FOR AGENDA

SM/83/20

CONTAINS CONFIDENTIAL INFORMATION

January 25, 1983

To: Members of the Executive Board

From: The Secretary

Subject: St. Vincent and the Grenadines - Staff Report for the 1982 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1982 Article IV consultation with St. Vincent and the Grenadines.

It is proposed to bring this subject to the agenda for discussion on Monday, February 28, 1983.

Att: (1)

Other Distribution:
Department Heads

CONTAINS CONFIDENTIAL INFORMATION

INTERNATIONAL MONETARY FUND

St. Vincent and the Grenadines

Staff Report for the 1982 Article IV Consultation

Prepared by the Western Hemisphere Department

(In consultation with the Exchange and Trade Relations, Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by E. Wiesner and W. A. Beveridge

January 21, 1983

I. Introduction

The 1982 Article IV consultation discussions with St. Vincent and the Grenadines were held in Kingstown during November 23-December 8, 1982. The representatives of St. Vincent and the Grenadines included the Acting Prime Minister; the Minister of Trade and Agriculture; other members of Cabinet; the Financial Secretary; the Permanent Secretary of the Ministry of Trade and Agriculture; the Director of Planning; and other government officials. The mission also held discussions with the heads of various public sector corporations, private businesses, and commercial banks. The staff representatives were Messrs. Hardy (Head), Abdi, Habanananda, Yadav (all WHD), Mr. Khor (EP), and Miss Hill (Secretary-WHD). The Fund mission also collaborated with a World Bank-UNDP mission which was visiting St. Vincent and the Grenadines at the same time. Mr. Casey, the Alternate Executive Director for St. Vincent and the Grenadines, participated in the final round of policy discussions.

St. Vincent and the Grenadines accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Fund Agreement, as from April 24, 1981 and maintains an exchange and trade system free of restrictions on payments and transfers for current transactions.

As of December 31, 1982 the Fund's holdings of St. Vincent and the Grenadines' East Caribbean dollars amounted to 157.7 per cent of the country's quota, of which 50 per cent corresponded to a purchase under the CFF. Further information on St. Vincent and the Grenadines relations with the Fund is presented in Appendix I.

II. Recent Developments

Following three years of rapid growth, the increase in real GDP moderated to an average of 2-1/2 per cent a year in 1979-80 because of the damage inflicted by a volcanic eruption and a hurricane (Table 1). A strong recovery in agriculture and the continued expansion of manufacturing led to a rise of 11.7 per cent in real GDP in 1981, but the rate of increase of real GDP dropped back to 2.3 per cent in 1982 because of virtual stagnation in agriculture due to drought and a 6 per cent decline in tourism owing mainly to the recessionary tendencies in North America and Europe. A moderate pickup in the rate of growth of real GDP to about 4 per cent is expected in 1983 with output in agriculture, tourism, and manufacturing rising somewhat faster than other sectors of the economy.

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

	1979	1980	1981	Est. 1982	Proj. 1983
(In millions of East Caribbean dollars)					
Nominal GDP at market prices	137.6	151.9	188.3	209.5	233.0
Real GDP at 1977 prices	108.7	111.1	124.1	127.0	131.8
(Index 1977=100)					
GDP deflator	126.6	136.7	151.7	165.0	176.7
(Percentage change)					
Nominal GDP at market prices	12.7	10.4	24.0	11.3	11.2
Real GDP	3.0	2.2	11.7	2.3	3.8
GDP deflator	9.4	8.0	11.0	8.8	7.1
Consumer price index (period average)	15.6	17.2	12.7	8.0	7.0

Sources: Organization of East Caribbean States Secretariat; and Fund staff estimates.

The annual rate of increase in consumer prices dropped from an average of 16-1/2 per cent in 1979-80 to 12.7 per cent in 1981, and to 8 per cent in 1982. This slowdown in the rate of inflation reflected mainly the deceleration in import prices. A new wage settlement for the civil servants became effective January 1, 1981 providing for a 30 per cent increase in the first year and increases of 10 per cent a year in the second and third years, and the minimum wage rates for different

categories of workers were raised by 30 to 40 per cent effective April 1, 1982--both adjustments were the first in three years. Real wages in some sectors recovered in the past two years as a result of the wage increases and the moderation in the inflation rate. The unemployment rate, tentatively estimated at about 20 per cent in 1980, is likely to have dropped due to the expansion of output in 1981-82. There were strikes in 1981 in connection with the wage negotiations and because of labor union opposition to certain proposed changes in labor legislation, but no major labor strikes were reported in 1982.

