INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/348

ST. LUCIA

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ST. LUCIA

November 2022

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2022 Article IV consultation with St. Lucia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 7, 2022, consideration of the staff report that concluded the Article IV consultation with St. Lucia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 7, 2022, following discussions that ended on May 23, 2022, with the officials of St. Lucia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 8, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for St. Lucia.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2022 Article IV Consultation with Saint Lucia

FOR IMMEDIATE RELEASE

Washington, DC – November 18, 2022: On September 7, 2022, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Saint Lucia and endorsed the staff appraisal.

St. Lucia has been severely affected by the Covid-19 pandemic and the increase in import prices due to the war in Ukraine. After a collapse in 2020, tourist arrivals have rebounded significantly in 2021–22, but the recovery remains incomplete. The public balance sheet remains under considerable strain, with a sizeable fiscal deficit and a significant increase in public debt since 2019. Inflation has picked up with the surge in commodity prices—somewhat mitigated by price controls and energy subsidies. The financial sector has remained stable, but nonperforming loans have risen during the pandemic.

Output is projected to gradually recover to the pre-pandemic level by 2024, slowed by the impacts of the war in Ukraine and the tightening of global financial conditions. Public and private investments are constrained by weak balance sheets, as well as higher input costs and supply constraints. Inflation is projected to rise to 6.4 percent in 2022. The fiscal outlook is challenging due to high public debt and large refinancing needs which lead to financing constraints. Without additional policy measures, public debt is projected to stabilize around 90 percent of GDP in the medium term, limiting the space for public infrastructure and social investments. The current account deficit is projected to gradually narrow with the recovery of tourism. Bank credit to the private sector is expected to remain anemic due to concerns about weak corporate balance sheets and structural impediments, such as the lack of a credit registry and a weak insolvency framework. Downside risks dominate, mainly from higher global food and energy prices, global inflation and tightening of financial conditions, supply bottlenecks, and the ongoing pandemic. The natural disaster risk remains a near-term challenge and is expected to intensify with climate change.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis of discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors noted that St. Lucia's tourism-dependent economy was severely hit by the pandemic, and while there was a significant rebound in tourism in 2021, the recovery remains incomplete as the surge in import prices and high inflation following the war in Ukraine weigh on economic growth. Directors noted significant challenges ahead as the public balance sheet remains under pressure, with a sizeable fiscal deficit, high rollover needs, and a sharp increase in public debt, as well as the looming threat of natural disasters. Against this backdrop, they emphasized the need to address fiscal and financial constraints to public and private investment to foster a sustainable and inclusive recovery.

Directors concurred that, in the near-term, fiscal policy should focus on protecting the most vulnerable from food and fuel price increases. Given financing constraints, they encouraged the authorities to prioritize spending and to increase the pass-through of global energy prices while supporting vulnerable households with targeted transfers.

As the recovery takes hold, Directors called for pursuing a credible and growth-friendly fiscal consolidation to strengthen fiscal sustainability, create space for social and infrastructure investment, build buffers against natural disasters, and put debt on a downward path. Adopting a medium-term fiscal responsibility framework, a debt management strategy, and a fiscal rule to support debt sustainability would be important.

Directors highlighted the role of the financial sector to unlock private sector growth. They encouraged facilitating access to credit and boosting financial intermediation, including by modernizing the insolvency and foreclosure legislation and establishing the credit bureau and a movable collateral framework, as well as strengthening the non-bank financial sector. Directors noted the expansion of the credit union segment and welcomed the Financial Services Regulatory Authority's plan to conduct an asset quality review of credit unions. They urged the authorities to address remaining AML/CFT deficiencies to protect correspondent banking relationships.

Directors called for tackling structural challenges to support growth and boost productivity, including by addressing labor market skill mismatches, building energy independence, and increasing economic diversification. They encouraged enhancing structural and financial resilience to natural disasters through a long-term integrated strategy 2 in a comprehensive macroeconomic framework within debt-sustainable bounds. Investment in resilient infrastructure would support growth and enhance fiscal sustainability. Directors noted the importance of developing a strong disaster insurance strategy while structural resilience is built.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm

Table. St. Lucia: Selected Economic and Financial Indicators, 2019–23

				Projections	
	2019	2020	2021	2022	2023
	(Annual percentage change, unless otherwise specified)				
Output and prices					
Real GDP (at market prices)	-0.7	-24.4	12.2	9.1	5.8
Consumer prices, period average	0.5	-1.8	2.4	6.4	2.7
Output gap (percent of potential GDP)	-1.4	-19.1	-10.0	-4.3	-2.5
Unemployment rate (% annual average)	16.8	21.7	21.9	...	...
Nominal GDP (EC$ millions) 1/	5,654	4,093	4,566	5,325	5,814
Public finances	(In percent of GDP, unless otherwise specified)				
Central government 2/					
Revenue	21.6	22.1	23.7	23.1	22.5
Expenditure	25.1	34.0	30.1	28.9	24.8
Natural disaster (ND) annualised cost	0.0	0.0	0.0	0.7	0.7
Primary balance, incl. ND cost	-0.5	-8.0	-2.9	-3.1	0.5
Overall balance, incl. ND cost	-3.5	-11.9	-6.5	-6.4	-2.9
Central government debt	58.7	91.6	86.5	81.9	78.5
Total public sector debt 3/	62.1	96.9	92.2	90.1	88.3
Domestic	32.3	50.4	44.2	39.1	36.6
External	29.8	46.4	48.0	51.0	51.7
Money and credit, end of period (annual percent change)					
Broad money (M2)	3.2	-6.6	14.9	8.0	4.5
Credit to private sector (real)	-2.4	4.5	-2.4	-5.4	-2.3
Credit to private sector (nominal)	-1.9	2.7	-0.1	0.6	0.3
External sector					
Current account balance, *o/w:*	5.7	-15.7	-11.0	-6.4	-0.9
Exports of goods and services	57.7	29.4	43.0	56.3	58.2
of which: tourism	50.8	22.4	36.2	49.7	51.8
Imports of goods and services	-46.2	-44.4	-53.0	-59.2	-54.8
Capital account balance	1.6	1.6	1.4	1.5	1.0
Financial account balance	0.9	-9.1	-9.6	-4.9	0.1
External debt (gross) 4/	61.6	79.5	78.2	76.9	75.4
Public	29.8	46.4	48.0	51.0	51.7
Net imputed international reserves					
Months of imports of goods and services	4.5	3.0	3.6	3.4	3.5
Percentage of demand liabilities	88.7	88.3	92.6	90.9	90.9
Real effective exchange rate					
(annual average, depreciation -)	103.3	99.7	95.1	...	...

Sources: St. Lucia authorities; ECCB; UNDP HDI; and Fund staff estimates and projections.

1/ GDP historical series was rebased to 2018 base year in 2020. This increased nominal GDP figures by about 9 percentage points.

2/ Fiscal year (April–March) basis. Fiscal balances do not include the airport project, which is implemented by a public corporation.

3/ Public sector debt includes payables and overdrafts/ECCB advances.

4/ Comprises public sector external debt, foreign liabilities of commercial banks and other private debt.

ST. LUCIA

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

July 8, 2022

KEY ISSUES

The St. Lucian economy is confronted with significant challenges from consecutive external shocks. While still recovering from the impact of the Covid-19 pandemic, which led to an output collapse in 2020 and 2021 mainly due to a halt in tourism, the war in Ukraine is adding inflation and balance of payments pressures given the dependence on fuel and food imports. As a member of the Eastern Caribbean Currency Union (ECCU) with limited fiscal space, St. Lucia's policy options to cushion the impact are constrained. Public debt is high, and the government's large gross financing needs are a significant near-term risk. In the financial sector, asset quality has largely recovered to pre-pandemic levels, but legacy underperforming loans remain a concern and could amplify the impact of shocks.

The policy priority is to foster a sustainable and inclusive recovery by addressing fiscal and financial constraints to public and private investment. In the near-term, fiscal policy should remain supportive, but financing constraints affecting the government may require spending reprioritization to limit the social impact of the surge in food and fuel prices. As the recovery takes hold, fiscal policy focus should shift to supporting debt sustainability, creating fiscal space for social and infrastructure investment, and building buffers against natural disasters. A consolidation plan that is both socially inclusive and sufficient to put public debt firmly on a downward trajectory would support the government's commitment to reach the regional debt target. The consolidation should be supported by identified institutional fiscal reforms, including a medium-term fiscal responsibility framework and a fiscal rule to strengthen the debt sustainability outlook and maintain fluid access to financing. Financial sector policies should focus on advancing legislative reforms to facilitate balance sheet repair and removing constraints to private sector credit.

Structural reforms can support climate resiliency and long-term growth. Strengthening structural and financial resilience to natural disasters and climate change calls for a long-term integrated strategy in a comprehensive macroeconomic framework within debt-sustainable bounds. Pursuing policies to address labor market skills mismatches, build energy independence and support economic diversification can help boost lagging productivity growth.

Approved By
James Morsink (WHD) and Natalia Tamirisa (SPR)

Discussions for the 2022 consultation took place in Castries on May 9–23, 2022. The team comprised Alejandro Guerson (head), Swarnali Hannan, Chao He, Marie Kim (all WHD) and Sergei Antoshin (MCM). Ronald James (CDB), Gregory Horman (MCM), Paul Mooney (OED), Beverley Lugay (ECCB), Ran Li (WB) joined several meetings. Philip Jennings (OED) joined the concluding meeting. The mission met with the Honorable Prime Minister Philip J. Pierre, Permanent Secretary Esther Rigobert and other senior government officials, representatives of the opposition, the private sector, and labor unions. Andres Gonzalez Gomez (ICD) contributed with research on climate resilience. The team was supported by Anahit Aghababyan and Huilin Wang (WHD).

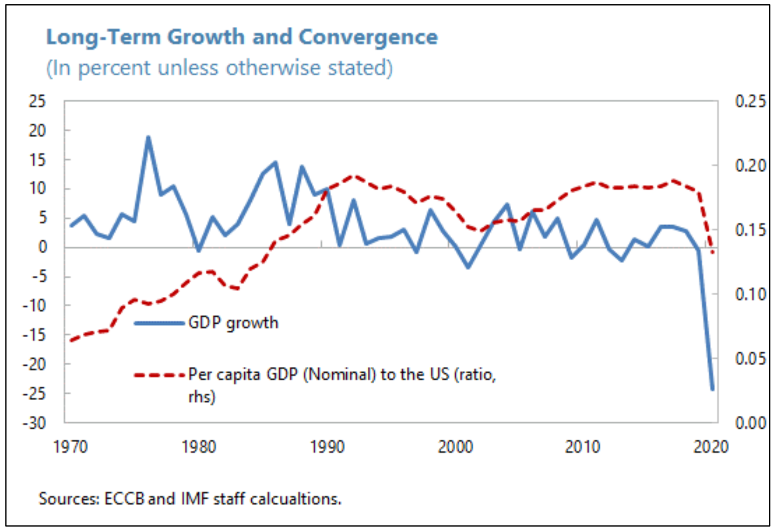
CONTENTS

TABLES

ANNEXES

CONTEXT

1. **As a tourism dependent economy, St. Lucia was heavily hit by the Covid-19 pandemic, now compounded by the increase in import prices triggered by the war in Ukraine.** St. Lucia has shown low and volatile growth since the beginning of the twenty-first century. The Global Financial Crisis (GFC) marked the end of a credit-fueled investment boom, which led to significant deterioration of private and public balance sheets with significant buildup of banking sector non-performing loans (NPLs) and a high public debt burden that has proven difficult to reduce.[1] In 2020, travel restrictions during the Covid-19 pandemic led to the sharpest output decline on record due to the large tourism sector. High dependence on imported fuel and food items implies strong vulnerability to the economic repercussions of the war in Ukraine, adding a negative impulse to a weakened economy. While the tightening of global financial conditions is unlikely to affect financial conditions in St. Lucia significantly (because of limited financial integration), it is expected to dampen growth through real channels.



2. **Located in the hurricane belt, St. Lucia is highly vulnerable to natural disasters.** Though among the regional leaders in climate change preparedness, the country has large institutional, financing, and capacity gaps in its climate response strategy.[2]

3. **A new administration that took office in July 2021 is seeking to balance fiscal constraints with its spending priorities.** St. Lucia's Labour Party led by Prime Minister Phillip J. Pierre gained a large parliamentary majority in the 2021 general election.[3] The new administration has a strong social agenda, including on health, social protection, food security, climate resilience, and employment.

[1] Increase in public debt ratio was in part contained by upward GDP revisions in 2017 and 2019 as well as its rebasing conducted in early-2020.

[2] St. Lucia undertook a Climate Change Policy Assessment (CCPA) pilot in 2018 (Country Report No. 18/181). The 2019 Article IV staff report took stock on its implementation (IMF Country Report No. 20/54).

[3] The new administration holds 13 of the 17 seats in the House of Assembly.

COVID-19 PANDEMIC IMPACT AND POLICY RESPONSE

4. The pandemic initially brought the St. Lucian economy to a halt. Resolute containment measures in 2020 (border closure, country-wide lockdown) successfully prevented community spread, but the collapse of international travel took a severe toll on economic activity. GDP declined by 24 percent and the unemployment rate increased from 16.8 percent to 21.7 percent. The FY2020 budget deficit increased to 11.9 percent of GDP, financed largely by multilateral and bilateral assistance, including a Rapid Credit Facility (RCF) of about US$29 million in April 2020.[4]

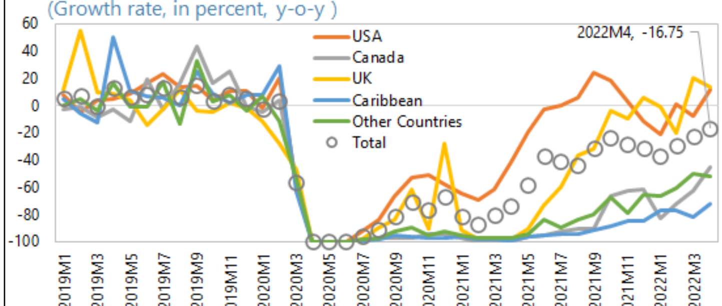
External Loan Financing
(Percent of GDP) 1/

	FY20	FY21
Total Disbursed	**9.1**	**7.8**
ECCB Long-Term Allocation	**1.4**	**1.3**
Multilateral	**5.9**	**4.0**
IMF RCF (April 2020)	1.9	0.0
World Bank	1.3	2.8
Caribbean Development Bank	2.7	1.2
Bilateral Financing	**1.5**	**2.5**
Taiwan Province of China	1.5	2.5
Other (Loans/Bonds)	**0.2**	**0.0**
Caribbean Development Fund:	0.2	0.0
Other (Loans/bonds)	0.0	0.0

1/ St. Lucia benefited from about EC$2 million and EC$2.5 million of suspended debt service under the Debt Service Suspension Initiative in FY20 and FY21 respectively.
Source: Country authorities.

5. The recovery remains incomplete mainly due to the only partial return of tourism in 2021. Safety protocols and travel restrictions continued to weigh on tourism. Arrivals from main markets (US and UK) picked up significantly following the vaccine rollouts in the first half of 2021, buoyed in part by significant pent-up demand and diversion of tourists from other destinations with more restrictive entry requirements. The revival coincided with several waves of community spread amidst significant vaccine hesitancy, which led to tightening of local restrictions, yet it proved little deterrent to tourism demand.[5] By late 2021 arrivals from the US and UK reached pre-pandemic levels,[6]

Stay-Over Tourist Arrivals
(Growth rate, in percent, y-o-y)



Note: 2019 growth rates relative to 2018. 2020 - 2022 y-o-y growth rates relative to 2019. The share of tourist arrivals in 2019 for US, UK, Canada, Caribbean and Others are 45, 19, 10, 20 and 7 percent respectively.
Sources: Country authorities and IMF staff calculations.

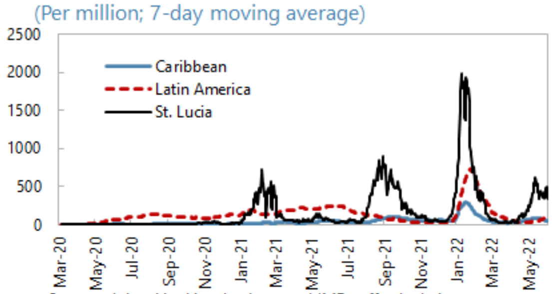
[4] The update safeguards assessment finalized in August 2021 found strong external audit and financial reporting practices that continue to be aligned with international standards, and further improvements in the capacity of the internal audit function. Legal reforms were recommended to further strengthen operational autonomy of the ECCB and align its Agreement Act with leading practices. The issuance of DCash introduces new risks that require additional controls and oversight, and the assessment made recommendations to enhance the related project-governance framework.

[5] St. Lucia long had the highest cumulative Covid-19 case load amongst the ECCU members and its vaccination rate is among the lowest in the Western Hemisphere.

[6] The largest two source countries, US and UK, account for about 45 percent and 19 percent of total stay-over arrivals respectively in 2019.

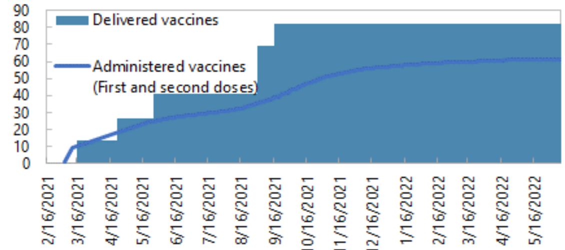
although overall arrivals for the year were 53 percent below 2019. Activity was boosted by large public investment projects, including commencement of the Hewanorra International Airport redevelopment (USD$175 million, 10 percent GDP) following pandemic related delays. Preliminary national accounts data shows that GDP rebounded by 12.2 percent in 2021.

New COVID-19 Cases
(Per million; 7-day moving average)



Sources: Johns Hopkins database and IMF staff calculations.

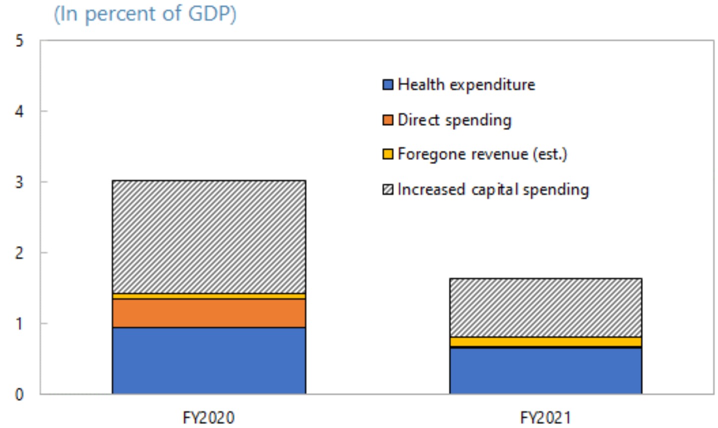
Vaccine Hesitancy
(Delivered and administered vaccines, percent of pop.)



Sources: University of Oxford's *Our World in Data* project, PAHO, country

6. **The public balance sheet remains under significant strain.** Slow revenue recovery and pandemic-related spending, including frontloading capital projects to support the economy, led to a budget deficit of 6.5 percent of GDP in FY2021. Despite strong external support from international development partners and limited redemptions from regional security-based financing, the government's high financing needs over FY2020–21 resulted in significant cash-constraints and build-up of overdrafts and (domestic supplier) arrears of about 4.3 percent of GDP in FY2021. Public debt rose significantly from just above 60 in FY2019 to 96.9 percent of GDP in FY2020, and then remained elevated at 92.2 percent of GDP in FY2021.

Pandemic Response Costs
(In percent of GDP)



Sources: Country authorities, IMF staff estimates.

7. **Inflation picked up in 2021 with the surge in commodity prices.** Following deflation in 2020 amid the pandemic, higher imported food and energy costs and supply bottlenecks have driven up annual inflation to 2.4 percent in 2021. Pass-through of higher oil prices has been mitigated by price controls on retail prices of road fuel (gas and diesel) and energy subsidies for lower weight LPG (used for household cooking).[7] The cost of construction materials also rose significantly, impacting ongoing investment projects.

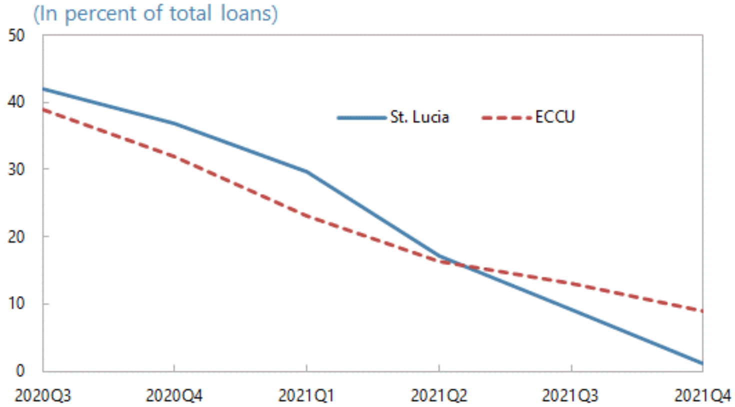
[7] The authorities set retail prices for road fuels, kerosene and LPG every three weeks. The government cushions increases to road fuel retail prices by lowering the excise tax rate from the pre-pandemic standard EC$4 per imperial gallon. Retail prices caps have been adjusted up recently to avoid the excise taxes falling negative. The government

(continued)

8. The large current account deficit is narrowing slowly with the recovery of tourism, but with further headwinds from commodity prices. After a surplus of 5.7 percent of GDP in 2019**,** the current account deteriorated to a deficit of 14.7 percent of GDP in 2020. With the recovery of tourism, the deficit is estimated to have narrowed in 2021 to 11 percent of GDP. Imputed reserves are 3 and 3.6 months of imports in 2020 and 2021, respectively.

9. The financial sector remained stable and liquid, but nonperforming loans have increased over the past two years. Bank credit remained flat while deposits maintained robust growth. In contrast, lending to households by credit unions has expanded briskly during the pandemic. Despite a high uptake of the loan moratoria program introduced by the Eastern Caribbean Central Bank (ECCB) and the Financial Services Regulatory Authority (FSRA) for banks and credit unions, respectively, the stock of moratoria loans was largely extinguished before the programs' expiry,[8] including through proactive restructurings. Bank NPLs have increased over the past two years from the already elevated 8 percent of loans to 14 percent (2021Q4). This has further increased provisioning needs to match new guidance from the ECCB.[9] Bank capital ratios have risen somewhat, and liquidity buffers have remained sizable, even as one local bank significantly increased its assets through the acquisition of the Royal Bank of Canada's domestic operations. Capital ratios at credit unions have edged lower.[10]

Bank Loans under Moratoria
(In percent of total loans)



Sources: ECCB and IMF staff calculations.

also subsidizes LPG. For electricity, which is mainly generated using diesel, additional cost is fully passed to consumers with a fuel surcharge.

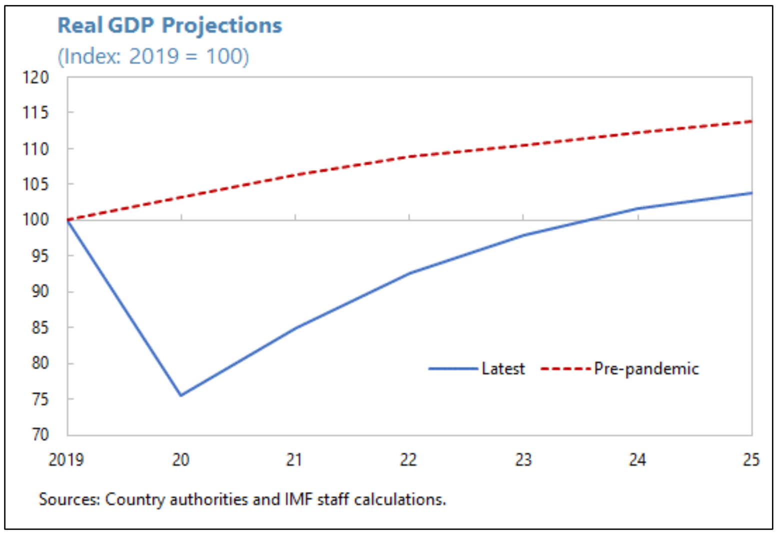
[8] Bank moratoria program was introduced by the ECCB in March 2020 and extended twice through March 2022. The FSRA introduced a similar program for credit unions.

[9] Communicated by ECCB in September 2021 and in effect from January 2022. It requires an initial coverage ratio of 60 percent of all NPLs, increasing further to 100 percent by 2024.

