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18 April 2023

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RATINGS

St. Vincent and the Grenadines

	Foreign Currency	Local Currency
Gov. Bond Rating	B3/STA	B3/STA
Country Ceiling	B2	Ba3

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Government of St. Vincent and the Grenadines - B3 stable

Annual credit analysis

OVERVIEW AND OUTLOOK

The credit profile of St. Vincent and the Grenadines (St. Vincent) reflects the Caribbean island nation's high per capita income (roughly $15,800 in purchasing power parity [PPP] terms in 2022) relative to B-rated peers, large share of government debt on concessional terms and membership of the Eastern Caribbean Currency Union (ECCU), which anchors inflation expectations and limits exchange rate risks.

St. Vincent's main credit challenges emanate from the sovereign's small size and narrow economic base. St. Vincent is the smallest economy among the sovereigns we rate in terms of nominal GDP. The economy is highly dependent on tourism and vulnerable to external shocks. The credit profile is also constrained by a high government debt burden, which was an estimated 85% of GDP in 2022, above the median for B-rated sovereigns.

The stable outlook reflects a balance between upward and downward credit pressures. Despite the authorities' expectation of higher growth after the effects of the coronavirus pandemic and the eruptions of the La Soufrière volcano abate, wider fiscal deficits over the coming years will lead to higher debt levels. St. Vincent maintains reliable access to multilateral lending to cover its financing needs, a credit strength. Higher sustained growth, along with faster fiscal consolidation, would improve economic resilience and support the credit profile. Conversely, weaker growth performance would weigh on the fiscal accounts and weaken fiscal strength, increasing downward pressure on the credit profile.

We would consider changing the outlook on and ultimately move St. Vincent's rating downward if the sovereign were to lose access to concessional financing. This could create liquidity pressures that would undermine debt service payments. Alternatively, any deterioration in St. Vincent's fiscal and debt metrics or the emergence of contingency liabilities concerns would require a reconsideration of the rating.

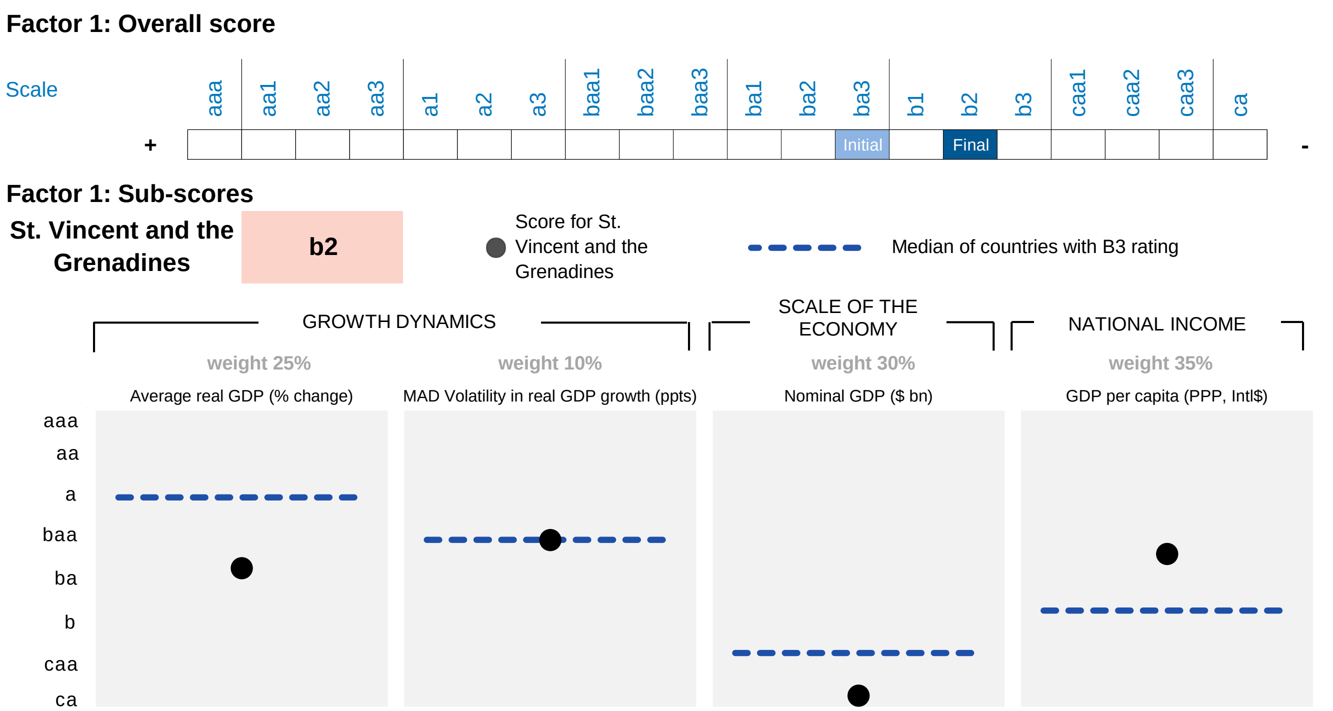
A positive outlook, and later, rating change could be considered if St. Vincent maintained higher economic growth and engaged in rapid fiscal consolidation. These activities, plus an improvement in the sovereign's debt burden, would be credit positive developments.

This credit analysis elaborates on St. Vincent's credit profile in terms of economic strength, institutions and governance strength, fiscal strength and susceptibility to event risk, which are the four main analytic factors in our Rating Methodology: Sovereigns.

CREDIT PROFILE

Our determination of a sovereign's government bond rating is based on the consideration of four rating factors: Economic strength, institutions and governance strength, fiscal strength and susceptibility to event risk. When a direct and imminent threat becomes a constraint, that can only lower the scorecard-indicated outcome. For more information please see our Rating Methodology: Sovereigns.

Economic strength score: b2



Economic strength evaluates the economic structure, primarily reflected in economic growth, the scale of the economy and wealth, as well as in structural factors that point to a country's long-term economic robustness and shock-absorption capacity. Adjustments to the economic strength factor score most often reflect our judgement regarding the economy's flexibility, diversification, productivity and labour supply.

Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

Our "b2" assessment of St. Vincent's economic strength reflects the small scale of the economy and dependence on the tourism sector, which exacerbates its vulnerability to external shocks. Our assessment also reflects the economy's susceptibility to environmental risks, particularly weather-related shocks. St. Vincent shares the "b2" economic strength score with Zambia (Ca stable), Barbados (Caa1 stable) and Togo (B3 stable).

Exhibit 1

Peer comparison table factor 1: Economic strength

	St. Vincent and the Grenadines B3/STA	b2 Median	Barbados Caa1/STA	Belize Caa2/STA	Papua New Guinea B2/STA	Tajikistan B3/NEG	Togo B3/STA	Zambia Ca/STA
Final score	b2		b2	b2	b2	b2	b2	b2
Initial score	ba3		b2	b2	b2	ba3	b1	b1
Nominal GDP ($ billion)	0.9	8.4	4.9	2.4	26.6	8.7	8.4	21.2
GDP per capita (PPP, Intl$)	14,051.4	6,106.5	14,665.6	8,857.7	3,921.2	4,329.2	2,376.9	3,559.1
Average real GDP (% change)	2.3	2.3	0.1	2.2	2.5	6.0	4.6	3.0
MAD Volatility in real GDP growth (ppts)	0.9	0.9	0.7	2.2	1.9	0.3	0.5	0.9

Sources: National authorities, IMF and Moody's Investors Service

St. Vincent economy's small size, lower growth rate, low level of diversification and exposure to climate events weigh on its resilience

With a nominal GDP of around $959 million in 2022, St. Vincent is the smallest sovereign that we rate. Its small economic size, combined with a population of around 111,000, create impediments to economic growth and diversification. Yet, support through remittances somewhat shields residents from more extreme waves of economic volatility.

The national authorities estimate that St. Vincent's economy expanded by 7.9% in real terms in 2022, as sectors of the economy continued to recover from the effects of the La Soufrière eruptions and the pandemic. Under our assumption that the economy continues to recover from these shocks, which includes a full resumption of St. Vincent's tourism sector, we expect real GDP to expand by 5.0% in 2023. However, there remain risks to growth from the impact of global monetary tightening to contain inflation, the persistence of higher import prices following Russia's invasion of Ukraine (Ca stable) and the economic slowdown in advanced economies which could hurt tourism flows into St. Vincent.

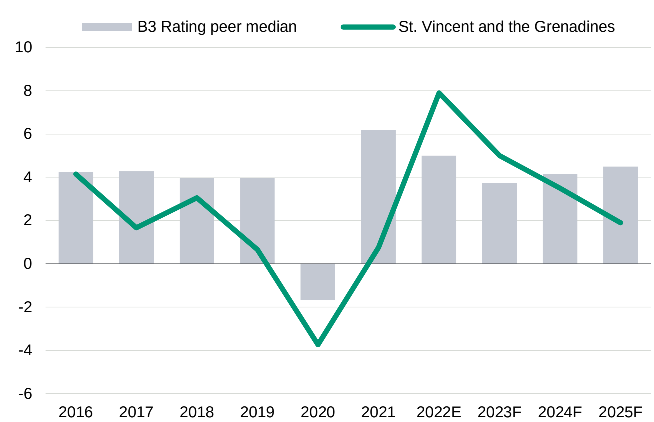
While St. Vincent's real GDP growth historically tends to fall behind that of B3 peers, its real GDP growth in 2022 expanded faster than that of peers. The median expansion for B3-rated sovereigns was 5.3% in 2022, compared with 7.9% for St. Vincent. However, we believe this reversal occurred because of base effects, as real GDP for St. Vincent expanded only by 0.75% in 2021, compared with a median of 6.2% for peers. Over time, we expect St. Vincent's economy to return to a growth rate more consistent with historical trends of around 1.5%-2.0%, below the growth potential of B3-rated peers (see Exhibit 2).

