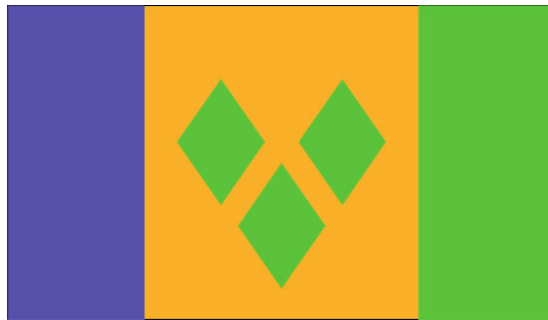


# COUNTRY REVIEW

## St. Vincent and the Grenadines



4 November 2009

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**EULER HERMES COUNTRY RISK GRADE: C**

Country Risk Grades are on a scale of AA, A, BB, B, C, D  
where AA is the lowest and D the highest risk.

## Strengths

- Politically stable
- Structural Business Environment above average
- Membership of ECCU (long-standing currency board arrangement of eight small Caribbean islands)

## Weaknesses

- Vulnerable to natural disasters (frequent tropical storms/hurricanes)
- Dependence on tourism and remittances
- High public debt ratios and need to adjust fiscal deficit
- Large current account deficit, moderate net FDI inflows

## Key Risks

- **Public sector payments given high debt ratios**
- **Recession**

## Country Risk Assessment

Ratings	St Vincent & Grenadines		Median Grade C	Peers		
	Latest	Previous		Jamaica	Barbados	Papua New Guinea
<b>Systemic Political Risk:</b>	<b>P3+</b>	<b>P2-</b>	<b>P2-</b>	<b>P2-</b>	<b>P2+</b>	<b>P3-</b>
<b>Systemic Economic Risk:</b>	<b>E5</b>	<b>E4</b>	<b>E5</b>	<b>E6</b>	<b>E5</b>	<b>E5</b>
ME rating:	ME5	ME4	ME5	ME6	ME5	ME5
<i>Structure</i>	6.0	<i>n.a</i>	5.7	5.7	5.0	6.0
<i>Policy</i>	3.3	<i>n.a</i>	5.2	5.8	3.2	6.0
<i>Solvency</i>	3.9	<i>n.a</i>	2.8	5.8	2.8	1.3
<i>External Liquidity</i>	5.2	<i>n.a</i>	4.6	6.0	6.0	3.6
SBE rating:	SBE3	SBE3	SBE4	SBE4	SBE3	SBE5
<b>COUNTRY GRADE:</b>	<b>C</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>C</b>	<b>C</b>

**Nomenclature:**

Political Risk Ratings are on a scale of P1 (lowest risk), P2+, P2-, P3+, P3-, P4 (highest risk).

Economic Risk Ratings are on a scale of E1 (lowest risk), E2, E3, E4, E5, E6 (highest risk).

ME (Macro-Economic) ratings are on a scale of ME1 (lowest risk), ME2, ME3, ME4, ME5, ME6 (highest risk).

The constituent parts of the ME rating are on a scale of 1.0 (best) to 6.0 (worst).

SBE (Structural Business Environment) ratings are on a scale of SBE1 (best), SBE2, SBE3, SBE4, SBE5, SBE6 (worst).

Country Grades are on a scale of AA, A, BB, B, C, D where AA is the lowest and D the highest country risk.

Source: Euler Hermes Country Risk Unit

## ECONOMIC STRUCTURE

### Country Profile

Capital city:	Kingstown
Population:	0.11 mn (2008)
GDP:	USD 597 mn (2008)
Currency:	East Caribbean Dollar (XCD)
Form of state:	Parliamentary democracy
Head of government:	PM Ralph E. Gonsalves
Next elections:	By December 2010

### Basic indicators

Selected economic indicators	2006	2007	2008	2009f	2010f
Nominal GDP (USD mn)	498	555	598	618	648
Population (mn)	0.11	0.11	0.11	0.11	0.11
GDP per capita (USD)	4,526	5,045	5,435	5,618	5,891
Real GDP growth (% yr/yr)	9.6	7.7	1.0	-1.0	2.0
Inflation (% eop)	4.8	8.3	8.7	2.9	2.9
Fiscal balance (% of GDP)	-3.7	-3.3	-1.7	-4.3	-4.0
Current account balance (% of GDP)	-27.7	-34.2	-36.2	-29.8	-31.5
External debt/GDP (%)	60	46	43	43	46
External debt/Exports of goods & services (%)	141	117	129	146	144
Interest payments/Exports of goods & services (%)	4	4	4	5	4
Foreign exchange reserves (USD mn)	79	87	84	86	85
Import cover (months)	2.9	2.6	2.4	n.a	n.a
Exchange rate assumption, XCD:USD (av)	2.7	2.7	2.7	2.7	2.7
f: CRU central forecast					

