CARIBBEAN DEVELOPMENT BANK

# SAINT VINCENT AND THE GRENADINES

## ECONOMIC BRIEF

Eastern Caribbean Dollar (EC$); United States Dollar (US$) US$1 = EC$2.70

# Overview

**St. Vincent and the Grenadines continues to gradually recover from the economic crisis brought about by dual catastrophic events, the 2020 COVID-19 pandemic and the volcanic eruption in 2021.** Real gross domestic product (GDP) is estimated to have grown in 2022, bolstered by improved performances in key sectors, the easing of COVID-19 protocols, and continued public and private sector investments. Inflation rose during the review period, despite the introduction of price mitigating measures. A combination of higher spending, mainly on the capital side, and lower revenues led to a further weakening of fiscal outturns while public debt remained at an elevated level. The merchandise trade deficit widened but the financial system remained stable.

**Economic prospects for 2023 have improved, underpinned by key public and private sector investments.** Real growth is anticipated over the medium term, though downside risks abound.

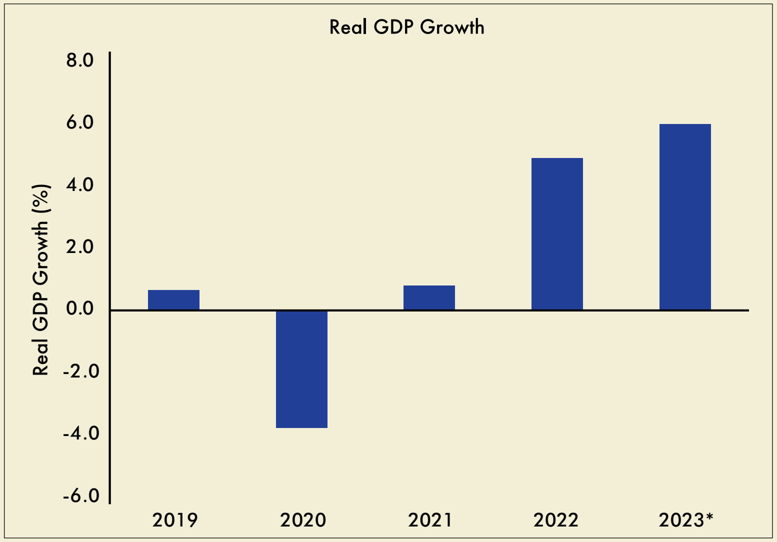
## KEY DEVELOPMENTS IN 2022[1]

**Real GDP grew by an estimated 4.9%. This follows marginal growth of 0.8% recorded in 2021 (see Chart 1).** The outturn was marked by expansions in tourism, transport, and construction. Estimates for the year point to an increase of 101.5% in the value added of the accommodation and food service sector. While still below pre-pandemic levels, stayover visitor arrivals for 2022 significantly grew to 59,021 compared with 24,230 recorded in the previous year. Cruise passengers reached 115,544, in comparison with 24,311 passengers recorded in 2021.

**With higher tourism activity, expansions were recorded in ancillary sectors.** Transportation and storage grew by 47.6%. In addition, value added in the heavily weighted wholesale and retail trade sector increased by 11.2% as evidenced by higher goods imports recorded during the year. Positive contribution to growth also came from the construction sector which grew by 12.9%, reflecting investments in several key infrastructure projects including the Port Modernisation Project. At the same time, manufacturing rose by 3.7%, underscored by increases in the output of beverages, flour, building materials and feeds.

**The agriculture, forestry and fishing sector declined.** Value added in the sector fell for the second consecutive year by an estimated 6.2%, as crop production was affected by farmers' restricted access to agricultural lands located within the restricted red/orange volcano hazard zones, drought conditions, and volcanic ash fall. The vast majority of agricultural production was destroyed following the eruption. The fishing and aquaculture sub-sector grew by an estimated 14.9% in contrast with a decline of 19.2% in 2021. The sector has benefitted from a state-of-the-art privately funded seafood processing plant completed in January 2022.