[10] The FSRA intervened over the pandemic in two small CUs that were already under enhanced supervision (see 2019 Article IV report), and one was acquired into receivership and required a capital restructuring plan.

OUTLOOK: HEADWINDS FROM THE WAR IN UKRAINE AND A SLOWING GLOBAL ECONOMY

10. **Output is projected to gradually recover to the pre-pandemic level by 2024, slowed by the impacts of the war in Ukraine and the tightening of global financial conditions.** The pace of recovery is projected to slow amid the reopening of competing tourist destinations, high oil prices, which erode traveler incomes and raise airfares, and the tightening of global financial conditions, which affects both external and domestic demand (Box 1). Staff's baseline projects that the tourism arrivals recovery observed in the latter part of 2021 from the main source countries (US and UK) will continue in 2022, with a slower recovery from other regions (mainly EU and Canada). Together, stay-over arrivals are expected to remain about 20 percent below 2019 levels in 2022 and to fully recover by 2024. Public and private investment are constrained by weak balance sheets, rising global financing costs, and higher prices of imported inputs. With the war in Ukraine, inflation is projected to increase to 6.4 percent in 2022, driven by food, energy and imported goods prices, before moderating towards 2.0 percent in the medium term, adding social hardship by eroding real incomes and slowing the recovery by reducing domestic demand.



11. **The fiscal outlook presents significant challenges due to high public debt and large refinancing needs.** Assuming no policy changes, public debt is projected to stabilize at a high level, near 90 percent of GDP, in the medium term. The recovery and reduction in pandemic spending improves budget balances, but a short debt maturity profile keeps financing needs elevated over the medium-term. The projection assumes the government remains financially constrained, with limited ability to access sustained net additional funding based on available official envelopes and limited appetite to increase exposure to the government in the regional bond market.[11] These constraints limit the fiscal space for public investment in the projection. The government's first FY2022 budget foresees significant capital spending increase supported by external loan and grant financing which, however, remains uncertain and has therefore not been fully included in staff's projections which

[11] The projection also assumes the gradual normalization of suppliers' domestic arrears, constraining medium-term fiscal space further.

reflect factors such as historical underperformance in actual outcome compared to budget estimates.

12. The current account is projected to recover to a modest surplus over the medium-term. The overall external position in 2021 is assessed to be broadly in line with the level implied by the fundamentals and desirable policies (Annex III). However, the assessment is subject to significant risk given the potential impact of the war in Ukraine on the tourism recovery and import prices. The appreciation of the US dollar will lead to real exchange rate appreciation in St. Lucia, dampening tourism export competitiveness.

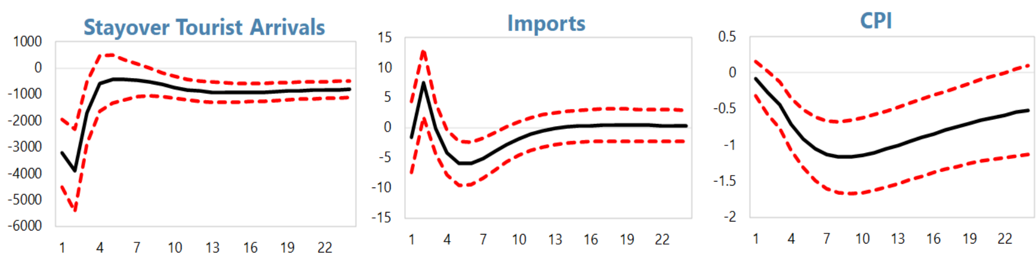
13. Bank credit to the private sector is projected to remain anemic. Limited access to credit by small firms and households is a key obstacle to private investment, employment, and growth. This is explained by banks' concerns about high public debt, and the uncertain external environment, increased provisioning requirements in the near-term, as well as by more structural constraints affecting banks' willingness to lend including legislative gaps (regarding the ability to seize collateral and to access information about debtors' creditworthiness).

14. Downside risks continue to dominate (Annex II). High import dependency makes St. Lucia vulnerable to further global food and energy price pressures from the ongoing war in Ukraine, which could erode domestic real income, weighing on domestic demand. Extended high global inflation and supply bottle necks could disrupt the execution of ongoing capital projects. A resurgence of the pandemic in St. Lucia's main source markets for tourism and foreign investment would also worsen the outlook. Given the exchange rate peg, stronger US dollar appreciation with US monetary tightening would weaken competitiveness in the tourism sector. Given the global uncertainties, bursts of financial markets' instability could reduce tourism demand, affecting domestic demand in St. Lucia and weakening economic activity further (Box 1). The ever-present natural disaster risk remains a near-term challenge and is expected to intensify with climate change, potentially adding fiscal pressure. Recent increased scrutiny by the EU may erode demand for the Citizenship-by-Investment Progarm (CIP), affecting fiscal revenue and financing.The main upside risk is a faster-than-anticipated tourism recovery.

Box 1. Vulnerability to Tightening Global Financial Conditions

Despite low financial integration, St. Lucia remains vulnerable to tightening of global financial conditions. Even if the capital flow channel is not prominent, St. Lucia remains exposed through current account transmission given its high openness and import dependence. The empirical evidence shows that a vector of indicators capturing the state of global financial conditions can have a negative impact on tourism, domestic demand, and reduce inflation.

The results show that a severe tightening of global financial conditions (as captured by a vector of financial indicators) has a statistically significant and quantitatively important negative impact on St. Lucia's macroeconomic conditions. In the two years following a large VIX shock capturing an increase in risk aversion (double the historical median), tourist arrivals decline by about 3 percent, imports (domestic demand proxy) decline, and inflation is lower by about 1 percentage point. The decline in tourist arrivals is explained by the loss of value of financial assets of consumers with investments in global financial centers, which become more cautious with the increased uncertainty about the value of assets (in part also directly affected by more binding borrowing constraints for tourism expenditure and other allocations). In addition, the tightening of global financial conditions leads to loss of external competitiveness in St. Lucia with further negative impact on tourism due to the appreciation of the US dollar (to which the EC dollar is pegged) and currency depreciation in some tourism competitors. The decline in tourism exports in turn leads to lower value of imports in St. Lucia due to the decline in domestic demand with the loss of tourism revenue. Deceleration of global growth under the tightening of global financial conditions leads to easing of global inflation pressures, including lower commodity prices. This reduces inflation pressures in St. Lucia given its high import dependence. The decline of domestic demand with the lower tourism revenue also contributes to ease pressure on consumer prices.



Source: Fund staff estimates based on data from Bloomberg, Haver Analytics, and St. Lucia authorities.

POLICY PRIORITIES

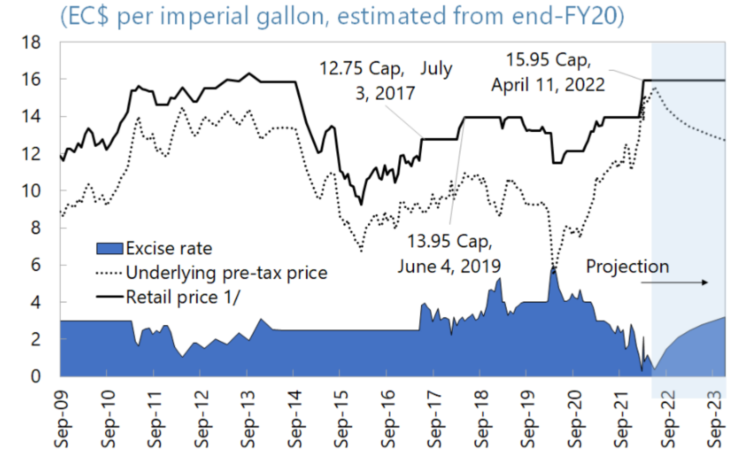
Fiscal consolidation that combines efficiency and equity considerations is needed to address high government debt and refinancing needs, budget pressures to cushion the impact of higher food and fuel prices, and low public investment. Early preparation and execution of the plan is critical to support economic stability and growth. Anchoring the plan in a rules-based fiscal responsibility framework, alongside other parallel institutional reforms, would support its credibility and access to financing. Financial sector and structural reforms can help promote the private sector's ability to support the recovery and long-term growth, including through building resilience to natural disasters.

A. Fiscal Policy: Preparing an Equitable and Credible Consolidation Plan While Mitigating the Impact on Vulnerable Households

15. Given incomplete economic recovery, fiscal policy should remain supportive in the near-term to cushion the social impact of the inflation surge, mindful of financing constraints. Limited fiscal space will require some spending reprioritization. A budget reserve for targeted social and health spending, including to address persistent vaccine hesitancy, remains a priority until the food and fuel price pressures subside and pandemic no longer poses a public health threat. This may require postponement of non-critical outlays and avoiding additional permanent spending commitments.

16. The road fuel pricing reviews should allow for further pass-through of global energy prices, accompanied by more targeted measures to protect vulnerable households. Despite the recent increase, the current retail price may largely wipe out the government's petroleum excise revenue (about 1.2 percent of GDP in FY2019) under current international oil price projections. Further pass-through with a rules-based smoothing mechanism would ease the social impact while allowing consumption to adjust. The adverse impact of higher retail prices on poor households can be mitigated by targeted or proxy-targeted transfers and subsidies.[12]

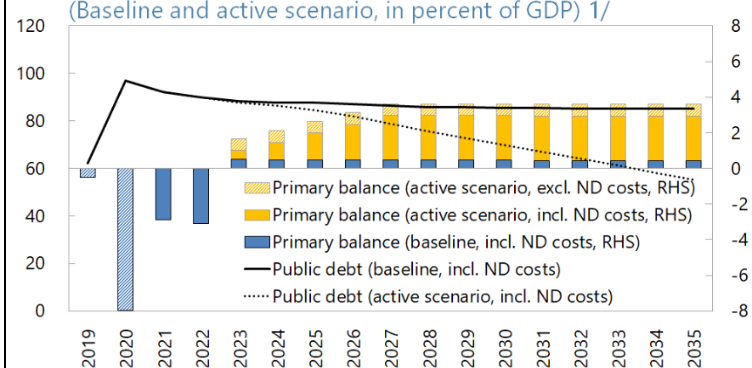
Gasoline Price and Excise Tax Rate
(EC$ per imperial gallon, estimated from end-FY20)



1/ Retail price is subject to a cap.
Sources: Country authorities, World Economic Outlook, IMF staff calculations.

17. As the recovery takes hold, fiscal policy should focus on strengthening fiscal sustainability with efficient measures to protect vulnerable households. This requires a credible, growth-friendly consolidation strategy to (i) bring

Projected Primary Balance and Public Debt
(Baseline and active scenario, in percent of GDP) 1/



1/ For illustrative purposes the active scenario assumes an evenly phased adjustment of 1/2 percent of GDP per year between FY2023-27.
Sources: Country authorities and IMF staff calculations.

[12] Temporary direct support could be considered for businesses (like bus companies) directly affected by higher costs.

public debt firmly to a downward path toward the 2035 regional debt target; (ii) create fiscal space to support infrastructure and social investment; and (iii) build buffers against natural disasters. Building capacity for targeted social transfers or proxy-targeted measures with effective reach would mitigate the impact on the poor and help sustain public support over the adjustment period.[13] Clear communication of the government commitment to specific measures and a fiscal responsibility framework (see below), would support market confidence and ease access to regional and official financing.

Text Table: St. Lucia: Estimated Medium-Term Adjustment Needs and Potential Measures

Description	Est. yield (% of GDP)	Notes
Estimated Medium-Term Adjustment Need:	**3.5**	
To set debt on a downward path toward the regional 2035 debt targett of 60 percent of GDP	2.5	
To increase public investment to at least the pre-pandemic average level relative to GDP	1.0	
Menu of Potential Meaures:	**3.5**	
Containing growth of the public sector wage bill (excl. retroactive increases) in the current triennial collective bargaining agreement to no more than the average of the last two.	0.7	(+) Reduces wage bill to precrisis levels, helps contain inflationary pressures and supports competitiveness
VAT measures, of which:	2.3	
Rate increase from 12.5 to 15 percent	1.1	(+) Effective in raising revenue, fairly shared burden between formal and informal sectors (-) Regressive without offsetting measures
Reversal of reduced rate for hospitality sector to offset the accommodation fee (from Dec 2020)	0.7	(+) Effective revenue source, improves cross-sectoral fairness
Streamlining of exemptions (transportation, residential property sales, betting and gaming, zero-rating on foodstuff and fuel)	0.5	(+) Remove inefficiences and improve fairness of the tax system (-) Some aspects may be regressive
Removal of non-essential commodities from the list of conditional import duty and service charge exemptions	0.4	(+) Improve efficiency of the tax system, can be targeted
Lifting of the current road fuel transportation cap to limit only extreme price increases	0.1	(+) Reduces fiscal impact of price schocks (-) Yield mitigated by price uncertainty and need for offsetting measures to protect the poor.
Review tourism sector tax incentives, including in the context of the global minimum corporate income tax.	tbd	(+) Effective revenue source, improves cross-sectoral fairness. (-) May necessitatate regional coordination to limit adverse competitiveness impact.
Reinstating a value-based residential property tax with features to address affordability concerns	tbd	(+) Effective revenue source where concerns of regressivity may be addressed e.g. with zero-rate threshold. (-) Requires time and new administrative measures to implement.

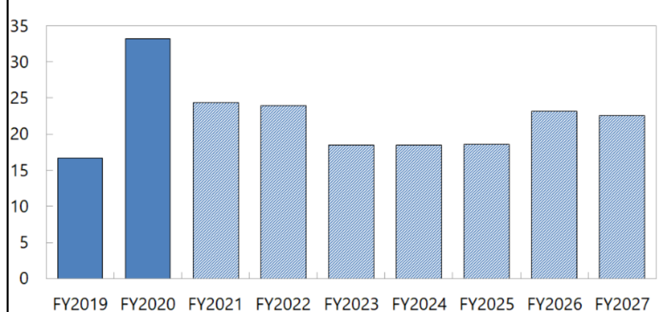
[13] These include subsidies to goods and services that are disproportionally consumed by the poor, transfers to households employed in sectors with majority of poor workers, and in-kind supports and assistance programs to increase productivity in low-income sectors such as agriculture.

18. Reaching the 2035 debt target requires consolidation measures of around 2½ percent of GDP. The measures could be phased in over the medium term to smooth the burden on domestic demand.[14] The adjustment could be underpinned by continued restraint in public sector compensation to reduce the current wage bill to pre-pandemic levels relative to GDP. Measures to expand St. Lucia's indirect tax revenue base could address equity concerns by streamlining specific concessions and exemptions that benefit relatively high-income households (see text table). To support longer-term adjustment needs, the government could reinstate value-based recurrent property taxation and review tax incentives to align it with development objectives, with an annual cap on revenue loss, rules-based (non-discretional) allocation, and transparently communicated and published.[15]

19. Shifting government spending composition towards infrastructure investment can support the recovery and ease the fiscal consolidation burden. Under staff's baseline projections, fiscal constraints are assumed to limit the government's capital expenditure envelope to around 2½ percent of GDP. This falls short of St. Lucia's sizeable resilience investment needs (section C) and would slow growth. A more efficient allocation of government resources towards capital investment with higher fiscal multipliers would ease the medium-term adjustment need by boosting growth.[16]

20. Elevated financing needs underscore the importance of strengthening debt management and developing contingency plans. Despite the absence of acute rollover pressures in recent months, St. Lucia's refinancing vulnerabilities are projected to remain high over the medium-term due to high reliance on short-maturity bullet-payment debt. Debt management should also internalize the inherent uncertainty over future CIP bond financing that was a successful funding source over the pandemic.[17] Moreover, in recent times, the regional market has been reluctant to significantly increase its already large

Projected Medium-Term Gross Financing Needs 1/
(In percent of GDP)



1/ Projection assumes gradual reduction of outstanding payables and overdrafts over the medium-term.
Sources: Country authorities and IMF staff calculations.

[14] The consolidation need internalizes a natural disaster cost of ⅔ percent of GDP annually.

[15] In St. Lucia, a large share of tax exemptions are granted to the tourism sector and to the importation of cars. For the ECCU region in the period 2010–18, staff has estimated the foregone tax revenue from tourism incentives to have averaged 5.8 percent of GDP or 21 percent of total revenue. See IMF Country Report No. 20/70.

[16] Existing studies show that small open island economies have very low fiscal multipliers to recurrent government expenditure, of 0–0.2 but larger and persistent multiplier to investment of 0.4–0.6.

[17] Alongside options of real estate investment, enterprise project and non-refundable contributions to St. Lucia's National Economic Fund, which may be used by the government for debt service and qualified investments, CIP investors may purchase anon-interest-bearing five-year bond. For FY2021 the program is projected to add fresh financing of around 1 percent of GDP.

exposure to St. Lucia, raising challenges to clearing the high domestic arrears and expensive overdrafts. To ameliorate refinancing risk, the government should continue pushing for longer maturity issuances, roll out annual borrowing plans and publish a comprehensive medium-term fiscal framework including a debt management strategy. Major capital projects should rely as much as possible on longer-term concessional financing. The undrawn SDR holdings (1¾ percent of GDP) remain a key contingency reserve.

21. **Commitment to a rules-based fiscal responsibility framework (FRF) would support the credibility of the consolidation path and ease access to financing.** An FRF can help instill confidence in the government's ability to sustain sizeable primary surpluses while protecting space for investment, including on climate adaptation and mitigation. An effective framework would include a comprehensive definition of fiscal activities, including State-Owned Enterprises and contingent liabilities, and internalize the cost of natural disasters. Institutional arrangements to support the framework's transparency, flexibility, and enforceability include a medium-term fiscal framework, robust accounting procedures and independent oversight. The FRF's credibility and sustainability, would benefit from clearly defined operational targets anchored on a debt target, escape clauses for large shocks, a correction mechanism of deviations, and legal or reputational penalties in case of no compliance.

22. **Fiscal risks can also be mitigated by accelerating progress to strengthen public financial management, debt management, pension system sustainability, and CIP processes.** The parliament passed a Public Finance Management Act in late-2020, but the associated regulations remain pending.[18] Supporting regulations also need to be approved to implement the modernized Public Procurement and Asset Disposal Act enacted in mid-2021. Improving SOE financial reporting will help manage contingent liability risks. A strong debt management strategy could improve credibility, increase investor confidence, and lower the effective cost of debt by including (i) an assessment of the feasibility of debt issuance; (ii) a medium-term financing plan by debt category and instrument; and (iii) formal approval and periodic reporting; (iv) complemented by a forward-looking cash management strategy to minimize reliance on costly bank overdrafts. The debt management bill under preparation would be a positive step and the publication of a debt management strategy would enhance fiscal transparency. Early implementation of parametric pension reform can mitigate long-term fiscal contingencies by alleviating demographic pressures on the system's finances. Further strengthening the CIP program's investor due diligence and transparency processes can help protect its sustainabilty as a source of future revenue.

Authorities' Views

23. **The authorities are committed to fiscal discipline and debt reduction, but the consecutive global shocks required addressing immediate priorities.** The authorities agreed with the need for fiscal consolidation and are interested in fiscal rules. However, the pandemic challenges and global inflation have put pressure on the budget with the need to cushion the impact on the

[18] These include to support more rapid, appropriately channeled emergency response after natural disasters.

population. They intend to increase concessional financing to lengthen maturities and lower the cost of debt. They expect that the debt management bill should be a positive development towards increasing transparency and providing a positive signal to the market.

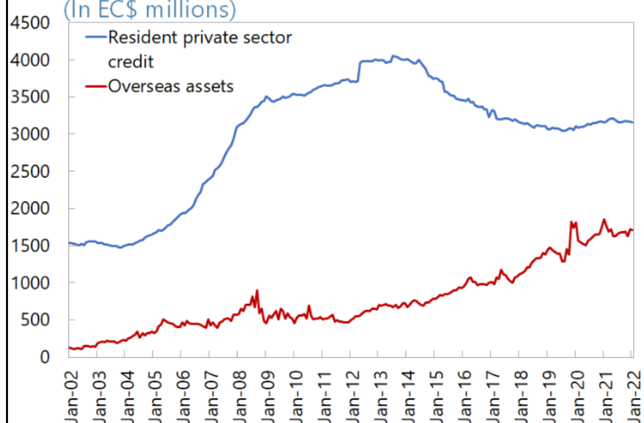
24. The new government has a strong social protection agenda with spending implications. This includes the development of a social safety net, universal healthcare, and programs to tackle high unemployment, especially among the youth. While cognizant of the fiscal constraints, the authorities emphasized that consolidation would not come at the cost of their social policy priorities. They shared the concern about natural disasters and emphasized that resiliency also includes protection against recurrent small-scale shocks with significant fiscal cost. They welcomed the quantification of disaster insurance needs and noted the high opportunity cost.

B. Financial Sector: Supporting Growth and Financial Inclusion

25. Unlocking the growth potential of the private sector also requires strengthening financial intermediation. Fiscal consolidation would set a strong base to ease credit conditions to the private sector, but in itself would likely remain insufficient to fully unlock St. Lucia's growth potential.

26. Reforms are needed to facilitate access to credit and support financial inclusion. Faced with long-standing structural impediments to domestic credit, banks continued to increase overseas security exposures. A potential further increase in NPLs from fragile borrower balance sheets and commodity cost headwinds, combined with the tighter provision requirements, may reinforce the banks' tendency to increase investments abroad and curtail domestic credit expansion. Modernizing the insolvency legislation, establishing the credit bureau, and introducing a movable collateral framework would help boost domestic credit intermediation. The authorities should also proceed with legislative reforms to modernize prolonged foreclosure processes to facilitate asset recovery.

Shift in Bank Asset Composition
(In EC$ millions)



Sources: ECCB and IMF staff calculations.

27. Continued strengthtening of the non-bank financial sector remains important. While the insurance sector has seen limited impact from the pandemic, it is exposed to regional sovereigns with stretched balance sheets. In particular, life insurers' assets have grown rapidly during the pandemic, propelled by government securities. Improving consolidated oversight and reporting of cross-border conglomerates remains critical to minimize possible blindspots. Resuming the rollout of risk-based supervision frameworks, delayed during the pandemic, can improve targeting of non-bank oversight. The oversight priorities should increasingly include risks from climate change.[19] The credit union segment has grown notably during the pandemic to 29 percent of GDP. Credit unions have experienced some asset quality deterioration from the pandemic, but a proper assessment is complicated by the classification of loans exiting the moratoria.[20] In this regard, the FSRA's plan to carry out an asset quality review within a year is timely. The FSRA's recent initiative to strengthen provisioning would help address legacy shortcomings.[21] Loan quality warrants continued close monitoring, including because of rapid credit growth in recent years and the sector's significance to financial inclusion. Continued efforts to strengthen regulations toward industry best practices would help prepare the non-bank sectors for the announced regional standards setting body.[22]

28. Ensuring effective implementation of the international AML/CFT standards will help protect corresponding banking relationships. The Caribbean Financial Action Task Force's (CFATF) mutual evaluation in January 2021 revealed legal and effectiveness issues. Legal, institutional, and operational changes are needed to ensure effective application of the AML/CFT framework in the identified areas of supervisors' responsibilities regarding compliance of financial and non-financial institution with the AML/CFT requirements, beneficial owners, and integrity of the CIP.

Authorities' Views

29. The authorities agreed that the weak bank credit growth and limited access to credit are some of the key obstacles to growth. Relatedly, the authorities acknowledged that the momentum on the national financial legislative reforms needs to be maintained. They, however, noted long-standing obstacles affecting progress on the credit bureau and foreclosure legislation being affected by social concerns and implications. Regarding foreclosure legislation, they noted it is important to protect residential single-home ownership.

30. The authorities are closely monitoring developments in the growing credit union segment. The FSRA supported credit unions' efforts to provide financial relief to its members via moratoria but noted that some of the loans exiting the moratoria have been restructured and classified as newly issued performing loans. Given the significant expansion of credit unions' assets and loans, the FSRA plans to carry out an asset quality review of the three largest institutions in the

[19] The FSRA is in process of finalizing reinsurance guidelines for the local retail insurers and, in recognition of climate change risks, is encouraging additional reinstatement clauses to help restore affordable reinsurance coverage after more than one storm event, as well as reviews of maximum loss exposures.

[20] Some non-performing loans as of 2020 were classified as restructured in 2021. Moreover, some loans that ought to be classified as restructured were classified as newly issued performing loans in 2021. As a result, the NPL ratio dropped from 13 percent in 2020 to 10 percent in 2021, and the data on restructured loans since the pandemic is incomplete.