The public sector recorded a near balance in the current account in the last two fiscal years (fiscal year ending on June 30), as higher surpluses in the National Provident Fund and the Philatelic Services offset the growing current deficits of the Central Government and public enterprises (Table 2). The level of public investment has been relatively high in the past three years, with about 80 per cent of this investment financed by external grants and project-related concessionary loans. Nevertheless the financing requirement (i.e., the overall deficit after grants and concessionary loans) increased in the last two years and was covered largely by borrowing from the Fund in 1980/81 and by domestic borrowing in 1981/82.

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

(In per cent of GDP)

	1979/80	1980/81	Prel. 1981/82	Proj. 1982/83
Current balance	0.4	-0.2	0.2	0.3
Capital outlays	15.9	20.3	11.7	15.1
External grants and concessionary loans	15.1	15.9	7.9	13.3
Overall balance				
Before external grants and concessionary loans	-15.5	-20.5	-11.5	-14.8
After external grants and concessionary loans	-0.4	-4.6	-3.6	-1.5
External financing	(-0.1)	(4.0)	(0.5)	(3.1)
Domestic bank financing	(2.6)	(-1.0)	(1.8)	(-1.9)
Domestic nonbank financing	(-2.1)	(1.6)	(1.3)	(0.3)

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

The current account deficit of the Central Government widened marginally to 1.8 per cent of GDP in 1981/82, as current expenditure and revenue each rose by some 32 per cent (Table 3). The major factor in the growth of current expenditure was the civil service wage settlement mentioned above. In order to cover these expenditures, the Government introduced a number of revenue measures and administrative improvements that had an estimated yield equivalent to some 3 per cent of GDP. These measures included wider coverage of the consumption tax, a 50 per cent increase in the stamp duty, a 25 per cent increase in excise duty, a 12-1/2 per cent increase in company tax, a 50 per cent increase in the land and housing tax, and increases in various fees; partially offsetting these were an increase in the personal tax exemption and the introduction of a provision for working wives to file separate income tax returns.

Following the completion of dairy and sugar factory projects, capital spending and net lending of the Central Government declined in 1981/82 to the equivalent of 8-1/2 per cent of GDP; this ratio was still above the average of the period 1976/77-1978/79. The overall deficit before grants and concessionary loans narrowed to the equivalent of 10.4 per cent of GDP in 1981/82; but the deficit after grants and concessionary loans widened to the equivalent of 3 per cent of GDP. This was covered mostly by domestic borrowing, although there was also some borrowing from the East Caribbean Currency Authority (ECCA).

In the past two years, measures were taken which helped many of the state enterprises to improve their financial positions. In 1981/82, the combined operations of all state enterprises, except the newly opened sugar factory and the Arrowroot Industry Association, yielded a small current surplus and an overall deficit of about 1 per cent of GDP. However, the two enterprises just mentioned together showed current and overall deficits equivalent to 2.2 per cent and 3.5 per cent of GDP respectively, the latter being covered largely by domestic bank financing. Public utilities improved their finances following rate increases in 1981 and 1982, and the St. Vincent Electricity Services also benefited from the repair of a generator and an overhaul of the transmission system. The Diamond Dairy and the Central Water Authority have reduced their current account deficit recently, and the Housing and Land Development Corporation shifted to a current account surplus in 1981/82. The Banana Growers' Association generated a current account surplus in 1982 (albeit smaller than the previous year) despite a substantial drop in banana production, and the St. Vincent Marketing Corporation continues to generate savings to finance its expansion program. However, these gains were offset by the large deficits of the sugar factory that began operations in 1981/82. The sugar factory is utilizing used machinery which has required frequent repairs. The Arrowroot Industry Association withheld almost the entire 1982 production of arrowroot from export because of a 35 per cent reduction in the price.

