October 2008
IMF Country Report No. 08/329

St. Lucia: 2008 Article IV Consultation—Staff Report; Staff Supplement, and Public Information Notice on the Executive Board Discussion.

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 2008 Article IV consultation with St. Lucia, the following documents have been released and are included in this package:

- The staff report for the 2008 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on June 18, 2008, 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 10, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement on the joint IMF/World Bank debt sustainability analysis.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its July 30, 2008 discussion of the staff report that concluded the Article IV consultation.

The document listed below will be separately released.

Statistical Appendix

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

ST. LUCIA

Staff Report for the 2008 Article IV Consultation

Prepared by the Staff Representatives for the 2008 Consultation with St. Lucia

Approved by Guy Meredith and Anthony R. Boote

July 10, 2008

EXECUTIVE SUMMARY

Recent developments. Following an acceleration in real GDP growth between 2001–06, activity was flat in 2007, reflecting a hurricane-induced contraction in banana exports, and a downturn in construction activity and tourist arrivals. Despite being underpinned by the regional currency board arrangement, annual inflation reached close to 7 percent in 2007, due largely to food and fuel price shocks and the ongoing depreciation of the U.S. dollar. The fiscal policy stance tightened markedly in 2007/08, while public debt remained stable at about 70 percent of GDP.

Outlook and risks. Although near-term growth prospects are favorable, risks are tilted to the downside. Given continuing pressure for higher social and capital spending, there is a risk that current policies may adversely affect the sustainability of public debt. While St. Lucia's domestic credit markets remain largely unaffected by international financial turbulence, slower growth and consumption in the U.S. and world economy, accompanied by high energy prices, may dampen tourism and private capital inflows.

External competitiveness. The real effective exchange rate is in line with macroeconomic fundamentals, yet maintaining competitiveness remains a challenge. The recent rise in the external current account deficit reflects an adverse terms of trade shock and a downturn in tourist arrivals, and is almost fully financed by nondebt-creating private capital inflows.

Main issues. Policy discussions focused on the key challenges facing St. Lucia:

- *Broadening the bases of growth.* The authorities and staff agreed on the required steps, including efforts to revitalize tourism, improve the investment climate, and diversify exports.

- *Debt sustainability and fiscal consolidation.* To ensure fiscal and debt sustainability, staff advocated fiscal adjustment to be achieved largely by greater prioritization of capital spending, enhanced debt management, and a broadening of the tax base, including through enhanced pass-through of world energy prices. The authorities agreed with the need for fiscal consolidation and better evaluation of public sector investment, but emphasized that their plan to boost tourism-sector public infrastructure was the lynchpin of a strategy to attract large private capital flows into tourism.

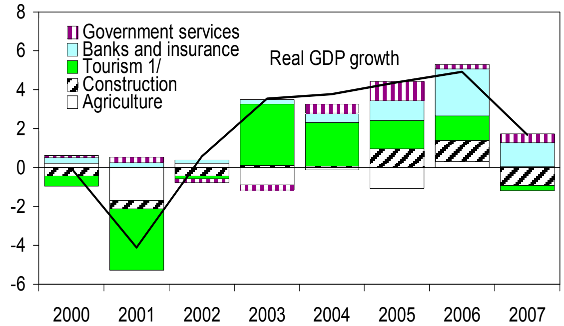
- *Financial and external stability.* Current account imbalances are projected to decline over the medium term, and be smaller than the estimated equilibrium level. The authorities have strengthened banking sector supervision, but need to bolster efforts to introduce a single regulatory agency for nonbank financial institutions and close unregulated investment schemes.

Contents

I. Background and Recent Economic Developments[1]

1. **St. Lucia is a small, open, tourism-based economy that is vulnerable to exogenous shocks.** Tourism accounts for over three-quarters of exports, and the import content of both consumption and foreign direct investment is high. While the share of value added from the traditionally-dominant agriculture sector has declined sharply in recent decades, crop exports (particularly bananas) support the incomes of much of the country's large rural population (Figure 1).

Sectoral Contribution to GDP Growth
(In percent)



Sources: St. Lucia authorities; Eastern Caribbean Central Bank.
1/ Tourism includes wholesale and retail trade, hotels and restaurants, air transport and half of local transport.

2. **St. Lucia's macroeconomic performance has been mixed in recent years.** While real GDP growth averaged about 4 percent during 2003–06, it has slowed to 1¾ percent in 2007, reflecting contraction in hurricane-affected agriculture (mainly banana exports), and slowdowns in construction activity and stayover tourist arrivals.[2] Inflation increased sharply to 6.8 percent at end-December 2007 (Figure 2), due to higher imported fuel and food prices and the ongoing depreciation of the U.S. dollar (to which the Eastern Caribbean (EC) dollar is pegged). Unemployment has declined from 22 percent in 2003 to 14 percent in 2007.

3. **Progress has been made in reducing fiscal imbalances, yet public debt and debt servicing payments continue to rise.** The government achieved a primary surplus in FY 2007/08 of 0.8 percent of GDP, reflecting an increase in current revenue and a marked reduction in capital expenditures following the spike in Cricket World Cup-related spending. The authorities explained that unexpected developments—mainly the lack of donor funding and inadequate capacity to appraise investment projects—had complicated budgetary execution in FY 2007/08. However, public debt increased to 70½ percent of GDP (due to rising public enterprise debt), still the lowest in the ECCU (Figures 3 and 4). The approved

[1] The Article IV discussions were held in Castries during June 5–18, 2008. The staff team comprised Messrs. Cashin (Head), Nassar, and Ms. Sun (all WHD). The mission met with the Prime Minister (and Minister of Finance), the Permanent Secretary of the Ministry of Finance, the Permanent Secretary of the Ministry of Economic Affairs, other senior government officials, opposition parliamentarians, representatives of the financial and business sectors, as well as farmers, trade unions and civil society. Staff of the Eastern Caribbean Central Bank (ECCB) and Caribbean Development Bank (CDB) also participated. Mr. Charleton (OED) joined for the final discussions.

[2] St. Lucia was affected by the passage of Hurricane Dean in August 2007, which damaged the agriculture sector and some public infrastructure, and by an earthquake in November 2007. The latter natural disaster triggered a payment of US$0.5 million under the Caribbean Catastrophe Risk Insurance Facility (CCRIF).

budget for FY 2008/09, if fully implemented, would widen fiscal imbalances through increased capital spending, yet this is unlikely given implementation constraints (Box 1).

4. **The external current account deficit remained elevated in 2007, accompanied by strong capital inflows.** The large deficit (29 percent of GDP) was driven primarily by a continued deterioration of the terms of trade and decline in tourist arrivals, and higher imports related to hotel construction and energy demand (Box 2). The deficit continues to be almost entirely financed by foreign direct investment, mainly in tourism-related construction. Nonetheless, St. Lucia remains vulnerable to external shocks, given its dependence on imported oil, volatile tourism receipts, exposure to natural disasters, and rising food and energy prices.

5. **Indicators present a mixed picture of St. Lucia's external competitiveness.** St. Lucia's real effective exchange (REER) is at its lowest level in 20 years, reflecting the depreciation of the U.S. dollar against major currencies. However, real wages have increased, the terms of trade has deteriorated since 2000, and in recent years St. Lucia experienced a decline in its share of stayover visitors to the Caribbean. Analysis undertaken by staff finds that the REER was close to its estimated equilibrium level, suggesting that the exchange rate regime, if supported by fiscal and wage policies, will remain competitive.

6. **Private sector credit grew substantially in 2007.** Despite a softening in economic activity, demand for credit by firms and households has continued to rise (Figure 5). As a result, commercial banks have accelerated their drawdown of foreign assets to expand their loan portfolio. The increase in demand for credit, combined with renewed targeting by private sector banks of small- and medium-sized enterprises, has heightened competition, triggering a narrowing of lending spreads.

7. **The health of the financial sector continues to strengthen.** Provisioning, asset quality and capital adequacy all improved in 2007 (Figure 6). Nonperforming loans (NPLs) of local banks continue to decline, and are close to the ECCB's prudential target of 5 percent. However, the decline in the NPL ratio reflects in part the continued growth in bank lending, which could engender future problem loans, especially in the event of any large macroeconomic shock (such as a sustained downturn in tourist arrivals reflecting a slowing world economy). Nonbank financial intermediaries remain under-regulated, despite holding about one fifth of financial sector assets.

8. **St. Lucia has favorable social indicators, but poverty and crime remain concerns.** The country has near-universal adult literacy, strong health outcomes, and good access to social services. However, unemployment has remained high, particularly among the young and women. One fourth of the population lives in poverty, and crime is a growing problem.

II. Policy Discussions [3]

9. **Policy discussions focused on four issues:** broadening the bases of economic growth; enhancing fiscal consolidation and debt sustainability; maintaining financial sector and external stability; and reducing other vulnerabilities. Policy discussions took place against the backdrop of deteriorating prospects for global growth and continued high import prices.

A. Broadening the Bases of Economic Growth

10. **Near-term growth prospects are favorable.** Stayover tourist arrivals grew by about 9 percent during the first four months of 2008 and private investment should remain healthy, reflecting the construction of several new upscale resorts. The staff forecasts growth of 2⅓ percent in 2008, as signs of accelerating activity are still tentative. Despite deteriorating global prospects, high energy prices, and only modest recovery in agriculture, growth is projected to rise further in 2009. The authorities were in broad agreement with this assessment, and were particularly concerned about the impact of high oil prices, any sudden unwinding of global external imbalances, and associated risks for tourism demand. They were also apprehensive about the level and volatility of the U.S. dollar. Inflation is expected to remain elevated, amid record high energy and food import prices.

11. **Medium-term growth will be determined by the rate of growth of potential output.** On current policies, staff projects output growth to increase to about 4½ percent by 2013. Additional hotel capacity, combined with vigorous marketing and more frequent airlift, is expected to boost growth. This outlook does not foresee a prolonged period of adverse headwinds from the current global economic downturn. The mission believes that there is a need to build on the 2007 National Development Plan, by improving the investment climate and fostering higher labor utilization, which would also ease the strain on public finances. Additional measures that the government could take to enhance productivity and efficiency include:

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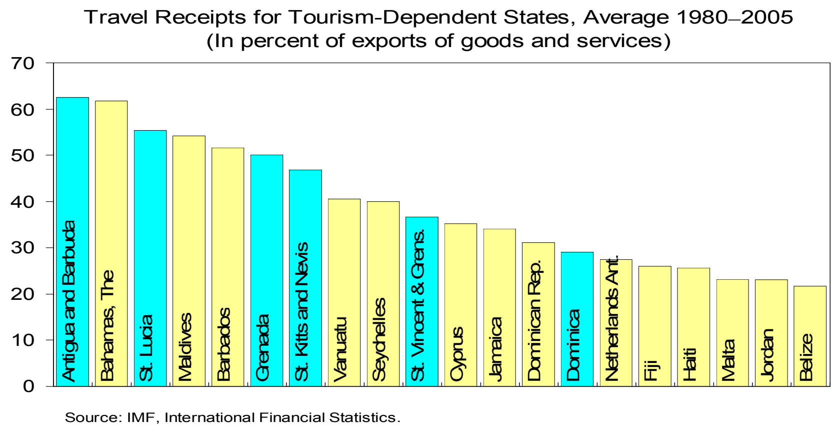
[3] The consultation was complemented by the Executive Board discussion of the Staff Report for the 2007 Eastern Caribbean Currency Union Discussion on Common Policies of Member Countries, the report for which covers common regional issues related to monetary and exchange rate issues and banking system supervision (see IMF Country Report No. 08/94).

- *Basing tourism development on a long-term plan that considers related policies and needs for infrastructure and services.* The authorities recognized that the ongoing expansion in stayover capacity presents a number of challenges if it is to be utilized fully and yield a



wider economic return. These include the capacity to supply water, power, roads, skills training, security, airlift, and other services. The authorities argued that the proposed public investment projects were key to escaping from St. Lucia's rising public debt and low-growth dynamics, by promoting private sector investment as key engine of economic growth.

- *Improving the investment climate.* While St. Lucia continues to be ranked first among Caribbean countries in the World Bank's *Doing Business Indicators*, improvements in several areas are needed, particularly cross-border trade, property registration, contract enforcement, foreclosure laws, and the availability of credit information (Figure 7). The mission supported the authorities' plan to work closely with the business sector and USAID in overcoming weaknesses in the investment climate.

- *Developing regional trade in goods and services.* The mission welcomed the authorities' progress in implementing the Caribbean Single Market Economy (CSME) requirements and in preparing for the OECS Economic Union. Staff recommended that the authorities enhance regional cooperation in providing government services and rationalizing tax concessions, and continue to support regional efforts to facilitate the movement of goods, labor and capital across OECS and CARICOM countries. The mission also reviewed progress in the implementation of St. Lucia's 2006 National Export Strategy.

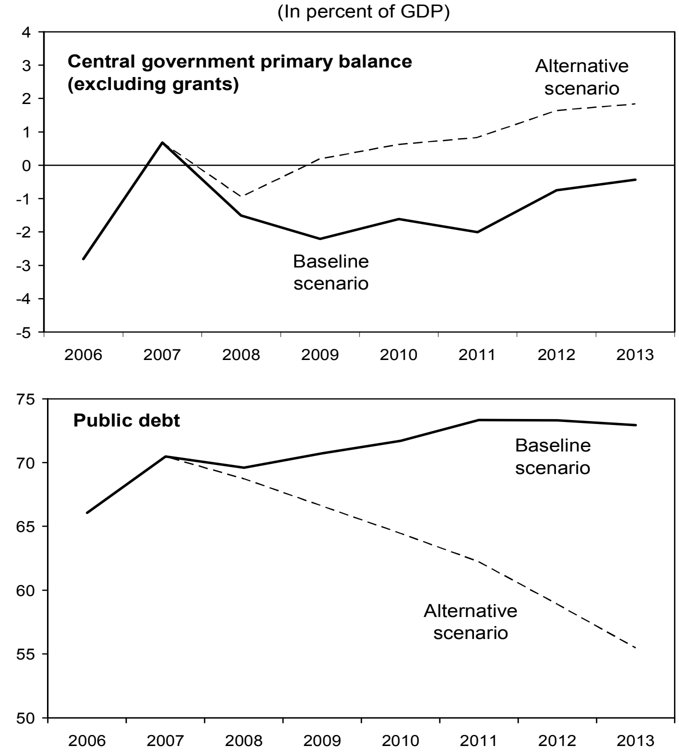
- *Diversifying exports.* The hurricane-affected downturn in banana exports in 2007 has negative implications for employment creation, income levels, and the general standard of living in the island's rural communities. The mission welcomed the authorities' intention to develop a five-year strategic management plan, announced in the 2008/09 Budget, to promote diversification in the agriculture sector. Staff agreed with the authorities that in the medium term, the expansion in hotel room capacity and the upturn in tourist arrivals will likely stimulate local demand for agricultural production.

- *Strengthening underdeveloped social safety nets.* In St. Lucia a series of social programs has evolved over time in a piecemeal fashion, which is both expensive and inefficient in targeting the needs of the most vulnerable. Poverty has increased in recent years, due to the slowdown in economic activity and the downturn in banana exports. The mission noted that the authorities plan to expand social safety nets through the introduction of a St. Lucian version of the Chilean *Puente* program, promote the use of food stamps in local stores, and raise the level of public assistance payments. Nonetheless, the mission stressed the need to sharpen the focus and coherence of poverty reduction initiatives and ensure that they are linked to the social development programs in the budget, consistent with overall macroeconomic and fiscal objectives. The mission also welcomed the authorities' plans to develop a National Poverty Reduction Strategy, with a view to improving the coherence of social protection programs.

B. Fiscal Consolidation and Debt Sustainability

12. **St. Lucia's fiscal deficits are mainly structural, reflecting adverse trends in the tax base and a lack of adequate project appraisal.** Tax competition has led to a steady erosion of the fiscal revenue base, particularly for corporate taxes.[4] At the same time, the inability of the authorities to adequately appraise public sector investment projects has led to an increase in investment expenditure. Despite recent welcome efforts at fiscal consolidation, these adverse trends are set to intensify in the period ahead, making corrective action urgent. In particular, debt service is consuming a large share of current revenues, and the debt burden needs to be reduced further.

St. Lucia: Public Sector Debt Dynamics 1/
(In percent of GDP)



Sources: St. Lucia authorities; and Fund staff estimates and projections.
1/ Data are for fiscal years beginning April 1.

13. **The authorities agreed that deficit pressures are a serious concern.** Although St. Lucia's debt-to-GDP ratio is the lowest in the ECCU, the mission was concerned that expenditures will grow rapidly once the government begins to implement its investment plans, without significantly increasing the buoyancy of

[4] See Nassar (2008), "Corporate Income Tax Competition in the Caribbean," IMF Working Paper WP/08/77.

revenues. On current policies, staff projections show a widening of the primary deficit into the medium term, chiefly due to the government's proposed acceleration in investment spending. In this scenario, public debt would reach 73 percent of GDP by FY 2013/14. Staff's projections also show that even in an alternative scenario with higher growth, it is necessary to take additional revenue and expenditure measures to bring public finances in line with long-run debt sustainability (Annex I).

14. **The challenge is to contain the fiscal deficit while accommodating a modest increase in social and capital spending.** On the basis of the alternative scenario, the mission recommended a primary surplus of about 2 percent of GDP over the medium term. This adjustment requires implementing tax policy and administrative reforms to broaden the tax base. However, as the scope for immediate revenue measures appears small, most of the adjustment during FY 2008/09 would come from greater prioritization of capital expenditures (about 4 percent of GDP lower than the 2008/09 budget). This scenario will also allow for higher social spending, while reducing the deficit. Grants from the European Union and Taiwan, Province of China, are expected to increase, yet disbursements are not expected to reach the level envisaged in the budget. Under this alternative scenario and with annual GDP growth of about 5 percent, staff projections show that debt could fall to below 60 percent of GDP by 2012, eight years earlier than required under the ECCB Monetary Council's benchmark (see Annex I). While the authorities broadly supported the need for fiscal consolidation, they viewed increased near-term capital spending as necessary to expand tourism infrastructure, attract FDI and private investment, and continue the transformation of the economy away from agriculture toward tourism-based services.

St. Lucia: Yield from Additional Fiscal Measures, FY 2008/09–2013/14
(Average yield per year)

	In Percent of GDP
Revenue and grants 1/	**1.5**
Property tax reform (move to market valuation) 2/	0.3
Petroleum product price liberalization 3/	0.9
Income and consumption taxes (increase in compliance)	0.1
Grants	0.2
Expenditure	**2.7**
Wage savings (assuming constant real wage bill)	1.0
Prioritization of capital expenditures	1.7

Source: Fund staff estimates.
1/ Revenue positive VAT is introduced in FY 2009/10.
2/ Property tax reform takes effect in FY 2009/10.
3/ More flexible domestic retail pricing takes effect in mid-2008.

15. **Over the medium term, there is scope to raise revenues by broadening the tax base.** Major aspects include:

- *Taxation of petroleum products.* Staff welcomed the adjustment of retail prices of petroleum products in early 2008 and the authorities' commitment to pursue a flexible oil pricing mechanism, as announced in the Budget Speech of April 2008. However, world oil prices have since risen further and are projected to remain high over the medium term. At present, retail prices of petroleum products are the lowest in the region and the effective tax rate has declined dramatically. The mission recommended a flexible pricing mechanism, so as to ensure that the revenue authorities garner the full amount of the legislated consumption tax as world (and landed) petroleum prices change.

- *Property taxation.* Although the real estate sector continues to perform well, property tax collections have remained flat. The mission urged the authorities to accelerate plans to move to a market valuation-based property tax system (preferably during FY 2009/10) once the required cadastral surveys are completed, with minimal exemptions permitted. Staff supports the authorities' intention to model the proposed enabling legislation on that of St. Kitts and Nevis, which will facilitate harmonization of legislation in the region.

- *Introduction of the VAT.* The mission recommended that the authorities step up their efforts to introduce a VAT in FY 2009/10, including by strengthening domestic tax and customs operations, and continuing to seek relevant technical assistance from CARTAC and the Fund. The authorities will soon establish the VAT Implementation Unit, and plan to seek assistance from CARTAC and the Fund in drafting relevant legislation. Staff reiterated its caution against having a large number of zero-rated and exempt products and services, as this will weaken the VAT regime by increasing the administrative burden, eroding the tax base, distorting incentives in the tax regime, and complicating compliance. In particular, the mission underscored the need to resist pressures to exempt the tourism sector and to avoid multiple VAT rates. The authorities were also encouraged to announce a specific date for VAT implementation and begin to educate the public on the attributes of the VAT.

- *Strengthening tax administration.* Currently, taxpayer registration is undertaken on a voluntary basis. The mission emphasized the need to strengthen the administrative capacity to identify and register taxpayers, and to clean up the outdated register, which will also be important for the introduction of the VAT. The mission also welcomed steps taken in both the Customs and Inland Revenue Departments to strengthen the auditing process.

16. **Expenditures will need to be curtailed and management of public debt enhanced:**

- *Prioritization of capital expenditure.* The 2008/09 budget affirmed the government's commitment to undertake a large number of high-profile projects announced in the National Development Plan of 2007. While the mission supports improvements in transportation and tourism-related infrastructure, it is critical that infrastructure projects be prioritized and properly phased. Staff welcomed the authorities' commitment to introduce a formal public sector investment program (PSIP) mechanism to ensure the effectiveness of capital expenditures, which would involve the implementation of multi-year rolling PSIPs, and urged the government to seek technical assistance from CARTAC and the CDB.

- *Debt management.* The mission supports the authorities' efforts to strengthen technical capacity in its debt management unit, following technical assistance from the Fund's Monetary and Capital Markets Department (received in May 2008). [5] It is hoped that the

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[5] Three key recommendations arising from the MCM mission include that: the Ministry of Finance establish a Debt Advisory Committee (chaired by the Permanent Secretary) to ensure the consistency of debt management

(continued)

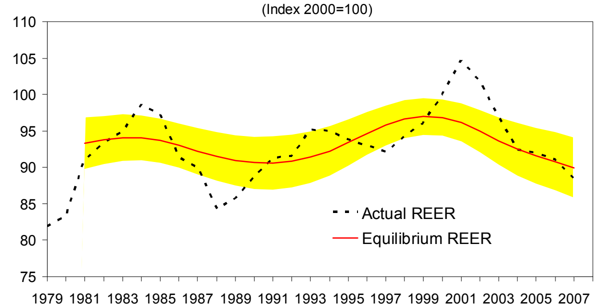
enhanced debt management will allow the authorities to more accurately monitor existing debt, inform as to the timing of future debt payments, advise on the least-cost source of managing cash flows, and formulate a strategy for retiring high-cost debt. It is also important that potential contingent liabilities resulting from expected public private partnership (PPP) projects be closely monitored.

- *Civil service wages.* Civil service wage negotiations for the 2008–10 triennium will commence later in 2008, and the mission expressed concern regarding the effects on competitiveness of excessive wage increases. The mission and the authorities agreed on the importance of limiting wage increases, to facilitate fiscal consolidation and dampen second-round increases in inflation, particularly as the authorities do not have an independent monetary policy that can be used to achieve these goals. In addition, civil service reforms should be undertaken, which would offer some scope for savings while providing greater differentiation in the pay scale between higher- and lower-skilled workers.

C. External Stability

17. **St. Lucia's real exchange rate appears to be in line with fundamentals.** Staff analyses indicate that St. Lucia's actual real effective exchange rate (REER) is close to its equilibrium level, reflecting the depreciation of the U.S. dollar against major currencies (Figure 8).[6] Since 2000, the equilibrium REER has also depreciated, due to the ongoing decline in both the terms of trade and relative tourist arrivals, and the accumulation of net foreign liabilities.

St. Lucia: Actual and Equilibrium REER, 1979–2007 1/
(Index 2000=100)



Sources: IMF, Information Notice System; and Pineda and Cashin, "Is the Eastern Caribbean Dollar Overvalued?," forthcoming IMF Working Paper.
1/ The shaded band around the equilibrium exchange rate represents the 90 percent confidence interval.

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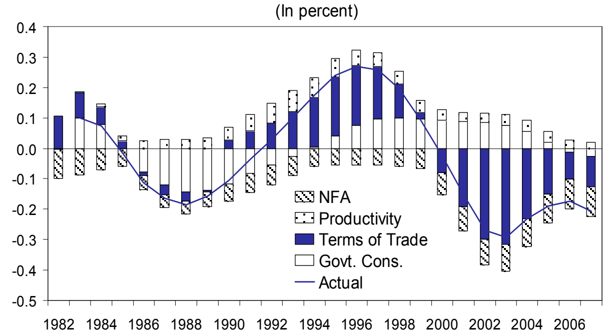
policy with other macroeconomic policies; the Ministry of Finance's Debt and Investment Unit enhance its ability to develop its debt management strategy, risk analysis and reporting; and that a general sinking fund be established to mitigate exposure to rollover risk on maturing public debt.