St. Vincent's economic volatility, measured as the median absolute deviation (MAD) of real GDP growth over the 10 most recently reported years, is lower than that of its peers, indicating the country's relative insulation from economic shocks (see Exhibit 3). St. Vincent benefits from remittances and, to a lesser extent, from demand for new housing when Vincentians return home to retire. Remittances are a stable source of foreign exchange earnings and support domestic consumption.

Exhibit 2

St. Vincent's real growth will return to a lower level over time compared with peers' ...

Real GDP growth, %

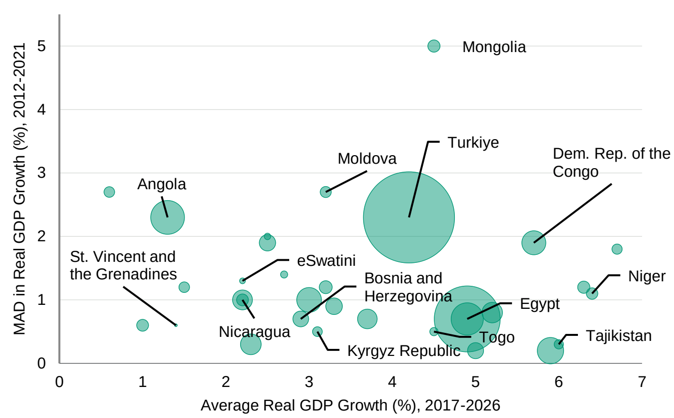


Sources: National authorities and Moody's Investors Service

Exhibit 3

... but St. Vincent benefits from lower volatility than peers'

Bubble size indicates nominal GDP, 2022



Sources: National authorities and Moody's Investors Service

Similar to most other Caribbean economies, St. Vincent's economy is highly dependent on tourism and travel, which in 2019 contributed around 41% of GDP and accounted for 18,700 jobs (around 42.6% of total employment), either directly or indirectly. Heavy reliance on tourism leaves St. Vincent's economy vulnerable to slowdown in global growth, as was witnessed when the pandemic hit economic activity and tourism.

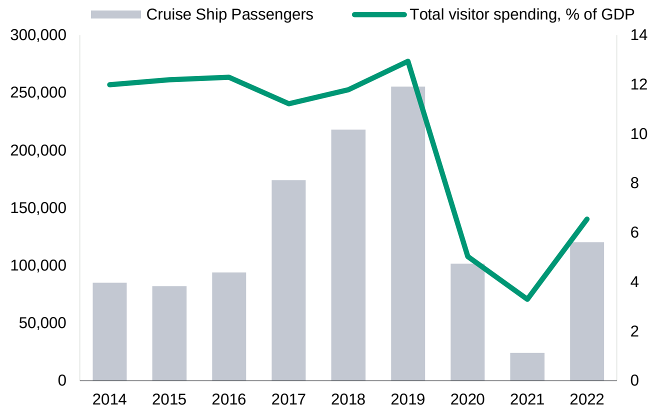
St. Vincent's economic growth in 2022 was supported by a slow recovery in the country's tourism sector. After an absolute decline in the number of visitors because of the La Soufrière eruptions and the pandemic, total visitor arrivals expanded to around 221,000 people in 2022, with total stay-over visitors totaling around 62,300 (up from 24,200 in 2021) and cruise ship passengers totaling 120,000 people (up from 24,300 people in 2021) (see Exhibit 4). We expect any expansion of international flights to Argyle Airport to bolster St. Vincent's tourism economy and lead to higher real economic growth.

The recovery of St. Vincent's tourism industry over 2023 will depend on the economic health of the sovereigns whose residents make up most of St. Vincent's tourist flows. In 2022, the largest number of tourists arrived from the US (Aaa stable), accounting for 42% of total inbound arrivals, followed by the UK (Aa3 negative) and Canada (Aaa stable) at 22% and 10%, respectively (see Exhibit 5). However, as monetary conditions tighten and economic growth slows worldwide, residents of these developed economies may be less willing to travel abroad, hurting St. Vincent's tourism revenue.

St. Vincent's vulnerability to natural disasters remains a key risk to its economy. Its small size and dependence on tourism-related activity make the economy highly susceptible to risks associated with natural disasters. According to the IMF, natural disasters cost St. Vincent roughly 1.1% of GDP a year in fiscal terms from 1980 to 2021.

Exhibit 4

The rise and fall of cruise ship arrivals have led to corresponding changes in total visitor spending

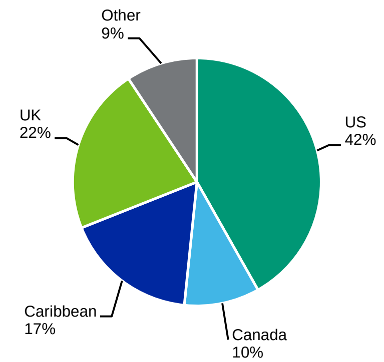


Sources: National authorities, ECCB and Moody's Investors Service

Exhibit 5

US and UK are the largest source markets for tourism

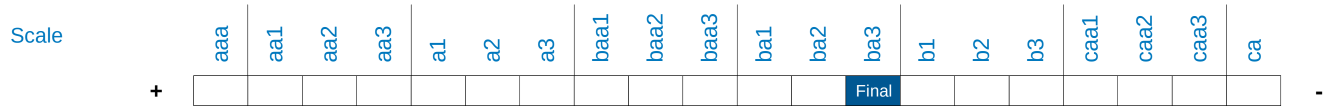
% of total stay-over visitors in 2022



Sourced: National authorities and ECCB

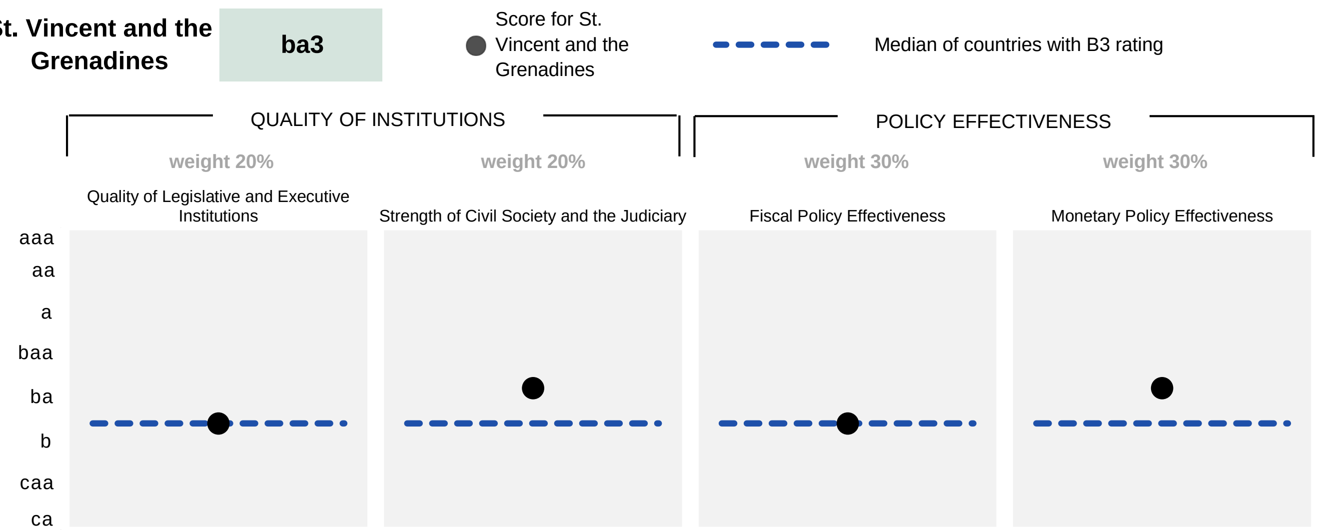
Institutions and governance strength score: ba3

Factor 2: Overall score



Factor 2: Sub-scores

St. Vincent and the Grenadines **ba3**



Institutions and governance strength evaluates whether the country's institutional features are conducive to supporting a country's ability and willingness to repay its debt. A related aspect is the government's capacity to conduct sound economic policies that foster economic growth and prosperity. Institutions and governance strength is most often adjusted for the track record of default, which can only lower the final score.
Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

Our "ba3" assessment of St. Vincent's institutions and governance strength reflects the country's relatively favorable scores in the Worldwide Governance Indicators (WGI) and our assessment of the government's ability and willingness to pursue policies that support timely debt payment. Official data reporting standards and practices are weak, a shortcoming that limits our assessment of St. Vincent's institutional capacity. Monetary and fiscal policy credibility displays a mixed track record based on inflation volatility and relatively discretionary fiscal management. St. Vincent shares the "ba3" institutional assessment score with Benin (B1 stable), Guatemala (Ba1 stable) and Trinidad and Tobago (Ba2 stable).