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

	1979/80	1980/81	Prel. 1981/82	Proj. 1982/83
(In millions of East Caribbean dollars)				
Current revenue	42.9	45.7	60.2	66.7
Tax revenue	35.9	38.2	49.5	54.9
Nontax revenue	7.0	7.5	10.7	11.8
Total expenditure and net lending	62.0	67.9	80.9	96.9
Current expenditure	43.0	48.4	63.7	69.2
Capital expenditure and net lending	19.0	19.5	17.2	27.7
Current account balance	-0.1	-2.7	-3.5	-2.5
Foreign concessionary loans and grants	19.7	17.4	14.8	20.1
Concessionary loans	10.4	9.1	2.0	4.9
Current grants	3.4	--	--	--
Capital grants	5.9	8.3	12.8	15.2
Overall balance				
Before grants and concessionary loans	-19.1	-22.2	-20.7	-30.2
After grants and concessionary loans	0.6	-4.8	-5.9	-10.1
Financing	-0.6	4.8	5.9	10.1
Net IMF borrowing	--	5.8	--	--
SDR allocation	0.6	0.6	--	--
Change in foreign assets	-0.7	0.4	--	--
Net foreign borrowing at commercial terms	--	--	--	4.0
Net ECCA	--	--	1.0	3.0
Net borrowing from domestic banks	-0.7	-1.7	3.4	2.8
Other net domestic borrowing	-0.9	-0.3	0.5	0.3
Residual	1.1	--	1.0	--
(In per cent of fiscal year GDP)				
Current revenue	29.6	26.9	30.3	30.1
Tax revenue	(24.8)	(22.5)	(24.9)	(24.8)
Current expenditure	29.7	28.5	32.1	31.3
Capital expenditure and net lending	13.1	11.5	8.6	12.5
Current account balance	-0.1	-1.6	-1.8	-1.1
Overall balance				
Before grants and concessionary loans	-13.2	-13.1	-10.4	-13.6
After grants and concessionary loans	0.4	-2.8	-3.0	-4.6

Sources: Ministry of Finance; and Fund staff estimates.

1/ Fiscal year ending June 30.

In 1981, in the aftermath of the 1980 hurricane, commercial banks' net domestic credit expanded at a slower pace than their liabilities to the private sector, but in the 12-month period ended in October 1982, their net domestic credit rose by about 24 per cent, whereas liabilities increased by only 11 per cent. This development resulted in a marked tightening of the liquidity of the commercial banks, as reflected in a substantial deterioration in their net foreign asset position (foreign assets form the major part of banks' liquid assets). In particular, the ratio of liquidity to total deposits of the government-owned National Commercial Bank (NCB), the second largest bank on the island, declined to 7 per cent at the end of October 1982 from 23 per cent at the end of 1980. The NCB had expanded its credit to the private sector at a rapid rate over the past two years and, for the first time in several years, in 1982 became a net lender to the public sector.

Interest rates tended to rise moderately in 1981, and in early 1982 the floors on savings and some time deposit rates were raised by 1 to 2 percentage points by most of the commercial banks (deposit rates offered by the largest bank on the island range presently from 2-1/2 per cent to 5-1/2 per cent). These rates, nonetheless, remain well below both the domestic rate of inflation and rates prevailing abroad. The prime lending rate was raised from 9 per cent to 10 per cent but the official ceilings on lending rates remained unchanged at 12-1/2 per cent for most loans, and 14-1/2 per cent for consumer loans of less than EC$14,500. The commercial banks also raised interest rates on loans to Government and state enterprises from a range of 8-9 per cent to 9-10 per cent in 1982.

The current account deficit of the balance of payments, which had re-emerged in the wake of the natural disasters, narrowed from about 18 per cent of GDP in 1980 to about 7 per cent of GDP in 1981 because of the strong recovery in exports (particularly banana) and high sales of commemorative stamps (Table 4). However, in 1982 the current account deficit widened again to more than 15 per cent of GDP as exports and tourism were hit by the international recession. The 1982 crop of arrowroot was not exported due to lower world prices, and banana production in 1982 was adversely affected by a decline in grower prices in the second half of 1981 and early 1982. Exports of stamps and flour also declined. The number of tourist-days fell by about 6 per cent. The real effective appreciation of St. Vincent and the Grenadines' currency, about 18 per cent over the two-year period ended in August 1982, probably had an adverse effect on exports of bananas, manufactured goods, and tourism in 1982. In 1981, inflows of external grants and project-related concessionary loans were sufficient to cover the current account deficit; however, there was still an overall deficit of US$1.6 million (2.3 per cent of GDP) which was financed by a CFF purchase. A larger net inflow of official capital and a substantial external borrowing by the local commercial banks covered most of the current account deficit in 1982 and the overall deficit narrowed to US$0.4 million (1/2 per cent of GDP), which was financed by borrowing from ECCA.

