ST. VINCENT AND THE GRENADINES

Table 1	2023
Population, million	0.1
GDP, current US$ billion	1.1
GDP per capita, current US$	10305.1
School enrollment, primary (% gross)[a]	112.8
Life expectancy at birth, years[a]	69.6
Total GHG emissions (mtCO2e)	0.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2021).

Growth was strong in 2023, supported by a strong recovery in tourism, agricultural production, and publicly financed large-scale infrastructure projects. The risk of debt distress remains high. Fiscal support measures in response to the pandemic, the volcanic eruption, and high food and fuel prices are being wound down, but the fiscal responsibility framework remains suspended. Poverty is expected to have remained above pre-pandemic levels. New investments should significantly boost growth over the medium term as the government rebuilds fiscal buffers given the island's exposure to external shocks.

Key conditions and challenges

St. Vincent and the Grenadines (SVG) is a small island developing state (SIDS) particularly vulnerable to climate change, external economic shocks, and natural disasters. Prior to the pandemic, SVG was upgrading essential infrastructure to support stronger growth and economic diversification, including a new international airport, modernization of the seaport, and construction of a new hospital. In parallel, the government implemented fiscal consolidation measures, which generated primary surpluses from 2016 through 2019. The COVID-19 pandemic severely impacted the island, and in April 2021, a volcanic eruption displaced about 20 percent of the population, compounding the impact of the COVID-19 shock. Both shocks disrupted the fiscal reform agenda leading to fiscal deficits and increases in public debt. The challenge will be to reduce fiscal deficits while directing limited fiscal resources toward high priority public investment projects. There is no up-to-date poverty data available but based on the latest data from 2008 and using the national poverty line, 30.2 percent of the population is considered poor.

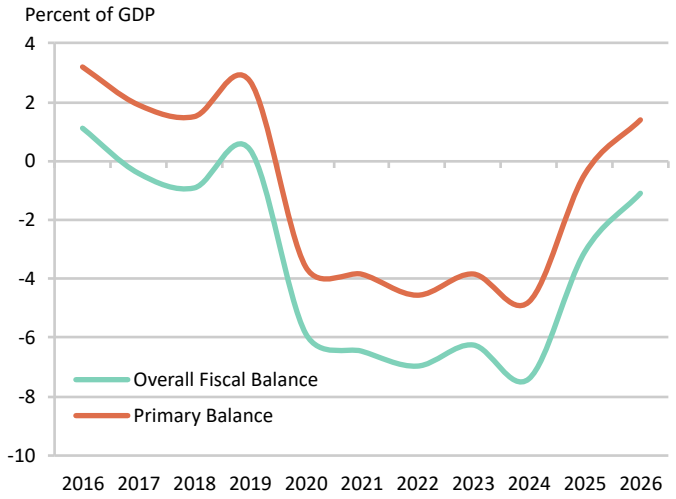
Recent developments

Tourism has rebounded and has essentially returned to 2019 levels. With tourism recovering and agriculture rebounding post-volcanic eruptions, growth reached 6.5 percent in 2023 (7.2 percent in 2022), and is expected to remain strong at 5.0 percent in 2024.

The overall fiscal deficit remained significant at 6.2 percent of GDP in 2023, following a deficit of 7.0 percent in 2022, largely in response to the fiscal demands imposed by the volcanic eruption and exceptional COVID-19 related expenditures. Direct fiscal spending measures in response to the volcano totaled 5.5 percent of GDP over 2021 and 2022. Furthermore, the government took measures to cushion the impact of rising food and fuel prices, including the expansion of existing social programs, subsidies on electricity, the provision of social safety net payments to food-vulnerable households, and agricultural incentives. Total support across all of the above, on top of the volcano response, averaged US$20 million (2.5 percent of GDP) annually over the 2020-2023 period. This posed challenges and several critical large investment projects were delayed/slowed to create the needed fiscal space, though these have now resumed. Port modernization (a 25 percent of GDP investment, of which 6.5 percent of GDP was disbursed in 2023) is in its peak spending phase. Public investment reached 9.8 percent of GDP in 2023 and is expected to be 11.3 percent in 2024. Fiscal rule targets have been suspended given the disruptions caused by the COVID-19 pandemic and the volcanic eruption and are to be reintroduced in 2025.

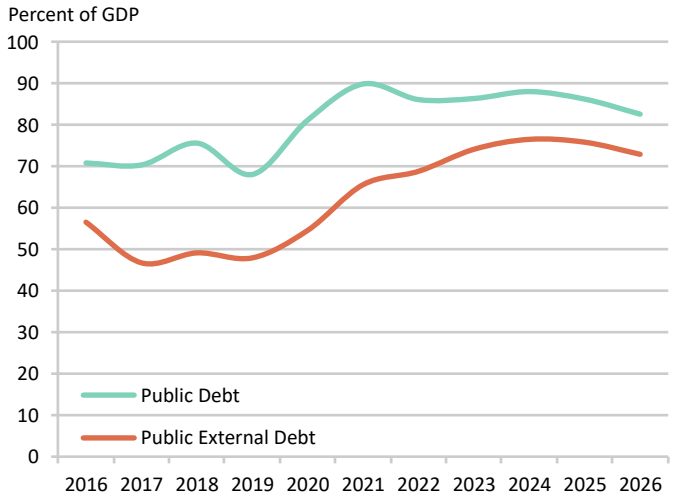
The current account deficit narrowed marginally largely as a result of higher tourism

FIGURE 1 St. Vincent and the Grenadines / Overall and primary fiscal balances



Sources: Ministry of Finance and World Bank staff calculations.