Exhibit 6

Peer comparison table factor 2: Institutions and governance strength

	St. Vincent and the Grenadines	ba3 Median	Benin	Guatemala	Trinidad & Tobago	Vietnam	Costa Rica	Bolivia
	B3/STA		B1/STA	Ba1/STA	Ba2/STA	Ba2/STA	B2/STA	Caa1/RUR
Final score	ba3		ba3	ba3	ba3	ba3	ba2	b1
Initial score	ba3		ba3	ba3	ba3	ba3	ba2	b1
Quality of legislative & executive institutions	b	b	b	b	b	b	ba	ba
Strength of civil society & judiciary	ba	b	b	caa	ba	b	a	b
Fiscal policy effectiveness	b	ba	ba	ba	ba	ba	b	b
Monetary & macro policy effectiveness	ba	ba	ba	baa	ba	ba	ba	b
Fiscal balance/GDP (3-year average)	-7.9	-3.7	-5.2	-1.7	-3.3	-4.2	-3.8	-8.2
Average inflation (% change)	2.3	2.9	1.8	4.4	2.6	3.3	3.0	2.5
Volatility of inflation (ppts)	1.4	2.4	2.4	0.7	2.8	2.4	1.8	1.8

Sources: National authorities, IMF and Moody's Investors Service

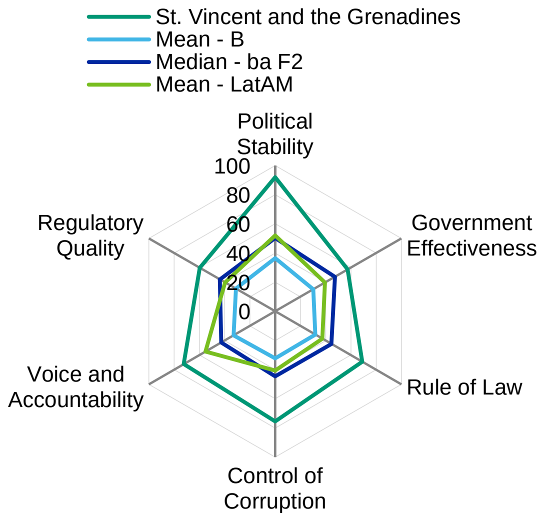
St. Vincent performs well on the Worldwide Governance Indicators

St. Vincent's institutional strength assessment is informed by its scores in the WGI (see Exhibits 7 and 8). The country ranks well above B-rated peers and regional peers, and peers with a "ba" institutions and governance strength score. It ranks well with regard to control of corruption (76th percentile in 2021), rule of law (69th) and voice and accountability (72nd), scores that are above the "ba" medians of 45th, 45th and 43rd, respectively. Political stability is by far St. Vincent's strongest metric, ranking in the 92nd percentile, well above that of other Caribbean islands like Trinidad and Tobago (53rd) and the Dominican Republic (Ba3 stable, 51st) and on par with that of the Bahamas (B1 stable, 82nd) and Barbados (95th). St. Vincent's governance indicators are also consistent — most are at roughly the same level they were in 2013, with the exception of government effectiveness, which has declined from the 73rd percentile (2013) to the 58th percentile (2021).

Exhibit 7

St. Vincent's governance indicators outperforms B-rated peers ...

Percentile rank among rated sovereigns, 2021

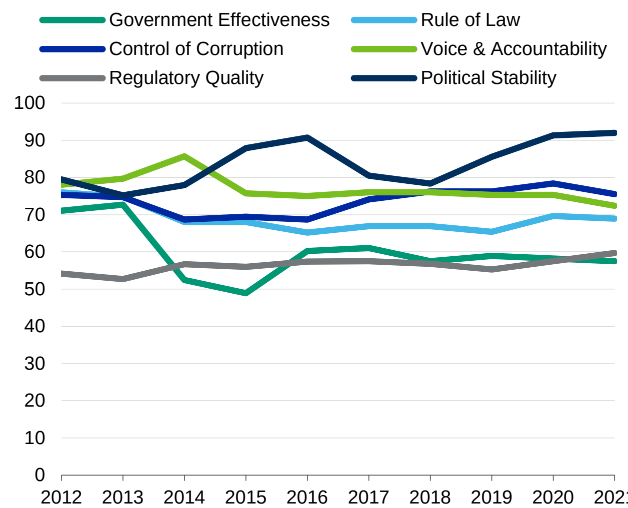


Sources: Worldwide Governance Indicators and Moody's Investors Service

Exhibit 8

... and remain relatively stable

Percentile rank among rated sovereigns, 2021



Sources: Worldwide Governance Indicators and Moody's Investors Service

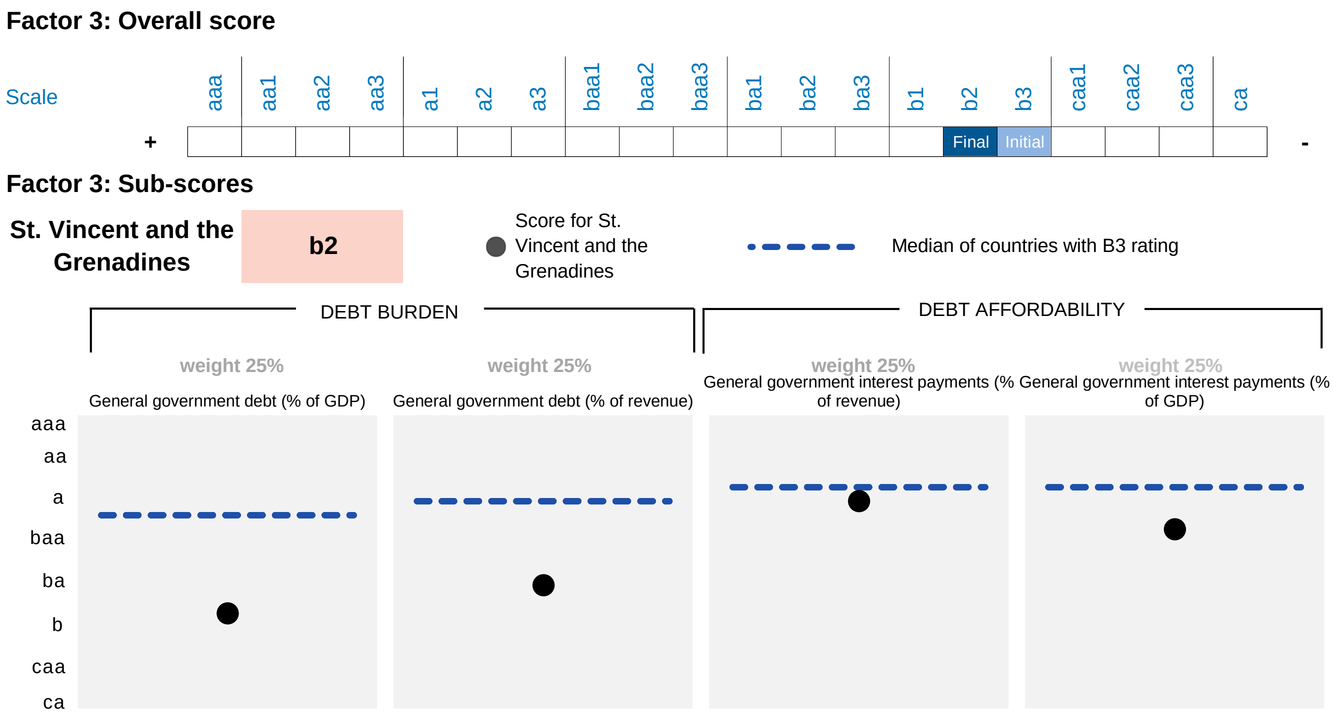
St. Vincent is part of the six-member ECCU. The Eastern Caribbean dollar (XCD) has been pegged at XCD2.7 to the US dollar in a currency board system since 1976. Membership in the union provides St. Vincent with a stable exchange rate and an anchor for inflation. Inflation, for instance, averaged around 1% between 2010 and 2020, although the pass-through from fuel and food prices remains high and leads to moderate inflation volatility. Because of Russia's invasion of Ukraine, for instance, inflation increased from a quarter-over-quarter increase of 1.1% in the ECCU and 0.7% in St. Vincent in December 2021 to a quarter-over-quarter increase of 2.6% in the ECCU and 1.2% in St. Vincent in March 2022.

ECCU membership, however, implies that St. Vincent has no independent monetary policy and cannot adjust the exchange rate to mitigate external shocks. Exchange rate inflexibility places a greater emphasis on export competitiveness, both for goods and services (mainly tourism offering), to ensure balance-of-payment sustainability.

Weak data reporting constrain institutional capacity

Despite improvement, St. Vincent continues to face data limitations that weaken its institutional strength. Data deficiencies in particular constrain any analysis of the fiscal situation in St. Vincent — the reporting of public sector debt data is subject to lags, and government finance statistics coverage is generally worse than that for similarly rated sovereigns. Substantial shortcomings exist in terms of coverage, consistency, timeliness and quality of macroeconomic data. However, under the World Bank's regional Data for Decision Making Project (2022-2027), we expect St. Vincent's data availability and level of detail to continue to improve.

Fiscal strength score: b2



Fiscal strength captures the overall health of government finances, incorporating the assessment of relative debt burdens and debt affordability as well as the structure of government debt. Some governments have a greater ability to carry a higher debt burden at affordable rates than others. Fiscal strength is adjusted for the debt trend, the share of foreign currency debt in government debt, other public sector debt and for cases in which public sector financial assets or sovereign wealth funds are present. Depending on the adjustment factor, the overall score of fiscal strength can be lowered or increased.
Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

Our "b2" assessment of St. Vincent's fiscal strength reflects the government's high debt burden and relatively high share of foreign-currency debt. The debt-to-GDP ratio climbed since the coronavirus pandemic and La Soufrière eruptions, weighing on our assessment of fiscal strength. St. Vincent shares the "b2" score for fiscal strength with Benin, Jordan (B1 positive) and Mongolia (B3 stable).