[6] See Pineda and Cashin (2008), "Assessing Exchange Rate Competitiveness in the ECCU," in *ECCU: Selected Issues*, IMF Country Report No. 08/96.

18. **Sustaining competitiveness in the medium term depends on upgrading the capacity of the tourism sector.** The depreciation of the actual REER has improved the attractiveness of St. Lucia as a tourist destination, and is expected to lead to a reversal in the recent decline in tourist arrivals. The mission concurred with the authorities' expectation that ongoing improvements in tourism-related infrastructure, along with increased airlift, more competitive intra-Caribbean airfares, and promotional efforts, will also boost tourism performance, although higher oil prices pose a downside risk.

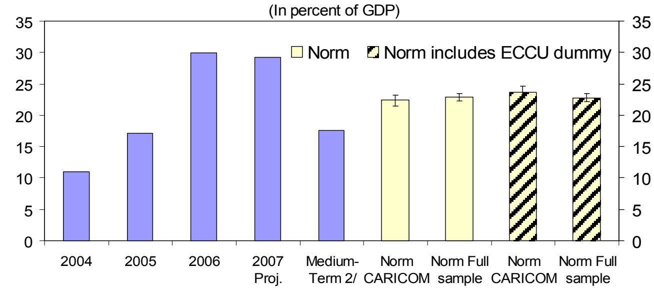
St. Lucia: Contributions to Changes in Equilibrium Exchange Rate, 1982–2007
(In percent)



Source: Pineda and Cashin, "Is the Eastern Caribbean Dollar Overvalued?," forthcoming IMF Working Paper.

19. **St. Lucia's current account deficits are broadly in line with estimated equilibrium levels.** Using the macroeconomic balance approach, staff estimates put the equilibrium current account deficit under current policies (the current account 'norm') at around 23 percent of GDP. This is above St. Lucia's projected medium-term (2013) deficit of about 18 percent of GDP.[7] This implies that despite their apparent high levels, medium-term current account imbalances in St. Lucia—financed not by the accumulation of external sovereign debt but largely by private capital flows (particularly FDI)—appear sustainable. While deficits are projected to remain above estimated equilibrium levels for several years, which heightens external vulnerabilities, imbalances are expected to decline over the medium term to a sustainable level. Moreover, public external debt is expected to be roughly constant (as a share of GDP) over the medium term, at a level which appears consistent with stability of the currency union. The authorities agreed with this assessment, noting that the import content of FDI flows is extremely high, so that if FDI falters, then current account imbalances will shrink as well, with only limited dislocation of the domestic economy. Nonetheless, St. Lucia's large stocks of public and external debt make further fiscal consolidation key to enhancing debt sustainability, maintaining competitiveness, and supporting the region's currency board arrangement.

St. Lucia: Current Account Deficit, Actual and Estimated Norms 1/
(In percent of GDP)



Sources: Pineda and Cashin, "Is the Eastern Caribbean Dollar Overvalued?," forthcoming IMF Working Paper; Fund staff estimates and projections.
1/ In computing the norms, medium-term values of the fiscal balance, oil-balance, output growth, and relative income are drawn from staff projections. Band is ±1 standard error of the prediction. CARICOM sample includes ECCU countries and The Bahamas, Barbados, Belize, and Jamaica. Full sample includes 21 tourism-dependent economies as defined by Bayoumi and others (2005).
2/ Based on Fund staff estimates. Medium-term is 2013.

[7] The panel regression (for the period 1979–2007) includes 21 tourism-dependent countries—see Pineda and Cashin (2008), "Is the Eastern Caribbean Dollar Overvalued?," forthcoming IMF Working Paper.

D. Real and Financial Sector Vulnerabilities

20. **St. Lucia remains one of the world's most disaster-prone countries.** Given the experience of St. Lucia in 2007 (Hurricane Dean in August and earthquake in November), the mission welcomed St. Lucia's continued participation in the CCRIF, and the recent effective reduction in St. Lucia's premium for disaster insurance charged by the CCRIF.[8] The mission supported the authorities' efforts in: enhancing the National Emergency Management Organization and improving the national emergency response plan; introducing the OECS disaster risk management benchmarking tool; and seeking to alter the modalities of the CCRIF to better reflect the asset structure of CARICOM countries. Staff urged the speedy passage of the 2006 Disaster Management Act, the introduction of strengthened building codes, and greater take-up of insurance of public and private assets.

Worldwide Incidence of Natural Disasters, 1970–2007

		All Recorded Disasters			
		Number of Events Divided by Land Area		Number of Events Divided by Population	
	Number of Events	Index	Rank	Index	Rank
All countries	8,866	100	96	100	95
Advanced economies	1,803	10	106	23	113
Caribbean	331	589	38	580	34
ECCU	65	943	8	1,309	7
Anguilla	5	1,592	3	1,906	2
Antigua and Barbuda	7	517	12	397	10
Dominica	11	476	14	721	4
Grenada	6	573	8	263	14
Montserrat	7	2,229	2	5,737	1
St. Kitts and Nevis	7	632	6	686	5
St. Lucia	**10**	**524**	**11**	**286**	**13**
St. Vincent and the Grenadines	12	1,000	4	476	7
Other Caribbean	266	4,244	706	1,133	618
Other	6,732	47	102	46	101

Sources: EM-DAT for data on natural disasters; World Bank, World Development Indicators for data on land area and population.

Note: The sample contains 190 economies. Simple unweighted averages are used for country groupings. Rankings are in descending order, with "1" indicating the most exposed to natural disaster.

21. **While the authorities intend to revitalize the agricultural industry, the banana sector is likely to continue to contract due to competitive pressures and the ongoing erosion of trade preferences in European markets.**[9] The mission supports the authorities' efforts to bolster social safety nets for displaced farmers and agricultural workers, and recommends focusing on time-bound measures such as income transfers, retraining programs, noncontributory pensions, and limited subsidies on agricultural inputs (to encourage diversification into nonbanana agriculture). While the European Union continues to fund efforts to alleviate the social impact of the sector's decline, the mission notes the slow pace of donor support for much-needed investment in health, education and social spending.

22. **The collapse in donor assistance has slowed the transition of the economy out of agriculture.** The authorities generally agreed with the mission's recommendations on easing

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[8] In January 2008 the CCRIF announced a reduction in premium to member states. During 2007 several CARICOM countries experienced significant damage due to hurricanes, which failed to trigger payouts under the parametric-based scheme due to insufficient wind speeds.

[9] The medium-term plans for the banana industry entail a smaller number of productive growers, producing high-quality bananas for export to Europe under the higher-priced 'fair trade' label. Beginning January 1, 2008, banana exports from St. Lucia have continued to enter the European Union duty-free, under the EU-CARICOM Economic Partnership Agreement.

the transition of the economy from agriculture toward tourism, but clearly stated their disappointment at the continued lack of donor support for investment in health, education and social spending.

St. Lucia: EU Banana Support

	Amount Committed	Amount Disbursed	Percentage Disbursed
Special Framework of Assistance	(In € million)		(In percent)
1999	8.7	6.7	77.0
2000	8.9	6.7	5.6
2001	9.4	4.2	44.7
2002	8.8	1.3	14.7
2003	8.0	2.1	25.7
2004	7.3	0.0	0.1
2005	6.2	0.0	0.0
2006	5.4	0.0	0.0
2007	4.6	0.0	0.0
Total	**67.3**	**21.0**	**31.1**

Sources: St. Lucia authorities; Delegation of the European Commission, Barbados.

23. **The macroeconomic outlook is subject to considerable risks, notably international financial turbulence and the slowdown in the world economy.** While St. Lucia's domestic credit markets remain largely unaffected by international financial volatility, slower growth and consumption in the U.S. and world economy, accompanied by high energy prices, may dampen the flow of tourists and private capital to the Caribbean.

24. **Strong credit growth, financed by increased foreign borrowing of banks, calls for closer monitoring of financial sector soundness.** Very high domestic lending growth, due in part to growing competition between bank and nonbank financial institutions, points to increased credit risks and the potential for the erosion of financial system assets. The sharp slowdown in economic activity in 2007, compounded by St. Lucia's vulnerability to natural disasters and the likely impact of slower world growth on tourism, poses further risks to the longstanding stability of the banking sector. Although the financial sector as a whole appears well capitalized and profitable, the mission urged the authorities to step up on-site and off-site supervision of banks (particularly local banks) by the ECCB, and recommended that more attention be given to crisis management. While the authorities broadly agreed with the staff's recommendations, they were sanguine regarding the extent of any deterioration in the quality of banks' loan portfolios.

25. **Enhanced regulation and supervision of nonbank financial institutions is also a priority.** Additional measures need to be taken to strengthen the effectiveness of financial sector supervision, including through the development of a broad supervisory framework to regulate all nonbank financial institutions. Staff welcomed the enhancement of supervision of nonbanks by the strengthening of the Financial Services Supervision Unit, and the likely end-2008 passage of the OECS-wide uniform Cooperatives Society Act, uniform Insurance Act, and uniform Money Services Act. While Cabinet has approved an independent Single Regulatory Unit (SRU) for nonbanks, additional steps need to be taken to ensure that the SRU is established as soon as possible. The mission supports the authorities' intention to establish the SRU as an independent statutory authority, responsible for supervision of the offshore financial sector, domestic insurance sector, credit unions, money transfer institutions, and the soon-to-be established National Development Bank. Staff also supports the authorities' request for CARTAC technical assistance in the drafting of enabling legislation and acknowledges further progress in improving the AML/CFT regime. The mission noted the completion in February 2008 of mutual evaluation of financial regulation

by the Caribbean Financial Action Task Force, and recommended that firm and prompt action be taken to close nontransparent investment schemes (Box 3).

E. Other Issues

26. **St. Lucia's statistical data remains weak, despite ongoing efforts to enhance databases.** In particular, improvements in coverage and timeliness are needed to facilitate effective policymaking, surveillance, and inform public debate. Additional resources need to be devoted to strengthening data in the areas of national accounts, private sector external debt, tourism, labor markets, and foreign project aid. The mission welcomed the authorities' recent initiative to construct and rebase the consumer price index, and its work in rebasing the national accounts to 2005 (in line with other OECS countries).

27. **St. Lucia is grappling with the challenges facing the entire ECCU—a slowing of growth and a spike in inflation triggered by external shocks and a weakened external environment.** The potential for further increases in already-high world oil and food prices is a major risk to St. Lucia's economy. Regarding oil prices and supplies, the mission noted that work on the construction of a privately-owned oil refinery has yet to commence, and that St. Lucia continues to abstain from signing the PetroCaribe Agreement with Venezuela. On food prices, the authorities indicated that they are taking steps to encourage local agriculture production (including through subsidies for fertilizer), continuing to subsidize the price of flour, sugar and rice, and have placed an additional 15 basic food and health-related goods under price controls, involving maximum wholesale and retail margins. They have also implemented the CARICOM initiative to temporarily (until March 2010) suspend the common external tariff on several items of imported foodstuffs. The mission advised against additional price controls, due to their inability to effectively target support, and encouraged the authorities to seek the assistance of the CDB and the World Bank in the design of well-functioning social safety nets to deliver assistance to the poor.

III. Staff Appraisal

28. **St. Lucia's macroeconomic performance has been mixed in 2007, while near-term prospects are favorable.** Activity has been flat, reflecting the contraction in hurricane-affected agriculture, construction activity, and stayover tourism arrivals. Inflation increased sharply at end-2007, driven by higher imported food and energy prices. Growth is likely to accelerate in 2008 and 2009, due to a rebound in agriculture, rising tourism-related construction activity and growing tourism flows, while inflation is projected to remain elevated.

29. **Both the real effective exchange rate and medium-term current account deficits appear to be broadly in line with fundamentals.** While current account deficits are projected to remain high for an extended period, capital flows and current account imbalances will decline over the medium term. In addition, external debt is projected to

remain constant over the medium term, and large new private construction investment in tourism points to continuing strong prospects in this key sector of the economy, although persistent high oil prices could dampen these prospects somewhat. Nonetheless, further fiscal consolidation is necessary to bolster external competitiveness, assist in maintaining external stability, and support the quasi-currency board arrangement.

30. **Fiscal imbalances and the stock of public debt need to be brought to more sustainable levels.** Despite the recent welcome improvement in fiscal balances, projected fiscal trends increase the risk that earlier consolidation gains could be reversed. While the approved budget for 2008/09, if fully implemented, would widen fiscal imbalances, implementation constraints will again likely dampen expenditures. Nonetheless, public debt remains high, constraining the fiscal room for maneuver in the event of shocks, while the burden of debt servicing limits the ability to undertake much needed social and poverty-reduction spending. Key fiscal initiatives include:

- ***Revenue reforms.*** The authorities should move quickly to broaden the tax base through introduction of the VAT and market valuation-based property taxation, and institute more flexible domestic petroleum pricing. To ensure the integrity of consumption taxation, it is vital to avoid weakening the prospective VAT through exemptions and tax concessions.

- ***Expenditure restraint.*** Capital expenditures need to be prioritized and properly evaluated, along with limiting growth in the civil service wage bill.

- ***Debt management.*** Ongoing efforts by the authorities to strengthen the capacity for debt management are well placed.

31. **Prompt action is needed to strengthen social safety nets.** The ongoing erosion of trade preferences and the high price of imported food and fuel are having important economic and social consequences. Staff supports the authorities' plans to provide well-targeted safety nets, drawing upon assistance from external donors where possible, and suggests that price controls be phased out once such safety nets are in place.

32. **Financial sector vulnerabilities call for close monitoring.** The ongoing credit boom amidst an economic slowdown could erode the quality of banking system assets, raising the importance of effective banking supervision. Prompt action is also needed to terminate unregulated financial institutions, in particular the nontransparent investment schemes operating in St. Lucia. Staff urges the authorities to expedite their efforts to consolidate regulation and supervision of nonbank financial intermediaries, and enhance supervision of international financial services.

33. **Economic and social statistics need to be enhanced.** Data often remain scanty in terms of coverage, timeliness, and reliability. Staff welcomes the authorities' focus on strengthening data quality and provision, including by seeking technical assistance from CARTAC, the ECCB and the Fund.

34. **It is recommended that the next Article IV consultation take place on the standard 12-month cycle.**

Box 1. St. Lucia: The 2008/09 Budget

The budget (introduced in April 2008) is designed to steer a course through tough economic times. Planned projects include: (i) revitalizing the agriculture sector; (ii) investing heavily in training in order to address skills-mismatches in the productive sectors of the economy; (iii) re-establishing a National Development Bank that will offer financial and technical support to farmers and small businesses; and (iv) fighting crime.

If fully implemented, the budget will worsen the fiscal deficit and increase public debt. Absent implementation constraints, the budget implies a significant deterioration in the primary and overall fiscal deficits to 2 percent and 5.3 percent of GDP, respectively. Financing from loans and new bond issues will increase the central government debt to 65 percent of GDP. In addition, the budget envisages grants to the tune of 4 percent of GDP, though the historical average is about 0.1 percent of GDP.

Much of the deterioration in the primary balance stems from an increase in capital spending. The budget scales up capital spending to 14.7 percent of GDP, though the historical implementation rate has yielded capital spending of less than 10 percent of GDP. The government justifies increased spending with additional demands for infrastructure to support the agriculture, information technology, and tourism sectors. Current expenditure is set to increase by about 1.5 percent of GDP, including on social programs.

Revenue projections appear realistic. The increase in current revenue (½ of 1 percent of GDP) will be largely derived from higher receipts from tax arrears. A key measure in the budget is a two-year income tax amnesty, which will make it easier for taxpayers to settle their arrears, which are currently estimated at EC$324 million (about 10½ percent of GDP), inclusive of interest and penalties.

St. Lucia: Operations of the Central Government, FY 2005/06–2008/09

			Budget	Est.	Budget	Proj.
	2005/06	2006/07	2007/08		2008/09	
Total revenue and grants	25.6	26.9	38.5	28.2	32.6	29.8
Current revenue	25.3	26.6	26.8	28.0	28.5	28.0
Capital revenue	0.0	0.0	0.6	0.0	0.4	0.4
Grants	0.2	0.3	9.9	0.2	3.7	1.4
Total expenditure and net lending	31.6	32.8	46.7	30.9	37.9	33.7
Current expenditure	21.3	21.7	26.0	22.2	23.2	22.7
Interest payments	3.0	3.3	3.5	3.5	...	3.8
Capital expenditure and net lending	10.3	11.0	20.7	8.7	14.7	11.0
Primary balance	-3.0	-2.6	-4.7	0.8	-2.0	-0.1
Overall balance (including grants)	-6.0	-5.9	-8.2	-2.7	-5.2	-3.9
Central government debt	63.7	63.5	71.8	64.0	64.8	63.5

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

Box 2. St. Lucia: Current Account Deficit

In 2007 the current account deficit remained elevated at 29 percent of GDP and continued to be mostly financed by FDI for tourism-sector investment (24 percent of GDP). The current account deficit in St. Lucia is mostly driven by imports, which represent over 50 percent of GDP, a large portion of which is related to FDI-financed tourism projects. Assuming an import content of 90 percent, the table shows that FDI explains a significant part of current account imbalances. Adjusting for temporary effects such as the shortfall in tourist arrivals, and excluding FDI-financed imports, the current account deficit declines to below 1 percent of GDP.

St. Lucia: The Underlying Current Account Balance
(In percent of GDP)

	2007
Observed current account (a)	**-29.1**
Temporary effects (b)	**6.7**
Loss of banana exports due to Hurricane Dean	0.6
Shortfall in tourist arrivals	6.1
Underlying current account (a-b)	**-22.4**
Foreign direct investment (FDI)	24.4
Import content of FDI 1/	21.9
Current account excluding import content of FDI	**-0.5**
Memorandum item:	
Fuel imports	13.6

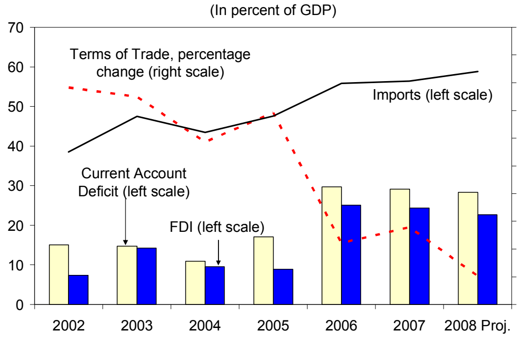
1/ Assumes that 90 percent of FDI is spent on imports.

Imports grew by less than 1 percentage point of GDP in 2007. Rising world energy prices led to a sharp increase of fuel imports, but this was largely offset by a decline of construction-related imports as a result of a weakening in public sector construction activities. Despite higher food prices, food imports grew by only 2.3 percent, as stayover tourist arrivals declined in 2007.

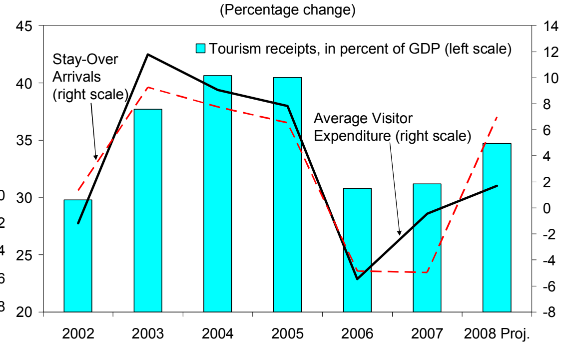
Due to a sharp increase in cruise-ship arrivals, tourism receipts grew by a modest 4 percent in 2007, despite a 5 percent decline in stayover tourist arrivals. A variety of factors contributed to the decline in stayover tourists, including: Cricket World Cup-related disruptions during the peak winter tourist season; more stringent rules on Caribbean travel for U.S. nationals; and problems with the availability and cost of intra-regional airlift. The shift toward more cruise-ship arrivals also contributed to a further decline of average visitor expenditure, as stayover tourists tend to spend considerably more than cruise-ship passengers.

For 2008 the current account deficit is expected to remain high, and continue to be financed largely by FDI. Imports as a share of GDP are not expected to fall sharply to pre-2006 levels as several major hotel projects are set to commence in the second half of 2008, and food and energy import prices are projected to rise significantly. Tourism receipts should recover in 2008 as a result of an aggressive marketing campaign in the U.S., and new direct flights from the United States and the United Kingdom.

Evolution of the Current Account, FDI, and Terms of Trade
(In percent of GDP)



Tourism Receipts and Tourist Arrivals
(Percentage change)



Box 3. Unregulated Investment Schemes in St. Lucia

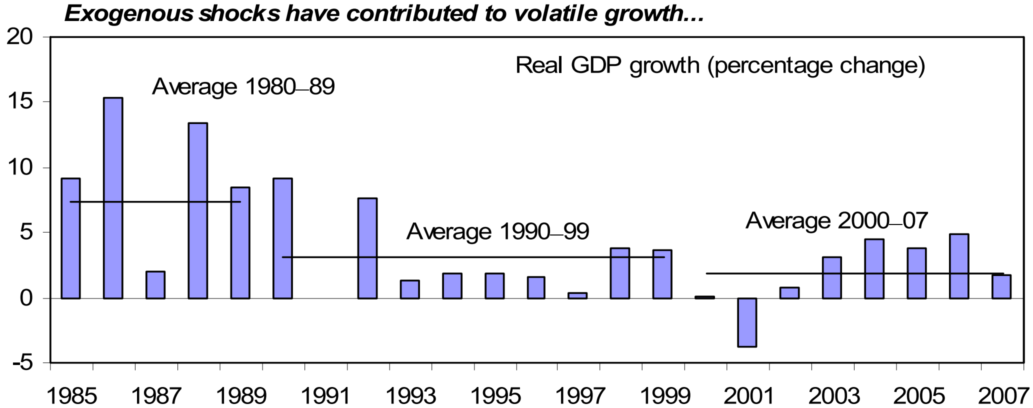
In several Caribbean countries, unregulated investment schemes (UIS) appear to be growing quickly. The schemes claim unusually high monthly returns and operate through a system of referrals by existing members, features shared with pyramid schemes which inevitably collapse. Most of the schemes claim to be engaged in foreign exchange trading.

One UIS is known to be operating in St. Lucia. The Wilshaw Forex Club Ltd. appears to have commenced operations in December 2007. It invests through TCI FX Traders Ltd, which describes itself as "an open ended investment company incorporated in the Turks and Caicos Islands (TCI) on August 16, 2006 and subject to the laws of the TCI." According to the Wilshaw prospectus, TCI FX Traders Ltd. is established for the purpose of investing through OLINT TCI, a FX trading entity with the object of "obtaining constant above average return through a disciplined investment approach." Overseas Locket International (OLINT) originated in Jamaica and promised extremely high returns of 6–20 percent per month, but the Jamaican authorities issued cease and desist orders against OLINT in 2006. The St. Kitts Government also issued an advisory that OLINT had never been licensed to conduct investment or any other business in St. Kitts.

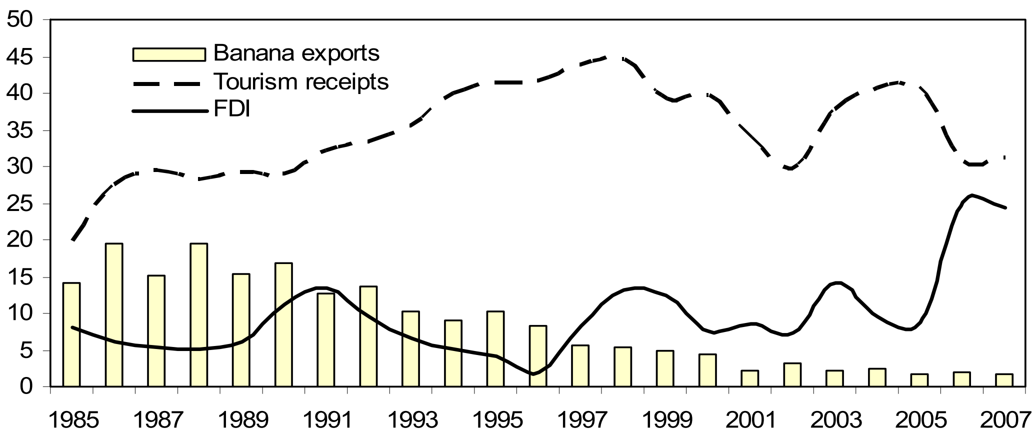
Prompt policy action against UIS is needed. Country experiences suggest that such schemes can inflict extensive damage to financial and social-political stability. The St. Lucian authorities should provide prominent public warnings of the risks, issue a financial advisory that any such schemes are not licensed, and announce no bailout for participants. Coordinated regulatory action by the Eastern Caribbean Securities Regulatory Commission (ECSRC), the ECCB, and the St. Lucian authorities to shut down such schemes is also urgently needed, including as a first step establishing which agency has the relevant jurisdictional authority.