[21] See discussion in 2019 Article IV staff report. Under the FSRA's proposal, the provisioning coverage ratio of NPL net of collateral value would be 35 percent (for NPLs overdue less than a year).

[22] See discussion in the ECCU 2022 Regional Consultations.

coming months, with the help of an independent auditor.[23] The FSRA has proposed enhancements to regulations concerning provisioning and NPL to clarify the definitions of loan loss exposure and collateral. The authorities noted that the insurance industry has remained stable during the pandemic in terms of profitability, liquidity, asset quality, and solvency. Main financial stability risks from insurers stem from their sovereign debt exposure and increased receivables.

31. St. Lucia is making progress in addressing the deficiencies identified in the CFATF report. Several legal amendments have been made by the 2021 Money Laundering (Prevention) (Amendment) Act, including in relation to preventive measures. The authorities recognize the importance of the specified AML/CFT areas and have been taking specific actions, including on the clarification of AML/CFT supervisory roles, dedicated on-site reviews, and the definition of beneficial ownership.[24] A National AML/CFT Policy was adopted at the end of 2021 to streamline the necessary reforms. Regarding the CIP, the authorities assured that the applicable AML/CFT safeguards are effectively applied but agreed that checks for tax evasion are currently not carried out.

ADDRESING LONG-TERM STRUCTURAL CHALLENGES

Key policy areas to support growth and reduce output volatility include (i) investment in physical and financial resilience to natural disasters; (ii) address labor market skill mismatches; (iii) invest in renewable energy to reduce energy cost; and (iv) increase economic diversification and backward linkages to tourism.

A. Climate Change: Investing in Resilience to Natural Disasters

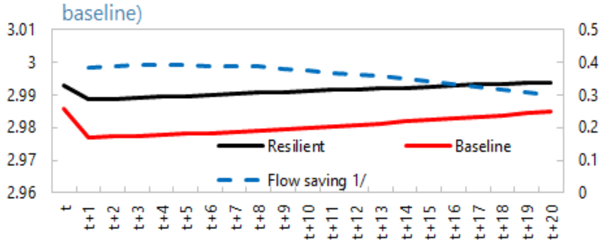
32. The government's plans to build resilience to natural disasters are promising but require long-term financing planning and supporting institutions. St. Lucia is implementing a comprehensive 10-year National Adaptation Plan (NAP) with projected completion by 2028. It is accompanied by Sectoral Adaptation Strategy and Action Plans. The implementation would benefit from an integrated strategy that includes all costs and returns of resilient investments in a comprehensive macroeconomic framework. Effective execution of the plan would benefit from supporting institutional fiscal reforms, including the integration of climate adaptation objectives and impact in the government budget practices, public financial management, and public procurement.

[23] By end of 2021, nine out of sixteen credit unions had implemented IFRS 9.

[24] The AML/CFT supervisory roles of the ECCB and Financial Intelligence Authority (FIA) have been clarified. The supervision of the registered agents and trustees remains within the competence of the FSRA, which following the adoption of the 2022 FSRA (Amendment Act) can more closely cooperate with the FIA beyond the interactions already possible within the National AML Oversight Committee (NAMLOC). Dedicated AML/CFT on-site reviews are currently being scheduled. Legal changes have been made to clarify the definition of beneficial ownership and the ML/TF risks posed by legal entities are being analyzed, as facilitated by the World Bank's risk assessment tool.

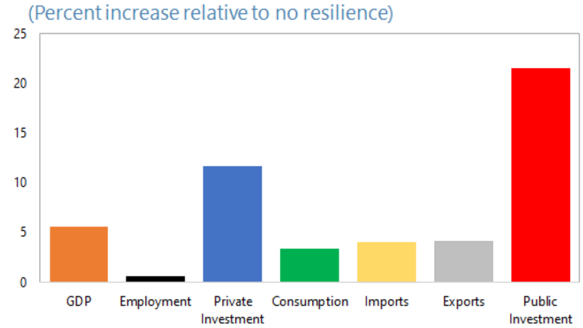
33. Investment in resilient infrastructure is costly, but the return outweighs the cost, supports growth, and strengthens the fiscal sustainability outlook. Staff analysis[25] calibrated to the St. Lucia economy indicates that public investment in resilience of about 0.6 percent of GDP per year would yield benefits of about 1.5 percent of GDP per year (text table). First, investment in resilience lowers reconstruction spending after each event (stock loss), thereby limiting the decline in output (flow loss) and accelerating the recovery. The simulations indicate average annual GDP flow saving of about 0.3 percent of GDP, and a recovery to the pre-disaster output level twice as fast, in five years. Second, resilient investment increases the long-term level of output because lower expected losses stimulate additional private investment, increasing employment, wages. The simulations yield a long-term increase in the GDP level of 5.5 percent.

Response to a Natural Disaster with Resilience
(Output levels in real terms, saving in percent of baseline)



1/ Flow saving in the calculated as the difference between the output response to a natural disaster under Resilient investment and the Basline, as a percent of the Baseline. The Resilient response has been normalize for account for different steady state levels.
Source: Staff calculations based on data from authorities, CCRIF and EM-DAT.

Long-Term Return of Public Investment in Resilience to Natural Disasters
(Percent increase relative to no resilience)



Sources: Fund dtaff calculations based on data from authrities, CCRIF and EM-DAT.

Text Table: St. Lucia: Average Annual Fiscal Return of Investment in Resilience
(In percent of steady state GDP)

Total Return		**1.467**
Stock Saving	Decrease in reconstruction cost after NDs	0.271
Flow Saving	Moderation of output decline after NDs	0.033
Steady State	Increase in output, investment, employment	1.163
Cost of Resilience	Increase of public investment spending due to resilience cost	**0.620**
Net Annual Saving		**0.847**

Sources: Model-based estimates by staff, based on authorities' data. It assumes the government increases investment in resilient infrastructure sufficient to reduce damages by climate-related natural disasters to 20 percent compared with no resilience investment, while maintaining historical investment rates.

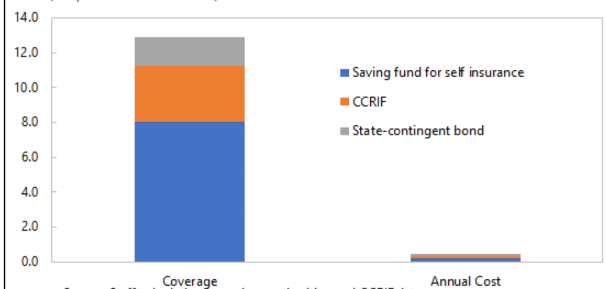
34. Given the long time needed to build structural resilience, a strong insurance strategy is necessary during a transition, while resiliency is built. At current public investment rates, it would take more than a decade to achieve a substantial level of physical resilience. This leaves the economy vulnerable to natural disasters during a transition. To address this, the government should

[25] The results are based on a model specifically designed to address adaptation investment and climate change in Small Developing States. See Fernandez-Corugedo, Gonzalez-Gomes, and Guerson (2022).

increase insurance coverage with a layered framework to secure immediate financing after natural disasters. A suitable framework could include three insurance layers for different levels of disaster intensity and associated loss. Staff simulations indicate that a framework with potential funding of near 13 percent of GDP would cover disaster costs in 99 percent of the events.[26] A first layer, of about 8 percent of GDP, would cover recurrent but less damaging disasters and could take the form of a saving fund for self-insurance, at a relatively low cost. A second layer could include the Caribbean Catastrophe Risk Insurance Facility (CCRIF), which the government is already accessing but with a re-calibration of the triggers to more severe disasters with higher disbursement per event. The government could also consider a third layer using state-contingent debt instruments for extreme events.[27] Such insurance framework would strengthen debt sustainability by ensuring the internalization of natural disaster cost in the budget, accelerating economic recovery after each event, and reducing the dispersion of public debt outcomes—there is less need for debt issuance after a natural disaster.

Natural Disaster Layered Insurance Framework

(In percent of GDP)



Source: Staff caluclations nased on authorities and CCRIF data.

B. Addressing Structural Growth Constraints

35. Structural reforms to increase productivity and competitiveness would help unlock St. Lucia's growth potential.

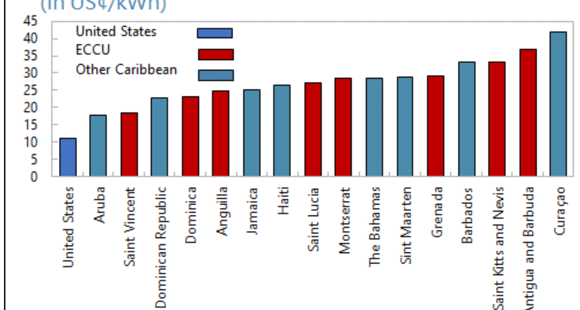
- *Labor market skill mismatches.* Increasing enrollment in technical and vocational education and training (TVET) could help in addressing skill mismatches, particularly in the tourism sector, and improve labor productivity.

- *Renewable energy.* Expediting the transition to renewable energy, including with expansion of geothermal generation, should help reduce the high electricity cost and the vulnerability to oil price shocks.

- *Economic diversification.* St. Lucia ranks among the least diversified countries in the

Domestic Electricity Tariffs: 2021

(In US¢/kWh)



Source: Cable Co UK.

[26] The simulations are based on a Monte Carlo experiments that simulated the impact of natural disasters on output and government finances. It assumes that a portion of reconstruction spending is covered by the reallocation of resources originally allotted to pre-existing investment projects. See IMF working paper series No. 20/266 for a technical presentation of the methodology.

[27] The World Bank CAT-DDO is another option that could be used to complement or strengthen layers 2 and 3. It is a parametric instrument that provides financial relief triggered by natural disasters, including weather-related. Use of SCDIs should consider fiscal constraints given their relatively high cost.

region. Sectors with potential for export diversification includes business ICT, agro-processing, and creative industries.

Authorities' Views

36. The authorities welcomed the analysis on resilience and confirmed their determination to maintain climate resiliency and environmental considerations in their public investments. In terms of clean energy generation and cost reduction, they noted that the Government is making progress on a geothermal project with World Bank support—the feasibility study has been completed and several sites are being explored. The broad objectives have been set in the 2017 National Energy Transition Strategy, including to achieve energy independence, environmental integrity in line with the Paris Agreement commitments, and cost containment and reliability critical for competitiveness. They also noted that an update of the legislation under preparation will allow independent power producers. The government has also provided a guarantee for a large solar farm including battery storage capacity. Once these projects to replace diesel generation are completed, St. Lucia's electricity will become mostly renewable and energy-independent.

37. The authorities noted that economic diversification in a small island state is challenging, but it could increase employment and value added if appropriately targeted. Their development agenda with a strong emphasis on human development includes programs to stimulate entrepreneurship and private employment with training for business development, including in vocational activities. They also highlighted their intention to increase diversification into sectors with potential for export and linked to tourism, agro-processing, and health and wellness industries. Expansion of business process outsourcing (including call centers) will remain a growing sector and will provide additional employment opportunities. The authorities also indicated their intention to increase the focus on the financial services sector to explore its potential for expansion.

STAFF APPRAISAL

38. The rise in commodity prices due to the war in Ukraine has compounded the severe impact of the Covid-19 pandemic. The collapse of international tourist arrivals led to an unprecedented output decline in 2020. The budget deficit widened sharply due to a collapse in tax revenue and COVID-19-related spending, and public debt shot up. The financial sector remained stable and liquid, but nonperforming loans inched up, though contained by a loan service moratorium granted by the banks and credit unions. Buoyed by pent-up tourism demand in source countries, tourist arrivals picked up in 2021, which led to a rebound of economic activity, while the surge in commodity prices and supply-side bottlenecks increased inflation. In 2022, the war in Ukraine is adding balance of payments and inflationary pressures due to the dependence on oil and food imports.

39. Output is projected to recover to the pre-pandemic level by 2024 backed by the recovery of tourism, but thereafter growth is expected to be modest. High public debt and large refinancing needs, reflecting large issuance of short-term instruments in recent years, pose significant challenges. On current policies, public debt is projected to remain high, resulting in insufficient fiscal space for social development and infrastructure investment. The difficult fiscal outlook, together with tighter global financial conditions, would lead to higher interest rates on government debt, slowing bank credit to the productive sectors and modest medium-term potential growth.

40. Risks to the outlook are skewed to the downside. The main risks include persistently high global food and energy prices and a resurgence of the pandemic. Large rollover needs on government treasury bills and bonds imply vulnerability to liquidity pressures. Natural disaster risk could intensify with climate change, adding fiscal pressure. Further tightening of global financial conditions could increase interest rates and government borrowing costs further and erode external competitiveness due to the regional currency union's exchange rate peg to a stronger US dollar. Government revenues from the Citizenship by Investment Program (CIP) could be hampered due to the recent increased scrutiny by the European Union. The large and growing credit union sector includes institutions with thin capital buffers and high non-performing loans (NPLs) which could amplify the impact of shocks. Failure to advance AML/CFT regulation enhancements in line with the January 2021 mutual evaluation could compromise corresponding banking relations and disrupt international trade.

41. In the near-term, the government should pursue fiscal policies to protect vulnerable households from the rise in inflation. Given the incomplete economic recovery and limited fiscal space, government spending should prioritize targeted social support and health spending while the pandemic remains a threat to public health threat. Lifting of the road fuel price cap should be maintained to preserve revenue from excise taxes on fuel, complemented by targeted or proxy-targeted transfers and subsidies to protect vulnerable households.

42. In the medium term, a comprehensive package of fiscal reforms is needed to contain risk and unlock St. Lucia's growth potential. It is critical to prepare a fiscal consolidation strategy that credibly sets public debt on a downward trajectory, supports growth, and protects the poor. Implementation should start once the recovery is entrenched and be phased over time to ease its impact on domestic demand. The consolidation should amount to at least 2½ percent of GDP, so as to reach the regional debt target of 60 percent of GDP by 2035. The government plans to strengthen the social safety net, including universal health care and unemployment insurance, are important initiatives and should be designed to be self-financing with actuarially sustainable contributions and charges.

43. To maximize the favorable impact of the consolidation, complementary institutional fiscal reforms are critically important. More concessional financing and approval of the new debt management bill would help ease funding risks, increase average bond maturity, and reduce interest cost. Achievement of these objectives would also be facilitated by the adoption of a medium-term fiscal responsibility framework including a fiscal rule to strengthen the credibility of the fiscal consolidation plan. Other fiscal reforms to strengthen the fiscal sustainability outlook include ensuring pension sustainability by adopting parametric reforms in line with the upcoming actuarial review and further strengthening the CIP due diligence and transparency processes.

44. Measures to increase bank credit at lower interest rates would support private investment and growth. This would be facilitated by modernizing the insolvency and foreclosure legislation, passing the legislation to establish the regional credit bureau, and introducing a movable collateral framework. The credit union segment is large and has expanded briskly during the pandemic, so NPLs, restructured loans, and moratorium loans warrant close monitoring. The Financial Services Regulatory Authority's plan to carry out an asset quality review of credit unions within a year is timely. Continued strengthening of the credit unions also remains essential, guided by the adoption of stronger prudential regulations in line with international standards and consistent with the regional harmonization effort. Maintaining progress on AML/CFT recommendations will help protect correspondent banking relationships.

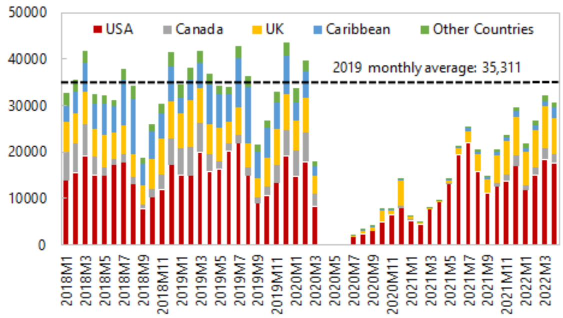
45. Structural policies could increase growth potential and reduce output volatility. Ensuring public investment is resilient to natural disasters lowers reconstruction spending after each event, limits the output decline, accelerates the recovery, and increases the level of output and tax revenue in the long term. An integrated plan that includes all the costs and benefits of resilient investments in a comprehensive macroeconomic framework would support a sustainable implementation. Given the long time needed to build structural resilience, a strong disaster insurance strategy is necessary while resiliency is built. Lowering of unemployment could be achieved with the expansion of technical and vocational education and training (TVET) programs to reduce labor skill mismatches, enhance opportunities for self-employment, and improve labor productivity. Investment in renewable energy with expansion of solar and exploration of geothermal generation will increase energy security and reduce cost, while supporting the transition to renewables. Increasing diversification into sectors with potential for export and link to tourism, including business process outsourcing (BPO), agro-processing, and health and wellness industries, would add value added and boost productivity growth.

46. It is proposed that the next Article IV Consultation with St. Lucia take place on the standard 12-month cycle.

Figure 1. St. Lucia: Recent Economic Developments

Tourism was devastated by the pandemic...

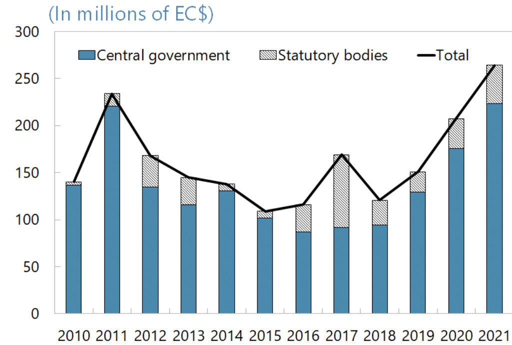
Monthly Stay-Over Tourist Arrivals
(Number of tourists)



Sources: Country authorities and IMF staff calculations.

... and public investment was scaled up ...

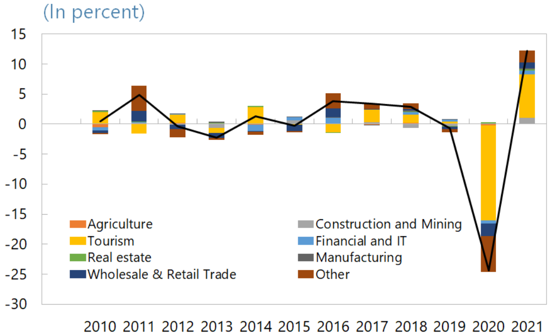
Public sector construction expenditure
(In millions of EC$)



Sources: Social and Economic Review 2021, Ministry of Finance.

GDP fell by an unprecedented 24.4 percent in 2020 and recovered about 1/3 the territory lost...

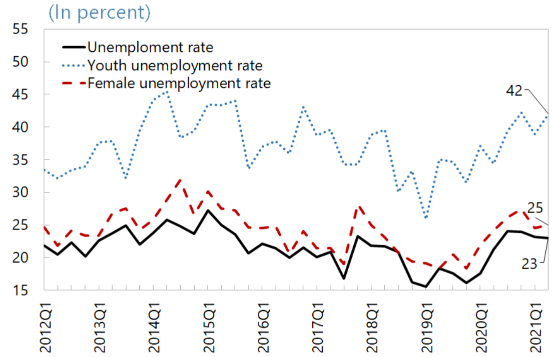
Real GDP Growth
(In percent)



Sources: ECCB; and IMF staff estimates.

... and unemployment rate surged with young adults and women hardest hit.

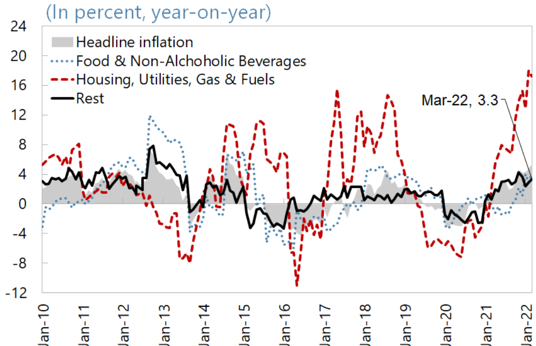
Unemployment Rates
(In percent)



Sources: Central Statistical Office of St. Lucia

Along with the recovery, inflation came back.

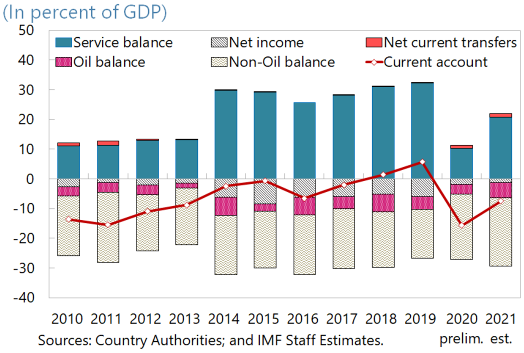
CPI and its Components
(In percent, year-on-year)



Sources: ECCB; and IMF Staff Estimates.

The current account fell sharply in 2020 due to hit in tourism

Current Account Balance
(In percent of GDP)

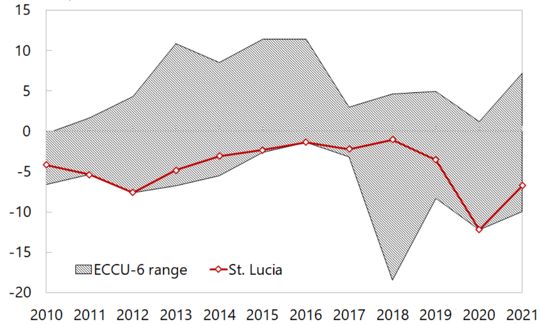


Sources: Country Authorities; and IMF Staff Estimates.
Note: Data changed from BPM5 to BPM6 since 2014.

Figure 2. St. Lucia: Fiscal Sector Developments

The pandemic's fiscal impact has been among the hardest in the ECCU region…

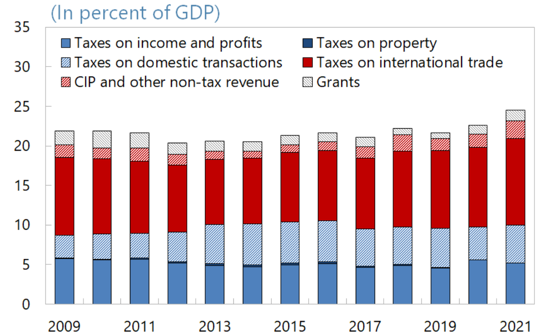
Fiscal Overall Balance
(In percent of GDP)



Source: National authorities and IMF staff calculations.

… as revenues declined broadly in line with GDP…

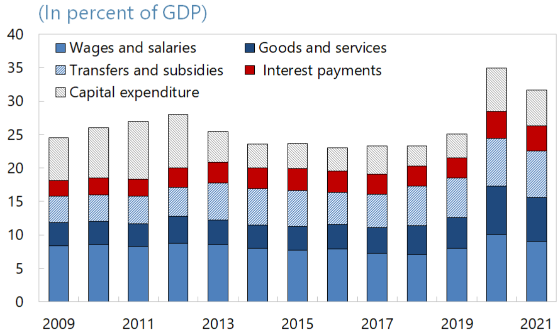
Revenue Composition
(In percent of GDP)



Sources: Country authorities and IMF Staff Estimates.

… while spending increased in relative terms, in part driven by the government's pandemic response.

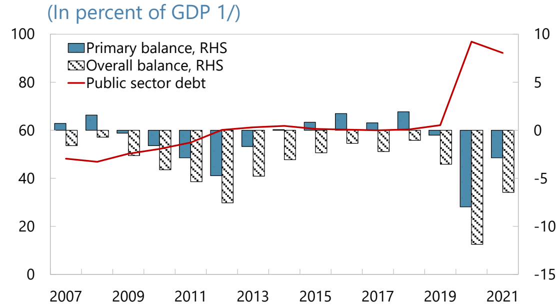
Expenditure Decomposition
(In percent of GDP)



Sources: Country authorities and IMF Staff Estimates.

The deficits raised public sector debt sharply…

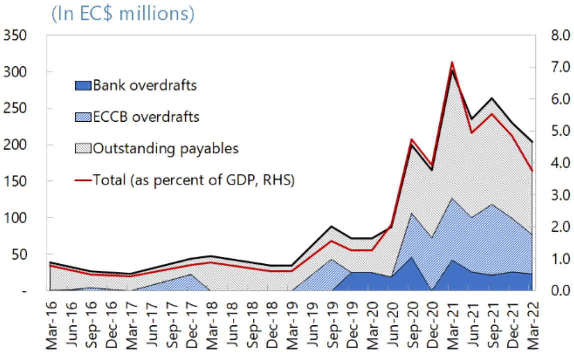
Fiscal Balances and Public Debt
(In percent of GDP 1/)



1/ GDP was revised up in 2017, 2019 and 2020 following changes to national accounts and rebasing of historical data.
Source: Country authorities.

