SAINT VINCENT AND THE GRENADINES

ECONOMIC AND FINANCIAL REVIEW

June 2024

Eastern Caribbean Central Bank

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EASTERN CARIBBEAN CENTRAL BANK

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Saint Vincent and the Grenadines
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Contents

Total visitor arrivals during the first half of 2024 **decreased by 7.2 per cent** despite a 19.7 per cent increase in stayover arrivals.

Inflation in June 2024 **decelerated to 4.9 per cent** compared to a 5.3 per cent increase in June 2023.

Public debt in June 2024 stood at **$2.7b** compared to $2.4b in June 2023.

Government's fiscal balance (overall) in the first half of 2024 **worsened to a deficit of $102.3m** compared with a deficit of $33.5m during the same period of 2023.

Non-performing loans (NPLs) declined to 7.3% in June 2024, 2.0 percentage points lower than June 2023.

The trade imbalance widened by $99.1m **to $603.1m** during the first half of 2024, as imports continued to surpass exports.

"The economic outlook for Saint Vincent and the Grenadines is expected to remain positive, driven by continued public sector investment projects and bustling tourism activities"

Overview[1]

- Economic activity in Saint Vincent and the Grenadines expanded modestly during the first six months of 2024, in relation to the corresponding period of 2023. The economy continues to benefit from public infrastructure development and stayover tourist activity.

[1]Photo Credit: Najay Parke

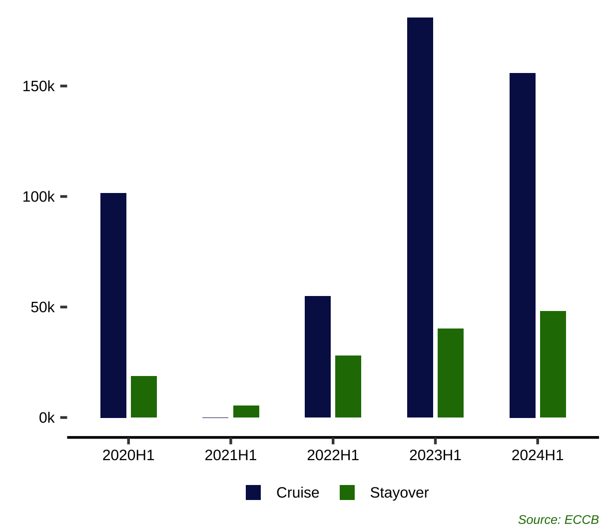
- The number of stayover arrivals rose for the first six months past first half 2019 and 2023 levels, coinciding with the opening of Sandals Resort and multiple activities on the island. Total visitor arrivals however dipped during the period as arrivals by sea contracted.
- The risks to the economic outlook continue to be tilted to the downside, fueled by global economic uncertainty as geo-political tensions in the middle east affect global supply chains and potential energy output, thus driving higher global rates of inflation.
- The impending La Nina phase is expected to heavily influence an active Atlantic hurricane season, posing a threat to economic growth and development prospects for Saint Vincent and the Grenadines.

The Economy (Real Sector)

Economic activity in Saint Vincent and the Grenadines is estimated to have expanded during the first half of 2024 on account of continued infrastructure development and tourist activity. The construction sector primarily contributed to the expansion of economic activity during the first six months of 2024. Public investment stood at $99.6m for the January to June 2024 period—which is above the five-year average (2019 to 2023) of $47.1m.

Despite robust performance in 2023, total tourist arrivals dipped during the first six months of 2024. Total arrivals for the January-June 2024 period was 234,900 compared to 253,050 during the same period of 2023. The decline was as a result of fewer visitors by sea. Despite greater cruise ship calls,[2] cruise arrivals declined by 13.9 per cent to 155,882 (Figure 1). Excursionists (57.7 per cent) and yacht passengers (2.5 per cent) also dwindled in the first half of 2024 when compared with the same period of 2023.

Figure 1: Visitor Arrivals in Selected Categories



Stay-over arrivals during the 2024 review period, however, surpassed both 2023 and pre-pandemic levels. Stay-over arrivals during the first half of 2024 was 47,988 compared to 40,081 in the comparable period of 2023 (Figure 1). Stayover visitors were largely influenced by greater visits from the Caribbean (36.6 per cent), Europe (20.6 per cent) and the United States of America (10.5 per cent) signaling greater flight calls and seating capacity to support the newly opened Sandals Resort, ICC Men's T20 World Cup, and regional conferences including CELAC heads of state and government, and the Rotary's District 7030.

