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September 23, 1992

To: Members of the Executive Board

From: The Secretary

Subject: St. Vincent and the Grenadines - Staff Report for the 1992
Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1992 Article IV consultation with St. Vincent and the Grenadines, which will be brought to the agenda for discussion on a date to be announced.

Mr. Reichmann (ext. 38610) or Ms. Sheybani (ext. 38485) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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Department Heads

INTERNATIONAL MONETARY FUND

ST. VINCENT AND THE GRENADINES

Staff Report for the 1992 Article IV Consultation

Prepared by Staff Representatives for the
1992 Consultation with St. Vincent and the Grenadines

Approved by S. T. Beza and J. Pujol

September 22, 1992

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The 1992 Article IV consultation discussions with St. Vincent and the Grenadines were held in Kingstown during the period July 22-August 4, 1992. ^{1/} St. Vincent is on a 24-month consultation cycle; the last Article IV consultation was concluded by the Executive Board on November 19, 1990. St. Vincent accepted the obligations of Article VIII, Sections 2, 3, and 4 in August 1981.

I. Background

The economy of St. Vincent is based primarily on agriculture, with bananas and vegetables as the major crops. Bananas are exported mainly to the United Kingdom under preferential access arrangements. There are some enclave manufacturing operations. In recent years, tourism receipts and remittances by Vincentians abroad have been growing in importance.

Real GDP grew by 7.1 percent on average in 1987-90, reflecting growth in most sectors (Table 1). In 1991, economic growth slowed to 3.3 percent as a result of adverse weather conditions that affected the agricultural sector, particularly the banana industry. This was offset in part by continued strong growth in other sectors and, with a return of normal weather conditions, economic activity is expected to pick up in 1992.

Inflation, as measured by the consumer price index, rose from an average of 2 percent a year in the second half of the 1980s to 7.2 percent in 1990 because of the elimination of some price controls, increased import prices, and higher transport and electricity tariffs. The rise in consumer prices eased to 5.9 percent in 1991 and is projected to ease further, to below 5 percent, in 1992. Price controls continue to apply on a limited list of products.

Wage increases in the private sector exceeded 7 percent a year in the period 1987-89 but have moderated to about 5 percent since then. In 1989, the daily minimum wage was raised from EC\$10.4 to EC\$18 or by 73 percent. Most workers appear to be paid substantially above the minimum wage. In the Central Government, contractual wages have increased by some 5 percent a year in the period since 1986; total expenditures on wages and salaries, however, have increased at about twice that rate.

^{1/} The staff team consisted of T. Reichmann (Head), S. Coorey, C. Medeiros, and S. Sheybani.

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

(Annual percentage change)

	1987	1988	1989	1990	1991	1992
Nominal GDP	11.3	13.0	11.2	10.7	7.1	11.6
Real GDP	6.0	8.9	7.2	6.5	3.3	5.9
GDP deflator	5.1	3.8	3.7	4.0	3.6	5.3
Consumer prices (average)	2.9	0.3	2.6	7.2	5.9	4.4
Central government wages	5.0	12.0	-	-	7.0	3.0
Private sector wages	8.7	6.8	6.1	5.0	5.0	5.0
<u>Memorandum items</u>						
GDP (in millions of EC dollars)	384.9	435.0	483.8	535.8	573.6	640.0
GDP (in millions of U.S. dollars)	142.6	161.1	179.2	198.4	212.5	237.0

Sources: Ministry of Finance; and Fund staff estimates.

The financial position of the consolidated public sector has remained strong in recent years, with public savings amounting to some 7-8 percent of GDP (Table 2). The current surplus of the Central Government explains about half of this total, with the remainder reflecting the revenues collected by the National Insurance Scheme and the performance of the public enterprises, in particular the electricity company. The overall balance of the public sector has been maintained broadly in equilibrium as current account surpluses and foreign grants have financed capital expenditures in the range of 11-13 percent of GDP.

Since 1986, the authorities have been implementing a public sector investment program (PSIP). Transport and communications accounted for more than 40 percent of total allocation in the PSIP for 1991-92, followed by agriculture with a share of more than 20 percent. As a large part of public investment has been financed by concessionary external loans, the sizable public savings have made possible a reduction in the domestic debt of the public sector.

