INTERNATIONAL MONETARY FUND

IMF Country Report No. 14/360

ST. VINCENT AND THE GRENADINES

December 2014

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—STAFF REPORT; PRESS RELEASE

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

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on August 1, 2014, following discussions that ended on May 13, 2014, with the officials of St. Vincent and the Grenadines on economic developments and policies underpinning the IMF arrangement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on July 17, 2014.
- **Debt Sustainability Analysis** prepared by the IMF.
- A **Press Release** including a statement by the Chair of the Executive Board.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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International Monetary Fund
Washington, D.C.

ST. VINCENT AND THE GRENADINES

July 17, 2014

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

KEY ISSUES

Context: On December 24, 2013, a tropical trough system impacted St. Vincent and the Grenadines. The heavy rains resulted in severe floods and landslides, with damages and losses estimated to be equivalent to about 15 percent of GDP. With most of the impact falling on infrastructure, including bridges, roads and hydroelectric facilities, emergency relief costs and rehabilitation and reconstruction expenses are opening a balance of payments gap in 2014.

Request for Fund support: The Vincentian authorities are requesting financial assistance under the Fund's Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI) to address the urgent balance of payments and fiscal needs associated with the rehabilitation and reconstruction efforts. In the attached letter, they request a disbursement in the equivalent of SDR 2.075 million (US$3.2 million) under the RCF and a purchase in the equivalent of SDR 2.075 million under the RFI, the sum being equivalent to 50 percent of quota, with the full amount to become available upon Board approval. The authorities are also seeking grants and additional concessional financing from multilateral and bilateral donors to cover the remaining financing needs.

Discussions: Given the size of the damages and of the requested disbursement/purchase, the policy discussions focused on the economic and fiscal impact of the floods, debt sustainability, and the capacity to repay the Fund.

Approved By
Krishna Srinivasan (WHD) and Bob Traa (SPR)

Discussions were held in Kingstown during May 5–13, with Deputy Prime Minister Hon. Girlyn Miguel, Foreign Affairs Minister Hon. Camillo Gonsalves and senior officials of the Finance Ministry, as well as other government officials and private sector representatives. The team comprised Mr. Canetti (head) and Messrs. Acevedo, Di Vittorio and Reynaud (all WHD). Messrs. Dalrymple (OED) and Mitchell (WHD) joined for part of the mission.

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BACKGROUND

1. **St. Vincent and the Grenadines was hit by a trough system that caused severe floods on December 24, 2013.** A Rapid Damage and Loss Assessment (DaLA) report prepared by the World Bank and the Vincentian authorities estimated damages and losses at US$108.3 million, or about 15 percent of GDP. Limited access to market financing and the magnitude of the rehabilitation and reconstruction costs have prompted the authorities to seek financing from multilateral and bilateral agencies.

2. **In this context, the Vincentian authorities have requested the Fund's financial assistance under a blend of the Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI).** In the attached letter, they request a disbursement in the equivalent of SDR2.075 million (US$3.2 million) under the RCF and a purchase in the equivalent of SDR2.075 million under the RFI, totaling SDR4.15 million (US$6.4 million), equivalent to 50 percent of quota, to address the resulting urgent balance of payments and fiscal needs. The authorities are also seeking grants and concessional financing from multilateral and bilateral donors, including Mexico, Venezuela, Taiwan Province of China, the European Union, the Inter-American Development Bank, the Food and Agriculture Organization, the Caribbean Development Bank and the World Bank, to cover rehabilitation and reconstruction activities in 2014 and onwards.

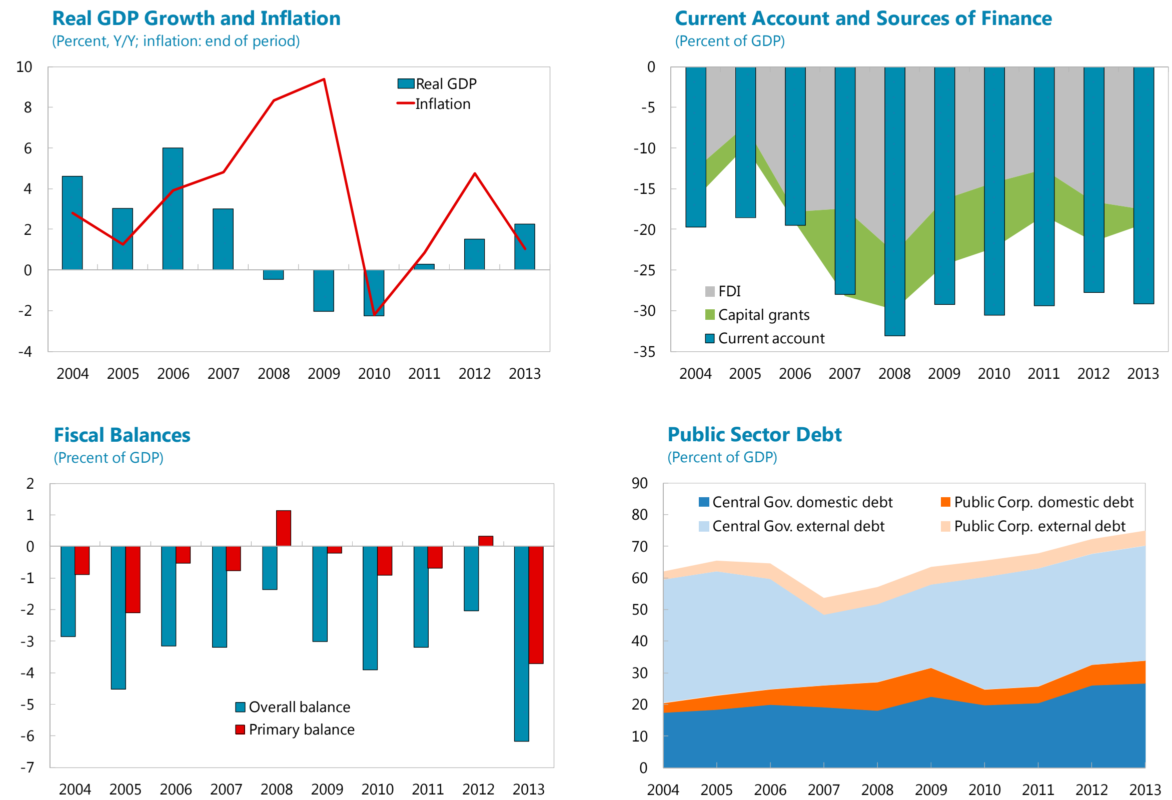
3. **The Fund has provided emergency assistance to St. Vincent and the Grenadines in recent years.** On February 28, 2011, the IMF's Executive Board approved a request from the authorities for emergency assistance under the RCF for SDR2.075 million (25 percent of quota) after Hurricane Tomas. On July 25, 2011, the Executive Board approved a request for emergency assistance under the RCF for SDR1.245 million (15 percent of quota), following torrential rains, flooding, and landslides in April 2011.

4. **The authorities' stance on macroeconomic policies has generally been in line with staff recommendations and they have implemented most of their policy commitments in the context of previous RCF requests.** At the time of 2012 Article IV Consultation, the authorities agreed with staff on the need for strong fiscal consolidation over the medium term given the significant increase in public sector debt, targeting a primary surplus of 1½-2 percent of GDP by streamlining current expenditures, improving tax compliance, and enforcing tax laws. They have implemented measures committed under previous RCFs, including setting up a single financial regulator under the Financial Services Authority and are currently receiving technical assistance from CARTAC under the Budget Preparation Reform. Given the increasing frequency and intensity of natural disasters, the authorities should seek to build fiscal buffers to address future shocks.

ECONOMIC IMPACT OF THE DECEMBER 2013 FLOODS

5. **Prior to the floods, the economy had started to rebound from the international financial crisis and the 2010-11 natural disasters.** The economy grew an estimated 2.3 percent in 2013. Inflation has been moderate and relatively stable in recent years (after a commodity-price-induced surge prior to the global crisis) (Figure 1). Following an improvement in 2012, the overall fiscal deficit widened from 2 percent of GDP to 6 percent in 2013, largely due to weak tax collection and the intensification of the construction of an international airport.

Figure 1. St. Vincent and the Grenadines: Main Economic Indicators, 2004-13

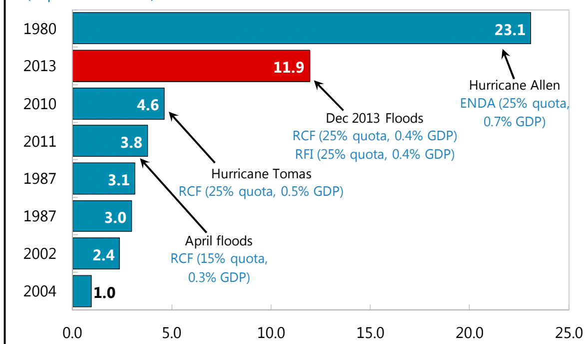


Sources: St. Vincent and the Grenadines authorities, ECCB, and IMF staff calculations.

The current account deficit increased in 2013 to 29.2 percent of GDP on the back of higher imports stemming from strong FDI inflows (17.6 percent of GDP), and imports related to the international airport. Broad money expanded by 8.6 percent during 2013, but growth of credit to the private sector was sluggish at 1.3 percent, down from 3.5 percent in 2012. The ratio of non-performing loans (NPL) to total loans increased by 0.9 percentage points to 8.3 percent over 2013.

6. **The economic damages and losses caused by the December 2013 floods were unusually high and are estimated to exceed those inflicted by Hurricane Tomas in October 2010 and the April 2011 floods combined** (text chart). Hurricane Tomas resulted in damages of 4.6 percent of GDP while the 2011 floods resulted in damages of 3.8 percent of GDP. The DaLA report estimated the December 2013 flood damages at US$86.3 million (12 percent of GDP), with losses estimated to be an additional US$22.0 million (3 percent of GDP)[1]. Unlike the damages from the 2010 and 2011 disasters, most of the impact (97 percent) has been on infrastructure (Box 1).

St. Vincent and the Grenadines: Natural Disaster Damages
(In percent of GDP)



Sources: St. Vincent and the Grenadines authorities, EM-DAT; and IMF staff calculations.

Box 1. Impact of the Floods and Rehabilitation and Reconstruction Plans

The December 2013 floods resulted in damages of about EC$232 million (see text table) concentrated mostly on infrastructure. About 21 percent of all bridges and 4 percent of roads were damaged, and all hydroelectric facilities were forced off-line for most of the first half of 2014. Additionally, 662 houses were affected, 18 percent of which had to be evacuated, resulting in 225 people having to be temporarily relocated to shelters.

The government of St. Vincent and the Grenadines is embarking on a 5 year reconstruction program that will be financed mostly with concessional loans from the World Bank and the Caribbean Development Bank. In 2014 the government is expected to spend about EC$6 million in emergency assistance to displaced families among the poorest households, and EC$58 million in rehabilitation and reconstruction of the damaged infrastructure, with about EC$20 million allocated for repairing houses damaged during the floods. In some instances, damaged houses will be relocated. Additionally, the government plans to invest about EC$40 million in rehabilitation and reconstruction of roads, bridges and river defenses. Most of the emergency assistance was provided through a reallocation of other spending, while a small portion (about EC$2.2 million) was financed through local disaster relief grants. The rest of the money has already been spent in emergency relief to affected persons, clean-up, and support for farmers affected during the floods. Remaining reconstruction projects, for which most of the financing will be provided by the World Bank and the Caribbean Development Bank, will take place during 2015-18.

St. Vincent and the Grenadines: Floods Damages and Financing

	December 2013 Floods	
	EC$ million	**% of GDP**
Damages 1/	**232.1**	**11.9**
Roads, bridges and river defenses	182.4	9.4
Electricity and water	22.5	1.2
Housing	18.3	0.9
Education and health	4.9	0.3
Other	4.0	0.2
Reconstruction financing for 2014 2/	**63.6**	**3.2**
Expenditure reallocation	6.0	0.3
Grants	19.9	1.0
Mexico	8.8	0.4
ALBA	6.5	0.3
Taiwan, Province of China	2.2	0.1
Other	2.4	0.1
Loans	37.7	1.9
IMF RCF-RFI (net of repayments) /3	15.8	0.8
World Bank	11.9	0.6
Caribbean Development Bank	10.0	0.5

Sources: DaLA and St. Vincent and the Grenadines authorities.
1/ In percent of 2013 GDP.
2/ In percent of 2014 GDP. Grants and loans are IMF staff's projected disbursements for 2014, and hence differ from the committed amounts reported in paragraph 13.
3/ Repayment to the IMF of EC$1.5 million from the 2009 ESF-RAC loan.

[1] Damages measure the value of fully or partially destroyed assets, while losses measure the change in the flows of goods and services that will not be forthcoming until full economic recovery and reconstruction.

7. **The floods are expected to impact GDP growth adversely.** Staff has revised down its baseline 2014 real GDP growth projection from 2.3 percent to 1.7 percent, reflecting both a decline in agriculture output and significant losses due to the disruption of transportation infrastructure (Table 1). Growth is expected to pick up in 2015-16 on the back of construction activity related to the rebuilding of the housing stock and infrastructure, finalization of the international airport, and the progressive expansion of tourism following the airport's expected completion in the first half of 2015. Despite modest upward pressures from the impact of the floods, inflation is projected to remain low, at 1.2 percent in 2014 versus 0.8 percent in 2013.

8. **The overall impact of rehabilitation and reconstruction activities will keep the primary deficit high over the next three years.** A supplementary budget passed in early April 2014 allocated an additional EC$72 million (3.5 percent of GDP) specifically to address the impact of the floods.[2] Together with some EC$100 million budgeted for the completion of the international airport, capital expenditures, already high in 2013, are expected to reach EC$182 million in 2014 (9 percent of GDP). Therefore, the primary deficit is expected to widen in 2014 to over 4 percent of GDP, with the impact of the floods contributing about 3 percentage points. Capital expenditures will remain somewhat elevated in 2015, when the primary deficit is expected to be 3 percent of GDP and in 2016, when the primary deficit will fall to about 1 percent of GDP. Thereafter, capital expenditures will return to more normal levels, leading to projected primary surpluses starting in 2017. Thus, the substantial widening of the deficit (that started in 2013) is expected to be temporary. The government plans to finance rehabilitation and reconstruction activities mostly through grants and concessional external loans. IMF financial support will help ease the government's external financing constraint for 2014 given the need for imports and lower-than-expected revenues, and provide much-needed resources to mitigate the impact on the poor, who were disproportionately impacted by the floods.

9. **The floods will result in rising public debt.** Public sector debt is expected to reach 76½ percent of GDP in 2014, up from 74 percent in 2013. In 2013, central government domestic debt increased by about EC$50 million, while public corporations' domestic debt rose by EC$27 million. External debt of the central government increased by about EC$14 million, while the external debt of public corporations rose by EC$5 million over the period. As a consequence of the floods, total public sector external debt is projected to increase to 43½ percent of GDP in 2014, up from 41 percent in 2013 (Figure 1 and table 1).

