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St. Lucia—Request for Disbursement under the Rapid Credit Facility and Emergency Natural Disaster Assistance—Staff Report, Staff Supplement, Press Release and Statement by the Executive Director for St. Lucia

The following documents have been released and are included in this package:

- The staff report for the Request for Disbursement under the Rapid Credit Facility and Emergency Natural Disaster Assistance, prepared by a staff team of the IMF, following discussions that ended on November 23, 2010 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 December 23, 2010. 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 debt sustainability analysis.

- A press release.

- A statement by the Executive Director for St. Lucia

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

Request for Disbursement Under the Rapid Credit Facility and Emergency Natural Disaster Assistance

Prepared by the Western Hemisphere Department
(in Collaboration with Other Departments)

Approved by Rodrigo Valdés (WHD) and Jan Kees Martijn (SPR)

December 23, 2010

Executive Summary

Hurricane Tomas struck St. Lucia on October 30–31, 2010, causing loss of life and significant damages to infrastructure and agriculture. Economic activity declined by 3.6 percent in 2009 and was on course for a gradual recovery in 2010. Hurricane Tomas, however, caused significant damages to the road network, the water supply, and the agriculture sector. The impact on the tourism sector, which has just started its high season, has also been quite pronounced.

St. Lucia faces difficult policy challenges in addressing the impact of the hurricane. Total damages caused by the hurricane are estimated preliminarily at US$336 million (about 34 percent of GDP). Rehabilitation and emergency measures are currently being financed through the reallocation of the investment budget and financing already received (US$3.2 million from the Caribbean Catastrophe Risk Insurance Facility and US$0.2 million in emergency grants from the Caribbean Development Bank). Going forward and given the high level of the public debt, the authorities expect to finance the reconstruction through grants and external concessional financing, and have requested Fund financial assistance under the Rapid Credit Facility/Emergency Natural Disaster Assistance. The letter of intent is attached.

The authorities reiterated their commitment to achieving the medium-term debt target. While the rehabilitation and reconstruction efforts will contribute to a widening of the fiscal deficit in FY 2010/11 and FY 2011/12, the authorities plan to rein in fiscal deficits in the medium term and achieve by 2020 the regional target of a debt-to-GDP ratio of 60 percent. To this end, they remain committed to implementing revenue and expenditure measures, including a property tax in early 2011, a VAT by April 2012, and broad-based public expenditure reforms. Also, they intend to continue moving forward with structural reforms to foster private sector led growth and poverty reduction.

Access under the RCF/ENDA. On the basis of the authorities' commitment to sound macroeconomic policies, staff supports the request for access of SDR 5.36 million (US$8.22 million), equivalent to 35 percent of quota.

Fund Relations. The Executive Board approved a request for a RAC-ESF on July 27, 2009 of an amount equivalent to SDR 6.89 million (45 percent of quota). The last Article IV consultation was concluded by the Executive Board on March 15, 2010. The staff report and summing up of the Executive Directors' discussions and policy recommendations are available at: http://www.imf.org/external/pubs/cat/longres.cfm?sk=23786.0

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I. BACKGROUND

1. **St. Lucia was hit by Hurricane Tomas on October 30–31, 2010, causing loss of life and considerable damage to infrastructure and agriculture.** According to an UN ECLAC report, torrential rains caused landslides, resulting in human casualties and severe damages to infrastructure (the road network and water supply), and agriculture.[1] Some commercial and residential buildings (including hotels) were also affected. The overall impact is estimated preliminarily at US$336 million (about 34 percent of GDP). This includes export losses of US$45 million.

2. **St. Lucia is experiencing an urgent balance of payments need characterized by a financing gap that, if not addressed, would result in an immediate and severe economic disruption.** The authorities moved quickly to provide immediate relief to those affected by the hurricane and have begun reconstruction. The public administration has responded expeditiously and effectively. So far reconstruction efforts are being financed through the reallocation of the investment budget (equivalent to about US$28.5 million), US$3.2 million from the Caribbean Catastrophe Risk Insurance Fund, and US$0.2 million in emergency grants from the Caribbean Development Bank.

3. **The authorities have requested a purchase equivalent to 35 percent of quota (see attached letter of intent), consisting of a disbursement of SDR 3.83 million under the Rapid Credit Facility (RCF) and a purchase equivalent to SDR 1.53 million under the Fund's Emergency Natural Disaster Assistance (ENDA).** The request follows a 45 percent of quota drawing under the Exogenous Shocks Facility (RAC-ESF)[2] in June 2009 aimed at mitigating the effect of the global economic and financial crisis, which underscores St. Lucia's vulnerability to sudden and exogenous shocks. Access under the RCF/ENDA would help close the financing gap in FY 2010/11.[3]

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[1] ECLAC/UNDP, *Saint Lucia: Macro Socio-Economic and Environmental Assessment Report: Towards Resilience Following the Passage of Hurricane Tomas*, December 2010. An estimated 5,952 people, about 3.5 percent of the total population, were severely affected, including 7 deaths, 5 missing, 36 injuries and 473 in shelters.

[2] A number of policies envisaged under the RAC-ESF have been implemented. However, key measures (VAT and market valuation-based property tax) are still pending.

[3] A mission visited Castries on November 23–24 to assess the immediate balance of payments needs resulting from the impact of Hurricane Tomas, reviewed the authorities' policy measures to address the shock, and had preliminary discussion on the modalities of possible Fund financing. Final meetings were held on December 17 via VC. The staff team comprised A. Schipke (Head), K. Nassar and S. Ogawa (all WHD), and W. Samuel (Regional Resident Representative). The mission met with the Permanent Secretary of the Ministry of Finance and other senior government officials.

4. **The thrust of the authorities' policies in recent years has been broadly consistent with Fund advice.** In the ECCU, St. Lucia is the largest economy and generally has stronger vulnerability indicators. The authorities have followed key Fund recommendations, including strengthening financial management, debt management and supervision of the nonbank financial sector, as well as pension reform. They have, however, been slow in responding to staff recommendations to implement a value-added tax and market valuation-based property tax.[4]

II. Economic Performance Prior to Hurricane Tomas

5. **St. Lucia's economy had begun to pick up when Hurricane Tomas hit the island.** Economic activity declined by 3.6 percent in 2009 and was on a path to achieve a 1.7 percent growth in 2010, buoyed by a noticeable rebound in tourism. Stay-over tourist arrivals increased by about 15 percent through September 2010, helped by a strong marketing campaign in North America and a marked improvement in airlift (including the introduction of low cost carriers—Jet Blue and West Jet from the United States and Canada, respectively). Declines in activity in the agriculture and banking sectors, however, weighed on the recovery. Inflation remained moderate at 2.7 percent at end-September 2010.

6. **Pre-hurricane fiscal imbalances were projected to remain stable in FY 2010/11.** While the central government's total revenue-to-GDP ratio would have improved by 1.2 percentage points to 32.2 percent of GDP, total spending was projected to increase by about 1½ percentage points of GDP, mainly reflecting an increase in personal emoluments. As a result, the primary fiscal deficit (including grants) would have been largely unchanged with respect to FY 2009/10 at 0.6 percent of GDP. The overall deficit would have been 4.3 percent of GDP (0.3 percentage points higher than in FY 2009/10).

7. **The external current account balance was projected to deteriorate in 2010.** The external current account deficit was expected to widen by about 2½ percentage points of GDP to about 17 percent of GDP, due to a decline in banana exports and an increase in construction- and fuel-related imports. Based on solid advance bookings, however, stay-over tourist arrivals were projected to remain strong. The external current account deficit was financed largely by FDI and government borrowing.

8. **The adverse impact of the global economic and financial crisis put additional stress on the financial system.** Despite a gradual recovery prior to Hurricane Tomas, financial soundness indicators continued to deteriorate with NPLs rising to 13.6 percent (a 5 percentage point deterioration over a 12-month period), while provisioning had fallen short

[4] Elections are constitutionally due by March 2012, but can be called at any time.

of the increase in NPLs. Liquidity remained tight and growth of credit to the private sector also continued to be weak during 2010 (2.4 percent year-on-year). At the same time, the largest bank in St. Lucia acquired a majority stake in the privatization of the National Bank of St. Vincent and the Grenadines.

III. ECONOMIC IMPACT OF THE HURRICANE

9. **Preliminary estimates suggest that growth could be constrained to 0.5 percent in 2010.** Damages to the road network, utilities and agriculture—especially bananas—were severe, accounting for the bulk of the slowdown with negative spillovers to other sectors.

St. Lucia: Output and Prices, 2010-11
(Annual percentage change, unless otherwise specified)

	2009	2010			2011	
		Art. IV	Rev. proj. 1/	RCF/ENDA 2/	Art. IV	RCF/ENDA
Real GDP at factor cost	-3.6	1.1	1.7	0.5	2.3	4.1
Of which:						
Agriculture	-3.4	2.5	-8.6	-17.7	10.0	-11.2
Housing	0.0	1.0	1.0	-0.9	2.0	-1.8
Tourism	-7.0	3.0	15.5	8.0	3.0	4.8
Utilities	4.0	1.0	4.5	2.3	0.5	6.8
GDP at current market prices	-3.8	2.8	4.0	2.8	4.8	5.8
GDP deflator at factor cost	-0.2	1.7	2.2	2.2	2.5	1.6
Consumer prices (end of period)	1.0	1.9	1.3	1.4	2.1	2.1

Sources: Ministry of Finance; and Fund staff estimates and projections.
1/ Revised based on the outturn through end-September, 2010.
2/ Reflects the impact of Hurricane Tomas on agriculture, housing, tourism and utilities.

Although temporary, the impact on the tourism sector was also quite pronounced. The economy is, however, expected to grow by about 4.1 percent in 2011, about 1.8 percentage points higher than the pre-hurricane forecast, as rehabilitation and reconstruction efforts commence in earnest.

10. **The fiscal impact of the hurricane will be felt in both FY 2010/11 and FY 2011/12**. In FY 2010/11, the revenue impact is estimated at about half a percentage point of GDP. The additional spending needed to provide assistance to those who have been adversely impacted and undertake emergency rehabilitation of infrastructure (the road network and water supply) is estimated at 3 percent of GDP.[5] The increased expenditure will raise the overall fiscal deficit to 6.3 percent of GDP

St. Lucia: Key Fiscal Indicators
(In percent of GDP)

	2009/10	2010/11			2011/12	
		Art. IV 1/	Proj. 2/	RCF/ENDA	Art. IV 1/	Proj.
Revenue and grants	31.0	31.7	32.2	33.6	31.1	31.9
Revenue	29.0	28.9	29.7	29.2	28.7	29.5
Grants	2.0	2.8	2.5	4.4	2.4	2.4
Total expenditure	35.0	38.9	36.5	39.9	36.8	37.9
Of which: capital expenditure	9.3	12.0	9.4	12.7	10.0	11.7
Overall balance	-4.0	-7.2	-4.3	-6.3	-5.7	-6.1
Primary balance (including grants)	-0.5	-3.1	-0.6	-2.4	-1.5	-1.9
Public debt	74.4	79.1	…	78.8	80.7	80.6

Sources: Ministry of Finance; and Fund staff estmates and projections.
1/ Baseline scenario presented in the 2010 Article IV.
2/ Adjusted based on outturn for the first half of the fiscal year.

[5] The final figure is not yet known, as the authorities have not yet tabled the supplementary budget in parliament.

in FY 2010/11 and 6.1 percent of GDP in FY2011/12 raising the public debt level to about 81 percent of GDP in FY2011/12.

11. **The balance of payments impact of the hurricane will be significant in calendar year 2011.** Reflecting higher reconstruction-related imports and the damage to the banana crop, the external current account deficit is set to widen in 2011. The rise in imports also reflects the recent increase in the international prices of energy and food. The current account deficit is projected to deteriorate by about 9 percentage points of GDP, contributing to an overall balance of payments deficit of 3.7 percent of GDP.

St. Lucia: Key External Sector Indicators
(In percent of GDP; unless otherwise indicated)

	2009	2010		2011	
	Prel.	Art. IV 1/	RCF/ENDA	Art. IV 1/	RCF/ENDA
External current account balance	-14.4	-21.2	-16.7	-22.1	-25.4
Exports of goods and nonfactor services	56.7	51.0	58.6	53.1	56.3
Imports of goods and nonfactor services	66.9	65.8	70.7	68.9	77.1
Overall balance	3.1	0.3	-0.3	0.6	-3.7
Identified hurricane-related financing	0.0	0.0	0.0	0.0	3.8
RCF/ENDA					0.8
in percent of identified financing					20.5

Sources: ECCB, and Fund staff estimates.
1/ Baseline scenario presented in 2010 Article IV.