### Chart 1: Real Gross Domestic Product Growth




**Sources:** *Eastern Caribbean Central Bank (ECCB). *Caribbean Development Bank (CDB) forecast.*

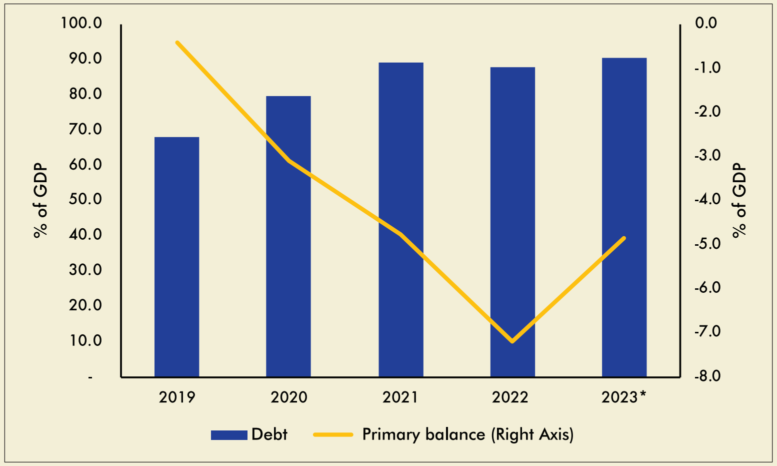
[1]All comparisons are with respect to 2021, unless otherwise stated.

**Inflationary pressures were observed in 2022.** The consumer price index (period average) increased by 5.7%, compared with 1.6% in the previous year. This outturn was mainly due to a rise in the highest weighted index of housing, utilities, gas and fuels (5.4%). Increases were also recorded for the transport (9.8%) and food and non-alcoholic beverages (10.2%) sub-indices. Temporary price-mitigating measures (0.5% of GDP) were introduced to reduce the impact of rising living costs, including a reduction in fuel excise taxes, removal of custom service charges on fuel imports, and lower fuel surcharges on the electricity bill.

**The fiscal position has weakened since 2020 affected by the economic shocks.** Even as Government has started to gradually reduce its fiscal support and emergency measures during 2022, deficits widened as revenue declined. The overall deficit remained large, widening to 9.6% of GDP up from 7.3% in 2021. The primary deficit of 7.2% of GDP also widened. Total revenues fell by 3.3%, led by a decline in taxes on property due to reduced intakes from alien landholding licenses and stamp duty on property; while capital revenue and grants fell by 21.4% to reach EC$46.4 million (mn). Total expenditure rose by 5.3% to EC$960.8 mn, in line with higher public investment spending, which accounted for 11.2% of GDP, and grew by 30.8% to reach EC$286.2 mn. On the other hand, current expenditure fell by 2.8% to reach EC$674.6 mn, driven by decreases in compensation of employees (1.5%) and transfer payments (of 10.0%), of which social assistance benefits declined by 30.8%.

**The public debt as a portion of GDP declined to 87.8%, from 89.2% in 2021 (see Chart 2).** This outturn was due, in part, to debt relief with the cancellation of PetroCaribe debt of an amount equivalent to around 4.0% of GDP. Liabilities of public corporation fell by 73.6% to EC$39.3 mn. Central Government debt grew by 13.2% to reach EC$2,208.2 mn.

