INTERNATIONAL MONETARY FUND

Staff Country Reports

December 2004
IMF Country Report No. 04/

St. Lucia: 2003 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for St. Lucia

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2003 Article IV consultation with St. Lucia, the following documents have been released and are included in this package:

- the staff report for the 2003 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **November 19, 2003,** 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 April 13, 2004.** 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 statement of **May 5, 2004** updating information on recent developments.

- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its May 5, 2004 discussion** of the staff report that concluded the Article IV consultation.

- a statement by the Executive Director for St. Lucia.

The documents listed below have been or will be separately released.

Statistical Appendix

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

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INTERNATIONAL MONETARY FUND

ST. LUCIA

Staff Report for the 2003 Article IV Consultation

Prepared by the Staff Representatives for the 2003 Consultation
with St. Lucia

Approved by Markus Rodlauer and Matthew Fisher

April 13, 2004

- **Discussions**: A staff team comprising E. Verreydt (Head), C. Visconti, and T. Rasmussen (all WHD), and P. Karam (INS) held discussions in Castries during November 3–19, 2003. Staff from the Eastern Caribbean Central Bank (ECCB) and Caribbean Development Bank (CDB) participated in the discussions. R. Sahay (WHD) and F. Vermaeten (OED) joined the team for final discussions. The staff met with the Prime Minister and Minister of Finance, the Minister of Tourism, the Financial Secretary, other senior government officials, and representatives of the private sector, trade unions, and employers.
- **Economic background**: St. Lucia, with a population of 158,000 and per capita GDP of US$4,200, is one of the eight island states of the Organization of the Eastern Caribbean States (OECS). It is a member of the Eastern Caribbean Currency Union (ECCU), which has a common central bank (ECCB) and a common currency, the Eastern Caribbean (EC) dollar. The EC dollar has been pegged to the U.S. dollar at EC$2.70=US$1 since 1976. St. Lucia's GDP accounts for about 25 percent of the combined OECS GDP. St Lucia has accepted the obligations of Article VIII, Sections 2, 3 and 4. Relations with the Fund are summarized in Appendix I.
- **Political situation**: St. Lucia is a Westminster-style democracy with a bicameral parliament consisting of the Senate (11 seats) and the House of Assembly (17 seats). Prime Minister Kenny Anthony of the St. Lucia Labor Party has been in office since May 1997. He was re-elected in December 2001 when his party won 14 of the seats in the House of Assembly. The next elections are due by December 2006.
- **2002 Article IV consultation**: At its conclusion on January 27, 2003, Directors expressed concern about the steady fiscal deterioration since FY 2000/01 and urged strong adjustment measures to curtail the growth of public debt. They emphasized the importance of expenditure restraint, tax reform, and reduction in tax concessions. Directors encouraged the authorities to promote the diversification of St. Lucia's economy, enhance competitiveness, and strengthen financial sector regulation and supervision.
- **Exchange restriction**: St. Lucia maintains an exchange restriction arising from the requirement that arrangements for the clearance of any tax arrears be made before profit remittances above a threshold of EC$250,000 can be made.

List of Acronyms

AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
CARICOM	Caribbean Community
CARTAC	Caribbean Regional Technical Assistance Center
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
EU	European Union
FDI	Foreign Direct Investment
FSAP	Financial Sector Assessment Program
FTAA	Free Trade Area of the Americas
NIC	National Insurance Corporation
OECS	Organization of Eastern Caribbean Countries
OPSR	Office of Private Sector Relations
VAT	Value Added Tax
WASCO	Water and Sewerage Company

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EXECUTIVE SUMMARY

- **St. Lucia has experienced a marked decline in economic growth during the 1990s and early 2000s.** This reflected mainly structural problems, including high labor and utilities costs, and more recently the negative impact of the September 11, 2001 events on tourism and of unfavorable weather on agriculture. The current economic situation remains difficult and unemployment is high, as an ongoing recovery in tourism has not spilled over to the whole economy.

- **Since 2000, expansionary fiscal policies were pursued in an attempt to revive growth and reduce unemployment, resulting in a steady rise in public debt.** The rising debt-to-GDP ratio (65 percent of GDP at end-2003), with a large increase in external borrowing from commercial banks, raises concerns about vulnerability and fiscal sustainability. Banking sector prudential indicators are generally weaker than the ECCU average, owing to large non-performing loans, which represents another source of vulnerability.

- **Priority should be given to carrying out a strong upfront fiscal adjustment.** The reduction in public debt needed to reduce vulnerabilities requires a large swing in the primary balance over the next few years. To achieve this, staff recommended a comprehensive tax reform, including revenue measures, following FAD recommendations, and expenditures cuts. The authorities saw room for cutting capital expenditure and resisting labor unions' demands for wage increases, but remained noncommittal with regard to other specific measures.

- **The authorities should plan fiscal contingency measures to reduce unanticipated financing needs.** Given its importance in the region, St. Lucia should lead the way in demonstrating fiscal restraint and supporting macroeconomic stability under the currency board arrangement. Collective prudence is required, as adverse developments in another ECCU country could spill over to the rest of the region.

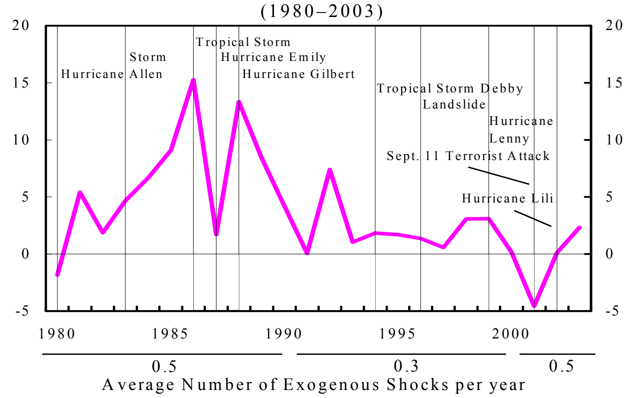
- **As recommended by the recent regional FSAP mission, the high level of nonperforming loans in the domestic banking sector needs to be reduced.** The authorities should continue to work closely with the ECCB by putting in place the necessary supervisory mechanisms, including more frequent on-site inspections, to ensure compliance with the Basle Core Principles and adequate supervision of the off-shore sector.

- **Structural reforms recommended by staff to invigorate private sector-led growth would yield long-term benefits**. Costly tax incentives to attract investment should be reduced, preferably in a regional context. Efforts at lowering input costs and raising labor productivity would yield large long-term benefits, in particular in the tourism industry. Given the currency board arrangement, continued wage restraint and a flexible labor market are key to enhancing competitiveness.

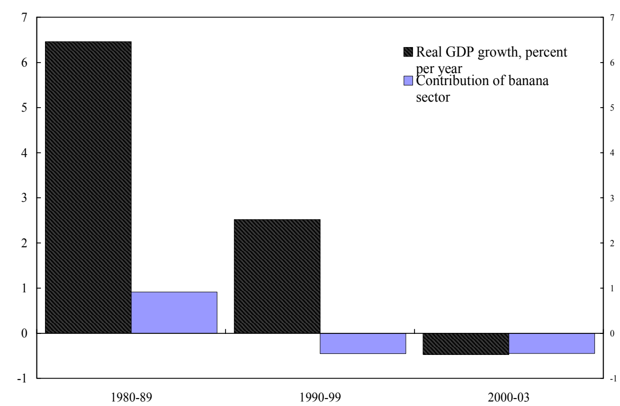
I. Background: Medium-Term Perspective

1. **St. Lucia has experienced a marked decline in economic growth during the 1990s and early 2000s.** Average real GDP growth declined from 6½ percent per year in the 1980s to 2½ percent in the 1990s and -½ percent during 2000-03. While the sharp decline in GDP in 2001 (related to drought and the decline in tourism due to the September 11, 2001 events) largely explains the drop in the early 2000s, the marked slowdown in the 1990s cannot be attributed to a single, dominant factor. Devastating hurricanes did not hit St. Lucia more frequently in the 1990s relative to the 1980s. While the contribution to growth of the historically important banana sector became negative after the 1980s, this accounted for less than ½ of a percentage point of the reduction in average annual GDP growth that occurred during the 1990s. Other factors, some common to other ECCU countries, were at work. They included, among others, increased competition from lower-priced tourist destinations, a maturing tourism product targeting the high-end of the market, high utility costs, real wage increases despite flat productivity (see below).

Exogenous Shocks and GDP Growth
(1980–2003)



Average Real GDP Growth, 1980–2003

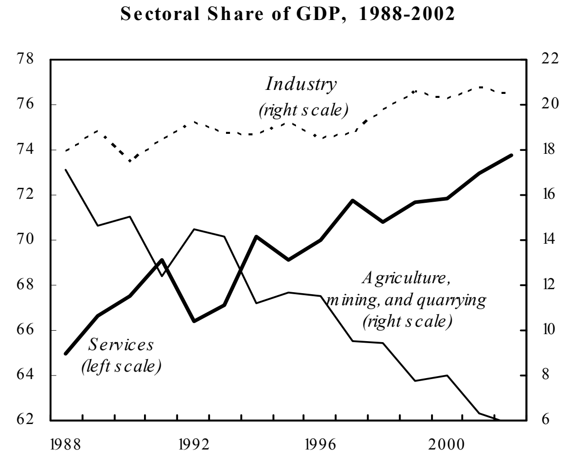


2. **On the demand side, lower growth was associated with a shift from private to public sector activity.** Private consumption and investment fell relative to GDP from the 1980s to the 1990s; at the same time, public investment rose sharply. While the improvement in the trade balance led to some narrowing of the external current account deficit, it remained high at over 10 percent of GDP in the 1990s. However, until 2000 when public external debt started to rise steeply, the deficits were largely financed by nondebt-creating inflows of foreign direct investment and capital grants. During 2000–02 FDI fell to an average of 5½ percent of GDP, from about 9 percent during the 1990s.

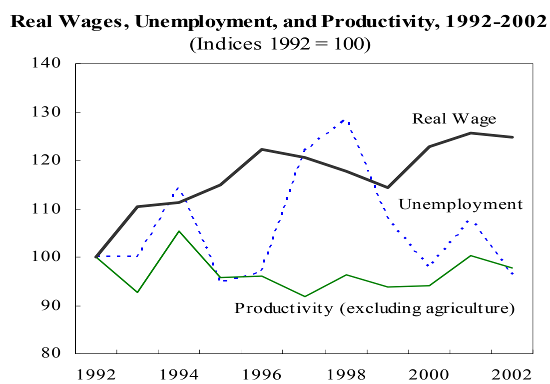
Gross Expenditure at Current Market Prices
(In percent of GDP)

	Decadal Averages	
	1980s	1990s
Consumption	**89.9**	**81.1**
Public sector	17.5	17.3
Private sector	72.4	63.8
Gross domestic investment	**24.7**	**26.0**
Public sector	6.7	9.2
Of which		
Central government	5.8	7.4
Private sector	18.0	16.8
Gross domestic expenditure	**114.6**	**107.1**
Balance of goods and nonfactor services	**-14.6**	**-7.1**
Exports of goods and nonfactor services	58.4	64.6
Imports of goods and nonfactor services	73.0	71.7
Memorandum items:		
Current account deficit	14.5	11.3
Foreign direct investment	11.0	8.9

3. **The structure of production changed substantially in the last two decades.** The share of agriculture in GDP declined to below 7 percent in the early 2000s, from an average of 14 percent during the1980s. This decline was largely the result of a gradual reduction in banana production, which fell from about 10 percent of GDP to about 3½ percent during the 1990s, mirroring the ongoing loss of preferential trade access to European markets that started in the mid-1990s. Exports of tourism services, in contrast, increased from 24 percent of GDP in the 1980s to about 40 percent in recent years.



4. **Persistent high unemployment points to rigidities in the labor market and in wage setting mechanisms.** Although only 16 percent of the labor force is unionized (Annex I), the unions' influence in wage-setting is deemed to be important as labor in nonunionized firms reportedly align themselves with labor unions on wages negotiated in unionized firms. Although there are indications of a marginal feedback from the unemployment rate on wage settlements, available data indicates that the average real wage per worker in the private sector rose by about 25 percent between 1992 and 2002, despite essentially flat productivity and persistent high unemployment (18 percent of the labor force on average).[1 2] These factors suggest that rigidities in the labor market stand in the way of higher employment. The youth unemployment rate, in particular, is twice the average rate. Unemployment is also reported to particularly affect redundant workers in the



[1] Source: Insurable Earnings of Active Insured by Gender, National Insurance Corporation (NIC). There is a negative correlation between wage growth and lagged changes in the unemployment rate. Data limitations call for caution in analyzing labor market developments. The Central Statistical Office is currently working on improving labor market data by way of surveys of wages and employment conditions.

[2] Productivity is measured as real GDP per employed person. Direct productivity measures are not available.

banana sector, which highlights the social dimension of the retrenchment associated with the change in output structure.

5. **Expansionary fiscal policies were pursued after 1999 in an attempt to revive growth and reduce unemployment, resulting in a steady rise in public debt.** The consolidated public sector deficit widened from 0.7 percent of GDP on average during 1990–99 to 4.6 percent during 2000–03. This reflected a rise in the central government deficit, with the rest of the nonfinancial public sector remaining broadly in balance.[3] While revenue remained relatively stable on average, the fiscal deterioration stemmed mainly from increased current expenditure, leading to a deepening structural deficit. As a result of the worsening fiscal position and weakening GDP growth, public debt rose steeply, from 39 percent of GDP in 1999 to an estimated 65 percent in 2003. Most of the increase in debt was to foreign commercial banks, as the government undertook long-term borrowing to take advantage of lower interest rates abroad. Consequently, public external debt nearly doubled, from 25 percent of GDP in 1999 to 48 percent of GDP in 2003.

Contributions to Public Debt Accumulation

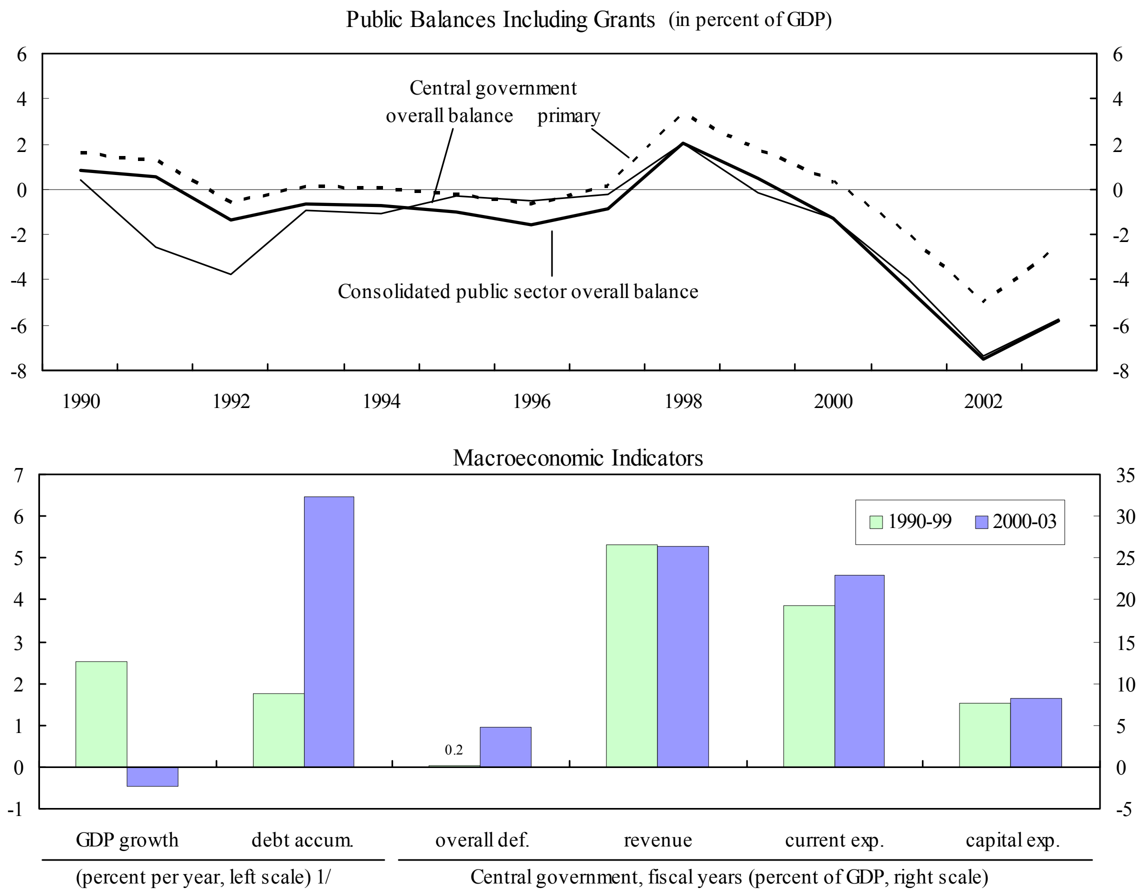
(Annual averages, in percent of GDP)

	Period 1991-99	Period 2000-03	Period 2000-03 Minus Period 1991-99
Public debt accumulation	1.8	6.5	4.7
Contribution of:			
Primary balance	-0.6	1.3	2.0
Interest payments	1.4	2.9	1.5
Real GDP Growth	-0.7	0.3	0.9
Others 1/	1.7	1.9	0.2

1/ Includes valuation changes, debt relief, accumulation of deposits, and the assumption of private sector debt by the public sector.

[3] Measured in fiscal years starting April 1. These measures exclude the National Insurance Corporation, which has been generating surpluses of 2½–3 percent of GDP during the past several years.

St. Lucia: Fiscal Developments
(1990–2003)



Source: St. Lucian Authorities and IMF staff estimates.

1/ The first column refers to the 1991-99 average while the second column refers to the 2000-2003 average. Debt accumulation is percentage points of GDP per year.

Although St. Lucia's fiscal deterioration in recent years was more pronounced than in other ECCU countries its public debt is still well below that of its ECCU partners, reflecting a more favorable starting point.

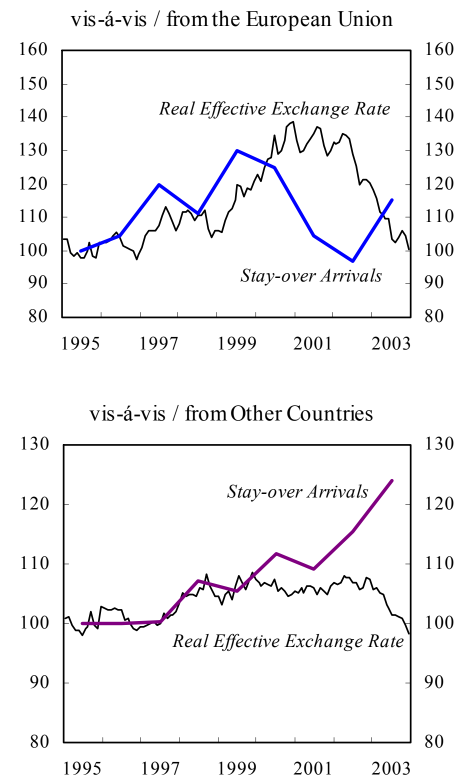
6. **With high nonperforming loans, banking sector prudential indicators are generally weaker than the ECCU average.** Although many nonperforming loans are secured, the process of realization of collateral through the legal system is cumbersome and protracted. As of September 2003, the ratio of nonperforming loans to total loans in commercial banks was 15 percent (the average in the ECCU was about 12 percent). The liquid asset ratio at 22 percent was the lowest in the region (ECCU average was 29 percent).