… and liquidity constraints led to accumulation of short-term overdrafts and domestic payment arrears.

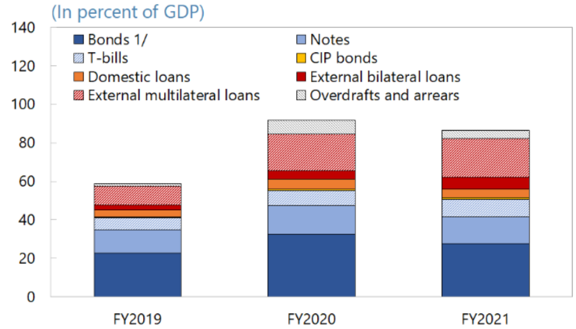
Stock of Overdrafts and Outstanding Payables
(In EC$ millions)



Sources: Country authorities and IMF staff estimates.

Government debt composition shifted toward long-term official financing, but short-term liabilities remain large.

Composition of Central Government Debt
(In percent of GDP)

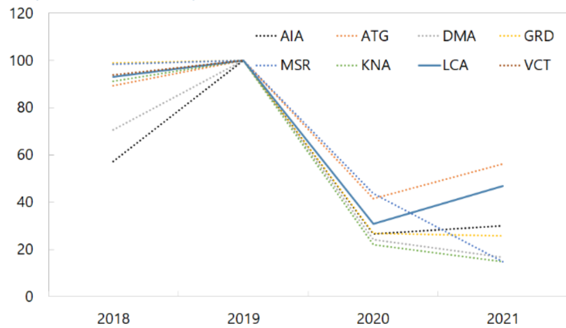


1/ Includes ECCB long-term credit allocation from FY2020.
Sources: Country authorities and IMF staff calculations.

Figure 3. St. Lucia: External Sector Developments

Tourism dropped sharply in 2020. It recovered in 2021 but remain below pre-pandemic levels

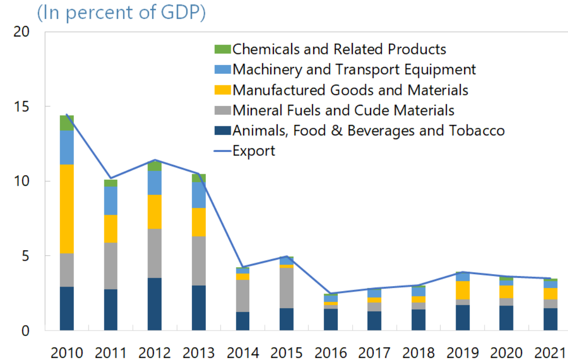
ECCU Stay-over Visitors
(2019 index = 100)



Sources: CTO and IMF staff calculations.

Exports of goods, as a share of GDP, dropped in 2020

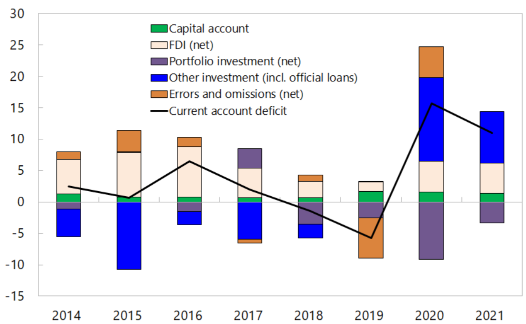
Goods Export Decomposition
(In percent of GDP)



Sources: ECCB and IMF staff calculations.

Net FDI inflows, as a share of GDP, increased in 2020

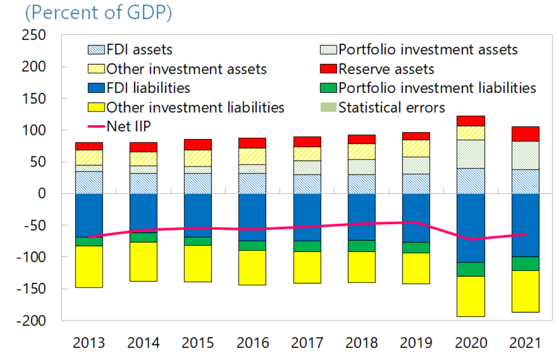
Current Account Sources of Finance
(Percent of GDP)



Sources: Country authorities and IMF staff calculations.

The NIIP deficit increased following the pandemic

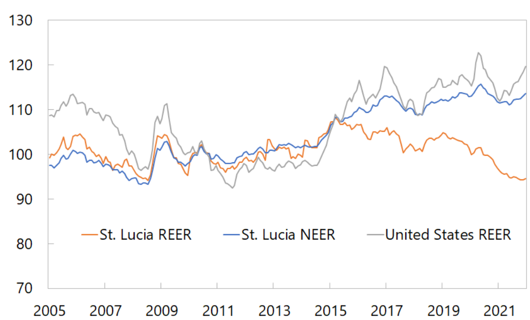
IIP Composition by Instrument
(Percent of GDP)



Sources: ECCB and IMF staff calculations.

The REER depreciated in 2021 due to both NEER depreciation and inflation differential

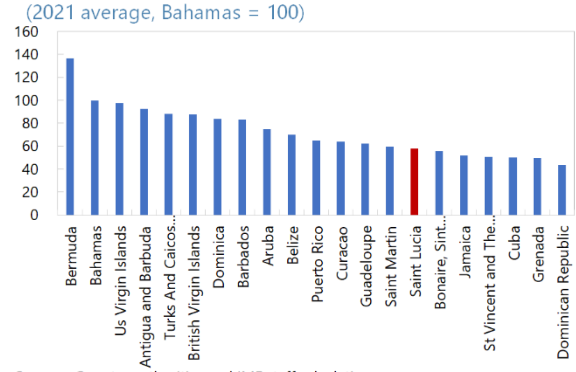
Nominal and Real Effective Exchange Rates
(Indexes, 2010= 100)



Source: IMF staff calculations.

St. Lucia remains a competitive tourist destination

Week at the Beach Index
(2021 average, Bahamas = 100)

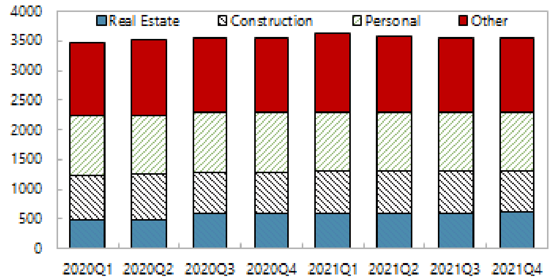


Sources: Country authorities and IMF staff calculations.

Figure 4. St. Lucia: Banking System Developments

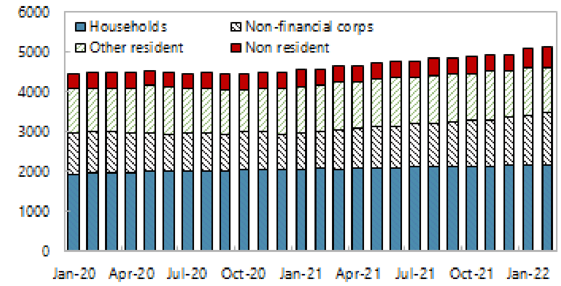
Bank credit remained flat …

Commercial Banks Private Credit by Activity
(Millions of EC$)



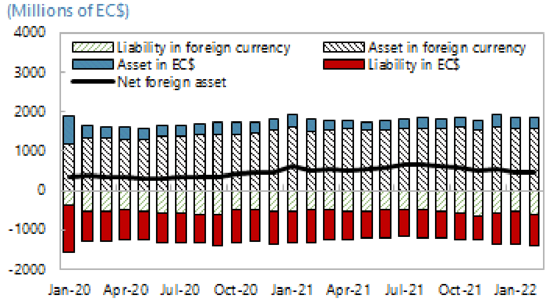
… and deposits increased …

Commercial Banks Deposits
(Millions of EC$)



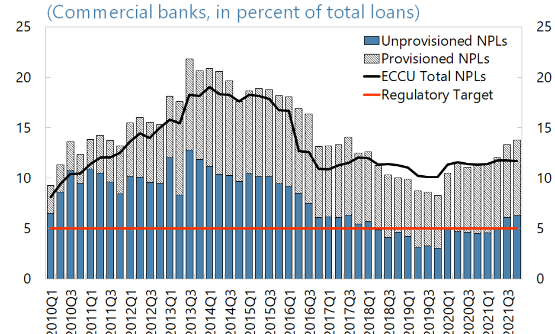
… so, some of the funding went abroad …

Net Foreign Assets of Commercial Banks
(Millions of EC$)



Despite high legacy NPLs, the unprovisioned NPLs remain stable …

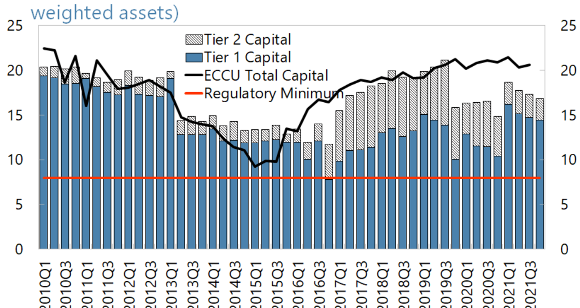
NPLs and Loan-loss Provisions
(Commercial banks, in percent of total loans)



Sources: ECCB and IMF staff calculations.

… with adequate capital …

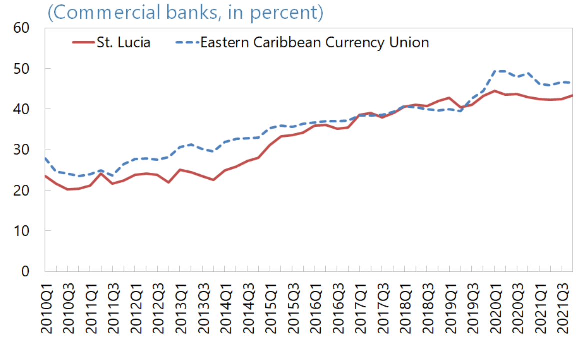
Capital Adequacy Indicators
(Indigenous commercial banks, in percent of risk-weighted assets)



Sources: ECCB and IMF staff calculations.

… and sizable liquidity buffers …

Liquid Assets to Short-term Liabilities
(Commercial banks, in percent)



Sources: ECCB and IMF staff calculations.

Table 1. St. Lucia: Selected Social and Economic Indicators, 2018–27

I. Social and Demographic Indicators

Area (sq. km)	616	Infant mortality (per thous. live births, 2020)	22
		Human Development Index ranking (of 189 countries, 2020)	85
Population Characteristics			
Total (thousands, 2021)	184.4	Gross Domestic Product (2021)	
Rate of growth (average 2010-2021)	0.53	(millions of US dollars)	1,691
Population density (per sq. km., 2021)	299.4	(millions of EC dollars)	4,566
Secondary education enrollment (percent, 2019)	90	(US$ per capita)	9,172
Life expectancy at birth (years, 2019)	76	Gross National Income per Capita (US$, 2020)	8,790

II. Economic and Financial Indicators

					Projections					
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	(Annual percentage change, unless otherwise specified)									
Output and Prices										
Real GDP (at market prices)	2.9	-0.7	-24.4	12.2	9.1	5.8	3.8	2.0	1.7	1.5
Real GDP (at factor cost)	3.1	0.2	-24.6	11.5	9.1	5.8	3.8	2.0	1.7	1.5
Consumer prices, period average	2.6	0.5	-1.8	2.4	6.4	2.7	2.2	2.0	2.0	2.0
Output gap (percent of potential GDP)	1.2	-1.4	-19.1	-10.0	-4.3	-2.5	-1.3	-0.8	-0.2	0.0
Unemployment rate (% annual average)	20.2	16.8	21.7	21.9	...	...	...	...	...	...
Real effective exchange rate										
(annual average, depreciation -)	102.6	103.3	99.7	95.1	...	...	...	...	...	...
	(In percent of GDP, unless otherwise specified)									
Central Government Finances 1/										
Revenue	22.1	21.6	22.1	23.7	23.1	22.5	22.3	22.3	22.3	22.2
Taxes	19.2	19.4	19.4	20.3	19.7	19.6	19.4	19.4	19.3	19.3
Non-tax revenue	2.1	1.5	1.6	2.1	1.9	1.9	1.9	1.9	1.9	1.9
Grants	0.8	0.7	1.1	1.3	1.4	1.0	1.0	1.0	1.0	1.0
Expenditure	23.2	25.1	34.0	30.1	28.9	24.8	24.6	24.6	24.7	24.7
Current primary expenditure	17.2	18.6	23.8	21.5	20.4	18.8	18.7	18.7	18.6	18.6
Interest payments	3.0	3.0	3.9	3.6	3.3	3.5	3.5	3.5	3.5	3.6
Capital expenditure	3.0	3.5	6.3	5.0	5.1	2.5	2.5	2.5	2.5	2.5
Natural disaster (ND) annualised cost	...	0.0	0.0	0.0	0.7	0.7	0.7	0.7	0.7	0.7
Primary balance, excl. ND cost	1.9	-0.5	-8.0	-2.9	-2.4	1.2	1.1	1.2	1.1	1.1
Primary balance, incl. ND cost	...	-0.5	-8.0	-2.9	-3.1	0.5	0.5	0.5	0.5	0.5
Overall balance excl. ND cost	-1.0	-3.5	-11.9	-6.5	-5.8	-2.3	-2.3	-2.3	-2.4	-2.5
Overall balance, incl. ND cost	...	-3.5	-11.9	-6.5	-6.4	-2.9	-3.0	-3.0	-3.1	-3.1
Central government debt	56.9	58.7	91.6	86.5	81.9	78.5	77.0	76.7	76.7	76.9
Total public sector debt 2/	60.4	62.1	96.9	92.2	90.1	88.3	87.8	87.6	87.0	86.5
Domestic	31.1	32.3	50.4	44.2	39.1	36.6	35.0	34.3	33.8	33.7
External	29.2	29.8	46.4	48.0	51.0	51.7	52.8	53.3	53.2	52.9
Money and Credit, End of Period (Annual Percent Change)										
Broad money (M2)	3.4	3.2	-6.6	14.9	8.0	4.5	3.7	4.6	4.2	4.0
Credit to private sector (real)	-3.5	-2.4	4.5	-2.4	-5.4	-2.3	-2.1	-2.9	-2.9	-2.9
Credit to private sector (nominal)	-1.0	-1.9	2.7	-0.1	0.6	0.3	0.0	-1.0	-1.0	-1.0
Balance of Payments										
Current account balance, *o/w:*	1.4	5.7	-15.7	-11.0	-6.4	-0.9	0.7	0.7	0.5	0.3
Exports of goods and services	54.2	57.7	29.4	43.0	56.3	58.2	59.8	59.2	58.9	58.4
Imports of goods and services	-47.9	-46.2	-44.4	-53.0	-59.2	-54.8	-54.7	-54.1	-53.8	-53.5
Capital account balance	0.6	1.6	1.6	1.4	1.5	1.0	1.0	1.0	1.0	1.0
Financial account balance	3.0	0.9	-9.1	-9.6	-4.9	0.1	1.7	1.7	1.6	1.3
Direct investment	-2.7	-1.5	-4.9	-4.8	-4.6	-4.6	-4.4	-4.3	-4.2	-4.1
Portfolio investment	3.6	2.5	9.1	3.3	2.8	2.8	2.8	2.8	2.8	2.8
Other investment	3.9	1.1	-11.4	-13.3	-2.3	0.4	1.7	2.1	2.2	2.4
Net reserves assets	-1.7	-1.2	-2.0	5.1	-0.9	1.5	1.6	1.1	0.7	0.2
Financing gap to be met by external sources			12.9	7.6	4.4					
Errors and omissions	1.0	-6.5	4.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.0	-6.5	4.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External debt (gross) 3/	61.7	61.6	79.5	78.2	76.9	75.4	75.1	74.5	73.6	72.3
Public	29.2	29.8	46.4	48.0	51.0	51.7	52.8	53.2	53.1	52.6
Memorandum Items:										
Nominal GDP (EC$ millions) 4/	5,554	5,654	4,093	4,566	5,325	5,814	6,194	6,478	6,750	7,020
Net imputed international reserves										
Months of imports of goods and services	3.4	4.5	3.0	3.6	3.4	3.5	3.7	3.8	3.8	3.7
Percentage of demand liabilities	90.7	88.7	88.3	92.6	90.9	90.9	91.2	91.4	91.3	91.1

Sources: St. Lucia authorities; ECCB; UNDP HDI; and Fund staff estimates and projections.
1/ Fiscal year (April–March) basis. Fiscal balances do not include the airport project, which is implemented by a public corporation.
2/ Public sector debt includes payables and overdrafts/ECCB advances.
3/ Comprises public sector external debt, foreign liabilities of commercial banks and other private debt.
4/ GDP historical series was rebased to 2018 base year in 2020. This increased nominal GDP figures by about 9 percentage points.

Table 2a. St. Lucia: Central Government Operations, 2018–27 1/

					Projections					
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	(In millions of EC dollars)									
Revenue	**1,235.1**	**1,221.1**	**932.2**	**1,125.6**	**1,257.0**	**1,328.3**	**1,397.0**	**1,461.3**	**1,517.5**	**1,576.7**
Taxes	1,071.7	1,097.0	816.7	964.0	1,074.3	1,155.6	1,213.9	1,270.0	1,318.2	1,369.5
Taxes on income	268.8	255.8	228.6	236.5	270.1	278.6	296.9	310.8	323.8	336.8
Taxes on property	9.7	7.8	7.2	8.0	9.1	9.9	10.5	11.0	11.4	11.9
Taxes on goods and services	262.0	276.9	168.7	220.1	261.4	289.9	307.7	321.4	324.2	337.1
Taxes on international trade and transactions 2/	531.2	556.5	412.2	499.5	533.6	577.2	598.8	626.8	658.8	683.7
Grants	46.5	40.0	47.5	63.7	78.6	59.8	63.4	66.3	69.0	71.8
Other revenue 3/	116.9	84.1	67.9	97.8	104.1	112.9	119.7	125.1	130.2	135.5
Property income	4.5	4.9	3.1	3.2	3.5	3.8	4.0	4.2	4.4	4.5
Fines, Penalties & Forfeits, Voluntary Transfers	97.8	5.7	23.3	43.6	33.6	36.5	38.7	40.4	42.1	43.7
of Which: Citizen by Investment Program (CIP)	67.0	4.4	22.7	42.7	32.5	35.3	37.4	39.1	40.7	42.3
Sales and other nontax revenue	14.6	73.4	41.6	51.0	67.0	72.6	77.0	80.5	83.8	87.2
Expenditure	**1,293.1**	**1,420.6**	**1,432.0**	**1,432.7**	**1,571.7**	**1,462.8**	**1,542.9**	**1,613.0**	**1,680.8**	**1,752.4**
Expense	**1,126.5**	**1,220.6**	**1,164.6**	**1,193.0**	**1,294.7**	**1,313.4**	**1,384.8**	**1,448.0**	**1,509.4**	**1,573.4**
Compensation of employees	391.9	451.8	413.0	411.3	445.8	483.6	512.7	535.8	558.0	580.3
Purchase of goods and services	240.0	258.9	293.6	299.3	273.4	264.7	279.0	291.5	303.6	315.8
Interest	165.8	170.8	164.4	171.0	182.3	203.9	216.4	227.0	240.7	255.4
Social benefits	133.1	117.8	115.8	124.8	147.6	146.5	146.3	152.9	159.2	165.6
Retirement benefits	98.5	101.6	100.8	106.2	110.7	118.4	125.5	131.1	136.6	142.0
Public assistance and casual relief	34.6	16.1	15.0	18.6	36.9	28.1	20.8	21.7	22.6	23.5
Subsidies	5.9	4.8	3.4	3.7	23.8	13.8	5.7	5.9	6.2	6.4
Other	28.7	11.3	11.7	14.9	13.2	14.3	15.1	15.8	16.5	17.1
Other expense	195.6	221.4	177.8	186.7	245.6	214.7	230.5	240.8	247.8	256.5
Transfers to public-sector institutions 4/	195.6	221.4	177.8	186.7	245.6	214.7	230.5	240.8	247.8	256.5
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Acquisition of Nonfinancial Assets	**166.6**	**199.9**	**267.4**	**239.7**	**277.1**	**149.4**	**158.1**	**165.0**	**171.5**	**178.9**
Grant-financed capital expenditure	46.5	35.0	47.0	63.5	78.6	59.8	63.4	66.3	69.0	71.8
Other capital expenditure	120.3	165.8	220.8	180.0	199.7	91.1	96.6	100.9	105.1	109.3
Capital revenue	0.2	0.9	0.4	3.9	1.2	1.6	1.9	2.2	2.7	2.2
Natural Disaster (ND) Annualised Cost 5/	**…**	**0.0**	**0.0**	**0.0**	**36.3**	**39.4**	**41.8**	**43.6**	**45.5**	**47.3**
Gross Operating Balance	**108.6**	**0.4**	**-232.5**	**-67.4**	**-37.7**	**14.9**	**12.2**	**13.3**	**8.1**	**3.3**
Net Lending/Borrowing (Overall Balance, excl. ND Cost)	**-58.0**	**-199.5**	**-499.9**	**-307.1**	**-314.8**	**-134.5**	**-145.9**	**-151.6**	**-163.4**	**-175.7**
Net Lending/Borrowing (Overall Balance, incl. ND Cost)	**…**	**-199.5**	**-499.9**	**-307.1**	**-351.1**	**-173.9**	**-187.7**	**-195.3**	**-208.8**	**-222.9**
Net Financial Transactions	**-58.0**	**-199.5**	**-499.9**	**-307.1**	**-314.8**	**-134.5**	**-145.9**	**-151.6**	**-163.4**	**-175.7**
Net Incurrence of Liabilities	**104.5**	**147.8**	**539.0**	**254.0**	**351.1**	**173.9**	**187.7**	**195.3**	**208.8**	**222.9**
Domestic	134.4	108.4	294.7	-31.2	-4.8	6.2	29.3	52.3	61.9	87.1
Foreign	-29.8	39.4	244.3	285.2	355.9	167.7	158.4	142.9	146.9	135.8
Statistical discrepancy	*0.9*	*52.0*	*-99.1*	*53.1*	*-36.3*	*-39.4*	*-41.8*	*-43.6*	*-45.5*	*-46.3*
Memorandum Items:										
Primary balance (excl. ND) 6/	107.8	-28.7	-335.5	-136.1	-132.5	69.4	70.5	75.4	77.4	79.7
Primary balance (incl. ND) 6/	…	-28.7	-335.5	-136.1	-168.8	30.0	28.7	31.7	31.9	32.4
Structural primary balance (incl. ND) 6/	101.1	-36.8	-94.3	-12.9	-71.7	101.4	88.8	86.0	80.2	79.7
Central government debt	3,172	3,320	3,859	4,113	4,464	4,638	4,825	5,021	5,230	5,452
Public sector debt 7/	3,368	3,514	4,081	4,385	4,906	5,217	5,499	5,733	5,934	6,135
Domestic	1,737	1,828	2,125	2,103	2,128	2,164	2,193	2,246	2,304	2,387
Central government	1,576	1,685	1,979	1,948	1,943	1,950	1,979	2,031	2,093	2,180
Public corporations 8/	160	144	145	155	185	215	215	215	211	207
External	1,632	1,686	1,956	2,282	2,778	3,053	3,306	3,487	3,630	3,749
Central government	1,596	1,635	1,879	2,165	2,520	2,688	2,847	2,989	3,136	3,272
Public corporations 8/	36	51	77	117	258	365	459	498	494	476
Nominal GDP fiscal year (EC$ millions)	5,579	5,654	4,212	4,756	5,447	5,909	6,265	6,546	6,818	7,090

Sources: Ministry of Finance; and Fund staff estimates and projections.

1/ Fiscal year (April–March) basis.

2/ Includes revenue from the Airport Development Tax, which is fully transferred to St. Lucia Air and Sea Ports Authority (SLASPA).

3/ There are classification changes in other revenue from FY2019. 2018 data show sales, fees, and fines in the category fines, penalties & forfeits, voluntary transfers in the table. From FY2019 onwards: sales and other nontax revenue include sale of goods & services, social security contributions, and miscellaneous revenue. CIP income in the table shows voluntary transfers, which include CIP-related receipts (transfers of CIP revenue to the central government from the Saint Lucia National Economic Fund and from the operating surplus of the CIP Unit).

4/ Includes transfer to SLASPA corresponding to the Airport Development Tax.