12. **Despite increased stress related to the global financial crisis, the banking sector appears to be in a position to weather the effects of the hurricane.** Despite adverse developments, capital adequacy ratios remained high at 19.9 percent as of September 2010, well above the prudential requirements (8 percent). However, credit unions and cooperatives in the banana sector should brace for an increase in NPLs. The authorities are monitoring developments closely and intend to strengthen nonbank financial sector legislation and supervision (see LOI paragraph 4).

IV. Policy Response and Discussions

13. **St. Lucia faces difficult policy challenges in addressing the impact of the hurricane.** First, as a member of the Eastern Caribbean Currency Union (ECCU) and with a quasi currency board, the country is constrained from using monetary policy. Second, the high level of public debt leaves limited fiscal room to address the impact of the hurricane. Third, although St. Lucia's public administration has been effective in dealing with the crisis, there are capacity limitations in scaling up public investment. Given these constraints, the authorities intend to limit the financing of the rehabilitation and reconstruction efforts primarily to grants and external concessional financing, focusing on emergency support for those affected the most, the road network, and water.

14. **Despite a temporary deterioration in the fiscal position, the authorities reiterated their commitment to achieving the medium-term debt target.** Total capital expenditure will be curtailed to about 12.7 percent of GDP in FY2010/11 and 11.7 percent in FY2011/12, in line with available concessional funding and additional revenue measures (as described below). As detailed in the attached letter of intent, the impact of the reconstruction efforts would temporarily lead to a primary fiscal deficit of 2.4 percent of GDP in FY 2010/11 and 1.9 in FY 2011/12. The authorities have identified sources of financing in the form of additional grants and concessional loans to close the gaps and intend to resort to bridge financing (via the Regional Government Securities Market, a bond issuance outside of the region, or commercial bank borrowing), if the disbursement of the identified financing were delayed. While the widening of the fiscal deficit would increase the public debt-to-GDP ratio, the authorities reaffirmed their commitment to reaching the targeted debt-to-GDP ratio of 60 percent by 2020.

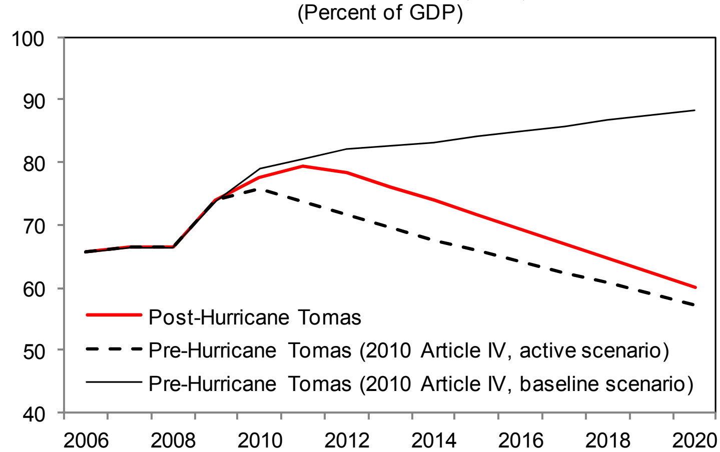
St. Lucia: Identified Financing for Hurricane-Related Spending
(in millions of EC dollars)

	FY2010/11	FY2011/12	Total equival. to calendar year 2011
CDB	2.0	59.0	61.0
IMF (RCF/ENDA)	22.1		22.1
CARICOM Development Fund	4.1		4.1
World Bank (US$5 million)	13.5		13.5
EU		7.0	7.0
Total	**41.7**	**66.0**	**107.7**

Sources: Ministry of Finance.

15. **To reach the debt target, the authorities plan to implement both revenue and expenditure measures to achieve a primary surplus of 2.9 percent of GDP in the medium term, compared with 1.6 percent of GDP recommended in the Article IV.** On the revenue side, Cabinet has recently approved legislation to implement a market valuation-based property tax and plan to present the bill to Parliament in early 2011, which would yield an additional 0.3 percent of GDP. In addition, the authorities strongly confirmed their commitment to introduce a VAT by April 2012 and have already started the consultative process with the private sector and other key stakeholders. On the expenditure front, the authorities intend to freeze the civil service wage bill at 11 percent of GDP within the context of broader civil service reforms aimed at increasing productivity and efficiency. Also, they will implement a formal public sector

St. Lucia: Public Debt Trajectory
(Percent of GDP)



Source: Fund staff estimates.

investment program, underpinned by a medium-term expenditure framework, and are seeking technical assistance from CARTAC.

16. **The authorities intend to press ahead with structural reforms aimed at bolstering economic growth and reducing poverty.** They are determined to continue enhancing the investment climate for private sector development, including establishing a one-stop shop for investors. Also, to promote a better allocation of capital and strengthen oversight and resilience of the financial sector, the authorities will establish the Single Regulatory Unit and seek passage of credit union legislation.[6] Both pieces of legislation have been approved by Cabinet

V. Access and Capacity to Repay

17. **The authorities have requested fund financing in an amount equivalent to 35 percent of quota in total, SDR 5.36 million (25 percent of quota) under the Rapid Credit Facility, supplemented by the Emergency Natural Disaster Assistance.**[7] At this juncture, the authorities do not intend to request an ECF. Furthermore, given the urgent need for rapid support, there is not enough time to engage in prolonged negotiations on a Fund arrangement. The purchase—which represents approximately 0.8 percent of St. Lucia's GDP in direct budgetary support—would help meet the immediate foreign exchange needs stemming from the hurricane. More importantly, while the purchase accounts for about 20 percent of the financing gap in 2011, it is expected to play a catalytic role in mobilizing financial support from other international/regional financial institutions. Staff will raise the possibility of a formal Fund arrangement in the context of the forthcoming Article IV consultation, tentatively scheduled for end March/beginning of April, to support the authorities' policies for addressing the medium-term fiscal and debt challenges.

18. **It is expected that St. Lucia will be able to discharge its obligations to the Fund in a timely manner.** St. Lucia's outstanding loans to the Fund are 45 percent of quota, which would increase to 80 percent. While St. Lucia remains vulnerable to implementation risks and future exogenous shocks (including natural disasters), staff judges that the risks are mitigated by the countries' exemplary debt servicing record and proven commitment to prudent fiscal policies prior to the global financial and economic crisis. The authorities are committed to reining in expenditures and following through on revenue reforms that will put the debt on a firmly downward trajectory beginning in FY 2012/13.

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[6] Both pieces of legislation have already been approved by Cabinet.

[7] Regarding the proposed access level, debt vulnerabilities and repeated use of shocks instruments argue for keeping some room under the annual and cumulative ceilings. The authorities' policies are sufficiently strong to address the shock. The blending proposal is in line with the presumption that for PRGT-eligible countries with a per-capita GNI above the IDA operational cutoff, overall access is provided under blended PRGT and GRA instruments (taking into account the minimum access level under the PRGT at 25 percent of quota).

19. **Under the Fund's safeguards assessment policy, the Eastern Caribbean Central Bank (ECCB) is subject to a full safeguards assessment under a four year cycle.** The most recent assessment was completed in July 2007, and concluded that the ECCB continues to have appropriate control mechanisms in place, which have strengthened since the first safeguards assessment completed in 2003. ECCB management places emphasis on good governance and sound controls, and has enhanced the bank's transparency and accountability since the last assessment, including through the publication of financial statements that comply with International Financial Reporting Standards. The next assessment will take place in 2011.

VI. Staff Appraisal

20. **St. Lucia faces significant policy challenges in the aftermath of Hurricane Tomas.** Staff estimates that economic activity, which was gradually recovering, will remain subdued in 2010, on account of extensive damages caused by the hurricane. While the medium-term outlook remains positive, it would take considerable efforts and resources to put the economy back on its pre-hurricane trend growth rate. Given the increased spending on reconstruction, the economy should enjoy a solid 4.1 percent growth in 2011.

21. **The policies outlined in the letter of intent tackle urgent rebuilding needs and appropriately aim to maintain macroeconomic stability.** In view of the high public debt-to-GDP ratio, staff supports the authorities' strategy to limit the financing of the rehabilitation and reconstruction efforts to additional grants and external concessional financing. In this context, access under the RCF/ENDA and financial support from other international/regional financial institutions and donor countries will be key to maintaining macroeconomic stability. Also, the authorities' plans to implement structural reforms that aim to foster private sector-led growth, including improving economic efficiency and competitiveness, are critical.

22. **The authorities are rightly focused on achieving medium-term debt sustainability.** In the short term, the reconstruction needs are set to put upward pressure on the fiscal position. In this context, the governments' public commitment—as reflected in the letter of intent—to implement tax and expenditure reforms, including a market-based property tax in early 2011 and the introduction of a VAT by April 2012, is critical. These reforms, coupled with implementation of a formal public sector investment program and a medium-term expenditure framework to raise spending efficiency, should secure fiscal consolidation and put public debt on a firmly downward trajectory in the medium term.

23. **Staff supports the authorities' request for a disbursement under the Fund's RCF/ENDA.** Staff's support is based on the extent of the damage caused by Hurricane Tomas, the associated urgent balance of payments need, and the authorities' commitments to limiting the temporary increase in capital spending to additional grants and concessional financing, while committing to achieving the debt-to-GDP target of 60 percent by 2020 by

implementing revenue and expenditure measures as outlined in the authorities' letter of intent. There are, however, downside risks such as the country's high public debt, inherent vulnerability to exogenous shocks, and election cycle related policy implementation delays, all of which pose some risks to the Fund's resources. These risks are mitigated by the authorities' track record of sound fiscal policies, implementation of Fund recommendations, resolve to achieving fiscal consolidation in the medium term and fostering private sector-led growth, and commitment to a continued close dialogue with the Fund.

Table 1. St. Lucia: Selected Social and Economic Indicators, 2006–11

I. Social and Demographic Indicators

Area (sq. km)	616	Life expectancy at birth (years, 2006)	74
		Infant mortality (per thousand live births, 2(	23.5
Population		Human Development Index (HDI) ranking (	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)	996
Adult illiteracy rate (percent, 2004)	5.2	(millions of EC dollars)	2,690
		(US$ per capita)	5,819

II. Economic and Financial Indicators, 2006-11

	2006	2007	2008	2009	Est. 2010	Proj. 2011
	(Annual percentage change, unless otherwise specified)					
Output and prices						
Real GDP at factor cost	4.8	1.5	0.7	-3.6	0.5	4.1
GDP at current market prices	6.1	2.9	3.8	-3.8	2.8	5.8
GDP deflator at factor cost	2.5	0.7	3.1	-0.2	2.2	1.6
Consumer prices (end of period)	1.4	6.6	3.8	1.0	1.4	2.1
Consumer prices (period average)	4.1	2.2	7.2	1.0	2.2	1.6
Banana export receipts	15.9	-9.2	35.0	-0.8	-29.7	-20.4
Unemployment rate (in percent)	16.6	13.9	16.8	…	…	…
External sector						
Exports, f.o.b.	32.2	-5.0	48.6	15.4	-8.7	-12.5
Imports, f.o.b.	24.6	4.0	-1.3	-15.6	11.9	19.8
Travel receipts	-20.0	11.6	-2.1	-4.8	16.2	7.5
Terms of trade (- = deterioration)	-12.7	-11.2	-5.5	14.9	-6.5	-0.2
Real effective exchange rate (end of period, - = depreciation)	0.3	-3.8	0.5	3.2	…	…
Money and credit 1/						
Net foreign assets	1.0	-8.0	-22.7	1.2	-1.7	-2.0
Net domestic assets	19.1	14.2	35.7	0.3	4.5	6.8
Of which						
Credit to private sector	27.4	34.2	27.0	2.6	1.9	6.3
	(In percent of GDP, unless otherwise specified)					
Central government 2/						
Total revenue and grants	26.7	28.4	30.6	31.0	33.6	31.9
Total expenditure and net lending	32.8	29.4	31.7	35.0	39.9	37.9
Current expenditure	21.6	22.4	24.3	25.7	27.3	26.2
Of which						
Wages and salaries	9.9	10.1	11.2	12.1	12.6	11.8
Interest	3.3	3.6	3.4	3.4	3.9	4.2
Capital expenditure	11.2	7.0	7.5	9.3	12.7	11.7
Overall balance (cash basis)	-6.1	-1.0	-1.1	-4.0	-6.3	-6.1
Of which						
Current balance (savings)	4.8	5.8	5.3	3.3	1.9	3.2
Primary balance (after grants)	-2.8	2.6	2.3	-0.5	-2.4	-1.9
Central government debt	63.5	64.5	64.8	72.2	76.1	78.0
Debt service in percent of current revenues 3/	35.7	39.9	24.6	53.6	53.4	35.2
External sector						
External current account	-30.2	-31.3	-27.8	-14.4	-16.7	-25.4
Of which						
Exports of goods and services	48.4	50.4	53.1	56.7	58.6	56.3
Imports of goods and services	73.9	76.0	75.3	66.9	70.7	77.1
Stayover arrivals (percentage change)	-4.9	-5.0	2.9	-8.0	14.3	5.4
Foreign direct investment (FDI)	25.1	28.3	15.3	15.3	13.1	13.3
Public sector external debt (end of period)	44.8	41.8	36.5	39.7	39.5	40.0
External public debt service 4/						
In percent of exports of goods and services	11.2	17.0	11.4	11.2	9.1	9.5
In percent of central government revenue before grants	22.1	32.4	22.1	23.3	19.1	18.9
Memorandum items:						
Gross public sector debt 5/ 6/ 7/	66.1	67.1	65.8	74.4	78.8	80.6
Nominal GDP at market prices (in millions of EC dollars)	2,520	2,592	2,690	2,589	2,660	2,814
Nominal GDP at factor cost (in millions of EC dollars)	2,066	2,111	2,171	2,089	2,152	2,276
Share of ECCU stayover visitors	27.9	27.0	27.9	29.7	…	...

