INTERNATIONAL MONETARY FUND

Staff Country Reports

February 2008
IMF Country Report No. 08/67

St. Lucia: 2007 Article IV Consultation—Staff Report; Staff Supplement; and Public Information Notice on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2007 Article IV consultation with St. Lucia, the following documents have been released and are included in this package:

- The staff report for the 2007 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on July 11, 2007 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 September 7, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement on debt sustainability analysis.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its September 26, 2007 discussion of the staff report that concluded the Article IV consultation.

The document listed below will be separately released.

Statistical Appendix

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INTERNATIONAL MONETARY FUND

ST. LUCIA

Staff Report for the 2007 Article IV Consultation

Prepared by the Staff Representatives for the 2007 Consultation with St. Lucia

Approved by Markus Rodlauer and Matthew Fisher

September 7, 2007

EXECUTIVE SUMMARY

Achievements and challenges: Since 2001, a revival in tourism-related services and construction activity has led to an acceleration in real GDP growth. Inflation remains low, underpinned by the regional currency board arrangement. While public debt is the lowest among Eastern Caribbean Currency Union countries, it is still about 67 percent of GDP, and the fiscal situation has weakened in recent years. In addition, St. Lucia faces structural challenges (including inadequate infrastructure and high unemployment) that need to be addressed to raise growth durably and reduce poverty.

Outlook and risks: In the near term, economic activity is expected to soften due to a slowdown in tourism and construction. With growing pressure for capital and social spending, there is a risk that current fiscal policies will lead to an unsustainable level of public debt. There is also some political uncertainty surrounding the succession to the ailing Prime Minister (Sir John Compton), who is expected to demit office by end-2007.

Focus: The discussions focused on the principal challenges facing St. Lucia:

● ***Enhancing growth prospects.*** The authorities and staff agreed that restoring higher levels of growth on a sustained basis will require careful management of tourism development and sustained structural reforms aimed at broadening the economic base. There was broad consensus on the requirements, including the acceleration of structural reforms, review of the investment incentives regime, enhanced labor market flexibility, and steps to improve the investment climate.

● ***Ensuring debt sustainability and fiscal consolidation.*** To restore fiscal and debt sustainability, staff advocated a front-loaded effort at fiscal adjustment of about ¾ of 1 percent of GDP in FY 2007/08, to be achieved mainly through prioritization of capital spending. Over the medium term, fiscal consolidation will involve broadening the tax base through enhanced pass-through of international oil prices to retail fuel prices, the introduction of a value-added tax and market valuation-based property tax, containment of expenditure on wages and salaries, elimination of low-priority capital projects, and enhanced debt management. The authorities concurred with the need to enhance the efficiency of budgetary spending, including the introduction of a formal public sector investment program (PSIP) mechanism, but emphasized the need for fiscal policy to be supportive of their plans to scale up investment in tourism-related public infrastructure and thereby attract foreign direct investment flows.

● ***Reducing vulnerabilities to shocks.*** Reforms to improve the economy's resilience to potential shocks include strengthening hurricane preparedness, and bolstering social safety nets. The authorities have taken steps to strengthen financial sector supervision, but there has been slow progress in establishing a single regulatory agency for supervision of nonbank financial institutions.

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I. Background[1]

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

2. **St. Lucia's growth rate declined from about 7 percent in the 1980s to 2 percent in the 1990s and 2000s** (Figure 1). The main cause of the slowdown was declining banana exports, due to rising costs and the erosion of European Union trade preferences. Output growth has rebounded since 2001, mainly from tourism, and more recently as a result of Cricket World Cup (CWC)-related construction activities.

3. **The fiscal position strengthened in the mid-2000s, but has deteriorated in recent years** (Figure 2). Expansionary budgets in 2000–02 sharply raised the fiscal deficit and debt-to-GDP ratio. In subsequent years the authorities strengthened fiscal management by tightening revenue administration and containing capital expenditure. However, the fiscal position weakened sharply in FY 2005/06, owing to CWC-related capital expenditures. Public debt stands at about 67 percent of GDP in FY 2006/07—nearly twice the level of a decade ago, albeit still the lowest in the ECCU.

4. **St. Lucia has strong social indicators.** A 2004 welfare survey indicated near-universal adult literacy, strong health outcomes, and good access to social services. However, unemployment has remained high at around 16 percent, particularly among the young and women. One-fourth of the population lives in poverty, and crime is a growing concern.

St. Lucia: Social and Demographic Indicators

	St. Lucia	ECCU
Population (in thousand), estimate 2006	167	568
Poverty headcount index, 2001 1/	25	29
HDI rank, out of 177 countries, 2006	71	73
Life expectancy at birth (years), 2004	73	74
Adult illiteracy rate (percent), 2001	5	8
AIDS incidence per 100,000, 2004	27	29
Immunization coverage (percent), 2000	96	93
Per capita dietary energy supply (calories per day)	2,930	2,695
Infant mortality rate (per 1,000 live births), 2004	13	17
GDP per capita (US$) in 2006, estimate	5,546	7,100

Sources: World Bank, *World Development Indicators*; and Fund staff calculations.
1/ Percentage of population living below each country's locally-defined poverty line.

5. **St. Lucia has generally been receptive to the Fund's policy advice.** The authorities have followed recommendations on bolstering revenues, particularly on the value-added tax

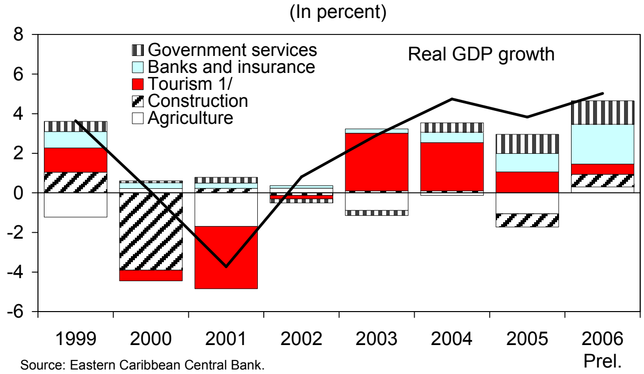
[1] The Article IV discussions were held in Castries during June 27–July 11, 2007. The staff team comprised Messrs. Cashin (Head), Nassar, Pineda, and Ms. Tsounta (all WHD). The mission met with the Acting Prime Minister (and Minister of Finance), the Minister of Economic Affairs, the Permanent Secretary of the Ministry of Economic Affairs, other senior government officials, opposition parliamentarians, representatives of the financial and business sectors, as well as farmers, trade unions and civil society. Staff of the Eastern Caribbean Central Bank (ECCB) and Caribbean Development Bank (CDB) also participated. Mr. Charleton (OED) joined for the final discussions.

and market valuation-based property tax, and on reforms to social security. However, they have been less responsive to staff recommendations to rein in capital spending, and progress with financial sector reforms has been slow.

II. Recent Economic Developments

6. **Macroeconomic outcomes have strengthened significantly in recent years.** Real GDP growth averaged 3¾ percent during 2003–05, and is estimated to have reached 5 percent in 2006. Activity was sustained by construction and government services, both related to tourism and preparations for CWC. In 2007, growth is expected to reach only 3¼ percent, which is below trend (estimated at about 4¼ percent), due largely to the lackluster performance of the tourism sector, slowing construction and hurricane-induced damage to banana production.[2] Inflation remains low, buttressed by the regional currency board arrangement. Unemployment has declined from 22 percent in 2003 to below 16 percent in 2006.

Sectoral Contribution to GDP Growth
(In percent)



Source: Eastern Caribbean Central Bank.
1/ Tourism includes wholesale and retail trade, hotels and restaurants, air transport and half of local transport.

7. **The fiscal deficit remained sizeable in FY 2006/07.** Total tax revenues were strong, buoyed by reforms at customs. However, petroleum tax collection was poor (given the limited pass-through of world oil prices). Total expenditures were higher, due chiefly to a significant increase in CWC-related capital spending. As a result, the overall deficit fell only slightly to 6½ percent of GDP.

St. Lucia: Key Fiscal Indicators, 2003–07 1/
(In percent of GDP)

	2003	2004	2005	Est. 2006	Budget 2007	Baseline Scenario 2007	Alternative Scenario 2007
Total revenues and grants	26.2	25.5	25.1	25.9	38.9	29.0	29.3
Current revenue	24.2	25.5	24.8	25.5	27.2	25.0	25.3
Capital revenue	0.4	0.0	0.0	0.0	0.6	0.0	0.0
Capital grants	1.6	0.0	0.2	0.4	10.0	4.0	4.0
Total expenditure and net lending	29.8	29.3	32.0	32.4	47.2	33.5	31.5
Current expenditure	22.4	21.7	22.0	21.9	26.3	23.3	22.9
Capital expenditure and net lending	6.6	7.4	9.9	10.5	20.9	10.2	8.7
Overall balance (including grants)	-3.6	-3.8	-6.9	-6.5	-8.3	-4.4	-2.2
Primary balance (including grants)	-0.8	-0.8	-3.4	-3.0	-4.8	-0.8	1.3
Primary balance (excluding grants)	-2.4	-0.8	-3.7	-3.4	-14.9	-4.8	-2.7

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

8. **The approved budget for 2007/08, if fully implemented, would likely widen fiscal imbalances**. Expenditure is budgeted to increase sharply (by 15 percent of GDP), mainly in capital spending. At the same time, announced revenue measures and likely grant receipts

[2] Economic growth has been adversely affected by Hurricane Dean, which passed close to St. Lucia in August 2007, damaging the country's agricultural crops.

would be insufficient to generate the budgeted large increase in available resources (13 percent of GDP).

9. **Following a sharp increase in 2006, the external current account deficit is expected to narrow in 2007** (Box 1). The deterioration was driven by a rapid fall in both the terms of trade and tourism arrivals, and an increase in imports related to hotel construction and public capital expenditure for the CWC. Foreign direct investment (FDI) surged in 2006, reflecting tourism-related construction. In 2007 the current account deficit is expected to narrow, reflecting a slowdown in CWC-related imports and a moderate rebound in exports of goods and services. The current account is expected to continue to be largely financed by FDI flows.

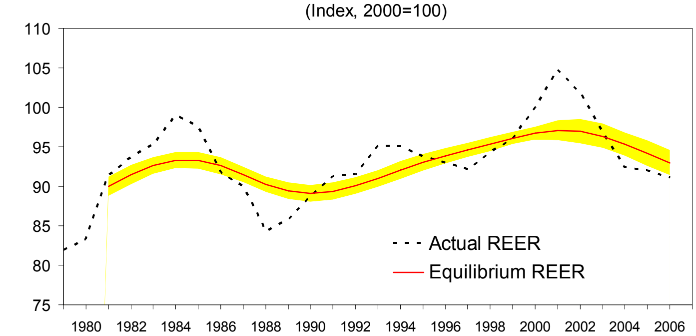
St. Lucia: Selected External Indicators, 2003–07

	2003	2004	2005	Est. 2006	Proj. 2007
	(Percentage change)				
Terms of trade	-3.5	-0.8	-1.1	-13.9	-2.9
Real effective exchange rate, (depreciation -)	-4.9	-4.6	-0.5	-1.0	...
Banana export receipts	-25.7	24.7	-23.7	15.9	-15.0
	(In percent of GDP)				
Current account	-19.7	-10.9	-17.1	-32.2	-20.6
Exports of goods and nonfactor services	52.3	58.0	56.9	47.1	49.1
Imports of goods and nonfactor services	66.9	62.0	67.2	74.5	65.3
Tourism receipts	37.8	40.7	40.6	30.8	33.0
Oil imports	2.3	3.5	3.6	4.1	3.9
Foreign direct investment (net)	14.3	9.6	8.9	23.3	12.5
Outstanding external debt (end of period)	45.7	46.2	45.9	43.9	44.0

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

10. **While the real exchange rate does not seem out of line with fundamentals, competitiveness remains a challenge.** Staff analysis indicates that St. Lucia's real effective exchange rate (REER) is currently close to its estimated equilibrium level (Box 2).[3] Indeed at end-2006 the REER was at its lowest level in nearly 20 years, reflecting the depreciation of the U.S. dollar against major currencies (Figure 3). However, there are challenges in maintaining external competitiveness, as real wages have increased, the terms of trade have deteriorated significantly since 2002, and in recent years St. Lucia experienced a decline in its share of stayover visitors to the Caribbean. In addition, given St. Lucia's large stocks of public and external debt, fiscal consolidation is needed to

St. Lucia: Actual and Equilibrium REER, 1979-2006 1/
(Index, 2000=100)



Sources: IMF, Information Notice System; and Pineda and Cashin, "Is the Eastern Caribbean Dollar Overvalued?", forthcoming ECCU Selected Issues Paper.
1/ The shaded band around the equilibrium exchange rate represents ±1 standard error of the prediction.

[3] The exchange rate level and regime for the EC dollar will be assessed in ECCU Policies: 2007 Article IV Consultations with Member Countries.

maintain competitiveness, enhance debt sustainability, and support the region's currency board arrangement.

11. **Broad money growth remained strong in 2006.** Credit to the private sector expanded by 25 percent, attributable to CWC-related activities. In 2007, credit growth is expected to slow, in line with anticipated real GDP and construction sector growth.

St. Lucia: Selected Monetary Indicators, 2003–07

	2003	2004	2005	2006	Proj. 2007
(Annual percentage change)					
Broad money	7.6	10.1	13.4	20.1	9.6
Credit to private sector	-3.6	10.2	16.2	24.5	8.0
(Percent contribution compared to M2 at the beginning of the year)					
Net foreign assets	17.7	-1.2	-14.5	1.0	-3.1
Net domestic assets	-10.1	11.3	27.9	19.1	12.7
Net credit to public sector	-2.8	-2.5	3.2	1.7	2.0
Of which					
Central government	-0.6	-1.9	2.7	3.4	2.8
Credit to private sector	-4.3	11.1	17.7	27.4	9.2
Net credit to nonbank financial institutions	-0.5	0.3	-0.1	-0.1	-0.1
Other items (net)	-2.4	2.4	7.2	-9.9	1.6

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

12. **Prudential indicators point to a strengthening of the financial sector.** While provisioning has been stable, asset quality and capital adequacy improved in 2006 (Figure 4). Nonperforming loans (NPLs) of local banks continue to decline, and are close to the ECCB's prudential target of 5 percent. However, the decline in the NPL ratio reflects in part the jump in bank lending, and the recent credit boom could result in problem loans down the road, especially in the event of a large macroeconomic shock (such as a sustained downturn in tourist arrivals). Furthermore, foreign currency deposits have grown in recent years, signaling an increase in balance sheet vulnerabilities. Nonbank financial intermediaries, whose deposits amount to about one-fifth of bank deposits, remain under-regulated despite their systemic importance.

Banking Sector: Selected Financial Soundness Indicators, June 2007 1/

(In percent)

	St. Lucia	ECCU Average
Capital adequacy ratio 2/	20.9	19.7
Unsatisfactory assets/total loans	7.7	6.8
Gross government exposure/total assets	12.1	14.1
Provisions for loan losses/total loans	3.0	2.1
Provisions for loan losses/unsatisfactory assets	38.8	31.5
(Pre-tax) return on average equity (domestic banks)	22.2	23.2
(Pre-tax) return on average assets	2.3	2.7

Source: ECCB.

1/ Prudential indicators are based on commercial banks' own reporting, with infrequent onsite verification by the ECCB.

2/ Total qualifying capital/risk weighted assets (domestically licensed banks).

13. **The political environment for reform remains challenging.** Elections in December 2006 returned the United Workers Party, led by former Prime Minister Sir John Compton, to office after ten years in opposition. The Prime Minister suffered a series of strokes in April 2007, has not resumed his duties, and is expected to demit office by end-2007. His long-term absence has raised uncertainty about the political outlook and his successorship, complicating policy formulation and implementation.

III. Policy Discussions

A. Overview

14. **The principal policy challenge for the new government is to broaden the bases of economic growth, while addressing debt sustainability and other vulnerabilities.** The public debt stock is high, constraining expenditure on poverty-reduction and social programs and reducing the fiscal room for maneuver in the event of an adverse exogenous shock.

Accordingly, given relatively limited fiscal space to undertake high-cost capital projects, staff cautioned against the planned acceleration in capital expenditure. While the authorities agreed on the need to raise growth, they did not see major risks in their fiscal plans, especially those related to acceleration in capital expenditures, given their desire to expand tourism infrastructure and to reduce poverty. Policy discussions were organized around three key areas:

- *Enhancing growth prospects and reducing poverty*, through measures to diversify the bases of economic growth and to raise the efficiency of capital and social spending;
- *Ensuring debt sustainability and fiscal consolidation*, through steps to broaden the tax base and contain public investment spending; and
- *Reducing vulnerabilities*, including the erosion of banana trade preferences and the country's proneness to natural disasters.

B. Enhancing Growth Prospects and Poverty Reduction

15. **Notwithstanding the recent economic recovery, substantial challenges lie ahead, as near-term growth prospects have weakened and unemployment remains high.** Restoring higher levels of growth on a sustained basis will require careful management of tourism development, and sustained structural reforms aimed at broadening the economic base and ensuring that the private sector is the main engine of economic activity.

16. **Tourism development needs to be based on a long-term plan that considers related policies and needs for infrastructure and services.** There was broad agreement among the mission's interlocutors that ongoing expansion in stayover capacity presents a number of challenges if it is to be utilized fully and yield a wider economic return. These include the capacity to supply water, power, roads, training, security, airlift and other services. In response to these challenges, the authorities have formulated a National Development Plan that was presented to international donors and private sector investors in July 2007.[4] Underpinning the plan is a strategy to invest heavily in tourism-related infrastructure in order to attract foreign direct investment (FDI) on a large scale, which if successful would accelerate the country's growth potential. In this context, the authorities insisted that the proposed public investment projects should not be viewed in isolation from their overall strategy of attracting FDI. They argued that such a policy initiative is key to escaping from St. Lucia's rising debt and low growth dynamics. The authorities also intend to modify the incentives regime, by offering tax incentives in return for equity ownership.

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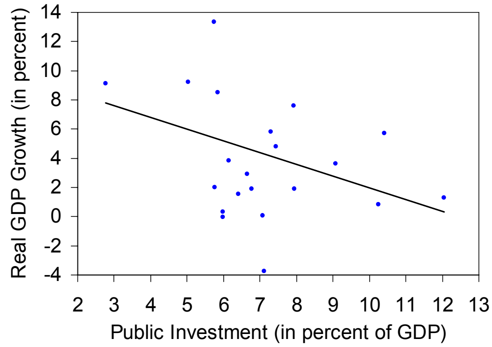
[4] The authorities held an international development conference in Castries during July 23–25, 2007, with a view to securing finance for their development plans.

17. **Public investment needs to become more productive.** The mission noted the weak historical links between public investment and growth in St. Lucia. Staff urged the authorities to carry out robust feasibility studies of public investment projects, better prioritize capital spending to enhance the growth impact, and rely more on grant and concessional financing. In this connection, the mission welcomed the government's plans to privatize the country's water supply company (WASCO) by end-2008.

St. Lucia: Public Investment and Real GDP Growth, 1985–2006



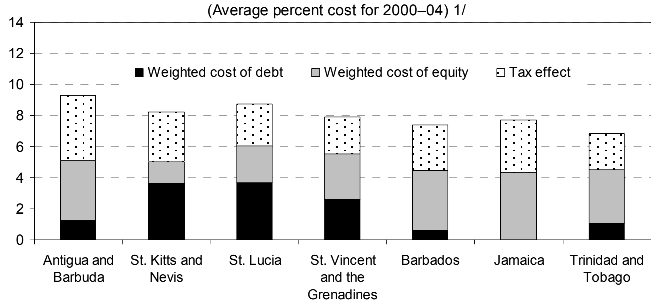
Source: Fund staff estimates.

18. **The government could also take other measures to enhance productivity and efficiency, including:**

- *Review of the investment incentives regime.* Generous tax incentives have encouraged well-established firms to repeatedly seek extension of tax concessions (mainly tax holidays) for their existing investments.[5] The mission recommended consideration of alternative policies to encourage investment. For example, a less costly and more transparent framework would provide incentives only on the amount of new investment—preferably based on accelerated depreciation, tax credits and time-bound loan-loss provisions.

