CARIBBEAN DEVELOPMENT BANK

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50 YEARS
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# COUNTRY ECONOMIC REVIEW 2019

# ST. VINCENT AND THE GRENADINES

# OVERVIEW

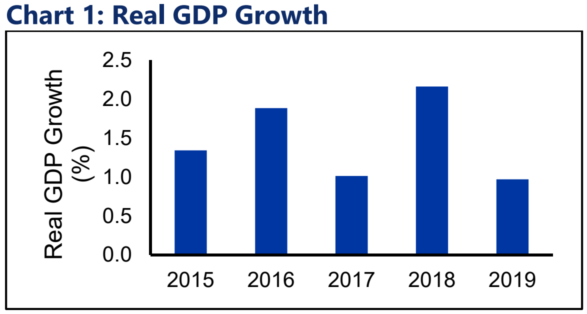
**There was a marginal increase in economic activity.** Strong growth in tourism and construction activity was moderated by a weakening in manufacturing, wholesale and retail activity. Inflation stayed subdued, while the merchandise trade deficit narrowed due to lower imports. The financial sector remained stable and the banking system adequately capitalised, but credit growth was lacklustre. The fiscal deficit widened as revenues contracted.

## KEY DEVELOPMENTS IN 2019

**After accelerating in 2018, economic growth fell back** (see Chart 1). Preliminary estimates[1] point to a slight increase of gross domestic product (GDP) of 1.0% compared with 2.2% in 2018. This outturn was underpinned by increases in tourism, fishing and construction activity. The pace of activity in the tourism industry continued to strengthen, even as one of the largest hotels, Buccament Bay Resort, remained closed. Stayover arrivals rose by 6.7%[2] to 72,983, while cruise ship passengers grew by 11.9% to 191,789. Indicators of activity in construction pointed to an increase, with an uptick in public infrastructural investments. Manufacturing activity contracted. The production of building materials, in particular, plummeted amid waning post-hurricane demand as 2017 reconstruction programmes within the Eastern Caribbean were well underway or near completion. There was also a notable fall in the production of beverages. Banana output was lower, as major regional export markets contracted. Output of other crops, including root crops, cocoa, and coffee continued to increase.

**Initiatives are in train to diversify the economic base and lift long-term growth.** In 2019 a leading seafood processor, signed an agreement with the Government to develop a seafood-processing facility in close proximity to the international airport. The development of the medicinal cannabis industry was advanced with the passage of enabling legislation in 2018. A regulatory authority was established, and the first licensed company was launched. In the energy sector, exploratory drilling commenced to access geothermal resources in the La Soufrière region for electricity production. The Government also advanced plans to boost St. Vincent's hotel room stock through the construction of a state-owned, 250-room hotel at Mount Wynne.

**Chart 1: Real GDP Growth**




*Source: Eastern Caribbean Central Bank (ECCB), Caribbean Development Bank (CDB) Staff estimates.*

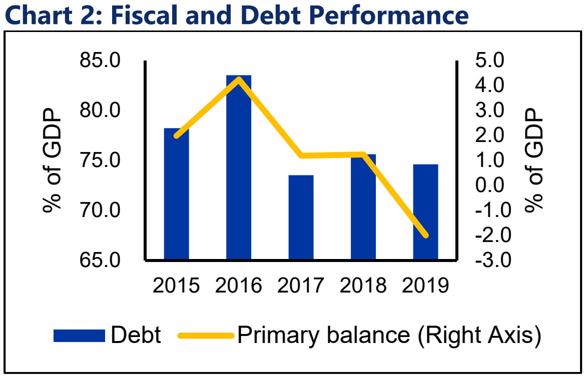
**Consumer price inflation remained relatively stable at 0.9%, from 1.2% in 2018.** The index for housing, water, and gas

[1] Based on data for January to September.
[2] January to November.

and other fuels grew by 0.8% mainly because of the higher cost of lumber, while the transport index rose by 1.3% due to higher excise taxes on petrol. Together, with increases for household furnishings (1.8%) and food and beverage items (5.2%), these contributed just over 70% to the overall increase in inflation. The cost of alcoholic beverages, as well as tobacco, went up while the price of cooking gas, electricity and some medications declined.

