International Monetary Fund

St. Vincent and the Grenadines and the IMF

Press Release:
IMF Executive Board Approves US$5.7 Million Disbursement for St. Vincent and the Grenadines Under the Exogenous Shock Facility
May 15, 2009

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St. Vincent and the Grenadines: Letter of Intent

April 30, 2009

The following item is a Letter of Intent of the government of St. Vincent and the Grenadines, which describes the policies that St. Vincent and the Grenadines intends to implement in the context of its request for financial support from the IMF. The document, which is the property of St. Vincent and the Grenadines, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

April 30, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

The global economic downturn and financial crisis is exerting severe external pressures on the economy of St. Vincent and the Grenadines. The global downturn has led to large declines in tourism receipts and foreign direct investment, with a severe adverse impact on our balance of payments position and economic activity. Following two years of record-high growth, our preliminary estimates suggest that real GDP growth in St. Vincent and the Grenadines could stall in 2009 following a serious slowdown in 2008. The shock, will also weaken our fiscal position, threatening to undermine our recent progress toward fiscal consolidation.

The recession in our main tourism-source countries (the U.S. and the United Kingdom) has sharply reduced tourism arrivals to St. Vincent and the Grenadines. Net foreign exchange receipts from tourism declined by around US$16.6 million in 2008 (4.3 percentage points of GDP), which contributed to the decline of US$3.3 million in our net international reserves. Tourism receipts are projected to decline further in 2009 as the global environment worsens, taking the cumulative decline in 2008–09 to US$31.8 million (7.2 percentage points of GDP). FDI, a traditionally stable source of financing for our current account deficit, is also projected to decline by close to 7.9 percentage points of GDP in 2008-09.

Our government is committed to a framework that will help address the shock to tourism and FDI through fiscal and structural policies to maintain competitiveness and support a growth recovery. As outlined in my 2009 Budget speech, sharpened competitiveness, and continuing socio-economic progress are the priorities in this period of international economic uncertainty. To support competitiveness, we are enhancing the efficiency and technological capacity of customs and port operations, maintaining a prudent public sector wage policy that will contribute to containing inflation, and reducing corporate tax rates. The construction of a new international airport, and our focus on improving the business environment, will help provide the foundation for growth of a diversified tourism and service sector based economy.

We are implementing several specific measures to mitigate the impact of the tourism shock on employment and growth and the balance of payments, including: (i) special time-bound incentives for the tourism sector, namely a reduction in corporate income tax rates from 30 percent from 20 percent, and lower electricity charges by the state electricity company;

(ii) working with the regional airline on improved flight schedules, establishing a Tourism Authority to strengthen marketing, and coordinating with hoteliers to develop special packages for visitors.

In light of the above, the government of St. Vincent and the Grenadines requests a stand-alone disbursement equivalent to SDR 3.74 million (45 percent of quota) under the Rapid-Access Component of the Fund's Exogenous Shocks Facility. The disbursement will help alleviate the financing burden stemming from the shock to tourism and FDI, which will contribute to maintaining confidence in our external position.

The government will continue to cooperate with the Fund in an effort to strengthen St. Vincent and the Grenadines' balance of payments situation and maintain economic stability. The government does not intend to impose or intensify restrictions on trade or on the making of payments and transfers for current international transactions.

Sincerely yours,

/s/

Ralph Gonsalves
Prime Minister of St. Vincent and the Grenadines