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/ Total public (including nonguaranteed) debt in percent of GDP.
6/ Includes liabilities to the National Insurance Corporation (NIC).
7/ Includes liabilities related to the construction and financing of public projects by the private sector.

Table 2. St. Lucia: Operations of the Central Government, 2006–15 1/
(In millions of EC dollars)

	2006	2007	2008	2009	Est. 2010	Projections 2011	2012	2013	2014	2015
Total revenue and grants	**677.5**	**742.8**	**816.5**	**809.1**	**907.7**	**909.9**	**945.0**	**1,025.7**	**1,079.2**	**1,135.5**
Current revenue	**670.2**	**738.6**	**789.3**	**756.3**	**787.8**	**841.4**	**918.5**	**997.8**	**1,049.8**	**1,104.7**
Tax revenue	**619.8**	**684.6**	**736.2**	**702.8**	**746.8**	**798.6**	**873.3**	**950.3**	**999.8**	**1,052.0**
Nontrade tax	381.5	438.6	492.7	471.5	481.2	517.7	576.8	638.4	671.6	706.7
Trade tax	238.4	246.0	243.5	231.3	265.6	280.8	296.5	311.9	328.2	345.3
Nontax revenue	**50.4**	**54.1**	**53.1**	**53.6**	**41.0**	**42.8**	**45.2**	**47.5**	**50.0**	**52.6**
Capital revenue	**0.7**	**0.0**	**6.7**	**0.0**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Grants	**6.6**	**4.1**	**20.5**	**52.7**	**119.7**	**68.5**	**26.5**	**27.9**	**29.3**	**30.9**
Total expenditure and net lending	**832.6**	**768.5**	**845.9**	**912.7**	**1,077.8**	**1,082.9**	**1,034.8**	**1,078.2**	**1,126.6**	**1,183.0**
Current expenditure	**548.5**	**586.5**	**647.0**	**671.1**	**735.5**	**749.0**	**778.6**	**805.6**	**828.2**	**868.9**
Wages and salaries	250.9	265.2	298.9	316.5	340.2	337.3	342.3	348.7	366.8	386.0
NIC contributions and retirement	43.3	49.2	51.4	57.4	64.9	57.1	60.3	63.4	66.7	70.2
Goods and services	101.5	114.1	131.7	130.5	142.5	148.8	152.7	158.5	150.1	157.9
Transfers	68.5	65.1	74.2	77.1	82.5	85.7	91.2	95.9	100.9	106.2
Interest payments	84.3	92.9	90.8	89.7	105.3	120.2	132.1	139.1	143.6	148.6
Domestic	27.7	30.7	44.1	46.2	50.8	64.4	72.4	77.0	80.1	83.8
External	56.6	62.3	46.8	43.5	54.5	55.7	59.7	62.1	63.5	64.7
Capital expenditure and net lending	**284.1**	**181.9**	**198.9**	**241.6**	**342.3**	**333.9**	**256.1**	**272.6**	**298.5**	**314.1**
Primary balance	**-70.8**	**67.2**	**61.4**	**-13.9**	**-64.9**	**-52.8**	**42.3**	**86.6**	**96.1**	**101.2**
(excluding grants)	**-77.4**	**63.1**	**40.9**	**-66.6**	**-184.6**	**-121.4**	**15.8**	**58.7**	**66.8**	**70.3**
Current balance	**121.7**	**152.1**	**142.3**	**85.2**	**52.3**	**92.4**	**139.9**	**192.2**	**221.7**	**235.8**
Overall balance (excluding grants)	**-161.7**	**-29.8**	**-49.9**	**-156.4**	**-289.8**	**-241.5**	**-116.3**	**-80.4**	**-76.8**	**-78.3**
Overall balance (including grants)	**-155.1**	**-25.7**	**-29.4**	**-103.6**	**-170.2**	**-173.0**	**-89.8**	**-52.5**	**-47.5**	**-47.4**
Financing	**166.3**	**85.4**	**85.8**	**103.6**	**170.2**	**173.0**	**89.8**	**52.5**	**47.5**	**47.4**
External (net)	58.5	-22.6	1.6	35.7	23.4	74.7	44.9	26.3	23.7	23.7
Loans	58.5	-22.6	0.6	35.7	23.4	74.7	44.9	26.3	23.7	23.7
Drawings	99.6	122.5	65.2	142.4	111.3	170.0	154.6	111.8	148.0	151.0
Of which:										
Identified hurricane financing	…	…	…	…	41.7	66.0	…	…	…	…
Amortization	41.1	145.1	64.6	106.7	87.9	95.3	109.7	85.6	124.3	127.3
Domestic financing	107.7	108.0	84.2	68.0	146.7	98.3	44.9	26.3	23.7	23.7
ECCB (net)	1.1	-4.0	-2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks (net)	67.0	71.1	2.6	-67.5	15.0	40.0	11.2	6.6	5.9	5.9
Other domestic financing	39.7	40.9	83.9	135.5	131.7	58.3	33.7	19.7	17.8	17.8
Statistical discrepancy	-11.2	-59.7	104.5	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.

Table 3. St. Lucia: Operations of the Central Government, 2006–15 1/
(In percent of GDP)

					Est.	Projections				
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total revenue and grants	**26.7**	**28.4**	**30.6**	**31.0**	**33.6**	**31.9**	**31.4**	**32.4**	**32.4**	**32.4**
Current revenue	**26.4**	**28.2**	**29.6**	**29.0**	**29.2**	**29.5**	**30.5**	**31.5**	**31.5**	**31.5**
Tax revenue	**24.4**	**26.2**	**27.6**	**27.0**	**27.7**	**28.0**	**29.0**	**30.0**	**30.0**	**30.0**
Nontrade tax	15.0	16.8	18.5	18.1	17.8	18.1	19.1	20.1	20.1	20.1
Trade tax	9.4	9.4	9.1	8.9	9.8	9.8	9.8	9.8	9.8	9.8
Nontax revenue	**2.0**	**2.1**	**2.0**	**2.1**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**
Capital revenue	**0.0**	**0.0**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Grants	**0.3**	**0.2**	**0.8**	**2.0**	**4.4**	**2.4**	**0.9**	**0.9**	**0.9**	**0.9**
Total expenditure and net lending	**32.8**	**29.4**	**31.7**	**35.0**	**39.9**	**37.9**	**34.3**	**34.0**	**33.8**	**33.7**
Current expenditure	**21.6**	**22.4**	**24.3**	**25.7**	**27.3**	**26.2**	**25.8**	**25.4**	**24.8**	**24.8**
Wages and salaries	9.9	10.1	11.2	12.1	12.6	11.8	11.4	11.0	11.0	11.0
NIC contributions and retirement	1.7	1.9	1.9	2.2	2.4	2.0	2.0	2.0	2.0	2.0
Goods and services	4.0	4.4	4.9	5.0	5.3	5.2	5.1	5.0	4.5	4.5
Transfers	2.7	2.5	2.8	3.0	3.1	3.0	3.0	3.0	3.0	3.0
Interest payments	3.3	3.6	3.4	3.4	3.9	4.2	4.4	4.4	4.3	4.2
Domestic	1.1	1.2	1.7	1.8	1.9	2.3	2.4	2.4	2.4	2.4
External	2.2	2.4	1.8	1.7	2.0	2.0	2.0	2.0	1.9	1.8
Capital expenditure and net lending	**11.2**	**7.0**	**7.5**	**9.3**	**12.7**	**11.7**	**8.5**	**8.6**	**9.0**	**9.0**
Primary balance	**-2.8**	**2.6**	**2.3**	**-0.5**	**-2.4**	**-1.9**	**1.4**	**2.7**	**2.9**	**2.9**
(excluding grants)	**-3.1**	**2.4**	**1.5**	**-2.6**	**-6.8**	**-4.3**	**0.5**	**1.9**	**2.0**	**2.0**
Current balance	**4.8**	**5.8**	**5.3**	**3.3**	**1.9**	**3.2**	**4.6**	**6.1**	**6.6**	**6.7**
Overall balance (excluding grants)	**-6.4**	**-1.1**	**-1.9**	**-6.0**	**-10.7**	**-8.5**	**-3.9**	**-2.5**	**-2.3**	**-2.2**
Overall balance (including grants)	**-6.1**	**-1.0**	**-1.1**	**-4.0**	**-6.3**	**-6.1**	**-3.0**	**-1.7**	**-1.4**	**-1.4**
Financing	**6.6**	**3.3**	**3.2**	**4.0**	**6.3**	**6.1**	**3.0**	**1.7**	**1.4**	**1.4**
External (net)	2.3	-0.9	0.1	1.4	0.9	2.6	1.5	0.8	0.7	0.7
Loans	2.3	-0.9	0.0	1.4	0.9	2.6	1.5	0.8	0.7	0.7
Drawings	3.9	4.7	2.4	5.5	4.1	6.0	5.1	3.5	4.4	4.3
Of which:										
Identified hurricane financing	…	…	…	…	1.5	2.3	…	…	…	…
Amortization	1.6	5.5	2.4	4.1	3.3	3.3	3.6	2.7	3.7	3.6
Domestic financing	4.2	4.1	3.2	2.6	5.4	3.4	1.5	0.8	0.7	0.7
ECCB (net)	0.0	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks (net)	2.6	2.7	0.1	-2.6	0.6	1.4	0.4	0.2	0.2	0.2
Other domestic financing	1.6	1.6	3.1	5.2	4.9	2.0	1.1	0.6	0.5	0.5
Statistical discrepancy	-0.4	-2.3	3.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
GDP (at market prices, in EC$ millions)	2,538	2,616	2,665	2,607	2,699	2,854	3,013	3,170	3,335	3,509
Debt service (in percent of current revenue)	18.7	32.2	19.7	26.0	24.5	25.6	26.3	22.5	25.5	25.0
Central government debt (in percent of GDP) 2/	63.5	64.5	64.8	72.2	76.1	78.0	76.8	74.7	72.4	70.2

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

1/ Data are for fiscal years beginning April 1.
2/ Includes liabilities related to the construction and financing of public projects by the private sector.

