INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/239

ST. VINCENT AND THE GRENADINES

2024 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

July 2024

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with St. Vincent and the Grenadines, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on May 7, 2024, with the officials of St. Vincent and the Grenadines on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 20, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- A **Staff Supplement** updating information on recent developments.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR24/285

IMF Executive Board Concludes 2024 Article IV Consultation with St. Vincent and the Grenadines

FOR IMMEDIATE RELEASE

Washington, DC – July 22, 2024: On July 22, 2024, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with St. Vincent and the Grenadines and endorsed the staff appraisal without a meeting on a lapse-of-time basis (see important note below on the timing of the report, which predates Hurricane Beryl).[2]

The economy rebounded strongly in 2022–23 from the pandemic and 2021 volcanic eruptions, returning to pre-pandemic output levels. Growth reached 3.1 percent in 2022 and is estimated to have accelerated to 5.8 percent in 2023. This was supported by large public and private investment and a robust recovery of tourism, which were partly offset by a drop in agriculture due to lingering effects from volcanic eruptions and the historic high temperature in 2023. Inflation has subsided from its peak. Formal employment surpassed pre-pandemic levels in 2022 and is estimated to have continued to grow in 2023. Nevertheless, recent compounded shocks have left a lasting negative impact on employment of young men, and female labor force participation remains relatively low. As regards public finances, while non-interest current spending was significantly reduced, the fiscal deficit widened in 2022–23 largely due to the phasing of port-related spending and temporary factors. Public debt declined from its peak in 2021 to about 87 percent of GDP in 2023 but remains well above pre-pandemic levels. The external position improved in 2022–23 supported by recovery in goods exports and tourism receipts. The financial system remains sound.

Growth is projected at 4.9 percent in 2024, supported by continued growth in tourism and strong investment on infrastructure, particularly the port project. Inflation is projected to ease to 2.5 percent by end-2024, on account of lower imported inflation. The authorities are balancing the need to support inclusive and resilient growth and maintain fiscal prudence, with both overall and underlying (excluding pandemic-, volcano-, and port-related spending) primary balances projected to improve significantly in 2024, to -4.6 and 2.1 percent of GDP, respectively. They also remain committed to reaching the regional debt ceiling and the medium-term fiscal strategy set out in the 2021 Rapid Credit Facility. The outlook is subject to downside risks stemming primarily from an abrupt global slowdown, commodity price volatility, and potential delays in investment projects. In addition, the economy is facing significant

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The staff report reflects discussions with the authorities during April–May 2024 and is based on the information available as of June 14, 2024. It focuses on St. Vincent and the Grenadines' medium-term challenges and policy priorities and was prepared prior to the hit of Hurricane Beryl on July 1. It, therefore, does not cover the impact of the hurricane or the related policy response, which has since become the overarching near-term priority. Based on information available until July 11 and covered in the Staff Supplement, the thrust of the staff appraisal remains unchanged.

challenges from a rapidly ageing population and the threat of natural disasters and climate change, amid the still high public debt. On the upside, stronger-than-expected tourism development and agriculture sector recovery could enhance growth and improve the external position.

Executive Board Assessment[3]

St. Vincent and the Grenadines has achieved a robust recovery from recent compounded shocks. The authorities' decisive policy responses, large-scale investment projects, and robust growth in tourism have contributed to the recovery. Agriculture performance, however, disappointed, due to the lingering impact of volcanic eruptions and historic-high temperatures in 2023. Employment has returned to the pre-pandemic level except for young men, and female labor force participation remains relatively low. Inflation has subsided from its peak. The external position in 2023 was moderately weaker than the level implied by medium-term fundamentals and desirable policies. The outlook is favorable, supported by continued recovery in tourism and strong investment in infrastructure, but is subject to downside risks mainly stemming from an abrupt global slowdown, commodity price volatility, and potential delays in investment projects. Furthermore, the economy is facing significant challenges from a rapidly ageing population and the intensifying threat of natural disasters and climate change, amid the still high public debt.

Fiscal policy should focus on building buffers and supporting resilience and inclusive growth while safeguarding public debt sustainability. The authorities' continued commitment to reaching the regional debt target and the medium-term fiscal strategy set out in the 2021 RCF is welcome and critical to public debt sustainability. The elevated global uncertainty and the country's high vulnerability to shocks call for contingency planning and stronger fiscal buffers. In this regard, the adoption of the Disaster Risk Financing Strategy (DRFS) and ongoing efforts to implement it, including continued building of the Contingencies Fund and the establishment of the Catastrophe Deferred Drawdown Option with the World Bank, are important steps. In addition, pursuing a lower debt target and stronger adjustment would provide a safety margin that could be used when shocks materialize and ensure that the regional debt target and public debt sustainability are met with a higher probability. This could be achieved through further efforts to build a more efficient and equitable tax and expenditure framework, which will also help support resilient and inclusive growth. To these ends, significant work underway to improve the efficiency and inclusiveness of public spending and services should continue. The efficiency and progressivity of the tax system can be improved while enhancing revenue. Building on recently launched reforms to the National Insurance Service (NIS), better alignment of the non-contributory Public Sector Pension System with the NIS is urgently needed to improve fairness and reduce fiscal costs.

Continued strengthening of fiscal institutions is key to underpin fiscal efforts and reinforce fiscal credibility. Efforts to enhance revenue administration should be sustained, including through the recent initiative to enforce VAT for private home vacation rentals, modernizing the Customs Act, and digitalizing the tax information management system. In view of the tight global financial conditions and still elevated debt level, it will be important to further strengthen the Fiscal Responsibility Framework (FRF) to signal a credible medium-term fiscal plan,

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[3] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

including by recalibrating and fully operationalizing the FRF, timely publishing and incorporating forward-looking budgetary advice into the Fiscal Responsibility Mechanism report, improving the budget process and medium-term fiscal planning, and strengthening SOE oversight and the cash management system.

Sustained efforts with structural reforms are imperative to build climate resilience and address structural bottlenecks to investment, employment, and productivity. The ongoing investments in key infrastructure such as ports, roads, airports, and water supply, along with efforts with digitalization and improving investment climate, are crucial for alleviating supply-side bottlenecks and enhancing competitiveness. The comprehensive education reform underway that focuses on curriculum reforms and expansion of post-secondary and technical and vocational education and training will help reduce skill mismatches and facilitate youth employment. A careful design of the unemployment insurance scheme, complemented by active labor market policies, is needed to encourage labor market participation and formality and ensure the scheme's sustainability. In addition to the recent strengthening of parental leaves, targeted social investments could further unleash the full potential of the female labor force, including by enhancing access to affordable and quality child and elderly care and reducing adolescent pregnancy. In response to rising risks of climate change and natural disasters, the authorities should continue building structural and financial resilience and transitioning to renewable energy, including by incorporating resilience feature into new infrastructure, implementing the recently adopted DRFS, enhancing the disaster management plan and legislation, and modernizing the Electricity Act.

The financial system remains sound, but efforts should continue to reduce balance sheet vulnerabilities and strengthen regulatory and supervisory frameworks. Capital and liquidity buffers are ample, with no apparent impacts of the compounded shocks on asset quality. Provisioning levels for the banking system, however, should be bolstered and disposal of long-dated nonperforming loans accelerated. The financial authority should continue to strengthen the supervisory and regulatory frameworks and improve crisis preparedness. Building on past achievements, efforts should continue to strengthen the AML/CFT framework to minimize the risk of losing Correspondent Banking Relationships.

Table 1. St. Vincent and the Grenadines: Selected Economic Indicators, 2019–29

					Est.	Projected					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Output and prices	(Annual percent change, unless otherwise specified)										
Real GDP 1/	0.7	-4.3	2.1	3.1	5.8	4.9	3.5	2.7	2.7	2.7	2.7
Nominal GDP 1/	3.0	-5.0	2.8	11.3	9.5	8.3	5.6	4.7	4.7	4.7	4.7
Consumer prices, end of period	0.5	-1.0	3.4	6.7	4.0	2.5	2.0	2.0	2.0	2.0	2.0
Consumer prices, period average	0.9	-0.6	1.6	5.7	4.6	3.4	2.0	2.0	2.0	2.0	2.0
	(Percent change)										
Banking System											
Broad Money	10.3	-6.6	12.8	0.2	4.0	9.3	5.6	4.7	4.7	4.7	4.7
Credit to private sector, period average	-0.5	3.4	0.7	-0.3	1.2	2.5	2.8	3.5	5.2	5.2	5.2
Central Government Finances	(In percent of GDP, unless otherwise specified)										
Total revenue and grants	25.8	28.9	30.9	26.8	26.4	27.5	28.2	28.4	28.4	28.4	28.4
Tax revenue	22.0	23.6	26.2	23.3	21.7	23.1	23.7	23.8	23.9	23.9	23.9
Grants	2.5	2.1	1.6	1.7	2.3	2.1	2.2	2.2	2.2	2.2	2.2
Total expenditure and net lending	29.3	34.8	38.0	36.0	38.1	35.4	31.7	28.2	27.8	27.7	27.6
Current expenditure	24.5	27.3	28.9	25.3	25.3	25.0	24.3	23.8	23.6	23.5	23.4
Of which: Wages and Salaries	12.4	13.9	14.1	12.5	12.0	11.6	11.3	11.1	11.1	11.1	11.1
Interest	2.2	2.2	2.5	2.3	2.5	3.3	3.0	2.9	2.6	2.5	2.3
Capital expenditure	4.8	7.5	9.1	10.7	12.8	10.4	7.4	4.4	4.2	4.2	4.2
Overall balance	-3.4	-5.9	-7.2	-9.2	-11.7	-7.9	-3.5	0.2	0.6	0.8	0.9
Overall balance (excl. grants)	-5.9	-8.1	-8.8	-10.8	-14.0	-10.0	-5.7	-2.0	-1.6	-1.4	-1.3
Primary balance	-1.2	-3.7	-4.7	-6.9	-9.2	-4.6	-0.5	3.0	3.2	3.2	3.2
External Sector	(In percent of GDP, unless otherwise specified)										
External current account	-2.4	-15.9	-22.2	-18.9	-17.6	-17.0	-14.1	-12.2	-10.3	-9.3	-8.9
Exports of goods and services	36.1	21.4	15.8	28.1	33.5	36.4	37.3	38.5	38.9	39.4	39.6
Imports of goods and services	46.8	43.4	47.9	54.4	56.1	57.1	54.7	54.2	52.7	52.3	52.1
Public sector external debt (end of period)	48.0	55.1	65.7	62.1	62.2	66.0	68.3	67.1	64.1	61.1	58.0
External public debt service 2/	47.8	77.0	48.1	25.4	15.3	16.5	15.5	15.8	15.3	13.5	13.0
Memorandum items:											
Holdings of SDRs (in millions of EC$)	4.1	2.8	44.5	40.6	39.0	39.0	39.0	39.0	39.0	39.0	39.0
Gross public sector debt (in percent of GDP)	68.1	79.0	88.3	84.7	87.1	88.2	86.7	82.8	79.0	75.0	71.1
Nominal GDP (market prices; in millions of EC$)	2,458	2,334	2,399	2,671	2,924	3,168	3,344	3,501	3,666	3,838	4,018

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

1/ At market prices.

2/ In percent of exports of goods and services.

INTERNATIONAL MONETARY FUND

ST. VINCENT AND THE GRENADINES

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

June 20, 2024

KEY ISSUES

Context. St. Vincent and the Grenadines has achieved a robust recovery from the pandemic and 2021 volcanic eruptions, supported by large-scale investment projects and robust growth in tourism. Growth is projected at 4.9 percent in 2024, with economic activity surpassing the pre-pandemic trend forecast. Employment has returned to the pre-pandemic level except for young men, and female labor force participation remains relatively low. Inflation has subsided from its peak. The financial system remains sound. The outlook is favorable but is subject to downside risks mainly stemming from the uncertain external environment. In addition, the economy is facing significant challenges from a rapidly ageing population and natural disasters and climate change, amid the still high public debt. Recognizing the challenges, the authorities are implementing a broad array of reforms in line with past Fund advice.

Policy Priorities. The consultation focused on policies to build buffers, strengthen macroeconomic and financial resilience and support sustainable and inclusive growth.

- The elevated public debt and high vulnerability to shocks calls for contingency planning and stronger fiscal buffers. The efficiency and progressivity of the tax system can be improved while ongoing efforts to enhance the effectiveness and inclusiveness of spending should be sustained. Coordinated reforms are needed to improve the efficiency, sustainability, and fairness of the pension system. Continued strengthening of fiscal institutions, including tax administration and medium-term fiscal framework, is also key to underpin fiscal efforts and reinforce fiscal credibility.

- Continued efforts are needed to lift medium-term growth prospects with a view to strengthening public debt sustainability and raising people's income. Priorities include building climate resilience and addressing structural bottlenecks to investment, employment, and productivity, including by upgrading the education system and labor market institutions to ease gender and youth gaps.

- To safeguard financial stability, it is imperative that the authorities continue vigilance over risks and sustain efforts that strengthen the regulatory and supervisory frameworks as well as improve crisis preparedness.

Approved By
Andrea Schaechter (WHD) and Peter Dohlman (SPR)

Discussions took place in Kingstown during April 23–May 7, 2024. The mission team comprised Nan Geng (head), Paula Beltran (RES), Sophia Chen, Mai Hakamada, and Yuanchen Yang (all WHD unless otherwise mentioned). Dmitriy Kovtun (EUR) and Archit Singhal (WHD) provided contributions and Laila Azoor (WHD) administrative assistance. Philip Jennings and Sylvia Gumbs (OED) participated in some meetings. Kimberly Waithe (CDB), Najay Parke, and Alex Myers (ECCB) also joined the mission. The mission met with Honorable Prime Minister R. Gonsalves, Honorable Minister of Finance C. Gonsalves, regulators, senior government officials, labor unions, the opposition party, and representatives from the financial and business sectors.

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Acronyms and Abbreviations

ALMPs	Active Labor Market Policies
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BOSVG	Bank of St. Vincent
CA	Current Account
CAD	Current Account Deficit
CARICOM	Caribbean Community
CARTAC	Caribbean Technical Assistance Center
CAT DDO	Catastrophe Deferred Drawdown Option
CBR	Correspondent Banking Relationship
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CDB	Caribbean Development Bank
CF	Contingencies Fund
CFATF	Caribbean Financial Action Task Force
CIT	Corporate Income Tax
CSC	Customs Service Charge
CU	Credit Union
DMFL	Disaster Mitigating Financial Layering
DRFS	Disaster Risk Financing Strategy
DSA	Debt Sustainability Analysis
EBA	External Balance Assessment
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
EMDE	Emerging Markets and Developing Economies
EME	Emerging Market Economies
FCIB	First Caribbean International Bank
FDI	Foreign Direct Investment
FSA	Financial Services Authority
FFR	Federal Fund Rate
FRF	Fiscal Responsibility Framework
FRM	Fiscal Responsibility Mechanism
GDP	Gross Domestic Product
GIR	Gross international Reserves
ILO	International Labor Organization
IFI	International Financial Institution
NEER	Nominal Effective Exchange Rate
NEMO	National Emergency Management Organization
NIS	National Insurance Services
NPL	Nonperforming Loans
OECS	Organization of Eastern Caribbean States
OECD	Organization for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries

PIT	Personal Income Tax
PSPS	Public Sector Pension System
C-PIMA	Public Investment Management Assessment with a Climate Module
RCF	Rapid Credit Facility
REER	Real Effective Exchange Rate
SAIMS	Social Assistance Information Management System
SOE	State-Owned Enterprises
SDR	Special Drawing Rights
VCT	St. Vincent and the Grenadines
TA	Technical Assistance
TVET	Technical and Vocational Education and Training
VAT	Value-Added Tax
VEEP	Volcanic Eruption Emergency Project
WB	The World Bank
USAID	The United States Agency for International Development

CONTEXT

1. **St. Vincent and the Grenadines has achieved a robust recovery from the pandemic and 2021 volcanic eruptions.** The authorities' decisive policy responses—supported by two IMF RCF disbursements and financing from other IFIs—helped protect lives and livelihoods and contain economic scars. Output had returned to the pre-pandemic level by 2022. A significant pipeline of public and private investment projects—including post-volcanic eruptions reconstruction and notably the port modernization project and the newly opened Sandals Resort—has supported the recovery and is improving economic potential.[1]

2. **Nonetheless, the economy is facing significant vulnerabilities and challenges.** Despite authorities' efforts to contain fiscal deficits, the public debt remains elevated, with the economy vulnerable to shocks, including from natural disasters. A rapidly ageing population poses a challenge for the pension system and sustainable growth. In addition, recent shocks likely have had a disproportionate impact on the vulnerable.

3. **Recognizing the challenges, the government is undertaking a broad array of reforms in line with past Fund advice, ahead of the next general elections scheduled for November 2025** (Annex I).[2] Strong efforts are being made to upgrade infrastructure, enhance resilience to climate change, and digitalize government and financial services. The government has also launched pension and education reforms and continues to strengthen social assistance system and fiscal institutions, with the goal to support sustainable and inclusive growth.

RECENT DEVELOPMENTS

4. **The economy rebounded strongly in 2022–23, already returning to pre-pandemic output levels.** Growth reached 3.1 percent in 2022 and is estimated to have accelerated to 5.8 percent in 2023, supported by large public and private investment and a robust recovery of tourism, which were partly offset by a drop in agriculture due to lingering effects from volcanic eruptions and the historic high temperature in 2023 (text chart).[3] Stayover arrivals approached pre-pandemic levels in 2023 supported by significant improvement in airlift. Formal employment surpassed pre-pandemic levels in 2022 and is estimated to have continued to grow in 2023, fueled by the recovery in tourism and higher demand in other services (e.g., IT services). Nevertheless, recent compounded shocks left a lasting negative impact on employment of young men (Annex VI).

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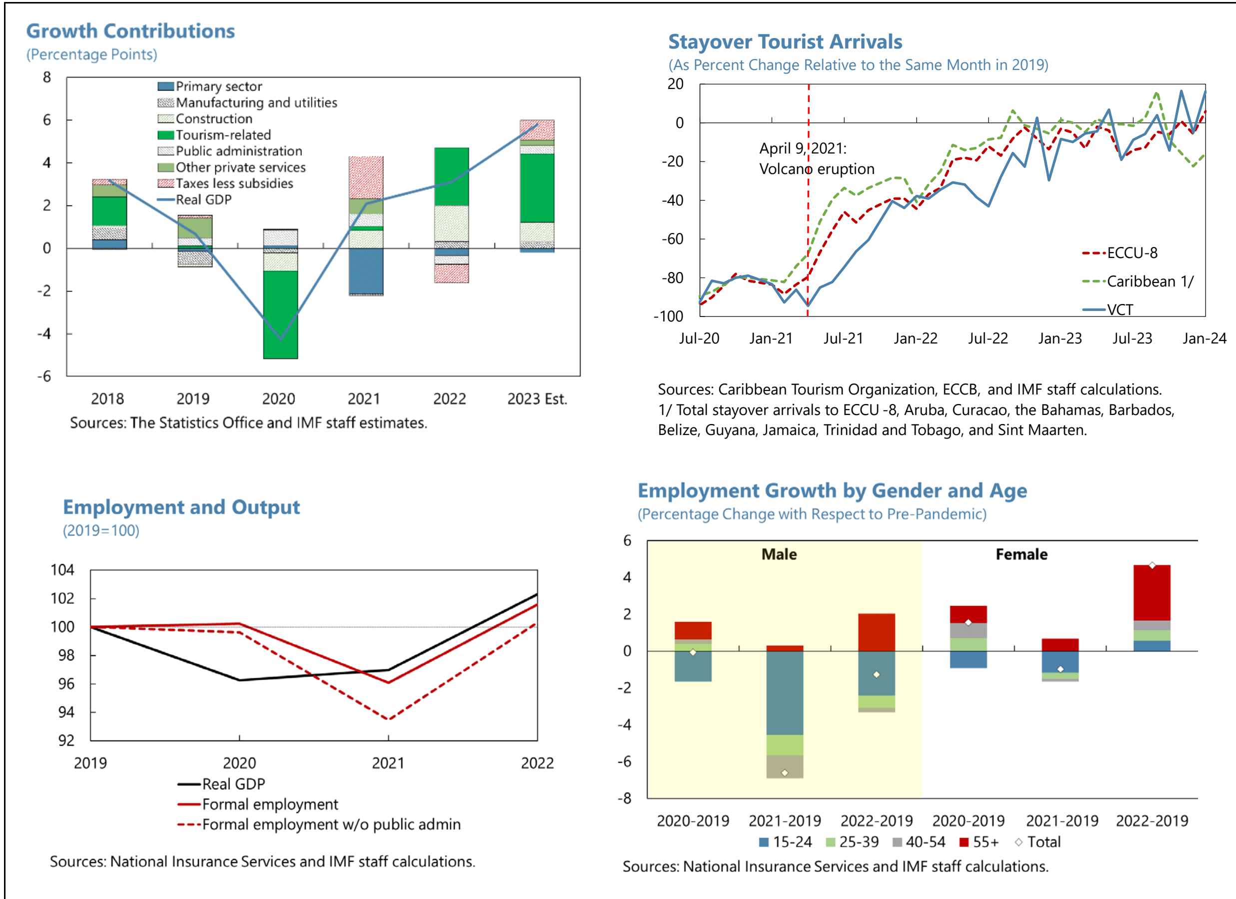
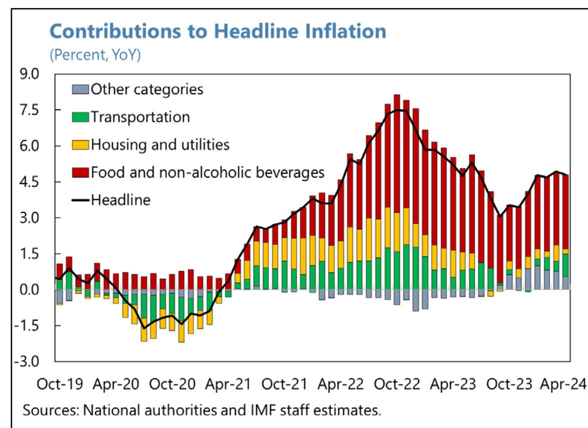
[1] See Annex II in the Staff Report for the 2022 Article IV Consultation with St. Vincent and the Grenadines.

[2] The current ruling party has been in office since 2001.

[3] The authorities revised historical GDP data for 2020-21, which suggest a sharper decline in 2020, followed by a stronger recovery in 2021, compared to the earlier version of data released.



5. Inflation has moderated significantly. Driven by higher imported prices, inflation peaked at 7.5 percent y/y in late 2022 but has fallen significantly to 4.8 percent as of April 2024. In view of the dramatic increase in cost of living in recent years and the unchanged minimum wage levels since 2017, the government raised minimum wage by an average of about 26 percent (effective from March 2024) to bring VCT's minimum wage-to-average wage ratio broadly in line with that of peers (Annex VI).



6. The external position improved in 2022–23 (Figure 3). Based on preliminary data, the current account deficit is estimated to have narrowed to 17.6 percent of GDP in 2023 from the peak of 22.2 percent in 2021. The improvement was supported by recovery in goods exports and tourism receipts, which were partially offset by lower private transfers and higher imports associated with large infrastructure projects and higher import costs. Gross international reserves remain adequate at about 5 months of imports. The external position is assessed to be moderately weaker than the level implied by medium-term fundamentals and desirable policies (Annex II).

7. The fiscal deficit widened in 2022–23 largely due to the phasing of port-related spending and temporary factors. Despite a significant reduction in non-interest current spending,[4] the primary deficit rose to 9.2 percent of GDP in 2023 from 4.7 percent 2021 owing to lower tax collections and higher capital spending. The fall in the tax revenue was mainly explained by temporary factors[5] as well as changes to income taxes, reflecting the government's efforts to lower the income tax burden and bring it closer towards the regional averages.[6] Meanwhile, most of the temporary price-mitigating measures introduced in mid-2022 were phased out by end-2023, including the generalized reduction in fuel excise taxes.[7] In line with their commitments under the 2021 RCF, the authorities continued to be prudent on current spending and prioritized capital spending on reconstruction and critical infrastructure projects, with the port project accounting for over half of the capital expenditure in 2023. Despite the significant temporary shortfalls in tax revenue, the underlying primary balance excluding port-, COVID-, and volcanic eruption-related spending improved from -0.8 percent of GDP in 2021 to -0.4 percent in 2023. Public debt also declined to 87.1 percent of GDP in 2023 from 88.3 percent in 2021 on account of strong growth.

OUTLOOK AND RISKS

8. The macroeconomic outlook is favorable. Growth is projected at 4.9 percent in 2024, with economic activity surpassing the pre-pandemic trend forecast (text chart below). Near-term growth will be supported by continued expansion in tourism and strong investment on the port, hospital, and other infrastructure projects.[8] Stayover arrivals are projected to reach 120 percent of the pre-pandemic levels in 2024 thanks to the significant expansion of tourism capacity including through the Sandals Resort opening in March 2024 and further increase in airlift. Medium-term growth will be underpinned by further increase in tourism sector capacity as ongoing tourism projects and continued FDI inflows fully unlock benefits from the new airport. Moreover, the authorities' recent and ongoing broad-based structural reform efforts should strengthen the primary sectors, relax supply-side bottlenecks, and foster competitiveness (Section B). Inflation is projected to ease to 2.5 percent by end-2024, on account of lower imported inflation

[4] Non-interest current spending declined by over 3 percent of GDP in 2022-23 compared to 2021, on account of prudent public sector wage growth, lower non-priority outlays, and continued withdrawal of COVID- and volcanic eruption-related spending.

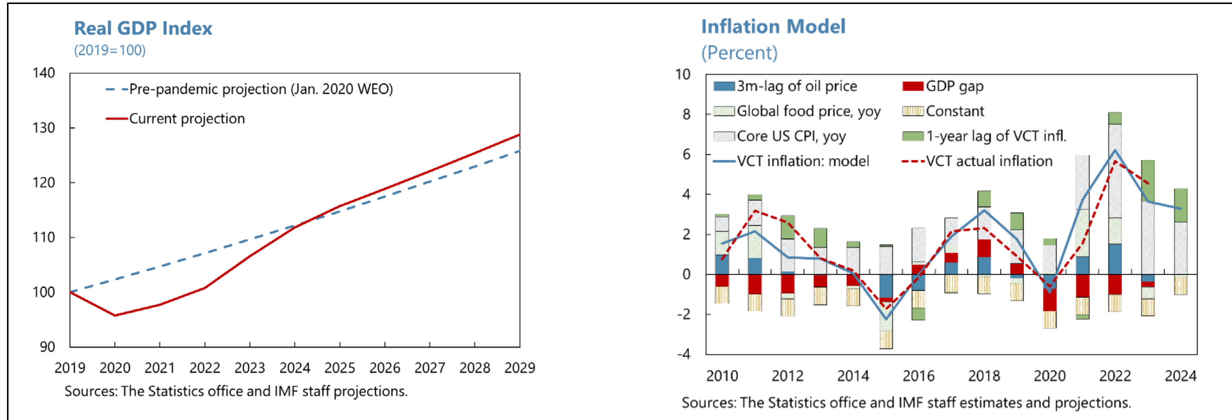
[5] These includes (i) one-off land sale related taxes that contributed 2.5 percent of GDP to domestic transaction tax revenue in 2021; (ii) temporary price-mitigating measures to cushion the impact of rising living costs, with cost of 0.5 percent of GDP in 2022 and 0.2 percent of GDP in 2023; (iii) lump-sum VAT refunds (about 1.8 percent of GDP) and import tax concessions to the Sandals Resort on its construction (during 2022-23) in 2023; (iv) a temporary 50 percent duty reduction on imported new tires to June 30, 2024; and (v) lower-than-expected collections of CIT arrears and of fuel import duty due to reporting delay.

[6] The announced tax policy changes include (i) a reduction of the top PIT and CIT rate from 30 to 28 percent; and (ii) an increase of standard PIT deductions, with an estimated total annual cost of about 0.6 percent of GDP. The authorities also introduced offsetting measures in 2023 and 2024 budgets including an increase in user fees for some services.

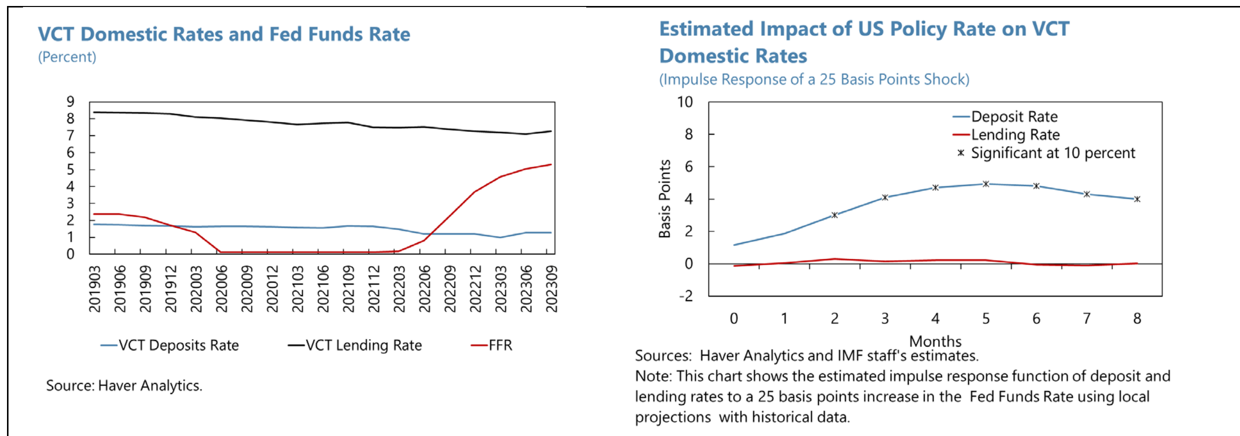
[7] The phased-out measures amounted to 0.6 percent of GDP for 2022-23. Two remaining measures are estimated at an annual fiscal cost of 0.1 percent of GDP (targeted increase in VAT exemption thresholds on electricity usage and the removal of CSC on fuel imports of the state-owned utility company), with their extensions reviewed periodically.

[8] The port project is well on schedule to be completed in 2026, but the start of the hospital project is expected to be delayed to 2024Q4 due to design revisions by the World Bank, with the retention work likely to spill over into 2027.

(text chart below). The current account deficit is projected to narrow over the medium term, as exports grow and large infrastructure projects are completed.



9. Risks to the outlook are skewed to the downside (Annex III). An abrupt global slowdown would weigh on economic activity in VCT through tourism, trade, and FDI. Commodity price volatility, intensification of regional conflicts, and a deepening in geo-economic fragmentation can also hurt growth through renewed increases in food and fuel prices and a decline in FDI. Staff analysis shows that being largely isolated from international financial markets, VCT has experienced a limited impact of recent global financial tightening so far, with low pass-throughs to domestic lending and borrowing interest rates (text charts below). Capacity constraint, in conjunction with supply chain disruptions and rising project costs, could delay planned investment projects, affecting growth. Lower-than-expected fiscal balances could delay fiscal adjustment envisioned for the medium term, which is crucial for debt sustainability. Furthermore, the country is subject to the ever-present threat of natural disasters and climate change. On a positive note, stronger-than-expected tourism development and agriculture sector recovery could enhance growth and improve the external position.



POLICY DISCUSSIONS

Policies should continue to support resilience building and inclusive growth while safeguarding public debt sustainability and financial sector stability. Priorities include: (i) protecting macroeconomic

stability and fiscal space for growth-enhancing physical and social investments through a more efficient and equitable tax and expenditure framework; (ii) addressing structural bottlenecks to investment, employment, and productivity and build resilience to support sustainable growth; and (iii) maintaining financial stability.

A. Fiscal Policies for A More Resilient and Inclusive Economy

10. The fiscal stance embedded in the 2024 budget strikes an appropriate balance between maintaining fiscal prudence and supporting inclusive and resilient growth. The authorities continue to rationalize current spending and build the Contingencies Fund while prioritizing capital spending on reconstruction, essential upgrades and resilience building of economic infrastructure, as well as health and education investments to propel people-centered and sustainable growth.[9] Preliminary data through March suggest well-contained current spending and revenue improvement, reflecting continued recovery in economic activities and efforts to strengthen tax administration. As such, both overall and underlying primary balances are projected to improve significantly in 2024, to -4.6 and 2.1 percent of GDP, respectively.

Central Government Operations, 2021-24
(Percent of GDP)

	2021	2022	2023	2024	
			Prel.	Budget	Proj.
Total Revenue and Grants	**30.9**	**26.8**	**26.4**	**27.6**	**27.5**
Current Revenue	28.4	25.1	24.0	25.6	25.2
Tax Revenue	26.2	23.3	21.7	23.7	23.1
Non-tax	2.2	1.7	2.3	1.9	2.2
Capital Revenues and Grants	2.5	1.7	2.3	2.0	2.3
Total Expenditure	**38.0**	**36.0**	**38.1**	**43.9**	**35.4**
Current Expenditure	28.9	25.3	25.3	26.4	25.0
Wages and Salaries	14.1	12.5	12.0	12.3	11.6
Interest	2.5	2.3	2.5	3.3	3.3
Transfers and Subsidies	8.2	6.6	6.7	6.6	6.3
Goods and Services	4.2	3.9	4.0	4.1	3.9
Capital Expenditure 1/	9.1	10.7	12.8	17.6	10.4
of which: Port	0.2	4.2	6.6	3.2	5.9
Overall balance	**-7.2**	**-9.2**	**-11.7**	**-16.4**	**-7.9**
Primary Balance (PB)	**-4.7**	**-6.9**	**-9.2**	**-13.0**	**-4.6**
Underlying PB 2/	**-0.8**	**-0.5**	**-0.4**	**-9.0**	**2.1**

Sources: National authorities and IMF staff estimates.
1/ Following historical trends, baseline projections assume a capital budget execution rate of about 60 percent in 2024, slightly above the historical execution rates of the capital budget of between 30-50 percent (Figure 4).
2/ Primary balance excluding port and pandemic- and volcano-related spending.

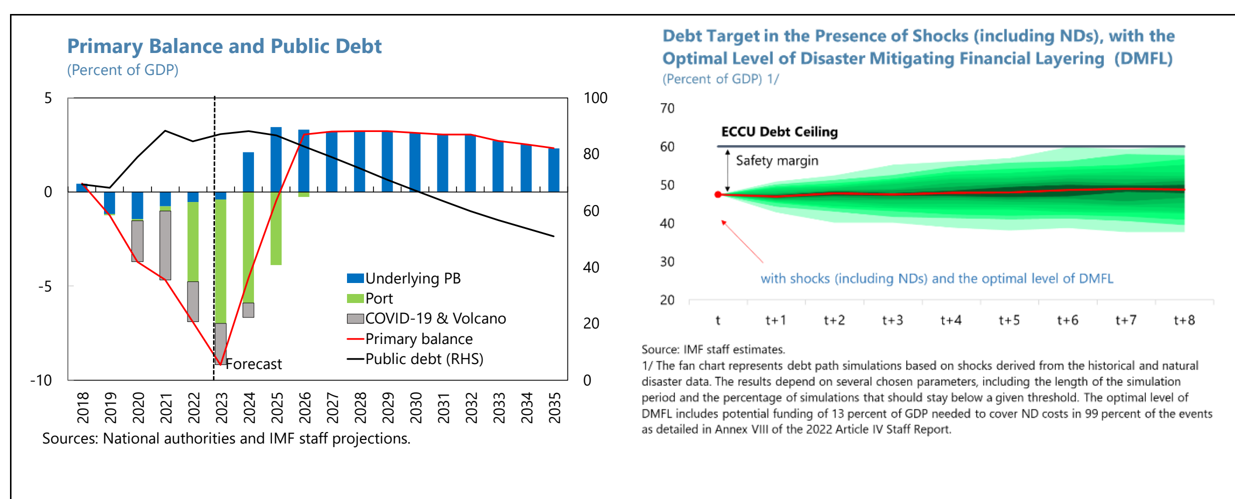
11. Public debt is assessed to be sustainable but remains at high risk of distress for both external and overall public debt, unchanged from the 2022 Article IV assessment (DSA). The authorities remain committed to reaching the 2035 regional debt target of 60 percent of GDP and their medium-term fiscal strategy set out in the 2021 RCF.[10] Once the large-scale projects are near completion, the primary balance is expected to improve to a surplus of about 3¼ percent of GDP from 2026 based on existing and announced policies. This would put the debt-to-GDP ratio on a

[9] Following historical trends, baseline projections assume a capital budget execution rate of about 60 percent in 2024, slightly above the historical execution rates of the capital budget of between 30–50 percent (Figure 4).