10. **Emergency relief costs and rehabilitation and reconstruction of infrastructure are projected to open up a balance of payments gap in 2014.** The 2014 current account deficit was projected to be about 29 percent of GDP, but a further deterioration of the deficit to about 33 percent of GDP is now expected due to the floods. Thus, an urgent balance of payments need

[2] The government still needs to identify financing sources for part of the additional expenditure. Hence, staff project that the government will only be able to implement about EC$60 million of flood-related expenditures in 2014 (see Box 1 and Table 2).

has arisen for higher imports of fuel and construction materials (about 3 percent of GDP), which will be needed throughout the year to replace lost electricity generation from the hydroelectric plants, and to rebuild roads, bridges and houses. Imputed reserves are projected to decline to 3.2 months of imports in 2014 from 3.8 in 2013, even after accounting for IMF financial assistance. The latter is expected to fill 20 percent (0.9 percent of GDP) of the immediate balance of payments needs.

11. The floods appear to have had a minimal impact on the financial sector. Commercial banks, as well as credit unions, have very little exposure to the agricultural sector (0.1 percent and 0.2 percent of total loans, respectively). Some credit unions and banks had to reschedule payments for clients whose houses or farms were damaged during the floods, but the amounts are small and manageable.[3] The impact on the insurance sector has also been small given that most of the areas affected are among the poorest in the country and hence have limited insurance coverage. Of the 15 insurance companies, only 8 reported claims related to the floods for 30 homes in total, amounting to about EC$0.4 million.

POLICY ISSUES AND DISCUSSIONS

12. The floods have put the recovery on hold and are posing new challenges. St. Vincent and the Grenadines was already facing financing constraints even before it was hit by the floods, due to the two previous natural disasters and the slow recovery of partner countries. The December 2013 floods have created additional demand for public resources, but high debt levels are constraining the use of fiscal policy, and the quasi-currency board arrangement is limiting the use of monetary policy. Therefore, the authorities intend to rely primarily on grants and external concessional resources to finance the reconstruction and rehabilitation expenses.

13. In this context, the authorities shared staff's views that mobilizing sufficient fiscal resources for recovery and reconstruction will be a key challenge. While the government quickly reallocated some spending (0.3 percent of GDP, text table) to take care of immediate needs, most of the financing in 2014 will come from grants and new borrowing with assistance from the IFIs and other donors. The Caribbean Development Bank is expected to provide about US$10 million via a concessional loan toward infrastructure reconstruction over 2014-16. The World Bank has already committed a US$20.9 million concessional loan towards emergency recovery/reconstruction from IDA funding through the Crisis Response Window and is

St. Vincent and the Grenadines: 2014 Financing details

	% of GDP
Airport related expenditures	**3.5**
Own financing and grants	*0.9*
New borrowing	*2.6*
Flood related expenditures 1/	**3.2**
Own financing and grants 2/	*1.3*
New borrowing 3/	*1.9*
Financing gap	**2.9**
Grants	*1.0*
New borrowing	*1.1*
IMF RCF-RFI (net of repayments) 4/	*0.8*

1/ Includes capital expenditures of 2.9 percent of GDP, and current expenditures of 0.3 percent of GDP.
2/ Includes expenditure reallocation of 0.3 percent of GDP.
3/ Is the sum of IMF financing and new borrowing that fills the financing gap, for details see the table in Box 1.
4/ Repayment to the IMF of EC$1.5 million from the 2009 ESF-RAC loan.

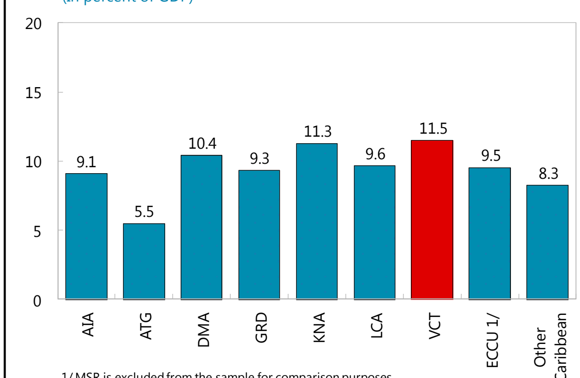
[3] Some of the credit unions have disaster funds to help members in times of need. In addition, most of the houses that were damaged were in poorer areas where houses were generally not financed through bank credit.

expected to mobilize an additional US$40.6 million financing from the Regional Disaster Program, while extending by two years beyond the originally envisaged timeline the implementation phase of projects to 2018. The European Union has already provided some US$137,000 in humanitarian aid and the authorities are seeking an additional US$6-8 million concessional loan under the 11th European Development Fund (EDF). The authorities have also secured pledges from other donors such as the Food and Agriculture Organization (grant of EC$800,000), Mexico (grant of EC$13.5 million), Petróleos De Venezuela St. Vincent (grant of EC$10 million), and Taiwan Province of China (grant of EC$3.35 million). If these were not to become available, the authorities plan to adjust spending and non-flood-related capital expenditures, as in previous years, while protecting social spending aimed at poverty reduction.

14. Given the size of the estimated reconstruction costs, staff supports the widening of the fiscal deficit, even though this will result in a delay in reaching the Eastern Caribbean Central Bank's (ECCB) public debt-to-GDP target of 60 percent by 2020. In the baseline scenario, the primary fiscal balance is projected to reach a surplus of 2 percent of GDP by 2019, which would delay reaching the targeted public debt to GDP ratio of 60 percent until 2026. Still, staff regards as sufficiently ambitious, to support the authorities' request, their commitment to generating primary surpluses in the range of 2 percent of GDP over the medium term. This will be achieved through a combination of both revenue and expenditure measures listed in the attached letter. In particular, the authorities plan to rationalize tax exemptions (estimated to yield 0.5 percent of GDP), improve tax compliance (0.5 percent of GDP), contain the wage bill (0.4 percent of GDP), and limit transfers to state-owned enterprises (SOEs) (0.6 percent of GDP).

15. To strengthen fiscal buffers, including to address future natural disasters, staff discussed with the authorities a more ambitious fiscal consolidation effort that would include additional measures. In particular, staff discussed with the authorities an active policy scenario that would raise the central government's primary surplus to 3 percent of GDP by 2018, which would enable the government to reach the ECCB debt-to-GDP target of 60 percent by 2023, strengthen fiscal buffers, and create room to address future natural disasters. The active policy scenario, in which enhanced consolidation measures start in 2015, could include restraining expenditures to bring the wage bill down to 2010 levels as a share of GDP (an additional 0.5 percent of GDP compared to the baseline), given the relatively high wage bill compared to regional neighbors (text chart). It could also include containing subsidies, in addition to the containment of transfers to SOEs in the baseline.[4]

Central Government Wage Bill, Average 2004-13
(In percent of GDP)



1/ MSR is excluded from the sample for comparison purposes.
Sources: Country authorities; and IMF staff calculations.

[4] However, the authorities note that St. Vincent is a multi-island nation, where the government needs to provide basic services in each of 4 different islands, reducing the scope for economies of scale.

Further revenue-enhancing measures could focus on fostering tax compliance, in particular related to VAT receipts and excise duties, and on raising corporate income tax receipts so as to reach pre-2010 levels (an additional 0.5 percent of GDP compared to the baseline) (Table 9). While the authorities concurred on the merits of the active scenario and on the need to bring down financing needs to more sustainable levels, they argued that the fiscal resources needed over the next three years for rehabilitation and reconstruction would make achieving the higher primary surplus target very challenging. Noting that there was a band of uncertainty around revenue raising measures, they underscored that ensuring achievement of the more ambitious target would likely require containing capital expenditures. This, in turn, might undercut some of their longer-term objectives of investing to enhance competitiveness, boost growth, and strengthen resilience against future natural disasters.

16. The Debt Sustainability Analysis (DSA) indicates that St. Vincent and the Grenadines' risk of debt distress remains moderate, based on an assessment of public external debt. The public sector debt-to-GDP ratio is projected to return to a sustainable trajectory by 2017 in light of the authorities' commitment to undertake fiscal consolidation measures and the projected recovery in economic growth. However, the DSA reveals the potential for heightened overall risk of debt distress under some adverse scenarios related to domestic debt, in particular lower growth, or to a failure to implement the needed fiscal adjustments. Staff and the authorities concurred that there are risks associated with domestic financing conditions, given the limited liquidity in the domestic market (ECCB Regional Government Securities Market) (See the DSA in Appendix 1).

17. The international airport is now expected to be in operation by mid-2015, barring an unanticipated financing setback. In the 2014 Budget address, the Government estimated that an additional EC$216 million would be needed to complete the international airport, and shifted EC$100 million of the 2013 appropriation to the 2014 Budget. In the aftermath of the December 2013 floods, the authorities decided to give priority in capital spending to urgent rehabilitation and reconstruction projects. However, they also argued that since the remaining financing for the international airport was already secured (and almost half has already been received so far this year), no further delays in completing the airport would be required.

18. In light of the frequency of recent natural disasters and the risk that climate change may lead to more frequent and intense events, the authorities are taking measures to improve resilience. In addition to the ongoing programs supported by the World Bank and the Caribbean Development Bank, the authorities are developing programs to improve capabilities for emergency response and enhance the robustness of physical infrastructure, and also intend to purchase insurance. On the last of these, the Caribbean Catastrophe Risk Insurance Facility (CCRIF) only recently started offering coverage for excessive rainfall events, which the authorities intend to purchase this year, although limits on coverage would have fallen far short of that required to cover the damages experienced in December 2013.[5]

19. The authorities were in broad agreement with staff on the importance of reducing vulnerabilities in the financial sector. The Financial Services Authority (FSA) took control of the Building and Loan Association (BLA) on February 1, 2013 due to runs on the BLA's deposits following a rumor in the media about its imminent collapse. The FSA has improved operational efficiency and liquidity through the implementation of a recapitalization plan in December 2013. In the banking sector, while overall non-performing loan (NPL) ratios have risen somewhat (from 7.8 percent in Q1 2013 to 8.6 percent in Q1 2014), the ratio has been fairly stable for indigenous banks. NPLs have risen faster for foreign banks (from 9.2 to 10.8 percent over the same period), but these banks are branches. The capital adequacy ratio for the banking sector in Q1 2014 was 16.2 percent, well above the regulatory minimum.

20. The authorities are taking steps to enhance private sector development. Efforts are ongoing toward enhancing the business environment, improving air access, and taking measures to streamline customs clearance. In the agricultural sector, the authorities are promoting initiatives to reduce production risk and increase access to credit. A government lending program that allows farmers to access small loans at low interest rates was started in February 2014. The authorities recognize the need to develop a tourism marketing strategy that capitalizes on the diverse characteristics of the multi-island state, strengthen linkages between tourism and other sectors of the economy, and encourage FDI in the sector. The hospitality and maritime school is expected to open in January 2015, with the goal of building the skills needed in the tourism industry. Additionally, the government is implementing minimum standards in the hotel industry; all hotels are required to be compliant by November 2014.

21. The mission recommended to the authorities to consider the possibility of engaging in a longer-term Fund program. Since the country is PRGT-eligible, the Extended Credit Facility would provide both a useful macroeconomic framework and financial resources to underpin reform efforts, especially if the authorities are contemplating additional fiscal consolidation efforts along the lines of the active policy scenario and structural reforms to enhance competitiveness. However, Vincentian authorities clarified that they were not interested in a long-term Fund-supported program at this time.

ACCESS AND CAPACITY TO REPAY

22. The Vincentian authorities have requested a disbursement under the Fund's Rapid Credit Facility in the equivalent of SDR 2.075 million and a purchase under the Rapid Financing Instrument in the equivalent of SDR 2.075 million, thus totaling SDR 4.15 million (US$6.4 million), equivalent to 50 percent of quota. The disbursement/purchase, which amounts

[5] The maximum payout in case of excessive rain is only US$0.8 million.

to 0.9 percent of GDP, will provide much needed financial support to address urgent balance of payments and fiscal needs resulting from the December 2013 floods. These needs, primarily for higher imports of fuel and construction materials, should end within 12 months as the lost electricity generation is restored and the program of house reconstruction is completed, along with the emergency restoration of roads and bridges. The medium term reconstruction effort to rebuild bridges and roads will take place in the next few years with financing from the Caribbean Development Bank and the World Bank. Fund assistance is also expected to play a catalytic role in firming up support from other development partners and donors.

23. **St. Vincent and the Grenadines is expected to be able to repay its obligations to the Fund.** Fund exposure to St. Vincent and the Grenadines is projected to be about 2.2 percent of GDP or about 13.4 percent of net imputed reserves, following the RCF/RFI disbursement/ purchase. Not only does this exposure remain moderate, the associated servicing risks are mitigated by the authorities' good track record in their fiscal commitments under previous RCFs and the country's relatively low debt-servicing obligations in light of the highly concessional debt structure.

24. **Under the Funds safeguards assessment policy, the Eastern Caribbean Central Bank is subject to a full safeguard assessment under a four year cycle.** The most recent assessment was completed in April 2012, and no major risks were identified. Recommendations were made to sustain the ECCB's autonomy going forward, and to ensure that member governments maintain all foreign exchange balances at the ECCB in accordance with safeguards policy requirements in cases of budget financing. The next assessment will take place in 2015.

STAFF APPRAISAL

25. **St. Vincent and the Grenadines has been hit by severe floods that brought massive damages to infrastructure, at a time when the economy is striving to recover from recent natural disasters and the global economic downturn.** The economic damages and losses caused by the December 2013 floods were unusually high and while the authorities have taken quick actions to start the rehabilitation process, reconstruction will take time and will require the assistance of the international community. In this

Commitments Under the Previous RCFs

Commitment	Status
1. Improve tax compliance	Ongoing
2. Establish a Large Taxpayer Unit	Completed
3. Broaden the coverage of property taxes	Completed, legislation passed
4. Streamline exemptions	Ongoing
5. Contain the wage bill	Ongoing, salary increases postponed
6. Streamline spending on goods and services	Ongoing, purchase of gov. vehicles via auctioning
7. Limit transfers to SOEs	Ongoing
8. Action Plan on public finance management and Oversight Committee on SOEs	Ongoing
9. Undertake civil service reform	Ongoing, exploring TA offers
10. Undertake pension reform	Ongoing, actuarial review completed
11. Pass legislation for a Single Regulatory Unit	Completed, establishment of the FSA
12. Customs and Excises Department implementation of risk based assessment and post-clearance audits	Completed
13. Reconcile customs declarations for imports with VAT refund applications	Ongoing, IRD-CED auditing team established
14. Building Climate Resilience	Ongoing, with support from the WB

context, the authorities—who have a good track record of implementing policy commitments under past RCFs—have requested a disbursement/purchase of Fund resources equivalent to 50 percent of quota under the Rapid Credit Facility and the Rapid Financing Instrument.

26. The authorities remain committed to medium term fiscal and debt sustainability. The fiscal deficit in 2014 is expected to widen, owing to flood-related spending, but the authorities are committed to seeking additional grants and concessional resources to finance capital expenditure related to the rehabilitation and reconstruction. To the extent that these are not available, the authorities plan to adjust spending and non-flood-related capital expenditures, as in previous years. Over the medium term, the authorities remain committed to generating primary surpluses in the range of 2 percent of GDP to ensure that the public debt-to-GDP ratio is put on a declining path. Toward this end, they plan to implement several fiscal structural measures to enhance revenue and improve the efficiency of spending, as outlined in their letter accompanying this request.