Table 4. St. Lucia: Balance of Payments Summary, 2006–15

					Est.	Projections				
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	(In millions of Eastern Caribbean dollars)									
Current account	**-761.5**	**-810.7**	**-747.3**	**-373.3**	**-443.5**	**-714.3**	**-542.8**	**-480.5**	**-530.9**	**-559.4**
Trade balance	-1,089.8	-1,161.6	-996.6	-702.5	-892.4	-1,220.9	-1,081.0	-1,068.9	-1,225.8	-1,306.4
Exports f.o.b.	316.9	301.0	447.4	516.5	471.6	412.9	435.8	461.7	488.9	512.2
Of which		1.7	2.2	2.3	1.5					
Bananas	48.1	43.7	58.9	58.4	41.1	32.7	34.4	37.4	40.3	37.8
Manufactured exports	64.6	71.6	79.1	76.1	74.6	76.2	78.8	81.5	84.4	87.2
Imports f.o.b.	-1,406.6	-1,462.6	-1,444.0	-1,219.0	-1,364.0	-1,633.8	-1,516.8	-1,530.6	-1,714.7	-1,818.6
Services (net)	446.4	497.7	399.9	439.1	571.6	634.6	674.2	730.7	842.8	900.7
Credits	902.4	1,004.7	981.7	952.1	1,088.6	1,171.0	1,230.6	1,307.6	1,441.1	1,530.2
Travel	768.4	857.7	839.7	799.7	929.0	999.0	1,048.8	1,116.3	1,239.8	1,318.4
Other nonfactor services	133.9	147.0	142.0	152.3	159.6	172.0	181.9	191.3	201.2	211.8
Debits	456.0	506.9	581.7	513.0	517.0	536.4	556.4	576.9	598.2	629.5
Travel	106.2	114.1	122.3	126.2	127.2	131.9	136.9	144.0	151.4	159.4
Other nonfactor services	349.8	392.8	459.5	386.8	389.8	404.5	419.6	432.9	446.8	470.1
Income payments (net)	-150.4	-183.5	-194.5	-143.4	-157.3	-164.4	-174.6	-182.9	-190.6	-198.5
Current transfers	32.3	36.6	43.8	33.5	34.5	36.5	38.6	40.6	42.7	44.9
Net private transfers	33.6	29.1	33.3	32.1	33.0	34.9	36.9	38.8	40.9	43.0
Net official transfers	-1.2	7.5	10.5	1.4	1.5	1.5	1.6	1.7	1.8	1.9
Capital and financial account	**868.8**	**845.8**	**633.9**	**459.7**	**436.0**	**609.1**	**572.2**	**495.5**	**553.6**	**579.7**
Capital	30.7	23.4	29.4	69.8	70.4	117.8	26.5	27.9	29.3	30.9
Financial (net)	838.1	822.4	831.4	390.0	365.6	491.2	545.7	467.6	524.3	548.8
Official capital	58.5	-22.6	-25.5	35.7	-23.3	61.2	44.9	26.3	23.7	23.7
Commercial banks	174.0	216.6	466.2	-11.9	35.2	54.5	74.3	-1.0	27.3	27.2
Private capital	605.6	609.6	411.5	395.9	348.3	375.5	426.7	442.4	473.2	497.9
Of which:										
Net direct investment	631.6	734.1	411.5	395.9	348.3	375.5	426.8	442.5	473.1	497.9
Errors and omissions	-71.1	14.9	83.1	166.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	36.3	50.0	-30.4	79.9	-7.5	-105.3	29.4	14.9	22.7	20.3
Financing	-36.3	-50.0	30.4	-79.9	7.5	105.3	-29.4	-14.9	-22.7	-20.3
Change in imputed reserves (increase -)	-48.6	-51.3	29.5	-18.3	7.5	-2.4	-29.4	-14.9	-22.7	-20.3
Change in govt. foreign assets	12.3	1.3	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in SDR Holdings				-22.8						
Identified hurricane-related financing	0.0	0.0	0.0	0.0	0.0	107.7	0.0	0.0	0.0	0.0
Of which:										
RCF/ENDA						22.1				
	(In percent of GDP)									
Memorandum items:										
Current account	-30.2	-31.3	-27.8	-14.4	-16.7	-25.4	-18.2	-15.4	-16.1	-16.1
Exports f.o.b.	12.6	11.6	16.6	20.0	17.7	14.7	14.7	14.8	14.9	14.8
Imports f.o.b.	-55.8	-56.4	-53.7	-47.1	-51.3	-58.1	-51.0	-48.9	-52.1	-52.5
Net private transfers	1.3	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Foreign direct investment	25.1	28.3	15.3	15.3	13.1	13.3	14.3	14.1	14.4	14.4
Indicators of diversification										
(In percent of exports of goods and nonfactor services)										
Banana exports	3.9	3.3	4.1	4.0	2.6	2.1	2.1	2.1	2.1	1.9
Tourism receipts	63.0	65.7	58.8	54.5	59.5	63.1	62.9	63.1	64.2	64.6
Tourism receipts	30.5	33.1	31.2	30.9	34.9	35.5	35.3	35.7	37.7	38.1
Total trade	68.4	68.1	70.3	67.0	69.0	72.7	65.6	63.7	66.9	67.3
Exports of goods and nonfactor services	48.4	50.4	53.1	56.7	58.6	56.3	56.0	56.5	58.6	59.0
Imports of goods and nonfactor services	73.9	76.0	75.3	66.9	70.7	77.1	69.7	67.3	70.3	70.7
Terms of trade for GNFS (percentage change)	-12.7	-11.2	-5.5	14.9	-6.5	-0.2	0.1	0.3	4.1	0.1
Excluding tourism (percentage change)	-6.3	-7.2	-0.6	25.6	-6.2	-4.9	-3.8	-1.8	-2.0	-1.8
Public sector external debt (end of period)	44.8	41.8	36.5	39.7	39.5	40.0	39.4	38.3	37.1	35.9

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

Table 5. St. Lucia: Monetary Survey, 2004–10

	2004	2005	2006	2007	2008	2009	Est. 2010
	(In millions of Eastern Caribbean dollars)						
Net foreign assets	**318.7**	**99.9**	**117.6**	**-47.7**	**-543.3**	**-513.2**	**-555.9**
ECCB (imputed reserves) 1/	351.5	308.3	356.9	408.2	378.8	397.0	389.5
Commercial banks	-32.9	-208.5	-239.3	-455.9	-922.1	-910.2	-945.4
Net domestic assets	**1,190.5**	**1,611.9**	**1,938.6**	**2,230.9**	**3,009.9**	**3,017.0**	**3,129.3**
Public sector credit (net)	-324.7	-275.9	-222.8	-650.6	-549.5	-548.3	-525.4
Central government	-130.7	-90.7	-32.0	17.2	69.0	45.3	60.3
ECCB	-13.7	-10.0	-19.8	-43.2	5.9	-5.6	-5.6
Commercial banks	-117.0	-80.6	-12.2	60.4	63.1	50.9	65.9
Net credit to rest of public sector	-194.0	-185.2	-190.8	-667.9	-618.6	-593.6	-585.6
National Insurance Corporation	-240.9	-248.2	-264.2	-291.7	-340.3	-408.0	-408.0
Other	46.9	62.9	73.4	-376.2	-278.3	-185.6	-177.7
Credit to private sector	1,650.6	1,917.3	2,386.8	3,090.8	3,680.6	3,745.4	3,793.3
Net credit to nonbank financial inst.	-35.4	-37.8	-40.4	-41.3	-29.2	-55.4	-56.9
Other items (net)	-100.0	8.3	-185.1	-168.0	-91.9	-124.8	-81.8
Broad money	**1,509.2**	**1,711.8**	**2,056.2**	**2,183.2**	**2,466.6**	**2,503.8**	**2,573.4**
Money	481.3	547.3	560.7	639.0	661.4	652.6	670.7
Currency in circulation	99.2	106.4	126.6	128.0	142.6	148.4	152.5
Demand deposits	382.2	440.9	434.1	510.9	518.8	504.2	518.2
Quasi-money	1,027.8	1,164.5	1,495.5	1,544.2	1,805.2	1,851.2	1,902.7
Time deposits	178.7	185.9	222.7	283.3	420.1	405.4	428.2
Savings deposits	810.4	916.3	1,064.9	1,150.8	1,226.6	1,301.7	1,337.9
Foreign currency deposits	38.7	62.2	207.9	110.2	158.5	144.1	136.6
	(Annual percentage change)						
Net foreign assets	-4.9	-68.7	17.8	-140.5	-1,040.0	5.6	8.3
Net domestic assets	15.0	35.4	20.3	15.1	34.9	0.2	3.7
Credit to private sector	10.2	16.2	24.5	29.5	19.1	1.8	1.3
Broad money	10.1	13.4	20.1	6.2	13.0	1.5	2.8
Money	40.3	13.7	2.4	14.0	3.5	-1.3	2.8
Quasi-money 2/	0.1	13.3	28.4	3.3	16.9	2.6	2.8
	(Percent contribution compared to M2 at the beginning of the year)						
Net foreign assets	-1.2	-14.5	1.0	-8.0	-22.7	1.2	-1.7
Net domestic assets	11.3	27.9	19.1	14.2	35.7	0.3	4.5
Public sector credit (net)	-2.5	3.2	3.1	-20.8	4.6	0.0	0.9
Of which: central government	-1.9	2.7	3.4	2.4	2.4	-1.0	0.6
Credit to private sector	11.1	17.7	27.4	34.2	27.0	2.6	1.9
Net credit to nonbank financial inst.	0.3	-0.1	-0.1	0.0	0.5	-1.0	-0.1
Other items (net)	2.4	7.2	-11.3	0.8	3.5	-1.3	1.7
Memorandum items:							
Income velocity of M2 3/	1.5	1.5	1.3	1.2	1.2	1.0	1.0

Sources: St. Lucia authorities; ECCB; and Fund staff estimates and projections.
1/ Not including the IMF's SDR allocation of September 2009, in the amount of SDR 13.8 million (EC$ 58.7 million).
2/ Including resident foreign currency deposits.
3/ Nominal GDP at market prices divided by liabilities to the private sector.

Table 6. St. Lucia: Indicators of External and Financial Vulnerability, 2005–10
(Annual percentage changes, unless otherwise specified)

	2005	2006	2007	2008	2009	Est. 2010
External indicators						
Merchandise exports	-7.7	32.2	-5.0	48.6	15.4	-8.7
Merchandise imports	20.1	24.6	4.0	-1.3	-15.6	11.9
Terms of trade deterioration (-)	-1.6	-12.7	-11.2	-5.5	14.9	-6.5
Tourism earnings	9.3	-20.0	11.6	-2.1	-4.8	16.2
Banana export earnings	-23.0	15.9	-9.2	35.0	-0.8	-29.7
Current account balance (in percent of GDP)	-17.1	-30.2	-31.3	-27.8	-14.4	-16.7
Capital and financial account balance (in percent of GDP) 1/	15.9	34.5	32.6	23.6	17.8	16.4
Of which						
Foreign direct investment (in percent of GDP)	8.9	25.1	28.3	15.3	15.3	13.1
Gross international reserves of the ECCB						
In millions of U.S. dollars	600.8	696.0	764.5	759.0	800.8	818.2
In percent of broad money	17.9	18.6	18.6	17.0	17.5	17.8
Gross imputed reserves						
In millions of U.S. dollars	114.2	132.2	151.2	140.3	147.0	144.3
In percent of short-term liablilities	…	…	…	…	…	…
External public debt (in percent of GDP)	47.4	44.8	41.8	36.5	39.7	39.5
External debt service (in percent of exports of goods and nonfactor services)	6.5	11.2	17.0	11.4	11.2	9.1
Of which						
Interest	2.2	7.3	9.9	3.4	5.2	3.3
Nominal exchange rate (EC dollars per U.S. dollar, end period)	2.7	2.7	2.7	2.7	2.7	2.7
Real effective exchange rate depreciation (-), end period	-0.4	0.3	-3.8	0.5	3.2	…
Financial indicators						
Broad money	13.4	20.1	6.2	13.0	1.5	2.8
Credit to the private sector	16.2	24.5	29.5	19.1	1.8	1.3
Prudential indicators (in percent)						
Capital adequacy ratio (local banks)	14.4	17.6	20.2	15.6	20.8	…
NPLs to total loans ratio	12.6	8.5	5.8	6.6	8.3	…
Of which						
Local banks	16.5	10.5	7.3	9.0	10.2	…
Foreign banks	9.9	7.1	4.8	5.0	7.4	…
Loan loss provision to NPLs ratio	40.4	40.1	45.5	37.5	29.3	…
Of which						
Local banks	44.8	35.2	38.6	27.8	20.1	…
Foreign banks	35.4	45.2	52.2	48.6	35.9	…
Gross government claims to total assets ratio	14.6	11.8	10.0	9.7	9.6	…
Foreign currency deposits to total deposits ratio	3.0	9.0	5.6	6.3	6.4	…
Net foreign currency exposure to capital (local banks)	122.3	53.6	73.9	49.3	47.4	…
Contingent liabilities to capital (local banks)	149.5	124.3	78.3	104.3	60.0	…
(Pre-tax) return on average assets	2.3	2.4	2.8	3.2	0.5	…
Yield to maturity sovereign bonds 2/	6.5	7.1	7.5	7.5	7.2	…

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

1/ Includes errors and omissions.
2/ Composite index, including RGSM bonds.