- *Improving the investment climate.* In line with other ECCU countries, private domestic investment has stagnated in recent years (except for the sharp up tick in the last two CWC-related years), mainly as a result of high real interest rates, the lack of equity finance, and an unfavorable tax regime.[6]

Components of the Weighted Average Real Cost of Capital
(Average percent cost for 2000–04) 1/



Sources: National authorities; and Fund staff estimates.
1/ Contributions weighted by the proportion of capital financed from each source, with the percentage financed by debt being: Antigua and Barbuda 25%; St Kitts and Nevis 76%; St. Lucia 56%; St. Vincent and the Grenadines 42%; Barbados 21%; Jamaica 11%; and Trinidad and Tobago 25%. The three–year average cost of debt for Jamaica is used due to significant volatility. Depreciation and capital prices are excluded.

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[5] For additional details see "Tax Incentives and Foreign Direct Investment in the Caribbean," forthcoming Executive Board paper.

[6] See Roache (2006), "Domestic Investment and the Cost of Capital in the Caribbean," IMF Working Paper 06/152.

While St. Lucia is ranked first among Caribbean countries in the World Bank's *Doing Business Indicators*, improvements in several areas are needed, particularly cross-border trade, property registration, contract enforcement, foreclosure laws, and availability of credit information (Figure 5). The mission welcomed the authorities' plan to work closely with the business sector and donors (particularly the World Bank and USAID) in pinpointing weaknesses in the investment climate, with a view to submitting reform proposals to parliament by end-2007.

- *Regional trade in goods and services.* In developing its trade policy, St. Lucia has long been committed to achieving greater competitiveness through effective regional and global integration. The mission welcomed the authorities' progress in implementing the Caribbean Single Market Economy (CSME) requirements and in removing nontariff barriers. Staff recommended that the authorities enhance regional cooperation in providing government services and rationalizing tax concessions, and to continue to support regional efforts to facilitate the movement of goods, labor and capital across Caribbean countries. In addition, the mission commended the authorities for their adoption of a National Export Strategy in 2006, which sets out priority areas for the development of exports of goods and services, including those of tourism and agribusiness.

- *Labor market reforms.* Although unemployment has been falling, it remains high. The mission recommended that vocational and technical education be strengthened and labor market flexibility enhanced, including by re-examining regulations for employment protection and facilitating labor mobility under the OECS Economic Union. Increased labor mobility is needed to facilitate adjustment to shocks, and the mission urged the government to continue to push for free labor movement within CARICOM.[7]

- *Better leveraging benefits from migration.* More than a quarter of the labor force of St. Lucia emigrated to the OECD in the period 1970–2000. This large-scale emigration has produced a steady flow of remittances from abroad. The mission welcomed the authorities' efforts to initiate contact with expatriates and encouraged them to make greater use of such fora to build networks for trade, investment promotion and tourism in order to reduce the net costs of emigration. The authorities concurred and intend to continue to enhance links with the country's large diaspora.

- *Underdeveloped social safety nets need to be strengthened.* The *2006 Poverty Assessment Report* finds that unemployment remains high and poverty has increased in recent years (Box 3). The focus and coherence of poverty reduction initiatives should be sharpened, to ensure that scarce resources are directed to the neediest members of society. Poverty

[7] During 2006 the Movement of Factors Bill was approved by parliament, facilitating the free movement of skilled persons within CARICOM member countries.

reduction objectives should be linked to the social development programs in the budget, consistent with overall macroeconomic and fiscal objectives.

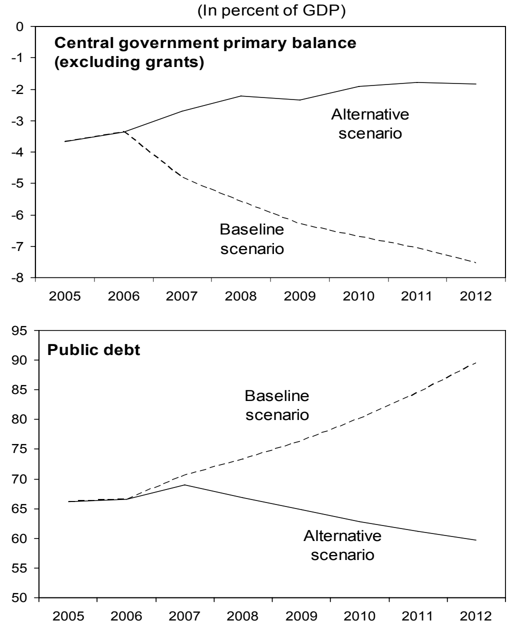
- *More efficient delivery of health and education services.* Poverty is to be tackled through greater emphasis on health and education, and the authorities intend to gradually move towards universal health care (UHC) and universal secondary education.[8] Regarding health care, they are concerned about the sustainability of the current financing system, poor quality and inequity of care, escalating costs, and the rising number of uninsured (Figure 6). The mission noted the projected health cost pressures, and supported the authorities' intention to gradually introduce UHC (Figure 7). Staff recommended that a range of financing options for UHC be explored (including through a VAT), and urged that health system developments be carefully analyzed and monitored.

C. Debt Sustainability and Fiscal Policy

19. **A key challenge is to achieve sound public finances and ensure debt sustainability**. Capital spending has been high in recent years, with rising debt service costs (at end-2007 debt servicing will be about 40 percent of current revenue) which constrain expenditure on poverty-reduction and social programs. Stronger public finances are needed to ensure debt sustainability, increase room to maneuver in the event of adverse shocks, and thereby support the sustainability of the currency board arrangement.

20. **Fiscal imbalances need to be addressed decisively.** The current fiscal trajectory—declining revenues with limited expenditure restraint—is worrisome. Measures in the 2007/08 budget (fiscal year April 2007 to March 2008) will be insufficient to put debt dynamics on a sustainable path. In particular, the budgeted doubling of capital spending (to over 20 percent of GDP) would further reverse fiscal consolidation. Staff estimate that under the baseline scenario and absent fiscal measures, public debt would be on a rising path, reaching close to 90 percent of GDP by 2012 (Annex I).

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



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

21. **Against this background, the mission recommended fiscal measures to reverse the rising debt burden.** Debt service is consuming a

[8] In the authorities' plans, UHC denotes the public provision of a limited list of hospital-based services, with emphasis on preventative services, comfort care and family planning.

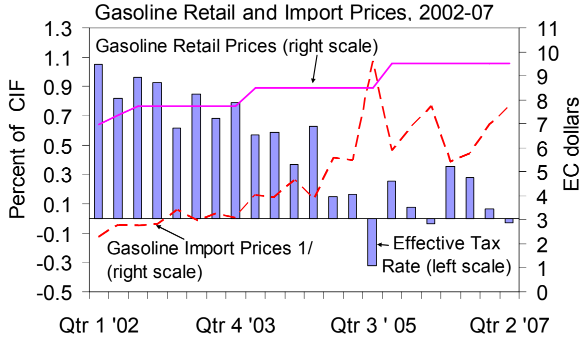
rising share of current revenues, and the debt burden needs to be reduced further. In a scenario with additional fiscal measures (see below), a moderate increase in grant financing, and annual GDP growth of about 4¾ percent, staff projections show that debt could fall to around 60 percent of GDP by 2012, close to the ECCB Monetary Council's benchmark (see Annex I). In addition to rising spending, the macroeconomic outlook is subject to considerable risks, notably natural disasters, a further decline in the terms of trade, rising interest rates, and a slowdown in the world economy and tourism receipts.

22. **The challenge is to contain the fiscal deficit while allowing for the government's goal to raise social spending.** The mission recommended a primary deficit (excluding grants) of around 1¾ percent of GDP over the medium term (see Annex I). This adjustment requires forging ahead with tax policy and administrative reforms to broaden the tax base and improve transparency. However, most of the adjustment during the 2007/08 fiscal year would come from expenditure reductions (about ¾ of 1 percent of GDP), as the scope for immediate revenue measures is limited. While grants are expected to increase, disbursements are not expected to reach the level envisaged in the 2007/08 budget.[9] To accommodate higher spending on health and agriculture adjustment, while reducing the deficit, planned current and capital expenditures will need to be reduced. The mission recommended continued moderation in the wage bill, and prioritization of capital spending, which should be targeted at about 8¾ percent of GDP (compared with 21 percent in the budget). The authorities broadly supported the need for fiscal consolidation and a lower civil service wage bill, and reiterated that while capital spending would likely be lower than budgeted (due to implementation constraints), increased capital spending was necessary to attract FDI and transform the economy away from agriculture toward tourism-based services.

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

- *Taxation of petroleum products.* Retail prices of petroleum products are the lowest in the OECS region. There is a consumption tax, but in recent years the government has been absorbing the additional cost of higher world oil prices in order to peg the retail price of fuel, thereby eroding the tax base. To safeguard revenue, the mission recommended greater passthrough of

St. Lucia: Effective Gasoline Tax Rate, Gasoline Retail and Import Prices, 2002-07



Sources: ECCB; and Fund staff estimates.
1/ Mean Caribbean Postings.

[9] The government re-opened diplomatic relations with Taiwan Province of China on April 30, 2007. A few days later, China suspended diplomatic ties and development grants. It is not yet known what level of grant assistance St. Lucia is likely to receive from Taiwan Province of China.

world oil prices to domestic retail prices, as a first step toward a fully flexible pricing regime. The authorities recognized the need to reduce foregone revenue, and intend to move to a system with greater passthrough by mid-2008.

- *Property tax.* Although the real estate sector is performing well, there is little improvement in property tax collections. The mission supported the authorities' plans to move to a market valuation-based property tax system as soon as technically feasible (tentatively scheduled for mid-2008), and welcomed the conduct of the required cadastral surveys as an important first step. In moving to a market valuation-based system, the authorities should consider reducing the extensive range of exemptions currently permitted.

- *Introduction of a VAT.* The mission welcomed the authorities intention to introduce a VAT, as announced in the Budget speech of April 2007. Staff cautioned against having a large number of zero-rated and exempt products and services, and recommended that a single rate (in the range of 15−16 percent) be used. Cabinet has approved the establishment of a VAT implementation unit, which will commence work in the coming months. Staff cautioned the authorities to set a realistic date for VAT implementation, as the experience in other countries has shown that a minimum of 22–24 months is required to adequately prepare and introduce a VAT. The authorities concurred and are now aiming for implementation by April 2009. In addition, they have already engaged with CARTAC and the IMF in soliciting the relevant technical assistance.

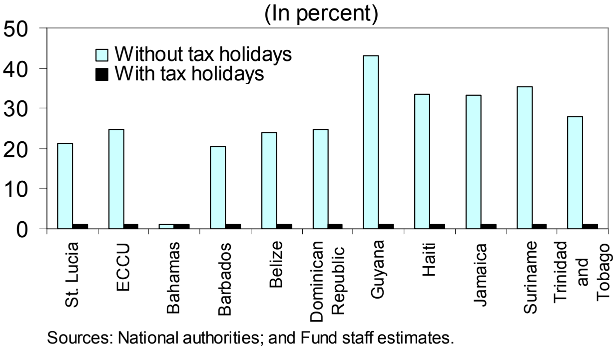
St. Lucia: Yield from Additional Fiscal Measures, 2007/08–2012/13
(Average yield per year)

	In EC$ Million	In Percent of GDP
Revenue and grants	**97.9**	**2.4**
VAT (assuming increase in compliance rate) 1/	22.3	0.6
Property tax reform (move to market valuation) 2/	8.5	0.2
Petroleum product price liberalization 3/	29.0	0.8
Income and consumption taxes (increase in compliance)	31.0	0.5
Grants	7.0	0.2
Expenditure	**56.6**	**2.6**
Wage savings (assuming constant real wage bill)	21.6	1.0
Prioritization of capital expenditures	35.1	1.6

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

- *Strengthening tax policy and administration.* Although tax revenue is procyclical, buoyancy is low, due in part to the extensive use of tax holidays which have eroded the corporate income tax base. In addition to protecting the tax base, tax collection needs to improve, and the mission welcomed the authorities' intention to establish a revenue authority. Given limited implementation capacity, this initiative may have to wait until after the VAT—a clear priority—has been introduced.

Average Effective Tax Rate on Investment, 2005
(In percent)



Sources: National authorities; and Fund staff estimates.

24. **Expenditures will need to be contained and debt management enhanced:**

- *Public sector wages.* The government's wage bill accounts for about 45 percent of current expenditures, and has risen in 2006 due to the recently-concluded civil service salary round. The mission welcomed the authorities' plans to undertake civil service reforms, which would offer some scope for savings, while providing greater differentiation in the pay scale between higher- and lower-skilled workers.

- *Prioritization of capital expenditure.* The 2007/08 budget announced a large number of high-profile projects including a new road network, a tunnel linking the north of the island to the south, information technology centers, and improvements to airport terminals. While transportation infrastructure needs to improve, it is critical that the authorities prioritize and properly phase infrastructure projects. The authorities agreed with staff's recommendation that a formal PSIP mechanism for the evaluation of public investments be introduced to ensure the effectiveness of capital expenditures, and intend to strengthen technical capacity in the relevant ministries.

- *Debt management.* An enhanced debt management unit is a priority institutional development and could generate important cost savings. It could accurately monitor existing debt, inform as to the timing of future debt payments, advise on the least-cost source of managing cash flows, and formulate a strategy for retiring high-cost debt. The authorities agreed with this proposal, and plan to strengthen technical capacity in the debt management unit, with IMF technical assistance.

25. **Coverage of the fiscal accounts remains a concern.** A complete assessment of St. Lucia's public finances has to cover not only the central government but also the broader public sector. Lack of data on public enterprises permits only a partial analysis of their activities. The mission recommended that the authorities prepare consolidated accounts and foster expenditure control at all levels of the broader public sector budget.

D. Reducing Vulnerabilities

26. **The medium-term outlook appears favorable, but is subject to risks because of the economy's high vulnerability to exogenous shocks.** These include:

- *Natural disasters.* While St. Lucia has not been hit by a major hurricane since 1994, it remains one of the world's most disaster-prone countries. The mission welcomed St. Lucia's participation in the World Bank's Catastrophic Risk Insurance Facility, and passage of the Disaster Management Act in 2006. Staff supported the government's efforts in enhancing the National Emergency Management Organization, improving the national disaster response plan, and upgrading the national building code, while encouraging greater insurance of public and private assets.

Worldwide Incidence of Natural Disasters, 1970–2006

	All Recorded Disasters				
	Number of Events	Number of Events Divided by Land Area		Number of Events Divided by Population	
		Index	Rank	Index	Rank
All countries	8,069	100	92	100	92
Advanced economies	1,630	10	104	37	113
Caribbean	279	634	23	402	29
ECCU	50	778	7	780	7
Antigua and Barbuda	7	673	7	711	6
Dominica	9	508	12	1,028	3
Grenada	6	747	6	464	11
St. Kitts and Nevis	7	823	4	1,200	2
St. Lucia	**9**	**614**	**10**	**447**	**12**
St. Vincent and the Grenadines	12	1,302	2	829	5
Other Caribbean	229	547	33	176	43
Other	6,160	55	98	77	96

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

Note: The sample contains 184 countries. Simple unweighted averages are used for country groupings. Rankings are in descending order, with "1" indicating the most exposed to natural disaster.

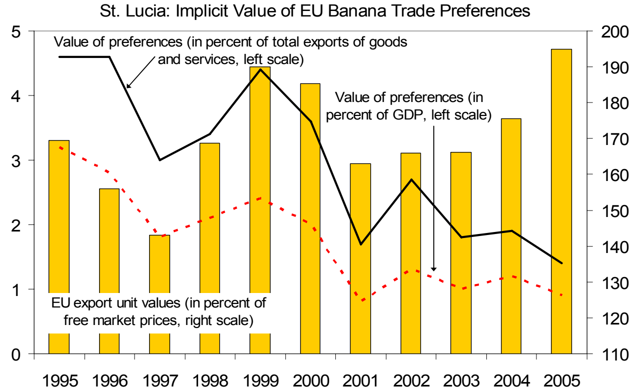
- *Financial sector soundness.* Financial sector risks—to both banks and nonbanks—need to be monitored more carefully. Like most countries in the region, bank credit to the private sector increased sharply in 2006 and the first half of 2007. While nonperforming loans have declined and provisioning has been stable, the ongoing credit boom has the potential to erode the quality of banking system assets. Furthermore, commercial banks' net foreign assets have declined, signaling an increase in balance sheet vulnerabilities. In addition, there has been a rapid expansion in the activities of the nonbank financial sector—particularly insurance companies—and the potential risks from these activities need to be closely monitored.

- *Financial sector supervision.* The mission commends the authorities for bolstering supervision of banks, nonbanks, and international financial services through the strengthening of the Financial Services Supervision Unit (FSSU), the passing of amendments to the Money Laundering Prevention Act and uniform Banking Act in 2006, and the likely end-2007 passage of the Cooperatives Society Act, uniform Money Services Act, and uniform Insurance Act. The mission also reiterated the need for more on-site examinations of St. Lucian banks by the ECCB. Additional measures need to be taken to strengthen the effectiveness of financial sector supervision, including through the development of a broad supervisory framework to regulate all nonbank financial intermediaries. In 2006 an independent Single Regulatory Unit (SRU) for nonbanks was approved by Cabinet, but has yet to be implemented. The SRU should be established as soon as possible, by granting full autonomy to the FSSU as a statutory body to regulate credit unions, domestic insurance, and international financial services.

- *Oil prices.* The potential for an increase in world oil prices is a major risk to St. Lucia as an oil-import-dependent economy. In this connection, the mission noted that the authorities had renegotiated a contract with the privately-owned oil trans-shipment company HESS, which includes an option to construct an oil refinery in St. Lucia. The authorities have not signed the PetroCaribe Agreement with Venezuela, and have no immediate intentions to do so.

- *The banana sector.* While the authorities intend to revitalize the agricultural industry, the banana sector is likely to continue to contract due to competitive pressures and the erosion of trade preferences in European markets (following the conversion of EU quotas into tariffs in January 2006).[10] The EU is funding efforts to ameliorate the social impact of the sector's decline. The mission supports the authorities' efforts to bolster social safety nets for displaced farmers and agricultural workers, and recommends focusing on time-bound measures such as income transfers, retraining programs, noncontributory pensions, and limited subsidies on agricultural inputs (to encourage diversification into nonbanana agriculture). Technical assistance from the IMF's Fiscal Affairs Department (planned for the third quarter of 2007) will build upon the 2006 *Poverty Assessment Report* in reviewing the impact of trade preference erosion on poverty.

St. Lucia: Implicit Value of EU Banana Trade Preferences



Source: Fund staff estimates.

- *International financial turbulence.* In the past, international financial crises have had little impact on ECCU domestic credit markets, given their weak links with financial markets outside the Caribbean. Although the ECCU is progressively integrating with world capital markets, St. Lucia's vulnerability from that source still appears fairly limited. However, should ongoing financial turbulence reduce economic growth and consumption in North America and Europe, there would be strong implications for St. Lucia in a potential decline in stay-over tourist arrivals and FDI.

E. Other Issues

27. **Despite efforts to enhance databases, St. Lucia's statistical data remains weak in terms of coverage and timeliness**. Improvements in all areas are needed to facilitate effective policymaking, surveillance, and informed public debate. In particular, more

[10] The medium-term plans for the banana industry entail a smaller number of productive growers, producing high-quality bananas for export to Europe under higher-priced 'fair trade' or 'organic' labels.

resources should be devoted to strengthen data in the areas of national accounts, private sector external debt, tourism, labor markets, public enterprises, and foreign project aid.

28. **The decline in donor assistance has complicated the transition out of agriculture.** The authorities generally agreed with the mission's recommendations on easing the transition of the economy from agriculture to tourism, but lamented the lack of donor support. The authorities stated that donor financing for investment in health, education and social spending had fallen sharply, just at the time it was most needed.