[10] This includes further strengthening tax administration and continued containment of the growth of wages (as manifested in the prudent cumulative public sector wage growth of 7 percent over 2023-25 agreed in the recent round of negotiation) and non-priority current spending, and prioritizing capital programs to balance the needs for a resilient recovery and safeguarding debt sustainability. Consistent with the 2022 Article IV report, the baseline assumes that the total amount of capital spending during 2021-26 is capped at about EC$1.6 billion compared to EC$1.2 billion in the 2021 RCF, reflecting higher cost of the port modernization project and the new hospital project.

downward path from 2025 and, if sustained, fall below 60 percent of GDP before the regional target date of 2035. Reflecting sizable concessional financing for port and hospital projects, gross financing needs are expected to remain high in the near term and primarily financed by medium- and long-term loans on concessional terms. The baseline projections remain subject to large downside risks (DSA, Figure 2 and Table 4).[11]

12. The elevated global uncertainty and VCT's high vulnerability to shocks call for contingency planning and stronger fiscal buffers. The Cabinet adopted a Disaster Risk Financing Strategy (DRFS), prepared with support from the WB. Guided by the strategy, work is underway to (i) strengthen data collection and management as well as public financial management related to disasters; and (ii) establish a new Catastrophe Deferred Drawdown Option of US$20 million with the WB and contingency budgetary planning for disaster responses and resilience activities (beyond the existing Contingencies Fund, coverage from Caribbean Catastrophe Risk Insurance Facility, and contingency reserve from undrawn SDR holdings).[12] In addition to these efforts, bringing the primary surplus to around 3¾ percent of GDP in the medium term (about ½ percentage above the current medium-term target) would build a safety margin with a lower public debt anchor to guard against risks. Staff illustrative simulations of historical shocks show that a debt anchor in the range of 45-50 percent of GDP would ensure that regional debt target and public debt sustainability are met with a high probability (text chart).[13]

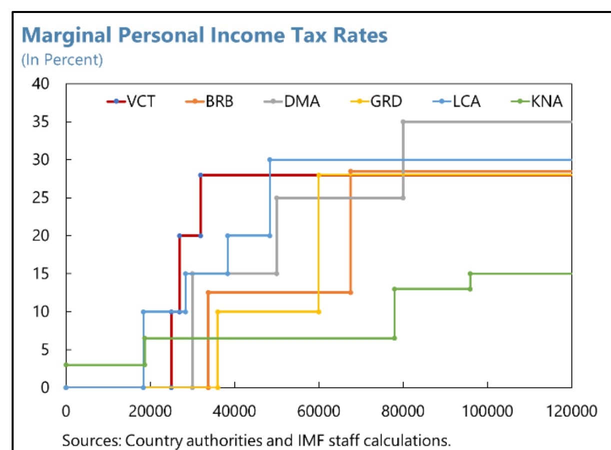


[11] See Annex VII of the 2022 Article IV Staff Report for a detail discussion on an adverse scenario and contingency planning.

[12] In 2021, VCT received a special SDR allocation of 11.2 million SDRs (approximately US$15.7 million at the time of the allocation), of which about US$12.8 million have been kept as reserves as of end-May 2024. Baseline fiscal projections incorporate contingency planning for an annual fiscal cost from natural disasters of 1.1 percent of GDP estimated during 1980-2023. This includes an annual contribution to the Contingencies Fund (CF) of about 0.7 percent of GDP and contingent spending of goods and services and transfers of 0.4 percent of GDP. The CF has a balance of about 1.6 percent of GDP as of end-2023. The Caribbean Catastrophe Risk Insurance Facility has an average payout of 0.2 percent of GDP for VCT, based on the historical payout information, in the event of natural disasters. As part of the DRFS, the authorities also plan to increase collaboration with private sector to improve availability and affordability of catastrophe risk insurance products in the medium term.

[13] Also see Annex VIII of IMF Country Report No. 2022/346.

13. To build additional fiscal space to guard against risks and support inclusive growth, the efficiency and progressivity of the tax system can be improved. A recent IMF Technical Assistance mission offered a number of reform options, including restructuring the personal income tax (PIT) with a view to strengthening progressivity and promoting labor force participation and formality, taking a new approach to tax incentives and the corporate income tax, and generating a greater proportion of revenues from the more efficient value added tax (VAT) and recurrent property tax.[14] For tax reforms to be efficient and achieve revenue goals, it would be desirable to introduce some of them as a package, with appropriate sequencing.

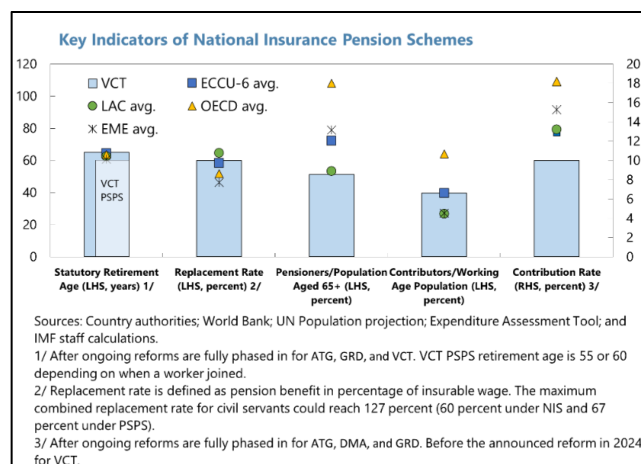


14. Significant efforts underway to enhance the efficiency and inclusiveness of public spending and services should be sustained. Along with phasing out all untargeted price-mitigating measures introduced in 2022, the authorities have made great strides to modernize the social assistance system by streamlining programs, updating benefit rules and legislation, recertifying beneficiaries, and digitalizing beneficiary information (Annex V). There remains scope though to further improve the targeting of social support, complemented with strong ALMPs to enhance the employability and earnings of the vulnerable. In addition, with WB and IMF support, work is ongoing to (i) improve the performance of the budgeting system, with a specific focus on gender-responsive budgeting (Annex VI); (ii) digitalize government infrastructure, platforms, and services under the OECS Digital Transformation Project, which is also expected to enhance fiscal transparency; and (iii) improve the planning, allocation, and implementation of investment projects and strengthen climate resilience by undertaking a C-PIMA and implementing a prioritized list of its recommendations, including the development of a public asset registry and asset management inventory system, with a particular focus on natural disaster related contingent liabilities.

15. Coordinated comprehensive reforms to the National Insurance Service and Public Sector Pension System are needed to improve their efficiency, sustainability, and fairness (Annex IV)**.** The financial sustainability of the NIS is under strain reflecting low contributions, generous payouts, frequent shocks, and a rapidly aging population, presenting a large contingent liability for the government. Recognizing the challenge, the government launched a package of reform measures for the NIS in early 2024 to bolster the system's financial sustainability, including raising contributions, tightening early retirement, increasing the reference wage period used for benefit calculation, and better incentivizing the self-employed to participate. Additional considerations to ensure NIS's long-term sustainability and further enhance its efficiency and

[14] Residential property valuations have not been updated since 2008. The PIT rate structure has narrow bands, with over 2/3 of the taxpayers paying at the top rate (text chart).

fairness could include linking retirement age to life expectancy and reducing the generosity of benefit accrual rules by applying a uniform accrual rate across years. Moreover, reforming the non-contributory PSPS to better align it with the NIS is urgently needed to improve fairness and reduce fiscal costs.



Sources: Country authorities; World Bank; UN Population projection; Expenditure Assessment Tool; and IMF staff calculations.
1/ After ongoing reforms are fully phased in for ATG, GRD, and VCT. VCT PSPS retirement age is 55 or 60 depending on when a worker joined.
2/ Replacement rate is defined as pension benefit in percentage of insurable wage. The maximum combined replacement rate for civil servants could reach 127 percent (60 percent under NIS and 67 percent under PSPS).
3/ After ongoing reforms are fully phased in for ATG, DMA, and GRD. Before the announced reform in 2024 for VCT.

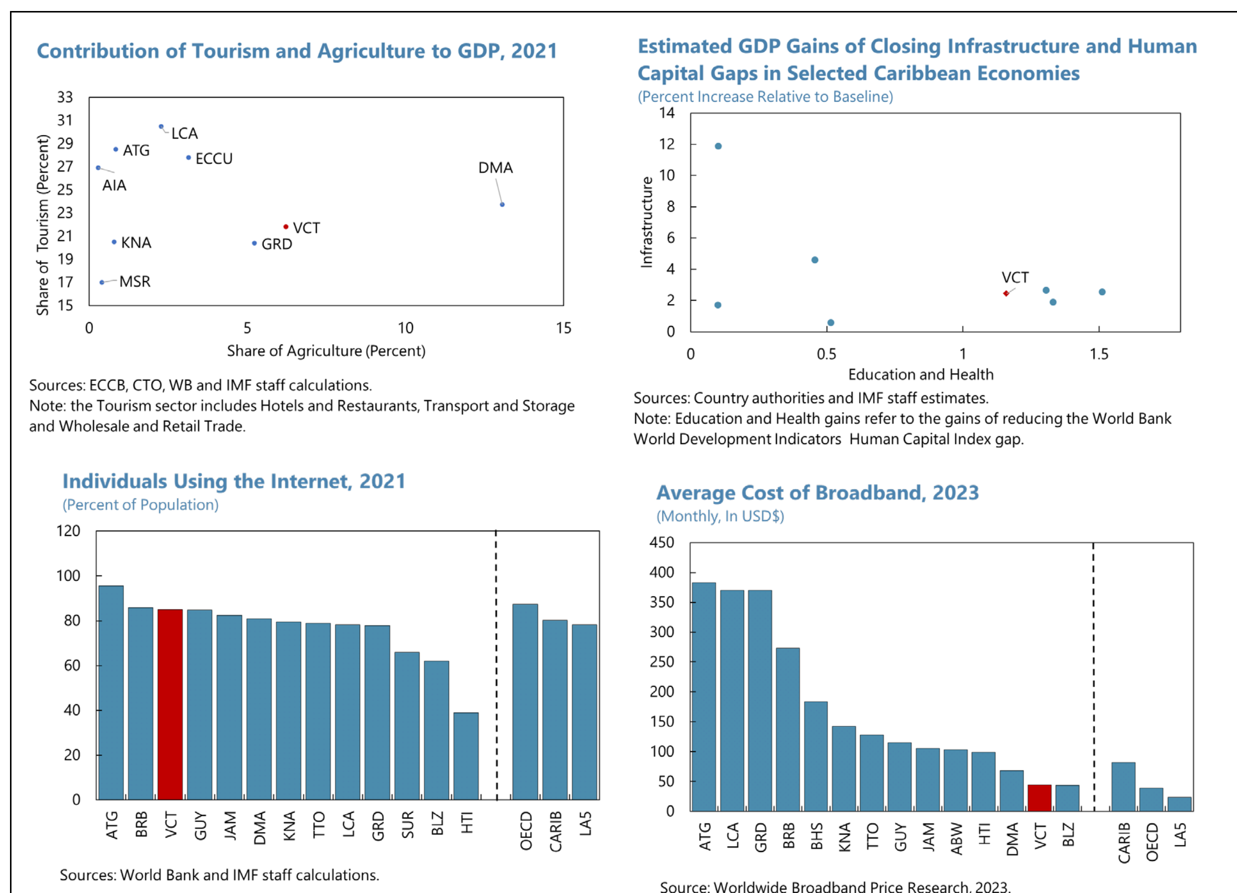
16. Continued strengthening of fiscal institutions is key to underpin fiscal efforts and reinforce fiscal credibility. The government is stepping up efforts to enhance revenue administration, including through the planned work to enforce VAT for private home vacation rentals, modernizing the Custom Act, and digitalizing the tax information management system. Pursuant to the Fiscal Responsibility Framework (FRF), the first report of the Fiscal Responsibility Mechanism (FRM) established in 2021 was published in early 2024 (Annex I). In view of the tight global financial conditions and still elevated debt level, it will be important to further strengthen the FRF and signal a credible medium-term fiscal plan, including by recalibrating and fully operationalizing the FRF,[15] timely publishing and incorporating forward-looking budgetary advice into the FRM report, improving the budget process and medium-term fiscal planning, and strengthening SOE oversight and the cash management system.

B. Structural Policies

17. Addressing supply-side bottlenecks would help unleash higher growth potential. Ongoing public and private investment on the port, roads, airports, hotels, intra-regional ferry, and agriculture production and other key infrastructure, along with the development of sectoral strategies guided by the National Development Plan (Annex I), is instrumental in relaxing structural bottlenecks, improving competitiveness, and releasing the full potential of VCT's comparative advantage on tourism and agriculture.[16] Strengthening linkages with agriculture and fisheries will help increase the domestic value-added of tourism. With relatively high internet access and low cost, VCT is also well-positioned to benefit from the ongoing digital transformation of government, business, and financial infrastructure and services, which is expected to enhance productivity and the business environment. Ongoing efforts to enact the Investment Act and establish single windows for land and property transactions and trade are critical to improve investment climate, further attracting foreign investors and supporting local entrepreneurs.

[15] See Annex VIII of IMF Country Report No. 2022/346.

[16] With assistance from the Inter-American Institute for Cooperation on Agriculture (IICA), the government is working on a new Agriculture, Forestry, and Fisheries strategy for the years 2024-2029.



18. A well-functioning labor market, with higher participation and skills attuned to market needs, is critical for boosting productivity and growth, especially in view of the rapid population ageing (Annex VI)**.** To address the long-standing skill mismatches and youth unemployment as well as the scarring impact on employment of young men, the authorities have launched a comprehensive education reform that focuses on curriculum reforms and expansion of post-secondary and technical and vocational education and training, building on the remarkable improvements in the education system over past two decades.[17] Staff analysis shows that infrastructure and human capital investment in education and health could bring significant output gains (text chart). Building on the experience with temporary unemployment insurance program introduced during recent shocks, the authorities also plan to introduce a permanent unemployment insurance scheme starting in 2025, with support from ILO. A careful design of the unemployment insurance scheme, complemented by continued efforts with ALMPs (Annex I), is needed to encourage labor market participation and formality and ensure the scheme's sustainability. Partly in view of women's lower participation and employment rates despite their overall higher education attainment, work is also underway to upgrade the labor market policy framework to reduce gender gaps. Targeted social investments could further unleash the full potential of the female labor force,

[17] WB's Human Development Service Delivery Project also supports authorities' efforts to strengthen pedagogy for basic and special needs education, strengthen labor market systems, and improve skill training of poor and vulnerable population.

including by enhancing access to affordable and quality child and elderly care and reducing adolescent pregnancy.

19. Building resilience to natural disasters and climate change remains a priority. Stepping up efforts to strengthen structural and financial resilience,[18] the authorities have developed a DRFS (see Section A) and started tapping Green Climate Fund. They are also finalizing the National Physical Development Plan and the Comprehensive Disaster Management Policy, Strategy and Implementation Plan, the latter of which also serves as a guide for the ongoing review of the National Disaster Management Plan and the National Emergency and Disaster Act.[19] In addition, efforts with transitioning to renewable energy continue, including the launch of a new revenue-neutral import tax regime to promote cleaner motor vehicles and the ongoing modernization of the Electricity Act and update of the National Energy Policy.

C. Maintain Financial Stability

20. The financial system remains sound and financial stability risks are moderate.[20] Capital and liquidity are ample. NPLs have declined from the 2022 peak and remain below regional averages, with no significant impact from the expiration of the moratorium. Banks' provisioning levels—while above the regional average—fall somewhat below the new 60 percent regional requirement. Banks' profitability has fully recovered to pre-pandemic levels. The acquisition of First Caribbean International Bank by Bank of Saint Vincent was completed in 2022.

21. Reduction of bank balance sheet vulnerabilities remains a priority, and the FSA should continue to closely monitor asset quality and underwriting standards. In the context of improving profitability, provisioning for banks should be bolstered and disposal of long-dated NPLs accelerated. Despite the still relatively small size of credit union loans (less than one-third of total loans), the growing role of the less stringently regulated credit union sector in credit provision compared to banks warrants continued vigilance in oversight and enforcement of timely corrective actions, especially in the absence of resolution frameworks and financial safety nets.[21] As property insurance premiums have risen under pressure from increased reinsurance costs, climate risks emanating through the general insurance sector also warrant strengthened monitoring.

[18] See Section B of IMF Country Report No. 2022/346.

[19] Most notably, both port and hospital projects have incorporated climate resilient feature into their design. The Road Rehabilitation Project (3-year project funded by Taiwan POC) and Infrastructure Resilience Building Funding (US$50 million) from the Saudi Development Funds also focus on strengthening infrastructure resilience.

[20] The resolution and liquidation in 2023 of a small bank—that accounts for 1.6 percent of the country's total banking assets—went smoothly and without notable implications for financial stability. The bank, which had been under close monitoring by the ECCB, was placed under its receivership with deposits up to EC$100,000 transferred to Bank of Saint Vincent and made immediately available to depositors.

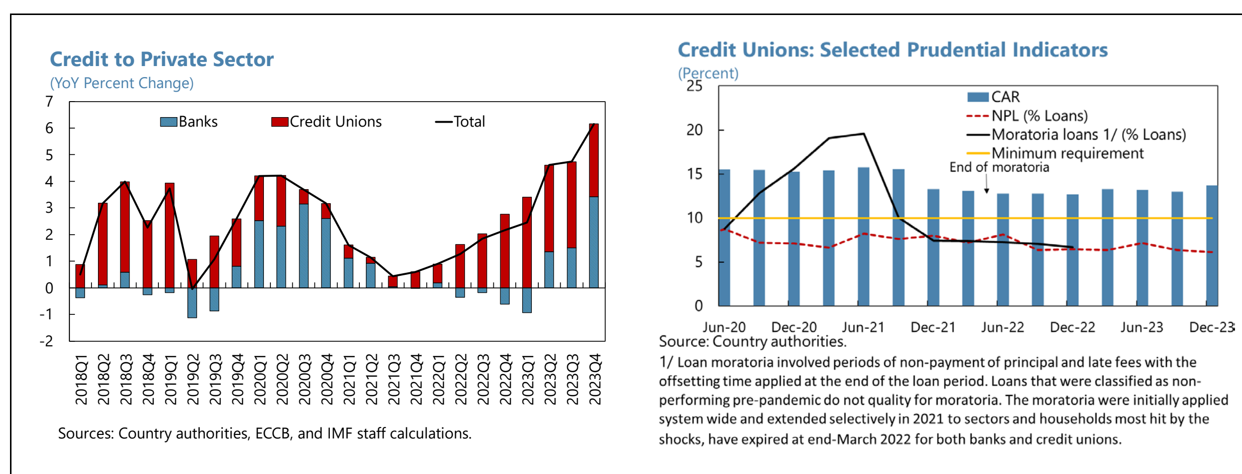
[21] A recent IMF TA mission was conducted to help the FSA strengthen its resolution framework.

Financial Soundness Indicators
(Percent)

	2018	2019	2020	2021	2022	2023
Banks						
Deposit-to-loan Ratio	144.6	160.2	168.0	185.7	185.7	177.5
Non-performing Loan Ratio	6.5	6.4	7.4	7.8	10.1	8.1
Capital Adequacy Ratio (CAR) 1/	23.1	22.2	22.5	22.4	23.0	15.0
Provisions for Loan Losses to NPLs	69.5	58.8	64.0	59.2	48.5	45.2
Liquid Assets/ Total Assets	38.1	41.7	44.0	47.2	48.4	43.1
Return on Average Assets (ROA)	0.5	1.1	0.1	0.4	0.3	0.9
Credit Unions (CUs)						
Deposit-to-loan Ratio	126.2	130.4	138.6	149.2	144.0	140.6
Non-performing Loan Ratio	5.2	5.0	7.1	8.0	6.4	6.1
Capital Adequacy Ratio (CAR)	13.9	13.0	15.3	13.3	12.7	13.7
Provisions for Loan Losses to NPLs	43.9	66.4	53.3	54.3	55.1	63.5
Liquid Assets/ Total Assets	20.8	27.7	31.4	30.0	33.6	26.8
Return on Average Assets (ROA)	1.1	1.6	1.1	0.9	0.6	1.6
ECCU Average (Banks)						
Deposit-to-loan Ratio	170.0	169.8	165.2	174.4	176.5	177.5
Non-performing Loan Ratio	11.4	10.1	11.4	11.7	12.3	11.2
Capital Adequacy Ratio (CAR)	19.1	20.4	20.9	20.0	16.6	16.9
Provisions for Loan Losses to NPLs	44.0	43.0	50.9	48.4	45.9	41.5
Liquid Assets/ Total Assets	36.6	40.4	38.4	38.2	38.6	39.3
Return on Average Assets (ROA)	1.1	1.4	1.0	0.9	-0.2	1.2

Sources: ECCB, FSA, and IMF staff calculations.

1/ The significant decline in system-wide CAR in 2023 following the First Caribbean International Bank (FCIB)'s acquisition by Bank of Saint Vincent (BOSVG) purely reflects the fall in BOSVG's CAR due to the denominator effects as FCIB has zero capital. The system-wide CAR remained above the regulatory requirement of 10 percent.



Sources: Country authorities, ECCB, and IMF staff calculations.

Source: Country authorities.

1/ Loan moratoria involved periods of non-payment of principal and late fees with the offsetting time applied at the end of the loan period. Loans that were classified as non-performing pre-pandemic do not quality for moratoria. The moratoria were initially applied system wide and extended selectively in 2021 to sectors and households most hit by the shocks, have expired at end-March 2022 for both banks and credit unions.

22. The authorities should sustain efforts to strengthen regulatory and supervisory frameworks and improve crisis preparedness (Annex I). Priorities include (i) completing the transition to risk-based supervision, including incorporating climate risks; (ii) adopting amendments

to the FSA Act; (iii) establishing a National Crisis Committee to develop a crisis management framework for the non-bank financial sector and deposit insurance schemes in consultation with the Ministry of Finance and the ECCB; and (iv) supporting the establishment of an ECCU regional standards setting body for nonbank financial institutions.[22]

23. Continued strengthening of the effectiveness of the AML/CFT framework remains important to minimize the risks of losing correspondent banking relationships (Annex I)**.** The authorities have started implementing risk-based supervision for higher-risk sectors. In addition, the Customs and Excise Department has improved clarity and timeliness of information sharing with the Financial Intelligence Unit. Efforts should continue to assess the money laundering risks associated with legal persons and other sectors that are not yet risk assessed and implement mitigating measures commensurate to the risks identified, in line with the recommendations of the 2024 CFATF Mutual Evaluation.

24. Stepping up digitalization efforts and leveraging the ECCU regional credit bureau and credit guarantee scheme could bolster financial inclusion. The authorities are actively participating in regional initiatives including the planned operationalization of the credit bureau in VCT later this year, renewed efforts to promote the use of the Eastern Caribbean Partial Credit Guarantee, digitalization of financial services, and implementation of regional securities legislation designed to facilitate greater access to financial services.

25. The ECCB has taken steps to address most of the 2021 safeguards recommendations. However, there remains scope to strengthen governance arrangements, including through legal reforms to further strengthen the operational autonomy of the ECCB and align its Agreement Act with leading practices. The related safeguards recommendations remain pending.

D. Data Issues

26. Data provision is broadly adequate for surveillance, but there is scope to improve its timeliness, availability, and granularity (Annex VII). Efforts should focus on high-frequency indicators (e.g., tourism), the national accounts data, and key surveys (e.g., labor market and household budget surveys), which would require adequate resources and training for the statistics agency. Building on significant progress made, continued IMF capacity development through CARTAC technical assistance will help further strengthen data provision, especially for national accounts and balance of payments.[23] The regional Data for Decision Making Project (2022–27) supported by the WB is also expected to improve the infrastructure, process, and capacity of the National Statistics System and support data compilation and dissemination. The ongoing Population and Housing Census is a significant step forward and should be finalized expeditiously.

[22] See the Staff Report for 2024 ECCU Regional Consultation for more details.

[23] See Informational Annexes of both the staff report for 2024 Article IV Consultation with VCT and the staff report for 2024 ECCU Regional Consultation for more details on IMF capacity development with VCT.

AUTHORITIES' VIEWS

27. The authorities broadly agreed with staff on the outlook and risks. They noted that their strong policy actions in response to the shocks led to a robust recovery in 2022–23, although agriculture underperformed due to lingering effects of the volcanic eruptions and unusually high temperatures. They are finalizing the Agriculture Sectoral Development Plan for 2024–29, upgrading infrastructure, and working closely with the WB and USAID to improve agricultural production and productivity. They expected strong GDP growth to continue in 2024, supported by continued recovery in tourism and infrastructure investment. They acknowledged staff's risk assessment, noting the potential impact of adverse external factors and the potential for faster-than-projected growth resulting from their efforts to promote tourism and agriculture.

28. The authorities remain committed to the regional debt target and the medium-term fiscal strategy set out in the 2021 RCF. They will continue to strengthen tax administration, contain the growth of wages (as manifested in the prudent public sector wage growth over 2023–25 agreed in the recent round of negotiation) and non-priority current spending, and prioritizing capital programs to balance the needs for a resilient recovery with safeguarding debt sustainability. They concurred with the need for recalibrating and fully operationalizing the FRF and plan to do so at the next scheduled review in 2025.

29. The authorities concurred with the need for contingency planning and stronger fiscal buffers but viewed the proposed tax reforms likely not achieving the desired effect. They are building the Contingencies Fund, implementing the recently adopted DRFS, including establishing a new CATDDO. They are also introducing contingency budgetary planning to safeguard fiscal buffers, including for disaster responses and resilience activities. They concurred that the risks warrant pursuing a somewhat lower debt anchor to provide additional fiscal space to respond to shocks and to ensure that the regional debt target is met well ahead of 2035. They are improving the efficiency and inclusiveness of public spending and services, including modernizing the social assistance system, digitalizing government infrastructure, platforms, and services, adopting gender-responsive budgeting, and implementing a prioritized list of recommendations from IMF's C-PIMA. They agreed with the need for property revaluation and broadening the VAT base but viewed other tax reforms proposed by the IMF TA likely not achieving the desired effect in a small island economy. They are considering reform options for the non-contributory Public Sector Pension System to better align it with the National Insurance Service and reduce fiscal costs.

30. The authorities shared staff's view that structural reforms are critical for supporting resilient and inclusive growth and public debt sustainability. They highlighted efforts to address supply-side bottlenecks through ongoing investment on critical infrastructure, enacting the Investment Act to streamline investment procedures, and establishing single windows for land and property transactions and trade. They are also making efforts to address youth and gender participation and employment gaps, including by establishing the Prime Ministerial Advisory Council on Youth, launching a comprehensive education reform, and strengthening parental leave. They agreed with the need to increase targeted social investments to unleash the full potential of the

female labor force, in view of population ageing, including by enhancing access to affordable childcare and reducing adolescent pregnancy. There was consensus on the importance of strengthening linkages of agriculture with tourism, building climate resilience, and shifting to renewable energy.

31. The authorities broadly agreed with staff's assessment of the financial sector. The FSA continues to closely monitor asset quality and underwriting standards of credit unions. The authorities are working in coordination with the ECCB to bolster banks' provisioning levels. They are committed to the reform agenda that would strengthen regulatory and supervisory frameworks and improve crisis preparedness, including amendments to the FSA Act and the establishment of a National Crisis Management Committee. They are also stepping up efforts to implement recommendations of the 2024 CFATF Mutual Evaluation.

STAFF APPRAISAL

32. St. Vincent and the Grenadines has achieved a robust recovery from recent compounded shocks. The authorities' decisive policy responses, large-scale investment projects, and robust growth in tourism have contributed to the recovery. Agriculture performance, however, disappointed, due to the lingering impact of volcanic eruptions and historic-high temperatures in 2023. Employment has returned to the pre-pandemic level except for young men, and female labor force participation remains relatively low. Inflation has subsided from its peak. The external position in 2023 was moderately weaker than the level implied by medium-term fundamentals and desirable policies. The outlook is favorable, supported by continued recovery in tourism and strong investment in infrastructure, but is subject to downside risks mainly stemming from an abrupt global slowdown, commodity price volatility, and potential delays in investment projects. Furthermore, the economy is facing significant challenges from a rapidly ageing population and the intensifying threat of natural disasters and climate change, amid the still high public debt.

33. Fiscal policy should focus on building buffers and supporting resilience and inclusive growth while safeguarding public debt sustainability. The authorities' continued commitment to reaching the regional debt target and the medium-term fiscal strategy set out in the 2021 RCF is welcome and critical to public debt sustainability. The elevated global uncertainty and the country's high vulnerability to shocks call for contingency planning and stronger fiscal buffers. In this regard, the adoption of the Disaster Risk Financing Strategy (DRFS) and ongoing efforts to implement it, including continued building of the Contingencies Fund and the establishment of the Catastrophe Deferred Drawdown Option with the World Bank, are important steps. In addition, pursuing a lower debt target and stronger adjustment would provide a safety margin that could be used when shocks materialize and ensure that the regional debt target and public debt sustainability are met with a higher probability. This could be achieved through further efforts to build a more efficient and equitable tax and expenditure framework, which will also help support resilient and inclusive growth. To these ends, significant work underway to improve the efficiency and inclusiveness of public spending and services should continue. The efficiency and progressivity of the tax system can be improved while enhancing revenue. Building on recently launched reforms to the National Insurance Service (NIS),

better alignment of the non-contributory Public Sector Pension System with the NIS is urgently needed to improve fairness and reduce fiscal costs.

34. Continued strengthening of fiscal institutions is key to underpin fiscal efforts and reinforce fiscal credibility. Efforts to enhance revenue administration should be sustained, including through the recent initiative to enforce VAT for private home vacation rentals, modernizing the Customs Act, and digitalizing the tax information management system. In view of the tight global financial conditions and still elevated debt level, it will be important to further strengthen the Fiscal Responsibility Framework (FRF) to signal a credible medium-term fiscal plan, including by recalibrating and fully operationalizing the FRF, timely publishing and incorporating forward-looking budgetary advice into the Fiscal Responsibility Mechanism report, improving the budget process and medium-term fiscal planning, and strengthening SOE oversight and the cash management system.

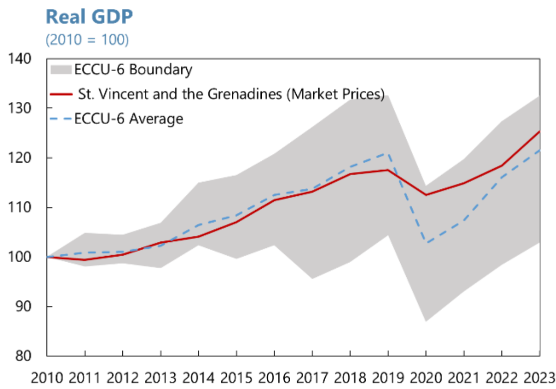
35. Sustained efforts with structural reforms are imperative to build climate resilience and address structural bottlenecks to investment, employment, and productivity. The ongoing investments in key infrastructure such as ports, roads, airports, and water supply, along with efforts with digitalization and improving investment climate, are crucial for alleviating supply-side bottlenecks and enhancing competitiveness. The comprehensive education reform underway that focuses on curriculum reforms and expansion of post-secondary and technical and vocational education and training will help reduce skill mismatches and facilitate youth employment. A careful design of the unemployment insurance scheme, complemented by active labor market policies, is needed to encourage labor market participation and formality and ensure the scheme's sustainability. In addition to the recent strengthening of parental leaves, targeted social investments could further unleash the full potential of the female labor force, including by enhancing access to affordable and quality child and elderly care and reducing adolescent pregnancy. In response to rising risks of climate change and natural disasters, the authorities should continue building structural and financial resilience and transitioning to renewable energy, including by incorporating resilience feature into new infrastructure, implementing the recently adopted DRFS, enhancing the disaster management plan and legislation, and modernizing the Electricity Act.

36. The financial system remains sound, but efforts should continue to reduce balance sheet vulnerabilities and strengthen regulatory and supervisory frameworks. Capital and liquidity buffers are ample, with no apparent impacts of the compounded shocks on asset quality. Provisioning levels for the banking system, however, should be bolstered and disposal of long-dated nonperforming loans accelerated. The financial authority should continue to strengthen the supervisory and regulatory frameworks and improve crisis preparedness. Building on past achievements, efforts should continue to strengthen the AML/CFT framework to minimize the risk of losing Correspondent Banking Relationships.

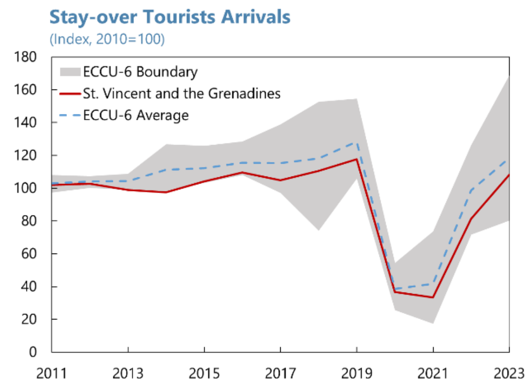
37. It is proposed that the next Article IV consultation with St. Vincent and the Grenadines takes place on the standard 12-month cycle.

Figure 1. St. Vincent and the Grenadines: Key Macroeconomic Indicators

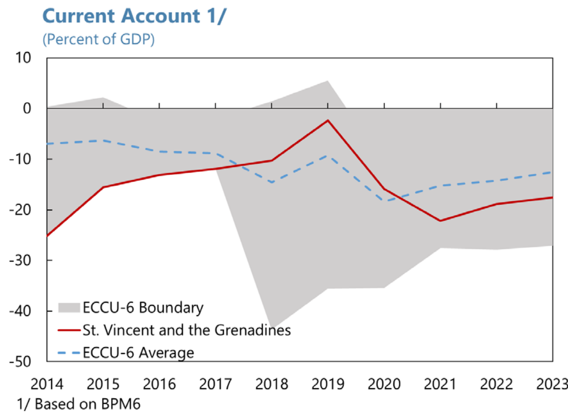
The economy posted a robust recovery after multiple shocks…



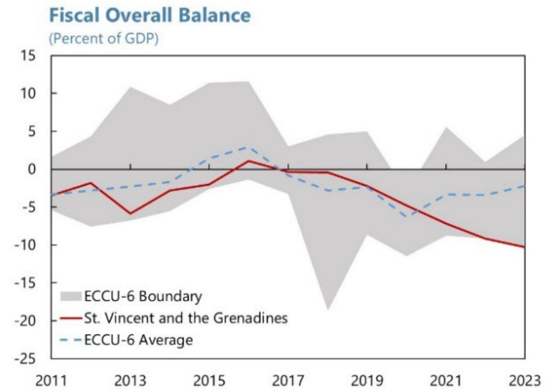
…in part supported by a recovery of tourism.



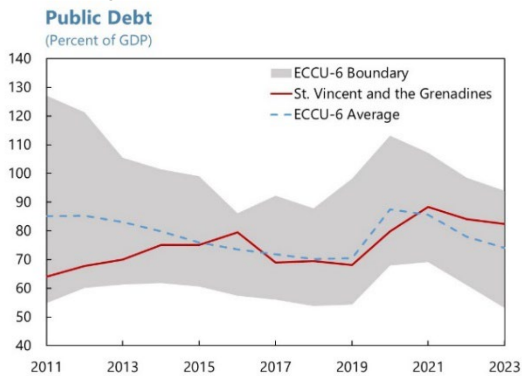
The current account deficit widened more than the ECCU average.



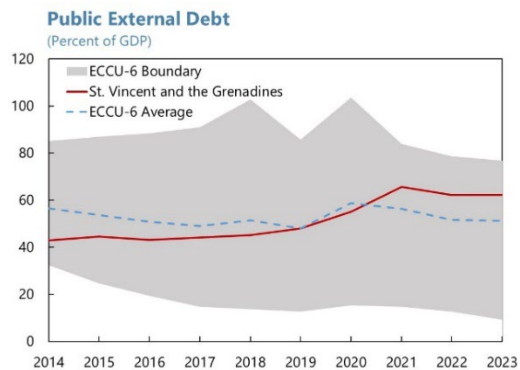
The fiscal balance worsened as a result of the compounded shocks as well as the sizable port modernization project, …



… and led to higher increase in the public debt than the ECCU average, …



…, with public debt largely financed by external creditors.

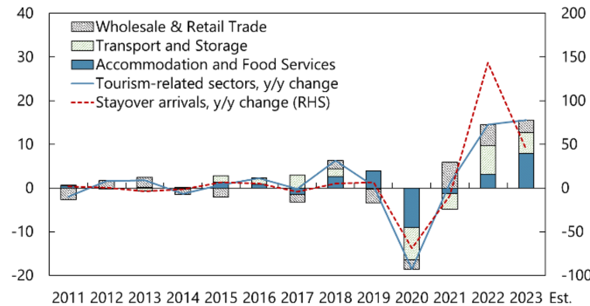


Sources: Government Statistical Office, ECCB, and IMF staff calculations.