7. **Prime Minister Kenny Anthony of the St. Lucia Labor Party, in office since May 1997, was comfortably re-elected in December 2001**. However, the rising public debt has become increasingly an issue of public debate. A court ruled in early December 2003 that a loan guarantee extended by the government in connection with the construction of a hotel was illegal, and the guarantee has been criticized by the opposition. Although the government intends to appeal the court's decision, it had to borrow to pay the guarantee.

II. Recent Developments

A. Economic Situation

St. Lucia: Real Effective Exchange Rate and Tourism Developments (Index 1995 = 100)

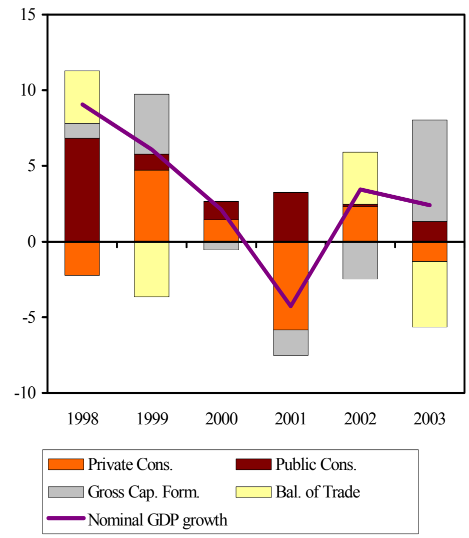


8. **The economic situation remains difficult, as an ongoing recovery in the tourism sector has not spilled over to the whole economy.** Following a large contraction in 2001 (-4.3 percent) associated with a severe drought and a drop in tourism, real GDP is recovering gradually, with an estimated growth of 2.3 percent in 2003. Growth is driven primarily by an expansion in tourism, wholesale and retail trade activities. The recovery in the tourism industry appears to have been strengthened by a depreciation of the real exchange rate vis-à-vis European currencies since early 2002.[4] Led by strong growth in tourist arrivals from Europe and some increase in the number of visitors from the U.S.A., total stay-over arrivals were up by close to 10 percent during January-September 2003. Moreover, hotels have reportedly started reversing some of the discounts offered since late 2001, which should help improve the economic situation of the sector. However, most other sectors remained depressed, as an increase in domestic demand fueled mainly by private investment was largely met through higher imports (see below). The average inflation rate was slightly negative in 2002 (-0.2 percent), and is estimated at around 1 percent in 2003, broadly in line with inflation in partner countries.

[4] An indicator of the real exchange rate measured vis-à-vis the currencies of the countries that represent the main tourism competitors shows a marked appreciation in 2003 (see Figure 1), mostly due to the sharp depreciation of the Dominican Republic peso. This might negatively affect St. Lucia's market share in the Caribbean (data is not yet available to ascertain this).

9. **The current account deficit in 2003 was exceptionally large, owing mainly to substantial one-off private investments in telecommunications.** The current account deficit widened by 6 percent of GDP in 2003, to about 19 percent, as imports surged (by 20 percent) on account of higher expenditure on telecommunications equipment, food and fuel.[5] Notwithstanding a sharp fall in banana exports, overall exports increased by about 12 percent, mostly due to a rise in other merchandise exports and in tourism receipts. Nearly 80 percent of the external current account deficit was financed by foreign direct investment (telecoms and hotels), and the remainder mainly by public sector borrowing.

Breakdown of Demand Growth



Source: St. Lucian Authorities and Fund staff estimates.

10. **With a decline in economic activity and a rise in the unemployment rate since 2001, both public and private sector wages appear to be moderating.** In the civil service wages have been almost flat since 2001. Private sector wages seem to have leveled off in 2002, following a 10 percent real increase in 2000–01. According to the Labor Department, the current moderation went hand-in-hand with an increased ability of employers and unions to arrive at wage settlements without the Department's mediation.

11. **The slowdown in economic activity was also reflected in lower credit flows.** Bank credit to the private sector, mainly to distributive trades and households, declined by 3½ percent in 2003. However, reflecting rising private sector deposits, M2 increased by 3.2 percent in 2002 and is estimated to grow by 4.8 percent in 2003. The ratio of loans to deposits reached a historically low level in September 2003. Faced with excess liquidity, banks reduced lending rates on mortgages and bought assets abroad: foreign assets rose by 24 percent in the year ending September 30, 2003. On the liabilities side, interest rates on time deposits fell below the legally mandated minimum savings deposit rate of 3 percent, and there was a shift from time deposits to more liquid forms of deposit. Commercial banks' profitability has declined owing to higher provisioning of non-performing loans and reduced interest income.

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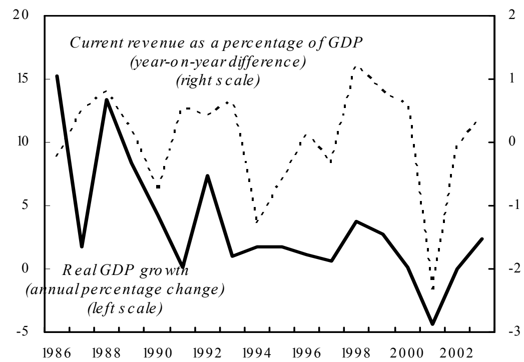
[5] Following the liberalization of telecommunications in 2002, two new entrants in the market for mobile telephony have invested aggressively in establishing a presence in St. Lucia. Total investment in this area was about 6½ percent of GDP in 2003, up from less than 2 percent in 2002.

B. Public Sector Policy

12. **The fiscal deficit has widened further.** The central government overall deficit is estimated to reach 5.8 percent of GDP in FY 2003/04 from 4.9 percent in FY 2002/3. Current revenues are estimated to have increased as a result of the net effect of tax measures and the positive cyclical impact of the ongoing economic recovery.[6] However, rising primary expenditures largely offset those gains, reflecting mainly higher spending on goods and services associated with past capital expenditure. The wage bill and capital expenditure remained broadly unchanged.[7]

Cyclical Pattern of Current Fiscal Revenue, 1986-2003



13. **Progress has been mixed on public sector reforms. Measures taken in FY 2002/03 included** :

- Initial steps to enhance the pension system's long-term viability, including raising by one year the retirement age and by two years the minimum years of contribution to the system.[8]

- Gradual reform of the financing of civil service pensions. Beginning March 2003 newly hired civil servants contribute to the National Insurance Corporation (NIC); the unfunded civil service pension scheme remains in existence under a grandfathering clause.

- Selection in September 2003 of a steering committee, comprised of representatives from the public and private sector, to examine the administrative, legal and technical arrangements

Central Government Operations 1/
(In percent of GDP)

	FY00/01	FY01/02	FY02/03	FY03/04	
	Actual	Actual	Actual	Budget	Est.
Current revenue	26.4	24.1	24.0	24.6	24.4
Grants and capital revenue	0.6	1.6	2.0	3.6	2.2
Current expenditure	21.0	22.5	22.9	25.0	24.4
Current balance	5.5	1.6	1.1	-0.4	0.0
Capital expenditure	7.3	7.6	8.0	18.6	8.0
Noninterest total expenditure	26.7	27.7	28.4	41.2	29.1
Primary balance	0.3	-2.0	-2.4	-12.2	-2.5
Overall balance (after grants)	-1.3	-4.4	-4.9	-15.4	-5.8

1/ Excluding a one off outlay in FY2002/03 (2.6 percent of GDP), broken down as 0.8 percent of GDP (current transfer) and 1.8 percent of GDP (capital transfer). This outlay resulted from the payment of the guarantee granted to a group of private investors for the construction of a large hotel, which was liquidated in 2002.

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[6] New taxes were levied on cell phones calls and airport arrivals, and consumption taxes and the custom service charge were raised. Revenue-reducing measures include, among others, a partial waiver of stamp duties for mortgage refinancing, and a reduction in excise taxes on motor vehicles.

[7] The execution rate of the capital budget has historically been in the range of 40–45 percent.

[8] Under the pension reform plan, the retirement age and the minimum contribution period will be gradually raised by 5 years over a 15-year period, to 65 and 15 years, respectively. Since June 2003, the retirement age and the minimum contribution period have been 61 and 12 years, respectively.

for the establishment of a unified Revenue Authority.[9]

However, much-needed private sector involvement in the Water and Sewerage Company (WASCO) was delayed, which threatens to worsen a nascent water supply constraint. No decision has yet been taken to introduce a VAT, as recommended by the OECS Tax Reform and Administration Commission to streamline and harmonize the indirect tax system.

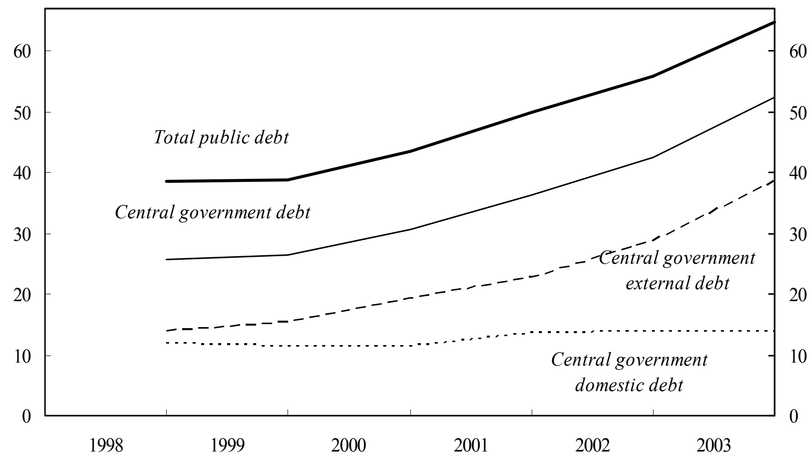
C. Financial Vulnerabilities

14. **The rise in public debt accelerated in 2003, with a large increase in external borrowing from commercial banks.** In late 2002 and early 2003 the authorities undertook two large borrowing arrangements with banks in Trinidad and Tobago totaling EC$232 million. About half of this amount was used to refinance short- and medium-term debt to take advantage of low international interest rates. Consequently, the average interest rate on public debt remained relatively low (about 6½ percent) despite the declining reliance on low-interest financing from official creditors. With borrowing in excess of the deficit, the government built up deposits at foreign commercial banks (close to 3 percent of GDP at end-2003). Public debt relative to GDP at-end 2003 exceeded for the first time the benchmark agreed by the ECCB Monetary Council (60 percent) on central government debt.

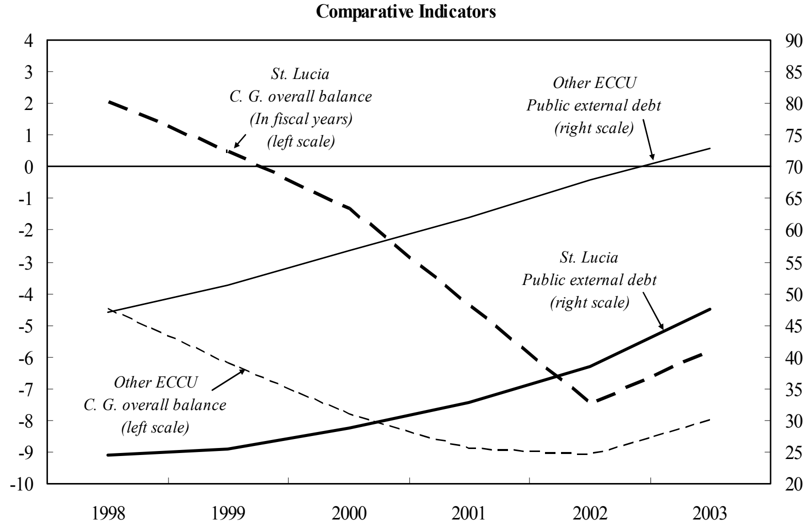
[9] The main objectives of the Revenue Authority will be to rationalize the operations of the Customs and Inland Revenue Departments and increase the effectiveness of technical activities resulting from the synergy of the merged agencies, such as audit and collection.

St. Lucia: Public Debt and Fiscal Balance Indicators
(1998–2003)
(In percent of GDP)

Public and Central Government Debt



Comparative Indicators



Source: Country Authorities and IMF staff estimates

15. **Given St. Lucia's vulnerability to exogenous shocks, fiscal and financial indicators point to significant risks.** St. Lucia is highly vulnerable to global economic and security conditions, as experienced after September 2001, and weather (drought in 2001, tropical storm in 2002) adds to the volatility of output. In this context, the steadily rising public debt and the associated debt service increase the risk of financing difficulties.

However, some progress was made in 2003 in strengthening the banking sector. While the exposure of banks to the public sector remained limited (around 9.4 percent of assets), high nonperforming loans prompted banks to increase provisioning for loan losses in line with ECCB prudential regulations.

Compliance with Proposed Central Government Fiscal Benchmarks 1/

(In percent of GDP, unless otherwise indicated)

Convergence Criteria	Status 2003/04
Current balance (guideline: 4-6 percent of GDP)	0.0
Overall balance (guideline: at least -3 percent of GDP)	-5.8
Government and government guaranteed debt outstanding (guideline: no more than 60 percent of GDP)	64.7
Debt service payments 1/ (guideline: no more than 15 percent of current revenue)	17.1

1/ Excludes domestic debt amortization

III. Policy Discussions

A. Overview

16. **Over the past several years, the Fund's policy advice to St. Lucia has centered on the need to strengthen public finances by curtailing budgetary expenditures and raising revenue.** In the 2002 Article IV consultation, Directors urged strong adjustment measures to curtail the growth of public debt. They emphasized the importance of expenditure restraint, especially on wages, and recommended steps to broaden the tax base, such as a reduction in tax concessions. While agreeing with the thrust of the recommendations, the authorities stressed the need to implement policies in a manner that minimizes the adverse consequences for growth, employment, and social cohesion. They noted that the present government was re-elected in 2001 with a mandate to upgrade social infrastructure and services. With high unemployment and few alternative employment opportunities for displaced workers in the banana sector, there is strong demand by the population for an active role of the government in restoring growth and creating employment opportunities with increases in current spending and investments in social infrastructure.

17. **The staff took the view that in order to achieve sustained rapid growth, St. Lucia's principal challenges were to invigorate private sector growth, reduce public debt, and preserve macroeconomic stability**. To enhance private sector growth, the mission recommended policies to provide a conducive business environment and avoid ad-hoc financial incentives. Staff emphasized that the high and rising public debt called for a strong upfront fiscal adjustment: reducing debt to below 60 percent of GDP by FY 2008/09,

consistent with the benchmarks agreed by the ECCB Monetary Council, will require a swing of 7 percentage points of GDP in the primary balance in the next five years. Staff pointed to the importance of fiscal prudence to preserve macroeconomic stability and the currency board arrangement. It also warned that in the current difficult environment, adverse developments in another ECCU country could spill over to the rest of the region through pressures on the banking system or disruptions to access of capital markets.

18. **While the authorities agreed with staff on the need for fiscal consolidation, they were concerned that a significant fiscal retrenchment at this juncture could undermine the economic recovery.** They stressed that expansionary fiscal policies were justified given the severity of the external shocks that have hit St. Lucia in the past few years, in particular the erosion of preferential market access to the EU for agricultural products. The authorities also felt that large tax incentives were necessary to meet the competition from neighboring countries and attract investment. Nonetheless, faced with the increase in public debt and recurrent costs stemming from past capital outlays, they recognized the need to contain the accumulation of debt through fiscal adjustment. They saw room for cutting capital expenditure and resisting labor unions' demands for wage increases, but remained noncommittal with regard to other specific measures.

B. Growth and Competitiveness

19. **Given the currency board arrangement, labor market flexibility and input costs reductions are key to enhancing competitiveness.** The staff noted that weak growth performance after the 1980s could be explained only partially by negative exogenous shocks, and stressed that in the key tourism sector competitor-based measures of the real exchange rate indicated a loss of competitiveness vis-à-vis non-ECCU Caribbean destinations. It recognized that there is a strong political commitment to the currency board in the ECCU. In this context, staff stressed that labor market rigidities and high input costs should be addressed. These factors put an excessive burden on fiscal policy in sustaining employment, as reflected in particular in the large tax concessions granted to investors.

20. **St. Lucia's economic growth hinges on wage restraint in the public and private sector, structural reforms, and productivity increases.** Staff emphasized the importance of pursuing labor market reforms and structural policies aimed at reducing production costs, raising skills, and enhancing labor market flexibility, in particular in the context of the Labor Code currently under review. The authorities agreed on the importance of containing costs and pointed to their efforts to lead the way toward moderation in wage increases.

21. **The mission recommended fostering a business environment conducive to private sector-led growth.** It recommended a number of measures, including: (a) limiting tax exemptions, which should be phased out, have an expiration date, and be subject to a cost and benefit analysis of their impact on employment, growth, and fiscal balances; (b) streamlining administrative obstacles affecting new investors, by way of setting up a "one-stop-shop"; (c) increasing regulatory transparency; (d) reducing stamp duties;

(e) privatizing the Marketing Board;[10] and (f) assisting private businesses in training employees. The authorities concurred that the private sector had a large role to play in fostering growth. They pointed to ongoing efforts at supporting private businesses by the Office of Private Sector Relations (OPSR), in particular through the Business Upgrading Program, which focuses on technical assistance to businesses in marketing and human resources development. Noting the authorities' concern about the high costs of tax incentives, staff strongly supported the authorities' intention to carry out a statistical breakdown of the various tax incentives, with a view to better streamlining and phasing them out.

Box 1: Growth Prospects

The declining trend of economic growth and persistent high unemployment observed over the past decade suggests that structural impediments are holding back growth. For the last several years, St. Lucia's economy has registered a lower rate of economic growth compared to other ECCU countries. Exogenous shocks, in particular the reduction in preferential market access for banana exports and the drop in tourist arrivals following September 11, 2001, have contributed to the slowdown. Growth has also decelerated in neighboring countries facing similar circumstances. Nevertheless, these factors explain only part of the reduction in average annual GDP growth since the 1980s. The country's comparative advantage appears to lie in exploiting its natural beauty and its proximity to major tourist markets, and it would be crucial to remove obstacles to the expansion of this sector and strengthen its links with the rest of the economy.

Other factors that are likely to be holding back growth include:

- **Labor Market**. Labor market data are sketchy, but productivity is reportedly low, and wages in the private sector have until recently continued to increase despite economic stagnation and high unemployment. These factors suggest a need for improving skills and enhancing labor market flexibility.

- **Agriculture.** The difficulties of the banana industry need to be addressed by facilitating movement into more productive sectors with better growth prospects. Banana output is unlikely to increase much from its current level, and public funds used to encourage production have had low rates of return. Nonbanana agriculture shows more promise, especially produce for hotels and restaurants, but supply and marketing arrangements function poorly.

- **Tourism.** Hotels claim that operating costs are high and productivity of local workers is low. Electricity is especially expensive, and the water and sewerage infrastructure is often inadequate.

- **Business Environment.** The private sector reports that cumbersome administrative procedures and high stamp duties are excessively onerous and stifle new investment. Stopping the policy of "picking winners" through discretionary tax concessions and phasing out large tax incentives would create a more level business environment, stimulate competition, and reduce inefficiencies.