FIGURE 2 St. Vincent and the Grenadines / Public debt



Sources: Ministry of Finance and World Bank staff calculations.

arrivals, though imports for volcano recovery efforts, port modernization, and food and fuel import costs, also rose. The CAD is financed largely by FDI, private inflows (remittances), external borrowing on concessional terms, and limited domestic financing. International reserves remain at over 5 months of imports.

Public debt was 86.4 percent of GDP at end-2023, of which external debt is 62.8 percent. As a result, SVG remains at a high risk of debt distress. Debt is assessed as sustainable given the authorities' fiscal consolidation plans, which would ensure a drop in the public debt-to-GDP ratio to under 60 percent of GDP by 2035, the ECCU's regional goal. Government gross financing needs are covered primarily by official external financing and by some recourse to domestic financing through T-Bill and bond issuances.

Annual inflation in 2023 was 4.3 percent, a decrease from 5.7 percent in 2022, and should continue to moderate in 2024. Rising food prices contributed the most to overall inflation over the past two years and food price levels remain elevated despite easing inflation. Food prices are likely to pose a greater strain on low-income households and increase the likelihood of food insecurity. As of May 2023, 30 percent of the population was severely food insecure according to the Food Insecurity Experience Scale.

Outlook

Growth is expected to continue strong at 5 percent in 2024 and 3.9 percent in 2025 as tourism continues to rebound. Poverty is expected to follow a similar trajectory. Tourism growth over the medium term is expected to be further facilitated by the new airport and new hotel and resort facilities. Inflation is expected to slow to 2.6 percent in 2024 and return to more typical rates of around 2.0 percent thereafter.

The fiscal deficit will likely remain relatively high at 7.4 percent of GDP in 2024 due to public investment spending driven primarily by the port modernization project and hotel construction. Public investment is expected to peak at 11.3 percent of GDP in 2024, fall to 8.5 percent in 2025, and return to more typical levels of 4.5 to 5.0 percent in 2026. Recurrent spending on pandemic- and volcano-related activities have fallen and the authorities have taken several steps to rebuild fiscal buffers, as the contingency fund was replenished following its usage after the volcano. Prioritizing public investment by focusing on completing current port modernization, hotels, and the new hospital project, while scaling back other projects, will reduce public investment spending by up to 7 percent of GDP by 2026. As revenues increase, tourism remains strong and as growth continues, a return to primary surpluses is expected. Importantly, recently adopted pension reform measures will lengthen the sustainability of the pension scheme to 2060. Previously, the pension scheme would have required fiscal support as early as 2026/27. Nonetheless, limiting the deficit, given the uncertain global economic environment, will require sound fiscal management, including continued revenue mobilization measures. As the economy stabilizes and returns to a more traditional growth path, fiscal rule targets would need to be adjusted to reflect increased debt levels and the Fiscal Responsibility Framework would need to be fully operationalized. Primary fiscal surpluses beginning in 2026 should facilitate a reduction in public debt levels over the medium term.

Forecasts are primarily subject to downside risks given the uncertainty in global economic conditions, continuing global price pressures, heightened global geo-political pressures, and the ever-present risk of natural disasters. The government's commitment to adherence to the FRF should contribute to improving its financial position, while replenishment of the contingencies fund and continued deposits thereto should mitigate climate-related and natural disaster risks. On the upside, continued strength in tourism and completion of the new port could boost growth over the short to medium term.

TABLE 2 St. Vincent and the Grenadines / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices[a]	0.8	7.2	6.5	5.0	3.9	3.7
Real GDP growth, at constant factor prices[a]	-1.7	8.0	6.7	5.0	3.9	3.7
Agriculture	-29.4	-6.2	7.5	2.5	2.1	2.0
Industry	6.1	7.9	5.9	3.7	2.1	2.1
Services	-0.1	9.1	6.8	5.5	4.4	4.2
Inflation (consumer price index)	1.6	5.7	4.3	2.6	2.0	2.0
Current account balance (% of GDP)	-22.6	-18.9	-17.5	-16.8	-13.4	-9.9
Fiscal balance (% of GDP)[b]	-6.4	-7.0	-6.2	-7.4	-3.1	-1.1
Revenues (% of GDP)	32.9	28.1	29.5	29.7	29.7	29.6
Debt (% of GDP)[b]	89.9	86.1	86.4	88.1	86.3	82.6
Primary balance (% of GDP)[b]	-3.8	-4.6	-3.8	-4.8	-0.5	1.4
GHG emissions growth (mtCO2e)	5.5	2.0	2.8	2.5	2.4	2.4
Energy related GHG emissions (% of total)	74.8	75.2	75.8	76.3	76.8	77.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Growth projections for 2021-23 remain sensitive to uncertainties surrounding the timing of the vaccine roll-out and the recovery in tourism.
b/ Budget balances and public debt are for the central government.