27. Staff supports the authorities' request for a disbursement under the Rapid Credit Facility and a purchase under the Rapid Financing Instrument in the amount of SDR 4.15 million (US$6.4 million), totaling the equivalent of 50 percent of quota. Staff support is based on the severity of the damages, the urgent balance of payments need, and the authorities' policy commitments, including seeking grants and concessional resources to finance flood-related capital expenditures and the implementation of offsetting measures if such assistance is not forthcoming. While there are downside risks given the country's high public debt and vulnerability to exogenous shocks, the authorities' track record and commitment to fiscal prudence are mitigating factors. Also, although climate change may continue to pose challenges as future adverse weather events may become more frequent, the disaster experienced in December 2013 appears to have been highly unusual. The authorities are also enhancing resilience against future adverse weather events by improving emergency response capabilities, enhancing the robustness of physical infrastructure, and acquiring insurance against natural disasters.

Table 1. St. Vincent and the Grenadines: Selected Social and Economic Indicators, 2008-15

Social and Demographic Indicators			
Area (sq. km)	389.0	Adult literacy rate (percent, 2001)	89.0
Population		Health and nutrition	
Total (thousands, 2011)	109.3	Calorie intake (per capita a day, 2004)	2,660
Rate of growth (percent per year, 2011)	0.03	Population per physician (thousand, 2004)	1.2
Density (per sq. km., 2011)	281.0	AIDS incidence rate (per 100,000, 2005)	32
Population characteristics (2010)		Gross domestic product (2010)	
Life expectancy at birth (years)	72.1	(millions of US dollars)	681
Infant mortality (per thousand live births)	19.2	(millions of EC dollars)	1,840
Under 5 mortality rate (per thousand)	21.2	(US$ per capita)	6,226

	2010	2011	2012	Est. 2013	Projections 2014 Pre-floods	2014 Post-floods	2015 Pre-floods	2015 Post-floods
	(Annual percentage change, unless otherwise specified)							
Output and prices								
Real GDP (factor cost)	-2.3	0.3	1.5	2.3	2.3	1.7	2.9	2.6
Nominal GDP (market prices)	1.0	-0.6	2.6	3.7	4.2	3.4	4.1	3.6
Consumer prices, end of period	0.9	4.7	1.0	0.0	1.7	2.2	1.7	1.7
Consumer prices, period average	0.8	3.2	2.6	0.8	0.8	1.2	1.1	1.5
Banking system 1/								
Net foreign assets	10.4	-7.3	1.4	7.2	8.7	-1.4	0.6	-2.7
Net domestic assets	-7.8	7.0	5.2	1.4	-4.5	5.3	3.5	6.4
Credit to private sector	1.6	3.5	3.2	1.1	2.6	1.2	2.5	2.6
Central government finances (in percent of GDP)								
Total revenue	29.0	27.8	26.9	26.9	27.2	28.3	26.8	27.2
Tax revenue	22.9	22.1	22.7	21.6	21.5	21.5	22.0	21.9
Grants	2.3	2.5	1.6	1.3	1.9	2.9	1.5	1.9
Total expenditure and net lending	32.9	31.0	29.0	33.1	33.5	34.9	31.4	32.7
Current expenditure	28.3	31.1	26.1	25.3	25.1	25.9	25.0	25.7
Wages and salaries	12.1	12.6	13.0	12.9	12.7	12.8	12.7	12.7
Interest	3.0	2.5	2.4	2.5	2.5	2.6	2.6	2.6
Capital expenditure	4.5	4.0	2.9	7.8	8.4	9.1	6.4	7.1
Overall balance	-3.9	-3.2	-2.1	-6.2	-6.3	-6.7	-4.6	-5.5
Overall balance (excl. grants)	-6.2	-5.7	-3.7	-7.5	-8.1	-9.6	-6.0	-7.4
Primary balance	-0.9	-0.7	0.3	-3.7	-3.7	-4.1	-2.0	-2.9
Primary balance (excl. grants)	-3.2	-3.2	-1.3	-5.0	-5.6	-7.0	-3.5	-4.8
External sector (in percent of GDP)								
External current account	-30.6	-29.4	-27.8	-29.2	-29.3	-32.7	-27.1	-30.2
Exports of goods and services	26.9	27.0	27.1	26.9	27.1	27.1	27.3	27.6
Imports of goods and services	57.1	55.6	57.9	59.0	58.4	61.9	56.0	59.3
Stayover arrivals (percentage change)	-3.9	1.9	0.7	-3.5	4.0	3.0	5.0	5.0
Public sector external debt (end of period)	40.8	42.1	39.8	41.1	42.5	43.4	42.9	44.6
External public debt service								
(In percent of exports of goods and services)	17.5	17.4	16.2	16.1	16.9	16.9	18.9	18.8
Memorandum items (in percent of GDP)								
Gross public sector debt	65.4	67.7	72.2	74.0	75.2	76.4	77.4	78.6
Nominal GDP (market prices; in millions of EC$)	1,840	1,828	1,875	1,945	2,026	2,011	2,109	2,084

Sources: ECCB; 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.

Table 2. St. Vincent and the Grenadines: Summary of Central Government Operations, 2010–19

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

	2010	2011	2012	2013	Staff 2014 Pre-floods	Staff 2014 Post-floods	Projection 2015 Pre-floods	Projection 2015 Post-floods	Projection 2016	Projection 2017	Projection 2018	Projection 2019
Total revenue and grants 1/	**533.0**	**509.0**	**504.6**	**522.9**	**551.8**	**568.1**	**565.8**	**566.8**	**602.2**	**628.2**	**663.3**	**703.6**
Current revenue	490.1	439.0	446.5	462.6	501.4	497.4	521.7	514.2	547.3	579.9	617.5	655.7
Tax revenue	421.5	388.7	404.4	420.6	435.5	431.5	463.2	455.8	485.8	515.6	550.1	585.4
Of which												
Taxes on income and profits	108.8	114.4	122.4	111.3	113.9	113.9	121.2	120.7	128.4	136.6	147.7	159.1
Taxes on property	2.9	2.8	2.7	4.0	4.3	4.3	4.6	4.6	4.9	5.3	5.7	6.0
Taxes on international trade	178.4	172.6	173.0	170.6	179.0	172.0	189.3	181.1	192.4	202.1	215.1	228.2
Of Which: VAT	74.1	71.2	69.1	68.4	73.4	71.4	77.5	75.1	80.0	83.6	89.3	95.1
Taxes on domestic transactions	131.3	98.9	106.4	134.7	138.3	141.3	148.0	149.3	160.1	171.5	181.7	192.0
Of Which: VAT	62.5	61.1	64.9	62.3	65.5	65.5	69.8	69.5	74.4	79.7	85.6	91.6
Non-tax	68.6	50.3	42.0	41.9	65.9	65.9	58.6	58.4	61.5	64.3	67.3	70.3
Of which												
Fees, Fines and Permits	21.5	17.7	17.8	17.6	20.2	20.2	21.0	21.0	21.9	22.9	23.9	25.0
Interest, Rent and Dividends	13.5	11.2	10.9	7.1	20.8	20.8	11.1	11.1	11.6	12.1	12.7	13.3
Other Revenue	33.6	21.5	13.3	17.3	24.9	24.9	26.4	26.3	28.0	29.3	30.7	32.0
Capital Revenue	0.9	10.4	5.2	34.3	12.6	12.6	13.1	13.1	13.7	14.3	15.0	15.6
Of which: Sale of crown lands	0.9	1.4	1.1	29.6	1.0	1.0	1.0	1.0	1.1	1.1	1.2	1.2
Grants	42.1	45.1	30.9	26.0	37.8	58.1	30.9	39.5	41.3	34.1	30.9	32.3
Of which: Floods related						19.9						
Total expenditure and net lending 1/	**604.9**	**567.7**	**543.1**	**643.1**	**678.5**	**702.4**	**662.1**	**682.5**	**691.4**	**686.3**	**704.7**	**732.3**
Current	521.4	495.2	488.9	491.3	509.0	520.0	527.8	535.1	559.3	581.3	606.7	629.9
Of which												
Wages and salaries 2/	221.8	231.2	242.9	250.9	257.8	257.8	268.3	265.1	274.6	284.7	295.7	308.8
Interest	55.3	46.0	44.4	47.9	51.6	51.6	54.4	54.6	62.7	67.6	75.8	78.7
Domestic	33.9	23.4	23.3	29.4	32.5	32.5	32.1	33.2	38.0	42.7	50.1	52.0
Foreign	21.5	22.6	21.1	18.5	19.1	19.1	22.3	21.4	24.8	24.9	25.7	26.7
Transfers and subsidies	177.1	143.6	131.2	126.3	127.4	138.4	129.9	140.5	143.8	147.3	149.6	153.1
Goods and services	67.2	74.3	70.5	66.1	72.3	72.3	75.2	74.9	78.2	81.7	85.6	89.3
Capital expenditure	83.5	72.5	54.2	151.8	169.6	182.4	134.3	147.4	132.1	105.0	98.0	102.4
Of which: Floods related						59.3						
Current balance (before grants)	-31.3	-56.1	-42.4	-28.7	-7.6	-22.6	-6.1	-20.9	-12.0	-1.5	10.7	25.7
Overall balance	**-71.9**	**-58.7**	**-38.5**	**-120.1**	**-126.7**	**-134.3**	**-96.3**	**-115.6**	**-89.2**	**-58.1**	**-41.4**	**-28.7**
Overall balance (excl. grants)	**-114.0**	**-103.8**	**-69.4**	**-146.1**	**-164.5**	**-192.4**	**-127.2**	**-155.2**	**-130.4**	**-92.2**	**-72.3**	**-61.0**
Primary balance	-16.6	-12.6	5.9	-72.2	-75.1	-82.7	-41.8	-61.0	-26.4	9.5	34.4	49.9
Primary balance (excl. grants)	-58.7	-57.8	-25.0	-98.2	-113.0	-140.8	-72.8	-100.6	-67.7	-24.5	3.5	17.7
Identified financing	71.9	58.5	38.5	120.1	126.7	117.0	71.3	90.6	64.2	37.7	41.4	28.7
Net external financing	149.9	17.8	8.7	54.3	65.5	55.8	66.3	78.0	54.0	27.4	22.4	23.3
Disbursements	202.2	70.4	76.6	112.8	113.4	103.6	116.7	128.4	108.1	79.8	69.3	67.5
Amortization	52.2	52.5	67.8	58.6	47.9	47.9	50.4	50.4	54.1	52.3	46.9	44.1
Change in government assets	-12.0	-6.0	-4.0	-5.5	-7.6	-7.6	-6.3	-6.3	-6.3	-6.3	-6.3	-6.3
Net domestic financing 3/	-134.1	5.8	-2.8	61.1	60.7	86.1	36.3	43.9	41.5	37.0	25.3	11.7
SDR Allocation	28.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Sale of Equity (privatization proceeds)	42.0	8.9	0.0	17.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	23.0	17.6	36.6	-6.9	0.0	0.0	-25.0	-25.0	-25.0	-20.4	0.0	0.0
Financing gap 4/	0.0	0.0	0.0	0.0	0.0	-17.2	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	3.0	14.3	0.0	0.0	0.0	17.2	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	14.3	0.0	0.0	0.0	17.2	0.0	0.0	0.0	0.0	0.0	0.0
CCRIF	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:					*In percent of Revenue and Grants*							
Wage and salaries	41.6	45.4	48.1	48.0	46.7	45.4	47.4	46.8	45.6	45.3	44.6	43.9
Transfers and subsidies	33.2	28.2	26.0	24.2	23.1	24.4	23.0	24.8	23.9	23.4	22.6	21.8
Goods and services	12.6	14.6	14.0	12.6	13.1	12.7	13.3	13.2	13.0	13.0	12.9	12.7
Capital expenditure	15.7	14.2	10.7	29.0	30.7	32.1	23.7	26.0	21.9	16.7	14.8	14.5
Stock of arrears (in million of EC$)	23.0	40.7	77.3	70.3	70.3	70.3	45.3	45.3	20.3	0.0	0.0	0.0

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

1/ From 2010 to 2013, total revenues and expenditures and their sub-components do not add-up due to inconsistencies in the data provided by authorities.

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

3/ Includes other non-banking sector domestic financing.

4/ For 2010 and 2011, exceptional financing was used to close the financing gap at the end of the year and are included in the line Net External Financing - Disbursements.

Table 3. St. Vincent and the Grenadines: Summary of Central Government Operations, 2010–19

(In percent of GDP, unless otherwise stated)