St. Lucia: EU Banana Support

	Amount Committed	Amount Disbursed	Percentage Disbursed
Special Framework of Assistance	(In € million)		(In percent)
1999	8.7	6.7	77.0
2000	8.9	6.7	5.6
2001	9.4	4.2	44.7
2002	8.8	0.7	8.0
2003	8.0	1.8	22.5
2004	7.3	0.0	0.0
2005	6.2	0.0	0.0
2006	5.4	0.0	0.0
Total	**62.7**	**20.1**	**32.1**

Source: Delegation of the European Commission, Barbados.

IV. Staff Appraisal

29. **The economy of St. Lucia showed continuing strength in 2006, although near-term prospects are for a slowdown.** Activity was driven by expansion in construction and tourism-related services, and by robust growth in financial services. Growth is likely to decelerate in 2007, due in large part to a weakening in agricultural exports, tourism-related services, and construction activity.

30. **Fiscal prospects are worrisome.** In recent years capital spending has risen strongly, and the debt stock is placing a growing burden on the economy. Under current policies, debt servicing will absorb about 40 percent of current revenues in 2007, and public debt would rise to about 90 percent of GDP by 2012. Fiscal consolidation is needed to enhance debt sustainability, place the debt ratio on a downward path while allowing for increased expenditure on poverty-reduction and social programs, and provide room for maneuver in case of shocks. A package of measures, including holding constant the real wage bill and lowering capital expenditure should narrow the primary deficit (excluding grants) of central government by around ¾ of 1 percent of GDP in FY 2007.

31. **Over the medium term, implementation of planned tax reforms will be important to achieve fiscal sustainability.** Staff welcomed the authorities' plans to broaden the tax base, including the introduction of a more flexible fuel pricing mechanism, market-based valuation of property taxes, and a VAT. While these measures will support the needed fiscal adjustment, it is also important that the authorities reduce the overall level of tax concessions, in order to maintain revenue buoyancy. These measures, together with additional grant financing and medium-term GDP growth of about 4¾ percent per year, could bring the debt ratio down to near 60 percent of GDP by 2012.

32. **The authorities' plans to accelerate tourism-related public investment carry significant risks.** Given the amount of resources involved, it is critical that the authorities seek grants and highly concessional financing, conduct appropriate feasibility studies, and prioritize capital spending. In this context, the authorities are encouraged to seek technical assistance from CDB and CARTAC in establishing a formal PSIP mechanism, and strengthen technical capacity in the debt management unit.

33. **While the real exchange rate does not seem out of line with fundamentals, competitiveness is a challenge and structural reforms need to be accelerated to raise the economy's growth potential.** Priority should be given to measures that secure long-term fiscal savings, enhance labor market flexibility, and reduce the cost of capital. Successful implementation of such reforms would raise growth potential and provide continuing support to the currency board arrangement. Given the strong interest of external investors in St. Lucia, this is a propitious time to push forward with reforms to enhance the investment climate, review the regime of tax incentives, and strengthen regional integration efforts.

34. **Strengthening the supervision of the financial sector is another priority.** Given the rapid growth in private sector credit and growing net foreign liabilities of commercial banks, credit quality and risk management in banks warrant close monitoring. Staff welcomes the authorities' plans to consolidate regulation and supervision of nonbank financial intermediaries, and continuing efforts to enhance supervision of international financial services.

35. **The ongoing erosion of trade preferences for bananas is having important economic and social consequences.** Staff supports the authorities' plans to provide well-targeted safety nets for displaced farmers and agricultural workers, through temporary measures such as income transfers and retraining programs. More effective use of planned EU assistance to ease the transition of the economy away from agriculture is critical in support of those efforts.

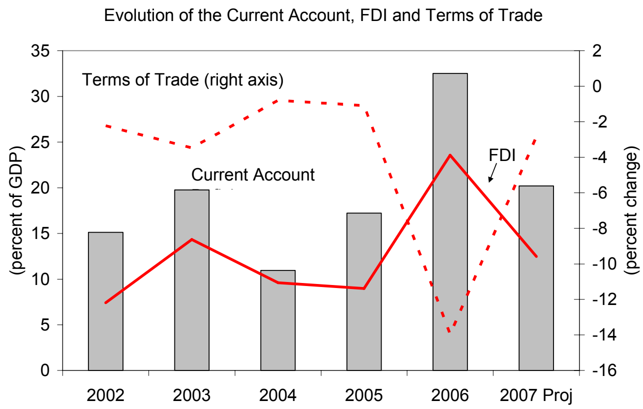
36. **St. Lucia is one of the most disaster-prone countries in the world.** In recent years, the authorities have made strong efforts to bolster national disaster mitigation and preparedness, including through participation in the World Bank's Catastrophic Risk Insurance Facility. Staff encourages the authorities to further reduce disaster risks, particularly through insurance of public buildings and infrastructure, better enforcement of building codes, and enhanced disaster management.

37. **Even in the best of circumstances, the economic and fiscal situation of St. Lucia remains vulnerable.** The debt burden is expected to remain high for several years, rendering the country vulnerable to adverse shocks. Other risks include shocks to tourism demand, a tightening of conditions in regional and international credit markets, natural disasters, and international oil prices. The authorities need to carefully manage these risks, and respond rapidly to any changes in the country's economic environment.

38. **Economic and social statistics need to be improved.** Staff shares the authorities' concern that data deficiencies compromise the quality of policy analysis and design, and encourages the authorities to strengthen data quality and provision, with technical assistance from CARTAC and the Fund.

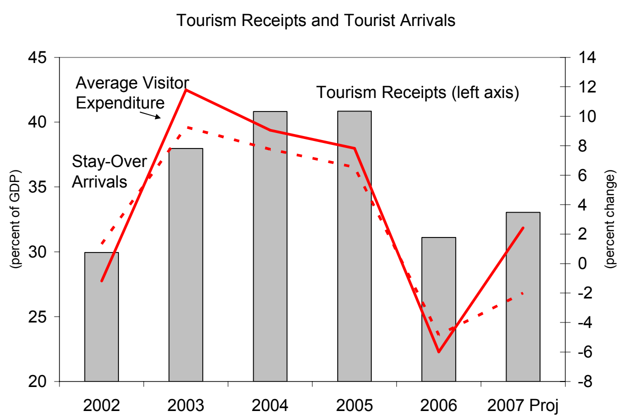
39. **It is recommended that the next Article IV consultation take place on the standard 12-month cycle.**

Box 1. St. Lucia: Current Account Deficits and the Terms of Trade



The current account deficit ballooned to over 32 percent of GDP in 2006, due to an increase on imports related to a hotel construction boom, a 5 percent fall in tourist arrivals, and a 14 percent deterioration in the terms of trade. The deficit was mostly financed by tourism-related foreign direct investment inflows, which increased to 23 percent of GDP in 2006.

In 2006 imports jumped by 8 percentage points of GDP, as a result of the tourism-related construction boom and a 10 percent increase in the price of imports. Hotel capacity also expanded rapidly, driven by foreign direct investment. This rapid expansion is expected to add 700 prime-hotel rooms to the existing stock of 3,000 rooms by end-2007. At the same time, import prices of goods rose substantially due to a 20 percent increase in oil prices, a 10 percent rise in food import prices, and a 9 percent increase in the price of construction materials.



Tourism receipts plummeted in 2006 due to a decline in both stay-over tourist arrivals and average visitor expenditure. A variety of factors contributed, including a change in U.S. passport requirements, poor marketing in North America, and inadequate airlift. In addition, hotels and other service providers reacted to the drop in tourist arrivals by reducing prices, which lowered average visitor expenditure by about 6 percent.

The current account deficit is expected to shrink in 2007, and will continue to be largely financed by foreign direct investment flows. While agricultural exports will be adversely affected by Hurricane Dean, imports as a share of GDP are expected to fall to pre-2006 levels as three major hotel projects are completed. Tourism receipts are expected to recover modestly, as a result of an aggressive marketing campaign underway in the U.S., and new direct flights from New York, Barbados and Manchester.

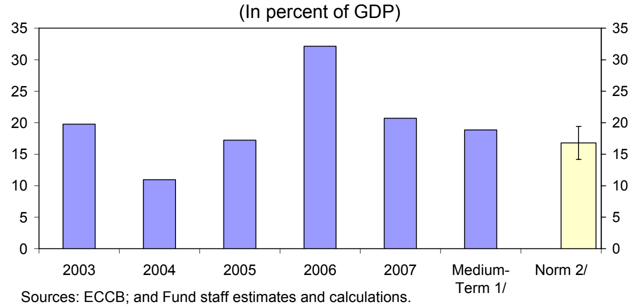
Box 2. St. Lucia: Real Exchange Rate and External Balance

St. Lucia's real exchange rate was assessed using the Fundamental Equilibrium Real Exchange Rate (FEER) approach.[1] Panel regression techniques were used to estimate an equilibrium relationship between the real effective exchange rate and a set of fundamentals which include: productivity differentials (proxied by per capita tourist arrivals relative to those in The Bahamas); the tourism terms of trade (proxied by movements in overall terms of trade that are not explained by the terms of trade of goods); government consumption spending; and net foreign assets.[2]

The results for St. Lucia show that the real effective exchange rate is broadly in line with fundamentals. Both the actual and equilibrium real effective exchange rates have fallen since the beginning of the decade—the former due to the EC dollar's peg to the depreciating U.S. dollar, and the latter because of a parallel decline in the terms of trade, and, since 2003, relative tourist arrivals (see paragraph 10).

Current account imbalances in St. Lucia are broadly in line with estimated equilibrium levels. Using the macroeconomic balance approach, staff estimates put the equilibrium current account deficit under current policies (the current account 'norm') at around 16¾ percent of GDP, which is close to the projected medium-term deficit of 18¾ percent of GDP. This implies that despite their apparent high levels, medium-term current account imbalances in St. Lucia—financed largely by FDI—appear sustainable and are in line with the equilibrium levels predicted by fundamentals.

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



Sources: ECCB; and Fund staff estimates and calculations.
1/ Based on Fund staff estimates. Medium-term is 2011.
2/ In computing the norms, medium-term values of the fiscal balance, oil-balance, output growth, and relative income are drawn from staff projections. Band is ±1 standard error of the prediction.

[1] See Pineda and Cashin (2007), "Is the Eastern Caribbean Dollar Overvalued?," forthcoming ECCU Selected Issues Paper.

[2] The panel regression (for the period 1979–2006) includes six ECCU countries and 16 other tourism-dependent countries (including Barbados, Jamaica, Belize, and The Bahamas).

Box 3. St. Lucia: Poverty Reduction Strategy

Poverty rates in St. Lucia have increased in the last decade, despite a significant drop in the indigent population. According to the *2006 Assessment of Poverty in St. Lucia*, commissioned by the CDB, 29 percent of the St. Lucian population was poor, of which 1.6 percent indigent, in 2005/06. Using an estimate of 33 percent above the poverty line as the criterion for vulnerability, the report deemed 47 percent of the population to be vulnerable. The study also finds that poverty is primarily a rural phenomenon (driven by the decline in the banana sector), with a high concentration in younger ages.

Indigency and Poverty, 1995 and 2005/06
(In percent)

	1995	2005/06
Poor population	25.1	28.8
Of which		
Indigent	7.1	1.6
Poor households	18.7	21.4
Of which		
Indigent	5.3	1.2
Gini coefficient	0.5	0.42

Source: The Assessment of Poverty in St. Lucia.

St. Lucia established a Poverty Reduction Fund (PRF) in 1998, with initial financing from the World Bank. The PRF was set up by the government in the wake of a 1995 Cargill Report which stressed the negative social impact of the restructuring of the banana industry. The thrust of PRF is to reduce poverty by building capacity in poor areas. St. Lucia is also the beneficiary of over EC$12 million under the CDB's Basic Needs Trust Fund (BNTF) for the period 2003–10. The St. Lucia Poverty Action Plan (PAP), which was a prerequisite for the disbursement of the CDB grant, highlights water for all (already achieved); physical access to communities through roads; targeting of the indigent; skill training and improvement of the employability of the young.

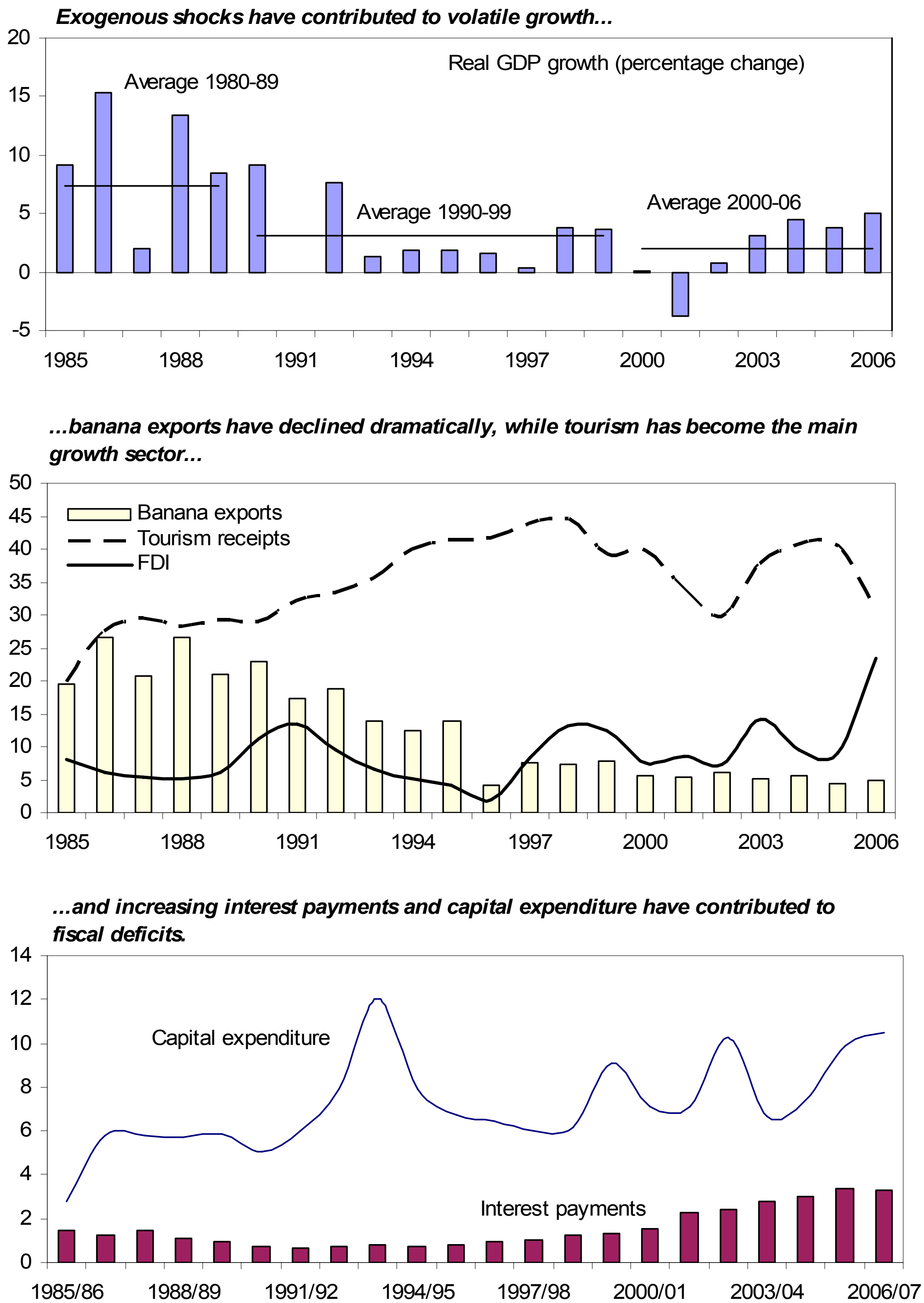
The PAP follows a multifaceted approach. Current measures consist of (i) job training programs for the unemployed (including the National Skills Development Center, funded primarily by the EU and other development stakeholders); (ii) infrastructure projects in poor communities (including funding by the World Bank and the CDB); (iii) a public assistance benefit for the vulnerable (through the Ministry of Social Transformation); and (iv) the promotion of a micro-enterprise sector (through the Ministry of Labour). Given the high unemployment rate and low labor participation rates, the authorities are also undertaking new poverty-alleviating measures, including (i) the move to universal secondary education; (ii) introduction of universal health care; and (iii) the introduction of an IDA-financed Skill Enhancement Project.

The main component of the country's existing social safety net is the public assistance program. This program currently assists some 3,900 persons, primarily older people, with a monthly stipend of EC$85, which is well below the indigence line of EC$131.

The World Bank's *2006 Public Expenditure Review* recommends the development of a well-coordinated social protection strategy and more transparent targeting of social programs. The government currently implements approximately 20 social programs, through at least six different ministries and statutory bodies. However, social programs targeted to the poor are largely overlapping and administratively cumbersome, and are consequently not well poised to respond to chronic poverty. The Ministry of Social Transformation is currently examining ways to enhance coordination and targeting.

There are no social safety nets for aging banana farmers. A 1995 Cargill Report estimated that up to 10,000 persons could be displaced by a restructuring in the banana sector. Despite a recommendation by a 2001 Banana Industry Strategy Taskforce Report that pension services be provided to aging banana farmers, little progress has been made.

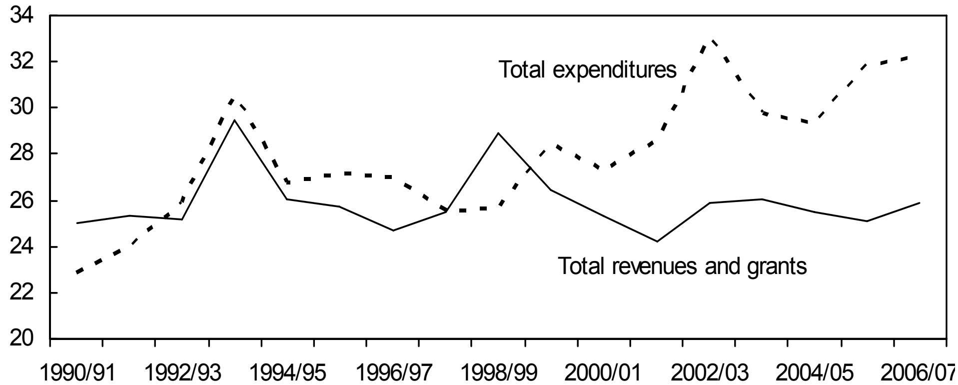
Figure 1. St. Lucia: Macroeconomic Developments, 1985–2006
(In percent of GDP, unless otherwise indicated)



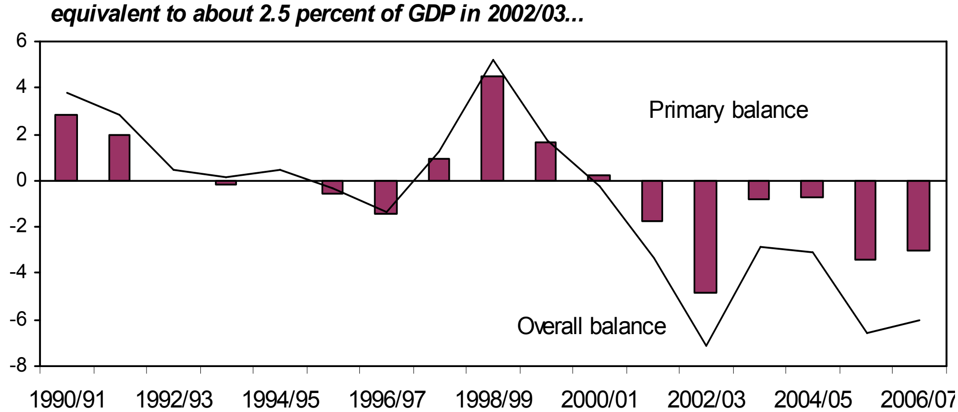
Sources: St. Lucian authorities; and Fund staff estimates.

