



ST. VINCENT AND THE GRENADINES

May 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ST. VINCENT AND THE GRENADINES

In the context of the Request for Disbursement Under the Rapid Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 20, 2020, following discussions that ended on May 8, 2020 with the officials of St. Vincent and the Grenadines on economic developments and policies underpinning the IMF disbursement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on May 14, 2020.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- 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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IMF Executive Board Approves a Disbursement of US\$16 Million for St. Vincent and the Grenadines to Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved the request of St. Vincent and the Grenadines for emergency financing assistance of about US\$16 million to help address the challenges posed by the COVID-19 pandemic.
- The pandemic has hit St. Vincent and the Grenadines hard. Tourism receipts have dried up, as tourism arrivals have come to a complete halt.
- IMF support will help cover some of these needs and allow the government to ease the impact on the population including increased spending and health and social protection.

Washington, DC – May 20, 2020. The Executive Board of the International Monetary Fund (IMF) approved a disbursement to St. Vincent and the Grenadines following its request under the Rapid Credit Facility (RCF) mechanism, for SDR 11.7 million (US\$16 million), to help cover its balance of payment and fiscal needs stemming from the outbreak of the COVID-19 pandemic. The disbursement is set at the maximum available access under the RCF instrument of 100 percent of quota. St. Vincent and the Grenadines is a small state, vulnerable to external shocks, including large natural disasters.

The pandemic has hit St. Vincent and the Grenadines hard. Tourism receipts have dried up, as tourism arrivals have come to a complete halt. The economy is now projected to contract by 5.5 percent —7.8 percentage points below pre-COVID-19 projections. A drop in fiscal revenues, combined with additional direct health and social expenditures, will increase the fiscal deficit and financing needs. IMF support will help cover some of these needs and allow the government to ease the impact on the population.

Following the Executive Board discussion of the requests, Mr. Tao Zhang, Deputy Managing Director and acting Chair, made the following statement:

“The COVID-19 pandemic poses a major challenge to St. Vincent and the Grenadines. The tourism sector, a key driver of economic growth in the country, has come to a complete halt with ripple effects across the economy. Lower tourism receipts and remittance inflows, coupled with decreased foreign direct investment, have given rise to an urgent balance of payments need. The authorities also face large fiscal needs to immediately increase public health spending and support the most vulnerable.

“The authorities have responded to the pandemic by swiftly implementing containment measures and a fiscal package, which includes an increase in funding for the health sector, various public construction projects to generate jobs, financial support to agriculture and fishery sector, and programs to support displaced workers and the most vulnerable.

“The Eastern Caribbean Central Bank (ECCB) also took measures to facilitate the provision of credit and safeguard financial stability. The ECCB and national supervisors are also working closely and keep intensified monitoring of financial sector vulnerabilities.

“The authorities are committed to meeting the regional debt target of 60 percent of GDP by 2030. Once the crisis has abated, they plan to reprioritize capital spending, contain the growth of the wage bill, enhance taxpayer compliance, and rationalize exemptions from import duties and VAT on imports.

“IMF emergency support under the Rapid Credit Facility will help fill St. Vincent and the Grenadines’ balance of payments needs. Fund financing will also help catalyze additional donor support. The authorities are committed to ensuring transparency and good governance in the use of COVID-19-related spending.”

For information on the emergency financing requests approved by the IMF Executive Board, please see a link to the IMF Lending Tracker: <https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker>

For upcoming discussions on the emergency financing requests, please see a link to the calendar of the IMF Executive Board meetings: <https://www.imf.org/external/NP/SEC/bc/eng/index.aspx>

Factsheet: “IMF Rapid Credit Facility (RCF)”
<https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/08/Rapid-Credit-Facility>



ST. VINCENT AND THE GRENADINES

May 14, 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

EXECUTIVE SUMMARY

Context. The fallout from the global pandemic crisis is hitting St. Vincent and the Grenadines hard. Tourism receipts (accounting for nearly 30 percent of GDP) have dried up, as tourism arrivals have come to a complete halt. The economy is now projected to contract by 5.5 percent —7.8 percentage points below pre-COVID-19 projections. Local outbreaks of COVID-19 have thus far been contained.

Request for Fund support. The pandemic crisis is giving rise to an urgent balance of payments need, which, if not addressed, would result in immediate and severe economic disruption. Reflecting the large external financing gaps arising from the sharp deterioration of the balance of payments position and the large fiscal needs to immediately increase public health spending and support the most vulnerable, the authorities are seeking financial assistance under the Rapid Credit Facility (RCF) exogenous shock window of SDR 11.7 million, equivalent to 100 percent of quota, to be used for budget support. Staff supports this request.

Main Policy Recommendations.

- In the short term, increase health spending and adopt measures to support the vulnerable, while providing a broad temporary relief to the economy, with a package of measures totaling 3½ percent of GDP (as planned).
- Once the pandemic shock subsides and the economy begins to recover, resume fiscal consolidation to put the public debt on a firmly downward trajectory. Both revenue and expenditure measures, including the reprioritization of public investment projects (as part of a plan to build resilience against natural disasters), are required.
- In the area of financial sector policies, keep intensified monitoring of financial sector vulnerabilities and enhance capacity for prompt action to ameliorate the effects of the crisis.

Approved By
Patricia Alonso-Gamo
(WHD) and Chad
Steinberg (SPR)

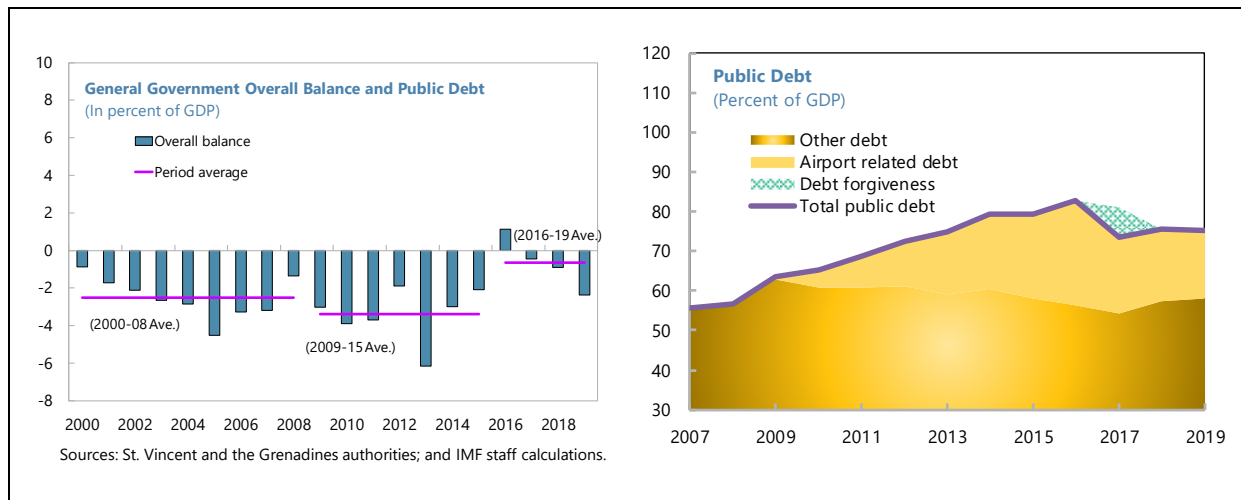
Discussions took place via conference calls on May 6 and 8, 2020. The team comprised K. Ishi (head), M. Rosales Torres, C. Castellanos Garcia, and C. Pizzinelli (all WHD). B. Rankin and R.J. Edwards (OED) participated in the discussions. The IMF team held meetings with Prime Minister Honorable R. Gonsalves; Finance Minister Honorable C. Gonsalves, other senior government officials, and other international financial institutions. T. Khan and S. Konate provided valuable assistance.

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CONTEXT

1. During the past years, the authorities have strived to advance structural reforms and put public finances in order. The opening of the modern Argyle International Airport in February 2017 reinvigorated tourist and investor interest in St. Vincent and the Grenadines. The government also intensified its efforts to diversify the export base, strengthen human capital, improve the investment climate, and build infrastructure resilient to natural disasters. Furthermore, it maintained a relatively prudent fiscal policy stance (including VAT rate hikes and the introduction of a new hotel levy), instituted a contingency fund for natural disasters, and strengthened the oversight of state-owned enterprises. In January 2020, the government enacted the Fiscal Responsibility Resolution, which includes fiscal rules.¹ Although progress in implementing reforms has been slow, the government's policy direction has been broadly in line with past staff recommendations.



2. Prior to the global COVID 19 outbreak, output growth had slowed in 2019 but was expected to rebound in 2020. Real GDP growth slowed from 2.2 percent in 2018 to 0.4 percent in 2019 (Table 1 and Figure 1).² Stayover tourist arrivals continued to grow (6.3 percent year on year for the first nine months of 2019), supporting tourism-related activities, but the manufacturing and construction sectors contracted, primarily due to reduced demand for reconstruction materials from Dominica, which was hit hard by Hurricane Maria in September 2017. Before the pandemic crisis, output growth was expected to rebound to 2.3 percent in 2020, on the back of a steady increase in tourist arrivals, a recovery of the construction sector (several hotel and resort projects were expected

¹ The fiscal rules include: (i) reducing public debt to no more than 60 percent of GDP by 2030; (ii) targeting an improvement in the primary balance to a surplus of one percent of GDP; and (iii) taking appropriate measures to ensure that nominal current expenditure in a fiscal year does not reasonably exceed the growth in nominal GDP in the year. Because macroeconomic assumptions underpinning these rules have significantly changed since the pandemic outbreak, the authorities are currently reviewing these parameters.

² Ministry of Finance's estimates, as official data from the National Statistics Office are not yet available.

to begin), and a pick-up in exports of non-traditional crops (e.g., cocoa and dasheen) and fisheries (e.g., lobster and tuna).

3. In December 2019, the Caribbean Development Bank (CDB) approved funding for a large-scale port modernization project (Annex I). The existing port was built more than 50 years ago, giving rise to safety concerns and with limited capacity to accommodate increased traffic. The cost of building a new port, however, is quite large for a small economy like St. Vincent and the Grenadines, amounting to nearly 21 percent of GDP.³ The new port will boost construction demand but also put heavy pressure on public finances. The construction is expected to start in 2021 (originally scheduled for 2020) and end in 2024.

COVID-19 SHOCK AND MACROECONOMIC IMPACT

4. The number of local COVID-19 outbreaks remained limited to 17 as of May 13. The authorities' response was relatively quick: well before the first case, the authorities had introduced preventive measures, including 14-day quarantines for persons arriving from China and other Asian economies with COVID-19 outbreaks. Following the first case (March 11), the authorities introduced social distancing and health measures to contain the spread of the virus, including (i) closing schools; (ii) cancelling the Vincy Mas carnival (the biggest annual carnival in St. Vincent and the Grenadines) scheduled for June 26-July 7; (iii) distributing protective equipment to health care workers; and (iv) increasing the number of intensive care unit beds and respirators and building an isolation and testing center. The government has not declared a state of emergency, and all businesses, excluding entertainment establishments, have continued activities.⁴

5. The global COVID-19 pandemic crisis is taking a heavy toll on the Vincentian economy, leading to a deterioration in the outlook. Tourism is a key driver of economic growth in St. Vincent and the Grenadines, with tourist arrivals from the United States, Canada, and the United Kingdom accounting for nearly two thirds of total arrivals⁵. Tighter border controls, travel restrictions, and possibly a fear of travelling, have led to a sharp decline in tourist arrivals and widespread hotel booking cancellations. All major cruise companies have also suspended operations. Staff expects a nearly

Impact of COVID-19 (Percent of GDP; unless otherwise indicated)			
	2020		Change
	Pre-COVID	Post-COVID	
Output and prices			
RGDP growth (percent)	2.3	-5.5	-7.8
Inflation (percent)	1.5	0.9	-0.6
External sector			
Current account balance	-9.9	-17.5	-7.7
O.w.: Tourism exports	30.7	15.9	-14.8
Net private transfers	3.4	1.9	-1.5
Central government finances			
Revenue	30.8	28.7	-2.1
O.w.: current revenue	27.5	25.8	-1.6
Expenditure	34.3	35.0	0.6
Overall balance	-3.5	-6.2	-2.7

Source: Fund staff calculations.

³ The project will be financed through grants (4 percent of GDP) and financing (17 percent of GDP).

⁴ All ECCU countries except for St. Vincent and the Grenadines have declared a state of emergency or much tighter restrictions on economic activities.

⁵ In the National Accounts, tourism-related sectors (hotels, restaurants, transport, and retail trade), as well as the wholesale sector (which cannot be stripped out due to data limitation) account for about 30 percent of GDP.

50 percent decline in overall tourist arrivals in 2020. The economy is expected to enter a recession, with output growth contracting by 5.5 percent—7.8 percentage points below pre COVID-19 projections. Inflation would fall below 1 percent in 2020 (compared to 1.5 percent in pre-COVID-19 projections). Lower tourism receipts and remittance inflows would lead to a widening of the current account deficit to 17½ percent of GDP in 2020 (compared to 10 percent of GDP in pre-COVID-19 projections). Pressures on fiscal revenue and the cost of crisis response measures could increase the fiscal deficit to 6¼ percent of GDP in 2020 (compared to 3½ percent of GDP in pre COVID-19 projections).

6. The pandemic crisis is giving rise to an urgent balance of payments need: if not addressed, this need would result in immediate and severe economic disruption, with a large loss in international reserves (Table 2 and Figure 2). Coupled with the widening current account deficit, an expected deterioration in the financial account (excluding reserves assets) —due to a significant decline in FDI inflows—would put pressure on international reserves. Without additional official financing, the stock of imputed reserves could fall by more than 50 percent to EC\$242 million (2½ months of projected imports of goods and services in 2021). With support of official financing from multilateral sources (EC\$169 million, equivalent to 8 percent of GDP), reserves could be maintained at about EC\$410 million (4½ months of projected imports).

	Millions of EC\$		Percent of GDP			Millions of EC\$		Percent of GDP	
	2019	2020	2019	2020		2019	2020	2019	2020
Current account balance	-223	-374	-10.0	-17.5	Prospective official financing	...	169	...	7.9
Trade	-682	-558	-30.7	-26.2	IMF (RCF)	...	43	...	2.0
Services	384	131	17.3	6.2	IDA	...	61	...	2.9
Of which: tourism receipts	697	340	31.3	15.9	Fast-track COVID19 facility 2/	...	7	...	0.3
Primary income	-39	-25	-1.8	-1.2	DPL	...	54	...	2.5
Secondary income	115	78	5.2	3.7	CDB	...	30	...	1.4
Capital account	61	61	2.8	3.5	Other	...	35	...	1.6
Financial account 1/	176	205	7.9	9.6	Reserve assets (increase -)	-15	108	-0.7	5.1
Direct Investment	161	80	7.2	3.6	Imputed reserves stock	518	410	23.3	19.2
Portfolio investment	0	-4	0.0	-0.2	In months of total imports	6.2	4.4		
Other investment	15	129	0.7	5.0	Memorandum item:				
Commercial banks	12	-6	0.5	-0.3	Imputed reserves stock (w/o prospective official financing)	...	242		
Overall balance (deficit -)	15	-108	0.7	-5.1	In months of total imports	...	2.6		
					Nominal GDP	2,226	2,131		

Sources: Ministry of Finance and Planning; and Fund staff estimates and projections.
 1/ Excludes reserves and prospective official financing.
 2/ Activated on April 17, 2020.

7. Once the pandemic crisis recedes, economic prospects would be more favorable. Staff's baseline scenario assumes that the global pandemic crisis would subside by the fourth quarter of 2020. Real GDP is projected to rebound to about 4 percent in 2021, and relatively high levels of growth could be sustained over the medium term. Inflation is projected to stay at around 2 percent (broadly in line with inflation in the United States). Key assumptions underlying staff's growth projections are: (i) reflecting a recovery of the global economy, stayover tourism arrivals gradually bounce back; (ii) construction of the new port project gets into full swing in 2021, boosting demand

for construction; (iii) hotel and resort projects recover over time, accompanied by higher FDI inflows; (iv) exports of non-traditional crops and fisheries gradually strengthen; and (v) geothermal electricity production commences in 2022.

8. The main risks to the outlook arise from a possible greater impact of Covid-19 both in terms of a slower recovery of the global economy and of local outbreaks. The economic outlook is subject to an unusual degree of uncertainty related to the impact of COVID-19 on the global economy. The coronavirus pandemic crisis could be prolonged, with more severe disruptions to global economic activity than assumed, resulting in a deeper and more protracted damage to the tourism sector and a wider current account deficit. In addition, were wider local outbreaks to erupt, the economic recession would be more severe and protracted. Should this occur, additional measures to support health services and vulnerable populations would be needed. These would be partially covered by further reallocation of the budget toward health and social needs (see paragraph 14), but the fiscal deficit would further widen. Furthermore, once the hurricane season starts (early Summer), St. Vincent and the Grenadines would be threatened by natural disaster risks.