Manufacturing output is estimated to have expanded, on account of increases in the production of flour (20.9 per cent) and beer (22.3 per cent) as well as the export of manufactured goods (124.0 per cent). The value of production of feed declined marginally (6.8 per cent) during the first half of 2024 to $8.4m compared to $9.0m during the first half of 2023.

The agriculture sector exhibited a slowing of its recovery due to the scarring effects from the

[2] Cruise ship calls increased from 153 during the first half of 2023 to 160 during the same period of 2024

volcanic eruption and extreme temperatures. Drought conditions experienced during the latter half of 2023 and first half of 2024 resulted in a contraction of agricultural output, particularly seen by a reduction in the export of food and live animals. Extreme temperatures continued to affect root crops, vegetables, and short crop, which are still recovering from the effects of the La Soufriere volcanic eruption. Banana export for the first half increased marginally by 76 tonnes or $0.1m compared to the same period of 2023.

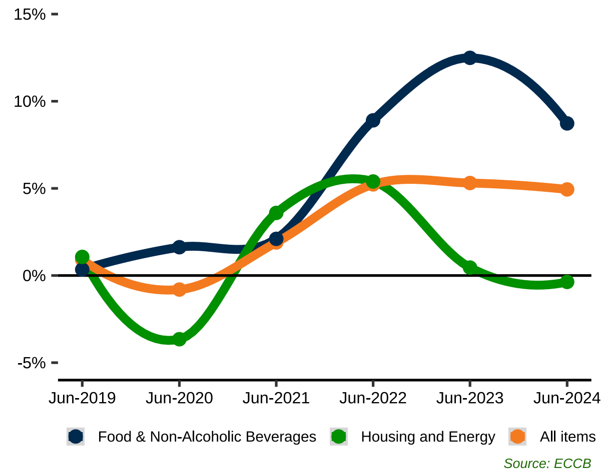
The contraction of output for the agricultural sector has been outstripped by the gains from public sector investment projects, tourist activity and the manufacturing sector. These gains had positive spillover effects that bolstered economic activity in other key sectors, such as, wholesale and retail trade, transport, financial intermediation and real estate, renting and business activities.

Consumer Prices

Price increases in Saint Vincent and the Grenadines have entered a period of disinflation. The consumer price index (CPI; all items) for June 2024 rose by 4.9 per cent (end of period), in contrast to a 5.3 per cent increase during the same period of 2023 (Figure 2). The increase in the index was as a result of increases[3] in the price of food and non alcoholic beverages (8.7 per cent), transport (5.2 per cent), and communication (2.4 per cent), reflective of continued global inflationary pressures exacerbated by external factors including trade tensions and stubbornly high service prices. All categories of the index however, experienced disinflation—a slowing of the rate of inflation or price increases with the exception of the category, housing, utilities, gas and fuels, which saw a marginal decline in the index of 0.4 per cent, signalling a cooling of global energy prices.

Figure 2: Selected Categories of Inflation

end-period, y-o-y



Government Operations

Government's fiscal operations deteriorated over the first half of 2024 with a widening of all operational balances as spending outpaced revenues. The overall balance widened by $68.8m on account of higher capital project outlays. Current fiscal operations, mirrored by the current account balance weakened to a deficit position of $12.1m during the first six months of 2024 in contrast with a surplus of $1.4m during the same period of 2023 (Table 1). The deficit was incurred as a result of greater outlays for current expenditure ($373.6m) which outpaced current revenue collections, particularly, employee compensation of $183.9m (5.7 per cent) and interest payments of $42.7 (20.8 per cent) reflective of settled wage negotiations[4] and domestic and external debt service commitments. Current revenues increased marginally to $361.5m, a 1.8 per cent increase over the January-June 2023 period. Tax receipts for the first half of 2024 improved to $336.9m, a $21.8m increase over the January-June 2023 period. Taxes on income and profits increased by 9.9 per cent over the same period of the previous year marked by increased business prof-

[3] Albeit at a decelerated pace

[4] Approved Public servants' salary negotiations for the 2024 period is 2.0 per cent. Nurses within the public sector have also received an additional 5.0 per cent salary increase for the first half of 2024

its consistent with sustained economic growth in 2023. All tax categories increased over the previous year with the exception of goods and services, which experienced marginal declines in select licences.