Figure 1. St. Lucia: Macroeconomic Developments, 1985–2007
(In percent of GDP, unless otherwise indicated)

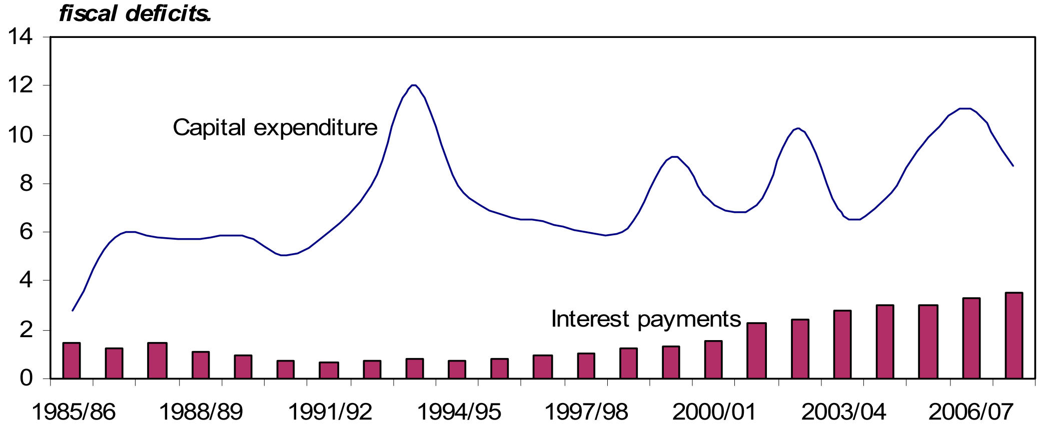
Exogenous shocks have contributed to volatile growth...



...banana exports have declined, tourism has become the main growth sector, and FDI flows have accelerated since 2005/06...

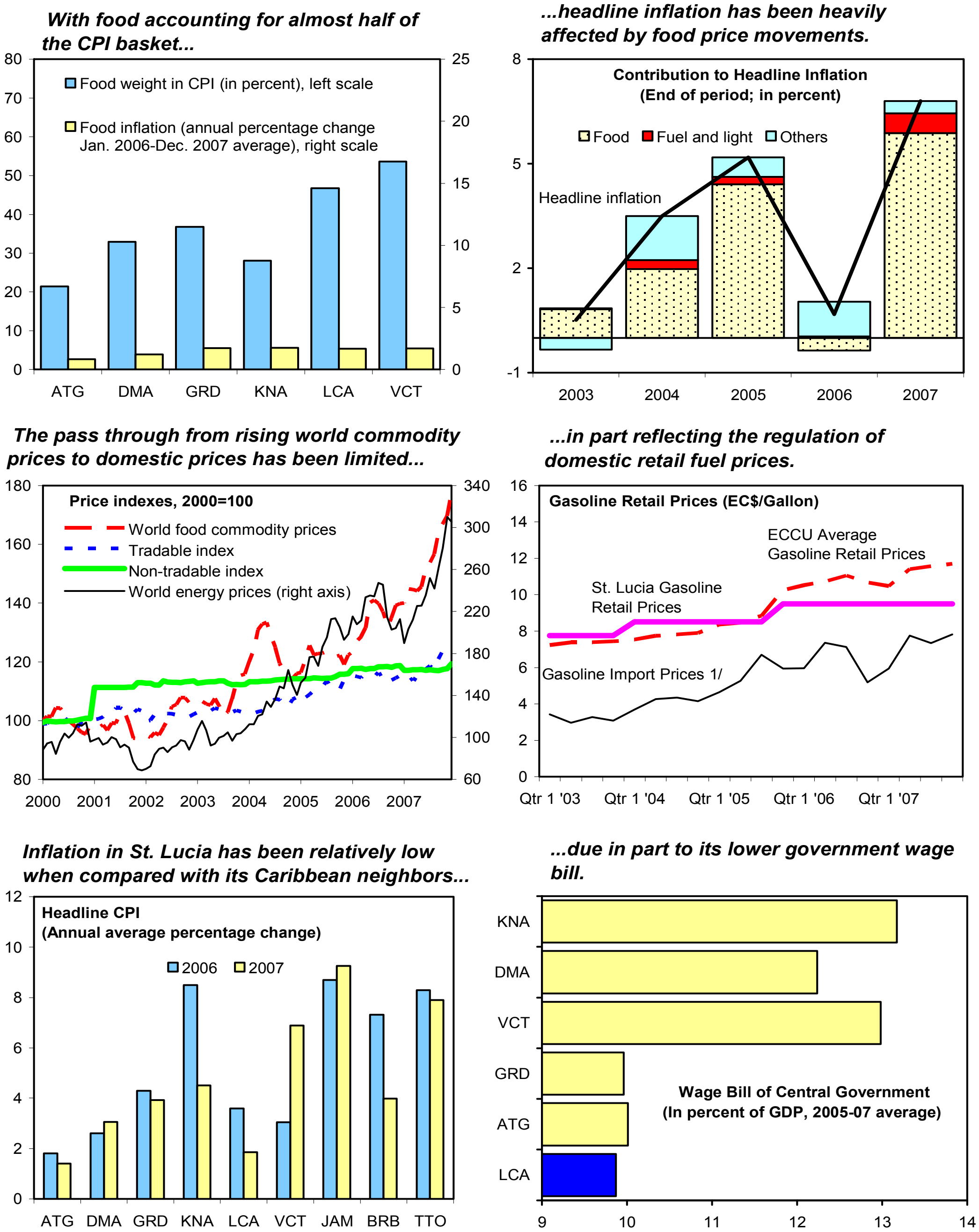


...while increasing interest payments and capital expenditure have contributed to fiscal deficits.



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

Figure 2. St. Lucia. Inflation Developments, 2000–07

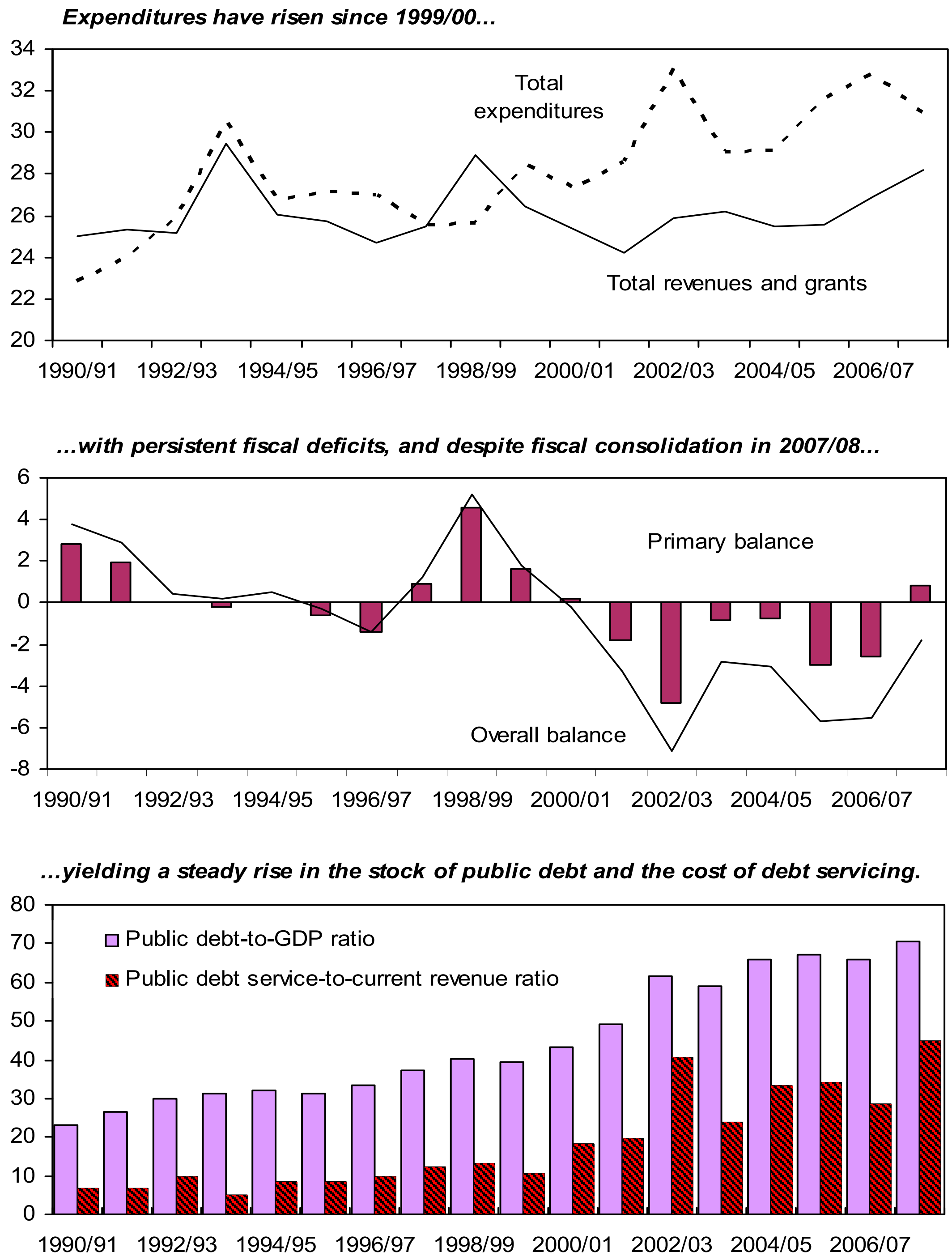


Sources: ECCB; International Financial Statistics; ECCU national authorities; and Fund staff estimates.

Note: ATG stands for Antigua and Barbuda, BRB stands for Barbados, DMA stands for Dominica, GRD stands for Grenada, JAM stands for Jamaica, KNA stands for St. Kitts and Nevis, LCA stands for St. Lucia, TTO stands for Trinidad and Tobago and VCT stands for St. Vincent and the Grenadines.

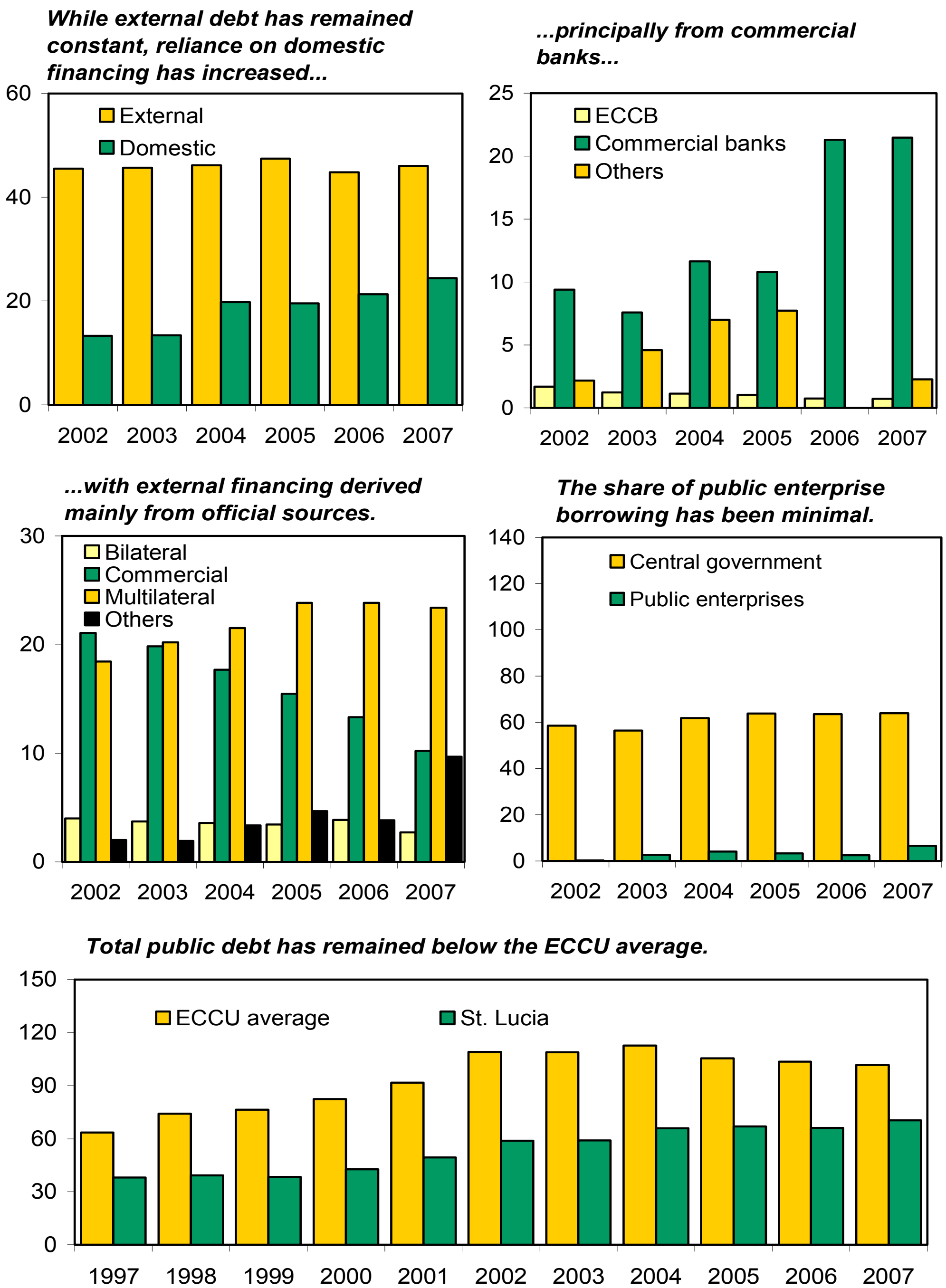
1/ Mean Caribbean posting prices.

Figure 3. St. Lucia: Fiscal Developments, 1990/91–2007/08
(In percent of GDP, unless otherwise indicated)



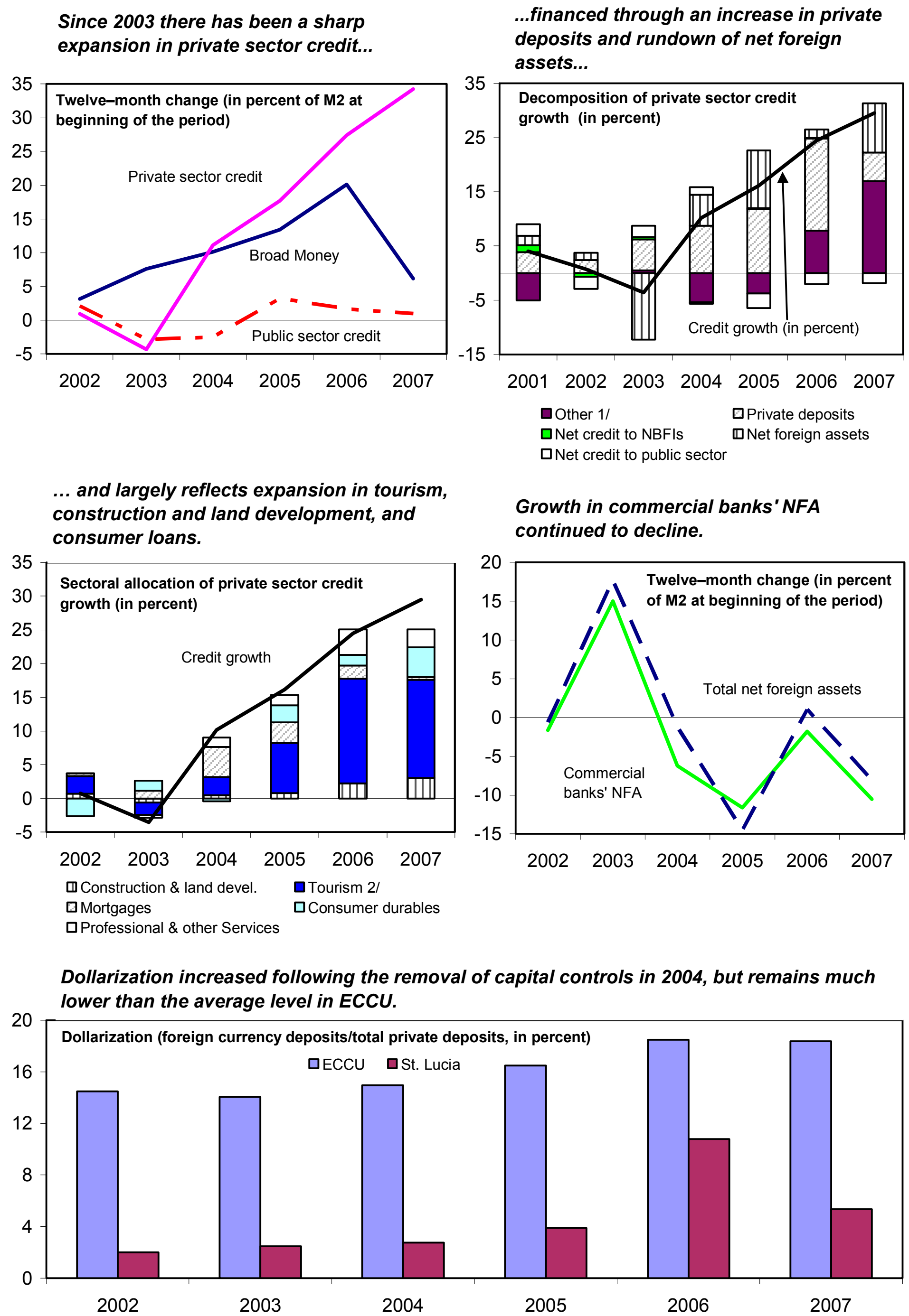
Sources: St. Lucia authorities; and Fund staff estimates.

Figure 4. St. Lucia: Evolution of Public Debt, 2002–07
(In percent of GDP)



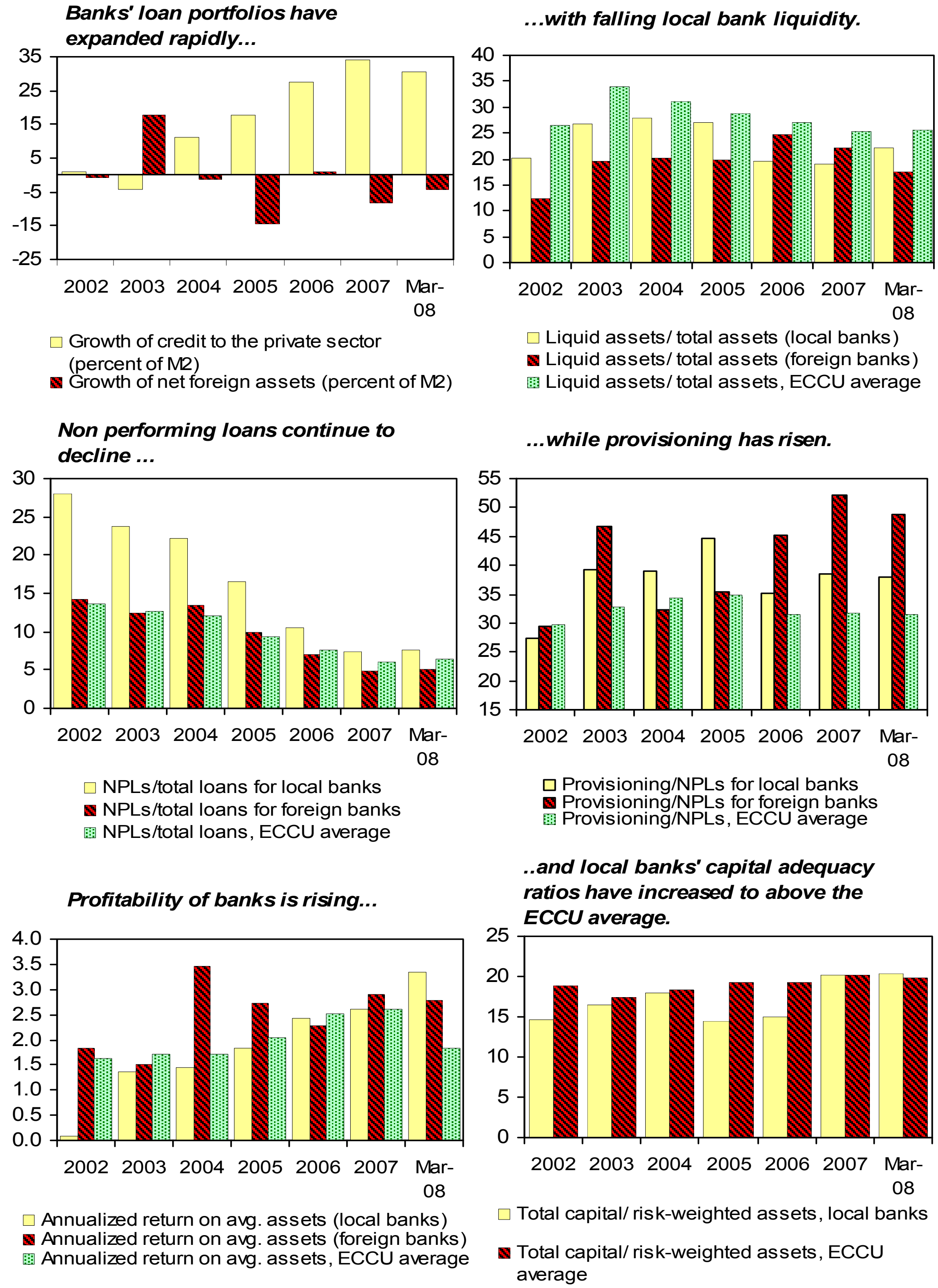
Sources: ECCB; St. Lucia authorities; and Fund staff estimates.

Figure 5. St. Lucia: Monetary Developments, 2002–07



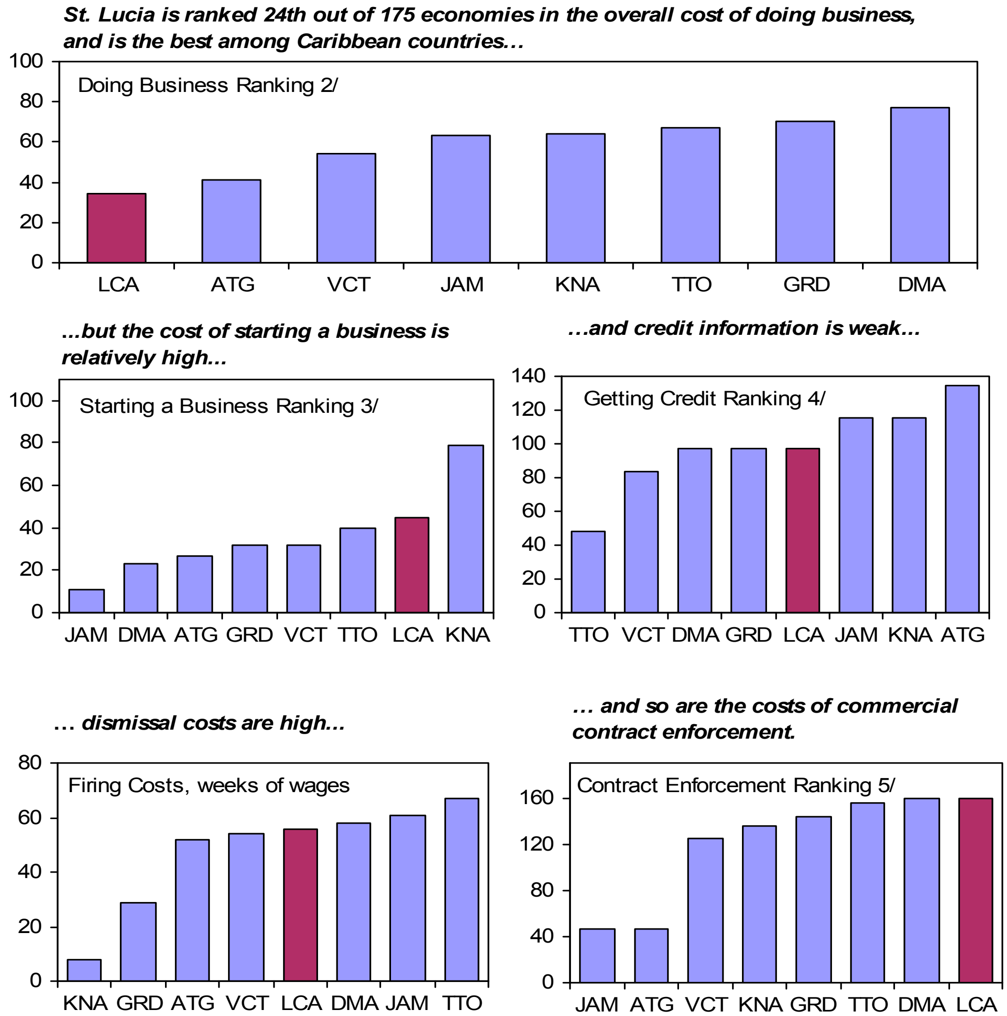
Sources: ECCB; and Fund staff calculations.
1/ Includes interbank float, reserves held with the ECCB, and other unclassified assets.
2/ Includes tourism, entertainment, and half of transport, distributive trade and professional services.