Table 7. St. Lucia: Indicators of Capacity to Repay the Fund, 2010–21 1/

	Est.	Projections										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Fund obligations based on existing credit (in millions of SDRs)	0.00	0.00	0.02	0.02	0.02	1.40	1.39	1.39	1.38	1.38	0.00	0.00
Principal	0.00	0.00	0.00	0.00	0.00	1.38	1.38	1.38	1.38	1.38	0.00	0.00
Charges and interest	0.00	0.00	0.02	0.02	0.02	0.02	0.01	0.01	0.00	0.00	0.00	0.00
Fund obligations based on existing and prospective credit (in millions of SDRs)	0.00	0.02	0.05	0.05	0.62	2.17	1.97	2.16	2.15	2.14	0.77	0.38
Principal	0.00	0.00	0.00	0.00	0.57	2.14	1.95	2.14	2.14	2.14	0.77	0.38
Charges and interest	0.00	0.02	0.05	0.05	0.05	0.03	0.02	0.02	0.01	0.00	0.00	0.00
Fund credit outstanding based on existing and prospective credit (in millions of SDRs)	6.89	12.25	12.25	12.25	11.68	9.53	7.58	5.44	3.29	1.15	0.38	0.00
Total obligations based on existing and prospective credit												
In millions of U.S. dollars 2/	0.00	0.03	0.08	0.08	0.95	3.31	3.01	3.30	3.28	3.27	1.17	0.58
In percent of exports of goods and services	0.00	0.01	0.01	0.01	0.13	0.44	0.38	0.39	0.37	0.35	0.12	0.06
In percent of external debt service 3/	0.00	0.05	0.12	0.14	1.36	4.66	3.95	4.08	3.84	3.53	1.19	0.57
In percent of GDP	0.00	0.00	0.01	0.01	0.10	0.32	0.28	0.29	0.28	0.26	0.09	0.04
In percent of quota	0.00	0.13	0.33	0.33	4.05	14.18	12.88	14.12	14.05	13.99	5.03	2.48
In percent of net international reserves	0.00	0.02	0.05	0.05	0.56	1.87	1.62	1.68	1.59	1.51	0.52	0.24
Outstanding Fund credit 3/												
In millions of U.S. dollars 2/	10.51	18.69	18.69	18.69	17.82	14.54	11.57	8.30	5.02	1.75	0.58	0.00
In percent of exports of goods and services	1.82	3.19	3.03	2.85	2.49	1.92	1.46	0.99	0.57	0.19	0.06	0.00
In percent of external debt service 3/	19.93	33.41	29.79	34.18	25.63	20.45	15.19	10.28	5.87	1.90	0.59	0.00
In number of months of imports of goods and services	0.18	0.28	0.29	0.29	0.25	0.19	0.14	0.10	0.06	0.02	0.01	0.00
In percent of GDP	1.32	2.22	2.10	2.00	1.81	1.41	1.07	0.73	0.42	0.14	0.04	0.00
In percent of quota	45.03	80.07	80.07	80.07	76.34	62.29	49.54	35.56	21.50	7.52	2.48	0.00
In percent of net international reserves	7.29	12.88	11.98	11.57	10.48	8.19	6.21	4.24	2.44	0.81	0.25	0.00
Net use of Fund credit (in millions of SDRs)	0.00	5.36	0.00	0.00	-0.57	-2.14	-1.95	-2.14	-2.14	-2.14	-0.77	-0.38
Disbursements	0.00	5.36	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Repayments and Repurchases	0.00	0.00	0.00	0.00	0.57	2.14	1.95	2.14	2.14	2.14	0.77	0.38
Memorandum items:												
Nominal GDP (in millions of U.S. dollars)	797.0	843.1	890.1	934.9	982.1	1032.0	1084.5	1135.6	1189.5	1245.9	1305.0	1366.9
Exports of goods and services (in millions of U.S. dollars)	577.9	586.6	617.2	655.3	714.8	756.4	794.4	835.7	879.5	926.3	976.0	1029.0
External debt service (in millions of U.S. dollars) 3/	52.7	55.9	62.7	54.7	69.5	71.1	76.1	80.7	85.5	92.4	98.6	101.2
Imports of goods and services (in millions of U.S. dollars)	696.6	803.8	767.9	780.5	856.6	906.7	978.3	1017.9	1071.9	1127.7	1187.0	1248.5
Net imputed international reserves (in millions of U.S. dollars)	144.3	145.2	156.0	161.6	170.0	177.5	186.1	195.6	205.9	216.6	227.9	239.8

Sources: Fund staff estimates and projections.

1/ Assumes RCF/ENDA access in the amount of SDR 5.36 million (35 percent of quota).
2/ US$ 1 = 0.655404 SDR (as of November 30, 2010)
3/ Including prospective repurchases/repayments.

Letter of Intent

Castries, St. Lucia
December 21, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Strauss-Kahn,

The St. Lucian economy has been adversely affected by Hurricane Tomas, which hit the island October 30, 2010. Torrential rains have resulted in landslides, causing human causalities and severe damage to the island's economic infrastructure. High winds and severe flooding have also damaged the agricultural sector (in particular the banana industry), as well as commercial and residential buildings. Fortunately, the impact on St. Lucia's important tourism sector was more limited. The initial estimate of the overall damage is about US$336 million (33.6 percent of GDP), including loss of export earnings of some US$45 million (5 percent of GDP). Our preliminary estimates suggest that real GDP growth will reach only about 0.5 percent of GDP in 2010, compared with a pre-hurricane estimate of 1.7 percent. Reflecting higher construction-related imports and a reduction in banana exports, the external current account deficit is projected to increase.

The government has moved quickly to provide immediate relief to those affected by the natural disaster, and initiated critical repair and reconstruction work financed by reallocating expenditure and using US$3.2 million from the Caribbean Catastrophic Risk Insurance Fund. Many development partners have already indicated their support (including the Caribbean Development Bank, the World Bank, the European Union, and the CARICOM Development Fund), but the reconstruction process will require a considerable amount of time and resources. Accordingly, the government of St. Lucia requests emergency financing from the IMF amounting to SDR 5.36 million (US$8.22 million), equivalent to 35 percent of quota, consisting of a disbursement of SDR 3.83 (US$5.87 million) under the Rapid Credit Facility and a purchase equivalent to SDR 1.53 million (US$2.35 million) under Emergency Natural Disaster Assistance. The IMF assistance will help meet the immediate foreign exchange needs stemming from the disaster, thereby maintaining confidence in the external position.

The Government is dealing with the effects of the crisis on several fronts. In terms of immediate priorities we have started to repair critical infrastructure (water distribution systems, roads, and bridges) and are providing assistance to those who suffered an abrupt loss of livelihoods. Going forward—and with the help of our donor countries and multilateral agencies—we will start with the reconstruction and rehabilitation and the development of a comprehensive economic and social program aimed at reactivating the economy and addressing the large social needs. The infrastructure needs are significant, but it is the government's intention to keep commercial borrowing to a minimum by limiting the financing of the rehabilitation and reconstruction effort to available grants and concessional financing. All cash disbursements received from donors will be channeled through the consolidated fund to ensure adequate accounting and use of these resources. While the fiscal deficit will temporarily increase to 6.3 percent of GDP in FY 2010/11 and 6.1 percent in FY 2011/12, we remain committed to achieving a debt-to-GDP target of 60 percent by 2020, for which we will target a primary surplus of 2.9 percent of GDP after FY 2012/13. This target is 1.2 percentage point of GDP higher than the average under the active scenario discussed during the Article IV. To this end, we intend to implement both revenue and expenditure measures. On the revenue front, Cabinet has recently approved legislation to implement a market-based property tax, and we will seek its parliamentary approval with the view to making it effective by early FY 2011/12. Also, we are committed to introducing a VAT by April 2012 and have already initiated the consultative process with the private sector and other key stakeholders. On the expenditure side, and within the context of a broader civil service reform, we intend to freeze the civil service wage bill at 11 percent of GDP in the medium term and are taking steps to introduce a medium-term expenditure framework.

The government attaches great importance to implementing its agenda of structural reforms aimed at fostering private-sector-led economic growth and reducing poverty levels, consistent with our Millennium Development Goals. In this context, the government will continue to improve the investment climate, including by setting up a "one-stop-shop" for investors and by seeking passage of the Single Regulatory Unit and credit union legislations to strengthen supervision of the nonbanking sector and facilitate a more efficient allocation of capital.

It is hoped that the international financial community will support our efforts to restore economic growth and repair and rehabilitate our severely damaged social and economic infrastructure. We look forward to an early approval of financial assistance by the IMF and have identified financing gaps that could possibly be filled by our development partners and other multilateral agencies.

The government intends to continue to maintain a close policy dialogue with the Fund in an effort to strengthen St. Lucia's balance of payments situation and maintain macroeconomic stability. The government does not intend to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, introduce new or intensify existing trade restrictions for balance of payments purposes, or enter into bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement.

Sincerely yours,

_____________/s/_____________

HON. STEPHENSON KING
PRIME MINISTER AND MINISTER
FOR FINANCE AND PLANNING

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INTERNATIONAL MONETARY FUND

ST. LUCIA

External and Public Debt Sustainability Analysis

Prepared by the Staff of the International Monetary Fund

December 23, 2010

This debt sustainability analysis (DSA) assesses the sustainability of St. Lucia's public and external debt. The analysis indicates that, under the baseline scenario discussed in this staff report, public debt will resume a sustainable trajectory in the medium term, barring further external shocks such as the natural disaster that hit the country recently. This sustainable debt trajectory, however, hinges on the successful fiscal consolidation to achieve fiscal primary surplus of 2.9 percent of GDP and the real GDP growth of 3.0 percent in the medium term. The risk of external debt distress remains moderate.

I. Introduction

1. **St. Lucia has been significantly impacted by the 2008–09 global economic and financial crises, as the tourism demand from the main source economies declined on weak employment and consumption.** Economic activities contracted by about 3.6 percent in 2009 after expanding on an average by about 3 percent in 2004–08. The primary balance turned to a deficit of 0.5 percent of GDP in 2009 from a surplus of 2.3 percent in 2008, reflecting the counter-cyclical measures taken to cushion the impact of the crisis.[1] Reflecting the weak growth and the fiscal deterioration, gross public debt increased from 66½ percent of GDP in 2008 to 73.9 percent in 2009. External debt constitutes a little over half of the public debt, however, the share of domestic debt is expanding, increasing by 5 percentage points to 34.4 percent of GDP in 2009. While the economy was on a path for a gradual recovery in 2010 led by tourism sector, St. Lucia was hit hard by Hurricane Tomas, resulting in a projected reduction in the real GDP growth by 1.2 percentage point from the pre-hurricane growth for 2010 to 0.5 percent post-hurricane.

II. Underlying DSA Assumptions

2. **The DSA analysis is based on the following macroeconomic framework, assuming that the authorities will implement the near-term policies agreed with staff.**

[1] The fiscal year starts April 1.

- **Growth and Inflation**: Despite the impact of Hurricane Tomas and its damage to the agricultural production and infrastructure, the real GDP is projected to grow moderately by 0.5 percent in 2010. A rebound of 4.1 percent growth is projected in 2011, led by the reconstruction activities, and projected to average around 3.0 percent in the medium term. Inflation is expected to remain low at around 2 percent, anchored by the currency board arrangement.

Box 1. Macroeconomic assumptions under the Baseline Scenario (2011–2030)

- Following a prolonged slowdown in the aftermath of the global recession and the weak outlook of the employment and consumption in the major trading partners, real GDP growth is projected to average around 3.0 percent in the medium term. Inflation is expected to remain in low single digits, anchored by the currency board arrangement.

- The primary balance of the central government (including grants) is projected to improve to about 2.9 percent of GDP, reflecting the yield from the introduction of VAT in the first half of 2012. Also, civil service reform is assumed to contribute to reducing the wage bills by close to 2 percent of GDP to 11 percent of GDP in the medium term.

- The overall deficit is assumed to be financed roughly equally by domestic and external sources. Interest rates of 6.8 percent and 5.3 percent are assumed for domestic and external borrowings, respectively, in line with the historical average.

- Capital grants are conservatively projected at 0.9 percent of GDP per year, after the inflow above the historical levels in 2010/11 and 2011/12 for the support of the reconstruction from the damage of Hurricane Tomas. Capital expenditure is projected to converge to around 9.0 percent of GDP and stay constant over the medium term.

- FDI inflow is assumed to recover to around 14.4 percent of GDP, in line with historical average, following the sharp decline in 2008-2009 due to the global downturn. The current account deficit is projected to stay around 16 percent of GDP over the medium term.

- **Fiscal Balance**: The primary balance is projected to worsen temporarily to a deficit of around 2 percent of GDP in 2010 and 2011, as the impact of hurricane on revenue and the increase in capital expenditure for the reconstruction is only partially offset by higher grants. The primary surplus is assumed to improve over the medium term to an average of 2.9 percent of GDP, as planned policy measures would yield results, including the introduction of a market-based property tax in 2011, a VAT in the first half of 2012, and civil service reform to reduce wage bills to around 11 percent of GDP in the medium term. In the short term, the increase in the deficit will be limited to the identified sources of concessional financing. However, in the case the disbursements of the identified financing were to be delayed, the authorities might temporarily resort to borrowing in the Regional Government Securities Market (RGSM) or issue bonds outside of the region. In the medium term, the overall deficit is assumed to be financed mainly on market terms, and the interest rates of

6.8 percent for domestic debt and 5.3 percent for external debt are assumed, in line with the historical average. As the new borrowings are assumed to be contracted largely on market terms reflecting the historical debt composition, the overall DSA results will not be altered should the authorities resort to bridge financing via the RGSM or a bond issue outside of the region.

