St. Vincent and the Grenadines

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First Citizens
Research & Analytics

Real GDP growth (%) 2016	2.2%	ECCB	Moody's	B3 (Negative)		Last Election	9-Dec-15
Real GDP growth (%) 2015	1.60%					Next Election	2020
Exchange Rate (USD/XCD)	1/2.70					Term	5 years
FX Direction	Fixed					Current	Dr. Ralph Gonsalves

ECONOMIC OUTLOOK

It is estimated that the SVG economy grew by 1.6% in 2015 due to tourism inflows, construction and agriculture. The construction and hotel & restaurants sector grew by 4.0% and 7.3% respectively. There was a 4.7% increase in agriculture, livestock & forestry output mainly due to increases in banana production (20%), other crops (5.0%) and livestock (2.5%). The tourism sector grew in 2015 with visitor arrivals increasing by 0.8% to 206,662 visitors. Stay-Over visitors increased by 6.6% due to increases from the U.S (11.2%), Canada (4.3%), UK (6.8%) and the Caribbean (8.4%). Cruise ship passengers fell by 3.6% and visitor expenditure increased by 3.6% to XCD258.51 million. The IMF anticipates that the completion of the Argyle International airport could increase tourist arrivals by 10% yearly over the three years following its completion, with a cumulative impact on real GDP up to 4.2%. Construction commenced in August 2008 and the authorities expect the airport to become operational by mid-2016. The total cost is estimated at XCD700 million (USD260 million).

INFLATION
MONETARY POLICY

Consumer prices fell by 1.73% (average) in 2015. The deflationary conditions are as result of lower energy prices. The IMF forecasts inflation at 1.1% in 2016.

TRADE BALANCE/ BOP

The IMF estimated a current account deficit of 24.8% of GDP in 2015 (REO Jul 2016). SVG's trade deficit fell by 8.1% to XCD777.44 in 2015. Exports declined 4.7% and imports declined by 7.7%. The major decreases in exports were Crude Materials, Inedible Except Fuels (32.9%), Machinery & Transport Equipment (41.5%) and Miscellaneous Manufactured Articles (46.3%). The major decrease in imports was from Mineral Fuels & Related Materials (46.9%). The IMF expects the current account deficit to narrow to 21.3% of GDP in 2015 (REO Jul 2016).

FISCAL ACCOUNTS

The fiscal deficit (excluding grants) fell to an estimated 1.1% of GDP in 2015 from 5% of GDP in 2013 despite a decrease in tax revenue of 0.33% of GDP. The improvement in the fiscal deficit was due to capital spending delays related to the completion of the airport and post-floods rehabilitation and implementation of some I.M.F recommendations such as a hiring freeze to contain the wage bill, restraining transfers and subsidies and raising customs duties on imports.
Public debt rose from 57% of GDP at end-2008, since launching the airport project, to 74% of GDP at end 2015. At end-January 2016, the debt of PetroCaribe St. Vincent to Venezuela stood at XCD183 million (8.7% of GDP), of which only XCD71 million is recorded as government debt. The other XCD112 million (5.3% of GDP) has not been entered in the government's public debt statistics, but is included in IMF projections. Due to lower oil prices, PetroCaribe financing flows have declined considerably more recently, and are expected to be reduced further in 2016.

BANKING & FINANCE

Domestic credit expanded by 5.6% as at 3Q15, largely associated with central government, which grew 8.3%. Liquidity of the commercial banking sector declined with the ratio of liquid assets to total deposits plus liquid liabilities fell slightly to 42.4%, well above the prudential ratio of 25%. Following the May 2015 decline in the minimum deposit rate by the ECCB, commercial banks instituted adjustments accordingly. Credit to the private sector rose to 1.7% in 2015 reflecting higher personal loans. The ratio of Non-performing loans /Total Loans fell to 8.7% in 2015 from 10% in 2014 below the ECCU average of 17%.

POLITICAL

Prime Minister Ralph Gonsalves tabled an XCD912 million budget in parliament on Feb 2016 which the opposition boycotted due to their continued protest of the Dec 9th elections. Several new taxes have been implemented such as a 2% levy on mobile and international calls, increases in property tax on commercial buildings (0.06% to 0.08%), motor vehicle and drivers licenses (25% increase), gun licenses and the introduction of V.A.T on food items such as chicken, salt, lentil, butter, yeast and baking powder. There is also an increase in excise tax on beverages such as beer, malts, wines and vodka though strong rum is exempted. The taxes are expected to take effect from May 1 and bring in revenue of XCD8 million annually.

OUTLOOK

St Vincent & the Grenadines remains susceptible to events in the global markets. Positively its major trading partners such as the US and EU have maintained economic stability and have begun to show signs of growth. A boost in tourism can be expected due to the positive outlook of the US for 2015. The Argyle airport if completed on schedule (early 2016) will also provide a significant boost to the country's economy and tourism sector. Investments in renewable energy resources such as hydroelectric plants and solar energy installations will aid the country against its vulnerability to global commodity prices and the potential disruption of the Petro Caribe agreement due to current low oil prices and enhance the country's reputation as an eco-tourism destination. The two projects specifically, the airport and geothermal energy have the potential to boost growth over the medium term.
First Citizens Research & Analytics holds a cautious view on St. Vincent & the Grenadines and underscore the need for the completion of the Argyle airport as well as the risks associated with the weakening government balance sheet and susceptibility to natural disasters.