Table 2. St. Vincent. Central Government Operations

	1975/76	1976/77	1977/78	1978/79	1979/80	Proj. 1980/81
(In millions of East Caribbean dollars)						
Total revenue and grants	22.9	27.7	34.0	41.7	52.2	57.2
Current revenue	17.0	21.4	28.3	33.8	42.9	45.8
Current grants	3.3	2.0	1.7	5.2	3.4	0.9
Capital grants	2.6	4.3	4.0	2.7	5.9	10.5
Total expenditure and net lending	27.1	33.3	35.6	48.8	62.0	65.1
Current expenditure	23.2	25.6	28.1	39.2	43.0	48.2
Capital expenditure and net lending	3.9	7.7	7.5	9.6	19.0	16.9
Current account surplus or deficit (-)(excluding grants)	-6.2	-4.2	0.2	-5.4	-0.1	-2.4
Overall deficit	-4.2	-5.6	-1.6	-7.1	-9.8	-7.9
Financing	4.2	5.6	1.6	7.1	9.8	7.9
Foreign borrowing (net)	1.1	3.6	-2.0	6.0	10.2	...
ECCA	0.6	0.6	--	--	--	...
IMF	--	--	--	--	-0.6	6.7
Domestic borrowing (net)	2.1	0.7	2.7	0 4	-1.6	...
Residual	1.1	1.3	0.9	0.7	1.2	...
(In per cent of fiscal year GDP)						
Total revenue and grants	29.9	31 2	31.2	31.6	34.9	32.5
Current revenue	22.2	24.1	26.0	25.6	28.7	26.0
Grants	7.7	7.1	5.2	6.0	6.2	6.5
Total expenditure and net lending	35.4	37.5	31.2	37.0	41.5	37.0
Current expenditure	30.3	28.8	25.8	29.7	28.8	27.4
Capital expenditure and net lending	5.1	8.7	6.9	7.3	12.7	9.6
Current account balance (excluding grants)	-8.1	-4.7	0.2	-4.2	-0.1	-1.4
Overall balance	-5.5	-6.3	-1.5	-5.4	-6.6	-4.5

Sources: Ministry of Finance; and Fund staff estimates.

INTERNATIONAL MONETARY FUND

ST. VINCENT AND THE GRENADINES

Staff Report for the 1981 Article IV Consultation

Prepared by the Staff Representatives for the 1981 Article IV Consultation with St. Vincent and the Grenadines

Approved by S. T. Beza and Manuel Guitian

May 20, 1981

I. Introduction

The first Article IV consultation discussions with St. Vincent and the Grenadines since the country joined the Fund at the end of 1979 were held in Kingstown March 2-17, 1981. The representatives of St. Vincent and the Grenadines included the Prime Minister who is also Minister of Finance, the Minister of Agriculture, other members of Cabinet; the Financial Secretary, the Director of Planning, and other government officials. The staff representatives were Messrs. Hardy (Head), Habananandа, Pera (all WHD), Short (FAD), and Yadav (WHD), and Mrs. Orpin (Secretary-WHD).

St. Vincent and the Grenadines has not yet communicated to the Fund its decision with regard to status under Article VIII or XIV.

II. Background

Following setbacks in 1979 and 1980 as a result of natural disasters, a strong growth performance is expected in 1981. From 1975 to 1978 real GDP had increased at an average annual rate of 8 per cent, led by agricultural exports and tourism. The eruption of the La Soufriere volcano in April 1979, and Hurricane Allen in August 1980, inflicted severe damage on agriculture (especially bananas), and total output of the sector fell by almost one third in real terms over the two-year period. However, this decline was offset by continued rapid gains in tourism and manufacturing, as St. Vincent was successful in attracting several new enclave industries. Thus, despite the disasters, real GDP in 1979-80 remained virtually unchanged (Table 1). The rate of inflation, measured by movements in the Consumer Price Index, averaged about 11 per cent a year during 1975-78, but rose to over 17 per cent in 1979 and 19 per cent in 1980. The unemployment rate appears to have declined over the past five years as the new industries set up in 1979-80 created about 900 jobs, equivalent to about 3 per cent of the labor force. Nevertheless, unemployment--currently estimated at around 20 per cent of the labor force--continues to be a major socio-economic problem.