					Staff		Projection					
	2010	2011	2012	2013	2014		2015		2016	2017	2018	2019
					Pre-floods	Post-floods	Pre-floods	Post-floods				
Total revenue and grants 1/	**29.0**	**27.8**	**26.9**	**26.9**	**27.2**	**28.3**	**26.8**	**27.2**	**27.7**	**27.6**	**27.9**	**28.3**
Current revenue	26.6	24.0	23.8	23.8	24.7	24.7	24.7	24.7	25.2	25.5	25.9	26.4
Tax revenue	22.9	21.3	21.6	21.6	21.5	21.5	22.0	21.9	22.3	22.7	23.1	23.5
Of which												
Taxes on income and profits	5.9	6.3	6.5	5.7	5.6	5.7	5.7	5.8	5.9	6.0	6.2	6.4
Taxes on property	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on international trade	9.7	9.4	9.2	8.8	8.8	8.6	9.0	8.7	8.8	8.9	9.0	9.2
Of Which: VAT	4.0	3.9	3.7	3.5	3.6	3.6	3.7	3.6	3.7	3.7	3.7	3.8
Taxes on domestic transactions	7.1	5.4	5.7	6.9	6.8	7.0	7.0	7.2	7.4	7.5	7.6	7.7
Of Which: VAT	3.4	3.3	3.5	3.2	3.2	3.3	3.3	3.3	3.4	3.5	3.6	3.7
Non-tax	3.7	2.8	2.2	2.2	3.3	3.3	2.8	2.8	2.8	2.8	2.8	2.8
Of which												
Fees, Fines and Permits	1.2	1.0	1.0	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Interest, Rent and Dividends	0.7	0.6	0.6	0.4	1.0	1.0	0.5	0.5	0.5	0.5	0.5	0.5
Other Revenue	1.8	1.2	0.7	0.9	1.2	1.2	1.3	1.3	1.3	1.3	1.3	1.3
Capital Revenue	0.0	0.6	0.3	1.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Of which: Sale of crown lands	0.0	0.1	0.1	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	2.3	2.5	1.6	1.3	1.9	2.9	1.5	1.9	1.9	1.5	1.3	1.3
Of which: Floods related						1.0						
Total expenditure and net lending 1/	**32.9**	**31.1**	**29.0**	**33.1**	**33.5**	**34.9**	**31.4**	**32.7**	**31.8**	**30.2**	**29.6**	**29.5**
Current	28.3	27.1	26.1	25.3	25.1	25.9	25.0	25.7	25.7	25.6	25.5	25.3
Of which												
Wages and salaries 2/	12.1	12.6	13.0	12.9	12.7	12.8	12.7	12.7	12.6	12.5	12.4	12.4
Interest	3.0	2.5	2.4	2.5	2.5	2.6	2.6	2.6	2.9	3.0	3.2	3.2
Domestic	1.8	1.3	1.2	1.5	1.6	1.6	1.5	1.6	1.7	1.9	2.1	2.1
Foreign	1.2	1.2	1.1	0.9	0.9	1.0	1.1	1.0	1.1	1.1	1.1	1.1
Transfers and subsidies	9.6	7.9	7.0	6.5	6.3	6.9	6.2	6.7	6.6	6.5	6.3	6.2
Goods and services	3.7	4.1	3.8	3.4	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Capital expenditure	4.5	4.0	2.9	7.8	8.4	9.1	6.4	7.1	6.1	4.6	4.1	4.1
Of which: Floods related						2.9						
Current balance (before grants)	-1.7	-3.1	-2.3	-1.5	-0.4	-1.1	-0.3	-1.0	-0.6	-0.1	0.5	1.0
Overall balance	**-3.9**	**-3.2**	**-2.1**	**-6.2**	**-6.3**	**-6.7**	**-4.6**	**-5.5**	**-4.1**	**-2.6**	**-1.7**	**-1.2**
Overall balance (excl. grants)	**-6.2**	**-5.7**	**-3.7**	**-7.5**	**-8.1**	**-9.6**	**-6.0**	**-7.4**	**-6.0**	**-4.1**	**-3.0**	**-2.5**
Primary balance	-0.9	-0.7	0.3	-3.7	-3.7	-4.1	-2.0	-2.9	-1.2	0.4	1.4	2.0
Primary balance (excl. grants)	-3.2	-3.2	-1.3	-5.0	-5.6	-7.0	-3.5	-4.8	-3.1	-1.1	0.1	0.7
Identified financing	**3.9**	**3.2**	**2.1**	**6.2**	**6.3**	**5.8**	**3.4**	**4.3**	**2.9**	**1.7**	**1.7**	**1.2**
Net external financing	8.2	1.0	0.5	2.8	3.2	2.8	3.1	3.7	2.5	1.2	0.9	0.9
Disbursements	11.0	3.9	4.1	5.8	5.6	5.2	5.5	6.2	5.0	3.5	2.9	2.7
Amortization	2.8	2.9	3.6	3.0	2.4	2.4	2.4	2.4	2.5	2.3	2.0	1.8
Change in government assets	-0.7	-0.3	-0.2	-0.3	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Net domestic financing 3/	-7.3	0.3	-0.2	3.1	3.0	4.3	1.7	2.1	1.9	1.6	1.1	0.5
Sale of Equity (privatization proceeds)	2.3	0.5	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	1.3	1.0	2.0	-0.4	0.0	0.0	-1.2	-1.2	-1.1	-0.9	0.0	0.0
Financing gap 4/	0.0	0.0	0.0	0.0	0.0	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.2	0.8	0.0	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.8	0.0	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0
CCRIF	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Gross Public sector debt (in percent of GDP)	65.4	67.7	72.2	74.0	75.2	76.4	77.4	78.6	79.3	78.4	76.6	74.5
Stock of arrears (in percent of GDP)	1.3	2.2	4.1	3.6	3.5	3.5	2.5	2.2	0.9	0.0	0.0	0.0
GDP at market prices (EC$ millions)	1,840	1,828	1,875	1,945	2,026	2,011	2,109	2,084	2,176	2,274	2,381	2,486

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

1/ From 2010 to 2013, total revenues and expenditures and their sub-components do not add-up due to inconsistencies in the data provided by authorities.

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

3/ Includes other non-banking sector domestic financing.

4/ For 2010 and 2011, exceptional financing was used to close the financing gap at the end of the year and are included in the line Net External Financing - Disbursements.

Table 4. St. Vincent and the Grenadines: Balance of Payments Summary, 2010–19

	2010	2011	2012	2013	2014 Pre-floods	2014 Post-floods	2015 Pre-floods	2015 Post-floods	2016	2017	2018	2019
				Projection								
	(In millions of Eastern Caribbean dollars)											
Current account	**-562**	**-537**	**-521**	**-568**	**-593**	**-657**	**-572**	**-629**	**-584**	**-548**	**-521**	**-498**
Trade balance	-682	-672	-722	-756	-775	-830	-763	-813	-789	-780	-772	-767
Exports f.o.b.	122	117	129	144	153	152	160	159	167	179	189	198
Imports f.o.b.	804	789	851	900	929	982	923	972	956.5	959	961	965
Of which: Mineral fuels 1/	118	140	178	156	160	169	163	162	165	169	174	178
Services (net)	126	149	144	133	141	130	160	151	176	203	223	244
Travel	193	212	217	211	222	221	238	238	257	280	297	315
Other nonfactor services	-67	-64	-73	-78	-81	-91	-78	-87	-81	-78	-74	-71
Income payments (net)	-33	-35	-10	-10	-21	-21	-32	-32	-36	-39	-41	-45
Current transfers	27	21	67	65	62	63	64	65	66	69	69	70
Net private transfers	29	27	34	32	33	34	33	34	34	35	35	35
Net official transfers	-2	-6	33	33	30	30	30	30	32	34	34	35
Capital and financial account	**617**	**479**	**596**	**602**	**676**	**634**	**586**	**598**	**588**	**529**	**519**	**538**
Capital	148	104	92	35	47	67	35	44	45	38	35	37
Financial (net)	469	375	504	568	629	567	551	554	542	491	484	502
Official capital	141	32	-35	53	87	99	43	55	26	2	-4	5
Commercial banks	-17	19	62	-40	-30	-5	5	5	5	5	5	5
Net Foreign Direct Investment	262	231	312	342	356	353	373	368	389	365	377	390
Others	82	92	165	212	216	120	130	126	122	119	106	102
Errors and omissions	14	-4	-18	30	0	0	0	0	0	0	0	0
Overall balance	68	-62	57	65	83	-23	13	-31	4	-18	-1	40
Available financing	-68	62	-57	-65	-83	39	-13	31	-4	18	1	-40
Change in ECCB NFA	-68	62	-57	-65	-83	39	-13	31	-4	18	1	-40
Change in net imputed reserves (increase -)	-96	62	-57	-65	-83	39	-13	31	-4	18	1	-40
of which: IMF purchases and disbursments	0	-14	0	0	0	0	0	3	4	4	9	7
Change in SDR Allocation	28	0	0	0	0	0	0	0	0	0	0	0
Change in medium- and long-term net liabilities	0	0	0	0	0	0	0	0	0	0	0	0
Change in govt. foreign assets	0	0	0	0	0	0	0	0	0	0	0	0
Other financing	0	0	0	0	0	0	0	0	0	0	0	0
Financing gap 2/	0	0	0	0	0	-16	0	0	0	0	0	0
IMF RCF-RFI 3/						16						
	(In percent of GDP, unless otherwise stated)											
Memorandum items:												
Current account	-30.6	-29.4	-27.8	-29.2	-29.3	-32.7	-27.1	-30.2	-26.8	-24.1	-21.9	-20.0
Exports f.o.b.	6.6	6.4	6.9	7.4	7.6	7.6	7.6	7.6	7.7	7.9	8.0	8.0
Imports f.o.b.	43.7	43.2	45.4	46.3	45.8	48.9	43.8	46.7	44.0	42.2	40.4	38.8
Net private transfers	1.6	1.5	1.8	1.7	1.6	1.7	1.6	1.7	1.6	1.5	1.5	1.4
Foreign direct investment	14.3	12.6	16.6	17.6	17.6	17.6	17.7	17.7	17.9	16.0	15.8	15.7
Tourism receipts	12.6	13.5	13.6	12.8	12.9	13.0	13.3	13.4	13.8	14.3	14.5	14.6
Terms of Trade of Goods and Services	124	119	122	120	121	121	124	125	128	130	133	135
Total trade of goods and nonfactor services	84.0	82.6	85.0	85.9	85.5	89.1	83.3	86.9	84.1	82.6	80.7	78.9
Exports of goods and nonfactor services	26.9	27.0	27.1	26.9	27.1	27.1	27.3	27.6	27.9	28.6	28.8	28.9
Imports of goods and nonfactor services	57.1	55.6	57.9	59.0	58.4	61.9	56.0	59.3	56.1	54.0	51.9	50.0

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

1/ Includes an increase of fuel imports of about EC$10 million in 2014 to replace electricity generation from the damaged hydroelectric plants during the December 2013 floods.

2/ All other available financing shown in the text table in Box 1 is included as part of identified external financing. The remaining financing gap is expected to be filled by RCF-RFI.

3/ Net IMF financing in 2014 includes the disbursement of the RCF-RFI blend of EC$17.3 million (50 percent of quota), and the repayment to the IMF of EC$1.5 million from the 2009 ESF-RAC loan which starts in 2014.

Table 5. St. Vincent and the Grenadines: Monetary Survey, 2010–15

	2010	2011	2012	2013	Projection 2014	2015
	(In millions of Eastern Caribbean dollars)					
Net foreign assets	474	393	409	494	476	440
ECCB	299	237	295	359	336	305
Of which: Imputed reserves	299	237	295	359	336	305
Commercial banks	175	156	114	135	140	135
Net domestic assets	640	717	775	792	861	946
Public sector credit (net)	-68	-93	-75	-49	-49	-10
Central government	22	44	50	61	116	151
ECCB	-17	5	-18	-11	-11	-11
Commercial banks	39	40	67	72	127	162
Net credit to rest of public sector	-90	-137	-124	-110	-164	-161
National Insurance Scheme	-72	-88	-87	-68	-68	-68
Other	-18	-49	-37	-42	-96	-93
Credit to private sector	960	999	1,034	1,048	1,063	1,097
Net credit to nonbank financial institutions	7	28	17	16	17	18
Other items (net)	-252	-190	-184	-207	-170	-159
Broad money (M2)	1,114	1,110	1,184	1,286	1,337	1,386
Money	346	331	361	374	388	403
Currency in circulation	51	47	44	48	49	51
Demand deposits	289	276	311	320	333	345
EC$ Cheques and Drafts issued	6	9	6	6	6	6
Quasi-money	768	779	823	912	949	983
Time deposits	129	140	154	136	142	147
Savings deposits	594	594	633	717	746	774
Foreign currency deposits	45	45	36	58	61	63
	(Annual percentage change)					
Net foreign assets	31.4	-17.1	4.0	20.9	-3.7	-7.5
Net domestic assets	-11.7	12.1	8.1	2.2	8.7	9.9
Credit to private sector	1.8	4.1	3.5	1.3	1.4	3.2
Broad money (M2)	2.6	-0.3	6.6	8.6	3.9	3.7
Money	-3.8	-4.1	8.9	3.7	3.6	3.8
Quasi-money 1/	5.7	1.3	5.7	10.8	4.0	3.6
	(Contribution to M2 growth)					
Net foreign assets	10.4	-7.3	1.4	7.2	-1.4	-2.7
Net domestic assets	-7.8	7.0	5.2	1.4	5.3	6.4
Public sector credit (net)	-14.2	-2.2	1.6	2.2	0.0	2.9
Of which: Central government	-9.7	2.0	0.5	1.0	4.2	2.6
Credit to private sector	1.6	3.5	3.2	1.1	1.2	2.6
Other items (net)	4.8	5.6	0.5	-1.9	2.8	0.9
Memorandum item:						
Income velocity 2/	1.7	1.6	1.6	1.5	1.5	1.5

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

1/ Including resident foreign currency deposits.

2/ Nominal GDP at market prices divided by liabilities to the private sector.

Table 6. St. Vincent and the Grenadines: Indicators of External and Financial Vulnerability, 2008–14

(Annual percentage changes, unless otherwise specified)

	2008	2009	2010	2011	2012	2013	2014
External indicators							
Merchandise exports	11.4	-6.7	-15.7	-3.5	10.1	11.6	...
Merchandise imports	14.2	-10.6	1.3	-1.8	7.8	5.9	...
Terms of trade deterioration (-)	-20.4	23.6	-15.3	-4.0	2.7	-1.7	...
Tourism earnings	-12.7	-8.8	-1.5	6.4	2.7	-1.9	...
Banana export earnings	-29.8	3.6	-35.0	-86.8	29.4	-3.1	...
Current account balance (in percent of GDP)	-33.1	-29.2	-30.6	-29.4	-27.8	-29.2	...
Capital and financial account balance (in percent of GDP) 1/	32.7	29.9	34.3	26.0	30.8	32.5	...
Of which							
Foreign direct investment (in percent of GDP)	22.9	16.3	14.3	12.6	16.6	17.6	...
Gross international reserves of the ECCB							
In millions of U.S. dollars	759.0	800.8	926.1	1,007.6	1,124.7	1,169.1	1,260.2 (Feb.)
In percent of broad money	17.0	17.7	20.0	21.2	22.7	22.6	23.6 (Feb.)
Net imputed reserves							
In millions of U.S. dollars	82.9	75.2	110.8	87.8	109.1	133.1	140.6 (Mar.)
Commercial banks' net foreign assets (in millions of U.S. dollars)	59.7	58.6	64.9	57.8	42.3	50.0	51.8 (Mar.)
External public debt (in percent of GDP)	30.1	31.9	40.8	42.1	39.8	41.1	...
External debt service (in percent of exports of goods and services)	13.0	15.3	17.5	17.4	16.2	16.1	...
Of which							
Interest	4.8	5.3	4.9	5.4	4.5	4.9	...
Nominal exchange rate (EC$ per US$, end period)	2.7	2.7	2.7	2.7	2.7	2.7	...
Real effective exchange rate depreciation (-), end period	-0.5	6.3	-2.2	-3.9	6.1	-1.8	...
Financial indicators							
Broad money	1.4	1.4	2.6	-0.3	6.6	8.6	8.2 (Mar.)
Credit to the private sector	3.0	1.8	1.8	4.1	3.5	1.3	0.4 (Mar.)
Prudential indicators (in percent)							
Regulatory capital to risk-weighted assets	17.9	18.7	18.7	16.8	16.2	15.7	15.5 (Mar.)
Nonperforming loans net of provisions to capital	6.8	23.7	15.8	20.9	19.0	24.2	24.5 (Mar.)
Nonperforming loans to total loans	3.9	8.4	8.6	7.7	7.4	8.3	8.6 (Mar.)
General government loans to total loans	23.1	17.5	8.7	8.5	9.7	9.0	10.4 (Mar.)
Return on assets	2.3	1.8	1.0	0.4	1.0	0.5	0.3 (Mar.)
Liquid assets to total assets	34.2	30.7	35.9	33.3	32.8	36.2	36.3 (Mar.)
Spread between reference lending and deposit rates	6.8	6.2	6.2	6.2	6.6	6.8	6.8 (Mar.)
Total loans to total deposits	87.2	85.6	75.3	74.2	75.1	72.7	72.0 (Mar.)
Foreign-currency-denominated liabilities to total liabilities	5.7	5.2	7.7	7.5	5.4	6.3	5.8 (Mar.)

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

1/ Includes errors and omissions.