Figure 2. St. Lucia: Fiscal Developments, 1990/91–2006/07
(In percent of GDP, unless otherwise indicated)

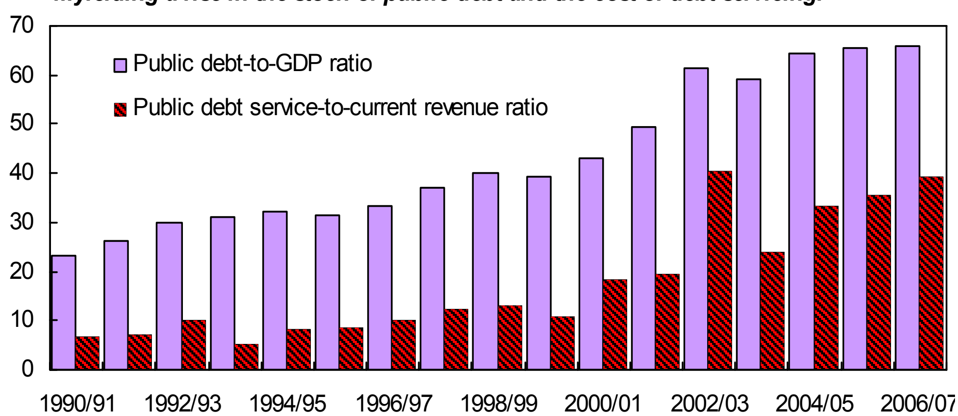
Expenditures have risen sharply since 1999/00...



...with persistent fiscal deficits, and public assumption of a public-private guarantee equivalent to about 2.5 percent of GDP in 2002/03...

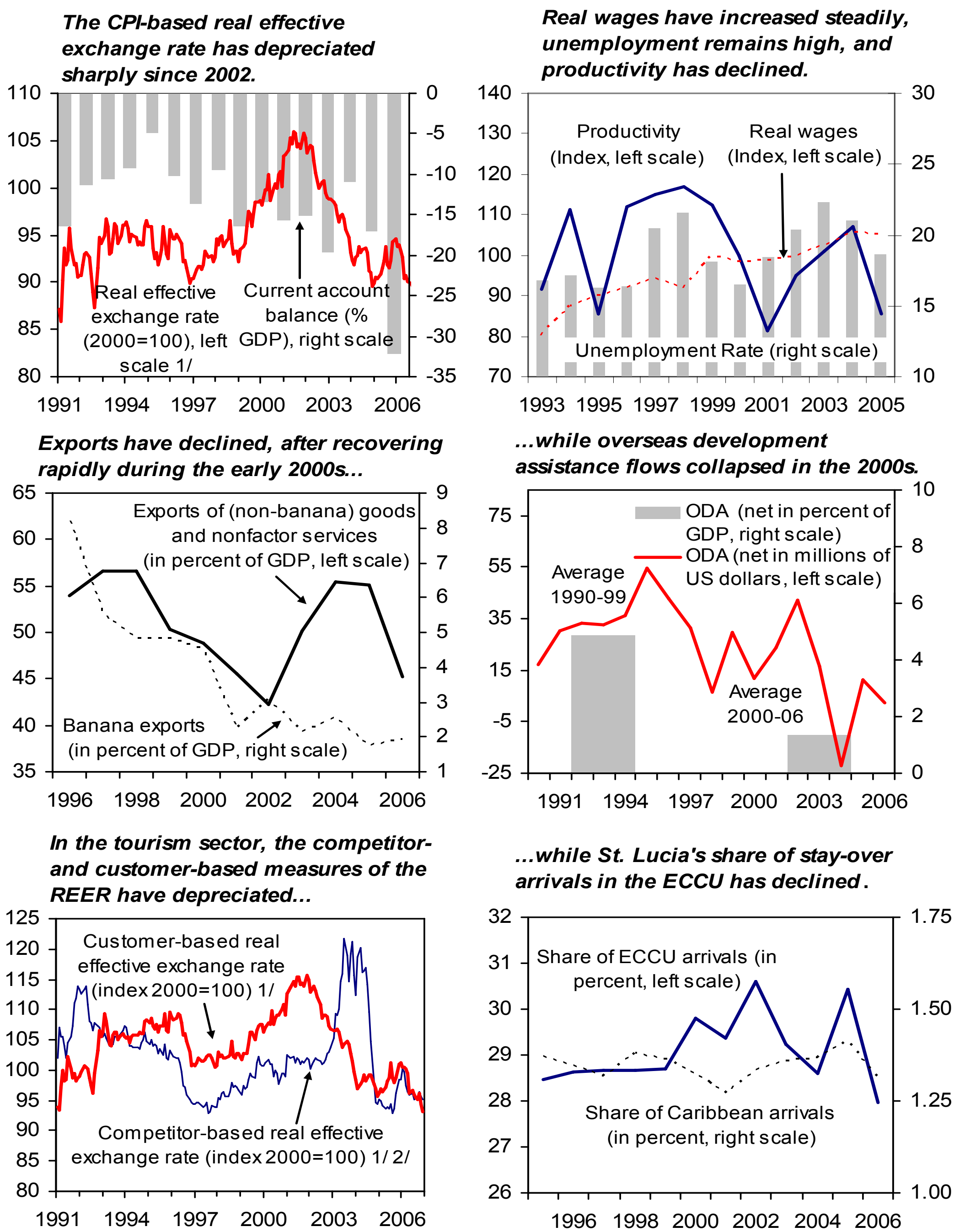


...yielding a rise in the stock of public debt and the cost of debt servicing.



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

Figure 3. St. Lucia: External Competitiveness, 1991–2006

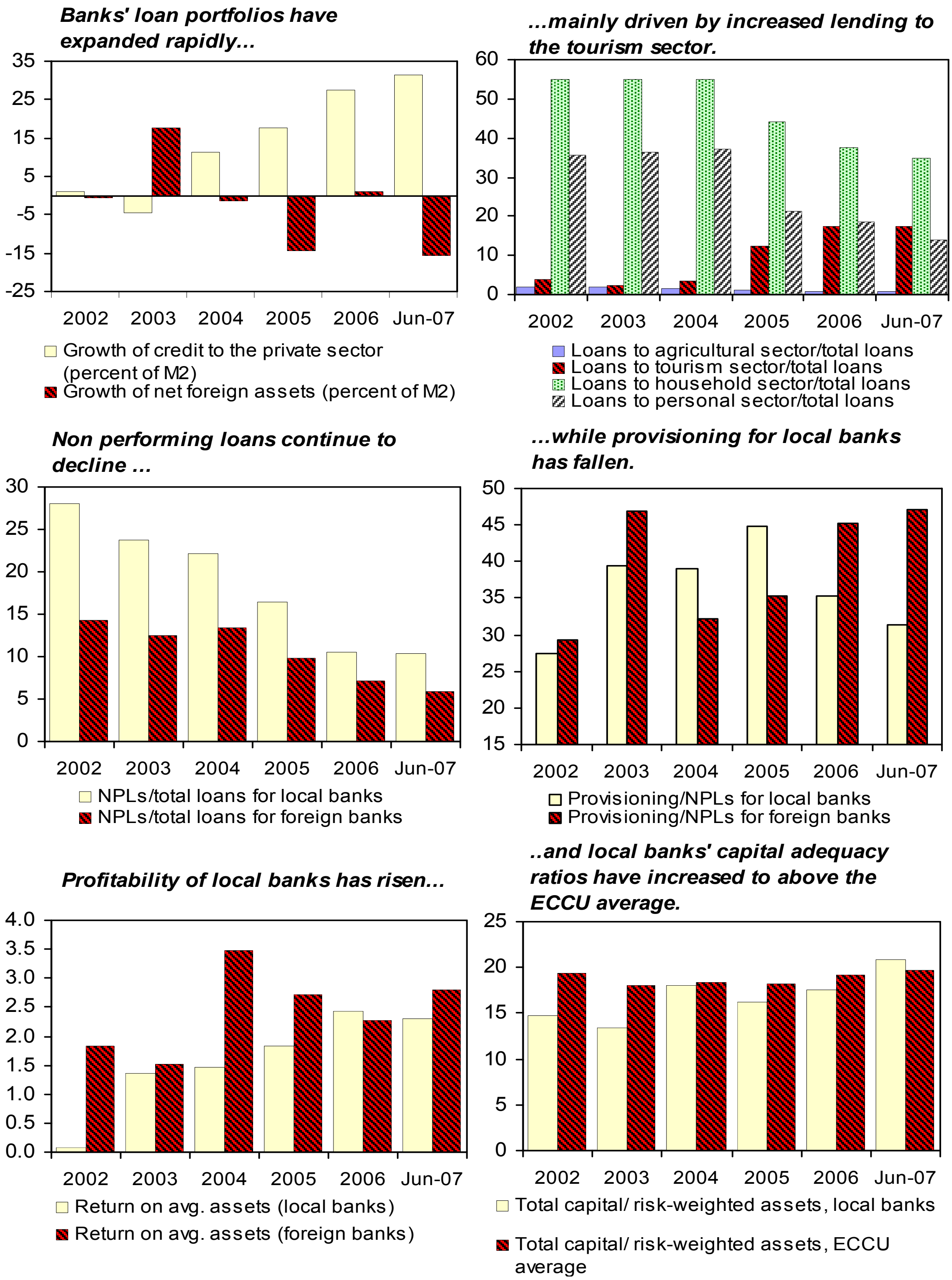


Sources: ECCB; Caribbean Tourism Organization; St. Lucian authorities; and Fund staff calculations.

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

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

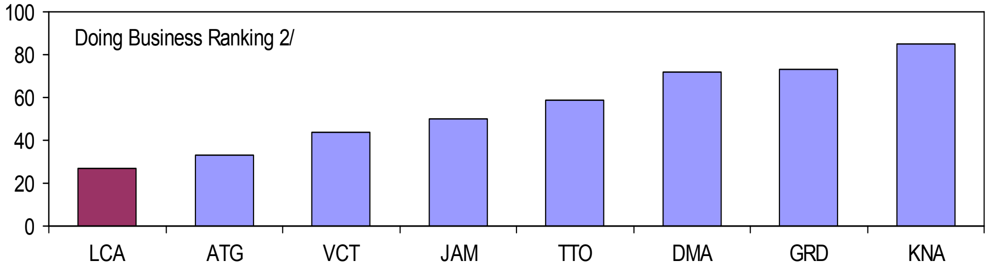
Figure 4. St. Lucia: Banking System Developments, 2002—07
(In percent; end of period unless noted otherwise)



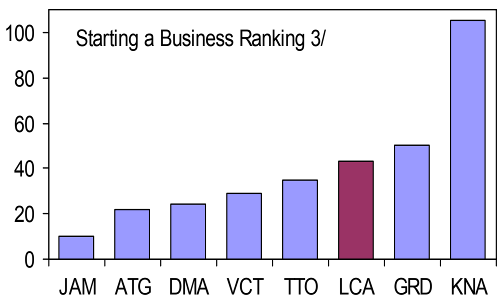
Sources: ECCB; and Fund staff calculations.

Figure 5. St. Lucia: Doing Business Indicators, 2006 1/

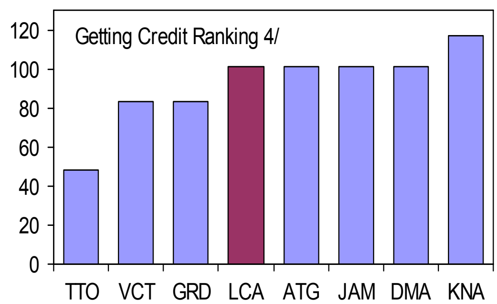
St. Lucia is ranked 27th out of 175 economies in the overall cost of doing business, and the best among Caribbean countries…



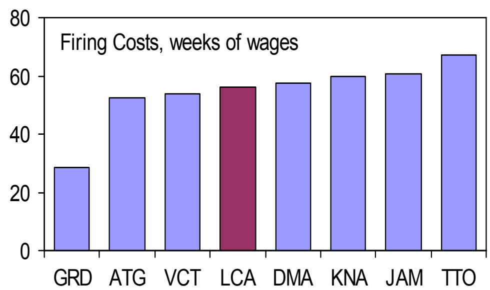
…but the cost of starting a business is relatively high...



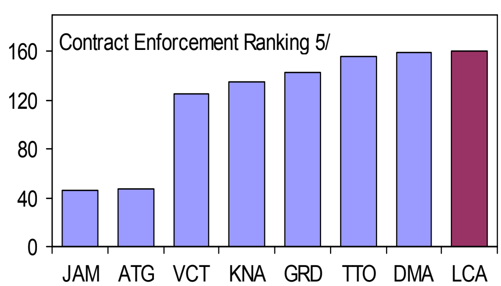
…and credit information is weak..



… dismissal costs are high...



… and so are the costs of commercial contract enforcement.



Source: World Bank, *Doing Business Indicators* (2006).

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

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

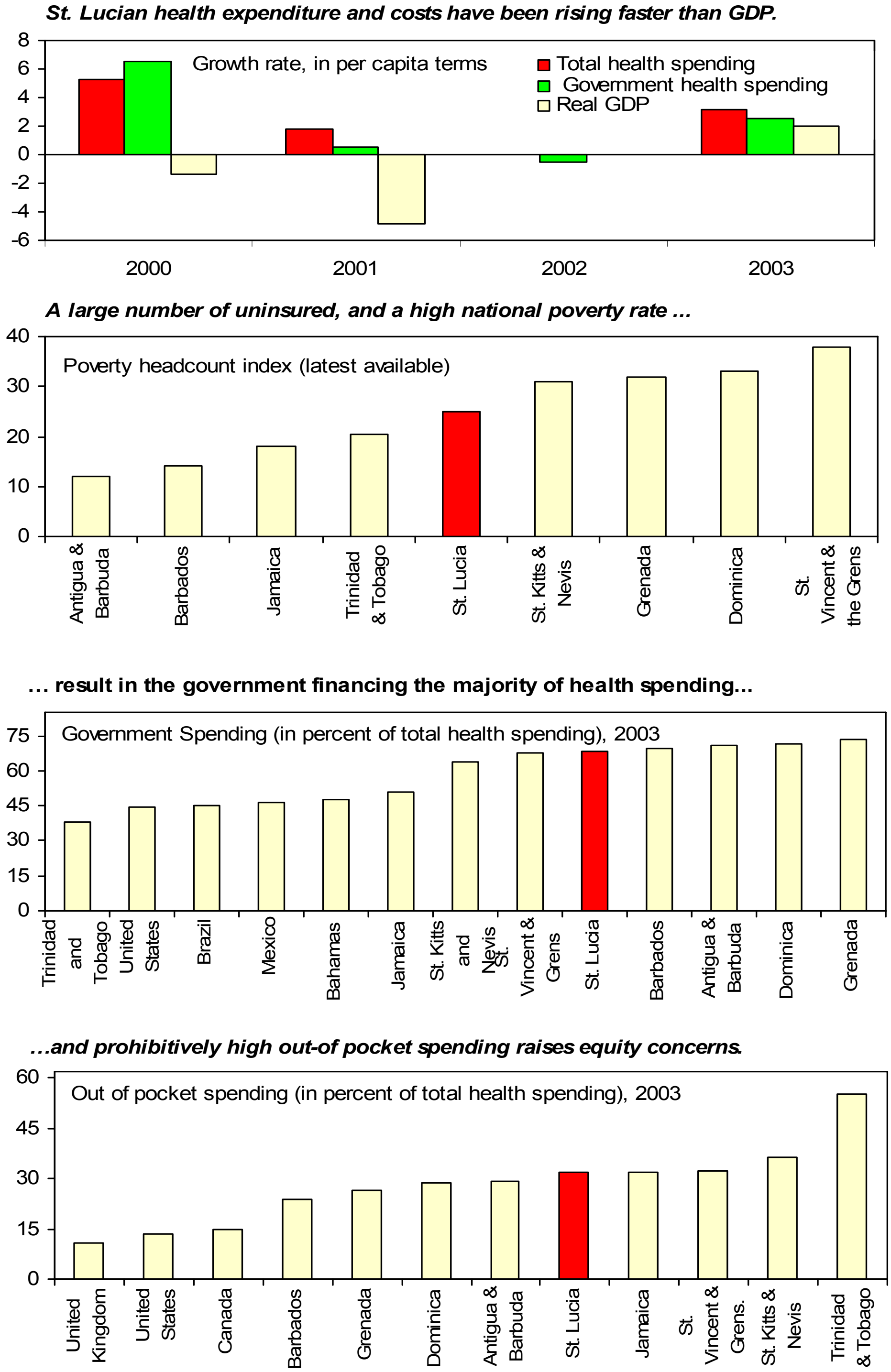
2/ This is an overall indicator that captures the regulatory costs of doing business; it can be used to analyze specific regulations that enhance or constrain investment, productivity, and growth.

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

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

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

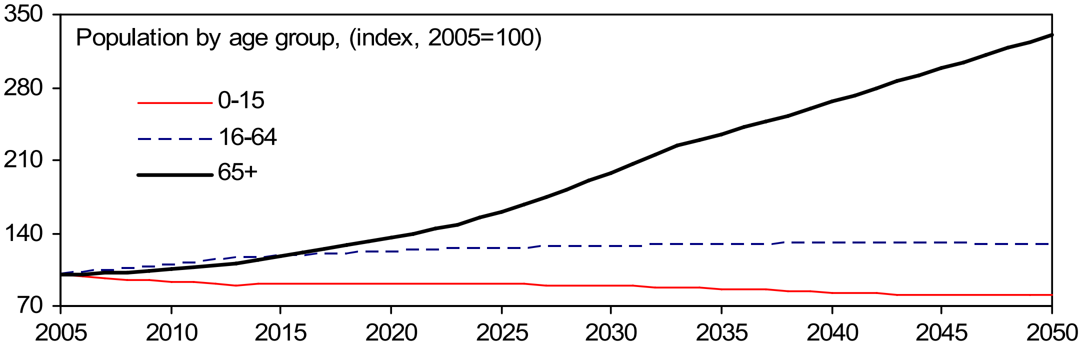
Figure 6. St. Lucia: Universal Health Care



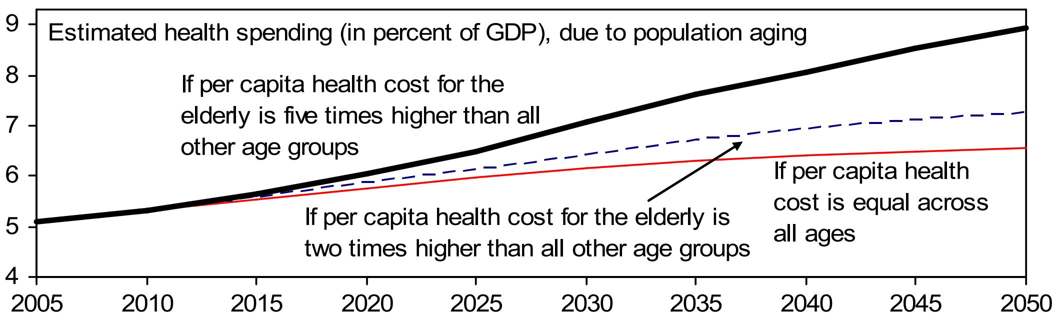
Sources: World Health Organization; World Economic Outlook; World Bank; and Fund staff estimates.

Figure 7. St. Lucia: Future Health Cost Pressures

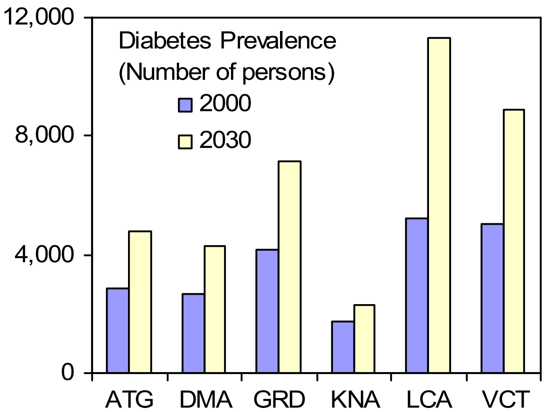
St. Lucia will face increasing population aging pressures starting in 2020...

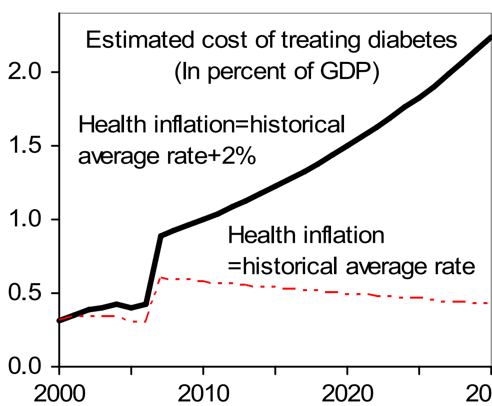


...which could raise health costs significantly.