- **Regional Integration.** Trade with neighboring countries remains limited, with high transportation costs, cumbersome customs procedures, limited use of joint training facilities, and differing tax systems. More regional integration would allow for greater specialization and increased economies of scale.

[10] The Marketing Board is a government agency involved in the importation and trade of certain goods, mostly basic staples deemed to be essential. It does not have a monopoly in these activities.

22. **Tourism has played a pivotal role in the expansion of St. Lucia's economy, and is likely to remain the main source of future growth.** Staff presented specific recommendations to enhance the efficiency and cost competitiveness of the tourism industry. This included: (a) reviewing the regulatory framework governing the electricity sector to reduce costs; (b) restructuring WASCO to allow needed investments in water and sewerage infrastructure; (c) maintaining the quality of hotels and tourism facilities, and improving air travel access; (d) conducting a cost-benefit analysis of tax incentives in the tourism industry; and (e) increasing the local value added from cruise ship tourism. On the issue of costs, the authorities doubted that the wage level was threatening the competitiveness of the tourism industry, on the ground that tourism services targeted the higher end of the market which was less subject to price competition. However, they recognized that smaller hotels were suffering from competition from cheaper destinations, and agreed with the mission on the need to improve the performance of utilities, by restructuring the water company, possibly with World Bank technical assistance, and bringing down electricity costs.

23. **Developing the linkages between the tourism and agricultural sectors would lower operating costs in the tourism sector and provide a stable source of income to farmers.** Although the share of the banana sector in GDP is less than 3 percent, it still accounts for a significant share of employment (about 10 percent in recent years), and therefore is important from a social and political point of view. The sector will face increased competitive pressures following the replacement of the current quota by a tariff for accessing the EU market expected by 2006, which casts a large uncertainty on its future.[11] However, as the climatic and soil conditions are favorable to farming, there appears to be scope for diversifying agricultural production. The authorities noted that greater diversification depended on better access of the farmers' products to international markets and strengthened linkages with domestic industries. The mission encouraged the authorities to improve marketing arrangements and supported the formation of farmers' cooperatives in order to secure a reliable supply of farm products to hotels.

24. **While recognizing the benefits of regional integration, the authorities favored a gradual approach preserving the country's autonomy.** The mission expressed the view that regional integration (through the OECS, CARICOM, and the FTAA) has potential benefits mainly by bringing a more efficient allocation of resources, economies of scale, and higher productivity. It therefore recommended that member countries step up their efforts towards reaching common targets in trade, financial and fiscal policies and achieving free movement of goods and services and labor.[12] The mission pointed, among others, to the

[11] Banana production is projected by staff to grow by 15 percent in 2004 from the exceptional low level in 2003, and remain flat after 2004. This would leave output at about half the level of the late 1990s.

[12] In the gradual process toward regional integration, St. Lucia has implemented legislation facilitating the free movement of persons within OECS and CARICOM. St. Lucia has also, along with the other OECS countries, introduced a new system for alien landholding licenses

(continued)

benefits associated with lowering transport costs and establishing joint education centers and coordinated tax and customs procedures. The authorities broadly supported greater regional integration, while noting the need to avoid uniformity, as countries should retain the possibility to adopt measures geared to their own specific circumstances. They further cautioned that regional integration required well thought-out preparations.

C. Ensuring Fiscal Sustainability

25. **To address the high and rising debt levels, the mission recommended a strong upfront fiscal adjustment followed by further consolidation in the medium-term.** According to staff projections, public debt would reach close to 90 percent of GDP by FY 2008/09 under current trends, and interest costs would reach nearly 5 percent of GDP (assuming no rise in interest rates). This would likely undermine domestic and external investors confidence and reduce growth (Box 2, bottom figure). Bringing debt back to less than 60 percent by FY 2008/9 would require a strong upfront fiscal adjustment, as a delayed effort would entail a very high primary balance adjustment to reach the ECCB debt guideline in the latter years. Staff projections indicate that the primary balance needs to improve by about 5 percent of GDP in the next two years, and by an additional 2 percent over the subsequent three years, to bring debt below 60 percent of GDP by 2008 and set it on a declining trajectory. In combination with an accelerated pace of structural reforms, boosting investor confidence and improving the business climate, this scenario projects annual GDP growth rising above 3 percent over the medium term (Box 2, top figure).

26. **The authorities favored a much more gradual adjustment.** They agreed with the staff on the need to address the issue of rising debt, which they said was also a cause for concern at the ECCB. However, they underscored that the expansionary fiscal stance was an appropriate response to weak growth, which would over time give way to fiscal consolidation as the recovery became firmly established. To illustrate the effects of a more gradual adjustment path, the staff developed a medium-term scenario that would stabilize debt at around 70 percent of GDP. While this would still require a substantial swing in the primary balance of about 5 percent of GDP in the next 5 years, it would nevertheless pose risks if faced with unanticipated new shocks. The staff therefore strongly recommended policies to set the debt-to-GDP ratio on a firmly declining path, as embodied in the more ambitious scenario. It pointed out that, with imports representing more than 40 percent of St. Lucia's aggregate demand, even in the short-run the fiscal adjustment would unlikely lead to a large contraction of GDP and employment.

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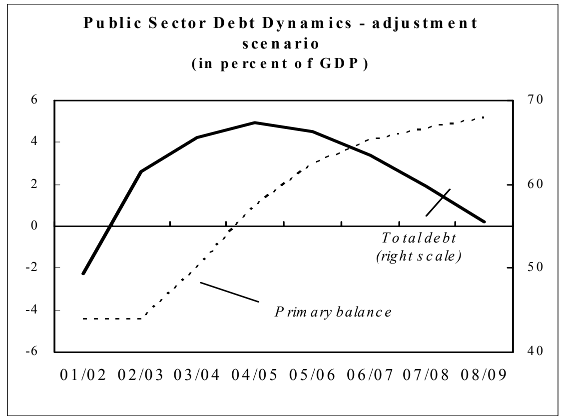
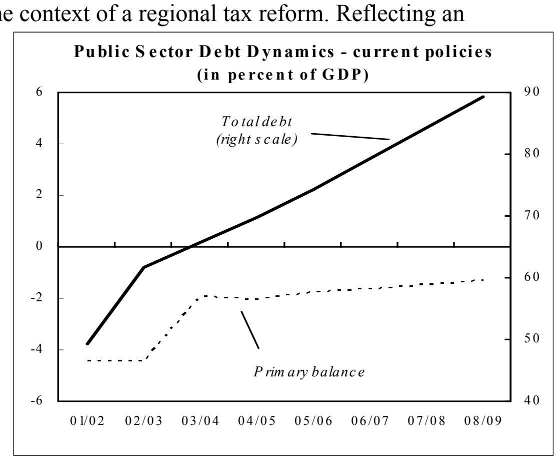
to allow citizens of one country to buy land in another. The authorities reported no outstanding issues regarding compliance with the end-2003 target date for the free movement of goods and services within the OECS.

Box 2. Medium-Term Outlook Under Alternative Fiscal Scenarios

Fiscal projections to FY 2008/09 were prepared by the staff. A strong adjustment scenario assumes the adoption of upfront fiscal measures and structural reforms starting in FY 2004/05; and a baseline scenario is based on unchanged policies.



The strong adjustment scenario targets a reduction in public debt, from 66 percent of GDP in FY 2003/04 to about 55 percent, by raising the primary balance by 5 percent of GDP in the first two years and an additional 2 percent over the subsequent three years. Actual capital outlays would be scaled back upfront by 2 percent of GDP, to contain the growth of associated recurrent expenditure and borrowing; spending on current goods, services and transfers would be cut gradually (by 2 percent of GDP); and the wage bill would be reduced by about 1 percent of GDP in the context of civil service reform. Tax revenue would increase by 2½ percent of GDP by FY 2008/09. Revenue measures would include reducing tax exemptions; widening the tax base; increasing the progressivity of the income tax; raising the property tax; streamlining tax administration, and adjusting domestic fuel prices. A VAT would be introduced in the context of a regional tax reform. Reflecting an improved business climate, private investment would increase, and output growth reach around 3½ percent a year.



Under the baseline scenario, no adjustment of policies is assumed. Primary deficits are assumed to remain at 2½ percent of GDP, which would raise public debt to about 90 percent of GDP by FY 2008/09. The uncertain outlook associated with the large debt overhang would constrain growth to 1 percent a year in this scenario.

Debt sustainability analysis underscores the vulnerabilities stemming from high debt in St. Lucia's shock-prone environment. Stress tests point to the potentially negative impact of various shocks of an average magnitude (Tables 9–12). They show that exogenous shocks could substantially raise the debt level (above 100 percent under current policies). While gross financing needs appear manageable in the strong adjustment scenario, financing the deficit associated with a continuation of current policies could become difficult. Under current policy, gross financing needs could reach 20 percent of GDP in 2008, and markedly more in the event of an adverse shock.

27. **The necessary fiscal adjustment will require both revenue and expenditure measures.** The staff welcomed the authorities' plans for holding public discussions about a comprehensive medium-term tax reform, and urged that such a reform be implemented as soon as possible (see below). A recent FAD report recommended a range of near- and medium term revenue measures (Box 3). The mission underlined that, in addition to adopting these revenue measures, the authorities should implement expenditures cuts to achieve the necessary adjustment. The wage bill as a share of GDP should be gradually reduced, and public sector wage increases should be based on performance, as recommended in the government's blueprint for civil service reform. Spending on goods, services, and transfers should be contained to reduce the cost of providing public goods. Actual capital outlays should be scaled down with immediate effect, to contain the growth of associated recurrent expenditures and borrowing. Moreover, public investment should be prioritized and directed to support private sector-led growth.

Box 3. St. Lucia : Tax Reform

FAD/CARTAC missions visited the ECCU member countries during the period October–December 2002, and made region-wide and country-specific recommendations for tax reform with the objective of creating a tax system that is efficient, equitable, and administrable and provides adequate and stable revenues. The OECS Tax Reform and Administration Commission made recommendations along similar lines. During the 2003 Article IV consultation mission, staff discussed these recommendations with the St. Lucia authorities, and identified policy measures to enhance revenue collection in the near- and medium term. Key recommendations included:

- Replace existing domestic consumption taxes with a value-added tax (VAT), supplemented by a modern system of excises. This reform, which should be carried-out at a regional level, would allow the reduction of import duties and facilitate reduction of tax incentives as well as indirect tax concessions;
- Award tax concessions only with the strict interpretation of existing legislation, and seek to repeal acts authorizing tax incentives. Do not renew income tax holidays and cease granting new ones;
- Reform the taxation of petroleum and its price adjustment mechanism, by removing price controls from petroleum products and converting the current consumption tax on petroleum to an excise at a specific rate;
- Strengthen property taxation by basing tax valuation on the market value of property and updating valuations on a regular basis;
- Create a unified Revenue Authority to coordinate the operations of the tax and customs administrations;
- Widen the tax base and increase the progressivity of the personal income tax.

Proposed Upfront Fiscal Adjustment Scenario

(as percent of GDP at market prices)

	Est.	Upfront adjustment period			Changes from 2003/04	
	2003/04	2004/05	2005/06	2008/09	2005/06	2008/09
Total revenue and grants	26.6	26.7	27.6	28.4	1.0	1.8
Current non-interest expenditure	21.1	20.2	19.2	17.7	-2.0	-3.4
Capital expenditure	8.0	6.0	6.0	6.0	-2.0	-2.0
Total non-interest expenditure	29.1	26.2	25.2	23.7	-4.0	-5.4
Primary balance	-2.5	0.4	2.4	4.6	4.9	7.2
Total balance	-5.8	-3.1	-1.1	1.7	4.7	7.5
Memorandum items:						
Central government debt, percent of GDP	52.7	54.7	54.0	44.8	1.3	-8.0
Public debt, percent of GDP	65.7	67.3	66.3	55.5	0.6	-10.2
Real GDP growth rate, percent change	2.3	1.0	2.0	3.5	...	...

28. **The authorities concurred with the staff that expenditures should be rationalized, the implementation of capital projects slowed down, and revenue collection strengthened.** They remained, however, noncommittal on specific measures and a timetable of implementation. The authorities stressed current efforts in the area of tax administration, in particular the creation of the Revenue Authority, and indicated their intention to review the taxation of petroleum products. They expressed satisfaction with the

technical assistance provided by CARTAC to strengthen economic institutions and improve statistics. They also pointed to the importance of the newly-created debt and investment unit as a mechanism to enhance debt management. With regard to tax reform, the Cabinet endorsed the conclusions of the OECS Tax Reform and Administration Commission report, and intends to make the report available to the public for consensus building as to whether to introduce a VAT. The authorities agreed with the report's recommendation that ECCU countries should implement the new tax system in a concerted way. However, they argued that introducing the VAT was not a national priority, given St. Lucia's comprehensive tax system, which includes a personal income tax (unlike in Antigua and Barbuda and St. Kitts and Nevis). The staff urged the authorities to take a regional approach and accelerate the move to a VAT, noting the long lead-time typically needed to implement such reforms.

29. **Staff stressed the need to develop a contingency plan in case access to financing is suddenly diminished or if a natural disaster creates large additional financing needs.** Data provided to the mission indicate that projected financing needs through end-2004 (about US$62 million) are largely secured (including from official creditors). However, staff pointed out that unanticipated financing constraints could emerge if the central government deficit was not reduced as recommended, or if adverse developments in another country spilled over to the rest of the region. Staff recommended identifying public expenditures that could be postponed or cut and other potential sources of financing.

Projected Public Sector Financing Needs, 2004

	Q1	Q2	Q3	Q4	Year
(In millions of U.S. dollars)					
Scheduled debt service	9.3	12.4	15.4	27.1	64.1
Interest and fees	6.7	7.8	6.7	7.8	29.0
Domestic	2.0	3.0	2.3	2.6	9.8
External	4.7	4.8	4.5	5.2	19.2
Amortization	2.6	4.6	8.6	19.2	35.1
Domestic	0.6	0.8	0.6	15.1	17.1
External	2.0	3.8	8.0	4.2	18.1
Public sector overall deficit 1/	...	...	...	...	26.9
Gross financing needs 2/	...	...	...	...	62.0
Scheduled debt disbursements	...	...	...	...	55.7
Domestic	...	...	...	...	9.4
External	...	...	...	...	46.3
Official	...	...	...	...	40.3
Private	...	...	...	...	6.0
Financing still to be identified	...	...	...	...	6.3
(In percent of GDP)					
Scheduled debt service	...	...	...	...	9.1
Public sector overall balance 1/	...	...	...	...	-3.8
Gross financing needs 2/	...	...	...	...	8.8
Financing still to be identified	...	...	...	...	0.9

Source: St. Lucian Authorities and Funds staff estimates.

1/ Strong adjustment scenario.
2/ Defined as overall deficit plus scheduled amortization.

D. Financial Sector Vulnerabilities

30. The authorities concurred with the staff that measures were required to reduce vulnerability in the financial sector and improve the health of the banking sector. In line with the recommendations of the recent regional FSAP mission, the staff underscored that reducing further the high level of nonperforming loans in the domestic banking sector should be a priority.[13] The authorities should continue to work closely with the ECCB in putting in place the necessary supervisory mechanisms, including more frequent on-site inspections, and ensuring compliance with the Basle Core Principles. The staff welcomed the authorities' intention to proceed with the divestiture of government shares in the Bank of St. Lucia. It recommended that the supervision of St. Lucia's offshore sector should be further strengthened, including by tightening and stepping up enforcement of AML/CFT regulations.

IV. Staff Appraisal

31. **The economy has started to recover, but prospects for sustained growth and unemployment reduction remain uncertain.** The factors that accounted for the slow growth and high unemployment in the 1990s still exist, and there are few indications of vibrant private investment prospects. In this context, high and persistent unemployment poses a major social and political challenge, stemming in particular from the difficulty of absorbing retrenched banana farmers in other activities.

32. **The pursuit of expansionary fiscal policy in a period of low growth has sharply raised public debt levels.** Faced with a downturn after 1999, the authorities increased public spending, although the impact of countercyclical fiscal policies is limited by the openness of St. Lucia's economy. The wider fiscal deficits have sharply raised public debt, to over 65 percent of GDP at end-2003.

33. **Structural reforms to invigorate private sector-led growth would yield long-term benefits**. The authorities should step up their efforts at removing cumbersome administrative procedures and providing a conducive business environment. Costly tax incentives to attract investment should be closely monitored, and reduced, preferably in a regional context. Efforts at lowering input costs and raising labor productivity would yield large long-term benefits, in particular in the tourism industry, St. Lucia's area of natural comparative advantage. Given the currency board arrangement, reaping these benefits will require continued wage restraint in the public and private sector and a flexible labor market. In this context, the staff encourages the authorities to restructure the water company, seek a reduction in electricity costs, and support agricultural diversification to feed the tourism

[13] Details on the FSAP recommendations are given in the staff report on the 2004 regional surveillance in the ECCU.

industry. Regional integration would also contribute to enhanced efficiency through economies of scale.

34. **Priority should be given to carrying out a strong upfront fiscal adjustment and continued moderation in expenditures in the medium term.** The rising debt-to-GDP ratio raises concern about fiscal sustainability. The staff welcomes the authorities' intention to slow debt accumulation through spending restraint, including a reduction in capital outlays, and supports their strategy of wage moderation in the civil service. However, the needed reduction in public debt to mitigate the country's vulnerability and meet the ECCB benchmark requires a large improvement in the primary balance over the next few years. To ensure this, the staff urges additional steps to contain current expenditures, accelerated tax reform, and stepped-up establishment of the Revenue Authority. In this context, the staff welcomes the authorities' intention to broaden public support to tax reform by circulating the report by the OECS Tax Reform and Administration Commission for public discussion.

35. **Given its importance in the regional economy, St. Lucia should lead the way in demonstrating fiscal restraint and supporting macroeconomic stability under the currency board arrangement.** Although ECCB fiscal guidelines are not binding in ECCU member states, collective prudence is required, as adverse developments in another ECCU country could spill over to the rest of the region. In this context, it is also important that the authorities plan fiscal contingency measures to reduce unanticipated financing needs.

