

INTERNATIONAL MONETARY FUND



Staff Country Reports

St. Vincent and the Grenadines: 2001 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for St. Vincent and the Grenadines

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 2001 Article IV consultation with **St. Vincent and the Grenadines**, the following documents have been released and are included in this package:

- the staff report for the 2001 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **October 31, 2001**, 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 January 11, 2002.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff supplement of **January 22, 2002** updating information on recent developments.
- the Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its January 28, 2002 discussion** of the staff report that concluded the Article IV consultation.
- a statement by the Executive Director for St. Vincent and the Grenadines.

The document(s) listed below have been or will be separately released.

Statistical Appendix

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**International Monetary Fund
Washington, D.C.**

INTERNATIONAL MONETARY FUND

ST. VINCENT AND THE GRENADINES

Staff Report for the 2001 Article IV Consultation

Prepared by the Staff Representatives for the
2001 Consultation with St. Vincent and the Grenadines

Approved by Claudio M. Loser and John Hicklin

January 11, 2002

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EXECUTIVE SUMMARY

- **Economic activity** slowed in 2000, and weakened sharply in 2001 with real GDP estimated to have declined by around $\frac{1}{2}$ of 1 percent of GDP, due mainly to the impact of a severe drought on agriculture and a decline in tourism, exacerbated by the events of September 11, 2001. The country's conservative fiscal stance was threatened by rising current expenditures over the past three years. Unemployment remains high, and inflation low.
- **The new government** which took office in April 2001 has reacted with determination to these challenges and has begun to implement an ambitious framework of policy reforms designed to achieve higher growth, lower unemployment and a reduction in poverty. Adjustment measures were announced in October—after civil society consultation—in response to the deteriorating economic situation, partly resulting from the September 11 attacks.
- **On fiscal policy, the authorities' medium-term goal is to rebuild public sector savings** to help finance a larger public sector investment program (PSIP). In 2001, public sector savings are estimated to remain unchanged reflecting expenditure restraint and revenue enhancement measures. Over the medium term, a rebuilding of savings will require more efficient spending and measures to broaden the tax base and simplify taxes including through the removal of exemptions.
- The government has taken several steps to **strengthen financial controls** over, and improve the efficiency of **public enterprises**. These should be reinforced by the establishment of clear financial goals with full management accountability and by the early privatization of some enterprises.
- **On monetary policy**, while the recent reduction in the discount rate should help promote economic recovery, a forced reduction in spreads could compromise the banking system's ability to deal with nonperforming loans. Early steps should be taken to strengthen the supervision of nonbanks.
- The government has taken significant steps to strengthen the supervision of the **offshore financial sector**. These steps should be reinforced by legislation to deal with financial intelligence and money laundering, by strengthening existing laws on trusts and international business companies and by more resources for the supervisory authority.
- The government has implemented a series of **structural reforms** intended to promote private sector growth, including a restructuring of the banana industry, and promotion of agricultural diversification and small businesses. These steps should be reinforced by measures to reduce discretionary government economic decisions such as tax concessions.

I. INTRODUCTION

1. The 2001 Article IV discussions with St. Vincent and the Grenadines were held in Kingstown during October 18–31, 2001.¹ Meetings were held with Hon. Dr. Ralph E. Gonsalves, Prime Minister and Minister of Finance, Mr. Maurice Edwards, the Director General of the Ministry of Finance, and other senior government officials in charge of economic policy issues, as well as with business and labor representatives .

2. In concluding the 2000 Article IV consultation on October 27, 2000, Executive Directors commended the authorities for a broadly satisfactory economic performance in recent years with reasonable growth, low inflation, and a strong overall fiscal position.² While endorsing the broad strategy for enhancing economic diversification to increase growth and reduce unemployment, Directors urged the authorities to take steps to achieve a higher and more sustained rate of growth to deal more effectively with the problem of high unemployment and to reduce the economy's vulnerability to external shocks. Directors also encouraged the authorities to increase public savings to permit higher public investment in human and physical capital. Directors welcomed the measures taken to strengthen the supervisory and regulatory framework for the offshore sector, and noted the authorities' commitment to collaborate with the ECCB to regulate and supervise offshore financial institutions.

3. St. Vincent and the Grenadines provides core data to the Fund. However, the statistical base remains weak in scope and quality (Appendix IV). In September 2000,

¹ The staff team comprised Mr. Anthony Boote (Head), Ms. Carlene Francis, Ms. Phebbly Kufa, Mr. Yan Sun, and Ms. Susan McCuskey, Assistant (all WHD). The team was assisted by Mr. Mounsey of the Eastern Caribbean Central Bank (ECCB), and Mr. Kendall of the Caribbean Development Bank (CDB). Mr. Charleton, Alternate Executive Director, participated in the final round of discussions.

² EBM/00/105, and SM/00/230. St. Vincent and the Grenadines is an Article VIII member country and maintains an exchange system free of restrictions on the making of payments and transfers for international transactions. The country is a member of the Eastern Caribbean Currency Union and its common central bank, the Eastern Caribbean Central Bank (ECCB). The common currency, the Eastern Caribbean dollar, has been pegged to the U.S. dollar at the rate of EC\$2.70=US\$1 since July 1976. Relations with the Fund, the World Bank, and the CDB are summarized in Appendices I through III.

St. Vincent and the Grenadines adopted the General Data Dissemination System (GDDS), and the authorities have set out plans for addressing data deficiencies, including through technical assistance.

4. St. Vincent and the Grenadines held Parliamentary elections in March 2001, which were won by the Unity Labor Party (ULP), led by Dr. Ralph Gonsalves, after 17 years rule by the new National Democratic Party.³

II. RECENT ECONOMIC DEVELOPMENTS

5. **St. Vincent and the Grenadines is a small, open, and mainly agricultural economy.** In recent years it has diversified into services, mainly tourism, telephone and internet based marketing, and offshore financial services. Banana production primarily for export, the main economic activity, has stagnated since the middle of the 1990s partly due to uncertainties over preferential access to the EU market.⁴

6. **In 2000, real GDP grew by 2 percent, down from an average of 4 percent a year during 1997–99 and a decline of ½ of 1 percent is provisionally estimated for 2001** (Figure 1 and Table 1). The modest growth in 2000 was supported by recovery in the agriculture sector as banana production grew by nearly one fifth. However, construction activity declined by 10 percent reflecting lower public sector investment with the completion of several large projects, and delays in the disbursement of EU funds. The GDP decline for 2001 is due primarily to the impact of a severe drought on agriculture (a 22 percent reduction in banana output is projected) and expected lower tourism receipts. Tourism fell reflecting reduced flights (due to the inappropriateness of the airlines' fleet to use the present airport facility in St. Vincent), the slowdown in the global economy, and the impact of the September 11 terrorist attacks. Annual inflation remained below 2 percent in both 2000 and 2001. Recent labor market data—including the results of the 2001 census—are not available, but unemployment is thought to be around one fifth or higher.⁵ Unemployment is a problem across Organization of Eastern Caribbean States (OECS) countries. The recorded unemployed may include those who are actively engaged in the informal sector or who rely on support from extended families including remittances from overseas. High unemployment may also reflect relatively high minimum wages and the lack of job opportunities.

³ The ULP won 12 of the 15 seats in Parliament.

⁴ Uncertainties were heightened in 1997 when the WTO ruled that the EU preferences were inconsistent with its guidelines. After several attempts at modifying the system of preferential quotas, the EU replaced it with one based on tariff preferences in December 2000. This new system will be phased out, and replaced by one based on a flat tariff, by 2006.

⁵ The 1991 census showed unemployment at 19.8 percent; subsequent informal estimates suggest a higher amount.

7. **Public sector current savings declined from 6 percent of GDP in 1999 to 5 percent of GDP in 2000 but are estimated to have recovered to around 6 percent of GDP in 2001 despite the economic slowdown** (Table 2). Central government savings declined by 1 percentage point of GDP in 2000 to 2½ percent of GDP and are expected to remain broadly unchanged in 2001 excluding the moratorium on interest payments on Ottley Hall Shipyard debt.^{6,7} Central government current expenditures have risen by nearly 2½ percentage points of GDP from 1999 to 2001 to reach nearly 28 percent of GDP, with 1 percentage point of GDP of this increase in wages and salaries.⁸ Revenues rose by 1½ percentage points of GDP over the same period. The overall public sector was in broad balance in both 2000 and 2001 (from a deficit of over 6 percent of GDP in 1999) with sharply lower capital spending; there was a corresponding reduction in grants. **Total public sector debt is estimated to have risen by 5 percentage points of GDP in 2001 to 73 percent of GDP.**⁹ The rise reflects the conversion of bank overdrafts—notably of the banana growers association—into longer term government guaranteed debt in the context of restructurings and higher treasury bill holdings by the private sector (Table 4). Two thirds of this debt is external.¹⁰

8. **The broad money supply is estimated to have declined marginally in 2001, following growth of 9½ percent in 2000**, with velocity largely unchanged (Table 5). Reflecting the decline in economic activity, credit to the private sector is estimated to have remained unchanged in 2001 after 8½ percent growth in 2000. The banks' average prime rate

⁶ The government has sought a one-year moratorium, ending in June 2002, on interest payments (EC\$3.3 million in 2001, (0.4 percent of GDP), and EC\$7.9 million in 2002 (0.9 percent of GDP)) related to the Ottley Hall loan, pending an amicable settlement of the issues under dispute with the creditors. This is originally a private debt of EC\$156 million at 5.5 percent interest rate taken over by the government in 1999 relating to a yacht repair facility.

⁷ While central government savings were only ½ percent of GDP in the first ten months of 2001, the authorities remain confident that the savings target of 2½ percent of GDP for the year as a whole can be achieved, partly due to the measures announced in October. There is normally a build up of savings in the fourth quarter of the year (0.9 percent and 1.8 percent of GDP respectively in 1999 and 2000).

⁸ Under the current contract for civil servants, a 5 percent wage increase was granted in 1999 and 3 percent wage increase in both 2000 and 2001.

⁹ Government and government guaranteed debt only.

¹⁰ The principal sources of external funds in 2001 were Taiwan Province of China, the CDB and the Kuwait Fund for Arab Economic Developments.

declined to 10 percent in 2000 from 11 percent in 1999 and remained unchanged in 2001, notwithstanding the 1 percent reduction in the ECCB's discount rate from 8 to 7 percent in October 2001.

9. **The growth of the offshore sector has slowed in recent months** with the revocation of some licenses, as efforts continue to improve the regulatory and supervisory framework of the sector in line with international standards.¹¹ An MAE mission recently visited St. Vincent and the Grenadines to assist in the completion of a questionnaire for the Module 1 self-assessment of its offshore financial sector. This indicated significant deficiencies in the regulation and supervision of the sector, particularly in supervisory procedures and human resources. St. Vincent and the Grenadines is on the Financial Action Task Force's Non-Cooperative Countries and Territories list for money laundering concerns.

10. **The external current account deficit is projected to more than double from the 2000 level to 18½ percent of GDP in 2001, roughly the same level as in 1999** (Table 6). This results from a deterioration in the trade balance—owing to a sharp decline in banana export volumes, a recovery in imports (financed in part by private capital flows) partly reflecting higher oil prices, lower tourist receipts—with a decline in stayover arrivals in 2001 partly offset by higher yacht visitors—and lower remittances due to the recession in North America.