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

The rebound in stayover arrivals in 2022–23 led to a strong growth of the tourism-related sectors, …

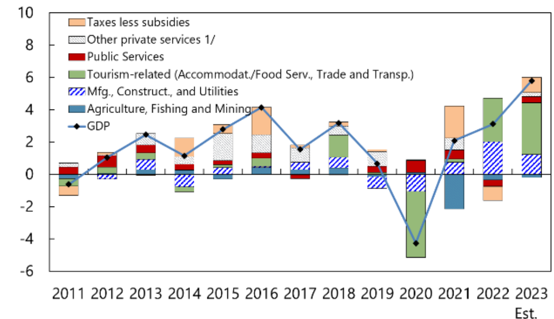
Stayover Visitors and Tourism-Related GDP
(Percent and Percent Contribution)



Note: Tourism-related GDP is defined as as sum of (i) wholesale and retail trade; (ii) Accommodation and Food Services, Wholesale and Retail Trade; and Transport and Storege Services. Its pre-pandemic historical (2015-2019) average is 22 percent of GDP.

… contributing significantly to GDP growth.

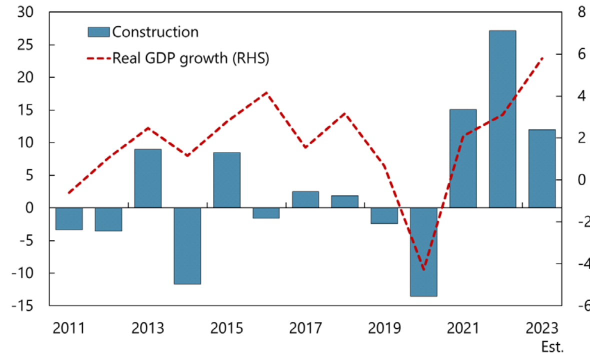
Contribution to Growth by Sector
(Percent Contribution)



1/ Others include Information and Communication; Financial and Insurance; Real Estate; Professional, Scientific and Technical Activities; Administrative and Support Services; Private Education and Health Services; Arts, Entertainment and recreation; and Other service activities.

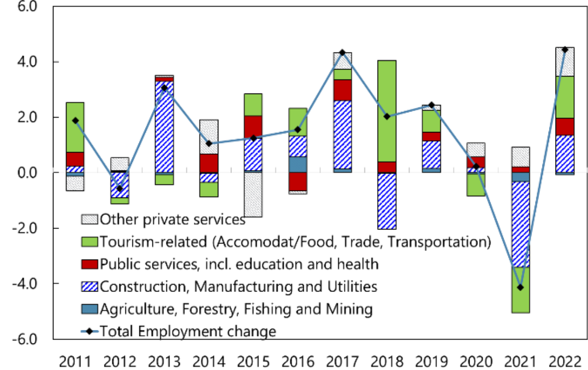
Construction activity associated with substantial public and private investments is another major driver of growth.

Construction Sector
(YoY Growth, Percent)



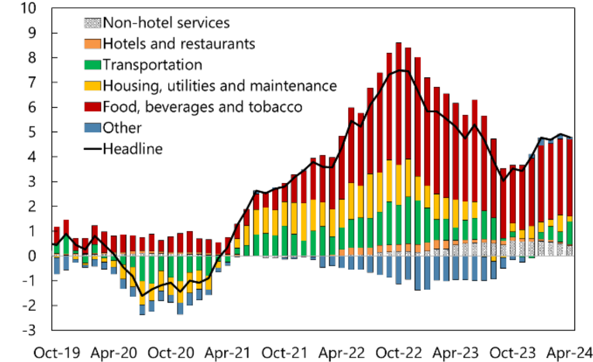
Registered employment has recovered, supported by the strong recovery of the tourism sector and higher demand in other services.

Employment by Sector
(Growth Contributions)



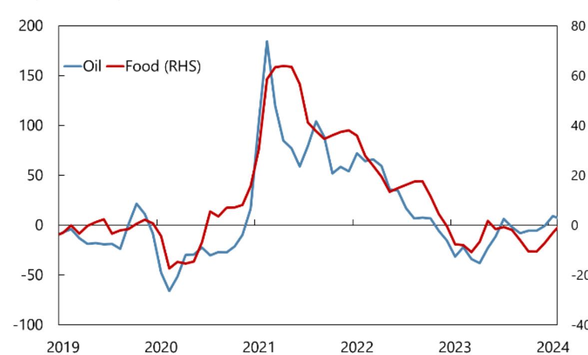
Inflation has decelerated significantly from its peak, …

Contributions to Headline Inflation
(YoY Growth Contributions)



…as global oil and food inflation declined.

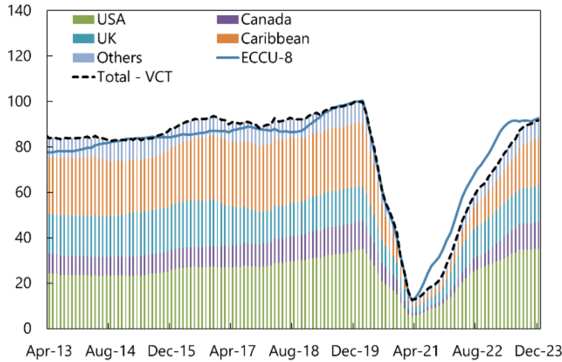
Global Prices
(YoY Percent)



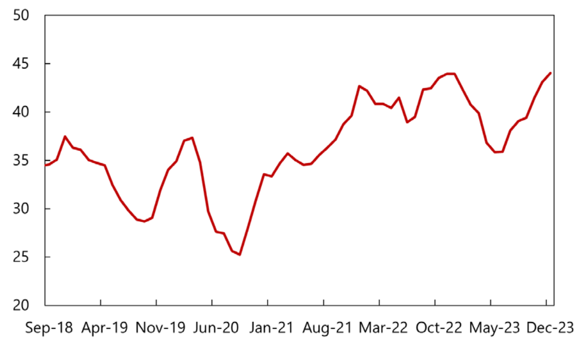
Sources: Government Statistical Office, ECCB, Haver Analytics, and IMF staff calculations.

Figure 3. St. Vincent and the Grenadines: External Sector Developments

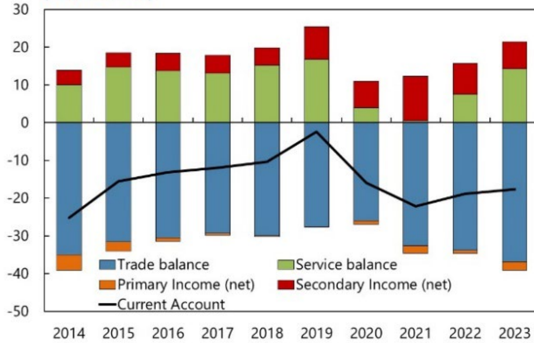
Stayover arrivals continues to recover after the compounded shocks…



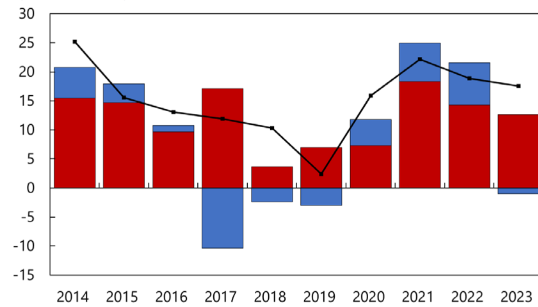
…and trade deficits remained sizable reflecting high import intensity of the large-scale projects.



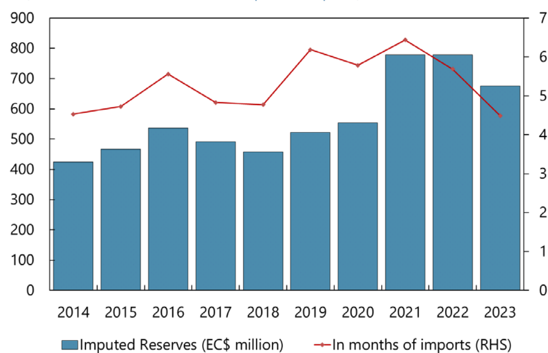
As a result, the CAD has narrowed but remained large.



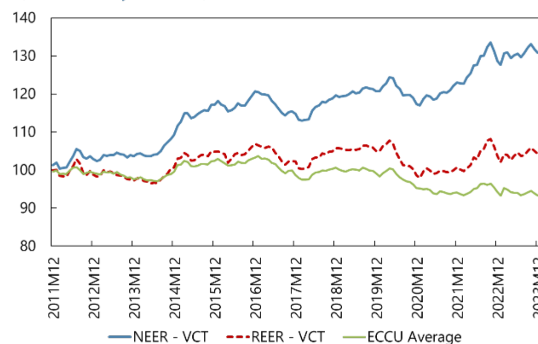
External financing, mostly at concessional terms, and the recovery of FDI helped finance the deficit, …



…, which combined with the recent special SDR allocation, strengthened international reserves.



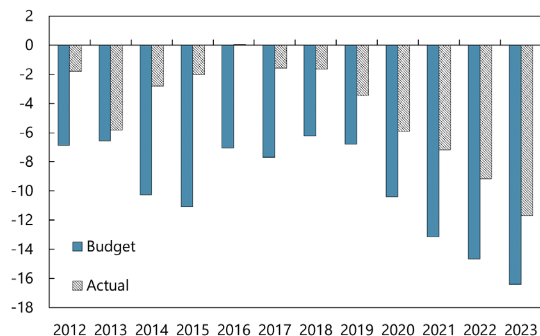
Despite nominal appreciation, the REER remained broadly stable.



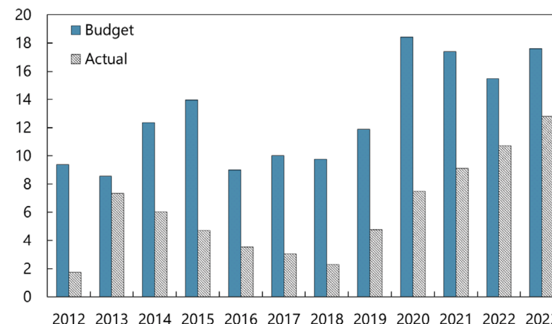
Sources: Government Statistical Office, Information Notice System (INS), ECCB, and IMF staff calculations.

Figure 4. St. Vincent and the Grenadines: Fiscal Sector Developments

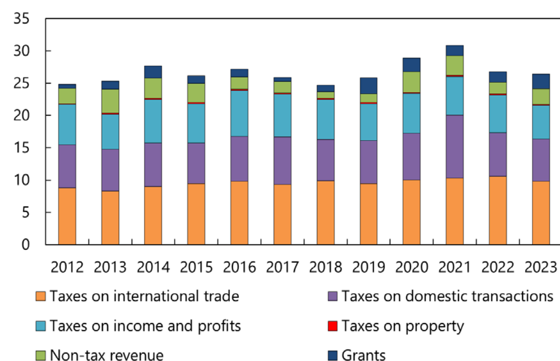
Actual deficits have been consistently below budget targets…



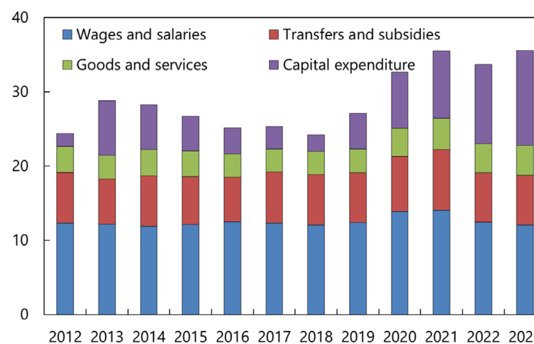
… in part due to significant under-execution of the capital budget.



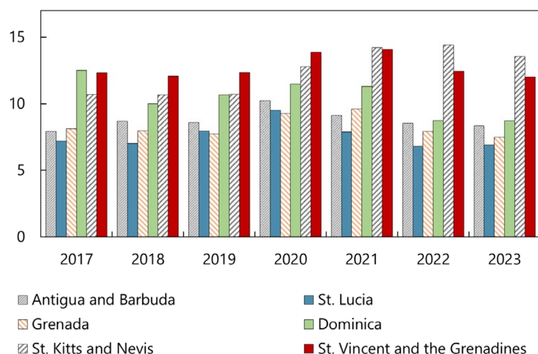
Despite the shocks, tax revenues remained resilient, reflecting ongoing tax policy and administration measures…



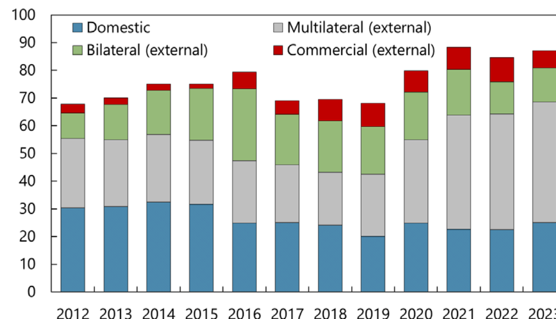
…while critical fiscal responses to the pandemic and volcanic eruptions drove up government spending.



St. Vincent's wage bill is high compared to peer countries in the ECCU.



Post-pandemic debt increase was mostly financed by multilateral and bilateral donors at concessional terms.

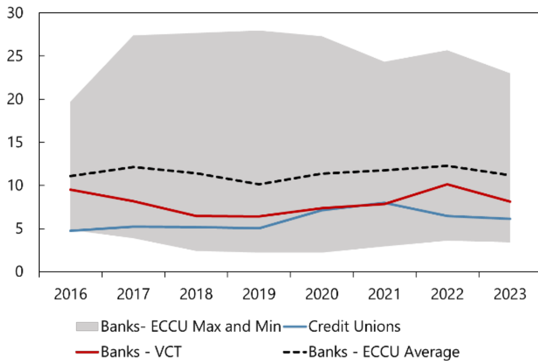


Sources: St. Vincent and the Grenadines authorities and IMF staff estimates and calculations.

Figure 5. St. Vincent and the Grenadines: Financial Sector Developments

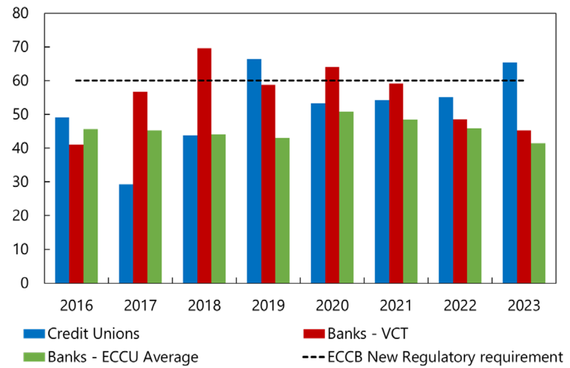
Banks' NPL ratios remain well below the ECCU average and have come down from the 2022 peak.

Nonperforming Loans to Total Loans Ratio
(Percent)



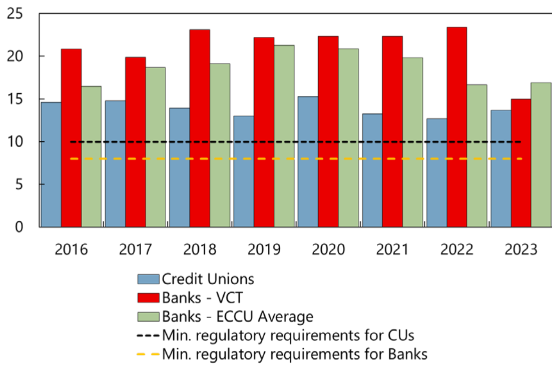
Banks' loan provisions fall short of the tighter regulatory requirements.

Provision for Loan Losses
(Percentage of Nonperforming Loans)



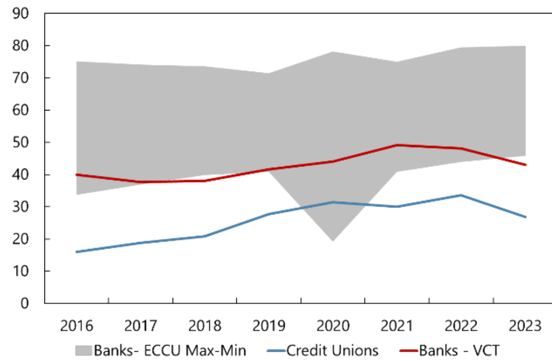
Capital buffers for banks and credit unions remained well above regulatory requirements, ...

Capital Adequacy Ratio
(Percent)



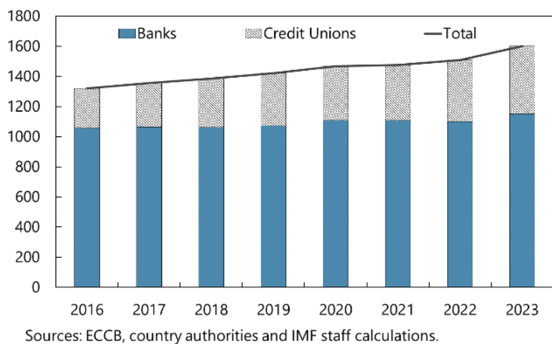
...and the financial system is liquid.

Liquid Assets to Total Assets Ratio
(Percent)



Credit unions have been increasing their share in the total outstanding credit to the private sector.

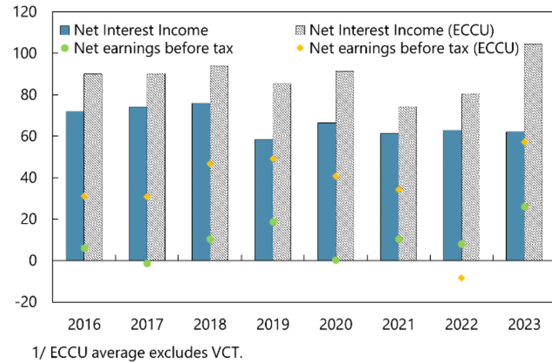
Outstanding Credit: Banks and CUs
(EC$ millions)



Sources: ECCB, country authorities and IMF staff calculations.

Banks' profitability has recovered to pre-pandemic levels but remained below the regional averages.

Margins and Profitability - VCT and ECCU Average 1/
(Millions of EC$)



1/ ECCU average excludes VCT.

Sources: Government Statistical Office, ECCB, and IMF staff calculations.

Table 1. St. Vincent and the Grenadines: Selected Social and Economic Indicators, 2019–29

Social and Demographic Indicators

Area (sq. km)	389.3	Net enrollment rate, secondary (percent, 2018)	89.0
Population (2022)		Labor market indicators (2017)	
Total (thousands)	110.9	Unemployment rate	25.8
Rate of growth (percent per year)	0.1	Youth unemployment rate	40.3
Density (per sq. km.)	284.8	Labor force participation rate	67.8
Population characteristics		Gross domestic product (2022)	
Life expectancy at birth (years, 2021)	69.6	(millions of US dollars)	989
Infant mortality (per '000 live births, 2021)	12.6	(millions of EC dollars)	2,671
Under 5 mortality rate (per '000, 2021)	13.7	(US$ per capita)	8,921

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.	Est.	Projections					
	(Annual percentage change, unless otherwise specified)										
Output and Prices	(Percent change)										
Real GDP 1/	0.7	-4.3	2.1	3.1	5.8	4.9	3.5	2.7	2.7	2.7	2.7
Nominal GDP 1/	3.0	-5.0	2.8	11.3	9.5	8.3	5.6	4.7	4.7	4.7	4.7
Consumer prices, end of period	0.5	-1.0	3.4	6.7	4.0	2.5	2.0	2.0	2.0	2.0	2.0
Consumer prices, period average	0.9	-0.6	1.6	5.7	4.6	3.4	2.0	2.0	2.0	2.0	2.0
Banking System	(Percent change)										
Broad money, percent change	10.3	-6.6	12.8	0.2	4.0	9.3	5.6	4.7	4.7	4.7	4.7
Credit to private sector, period average	-0.5	3.4	0.7	-0.3	1.2	2.5	2.8	3.5	5.2	5.2	5.2
Central Government Finances	(Percent of GDP)										
Total revenue and grants	25.8	28.9	30.9	26.8	26.4	27.5	28.2	28.4	28.4	28.4	28.4
Tax revenue	22.0	23.6	26.2	23.3	21.7	23.1	23.7	23.8	23.9	23.9	23.9
Grants	2.5	2.1	1.6	1.7	2.3	2.1	2.2	2.2	2.2	2.2	2.2
Total expenditure and net lending	29.3	34.8	38.0	36.0	38.1	35.4	31.7	28.2	27.8	27.7	27.6
Current expenditure	24.5	27.3	28.9	25.3	25.3	25.0	24.3	23.8	23.6	23.5	23.4
Of which : Wages and salaries	12.4	13.9	14.1	12.5	12.0	11.6	11.3	11.1	11.1	11.1	11.1
Interest	2.2	2.2	2.5	2.3	2.5	3.3	3.0	2.9	2.6	2.5	2.3
Capital expenditure	4.8	7.5	9.1	10.7	12.8	10.4	7.4	4.4	4.2	4.2	4.2
Overall balance	-3.4	-5.9	-7.2	-9.2	-11.7	-7.9	-3.5	0.2	0.6	0.8	0.9
Overall balance (excl. grants)	-5.9	-8.1	-8.8	-10.8	-14.0	-10.0	-5.7	-2.0	-1.6	-1.4	-1.3
Primary balance	-1.2	-3.7	-4.7	-6.9	-9.2	-4.6	-0.5	3.0	3.2	3.2	3.2
External Sector	(Percent of GDP unless indicated otherwise)										
External current account	-2.4	-15.9	-22.2	-18.9	-17.6	-17.0	-14.1	-12.2	-10.3	-9.3	-8.9
Exports of goods and services	36.1	21.4	15.8	28.1	33.5	36.4	37.3	38.5	38.9	39.4	39.6
Imports of goods and services	46.8	43.4	47.9	54.4	56.1	57.1	54.7	54.2	52.7	52.3	52.1
Public sector external debt (end of period)	48.0	55.1	65.7	62.1	62.2	66.0	68.3	67.1	64.1	61.1	58.0
External public debt service 2/	47.8	77.0	48.1	25.4	15.3	16.5	15.5	15.8	15.3	13.5	13.0
Memorandum Items											
Holdings of SDRs (in millions of EC$)	4.1	2.8	44.5	40.6	39.0	39.0	39.0	39.0	39.0	39.0	39.0
Gross public sector debt (in percent of GDP)	68.1	79.0	88.3	84.7	87.1	88.2	86.7	82.8	79.0	75.0	71.1
Nominal GDP (market prices; in millions of EC$)	2,458	2,334	2,399	2,671	2,924	3,168	3,344	3,501	3,666	3,838	4,018

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

1/ At market prices

2/ In percent of exports of goods and services.

Table 2. St. Vincent and the Grenadines: Balance of Payments, 2019–29

(Millions of Eastern Caribbean dollars, unless indicated otherwise)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.	Est.	Projections					
Current Account	**-59**	**-371**	**-532**	**-504**	**-514**	**-538**	**-473**	**-429**	**-377**	**-359**	**-356**
Trade balance	-677	-607	-783	-903	-1080	-1215	-1201	-1231	-1225	-1264	-1316
Exports f.o.b.	120	157	103	140	148	160	178	200	226	251	270
Imports f.o.b.	798	764	887	1043	1227	1375	1379	1431	1451	1515	1586
Of which: Mineral fuels	93	84	110	165	137	141	138	133	135	139	144
Services (net)	414	93	14	202	418	559	619	682	721	769	814
Travel (net)	588	210	146	422	637	791	865	940	985	1034	1085
Other nonfactor services (net)	-174	-117	-132	-220	-219	-232	-246	-257	-264	-265	-270
Primary income (net)	-5	-21	-46	-21	-63	-79	-73	-51	-44	-42	-40
Secondary income (net)	210	164	283	218	211	197	183	171	171	178	185
Private transfers	151	121	251	189	181	175	167	157	157	163	169
Official transfers	59	43	32	29	29	22	17	15	14	15	16
Capital Account	**12**	**13**	**24**	**18**	**104**	**65**	**75**	**72**	**79**	**68**	**62**
Financial Account	**-22**	**-184**	**-339**	**-553**	**-410**	**-473**	**-398**	**-357**	**-299**	**-291**	**-295**
Direct investment	172	171	441	382	369	342	353	355	365	385	400
Portfolio investment	12	59	34	24	32	37	31	31	32	33	32
Other investment	73	-104	-158	-194	30	-212	-117	-59	4	26	34
Assets	65	74	108	24	43	62	99	67	68	74	77
Liabilities	8	-178	-265	-219	-13	-274	-216	-126	-64	-48	-43
General Government loans 1/	-75	-153	-263	-260	-98	-193	-131	-16	39	77	42
of which RCF disbursement	0	-43	-31	0	0	0	0	0	0	0	0
Other liabilities	83	-24	-2	42	86	-81	-85	-109	-103	-125	-84
Reserve assets	64	32	226	-1	-103	44	41	26	31	36	40
Net Errors and Omissions	**24**	**174**	**170**	**-67**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Imputed International Reserves 2/	**522**	**554**	**779**	**778**	**675**	**719**	**760**	**786**	**817**	**853**	**892**
In months of imports of good and services	6.2	5.8	6.4	5.7	4.5	4.7	4.8	4.9	4.9	4.9	4.9
					(Percent of GDP)						
Current account	-2.4	-15.9	-22.2	-18.9	-17.6	-17.0	-14.1	-12.2	-10.3	-9.3	-8.9
Exports f.o.b.	4.9	6.7	4.3	5.2	5.0	5.0	5.3	5.7	6.2	6.5	6.7
Imports f.o.b.	32.4	32.7	37.0	39.0	42.0	43.4	41.2	40.9	39.6	39.5	39.5
Net private transfers	6.1	5.2	10.5	7.1	6.2	5.5	5.0	4.5	4.3	4.2	4.2
Tourism exports	26.5	10.2	6.8	18.2	23.9	27.0	27.8	28.7	28.7	28.8	28.8
Direct investment	-7.0	-7.3	-18.4	-14.3	-12.6	-10.8	-10.6	-10.1	-10.0	-10.0	-10.0
Memorandum Items											
Terms of trade of goods (Index 2002=100)	107.6	117.4	117.4	115.2	116.9	115.7	119.0	119.0	118.8	118.2	117.7
Total trade of goods and nonfactor services	82.9	64.7	63.7	82.5	89.6	93.4	92.0	92.7	91.6	91.7	91.7
Exports of goods and nonfactor services	36.1	21.4	15.8	28.1	33.5	36.4	37.3	38.5	38.9	39.4	39.6
Imports of goods and nonfactor services	46.8	43.4	47.9	54.4	56.1	57.1	54.7	54.2	52.7	52.3	52.1

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

1/ The 2021 value is explained mostly by loans from the World Bank.

2/ Includes SDR holdings.

Table 3. St. Vincent and the Grenadines: Central Government Operations, 2019–29

(Millions of Eastern Caribbean dollars, unless indicated otherwise)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Prel.			Projections			
Total Revenue and Grants	**635**	**675**	**740**	**716**	**772**	**873**	**944**	**993**	**1,042**	**1,092**	**1,143**
Current revenue	570	579	681	669	703	799	863	909	954	1,000	1,047
Tax revenue	541	550	628	623	635	730	791	833	875	918	961
Of which											
Taxes on income and profits	140	143	144	157	152	169	179	192	201	211	221
Taxes on property	4	4	4	4	4	5	6	5	6	6	6
Taxes on international trade	232	234	248	282	288	344	360	378	396	415	435
Of which: VAT	93	90	96	115	115	138	149	156	163	171	179
Taxes on domestic transactions	165	169	233	180	191	212	246	258	272	285	298
Of which: VAT	96	88	87	103	98	115	145	152	158	165	173
Non-tax	29	29	53	46	68	68	72	75	79	83	87
Capital Revenue	4	46	21	2	2	7	7	7	7	7	7
Grants	61	50	38	44	67	67	73	77	81	84	88
Total Expenditure and Net Lending	**722**	**813**	**913**	**961**	**1,113**	**1,121**	**1,061**	**987**	**1,020**	**1,062**	**1,107**
Current	604	638	694	675	739	792	812	834	866	901	938
Of which											
Wages and salaries 1/	304	324	338	333	352	366	377	388	407	426	446
Interest	56	52	60	61	73	104	102	100	96	94	94
Domestic	35	32	37	32	36	51	43	44	44	47	51
Foreign	21	19	23	29	37	53	58	56	52	48	44
Transfers and subsidies	166	174	196	177	196	199	206	212	224	235	246
Goods and services	79	89	100	104	118	123	127	133	139	146	153
Capital Expenditure	118	175	219	286	374	329	249	153	154	161	169
Port	2	2	6	113	193	187	130	10	0	0	0
Hospital	...	...	...	...	0	35	88	108	42	0	0
Reconstruction (La Soufriere): capital spending	...	...	84	48	59	24	0	0	0	0	0
Others	116	173	129	125	122	83	31	35	112	161	169
Current balance (before grants)	-34	-59	-13	-5	-36	6	52	75	88	99	109
Overall Balance	**-86**	**-138**	**-172**	**-245**	**-342**	**-249**	**-117**	**6**	**22**	**30**	**35**
Overall balance (excl. port project)	-84	-136	-167	-131	-149	-62	13	16	22	30	35
Overall Bal. (exc. Covid-19, volcano one-offs, and port)	-84	-85	-79	-75	-85	-38	13	16	22	30	35
Primary Balance	-31	-87	-112	-184	-269	-144	-15	106	118	124	129
Primary balance (excl. port project)	-29	-84	-106	-71	-76	43	115	116	118	124	129
Prim. Bal. (exc. Covid-19, volcano one-offs, and port)	-29	-33	-18	-14	-12	67	115	116	118	124	129
Identified Financing	**85**	**138**	**172**	**245**	**342**	**249**	**117**	**-6**	**-22**	**-30**	**-35**
Net external financing	23	67	260	170	98	193	131	16	-39	-77	-42
Disbursements	101	119	313	240	184	303	266	175	112	60	60
Amortization	79	52	53	70	86	110	135	159	152	137	102
Change in government assets 2/	-32	-57	-58	-15	25	-15	-24	-25	-26	-26	-24
Net domestic financing 3/	136	111	-25	109	137	71	10	3	43	73	30
Change in account payable and arrears	-42	17	-5	-19	80	0	0	0	0	0	0
Memorandum Items 4/											
Public debt	1,674	1,844	2,118	2,261	2,548	2,793	2,899	2,899	2,894	2,879	2,855
Covid-19 and volcano-related expenditure	...	51	88	57	64	24	0	0	0	0	0

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

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

2/ (-) implies accumulation of government assets, including deposits, sinking fund, and contingency fund.

3/ Includes other non-banking sector domestic financing.

4/ Includes central government debt relief of 4.2 percent of GDP from Venezuela (2022).

Table 4. St. Vincent and the Grenadines: Central Government Operations, 2019–29
(Percent of GDP, unless indicated otherwise)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Prel.			Projections			
Total Revenue and Grants	**25.8**	**28.9**	**30.9**	**26.8**	**26.4**	**27.5**	**28.2**	**28.4**	**28.4**	**28.4**	**28.4**
Current revenue	23.2	24.8	28.4	25.1	24.0	25.2	25.8	26.0	26.0	26.1	26.1
Tax revenue	22.0	23.6	26.2	23.3	21.7	23.1	23.7	23.8	23.9	23.9	23.9
Of which											
Taxes on income and profits	5.7	6.1	6.0	5.9	5.2	5.3	5.4	5.5	5.5	5.5	5.5
Taxes on property	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on international trade	9.4	10.0	10.3	10.6	9.8	10.9	10.8	10.8	10.8	10.8	10.8
Of Which: VAT	3.8	3.9	4.0	4.3	3.9	4.4	4.5	4.5	4.5	4.5	4.5
Taxes on domestic transactions	6.7	7.3	9.7	6.7	6.5	6.7	7.4	7.4	7.4	7.4	7.4
Of Which: VAT	3.9	3.8	3.6	3.8	3.3	3.6	4.3	4.3	4.3	4.3	4.3
Non-tax	1.2	1.3	2.2	1.7	2.3	2.2	2.2	2.2	2.2	2.2	2.2
Capital Revenue	0.2	2.0	0.9	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Grants	2.5	2.1	1.6	1.7	2.3	2.1	2.2	2.2	2.2	2.2	2.2
Total Expenditure and Net Lending	**29.4**	**34.8**	**38.0**	**36.0**	**38.1**	**35.4**	**31.7**	**28.2**	**27.8**	**27.7**	**27.6**
Current	24.6	27.3	28.9	25.3	25.3	25.0	24.3	23.8	23.6	23.5	23.4
Of which											
Wages and salaries 1/	12.4	13.9	14.1	12.5	12.0	11.6	11.3	11.1	11.1	11.1	11.1
Interest	2.3	2.2	2.5	2.3	2.5	3.3	3.0	2.9	2.6	2.5	2.3
Domestic	1.4	1.4	1.5	1.2	1.2	1.6	1.3	1.3	1.2	1.2	1.3
Foreign	0.8	0.8	1.0	1.1	1.3	1.7	1.7	1.6	1.4	1.2	1.1
Transfers and subsidies	6.7	7.5	8.2	6.6	6.7	6.3	6.2	6.1	6.1	6.1	6.1
Goods and services	3.2	3.8	4.2	3.9	4.0	3.9	3.8	3.8	3.8	3.8	3.8
Capital Expenditure	4.8	7.5	9.1	10.7	12.8	10.4	7.4	4.4	4.2	4.2	4.2
Port	0.1	0.1	0.2	4.2	6.6	5.9	3.9	0.3	0.0	0.0	0.0
Hospital	…	…	…	…	0.0	1.1	2.6	3.1	1.1	0.0	0.0
Reconstruction (La Soufriere): capital spending	…	…	3.5	1.8	2.0	0.8	0.0	0.0	0.0	0.0	0.0
Others	4.7	7.4	5.4	4.7	4.2	2.6	0.9	1.0	3.1	4.2	4.2
Current balance (before grants)	-1.4	-2.5	-0.5	-0.2	-1.2	0.2	1.6	2.1	2.4	2.6	2.7
Overall Balance	**-3.5**	**-5.9**	**-7.2**	**-9.2**	**-11.7**	**-7.9**	**-3.5**	**0.2**	**0.6**	**0.8**	**0.9**
Overall balance (excl. grants)	-6.0	-8.1	-8.8	-9.5	-14.0	-10.0	-5.7	-2.0	-1.6	-1.4	-1.3
Overall balance (excl. port project)	-3.4	-5.8	-7.0	-4.9	-5.1	-2.0	0.4	0.4	0.6	0.8	0.9
Overall Bal. (exc. Covid-19, volcano one-offs, and port)	-3.4	-3.6	-3.3	-2.8	-2.9	-1.2	0.4	0.4	0.6	0.8	0.9
Primary Balance	**-1.2**	**-3.7**	**-4.7**	**-6.9**	**-9.2**	**-4.6**	**-0.5**	**3.0**	**3.2**	**3.2**	**3.2**
Primary balance (excl. port project)	-1.2	-3.6	-4.4	-2.6	-2.6	1.3	3.4	3.3	3.2	3.2	3.2
Prim. Bal. (exc. Covid-19, volcano one-offs, and port)	-1.2	-1.4	-0.8	-0.5	-0.4	2.1	3.4	3.3	3.2	3.2	3.2
Identified Financing	**3.4**	**5.9**	**7.2**	**9.2**	**11.7**	**7.9**	**3.5**	**-0.2**	**-0.6**	**-0.8**	**-0.9**
Net external financing	0.9	2.9	10.8	6.4	3.4	6.1	3.9	0.5	-1.1	-2.0	-1.0
Disbursements	4.1	5.1	13.1	9.0	6.3	9.6	8.0	5.0	3.1	1.6	1.5
Amortization	3.2	2.2	2.2	2.6	2.9	3.5	4.0	4.5	4.1	3.6	2.5
Change in government assets 2/	-1.3	-2.4	-2.4	-0.6	0.9	-0.5	-0.7	-0.7	-0.7	-0.7	-0.6
Net domestic financing 3/	5.5	4.7	-1.1	4.1	4.7	2.2	0.3	0.1	1.2	1.9	0.8
Change in account payable and arrears	-1.7	0.7	-0.2	-0.7	2.7	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items											
Gross public sector debt	68.1	79.0	88.3	84.7	87.1	88.2	86.7	82.8	79.0	75.0	71.1
GDP at market prices (EC$ millions)	2,458	2,334	2,399	2,671	2,924	3,168	3,344	3,501	3,666	3,838	4,018
Real GDP growth (percent)	0.7	-4.3	2.1	3.1	5.8	4.9	3.5	2.7	2.7	2.7	2.7
Covid-19 and volcano-related expenditure	…	2.2	3.7	2.1	2.2	0.8	0.0	0.0	0.0	0.0	0.0

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

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

2/ (-) implies accumulation of government assets, including deposits, sinking fund, and contingency fund.

3/ Includes other non-banking sector domestic financing.