- **External Sector**: The current account deficit is projected to widen in 2011 primarily due to the increase in import for the reconstruction, before converging to around 16 percent of GDP over the medium term. Tourism receipt is assumed to recover, in line with the strong growth in tourist arrivals before the hurricane. FDI inflows are projected to recover to historical levels of 14.4 percent of GDP, but remain below the recent peak of 2006–2007.

III. EVALUATION OF PUBLIC SECTOR DEBT SUSTAINABILITY

3. **The debt-to-GDP ratio rose by 7½ percentage points to 73.9 percent in 2009 as a result of a recession and counter-cyclical fiscal policies**. The ratio is projected to increase further by another 5.6 percentage points over the next two years to 79.5 percent in 2011, reflecting the increase in capital expenditure for the reconstruction. In subsequent years, however, yields from the introduction of VAT and strengthened expenditure controls would contribute to the improvement in fiscal balances and put the public debt to a declining path over the medium term. The public debt is projected to fall to 59.9 percent of GDP by 2020, achieving the Eastern Caribbean Central Bank (ECCB)'s benchmark of 60 percent by 2020.

4. **Sensitivity analysis shows that the public debt is most responsive to a shock to real GDP growth.** Under this scenario, which assumes the reduction of real GDP growth by one standard deviation below the historical average in 2011 and 2012, the PV of public debt increases to 121.2 percent of GDP in 2030 (Table 2a, Scenario B1). The combined shock of annual growth and the primary balance below historical averages would push the PV of public debt-to-GDP to 97.6 percent (Table 2a, Scenario B3). These results highlight St. Lucia's vulnerability to natural disasters and the risks of its high level of debt.

IV. EVALUATION OF EXTERNAL DEBT SUSTAINABILITY

5. **St. Lucia's external debt sustainability analysis includes only public sector debts due to the limitations in the data on private sector external borrowing.** Under the baseline scenario, the PV of external debt is projected to increase to 40.0 percent of GDP in 2011 reflecting the widening fiscal deficit due to the impact of the hurricane. The ratio is

projected to decline to 17.8 percent of GDP by 2030, well below the prudential threshold of 50 percent[2] (1 and Table 3a).

6. **Sensitivity analysis shows that the level of external debt is most responsive to an extreme shock of nominal exchange rate depreciation.** The stress test assuming a one-time 30 percent nominal depreciation relative to the baseline in 2011 indicates that the PV of external debt-to-GDP ratio would rise to 56.8 percent and breach the threshold of 50 percent (Table 3b, Scenario B6). The debt service-to-export ratio rises to 17.1 percent under the most extreme export shock scenario assuming the export growth at one standard deviation below the historical average in 2010-11, below the prudential threshold of 25 percent.

V. Conclusion

7. **Staff analysis shows that, under the baseline scenario, imbalances for the overall public sector would be on a declining and sustainable path, achieving the ECCB's debt-to-GDP ratio target of 60 percent by 2020.** St. Lucia would then continue to reduce its stock of public debt steadily to 35.5 percent by 2030. The main risks to the debt trajectory are the delay in implementation of measures to improve fiscal balances and shocks to economic growth including natural disaster.

8. **External debt risk remains moderate.** While the baseline scenario indicates no breach of any threshold over the projection period, the most extreme shock scenarios suggest breach of the PV of debt-to-GDP threshold and moderate increase of the PV of debt service-to-export. It should be noted that the external debt sustainability analysis is constrained by the data limitation on private sector external borrowing.

9. **The sustainable debt trajectory presented in the analysis is based on a strong fiscal adjustment and real GDP growth over the medium term.** The government is assumed to successfully implement policy measures to achieve fiscal primary surplus of 2.9 percent of GDP, and the real GDP to grow by 3.0 percent in the medium term. As indicated by the stress tests, the public debt could take an unsustainable path should there be shortcomings in the fiscal consolidation and/or economic growth underperform.

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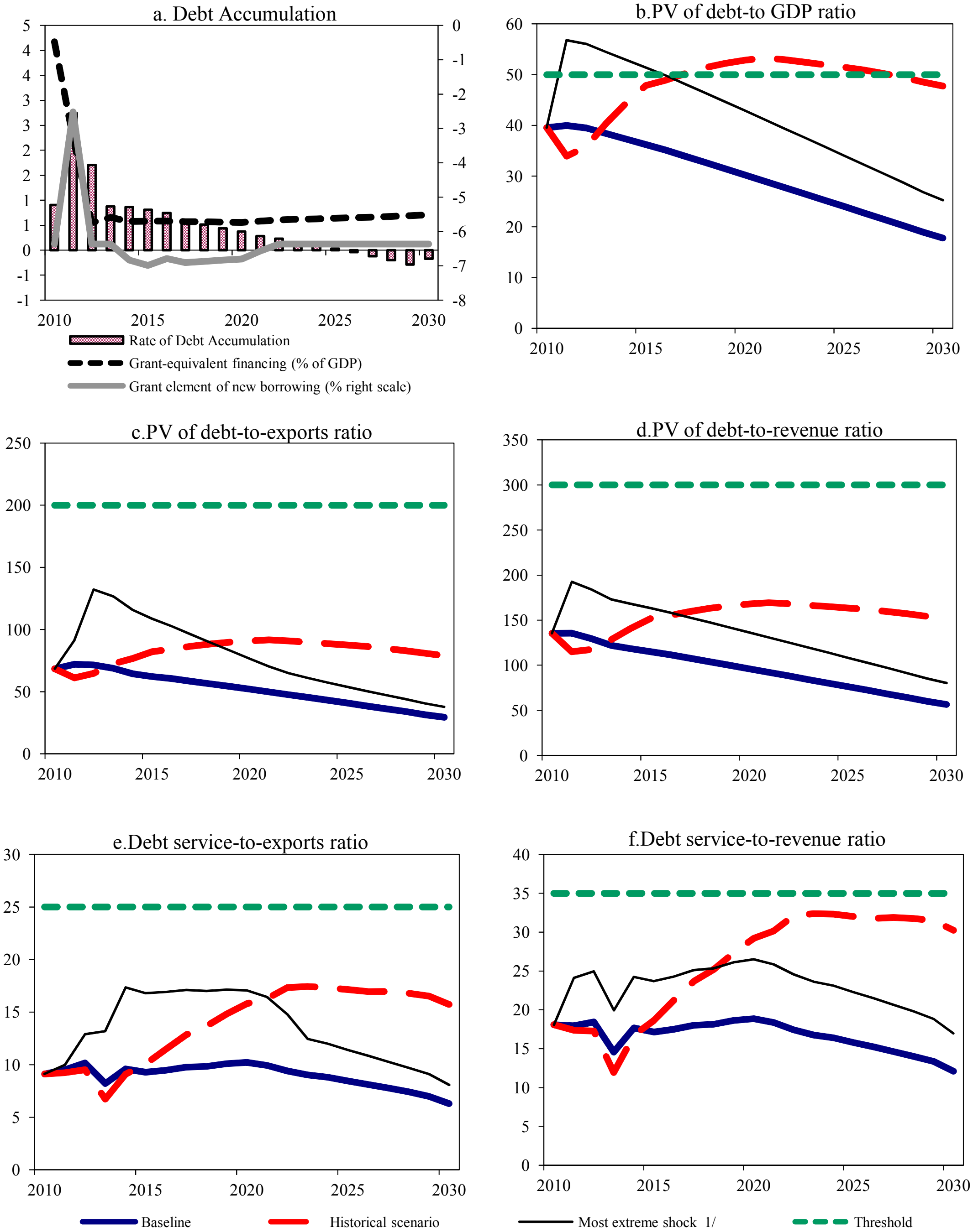
[2] The DSA uses policy-dependent external debt burden indicators. Policy performance is measured by the Country Policy and Institutional Assessment Index (CPIA) compiled annually by the World Bank, categorizing countries into three groups based on the quality of their macroeconomic policies (strong, medium, and poor). St. Lucia is classified as a strong performer, with the thresholds on PV of debt-to-GDP, debt-to-exports and debt-to-revenue of 50, 200 and 300 percent respectively.

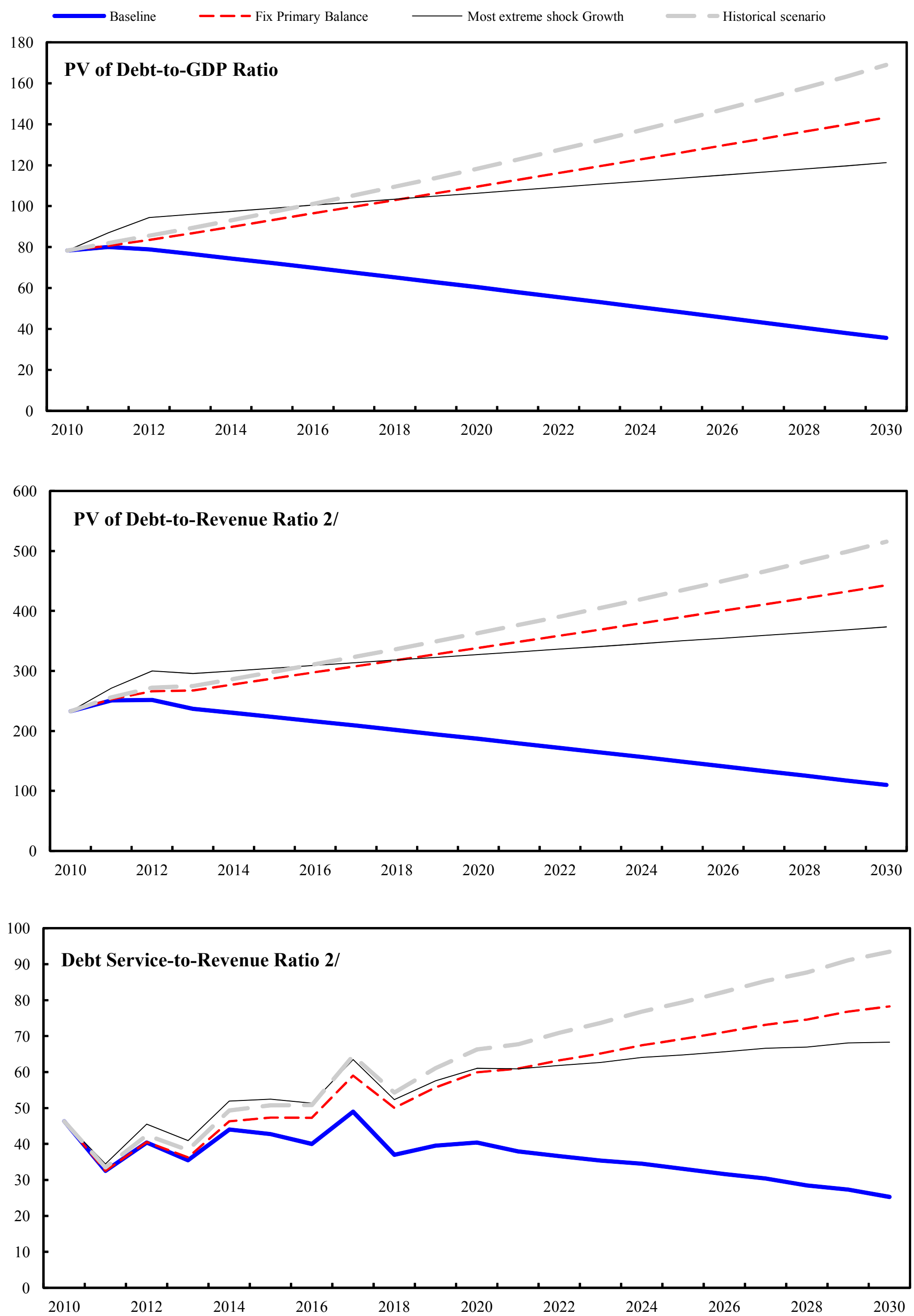
Figure 1. St. Lucia: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2010-2030 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2.St. Lucia: Indicators of Public Debt Under Alternative Scenarios, 2010-2030 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2020.
2/ Revenues are defined inclusive of grants.