Table 1: Central Government Fiscal Operations (EC$M)

Item	2020H1	2021H1	2022H1	2023H1	2024H1
Current Revenue	282.8	322.8	319.9	355.0	**361.5**
Tax Revenue	263.0	305.1	300.2	315.1	**336.9**
Non-Tax Revenue	19.9	17.7	19.7	39.8	**24.6**
Current Expenditure	307.2	316.1	327.3	353.6	**373.6**
Current Account Balance (after Grants)	-24.4	6.7	-7.4	1.4	**-12.1**
Capital Revenue	0.6	31.5	0.5	0.8	**5.2**
Grants	6.6	12.8	0.5	22.6	**4.1**
Capital Expenditure and Net Lending	42.1	71.5	47.3	58.4	**99.6**
Primary Balance (after Grants)	-33.5	3.4	-25.6	1.8	**-59.6**
Overall Balance (after Grants)	-59.3	-20.5	-53.7	-33.5	**-102.3**

* Sources: ECCB and National Statistics Office

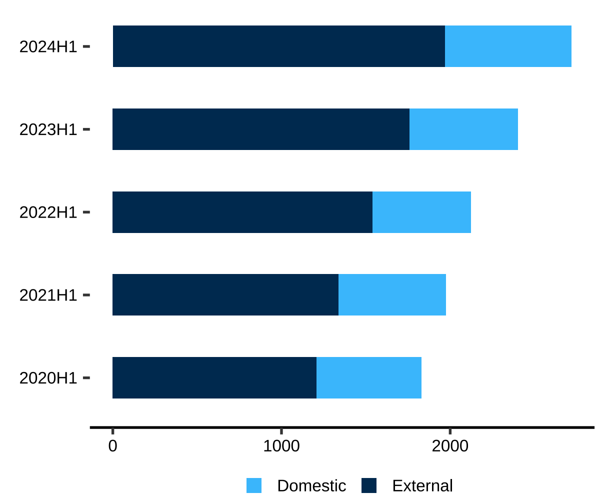
Greater outlays on public sector investment projects and programmes resulted in a widening of the overall deficit to $102.3m. Capital expenditure increased by $41.2m to $99.6m during the first half of 2024, compared to a $11.1m increase in expenditure to $58.4m during the same period of 2023 (Table 1). Capital expenditure outlays for the period are more than twice the previous five years average of $47.1m, an increase reflective of large-scale public investment projects including, disaster management rehabilitation, reconstruction and risk reduction, feeder roads and road rehabilitation and major renovations to public infrastructure, including $21.8m expended for the improvement of the Arnos Vale Sporting Complex in preparation for the ICC Men's T20 World Cup. Development work also continued for the Kingstown Port and Holiday Inn.

Debt

In lockstep with government's deteriorated fiscal balance, total public sector debt continued to climb. The total debt stock increased by 13.3 per cent ($318.5m) to $2.7b in June 2024, compared to a public debt stock of $2.4b in June 2023 (Figure 3). The stock of domestic debt stood at $752.0m and total external debt stood at $2.0b. The stock of debt was buoyed by increases in both domestic (17.0 per cent) and externally (11.9 per cent) contracted debt. Domestic debt accounted for 27.6 per cent of the total stock while external debt represented 72.4 per cent; the Kingstown Port Modernization project accounted for the highest share of total liabilities. Central government incurred liabilities primarily influenced the uptick in the total debt stock; central government debt increased by 13.8 per cent to $2.7b (98.1 per cent of the total debt stock) while debt incurred by public corporations had a moderating effect and declined by 9.8 per cent to $51.8m (1.9 per cent of total debt).

Figure 3: Outstanding Public Sector Debt (EC$M)

Stock, end-period



Source: ECCB

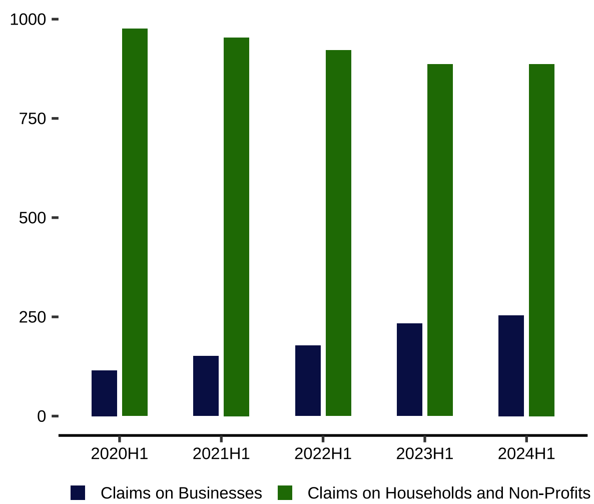
Banking Developments

Commercial banks' credit to the domestic economy increased by $264.8m, motivated by higher lending activity to general government. At the end of June 2024, domestic credit increased by 24.2 per cent to $1.4b, driven by lending activities in both the private and public sectors. Net claims to general government increased to $212.0m at the end of June 2024 in contrast to a decline of $30.8m at the end of June