Table 4. St. Vincent and the Grenadines: Balance of Payments

	1979	1980	1981	Est. 1982	Proj. 1983
(In millions of U.S. dollars)					
Current account	-7.1	-10.1	-5.1	-11.9	-15.4
Trade balance	-27.3	-37.3	-31.5	-37.9	-44.5
Exports, f.o.b.	(19.0)	(19.9)	(26.8)	(25.9)	(28.3)
Imports, c.i.f.	(-46.3)	(-57.2)	(-58.3)	(-63.8)	(-73.4)
Service balance	12.4	18.3	18.3	18.0	19.7
Travel receipts (net)	(14.0)	(19.8)	(20.0)	(20.3)	(21.8)
Receipts	/18.2/	/24.0/	/25.2/	/25.9/	/27.8/
Payments	/-4.2/	/-4.2/	/-5.2/	/-5.6/	/-6.0/
Interest on public debt	(-0.2)	(-0.3)	(-0.4)	(-0.7)	(-0.9)
ECCA profits	(0.3)	(0.4)	(0.6)	(0.9)	(0.8)
Other services	(-1.7)	(-1.6)	(-1.9)	(-2.5)	(-2.0)
Private transfers (net)	7.8	8.9	8.1	8.0	8.4
Capital account	4.2	11.7	5.1	11.2	14.7
Grants	3.3	5.0	4.5	5.6	6.0
Public borrowing (net)	3.4	4.0	2.9	2.9	6.2 1/
Commercial banks 1/	-2.1	1.6	-1.9	3.3	-1.3
Private direct investment	0.3	1.1	0.5	0.6	4.5
Other private (net) 2/	-0.7	--	-0.9	-1.2	-0.7
Errors and omissions	2.8	-1.7	-1.8	0.3	--
SDR allocation	--	0.2	0.2	--	--
Overall balance (deficit -)	-0.1	0.1	-1.6	-0.4	-0.7
Financing					
Net IMF borrowing	--	0.5	1.6	--	--
Change in ECCA position	--	--	--	0.4	0.7
Change in foreign assets (increase -)	0.1	-0.4	--	--	--
(In per cent of GDP)					
Current balance	-13.9	-17.9	-7.3	-15.3	-17.8
Overall balance	-0.2	0.2	-2.3	-0.5	-0.8

Sources: Ministry of Finance; and Fund staff estimates.

1/ Includes US$1.5 million from sale of government securities to Governments of Trinidad and Tobago and/or Barbados.

2/ Change in ECCA currency in circulation.

The outstanding external public debt of St. Vincent and the Grenadines increased from US$6.4 million on June 30, 1980 to US$17 million (about 22 per cent of GDP) at the end of June 1982. Most of this debt is owed to the Caribbean Development Bank (CDB) which has provided project financing at a 4 per cent interest rate with long grace periods. The country continues to have a relatively low external debt service ratio, although debt servicing as a percent of exports and tourism increased from about 1 per cent in 1980 to about 3 per cent in the first half of 1982.

III. Summary of Discussions on Economic Prospects and Policies

1. Public investment policy

Public sector participation in the production of goods and services is mainly limited to two large enterprises (a dairy and a sugar factory). A wide range of incentives is provided to encourage private sector investment in industry and tourism; the Development Corporation provides financing to agriculture and manufacturing and leases industrial sites and buildings constructed with financing from the CDB. With such assistance a number of enterprises have been set up in the last three years, creating directly approximately 3,000 jobs, or 7 per cent of the labor force. Presently, all factory space is occupied, and the investment program envisages building additional factory space of 43,000 square feet in 1983 and 48,000 square feet in 1984-86. The authorities view the scope for import substitution, even in agriculture, as very limited, and hence the productive base is being oriented more towards exports and tourism. The Government has attempted to promote quality tourism for relatively well-to-do clients, and yachting.

The 1982/83-1985/86 public investment program envisages total spending of EC$191 million, or an annual average of some 18 per cent of GDP; of the total about 65 per cent would be implemented by the state enterprises and statutory bodies. Investment is expected to pick up from about 15 per cent of GDP in 1982/83 to about 22 per cent a year in the two succeeding years, a somewhat optimistic target. Some 80 per cent of the investment program is expected to be financed by external grants and concessionary loans, but so far only 32 per cent of the program has identified financing. The sectoral allocation of the program reflects the development strategy: 63 per cent for power, transport, and related infrastructure; 13 per cent for other infrastructure such as water, sewerage, health, education, and housing; 12 per cent for agriculture, forestry, and fishing; 9 per cent for manufacturing and tourism; 3 per cent for administration and security, etc.

According to the authorities, project preparation and implementation continue to be a constraint on public investment, although the situation is improving because St. Vincent and the Grenadines has been able to attract a number of expatriates and Vincentians living abroad. The increase in public investment in 1982/83 is not expected to impose

much additional demand on implementation capacity because most of the investments are being carried out by foreign contractors and are of a turnkey nature.