Table 1a.St. Lucia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2007-2030

(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate	Projections								
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-15 Average	2020	2030	2016-30 Average
Public sector debt 1/	66.5	66.4	73.9			77.7	79.5	78.3	76.1	73.9	71.6		59.9	35.5	
o/w foreign-currency denominated	41.4	36.9	39.4			39.0	39.5	38.9	37.9	36.8	35.7		29.8	17.7	
Change in public sector debt	0.8	0.0	7.5			3.8	1.8	-1.2	-2.1	-2.3	-2.2		-2.4	-2.4	
Identified debt-creating flows	-1.0	-0.1	5.5			3.8	1.8	-1.2	-2.2	-2.3	-2.3		-2.3	-2.6	
Primary deficit	-2.6	-2.3	0.6	1.4	2.5	2.4	1.9	-1.4	-2.7	-2.9	-2.9	-0.9	-2.9	-2.9	-2.9
Revenue and grants	28.4	30.6	31.0			33.6	31.9	31.4	32.4	32.4	32.4		32.4	32.4	
of which: grants	0.2	0.8	2.0			4.4	2.4	0.9	0.9	0.9	0.9		0.9	0.9	
Primary (noninterest) expenditure	25.8	28.3	31.6			36.0	33.7	30.0	29.6	29.5	29.5		29.5	29.5	
Automatic debt dynamics	1.6	2.2	4.9			1.4	0.0	0.2	0.5	0.5	0.6		0.6	0.3	
Contribution from interest rate/growth differential	1.0	1.8	5.1			2.2	0.1	0.4	0.8	0.7	0.7		0.7	0.4	
of which: contribution from average real interest rate	1.9	2.2	2.6			2.6	3.2	3.1	3.1	2.9	2.9		2.5	1.5	
of which: contribution from real GDP growth	-1.0	-0.5	2.5			-0.4	-3.1	-2.7	-2.3	-2.2	-2.2		-1.8	-1.1	
Contribution from real exchange rate depreciation	0.6	0.4	-0.2			-0.8	-0.1	-0.3	-0.2	-0.2	-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, e.g. 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	1.8	0.1	2.0			0.0	0.0	0.0	0.1	0.1	0.1		-0.1	0.2	
Other Sustainability Indicators															
PV of public sector debt	...	...	74.5			78.3	80.0	78.9	76.7	74.4	72.2		60.4	35.6	
o/w foreign-currency denominated	...	...	40.1			39.6	40.0	39.5	38.4	37.3	36.2		30.2	17.8	
o/w external	...	...	40.1			39.6	40.0	39.5	38.4	37.3	36.2		30.2	17.8	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	7.4	6.6	16.6			25.8	20.2	14.0	13.2	15.6	16.9		14.7	8.4	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	240.0			232.7	251.0	251.6	236.9	229.9	223.0		186.7	110.0	
PV of public sector debt-to-revenue ratio (in percent)	…	…	256.7			268.0	271.5	258.9	243.6	236.4	229.2		191.9	113.1	
o/w external 3/	…	…	138.0			135.5	135.7	129.6	121.9	118.5	115.1		96.1	56.6	
Debt service-to-revenue and grants ratio (in percent) 4/	25.6	23.8	50.1			46.3	32.6	40.4	35.5	44.0	42.8		40.4	25.3	
Debt service-to-revenue ratio (in percent) 4/	25.7	24.4	53.6			53.4	35.2	41.6	36.5	45.2	44.0		41.5	26.0	
Primary deficit that stabilizes the debt-to-GDP ratio	-3.4	-2.3	-6.9			-1.4	0.0	-0.2	-0.6	-0.6	-0.6		-0.5	-0.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	1.5	0.7	-3.6	1.2	3.1	0.5	4.1	3.5	3.0	3.0	3.0	2.9	3.0	3.0	3.0
Average nominal interest rate on forex debt (in percent)	5.5	4.3	4.4	4.2	1.0	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Average real interest rate on domestic debt (in percent)	4.1	5.5	4.2	4.5	1.6	2.6	4.5	4.3	4.3	4.4	4.5	4.1	4.9	4.8	4.8
Real exchange rate depreciation (in percent, + indicates depreciation)	1.3	1.0	-0.5	0.2	1.3	-2.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	1.6	1.1	1.4	2.2	1.3	3.0	1.6	2.0	2.1	2.1	2.1	2.2	2.2	2.3	2.2
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.1	0.1	0.1	0.0	0.1	0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	-6.4	-2.5	-6.4	-6.4	-6.8	-7.0	-5.9	-6.8	-6.4	...

Sources: Country authorities; and staff estimates and projections.

1/ The analysis covers the public sector guaranteed and non-guaranteed debt and gross debt is used.

2/ 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.

3/ Revenues excluding grants.

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

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

Table 2a.St. Lucia: Sensitivity Analysis for Key Indicators of Public Debt 2010-2030

	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
PV of Debt-to-GDP Ratio								
Baseline	78	80	79	77	74	72	60	36
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	78	82	86	89	93	97	118	169
A2. Primary balance is unchanged from 2010	78	81	83	87	90	93	110	143
A3. Permanently lower GDP growth 1/	78	81	81	80	79	78	77	92
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	78	87	94	96	97	99	106	121
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	78	82	87	84	82	80	68	44
B3. Combination of B1-B2 using one half standard deviation shocks	78	84	91	91	92	92	94	98
B4. One-time 30 percent real depreciation in 2011	78	98	97	95	93	91	83	69
B5. 10 percent of GDP increase in other debt-creating flows in 2011	78	90	89	87	85	83	71	47
PV of Debt-to-Revenue Ratio 2/								
Baseline	233	251	252	237	230	223	187	110
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	233	256	272	275	287	299	363	516
A2. Primary balance is unchanged from 2010	233	253	266	268	278	288	338	443
A3. Permanently lower GDP growth 1/	233	253	257	246	243	241	238	283
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	233	271	300	295	300	305	327	373
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	233	258	276	261	254	247	211	136
B3. Combination of B1-B2 using one half standard deviation shocks	233	264	289	281	283	284	290	301
B4. One-time 30 percent real depreciation in 2011	233	306	308	292	286	281	255	215
B5. 10 percent of GDP increase in other debt-creating flows in 2011	233	284	285	269	262	255	220	145
Debt Service-to-Revenue Ratio 2/								
Baseline	46	33	40	35	44	43	40	25
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	46	33	42	38	49	51	66	93
A2. Primary balance is unchanged from 2010	46	33	41	36	46	47	60	78
A3. Permanently lower GDP growth 1/	46	33	41	36	45	45	47	51
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	46	34	46	41	52	52	61	68
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	46	33	41	37	47	46	45	30
B3. Combination of B1-B2 using one half standard deviation shocks	46	34	44	39	50	50	56	57
B4. One-time 30 percent real depreciation in 2011	46	36	48	42	53	53	58	54
B5. 10 percent of GDP increase in other debt-creating flows in 2011	46	33	42	38	49	48	47	32

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Table 3a.: External Debt Sustainability Framework, Baseline Scenario, 2007-2030 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical 0 Average 0	Standard Deviation	Projections									
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-2015 Average	2020	2030	2016-2030 Average
External debt (nominal) 1/	**41.4**	**36.9**	**39.4**			**39.0**	**39.5**	**38.9**	**37.9**	**36.8**	**35.7**		**29.8**	**17.7**	
o/w public and publicly guaranteed (PPG)	41.4	36.9	39.4			39.0	39.5	38.9	37.9	36.8	35.7		29.8	17.7	
Change in external debt	-3.1	-4.5	2.6			-0.5	0.5	-0.6	-1.0	-1.1	-1.1		-1.2	-1.1	
Identified net debt-creating flows	1.6	11.8	0.0			3.3	10.4	2.7	0.2	0.8	0.8		1.9	1.4	
Non-interest current account deficit	**28.6**	**26.3**	**12.7**	**17.3**	**7.3**	**14.4**	**23.1**	**16.2**	**13.3**	**14.2**	**14.2**		**15.4**	**15.2**	15.3
Deficit in balance of goods and services	25.4	22.4	10.1			11.9	20.5	13.6	10.8	11.6	11.7		12.7	12.1	
Exports	49.9	53.6	56.3			57.8	55.5	55.3	55.8	57.9	58.2		58.1	60.5	
Imports	75.3	76.0	66.4			69.7	76.0	68.9	66.6	69.5	69.9		70.8	72.7	
Net current transfers (negative = inflow)	-1.4	-1.6	-1.3	-1.7	0.4	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3		-1.1	-0.8	-1.0
o/w official	-0.3	-0.4	-0.1			-0.1	-0.1	-0.1	-0.1	-0.1	-0.1		0.0	0.0	
Other current account flows (negative = net inflow)	4.6	5.5	3.8			3.8	3.8	3.8	3.8	3.8	3.8		3.8	3.8	
Net FDI (negative = inflow)	**-28.1**	**-15.4**	**-15.2**	**-13.9**	**7.3**	**-12.9**	**-13.2**	**-14.2**	**-14.0**	**-14.2**	**-14.2**		**-14.2**	**-14.2**	-14.2
Endogenous debt dynamics 2/	**1.0**	**1.0**	**2.5**			**1.8**	**0.4**	**0.7**	**0.9**	**0.8**	**0.8**		**0.7**	**0.4**	
Contribution from nominal interest rate	2.4	1.8	1.7			2.0	2.0	2.0	2.0	1.9	1.8		1.6	0.9	
Contribution from real GDP growth	-0.6	-0.3	1.3			-0.2	-1.5	-1.3	-1.1	-1.1	-1.1		-0.9	-0.5	
Contribution from price and exchange rate changes	-0.7	-0.5	-0.5			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**-4.7**	**-16.4**	**2.6**			**-3.8**	**-9.9**	**-3.3**	**-1.2**	**-1.9**	**-1.9**		**-3.1**	**-2.5**	
o/w exceptional financing	0.0	0.0	0.0			0.0	-3.8	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	40.1			39.6	40.0	39.5	38.4	37.3	36.2		30.2	17.8	
In percent of exports	...	...	71.1			68.4	72.1	71.4	68.8	64.5	62.2		52.0	29.4	
PV of PPG external debt	**...**	**...**	**40.1**			**39.6**	**40.0**	**39.5**	**38.4**	**37.3**	**36.2**		**30.2**	**17.8**	
In percent of exports	**...**	**...**	**71.1**			**68.4**	**72.1**	**71.4**	**68.8**	**64.5**	**62.2**		**52.0**	**29.4**	
In percent of government revenues	**...**	**...**	**138.0**			**135.5**	**135.7**	**129.6**	**121.9**	**118.5**	**115.1**		**96.1**	**56.6**	
Debt service-to-exports ratio (in percent)	**17.0**	**9.8**	**10.2**			**9.1**	**9.5**	**10.2**	**8.2**	**9.6**	**9.3**		**10.2**	**6.3**	
PPG debt service-to-exports ratio (in percent)	**17.0**	**9.8**	**10.2**			**9.1**	**9.5**	**10.2**	**8.2**	**9.6**	**9.3**		**10.2**	**6.3**	
PPG debt service-to-revenue ratio (in percent)	**30.1**	**17.6**	**19.9**			**18.1**	**18.0**	**18.4**	**14.5**	**17.7**	**17.2**		**18.9**	**12.1**	
Total gross financing need (Millions of U.S. dollars)	87.6	158.8	31.2			67.8	160.8	85.2	46.4	68.3	70.8		120.2	135.3	
Non-interest current account deficit that stabilizes debt ratio	31.7	30.8	10.1			14.9	22.6	16.8	14.3	15.2	15.3		16.6	16.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	1.5	0.7	-3.6	1.2	3.1	0.5	4.1	3.5	3.0	3.0	3.0	2.9	3.0	3.0	3.0
GDP deflator in US dollar terms (change in percent)	1.6	1.1	1.4	2.2	1.3	3.0	1.6	2.0	2.1	2.1	2.1	2.2	2.2	2.3	2.2
Effective interest rate (percent) 5/	5.5	4.3	4.4	4.2	1.0	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Growth of exports of G&S (US dollar terms, in percent)	7.1	9.5	2.8	4.6	12.9	6.2	1.5	5.2	6.2	9.1	5.8	5.7	5.4	6.2	5.6
Growth of imports of G&S (US dollar terms, in percent)	5.7	2.9	-14.5	4.1	12.6	8.6	15.4	-4.3	1.6	9.8	5.8	6.2	5.2	6.0	5.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	-6.4	-2.5	-6.4	-6.4	-6.8	-7.0	-5.9	-6.8	-6.4	-6.5
Government revenues (excluding grants, in percent of GDP)	28.2	29.9	29.0			29.2	29.5	30.5	31.5	31.5	31.5		31.5	31.5	31.5
Aid flows (in Millions of US dollars) 7/	1.5	7.6	19.5			44.3	25.4	9.8	10.3	10.9	11.4		14.8	24.8	
o/w Grants	1.5	7.6	19.5			44.3	25.4	9.8	10.3	10.9	11.4		14.8	24.8	
o/w 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/	...	...	...			4.2	2.3	0.6	0.7	0.6	0.6		0.6	0.7	0.6
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			48.7	26.9	9.2	14.9	10.8	11.2		10.0	19.7	13.2
Memorandum items:															
Nominal GDP (Millions of US dollars)	969.0	987.0	965.4			999.6	1057.0	1116.1	1174.0	1235.1	1299.7		1679.1	2817.2	
Nominal dollar GDP growth	3.1	1.9	-2.2			3.5	5.8	5.6	5.2	5.2	5.2	5.1	5.3	5.3	5.3
PV of PPG external debt (in Millions of US dollars)			386.7			395.5	422.9	440.9	450.6	460.8	470.7		507.9	501.7	
(PVt-PVt-1)/GDPt-1 (in percent)						0.9	2.7	1.7	0.9	0.9	0.8	1.3	0.4	-0.2	0.2
Gross workers' remittances (Millions of US dollars)	…	…	…			…	…	…	…	…	…		…	…	
PV of PPG external debt (in percent of GDP + remittances)	...	...	40.1			39.6	40.0	39.5	38.4	37.3	36.2		30.2	17.8	
PV of PPG external debt (in percent of exports + remittances)	...	...	71.1			68.4	72.1	71.4	68.8	64.5	62.2		52.0	29.4	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	10.2			9.1	9.5	10.2	8.2	9.6	9.3		10.2	6.3	

Sources: Country authorities; and staff estimates and projections.