**The fiscal position[3] deteriorated because of lower revenues and higher expenditures.** The overall deficit widened, and the primary and current balances shifted from surplus to deficits. Central Government current revenues slid by 4.1% mainly on account of lower receipts from import duties, while total expenditure increased (12.3%) because of higher outlays for capital investments (3.6% of GDP), and employees' compensation rose as a result of salary increases of 2.5% and new hiring.

**Chart 2: Fiscal and Debt Performance**




*Source: Government of St. Vincent and the Grenadines.*

**Public debt increased by 1% to EC$1.67 billion.** Central Government debt, which represented 87.7% of the total public debt portfolio, rose by 4.5%. New resources were mobilised through budget support from the World Bank and project financing from bilateral and multilateral development agencies, including CDB. The Government also increased its issuance of securities. Debt service payments jumped to 41% of current revenue from 32% in 2018. The ratio of debt to GDP fell from 75.6% to 74.6% (see Chart 2).

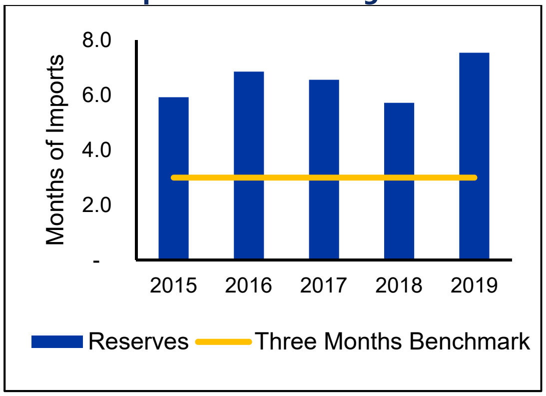
**Progress was made in strengthening the fiscal framework for more effective management**. Strategic reforms included the adoption of new procurement legislation, amendments to the Financial Administration Act, and regulations to guide the operation of the Fiscal Contingency Fund. A new tax act and regulations were approved to enable efficient and effective tax administration, while regulations were passed for more effective monitoring and oversight of state enterprises.

**In the banking system, the stock of credit contracted while monetary aggregates and net foreign assets expanded.** Domestic credit declined by 6.3% in the 10 months to October. Meanwhile, overall asset quality continued to improve. The ratio of non-performing loans to total loans hovered between 6% and 6.5% in the nine months to September, just above the prudential benchmark of 5%. The steady improvement in recent years reflects more collections, as well as better risk management and underwriting practices. Additionally, the banking system remained well capitalised with a capital adequacy ratio of 23%.

**The imputed share of the Central Bank's reserves remained above the benchmark of three months of imports** (see Chart 3). The merchandise trade deficit narrowed because of falling import payments.

[3] January to November.

**Chart 3: Imputed Gross Foreign Reserves**




*Source: ECCB.*

## OUTLOOK

**The economic outlook has become clouded by the outbreak of COVID-19, which has significantly affected developed and developing economies.** In early 2020 the tourism sector has seen mass cancellations. Construction activity has slowed, and significant private and public sector projects are likely to be delayed. Government finances have come under increasing pressure. Planned growth-enhancing interventions in the agriculture sector may not all materialise.

Given the uncertainty as to how long this situation will persist, it is very difficult to forecast how the economy will perform in 2020 and beyond. This will be addressed in an updated Economic Brief later this year.

## 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. Some are subject to revision and the 2019 data are preliminary estimates.

**Selected Indicators**

| | **2015** | **2016** | **2017** | **2018** | **2019[e]** |
|---|---|---|---|---|---|
| Real GDP Growth (%) | 1.3 | 1.9 | 1.0 | 2.2 | 1.0 |
| Average Inflation (%) | -1.7 | -0.1 | 2.2 | 2.3 | 0.9 |
| Primary Balance (% of GDP) | 2.0 | 4.2 | 1.2 | 1.2 | -2.0 |
| Public Sector Debt (% of GDP) | 78.2 | 83.5 | 73.5 | 75.6 | 74.6 |

*Sources: GOSVG, ECCB, CDB.*

*Notes: e – estimate (as at January 31, 2020).*

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