Exhibit 9

Peer comparison table factor 3: Fiscal strength

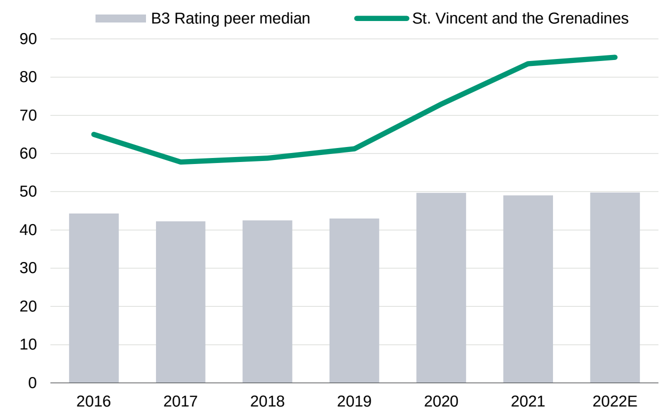
	St. Vincent and the Grenadines	b2 Median	Benin	Kyrgyz Republic	Jordan	Mongolia	Namibia	Togo
	B3/STA		B1/STA	B3/NEG	B1/POS	B3/STA	B1/STA	B3/STA
Final score	b2		b2	b2	b2	b2	b2	b2
Initial score	b3		b2	ba1	b2	ba2	b1	b2
Gen. gov. debt (% of GDP)	83.5	63.7	49.9	59.7	90.9	58.7	67.1	61.7
Gen. gov. debt (% of revenue)	265.7	270.8	353.0	180.0	273.6	206.5	227.7	316.4
Gen. gov. interest payments (% of GDP)	2.6	2.7	2.2	0.8	3.2	1.9	4.1	2.2
Gen. gov. int. payments (% of revenue)	8.1	10.7	15.8	2.5	9.8	6.6	13.9	11.1

Sources: National authorities, IMF and Moody's Investors Service

St. Vincent's debt burden is well above the median for B-rated sovereigns

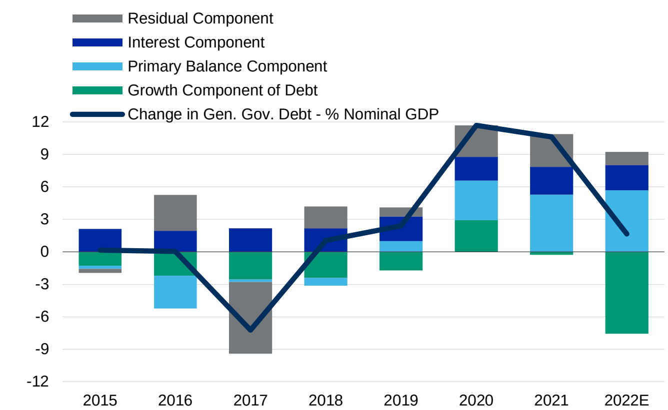
St. Vincent's high government debt-to-GDP ratio is a key constraint on the credit profile, as it lies well above the 2022 median for B3-rated sovereigns. In 2022, central government debt is estimated to have increased to 85.2% of GDP from 83.5% at the end of 2021, driven by its large primary deficit and interest burden (see Exhibits 10 and 11). In the five years preceding the pandemic, debt levels held relatively stable and below 70% of GDP on account of positive contributions from growth and primary surpluses, but the pandemic and the La Soufrière eruptions in recent years resulted in debt climbing 22 percentage points from 2019 to 2021.

Exhibit 10
St. Vincent's debt burden is greater than B3 peers'
General government debt, % of GDP



Sources: National authorities and Moody's Investors Service

Exhibit 11
The small increase in debt burden in 2022 was due to a larger primary balance and interest payments, counterbalanced by an improvement in economic growth
GDP, percentage points



Sources: National authorities and Moody's Investors Service

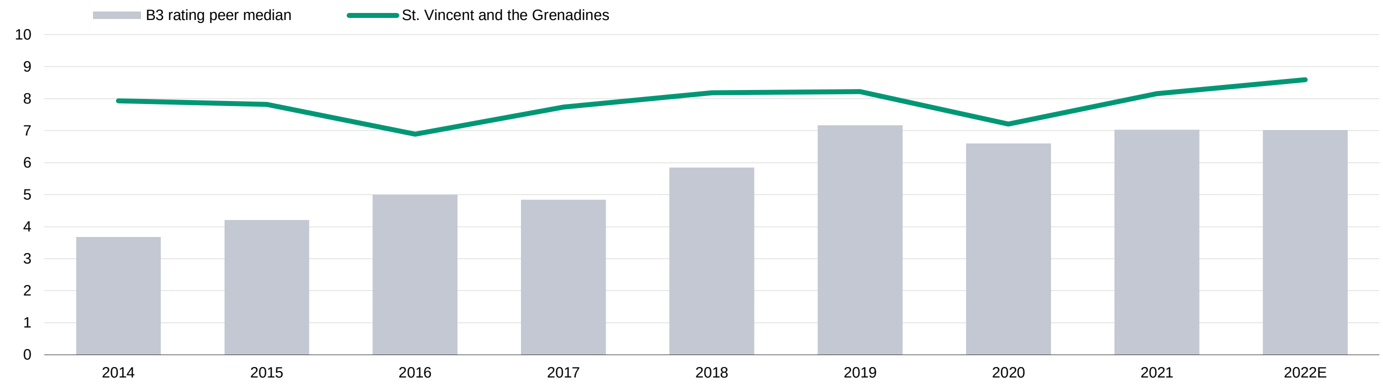
As of September 2022, around three-quarters of St. Vincent's central government debt was external, implying a high share of foreign currency debt. Although this exposes St. Vincent to foreign exchange rate risk, the country's membership in a long-standing currency union and its large share of external debt at concessional terms mitigate this risk.

Climate events and other external economic shocks remain a primary risk to St. Vincent's debt metrics. The most recent eruptions of La Soufrière in 2021 resulted in more than XCD200 million in losses and over XCD400 million in damages.[1] Aware of these costs, the government established in 2017 the Contingencies Fund as a fiscal buffer for natural disasters. The fund's balance was around 1.2% of GDP at the end of 2021 and annual budgetary contributions to the fund total around 0.5% of GDP. We expect St. Vincent to continue to build the Contingencies Fund.

We expect St. Vincent's debt-to-GDP ratio to remain at around 84%-86% between 2023 and 2025, and then fall, as capital spending projects, such as the port project, are completed.

St. Vincent's relatively affordable debt, through its concessional terms, remains a credit strength
Despite the high debt burden, the concessional nature of most of the government's debt keeps debt servicing costs lower than those of its peers. As of September 2022, around 68% of its external public debt was owed to multilaterals. The International Development Association (IDA, Aaa stable) and the International Bank for Reconstruction and Development (IBRD, Aaa stable) combined are St. Vincent's largest multilateral lender, accounting for 37% of total public external debt, followed by the Caribbean Development Bank (CDB, Aa1 stable), which accounts for 27%. Because St. Vincent's debt is held under concessional terms, interest payments as a share of revenue remained moderate at 8.6% in 2022, but above the median for B3-rated sovereigns (see Exhibit 12). We expect the ratio of interest payments to revenue to rise over time, as rising worldwide interest rates push interest rates higher; however, St. Vincent will continue to benefit from concessional financing.

Exhibit 12
Debt affordability has held relatively stable over time
Interest payments, % of general government revenue



Sources: National authorities and Moody's Investors Service

ECCB's postponed 60% debt-to-GDP target by 2035 requires improvement in the primary balance over time

In recognition of the impact of the pandemic, the ECCB delayed the region's debt-to-GDP target of 60% to 2035 (from 2030) to provide members with the flexibility to implement emergency spending measures. Now that the crisis is over, we expect the authorities over the next few years to begin reversing primary deficits so that the debt burden will fall over time to the ECCB's target level. While St. Vincent has a relatively high tax revenue collection of around 22% of 2022 GDP, the country has large recurrent spending needs, which will need to be addressed to effectively reduce its debt burden. Government spending in 2022 totaled 35% of GDP, of which employee compensation accounted for the largest share.

Susceptibility to event risk score: ba

Factor 4: Overall score

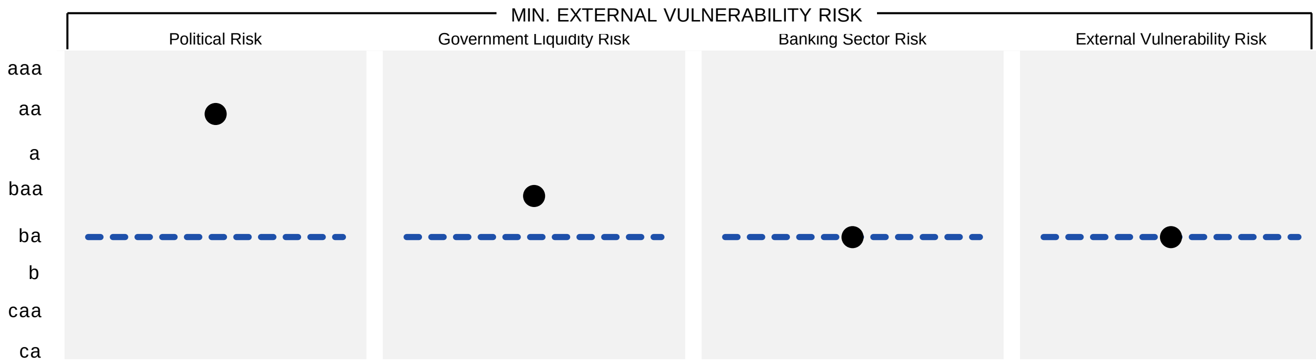
Scale	aaa	aa	a	baa	ba	b	caa	ca	
+					Final				-

Factor 4: Sub-scores

St. Vincent and the Grenadines	ba

● Score for St. Vincent and the Grenadines — Median of countries with B3 rating

Overall adjustment to Factor 4 Susceptibility to Event Risk: 0



Susceptibility to event risk evaluates a country's vulnerability to the risk that sudden events may severely strain public finances, thus increasing the country's probability of default. Such risks include political, government liquidity, banking sector and external vulnerability risks. Susceptibility to event risk is a constraint which can only lower the scorecard-indicated outcome.

Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

Our "ba" assessment of St. Vincent's susceptibility to event risk is driven by external vulnerability risk from large balance-of-payment imbalances.

Political risk: aa

Exhibit 13

Peer comparison table factor 4a: Political risk

	St. Vincent and the Grenadines B3/STA	aa Median	Bahamas B1/STA	Cayman Islands Aa3/STA	Iceland A2/STA	Jamaica B2/STA	Trinidad & Tobago Ba2/STA	Uruguay Baa2/STA
Final score	aa		aa	aa	aa	aa	aa	aa
Voice & accountability, score[1]	0.9	0.9	0.9	0.8	1.4	0.6	0.7	1.3
Political stability, score[1]	1.0	1.0	0.9	1.7	1.4	0.2	0.2	1.0

[1] Composite index with values from about -2.50 to 2.50: higher values correspond to better governance.
Sources: National authorities, IMF and Moody's Investors Service

We assess both geopolitical and domestic political risk at "aa." St. Vincent is a parliamentary democracy and an independent Commonwealth realm. The parliamentary term of office is five years and the House of Assembly is a unicameral Parliament with 15 elected members and six senators. The Governor General, who represents the monarch of the UK, appoints the senators: four on the advice of the prime minister and two on the advice of the opposition leader. Following the parliamentary elections of November 2020, the Unity Labour Party expanded its majority to two seats and currently holds nine seats. The remaining seats are taken up by electives of the New Democratic Party.