Table 1. St. Vincent: Nominal and Real Gross Domestic Product

	1976	1977	1978	1979	1980
	(In millions of East Caribbean dollars)				
Nominal GDP at market prices	82.7	94.9	124.2	135.6	163.2
Real GDP at factor cost (1976 prices)	71.0	73.5	84.3	83.8	84.7
	(Index 1976=100)				
GDP deflator (at factor cost)	100.0	109.1	126.1	135.4	163.6
	(Percentage change)				
Nominal GDP at market prices	17.3	14.8	30.9	9.2	20.4
Real GDP at factor cost	6.5	3.5	14.7	-0.6	1.1
GDP deflator	10.3	9.1	15.6	7.4	20.8
Consumer Price Index (end of period)	12.2	7.4	11.1	17.5	18.9

Sources. CARICOM Secretariat, and Fund staff estimates.

Real GDP is expected to expand by about 8 per cent in 1981, as agricultural production recovers from the disasters. Tourism will show further, albeit modest, gains. Manufacturing output will be boosted by two recently completed public sector projects (a dairy and a sugar factory) as well as by the startup of several enclave industries.

The public finances strengthened in the period 1975-78, as the overall deficit of the consolidated public sector narrowed from 4 per cent of GDP to 2-1/3 per cent of GDP. In FY 1978/79 and 1979/80,1/ however, the deficit widened to 5 per cent and 8 per cent of GDP, respectively.

The narrowing of the public sector deficit in the 1975-78 period reflected a large improvement in the position of the Central Government, as a result of buoyant tax revenues and restraint on current expenditures, the latter declined in relation to GDP by the equivalent of almost 5 percentage points over the three years (Table 2). In the last two fiscal years, however, the central government accounts weakened. In 1978/79 this was mainly the result of a 50 per cent increase in salaries, which comprise about two fifths of total expenditure. This was the first wage

1/ Fiscal years are from July to June.

Table 2. St. Vincent. Central Government Operations

	1975/76	1976/77	1977/78	1978/79	1979/80	Proj. 1980/81
	(In millions of East Caribbean dollars)					
Total revenue and grants	22.9	27.7	34.0	41.7	52.2	57.2
Current revenue	17.0	21.4	28.3	33.8	42.9	45.8
Current grants	3.3	2.0	1.7	5.2	3.4	0.9
Capital grants	2.6	4.3	4.0	2.7	5.9	10.5
Total expenditure and net lending	27.1	33.3	35.6	48.8	62.0	65.1
Current expenditure	23.2	25.6	28.1	39.2	43.0	48.2
Capital expenditure and net lending	3.9	7.7	7.5	9.6	19.0	16.9
Current account surplus or deficit (-)(excluding grants)	-6.2	-4.2	0.2	-5.4	-0.1	-2.4
Overall deficit	-4.2	-5.6	-1.6	-7.1	-9.8	-7.9
Financing	4.2	5.6	1.6	7.1	9.8	7.9
Foreign borrowing (net)	1.1	3.6	-2.0	6.0	10.2	...
ECCA	0.6	0.6	--	--	--	...
IMF	--	--	--	--	-0.6	6.7
Domestic borrowing (net)	2.1	0.7	2.7	0 4	-1.6	...
Residual	1.1	1.3	0.9	0.7	1.2	...
	(In per cent of fiscal year GDP)					
Total revenue and grants	29.9	31 2	31.2	31.6	34.9	32.5
Current revenue	22.2	24.1	26.0	25.6	28.7	26.0
Grants	7.7	7.1	5.2	6.0	6.2	6.5
Total expenditure and net lending	35.4	37.5	31.2	37.0	41.5	37.0
Current expenditure	30.3	28.8	25.8	29.7	28.8	27.4
Capital expenditure and net lending	5.1	8.7	6.9	7.3	12.7	9.6
Current account balance (excluding grants)	-8.1	-4.7	0.2	-4.2	-0.1	-1.4
Overall balance	-5.5	-6.3	-1.5	-5.4	-6.6	-4.5

Sources: Ministry of Finance; and Fund staff estimates.

increase since 1970 even though, according to the official consumer price index, retail prices had more than doubled in the interval. Boosted by tax measures taken in conjunction with the wage increase, the growth of revenue was sufficient to offset the impact of the higher salaries within one year, and in 1979/80, despite the need for outlays on relief and rehabilitation, the central government accounts were in equilibrium on current operations. Nevertheless, stepped up capital outlays, and net lending occasioned by the dairy and sugar factory projects, led to a further widening of the overall deficit in that year. St. Vincent is almost entirely dependent on foreign aid and loans on concessional terms to finance its capital program. The increased level of capital outlays in 1979/80 and 1980/81 was facilitated by higher inflows of foreign assistance, and by loans from the Caribbean Development Bank (CDB) for the above-mentioned projects.