Table 5. St. Vincent and the Grenadines: Monetary Survey, 2019–29
(Millions of Eastern Caribbean dollars)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Prel.	Projections					
Net Foreign Assets	**827**	**905**	**1,238**	**1,104**	**922**	**951**	**1,007**	**1,046**	**1,091**	**1,141**	**1,196**
ECCB	518	551	735	738	636	680	721	747	778	814	853
Of which: Imputed reserves	518	551	735	738	636	680	721	747	778	814	853
Commercial banks	309	353	503	366	285	270	285	299	313	328	343
Net Domestic Assets	**932**	**739**	**616**	**753**	**1,010**	**1,161**	**1,222**	**1,288**	**1,353**	**1,417**	**1,483**
Public sector credit (net)	-28	-5	-68	-45	98	187	173	151	168	215	222
Central government	40	128	48	82	201	301	287	264	282	329	335
ECCB	-16	26	2	41	82	47	35	22	10	-3	-15
Commercial banks	56	102	47	41	119	254	252	242	273	332	351
Net credit to other public sector institutions	-68	-133	-116	-128	-103	-114	-114	-114	-114	-114	-114
National Insurance Scheme	-70	-79	-79	-71	-41	-41	-41	-41	-41	-41	-41
Other	0	-55	-38	-57	-62	-74	-74	-74	-74	-74	-74
Net credit to nonbank financial institutions	28	16	16	14	0	17	17	18	19	20	21
Credit to private sector	1,072	1,109	1,109	1,100	1,152	1,148	1,180	1,222	1,285	1,352	1,421
Other items (net)	-140	-382	-442	-316	-240	-191	-148	-102	-119	-169	-181
Broad Money (M2)	**1,759**	**1,643**	**1,854**	**1,857**	**1,931**	**2,112**	**2,229**	**2,334**	**2,444**	**2,559**	**2,679**
Money	597	586	694	813	889	941	993	1,040	1,089	1,140	1,194
Currency in circulation	131	157	194	205	224	225	237	248	260	272	285
Demand deposits	466	429	500	608	665	716	756	792	829	868	909
Quasi-money	1,161	1,057	1,159	1,044	1,043	1,171	1,236	1,294	1,355	1,418	1,485
Local currency deposits	1,044	941	980	901	957	1,071	1,130	1,183	1,239	1,297	1,358
Foreign currency deposits	117	116	179	143	86	100	105	110	116	121	127
					(Percent change)						
Net foreign assets	37.9	9.4	36.8	-10.8	-16.5	3.1	5.9	3.9	4.3	4.6	4.8
Net domestic assets	-6.4	-20.7	-16.7	22.3	34.1	15.0	5.3	5.4	5.0	4.8	4.6
Credit to private sector	1.1	3.5	0.0	-0.8	4.7	-0.3	2.8	3.5	5.2	5.2	5.2
Broad money (M2)	10.3	-6.6	12.8	0.2	4.0	9.3	5.6	4.7	4.7	4.7	4.7
Money	13.9	-1.9	18.4	17.1	9.3	5.9	5.6	4.7	4.7	4.7	4.7
Quasi-money 1/	8.5	-9.0	9.7	-10.0	-0.1	12.3	5.6	4.7	4.7	4.7	4.7
					(Contributions to M2 growth)						
Net foreign assets	14.3	4.4	20.3	-7.2	-9.8	1.5	2.7	1.8	1.9	2.1	2.1
Net domestic assets	-4.0	-11.0	-7.5	7.4	13.8	7.8	2.9	2.9	2.8	2.6	2.6
Public sector credit (net)	-3.9	1.3	-3.9	1.2	7.7	4.6	-0.7	-1.0	0.8	1.9	0.2
Of which: Central government	-4.1	5.0	-4.9	1.9	6.4	5.2	-0.7	-1.0	0.8	1.9	0.2
Credit to private sector	0.7	2.1	0.0	-0.5	2.8	-0.2	1.5	1.9	2.7	2.7	2.7
Other items (net)	0.1	-13.8	-3.7	6.8	4.1	2.5	2.0	2.0	-0.7	-2.0	-0.5
Memorandum Item											
Income velocity 2/	1.40	1.42	1.29	1.44	2.62	1.50	1.50	1.50	1.50	1.50	1.50

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

1/ Including resident foreign currency deposits.

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

Annex I. Implementation of Past Fund Advice

Recommendations from the 2022 Article IV Consultation	Authorities' Actions
Fiscal Policy	
In the near term, continue focusing on health and reconstruction spending and time-bound targeted fiscal support while maintaining fiscal prudence.	**Ongoing.** The authorities continue to prioritize capital spending on reconstruction and critical infrastructure projects. Most of the temporary price-mitigating measures introduced in mid-2022 were phased out by end-2023, including the generalized reduction in fuel excise taxes.
Recalibrate and fully operationalize the FRF to underpin the commitments and reinforce fiscal credibility.	**Ongoing.** The FRM established in 2021 published its first report in 2022. The report assesses the 2022 budget, discusses the medium-term economic and fiscal outlook, and makes policy recommendations to the government.
Build additional buffers and prepare contingency plans, including through growth-friendly and equity-enhancing measures on both revenue and expenditure sides.	**Ongoing.** The Cabinet adopted a Disaster Risk Financing Strategy, prepared with support from the WB. Work is underway to (i) strengthen data collection and management as well as public financial management related to disasters; and (ii) establish a new CATDDO of US$20 million with the WB and contingency budgetary planning for disaster responses and resilience activities (beyond the existing CF, coverage from CCRIF, and contingency reserve from undrawn SDR holdings. In addition, the authorities implemented reforms to improve the efficiency of the social assistance system, digitalizing government services, and launched a package of reform measures to improve the financial sustainability of the NIS. PSPS reforms are under consideration.
Continue efforts to implement fiscal institutional reforms to underpin the effective implementation of the FRF.	**Ongoing.** The government is stepping up efforts to enhance revenue administration, including through the recent initiative to enforce VAT for private home vacation rentals and digitalizing the tax information management system. Gender-responsive budgeting was piloted in three line ministries. The cabinet has approved an action plan drawing on C-PIMA recommendations.
Structural Reforms	
Strengthen investment and business environment.	**Ongoing.** Ongoing digital transformation of government, business, and financial infrastructure and services, including through the single windows for land and property transactions and trade, is expected to enhance productivity and the business environment. Ongoing investment on the port, roads, airports, hotels, and agriculture production and other key public infrastructure is relaxing structural bottlenecks and improving

Recommendations from the 2022 Article IV Consultation	Authorities' Actions
	competitiveness. The upcoming enactment of the Investment Act is also expected to improve business environment and stimulate growth.
Reduce skill mismatches and youth unemployment in the labor force, by improving the scope, coverage, and effectiveness of TVET programs across the country and enhancing ALMPs.	**Ongoing.** The authorities have launched a comprehensive education reform that focuses on curriculum reforms and expansion of post-secondary and TVET and certifications, as reflected in the 2023–24 budgets, building on the remarkable improvements in the education system over past two decades. The authorities recently established the Prime Ministerial Advisory Council on Youth to better integrate young people in policy advocacy and into the labor market. ALMPs are being pursued through the ON-SITE and SET programs, which offer national support for internship training and employment targeting the youths between 18 and 35 years old, the WE CAN program, which provides conditional cash transfer support to indigenous and poor households, through farm skills internship initiatives, and the pilot SVG-LMIS program that computerizes key operations of the SVG-DoL and Labor Market Information (LMI) produced by government ministries or institutions.
Further develop tourism sector to unleash its full potential.	**Ongoing.** The authorities are preparing the tourism sector's 10-year master plan, which highlights sustainable tourism policies. They are also ramping up efforts to further increase airlift.
Build resilience to natural disasters and climate change.	**Ongoing.** The authorities are stepping up efforts to strengthen structural and financial resilience. They have developed a Disaster Risk Financing Strategy and started tapping Green Climate Fund. They are also finalizing the National Physical Development Plan and the St. Vincent and the Grenadines Disaster Management Comprehensive Strategy and Implementation Plan, the latter of which also serves as a guide for the ongoing review of the National Disaster Management Plan and the National Emergency and Disaster Act.
Transition to renewable energy.	**Ongoing.** Efforts to transition to renewable energy continue, including the launch of a new revenue-neutral import tax regime to promote cleaner motor vehicles and ongoing work to modernize the Electricity Act and update the National Energy Policy.
Financial Sector Policy	
Transition to risk-based supervision, including incorporating risks related to climate change and cyber threats.	**Ongoing.** Application of a risk-based approach to supervision for credit unions, building associations, and the insurance sector, for prudential and AML/CFT purposes, using the World Bank

Recommendations from the 2022 Article IV Consultation	Authorities' Actions
	framework. A climate risk project is being carried out by the ECCB, with participation of the FSA, to improve the awareness and establish a framework for incorporation of climate-related risk in financial supervision, and a report of the first phase of the project is under preparation to offer recommendations and a roadmap for implementation. The authority also participated in a CARTAC workshop on climate risks. Cyberthreats are included in risk assessments.
Strengthen financial sector oversight, and regulatory and supervisory framework. FSA should extend stress testing and communicate its financial stability assessment to the public more periodically.	**Ongoing.** Authorities' efforts include upgrading and modernizing legislation, participation in the regional efforts for a systematic credit bureau, issuance of relevant guidelines for consultation with different sectors, and continued engagement through prudential meetings and outreach. The FSA plans to increase the frequency of on-site visits based on risk in 2024 and continues to do an annual stress-testing exercise. Efforts continue to improve the risk-based approach to supervision.
Advance the ongoing reform initiatives. Enact pending legislation, including amendments to the FSA Act and the Building Societies Act and the implementation of the regional Harmonized Credit Union Regulation. Formulate a crisis management plan for the non-bank financial sector.	**Ongoing.** Authorities have enacted Amendments to the Cooperative Societies Act and Amendments to the Insurance Act, and approved Harmonized Credit Unions Regulations. Both the Amendments to the FSA Act and the new Building Societies Act are included in 2024 legislative agenda. Harmonized Virtual Assets Business Regulations are currently being reviewed by the Attorney General. The FSA has begun the process of drafting a crisis management plan, following the recommendations of the IMF TA to strengthen the FSA's resolution framework.
Continue strengthening the AML/CFT framework.	**Ongoing.** The authorities have updated the AML/CFT legal framework and have made significant efforts in the application of a risk-based approach to AML/CFT supervision for the credit union, money service business, insurance, international banking, registered agent, and building society sectors. The authorities have administered AML/CFT questionnaires to licensed entities to update institutional risk profiles and have conducted standalone AML on-site examinations. Reflecting these ongoing efforts, the 4th Mutual Evaluation Report (MER) of VCT concluded that the country's AML/CFT framework is compliant with most recommendations related to preventive measures and supervision, although the effectiveness of such measures still required improvements. The authorities also enacted the Terrorism Financing Act

Recommendations from the 2022 Article IV Consultation	Authorities' Actions
	in 2023 to strengthen the Anti-Terrorism framework, after the CFATF onsite visit and have taken initial measures to strengthen the monitoring of physical cross-border cash and Bearer Negotiable Instrument (BNI). The nature of investments is known, and data is continuing to be collected on asset size as all mutual fund entities are being comprehensively assessed.
Promote private sector credit growth and financial inclusion.	**Ongoing**. The authorities are actively participating in regional initiatives including the planned operationalization of the credit bureau in VCT later this year, renewed efforts to promote use of the Eastern Caribbean Partial Credit Guarantee, digitalization of financial services, and implementation of regional securities legislation designed to facilitate greater access to financial services.

Annex II. External Sector Assessment

Overall Assessment: *The external position of St. Vincent and the Grenadines in 2023 was moderately weaker than the level implied by fundamentals and desirable policies.*[1] *Nevertheless, this assessment is subject to large uncertainty considering the use of preliminary data for the current account and the challenges of assessing the potential scarring impacts of the volcanic eruptions.*

Potential Policy Responses: *Fiscal consolidation efforts should be sustained to rebuild buffers, and structural reforms to unleash growth potential can help boost competitiveness and strengthen external position.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The negative net international investment position (NIIP), which averaged about 128 percent of GDP between 2015-19, has increased since and is estimated at 160 percent of GDP in 2023. The deterioration of the NIIP is mainly driven by the current account deficits. In 2023, reserve assets and other investment (mostly currency and deposits) comprised the largest components on the asset side (22 and 23 percent of GDP respectively). On the liability side, two largest components were direct investment (162 percent of GDP) and other investments.

Assessment. The NIIP is expected to deteriorate in the near term, on the back of large current account deficits which are driven by the implementation of large capital investment projects on the hospital, port, hotels, and resilient infrastructure, financed through both private direct investment and general government loans on concessional terms. The large share of foreign direct investment (FDI) (about two-third of gross liabilities in 2023) and concessional (long maturity) loans to the government are risk mitigating factors for the large negative NIIP. The IIP position derived from the current account projections is expected to stabilize from 2026 on the back of the expected improvement in the current account along with the fiscal balances over the medium term.

2023 (% of GDP)	NIIP: -160	Gross Assets: 80	Debt Assets: 7	Gross Liab.: 239	Debt Liab.: 11

Current Account

	CA model 1/	REER model 1/
	(In percent of GDP)	
CA-Actual	**-17.6**	
Cyclical contributions (from model) (-)	0.0	
Additional temporary/statistical factors (-) 2/	-3.5	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	**-14.1**	
CA Norm (from model) 3/	**-12.7**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-12.7**	
CA Gap	**-1.4**	**-0.1**
o/w Relative policy gap	0.9	
Elasticity	-0.3	
REER Gap (in percent)	**5.2**	**0.4**

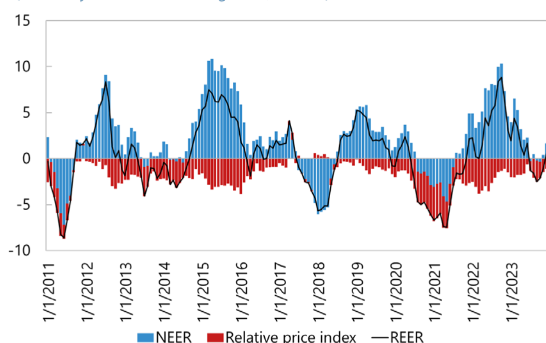
1/ Based on the EBA-lite 3.0 methodology
2/ Additional adjustment to account for the temporary impact of the large public and private investment projects under conservative assumptions to import shares, and the temporary impact of the volcanic eruptions on trade.
3/ Cyclically adjusted, including multilateral consistency adjustments.

Background. The current account deficit peaked at 22.2 percent of GDP in 2021 following the multiple shocks and has narrowed since, estimated at 17.6 percent of GDP in 2023. The narrowing deficit largely reflects the ongoing recovery in tourism. Nevertheless, high import contents of reconstruction materials (due to the volcanic eruptions) and large investment projects (i.e., the port and Sandals resort) and higher costs of imports of fuels and other goods have contributed to the large imports (estimated at 42 percent of GDP in 2023). As a result, current account deficit in 2023 remained sizable, explained by a large overall fiscal deficit of 11.7 percent—largely reflecting the port and reconstruction spending—and a negative saving-investment balance in the private sector of -5.9 percent of GDP. In the near term, the current account deficit is expected to continue narrowing and to reach the level implied by fundamentals and desirable policies in the medium term as the fiscal balance improves along with the completion of these large construction projects and further expansion of tourism supported by enhanced room and airlift capacity.

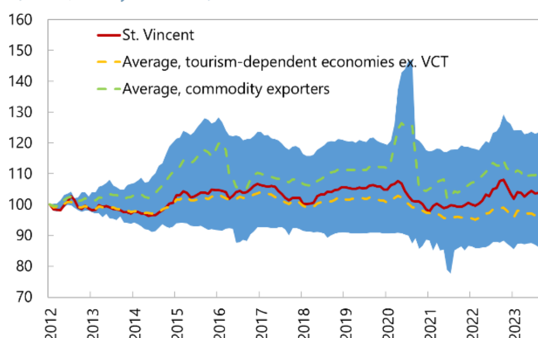
Assessment. The CA model suggests that the external position was moderately weaker than the level implied by fundamentals and desired policies, unchanged from the assessment by the 2022 Article IV Consultation.[2] However, the uncertainty around the assessment remains high considering empirical challenges in estimating the long-lasting impacts of the volcanic eruptions on agricultural exports.

Real Exchange Rate

Background. In 2023, the real effective exchange rate (REER) remained broadly stable, with stronger trading partner inflation offsetting the impact of recent nominal exchange rate appreciation of the U.S. dollar, to which the regional currency is pegged. The cumulative appreciation of the REER remains slightly above the average of tourism dependent economies.



Sources: INS and IMF staff calculations.



Sources: INS and IMF staff calculations.

Assessment. The REER gap, derived from the EBA-Lite CA model and an estimated elasticity of -0.27, was 5.2 percent. Meanwhile, the EBA-Lite REER model suggests a REER gap of 0.4 percent.

Capital and Financial Accounts: Flows and Policy Measures

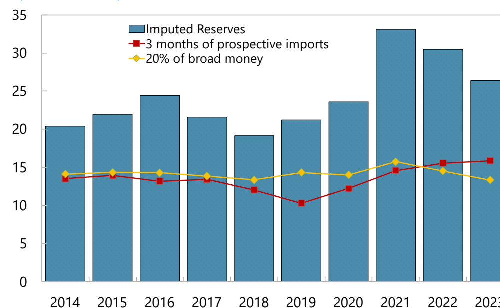
Background. FDI rebounded after the pandemic to 14.3 percent of GDP in 2022, and the preliminary estimate for 2023 of 12.6 percent of GDP is above the pre-pandemic averages of 10.4 percent of GDP during 2015-19, mainly supported by large investment projects in the tourism sector, notably the Sandals Resort.

Assessment. Net FDI inflows are expected to return to pre-pandemic levels in the medium term (around 10 percent of GDP) as large investment projects in the tourism sector wound down. Downside risks to the projections are related to the ever-present risk of natural disasters and the tighter-for-longer global financial conditions.

FX Intervention and Reserves Level

Background. The reserve position remains broadly stable.[3] In 2023, imputed reserves, a proxy for net foreign assets held at the Eastern Caribbean Central Bank (ECCB),[4] remained at 26 percent of GDP, equivalent to 5 months of imports and 45 percent of broad money.

Assessment. Imputed reserves in 2023 were above typical benchmarks for reserve adequacy in terms of months of imports and percent of broad money. In 2021, St. Vincent and the Grenadines received a general SDR allocation of 11.2 million SDRs (approximately US$15.7 million) which have been kept as reserves.



Sources: ECCB and IMF staff calculations.

[1] The external sector assessment is based on staff's estimates. 2022 BOP data is preliminary and based on the December 2023 ECCB release and staff estimates. 2023 data is a combination of the ECCB and IMF staff estimates.

[2] The CA model includes an adjustor of -3.5 percent of GDP to account for the temporary lingering impact of the volcanic eruptions on trade via agricultural exports and reconstruction-related imports following the same estimation methodology used in 2022 Article IV ESA.

[3] In 2021, St. Vincent and the Grenadines received a general SDR allocation of 11.2 million SDRs (approximately US$15.7 million), of which 10.9 million SDRs have been kept as reserves as of end-2023.

[4] As an ECCU member, St. Vincent and the Grenadines is subject to a quasi-currency board arrangement. Foreign assets and liabilities at the ECCB cannot be assigned to individual countries, but reserves are imputed to individual member countries based on their share of net domestic assets and reserve money. The Eastern Caribbean dollar, the currency of St. Vincent, is pegged to the U.S. dollar.

Annex III. Risk Assessment Matrix[1]

Risks	Relative Likelihood	Impact	Policy Response
External Risks			
Intensification of regional conflicts. Escalation of the conflict in Gaza and Israel, Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows.	High	**High.** Inflation pressures intensify, eroding incomes, dampening demand, widening fiscal and trade deficits, and threatening food and energy security.	Provide temporary and targeted transfers to the vulnerable. Allow a gradual pass-through of international prices. Continue to improve coverage and targeting of social safety nets. Accelerate transition to renewable energy sources. Further strengthen the fiscal framework to continue to build buffers and communicate credible medium-term fiscal plan. Implement structural reforms to improve competitiveness and diversity of exports. Intensify monitoring of financial institutions.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	High	**High.** Higher international oil and food prices would increase inflation, put additional pressure on international reserves, slow down growth and increase poverty and inequality.	Provide temporary and targeted transfers to the vulnerable. Allow a gradual pass-through of international prices and phase out generalized subsidies. Continue to improve coverage and targeting of social safety nets. Accelerate transition to renewable energy sources.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation causing sudden stops in EMDEs.	Medium	**Medium.** A global slowdown hinders tourism recovery, weakens remittances and FDI, and reduces growth.	Accelerate structural reforms to support economic recovery and diversification. Adopt credible medium-term plan to preserve fiscal sustainability. Provide targeted support to the vulnerable.
Monetary policy miscalibration. Amid high economic uncertainty and financial sector fragility, major central banks loosen policy stance prematurely, hindering disinflation, or keep it tight for longer than warranted, causing abrupt adjustments in financial markets and weakening the credibility of central banks.	Medium	**Medium.** Higher imported inflation triggers demand for higher wages, intensifying inflation pressures. Higher borrowing costs add fiscal strains. De-anchoring of inflation expectations and a strengthening of the U.S. dollar could weaken competitiveness.	Continue restraints in wage growth while providing temporary and targeted support to the vulnerable. Strengthen the fiscal framework to rebuild buffers and communicate credible medium-term fiscal plan. Implement structural reforms to improve competitiveness. Intensify monitoring of financial institutions.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Risks	Relative Likelihood	Impact	Policy Response
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	High	**High.** Rising input costs and supply chain disruptions increase inflationary pressures, expand fiscal deficits, and hinder economic growth.	Allow a gradual pass-through of international prices. Provide temporary and targeted transfers to the vulnerable. Continue to improve coverage and targeting of social safety nets. Adopt credible medium-term plan to preserve fiscal sustainability. Accelerate structural reforms to support economic growth.
Domestic Risks			
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	Medium	**High.** Lower growth and worsen fiscal and external positions.	Recalibrate FRF to internalize exposure to natural disasters. Implement national adaptation plans with investment in structural and financial resilience, and appropriate *ex ante* financing.
Delays in investment project implementation. Implementing several large-scale projects at the same time could stretch available capacity. In conjunction with supply chain disruptions and rising project costs, this could delay the schedule.	Medium	**High.** Lower growth. Slower-than-expected investment would slow down the recovery and resilience building.	Strengthen public financial management and project implementation capacity, including through implementing C-PIMA recommendations and undertaking CARTAC Technical Assistance.
Lower-than-expected fiscal balances that are inconsistent with the 2021 RCF commitment, due to lower-than-expected tax collection and/or higher-than-expected spending**.**	Medium	**High.** It would slow down fiscal consolidation and endanger fiscal sustainability.	Continue to rationalize current spending and build the Contingencies Fund while prioritizing capital spending. Recalibrate and fully operationalize the FRF. Implement coordinated reforms to the National Insurance Service and Public Sector Pension System. Identify and implement revenue and expenditure measures to mitigate the impact.
Higher NPLs and market risk in indigenous banks and non-banks trigger a confidence shock.	Medium	**Medium.** Financial sector instability disrupts economic activity.	Monitor asset quality and ensure adequate loan loss provisioning. Enhance regulatory and supervisory frameworks for non-banks.
Loss of correspondent banking relationships. Curtailment of cross-border financial services may intensify amid the exit of global banks.	Medium	**Low.** Fees of cross-border payments rise, raising business costs and reducing remittance inflows.	Strengthen compliance with AML/CFT and tax transparency standards.

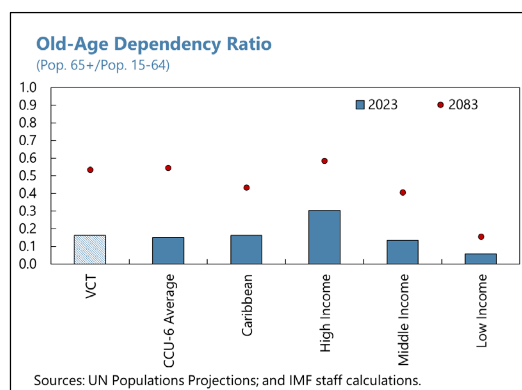
Annex IV. The Pension System and Reform Options

The pension system in St. Vincent and the Grenadines consists of two defined benefit pension schemes: the non-contributory Public Sector Pension System (PSPS) for public sector employees and the contributory National Insurance Service (NIS) for public and private sector employees, self-employed, and voluntary contributors. There is scope to improve the efficiency, sustainability, and fairness of the pension system through coordinated reforms of the PSPS and NIS schemes.

A. Context

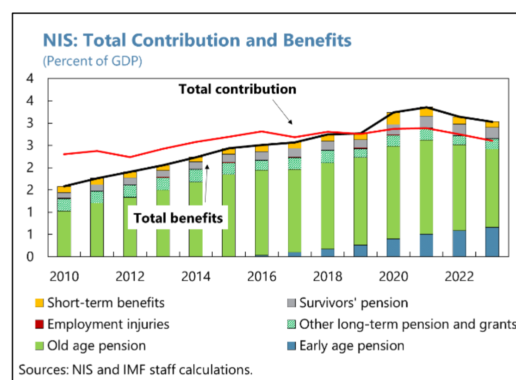
1. The pension system in St. Vincent and the Grenadines comprises two components. The first component is the contributory National Insurance Service (NIS) or social security administration. It offers long-term benefits as well as short-term benefits related to sickness, maternity, and injury to public and private sector employees, self-employed individuals, and voluntary contributors. The second component is the non-contributory Public Sector Pension Scheme (PSPS) for civil servants, funded through budget revenues.

2. The financial sustainability of NIS is under strain due to design weaknesses, a rapidly aging population as well as frequent economic and natural disaster shocks. The NIS began operations in January 1987. Despite reform efforts, NIS reserves face increasing pressure in recent years because of the still relatively low contributions and rising benefits as the system matures. The country also grapples with additional strain from population aging. With rising life expectancy, low fertility rates, and significant emigration of the young, the old-age dependency ratio—population aged 65 or older divided by population aged between 15 and 64 years—is projected to increase dramatically faster starting in 2025 and exceed 0.5 by 2083, significantly surpassing the averages of middle- and low-income countries and approaching the OECD level.



Sources: UN Populations Projections; and IMF staff calculations.

3. A parametric reform of the NIS was introduced in 2014. The reform package includes a gradual increase in the statutory retirement age from 60 to 65 by 2028 (currently at 63) and an increase in the contribution rate from 8 percent to 10 percent. However, this reform only provided temporary relief to the system's financial situation. Additionally, the introduction of early age pension schemes in 2016 led to a rapid increase in benefits paid.[1] Consequently, total



Sources: NIS and IMF staff calculations.

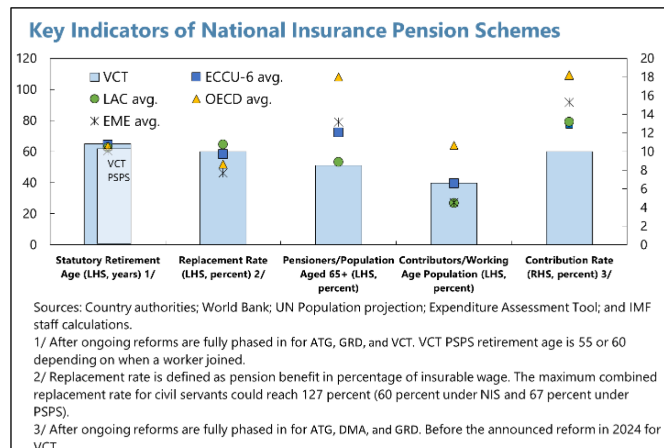
[1] Early age pension allows workers to receive benefits as early as age 60.

benefits have surpassed total contributions since 2019 and according to the latest actuarial report as of end-2022, reserves are projected to be depleted by 2036.[2]

4. In response to the pressing situation, the government unveiled a new reform package in 2024. Reforms for the PSPS is also under consideration. In what follows, the annex reviews the design and performance of the system, summarizes the announced pension reform package, and discuss options for further improvement.

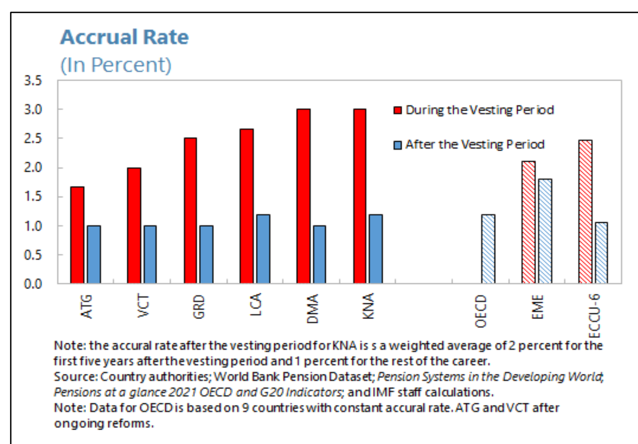
B. Evaluating the Design and Performance of NIS Before the 2024 Reform

5. Contribution rate is low. At 10 percent as of 2024Q1, it is lower than the ECCU average of 13 percent, the emerging market (EME) average of 15.3 percent, and the OECD average of 17.8 percent. This rate also falls significantly below the General Average Premium (GAP)—the level of contribution rate required to fully cover the total expenditure over a 60-year period—indicating the need for increased contributions to sustain long-term expenses.[3] Without reforms, a sharp rise in contribution rates would be needed after reserve depletion. The actuarial report as of end-2022 estimates the pay-as-you-go rate (PAYG)—defined as the contribution rate necessary to pay benefits and administration expenditure in a year—to be 28.8 percent by 2079. Such a scenario would necessitate abrupt contribution rate hikes under current policies. Timely reforms are essential to avoid significant future adjustments and ensure intergenerational equality.



Sources: Country authorities; World Bank; UN Population projection; Expenditure Assessment Tool; and IMF staff calculations.
1/ After ongoing reforms are fully phased in for ATG, GRD, and VCT. VCT PSPS retirement age is 55 or 60 depending on when a worker joined.
2/ Replacement rate is defined as pension benefit in percentage of insurable wage. The maximum combined replacement rate for civil servants could reach 127 percent (60 percent under NIS and 67 percent under PSPS).
3/ After ongoing reforms are fully phased in for ATG, DMA, and GRD. Before the announced reform in 2024 for VCT.

6. While the statutory retirement age aligns with peers, benefit rules remain generous and discourage long careers. Set at 63 in 2024 and increasing to 65 by 2028 once the 2014 reform is fully phased in, the statutory retirement age could be further linked to the life expectancy to allow an automatic adjustment mechanism, in line with international best practice. The early retirement option is costly, with many early retirees continue to work close to full time. Maximum replacement rates, currently at 60



Note: the accural rate after the vesting period for KNA is s a weighted average of 2 percent for the first five years after the vesting period and 1 percent for the rest of the career.
Source: Country authorities; World Bank Pension Dataset; *Pension Systems in the Developing World*; *Pensions at a glance 2021 OECD and G20 Indicators*; and IMF staff calculations.
Note: Data for OECD is based on 9 countries with constant accural rate. ATG and VCT after ongoing reforms.

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[2] NIS reserves were about 17.5 percent of GDP as of end-2022.

[3] The GAP is estimated to be around 20 percent according to the actuarial report as of end-2022.

percent, surpass EME and OECD averages of 46 percent and 52 percent respectively, increasing NIS benefit obligations to retirees.[4] In addition, the current accrual rate is front-loaded and generous. The accrual rate during the vesting period (the initial years after joining the NIS) is high compared to the EME and OECD averages.[5] A front-loaded accrual rate rewards workers with short contribution histories and hence may discourage workers from having a longer career in the formal sector.

7. **The thresholds for the minimum contributory pension and the insurable wage appear broadly adequate.** The minimum contributory pension represents the smallest amount of pension any participant of the NIS could receive upon reaching the statutory retirement age or meeting the minimum contribution requirements. The minimum contributory pensions in St. Vincent and the Grenadines exceed the regional averages.[6] Additionally, the insurable wage threshold, which also serves as the ceiling for average earnings used to calculate benefits allows over 90 percent of contributors have their wages fully covered by the NIS.

8. **The pension system's coverage requires enhancement (text chart).** Although the contribution ratio—the share of working-age population contributing to the pension scheme—is above the EME average, it falls well below the OECD average. Similarly, the pensioner ratio—the share of elderly population claiming pension benefits—is below EME and OECD averages, possibly due to higher unemployment, higher informality, and lower labor force participation. Requiring participation of self-employed and improving data collection can bolster coverage and financial sustainability and reduce risks of old-age poverty. Consolidating data collection between NIS and tax authorities can enhance compliance and digitalization, fostering a more efficient and user-friendly system for the self-employed.

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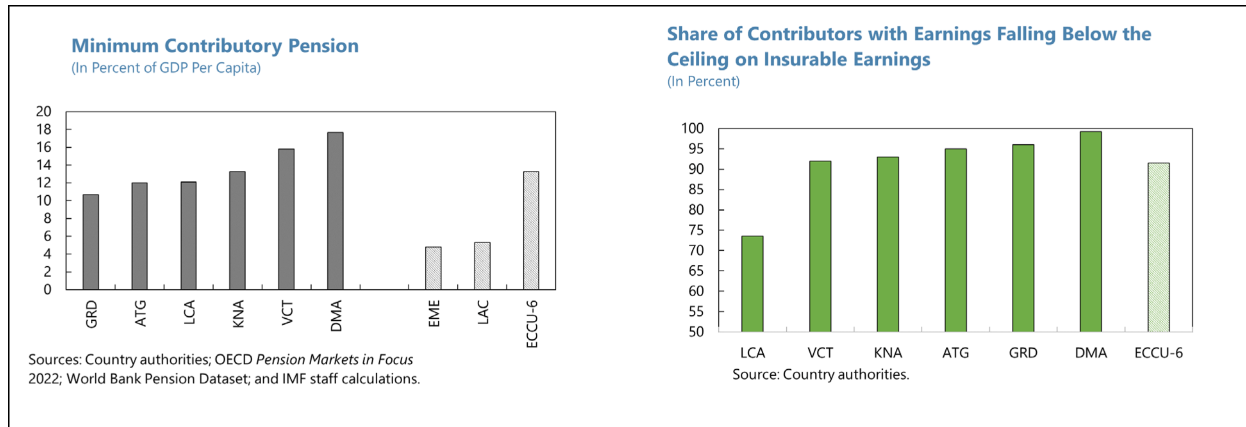
[4] The maximum replacement rate defines the ceiling of pension benefit as a share of the insurable wage. The effective replacement rate depends on the reference wage, whose calculation depends on wage growth and number of years considered. The effective replacement rate may differ from the maximum rate as the former considers taxation on pension and depends on the reference wage, whose calculation depends on wage growth and number of years considered. Having reference wages dependent on the last few years of earnings, as the case for St. Vincent, makes benefits more generous than if full careers were taken into account. Similarly, with pensions not taxed in St. Vincent, the effective replacement rate will be even more generous compared with countries where pensions are taxed. On the other hand, if the reference wage is not revalorized with average earnings growth, the effective replacement rates would be a bit lower than otherwise.

[5] In general, vesting periods or minimum years of contribution requirements allows the pension scheme to pay generous benefits to those who reach the requirement by transferring from individuals with short careers to long careers. Apart from the perverse redistribution, it discourages contributions by older workers with short careers. Instead, additional entitlements for every year of contributions provide the best and fairest incentives and should not jeopardize fiscal sustainability provided that contribution and accrual rates are reasonable. The minimum contribution requirement could be maintained for the minimum pension, or the level of the minimum pension can be made dependent on career length.

[6] The vesting periods in combination with the lack of comprehensive social pensions could make the difference in benefits quite stark between those that do not reach the vesting time and those that just do and receive a minimum pension. A more gradual approach in which social pensions and minimum pensions are integrated would create more even incentives to contribute and be more equitable.



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10. Administrative efficiency presents opportunities for improvement. The country lags behind ECCU peers in administrative cost-to-contribution income ratios. The relatively high administrative costs may stem from the small size of the system. Nonetheless, there is scope for modernizing administrative systems using available technology to bolster efficiency and converge to regional best practices.

11. A comprehensive reform of the pension system is urgently needed. The already high level of public debt puts further urgency for reform, as an unsustainable pension system presents significant contingent liabilities to the government. Without reform, the country risks abrupt and disorderly adjustments of the pension system or higher taxes and lower investment to cover pension shortfalls. High labor market informality also calls policy efforts to increase the coverage of the NIS to reduce the risks of old-age poverty. Early reform actions would help reduce the size of the required adjustments and inter-generational inequality.

C. Evaluating the PSPS

12. The PSPS is perceived as overly generous. The PSPS is non-contributory. It offers a maximum pension of 67 percent of the final salary, an accrual rate of 2 percent per year, a retirement age of 60,[7] and favorable conditions for gratuity payments, all in addition to the NIS pension. This setup results in dual benefits for public sector workers, potentially yielding a combined

[7] For those who joined before and on August 3rd, 1983, the statutory retirement age is 55.

replacement rate of 127 percent of insurable income (60 percent under the NIS plan and 67 percent under the PSPS). These features spark equity concerns between public and private sector workers.