Figure 6. St. Lucia: Banking System Developments, 2002—08
(In percent; end of period unless noted otherwise)



Sources: ECCB; and Fund staff calculations.

Figure 7. St. Lucia: Doing Business Indicators, 2007 1/



Source: World Bank, *2008 Doing Business Indicators* (2007).

Note: ATG stands for Antigua and Barbuda, DMA stands for Dominica, GRD stands for Grenada, JAM stands for Jamaica, KNA stands for St. Kitts and Nevis, LCA stands for St. Lucia, TTO stands for Trinidad and Tobago and VCT stands for St. Vincent and the Grenadines.

1/ Smaller numbers represent greater ease in doing business. The indicators are comparable across 175 countries.

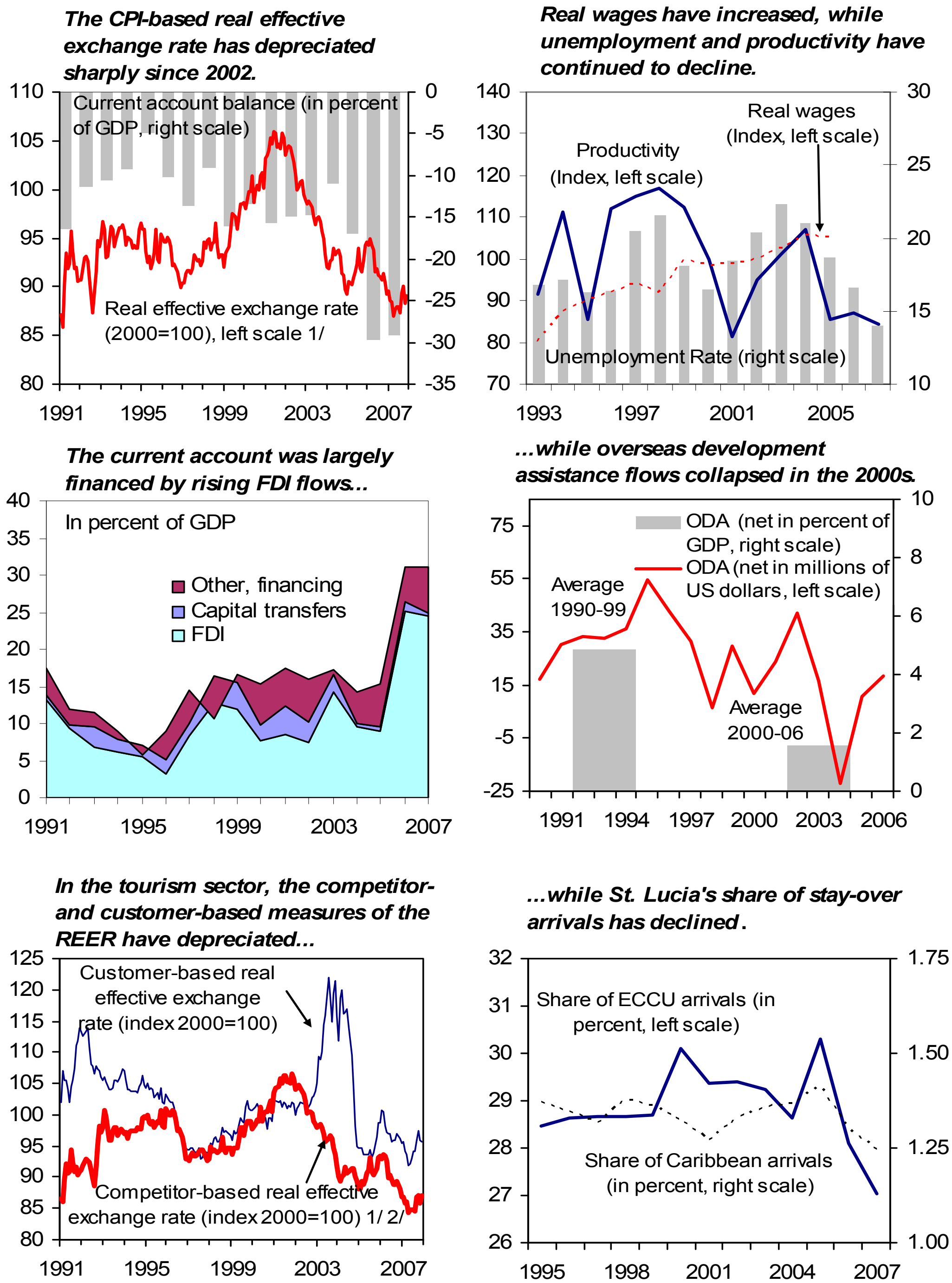
2/ This is an overall indicator that captures the regulatory costs of doing business; it can be used to analyze specific regulations that enhance or constrain investment, productivity, and growth.

3/ This topic identifies the bureaucratic and legal hurdles an entrepreneur must overcome to incorporate and register a new firm. It examines the procedures, time, and cost involved in launching a commercial or industrial firm with up to 50 employees and start-up capital of 10 times the economy's per-capita gross national income.

4/ This topic explores two sets of issues—credit information registries and the effectiveness of collateral and bankruptcy laws in facilitating lending.

5/ This topic looks at the efficiency of contract enforcement by following the evolution of a sale of goods dispute and tracking the time, cost, and number of procedures involved from the moment the plaintiff files the lawsuit until actual payment.

Figure 8. St. Lucia: External Competitiveness, 1991–2007



Sources: ECCB; Caribbean Tourism Organization; St. Lucia authorities; and Fund staff calculations.

1/ An increase (decrease) indicates an appreciation (depreciation).

2/ The sharp movements in the competitor-based real exchange rate in 2002–04 were largely driven by the Dominican Republic's peso.

Table 1. St. Lucia: Selected Social and Economic Indicators, 2004–09

I. Social and Demographic Indicators

Area (sq. km)	616	Life expectancy at birth (years, 2006)	74
		Infant mortality (per thousand live births, 2007)	23.5
Population		Human Development Index (HDI) ranking (2007)	72
Total (2007)	171,226	(rank out of 177 countries)	
Rate of growth (percent per year)	1.4		
Population density (per sq. km., 2007)	317.6	Gross Domestic Product (2007)	
Net migration rate (per thousand, 2002)	-9.8	(millions of US dollars)	960
Adult illiteracy rate (percent, 2001)	5.2	(millions of EC dollars)	2,592
		(US$ per capita)	5,606

II. Economic and Financial Indicators, 2004–09

	2004	2005	2006	Est. 2007	Proj. 7/ 2008	Proj. 7/ 2009
	(Annual percentage changes, unless otherwise specified)					
Output and prices						
Real GDP at factor cost	3.8	4.4	4.9	1.7	2.3	3.1
GDP at current market prices (in millions of EC dollars)	7.1	9.8	6.1	2.9	7.4	7.2
GDP deflator at factor cost	2.5	3.1	2.3	0.5	5.0	4.0
Consumer prices (end of period)	3.5	5.2	0.7	6.8	6.0	3.9
Consumer prices (period average)	1.5	3.9	3.6	2.8	7.2	4.9
Banana export receipts	23.6	-23.0	15.9	-9.2	13.4	4.3
Unemployment rate (in percent)	21.0	18.7	16.6	14.0	…	…
External sector						
Exports, f.o.b.	-12.0	-7.7	32.2	15.8	2.4	6.0
Imports, f.o.b.	-2.0	20.1	24.6	4.0	12.0	9.1
Travel receipts	15.5	9.3	-19.2	4.1	19.5	14.5
Terms of trade (- = deterioration)	-6.3	-4.2	-13.6	-12.4	-16.0	1.7
Real effective exchange rate (period average, - = depreciation)	-4.6	-0.5	0.1	-3.9	...	...
Money and credit 1/						
Net foreign assets	-1.2	-14.5	1.0	-8.0	-9.1	-1.1
Net domestic assets	11.3	27.9	19.1	14.2	17.7	9.7
Of which						
Credit to private sector	11.1	17.7	27.4	34.2	14.3	12.4
	(In percent of GDP, unless otherwise specified)					
Central government 2/						
Total revenue and grants	25.5	25.6	26.9	28.2	29.8	29.4
Total expenditure and net lending	29.2	31.6	32.8	30.9	33.7	35.3
Current expenditure	21.7	21.3	21.7	22.2	22.7	22.8
Of which						
Wages and salaries	10.0	9.7	9.9	10.0	10.0	10.0
Interest	3.0	3.0	3.3	3.5	3.8	3.9
Capital expenditure	7.4	10.3	11.0	8.7	11.0	12.5
Overall balance (cash basis)	-3.8	-6.0	-5.9	-2.7	-3.9	-5.8
Of which						
Current balance (savings)	3.8	4.0	4.9	5.9	5.3	6.4
Primary balance (after grants)	-0.7	-3.0	-2.6	0.8	-0.1	-1.9
Central government debt	61.9	63.7	63.5	64.0	63.5	65.2
Debt service in percent of current revenues 3/	33.3	34.3	28.7	44.8	25.3	22.6
External sector						
External current account	-10.9	-17.1	-29.7	-29.1	-28.3	-26.7
Of which						
Exports of goods and services	57.8	56.8	48.7	50.7	53.7	56.0
Imports of goods and services	61.9	67.1	73.9	74.8	76.9	77.6
Stayover arrivals (percentage change)	7.8	6.5	-4.9	-5.0	7.0	8.0
Foreign direct investment (FDI)	9.6	8.9	25.1	24.4	22.7	21.8
Public sector external debt (end of period)	46.1	47.4	44.8	46.0	43.8	43.8
External public debt service 4/						
In percent of exports of goods and services	8.2	6.5	7.7	15.8	7.7	7.3
In percent of central government revenue before grants	19.8	15.4	15.2	30.2	15.6	14.9
Memorandum items:						
Gross public sector debt 5/ 6/	66.0	67.0	66.1	70.5	69.6	70.7
Nominal GDP at market prices (in millions of EC dollars)	2,163	2,374	2,520	2,592	2,783	2,982
Nominal GDP at factor cost (in millions of EC dollars)	1,788	1,924	2,066	2,111	2,266	2,426
Share of ECCU stayover visitors	28.6	30.3	28.1	27.0	...	...

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

1/ Changes in relation to liabilities to private sector at beginning of period.
2/ Data are for fiscal years beginning April 1.
3/ Comprises domestic and external interest and amortization.
4/ Comprises external interest and amortization.
5/ Includes liabilities to the National Insurance Corporation.
6/ Total public (including nonguaranteed) debt in percent of GDP.
7/ Based on the baseline scenario.

Table 2. St. Lucia: Operations of the Central Government, 2005–13 (Baseline Scenario) 1/
(In millions of EC dollars)

			Est.	Budget	Proj.	Projections				
	2005	2006	2007	2008		2009	2010	2011	2012	2013
Total revenue and grants	**615.9**	**682.6**	**744.3**	**923.8**	**843.4**	**892.6**	**992.4**	**1,062.2**	**1,138.7**	**1,223.0**
Current revenue	**609.3**	**675.3**	**740.2**	**807.8**	**793.2**	**883.6**	**982.8**	**1,052.0**	**1,127.9**	**1,211.5**
Tax revenue	**566.7**	**619.8**	**685.2**	**...**	**734.2**	**818.5**	**913.4**	**977.6**	**1,048.5**	**1,126.8**
Nontrade tax 2/	361.0	381.5	439.2	...	470.2	536.0	609.5	651.2	697.0	748.0
Trade tax	205.7	238.4	246.0	...	264.0	282.5	303.9	326.4	351.6	378.8
Nontax revenue	**42.7**	**55.5**	**54.9**	**...**	**59.0**	**65.1**	**69.4**	**74.5**	**79.4**	**84.7**
Capital revenue	**0.6**	**0.7**	**0.0**	**10.2**	**10.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Capital grants	**6.0**	**6.6**	**4.1**	**105.9**	**40.0**	**8.9**	**9.5**	**10.1**	**10.8**	**11.5**
Total expenditure and net lending	**761.7**	**831.7**	**815.0**	**1,072.2**	**955.0**	**1,068.9**	**1,163.0**	**1,260.1**	**1,303.7**	**1,386.1**
Current expenditure	**513.3**	**551.4**	**585.0**	**655.8**	**643.4**	**689.9**	**733.5**	**779.5**	**827.7**	**878.4**
Wages and salaries	233.7	250.9	264.7	...	284.0	304.0	323.8	344.2	367.1	391.6
NIC contributions and retirement	43.3	46.3	48.1	...	51.7	55.3	58.9	62.6	66.8	71.2
Goods and services	96.1	101.5	111.5	...	119.7	127.3	132.4	140.8	146.5	156.2
Transfers	67.2	68.5	67.8	...	79.3	84.9	90.4	92.7	98.9	101.6
Interest payments	73.0	84.3	92.9	...	108.7	118.5	128.1	139.2	148.5	157.7
Domestic	24.1	27.7	30.7	...	38.4	43.0	47.7	53.5	57.6	61.1
External	48.9	56.6	62.3	...	70.4	75.5	80.3	85.6	90.9	96.6
Capital expenditure and net lending	**248.4**	**280.3**	**230.0**	**416.5**	**311.6**	**378.9**	**429.5**	**480.6**	**476.0**	**507.8**
Primary balance	**-72.7**	**-64.8**	**22.2**	**-57.3**	**-2.8**	**-57.9**	**-42.5**	**-58.8**	**-16.5**	**-5.4**
(excluding grants)	**-78.7**	**-71.4**	**18.0**	**-163.2**	**-42.8**	**-66.8**	**-52.1**	**-68.9**	**-27.3**	**-16.9**
Current balance	**96.0**	**123.9**	**155.1**	**268.1**	**149.8**	**193.7**	**249.3**	**272.5**	**300.2**	**333.1**
Overall balance (excluding grants)	**-151.8**	**-155.7**	**-74.9**	**-254.3**	**-151.6**	**-185.3**	**-180.1**	**-208.1**	**-175.8**	**-174.6**
Overall balance (including grants)	**-145.8**	**-149.0**	**-70.7**	**-148.4**	**-111.6**	**-176.3**	**-170.6**	**-198.0**	**-165.0**	**-163.1**
Financing	**157.0**	**151.0**	**89.3**	**148.4**	**111.6**	**176.3**	**170.6**	**198.0**	**165.0**	**163.1**
External (net)	116.7	58.5	-22.6	66.0	25.3	91.9	84.0	92.1	90.2	99.9
Loans	116.7	58.5	-22.6	66.0	25.3	91.9	84.0	92.1	90.2	99.9
Drawings	157.7	99.6	122.5	153.6	69.4	138.5	133.5	146.8	148.4	161.2
Amortization	41.0	41.1	145.1	87.6	44.1	46.6	49.6	54.8	58.2	61.3
Domestic financing	40.3	92.5	112.0	82.4	86.3	84.4	86.6	105.9	74.8	63.2
ECCB (net)	48.2	-14.2	0.0	0.0	0.0	0.0	-1.0	0.0	0.0	0.0
Commercial banks (net)	-4.8	67.0	71.1	55.7	55.7	-10.4	0.3	2.5	23.0	33.4
Other domestic financing	-3.1	39.7	40.9	26.7	30.6	94.8	87.3	103.4	51.8	29.8
Statistical discrepancy	-11.3	-1.9	-18.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.0	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0

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

1/ Data are for fiscal years beginning April 1.
2/ In the baseline scenario, a VAT is introduced in 2009 which is revenue positive.

Table 3. St. Lucia: Operations of the Central Government, 2005–13 (Baseline Scenario) 1/
(In percent of GDP)

			Est.	Budget	Proj.	Projections				
	2005	2006	2007	2008		2009	2010	2011	2012	2013
Total revenue and grants	**25.6**	**26.9**	**28.2**	**32.6**	**29.8**	**29.4**	**30.7**	**30.9**	**31.1**	**31.3**
Current revenue	**25.3**	**26.6**	**28.0**	**28.5**	**28.0**	**29.1**	**30.4**	**30.6**	**30.8**	**31.0**
Tax revenue	**23.5**	**24.4**	**26.0**	**...**	**25.9**	**27.0**	**28.3**	**28.5**	**28.6**	**28.8**
Nontrade tax 2/	15.0	15.0	16.6	...	16.6	17.7	18.9	19.0	19.0	19.1
Trade tax	8.5	9.4	9.3	...	9.3	9.3	9.4	9.5	9.6	9.7
Nontax revenue	**1.8**	**2.2**	**2.1**	**...**	**2.1**	**2.1**	**2.2**	**2.2**	**2.2**	**2.2**
Capital revenue	**0.0**	**0.0**	**0.0**	**0.4**	**0.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Capital grants	**0.2**	**0.3**	**0.2**	**3.7**	**1.4**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
Total expenditure and net lending	**31.6**	**32.8**	**30.9**	**37.9**	**33.7**	**35.3**	**36.0**	**36.7**	**35.6**	**35.5**
Current expenditure	**21.3**	**21.7**	**22.2**	**23.2**	**22.7**	**22.8**	**22.7**	**22.7**	**22.6**	**22.5**
Wages and salaries	9.7	9.9	10.0	...	10.0	10.0	10.0	10.0	10.0	10.0
NIC contributions and retirement	1.8	1.8	1.8	...	1.8	1.8	1.8	1.8	1.8	1.8
Goods and services	4.0	4.0	4.2	...	4.2	4.2	4.1	4.1	4.0	4.0
Transfers	2.8	2.7	2.6	...	2.8	2.8	2.8	2.7	2.7	2.6
Interest payments	3.0	3.3	3.5	...	3.8	3.9	4.0	4.1	4.1	4.0
Domestic	1.0	1.1	1.2	...	1.4	1.4	1.5	1.6	1.6	1.6
External	2.0	2.2	2.4	...	2.5	2.5	2.5	2.5	2.5	2.5
Capital expenditure and net lending	**10.3**	**11.0**	**8.7**	**14.7**	**11.0**	**12.5**	**13.3**	**14.0**	**13.0**	**13.0**
Primary balance	**-3.0**	**-2.6**	**0.8**	**-2.0**	**-0.1**	**-1.9**	**-1.3**	**-1.7**	**-0.5**	**-0.1**
(excluding grants)	**-3.3**	**-2.8**	**0.7**	**-5.8**	**-1.5**	**-2.2**	**-1.6**	**-2.0**	**-0.7**	**-0.4**
Current balance	**4.0**	**4.9**	**5.9**	**9.5**	**5.3**	**6.4**	**7.7**	**7.9**	**8.2**	**8.5**
Overall balance (excluding grants)	**-6.3**	**-6.1**	**-2.8**	**-9.0**	**-5.4**	**-6.1**	**-5.6**	**-6.1**	**-4.8**	**-4.5**
Overall balance (including grants)	**-6.0**	**-5.9**	**-2.7**	**-5.2**	**-3.9**	**-5.8**	**-5.3**	**-5.8**	**-4.5**	**-4.2**
Financing	**6.5**	**5.9**	**3.4**	**5.2**	**3.9**	**5.8**	**5.3**	**5.8**	**4.5**	**4.2**
External (net)	4.8	2.3	-0.9	2.3	0.9	3.0	2.6	2.7	2.5	2.6
Loans	4.8	2.3	-0.9	2.3	0.9	3.0	2.6	2.7	2.5	2.6
Drawings	6.5	3.9	4.6	5.4	2.4	4.6	4.1	4.3	4.1	4.1
Amortization	1.7	1.6	5.5	3.1	1.6	1.5	1.5	1.6	1.6	1.6
Domestic financing	1.7	3.6	4.2	2.9	3.0	2.8	2.7	3.1	2.0	1.6
ECCB (net)	2.0	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks (net)	-0.2	2.6	2.7	2.0	2.0	-0.3	0.0	0.1	0.6	0.9
Other domestic financing	-0.1	1.6	1.5	0.9	1.1	3.1	2.7	3.0	1.4	0.8
Statistical discrepancy	-0.5	-0.1	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.0	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
GDP (at market prices, in EC$ millions)	2,411	2,538	2,639	2,833	2,833	3,032	3,229	3,433	3,662	3,906
Debt service (in percent of current revenue)	34.3	28.7	44.8	...	25.3	22.6	21.7	20.6	20.3	19.8
Central government debt (in percent of GDP)	63.7	63.5	64.0	64.8	63.5	65.2	66.5	68.3	68.5	68.4
External	45.3	43.2	40.7	40.2	38.8	39.3	39.5	39.8	39.8	39.9
Domestic	18.4	20.3	23.3	24.6	24.8	25.9	27.0	28.5	28.8	28.6

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

1/ Data are for fiscal years beginning April 1.
2/ In the baseline scenario, a VAT is introduced in 2009 which is revenue positive.

Table 4. St. Lucia: Operations of the Central Government, 2005–13 (Alternative Scenario) 1/
(In millions of EC dollars)

	2005	2006	Est. 2007	Budget 2008	Proj. 2008	Projections 2009	2010	2011	2012	2013
Total revenue and grants	**615.9**	**682.6**	**744.3**	**923.8**	**867.1**	**947.5**	**1,060.0**	**1,146.7**	**1,239.6**	**1,341.8**
Current revenue	**609.3**	**675.3**	**740.2**	**807.8**	**817.0**	**931.6**	**1,043.1**	**1,128.8**	**1,220.6**	**1,321.5**
Tax revenue	**566.7**	**619.8**	**685.2**	**...**	**757.8**	**867.8**	**974.5**	**1,052.3**	**1,138.3**	**1,232.9**
Nontrade tax 2/	361.0	381.5	439.2	...	493.0	582.2	664.6	716.3	773.1	836.1
Trade tax	205.7	238.4	246.0	...	264.9	285.6	309.9	336.0	365.2	396.8
Nontax revenue	**42.7**	**55.5**	**54.9**	**...**	**59.1**	**63.8**	**68.6**	**76.5**	**82.3**	**88.6**
Capital revenue	**0.6**	**0.7**	**0.0**	**10.2**	**10.2**	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**
Capital grants	**6.0**	**6.6**	**4.1**	**105.9**	**40.0**	**14.9**	**15.9**	**16.9**	**18.0**	**19.2**
Total expenditure and net lending	**761.7**	**831.7**	**815.0**	**1,072.2**	**957.9**	**1,039.5**	**1,140.9**	**1,222.0**	**1,283.3**	**1,373.0**
Current expenditure	**513.3**	**551.4**	**585.0**	**655.8**	**654.0**	**702.3**	**762.0**	**797.7**	**845.7**	**902.2**
Wages and salaries	233.7	250.9	264.7	...	285.0	297.5	307.8	316.3	324.9	349.6
NIC contributions and retirement	43.3	46.3	48.1	...	51.8	55.9	60.1	64.5	69.4	74.6
Goods and services	96.1	101.5	111.5	...	128.0	141.0	164.7	176.8	194.1	208.8
Of which										
Additional social safety nets	...	...	...	...	14.2	18.4	32.9	35.4	41.9	49.1
Transfers	67.2	68.5	67.8	...	85.3	95.0	112.0	118.5	133.2	143.3
Of which										
Additional social safety nets	...	...	...	...	11.4	15.3	23.1	26.5	34.2	40.9
Interest payments	73.0	84.3	92.9	...	103.9	112.8	117.4	121.7	124.2	125.9
Domestic	24.1	27.7	30.7	...	44.0	36.2	36.3	37.4	39.2	40.5
External	48.9	56.6	62.3	...	59.9	76.6	81.1	84.4	84.9	85.4
Capital expenditure and net lending 3/	**248.4**	**280.3**	**230.0**	**416.5**	**304.0**	**337.3**	**378.8**	**424.3**	**437.6**	**470.8**
Primary balance	**-72.7**	**-64.8**	**22.2**	**-57.3**	**13.1**	**20.8**	**36.6**	**46.4**	**80.5**	**94.6**
(excluding grants)	**-78.7**	**-71.4**	**18.0**	**-163.2**	**-26.9**	**5.9**	**20.7**	**29.5**	**62.5**	**75.4**
Current balance	**96.0**	**123.9**	**155.1**	**268.1**	**163.0**	**229.4**	**281.1**	**331.1**	**374.9**	**419.3**
Overall balance (excluding grants)	**-151.8**	**-155.7**	**-74.9**	**-254.3**	**-130.8**	**-106.9**	**-96.8**	**-92.2**	**-61.7**	**-50.5**
Overall balance (including grants)	**-145.8**	**-149.0**	**-70.7**	**-148.4**	**-90.8**	**-92.0**	**-80.9**	**-75.4**	**-43.7**	**-31.3**
Financing	**157.0**	**151.0**	**89.3**	**148.4**	**90.8**	**92.0**	**80.9**	**75.4**	**43.7**	**31.3**
External (net)	116.7	58.5	-22.6	66.0	57.4	91.9	84.0	92.1	90.2	99.9
Loans	116.7	58.5	-22.6	66.0	57.4	91.9	84.0	92.1	90.2	99.9
Drawings	157.7	99.6	122.5	153.6	100.8	138.5	133.5	146.8	148.4	161.2
Amortization	41.0	41.1	145.1	87.6	43.4	46.6	49.6	54.8	58.2	61.3
Domestic financing	40.3	92.5	112.0	82.4	33.4	12.3	3.1	19.1	33.8	23.4
ECCB (net)	48.2	-14.2	0.0	0.0	0.0	0.0	-1.0	0.0	0.0	0.0
Commercial banks (net)	-4.8	67.0	71.1	55.7	55.7	-10.4	0.3	2.5	23.0	33.4
Other domestic financing	-3.1	39.7	40.9	26.7	-22.3	22.7	3.8	16.6	10.8	-10.0
Statistical discrepancy	-11.3	-1.9	-18.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.0	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0

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

1/ Data are for fiscal years beginning April 1.
2/ In the alternative scenario, a VAT is introduced in 2009 which is revenue positive.
3/ Capital expenditure for 2008/09 is assumed to be in line with the average capital expenditure-to-GDP ratio during 2005–06.

