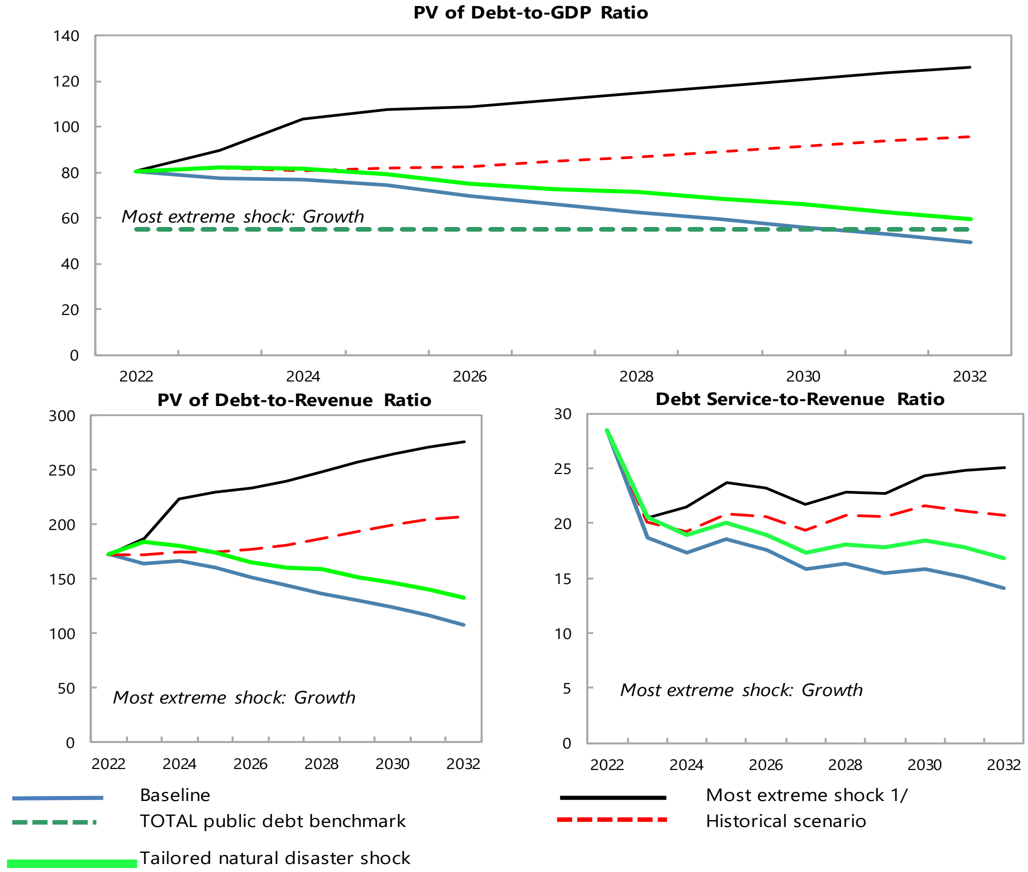
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. St. Vincent and the Grenadines: Indicators of Public Debt Under Alternative Scenarios, 2022–32