In 1980/81, even though the overall deficit is expected to be somewhat smaller than in the previous year as expenditure and borrowing on CDB financed projects taper off, the fiscal position is likely to weaken mainly because current revenues are expected to rise by only 7 per cent, and to decline by about 2-1/2 percentage points in relation to GDP. The weak revenue performance is partly the result of exempting from duty goods imported for relief and rehabilitation purposes, and not adjusting specific taxes and licenses for inflation It also reflects the effect on income tax revenue of the absence of a public sector salary increase and a full year's impact of lower personal tax rates, which were reduced in the last budget. Current expenditures are projected to rise by 12 per cent even in the absence of a wage adjustment, mainly because of relief and rehabilitation outlays, and the current account is therefore expected to move from equilibrium last year to a deficit of about 1-1/2 per cent of GDP in 1980/81.

The finances of the state enterprises, which have shown a weakening trend since 1975, deteriorated in the last two fiscal years due mainly to the impact of the natural disasters. Tariffs of the St. Vincent Electricity Company and Central Water Authority were adjusted recently, but the weak financial position of both agencies continues to prevent them from undertaking expansion programs.

Largely as a result of the disasters, but also due to factors such as the 1979-80 oil price increases which added US$2 million a year to the import bill, the current account deficit in the balance of payments (goods, services, and private transfers) widened from an average of US$2.7 million a year (8 per cent of GDP) in 1976-78 to about US$11 million a year (20 per cent of GDP) in 1979-80 (Table 3). These increased deficits were made possible mainly because of higher inflows of foreign aid and concessional loans, including substantial post-hurricane emergency assistance from the European Community (including a STABEX grant) and from other traditional donors. Among these inflows have been budget support grants from the United Kingdom of about US$1.3 million a year (2.6 per cent of GDP). However, such grants have now been terminated in the context of the

Table 3. St. Vincent' Balance of Payments 1/

	1976	1977	1978	1979	Prel. 1980	Proj. 1981
	(In millions of U.S. dollars)					
Current account	-1.5	-6.4	-0.3	-10.6	-11.9	-13.2
Goods and services	-9.6	-15.1	-9.6	-18.4	-20.8	-22.7
Trade balance	-13.3	-19.6	-18.4	-30.8	-40.5	-43.3
Exports, f.o.b	(10.4)	(10.7)	(17.8)	(15.6)	(16.7)	(21.0)
Imports, c.i.f.	(-23.7)	(-30.3)	(-36.2)	(-46.4)	(-57.2)	(-64.3)
Travel receipts	5.5	5.9	11.1	18.2	24.5	26.6
Other services (net)	-1.8	-1.4	-2.3	-5.8	-4.8	-6.0
Private transfers (net)	8.1	8.7	9.3	7.8	8.9	9.5
Capital account	4.2	8.5	3.5	5.3	9.5	8.0
Official transfers	2 5	2.4	2.7	3.3	3.9	3.9
Government borrowing (net)	1.1	0.8	1.1	3.4	3.8	2.4
Commercial banks	0 4	2.4	-0.1	-2.5	-0.1	--
Private direct investment (net)	--	2.0	-0.5	0.3	0 1	0.4
Other private (net)	0.2	0.9	0.3	0.8	1.8	1.3
Errors and omissions	-2.9	-1.6	-3.5	5.2	2.0	2.0
SDR allocation	--	--	--	--	0.2	0.2
Overall surplus or deficit (-)	-0.2	0.5	-0.3	-0.1	-0.2	-3.0
Financing	0.2	-0.5	0.3	0.1	0.2	3.0
Net IMF borrowing	--	--	--	--	0.3	3.1
Net ECCA borrowing	0.2	--	--	--	--	--
Government foreign assets (increase -)	--	-0.5	0.3	0.1	-0.1	-0.1
	(In per cert)					
Memorandum item						
Current account deficit as per cent of GDP	4.9	18.2	0.7	21.1	19.7	18.2

Sources. Ministry of Finance, and Fund staff estimates.

