EXECUTIVE BOARD MEETING

EBS/20/96

May 14, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **St. Vincent and the Grenadines—Request for Disbursement Under the Rapid Credit Facility**

Board Action:	Executive Directors' **consideration** (Formal)
Tentative Board Date:	**Wednesday, May 20, 2020**
Proposed Decision:	Page 13
Publication:	Yes*
Questions:	Mr. Ishi, WHD (ext. 38034)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—Caribbean Development Bank, World Trade Organization

***The authorities have indicated that they consent to the Fund's publication of this paper.**

INTERNATIONAL MONETARY FUND

ST. VINCENT AND THE GRENADINES

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

May 14, 2020

EXECUTIVE SUMMARY

Context. The fallout from the global pandemic crisis is hitting St. Vincent and the Grenadines hard. Tourism receipts (accounting for nearly 30 percent of GDP) have dried up, as tourism arrivals have come to a complete halt. The economy is now projected to contract by 5.5 percent —7.8 percentage points below pre-COVID-19 projections. Local outbreaks of COVID-19 have thus far been contained.

Request for Fund support. The pandemic crisis is giving rise to an urgent balance of payments need, which, if not addressed, would result in immediate and severe economic disruption. Reflecting the large external financing gaps arising from the sharp deterioration of the balance of payments position and the large fiscal needs to immediately increase public health spending and support the most vulnerable, the authorities are seeking financial assistance under the Rapid Credit Facility (RCF) exogenous shock window of SDR 11.7 million, equivalent to 100 percent of quota, to be used for budget support. Staff supports this request.

Main Policy Recommendations.

- In the short term, increase health spending and adopt measures to support the vulnerable, while providing a broad temporary relief to the economy, with a package of measures totaling 3½ percent of GDP (as planned).

- Once the pandemic shock subsides and the economy begins to recover, resume fiscal consolidation to put the public debt on a firmly downward trajectory. Both revenue and expenditure measures, including the reprioritization of public investment projects (as part of a plan to build resilience against natural disasters), are required.

- In the area of financial sector policies, keep intensified monitoring of financial sector vulnerabilities and enhance capacity for prompt action to ameliorate the effects of the crisis.

Approved By
Patricia Alonso-Gamo (WHD) and Chad Steinberg (SPR)

Discussions took place via conference calls on May 6 and 8, 2020. The team comprised K. Ishi (head), M. Rosales Torres, C. Castellanos Garcia, and C. Pizzinelli (all WHD). B. Rankin and R.J. Edwards (OED) participated in the discussions. The IMF team held meetings with Prime Minister Honorable R. Gonsalves; Finance Minister Honorable C. Gonsalves, other senior government officials, and other international financial institutions. T. Khan and S. Konate provided valuable assistance.

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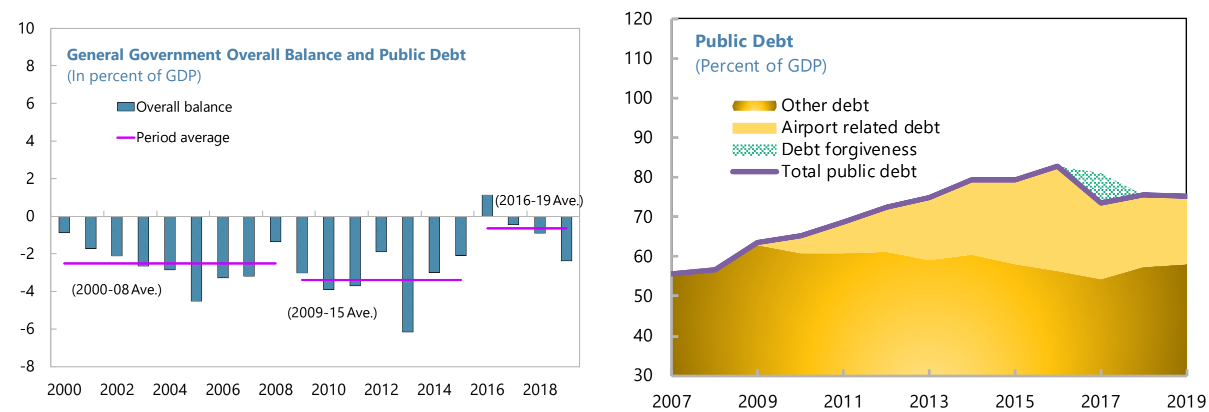
CONTEXT

1. **During the past years, the authorities have strived to advance structural reforms and put public finances in order.** The opening of the modern Argyle International Airport in February 2017 reinvigorated tourist and investor interest in St. Vincent and the Grenadines. The government also intensified its efforts to diversify the export base, strengthen human capital, improve the investment climate, and build infrastructure resilient to natural disasters. Furthermore, it maintained a relatively prudent fiscal policy stance (including VAT rate hikes and the introduction of a new hotel levy), instituted a contingency fund for natural disasters, and strengthened the oversight of state-owned enterprises. In January 2020, the government enacted the Fiscal Responsibility Resolution, which includes fiscal rules.[1] Although progress in implementing reforms has been slow, the government's policy direction has been broadly in line with past staff recommendations.



Sources: St. Vincent and the Grenadines authorities; and IMF staff calculations.

2. **Prior to the global COVID 19 outbreak, output growth had slowed in 2019 but was expected to rebound in 2020.** Real GDP growth slowed from 2.2 percent in 2018 to 0.4 percent in 2019 (Table 1 and Figure 1).[2] Stayover tourist arrivals continued to grow (6.3 percent year on year for the first nine months of 2019), supporting tourism-related activities, but the manufacturing and construction sectors contracted, primarily due to reduced demand for reconstruction materials from Dominica, which was hit hard by Hurricane Maria in September 2017. Before the pandemic crisis, output growth was expected to rebound to 2.3 percent in 2020, on the back of a steady increase in tourist arrivals, a recovery of the construction sector (several hotel and resort projects were expected

[1] The fiscal rules include: (i) reducing public debt to no more than 60 percent of GDP by 2030; (ii) targeting an improvement in the primary balance to a surplus of one percent of GDP; and (iii) taking appropriate measures to ensure that nominal current expenditure in a fiscal year does not reasonably exceed the growth in nominal GDP in the year. Because macroeconomic assumptions underpinning these rules have significantly changed since the pandemic outbreak, the authorities are currently reviewing these parameters.

[2] Ministry of Finance's estimates, as official data from the National Statistics Office are not yet available.

to begin), and a pick-up in exports of non-traditional crops (e.g., cocoa and dasheen) and fisheries (e.g., lobster and tuna).

3. **In December 2019, the Caribbean Development Bank (CDB) approved funding for a large-scale port modernization project** (Annex I). The existing port was built more than 50 years ago, giving rise to safety concerns and with limited capacity to accommodate increased traffic. The cost of building a new port, however, is quite large for a small economy like St. Vincent and the Grenadines, amounting to nearly 21 percent of GDP.[3] The new port will boost construction demand but also put heavy pressure on public finances. The construction is expected to start in 2021 (originally scheduled for 2020) and end in 2024.

COVID-19 SHOCK AND MACROECONOMIC IMPACT

4. **The number of local COVID-19 outbreaks remained limited to 17 as of May 13.** The authorities' response was relatively quick: well before the first case, the authorities had introduced preventive measures, including 14-day quarantines for persons arriving from China and other Asian economies with COVID-19 outbreaks. Following the first case (March 11), the authorities introduced social distancing and health measures to contain the spread of the virus, including (i) closing schools; (ii) cancelling the Vincy Mas carnival (the biggest annual carnival in St. Vincent and the Grenadines) scheduled for June 26-July 7; (iii) distributing protective equipment to health care workers; and (iv) increasing the number of intensive care unit beds and respirators and building an isolation and testing center. The government has not declared a state of emergency, and all businesses, excluding entertainment establishments, have continued activities.[4]

5. **The global COVID-19 pandemic crisis is taking a heavy toll on the Vincentian economy, leading to a deterioration in the outlook.** Tourism is a key driver of economic growth in St. Vincent and the Grenadines, with tourist arrivals from the United States, Canada, and the United Kingdom accounting for nearly two thirds of total arrivals[5]. Tighter border controls, travel restrictions, and possibly a fear of travelling, have led to a sharp decline in tourist arrivals and widespread hotel booking cancellations. All major cruise companies have also suspended operations. Staff expects a nearly

Impact of COVID-19

(Percent of GDP; unless otherwise indicated)

	2020 Pre-COVID	2020 Post-COVID	Change
Output and prices			
RGDP growth (percent)	2.3	-5.5	-7.8
Inflation (percent)	1.5	0.9	-0.6
External sector			
Current account balance	-9.9	-17.5	-7.7
O.w.: Tourism exports	30.7	15.9	-14.8
Net private transfers	3.4	1.9	-1.5
Central government finances			
Revenue	30.8	28.7	-2.1
O.w.: current revenue	27.5	25.8	-1.6
Expenditure	34.3	35.0	0.6
Overall balance	-3.5	-6.2	-2.7

Source: Fund staff calculations.

[3] The project will be financed through grants (4 percent of GDP) and financing (17 percent of GDP).

[4] All ECCU countries except for St. Vincent and the Grenadines have declared a state of emergency or much tighter restrictions on economic activities.