2. Fiscal policy

The financial position of the public sector is expected to improve in 1982/83--the current account is forecast to yield a small surplus of 0.3 per cent of GDP, about the same as in the preceding year, but the overall deficit after external grants and concessionary loans is likely to narrow to 1-1/2 per cent of GDP despite a pickup in public investment (Table 2). Improvements are expected both in the operations of the Central Government and the state enterprises, but the Philatelic Services is expected to generate a lower surplus because of a drop in sale of commemorative stamps.

The Government's principal medium-term objective is to achieve a surplus on its current account so as to contribute towards the investment effort. The task of achieving this objective is made more difficult because of the 1981 wage settlement and rigidities introduced by the high proportion of wages, interest payments, and other statutory obligations in current expenditure. However, with the fiscal measures described below, the authorities expect to lower the deficit on current operations of the Central Government in relation to GDP from about 2 per cent in 1981/82 to about 1 per cent in 1982/83.

On the revenue side, in addition to the measures taken in 1981/82, which yielded the equivalent of about 3 per cent of GDP, the Government imposed a new turnover tax in 1982/83 with an expected yield equivalent to at least 1-1/2 per cent of GDP in the current fiscal year. Also, the authorities expect to improve further the collection of tax arrears. Revenue also will be boosted by an improvement in the operating surplus of the Port Authority (a departmental enterprise) because of a 43 per cent increase in charges, and by dividends and taxes from the Philatelic Services transferred to the Government's revenue account. As to current expenditure, the wage bill for civil servants is expected to rise by about 14-1/2 per cent in 1982/83 from the previous year's base level. The rate of growth of other current outlays is expected to drop to 15 per cent in the current fiscal year from 19-1/2 per cent in 1981/82. The authorities are trying to restrain the growth of the wage bill for casual government workers.

The Central Government's capital spending and net lending is projected to rise from the equivalent of 8-1/2 per cent of GDP in 1981/82 to 12-1/2 per cent in 1982/83 (EC$27.7 million)--the latter including an EC$5 million loan to the sugar factory to cover its capital expenditure and refinance its debts. Thus, the overall deficit of the Central Government after grants and concessionary loans is forecast to rise to about EC$10 million, or the equivalent to 4-1/2 per cent of GDP in 1982/83; this is expected to be financed mostly by borrowing from foreign governments (EC$4 million) and ECCA (EC$3 million), and partly by

domestic borrowing. The Government intends to use an EC$10 million bond issue as the main instrument for borrowing funds, over half of which would be taken up by foreign governments and ECCA.

State enterprises are expected to generate savings to contribute to fixed capital formation. The combined current account deficit of the state enterprises is projected to narrow from EC$4 million (2 per cent of GDP) in 1981/82 to EC$2.5 million (about 1 per cent of GDP) in 1982/83; the improvement in their overall position is projected to be greater, partly due to a decline in inventories. As noted earlier, the authorities have raised utility rates in the past two years, and they have carried out maintenance and technical improvements to reduce production costs. The authorities plan further increases in electricity charges in January 1983, and in water tariffs later in the year when additional water meters are installed. The current account surpluses of the Marketing Corporation and the Banana Growers' Association are forecast to rise, particularly as the latter benefits from a pickup in the volume and price of banana exports. The Diamond Dairy is likely to show a surplus in 1983 due to larger exports and revenue from a new operation--the packaging of fruit juices for a foreign company. The authorities plan to dispose of the present stock of arrowroot and the new crop in 1983 at the prevailing export prices to eliminate high carrying costs and to avoid loss of overseas markets. The major problem area continues to be the sugar factory which is undergoing extensive repair and improvements in order to reduce production costs; also the authorities plan to grow a variety of sugarcane that is more suitable to St. Vincent and the Grenadines and to increase production of rum for export. With these measures, the current account deficit of the sugar factory is projected to be reduced this year.

3. Monetary policy

St. Vincent and the Grenadines' membership in ECCA limits the country's ability to pursue a monetary policy independent of other ECCA members. As noted previously there are official ceilings on lending rates. Also, foreign banks operating in St. Vincent and the Grenadines are required to pay a 1 per cent tax and a 2-1/2 per cent (interest free) reserve requirement on all interest-bearing deposits. The authorities discussed the possibility of raising or removing the ceilings on lending rates to curb the growth of domestic credit demand and to achieve a better balance between domestic investment and savings; however, they were reluctant to take such a measure in isolation and proposed to review the interest rate structure in the context of the ECCA region.