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

(In percent of GDP)

	1986/87	1987/88	1988/89	1989/90	1990	1991	1992
<u>Total revenue and grants</u>	<u>37.2</u>	<u>35.5</u>	<u>37.8</u>	<u>37.0</u>	<u>36.6</u>	<u>36.9</u>	<u>35.2</u>
Current revenue	31.8	32.5	31.3	31.0	31.5	31.6	31.4
Grants	5.4	3.0	6.5	6.0	5.1	5.3	3.8
<u>Total expenditure</u>	<u>36.7</u>	<u>36.6</u>	<u>37.4</u>	<u>33.5</u>	<u>35.1</u>	<u>38.5</u>	<u>38.7</u>
Current expenditure	24.0	24.2	24.3	22.7	23.3	23.6	23.2
Capital expenditure	12.7	12.4	13.1	10.8	11.8	14.9	15.5
<u>Current balance</u>	<u>7.8</u>	<u>8.3</u>	<u>7.0</u>	<u>8.3</u>	<u>8.2</u>	<u>8.0</u>	<u>8.2</u>
<u>Overall balance</u>	<u>0.5</u>	<u>-1.1</u>	<u>0.4</u>	<u>3.5</u>	<u>1.5</u>	<u>-1.6</u>	<u>-3.5</u>
External financing	5.9	5.3	3.7	--	2.3	3.1	3.6
Domestic financing	-6.4	-4.2	-4.0	-3.5	-3.8	-1.5	-0.1

Sources: Ministry of Finance; and Fund staff estimates.

Money and quasi-money rose by some 10 percent a year in 1987-91, in line with the increase in nominal GDP (Table 3). This, together with the reduction in the public sector's net indebtedness, permitted credit to the private sector to expand by more than 16 percent a year, notwithstanding that commercial banks trebled their net holdings of foreign assets. Interest rates are market determined except for a minimum annual rate of 4 percent on savings deposits stipulated by the Central Bank. ^{1/} During the period 1987-91 the savings rate stayed at its minimum while the time deposit rate remained in the range of 3 1/2 to 6 1/2 percent. Lending rates ranged from 11 percent to 15.5 percent.

Table 3. St. Vincent and the Grenadines: Monetary Survey
(In millions of Eastern Caribbean dollars)

	1987	1988	1989	1990	1991	1992
<u>Net foreign assets</u>	<u>75.6</u>	<u>112.2</u>	<u>110.6</u>	<u>158.0</u>	<u>132.3</u>	<u>167.9</u>
ECCB (imputed reserves)	54.6	58.9	61.5	75.4	65.9	76.4
Commercial banks	21.0	53.3	49.1	82.7	66.4	91.5
<u>Net domestic assets</u>	<u>95.6</u>	<u>94.5</u>	<u>119.2</u>	<u>98.2</u>	<u>122.9</u>	<u>132.8</u>
Credit to public sector	-11.8	-41.9	-53.9	-74.4	-80.0	-89.3
Credit to private sector	130.0	159.4	189.9	214.8	237.0	259.3
Other	-22.6	-23.0	-16.8	-42.2	-34.1	-37.2
<u>Money and quasi-money</u>	<u>171.2</u>	<u>206.7</u>	<u>229.8</u>	<u>256.2</u>	<u>255.2</u>	<u>300.7</u>

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

The external current account balance has shown considerable variability in recent years, moving in a range equivalent to plus or minus 6 percent of GDP (Table 4). This variability has by and large reflected wide fluctuations in export receipts; which, however, have not shown clear growth over this period. At the same time imports have grown approximately in line with income, and this has resulted in an increasing deficit in merchandise trade that has been offset by receipts from tourism and increased net private transfers, the latter reflecting remittances from Vincentians abroad. Net official borrowing and inflows of private investment have tended to offset developments in the current account and in transactions by commercial banks so that the overall balance of payments has broadly maintained equilibrium.

External public debt, at US\$65 million in 1991, had doubled in U.S. dollar terms from its level in 1986. In terms of GDP, it moved from 25 percent in 1986 to 30 percent in 1991. Nevertheless, St. Vincent has a comfortable external debt position inasmuch as virtually the whole debt is on concessional terms, with debt-service obligations amounting to less than 4 percent of exports of goods and services in 1991.

^{1/} St. Vincent shares a common central bank, The Eastern Caribbean Central Bank (ECCB), with seven neighboring states.