9. In the area of financial sector policies, both the Eastern Caribbean Central Bank (ECCB) and the Financial Services Authority have announced measures to mitigate the crisis. The ECCB agreed with the ECCU Bankers Association on a relief program available for commercial bank customers through: (i) loan moratoria for 6 months, extendable upon review; and (ii) a waiver of late fees and charges to eligible customers during this period. Several other measures are being considered by the ECCB. Credit unions and other financial institutions (under the supervision of the Financial Services Authority) have also agreed to participate in the moratorium. The announced measures are largely consistent with the IMF guidance that such measures should be transparent, temporary, and combined with intensified supervision.

POLICY DISCUSSIONS: ENSURING DEBT AND FINANCIAL SUSTAINABILITY

10. In response to the pandemic crisis, on March 25, the authorities announced a fiscal package of about 3½ percent of GDP. The measures are targeted to address urgent needs in the health sector, to support the agriculture and tourism sectors, and to help displaced workers. Most of these measures are temporary and set to expire in 3 months with possible extensions.

- **Expenditure measures** (amounting to 3 percent of GDP) include: (i) an increase in funding for the health sector (to construct an isolation unit, purchase drugs and equipment, and hire extra medical staff); (ii) various construction projects of public infrastructure to

Announced Supplementary Fiscal Measures		
	EC\$ Million	Percent of GDP
Expenditure Measures	67	3.1
COVID-19 health spending	10	0.5
Public works program	30	1.4
Support to farming and agriculture sectors	12	0.6
Expanded social safety net and worker insurance	6	0.3
Support to Tourism Authority and Airport	3	0.1
Other initiatives	6	0.3
Tax Measures	10	0.5
VAT and import duty waivers on health products	...	...
Import duty waiver on barrels of goods	...	...
Removal of license fee for exports of bananas	...	...
Tax relief for local airlines	...	...
Reduced departure tax for CARICOM citizens	...	...
Total Costs	77	3.6

Sources: Ministry of Finance and Planning and IMF staff calculations.

generate jobs, (iii) financial support to the agriculture and fishery sector, (iv) a temporary widening of the social safety net to cover vulnerable households, (v) an income support program for displaced workers in the tourism and transport sectors, (vi) financial support to the Tourism Authority and Argyle International Airport, and (vii) other initiatives targeting the youths and small businesses.

- **Tax measures** (amounting to ½ percent of GDP) include: (i) VAT and import duties exemptions on a range of health and hygiene products; (ii) a tax relief for local airlines; and (iii) a reduction of airport departure fees (from EC\$40 to EC\$20) for CARICOM citizens. The deadlines for payment of personal income taxes and other fees have also been deferred to end-April.

11. The pandemic crisis and the economic contraction will thus lead to a deterioration in the fiscal position (Tables 3 and 4).

- **Revenue** is projected to decline, but a collapse of the revenue base is unlikely. During the first three months of this year, total revenue and grants increased by 8¼ percent year on year, with strong domestic indirect tax revenues (27 percent year on year). The main sources of revenue include the financial, manufacturing, construction, retail, and utility sectors—which are still operating, since a state of emergency has not been declared. The collapse of tourism has limited direct impact on fiscal revenue because the tourism sector is largely tax exempt. Under the baseline scenario, staff expect total revenue and grants to fall from 30 percent of GDP in 2019 to 28¾ percent of GDP.
- On the **expenditure side**, pressure would rise due to the fiscal package in

Central Government Operations, 2019-2020 (Above-the-line)						
	Millions of EC\$			Percent of GDP		
	2019	2020		2019	2020	
	Prel.	Auth. proj.	Staff proj.	Prel.	Auth. proj.	Staff proj.
Total revenue and grants	666	641	612	29.9	29.7	28.7
Current revenue	601	577	551	27.0	26.7	25.8
Tax revenue	554	531	508	24.9	24.6	23.9
Non-tax	47	45	42	2.1	2.1	2.0
Capital Revenue	4	3	1	0.2	0.1	0.1
Grants	61	61	61	2.8	2.8	2.8
Total expenditure	719	749	745	32.3	34.7	35.0
Current	603	630	626	27.1	29.2	29.4
Wages and salaries	304	311	311	13.7	14.4	14.6
Interest	54	59	55	2.4	2.7	2.6
Transfers and subsidies	166	176	176	7.5	8.1	8.2
Goods and services	79	85	85	3.5	3.9	4.0
Capital expenditure	117	119	119	5.2	5.5	5.6
Port 1/	9	12	12	0.4	0.6	0.6
Others	108	107	107	4.8	5.0	5.0
Overall balance	-53	-109	-133	-2.4	-5.0	-6.2
Primary balance	1	-50	-78	0.1	-2.3	-3.7
Memorandum item:						
Gross public sector debt	...	...	...	75.2	...	85.8

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

1/ No construction in 2020. EC\$ 12 million has been allocated for the expense to reallocate businesses which need to move from the port construction site.

Central Government Operations, 2019-2020 (Below-the-line)						
	Millions of EC\$			Percent of GDP		
	2019	2020		2019	2020	
	Prel.	Auth. proj.	Staff proj.	Prel.	Auth. proj.	Staff proj.
Financing	53	109	133	2.4	5.0	6.2
Net external financing	72	152	154	3.3	7.0	7.2
Disbursements	144	231	231	6.5	10.7	10.8
Existing official financing	...	63	63	...	2.9	2.9
Official financing needs	...	169	169	...	7.8	7.9
IMF (RCF) 1/	...	43	43	...	2.0	2.0
WB 1/	...	61	61	...	2.8	2.9
Fast track COVID19 facility	...	7	7	...	0.3	0.3
Development Policy Loan	...	54	54	...	2.5	2.5
CDB Repayment Assistance Loan	...	16	16	...	0.7	0.7
Others 2/	...	49	49	...	2.3	2.3
Amortization	72	79	77	3.2	3.7	3.6
Change in government assets	-32	0	0	-1.5	0.0	0.0
Net domestic financing	15	-43	-21	0.7	-2.0	-1.0
Memorandum item:						
Nominal GDP (million EC\$)	2,226	2,160	2,131			

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

1/ Subject to IMF/WB Board approval.

2/ Available financing options include: ECCB credit lines (EC\$56 million) and WB Catastrophe Deferred Drawdown Option (EC\$ 54 million).

response to the pandemic crisis (3½ percent of GDP). To make room for these additional spending needs, the authorities have reprioritized current and capital spending programs—including postponing the start of the port project—, so that the increase in total expenditure would be limited to less than 3 percentage points of GDP (from 32¼ percent of GDP in 2019 to 35 percent of GDP in 2020).

- Nonetheless, the **overall deficit** is expected to rise to EC\$133 million (6¼ percent of GDP). Given the existing (pledged prior to the crisis) external disbursements, amortization, and net domestic financing, (prospective) official financing needs are estimated at EC\$169 million (8 percent of GDP). The timely disbursement of the RCF would pave the way for external financing from other multilaterals. In particular, the CDB has approved a repayment assistance loan (EC\$ 30.5 million, equivalent to 1½ percent of GDP),⁶ and the World Bank is committed to approve a Development Policy Loan (EC\$ 54 million, 2½ percent of GDP), pending the approval of the RCF. Without these RCF and Development Policy Loan disbursements (in total, 4½ percent of GDP), the authorities would face difficulties in implementing the pandemic crisis measures without drastically cutting other expenditure programs.

12. Total public sector gross financing needs are estimated at EC\$332 million (15½ percent of GDP) in 2020.

A total of EC\$163 million (7¾ percent of GDP) would be financed through: (i) rolling over TBs; (ii) drawing from existing official financing; (iii) drawing down government deposits; and (iv) issuing bonds and borrowing from banks. The remaining EC\$169 million (8 percent of GDP) would be financed by prospective official financing, including: (i) Fund disbursements under the RCF; (ii) WB disbursements under the first track COVID19 facility and Development Policy Loan; and (iii) CDB disbursements under the Repayment Assistance Loan.

13. Public debt will rise temporarily but would remain sustainable if the authorities implement fiscal consolidation measures, once the pandemic crisis

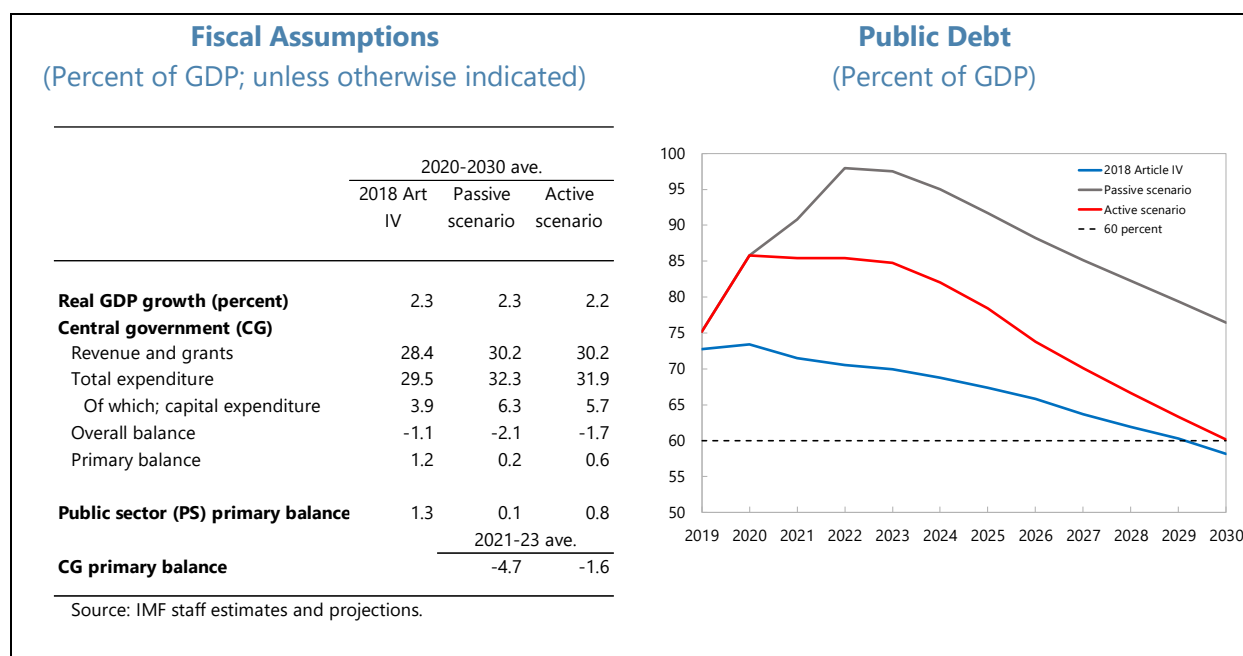
Public Sector Gross Financing Needs			
	EC\$ million	US\$ million	% of GDP
Total gross financing needs	332	123	15.6
Overall deficit	136	50	6.4
Domestic debt amortization	78	29	3.7
Short term	11	4	0.5
Medium and long term	67	25	3.1
External debt amortization	118	44	5.5
Short term	32	12	1.5
Medium and long term	86	32	4.0
Financing	332	123	15.6
Rollover of T-Bills (100%)	44	16	2.0
External	233	86	10.9
Official	233	86	10.9
Existing	64	24	3.0
WB	64	24	3.0
Prospective	169	62	7.9
IMF (RCF)	43	16	2.0
WB	61	23	2.9
CDB	16	11	1.4
Others 1/	49	13	1.7
Commercial	0	0	0.0
Domestic	55	20	2.6
Drawdown of deposits	10	4	0.5
Government bonds and bank borrowing	45	17	2.1

Source: St. Vincent Ministry of Finance and IMF staff estimates.

1/ Available financing options include: ECCB credit lines (EC\$56 million) and WB Catastrophe Deferred Drawdown Option (EC\$54 million).

⁶ A total of EC\$15.9 million will be disbursed in 2020, and the remaining EC\$14.6 million will be disbursed in 2021.

ends and the economy recovers (see Debt Sustainability Analysis report). Combined with the effects of the pandemic crisis and the economic recession, the port project would put additional pressures on public finances, given its size and relatively expensive financing terms.⁷ Without additional efforts (passive scenario), staff expect the public debt to GDP ratio to peak at around 98 percent of GDP in 2022 and to fall to 77 percent of GDP by 2030. A moderate fiscal adjustment of 3 percent of GDP over 2021–23 would ensure that the public debt to GDP ratio would peak at 85 percent in 2020 and thereafter fall to 60 percent of GDP in 2030 (the ECCU's regional goal).



14. The authorities are committed to taking both revenue and expenditure measures, with greater emphasis on expenditure measures.

- **On the expenditure side**, the authorities have agreed with labor unions to refrain from wage increases for central government employees in 2021. They are also committed to; (i) limiting the growth of the wage bill to 2.0 percent a year (around the inflation rate) through 2024 (compared to 4½ percent assumed in the passive scenario); and (ii) capping the total amount of capital spending at EC\$ 1 billion during 2020-2025 (compared to EC\$1.2 billion in the passive scenario), focusing on the port project and cutting back on non-port projects.
- **On the revenue side**, the authorities are committed to: (i) enhance taxpayer compliance, especially by focusing on large taxpayers and by adhering to the recently enacted Tax Administration and Procedures Act; and (ii) rationalizing exemptions from import duties and VAT

⁷ The total size of the port project is US\$ 185 million, of which US\$100 million will be financed through the Caribbean Development Bank's Ordinary Capital Resources (2.75 percent interest rate, 19-year maturity, including a 5-year grace period) and US\$10 million from the Special Funds Resources (at 1 percent, 25-year maturity including a 5-year grace period).

on imports. With these measures, under staff's baseline scenario, the primary balance is expected to improve from -3¾ percent of GDP in 2020 to 2 percent of GDP in 2025 (a year after the completion of the port project).

- **Given the large size of the port investment**, the authorities are committed to ensure that the overall fiscal plan keeps debt on a sustainable path based on the DSA, which they will update at the time of the 2021 budget preparation. In addition, to reduce the debt service burden, the authorities are seeking better financing terms on the port project, taking advantage of sharply reduced global interest rates since the global pandemic outbreak.
- **If downside risks materialize**, with weaker revenue and greater health expenditure needs, to protect crisis related spending on health and social protection for the vulnerable, the authorities will need to (i) reduce discretionary exemptions from import duties and VAT imports and (ii) further reprioritize non-priority spending

15. Going forward, the authorities need to make further efforts to strengthen public infrastructure management. To improve infrastructure planning process and project selection, there are merits in developing a long-term national infrastructure plan, which should be linked closely to the Medium-term Fiscal Framework. Projects should be prioritized based on the government's strategic development goals, the likelihood of successful implementation, and the certainty of project funding. The plan should also embed resilient infrastructure projects. Moreover, efforts should continue to strengthen capital projects implementation and quality.

16. The authorities need to remain vigilant to ensure financial stability and continue to enhance capacity for prompt mitigating actions against the effects of the pandemic crisis. In parallel with the ECCB's measures to safeguard stability of the banking system, the Financial Services Authority (FSA) has strengthened monitoring, identified risks, and developed contingency plans. The FSA has instituted requirements for daily reporting on liquidity positions and lending activities, reviewed the non-bank financial institutions' plans for business continuity, and provided guidance on supervisory expectations. Moreover, the FSA has required non-bank financial institutions to assess the likely impact of the crisis on their liquidity and encouraged them to identify likely distressed borrowers and consider offering temporary relief. If the shock persists or risks materialize, while refraining from generalized forbearance measures, the FSA could consider allowing financial institutions to use their buffers on capital and liquidity requirements. Collaboration with the ECCB and the FSA should be deepened to inform the monitoring and coordinated response. Risk-based AML/CFT supervision should be enhanced to reduce pressure on correspondent banking relations and remittances.

MODALITIES OF SUPPORT

17. The RCF is the most appropriate instrument at this juncture. Given the rapid development of the shock, uncertainty over its depth and duration, and the current practical difficulties, it is not feasible to put in place a UCT Fund-supported program. The authorities have

been continuously engaging with the World Bank and the Caribbean Development Bank (CDB), and timely IMF involvement will play a catalytic role in securing external financing from these multilateral institutions. Subject to adhering to the authorities' plan to implement measures to put debt on a solid downward trajectory in the medium term, St Vincent and the Grenadines possesses the capacity to repay the Fund (Table 5).

18. Staff considers an immediate access of 100 percent of quota (SDR 11.7 million, equivalent to about US\$ 16 million) to be appropriate. Staff estimates that the RCF will cover about a quarter of the projected external financing gap (US\$62 million). The authorities are actively engaging with the World Bank and the CDB on other budget support options. Staff expects that, with the participation of these institutions, the external financing gap will be fully filled. St Vincent and the Grenadines had an RCF arrangement with the Fund in 2014, which currently has an outstanding principal of SDR 2.66 million (22.7 percent of quota). Access of 100 percent of the quota for a new RCF is within the normal access limit under the PRGT.