1/ St. Vincent does not prepare an official set of balance of payments statistics, and data on some transactions became available only in 1978.

1979 independence agreement, and St. Vincent recently requested payment of a final EC$0.5 million under the agreement. In November 1980 St. Vincent purchased SDR 0.74 million (about US$1 million) from its reserve tranche and first credit tranche under emergency assistance provisions.

Despite a strong recovery in exports, the current account deficit is expected to widen further in 1981 as import requirements will remain high and the growth of tourist earnings is expected to slacken. With smaller capital inflows due to lower project lending and the termination of U.K. budget support, an overall balance of payments deficit of US$3 million is forecast. A request for a purchase of SDR 1.3 million or 50 per cent of quota under the CFF was approved by the Executive Board on March 18, 1981, later in the year, St Vincent is also likely to request, under a stand-by arrangement, a purchase of SDR 450,000, which is the balance in the first credit tranche, and may request a second purchase under the CFF.

The outstanding external public debt of St. Vincent stood at US$11.2 million, equivalent to 20 per cent of GDP, in June 1980. Most of the debt is owed to the CDB, and is at long term, with grace periods and a concessional interest rate of 4 per cent. As a result, the ratio of debt service payments (interest plus amortization) to foreign exchange receipts from merchandise exports and tourism is less than 2 per cent.

III. Summary of policy discussions

The mission's stay in St. Vincent coincided with the preliminary formulation of the 1981/82 budget and the policy discussions focused largely on the public investment program and on fiscal policy. The discussions also covered interest rate and incomes policies, energy policies, and exchange and trade policies.

1. Development objectives and the public investment program

The Government's objective is to diversify the economy and thereby improve the balance of payments, public finances, and the employment situation. The authorities recognized that the possible role of import substitution was quite limited, even in agriculture, and hence relatively greater attention had to be paid to manufacturing for export and tourism.

The Government actively encourages the development of the private sector. The authorities explained that Government's initiatives in industrial ventures did not reflect any preference for State participation in commercial activities but was often necessary to induce private investment. The Government's participation in the sugar factory and dairy projects, for instance, were occasioned by the size of these projects, and the Government is planning to sell shares in these ventures to the private sector. A wide range of incentives is provided to encourage investment in industry and tourism, and the Development Corporation (DEVCO) is developing industrial sites and buildings, with financing from CDB. All the available factory space is occupied, and the factory shell project is a major priority in the public investment program.

Government policy on tourism aims at promoting St. Vincent as a quality resort catering to relatively wealthy tourists. Development of yachting is favored, and the authorities noted a need for new docking facilities and marinas, especially in the Grenadine islands

The 1980/81-1983/84 public investment program incorporates the diversification strategy described above. The mission, together with a World Bank staff member on temporary assignment to the Planning Unit, reviewed the program in detail with the authorities. There was agreement on the danger of spreading scarce technical and managerial skills too thinly, and, in the course of this review, the focus of the program was narrowed to put greater emphasis on selected productive projects in agriculture, industry and tourism, and on related infrastructure such as roads and electric power.

Total public sector capital expenditure for the period 1980/81-1983/84 is targeted to reach EC$116 million, an average of EC$29 million or 13 per cent of GDP per annum, of which the Central Government is expected to implement about 65 per cent. Less than half of the total program represents ongoing projects or projects for which financial commitments have been received, the remainder have no indentified financing. The sectoral allocation of the program is as follows. agriculture, forestry, and fisheries--24 per cent, agro- and manufacturing industries--18 per cent, economic infrastructure, including transport, power, and water--24 per cent, other sectors, including education, health, housing, and public buildings--34 per cent.

The Government's priority list of new projects includes banana development, coconut development, tree crop diversification, vegetable production, and expansion of arrowroot production, provision of storage facilities and extension services; and the development of livestock and fisheries. In industry, the priority list includes the establishment of a food processing plant and the provision of further factory space In tourism, the Government is seeking assistance for restoration of historic sites, construction of tourist attractions, and a 100-room joint venture hotel and conference facility. As to economic infrastructure, the priority list includes improvement of the electricity supply, development of the Kingstown port and waterfront area, and construction of highways and feeder roads.