Health costs could also rise significantly due to the increasing incidence of chronic diseases such as diabetes. St. Lucia has the highest incidence of diabetes in the world.





Sources: World Health Organization; International Labor Organization; Wild et al. (2004), "Global Prevalence of Diabetes: Estimates for the year 2000 and projections for 2030" Diabetes Care, vol. 27, pp. 1047–53; and Fund staff estimates and projections.

Note: ATG signifies Antigua and Barbuda, DMA signifies Dominica, GRD signifies Grenada, KNA signifies St. Kitts and Nevis, LCA signifies St. Lucia, and VCT signifies St. Vincent and the Grens.

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

The risk of current fiscal policies leading to an unsustainable level of public debt has risen, given the increasing pressure for capital and social spending. In the absence of containment of expenditures, notably in capital spending, and a determined increase in revenues, current debt dynamics are unfavorable.

Two fiscal scenarios are considered—a baseline and an alternative scenario. Under the baseline scenario, the debt stock and debt servicing costs continue to rise; under the alternative scenario, the stock of debt declines gradually over the medium term.

Baseline scenario. The authorities continue current policies with large overall imbalances that are financed commercially, and also through some grants from Taiwan Province of China. Financing is assumed to continue to be available. In the medium term, growth remains driven by the public sector, mainly through large-scale construction, but is still lower (by about ½ of 1 percent) than under the alternative scenario. On the revenue side, new measures would be limited to the introduction of a revenue-neutral VAT and some reform of property taxes, but additional grants would be expected. On the expenditure side, the wage bill would remain constant (as a share of GDP), and there would be an increase in capital expenditures. Under this scenario, the central government primary deficit (excluding grants) would deteriorate rapidly reaching about 8 percent of GDP by 2012, and public debt would reach close to 90 percent of GDP by 2012 (Table 6, Baseline Scenario).

Alternative scenario. A fiscal adjustment of 0.7 percent of GDP is assumed for FY 2007 (see main text) and further adjustments are envisaged over the medium term. The adjustment in FY 2007 is expected to be realized mainly through prioritization of capital expenditure. Over the medium term, greater revenue mobilization (about 2½ percent of GDP)—which restores the revenue effort to levels attained in the last decade—would focus on: (i) increased petroleum product taxes (through more flexible adjustment of domestic retail prices starting in 2008); (ii) more vigorous collection of domestic taxes (personal income tax, corporate profit tax, and consumption taxes); (iii) the introduction of market valuation-based property taxes in 2008; and (iv) the introduction of a revenue-positive VAT in 2009. Additional grants are expected from Taiwan Province of China and the European Union. On the expenditure side, in order to create room for planned additional social spending, growth in the real wage bill would be minimal (by holding constant the number of civil servants), while capital expenditure would be curtailed by the elimination or postponement of low-priority projects.

With the impetus from (above average) spending on public sector projects, underlying growth is expected to accelerate with the greater activity in the private sector, and is estimated at about 4¾ percent over the medium term. Under this scenario, the central government primary deficit (excluding grants) would fall from 2.7 percent to 1.8 percent of GDP by 2012, and public debt would decline to about 60 percent of GDP by 2012 (Table 6, Alternative Scenario, and Table 7).

Annex II. Summary of Appendices

Fund Relations

St. Lucia does not have outstanding obligations to the Fund. St. Lucia is a member of the Eastern Caribbean Central Bank (ECCB), which manages monetary policy and the exchange system for its eight members. The common currency, the Eastern Caribbean dollar, has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976. St. Lucia has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. The last Article IV consultation was concluded by the Executive Board on December 21, 2005 (IMF Country Report No. 06/325). CARTAC has provided extensive technical assistance in recent years. In addition, FAD plans to field a revenue administration mission (to propose reforms to tax and customs administration) in September 2007.

Relations with the World Bank Group[11]

In September 2005, the Eastern Caribbean Sub-Region Country Assistance Strategy (CAS) for FY 2006–09 was presented to the Board of the World Bank. The strategy supports the sub-region's development agenda through two main pillars: (1) stimulating growth and improving competitiveness; and (2) reducing vulnerability, by promoting greater social inclusion and strengthening disaster risk management. There are five active World Bank projects in St. Lucia for a net commitment of approximately US$24.5 million: Telecommunications and ICT Development, Water Supply Infrastructure Improvement, HIV/AIDS Prevention and Control, the Caribbean Catastrophe Risk Insurance Facility, and the OECS Skills for Inclusive Growth.

Relations with the Caribbean Development Bank[12]

St. Lucia has continued to receive financing from the Caribbean Development Bank (CDB) for infrastructure development, human resource development, the formulation and implementation of economic, social and sectoral policies, direct and indirect lending to the productive sectors, environmental protection and poverty reduction. At end-2006, St. Lucia had a total outstanding balance of US$148.7 million. Since 1970, CDB financing for St. Lucia has been distributed mainly in the transportation and communication, education, and manufacturing sectors.

Statistical Issues

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

[11] Adapted from text prepared by World Bank staff in July 2007.

[12] Adapted from text prepared by Caribbean Development Bank staff in June 2007.

Table 1. St. Lucia: Selected Social and Economic Indicators, 2003–08

I. Social and Demographic Indicators

Area (sq. km)	616	Life expectancy at birth (years, 2004)	73
		Infant mortality (per thousand live births, 2006)	19.6
Population		Human Development Index (HDI) ranking (2006)	71
Total (2006)	166,838	(rank out of 177 countries)	
Rate of growth (percent per year)	1.4		
Population density (per sq. km., 2006)	309.5	Gross Domestic Product (2006)	
Net migration rate (per thousand, 2002)	-9.8	(millions of US dollars)	925
Adult illiteracy rate (percent, 2001)	5	(millions of EC dollars)	2,498
		(US$ per capita)	5,546

II. Economic and Financial Indicators, 2003–08

	2003	2004	2005	Prel. 2006	Proj. 7/ 2007	Proj. 7/ 2008
	(Annual percentage changes, unless otherwise specified)					
Output and prices						
Real GDP at factor cost	3.1	4.5	3.8	5.0	3.2	4.4
GDP at current market prices (in EC$ millions)	6.1	7.1	9.7	5.4	3.5	9.2
GDP deflator at factor cost	1.8	1.8	3.7	1.4	1.5	4.5
Consumer prices (end of period)	0.5	3.5	5.2	-0.6	2.5	2.9
Consumer prices (period average)	1.0	1.5	3.9	2.4	2.5	2.9
Banana export receipts	-25.7	24.7	-23.7	15.9	-15.0	26.0
Unemployment rate (in percent)	22.3	21.0	18.7	15.8	…	…
External sector						
Exports, f.o.b.	3.6	34.1	-7.8	14.9	-0.1	9.8
Imports, f.o.b.	30.4	-1.8	20.1	24.6	-12.7	9.7
Travel receipts	34.3	15.4	9.3	-20.1	11.2	15.8
Terms of trade (- = deterioration)	-3.5	-0.8	-1.1	-13.9	-2.9	4.9
Real effective exchange rate (end of period, - = depreciation)	-4.9	-4.6	-0.5	-1.0	...	...
Money and credit 1/						
Net foreign assets	17.7	-1.2	-14.5	1.0	-3.1	0.6
Net domestic assets	-10.1	11.3	27.9	19.1	12.7	11.3
Of which						
Credit to private sector	-4.3	11.1	17.7	27.4	9.2	10.2
	(In percent of GDP, unless otherwise specified)					
Central government 2/						
Total revenue and grants	26.2	25.5	25.1	25.9	29.3	28.5
Total expenditure and net lending	29.8	29.3	32.0	32.4	31.5	32.1
Current expenditure	22.4	21.7	22.0	21.9	22.9	23.0
Of which						
Wages and salaries	11.2	10.0	9.7	9.9	10.0	9.6
Interest	2.8	3.0	3.5	3.5	3.5	3.4
Capital expenditure	6.6	7.4	9.9	10.5	8.7	9.1
Overall balance (cash basis)	-3.6	-3.8	-6.9	-6.5	-2.2	-3.6
Of which						
Current balance (savings)	1.8	3.8	2.8	3.6	2.5	3.5
Primary balance (after grants)	-0.8	-0.8	-3.4	-3.0	1.3	-0.2
Central government debt	56.5	62.0	63.4	63.9	63.1	61.4
Debt service in percent of current revenues 3/	23.7	33.3	35.4	39.4	40.2	27.5
External sector						
External current account	-19.7	-10.9	-17.1	-32.2	-20.6	-18.4
Of which						
Exports of goods and services	52.3	58.0	56.9	47.1	49.1	51.3
Imports of goods and services	66.9	62.0	67.2	74.5	65.3	65.8
Stayover arrivals (percentage change)	9.3	7.8	6.5	-4.9	-2.0	4.0
Foreign direct investment (FDI)	14.3	9.6	8.9	23.3	12.5	14.0
Public sector external debt (end of period)	45.7	46.2	45.9	43.9	44.0	40.8
External public debt service 4/						
In percent of exports of goods and services	7.3	7.7	7.0	13.2	15.8	10.0
In percent of central government revenue before grants	16.9	18.6	17.1	25.2	31.4	19.7
Memorandum items:						
Gross public sector debt 5/ 6/	60.3	66.1	66.5	66.6	69.0	66.9
Nominal GDP at market prices (in millions of EC dollars)	2,016	2,159	2,369	2,498	2,587	2,824
Nominal GDP at factor cost (in millions of EC dollars)	1,676	1,783	1,919	2,045	2,142	2,335
Share of ECCU stayover visitors	29.2	28.6	30.4	28.0	...	...

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

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

Table 2. St. Lucia: Operations of the Central Government, 2003–12 (Alternative Scenario) 1/

(In millions of Eastern Caribbean dollars)

	2003	2004	2005	Est. 2006	Projections 2007	2008	2009	2010	2011	2012
Total revenue and grants	**538.3**	**564.1**	**602.1**	**652.6**	**776.3**	**823.2**	**909.0**	**1,007.3**	**1,104.7**	**1,207.4**
Current revenue	**496.7**	**563.3**	**595.5**	**642.9**	**670.6**	**765.2**	**851.0**	**958.7**	**1,051.8**	**1,149.8**
Tax revenue	**452.9**	**518.6**	**554.5**	**615.6**	**642.4**	**734.4**	**817.2**	**921.6**	**1,011.2**	**1,105.7**
Nontrade tax 2/	308.6	346.0	347.1	374.9	392.1	460.9	517.3	589.4	645.3	704.1
Trade tax	144.4	172.6	207.5	240.8	250.3	273.5	299.9	332.2	365.9	401.5
Nontax revenue	**43.8**	**44.6**	**41.0**	**27.3**	**28.2**	**30.8**	**33.8**	**37.1**	**40.5**	**44.1**
Capital revenue	**8.6**	**0.9**	**0.6**	**0.7**	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**
Capital grants 3/	**32.9**	**0.0**	**6.0**	**9.0**	**104.6**	**57.0**	**57.0**	**47.6**	**52.0**	**56.6**
Total expenditure and net lending	**611.5**	**647.7**	**767.5**	**816.6**	**834.7**	**927.4**	**1,030.4**	**1,137.1**	**1,239.2**	**1,352.6**
Current expenditure	**460.0**	**479.8**	**529.2**	**551.8**	**604.6**	**664.1**	**727.6**	**792.1**	**851.7**	**920.2**
Wages and salaries	229.9	221.3	233.9	248.9	264.6	276.6	290.4	304.9	317.6	329.8
NIC contributions and retirement	35.2	38.2	43.3	46.6	49.0	53.5	58.7	64.3	70.2	76.3
Goods and services	78.0	90.4	100.5	101.5	120.8	142.3	160.2	184.3	204.8	230.7
Of which										
Additional social spending	...	...	...	...	15.0	26.7	33.3	45.2	53.1	65.9
Transfers	60.2	62.9	67.9	66.4	78.5	94.1	114.1	127.2	140.3	156.6
Of which										
Additional social safety nets	...	...	...	...	9.8	18.9	31.7	36.8	41.7	49.4
Interest payments	56.6	66.9	83.5	88.3	91.7	97.5	104.2	111.4	118.8	126.9
Domestic	20.2	22.2	26.5	30.8	35.3	40.5	43.9	47.2	50.7	54.4
External	36.4	44.8	57.1	57.6	56.3	57.1	60.3	64.2	68.1	72.5
Capital expenditure and net lending 4/	**136.1**	**164.3**	**238.4**	**264.8**	**230.1**	**263.4**	**302.8**	**345.0**	**387.5**	**432.4**
Primary balance	**-16.7**	**-16.6**	**-81.9**	**-75.7**	**33.2**	**-6.7**	**-17.1**	**-18.3**	**-15.7**	**-18.4**
(excluding grants)	**-49.6**	**-16.6**	**-87.9**	**-84.7**	**-71.4**	**-63.7**	**-74.1**	**-66.0**	**-67.6**	**-75.0**
Current balance	**36.8**	**83.5**	**66.3**	**91.1**	**66.0**	**101.1**	**123.5**	**166.6**	**200.0**	**229.6**
Overall balance (excluding grants)	**-106.2**	**-83.5**	**-171.4**	**-173.0**	**-163.1**	**-161.2**	**-178.4**	**-177.4**	**-186.5**	**-201.8**
Overall balance (including grants)	**-73.3**	**-83.5**	**-165.4**	**-164.0**	**-58.4**	**-104.2**	**-121.4**	**-129.7**	**-134.5**	**-145.2**
Financing	**81.9**	**77.0**	**181.2**	**228.1**	**58.4**	**104.2**	**121.4**	**129.7**	**134.5**	**145.2**
External (net)	54.2	135.4	106.8	7.6	-22.6	13.6	60.3	71.6	72.8	80.9
Loans	51.1	63.0	106.8	7.6	-22.6	13.6	60.3	71.6	72.8	80.9
Drawings	68.0	79.4	157.6	105.3	122.5	101.2	151.6	175.9	158.8	165.8
Amortization	16.9	16.4	50.8	97.6	145.1	87.6	91.3	104.3	86.0	84.9
Other net credit	3.1	72.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in external arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	19.0	-51.9	58.6	156.4	81.1	90.7	61.1	58.2	61.7	64.4
ECCB (net)	10.3	-65.6	48.2	-14.2	0.0	0.0	0.0	-1.0	0.0	0.0
Commercial banks (net)	8.2	10.4	-4.8	67.0	57.8	56.1	52.4	65.7	53.4	53.5
Other domestic financing	-8.1	9.8	-0.5	39.6	23.3	35.0	9.1	-6.0	8.8	11.3
Statistical discrepancy	0.0	-6.5	15.8	64.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	8.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

1/ Data are for fiscal years beginning April 1.
2/ In the baseline scenario, a VAT is introduced in 2009 which is revenue neutral.
3/ Capital grants for 2010/11 onward are assumed to be in line with period average capital grants in the BOP over the period 2003–06.
4/ Capital expenditure for 2007/08 is assumed to be in line with period average capital spending over the period 2003–06.

Table 3. St. Lucia: Operations of the Central Government, 2003–12 (Alternative Scenario) 1/

(In percent of GDP)

				Est.	Projections					
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total revenue and grants	**26.2**	**25.5**	**25.1**	**25.9**	**29.3**	**28.5**	**28.7**	**29.0**	**29.1**	**29.3**
Current revenue	**24.2**	**25.5**	**24.8**	**25.5**	**25.3**	**26.5**	**26.8**	**27.6**	**27.7**	**27.9**
Tax revenue	**22.1**	**23.5**	**23.1**	**24.4**	**24.3**	**25.4**	**25.8**	**26.5**	**26.7**	**26.8**
Nontrade tax 2/	15.0	15.6	14.5	14.9	14.8	15.9	16.3	17.0	17.0	17.1
Trade tax	7.0	7.8	8.6	9.6	9.5	9.5	9.5	9.6	9.6	9.7
Nontax revenue	**2.1**	**2.0**	**1.7**	**1.1**	**1.1**	**1.1**	**1.1**	**1.1**	**1.1**	**1.1**
Capital revenue	**0.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Capital grants 3/	**1.6**	**0.0**	**0.2**	**0.4**	**4.0**	**2.0**	**1.8**	**1.4**	**1.4**	**1.4**
Total expenditure and net lending	**29.8**	**29.3**	**32.0**	**32.4**	**31.5**	**32.1**	**32.5**	**32.7**	**32.7**	**32.8**
Current expenditure	**22.4**	**21.7**	**22.0**	**21.9**	**22.9**	**23.0**	**22.9**	**22.8**	**22.5**	**22.3**
Wages and salaries	11.2	10.0	9.7	9.9	10.0	9.6	9.2	8.8	8.4	8.0
NIC contributions and retirement	1.7	1.7	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Goods and services	3.8	4.1	4.2	4.0	4.6	4.9	5.1	5.3	5.4	5.6
Of which										
Additional social spending	...	...	...	...	0.6	0.9	1.1	1.3	1.4	1.6
Transfers	2.9	2.8	2.8	2.6	3.0	3.3	3.6	3.7	3.7	3.8
Of which										
Additional social safety nets	...	...	...	...	0.4	0.7	1.0	1.1	1.1	1.2
Interest payments	2.8	3.0	3.5	3.5	3.5	3.4	3.3	3.2	3.1	3.1
Domestic	1.0	1.0	1.1	1.2	1.3	1.4	1.4	1.4	1.3	1.3
External	1.8	2.0	2.4	2.3	2.1	2.0	1.9	1.8	1.8	1.8
Capital expenditure and net lending 4/	**6.6**	**7.4**	**9.9**	**10.5**	**8.7**	**9.1**	**9.6**	**9.9**	**10.2**	**10.5**
Primary balance	**-0.8**	**-0.8**	**-3.4**	**-3.0**	**1.3**	**-0.2**	**-0.5**	**-0.5**	**-0.4**	**-0.4**
(excluding grants)	**-2.4**	**-0.8**	**-3.7**	**-3.4**	**-2.7**	**-2.2**	**-2.3**	**-1.9**	**-1.8**	**-1.8**
Current balance	**1.8**	**3.8**	**2.8**	**3.6**	**2.5**	**3.5**	**3.9**	**4.8**	**5.3**	**5.6**
Overall balance (excluding grants)	**-5.2**	**-3.8**	**-7.1**	**-6.9**	**-6.2**	**-5.6**	**-5.6**	**-5.1**	**-4.9**	**-4.9**
Overall balance (including grants)	**-3.6**	**-3.8**	**-6.9**	**-6.5**	**-2.2**	**-3.6**	**-3.8**	**-3.7**	**-3.5**	**-3.5**
Financing	**4.0**	**3.5**	**7.5**	**9.0**	**2.2**	**3.6**	**3.8**	**3.7**	**3.5**	**3.5**
External (net)	2.6	6.1	4.4	0.3	-0.9	0.5	1.9	2.1	1.9	2.0
Loans	2.5	2.8	4.4	0.3	-0.9	0.5	1.9	2.1	1.9	2.0
Drawings	3.3	3.6	6.6	4.2	4.6	3.5	4.8	5.1	4.2	4.0
Amortization	0.8	0.7	2.1	3.9	5.5	3.0	2.9	3.0	2.3	2.1
Other net credit	0.2	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in external arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	0.9	-2.3	2.4	6.2	3.1	3.1	1.9	1.7	1.6	1.6
ECCB (net)	0.5	-3.0	2.0	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks (net)	0.4	0.5	-0.2	2.7	2.2	1.9	1.7	1.9	1.4	1.3
Other domestic financing	-0.4	0.4	0.0	1.6	0.9	1.2	0.3	-0.2	0.2	0.3
Statistical discrepancy	0.0	-0.3	0.7	2.5	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
GDP (at market prices, in EC$ millions)	2,051	2,211	2,402	2,520	2,646	2,892	3,171	3,477	3,793	4,120
Debt service (in percent of current revenue)	23.7	33.3	35.4	39.4	40.2	27.5	31.6	30.3	26.2	24.6
Central government debt (in percent of GDP)	56.5	62.0	63.4	63.9	63.1	61.4	59.8	58.2	56.9	55.9
External	43.3	43.6	43.9	42.2	39.4	36.5	35.2	34.1	33.2	32.5
Domestic	13.2	18.3	19.5	21.7	23.7	24.9	24.6	24.1	23.7	23.4

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

1/ Data are for fiscal years beginning April 1.
2/ In the baseline scenario, a VAT is introduced in 2009 which is revenue neutral.
3/ Capital grants for 2010/11 onward are assumed to be in line with period average capital grants in the BOP over the period 2003–06.
4/ Capital expenditure for 2007/08 is assumed to be in line with period average capital spending over the period 2003–06.