The authorities were concerned about the liquidity position of the National Commercial Bank (NCB) and the mission discussed with them the possibility of restoring its liquid asset ratio from the current 7 per cent level back to about 20 per cent by the end of 1983; this could be achieved through several measures including repayments of bank overdrafts by the Arrowroot Industry Association and the sugar factory, and

placing a limit of 10 per cent on the growth of NCB credit to the private sector during 1983. The authorities felt that it would be difficult to restrain the NCB's credits to the private sector and the Central Government as suggested by the mission, and noted that the achievement of the liquid assets target depended crucially on the assumption that the Governments of Trinidad and Tobago and/or Barbados would take up EC$4 million of proposed EC$10 million bond issue planned for 1983 so that the Central Government could finance the sugar factory. The mission noted to the authorities that in order to be attractive, the domestic issues might well need to carry better terms than had been contemplated under the existing law, which provides for an EC$10 million bond issue of 10 to 15 years maturity at 8 per cent interest rate.

4. Prices and wages

The price control system has not changed significantly over the past year and a half, and consists of wholesale and retail margins on imports of essential food and drugs and administered prices of a list of items that include petroleum products, utilities, various foods, and cooking oil. The margins for the imported goods on the list range from 7-1/2 to 20 per cent of landed cost at the wholesale level with an additional 11-1/2 to 40 per cent at the retail level. Margins as well as administered prices are reviewed periodically. The St. Vincent Marketing Corporation offers minimum guaranteed prices to small farmers and seeks export outlets for their produce; furthermore, it provides competition to private merchants through its supermarket. The price control system is not considered a source of disincentive to producers; the administered prices for local meat and fish, for example, generally have been above the market price.

St. Vincent and the Grenadines has maintained stable industrial relations and wage rates that were externally competitive; these conditions have helped in attracting foreign private investment in recent years. With a view to raising labor productivity, the Government expects to use external assistance to expand its manpower training programs. In the past year and a half, labor union membership has increased rapidly, but as yet there are no labor unions in enclave industries, the dairy, the sugar factory, and the flour mill. Industrial disputes are normally settled between the parties but in some cases the Employers' Federation and the Labor Commissioner have acted as arbitrators; however, there has been no recent case requiring the establishment of an independent commission. The authorities plan to introduce a Labor Advisory Board, consisting of representatives of the workers, the employers, and the Government, to provide a forum for discussion, and thus to improve further the climate of industrial relations in the country.

5. Balance of payments, exchange rate, and trade system

The current account deficit of the balance of payments is projected to rise from the equivalent of about 15.7 per cent of GDP in 1982 to close to 18 per cent (US$15.4 million) in 1983 (see Table 4). The expected increase in imports relates in part to a foreign private brewery project, and is expected to be offset only partially by the growth of export and tourist receipts; the export volume, particularly of banana and arrowroot, is forecast to rise substantially, but the export unit value is likely to decline. The net inflow of official grants and concessionary loans is projected to rise, in part, reflecting a planned US$1.5 million sale of government bonds to foreign governments (noted above). Despite a substantial rise in foreign private direct investment the net inflow of private capital is forecast to decline somewhat in 1983 mainly because of an expected rebuilding of the commercial banks' net foreign asset position. The total net inflow of capital is anticipated to cover all but US$0.7 million (0.8 per cent of GDP) of the current account deficit. The remainder is expected to be financed through borrowing from ECCA.

The exchange rate of St. Vincent and the Grenadines' currency, the East Caribbean dollar, can only be changed with the consent of all members of ECCA. The East Caribbean dollar has been pegged to the U.S. dollar at EC$2.7 per U.S. dollar since July 1976. The authorities viewed the recent effective appreciation of their currency as a factor constraining the growth of exports and tourism, and felt that the exchange rate policy should be reviewed at the regional level.

The surrender of foreign exchange proceeds from exports and invisibles is mandatory but not strictly enforced. Payments for imports and invisibles normally require approval by the Ministry of Finance. The tax on the sale of foreign exchange by commercial banks was raised from 1 per cent to 2 per cent on July 1, 1981 which does not involve a multiple currency practice. Capital transfers are also restricted, but foreign investors are permitted to repatriate all invested capital and profits. Moreover, the effectiveness of capital controls is weak because of differences in the scope and enforcement of capital transfers among ECCA members and the high capital mobility within the region. The commercial banks can move funds freely to ECCA which imposes no restriction on transfer of those deposits outside of the region.

The trade system of St. Vincent and the Grenadines is largely free from restrictions. Trade with South Africa is prohibited, as are imports of certain products whose substitutes are locally produced. Licenses are required for imports which compete with exports from other CARICOM countries; similarly, export licenses are required for agricultural commodities included in the CARICOM marketing protocol and in the CARICOM Oils and Fats Agreement. The St. Vincent Marketing Corporation is authorized to issue export licenses for agricultural products if domestic production exceeds local and contractual demand.