19. The RCF funds will be disbursed to the East Caribbean Central Bank (ECCB) and be on-lent to the government of St. Vincent and the Grenadines to provide immediate fiscal support. The authorities are committed to hold all foreign exchange from the IMF disbursement at the ECCB, pending use. The ECCB will provide Fund staff with the necessary central bank audit reports and has authorized the external auditors to hold discussions with staff. The authorities are also committed to continuing the publication of procurement documentation and adding information on the beneficial owners of the companies that receive crisis-related procurement contracts.⁸ Moreover, they are committed to reporting monthly on COVID-19 related expenditures and undertaking a full ex-post financial and operational audit of COVID-19 spending at the time of the annual audit⁹.

20. The authorities are also committed to collaborating with staff in undertaking a safeguards assessment. The ECCB undertakes a safeguards assessment every four years with the most recent one completed in 2016.

21. Risks to St. Vincent and the Grenadines' capacity to repay are mitigated by several positive factors. These include: (i) the authorities' positive track record from previous financing programs with the Fund, (ii) their ability in recent years to enact fiscal consolidation measures to reduce debt, and (iii) their continued close dialogue with the Fund.

AUTHORITIES' VIEWS

⁸ A beneficial owner is defined as "an individual who is an ultimate beneficial owner of the legal person, partnership or legal arrangement, whether or not the individual is the only beneficial owner; and an individual who exercises ultimate control over the management of the legal person, partnership or legal arrangement, whether alone or jointly with any other person or persons" (St. Vincent and the Grenadines, Anti-money Laundering and Terrorist Financing Regulations, 2014, Article 4).

⁹ Conducted by St. Vincent and the Grenadines Audit Office.

22. The authorities expect a significant weakening in economic activity in 2020. However, given that the tourism sector is smaller relative to other ECCU member states, and the economy is not fully “locked down,” the authorities’ view of the economic impact of the pandemic is milder than in other neighboring economies. Nonetheless, they agree that the economy has entered a deep recession. The authorities are particularly concerned with the sharp decline in tourist arrivals and its impact on employment and fiscal revenue. They agree that there is significant downside risk to the outlook: if the crisis persists until 2021, the impact on growth performance would be much more severe.

23. The authorities stress the urgent need to support the health and social sectors and to secure external official financing. Weaker revenue prospects together with increased spending needs will lead to higher deficits and public debt. They also underscore the urgent need for Fund support ahead of the 2020 hurricane season. The authorities agree that the port project would place pressure on the public finances but are committed to implementing measures to still achieve the regional public debt target of 60 percent of GDP by 2030. To this end, the authorities agree with staff recommendations to facilitate fiscal consolidation by enhancing the effectiveness of tax administration, tightly controlling current expenditure and wage bill growth, and selecting strategically important non-port projects.

24. The authorities agree on the need to continue carefully monitoring the financial system and indicate that the financial system remains stable. The authorities are taking measures, including conducting stress testing to identify funding gaps, requiring non-bank financial institutions to submit daily reporting, reviewing their business continuity plans, discussing with them preparedness, escalation measures, and regulatory forbearance. The authorities note that the ECCB and the FSA will continue close collaboration to exchange information and coordinate responses.

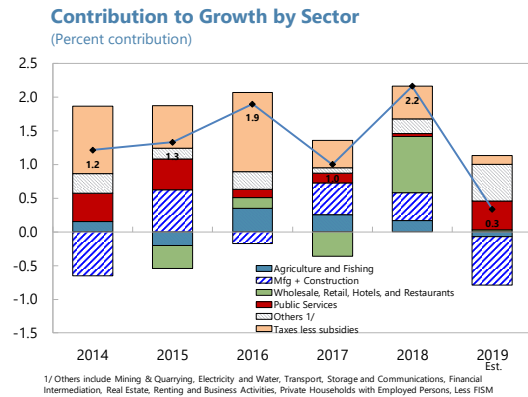
STAFF APPRAISAL

25. Staff supports the request in light of the large size of the shock, giving rise to an urgent balance of payments need. The authorities are committed to policies ensuring macroeconomic stability, including through fiscal measures to safeguard fiscal sustainability. The authorities have indicated their commitment to implementing a fiscal adjustment of 3 percent of GDP over 2021–23, once the pandemic subsides, mainly through expenditure-side measures (e.g., containing the growth of current spending and cutting back on non-port capital programs). This will put the debt-to-GDP ratio on a solid downward path after 2021, deeming debt as sustainable in a forward-looking sense.

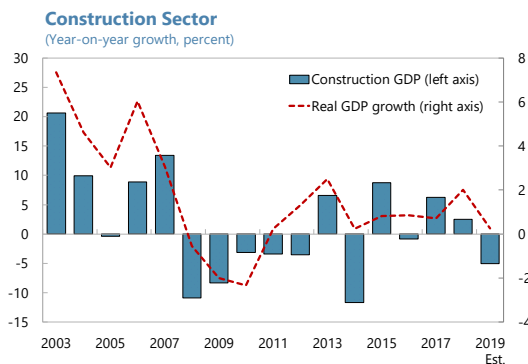
26. Staff considers that following disbursement, public debt will remain sustainable, and St. Vincent and the Grenadines will have the capacity to repay the Fund.

Figure 1. St. Vincent and the Grenadines: Real Sector Developments

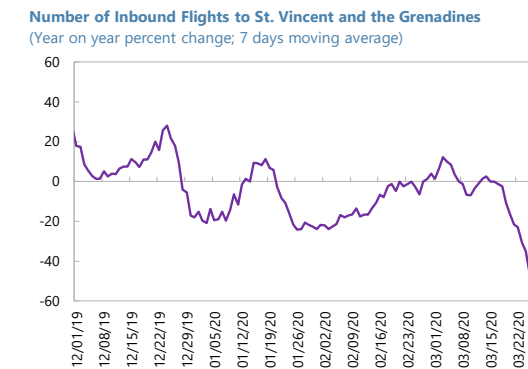
GDP growth slowed in 2019, as the manufacturing and construction sectors contracted.



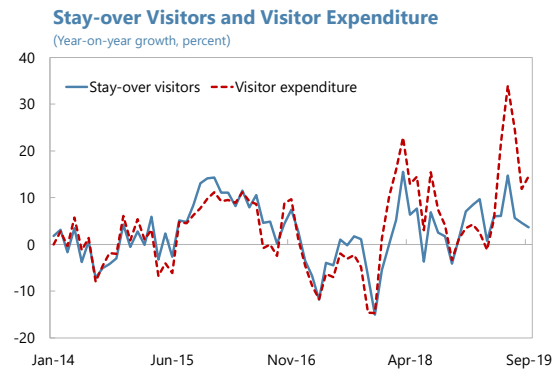
...construction fell significantly in 2019, primarily due to reduced demand for reconstruction materials from Dominica.



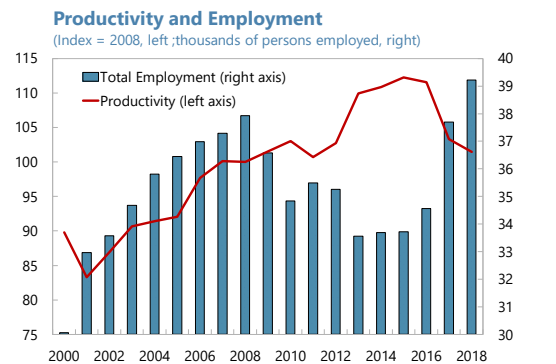
More recently, since the global pandemic outbreak, the number of incoming flights has declined significantly.



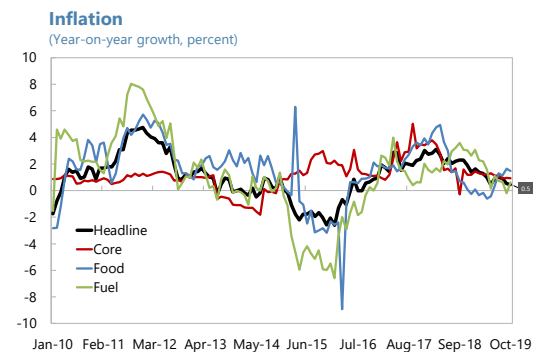
While tourist arrivals were strong...



Productivity slowed from historically high levels, in part because of rapid employment growth.



Inflationary pressure has remained low with inflation hovering around 1 percent

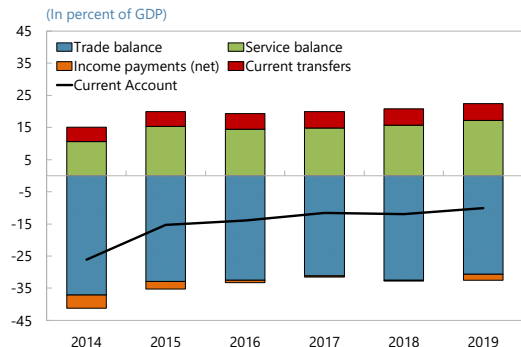


Source: Government Statistical Office; ECCB; Flight Radar 24; and IMF staff calculations.

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

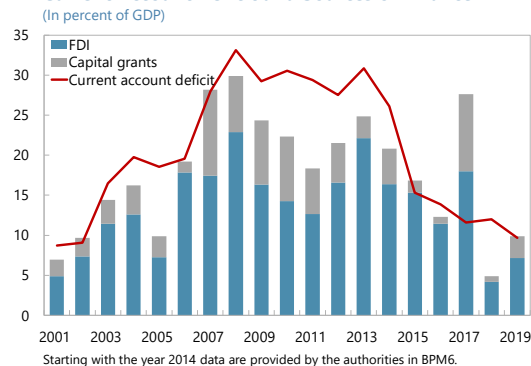
Current account deficit is estimated to have slightly narrowed in 2019, with increased service exports....

Current Account Balance



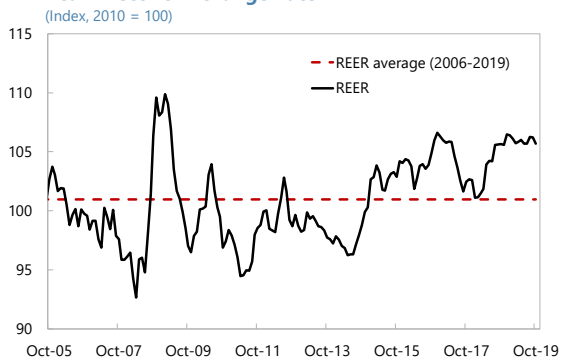
...and was mostly financed by FDI inflows.

Current Account Deficit and Sources of Finance



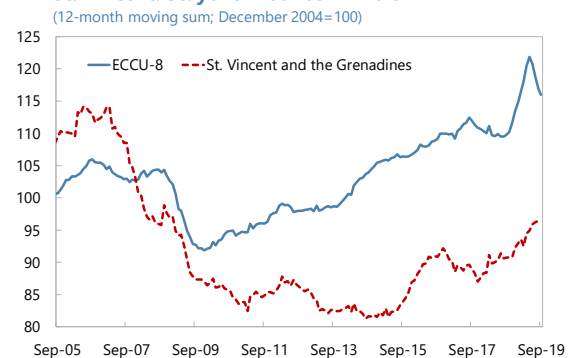
Real effective exchange rate has remained above a historical average.

Real Effective Exchange Rate



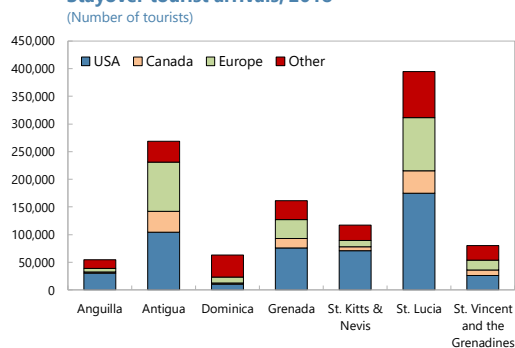
Stayover tourist arrivals continued to increase in 2019...

St. Vincent: Stayover Tourist Arrivals



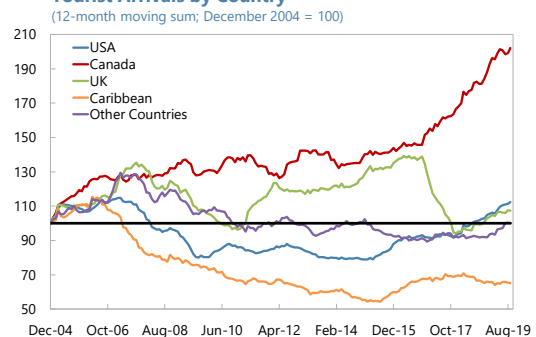
...but were still below those of many ECCU economies

Stayover tourist arrivals, 2018



With increased direct flights, tourist arrivals from Canada grew strongly.

Tourist Arrivals by Country



Source: Government Statistical Office; ECCB; Caribbean Tourism Organization; and IMF staff calculations.

Table 1. St. Vincent and the Grenadines: Selected Social and Economic Indicators, 2017–2025

Social and Demographic Indicators									
Area (sq. km)	389.3								
Population (2017)									
Total (thousands)	110.2								
Rate of growth (percent per year)	0.1								
Density (per sq. km.)	283.1								
Population characteristics									
Life expectancy at birth (years, 2016)	73.0								
Infant mortality (per '000 live births, 2016)	15.2								
Under 5 mortality rate (per '000, 2016)	17.0								
	2017	2018	2019	2020	2021	2022	2023	2024	2025
							Proj.		
	(Annual percentage change, unless otherwise specified)								
Output and prices									
Real GDP (market prices)	1.0	2.2	0.4	-5.5	4.1	3.0	2.9	2.7	2.7
Nominal GDP (market prices)	2.3	2.4	1.6	-4.3	5.8	5.1	4.9	4.8	4.8
Consumer prices, end of period	3.4	1.4	0.5	1.5	2.0	2.0	2.0	2.0	2.0
Consumer prices, period average	2.2	2.3	0.9	0.9	1.6	2.0	2.0	2.0	2.0
Banking system 1/									
Net foreign assets	-3.3	-0.6	14.5	-6.9	4.2	4.1	7.9	8.0	2.9
Net domestic assets	4.5	2.3	-4.6	-2.5	-2.6	-3.1	-1.0	1.0	5.9
Credit to private sector	1.1	0.1	-0.2	0.5	0.7	0.8	1.0	1.2	1.6
Central government finances 2/									
Total revenue	30.0	29.1	29.9	28.7	31.3	32.7	30.3	30.3	30.3
Tax revenue	25.4	25.1	24.9	23.9	25.0	25.6	25.6	25.6	25.6
Grants	2.1	1.8	2.8	2.8	4.2	4.9	2.5	2.5	2.5
Total expenditure and net lending	30.5	30.0	32.3	35.0	35.8	37.2	34.4	32.0	30.7
Current expenditure	26.4	26.2	27.1	29.4	28.4	27.8	27.3	26.5	25.7
<i>Of which</i> : Wages and salaries	13.1	13.2	13.7	14.6	14.0	13.6	13.2	12.9	12.7
Interest	2.3	2.4	2.4	2.6	2.6	2.7	3.0	2.8	2.6
Capital expenditure	4.1	3.8	5.2	5.6	7.4	9.5	7.1	5.4	5.0
Overall balance	-0.4	-0.9	-2.4	-6.2	-4.5	-4.5	-4.1	-1.7	-0.4
Overall balance (excl. grants)	-2.5	-2.7	-5.1	-9.1	-8.7	-9.4	-6.6	-4.2	-2.9
Primary balance	1.9	1.5	0.1	-3.7	-1.9	-1.8	-1.1	1.1	2.1
External sector 2/									
External current account	-11.6	-12.0	-10.0	-17.5	-12.1	-12.7	-10.8	-9.6	-8.3
Exports of goods and services	37.0	38.2	40.1	26.7	35.5	40.6	43.0	43.1	44.6
Imports of goods and services	53.3	55.1	53.5	46.7	50.1	55.1	54.7	54.3	55.3
Public sector external debt (end of period)	46.9	49.3	53.0	63.0	66.4	68.7	70.4	69.8	66.1
External public debt service 3/	9.5	11.0	14.9	15.7	13.8	13.8	13.7	13.4	13.1
Memorandum items									
Gross public sector debt (in percent of GDP)	73.5	75.6	75.2	85.8	85.5	85.4	84.8	82.1	78.5
Nominal GDP (market prices; in millions of EC\$)	2,139	2,191	2,226	2,131	2,255	2,370	2,487	2,607	2,731

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

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

2/ Percent of GDP.

3/ In percent of exports of goods and services.

