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ST. VINCENT AND THE GRENADINES ECONOMIC BRIEF 2018

OVERVIEW

Economic growth in St. Vincent and the Grenadines (SVG) increased in 2018, driven by increased tourist arrivals, and a surge in regional demand for manufactured building materials in the aftermath of the devastating 2017 Atlantic hurricane season. The fishing sector also contributed to growth, registering an increase in fish landings. Growth was accompanied by steady inflation.

The fiscal deficit remained low following narrowing in recent years, as the Government of St. Vincent and the Grenadines (GOSVG) continued efforts to stabilise public finances and improve debt sustainability. In May, Moody’s Rating Services maintained SVG’s B3 rating and stable outlook.

KEY DEVELOPMENTS IN 2018

The Caribbean Development Bank (CDB) estimates that growth in real gross domestic product (GDP) picked up from 0.7% in 2017, to 2.8% as tourism and investor interest rebounded. (See Chart 1). Total visitor arrivals increased, reflecting significant growth in cruise passengers¹ and port calls, coupled with a recovery in stayover visitors² from 2017’s decline. This rebound was helped by improved connectivity and easier access from external markets as a result of extra airlift. The international airport, which opened in 2017, has significantly enhanced air transport capacity, permitting for the first time direct flights between SVG and key external source markets – Canada, New York and Miami. The yachting sub-category, a small but growing segment, also expanded, boosted in part by new berthing infrastructure in the Grenadine Islands, the main ports of entry for yachts. There were positive spill-overs from the growth in tourism to other sectors. Transportation and retailing activities were the key areas to benefit from the upsurge in visitors.

Improved air connectivity helped facilitate greater use of ocean resources. Coupled with the privatisation of the fisheries complexes and improved fisheries management, including the setup of a new seafood packaging facility, these spurred strong growth in the landing, processing and export of fish products.

Construction activity strengthened with new tourism developments, road projects and ongoing geothermal development. Manufacturing output also rose, with notable increases in the production of building materials. Flour, animal feed and beverage (with the exception of beer) production declined, reflecting the impact of increasing

¹ By 81% to 149,451 year-on-year at end-October.
² By 4.5% to 62,997 year-on-year at end-October.
Crop production declined, hampered by lower rainfall as well as ongoing trading difficulties in a key regional export market. During the year, local farmers and small traders continued to face foreign exchange difficulties with their crops sold into the Trinidad and Tobago market. At year-end, a special clearing facility was put in place by the Eastern Caribbean Central Bank (ECCB) to facilitate currency exchanges for farmers.

Average consumer price inflation steadied at 2.3%, after trending up to 2.2% during 2017. The rise in the price level reflected increases across most of the consumer price categories, including food, beverages, fuels, utilities, housing, transport, and household furnishings. Clothing and footwear was the only category to decline. In the six years prior to 2017, average inflation had been lower. The uptrend from 2017 was the result of regulatory price adjustments including higher taxation, and the slight recovery of oil prices.

The fiscal deficit widened, from 0.5% to 1.1% of GDP in 2017. Although total expenditure was reduced, mainly due to a 21.9% fall in capital outlays, total revenues and grants also declined. Wages and salaries increased by 2.6%. In 2018, the wage bill amounted to 13% of GDP and accounted for 44.8% of total expenditures, while interest payments amounted to 8.4% of current revenue and 2.3% of GDP. The primary balance (before grants) improved, turning from a small deficit of 0.2% of GDP in 2017, to a surplus of 0.1% of GDP (see Chart 2).

Central Government’s (CG) fiscal deficit narrowed gradually from 6.2% of GDP in 2013, mainly due to tax policy and compliance efforts. These measures increased tax revenue to 24.2% of GDP in 2017, from 21.6% of GDP in 2013. New revenue measures in 2018 turned in mixed performances. Collectively, a Climate Resilience Levy of $8 per night on stay-over visitors, a lowering of the value-added tax (VAT) threshold on electricity consumption, lower personal and corporate income tax rates, an increase in the personal income tax threshold, and the introduction of a tax amnesty netted lower tax revenues in 2018 relative to 2017.

Public sector debt was 73.4% of GDP at the end of 2018. The stock of public debt outstanding increased by 3.2% to $1.62 billion. Of this, CG debt accounted for 86.2%. Government’s debt service obligation rose to 30.8% of revenue on account of new loans and interest rate increases.

Improved economic conditions supported favourable outcomes in the financial sector. Over the 10 months to October, domestic credit increased by 2.0% reflecting higher lending to Government, private households, construction and retail. Financial soundness indicators for capital adequacy and non-performing loans improved and remained in line with regulatory requirements, although key vulnerabilities remain in the banking sector. De-risking, in particular, and the attendant constraints on banking business, continues to present risks to stability.
Government revised its tax regime for the international financial services sector in 2018 in order to avoid a blacklisting by the European Union (EU). Amendments to the legislation led to GOSVG levying, for the first time, corporation taxes on previously exempt international business companies and trusts. This measure was in response to the EU’s Code of Conduct for Business Taxation, which includes new guidelines aimed at increasing tax transparency and reducing preferential tax measures. The new tax regime could lead offshore companies to re-domicile in competitor jurisdictions.

Export receipts rose at a faster pace than imports during the nine months to September 2018, reflecting an increase in the exports of manufactured goods and higher travel income. However, the current account deficit is likely to have widened due to the heavier weighting of imports.

OUTLOOK

Growth is projected at 2.0% in 2019. Economic activity is expected to benefit from initiatives to improve competitiveness in agriculture and tourism, new construction work in hotel development, the reopening of a luxury hotel closed in 2016, and the implementation of some large capital projects including the construction of the geothermal energy plant and a new port facility in Kingstown.

SVG is reducing vulnerabilities through deliberate policy action. In 2017, GOSVG set up a Fiscal Contingency Fund to help offset the potential cost of damage in the future from natural disasters. Coupled with its ongoing climate adaptation investment programme, these actions will help to moderate risks. As GOSVG scales up investment spending to improve competitiveness and boost sustainable growth over the medium term, the fiscal framework will need to be strengthened further. In addition to increasing the efficiency of public spending, possible measures should include the imposition of a limit on the growth in the wages and the pension bill, and better targeting of social safety nets. Such measures will be key to restraining expenditure growth, generating fiscal surpluses, and keeping the debt ratio on a downward path.

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3 Import of goods account for over 80% of merchandise trade.
DATA

The table below summarises the key economic indicators underpinning this Country Brief. These data are taken from a number of sources, and are the latest available at time of publication. The 2018 data are preliminary, and are subject to revision.

<table>
<thead>
<tr>
<th>Selected Indicators</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth (%)</td>
<td>1.8</td>
<td>1.0</td>
<td>1.8</td>
<td>1.3</td>
<td>0.7</td>
<td>2.8</td>
</tr>
<tr>
<td>Average Inflation (%)</td>
<td>0.5</td>
<td>0.2</td>
<td>-1.7</td>
<td>-0.2</td>
<td>2.2</td>
<td>2.3</td>
</tr>
<tr>
<td>Primary Balance, after grants (% of GDP)</td>
<td>-3.7</td>
<td>-0.7</td>
<td>0.3</td>
<td>3.2</td>
<td>1.9</td>
<td>1.2</td>
</tr>
<tr>
<td>Public Sector Debt (% of GDP)</td>
<td>74.2</td>
<td>79.6</td>
<td>78.2</td>
<td>81.4</td>
<td>74.2</td>
<td>73.4</td>
</tr>
</tbody>
</table>

Sources: GOSVG, CDB.

Notes: e – estimate.