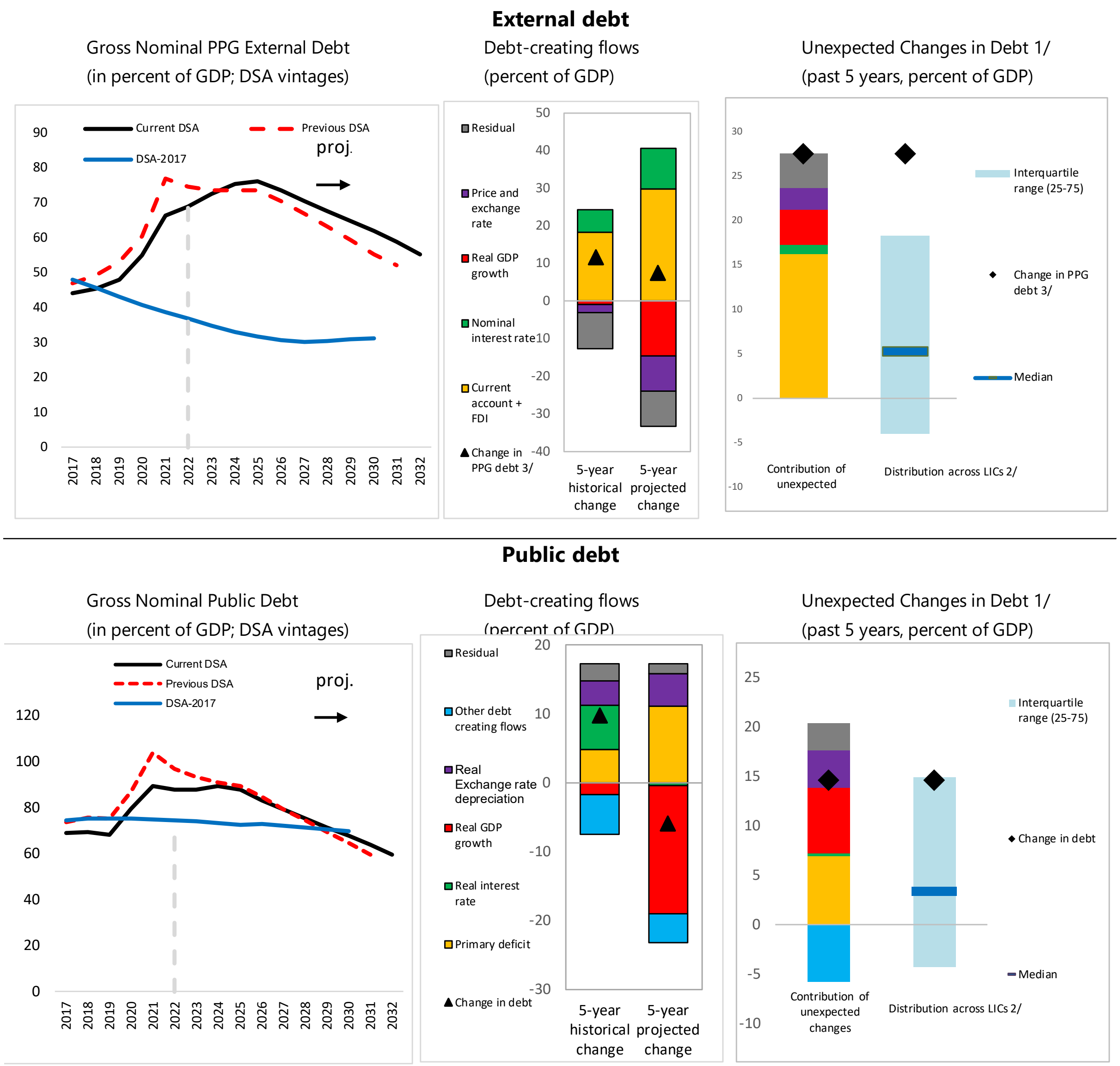
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	90%	90%
Domestic medium and long-term	7%	7%
Domestic short-term	3%	3%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.8%	2.8%
Avg. maturity (incl. grace period)	26	26
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.9%	4.9%
Avg. maturity (incl. grace period)	10	10
Avg. grace period	5	5
Domestic short-term debt		
Avg. real interest rate	-0.3%	-0.3%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. St. Vincent and the Grenadines: Drivers of Debt Dynamics - Baseline Scenario



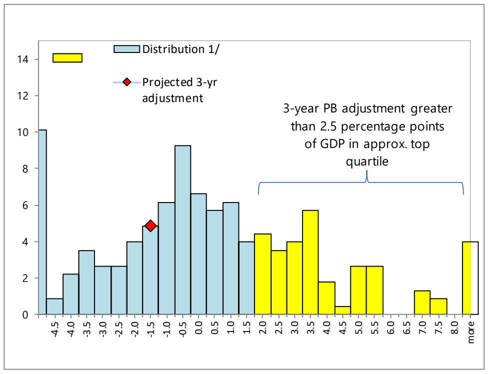
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

Figure 4. St. Vincent and The Grenadines: Realism Tools

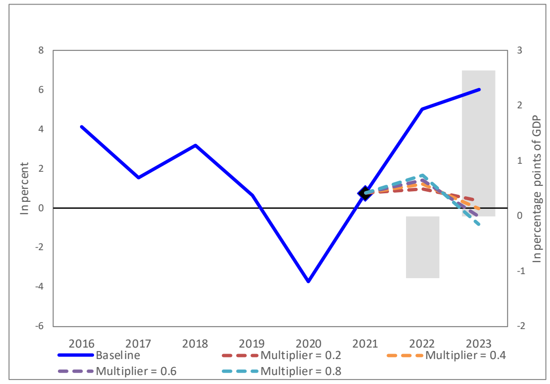
3-Year Adjustment in Primary Balance 2/
(Percentage points of GDP)



1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

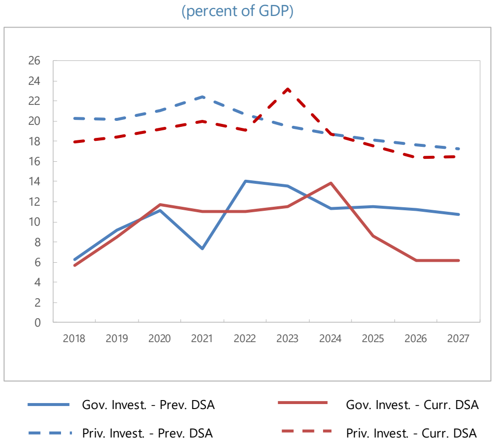
2/ The 3-year adjustment in PB is largely affected by the phasing of the port project spending, with 2024 being the peak year of the construction. The 3-year adjustment efforts, as more properly captured by the underlying PB (after excluding covid-, volcano-, and port-related spending), amount to 2¾ percent of GDP during 2021-24.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