11. **The external value of the East Caribbean dollar**, as calculated for St. Vincent and the Grenadines, appreciated by 5 percent in real effective terms in 2000, following a slight depreciation in 1998–99 and has remained broadly unchanged in the first eight months of 2001. The recent appreciation reflected higher average inflation in St. Vincent and the Grenadines than in its trading partners, and the appreciation of the U.S. dollar *vis-à-vis* other major currencies (Figure 2).

III. POLICY DISCUSSIONS

A. Strategy of New Government

12. **The medium-term strategy of the new government, which assumed office in April 2001, to achieve higher growth and poverty reduction** focuses on the restructuring of the banana industry, the development of tourism and offshore financial services, the promotion of private sector activity through enhanced governance, and structural reforms and increased public investment in physical and social infrastructure. These reforms are expected to lead to recovery in 2003 and beyond. Steps have been taken to involve civil society more in economic decision-making including the establishment of the National Economic and

¹¹ As of end-2001, the offshore financial center comprised 10,075 international business corporations, 896 trusts, 38 banks, 35 registered agents, 5 mutual funds, and 1 insurance company.

Social Development Council (involving the government, private sector, labor and social organizations), and the Tripartite Committee on the Economy (members are the government, employers and employees). In the financial area, the government has taken steps to strengthen the legislative and supervisory framework of the offshore financial sector in line with international standards, though much remains to be done.

13. **On October 11, 2001, the authorities announced, after extensive civil society consultation, a package of policy measures** in response to the impact of the September 11 terrorist attacks and the economic slowdown. On the fiscal side, these include a one-year public sector wage freeze, a freeze on new recruitment (except for essential services and very special cases), limits on official travel, steps to curtail import duty exemptions, and measures to strengthen tax enforcement. Further steps were taken to enhance controls on, and improve the efficiency of, public enterprises—including the establishment of a Monitoring Committee, chaired by the Prime Minister and Minister of Finance, limits on and guidelines for access to loans from the government-owned National Commercial Bank, and a requirement to submit corporate plans.

14. **The authorities project a further small decline in GDP in 2002** (of around ½ of 1 percent) reflecting the continuing impact on tourism of the September 11 terrorist attacks—with tourism receipts expected to decline in 2002 compared to 2001—and the global economic slowdown. The planned expansion in the public sector investment program and a recovery in banana production after drought should partly offset these negative impulses and could lead to a more positive outturn. Inflation is expected to remain low and the current account deficit declines moderately to around 15 percent of GDP. The authorities are discussing with the World Bank the possibility of additional accelerated assistance—notably to support the enhancement of security arrangements at airports and ports—to help deal with these shocks.

B. Fiscal Policy

15. **St. Vincent and the Grenadines's fiscal position has been threatened by higher current spending over the past four years.** For 2002, a small decline in central government current spending relative to GDP is projected reflecting the measures implemented by the government described earlier.¹² With a modest decline in revenues in relation to GDP projected, government savings decline slightly to 2.2 percent of GDP in 2002 (excluding the moratorium on certain interest payments). The mission endorsed the target of broadly unchanged government current savings as appropriately ambitious given the possibility of a

¹² The figures quoted here and for 2002 in Tables 2 and 3 are staff estimates accepted by the authorities but are different from the budget. The 2002 Budget presented to Parliament in November 2001, following normal practice, has higher totals for both expenditures and revenues which exceed these estimates. The mission suggested transparency and accountability would be enhanced by the ending of this practice.

further decline in economic activity and the need for higher expenditures on airport security. An increase in the overall public sector government deficit of around 4 percent of GDP is planned (from balance in 2001) due to higher public sector investment (3½ percentage points of GDP) financed largely by EU grants and other project loans. For the medium term, the authorities agreed that the objective should be to rebuild public sector savings by around 2–3 percentage points of GDP to 8–9 percent, to help finance higher public sector investment.

16. On **revenues**, the government has taken steps to widen the tax base through the curtailment of duty free concessions, in line with the decision taken by the OECS heads of government in September 2001, and to improve tax administration and enforcement. The mission suggested a review of all current import and customs exemptions—preferably in a wider OECS context—with the aim of eliminating as many as possible. On company profit taxation, the 2002 Budget proposed differential rates for manufacturers based on their markets.¹³ The mission suggested, however, that the aim should be to simplify the tax and thereby increase compliance. The mission encouraged the authorities in general to broaden the tax base which would permit a reduction in tax rates, and help bring the informal sector under the tax net. The mission suggested that further measures should be considered to strengthen enforcement of other taxes, such as the property tax—including moving to a market-based valuation system. In the context of the likely loss of revenues arising from the prospective Free Trade of the Americas Agreement, the authorities reaffirmed their interest in a VAT or VAT-type tax, and have sought advice on this from the CDB.

17. On **expenditures**, the mission welcomed the recent measures taken by the authorities to limit public sector wages, though central government wages still are projected to rise moderately in 2002 to 14½ percent of GDP. Given that the revenue/GDP ratio in St. Vincent and the Grenadines at 30 percent is the highest in the ECCB region, the mission encouraged the authorities to take further steps to increase the efficiency of public spending and eliminate waste. The mission emphasized the importance of protecting and preferably increasing social expenditures targeted to help the poor.

18. On the **public sector investment program (PSIP)**, the authorities have taken steps to enhance implementation capacity, and to focus spending on projects that target the productive sectors, generate employment, and reduce poverty. Expenditure under the PSIP is projected to rise by 2½ percentage points of GDP in 2002 to 9 percent of GDP.¹⁴ While welcoming these changes, the mission suggested that transparency and accountability of the budget would be

¹³ Thirty percent for local and OECS markets, 25 percent for non-OECS Caribbean Communities (CARICOM) markets, and 15 percent for extra CARICOM markets.

¹⁴ Excluding capital expenditure by VINLEC—the electricity company—the financing of which is not guaranteed by government, which is projected to increase by around 1 percentage point of GDP to 4 percent of GDP.

enhanced if annual budgets more generally reflected realistic estimates of expenditures and revenues rather than higher amounts.¹⁵

C. Monetary and Financial Issues

19. The mission shared the authorities' view that **lower domestic interest rates** would help to stimulate economic activity.¹⁶ Contrary to the authorities' preference for reducing interest rate spreads, the mission suggested that a forced reduction in spreads could jeopardize the banking system's ability to deal with nonperforming loans, which rose to 12 percent of total loans and advances in the first half of 2001 (mainly concentrated in two banks), largely related to the problems in the banana industry. Despite this rise, in the judgment of the ECCB, **the banking system in St. Vincent and the Grenadines remains basically sound.**¹⁷ Banks are exposed to increasing competition from a largely unsupervised **nonbank sector**, particularly insurance companies. The mission welcomed plans to strengthen the supervision of credit unions and the regulatory framework governing the insurance sector through new legislation.

20. The authorities have recently taken steps to **strengthen the regulatory and supervisory framework of the offshore financial sector** to address the deficiencies mentioned above (paragraph 9). These include an agreement with the ECCB signed in October 2001 under which the Bank will review new applicants for licenses, and conduct onsite inspection of existing licensees with the Offshore Financial Authority (OFA). Legislation establishing a financial intelligence unit and dealing with money laundering is expected to be passed soon. The authorities see the advantages from a reputable and efficient offshore financial center as outweighing the costs of strengthening the regulatory and supervisory framework. They see the comparative advantage of St. Vincent and the Grenadines as no longer lying in confidentiality and secrecy laws but rather in competitiveness, efficiency, good governance, and political stability. The mission encouraged the authorities to provide the OFA with sufficient human and financial resources to

¹⁵ The 2002 budget contains central government investment spending of 9.3 percent of GDP but the authorities believe that it would realistically amount to around 6½ percent of GDP (consistent with a PSIP at 9 percent of GDP).

¹⁶ Under the fixed exchange rate system, the ECCB's credit operations is guided by the policy to maintain strong foreign currency cover for the currency issue (currently over 95 percent compared with the statutory limit of 60 percent), which leaves little scope for the ECCB to lend to the regional governments. See SM/01/62 for details on the main aspects of the ECCB's credit policy.

¹⁷ The core capital to risk adjusted assets ratio was 11.5 percent and return on average equity was 6.7 percent as of September 2001; comparative ratios were 10½ percent and 5 percent respectively at end-2000.

strengthen the supervisory framework, to address decisively money laundering concerns and to move forward with their plans to codify and strengthen the legislation governing trusts and international business companies.

D. External Sector Prospects and Policies

21. The projected current account deficit of 15 percent of GDP in 2002 is projected to be fully covered by grants, multilateral financing, foreign direct investments, and other private capital inflows. The prospects for improving the balance of payments over the medium term depend largely on developments in exports, mainly bananas and agro-processed manufactured goods, and tourism. Banana exports are expected to increase due to the restructuring of the banana industry, improved technology such as high density cropping, and enhanced irrigation. Tourism earnings are also expected to grow, with increased airlift, including the hub arrangements with neighboring countries, and the steps being taken to improve product quality. The authorities are aware that balance of payments prospects depend crucially on strengthening competitiveness.

E. Structural, Social and Other Issues

22. **The authorities have implemented an ambitious program of structural reforms to promote private sector growth.** The **Banana Industry Restructuring Bill** approved in October 2001, aims to create a more streamlined and efficient banana industry over the medium term by providing incentives to farmers to increase productivity and product quality. Other initiatives designed to diversify the economy and create employment, include (i) a buy local campaign to stimulate agricultural diversification, and to strengthen intersectoral linkages, particularly between agriculture and tourism in order to encourage agro-processing; (ii) promotion of productive micro-enterprise development through enhancing business management and marketing skills; and (iii) steps to strengthen the local tourist industry including measures to strengthen standards, promote public education on the benefits of tourism, and establish local airport hubs with neighboring islands. The mission welcomed these measures and suggested they could be reinforced by further steps to build business management and marketing skills, including better coordination between the various organizations promoting small businesses and agricultural diversification. The abolition of remaining price controls and restrictions on imports and more transparent government decisions, would also help promote private sector activity. Foreign direct investment could be encouraged by the introduction of a one-stop investment shop. The recently established National Economic and Social Development Council and the Tripartite Committee on the Economy could play an important role in promoting higher labor productivity, wage restraint in the private sector and more efficient production, labor and management practices.

23. The authorities have taken several steps to strengthen financial controls over, and increase the efficiency of **public enterprises**, including requiring the preparation of corporate plans. The mission urged that these plans be comprehensive, and be used to set agreed financial goals, for which management should be held accountable. The authorities underscored their commitment to a strategy of “prudent privatization” of many of the

remaining public enterprises. The mission encouraged broad application of this approach to increase the pressures for more efficient and commercial operations of these enterprises. In this context, the privatization in October 2001 of the loss-making Diamond Dairy was welcome. Privatizations of utilities would require the establishment of a regulatory regime for price increases, perhaps at the OECS level. Partial flotation of shares on the newly established Eastern Caribbean Securities Market could promote wider share ownership and business knowledge.