5/ Natural disaster costs are annualized estimated costs of 0.7 percent of GDP (for details see 2018 Article IV report).

6/ The improvement in the primary balance is predominantly driven by the reduction in capital spending as a result of financing constraints.

7/ Includes payables and overdrafts/ECCB advances.

8/ Government guaranteed.

Table 2b. St. Lucia: Central Government Operations, 2018–27 1/

	2018	2019	2020	2021	2022 Projections	2023	2024	2025	2026	2027
	(In percent of GDP)									
Revenue	**22.1**	**21.6**	**22.1**	**23.7**	**23.1**	**22.5**	**22.3**	**22.3**	**22.3**	**22.2**
Taxes	19.2	19.4	19.4	20.3	19.7	19.6	19.4	19.4	19.3	19.3
Taxes on income	4.8	4.5	5.4	5.0	5.0	4.7	4.7	4.7	4.7	4.8
Taxes on property	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on goods and services	4.7	4.9	4.0	4.6	4.8	4.9	4.9	4.9	4.8	4.8
Taxes on international trade and transactions 2/	9.5	9.8	9.8	10.5	9.8	9.8	9.6	9.6	9.7	9.6
Grants	0.8	0.7	1.1	1.3	1.4	1.0	1.0	1.0	1.0	1.0
Other revenue 3/	2.1	1.5	1.6	2.1	1.9	1.9	1.9	1.9	1.9	1.9
Property income	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Fines, Penalties & Forfeits, Voluntary Transfers	1.8	0.1	0.6	0.9	0.6	0.6	0.6	0.6	0.6	0.6
o.w. Citizen by Investment Program (CIP)	1.2	0.1	0.5	0.9	0.6	0.6	0.6	0.6	0.6	0.6
Sales and other nontax revenue	0.3	1.3	1.0	1.1	1.2	1.2	1.2	1.2	1.2	1.2
Expenditure	**23.2**	**25.1**	**34.0**	**30.1**	**28.9**	**24.8**	**24.6**	**24.6**	**24.7**	**24.7**
Expense	**20.2**	**21.6**	**27.7**	**25.1**	**23.8**	**22.2**	**22.1**	**22.1**	**22.1**	**22.2**
Compensation of employees	7.0	8.0	9.8	8.6	8.2	8.2	8.2	8.2	8.2	8.2
Purchase of goods and services	4.3	4.6	7.0	6.3	5.0	4.5	4.5	4.5	4.5	4.5
Interest	3.0	3.0	3.9	3.6	3.3	3.5	3.5	3.5	3.5	3.6
Social benefits	2.4	2.1	2.8	2.6	2.7	2.5	2.3	2.3	2.3	2.3
Retirement benefits	1.8	1.8	2.4	2.2	2.0	2.0	2.0	2.0	2.0	2.0
Public assistance and casual relief	0.6	0.3	0.4	0.4	0.7	0.5	0.3	0.3	0.3	0.3
Subsidies	0.1	0.1	0.1	0.1	0.4	0.2	0.1	0.1	0.1	0.1
Other	0.5	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Other expense	3.5	3.9	4.2	3.9	4.5	3.6	3.7	3.7	3.6	3.6
Transfers to public-sector institutions 4/	3.5	3.9	4.2	3.9	4.5	3.6	3.7	3.7	3.6	3.6
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Acquisition of Nonfinancial Assets	**3.0**	**3.5**	**6.3**	**5.0**	**5.1**	**2.5**	**2.5**	**2.5**	**2.5**	**2.5**
Grant-financed capital expenditure	0.8	0.6	1.1	1.3	1.4	1.0	1.0	1.0	1.0	1.0
Other capital expenditure	2.2	2.9	5.2	3.8	3.7	1.5	1.5	1.5	1.5	1.5
Capital revenue	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Natural Disaster (ND) Annualised Cost 5/	**…**	**0.0**	**0.0**	**0.0**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**
Gross Operating Balance	**1.9**	**0.0**	**-5.5**	**-1.4**	**-0.7**	**0.3**	**0.2**	**0.2**	**0.1**	**0.0**
Net Lending/Borrowing (Overall Balance, excl. ND Cost)	**-1.0**	**-3.5**	**-11.9**	**-6.5**	**-5.8**	**-2.3**	**-2.3**	**-2.3**	**-2.4**	**-2.5**
Net Lending/Borrowing (Overall Balance, incl. ND Cost)	**…**	**-3.5**	**-11.9**	**-6.5**	**-6.4**	**-2.9**	**-3.0**	**-3.0**	**-3.1**	**-3.1**
Net Financial Transactions	**-1.0**	**-3.5**	**-11.9**	**-6.5**	**-5.8**	**-2.3**	**-2.3**	**-2.3**	**-2.4**	**-2.5**
Net Incurrence of Liabilities	**1.9**	**2.6**	**12.8**	**5.3**	**6.4**	**2.9**	**3.0**	**3.0**	**3.1**	**3.1**
Domestic	2.4	1.9	7.0	-0.7	-0.1	0.1	0.5	0.8	0.9	1.2
Foreign	-0.5	0.7	5.8	6.0	6.5	2.8	2.5	2.2	2.2	1.9
Statistical discrepancy	*0.0*	*0.9*	*-2.4*	*1.1*	*-0.7*	*-0.7*	*-0.7*	*-0.7*	*-0.7*	*-0.7*
Memorandum Items:										
Primary balance (excl. ND) 6/	1.9	-0.5	-8.0	-2.9	-2.4	1.2	1.1	1.2	1.1	1.1
Primary balance (incl. ND) 6/	…	-0.5	-8.0	-2.9	-3.1	0.5	0.5	0.5	0.5	0.5
Structural primary balance (incl. ND) 6/	1.8	-0.7	-2.2	-0.3	-1.3	1.7	1.4	1.3	1.2	1.1
Central government debt	56.9	58.7	91.6	86.5	81.9	78.5	77.0	76.7	76.7	76.9
Public sector debt 7/	60.4	62.1	96.9	92.2	90.1	88.3	87.8	87.6	87.0	86.5
Domestic	31.1	32.3	50.4	44.2	39.1	36.6	35.0	34.3	33.8	33.7
Central government	28.3	29.8	47.0	41.0	35.7	33.0	31.6	31.0	30.7	30.8
Public corporations 8/	2.9	2.5	3.4	3.3	3.4	3.6	3.4	3.3	3.1	2.9
External	29.2	29.8	46.4	48.0	51.0	51.7	52.8	53.3	53.2	52.9
Central government	28.6	28.9	44.6	45.5	46.3	45.5	45.4	45.7	46.0	46.1
Public corporations 8/	0.6	0.9	1.8	2.5	4.7	6.2	7.3	7.6	7.2	6.7
Nominal GDP fiscal year (EC$ millions)	5,579	5,654	4,212	4,756	5,447	5,909	6,265	6,546	6,818	7,090

Sources: Ministry of Finance; and Fund staff estimates and projections.

1/ Fiscal year (April–March) basis. Figures shown for a given calendar year relate to the fiscal year beginning on April 1 of that year.

2/ Includes revenue from the Airport Development Tax, which is fully transferred to St. Lucia Air and Sea Ports Authority (SLASPA).

3/ There are classification changes in other revenue from FY2019. 2018 data show sales, fees, and fines in the category fines, penalties & forfeits, voluntary transfers in the table. From FY2019 onwards: sales and other nontax revenue include sale of goods & services, social security contributions, and miscellaneous revenue. CIP income in the table shows voluntary transfers, which include CIP-related receipts (transfers of CIP revenue to the central government from the Saint Lucia National Economic Fund and from the operating surplus of the CIP Unit).

4/ Includes transfer to SLASPA corresponding to the Airport Development Tax.

5/ Natural disaster costs are annualized estimated costs of 0.7 percent of GDP (for details see 2018 Article IV report).

6/ The improvement in the primary balance is predominantly driven by the reduction in capital spending as a result of financing constraints.

7/ Includes payables and overdrafts/ECCB advances.

8/ Government guaranteed.

Table 3. St. Lucia: Balance of Payments Summary, 2018–27

		Prel.	Prel.	Projections						
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	(In millions of US dollars)									
Current Account Balance	28.9	119.6	-237.6	-186.4	-126.3	-19.4	16.6	16.4	13.4	8.4
Exports of goods and services	1114.1	1209.0	446.0	728.0	1110.3	1254.0	1371.5	1421.2	1471.6	1518.2
Goods	70.4	91.6	60.8	65.1	72.3	75.9	79.7	82.1	84.6	87.1
Tourism	963.1	1064.0	340.3	612.8	979.6	1114.4	1223.9	1268.1	1313.1	1354.2
Other services	80.5	53.4	44.8	50.0	58.3	63.7	67.9	71.0	74.0	76.9
Imports of goods and services	-986.0	-968.2	-672.8	-897.0	-1166.8	-1179.8	-1253.7	-1297.8	-1345.1	-1390.1
Food	-119.6	-121.8	-107.6	-121.0	-168.5	-194.9	-203.9	-212.9	-219.5	-224.2
Fuel	-130.6	-94.6	-53.6	-66.8	-103.8	-108.8	-109.8	-108.5	-108.5	-109.8
Other goods	-329.5	-310.2	-282.7	-341.5	-438.3	-403.5	-413.4	-426.9	-445.3	-462.5
Services	-406.3	-441.6	-228.8	-367.7	-456.3	-472.6	-526.6	-549.6	-571.8	-593.6
Net Income, o.w.	-104.0	-124.0	-27.1	-22.0	-74.8	-98.7	-106.3	-112.3	-118.6	-125.4
Public interest payments	-26.3	-26.9	-23.9	-23.5	-25.6	-31.9	-35.2	-37.9	-41.1	-44.8
Net current transfers, o.w.	4.9	2.8	16.3	4.6	5.0	5.0	5.1	5.2	5.4	5.6
Remittances	26.2	25.2	38.2	23.9	28.3	28.9	29.5	30.2	31.0	31.5
Capital Account	**12.8**	**34.3**	**24.0**	**23.6**	**29.1**	**22.2**	**23.5**	**24.5**	**25.6**	**26.6**
Financial Account	**62.5**	**19.0**	**-138.3**	**-162.8**	**-97.2**	**2.8**	**40.1**	**40.9**	**38.9**	**35.0**
Direct Investment	-54.8	-32.1	-74.2	-81.0	-90.7	-99.1	-101.1	-102.8	-104.3	-105.8
Portfolio Investment	73.5	52.8	203.5	56.6	84.7	61.2	65.2	68.2	71.0	73.9
Other Investment	79.4	23.3	-42.2	-225.5	12.8	8.0	38.8	49.8	55.4	61.6
Net Reserve Assets	-35.6	-25.1	-29.8	87.1	-18.0	32.7	37.2	25.8	16.8	5.3
Errors and Omissions	**20.8**	**-135.2**	**74.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
	(In percent of GDP)									
Current Account Balance	**1.4**	**5.7**	**-15.7**	**-11.0**	**-6.4**	**-0.9**	**0.7**	**0.7**	**0.5**	**0.3**
Exports of goods and services	54.2	57.7	29.4	43.0	56.3	58.2	59.8	59.2	58.9	58.4
Goods	3.4	4.4	4.0	3.8	3.7	3.5	3.5	3.4	3.4	3.4
Tourism	46.8	50.8	22.4	36.2	49.7	51.8	53.4	52.9	52.5	52.1
Other services	3.9	2.6	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Imports of goods and services	-47.9	-46.2	-44.4	-53.0	-59.2	-54.8	-54.7	-54.1	-53.8	-53.5
Food	-5.8	-5.8	-7.1	-7.2	-8.5	-9.1	-8.9	-8.9	-8.8	-8.6
Fuel	-6.3	-4.5	-3.5	-3.9	-5.3	-5.1	-4.8	-4.5	-4.3	-4.2
Other goods	-16.0	-14.8	-18.6	-20.2	-22.2	-18.7	-18.0	-17.8	-17.8	-17.8
Services	-19.7	-21.1	-15.1	-21.7	-23.1	-21.9	-23.0	-22.9	-22.9	-22.8
Net Income, o.w.	-5.1	-5.9	-1.8	-1.3	-3.8	-4.6	-4.6	-4.7	-4.7	-4.8
Public interest payments	-1.3	-1.3	-1.6	-1.4	-1.3	-1.5	-1.5	-1.6	-1.6	-1.7
Net current transfers, o.w.	0.2	0.1	1.1	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Remittances	1.3	1.2	2.5	1.4	1.4	1.3	1.3	1.3	1.2	1.2
Capital Account	**0.6**	**1.6**	**1.6**	**1.4**	**1.5**	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**
Financial Account	**3.0**	**0.9**	**-9.1**	**-9.6**	**-4.9**	**0.1**	**1.7**	**1.7**	**1.6**	**1.3**
Direct Investment	-2.7	-1.5	-4.9	-4.8	-4.6	-4.6	-4.4	-4.3	-4.2	-4.1
Portfolio Investment	3.6	2.5	9.1	3.3	2.8	2.8	2.8	2.8	2.8	2.8
Other Investment	3.9	1.1	-11.4	-13.3	-2.3	0.4	1.7	2.1	2.2	2.4
Net Reserve Assets	-1.7	-1.2	-2.0	5.1	-0.9	1.5	1.6	1.1	0.7	0.2
Errors and Omissions	**1.0**	**-6.5**	**4.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum Items:										
Trade balance (percent of GDP)	-24.8	-20.8	-25.3	-27.4	-32.4	-29.3	-28.2	-27.8	-27.5	-27.3
Services balance (percent of GDP)	31.0	32.3	10.3	17.5	29.5	32.8	33.4	32.9	32.6	32.2
Net imputed international reserves										
Millions of US dollars, end of period	274.8	252.9	224.3	350.7	332.7	365.4	402.7	428.4	445.3	450.6
Months of imports of goods and services	3.4	4.5	3.0	3.6	3.4	3.5	3.7	3.8	3.8	3.7
Percentage of demand liabilities	90.7	88.7	88.3	92.6	90.9	90.9	91.2	91.4	91.3	91.1
Gross external debt (percent of GDP)	61.7	61.6	79.5	78.2	76.9	75.4	75.1	74.5	73.6	72.3
Public sector	29.2	29.8	46.4	48.0	51.0	51.7	52.8	53.2	53.1	52.6
Private sector 1/	32.4	31.8	33.1	30.3	25.9	23.8	22.3	21.3	20.5	19.7
GDP (in US$ millions)	2,057	2,094	1,516	1,691	1,972	2,153	2,294	2,399	2,500	2,600

Sources: Ministry of Finance and Planning; ECCB; World Bank, and Fund staff estimates and projections.

1/ Includes largely gross foreign liabilities of commercial banks and other private debt.

Table 4. St. Lucia: Monetary Survey, 2018–22

	2018	2019	2020	Est. 2021	Projections 2022
	(In millions of EC dollars, end of period)				
Net Foreign Assets	833.3	950.7	1,070.5	1,474.5	1,520.4
Central bank	742.0	682.7	605.7	947.0	898.3
Commercial banks (net)	91.3	267.9	464.8	527.5	622.0
Assets	1,892.3	2,066.9	1,817.8	1,909.1	2,003.6
Liabilities	-1,801.0	-1,799.0	-1,353.0	-1,381.6	-1,381.6
Net Domestic Assets	2,405.6	2,392.3	2,051.9	2,112.0	2,354.8
Public sector credit, net	-422.6	-389.1	-134.7	-248.6	-313.8
(real terms)	-358.6	-332.5	-115.5	-204.8	-245.1
Central government	210.6	252.1	301.1	253.4	159.6
Other public sector	-633.3	-641.2	-435.8	-502.1	-473.4
Private sector credit, net	3,156.7	3,098.2	3,182.2	3,178.7	3,198.2
(real terms)	2,678.7	2,647.7	2,729.5	2,617.9	2,497.8
Other items (net)	-353.8	-335.9	-994.4	-809.1	-529.6
Broad Money (M2)	3,238.9	3,343.0	3,122.4	3,586.5	3,875.1
Money	1,004.4	1,035.9	983.8	1,376.4	1,605.1
Currency in circulation	163.4	155.0	155.5	173.9	202.7
Demand deposits	841.0	880.9	828.3	1,202.6	1,402.3
Quasi-money	2,234.5	2,307.1	2,138.6	2,210.0	2,270.0
Time deposits	238.2	247.5	126.5	134.3	156.6
Savings deposits	1,674.2	1,727.2	1,639.8	1,604.2	1,870.7
Foreign currency deposits	310.5	313.4	372.3	471.5	549.8
	(12-month percentage change)				
Net Domestic Assets	4.0	-0.6	-14.2	2.9	11.5
Public sector credit, net	17.0	-7.9	-65.4	84.6	26.2
(real terms)	14.5	-7.3	-65.3	77.2	19.7
Private sector credit, net	-1.0	-1.9	2.7	-0.1	0.6
(real terms)	-3.1	-1.2	3.1	-4.1	-4.6
Broad Money (M2)	3.4	3.2	-6.6	14.9	8.0
NFA contribution	0.4	3.6	3.6	12.9	1.3
NDA contribution	3.0	-0.4	-10.2	1.9	6.8
Money	11.0	3.1	-5.0	39.9	16.6
NFA contribution	-9.7	-5.9	-7.4	34.7	-3.5
NDA contribution	20.7	9.0	2.4	5.2	20.1
Quasi-money	0.3	3.2	-7.3	3.3	2.7
	(In percent of GDP)				
Net Foreign Assets	15.0	16.8	26.2	32.3	28.6
Net Domestic Assets	43.3	42.3	50.1	46.3	44.2
Public sector credit, net	-7.6	-6.9	-3.3	-5.4	-5.9
Private sector credit, net	56.8	54.8	77.7	69.6	60.1
Broad Money (M2)	58.3	59.1	76.3	78.5	72.8
Money	18.1	18.3	24.0	30.1	30.1
Quasi-money	40.2	40.8	52.2	48.4	42.6
Interest Rates (Percent Per Year) 1/					
ECCB policy rate	6.50	6.50	…	…	…
US policy rate	1.78	2.16	…	…	…
Interbank market rate	…	…	…	…	…
Time deposit rate	1.43	1.51	…	…	…
Demand deposit rate	0.25	0.21	…	…	…
Weighted average lending rate	7.95	7.56	…	…	…

Sources: St. Lucia authorities; ECCB; and Fund staff estimates and projections.

1/ End-of-period rates.

Table 5. St. Lucia: Banking System Summary Data, 2017–21

	2017	2018	2019	2020	2021			
	Dec	Dec	Dec	Dec	Mar	June	Sep	Dec
Capitalization								
Total Capital/Total Assets	5.1	5.4	6.6	7.9	7.9	8.2	8.1	8.0
Regulatory capital to risk-weighted assets (CAR)	18.2	19.1	15.9	14.9	18.7	17.8	17.4	16.8
Regulatory Tier 1 capital to risk-weighted assets	11.4	13.2	10.0	10.4	16.2	15.1	14.7	14.4
Large exposures to tier capital	22.0	27.7	44.7	0.0	0.0	13.6	9.5	9.7
Asset Quality								
Nonperforming loans to total gross loans	12.5	10.0	8.2	11.3	11.4	12.0	13.3	13.8
Nonperforming loans net of provisions to capital	78.5	59.7	37.4	47.4	50.1	51.0	56.3	54.3
Management								
Non-Interest Expenses/Gross Income	61.2	60.0	58.9	62.3	66.1	66.4	69.1	67.4
Personnel Expense/Non-interest Expenses	32.4	31.5	34.7	36.8	35.1	31.2	31.6	32.2
Profitability								
Return on Avg Assets	1.2	1.9	1.5	0.8	0.6	1.2	1.1	0.8
Return on Avg Equity	27.1	35.2	25.3	10.8	8.1	14.9	13.0	9.7
Interest Margin/Gross Income	60.7	61.3	60.6	62.4	62.9	63.8	62.1	60.8
Interest Spread 1/	6.5	6.5	6.1	5.5	5.5	5.5	5.5	5.4
Liquidity								
Liquid Assets/Total Assets	36.7	39.4	40.4	37.8	37.8	37.7	38.7	39.3
Liquid Assets/Current Liabilities (Short-term liabilities)	39.1	42.0	43.2	42.9	42.5	42.3	42.4	43.4
FX Risk								
Foreign-currency-denominated loans to total loans	10.0	9.5	2.1	3.0	3.2	3.2	3.2	3.3
Foreign-currency-denominated liabilities to total liabilities	14.6	14.0	21.8	16.6	16.6	15.9	16.4	16.7
Net open position in foreign exchange to capital	151.7	210.9	84.4	107.7	181.3	170.3	146.6	143.7

Sources: ECCB and IMF staff calculations.

1/ Interest Spread = Weighted average lending rates - weighted average deposit rates

Table 6. St. Lucia: Selected Labor Market Indicators, 2014–20

	2014	2015	2016	2017	2018	2019	2020
Estimated household population (y-o-y % change)	-0.1	0.2	0.6	-0.3	0.0	-1.3	-1.0
Population 15 years and over (y-o-y% change)	-0.5	2.8	2.1	-0.2	-0.4	-0.4	-2.1
Unemployment rate (%)	24.4	24.1	21.3	20.2	20.2	16.8	21.7
o/w male	20.9	21.3	19.4	18.1	18.5	14.9	18.6
o/w female	28.4	27.4	23.5	22.4	22.1	18.9	24.9
Youth unemployment rate (%)	41.8	41.0	38.4	38.5	36.3	31.6	38.2
Labor force (% of total population)	57.0	58.8	60.1	59.0	59.9	59.1	56.6
Labor force participation rate (%)	71.9	72.2	72.7	71.4	71.4	71.0	68.8

Sources: St. Lucia Population and Housing Census and National Insurance Corporation.

Annex I. Risk Assessment Matrix

Source and Direction of Risks	Relative Likelihood	Impact/ Time Horizon	Policy Response
Global/External			
Russia's invasion of Ukraine leads to escalation of sanctions and other disruptions (↓) Sanctions leads to even higher commodity prices and tighter financial conditions.	High	High ST	Enhance local production of agriculture products. Support transition to renewable energy sources. Pursue fiscal adjustment to reduce debt rollover risks. Vigilantly monitor the financial sector development in coordination with ECCB. Continue efforts to strengthen compliance with AML/CFT and tax transparency standards.
De-anchoring of inflation expectations in the U.S. (↓) prompts central banks to tighten policies faster than anticipated. The resulting sharp tightening of global financial conditions and spiking risk premia lead to lower global demand, asset market selloffs, bankruptcies, sovereign defaults, and contagion across EMDEs.	Medium	High MT	Pursue fiscal adjustment to reduce debt rollover risks. Vigilantly monitor the financial sector development in coordination with ECCB. Continue efforts to strengthen compliance with AML/CFT and tax transparency standards.
Rising and volatile food and energy prices. Commodity prices are volatile and trend up amid supply constraints, war in Ukraine, export restrictions and currency depreciations.	High	High ST, MT	Enhance local production of agriculture products. Support transition to renewable energy sources.
Outbreaks of lethal and highly contagious Covid-19 variants (↓) Rapidly increasing hospitalizations and deaths, due to low vaccination protection or vaccine-resistant variants force more social distancing and/or new lockdowns.	Medium	High ST	Boost vaccination rates.
Natural disasters related to climate change (↓) Higher frequency of natural disasters cause severe economic damage to smaller vulnerable economies.	Medium	High ST, MT	Build fiscal buffers, invest in resilience, and secure external financing, including with risk-transfer instruments.
Domestic			
Lower than expected CIP revenues (↓) Pressure from EU to end Citizenship by Investment Program or face visa restrictions, leaving the program unattractive.	Medium	Medium MT	Mobilize revenue from alternative sources.
Disorderly fiscal adjustment (↓) A weakening fiscal position and tightening financial conditions can force an abrupt fiscal adjustment.	Low	High MT	Adopt a fiscal rule and implement tax reforms to ensure adequate fiscal adjustment and debt sustainability.
Financial sector weakness (↓) Commercial banks continue to report high NPLs and weak earnings, which impair credit intermediation.	Medium	High MT	Promptly implement remaining elements of the ECCU strategy to strengthen indigenous banks.
Delays in infrastructure investment (↓) Private investment could be unprofitable without enough infrastructure investment.	Medium	High ST, MT	Contain growth of current expenditures.