The authorities noted that one of the major constraints on public investment has been lack of absorptive capacity, due largely to deficient preparation and implementation of projects. Relatively low and declining real wages in the public sector was considered to be the main factor adversely affecting the quality of civil service. The principal executing Ministries (Agriculture, Public Works, and Finance) are understaffed at senior levels. The Government is seeking to strengthen the staffing of the Planning Unit and the Development Corporation, a number of whose personnel have recently been bid away by the private sector.

2. Fiscal policy

Underlying the discussion of fiscal prospects were (1) the need to generate public sector savings over the medium term to finance part of the public investment program; (2) the elimination next fiscal year of U.K. budgetary grants, which covered about 9 per cent of government current expenditure in recent years; and (3) an impending round of wage increases for the public sector. In the three years since the last wage adjustment, prices had risen by over 40 per cent, and discussions on a new contract had been initiated, although they were still at a very preliminary stage. The authorities were planning to seek an agreement involving modest annual increments of public sector wages in place of the large but infrequent past adjustments, which had disruptive effects on the budget and the economy. They were determined to keep the overall increase in public sector wages to a minimum because they recognized that most of any hike in salaries would need to be financed with new revenue measures. However, they had not taken any public position as yet on these issues.

According to mission estimates, the budget for 1981/82 would show a surplus of about EC$1 million on current operations in the absence of any wage increase or tax measures. Capital outlays and net lending were projected somewhat lower in nominal terms than in the preceding two years, when the two major projects referred to above were carried out and when natural disasters had entailed relatively large rehabilitation outlays. With the smaller expected inflow of foreign grants, the overall budget deficit was projected to increase to about EC$11 million, or 5 per cent of GDP, in 1981/82, compared with EC$8 million (4-1/2 per cent of GDP) in 1980/81.

While considering that over the medium term they should aim at generating savings in order to finance part of their capital program, the authorities felt that to achieve balance on current operations for 1981/82 would represent a major effort, in view of the prospective increase in civil service salaries. Since a 5 percentage point increase in the government salary bill would have a net budgetary impact of close to EC$1 million, the target would imply that offsetting revenue measures would be needed for any increase in the wage bill beyond that 5 per cent.

The authorities stated that, in drawing up the budget for next fiscal year, they were contemplating the introduction of revenue measures totaling perhaps EC$3.6 million in 1981/82, which would be equivalent to 8 per cent of current revenue, and 2 per cent of GDP. The discussions on revenue measures covered a number of issues. Personal income taxes are already high in St. Vincent, but the authorities were considering the possibility of raising the company tax (which is presently 40 per cent of business income). Property taxes represented a potential source of revenue, but were difficult to implement and a review of property valuation and tax collection methods was needed. The authorities felt that new excise taxes, increased gasoline taxes, higher taxes on imports, and higher fees and licenses were the principal alternatives. An increase in export taxes was not felt to be advisable as it might hamper the expansion of exports: however, the authorities justified the existing export taxes as a way of taxing the agricultural sector and providing revenue for maintenance of agricultural feeder roads. The authorities also indicated that they were considering an increase of the 1 per cent tax on sales of foreign exchange (see below, page 11).

In the past two years, the finances of the rest of the public sector deteriorated significantly, partly as a result of the natural disasters which put particular strain on the finances of the commodity boards (Banana Growers' Association, Arrowroot Association). The Central Water Authority has been in chronic financial difficulties, and the St. Vincent Electricity Company (majority owned by the Commonwealth Development Corporation) for a number of years has failed to generate a sufficient return on capital for it to be creditworthy for external lenders. The authorities noted that the tariffs for water, electricity, and other utilities had been raised in the past year and emphasized that it was crucial also to increase the operational efficiency of the public enterprises. Subsequent to the mission's departure, a further 15 per cent tariff adjustment for electricity, pending since February 1981, has been approved.

3. Monetary policy

St. Vincent is a member of the East Caribbean Currency Authority (ECCA) and therefore tends to align monetary and interest rate policies with those followed by other ECCA countries.1/ St. Vincent holds only negligible international reserves. The interest rate structure, while similar to that in other ECCA countries, is low relative to the outside world and to the domestic rate of inflation. St. Vincent imposes a statutory ceiling of 12-1/2 per cent on most lending rates and 14-1/2 per cent on certain consumer loans, and recently market rates have begun to be constrained by the ceilings. There is no minimum deposit rate, and deposit rates generally range from 2-1/2 to 5 per cent, with up to 7 per cent on large term deposits. The foreign commercial banks operating in St. Vincent are subject to a 1 per cent tax on savings and time deposits and a 2-1/2 per cent (interest-free) reserve requirement on total deposits. Interest payments are tax deductible as a business expense and up to EC$6,000 interest per year is deductible on mortgages.