24. The government is implementing a number of **social programs for reducing poverty, and improving education, health and environmental services**, with assistance from the World Bank and the CDB. These include support for farmers displaced from the banana industry and the establishment of a Youth Empowerment Service program.

25. On **regional issues**, the authorities endorsed the initiatives aimed at closer integration among CARICOM countries generally and the ECCB members in particular. They welcomed the establishment of the Eastern Caribbean Securities Market, and supported the preparations underway for a CARICOM single market. They are participating fully in regional discussions on greater fiscal convergence along the lines recommended by the ECCB, a uniform VAT type tax and in agreeing regional positions on tax competition, financial supervision and money laundering. Table 7 compares indicators for St. Vincent and the Grenadines with those in the ECCB region.

IV. MEDIUM-TERM OUTLOOK

26. The medium-term **baseline scenario** assumes strong fiscal adjustment, in line with the authorities' medium-term strategy, with central government savings projected to increase by about 2 percentage points of GDP to 5 percent of GDP by 2006, consistent with overall public sector savings of 9 percent of GDP (Table 8). With these policies and continued structural reform, real GDP growth could rise to 5 percent by 2006, with the PSIP rising by 4 percentage points of GDP to 13 percent of GDP. On this basis, the current account deficit would stabilize at 16 percent of GDP with both exports and imports of goods and services growing in line with economic activity. The current account deficits would be financed with capital inflows, as private inflows increase in response to the improved investment environment. The total public debt (external and domestic) would decline from the equivalent of 74 percent of GDP in 2002 to 66 percent of GDP in 2006.

27. Two alternative scenarios are presented (Table 9). The first illustrates the effect of weak fiscal adjustment reflected in unchanged current savings from 2001 (Alternative 1). The result is a lower PSIP, a higher public sector debt ratio and significantly lower growth by the end of the period. The second scenario illustrates the impact of further shocks in 2003. The result is a slower recovery in growth, some delay in the build up of current savings and a larger public sector debt than under the baseline scenario. St. Vincent and the Grenadines remains vulnerable to shocks to banana production (which accounts for around one third of exports)—in the form of disease or changes in the EU market access regime—and to tourism (which contributes in value added directly or indirectly perhaps 25 percent of GDP).

V. STAFF APPRAISAL

28. The new government of St. Vincent and the Grenadines is facing a difficult economic challenge. Even prior to September 11, economic growth was slowing due to the impact of the global slowdown on the tourism industry and of drought on agriculture. The country's conservative fiscal stance was threatened in recent years by rising current expenditures. The September 11 terrorist attacks have exacerbated some of these adverse trends. Tourist arrivals are sharply down and remittances likely to fall. The new government has reacted with determination to these challenges. It has announced (in May 2001) and has since started to implement an ambitious framework of policy reforms, and in October 2001 undertook additional measures—after civil society consultations—in response to the deteriorating economic situation.

29. On **fiscal policy**, the expected maintenance of current savings in 2001 would be an achievement given the economic slowdown. The target of maintaining current savings broadly unchanged in 2002 is ambitious given the weakness of economic activity and the need for additional security spending. It will require rigorous restraint on current spending—particularly on public sector wages and salaries given the recent increase in the wage bill—and the implementation of revenue enhancement measures. The authorities' medium-term goal to rebuild public sector savings to help finance a larger public sector investment program is appropriate. Given the relatively high tax rate, the **focus should be on expenditure reduction** through greater efficiency and higher labor productivity. Social safety net expenditures should be preserved or preferably increased. **On the revenue side, there remains considerable scope to broaden the tax base and simplify taxes including through the removal of exemptions.** A move towards a VAT or VAT like tax, preferably on an OECS basis, would help in replacing the likely loss of revenues arising from the prospective Free Trade of the Americas Agreement. The increased **public sector investment program** appropriately focuses on projects which target the productive sectors, generate employment and reduce poverty. The transparency and accountability of the budget would be enhanced if the budget only reflects projects that are realistically expected to be implemented in the coming year.

30. The government has taken several steps to strengthen financial controls over, and improve the efficiency of **public enterprises**. These should be reinforced by the establishment of clear financial goals with full management accountability. Early formulation of a strategy for the privatization of several enterprises would be desirable. This could include possible sale of shares on the new Eastern Caribbean Securities Market to promote wider share ownership.

31. On **monetary policy**, while the recent reduction in the discount rate by the ECCB is desirable to promote economic recovery, a forced reduction in spreads could compromise the banking system's ability to deal with a rise in nonperforming loans. Early steps should be taken—as the authorities intend—to strengthen the supervision of the nonbank sector including credit unions and insurance companies.

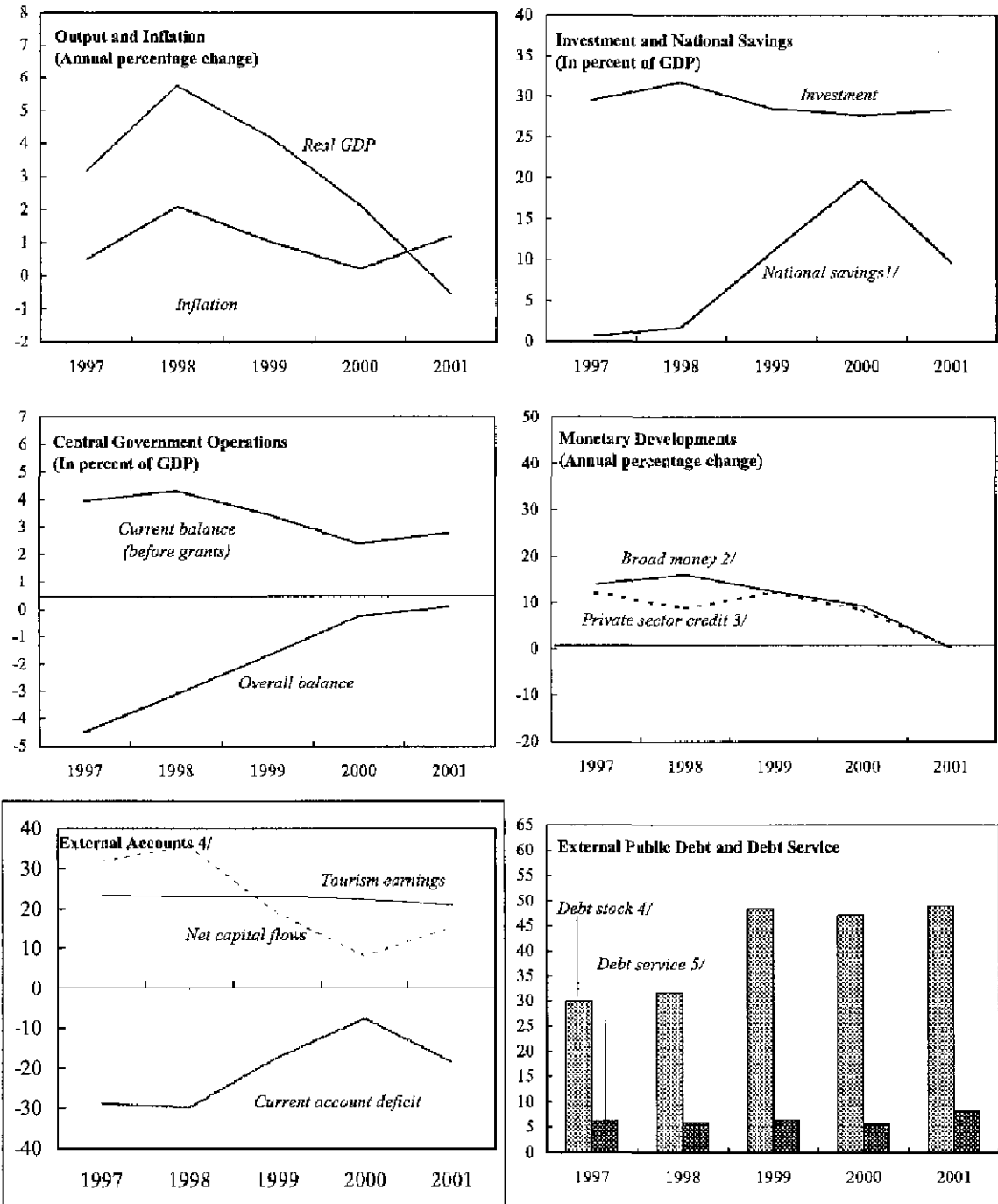
32. The authorities have taken several measures to strengthen the supervision of the **offshore financial sector** in line with international standards including a greater role for the ECCB. The authorities' objective of an offshore financial center which relies on competitiveness, efficiency, good governance and political stability for its comparative advantage rather than confidentiality and secrecy is welcome but not yet achieved. Further measures are necessary including the proposed legislation dealing with financial intelligence and money laundering and steps to codify and strengthen the legislation governing trusts and international business companies. The Offshore Financial Authority also needs sufficient human and financial resources to implement this legislation.

33. The government has adopted a series of **structural reforms** intended to lay the foundations for private sector growth. These include restructuring of the banana industry, promotion of agricultural diversification and small businesses and reform of the tourist industry. Such measures should be reinforced by better coordination between the various bodies promoting agricultural diversification and small businesses. The abolition of remaining price controls and of discretionary government decisions and concessions should be pursued vigorously. Foreign direct investment could be promoted by the establishment of a one-stop investment shop. The government's establishment of the National Economic and Social Development Council and the Tripartite Committee on the Economy reflects its wish to involve civil society in economic decision-making. These bodies could appropriately promote more efficient production, labor and management practices and entrepreneurship. Action here, together with faster growth, should help reduce current high rates of unemployment.

34. National policy formulation and Fund surveillance are hampered by the **lack of data** in some key areas—fiscal, balance of payments, labor market, and national accounts. Efforts to improve data in these areas helped by external technical assistance will enhance the effectiveness of policy-making.

35. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

Figure 1. St. Vincent and the Grenadines: Selected Economic Indicators, 1997-2001



Sources: Data provided by the St. Vincent and Grenadine authorities; and Fund staff estimates and projections.

1/ National Savings for 1997 and 1998 are lower compared to 2000 Staff report following the revision of BOP figures by the ECCB.