13. The overly generous PSPS exerts extra financial burden to the already high public indebtedness. PSPS expenditure exceeds that of most regional counterparts. The government allocates approximately 2 percent of GDP annually to the program (about 7 percent of total government spending), one of the highest in the region. This suggests potential for cost-saving measures, which will also help improve equity between public and private sector workers.

D. 2024 NIS Reform Measures

14. Recognizing the urgency for reforms, the government introduced a package of reform measures for the NIS in early 2024. These measures feature a gradual increase in the contribution rate from 10 percent to 15 percent by 2027. Additionally, the reform aims to tighten early retirement by limiting eligibility and increase reduction factors for early retirement, increase wage period used to calculate reference wage, and raise both the insurable wage and minimum pension thresholds.

15. The reform also targets increased coverage. It aims to enhance participation among the self-employed through an extensive marketing campaign, allowing self-employed individuals to qualify employment injury benefits, and introduce a more easily accessible contribution payment system for both the self-employed and informal sector workers. In conjunction with the NIS reforms, the government also announced the plan to implement a permanent unemployment insurance scheme with support from ILO, slated to commence in January 2025, with the objective of expanding the safety net for temporary unemployed workers.[8]

16. The reform packages addresses certain design weakness of the current system. It aligns contribution rates more closely with those of peer countries and rectifies incentives for early retirement. Moreover, the extension of the reference wage period enhances equity by reducing the disadvantage of workers with relatively consistent earnings throughout their careers, typically lower-wage earners. While these measures are likely to improve the NIS's financial condition, the increase in insurable wage and minimum pension will result in higher pension obligations.

17. The newly introduced reform is projected to bolster the financial sustainability of the NIS. Actuarial estimates suggest that these reforms, collectively, will bolster short-term financing and mitigate long-term costs, and postpone reserve depletion year from 2036 to 2060.

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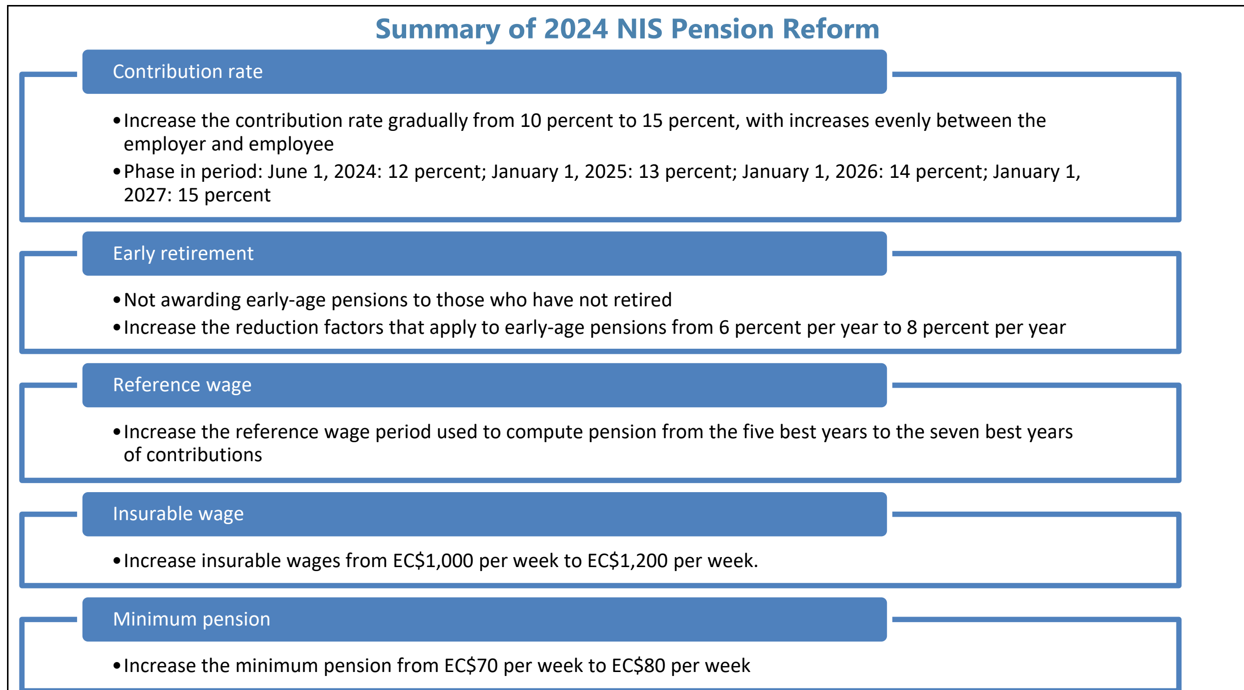
[8] The country introduced temporary unemployment benefits during 2020–21 in response to the pandemic and volcanic eruptions.



E. Further Considerations on Policies Toward a More Efficient, Sustainable, and Fair Pension System

18. The newly announced NIS reform marks a significant stride toward establishing a more efficient, sustainable, and equitable pension system. These measures tackle weaknesses in contribution, retirement, and benefit rules and better align them with international best practices. Additional considerations could include linking the retirement age to life expectancy—e.g., automatically increasing it by two-thirds of life expectancy gains at age 65—and given the relatively generous benefit rules, temporarily freezing pension benefits to enable older generations to share reform burdens and enhance intergenerational equity. Thereafter, ad hoc benefit adjustments should be replaced with annual adjustments in line with inflation.[9]

19. Introducing automatic adjustment stabilizers in the Pension Acts will help ensure long-term sustainability of the pension system amidst economic uncertainties. The interconnection between benefit and funding adjustments necessitates a coordinated approach, with automatic adjustment mechanisms playing a vital role. These mechanisms would trigger benefit reductions or contribution increases based on specific conditions, such as projected funding falling below prudent levels or reserve depletion occurring sooner than anticipated. Automatic stabilizers are particularly useful when proposed reform packages are insufficient to eliminate all actuarial deficits.[10]

[9] Indexation of pensions to consumer prices should not significantly affect projected pension system finances relative to the actuarial baseline estimates which roughly incorporated this assumption de facto in the current actuarial balance estimates.

[10] It would be important to design automatic adjustment mechanisms in such a way as to avoid large swings in benefits or contributions. For instance, automatic adjustment mechanisms that rely on the ratio of contributors to

(continued)

20. The proposed PSPS reform should aim to address multiple goals.[11] It should strive to rationalize overly generous benefits and align them more closely with the NIS to enhance fairness and reduce fiscal costs. Additionally, introducing transition arrangements for current contributors would help them adjust.[12] A comprehensive reform package may include indexing benefits to prices instead of to wages, aligning PSPS retirement age with NIS to 65 years, reducing the PSPS replacement rates to make them complementary rather than duplicative to the NIS, and closing the PSPS to new entrants. Staff qualitative assessments suggest that such measures could reduce pension costs by 40 percent or more over the next 20–50 years, with initial savings realized within 2–3 years of implementation. Alternatively, if broad reform proves unfeasible, reducing pension benefits and introducing a 5 percent employee contribution may be considered.

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benefit recipients (a measure used in Germany to adjust benefits) would create large swings if economic activities collapse (e.g., due to natural disasters or pandemics).

[11] One argument for additional government pensions is to compensate public sector workers because their salaries are lower than they could earn in the private sector. Nevertheless, in St. Vincent government wages appear generally on average higher than private sector wages for comparable duties. Even if this was the case, compensating public sector workers directly based on careful analysis of public-private earning differentials is a much more efficient way to address this problem than a noncontributory duplicative pension scheme.

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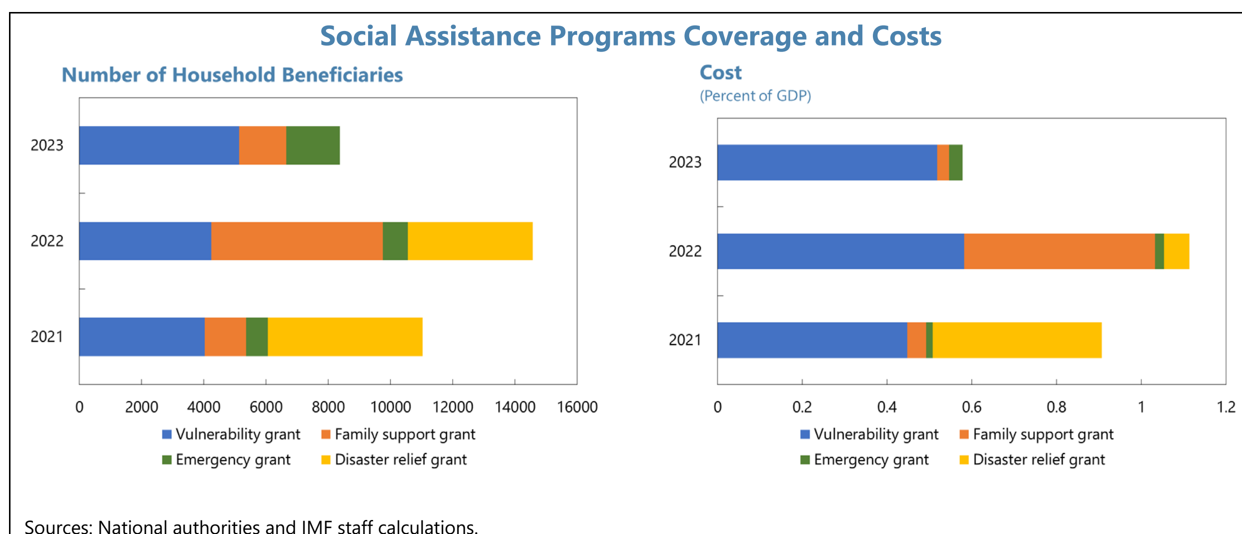
Annex V. Strengthening the Social Assistance System

The social assistance system in St. Vincent and the Grenadines help alleviate poverty and support the vulnerable. They have also played a key role in providing emergency supports including after recent pandemic and volcanic eruptions. This annex discusses recent and ongoing efforts and policy recommendations to strengthen the country's social assistance system. Key recommendations include: (i) continue to build a digitalized and centralized information infrastructure; (ii) improve targeting; and (iii) strengthen the social safety net through policy coordination.

1. **The social assistance system in St. Vincent and the Grenadines is mandated to alleviate poverty, provide support and services for marginalized groups especially persons with disability and the elderly.** It provided broad-based emergency supports during the pandemic and volcanic eruptions recovery periods and helped protect vulnerable groups.

2. **The authorities have made progress on improving the efficiency of the social assistance system since the pandemic.** The efforts include program streamlining, recertification, and digitalization. As part of the pandemic response package in 2020, 17 pre-pandemic programs were consolidated to three grant schemes under the umbrella of a flagship Public Assistance Program. The three grants—vulnerability grant, family support grant, and emergency grant—provide cash and in-kind transfers on a regular and emergency basis. In addition, emergency supports after the volcanic eruptions were provided through a disaster relief grant (text figure).[1] Recertification was implemented to identify beneficiaries under the new grant structure. The delivery of cash transfers was updated to a digital payment method. In addition, financial literacy training was provided to program recipients. With WB support, the authorities set up a new Social Assistance Information Management System (SAIMS). They are working on expanding the coverage of households in the system to form a national household registry.



Sources: National authorities and IMF staff calculations.

[1] The four grants covered nearly 1/3 of the households in 2022.

3. Efforts are ongoing to update benefit rules and legislation. The country's vulnerability index is being updated. The new index combines both income and vulnerability criteria. The income cutoff updates the poverty line from a 2008 poverty assessment with cost-of-living adjustments. The vulnerability classification takes a multi-dimensional approach and incorporates demographic and geographic classifications such as elderly, people with disability, families with school-age children, families with a single mother, unemployed individuals, and households in disaster zones. Efforts are underway to update the Social Protection Strategy, the Social Assistance Bill, and the Elderly Act, and to formulate the People with Disabilities Act.

4. A stronger post-pandemic social assistance system can be built on recent progress. Policy priorities should be given to improving the delivery of social assistance while preserving fiscal space. Continued efforts are needed to modernize and digitalize social assistance delivery. Cross-country evidence suggests that digital technology allows for better identification and verification of beneficiaries, reporting, and information management. It also limits leakage related to fraud and duplication.[2] The authorities' recent effort to set up the SAIMS provide a foundation for reaping the full benefit of digitalizing social assistance services. For example, a digitalized system can help speed up the process of beneficiary registration and verification and help reduce application wait time. Building on this data infrastructure, further efforts could be made to establish and digitalize a national household registry based on periodic household surveys and poverty assessments. Such information is vital to identify gaps in program coverage and adequacy, and to improve targeting.

5. Targeting is one of the most important policy decisions. The country's vulnerability to economic and natural disaster shocks implies that the demand for social assistance is high despite limited fiscal space. As is common in the ECCU, an overall lack of poverty and vulnerability data is a constraint for the policy design for targeting. The country has relied on demographic/categorical targeting (e.g., targeting children, elderlies, and people with disabilities) and hybrid targeting (e.g., combining an income limit with a vulnerability scoring system based on multiple sociodemographic criteria). Some forms of geographic target—with beneficiaries limited to defined geographic areas—have been used in responses to natural disasters. Staff analysis shows that data on within country income disparities could be employed to improve targeting. For example, information on parish-level average income could be used to allocate administrative and program resources proportionally to areas in need. Such information could also serve as proxy for hard-to-verify information (e.g., informal income) and be incorporated into current programs that rely on demographic/categorical and hybrid targeting methods. Policies that take into account income disparities across parishes can achieve better targeting than uniform policies for a given degree of program coverage. They can also improve the tradeoff between improving targeting and increasing program coverage.[3]

6. The social protection framework should be considered holistically. Social assistance programs should work in coordinate with social insurance and labor market policies to reduce

[2] Sources: IMF (2018) "Digital Government", Chapter 2 in April 2018 Fiscal Monitor: Capitalizing on Good Times; IMF (2020) "Digitalization in Sub-Saharan Africa", Chapter 3 in Sub-Saharan Africa Regional Economic Outlook.

[3] See "Harnessing Satellite Data to Improve Social Assistance Targeting in the Eastern Caribbean", forthcoming IMF Working Paper by Sophia Chen, Ryu Matsuura, Flavien Moreau, and Joana Pereira.

poverty and provide a strong safety net. The authorities' efforts are ongoing to provide social assistance program beneficiaries trainings on job life skills and vocational skills as well as internship and access to job opportunities.[4] These efforts should be complemented by strong active labor market policies (ALMPs). Targeted ALMPs such as subsidies for youth training, employment centers, and other schemes to provide on-the-job training can help enhance employability and increase the earnings of the vulnerable.[5] Unemployment insurance can complement social assistance programs in providing a safety net during unemployment. The country's temporary unemployment insurance during the pandemic played an important and complementary role to social assistance programs. The unemployment insurance scheme planned to be introduced in 2025 has potential implications on labor market and social assistance outcomes and should be monitored. Coordinated policy efforts on unemployment insurance, social assistance programs, and ALMPs can help support a strong labor market and support inclusive growth.

[4] A pilot program in collaboration with UNICEF in 2021 provided skills development programs to cash transfer beneficiaries. Topics include money management, child abuse and domestic violence abuse awareness, parenting education, and personal skills development. The Ministry of National Mobilization also partners with the Ministry of Agriculture to formulate a national WE CAN Project designed to create employment access in agriculture and agricultural products.

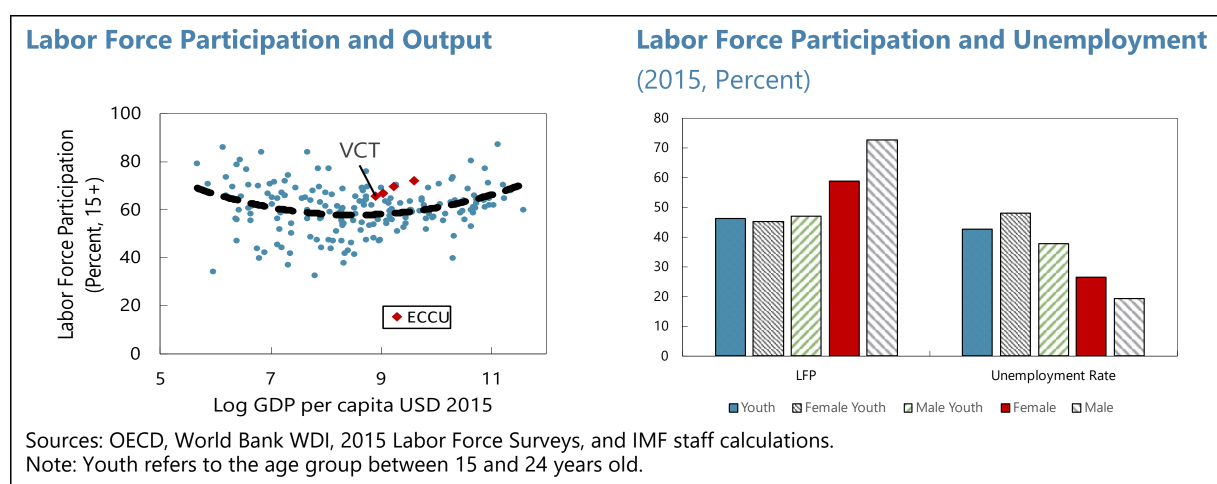
[5] See "ECCU: Staff Report for the 2024 Article IV Consultation" and "Designing Labor Market Institutions in Emerging Market and Developing Economies: Evidence and Policy Options" IMF Staff Discussion Note 2019.

Annex VI. Investing in Human Capital: Labor Market and Education Policies

A strong labor market with high participation and skills attuned to the needs of the changing economic environment is crucial for inclusive and sustainable growth, especially in view of the rapidly ageing population. While the labor market recovered robustly from the pandemic and 2021 volcanic eruptions, the shocks have had a lasting impact on the employment of young men. Despite achieving higher education attainment, women on average exhibit lower participation and employment rates than men, likely reflecting reduced incentive and/or barriers for participation and skill mismatches. The government has launched a comprehensive education reform with a special emphasis on tertiary and vocational education and training to upgrade human capital and reduce skills gaps. In this context, this annex takes stock of the labor market performance before and after recent shocks, presents an overview of the education and training systems and ongoing reforms, and discusses additional policies to strengthen labor market performance, including by reducing gender and youth gaps.

A. Labor Market Landscape and Post-Pandemic Trends

1. The unavailability of updated labor force survey (LFS) or census data poses challenges in conducting comprehensive labor market analysis for St. Vincent and the Grenadines. While the latest available LFS dates from 2015, administrative data from the National Insurance Service (NIS) offer a more up-to-date view of the trends in the formal labor market. These data include yearly registered employment and wage data by sector, age, and gender, and are available through 2022. The NIS database covers employed and self-employed workers who pay social security contribution.



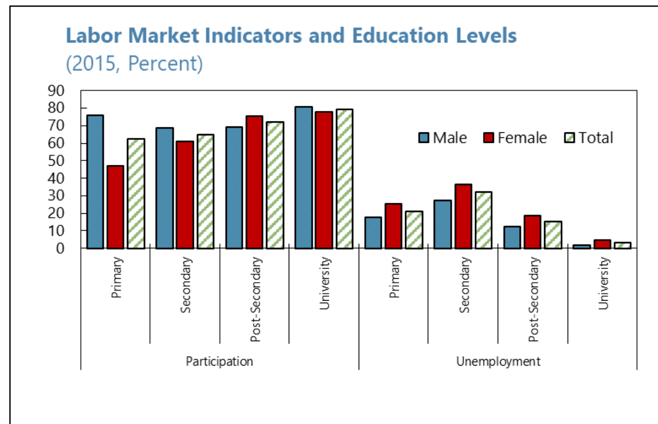
Sources: OECD, World Bank WDI, 2015 Labor Force Surveys, and IMF staff calculations.
Note: Youth refers to the age group between 15 and 24 years old.

2. The 2015 LFS indicates that VCT's labor market participation was broadly in line with peers, though women and youth[1] workers exhibited lower participation and employment

[1] Youth refers to the age group between 15 and 24 years old.

rates relative to prime-aged men. As of 2015, labor market participation rate was aligned with other ECCU peers and in line with its development levels. While women overall have higher education attainment, there were significant gaps in participation and employment rates for women and youth, likely reflecting reduced incentives for labor force participation and skill mismatches. Preliminary results from the 2022 LFS suggest an improvement in employment levels from 2015.

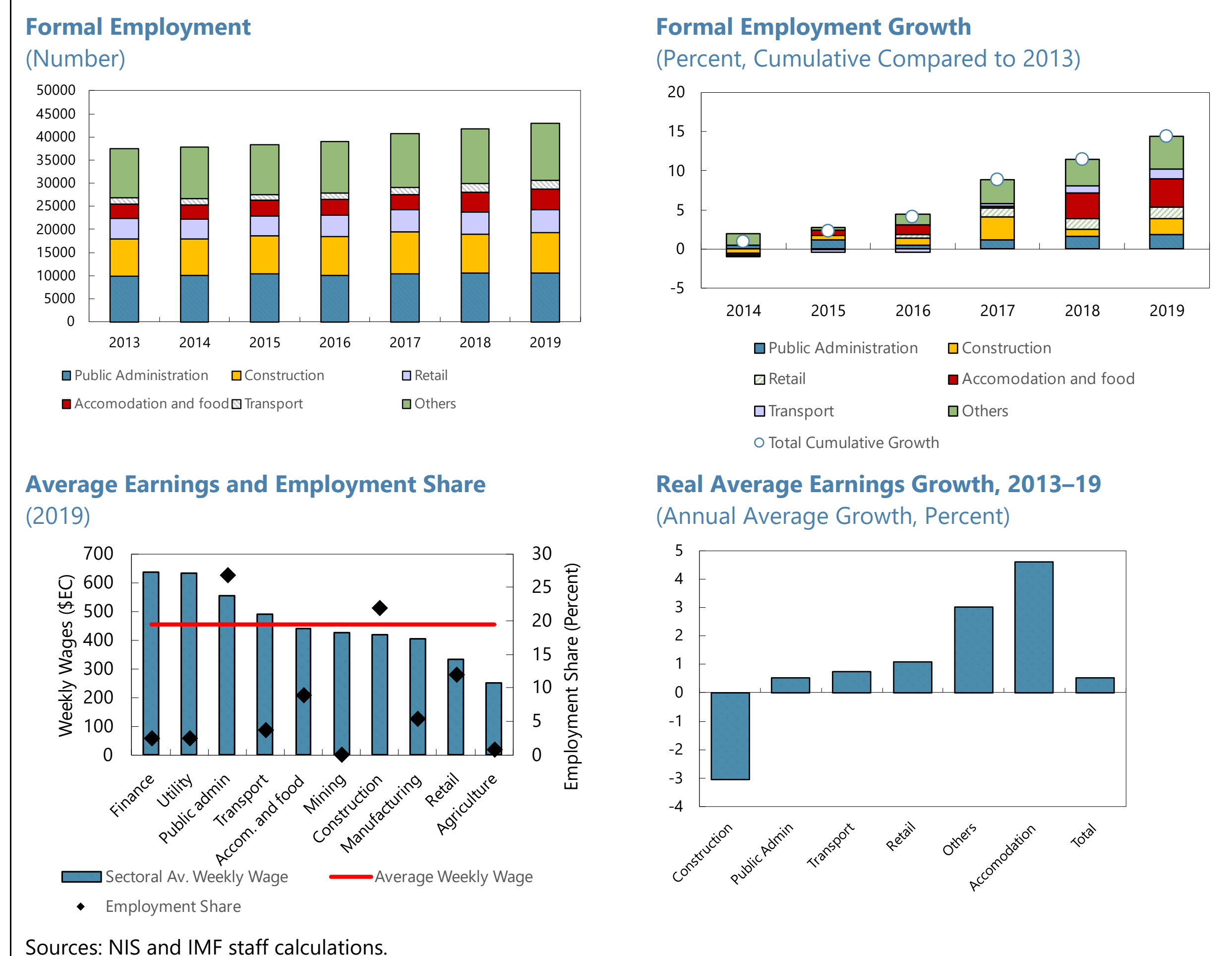
3. **The LFS results suggest that labor market outcomes improve with higher educational attainment.** Higher education levels were associated with higher participation and employment rates. Workers with tertiary education had the lowest unemployment for both women and men and exhibited lower gender gaps. Women's participation gaps were close to 40 percent for primary education levels, while narrowing (and in some cases reverting) for higher education levels. The elevated total unemployment rate was driven mainly by that for workers with primary and secondary education, while the women's unemployment gap was primarily explained by that for labor force with low education levels.



4. **Administrative data provided by NIS shed light on trends in formal employment and wages since 2015** (Annex VI, Figure 1). The formal employment grew by an annual average of 2.2 percent over the years prior to the pandemic, primarily supported by the hospitality industry and other services. Average reported earnings in 2019 were highest in finance, utility companies, and public administration. Average annual real earnings growth was at 0.5 percent during 2013-19. However, not all sectors experienced the same growth in average earnings, with the accommodation and food sector registered the highest annual growth rate of 4.6 percent over this period.

5. **Employment has fully recovered from the recent shocks but left lasting negative impact on young men** (Annex VI, Figure 2). The decline in formal employment in St. Vincent and the Grenadines following the multiple shocks was comparable to the real output contraction, with the private sector being hit harder. The full impact from the pandemic on the labor market materialized with a lag, likely reflecting businesses retaining their workers in the early stages of the pandemic but having to retrench as the pandemic got drawn out. Total formal employment has surpassed pre-COVID levels in 2022 supported by the recovery in tourism and higher demand in public and other services (e.g., IT services). According to the 2022 Labor Demand Survey (LDS), the labor demand is expected to continue increasing, driven by growing demand from construction projects. The 2022 LDS also reveals the top three industries with unmet labor demand as hospitality, health, and education, e.g., with accommodation and food services reported 9 percent of job vacancy left unfilled. The average real earnings were resilient in the aftermath of the shocks. Young men were the hardest hit. In particular, their employment in 2022 was about 9 percent below 2019, while young women's formal employment increased by 4 percent during the same period.

Annex VI. Figure 1. Formal Sector Employment and Earnings Before the Pandemic



Sources: NIS and IMF staff calculations.

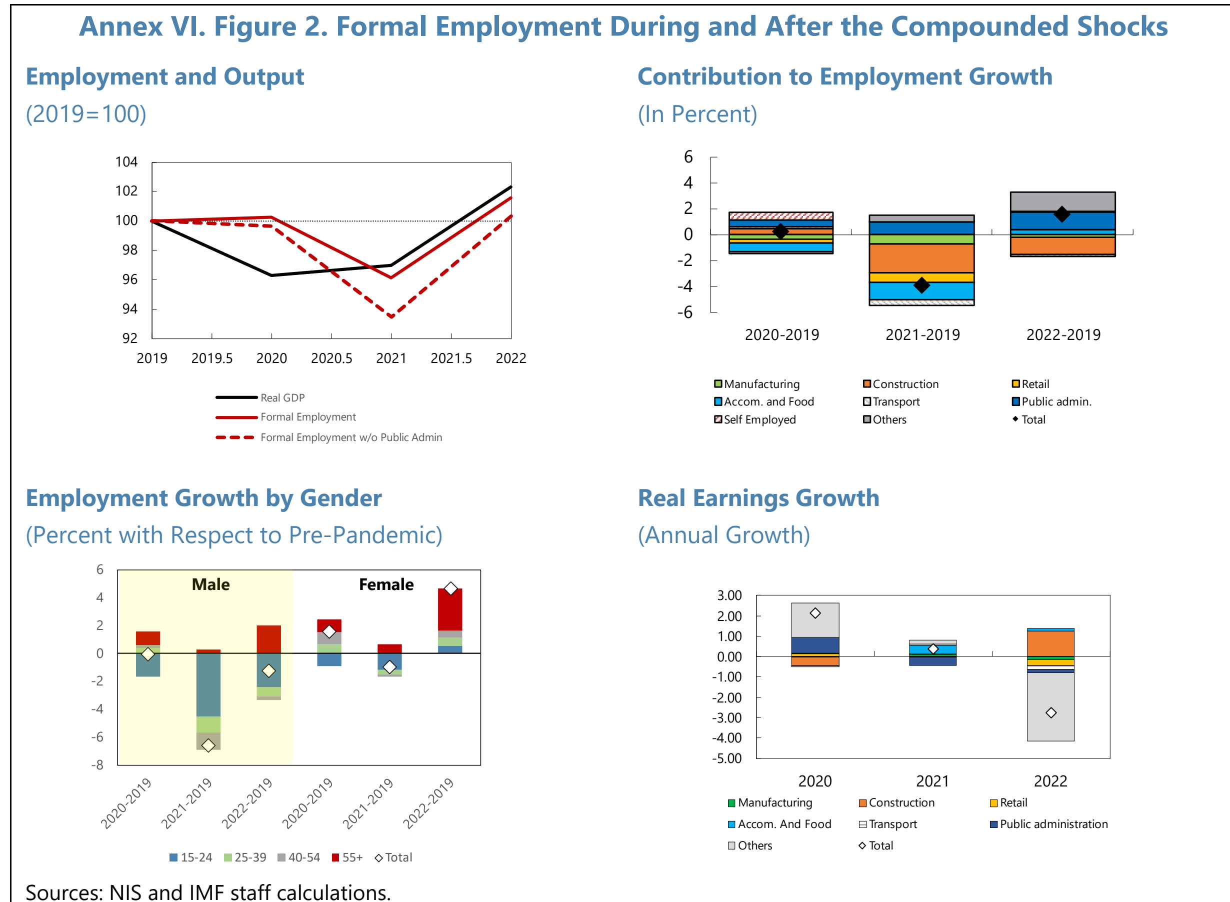
B. Investing in Education and Skill Training to Improve Labor Market Performance and Support Sustainable and Inclusive Growth

6. **Labor market outcomes critically depend on education attainments and skills of labor force and their responsiveness to market needs.** This puts premium on the ability of the education system to equip the labor force with the right skills, especially in the context of ample job opportunities from ongoing and upcoming significant investments. This section touches upon the authorities' efforts to develop and upgrade their education system and discusses options for further improvement.

7. **Investing in human capital has been at the forefront of the authorities' agenda for the past two decades, resulting in remarkable improvements in the education system.** Modeled after the British system, the education system consists of four levels: pre-primary which caters to children 2-4 years old, primary for 5-11, secondary for 12-16, and post-secondary/tertiary level. Universal access to primary education was achieved in 2001. At the secondary level, universal access

was introduced in 2002 and achieved in 2005.[2] Most of educational institutions are publicly funded. The tertiary level education comprises one local state-owned institution (St. Vincent Community College), a regional university (the University of West Indies Open Campus), and several foreign medical institutions that cater mostly to foreign students.[3] Over the past several years, there has been significant growth of technical and vocational training (TVET) programs providing training and certifications in a wide array of professions, with average spending on education during this period exceeding 5 percent of GDP, above the typical spending level of 4.5 percent of GDP observed in Caribbean peers.[4]

Annex VI. Figure 2. Formal Employment During and After the Compounded Shocks



Sources: NIS and IMF staff calculations.

8. Significant investment in primary and secondary education has led to substantial gains in key indicators, but continued efforts are needed to maintain these gains and strengthen pre-primary education (Annex VI, Figure 3). Since 2000, the expenditure per pupil has increased significantly and is currently close to the Caribbean average in PPP terms. Gross enrollment has

[2] See "Education for All: 2015 National Review."

[3] St. Vincent and the Grenadines Community College (SVGCC) is a local state-owned institution that provides post-secondary certifications and also has administers programs. The University of West Indies Open Campus offers several online degree programs. Foreign institutions include the American University that offers mainly medical (nursing and MD) programs and several medical colleges.

[4] See Caribbean Development Bank Country Engagement Strategy 2022-2026 for Saint Vincent and the Grenadines.

gone up significantly in secondary education from 70 percent to over 100 percent over the past two decades, and the net enrollment rate is currently above the Caribbean average. The share of trained teachers, who successfully completed a course in pedagogy, in secondary schools increased from an average of 45 percent during 2000-05 to 61 percent in the 2017–22 period. The pandemic wielded a major blow to learning, underscoring the need for addressing the remaining gaps. While the successful rollout of the Let's LEAP program[5] promises to train school leaders and teachers to assist students in overcoming the learning losses from the COVID-19, the pass rates on Caribbean primary exit exams in science and language skills have declined since 2020, likely reflecting the impact from pandemic- and volcanic eruption-related school closures. Moreover, there appears to be a secular decline in pass percentage in mathematics, an important subject that is a foundation for many other skills. These developments could hamper students' ability to participate in tertiary and TVET education thereafter. In addition, while the government has made significant efforts in establishing public preschool centers and providing free services, public preschool centers still account for a small share of total provisions and privately-owned centers are expensive. Partly reflecting the lack of affordable pre-primary childcare, the actual enrollment rate in preschool centers has been on the decline since 2020.

9. Vincentians' enrollment in tertiary education has been improving but remains low compared with that of peers (Annex VI, Figure 4). As of 2023, 2,157 students were enrolled in SVGCC and close to 1,000 students received tuition scholarships to pursue their tertiary study, with the majority attending the University of the West Indies Open Campus (2021/22 Education Statistical Digest). The foreign medical colleges with campuses on the island cater primarily for foreign students with only a few Vincentian students enrolled at some of these campuses. SVGCC's programs are largely limited to social sciences. A significantly higher share of students is studying abroad than peer countries, partly reflecting the limited offering of tertiary programs domestically which raises the bar for affordability. Gross annual enrollments of Vincentian students in tertiary education have increased over the past decades from 183 in 2001 to 502 in 2012 and a slight decline to 473 in 2022 (2021/22 Education Statistical Digest) but remain below Caribbean peers. Students who enroll into SVGCC as a share of those that have passed the Caribbean Secondary Education Certificate (CSEC) examination has fallen from 28 to 25 percent in the same period. The fall was driven mainly by men's absorption ratio falling from over 26 percent in 2015 to just under 20 percent in 2021. Women have done slightly better, moving up by half a percentage point to just over 29 percent.

10. The authorities have made significant strides in developing TVET and enhancing certification (Annex VI, Figure 4). In 2018, the Ministry of Education increased its emphasis on technical and vocational education, in part through a $14.5 million CDB project aiming to expand the reach and quality of vocational offerings nationwide (2018 Budget Address). Since then, there has been strong growth of Vocational Qualification (CVQs)[6] and National Vocational Qualification

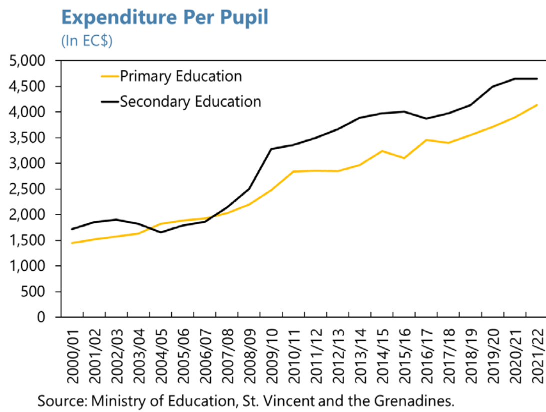
[5] The Learning Recovery and Enhancement Program (Let's LEAP) was launched in July 2021 and developed jointly by the Caribbean Community (CARICOM), the Caribbean Development Bank (CDB) and the Organization of Eastern Caribbean States (OECS).

[6] CVQ - Caribbean Examinations Council (cxc.org)

(NVQs) certifications through programs such as Youths and Adults training for Employment (YATE), Access to Another Nexus in Education and Workforce Development (ANEW), Skills for Youth Employment (SKYE), Youth Employment Service (YES), Offering National Support for Internship Training and Employment (ON-SITE) and others (Annex I). The Government has also partnered with stakeholders in the hospitality sector to develop a series of short certification courses that will also help to address shortages in skilled chefs, bartenders, landscapers, and tour guides.

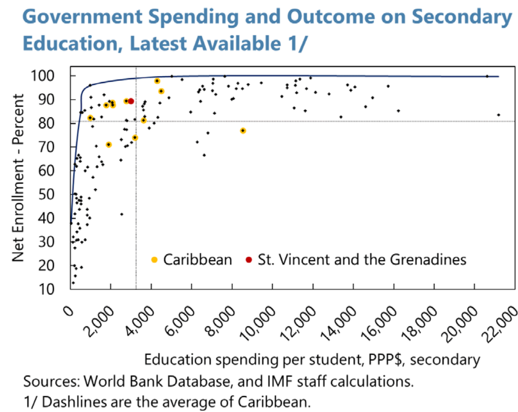
Annex VI. Figure 3. Selected Indicators on Pre-Primary, Primary and Secondary Education

Expenditure Per Pupil
(In EC$)



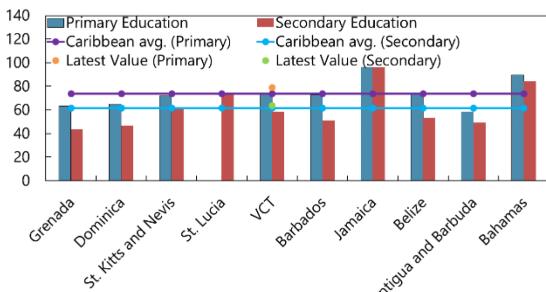
Source: Ministry of Education, St. Vincent and the Grenadines.

