ST. VINCENT AND THE GRENADINES

Table 1	2020
Population, million	0.1
GDP, current US$ billion	0.8
GDP per capita, current US$	7168.2
School enrollment, primary (% gross)[a]	113.4
Life expectancy at birth, years[a]	72.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

GDP contracted by 4.2 percent in 2020 following COVID-induced shocks and the sudden stop in tourism. Poverty is expected to have increased due to the economic contraction and a drop in household income. After several years of minimal budget deficits and primary surpluses, the COVID-19 economic shock will exert pressure on public finances. Significant public investment, including the port and a new hospital, will pose fiscal challenges as well. Risk of debt distress remains high.

Key conditions and challenges

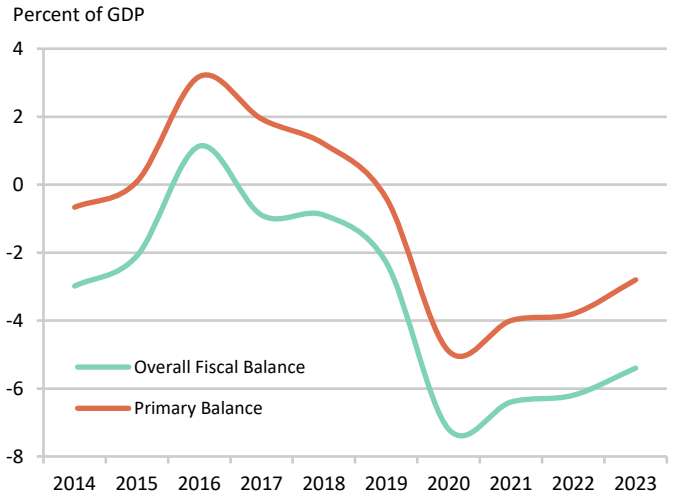
St. Vincent and the Grenadines (SVG) is a small island developing state with an economy driven largely by tourism and agriculture. This makes it particularly vulnerable to climate change, natural disasters, such as tropical storms and hurricanes, and, as experienced most recently, external economic shocks and pandemics. Prior to the COVID-19 pandemic, SVG had been in the process of upgrading essential economic infrastructure to lay the foundation for increased growth and economic diversification, including completion of a new international airport, modernization of the sea port (a 22 percent of GDP public investment), and plans for construction of a new hospital. To accommodate these essential investments, fiscal consolidation had commenced and primary budget surpluses had been achieved over a number of years in order to create fiscal space and maintain public debt at sustainable levels. This included adoption of a Fiscal Responsibility Framework with established fiscal balance, expenditure, wage bill, and debt targets and creation of a contingency fund to create increased fiscal resilience and buffers. The emergence of COVID-19 and the increasing risk of catastrophic volcano activity make this agenda increasingly challenging.

The COVID-19 shock and the resultant global recession have paralyzed the tourism sector and adversely affected domestic production. SVG has one of the highest COVID-19 case counts in the Caribbean. The government responded rapidly to the pandemic, both in terms of an effective health and control response, and in terms of a fiscal stimulus package to limit potential livelihood losses and increases in poverty. The mitigation measures support household consumption, income, and jobs. The precise poverty and welfare impact of current challenging economic and social conditions remain unclear, though there is a reasonable expectation that poverty measures have worsened as most poor work in tourism. The government completed a new household budget survey in 2019 but has not yet published new poverty estimates. Based on the last available data from 2008, the poverty rate was 30.2 percent using the national poverty line of EC$5,523 or US$2,046 per annum per adult.

Recent developments

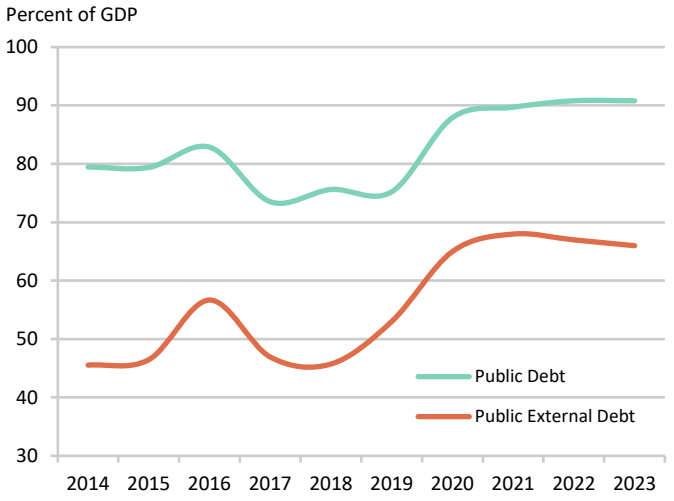
GDP is estimated to have contracted by 4.2 percent in 2020. The government extended transfers under a variety of social protection and business continuation programs, particularly targeting people who lost income because of the pandemic, the poor, and the elderly. However, these measures are unlikely to have fully offset the impacts on poverty. There is a reasonable expectation that poverty measures have worsened as household income from tourism has fallen significantly, which has also affected those indirectly dependent on tourism. Women are expected to have been especially affected, due to their high