Table 4. St. Vincent and Grenadines: External Sector Indicators

	1986	1987	1988	1989	1990	1991	1992
(In millions of U.S. dollars)							
<u>Current account</u>	<u>8.4</u>	<u>-9.5</u>	<u>2.2</u>	<u>-0.6</u>	<u>6.0</u>	<u>-9.6</u>	<u>-2.5</u>
Exports of goods and nonfactor services	98.2	87.2	122.5	118.0	133.3	117.9	134.1
Imports of goods and nonfactor services	-107.7	-121.7	-146.6	-151.4	-156.5	-157.3	-166.7
Factor payments (net)	-8.9	-4.6	-8.5	-6.6	-11.1	-12.5	-13.2
Transfers ^{1/}	26.8	29.6	34.8	39.4	40.3	42.3	43.3
<u>Capital account</u>	<u>4.0</u>	<u>4.3</u>	<u>-0.3</u>	<u>2.0</u>	<u>-0.6</u>	<u>6.2</u>	<u>6.3</u>
Official borrowing	5.5	7.4	4.0	6.0	4.6	6.8	9.4
Private direct investment	7.6	6.4	9.6	11.0	6.9	9.0	6.2
Other/errors and omissions	-9.1	-9.5	-13.9	-15.0	-12.1	-9.6	-9.3
<u>Overall balance</u>	<u>12.4</u>	<u>-5.2</u>	<u>1.9</u>	<u>1.4</u>	<u>5.4</u>	<u>-3.4</u>	<u>3.8</u>
<u>External debt (end-year)</u>	<u>32.1</u>	<u>39.5</u>	<u>44.8</u>	<u>51.2</u>	<u>57.4</u>	<u>64.6</u>	<u>67.8</u>
(In percent of GDP)							
Current account	6.5	-6.7	1.4	-0.3	3.0	-4.5	-1.1
External debt	25.1	27.7	27.8	28.6	28.9	30.4	30.8
External debt service ^{2/}	3.3	2.9	4.7	2.7	3.4	3.8	3.3

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

^{1/} Includes official grants.

^{2/} As a percent of exports of goods and nonfactor services.

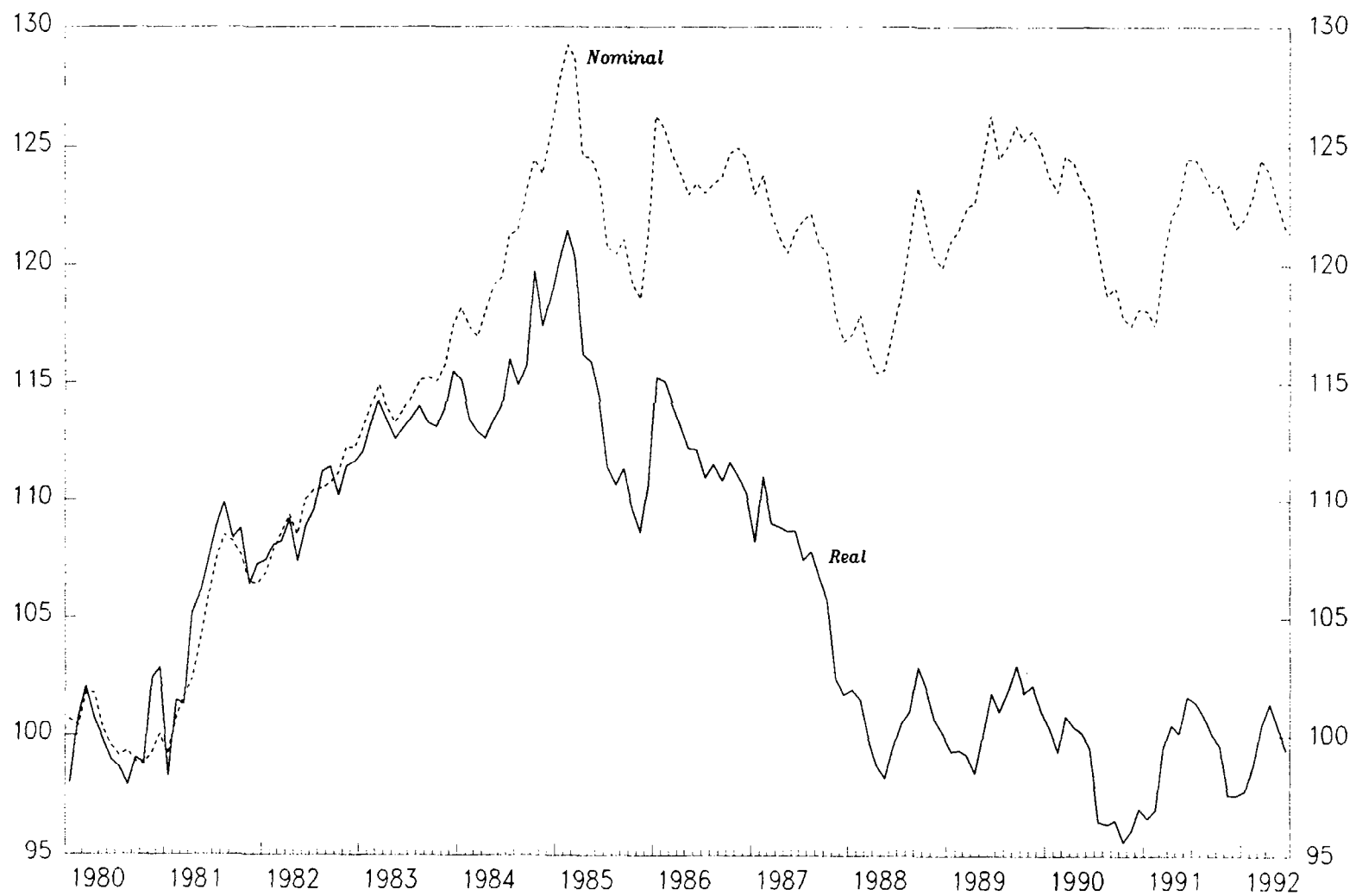
The currency of St. Vincent, the Eastern Caribbean dollar, has been pegged to the U.S. dollar at the rate of EC\$2.70 per U.S. dollar since 1976. After appreciating sharply from 1980 to 1985 (with the rise of the U.S. dollar), the index of the real effective exchange rate depreciated through mid-1988 and has since remained around that level, which is similar to the one attained in 1980 (Chart 1).

