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

The IMF Executive Board on December 3, 1997 concluded the 1997 Article IV consultation[1] with St. Vincent and the Grenadines.

Background

For many years the economy of St. Vincent and the Grenadines was heavily dependent on bananas, exported under preferential arrangements to the European Union (EU). Around 1993, following the introduction of a harmonized EU banana regime that, inter alia, set a terminal date of the preferential regime in 2002, the government of St. Vincent began to accelerate implementation of a strategy to create a more efficient banana industry, and to promote diversification through the development of upmarket tourism facilities, domestic agriculture, and enclave manufacturing.

The implementation of this strategy has resulted in a reduction in shipping and marketing costs for banana exports to the EU, the initiation of a replanting and rehabilitation program on the better banana lands, and in an improvement in banana quality. In addition, there has been strong growth in yacht tourism and major investments in luxury accommodations on Canouan island are well underway. The government also has taken several steps to improve the macroeconomic environment and strengthen the incentive framework.

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

Notwithstanding the diversification efforts, real GDP growth in 1997 is expected to be sluggish—about 1.5 percent—because of a decline in banana exports. This is related mainly to uncertainties created by the pressures for the dismantling of the EU banana regime, the impact of pest infestation on exports of domestic agriculture to regional markets, and slower growth in manufacturing value added, following the closure of a large enclave industry in 1996. Reflecting the discipline imposed by the regional currency arrangement and private sector wage restraint, inflation has remained under control. The external current account deficit is projected to decline to 7.5 percent of GDP in 1997 (from 8.6 percent in 1996), as the expected rise in tourism receipts offsets lower banana export earnings.

Public sector savings are projected to remain around 7 percent of GDP in 1997, roughly the level of the last few years. However, because of an expected pickup in investment spending, the overall fiscal position is expected to shift from a surplus of around 1.7 percent of GDP to near balance. An increase in public savings will be needed over the next few years to help provide counterpart funds for infrastructural projects. Bank liabilities to the private sector are projected to increase by around 9 percent during 1997, partly on the basis of strong growth in emigrants' remittances, while bank credit growth is projected to be about 12 percent, mainly due to the increase in construction loans.

A recent ruling by the World Trade Organization (WTO) could result in an early reduction in EU banana preferences, with adverse implications for the industry and the economy of St. Vincent as a whole. The authorities are planning to address this challenge through the implementation of an extensive irrigation program that could greatly raise banana yields. The government also is considering steps to improve the efficiency of the traditional manufacturing sector to cope with the likely phaseout of protection currently being received in subregional markets. Direct debt and debt-service indicators of the public sector are relatively low. The authorities are currently negotiating the rescheduling of a sizable external loan to the private sector which carries a government guarantee. Scheduled debt-service payments on this loan would put serious pressures on the budget over the medium term.

St. Vincent's statistical base has been deficient in the past, hampering the government's ability to assess economic developments. The government of St. Vincent has been taking steps to improve the scope and quality of its statistical base so that it could provide better support for policy formulation and IMF surveillance. Technical assistance from the IMF's Statistical Department is currently being discussed.

Executive Board Assessment

Directors welcomed the recent steps to improve efficiency and reduce costs in the banana industry, but noted that the industry could be affected severely by the recent ruling of the World Trade Organization, which is expected to reduce the preferences now being received by St. Vincent's banana exports to the European Union. Therefore, they welcomed the government's decision to accelerate the start of an irrigation program and urged the authorities to complete this project as quickly as possible.

Directors welcomed the encouraging developments in the tourism industry, but expressed concern about the prospects for the manufacturing sector. They emphasized the importance of maintaining external competitiveness through appropriate financial policies and wage restraint, and saw the need for further improvements in the incentive framework—in particular through the elimination of price controls and import licensing requirements, and the reduction of bureaucratic and other impediments to foreign investment.

Directors agreed that additional fiscal adjustment should focus mainly on a restrained public sector wage strategy—including the elimination of the system of automatic wage increments—and a streamlining of public sector employment over time.

Directors welcomed the government's initiative to improve the management and operations of the National Commercial Bank, and urged the authorities to consider its eventual privatization. More broadly, some Directors advised the authorities not to proceed with the establishment of the National Development Bank and to avoid increasing government involvement in commercial activities.

Directors recommended an urgent improvement in the coverage and quality of St. Vincent's statistical base to provide better support for policy formation and to allow for closer IMF surveillance.

Press Information Notices (PINs) are a new series of IMF press notices (see Press Release 97/21). PINs are issued, 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.

St. Vincent and the Grenadines: Selected Economic Indicators

	1993	1994	1995	Prel. 1996	Proj. 1997
			Annual percentage changes		
Domestic Economy					
Real GDP	0.2	-2.4	7.6	1.2	1.5
GDP deflator	3.5	4.7	0.5	3.7	2.6
Consumer prices (end of period)	4.5	0.4	3.1	3.6	0.0
			In millions o f U.S. dollars 1/		
External economy					
Exports, f.o.b.	55.6	48.9	61.9	52.3	44.1
Imports, f.o.b.	118.2	115.4	119.3	126.3	131.1
Tourism receipts	39.4	39.0	56.2	64.0	78.5
Current account balance	-41.6	-30.6	-16.4	-23.5	-21.1
Capital account balance	39.8	31.0	16.1	23.9	21.3
Of which					
Direct investment	31.4	46.9	31.4	18.6	29.9
Gross official reserves (imputed)	84.6	82.3	78.2	79.3	79.8
Current account balance (in percent of GDP)	-17.5	-12.6	-6.2	-8.6	-7.5
Percentage change in real effective exchange rate (- depreciation)	6.9	-3.0	-4.9	4.3	...
			In percent of GDP 1/		
Financial variables					
Consolidated public sector balance	-1.0	-2.7	1.9	1.7	-0.1
Change in broad money (in percent)	5.9	5.5	8.0	4.4	9.0
Interest rate (in percent) 2/	4.2	4.2	4.5	4.7	4.7

Sources: Data provided by St. Vincent authorities; and IMF staff projections.

1/ Unless otherwise noted.

2/ Weighted deposit rate.