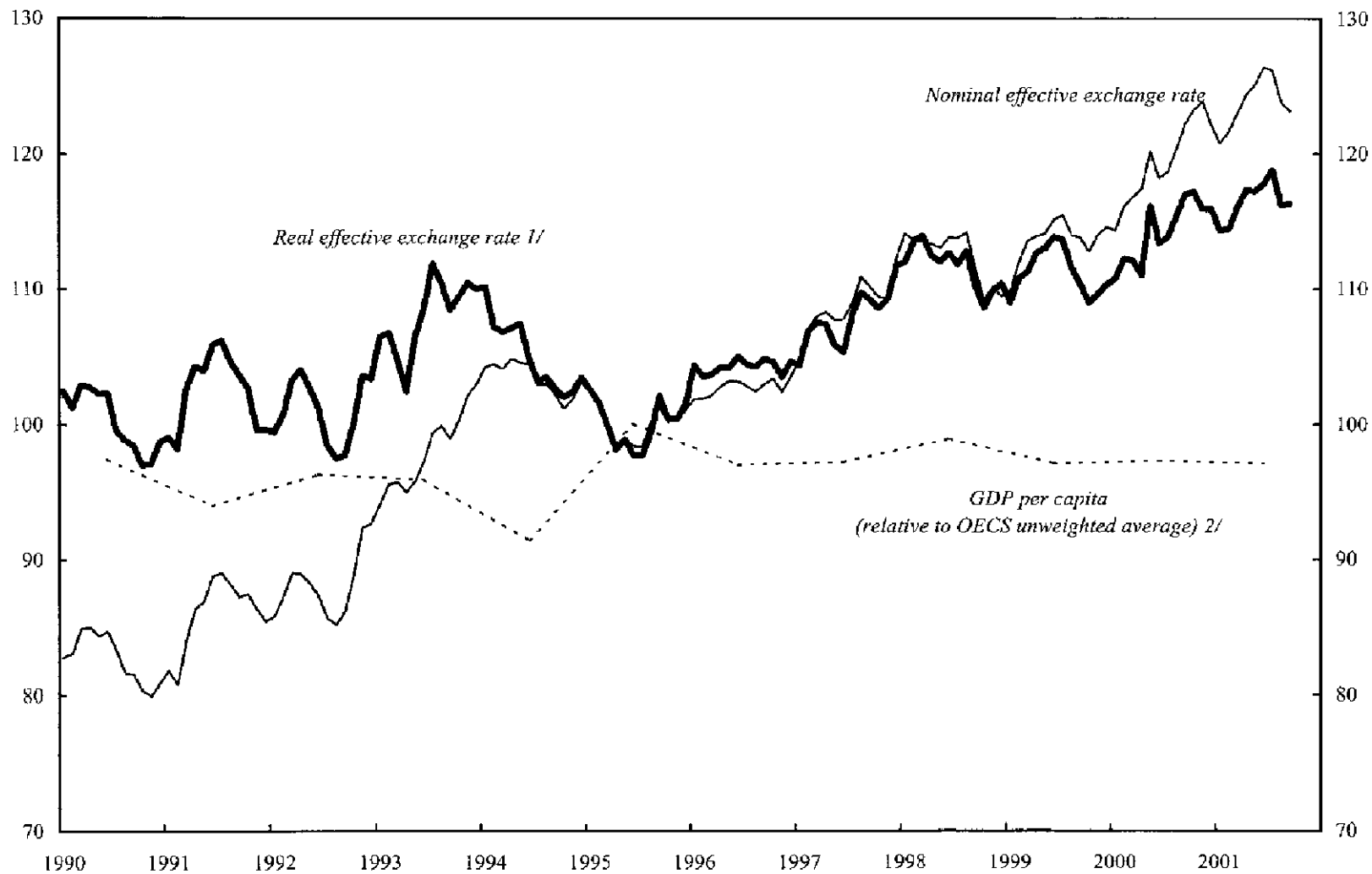
2/ Including foreign currency deposits.

3/ Including net credit to nonbank financial institutions.

4/ In percent of GDP.

5/ In percent of exports of goods and services

Figure 2. St. Vincent and the Grenadines: Exchange Rate Developments
(Index 1995=100)



Sources: IMF Information Notice System; and staff estimates.

1/ Trade-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices. An increase means an appreciation.

2/ In the absence of good wage and productivity data, relative GDP per capita is used.

Table 1. St. Vincent and the Grenadines: Selected Economic Indicators

	1997	1998	1999	Prel. 2000	Est. 2001	Proj. 2002
Real GDP growth (at factor cost; percent)	3.1	5.7	4.2	2.1	-0.6	-0.5
Inflation (average; percent)	0.5	2.1	1.0	0.2	1.2	1.5
Inflation (end of period; percent)	0.8	3.3	-1.8	1.4	1.4	1.5
Banana export volume (thousands of metric tons)	31.0	39.9	37.4	42.3	33.0	35.0
Banana export earnings (millions of US\$) 1/	13.7	20.6	19.0	19.1	13.3	14.8
Export unit value (US\$ per ton)	443	516	510	452	404	422
Total number of visitors (thousands)	199.6	199.7	223.1	256.0	211.4	224.0
<i>Of which</i>						
Stay-over visitors (thousands)	65.1	67.2	68.3	72.9	61.5	50.8
Tourism expenditure (millions of US\$)	69.1	73.2	76.5	75.3	70.7	67.8
Nominal effective exchange rate (percentage change) 2/	8.5	1.9	0.2	6.6	7.0	..
Real effective exchange rate (percentage change) 2/	6.7	-1.2	-0.1	5.0	3.9	..
External terms of trade (percentage change)	8.6	7.8	-0.3	-4.5	1.1	1.7
Weighted deposit interest rate 2/	4.9	4.9	4.6	4.6	4.6	...
Weighted lending interest rate 2/	11.9	11.8	11.6	11.5	11.5	...
Banks' prime loan rate (average) 2/	11.0	11.0	11.0	10.3	10.0	...
Liabilities to the private sector (in percent of GDP)	55.7	60.3	65.1	69.8	69.8	69.8
Liabilities to the private sector (percent change)	14.0	16.1	12.5	9.5	0.2	1.1
<i>Of which</i>						
Narrow money	34.3	16.6	21.2	16.2	0.2	1.1
Quasi money	7.3	15.8	8.9	6.4	0.2	1.1
Net domestic assets of the banking system (percent change) 3/	7.5	5.2	5.5	-1.7	4.5	1.1
Central government savings (percent of GDP) 4/	3.9	4.3	3.5	2.4	2.8	3.0
Central government savings-without moratorium (percent of GDP) 4/	3.9	4.3	3.5	2.4	2.4	2.2
Public sector savings (percent of GDP) 4/	8.4	8.0	6.4	5.3	6.3	6.5
Public sector savings-without moratorium (percent of GDP) 4/	8.4	8.0	6.4	5.3	5.9	5.7
External current account balance (percent of GDP)	-28.9	-30.0	-17.6	-7.8	-18.6	-15.2
Stock of public external debt						
end of period (millions of US\$)	88.7	100.6	160.0	159.3	165.5	168.3
(in percent of GDP)	30.0	31.7	48.5	47.3	49.0	49.3
External public debt service (millions of US\$ at end-period)	9.2	9.6	11.4	10.2	12.2	12.3
(in percent of exports of goods and services)	6.3	6.1	6.5	5.7	7.5	6.9
(in percent of central government revenue) 5/	11.2	10.7	12.0	10.6	11.9	11.9
Memorandum item:						
Nominal GDP (millions of US\$ at market prices)	295.6	317.1	330.1	337.0	337.6	341.4

Sources: Eastern Caribbean Central Bank; Ministry of Finance and Planning; Department of Tourism; Banana Growers Association; and Fund staff estimates and projections.

1/ Excludes small amounts of banana exports to regional markets.

2/ The 2001 figures are for end-June.

3/ In relation to banking system liabilities to the private sector at the beginning of the period.

4/ The government has sought a one year moratorium, ending in June 2002, on interest payments (0.4 percent of GDP in 2001, and 0.9 percent in 2002), related to the Otley Hall loan, pending an amicable settlement of the issues under dispute with the creditors.

5/ Excluding grants.

Table 2. St. Vincent and the Grenadines: Summary of Consolidated Public Sector Operations

	1997	1998	1999	Prel 2000	Est. 2001	Proj. 2002
(In millions of Eastern Caribbean dollars)						
Revenue and grants	363	384	395	408	448	444
Current revenue	347	363	377	396	420	423
Capital revenue 1/	4	6	5	2	13	3
Grants	13	14	13	10	15	18
Expenditure	372	393	452	414	450	483
Current 2/	280	295	320	348	363	363
Public investment 3/	93	98	131	66	87	120
Of which						
Public sector investment plan (PSIP) 4/ 5/	87	87	122	48	59	84
Overall balance 2/	-9	-9	-57	-6	-1	-38
Net external financing	16	37	1	5	8	8
Disbursements	33	54	17	21	26	29
Amortization	17	17	16	15	18	22
Net domestic financing	-7	-28	55	1	-7	31
Banking system	-11	-29	11	11	8	0
Other	5	1	44	-10	-14	30
(In percent of GDP)						
Revenue and grants	45.5	44.9	44.3	44.8	49.2	48.2
Current revenue	43.4	42.4	42.3	43.6	46.1	45.9
Expenditure	46.6	45.9	50.7	45.5	49.3	52.3
Current 2/	35.0	34.4	35.9	38.2	39.8	39.4
Public investment 3/	11.6	11.4	14.7	7.2	9.5	13.0
Of which						
Public sector investment plan (PSIP) 4/ 5/	10.9	10.2	13.7	5.2	6.5	9.1
Current balance (before grants) 2/	8.4	8.0	6.4	5.3	6.3	6.5
Current balance (without moratorium) 2/	8.4	8.0	6.4	5.3	5.9	5.7
Current balance (after grants) 2/	10.0	9.7	7.8	6.4	7.9	8.5
Primary balance 2/	1.5	1.5	-3.0	2.7	3.6	-0.5
Overall balance 2/	-1.1	-1.0	-6.4	-0.7	-0.1	-4.1
Net external financing	2.0	4.3	0.2	0.6	0.9	0.8
Net domestic financing	-1.4	-3.7	5.5	-0.3	-1.2	2.9

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

1/ In 2001, a major capital inflow was from the Kingstown Property EC\$11.5 million sold by the Arrowroot Industry.

2/ The government has sought a one year moratorium, ending in June 2002, on interest payments (0.4 percent of GDP in 2001, and 0.9 percent in 2002), related to the Ottley Hall loan, pending an amicable settlement of the issues under dispute with the creditors.

3/ VINLEC, the largest public enterprise, has most of its capital projects financed without a government guarantee. The main power expansion project would be implemented in 2002.

4/ The public sector investment plan (PSIP) includes only central government, and public enterprise government guaranteed projects.

5/ In 1999, major capital investment was by the Port Authority EC\$49.4 million for a building and navigation equipment.

Table 3. St. Vincent and the Grenadines: Summary of Central Government Operations 1/

	1997	1998	1999	Prel. 2000	Est. 2001	Proj. 2002
<i>(In millions of Eastern Caribbean dollars)</i>						
Total revenue and grants	238	262	274	271	295	301
Current revenue	223	242	256	260	278	280
Tax	193	211	215	221	239	239
Income	60	73	71	72	77	77
Property	2	2	2	2	3	1
Goods and services	26	28	32	41	43	44
International trade	96	100	105	98	106	107
Other	9	9	6	9	10	10
Nontax	31	30	41	39	40	40
Capital (land sales only)	2	6	5	1	1	3
Grants	13	14	13	10	15	18
Expenditure	274	289	289	273	294	312
Current	192	205	225	238	253	252
Wages and salaries 2/	108	111	119	123	130	133
Interest 3/	14	16	24	24	27	24
Other goods and services	42	45	51	51	54	54
Transfers 4/	28	33	32	40	42	40
Capital	82	84	64	35	41	60
Overall balance 3/	-36	-27	-15	-2	1	-11
Net external financing	14	40	3	8	10	8
Disbursements	26	54	16	21	25	28
Amortization	12	14	13	13	15	20
Net domestic financing	22	-13	13	-6	-11	3
Banking system	1	-18	9	6	10	3
Other 5/	21	5	4	-12	-21	0
<i>(In percent of GDP)</i>						
Revenue and grants	29.8	30.6	30.7	29.8	32.3	32.6
Current revenue	28.0	28.2	28.7	28.6	30.5	30.3
Expenditure	34.3	33.7	32.4	30.0	32.2	33.8
Current	24.1	23.9	25.3	26.2	27.7	27.3
Wages and salaries 2/	13.5	13.0	13.3	13.5	14.3	14.5
Interest 3/	1.8	1.9	2.7	2.6	2.9	2.7
Capital	10.3	9.8	7.1	3.9	4.5	6.5
Current balance (before grants) 3/	3.9	4.3	3.5	2.4	2.8	3.0
Current balance (without moratorium) 3/	3.9	4.3	3.5	2.4	2.4	2.2
Primary balance 3/	-2.7	-1.3	0.9	2.3	3.0	1.5
Overall balance 3/	-4.5	-3.1	-1.7	-0.3	0.1	-1.2
Net external financing	1.7	4.6	0.3	0.9	1.1	0.9
Net domestic financing	2.8	-1.5	1.4	-0.6	-1.2	0.3
Memorandum item:						
EU framework for mutual obligation savings target		...	4.2	4.4	4.5	...