IV. Staff Appraisal

St. Vincent and the Grenadines achieved relatively satisfactory growth performance in the last four years despite natural disasters and the world recession, and its real GDP is expected to rise by about 4 per cent in 1983. Manufacturing production, led by enclave industries, grew rapidly, and agriculture, after being hit by natural disasters in 1979 and 1980, more than recovered the lost ground by 1981. The rate of inflation has moderated substantially in the past two years and is expected to remain around 7 per cent in 1983. The slowdown in the rate of inflation and recent increases in wages have resulted in a rise in real wages in the past two years. Nevertheless, wage rates appear to be competitive with other countries in the region, and, along with the stable industrial environment and official policies to encourage the private sector, have been conducive to the continued growth of private investment in the economy.

In recent years, the authorities have covered most of the increases in the Central Government's current expenditure through the adoption of revenue measures and through policies to strengthen the saving performance of the public enterprises via increases in utility rates and improvements in production efficiency. The Central Government and public enterprises showed growing current account deficits in the last two years, but these were virtually offset by the rise in the surplus in the National Provident Fund and the Philatelic Services; thus, the public sector as a whole recorded approximate balance in the current account in this period. In the last two fiscal years, about three fourths of the public investment has been covered by external grants and concessionary loans with the result that the public sector recourse to domestic bank credit amounted to an average of less than 1/2 of 1 per cent of GDP.

The Government has taken steps to improve finances of the public sector in the current fiscal year. The overall financing requirement of the public sector is projected to decline to 1-1/2 per cent of GDP (from 3-1/2 per cent last year) as foreign grants and concessionary loans cover a higher proportion of public investment. The current deficit of the Central Government is forecast to be reduced from 2 per cent of GDP in 1981/82 to 1 per cent of GDP in 1982/83, reflecting the introduction of a new turnover tax with an expected yield of 1-1/2 per cent of GDP and restraint on the growth of nonwage current expenditures. The saving performance of the state enterprises is expected to improve mainly because of further increases in utility rates, the disposal of the arrowroot stock, and a pickup in export volume and price of bananas. However, despite measures to improve efficiency, the financial position of the sugar factory remains a major area of weakness. The staff would encourage the authorities to continue their efforts to improve the saving performance of the public sector, and thus raise the country's investment capacity.

Public sector investment has picked up in the last few years, and the authorities plan to raise its level further during the next three to four years though this will require significant additional external financing at concessional terms. Reflecting the rise in public investment, external public debt has risen significantly over the last three years, but, as most of these loans carry an interest rate of about 4 per cent and long grace periods, the debt servicing ratio is still below 3 per cent.

Though the deficit in the current account in the balance of payments is expected to widen somewhat in 1983, it is expected to be covered by inflows of direct foreign investment, external grants, and project-related concessionary loans; the projected overall deficit, equivalent to 0.8 per cent of GDP, is expected to be financed by borrowing from ECCA. The real appreciation of the East Caribbean dollar in 1981-82, probably has restrained the growth of exports and tourism, and the staff shares the authorities' view that exchange rate policy should be reviewed at the regional level.

In the area of monetary policies, the liquidity position of the government-owned National Commercial Bank (NCB) has deteriorated markedly over the past two years, and the staff would encourage the authorities to ensure its early restoration to a more normal level. The structure of interest rates in St. Vincent and the Grenadines is at the lower end of the scale in the region, and removal or upward adjustments in the ceilings on lending rates may well help to bring about a more effective use of credit resources. Furthermore, the authorities would be well advised to ensure that the terms for government bonds placed with the local commercial banks may be fully competitive with alternative uses of funds.

Fund Relations with St. Vincent and the Grenadines
(As of December 31, 1982)

Date of membership: December 28, 1979.

Status: Article VIII.

Quota: SDR 2.6 million.

Exchange system: The East Caribbean dollar has been pegged to the U.S. dollar, the intervention currency, at EC$2.7 = US$1 since July 1976. The Currency Authority quotes daily rates for the U.S. dollar, the Canadian dollar, and the pound sterling. The sale of foreign exchange by commercial banks is subject to a 2 per cent tax.

