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St. Vincent and the Grenadines
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IMF 2018 Article IV Conclusion: St. Vincent and the Grenadines

Highlights

- The recently concluded International Monetary Fund (IMF) Article IV consultation with St. Vincent and the Grenadines focused on the islands' policies to improve and sustain the growth seen over recent years, build fiscal buffers (Contingency Fund), bolster resilience to natural disaster, and ensure financial stability.

- GDP is expected to grow by approximately 2.3% in 2019 compared to 0.7% in 2017 and 2.0% in 2018. Growth is expected to be sustained at approximately 2.3% beyond 2020, assuming steady tourism and investment growth.

- The projected overall fiscal balance (excluding grants) for 2019 is anticipated to be -3.1% of GDP representing an improvement from -3.4% of GDP in 2018. The primary balance (excluding grants) for 2019 is also expected to improve to -0.6% of GDP versus -0.8% in 2018.

- The external current account stood at -15.9% of GDP in 2018 and should be reduced to -15.0% of GDP in 2019.

- Gross public sector debt should continue its downward trend in 2019 to reach approximately 71.4% of GDP, down from 73.1% of GDP in 2018.

- External public debt fell from 56.7% of GDP in 2016 to 47.4% of GDP in 2017. The estimates indicate that this downward trend should continue into the future (Table 1).

- Inflation has remained relatively contained at 2-3% over the past year. The main drivers for inflation were associated with transportation and housing, utilities, gas and fuels. This is a direct result of rising global commodity prices.

- Credit unions continue to be the fastest growing lender to the private sector, increasing by over 60% since 2010. Lending from banks has weakened further as several foreign banks have reduced their operations in recent years.

- Several reform initiatives are being worked on including the Medium-Term Fiscal Framework (MTFF), Tax Administration and Procedures Act (TAPA), and the Cash Management System/Committee, however, these reforms and implementation are progressing at a slow pace.

- Over the last 15 years, natural disasters and climate change impacts have cost St. Vincent and the Grenadines an estimated 2% of GDP on an annual basis. The Contingency Fund was created to aid in protecting public finances from the risks of natural disasters. The fund was capitalized by increasing VAT from 10% to 11% on tourism-related services, VAT from 15% to 16% on other services, and introducing a levy on hotels of XCD8/room night.

- The financial system remains generally stable but the level of non-performing loans issued by commerical banks is still above the ECCB benchmark of 5%. The large shift of borrowing away from commercial banks to credit unions is an area of concern since according to the IMF "*the credit unions' ability and resources to monitor and manage risks could be stretched.*".

- The efforts to improve the regulation and supervision of the financial sector should continue. The key areas of focus are:
    a) Improvement in the supervision of non-bank entities;
    b) Implementation IFRS 9;
    c) Introduction of improved stress-testing for all non-bank entities; and
    d) Improvement in reporting and transparency across the sector.

- Several deficiencies in the AML/CFT laws have been amended, helping banks to maintain their correspondent banking relationships, however credit unions have lost nested correspondent accounts with domestic banks.

- A National Risk Assessment which aims to identify the sectors and business activities at high risk to money laundering threats is currently being conducted and is expected to be completed in September 2019. This exercise should help identify deficiencies and strengths in the current legal framework.

Risks

- External risks to the economy include weaker-than-expected global growth, tighter global financial conditions, and higher oil prices.

- Domestic risks include more severe and frequent natual disasters, the loss of correspondent banking relationships, and materialization of financial sector risks.

Outlook

- Growth is expected to remain positive, as long as tourist arrivals and investor interest continues to improve.

- Additional benefits can be derived if concessional financing for capital projects is obtained.

➢ The successful completion of the geothermal power plant will help improve the energy security of the island and has the ability to improve productivity over the medium term as energy prices become cheaper and more predictable.

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					Projections					
Output and prices										
Real GDP growth at factor cost (in percent)	0.2	0.8	0.8	0.7	2.0	2.3	2.4	2.3	2.3	2.3
Nominal GDP	0.9	3.8	2.0	1.9	5.2	4.6	4.5	4.3	4.4	4.4
Consumer Price Index, end-of-period (percent change)	0.1	-2.1	1.0	3.0	2.0	2.0	2.0	2.0	2.0	2.0
Consumer Price Index, average (percent change)	0.2	-1.7	-0.2	2.2	2.4	2.0	2.0	2.0	2.0	2.0
Central government finances										
Total revenue and grants	29.3	27.9	29.8	30.3	27.8	28.2	28.4	28.4	28.4	28.4
Of which:										
Tax revenue	24.0	23.6	25.5	25.7	24.1	24.4	24.4	24.4	24.4	24.4
Taxes on income and profits	7.1	6.4	7.5	7.1	6.5	6.6	6.6	6.6	6.6	6.6
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	9.5	9.8	10.4	10.3	10.2	10.5	10.5	10.5	10.5	10.5
Taxes on domestic transactions	7.1	7.3	7.4	8.1	7.2	7.2	7.2	7.2	7.2	7.2
Grants	2.0	1.2	1.2	2.1	1.4	1.4	1.4	1.4	1.4	1.4
Total expenditure and net lending	32.3	30.0	28.7	30.8	29.8	29.9	29.9	29.8	29.7	29.7
Of which:										
Wages and salaries 1/	12.6	12.6	13.2	13.3	12.8	12.7	12.5	12.5	12.4	12.3
Transfers and subsidies	7.2	6.8	6.4	7.4	7.4	7.3	7.3	7.4	7.4	7.5
Capital expenditure	6.4	4.9	3.8	4.1	3.6	3.9	3.9	3.9	3.9	3.9
Overall balance	-3.0	-2.1	1.1	-0.5	-2.0	-1.7	-1.5	-1.4	-1.3	-1.3
Of which: Primary balance	-0.7	0.1	3.2	1.9	0.6	0.8	1.0	1.0	1.1	1.2
Financing	3.0	3.5	-1.1	0.5	2.0	1.7	1.5	1.4	1.3	1.3
Net external financing	4.6	2.2	-0.5	-1.7	0.0	2.9	1.6	0.0	0.2	0.4
Net domestic financing	-3.1	3.1	1.1	4.2	3.3	-0.6	0.5	2.0	1.7	1.1
Other	1.5	-1.8	-1.7	-2.0	-1.3	-0.6	-0.6	-0.6	-0.6	-0.2
Gross public sector debt 2/	79.4	79.4	82.8	74.2	73.1	71.4	69.7	68.1	66.7	65.6
External sector										
Current account balance	-25.8	-14.5	-15.2	-17.2	-15.9	-15.0	-14.1	-13.2	-12.4	-11.5
Gross public sector external debt (end of period)	45.5	46.4	56.7	47.4	44.8	45.0	43.9	41.5	39.1	36.9
External public debt service										
(In percent of exports of goods and services)	12.6	10.3	27.7	51.0	28.4	15.2	14.3	13.0	14.1	13.8

Table 1 – St. Vincent and the Grenadines: Baseline Scenario, Medium-Term Projections, 2014-2023 (In % of GDP, unless otherwise specified) (Source: ECCB; Ministry of Finance and Planning; and IMF staff estimates and projections)

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