Table 5. St. Lucia: Operations of the Central Government, 2005–13 (Alternative Scenario) 1/
(In percent of GDP)

			Est.	Budget	Proj.	Projections				
	2005	2006	2007	2008		2009	2010	2011	2012	2013
Total revenue and grants	**25.6**	**26.9**	**28.2**	**32.5**	**30.5**	**30.9**	**32.2**	**32.4**	**32.6**	**32.8**
Current revenue	**25.3**	**26.6**	**28.0**	**28.4**	**28.7**	**30.4**	**31.7**	**31.9**	**32.1**	**32.3**
Tax revenue	**23.5**	**24.4**	**25.9**	**...**	**26.7**	**28.3**	**29.6**	**29.8**	**29.9**	**30.1**
Nontrade tax 2/	15.0	15.0	16.6	...	17.3	19.0	20.2	20.3	20.3	20.4
Trade tax	8.5	9.4	9.3	...	9.3	9.3	9.4	9.5	9.6	9.7
Nontax revenue	**1.8**	**2.2**	**2.1**	**...**	**2.1**	**2.1**	**2.1**	**2.2**	**2.2**	**2.2**
Capital revenue	**0.0**	**0.0**	**0.0**	**0.4**	**0.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Capital grants	**0.2**	**0.3**	**0.2**	**3.7**	**1.4**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**
Total expenditure and net lending	**31.6**	**32.8**	**30.9**	**37.7**	**33.7**	**33.9**	**34.6**	**34.6**	**33.7**	**33.5**
Current expenditure	**21.3**	**21.7**	**22.2**	**23.1**	**23.0**	**22.9**	**23.1**	**22.6**	**22.2**	**22.0**
Wages and salaries	9.7	9.9	10.0	...	10.0	9.7	9.3	8.9	8.5	8.5
NIC contributions and retirement	1.8	1.8	1.8	...	1.8	1.8	1.8	1.8	1.8	1.8
Goods and services	4.0	4.0	4.2	...	4.5	4.6	5.0	5.0	5.1	5.1
Of which										
Additional social safety nets	...	...	...	...	0.5	0.6	1.0	1.0	1.1	1.2
Transfers	2.8	2.7	2.6	...	3.0	3.1	3.4	3.4	3.5	3.5
Of which										
Additional social safety nets	...	...	...	...	0.4	0.5	0.7	0.8	0.9	1.0
Interest payments	3.0	3.3	3.5	...	3.7	3.7	3.6	3.4	3.3	3.1
Domestic	1.0	1.1	1.2	...	1.5	1.2	1.1	1.1	1.0	1.0
External	2.0	2.2	2.4	...	2.1	2.5	2.5	2.4	2.2	2.1
Capital expenditure and net lending 3/	**10.3**	**11.0**	**8.7**	**14.6**	**10.7**	**11.0**	**11.5**	**12.0**	**11.5**	**11.5**
Primary balance	**-3.0**	**-2.6**	**0.8**	**-2.0**	**0.5**	**0.7**	**1.1**	**1.3**	**2.1**	**2.3**
(excluding grants)	**-3.3**	**-2.8**	**0.7**	**-5.7**	**-0.9**	**0.2**	**0.6**	**0.8**	**1.6**	**1.8**
Current balance	**4.0**	**4.9**	**5.9**	**9.4**	**5.7**	**7.5**	**8.5**	**9.4**	**9.9**	**10.2**
Overall balance (excluding grants)	**-6.3**	**-6.1**	**-2.8**	**-8.9**	**-4.6**	**-3.5**	**-2.9**	**-2.6**	**-1.6**	**-1.2**
Overall balance (including grants)	**-6.0**	**-5.9**	**-2.7**	**-5.2**	**-3.2**	**-3.0**	**-2.5**	**-2.1**	**-1.1**	**-0.8**
Financing	**6.5**	**5.9**	**3.4**	**5.2**	**3.2**	**3.0**	**2.5**	**2.1**	**1.1**	**0.8**
External (net)	4.8	2.3	-0.9	2.3	2.0	3.0	2.5	2.6	2.4	2.4
Loans	4.8	2.3	-0.9	2.3	2.0	3.0	2.5	2.6	2.4	2.4
Drawings	6.5	3.9	4.6	5.4	3.5	4.5	4.1	4.2	3.9	3.9
Amortization	1.7	1.6	5.5	3.1	1.5	1.5	1.5	1.5	1.5	1.5
Domestic financing	1.7	3.6	4.2	2.9	1.2	0.4	0.1	0.5	0.9	0.6
ECCB (net)	2.0	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks (net)	-0.2	2.6	2.7	2.0	2.0	-0.3	0.0	0.1	0.6	0.8
Other domestic financing	-0.1	1.6	1.5	0.9	-0.8	0.7	0.1	0.5	0.3	-0.2
Statistical discrepancy	-0.5	-0.1	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.0	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
GDP (at market prices, in EC$ millions)	2,411	2,538	2,641	2,843	2,843	3,066	3,294	3,536	3,805	4,094
Debt service (in percent of current revenue)	34.3	28.7	44.8	...	24.4	20.7	19.3	17.3	16.4	15.2
Central government debt (in percent of GDP)	63.7	63.5	64.0	64.8	62.6	61.0	59.3	57.3	54.4	51.3
External	34.5	35.0	40.6	40.2	39.8	39.5	39.1	38.0	35.6	33.3
Domestic	29.2	28.5	23.3	24.6	22.8	21.6	20.2	19.3	18.8	18.1

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

1/ Data are for fiscal years beginning April 1.
2/ In the alternative scenario, a VAT is introduced in 2009 which is revenue positive.
3/ Capital expenditure for 2008/09 is assumed to be in line with the average capital expenditure-to-GDP ratio during 2005–06.

Table 6. St. Lucia: Balance of Payments Summary, 2005–13 (Baseline Scenario)

			Prel.	Projections					
	2005	2006	2007	2008	2009	2010	2011	2012	2013
	(In millions of Eastern Caribbean dollars)								
Current account	**-405.4**	**-749.1**	**-754.8**	**-788.3**	**-795.3**	**-701.2**	**-686.0**	**-709.1**	**-686.0**
Trade balance	-889.2	-1,089.8	-1,095.8	-1,262.1	-1,388.5	-1,458.8	-1,526.2	-1,613.3	-1,705.3
Exports f.o.b.	239.7	316.9	367.0	375.9	398.4	414.3	420.4	432.8	442.6
Of which									
Bananas	41.5	48.1	43.7	49.5	51.6	52.1	51.1	48.5	46.1
Manufactured exports	53.1	55.9	58.9	62.5	64.5	67.2	66.3	69.2	72.2
Imports f.o.b.	-1,128.9	-1,406.6	-1,462.8	-1,638.0	-1,786.9	-1,873.2	-1,946.6	-2,046.0	-2,147.9
Services (net)	644.6	454.1	470.9	616.2	744.7	917.8	1,009.4	1,082.6	1,208.0
Credits	1,108.3	910.1	947.6	1,118.4	1,272.9	1,470.4	1,585.3	1,685.2	1,841.8
Travel	961.2	776.1	808.3	966.1	1,106.6	1,289.8	1,389.9	1,476.8	1,619.4
Other nonfactor services	147.1	133.9	139.3	152.3	166.3	180.6	195.5	208.4	222.4
Debits	463.6	456.0	476.7	502.2	528.2	552.6	575.9	602.6	633.8
Travel	105.1	106.2	111.7	117.6	123.7	129.4	134.9	141.1	150.6
Other nonfactor services	358.5	349.8	365.0	384.6	404.5	423.2	441.0	461.4	483.2
Income payments (net)	-195.8	-145.7	-162.4	-178.1	-191.0	-203.5	-216.4	-230.3	-245.5
Current transfers	35.0	32.3	32.5	35.8	39.5	43.3	47.3	51.8	56.8
Net private transfers	38.4	33.6	33.9	37.5	41.3	45.2	49.4	54.2	59.4
Net official transfers	-3.3	-1.2	-1.5	-1.6	-1.8	-2.0	-2.2	-2.4	-2.6
Capital and financial account	**377.2**	**868.8**	**819.4**	**789.5**	**796.1**	**716.6**	**707.7**	**731.0**	**709.6**
Capital	14.4	30.7	15.6	40.0	8.9	9.5	10.1	10.8	11.5
Financial (net)	362.8	838.1	803.8	749.5	787.2	707.0	697.6	720.2	698.1
Official capital	116.7	58.5	-22.6	25.3	91.9	84.0	92.1	90.2	99.9
Commercial banks	66.5	174.0	216.6	200.5	27.9	-9.0	10.7	40.7	52.8
Private capital	179.5	605.6	609.8	523.7	667.4	632.0	594.8	589.3	545.4
Of which									
Net direct investment	211.2	631.6	631.5	630.7	648.8	635.9	506.6	540.2	422.7
Errors and omissions	-13.0	-83.5	-13.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-41.2	36.3	51.3	1.2	0.8	15.3	21.7	21.8	23.6
Financing	41.2	-36.3	-51.3	-1.2	-0.8	-15.3	-21.7	-21.8	-23.6
Change in imputed reserves (increase -)	43.2	-48.6	-51.3	-1.2	-0.8	-15.3	-21.7	-21.8	-23.6
Change in government foreign assets	-2.0	12.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financing (interest moratorium)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	(In percent of GDP, unless otherwise indicated)								
Memorandum items:									
Current account	-17.1	-29.7	-29.1	-28.3	-26.7	-22.1	-20.3	-19.7	-17.9
Exports f.o.b.	10.1	12.6	14.2	13.5	13.4	13.0	12.4	12.0	11.5
Imports f.o.b.	-47.6	-55.8	-56.4	-58.9	-59.9	-58.9	-57.6	-56.8	-55.9
Net private transfers	1.6	1.3	1.3	1.3	1.4	1.4	1.5	1.5	1.5
Foreign direct investment	8.9	25.1	24.4	22.7	21.8	20.0	15.0	15.0	11.0
Indicators of diversification									
(In percent of exports of goods and nonfactor services)									
Banana exports	3.1	3.9	3.3	3.3	3.1	2.8	2.5	2.3	2.0
Tourism receipts	71.3	63.3	61.5	64.7	66.2	68.4	69.3	69.7	70.9
Tourism receipts	40.5	30.8	31.2	34.7	37.1	40.6	41.2	41.0	42.1
Total trade	57.6	68.4	70.6	72.4	73.3	71.9	70.1	68.8	67.4
Exports of goods and nonfactor services	56.8	48.7	50.7	53.7	56.0	59.3	59.4	58.8	59.4
Imports of goods and nonfactor services	67.1	73.9	74.8	76.9	77.6	76.3	74.7	73.6	72.4
Terms of trade for GNFS (percentage change)	-4.2	-13.6	-12.4	-16.0	1.7	3.8	1.3	1.2	1.3
Excluding tourism (percentage change)	-6.0	-7.2	-10.0	-11.4	-2.4	-2.0	-4.9	-0.6	0.0
Public sector external debt (end of period)	47.4	44.8	46.0	43.8	43.8	43.7	43.9	43.7	43.5

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

Table 7. St. Lucia: Monetary Survey, 2003–09

	2003	2004	2005	2006	Prel. 2007	Proj. 2008	Proj. 2009
(In millions of Eastern Caribbean dollars)							
Net foreign assets	**335.2**	**318.7**	**99.9**	**117.6**	**-47.7**	**-246.9**	**-273.9**
ECCB (imputed reserves)	282.6	351.5	308.3	356.9	408.2	409.5	410.3
Commercial banks	52.5	-32.9	-208.5	-239.3	-455.9	-656.4	-684.2
Net domestic assets	**1,035.2**	**1,190.5**	**1,611.9**	**1,938.6**	**2,230.9**	**2,616.5**	**2,846.2**
Public sector credit (net)	-290.8	-324.7	-275.9	-246.8	-226.2	-200.9	-223.2
Central government	-104.4	-130.7	-90.7	-32.0	17.2	61.1	60.7
ECCB	-0.6	-13.7	-10.0	-19.8	-43.2	-55.0	-45.0
Commercial banks	-103.8	-117.0	-80.6	-12.2	60.4	116.1	105.7
Net credit to rest of public sector	-186.4	-194.0	-185.2	-214.8	-243.4	-262.0	-283.9
National Insurance Corporation	-229.5	-240.9	-248.2	-264.2	-291.7	-307.0	-326.5
Other	43.1	46.9	62.9	49.4	48.3	45.0	42.6
Credit to private sector	1,498.2	1,650.6	1,917.3	2,386.8	3,090.8	3,403.0	3,697.1
Net credit to nonbank financial institutions	-39.3	-35.4	-37.8	-40.4	-41.3	-44.4	-47.5
Other items (net)	-132.9	-100.0	8.3	-161.1	-592.5	-541.4	-580.2
Broad money	**1,370.4**	**1,509.2**	**1,711.8**	**2,056.2**	**2,183.2**	**2,369.6**	**2,572.2**
Money	343.1	481.3	547.3	560.7	639.0	696.1	746.1
Currency in circulation	91.3	99.2	106.4	126.6	128.0	142.5	152.7
Demand deposits	251.8	382.2	440.9	434.1	510.9	553.7	593.4
Quasi-money	1,027.3	1,027.8	1,164.5	1,495.5	1,544.2	1,673.4	1,826.1
Time deposits	240.2	178.7	185.9	222.7	283.3	336.2	387.8
Savings deposits	755.2	810.4	916.3	1,064.9	1,150.8	1,247.0	1,336.5
Foreign currency deposits	31.9	38.7	62.2	207.9	110.2	90.2	101.9
(Annual percentage change)							
Net foreign assets	205.3	-4.9	-68.7	17.8	-140.5	-418.0	-11.0
Net domestic assets	-11.0	15.0	35.4	20.3	15.1	17.3	8.8
Credit to private sector	-3.6	10.2	16.2	24.5	29.5	10.1	8.6
Broad money	7.6	10.1	13.4	20.1	6.2	8.5	8.6
Money	19.3	40.3	13.7	2.4	14.0	8.9	7.2
Quasi-money 1/	4.2	0.1	13.3	28.4	3.3	8.4	9.1
(Percent contribution compared to M2 at the beginning of the year)							
Net foreign assets	17.7	-1.2	-14.5	1.0	-8.0	-9.1	-1.1
Net domestic assets	-10.1	11.3	27.9	19.1	14.2	17.7	9.7
Public sector credit (net)	-2.8	-2.5	3.2	1.7	1.0	1.2	-0.9
Of which							
Central government	-0.6	-1.9	2.7	3.4	2.4	2.0	0.0
Credit to private sector	-4.3	11.1	17.7	27.4	34.2	14.3	12.4
Net credit to nonbank financial institutions	-0.5	0.3	-0.1	-0.1	0.0	-0.1	-0.1
Other items (net)	-2.4	2.4	7.2	-9.9	-21.0	2.3	-1.6
Memorandum item:							
Income velocity 2/	1.5	1.5	1.5	1.3	1.2	1.2	1.2

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

1/ Including resident foreign currency deposits.

2/ Nominal GDP at market prices divided by liabilities to the private sector.

Table 8. St. Lucia: Medium-Term Projections, 2005–13

(In percent of GDP, unless otherwise specified)

			Prel.	Projections					
	2005	2006	2007	2008	2009	2010	2011	2012	2013
					I. Baseline Scenario				
Output and prices									
Real GDP growth at factor cost (percent change)	4.4	4.9	1.7	2.3	3.1	3.5	4.0	4.4	4.4
Consumer prices, end-of-period (percent change)	5.2	0.7	6.8	6.0	3.9	2.2	2.2	2.2	2.2
Saving and investment									
Gross domestic investment	23.2	36.0	36.0	35.0	35.0	35.0	30.0	30.0	27.4
Public 2/	9.3	10.7	9.5	10.2	12.0	13.0	13.7	13.3	12.9
Private	13.9	25.3	26.5	24.8	23.0	22.0	16.3	16.7	14.5
Gross national saving	6.1	6.2	6.9	6.7	8.3	12.9	9.7	10.3	9.5
Public	3.1	4.8	6.8	6.2	6.0	7.6	7.9	8.7	8.7
Private	3.0	1.4	0.1	0.5	2.3	5.3	1.8	1.6	0.9
Nonfinancial public sector 1/									
Central government									
Total revenue and grants	25.6	26.9	28.2	29.8	29.4	30.7	30.9	31.1	31.3
Of which									
Grants	0.2	0.3	0.2	1.4	0.3	0.3	0.3	0.3	0.3
Total expenditure and net lending	31.6	32.8	30.9	33.7	35.3	36.0	36.7	35.6	35.5
Of which									
Wages and salaries	9.7	9.9	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Interest	3.0	3.3	3.5	3.8	3.9	4.0	4.1	4.1	4.0
Capital expenditure	10.3	11.0	8.7	11.0	12.5	13.3	14.0	13.0	13.0
Overall balance (cash basis)	-6.0	-5.9	-2.7	-3.9	-5.8	-5.3	-5.8	-4.5	-4.2
Of which									
Primary balance	-3.0	-2.6	0.8	-0.1	-1.9	-1.3	-1.7	-0.5	-0.1
(excluding grants)	-3.3	-2.8	0.7	-1.5	-2.2	-1.6	-2.0	-0.7	-0.4
Central government debt 2/	63.7	63.5	64.0	63.5	65.2	66.5	68.3	68.5	68.4
Gross public sector debt 3/	67.0	66.1	70.5	69.6	70.7	71.6	73.3	73.3	72.9
External sector									
External current account	-17.1	-29.7	-29.1	-28.3	-26.7	-22.1	-20.3	-19.7	-17.9
Gross public sector external debt (end of period)	47.4	44.8	46.0	43.8	43.8	43.7	43.9	43.7	43.5
External public debt service									
(In percent of exports of goods and services)	6.5	7.7	15.8	7.7	7.3	6.9	7.0	7.0	6.9
(In percent of central government revenue before grants)	15.4	15.2	30.2	15.6	14.9	14.2	14.4	14.2	14.0
					II. Alternative Scenario				
Output and prices									
Real GDP growth at factor cost (percent change)	4.4	4.9	1.7	2.4	3.4	3.9	4.4	4.7	4.8
Consumer prices, end-of-period (percent change)	5.2	0.7	6.8	6.2	4.2	2.7	2.7	2.7	2.7
Nonfinancial public sector 1/									
Central government									
Total revenue and grants	25.6	26.9	28.2	30.5	30.9	32.2	32.4	32.6	32.8
Of which									
Grants	0.2	0.3	0.2	1.4	0.5	0.5	0.5	0.5	0.5
Total expenditure and net lending	31.6	32.8	30.9	33.7	33.9	34.6	34.6	33.7	33.5
Of which									
Wages and salaries	9.7	9.9	10.0	10.0	9.7	9.3	8.9	8.5	8.5
Interest	3.0	3.3	3.5	3.7	3.7	3.6	3.4	3.3	3.1
Capital expenditure	10.3	11.0	8.7	10.7	11.0	11.5	12.0	11.5	11.5
Overall balance (cash basis)	-6.0	-5.9	-2.7	-3.2	-3.0	-2.5	-2.1	-1.1	-0.8
Of which									
Primary balance	-3.0	-2.6	0.8	0.5	0.7	1.1	1.3	2.1	2.3
(excluding grants)	-3.3	-2.8	0.7	-0.9	0.2	0.6	0.8	1.6	1.8
Central government debt 2/	63.7	63.5	64.0	62.6	61.0	59.3	57.3	54.4	51.3
Gross public sector debt 3/	67.0	66.1	70.5	68.7	66.6	64.4	62.2	58.9	55.5

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

1/ Data are for fiscal years beginning April 1.

2/ Includes debt guaranteed by the central government.

3/ The consolidated public sector guaranteed and nonguaranteed debt.

Table 9. St. Lucia: Public Sector Debt, 2004–08 1/

	2004	2005	2006	Est. 2007	Proj. 2008
	(In millions of EC dollars, end-period)				
Debt stock					
Public sector debt net of borrowing from the NIC	1,426.5	1,590.2	1,665.1	1,826.4	1,936.8
Domestic debt net of borrowing from the NIC	428.4	464.4	536.3	633.7	718.7
Domestic debt including borrowing from the NIC	428.4	464.4	536.3	633.7	718.7
By type of creditor					
ECCB	24.8	24.8	18.8	18.8	18.8
Commercial banks	252.0	256.0	536.9	556.2	556.2
Other (includes NIC and insurance companies)	151.6	183.5	-19.5	58.6	143.6
By instrument					
Treasury bills 2/	95.1	92.3	74.8	74.8	74.8
Loans	31.7	31.1	77.6	117.8	117.8
Bonds	217.3	217.3	245.7	258.9	258.9
Other (includes overdraft)	84.3	123.7	138.1	182.1	267.2
Public sector external debt	998.1	1,125.9	1,128.8	1,192.8	1,218.1
By type of creditor					
Official bilateral	77.3	81.4	96.8	70.2	54.1
Official multilateral	466.0	566.1	600.4	607.0	584.5
Commercial	382.6	367.4	335.3	264.8	232.7
Other (including valuation adjustment)	72.2	111.0	96.3	250.7	346.8
	(In percent of GDP)				
Total debt	66.0	67.0	66.1	70.5	69.6
Domestic debt	19.8	19.6	21.3	24.4	25.8
External debt	46.1	47.4	44.8	46.0	43.8
	(In percent of government revenues)				
Total debt	252.9	260.7	246.3	246.8	241.1
Domestic debt	75.9	76.1	79.3	85.6	89.5
External debt	176.9	184.6	167.0	161.2	151.6
	(In millions of EC dollars, end-period)				
Debt service					
Total debt service	187.3	209.0	193.8	331.8	200.8
Amortization	120.3	132.4	112.3	236.2	92.1
Domestic	72.6	91.5	71.2	91.0	48.0
External	47.8	41.0	41.1	145.1	44.1
Interest	66.9	76.6	81.5	95.7	108.7
Domestic	22.2	26.5	28.3	33.7	38.4
External	44.8	50.1	53.3	62.0	70.4
	(In percent of GDP)				
Total debt service	8.6	8.8	7.7	12.8	7.2
Interest cost	3.0	3.2	3.2	3.7	3.9
Amortization	5.6	5.6	4.5	9.1	3.3
In percent of government revenue excluding grants	33.2	34.3	28.7	44.8	25.0
In percent export of goods and services	15.0	15.5	15.8	25.2	13.4
In percent of broad money 3/	12.4	12.2	9.4	15.2	8.5
Domestic debt service					
In percent of government revenue excluding grants	16.8	19.3	14.7	16.8	10.8
In percent export of goods and services	7.6	8.7	8.1	9.5	5.8
In percent of broad money 3/	6.3	6.9	4.8	5.7	3.6
External debt service					
In percent of government revenue excluding grants	19.8	15.4	15.2	30.2	15.6
In percent export of goods and services	8.2	6.5	7.7	15.8	7.7
In percent of broad money 3/	6.1	5.3	4.6	9.5	4.8
Memorandum items:					
Debt structure (in percent)					
Domestic	30.0	29.2	32.2	34.7	37.1
Treasury bills 2/	6.7	5.8	4.5	4.1	3.9
Loans	2.2	2.0	4.7	6.5	6.1
Bonds	15.2	13.7	14.8	14.2	13.4
Other (includes overdraft)	5.9	7.8	8.3	10.0	13.8
External	70.0	70.8	67.8	65.3	62.9
Official bilateral	5.4	5.1	5.8	3.8	2.8
Official multilateral	32.7	35.6	36.1	33.2	30.2
Commercial	26.8	23.1	20.1	14.5	12.0
Other (including valuation adjustement)	5.1	7.0	5.8	13.7	17.9
Effective average interest rate 4/					
Domestic debt	5.2	5.7	5.3	5.3	5.3
External debt	4.5	4.4	4.7	5.2	5.8

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

1/ Net of intra-public sector debt (mainly central government debt to the NIC). The consolidated public sector includes the government, the National Insurance Corporation (NIC), and nonfinancial public enterprises.
2/ Treasury bills purchased by nonresidents on the RGSM since March 2003, are included.
3/ Including foreign currency deposits.
4/ Interest payment as percent of the average debt stock at beginning and end period.