St. Vincent maintains a generally open trade and exchange regime except for licensing requirements applying to imports of certain locally produced goods, mainly food items. There is a tax of 1 percent on the purchase of foreign currency. In April 1991, St. Vincent adopted the common external tariff of the Caribbean Common Market (CARICOM).

II. Policy Discussions

At the conclusion of the 1990 Article IV consultation discussions with St. Vincent, Executive Directors observed that the overall economic performance had been satisfactory and noted that this was largely the result of the prudent policies followed by the authorities. Directors expressed support for the authorities' development strategy of broadening and diversifying the productive base of the economy by investing in infrastructure and

CHART 1
ST. VINCENT AND THE GRENADINES
EFFECTIVE EXCHANGE RATES
(Base 1980 = 100)



Source: Information Notice System.

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promoting private sector activity. Directors stressed the importance of restraining the growth of wages and investing in raising productivity so as to boost competitiveness.

In the light of these observations, during the discussions pertaining to the present consultation the authorities reaffirmed their intention to maintain the prudent financial policies they have pursued in recent years while continuing their efforts to broaden the production and export base of the economy. They expressed concern, however, about the unfavorable medium-term outlook for the banana industry, in view of the possible elimination of preferential access to the U.K. market. ^{1/} In this context, they referred to the difficulties they had so far in diversifying the economy, and in particular in promoting the development of a manufacturing sector.

Discussions on the treatment to be accorded to bananas upon creation of the Single European Market were still proceeding within the European Community, and between the community and producer countries. The Vincentian authorities were confident that Caribbean producers would be allowed to maintain the present (or a gradually diminishing) preferential access arrangement, at least for the next four-five years. They were aware of the importance of using this grace period to strengthen productivity in the sector and to develop alternatives to banana production.

They pointed out, however, that it was likely to prove difficult to develop an alternative that would result in the early movement of farmers out of the banana sector. Such an alternative would need at least to match the advantages offered by the existing situation, which provides farmers with a more or less constant year-round flow of cash and well established marketing channels. Thus, in developing a strategy to diversify production, the authorities were considering measures such as increasing taxation on banana exports in order to push out marginal producers, widening the share of quality premia in the setting of procurement prices, and establishing mechanisms that would reduce the uncertainties associated with the commercialization and financing of alternative crops.

It would appear, however, that the main obstacle to adjusting to the elimination (or reduction) of the benefits received by banana exporters, and more generally to furthering the development of industry, is the level of wages in St. Vincent. From the time the parity of the Eastern Caribbean dollar was established, nominal wages have drifted up by a substantial amount. At present the minimum wage in St. Vincent is equivalent to US\$0.83 an hour, but the authorities estimate that the typical farm laborer is earning about US\$1.10 an hour, while an unskilled worker in the service or manufacturing sectors earns close to US\$1.70 an hour.

^{1/} They also expressed concern about the possible negative consequences that the entry into effect of NAFTA could have on the competitiveness of St. Vincent's enclave manufacturing operations in the North American market.

The increase in wages has been permitted by the preferences accorded to bananas, the remittances of Vincentians abroad, and the growing importance of the "up market" type of tourism the country is developing. These factors have thus far made it possible to avoid undesirable effects on the external position of the country, but it appears that the resulting level of wages has hindered the competitiveness of other activities. The authorities are aware that adjusting to the curtailment of the benefits received at present by the banana sector will make it necessary to adjust wages in relation to trading partner countries, and in this light they recognized the need to emphasize restraint in the public sector's wage policy.