2023. These net claims were influenced by a drawdown of deposits and higher credit to general government of $452.2m. Lending to the private sector increased moderately by 1.9 per cent ($21.7m) to $1.1b at the first half of 2024; credit to households at the end of June 2024 remained largely unchanged at $886.8m (Figure 4). Loans to the domestic economy were channeled towards real estate activities, public administration and social security, when combined, they represented 67.0 per cent of total domestic loan portfolio.

Figure 4: Claims (Credit) on Selected Sectors (EC$M)

Stock, end-period



Source: ECCB

The money supply expanded as other deposits and transferable deposits increased. Broad money rose by $153.8m to $2.0b at the end of June 2024 driven by increases in transferrable deposits (8.5 per cent) to $717.5m and other deposits (7.1 per cent) to $1.0b. Foreign currency deposits increased by $9.6m to $90.0m at the end of June 2024, a year-on-year increase of 11.9 per cent.

Liquidity and non-performing loans within the commercial banking system remained elevated despite moderate tapering. The liquid assets to total assets ratio fell (year on year) by 4.0 percentage points to 42.6 per cent at the end of June 2024, reflective of increased lending within the system. The non-performing loans (NPL) ratio improved from 9.3 per cent at the end of June 2023 to 7.3 per cent in June 2024. In spite of the decline, the NPL ratio remained above the ECCB's recommended guide of 5.0 per cent.

External Trade

During the first half of 2024, Saint Vincent and the Grenadines' merchandise trade imbalance widened by $99.1m to $603.1m as imports continued to outpace exports. The trade imbalance was 19.7 per cent higher than the January-June 2023 imbalance of -$504.0m. Imports during the first six months of 2024 increased by 24.4 per cent to $692.8m, sustained by increased imports of food and live animals (6.3 per cent) to $143.4m and a 26.6 per cent increase in machinery and transport equipment to $172.3m. The import of food and live animals represent 20.7 per cent of total imports over the half year 2024 period, a slight decline over the first half ratio of 24.2 per cent in 2023.

Exports during the first six months of 2024 increased by $36.6m to $89.6m, 69.0 per cent higher than exports recorded during the same period of 2023. The increase was driven by greater exports of machinery & transport equipment ($32.5m) and manufactured goods ($8.5m), in particular, the export of manufactured goods including rice, beer and flour rebounded from its January to June 2023 export levels.

Total travel receipts recorded for the half of 2024 stood at $344.2m, $24.0m more than the receipts recorded for the same period of 2023 ($320.2m). This increase was reflected by greater stay-over arrivals during the period, lending to the opening of Sandals Resort and multiple major tourist activities on island including the ICC Men's T20 World Cup.

The merchandise trade balance for January to June 2024 remains elevated above the comparable period's five-year average (2019-2023) of -$422.8 million.

Outlook

The economic outlook for Saint Vincent and the Grenadines is expected to remain positive, driven by continued public sector investment projects and bustling tourism activities.

- Construction activity is expected to remain robust in the second half of 2024 as the Marriott Hotel begins construction and work continues on the port modernization project to meet its 2025 deadline. Sandals Resort is expected to expand its 50.0-acre property, allowing for room expansion and staff facilities.
- Tourist activity, in particular, stay-over arrivals, are anticipated to remain strong as Sandals Resort is expected to achieve full capacity during the fourth quarter of 2024. The Resort's presence and marketing campaign are projected to attract more tourists and airlift . The Holiday Inn Express is expected to welcome guests by the end of 2024.
- Downside risks to the growth prospect of the economy of Saint Vincent and the Grenadines include renewed global inflationary pressures from geopolitical tensions, energy and supply chain disruptions from geopolitical aggressions in the Middle East. The economy can also face headwinds from natural and climatic events as the La Niña phase of the ENSO (El Niño-Southern Oscillation) Cycle is expected to take hold in the second half of 2024, fueling an active Atlantic hurricane season.