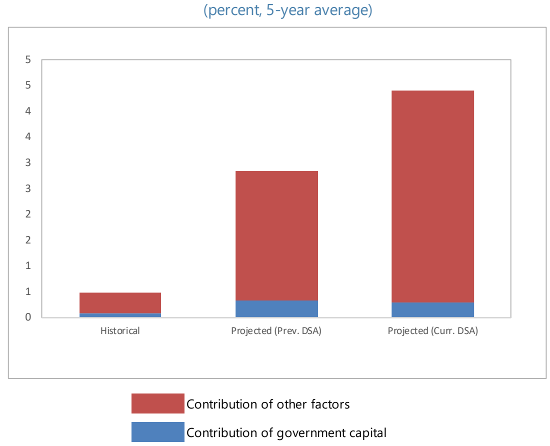
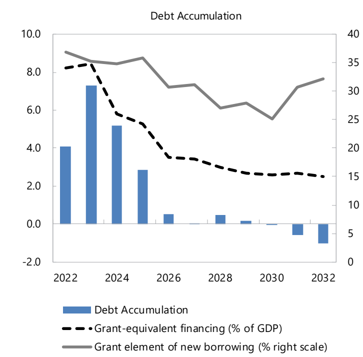


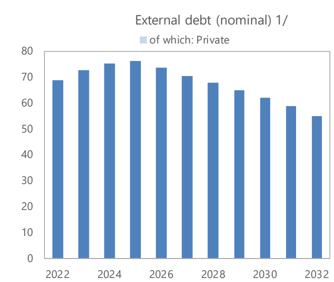
Table 1. St. Vincent and the Grenadines: External Debt Sustainability Framework, Baseline Scenario, 2021–42

(In percent of GDP, unless otherwise indicated)