Table 7. St. Vincent and the Grenadines: Medium-Term Projections, 2010–19

(In percent of GDP, unless otherwise specified)

				Est.	Projection					
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Output and prices										
Real GDP growth at factor cost (in percent)	-2.3	0.3	1.5	2.3	1.7	2.6	3.0	3.1	3.1	3.1
Nominal GDP	1.0	-0.6	2.6	3.7	3.4	3.6	4.4	4.5	4.7	4.4
Consumer Price Index, end-of-period (percent change)	0.9	4.7	1.0	0.0	2.2	1.7	1.8	1.8	2.0	2.0
Consumer Price Index, average (percent change)	0.8	3.2	2.6	0.8	1.2	1.5	1.5	1.7	2.0	2.0
Central government finances										
Total revenue and grants	29.0	27.8	26.9	26.9	28.3	27.2	27.7	27.6	27.9	28.3
Of which:										
Tax revenue	22.9	21.3	21.6	21.6	21.5	21.9	22.3	22.7	23.1	23.5
Taxes on income and profits	5.9	6.3	6.5	5.7	5.7	5.8	5.9	6.0	6.2	6.4
Taxes on property	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on international trade	9.7	9.4	9.2	8.8	8.6	8.7	8.8	8.9	9.0	9.2
Taxes on domestic transactions	7.1	5.4	5.7	6.9	7.0	7.2	7.4	7.5	7.6	7.7
Grants	2.3	2.5	1.6	1.3	2.9	1.9	1.9	1.5	1.3	1.3
Total expenditure and net lending	32.9	31.1	29.0	33.1	34.9	32.7	31.8	30.2	29.6	29.5
Of which:										
Wages and salaries 1/	12.1	12.6	13.0	12.9	12.8	12.7	12.6	12.5	12.4	12.4
Transfers and subsidies	9.6	7.9	7.0	6.5	6.9	6.7	6.6	6.5	6.3	6.2
Capital expenditure	4.5	4.0	2.9	7.8	9.1	7.1	6.1	4.6	4.1	4.1
Overall balance	-3.9	-3.2	-2.1	-6.2	-6.7	-5.5	-4.1	-2.6	-1.7	-1.2
Of which: Primary balance	-0.9	-0.7	0.3	-3.7	-4.1	-2.9	-1.2	0.4	1.4	2.0
Financing	3.9	3.2	2.1	6.2	5.8	4.3	2.9	1.3	1.7	1.2
Net external financing	8.2	1.0	0.5	2.8	2.8	3.7	2.5	1.2	0.9	0.9
Net domestic financing	-7.3	0.3	-0.2	3.1	3.9	2.1	1.9	1.6	1.1	0.5
Other	3.0	1.9	1.7	0.2	-0.8	-1.5	-1.4	-1.5	-0.3	-0.3
Gross public sector debt	65.4	67.7	72.2	74.0	76.4	78.6	79.3	78.4	76.6	74.5
External sector										
Current account balance	-30.6	-29.4	-27.8	-29.2	-32.7	-30.2	-26.8	-24.1	-21.9	-20.0
Gross public sector external debt (end of period)	40.8	42.1	39.8	41.1	43.4	44.6	43.9	42.1	40.1	38.6
External public debt service										
(In percent of exports of goods and services)	17.5	17.4	16.2	16.1	16.9	18.8	19.6	17.9	15.7	13.1

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

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

Table 8. St. Vincent and the Grenadines : Indicators of Capacity to Repay the Fund, 2014-24

					Projections						
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Obligations from existing drawings *(In millions of SDRs)*	0.4	0.8	1.0	1.4	1.4	1.1	0.7	0.5	0.0	0.0	0.0
Principal	0.4	0.8	1.0	1.4	1.4	1.0	0.7	0.5	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/											
(In millions of SDRs)	0.4	0.8	1.0	2.0	2.5	1.8	1.1	0.9	0.4	0.4	0.2
Principal	0.4	0.8	1.0	1.9	2.5	1.8	1.1	0.9	0.4	0.4	0.2
Charges/interest	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total existing and prospective obligations											
In millions of U.S. dollars	0.6	1.2	1.6	3.1	4.0	2.9	1.8	1.4	0.7	0.7	0.4
In percent of exports of goods and services	0.3	0.6	0.7	1.3	1.6	1.1	0.6	0.5	0.2	0.2	0.1
In percent of debt service	2.1	3.9	4.9	10.3	12.7	8.4	4.4	3.2	1.6	1.7	0.9
In percent of quota	4.8	9.6	12.0	23.9	30.0	21.4	13.3	10.6	5.2	5.2	2.7
In percent of net international reserves 2/	0.5	1.1	1.4	2.9	3.7	2.3	1.2	0.9	0.4	0.4	0.2
Fund credit outstanding 1/											
In millions of SDRs	10.8	10.1	9.1	7.2	4.8	3.0	1.9	1.0	0.6	0.2	0.0
In millions of U.S. dollars	16.7	15.7	14.3	11.4	7.6	4.8	3.1	1.7	1.0	0.3	0.0
In percent of exports of goods and services	8.3	7.4	6.4	4.7	3.0	1.8	1.1	0.6	0.3	0.1	0.0
In percent of debt service	56.8	48.8	44.9	37.3	24.3	14.1	7.7	3.8	2.3	0.8	0.0
In percent of quota	130.5	121.4	110.0	86.7	57.2	36.0	23.0	12.5	7.5	2.5	0.0
In percent of net international reserves 2/	13.4	13.9	12.5	10.6	7.1	3.9	2.1	1.1	0.6	0.2	0.0
Net use of Fund credit 1/ *(In millions of SDRs)*	3.8	-0.8	-1.0	-2.0	-2.5	-1.8	-1.1	-0.9	-0.4	-0.4	-0.2
Disbursments	4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	0.4	0.8	1.0	2.0	2.5	1.8	1.1	0.9	0.4	0.4	0.2
Memorandum items:											
Exports of goods and services (millions of U.S. dollars)	202.0	212.8	225.2	240.9	254.1	266.5	280.1	287.9	297.3	306.9	316.8
External debt service (millions of U.S. dollars)	29.4	32.1	31.9	30.5	31.2	34.1	40.0	44.2	43.1	41.4	37.7
Quota (millions of SDRs)	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3
Quota (millions of U.S. dollars)	12.8	12.9	13.0	13.1	13.2	13.3	13.3	13.3	13.3	13.3	13.3
Net imputed international reserves (millions of U.S. dollars)	124.5	113.1	114.7	107.9	107.4	122.2	145.3	152.6	160.3	167.5	175.0
GDP (millions of U.S. dollars)	744.7	771.8	805.8	842.2	881.9	920.9	961.6	1004.2	1048.6	1095.0	1143.4
SDRs per U.S. dollar 2/	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6

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

1/ Includes the ESF-RAC approved in 2009 (45 percent of quota), two RCFs aproved in 2011 (40 percent of quota) and the requested RCF-RFI blend in the ammount of SDR 4.15 million (50 percent of quota).

2/ WEO GAS projections, dated March 4, 2014 up to 2019, after which the exchange rate is fixed at the 2019 level.

Table 9. St. Vincent and the Grenadines: Medium-Term Projections, Active Policy Scenario, 2010-19

(In percent of GDP, otherwise specified)

				Est.	Projection					
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Output and prices										
Real GDP growth at factor cost (in percent)	-2.3	0.3	1.5	2.3	1.7	2.6	2.9	2.8	2.8	2.8
Nominal GDP	1.0	-0.6	2.6	3.7	3.4	3.8	4.4	4.5	4.6	4.1
Consumer Price Index, end-of-period (percent change)	0.9	4.7	1.0	0.0	2.2	1.7	1.8	1.8	2.0	2.0
Consumer Price Index, average (percent change)	0.8	3.2	2.6	0.8	1.2	1.5	1.5	1.7	2.0	2.0
Central government finances										
Total revenue and grants	29.0	27.8	26.9	26.9	28.3	27.4	28.2	28.5	29.0	29.1
Of which:										
Tax revenue	22.9	21.3	21.6	21.6	21.5	22.1	22.8	23.6	24.3	24.3
Taxes on income and profits	5.9	6.3	6.5	5.7	5.7	5.9	6.2	6.4	6.7	6.7
Taxes on property	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on international trade	9.7	9.4	9.2	8.8	8.6	8.8	9.0	9.3	9.6	9.6
Taxes on domestic transactions	7.1	5.4	5.7	6.9	7.0	7.2	7.4	7.6	7.7	7.7
Grants	2.3	2.5	1.6	1.3	2.9	1.9	1.9	1.5	1.3	1.3
Total expenditure and net lending	32.9	31.1	29.0	33.1	34.9	32.6	31.6	29.8	29.0	28.9
Of which:										
Wages and salaries 1/	12.1	12.6	13.0	12.9	12.8	12.6	12.4	12.2	12.0	12.0
Transfers and subsidies	9.6	7.9	7.0	6.5	6.9	6.7	6.6	6.5	6.3	6.3
Capital expenditure	4.5	4.0	2.9	7.8	9.1	7.1	6.1	4.6	4.1	4.1
Overall balance	-3.9	-3.2	-2.1	-6.2	-6.7	-5.2	-3.4	-1.3	0.0	0.2
Of which: Primary balance	-0.9	-0.7	0.3	-3.7	-4.1	-2.6	-0.5	1.6	3.0	3.0
Financing	3.9	3.2	2.1	6.2	5.8	4.0	2.2	0.0	0.0	-0.2
Net external financing	8.2	1.0	0.5	2.8	2.8	3.7	2.5	1.2	0.9	0.9
Net domestic financing	-7.3	0.3	-0.2	3.1	3.9	1.8	1.2	0.4	-0.7	-0.8
Other	3.0	1.9	1.7	0.2	-0.8	-1.5	-1.4	-1.5	-0.3	-0.3
Gross public sector debt	65.4	67.7	72.2	74.0	76.4	78.2	78.2	76.0	72.7	69.6
External sector										
Current account balance	-30.6	-29.4	-27.8	-29.2	-32.7	-29.6	-27.6	-23.3	-20.6	-18.8
Gross public sector external debt (end of period)	40.8	42.1	39.8	41.1	43.4	44.5	43.9	42.1	40.1	38.7
External public debt service										
(In percent of exports of goods and services)	17.5	17.4	16.2	16.1	16.9	18.8	19.6	17.9	15.7	13.2

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

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

Appendix I. Letter of Intent

Kingstown, St Vincent and the Grenadines
July 9, 2014

Mrs. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mrs. Lagarde,

1. On December 24, 2013, St. Vincent and the Grenadines was hit by a trough system. Torrential rains caused flooding of rivers and triggered landslides that caused the loss of 12 lives. Severe damages to road, energy and water infrastructure, the private housing stock, and the agricultural sector are estimated to have reached US$86.3 million (12 percent of GDP), with losses of output estimated to be an additional US$22.0 million (3 percent of GDP).

2. The floods have set back our efforts at reactivating the economy and further exacerbated the adverse impact of the last two natural disasters that affected St. Vincent and the Grenadines over the last three years. Real GDP growth, which started to regain strength in 2013 after four years of low or negative growth, had been expected at 2.3 percent in 2014, but has now had to be revised down to 1.7 percent, reflecting losses due both to the disruption of transportation from damaged infrastructure and a decline in agricultural output. While reconstruction activity is expected to boost growth starting in the second half of 2014, higher construction and energy-related imports and rehabilitation of the agricultural sector will put pressure on the balance of payments.

3. On the fiscal front, the immediate post-floods needs were met by grants from donors, regional assistance and by reallocations from non-priority expenditures. Nonetheless, the budget deficit will temporarily widen, increasing to an estimated 7 percent of GDP in 2014. That said, budget execution will depend on the availability of grants and concessional resources. If financing falls short of expectations, we plan to cut lower-priority capital spending, limit new hiring, and reduce transfers to state-owned enterprises, while protecting social expenditures.

4. However, we are facing significant costs from reconstruction and rehabilitation as well as from the necessity of addressing the social needs of those affected by the floods, especially as the populations in the affected areas are among the poorest. To contain the adverse impact on our fiscal position and debt sustainability, we intend to limit commercial borrowing (except for some commercial financing to complete the new international airport) by confining the financing of the rehabilitation and reconstruction effort to available grants and concessional resources. We have already received pledges of about EC$32 million (out of a total of EC$59 million required in 2014) of funding in grants and concessional loans to cover floods related costs.

5. Against this background, the Government of St. Vincent and the Grenadines requests emergency financing from the IMF in the equivalent of SDR 4.15 million (US$6.4 million), equivalent to disbursement of 25 percent of quota under the Rapid Credit Facility (RCF) and to a purchase of 25 percent of quota under the Rapid Financing Instrument (RFI). The IMF assistance will help meet the urgent foreign exchange needs stemming from the disaster, including for the import of fuel and construction materials, and ease pressure on our balance of payments for the coming year.

6. We remain committed to fiscal consolidation and to keeping our debt trajectory on a declining path to meet the ECCB target of 60 percent of GDP in the medium term. Although the timing of such consolidation will have to be taken into account in the context of flood-related expenditures, we are targeting primary surpluses around 2 percent of GDP over the medium-term through a combination of both revenue and expenditure measures. In particular, we plan to (i) rationalize tax exemptions, (ii) improve tax compliance through enhanced enforcement and staff training, including via audits, (iii) complete full implementation of the electronic filing and payments system, (iv) implement the recommendations of the Report on the Data Matching Project between Customs and Excise Department (CED) and the Inland Revenue Department (IRD) (in collaboration with Tax Administration and Customs Experts from CARTAC), (v) update the medium-term debt strategy, (vi) establish an arrears monitoring and management system, (vii) reduce the wage bill by 0.4 percent of GDP from 2014 to 2019, and (viii) limit transfers to state owned enterprises by emphasizing efficiency, while closely monitoring their activities.

7. As a result of the frequency of natural disasters over the past few years, with the help of the World Bank and the Caribbean Development Bank, we are working to reduce the impact of future natural disasters by increasing our response capacity and undertaking a variety of measures to mitigate the effects of disasters including those stemming from climate change. Importantly, we are

also expanding our coverage with the Caribbean Catastrophe Risk Insurance Facility (CCRIF) to cover floods.

8. The government attaches great importance to implementing its agenda of structural reforms aimed at fostering macroeconomic stability and growth and reducing poverty. In this context, we plan to enhance our efforts to undertake civil service and pension reforms, which could yield additional savings and improve competitiveness in the labor market. On the financial sector front, we have successfully stabilised the Building and Loan Association. A recapitalisation plan was approved by its members in August 2013 and successfully implemented in December 2013. The deposit freeze is expected to be gradually lifted.

9. It is hoped that the international financial community will support our efforts to restore economic growth and rehabilitate and reconstruct our severely damaged social and economic infrastructure. We continue to seek grants and concessional resources to help meet these needs. We look forward to an early approval of financial assistance by the IMF.

10. The government intends to continue to maintain a close policy dialogue with the Fund in an effort to strengthen St. Vincent and the Grenadines' balance of payments, refrain from measures or policies that would compound St. Vincent and the Grenadines' balance of payments difficulties and maintain macroeconomic stability. The government does not intend to impose new, or intensify existing, restrictions on the making of payments and transfers for current international transactions, introduce new, or intensify existing, trade restrictions for balance of payments purposes, or enter into bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement. As a safeguards assessment is required for an RCF, we note that the next ECCB safeguards assessment is scheduled to take place in 2015.

Sincerely yours,

/s/

Dr. The Hon. Ralph E. Gonsalves
Prime Minister and Minister of Finance

ST. VINCENT AND THE GRENADINES

July 17, 2014

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—DEBT SUSTAINABILITY ANALYSIS

Approved By
Krishna Srinivasan (WHD) and Bob Traa (SPR)

Prepared by the Staff of the International Monetary Fund.