[5] In the National Accounts, tourism-related sectors (hotels, restaurants, transport, and retail trade), as well as the wholesale sector (which cannot be stripped out due to data limitation) account for about 30 percent of GDP.

50 percent decline in overall tourist arrivals in 2020. The economy is expected to enter a recession, with output growth contracting by 5.5 percent—7.8 percentage points below pre COVID-19 projections. Inflation would fall below 1 percent in 2020 (compared to 1.5 percent in pre-COVID-19 projections). Lower tourism receipts and remittance inflows would lead to a widening of the current account deficit to 17½ percent of GDP in 2020 (compared to 10 percent of GDP in pre-COVID-19 projections). Pressures on fiscal revenue and the cost of crisis response measures could increase the fiscal deficit to 6¼ percent of GDP in 2020 (compared to 3½ percent of GDP in pre COVID-19 projections).

6. **The pandemic crisis is giving rise to an urgent balance of payments need: if not addressed, this need would result in immediate and severe economic disruption, with a large loss in international reserves** (Table 2 and Figure 2). Coupled with the widening current account deficit, an expected deterioration in the financial account (excluding reserves assets) —due to a significant decline in FDI inflows—would put pressure on international reserves. Without additional official financing, the stock of imputed reserves could fall by more than 50 percent to EC$242 million (2½ months of projected imports of goods and services in 2021). With support of official financing from multilateral sources (EC$169 million, equivalent to 8 percent of GDP), reserves could be maintained at about EC$410 million (4½ months of projected imports).

External Accounts, 2019-2020

	Millions of EC$		Percent of GDP	
	2019	2020	2019	2020
Current account balance	**-223**	**-374**	**-10.0**	**-17.5**
Trade	-682	-558	-30.7	-26.2
Services	384	131	17.3	6.2
Of which: tourism receipts	697	340	31.3	15.9
Primary income	-39	-25	-1.8	-1.2
Secondary income	115	78	5.2	3.7
Capital account	**61**	**61**	**2.8**	**3.5**
Financial account 1/	**176**	**205**	**7.9**	**9.6**
Direct Investment	161	80	7.2	3.6
Portfolio investment	0	-4	0.0	-0.2
Other investment	15	129	0.7	5.0
Commercial banks	12	-6	0.5	-0.3
Overall balance (deficit -)	**15**	**-108**	**0.7**	**-5.1**

	Millions of EC$		Percent of GDP	
	2019	2020	2019	2020
Prospective official financing	**…**	**169**	**…**	**7.9**
IMF (RCF)	…	43	…	2.0
IDA	…	61	…	2.9
Fast-track COVID19 facility 2/	…	7	…	0.3
DPL	…	54	…	2.5
CDB	…	30	…	1.4
Other	…	35	…	1.6
Reserve assets (increase -)	**-15**	**108**	**-0.7**	**5.1**
Imputed reserves stock	**518**	**410**	**23.3**	**19.2**
In months of total imports	6.2	4.4		
Memorandum item:				
Imputed reserves stock (w/o prospective official financing)	…	242		
In months of total imports	…	2.6		
Nominal GDP	2,226	2,131		

Sources: Ministry of Finance and Planning; and Fund staff estimates and projections.
1/ Excludes reserves and propsective official financing.
2/ Activated on April 17, 2020.

7. **Once the pandemic crisis recedes, economic prospects would be more favorable.** Staff's baseline scenario assumes that the global pandemic crisis would subside by the fourth quarter of 2020. Real GDP is projected to rebound to about 4 percent in 2021, and relatively high levels of growth could be sustained over the medium term. Inflation is projected to stay at around 2 percent (broadly in line with inflation in the United States). Key assumptions underlying staff's growth projections are: (i) reflecting a recovery of the global economy, stayover tourism arrivals gradually bounce back; (ii) construction of the new port project gets into full swing in 2021, boosting demand

for construction; (iii) hotel and resort projects recover over time, accompanied by higher FDI inflows; (iv) exports of non-traditional crops and fisheries gradually strengthen; and (v) geothermal electricity production commences in 2022.

8. The main risks to the outlook arise from a possible greater impact of Covid-19 both in terms of a slower recovery of the global economy and of local outbreaks. The economic outlook is subject to an unusual degree of uncertainty related to the impact of COVID-19 on the global economy. The coronavirus pandemic crisis could be prolonged, with more severe disruptions to global economic activity than assumed, resulting in a deeper and more protracted damage to the tourism sector and a wider current account deficit. In addition, were wider local outbreaks to erupt, the economic recession would be more severe and protracted. Should this occur, additional measures to support health services and vulnerable populations would be needed. These would be partially covered by further reallocation of the budget toward health and social needs (see paragraph 14), but the fiscal deficit would further widen. Furthermore, once the hurricane season starts (early Summer), St. Vincent and the Grenadines would be threatened by natural disaster risks.

9. In the area of financial sector policies, both the Eastern Caribbean Central Bank (ECCB) and the Financial Services Authority have announced measures to mitigate the crisis. The ECCB agreed with the ECCU Bankers Association on a relief program available for commercial bank customers through: (i) loan moratoria for 6 months, extendable upon review; and (ii) a waiver of late fees and charges to eligible customers during this period. Several other measures are being considered by the ECCB. Credit unions and other financial institutions (under the supervision of the Financial Services Authority) have also agreed to participate in the moratorium. The announced measures are largely consistent with the IMF guidance that such measures should be transparent, temporary, and combined with intensified supervision.

POLICY DISCUSSIONS: ENSURING DEBT AND FINANCIAL SUSTAINABILITY

10. In response to the pandemic crisis, on March 25, the authorities announced a fiscal package of about 3½ percent of GDP. The measures are targeted to address urgent needs in the health sector, to support the agriculture and tourism sectors, and to help displaced workers. Most of these measures are temporary and set to expire in 3 months with possible extensions.

- **Expenditure measures** (amounting to 3 percent of GDP) include: (i) an increase in funding for the health sector (to construct an isolation unit, purchase drugs and equipment, and hire extra medical staff); (ii) various construction projects of public infrastructure to

Announced Supplementary Fiscal Measures

	EC$ Million	Percent of GDP
Expenditure Measures	**67**	**3.1**
COVID-19 health spending	10	0.5
Public works program	30	1.4
Support to farming and agriculture sectors	12	0.6
Expanded social safety net and worker insurance	6	0.3
Support to Tourism Authority and Airport	3	0.1
Other initiatives	6	0.3
Tax Measures	**10**	**0.5**
VAT and import duty waivers on health products	…	…
Import duty waiver on barrels of goods	…	…
Removal of license fee for exports of bananas	…	…
Tax relief for local airlines	…	…
Reduced departure tax for CARICOM citizens	…	…
Total Costs	**77**	**3.6**

Sources: Ministry of Finance and Planning and IMF staff calculations.

generate jobs, (iii) financial support to the agriculture and fishery sector, (iv) a temporary widening of the social safety net to cover vulnerable households, (v) an income support program for displaced workers in the tourism and transport sectors, (vi) financial support to the Tourism Authority and Argyle International Airport, and (vii) other initiatives targeting the youths and small businesses.

- **Tax measures** (amounting to ½ percent of GDP) include: (i) VAT and import duties exemptions on a range of health and hygiene products; (ii) a tax relief for local airlines; and (iii) a reduction of airport departure fees (from EC$40 to EC$20) for CARICOM citizens. The deadlines for payment of personal income taxes and other fees have also been deferred to end-April.

11. The pandemic crisis and the economic contraction will thus lead to a deterioration in the fiscal position (Tables 3 and 4).

- **Revenue** is projected to decline, but a collapse of the revenue base is unlikely. During the first three months of this year, total revenue and grants increased by 8¼ percent year on year, with strong domestic indirect tax revenues (27 percent year on year). The main sources of revenue include the financial, manufacturing, construction, retail, and utility sectors—which are still operating, since a state of emergency has not been declared. The collapse of tourism has limited direct impact on fiscal revenue because the tourism sector is largely tax exempt. Under the baseline scenario, staff expect total revenue and grants to fall from 30 percent of GDP in 2019 to 28¾ percent of GDP.

- On the **expenditure side**, pressure would rise due to the fiscal package in

Central Government Operations, 2019-2020 (Above-the-line)

	Millions of EC$			Percent of GDP		
	2019	2020		2019	2020	
	Prel.	Auth. proj.	Staff proj.	Prel.	Auth. proj.	Staff proj.
Total revenue and grants	**666**	**641**	**612**	**29.9**	**29.7**	**28.7**
Current revenue	601	577	551	27.0	26.7	25.8
Tax revenue	554	531	508	24.9	24.6	23.9
Non-tax	47	45	42	2.1	2.1	2.0
Capital Revenue	4	3	1	0.2	0.1	0.1
Grants	61	61	61	2.8	2.8	2.8
Total expenditure	**719**	**749**	**745**	**32.3**	**34.7**	**35.0**
Current	603	630	626	27.1	29.2	29.4
Wages and salaries	304	311	311	13.7	14.4	14.6
Interest	54	59	55	2.4	2.7	2.6
Transfers and subsidies	166	176	176	7.5	8.1	8.2
Goods and services	79	85	85	3.5	3.9	4.0
Capital expenditure	117	119	119	5.2	5.5	5.6
Port 1/	9	12	12	0.4	0.6	0.6
Others	108	107	107	4.8	5.0	5.0
Overall balance	**-53**	**-109**	**-133**	**-2.4**	**-5.0**	**-6.2**
Primary balance	**1**	**-50**	**-78**	**0.1**	**-2.3**	**-3.7**
Memorandum item:						
Gross public sector debt	...	...	...	75.2	...	85.8

Sources: Ministry of Finance and Planning; and Fund staff estimates and projections.
1/ No construction in 2020. EC$ 12 million has been allocated for the expense to reallocate businesses which need to move from the port construction site.