Table 4. St. Lucia: Balance of Payments Summary, 2003–12 (Alternative Scenario)

	2003	2004	2005	Prel. 2006	Projections 2007	2008	2009	2010	2011	2012
	(In millions of Eastern Caribbean dollars)									
Current account	**-396.5**	**-235.9**	**-405.4**	**-803.4**	**-531.9**	**-520.5**	**-559.8**	**-550.6**	**-625.8**	**-687.6**
Trade balance	-763.3	-679.6	-889.2	-1,131.2	-952.7	-1,045.0	-1,161.8	-1,303.2	-1,531.0	-1,727.1
Exports f.o.b.	193.9	260.0	239.7	275.3	275.2	302.0	324.1	349.8	362.2	374.0
Of which										
Bananas	43.6	54.3	41.5	48.1	40.9	51.5	54.3	57.2	57.2	57.2
Manufactured exports	48.4	51.0	54.0	56.1	58.0	60.7	63.5	66.5	69.8	73.3
Imports f.o.b.	-957.2	-939.6	-1,128.9	-1,406.5	-1,227.9	-1,347.0	-1,485.9	-1,653.0	-1,893.2	-2,101.1
Services (net)	469.3	592.4	644.6	446.4	534.5	635.9	717.4	872.9	1,030.3	1,170.3
Credits	860.6	991.3	1,108.3	902.4	996.1	1,146.9	1,277.3	1,496.5	1,715.9	1,927.0
Travel	761.6	879.3	961.2	768.4	854.7	989.7	1,102.0	1,300.4	1,497.9	1,689.7
Other nonfactor services	99.0	112.0	147.1	133.9	141.3	157.1	175.3	196.1	218.0	237.3
Debits	391.3	398.9	463.6	456.0	461.6	511.0	560.0	623.6	685.6	756.7
Travel	96.3	99.4	105.1	106.2	110.0	120.1	131.6	144.5	157.7	171.7
Other nonfactor services	295.0	299.5	358.5	349.8	351.6	390.9	428.4	479.1	527.8	585.0
Income payments (net)	-137.3	-186.3	-195.8	-150.9	-147.5	-149.0	-157.3	-167.3	-177.3	-188.5
Current transfers	34.8	37.6	35.0	32.3	33.8	37.6	41.9	46.9	52.1	57.8
Net private transfers	34.7	38.1	38.4	33.6	35.1	39.0	43.5	48.7	54.1	60.0
Net official transfers	0.1	-0.5	-3.3	-1.2	-1.3	-1.4	-1.6	-1.8	-2.0	-2.2
Capital and financial account	**394.0**	**272.8**	**209.1**	**757.1**	**510.0**	**546.6**	**589.8**	**580.7**	**657.4**	**715.1**
Capital	46.1	9.3	14.4	51.7	104.6	57.0	57.0	47.6	52.0	56.6
Financial (net)	347.9	263.5	194.7	705.4	405.4	489.6	532.8	533.1	605.4	658.6
Official capital	195.6	72.1	38.0	7.6	-22.6	13.6	60.3	71.6	72.8	80.9
Commercial banks	-196.4	54.0	66.5	30.8	41.9	12.5	26.2	24.1	9.9	-5.9
Private capital	348.7	143.6	179.5	556.0	386.1	463.5	446.3	437.4	522.7	583.6
Of which										
Net direct investment	287.4	206.6	211.2	582.2	322.6	394.2	385.1	373.9	408.2	444.2
Errors and omissions	51.9	35.5	155.1	82.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	49.4	72.4	-41.2	36.3	-21.9	26.1	29.9	30.1	31.6	27.5
Financing	-49.4	-72.4	41.2	-36.3	21.9	-26.1	-29.9	-30.1	-31.6	-27.5
Change in imputed reserves (increase -)	-34.6	-68.9	43.2	-48.6	21.9	-26.1	-29.9	-30.1	-31.6	-27.5
Change in government foreign assets	-14.9	-3.5	-2.0	12.3	0.0	0.0	0.0	0.0	0.0	0.0
Other financing (interest moratorium)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	(In percent of GDP, unless otherwise indicated)									
Memorandum items:										
Current account	-19.7	-10.9	-17.1	-32.2	-20.6	-18.4	-18.1	-16.2	-16.9	-17.0
Exports f.o.b.	9.6	12.0	10.1	11.0	10.6	10.7	10.5	10.3	9.8	9.3
Imports f.o.b.	-47.5	-43.5	-47.6	-56.3	-47.5	-47.7	-48.0	-48.6	-51.0	-52.0
Net private transfers	1.7	1.8	1.6	1.3	1.4	1.4	1.4	1.4	1.5	1.5
Foreign direct investment	14.3	9.6	8.9	23.3	12.5	14.0	12.4	11.0	11.0	11.0
Indicators of diversification										
(In percent of exports of goods and nonfactor services)										
Banana exports	4.1	4.3	3.1	4.1	3.2	3.6	3.4	3.1	2.8	2.5
Tourism receipts	72.2	70.3	71.3	65.2	67.2	68.3	68.8	70.4	72.1	73.4
Tourism receipts	37.8	40.7	40.6	30.8	33.0	35.0	35.6	38.3	40.4	41.8
Total trade	57.1	55.6	57.8	67.3	58.1	58.4	58.5	58.9	60.8	61.3
Exports of goods and nonfactor services	52.3	58.0	56.9	47.1	49.1	51.3	51.7	54.3	56.0	57.0
Imports of goods and nonfactor services	66.9	62.0	67.2	74.5	65.3	65.8	66.1	67.0	69.5	70.8
Terms of trade for GNFS (percentage change)	-3.5	-0.8	-1.1	-13.9	-2.9	4.9	5.9	5.8	4.0	3.3
Excluding tourism (percentage change)	-10.2	-8.2	-3.2	-7.6	-4.8	0.2	1.8	1.0	-2.7	-0.6
Public sector external debt (end of period)	45.7	46.2	45.9	43.9	44.0	40.8	39.0	37.7	36.5	35.5

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

Table 5. St. Lucia: Monetary Survey, 2003–08

	2003	2004	2005	2006	Projections 2007	2008
(In millions of Eastern Caribbean dollars)						
Net foreign assets	**335.2**	**318.7**	**99.9**	**117.6**	**53.8**	**67.3**
ECCB (imputed reserves)	282.6	351.5	308.3	356.9	335.0	361.0
Commercial banks	52.5	-32.9	-208.5	-239.3	-281.2	-293.7
Net domestic assets	**1,035.2**	**1,190.5**	**1,611.9**	**1,938.6**	**2,200.7**	**2,454.4**
Public sector credit (net)	-290.8	-324.7	-275.9	-246.8	-206.6	-167.5
Central government	-104.4	-130.7	-90.7	-32.0	25.8	81.8
ECCB	-0.6	-13.7	-10.0	-19.8	-19.8	-19.8
Commercial banks	-103.8	-117.0	-80.6	-12.2	45.6	101.6
Net credit to rest of public sector	-186.4	-194.0	-185.2	-214.8	-232.3	-249.3
National Insurance Corporation	-229.5	-240.9	-248.2	-264.2	-279.7	-294.5
Other	43.1	46.9	62.9	49.4	47.4	45.2
Credit to private sector	1,498.2	1,650.6	1,917.3	2,386.8	2,576.6	2,806.8
Net credit to nonbank financial inst.	-39.3	-35.4	-37.8	-40.4	-41.8	-45.6
Other items (net)	-132.9	-100.0	8.3	-161.1	-127.6	-139.3
Broad money	**1,370.4**	**1,509.2**	**1,711.8**	**2,056.2**	**2,254.5**	**2,521.7**
Money	343.1	481.3	547.3	560.7	582.3	637.6
Currency in circulation	91.3	99.2	106.4	126.6	132.8	146.9
Demand deposits	251.8	382.2	440.9	434.1	449.4	490.7
Quasi-money	1,027.3	1,027.8	1,164.5	1,495.5	1,672.2	1,884.2
Time deposits	240.2	178.7	185.9	222.7	496.8	597.7
Savings deposits	755.2	810.4	916.3	1,064.9	1,102.5	1,203.7
Foreign currency deposits	31.9	38.7	62.2	207.9	72.9	82.7
(Annual percentage change)						
Net foreign assets	205.3	-4.9	-68.7	17.8	-54.2	25.1
Net domestic assets	-11.0	15.0	35.4	20.3	13.5	11.5
Credit to private sector	-3.6	10.2	16.2	24.5	8.0	8.9
Broad money	7.6	10.1	13.4	20.1	9.6	11.9
Money	19.3	40.3	13.7	2.4	3.9	9.5
Quasi-money 1/	4.2	0.1	13.3	28.4	11.8	12.7
(Percent contribution compared to M2 at the beginning of the year)						
Net foreign assets	17.7	-1.2	-14.5	1.0	-3.1	0.6
Net domestic assets	-10.1	11.3	27.9	19.1	12.7	11.3
Public sector credit (net)	-2.8	-2.5	3.2	1.7	2.0	1.7
Of which						
Central government	-0.6	-1.9	2.7	3.4	2.8	2.5
Credit to private sector	-4.3	11.1	17.7	27.4	9.2	10.2
Net credit to nonbank financial inst.	-0.5	0.3	-0.1	-0.1	-0.1	-0.2
Other items (net)	-2.4	2.4	7.2	-9.9	1.6	-0.5
Memorandum item:						
Income velocity 2/	1.5	1.5	1.5	1.3	1.2	1.2

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

1/ Including resident foreign currency deposits.

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

Table 6. St. Lucia: Medium-Term Projections, 2003–12

(In percent of GDP, unless otherwise specified)

					Projections					
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
					I. Baseline Scenario					
Output and prices										
Real GDP growth at factor cost (percent change)	3.1	4.5	3.8	5.0	2.7	3.5	4.0	4.2	4.2	4.2
Consumer prices, end-of-period (percent change)	0.5	3.5	5.2	-0.6	2.5	2.5	2.0	2.0	2.0	2.0
Nonfinancial public sector 1/										
Central government										
Total revenue and grants	26.2	25.5	25.1	25.9	29.0	26.5	26.5	26.4	26.4	26.5
Of which										
Grants	1.6	0.0	0.2	0.4	4.0	1.4	1.4	1.3	1.4	1.4
Total expenditure and net lending	29.8	29.3	32.0	32.4	33.5	34.4	35.3	35.9	36.5	37.4
Of which										
Wages and salaries	11.2	10.0	9.7	9.9	10.0	10.0	10.0	10.0	10.0	10.0
Interest	2.8	3.0	3.5	3.5	3.6	3.8	4.0	4.2	4.4	4.7
Capital expenditure	6.6	7.4	9.9	10.5	10.2	10.7	11.2	11.5	11.8	12.1
Overall balance (cash basis)	-3.6	-3.8	-6.9	-6.5	-4.4	-7.9	-8.9	-9.6	-10.1	-10.9
Of which										
Primary balance	-0.8	-0.8	-3.4	-3.0	-0.8	-4.2	-4.9	-5.4	-5.7	-6.2
(excluding grants)	-2.4	-0.8	-3.7	-3.4	-4.8	-5.6	-6.3	-6.7	-7.1	-7.5
Central government debt 2/	56.5	62.0	63.4	63.9	66.2	69.3	72.8	76.9	81.5	86.7
Gross public sector debt 3/	60.3	66.1	66.5	66.6	70.6	73.3	76.4	80.1	84.5	89.5
					II. Alternative Scenario					
Output and prices										
Real GDP growth at factor cost (percent change)	3.1	4.5	3.8	5.0	3.2	4.4	4.4	4.6	4.8	4.8
Consumer prices, end-of-period (percent change)	0.5	3.5	5.2	-0.6	2.5	2.9	2.6	2.6	2.5	2.5
Saving and investment										
Gross domestic investment	20.3	20.9	27.7	45.0	28.5	29.0	28.0	27.4	27.4	27.4
Public 2/	6.8	7.6	10.1	10.6	8.9	9.3	9.8	10.1	10.4	10.7
Private	13.5	13.3	17.6	34.4	19.6	19.7	18.2	17.3	17.0	16.7
Gross national saving	0.6	10.0	10.6	12.9	7.9	10.6	9.9	11.2	10.5	10.4
Public	3.1	3.7	3.1	4.0	6.6	5.6	5.9	6.3	6.8	7.1
Private	-2.5	6.3	7.5	8.8	1.3	4.9	4.0	4.9	3.7	3.3
Nonfinancial public sector 1/										
Central government										
Total revenue and grants	26.2	25.5	25.1	25.9	29.3	28.5	28.7	29.0	29.1	29.3
Of which										
Grants	1.6	0.0	0.2	0.4	4.0	2.0	1.8	1.4	1.4	1.4
Total expenditure and net lending	29.8	29.3	32.0	32.4	31.5	32.1	32.5	32.7	32.7	32.8
Of which										
Wages and salaries	11.2	10.0	9.7	9.9	10.0	9.6	9.2	8.8	8.4	8.0
Interest	2.8	3.0	3.5	3.5	3.5	3.4	3.3	3.2	3.1	3.1
Capital expenditure	6.6	7.4	9.9	10.5	8.7	9.1	9.6	9.9	10.2	10.5
Overall balance (cash basis)	-3.6	-3.8	-6.9	-6.5	-2.2	-3.6	-3.8	-3.7	-3.5	-3.5
Of which										
Primary balance	-0.8	-0.8	-3.4	-3.0	1.3	-0.2	-0.5	-0.5	-0.4	-0.4
(excluding grants)	-2.4	-0.8	-3.7	-3.4	-2.7	-2.2	-2.3	-1.9	-1.8	-1.8
Central government debt 2/	56.5	62.0	63.4	63.9	63.1	61.4	59.8	58.2	56.9	55.9
Gross public sector debt 3/	60.3	66.1	66.5	66.6	69.0	66.9	64.8	62.8	61.1	59.7
External sector										
External current account	-19.7	-10.9	-17.1	-32.2	-20.6	-18.4	-18.1	-16.2	-16.9	-17.0
Gross public sector external debt (end of period)	45.7	46.2	45.9	43.9	44.0	40.8	39.0	37.7	36.5	35.5
External public debt service										
(In percent of exports of goods and services)	7.3	7.7	7.0	13.2	15.8	10.0	9.5	9.1	7.4	6.8
(In percent of central government revenue before grants	16.9	18.6	17.1	25.2	31.4	19.7	18.6	18.3	15.2	14.2

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

1/ Data are for fiscal years beginning April 1.

2/ Includes debt guaranteed by the central government.

3/ The consolidated public sector guaranteed and non-guaranteed debt.

Table 7. St. Lucia: Public Sector Debt, 2002–07 1/

	2002	2003	2004	2005	Est. 2006	Proj. 2007
	(In millions of Eastern Caribbean dollars, end-period)					
Debt stock						
Public sector debt net of borrowing from the NIC	1,185.2	1,214.6	1,426.5	1,575.0	1,664.3	1,784.9
Domestic debt net of borrowing from the NIC	321.1	293.7	428.4	488.6	567.0	646.8
Domestic debt including borrowing from the NIC	321.1	293.7	428.4	488.6	567.0	646.8
By type of creditor						
ECCB	32.3	24.9	24.8	24.8	18.8	18.8
Commercial banks	178.5	152.6	252.0	256.0	536.9	556.2
Other (includes NIS and insurance companies)	110.2	116.2	151.6	207.8	11.2	71.7
By instrument						
Treasury bills 2/	100.2	108.7	95.1	92.3	74.8	74.8
Loans	73.4	35.1	31.7	31.1	77.6	117.8
Bonds	72.5	78.1	217.3	217.3	245.7	258.9
Other (includes overdraft)	75.0	71.9	84.3	148.0	168.8	195.3
Public sector external debt	864.2	920.9	998.1	1,086.4	1,097.3	1,138.0
By type of creditor						
Official bilateral	75.6	75.1	77.3	72.0	80.1	70.2
Official multilateral	302.5	297.5	350.3	407.3	466.0	536.4
Commercial	132.9	218.5	399.9	399.7	382.6	367.4
	(In percent of GDP)					
Total debt	62.4	60.3	66.1	66.5	66.6	69.0
Domestic debt	16.9	14.6	19.8	20.6	22.7	25.0
External debt	45.5	45.7	46.2	45.9	43.9	44.0
	(In percent of government revenues)					
Total debt	267.8	244.5	253.3	264.5	258.9	266.2
Domestic debt	72.5	59.1	76.1	82.1	88.2	96.5
External debt	195.3	185.4	177.2	182.4	170.7	169.7
	(In millions of EC dollars, end-period)					
Debt service						
Total debt service	179.0	117.9	187.3	211.0	253.6	269.5
Amortization	132.4	61.3	120.3	127.5	165.2	177.9
Domestic	83.0	44.4	72.6	76.6	67.6	32.7
External	49.4	16.9	47.8	50.8	97.6	145.1
Interest	46.6	56.6	66.9	83.5	88.3	91.7
Domestic	21.9	20.2	22.2	26.5	30.8	35.3
External	24.7	36.4	44.8	57.1	57.6	56.3
	(In percent of GDP)					
Total debt service	9.4	5.8	8.7	8.9	10.1	10.4
Interest cost	2.5	2.8	3.0	3.5	3.5	3.5
Amortization	7.0	3.0	5.6	5.4	6.6	6.9
In percent of government revenue excluding grants	40.4	23.7	33.3	35.4	39.4	40.2
In percent export of goods and services	20.8	11.2	15.0	15.7	21.5	21.2
In percent of broad money 3/	14.1	8.6	12.4	12.3	12.3	12.0
Domestic debt service						
In percent of government revenue excluding grants	23.7	13.0	16.8	17.3	15.3	10.1
In percent export of goods and services	12.2	6.1	7.6	7.7	8.4	5.4
In percent of broad money 3/	8.2	4.7	6.3	6.0	4.8	3.0
External debt service						
In percent of government revenue excluding grants	23.3	16.9	18.6	17.1	25.2	31.4
In percent export of goods and services	10.9	7.3	7.7	7.0	13.2	15.8
In percent of broad money 3/	5.8	3.9	6.1	6.3	7.5	8.9
Memorandum items:						
Debt structure (in percent)						
Domestic	27.1	24.2	30.0	31.0	34.1	36.2
Treasury bills 2/	8.5	8.9	6.7	5.9	4.5	4.2
Loans	6.2	2.9	2.2	2.0	4.7	6.6
Bonds	6.1	6.4	15.2	13.8	14.8	14.5
Other (includes overdraft)	6.3	5.9	5.9	9.4	10.1	10.9
External	72.9	75.8	70.0	69.0	65.9	63.8
Official bilateral	6.4	6.2	5.4	4.6	4.8	3.9
Official multilateral	25.5	24.5	24.6	25.9	28.0	30.1
Commercial	11.2	18.0	28.0	25.4	23.0	20.6
Effective average interest rate 4/						
Domestic debt	6.8	6.9	5.2	5.4	5.4	5.5
External debt	2.9	4.0	4.5	5.3	5.2	4.9

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

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

Table 8. St. Lucia: Indicators of External and Financial Vulnerability, 2002–07

(Annual percentage changes, unless otherwise specified)

	2002	2003	2004	2005	Est. 2006	Proj. 2007
External indicators						
Merchandise exports	27.7	3.6	34.1	-7.8	14.9	-0.1
Merchandise imports	-0.1	30.4	-1.8	20.1	24.6	-12.7
Terms of trade deterioration (-)	-2.2	-3.5	-0.8	-1.1	-13.9	-2.9
Tourism earnings	-9.9	34.3	15.4	9.3	-20.1	11.2
Banana export earnings	42.4	-25.7	24.7	-23.7	15.9	-15.0
Current account balance (in percent of GDP)	-15.1	-19.7	-10.9	-17.1	-32.2	-20.6
Capital and financial account balance (in percent of GDP) 1/	17.9	19.5	12.6	8.8	30.3	19.7
Of which						
Foreign direct investment (in percent of GDP)	7.4	14.3	9.6	8.9	23.3	12.5
Gross international reserves of the ECCB						
In millions of U.S. dollars	504.8	539.9	632.4	600.8	696.0	747.4
In percent of broad money	20.2	19.8	20.5	17.9	18.6	18.6
Gross imputed reserves						
In millions of U.S. dollars	91.9	104.7	130.2	114.2	132.2	124.1
In percent of short-term liablilities	417.5	475.0	389.8	307.8	319.3	492.5
External public debt (in percent of GDP)	45.5	45.7	46.2	45.9	43.9	44.0
External debt service (in percent of exports of goods and nonfactor services)	10.9	7.3	7.7	7.0	13.2	15.8
Of which						
Interest	3.4	4.4	3.4	2.8	9.1	8.6
Nominal exchange rate (EC dollars per U.S. dollar, end of period)	2.7	2.7	2.7	2.7	2.7	2.7
Real effective exchange rate depreciation (-), end period	-2.8	-4.9	-4.6	-0.5	-1.0	...
Financial indicators						
Broad money	3.2	7.6	10.1	13.4	20.1	9.6
Credit to the private sector	0.8	-3.6	10.2	16.2	24.5	8.0
Prudential indicators (in percent)						
Capital adequacy ratio (local banks)	14.7	16.5	18.0	16.2	17.6	...
NPLs to total loans ratio	20.6	17.7	17.3	12.6	8.5	...
Of which						
Local banks	28.1	23.8	22.2	16.5	10.5	...
Foreign banks	14.3	12.5	13.4	9.9	7.1	...
Loan loss provision to NPLs ratio	28.2	42.2	36.1	40.4	40.1	...
Of which						
Local banks	27.5	39.4	39.0	44.8	35.2	...
Foreign banks	29.4	46.9	32.3	35.4	45.2	...
Gross government claims to total assets ratio	10.5	11.5	13.0	14.6	11.8	...
Foreign currency deposits to total deposits ratio	1.7	1.8	2.1	3.0	9.0	...
Net foreign currency exposure to capital (local banks)	-27.6	5.9	30.2	83.7	41.6	...
Contingent liabilities to capital (local banks)	122.2	92.7	101.8	151.4	112.6	...
(Pre-tax) return on average assets	0.9	1.4	2.4	2.3	2.4	...
Yield to maturity sovereign bonds 2/	8.3	9.4	13.7	12.2	7.2	...