	Actual	Projections														Average 8/	
	2021	2022	2023	2024	2025	2026	2027	2031	2032	2033	2034	2035	2036	2041	2042	Historical	Projections
External debt (nominal) 1/	66.3	68.9	72.6	75.4	76.0	73.5	70.3	58.7	55.1	51.7	48.5	45.6	42.7	28.2	26.1	48.3	67.7
of which: public and publicly guaranteed (PPG)	66.3	68.9	72.6	75.4	76.0	73.5	70.3	58.7	55.1	51.7	48.5	45.6	42.7	28.2	26.1	48.3	67.7
Change in external debt	11.5	2.6	3.7	2.8	0.7	-2.5	-3.2	-3.2	-3.6	-3.3	-3.3	-2.9	-2.9	-2.7	-2.1		
Identified net debt-creating flows	15.5	10.6	7.7	7.4	1.7	-1.3	-2.9	-2.6	-2.5	-2.5	-2.4	-2.3	-2.2	-1.8	-1.8	4.5	0.9
Non-interest current account deficit	21.4	24.9	25.6	17.6	11.4	7.8	6.8	7.2	7.3	7.4	7.5	7.6	7.6	8.2	8.3	15.9	11.8
Deficit in balance of goods and services	31.8	31.9	31.4	22.6	17.1	13.8	12.6	12.6	12.6	12.6	12.6	12.6	12.6	12.6	12.6	21.3	17.5
Exports	15.9	22.5	29.5	36.7	38.7	39.2	39.7	39.7	39.7	39.7	39.7	39.7	39.7	39.7	39.7		
Imports	47.7	54.4	60.9	59.2	55.8	53.0	52.4	52.4	52.4	52.4	52.4	52.4	52.4	52.4	52.4		
Net current transfers (negative = inflow)	-9.5	-7.4	-6.5	-5.8	-5.4	-5.2	-5.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-5.2	-3.2
of which: official	-2.0	-2.7	-3.7	-2.2	-2.3	-2.1	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2		
Other current account flows (negative = net inflow)	-0.8	0.4	0.6	0.8	-0.3	-0.8	-0.8	-5.5	-5.4	-5.2	-5.1	-5.1	-5.0	-4.5	-4.3	-0.1	-2.5
Net FDI (negative = inflow)	-7.1	-12.9	-16.2	-9.2	-9.6	-9.6	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-11.6	-10.7
Endogenous debt dynamics 2/	1.1	-1.4	-1.6	-1.0	-0.1	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.0	-0.1		
Contribution from nominal interest rate	1.3	1.7	2.1	2.2	2.4	2.4	2.2	1.8	1.7	1.6	1.4	1.4	1.3	0.8	0.6		
Contribution from real GDP growth	-0.4	-3.1	-3.7	-3.3	-2.5	-2.0	-1.9	-1.6	-1.5	-1.4	-1.3	-1.2	-1.2	-0.8	-0.7		
Contribution from price and exchange rate changes	0.2	...	...	...	...	...	...	...	...	...	...	...	...	...	...		
Residual 3/	-4.1	-8.0	-4.0	-4.6	-1.0	-1.2	-0.3	-0.6	-1.1	-0.9	-0.9	-0.6	-0.7	-0.8	-0.3	-2.0	-1.9
of which: exceptional financing	0.0	-4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators																	
PV of PPG external debt-to-GDP ratio	63	62	62	63	62	60	57	48	44	42	39	37	34	21	19		
PV of PPG external debt-to-exports ratio	395	273	211	172	162	154	145	120	112	105	98	92	86	53	49		
PPG debt service-to-exports ratio	23	39	18	14	15	15	14	15	14	13	13	13	13	9	9		
PPG debt service-to-revenue ratio	8	20	12	12	13	13	13	13	13	12	12	12	11	9	8		
Gross external financing need (Million of U.S. dollars)	177.8	220.2	154.3	152.6	90.6	51.8	33.0	47.3	46.6	47.2	50.4	49.8	51.6	47.2	45.5		
Key macroeconomic assumptions																	
Real GDP growth (in percent)	0.8	5.0	6.0	4.8	3.5	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	1.4	3.5
GDP deflator in US dollar terms (change in percent)	-0.4	3.4	4.3	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0.6	2.3
Effective interest rate (percent) 4/	2.5	2.7	3.4	3.3	3.4	3.3	3.1	3.0	3.0	3.0	2.9	3.0	3.0	2.8	2.4	2.5	3.1
Growth of exports of G&S (US dollar terms, in percent)	-26.6	54.0	44.8	32.8	11.3	6.1	6.2	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	-0.3	16.3
Growth of imports of G&S (US dollar terms, in percent)	11.3	24.0	23.8	3.9	-0.6	-0.5	3.5	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	1.3	7.1
Grant element of new public sector borrowing (in percent)	...	36.9	35.2	34.8	35.9	30.7	31.2	30.7	32.1	28.5	27.6	25.4	26.2	29.3	20.8	...	31.6
Government revenues (excluding grants, in percent of GDP)	45.5	43.9	43.7	43.9	43.9	44.0	43.9	43.9	43.9	43.5	43.5	43.5	43.6	43.5	43.5	41.0	43.9
Aid flows (in Million of US dollars) 5/	514.1	92.5	95.8	74.6	68.4	39.2	45.8	46.6	44.0	51.9	52.7	52.4	51.2	43.9	41.4		
Grant-equivalent financing (in percent of GDP) 6/	...	8.2	8.5	5.8	5.3	3.5	3.4	2.7	2.5	2.8	2.7	2.6	2.4	1.7	1.5	...	4.4
Grant-equivalent financing (in percent of external financing) 6/	...	46.6	49.0	45.9	50.2	53.1	57.0	51.4	55.7	57.0	56.3	53.3	53.7	58.4	49.5	...	50.4
Nominal GDP (Million of US dollars)	872	947	1,047	1,119	1,181	1,237	1,296	1,561	1,635	1,713	1,794	1,879	1,969	2,483	2,601		
Nominal dollar GDP growth	0.4	8.5	10.6	6.9	5.6	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	2.1	5.9
Memorandum items:																	
PV of external debt 7/	62.7	61.5	62.3	63.1	62.5	60.1	57.4	47.6	44.5	41.7	38.9	36.5	34.0	21.2	19.3		
In percent of exports	394.6	272.9	210.9	172.1	161.5	153.5	144.6	119.9	112.0	105.0	98.0	91.9	85.6	53.3	48.5		
Total external debt service-to-exports ratio	23.4	38.8	18.2	14.4	15.2	15.1	14.4	14.7	14.0	13.5	13.3	12.8	12.5	9.4	8.6		
PV of PPG external debt (in Million of US dollars)	547.0	582.5	651.7	705.9	737.7	743.9	744.3	743.2	727.5	714.1	698.4	686.2	669.0	525.7	501.3		
(PVt-PVt-1)/GDPt-1 (in percent)		4.1	7.3	5.2	2.8	0.5	0.0	-0.6	-1.0	-0.8	-0.9	-0.7	-0.9	-1.4	-1.0		
Non-interest current account deficit that stabilizes debt ratio	10.0	22.3	21.8	14.8	10.7	10.3	10.0	10.4	10.9	10.8	10.8	10.4	10.6	10.8	10.4		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

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. Exceptional financing in 2022 includes debt relief from Venezuela.

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

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

6/ 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).