Central Government Operations, 2019-2020 (Below-the-line)

	Millions of EC$			Percent of GDP		
	2019	2020		2019	2020	
	Prel.	Auth. proj.	Staff proj.	Prel.	Auth. proj.	Staff proj.
Financing	**53**	**109**	**133**	**2.4**	**5.0**	**6.2**
Net external financing	72	152	154	3.3	7.0	7.2
Disbursements	144	231	231	6.5	10.7	10.8
Existing official financing	...	63	63	...	2.9	2.9
Official financing needs	...	169	169	...	7.8	7.9
IMF (RCF) 1/	...	43	43	...	2.0	2.0
WB 1/	...	61	61	...	2.8	2.9
Fast track COVID19 facility	...	7	7	...	0.3	0.3
Development Policy Loan	...	54	54	...	2.5	2.5
CDB Repayment Assistance Loan	...	16	16	...	0.7	0.7
Others 2/	...	49	49	...	2.3	2.3
Amortization	72	79	77	3.2	3.7	3.6
Change in government assets	-32	0	0	-1.5	0.0	0.0
Net domestic financing	15	-43	-21	0.7	-2.0	-1.0
Memorandum item:						
Nominal GDP (million EC$)	2,226	2,160	2,131			

Sources: Ministry of Finance and Planning; and Fund staff estimates and projections.
1/ Subject to IMF/WB Board approval.
2/ Available financing options include: ECCB credit lines (EC$56 million) and WB Catastrophe Deferred Drawdown Option (EC$ 54 million).

response to the pandemic crisis (3½ percent of GDP). To make room for these additional spending needs, the authorities have reprioritized current and capital spending programs—including postponing the start of the port project— , so that the increase in total expenditure would be limited to less than 3 percentage points of GDP (from 32¼ percent of GDP in 2019 to 35 percent of GDP in 2020).

- Nonetheless, the **overall deficit** is expected to rise to EC$133 million (6¼ percent of GDP). Given the existing (pledged prior to the crisis) external disbursements, amortization, and net domestic financing, (prospective) official financing needs are estimated at EC$169 million (8 percent of GDP). The timely disbursement of the R CF would pave the way for external financing from other multilaterals. In particular, the CDB has approved a repayment assistance loan (EC$ 30.5 million, equivalent to 1½ percent of GDP),[6] and the World Bank is committed to approve a Development Policy Loan (EC$ 54 million, 2½ percent of GDP), pending the approval of the RCF. Without these RCF and Development Policy Loan disbursements (in total, 4½ percent of GDP), the authorities would face difficulties in implementing the pandemic crisis measures without drastically cutting other expenditure programs.

12. **Total public sector gross financing needs are estimated at EC$332 million (15½ percent of GDP) in 2020.** A total of EC$163 million (7¾ percent of GDP) would be financed through: (i) rolling over TBs; (ii) drawing from existing official financing; (iii) drawing down government deposits; and (iv) issuing bonds and borrowing from banks. The remaining EC$169 million (8 percent of GDP) would be financed by prospective official financing, including: (i) Fund disbursements under the RCF; (ii) WB disbursements under the first track COVID19 facility and Development Policy Loan; and (iii) CDB disbursements under the Repayment Assistance Loan.

Public Sector Gross Financing Needs

	EC$ million	US$ million	% of GDP
Total gross financing needs	**332**	**123**	**15.6**
Overall deficit	136	50	6.4
Domestic debt amortization	78	29	3.7
Short term	11	4	0.5
Medium and long term	67	25	3.1
External debt amortization	118	44	5.5
Short term	32	12	1.5
Medium and long term	86	32	4.0
Financing	**332**	**123**	**15.6**
Rollover of T-Bills (100%)	44	16	2.0
External	233	86	10.9
Official	233	86	10.9
Existing	64	24	3.0
WB	64	24	3.0
Prospective	169	62	7.9
IMF (RCF)	43	16	2.0
WB	61	23	2.9
CDB	16	11	1.4
Others 1/	49	13	1.7
Commercial	0	0	0.0
Domestic	55	20	2.6
Drawdown of deposits	10	4	0.5
Government bonds and bank borrowing	45	17	2.1

Source: St. Vincent Ministry of Finance and IMF staff estimates.

1/ Available financing options include: ECCB credit lines (EC$56 million) and WB Catastrophe Deferred Drawdown Option (EC$54 million).

13. **Public debt will rise temporarily but would remain sustainable if the authorities implement fiscal consolidation measures, once the pandemic crisis**

[6] A total of EC$15.9 million will be disbursed in 2020, and the remaining EC$14.6 million will be disbursed in 2021.

ends and the economy recovers (see Debt Sustainability Analysis report). Combined with the effects of the pandemic crisis and the economic recession, the port project would put additional pressures on public finances, given its size and relatively expensive financing terms. [7] Without additional efforts (passive scenario), staff expect the public debt to GDP ratio to peak at around 98 percent of GDP in 2022 and to fall to 77 percent of GDP by 2030. A moderate fiscal adjustment of 3 percent of GDP over 2021–23 would ensure that the public debt to GDP ratio would peak at 85 percent in 2020 and thereafter fall to 60 percent of GDP in 2030 (the ECCU's regional goal).

Fiscal Assumptions

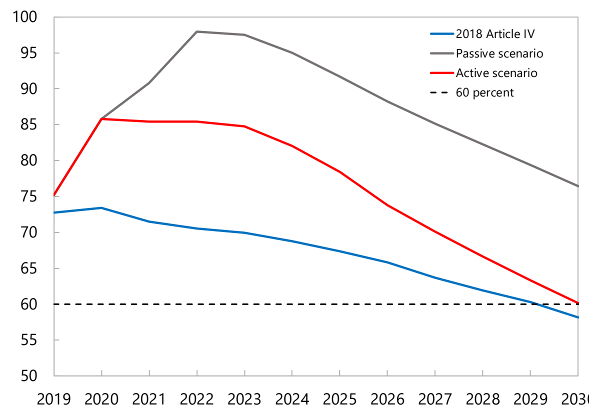
(Percent of GDP; unless otherwise indicated)

	2020-2030 ave.		
	2018 Art IV	Passive scenario	Active scenario
Real GDP growth (percent)	2.3	2.3	2.2
Central government (CG)			
Revenue and grants	28.4	30.2	30.2
Total expenditure	29.5	32.3	31.9
Of which; capital expenditure	3.9	6.3	5.7
Overall balance	-1.1	-2.1	-1.7
Primary balance	1.2	0.2	0.6
Public sector (PS) primary balance	1.3	0.1	0.8
		2021-23 ave.	
CG primary balance		-4.7	-1.6

Source: IMF staff estimates and projections.

Public Debt

(Percent of GDP)



14. The authorities are committed to taking both revenue and expenditure measures, with greater emphasis on expenditure measures.

- **On the expenditure side**, the authorities have agreed with labor unions to refrain from wage increases for central government employees in 2021. They are also committed to; (i) limiting the growth of the wage bill to 2.0 percent a year (around the inflation rate) through 2024 (compared to 4½ percent assumed in the passive scenario); and (ii) capping the total amount of capital spending at EC$ 1 billion during 2020-2025 (compared to EC$1.2 billion in the passive scenario), focusing on the port project and cutting back on non-port projects.

- **On the revenue side**, the authorities are committed to: (i) enhance taxpayer compliance, especially by focusing on large taxpayers and by adhering to the recently enacted Tax Administration and Procedures Act; and (ii) rationalizing exemptions from import duties and VAT

[7] The total size of the port project is US$ 185 million, of which US$100 million will be financed through the Caribbean Development Bank's Ordinary Capital Resources (2.75 percent interest rate, 19-year maturity, including a 5-year grace period) and US$10 million from the Special Funds Resources (at 1 percent, 25-year maturity including a 5-year grace period).

on imports. With these measures, under staff's baseline scenario, the primary balance is expected to improve from -3¾ percent of GDP in 2020 to 2 percent of GDP in 2025 (a year after the completion of the port project).

- **Given the large size of the port investment**, the authorities are committed to ensure that the overall fiscal plan keeps debt on a sustainable path based on the DSA, which they will update at the time of the 2021 budget preparation. In addition, to reduce the debt service burden, the authorities are seeking better financing terms on the port project, taking advantage of sharply reduced global interest rates since the global pandemic outbreak.