Government liquidity risk: baa

St. Vincent's government liquidity risk score is set at "baa," balancing large borrowing requirements with its reliance on multilateral and bilateral lenders, which reduces rollover risk. The government liquidity assessment takes into account limited domestic capital market borrowings and foreign-currency borrowings, which are a mix of concessional lending from multilateral and bilateral creditors, commercial borrowing from banks or via debt issuance.

Exhibit 14

Peer comparison table factor 4b: Government liquidity risk

	St. Vincent and the Grenadines B3/STA	baa Median	Armenia Ba3/NEG	Cambodia B2/NEG	Dominican Republic Ba3/STA	Honduras B1/STA	Jamaica B2/STA	Moldova B3/NEG
Final score	baa		baa	baa	baa	baa	baa	baa
Initial score	baa		baa	baa	baa	baa	baa	baa
Ease of access to funding	baa	baa	baa	baa	baa	baa	baa	baa
Gross borrowing requirements (% of GDP)	17.3	7.1	4.5	5.9	5.6	3.5	3.9	6.9

Sources: National authorities, IMF and Moody's Investors Service

We estimate gross financing needs will reach roughly 17.8% of GDP in 2023. The government relies on several funding sources, including multilateral and bilateral lending, a regional government securities market, and domestic bank loans.

The government has a Sinking Fund, which is used to set aside funds from current revenue on an annual basis to meet bullet bond obligations when they fall due, reducing rollover risk and liquidity pressures. In 2021, the government used roughly XCD19.5 million from the fund to meet its debt repayment obligations. This covered about 11% of the amortization due that year.

Banking sector risk: ba

The "ba" score for banking sector risk reflects the importance of foreign-owned banks in the financial system, which could expose St. Vincent to events in countries in which the foreign banks operate.

Exhibit 15

Peer comparison table factor 4c: Banking sector risk

	St. Vincent and the Grenadines B3/STA	ba Median	Albania B1/STA	Angola B3/POS	Bolivia Caa1/RUR	Honduras B1/STA	Tajikistan B3/NEG	Turkiye B3/STA
Final score	ba		ba	ba	ba	ba	ba	ba
Initial score	ba		ba	ba	ba	ba	baa	ba
BCA[1]	--	b2	--	caa1	b2	--	b3	caa1
BSCE[2]	ba3-b3	caa-c	ba3-b3	caa-c	ba3-b3	ba3-b3	ba3-b3	caa-c
Total domestic bank assets (% of GDP)	89.1	97.5	95.6	39.0	99.4	113.1	22.7	127.1

[1] BCA is an average of Baseline Credit Assessments (BCAs) for rated domestic banks, weighted by bank assets.
[2] Where we have no or small rating coverage in a system, we estimate the risk of Banking Sector Credit Event (BSCE) based on available data for aggregate banking system.
Sources: National authorities, IMF and Moody's Investors Service

There are no immediate contingent liabilities arising from the banking sector. The banking system is relatively sizable, with assets amounting to around 89% of GDP in 2021. According to the ECCB, four commercial banks operate in St. Vincent: the Royal Bank of Trinidad and Tobago (RBTT), the Bank of St. Vincent and the Grenadines, the Republic Bank (EC) and Canadian Imperial Bank of Commerce's (CIBC, Aa2 stable) FirstCaribbean International Bank. The Bank of St. Vincent is the only indigenous bank in which the central government owns a 43% stake. There are two non-bank financial institutions in St. Vincent. Of the two, the National Insurance Service (NIS) owns a 20% stake in the Bank of St. Vincent, implying that the government has a total stake of 63% in the Bank of St. Vincent.

Similar to that of other Eastern Caribbean countries, the financial system in St. Vincent is fragmented, and has 21 insurance companies and four credit unions, which are growing in prominence in the financial sector alongside the banking industry. While credit unions' share of total outstanding credit to the private sector has increased over time, credit unions have maintained capital buffers above the regulatory requirements.

Since 2019, nonperforming loans (NPLs) have increased for the banking system in St. Vincent, as the two economic shocks over 2020-21 dampened economic growth. As of June 2022, NPLs stood at 9.9% for banks, up from 7.8% in 2021. The IMF noted in its most recent Article IV that dramatically lower domestic growth in St. Vincent and in the world could increase NPLs and hurt banks' capital buffers; however, similar to credit unions, St. Vincent's banks have maintained strong capital buffers well above the regulatory requirements.

External vulnerability risk: ba

We have set the score for external vulnerability risk at “ba” to reflect the high susceptibility to external shocks, originating from balance-of-payment crises and the heavy reliance on foreign capital inflows.

Exhibit 16

Peer comparison table factor 4d: External vulnerability risk

	St. Vincent and the Grenadines B3/STA	ba Median	Angola B3/POS	Armenia Ba3/NEG	Bolivia Caa1/RUR	Kenya B2/NEG	Maldives Caa1/STA	Tajikistan B3/NEG
Final score	ba		ba	ba	ba	ba	ba	ba
Initial score	ba		ba	ba	ba	ba	ba	ba
Current account balance (% of GDP)	-22.9	-4.9	11.2	-3.7	2.1	-5.5	-7.9	8.4
Net IIP (% of GDP)[1]	--	-58.4	-36.3	-79.4	-18.8	--	--	-59.1
External debt (% of current account receipts)	195.2	155.3	147.2	199.3	122.8	229.1	82.7	140.1
External vulnerability indicator (EVI)[2]	32.0	75.9	41.5	93.9	394.9	65.6	62.3	96.6

[1] Net international investment position (% of GDP).
[2] (Short-term external debt + currently maturing long-term debt + total nonresident deposits over one year)/official foreign exchange reserves.
Sources: National authorities, IMF and Moody's Investors Service

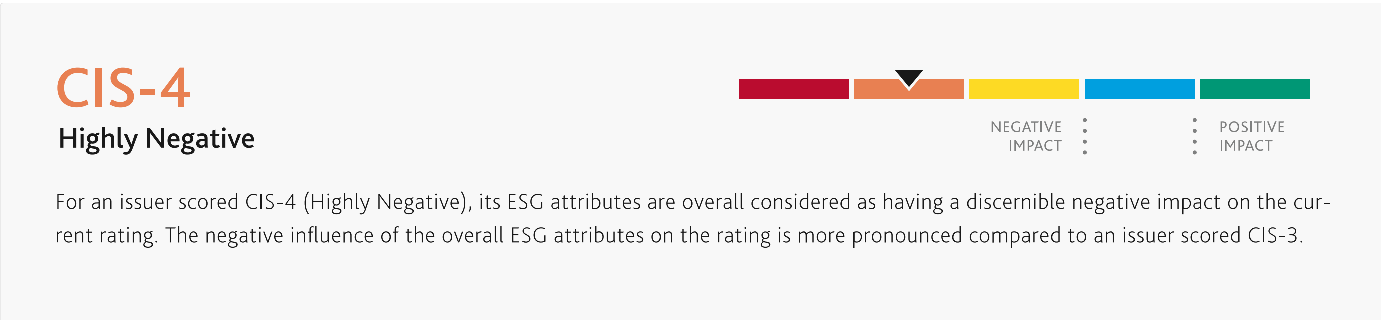
St. Vincent remains vulnerable to balance-of-payment crises through its high risk of climate-related and external shocks, and its economic concentration in the tourism sector. For instance, the pandemic and the volcanic eruptions over 2020-21 resulted in the current account widening from a 2% deficit in 2019 to an estimated 22% deficit in 2022. However, historically multilaterals have offered grants and concessional financial assistance to help alleviate immediate pressures on St. Vincent's external accounts.

While the ECCU membership has benefits, it does not entirely eliminate the risk of a balance-of-payment crisis. The ECCB has successfully maintained the XCD peg since 1976, thereby offsetting the impact of any balance-of-payment developments on the exchange rate and ensuring macroeconomic stability. However, the ECCB is the only institution to guarantee the exchange rate regime and to warrant the convertibility of the XCD to hard currency. Even though the probability of a devaluation of the XCD remains low, the currency union does not eliminate exchange rate risk. A deterioration in the terms of trade across the ECCU zone and increased foreign-currency needs could, for instance, increase pressure on the regional currency peg.

ESG considerations

St. Vincent and the Grenadines' ESG Credit Impact Score is Highly Negative CIS-4

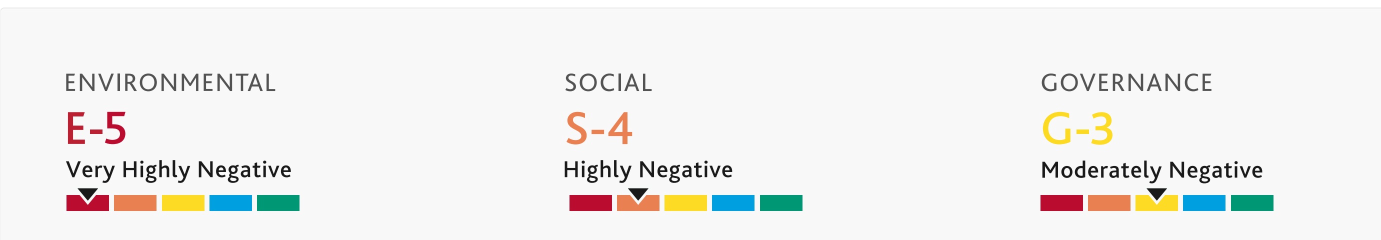
Exhibit 17
ESG Credit Impact Score



Source: Moody's Investors Service

St. Vincent's ESG Credit Impact Score is highly negative (**CIS-4**), reflecting high exposure to environmental and social risks and moderately strong institutions.