Table 2. St. Vincent and the Grenadines: Balance of Payments Summary, 2017–2025

	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Projections					
	(In EC\$ million; unless otherwise stated)								
Current account	-248	-263	-223	-374	-274	-301	-270	-250	-226
Trade balance	-666	-714	-682	-558	-632	-783	-811	-842	-886
Exports f.o.b.	120	128	136	130	141	147	155	160	189
Imports f.o.b.	785	842	818	688	773	930	967	1002	1075
<i>Of which:</i> Mineral fuels	73	120	90	50	55	61	66	71	75
Services (net)	318	343	384	131	302	440	518	549	595
Travel (net)	503	543	586	305	486	634	722	763	819
Other nonfactor services (net)	-185	-199	-202	-174	-184	-194	-204	-214	-224
Primary income (net)	-10	-4	-39	-25	-59	-78	-102	-87	-71
Secondary income (net)	109	112	115	78	115	120	125	131	136
Private transfers	75	75	76	40	77	81	85	89	93
Official transfers	34	37	39	38	39	39	41	42	43
Capital account	206	15	61	61	95	117	62	65	68
Financial account	-182	-95	-161	-313	-178	-184	-207	-185	-158
Direct Investment	-385	-92	-161	-80	-105	-128	-249	-246	-219
Portfolio investment	28	-14	0	4	6	5	0	3	4
Other investment	202	44	-15	-129	-128	-111	-69	-63	21
Commercial banks	34	-6	-12	6	-4	2	11	13	19
Reserve assets	-28	-34	15	-108	48	50	110	122	37
Change in SDR holdings	1	-2	0	0	0	0	0	0	0
Change in imputed reserves	-29	-32	15	-108	48	50	110	122	37
Net errors and omissions	-140.3	152.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of imputed international reserve	487	455	518	410	458	508	617	739	775
In months of imports of good and services	4.8	4.6	6.2	4.4	4.2	4.5	5.2	5.9	5.9
	(In percent of GDP, unless otherwise stated)								
Current account	-11.6	-12.0	-10.0	-17.5	-12.1	-12.7	-10.8	-9.6	-8.3
Exports f.o.b.	5.6	5.9	6.1	6.1	6.2	6.2	6.2	6.1	6.9
Imports f.o.b.	36.7	38.4	36.8	32.3	34.3	39.2	38.9	38.4	39.4
Net private transfers	3.5	3.4	3.4	1.9	3.4	3.4	3.4	3.4	3.4
Tourism exports	26.6	27.8	29.4	15.9	24.6	29.8	32.1	32.3	33.0
Direct investment	-18.0	-4.2	-7.2	-3.8	-4.6	-5.4	-10.0	-9.4	-8.0
Memorandum items:									
Terms of Trade of Goods (Index 2002=100)	118.8	116.7	117.6	124.5	121.4	118.5	117.1	115.6	114.6
Total trade of goods and nonfactor services	90.3	93.2	93.6	73.5	85.6	95.7	97.7	97.4	99.8
Exports of goods and nonfactor services	37.0	38.2	40.1	26.7	35.5	40.6	43.0	43.1	44.6
Imports of goods and nonfactor services	53.3	55.1	53.5	46.7	50.1	55.1	54.7	54.3	55.3

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

Table 3. St. Vincent and the Grenadines: Summary of Central Government Operations, 2017–2025

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

	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Projections								
Total revenue and grants	643	637	666	612	707	776	754	790	828
Current revenue	592	596	601	551	610	657	690	723	758
Tax revenue	544	551	554	508	563	607	637	668	700
<i>Of which</i>									
Taxes on income and profits	151	148	140	133	149	157	165	173	181
Taxes on property	4	5	4	4	4	5	5	5	5
Taxes on international trade	218	236	232	209	233	255	267	280	293
<i>Of which: VAT</i>	86	92	93	84	97	102	107	112	118
Taxes on domestic transactions	172	162	177	163	177	191	200	210	220
<i>Of which: VAT</i>	74	78	96	89	96	102	107	112	118
Non-tax	48	46	47	42	46	50	53	55	58
<i>Of which</i>									
Fees, Fines and Permits	18	10	7	6	6	7	8	8	8
Interest, Rent and Dividends	8	7	9	8	8	10	10	11	11
Other Revenue	22	29	31	29	32	33	35	37	39
Capital Revenue	6	1	4	1	1	2	2	2	2
Grants	45	40	61	61	95	117	62	65	68
Total expenditure and net lending	652	657	719	745	808	882	856	833	840
Current	565	573	603	626	641	658	680	691	703
<i>Of which</i>									
Wages and salaries 1/	281	288	304	311	317	323	330	336	346
Interest	50	52	54	55	58	64	74	73	70
Domestic	31	32	35	30	24	22	23	22	20
Foreign	19	20	19	25	34	42	51	51	50
Transfers and subsidies	156	156	166	176	179	183	187	190	194
Goods and services	78	77	79	85	86	88	90	92	92
Capital expenditure	88	84	117	119	167	224	176	142	137
Port	...	...	9	12	123	192	107	16	0
Others	88	84	108	107	44	32	69	126	137
Current balance (before grants)	28	23	-2	-75	-31	-1	10	32	55
Overall balance	-10	-20	-53	-133	-101	-106	-102	-43	-12
Overall balance (excl. port project)	-10	-20	-44	-121	22	86	5	-27	-12
Primary balance	40	32	1	-78	-43	-43	-28	30	58
Primary balance (excl. port project)	40	32	10	-66	80	149	79	46	58
Identified financing	10	20	53	133	101	106	102	43	12
Net external financing	-4	15	72	154	147	101	123	68	-18
Disbursements	86	89	144	231	240	197	219	163	76
Amortization	89	74	72	77	94	96	96	94	94
Change in government assets	-14	-22	-32	0	0	0	0	0	0
Net domestic financing 2/	68	1	15	-21	-46	5	-21	-25	30
Sale of Equity (privatization proceeds)	-35	0	0	0	0	0	0	0	0
Change in account payable and arrears	-6	26	-2	0	0	0	0	0	0

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

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

2/ Includes other non-banking sector domestic financing.

Table 4. St. Vincent and the Grenadines: Summary of Central Government Operations, 2017–2025

(In percent of GDP; unless otherwise stated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
						Projections			
Total revenue and grants	30.0	29.1	29.9	28.7	31.3	32.7	30.3	30.3	30.3
Current revenue	27.7	27.2	27.0	25.8	27.0	27.7	27.7	27.7	27.7
Tax revenue	25.4	25.1	24.9	23.9	25.0	25.6	25.6	25.6	25.6
<i>Of which</i>									
Taxes on income and profits	7.1	6.7	6.3	6.2	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
Taxes on international trade	10.2	10.8	10.4	9.8	10.3	10.7	10.7	10.7	10.7
<i>Of Which: VAT</i>	4.0	4.2	4.2	4.0	4.3	4.3	4.3	4.3	4.3
Taxes on domestic transactions	8.0	7.4	8.0	7.6	7.9	8.0	8.0	8.0	8.0
<i>Of Which: VAT</i>	3.5	3.6	4.3	4.2	4.2	4.3	4.3	4.3	4.3
Non-tax	2.2	2.1	2.1	2.0	2.1	2.1	2.1	2.1	2.1
Capital Revenue	0.3	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.1
<i>Of which : Sale of crown lands</i>	0.3	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants	2.1	1.8	2.8	2.8	4.2	4.9	2.5	2.5	2.5
Total expenditure and net lending	30.5	30.0	32.3	35.0	35.8	37.2	34.4	32.0	30.7
Current	26.4	26.2	27.1	29.4	28.4	27.8	27.3	26.5	25.7
<i>Of which</i>									
Wages and salaries 1/	13.1	13.2	13.7	14.6	14.0	13.6	13.2	12.9	12.7
Interest	2.3	2.4	2.4	2.6	2.6	2.7	3.0	2.8	2.6
Domestic	1.5	1.5	1.6	1.4	1.1	0.9	0.9	0.8	0.7
Foreign	0.9	0.9	0.9	1.2	1.5	1.8	2.0	2.0	1.8
Transfers and subsidies	7.3	7.1	7.5	8.2	7.9	7.7	7.5	7.3	7.1
Goods and services	3.7	3.5	3.5	4.0	3.8	3.7	3.6	3.5	3.4
Capital expenditure	4.1	3.8	5.2	5.6	7.4	9.5	7.1	5.4	5.0
Port	...	...	0.4	0.6	5.4	8.1	4.3	0.6	...
Others	4.1	3.8	4.8	5.0	2.0	1.3	2.8	4.8	5.0
Current balance (before grants)	1.3	1.1	-0.1	-3.5	-1.4	0.0	0.4	1.2	2.0
Overall balance	-0.4	-0.9	-2.4	-6.2	-4.5	-4.5	-4.1	-1.7	-0.4
Overall balance (excluding port loan & grants)	-0.4	-0.9	-2.0	-5.7	1.0	3.6	0.2	-1.1	-0.4
Primary balance	1.9	1.5	0.1	-3.7	-1.9	-1.8	-1.1	1.1	2.1
Primary balance (excluding port loan & grants)	1.9	1.5	0.5	-3.1	3.5	6.3	3.2	1.7	2.1
Identified financing	0.4	0.9	2.4	6.2	4.5	4.5	4.1	1.7	0.4
Net external financing	-0.2	0.7	3.3	7.2	6.5	4.3	4.9	2.6	-0.7
Disbursements	4.0	4.0	6.5	10.8	10.7	8.3	8.8	6.2	2.8
Amortization	4.2	3.4	3.2	3.6	4.2	4.1	3.9	3.6	3.4
Change in government assets	-0.7	-1.0	-1.5	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic financing 2/	3.2	0.1	0.7	-1.0	-2.0	0.2	-0.8	-1.0	1.1
Sale of Equity (privatization proceeds)	-1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in account payable and arrears	-0.3	1.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Gross public sector debt	73.5	75.6	75.2	85.8	85.5	85.4	84.8	82.1	78.5
GDP at market prices (EC\$ millions)	2,139	2,191	2,226	2,131	2,255	2,370	2,487	2,607	2,731
Real GDP growth (percent)	1.0	2.2	0.4	-5.5	4.1	3.0	2.9	2.7	2.7

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

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

2/ Includes other non-banking sector domestic financing

Table 5. St. Vincent and the Grenadines: Indicators of Capacity to Repay the Fund

	Projections										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Obligations from existing drawings 1/	0.5	0.9	0.4	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Principal	0.5	0.9	0.4	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Charges/interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Obligations from existing and prospective drawings 1/	0.5	0.9	0.4	0.4	0.4	1.2	2.3	2.3	2.3	2.3	1.2
Principal	0.5	0.9	0.4	0.4	0.4	1.2	2.3	2.3	2.3	2.3	1.2
Charges/interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total existing and prospective obligations 1/											
In millions of U.S. dollars	0.7	1.2	0.6	0.6	0.6	1.6	3.3	3.3	3.3	3.3	1.6
In percent of exports of goods and services	0.3	0.4	0.1	0.1	0.1	0.4	0.7	0.7	0.6	0.6	0.3
In percent of debt service	1.4	2.3	1.0	0.8	0.8	2.2	4.1	4.7	5.3	5.4	2.9
In percent of quota	4.6	7.4	3.6	3.6	3.6	10.0	20.0	20.0	20.0	20.0	10.0
In percent of net international reserves	0.5	0.7	0.3	0.3	0.2	0.6	1.1	1.1	1.1	1.0	0.5
Fund credit outstanding 1/											
In millions of SDRs	13.8	13.0	12.5	12.1	11.7	10.5	8.2	5.9	3.5	1.2	0.0
In millions of U.S. dollars	19.1	18.0	17.4	16.9	16.4	14.8	11.5	8.2	4.9	1.6	0.0
In percent of exports of goods and services	8.6	5.9	4.5	4.2	3.9	3.3	2.5	1.7	1.0	0.3	0.0
In percent of debt service	35.4	34.8	28.7	23.6	22.5	19.8	14.4	11.7	7.9	2.7	0.0
In percent of quota	118.1	110.7	107.1	103.6	100.0	90.0	70.0	50.0	30.0	10.0	0.0
In percent of net international reserves	12.6	10.6	9.3	7.4	6.0	5.2	3.9	2.7	1.6	0.5	0.0
Net use of Fund credit 1/ (In millions of SDRs)	11.2	-0.9	-0.4	-0.4	-0.4	-1.2	-2.3	-2.3	-2.3	-2.3	-1.2
Disbursements	11.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	0.5	0.9	0.4	0.4	0.4	1.2	2.3	2.3	2.3	2.3	1.2
Memorandum items:											
Quota (millions of SDRs)	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7
Quota (millions of U.S. dollars)	16.2	16.2	16.3	16.3	16.4	16.4	16.4	16.4	16.4	16.4	16.4
Net imputed international reserves (US\$ million)	151.9	169.7	188.0	228.6	273.6	287.1	294.9	302.6	310.5	319.0	327.4
GDP (millions of U.S. dollars)	789.2	835.2	877.8	921.3	965.4	1011.6	1059.9	1110.6	1163.8	1219.0	1277.1
SDRs per U.S. dollar 2/	0.72	0.72	0.72	0.72	0.71	0.71	0.71	0.71	0.71	0.71	0.71

Sources: St. Vincent and the Grenadines authorities; Eastern Caribbean Central Bank; and Fund staff estimates and projections.

1/ Includes the RCF approved in 2014.

2/ WEO Global Assumptions (GAS), dated March 24, 2020 up to 2025, after which the exchange rate is fixed at the 2019 level.

Annex I. Macroeconomic and Resilience Impacts of the Port Modernization Project

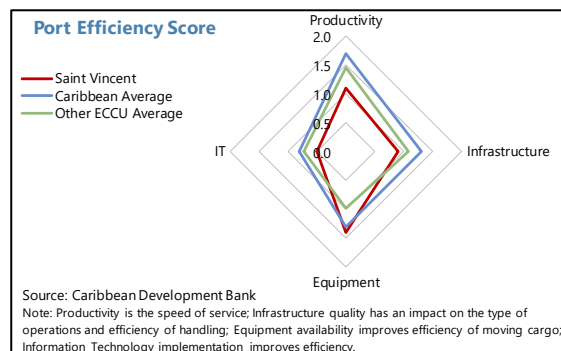
In December 2019, just before the pandemic outbreak, St. Vincent and the Grenadines reached an agreement with the Caribbean Development Bank (CDB) on a large-scale port modernization project (21 percent of GDP). The project will strain public finances but will boost construction demand, strengthen resilience to natural disasters, and improve the port capacity and efficiency.

Objectives. The existing port in Kingstown was built more than 50 years ago, well above its operational life of 30 years, raising capacity and safety concerns. The CDB's regional study (2016) suggests that Kingstown' port fares relatively poor compared to other ports in the region in terms of productivity, infrastructure quality, and IT capabilities.¹

Key benefits. The new port will:

- *Strengthen resilience to natural disasters.* The port is one of the key strategic projects to boost infrastructure resilience to natural disasters.
- *Improve shipping efficiencies and reduce berthing times.* The new port can accommodate larger vessels, double the existing capacity, raise economies of scale (through lower unit charter and fuels costs), and reduce the time required for cargo vessels to berth and discharge cargo (thus increasing operational efficiencies).
- *Improve tracking efficiencies.* Currently, container cargo is received at Campden Park Container Port located 3.5 km from Kingstown. The location of the new port (Kingstown) is closer to the main importers, reducing in-land transportation costs.
- *Increase capacity.* By the mid-2020s, cargo volumes are projected to hit port capacity. Maintenance costs are expected to rise fast to address the deteriorating condition of the port.

Economic growth impacts. While the port project is sizable (US\$185 million, 21 percent of 2020-24 average GDP), its growth impact is relatively modest (0.2-1.2 percentage points of GDP a year).² The main growth channel is through the employment of unskilled labor, and the impact from capital



¹ A visual survey that the CDB conducted in 2009 recommended major remedial works, while CDB (2013) suggests that the assets of the port had reached the end of their design life. Cubas et. al (2013) also pointed to cargo capacity and efficiency problems of the Kingstown port.

² Estimated as follows. First, the project budget was decomposed into capital, skilled labor, and unskilled labor inputs. Second, the amount of domestic procurement for each component was estimated—for capital and skilled labor, the share of the domestic procurement in total budget is assumed to be around 5-10 percent and for unskilled labor, 100 percent. Finally, the fiscal impulse was calculated, assuming a fiscal multiplier of 0.3 for the first year and 0.1 for the second year. The GDP deflator to estimate real impacts was used.

inputs is limited as these will mostly be imported. The long-term growth impact of the port would hinge on the authorities' efforts to strengthen over St. Vincent and the Grenadines' competitiveness and foster private sector activity. In the absence of this investment, however, should there be structural failure of the existing port, significant negative economic impacts would ensue.