Wage expenditures in the Central Government increased at an annual rate of about 10 percent in 1991 and during the first four months of 1992. These increases were in part the result of a wage agreement in the civil service, which contemplated general increase of 7 percent in 1991 (because no increase had been awarded in the preceding two years) and of 3 percent in 1992 and in 1993. Thus the authorities expected the growth of the wage bill to slowdown during the remainder of 1992. More generally, they indicated that their intention was to continue to exercise restraint in their fiscal policy and that therefore they expected the outcome for the public finances in 1992 to be similar to that of 1991. The current account surplus of the consolidated public sector is projected at about 8 percent of GDP in 1992, which together with foreign grants and concessional loans would permit the financing of capital expenditures of some 15 1/2 percent of GDP, without recourse to domestic financing. St. Vincent does not incur any military expenditures.

The uncertain prospects of the banana sector and concerns about the maintenance of present levels of external assistance suggest the need to strengthen the revenue base of the public sector. The authorities are considering lowering marginal income tax rates in the context of the 1993 budget in order to reduce tax evasion and the disincentives for economic activity created by the existing rate structure. They are also contemplating implementation over the medium term of a more comprehensive tax reform and measures to improve tax administration.

The privatization of the dairy enterprise was expected to be concluded this year and the authorities are studying the possibility of divesting some other enterprises. ^{1/} In addition, there is scope for increasing public savings through redirecting the investment policy of the National Insurance Scheme, which at present is being deprived from realizing competitive returns on its large accumulation of funds by having to invest the bulk of its assets in fixed interest deposits with the state-owned commercial bank at below market rates.

^{1/} At present there are nine public enterprises in St. Vincent with total current receipts in 1991 of EC\$82 million; the dairy enterprise had current receipts of EC\$12 million.

St. Vincent's commercial banks follow cautious domestic lending policies, notwithstanding a rather comfortable liquidity position. All lending requires collateral and, with the exception of housing finance, is for relatively short maturities. The authorities expressed concern about the limited growth of bank credit to the private sector for investment purposes and saw the lack of a source of venture capital as a factor behind the difficulties encountered in promoting the development of the manufacturing sector.

The authorities expect the external position of St. Vincent to strengthen in 1992 as the current account (including official transfers) returns to virtual equilibrium and the overall balance of payments registers a small surplus. Exports, which had been affected by adverse weather conditions in 1991, are projected to recover in 1992, led in particular by bananas which account for about half of total exports. An increase is also projected for other agricultural exports, mainly vegetables and edible roots exported to neighboring countries.

Notwithstanding the increasing importance of bananas, the growth of total merchandise exports has been outpaced in recent years by the growth in tourism receipts and in remittances from Vincentians living abroad. The latter, which at US\$35 million in 1991 accounted for 21 percent of total current receipts in the balance of payments, are projected to show some further growth in 1992, in line with developments in economic activity in the United States and in the United Kingdom where most expatriate Vincentians live. The authorities expected that tourism would continue to grow rapidly over the medium term, particularly in response to the upgrading of airport facilities and other infrastructure in the Grenadine islands undertaken in recent years. Mindful of the small size and fragile ecology of these islands, the authorities recognize that tourism could not be developed on a large scale but instead they intend to continue to concentrate their efforts on the upper end of the tourism market.

Capital account developments in 1992 are projected to be similar to those in recent years, with official capital inflows more than offsetting a net outflow of private capital (including errors and omissions). The external debt is expected to remain at about 30 percent of GDP, implying a debt-service ratio of about 3 1/2 percent of exports of goods and services.

St. Vincent adopted CARICOM's common external tariff (CET) in April 1991. The new structure of tariffs, ranging from zero to 45 percent, implied an increase in the average tariff level. However, the effects on domestic prices and on the level of effective protection were offset by a corresponding reduction in the consumption tax affecting these products. At present, goods from CARICOM carry only consumption taxes while goods from outside the region carry both import duties and consumption taxes (the latter can be as high as 50 percent). The authorities acknowledged that these high and variable levels of effective protection resulted in an inefficient allocation of resources and indicated that St. Vincent was seeking to review the CET with its partners with a view to cutting the highest tariff to no more than 30 percent.

Import license requirements had been further reduced during 1991 and the authorities estimated that at present they applied to no more than 10 percent of merchandise imports. They maintained that the license requirements that were still in place were needed for sanitary reasons or to prevent dumping. In this connection, the authorities indicated that price controls would be eliminated on goods not produced in the region, maintaining them only in those cases where licenses created monopoly rents. The authorities also indicated their intention to eliminate the 1 percent tax on the purchase of foreign currency. The exchange system of St. Vincent continues to be free of restrictions on payments and transfers for current international transactions.