The authorities agreed that the low structure of interest rates in the region not only puts pressure on the balance of payments, but also reduces the incentive to save, and misallocates scarce resources. However, they were wary of promoting an interest rate structure that diverged significantly from that prevailing in other ECCA countries. In discussing possible measures to narrow the spread between the deposit and lending rates of the private banks, they were reluctant to reduce the deposit tax because it was a major source of revenue. They felt that the government-owned National Commercial Bank (NCB) could perhaps compete more strongly

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1/ ECCA itself, as presently constituted, does not have the power to prescribe interest rates or reserve requirements to its members.

for private sector deposits, up to now it has preferred to keep its lending rates as low as possible (loans to public entities usually being made at 8-1/2 per cent). The latter policy has been facilitated by certain institutional advantages (the NCB is not subject to the deposit tax or reserve requirement) and by low rates on long-term deposits--for example, the deposits of the National Provident Fund receive only 5-1/2 per cent interest.

4. Prices and wages

The price control system mainly consists of wholesale and retail margins on imports of essential food and drugs, administered prices of petroleum products and utilities, and direct controls on prices of locally produced meat and fresh fish. The margins are generally 5 to 17 per cent of the landed cost of imports at the wholesale level and a further 12 to 40 per cent at the retail level, the margins are reviewed periodically. In general, the administration of the system does not appear to be a significant impediment to the expansion of private business. In the last three years the list of items under price control was expanded to include drugs and medicines, and the authorities indicated that inclusion of some manufactured goods was under consideration. There have been suggestions for putting price ceilings on local agricultural produce, but the authorities viewed this as administratively unmanageable and harmful for the growth of local production. Rather, they would use the St. Vincent Marketing Corporation to provide effective competition in the marketing of local produce and imported supermarket items.

Wage rates, and (presumably) unit labor costs, in St. Vincent are low relative to other countries in the eastern Caribbean. Except in the public sector, wage rates appear to have increased broadly in line with inflation in recent years. Industrial relations have been reasonably stable, but in the last months of 1980 and in early 1981 there have been several disputes for recognition between rival unions. There have also been strikes for higher wages at the Central Water Authority and the bottling plant. In the case of the Central Water Authority, the authorities were strongly resisting the 70 per cent wage claim put forward by the union, not only because of the weak financial situation of the Central Water Authority but also because they felt that this settlement might be considered as a precedent for the public sector as a whole. Subsequent to the mission's departure, and after a further three-week strike, a settlement has been reached which provides for a 25 per cent wage increase retroactive to January 1981, with a further 5 per cent as of May 1981, followed by increases of 10 per cent and 8 per cent respectively in 1982 and 1983.

5. Energy policy

There are no specific conservation measures in force. Even though increases in the landed cost of petroleum products are passed on to consumers, in recent years the percentage tax-take on petroleum products has declined, and as a consequence, retail prices of petroleum products (currently EC$4.84 per imperial gallon for gasoline, which is equivalent to US$1.49 per U.S. gallon) are now somewhat below the levels prevailing in many other oil importing developing countries, including other countries in the ECCA area.

Hydroelectric installations currently produce about one third of the electric power in the island, and the Government is planning to expand hydroelectric capacity. The investment program includes a small hydroelectric plant to be financed with assistance from the United Kingdom, as well as feasibility studies for other hydroelectric sites. Since 1979 when one of the diesel plants was damaged through faulty maintenance, the St. Vincent Electric Company has been systematically load shedding. The authorities said that the critical shortage of electric power was hampering the efforts to attract enclave industries, and that action was urgently required to resolve the outstanding problems of the company.

6. Exchange and trade policy

The exchange rate of St. Vincent's currency, the East Caribbean dollar, can only be changed by agreement of all ECCA members. The East Caribbean dollar was pegged to the pound sterling at EC$4.80 per pound sterling until July 1976, when it was pegged to the U.S. dollar at EC$2.7 per U.S. dollar.