Sources: National, IMF, World Bank, Euler Hermes Country Risk Unit

## Political Stability

The islands became independent of the UK in 1979 and are politically stable with peaceful transfers of power. The United Labour Party (ULP) under PM Ralph Gonsalves won the 2001 elections, ending 16 years of rule by the New Democratic Party (NDP), and retained power in elections at the end of 2005, with 12 of the 15 elected seats in the unicameral National Assembly (6 are appointed). The next elections are due by December 2009. A referendum will be held later this month on Constitutional reform—which includes becoming a republic—the culmination of six years of discussion but currently opposed by the main opposition party. The World Bank Worldwide Governance Indicators put political stability as above average for the upper middle income group of economies. St Vincent and Grenadines is one of eight members of the East Caribbean Currency Union (ECCU). It is also a member of PetroCaribe under which it receives subsidised petroleum from Venezuela and ALBA (Bolivarian Alliance for the Americas) a trade grouping of the radical left led by Venezuela, though St Vincent and the Grenadines has rejected membership of a single currency for ALBA.

## Economic Stability

The economy is heavily dependent on tourism and remittances. Recently, construction activity has also been a key growth driver. As all of these are vulnerable to recession in the US and other major economies, there was a sharp slowdown in growth of real GDP in 2008 and the economy will most probably contract by around 1% in 2009 before picking up to around 2% in 2010. The economy is also highly vulnerable to natural disasters (tropical storms etc) and has suffered from a loss of preferential access to markets for some traditional commodities such as bananas. Annual average growth of real per capita GDP in the past ten years was a relatively strong 3%.

Having narrowed to 1.7% of GDP in 2008 on strong revenues the overall fiscal deficit (central government) can be expected to widen in 2009 to 4-4.5% and possibly more as revenues are hit by recession, while expenditure is reduced only marginally as a proportion of GDP. The deficit will probably be less than budgeted however as, typically, capital spending lags budgeted spending. There has also been some progress in improving tax revenues following the successful introduction of VAT. Wide fiscal deficits have contributed to a high public debt-GDP ratio, which stood at 66% at end-2008. This was a reduction from 81% at end-2005, but reflected a write-down on debt related to a project that had encountered payment problems some time ago, and according to the IMF Article IV consultation earlier this year is set to rise back to 80% by end-2010, well above the Eastern Caribbean Central Bank's (ECCB) target for the region of 60% and policy changes will be necessary to put the debt-ratio on a sustainable trajectory. Public sector debt service is around 22% of current fiscal revenues. Nonetheless, the public debt ratio is among the lowest (except for Anguilla and Montserrat) of the members of the East Caribbean Currency Union (ECCU), as is external debt.

Monetary policy is determined by the ECCB and is based on a long-standing currency board arrangement which has pegged the East Caribbean Dollar to the USD for the past 28 years without any change in the exchange rate. Inflation accelerated recently sharply in 2007 and 2008, partly as a result of higher oil prices, but has since dropped and should be just below 3% at end 2009 and 2010.

The chronically large current account deficit will be around 30% of GDP in 2009-10 and is less than 50% covered by net FDI flows. However, the ECCU has a pooled FX reserve arrangement and the vulnerability of the exchange rate peg depends on broad trends within the ECCU as a whole. As noted above, the peg is of long standing and does not appear to have come under serious pressure in the global financial crisis, though there has been some uncertainty associated with the collapse of CILGO in Trinidad & Tobago. Moreover, net foreign assets have increased during 2009. However, the region has a large current account deficit, large fiscal deficits and high public debt ratios, which poses some risk to the peg. Like others in the region, St Vincent and the Grenadines has had recourse to the IMF's Exogenous Shock Facility to cope with the downturn.

## Structural Business Environment

The Structural Business Environment is above average in our assessment. Based on data and definitions from the World Bank's 2010 Doing Business Survey, of ten areas surveyed Registering Property and Enforcing Contracts were weaker areas, ranking below average, while Closing a Business was particularly weak and well below average. The World Bank Institute's Governance Research Indicator puts regulatory quality, rule of law below and control of corruption above average for the upper middle income group of economies. Transparency International's Corruption Perception Index, 2008, assigns St Vincent and Grenadines a score of 6.5—on a scale of 1 (bad) to 10 (good)—and a ranking of 28= out of 180 (the same as Spain).

**David Atkinson**

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## Charts