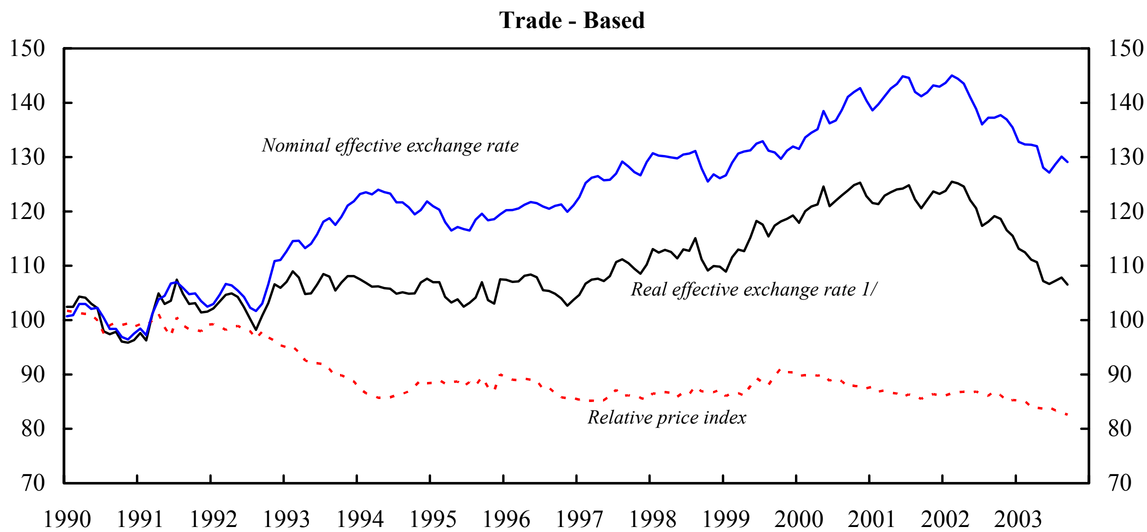
36. **Commercial banks' focus on reducing nonperforming loan portfolios is appropriate under current circumstances.** Faced with the highest level of nonperforming loans in the ECCU, St. Lucia banks are appropriately increasing their provisioning for loan losses in line with ECCB prudential regulations, and exercising caution in new lending. The staff welcomes the authorities' intention to continue to work closely with the ECCB to address the issue. It also encourages the authorities to complete divestiture from the Bank of St. Lucia, and ensure adequate supervision of the offshore sector.

37. **Strengthening statistical collection, analysis, and reporting is essential.** While some progress is being made to strengthen economic institutions with CARTAC assistance, the consistency and timeliness of fiscal, external, real sector, labor market and debt data need improvement. The authorities are encouraged to enhance reporting under the GDDS, and seek technical assistance through CARTAC and other donors.

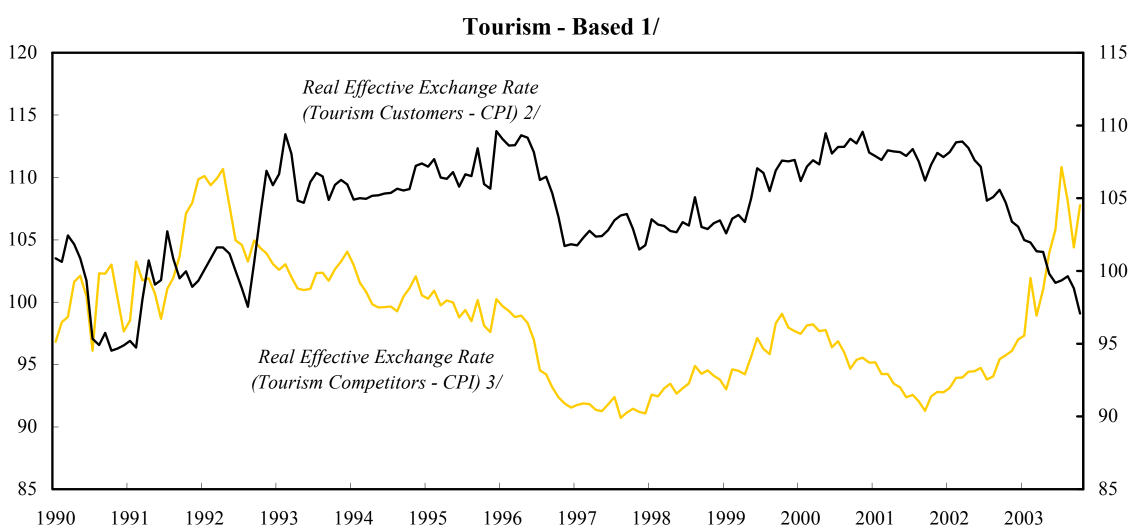
38. St. Lucia maintains an exchange restriction, arising from the requirement that arrangements for the clearance of any tax arrears be made before profit remittances above a threshold can be made. A timetable has been set for removing this restriction. Fund approval for its retention until July 31, 2004 is proposed.

39. It is proposed that the next Article IV consultation be conducted within the next 12 months.

Figure 1. St. Lucia: Real Effective Exchange Rate



1/ The real effective exchange rate is estimated as a trade-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices. An increase means an appreciation.



Sources: IMF Information Notice System; and staff estimates.

1/ For real effective exchange rate indices. An increase (decrease) indicates an appreciation (depreciation).

2/ Weighted average of CPI in a common currency. Customers: Canada, UK, USA. Weights are based on proportion of tourists arriving from each country in 2001.

3/ Weighted average of CPI in a common currency. Competitors: Bahamas (23.4%), Barbados (8.0%), Dominican Republic (43.5%), Jamaica (19.4%), Trinidad and Tobago (5.7%). Weights are based on the share of tourism arrivals to the Caribbean in 2000.

Trade Unions and Collective Bargaining in St. Lucia[1]

Presently labor laws are found in separate acts or pieces of legislation. However, recently, the Government of St. Lucia decided to consolidate, update and amend all labor legislation, with the participation of all social partners.

There is no national legal minimum wage. However, the wages regulations order of 1985 stipulates minimum wages for certain categories of workers. Labor Department statistics indicate that workers in several categories receive wages double that of the legal minimum wage, while those in the rural areas tend to be much closer to the legal minimum.

According to the authorities, trade unions have a significant part to play in the determination of wages and a much lesser role in determining the level of employment. The wages and other conditions of employment in respect of public sector are carried out through a collective bargaining process. It is generally not compulsory for individuals to get representation in order to obtain employment. There is a tendency for an increase in union representation given the introduction of the Registration Status and Recognition of Employees and Employer Organizations Act No. 42 of 1999, which guarantees compulsory union recognition. Union membership accounts for about 16 percent of total employment, broken down as follows:[2]

National Workers Union	3,575	(5.7)
Civil Service Association	2,450	(3.9)
Teachers' Union	1,724	(2.7)
Seamen Union	1,220	(1.9)
Vieux Fort Dock Workers Union	740	(1.2)
St. Lucia Worker's Union	250	(0.4)

[1] Information provided by the St. Lucia authorities.

[2] List may not be fully exhaustive; percentage of total employment in parenthesis.

Recognized trade unions in the public and private sector enter into negotiations with employers on behalf of employees. In the event of difficulties in reaching settlements, the Labor Department has usually been successful in assisting employers/unions arrive at mutually acceptable settlements. Otherwise, the matter is referred to the Minister of Labor who makes a further attempt at bringing about a resolution. While a number of wage disputes have been settled in this way in recent years, more realistic wage demands in the current economic downturn seem to have allowed employers and unions to arrive at wage settlements internally more easily, typically for a period of 2–3 years.

The majority of wage negotiations are decentralized at the firm level. Public sector negotiations, however, are conducted by an ad hoc "*umbrella*" group, which comprises National Workers Union, St. Lucia teachers Union, Civil Service Association and Vieux Fort Dock Workers Union.

Employers have some flexibility in adjusting hours worked to the firm's level of activity. It is customary in St. Lucia for an employer to lay off an employee for up to twelve consecutive weeks in the event of an economic downturn and/or reorganization of business. The period of lay-off does not interrupt the continuity of employment, and employees may be recalled at any point during the twelve-week period. If however, the employer is unable to re-instate the employee after the twelve-week period, the employee would be considered dismissed and can submit a claim for redundancy pay.

Table 1. St. Lucia: Selected Economic and Financial Indicators

	1999	2000	2001	2002	Est. 2003	Proj. 2004
(Annual percentage changes, unless otherwise specified)						
Output and prices						
Real GDP at factor cost (index 1998=100)	102.8	102.9	98.5	98.5	100.8	101.8
GDP deflator at factor cost	4.7	2.2	1.3	1.2	0.7	1.0
Consumer prices (end of period)	6.1	0.4	2.1	-0.6	0.5	1.0
Consumer prices (year average)	3.5	3.6	2.1	-0.2	1.0	1.0
Unemployment rate	18.1	16.4	18.1	16.2	...	...
Banana production	-10.7	7.7	-51.6	41.5	-34.8	15.0
Tourist stayovers	3.3	3.6	-7.3	1.3	11.0	3.5
External sector						
Exports, f.o.b. (index 1998=100)	86.5	75.1	76.9	99.2	94.0	101.9
Imports, f.o.b.(index 1998=100)	105.8	105.9	92.2	93.4	119.5	106.5
Travel receipts	1.9	3.3	-12.2	-8.1	15.6	8.5
Terms of trade	7.3	-7.0	-3.9	-6.5	1.7	…
Excluding tourism	7.1	-5.9	1.6	1.2	3.0	…
Nominal effective exchange rate (end of period, depreciation -) 1/	4.6	6.4	1.8	-5.3	-4.7	...
Real effective exchange rate (end of period, depreciation -) 1/	8.5	3.0	0.3	-6.2	-7.6	...
Money and credit 2/						
Domestic assets (net)	10.8	4.7	4.6	4.1	-6.3	...
Credit to public sector (net)	-2.9	-1.8	-2.0	2.5	-2.5	...
Credit to private sector	13.6	8.0	5.1	0.9	-4.1	...
Money and quasi-money	9.7	7.9	4.7	3.2	4.8	
Velocity of money (M2) 3/	1.7	1.6	1.5	1.5	1.4	...
(In percent of GDP, unless otherwise specified)						
Nonfinancial public sector 4/						
Current balance	7.7	7.0	2.8	1.1	1.1	2.4
Of which: central government	6.1	5.5	1.6	0.3	0.0	1.4
Capital outlays	11.4	9.0	8.4	10.4	8.9	7.2
Overall balance (before grants)	-3.5	-1.9	-5.4	-9.4	-7.9	-4.7
Overall balance (after grants)	-0.1	-1.3	-4.0	-7.4	-5.7	-3.2
Of which: central government	0.5	-1.3	-4.4	-7.5	-5.8	-3.1
Overall balance (after grants), including the National Insurance Corporation (NIC)	2.6	0.6	-1.7	-4.4	-2.8	-0.2
Total public sector debt 5/	38.7	43.9	49.4	61.6	65.7	67.3
Of which: central government	26.4	31.0	36.0	48.4	52.7	54.7
External sector						
Current account balance	-12.5	-12.4	-9.0	-12.5	-18.6	-10.3
External debt (end of period) 6/	25.4	28.8	32.8	38.4	47.6	48.0
Debt-service ratio 7/	4.4	5.3	10.4	10.0	8.5	10.2
(In millions of U.S. dollars)						
GDP at current market prices	669.0	683.2	654.0	676.5	692.8	706.7
Gross international reserves of the ECCB, end-of-period	361.4	377.3	441.5	501.9	521.9	...

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

1/ For 2003, 12-month change through November 2003.
2/ Changes in relation to liabilities to private sector at beginning of period.
3/ Nominal GDP at market prices divided by the average stock of money (measured as the simple average of the current period stock and the stock 12-months earlier).
4/ Data are for fiscal years beginning April 1. The nonfinancial public sector is defined here as the central government, the Castries City Council, the St. Lucia Air and Sea Ports Authority, the Water and Sewerage Company, the National Development Corporation, and the Marketing Board.
5/ Includes liabilities to the NIC.
6/ Total public and publicly guaranteed debt.
7/ In percent of exports of goods and services.

Table 2. St. Lucia: Monetary Survey

	1999	2000	2001	Sept. 2002	2002	Sept. 2003	Est. 2003
(In millions of Eastern Caribbean dollars, end of period)							
Net foreign assets	**81.4**	**116.6**	**117.4**	**96.2**	**105.2**	**238.8**	**246.4**
Net (imputed international reserves)	195.6	207.8	235.2	214.9	248.1	286.6	294.5
Commercial banks	-114.2	-91.2	-117.8	-119	-142.8	-47.8	-48.1
Net domestic assets	**1,011.9**	**1,062.8**	**1,116.9**	**1,160.5**	**1,168.1**	**1078.8**	**1,087.9**
Net credit to the public sector	-239.1	-258.4	-281.6	-258.0	-250.7	-256.1	-282.9
Claims on government (net)	-63.8	-85.8	-113.1	-110.1	-96.3	-87.5	-97.4
ECCB net credit to central government	7.9	3.5	10.9	6.9	3.1	3.4	-7.5
Commercial bank net credit to government	-71.7	-89.3	-124.0	-117.0	-99.4	-90.9	-89.9
Net credit to other public sector	-175.4	-172.7	-168.6	-147.9	-154.3	-168.6	-185.5
Credit to private sector	1,394.2	1,481.7	1,541.8	1,561.7	1,553.5	1491.0	1,500.8
Other	-143.2	-160.5	-143.3	-143.1	-134.7	-156.1	-130.0
Money and quasi-money (M2)	**1,093.3**	**1,179.4**	**1,234.3**	**1,256.7**	**1,273.3**	**1317.6**	**1,334.3**
Money	267.6	286.1	283.8	276.6	287.6	298.1	304.9
Currency outside banks	84.1	84.6	82.1	76.0	83.6	79.3	84.2
Demand deposits	183.6	201.5	201.7	200.6	204.0	217.8	222.3
Quasi-money	825.7	893.3	950.5	980.1	985.7	1019.5	1,029.4
Time deposits	292.2	334.7	364.4	327.2	309.6	263.2	255.5
Savings deposits	512.5	551.1	573.3	636.7	652.3	728.4	743.0
Foreign currency deposits	20.9	7.6	12.8	16.2	23.8	27.9	30.9
(12-month change in percent of M2 at the beginning of the period)							
Net foreign assets	**-1.1**	**3.2**	**0.1**	**0.8**	**-1.0**	**11.3**	**11.1**
Net imputed reserves	1.1	1.1	2.3	0.5	1.0	5.7	3.6
Commercial banks NFA	-2.2	2.1	-2.3	0.3	-2.0	5.6	7.4
Net domestic assets	**10.8**	**4.7**	**4.6**	**5.4**	**4.1**	**-6.5**	**-6.3**
Credit to the public sector	-2.9	-1.8	-2.0	2.7	2.5	0.2	-2.5
Credit to the central government	-2.5	-2.0	-2.3	0.7	1.4	1.8	-0.1
Credit to the rest of the public sector	-0.4	0.2	0.3	2.0	1.2	-1.6	-2.4
Credit to the private sector	13.6	8.0	5.1	2.4	0.9	-5.6	-4.1
Other	0.1	-1.6	1.5	0.4	0.7	-1.0	0.4
(12-month percentage change)							
Credit to the private sector	10.8	6.3	4.1	1.8	0.8	-4.5	-3.4
Money and quasi-money	9.7	7.9	4.7	6.2	3.2	4.9	4.8
Money	8.0	6.9	-0.8	6.1	1.3	7.8	6.0
Quasi-money	10.3	8.2	6.4	6.2	3.7	4.0	4.4
Memorandum items:							
Gross international reserves of the ECCB (in US$ millions)	361.4	377.3	441.5		501.9		521.9
Gross international reserves of the ECCB (in EC$ millions)	975.9	1018.8	1192.2		1355.1		1409.1
Nominal GDP	1806.4	1844.7	1765.7		1826.6		1870.5
Private sector deposits	1009.2	1094.8	1152.2		1189.7		1251.7
Private sector deposits/nominal GDP	0.56	0.59	0.65		0.65		0.67
Private sector deposits/Gross international reserves of the ECCB	1.03	1.07	0.97		0.88		0.89
Income velocity of M2 1/	1.72	1.62	1.46		1.46		1.43

Sources: Eastern Caribbean Central Bank; and Fund staff estimates and projections.

1/ Nominal GDP at market prices divided by the average stock of money (measured as the simple average of the current period stock and the stock 12-months earlier).

Table 3. St. Lucia: Summary Balance of Payments, 1999-2008 (Strong Adjustment)

	1999	2000	2001	2002	Est. 2003	Projections 2004	2005	2006	2007	2008
	(In millions of U.S. dollars)									
Current account	**-83.6**	**-84.8**	**-59.0**	**-84.9**	**-129.1**	**-72.5**	**-74.0**	**-74.6**	**-75.4**	**-76.8**
Trade balance	-251.1	-259.6	-218.0	-205.7	-286.4	-242.6	-251.5	-262.5	-275.1	-289.1
Exports, f.o.b.	60.9	52.9	54.1	69.8	66.1	71.7	75.2	78.7	83.9	89.6
Imports, f.o.b.	-312.0	-312.5	-272.1	-275.6	-352.6	-314.3	-326.7	-341.3	-359.0	-378.7
Services (net)	145.5	157.7	145.4	107.9	143.3	159.3	167.6	177.6	188.9	201.0
Receipts	322.7	332.5	301.7	278.4	322.5	347.3	363.2	381.9	403.6	426.6
Travel	277.1	286.1	251.2	230.7	266.7	289.3	302.4	317.5	335.1	353.6
Other nonfactor services	43.2	42.5	47.9	45.1	53.2	55.3	58.1	61.6	65.6	69.9
Factor services	2.4	3.9	2.6	2.6	2.6	2.7	2.8	2.9	3.0	3.1
Payments	177.2	174.8	156.3	170.5	179.2	188.0	195.6	204.3	214.7	225.6
Travel	33.0	33.3	31.5	33.5	34.3	34.9	36.0	37.5	39.1	40.9
Other nonfactor services	103.4	94.5	79.6	91.1	93.2	97.0	101.9	108.0	115.1	122.6
Factor services	40.8	47.0	45.2	46.0	51.6	56.1	57.7	58.9	60.5	62.1
Of which: Public interest payments	6.9	8.1	11.5	10.7	15.5	19.2	19.7	19.3	19.2	18.9
Current transfers (net)	22.0	17.1	13.6	13.0	13.9	10.8	9.9	10.3	10.8	11.3
Capital and financial account	**91.3**	**93.0**	**69.2**	**90.0**	**146.3**	**75.5**	**77.0**	**77.6**	**78.4**	**79.8**
Capital transfers (net)	25.1	15.8	26.4	21.4	25.9	17.8	14.8	15.4	16.1	16.8
Official borrowing (net) 1/	13.3	29.5	20.9	41.5	67.5	9.9	8.3	0.6	-4.2	-8.7
Private capital	52.9	47.8	21.8	27.1	52.9	47.8	53.9	61.6	66.5	71.7
Private long-term (net)	43.3	45.1	10.8	15.2	84.5	48.9	52.7	58.3	63.2	68.3
Of which: direct investment (net)	82.8	54.9	22.4	31.4	102.1	62.8	69.9	76.4	82.4	88.0
Commercial Banks	8.1	-8.5	9.8	7.6	-35.1	-1.1	1.1	3.3	3.3	3.4
Short term capital (net) 2/	1.6	11.2	1.2	4.3	3.5	0.0	0.0	0.0	0.0	0.0
Overall balance	**7.7**	**8.2**	**10.1**	**5.1**	**17.2**	**3.0**	**3.0**	**3.0**	**3.0**	**3.0**
Change in imputed reserves (increase -)	-3.9	-4.5	-10.1	-4.8	-17.2	-3.0	-3.0	-3.0	-3.0	-3.0
Memorandum items:										
Current account balance 3/	-12.5	-12.4	-9.0	-12.5	-18.6	-10.3	-10.2	-9.9	-9.5	-9.3
Foreign direct investment (net) 3/	12.4	8.0	3.4	4.6	14.7	8.9	9.6	10.1	10.4	10.6
External debt 4/	25.4	28.8	32.8	38.4	47.6	48.0	47.8	46.0	43.5	40.5
Debt service ratio 5/	4.4	5.3	10.4	10.0	8.5	10.2	10.4	10.4	12.0	12.6

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

1/ 2003 includes US$17.6 million to finance a transfer to the private sector.
2/ Includes errors and omissions.
3/ In percent of GDP.
4/ Public and publicly guaranteed, in percent of GDP.
5/ In percent of exports of goods and nonfactor services.