Payments and transfers for current international transactions are controlled but not restricted. There is a 1 per cent tax on purchases of foreign exchange by the private sector, but this does not give rise to a multiple currency practice as the cumulative spread is less than 2 per cent.1/ The surrender of exchange proceeds from exports and invisibles is mandatory but not enforced. Capital transfers outside of the ECCA area are restricted. However, overseas investors who notify the Ministry of Finance of capital inflows are entitled to repatriate all invested capital including undistributed dividends, accrued interest and any capital gains. Capital restrictions are not fully effective as there is considerable freedom of movement of capital within the ECCA area, and the scope and enforcement of restrictions on transactions with non-ECCA countries differ among the member countries. In order to close this loophole, capital transfers by individuals or companies in amounts greater than EC$2,000 within the the ECCA area require authorization by the Ministry of Finance. Commercial banks can transfer funds freely to ECCA, and the latter does not prevent them from moving these funds outside the ECCA region.

With minor exceptions, the trade system of St. Vincent is free of restrictions. Trade with South Africa is prohibited. A wide range of exports of agricultural commodities is subject to licensing under the CARICOM marketing protocol, the CARICOM Oils and Fats Agreement, and

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1/ Other ECCA countries with taxes on foreign exchange transactions are: Antigua and Montserrat (1 per cent on purchases and sales), St. Kitts-Nevis (2 per cent on purchases), and Grenada (5 per cent on purchases).

bilateral supply arrangements with Trinidad and Tobago and Guyana. For some products the issue of export licenses has been delegated to the St. Vincent Marketing Corporation which also has a monopoly on exports of the products covered by bilateral trade arrangements. The Corporation issues licenses to exporters of the items covered by those agreements if domestic production is more than sufficient to meet local and contractual external demand.

The staff discussed with the authorities the implications of the choice between Article VIII and Article XIV status, and the authorities indicated that they would communicate their decision on this matter to the Fund shortly.

IV. Staff Appraisal

The recent performance of St. Vincent and the Grenadines has demonstrated the underlying resilience of the economy. From 1975 to 1978 real GDP increased at an average annual rate of 8 per cent, led by agricultural exports and tourism. Natural disasters--a volcanic eruption in 1979 and a hurricane in 1980--resulted in a steep decline in agricultural production in the last two years; but these effects were offset by continued rapid gains in tourism and light manufacturing. The economy is expected to expand by about 8 per cent in 1981 as agriculture recovers and new manufacturing facilities enter into production. Nevertheless, the balance of payments is likely to remain under pressure due in part to an expected drop in foreign assistance.

With political stability, government policies that encourage the private sector, a high literacy rate, and the availability of labor at competitive wage rates, St. Vincent offers good prospects for economic growth over the medium term, based especially on expansion of tourism and light manufacturing. However, the outcome will depend heavily on whether domestic savings are generated and adequate external financing found to support implementation of the public investment program for 1980/81-1983/84, which is targeted to average EC$29 million or 13 per cent of GDP a year. A relatively large part of this investment is allocated to developing the export potential of the economy, including related infrastructure. The staff welcomes this emphasis on diversifying the economy so as to strengthen the balance of payments.

The public finances have been managed cautiously in recent years, with tight control being exercised over expenditure. Even so, given the almost total dependence on foreign aid and concessional loans to finance the public investment program, the public finances will need to be strengthened considerably. Furthermore, the elimination of U.K. budgetary support grants--which in the last three fiscal years averaged 9 per cent of current outlays--places a severe constraint on the budget at a time when a new round of wage negotiations is underway. The staff therefore agrees with the authorities that it is of crucial importance (i) to ensure that the overall wage settlement be moderate in size; (ii) to spread its impact over several years through modest annual increments; and (iii) to take adequate offsetting revenue measures so as to ensure at least equilibrium in the Central Government's current budgetary operations next year. At the same time, it is a matter of urgency to effect further improvements in the operations and finances of the public utilities to enable them to carry out needed expansion programs.

The level of interest rates in St. Vincent (and in the ECCA area as a whole) is low relative to other countries as well as to domestic inflation. The staff would encourage the authorities to take the lead in seeking an upward adjustment in interest rates in the ECCA region in order to strengthen the balance of payments of the area, as well as to encourage savings and improve the allocation of scarce financial resources. In furtherance of this policy, the staff would suggest that the ceilings on lending rates in St. Vincent be raised sharply or eliminated entirely, and that the government-owned National Commercial Bank lift its own rate structure, particularly on the deposit side.