Government Spending and Outcome on Secondary Education, Latest Available 1/



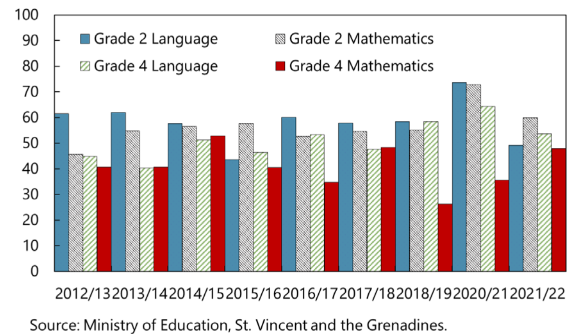
Sources: World Bank Database, and IMF staff calculations.
1/ Dashlines are the average of Caribbean.

Share of Trained Teachers 1/
(In Percent of Total Teachers, 2015-18 Avg.)



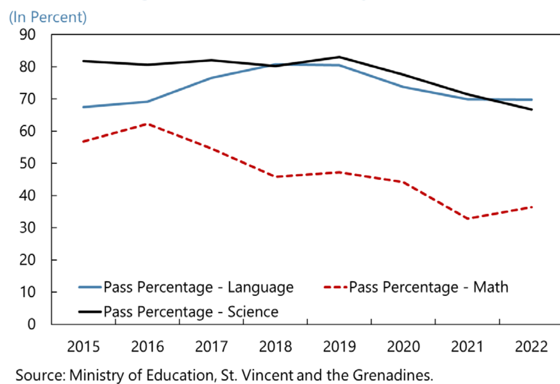
Sources: World Development Indicators, World Bank and Ministry of Education.
1/ Latest Value is for 2021/22.

National Mean Performance Per Subject in Grade-Wise National Assessment
(In Percent)



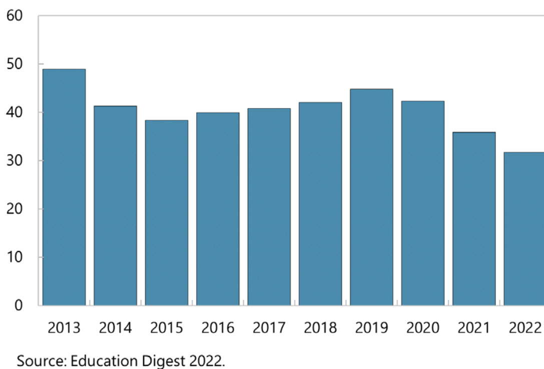
Source: Ministry of Education, St. Vincent and the Grenadines.

Pass Percentage in Caribbean Primary Exit Examinations
(In Percent)

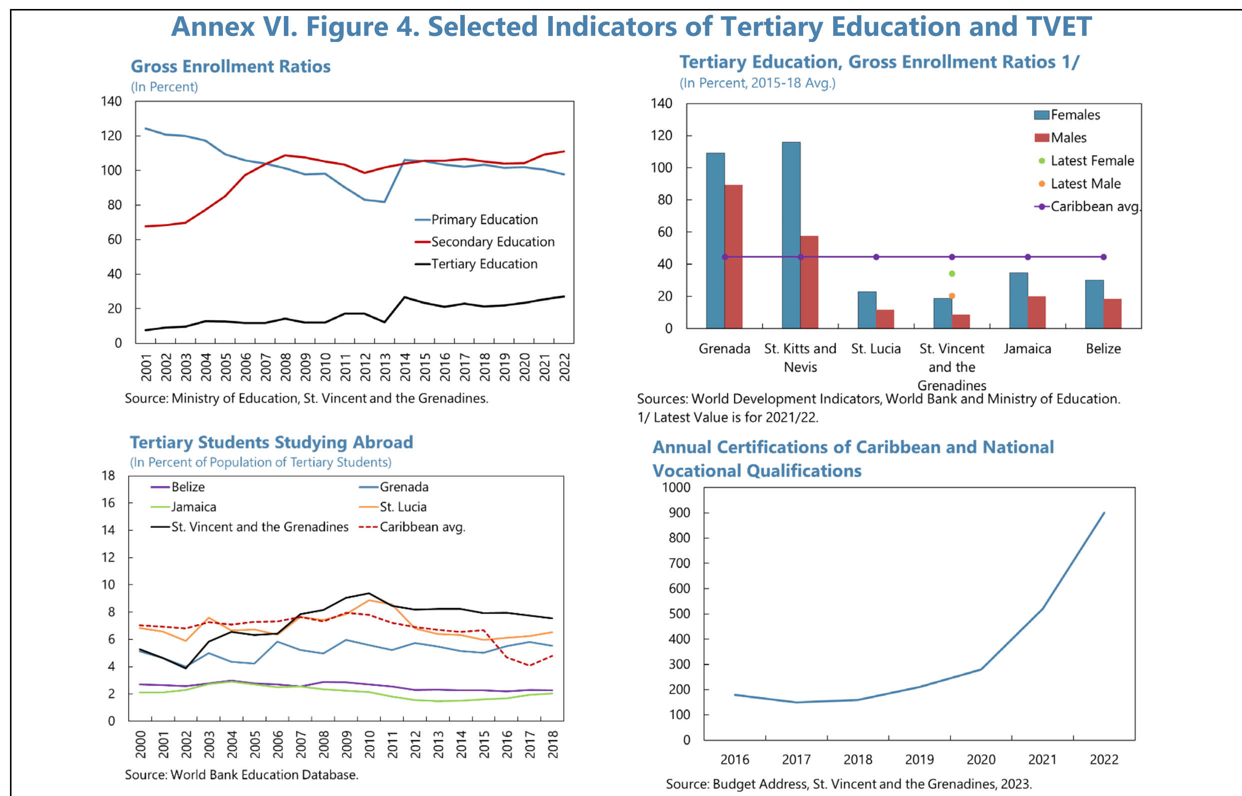


Source: Ministry of Education, St. Vincent and the Grenadines.

Actual Enrollment in Preschool Centers
(Enrollment OverTtotal 0-4 Population)



Source: Education Digest 2022.



11. Further development and strengthening of TVET programs will be instrumental to alleviate skills gap and equip the labor force with skills for the new opportunities. As the country seeks to harness the opportunities presented by large-scale investments, there is a growing disconnect between the skills currently available in the labor force and those required by emerging industries, e.g., technicians, engineers, nurses, and soft skills (2022 Labor Demand Survey). While these projects hold promise for economic growth, they necessitate an upgraded and adaptable labor force to meet evolving demands and to maximize economic benefits. The government should continue to improve the scope, coverage, and effectiveness of TVET programs, while consistently integrating the skill demands of the private sector to enhance their overall results. This should encompass partnerships with technical and vocational institutions to provide specialized training that aligns with the needs of the emerging sectors, such as construction, IT, renewable energy, and hospitality.

12. The government embarked on another comprehensive reform of education in 2022, focusing on the post-secondary education and integrating the youth into the labor market (Annex VI, Figure 5). On the primary/secondary level, the authorities' efforts focused on strengthening the teachers' training, promoting inclusive education,[7] and reducing gender gaps.[8] In

[7] The authorities implemented a pilot project, supported by the World Bank, to improve education inclusivity on the island of Bequia. Students with differentiated learning abilities will attend regular schools with their counterparts. (see https://www.gov.vc/images/pdf_documents/Inclusive_Education_Implemented_on_Bequia.pdf)

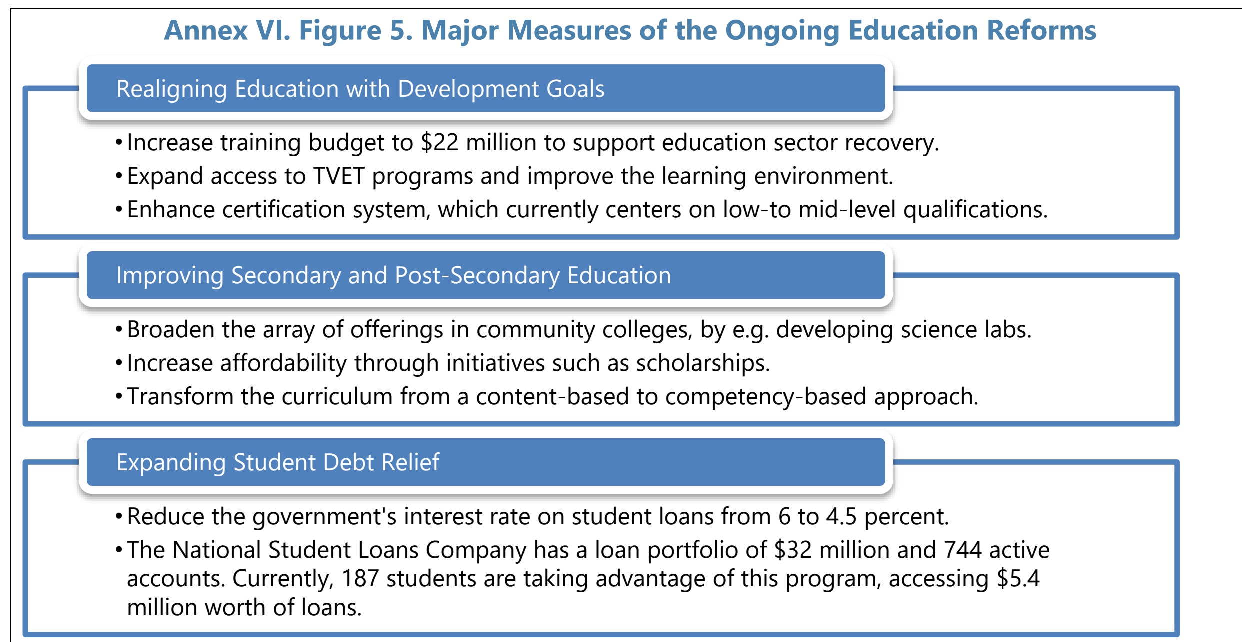
[8] In 2023, the Governor General launched intervention initiatives for girls who dropped out of school with an objective to return them to get back to the education system and/or provide skills necessary for integration into the labor market.

2022, the legislative framework was amended to place the responsibility for post-secondary and higher education with the Prime Minister and a new Department of Post-Secondary and Higher Education was established. The goal is to have at least one university graduate per household by the year 2030.[9] In addition to efforts to increase the affordability of college-level education, the authorities have also been working to increase the capacity and quality of TVET professional training and certifications, as reflected in the 2022–23 budgets.[10] Along with targeted TVETs, the authorities recently established Prime Ministerial Advisory Council on Youth,[11] to address issues affecting young people, particularly men whose employment has been significantly impacted by the pandemic and other recent shocks.

C. Upgrading Labor Market Policies and Institutions

13. The path towards boosting inclusive growth requires a good mix of policies, institutions, and investments that balance efficiency and equity. As the economy develops, labor market institutions should consider important trade-offs between efficiency and equity (Duval and Loungani, 2019). Well-designed labor market policies and institutions, including the unemployment insurance system, minimum wage policies, active labor market policies (AMLPs), as well as targeted social investments and strengthening institutions, will help reduce gender gaps and informality and improve participation, employment, and productivity outcomes.

Annex VI. Figure 5. Major Measures of the Ongoing Education Reforms



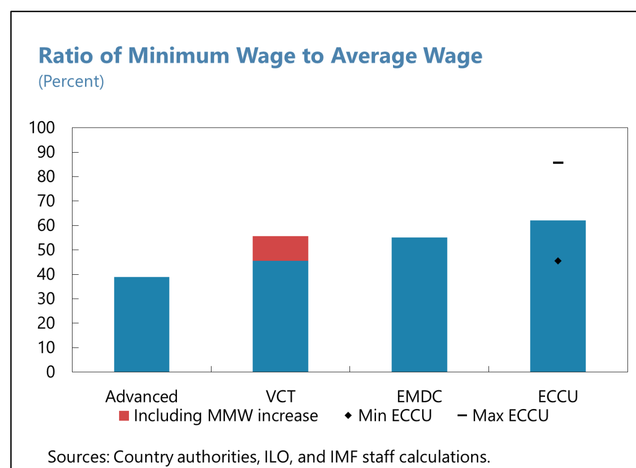
[9] See St. Vincent and the Grenadines Education Statistical Digest 2021-22, pages 182-183.

[10] Capital expenditure of about $7 million earmarked for 2023 will be dedicated to adding capacity for TVET instruction and refurbishing the existing institutes, which includes over $500,000 worth of TVET equipment for the Community College.

[11] Related news can be found at Council launched to advise on matters affecting young people (searchlight.vc)

D. Upgrading Labor Market Policies and Institutions

14. The path towards boosting inclusive growth requires a good mix of policies, institutions, and investments that balance efficiency and equity. As the economy develops, labor market institutions should consider important trade-offs between efficiency and equity (Duval and Loungani, 2019). Well-designed labor market policies and institutions, including the unemployment insurance system, minimum wage policies, active labor market policies (AMLPs), as well as targeted social investments and strengthening institutions, will help reduce gender gaps and informality and improve participation, employment, and productivity outcomes.



Sources: Country authorities, ILO, and IMF staff calculations.

15. Continued prudent setting of minimum wages generally aligned with productivity growth is essential to foster well-functioning labor markets. Minimum wages can have equity gains but if set too high, could have unintended adverse effects on the employment opportunities of less productive workers (e.g., less educated youth) and potentially hamper firms' competitiveness.[12] In view of the dramatic increase in cost of living in recent years and the unchanged minimum wage levels since 2017, the recent about 26 percent increase (effective from March 2024) bring VCT's minimum wage-to-average wage ratio broadly in line with that of peers. It is also within the range that the literature finds not to trigger major employment distortions.[13]

16. The authorities plan to introduce a permanent unemployment insurance and to modernize the labor protection legislation. Building on the experience of the recent two temporary protection schemes, the authorities have announced to establish a permanent unemployment insurance program by early 2025, with support from the ILO. While this is a welcome step in the right direction to strengthen the social safety net, a careful design is needed to ensure the scheme can balance adequate income support with job search incentives, is financial sustainable, fosters reallocation of workers to more productive jobs, and encourages formality in the labor market (Tatsiramos, 2009; Bardey, Jaramillo, and Pena, 2015). In addition, the authorities (i) have strengthened parental leaves in the updated Wage Regulations; and (ii) with WB support, are working on updating the Protection of Employment Act, which was last updated in 2003, to include

[12] The literature finds that minimum wages reduce inequality to a lesser extent when the share of informal workers in total employment is large, or when the starting level of minimum wage is high (Duval and Loungani, 2019). Differentiating minimum wages across population groups, regions, or industries—dimensions along which productivity varies—can help minimize this risk but may prove too complicated for small, emerging and developing economies due to limited administrative capacity.

[13] The literature typically places these "non-distortionary" ratios between 25 and 50 percent of the average wage and around 30 to 40 percent of median wages (IMF, 2016; ILO, OECD, IMF, and WB, 2012).

provisions to establish regulations of working conditions[14] during emergencies and pandemics, as well as defining remote work. These improvements in legislation are expected to encourage labor force participation, incentivize formal employment, as well as reduce gender gaps considering the lower participation and employment rate of women compared to men in despite of women's higher education attainment.

17. In addition, targeted social investments and institutional upgrade could raise labor force participation and reduce gender gaps, unleashing the full potential of labor force. Besides strengthening parental leave, IMF (2023) shows child and elderly care provisions are associated with higher labor force participation for women. Expanding and enhancing access to affordable and quality child and elderly care and reducing adolescent pregnancy is particularly pertinent to unleash the full potential of the relatively better-educated labor force of women in view of the country's distinctive geographical dispersion of employment[15] as well as the distinctive household structure, characterized by single-mom households (where children often reside with their mothers following parental divorces) accounting for over one quarter of total number of households. Considering that currently the top PIT rate applies at a low level of income, increasing the progressivity of the PIT will also help encourage labor force participation and formality. Furthermore, under WB support, three ministries participated in a pilot and out of them, the Ministry of Education and National Reconciliation and the Ministry of National Mobilization, Social Development, Family, and Gender Affairs have made tangible progress in incorporating gender considerations into their budget process in the 2024 budgeting process on gender-responsive performance reporting. The Ministries also outlined specific and time-bound key program actions aimed at improving overall program performance. The systematic collection and presentation of sex disaggregated data and initial stages of gender analysis done under these pilot programs provides the foundation for further in-depth gender analysis and informing policy making to improve labor market outcomes.

18. Continued efforts to strengthen ALMPs are needed to complement other efforts and facilitate employment, especially for youth. ALMPs, such as on-the-job training, intern- and apprenticeship, creating employment service centers, could promote training, facilitate the job search and matching process, and encourage the reintegration of long-term unemployed and inactive individuals (Ernst and others, 2022). The authorities are making efforts to better information systems and employment services to improve job search and matching processes, including on registration of job seekers, job placement, and job search training. They have also implemented initiatives aimed at integrating individuals into the workforce, including apprenticeship programs designed for the youth and efforts to link participants of training programs with potential employers (e.g., the ON-SITE Program and training programs designed by the Ministry of Tourism in collaboration with the private sector). Careful and continuous monitoring and evaluation of ALMPs

[14] It introduces the possibility of flexible arrangements decided by the employer with the consent of employees (for example, less hours and temporary salary reductions), as well as especial leave arrangements mutually defined by employers and workers during emergencies and pandemics.

[15] Job vacancies, when located in a different island, reduce the incentives for women to work considering childbearing tasks.

will be critical to ensure its effectiveness. This can be achieved by systematically tracking the labor market progress and the evolution of targeted programs.

E. Enhancing Data Availability

19. Improving data collection and analysis will help evidence-based labor market policymaking. Conducting and publishing regular labor force surveys and censuses will provide labor market outcomes' data to assess developments and inform policies. Collecting information on labor demand and labor supply—including the extent of informality and the characteristics of jobseekers and hiring firms—will help assess labor force and skill mismatches, which are important to tailor education policies and ALMPs. Collecting granular sex disaggregated data will help improve gender-responsive performance reporting and inform policies to reduce gender gaps.

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Annex VII. Data Issues

Annex VII. Table 1. St. Vincent and the Grenadines: Data Adequacy Assessment for Surveillance

As of May 2024

Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	C	B	B	C	B	B	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	B	B	B	B		
Granularity 3/	C		B	B	B		
			C		B		
Consistency			A	C		B	
Frequency and Timeliness	C	B	B	C	B		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.

1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.

2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).

3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

Rating	Description
A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Annex VII. Table 1. St. Vincent and the Grenadines: Data Adequacy Assessment for Surveillance (concluded)

Rationale for staff assessment. *Real.* GDP annual and quarterly figures are subject to significant delays. GDP by expenditure data is unavailable. CPI data is provided in a timely manner, in line with international best practices, with an updated albeit less disaggregated basket. The latest published labor force survey dates to 2015. The authorities are finalizing the processing of labor force survey conducted in 2022.
Fiscal. Reporting frameworks are not fully integrated, resulting in irregular data transmission and data are subject to revision. Publicly accessible debt information is hard to find systematically, which complicates internal data verification exercises.
External. Since 2017, annual balance of payments and international investment position (IIP) data are compiled and disseminated following the latest international standard methodology (BPM6), but external sector data suffers large unexplained errors and omissions and large historical revisions. The CARTC continues to assist ECCU countries in strengthening their compilation framework, including technical assistance to improve the accuracy of the business and visitor expenditure surveys. More granularity of administrative information is needed for analytical purposes. The response rate to the balance for payments surveys is low (about 40 percent). Strengthening collaboration of the nonfinancial private sector and the SO is warranted to improve data quality. Capacity constraints limit processing of the visitors' expenditure survey.
Monetary and Financial. The ECCB reports all core and 10 additional financial soundness indicators (FSIs) for commercial banks in St. Vincent and the Grenadines. The Financial Services Authority (FSA) compiles and publishes FSIs for credit unions and insurance companies quarterly, with some lag.

Changes since the last Article IV consultation. The Statistical Office introduced a new weight structure for CPI data in January 2023, based on 2018 Household Expenditure Survey, supported by the CARTAC 2021–22 TAs.

Corrective actions and capacity development priorities. The regional Data for Decision Making Project (2022–27) supported by the WB is expected to improve the infrastructure, processes and capacity of the National Statistical System and support compilation and dissemination of quality statistical data for country- and regional-level analytics. Building on significant progress made (including rebasing GDP and producing quarterly GDP), continued IMF capacity development through CARTAC technical assistance will be important to further strengthen data provision, especially for national accounts and balance of payments.

Use of data and/or estimates different from official statistics in the Article IV consultation. None.

Other data gaps. Data for assessing the impact of various physical and transitional risks associated with climate change.

Annex VII. Table 2. St. Vincent and the Grenadines: Data Standards Initiatives

St. Vincent and the Grenadines participates in the Enhanced General Data Dissemination System (e-GDDS) and first posted its metadata in September 2000 but is yet to disseminate the data recommended under the e-GDDS.

Annex VII. Table 3. St. Vincent and the Grenadines: Table of Common Indicators Required for Surveillance

As of May 2024

As of May 2024

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	St. Vincent and the Grenadines[8]	Expected Timeliness[6,7]	St. Vincent and the Grenadines[8]
Exchange Rates	May-24	May-24	M	M	D		...	
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Jan-24	Apr-24	M	M	M		1M	
Reserve/Base Money	Jan-24	Apr-24	Q	Q	M		2M	
Broad Money	Jan-24	Apr-24	Q	Q	M		1Q	
Central Bank Balance Sheet	Jan-24	Apr-24	Q	Q	M		2M	
Consolidated Balance Sheet of the Banking System	Dec-23	Mar-24	Q	Q	M		1Q	
Interest Rates[2]	Dec-23	Mar-24	D	D	M		NA	
Consumer Price Index	Apr-24	May-24	M	M	M		2M	
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Dec-23	Apr-24	A	A	A		3Q	
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Mar-24	Apr-24	M	M	Q		1Q	
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec-23	May-24	Q	Q	Q		2Q	
External Current Account Balance	Dec-22	Jan-24	A	Q	Q		1Q	
Exports and Imports of Goods and Services	Dec-23	Jan-24	Q	Q	M		12W	
GDP/GNP	Sep-23	Apr-24	Q	Q	Q		2Q	
Gross External Debt	Dec-23	May-24	Q	A	Q		2Q	
International Investment Position	Dec-22	Jan-24	A	Q	A		3Q	

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("I") irregular; and ("NA") not available.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

INTERNATIONAL MONETARY FUND

ST. VINCENT AND THE GRENADINES

June 20, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | Western Hemisphere Department

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FUND RELATIONS

(As of May 31, 2024)

Membership Status: **Joined: December 28, 1979; Article VIII**

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	11.70	100.00
Fund holdings of currency	11.20	95.73
Reserve Tranche Position	0.50	4.27

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	19.13	100.00
Holdings	9.69	50.68

Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
RCF Loans	20.08	171.62

Latest Financial Arrangements: None

Outright Loans:

Type	**Date of Commitment**	**Date Drawn/Expired**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
RCF	Jul 01, 2021	Jul 07, 2021	8.17	8.17
RCF	May 20, 2020	May 22, 2020	11.70	11.70
RCF	Aug 01, 2014	Aug 12, 2014	2.08	2.08

Projected Payments to the Fund[1]

	Forthcoming				
	2024	2025	2026	2027	2028
Principal	0.21	1.17	2.34	3.97	3.97
Charges/Interest	0.19	0.39	0.39	0.39	0.39
Total	0.40	1.56	2.73	4.36	4.36

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

Exchange Rate Arrangement: St. Vincent and the Grenadines is a member of the Eastern Caribbean Currency Union, with the Eastern Caribbean Central Bank (ECCB) as the common central bank, and the Eastern Caribbean dollar as the common currency. Since July 1976, the Eastern Caribbean dollar has been pegged to the U.S. dollar at EC$2.70 per U.S. dollar. The exchange rate arrangement is a currency board. St. Vincent and the Grenadines has accepted the obligations of Article VIII, Sections 2(a), 3 and 4 of the IMF's Articles of Agreement, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

Safeguards Assessment: Under the Fund's safeguards policy, the ECCB is subject to a full safeguards assessment on a four-year cycle. An update assessment was completed in August 2021 and found that the ECCB has maintained strong external audit and financial reporting practices that continue to be aligned with international standards, and further improvement in the capacity of the internal audit function. All but one safeguards recommendation have been implemented, including on further improvements in the capacity of the internal audit function and risk management. The outstanding recommendation on legal reforms to align the Agreement Act with leading practices is a work in progress.

Article IV consultation: St. Vincent and the Grenadines is on a 12-month cycle. The last Article IV consultation was concluded on November 14, 2022, by the Executive Board; Country Report 22/346.

Technical Assistance: Several missions from FAD, ICD, MCM, STA, supported by the Caribbean Regional Technical Assistance Centre (CARTAC), have visited the country. Below the compilation of the TA delivered during 2019-24.

Table 1. St. Vincent and the Grenadines: Fund Technical Assistance, 2019-24		
Start Date	**End Date**	**Mission Description**
Tax and Customs Policy and Administration		
Jun. 10, 2024	Jun. 21, 2024	Clearance process—strengthening capacity of data analysis.
Oct. 2, 2023	Oct. 13, 2023	Strengthening risk management.
Sep. 19, 2023	Oct. 2, 2023	Tax policy diagnostic.
Sep. 18, 2023	Sep. 29, 2023	Developing a change management program in customs.
Jul. 17, 2023	Jul. 28, 2023	Tax and customs operations.
Nov. 14, 2022	Nov. 25, 2022	Review of Customs Law.
Oct. 3, 2022	Oct. 14, 2022	(Hybrid mission) Support to implement a new ICT system.
Jul. 18, 2022	Jul. 29, 2022	Customs administration—strengthening customs control of petroleum imports.
Jul. 11, 2022	Jul. 22, 2022	(Virtual mission) Customs administration—review of customs law.
Apr. 25, 2022	Apr. 29, 2022	(Virtual mission) Customs administration—strengthening customs control of petroleum imports.
Mar. 28, 2022	Apr. 13, 2022	(Virtual mission) Customs administration—developing performance targets and KPI.
Oct. 25, 2021	Oct. 29, 2021	(Virtual mission) Customs administration—developing performance targets and KPI.
Oct. 18, 2021	Oct. 29, 2021	(Virtual mission) Strengthening customs control of petroleum imports.
Jun. 7, 2021	Jun. 11, 2021	Customs administration—review of customs law.
May 25, 2021	Jun. 28, 2021	Strengthening HQ functions—Client Relations Management (CRM) Program for large and medium taxpayers.
Mar. 22, 2021	Mar. 26, 2021	Customs administration—WAH strengthening risk management and PCA.
Jan. 27, 2020	Jan. 31, 2020	Customs administration—strengthening risk management.
May 15, 2019	May 19, 2019	Customs administration—strengthen risk management capacity and develop a trusted trader program.
Public Financial and Debt Management		
Jun. 17, 2024	Jun. 21, 2024	FY25 Debt Management Reform—Field Mission.
Apr. 15, 2024	Apr. 26, 2024	(Virtual mission) Strengthening governance arrangements—IT Support.
Nov. 6, 2023	Nov. 17, 2023	(Hybrid mission) Support to internal audit FY24.
Oct. 23, 2023	Dec. 1, 2023	Strengthening governance arrangements—IT support.
Sep. 11, 2023	Nov. 24, 2023	Strengthening cash management FY24.
Feb. 20, 2023	Mar. 10, 2023	(Hybrid mission) Training of IT officers for the Inland Revenue Department.
Jan. 17, 2023	Jan. 31, 2023	Diagnostic Public Investment Management Assessment (PIMA) and Climate PIMA FY23.
Oct. 24, 2022	Nov. 30, 2022	Strengthening disaster resilience FY23.

Start Date	End Date	Mission Description
Jul. 7, 2022	Aug. 5, 2022	Support to internal audit FY23.
Jan. 17, 2022	Apr. 29, 2022	(Virtual mission) Support IPSAS compliance FY22.
Oct. 1, 2021	Oct. 29, 2021	(Virtual mission) Strengthening SOEs FY22.
Sep. 1, 2021	Jan. 31, 2022	Strengthening the Fiscal Responsibility Framework FY22.
Jan. 20, 2020	Jan. 24, 2020	Preparation of an annual borrowing plan.
Dec. 16, 2020	Jan. 8, 2021	Fiscal Responsibility Framework.
Oct. 7, 2019	Oct. 9, 2019	Development of the regional government securities market.
Jul. 15, 2019	Jul. 26, 2019	Arrears management and returns processing.
Financial Sector Supervision and Stability		
Nov. 14, 2022	Nov. 18, 2022	MCMFC-financial crisis management.
Mar. 4, 2022	Mar. 15, 2022	(Virtual mission) Implementation of risk-based supervision across non-banks, follow-up mission.
Dec. 13, 2021	Mar. 31, 2022	(Virtual mission) Bank reconciliation FY22.
Nov. 12, 2020	Dec. 1, 2020	(Virtual mission) Follow-Up on risk-based supervision (RBS) and Development of Supervisory Competencies to Support an RBS approach.
Real and External Sector Statistics		
Sep. 25, 2023	Sep. 29, 2023	BOP/IIP—Improve source data.
Sep. 19, 2022	Sep. 23, 2022	BOP/IIP—improve source data.
Nov. 8, 2021	Nov. 12, 2021	(Virtual mission) BOP/IIP—improve source data.
Mar. 18, 2021	Mar. 31, 2021	(Virtual mission) National accounts—rebasing of GDP.
Mar. 15, 2021	Mar. 26, 2021	FY21 St. Vincent and the Grenadines real sector—national accounts.
May 3, 2021	Aug. 31, 2021	FY21 St. Vincent and the Grenadines real sector—national accounts.
Oct. 7, 2019	Oct. 18, 2019	National accounts statistics—compilation of SUT.
Sep. 16, 2019	Sep. 27, 2019	Consumer prices—review the HBS data.
Aug. 26, 2019	Aug. 30, 2019	BOP/IIP—enhance source data.
Jan. 28, 2019	Feb. 1, 2019	Quarterly GDP current price estimates.

FSAP: A joint IMF/World Bank team assessed the financial sector of the ECCU member countries in two missions: September 1–19 and October 20–31, 2003. The missions evaluated development needs and opportunities for the financial sector, identified potential vulnerabilities of markets and financial institutions, and identified risks to macroeconomic stability from weaknesses in the financial sector. The Financial System Stability Assessment (FSSA) was discussed by the Executive Board on May 5, 2004, and subsequently published on the IMF's external website, including the Report on the Observance of Standards and Codes (ROSC) on Banking Supervision.

RELATIONS WITH OTHER FINANCIAL INSTITUTIONS

(As of June 20, 2024)

World Bank WBG Finances - Country Details - St. Vincent and the Grenadines (worldbank.org)

Caribbean Development Bank Saint Vincent and the Grenadines | Caribbean Development Bank (caribank.org)

INTERNATIONAL MONETARY FUND

ST. VINCENT AND THE GRENADINES

June 20, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
Andrea Schaechter and Peter Dohlman (IMF) and Manuela Francisco and Oscar Calvo-Gonzalez (IDA)

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

St. Vincent and the Grenadines Joint Bank-Fund Debt Sustainability Analysis[1]	
Risk of external debt distress	*High*
Overall risk of debt distress	*High*
Granularity in the risk rating	*Sustainable*
Application of judgement	*No*

The debt sustainability analysis (DSA) indicates that St. Vincent and the Grenadines' public debt is sustainable but remains at high risk of distress for both external and overall public debt, broadly unchanged from the 2022 DSA assessment. The country has achieved a robust recovery from the pandemic and the 2021 volcanic eruptions. Real GDP increased by 3.1 percent in 2022 and is estimated to have increased by 5.8 percent in 2023, with output returning to its pre-pandemic level in 2022. While the headline fiscal deficit has widened in 2023 by 2.5 percent of GDP, compared to 2022, mainly due to temporary factors and the phasing of port-related spending, the underlying primary balance (excluding pandemic-, volcano-, and port-related spending) remained broadly unchanged. As such, total public and publicly guaranteed debt increased from 84.7 percent in 2022 to 87.1 percent in 2023—largely reflecting the phasing of port-related spending—and remains well above its pre-pandemic level and the regional debt ceiling of 60 percent, leaving limited fiscal space to deal with future shocks. Reflecting the sizable port modernization project (about 22 percent of 2023 GDP) and the planned modern hospital project (about 9 percent of 2023 GDP) as well as post-volcanic

[1] The latest published DSA for St. Vincent and the Grenadines can be accessed here. This DSA follows the Guidance Note of the Join Bank-Fund Debt Sustainability Framework for Low Income Countries, February 2018.

eruption reconstruction, public debt is expected to remain around the current level in the near-term, before starting to decline steadily in 2025 once these projects approach their completion.

The authorities remain committed to fiscal adjustment and reaching a central government primary surplus of at least 3 percent of GDP by 2026 to reach the regional debt target by 2035, through further strengthening tax administration and expenditure-side measures (e.g., containing the growth of wages and non-priority current spending and prioritizing capital programs). The adjustment, if fully implemented as planned, would underpin an improvement in the underlying primary balance to about 3¼ percent of GDP) by 2026. This would put the debt-to-GDP ratio on a downward path from 2025, and debt is deemed sustainable. Under staff's baseline scenario, the present value (PV) of public debt which is estimated to be 80 percent of GDP in 2023, is projected to steadily decline while breaching the indicative benchmark until 2031. The PV of external debt is projected to start falling from a peak of 56 percent of GDP in 2024 and would breach the indicative benchmark in most of the projection period until 2031. Reflecting the resilience of tax revenues, the external debt service-to-revenue ratio is projected to remain below indicative thresholds from 2023. Adverse scenarios suggest that the public debt path is subject to large downside risks, including from lower growth and natural disasters.

PUBLIC DEBT COVERAGE

1. **Public sector debt coverage is complete.** There are no data gaps. Public sector debt includes central government and, state-owned enterprise (SOE) debt (Text Table 1). There is no local government, and all SOE debt is guaranteed by the central government. Thus, the combined contingent liability tests exclude contingent liabilities from SOEs. As of end-2023, the outstanding stock of total public debt was EC$2.5 billion (87.1 percent of GDP), compared to EC$2.3 billion in 2022 (84.7 percent of GDP). Central government debt was EC$2.5 billion (85.9 percent of GDP) in 2023, compared to EC$2.2 billion in 2022 (83.2 percent of GDP), and SOEs debt was EC$0.03 billion (1.2 percent of GDP) in 2023, compared to EC$0.03 billion (1.5 percent of GDP) in 2022.[1] The authorities report no arrears to external or domestic creditors.

Text Table 1. Coverage of Public Sector Debt

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	
8	Non-guaranteed SOE debt	

BACKGROUND ON DEBT

2. **The composition of public debt is dominated by external debt** (Text Figure 1). The share of external debt in total public debt was about 71.3 percent in 2023, reflecting the authorities' continued debt management efforts to lengthen maturity while lowering borrowing costs through high reliance on concessional external loans.

3. **The external debt-to-GDP ratio was broadly unchanged in 2023 and remains dominated by multilateral loans.** Public sector external debt stood at 62.2 percent of GDP in 2023, broadly unchanged from 2022 (Text Table 2).[2] Public external debt continues to be mostly financed by multilateral and bilateral loans on concessional terms (70 percent and 20 percent of the total, respectively). The

Text Table 2. Public Sector External Debt

(Percent of total and percent of GDP, unless otherwise indicated)

	2021			2022			2023		
	Total	GDP	USD millions	Total	GDP	USD millions	Total	GDP	USD millions
Total	**100.0**	**65.7**	**584**	**100.0**	**62.1**	**615**	**100.0**	**62.2**	**673**
Multilateral	**62.7**	**41.2**	**366**	**67.2**	**41.8**	**413**	**70.2**	**43.7**	**473**
World Bank	34.7	22.8	203	35.0	21.8	215	34.1	21.2	229
CDB 1/	22.1	14.5	129	26.3	16.3	162	30.8	19.1	207
IMF	5.0	3.3	29	4.5	2.8	28	4.1	2.5	27
Other	0.9	0.6	5	1.3	0.8	8	1.3	0.8	9
Bilateral	**25.0**	**16.4**	**146**	**18.5**	**11.5**	**114**	**19.8**	**12.3**	**133**
Paris Club	1.5	1.0	8	0.8	0.5	5	0.5	0.3	4
Non-Paris Club	23.6	15.5	138	17.7	11.0	109	19.3	12.0	130
Private Creditors 2/	**12.2**	**8.0**	**71**	**14.3**	**8.9**	**88**	**10.0**	**6.2**	**67**

Sources: National authorities and IMF staff calculations

1/ Caribbean Development Bank

2/ Includes T-bills held by the Eastern Caribbean Central Bank (ECCB), regional banks, insurance companies, pension funds, among others.

