Economic Alert iQ

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Regional
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Economic Alert: IMF Staff Concluding Statement of the 2018 Article IV Mission to St. Vincent and the Grenadines

- According to the IMF, growth in economic activity is estimated to rebound from 0.7% in 2017 to 2% in 2018, and further to 2.3% in 2019, driven by increases in tourist arrivals, tourism-related activities (including investment in hotels and resorts), and related local production. In the medium term growth is likely to be sustained around 2.3% provided tourism and investment growth remain stable.
- Preliminary data indicate that following depressed growth in the 2nd half of 2016 and early 2017 (due to closure of Buccament Bay Resort and weather related activity) , the economy has been boosted by the opening of the new airport (increasing tourist arrivals and tourism-related services) and increased demand for reconstruction materials from Dominica.
- The outlook highlights:
    1. External risks including weaker-than-expected global growth, tighter global financial conditions, and higher oil prices.
    2. Domestic risks include more severe and frequent natural disasters and the loss of correspondent banking relationships.
    3. Upside potential stemming from stronger-than-expected tourist arrivals, investor interest, concessional financing for capital projects, and the successful completion of the geothermal power plant.

Key Policy Recommendations

- The advancement of structural reforms remains key to capitalize on growth opportunities created by the new airport. While there has already been a boost in tourist numbers, the IMF indicates that the authorities need to strengthen efforts to foster private sector activity, by improving the investment environment and strengthening physical and human capital. According to the IMF, under the baseline scenario this would entail raising the primary surplus by 0.5pp to approximately 1% of GDP by containing wage bill growth at 3.5% a year and setting capital expenditure at 3.9% of GDP.

- The 2019 budget should demonstrate the government's commitment to fiscal consolidation, by maintaining the primary surplus at around 0.7% of GDP, slightly above the 0.6% of GDP (the mission's estimate) in 2018.
- The IMF recommends incorporating expected fiscal costs of natural disasters, equivalent to 1.4% of GDP a year (the average of the past 15 years), in the budget framework.
- The financial system remains broadly stable but has vulnerable spots in the non-bank sector. Most credit unions report the capital ratio above 10%, but the implementation of IFRS 9 may raise their provisioning requirements and reduce their capital.
- The government has given a commitment to bringing the debt-to-GDP ratio down to 60% by 2030. However, fiscal risks remain. If growth momentum falters or natural disasters intensify, this debt target would not likely be achievable. The government also plans to launch several large developmental projects in the tourism and transport sectors to enhance growth, but this could widen the deficit if they are not accompanied by new fiscal consolidation measures.
- Progress has been made in addressing remaining legal deficiencies in the AML/CFT framework. In 2017, the government amended several AML/CFT related laws, which helped close many of the deficiencies identified in the 2010 AML/CFT assessment. The authorities should now focus on ensuring the effectiveness of AML/CFT preventative measures.

Key Economic Indicators

	2017	**2018**	**2019**	**2020**	**2021**
Real GDP (percent change)	*0.69%*	*1.97%*	*2.27%*	*2.43%*	*2.46%*
General Government gross debt as a % of GDP	*73.8%*	*73.0%*	*71.8%*	*71.2%*	*70.4%*
Consumer prices (eop)	*3.0%*	*2.03%*	*2.00%*	*2.00%*	*2.00%*
BALANCE OF PAYMENTS (Percent of GDP): Current Account Balance	*-14.8%*	*-13.3%*	*-12.3%*	*-11.9%*	*-11.4%*
General government net lending/borrowing as a % of GDP	*-0.45%*	*-1.99%*	*-1.65%*	*-1.49%*	*-1.33%*

Source: International Monetary Fund (IMF)

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