Table 4. St. Lucia: Operations of the Central Government (Strong Adjustment)
(In millions of Eastern Caribbean dollars)

	1999/00	2000/01	2001/02	2002/03	Est. 2003/04	Projections 2004/05	2005/06	2006/07	2007/08	2008/09
Total revenue and grants	**529.9**	**493.6**	**457.9**	**478.1**	**500.0**	**512.5**	**547.6**	**585.7**	**612.6**	**640.9**
Current revenue	**465.4**	**482.7**	**428.9**	**441.8**	**459.5**	**483.6**	**517.8**	**554.7**	**580.2**	**607.0**
Tax revenue	**418.7**	**433.6**	**384.9**	**405.6**	**429.5**	**453.2**	**485.2**	**521.5**	**547.7**	**574.8**
Taxes on income and profits	127.0	138.8	118.4	105.5	104.9	107.4	119.5	126.5	132.2	138.2
Taxes on property	0.8	1.6	4.4	4.5	5.0	5.1	15.2	28.2	29.5	30.8
Taxes on goods and services	170.6	151.0	152.8	174.9	171.5	185.3	190.6	198.7	208.3	218.2
Consumption taxes	122.8	100.8	105.4	112.7	114.7	128.9	132.8	138.9	146.3	153.8
Imports	112.2	90.3	100.1	107.8	108.7	122.7	126.3	132.2	139.2	146.4
Domestic goods	10.6	10.5	5.3	4.9	6.0	6.3	6.5	6.7	7.0	7.3
Hotel occupancy tax	18.0	22.9	18.5	19.5	20.7	21.4	22.1	23.0	24.0	25.1
Excises	6.3	4.5	5.5	6.4	6.7	6.9	7.1	7.4	7.8	8.1
Other	23.5	22.8	23.5	36.3	29.3	28.0	28.6	29.4	30.3	31.2
Taxes on international trade	120.3	142.2	109.3	120.8	148.0	155.4	159.9	168.1	177.7	187.6
Of which										
Import duties	71.4	64.2	51.7	57.4	70.6	73.8	76.0	79.6	83.8	88.1
Service charge (imports)	34.7	33.4	27.9	30.2	36.8	38.5	39.7	41.5	43.7	46.0
Nontax revenue	**46.7**	**49.1**	**43.9**	**36.2**	**30.1**	**30.4**	**32.6**	**33.2**	**32.4**	**32.2**
Capital revenue	**2.4**	**0.1**	**2.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Capital grants	**62.1**	**10.8**	**26.3**	**36.3**	**40.5**	**28.8**	**29.8**	**31.0**	**32.4**	**33.9**
Total expenditure and net lending	**521.0**	**517.3**	**535.8**	**615.6**	**609.5**	**571.7**	**569.8**	**581.4**	**592.8**	**603.6**
Current expenditure	**354.5**	**383.2**	**401.2**	**436.0**	**459.1**	**456.4**	**450.7**	**457.3**	**463.1**	**468.0**
Wages and salaries	198.3	209.5	212.7	211.6	213.7	214.7	215.8	220.3	225.3	230.4
NIC contributions and retirement	27.4	35.6	34.3	35.2	37.3	37.6	38.0	38.4	38.8	39.2
Goods and services	71.0	74.0	72.8	75.6	89.9	80.4	70.6	71.3	72.0	72.7
Transfers 1/ 2/	34.1	34.6	38.7	68.2	56.5	56.5	56.5	57.0	57.5	58.0
Interest payments	23.6	29.5	42.7	45.4	61.8	67.1	69.8	70.4	69.6	67.7
Domestic	15.8	21.3	22.5	21.9	17.5	19.0	19.7	19.9	19.7	19.1
External	7.9	8.2	20.1	23.5	44.3	48.1	50.0	50.4	49.9	48.5
Capital expenditure and net lending 2/	**166.5**	**134.1**	**134.6**	**179.6**	**150.4**	**115.4**	**119.1**	**124.1**	**129.7**	**135.6**
Current balance	**110.9**	**99.5**	**27.7**	**5.8**	**0.4**	**27.3**	**67.1**	**97.4**	**117.1**	**139.0**
Overall balance (before grants)	**-53.1**	**-34.5**	**-104.2**	**-173.8**	**-149.9**	**-88.1**	**-52.0**	**-26.7**	**-12.6**	**3.4**
Overall balance (after grants)	**8.9**	**-23.7**	**-77.9**	**-137.5**	**-109.4**	**-59.2**	**-22.2**	**4.3**	**19.8**	**37.3**

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

1/ The increase in FY2002/03 reflects in part a reclassification of outlays from capital expenditure to current transfers.

2/ Includes a transfer of EC$47.5mn to the private sector in FY 2002/03, broken down as EC$15.1mn (current transfer) and EC$32.4mn (capital transfer).

Table 4a. St. Lucia: Operations of the Central Government (Strong Adjustment)
(In percent of GDP)

					Est.	Projections				
	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Total revenue and grants	**29.2**	**27.0**	**25.7**	**26.0**	**26.6**	**26.7**	**27.6**	**28.3**	**28.3**	**28.4**
Current revenue	**25.6**	**26.4**	**24.1**	**24.0**	**24.4**	**25.2**	**26.1**	**26.8**	**26.8**	**26.9**
Tax revenue	**23.1**	**23.8**	**21.6**	**22.1**	**22.8**	**23.6**	**24.4**	**25.2**	**25.3**	**25.4**
Taxes on income and profits	7.0	7.6	6.6	5.7	5.6	5.6	6.0	6.1	6.1	6.1
Taxes on property	0.0	0.1	0.2	0.2	0.3	0.3	0.8	1.4	1.4	1.4
Taxes on goods and services	9.4	8.3	8.6	9.5	9.1	9.6	9.6	9.6	9.6	9.7
Consumption taxes	6.8	5.5	5.9	6.1	6.1	6.7	6.7	6.7	6.8	6.8
Imports	6.2	4.9	5.6	5.9	5.8	6.4	6.4	6.4	6.4	6.5
Domestic goods	0.6	0.6	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Hotel occupancy tax	1.0	1.3	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Excises	0.3	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Other	1.3	1.3	1.3	2.0	1.6	1.5	1.4	1.4	1.4	1.4
Taxes on international trade	6.6	7.8	6.1	6.6	7.9	8.1	8.1	8.1	8.2	8.3
Of which										
Import duties	3.9	3.5	2.9	3.1	3.8	3.8	3.8	3.8	3.9	3.9
Service charge (imports)	1.9	1.8	1.6	1.6	2.0	2.0	2.0	2.0	2.0	2.0
Nontax revenue	**2.6**	**2.7**	**2.5**	**2.0**	**1.6**	**1.6**	**1.6**	**1.6**	**1.5**	**1.4**
Capital revenue	**0.1**	**0.0**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Capital grants	**3.4**	**0.6**	**1.5**	**2.0**	**2.2**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**
Total expenditure and net lending	**28.7**	**28.3**	**30.1**	**33.5**	**32.4**	**29.7**	**28.7**	**28.1**	**27.4**	**26.7**
Current expenditure	**19.5**	**21.0**	**22.5**	**23.7**	**24.4**	**23.7**	**22.7**	**22.1**	**21.4**	**20.7**
Wages and salaries	10.9	11.5	11.9	11.5	11.4	11.2	10.9	10.7	10.4	10.2
NIC contributions and retirement	1.5	1.9	1.9	1.9	2.0	2.0	1.9	1.9	1.8	1.7
Goods and services	3.9	4.1	4.1	4.1	4.8	4.2	3.6	3.4	3.3	3.2
Transfers 1/ 2/	1.9	1.9	2.2	3.7	3.0	2.9	2.8	2.8	2.7	2.6
Interest payments	1.3	1.6	2.4	2.5	3.3	3.5	3.5	3.4	3.2	3.0
Domestic	0.9	1.2	1.3	1.2	0.9	1.0	1.0	1.0	0.9	0.8
External	0.4	0.5	1.1	1.3	2.4	2.5	2.5	2.4	2.3	2.1
Capital expenditure and net lending 2/	**9.2**	**7.3**	**7.6**	**9.8**	**8.0**	**6.0**	**6.0**	**6.0**	**6.0**	**6.0**
Current balance	**6.1**	**5.5**	**1.6**	**0.3**	**0.0**	**1.4**	**3.4**	**4.7**	**5.4**	**6.2**
Overall balance (before grants)	**-2.9**	**-1.9**	**-5.9**	**-9.5**	**-8.0**	**-4.6**	**-2.6**	**-1.3**	**-0.6**	**0.2**
Overall balance (after grants)	**0.5**	**-1.3**	**-4.4**	**-7.5**	**-5.8**	**-3.1**	**-1.1**	**0.2**	**0.9**	**1.7**
Memorandum items:										
Public sector overall balance (after grants)	-0.1	-1.3	-4.0	-7.4	-5.7	-3.2	-1.1	0.2	0.9	1.7
Of which: noncentral government	-0.6	0.0	0.4	0.1	0.1	-0.1	0.0	0.0	0.0	0.0
Central government primary expenditure	27.4	26.7	27.7	31.0	29.1	26.2	25.2	24.7	24.2	23.7
Of which: current primary expenditure	18.2	19.4	20.1	21.3	21.1	20.2	19.2	18.7	18.2	17.7
Nominal GDP (in millions of EC$)	1,816.0	1,825.0	1,780.9	1,837.6	1,879.9	1,922.5	1,985.5	2,068.1	2,161.9	2,260.0

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

1/ The increase in FY2002/03 appears to reflect in part a reclassification of outlays from capital expenditure to current transfers.
2/ Includes a transfer of 2.6% of GDP to the private sector in FY 2002/03, broken down as 0.8% of GDP (current transfer) and 1.8% of GDP (capital transfer).

Table 5. St. Lucia: Selected Vulnerability Indicators, 1999-2004

	1999	2000	2001	2002	Est. 2003	Proj. 2004
Real Sector Indicators						
Real GDP growth (percent)	2.8	0.1	-4.3	0.0	2.3	1.0
CPI inflation (end of period, in percent)	6.1	0.4	2.1	-0.6	0.1	1.0
Financial Sector Indicators	(In percent, unless otherwise indicated)					
Capital adequacy ratio (indigenous banks)	11.4	11.3	12.6	11.4	12.1	…
Average nonperforming loans/total loans for other ECCU countries	20.3	14.8	16.2	13.3	12.2	…
Nonperforming loans (3 months and over)/total loans 1/	12.4	13.7	18.2	20.6	16.6	…
Indigenous banks	18.6	20.1	23.3	28.1	21.2	…
Foreign banks	7.9	8.7	13.6	14.3	12.7	…
Loan Loss provision/NPLs	24.2	26.2	25.5	28.2	39.6	…
Indigenous banks	24.8	26.9	24.9	27.5	41.0	…
Foreign banks	23.2	25.1	26.6	29.4	37.6	…
Gross government claims/Total assets	9.3	11.2	9.3	10.5	9.4	…
FX deposits/Total deposits	1.5	0.7	1.5	1.7	1.8	…
Net foreign currency exposure/Capital (indigenous banks)	74.8	66.9	-23.2	-27.6	28.0	…
Contingent liabilities/Capital (indigenous banks)	101.7	117.6	103.5	122.2	143.5	…
(Pre-tax) return on average assets	3.1	2.5	1.7	0.9	1.1	…
Broad money (percent change, 12-month basis)	9.7	7.9	4.7	3.2	4.8	…
Private sector credit (percent change, 12-month basis)	10.8	6.3	4.1	0.8	-3.4	…
Capital/risk weighted assets 1/	11.4	11.3	12.6	11.4	12.1	…
US treasury bill rate (percent per annum) 7/	4.7	5.8	3.5	1.6	0.9	…
Three-month treasury bill rate	7.0	7.0	7.0	7.0	6.5	…
Three-month treasury bill rate (real) 2/	0.9	6.6	4.9	7.6	6.4	…
External Sector Indicators						
Exchange rate regime	fixed peg					
Exchange rate (per US$, end of period)	2.7	2.7	2.7	2.7	2.7	...
REER appreciation (percent change on 12-month basis, end of period) 3/	8.5	3.0	0.4	-6.2	-11.5	...
Exports of goods and services (percent change, 12-month basis, in US$)	0.7	0.1	-7.4	-2.1	11.7	7.8
Imports of goods and services (percent change, 12-month basis, in US$)	5.0	-1.8	-13.0	4.4	20.0	-7.0
Travel receipts to exports of goods and nonfactor services (percent)	72.7	75.0	71.1	66.8	69.1	69.5
Current account balance (percent of GDP)	-12.5	-12.4	-9.0	-12.5	-18.6	-10.3
Capital and financial account balance (percent of GDP)	13.6	13.6	10.6	13.3	21.1	10.7
Net FDI inflows (percent of GDP)	12.4	8.0	3.4	4.6	14.7	8.9
Net imputed reserves (in US$ millions)	72.5	77.0	87.1	91.9	109.1	112.1
Gross international reserves of the ECCB (in US$ millions)	361.4	377.3	441.5	501.9	521.9	541.9
Gross international reserves in months of imports of goods and services	9.8	10.5	14.0	15.1	13.1	14.6
Gross international reserves to broad money (percent)	90.0	87.8	97.6	107.0	106.2	…
Private external debt (percent of GDP)	…	…	…	…	…	…
Public gross external debt (in US$ million)	170.0	197.1	214.4	259.8	329.6	339.6
Public gross external debt to exports of goods and services (percent)	44.6	51.7	60.7	75.2	85.4	81.6
Public gross external interest payments to exports of goods and services (percent)	1.8	2.1	3.3	3.1	4.0	4.6
Public gross external amortization payments to exports of goods and services (percent)	2.6	3.1	7.1	6.9	4.5	5.6
Public gross external interest payments to fiscal revenue (percent) 4/	4.0	4.5	7.2	6.5	9.1	10.7
Public gross external amortization payments to fiscal revenue (percent) 4/	5.8	6.7	15.8	14.6	10.2	13.0
Gross external financing requirement (in percent of GDP) 5/	14.0	14.2	12.9	16.1	21.1	13.6
Public Sector Indicators	(In percent of GDP)					
Overall consolidated public sector balance 6/	-0.1	-1.3	-4.0	-7.4	-5.7	-3.2
Central government current account balance 6/	6.1	5.5	1.6	0.3	0.0	1.4
Debt stabilizing primary balance 6/	…	…	…	2.2	2.3	2.7
Public sector gross financing requirement	2.2	3.3	8.3	14.5	11.7	8.8
Public sector gross external debt	25.4	28.8	32.8	38.4	47.6	48.0
Official creditors	22.5	21.3	20.9	22.7	24.1	…
Private creditors	2.9	7.6	11.9	15.7	23.5	…

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

1/ End-June for 2003.
2/ Treasury bill rate adjusted for actual year-on-year inflation.
3/ November for 2003.
4/ Fiscal revenue refers to central government's current revenue for fiscal years beginning April 1.
5/ Defined as external current account deficit plus public external amortization.
6/ For fiscal years beginning April 1.

Table 6. St. Lucia: Public Debt

	1999	2000	2001	2002	Est. 2003
	(In millions of U.S. dollars)				
Total public sector debt (end of year)	260	297	326	378	448
Domestic debt	90	100	111	118	118
Central government	75	77	89	94	96
Loans	29	29	28	24	10
Overdraft	4	5	5	4	4
Bonds	20	22	22	29	31
Treasury bills	22	22	33	37	50
Government guarantees	15	20	18	16	15
Other	0	2	5	9	8
External debt	170	197	214	260	330
Central government	102	132	149	194	267
Bilateral	24	22	19	21	21
Multilateral	58	59	59	78	95
Of which: Caribbean Development Bank	35	35	36	47	59
Commercial bank	11	43	60	81	137
Of which: Citibank	0	0	13	43	58
Royal Merchant Bank	11	43	35	38	79
Other	9	9	10	14	14
Government guarantees	63	62	56	54	51
Of which: Caribbean Development Bank	38	40	39	38	37
Other	5	3	10	12	12
Debt service 1/	32	31	52	74	63
Interest	15	16	20	20	24
Domestic debt	8	8	8	9	9
External debt	7	8	12	11	15
Amortization	17	15	33	54	38
Domestic debt	7	3	8	30	21
External debt	10	12	25	24	17
	(In percent of GDP)				
Total public sector debt (end of year)	38.9	43.4	49.8	55.9	64.7
Domestic debt	13.5	14.6	17.0	17.5	17.1
External debt	25.4	28.8	32.8	38.4	47.6
Offical	22.5	21.3	20.9	22.7	24.1
Private	2.9	7.6	11.9	15.7	23.5
Debt service 1/	4.8	4.6	8.0	10.9	9.1
Interest	2.2	2.3	3.0	2.9	3.5
Amortization	2.6	2.3	5.0	8.0	5.6

Source: St. Lucian Authorities.

1/ Includes LUCELEC.

Table 7. St. Lucia: Medium-Term Outlook (Current Policies)

	Average 2000-01	2002	Est. 2003	Projections 1/ 2004	2005	2006	2007	2008
	(Annual percentage change)							
National income and prices								
Real GDP growth	-2.1	0.0	2.3	2.0	1.5	1.0	1.0	1.0
Implicit GDP deflator (factor cost)	1.9	0.9	0.7	1.0	1.0	1.0	1.0	1.0
	(In percent of GDP, unless otherwise stated)							
Saving and investment								
Gross domestic investment	26.3	22.8	28.8	18.7	18.2	18.2	18.2	18.2
Public	9.1	9.9	9.3	8.8	8.8	8.8	8.8	8.8
Private	17.2	12.8	19.5	9.9	9.4	9.4	9.4	9.4
Gross domestic saving	15.6	10.2	10.2	8.7	7.8	7.7	7.6	7.4
Public	5.5	1.5	1.1	1.4	0.7	0.7	0.7	0.7
Private	10.1	8.7	9.1	7.2	7.1	7.0	6.9	6.7
Public sector 2/								
Public sector overall balance	-2.6	-7.4	-5.7	-6.3	-6.2	-6.4	-6.6	-6.7
Of which:								
Central government	-2.8	-7.5	-5.8	-6.2	-6.2	-6.4	-6.6	-6.7
Central government saving	3.5	0.3	0.0	0.2	-0.2	-0.2	-0.3	-0.3
Current revenues	25.3	24.0	24.4	24.4	24.0	24.0	23.9	23.9
Current expenditure	21.8	23.7	24.4	24.2	24.2	24.2	24.2	24.2
Central government primary balance	-0.8	-5.0	-2.5	-2.6	-2.6	-2.6	-2.6	-2.6
External sector								
Current account	-10.7	-12.5	-18.6	-10.0	-10.4	-10.5	-10.6	-10.8
Of which:								
Exports of goods and services	54.9	51.1	55.7	58.0	58.3	58.5	58.9	59.2
Imports of goods and services	61.5	59.1	69.3	62.0	62.5	62.7	63.0	63.2
Capital and financial account 3/	12.1	13.3	21.1	8.7	9.1	9.1	9.3	9.4
Public sector debt and debt service								
Total Debt 1/ 2/	46.7	61.6	65.7	69.9	74.4	79.3	84.3	89.4
Of which: External debt	30.8	44.2	47.1	50.1	53.3	56.8	60.4	64.0
External debt/exports 4/	56.2	75.2	85.4	84.9	89.6	95.2	100.6	106.0
External debt service/exports 4/	7.8	10.0	8.5	10.5	8.8	10.4	13.8	20.1

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

1/ Projections are based on unchanged fiscal policies.
2/ Data are for fiscal years beginning April 1.
3/ Including errors and omissions.
4/ Exports of goods and services.