Exhibit 18
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

We assess St. Vincent's exposure to environmental risks as highly negative (**E-5** issuer profile score), reflecting high exposure to physical climate risk through its exposure to weather-related shocks that can cause severe economic disruption to the island's vital tourism sector.

Social

Exposure to social risks is highly negative (**S-4** issuer profile score) due to a high poverty level and a deficiency in education outcomes and the provision of services.

Governance

Our assessment of St. Vincent's governance reflects the country's relatively favorable scores in the Worldwide Governance Indicators, balanced by a mixed track record of fiscal policy implementation. We assess exposure to governance risk as moderately negative (**G-3** issuer profile score).

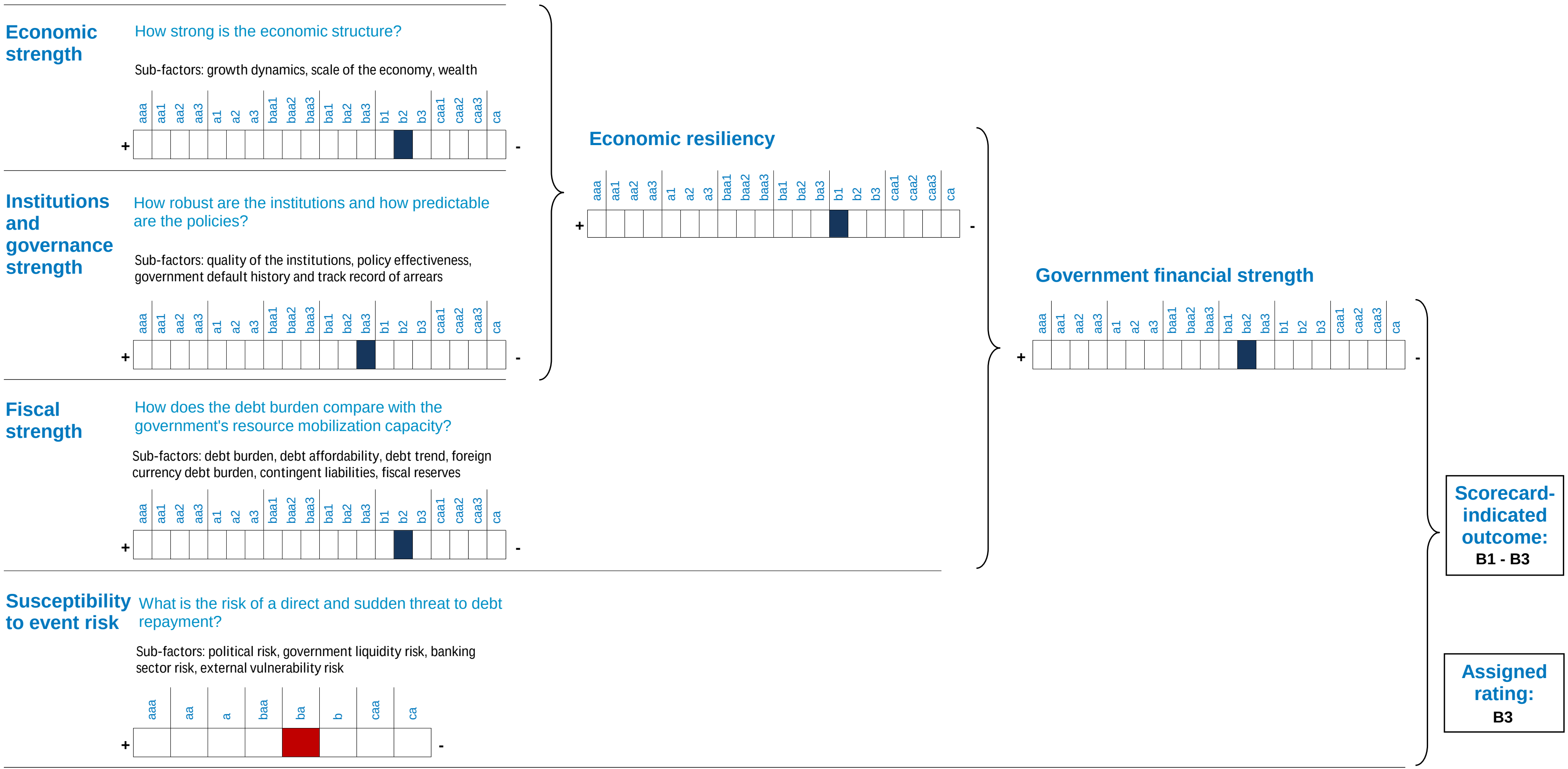
All of these considerations are further discussed in the "Credit profile" section above. Our approach to ESG is explained in our report on how the scores depict varied and largely credit-negative impact of ESG factors and our cross-sector methodology General Principles for Assessing Environmental, Social and Governance Risks Methodology.

Scorecard-indicated outcome

Combining the scores for individual factors provides the scorecard-indicated outcome. While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the scorecard-indicated outcome. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the scorecard-indicated outcome. For more information please see our Rating Methodology: Sovereigns.

Exhibit 19

Sovereign rating metrics: St. Vincent and the Grenadines



Source: Moody's Investors Service

Comparatives

This section compares credit relevant information regarding St. Vincent and the Grenadines with other sovereigns that we rate. It focuses on a comparison with sovereigns with the same scorecard-indicated outcome and shows the relevant credit metrics and factor scores.

Exhibit 20

St. Vincent and the Grenadines' key peers

St. Vincent and the Grenadines Key Peers

	Year	St. Vincent and the Grenadines	Barbados	Tunisia	Kyrgyz Republic	Togo	Costa Rica	B3 Median	Latin America and Caribbean Median
Rating/outlook		B3/STA	Caa1/STA	Caa2/NEG	B3/NEG	B3/STA	B2/STA	B3	B1
Scorecard-indicated outcome		B1 - B3	B2 - Caa1	Caa1 - Caa3	B2 - Caa1	B2 - Caa1	Ba3 - B2	B2 - Caa1	Ba3 - B2
Factor 1		**b2**	**b2**	**b1**	**b3**	**b2**	**baa2**	**b1**	**ba2**
Nominal GDP ($ bn)	2021	0.9	4.9	47.4	8.7	8.4	64.6	14.5	40.2
GDP per capita (PPP, Intl$)	2021	14,051	14,666	11,515	5,298	2,377	22,562	8,577	16,161
Avg. real GDP (% change)	2017 - 2026F	2.3	0.1	1.3	3.6	4.6	3.0	3.9	2.0
MAD Volatility in real GDP growth (ppts)	2012 - 2021	0.9	0.7	1.0	0.5	0.5	1.0	1.1	1.2
Factor 2		**ba3**	**ba2**	**b2**	**b3**	**b3**	**ba2**	**b3**	**ba2**
Quality of legislative & executive institutions	Latest available	b	ba	caa	b	caa	ba	b	ba
Strength of civil society & judiciary	Latest available	ba	aa	b	caa	b	a	caa	ba
Fiscal policy effectiveness	Latest available	b	b	b	b	caa	b	b	ba
Monetary & macro policy effectiveness	Latest available	ba	ba	ba	b	b	ba	b	ba
Gen. gov. fiscal balance (% of GDP)	2021 - 2023F	-7.9	-3.4	-6.6	-1.8	-6.9	-3.8	-4.3	-3.4
Average inflation (% change)	2017 - 2026F	2.3	3.6	7.1	7.6	3.5	3.0	7.0	4.3
Volatility of inflation (ppts)	2012 - 2021	1.4	1.7	1.1	3.6	1.4	1.8	1.9	1.6
Factor 3		**b2**	**b3**	**caa2**	**b2**	**b2**	**caa2**	**ba2**	**ba3**
Gen. gov. debt (% of GDP)	2021	83.5	108.6	78.8	59.7	61.7	68.0	49.1	66.9
Gen. gov. debt (% of revenue)	2021	265.7	395.1	310.9	180.0	316.4	431.1	175.5	273.2
Gen. gov. interest payments (% of revenue)	2021	8.1	14.1	11.0	2.5	11.1	30.1	7.0	10.3
Gen. gov. interest payments (% of GDP)	2021	2.6	3.9	2.8	0.8	2.2	4.7	2.0	2.2
Factor 4		**ba**	**b**	**caa**	**ba**	**ba**	**ba**	**b**	**ba**
Political risk	Latest available	**aa**	**aa**	**caa**	**ba**	**ba**	**a**	**ba**	**baa**
Government liquidity risk	Latest available	**baa**	**b**	**caa**	**ba**	**ba**	**ba**	**ba**	**baa**
Gross borrowing requirements (% of GDP)	2022F	17.3	10.7	14.4	6.9	17.2	10.5	6.7	7.6
Banking sector risk	Latest available	**ba**	**ba**	**ba**	**baa**	**baa**	**baa**	**ba**	**baa**
BSCE[1]	Latest available	ba3-b3	caa-c	caa-c	ba3-b3	ba3-b3	ba3-b3	ba3-b3	ba3-b3
Total domestic bank assets (% of GDP)	2021	89.1	140.4	106.3	43.6	--	69.7	49.0	76.2
External vulnerability risk	Latest available	**ba**	**b**	**b**	**ba**	**a**	**baa**	**ba**	**baa**
Current account balance (% of GDP)	2021	-22.9	-10.8	-5.9	-8.5	-1.9	-3.3	-2.6	-2.9
External vulnerability indicator (EVI)	2023F	32.0	8.4	255.1	71.9	50.9	125.8	58.6	58.3
External debt (% of current account receipts)	2021	195.2	147.3	183.5	150.2	148.3	125.4	148.7	146.3
Net international investment position (% of GDP)	2021	--	--	-153.8	-86.7	--	-59.3	-44.4	-40.3

[1] BSCE is our estimate of the risk of a Banking Sector Credit Event (BSCE), which we use for sovereigns where we have no or very limited rating coverage of a system. Otherwise, we use the Baseline Credit Assessment (BCA) for rated domestic banks, weighted by bank assets.