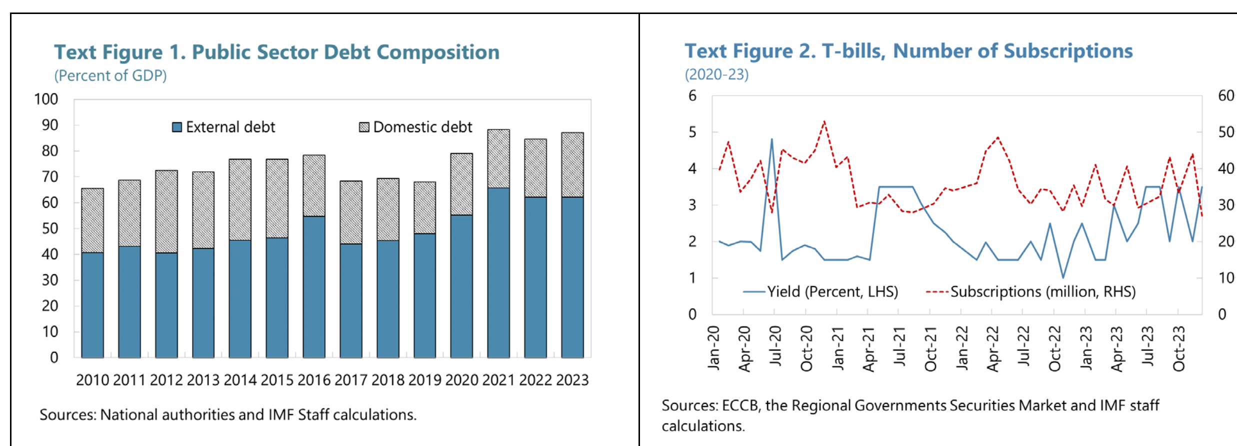
[1] There is an EC$0.3 billion limit on SOEs' total debt.

[2] Debt classification for both historical data and projections is based on a residency basis, treating local currency-denominated debt issued in the local debt market and held by non-residents as external debt.

remainder (10 percent of the total) is with private creditors, including regional banks, pension funds, and other regional financial institutions.

4. The majority of domestic debt is in the form of treasury bills and government bonds which are held by the domestic and regional financial system. Public sector securities accounted for 52.5 percent of total domestic debt in 2023. The remainder consisted of loans in local currency (19.4 percent of total), accounts payable, and overdraft. Most government securities are held by the buy-and-hold national and regional pension systems, insurance companies, and commercial banks, about half of which are public corporations. After several months of muted investor interest following the volcanic eruptions, access to the regional market resumed in late 2021 and interest rates have remained low (Text Figure 2).[3]

5. Sovereign-financial nexus is limited. The domestic financial sector's sovereign exposure is low, with the share of government assets at 9 percent in 2023. Over 80 percent of the projected gross financing needs over 2024–26 are expected to be financed by medium- and long-term loans on concessional terms with an average interest rate below 4 percent.



Text Figure 1. Public Sector Debt Composition (Percent of GDP)

Sources: National authorities and IMF Staff calculations.

Text Figure 2. T-bills, Number of Subscriptions (2020-23)

Sources: ECCB, the Regional Governments Securities Market and IMF staff calculations.

BACKGROUND ON MACRO FORECASTS

St. Vincent and the Grenadines has achieved a robust recovery from the pandemic and the 2021 volcanic eruptions. Real GDP increased by 3.1 percent in 2022 and is estimated to have increased by 5.8 percent in 2023, with output returning to its pre-pandemic level in 2022. The favorable outlook is shaped by large public and private investment projects and their potential impact on the growth potential, notably the construction of the climate-resilient port and hospital and the Sandals Resort. The outlook is subject to significant uncertainty and risks, including commodity price volatility, an abrupt slowdown in key source markets for tourism, delays in investment projects including due to lingering supply chain disruptions and unforeseen project costs, and the ever-present threat of natural disasters and climate change.

[3] Short-term borrowing from the Regional Government Securities Market (RGSM) has steadily declined in recent years reflecting the government's debt management efforts to lengthen the maturity. Short-term RGSM borrowing represented 40 percent of total RGSM borrowing as of July 2023. The average short-term interest rate remained low at 3 percent as of December 2023.

A. Developments in 2022–23

6. The economy rebounded strongly in 2022–23. Growth reached 3.1 percent in 2022 and is estimated to have accelerated to 5.8 percent in 2023 thanks to the robust tourism recovery and substantial investment on both private and public sector sides. Tourism has continued a steady recovery, as stayover arrivals reached 96 percent of the pre-pandemic levels by December 2023, reflecting a significant improvement in airlift.

7. Growth was slightly weaker than at the 2022 Article IV consultation for 2022–23. The lower growth in 2022 reflected a more front-loaded recovery in 2021 and sluggish recovery in the agriculture sector due to the lingering impact of volcanic eruptions. This continued into 2023 and coupled with historic-high temperature caused lower-than-expected agriculture and fisheries production.

8. The overall fiscal deficit widened in 2023 mainly due to temporary factors and the phasing of port-related spending. At 11.7 percent of GDP, the overall deficit in 2023 was about 2½ percent of GDP higher than in 2022 and about 5½ percentage points higher than anticipated in the 2022 Article IV consultation. The worse-than-expected fiscal outturn in 2023 reflected mainly one-off tax reductions and refunds,[4] lower-than-expected grants, and higher capital expenditure, as well as to a small extent lower-than-expected collection on corporate income tax arrears and import duty due to reporting delay. These factors are expected to largely reverse from mid-2024. Meanwhile, the government continued to be prudent on current spending and prioritize capital spending on reconstruction and critical infrastructure projects including the port modernization project. The baseline estimates and projections also incorporate the agreed prudent public sector wage growth for 2023–25, which would reduce the wage bill in percent of GDP, and announced changes to income taxes, with the latter as a continuation of government's efforts to lower the income tax burden and bring it closer towards the regional averages.[5] As such, after excluding pandemic-, volcano-, and port-related spending, the underlying primary balance improved by about 0.1 percent of GDP in 2023. The public debt increased from 84.7 percent of GDP in 2022 to 87.1 percent of GDP in 2023, largely reflecting the phasing of port-related spending and borrowing.

B. Outlook

9. Baseline projections include three major ongoing capital investment projects from both the public and private sides that significantly affect the macroeconomic outlook.[6]

[4] These include mainly VAT refunds and import tax concessions to the Sandals Resort on its construction as well as a 50 percent duty reduction on new imported tires until June 30, 2024.

[5] The public sector wage negotiation concluded in fall 2022 implies a cumulative wage growth of 7 percent over 2023–25. The recently announced tax policy changes include (i) a reduction of the top personal income tax (PIT) and corporate income rate from 30 percent to 28 percent; and (ii) an increase of the standard PIT deductions from EC$20,000 to EC$22,000 effective in January 2023 and from EC$22,000 to EC$25,000 effective in January 2024, with an estimated total annual cost of about 0.6 percent of GDP. The authorities also introduced offsetting measures in 2023 and 2024 budgets including an increase in user fees for some services, e.g., airport service charge, drivers' license fees, motor vehicle license fees, and electrical inspect fees.

[6] Growth impact from these projects is estimated using conservative output multiplier assumptions. While the current cost estimates of infrastructure projects include a buffer for further price increase, sharper-than-expected increase in global prices imply risks of further increases in project costs, adding pressure on public finances.

- **The climate-resilient port modernization project.** The existing port was built more than 50 years ago, raising capacity and safety concerns. The port modernization project, a key strategic project to strengthen resilience to natural disasters, will improve port capacity and efficiency. The cost of the port modernization project is about 22 percent of 2023 GDP and is financed by a combination of grants from the United Kingdom and loans from the Caribbean Development Bank (CDB, about US$130 million) and from bilateral creditors at similar terms. Baseline projections are based on the signed construction contract where the construction was launched in May 2022 and are scheduled to be completed in 2026. Construction of the project is well on schedule with more than half of the expected capital spending executed through 2023.

- **A new climate-resilient hospital.** The baseline includes construction of a modern hospital during 2024–27, which is somewhat delayed compared to the original schedule of 2023–25 envisaged during the 2022 Article IV consultation due to design revisions by the World Bank (WB),[7] as the old one is prone to floods. The new hospital has an estimated total cost of about 9 percent of 2023 GDP, of which the WB is expected to finance around two-thirds of the total at concessional terms, with the remaining financing expected from multilateral and bilateral creditors at similar terms. The majority of the capital spending is scheduled to materialize in 2025–26.

- **Hotel projects.** Several hotel projects are ongoing, including the Sandals Resort opened in March 2024, the Holiday Inn construction, which started in 2022 and is expected to be completed by 2024, and the Marriot, which is expected to start in 2024.

10. The near-term (2024–25) outlook is slightly better than at the 2022 Article IV consultation. A post-volcanic eruption recovery in agriculture, further growth of tourism, and strong public investment would support growth of 4.9 percent in 2024 and 3.5 percent in 2025. Stayover arrivals are projected to reach 120 percent and 135 percent of the pre-pandemic level in 2024 and 2025 respectively, supported by higher airlift and the expected opening of several new resorts that will significantly expand tourism capacity. Growth will also be supported by the launch of construction of a new hospital and continued work on the new port. Inflation is projected to decelerate to 3.4 percent in 2024 and 2 percent in 2025, mainly on account of lower imported inflation. The current account deficit (CAD) is expected to narrow gradually from 17½ percent of GDP in 2023 to about 14 percent of GDP in 2025 as several hotel projects finish, and the port project is close to completion.[8] Imputed international reserves are projected to remain at around 5 months of projected imports of goods and services, supported by direct investment and external financing.

11. Over the medium term (2026–29), economic prospects are favorable. Staff project growth to go back to potential in 2026. Inflation is projected to stay at 2 percent in the medium term considering the easing of U.S. inflation to its steady-state level and with the projected normalization of global fuel and food

[7] Construction of the hospital is now expected to start in 2024Q4, with the retention work likely to spill over into 2027.

[8] While improving, the balance of payments data still suffers quality and coverage issues and is subject to errors and large revisions.

prices.[9] The CAD is projected to narrow as the tourism sector continues to develop and construction projects are completed. In the medium term, net FDI flow is expected to subside to historical trend and the imputed reserve coverage would stabilize at around 5 months of imports.

12. Long-term (2030–44) projections assume that the economy expands at its potential growth rate of 2.7 percent, in line with the 2022 Article IV consultation. The potential growth incorporates an increase in tourism sector capacity supported by the ongoing tourism projects and unlocking benefits from the new airport, as well as a strengthening of the primary sector, benefiting from the authorities' recent and ongoing efforts with broad-based structural reforms aimed to improve productivity and competitiveness.[10] Inflation is projected to remain at 2 percent, in line with the U.S. inflation. The CAD is projected to remain at the level implied by fundamentals and desirable policies, mostly financed by net FDI flows.

13. Risks to the outlook are tilted to the downside. Commodity price volatility, and a sudden slowdown in key source markets for tourism, could hurt growth through renewed increases in food and fuel prices, tourism, and a decline in FDI. Delays in the implementation of investment projects and unforeseen rises in costs could create a drag to economic activity. The country remains highly susceptible to extreme weather events driven by climate change. On a positive note, stronger-than-projected tourism inflows and agriculture sector recovery could enhance growth and improve the external position.

14. Fiscal assumptions under the DSA baseline scenario are as follows (Text Table 3).

- **Primary balance.** While the public sector primary deficit in 2024 is projected to be lower than the 2022 Article IV forecast, the 2025 primary deficit is expected to be somewhat higher than previously foreseen, mainly on account of the updated spending path, including delayed outlays on the new hospital project.[11] Excluding the volcano-, and port-related spending, the primary surplus would be 2.1 percent and 3.4 percent of GDP in 2024 and 2025 respectively, compared to the surpluses of 2.2 percent and 3.1 percent of GDP respectively projected during the 2022 Article IV consultation. Once the two large capital projects are completed, the primary surplus is forecast to remain around 3 percent of GDP, in line with assumptions under the 2022 Article IV DSA.

- **Financing.** As the government continues its debt management efforts to lengthen the maturity and lower financing costs, most new financing is expected to come from multilateral and bilateral donors at concessional terms, maintaining an average grant element of new debt at 35 percent during 2024–34. Projected external loan disbursements for 2024–34 include those from existing loan contracts (US$307 million) and new loans (US$167 million). The former includes the

[9] St. Vincent and the Grenadines (VCT) is a member of the Eastern Caribbean Currency Union, and the exchange rate peg against the U.S. dollar (EC$2.7 per dollar) provides an anchor for inflation. The U.S. price level is a significant determinant of VCT's inflation given that about 40 percent of VCT's imports are from the U.S.

[10] The potential growth estimate remains on the conservative side and does not incorporate the impact of the port project.

[11] The 2022 primary balance also reflects the budgetary impact of temporary policy measures to mitigate the rising living costs as regional conflicts compounded existing supply chain disruptions and transportation bottlenecks.

CDB and other loans for the port project, the WB and Organization of the Petroleum Exporting Countries loans for the hospital, financing from the Saudi Fund for Development for education and other projects, WB financing for the Volcanic Eruption Emergency Project (VEEP), Regional Disaster Vulnerability Reduction Program, tourism competitiveness project, agriculture competitiveness program, water and energy sectors, and the construction of government owned hotels, among others.

- **Climate resilience costs.** St. Vincent and the Grenadines experienced frequent natural disasters, with an estimated average annual fiscal cost of 1.1 percent of GDP during 1980–23. The baseline projections incorporate the Contingencies Fund to cover 0.7 percent of GDP annually of the expected fiscal cost, with the remaining financing coming from reallocations in current spending on goods and services and transfers. Continuing global inflationary pressure could increase costs of rebuilding the capital stock after natural disasters and thus warrants considering a higher accumulation of the Contingencies Fund.

Text Table 3. Selected Macroeconomic Indicators Assumptions

	2015-19 (avg)	2022	2023	2024	2025	2026	2027	2028	2029	2030-42 (avg.)
		In percent of GDP, unless otherwise mentioned								
2022 Article IV										
Nominal GDP (EC$, million)	...	2,556	2,826	3,022	3,189	3,341	3,500	3,666	3,841	...
Real GDP growth (percent change)	2.5	5.0	6.0	4.8	3.5	2.7	2.7	2.7	2.7	2.7
Inflation (avg. percent change)	0.7	5.8	4.6	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Current account balance	-10.5	-26.5	-27.6	-19.8	-13.8	-10.2	-9.0	-9.0	-9.0	-9.0
CG: Overall balance	-1.0	-8.2	-6.1	-8.7	-2.4	0.6	1.0	1.1	1.3	1.2
CG: Primary balance	1.2	-5.7	-3.4	-6.0	0.3	3.0	3.2	3.2	3.2	2.6
CG: Underlying primary balance 1/	1.2	1.6	4.6	2.2	3.1	3.4	3.2	3.3	3.4	2.5
Port project	0.1	4.4	6.9	7.3	2.9	0.3	0.0	0.0	0.0	0.0
Hospital project	0.0	0.0	1.9	3.6	3.4	0.0	0.0	0.0	0.0	0.0
PS: Overall balance	-0.9	-8.0	-5.8	-8.8	-2.1	0.8	1.0	1.2	1.4	1.4
PS: Primary balance	1.7	-5.8	-3.1	-6.0	0.5	3.3	3.3	3.3	3.3	2.7
Total public debt	74.6	87.8	88.0	89.2	87.8	83.2	79.2	75.2	71.3	...
Current										
Nominal GDP (EC$, million)	...	2,671	2,924	3,168	3,344	3,501	3,666	3,838	4,018	...
Real GDP growth (percent change)	2.5	3.1	5.8	4.9	3.5	2.7	2.7	2.7	2.7	2.7
Inflation (avg. percent change)	0.7	5.7	4.6	3.4	2.0	2.0	2.0	2.0	2.0	2.0
Current account balance	-10.7	-18.9	-17.6	-17.0	-14.1	-12.2	-10.3	-9.3	-8.9	-8.9
CG: Overall balance	-1.7	-9.2	-11.7	-7.9	-3.5	0.2	0.6	0.8	0.9	0.7
CG: Primary balance	0.4	-6.9	-9.2	-4.6	-0.5	3.0	3.2	3.2	3.2	2.4
CG: Underlying primary balance 1/	0.4	-0.5	-0.4	2.1	3.4	3.3	3.2	3.2	3.2	2.4
Port project	0.0	4.2	6.6	5.9	3.9	0.3	0.0	0.0	0.0	0.0
Hospital project	0.0	0.0	0.0	1.1	2.6	3.1	1.1	0.0	0.0	0.0
PS: Overall balance	-1.3	-9.5	-11.5	-8.0	-3.3	0.4	0.7	1.0	1.2	0.9
PS: Primary balance	0.9	-7.0	-8.9	-4.6	-0.2	3.2	3.2	3.3	3.3	2.5
Total public debt	72.2	84.7	87.1	88.2	86.7	82.8	79.0	75.0	71.1	...

Sources: National authorities and IMF Staff calculations and projections.
1/ Excludes COVID-19, volcano one-offs, and port spending (and does not exclude hospital project spending).

15. Debt dynamics (Figure 3). The fiscal position is expected to remain in deficit in the near term reflecting the construction plan of the port and hospital projects. Despite the sizable project spending, total public and publicly guaranteed debt as a share of GDP is expected to remain around the 2023 level until 2025, before starting to decline thereafter as the projects approach their completion. Debt dynamics in the medium- and long-run are supported by strong economic growth underpinned by public and private investment, recovery of the tourism and agriculture sectors, and the authorities' continued commitment to implement fiscal adjustment set out in the 2021 RCF to achieve the regional debt target, including

(i) continued strengthening of tax administration; (ii) containing the growth of wages and non-priority current spending; (iii) focusing public investment programs on reconstruction, resilience building, and essential infrastructure by capping total capital spending during 2021–26;[12] and (iv) achieving a central government primary surplus of at least 3 percent of GDP by 2026 (see ¶16 for realism of these assumptions). Nevertheless, the debt path is subject to large risks, including from frequent natural disasters, as suggested by the confluence of external shocks (volcanic eruptions and pandemic) during the past five years, which resulted in a larger debt ratio increase than in most peers (Figure 3).

16. The baseline projections reflect staff's realistic estimates based on available information (Figure 4). Prior to the pandemic, the authorities had maintained a relatively prudent fiscal policy stance, instituted the Contingencies Fund for natural disasters, strengthened the oversight of state-owned enterprises, and introduced a Fiscal Responsibility Framework (FRF) in 2020. Despite the critical pandemic- and volcano-related spending, the fiscal position in 2020 and 2021 did not deteriorate as much as projected at the time of the 2020 and 2021 RCFs, owing to strong revenue mobilization efforts as well as cuts in non-priority current spending. In 2022–23, current spending continued to be prudent and capital spending prioritized for reconstruction and public infrastructure projects. The baseline projections also incorporate the agreed prudent public sector wage growth for 2023–25 as well as announced changes to income taxes in efforts to lower the income tax burden and bring it closer towards regional averages (see ¶8). To contain risks from contingent liabilities and further support fiscal sustainability, the government launched another pension reform package to strengthen the financial sustainability of the National Insurance Service (see ¶18). Growth in 2024–26 is supported by strong public investment as well as a post-volcano eruption recovery in agriculture and further growth of tourism. The large-scale public investment projects are projected to keep the primary deficit elevated in the near term (Text Table 3) before turning into surpluses from 2026 when the port project is scheduled to approach its completion.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

17. St. Vincent and the Grenadines' debt-carrying capacity is medium (Text Table 4). The country's Composite Indicator (CI) index (which determines the indicative thresholds to assess a country's debt sustainability) is 3.02, corresponding to a "medium" rating (marginally lower than the threshold for "strong" rating (3.05)).[13] The debt-carrying capacity is unchanged compared to the rating under the previous Country Policy and Institutional Assessment (CPIA) methodology.[14] The corresponding scores for

[12] This is capped at about EC$1.6 bn under staff's current baseline, compared to EC$1.2 billion in the 2021 RCF, reflecting higher cost of the port modernization project and the new hospital project.

[13] The CI index captures the impact of the weighted average of the World Bank's CPIA score, the country's real economic growth, remittances, international reserves, and world growth. The CI calculation is based on 10-year averages of the variables including 5 years of historical data and 5 years of projections. The index was calculated using the October 2023 WEO data and the 2022 CPIA.

[14] Countries are rated based on a set of 16 backward-looking criteria grouped into four areas including economic management, structural policies, policies on social inclusion and equity, and public-sector management and institutions.

the CI index determine the relevant thresholds for St. Vincent and the Grenadines for both external and total public debt.

Text Table 4. Debt-Composite Indicator and Threshold Tables

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.653	1.41	47%
Real growth rate (in percent)	2.719	2.655	0.07	2%
Import coverage of reserves (in percent)	4.052	44.412	1.80	60%
Import coverage of reserves^2 (in percent)	-3.990	19.724	-0.79	-26%
Remittances (in percent)	2.022	7.111	0.14	5%
World economic growth (in percent)	13.520	2.856	0.39	13%
CI Score			3.02	100%
CI rating			Medium	

Applicable Thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	180
GDP	40
Debt service in % of	
Exports	15
Revenue	18

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	55

Debt Carrying Capacity	Medium

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Medium	Medium 3.02	Medium 3.01	Medium 3.02

18. The combined contingent liability stress test is aligned to the country's specific risks (Text Table 5). The stress test includes risks pertaining to financial markets. SOEs' debt, which is already included in total public debt, and PPP, given no existing arrangement, are excluded from the stress test.[15]

[15] Potential contingent liabilities from the pension system are not included. The government announced a package of parametric reforms to the pension system in early 2024. The reform features a gradual increase in the contribution rate from 10 percent to 15 percent by 2027. Additionally, it tightens early retirement by limiting early retirement eligibility and increasing penalty, increases wage period used to calculate reference wage, and raises both the insurable wage and minimum pension thresholds. If fully implemented, the reform is expected to significantly improve the financial situation of the pension fund and keep the pension system funded until 2060.

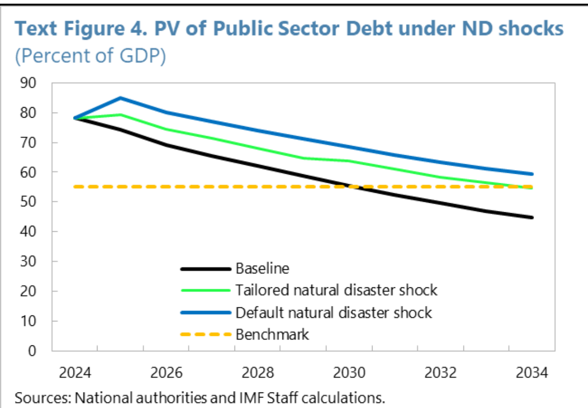
Text Table 5. Combined Contingent Liability Shock

		Default		Used for the analysis	Reasons for deviations from the default settings
1	The country's coverage of public debt	The central government, government-guaranteed debt			
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	0.0	
4	PPP	35	percent of PPP stock	0.0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			5.0	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

19. Two natural disaster scenarios are conducted to better reflect St. Vincent and the Grenadines' exposure to natural disasters (Text Figure 4). The first scenario assumes a *one-time severe natural disaster*, following the default settings of the natural disaster-tailored test that would lower growth by 1.5 ppt and incur fiscal costs of 10 percent of GDP. In this scenario, the PV of public debt would peak at 85 percent of GDP in 2025 and decline to 59 percent by 2034 (i.e., remaining above the benchmark during that period, Table 4). The second (tailored) scenario is based on the country's own historical data and assumes *more frequent natural disasters (every 5 years) with a smaller economic impact*, resulting in 1 percentage point lower growth and 2 percent of GDP fiscal costs.[16] In the tailored scenario, the PV of public debt would peak at 79 percent of GDP in 2025 and decline to the 55 percent of GDP benchmark by 2034 (Figure 2 and Table 4).

Text Figure 4. PV of Public Sector Debt under ND shocks
(Percent of GDP)



Sources: National authorities and IMF Staff calculations.

EXTERNAL DSA

20. The risk of external debt distress is high (Figure 1 and Tables 1 and 3).

- **Under the baseline scenario, the PV of external debt-to-GDP ratio** would fall below the indicative threshold of 40 percent of GDP by 2032 (Figure 1 and Table 1). It remains above the benchmark during the projection period under stress test scenarios, including due to shocks to growth, primary balance, exports, and a hypothetical one-time 30 percent depreciation (Table 3). The largest impact on the PV of external debt-to-GDP ratio is produced by the export shock that raises the PV of external debt, potentially reaching 99 percent of GDP by 2026, but then gradually declines to 73 percent of GDP by 2034. Under the default settings of the natural disaster tailored test, the PV of external debt would peak at 64 percent of GDP in 2025 and gradually decline to 49 percent of GDP by 2034.

[16] Under the baseline, natural disaster hits the country every 15 years and estimated to have 1.1 percent of GDP fiscal costs, based on historical data from 1980–21. The country-specific scenario uses parameters that amplifies the historical average impact as to take into account future price increase to some extent. Other assumptions remain the same as in the case of the severe natural disaster case, including the timing of the GDP shock and fiscal costs applied (starting 2024).

- **The PV of external debt-to-exports ratio** remains below the indicative threshold over the projected period under the baseline scenario. **The PPG external debt service-to-exports ratio** would meet the indicative threshold by 2028, which incorporates DSSI payments through 2027.[17] A shock to exports would push the debt service-to-exports ratio to peak at 49 percent in 2033, well above the 15 percent threshold. The shock to exports would keep the PV of external debt-to-exports ratio above its indicative threshold (180 percent) over the projection period.

- **The external debt service to revenue ratios** remains well below the threshold over the projected period, reflecting resilient tax revenues and ongoing tax administration measures. With the shock to exports, it would breach its threshold temporarily over the forecast horizon.

OVERALL RISK OF PUBLIC DEBT DISTRESS

21. The overall risk of debt distress remains high (Figure 2 and Table 2 and 4). The PV of public debt is estimated to be 78 percent of GDP in 2024 and is expected to start to decline over the projected period. The public debt-to-GDP ratio is expected to remain elevated in the near term before steadily declining afterwards, noticeably as construction of large investment projects is completed. Building on recent and continued fiscal adjustment efforts assumed under the baseline scenario, the PV of public debt is projected to meet the benchmark of 55 percent of GDP benchmark by 2031 and the public debt-to-GDP ratio would fall below the Eastern Caribbean Currency Union (ECCU) debt ceiling (of 60 percent of GDP) by 2032. The public debt path is particularly sensitive to the export shock: under the most extreme stress scenario, which assumes nominal export growth equals its 10-year historical average (which includes the pandemic period) minus one standard deviation for 2025 and 2026, the PV of public debt would continue to rise and reach 101 percent of GDP by 2026. Under alternative scenarios, including a shock to real GDP growth, the PV of public debt would reach 97 percent of GDP by 2034 and stay above the indicative target over the forecast horizon.

RISK RATING AND VULNERABILITIES

22. St. Vincent and the Grenadines' debt is at high risk of distress but is deemed sustainable if fiscal consolidation plans are fully implemented. The assessment is broadly unchanged from the 2022 DSA. Before the pandemic, the authorities had maintained a relatively prudent fiscal policy stance and sought to improve the fiscal framework. Even with the economic fallout from the shocks, the humanitarian crisis from the volcanic eruptions, and the cost-of-living crisis, the government managed to reduce the underlying primary deficit (excluding port-, pandemic-, and volcanic eruption-related spending) from 1.4 percent of GDP in 2020 to 0.4 percent in 2023 by mobilizing revenues and containing non-priority spending. The authorities remain committed to fiscal prudence and are targeting to improve the central government primary balance to a surplus of at least 3 percent of GDP by 2026, consistent with the FRF,

[17] Government benefitted from Debt Service Suspension Initiative (DSSI) of total US$ 3.7 million. The repayment is expected to take place from December 2022 through June 2027.

once the shocks recede and the port project approaches its completion in 2025.[18] The improvement is supported by continued fiscal adjustment efforts, including: (i) enhancing taxpayers' compliance, especially by focusing on large taxpayers, digitalizing the tax system, fully implementing the Tax Administration Procedures Act, and improving customs legal framework, supported by the CARTAC; (ii) containing growth of wages and non-priority current spending; and (iii) re-prioritizing capital investment to balance the needs for a resilient recovery and preserving debt sustainability. Assuming that the authorities' measures are fully implemented, the debt-to-GDP ratio is projected to peak in 2024 and decline thereafter, with debt-to-GDP and debt service ratios following downward paths once reconstruction efforts and the port projects approach their completion in 2025. Beyond the authorities' fiscal plans, there are mitigating factors such as small roll-over risks from short-term debt, the still low interest rates in the regional debt market despite tightening global financial conditions, and relatively favorable borrowing terms given the large share of concessional financing. Combined with the authorities' strong commitment to long-term fiscal adjustment as embodied in the FRF as well as their cautious debt management strategy, public debt is assessed as sustainable while risks to debt sustainability remain high.

23. Risks to the medium term are tilted to the downside and consistent with a "high" risk rating for external and public debt distress. The intensification of regional conflicts and resulting economic sanctions could disrupt trade and increase commodity prices, which could further increase the cost of the government's investment projects and/or incur new relief measures to mitigate the impact of higher living costs. Moreover, St. Vincent and the Grenadines remains highly susceptible to climate change and the ever-present threat of frequent natural disasters.

24. To reduce vulnerabilities and to ensure debt sustainability, the authorities should continue to seek concessional loans, further strengthen fiscal institutions, and fully operationalize the FRF. Large-scale public investment projects, if financed through less concessional financing terms, could undermine debt sustainability. Accordingly, the authorities should seek to maintain new borrowing on concessional terms. Continued policy efforts to build resilience to natural disasters and strengthen public investment management, including implementing recommendations from the IMF Public Investment Management Assessment with a climate module (C-PIMA) completed in early 2023, would help address vulnerability and long-term debt sustainability. Furthermore, the authorities should continue to improve the budget process and medium-term fiscal policy framework and strengthen SOE oversight and cash management. The FRF, approved in January 2020, should be recalibrated considering the pandemic- and volcanic eruption-related surge in debt and sizable critical climate resilience investment needs to facilitate its full operationalization.[19] Given the high risks and vulnerability to external shocks, it would be prudent to build additional buffers and prepare contingency plans to return debt to the baseline should fiscal slippages and external shocks materialize.

25. Under the IDA Sustainable Development Financing Policy, the authorities effectively implemented required Performance and Policy Actions in FY21, FY22, and FY23. These included: the strengthening of the production and regular publication of the annual Debt Portfolio Review (DPR);

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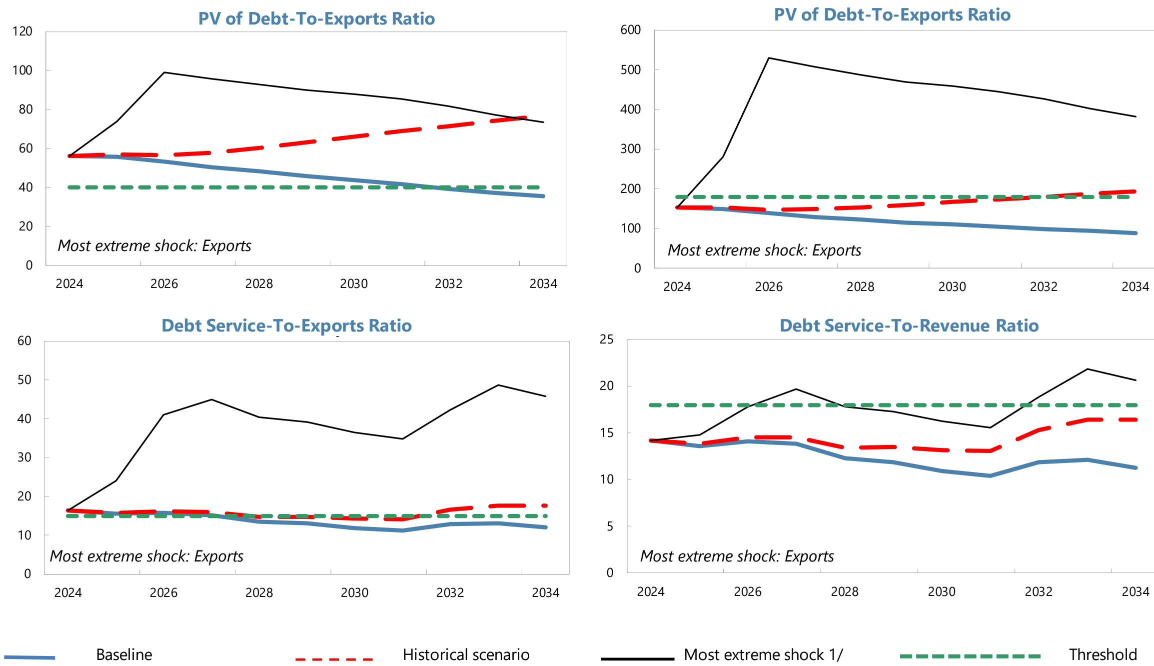
[18] With the support from CARTAC TAs, the authorities are working on improving budget process and medium-term fiscal planning to underpin effective implementation of the FRF.

[19] See Annex VIII of the Staff Report for 2022 Article IV Consultation with St. Vincent and the Grenadines.

inclusion in the DPR report of all government-guaranteed and SOE debt to further debt transparency; the creation of the Fiscal Responsibility Mechanism (FRM, i.e., a fiscal council) and the FRM's reporting standards and final operating principles; and the completion of a C-PIMA and adoption of public investment management reforms as recommended by the C-PIMA. These actions are expected to reinforce fiscal credibility, contain potential risks from contingent liabilities, further support fiscal sustainability. PPAs in FY24 focused on key public pension reforms to ensure the financial sustainability of the pension system through at least 2060, as well as the development of a public asset registry and asset management inventory system, with a particular focus on national disaster related contingent liabilities, and associated TAs in preparing fiscal risk statements.

Figure 1. St. Vincent and the Grenadines: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2024–34



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	No	No
Commodity price 2/	n.a.	n.a.
Market financing	n.a.	n.a.