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

1/ The figures quoted here were accepted by the authorities. The 2002 Budget presented to Parliament in November 2001, following normal practice, has higher totals.

2/ Including contribution to the National Insurance Scheme.

3/ The government has sought a one year moratorium, ending in June 2002, on interest payments (0.4 percent of GDP in 2001, and 0.9 percent in 2002), related to the Otley Hall loan, pending an amicable settlement of the issues under dispute with the creditors.

4/ Mainly contributions to international and regional organizations.

5/ Other net domestic financing figures are a residual, because domestic debt amortization figures are not accurate.

Table 4. St. Vincent and the Grenadines: Public Sector Debt 1/

	1997	1998	1999	Prel. 2000	Est. 2001	Proj. 2002
(In millions of Eastern Caribbean dollars at end-period)						
Total outstanding debt	383	420	602	623	669	680
Domestic	144	148	170	193	223	226
Central government	99	120	106	118	112	127
<i>Of which</i>						
Treasury bills 2/	3	7	26	48	48	48
Debt takeover 3/	29	28	27	26	25	37
Public enterprises	45	28	63	75	111	99
External 4/	239	272	432	430	447	454
Central government	216	251	413	413	432	440
Public enterprises	24	21	19	17	15	14
Debt service	33	34	40	40	46	47
Amortization	17	17	16	15	18	22
Domestic 5/	...	...	...	...	...	...
Central government	...	...	...	...	...	...
Public enterprises	...	...	...	...	...	...
External	17	17	16	15	18	22
Central government	12	14	13	13	15	20
Public enterprises	5	3	3	3	2	2
Interest	16	17	25	25	28	25
Domestic	8	9	10	12	12	14
Central government	8	9	10	12	12	14
Public enterprises	0	0	0	0	0	0
External 6/	8	9	15	12	15	11
Central government 6/	6	7	14	11	14	11
Public enterprises	2	1	1	1	1	1
(In percent of GDP)						
Total debt/GDP	48.1	49.0	67.5	68.5	73.4	73.8
Domestic debt	18.1	17.3	19.0	21.3	24.4	24.5
External debt	30.0	31.7	48.5	47.3	49.0	49.3
Total debt service/revenue 7/	9.6	9.5	10.7	10.1	10.8	11.1
External debt service/exports 8/	6.3	6.1	6.5	5.7	7.5	6.9
External debt service/broad money 9/	5.6	5.0	5.3	4.3	5.2	5.2
Effective interest rate 10/	4.2	4.1	4.1	3.9	4.1	3.7
Domestic debt	5.7	5.8	5.7	6.4	5.6	6.0
External debt	3.3	3.2	3.4	2.8	3.4	2.5
(In millions of Eastern Caribbean dollars)						
Memorandum items:						
External interest subject to moratorium: Otley Hall 4/		...	...	...	3.3	7.9
Debt relief: U.K. loan		...	...	1.1	0.5	0.5

Sources: Data provided by the St. Vincent and the Grenadines authorities; and Fund staff estimates and projections.

1/ Includes only government and government guaranteed debt

2/ Includes treasury bills issued for liquidity management.

3/ The central government has taken over some public enterprise overdrafts. The overdrafts were converted to long-term debt.

4/ Includes the assumption of private debt for the Otley Hall shipyard in 1999.

5/ There is no accurate information of domestic debt amortization.

6/ The government has sought a one year moratorium, ending in June 2002, on interest payments (0.4 percent of GDP in 2001, and 0.9 percent in 2002), related to the Otley Hall loan, pending an amicable settlement of the issues under disputewith the creditors.

7/ Public sector revenue excluding grants.

8/ Exports of goods and services.

9/ Including foreign currency deposits.

10/ Interest payment as percent of the average stock of debt.

Table 5. St. Vincent and the Grenadines: Monetary Survey

	1997	1998	1999	2000	Prel. 2001	Proj. 2002
(In millions of Eastern Caribbean dollars)						
Net foreign assets	131.0	179.5	215.4	280.2	252.8	252.8
ECCB (imputed reserves)	82.1	102.5	112.9	147.0	133.1	133.1
Commercial banks	48.8	77.0	102.5	133.2	119.6	119.6
Net domestic assets	313.6	336.5	365.1	355.3	383.9	391.0
Public sector credit (net)	-72.3	-101.0	-90.0	-78.8	-71.2	-70.7
Central government	65.0	47.2	56.0	62.2	71.9	74.7
National Insurance Scheme	-140.5	-150.8	-147.0	-151.8	-153.9	-156.2
Other	3.2	2.6	1.0	10.8	10.8	10.8
Private sector credit	447.2	486.4	545.6	592.1	593.2	599.8
Other assets (net)	-47.7	-30.0	-45.8	-120.3	-100.4	-100.4
Broad money	444.6	516.1	580.5	635.5	636.7	643.8
Narrow money	129.2	150.7	182.7	212.3	212.6	215.0
Currency in circulation	33.5	36.4	57.5	52.1	52.2	52.8
Demand deposits	95.8	114.3	125.2	160.1	160.4	162.2
Quasi-money	315.3	365.3	397.7	423.3	424.0	428.8
Time deposits	85.5	101.2	112.4	137.1	137.4	138.9
Savings deposits	221.7	252.0	268.8	277.5	278.0	281.1
Foreign currency deposits	8.1	12.1	16.6	8.6	8.7	8.8
(Annual percentage change)						
Public sector credit (net)	18.2	39.8	-10.9	-12.4	-9.6	-0.7
<i>Of which</i>						
Central government	1.7	-27.3	18.6	10.9	15.7	3.9
Private sector credit	12.1	8.8	12.2	8.5	0.2	1.1
Broad money	14.0	16.1	12.5	9.5	0.2	1.1
Narrow money	34.3	16.6	21.2	16.2	0.2	1.1
Quasi-money 1/	7.3	15.8	8.9	6.4	0.2	1.1
(Percent contribution to growth in broad money) 2/						
Net foreign assets	6.5	10.9	7.0	11.2	-4.3	0.0
Net domestic assets	7.5	5.2	5.5	-1.7	4.5	1.1
Public sector credit (net)	-2.9	-6.5	2.1	1.9	1.2	0.1
<i>Of which</i>						
Central government	0.3	-4.0	1.7	1.1	1.5	0.4
Private sector credit	12.4	8.8	11.5	8.0	0.2	1.0
Other assets (net)	-1.6	4.0	-3.1	-12.8	3.1	0.0
Broad money	14.0	16.1	12.5	9.5	0.2	1.1
Memorandum item:						
Income velocity 3/	1.8	1.7	1.5	1.4	1.4	1.4

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

1/ Including resident foreign currency deposits.

2/ Change in relation to the stock of broad money at the beginning of the period.

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

Table 6. St. Vincent and the Grenadines: Balance of Payments Summary

	1997	1998	1999	Prel. 2000	Est. 2001	Proj. 2002
(In millions of Eastern Caribbean dollars)						
Current account 1/	-230	-257	-157	-71	-170	-140
Trade balance	-284	-323	-344	-246	-314	-294
Exports, f.o.b.	128	136	137	140	111	138
<i>Of which</i>						
Bananas	37	56	51	52	36	40
Manufactured exports	61	55	50	48	49	51
Imports, f.o.b.	412	459	481	386	424	431
Services (net)	60	75	186	179	158	169
Credits	267	289	336	341	328	343
Travel	187	198	207	203	191	183
Other nonfactor services	80	91	129	137	137	160
Debits	206	213	150	162	170	173
Travel	20	20	21	26	26	26
Other nonfactor services	187	193	129	136	144	148
Income payments (net) 1/	-35	-39	-36	-55	-62	-64
Current transfers	29	30	38	51	48	48
Net private transfers	27	29	38	43	39	37
Net official transfers	1	1	0	7	9	10
Capital and financial account	262	304	162	73	141	140
Capital	35	58	17	34	22	30
Financial (net)	228	246	146	39	119	110
Official capital 2/	16	37	1	5	8	8
Commercial banks	-23	-28	-26	-31	14	3
Private capital	235	238	170	65	97	111
<i>Of which</i>						
Net direct investment	250	240	115	76	91	100
Errors and omissions	-29	-24	5	31	15	0
Overall balance 4/	3	24	10	33	-14	0
(In percent of GDP)						
Total trade 3/	67.6	69.4	69.3	57.8	58.7	61.7
Exports of goods and nonfactor services	49.5	49.5	53.0	52.8	48.1	52.1
Imports of goods and nonfactor services	77.5	78.5	70.8	60.2	65.2	65.6
Current account	-28.9	-30.0	-17.6	-7.8	-18.6	-15.2

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

1/ The government has sought a one year moratorium, ending in June 2002, on interest payment (0.4 percent of GDP in 2001, and 0.9 percent in 2002), related to the Otley Hall loan, pending an amicable settlement of the issues under dispute with the creditors.

2/ Debt forgiveness on UK loan totalling EC\$1.06 million in 2000, and EC\$0.5 million in 2001.

3/ Exports (f.o.b.) and imports (f.o.b.) relative to nominal GDP at current market prices.

4/ The counterpart to the BOP financing is an adjustment in imputed reserves held at the ECCB.

Table 7. St. Vincent and the Grenadines: Comparative Economic Performance to ECCB Region

	St. Vincent & the Grenadines	ECCB 1/
Population ('000; 2000)	115	580
GDP per capita (US\$; 2000)	2,920	4,919
Real GDP growth at factor cost (percent; 1996–2000)	3.3	3.6
Inflation (percent; average rate; 1996–2000)	1.6	2.1
Prime lending rate (1999)	12.5	10.0
Central government revenue and grants (percent of GDP; 1996–2000)	29.9	27.7
Central government expenditure (percent of GDP; 1996–2000)	31.6	31.6
Central government wage bill (percent of GDP; 1996–2000)	13.3	12.5
Central government balance (percent of GDP; 1996–2000)	-1.7	-3.9
Central government saving (percent of GDP; 1996–2000)	3.6	0.8
Tourism growth, stay-over (percent; 1995–99)	3.4	1.4
Export volume growth (percent, 1995–99)	1.5	-1.8
External current account balance (percent of GDP; 1995–99) 2/	-21.2	-14.9
Public sector external debt (percent of GDP, 1999) 3/	48.5	46.0

Sources: Eastern Caribbean Central Bank; and Fund staff estimates.

