ST. VINCENT AND THE GRENADINES

COUNTRY ECONOMIC REVIEW 2020

Eastern Caribbean dollar (EC$); United States dollar (US$). **US$1 = EC$2.70**

OVERVIEW

The COVID-19 pandemic has had negative impacts on St. Vincent and the Grenadines although the overall economic decline was relatively moderate at 2.7%. The country recorded its first case of the virus on March 13, 2020. By the end of the year, the number of confirmed cases had climbed to 115 persons but with no related deaths. The pandemic took a heavy toll on the tourism sector, which declined steeply by 55%. The relatively low weight of hotels and restaurants (under 3%) in the gross domestic product (GDP), limited its contributing impact to the overall reduction in GDP. At the same time, the lack of tight restrictions on economic activities, such as lockdowns, meant that businesses continued to operate during the year. Lower revenues and higher public spending associated with crisis response measures, weakened the fiscal and debt positions.

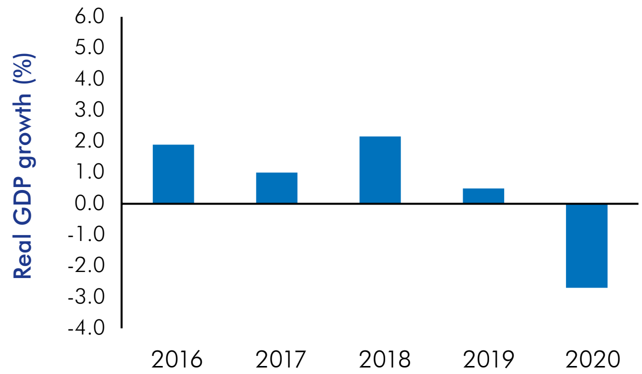
KEY DEVELOPMENTS IN 2020

Economic growth contracted in 2020. Provisional estimates point to a decline in real GDP by 2.7%, compared with marginal growth of 0.5% in 2019 (see Chart 1). This outturn was underpinned by declines in several sectors. Hotels and restaurants value added declined steeply by 55%. Stay-over visitor arrivals fell by 69.3% to 26,153, with arrivals from the United States of America falling by 69% and the United Kingdom by 59.1%. Similarly, cruise ship passengers declined by 60.2% to 101,579. Although the country's borders remained open, global travel restrictions, related to the pandemic, halted travel and tourism-related activity and cruise companies suspended operations, with adverse spill-over effects across the economy and particularly on local consumption demand. Value added in the heavily weighted transport, storage and communications, and wholesale and retail trade contracted by 6.9% and 1.3%, respectively. Meanwhile, manufacturing fell by 9.5%, underscored by reductions in the output of building materials, beverages, and feeds. Construction decreased by 1.7%, as significant private and public sector projects were delayed, including the Port Modernisation Project.

The agriculture, livestock and forestry sector was adversely impacted by lower banana and crop production. Value added in the sector fell by 12.6%. Banana output was reduced as major regional export markets contracted. At the same time, output of other crops decreased following drought conditions witnessed during the first half of 2020.

Fishing grew by 19.1%, marking the fourth consecutive year of growth propelled by increasing demand and improved processing and marketing. The fishing industry, notwithstanding its low contribution to GDP, has expanded into a key economic activity in terms of employment generation, contribution to food supply and foreign exchange earnings especially through intraregional trade. Financial intermediation and public administration were among the other sectors that expanded.

Chart 1: Real gross domestic product growth



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

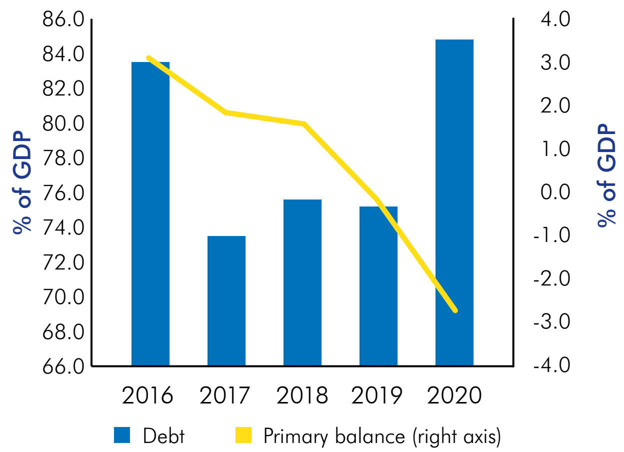
Consumer prices (period average) declined by 0.6%, compared with an increase of 0.9% in 2019. This turnout is reflective of a decrease in the highest weighted index of housing, utilities, gas and fuels, as well as a fall-off in transport. In contrast, price increases were recorded for other key sub-indices hotels and restaurants; health; and food and non-alcoholic beverages.

