International Monetary Fund

St. Vincent and the Grenadines and the IMF

Press Release:
IMF Executive Board Approves US$6.4 Million Disbursement under the Rapid Credit Facility And the Rapid Financing Instrument for St. Vincent and the Grenadines
August 1, 2014

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St. Vincent and the Grenadines: Letter of Intent

July 9, 2014

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.

Letter of Intent

Kingstown, St Vincent and the Grenadines
July 9, 2014

Mrs. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mrs. Lagarde,

1. On December 24, 2013, St. Vincent and the Grenadines was hit by a trough system. Torrential rains caused flooding of rivers and triggered landslides that caused the loss of 12 lives. Severe damages to road, energy and water infrastructure, the private housing stock, and the agricultural sector are estimated to have reached US$86.3 million (12 percent of GDP), with losses of output estimated to be an additional US$22.0 million (3 percent of GDP).

2. The floods have set back our efforts at reactivating the economy and further exacerbated the adverse impact of the last two natural disasters that affected St. Vincent and the Grenadines over the last three years. Real GDP growth, which started to regain strength in 2013 after four years of low or negative growth, had been expected at 2.3 percent in 2014, but has now had to be revised down to 1.7 percent, reflecting losses due both to the disruption of transportation from damaged infrastructure and a decline in agricultural output. While reconstruction activity is expected to boost growth starting in the second half of 2014, higher construction and energy-related imports and rehabilitation of the agricultural sector will put pressure on the balance of payments.

3. On the fiscal front, the immediate post-floods needs were met by grants from donors, regional assistance and by reallocations from non-priority expenditures. Nonetheless, the budget deficit will temporarily widen, increasing to an estimated 7 percent of GDP in 2014. That said, budget execution will depend on the availability of grants and concessional resources. If financing falls short of expectations, we plan to cut lower-priority capital spending, limit new hiring, and reduce transfers to state-owned enterprises, while protecting social expenditures.

4. However, we are facing significant costs from reconstruction and rehabilitation as well as from the necessity of addressing the social needs of those affected by the floods, especially as the populations in the affected areas are among the poorest. To contain the adverse impact on our fiscal position and debt sustainability, we intend to limit commercial borrowing (except for some commercial financing to complete the new international airport) by confining the financing of the rehabilitation and reconstruction effort to available grants and concessional resources. We have already received pledges of about EC$32 million (out of a total of EC$59 million required in 2014) of funding in grants and concessional loans to cover floods related costs.

5. Against this background, the Government of St. Vincent and the Grenadines requests emergency financing from the IMF in the equivalent of SDR 4.15 million (US$6.4 million), equivalent to disbursement of 25 percent of quota under the Rapid Credit Facility (RCF) and to a purchase of 25 percent of quota under the Rapid Financing Instrument (RFI). The IMF assistance will help meet the urgent foreign exchange needs stemming from the disaster, including for the import of fuel and construction materials, and ease pressure on our balance of payments for the coming year.

6. We remain committed to fiscal consolidation and to keeping our debt trajectory on a declining path to meet the ECCB target of 60 percent of GDP in the medium term. Although the timing of such consolidation will have to be taken into account in the context of flood-related expenditures, we are targeting primary surpluses around 2 percent of GDP over the medium-term through a combination of both revenue and expenditure measures. In particular, we plan to (i) rationalize tax exemptions, (ii) improve tax compliance through enhanced enforcement and staff training, including via audits, (iii) complete full implementation of the electronic filing and payments system, (iv) implement the recommendations of the Report on the Data Matching Project between Customs and Excise Department (CED) and the Inland Revenue Department (IRD) (in collaboration with Tax Administration and Customs Experts from CARTAC), (v) update the medium-term debt strategy, (vi) establish an arrears monitoring and management system, (vii) reduce the wage bill by 0.4 percent of GDP from 2014 to 2019, and (viii) limit transfers to state owned enterprises by emphasizing efficiency, while closely monitoring their activities.

7. As a result of the frequency of natural disasters over the past few years, with the help of the World Bank and the Caribbean Development Bank, we are working to reduce the impact of future natural disasters by increasing our response capacity and undertaking a variety of measures to mitigate the effects of disasters including those stemming from climate change. Importantly, we are

also expanding our coverage with the Caribbean Catastrophe Risk Insurance Facility (CCRIF) to cover floods.

8. The government attaches great importance to implementing its agenda of structural reforms aimed at fostering macroeconomic stability and growth and reducing poverty. In this context, we plan to enhance our efforts to undertake civil service and pension reforms, which could yield additional savings and improve competitiveness in the labor market. On the financial sector front, we have successfully stabilised the Building and Loan Association. A recapitalisation plan was approved by its members in August 2013 and successfully implemented in December 2013. The deposit freeze is expected to be gradually lifted.

9. It is hoped that the international financial community will support our efforts to restore economic growth and rehabilitate and reconstruct our severely damaged social and economic infrastructure. We continue to seek grants and concessional resources to help meet these needs. We look forward to an early approval of financial assistance by the IMF.

10. The government intends to continue to maintain a close policy dialogue with the Fund in an effort to strengthen St. Vincent and the Grenadines' balance of payments, refrain from measures or policies that would compound St. Vincent and the Grenadines' balance of payments difficulties and maintain macroeconomic stability. The government does not intend to impose new, or intensify existing, restrictions on the making of payments and transfers for current international transactions, introduce new, or intensify existing, trade restrictions for balance of payments purposes, or enter into bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement. As a safeguards assessment is required for an RCF, we note that the next ECCB safeguards assessment is scheduled to take place in 2015.

Sincerely yours,

/s/

Dr. The Hon. Ralph E. Gonsalves
Prime Minister and Minister of Finance