Table 10. St. Lucia: Indicators of External and Financial Vulnerability, 2004–08
(Annual percentage changes, unless otherwise specified)

	2004	2005	2006	Est. 2007	Proj. 2008
External indicators					
Merchandise exports	-12.0	-7.7	32.2	15.8	2.4
Merchandise imports	-2.0	20.1	24.6	4.0	12.0
Terms of trade deterioration (-)	-6.3	-4.2	-13.6	-12.4	-16.0
Tourism earnings	15.5	9.3	-19.2	4.1	19.5
Banana export earnings	23.6	-23.0	15.9	-9.2	13.4
Current account balance (in percent of GDP)	-10.9	-17.1	-29.7	-29.1	-28.3
Capital and financial account balance (in percent of GDP) 1/	12.6	15.9	34.5	31.6	28.4
Of which					
Foreign direct investment (in percent of GDP)	9.6	8.9	25.1	24.4	22.7
Gross international reserves of the ECCB					
In millions of U.S. dollars	632.4	600.8	696.0	764.1	807.0
In percent of broad money	20.4	17.9	18.6	18.6	18.2
Net imputed reserves					
In millions of U.S. dollars	130.2	114.2	132.2	151.2	151.7
In percent of short-term liablilities	516.8	943.5	1,092.1	1,249.2	...
External public debt (in percent of GDP)	46.1	47.4	44.8	46.0	43.8
External debt service (in percent of exports of goods and nonfactor services)	8.2	6.5	7.7	15.8	7.7
Of which					
Interest	3.9	2.2	3.8	8.7	0.0
Nominal exchange rate (EC dollars per U.S. dollar, end period)	2.7	2.7	2.7	2.7	2.7
Real effective exchange rate depreciation (-), period average	-4.6	-0.5	0.1	-3.9	...
Financial indicators					
Broad money	10.1	13.4	20.1	6.2	8.5
Credit to the private sector	10.2	16.2	24.5	29.5	10.1
Prudential indicators (in percent)					
Capital adequacy ratio (local banks)	18.0	14.4	15.1	20.2	...
NPLs to total loans ratio	17.3	12.6	8.5	5.8	...
Of which					
Local banks	22.2	16.5	10.5	7.3	...
Foreign banks	13.4	9.9	7.1	4.8	...
Loan loss provision to NPLs ratio	36.1	40.4	40.1	45.5	...
Of which					
Local banks	39.0	44.8	35.2	38.6	...
Foreign banks	32.3	35.4	45.2	52.2	...
Gross government claims to total assets ratio	13.0	14.6	11.8	10.0	...
Foreign currency deposits to total deposits ratio	2.1	3.0	9.0	5.6	...
Net foreign currency exposure to capital (local banks)	65.2	122.3	53.1	79.0	...
Contingent liabilities to capital (local banks)	124.4	149.5	123.2	58.4	...
(Pre-tax) return on average assets	2.4	2.3	2.4	2.8	...
Yield to maturity sovereign bonds 2/	13.7	12.2	7.2	7.1	...

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

1/ Includes errors and omissions.
2/ Composite Index.

Table 11. St. Lucia: Millennium Development Goals Country Profile 1/

	1990	1995	1998	2001	2005
1. Eradicate extreme poverty and hunger	*2015 target = halve 1990 $1 a day poverty and malnutrition rates*				
Prevalence of child malnutrition (percent of children under 5)	..	..	..	..	5
2. Achieve universal primary education	*2015 target = net enrollment to 100*				
Net primary enrollment ratio (percent of relevant age group)	95	..	91	96	97
Primary completion rate (percent of relevant age group)	122		107	109	96
Percentage of cohort reaching grade 5 (percent)	..	..	99	97	96
3. Promote gender equality	*2005 target = education ratio to 100*				
Ratio of girls to boys in primary and secondary education (percent)	103	..	106	107	104
Proportion of seats held by women in national parliament (percent)	0	..	12	11	11
4. Reduce child mortality	*2015 target = Reduce by two thirds, between 1990 and 2015, the under-five mortality*				
Under 5 mortality rate (per 1,000)	21	21	..	16	14
Infant mortality rate (per 1,000 live births)	20	18	..	17	12
Immunization, measles (percent of children under 12 months)	82	94	88	89	94
5. Improve maternal health	*2015 target = reduce 1990 maternal mortality by three-fourths*				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	..	..
Births attended by skilled health staff (percent of total)	..	..	..	100	99
6. Combat HIV/AIDS, malaria and other diseases	*2015 target = halt, and begin to reverse, AIDS, etc.*				
Prevalence of HIV, female (percent ages 15–24)	..	..	..	..	..
Contraceptive prevalence rate (percent of women ages 15–49)	..	..	..	..	..
Number of children orphaned by HIV/AIDS	..	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	21	..	..	..	17
Tuberculosis cases detected under DOTS (percent)	..	..	80	50	92
7. Ensure environmental sustainability	*2015 target = various 2/*				
Forest area (percent of total land area)	28	..	28	28	28
Nationally protected areas (percent of total land area)	..	..	..	..	15
CO2 emissions (metric tons per capita)	1	8	5	4	2
Access to an improved water source (percent of population)	98	..	..	..	98
Access to improved sanitation (percent of population)	..	..	..	..	89
8. Develop a Global Partnership for Development	*2015 target = various 3/*				
Youth unemployment rate (percent of total labor force ages 15–24)	..	34	44	40	40
Fixed line and mobile telephones (per 1,000 people)	127	217	278	334	..
Personal computers (per 1,000 people)	..	1	132	146	160
Internet users (per 1,000 people)	0	3	13	82	339
General indicators					
Population (thousands)	134	145	152	158	164
Gross national income (in billions of U.S. dollars)	0.4	0.5	0.6	0.6	0.7
GNI per capita (in U.S. dollars)	2810	3570	3690	3830	4580
Total fertility rate (births per woman)	3.3	2.9	2.1	2.1	2.1
Life expectancy at birth (years)	71	71	72	74	74
Aid (per capita)	93	332	40	103	-131

Sources: *World Development Indicators* database; and Fund staff estimates.

1/ As of June 23, 2008.

2/ Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water.

3/ Develop further an open, rule-based, predictable, nondiscriminatory trading and financial system. Address the special needs of the least developed and landlocked countries, and of small island developing states. Deal comprehensively with the problems of developing countries and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in development countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

Annex I. St. Lucia: Medium-Term Outlook Under Alternative Fiscal Scenarios

The risk of current fiscal policies leading to an unsustainable level of public debt remains high, given the pressure for capital and social spending. In the absence of containment of capital spending, and an increase in revenues, current debt dynamics are unfavorable.

Two fiscal scenarios are considered—a baseline scenario and an alternative scenario. Under the baseline scenario, discussed in the text, the debt stock and debt servicing costs continue to rise; under the alternative scenario, the stock of debt declines gradually over the medium term, achieving the ECCB Monetary Council's debt benchmark (60 percent of GDP by 2020) in FY 2012/13.

Baseline scenario. This scenario assumes that the authorities will continue current policies with overall imbalances that are financed commercially, and also through some grants from Taiwan Province of China. Financing is assumed to continue to be available *ad infinitum*. In the medium term, growth remains driven by public and private investment, mainly through large-scale infrastructure and tourism sector construction, but is still lower (by about ½ of 1 percent) than under the alternative scenario. On the revenue side, new measures would be limited to the introduction of a revenue-positive VAT in FY 2009/10. On the expenditure side, the wage bill would remain constant (as a share of GDP), and there would be an increase in capital expenditure. Under this scenario, the central government primary deficit (excluding grants) would deteriorate, reaching 2.2 percent of GDP by FY 2009/10, and public debt would rise to about 73 percent of GDP by FY 2013/14 (Table 8, Baseline Scenario).

Alternative scenario. The broad theme of this scenario is fiscal consolidation and additional social spending. This is expected to be achieved through greater revenue mobilization and a reduction in capital expenditure. Revenue initiatives will focus on: (i) increased petroleum product taxes in FY 2008/09 through flexible adjustment of domestic retail prices; (ii) introduction of a market valuation-based property tax in FY 2009/10; and (iii) more vigorous collection of domestic taxes and tax arrears. Additional grants are expected from the European Union and Taiwan Province of China. On the expenditure side, to create room for planned additional social spending, growth in the real wage bill will be curtailed (by holding constant the number of civil servants), while capital expenditure will be cut by the elimination or postponement of low-priority projects.

With the impetus from prioritization of public sector capital projects, the underlying growth is expected to accelerate with greater activity in the private sector, and is estimated at about 5 percent over the medium term. Under this scenario, the central government primary balance (excluding grants) would reach a surplus of 0.2 percent of GDP by FY 2009/10, and public debt would decline to about 60 percent of GDP by FY 2012/13 (Table 8, Alternative Scenario).

Annex II. St. Lucia: Summary of Appendices

Fund Relations

St. Lucia does not have outstanding obligations to the Fund. St. Lucia is a member of the Eastern Caribbean Central Bank (ECCB), which manages monetary policy and the exchange system for its eight members. The common currency, the Eastern Caribbean dollar, has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976. St. Lucia has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. The last Article IV consultation was concluded by the Executive Board on September 26, 2007 (IMF Country Report No. 08/67). CARTAC has provided extensive technical assistance in recent years. In addition, FAD fielded a VAT and tax administration mission in September/October 2007, a PSIA mission on poverty and trade preference erosion in December 2007, and MCM fielded a debt management mission in April/May 2008.

Relations with the World Bank Group[10]

In September 2005, the Eastern Caribbean Sub-Region Country Assistance Strategy (CAS) for FY 2006–09 was presented to the Board of the World Bank. The strategy supports the sub-region's development agenda through two main pillars: (i) stimulating growth and improving competitiveness; and (2) reducing vulnerability, by promoting greater social inclusion and strengthening disaster risk management. There are eight active World Bank projects in St. Lucia for a net commitment of approximately US$47.68 million: Telecommunications and ICT Development, Water Supply Infrastructure Improvement, HIV/AIDS Prevention and Control, the Caribbean Catastrophe Risk Insurance Facility, the OECS Skills for Inclusive Growth, the OECS E-Government for Regional Integration, St. Lucia Disaster Management, and St. Lucia Education Development.

Relations with the Caribbean Development Bank[11]

St. Lucia continued to receive financing from the Caribbean Development Bank (CDB) for infrastructure development, human resource development, the formulation and implementation of economic, social and sectoral policies, direct and indirect lending to the productive sectors, environmental protection and poverty reduction. At end-2007, St. Lucia had a total outstanding balance of US$129.9 million. Since 1970, CDB financing for St. Lucia has been distributed mainly in the transportation and communication, education, and manufacturing sectors.

Statistical Issues

St. Lucia participates in the Fund's General Data Dissemination System (GDDS). Although the statistical database compares well with those of its ECCU peers, there are weaknesses in coverage, frequency, quality, and timeliness, in particular: incorporation of tourism in the national accounts, the public sector beyond the central government, and the balance of payments.

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[10] Adapted from text prepared by World Bank staff in June 2008.

[11] Adapted from text prepared by Caribbean Development Bank staff in June 2008.

INTERNATIONAL MONETARY FUND

ST. LUCIA

Staff Report for the 2008 Article IV Consultation—Informational Annex

Prepared by the Western Hemisphere Department

July 10, 2008

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Appendices

Appendix I. St. Lucia: Fund Relations
(As of June 20, 2008)

I. Membership Status: Joined 11/15/79; Article VIII

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	15.30	100.00
Fund holdings of currency	15.29	99.97
Reserve Position	0.01	0.04
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	0.74	100.00
Holdings	1.60	215.77

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements: None

VI. Projected Obligations to the Fund: None

VII. Exchange Rate Arrangement: St. Lucia is a member of the Eastern Caribbean Currency Union which has a common central bank (the Eastern Caribbean Central Bank) and currency (the Eastern Caribbean dollar). Since July 1976 the Eastern Caribbean dollar has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar. St. Lucia has accepted the obligations of Article VIII, Sections 2, 3, and 4. St. Lucia maintains an exchange system free of restrictions on payments and transfers for current international transactions.

VIII. Last Article IV Consultation: St. Lucia is currently on the 12-month cycle. The last Article IV consultation was concluded by the Executive Board on September 26, 2007. The relevant documents are IMF Country Report Nos. 08/67 and 08/68.

IX. Technical Assistance (September 2007–July 2008): Several missions from the Caribbean Regional Technical Assistance Center (CARTAC) have visited St. Lucia since September 2007. In the area of public finance, CARTAC consultants assisted the authorities in financial programming, accessing the impact of a pass-through of the international price of fuel, the introduction of a VAT and a market-based property tax, and with other measures aimed at containing expenditures. A FAD TA mission in January 2008 studied the poverty impact of trade preference erosion and mitigating measures. FAD also fielded a mission in November 2007, with a view to providing a strategy for successful introduction of the VAT, reviewing ongoing Customs and Excise Department reforms, and offering advice for the medium term on strengthening the VAT. MCM TA in May 2008 provided a process framework to assist the authorities in formulating an effective medium-term debt management strategy.

Appendix II. St. Lucia: Relations with the World Bank Group

(As of June 16, 2008)

In September 2005, the Eastern Caribbean Sub-Region Country Assistance Strategy (CAS) for FY06-09 was presented to the Board of the World Bank. The strategy supports the sub-region's development agenda through two main pillars: (1) stimulating growth and improving competitiveness; and (2) reducing vulnerability, by promoting greater social inclusion and strengthening disaster risk management. Recognizing the OECS countries' weakened creditworthiness due to high debt ratios, Bank activities will focus on leveraging available donor grant financing. Following the recommendations of the recently completed growth and competitiveness study for the OECS, IBRD and IDA support would focus on providing technical and financial assistance for interventions to support the two main pillars. An indicative Base Case lending scenario consisted of about US$51.3 million in IDA resources for the four OECS IDA eligible countries. An OECS CAS Progress Report was completed in June 2008.

I. Projects

There are eight active World Bank projects in St. Lucia for a net commitment of approximately US$47.68 million.

The **OECS E-Government for Regional Integration Program** was approved by the Board on May 27, 2008. This project consists of a US$2.4 million IDA credit (two thirds of which is from the Regional IDA allocation) to St. Lucia and is designed to promote the efficiency, quality, and transparency of public services through the delivery of regionally integrated e-government applications that take advantage of economies of scale. The program is structured in phases. Phase 1 focuses on cross-sectoral e-government issues, as well as on specific applications in the public finance area (including Public Financial Management or PFM, tax, customs and procurement), and also includes an e-government in health pilot project (possibly together with preparatory and complementary activities in other social and productive sectors). Subsequent phases of the program are expected to deepen the assistance provided under Phase 1, while expanding the program to cover other sectors, in particular, health, education, agriculture, tourism, postal, among others that may emerge during the early stages of implementation of Phase 1.

The **OECS (LC) Skills for Inclusive Growth** project was approved in May 2007 for US$3.5 million of IDA credit. The objective of the project is to assist the Government of St. Lucia to increase the employability of youth through private-sector driven training. This objective will be pursued through three means: (i) establishment of a competitive training scheme that finances private sector-driven training and traineeships, (ii) development of an improved policy framework for delivering training by enhancing OECS collaboration in training and introducing occupational standards to increase quality and value of training, and (iii) strengthening institutional capacity to better implement, monitor, and plan training.

The **OECS Catastrophe Risk Insurance Facility (CCRIF)** was approved in January 2007. This is the world's first ever multi-country catastrophe insurance pool. The bank approved a US$4.5 million IDA credit for St. Lucia to finance their contribution to the fund over three years. The Facility will enable governments to purchase catastrophe insurance coverage against adverse natural events, such as a major earthquakes or hurricanes. The CCRIF allows participating countries to pool their country-specific risks into one, better-diversified portfolio, resulting in a substantial reduction in the premium cost of 45-50 percent.

The **Telecommunications and ICT Development Project,** approved in May 2005 for US$543,000, half coming from IBRD loans and the other half form IDA credit, aims at improving the access, quality, and use of telecommunications and ICT services to achieve socio-economic development in the Organization of Eastern Caribbean States (OECS). The project has four components: 1) strengthening the national and regional regulatory frameworks and promoting additional competition in the telecommunications sector. Emphasis will be given to capacity building of Eastern Caribbean Telecommunications Authority (ECTEL) and the National Telecommunications Regulatory Commissions (NTRCs) by providing them with assistances to revise the regional and national sector legislation, and develop a modem interconnection regime; 2) reviewing current universal access policy, creating related guidelines, and providing financial support to establish a Universal Service Fund (USF); 3) improving growth and competitiveness in ICT-enabled services through utilization of broadband infrastructure; 4) ensuring management and administration of the overall project.

The **St. Lucia Water Supply Infrastructure Improvement Project** was approved in December 2001 for US$1.3 million in IBRD loans. In May 2005, an additional financing of US$3.85 million in IBRD loans and US$5.69 million in IDA credit was approved. The total commitment for this project is now US$10.84 million. The objectives of the St. Lucia Water Supply Infrastructure Improvement Project are: (i) to alleviate the water shortage in the entire north of the country; (ii) to implement urgent investments that will result in additional revenues, and reduction of the likelihood of commercial users abandoning the system; and (iii) to improve the potential of a successful partnership between the Government and the private sector. On April 10, 2007, a request for an additional US$1.84 million was approved for this project.

The **HIV/AIDS Prevention and Control Project** was approved in July 2004 for US$6.4 million, with half the financing through IBRD loans and the other half from IDA credit. The project supports the national program, which aims to prevent and control the spread of the epidemic, and to mitigate the socio-economic impact of the disease on the population. The project will use a two-pronged strategy: targeting interventions at high risk groups, and implementing non-targeted activities for the general population. The first component - Community and Civil Society Initiatives - will finance HIV/AIDS prevention, care, and support activities of Civil Society Organizations, women's organizations, professional organizations, trade unions, and private sector organizations. The second component will support the response to HIV/AIDS by non-health sector line ministries, namely, basic cross-cutting HIV/AIDS activities which all ministries are expected to implement under their respective sectoral HIV/AIDS programs. The third component will strengthen the capacity of the Ministry of Health to provide technical guidance for the national response to HIV/AIDS, specifically it will strengthen HIV/AIDS related services for prevention, treatment, and care delivered through the health care system. Finally, the fourth component will help build the institutional capacity for scaling up responsiveness, by financing technical advisory services, training, staffing, equipment, goods, and general operating costs.

The **St. Lucia Disaster Management Project II** was approved in June 2004 for US$7.5 million and consists of US$3.8 million in IDA credit, and US$3.7 million from the IBRD. This project aims at further reducing the country's vulnerability to adverse natural events (hurricane, floods, etc.) through investment in risk management activities. The project four components: Component 1) Physical Prevention and Mitigation Work: (a) coastal protection works for Dennery Village; (b) rehabilitation and reconstruction of two bridges; (c) drainage, river walls and slope stabilization; (d) retrofitting of schools and health centers; (e) procurement of additional stock; (f) technical audits for works at Dennery Village; (g) training and capacity building. Component 2) Strengthening Emergency Preparedness and Response: (a) construction of the Emergency Operations Center and additional satellite warehouses; (b) installation of water tanks; (c) technical assistance and training for the National Emergency Management Office; (d) specialized disaster equipment. Component 3) Institutional Strengthening: (a) building code training and sensitization; (b) technical assistance in territorial planning; (c) vulnerability assessment. Component 4) Project Management: (a) technical assistance to the Project Coordination Unit and technical audits.

The **St. Lucia Education Development Project** was approved in June 2002 for US$12.0 million, half of which is from IDA credit, and the other half coming from the IBRD. The overall program objective is to build human capital in the OECS which in turn will contribute to the diversification of their economy and more sustainable growth. There are three main project components. The first increases equitable access and equity in secondary education, particularly in poor rural communities. The second component comprises 4 subcomponents, which: 1) develop curriculum for Forms I-III and provide instructional guides, textbooks, and other resource materials; 2) establish learning resource centers, and expand and upgrade learning centers, including science and information technology labs; 3) elaborate program to support participation of disadvantaged students, and related teacher development in special education; and 4) provide school-based improvement projects, and extra-curricular activities. The third component expands the education management information system, including networking of schools and EMIS training.

II. Economic and Sector Work

The Bank has completed a series of analytical work relating to public sector capacity in the OECS including a number of Public Expenditure Reviews, an Institutional and Organizational Capacity Review and, in late 2007, a Country Fiduciary Assessment. The Bank also prepared an OECS study on Growth and Competitiveness (2005), a Caribbean Air Transport Report (2006), and a regional study on Crime, Violence, and Development: Trends, Costs, and Policy Options in the Caribbean (2007). St. Lucia was also included in the OECS Doing Business Report in 2007, the first multi-country special report to be undertaken by the Foreign Investment Advisory Service (FIAS). Follow-on detailed diagnostic work for St. Lucia is expected in FY09. In addition, an OECS Private Sector Financing Study was completed in early 2008.

St. Lucia will also benefit from ongoing and planned analytical and advisory activities including the following: A Caribbean Skills and Curriculum Study, a Caribbean Financial Sector and Regulation report, a Caribbean Social Protection Strategy Review, a Trade Integration in the Caribbean: Policy Options for Sustained Growth, Job Creation, and Poverty Reduction report, a CARICOM study on Managing Nurse Migration, and an OECS Tourism Backward Linkages Study. A Regional Energy Security report is also planned for FY09.

III. Financial Relations

(In millions of U.S. dollars)

	Principal	Available*	Disbursed*
OECS E-Government for Regional Integration Program	2.40	2.40	0.00
OECS (LC) Skills for Inclusive Growth	3.50	3.66	0.26
OECS Catastrophe Risk Insurance Facility	4.50	1.33	3.51
Telecommunications & ICT Development Project	0.54	0.38	0.21
Water Supply Infrastructure Improvement	10.84	1.28	10.17
HIV/AIDS Prevention & Control	6.40	3.91	2.86
LC Disaster Management Project II	7.50	1.73	6.22
Education Development Project	12.00	0.24	13.13
Total	**47.68**	**14.93**	**36.36**

*Amounts may not add up to original principal due to changes in the SDR/US$ exchange rate since signing.

Disbursements and Debt Service (Fiscal Year ending June 30)

	2001	2002	2003	2004	2005	2006	2007	2008**
Total disbursements	1.3	1.3	10.6	4.5	3.6	9.1	17.8	8.2
Repayments	0.8	0.8	1.2	1.4	1.2	1.3	1.6	2.2
Net disbursements	0.5	0.5	9.4	3.1	2.4	7.8	16.3	5.9
Canceled	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest and fees	0.4	0.4	0.5	0.6	0.7	0.8	0.8	1.2

** Data as of June 16, 2008

Appendix III. St. Lucia: Relations with the Caribbean Development Bank (CDB)

(As of June 24, 2008)

CDB interventions in St. Lucia have facilitated sustainable development by supporting investments in both social and economic infrastructure. This support has been financial and non-financial in nature and was aimed at ensuring that St. Lucia remains competitive in the global economy while ensuring that the needs of vulnerable groups are addressed. Specifically, the CDB has been involved in areas such as infrastructural development, human resource development, the formulation and implementation of economic, social and sectoral policies, direct and indirect lending to the productive sectors, environmental protection and poverty reduction. Going forward, it is expected that the Bank will continue to support sustainable economic growth by providing support for policy reforms and other efforts which promote good governance, facilitating upgrades to utilities and infrastructure, improving the competitiveness of the tourism sector, supporting medium and small enterprises, reducing vulnerability to natural hazards and fostering inclusive social development.

Notwithstanding some decline in borrowing activity in recent years, reflecting to some extent the availability of alternative sources of financing, St. Lucia remains the second-largest beneficiary of CDB funding, with US$265.5 million being approved to St. Lucia cumulatively in loans, contingent loans, equity and grants from 1970 to 2007. Of this amount, US$136.8 million were approved from Ordinary Capital Resources with the remainder being sourced from the "soft" window. In 2007 St. Lucia benefited from a grant of US$8,000 to assist small scale private sector entities in building capacity to compete more effectively in the local and regional markets. At the end of December 2007, St. Lucia had a total outstanding balance of US$129.9 million compared to US$148.7 million at the end of the previous year. There were no new approvals for the January to March period of 2008. Below is a summary of the cumulative sectoral distribution of CDB approved assistance to St. Lucia.