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

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

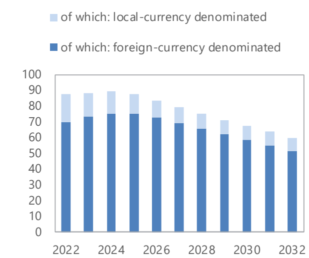
Table 2. St. Vincent and the Grenadines: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021–42

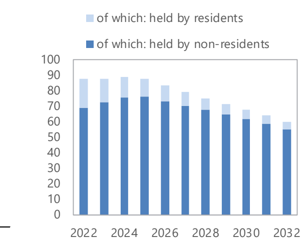
(In percent of GDP, unless otherwise indicated)

	Actual	Projections											Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2031	2032	2036	2041	2042	Historical	Projections
Public sector debt 1/	**89.3**	**87.8**	**88.0**	**89.2**	**87.8**	**83.2**	**79.2**	**63.9**	**59.7**	**46.4**	**30.1**	**27.9**	**75.0**	**77.5**
of which: external debt	**66.3**	**68.9**	**72.6**	**75.4**	**76.0**	**73.5**	**70.3**	**58.7**	**55.1**	**42.7**	**28.2**	**26.1**	**48.3**	**67.7**
Change in public sector debt	9.7	-1.5	0.1	1.2	-1.4	-4.6	-4.1	-3.8	-4.2	-3.2	-2.9	-2.2		
Identified debt-creating flows	**7.3**	**-5.3**	**-1.8**	**3.2**	**-3.1**	**-5.1**	**-5.3**	**-4.8**	**-4.7**	**-3.5**	**-3.1**	**-2.3**	**2.4**	**-3.8**
Primary deficit	**4.7**	**5.8**	**3.1**	**6.0**	**-0.5**	**-3.3**	**-3.3**	**-3.2**	**-3.2**	**-2.4**	**-2.4**	**-1.6**	**1.5**	**-0.8**
Revenue and grants	48.1	46.7	47.4	46.0	46.3	46.1	46.1	45.4	45.4	45.2	44.7	44.7	**43.6**	**46.0**
of which: grants	2.6	2.7	3.7	2.2	2.3	2.1	2.2	1.6	1.6	1.7	1.2	1.1		
Primary (noninterest) expenditure	52.8	52.5	50.6	52.1	45.7	42.9	42.8	42.2	42.2	42.8	42.3	43.1	**45.2**	**45.3**
Automatic debt dynamics	**2.6**	**-6.9**	**-5.0**	**-2.8**	**-2.5**	**-1.9**	**-2.0**	**-1.6**	**-1.5**	**-1.1**	**-0.7**	**-0.7**		
Contribution from interest rate/growth differential	0.2	-6.9	-5.0	-2.8	-2.5	-1.9	-2.0	-1.6	-1.5	-1.1	-0.7	-0.7		
of which: contribution from average real interest rate	0.8	-2.6	0.0	1.2	0.5	0.4	0.2	0.2	0.2	0.2	0.2	0.1		
of which: contribution from real GDP growth	-0.6	-4.3	-5.0	-4.0	-3.0	-2.3	-2.2	-1.8	-1.7	-1.3	-0.9	-0.8		
Contribution from real exchange rate depreciation	2.4	...	...	...	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**-4.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.1**	**-0.4**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	-4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**2.5**	**3.8**	**2.0**	**-2.0**	**1.7**	**0.6**	**1.3**	**1.0**	**0.5**	**0.3**	**0.2**	**0.1**	**0.0**	**0.9**
Sustainability indicators														
PV of public debt-to-GDP ratio 2/	**86**	**80**	**78**	**77**	**74**	**70**	**66**	**53**	**49**	**38**	**23**	**21**		
PV of public debt-to-revenue and grants ratio	**178**	**172**	**164**	**167**	**160**	**151**	**144**	**116**	**108**	**83**	**52**	**47**		
Debt service-to-revenue and grants ratio 3/	**20**	**28**	**19**	**17**	**19**	**18**	**16**	**15**	**14**	**12**	**9**	**9**		
Gross financing need 4/	16.4	14.9	12.0	14.0	8.1	4.9	4.0	3.7	3.2	3.2	1.9	2.3		
Key macroeconomic and fiscal assumptions														
Real GDP growth (in percent)	0.8	5.0	6.0	4.8	3.5	2.7	2.7	2.7	2.7	2.7	2.7	2.7	**1.4**	**3.5**
Average nominal interest rate on public debt (in percent)	3.7	2.9	3.6	3.5	3.5	3.5	3.2	3.2	3.2	3.2	3.1	2.7	**3.5**	**3.3**
Average nominal interest rate on external debt (in percent)	2.5	2.7	3.4	3.3	3.4	3.3	3.1	3.0	3.0	3.0	2.8	2.4	**2.5**	**3.1**
Average real interest rate on domestic debt (in percent)	6.8	-0.1	0.2	2.5	2.5	2.5	2.2	3.1	3.3	3.4	5.1	5.5	**4.6**	**2.1**
Real exchange rate depreciation (in percent, + indicates depreciation)	4.6	...	...	...	...	...	...	...	...	...	...	...	**1.3**	**...**
Inflation rate (GDP deflator, in percent)	-0.4	3.4	4.3	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	**0.6**	**2.3**
Growth of real primary spending (deflated by GDP deflator, in percent)	6.0	4.3	2.2	7.9	-9.1	-3.7	2.6	2.9	2.7	2.0	2.7	4.5	**3.1**	**1.5**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-5.1	7.2	3.0	4.8	0.8	1.3	0.8	0.6	1.0	0.8	0.5	0.6	**-4.0**	**1.9**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, government-guaranteed debt . Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

