

# ST. VINCENT AND THE GRENADINES

## Key conditions and challenges

## Recent developments

**Table 1** 2021

Population, million	0.1
GDP, current US\$ billion	0.8
GDP per capita, current US\$	7331.4
School enrollment, primary (% gross) <sup>a</sup>	113.4
Life expectancy at birth, years <sup>a</sup>	72.7
Total GHG emissions (mtCO <sub>2</sub> e)	0.3

Source: WDI, Macro Poverty Outlook, and official data.  
a/ Most recent WDI value (2020).

*Growth resumed in 2022 as tourism resumed and the effects from the 2021 volcanic eruptions abated. The economy is expected to reach its 2019 GDP level by 2023. The COVID-19 pandemic and the eruptions exerted pressure on public finances. Ambitious public investment plans will pose fiscal challenges. Natural disasters and rising food and fuel prices pose additional risk. The risk of debt distress remains high. Poverty is expected to have remained above its pre-pandemic level.*

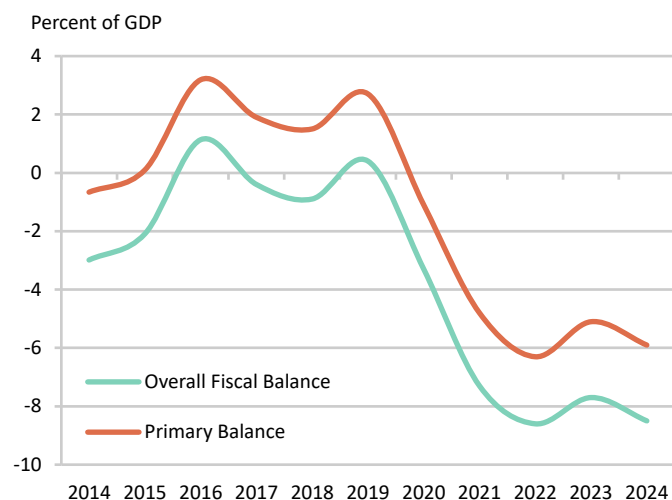
St. Vincent and the Grenadines (SVG) is a small island developing state particularly vulnerable to climate change, external economic shocks, and natural disasters, as recently experienced with the volcanic eruption and the COVID-19 pandemic. Prior to the pandemic, SVG was upgrading essential infrastructure to lay the foundation for stronger growth and economic diversification, including the completion of a new international airport, modernization of the seaport (a 27 percent of GDP public investment), and construction of a new hospital. To ensure sustainability of these essential investments, fiscal consolidation commenced, and primary fiscal surpluses had been achieved from 2016 through 2019. However, the COVID-19 pandemic and the eruption of the La Soufriere volcano in 2021 disrupted this fiscal reform agenda, and deficits and public debt have subsequently increased.

Heavy ashfall, critical utility interruptions, increased food insecurity, and subsequent flooding and mudslides have had a significant impact on poverty and welfare, although this is difficult to quantify in the absence of recent data. Based on the last available data from 2008, 30.2 percent of the population was poor, using the national poverty line of EC\$5,523 or US\$2,046 per annum per adult.

The fall in tourism following the COVID-19 pandemic resulted in a GDP contraction of 5.3 percent in 2020. Livelihoods and the economy were then completely disrupted by the volcanic eruption in April 2021, when 22,800 people were evacuated from their homes, farms, and businesses. Growth in 2021 was only 0.7 percent as the effects of the volcanic eruption were further compounded by the resurgence of new COVID variants that delayed the rebound in tourism. Tourism has modestly rebounded, reaching over 40 percent of 2019 pre-COVID levels over the period January to May 2022. Growth is returning and is expected to reach 5.0 percent in 2022.

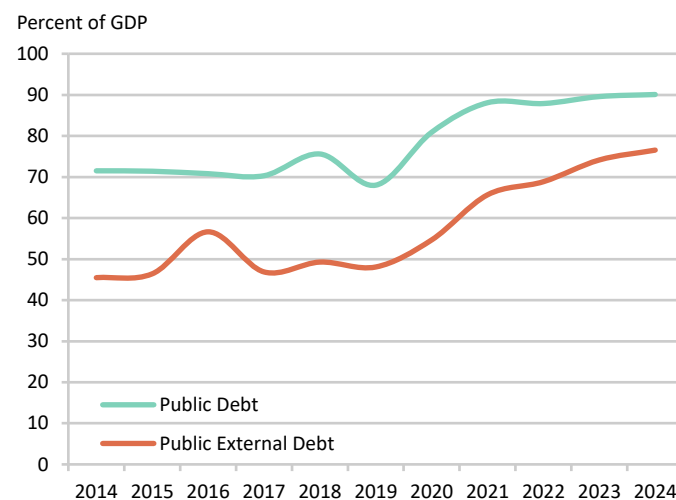
The overall fiscal deficit widened to 7.3 percent of GDP in 2021, as the government implemented fiscal spending measures totaling 5.5 percent of GDP to address the immediate humanitarian crisis following the eruption in addition to 3.6 percent of GDP related to COVID-19 expenditures. The deficit is expected to widen to 8.5 percent of GDP in 2022 as public investment plans proceed, particularly the port modernization project. While fiscal rule targets have been suspended, given the disruptions caused by the COVID pandemic and the volcanic eruption, fiscal consolidation measures continue, particularly the implementation of the new Tax Administration Act, limiting wage bill growth, and improving public investment practices and processes.