Sectoral Distribution of Approved Financing (Net) to St. Lucia, 1970 to 2007

Sectors	In Millions of U.S. Dollars	In Percent
Transportation & Communication	76.0	28.6
Education	43.9	16.5
Manufacturing	23.2	8.7
Agriculture	24.2	9.1
Water	19.0	7.2
Tourism	14.2	5.3
Housing	18.2	6.9
Health	8.5	3.2
Power and energy	1.4	0.5
Micro and Small	0.6	0.2
Mining	0.06	0.02
Multisector	36.2	13.6
TOTAL	265.5	100.0

Appendix IV. St. Lucia: Statistical Issues

(As of June 26, 2008)

Data provision has some shortcomings, but is broadly adequate for surveillance. Although the statistical database compares well with those of its Eastern Caribbean Central Bank (ECCB) peers, the accuracy and timeliness of macroeconomic statistics should be improved in order to achieve adequate standards for Fund surveillance and meet the authorities' needs. There are persistent weaknesses in coverage, frequency, quality, and timeliness, in particular regarding the national accounts, data on the public sector beyond the central government, and the balance of payments. Also, comprehensive and regular labor statistics are not available. The Ministry of Economic Affairs publishes bi-annually an economic and social review, which includes statistics on many macroeconomic sectors. The ECCB publishes a quarterly economic and financial review and an annual balance of payments for each member country.

St. Lucia is a participant in the General Data Dissemination System (GDDS). Its metadata, which include detailed plans for statistical development in the main macroeconomic areas over the short and medium term, have been posted on the Fund's Dissemination Standards Bulletin Board (http://dsbb.imf.org) since September 21, 2000.

Real Sector Statistics

The authorities are revising GDP estimates to obtain better sectoral estimates, but the process is being delayed by data collection problems. Attempts are being made to compile quarterly GDP estimates with funding from the Organization of American States. Given the increasing importance of tourism activities, a new comprehensive survey of the sector is necessary to establish key data, such as the average length of stay in different types of accommodations and the average daily expenditure by type of tourist arrival. This information should be cross-checked with other related activities (i.e., restaurants and transportation) to ensure consistency. Missions fielded by the Caribbean Regional Technical Assistance Center in 2005 and 2007 aided development of export and import price indices and initial work on measuring price developments in the tourism sector. The rebasing exercise of the CPI has been completed—the new CPI basket (base January 2008) is based on the 2006 Household Expenditure Survey. Another area in need of improvement is labor statistics, in particular, the reporting of private and public employment and wages.

Government Finance Statistics

Reporting of central government data has improved substantially over the last few years, but deficiencies remain in the rest of the public sector. The authorities are reporting monthly data on the central government's current revenue and expenditure, using a Fund-compatible economic classification, with lags of a couple of months. However, frequent and substantial revisions suggest that there is a need for further refinement. With regard to the rest of the public sector, the periodicity and timeliness of data reporting should be improved; annual financial statements and projections are currently obtained directly from the entities during

Fund missions and partially consolidated public sector accounts are only compiled by the Fund staff. Data on domestic debt of the public sector are not available on a regular basis. No fiscal data are reported to STA for publication in the *GFS Yearbook* or in *IFS*.

Monetary and Financial Statistics

Monetary statistics are compiled and reported to the Fund by the ECCB on a monthly basis based on a standardized report form since July 2006. In April 2007 a data ROSC mission assessed the monetary statistics with reference to the GDDS, and the Data Quality Assessment Framework (DQAF, July 2003). It indicated that the institutional coverage of the other depository corporations is incomplete, as data for mortgage companies, finance companies, building societies, and credit unions—all of which accept deposits—are excluded. Also, accrued interest is not incorporated in the value of the interest-bearing assets and liabilities, and valuation adjustments are included in other liabilities. In addition, source data for the commercial banks do not provide the disaggregation recommended in the Monetary and Financial Statistics Manual. Close coordination between the ECCB and the single regulatory unit (which supervises financial corporations other than those licensed under the Banking Act) is crucial.

Balance of Payments Statistics

Balance of payments data are compiled by the ECCB on an annual basis. Although recent data provide a more detailed breakdown of goods than in the past, in other areas they do not provide sufficient detail to enable publication of the full classification used in the fifth edition of the *Balance of Payments Manual*. Annual data up to 2005 are published in the IFS. In general, enhanced data resources and better compilation procedures are needed to improve the accuracy and timeliness of balance of payments statistics. Efforts should also be made to compile quarterly balance of payments statistics and the annual international investment position statement.

External Debt

The Ministry of Finance has a comprehensive database for public and publicly guaranteed external loans that provides detailed and reasonably up-to-date breakdowns of disbursements and debt service. Information on bonds placed abroad is compiled annually and monthly data are provided only at the staff's request. There is a need to restore the quality of information on these bonds, which has weakened recently as the distinction between resident and nonresident holders was discontinued.

St. Lucia: Table of Common Indicators Required for Surveillance
(As of June 26, 2008)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:	
						Data Quality – Methodological soundness[8]	Data Quality – Accuracy and reliability[9]
Exchange rate	Fixed rate	NA	NA	NA	NA		
International reserve assets and reserve liabilities of the monetary authorities[1]	12/06	03/07	M	Q	Q		
Reserve/base money	12/07	02/29/08	M	Q	Q	LO	LO
Broad money	12/07	02/29/08	M	Q	Q	LO	LO
Central bank balance sheet	12/07	02/29/08	M	Q	Q	LO	LO
Consolidated balance sheet of the banking system	12/07	02/29/08	M	Q	Q	LO	LO
Interest rates	12/07	03/18/08	M	Q	Q		
Consumer price index	12/07	06/19/08	M	M	M		
Revenue, expenditure, balance and composition of financing—central government[3]	03/07	05/11/07	M	M	H		
Revenue, expenditure, balance and composition of financing—general government[3, 4]			NA	NA	NA		
Stock of central government and central government-guaranteed debt[5]	03/07	05/11/07	A	H	H		
External current account balance	2006	05/11/07	A	H	H		
Exports and imports of goods and services	2006	05/11/07	Q	Q	Q		
GDP/GNP	2006	05/11/07	A	A	A		
Gross external debt	03/07	05/11/07	Q	Q	A		
International Investment Position[6]							

1 Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
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 (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
5 Including currency and maturity composition.
6 Includes external gross financial asset and liability positions vis a vis nonresidents.
7 Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Half-yearly (H), Annually (A), Irregular (I), Not available (NA).
8 Reflects the assessment provided in the data ROSC published on August 21, 2007 and based on the findings of the mission that took place during April 10-18, 2007 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).
9 Same as footnote 8, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs and revision studies.

INTERNATIONAL MONETARY FUND

ST. LUCIA

External and Public Debt Sustainability Analysis

Prepared by the staff of the International Monetary Fund

In consultation with World Bank Staff

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This debt sustainability analysis (DSA) assesses the sustainability of St. Lucia's public and external debt. The analysis suggests that sound public finances will be key to achieving debt sustainability. Staff estimates show that public debt will remain high in the absence of continued fiscal consolidation. St. Lucia's risk of external debt distress is moderate.

I. Introduction

1. Macroeconomic performance was mixed in 2007. Growth decelerated from an annual average of 4.2 percent during 2003-06 to 1.7 percent in 2007, largely reflecting the winding down of Cricket World Cup (CWC)-related construction and declines in stayover tourist arrivals. As world food and energy prices soared, annual inflation rose to 6.8 percent by end-2007. However, substantial progress was made in reducing fiscal imbalances. With higher current revenue and lower capital expenditure, a primary surplus of 0.8 percent of GDP was achieved, representing a fiscal adjustment of 3½ percent of GDP from 2006. As a result of this fiscal improvement, the public debt-to-GDP ratio increased only slightly to 70 percent of GDP.

II. Underlying DSA Assumptions

2. The **baseline scenario** assumes that the authorities will continue the fiscal policy of sizeable overall imbalances that are financed commercially. In the medium term, growth is projected at around 4.4 percent, driven by hotel construction activities and tourism. Under this scenario, the central government primary deficit (including grants) deteriorates gradually, peaking at 1.9 percent of GDP in 2009. Compared to the 2007 Article IV Consultation DSA, growth projections remain similar while fiscal projections are more conservative given the progress in reducing fiscal imbalances in 2007.

Box 1. Baseline Macroeconomic Assumptions (2008–28)

- Real GDP growth is projected to average about 4½ percent, consistent with the stronger growth observed in the 2002-06 and reflecting the ongoing large expansion of tourism accommodation capacity. With rapidly rising world food and fuel prices, inflation is projected to remain in the high single digits in 2008 before returning to low historical averages consistent with the quasi-currency board arrangement.

- The primary balance of the central government (including grants) is projected to deteriorate gradually, peaking at 1.9 percent of GDP by 2009. On the revenue side, new measures would be limited to the introduction of a revenue-positive VAT. On the expenditure side, the wage bill would remain constant (as a share of GDP) and capital expenditure would rise steadily to 14 percent of GDP by 2011, before declining slightly to 13 percent of GDP for 2012 and beyond.

- Given uncertainty surrounding the disbursements of the European Union assistance, annual grants are conservatively projected at 0.3 percent of GDP.

- The current account deficit is projected to remain elevated and largely financed by foreign direct investment (FDI) in 2008. However, as FDI-related imports wind down and tourist receipts pick up over the medium term, the current account deficit is expected to return gradually to a more sustainable level. The projected increase in tourist arrivals is underpinned by an expansion of hotel capacity of 40 percent over the medium-term.

- FDI is assumed to remain high for 2008-10, and gradually return to its historical average of 11 percent of GDP by 2013.

III. Evaluation of Public Sector Debt Sustainability

3. At end-2007 public debt stood at about 70 percent of GDP—nearly twice the level of a decade ago—albeit still the lowest in the ECCU. Expansionary fiscal polices in 2001–02 sharply raised the fiscal deficit and debt-to-GDP ratio. In subsequent years the authorities strengthened revenue administration and tightened capital expenditure, enabling them to slow the pace of public debt build up.

4. External debt represents 46 percent of GDP, while domestic debt represents 24 percent of GDP. Regarding the stock of external debt, the largest share is owed to multilateral and bilateral creditors (around 22 percent of GDP, with the Caribbean Development Bank holding around three fifths of that share), followed by commercial creditors (around 12 percent of GDP). In the future, most of new external requirements are expected to be financed commercially through the ECCU's Regional Government Securities

Market (RGSM). On the domestic front, commercial banks are the most important lenders to the government.

Baseline scenario

5. Under the baseline scenario St. Lucia's public debt would remain high, at about 73 percent of GDP by 2013. The debt-to-GDP ratio would increase marginally to around 75 percent by 2028. All other indicators of debt sustainability follow a similar pattern of stagnation, with the NPV of debt-to revenue ratio remaining at over 230 percent by 2028.

Alternative scenarios

Adjustment scenario

6. Under this scenario a fiscal adjustment would lead to an average primary surplus of about 1½ percent of GDP over the medium term. This adjustment would restore the primary surplus to its average level during 1985-2000 and would require additional revenue enhancing measures, including the introduction of a market valuation-based property tax and a more flexible fuel pricing regime, as well as wage restraint and prioritization of capital expenditures.

7. Under this adjustment scenario St. Lucia's public debt-to-GDP ratio would decline to below 60 percent—the ECCB's benchmark—by 2012. The debt-to-GDP ratio would decline further to around 40 percent by 2028. All other indicators of debt sustainability would show a steady improvement, particularly with debt service as a share of current revenue falling from around 23 percent in 2008 to around 10 percent by 2028.

Changes in growth and primary balance

8. The sensitivity analysis (which is applied to the baseline scenario) shows that economic growth and the primary balance are the two key drivers of St. Lucia's debt dynamics. If growth is assumed to remain at one standard deviation below the baseline, the NPV of debt-to-GDP ratio will reach 118 percent by 2028 (Table 2, Scenario A3). If both annual growth and primary deficit were to be kept at historical levels (2.2 percent and 0.9 percent of GDP, respectively), the NPV of debt-to-GDP ratio would reach 112 percent by 2028 (Table 2, Scenario A1).

9. The sensitivity analysis also highlights the importance of containing expenditure if economic growth were to decline. Alternative Scenario B1, in which growth is assumed to decline to -0.6 percent for 2009 and 2010, indicates that the NPV of debt-to-GDP ratio will increase rapidly, reaching 116 percent by 2028. This is because as output slows, fiscal revenues are assumed to remain constant as a share of GDP while expenditures are assumed to remain constant in nominal terms relative to the baseline scenario, producing a substantial

and permanent deterioration of the primary balance. This, in turn, increases debt ratios markedly.

Natural disaster

10. The impact of a natural disaster on St. Lucia's debt dynamics was also analyzed (Table 2, Alternative Scenario A4). Under this scenario (which is again applied to the baseline scenario) it is assumed that a hurricane increases the primary deficit of the government by 3 percent of GDP in 2009, 2010 and 2011, before reverting to its baseline levels thereafter.[1] This shock accelerates the deterioration of the NPV of debt-to-GDP ratio, reaching 90 percent by 2011.

IV. Evaluation of External Debt Sustainability

11. St. Lucia's external debt sustainability analysis includes only public sector debt, since data on private sector external borrowing are not available. As a result, the external DSA follows a similar pattern to that of the public sector DSA.

12. Under the baseline scenario the NPV of external debt remains at about 43 percent of GDP, below the prudential threshold of 50 percent, throughout the projection period.[2] All other debt and debt service ratios also remain relatively stable and below relevant indicative thresholds.

13. Sensitivity analysis (which is applied to the baseline scenario) shows that the level of external debt is most responsive to a large shock of nominal exchange rate depreciation as the majority of external debt is denominated in U.S. dollars. With a one-time 30 percent nominal depreciation in 2009, the NPV of debt-to-GDP ratio will jump to 60 percent, breaching the debt-to-GDP threshold of 50 percent (Table 4, Scenario B6). Similarly, lower export growth and a shortfall in non-debt creating flows would also breach the debt-to-GDP threshold of 50 percent (Table 4, Scenarios B2 and B4, respectively). The export shortfall would engender a long-lived hump in the debt service-to-exports ratio, which is indicative of some liquidity concerns (Table 4, Scenario B2). The level of external debt is also responsive to a negative shock on growth and costlier terms of financing (Table 4, Scenarios B1 and A2, respectively), but these shocks do not lead to a breach of thresholds.

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[1] The actual impact of this shock could be lower given the recent participation of St. Lucia in the Caribbean Catastrophe Insurance Facility—a regional insurance pool organized by the World Bank.

[2] The DSA uses policy-dependent external debt-burden indicators. Policy performance is measured by the Country Policy and Institutional Assessment (CPIA) index, compiled annually by the World Bank. The CPIA divides countries into three performance categories (strong, medium, and poor) based on the overall quality of its macroeconomic policies, with strong performers having higher prudential thresholds than poor performers. St. Lucia is classified by the CPIA as a strong performer, with prudential thresholds on NPV of debt-to-GDP and debt-to-exports ratios of 50 and 200 percent, respectively.

V. CONCLUSIONS

14. Absent a fiscal adjustment that would return the primary balance to its historical average, imbalances for the overall public sector would remain, leaving the ECCB's public debt benchmark of 60 percent of GDP out of reach for St. Lucia. Staff analysis shows that, with a fiscal adjustment bringing the average primary surplus (including grants) to around 1½ percent of GDP over the medium term (close to the long-term average), St. Lucia would reach the ECCB's target by 2012 and continue to bring down its public debt steadily to 40 percent of GDP by 2028.

15. On the external front St. Lucia faces a moderate risk of debt distress. The baseline scenario indicates no breach of any thresholds. Various stress tests suggest several breaches of the NPV of debt-to-GDP threshold. However, as private external debt data are unavailable, some caution should be used when interpreting these results, which cover public external debt only.

Table 1. St. Lucia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2005–28
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2005	2006	2007	Historical Average 1/	Standard Deviation 1/	2008	2009	2010	2011	2012	2013	Average 2008–13	2018	2028	Average 2014–28
Public sector debt 2/	67.0	66.1	70.5			69.6	70.7	71.6	73.3	73.3	72.9		74.0	74.7	
Of which															
Foreign-currency denominated	47.4	44.8	46.0			43.8	43.8	43.7	43.9	43.7	43.5		42.9	41.9	
Change in public sector debt	1.0	-0.9	4.4			-0.9	1.1	0.9	1.6	0.0	-0.4		0.2	0.0	
Identified debt-creating flows	0.3	2.0	0.9			-0.8	1.3	1.0	1.7	0.0	-0.4		0.2	-0.1	
Primary deficit	3.1	2.6	-0.9	0.9	2.5	0.1	1.9	1.3	1.7	0.5	0.1	1.0	0.6	0.6	0.7
Revenue and grants	25.9	27.1	28.7			30.3	29.9	31.2	31.5	31.6	31.8		31.8	31.7	
Of which															
Grants	0.3	0.3	0.2			1.4	0.3	0.3	0.3	0.3	0.3		0.3	0.3	
Primary (noninterest) expenditure	29.0	29.7	27.9			30.4	31.9	32.5	33.2	32.1	32.0		32.5	32.4	
Automatic debt dynamics	-2.8	-0.5	1.8			-0.9	-0.7	-0.4	-0.1	-0.4	-0.5		-0.5	-0.7	
Contribution from interest rate/growth differential	-2.0	-1.4	1.1			0.4	0.2	0.1	0.0	-0.3	-0.4		-0.4	-0.6	
Of which															
Contribution from average real interest rate	0.8	1.7	2.2			2.0	2.3	2.5	2.8	2.8	2.7		2.7	2.7	
Of which															
Contribution from real GDP growth	-2.8	-3.2	-1.1			-1.6	-2.1	-2.4	-2.7	-3.1	-3.1		-3.1	-3.3	
Contribution from real exchange rate depreciation	-0.8	0.9	0.7			-1.4	-0.9	-0.5	-0.1	-0.1	-0.1		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	0.8	-2.9	3.5			0.0	-0.2	0.0	0.0	0.0	0.0		0.0	0.0	
NPV of public sector debt	67.0	66.1	70.5			69.6	70.7	71.6	73.3	73.3	72.9		74.0	74.7	
Of which															
Foreign-currency denominated	47.4	44.8	46.0			43.8	43.8	43.7	43.9	43.7	43.5		42.9	41.9	
Of which															
External	47.4	44.8	46.0			43.8	43.8	43.7	43.9	43.7	43.5		42.9	41.9	
NPV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Gross financing need 3/	11.7	10.4	11.8			7.3	8.6	8.0	8.1	6.8	6.4		7.4	7.8	
NPV of public sector debt-to-revenue and grants ratio (in percent)	258.2	243.9	245.4			229.6	236.2	229.5	233.0	231.7	229.0		232.4	235.2	
NPV of public sector debt-to-revenue ratio (in percent)	260.7	246.3	246.8			241.1	238.6	231.8	235.2	233.9	231.1		234.6	237.5	
Of which															
External 4/	184.6	167.0	161.2			151.6	147.9	141.5	140.9	139.4	138.1		136.0	133.4	
Debt service-to-revenue and grants ratio (in percent) 5/	33.4	28.8	44.2			23.8	22.4	21.5	20.4	20.1	19.6		21.3	22.7	
Debt service-to-revenue ratio (in percent) 5/	33.7	29.1	44.5			25.0	22.6	21.7	20.6	20.3	19.8		21.5	22.9	
Primary deficit that stabilizes the debt-to-GDP ratio	2.0	3.5	-5.2			1.0	0.8	0.4	0.1	0.5	0.5		0.5	0.7	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.4	4.9	1.7	2.2	2.8	2.3	3.1	3.5	4.0	4.4	4.4	3.6	4.4	4.7	4.5
Average nominal interest rate on forex debt (in percent)	4.9	5.0	5.5	3.7	1.5	5.9	6.2	6.1	6.2	6.1	6.1	6.1	6.1	6.1	6.2
Average real interest rate on domestic currency debt (in percent)	0.5	4.8	4.5	3.9	2.6	1.0	1.9	2.9	3.8	3.6	3.5	2.8	3.6	3.5	3.6
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.8	2.0	1.5	-0.6	2.7	-2.9	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	5.1	1.1	1.1	3.0	2.6	5.0	4.0	3.0	2.2	2.2	2.2	3.1	2.2	2.2	2.2
Growth of real primary spending (deflated by GDP deflator, in percent)	13.5	7.3	-4.5	3.6	9.6	11.6	8.0	5.7	6.0	0.9	4.1	6.0	4.4	4.2	4.6
Grant element of new external borrowing (in percent)	...	...	6.9	6.9	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...

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

1/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

2/ Nonfinancial public sector gross debt, government guaranteed debt, and government nonguaranteed debt.

3/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

4/ Revenues excluding grants.

5/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

Table 2. St. Lucia: Sensitivity Analysis for Key Indicators of Public Debt 2008–28

	Projections							
	2008	2009	2010	2011	2012	2013	2018	2028
NPV of Debt-to-GDP Ratio								
Baseline	70	71	72	73	73	73	74	75
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	70	70	72	74	76	78	89	112
A2. Primary balance is unchanged from 2008	70	69	69	69	69	68	68	65
A3. Permanently lower GDP growth 1/	70	71	73	76	77	78	88	118
A4. Natural disaster 2/	70	76	82	90	89	88	87	85
A5. Adjustment scenario	69	67	64	62	59	55	49	40
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009–10	70	74	81	84	87	88	100	116
B2. Primary balance is at historical average minus one standard deviations in 2009–10	70	72	75	76	76	76	77	77
B3. Combination of B1–B2 using one half standard deviation shocks	70	72	76	78	78	77	78	78
B4. One-time 30 percent real depreciation in 2009	70	90	91	92	92	92	93	96
B5. 10 percent of GDP increase in other debt-creating flows in 2009	70	80	81	82	82	81	82	81
NPV of Debt-to-Revenue Ratio 3/								
Baseline	230	236	230	233	232	229	232	235
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	230	235	230	235	240	244	277	352
A2. Primary balance is unchanged from 2008	230	231	221	219	218	215	212	297
A3. Permanently lower GDP growth 1/	230	238	234	240	243	244	276	372
A4. Natural disaster 2/	230	254	264	286	281	276	273	267
A5. Adjustment scenario	221	211	196	188	177	166	144	117
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009–10	230	248	258	268	274	277	312	367
B2. Primary balance is at historical average minus one standard deviations in 2009–10	230	241	240	243	242	239	241	242
B3. Combination of B1–B2 using one half standard deviation shocks	230	242	244	247	245	242	245	246
B4. One-time 30 percent real depreciation in 2009	230	301	291	294	292	288	293	301
B5. 10 percent of GDP increase in other debt-creating flows in 2009	230	267	258	261	259	256	257	254
Debt Service-to-Revenue Ratio 3/								
Baseline	24	22	21	20	20	20	21	23
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	24	23	21	20	20	21	26	34
A2. Primary balance is unchanged from 2008	24	22	20	18	17	18	20	27
A3. Permanently lower GDP growth 1/	24	23	22	21	21	21	26	38
A4. Natural disaster 2/	24	23	21	20	24	22	24	25
A5. Adjustment scenario	23	20	19	17	16	15	13	10
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009–10	24	23	24	25	26	25	29	38
B2. Primary balance is at historical average minus one standard deviations in 2009–10	24	22	23	23	21	20	22	24
B3. Combination of B1-B2 using one half standard deviation shocks	24	23	23	22	21	21	22	24
B4. One-time 30 percent real depreciation in 2009	24	24	26	25	25	25	27	32
B5. 10 percent of GDP increase in other debt-creating flows in 2009	24	22	32	25	22	21	23	26

Sources: St. Lucia authorities; and Fund staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).
2/ Assumes that a hurricane hits St. Lucia, increasing its primary deficit by 3 percent of GDP for 2009, 2010 and 2011, and reducing growth to zero.
3/ Revenues are defined inclusive of grants.