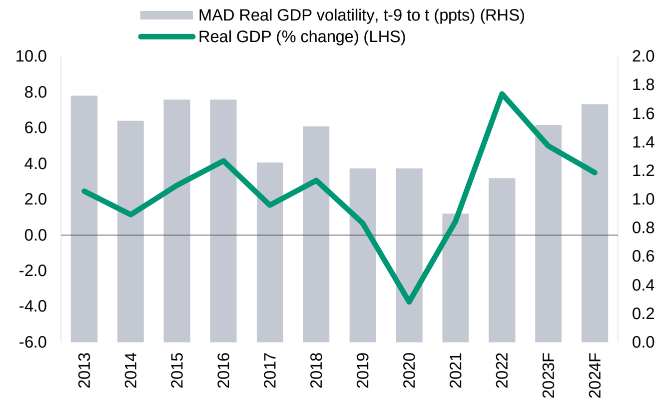
Sources: National authorities, IMF, Moody's Investors Service

DATA, CHARTS AND REFERENCES

Chart pack: St. Vincent and the Grenadines

Exhibit 21

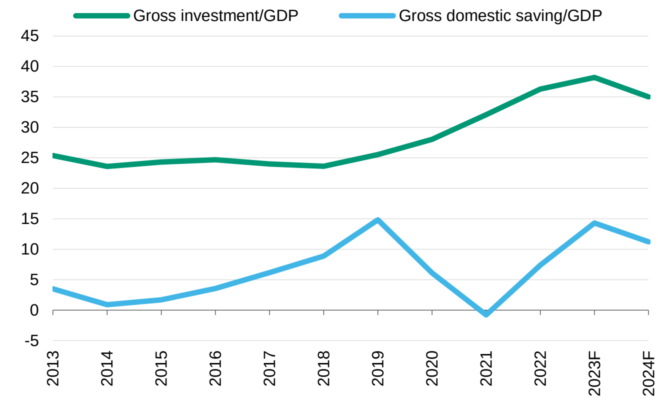
Economic growth



Source: Moody's Investors Service

Exhibit 22

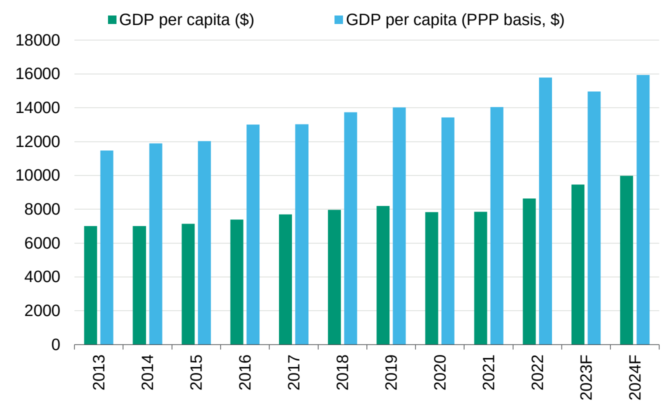
Investment and saving



Source: Moody's Investors Service

Exhibit 23

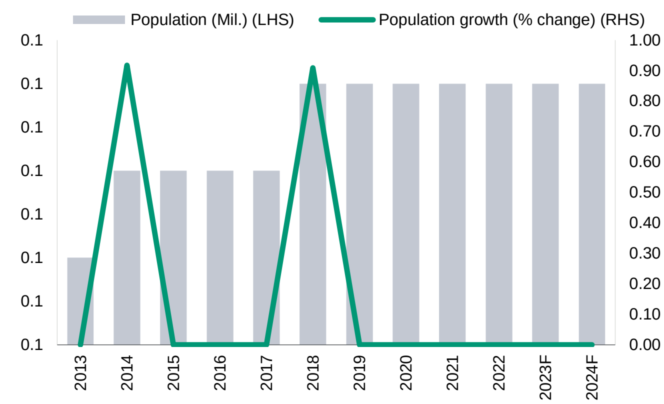
National income



Source: Moody's Investors Service

Exhibit 24

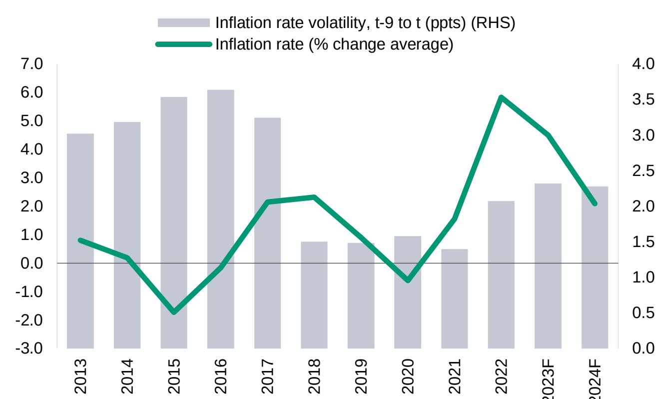
Population



Source: Moody's Investors Service

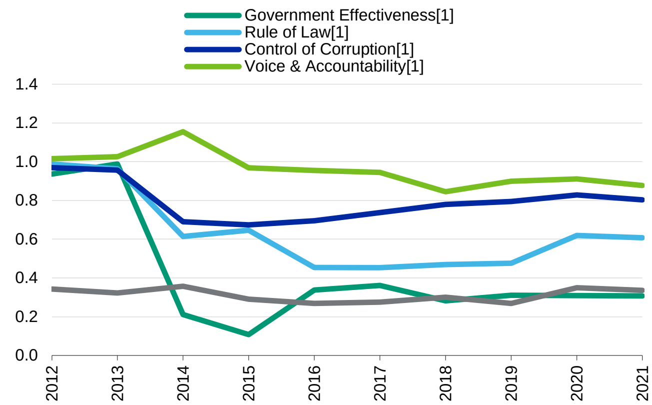
Exhibit 25

Inflation and inflation volatility



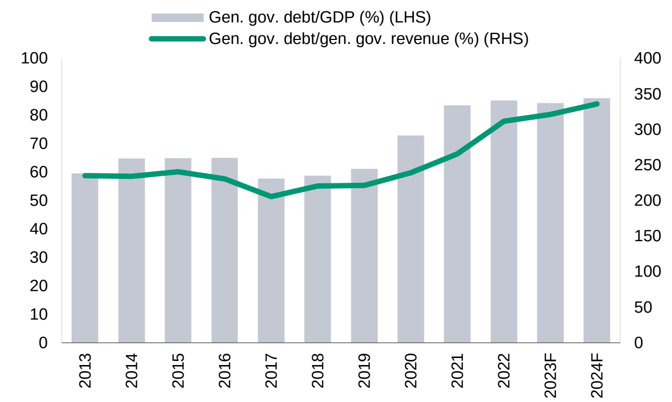
Source: Moody's Investors Service

Exhibit 26
Institutional framework and effectiveness



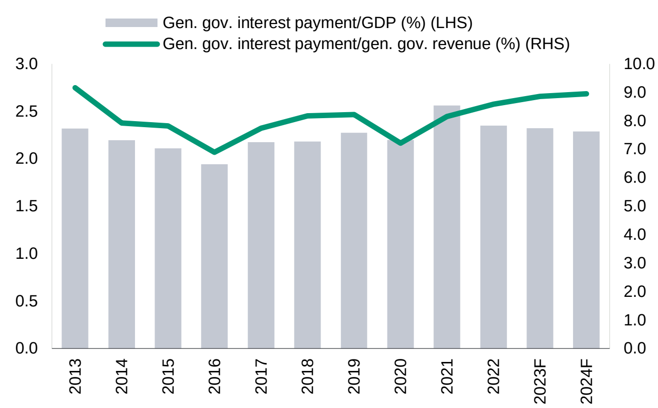
[1] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions.
Source: Worldwide Governance Indicators

Exhibit 27
Debt burden



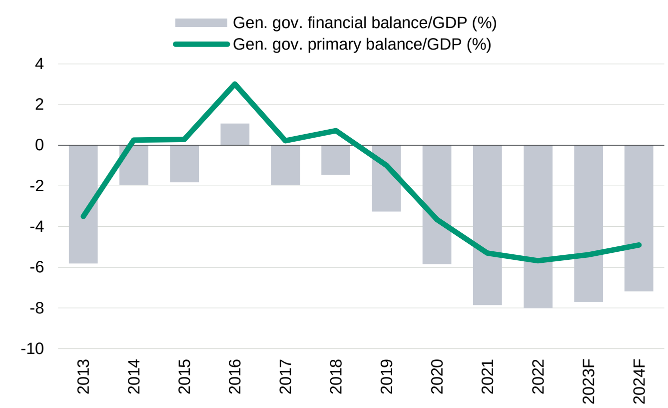
Source: Moody's Investors Service

Exhibit 28
Debt affordability



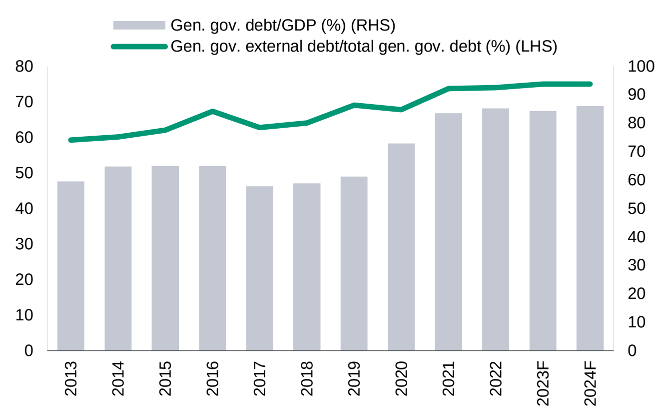
Source: Moody's Investors Service

Exhibit 29
Financial balance



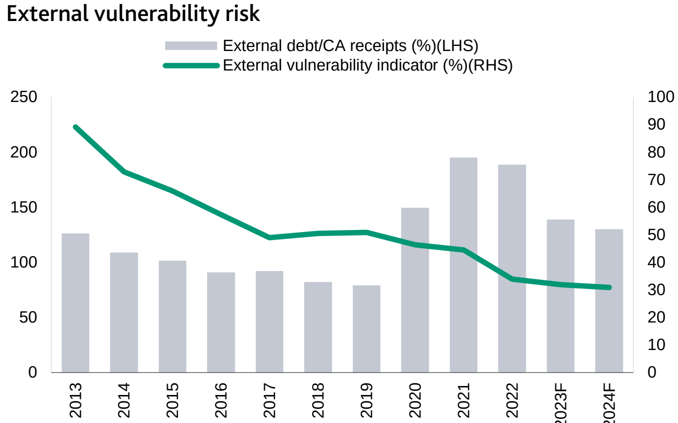
Source: Moody's Investors Service

Exhibit 30
Government liquidity risk



Source: Moody's Investors Service

Exhibit 31
External vulnerability risk



Source: Moody's Investors Service

Rating history

Exhibit 32

St. Vincent and the Grenadines[1]