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

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

Table 9. St. Lucia: Millennium Development Goals Country Profile 1/

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

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

1/ As of August 30, 2007.

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

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

INTERNATIONAL MONTETARY FUND

ST. LUCIA

External and Public Debt Sustainability Analysis

Prepared by the staff of the International Monetary Fund

In consultation with World Bank Staff

September 7, 2007

This debt sustainability analysis (DSA) assesses the sustainability of St. Lucia's public and external debt. The analysis suggests that a key challenge will be achieving sound public finances to ensure debt sustainability. Staff estimates show that absent fiscal consolidation that would return the primary balance to its historical average, public debt would be on a rising and unsustainable path. This analysis also concludes that St. Lucia's risk of external debt distress is high.

I. Introduction

1. Macroeconomic outcomes have strengthened significantly in recent years, while fiscal imbalances have remained sizeable. Real GDP growth averaged 3¾ percent during 2003–05, and reached about 5 percent in 2006. Activity was sustained by construction and government services, both related to tourism and preparations for the Cricket World Cup (CWC). Fiscal imbalances remained high in 2006. Total tax revenues were strong, buoyed by reforms at customs. However, petroleum tax collection was poor (given the limited pass-through of world oil prices). Significant increases occurred in capital expenditures and wages and salaries. As a result, the overall deficit fell only slightly to 6½ percent of GDP in 2006, and gross public debt increased to 67 percent of GDP.

II. Underlying DSA Assumptions

2. The baseline scenario assumes authorities continue current policies with large overall imbalances that are financed commercially. In the medium term, growth is projected around 4¼ percent, driven mostly by public sector capital expenditure and some expansion of the tourism capacity. Under this scenario, the central government primary deficit (excluding grants) deteriorates rapidly peaking at around 6½ percent of GDP by 2012. While these main parameters imply a rate of growth higher than the staff projections and assumptions in the 2005 Article IV consultation DSA, they are consistent with the stronger growth observed in the period 2003–06, and with the projected expansion of tourism capacity.

Box 1. Baseline Macroeconomic Assumptions (2007–27)

- Real GDP growth is projected to average about 4¼ percent. While this assumption implies a rate of growth higher than the average observed in the 1990s (3 percent), it is consistent with the stronger growth observed in the period 2003–06, and with the projected expansion of public sector construction and tourism accommodation capacity. Inflation is projected to remain low, consistent with historical averages and the currency board arrangement.

- The primary balance of the central government (including grants) is projected to deteriorate rapidly peaking around 6½ percent of GDP by 2012. On the revenue side, new measures would be limited to the introduction of a revenue-neutral VAT, and some reform of property taxes. On the expenditure side, the wage bill would remain constant (as a share of GDP), and capital expenditure increases to 12 percent of GDP by 2012.

- Annual disbursements of external capital grants reach 4 percent of GDP in 2007 as grants from the European Union are expected to increase. In the medium term, grants are expected to be around 1½ percent of GDP, consistent with historical averages.

- The current account deficit is assumed to return gradually to a more sustainable level following its sharp increase in 2006, due to a slowdown in tourism-related imports and a pickup in tourist receipts. The expansion of tourist arrivals is underpinned by an expansion of the hotel capacity of 40 percent over the medium-term.

- FDI is assumed to remain around its historical average of 11 percent of GDP.

III. Evaluation of Public Sector Debt Sustainability

3. At end-2006 public debt stood at about 67 percent of GDP—nearly twice the level of a decade ago—albeit still the lowest in the ECCU. Expansionary budgets in 2000–02 sharply raised the fiscal deficit and debt-to-GDP ratio. In subsequent years the authorities strengthened fiscal management by tightening revenue administration and containing capital expenditure. Fiscal imbalances remained high in FY 2006/07, owing to increased CWC-related capital expenditures.

4. External debt represents 44 percent of GDP, while domestic debt represents 23 percent of GDP. Regarding the stock of external debt, the largest share is owed to multilateral and bilateral creditors (around 27 percent of GDP, with the Caribbean Development Bank holding around three fifths of that share), followed by commercial creditors (around 12 percent of GDP). In the future, most of new external requirements are expected to be financed through the ECCU Regional

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

Baseline scenario

5. Under the baseline scenario St. Lucia would reach a public debt to GDP ratio of about 91 percent by 2012. The debt-to-GDP ratio would increase further to around 116 percent of GDP by 2017. All other indicators of debt sustainability show a sharp deterioration, particularly with the NPV of debt-to revenue ratio increasing from 235 percent in 2007 to around 331 percent by 2012.

Alternative scenarios

Adjustment scenario

6. Under this scenario a fiscal adjustment would reduce the primary deficit of the central government to ½ of 1 percent over the medium term. This adjustment would restore the primary deficit to its average level over the last decade, and would require the introduction of a revenue-positive VAT, introduction of a market valuation-based property tax and prioritization of capital expenditure.

7. Under this adjustment scenario St. Lucia would reach a public debt to GDP ratio of about 60 percent—the benchmark of the ECCB—by 2012. The debt to GDP ratio would decline further to around 53 percent of GDP by 2027. All other indicators of debt sustainability would show a constant improvement, particularly with debt service as a share of current revenue falling from around 40 percent in 2006 to around 25 percent by 2012.

Changes in growth and primary balance

8. The sensitivity analysis shows that economic growth and the primary balance are the two key drivers of St. Lucia's debt dynamics. If no fiscal adjustment is implemented and the primary deficit were to be kept at its 2006 level (3 percent of GDP), the NPV of debt-to-GDP ratio would reach 128 percent of GDP by 2027 (Table 2, Scenario A2). Similarly if growth is assumed to remain at one standard deviation below the baseline, the NPV of debt-to-GDP ratio reaches 198 percent of GDP by 2027 (Table 2, Scenario A3).

9. The sensitivity analysis also shows the importance of containing expenditure if economic growth were to decline. In Alternative Scenario B1, in which growth declines to -0.6 percent for 2008 and 2009, the NPV of debt-to-GDP ratio increases rapidly reaching 199 percent of GDP by 2027. This is because as output slows, fiscal revenues are assumed to remain constant as a share of GDP while expenditures are assumed to remain constant in nominal terms relative to the baseline scenario, producing a substantial and permanent deterioration of the primary balance. This, in turn increases debt ratios markedly.

Natural disaster

10. The impact of a natural disaster on St. Lucia's debt dynamics was also analyzed (Table 2, Alternative Scenario A4). Under this scenario it is assumed that a hurricane increases the primary deficit of the government by 3 percent of GDP in 2008, 2009 and 2010, reverting to its baseline levels thereafter.[1] This shock accelerates the deterioration of the NPV of debt-to-GDP ratio reaching 108 percent of GDP by 2012.

IV. Evaluation of External Debt Sustainability

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

12. Under the baseline scenario the NPV of external debt shows a clear increasing path reaching 84 percent of GDP by 2017, and exceeding the prudential threshold of 50 percent by 2008.[2] The NPV of debt to exports ratio increases rapidly exceeding the indicative threshold of 200 percent by 2020.

13. Sensitivity analysis shows that the level of external debt is most responsive to a negative shock on output growth and costlier terms of financing. If the current account deficit, FDI and GDP growth are assumed at their historical averages, the external debt-to-GDP ratio increases to 100 percent by 2017 (Table 4, Scenario A1). This is driven by the lower output growth, since the current account deficit and FDI evolve in a manner similar to that in the baseline scenario. Similarly, if GDP growth were to fall permanently to one standard deviation below the historical average, the external debt-to-GDP ratio would increase to 98 percent by 2017 (Table 4, Scenario B1). If the interest rate on new borrowing was 2 percentage points higher than in the baseline, the external debt-to-GDP ratio would increase to 99 percent by 2017 (Table 4, Scenario A2).

V. Conclusion

14. Absent a fiscal adjustment that would return the primary balance to its historical average, imbalances for the overall public sector would be on an increasing and unsustainable path exceeding a NPV of debt-to-GDP ratio of 100 percent by 2014. Staff analysis show that with a fiscal adjustment

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

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

that would bring the primary deficit (including grants) to around ½ of 1 percent of GDP over the medium term (close to the long-term average), St. Lucia would reach a sustainable public debt-to-GDP ratio of about 60 percent—the benchmark of the ECCB—by 2012.

15. On the external front St. Lucia faces a high risk of debt distress. The baseline scenario indicates a breach of the NPV of debt-to-GDP threshold by 2008, while different stress tests underlined St. Lucia's vulnerabilities to natural disasters, costlier terms of financing, and lower output growth.

Table 1.St. Lucia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2004–27
(In percent of GDP, unless otherwise indicated)

	Actual					Projections									
	2004	2005	2006	Historical Average 1/	Standard Deviation 1/	2007	2008	2009	2010	2011	2012	2007–12 Average	2017	2027	2013–27 Average
Public sector debt 2/	66.1	66.5	66.6			72.0	74.8	78.0	81.7	86.1	90.9		116.0	152.5	
Of which: foreign-currency denominated	46.2	45.9	43.9			49.2	53.0	56.9	60.9	65.4	70.0		85.4	120.8	
Change in public sector debt	5.8	0.4	0.1			4.6	2.9	3.1	3.7	4.4	4.8		4.7	-1.6	
Identified debt-creating flows	-0.2	1.9	3.0			2.2	2.9	3.3	3.7	4.5	4.9		4.7	-1.6	
Primary deficit	0.8	3.5	3.0	0.9	2.5	0.8	4.2	5.0	5.5	5.8	6.3	4.6	5.6	1.3	5.2
Revenue and grants	26.1	25.4	26.1			29.6	27.0	27.0	26.9	26.9	27.0		27.1	28.3	
Of which : Grants	0.0	0.3	0.4			4.1	1.4	1.4	1.4	1.4	1.4		1.4	1.4	
Primary (noninterest) expenditure	26.9	28.9	29.1			30.4	31.2	32.0	32.4	32.7	33.2		32.6	29.5	
Automatic debt dynamics	-1.0	-1.6	0.0			1.3	-1.3	-1.7	-1.7	-1.3	-1.4		-0.8	-2.9	
Contribution from interest rate/growth differential	-1.1	-1.0	-1.1			1.0	-0.3	-0.5	-0.6	-0.5	-0.5		-0.5	-1.2	
Of which : Contribution from average real interest rate	1.5	1.5	2.1			2.7	2.2	2.3	2.5	2.8	3.0		4.1	5.1	
Of which : Contribution from real GDP growth	-2.6	-2.4	-3.2			-1.8	-2.5	-2.9	-3.1	-3.3	-3.4		-4.5	-6.3	
Contribution from real exchange rate depreciation	0.1	-0.6	1.1			0.4	-1.0	-1.1	-1.1	-0.9	-0.9		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	6.1	-1.5	-2.9			2.4	0.0	-0.2	0.0	0.0	0.0		0.0	0.0	
NPV of public sector debt	66.1	66.5	66.6			69.5	72.6	76.0	79.8	84.4	89.4		114.9	151.9	
Of which: Foreign-currency denominated	46.2	45.9	43.9			46.8	50.7	54.9	59.1	63.6	68.4		84.3	120.2	
Of which : External	46.2	45.9	43.9			46.8	50.7	54.9	59.1	63.6	68.4		84.3	120.2	
NPV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Gross financing need 3/	5.4	12.4	13.2			13.7	19.2	19.6	19.8	19.1	19.2		17.4	13.4	
NPV of public sector debt-to-revenue and grants ratio (in percent)	252.9	261.6	255.0			234.7	268.6	281.2	297.0	313.4	331.5		424.5	537.6	
NPV of public sector debt-to-revenue ratio (in percent)	252.9	264.2	258.6			272.3	283.8	297.0	312.7	330.6	349.6		447.7	565.7	
Of which: External 4/						183.2	198.3	214.7	231.4	249.3	267.8		328.5	447.7	
Debt service-to-revenue and grants ratio (in percent) 5/	17.8	35.0	38.9			39.0	42.7	42.2	42.6	39.6	38.9		37.2	39.6	
Debt service-to-revenue ratio (in percent) 5/	17.8	35.4	39.4			45.2	45.1	44.6	44.9	41.8	41.0		39.2	41.6	
Primary deficit that stabilizes the debt-to-GDP ratio	-5.0	3.1	2.9			-3.8	1.3	1.8	1.8	1.4	1.4		0.8	2.9	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.5	3.8	5.0	2.1	2.7	2.7	3.5	4.0	4.2	4.2	4.2	3.8	4.3	4.3	4.2
Average nominal interest rate on forex debt (in percent)	4.9	5.7	5.3	3.5	1.5	5.7	5.9	5.9	6.0	6.0	6.0	5.9	5.9	5.7	5.9
Average real interest rate on domestic currency debt (in percent)	4.7	1.7	5.7	4.1	1.8	4.6	1.5	1.5	1.8	2.4	2.5	2.4	3.7	2.5	3.5
Real exchange rate depreciation (in percent, + indicates depreciation)	0.2	-1.4	2.4	-0.5	2.0	0.8	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.7	4.4	0.6	2.7	1.9	0.9	4.1	4.2	4.0	3.4	3.5	3.3	2.4	3.4	2.5
Growth of real primary spending (deflated by GDP deflator, in percent)	1.9	12.8	5.9	3.7	9.3	4.7	6.3	6.4	5.3	5.3	5.8	5.7	4.0	-5.6	3.4
Grant element of new external borrowing (in percent)	...	...	6.9	6.9		0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	...	...

Sources: Country authorities; and Fund staff estimates and projections.

1/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
2/ Nonfinancial public sector gross debt, government guaranteed debt, and government nonguaranteed debt.
3/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
4/ Revenues excluding grants.
5/ Debt service is defined as the sum of interest and amortization of medium- and long-term debt.

Table 2. St. Lucia: Sensitivity Analysis for Key Indicators of Public Debt 2007–27

	Projections							
	2007	2008	2009	2010	2011	2012	2017	2027
NPV of Debt-to-GDP Ratio								
Baseline	69	73	76	80	84	89	115	152
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	69	70	71	72	73	75	89	124
A2. Primary balance is unchanged from 2007	69	72	74	76	79	81	98	128
A3. Permanently lower GDP growth 1/	69	73	77	82	88	94	129	198
A4. Natural Disaster 2/	69	78	88	98	103	108	134	171
A5. Adjustment scenario	69	64	62	60	58	57	55	53
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008–09	69	77	86	92	99	106	143	199
B2. Primary balance is at historical average minus one standard deviations in 2008–09	69	71	73	77	82	87	112	150
B3. Combination of B1–B2 using one half standard deviation shocks	69	72	75	79	84	89	114	152
B4. One-time 30 percent real depreciation in 2008	69	93	96	100	104	109	138	188
B5. 10 percent of GDP increase in other debt-creating flows in 2008	69	82	85	88	93	97	122	157
NPV of Debt-to-Revenue Ratio 3/								
Baseline	235	269	281	297	313	331	425	538
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	235	260	262	267	272	278	325	428
A2. Primary balance is unchanged from 2007	235	266	274	283	292	302	361	453
A3. Permanently lower GDP growth 1/	235	271	286	305	326	348	476	698
A4. Natural Disaster 2/	235	288	323	362	379	397	491	603
A5. Adjustment scenario	235	216	208	199	193	187	178	170
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008–09	235	283	316	341	366	393	527	701
B2. Primary balance is at historical average minus one standard deviations in 2008–09	235	264	270	287	303	322	416	531
B3. Combination of B1–B2 using one half standard deviation shocks	235	267	277	293	309	328	421	537
B4. One-time 30 percent real depreciation in 2008	235	345	356	371	388	406	511	664
B5. 10 percent of GDP increase in other debt-creating flows in 2008	235	303	314	329	344	361	451	557
Debt Service-to-Revenue Ratio 3/								
Baseline	39	43	42	43	40	39	37	40
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	39	43	39	37	33	31	26	13
A2. Primary balance is unchanged from 2007	39	43	41	41	36	35	31	28
A3. Permanently lower GDP growth 1/	39	43	43	44	41	41	43	55
A4. Natural Disaster 2/	39	44	44	45	41	39	34	31
A5. Adjustment scenario	39	29	33	32	28	26	18	15
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008–09	39	44	47	50	47	47	47	57
B2. Primary balance is at historical average minus one standard deviations in 2008–09	39	43	41	40	38	38	37	39
B3. Combination of B1–B2 using one half standard deviation shocks	39	44	41	40	39	39	37	38
B4. One-time 30 percent real depreciation in 2008	39	45	48	49	47	48	49	62
B5. 10 percent of GDP increase in other debt-creating flows in 2008	39	43	54	48	42	41	39	43

Sources: Country authorities; and Fund staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).
2/ Assumes that a hurricane hits St. Lucia increasing its primary deficit by three percent of GDP for 2008, 2009 and 2010, and reducing growth to zero.
3/ Revenues are defined inclusive of grants.