- **If downside risks materialize**, with weaker revenue and greater health expenditure needs, to protect crisis related spending on health and social protection for the vulnerable, the authorities will need to (i) reduce discretionary exemptions from import duties and VAT imports and (ii) further reprioritize non-priority spending

15. Going forward, the authorities need to make further efforts to strengthen public infrastructure management. To improve infrastructure planning process and project selection, there are merits in developing a long-term national infrastructure plan, which should be linked closely to the Medium-term Fiscal Framework. Projects should be prioritized based on the government's strategic development goals, the likelihood of successful implementation, and the certainty of project funding. The plan should also embed resilient infrastructure projects. Moreover, efforts should continue to strengthen capital projects implementation and quality.

16. The authorities need to remain vigilant to ensure financial stability and continue to enhance capacity for prompt mitigating actions against the effects of the pandemic crisis. In parallel with the ECCB's measures to safeguard stability of the banking system, the Financial Services Authority (FSA) has strengthened monitoring, identified risks, and developed contingency plans. The FSA has instituted requirements for daily reporting on liquidity positions and lending activities, reviewed the non-bank financial institutions' plans for business continuity, and provided guidance on supervisory expectations. Moreover, the FSA has required non-bank financial institutions to assess the likely impact of the crisis on their liquidity and encouraged them to identify likely distressed borrowers and consider offering temporary relief. If the shock persists or risks materialize, while refraining from generalized forbearance measures, the FSA could consider allowing financial institutions to use their buffers on capital and liquidity requirements. Collaboration with the ECCB and the FSA should be deepened to inform the monitoring and coordinated response. Risk-based AML/CFT supervision should be enhanced to reduce pressure on correspondent banking relations and remittances.

MODALITIES OF SUPPORT

17. The RCF is the most appropriate instrument at this juncture. Given the rapid development of the shock, uncertainty over its depth and duration, and the current practical difficulties, it is not feasible to put in place a UCT Fund-supported program. The authorities have been continuously engaging with the World Bank and the Caribbean Development Bank (CDB), and timely IMF involvement will play a catalytic role in securing external financing from these multilateral institutions. Subject to adhering to the authorities' plan to implement measures to put debt on a solid downward trajectory in the medium term, St Vincent and the Grenadines possesses the capacity to repay the Fund (Table 5).

18. Staff considers an immediate access of 100 percent of quota (SDR 11.7 million, equivalent to about US$ 16 million) to be appropriate. Staff estimates that the RCF will cover about a quarter of the projected external financing gap (US$62 million). The authorities are actively engaging with the World Bank and the CDB on other budget support options. Staff expects that, with the participation of these institutions, the external financing gap will be fully filled. St Vincent and the Grenadines had an RCF arrangement with the Fund in 2014, which currently has an outstanding principal of SDR 2.66 million (22.7 percent of quota). Access of 100 percent of the quota for a new RCF is within the normal access limit under the PRGT.

19. The RCF funds will be disbursed to the East Caribbean Central Bank (ECCB) and be on-lent to the government of St. Vincent and the Grenadines to provide immediate fiscal support. The authorities are committed to hold all foreign exchange from the IMF disbursement at the ECCB, pending use. The ECCB will provide Fund staff with the necessary central bank audit reports and has authorized the external auditors to hold discussions with staff. The authorities are also committed to continuing the publication of procurement documentation and adding information on the beneficial owners of the companies that receive crisis-related procurement contracts.[8] Moreover, they are committed to reporting monthly on COVID-19 related expenditures and undertaking a full ex-post financial and operational audit of COVID-19 spending at the time of the annual audit[9].

20. The authorities are also committed to collaborating with staff in undertaking a safeguards assessment. The ECCB undertakes a safeguards assessment every four years with the most recent one completed in 2016.

21. Risks to St. Vincent and the Grenadines' capacity to repay are mitigated by several positive factors. These include: (i) the authorities' positive track record from previous financing programs with the Fund, (ii) their ability in recent years to enact fiscal consolidation measures to reduce debt, and (iii) their continued close dialogue with the Fund.

AUTHORITIES' VIEWS

[8] A beneficial owner is defined as "an individual who is an ultimate beneficial owner of the legal person, partnership or legal arrangement, whether or not the individual is the only beneficial owner; and an individual who exercises ultimate control over the management of the legal person, partnership or legal arrangement, whether alone or jointly with any other person or persons" (St. Vincent and the Grenadines, Anti-money Laundering and Terrorist Financing Regulations, 2014, Article 4).

[9] Conducted by St. Vincent and the Grenadines Audit Office.

22. The authorities expect a significant weakening in economic activity in 2020. However, given that the tourism sector is smaller relative to other ECCU member states, and the economy is not fully "locked down," the authorities' view of the economic impact of the pandemic is milder than in other neighboring economies. Nonetheless, they agree that the economy has entered a deep recession. The authorities are particularly concerned with the sharp decline in tourist arrivals and its impact on employment and fiscal revenue. They agree that there is significant downside risk to the outlook: if the crisis persists until 2021, the impact on growth performance would be much more severe.

23. The authorities stress the urgent need to support the health and social sectors and to secure external official financing. Weaker revenue prospects together with increased spending needs will lead to higher deficits and public debt. They also underscore the urgent need for Fund support ahead of the 2020 hurricane season. The authorities agree that the port project would place pressure on the public finances but are committed to implementing measures to still achieve the regional public debt target of 60 percent of GDP by 2030. To this end, the authorities agree with staff recommendations to facilitate fiscal consolidation by enhancing the effectiveness of tax administration, tightly controlling current expenditure and wage bill growth, and selecting strategically important non-port projects.

24. The authorities agree on the need to continue carefully monitoring the financial system and indicate that the financial system remains stable. The authorities are taking measures, including conducting stress testing to identify funding gaps, requiring non-bank financial institutions to submit daily reporting, reviewing their business continuity plans, discussing with them preparedness, escalation measures, and regulatory forbearance. The authorities note that the ECCB and the FSA will continue close collaboration to exchange information and coordinate responses.

STAFF APPRAISAL

25. Staff supports the request in light of the large size of the shock, giving rise to an urgent balance of payments need. The authorities are committed to policies ensuring macroeconomic stability, including through fiscal measures to safeguard fiscal sustainability. The authorities have indicated their commitment to implementing a fiscal adjustment of 3 percent of GDP over 2021-23, once the pandemic subsides, mainly through expenditure-side measures (e.g., containing the growth of current spending and cutting back on non-port capital programs). This will put the debt-to-GDP ratio on a solid downward path after 2021, deeming debt as sustainable in a forward-looking sense.

26. Staff considers that following disbursement, public debt will remain sustainable, and St. Vincent and the Grenadines will have the capacity to repay the Fund.

Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board.

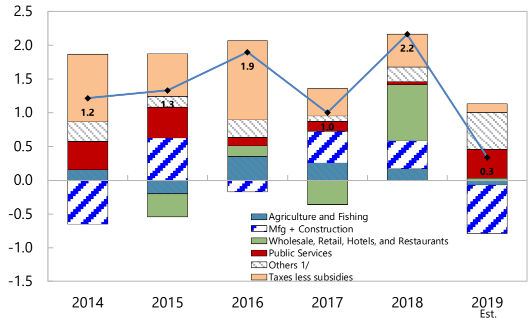
1. St. Vincent and the Grenadines has requested a loan disbursement in an amount equivalent to SDR 11.7 million (100 percent of quota) under the Rapid Credit Facility of the Poverty Reduction and Growth Trust.

2. The Fund notes the intentions of St. Vincent and the Grenadines as set forth in the letter from the Prime Minister dated May 13, 2020 and approves the disbursement in accordance with the request.

Figure 1. St. Vincent and the Grenadines: Real Sector Developments

GDP growth slowed in 2019, as the manufacturing and construction sectors contracted.

Contribution to Growth by Sector
(Percent contribution)



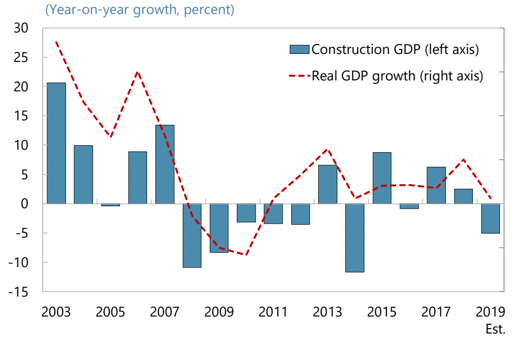
1/ Others include Mining & Quarrying, Electricity and Water, Transport, Storage and Communications, Financial Intermediation, Real Estate, Renting and Business Activities, Private Households with Employed Persons, Less FISM

While tourist arrivals were strong…

Stay-over Visitors and Visitor Expenditure
(Year-on-year growth, percent)

…construction fell significantly in 2019, primarily due to reduced demand for reconstruction materials from Dominica.

Construction Sector
(Year-on-year growth, percent)

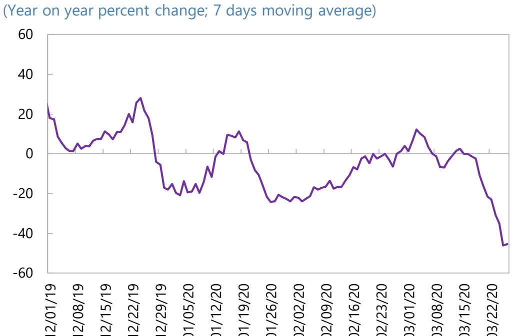


Productivity slowed from historically high levels, in part because of rapid employment growth.