Table 8. St. Lucia: Medium-Term Outlook (Strong Adjustment)

	Average 2000-01	2002	Est. 2003	Projections 2004	2005	2006	2007	2008
	(Annual percentage change)							
National income and prices								
Real GDP growth	-2.1	0.0	2.3	1.0	2.0	3.0	3.5	3.5
Implicit GDP deflator (factor cost)	1.9	0.9	0.7	1.0	1.0	1.0	1.0	1.0
	(In percent of GDP, unless otherwise stated)							
Saving and investment								
Gross domestic investment	26.3	22.8	28.8	20.8	21.8	22.3	22.6	22.8
Public	9.1	9.9	9.3	7.6	6.9	6.8	6.8	6.8
Private	17.2	12.8	19.5	13.2	14.9	15.5	15.8	16.0
Gross domestic saving	15.6	10.2	10.2	10.6	11.7	12.5	13.1	13.6
Public	5.5	1.5	1.1	2.1	4.3	5.6	5.7	5.7
Private	10.1	8.7	9.1	8.5	7.4	6.9	7.4	7.8
Public sector 1/								
Public sector overall balance	-2.6	-7.4	-5.7	-3.2	-1.1	0.2	0.9	1.7
Of which:								
Central government	-2.8	-7.5	-5.8	-3.1	-1.1	0.2	0.9	1.7
Central government saving	3.5	0.3	0.0	1.4	3.4	4.7	4.7	4.7
Current revenues	25.3	24.0	24.4	25.2	26.1	26.8	26.8	26.8
Current expenditure	21.8	23.7	24.4	23.7	22.7	22.1	22.1	22.1
Central government primary balance	-0.8	-5.0	-2.5	0.4	2.4	3.6	4.1	4.6
External sector								
Current account	-10.7	-12.5	-18.6	-10.3	-10.2	-9.9	-9.5	-9.3
Of which:								
Exports of goods and services	54.9	51.1	55.7	58.9	59.8	60.4	61.2	62.0
Imports of goods and services	61.5	59.1	69.3	63.1	63.8	64.3	64.8	65.5
Capital and financial account 2/	12.1	13.3	21.1	10.7	10.6	10.2	9.9	9.6
Public sector debt and debt service								
Total Debt 1/	46.7	61.6	65.7	67.3	66.3	63.4	59.7	55.5
Of which: External debt	30.8	44.2	47.1	48.2	47.5	45.5	42.8	39.8
External debt/exports 3/	56.2	75.2	85.4	81.6	79.9	76.1	71.1	65.4
External debt service/exports 3/	7.8	10.0	8.5	10.2	10.4	10.4	12.0	12.5

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

1/ Data are for fiscal years beginning April 1.
2/ Including errors and omissions.
3/ Exports of goods and services.

Table 9. St. Lucia: Public Sector Debt Sustainability Framework, 1998–2008 (Current Policies)
(In percent of GDP, unless otherwise indicated)

	Actual					Est.	Projections				
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1 Public sector debt 1/	42.0	38.7	43.9	49.4	61.6	65.7	69.9	74.4	79.3	84.3	89.4
Of which: foreign-currency denominated	24.2	25.3	29.2	32.5	44.2	47.1	50.1	53.3	56.8	60.4	64.0
2 Change in public sector debt	4.3	-3.4	5.2	5.5	12.2	4.1	4.2	4.6	4.9	5.0	5.0
3 Identified debt-creating flows (4+7+12)	-1.5	1.2	4.7	8.6	6.0	4.4	4.2	4.6	4.9	5.0	5.0
4 Primary deficit	-0.1	1.3	2.6	4.5	4.4	2.0	2.1	1.8	1.7	1.5	1.3
5 Revenue and grants	30.5	31.4	29.6	28.1	32.3	32.8	32.2	32.2	32.2	32.1	32.1
6 Primary (noninterest) expenditure	30.4	32.8	32.3	32.5	36.7	34.8	34.3	34.0	33.8	33.6	33.4
7 Automatic debt dynamics 2/	-1.5	-0.1	2.1	4.1	1.5	2.5	2.1	2.8	3.3	3.5	3.7
8 Contribution from interest rate/growth differential 3/	-1.5	-0.1	2.1	4.1	1.5	2.5	2.1	2.8	3.3	3.5	3.7
9 *Of which:* contribution from real interest rate	-0.4	1.1	2.1	2.1	1.5	3.9	3.4	3.8	4.0	4.3	4.6
10 *Of which:* contribution from real GDP growth	-1.1	-1.2	-0.1	1.9	0.0	-1.4	-1.3	-1.0	-0.7	-0.8	-0.8
11 Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12 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
13 Residual, including asset changes (2-3)	5.8	-4.6	0.5	-3.0	6.2	-0.3	0.0	0.0	0.0	0.0	0.0
Public sector debt in percent of revenues 1/	137.8	123.0	148.2	175.9	190.9	199.9	216.6	230.7	246.7	262.4	278.0
Gross financing 5/	-0.9	1.4	4.1	7.6	16.0	7.4	8.3	9.0	11.0	11.2	11.3
in millions of U.S. dollars	-6.1	9.5	27.9	50.1	108.8	51.8	59.7	66.1	82.6	86.0	88.1
Key Macroeconomic and Fiscal Assumptions											
Real GDP growth (in percent)	3.1	3.1	0.2	-4.3	0.0	2.3	2.0	1.5	1.0	1.0	1.0
Average nominal interest rate on public debt (in percent) 6/	5.1	4.8	5.9	6.7	6.4	6.4	6.5	6.5	6.5	6.5	6.5
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-1.0	2.9	5.6	4.7	3.2	6.4	5.3	5.6	5.5	5.5	5.5
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inflation rate (GDP deflator, in percent)	6.0	1.9	0.3	2.0	3.2	0.0	1.1	0.9	1.0	1.0	1.0
Growth of real primary spending (deflated by GDP deflator, in percent)	5.4	11.0	-1.4	-3.5	12.7	-2.9	0.6	0.6	0.4	0.4	0.4
1. Real GDP growth, real interest rate, and primary balance are at historical averages in 2003-2007				49.4	61.6	65.7	69.9	74.3	78.8	83.5	88.2
2. Real interest rate is at historical average plus two standard deviations in 2003 and 2004				49.4	61.6	65.7	71.6	78.0	83.1	88.2	93.4
3. Real GDP growth is at historical average minus two standard deviations in 2003 and 2004				49.4	61.6	65.7	75.5	86.6	92.3	98.1	104.0
4. Primary balance is at historical average minus two standard deviations in 2003 and 2004				49.4	61.6	65.7	74.3	83.7	89.1	94.5	100.0
5. Combination of 2-4 using one standard deviation shocks				49.4	61.6	65.7	75.7	86.6	89.1	91.6	93.9
6. One time 30 percent real depreciation in 2004 7/				49.4	61.6	65.7	90.6	96.0	101.9	107.9	114.0
7. 10 percent of GDP increase in other debt-creating flows in 2003				49.4	61.6	65.7	79.9	84.8	90.2	95.7	101.2
8. Impact on **debt-to-GDP ratio** if revenue-to-GDP ratio is at historical average minus two standard deviations in 2003-04				49.4	61.6	65.7	75.0	84.8	90.2	95.7	101.2
8a. Impact on **debt-to-revenue ratio** if revenue-to-GDP ratio is at historical average minus two standard deviations in 2003-04				175.9	190.9	199.9	276.1	312.4	280.5	297.7	314.8

Historical Statistics for Key Variables (past 5 years)	Historical Average	Standard Deviation
Primary deficit	2.6	2.0
Real GDP growth (in percent)	0.4	3.0
Nominal interest rate (in percent) 6/	5.8	0.8
Real interest rate (in percent)	3.1	2.5
Inflation rate (GDP deflator, in percent)	2.7	2.1
Revenue to GDP ratio	30.4	1.6

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

1/ Fiscal years. NFPS excluding the National Insurance Corporation (NIC).
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the denominator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
6/ Derived as nominal interest expenditure divided by previous period debt stock.
7/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 10. St. Lucia: Public Sector Debt Sustainability Framework, 1998–2008 (Strong Adjustment)

(In percent of GDP, unless otherwise indicated)

	Actual					Est.	Projections				
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1 Public sector debt 1/	42.0	38.7	43.9	49.4	61.6	65.7	67.3	66.3	63.4	59.7	55.5
Of which: foreign-currency denominated	24.2	25.3	29.2	32.5	44.2	47.1	48.2	47.5	45.5	42.8	39.8
2 Change in public sector debt	4.3	-3.4	5.2	5.5	12.2	4.1	1.6	-1.0	-2.9	-3.7	-4.2
3 Identified debt-creating flows (4+7+12)	-1.5	1.2	4.7	8.6	6.0	4.4	1.6	-1.0	-2.9	-3.7	-4.2
4 Primary deficit	-0.1	1.3	2.6	4.5	4.4	2.0	-1.0	-2.9	-4.1	-4.6	-5.1
5 Revenue and grants	30.5	31.4	29.6	28.1	32.3	32.8	32.9	33.8	34.6	34.6	34.6
6 Primary (noninterest) expenditure	30.4	32.8	32.3	32.5	36.7	34.8	31.9	30.9	30.4	30.0	29.5
7 Automatic debt dynamics 2/	-1.5	-0.1	2.1	4.1	1.5	2.5	2.6	1.9	1.3	1.0	0.9
8 Contribution from interest rate/growth differential 3/	-1.5	-0.1	2.1	4.1	1.5	2.5	2.6	1.9	1.3	1.0	0.9
9 *Of which:* contribution from real interest rate	-0.4	1.1	2.1	2.1	1.5	3.9	3.2	3.2	3.2	3.1	2.9
10 *Of which:* contribution from real GDP growth	-1.1	-1.2	-0.1	1.9	0.0	-1.4	-0.6	-1.3	-1.9	-2.1	-2.0
11 Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12 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
13 Residual, including asset changes (2-3)	5.8	-4.6	0.5	-3.0	6.2	-0.3	0.0	0.0	0.0	0.0	0.0
Public sector debt in percent of revenues 1/	137.8	123.0	148.2	175.9	190.9	199.9	204.5	195.9	183.5	172.8	160.4
Gross financing 5/	**-0.9**	**1.4**	**4.1**	**7.6**	**16.0**	**7.4**	**5.2**	**3.9**	**4.3**	**3.6**	**2.6**
in millions of U.S. dollars	-6.1	9.5	27.9	50.1	108.8	51.8	37.1	28.8	33.0	28.5	22.0
Key Macroeconomic and Fiscal Assumptions											
Real GDP growth (in percent)	3.1	3.1	0.2	-4.3	0.0	2.3	1.0	2.0	3.0	3.5	3.5
Average nominal interest rate on public debt (in percent) 6/	5.1	4.8	5.9	6.7	6.4	6.4	6.3	6.2	6.2	6.1	6.1
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-1.0	2.9	5.6	4.7	3.2	6.4	5.0	5.0	5.0	5.1	5.1
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inflation rate (GDP deflator, in percent)	6.0	1.9	0.3	2.0	3.2	0.0	1.3	1.3	1.1	1.0	1.0
Growth of real primary spending (deflated by GDP deflator, in percent)	5.4	11.0	-1.4	-3.5	12.7	-2.9	-7.3	-1.3	1.5	1.9	1.9
1. Real GDP growth, real interest rate, and primary balance are at historical averages in 2003-2007				49.4	61.6	65.7	69.9	74.3	78.8	83.4	88.2
2. Real interest rate is at historical average plus two standard deviations in 2003 and 2004				49.4	61.6	65.7	69.2	70.4	67.6	64.0	59.8
3. Real GDP growth is at historical average minus two standard deviations in 2003 and 2004				49.4	61.6	65.7	72.0	76.7	73.4	69.2	64.3
4. Primary balance is at historical average minus two standard deviations in 2003 and 2004				49.4	61.6	65.7	74.8	83.4	80.9	77.5	73.5
5. Combination of 2-4 using one standard deviation shocks				49.4	61.6	65.7	75.7	86.6	81.1	74.7	67.7
6. One time 30 percent real depreciation in 2004 7/				49.4	61.6	65.7	88.2	87.8	85.4	82.0	78.1
7. 10 percent of GDP increase in other debt-creating flows in 2003				49.4	61.6	65.7	77.3	76.6	73.9	70.4	66.3
8. Impact on **debt-to-GDP ratio** if revenue-to-GDP ratio is at historical average minus two standard deviations in 2003-04				49.4	61.6	65.7	73.0	78.9	76.2	72.8	68.7
8a. Impact on **debt-to-revenue ratio** if revenue-to-GDP ratio is at historical average minus two standard deviations in 2003-04				175.9	190.9	199.9	269.1	290.5	220.6	210.5	198.6

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

1/ Fiscal years. NFPS excluding the National Insurance Corporation (NIC).

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

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as $-g$.

4/ The exchange rate contribution is derived from the denominator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

6/ Derived as nominal interest expenditure divided by previous period debt stock.

7/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 11. St. Lucia: External Debt Sustainability Framework, 1998-2008 (Current Policies)
(In percent of GDP, unless otherwise indicated)

	Actual							Est.	Projections				
	1998	1999	2000	2001	2002			2003	2004	2005	2006	2007	2008
									I. Baseline Projections				
1 **External debt**	**24.6**	**25.4**	**28.8**	**32.8**	**38.4**			**47.6**	**49.3**	**52.2**	**55.7**	**59.2**	**62.8**
2 Change in external debt	1.1	0.9	3.4	3.9	5.6			9.2	1.7	2.9	3.5	3.5	3.6
3 Identified external debt-creating flows (4+8+9)	-3.7	-1.3	3.9	6.9	6.8			3.0	1.0	1.8	2.8	2.9	3.0
4 Current account deficit, excluding interest payments	10.5	11.5	11.2	7.3	11.0			16.4	7.3	7.7	7.7	7.6	7.5
5 Deficit in balance of goods and services	14.6	15.8	14.9	11.1	14.5			20.7	11.5	11.7	11.8	12.0	12.2
6 Exports	60.6	57.3	56.4	54.4	51.5			56.1	58.4	58.7	58.9	59.3	59.6
7 Imports	75.2	73.1	71.3	65.5	65.9			76.8	69.9	70.4	70.8	71.2	71.8
8 Net non-debt creating capital inflows (negative)	-13.2	-12.4	-8.0	-3.4	-4.6			-14.7	-7.6	-7.1	-6.6	-6.6	-6.6
9 Automatic debt dynamics 1/	-0.9	-0.4	0.7	3.0	0.5			1.3	1.3	1.3	1.8	1.9	2.2
10 Contribution from nominal interest rate	1.0	1.0	1.2	1.8	1.6			2.2	2.7	2.7	2.8	3.0	3.3
11 Contribution from real GDP growth	-0.8	-0.6	0.0	1.3	0.0			-0.9	-0.9	-1.0	-0.5	-0.5	-0.6
12 Contribution from price and exchange rate changes 2/	-1.1	-0.8	-0.5	0.0	-1.1			0.0	-0.5	-0.5	-0.5	-0.6	-0.6
13 Residual, incl. change in gross foreign assets (2-3) 3/	4.8	2.2	-0.4	-3.0	-1.2			6.2	0.7	1.1	0.6	0.6	0.5
External debt-to-exports ratio (in percent)	40.5	44.3	51.1	60.3	74.6			84.8	84.4	89.0	94.5	100.0	105.4
Gross external financing need (in billions of US dollars) 4/	**0.1**	**0.1**	**0.1**	**0.1**	**0.2**			**0.2**	**0.1**	**0.1**	**0.2**	**0.2**	**0.2**
in percent of GDP	17.1	18.6	19.1	18.9	22.4	5-Year Historical Average	5-Year Standard Deviation	27.5	20.4	20.0	21.5	23.9	28.1
Key Macroeconomic Assumptions													
Real GDP growth (in percent)	3.8	2.8	0.1	-4.3	0.0	0.5	3.1	2.3	2.0	2.0	1.0	1.0	1.0
GDP deflator in US dollars (change in percent)	5.1	3.2	2.0	0.1	3.5	2.8	1.9	0.1	1.0	1.0	1.0	1.0	1.0
Nominal external interest rate (in percent)	4.8	4.5	4.7	5.8	5.0	5.0	0.5	6.0	5.8	5.7	5.5	5.6	5.7
Growth of exports (US dollar terms, in percent)	2.2	0.4	0.5	-7.7	-2.1	-1.3	3.9	11.6	7.2	3.5	2.4	2.6	2.6
Growth of imports (US dollar terms, in percent)	4.3	3.2	-0.4	-12.1	4.1	-0.2	6.9	19.2	-6.1	3.7	2.5	2.7	2.8
Current account balance, excluding interest payments	-10.5	-11.5	-11.2	-7.3	-11.0	-10.3	1.7	-16.4	-7.3	-7.7	-7.7	-7.6	-7.5
Net non-debt creating capital inflows	13.2	12.4	8.0	3.4	4.6	8.3	4.4	14.7	7.6	7.1	6.6	6.6	6.6
									II. Stress Tests for External Debt Ratio				
A. Alternative Scenarios													
A1. Key variables are at their historical averages in 2004-08 5/								**47.6**	**51.0**	**54.9**	**58.3**	**61.9**	**65.3**
A2. Country-specific shock in 2004, with reduction in GDP growth (relative to baseline) of one standard deviation 6/								**47.6**	**50.8**	**53.9**	**57.5**	**61.1**	**64.8**
B. Bound Tests													
B1. Nominal interest rate is at historical average plus two standard deviations in 2004 and 2005								**47.6**	**49.4**	**52.5**	**56.0**	**59.5**	**63.1**
B2. Real GDP growth is at historical average minus two standard deviations in 2004 and 2005								**47.6**	**52.8**	**59.2**	**61.9**	**64.6**	**67.4**
B3. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2004 and 2005								**47.6**	**50.1**	**53.9**	**57.2**	**60.5**	**63.9**
B4. Non-interest current account is at historical average minus two standard deviations in 2004 and 2005								**47.6**	**55.7**	**64.8**	**68.7**	**72.7**	**76.8**
B5. Combination of 2-5 using one standard deviation shocks								**47.6**	**55.8**	**65.4**	**69.5**	**73.6**	**77.9**
B6. One time 30 percent nominal depreciation in 2004								**47.6**	**67.2**	**68.1**	**69.5**	**71.0**	**72.4**

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

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

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

3/ For projection, line includes price and exchange rate changes

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

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

6/ Standard deviation based on 5-year historical average.