1/ Includes public sector guaranteed and non-guaranteed external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., identified financing for Hurricane Tomas-related spending); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
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 PV of new debt).

Table 3b.St. Lucia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030
(In percent)

	Projections							
	2010	2011	2012	2013	2014	2015	**2020**	2030
PV of debt-to GDP ratio								
Baseline	40	40	40	38	37	36	**30**	18
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	40	34	36	40	44	47	**52**	47
A2. New public sector loans on less favorable terms in 2010-2030 2	40	41	40	40	39	38	**31**	20
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	40	42	44	43	42	41	**34**	20
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	40	46	58	56	53	50	**35**	18
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	40	40	40	39	38	37	**31**	18
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	40	47	55	53	50	47	**34**	18
B5. Combination of B1-B4 using one-half standard deviation shocks	40	47	61	59	56	53	**38**	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	40	57	56	54	53	51	**43**	25
PV of debt-to-exports ratio								
Baseline	68	72	71	69	64	62	**52**	29
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	68	61	64	72	76	81	**89**	78
A2. New public sector loans on less favorable terms in 2010-2030 2	68	73	73	71	67	65	**53**	34
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	68	72	71	69	64	62	**52**	29
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	68	91	132	127	116	109	**77**	38
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	68	72	71	69	64	62	**52**	29
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	68	85	99	94	86	81	**59**	30
B5. Combination of B1-B4 using one-half standard deviation shocks	68	85	111	107	98	92	**66**	33
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	68	72	71	69	64	62	**52**	29
PV of debt-to-revenue ratio								
Baseline	136	136	130	122	119	115	**96**	57
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	136	115	117	128	140	150	**165**	150
A2. New public sector loans on less favorable terms in 2010-2030 2	136	138	133	126	124	120	**98**	64
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	136	144	145	137	133	129	**108**	63
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	136	155	189	177	168	159	**112**	57
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	136	137	132	124	121	117	**98**	58
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	136	160	179	167	159	151	**108**	57
B5. Combination of B1-B4 using one-half standard deviation shocks	136	161	199	187	177	168	**120**	62
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	136	193	184	173	168	163	**136**	80

Table 3b.St. Lucia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030 (continued)
(In percent)

	Projections							
	2010	2011	2012	2013	2014	2015	**2020**	2030
Debt service-to-exports ratio								
Baseline	9	10	10	8	10	9	**10**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	9	9	10	7	9	10	**16**	16
A2. New public sector loans on less favorable terms in 2010-2030 2	9	9	10	8	10	10	**11**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	9	9	10	8	9	9	**10**	6
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	9	10	13	13	17	17	**17**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	9	9	10	8	9	9	**10**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	9	9	10	10	13	13	**13**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	9	9	11	11	15	14	**14**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	9	9	10	8	9	9	**10**	6
Debt service-to-revenue ratio								
Baseline	18	18	18	15	18	17	**19**	12
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	18	17	17	12	17	19	**29**	30
A2. New public sector loans on less favorable terms in 2010-2030 2	18	17	18	15	18	18	**20**	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	18	18	20	16	19	19	**21**	13
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	18	17	18	18	25	24	**25**	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	18	17	18	14	17	17	**19**	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	18	17	19	18	24	23	**24**	12
B5. Combination of B1-B4 using one-half standard deviation shocks	18	18	20	20	26	26	**26**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	18	24	25	20	24	24	**27**	17
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	-6	-6	-6	-6	-6	-6	**-6**	-6

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt 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.

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Press Release No. 11/6
FOR IMMEDIATE RELEASE
January 12, 2011

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$8.2 Million in Emergency Assistance for St. Lucia

The Executive Board of the International Monetary Fund (IMF) today approved a combined SDR 5.36 million (about US$8.19 million) in emergency assistance for St. Lucia to cope with the economic consequences of Hurricane Tomas. The financial assistance consists of an SDR 3.83 million (about US$5.85 million) disbursement under the IMF's Rapid Credit Facility (RCF), and SDR 1.53 million (about US$2.34 million) under the Fund's Emergency Natural Disaster Assistance (ENDA).

Hurricane Tomas struck St. Lucia on October 30, 2010 causing loss of life and significant damage to the nation's road network, water supply, and agriculture sector. The latest but still preliminary estimates suggest that total damages amount to US$336 million, or about 34 percent of GDP.

Following the Executive Board discussion of St. Lucia, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, issued the following statement:

"St. Lucia has been severely affected by Hurricane Tomas, which caused loss of life and significant damages to infrastructure and agriculture. The reconstruction efforts are expected to have a significant fiscal and balance of payment impact, mainly in 2011, posing difficult policy challenges. It will be important to maintain macroeconomic stability and debt sustainability during the rehabilitation.

"Despite a temporary deterioration in the fiscal position, the authorities remain committed to the medium-term debt target. They intend to keep commercial borrowing to a minimum by limiting the financing of the rehabilitation and reconstruction efforts to available grants and external concessional financing. Key consolidation measures include introducing a market valuation-based property tax in early 2011 and a value-added tax by April 2012, and controlling the civil service wage bill over the medium term. A formal public sector investment program will also be initiated, to increase the efficiency of spending and underpinned by a medium-term expenditure framework.

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“The authorities continue to make progress on other structural reforms. Efforts are ongoing to enhance the investment climate conducive to private sector growth, and to strengthen the oversight and resilience of the financial sector, including through the establishment of the Single Regulatory Unit.

“The authorities’ prudent management of the reconstruction efforts, together with the continued sound policies to enhance the fiscal position and address structural issues, will help St. Lucia maintain fiscal sustainability and achieve the medium-term debt target,” Mr. Portugal said.

ANNEX

Rapid Credit Facility

The RCF provides rapid concessional financial assistance with limited conditionality to low-income countries facing an urgent balance of payments need, such as those caused by natural disasters.

The RCF streamlines the Fund’s emergency assistance, provides significantly higher levels of concessionality, can be used flexibly in a wide range of circumstances, and places greater emphasis on the country’s poverty reduction and growth objectives. Financing under the RCF carries a zero interest rate, has a grace period of 5½ years, and a maturity of 10 years.

Emergency Natural Disaster Assistance

Since 1962, the IMF has provided emergency assistance to member countries afflicted by natural disasters such as floods, earthquakes, hurricanes, or droughts. This assistance, provided under the Emergency Natural Disaster Assistance (ENDA), meets immediate foreign exchange financing needs arising from, e.g., shortfalls in export earnings and/or increased imports, and avoiding a serious depletion of external reserves. Emergency assistance loans are usually quick-disbursing and do not involve adherence to performance criteria.

Statement by Stephen O'Sullivan, Executive Director for St. Lucia
January 12, 2011

The authorities wish to thank the staff for their swift response in the wake of the hurricane which struck the country on 30/31 October 2010. A staff team was in place in St. Lucia just three weeks later for discussions on how best to support the authorities' efforts to cope with the immediate aftermath of the disaster. These discussions led to the formulation of a request for a disbursement under the Rapid Credit Facility and the Emergency Natural Disaster Assistance. The authorities would be grateful for Board approval of that request. As well as helping directly to meet St. Lucia's immediate balance of payments financing needs, Board approval would facilitate the mobilization of resources from other institutions.

Impact of the Hurricane

Hurricane Tomas was an event of historic proportions for St. Lucia. The level of rainfall recorded in a 24 hour period was double that recorded during tropical storm Debbie in 1994 and has been assessed as a 1 in 180 year event. The entire population was impacted by the reduction in the water supply to just 1 percent of the pre-hurricane supply. Sanitation was a major issue as a large portion of the population was without access to safe water. There was extensive damage to roads, forestry and to the banana crop. Preliminary estimates of the damage to the banana industry assessed the impact at 80 to 90 percent losses. The infrastructure of the agricultural sector received major damage and will require much re-investment. Large landslides occurred, affecting transport infrastructure. Hotels were badly affected and tourism was severely disrupted. Reconstruction work will be needed in housing, roads, water supply, river courses, forestry, the banana industry, the tourism sector and economic infrastructure generally. The staff report puts the overall impact of the hurricane at 34 percent of GDP.

Economic Context

The focus of the authorities has for some time been on managing the transition from an agricultural economy dominated by a single product to a more modern services-based economy. Prior to the downturn in the global economy, St. Lucia had been making appreciable strides towards this goal. GDP growth, supported by significant volumes of foreign direct investment, was running at around 4 percent. However, gross public sector debt was uncomfortably high at around 67 percent of GDP and debt service costs were absorbing almost 40 percent of current revenues. This level of indebtedness reflected in part the commitment of the authorities to invest heavily in infrastructural development. Evidence that this was paying off was to be seen in the marked increase in tourism capacity and the growth in tourism earnings. However, as the staff report says, it will take considerable efforts and resources to put the economy back on its pre-hurricane growth path.

The hurricane of August 2007 and the earthquake later that year combined with the subsequent downturn in the world economy to disrupt progress. These events led to a sharp fall in output in 2009 which, together with the necessary countervailing policy measures introduced by the authorities, resulted in a weakening of the government accounts and an increase in the burden of public debt of around 12 percentage points of GDP.

Recent Economic Developments

Prior to the hurricane, St. Lucia was on track to outperform expectations at the time of the Article IV discussions last March. As indicated in the staff report, the pre-hurricane expectation was for GDP growth of 1.7 percent, some 0.6 percentage points above previous forecasts. The primary deficit, at 0.6 percent of GDP, would have been just one-fifth of that envisaged in March 2010 and the cash deficit, at 4.3 percent, would have been three percentage points lower. The principal driver of this improvement was the very strong performance of the tourism sector which was significantly outstripping expectations, validating the earlier commitment of the authorities to invest in necessary infrastructural upgrades.

Economic Prospects

The outlook for 2011 is for a return to a growth rate of around 4 percent. This exceeds pre-hurricane expectations, reflecting a stimulus effect from post-hurricane activity and a recovery in tourist arrivals. Looking further ahead, however, debt dynamics have altered in that the primary surplus required to achieve the regional objective of a 60 percent debt level by 2020 has increased from around 1.6 percent to 2.9 percent.

Policy Issues

The policy issues mentioned in the course of the March 2010 Article IV discussions remain on the table. The central issue is still the need to assure debt sustainability within the context of economic development and poverty reduction. Financial sector stability remains on the agenda and the warning note sounded by staff on the occasion of the Article IV review in relation to the incidence of NPLs is still relevant.

The full suite of policy issues will be taken up in the context of the Article IV review which will take place in the coming months. In the course of those discussions, the authorities will return to the issues touched on in the Prime Minister's Letter of Intent which accompanies the current request, including the recent progress on legislation to introduce a market-based property tax and their commitment to introduce a VAT next year. They will also set out their intentions in relation to the control of public sector wage costs and their plans for a medium-term expenditure framework.

Conclusion

The authorities welcome staff's acknowledgement of their solid track record of sound fiscal policies and of close collaboration with the Fund. In return, they wish to express their appreciation for the support shown by the Executive Board of their efforts. They would be grateful for Board approval of the request for a purchase and disbursement under ENDA and the RCF amounting to 35 percent of quota and they look forward to re-engaging more fully on the full set of policy issues during the forthcoming Article IV consultations.