Fiscal impacts. The port project will contribute to a significant increase in capital spending (about 8 percent of GDP in 2022 at the peak of the construction) and the overall deficit. The project will be financed through a mix of non-concessional and concessional borrowing from the CDB (US\$110 million), a grant from the United Kingdom (US\$32.5 million), and counterpart borrowing by the authorities (US\$42.8 million).

BOP impacts. The port project will widen the current account deficit during the construction period (nearly 4 percent of GDP in 2022 at its peak). This reflects an increase in (i) imports of construction materials and equipment and (ii) transfer abroad by foreign engineers, partly offset by a small increase in service exports (as foreign technicians would

contribute to local spending). The widening of the current account will be more than offset by an increase in the grant from the United Kingdom and the official loan by the CDB. To the extent that the money spent for local labor and procurement is saved, the project will also contribute to supporting St. Vincent and the Grenadines' foreign reserves.

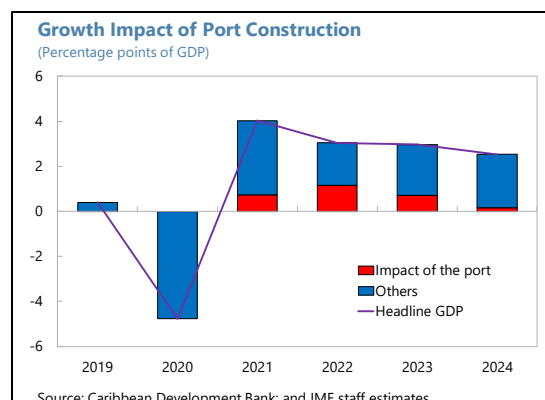


Table. Project Financing Summary

	Amount (US\$ million)	Amortiza- tion period	Grade period (years)	Interest rate (percent)	Currency
CDB loans					
Ordinary Capital Resources	100.1	14	5	2.75	Euro
Special Funds Resources	10.0	20	5	1.00	US dollar
Grants					
UK Caribbean Infrastructure Partnership Fund	32.5	...	...	...	GBP
MOF counterpart borrowing	42.8	TBD	TBD	TBD	TBD
Total project costs (incl. grants)	185.3				
Percent of 2020-24 ave. GDP	21.0				
Total borrowing	152.9				
Percent of 2020-24 ave. GDP	17.3				

References

CDB, 2016, "Transforming the Caribbean Port Services Industry: Towards the Efficiency Frontier"

CDB, 2013, "Port Rationalization Development Study-CDB"

D. Cubas, C. Briceño-Garmendia, and H.C. Bofinger, 2013, "OECD Ports: An Efficiency and Performance Assessment," World Bank, Policy Research Working Paper 7162



ST. VINCENT AND THE GRENADINES

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

May 14, 2020

Approved By
Patricia Alonso-Gamo,
Chad Steinburg, (IMF),
and Marcello Estevão
(IDA)

Prepared by the staffs of the International Monetary Fund and the International Development Association

Risk of external debt distress (current policies):	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 (unchanged from the previous assessment in the 2018 Article IV Staff Report).¹ With the pandemic crisis and the economic contraction, the fiscal position will deteriorate in 2020, and total public and publicly guaranteed debt is expected to increase from 75.2 percent of GDP in 2019 to 85.8 percent in 2020. Beyond 2021, the large port project will put additional pressure on public finances.

The authorities are committed to increasing the central government primary balance from a deficit of 3.7 percent of GDP in 2020 to a surplus of no less than 2.1 percent of GDP by 2025, mainly through expenditure-side measures (e.g., containing the growth of current spending and prioritizing capital programs). This will put the debt-to-GDP ratio on a solid downward path after 2021 and make debt sustainable in a forward-looking sense. Under staff's baseline scenario, the present value (PV) of public debt as a percent of GDP is projected to start falling in 2021 and that of external debt in 2024 but stay above indicative benchmarks for an extended period. The PV of debt-to-exports and the debt service-to-exports ratios would fall below the indicative threshold by 2021 and 2023, respectively (Figures 1 and 2).

¹ St. Vincent and the Grenadines' score in the Composite Indicator is 3.0, implying that the country's debt carrying capacity is classified as medium. The classification determines the corresponding debt and debt service benchmarks for the external public and publicly guaranteed external debt and for total public debt.

BACKGROUND ON PUBLIC SECTOR DEBT

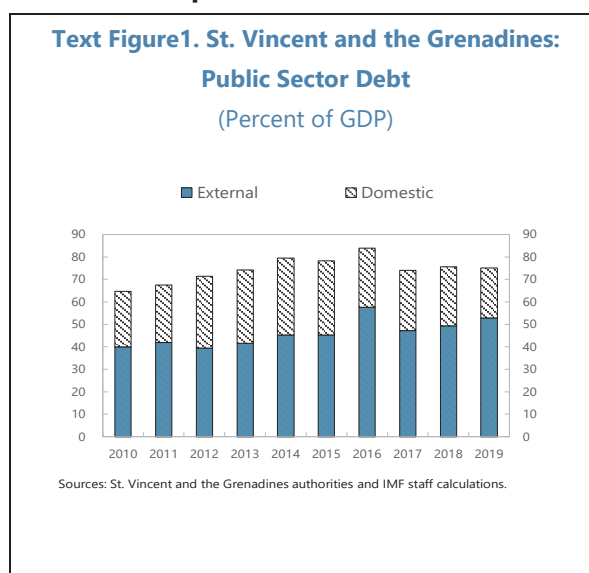
1. There are no data gaps in public sector debt coverage (Text Table 1). Public sector debt includes central government debt and state-owned enterprises (SOEs) debt.² As of end-2019, the outstanding stock of total public debt was EC\$1.7 billion (75.2 percent of GDP), of which central government debt was EC\$1.5 billion (67.6 percent of GDP), and SOEs debt was EC\$0.2 billion (7.6 percent of GDP).³ Thus, the combined contingent liability stress test excludes contingent liabilities from SOEs.

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	X

2. The composition of public debt is dominated by external debt (Text Figure 1). As of end 2019, the stock of external debt accounted for 70 percent of total public debt, while domestic debt accounted for 30 percent of total.

3. External public debt increased from 49.3 of GDP in 2018 to 53.0 percent of GDP in 2019. The increase in external public debt-to-GDP ratio reflects the worsening of the primary balance due to higher outlays on public investment projects (1.6 percent, y/y), and the negative contribution from the interest rate-growth differential. Most public external debt is with multilateral and bilateral donors (47.1 percent and 34.1 percent of total, respectively) on concessional terms. The remaining 18.8 percent is mainly with regional private creditors, including banks, pension funds, and other regional financial institutions (Text Figure 2 and Text Table 2).



² Note that there are no local governments. In addition, all of SOEs' external debt is guaranteed by the central government.

³ There is a EC\$0.3 billion limit on SOEs' total debt.

**Text Table 2. St. Vincent and the Grenadines:
Public Sector External Debt, 2019**
(Percent of total and percent of GDP)

	Percent of	
	Total	GDP
Total	100.0	53.0
Multilateral	47.1	24.9
World Bank	16.4	8.7
Caribbean Development Bank	28.5	15.1
IMF	0.9	0.5
Other	1.3	0.7
Bilateral	34.1	18.1
Paris Club	2.9	1.5
Non-Paris Club	31.2	16.5
Private Creditors¹	18.8	10.0
Regional banks	4.6	2.4
ECCB, Sinking Funds	2.0	1.1
Regional pension funds	2.0	1.0
Other regional financial institutions	1.8	1.0
Others ²	8.5	4.5

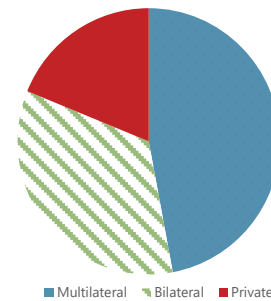
Source: Ministry of Finance, St. Vincent and the

¹ Includes external debt contracted to build the new international

² Includes T-bills held by ECCB, regional banks, insurance companies, pension funds, among others.

³ Includes FCIB and other private investors.

**Text Figure 2. St. Vincent and the Grenadines:
Public Publicly Guaranteed External Debt, 2019**
(Percent of total)



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

4. The majority of domestic debt is in the form of treasury bills and government bonds (63 percent of total domestic debt). The remainder consists of loans in local currency (25 percent of total) and accounts payable (about 6 percent).⁴ Most of the government securities are held by the buy-and-hold national and regional pension systems, insurance companies, and commercial banks.

CHANGE IN THE MACROECONOMIC FORECAST RELATIVE TO PREVIOUS DSA

5. The global coronavirus outbreak has led to a significant deterioration in the near-term macroeconomic outlook.

- Tourism is a key driver of economic growth in St. Vincent and the Grenadines, with tourism arrivals from the United States, Canada, and the United Kingdom accounting for near two-thirds of total arrivals.⁵ The spread of the coronavirus in these key source economies has dampened demand for tourism, with overall tourism arrivals expected to fall by nearly 50 percent in 2020. While local outbreaks are limited (only 17 cases as of May 13), a disruption to tourism-related activity will slow economic growth significantly to -5.5 percent in 2020.
- The fiscal position is expected to weaken as government revenues have been affected and spending pressures emerged as a result of the pandemic. On March 25, the authorities announced a fiscal package of about 3½ percent of GDP to address urgent needs in the public

⁴ Debt classification 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.

⁵ Tourism-related sectors (hotels, restaurants, transport, and retail trade) and wholesale sector (which cannot be stripped out due to data limitation) account for about 30 percent of GDP in national accounts.

health sector, support key sectors of the economy, and expand the social safety net and protect displaced workers.⁶ While the measures are temporary and set to expire in three months, revenues will decline by 1¼ percent of GDP compared to 2019. On the expenditure side, despite the effort to reprioritize spending programs, total expenditure is expected to increase by 2¾ percentage points of GDP. The overall deficit is projected to widen to 6¼ percent of GDP in 2020 (up from 2.4 percent of GDP in 2019).

- On the external side, the current account deficit is projected to widen in 2020 to 17.5 percent of GDP, due to a 50 percent decline in tourist receipts partly offset by a decline in tourism-sector related imports. Net FDI inflows are also expected to fall by 50 percent. With the worsening of the current account balance and the financial account, the level of imputed international reserves is expected to decline from 6.2 months of total imports of goods and services in 2019 to 4.4 months in 2020.⁷

6. In December 2019, the Caribbean Development Bank approved funding for a large-scale port modernization project. The existing port was built over 50 years ago, giving rise to safety concerns and with limited capacity to accommodate increased traffic. The cost of building a new port, however, is quite large for a small economy like St. Vincent and the Grenadines (amounting to nearly 21 percent of GDP), partly because financing terms are less generous.⁸ The port project would support construction demand but also put heavy pressure on public finances.

7. Over the medium term, the economic prospects are more favorable. Staff projects real GDP growth to rebound to 4.1 percent in 2021, with relatively high levels of growth through 2023 before stabilizing to a more sustainable level of 2.7 percent after 2024.⁹ Key assumptions are: (i) the global coronavirus crisis is temporary, and economic activity would be normalized later in 2020, followed by a moderate rebound in stayover tourism arrivals in the next tourism season (December 2020–March 2021); (ii) the construction of the new port project gets into full swing in 2021, and a new geothermal plant come on stream (by 2022), boosting overall economic activity; and (iii) over the medium term, net FDI inflows continue to rise, particularly in the tourism sector and assuming that the authorities maintain efforts to

⁶ Expenditure measures (amounting to 3 percent of GDP) include: (i) an increase in funding for the health sector to construct an isolation unit (recently finished), purchase drugs and equipment, and hire extra medical staff; (ii) various construction projects to generate jobs; (iii) support to agriculture, fishery and tourism sectors; (iv) temporary increase of the social safety net to protect the most vulnerable; and (v) an income support program for workers displaced in the tourism sector.

⁷ Calculated as the stock of imputed international reserves in year T divided by total imports of goods and services in year T+1. For 2020, the import coverage ratio assumes prospective official financing from IMF and the World Bank.

⁸ The total size of the port project is US\$ 185 million, of which US\$100 million will be financed through the Caribbean Development Bank's Ordinary Capital Resources (2.75 percent interest rate, 19-year maturity, including a 5-year grace period) and US\$10 million from its Special Funds Resources (at 1 percent, 25-year maturity including a 5-year grace period). The remaining US\$32 million will be financed through UK grants and US\$43 million through counterpart resources by the authorities.

⁹ The medium-term growth projections have been revised up from the 2.3 percent growth assumed in the 2018 Article IV Staff report. This reflects (i) the impact of the port project; (ii) upward revisions to the annual average growth rate of net FDI inflows; and (iii) the impact of the geothermal project.

improve the investment climate. Inflation is projected to stay at around 2 percent (broadly in line with inflation expectation in the United States).¹⁰ The current account deficit would narrow, and with a recovery in net FDI inflows, the level of imputed international reserves would stay at around 4-5 months of total imports of goods and services.

8. Fiscal assumptions under the DSA baseline scenario are as following (Text Table 3).

- The primary balance for the public sector is projected to average a deficit of 1.2 percent of GDP in 2021-2024, worse than the 2018 DSA baseline due to the negative impact of the COVID-19 and higher capital spending due to the port construction. Excluding the port, the primary balance would average a surplus of 1¾ percent of GDP. Once the port project is completed, the primary balance would improve to a surplus of 2¾ percent of GDP in 2025-2027.
- Natural disasters occur at the magnitude and frequency of the last 15 years. The average annual fiscal cost is estimated at 1.4 percent of GDP, of which 0.7 percent of GDP is covered by the contingency fund and the remaining 0.7 percent from current allocations in goods and services and transfers.
- External loan disbursements include those from existing loan contracts (US\$220 million) and new loans (US\$350 million). The former include financing for the Regional Disaster Vulnerability Reduction Program, tourism competitiveness project, agriculture competitiveness program, water and energy sectors, and the construction of government owned hotels, among others. Most of the new financing is expected to come from multilateral and bilateral donors: US\$53.4 million to cover the financing gap that has emerged due to the global COVID-19 pandemic, including US\$16 million under the IMF's RCF, US\$22.5 million from the World Bank for budget support and emergency response to COVID-19, and the remainder from other donors; and specific projects (e.g., , new port, coastal protection, and agribusiness). These will contribute to maintain an average grant element of new debt at 25 percent during 2020-2030.

¹⁰ St. Vincent and the Grenadines 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.

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

	2019	2020	2021	2022	2023	2024	2025
2018 DSA							
Nominal GDP (EC\$, millions)	2,334	2,438	2,544	2,655	2,771	2,892	3,019
Real GDP growth, (percent change), market price	2.3	2.4	2.3	2.3	2.3	2.3	2.3
Inflation (GDP deflator, percent change)	2.3	2.0	2.0	2.0	2.0	2.0	2.0
Current account balance (percent of GDP)	-15.0	-14.0	-13.2	-12.4	-11.5	-11.4	-11.5
Central government primary balance (percent of GDP)	0.8	1.0	1.0	1.1	1.2	1.2	1.2
Central government fiscal balance (percent of GDP)	-1.7	-1.5	-1.4	-1.3	-1.3	-1.2	-1.0
Public sector, primary balance (percent of GDP)	0.8	1.0	1.0	1.1	1.2	1.2	1.2
Public sector, fiscal balance (percent of GDP)	-1.9	-1.7	-1.7	-1.6	-1.5	-1.4	-1.3
Total public debt (percent of GDP)	71.3	69.6	68.0	66.6	65.5	64.5	63.6
Current DSA							
Nominal GDP (EC\$, millions)	2,226	2,131	2,255	2,370	2,487	2,607	2,731
Real GDP growth, (percent change), market price	0.4	-5.5	4.1	3.0	2.9	2.7	2.7
Inflation (GDP deflator, percent change)	1.2	0.9	1.6	2.0	2.0	2.0	2.0
Current account balance (percent of GDP)	-10.0	-17.5	-12.1	-12.7	-10.8	-9.6	-8.3
Central government primary balance (percent of GDP)	0.1	-3.7	-1.9	-1.8	-1.1	1.1	2.1
Central government fiscal balance (percent of GDP)	-2.4	-6.2	-4.5	-4.5	-4.1	-1.7	-0.4
Public sector, primary balance (percent of GDP)	0.0	-3.6	-2.0	-1.5	-0.6	1.6	2.5
Public sector, fiscal balance (percent of GDP)	-3.1	-6.4	-4.7	-4.3	-3.4	-1.2	-0.1
Total public debt (percent of GDP)	75.2	85.8	85.5	85.4	84.8	82.1	78.5
<i>Memorandum item:</i>							
Public sector, primary bal. excl. port (percent of GDP)	0.4	-3.1	3.5	6.3	3.2	1.8	2.1

Source: St. Vincent and the Grenadines Ministry of Finance and IMF Staff calculations and projections.