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

4/ 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 and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. St. Vincent and the Grenadines: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2022–32

(In Percent)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of debt-to GDP ratio											
Baseline	**62**	**62**	**63**	**62**	**60**	**57**	**55**	**53**	**50**	**48**	**44**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	**62**	**63**	**63**	**67**	**70**	**75**	**80**	**85**	**90**	**95**	**100**
B. Bound Tests											
B1. Real GDP growth	**62**	**69**	**76**	**76**	**73**	**70**	**67**	**64**	**61**	**58**	**54**
B2. Primary balance	**62**	**64**	**67**	**66**	**64**	**61**	**59**	**57**	**54**	**52**	**48**
B3. Exports	**62**	**76**	**99**	**98**	**95**	**92**	**90**	**87**	**84**	**79**	**74**
B4. Other flows 3/	**62**	**73**	**78**	**78**	**75**	**72**	**70**	**68**	**65**	**61**	**57**
B5. Depreciation	**62**	**78**	**73**	**72**	**69**	**66**	**63**	**60**	**57**	**54**	**50**
B6. Combination of B1-B5	**62**	**91**	**97**	**96**	**93**	**90**	**87**	**84**	**80**	**76**	**71**
C. Tailored Tests											
C1. Combined contingent liabilities	**62**	**66**	**67**	**66**	**64**	**61**	**59**	**56**	**54**	**51**	**48**
C2. Natural disaster	**62**	**70**	**72**	**71**	**69**	**67**	**65**	**64**	**62**	**59**	**56**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	**273**	**211**	172	162	154	145	139	133	127	120	112
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	**273**	**214**	173	172	180	**189**	**202**	**214**	**227**	**239**	**251**
B. Bound Tests											
B1. Real GDP growth	**273**	**211**	172	162	154	145	139	133	127	120	112
B2. Primary balance	**273**	**218**	**183**	172	164	154	149	143	137	130	122
B3. Exports	**273**	**460**	**808**	**758**	**728**	**694**	**676**	**656**	**630**	**595**	**558**
B4. Other flows 3/	**273**	**247**	**214**	**201**	**192**	**182**	177	171	163	154	144
B5. Depreciation	**273**	**212**	158	149	141	132	127	121	115	108	101
B6. Combination of B1-B5	**273**	**442**	**217**	**497**	**476**	**452**	**438**	**423**	**403**	**380**	**356**
C. Tailored Tests											
C1. Combined contingent liabilities	**273**	**223**	**181**	170	162	153	148	142	136	129	121
C2. Natural disaster	**273**	**241**	**198**	**187**	179	171	166	162	157	150	144
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	**39**	**18**	14	**15**	**15**	14	14	14	15	15	14
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	**39**	**20**	**16**	**17**	**18**	**18**	**18**	**19**	**21**	**21**	**21**
B. Bound Tests											
B1. Real GDP growth	**39**	**18**	14	**15**	**15**	14	14	14	15	15	14
B2. Primary balance	**39**	**18**	15	**16**	**15**	15	15	14	**16**	**15**	15
B3. Exports	**39**	**34**	**49**	**57**	**57**	**54**	**53**	**52**	**59**	**65**	**63**
B4. Other flows 3/	**39**	**18**	**15**	**17**	**16**	**16**	**15**	**15**	**17**	**18**	**17**
B5. Depreciation	**39**	**18**	14	15	15	14	14	14	15	14	13
B6. Combination of B1-B5	**39**	**30**	**39**	**41**	**40**	**39**	**38**	**37**	**45**	**44**	**42**
C. Tailored Tests											
C1. Combined contingent liabilities	**39**	**18**	15	**15**	**15**	15	14	14	**15**	15	14
C2. Natural disaster	**39**	**19**	**15**	**16**	**16**	**16**	**15**	**15**	**16**	**16**	**15**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	**20**	12	12	13	13	13	13	13	14	13	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	**20**	13	13	15	16	16	17	17	**19**	**19**	**19**
B. Bound Tests											
B1. Real GDP growth	**20**	14	15	16	16	16	16	15	16	16	15
B2. Primary balance	**20**	12	12	14	14	13	13	13	14	14	13
B3. Exports	**20**	13	14	17	17	16	16	16	18	**20**	**19**
B4. Other flows 3/	**20**	12	13	15	15	14	14	14	16	16	15
B5. Depreciation	**20**	15	15	16	16	16	16	15	17	16	15
B6. Combination of B1-B5	**20**	14	16	18	**18**	18	17	17	**20**	**20**	**19**
C. Tailored Tests											
C1. Combined contingent liabilities	**20**	12	12	14	14	13	13	13	14	14	13
C2. Natural disaster	**20**	12	13	14	14	14	13	13	14	14	13
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

Table 4. St. Vincent and the Grenadines: Sensitivity Analysis for Key Indicators of Public Debt, 2022–32