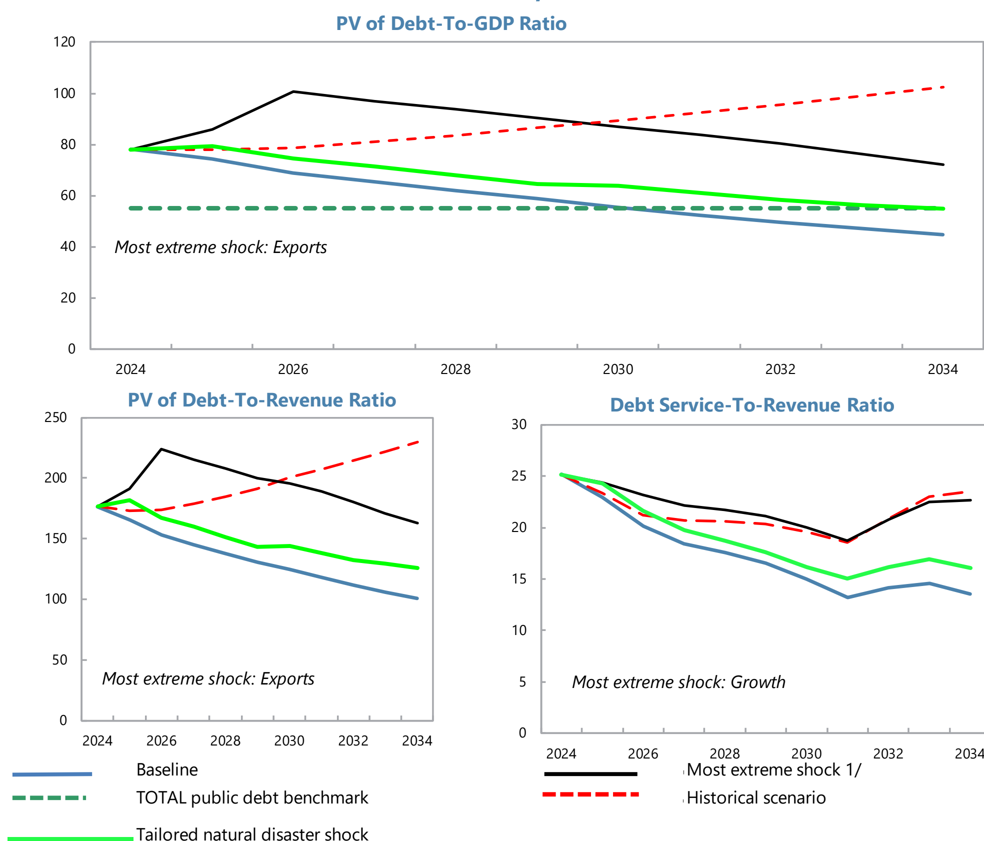
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	3.9%	3.9%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	22	22
Avg. grace period	6	6

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

Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.
2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. St. Vincent and the Grenadines: Indicators of Public Debt Under Alternative Scenarios, 2024–34



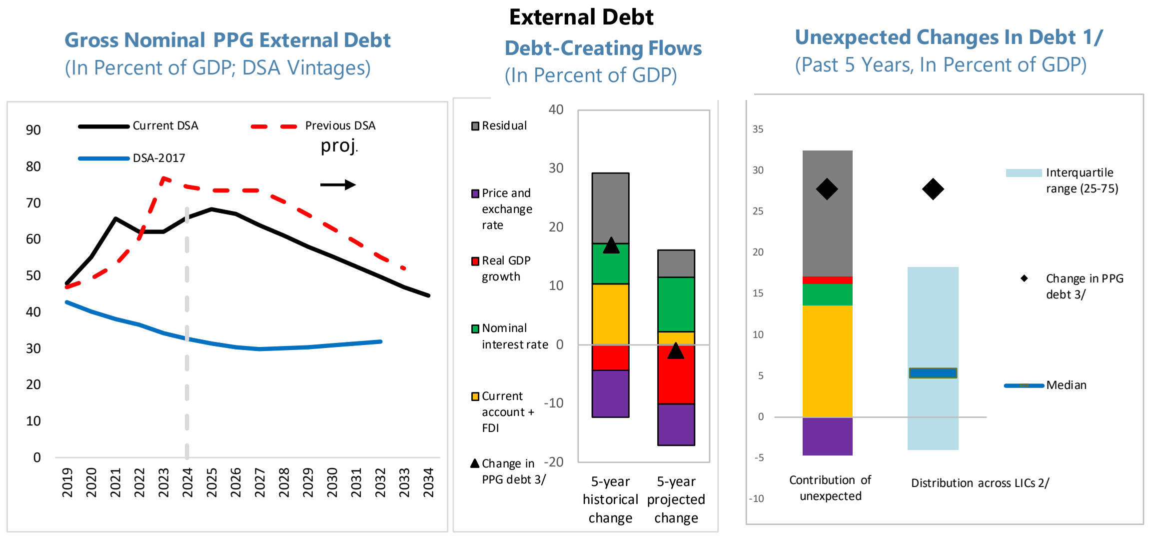
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	79%	79%
Domestic medium and long-term	15%	15%
Domestic short-term	6%	6%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	3.9%	3.9%
Avg. maturity (incl. grace period)	22	22
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	5.2%	5.2%
Avg. maturity (incl. grace period)	10	10
Avg. grace period	5	5
Domestic short-term debt		
Avg. real interest rate	-0.1%	-0.1%

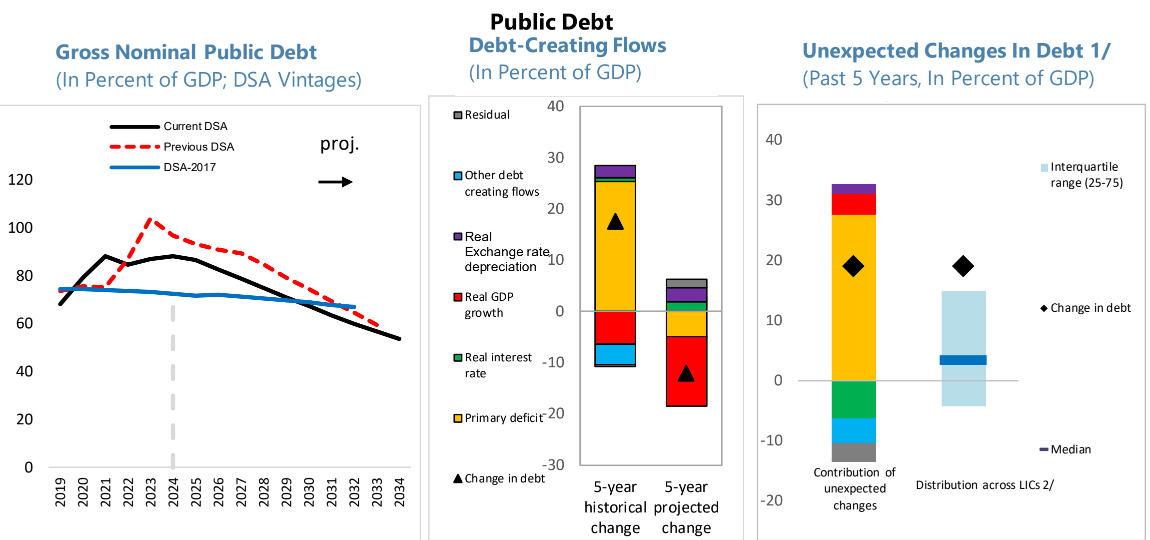
* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. St. Vincent and the Grenadines: Drivers of Debt Dynamics—Baseline Scenario





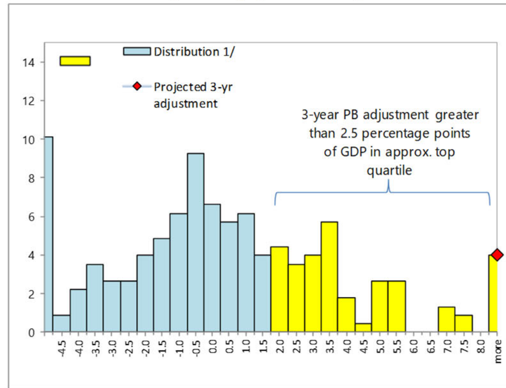
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

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

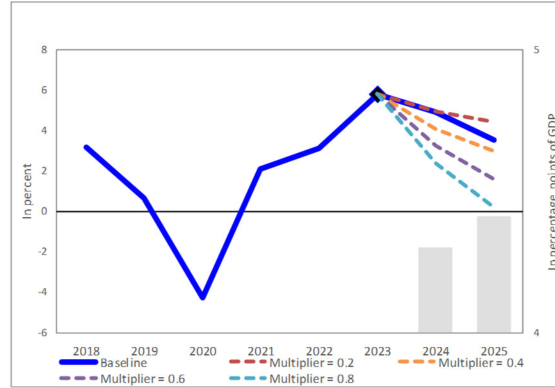
3-Year Adjustment in Primary Balance 1/ 2/
(Percentage points of GDP)



1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

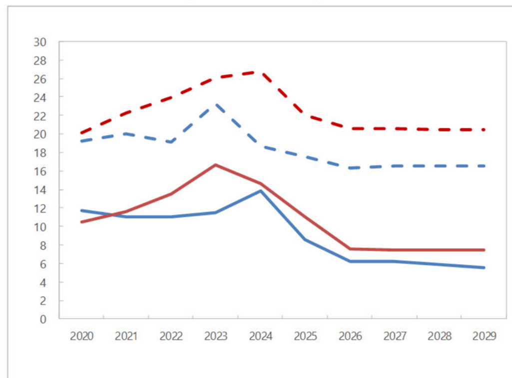
2/ The 3-year adjustment in PB is largely affected by the post-volcanic eruption spending and the phasing of the port project spending, with 2023 being the peak year of the construction. The 3-year adjustment efforts, as more properly captured by the underlying PB (after excluding covid-, volcano-, and port-related spending), amount to 3.7 percent of GDP during 2023-26.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(In Percent of GDP)



Contribution to Real GDP growth
(In Percent, 5-Year Average)

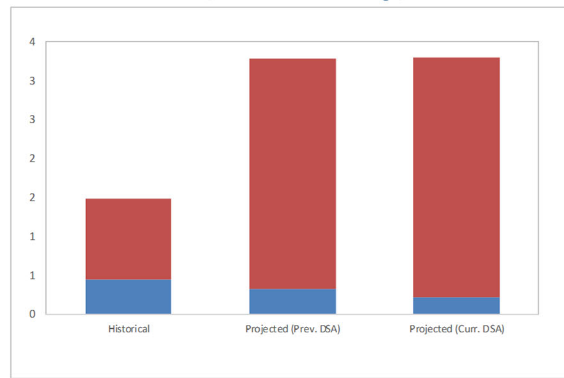
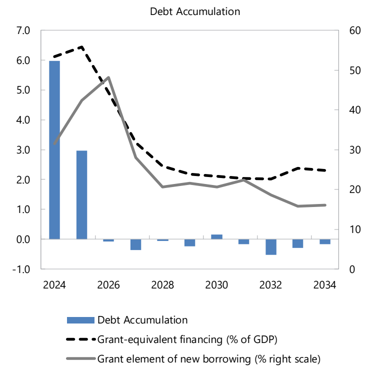


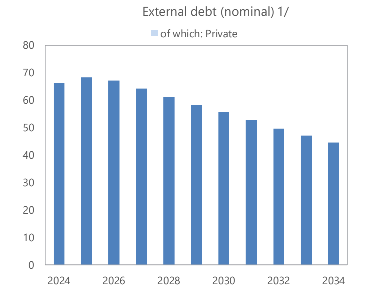
Table 1. St. Vincent and the Grenadines: External Debt Sustainability Framework, Baseline Scenario, 2023–44

(In percent of GDP, unless otherwise indicated)

	Actual	Projections														Average 8/	
	2023	2024	2025	2026	2027	2028	2029	2032	2033	2034	2035	2036	2037	2043	2044	Historical	Projections
External debt (nominal) 1/	62.2	66.0	68.3	67.1	64.1	61.1	58.0	49.6	47.0	44.6	42.3	40.6	38.3	29.3	28.2	52.7	57.6
of which: public and publicly guaranteed (PPG)	62.2	66.0	68.3	67.1	64.1	61.1	58.0	49.6	47.0	44.6	42.3	40.6	38.3	29.3	28.2	52.7	57.6
Change in external debt	0.0	3.9	2.2	-1.2	-3.0	-3.0	-3.1	-3.1	-2.7	-2.4	-2.2	-1.8	-2.3	-1.0	-1.1		
Identified net debt-creating flows	-0.4	3.4	1.4	0.3	-1.4	-2.3	-2.7	-2.4	-2.4	-2.3	-2.2	-2.2	-2.1	-1.9	-1.8	1.4	-1.2
Non-interest current account deficit	16.2	15.2	12.5	10.2	8.2	7.4	7.1	7.3	7.3	7.4	7.4	7.4	7.5	7.5	7.1	14.1	8.8
Deficit in balance of goods and services	22.6	20.7	17.4	15.7	13.8	12.9	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	20.3	14.1
Exports	33.5	36.4	37.3	38.5	38.9	39.4	39.6	39.6	39.6	39.6	39.6	39.6	39.6	39.6	39.6		
Imports	56.1	57.1	54.7	54.2	52.7	52.3	52.1	52.1	52.1	52.1	52.1	52.1	52.1	52.1	52.1		
Net current transfers (negative = inflow)	-7.2	-6.2	-5.5	-4.9	-4.7	-4.6	-4.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-6.5	-2.8
of which: official	-3.6	-2.1	-2.2	-2.0	-2.1	-1.8	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5		
Other current account flows (negative = net inflow)	0.8	0.7	0.6	-0.5	-0.9	-0.8	-0.8	-5.2	-5.1	-5.1	-5.1	-5.0	-5.0	-4.9	-5.3	0.3	-2.5
Net FDI (negative = inflow)	-12.6	-10.8	-10.6	-10.1	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-12.0	-10.1
Endogenous debt dynamics 2/	-4.0	-1.0	-0.6	0.2	0.3	0.3	0.2	0.2	0.3	0.3	0.3	0.3	0.4	0.5	1.0		
Contribution from nominal interest rate	1.4	1.8	1.6	2.0	2.1	1.9	1.8	1.6	1.5	1.5	1.5	1.4	1.4	1.3	1.7		
Contribution from real GDP growth	-3.3	-2.8	-2.2	-1.8	-1.7	-1.7	-1.6	-1.4	-1.3	-1.2	-1.1	-1.1	-1.0	-0.8	-0.8		
Contribution from price and exchange rate changes	-2.1	...	...	...	...	...	...	...	...	...	...	...	...	...	...		
Residual 3/	0.4	0.5	0.9	-1.5	-1.6	-0.6	-0.4	-0.6	-0.3	-0.1	0.0	0.4	-0.2	0.9	0.8	0.7	-0.4
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators																	
PV of PPG external debt-to-GDP ratio	55	56	56	53	50	48	46	39	37	35	34	32	31	22	20		
PV of PPG external debt-to-exports ratio	163	154	150	138	130	122	116	99	94	89	85	82	77	56	50		
PPG debt service-to-exports ratio	15	16	16	16	15	14	13	13	13	12	12	12	12	10	10		
PPG debt service-to-revenue ratio	13	14	14	14	14	12	12	12	12	11	11	11	11	9	10		
Gross external financing need (Million of U.S. dollars)	120.0	134.0	95.9	80.1	57.0	38.5	33.5	41.2	45.2	40.8	42.4	48.2	49.1	44.2	38.4		
Key macroeconomic assumptions																	
Real GDP growth (in percent)	5.8	4.9	3.5	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.0	3.0
GDP deflator in US dollar terms (change in percent)	3.5	3.3	2.0	2.0	1.9	1.9	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.6	2.1
Effective interest rate (percent) 4/	2.4	3.1	2.6	3.1	3.2	3.2	3.1	3.2	3.2	3.4	3.4	3.5	3.6	4.6	6.2	2.4	3.1
Growth of exports of G&S (US dollar terms, in percent)	30.3	17.6	8.3	8.1	5.7	6.0	5.2	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	12.8	6.8
Growth of imports of G&S (US dollar terms, in percent)	13.0	10.2	1.2	3.6	1.8	3.9	4.3	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.4	4.4
Grant element of new public sector borrowing (in percent)	...	31.4	42.4	48.1	28.0	20.6	21.5	18.6	15.7	16.0	15.0	12.1	14.5	10.4	11.5	...	25.9
Government revenues (excluding grants, in percent of GDP)	39.5	42.2	42.7	43.0	43.0	43.4	43.6	43.0	42.6	42.5	42.5	42.6	42.6	42.5	42.5	40.9	42.9
Aid flows (in Million of US dollars) 5/	635.2	82.8	117.5	89.4	51.4	38.1	35.9	36.6	44.5	45.2	45.0	43.8	43.3	40.4	40.3		
Grant-equivalent financing (in percent of GDP) 6/	...	6.1	6.4	4.9	3.2	2.4	2.2	2.0	2.4	2.3	2.2	2.0	1.9	1.3	1.3	...	3.3
Grant-equivalent financing (in percent of external financing) 6/	...	40.9	53.0	61.4	53.4	48.4	48.1	46.8	46.9	47.8	45.7	39.0	43.7	33.1	35.6	...	49.6
Nominal GDP (Million of US dollars)	1,083	1,173	1,238	1,297	1,358	1,421	1,488	1,710	1,791	1,876	1,965	2,059	2,157	2,849	2,985		
Nominal dollar GDP growth	9.5	8.3	5.6	4.7	4.7	4.7	4.7	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	3.6	5.1
Memorandum items:																	
PV of external debt 7/	54.6	55.9	55.8	53.2	50.5	48.2	45.8	39.3	37.3	35.4	33.7	32.5	30.6	22.0	19.9		
In percent of exports	163.2	153.9	149.6	138.2	129.8	122.3	115.6	99.3	94.1	89.4	85.1	82.0	77.2	55.5	50.3		
Total external debt service-to-exports ratio	15.3	16.5	15.5	15.8	15.3	13.5	13.0	12.9	13.0	12.0	11.9	12.3	12.0	10.0	10.3		
PV of PPG external debt (in Million of US dollars)	591.8	656.4	691.2	690.3	685.5	684.8	681.3	672.4	667.3	664.4	662.7	668.1	659.5	626.4	594.9		
(PVt-PVt-1)/GDPt-1 (in percent)		6.0	3.0	-0.1	-0.4	-0.1	-0.2	-0.5	-0.3	-0.2	-0.1	0.3	-0.4	-0.3	-1.1		
Non-interest current account deficit that stabilizes debt ratio	16.2	11.4	10.3	11.4	11.2	10.4	10.1	10.4	10.0	9.8	9.6	9.2	9.8	8.5	8.2		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No





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) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes. Exceptional financing in 2022 includes debt relief from Venezuela.

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

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

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

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

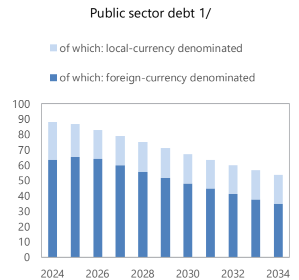
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

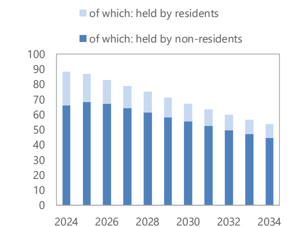
Table 2. St. Vincent and the Grenadines: Public Sector Debt Sustainability Framework, Baseline Scenario, 2023–44

(In percent of GDP, unless otherwise indicated)

	Actual	Projections														Average 6/	
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2038	2043	2044	Historical	Projections
Public sector debt 1/	**87.1**	**88.2**	**86.7**	**82.8**	**79.0**	**75.0**	**71.1**	**67.2**	**63.5**	**59.8**	**56.7**	**53.8**	**44.3**	**36.9**	**35.7**	**77.9**	**71.2**
of which: external debt	**62.2**	**66.0**	**68.3**	**67.1**	**64.1**	**61.1**	**58.0**	**55.5**	**52.7**	**49.6**	**47.0**	**44.6**	**36.3**	**29.3**	**28.2**	**52.7**	**57.6**
Change in public sector debt	2.5	1.0	-1.5	-3.9	-3.9	-3.9	-4.0	-3.8	-3.8	-3.6	-3.2	-2.9	-2.1	-1.0	-1.3		
Identified debt-creating flows	**4.2**	**1.1**	**-2.6**	**-5.1**	**-5.0**	**-5.0**	**-4.9**	**-4.6**	**-4.5**	**-4.4**	**-3.9**	**-3.6**	**-3.0**	**-1.5**	**-2.1**	**1.7**	**-3.9**
Primary deficit	**8.9**	**4.6**	**0.2**	**-3.2**	**-3.2**	**-3.3**	**-3.3**	**-3.2**	**-3.1**	**-3.1**	**-2.8**	**-2.6**	**-2.3**	**-1.3**	**-2.2**	**2.6**	**-2.1**
Revenue and grants	43.1	44.2	44.9	45.0	45.1	45.1	45.1	44.5	44.5	44.5	44.5	44.4	43.9	43.5	43.5	**43.4**	**44.7**
of which: grants	3.6	2.1	2.2	2.0	2.1	1.8	1.5	1.5	1.5	1.5	1.9	1.8	1.4	1.0	1.0		
Primary (noninterest) expenditure	52.0	48.9	45.1	41.9	41.9	41.8	41.8	41.3	41.3	41.3	41.7	41.7	41.6	42.2	41.3	**46.0**	**42.6**
Automatic debt dynamics	**-4.8**	**-3.5**	**-2.8**	**-1.9**	**-1.8**	**-1.7**	**-1.6**	**-1.4**	**-1.3**	**-1.3**	**-1.1**	**-1.0**	**-0.6**	**-0.2**	**0.1**		
Contribution from interest rate/growth differential	-4.8	-3.5	-2.8	-1.9	-1.8	-1.7	-1.6	-1.4	-1.3	-1.3	-1.1	-1.0	-0.6	-0.2	0.1		
of which: contribution from average real interest rate	-0.2	0.6	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.6	0.8	1.1		
of which: contribution from real GDP growth	-4.6	-4.1	-3.0	-2.3	-2.2	-2.1	-2.0	-1.9	-1.8	-1.7	-1.6	-1.5	-1.2	-1.0	-1.0		
Contribution from real exchange rate depreciation	0.1	...	...	...	...	...	...	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.5**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
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	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**-1.7**	**-0.1**	**1.1**	**1.2**	**1.2**	**1.1**	**1.0**	**0.8**	**0.7**	**0.8**	**0.8**	**0.8**	**0.8**	**0.5**	**0.8**	**-0.2**	**0.9**
Sustainability indicators																	
PV of public debt-to-GDP ratio 2/	**80**	**78**	**74**	**69**	**65**	**62**	**59**	**56**	**52**	**50**	**47**	**45**	**37**	**30**	**27**		
PV of public debt-to-revenue and grants ratio	**185**	**177**	**165**	**153**	**145**	**138**	**130**	**125**	**118**	**111**	**106**	**101**	**84**	**68**	**63**		
Debt service-to-revenue and grants ratio 3/	**16**	**25**	**23**	**20**	**18**	**18**	**17**	**15**	**13**	**14**	**15**	**14**	**13**	**11**	**11**		
Gross financing need 4/	18.2	15.7	10.5	5.9	5.1	4.6	4.2	3.4	2.7	3.1	3.7	3.4	3.4	3.5	2.8		
Key macroeconomic and fiscal assumptions																	
Real GDP growth (in percent)	5.8	4.9	3.5	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	**2.0**	**3.0**
Average nominal interest rate on public debt (in percent)	3.3	3.4	3.0	3.3	3.4	3.3	3.3	3.4	3.4	3.4	3.4	3.5	3.8	4.7	5.9	**3.2**	**3.3**
Average nominal interest rate on external debt (in percent)	2.4	3.1	2.6	3.1	3.2	3.2	3.1	3.3	3.2	3.2	3.2	3.4	3.6	4.6	6.2	**2.4**	**3.1**
Average real interest rate on domestic debt (in percent)	2.4	0.7	2.4	2.1	2.0	2.1	2.1	2.2	2.3	2.3	2.3	2.3	2.5	2.9	3.0	**3.3**	**2.1**
Real exchange rate depreciation (in percent, + indicates depreciation)	0.2	...	...	...	...	...	...	...	...	...	...	...	...	...	...	**1.1**	**...**
Inflation rate (GDP deflator, in percent)	3.5	3.3	2.0	2.0	1.9	1.9	1.9	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	**1.6**	**2.1**
Growth of real primary spending (deflated by GDP deflator, in percent)	9.0	-1.4	-4.4	-4.7	2.7	2.5	2.7	1.3	2.9	2.7	3.5	2.9	3.1	2.7	0.5	**3.6**	**1.0**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	6.4	3.6	1.7	0.7	0.6	0.6	0.6	0.6	0.6	0.5	0.4	0.2	-0.2	-0.3	-0.9	**4.1**	**0.9**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, government-guaranteed debt . Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. St. Vincent and the Grenadines: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2024–34

(In percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
						PV of debt-to GDP ratio					
Baseline	**56**	**56**	**53**	**50**	**48**	**46**	**44**	**42**	39	37	35
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**56**	**57**	**57**	**58**	**60**	**63**	**66**	**69**	**71**	**74**	**77**
B. Bound Tests											
B1. Real GDP growth	**56**	**60**	**60**	**57**	**54**	**52**	**49**	**47**	**44**	**42**	40
B2. Primary balance	**56**	**60**	**64**	**62**	**60**	**57**	**55**	**53**	**51**	**49**	**48**
B3. Exports	**56**	**74**	**99**	**96**	**93**	**90**	**88**	**85**	**82**	**77**	**73**
B4. Other flows 3/	**56**	**62**	**66**	**64**	**61**	**59**	**57**	**55**	**52**	**49**	**47**
B5. Depreciation	**56**	**69**	**60**	**56**	**53**	**50**	**48**	**45**	**42**	**40**	38
B6. Combination of B1-B5	**56**	**72**	**73**	**70**	**67**	**64**	**62**	**60**	**56**	**53**	**50**
C. Tailored Tests											
C1. Combined contingent liabilities	**56**	**59**	**57**	**54**	**52**	**50**	**48**	**46**	**43**	**41**	40
C2. Natural disaster	**56**	**64**	**62**	**60**	**58**	**56**	**55**	**53**	**52**	**50**	**49**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
						PV of debt-to-exports ratio					
Baseline	154	150	138	130	122	116	111	105	99	94	89
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	154	153	147	149	153	159	167	174	**180**	**187**	**194**
B. Bound Tests											
B1. Real GDP growth	154	150	138	130	122	116	111	105	99	94	89
B2. Primary balance	154	161	166	159	151	145	140	135	129	125	120
B3. Exports	154	**281**	**531**	**508**	**487**	**470**	**458**	**444**	**426**	**403**	**382**
B4. Other flows 3/	154	167	172	164	156	149	144	138	131	124	118
B5. Depreciation	154	148	123	115	108	101	96	91	85	81	77
B6. Combination of B1-B5	154	**214**	167	**234**	**222**	**212**	**205**	**197**	**186**	176	167
C. Tailored Tests											
C1. Combined contingent liabilities	154	159	148	139	132	125	120	115	109	104	100
C2. Natural disaster	154	175	165	157	151	145	141	137	133	129	126
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
						Debt service-to-exports ratio					
Baseline	**16**	**16**	**16**	**15**	14	13	12	11	13	13	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**16**	**16**	**16**	**16**	15	15	14	14	**17**	**18**	**18**
B. Bound Tests											
B1. Real GDP growth	**16**	**16**	**16**	**15**	14	13	12	11	13	13	12
B2. Primary balance	**16**	**16**	**16**	**16**	15	14	13	12	15	**16**	15
B3. Exports	**16**	**24**	**41**	**45**	**40**	**39**	**36**	**35**	**42**	**49**	**46**
B4. Other flows 3/	**16**	**16**	**16**	**17**	15	14	13	13	**15**	**16**	15
B5. Depreciation	**16**	**16**	**16**	15	13	12	11	11	12	12	11
B6. Combination of B1-B5	**16**	**19**	**25**	**24**	**22**	**21**	**19**	**18**	**23**	**23**	**21**
C. Tailored Tests											
C1. Combined contingent liabilities	**16**	**16**	**16**	**16**	14	13	12	12	13	13	12
C2. Natural disaster	**16**	**16**	**17**	**17**	15	14	13	13	14	15	14
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
						Debt service-to-revenue ratio					
Baseline	14	14	14	14	12	12	11	10	12	12	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	14	14	15	15	13	13	13	13	15	16	16
B. Bound Tests											
B1. Real GDP growth	14	14	16	16	14	13	12	12	13	14	13
B2. Primary balance	14	14	15	15	13	13	12	11	13	15	14
B3. Exports	14	15	18	**20**	18	17	16	16	**19**	**22**	**21**
B4. Other flows 3/	14	14	15	15	14	13	12	12	14	15	14
B5. Depreciation	14	17	18	17	15	14	13	12	14	14	13
B6. Combination of B1-B5	14	15	17	17	15	15	14	13	16	16	15
C. Tailored Tests											
C1. Combined contingent liabilities	14	14	14	14	13	12	11	11	12	12	12
C2. Natural disaster	14	14	15	15	13	13	12	11	13	13	12
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. St. Vincent and the Grenadines: Sensitivity Analysis for Key Indicators of Public Debt, 2024–34

(In percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
	PV of Debt-to-GDP Ratio										
Baseline	**78**	**74**	**69**	**65**	**62**	**59**	**56**	52	50	47	45
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**78**	**78**	**78**	**81**	**84**	**86**	**89**	**92**	**96**	**99**	**102**
A2. Alternative Scenario : Tailored natural disaster shock	**78**	**79**	**74**	**71**	**68**	**65**	**64**	**61**	**58**	**56**	55
B. Bound Tests											
B1. Real GDP growth	**78**	**82**	**85**	**86**	**87**	**88**	**89**	**91**	**92**	**94**	**97**
B2. Primary balance	**78**	**80**	**83**	**79**	**76**	**72**	**69**	**66**	**63**	**60**	**58**
B3. Exports	**78**	**86**	**101**	**97**	**94**	**90**	**87**	**84**	**80**	**76**	**72**
B4. Other flows 3/	**78**	**81**	**82**	**79**	**75**	**72**	**69**	**66**	**62**	**59**	**56**
B5. Depreciation	**78**	**86**	**77**	**70**	**64**	**57**	51	45	39	34	29
B6. Combination of B1-B5	**78**	**77**	**77**	**67**	**63**	**60**	**56**	53	50	47	45
C. Tailored Tests											
C1. Combined contingent liabilities	**78**	**79**	**73**	**70**	**66**	**63**	**60**	**56**	53	51	48
C2. Natural disaster	**78**	**85**	**80**	**77**	**74**	**71**	**68**	**66**	**63**	**61**	**59**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
	PV of Debt-to-Revenue Ratio										
Baseline	177	165	153	145	138	130	125	118	111	106	101
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	177	173	174	179	185	191	200	207	214	222	230
A2. Alternative Scenario : Tailored natural disaster shock	25	24	22	20	19	18	16	15	16	17	16
B. Bound Tests											
B1. Real GDP growth	177	182	188	190	192	195	200	203	207	211	216
B2. Primary balance	177	177	183	175	167	160	155	148	141	135	130
B3. Exports	177	192	224	215	208	200	196	189	181	171	163
B4. Other flows 3/	177	180	182	174	167	159	154	147	140	133	126
B5. Depreciation	177	192	171	156	141	127	115	102	89	77	66
B6. Combination of B1-B5	177	172	170	149	140	133	127	120	113	107	101
C. Tailored Tests											
C1. Combined contingent liabilities	177	175	163	155	147	139	134	127	120	114	109
C2. Natural disaster	177	189	178	171	164	158	154	148	142	138	134
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Debt Service-to-Revenue Ratio										
Baseline	25	23	20	18	18	17	15	13	14	15	14
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	25	23	21	21	21	20	20	19	21	23	24
A2. Alternative Scenario : Tailored natural disaster shock	25	24	22	20	19	18	16	15	16	17	16
B. Bound Tests											
B1. Real GDP growth	25	24	23	22	22	21	20	19	21	23	23
B2. Primary balance	25	23	21	21	19	18	17	15	17	18	17
B3. Exports	25	23	21	21	20	19	18	16	18	21	20
B4. Other flows 3/	25	23	21	20	19	18	16	14	16	17	16
B5. Depreciation	25	24	24	22	20	19	17	15	16	16	14
B6. Combination of B1-B5	25	23	20	20	18	17	15	13	15	15	14
C. Tailored Tests											
C1. Combined contingent liabilities	25	23	21	19	18	17	15	14	15	15	14
C2. Natural disaster	25	23	23	20	19	18	17	15	16	17	16
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

INTERNATIONAL MONETARY FUND

ST. VINCENT AND THE GRENADINES

July 12, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION —SUPPLEMENTARY INFORMATION

Prepared By

Western Hemisphere Department
(In consultation with other departments)

The supplement provides information that became available after the staff report was issued to the Executive Board on June 26, 2024. The thrust of the staff appraisal remains broadly unchanged.

1. **Hurricane Beryl landed in St. Vincent and the Grenadines (VCT) on July 1, leaving major destruction primarily on the Southern Grenadines.** Beryl is the earliest category 4 Atlantic hurricane on record, bringing strong winds, heavy rainfalls, and storm surges to VCT after hitting Grenada. Six casualties were reported for VCT and over 4,000 people are displaced. While it is still too early to quantify the costs, Beryl has caused substantial structural damage to infrastructure, power supply, communication networks, homes, and agriculture. On Union Island, where about 3 percent of VCT's population of 110.9 thousand live and about 5.6 percent of the country's hotel room stock resides, over 90 percent of houses and buildings were damaged, while four other islands (Bequia, Canouan, Palm Island, and Mayreau) of the country's 32 islands also suffered significant, albeit less severe damages. As the capital and main island Saint Vincent, where most of the production and population is concentrated, have been largely spared and the hurricane hit during the low season of tourism, the impact on agriculture and tourism is likely to be moderate.

2. **The authorities responded swiftly to the emergency.** They announced a national disaster with school and business closures and provision of shelters for people living on the coast and displaced after the hurricane, which helped minimize casualties. Teams have been deployed and reporting centers established to assess the damages and estimate the costs. The World Bank has started a remote Global Rapid Post-Disaster Damage Estimation (GRADE), with a more comprehensive post-disaster needs assessment (PNDA) expected to follow. Recovery efforts are also underway to restore essential services and reestablish access to water and power to affected communities, which is expected to take a couple of weeks but much longer for Union Island. The government has announced temporary fiscal measures to support disaster relief,

including VAT- and duty-free concessions on barrels and all relief supplies and work on sheltering, clean-up, and infrastructure reparation. The Ministry of Finance, in consultation with the Financial Services Authority and the Eastern Caribbean Central Bank, is assessing insurance coverage of damaged houses and discussing with commercial banks potential deferral of mortgage payments for the heavily affected Southern Grenadines residents.

3. Past efforts to build financial resilience and assistances from the international community are helping the authorities to finance disaster relief. The authorities plan to use EC$50 million (about US$18.5 million or 1.6 percent of GDP) from their self-insurance Contingencies Fund.[1] Moreover, they intend to withdraw 50 percent of the unused SDR allocation (about 0.6 percent of GDP or SDR4.8 million) to finance immediate recovery efforts.[2] They are also considering activating the World Bank's Climate Resilient Debt Clause (CRDC) to defer principal and interest payments of International Development Association (IDA) loans as well as accessing their available IDA allocation (currently at US$13 million or about 1.2 percent of GDP) for disaster response. Support from the international community is also starting to come in.[3] And finally, VCT has a parametric insurance policy with the Caribbean Catastrophic Risk Insurance Facility (which has issued a payout under the coverage of tropical cyclone of US$1.862 million or about 0.2 percent of GDP and will likely also issue an additional small payout under the coverage of excess rainfall).

4. The thrust of the staff appraisal remains broadly unchanged,[4] and the authorities' prompt crisis responses follow closely their contingency plan. While the hurricane caused large physical damage, staff's current assessment suggests that the impact on GDP might be relatively contained, considering that the post-hurricane reconstruction efforts would support activity, similar to the experience with the swift responses to the volcanic eruptions in 2021. The near-term fiscal deficit and financing needs are likely to rise, while public debt—although elevated—is expected to remain sustainable considering the use of Contingencies Fund and some grants.[5] The occurrence of

[1] The CF has a balance of EC$70.5 million (or about 2.2 percent of GDP) as of early July 2024.

[2] In 2021, VCT received a special SDR allocation of SDR11.2 million (approximately US$15.7 million at the time of the allocation), of which SDR9.69 million (about US$12.8 million) have been kept as reserves as of early-July 2024. While VCT has reached the limit of the Fund's emergency financing access, it could make use of this special SDR allocation when necessary. The intended withdrawal of 50 percent of the unused SDR would reduce the implied reserves by 2.4 percent of the current reserve level, which is currently projected at 4.7 months of imports.

[3] In particular, the European Union has announced €0.45 million of humanitarian aid for Grenada and VCT. Several economies and regional and international organizations also have pledged about US$0.5 million of donations to VCT, including Development Bank of Latin America and the Caribbean, etc. The UN Emergency Technical Team (UNETT) for Barbados and the Eastern Caribbean are coordinating relief and response efforts from the Caribbean Disaster Emergency Management Agency (CDEMA). CARICOM assists with coordinating the response efforts and provides various forms of support. The United States Agency for International Development (USAID), VCT Red Cross, and the government of Japan have promised or sent humanitarian aid. The Inter-American Institute for Cooperation on Agriculture (IICA) has promised technical supports.

[4] The assessment is based on information available to staff by July 11, including discussions with the authorities, but uncertainty of the hurricane's effects remains.

[5] Under the two natural disaster scenarios in the staff report's Debt Sustainability Analysis (DSA)—with grow shocks of 1 to 1.5 percentage points and fiscal costs of 2 to 10 percent of GDP—the present value of public debt would peak at 79-85 percent of GDP and decline to around the DSA benchmark of 55 percent of GDP by 2034. Based on

(continued)

another natural disaster in the country underscores the staff report's assessment that, in the medium term, fiscal policy should prioritize (re-)building buffers that can be deployed when shocks materialize, thereby enhancing the probability of maintaining public debt sustainability. Staff does not expect the country's repayment capacity to the Fund to be affected. The authorities remain committed to meeting the regional debt target and repaying the Fund on time. Once the recovery is on a solid footing, the authorities intend to undertake measures to ensure debt sustainability and rebuild fiscal buffers. The current account deficit is expected to widen in the near term primarily due to some negative impacts on tourism and agriculture exports as well as import needs for reconstruction material, which will be financed largely by disaster relief grants and concessional financing. The financial system is generally sound and expected to withstand the shocks given its ample liquidity buffers, relatively low levels of NPLs, and mandatory insurance in the mortgage market. Staff will continue monitoring recovery efforts and damage assessments and stand ready to assist the authorities as needed.

available information, the hurricane's growth and fiscal impact could be lower than suggested by the two natural disaster scenarios in the DSA, considering also the fallout of the past volcanic eruption that affected an economically larger area.