Box 1: A Midpoint Analysis of Saint Vincent and the Grenadines' 2024 Budget Execution

The 2024 national budget address was delivered on 8 January 2024 by Minister for Finance and Economic Planning, Hon. Camillo Gonsalves, under the theme **"Accelerating Sustainable Development, Propelling Inclusive Growth and Advancing People-Centered Reforms to build a more resilient Saint Vincent and the Grenadines."**

The total expenditure envelope for the fiscal year is $1.6b—inclusive of principal repayments and contributions to the sinking fund. The General Public Service received the largest share (42.0 per cent). Combined, education, health, and social protection represent 36.0 per cent of the budgeted amount. 44.6 per cent of the total budgeted current revenue has been collected during the first six months of 2024, similarly, 44.7 per cent of budgeted current expenditure has been spent during the same period. The government therefore anticipates to spend $461.8m in current revenues within the second half and collect $449.4m in current revenues to aid in the narrowing of the budgeted current account deficit of $24.5m. The execution rates signify the late implementation and delayed administration of increases in selected licences and also highlight that the government is mindful of its fiscal sustainability position thus far, even in the face of higher prices and wage negotiations. Throughout the year, the Inland Revenue Department has been committed to strengthening its tax administrative arm to improve tax collection efficiency.

Capital expenditure outlays for the first half were $99.3m, 10.2 per cent of the 2024 budgeted amount of $570.5m and is lower than the average of the previous 3-years' share of 15.6 per cent. Despite the large sums expended for the first six months of 2024 compared to previous years' first half outlays, the share of capital expenditure outlays signifies continued implementation constraints. The Kingstown Port Modernization Project accounts for a significant share of the Island chain's debt and capital expenditure. The $582.9m[a] project is the second largest capital project on the island and is expected to facilitate the construction of a modern climate resilient cargo port with improved access roads. To date, $327.1m[b] has been spent on the port's development, it is expected that 90.0 per cent of the port will be completed at the end of 2024 and construction works will culminate in May 2025. The new port, once developed, will house a single space for trade administration through the Customs and Excise Department and Port Authority. Improved tax administration, modern and advanced services, and access roads will foster greater business productivity via the ease of access of goods and services. The port will be a catalyst for economic growth, supporting the lives and livelihood of all Vincentians, and preserving the Marine ecosystem in its environs.

At the time of writing, Hurricane Beryl barreled through Saint Vincent and the Grenadines, decimating Union Island and caused significant damage throughout the island chain. It is therefore expected that the island's budget execution would be impacted, as expenditure outlays will expand to meet recovery and rebuilding efforts.

[a] Source: Ministry of Finance
[b] Source: Ministry of Finance; Data as at August 2024

Selected Economic Indicators

Item	2020H1	2021H1	2022H1	2023H1	2024H1
Banking and Monetary					
Net Foreign Assets (EC$M)	812.8	1,066.3	1,107.1	1,099.4	1,003.0
Domestic Credit (EC$M)	1,068.6	1,133.1	1,098.0	1,095.2	1,360.0
M2 (EC$M)	1,525.7	1,749.2	1,832.6	1,885.2	2,039.0
Currency in Circulation (EC$M)	163.0	190.1	224.8	245.1	264.5
Liquid assets to total assets	41.8	45.1	45.8	46.6	42.6
Liquid assets to short-term liabilities	45.6	49.5	49.6	50.5	45.5
Customer deposits to total (noninterbank)loans	139.0	146.5	157.9	160.7	151.2
Weighted Average Deposit Rate (%)	1.7	1.5	1.2	1.3	1.2
Weighted Average Lending Rate (%)	8.0	7.7	7.5	7.1	7.2
Interest Rate Spread (%)	6.4	6.2	6.3	5.8	6.0
Non-Performing Loans to Total Loans (%)	7.3	7.5	9.9	9.3	7.3
Real Sector and Prices					
Inflation Rate (year-on-year)(end-June) (%)	−0.8	1.9	5.2	5.3	4.9
Inflation Rate (half-year) (%)	−0.5	2.4	4.1	2.8	3.7
Total Visitor Arrivals	144,384	6,932	102,102	253,050	234,900
Total Visitor Expenditure (EC$M)	185.0	26.9	205.4	320.2	344.2
Government Finances					
Current Revenue (EC$M)	282.8	322.8	319.9	355.0	361.5
Current Expenditure (EC$M)	307.2	316.1	327.3	353.6	373.6
Current Balance (EC$M)	−24.4	6.7	−7.4	1.4	−12.1
Primary Balance (EC$M)	−33.5	3.4	−25.6	1.8	−59.6
Overall Balance (EC$M)	−59.3	−20.5	−53.7	−33.5	−102.3
Total Public Sector Debt (EC$M)	1,829.3	1,975.7	2,122.3	2,401.2	2,719.7

Data as at August 2024

2024

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