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

Table 12. St. Lucia: External Debt Sustainability Framework, 1998-2008 (Strong Adjustment)

(In percent of GDP, unless otherwise indicated)

	Actual							Est.	Projections				
	1998	1999	2000	2001	2002	5-Year Historical Average	5-Year Standard Deviation	2003	2004	2005	2006	2007	2008
									I. Baseline Projections				
1 **External debt**	**24.6**	**25.4**	**28.8**	**32.8**	**38.4**			**47.6**	**48.0**	**47.8**	**46.0**	**43.5**	**40.5**
2 Change in external debt	1.1	0.9	3.4	3.9	5.6			9.2	0.5	-0.3	-1.8	-2.5	-2.9
3 Identified external debt-creating flows (4+8+9)	-3.7	-1.3	3.9	6.9	6.8			3.0	0.4	-0.8	-2.1	-2.9	-3.2
4 Current account deficit, excluding interest payments	10.5	11.5	11.2	7.3	11.0			16.4	7.6	7.5	7.3	7.1	7.0
5 Deficit in balance of goods and services	14.6	15.8	14.9	11.1	14.5			20.7	11.8	11.5	11.2	10.9	10.6
6 Exports	60.6	57.3	56.4	54.4	51.5			56.1	59.3	60.2	60.8	61.6	62.4
7 Imports	75.2	73.1	71.3	65.5	65.9			76.8	71.1	71.7	72.0	72.5	73.0
8 Net non-debt creating capital inflows (negative)	-13.2	-12.4	-8.0	-3.4	-4.6			-14.7	-8.9	-9.6	-10.1	-10.4	-10.6
9 Automatic debt dynamics 1/	-0.9	-0.4	0.7	3.0	0.5			1.3	1.8	1.3	0.7	0.4	0.4
10 Contribution from nominal interest rate	1.0	1.0	1.2	1.8	1.6			2.2	2.7	2.7	2.6	2.4	2.3
11 Contribution from real GDP growth	-0.8	-0.6	0.0	1.3	0.0			-0.9	-0.5	-0.9	-1.4	-1.5	-1.5
12 Contribution from price and exchange rate changes 2/	-1.1	-0.8	-0.5	0.0	-1.1			0.0	-0.5	-0.5	-0.5	-0.5	-0.4
13 Residual, incl. change in gross foreign assets (2-3) 3/	4.8	2.2	-0.4	-3.0	-1.2			6.2	0.0	0.6	0.3	0.4	0.3
External debt-to-exports ratio (in percent)	40.5	44.3	51.1	60.3	74.6			84.8	81.0	79.4	75.7	70.6	65.0
Gross external financing need (in billions of US dollars) 4/	0.1	0.1	0.1	0.1	0.2			0.2	0.1	0.2	0.2	0.2	0.2
in percent of GDP	17.1	18.6	19.1	18.9	22.4			27.5	20.6	20.7	20.5	21.1	21.0
Key Macroeconomic Assumptions													
Real GDP growth (in percent)	3.8	2.8	0.1	-4.3	0.0	0.5	3.1	2.3	1.0	2.0	3.0	3.5	3.5
GDP deflator in US dollars (change in percent)	5.1	3.2	2.0	0.1	3.5	2.8	1.9	0.1	1.0	1.0	1.0	1.0	1.0
Nominal external interest rate (in percent)	4.8	4.5	4.7	5.8	5.0	5.0	0.5	6.0	5.8	5.8	5.6	5.5	5.5
Growth of exports (US dollar terms, in percent)	2.2	0.4	0.5	-7.7	-2.1	-1.3	3.9	11.6	7.8	4.6	5.1	5.8	5.9
Growth of imports (US dollar terms, in percent)	4.3	3.2	-0.4	-12.1	4.1	-0.2	6.9	19.2	-5.5	4.0	4.5	5.1	5.3
Current account balance, excluding interest payments	-10.5	-11.5	-11.2	-7.3	-11.0	-10.3	1.7	-16.4	-7.6	-7.5	-7.3	-7.1	-7.0
Net non-debt creating capital inflows	13.2	12.4	8.0	3.4	4.6	8.3	4.4	14.7	8.9	9.6	10.1	10.4	10.6
									II. Stress Tests for External Debt Ratio				
A. Alternative Scenarios													
A1. Key variables are at their historical averages in 2004-08 5/								**47.6**	**50.3**	**53.7**	**56.8**	**60.1**	**63.3**
A2. Country-specific shock in 2004, with reduction in GDP growth (relative to baseline) of one standard deviation 6/								**47.6**	**49.6**	**49.3**	**47.5**	**44.9**	**41.9**
B. Bound Tests													
B1. Nominal interest rate is at historical average plus two standard deviations in 2004 and 2005								**47.6**	**48.1**	**48.0**	**46.2**	**43.7**	**40.7**
B2. Real GDP growth is at historical average minus two standard deviations in 2004 and 2005								**47.6**	**51.0**	**53.7**	**50.4**	**46.3**	**41.7**
B3. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2004 and 2005								**47.6**	**48.9**	**49.3**	**47.1**	**44.2**	**40.8**
B4. Non-interest current account is at historical average minus two standard deviations in 2004 and 2005								**47.6**	**54.2**	**60.4**	**58.8**	**56.4**	**53.6**
B5. Combination of 2-5 using one standard deviation shocks								**47.6**	**53.9**	**60.1**	**58.3**	**55.6**	**52.5**
B6. One time 30 percent nominal depreciation in 2004								**47.6**	**65.4**	**61.7**	**56.0**	**49.2**	**41.9**

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

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

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

3/ For projection, line includes price and exchange rate changes

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

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

6/ Standard deviation based on 5-year historical average.

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

St. Lucia: Fund Relations

(As of December 31, 2003)

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

II. General Resources Account	**SDR Million**	**Percent of Quota**
Quota	15.30	100.00
Fund holdings of currency	15.29	99.97
Reserve position in Fund	0.01	0.04

III. SDR Department	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	0.74	100.00
Holdings	1.49	201.00

IV. Outstanding Purchases and Loans: None

V. Financial Arrangements: None

VI. Projected Obligations to the Fund: None

VII. Exchange Rate Arrangement: St. Lucia is a member of the Eastern Caribbean Currency Union, which has a common central bank (the Eastern Caribbean Central Bank) and currency (the Eastern Caribbean dollar). Since July 1976, the Eastern Caribbean dollar has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar. St. Lucia has accepted the obligations of Article VIII, Sections 2, 3, and 4. St. Lucia maintains an exchange restriction arising from the requirement imposed on individuals or corporations who request the approval of a single outward remittance above EC$250,000 and who have outstanding tax liabilities, to make arrangements for the eventual clearance of such tax arrears before the remittance is approved by the ministry of finance.

VIII. Article IV Consultation: St. Lucia is currently on the 12-month cycle. The 2002 Article IV consultation was concluded by the Executive Board on January 27, 2003; the relevant documents are IMF Country Report Nos. 03/137 and 03/139.

IX. Technical Assistance (2001-present):

Caribbean Regional Technical Assistance Center (CARTAC):

- In January 2004, under the Stabilization and Adjustment Technical Assistance Program (SATAP), a CARTAC mission undertook a follow-up financial programming exercise.
- In October 2003, a CARTAC mission assisted St. Lucia undertake a financial programming exercise.

- In September 2003, a CARTAC mission was undertaken in relation to the development of import-export price indices, following up on the April mission.
- In August 2003, a CARTAC consultant reviewed work being done by the Central Statistical Office, especially in regard to the compilation of a supply and use table.
- In August 2003, St. Lucia participated in a CARTAC regional workshop on regulation of trust service providers for Caribbean supervisors.
- In June 2003, CARTAC sponsored St. Lucia's attendance at Toronto Leadership Training Course and subsequent OSFI workshop on insurance supervision.
- In May and July 2003, CARTAC gave training in Balance of Payments concepts and methods to St. Lucian statistics officials.
- In April 2003, a CARTAC consultant developed first stage of a program to produce import and export price indices.
- In March 2003, CARTAC arranged professional attachment of Insurance Supervisor at Cayman Island's Monetary Authority.
- In March 2003, CARTAC competed a study for establishing St. Lucia's Single Regulatory Unit and followed up by assisting with drafting legislation.
- In February 2003, CARTAC advisory mission took place to update and improve CPI compilation.
- In February 2003, St. Lucia participated in a CARTAC regional workshop on insurance supervision practices.
- In January 2003, MAE assisted CARTAC and the Central Bank of Barbados in hosting a workshop on consolidated supervision for officials from central banks and other financial regulatory institutions in 19 Caribbean countries, including St. Lucia.
- In December 2002, CARTAC engaged a consultant to revise/create the ECCB manuals for procedures for off-site surveillance, on-site inspections and anti-money laundering compliance for both the domestic and offshore sectors.
- In November 2002, CARTAC assisted the government in a seminar on corporate governance for over 100 participants.
- In November 2002, CARTAC financed ASYCUDA++ feasibility study for St. Lucia.
- In November 2002, CARTAC and FAD completed a comprehensive study of St. Lucia's tax system and administration as part of the overall study for the OECS region. St. Lucia has also benefited from CARTAC regional training courses in tax audit and administration, one of which was held in St. Lucia.
- In October 2002, a training seminar sponsored by CARTAC on financial sector supervision was held at the ECCB for regulators of banks, insurance companies and credit unions from all OECS member states and the ECCB.
- In October 2002, CARTAC sponsored training in customs valuation for St. Lucia in cooperation with Canadian Customs and Revenue Authority.

- In September 2002, a CARTAC/SATAP mission assisted the ECCB and member country governments in a stabilization/financial programming workshop. A Joint CARTAC/ECCB technical team assisted St. Lucia undertake a financial programming exercise in June and October 2003.
- In August 2003, CARTAC arranged attachment for two St. Lucian tax officials with Barbados Land Tax Department.
- In August 2002, CARTAC conducted a review of the offshore banking legislation for St. Lucia for consistency with the Basle Core Principles and prepared a brief for draftsman.
- In July 2002, CARTAC arranged attachment for St. Lucia's Director of Financial Services with the Central Bank of Barbados and Cayman Island's Monetary Authority.
- In June 2002, CARTAC held a training course in tax administration best practices for 19 St. Lucian tax officials.
- In June 2002, CARTAC assisted the ECCB in a two day seminar on launching public finance reform programs in the ECCB member countries.
- In April 2002, a CARTAC/ECCB meeting of OECS Directors of Statistics resulted in an agreed strategy for strengthening compilation of statistics.
- In April 2002, a CARTAC/ECCB meeting of regulators in St. Lucia led to the agreed Strategy for Strengthening Supervision of OECS Financial System.
- In September 2001, ECCB and CARTAC jointly sponsored a workshop on estimating and forecasting techniques for financial programming, held at the ECCB for officials of ECCB member countries.

St. Lucia: Relations with the World Bank Group

(As of January 4, 2004)

The World Bank's Management presented to its Board the Eastern Caribbean Sub-Region Country Assistance Strategy (CAS), on June 28, 2001. The CAS, which covers FY 2002–06, proposes new commitments of US$107 million for five borrowing member states of the Organization of the Eastern Caribbean States (OECS), including St. Lucia. The main goals of the strategy are to reduce income insecurity and vulnerability at the national and household levels, and build human and institutional capacity to meet the challenging economic and social environment facing these small states. Most new projects are being provided under a sub-regional umbrella mechanism using horizontal Adaptable Program Loans (APLs), and in close collaboration with sub-regional organizations and external partners.

V. Projects

There are six active World Bank projects in St. Lucia for a net commitment of approximately US$31.1 million.

The St. Lucia **Disaster Management Project**, approved in December 1998, is part of a regional program for the five OECS borrowing countries to fortify, reconstruct, and/or rehabilitate key economic and social infrastructure and facilities, in order to minimize damage or disruption caused by future natural and man-made disasters, and to speed emergency recovery following such disasters. Additionally, the project is expected to strengthen the countries' institutional capacity to prepare for and respond to disaster emergencies efficiently and effectively. The total program size is US$46 million, and the St. Lucia component is US$6 million.

The World Bank on March 8, 2002, approved $20.9 million in loans and credits to support **Emergency Recovery Projects** in Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. The projects support efforts aimed at fostering recovery from the fallout of the events of September 11, 2001. The projects support: (i) efforts to safeguard the productive capacity of the tourism sector by securing energy imports; (ii) investments to enhance security at airports and ports; and (iii) the development of institutional capacity to develop security programs as mandated by international civil aviation and maritime transport agencies. The Bank's support to St. Lucia under this project is for US$6.3 million.

The **St. Lucia Water Sector Reform Technical Assistance** was approved in December 2001 for $2.6 million. It supports the Government of St. Lucia's goal of improving the water and sewerage service provision through the private sector participation (PSP) in the operation of WASCO, the water supply and sewerage utility. The project finances the development of a regulatory, the preparatory work for PSP transaction as well a dissemination and consensus building campaigns.

The **St. Lucia Poverty Reduction Fund**, approved in July 1999 for US$3 million, aims to develop the institutional and operational framework for a social fund, and pilot its ability to provide quality basic social and economic infrastructure and services to St. Lucia's vulnerable poor. The project will thus contribute to a sustainable infrastructure, fostering community-led development.

The **OECS Education Reform Project** is a follow-up to the Basic Education project. It was approved in June 2002 for US$12.0 million, and was signed in September 2002. It is expected to become effective by the end of this calendar year. This is one of several subprojects included in a regional horizontal APL. The overall objective of this project is to build human capital in the OECS which, in turn, will contribute to the diversification of their economy and more sustainable growth. This objective will be achieved by: (i) increasing equitable access to secondary education; (ii) improving the quality of the teaching and learning process, with more direct interventions at the school level and a focus on student-centered learning, and (iii) strengthening management of the sector and governance of schools.

The **OECS Telecommunications Reform Program**, approved in June 1998 for US$6 million, aims to introduce pro-competition reforms in the telecommunications sector and increase the supply of informatics-related skills in the five OECS borrowing countries—Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. The project has assisted the OECS countries negotiate with the subregional telecom monopoly for less one-side contracts and lower long distance and regional telephone rates. The St. Lucia component is US$1.2 million.

VI. Economic and Sector Work

The Bank is and has recently been engaged in three categories of analytical work of direct relevance to St. Lucia. The first builds on the Bank-wide program on small states. Earlier pieces focused, among others, on the issues of vulnerability in the Caribbean (including macroeconomic volatility and income security), research on catastrophic insurance, reviews of natural hazard risk mitigation strategies, and institutional arrangements for environmental management in the OECS. Several of these were discussed by the Caribbean Group for Cooperation in Economic Development in June 2002.

The second body of work addresses long-term development in the OECS and includes the recently completed Institutional and Organizational Capacity Review of the OECS, a Procurement Assessment Review, and a Financial Accountability Assessment. A fiscal issues report, which includes a review of public expenditures in St. Lucia, is ongoing, as is work on an Energy Sector Management Assistance Program for the OECS as a whole. The Bank is also about to embark on a study of growth and competitiveness in the OECS, scheduled for completion during the first half of 2004.

Third, the Bank will continue to work together with the IMF and ECCB to fully review the financial sector through an ongoing Financial Sector Assessment Program.

VII. Financial Relations

(In millions of U.S. dollars)

Operation	Original Principal	Available/1	Disbursed/1
ST. LUCIA EMERGENCY RECOVERY PROJECT	6.30	3.16	3.70
ST. LUCIA DISASTER MANAGEMENT	3.04	0.25	2.79
OECS TELECOM REFORM - ST. LUCIA	1.20	0.65	0.57
ST. LUCIA WATER SECTOR REFORM TA	2.60	2.33	0.57
ST. LUCIA POVERTY REDUCTION FUND	1.50	0.65	0.85
OECS EDUCATION (APL01) ST. LUCIA	12.00	13.04	0.09
	26.64	20.08	8.57

1/ Amounts may not add up to Original Principal due to changes in the SDR/US exchange rate since signing.

Disbursements and Debt Service (Fiscal Year Ending June 30)

	Actual								Projections
	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total disbursements	4.3	1.5	3.3	1.7	1.9	1.2	1.8	10.8	6.2
Repayments	0.2	0.2	0.2	0.2	0.4	0.8	0.8	1.2	1.2
Net disbursements	4.1	1.3	3.1	1.5	1.5	0.5	0.9	9.5	5.0
Canceled	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest and fees	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.5

St. Lucia: Relations with the Caribbean Development Bank

(As of August 31, 2003)

CDB's operations in St. Lucia have been designed to support the economic and social development efforts of the government by financing priority capital projects, providing technical assistance and engaging in policy dialogue on key development issues. Guided by its mandate and the development objectives of the government, the CDB has collaborated with St. Lucia in such areas as: (i) the formulation and implementation of macroeconomic, social, and sectoral policies geared towards providing a framework for growth; (ii) infrastructure development to facilitate private sector investment; (iii) human resource development to facilitate economic growth and diversification and the reduction of poverty; (iv) direct and indirect lending to agriculture, tourism, and manufacturing; (v) environmental protection to promote sustainable development; and (vi) poverty reduction.

St. Lucia is the second largest user of CDB resources, accounting for $230.8 million (10.7 percent) of net cumulative loans, contingent loans, equity, and grants approved since 1970. Of this amount, $110.6 million were provided from the Ordinary Capital Resources while the remainder was from "soft" resources. Total net loans, contingent loans, equity and grants approved during 2002 and during the first half of 2003 amounted to$8.8 million and $8.7 million respectively. At the end of December 2002 St. Lucia had a total outstanding balance of $85.6 million compared to $76.4 million at the end of 2001. At the end of June 2003, the total outstanding balance stood at $91.0 million on some 46 loans with 15 projects under implementation. Disbursement of loans, contingent loans, equity and grants during 2002 reached $17.5 million, while that disbursed during the first half of 2003 amounted to $7.0 million.

Below is a summary of the cumulative sectoral distribution of CDB assistance to St. Lucia.

Sectoral Distribution of Approved Financing, 1970–2002

Sectors	In Millions of U.S. Dollars	In Percent
Transportation	52.2	22.6
Education	41.7	18.1
Manufacturing	26.7	11.6
Agriculture	26.2	11.4
Water	19.1	8.3
Tourism	14.1	6.1
Housing	19.1	8.3
Health	5.6	2.4
Power and energy	1.4	0.6
Multisector	24.7	10.6
TOTAL	230.8	100.0

St. Lucia: Statistical Issues

St. Lucia's statistical database is inadequate for meeting the authorities' needs and for Fund surveillance. There are weaknesses in coverage, frequency, quality, and timeliness that continue to frustrate effective economic analysis and policy formulation. The weakest areas are the national accounts, the fiscal accounts, and balance of payments. Also, comprehensive and regular labor statistics are not available. The ministry of finance publishes annually an economic and social review, which includes statistics covering developments in all macroeconomic sectors. The Eastern Caribbean Central Bank (ECCB) publishes a quarterly economic and financial review and an annual balance of payments for each member country.

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

Real sector

The authorities are developing a new methodology for the computation of the GDP, aimed mainly at obtaining better sectoral estimates. However, the process is being stymied by data collection problems. Attempts are being made to compile quarterly GDP estimates with funding from the OAS. Given the increasing importance of tourism activities, a new comprehensive survey of the sector seems necessary to establish key data, such as average length of stay in different types of accommodations and average daily expenditure by type of tourist arrivals. This information should then be cross checked with other related activities, i.e., restaurants and transportation, to ensure consistency. A recent mission from the Caribbean Regional Technical Assistance Center helped the authorities to develop export and import price indices and undertook initial work on measuring price developments in tourism. Another area in need of improvement is the reporting of labor statistics, in particular, private and public employment and wages.