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
					PV of Debt-to-GDP Ratio						
Baseline	**80**	**78**	**77**	**74**	**70**	**66**	**63**	**59**	**56**	53	49
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	**80**	**82**	**81**	**82**	**83**	**85**	**87**	**89**	**92**	**94**	**96**
A2. Alternative Scenario : Tailored natural disaster shock	**80**	**82**	**82**	**79**	**75**	**72**	**72**	**69**	**66**	**63**	**59**
B. Bound Tests											
B1. Real GDP growth	**80**	**89**	**104**	**107**	**109**	**112**	**115**	**118**	**121**	**124**	**126**
B2. Primary balance	**80**	**79**	**81**	**78**	**73**	**69**	**66**	**62**	**59**	**56**	52
B3. Exports	**80**	**88**	**106**	**103**	**99**	**95**	**91**	**88**	**84**	**79**	**74**
B4. Other flows 3/	**80**	**88**	**92**	**89**	**85**	**81**	**78**	**74**	**70**	**66**	**62**
B5. Depreciation	**80**	**90**	**85**	**78**	**71**	**65**	**59**	53	47	42	36
B6. Combination of B1-B5	**80**	**79**	**82**	**80**	**75**	**72**	**68**	**65**	**62**	**58**	55
C. Tailored Tests											
C1. Combined contingent liabilities	**80**	**81**	**80**	**77**	**72**	**69**	**65**	**62**	**59**	**55**	52
C2. Natural disaster	**80**	**87**	**86**	**83**	**79**	**76**	**73**	**70**	**67**	**64**	**61**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
					PV of Debt-to-Revenue Ratio						
Baseline	172	164	167	160	151	144	137	130	124	116	108
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	172	172	174	175	177	181	188	194	199	204	208
A2. Alternative Scenario : Tailored natural disaster shock	28	21	19	20	19	17	18	18	18	18	17
B. Bound Tests											
B1. Real GDP growth	172	187	223	229	234	240	248	257	264	270	275
B2. Primary balance	172	167	175	168	158	150	144	137	131	123	115
B3. Exports	172	186	231	223	214	206	199	193	185	174	162
B4. Other flows 3/	172	186	200	193	184	176	170	163	155	146	136
B5. Depreciation	172	191	185	170	154	141	129	117	105	92	79
B6. Combination of B1-B5	172	167	177	173	163	155	149	143	136	128	120
C. Tailored Tests											
C1. Combined contingent liabilities	172	171	173	166	157	149	143	136	129	122	113
C2. Natural disaster	172	182	186	180	171	164	159	153	147	141	133
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
					Debt Service-to-Revenue Ratio						
Baseline	28	19	17	19	18	16	16	16	16	15	14
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	28	20	19	21	21	19	21	21	22	21	21
A2. Alternative Scenario : Tailored natural disaster shock	28	21	19	20	19	17	18	18	18	18	17
B. Bound Tests											
B1. Real GDP growth	28	21	21	24	23	22	23	23	24	25	25
B2. Primary balance	28	19	18	19	18	16	17	16	17	16	15
B3. Exports	28	19	18	21	20	18	18	18	19	20	19
B4. Other flows 3/	28	19	18	20	19	17	17	17	18	18	17
B5. Depreciation	28	20	20	22	21	19	19	18	19	18	16
B6. Combination of B1-B5	28	19	18	20	19	17	17	17	17	16	15
C. Tailored Tests											
C1. Combined contingent liabilities	28	19	18	19	18	16	17	16	16	16	15
C2. Natural disaster	28	19	19	20	19	17	17	17	17	17	16
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Statement by Mr. Jennings, Mr. O'Brolchain, and Ms. Edwards
on St. Vincent and the Grenadines
November 14, 2022

The Vincentian authorities thank staff for the constructive engagement, comprehensive assessment, and policy advice. **The authorities have expressed satisfaction with the discussions and are in broad agreement with staff's assessment and recommendations.**

St. Vincent and the Grenadines has had to deal with multiple shocks in the past few years. Amid addressing the COVID-19 pandemic, the authorities were confronted with the onslaught of the eruption of the La Soufriere volcano. Notwithstanding low levels of vaccination and multiple waves, the authorities have had relatively good success in the management of the pandemic**.** COVID-19 protocols have been lifted, allowing for normal day-to-day activities to resume. However, continued efforts to increase vaccination rates are important to build resilience to new COVID-19 outbreaks and the impacts these would have on growth prospects. Although the eruption-related impact on the agriculture sector is estimated to be smaller than initially expected and post-eruption reconstruction activity took place earlier and faster than anticipated, the eruption of the volcano had both social and economic impact. Appropriately, the authorities prioritized measures to protect lives and livelihoods, thus reducing loss of life and cushioning the worst of the effects.