Fund holdings of St. Vincent and the Grenadines currency:

	Millions of SDRs	Per Cent of Quota
Total	4.10	157.7
Of which:		
Under tranche policy	(0.20)	(7.7)
Compensatory financing	(1.30)	(50.0)

SDR Department:

	Millions of SDRs	Per Cent of Net Cumulative Allocation
Net cumulative allocation	0.35	100.0
Holdings	0.03	9.7

Recent contacts: Two Fund staff members participated in an IBRD/IMF/CDB economic mission to St. Vincent and the Grenadines in November 1981. There was also a technical mission by a member of the Bureau of Statistics during June 21-25, 1982. Mr. Stephens, the Fund Regional Advisor, is accredited to St. Vincent and the Grenadines.

Last Article IV consultation: (March 1981) Board discussion of the staff report (SM/81/122 and SM/81/128) took place on June 17, 1981.

St. Vincent and the Grenadines - Basic Data

Area and population	
Area	150 sq. miles (388 sq. kilometers)
Population (mid-1982)	112 thousand
Annual rate of population increase (1975-82)	1.9 per cent
GDP per capita (1982)	SDR 622.3

Origin of GDP at factor cost (1982)	(Per cent)
Agriculture and fishing	17.1
Manufacturing	12.0
Construction	12.5
Transportation and communication	14.4
Government	18.8
Other	25.2

Ratios to GDP (1982)	
Exports of goods and nonfactor services	66.8
Imports of goods and nonfactor services	92.6
Central government revenue 1/	36.7
Central government expenditures 1/	40.7
External public and government-guaranteed debt (June 1982)	21.9
Gross domestic savings	-1.1
Investment	24.7
Money and quasi-money (end of year)	47.1

Annual changes in selected economic indicators	1979	1980	1981	Prel. 1982
		(Per cent)		
Real GDP per capita	1.2	0.6	10.0	0.4
Real GDP	3.0	2.2	11.7	2.3
GDP at market prices	12.7	10.4	24.0	11.3
Domestic expenditure (at current prices)	20.9	14.3	10.3	17.5
Investment	(22.7)	(27.6)	(11.0)	(7.2)
Consumption	(20.5)	(11.1)	(10.1)	(20.3)
GDP deflator	9.4	8.0	11.0	8.8
Consumer prices (average of period)	15.6	17.2	12.7	8.0
Central government revenues 2/	25.2	3.4	35.2	12.2
Central government expenditures 2/	27.1	9.5	19.1	19.8
Money and quasi-money	13.8	6.9	15.1	12.8
Money	(14.0)	(2.5)	(17.2)	(13.7)
Quasi-money	(13.6)	(9.1)	(14.1)	(12.4)
Net commercial bank domestic assets 3/	0.2	15.4	6.1	22.8
Credit to the Central Government	(5.6)	(-8.2)	(3.8)	(1.3)
Credit to private sector	(9.4)	(20.7)	(8.6)	(24.2)
Merchandise exports (f.o.b., in U.S. dollars)	5.0	4.7	34.7	-3.4
Merchandise imports (c.i.f., in U.S. dollars)	28.2	23.5	1.9	9.4
Travel receipts (gross, in U.S. dollars)	64.0	31.9	5.0	2.8

ATTACHMENT II

Central government finances 2/	1979	1980	1981	Proj. 1982
	(millions of East Caribbean dollars)			
Revenues	42.9	45.7	60.2	66.7
Expenditures	62.0	67.9	80.9	96.9
Current account balance	-0.1	-2.7	-3.5	-2.5
Concessionary loans and grants	19.7	17.4	14.8	20.1
Overall balance				
Before grants and concessionary loans	-19.1	-22.2	-20.7	-30.2
After grants and concessionary loans	0.6	-4.8	-5.9	-10.1
Foreign financing	(-0.1)	(6.8)	(1.0)	(7.0)
Domestic financing	(-0.5)	(-2.0)	(4.9)	(3.1)

Balance of payments				Est.
	(millions of U.S. dollars)			
Merchandise exports (f.o.b.)	19.0	19.9	26.8	25.9
Merchandise imports (c.i.f.)	-46.3	-57.2	-58.3	-63.8
Travel receipts (net)	14.0	19.8	20.0	20.3
Private transfers (net)	7.8	8.9	8.1	8.0
Other services	-1.6	-1.5	-1.7	-2.3
Current account balance	-7.1	-10.1	-5.1	-11.9
Official transfers and capital (net)	6.7	9.0	7.4	8.5
Private capital (net)	-2.5	2.7	-2.3	2.7
Errors and omissions	2.8	-1.7	-1.8	0.3
SDR allocation	—	0.2	0.2	--
Overall balance	-0.1	0.1	-1.6	-0.4

1/ FY 1981/82.
2/ Fiscal year beginning July 1 of the year mentioned.
3/ In relation to liabilities to the private sector at the beginning of the period.