Fund Relations with St. Vincent and the Grenadines
(As of April 30, 1981)

Status: Decision with respect to Article VIII or Article XIV status not yet communicated to Fund.

Date of membership: December 28, 1979.

Quota: SDR 2.6 million.

		Millions of SDRs	Per Cent of Quota
Fund holdings of St. Vincent currency:	Total	4.10	157.7
Currency holdings include purchases outstanding under the following:	Compensatory financing	1.30 1/	50.0
	Regular facilities	0.20	7.7

		Millions of SDRs	Per Cent of Cumulative Allocation
SDR Department.			
	Net cumulative allocation	0.35	100.0
	Holdings	0.21	59.7

1/ Purchase made in March 1981.

St. Vincent - Basic Data

Area and population				
Area	150 sq. miles (388 sq. kilometers)			
Population (end-1980)				122 thousand
Annual rate of population increase (1975-80)				2.0 per cent
GNP per capita (1980)				SDR 384
Origin of GDP at factor cost (1980)				(per cent)
Agriculture and fishing				14
Manufacturing				14
Construction				12
Government				17
Other				43
Ratios to GDP (1980)				
Exports of goods and services				71.6
Imports of goods and services				104.4
Central government revenue 1/				34.9
Central government expenditure 1/				41.5
External public and government-guaranteed debt (June 1980)1/				20.2
Gross domestic savings				-7.8
Investment				25.4
Money and quasi-money (end of year)				48.0

Annual changes in selected economic indicators	1977	1978	1979	Est. 1980
		(per cent)		
Real GDP per capita (at factor cost)	0.3	10.4	-2.5	-0.9
Real GDP (at factor cost)	3.5	14.7	-0.6	1.1
GDP at current prices	14.8	30.9	9.2	20.4
Domestic expenditure (at current prices)	27.1	8.9	24.1	18.3
Investment	(55.0)	(4.9)	(22.7)	(21.4)
Consumption	(21.8)	(9.9)	(24.4)	(17.6)
GDP deflator	9.1	15.6	7.4	20.8
Consumer prices (end of period)	7.4	11.1	17.5	18.9
Central government revenue 2/	22.7	22.7	25.2	9.6
Central government expenditure 2/	6.9	37.1	27.1	5.0
Money and quasi-money	13.8	22.9	13.2	6.4
Money	(18.4)	(28.7)	(15.4)	(-0.8)
Quasi-money	(11.7)	(20.2)	(12.2)	(10.0)
Net commercial bank assets 3/	28.2	25.1	3.5	14.6
Credit to public sector (net)	(4.8)	(-6.0)	(--)	(-0.7)
Credit to private sector	(22.8)	(29.7)	(9.6)	(22.6)
Merchandise exports (f.o.b., in U.S. dollars)	2.9	66.4	-12.4	7.1
Merchandise imports (c.i.f., in U.S. dollars)	27.9	19.5	28.2	23.3
Travel receipts (gross, in U.S. dollars)	7.3	88.1	64.0	34.6

Central government finances 2/	1977	1978	1979	Proj. 1980
	(millions of East Caribbean dollars)			
Revenue	34.0	41.7	52.2	57.2
Expenditure	-35.6	-48.8	-62.0	-65.1
Current account surplus or deficit (-) (excluding grants)	0.2	-5.4	-0.1	2.4
Overall surplus or deficit (-)	-1.6	-7.1	-9.8	-7.9
External financing (net)	-2.0	6.0	10.2	6.7
Internal financing (net) and residual	3.6	1.1	-0.4	1.2
Balance of payments	(millions of U.S. dollars)			
Merchandise exports (f.o.b.)	10.7	17.8	15.6	16.7
Merchandise imports (c.i.f.)	-30.3	-36.2	-46.4	-57.2
Travel (net)	4.4	8.9	14.0	21.2
Other services and private transfers (net)	8.8	9.2	6.2	7.4
Balance on current and private transfer accounts	-6.4	-0.3	-10.6	-11.9
Official transfers and capital (net)	3.2	3.8	6.7	7.7
Private capital (net) and errors and omissions	3.7	-3.8	3.8	3.8
SDR allocation	--	--	--	0.2
Change in official net reserves (increase -)	-0.5	0.3	0.1	0.2

1/ FY 1979/80.
2/ Fiscal year beginning July of the year mentioned.
3/ In relation to liabilities to the private sector at the beginning of the period.