1/ Comprises the ECCB member countries, which are Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines.

2/ Including migrants' remittances.

3/ Government and government-guaranteed debt, end of period.

Table 8. St. Vincent and the Grenadines: Medium-Term Projections

	2002	2003	2004	2005	2006
(In percent)					
Real GDP growth (at factor cost)	-0.5	2.0	3.0	4.0	5.0
Inflation (period average)	1.5	1.5	1.5	1.5	1.5
(In millions of Eastern Caribbean dollars)					
Nominal GDP	922	959	1,005	1,063	1,133
Current account balance	-140	-151	-160	-173	-187
Exports, f.o.b.	138	145	153	164	176
Imports, f.o.b.	431	455	480	516	559
Services (net)	169	177	187	202	222
Income (net)	-64	-66	-70	-74	-79
Current transfers (net)	48	49	50	51	53
Capital and financial account	140	151	160	173	187
Overall balance	0	0	0	0	0
(In percent of GDP)					
External current account balance	-15.2	-15.7	-15.9	-16.3	-16.5
Exports of goods and services	52.1	52.4	52.7	53.2	53.9
Imports of goods and services	65.6	66.3	66.6	67.3	68.1
Overall central government balance 1/	-1.2	-1.2	-1.8	-1.9	-1.9
Central government primary balance 1/	1.5	2.5	1.9	1.7	1.4
Central government savings 1/ 2/	3.0	3.4	3.9	4.4	4.7
Central government savings (without moratorium) 1/ 2/	2.2	3.4	3.9	4.4	4.7
Public sector savings 1/	6.5	7.5	8.0	8.6	9.0
Public sector savings (without moratorium) 1/	5.7	7.5	8.0	8.6	9.0
Investment	28.1	28.4	28.6	28.8	29.1
Public 3/	13.0	13.0	13.0	13.0	13.0
Of which					
Public sector investment plan (PSIP) 4/	9.1	10.2	12.5	12.5	13.0
Private	15.1	15.4	15.6	15.8	16.1
National savings	12.8	12.7	12.7	12.6	12.6
Public	6.5	7.5	8.0	8.6	9.0
Private	6.3	5.2	4.7	4.0	3.6
Total public debt (end-period)	68.8	68.5	67.5	65.5	61.6
Public external debt (end-period)	49.3	47.9	45.0	42.7	41.5
Memorandum items:					
Banana export volume ('000 MT)	35	37	40	45	50
Banana export unit values (US\$ per ton)	422	426	431	435	440
Total banana export receipts (in millions of U.S. dollars)	15	16	17	20	22
Total number of visitors (in thousands)	224	231	240	254	275
Of which					
Stay-over visitors	51	52	54	58	62
Tourism receipts (in millions of U.S. dollars)	68	71	75	81	88

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

1/ The figures quoted here and for 2002 in Table 2 and 3 were accepted by the authorities. The 2002 Budget presented to Parliament in November 2001, following normal practice, has higher totals for both expenditures and revenues which exceed the Ministry's estimates.

2/ The government has sought a one year moratorium, ending in June 2002, on interest payments (0.4 percent of GDP in 2001, and 0.9 percent in 2002), related to the Otley Hall loan, pending an amicable settlement of the issues under dispute with the creditors.

3/ VINLEC, the largest public enterprise, has most of its capital projects financed without a government guarantee. The main power expansion project would be implemented in 2002 and 2003.

4/ The Public sector investment plan includes only central government, and public enterprise government guaranteed projects.

Table 9. St. Vincent and the Grenadines: Medium-Term Scenarios 1/

	2002	2003	2004	2005	2006
Baseline Scenario: Strong fiscal adjustment					
Real GDP growth at factor cost	-0.5	2.0	3.0	4.0	5.0
Inflation (end of period, CPI)	1.5	1.5	1.5	1.5	1.5
	(In percent of GDP)				
Central government savings 2/	3.0	3.4	3.9	4.4	4.7
Public sector savings	6.5	7.5	8.0	8.6	9.0
Public investment 3/	13.0	13.0	13.0	13.0	13.0
<i>Of which</i>					
Public sector investment plan (PSIP) 4/	9.1	10.2	12.5	12.5	13.0
Public sector debt	68.8	68.5	67.5	65.5	61.6
External current account balance	-15.2	-15.7	-15.9	-16.3	-16.5
Alternative Scenario 1: Weak fiscal adjustment					
Real GDP growth at factor cost	-0.5	1.5	2.0	2.5	3.0
Inflation (end of period, CPI)	1.5	1.5	1.5	1.5	1.5
	(In percent of GDP)				
Central government savings 2/	3.0	3.0	3.0	3.0	3.0
Public sector savings	6.5	6.5	6.5	6.5	6.5
Public investment 3/	13.0	12.0	11.0	11.0	10.0
<i>Of which</i>					
Public sector investment plan (PSIP) 4/	9.1	9.2	10.6	10.4	10.0
Public sector debt	68.8	68.8	67.9	66.7	63.4
External current account balance	-15.2	-15.2	-15.4	-15.5	-15.5
Alternative Scenario 2: Strong fiscal adjustment but further shock in 2003					
Real GDP growth at factor cost	-0.5	-0.5	2.1	3.0	4.0
Inflation (end of period, CPI)	1.5	1.5	1.5	1.5	1.5
	(In percent of GDP)				
Central government savings 2/	3.0	3.0	3.6	4.2	4.7
Public sector savings	6.5	6.5	7.5	8.4	9.0
Public investment 3/	13.0	11.0	11.0	13.0	13.0
<i>Of which</i>					
Public sector investment plan (PSIP) 4/	9.1	8.1	10.6	12.4	13.0
Public sector debt	68.8	69.3	67.4	66.1	62.8
External current account balance	-15.2	-15.2	-15.6	-16.0	-16.5

Source: Fund staff estimates and projections.

1/ The figures quoted here and for 2002 in Tables 2 and 3 are based on discussions with the Ministry of Finance. The 2002 Budget presented to Parliament in November 2001, following normal practice, has higher totals for both expenditures and revenues which exceed the Ministry's estimates.

2/ The government has sought a one year moratorium, ending in June 2002, on interest payments (0.4 percent of GDP in 2001, and 0.9 percent in 2002), related to the Otley Hall loan, pending an amicable settlement of the issues under dispute with the creditors.

3/ VINLEC, the largest public enterprise, has most of its capital projects financed without a government guarantee. The main power expansion project would be implemented in 2002 and 2003.

4/ The Public sector investment plan includes only central government, and public enterprise government guaranteed projects.

St. Vincent and the Grenadines: Fund Relations
(As of December 31, 2001)

- I. **Membership status:** Joined 12/28/79; Article VIII.
- II. **General resources account:**
- | | SDR Million | Percent of Quota |
|---------------------------|--------------------|-------------------------|
| Quota | 8.30 | 100.0 |
| Fund holdings of currency | 7.80 | 94.0 |
| Reserve position in Fund | 0.50 | 6.0 |
- III. **SDR department:**
- | | SDR Million | Percent of Allocation |
|---------------------------|--------------------|------------------------------|
| Net cumulative allocation | 0.35 | 100.0 |
| Holdings | 0.03 | 9.6 |
- IV. **Outstanding purchases and loans:** None.
- V. **Financial arrangements:** None.
- VI. **Projected obligations to Fund** (SDR million; based on existing use of resources and present holdings of SDRs): None.
- VII. **Exchange rate arrangement:** Since July 1976, the Eastern Caribbean dollar has been pegged to the U.S. dollar at the rate of EC\$2.70 per U.S. dollar. (See footnote 2 in Staff report).
- VIII. **Article IV consultation:** The last Article IV consultation was concluded by the Executive Board on October 27, 2000 (EBM/00/105). St. Vincent is on the 12-month consultation cycle, however the authorities have not accepted the Fourth Amendment to the Fund's Articles of Agreement.
- IX. **Technical assistance:** (1993–present)

In September 2001, a workshop jointly sponsored by the ECCB, and the Fund on "Estimating and Forecasting Techniques for Financial Programming" was held at the ECCB for officials of ECCB member countries.

MAE: In September 2001, a mission assisted the government complete the OFC Module 1, and prepare an aide-memoire on the principal issues.

STA: In July 2001, a mission assisted ECCB countries complete GDDS metadata for socio-demographic topics, and GDDS external metadata.

STA: In 1997, a mission discussed with the ECCB on methodological compilation and reporting issues concerning money and banking statistics.

STA: In 1993, a mission assisted on the tax administration, and the compilation of fiscal data for publication in GFS. A fiscal expert was also assigned as Budget Advisor in the ministry of finance and planning for a period of eight weeks starting in November 1993.

St. Vincent and the Grenadines: Relations with the World Bank Group
(As of December 31, 2001)

I. PROJECTS

1. St. Vincent and the Grenadines is a participant in the World Bank supported and supervised OECS Solid Waste/Ship-generated Waste Management Projects that were approved in FY 1995¹. The objective of these operations is to reduce public health risks in Eastern Caribbean islands and protect the environmental integrity of their coastal and marine systems, by improving solid waste management facilities. The St. Vincent and the Grenadines component is US\$6.55 million—US\$4.65 million from the World Bank (US\$1.8 million from IBRD, US\$1.8 million from IDA, and US\$1.05 million from GEF) and US\$1.9 million from the Caribbean Development Bank.

2. In FY 1998, the World Bank approved US\$6 million for an OECS Telecommunications Reform Project. The share of St. Vincent and the Grenadines in this project is US\$1.2 million (US\$0.6 million from IBRD, and US\$0.6 million from IDA). The objective is to introduce pro-competition reforms in the telecommunications sector and increase the supply of informatics-related skills in the five OECS borrowing countries.

3. The Bank is currently preparing the St. Vincent and the Grenadines component (US\$6 million) of the OECS Disaster Management Program for presentation to the Board in February 2002. The first phase of this program includes three OECS countries (Dominica, St. Kitts and Nevis, and St. Lucia), which went to the Board in FY 1998. The second phase includes Grenada and St. Vincent and the Grenadines. Grenada was presented to the Board on October 2000. The program aims to support the physical and institutional efforts of the participating countries for disaster recovery and emergency preparedness and management.

4. The World Bank's Management presented to its Board a new Eastern Caribbean Sub-Region Country Assistance Strategy (CAS), on June 28, 2001. For the five years FY 2002-06, the CAS, which includes St. Vincent and the Grenadines, proposes new commitments of US\$110 million for the five OECS World Bank borrowers.

5. In addition, the Bank is doing four reports in the area of OECS institutional development. In the last stages before publication issuance are three reports: the OECS Institutional and Organizational Review, the Country Procurement Assessment Review, and

¹ World Bank fiscal year begins on July 1.

the County Financial Accountability Assessment. In addition, within the next two fiscal years, the Bank will complete a public expenditure analysis.