Productivity and Employment
(Index = 2008, left ;thousands of persons employed, right)

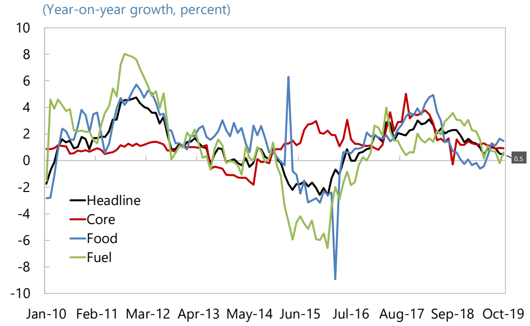
More recently, since the global pandemic outbreak, the number of incoming flights has declined significantly.

Number of Inbound Flights to St. Vincent and the Grenadines
(Year on year percent change; 7 days moving average)



Inflationary pressure has remained low with inflation hovering around 1 percent

Inflation
(Year-on-year growth, percent)

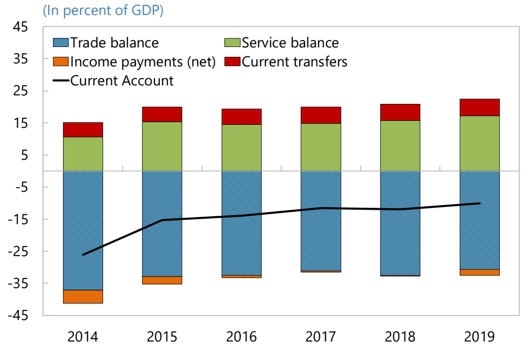


Source: Government Statistical Office; ECCB; Flight Radar 24; and IMF staff calculations.

Figure 2. St. Vincent and the Grenadines: External Sector Developments

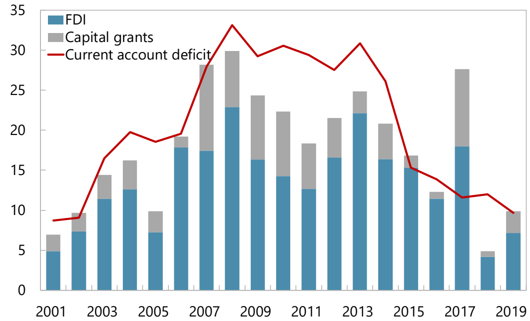
Current account deficit is estimated to have slightly narrowed in 2019, with increased service exports....

Current Account Balance
(In percent of GDP)



...and was mostly financed by FDI inflows.

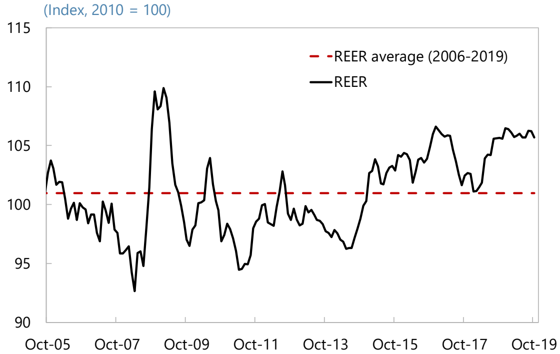
Current Account Deficit and Sources of Finance
(In percent of GDP)



Starting with the year 2014 data are provided by the authorities in BPM6.

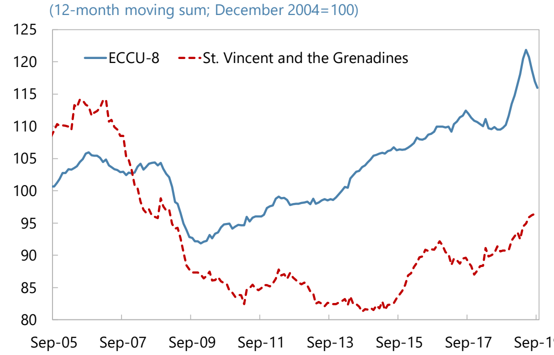
Real effective exchange rate has remained above a historical average.

Real Effective Exchange Rate
(Index, 2010 = 100)



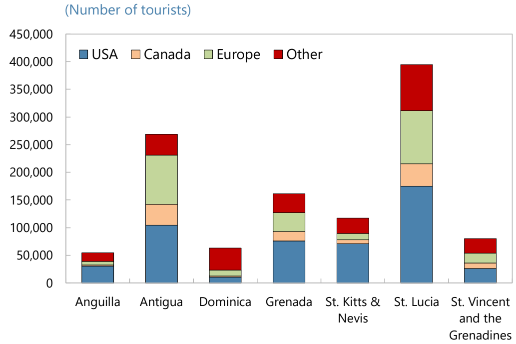
Stayover tourist arrivals continued to increase in 2019...

St. Vincent: Stayover Tourist Arrivals
(12-month moving sum; December 2004=100)



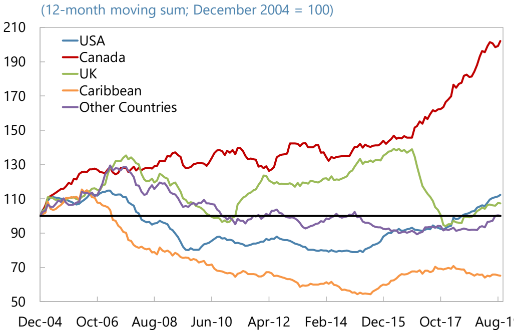
...but were still below those of many ECCU economies

Stayover tourist arrivals, 2018
(Number of tourists)



With increased direct flights, tourist arrivals from Canada grew strongly.

Tourist Arrivals by Country
(12-month moving sum; December 2004 = 100)



Source: Government Statistical Office; ECCB; Caribbean Tourism Organization; and IMF staff calculations.

Table 1. St. Vincent and the Grenadines: Selected Social and Economic Indicators, 2017–2025

Social and Demographic Indicators

Area (sq. km)	389.3	Adult literacy rate (percent, 2001)	89.0
Population (2017)		Health and nutrition	
Total (thousands)	110.2	Calorie intake (per capita a day, 2007)	2,810
Rate of growth (percent per year)	0.1	Population per physician (per '000, 2004)	1.2
Density (per sq. km.)	283.1	Health expenditure per capita (PPP-2011, 2004)	917
Population characteristics		Gross domestic product (2018)	
Life expectancy at birth (years, 2016)	73.0	(millions of US dollars)	811
Infant mortality (per '000 live births, 2016)	15.2	(millions of EC dollars)	2,191
Under 5 mortality rate (per '000, 2016)	17.0	(US$ per capita)	7,354

	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Proj.					
	(Annual percentage change, unless otherwise specified)								
Output and prices									
Real GDP (market prices)	1.0	2.2	0.4	-5.5	4.1	3.0	2.9	2.7	2.7
Nominal GDP (market prices)	2.3	2.4	1.6	-4.3	5.8	5.1	4.9	4.8	4.8
Consumer prices, end of period	3.4	1.4	0.5	1.5	2.0	2.0	2.0	2.0	2.0
Consumer prices, period average	2.2	2.3	0.9	0.9	1.6	2.0	2.0	2.0	2.0
Banking system 1/									
Net foreign assets	-3.3	-0.6	14.5	-6.9	4.2	4.1	7.9	8.0	2.9
Net domestic assets	4.5	2.3	-4.6	-2.5	-2.6	-3.1	-1.0	1.0	5.9
Credit to private sector	1.1	0.1	-0.2	0.5	0.7	0.8	1.0	1.2	1.6
Central government finances 2/									
Total revenue	30.0	29.1	29.9	28.7	31.3	32.7	30.3	30.3	30.3
Tax revenue	25.4	25.1	24.9	23.9	25.0	25.6	25.6	25.6	25.6
Grants	2.1	1.8	2.8	2.8	4.2	4.9	2.5	2.5	2.5
Total expenditure and net lending	30.5	30.0	32.3	35.0	35.8	37.2	34.4	32.0	30.7
Current expenditure	26.4	26.2	27.1	29.4	28.4	27.8	27.3	26.5	25.7
Of which : Wages and salaries	13.1	13.2	13.7	14.6	14.0	13.6	13.2	12.9	12.7
Interest	2.3	2.4	2.4	2.6	2.6	2.7	3.0	2.8	2.6
Capital expenditure	4.1	3.8	5.2	5.6	7.4	9.5	7.1	5.4	5.0
Overall balance	-0.4	-0.9	-2.4	-6.2	-4.5	-4.5	-4.1	-1.7	-0.4
Overall balance (excl. grants)	-2.5	-2.7	-5.1	-9.1	-8.7	-9.4	-6.6	-4.2	-2.9
Primary balance	1.9	1.5	0.1	-3.7	-1.9	-1.8	-1.1	1.1	2.1
External sector 2/									
External current account	-11.6	-12.0	-10.0	-17.5	-12.1	-12.7	-10.8	-9.6	-8.3
Exports of goods and services	37.0	38.2	40.1	26.7	35.5	40.6	43.0	43.1	44.6
Imports of goods and services	53.3	55.1	53.5	46.7	50.1	55.1	54.7	54.3	55.3
Public sector external debt (end of period)	46.9	49.3	53.0	63.0	66.4	68.7	70.4	69.8	66.1
External public debt service 3/	9.5	11.0	14.9	15.7	13.8	13.8	13.7	13.4	13.1
Memorandum items									
Gross public sector debt (in percent of GDP)	73.5	75.6	75.2	85.8	85.5	85.4	84.8	82.1	78.5
Nominal GDP (market prices; in millions of EC$)	2,139	2,191	2,226	2,131	2,255	2,370	2,487	2,607	2,731

Sources: Eastern Caribbean Central Bank; Ministry of Finance and Planning; and Fund staff estimates and projections.