The current Debt Sustainability Analysis (DSA) indicates that St. Vincent and the Grenadines' risk of debt distress remains moderate, based on an assessment of public external debt. However, the DSA reveals the potential for heightened overall risk of debt distress under different scenarios, reflecting vulnerabilities related to domestic debt, and given the deterioration in the fiscal position since the previous DSA in 2012.[1] *Despite rising in recent years, the public debt to GDP ratio is projected to return to a sustainable trajectory over the medium term in light of the authorities' commitment to undertake fiscal consolidation measures and the projected recovery in economic growth.*

[1] St. Vincent and the Grenadines' average Country Policy and Institutional Assessment Ratings over 2010-12 is 3.77.

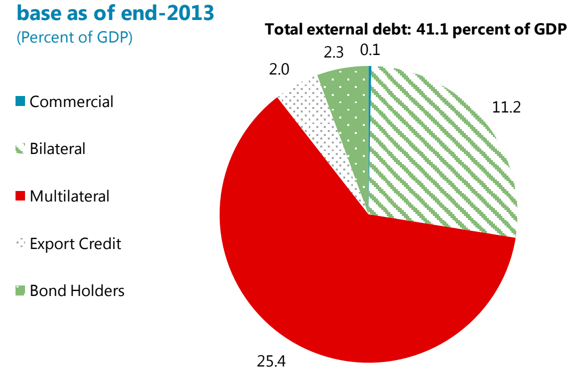
BACKGROUND

1. **St. Vincent and the Grenadines' economy has been buffeted by a string of adverse shocks over the last five years.** Economic activity contracted by about 4½ percent cumulatively during 2008–11, reflecting the impacts of the global slowdown that began in 2007, the international commodity price increases in 2008-09, Hurricane Tomas in 2010 and floods in 2011. More recently, on December 24th 2013, the country was hit by floods, causing unusually massive economic losses estimated at 15 percent of GDP, more than twice the damages inflicted by either of the two previous natural disasters in 2010 and 2011.[2]

2. **Consequently, the nascent rebound from the weak macroeconomic performance of recent years is likely to be delayed.** Prior to the floods, the economy had started to rebound, growing by an estimated 2.3 percent in 2013, and inflation has been low and stable since the global crisis. Reflecting strong FDI inflows and imports related to the construction of the international airport, the current account deficit increased in 2013 to 29.2 percent of GDP.

3. **These adverse exogenous shocks and the government's efforts to counter them resulted in a worsened debt position.** The central government debt-to-GDP ratio increased by about 15 percent of GDP over 2008-2013. By 2013, total public debt stood at 74 percent of GDP, with external debt amounting to about 41.1 percent of GDP.[3] While these ratios are elevated, several factors temper the risk, notably that about two-thirds of external debt is multilateral debt and one-fourth is on concessional terms. In addition, rollover risk is relatively low as the average maturity of government domestic bonds is 9.5 years, and the creditor base is stable.

St. Vincent and the Grenadines: External debt - Creditor base as of end-2013
(Percent of GDP)

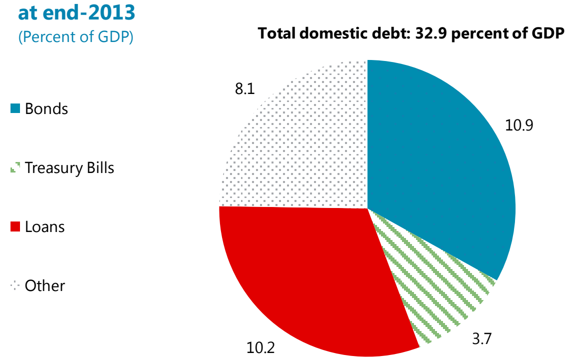


Sources: St. Vincent and the Grenadines authorities.

[2] The World Bank described the rains that caused the floods as a once in 100 year event.

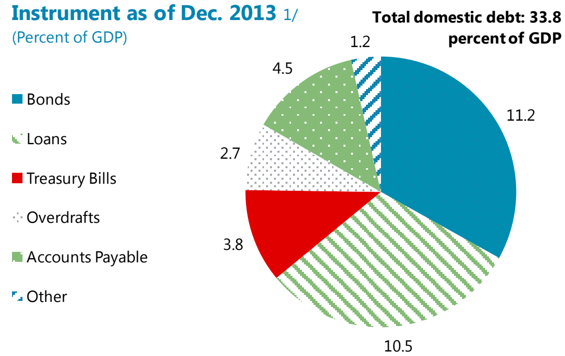
[3] As of end-2013, central government commercial external debt represented 100 percent of total public external commercial debt and about 90 percent of total bilateral and multilateral external debt.

St. Vincent and the Grenadines: Domestic debt at end-2013
(Percent of GDP)



Sources: St. Vincent and the Grenadines authorities.

St. Vincent and the Grenadines: Domestic Debt by Instrument as of Dec. 2013 1/
(Percent of GDP)



1/ The share of intergovernmental holdings is 12.5 percent of total public domestic debt.
Sources: St. Vincent and the Grenadines authorities.

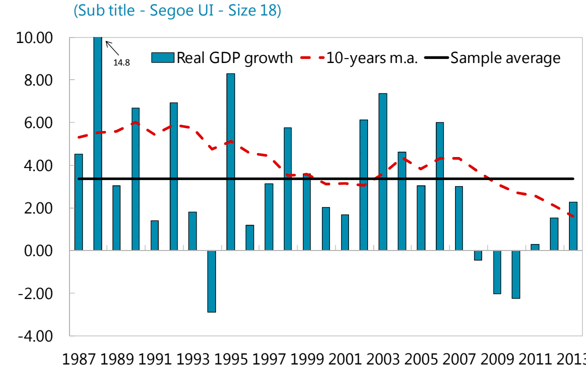
4. The authorities intend to place the debt on a downward path going forward. Apart from their response to natural disasters, the authorities have shown fiscal restraint, posting primary surpluses in non-disaster years of 1.1 percent of GDP in 2008 and 0.3 percent of GDP in 2012. They are committed to make advances on a number of revenue-enhancing measures as indicated in their Letter. Their track-record in implementing commitments under previous RCFs is good, notably improving tax administration, including broadening the property tax base and fully operationalizing the Large Taxpayer Unit. They will continue to improve public finance management, with help from a range of technical assistance.[4]

UNDERLYING DSA ASSUMPTIONS

5. The DSA analysis is based on the following macroeconomic assumptions:[5]

6. Growth and inflation: The DSA template is generating historical scenarios based on 10-year moving averages, which yields average growth during 2004-2013 of only 1.6 percent a year, as the result of major global macroeconomic shocks. However, this is the country's lowest 10-year growth performance since independence in 1978

St. Vincent and the Grenadines: GDP growth
(Sub title - Segoe UI - Size 18)



Sources: IMF staff estimates.

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[4] The authorities have received technical assistance from CARTAC as well as on public debt sustainability (FAD) and debt management (MCM).

[5] The DSA is performed at the general government level.

(text chart) and well below the 3.4 percent annual average over the last 25 years. In this context, staff is basing the DSA on a long-term growth assumption of 3.1 percent, especially given that the completion of the international airport over the next 18 months is expected to significantly increase medium-term tourism arrivals and growth.[6,7] End-period inflation is projected to reach around 2.1 percent in 2014, reflecting mainly imported inflation related to the rehabilitation and reconstruction activities. Over the medium term, inflation is projected to revert to its long-term average of around 2 percent, anchored by the currency board arrangement.

7. **Fiscal balance**: While the central government's primary balance is projected to register a deficit of 4.1 percent of GDP in 2014, in the baseline scenario it is projected that the primary balance will register surpluses around 2 percent of GDP by 2019 to reflect the government's commitment in their Letter of Intent. Revenue is projected to increase over the medium term, reflecting the authorities' implementation of a number of revenue enhancing measures such as a market-based property tax, improvements in tax compliance, including enhancements of tax audits, and streamlining exemptions. With the end of the large expenditures related to the construction of the airport and the floods, capital expenditures are expected to average about 4 percent of GDP in the medium term, diminishing significantly the overall fiscal deficits and external financing needs. Central government external grants, which are expected to peak in 2014 at about 3 percent of GDP, are projected to decline to about 1 percent of GDP over the medium and long term.

8. **External Sector**: The current account deficit is projected to narrow to pre-flood levels in 2015 and is expected to continue narrowing to around 18½ percent of GDP by 2019. Tourism and FDI are assumed to rebound as economic recovery strengthens in source countries (mainly North America and Europe) together with the completion of the airport, over the medium term. The grant element of new external borrowing is projected to decline over the long term, reflecting difficulty of accessing concessional resources as per capita income increases.

EVALUATION OF EXTERNAL DEBT SUSTAINABILITY

9. **Even thought St. Vincent and the Grenadines' external debt is projected to increase significantly until 2015, the risk of debt distress remains moderate under the baseline scenario.** The PV of public sector external debt is projected to peak at 38½ percent of GDP in 2016 and is expected to decline to 35 percent of GDP by 2019, well below the threshold value of 50 percent. The present values of debt and debt service to export and revenue ratios also remain below the respective thresholds under the baseline scenario. Such outcomes are caused by the

[6] The 2012 DSA Update projection of long-term growth was 3½ percent.

[7] See Culiuc, Alexander, "Determinants of International Tourism", Draft IMF Working Paper (IMF WP/14/82), which shows that tourism to small islands is highly sensitive to the introduction/removal of direct flights.

high share of debt subject to concessional terms, as about two-thirds of the external debt is due to multilateral institutions, and by the fact that most of the capital expenditures related to the recent and past floods have been financed by grants.

10. Sensitivity analysis shows that St. Vincent and the Grenadines' external debt dynamics are vulnerable to changes in growth and net official and FDI flows. Given that St. Vincent and the Grenadines finances its current account deficit mainly through FDI, assuming lower FDI would put St. Vincent and the Grenadines' external debt under distress. In such a case, the PV of external debt-to-GDP ratio would reach 52 percent by 2016, breaching the country-specific threshold of 50 percent. In addition, a scenario of low growth would also put external debt under distress.

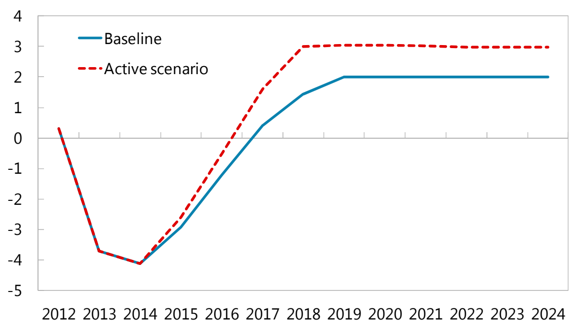
EVALUATION OF PUBLIC DEBT SECTOR SUSTAINABILITY

11. Although public sector debt has risen in recent years, the authorities' planned fiscal measures should put debt on a downward trajectory within two years. The public sector debt-to-GDP ratio is projected to peak at almost 80 percent of GDP in 2016, when the construction of the new airport is expected to be completed, approaching the threshold related to the Present Value (PV) of 74 percent. Yet, debt is expected to start to fall by 2017, reflecting both the unwinding of the main flood-related expenditures and fiscal consolidation measures that the authorities plan to take, combined with the projected rebound in economic growth.

12. Sensitivity analysis shows that sustained high primary deficits and lower growth would be key vulnerabilities for St. Vincent and the Grenadine's debt dynamics. Under a scenario where the primary balance is unchanged at the 2014 level, the Present Value (PV) of the debt-to-GDP ratio would reach 87 percent in 2019 compared to 71 percent in the baseline. If this scenario is replicated with the 2008-2013 primary deficit average of 0.7 percent of GDP starting in 2014, then the PV of debt-to-GDP ratio would fall to 75 percent in 2019. However, implementing the policies to return to a path consistent with the authorities' commitment to reduce public sector debt to 60 percent of GDP (in line with the regional target) may be challenging. In this context, while the authorities will only seek grants and concessional loans to finance rehabilitation and reconstruction, the ability to deal with the additional debt burden would be at risk from revenue underperformance in scenarios in which either domestic or international growth does not pick-up. However, in the event that funding does not become available, the authorities plan to adjust spending and non-flood related capital expenditures.

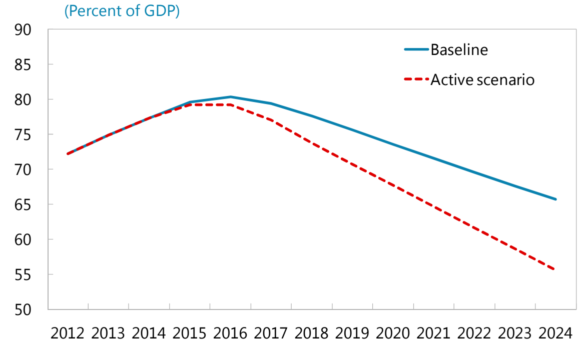
13. Active policy scenario: In the context of the 2012 Article IV consultation (when public debt was projected to reach 70 percent of GDP), the authorities' intention was to generate a primary fiscal surplus of the central government of about 1½ percent of GDP in order to bring the debt-to-GDP ratio below the ECCB indicative target of 60 percent by 2020. Given the impact of the large recent exogenous shocks on debt, it seems reasonable to extend the time frame for achieving this indicative target to 2023 under an active scenario (the target is expected to be achieved in 2026 under the baseline), which could be achieved if the authorities reached, and thereafter maintained, a central government's primary surplus of 3 percent of GDP by 2018.[8] This would require further modest consolidation measures, including revenue enhancements through limiting discretionary exemptions of value-added and corporate taxes that would increase revenues by ½ percent of GDP per annum by 2019, and additional savings of ½ percent of GDP, also by 2019, of which 2/3 would come from attrition and efficiency gains on the wage bill and the remaining from cuts on transfers and subsidies to SOEs.

St. Vincent and the Grenadines: Primary Balance Projections
(Percent of GDP)



Sources: Ministry of Finance, and IMF staff calculations.

St. Vincent and the Grenadines: Public Debt Projections
(Percent of GDP)



Sources: Ministry of Finance, and IMF staff calculations.

14. Natural disasters: St. Vincent and the Grenadines is subject to frequent natural disasters and the authorities are enhancing their efforts to build resilience against them. Since Hurricane Tomas in 2010, the authorities have been stepping up their Emergency Recovery and Disaster Management Program, supported by the Organization of Eastern Caribbean States, which coordinates immediate responses across the region. In the aftermath of the December 2013 floods, the World Bank has agreed on additional financing of US$40.6 million over the next 3 years to scale up their Regional Disaster Vulnerability Reduction Project. This will support institutional strengthening to address disaster preparedness and climate change impacts, but also measures that should help improve the physical resilience of the national infrastructure against future natural disasters. Such initiatives and programs are expected to reduce the fiscal costs of future natural disasters. In addition, the Caribbean Catastrophe Risk Insurance Facility (CCRIF) only recently started offering coverage for excessive rainfall events, which the authorities intend to purchase this year, although the coverage limit is low for such events at US$0.8 million. Still, with this, St. Vincent and the Grenadines will have at least some coverage against the most

[8] The active scenario is designed to reach a primary balance of the central government of 3 percent of GDP by 2018 (see Table 9 of the Staff Report).