The St. Vincent and the Grenadines economy has also felt the impact of Russia's invasion of Ukraine through high food and fuel prices, and monetary tightening policies in advanced economies will also have negative implications. Led by recovery in tourism, agriculture and construction, economic growth is projected at 5 percent in 2022, which would allow real GDP to reach pre-pandemic levels this year. Growth is projected to accelerate to 6 percent in 2023 as implementation of large-scale construction projects intensifies. Period average inflation is projected to accelerate to 5.8 percent and to ease in 2023–24. Given the uncertainty in the global economy, risks are tilted to the downside. A protracted war, lingering inflationary conditions, new COVID-19 waves, and the ever-present threat of frequent natural disasters could reshape the economic outlook.

The combination of external shocks and their impacts on public finances has resulted in a worsening public debt situation despite the authorities' strong efforts to contain the fiscal deficit. Debt is assessed as sustainable but remains at high risk of distress. We concur with staff's assessment that fiscal policy should prioritize health, reconstruction spending, green investments, and support to the vulnerable while maintaining fiscal prudence. We also acknowledge that social support should be temporary and targeted. However, the authorities indicate that the duration of support will be determined by the length of the various crises, as these cannot be withdrawn prematurely. The authorities remain committed to implementing a fiscal responsibility framework that enhances fiscal sustainability to be better able to withstand external shocks and rebuild fiscal buffers. They will continue with strong efforts to mobilize revenue by enhancing tax policy and strengthening tax administration and simultaneously contain non-priority spending.

Preserving financial stability is crucial and is an important part of the authorities' plans. The financial sector has demonstrated resilience to the ongoing shocks. Capital buffers remain well above regulatory requirements, and the regional average and profitability indicators for banks have remained positive. However, NPLs have increased compared to pre-pandemic levels but remained below the regional average. The Eastern Caribbean Central Bank's (ECCB) recently introduced guidance on provisioning is being implemented by the banking system and will build further resilience. The authorities will continue to work with the ECCB to ensure that stability in the sector is maintained as pandemic support measures are withdrawn. The authorities support the introduction of the EC digital dollar, DCash, as this could help build financial inclusion, and St. Vincent and the Grenadines became the front-runner in the Eastern Caribbean Currency Union (ECCU) in the uptake since the launch of the pilot in August 2021. However, the momentum has waned and will require added efforts by the ECCB to raise public awareness and improve communication with end-users to boost confidence and uptake.

The authorities propose to continue work to strengthen the regulatory and supervisory frameworks and improve crisis preparedness and management. In that regard, new legislation for regulatory provisions for friendly societies and cooperative societies were strengthened under the new Friendly Societies Act and the recently approved amendments to the Cooperative Societies Act, and risk management and internal control guidelines for insurance companies published. The ECCU's harmonized Virtual Asset Business Act was approved by Parliament, and an action plan for its implementation has been prepared. Looking ahead, authorities propose to transition to risk-based supervision, including incorporating risks related to climate change and cyber threats, to strengthen crisis preparedness, including by developing a crisis management framework for the non-bank financial sector. Additionally, they propose to improve analysis and transparency, including preparing and publishing periodical financial stability assessments, and will also continue to implement the measures in response to the National Risk Assessment and enhance the AML/CFT monitoring framework.

Climate change remains a macro-critical matter for St. Vincent and the Grenadines. The authorities are keen to adopt mitigation measures to reduce the impacts and are implementing a comprehensive National Adaptation Plan (2018–30). To that end, they intend to conduct a C-PIMA assessment and have made this formal request to the Fund, which is planned to take place in early 2023. They are strengthening financial resilience that includes three layers of instruments comprising a self-insurance contingencies fund to cover post-disaster emergency measures, enrolling in the regional risk-sharing facility—CCRIF, gaining access to the regional climate risk insurance for fisheries, and arranging contingent credit lines under the World Bank's CAT DDO. They are also developing a Disaster Risk Financing Strategy (DRFS) that is expected to strengthen their ability to assess, reduce, and manage disaster-related fiscal risk.

Access to funds to finance resilience building remains a major hurdle, and authorities intend to promote a deeper use of insurance by the private sector to build resilience. In addition, the authorities are evaluating the RST with a view to deciding on access. They are hopeful that conditionalities for access to the RST could include commitments already given for other development finance and propose to work with the rest of the ECCU to highlight areas where the RST could be better tailored to the needs of the region. Given the ever-present threat from climate change, the authorities are keenly aware of the need to have adequate contingency plans to be able to respond and that the RST is a useful addition to these plans.

The authorities of St. Vincent and the Grenadines are fully committed to public transparency and good governance. They have met the conditions under the RCF with the publication of monthly COVID-19-related expenditures. The authorities have also consented to the Fund's publication of the staff report for this Article IV consultation.

Our authorities place a high value on engagement with the Fund and appreciate the work of the mission team and the Fund's responsiveness during these crises. Given capacity constraints, the authorities have relied on Fund capacity development, mostly through the Caribbean Technical Assistance Centre (CARTAC). They have participated in-person in both the 2022 Spring and Annual Meetings, taking the opportunity to discuss critical development issues with staff and benefitting from Fund advice. Given the authorities' commitment to reform, together with support from the international community, St. Vincent and the Grenadines is well placed to recover from the current challenges as the global environment improves.