6. For the next meeting of the Caribbean Group for Cooperation in Economic Development (CGCED), which is currently planned to take place in Washington in June 2002, the Bank is preparing two reports covering the whole Caribbean region, with a specific emphasis on the OECS: Reducing Vulnerability to Natural Disasters in the Caribbean Region; and Caribbean Youth and Social Development.

7. The World Bank is preparing a Loan package to support an Emergency Recovery and Security Enhancement Program for the OECS region. The program aims to help smooth the impact of the September 11 attack on the tourism sector, in particular by enhancing the countries' image as safe and secure tourist destinations. The overall size of the package of World Bank assistance (up to US\$40 million), as well as the component for St. Vincent and the Grenadines, will depend *inter alia* on the final costing of equipment, training, and technical assistance needs to strengthen security arrangements at airports and ports. The package is expected to be presented to the World Bank's Board of Executive Directors early in calendar year 2002. The CDB is also considering co-financing for the program.

II. FINANCIAL RELATIONS

IBRD and IDA Operations (In millions of U.S. dollars)

Operations	Principal			Disbursed			Undisbursed		
	1994	1995	1996	1997	1998	1999	2000	2001	2002
OECS Solid Waste Management			3.60		0.39			3.21	
OECS Telecommunications Reform			1.20		0.25			0.95	
				Actual				Projections	
Fiscal year 1/	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total disbursements	0.10	0.10	0.10	0.10	0.00	0.20	0.00	0.40	0.00
Repayments	0.00	0.20	0.20	0.20	0.20	0.10	0.10	0.20	0.10
Net disbursements	0.10	-0.10	-0.10	-0.10	-0.20	0.10	-0.10	0.20	-0.10
Canceled	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest and fees	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.00

Source: The World Bank Group.

St. Vincent and the Grenadines: Caribbean Development Bank Relations
(As of December 31, 2001)

The CDB has approved loans totaling US\$28.15 million, of which US\$9.76 million are undisbursed. There are three major projects:

The Grenadines Multi-Project III—US\$3.5 million undisbursed—is geared towards further development of the Multi-Project II tourist sector in the Grenadines through construction of roads in Bequia, Canouan, and Union Islands and a jetty in Mayreau.

The Basic Education Project—US\$3.67 million undisbursed—is for the construction of schools, teacher training, and curriculum development.

The Solid Waste Management Improvement Project—US\$0.34 million undisbursed—is intended to improve waste management through the establishment/upgrading of landfills, the provision of equipment, and the strengthening of the legal framework.

I. Current Portfolio
(In millions of U.S. dollars)

	Approved	Undisbursed
Total	28.15	9.76
Lines of credit	2.50	1.38
Multi-project III	7.66	3.51
Multi-project II	5.02	0.28
Development Bank	0.19	0.05
Hurricane response	0.50	0.29
Airport	2.67	0.24
Solid waste management	3.53	0.34
Basic education	6.08	3.67

II. Loan Disbursements
(In millions of U.S. dollars)

	1997	1998	1999	2000	2001 1/
Net disbursement	5.97	4.23	0.94	0.07	1.64
Disbursement	8.17	7.05	3.37	2.15	2.63
Amortization	2.20	2.82	2.43	2.08	0.99
Interest and charges	1.16	1.55	1.78	1.42	0.91
Net resource flow	4.81	2.68	-0.84	-1.35	0.73

1/ January-June only.

ST. VINCENT AND THE GRENADINES: STATISTICAL ISSUES

In St Vincent and the Grenadines, the statistical base is weak in terms of coverage, and reliability. This hinders the monitoring of economic policies. The reporting of some core data to the Fund is irregular and often subject to revision. The statistical compilation could improve by adequately staffing of the statistical office. This would improve the benefits from technical assistance.

1. **Real sector:** Data on consumer price index are reported regularly with lags. At present no data on production are reported to STA. However, the authorities have provided data during Fund missions and between consultations. The compilation and publication of national accounts and employment statistics are quite deficient in terms of coverage because of lack of capacity. National accounts are compiled annually and few intra-year output indicators are available, which hampers timely and accurate assessment. There has not been any comprehensive employment survey for a long time, and statistics such as unemployment rate are non-existent. The recently conducted population census will provide an opportunity for compiling such statistics, and results are expected to be available in the middle of next year.
2. **Government finance:** STA's database includes annual data for the central government, which are published in the *GFS Yearbook*. To enhance the GFS data, it would be recommendable to report expenditure data by economic classification and breakdowns for financing by type of debt holder and debt instrument. Central government finances are provided to Fund missions, but with extensive revision of historical data. The public enterprises are not monitored by the ministry of finance resulting in difficulties in compilation of data, and data are subject to long lags. Although domestic debt figures are now available following the implementation of the CS-DRMS system, the domestic debt amortization figures are incomplete. This limits the reconciliation of the above- and below-the-line accounts of the central government.
3. **Monetary statistics:** Monetary data are compiled by the ECCB on a monthly basis. The data are reported regularly to the Fund, although the timeliness of data (lag of up to six weeks) could be improved. The monetary and financial data does not include the accounts of credit unions that accept deposits. The ECCB is aware of the need to improve the coverage of the financial statistics and has taken steps to collect data on credit unions (The savings and loans of credit unions account for 20-30 percent of market share).
4. **Balance of payments:** The ECCB compiles annual balance of payment statistics, which are submitted to STA. Although in the past there have been long delays in reporting the data, the timeliness has recently improved, and data for the period through 2000 will be published in the January 2002 issue of the IFS.

St. Vincent and the Grenadines: Core Statistical Indicators
as of end- December 2001

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt/ Debt Service
Date of Latest Observation	Fixed Rate	09/01	09/01	09/01	09/01	09/01	11/01	09/01	09/01	2001 QII	2000	09/01
Date Received	n.a.	09/14/01	09/14/01	09/14/01	09/14/01	09/14/01	12/10/01	09/26/01	09/26/01	09/17/01	06/08/01	06/08/01
Frequency of Data	n.a.	M	M	M	M	M	M	M	A	Q	A	A
Frequency of Reporting	n.a.	Q,V	Q,V	Q,V	Q,V	Q,V	M	Q,V	A	Q	A,V	A
Source of Update	n.a.	ECCB	ECCB	ECCB	ECCB	ECCB	CSO	CSO	CSO	MOF	CSO	ECCB
Mode of Reporting	n.a.	M,E	M,E	M,E	M,E	M,E	M,E	M,E	M,E	V,E	V	V
Confidentiality	n.a.	U	U	U	U	U	U	U	U	U	U	U
Frequency of Publication	n.a.	Q	Q	Q	Q	Q	M	Q	A	A	A	A

¹ D-daily, W-weekly, M-monthly, Q-quarterly, A-annually, V-irregularly, and O-other. A "V" added to a "Q" or an "A" indicates that the latest observation has been received upon request.

² A-direct reporting by Central Bank, Ministry of Finance, or other official agency, N-official publication of press release, P-commercial publication, C-commercial electronic data provider, E-EIS, O-other.

³ E-electronic data transfer, C-cable or facsimile, T-telephone, M-mail, V-staff visits, and O-other.

⁴ A-for use by the staff only, B-for use by the staff and Executive Board, C-unrestricted, D-preliminary data available to staff prior to official publication or E-subject to other use restrictions.

INTERNATIONAL MONETARY FUND

ST. VINCENT AND THE GRENADINES

**Staff Report for the 2001 Article IV Consultation
Supplementary Information**

Prepared by the Staff Representatives for the
2001 Consultation with St. Vincent and the Grenadines

Approved by Claudio M. Loser and Liam P. Ebrill

January 22, 2002

Since the staff report (SM/02/17, 1/14/02) was issued, the following additional information has become available to the staff.

Central government fiscal outturn for November 2001

Provisional data indicate a weakening of the fiscal position for 2001 from that described in the report (paragraph 7). Revenue receipts declined in November 2001 by around 18 percent compared to November 2000 with a sharp decline in nontax revenue, due to temporary accounting delays and lower consumption, and company tax receipts due to the economic slowdown. As a result, central government savings for the first eleven months of the year totaled 0.5 percent of GDP (compared to 1 percent in the same period of 2001). It is unclear whether these adverse trends in November—which are still being looked into—persisted into December. It is likely, however, that the outturn for 2001 will be central government savings of around 1.7 percent of GDP, compared with the 2.4 percent of GDP earlier projected (Table 3).

Tourist expenditures

At the time of the preparation of the staff report, a decline in tourist revenues of around 6 percent was projected for 2001 as a whole, reflecting the expected adverse impact of the September 11 attacks on tourist arrivals in the fourth quarter of the year. Provisional data through November suggest that the decline in tourist arrivals in the September to November period, at around 15 percent, was less than earlier projected (at around 50 percent); while the yacht sector, which accounts for around two fifths of overall tourist receipts, remained buoyant with a growth of nearly one quarter in the eleven months to November 2001. As a result, tourist revenues are expected to rise by perhaps 3 percent. As a consequence of these higher travel receipts (projected at around EC\$209 million compared to EC\$191 million included in Table 6 of the staff report), the current account deficit is now expected to be around 16½ percent of GDP (instead of 18½ percent of GDP in the staff report, paragraph 10). This stronger tourist performance will likely result in an upward revision of

the ½ percent decline in GDP earlier projected for 2001 to perhaps a decline of 0.2 percent (paragraph 6).

Staff appraisal

These fiscal developments do not modify the thrust of the staff appraisal (paragraph 29). While current central government savings in 2001 are likely to fall below 2000 levels rather than be maintained, the recent weakness in revenues underscores that achievement of the savings target of 2.2 percent of GDP in 2002 will require strong implementation of revenue enhancement measures as well as rigorous expenditure restraint as is emphasized in the appraisal.



INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 02/11
FOR IMMEDIATE RELEASE
February 19, 2002

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2001 Article IV Consultation with St. Vincent and the Grenadines

On January 28, 2002, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with St. Vincent and the Grenadines.¹

Background

In recent years, the economy of St. Vincent and the Grenadines has diversified from bananas into services, mainly tourism, telephone and internet based marketing, and offshore financial services. However, the rate of economic growth, which had averaged 4 percent a year during 1997–99, declined sharply to 2 percent in 2000, reflecting mainly contraction in the construction sector as major public sector projects were completed. Growth is expected to have declined further in 2001 due to the impact of a severe drought on agriculture and a slowdown in tourism resulting partly from the September 11 terrorist attacks. Annual inflation remained below 2 percent in both 2000 and 2001. While recent labor data—including the results of the 2001 census—are not available, unemployment is thought to be around one fifth or higher.

Public sector savings gradually declined from above 8 percent of GDP a year in 1997–1998 to 5 percent in 2000. Central government current expenditures increased by 2½ percentage points of GDP from 1999 to 2001 partly due to an increased wage bill; revenues rose by 1½ percentage

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. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

points of GDP over the same period. Public investment roughly halved to 7 percent of GDP in 2000 due to capacity constraints and the slow disbursements of external funds.

The growth of the offshore sector has slowed in recent months, and more licenses have been revoked in response to the further measures, including legislation, taken by the government to improve the regulatory and supervisory framework. As of end-2001, the offshore financial center comprised 10,075 international business corporations, 896 trusts, 38 banks, 35 registered agents, 5 mutual funds, and 1 insurance company.