1/ Annual changes relative to the stock of broad money at the beginning of the period.

2/ Percent of GDP.

3/ In percent of exports of goods and services.

Table 2. St. Vincent and the Grenadines: Balance of Payments Summary, 2017–2025

	2017	2018	2019	2020	2021	2022	2023	2024	2025
						Projections			
				(In EC$ million; unless otherwise stated)					
Current account	**-248**	**-263**	**-223**	**-374**	**-274**	**-301**	**-270**	**-250**	**-226**
Trade balance	-666	-714	-682	-558	-632	-783	-811	-842	-886
Exports f.o.b.	120	128	136	130	141	147	155	160	189
Imports f.o.b.	785	842	818	688	773	930	967	1002	1075
Of which: Mineral fuels	73	120	90	50	55	61	66	71	75
Services (net)	318	343	384	131	302	440	518	549	595
Travel (net)	503	543	586	305	486	634	722	763	819
Other nonfactor services (net)	-185	-199	-202	-174	-184	-194	-204	-214	-224
Primary income (net)	-10	-4	-39	-25	-59	-78	-102	-87	-71
Secondary income (net)	109	112	115	78	115	120	125	131	136
Private transfers	75	75	76	40	77	81	85	89	93
Official transfers	34	37	39	38	39	39	41	42	43
Capital account	**206**	**15**	**61**	**61**	**95**	**117**	**62**	**65**	**68**
Financial account	**-182**	**-95**	**-161**	**-313**	**-178**	**-184**	**-207**	**-185**	**-158**
Direct Investment	-385	-92	-161	-80	-105	-128	-249	-246	-219
Portfolio investment	28	-14	0	4	6	5	0	3	4
Other investment	202	44	-15	-129	-128	-111	-69	-63	21
Commercial banks	34	-6	-12	6	-4	2	11	13	19
Reserve assets	-28	-34	15	-108	48	50	110	122	37
Change in SDR holdings	1	-2	0	0	0	0	0	0	0
Change in imputed reserves	-29	-32	15	-108	48	50	110	122	37
Net errors and omissions	**-140.3**	**152.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Stock of imputed international reserve	**487**	**455**	**518**	**410**	**458**	**508**	**617**	**739**	**775**
In months of imports of good and services	4.8	4.6	6.2	4.4	4.2	4.5	5.2	5.9	5.9
				(In percent of GDP, unless otherwise stated)					
Current account	-11.6	-12.0	-10.0	-17.5	-12.1	-12.7	-10.8	-9.6	-8.3
Exports f.o.b.	5.6	5.9	6.1	6.1	6.2	6.2	6.2	6.1	6.9
Imports f.o.b.	36.7	38.4	36.8	32.3	34.3	39.2	38.9	38.4	39.4
Net private transfers	3.5	3.4	3.4	1.9	3.4	3.4	3.4	3.4	3.4
Tourism exports	26.6	27.8	29.4	15.9	24.6	29.8	32.1	32.3	33.0
Direct investment	-18.0	-4.2	-7.2	-3.8	-4.6	-5.4	-10.0	-9.4	-8.0
Memorandum items:									
Terms of Trade of Goods (Index 2002=100)	118.8	116.7	117.6	124.5	121.4	118.5	117.1	115.6	114.6
Total trade of goods and nonfactor services	90.3	93.2	93.6	73.5	85.6	95.7	97.7	97.4	99.8
Exports of goods and nonfactor services	37.0	38.2	40.1	26.7	35.5	40.6	43.0	43.1	44.6
Imports of goods and nonfactor services	53.3	55.1	53.5	46.7	50.1	55.1	54.7	54.3	55.3

Sources: Ministry of Finance and Planning; Eastern Caribbean Central Bank; and Fund staff estimates and projections.

Table 3. St. Vincent and the Grenadines: Summary of Central Government Operations, 2017–2025

(In millions of Eastern Caribbean dollars; unless otherwise stated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Projections					
Total revenue and grants	**643**	**637**	**666**	**612**	**707**	**776**	**754**	**790**	**828**
Current revenue	592	596	601	551	610	657	690	723	758
Tax revenue	544	551	554	508	563	607	637	668	700
Of which									
Taxes on income and profits	151	148	140	133	149	157	165	173	181
Taxes on property	4	5	4	4	4	5	5	5	5
Taxes on international trade	218	236	232	209	233	255	267	280	293
Of which: VAT	86	92	93	84	97	102	107	112	118
Taxes on domestic transactions	172	162	177	163	177	191	200	210	220
Of which: VAT	74	78	96	89	96	102	107	112	118
Non-tax	48	46	47	42	46	50	53	55	58
Of which									
Fees, Fines and Permits	18	10	7	6	6	7	8	8	8
Interest, Rent and Dividends	8	7	9	8	8	10	10	11	11
Other Revenue	22	29	31	29	32	33	35	37	39
Capital Revenue	6	1	4	1	1	2	2	2	2
Grants	45	40	61	61	95	117	62	65	68
Total expenditure and net lending	**652**	**657**	**719**	**745**	**808**	**882**	**856**	**833**	**840**
Current	565	573	603	626	641	658	680	691	703
Of which									
Wages and salaries 1/	281	288	304	311	317	323	330	336	346
Interest	50	52	54	55	58	64	74	73	70
Domestic	31	32	35	30	24	22	23	22	20
Foreign	19	20	19	25	34	42	51	51	50
Transfers and subsidies	156	156	166	176	179	183	187	190	194
Goods and services	78	77	79	85	86	88	90	92	92
Capital expenditure	88	84	117	119	167	224	176	142	137
Port	…	…	9	12	123	192	107	16	0
Others	88	84	108	107	44	32	69	126	137
Current balance (before grants)	28	23	-2	-75	-31	-1	10	32	55
Overall balance	**-10**	**-20**	**-53**	**-133**	**-101**	**-106**	**-102**	**-43**	**-12**
Overall balance (excl. port project)	-10	-20	-44	-121	22	86	5	-27	-12
Primary balance	40	32	1	-78	-43	-43	-28	30	58
Primary balance (excl. port project)	40	32	10	-66	80	149	79	46	58
Identified financing	**10**	**20**	**53**	**133**	**101**	**106**	**102**	**43**	**12**
Net external financing	-4	15	72	154	147	101	123	68	-18
Disbursements	86	89	144	231	240	197	219	163	76
Amortization	89	74	72	77	94	96	96	94	94
Change in government assets	-14	-22	-32	0	0	0	0	0	0
Net domestic financing 2/	68	1	15	-21	-46	5	-21	-25	30
Sale of Equity (privatization proceeds)	-35	0	0	0	0	0	0	0	0
Change in account payable and arrears	-6	26	-2	0	0	0	0	0	0

Sources: Ministry of Finance and Planning; and Fund staff estimates and projections.
1/ Wages and salaries including social security contributions, commissions, rewards, allowances, and incentives.
2/ Includes other non-banking sector domestic financing.

Table 4. St. Vincent and the Grenadines: Summary of Central Government Operations, 2017–2025