Annex II. External Sector Assessment

Overall Assessment: *The external position of St. Lucia in 2021 was broadly in line with the level implied by fundamentals and desirable policies. The assessment is, however, subject to unusually high uncertainty given the challenges in assessing the full impact of the pandemic, the use of preliminary data for the current account, and the conflicting signals from the EBA-lite CA and REER models.*

Potential Policy Responses: *Notwithstanding the overall assessment, labor productivity growth and unit labor costs highlight St. Lucia's competitiveness challenges, particularly in the non-tourism sectors, and the need for supply-side reforms. Given that growth has stalled in the past decade, these bottlenecks need to be addressed to increase competitiveness, realize growth potential, and minimize the scarring effects of the pandemic.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The *deficit* in the net international investment position (IIP), averaging about 51.1 percent of GDP during 2015–19, increased to 72.3 percent of GDP in 2020 to 75.2 percent of GDP in 2021.[1] In 2020, foreign direct and portfolio investments, together 69 percent of total assets, constituted the largest components from the asset side; while foreign direct and other investments were the largest components from the liability side, comprising 56 and 33 percent of total liabilities respectively.

Assessment. With the expected improvement in the current account as the tourism recovers, the net IIP deficit is expected to steadily decline close to pre-pandemic levels (projected at 46.3 percent of GDP in 2027 versus 45.5 in 2019).

2020 (% GDP)	NIIP: -72.3	Gross Assets: 122	Debt Assets: 44.3	Gross Liab.: 194	Debt Liab.: 31.6

Current Account

Background. The current account, averaging -0.4 percent of GDP during 2015–19 and posting surplus in 2018 and 2019, deteriorated sharply following the pandemic to -15.7 percent of GDP in 2020 and -11.0 percent of GDP in 2021 (staff projections). This was predominantly driven by the sharp fall in travel receipts, from 50.8 percent of GDP in 2019 to 22.4 percent of GDP in 2020, following the drop in tourism as the contagious nature of the pandemic severely affected global travel. Going forward, the current account is expected to improve gradually and reach a modest surplus in 2024-2027 as the recovery in tourism offsets a widening of the trade balance due to the recent surge in oil and food prices.

Assessment. The external position was broadly in line with the level implied by fundamentals and desirable policies. However, given the disruptions associated with the pandemic, the uncertainty around the assessment remains particularly high. On the one hand, the EBA-lite CA model suggests a negative current account gap of -1.4 percent of GDP.[2] On the other hand, the EBA-lite REER model implies a positive current account gap of 0.6 percent of GDP.[3] Like Article IV 2019, St. Lucia's overall assessment is based on the EBA-lite REER model as it tracks the actual data reasonably well while the current account data is subject to revisions, adding another layer of uncertainty for the results derived from the EBA-lite CA model.

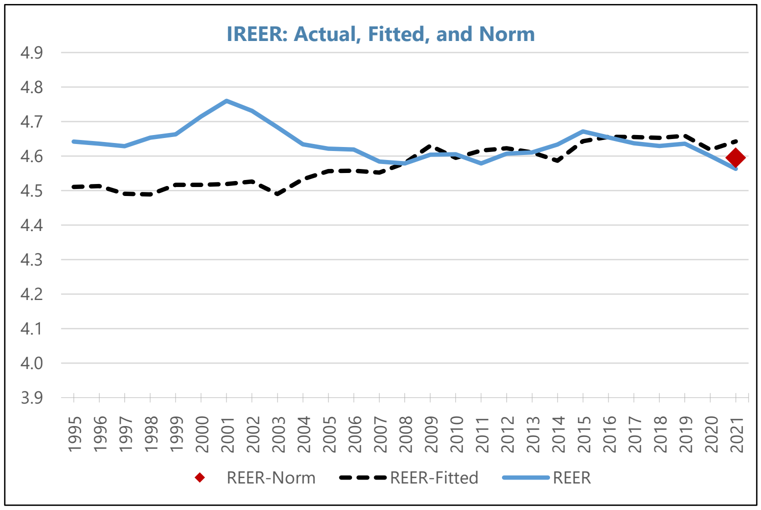


Table AII. 1. St. Lucia: Model Estimates for 2021
(In percent of GDP)

	CA model 1/	REER model
	(in percent of GDP)	
CA-Actual	**-11.0**	
Cyclical contributions (from model) (-)	1.3	
COVID-19 adjustor (-) 2/	-6.0	
Additional temporary/statistical factors (-) 3/	-2.1	
Natural disasters and conflicts (-)	0.8	
Adjusted CA	**-5.0**	
CA Norm (from model) 4/	**-3.6**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-3.6**	
CA Gap	**-1.4**	**0.6**
o/w Relative policy gap	5.2	
Elasticity	-0.20	
REER Gap (in percent)	**7.2**	**-3.1**

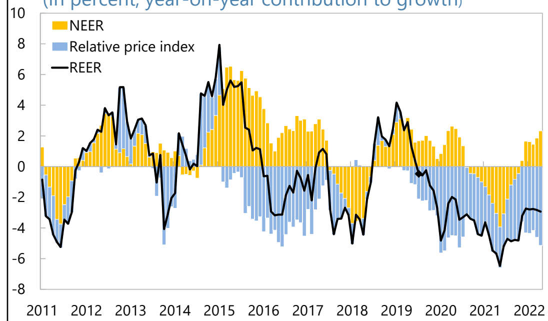
1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (6 percent of GDP).
3/ To incorporate estimated current account impact of hurricane Elsa (2021).
4/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The real effective exchange rate (REER) depreciated by 4.7 percent in 2021, driven by both inflation differential and nominal effective exchange rate, with the latter depreciating by 1.1 percent. With the exception of 2019, the REER has continued to depreciate since 2016, by around 10 percent between 2015 and 2021.

Assessment. The REER gap in 2021 was 20.0 percent, derived from the EBA-lite CA model and an elasticity of -0.2. On the other hand, the EBA-lite REER model shows a REER gap of -3.1 percent.[4]

REER Appreciation
(In percent, year-on-year contribution to growth)



Sources: INS Database and IMF Staff Estimates.

Capital and Financial Accounts: Flows and Policy Measures

Background. Capital transfers, averaging 0.9 percent of GDP in 2015–19, increased to 1.6 percent of GDP in 2019 and 2020. Net FDI inflows and net other investment inflows increased from 1.5 percent of GDP and -1.1 percent of GDP in 2019 to 4.9 percent of GDP and 11.4 percent of GDP in 2020 respectively.

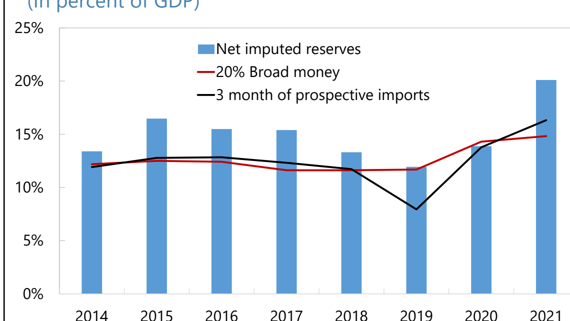
Assessment. Over the medium-term, capital transfers are projected to remain stable at 1.1 percent of GDP, and net FDI inflows are expected to gradually decline to 4.1 percent of GDP. St. Lucia's high exposure to climate changes and natural disasters pose downside risks to FDI projections.

FX Intervention and Reserves Level

Background. St. Lucia's reserve position improved in 2021. As a member of the Eastern Caribbean Currency Union, St. Lucia is under a currency board arrangement. Foreign assets and liabilities of the ECCB cannot be directly assigned to an individual country. Net imputed reserves, averaging 14.8 percent of GDP during 2015–19, improved to 19.6 percent of GDP in 2021.

Assessment. In 2021, imputed reserves exceeded the typical benchmarks of 20 percent of broad money and three months of prospective imports.

Foreign Currency Reserves and Adequacy Thresholds
(In percent of GDP)



Sources: Country authorities and IMF staff calculations.

[1] Based on the preliminary estimates by the ECCB for 2020 and IMF staff projections thereafter.

[2] The ESA model includes a Covid-19 cyclical adjustor to account for the temporary impact of the pandemic on a country's external position. Two adjustors are available: one for tourism, another one for oil trade balance. In the case of St. Lucia, only the Covid-19 adjustor for tourism was used, yielding an adjustment of 6.0 percent of GDP.

[3] The CA/REER elasticity of -0.20 incorporates an elasticity of tourist expenditure with respect to REER of -0.1 for the Caribbean countries (see IMF Working Papers WP/14/229) and an elasticity of -0.4 for non-travel exports.

[4] The EBA-lite model does not provide a country-fixed effect for St. Lucia. Compared to last assessment, a smaller country-fixed effect is used (based on minimizing the model residuals for St. Lucia in 2018-2021) to reflect the fact that Covid-19 related adjustments and scarring effects are likely to pose downward pressure on the equilibrium REER, which is not captured by the model.

Annex III. Debt Sustainability Analysis[1]

Public debt is projected to be on a slightly declining trajectory while maintaining high rollover rates on maturing domestic (regional) government debt. This outlook is based on a sustained tourism recovery, which has been very strong and above expectations in recent months so that activity reaches pre-pandemic levels, and adjustment of public investment in the face of financing constraints. The successful debt rollover in FY2021 and FY2022 is also expected to continue. On this basis, the overall public sector debt is projected to remain on a slightly declining trajectory, from 92.2 percent in FY2021 to 86.5 percent of GDP in FY2027. Gross financing needs will remain elevated at 24.0 percent of GDP in FY2022. These elevated debt indicators are important sources of vulnerability and the stress tests point to substantial risks to debt sustainability from higher than projected interest rates, weaker than projected growth and fiscal deficit paths, and high vulnerability to natural disasters. This underscores the importance of ambitious medium-term consolidation measures to enhance debt sustainability. Reaching the regional debt target commitment of 60 percent of GDP by 2035 requires consolidation measures of at least 2½ percent of GDP.

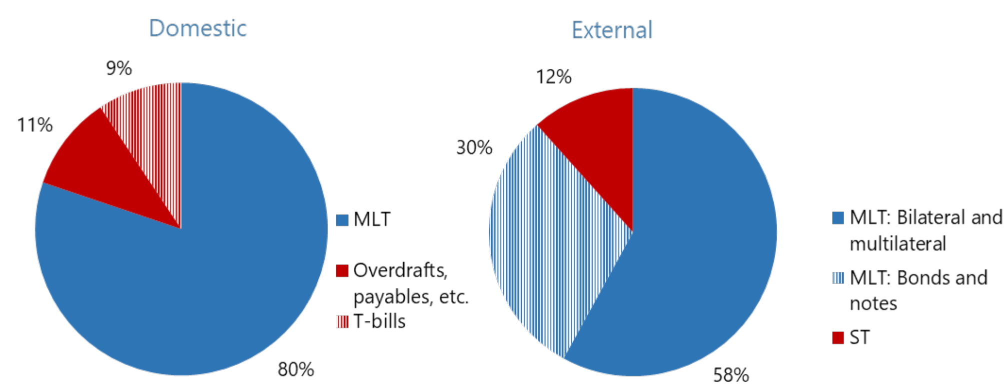
1. Debt dynamics and gross financing requirements. St. Lucia's near-term financing pressures are significant. Gross public debt rose sharply to 96.9 percent of GDP in FY2020 from 60.2 percent in FY2019.[2] The 36.7 percent surge in the debt ratio was driven by big increase of primary deficit and real interest rate, as well as sharp downturn of growth. The debt to GDP ratio declined slightly to 92.2 percent in FY2021, despite 12.9 percent rebound in nominal output after the 25.5 percent collapse a year earlier. Underpinned by primary fiscal balances stabilizing at 1.1 percent of GDP, and after incorporating 0.5 percent of GDP of annualized expected costs of natural disasters, the public debt ratio is projected to decline slowly from FY2022. This is driven by the disbursement of about 9.7 percent of GDP of semi-concessional/concessional loans for a new airport that are to be paid off from dedicated airport redevelopment tax revenue accumulated in an extrabudgetary fund, mitigating longer-term debt service vulnerabilities (see the 2019 Article IV report for details). The central government's gross financing needs are expected to remain high at 24.0 and 18.5 percent of GDP over the next two years. The associated risks are accentuated by the monetary policy tightening of major central banks amid high inflation and threats of the de-anchoring of inflation expectations. Under staff's baseline projections, the government is assumed to renew its maturing debt in full. The gross financing needs are projected to maintain well above pre-crisis level of around 15 percent and the debt to GDP ratio stabilize at around 85 percent in the medium to long run, well above the authorities' commitment to a debt target of 60 percent by 2035.

[1] The debt sustainability analysis for St. Lucia is based on the framework for market access countries. Gross public debt is defined as central government debt and public corporations. External debt is defined as external debt of the public sector. The fiscal year runs from April to March.

[2] An early-2020 rebasing of historical GDP data to better reflect the current structure of the St. Lucian economy, conducted with technical assistance from the Caribbean regional Technical Assistance Centre (CARTAC). Relative to the 2019 Article IV report, the revision implied a reduction of 4 percentage points in the estimated end-2019 public-debt-to-GDP ratio.

2. Debt composition and vulnerabilities. About half of total central government debt in FY2021 is domestic, composed predominantly of medium- and long-term debt (80.2 percent) and significant overdrafts and payables (10.5 precent, about 6 percentage points higher than FY2019). The National Insurance Corporation, the local social security fund, is a major investor. Its government exposure is around 26 percent with a target range of 20 to 30percent. External debt of the central government in FY2021 is composed of bilateral or multilateral loans (58.0 percent, about 15 percentage points higher than FY2019), medium- and long-term commercial borrowings (30.4 percent), and Treasury bills (11.6 percent). While the weighted average maturity of overall medium- and long-term debt slightly exceeds 10 years, about 19 percent of such debt securities are treasury notes with relatively short maturities. Nearly all external debt securities are held by institutions within the ECCU. Commercial banks are the largest holder of Treasury bills, reflecting a prolonged period of excess liquidity in the regional banking system. The most prominent external bond and treasury note holders include the regional insurance companies and other non-bank financial institutions. The comparatively small borrowings of public corporations are largely domestic, but their external share will rise to dominance over the projection period with the implementation of the airport redevelopment project. Debt in foreign currencies is overwhelmingly denominated in U.S. dollars, which the Eastern Caribbean dollar remains pegged to since 1976.

Figure AIII. 1. St. Lucia: Central Government Debt Composition (FY2021)



Source: St. Lucia authorities.

3. Realism of baseline assumptions. After a sharp contraction of 24.4 percent in 2020 (22.1 percent in FY2020 covering April 2020 to end-March 2021), staff projects a gradual recovery to 2019 GDP level by 2024. GDP deflator decelerated to -4.3 percent in FY2020 but is projected to peak in FY2022 and stabilize at 2.5 percent in the medium term. Historical forecasts errors for growth, inflation, and the primary balance have been large, particularly when pandemic devastated the tourism-dependent economy unprecedentedly in 2020.

4. Stress tests. If international interest rates increase significantly, domestic interest rates could follow suit. In a scenario where interest rate increases permanently by the difference between average real interest rate level over projection and maximum historical level (860 bpts), the debt to GDP path takes an increasing trajectory. This risk, however, is mitigated by the ample liquidity buffers in the financial sector and strong competition in credit markets under limited lending opportunities and insufficient bankable projects, all of which contain the increase in interest rates. The same factors helped rollover debt in FY2020 and FY2021.

As a tourism-dependent economy St. Lucia is very exposed to external economic conditions, and a slowdown in advanced economies and further appreciation of the US dollar under tightening global financial conditions, to which the Eastern Caribbean dollar is pegged, could slow the recovery of tourist arrivals. Illustrating this risk, the real GDP growth shock scenario, which reduces growth by one standard deviation (8.5 percent) over FY2023 and 2024, steers public debt towards 116.6 percent of GDP over the medium-term.

A slower improvement of primary balance (2.0 percent of GDP cumulative) spread over FY2023 to 2027 also induces an adverse debt trajectory, underscoring implementation risks around the assumed fiscal adjustment path.

A natural disaster scenario, modeled to mimic damages sustained by Hurricane Tomas in 2010 (simulating a fall of real GDP growth of 5, 3, and 2 percent relative to baseline for FY2023, 2024, and 2025, and a deterioration of the primary balance of the same amount), would imply a higher debt path stabilizing at about 100 percent of GDP. The risk would be mitigated if the authorities invest in resilient infrastructure and boost layered insurance coverage.

5. Adjustment scenario. Ambitious medium-term consolidation measures are needed to set debt on a downward trajectory that is more resilient to shocks. To complement the stress tests, an adjustment scenario is presented with a primary balance improvement of ½, 1, 1½, 2 and 2½ percent of GDP respectively for FY2023–FY2027. With this consolidation, the debt to GDP ratio reaches 78.9 percent of GDP by 2027, 7.6 percentage points below the baseline. If maintained this 2½ percent of GDP consolidation in outer years, this consolidation is sufficient to reach the regional debt target of 60 percent debt to GDP by 2035.

6. External debt. External debt of the public sector rose from 29.8 percent of GDP in FY2019 to 50.0 percent of GDP in FY2021. The ratio increases further over the projection period and eventually plateaus at about 53 percent in the medium run. Beyond the crisis financing needs, this in part reflects the external semi-concessional/concessional loans for the airport redevelopment. Reflecting the importance of tourism revenues for the economy, bound tests suggest that the external debt profile is vulnerable to shocks (one-half standard deviation) in the growth and non-interest current account. The impact from one-half standard deviation of nominal interest rate shock is small. This is because the nominal effective interest on external debt is fairly stable.

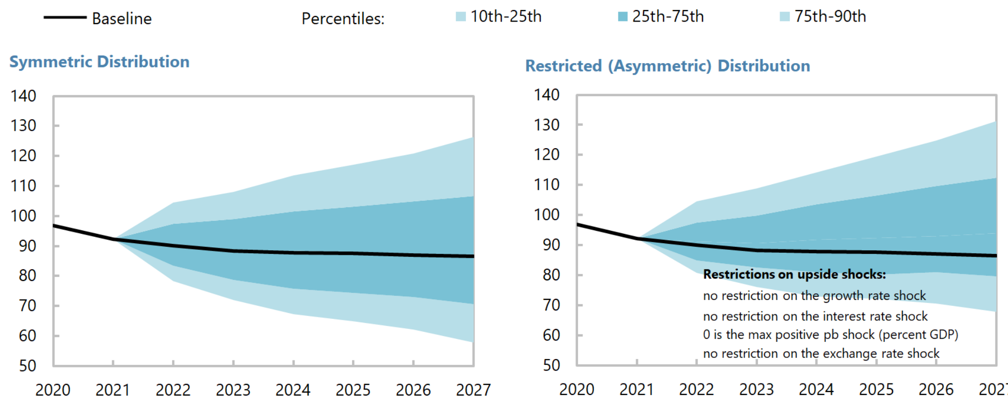
Figure AIII. 2. St. Lucia: Public Debt Sustainability Analysis Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

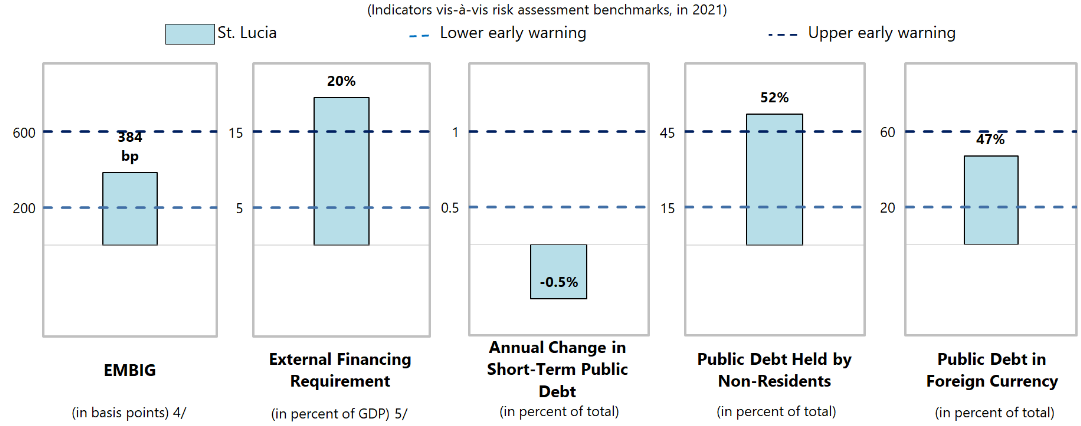
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2021)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 09-Mar-22 through 07-Jun-22.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure AIII. 3. St. Lucia: Public Debt Sustainability Analysis – Realism of Baseline Assumptions

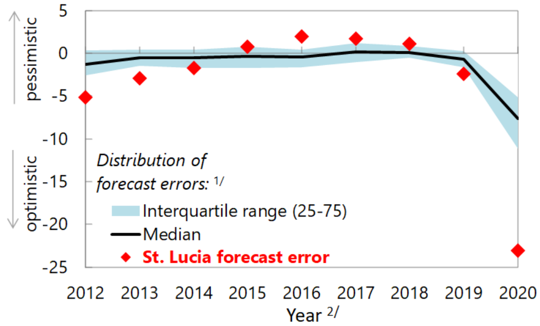
Forecast Track Record, versus all countries

Real GDP Growth

(In percent, actual-projection)

St. Lucia median forecast error, 2012-2020: **-1.74**

Has a percentile rank of: **16%**

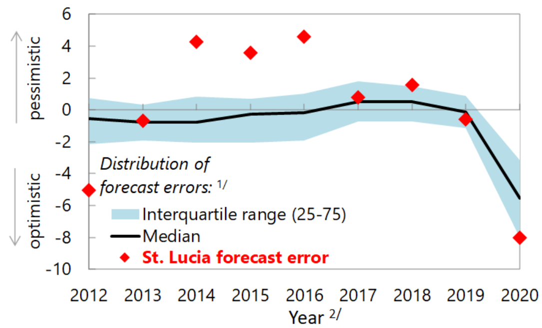


Primary Balance

(In percent of GDP, actual-projection)

St. Lucia median forecast error, 2012-2020: **0.77**

Has a percentile rank of: **85%**

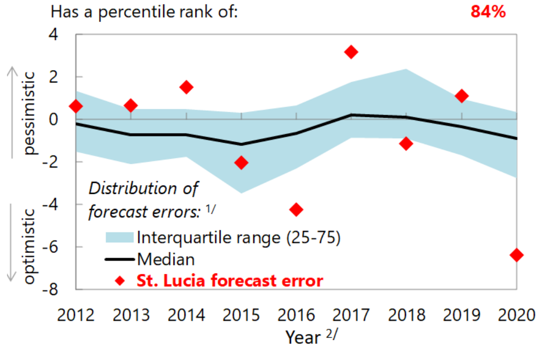


Inflation (Deflator)

(In percent, actual-projection)

St. Lucia median forecast error, 2012-2020: **0.63**

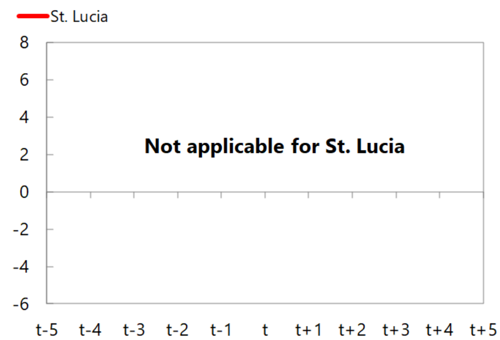
Has a percentile rank of: **84%**



Boom-Bust Analysis [3/]

Real GDP growth

(In percent)



Source : IMF staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries

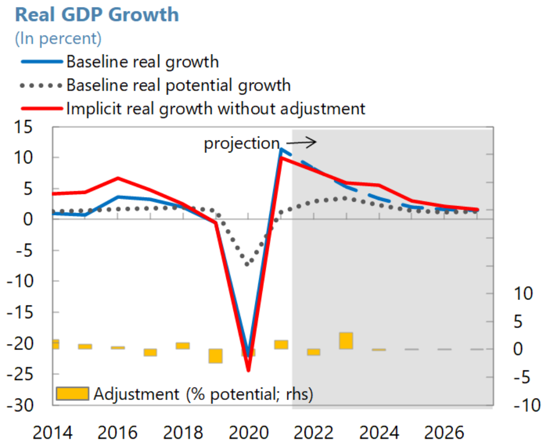
2/ Projections made in the spring WEO vintage of the preceding year

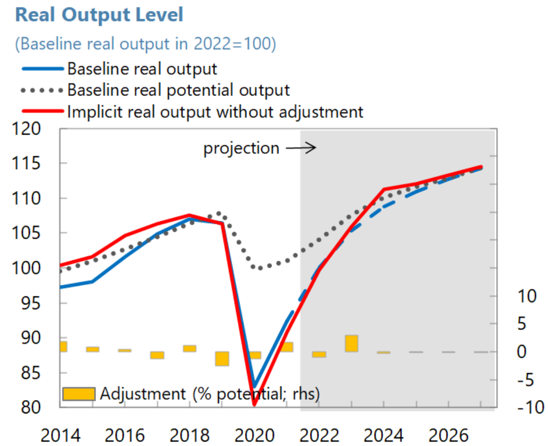
3/ Not applicable for St. Lucia, as it meets neither the positive output gap criterion nor the private credit growth criterion.