The external current account deficit is estimated to have doubled to around 16½ percent of GDP in 2001 due largely to a decline in banana export volumes, higher imports and a slowdown in tourism receipts and remittances. The deficit was financed mainly by private capital flows. Public sector debt has increased from 49 percent of GDP in 1998 to 73 percent of GDP in 2001 following the takeover of private and other nongovernment guaranteed debt.

The new government which took office in April 2001 has begun implementing an ambitious framework of policy reforms designed to strengthen the public finances, achieve higher growth, lower unemployment and reduction in poverty. Adjustment measures were announced in October 2001—after civil society consultation—in response to the deteriorating economic situation, partly resulting from the September 11 attacks.

Executive Board Assessment

Directors noted that the new administration is facing a difficult economic challenge made worse by the impact on tourism of the September 11th terrorist attacks. They commended the ambitious framework of policy reforms undertaken by the government, and the additional measures announced in October 2001. The degree of civil society consultation prior to the adoption of these measures is particularly noteworthy.

Directors agreed that the medium-term challenge facing the authorities is to generate faster economic growth to reduce poverty and unemployment. They stressed that this will require continued diversification from bananas—which still rely on a protected market—into other marketable crops, and into services and small industries, particularly crafts and agro-processing. In this context, they welcomed recent steps to restructure the banana industry to promote agricultural diversification and small businesses, but noted that these should be reinforced by the abolition of remaining price controls and discretionary government decisions.

Directors agreed that an expanded public sector investment program, particularly on projects that target the productive sectors, should help promote private sector-led growth. However, they observed that funding the investment program without worsening the debt position will require a rebuilding of public sector savings over the medium term. In this context, they expressed concern about the recent signs of revenue weakness and urged the authorities to redouble their efforts to restrain current spending—particularly on wages, given recent increases in the wage bill—and to implement revenue enhancement measures. Given the relatively high tax burden, the medium-term focus should be on expenditure reduction through greater efficiency and

higher labor productivity. On the revenue side, there is a need to broaden the tax base and remove exemptions, preferably within the harmonized OECS context, to help bring the informal sector into the tax net. The authorities' interest in introducing a VAT-type tax was welcomed.

Directors encouraged the authorities to include in the budget only expenditure that can be realistically implemented over the coming year, to enhance transparency and accountability. Directors commended the government's efforts to monitor and improve the efficiency of public enterprises. They suggested that the government establish clear financial goals for all enterprises, with full management accountability, and a schedule for possible privatization of selected enterprises.

Directors welcomed indications that the domestic banking system remains sound. They shared the view that the monetary easing this year would be appropriate in light of the economic slowdown. However, they cautioned that a lowering of interest rates should result from continued prudent use of the central bank's discount rate rather than a forced reduction in spreads, as the latter could adversely affect the banking system given the recent increase in nonperforming loans. Directors also welcomed the authorities' intention to strengthen the supervision of nonbanks.

Directors commended the steps taken by the authorities to strengthen the supervision of the offshore financial sector, including the enhancement of the role of the ECCB and the passage of legislation dealing with financial intelligence and money laundering. They urged the authorities to redouble their efforts to ensure that they comply fully with international standards. This will require firm implementation of the recent legislation on financial intelligence and money laundering, strengthening of legislation governing trusts and international business companies, providing additional resources and staff to the offshore financial authority, and improving effective coordination with the ECCB.

Directors welcomed St. Vincent and the Grenadines' adoption of the General Data Dissemination Standard, and their commitment to improve the quality of economic data. Noting that timely statistics and transparent budgets are essential to guide the authorities in the implementation of economic policy and for effective Fund surveillance, they recommended the authorities to draw on technical assistance from CARTAC to upgrade their statistics.

Directors welcomed the authorities' decision to publish the staff report for the 2001 Article IV consultation.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2001 Article IV Consultation with St. Vincent and the Grenadines is also available.

St. Vincent and the Grenadines: Selected Economic Indicators
(Annual percent changes, unless otherwise indicated)

	1998	1999	Prel. 2000	Est. 2001
Real sector				
Nominal GDP at factor cost	7.9	4.0	1.8	1.0
Real GDP growth at factor cost	5.7	4.2	2.1	-0.2
Inflation (average)	2.1	1.0	0.2	1.2
Inflation (end of period)	3.3	-1.8	1.4	1.4
Public sector				
Central government finances 1/				
Revenue and grants	30.6	30.7	29.8	30.1
Expenditure 2/	33.7	32.4	30.0	31.8
Current 2/	23.9	25.3	26.2	28.0
Capital	9.8	7.1	3.9	3.8
Current account balance before grants 2/	4.3	3.5	2.4	0.9
Current account balance (with moratorium) 2/	4.3	3.5	2.4	1.3
Overall balance	-3.1	-1.7	-0.3	-1.8
Public sector debt 1/	49.0	67.5	68.5	73.4
Money and interest rate				
Net domestic assets of the banking system (percent change) 3/	5.2	5.5	-1.7	4.5
Net credit to public sector	-6.5	2.1	1.9	1.2
Credit to private sector	8.8	11.5	8.0	0.2
Liabilities to the private sector	16.1	12.5	9.5	0.2
Average weighted lending interest rate	11.8	11.6	11.5	11.5
External sector				
External current account balance 1/	-30.0	-17.6	-7.8	-16.6
Public external debt 1/	31.7	48.5	47.3	49.0
Public external debt service 4/	6.1	6.5	5.7	7.5
Real effective exchange rate (minus is depreciation)	-1.2	-0.1	5.0	3.9

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

1/ In percent of GDP.

2/ The government has sought a one year moratorium, ending in June 2002, on interest payments (0.4 percent of GDP in 2001), related to the Ottley Hall loan, pending an amicable settlement of the issues under dispute with the creditors.

3/ In relation to banking system liabilities to the private sector at the beginning of the period.

4/ In percent of export of goods and services.

**Statement by Ian E. Bennett, Executive Director for St. Vincent and the Grenadines
January 28, 2002**

Key Points

- The fall-out from the atrocity of 11 September and a severe drought had a negative impact on the economy and public finances of St. Vincent and the Grenadines in 2001.
- The new government, in consultation with civil society, responded quickly and decisively to reverse the deterioration in the public finances and to address the problems facing the economy.
- Within a framework of partnership with civil society, continuing fiscal prudence and wage restraint, the government is implementing a plan for the renewal of economic growth and social progress into the medium term.
- The government has also taken further steps, including legislation, to improve the regulatory and supervisory framework of the offshore financial sector.

My authorities in St. Vincent and the Grenadines would like to thank staff for their well-balanced report and for their fruitful interaction with them in the course of the recent mission. They wish also to express their appreciation of these annual missions which provide an invaluable forum for discussions on important short and medium-term issues.

Overview

Events last year have underlined the fragility of small, open economies depending on a narrow base of productive activity. With tourism accounting for over 20 percent of its GDP, and agriculture, mainly bananas, contributing a further 12 percent, it is no surprise that a severe drought last year and the consequences of the atrocity of 11 September had an adverse impact on the economy of St. Vincent and the Grenadines. This is evidenced by the staff report, and by the Supplementary Information memorandum which indicates that central government savings were about 1.7 percent of GDP in 2001, compared with 2.4 percent in 2000, that the current balance of payments deficit more than doubled from almost 8 percent of GDP in 2000 to over 16 percent of GDP in 2001, and that real GDP fell marginally following growth of over 2 percent in 2000.

Fiscal/Economic Policy

The government, which assumed office in April, 2001 after a long period in opposition, responded quickly and decisively to reverse the deterioration in the public finances and to address the problems facing the economy. The actions which it took in October last year

included a one-year freeze on wages and hiring in the public sector, restrictions on official travel, curtailment of duty-free concessions, measures to improve tax compliance, and the re-focusing of public capital expenditure with accompanying action to enhance implementation capacity. A notable feature of these actions was that the government engaged civil society before introducing them. Moreover, it plans to continue this engagement in its efforts to maintain fiscal discipline and to focus economic policy on measures designed to encourage the further development of the productive sectors, thereby creating sustainable employment, and to address the problem of poverty. To all these ends, the government is resolved:

- to persevere with its efforts to widen the tax base, the progress on which is noted in the staff report. However, progress in this area will partly depend on concerted movement among East Caribbean Islands, particularly in relation to the introduction of a VAT-type tax;
- to fully implement the measures necessary to enhance the efficiency of public expenditure generally, and the management of the spending of public enterprises in particular, and to build on these measures in the light of experience;
- to maintain the focus of the Public Sector Investment Program on measures which will help to fortify and expand the productive base of the economy, and
- to continue to promote social cohesion through programs aimed at poverty reduction and improved social services, especially education and health.

Monetary/Financial Issues

My authorities welcome the acknowledgement in the staff report that the banking system in St. Vincent and the Grenadines is basically sound. In this connection, staff have alluded to the authorities' preference for reducing interest rate spreads and to the possible consequences of a forced reduction in these spreads. The administration's concern about this issue has to be seen in the light of the fact that, despite the country's long-standing exchange rate stability with the US\$ and low inflation environment, movements in lending rates are not responding adequately to the significant fall in international interest rates which has taken place. This suggests the presence of oligopolistic practices resulting in excessively high real interest rates for the productive and personal sectors.

Decisive steps have already been taken in St. Vincent and the Grenadines to improve the regulatory and supervisory framework of the offshore financial sector. In December 2001, two new laws to further reinforce these actions came into force, namely, the Financial Intelligence Unit Act and the Proceeds of Crime and Money Laundering (Prevention) Act. In addition, the resources of the Offshore Financial Authority have been strengthened. Moreover, consultants have been recruited to overhaul existing legislation governing the day-to-day functioning of the offshore financial sector, and are expected to complete their mandate of reviewing, up-dating and drafting new laws by June 2002. It is evident, therefore, that the government is making rapid progress towards achieving its objective which, as stated in the staff report, is *"an offshore financial sector which relies on*

competitiveness, efficiency, good governance, and political stability for its comparative advantage..”.

Economic Development/Structural Reform

Within a framework of the partnership with civil society, continuing fiscal prudence and wage restraint, the government’s plan for the renewal of economic growth and social progress into the medium term involves the following:

- the revival of agriculture. Central to this is the successful restructuring of the banana industry and increasing the production of other crops, on both of which satisfactory progress is being made.
- the revitalization of the tourism sector through targeted marketing, participation in regional tourism promotion, improving air access through hub arrangements, and special measures to maintain the attractiveness of the country as a holiday destination. In this connection, the better picture for tourism painted in the Supplementary Information memorandum is a very encouraging development.
- the intensification of the drive to develop small manufacturing businesses and activities in Information Technology, particularly call centers. These endeavours are already bearing fruit.
- the revamping of the offshore financial sector so as to meet the new challenges arising from developments in the international situation.
- the commercialization and privatization of state enterprise.
- the provision of the economic and social infrastructure essential to the sustained development of the country.

Against this background, the government is looking towards a recovery in growth in 2002, together with an improvement in the fiscal position and a reduction in the balance of payments deficit. Inflation is expected to remain moderate at less than 2 percent.