III. Medium-Term Prospects

The medium-term prospects for St. Vincent's economy depend crucially on the treatment accorded to bananas by the European Community in the context of the creation of a single market. While the European Commission has reached agreement upon a proposal that would protect the market share of present beneficiaries, the impact of the initiative on the price of St. Vincent's bananas is as yet unclear. ^{1/} In light of this uncertainty, the medium-term scenario is based on the assumption that banana exports grow at a rate of 4 percent a year in U.S. dollar terms. (In comparison, banana exports grew at an annual average rate of 13 percent in U.S. dollar terms during 1986-1991.) In addition, while taking into account existing commitments, inflows from official loans and grants are assumed to slow down to the pace of 1986-1988. Earnings from tourism and private remittances are expected to grow in line with past trends. The medium-term scenario is based on the continuation of restrained fiscal policies and the maintenance of the fixed exchange rate.

With these assumptions, the external current account deficit including grants is projected to reach US\$10.5 million or 3 1/4 percent of GDP by 1997 (Table 5). The decline in exports of goods and nonfactor services as a proportion of GDP would be mostly offset by a reduction in imports. The ratio of gross domestic investment to GDP would decline reflecting lower public investment as official capital inflows slow down. With the incremental capital output ratio assumed to remain constant, annual real GDP growth is envisaged to be about 5 percent by the end of the projection period.

The ratio of external public debt to GDP is projected to remain in the neighborhood of 30 percent of GDP as in 1991. Public debt service in relation to exports of goods and nonfactor services is expected to decrease to about 3 percent.

^{1/} The Commission's proposal has to be approved by the Council of Ministers to become effective.

Table 5. St. Vincent and the Grenadines: Medium-Term Scenario

	1991	Projected					
	1992	1993	1994	1995	1996	1997	
<u>(In percent)</u>							
Real GDP growth	3.3	5.9	5.4	5.4	5.2	5.1	5.0
ICOR	8.8	5.3	5.3	5.3	5.3	5.3	5.3
<u>(In percent of GDP)</u>							
Consumption	88.1	83.9	87.6	87.8	88.4	89.2	89.3
Domestic savings	11.9	16.1	12.4	12.2	11.6	10.8	10.7
Gross domestic investment	30.4	29.8	28.0	27.6	26.6	25.5	24.6
Exports of goods and nonfactor services	55.5	56.6	57.3	55.6	54.0	52.5	51.1
Imports of goods and nonfactor services	-74.0	-70.3	-72.9	-71.0	-69.0	-67.2	-65.1
Net factor payments	-5.9	-5.6	-5.8	-5.6	-5.6	-5.4	-5.4
Transfers <u>1/</u>	19.9	18.3	18.6	17.8	17.2	16.8	16.2
Current account	-4.5	-1.1	-2.8	-3.2	-3.4	-3.3	-3.1
Public external debt	30.4	30.8	32.5	32.4	32.1	31.4	30.7
<u>(In millions of U.S. dollars)</u>							
GDP	212.5	237.0	246.9	267.9	289.4	312.2	335.7
Public external debt	64.6	73.1	80.2	86.8	92.9	97.9	103.1
External debt service	4.5	4.6	4.5	4.4	4.6	5.1	5.3
<u>(In percent of exports of goods and nonfactor services)</u>							
External debt service	3.8	3.4	3.2	3.0	2.9	3.1	3.1

Source: Fund staff estimates.

1/ Includes official grants.

IV. Statistical Issues

St. Vincent's statistical base is weak and requires improvements in many areas. In particular, there are questions about the reliability of national accounts and price data, there are no measurements of employment, and foreign trade statistics have not been compiled since the introduction of the CET (and a new commodity classification) in April 1991.

V. Staff Appraisal

The overall economic performance of St. Vincent in recent years has been satisfactory, with high rates of real GDP growth, virtual equilibrium in the balance of payments, and a reasonably moderate price performance. These favorable developments have been the result of the prudent policies implemented by the authorities, in particular the strengthening of the public finances.

Notwithstanding the strong growth experience and the commendable management of the public finances, there are concerns regarding the medium-term sustainability of this performance stemming from the dependence on banana production and the structural obstacles that seem to be in the way of the diversification of the productive base. The authorities are confident that the preferential treatment received at present by banana exports will be preserved for a number of years and they indicated that they attached great importance to using this period to strengthen productivity in that sector and to develop alternative exports.