REALISM OF THE MACROFRAMEWORK

9. Debt dynamics (Figure 3). With the pandemic crisis and the economic contraction, the fiscal position will deteriorate in 2020, and total public and publicly guaranteed debt is expected to increase from 75.2 percent of GDP in 2019 to 85.8 percent in 2020. Thereafter, public debt is projected to decline gradually, reflecting the expected moderate rebound in economic activity once the global pandemic subsides, low global interest rates, the coming on-stream of the new geothermal power plant by end-2021 and its associated decline in oil imports, as well as the authorities' commitment to implement fiscal consolidation measures, including (i) strengthening tax administration; (ii) restraining the growth of recurrent spending; and (iii) prioritizing and re-evaluating public investment projects in the pipeline. Public external debt is projected to increase temporally in 2020-2023 due to the construction of the new port but to fall steadily afterwards.

10. Given the significant level of uncertainty, the baseline scenario is based on staff's best realistic judgement (Figure 4). The projected widening of the fiscal balance in the near term reflects the impact of the COVID-19 pandemic. Beyond 2021, growth will be supported by the construction of the new port and other public investment projects including the new geothermal project and private and public investments in hotels.

COUNTRY CLASSIFICATION

11. St. Vincent and the Grenadines' debt-carrying capacity is medium (Text Table 4). St. Vincent's Composite Indicator (CI) index (which determines the indicative thresholds to assess a country's debt sustainability) is calculated as 3.0, corresponding to a "medium" rating.¹¹ St. Vincent's debt carrying capacity is unchanged compared to the rating under the previous Country Policy and Institutional Assessment (CPIA) methodology.¹² The corresponding scores for the CI index determine the relevant thresholds for St. Vincent and the Grenadines for both external and total public debt (Text Table 5).

Text Table 4. St. Vincent and the Grenadines: Debt-Carrying Capacity Under the Composite Indicator Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.610	1.39	46%
Real growth rate (in percent)	2.719	1.628	0.04	1%
Import coverage of reserves (in percent)	4.052	40.106	1.63	54%
Import coverage of reserves ² (in percent)	-3.990	16.085	-0.64	-21%
Remittances (in percent)	2.022	5.425	0.11	4%
World economic growth (in percent)	13.520	3.499	0.47	16%
CI Score			3.00	100%
CI rating			Medium	

Text Table 5. St. Vincent and the Grenadines: Composite Indicator Index: Thresholds

Text Table 5. Composite Indicator Index: Thresholds			
External debt	Weak	Medium	Strong
PV of external in percent of:			
Exports	140	180	240
GDP	30	40	55
Debt service in percent of:			
Exports	10	15	21
Revenue	14	18	23
Total debt: PV of total public debt in percent of GDP	35	55	70

¹¹ 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 October 2019 WEO data and the 2018 CPIA.

¹² 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.

12. The combined contingent liability stress test is aligned to St. Vincent’s specific risks (Text Table 6). The stress test includes the potential impact from existing public-private partnerships (PPPs) and risks pertaining to financial markets. SOEs’ debt, which is guaranteed by the government, is excluded from the stress test as it is already included in total public debt.¹³

1 The country’s coverage of public debt	The central government, government-guaranteed debt		
	Default	Used for the analysis	Reasons for deviations from the default settings
2 Other elements of the general government not captured in 1.	0 percent of GDP	0.0	SoE’s guaranteed and non-guaranteed by the government included in total public debt.
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	13.7	
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)		18.7	

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%.

DEBT SUSTAINABILITY ANALYSIS¹⁴

A. External Debt Sustainability Analysis

13. External debt distress is high.

- **Under the baseline scenario, the PV of external debt-to-GDP ratio** would remain above the indicative benchmark of 40 percent of GDP through 2031 (Figure 1 and Table 1). It remains above the benchmark during the projection period under stress test scenarios, including due to shocks to growth, exports, and a hypothetical one-time 30 percent depreciation (Tables 3 and 4). The shock that generates the largest impact on the PV of debt-to-GDP ratio is a combination of the mentioned shocks with the PV of external debt potentially reaching 90 percent of GDP by 2023, but then gradually declining to 64 percent of GDP by 2030.
- **The PV of debt-to-exports ratio** and **the debt service-to-exports ratio** would breach temporarily (through 2022) the indicative thresholds both under the baseline and standardized stress test scenarios. A shock to exports pushes the debt service-to-exports ratio to 32 percent in 2023, well above the 15 percent threshold. The shock to exports keeps the PV of debt-to-exports ratio above its indicative threshold (180 percent) over the projection period.

B. Public Debt Sustainability Analysis

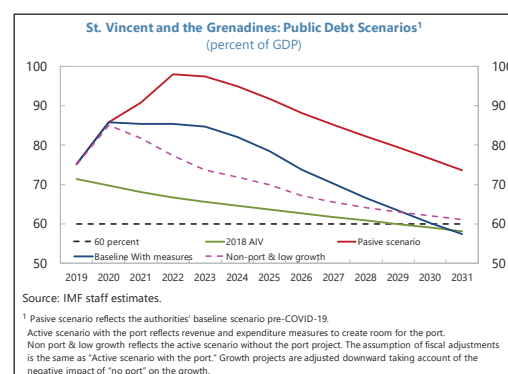
¹³ Potential contingent liabilities from the pension system are not included. Parametric reforms introduced in 2014 improved the sustainability of the National Insurance System (NIS), but only temporary, as its reserves are projected to be depleted by around 2033. Currently, the government is assessing options to further strengthen NIS’s financial position and to reduce the burden from the public service pension system.

¹⁴ Natural disaster assumptions are unchanged from the 2018 Article IV Consultation DSA.

14. The overall risk of debt distress remains high (Figure 2 and Table 2). The PV of public debt is estimated to peak at 83.8 percent of GDP in 2020 and start declining in 2021. It is estimated that it meets the benchmark of 55 percent of GDP by 2030. The public debt to GDP ratio is also expected to fall to 60 percent in 2030, meeting the ECCU's debt target just on time. Under the "most extreme stress scenario," which assumes real GDP growth equal to its historical average (10 years) minus one standard deviation for 2020 and 2021, the PV of public debt would reach 100 percent of GDP around 2022. Under other alternative scenarios including a shock to exports, the PV of public debt (in percent of GDP) would reach 104 percent by 2022 but decline afterwards to around 75 percent by 2030, above the 55 percent benchmark.

15. Two natural disaster scenarios are conducted reflecting St. Vincent and the Grenadines' exposure to natural disasters: (i) a one-time very severe natural disaster, in line with the default settings of the natural disaster tailored test, occurring in 2021, which would lower growth from 4.1 to 2.6 percent and with fiscal costs estimated at 10 percent of GDP; and (ii) a recurrent natural disaster scenario—but less severe than (i)—with the country being hit by natural disasters at the magnitude and frequency of the last 10 years with annual fiscal costs of 2 percent of GDP (i.e., 0.6 percent of GDP higher than in the baseline scenario) and real GDP growth lower by 1 percent. Under a tailored test of "one-time natural disaster" the PV of public debt would peak at 92 percent of GDP in 2021 and decline to 69 percent of GDP by 2030. Under the "recurrent natural disaster" scenario, the PV of public debt would peak at around 89 percent of GDP of GDP in 2023 and decline gradually to 72 percent of GDP by 2030.

16. The port project will put pressure on public debt. Were the port project not to take place, public debt would start falling in 2021 but would not reach 60 percent of GDP until 2030 similar as in the active scenario, which includes the execution of the port. Note that this scenario assumes that the authorities will take the same degree of fiscal consolidation efforts as in the active scenario and that GDP growth is sustained at around 2.5 percent over the medium term. Downside risks to debt sustainability, however, would be high. The port is one of the key priority resilience projects and its assets already exceeded its design life (build more than 50 years ago, well above its operational life of 30 year). Should there be structural failure of the existing port (possibly resulting from natural disasters), significant negative economic impacts would ensue.



RISK RATING AND VULNERABILITIES

17. Under the active scenario, St. Vincent and the Grenadines' debt is at high risk of distress and is sustainable on a forward-looking basis, broadly unchanged from the assessment in the 2018 Article IV DSA. The authorities are committed to increasing the central government primary balance from a deficit of 3.7 percent of GDP in 2020 to a surplus of no less than 2.1 percent of GDP by 2025, mainly through (i) enhanced taxpayers compliance, especially by focusing on large taxpayers and by adhering to the recently enacted Tax Administration Procedures Act; (ii) rationalizing exemptions from import duties

and VAT on imports; (iii) and expenditure-side measures such as containing the growth of non-interest recurrent spending and prioritizing the government investment program. Altogether, the authorities' measures will put the debt-to-GDP ratio and debt service on a solid downward path after 2022, with a faster decline once the port project is completed in 2024.

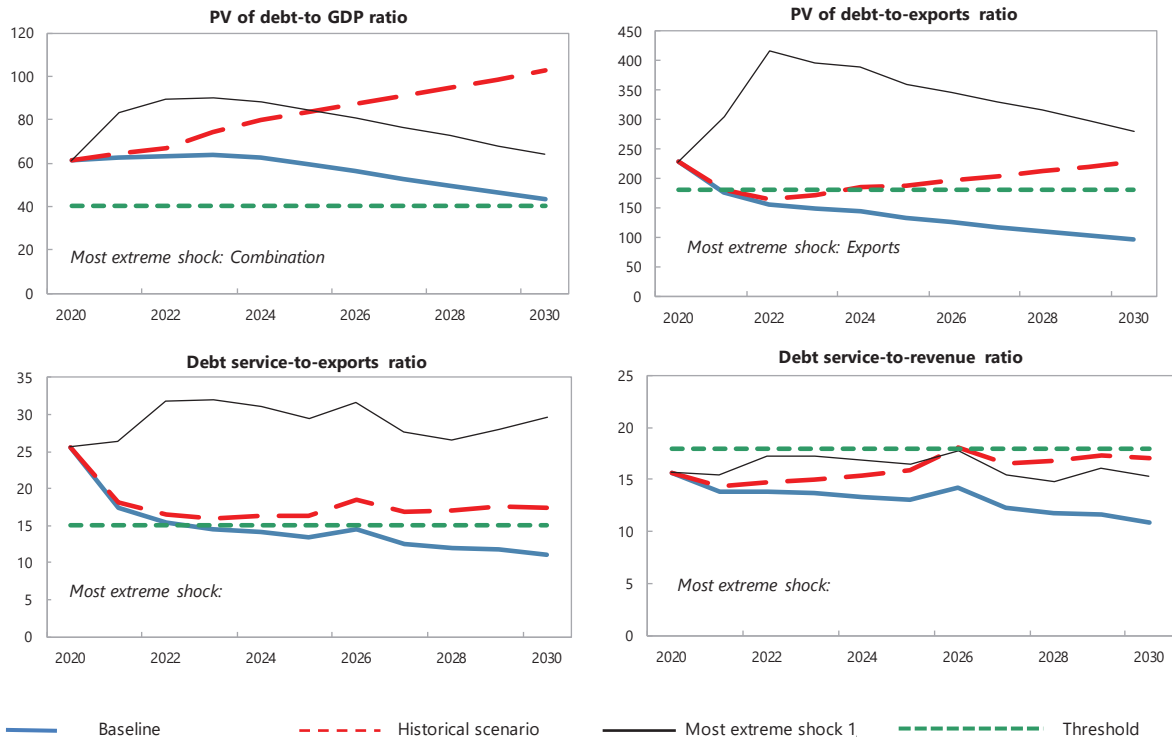
18. Risks to the medium term are tilted to the downside consistent with a “high” risk rating for external and public debt distress. The coronavirus pandemic crisis could be prolonged, with more severe disruptions to global economic activity than assumed, resulting in a deeper and more protracted damage to the tourism sector. In addition, were wider local outbreaks to erupt, economic recession would be more severe and protracted. Furthermore, once the hurricane season starts (early Summer), St. Vincent and the Grenadines would be threatened by natural disaster risks. Given these substantial uncertainties around growth and debt-service capacity, the authorities' LOI commitment to ensure their overall fiscal plan protects debt sustainability through an updated DSA conducted together with World Bank and Fund staff at the time of the 2021 budget preparation is a valuable safeguard.

19. To reduce vulnerabilities, the authorities should seek concessional loans and further strengthen fiscal institutions. Large scale public investments, if financed through less concessional financing terms, could undermine debt sustainability. Accordingly, further efforts are needed to keep new borrowing on concessional terms. In this context, the debt service burden would be reduced to the extent that more favorable financing terms were to be offered on the port project, taking advantage of sharply reduced global interest rates since the global pandemic outbreak. Furthermore, the authorities should continue efforts to strengthen public investment management, and further improve the medium-term fiscal policy framework. Resolute implementation of the recently enacted Fiscal Responsibility Framework and additional fiscal measures will be needed to bolster fiscal buffers and protect public finances from the impact of natural disasters and climate change.

AUTHORITIES' VIEWS

20. The authorities agreed with the debt sustainability assessment under the baseline scenario. They noted that the recent approval of the Fiscal Responsibility Framework will help them to put public debt on a sustainable path. They agreed that external shocks such as the COVID-19 pandemic and natural disasters pose risks to debt dynamics but reiterated their commitment to fiscal discipline to put the debt to GDP ratio on a firmly downward trajectory by implementing fiscal consolidation measures once the global COVID-19 pandemic is under control. They view that staff's GDP projection is too conservative, and if the medium-term growth rate is around 3.2 percent (compared to staff's projection of 2.7 percent) the ECCU's debt target of 60 percent of GDP would be achievable before 2030. They agreed that additional fiscal reforms would be needed to create fiscal space to support their capital spending program, and especially so if the country continues to be hit by natural disasters.

Figure 1. St. Vincent & the Grenadines: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2020-2030



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	No	No
Commodity price	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	2.6%	2.6%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	26	26
Avg. grace period	7	7

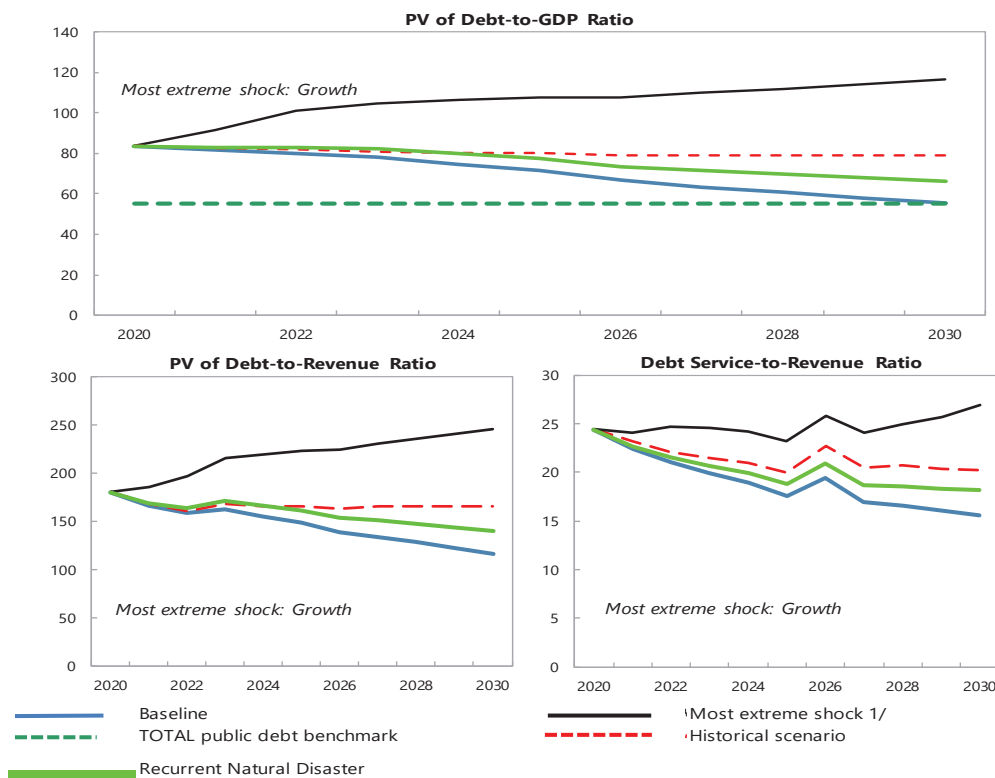
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 2030. 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 extreme 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 & the Grenadines: Indicators of Public Debt Under Alternative Scenarios, 2020-2030



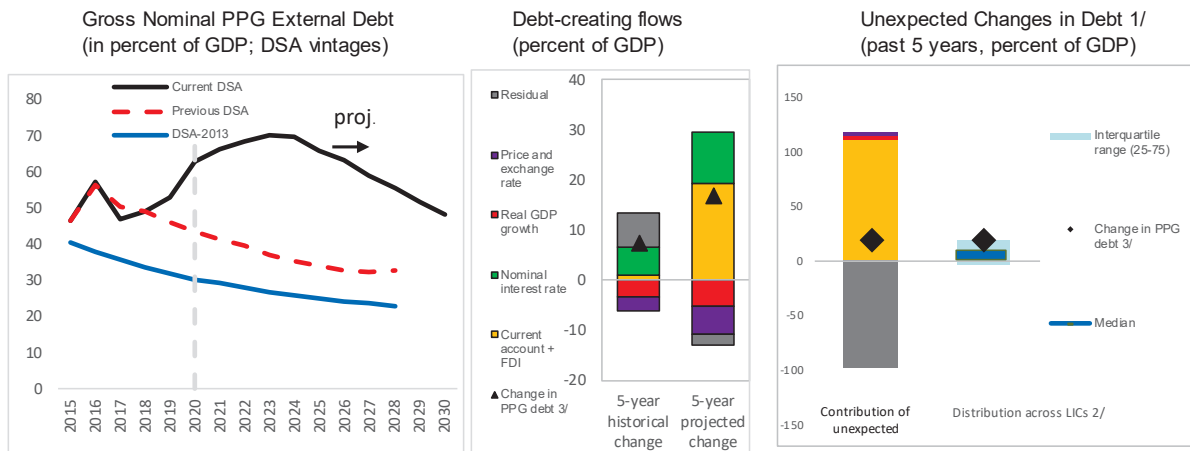
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	69%	69%
Domestic medium and long-term	24%	24%
Domestic short-term	6%	7%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.6%	2.6%
Avg. maturity (incl. grace period)	26	26
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	5.6%	5.6%
Avg. maturity (incl. grace period)	9	9
Avg. grace period	5	5
Domestic short-term debt		
Avg. real interest rate	1.4%	1.4%

* 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 projections.