### Chart 2: Fiscal and Debt Performance

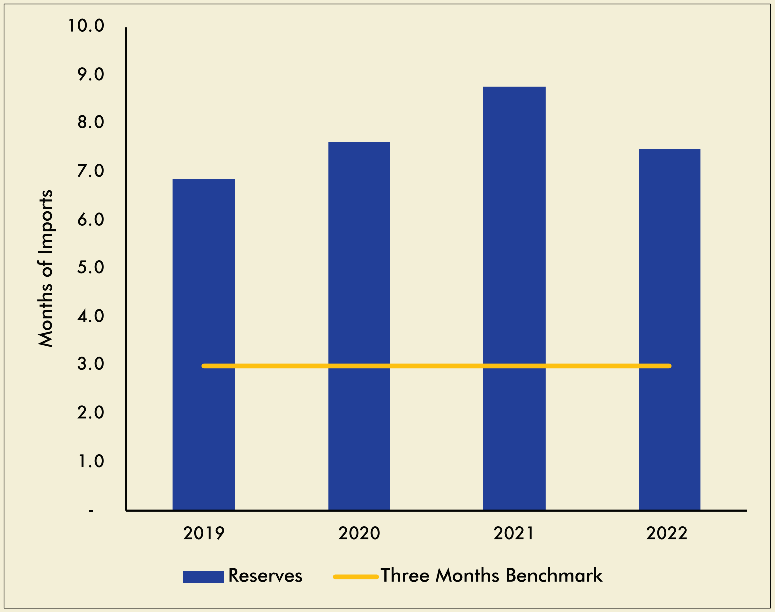



**Sources:** *The Government. *CDB estimate.*

**The financial sector continued to be highly liquid and adequately capitalised.** The banking system remained liquid evidenced by a liquid asset to total assets ratio of 48.1% at the end of December 2022, which was 0.9 percentage points above the position a year earlier. Moreover, financial institutions remained well capitalised with a capital adequacy ratio of 23.4% at the end of December 2022, above the regulatory minimum requirement of 8%. The ratio of non-performing loans to gross loans rose to 10.1% (7.8% in 2021), above the 5% prudential limit. Profitability in the banking system as return on average assets, stood at 0.3% in December 2022 relative to 0.4% in 2021.

**The merchandise trade deficit widened at the end of 2022.** The deficit rose by 16.4% to reach EC$1,059.4 mn at end-December due to higher import payments (17.6%). Growth in import payments was tapered by higher total exports, which rose to EC$123.2 mn from EC$95.4 mn in 2021. In respect of services, total visitor expenditure more than doubled to reach EC$164.7 mn. The imputed share of the Central Bank's reserves remained above the benchmark of three months of imports (see Chart 3).

**Chart 3: Imputed Gross Foreign Reserves**




**Source:** *ECCB.*

## 2023 OUTLOOK

**The 2023 outlook for St. Vincent and the Grenadines is tentatively optimistic, amid downside risks.** For 2023, real growth is estimated at 6.0%. The economy will benefit from high levels of public and private infrastructure development, including hotel development (Sandals, Marriott Resort and Holiday Inn), a new hospital, and port modernisation. The tourism sector is also expected to benefit from additional airlift to its main markets, Canada and the United States of America. Overall, output is expected to also be supported by rising agriculture and fishery production.

**Public finances will remain challenged due to higher capital spending.** The primary balance will remain in deficit in near term because of the execution of the large-scale port project, hotel and other infrastructure projects that have ramped up capital investments; but should improve and return to a surplus once the projects approach completion, and capital expenditure returns to its historical average after 2025. Similarly, the deficit and a rise in external financing is expected to bring about a worsening in public debt indicators that should gradually improve towards the debt target of no more than 60% of GDP by 2035, anchored by the recalibrating of the Government's rules-based Fiscal Responsibility Framework[2].

**Downside risks include an intensification of global conflicts that could result in financial disruptions and commodity price volatility.** An abrupt global slowdown could have adverse implications for tourism performance, foreign direct investment, and domestic activity. Other risks include delays in the implementation of investment projects and the higher frequency and severity of natural disasters that can cause severe damage and threaten fiscal sustainability.

[2] The fiscal rules were suspended in 2020 against the backdrop of the COVID-19 pandemic.

## DATA

The table below summarises the key economic indicators underpinning this country brief. These data are taken from several sources and are the latest available at time of publication. The 2023 data are preliminary estimates and are subject to revision.

### Selected Indicators

| | 2019 | 2020 | 2021 | 2022 | 2023e |
|---|---|---|---|---|---|
| Real GDP Growth (%) | 0.7 | -3.7 | 0.8 | 4.9 | 6.0 |
| Average Inflation (%) | 0.9 | -0.6 | 1.6 | 5.7 | 4.4 |
| Primary Balance (% of GDP) | -0.4 | -3.1 | -4.8 | -7.2 | -4.8 |
| Public Sector Debt (% of GDP) | 68.1 | 79.6 | 89.2 | 87.8 | 90.5 |

**Sources:** *The Government, ECCB, the International Monetary Fund, CDB.*

*Note: e-estimate.*