(In percent of GDP; unless otherwise stated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Projections					
Total revenue and grants	**30.0**	**29.1**	**29.9**	**28.7**	**31.3**	**32.7**	**30.3**	**30.3**	**30.3**
Current revenue	27.7	27.2	27.0	25.8	27.0	27.7	27.7	27.7	27.7
Tax revenue	25.4	25.1	24.9	23.9	25.0	25.6	25.6	25.6	25.6
Of which									
Taxes on income and profits	7.1	6.7	6.3	6.2	6.6	6.6	6.6	6.6	6.6
Taxes on property	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on international trade	10.2	10.8	10.4	9.8	10.3	10.7	10.7	10.7	10.7
Of Which: VAT	4.0	4.2	4.2	4.0	4.3	4.3	4.3	4.3	4.3
Taxes on domestic transactions	8.0	7.4	8.0	7.6	7.9	8.0	8.0	8.0	8.0
Of Which: VAT	3.5	3.6	4.3	4.2	4.2	4.3	4.3	4.3	4.3
Non-tax	2.2	2.1	2.1	2.0	2.1	2.1	2.1	2.1	2.1
Capital Revenue	0.3	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Of which : Sale of crown lands	0.3	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants	2.1	1.8	2.8	2.8	4.2	4.9	2.5	2.5	2.5
Total expenditure and net lending	**30.5**	**30.0**	**32.3**	**35.0**	**35.8**	**37.2**	**34.4**	**32.0**	**30.7**
Current	26.4	26.2	27.1	29.4	28.4	27.8	27.3	26.5	25.7
Of which									
Wages and salaries 1/	13.1	13.2	13.7	14.6	14.0	13.6	13.2	12.9	12.7
Interest	2.3	2.4	2.4	2.6	2.6	2.7	3.0	2.8	2.6
Domestic	1.5	1.5	1.6	1.4	1.1	0.9	0.9	0.8	0.7
Foreign	0.9	0.9	0.9	1.2	1.5	1.8	2.0	2.0	1.8
Transfers and subsidies	7.3	7.1	7.5	8.2	7.9	7.7	7.5	7.3	7.1
Goods and services	3.7	3.5	3.5	4.0	3.8	3.7	3.6	3.5	3.4
Capital expenditure	**4.1**	**3.8**	**5.2**	**5.6**	**7.4**	**9.5**	**7.1**	**5.4**	**5.0**
Port	...	...	0.4	0.6	5.4	8.1	4.3	0.6	...
Others	4.1	3.8	4.8	5.0	2.0	1.3	2.8	4.8	5.0
Current balance (before grants)	**1.3**	**1.1**	**-0.1**	**-3.5**	**-1.4**	**0.0**	**0.4**	**1.2**	**2.0**
Overall balance	**-0.4**	**-0.9**	**-2.4**	**-6.2**	**-4.5**	**-4.5**	**-4.1**	**-1.7**	**-0.4**
Overall balance (excluding port loan & grants)	**-0.4**	**-0.9**	**-2.0**	**-5.7**	**1.0**	**3.6**	**0.2**	**-1.1**	**-0.4**
Primary balance	**1.9**	**1.5**	**0.1**	**-3.7**	**-1.9**	**-1.8**	**-1.1**	**1.1**	**2.1**
Primary balance (excluding port loan & grants)	**1.9**	**1.5**	**0.5**	**-3.1**	**3.5**	**6.3**	**3.2**	**1.7**	**2.1**
Identified financing	**0.4**	**0.9**	**2.4**	**6.2**	**4.5**	**4.5**	**4.1**	**1.7**	**0.4**
Net external financing	-0.2	0.7	3.3	7.2	6.5	4.3	4.9	2.6	-0.7
Disbursements	4.0	4.0	6.5	10.8	10.7	8.3	8.8	6.2	2.8
Amortization	4.2	3.4	3.2	3.6	4.2	4.1	3.9	3.6	3.4
Change in government assets	-0.7	-1.0	-1.5	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic financing 2/	3.2	0.1	0.7	-1.0	-2.0	0.2	-0.8	-1.0	1.1
Sale of Equity (privatization proceeds)	-1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in account payable and arrears	-0.3	1.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Gross public sector debt	73.5	75.6	75.2	85.8	85.5	85.4	84.8	82.1	78.5
GDP at market prices (EC$ millions)	2,139	2,191	2,226	2,131	2,255	2,370	2,487	2,607	2,731
Real GDP growth (percent)	1.0	2.2	0.4	-5.5	4.1	3.0	2.9	2.7	2.7

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

1/ Wages and salaries including social security contributions, commissions, rewards, allowances, and incentives.

2/ Includes other non-banking sector domestic financing

Table 5. St. Vincent and the Grenadines: Indicators of Capacity to Repay the Fund

	Projections										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Obligations from existing drawings 1/	0.5	0.9	0.4	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Principal	0.5	0.9	0.4	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Charges/interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Obligations from existing and prospective drawings 1/	0.5	0.9	0.4	0.4	0.4	1.2	2.3	2.3	2.3	2.3	1.2
Principal	0.5	0.9	0.4	0.4	0.4	1.2	2.3	2.3	2.3	2.3	1.2
Charges/interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total existing and prospective obligations 1/											
In millions of U.S. dollars	0.7	1.2	0.6	0.6	0.6	1.6	3.3	3.3	3.3	3.3	1.6
In percent of exports of goods and services	0.3	0.4	0.1	0.1	0.1	0.4	0.7	0.7	0.6	0.6	0.3
In percent of debt service	1.4	2.3	1.0	0.8	0.8	2.2	4.1	4.7	5.3	5.4	2.9
In percent of quota	4.6	7.4	3.6	3.6	3.6	10.0	20.0	20.0	20.0	20.0	10.0
In percent of net international reserves	0.5	0.7	0.3	0.3	0.2	0.6	1.1	1.1	1.1	1.0	0.5
Fund credit outstanding 1/											
In millions of SDRs	13.8	13.0	12.5	12.1	11.7	10.5	8.2	5.9	3.5	1.2	0.0
In millions of U.S. dollars	19.1	18.0	17.4	16.9	16.4	14.8	11.5	8.2	4.9	1.6	0.0
In percent of exports of goods and services	8.6	5.9	4.5	4.2	3.9	3.3	2.5	1.7	1.0	0.3	0.0
In percent of debt service	35.4	34.8	28.7	23.6	22.5	19.8	14.4	11.7	7.9	2.7	0.0
In percent of quota	118.1	110.7	107.1	103.6	100.0	90.0	70.0	50.0	30.0	10.0	0.0
In percent of net international reserves	12.6	10.6	9.3	7.4	6.0	5.2	3.9	2.7	1.6	0.5	0.0
Net use of Fund credit 1/ *(In millions of SDRs)*	11.2	-0.9	-0.4	-0.4	-0.4	-1.2	-2.3	-2.3	-2.3	-2.3	-1.2
Disbursements	11.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	0.5	0.9	0.4	0.4	0.4	1.2	2.3	2.3	2.3	2.3	1.2
Memorandum items:											
Quota (millions of SDRs)	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7
Quota (millions of U.S. dollars)	16.2	16.2	16.3	16.3	16.4	16.4	16.4	16.4	16.4	16.4	16.4
Net imputed international reserves (US$ million)	151.9	169.7	188.0	228.6	273.6	287.1	294.9	302.6	310.5	319.0	327.4
GDP (millions of U.S. dollars)	789.2	835.2	877.8	921.3	965.4	1011.6	1059.9	1110.6	1163.8	1219.0	1277.1
SDRs per U.S. dollar 2/	0.72	0.72	0.72	0.72	0.71	0.71	0.71	0.71	0.71	0.71	0.71

Sources: St. Vincent and the Grenadines authorities; Eastern Caribbean Central Bank; and Fund staff estimates and projections.

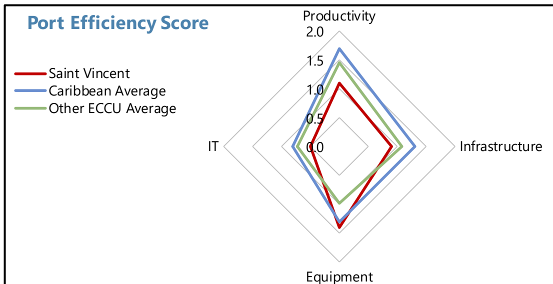
1/ Includes the RCF approved in 2014.
2/ WEO Global Assumptions (GAS), dated March 24, 2020 up to 2025, after which the exchange rate is fixed at the 2019 level.

Annex I. Macroeconomic and Resilience Impacts of the Port Modernization Project

In December 2019, just before the pandemic outbreak, St. Vincent and the Grenadines reached an agreement with the Caribbean Development Bank (CDB) on a large-scale port modernization project (21 percent of GDP). The project will strain public finances but will boost construction demand, strengthen resilience to natural disasters, and improve the port capacity and efficiency.

Objectives. The existing port in Kingstown was built more than 50 years ago, well above its operational life of 30 years, raising capacity and safety concerns. The CDB's regional study (2016) suggests that Kingstown' port fares relatively poor compared to other ports in the region in terms of productivity, infrastructure quality, and IT capabilities.[1]

Port Efficiency Score



Source: Caribbean Development Bank
Note: Productivity is the speed of service; Infrastructure quality has an impact on the type of operations and efficiency of handling; Equipment availability improves efficiency of moving cargo; Information Technology implementation improves efficiency.

Key benefits. The new port will:

- *Strengthen resilience to natural disasters.* The port is one of the key strategic projects to boost infrastructure resilience to natural disasters.
- *Improve shipping efficiencies and reduce berthing times.* The new port can accommodate larger vessels, double the existing capacity, raise economies of scale (through lower unit charter and fuels costs), and reduce the time required for cargo vessels to berth and discharge cargo (thus increasing operational efficiencies).
- *Improve tracking efficiencies.* Currently, container cargo is received at Campden Park Container Port located 3.5 km from Kingstown. The location of the new port (Kingstown) is closer to the main importers, reducing in-land transportation costs.
- *Increase capacity.* By the mid-2020s, cargo volumes are projected to hit port capacity. Maintenance costs are expected to rise fast to address the deteriorating condition of the port.