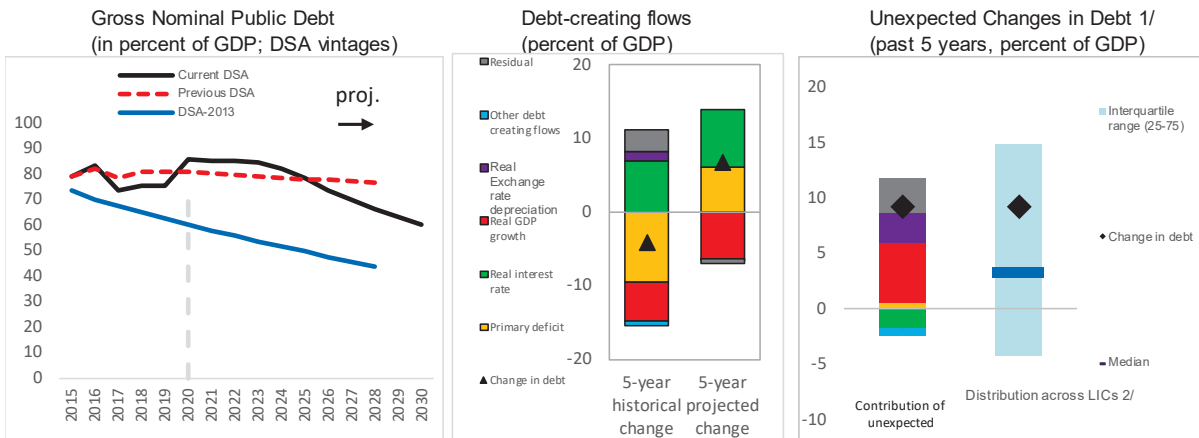
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. 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 extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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



Public debt



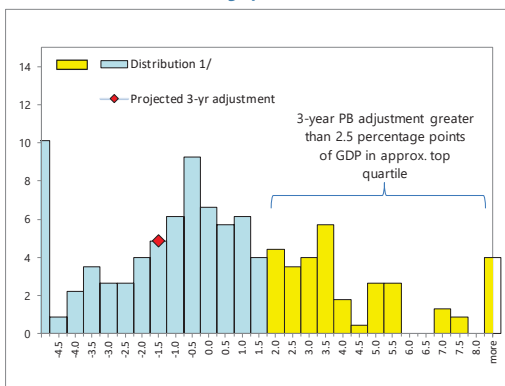
1/ Difference between anticipated and actual contributions on debt ratios.

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

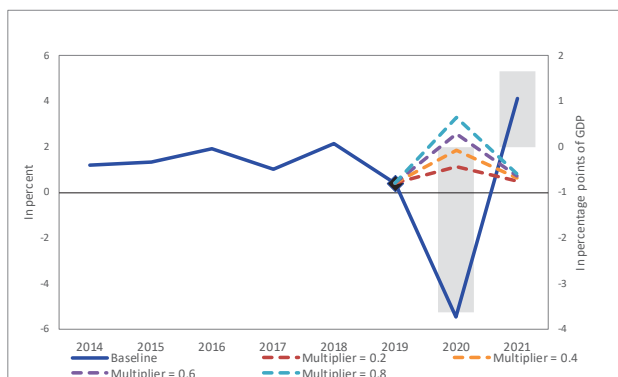
3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

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

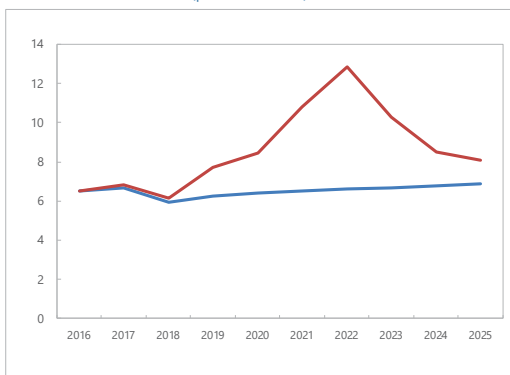
**3-Year Adjustment in Primary Balance
(Percentage points of GDP)**



Fiscal Adjustment and Possible Growth Paths 1/

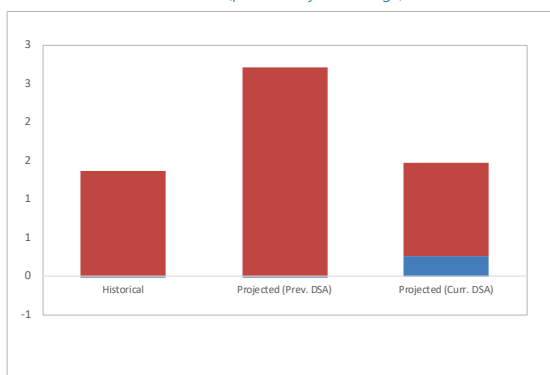


**Public and Private Investment Rates
(percent of GDP)**



— Gov. Invest. - Prev. DSA — Gov. Invest. - Curr. DSA
 - - - Priv. Invest. - Prev. DSA - - - Priv. Invest. - Curr. DSA

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



■ Contribution of other factors
 ■ Contribution of government capital

Table 1. St. Vincent & the Grenadines: External Debt Sustainability Framework, Baseline Scenario, 2017-2040
(In percent of GDP, unless otherwise indicated)

	Actual			Projections										Average 8/			
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2040	Historical	Projections
External debt (nominal) 1/	46.9	49.3	53.0	63.0	66.4	68.7	70.4	69.8	66.1	63.3	59.2	55.4	51.7	48.3	24.9	46.5	62.0
<i>of which public and publicly guaranteed (PPG)</i>	46.9	49.3	53.0	63.0	66.4	68.7	70.4	69.8	66.1	63.3	59.2	55.4	51.7	48.3	24.9	46.5	62.0
Change in external debt	-10.5	2.4	3.7	10.0	3.3	2.3	1.7	-0.6	-3.6	-2.9	-4.1	-3.8	-3.7	-3.4	-1.7		
Identified net debt-creating flows	-7.7	6.7	2.0	16.8	5.1	5.4	-1.1	-1.7	-1.6	-1.5	-1.4	-1.3	-1.2	-1.1	-0.4	6.0	1.5
Non-interest current account deficit	10.5	10.4	6.4	14.7	10.6	10.9	3.0	7.6	5.3	5.4	5.5	5.7	5.9	6.0	7.5	19.2	8.4
Deficit in balance of goods and services	16.2	16.9	13.4	20.0	16.7	14.5	11.8	11.3	10.7	10.7	10.7	10.7	10.7	10.7	10.7	23.1	12.4
Exports	37.0	38.2	40.1	26.7	35.5	40.6	43.0	43.1	44.6	44.6	44.6	44.6	44.6	44.6	44.6		
Imports	53.3	55.1	53.5	46.7	50.1	55.1	54.7	54.3	55.3	55.3	55.3	55.3	55.3	55.3	55.3		
Net current transfers (negative = inflow)	-5.1	-5.1	-5.2	-3.7	-5.1	-5.1	-5.0	-5.0	-5.0	0.0	0.0	0.0	0.0	0.0	0.0		
<i>of which: official</i>	-9.6	-0.7	-2.8	-2.8	-4.2	-4.8	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5		
Other current account flows (negative = net inflow)	-0.6	-0.9	0.4	-1.6	1.0	1.4	2.1	1.3	0.6	-4.2	-4.1	-4.0	-3.9	-3.8	-3.1	-0.1	-1.4
Net FDI (negative = inflow)	-18.0	-4.2	-7.2	-3.8	-4.6	-5.4	-10.0	-8.4	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0	-13.8	-7.4
Endogenous debt dynamics 2/	-0.2	0.0	0.5	5.8	-0.9	-3.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1		
Contribution from nominal interest rate	1.3	1.1	1.4	2.8	1.6	1.9	2.0	2.0	2.0	1.8	1.7	1.6	1.5	1.4	0.8		
Contribution from real GDP growth	-0.6	-1.0	-0.2	3.0	-2.5	-1.9	-1.9	-1.8	-1.8	-1.7	-1.7	-1.5	-1.4	-1.3	-0.7		
Contribution from price and exchange rate changes	-0.7	-0.1	-0.6	...	...	...	...	...	...	...	...	...	...	...	...
Residual 3/	-2.9	-4.3	1.7	-6.8	-1.7	-3.0	2.8	1.0	-2.1	-1.4	-2.7	-2.5	-2.6	-2.4	-1.3	-3.9	-1.9
<i>of which: exceptional financing</i>	-7.8	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	0.0		
Sustainability indicators																	
PV of PPG external debt-to-GDP ratio	...	...	55.4	61.0	62.7	63.3	63.9	62.5	59.1	56.0	52.6	49.4	46.2	43.3	22.7		
PV of PPG external debt-to-exports ratio	...	...	138.3	228.4	176.6	155.9	148.6	145.1	132.6	125.6	118.0	110.7	103.6	97.0	50.8		
PPG debt service-to-exports ratio	11.7	12.9	16.7	25.6	17.5	15.5	14.6	14.1	13.4	14.6	12.5	12.0	11.8	11.1	6.5		
PPG debt service-to-revenue ratio	9.5	11.0	14.9	15.7	13.8	13.8	13.7	13.4	13.1	14.3	12.3	11.8	11.6	10.9	6.4		
Gross external financing need (Million of U.S. dollars)	-25.0	94.0	66.2	140.5	102.6	103.8	48.3	41.2	43.7	53.6	46.4	48.7	51.3	50.5	50.9		
GRN (percent of GDP)	-3.2	11.6	8.0	17.8	12.3	11.8	5.2	4.3	4.3	5.1	4.2	4.2	4.2	4.0	2.5		
Key macroeconomic assumptions																	
Real GDP growth (in percent)	1.0	2.2	0.4	-5.5	4.1	3.0	2.9	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	0.7	2.2
GDP deflator in US dollar terms (change in percent)	1.3	0.2	1.2	1.3	1.6	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.3	1.9
Effective interest rate (percent) 4/	2.0	2.5	2.9	5.1	2.7	2.9	3.1	3.0	3.0	2.9	2.8	2.8	2.8	2.8	3.0	3.7	3.1
Growth of exports of G&S (US dollar terms, in percent)	-1.8	5.5	6.7	-36.2	40.6	20.3	11.0	5.0	8.5	4.8	4.8	4.8	4.8	4.8	4.8	6.2	6.6
Growth of imports of G&S (US dollar terms, in percent)	-3.7	5.8	-1.3	-16.3	13.6	15.5	4.3	4.0	6.6	4.8	4.8	4.8	4.8	4.8	4.8	1.4	4.7
Grant element of new public sector borrowing (in percent)	...	...	...	41.8	27.5	31.0	27.1	32.0	32.7	34.0	26.8	26.7	26.8	26.8	25.8	...	30.3
Government revenues (excluding grants, in percent of GDP)	45.5	44.8	44.8	43.6	44.8	45.5	45.5	45.5	45.5	45.5	45.5	45.5	45.5	45.5	45.5	44.0	45.3
Aid flows (in Million of US dollars) 5/	337.2	340.6	377.2	68.8	47.9	63.0	29.7	37.1	37.0	38.8	24.1	24.4	25.4	26.4	35.6		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	7.7	7.3	8.0	5.0	4.6	3.6	3.9	2.5	2.4	2.4	2.4	2.4	...	4.5
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	53.3	47.3	54.0	42.8	50.7	61.3	55.5	57.3	57.0	57.5	58.3	63.9	...	54.1
Nominal GDP (Million of US dollars)	792	811	824	789	835	878	921	965	1,012	1,060	1,111	1,164	1,219	1,277	2,034		
Nominal dollar GDP growth	2.3	2.4	1.6	-4.3	5.8	5.1	4.9	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	2.0	4.1
Memorandum items:																	
PV of external debt 7/	...	...	55.4	61.0	62.7	63.3	63.9	62.5	59.1	56.0	52.6	49.4	46.2	43.3	22.7		
In percent of exports	...	...	138.3	228.4	176.6	155.9	148.6	145.1	132.6	125.6	118.0	110.7	103.6	97.0	50.8		
Total external debt service-to-exports ratio	11.7	12.9	16.7	25.6	17.5	15.5	14.6	14.1	13.4	14.6	12.5	12.0	11.8	11.1	6.5		
PV of PPG external debt (in Million of US dollars)	...	...	457.0	481.6	523.5	556.0	588.2	603.2	598.1	593.6	584.2	574.6	563.2	552.5	460.8		
(PV-PV-1)/GDP-1 (in percent)	...	...	...	3.0	5.3	3.9	3.7	1.6	-0.5	-0.4	-0.9	-0.9	-1.0	-0.9	-0.5		
Non-interest current account deficit that stabilizes debt ratio	21.1	8.5	4.9	4.7	7.2	8.5	7.2	8.2	10.0	9.3	10.6	10.5	10.5	10.3	9.2		

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $(r - g - p(1+g) + E_t(1+r)/(1+g-p+g))$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate; p = growth rate of GDP deflator in US dollar terms; E_t = nominal appreciation of the local currency; and a = share of local currency-denominated external debt to 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.

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.