FIGURE 1 St. Vincent and the Grenadines / Fiscal balances



Sources: SVG Ministry of Finance (2020), World Bank staff estimates.

FIGURE 2 St. Vincent and the Grenadines / Public debt



Sources: SVG Ministry of Finance (2020), World Bank staff estimates.

participation in the services sector. On top of COVID-related pressures, seismic and increasing volcanic activity at La Soufriere volcano on the main island is posing significant risk of a catastrophic event with attendant fiscal, social, and economic costs. In the event of an eruption, or rupture of the volcanic rim and lava flow from the volcano, all forecasts would need to be revised.

Through 2019, SVG had continued to consolidate spending, achieve primary budget surpluses, and record a declining debt trajectory. However, COVID-19 has led to a widening fiscal deficit, expected to be 7.2 percent of GDP in 2020. Public debt is now estimated to reach 87.9 percent at end-2020 and SVG remains at high risk of debt distress. The widening fiscal deficit in 2020 compared to 2.3 percent in 2019 is driven primarily by pandemic-related expenses and lower revenues as the economy contracts and as direct tourism-related revenues fall. With limited fiscal space to immediately reallocate current expenditures, contraction in the public investment portfolio accommodates to some extent the increased COVID-related expenditures.

Outlook

Growth in 2021 remains uncertain and dependent on pandemic developments. The 2021 peak tourism season is considered lost and, as a result, 2021 growth projections are estimated to be less than 1.0 percent. Inflationary pressures are expected to remain low and stable, and external imbalances, despite pressures from declining tourism receipts, remain well-managed by the ECCB. Risks emanating from the COVID-19 pandemic and the increasing possibility of a volcanic event remain. These risks are accentuated by the existing structural issues, including public financing uncertainties, possible financial sector instability, the loss of physical capital and infrastructure, and rising public debt vulnerabilities. A struggling economy will exert further strain on an already difficult fiscal position and perhaps aggravate financial instability from previously weakened bank balance sheets.

Real GDP growth in recent years had been driven largely by increased tourist arrivals, facilitated by the new airport. Tourism revenue is expected to recover only slowly, depressing growth prospects into 2021 and 2022. Furthermore, in an environment of low growth, high unemployment rates are expected to continue. Considering the impact on the informal sector, it is likely that poverty rates have increased. Economic stimulus and expanded social protection measures will help mitigate the impacts on poverty, though not eliminate them.

Continued fiscal reform is necessary to build fiscal buffers and to ensure public debt returns to a downward trajectory. The government is taking steps to improve tax administration, foster resilience, strengthen SOE governance, and is exploring measures to reform the government workers' pension system. Balances in the contingency fund are growing, which bodes well for future fiscal resilience, though some have been used to respond to COVID-19 demands. Envisaged fiscal consolidation to accommodate the port investment is expected to lead to primary surpluses approaching 3.0 percent of GDP once COVID -19 impacts dissipate and the port modernization is completed in 2024, facilitating a reduction in public debt levels.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices[a]	2.2	0.5	-4.2	0.2	5.0	3.2
Real GDP growth, at constant factor prices[a]	2.0	0.2	-4.2	0.2	5.0	3.2
Agriculture	2.8	-1.0	-6.1	8.3	2.0	-4.1
Industry	2.9	-5.6	-2.8	2.3	3.5	-0.8
Services	1.7	1.7	-4.3	-1.0	5.6	4.7
Inflation (Consumer Price Index)	2.3	0.9	-0.5	0.9	1.9	2.0
Current Account Balance (% of GDP)	-12.0	-10.0	-18.7	-16.9	-15.4	-9.3
Fiscal Balance (% of GDP)[b]	-0.9	-2.3	-7.2	-6.4	-6.2	-5.4
Debt (% of GDP)[b]	75.6	75.2	87.9	89.7	90.8	90.8
Primary Balance (% of GDP)[b]	1.2	-0.4	-4.9	-4.0	-3.8	-2.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
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.