Table 3. St. Lucia: External Debt Sustainability Framework, Baseline Scenario, 2005–28 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 1/	Standard Deviation 1/	Projections									
	2005	2006	2007			2008	2009	2010	2011	2012	2013	2008-13 Average	2018	2028	2014-28 Average
External debt (nominal) 2/	**47.4**	**44.8**	**46.0**			**43.8**	**43.8**	**43.7**	**43.9**	**43.7**	**43.5**		**42.9**	**41.9**	
Of which															
Public and publicly guaranteed (PPG)	47.4	44.8	46.0			43.8	43.8	43.7	43.9	43.7	43.5		42.9	41.9	
Change in external debt	1.3	-2.6	1.2			-2.2	0.0	-0.1	0.2	-0.2	-0.2		-0.1	-0.3	
Identified net debt-creating flows	4.1	1.9	3.5			4.7	3.7	0.6	3.7	2.9	5.0		5.3	5.3	
Noninterest current account deficit	**15.0**	**27.6**	**26.7**	**16.4**	**6.4**	**25.8**	**24.1**	**19.5**	**17.8**	**17.2**	**15.3**		**15.6**	**15.7**	15.4
Deficit in balance of goods and services	10.3	25.2	24.1			23.2	21.6	17.0	15.3	14.7	12.9		13.0	12.7	
Exports	56.8	48.7	50.7			53.7	56.0	59.3	59.4	58.8	59.4		57.6	54.1	
Imports	67.1	73.9	74.8			76.9	77.6	76.3	74.7	73.6	72.4		70.6	66.8	
Net current transfers (negative = inflow)	-1.5	-1.3	-1.3	-2.0	0.6	-1.3	-1.3	-1.4	-1.4	-1.4	-1.5		-1.3	-0.8	-1.2
Of which															
Official	0.1	0.0	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.0	
Other current account flows (negative = net inflow)	6.1	3.7	3.9			3.9	3.9	3.9	3.9	3.9	3.9		3.9	3.9	
Net FDI (negative = inflow)	**-8.9**	**-25.1**	**-24.4**	**-13.0**	**6.6**	**-22.7**	**-21.8**	**-20.0**	**-15.0**	**-15.0**	**-11.0**		**-11.0**	**-11.0**	-11.0
Endogenous debt dynamics 3/	**-2.0**	**-0.6**	**1.2**			**1.6**	**1.3**	**1.1**	**0.9**	**0.7**	**0.7**		**0.7**	**0.6**	
Contribution from nominal interest rate	2.1	2.1	2.4			2.5	2.5	2.5	2.5	2.5	2.5		2.5	2.4	
Contribution from real GDP growth	-1.8	-2.2	-0.7			-1.0	-1.2	-1.4	-1.6	-1.8	-1.8		-1.8	-1.8	
Contribution from price and exchange rate changes	-2.3	-0.5	-0.5			…	…	…	…	…	…		…	…	
Residual (3-4) 4/	**-2.8**	**-4.5**	**-2.3**			**-6.9**	**-3.6**	**-0.7**	**-3.5**	**-3.1**	**-5.2**		**-5.4**	**-5.5**	
Of which															
Exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
NPV of external debt 5/	...	...	44.5			42.4	42.6	42.6	42.9	42.8	42.7		42.6	42.0	
In percent of exports	...	...	87.7			78.9	76.1	71.9	72.2	72.7	71.8		74.0	77.5	
NPV of PPG external debt	**...**	**...**	**44.5**			**42.4**	**42.6**	**42.6**	**42.9**	**42.8**	**42.7**		**42.6**	**42.0**	
In percent of exports	**...**	**...**	**87.7**			**78.9**	**76.1**	**71.9**	**72.2**	**72.7**	**71.8**		**74.0**	**77.5**	
In percent of government revenues	**...**	**...**	**155.0**			**139.8**	**142.4**	**136.6**	**136.4**	**135.2**	**134.2**		**133.9**	**132.2**	
Debt service-to-exports ratio (in percent)	**6.8**	**7.7**	**15.8**			**7.7**	**7.3**	**6.9**	**7.0**	**7.0**	**6.9**		**8.1**	**9.6**	
PPG debt service-to-exports ratio (in percent)	**6.8**	**7.7**	**15.8**			**7.7**	**7.3**	**6.9**	**7.0**	**7.0**	**6.9**		**8.1**	**9.6**	
PPG debt service-to-revenue ratio (in percent)	**14.8**	**13.8**	**27.8**			**13.6**	**13.7**	**13.1**	**13.2**	**13.1**	**12.9**		**14.7**	**16.4**	
Total gross financing need (billions of U.S. dollars)	0.1	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.2		0.2	0.4	
Noninterest current account deficit that stabilizes debt ratio	13.7	30.2	25.5			28.0	24.1	19.6	17.6	17.4	15.5		15.7	16.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.4	4.9	1.7	2.2	2.8	2.3	3.1	3.5	4.0	4.4	4.4	3.6	4.4	4.7	4.5
GDP deflator in U.S. dollar terms (change in percent)	5.1	1.1	1.1	3.0	2.6	5.0	4.0	3.0	2.2	2.2	2.2	3.1	2.2	2.2	2.2
Effective interest rate (percent) 6/	5.0	4.7	5.5	3.7	1.4	5.9	6.2	6.1	6.2	6.1	6.1	6.1	6.1	6.1	6.2
Growth of exports of goods and services (U.S. dollar terms, in percent)	7.8	-9.0	7.1	3.8	13.1	13.7	11.8	12.8	6.4	5.6	7.9	9.7	6.0	7.1	6.1
Growth of imports of goods and services (U.S. dollar terms, in percent)	19.0	17.0	4.1	6.1	10.8	10.3	8.2	4.8	4.0	5.0	5.0	6.2	6.1	8.4	6.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Aid flows (in billions of U.S. dollars) 7/	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Of which															
Grants	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Of which															
Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.4	0.3	0.3	0.3	0.3	0.3		0.3	0.3	0.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			36.6	6.1	6.7	6.5	6.8	6.7		5.9	5.3	5.7
Memorandum items:															
Nominal GDP (billions of U.S. dollars)	0.9	0.9	1.0			1.0	1.1	1.2	1.3	1.3	1.4		2.0	3.8	
(NPVt-NPVt-1)/GDPt-1 (in percent)						1.0	3.3	2.8	2.9	2.7	2.8	2.6	2.9	2.7	2.8

Source: Fund staff simulations.

1/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

2 Includes public sector guaranteed and non-guaranteed external debt. Data on private external debt stocks and flows are unavailable.

3/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.

4/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

5/ Assumes that NPV of private sector debt is equivalent to its face value.

6/ Current-year interest payments divided by previous period debt stock.

7 Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the NPV of new debt).

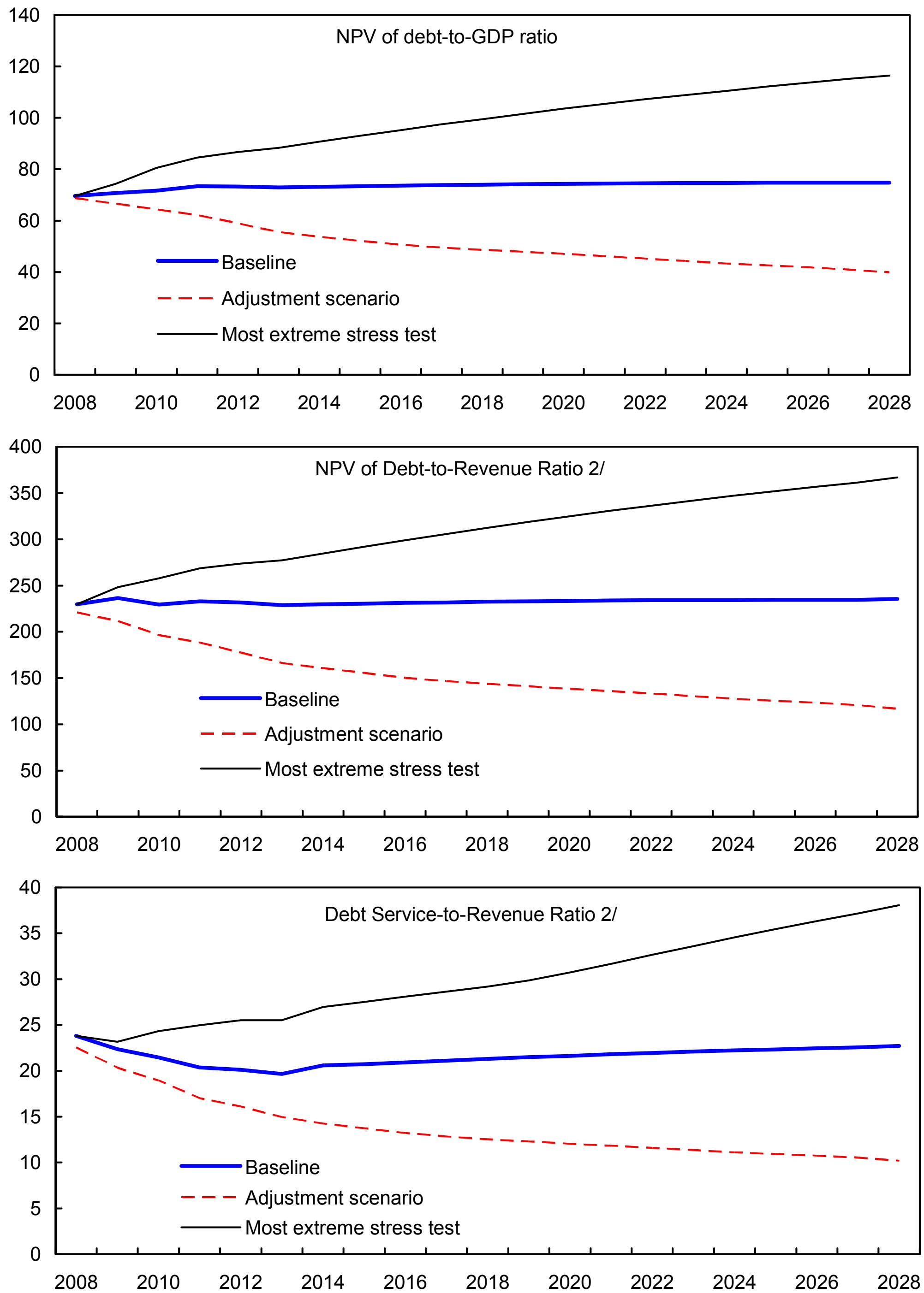
Table 4. St. Lucia: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2008–28
(In percent)

		Projections						
	2008	2009	2010	2011	2012	2013	**2018**	2028
NPV of debt-to-GDP ratio								
Baseline	42	43	43	43	43	43	**43**	42
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009–28 1/	42	44	47	47	48	46	**42**	48
A2. New public sector loans on less favorable terms in 2009–28 2/	42	43	43	44	44	44	**46**	49
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009–10	42	44	46	46	46	46	**46**	45
B2. Export value growth at historical average minus one standard deviation in 2009–10 3/	42	53	72	68	63	59	**44**	42
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009–10	42	44	45	46	45	45	**45**	45
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009–10 4/	42	58	69	65	61	57	**44**	42
B5. Combination of B1–B4 using one-half standard deviation shocks	42	52	69	66	62	59	**47**	46
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	42	60	60	60	60	60	**60**	59
NPV of debt-to-exports ratio								
Baseline	79	76	72	72	73	72	**74**	77
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009–28 1/	79	78	80	80	81	78	**72**	89
A2. New public sector loans on less favorable terms in 2009–28 2/	79	77	73	73	74	74	**79**	90
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009–10	79	76	72	72	73	72	**74**	77
B2. Export value growth at historical average minus one standard deviation in 2009–10 3/	79	117	187	176	165	152	**117**	119
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2009–10	79	76	72	72	73	72	**74**	77
B4. Net nondebt creating flows at historical average minus one standard deviation in 2009–10 4/	79	103	117	110	104	96	**76**	78
B5. Combination of B1–B4 using one-half standard deviation shocks	79	102	143	136	130	121	**101**	103
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	79	76	72	72	73	72	**74**	77
Debt service-to-exports ratio								
Baseline	8	7	7	7	7	7	**8**	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009–28 1/	8	7	7	8	8	8	**7**	9
A2. New public sector loans on less favorable terms in 2009–28 2/	8	7	6	7	7	7	**10**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009–10	8	7	7	7	7	7	**8**	10
B2. Export value growth at historical average minus one standard deviation in 2009–10 3/	8	9	16	25	25	23	**14**	15
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009–10	8	7	7	7	7	7	**8**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009–10 4/	8	7	12	16	15	15	**9**	10
B5. Combination of B1–B4 using one-half standard deviation shocks	8	8	12	18	18	17	**12**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	8	7	7	7	7	7	**8**	10
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	0	0	0	0	0	0	**0**	0

Source: Fund staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and nondebt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Figure 1. St. Lucia: Indicators of Public Debt Under Alternative Scenarios, 2008-28 1/

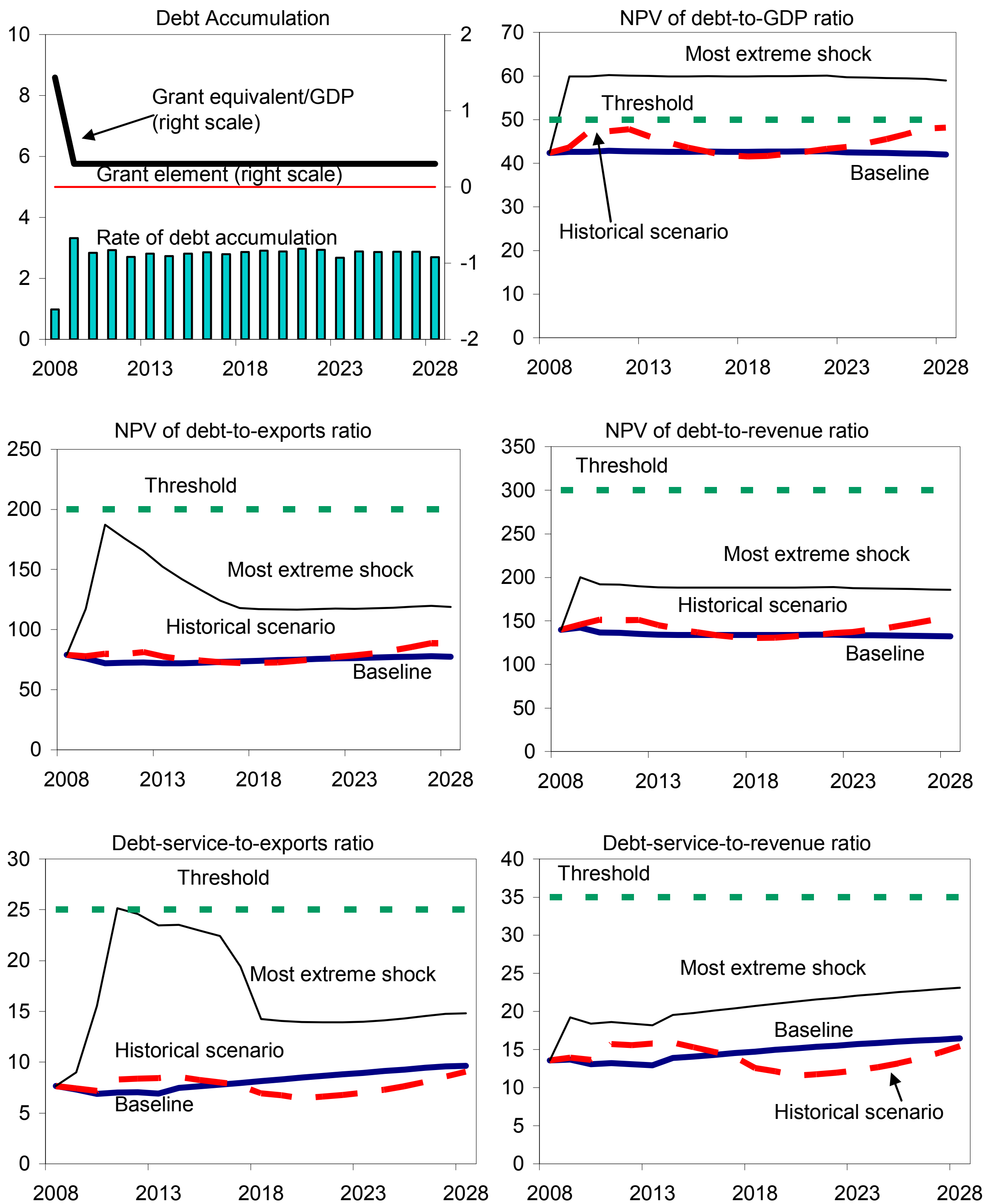


Source: Fund staff projections and simulations.

1/ Most extreme stress test is test that yields highest ratio in 2018.

2/ Revenue including grants.

Figure 2. St. Lucia: Indicators of Public and Publicly Guaranteed External Debt
Under Alternative Scenarios, 2008-28



Source: Fund staff projections and simulations.

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700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2008 Article IV Consultation with St. Lucia

On July 30, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with St. Lucia.[1]

Background

Macroeconomic performance has been mixed in recent years. While real GDP growth averaged 4 percent during 2003–06, growth slowed to about 1¾ percent in 2007, reflecting contraction in hurricane–affected agriculture (mainly banana exports), and slowdowns in construction activity and stayover tourist arrivals. Inflation increased sharply to almost 7 percent at end-December 2007, due to higher imported fuel and food prices and the ongoing depreciation of the U.S. dollar. With deteriorating global prospects and slow recovery in agriculture, growth is expected to be modest in 2008 (at 2⅓ percent) and to rise further in 2009. Additional hotel capacity, combined with vigorous marketing and more frequent airlift, is expected to boost growth. Despite this broadly positive outlook, vulnerabilities remain, including the country's dependence on imported oil, high food prices, declining European Union (EU) banana preferences, volatile tourism receipts, and exposure to natural disasters.

The fiscal position has strengthened in 2007, yet public debt and debt servicing payments continue to rise. The primary balance improved in FY 2007/08 (April 1-March 31), reflecting an increase in current revenue and a marked reduction in capital expenditure. While the total revenue-to-GDP ratio increased from about 27 percent in FY 2006/07 to 28¼ percent in FY 2007/08, total spending (excluding interest payments) declined sharply from 29½ percent to about 27½ percent, contributing to a 3½ percent of GDP improvement in the primary balance. However, public debt increased to 70½ percent of GDP.

[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 for discussion by the Executive Board. 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.

The external current account deficit remained elevated in 2007. The large deficit (29 percent of GDP) was driven primarily by a continued deterioration of the terms of trade and decline in tourist arrivals, and higher imports related to hotel construction and energy demand. The deficit continues to be almost entirely financed by foreign direct investment, mainly in the tourism sector. Nonetheless, St. Lucia remains vulnerable to external shocks, given its dependence on imported oil, volatile tourism receipts, exposure to natural disasters, and rising food and energy prices.

Indicators present a mixed picture of St. Lucia's external competitiveness. St. Lucia's real effective exchange rate (REER) is at its lowest level in 20 years, reflecting the depreciation of the U.S. dollar against major currencies. However, real wages have increased, the terms of trade has deteriorated since 2000, and in recent years St. Lucia experienced a decline in its share of stayover visitors to the Caribbean. Analysis undertaken by Fund staff finds that the REER was close to its estimated equilibrium level, suggesting that the exchange rate, if supported by fiscal and wage policies, will remain competitive.

Broad money growth remained strong in 2007, and prudential indicators point to a strengthening of the financial system. Despite a softening in economic activity, demand for credit by firms and households has continued to rise. As a result, commercial banks have accelerated their drawdown of net foreign assets to expand their loan portfolio. Meanwhile, the health of the financial sector continues to strengthen. Provisioning, asset quality and capital adequacy all improved in 2007. Nonperforming loans (NPLs) of local banks continue to decline. However, the decline in the NPL ratio reflects in part the continued growth in bank lending, which could engender future problem loans, especially in the event of any large macroeconomic shock.

There has been some progress toward strengthening the financial supervisory and regulatory framework. The authorities have enhanced supervision of nonbanks by strengthening the Financial Services Supervision Unit, and expect to pass in 2008 the OECS-wide uniform Cooperatives Society Act, uniform Insurance Act, and uniform Money Services Act. However, progress has been slow in developing a broad supervisory framework to regulate all nonbank financial intermediaries. While a Single Regulatory Unit for nonbanks (including the offshore financial sector, domestic insurance sector, credit unions, money transfer institutions, and the soon-to-be-established National Development Bank) was approved by Cabinet in 2006, it has not yet been fully implemented.

There has also been progress in implementing broad structural reforms. On fiscal issues, the authorities intend to enhance the tax base by the introduction of a more flexible mechanism for retail fuel pricing in 2008, a market valuation-based property tax in FY 2009/10, and a revenue-positive VAT in FY 2009/10. Regarding the real sector, the erosion of trade preferences for bananas has negatively affected employment creation, income levels, and the general standard of living in the island's rural communities; the authorities have announced their intention to develop a five-year strategic management plan, with a view to promote diversification in the agriculture sector. They have also attempted to bolster the country's social safety nets to alleviate poverty. St. Lucia is one of the world's most disaster-prone countries, and has made good progress in bolstering national disaster mitigation and preparedness, including by the enhancement of the National Emergency Management Organization, improvements to the national disaster response plan, and participation in regional risk pooling.

Executive Board Assessment

Executive Directors observed that although economic activity was flat in 2007, growth is likely to accelerate in 2008 and 2009, due to a rebound in agriculture, a recovery of tourism receipts, and related support activities. Medium-term growth prospects are favorable, but risks are tilted to the downside given the uncertainties in the external environment, in particular with regard to the effect of energy price increases on tourist arrivals. Directors considered that the reforms envisaged by the authorities aimed at strengthening the tourism infrastructure, improving the investment climate, and diversifying exports would broaden the bases of economic growth and reduce exposure to external shocks.

Directors welcomed the recent improvement in fiscal performance. They stressed the need to maintain a primary surplus to ensure debt sustainability, and to help dampen inflationary pressures. Directors called for a broadening of the tax base, along with stepped up preparations for the introduction of the VAT. They encouraged the authorities to follow through on commitments to introduce a more flexible retail fuel pricing mechanism to achieve greater pass-through of world oil price increases, as well as market valuation-based property taxation. Directors noted that achieving fiscal and debt sustainability will also require greater prioritization of capital spending, limiting the civil service wage bill, and enhancing debt management.

Directors noted that the acceleration in inflation appears to be due largely to the high prices of imported food and fuel and the ongoing depreciation of the U.S. dollar. Given the negative impact of inflation and the erosion of trade preferences on the purchasing power of the poorest segment of society, Directors welcomed the government's plan to sharpen its poverty reduction programs, and commended the authorities' efforts to strengthen social safety nets.

Recognizing that St. Lucia's currency, the Eastern Caribbean dollar, is pegged to the U.S. dollar, Directors took note of the staff's assessment that the country's real effective exchange rate is in line with fundamentals. Directors saw the recent rise in the current account deficit as reflecting adverse terms of trade shocks and a decline in tourism arrivals. They noted further that the deficit remains almost fully financed by non-debt creating private capital inflows, and that the current account imbalances are expected to decline over the medium term to sustainable levels. Given the high level of public debt, Directors emphasized the importance of sustained fiscal consolidation and structural reforms to maintain competitiveness and support the stability of the region's currency board arrangement.

Executive Directors noted that continued rapid growth in private sector credit could erode the quality of banks' loan portfolios, and looked to effective supervision by the Eastern Caribbean Central Bank to monitor closely banks' credit quality and risk management practices. Directors emphasized the need for the St. Lucian authorities to consolidate regulation and supervision of nonbank financial intermediaries under an independent Single Regulatory Unit, enhance supervision of international financial services, improve the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regime, and terminate unregulated investment schemes.

Directors called on the authorities to improve further the coverage and timeliness of economic and social statistics, in particular on the national accounts, tourism, the balance of payments, and public sector debt, and to devote adequate resources to this area. They supported the authorities' request for Fund technical assistance to strengthen the statistical data base.

St. Lucia: Selected Economic Indicators, 2004–08

	2004	2005	2006	2007	Proj. 2008
(Annual percentage change, unless otherwise specified)					
Output and prices					
Real GDP (factor cost)	3.8	4.4	4.9	1.7	2.3
Nominal GDP (market prices)	7.1	9.8	6.1	2.9	7.4
Consumer prices, end of period	3.5	5.2	0.7	6.8	6.0
Consumer prices, period average	1.5	3.9	3.6	2.8	7.2
Banking system					
Net foreign assets 1/	-1.2	-14.5	1.0	-8.0	-9.1
Net domestic assets 1/	11.3	27.9	19.1	14.2	17.7
Of which					
Net credit to the public sector 1/	-2.5	3.2	1.7	1.0	1.2
Credit to private sector 1/	11.1	17.7	27.4	34.2	14.3
Broad money	10.1	13.4	20.1	6.2	8.5
(In percent of GDP, unless otherwise specified)					
Public sector					
Central government finances 2/					
Total revenue and grants	25.5	25.6	26.9	28.2	29.8
Total expenditure and net lending	29.2	31.6	32.8	30.9	33.7
Current expenditure	21.7	21.3	21.7	22.2	22.7
Capital expenditure	7.4	10.3	11.0	8.7	11.0
Overall balance (cash basis)	-3.8	-6.0	-5.9	-2.7	-3.9
Primary balance (after grants)	-0.7	-3.0	-2.6	0.8	-0.1
Central government debt	61.9	63.7	63.5	64.0	63.5
Gross public sector debt 3/ 4/	66.0	67.0	66.1	70.5	69.6
External sector					
External current account	-10.9	-17.1	-29.7	-29.1	-28.3
Stayover arrivals (percentage change)	7.8	6.5	-4.9	-5.0	7.0
Public sector external debt (end of period)	46.1	47.4	44.8	46.0	43.8
External public debt service					
In percent of exports of goods and services	8.2	6.5	7.7	15.8	7.7
Real effective exchange rate (- = depreciation)					
Percentage change	-4.6	-0.5	0.1	-3.9	...
External terms of trade (- = deterioration)					
Percentage change	-6.3	-4.2	-13.6	-12.4	-16.0
Banana export receipts					
Percentage change	23.6	-23.0	15.9	-9.2	13.4

Sources: St. Lucia authorities; ECCB; and Fund staff estimates and projections.
1/ Annual changes relative to the stock of broad money at the beginning of the period.
2/ Data are for fiscal years beginning April 1. Based on baseline (current policies) scenario for 2008.
3/ Includes liabilities to the National Insurance Corporation (NIC).
4/ Total public (including nonguaranteed) debt in percent of GDP.