However, efforts to diversify the productive base run the risk of being thwarted by the wages prevailing in St. Vincent. It appears that over time real wages, buttressed mainly by the preferential treatment accorded to bananas and the remittances of Vincentians abroad, have drifted upward beyond a level consistent with the international competitiveness that would be required if the benefits accorded to bananas were to be curtailed. Given the fixed exchange rate arrangement of which St. Vincent is part, if it should prove necessary to adjust to lower returns in the banana sector, wages would need to be reduced relative to trading partner countries to maintain balance and to facilitate investment in other activities. Thus, it is important that the authorities take the lead in restraining the growth of wages in the public sector.

The authorities have indicated their commitment to maintaining a strong fiscal stance. Public sector savings are expected to remain sizable and to make possible a high level of capital expenditure without recourse to domestic financing. The authorities are undertaking large investments in infrastructure to support the growth of agriculture and tourism, which offer the most promising prospects for employment creation and foreign exchange earnings. The staff supports the authorities' efforts to strengthen the revenue base of the public sector and encourages them to proceed with their intentions to review the structure of taxes and the tax administration arrangements.

The level of effective protection maintained in St. Vincent has contributed to the inefficient allocation of resources and to the difficulties encountered in diversifying the productive base. In the context of the review of the level of CARICOM's common external tariff, the authorities should reassess their overall trade policy and should strive for a simplification of the system and a lowering of effective protection.

It is recommended that the next Article IV consultation with St. Vincent and the Grenadines be completed within 24 months of the completion of the present consultation.

St. Vincent and the Grenadines: Fund Relations
(As of August 31, 1992)

- I. Membership Status: Joined December 28, 1979/Accepted Article VIII

- II. General Resources Account:

	<u>SDR Million</u>	<u>% Quota</u>
Quota	4.0	100.0
Fund holdings of currency	4.0	100.0

- III. SDR Department:

	<u>SDR Thousand</u>	<u>% Allocation</u>
Net cumulative allocation	353.6	100.0
Holdings	0.06	0.02

- IV. Outstanding Purchases and Loans: None

- V. Financial Arrangements: None

- VI. 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.

- VII. Article IV Consultation:

St. Vincent and the Grenadines is on a 24-month consultation cycle; the last Article IV consultation discussions were held in Kingstown from August 1 to August 15, 1990. The consultation was concluded by the Executive Board on November 19, 1990 (EBM/90/162).

- VIII. Technical Assistance:

Experts from the FAD visited St. Vincent on February 26 and 27, 1990 to advise on changing the fiscal year to coincide with the calendar year. In August 1990, one expert returned to St. Vincent to review the Government's budgeting and accounting systems.

ST. VINCENT AND THE GRENADINES

Area and population

Area	388 sq. kilometers
Population (1990)	107,593
Annual rate of population growth (1990) (percent)	1.0
Total (per sq. kilometer)	Density 277
Per sq. kilometer of arable land	547
Life expectancy at birth (years)	70.4
Infant mortality rate (per thousand live births)	22.1
Child death rate (per thousand live births)	26.4
Caloric intake (per day)	2,604.0
Per capita protein intake (grams per day)	57.0
Population per physician	375.6
Primary school enrollment (percent)	107.4
Energy consumption per capita (kg. of oil equivalent)	205.6