Long Term Ratings		Outlook	Review Action		Short Term Ratings		Action Date
Foreign Currency	Local Currency		Foreign Currency	Local Currency	Foreign Currency	Local Currency	
B3	B3	STA	-	-	NP	NP	Mar-22
B3	B3	STA	-	-	NP	NP	May-16
B3	B3	NEG	-	-	NP	NP	Nov-14
B2	B2	STA	-	-	NP	NP	Oct-12
B1	B1	STA	-	-	NP	NP	Dec-07

[1] Table excludes rating affirmations and ceilings. Please visit the issuer page for St. Vincent for the full rating history.
Source: Moody's Investors Service

Annual statistics

Exhibit 33

St. Vincent and the Grenadines

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023F	2024F
Economic structure and performance												
Nominal GDP (US$ bil.)	0.8	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9	1.0	1.1	1.1
Population (Mil.)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
GDP per capita (US$)	7,016	7,008	7,150	7,403	7,706	7,967	8,205	7,830	7,858	8,642	9,476	10,000
GDP per capita (PPP basis, US$)	11,482	11,891	12,035	13,012	12,975	13,698	14,025	13,666	14,376	16,185	--	--
Nominal GDP (% change, local currency)	4.8	0.8	2.0	3.5	4.1	4.3	3.0	-4.6	0.4	10.0	9.7	5.5
Real GDP (% change)	2.5	1.1	2.8	4.1	1.7	3.1	0.7	-3.7	0.8	7.9	5.0	3.5
Inflation rate (% change average)	0.8	0.2	-1.7	-0.2	2.2	2.3	0.9	-0.6	1.6	5.7	4.7	2.1
Gross investment/GDP	25.4	23.6	24.3	24.7	24.0	23.6	25.6	28.0	32.1	36.3	38.2	35.0
Gross domestic saving/GDP	3.5	0.9	1.7	3.6	6.1	8.9	14.8	6.1	-0.8	7.4	14.4	11.2
Nominal exports of G & S (% change, US$ basis)	-1.3	36.1	10.9	6.6	-3.1	9.8	2.1	-43.8	-25.0	61.5	35.8	3.7
Nominal imports of G & S (% change, US$ basis)	5.0	6.5	-7.2	5.3	-2.1	5.4	-5.8	-12.0	13.4	17.8	10.7	4.4
Openness of the economy[1]	79.7	91.4	89.1	91.0	85.2	87.6	82.9	64.4	64.6	75.6	81.6	80.5
Government Effectiveness[2]	1.0	0.2	0.1	0.3	0.4	0.3	0.3	0.3	0.3	--	--	--
Government finance												
Gen. gov. revenue/GDP[3]	25.3	27.7	27.0	28.2	28.1	26.7	27.6	30.5	31.4	27.3	26.2	25.5
Gen. gov. expenditures/GDP[3]	31.1	29.6	28.8	27.1	30.0	28.1	30.9	36.4	39.3	35.4	33.9	32.7
Gen. gov. financial balance/GDP[3]	-5.8	-1.9	-1.8	1.1	-1.9	-1.5	-3.3	-5.9	-7.9	-8.0	-7.7	-7.2
Gen. gov. primary balance/GDP[3]	-3.5	0.3	0.3	3.0	0.2	0.7	-1.0	-3.7	-5.3	-5.7	-5.4	-4.9
Gen. gov. debt (US$ bil.)[3]	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.7	0.8	0.9	1.0
Gen. gov. debt/GDP[3]	59.6	64.8	65.0	65.0	57.8	58.8	61.2	72.9	83.5	85.2	84.2	85.9
Gen. gov. debt/gen. gov. revenue[3]	235.2	234.1	240.7	230.6	205.7	220.5	221.5	239.1	265.7	311.6	321.5	336.1
Gen. gov. interest payments/gen. gov. revenue[3]	9.2	7.9	7.8	6.9	7.7	8.2	8.2	7.2	8.1	8.6	8.9	8.9
Gen. gov. FC & FC-indexed debt/gen. gov. debt[3]	59.3	60.1	62.0	67.3	62.8	64.1	69.1	67.8	73.7	74.0	75.0	75.0

Source: Moody's Investors Service

External payments and debt												
Nominal exchange rate (local currency per US$, Dec)	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Real eff. exchange rate (% change)	-1.2	-0.6	5.9	0.7	-0.3	-1.1	2.5	-2.2	-3.9	3.6	--	--
Current account balance (US$ bil.)	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	-0.1	-0.2	-0.2	-0.2	-0.2
Current account balance/GDP	-27.5	-24.7	-14.7	-12.9	-11.7	-10.3	-2.3	-15.7	-22.9	-21.9	-17.9	-18.7
External debt (US$ bil.)[4]	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.5	0.6	0.6	0.6
Public external debt/total external debt[4]	92.6	92.0	92.7	91.9	93.4	94.4	95.6	92.4	89.3	94.3	93.8	93.5
Short-term external debt/total external debt	--	--	--	--	--	--	--	--	--	--	--	--
External debt/GDP[4]	40.8	44.2	43.7	41.0	39.6	36.6	38.6	47.6	60.3	67.4	56.3	51.7
External debt/CA receipts[5][4]	126.2	109.0	101.7	91.0	92.2	82.1	79.1	149.5	195.2	188.8	139.0	130.1
Interest paid on external debt (US$ bil.)[4]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization paid on external debt (US$ bil.)[4]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0
Net foreign direct investment/GDP	16.6	16.1	15.8	8.7	19.5	4.5	7.6	7.5	18.4	11.6	10.6	--
Net international investment position/GDP	--	-110.0	-123.2	-127.2	-132.1	-130.7	-128.9	--	--	--	--	--
Official forex reserves (US$ bil.)	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Net foreign assets of domestic banks (US$ bil.)	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.2	--	--	--
Monetary, external vulnerability and liquidity indicators												
M2 (% change Dec/Dec)	--	9.6	4.8	3.0	1.2	1.7	9.9	-4.5	12.8	0.2	--	--
Monetary policy rate (% per annum, Dec 31)[6]	6.5	6.5	6.5	6.5	6.5	6.5	6.5	2.0	2.0	2.0	--	--
Domestic credit (% change Dec/Dec)	1.2	-0.2	2.5	0.6	0.7	-0.3	1.1	3.5	0.0	--	--	--
Domestic credit/GDP	49.8	49.3	49.5	48.1	46.5	44.4	43.6	47.3	47.1	--	--	--
M2/official forex reserves (X)	3.6	3.3	3.3	2.9	3.2	3.4	3.3	3.0	2.3	2.3	--	--
Total external debt/official forex reserves	234.2	218.4	208.8	174.4	186.0	191.9	183.3	202.8	178.1	211.9	188.5	177.3
Debt service ratio[7]	13.2	9.7	9.9	8.7	9.6	10.4	8.7	12.0	11.5	18.6	18.7	13.1
External vulnerability indicator (EVI)[8]	89.2	72.9	66.0	57.3	49.0	50.6	50.8	46.4	44.5	34.0	32.0	30.9
Liquidity ratio[9]	20.6	46.7	25.7	40.7	44.7	28.1	20.8	20.0	15.8	--	--	--
Total liabilities due BIS banks/total assets held in BIS banks	57.1	60.4	32.8	49.5	49.4	29.4	25.2	25.2	21.4	--	--	--
"Dollarization" ratio[10]	5.1	5.4	6.0	5.5	5.6	5.0	7.5	5.5	7.7	6.2	--	--
"Dollarization" vulnerability indicator[11]	10.3	11.1	12.2	9.9	10.6	9.5	13.3	9.8	11.6	17.3	--	--

[1] Sum of Exports and Imports of Goods and Services/GDP
[2] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions
[3] Central Government
[4] Public sector only
[5] Current Account Receipts
[6] Bank discount rate
[7] (Interest + Current-Year Repayment of Principal)/Current Account Receipts
[8] (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/Official Foreign Exchange Reserves
[9] Liabilities to BIS Banks Falling Due Within One Year/Total Assets Held in BIS Banks
[10] Total Foreign Currency Deposits in the Domestic Banking System/Total Deposits in the Domestic Banking System
[11] Total Foreign Currency Deposits in the Domestic Banking System/(Official Foreign Exchange Reserves + Foreign Assets of Domestic Banks)

Source: Moody's Investors Service

Related websites and information sources

» Sovereign risk group web page

» Sovereign ratings list

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Endnotes

1 Please see, www.gov.vc: -"The Post Disaster Needs Assessment Report (August 2021, p.10)

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