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



Sources: SVG Minister of Finance (2020) and World Bank staff estimates.

**FIGURE 2 St. Vincent and the Grenadines / Public debt**



Sources: SVG Minister of Finance (2020) and World Bank staff estimates.

Inflation remained relatively subdued in 2021 at 1.6 percent but food and fuel prices have increased in 2022. The government has taken several measures to cushion the impact of rising prices, including the expansion of existing social programs, the introduction of new avenues of support, and increased support to agriculture. Total support to households exceeds US\$20 million (2.5 percent of GDP).

In terms of external vulnerabilities, the current account deficit (CAD) increased to 23.8 percent of GDP in 2021, from 15.1 percent in 2020. While the balance of payments data is unreliable, the CAD has certainly widened due to pandemic- and eruption-related factors. Nonetheless, international reserves are sufficient at 6 months of import coverage.

Public debt rose to 88.1 percent of GDP at end-2021, of which external debt is 66.3 percent; SVG remains at a high risk of debt distress. Debt is currently assessed as sustainable given the authorities' fiscal consolidation plans, which would ensure that the public debt to GDP ratio would fall to under 60 percent of GDP by 2035, the regional goal of the Eastern Caribbean Currency Union. Government gross financing needs are covered primarily by official external financing

and some recourse to domestic financing through the issuance of T-Bill and bond issuances. SVG participated in the Debt Service Suspension Initiative.

## Outlook

Growth is forecast to accelerate to 5.0 percent in 2022 and 6.3 percent in 2023 as tourism continues to rebound and is expected to return to levels approaching 80 percent of pre-COVID levels by 2023 and 100 percent thereof in 2024. Poverty is expected to follow a similar trajectory. Tourism growth is expected to be facilitated by the new airport and new hotel and resort facilities. The sizeable investment pipeline should also contribute to growth over the short term. Inflation is expected to reach 5.7 percent in 2022 and moderate to 4.4 percent in 2023 and 2.0 percent thereafter.

Authorities have taken concrete steps to build fiscal buffers and to ensure public debt returns to a downward trajectory. Fiscal consolidation measures include: (i) containing the growth of the wage bill; (ii) prioritizing public investment by focusing on port modernization and the new hospital,

while scaling back other projects; (iii) increasing the customs service charge; (iv) enhancing taxpayer compliance; (v) limiting import duty and VAT exemptions; and (vi) strengthening SOE governance. The fiscal deficit is forecast to increase to 8.5 percent of GDP in 2022 and 7.7 percent in 2023 as the ambitious public investment program is implemented. Limiting the deficit in the current uncertain global economic environment will require careful management of the ambitious public investment program and continued progress on domestic revenue mobilization and fiscal consolidation. Balances in the contingency fund, which were accessed to address COVID-19 and volcano needs, are being replenished to strengthen future fiscal resilience. Primary fiscal surpluses beginning in 2025 should facilitate a reduction in public debt levels over the medium term as COVID-19 impacts dissipate, reconstruction activities are addressed, and port modernization is completed.

Forecasts are subject to considerable downside risk given rising food and fuel prices, the economic impact of global geopolitical developments, COVID-19 developments, and the ever-present risk of natural disasters.

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

	2019	2020	2021	2022e	2023f	2024f
<b>Real GDP growth, at constant market prices<sup>a</sup></b>	0.4	-5.3	0.7	5.0	6.3	4.8
<b>Real GDP growth, at constant factor prices<sup>a</sup></b>	0.4	-5.9	-0.5	5.0	6.3	4.8
Agriculture	-1.6	1.6	-22.7	13.5	10.4	-3.8
Industry	-5.5	-7.8	3.9	4.0	1.9	1.4
Services	1.8	-6.1	0.6	4.6	6.9	6.1
<b>Inflation (Consumer Price Index)</b>	0.9	-0.6	1.6	5.7	4.4	2.0
<b>Current Account Balance (% of GDP)</b>	-3.1	-15.1	-23.8	-26.7	-28.6	-21.0
<b>Fiscal Balance (% of GDP)<sup>b</sup></b>	0.4	-3.3	-7.3	-8.6	-7.7	-8.5
<b>Debt (% of GDP)<sup>b</sup></b>	68.0	80.9	88.1	87.9	89.6	90.1
<b>Primary Balance (% of GDP)<sup>b</sup></b>	2.7	-1.1	-4.8	-6.3	-5.1	-5.9
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	3.1	-8.2	10.1	3.2	2.0	1.9
<b>Energy related GHG emissions (% of total)</b>	75.4	73.9	75.4	76.1	76.5	76.8

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.