Public sector finance

Reporting of the central government data has improved substantially over the last few years, but some major deficiencies remain in the rest of the public sector. The authorities are now reporting monthly data on the central government 's current revenue and expenditure using a Fund-compatible economic classification, and with lags of one to two months. However, the frequent large revisions to the figures after they are first reported suggest that further improvements in their quality are needed. With regard to the rest of the public sector, the periodicity and timeliness of data reporting should be improved; annual statements and projections are currently obtained directly from each entity during Fund missions and consolidated public sector accounts are compiled by the Fund staff. Data on domestic debt of the public sector are not available on a regular basis. No fiscal data are reported to STA for publication in the *GFS Yearbook* or in *IFS*.

Money and banking

The ECCB compiles monthly data on commercial banks with a lag of about six weeks. The information is reliable and is reported on a regular basis. Data for a group of nonbank financial intermediaries are compiled by the Ministry of Finance with a lag of about three months and are reported on an irregular basis.

Balance of payments

Balance of payments data are compiled by the ECCB on an annual basis. Although recent data provide a more detailed breakdown of goods than in the past, in other areas they do not provide sufficient detail to enable publication of the full detailed classification used in the fifth edition of the *Balance of Payments Manual (BPM5).* Data for 2001 and revised data for earlier years were published in the March 2003 issue of *IFS*. In general, enhanced data sources and better compilation procedures are needed to improve the accuracy of balance of payments statistics. Efforts should also be made to compile quarterly balance of payments statistics.

External debt

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

St. Lucia: Core Statistical Indicators
(As of February 4,2004)

	Exchange Rates	International Reserves	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Debt
Date of latest observation	Fixed rate since 1976	9/2003	9/2003	9/2003	9/2003	7/2003	9/2003	11/17/03	12/2002	2002	10/2003
Date received		11/2003	11/2003	11/2003	11/2003	11/2003	11/7/2003	11/17/2003	03/2003	11/2/2003	11/14/2003
Frequency of data series		Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annual	Monthly	Annual	Monthly
Frequency of reporting to IMF		Monthly (lag of 1-2 months)	Monthly (lag of 1-2 months)	Monthly (lag of 1-2 months)	Monthly (lag of 1-2 months)	Monthly (lag of 1-2 months)	On request	Annual	Monthly	Annual	On request
Source of update		ECCB	ECCB	ECCB	ECCB	Central Statistical Office (CSO), Ministry of Finance	CSO/ECCB	ECCB	Ministry Of Finance	ECCB & Central Statistical Office (CSO), Ministry of Finance	Debt Unit Ministry of Finance
Mode of reporting		E - Mail	E - Mail	E - Mail	E - Mail	Mission/Fax	Mission/Fax	Mission/ E - Mail	Mission/ Fax	Mission/ E - Mail	Mission/ Fax
Confidentiality		Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Restricted	Unrestricted	Restricted
Published data		Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No

Statement by the IMF Staff Representative
May 5, 2004

This statement contains information that has become available since the staff report was circulated to the Executive Board. It does not affect the thrust of the staff appraisal.

- **The pick-up in economic activity has been stronger than expected but remains quite narrowly based on the rebound in tourism.** Preliminary data indicate that real GDP grew by 3.7 percent in 2003 driven by 17 percent growth in the hotels and restaurants sector. This led to a narrower than expected external current account deficit of about 15½ percent of GDP. Despite these positive developments, the unemployment rate is reported to have increased from 20.4 percent in 2002 to 22.2 percent in 2003.

- **Preliminary fiscal data for FY2003/04 suggest that the overall balance was in line with projections, as additional revenues were offset by higher expenditure.** Current revenue of the central government increased by almost 10 percent, reflecting the growth in economic activity as well as a number of one-off revenue measures, including higher collection of tax arrears. Excluding payments associated with a government guarantee,[1] current expenditure rose by almost 8 percent with substantial increases in most areas. Notably, outlays for wages and salaries increased by about 11 percent, reflecting an end-year bonus of EC$850 per person and a retroactive 3 percent increase in wages. The current account showed a surplus of 0.5 percent of GDP, compared to the estimate in the staff report of approximate balance.

- **In its first venture on the regional government securities market, in January 2004 the Government of St. Lucia issued EC$27 million in one-year treasury bills.** The issue was fully subscribed and yielded an interest rate of 5.5 percent.

- **Reducing the overall fiscal deficit in FY 2004/05 would depend critically on containing capital expenditure.** The recently announced budget for FY 2004/05 is largely neutral on the revenue side. Current expenditure is budgeted to increase by over 7 percent. This implies a worsening of the current balance of almost 1 percent of GDP compared to the previous fiscal year, against staff's recommendation of an improvement of about the same magnitude. The allocation for capital spending has been sharply cut relative to last year's budget, but is higher than realized spending in FY 2003/04. Assessment of the fiscal stance embodied in the budget for FY 2004/05 depends on the outcome for capital expenditure. A 50 percent execution rate, in line with the experience during the past few years, would imply a reduction in capital expenditure of about 2 percent of GDP, as recommended by staff.

[1] On March 29, 2004, the OECS Court of Appeal overturned a High Court ruling that the St. Lucia Government had not followed proper procedure in issuing this guarantee.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 04/128
FOR IMMEDIATE RELEASE
November 15, 2004

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

IMF Concludes 2003 Article IV Consultation with St. Lucia

On May 5, 2004, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with St. Lucia.[1]

Background

After a contraction in GDP of over 4 percent in 2001 and only a marginal expansion in 2002, the pace of economic growth accelerated in 2003 to 3.7 percent, driven by a rebound in tourism of close to 17 percent. While growth has been stronger than expected in 2003, St. Lucia has experienced a marked decline in average economic growth during the last decade, reflecting mainly increased competition from lower priced tourist destinations, a maturing tourism product targeting the high-end of the market, and high labor and utility costs. During this period, as the structure of the economy moved away from agriculture to services, persistent high unemployment pointed to rigidities in the labor market. Expansionary fiscal policies were pursued after 1999 in an attempt to revive growth and reduce unemployment, resulting in a steady rise in public debt. Although, at 64 percent of GDP, St. Lucia's public debt at end-2003 was high, it remained well below that of its Eastern Carribean Currency Union partners. However, banking sector prudential indicators are generally weaker than the ECCU average.

Despite the pick-up in growth, the overall economic situation remained difficult in 2003, as an ongoing recovery in the tourism sector has not spilled over to the whole economy. Unemployment remained high (16–18 percent), and bank credit to the private sector is

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

declining (3½ percent decrease estimated in 2003). As countercyclical policies were maintained, the fiscal stance was further relaxed through FY 2003/04. The central government overall deficit is estimated to reach 5.5 percent of GDP in FY 2003/04, up by about ½ percent of GDP (excluding a 2.6 percent of GDP one-off outlay in FY 2002/03). Current revenues are estimated to have increased as a result of the net effect of tax measures and the positive cyclical impact of the ongoing economic recovery. However, rising primary expenditures (excluding the one-off outlay) largely offset those gains, on account of higher payments on current expenditures, including wages. The rise in public debt accelerated in 2003, with a large increase in external borrowing from commercial banks. However, the authorities were successful in reducing interest costs and lengthening maturities through refinancing operations.

Executive Board Assessment

Directors welcomed the ongoing economic recovery, led by a strong rebound in the tourism sector. However, they noted that the recovery is narrowly based, and that prospects for sustained growth remain uncertain, with high and persistent unemployment—stemming in particular from the decline of the banana sector—posing a major social and political challenge. Directors stressed that a sustained recovery will depend on fiscal discipline and perseverance with structural reforms to foster private sector-led growth and diversification and enhance competitiveness.

Directors noted that the attempt to revive growth through the pursuit of expansionary fiscal policy has sharply increased public debt. While recognizing that, owing to a longer history of prudent macroeconomic policies, St. Lucia's public debt is well below that of its Eastern Caribbean Currency Union partners, Directors expressed concern about the vulnerabilities associated with the steep increase in debt in recent years. They emphasized the importance of a strong upfront fiscal adjustment and continued moderation in expenditures to mitigate the country's vulnerability to exogenous shocks.

Against this background, Directors welcomed the authorities' intention to reduce capital outlays in FY 2004/05, but also stressed the need for additional steps to contain current expenditures. Directors urged the authorities to lay out a concrete timetable toward gradual fiscal consolidation, identifying specific measures to rationalize expenditure and strengthen revenue collection. Some Directors noted that the overall wage bill was large, and suggested that a fundamental reform of the public sector would help to reduce it more durably. Directors also recommended accelerated tax reform along the lines proposed by the Tax Reform and Administration Commission of the Organization of Eastern Caribbean Countries, and the prompt establishment of a Revenue Authority. They welcomed the authorities' decision to broaden public support for tax reform by circulating the OECS Tax Reform report for public discussion.

Directors emphasized the need to accelerate structural reforms to enhance long-term economic growth. In this context, they encouraged the authorities to step up their efforts to foster a conducive business environment, while reducing costly tax incentives to investment.

They stressed that, in the context of the currency board arrangement, labor market flexibility was required to facilitate adjustment to shocks and preserve competitiveness, and they called for continued wage moderation in the public and private sector, and increased labor productivity. Directors also encouraged the authorities to restructure the water company, increase efficiency in electricity generation, and foster agricultural diversification to support the tourism industry.

Directors expressed concern about the high level of nonperforming bank loans. While noting that St. Lucia banks are appropriately increasing their provisioning for loan losses and exercising caution in new lending, Directors urged the authorities to continue to work closely with the Eastern Caribbean Central Bank to address the issue. They encouraged the authorities to complete divestiture from the Bank of St. Lucia, and ensure adequate supervision of the offshore sector, including by developing and enforcing AML/CFT regulations.

Directors noted that, while some progress was being made to strengthen economic institutions with the assistance of the Caribbean Regional Technical Assistance Center (CARTAC), the consistency and timeliness of economic statistics needed improvement. The authorities were encouraged to enhance reporting under the GDDS, and seek technical assistance through CARTAC and other donors.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

St. Lucia: Selected Economic Indicators

	1999	2000	2001	2002	2003
Output and prices					
Real GDP	2.8	0.1	-4.3	0.4	3.7
Consumer prices (average)	3.5	3.6	2.1	-0.2	1.0
(In percent of GDP)					
Investment and saving					
Gross domestic investment	27.7	26.6	26.0	22.8	28.4
Gross domestic savings	15.2	14.2	17.0	10.2	10.1
Public sector operations 1/					
Public sector revenue	39.3	38.0	36.3	36.7	37.3
Public sector expenditure	36.7	37.4	38.0	41.2	39.8
Public sector savings	10.7	10.2	5.6	4.3	4.7
Public sector balance	2.6	0.6	-1.7	-4.4	-2.6
Central government balance	0.5	-1.3	-4.4	-7.5	-5.5
(In millions of U.S. dollars unless otherwise specified)					
External sector					
Merchandise exports	60.9	52.9	54.1	69.8	66.1
Merchandise imports	312.0	312.5	272.1	275.6	352.6
Gross tourism receipts	277.1	286.1	251.2	230.7	266.7
Current account balance	-83.6	-84.8	-59.0	-84.9	-129.1
Overall balance	7.7	8.2	10.1	5.1	17.2
Current account balance (in percent of GDP)	-12.5	-12.4	-9.0	-12.5	-18.3
External public debt (in percent of GDP)	25.4	28.8	32.8	38.4	46.6
Real effective exchange rate (1990=100) 2/	115.5	122.3	122.9	120.6	108.2
(Changes in percent of broad money at the beginning of the period)					
Monetary sector					
Net domestic assets	10.8	4.7	4.6	4.1	-6.3
Credit to the private sector	13.6	8.0	5.1	0.9	-4.1
Broad money (M2)	9.7	7.9	4.7	3.2	4.8

Sources: St. Lucian authorities; Eastern Caribbean Central Bank; and IMF staff estimates.

1/ The public sector comprises the central government, the Castries City Council, the National Insurance Corporation, and four nonfinancial public enterprises. Data are for fiscal years beginning April 1.

2/ Year average. For 2003, January to November.

Statement by Ian Bennett, Executive Director for St. Lucia
May 5, 2004

Key Points

- *After a contraction of over 4 percent in 2001 and only marginal expansion in 2002, the pace of economic growth in St. Lucia accelerated in 2003 to 3.7 percent. This impressive turnaround can be attributed, in large part, to the improvement in tourism – despite competition from regional destinations, stay-over arrivals hit an all time high.*
- *The authorities recognize that they will need to control the size of the deficit. While there is no need to panic, with interest payments of around 3.5 percent of GDP, fiscal retrenchment will play a more prominent role as the economic recovery takes hold.*
- *The government is actively supporting the economy by:*
    - *upgrading social infrastructure and services; and*
    - *undertaking the necessary reforms to prepare for the Caribbean Single Market and Economy by January 2005, which will bring unparalleled competition in goods, services, manufacturing and trade to the region.*

While my authorities welcomed the FSAP, and are in general agreement with the recommendation of the FSSA, they share the concerns of the ECCB in relation to the tone and interpretation in sections of the Executive Summary.

On behalf of the authorities of St. Lucia, I would like to express gratitude to the staff for the very helpful Article IV consultation. The exchange of information with the mission leader, and the rest of the Fund team, was extremely productive and valuable for the authorities. The staff report very effectively puts St. Lucia's current challenges in a medium term context.

Growth is picking up...

After a contraction of 4 percent in 2001 and only marginal expansion in 2002, the pace of economic growth in St. Lucia accelerated in 2003 to 3.7 percent, significantly higher than the 2.3 percent projected growth at the time of the Article IV mission. This turnaround marks a significant achievement, given the difficult period of slow growth in major industrial countries and the fallout from the war on terrorism.

The main impetus for growth emanated from expansions in the tourism sector by 16.6 percent, growth in wholesale and retail trade by 7.8 percent, communications by 4.5 percent and transportation by 2.6 percent. However, the overall positive performance was tempered by reductions in value added recorded for agriculture by 10.8 percent. (Adverse weather conditions and the outbreak of leaf spot disease, particularly in the last quarter of the year, contributed to a 29.5 percent reduction in banana output.)

...due to a revival in tourism

As international concerns and expectations regarding the conclusion of activities in the war in Iraq subsided, the level of international travel increased during 2003. Consequently, St. Lucia registered a 4.1 percent increase in total visitor arrivals. Despite competition from regional destinations, the island recorded a 9.3 percent increase in stay-over arrivals to an all time high of over nearly 277,000 as additional visitors came from the main source markets. The increase in European travel to St. Lucia increased a massive 17.6 percent. In the cruise sector, St. Lucia was affected by the repositioning of itineraries away from the low eastern Caribbean to the northern territories in the aftermath of the war in Iraq and the growing concerns regarding personal safety. Accordingly, cruise arrivals increased only by 1.6 percent.

My authorities believe that the performance of the tourism sector – the engine of growth for the economy – is evidence that the government's investment in the tourism sector along with its marketing and promotions, are paying dividends. Despite the most challenging environments for investments and for operations, the tourism sector grew by 16.6 percent, and stands as its most significant improvement in nine years.

The fiscal situation has become challenging

St. Lucia has a solid record of prudent economic management, traditionally running only small overall fiscal deficits, and in some years, even overall surpluses. However, as the staff correctly point out, the fiscal situation has deteriorated in the last few years, particularly most recently as the economy was hit by a series of large external shocks. The authorities recognize that – regardless of the cause of the deterioration – they will need to control the size of the deficit, and take note of the thoughtful alternative fiscal scenarios set out in the staff report. While there is no need to panic, with interest payments of around 3.5 percent of GDP, fiscal retrenchment will play a more prominent role as the recovery takes hold.

For fiscal year 2003-04, central government revenues have increased by almost 10 percent, due to the upturn in economic activity, one-off tax measures and higher collection of tax arrears. Moreover, the government recently introduced some additional revenue enhancing measures. Initiatives include an increase in the departure tax for Caribbean Community nationals by approximately 50 percent; a tripling of the marriage fees; as well as a significant increase in commercial bank license fees. The authorities have also made public their intention to increase fuel prices if the price of oil does not recede. They also remain supportive of the on-going work on determining the feasibility of a regional, VAT-type tax.

On the spending side, some progress has also been made. Capital expenditures – consistent with the staff's very useful advice on this front – have been significantly cut back. Salary negotiations with civil servants were difficult, and at times, bitter. However, the outcome was quite favourable, and resulted in only a modest structural pay increase that should leave the government well placed to control future civil service wage increases. A one-time end-year bonus of EC $850 per person has been paid, which was largely

responsible for an increase of 11 percent in the aggregate outlays for wages and salaries.

It should also be noted that the government has undertaken a series of measures to improve their debt management. Good progress has been made at lengthening the maturity and reducing interest rates on government debt. Very encouragingly, a sizeable amount of treasury bills were very recently issued on the regional securities market (at a 5 ½ percent interest rate). This process of improvement should continue, especially as expert personnel have been hired to run the new debt management unit.

Structural reforms continue

St. Lucians firmly believe that an active, and when necessary, interventionist government is vital to their small-island economy – and that this approach has served them well, giving St. Lucia some of the highest social indicators in the region. In this context, the government was re-elected in 2001 with a mandate to upgrade social infrastructure and services. Accordingly, they have been active on this front by:

- establishing a youth apprenticeship program – in collaboration with private sector agencies – to stimulate youth participation in the economy;

- creating an agricultural diversification agency, to broaden the agricultural base and help deal with the advent of the new banana trading regime;

- undertaking health care reforms, to support universal health care;

- making select investments – such as the establishment of a forensic unit – to enhance internal security; and

- preparing a comprehensive incentive package to significantly increase hotel room capacity should St. Lucia be chosen to hold the ICC Cricket World Cup in 2007.

While St. Lucians support an active government, they recognize that the island's ongoing success will, to a large extent, be determined by a healthy and efficient private sector. In this regard, the island is undertaking the necessary reforms to prepare for the Caribbean Single Market and Economy (CSME) by January 2005. When the CSME is established, it will be one of the most significant developments in Caribbean regional integration in recent years, as it will have a major impact on regional economies and regional economic development. Not only will it spur economic growth, but it will also bring unparalleled competition in goods, services, manufacturing and trade. A Task Force on the CSME has been established to guide the process of St. Lucia's participation that will include: reforms to remove the requirement for work permits for a broad range of vocations; procedures to recognize degrees and certificates; implementing social security agreements to allow for the transfer of social security benefits; reforms to ensure non-discrimination of taxation on CARICOM goods; and appealing and amending forty pieces of discriminatory legislation.

Monetary and Financial Issues

The authorities continue to view the common monetary and exchange arrangement with the ECCB as indispensable to maintaining low inflation, fostering prudent economic policies and maintaining economic stability. They are working closely with the ECCB to put in place the necessary supervisory mechanisms to ensure compliance with Basel Core Principles, and to develop and enforce AML/CFT regulations. In this regard, the recently-undertaken regional FSAP was seen as an important process in identifying gaps which needed to be filled to bring the system up to the highest international standards. While my authorities welcomed the FSAP, and are in general agreement with the recommendation of the FSSA, they share the concerns of the ECCB in relation to the tone and interpretation in sections of the Executive Summary. These concerns are more fully elaborated in our statement on ECCU surveillance.