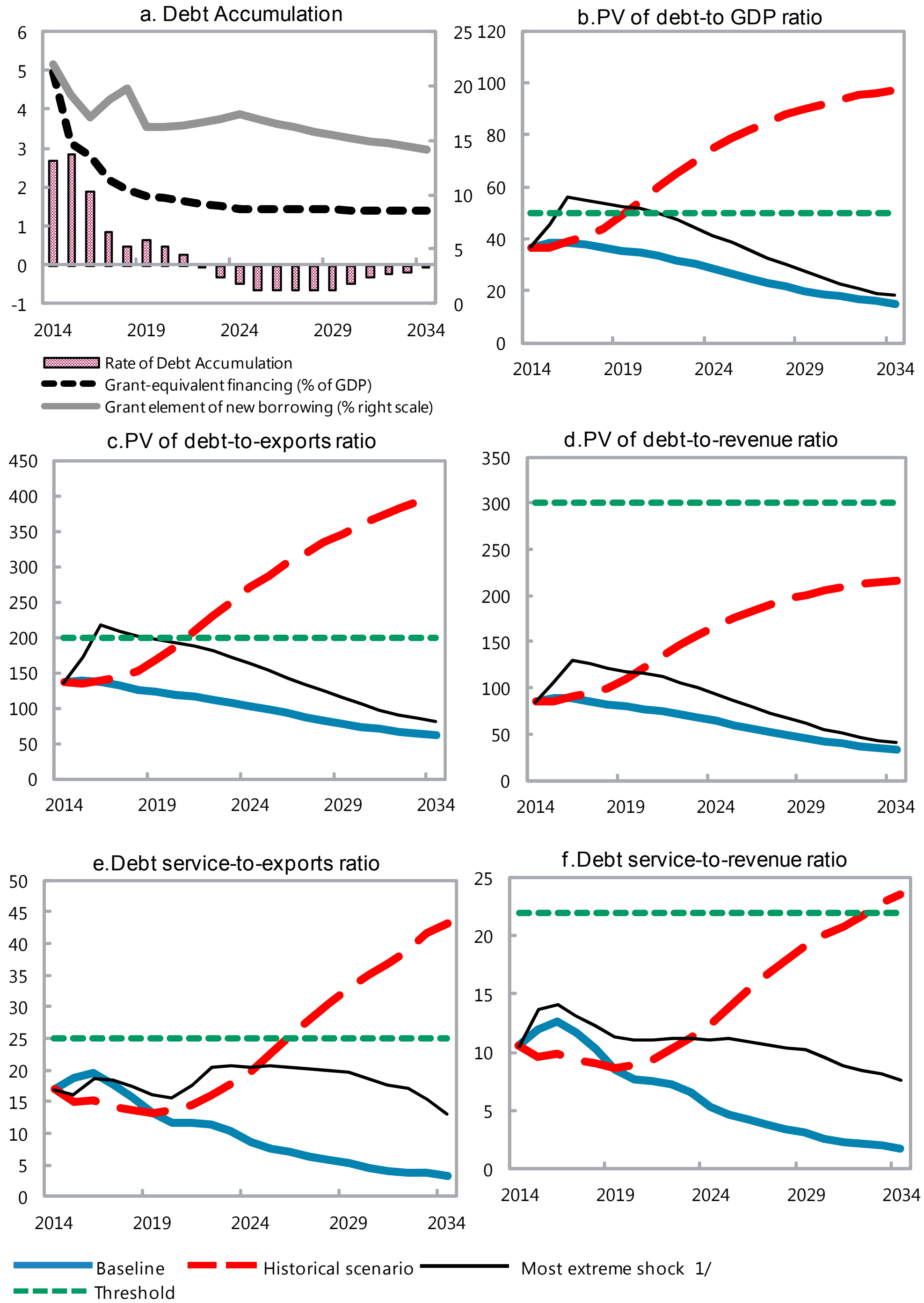
common disasters in the region, i.e. storms, floods, and earthquakes. Nonetheless, the risk of more extreme weather events due to climate change cannot be ruled out.

CONCLUSION

15. St. Vincent and the Grenadines' risk of external debt distress remains moderate, based on an assessment of public external debt. While the fiscal situation was adversely impacted given the series of adverse exogenous shocks that affected the country, both the nature and scale of the December 2013 shock were unprecedented, while the airport constitutes a significant, but highly growth-enhancing, investment. Thus, the recent deterioration in debt ratios is largely the result of one-off factors.

16. Nonetheless, the DSA reveals the potential for a heightened overall risk of debt distress under a number of different scenarios reflecting vulnerabilities related to domestic debt, in particular, lower growth or a failure to implement the needed fiscal adjustments. However, the authorities appear committed to intensifying fiscal consolidation measures in order to ensure sustainable public finances, and they have a good track record in implementing commitments under their previous RCFs. These policy measures, along with projected improvements in economic prospects, are expected to improve the fiscal situation and reduce the public debt-to-GDP ratio over the medium-term.

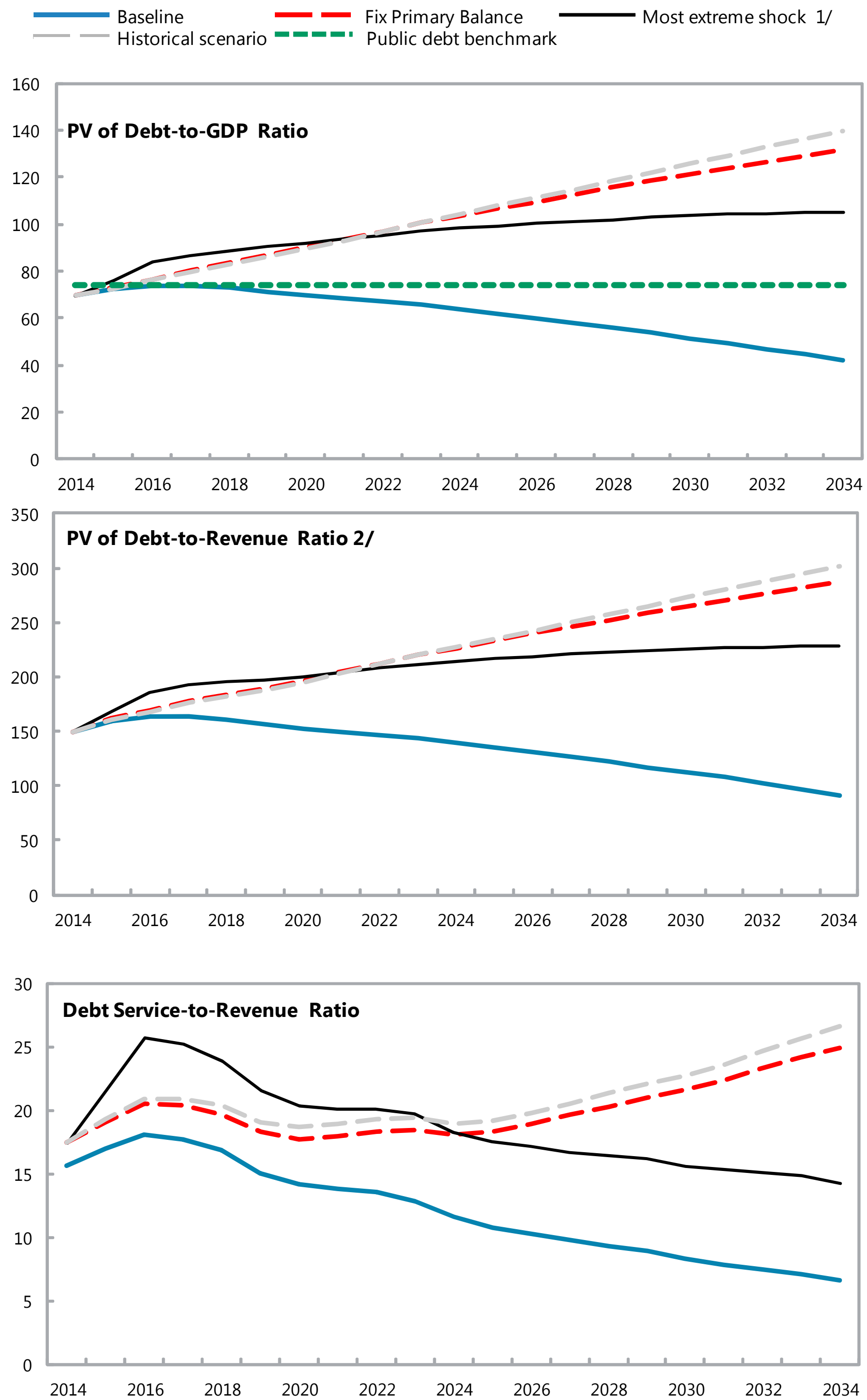
Figure 1. St. Vincent and the Grenadines: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2014-2034 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Combination shock and in figure f. to a One-time depreciation shock

Figure 2. St. Vincent and the Grenadines: Indicators of Public Debt Under Alternative Scenarios, 2014-2034 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.
2/ Revenues are defined inclusive of grants.

Table 1a. St. Vincent and the Grenadines: External Debt Sustainability Framework, Baseline Scenario, 2011-2034 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical [6/] Average	Standard [6/] Deviation	Projections									
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-2019 Average	2024	2034	2020-2034 Average
External debt (nominal) 1/	**42.1**	**39.8**	**41.1**			**43.4**	**44.6**	**43.9**	**42.1**	**40.1**	**38.6**		**28.9**	**15.5**	
of which: public and publicly guaranteed (PPG)	42.1	39.8	41.1			43.4	44.6	43.9	42.1	40.1	38.6		28.9	15.5	
Change in external debt	1.4	-2.4	1.3			2.3	1.1	-0.7	-1.8	-2.0	-1.5		-1.9	-0.7	
Identified net debt-creating flows	17.0	10.1	10.2			14.5	11.4	7.6	6.8	4.8	3.2		2.1	2.0	
Non-interest current account deficit	**27.9**	**26.6**	**27.9**	**25.1**	**5.3**	**31.4**	**28.7**	**25.3**	**22.6**	**20.4**	**18.6**		**16.7**	**15.0**	16.3
Deficit in balance of goods and services	28.6	30.8	32.0			34.8	31.8	28.2	25.4	23.0	21.1		18.7	16.4	
Exports	27.0	27.1	26.9			27.1	27.6	27.9	28.6	28.8	28.9		27.7	24.3	
Imports	55.6	57.9	59.0			61.9	59.3	56.1	54.0	51.9	50.0		46.3	40.7	
Net current transfers (negative = inflow)	-1.2	-3.6	-3.4	-2.5	0.9	-3.2	-3.1	-3.0	-3.0	-2.9	-2.8		-2.6	-2.3	-2.5
of which: official	-0.4	-2.0	-2.0			-2.0	-1.9	-1.9	-1.8	-1.8	-1.7		-1.6	-1.4	
Other current account flows (negative = net inflow)	0.5	-0.7	-0.8			-0.3	0.1	0.1	0.2	0.3	0.4		0.6	1.0	
Net FDI (negative = inflow)	**-12.6**	**-16.6**	**-17.6**	**-15.6**	**4.2**	**-17.6**	**-17.7**	**-17.9**	**-16.0**	**-15.8**	**-15.7**		**-14.8**	**-13.2**	-14.3
Endogenous debt dynamics 2/	**1.7**	**0.2**	**-0.1**			**0.7**	**0.4**	**0.2**	**0.2**	**0.2**	**0.2**		**0.2**	**0.1**	
Contribution from nominal interest rate	1.5	1.2	1.3			1.3	1.5	1.5	1.5	1.5	1.4		1.1	0.6	
Contribution from real GDP growth	-0.1	-0.6	-0.9			-0.7	-1.1	-1.3	-1.3	-1.2	-1.2		-0.9	-0.5	
Contribution from price and exchange rate changes	0.4	-0.4	-0.6			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-15.6**	**-12.5**	**-8.8**			**-12.1**	**-10.3**	**-8.3**	**-8.5**	**-6.9**	**-4.7**		**-4.0**	**-2.7**	
of which: exceptional financing	-0.8	0.0	0.0			-0.8	0.1	0.2	0.2	0.4	0.3		0.0	0.0	
PV of external debt 4/	...	...	35.3			36.7	38.2	38.4	37.5	36.3	35.4		28.4	15.1	
In percent of exports	...	...	131.0			135.4	138.5	137.3	131.2	126.0	122.2		102.5	62.2	
PV of PPG external debt	**...**	**...**	**35.3**			**36.7**	**38.2**	**38.4**	**37.5**	**36.3**	**35.4**		**28.4**	**15.1**	
In percent of exports	**...**	**...**	**131.0**			**135.4**	**138.5**	**137.3**	**131.2**	**126.0**	**122.2**		**102.5**	**62.2**	
In percent of government revenues	**...**	**...**	**81.8**			**84.5**	**88.1**	**88.7**	**86.1**	**82.4**	**79.6**		**63.7**	**33.7**	
Debt service-to-exports ratio (in percent)	**17.4**	**16.2**	**16.1**			**16.9**	**18.8**	**19.6**	**17.9**	**15.7**	**13.1**		**8.5**	**3.2**	
PPG debt service-to-exports ratio (in percent)	**17.4**	**16.2**	**16.1**			**16.9**	**18.8**	**19.6**	**17.9**	**15.7**	**13.1**		**8.5**	**3.2**	
PPG debt service-to-revenue ratio (in percent)	**11.0**	**10.3**	**10.0**			**10.5**	**11.9**	**12.7**	**11.7**	**10.3**	**8.5**		**5.3**	**1.7**	
Total gross financing need (Billions of U.S. dollars)	0.1	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.0	0.0	
Non-interest current account deficit that stabilizes debt ratio	26.6	28.9	26.5			29.0	27.6	25.9	24.3	22.5	20.2		18.6	15.7	
Key macroeconomic assumptions															
Real GDP growth (in percent)	0.3	1.5	2.3	1.6	2.7	1.7	2.6	3.0	3.1	3.1	3.1	2.8	3.1	3.1	3.1
GDP deflator in US dollar terms (change in percent)	-0.9	1.0	1.5	2.5	2.8	1.7	1.0	1.3	1.4	1.6	1.3	1.4	1.3	1.3	1.3
Effective interest rate (percent) 5/	3.6	3.0	3.4	4.0	0.7	3.3	3.5	3.6	3.6	3.6	3.6	3.6	3.8	3.8	3.6
Growth of exports of G&S (US dollar terms, in percent)	-0.2	3.0	3.1	1.3	5.3	4.1	5.3	5.8	7.0	5.5	4.9	5.4	3.1	3.1	3.2
Growth of imports of G&S (US dollar terms, in percent)	-3.2	6.8	5.7	6.2	9.2	8.6	-0.7	-1.2	0.6	0.5	0.7	1.4	3.1	3.1	3.0
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	22.0	19.1	17.1	18.7	19.8	16.3	18.8	17.3	14.2	15.8
Government revenues (excluding grants, in percent of GDP)	42.7	42.8	43.2			43.5	43.3	43.2	43.6	44.0	44.5		44.5	44.8	44.6
Aid flows (in Billions of US dollars) 7/	0.038	0.040	0.023			0.026	0.016	0.017	0.014	0.013	0.013		0.014	0.021	
of which: Grants	0.038	0.038	0.021			0.023	0.015	0.015	0.013	0.011	0.012		0.013	0.020	
of which: Concessional loans	...	0.002	0.002			0.002	0.002	0.002	0.001	0.001	0.001		0.001	0.001	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			4.9	3.1	2.8	2.2	1.9	1.8		1.4	1.4	1.5
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			43.6	37.7	39.4	42.2	43.5	42.3		48.6	46.6	46.8
Memorandum items:															
Nominal GDP (Billions of US dollars)	0.677	0.694	0.720			0.745	0.772	0.806	0.842	0.882	0.921		1.143	1.763	
Nominal dollar GDP growth	-0.6	2.6	3.7			3.4	3.6	4.4	4.5	4.7	4.4	4.2	4.4	4.4	4.4
PV of PPG external debt (in Billions of US dollars)			0.25			0.27	0.29	0.31	0.32	0.32	0.33		0.32	0.27	
(PVt-PVt-1)/GDPt-1 (in percent)						2.7	2.9	1.9	0.8	0.5	0.6	1.6	-0.5	-0.1	-0.3
Gross workers' remittances (Billions of US dollars)	0.024	0.024	0.024			0.025	0.025	0.025	0.025	0.025	0.025		0.029	0.039	
PV of PPG external debt (in percent of GDP + remittances)	...	...	34.2			35.6	37.0	37.2	36.4	35.3	34.4		27.7	14.8	
PV of PPG external debt (in percent of exports + remittances)	...	...	116.7			120.7	123.9	123.7	118.9	114.6	111.6		94.0	57.0	
Debt service of PPG external debt (in percent of exports + remittance	...	...	14.3			15.1	16.8	17.7	16.2	14.3	12.0		7.8	2.9	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

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/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ 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).