As a means of mitigating the effects of the pandemic, the Government introduced a recovery and stimulus package. The package was costed at approximately EC$77 million (mn) or 3.6% of GDP. Fiscal measures included: (a) increased health spending; (b) waived value added tax and duties on health and hygiene products; (c) direct support for the hardest-hit sectors, including tourism, transport, and agriculture; (d) expanded social safety net programmes; and (e) deferred payment of personal income taxes and various license fees.

Significant public resources were spent to bolster healthcare and social protection amid COVID-19, weakening public finances. Higher pandemic-related expenditure led to the more than doubled increase in the overall deficit to 5.1% of GDP, compared with 2.4% of GDP at the end of 2019. Current expenditure rose by 5.9% to EC$638 mn due to higher spending on compensation of employees (6.5%) on account of salary increases for public sector workers and new hiring, as well as goods and services (13%). In addition, transfer payments grew by 5% of which social assistance benefits rose by 43.5%. Moreover, there was also an uptick in capital spending (50.3%) consistent with ongoing work on major capital projects. Current revenue rose marginally by 0.8% to EC$605.3 mn.

The debt-to-GDP ratio increased to 84.8%, from 75.2% in 2019 (see Chart 2). This turnout is underpinned by additional borrowings undertaken to finance-related COVID-19 response support, as well as key infrastructure development. To meet the higher financing needs, the Government received support from its multilateral development partners, including CDB.

Chart 2: Fiscal and debt performance



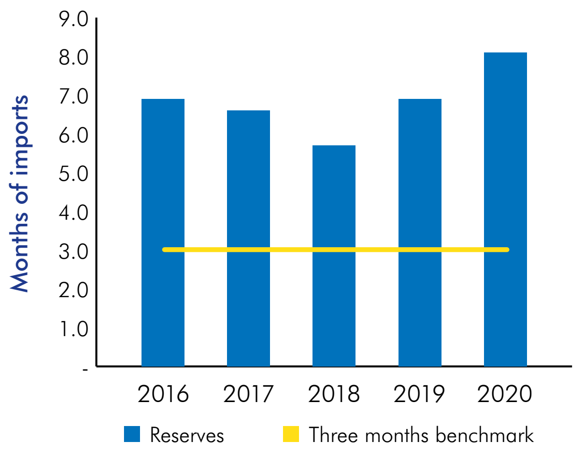
***Source:** Government of St. Vincent and the Grenadines.*

Despite the challenges of the pandemic, the financial sector continues to be highly liquid and have adequate capital buffers. The banking system remained liquid in 2020 as the ratio of liquid assets to total assets increased by 2.6 percentage points to 44%. Moreover, financial institutions remained well capitalised, with a capital adequacy ratio of 16.1%, which is above the regulatory minimum requirement of 8%. The ratio of non-performing loans (NPLs) to gross loans remained above the 5% prudential limit, reaching 7.4% at the end of 2020. The upward movement in the NPL ratio was in spite of the introduction of loan repayment moratoria launched in March 2020, and subsequently extended to 2021. A waiver of late fees and charges were also offered.

Amid the challenging business environment due to the pandemic, banks faced reduced profitability. The banking system witnessed negative impacts to several revenue flows coupled with increased credit loss expenses to cater for potential loan losses. Hardship relief programmes and waivers on fees and commissions would have eroded earnings accounting, in part, for the fall-off in return on average assets, which fell from 1.1% in 2019 to 0.1%.

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 declined by 16.2% to reach EC$671.8 mn at end-December due to lower import payments.

Chart 3: Imputed gross foreign reserves



Source: *ECCB.*

OUTLOOK

The economy faces uncertain economic growth prospects. On April 9, 2021, the La Soufrière volcano on mainland St. Vincent erupted explosively, after exhibiting elevated seismic activity since the last quarter of 2020. It is estimated that approximately 20,000 persons needed to be evacuated from the high-risk (red-zone) areas in the northern third of the island. While the impacts are still unfolding this eruption has resulted in severe damage to infrastructure, forestry, and agriculture, resulting in further loss of livelihoods. At the same time, COVID-19 continues to have adverse impacts following a significant uptick in infections during the first quarter of 2021 to reach 1,750 cases, with 10 related deaths. The evacuation and concentration of persons in shelters and displacements because of the ongoing eruptions, add new risks for COVID-19. The heightened uncertainty due to developments, related to the evolving volcano eruption situation, the COVID-19 pandemic and the risk of extreme weather-related events could further dampen economic performance, weaken public finances, and undermine the country's sustainable development objectives.

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. Some are subject to revision and the 2020 data are preliminary estimates.

Selected indicators

	2016	2017	2018	2019	2020e
Real GDP growth (%)	1.9	1.0	2.2	0.5	-2.7
Average inflation (%)	-0.1	2.2	2.3	0.9	-0.6
Primary balance (% of GDP)	3.2	1.9	1.5	0.1	-2.8
Public sector debt (% of GDP)	83.5	73.5	75.6	75.2	84.8

Sources: *Government of St. Vincent and the Grenadines, ECCB, International Monetary Fund, CDB.*

Note: e – estimate (as at April 15, 2021)

Disclaimer