Figure AIII. 3. St. Lucia: Public Debt Sustainability Analysis – Realism of Baseline Assumptions (Concluded)

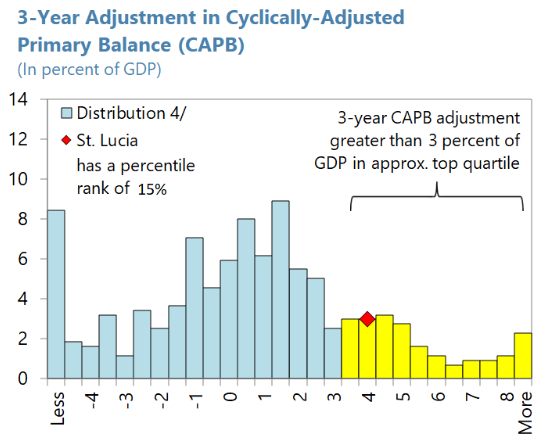
Growth and Level of Output in Absence of Fiscal Adjustment

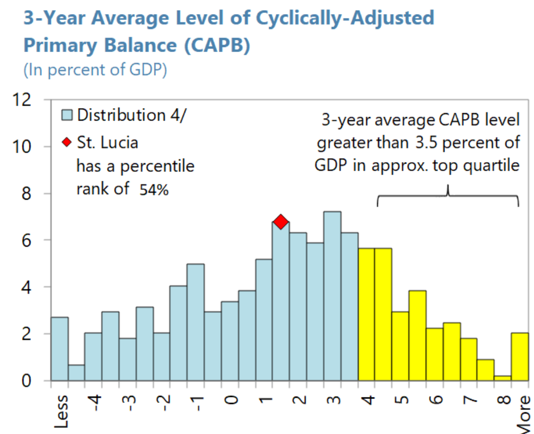
Assumed multiplier of 1, persistence of 0.6





Assessing the Realism of Projected Fiscal Adjustment





Source : IMF staff.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure AIII. 4. St. Lucia: Public Sector Debt Sustainability Analysis – Baseline Scenario

(In percent of GDP unless otherwise indicated)

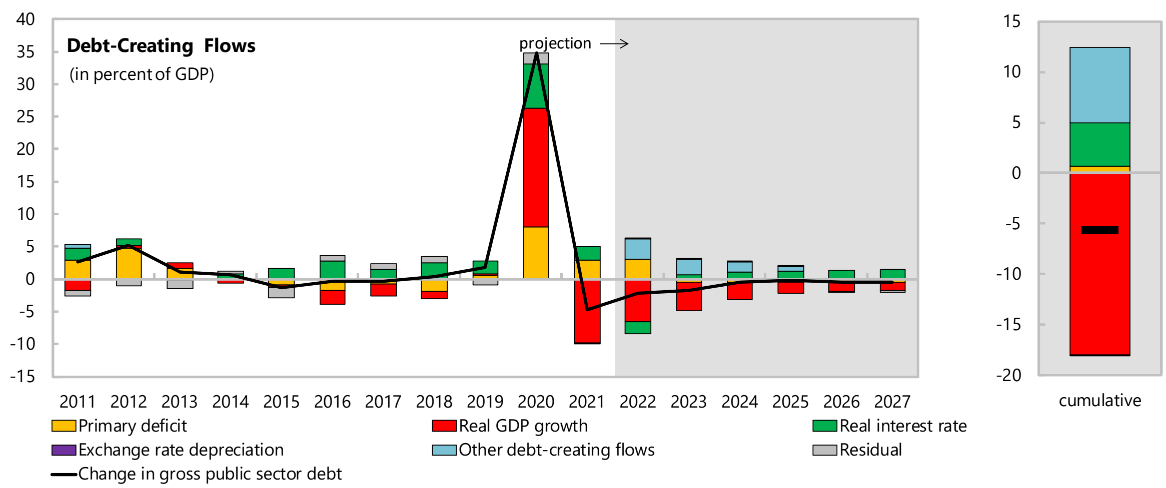
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2011-2019 [2/]	2020	2021	2022	2023	2024	2025	2026	2027
Nominal gross public debt	60.2	96.9	92.2	90.1	88.3	87.8	87.6	87.0	86.5
Public gross financing needs	15.9	33.2	24.3	24.0	18.5	18.4	18.6	23.2	22.4
Real GDP growth (in percent)	1.3	-22.1	11.4	8.2	5.3	3.3	1.9	1.6	1.5
Inflation (GDP deflator, in percent)	2.5	-4.4	1.4	5.8	3.0	2.6	2.5	2.5	2.5
Nominal GDP growth (in percent)	3.8	-25.5	12.9	14.5	8.5	6.0	4.5	4.1	4.0
Effective interest rate (in percent) [4/]	5.2	4.7	4.2	4.0	4.1	4.1	4.1	4.2	4.3

As of June 07, 2022		
Sovereign Spreads		
EMBIG (bp) 3/		379
Ratings	Foreign	Local
Moody's	n.a.	n.a.
S&Ps	n.a.	n.a.
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing
Change in gross public sector debt	1.1	34.7	-4.7	-2.1	-1.8	-0.5	-0.2	-0.5	-0.5	-5.6	primary
Identified debt-creating flows	1.4	33.2	-4.6	-2.2	-1.9	-0.6	-0.2	-0.4	-0.2	-5.5	balance [11/]
Primary deficit [5/ 6/]	0.5	8.0	2.9	3.1	-0.5	-0.5	-0.5	-0.5	-0.5	0.7	0.3
Primary (noninterest) revenue and grants	21.1	22.1	23.7	23.1	22.5	22.3	22.4	22.3	22.3	134.9	
Primary (noninterest) expenditure	21.5	30.1	26.6	26.2	22.0	21.9	21.9	21.8	21.8	135.6	
Automatic debt dynamics [7/]	0.8	25.2	-7.5	-8.4	-3.7	-1.6	-0.4	0.0	0.3	-13.8	
Interest rate/growth differential [8/]	0.8	25.2	-7.5	-8.4	-3.7	-1.6	-0.4	0.0	0.3	-13.8	
Of which: real interest rate	1.6	6.8	2.3	-1.8	0.7	1.1	1.3	1.4	1.5	4.2	
Of which: real GDP growth	-0.7	18.4	-9.8	-6.6	-4.4	-2.8	-1.6	-1.4	-1.2	-18.0	
Exchange rate depreciation [9/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.1	0.0	0.0	3.1	2.3	1.5	0.6	0.0	0.0	7.5	
Privatization proceeds	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [10/]	-0.3	1.6	-0.1	0.1	0.1	0.1	0.0	-0.1	-0.3	-0.1	



Source: IMF staff.

1/ The DSA is based on fiscal year data (April to end-March). Public sector is defined the central government and includes public corporations.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Includes extra-budgetary costs of the airport redevelopment project executed by a public corporation.

6/ The improvement in the primary balance is predominantly driven by the reduction in capital spending as a result of financing constraints.

7/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

8/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

9/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

10/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

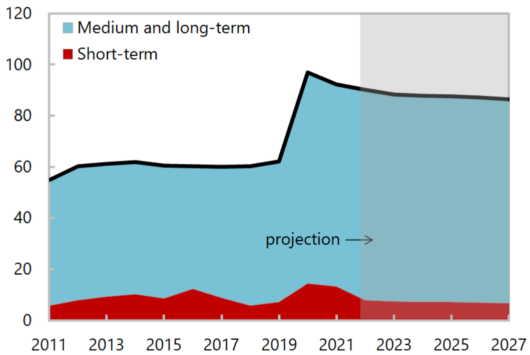
11/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure AIII. 5. St. Lucia: Public Debt Sustainability Analysis – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

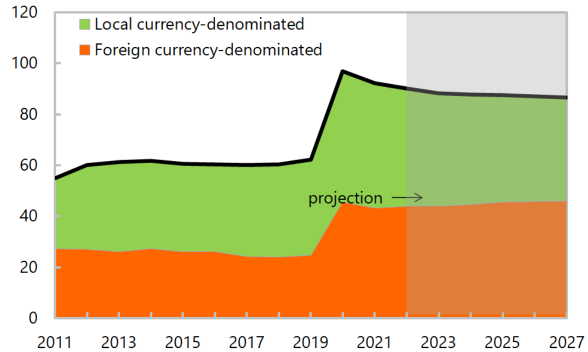
By Maturity

(In percent of GDP)



By Currency

(In percent of GDP)

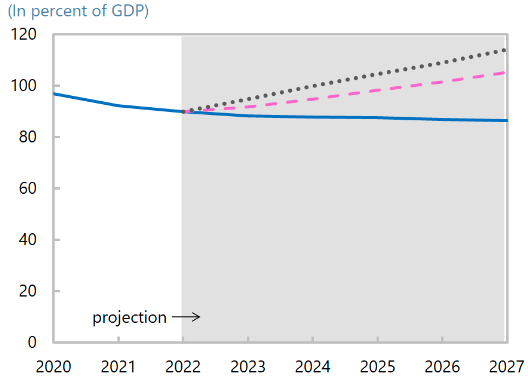


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

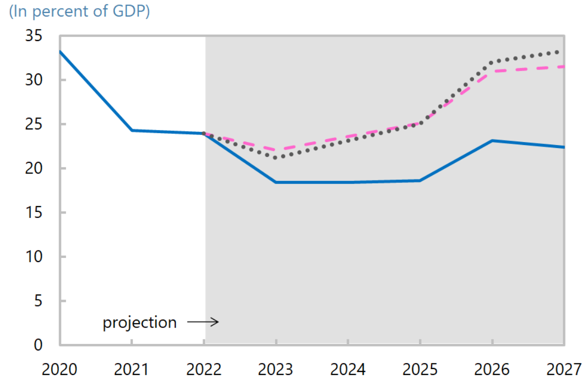
Gross Nominal Public Debt

(In percent of GDP)



Public Gross Financing Needs

(In percent of GDP)



Underlying Assumptions

(In percent)

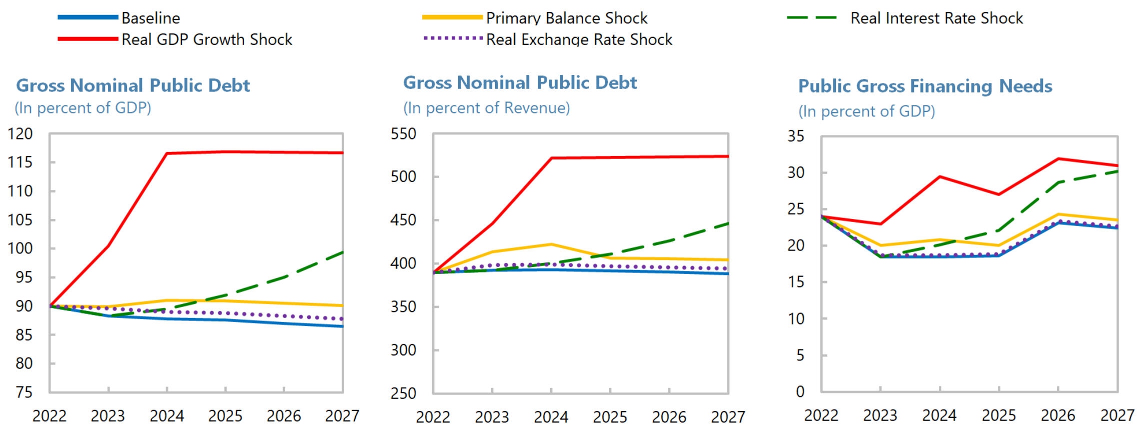
Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	8.2	5.3	3.3	1.9	1.6	1.5
Inflation	5.8	3.0	2.6	2.5	2.5	2.5
Primary Balance	-3.1	0.5	0.5	0.5	0.5	0.5
Effective interest rate	4.0	4.1	4.1	4.1	4.2	4.3
Constant Primary Balance Scenario						
Real GDP growth	8.2	5.3	3.3	1.9	1.6	1.5
Inflation	5.8	3.0	2.6	2.5	2.5	2.5
Primary Balance	-3.2	-3.2	-3.2	-3.2	-3.2	-3.2
Effective interest rate	4.0	4.1	4.1	4.1	4.3	4.5

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	8.2	-0.3	-0.3	-0.3	-0.3	-0.3
Inflation	5.8	3.0	2.6	2.5	2.5	2.5
Primary Balance	-3.2	-1.2	-1.2	-1.2	-1.2	-1.2
Effective interest rate	4.0	4.1	4.6	5.0	5.4	5.8

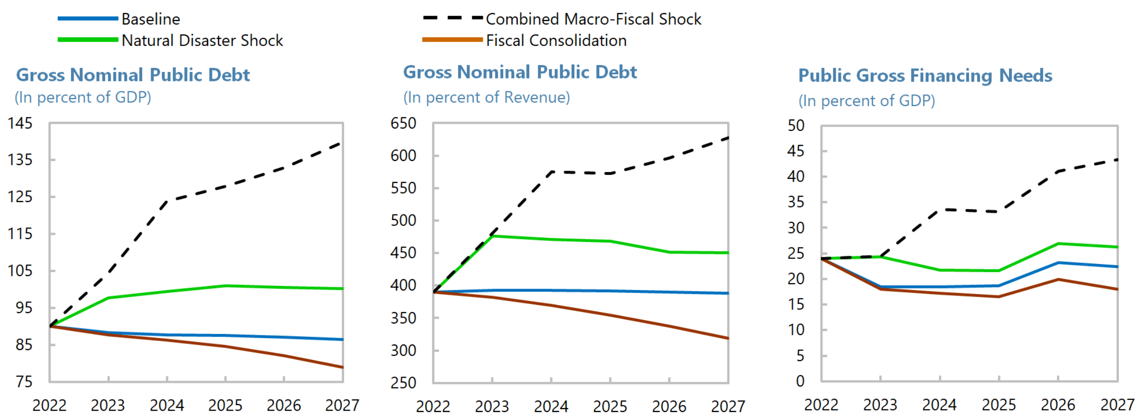
Source: IMF staff.

Figure AIII. 6. St. Lucia: Public Debt Sustainability Analysis – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(In percent)

	2022	2023	2024	2025	2026	2027
Primary Balance Shock						
Real GDP growth	8.2	5.3	3.3	1.9	1.6	1.5
Inflation	5.8	3.0	2.6	2.5	2.5	2.5
Primary balance	-3.2	-1.2	-1.2	0.5	0.6	0.8
Effective interest rate	4.0	4.1	4.2	4.2	4.3	4.4
Real Interest Rate Shock						
Real GDP growth	8.2	5.3	3.3	1.9	1.6	1.5
Inflation	5.8	3.0	2.6	2.5	2.5	2.5
Primary balance	-3.2	0.4	0.4	0.5	0.6	0.8
Effective interest rate	4.0	4.1	6.1	7.2	8.3	9.6
Combined Shock						
Real GDP growth	8.2	-3.2	-5.2	1.9	1.6	1.5
Inflation	5.8	0.9	0.5	2.5	2.5	2.5
Primary balance	-3.2	-2.8	-5.6	0.5	0.6	0.8
Effective interest rate	4.0	4.2	6.3	7.7	8.7	9.9
Natural Disaster Shock						
Real GDP growth	8.2	0.3	0.3	-0.1	1.6	1.5
Inflation	5.8	3.0	2.6	2.5	2.5	2.5
Primary balance	-3.2	-4.6	1.0	0.9	0.6	0.8
Effective interest rate	4.0	4.1	4.1	4.2	4.3	4.5

	2022	2023	2024	2025	2026	2027
Real GDP Growth Shock						
Real GDP growth	8.2	-3.2	-5.2	1.9	1.6	1.5
Inflation	5.8	0.9	0.5	2.5	2.5	2.5
Primary balance	-3.2	-2.0	-4.8	0.5	0.6	0.8
Effective interest rate	4.0	4.1	4.2	4.5	4.5	4.6
Real Exchange Rate Shock						
Real GDP growth	8.2	5.3	3.3	1.9	1.6	1.5
Inflation	5.8	4.7	2.6	2.5	2.5	2.5
Primary balance	-3.2	0.4	0.4	0.5	0.6	0.8
Effective interest rate	4.0	4.2	4.0	4.1	4.2	4.3
Fiscal Consolidation						
Real GDP growth	8.2	5.3	3.3	1.9	1.6	1.5
Inflation	5.8	3.0	2.6	2.5	2.5	2.5
Primary balance	-3.2	0.9	1.4	2.0	2.6	3.3
Effective interest rate	4.0	4.1	4.1	4.1	4.2	4.3

Source: IMF staff.

Table AIII. 1. St. Lucia: External Debt Sustainability Framework

	Actual							Projections						
	2017	2018	2019	2020	2021			2022	2023	2024	2025	2026	2027	**Debt-stabilizing non-interest current account 7/**
1 **Baseline: External Debt**	30.9	29.4	29.8	47.8	50.0			**52.2**	**52.5**	**53.4**	**53.8**	**53.6**	**53.2**	**-4.1**
2 Change in external debt	1.6	-1.5	0.4	18.0	2.2			2.2	0.3	0.9	0.4	-0.1	-0.5	
3 Identified external debt-creating flows (4+8+9)	-4.7	-5.0	-7.8	22.1	1.3			-2.1	-6.5	-7.0	-6.0	-5.6	-5.1	
4 Current account deficit, excluding interest payments	0.5	-2.7	-7.0	14.0	9.5			5.0	-0.8	-2.6	-2.6	-2.5	-2.4	
5 Deficit in balance of goods and services	-3.9	-6.2	-11.5	15.0	10.0			2.9	-3.4	-5.1	-5.1	-5.1	-4.9	
6 Exports	51.9	54.2	57.7	29.4	43.0			56.3	58.2	59.8	59.2	58.9	58.4	
7 Imports	48.0	47.9	46.2	44.4	53.0			59.2	54.8	54.7	54.1	53.8	53.5	
8 Net non-debt creating capital inflows (negative)	-4.8	-2.7	-1.5	-4.9	-4.8			-4.6	-4.6	-4.4	-4.3	-4.2	-4.1	
9 Automatic debt dynamics 1/	-0.5	0.4	0.8	13.1	-3.4			-2.5	-1.0	0.0	0.9	1.2	1.3	
10 Contribution from nominal interest rate	1.4	1.3	1.3	1.7	1.5			1.4	1.7	1.9	2.0	2.0	2.1	
11 Contribution from real GDP growth	-0.9	-0.9	0.2	10.0	-5.2			-3.9	-2.8	-1.9	-1.0	-0.9	-0.8	
12 Contribution from price and exchange rate changes 2/	-1.0	0.0	-0.7	1.3	0.3			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	6.3	3.5	8.2	-4.2	0.9			4.3	6.8	7.9	6.4	5.4	4.7	
External debt-to-exports ratio (in percent)	59.6	54.3	51.6	162.5	116.1			92.7	90.2	89.3	90.8	91.1	91.1	
Gross External Financing Need (in Billions of US Dollars) 4/	212.3	146.5	31.9	419.7	343.8			314.1	181.5	165.4	179.8	227.6	250.8	
in percent of GDP	10.6	7.1	1.5	27.7	20.3			15.9	8.4	7.2	7.5	9.1	9.6	
Scenario with Key Variables at Their Historical Averages 5/								**52.2**	**62.0**	**73.4**	**83.8**	**93.6**	**103.0**	**-0.6**
Key Macroeconomic Assumptions Underlying Baseline						10-Year Historical Average	10-Year Standard Deviation							
Real GDP growth (in percent)	3.4	2.9	-0.7	-24.4	12.2	-0.4	9.3	9.1	5.8	3.8	2.0	1.7	1.5	
GDP deflator in US dollars (change in percent)	3.5	0.1	2.5	-4.3	-0.6	1.7	3.0	6.9	3.2	2.7	2.5	2.5	2.5	
Nominal external interest rate (in percent)	5.3	4.4	4.6	4.1	3.6	4.3	0.5	3.2	3.6	3.8	3.8	3.9	4.0	
Growth of exports (US dollar terms, in percent) 6/	n.a	7.5	8.5	-63.1	63.2	4.0	51.8	52.5	13.0	9.4	3.6	3.5	3.2	
Growth of imports (US dollar terms, in percent) 6/	n.a	2.9	-1.8	-30.5	33.3	1.0	26.1	30.1	1.1	6.3	3.5	3.6	3.3	
Current account balance, excluding interest payments 6/	-0.5	2.7	7.0	-14.0	-9.5	-2.9	8.7	-5.0	0.8	2.6	2.6	2.5	2.4	
Net non-debt creating capital inflows 6/	4.8	2.7	1.5	4.9	4.8	3.7	1.5	4.6	4.6	4.4	4.3	4.2	4.1	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

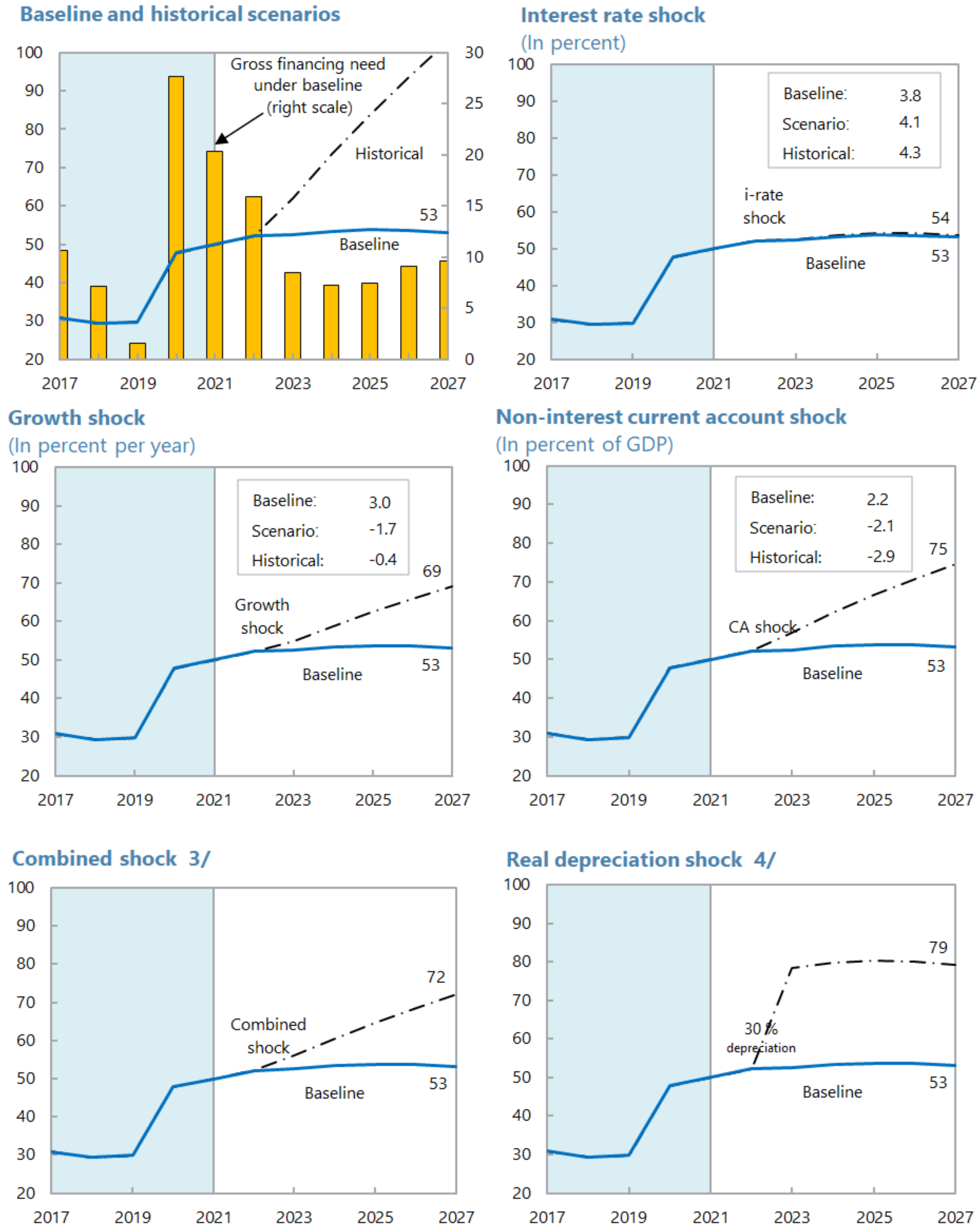
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Average and standard deviation computed with available BPM6 data since 2014.