Table 1b. St. Vincent and the Grenadines: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-2034
(continued)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to GDP ratio								
Baseline	37	38	38	38	36	35	**28**	15
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	37	37	39	41	44	49	**75**	97
A2. New public sector loans on less favorable terms in 2014-2034 2	37	39	40	40	39	39	**34**	25
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	37	40	42	41	39	38	**31**	16
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	37	40	45	44	43	42	**33**	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	37	39	40	39	37	36	**29**	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	37	45	52	51	50	49	**38**	17
B5. Combination of B1-B4 using one-half standard deviation shocks	37	45	56	55	54	53	**41**	18
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	37	54	55	53	52	50	**40**	21
PV of debt-to-exports ratio								
Baseline	135	139	137	131	126	122	**103**	62
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	135	133	139	142	152	168	**270**	399
A2. New public sector loans on less favorable terms in 2014-2034 2	135	141	143	139	136	134	**124**	103
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	135	139	137	131	126	122	**103**	62
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	135	160	193	185	178	174	**145**	79
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	135	139	137	131	126	122	**103**	62
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	135	163	185	178	172	168	**139**	70
B5. Combination of B1-B4 using one-half standard deviation shocks	135	172	217	209	202	198	**163**	81
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	135	139	137	131	126	122	**103**	62
PV of debt-to-revenue ratio								
Baseline	85	88	89	86	82	80	**64**	34
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	85	85	90	93	100	110	**167**	217
A2. New public sector loans on less favorable terms in 2014-2034 2	85	90	92	92	89	87	**77**	56
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	85	91	96	93	89	86	**69**	36
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	85	93	103	100	97	94	**74**	36
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	85	89	91	89	85	82	**66**	35
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	85	103	120	117	113	110	**86**	38
B5. Combination of B1-B4 using one-half standard deviation shocks	85	105	129	126	122	118	**93**	40
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	85	125	126	122	117	113	**91**	48

Table 1b. St. Vincent and the Grenadines: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-2034
(concluded)

	Projections							
	2014	2015	2016	2017	2018	2019	2024	2034
Debt service-to-exports ratio								
Baseline	17	19	20	18	16	13	**8**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	17	15	15	14	14	13	**20**	43
A2. New public sector loans on less favorable terms in 2014-2034 2	17	15	15	14	13	11	**13**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	17	15	15	14	13	12	**12**	10
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	17	17	19	18	17	16	**18**	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	17	15	15	14	13	12	**12**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	17	15	16	16	15	14	**17**	11
B5. Combination of B1-B4 using one-half standard deviation shocks	17	16	19	18	17	16	**20**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	17	15	15	14	13	12	**12**	10
Debt service-to-revenue ratio								
Baseline	11	12	13	12	10	9	**5**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	11	10	10	9	9	9	**12**	23
A2. New public sector loans on less favorable terms in 2014-2034 2	11	10	10	9	8	7	**8**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	11	10	11	10	9	9	**8**	6
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	11	10	10	10	9	8	**9**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	11	10	10	10	9	8	**8**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	11	10	11	10	10	9	**11**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	11	10	11	11	10	10	**12**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	11	14	14	13	12	11	**11**	8
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	14	14	14	14	14	14	**14**	14

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after t an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 2a. St. Vincent and the Grenadines: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011-2034

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2011	2012	2013	Average 5/	Standard Deviation 5/	2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	67.7	72.2	74.0			76.4	78.6	79.3	78.4	76.6	74.5		64.5	42.5	
of which: foreign-currency denominated	42.1	39.8	41.1			43.4	44.6	43.9	42.1	40.1	38.6		28.9	15.5	
Change in public sector debt	2.3	4.5	1.8			2.4	2.2	0.7	-0.9	-1.8	-2.1		-2.0	-2.4	
Identified debt-creating flows	6.9	2.7	1.6			4.5	2.9	1.3	-0.2	-1.2	-1.4		-1.5	-2.1	
Primary deficit	3.9	1.6	1.8	2.0	1.7	3.4	2.1	1.0	-0.6	-1.6	-2.2	0.3	-2.3	-2.9	-2.5
Revenue and grants	48.4	48.3	46.0			46.6	45.2	45.1	45.1	45.3	45.8		45.7	45.9	
of which: grants	5.7	5.5	2.9			3.1	1.9	1.9	1.5	1.3	1.3		1.1	1.1	
Primary (noninterest) expenditure	52.3	49.9	47.8			50.0	47.4	46.2	44.4	43.7	43.6		43.4	43.1	
Automatic debt dynamics	3.5	1.2	0.7			1.1	0.7	0.3	0.4	0.5	0.7		0.8	0.7	
Contribution from interest rate/growth differential	2.3	0.9	0.7			1.2	0.4	0.1	0.1	0.3	0.4		0.6	0.6	
of which: contribution from average real interest rate	2.5	1.9	2.3			2.4	2.3	2.4	2.5	2.6	2.7		2.6	1.9	
of which: contribution from real GDP growth	-0.2	-1.0	-1.6			-1.2	-1.9	-2.3	-2.4	-2.3	-2.3		-2.0	-1.3	
Contribution from real exchange rate depreciation	1.2	0.3	0.0			-0.1	0.3	0.3	0.3	0.2	0.3		...	...	
Other identified debt-creating flows	-0.5	0.0	-0.9			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.5	0.0	-0.9			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	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)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, 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	
Residual, including asset changes	-4.6	1.7	0.2			-2.1	-0.6	-0.7	-0.7	-0.7	-0.6		-0.5	-0.2	
Other Sustainability Indicators															
PV of public sector debt	...	...	68.2			69.7	72.3	73.8	73.8	72.8	71.3		63.9	42.1	
of which: foreign-currency denominated	...	...	35.3			36.7	38.2	38.4	37.5	36.3	35.4		28.4	15.1	
of which: external	...	...	35.3			36.7	38.2	38.4	37.5	36.3	35.4		28.4	15.1	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	14.0	10.7	12.4			14.3	13.3	12.6	10.6	9.1	7.7		5.4	1.7	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	148.1			149.6	159.7	163.5	163.7	160.6	155.9		139.9	91.7	
PV of public sector debt-to-revenue ratio (in percent)	...	...	158.0			160.4	166.7	170.6	169.3	165.4	160.4		143.4	94.0	
of which: external 3/	...	...	81.8			84.5	88.1	88.7	86.1	82.4	79.6		63.7	33.7	
Debt service-to-revenue and grants ratio (in percent) 4/	14.2	13.4	14.8			15.6	17.0	18.1	17.7	16.8	15.1		11.6	6.6	
Debt service-to-revenue ratio (in percent) 4/	16.1	15.2	15.8			16.8	17.7	18.9	18.3	17.3	15.5		11.9	6.7	
Primary deficit that stabilizes the debt-to-GDP ratio	1.6	-2.9	0.0			1.0	-0.1	0.3	0.3	0.2	-0.1		-0.3	-0.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	0.3	1.5	2.3	1.6	2.7	1.7	2.6	3.0	3.1	3.1	3.1	2.8	3.1	3.1	3.1
Average nominal interest rate on forex debt (in percent)	3.6	3.0	3.4	4.0	0.7	3.3	3.5	3.6	3.6	3.6	3.6	3.6	3.8	3.8	3.6
Average real interest rate on domestic debt (in percent)	7.5	5.5	4.8	4.9	2.6	5.2	5.1	5.1	5.3	5.7	6.0	5.4	6.0	6.0	6.0
Real exchange rate depreciation (in percent, + indicates depreciation	2.9	0.7	0.0	-0.4	2.3	-0.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-0.9	1.0	1.5	2.5	2.8	1.7	1.0	1.3	1.4	1.6	1.3	1.4	1.3	1.3	1.3
Growth of real primary spending (deflated by GDP deflator, in percer	6.2	-3.2	-2.0	0.1	2.4	6.3	-2.9	0.4	-0.7	1.3	2.8	1.2	3.0	3.1	3.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	22.0	19.1	17.1	18.7	19.8	16.3	18.8	17.3	14.2	...

Sources: Country authorities; and staff estimates and projections.
1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]
2/ 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.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2b. St. Vincent and the Grenadines: Sensitivity Analysis for Key Indicators of Public Debt 2014-2034

	Projections							
	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt-to-GDP Ratio								
Baseline	70	72	74	74	73	71	64	42
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	70	73	76	79	83	86	104	140
A2. Primary balance is unchanged from 2014	70	73	77	80	83	87	104	132
A3. Permanently lower GDP growth 1/	70	73	75	76	76	76	80	99
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-20	70	76	84	87	89	90	98	105
B2. Primary balance is at historical average minus one standard deviations in 2015-201	70	73	77	77	76	75	68	48
B3. Combination of B1-B2 using one half standard deviation shocks	70	74	80	81	82	83	85	83
B4. One-time 30 percent real depreciation in 2015	70	88	89	90	89	87	82	62
B5. 10 percent of GDP increase in other debt-creating flows in 2015	70	81	82	82	81	79	72	52
PV of Debt-to-Revenue Ratio 2/								
Baseline	150	160	163	164	161	156	140	92
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	150	161	168	176	182	188	228	302
A2. Primary balance is unchanged from 2014	150	162	170	177	184	189	227	287
A3. Permanently lower GDP growth 1/	150	161	166	169	168	167	176	214
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-20	150	168	185	192	195	197	214	228
B2. Primary balance is at historical average minus one standard deviations in 2015-201	150	162	171	171	168	163	149	104
B3. Combination of B1-B2 using one half standard deviation shocks	150	164	176	180	181	181	187	180
B4. One-time 30 percent real depreciation in 2015	150	195	198	199	196	191	179	136
B5. 10 percent of GDP increase in other debt-creating flows in 2015	150	178	182	182	179	174	159	113
Debt Service-to-Revenue Ratio 2/								
Baseline	16	17	18	18	17	15	12	7
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	17	19	21	21	20	19	19	27
A2. Primary balance is unchanged from 2014	17	19	20	20	20	18	18	25
A3. Permanently lower GDP growth 1/	17	19	21	20	20	18	16	18
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-20	17	20	22	22	21	20	19	21
B2. Primary balance is at historical average minus one standard deviations in 2015-201	17	19	21	20	19	18	15	10
B3. Combination of B1-B2 using one half standard deviation shocks	17	20	21	21	20	19	17	17
B4. One-time 30 percent real depreciation in 2015	17	22	26	25	24	22	18	14
B5. 10 percent of GDP increase in other debt-creating flows in 2015	17	19	21	21	20	18	16	11

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Press Release No. 14/383
FOR IMMEDIATE RELEASE
August 1, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$6.4 Disbursement under the Rapid Credit Facility And the Rapid Financing Instrument for St. Vincent and the Grenadines

The Executive Board of the International Monetary Fund (IMF) on August 1, 2014 approved a disbursement of an amount equivalent to SDR 4.15 million (about US$6.4 million) for St. Vincent and the Grenadines to be drawn equally from the Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI) at SDR 2.075 million or about US$3.2 million each. This disbursement will help the country meet an urgent balance-of-payments need due to severe flooding and landslides in December 2013 that caused massive damage to infrastructure, housing and agriculture.

Following the Executive Board's discussion of St. Vincent and the Grenadines, Mr. Min Zhu, Deputy Managing Director and Acting Chair, issued the following statement:

"St. Vincent and the Grenadines suffered massive damages to infrastructure, housing, and agriculture as a result of severe floods in December 2013. Emergency relief and high rehabilitation costs have weakened the fiscal position and created an urgent balance of payments need at a time when the economy is striving to recover from previous natural disasters and the global economic downturn.

"Rehabilitation and reconstruction spending is expected to widen the fiscal deficit this year. Mindful of the high and growing public debt, the authorities have reiterated their intention to rely mainly on grants and concessional resources to finance the recovery. At the same time, they will step up their efforts to mobilize budgetary resources by increasing revenue collection, containing the wage bill, and reducing transfers to state-owned enterprises.

"Looking ahead, the authorities remain committed to securing a sustainable fiscal position. To this end, they intend to generate a primary surplus of at least 2 percent of GDP in the medium term to ensure that the debt-to-GDP ratio is put on a declining path.
"The authorities are also stepping up structural reforms to enhance resilience to natural disasters and climate change, and to ensure strong and lasting growth. They are developing programs to improve emergency responses and to strengthening physical infrastructure. Efforts are also ongoing to enhance the business environment, improve access to the country

by air, and streamline customs clearance. The authorities also intend to carry out civil service and pension reforms, which will boost competitiveness and employment."

Background

The RCF (http://www.imf.org/external/np/exr/facts/rcf.htm) was created under the newly established Poverty Reduction and Growth Trust (PRGT) and provides rapid financial assistance for low-income countries with an urgent balance-of-payments need.

The RFI (http://www.imf.org/external/np/exr/facts/rfi.htm) provides the same type of financial support for all member countries. Neither requires any explicit program-based conditionality or review. However, economic policies are expected to address the underlying balance-of-payments difficulties to support broader policy objectives, including growth. and in the case of the RCF, poverty reduction. Financing under the RCF carries zero interest (at least until end-2014), has a grace period of 5.5 years, and a final maturity of 10 years.[1] Financing under the RFI is at the adjusted rate of charge, currently [1.08] percent, has a grace period of 3.25 years, and a final maturity of 5 years.

[1] The Fund reviews the level of interest rates for all concessional facilities under the PRGT every two years, with the next review expected for end-2014.