GDP (1991) US\$212.5 million

GDP per capita (1991) US\$1,975

	1988	1989	1990	Est. 1991	Proj. 1992
<u>Origin of GDP (current prices)</u>			(percent)		
Agriculture	15.0	14.0	15.7	15.0	--
Manufacturing	8.8	8.9	7.2	7.6	--
Construction	7.6	7.4	7.9	8.0	--
Transport	11.1	12.3	11.9	12.8	--
Government services	13.7	14.0	13.0	12.8	--
Other	43.8	43.4	44.3	43.8	--
<u>Ratios to GDP</u>					
Exports of goods and nonfactor services	76.1	65.9	67.2	55.5	56.6
Imports of goods and nonfactor services	91.0	84.5	78.9	74.0	70.3
Current account of the balance of payments 1/	1.4	-0.3	3.0	-4.5	-1.1
Central government revenue 2/	29.8	31.8	31.4	32.7	31.2
Central government expenditure 2/	29.8	32.8	31.0	34.7	35.6
Central government overall surplus or deficit (-) 2/	--	-1.0	0.4	-2.0	-4.4
Public sector current balance	8.3	7.0	8.2	8.0	8.2
Public sector overall balance	-1.1	0.1	1.2	-1.9	-3.5
External public debt (end of year)	27.8	28.6	28.9	30.4	30.8
External debt service (as percent of exports)	3.6	1.8	2.3	2.1	1.9
Money and quasi-money (end of year)	47.5	47.5	47.8	44.5	47.0
Change in money and quasi-money	8.2	4.8	4.9	-0.2	7.1
<u>Annual percentage change in selected indicators</u>					
Real GDP per capita	7.9	6.2	5.5	2.3	4.9
Real GDP	8.9	7.2	6.5	3.3	5.9
Nominal GDP	13.0	11.2	10.7	7.1	11.6
GDP deflator (at factor cost)	3.8	3.7	4.0	3.6	5.3
Consumer prices (annual average)	0.3	2.6	7.2	5.9	4.4
Consumer prices (end of period)	2.1	3.5	9.1	2.3	5.4
Central government revenue	12.6	19.5	9.9	16.9	6.4
Central government expenditure	20.4	23.1	5.0	25.8	14.5
Liabilities to private sector	20.7	11.2	11.5	-0.4	17.9
Money	10.4	15.5	-2.9	-13.5	14.9
Quasi-money	24.7	9.7	16.7	3.6	18.5
Net domestic assets of the banking system 3/	-0.7	12.0	-9.2	9.7	6.0
Credit to public sector	-14.3	-3.6	-8.1	-2.5	-5.8
Credit to private sector	17.2	14.8	10.9	8.6	9.3
Merchandise exports (in U.S. dollars)	63.4	-12.5	10.9	-18.7	19.6
Merchandise imports (in U.S. dollars)	25.2	4.3	6.7	-0.1	6.4
Terms of trade	-5.7	-3.0	-0.8	2.8	--
Nominal effective exchange rate (depreciation -)	-1.9	4.5	-2.4	0.7	--
Real effective exchange rate (depreciation -)	-6.2	0.2	-2.6	1.1	--

	1988	1989	1990	Est. 1991	Prel. 1992
<u>Central government finances</u>					
		(millions of Eastern Caribbean dollars)			
Current revenue	113.3	123.1	134.3	158.8	175.0
Current expenditure	99.3	111.4	114.8	134.5	146.7
Current account surplus or deficit (-)	14.0	11.7	19.5	24.3	28.3
Overall surplus or deficit (-)	-0.1	-4.6	2.2	-11.6	-28.4
External financing (net)	15.1	12.3	4.9	21.2	25.0
<u>Balance of payments</u>					
		(millions of U.S. dollars)			
Merchandise exports	85.3	74.6	82.7	67.2	80.4
Merchandise imports	122.3	127.5	136.1	136.0	144.7
Travel receipts (net)	14.1	19.7	22.6	23.6	25.0
Other services and transfers (net)	25.1	32.6	36.8	35.6	36.8
Current account balance	2.2	-0.6	6.0	-9.6	-2.5
Changes in reserves (- increase)	-1.9	-1.4	-5.4	3.4	-3.8
<u>International reserve position</u>					
		(millions of U.S. dollars, end of period)			
Central Bank (imputed, net)	21.8	22.8	27.9	24.4	28.3
Commercial banks (net)	19.7	18.2	30.6	24.6	31.9
<u>IMF data (as of August 31, 1992)</u>					
Article VIII status					
Exchange rate				ECS2.7 per US\$	
Quota				SDR 4.0 million	
Fund holdings of local currency				SDR 4.0 million	
Fund holdings as percent of quota					100
Special Drawing Rights Department					
Cumulative SDR allocation				SDR 353,600	
Net acquisition or utilization (-) of SDRs				SDR 353,541	
Holdings of SDRs				SDR 59	
Share of profits from gold sales					None

1/ Including official transfers.

2/ Fiscal years beginning July 1 of the year indicated for years before 1991.

3/ In relation to commercial bank liabilities to the private sector at the beginning of the period.

Relations with the World Bank

The Bank lending program with St. Vincent consists of two projects. The St. Vincent Hydro Power Project, which was approved in FY 84 and is an IDA credit for US\$5 million. This credit has been fully disbursed as of February 29, 1992 and the project is nearing completion. In FY 89, an Agricultural Rehabilitation and Diversification Project for US\$2.8 million was approved, half of which was IDA and half IBRD lending. The IBRD loan part remained undisbursed as of February 29, 1992. The Agricultural Project is being implemented ahead of schedule.

The World Bank's lending to St. Vincent in the future will continue to be important and assistance will be channelled through: (i) the Caribbean Development Bank, mostly to support continued infrastructure development and help promote small- and medium-scale private firms; and (ii) Regional Projects, such as the Regional Environmental Project designed to strengthen the OECS countries' capacity to manage solid waste, the Regional Education Project directed to improve both access to and quality of secondary education, and a possible Regional Project on Agricultural Diversification based on the recently completed Review of Agricultural Research and Extension Services by the World Bank.