7/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure AIII. 7. St. Lucia: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to nominal interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2023.

INTERNATIONAL MONETARY FUND

ST. LUCIA

July 8, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Western Hemisphere Department (in consultation with other departments and the Caribbean Regional Technical Assistance Center, CARTAC)

CONTENTS

FUND RELATIONS

(As of May 31, 2022)

Membership Status:		Joined: November 15, 1979; Article VIII
General Resources Account:	SDR Million	Percent of Quota
Quota	21.40	100.00
Fund holdings of currency	19.87	92.85
Reserve Tranche Position	1.53	7.16
SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	35.08	100.00
Holdings	23.45	68.86
Outstanding Purchases and Loans:	SDR Million	Percent of Quota
RCF Loans	21.40	100.00
Latest Financial Arrangements:		
Outright Loans		

	Date of Commitment	Date of Drawn/Expired	Amount approved (SDR million)	Amount approved (SDR million)
RCF	April 28, 2020	April 30, 2020	21.40	21.40

Overdue Obligations and Projected Payments to the Fund[1/]

(SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2022	2023	2024	2025	2026
Principal				2.14	4.28
Charges/Interest	0.04	0.07	0.07	0.07	0.07
Total	0.04	0.07	0.07	2.21	4.35

[1/]When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative:	Not Applicable
Implementation of Multilateral Debt Relief Initiative (MDRI):	Not Applicable
Implementation of Post-Catastrophe Debt Relief (PCDR):	Not Applicable

Exchange Rate Assessment: The de jure exchange rate arrangement is a currency board. St. Lucia participates in a currency union with seven other members of the ECCU and has no separate legal tender. The Eastern Caribbean dollar is pegged to the U.S. dollar under a currency board arrangement at EC$2.70 per U.S. dollar. St. Lucia has accepted the obligations of Article VIII, Sections 2(a), 3 and 4, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

Safeguards Assessment: Under the Fund's safeguards policy, the Eastern Caribbean Central Bank (ECCB) is subject to a full safeguards assessment on a four-year cycle. An update assessment was completed in August 2021 and found that the ECCB has maintained strong external audit and financial reporting practices that continue to be aligned with international standards, and further improvements in the capacity of the internal audit function. Legal reforms were recommended to further strengthen operational autonomy of the ECCB and align its Agreement Act with leading practices. The issuance of digital currency (DCash) introduces new risks that require additional controls and oversight, and the assessment made recommendations to enhance the related project-governance framework.

Article IV Consultation: The last Article IV consultation was concluded by the Executive Board on February 7, 2019. St. Lucia is on a 12-month cycle.

Technical Assistance: St. Lucia has received substantial technical assistance from the Caribbean Region Technical Assistance Center (CARTAC) and the IMF. Technical assistance missions focused on macroeconomic programming and analysis, reforms of the revenue administration, public financial management, real and external sector statistics and the financial sector.

Macroeconomic Programming and Analysis

- February 2022 (ICD and CARTAC): Provide ECCU member countries with a customized workshop on public debt dynamics
- October 2021 (ICD and CARTAC): Fiscal Frameworks Course (offered to all CARTAC countries)
- September 2019 (ICD and CARTAC): Provide ECCU member countries with a customized workshop on public debt dynamics
- September 2019 (CARTAC): Provide ECCU customized DSA/FP course
- July 2019 (CARTAC): Provide Macroeconomics Diagnostics Course (offered to all CARTAC countries)
- May/June 2019 (CARTAC): A workshop on the MAC DSA framework
- April 2016 (CARTAC): Updating the Macro Framework and drafting the medium-term fiscal framework

National Accounts

- February 2022 (CARTAC): Support for development of estimates of Gross Domestic Product expenditure components
- January-February 2020 (CARTAC): Follow up mission of national statistics; Compile rebased GDP estimates and update of the SUT benchmark estimates
- September 2017, September 2018 and February 2019, October 2019 (CARTAC): Assist with compiling the supply and use tables (SUT) for 2016 and improve national accounts estimates
- September 2016 (CARTAC): Develop the compilation system to produce quarterly GDP by economic activity estimates and to improve the annual GDP estimates.
- September 2015 (CARTAC): Expand & improve the national accounts, including producing SUT and rebasing the GDP estimates.

External Sector Statistics

- January 2022 (CARTAC): Size and evolution of net errors and omissions
- March 2021 (CARTAC): Data collection continuity in the context of the COVID 19 pandemic.
- January 2020 (CARTAC): Assist backcasting BOP data for 2000-2013, addressing methodological changes reflected in the 2014-18 following the BPM6.
- April 2019 (CARTAC): Strengthen source data for the balance of payments and IIP.
- September 2018 (CARTAC): Dealing with nonresponse and improving the compilation of trade in goods statistics
- March 2018 (CARTAC): Strengthening the compilation of the recently revised balance of payments and new international investment position (IIP) statistics.
- October 2016 (CARTAC): Reviewing preliminary BPM6-based Balance of Payments and new IIP Statistics for dissemination.
- March 2016 (CARTAC): Assessing sources data for the compilation of Balance of Payments and
- IIP Statistics according to the BPM6.

Tax Reforms and Revenue Administration

- March 2022 (CARTAC): Developing Performance Targets and KPI in Customs
- November 2021 (FAD and CARTAC Revenue administration): Provide a 'Tax Administration Diagnostic Assessment Tool' (TADAT) diagnostic
- October 2021 (CARTAC): Developing Performance Targets and KPI in Customs

- September 2021 (FAD and CARTAC Revenue administration): Provide a virtual TADAT Training course
- July 2021 (CARTAC): Review of dispute resolutions framework at the Inland Revenue Department
- December 2020- May 2021 (LEG and CARTAC): Support the Inland Revenue Department in drafting a Tax Administration and Procedures Act (TAPA) to apply to all major domestic taxes and to make consequential amendments to existing tax acts
- November 2020 (CARTAC): Provide a virtual training to build audit and assessment capacity, focusing on strengthening non-filers program
- July- Aug. 2020 (CARTAC): Compliance Management Strategy Plan for the Tourism and Hospital sector at the Inland Revenue Department (IRD).
- May 2020 (CARTAC): Review the existing IRD's business processes and IT and prepare a new business model with processes.
- May-September 2020 (CARTAC): Supporting implementation of new tax administration information technology system
- November 2019 (CARTAC) Strengthening HQ Capacity: Program Development
- November 2019 (CARTAC): Regional seminar in Developing Trusted Trader and Authorized Economic Operator Programs.
- September 2019 (CARTAC): Regional workshop, Tax Audit Training
- July 2019 (CARTAC): IT Support - Implementation of ICT System
- July 2019 (CARTAC): Strengthening Audit Capacity and Audit Program
- June 2019 (CARTAC): Regional seminar in Disaster Preparedness Planning for Tax and Customs.
- June 2019 (CARTAC Tax Administration): Strengthening HQ functions
- May & November 2018 (CARTAC): Regional Tax Audit Training
- October 2018 (CARTAC): Building HQ & Audit Capacity
- June 2018 (CARTAC): Audit Effective Management
- June 2018 (CARTAC): Strengthening IRD IT Business Processes & Control
- FY 2018/19 (CARTAC): Provide training on extracting data from the ASYCUDA system
- October & November 2017 (CARTAC): Building Technical Capacity in VAT Legislation
- June & November 2017 (CARTAC): Building and enhancing HQ capacity, data gathering, analysis, and program reporting
- March 17, October 2016 (CARTAC): Developing a Compliance Risk Management Strategy.
- November 2016: Strengthening Performance Management – establishing KPI

- November 2016: IT Support – (via Peer-to-Peer Technical Assistance (TA) Attachment)
- October 2016: Data Analytics
- September 2016 (CARTAC): Developing a Taxpayer Service Strategy.
- June 2016 (CARTAC): Building Audit Capacity
- June 2016 (CARTAC): Strengthen the Post Clearance Audit Function.

Expenditure Rationalization and PFM Reforms

- April 2022 (CARTAC): A Roadmap for Treasury Reform
- January 2022 (CARTAC): Establishing a Centralized Internal Audit Function
- July-August 2021 (CARTAC): Strengthening Budget Planning and Preparation
- April 2018 (CARTAC): PFM Action Plan
- September 2017 (CARTAC): Budget Workshop with MoF and all Ministries
- July 2017 (CARTAC): PEFA Assessment
- June 2017 (CARTAC): PEFA Workshop
- January 2016 (CARTAC): Diagnostic Assessment of Internal Audit.

Financial Sector

- February 2022 (CARTAC): Implement Risk-based supervision (RBS) across credit unions and insurance companies
- November 2020 (CARTAC): Provide follow-up TAs to enhance Financial Services Regulatory Authority (FSRA)'s capacity to implement Risk-based supervision (RBS) across credit unions and insurance companies
- FY18–FY20 (CARTAC): Regional Workshops on the supervision of Credit Unions and Insurance companies, consolidated supervision, risk-based supervision, and on other topical or emerging issues such as cyber risk, and FinTech.
- October 2019 (CARTAC): Implementation of Risk-based supervision across non-bank financial institutions
- October 2019 (CARTAC): Develop the Stress Testing Framework for the Credit Union Sector.
- February 2020 (MCM): Contingency Planning for Crisis Preparedness and Management
- September 2018 (CARTAC): Review & analyze Life and General Insurance Actuarial Valuation reports.
- June 2018 (CARTAC): Stress Testing the Insurance Sector (joint mission for four ECCU countries).
- September 2017 (CARTAC): Developing Financial Health and Stability Indicators for the Insurance Sector (joint mission for four ECCU countries).

- April 2016 (CARTAC): Basel II Implémentation.
- February 2016 (CARTAC): Basel II Implementation.

FSAP: A joint IMF/World Bank team performed an assessment of the financial sector of the member states of the ECCU, in two missions—September 1–19 and October 20–31, 2003. The missions assisted the authorities in assessing the development needs and opportunities for the financial sector, identifying potential vulnerabilities of financial institutions and markets to macroeconomic shocks, as well as assessing risks to macroeconomic stability from weaknesses in the financial sector. The Financial System Stability Assessment (FSSA) was discussed by the Executive Board on May 5, 2004, and subsequently published on the IMF's external website, including the Report on the Observance of Standards and Codes (ROSC) on Banking Supervision.

Debt Management

- August 2021 (CARTAC): Fiscal Financing Gaps and Debt Management (joint seminar for the ECCB and ECCU countries)
- June 2021 (CARTAC): Debt Management strategy and Annual Borrowing Plan (joint workshop for the ECCB and ECCU countries)
- January 2020: Preparation of an Annual Borrowing Plan
- October 2019: Developing the Regional Government Securities Market (joint mission for the ECCB and ECCU countries)

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank: WBG Finances - Country Details - St. Lucia (worldbank.org)

- Caribbean Development Bank: https://www.caribank.org/countries-and-members/borrowing-members/saint-lucia

STATISTICAL APPENDIX

ST. LUCIA — STATISTICAL ISSUES APPENDIX (As of [June 15, 2022])
I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but is broadly adequate for surveillance. The statistical database compares well and, in some areas, has a broader coverage than those of its Eastern Caribbean Central Union (ECCU) peers. However, the accuracy and timeliness of macroeconomic statistics could enhance for more effective economic analysis and policy formulation. In particular, national account and balance of payment data could improve its coverage, frequency, and timeliness, and the public sector data beyond the budgetary central government remains limited.
National Accounts: Nominal GDP data are compiled using the production and expenditure approaches on an annual basis. Real GDP data are compiled only using the production approach. GDP data are rebased with constant 2018 price estimates was published in 2020. Preliminary GDP is available about four months after the end of the year and estimates are usually finalized with a two-year lag. Quarterly GDP estimates by the expenditure approaches were developed and first released in 2017 with technical assistance from CARTAC and is published at a quarterly basis with a lag.
Price Statistics: The rebasing exercise of the CPI has been completed—the new CPI basket (base January 2018) is based on the 2016 Household Expenditure Survey.
Government Finance Statistics: Reporting of budgetary central government data has improved over the last few years, but deficiencies remain in the compilation of both general government and public sector statistics. The authorities report monthly data on the budgetary central government's current revenue and expenditure, using a non *GFSM 2014* presentation with lags of a couple of months. The authorities would thus benefit from moving to a complete GFSM framework for the compilation of Government Finance Statistics. Additionally, frequent and substantial revisions suggest that there is a need for further refinement, including improvements to accounting systems for capital expenditures to record outlays associated with grant-financed projects as they are realized. Data for the rest of the public sector (financial and nonfinancial public corporations) are not readily available and should be compiled on a regular basis to improve fiscal monitoring of the overall public sector.
Monetary and Financial Statistics: Monetary data are compiled by the ECCB on a monthly basis and reported regularly to the Fund. Specifically, on St. Lucia, the institutional coverage of other depository corporations is incomplete, and valuation of interest-bearing assets and liabilities does not incorporate accrued interest. Also, source data for the commercial banks do not provide disaggregated information recommended by the Monetary and Financial Statistics Manual (ECCB is currently working on this issue).

Financial sector surveillance: The ECCB reports quarterly FSIs for St. Lucia covering commercial banks.	
External sector statistics: Since 2017, the ECCB and the NSOs including the Central Statistics Office (CSO) of St. Lucia have been jointly disseminating annual balance of payments and international investment position (IIP) statistics for each of ECCU member economies and the ECCU region following the BPM6 guidelines. Data for 2014 onwards are available on the ECCB's website. CARTAC continues assisting ECCU member's countries in strengthening the compilation framework of the ESS and dissemination of statistics mainly through enhancing the coverage, methodology and the quality of prioritized balance of payments components with the incorporation of a wider variety of data sources to supplement business surveys, which response rates are not satisfactory yet. The CSO accesses to relevant tax information from the Inland Revenue Department. Travel credits estimates are based on up-to-date visitor expenditure surveys carried out by the St. Lucia Tourist Board. Trade in goods data have been revised in the balance of payments by applying the recommended general trade system for the compilation of the international merchandise trade statistics. CARTAC TA to ECCB and CSO currently assist in backcasting the balance of payments for years prior 2014 addressing relevant breaks. The Debt Management Office (DMO) of the Ministry of Finance compiles granular public sector external debt (external debt owed by central government and by public corporations that is guaranteed by the government) and publicly guaranteed private sector external debt statistics that St. Lucia reports to the World Bank's Quarterly External Debt Statistics (QEDS) database. Data on external debt of the non-bank private sector are not available.	
II. Data Standards and Quality	
St. Lucia is a participant in the enhanced General Data Dissemination System (e-GDDS since September 2000 but has not yet launched a National Summary Data Page (NSDP).	

St. Lucia: Table of Common Indicators Required for Surveillance
(As of June 15, 2022)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Fixed rate	NA	NA	NA	NA
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	02/2022	04/2022	M	M	M
Reserve/Base Money	02/2022	04/2022	M	M	M
Broad Money	02/2022	04/2022	M	M	M
Central Bank Balance Sheet	02/2022	04/2022	M	M	M
Consolidated Balance Sheet of the Banking System	02/2022	04/2022	M	M	M
Interest Rates[2]	02/2022	04/2022	M	M	M
Consumer Price Index	03/2022	05/2022	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	03/2022	05/2022	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q1/2022	05/2022	Q	H	H
External Current Account Balance	2020	04/2022	A	A	A
Exports and Imports of Goods and Services	2020	04/2022	A	A	A
GDP/GNP	Q4/2021	05/2022	Q	A	A
Gross External Debt	NA	NA	NA	NA	NA
International Investment Position[6]	2020	04/2022	A	A	A

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government, state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D); weekly (W); monthly (M); half-yearly (H); quarterly (Q); annually (A); irregular (I); and not available (NA).

**Statement by Mr. Jennings, Mr. O'Brolchain, and Mr. Day
on St. Lucia
September 7, 2022**

On behalf of the authorities of St. Lucia, we express gratitude to Mr. Guerson and his team for the constructive discussions throughout the Article IV mission. **Our authorities have expressed satisfaction with the discussions and are in broad agreement with staff's assessment and recommendations.**

The COVID-19 pandemic had a significant impact on the economy and people of St. Lucia. However, our authorities' sound fiscal and macroeconomic policies helped the citizens of St. Lucia to weather the pandemic. Support from the Fund, through the Rapid Credit Facility in 2020, in addition to concessional funding from other multilateral partners and donor governments, assisted in mitigating the pandemic's impact on the most vulnerable.

Recent Developments, Economic Outlook, and Risks

St. Lucia has been severely affected by the pandemic, with GDP contracting by 24 percent in 2020, mainly reflecting the sharply negative impact of widespread travel restrictions on tourism and related industries. The collapse of international travel, combined with strict containment measures in the form of border closures and country-wide lockdowns, contributed to the containment of community spread. In addition, significant macroeconomic policy support was put in place, including measures to protect both the health and the financial systems, and to provide economic and social support to those most affected by the pandemic.

The economy experienced robust growth in 2021, with preliminary data showing that real GDP rebounded by 12.2 percent. This was primarily driven by a pick-up in stay-over tourist arrivals from the main source market, the US, and to a lesser extent from the UK. This partial recovery in tourism has facilitated a narrowing of the large current account deficit, which stood at 11 percent of GDP in 2021. The Hewanorra International Airport Redevelopment Project, coupled with other major planned infrastructural projects, is also expected to have a positive impact on economic activity.

As elsewhere, inflation has picked up in recent months; the country's dependence on fuel and food imports makes it particularly vulnerable to the economic repercussions of Russia's invasion of Ukraine. Inflation is projected to increase to 6.4 percent in 2022, before moderating towards 2 percent in the medium term. The authorities have adopted various measures aimed at curbing the economic pressures on citizens emanating from the rise in inflation in recent months.

Our authorities broadly agree with staff's outlook and the prevalence of downside risks to growth, especially the risks related to Russia's invasion of Ukraine and the pandemic.

Debt and Tax Policy

The current level of public debt as of June 2022 stood at approximately 83.2 percent of GDP, or US$4.463 billion. The debt stock includes central government contracted debt and liabilities, government-guaranteed debt, and public sector debt. Our authorities' immediate debt policy strategy is to reduce dependence on short term high-interest borrowing, through the use of treasury bills, and to pursue long term financing with lower interest rates from multilateral agencies, financial institutions, and donor governments.

In line with the government's Medium Term Debt Management Strategy (MTDS), our authorities will seek to convert treasury bills into longer-term instruments to lengthen the maturity profile, reduce rollover risk, and reduce the cost of borrowing by seeking lower interest rates. To assist the government in returning to prudential levels of borrowing, the Public Debt Management Bill will be enacted. This legislation will consolidate all laws pertaining to debt and will do so with a high level of transparency and accountability. The Debt Management reform is further supported by the advancement of an extensive legislative agenda, which will see the establishment of regulations to strengthen recently promulgated legislation, including the Public Finance Management Act and the Public Procurement Act. These will help transform the legislative and regulatory environment for the jurisdiction and will enhance compliance with international standards.

The government of St. Lucia plans to overhaul the tax system to ensure greater efficiency in the collection of taxes, to secure a higher level of tax compliance, and to broaden the tax base. In this process, the existing tourism and fiscal incentive regimes will be reviewed to ensure they are fit for purpose.

Furthermore, a comprehensive revision of tax policies and legislation, as it relates to international taxation, will be undertaken. Our authorities will continue to work diligently to maintain current compliance with both the EU and the OECD guidelines and standards on tax transparency and fairness, while attracting foreign direct investment and fueling sustainable economic growth.

Financial Sector

Weak bank credit growth and limited access to credit are some of the key obstacles to economic growth. In light of this, the government will provide much-needed financial support across all sectors of the economy to Micro, Small, and Medium-sized Businesses (MSME), in the form of soft loans, grants, and technical assistance.

The MSME Soft Loan and Grant Programme will advance the government's priorities in the areas of:

• Generating economic growth, business expansion, sustainability, and diversification;
• Employment creation; and
• Uplifting the quality of life of Saint Lucians.

This initiative is targeted to reach 849 registered MSMEs, including women and young persons, and will provide at least 1,698 new jobs. In addition, further support has been made available to SMEs in the form of loan guarantees for loans secured from a number of financial institutions.

Our authorities have made progress in addressing the deficiencies identified in the CFATF report. A National AML/CFT Policy was adopted at the end of 2021 to streamline the necessary reforms. Dedicated AML/CFT on-site reviews are ongoing, while legislative amendments have been made to clarify the definition of beneficial ownership, and the ML/TF risks posed by legal entities are being analyzed, as facilitated by the World Bank's risk assessment tool.

Structural and Governance Reform

Climate

Due to climate change, the physical environment of St. Lucia remains under constant threat of destruction. Building resilience and adapting to climate change is a full-time effort, which requires the dedication of resources of all kinds. Our authorities continue to mainstream resilience-building across government and non-government agencies, private sector entities, and community-based organizations.

The government is committed to explore viable alternative sources of energy to transition away from current use of fossil fuels and achieve energy independence. The Renewable Energy Sector Development Project (RESDP) is anticipated to lead the way in the creation of an enabling environment to scale up renewable energy investments in the private sector, and to advise the government on the viability of geothermal energy as a resource for power generation. The World Bank has approved a financing package of approximately US$21.9 million for the project, which will be implemented over 4 years, 2022-2026.

Digitization

Our authorities have embraced the Caribbean Digital Transformation Project (CARDTP), which aims to build the region's comparative advantage while overcoming its small size and vulnerabilities as the key theme for reducing poverty and increasing shared prosperity.

One of the government-led initiatives driving the acceleration of the digital transformation of the economy is the Digital Government Services Platform (DiGiGOV). This platform aims to provide a confidential, efficient, and simplified one-stop government service aimed at providing 154 different services online, across eight ministries through a single access point. The use of DiGiGov will be incentivized to encourage its widest use by residents and nonresidents alike, to allow for online secondary and tertiary education, to enable Saint Lucians in the diaspora to promote and enhance the tourism product, and to allow investment in government financial instruments.

Economic Recovery of Youth and Women

The COVID-19 pandemic and the devastating impact of recent natural hazards have revealed the disproportionate impact on women's livelihoods through loss of employment in hazard affected sectors like tourism and agriculture. St. Lucia was the first country in the Eastern Caribbean to launch the Build Back Equal project, funded by Global Affairs Canada, which builds on our authorities' commitment to gender equality by prioritizing access to safe, accessible, and affordable childcare services, increasing women's opportunities to pursue employment, building businesses, and reinforcing existing social protection measures.

In order to upskill women and young people, our authorities have rolled out targeted training courses in the specialized areas of Health Aide, Hospitality, Digital and Creative Entrepreneurship, and Early Childhood Development Aide. Tuition for participants will be fully funded, and participants will be provided with a stipend for full attendance. These training programmes will be supported by a more broad-based and inclusive initiative for young persons, referred to as the Youth Economy, which will see the institutionalization of youth-oriented entrepreneurship and business development activities; young persons are provided with the skills, training, technical support and financial assistance to convert their creative potential, interests and hobbies into businesses, enterprises and careers. Legislation on the Youth Economy has been passed in Parliament, and the Government is in the process of establishing an Administrative Framework.

Governance

St. Lucia had witnessed a steep decline in its Corruption Index global rating. Our authorities are committed to restoring the country's reputation to good international standings. In this regard, the government is reviewing the Integrity in Public Life Act, to strengthen this legislation and to hold public officials accountable for their actions. Additionally, the relevant legislation to appoint a Special Prosecutor was recently enacted, to conduct investigations into acts of alleged public corruption.

Conclusion

The COVID-19 pandemic, coupled with the spillover effects of the Russian invasion of Ukraine, has proven particularly challenging for St. Lucia and has highlighted vulnerability to external shocks. Our authorities are encouraged by the strong rebound in tourism but are cognizant of the downside risks associated with a heavy debt burden and the negative impact of the current inflationary environment and the need for economic diversification. The government remains committed to measures that will place public debt on a downward trajectory, while maintaining investment in critical infrastructure and the green agenda.

Given the ongoing risk of climate shocks, our authorities call for further concessional and grant support from the international community to finance climate change mitigation and adaptation measures, and welcome the efforts being made by the Fund in this regard.