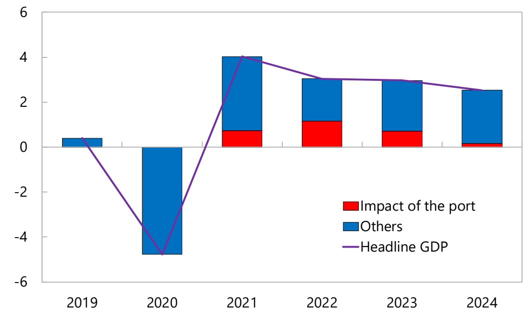
Economic growth impacts. While the port project is sizable (US$185 million, 21 percent of 2020-24 average GDP), its growth impact is relatively modest (0.2-1.2 percentage points of GDP a year).[2] The main growth channel is through the employment of unskilled labor, and the impact from capital

[1] A visual survey that the CDB conducted in 2009 recommended major remedial works, while CDB (2013) suggests that the assets of the port had reached the end of their design life. Cubas et. al (2013) also pointed to cargo capacity and efficiency problems of the Kingstown port.

[2] Estimated as follows. First, the project budget was decomposed into capital, skilled labor, and unskilled labor inputs. Second, the amount of domestic procurement for each component was estimated —for capital and skilled labor, the share of the domestic procurement in total budget is assumed to be around 5-10 percent and for unskilled labor, 100 percent. Finally, the fiscal impulse was calculated, assuming a fiscal multiplier of 0.3 for the first year and 0.1 for the second year. The GDP deflator to estimate real impacts was used.

inputs is limited as these will mostly be imported. The long-term growth impact of the port would hinge on the authorities' efforts to strengthen over St. Vincent and the Grenadines' competitiveness and foster private sector activity. In the absence of this investment, however, should there be structural failure of the existing port, significant negative economic impacts would ensue.

Growth Impact of Port Construction
(Percentage points of GDP)



Source: Caribbean Development Bank; and IMF staff estimates.

Fiscal impacts. The port project will contribute to a significant increase in capital spending (about 8 percent of GDP in 2022 at the peak of the construction) and the overall deficit. The project will be financed through a mix of non-concessional and concessional borrowing from the CDB (US$110 million), a grant from the United Kingdom (US$32.5 million), and counterpart borrowing by the authorities (US$42.8 million).

Table. Project Financing Summary

	Amount (US$ million)	Amortiza-tion period	Grade period (years)	Interest rate (percent)	Currency
CDB .loans					
Ordinary Capital Resources	100.1	14	5	2.75	Euro
Special Funds Resources	10.0	20	5	1.00	US dollar
Grants					
UK Caribbean Infrastructure Partnership Fund	32.5	…	…	…	GBP
MOF counterpart borrowing	42.8	TBD	TBD	TBD	TBD
Total project costs (incl. grants)	185.3				
Percent of 2020-24 ave. GDP	21.0				
Total borrowing	152.9				
Percent of 2020-24 ave. GDP	17.3				

BOP impacts. The port project will widen the current account deficit during the construction period (nearly 4 percent of GDP in 2022 at its peak). This reflects an increase in (i) imports of construction materials and equipment and (ii) transfer abroad by foreign engineers, partly offset by a small increase in service exports (as foreign technicians would contribute to local spending). The widening of the current account will be more than offset by an increase in the grant from the United Kingdom and the official loan by the CDB. To the extent that the money spent for local labor and procurement is saved, the project will also contribute to supporting St. Vincent and the Grenadines' foreign reserves.

References

CDB, 2016, "Transforming the Caribbean Port Services Industry: Towards the Efficiency Frontier"

CDB, 2013, "Port Rationalization Development Study-CDB"

D. Cubas, C. Briceño-Garmendia, and H.C. Bofinger, 2013, "OECD Ports: An Efficiency and Performance Assessment," World Bank, Policy Research Working Paper 7162

Appendix I. Letter of Intent

May 13, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund Washington, D.C. 20431

Dear Ms. Georgieva,

1. We are facing additional financing needs as a result of the global Coronavirus pandemic. Revenues are projected to fall compared to 2019 and our 2020 budget targets amid the slowdown in economic activity. Additional budgetary demands have emerged to cover outlays on both containment measures and treatment facilities. Indeed, on April 7, the Parliament approved a fiscal package, amounting to 3½ percent of GDP. The measures include: (i) an increase in funding for the health sector (to construct an Isolation Unit, purchase drugs, furniture and equipment, and hire extra medical staff); (ii) various construction projects of public infrastructure to generate jobs, (iii) direct financial support to the farming, fishing, and agriculture industries, (iv) temporarily widening the social safety net to cover vulnerable households currently not in receipt of support, including temporary income support to affected individuals in the tourism and allied sectors, and (v) VAT and import duties exemptions on a range of health and hygiene products.

2. Our estimates indicate that real GDP growth in 2020 could decline to -4.1 percent, as tourism arrivals have been grounded to a complete halt. Looking forward, we expect the pandemic crisis to subside after this summer and the tourism sector to recover strongly for the next season (December-March). We project real GDP growth of 5.8 percent in 2021. Our fiscal deficit is likely to reach 5½ percent of GDP this year (from 2½ percent of GDP in 2019). The current account deficit is also expected to widen from 10 percent of GDP in 2019 to 16 percent of GDP in 2020, mainly due to the loss of tourism exports.

3. Against this background, the government of St. Vincent and the Grenadines requests emergency financing from the IMF in the equivalent of SDR 11.7 million (about US$16 million), corresponding to a disbursement of 100 percent of our quota under the Rapid Credit Facility (RCF). This IMF assistance will help us meet the urgent balance of payments needs that are associated with the increased health spending needs, substantial drop in tourist arrivals, and loss of tax and non-tax revenues. We are expecting that the World Bank and the Caribbean Development Bank will follow suit, and our fiscal operations will be fully financed.

4. With the support of the Caribbean Development Bank and the United Kingdom, we are planning to embark on a large-scale port modernization project in 2021. The existing port was built more than 50 years ago, and we have concerns about its safety and limited capacity to accommodate increased traffic. The cost of building the new port, however, is quite large for a small economy like St. Vincent and the Grenadines, amounting to nearly 21 percent of GDP.

5. We remain committed to maintaining macroeconomic stability, fostering broad-based economic growth, and supporting our most vulnerable, especially during these difficult times. To ensure fiscal sustainability, the government will take the following measures: (i) refraining from wage increases for central government employees in 2021; (ii) limiting the growth of the wage bill in the central government to not exceed 2.0 percent per annum through 2024; (iii) capping the total amount of capital spending at EC$ 1 billion during 2020-2025, focusing on the port project (expected to start in 2021) and selecting strategically important non-port projects for implementation; (iv) enhancing taxpayer compliance by adhering to the recently enacted Tax Administration and Procedures Act; and (v) rationalizing exemptions on import duties and VAT on imports. In addition, the debt service burden would be reduced to the extent that the Caribbean Development Bank were to offer more favorable financing terms for the port project, taking advantage of sharply reduced global interest rates since the global pandemic outbreak. These measures will strengthen our fiscal position and put public debt on a more solid downward trajectory.

6. If downside risks materialize, with weaker revenue and greater health expenditure needs, to protect crisis related spending on health and social protection for the vulnerable, we will seek scope to reduce discretionary exemptions from import duties and VAT imports and to further reprioritize non-priority spending.

7. We will work to strengthen public infrastructure management. To improve infrastructure planning process and project selection, there are merits in developing a long-term national infrastructure plan, which should be linked closely to the Medium-term Fiscal Framework. Projects should be prioritized based on the government's strategic development goals, the likelihood of successful implementation, and the certainty of project funding. The plan should also embed resilient infrastructure projects. Moreover, we will also continue efforts to strengthen capital projects implementation and quality.

8. We are committed to continuing our engagement with the IMF on fiscal management, including to protect St. Vincent and the Grenadines' debt sustainability. Given the large size of port investment, we will ensure that the overall fiscal plan keeps debt on a sustainable path, based on the DSA conducted together with the IMF and WB. We will update our debt sustainability assessment at the time of the 2021 Budget preparation.

9. With respect to the safeguard's assessment, we note that the next ECCB safeguards assessment is scheduled to take place in 2020, in accordance with the four-year cycle. In line with IMF safeguards policy, we have received the assurance of the ECCB that they will collaborate with IMF staff in undergoing a safeguards assessment. To facilitate this, we will provide the most recently completed external audit reports and will accommodate any need for meetings between IMF staff and ECCB staff and its external auditors. The authorization for the ECCB's external auditors to hold discussions with staff has been provided. Moreover, we commit to publish procurement documentation including information on the beneficial owners of the companies that receive crisis-related procurement contracts, to report monthly on COVID-related expenditures, and to undertake a full ex-post financial and operational audit of COVID-19 spending at the time of the annual audit.

10. We will not impose new or intensify existing restrictions on the making of payments and transfers for international transactions, trade restrictions for balance-of payments purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the IMF's Articles of Agreement.

11. Like many other small island tourist-dependent economies, the challenges and uncertainties St. Vincent and the Grenadines is facing are unprecedented. Nonetheless, we are determined to succeed. We anticipate that our country's efforts along with the solidarity of the people of St. Vincent and the Grenadines will allow us to emerge from this global pandemic stronger. We seek your support in our endeavors to mitigate the negative impact from this global pandemic. We look forward to an expeditious approval of our request for financial assistance and would like to underline our appreciation for the speed and determination that the Fund has shown in responding to the needs of its membership.

12. We authorize the Fund to publish this letter and the request for a disbursement under the RCF.

Sincerely yours,

/s/
Prime Minister
Ralph Gonsalves