International Monetary Fund

St. Vincent and the Grenadines and the IMF

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May 20, 2020

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St. Vincent and the Grenadines: Letter of Intent

May 13, 2020

The following item is a Letter of Intent of the government of St. Vincent and the Grenadines, which describes the policies that St. Vincent and the Grenadines intends to implement in the context of its request for financial support from the IMF. The document, which is the property of St. Vincent and the Grenadines, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Letter of Intent

May 13, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund Washington, D.C. 20431

Dear Ms. Georgieva,

1. We are facing additional financing needs as a result of the global Coronavirus pandemic. Revenues are projected to fall compared to 2019 and our 2020 budget targets amid the slowdown in economic activity. Additional budgetary demands have emerged to cover outlays on both containment measures and treatment facilities. Indeed, on April 7, the Parliament approved a fiscal package, amounting to 3½ percent of GDP. The measures include: (i) an increase in funding for the health sector (to construct an Isolation Unit, purchase drugs, furniture and equipment, and hire extra medical staff); (ii) various construction projects of public infrastructure to generate jobs, (iii) direct financial support to the farming, fishing, and agriculture industries, (iv) temporarily widening the social safety net to cover vulnerable households currently not in receipt of support, including temporary income support to affected individuals in the tourism and allied sectors, and (v) VAT and import duties exemptions on a range of health and hygiene products.

2. Our estimates indicate that real GDP growth in 2020 could decline to -4.1 percent, as tourism arrivals have been grounded to a complete halt. Looking forward, we expect the pandemic crisis to subside after this summer and the tourism sector to recover strongly for the next season (December-March). We project real GDP growth of 5.8 percent in 2021. Our fiscal deficit is likely to reach 5½ percent of GDP this year (from 2½ percent of GDP in 2019). 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.

3. Against this background, the government of St. Vincent and the Grenadines requests emergency financing from the IMF in the equivalent of SDR 11.7 million (about US$16 million), corresponding to a disbursement of 100 percent of our quota under the Rapid Credit Facility (RCF). This IMF assistance will help us meet the urgent balance of payments needs that are associated with the increased health spending needs, substantial drop in tourist arrivals, and loss of tax and non-tax revenues. We are expecting that the World Bank and the Caribbean Development Bank will follow suit, and our fiscal operations will be fully financed.

4. With the support of the Caribbean Development Bank and the United Kingdom, we are planning to embark on a large-scale port modernization project in 2021. The existing port was built more than 50 years ago, and we have concerns about its safety and limited capacity to accommodate increased traffic. The cost of building the new port, however, is quite large for a small economy like St. Vincent and the Grenadines, amounting to nearly 21 percent of GDP.

5. We remain committed to maintaining macroeconomic stability, fostering broad-based economic growth, and supporting our most vulnerable, especially during these difficult times. To ensure fiscal sustainability, the government will take the following 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 annum through 2024; (iii) capping the total amount of capital spending at EC$ 1 billion during 2020-2025, focusing on the port project (expected to start in 2021) and selecting strategically important non-port projects for implementation; (iv) enhancing taxpayer compliance by adhering to the recently enacted Tax Administration and Procedures Act; and (v) rationalizing exemptions on import duties and VAT on imports. In addition, the debt service burden would be reduced to the extent that the Caribbean Development Bank were to offer more favorable financing terms for the port project, taking advantage of sharply reduced global interest rates since the global pandemic outbreak. These measures will strengthen our fiscal position and put public debt on a more solid downward trajectory.

6. 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, we will seek scope to reduce discretionary exemptions from import duties and VAT imports and to further reprioritize non-priority spending.

7. We will work 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, we will also continue efforts to strengthen capital projects implementation and quality.

8. We are committed to continuing our engagement with the IMF on fiscal management, including to protect St. Vincent and the Grenadines' debt sustainability. Given the large size of port investment, we will ensure that the overall fiscal plan keeps debt on a sustainable path, based on the DSA conducted together with the IMF and WB. We will update our debt sustainability assessment at the time of the 2021 Budget preparation.

9. With respect to the safeguard's assessment, we note that the next ECCB safeguards assessment is scheduled to take place in 2020, in accordance with the four-year cycle. In line with IMF safeguards policy, we have received the assurance of the ECCB that they will collaborate with IMF staff in undergoing a safeguards assessment. To facilitate this, we will provide the most recently completed external audit reports and will accommodate any need for meetings between IMF staff and ECCB staff and its external auditors. The authorization for the ECCB's external auditors to hold discussions with staff has been provided. Moreover, we commit to publish procurement documentation including information on the beneficial owners of the companies that receive crisis-related procurement contracts, to report monthly on COVID-related expenditures, and to undertake a full ex-post financial and operational audit of COVID-19 spending at the time of the annual audit.

10. We will not impose new or intensify existing restrictions on the making of payments and transfers for international transactions, trade restrictions for balance-of payments purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the IMF's Articles of Agreement.

11. Like many other small island tourist-dependent economies, the challenges and uncertainties St. Vincent and the Grenadines is facing are unprecedented. Nonetheless, we are determined to succeed. We anticipate that our country's efforts along with the solidarity of the people of St. Vincent and the Grenadines will allow us to emerge from this global pandemic stronger. We seek your support in our endeavors to mitigate the negative impact from this global pandemic. We look forward to an expeditious approval of our request for financial assistance and would like to underline our appreciation for the speed and determination that the Fund has shown in responding to the needs of its membership.

12. We authorize the Fund to publish this letter and the request for a disbursement under the RCF.

Sincerely yours,

/s/
Prime Minister
Ralph Gonsalves