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	Yes

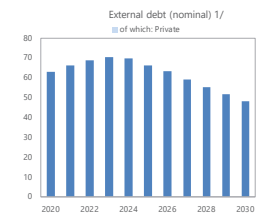
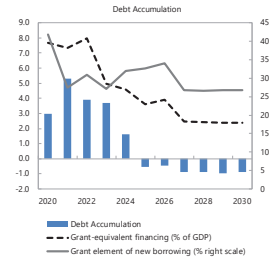


Table 2. St. Vincent & the Grenadines: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019-2040
(In percent of GDP, unless otherwise indicated)

	Actual			Projections										Average of			
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2040	Historical	Projections
Public sector debt 1/	73.5	75.6	75.2	85.8	85.5	85.4	84.8	82.1	78.5	73.8	70.1	66.7	63.4	60.2	33.7	74.8	76.0
of which: external debt	46.9	49.3	53.0	63.0	66.4	68.7	70.4	69.8	66.1	63.3	59.2	55.4	51.7	48.3	24.6	46.5	62.0
Change in public sector debt	-10.0	2.1	-0.4	10.6	-0.4	0.0	-0.7	-2.7	-3.6	-4.6	-3.7	-3.5	-3.2	-3.2	-2.7	0.5	-1.1
Identified debt-creating flows	-7.5	-0.7	1.3	11.1	-0.3	0.0	-0.6	-2.6	-3.5	-4.2	-3.3	-3.0	-2.8	-2.7	-2.5	-0.7	-0.8
Primary deficit	-2.0	-1.5	0.0	3.6	2.0	1.5	0.6	-1.6	-2.5	-3.3	-2.4	-2.3	-2.2	-2.2	-2.2	-0.7	-0.8
Revenue and grants	47.6	46.7	47.6	46.5	49.1	50.4	48.0	48.0	48.0	47.8	47.3	47.2	47.2	47.2	47.2	47.2	47.9
of which: grants	2.1	1.8	2.8	2.8	4.2	4.9	2.5	2.5	2.5	2.3	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Primary (non)interest expenditure	45.6	45.2	47.6	50.1	51.0	51.9	48.6	46.5	45.5	44.5	44.9	45.0	45.0	45.0	44.7	46.5	47.1
Automatic debt dynamics	0.6	0.8	1.4	7.5	-2.2	-1.5	-1.2	-1.1	-1.0	-0.9	-0.9	-0.8	-0.6	-0.5	0.0	0.7	0.7
Contribution from interest rate/growth differential	0.3	-0.2	1.1	7.5	-2.2	-1.5	-1.2	-1.1	-1.0	-0.9	-0.9	-0.8	-0.6	-0.5	0.0	0.7	0.7
of which: contribution from average real interest rate	1.1	1.3	1.4	3.1	1.2	1.1	1.2	1.2	1.2	1.2	1.1	1.1	1.2	1.2	0.9	0.7	0.7
of which: contribution from real GDP growth	-0.8	-1.6	-0.3	4.3	-3.4	-2.5	-2.4	-2.3	-2.2	-2.1	-2.0	-1.9	-1.8	-1.7	-1.0	0.0	0.0
Contribution from real exchange rate depreciation	0.3	1.0	0.3	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Other identified debt-creating flows	-4.1	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	0.0	-0.4	0.0
Privatization receipts (negative)	1.6	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	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	0.0	0.0	0.0	0.0	0.0
Debt relief (HIPC and other)	-7.8	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	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	0.0	0.0	0.0	0.0	0.0
Residual	-2.5	2.9	-1.8	-0.5	-0.1	0.0	-0.1	0.0	-0.1	-0.5	-0.4	-0.4	-0.4	-0.4	-0.2	0.7	-0.3
Sustainability indicators																	
PV of public debt-to-GDP ratio 2/	---	---	77.7	83.8	81.8	80.1	78.2	74.8	71.5	66.6	63.5	60.6	57.9	55.2	31.7	0.7	2.2
PV of public debt-to-revenue and grants ratio	---	---	163.2	180.4	166.7	158.7	162.9	155.8	148.9	139.3	134.3	128.4	122.6	117.0	67.3	3.7	3.1
Debt service-to-revenue and grants ratio 3/	17.0	19.9	23.8	24.4	22.5	21.0	19.9	19.0	17.6	19.4	17.0	16.6	16.0	15.6	10.9	4.2	3.7
Gross financing need 4/	0.0	7.8	11.3	15.0	13.0	12.1	10.2	7.6	5.9	6.0	5.7	5.6	5.4	5.1	2.6	0.4	1.9
Key macroeconomic and fiscal assumptions																	
Real GDP growth (in percent)	1.0	2.2	0.4	-5.5	4.1	3.0	2.9	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	0.7	2.2
Average nominal interest rate on external debt (in percent)	2.0	2.5	2.9	5.1	2.7	2.9	3.1	3.0	3.0	2.9	2.8	2.8	2.8	2.8	2.8	3.0	3.1
Average real interest rate on domestic debt (in percent)	4.1	5.0	3.2	3.2	2.9	2.6	3.1	3.2	3.5	3.8	4.0	4.5	4.9	5.0	5.5	4.2	3.7
Real exchange rate depreciation (in percent, + indicates depreciation)	0.6	2.2	0.5	—	—	—	—	—	—	—	—	—	—	—	—	0.4	—
Inflation rate (GDP deflator, in percent)	1.3	0.2	1.2	1.3	1.6	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.3	1.9
Growth of real primary spending (deflated by GDP deflator, in percent)	5.1	1.1	5.7	-0.4	6.1	4.9	-3.6	-1.8	0.5	3.7	2.8	2.8	2.6	2.6	2.6	0.7	1.7
Primary deficit that stabilizes the debt-to-GDP ratio 5/	8.1	-3.6	0.4	-7.0	2.3	1.5	1.3	1.1	1.1	1.3	1.3	1.2	1.0	0.9	0.2	1.6	0.6
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	0.0	0.0	0.0	0.0	0.0

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 stabilize 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.

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	Yes

Public sector debt 1/

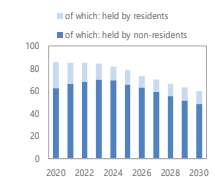
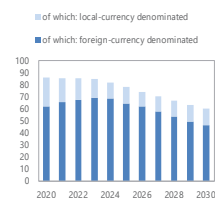


Table 3. St. Vincent & the Grenadines: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2020-2030

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of debt-to-GDP ratio											
Baseline	61	63	63	64	62	59	56	53	49	46	43
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	61	64	67	74	80	84	87	91	95	98	102
B. Bound Tests											
B1. Real GDP growth	61	68	73	74	72	68	65	61	57	53	50
B2. Primary balance	61	64	65	66	64	61	58	55	51	48	45
B3. Exports	61	73	89	90	88	84	81	77	74	70	66
B4. Other flows 3/	61	69	75	76	74	71	68	64	61	57	54
B5. Depreciation	61	79	75	75	74	69	66	61	57	53	50
B6. Combination of B1-B5	61	83	89	90	88	84	80	76	72	68	64
C. Tailored Tests											
C1. Combined contingent liabilities	61	72	74	74	73	70	66	64	61	58	56
C2. Natural disaster	61	69	70	71	70	67	65	62	59	57	54
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	228	177	156	149	145	133	126	118	111	104	97
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	228	182	165	172	185	187	196	204	212	221	230
B. Bound Tests											
B1. Real GDP growth	228	177	156	149	145	133	126	118	111	104	97
B2. Primary balance	228	179	160	153	150	137	130	122	115	108	102
B3. Exports	228	305	418	396	389	360	346	330	315	299	281
B4. Other flows 3/	228	194	186	177	173	159	152	144	137	129	121
B5. Depreciation	228	176	146	139	136	124	117	109	102	95	89
B6. Combination of B1-B5	228	295	187	304	297	274	262	248	236	221	207
C. Tailored Tests											
C1. Combined contingent liabilities	228	203	181	173	169	156	149	143	136	130	125
C2. Natural disaster	228	197	175	168	165	153	146	140	134	128	123
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	26	17	15	15	14	13	15	13	12	12	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	26	18	17	16	16	16	18	17	17	18	17
B. Bound Tests											
B1. Real GDP growth	26	17	15	15	14	13	15	13	12	12	11
B2. Primary balance	26	17	16	15	14	14	15	13	12	12	11
B3. Exports	26	26	32	32	31	30	32	28	27	28	30
B4. Other flows 3/	26	17	16	16	15	14	15	13	13	13	13
B5. Depreciation	26	17	15	14	14	13	14	12	12	12	10
B6. Combination of B1-B5	26	25	28	27	26	24	26	23	22	24	23
C. Tailored Tests											
C1. Combined contingent liabilities	26	17	16	15	15	14	15	13	13	13	12
C2. Natural disaster	26	18	16	15	15	14	15	13	13	13	12
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	16	14	14	14	13	13	14	12	12	12	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	16	14	15	15	15	16	18	17	17	17	17
B. Bound Tests											
B1. Real GDP growth	16	15	16	16	15	15	16	14	14	13	13
B2. Primary balance	16	14	14	14	14	13	14	12	12	12	11
B3. Exports	16	14	15	16	16	15	16	14	14	14	15
B4. Other flows 3/	16	14	14	15	14	14	15	13	13	13	13
B5. Depreciation	16	17	17	17	16	16	18	15	14	14	13
B6. Combination of B1-B5	16	15	17	17	17	16	18	15	15	16	15
C. Tailored Tests											
C1. Combined contingent liabilities	16	14	15	15	14	14	15	13	13	12	12
C2. Natural disaster	16	14	14	14	14	14	15	13	12	12	12
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 & the Grenadines: Sensitivity Analysis for Key Indicators of Public Debt, 2020-2030

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of Debt-to-GDP Ratio											
Baseline	84	82	80	78	75	71	67	64	61	58	55
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/ Recurrent Natural Disaster	84	83	82	81	80	80	79	79	79	79	79
	84	83	83	82	80	78	74	72	70	68	66
B. Bound Tests											
B1. Real GDP growth	84	92	101	105	106	108	108	110	112	114	117
B2. Primary balance	84	83	83	81	78	74	69	66	63	60	58
B3. Exports	84	91	104	102	98	94	89	86	83	80	76
B4. Other flows 3/	84	88	92	90	87	83	78	75	72	69	66
B5. Depreciation	84	95	89	84	77	71	63	57	52	47	42
B6. Combination of B1-B5	84	82	83	82	79	76	71	68	65	63	60
C. Tailored Tests											
C1. Combined contingent liabilities	84	97	95	93	90	86	82	78	75	72	69
C2. Natural disaster	84	92	90	89	86	83	79	76	74	71	69
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	180	167	159	163	156	149	139	134	128	123	117
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/ Recurrent Natural Disaster	180	168	161	168	166	166	164	165	165	166	166
	24	23	22	21	20	19	21	19	19	18	18
B. Bound Tests											
B1. Real GDP growth	180	185	198	216	219	223	224	231	236	241	246
B2. Primary balance	180	170	164	169	161	155	145	140	134	128	122
B3. Exports	180	185	205	212	204	197	187	182	176	169	161
B4. Other flows 3/	180	179	183	188	181	174	164	159	153	147	139
B5. Depreciation	180	196	179	175	161	148	132	122	111	100	89
B6. Combination of B1-B5	180	168	164	170	164	157	148	143	138	133	127
C. Tailored Tests											
C1. Combined contingent liabilities	180	198	189	194	187	180	171	166	159	153	147
C2. Natural disaster	180	187	179	185	179	173	165	161	156	151	146
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	24	22	21	20	19	18	19	17	17	16	16
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/ Recurrent Natural Disaster	24	23	22	21	21	20	23	21	21	20	20
	24	23	22	21	20	19	21	19	19	18	18
B. Bound Tests											
B1. Real GDP growth	24	24	25	25	24	23	26	24	25	26	27
B2. Primary balance	24	22	21	20	19	18	20	17	17	17	16
B3. Exports	24	22	22	22	21	19	21	19	18	18	19
B4. Other flows 3/	24	22	21	21	20	18	20	18	17	17	18
B5. Depreciation	24	23	24	23	22	21	23	20	19	18	17
B6. Combination of B1-B5	24	22	22	20	20	18	20	18	18	17	17
C. Tailored Tests											
C1. Combined contingent liabilities	24	22	25	22	21	19	21	20	20	19	19
C2. Natural disaster	24	23	24	21	20	19	21	19	19	19	18
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 Ms. Levonian, Executive Director for St. Vincent and the Grenadines, and Ms. Edwards Advisor to the Executive Director, and Mr. Rankin, Advisor to the Executive Director for St. Vincent and the Grenadines
May 20, 2020**

Vincentian authorities thank staff, management, and the Executive Board for the speedy response to the request for emergency financing. The global COVID-19 pandemic is taking a heavy economic toll on St. Vincent and the Grenadines. Authorities request a purchase of SDR 11.7 million, equivalent to 100 percent of quota, under the Rapid Credit Facility (RCF). This support would help address an urgent balance of payments need and catalyze additional multilateral finances.

Before the COVID-19 pandemic St. Vincent and the Grenadines was experiencing a rebound in economic activity, supported by strong policies. Growth was projected to reach 2.3 percent in 2020, bolstered by steady increases in tourist arrivals, new hotel construction, and rising agriculture and fishery exports. Structural reforms were improving the investment climate and strengthening human and physical capital, including climate-resilient infrastructure. Authorities had maintained a prudent fiscal policy stance, established a new contingency fund for natural disasters, as well as strengthened oversight of state-owned enterprises and public procurement. Earlier this year, authorities introduced a new fiscal rule law, in-line with Fund policy recommendations.

St. Vincent and the Grenadines has acted decisively and strategically to address the COVID-19 pandemic. Well before any local cases were recorded authorities took measures to contain the virus, including 14-day quarantines for those arriving from countries with outbreaks. Following the first local case, authorities introduced additional measures including school closures, cancelling large public events, and building an isolation and testing center. By taking early action and closely following advice from public health officials, a broader economic lock down has not yet proved necessary. St. Vincent and the Grenadines has only had 17 cases of COVID-19 and no fatalities.

Nevertheless, COVID-19 is taking a heavy toll on the Vincentian economy. Tourism receipts, accounting for nearly 30 percent of GDP, have come to an abrupt halt. Authorities estimate that real GDP growth in 2020 will decline to -4.1 percent, due to the sudden stop of tourism before rising to +5.8 percent in 2021. The current account deficit is also expected to

widen from 10 percent of GDP in 2019 to 16 percent of GDP in 2020, mainly due to the loss of tourism exports. While all Caribbean countries are grappling with exceptional economic fallout from COVID-19, the impact on St. Vincent and the Grenadines is somewhat mitigated by the relatively smaller portion of the economy dependent on tourism and because the Vincentian authorities did not impose a curfew or declare a state of emergency like in neighboring countries. Instead, an approach, which remains responsive to the ever-changing circumstances, was applied. Looking forward, port construction, FDI, export of non-traditional crops and fisheries, and geothermal electricity production should further bolster growth in St. Vincent and the Grenadines.

A fiscal response package totaling 3.5 percent of GDP is helping mitigate the effects of COVID-19, particularly on the most vulnerable. Recent fiscal measures include: (i) increased health spending; (ii) waiving of VAT and duties on health and hygiene products; (iii) relief to the hardest-hit sectors including tourism, transport, and agriculture; (iv) expansion of social safety net programs; and (v) deferred payment of personal income taxes and various license fees. Most of these measures are temporary and set to expire in three months. Nevertheless, our authorities expect the fiscal deficit to reach 5.5 percent of GDP this year to accommodate this exceptional shock.

Additional measures are being put in place to put public debt on a solid downward trajectory. While the pandemic crisis and economic contraction will temporarily increase public debt, authorities remain committed to achieving the regional public debt target of 60 percent of GDP by 2030. To help meet this goal, the government will take the following incremental measures: (i) refraining from wage increases for central government employees in 2021; (ii) limiting the growth of the wage bill in the central government to not exceed 2.0 percent per year through 2024; (iii) capping the total amount of capital spending at EC\$ 1 billion during 2020-2025, focusing on the port project and selecting strategically important non-port projects for implementation; (iv) enhancing domestic revenue mobilization through the recently enacted Tax Administration and Procedures Act; and (v) rationalizing exemptions on import duties and VAT on imports. These efforts will help ensure a primary surplus of at least 2.1 percent of GDP by 2025 and put debt-to-GDP on a firm downward path. Authorities are also exploring opportunities to benefit from temporary debt service relief under the G20 Debt Service Relief Initiative.

Authorities remain vigilant in ensuring financial stability. Together with the Eastern Caribbean Central Bank (ECCB), authorities have announced a number of measures to help mitigate the crisis, including a 6-month loan moratorium and a waiver of late fees and charges to eligible bank and credit union customers. These relief measures are transparent, temporary, and combined with intense supervision. Authorities are conducting financial sector stress testing to identify funding gaps, requiring non-bank financial institutions to submit daily reporting, reviewing their business continuity plans, and discussing with them preparedness, escalation measures, and regulatory forbearance. Continued strong AML/CFT supervision should also help reduce pressure on correspondent banking relations and remittances.

St. Vincent and the Grenadines remains committed to advancing structural reforms, improving competitiveness, and building climate resilience. With the financial support of the Caribbean Development Bank and the United Kingdom, authorities commit to embark on a critical port modernization project in 2021 to strengthen resilience to natural disasters and improve port capacity and efficiency. The existing port was built more than 50 years ago, well above its operational life of 30 years, raising macro-critical risks. While a functioning port is vital for a small island open economy like St. Vincent and the Grenadines, authorities hope to be able to take advantage of more favorable financing terms due to lower global interest rates. Looking forward, authorities note climate change remains a macro-critical threat requiring continued resilience building efforts, but also broader global action. The approaching hurricane season is expected to be particularly challenging and authorities are preparing contingencies to potentially respond to multiple economic shocks.

St. Vincent and the Grenadines remains steadfast in its commitment to public transparency and good governance. Authorities commit to publish procurement documentation, including information on the beneficial owners of the companies that receive crisis-related procurement contracts. Authorities will also report monthly on COVID-related expenditures and undertake a full ex-post financial and operational audit of COVID-19 spending at the time of the annual audit, in keeping with the existing legal requirements. Authorities also commit to work with the ECCB and Fund staff to undergo a safeguards assessment, in accordance with the four-year cycle. Finally, authorities also authorize the Fund to publish the Letter of Intent, request for a disbursement under the RCF, as well as this written statement to the Board.

Like many other economies in the Caribbean - and around the globe - the challenges and uncertainties St. Vincent and the Grenadines is facing are unprecedented. St. Vincent and the Grenadines stresses the need for continued global solidarity and thank the Fund Executive Board for the speed and determination shown in responding to the needs of its membership.