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Statement by Mr. Casey on
St. Vincent and the Grenadines
Executive Board Meeting 81/93
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St. Vincent and the Grenadines experienced severe natural disasters in 1979 and 1980 which halted the creditable growth performance of earlier years. However, a strong recovery is expected in 1981 based on agriculture, tourism and light manufacturing; sectors which have good medium term prospects also. A welcoming environment for the private sector, political stability, an educated and competitive labour force are factors which underpin these prospects.

Despite improvements over the last five years or so, the unemployment rate is still around 20 per cent. However, given the favourable growth prospects and Government emphasis on diversification, including the attraction of enclave industries, this high rate of unemployment should be reduced steadily over time. The Government is concentrating on a select number of directly productive projects with quick pay-back periods. There is now general recognition of the need to avoid spreading scarce technical and managerial skills too thinly.

In 1980/81 a reduction in the overall fiscal deficit to 4 1/2 per cent of GDP (from 8 per cent the previous year) is expected, due mainly to a slackening of project-related and rehabilitation expenditure. Nevertheless, the budgetary situation remains weak. Revenue performance is poor due to the tax exemption of goods imported for relief and rehabilitation, lack of inflation adjustment to specific taxes, and the award of income tax concessions. The finances of the state enterprises also remain weak despite recent increases in tariffs in certain cases. The new round of wage claims, and the need to attract higher qualified personnel to administer the development plan, will put pressure on the public sector wage bill, though, hopefully, the impact can be phased over time.

Provided that adequate measures are taken to offset the impact of the forthcoming wage settlement, the overall fiscal deficit may be kept to some 5 per cent of GDP in 1981/82. In this context the authorities are considering raising company and property taxes. Other tax increases are also being considered (gasoline, imports, foreign exchange). The authorities are reluctant to increase taxation on income, exports or savings deposits because of disincentive effects.

The withdrawal of budget support grants from the UK following the 1979 independence agreement and the unreliability of foreign assistance makes it important for St. Vincent to make fundamental improvements not only in the public finances but also in the balance of payments.

The current balance of payments deficit was about 20 per cent of GDP in 1980 financed mainly by official transfers and Government borrowing. In absolute terms the current deficit is likely to widen in 1981 and be less adequately financed, thus giving rise to a marked increase in the overall deficit.

As a member of the East Caribbean Currency Authority and lacking its own Central Bank, St. Vincent has very limited scope for exchange rate, monetary and interest rate policy. Lack of funds to finance a balance of payments deficit tends to curtail economic activity. The situation is analogous to that of a small open economy under the gold standard. As the Staff suggest, however, there may be some scope for an upward adjustment of interest rates and this may be considered in due course.

The balance of payments, partly due to a drop in foreign aid, is likely to remain problematic over the foreseeable future. Given the automatic adjustment process of a fixed exchange rate system, growth could be impeded from time to time. One key to this problem is diversification which in time will boost exports and alleviate the balance of payments constraint. But because of fiscal difficulties (including narrowness of the tax base and large though infrequent wage demands) the authorities cannot proceed with their diversification policy as quickly as needed. A higher level of foreign aid would be of enormous benefit to St. Vincent and the Grenadines at this juncture and would have a high leverage effect. The authorities may apply to the Fund for a tranche drawing in the near future and I hope that such a request would be favourably received by the Board at that time.

The economy has proved its resilience in the past, and medium term prospects are good, assuming no further natural disasters. The authorities recognise the priorities of (i) strengthening the public finances and building up savings in the longer term; and (ii) the need to increase investment and accelerate diversification of the production base. Success on these fronts will also strengthen the balance of payments.

My authorities are in broad agreement with the conclusions of this, the first, Article IV consultation and are grateful to the Staff for their thorough and painstaking efforts in producing this excellent report which they hope will be the forerunner of many more.