Table 3. St. Lucia: External Debt Sustainability Framework, Baseline Scenario, 2004–27
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 1/	Standard Deviation 1/	Projections									
	2004	2005	2006			2007	2008	2009	2010	2011	2012	2007–12 Average	2017	2027	2013–27 Average
External debt (nominal) 2/	**46.2**	**45.9**	**43.9**			**49.2**	**53.0**	**56.9**	**60.9**	**65.4**	**70.0**		**85.4**	**120.8**	
Of which: public and publicly guaranteed (PPG)	46.2	45.9	43.9			49.2	53.0	56.9	60.9	65.4	70.0		85.4	120.8	
Change in external debt	0.5	-0.4	-1.9			4.8	3.8	3.9	4.0	4.4	4.7		3.4	-0.9	
Identified net debt-creating flows	-1.7	4.1	6.5			8.6	7.8	7.7	6.5	5.6	6.3		5.5	4.0	
Noninterest current account deficit	**8.9**	**14.7**	**29.9**	**15.3**	**6.2**	**18.3**	**17.7**	**17.7**	**16.6**	**15.6**	**16.1**		**15.3**	**13.3**	14.6
Deficit in balance of goods and services	4.0	10.3	27.4			22.1	21.6	21.8	20.8	20.0	20.8		24.8	43.9	
Exports	58.0	56.9	47.1			50.5	50.9	51.0	51.3	51.6	51.7		49.4	47.7	
Imports	62.0	67.2	74.5			72.6	72.6	72.8	72.1	71.5	72.5		74.2	91.6	
Net current transfers (negative = inflow)	-1.7	-1.5	-1.3	-2.1	0.6	-1.4	-1.3	-1.2	-1.1	-1.0	-1.0		-0.8	-0.5	-0.7
Of which: Official	0.0	0.1	0.0			0.1	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	6.6	5.9	3.7			-2.5	-2.7	-2.9	-3.1	-3.4	-3.7		-8.8	-30.1	
Net FDI (negative = inflow)	**-9.6**	**-8.9**	**-23.3**	**-11.1**	**4.7**	**-11.0**	**-11.0**	**-11.0**	**-11.0**	**-11.0**	**-11.0**		**-11.0**	**-11.0**	-11.0
Endogenous debt dynamics 3/	**-1.0**	**-1.7**	**-0.1**			**1.3**	**1.1**	**1.0**	**1.0**	**1.0**	**1.1**		**1.2**	**1.6**	
Contribution from nominal interest rate	2.1	2.4	2.3			2.5	2.7	2.9	3.1	3.4	3.7		4.5	6.5	
Contribution from real GDP growth	-1.9	-1.6	-2.2			-1.1	-1.6	-1.9	-2.2	-2.4	-2.5		-3.3	-4.8	
Contribution from price and exchange rate changes	-1.1	-2.5	-0.2			…	…	…	…	…	…		…	…	
Residual (3-4) 4/	**2.2**	**-4.5**	**-8.4**			**0.3**	**-2.5**	**-2.3**	**-1.2**	**0.2**	**-0.2**		**-0.7**	**-3.4**	
Of which: Exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
NPV of external debt 5/	...	...	43.0			46.8	50.7	54.9	59.1	63.6	68.4		84.3	120.2	
In percent of exports	...	...	91.1			92.6	99.5	107.7	115.1	123.4	132.4		170.7	251.9	
NPV of PPG external debt	**...**	**...**	**43.0**			**46.8**	**50.7**	**54.9**	**59.1**	**63.6**	**68.4**		**84.3**	**120.2**	
In percent of exports	**...**	**...**	**91.1**			**92.6**	**99.5**	**107.7**	**115.1**	**123.4**	**132.4**		**170.7**	**251.9**	
In percent of government revenues	**...**	**...**	**164.4**			**183.2**	**198.3**	**214.7**	**231.4**	**249.3**	**267.8**		**328.5**	**446.7**	
Debt service-to-exports ratio (in percent)	**7.4**	**8.0**	**13.2**			**16.1**	**11.5**	**11.7**	**12.4**	**11.4**	**11.4**		**14.2**	**18.2**	
PPG debt service-to-exports ratio (in percent)	**7.4**	**8.0**	**13.2**			**16.1**	**11.5**	**11.7**	**12.4**	**11.4**	**11.4**		**14.2**	**18.2**	
PPG debt service-to-revenue ratio (in percent)	**16.4**	**17.9**	**23.8**			**31.8**	**22.9**	**23.3**	**24.9**	**22.9**	**23.1**		**27.3**	**32.3**	
Total gross financing need (billions of U.S. dollars)	0.0	0.1	0.1			0.2	0.2	0.2	0.2	0.2	0.2		0.3	0.4	
Noninterest current account deficit that stabilizes debt ratio	8.3	15.1	31.8			13.4	13.9	13.8	12.5	11.2	11.5		11.9	14.2	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.5	3.8	5.0	2.1	2.7	2.7	3.5	4.0	4.2	4.2	4.2	3.8	4.3	4.3	4.2
GDP deflator in US dollar terms (change in percent)	2.5	5.7	0.4	2.8	2.1	0.9	4.1	4.2	4.0	3.4	3.5	3.3	2.4	3.4	2.5
Effective interest rate (percent) 6/	4.9	5.7	5.3	3.5	1.5	5.7	5.9	5.9	6.0	6.0	6.0	5.9	5.9	5.7	5.9
Growth of exports of goods and services (US dollar terms, in percent)	18.7	7.7	-12.6	2.8	12.0	7.3	8.7	8.4	9.0	8.2	8.1	8.3	5.9	7.2	6.3
Growth of imports of goods and services (US dollar terms, in percent)	-0.7	19.0	17.0	6.5	10.9	-9.0	7.8	8.6	7.4	6.9	9.2	5.1	7.3	16.7	8.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Aid flows (in billions of US dollars) 7/	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.1	
Of which: Grants	0.0	0.0	0.0			0.04	0.0	0.0	0.0	0.0	0.0		0.0	0.1	
Of which: Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			29.9	12.2	11.4	10.4	11.1	10.7		11.2	12.1	10.7
Memorandum items:															
Nominal GDP (billions of US dollars)	0.8	0.9	0.9			0.9	1.0	1.1	1.2	1.3	1.4		1.9	3.8	
(NPVt-NPVt-1)/GDPt-1 (in percent)						4.0	**7.9**	**8.8**	**9.1**	**9.5**	**10.1**	**8.2**	**9.2**	**8.6**	**10.1**
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			4.1	1.4	1.4	1.4	1.4	1.4		1.4	1.4	1.4

Source: Staff simulations.

1/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
2/ Nonfinancial public sector gross debt.
3/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.
4/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
5/ Assumes that NPV of private sector debt is equivalent to its face value.
6/ Current-year interest payments divided by previous period debt stock.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the NPV of new debt).

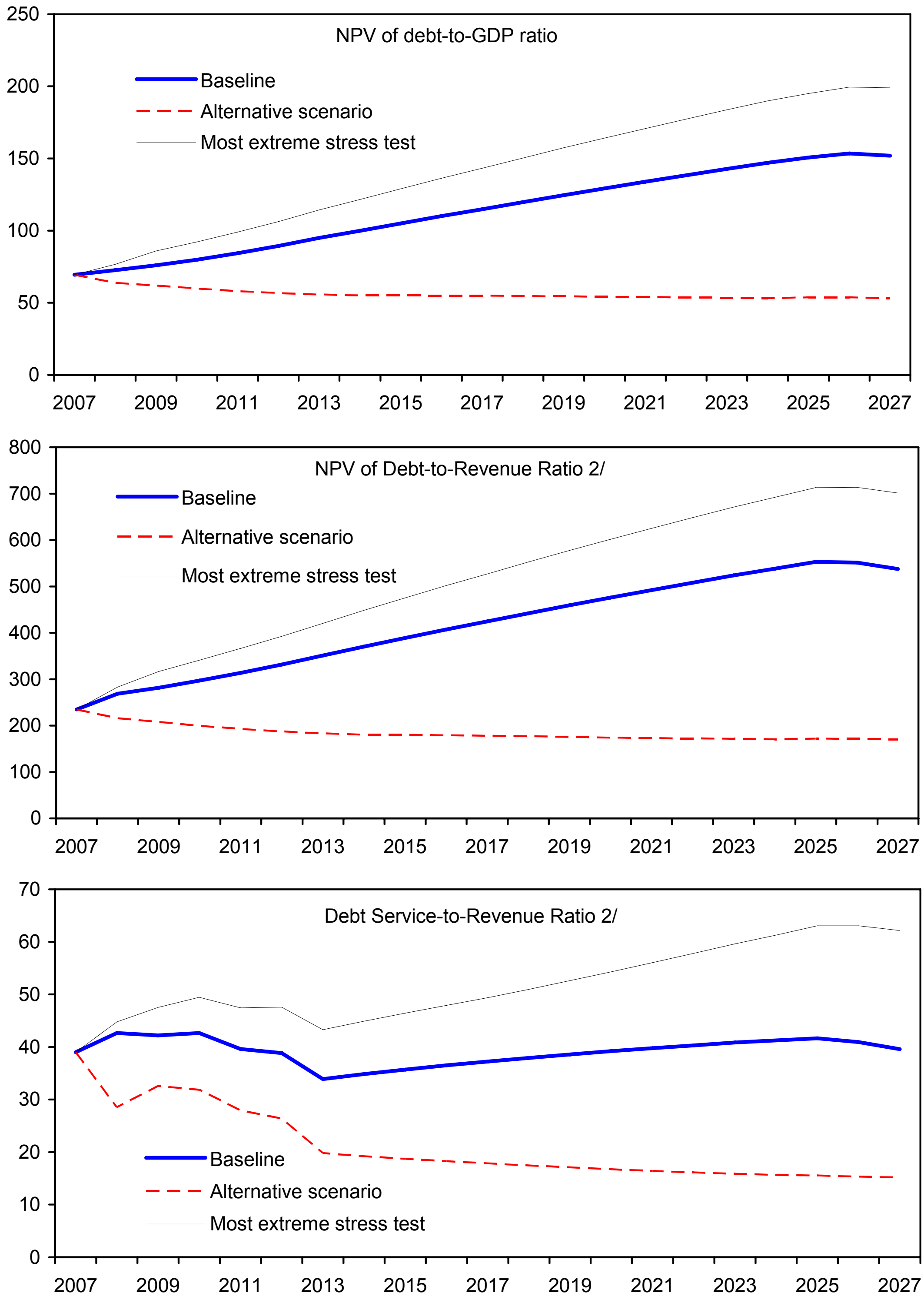
Table 4. St. Lucia: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2007–27
(In percent)

	Projections							
	2007	2008	2009	2010	2011	2012	**2017**	2027
NPV of debt-to-GDP ratio								
Baseline	47	51	55	59	64	68	**84**	120
A1. Key variables at their historical averages in 2008–27 1/	47	49	53	58	65	71	**100**	180
A2. New public sector loans on less favorable terms in 2008–27 2/	47	52	58	64	70	76	**99**	151
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	51	58	66	71	76	81	**98**	137
B2. Export value growth at historical average minus one standard deviation in 2008–09 3/	51	64	83	83	85	86	**91**	126
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008–09	51	57	65	69	74	80	**96**	135
B4. Net nondebt creating flows at historical average minus one standard deviation in 2008–09 4/	51	60	69	72	75	79	**91**	126
B5. Combination of B1–B4 using one-half standard deviation shocks	51	64	83	85	88	91	**101**	140
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	51	78	85	91	98	105	**127**	177
NPV of debt-to-exports ratio								
Baseline	93	100	108	115	123	132	**171**	252
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008–27 1/	93	97	104	113	126	138	**202**	377
A2. New public sector loans on less favorable terms in 2008–27 2/	93	102	113	124	135	147	**202**	316
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	101	109	118	126	135	144	**183**	264
B2. Export value growth at historical average minus one standard deviation in 2008–09 3/	101	150	230	231	234	237	**263**	376
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008–09	101	109	118	126	135	144	**183**	264
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008–09 4/	101	118	134	139	146	152	**183**	264
B5. Combination of B1–B4 using one-half standard deviation shocks	101	134	183	187	193	199	**231**	331
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	101	109	118	126	135	144	**183**	264
Debt service-to-exports ratio								
Baseline	16	11	12	12	11	11	**14**	18
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008–27 1/	16	12	11	12	10	10	**14**	25
A2. New public sector loans on less favorable terms in 2008–27 2/	16	11	11	12	12	13	**20**	27
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	16	13	14	15	14	14	**17**	22
B2. Export value growth at historical average minus one standard deviation in 2008–09 3/	16	15	23	32	30	30	**26**	31
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008–09	16	13	14	15	14	14	**17**	22
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008–09 4/	16	13	15	18	17	17	**18**	22
B5. Combination of B1–B4 using one-half standard deviation shocks	16	14	19	25	23	23	**23**	27
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	16	13	14	15	14	14	**17**	22
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	1	1	1	1	1	1	**1**	1

Source: Staff projections and simulations.

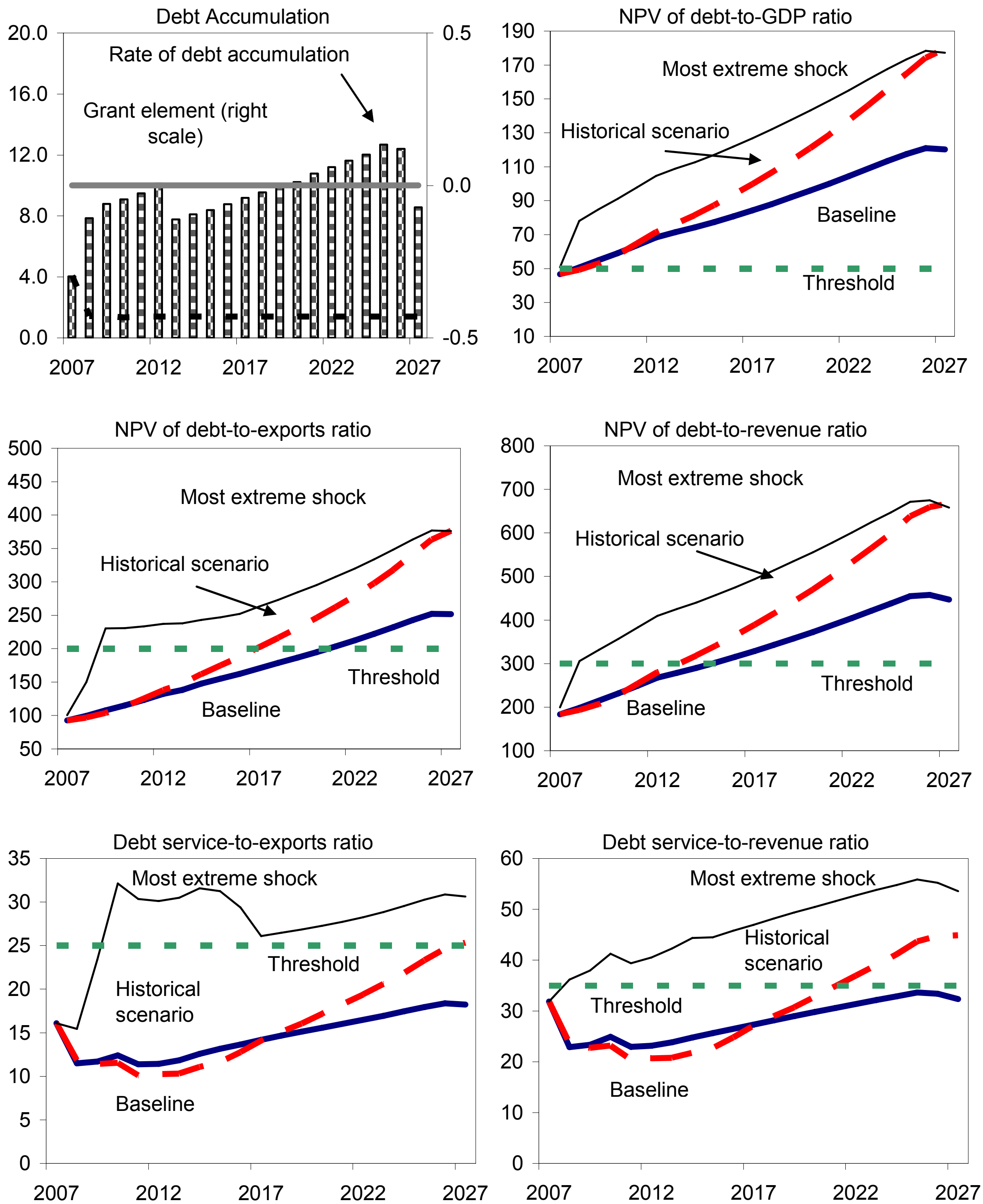
1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods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

Figure 1 .St. Lucia: Indicators of Public Debt Under Alternative Scenarios, 2007–27 1/



Source: Staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2017.
2/ Revenue including grants.

Figure 2. St. Lucia: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2007–2027



Source: Staff projections and simulations.

INTERNATIONAL MONETARY FUND

ST. LUCIA

Staff Report for the 2007 Article IV Consultation—Informational Annex

Prepared by the Western Hemisphere Department

September 7, 2007

Contents Page

Appendices

Appendix I. St. Lucia: Fund Relations
(As of October 31, 2007)

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

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

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	0.74	100.00
Holdings	1.57	211.58

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements: None

VI. Projected Obligations to the Fund: None

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

VIII. Last Article IV Consultation: St. Lucia is currently on the 12-month cycle. The last Article IV consultation was concluded by the Executive Board on December 21, 2005. The relevant documents are IMF Country Report No. 06/325 and IMF Country Report No. 06/326.

IX. Technical Assistance (January 2006–August 2007): Several missions from the Caribbean Regional Technical Assistance Center (CARTAC) have visited St. Lucia since the beginning of 2006. In the area of **public finance**, CARTAC consultants assisted the authorities in financial programming, accessing the impact of a pass-through of the international price of fuel, the introduction of a VAT and a market-based property tax, and with other measures aimed at containing expenditures. In addition, CARTAC consultants helped develop a proposal for the establishment of an Internal Audit Unit in the Accountant General's Department, and completed a diagnosis of budget development reform needs, including the introduction of multiyear and output budgeting. CARTAC has also provided technical assistance in **statistics**. The St. Lucia Statistics Department had done some work independently, but CARTAC provided assistance in resolving problems of classification, obtaining more accurate data on international trade, refining the household budget survey, and in compiling the national accounts.

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

(As of July 30, 2007)

The World Bank's management presented to its Board the Eastern Caribbean Sub-Region Country Assistance Strategy (CAS), on September 13, 2005. The World Bank Group's strategy for the four years covered by this CAS (FY06–09) supports the sub-region's development agenda through two main pillars: (i) stimulating growth and improving competitiveness; and (ii) reducing vulnerability, by promoting greater social inclusion and strengthening disaster risk management. Recognizing the OECS countries' weakened creditworthiness due to high debt ratios, Bank activities will focus on leveraging available donor grant financing. Following the recommendations of the recently completed growth and competitiveness study for the OECS, IBRD and IDA support would focus on providing technical and financial assistance for interventions to support the two main pillars. An indicative Base Case lending scenario consists of about US$51.3 million in IDA resources for the four OECS blend countries (Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines). This envelope includes the estimated IDA country allocations for each of the four countries during FY06–09, and an IDA Regional allocation of US$15.2 million for two regional projects: US$12 million for Catastrophe Risk Insurance and US$3.2 million for Infrastructure and Utilities Reform.

I. Projects

There are five active World Bank projects in St. Lucia for a net commitment of approximately US$24.5 million.

The **St. Lucia Water Supply Infrastructure Improvement Project** was approved in May 2005 for US$7.7 million. The objectives of the St. Lucia Water Supply Infrastructure Improvement Project are: (i) to alleviate the water shortage in the entire north of the country; (ii) to implement urgent investments that will result in additional revenues, and reduction of the likelihood of commercial users abandoning the system; and (iii) to improve the potential of a successful partnership between the government and the private sector. On April 10 2007, a request for an additional US$1.84 million was approved for this project.

The HIV/AIDS Prevention and Control Project approved in July 2004 for US$6.4 million will support the national program, which aims to prevent and control the spread of the epidemic, and to mitigate the socio-economic impact of the disease on the population. The project will use a two-pronged strategy: targeting interventions at high risk groups, and implementing non-targeted activities for the general population. The first component—Community and Civil Society Initiatives—will finance HIV/AIDS prevention, care, and support activities of Civil Society Organizations, women's organizations, professional organizations, trade unions, and private sector organizations. The second component will support the response to HIV/AIDS by non-health sector line ministries, namely, basic cross-

cutting HIV/AIDS activities which all ministries are expected to implement under their respective sectoral HIV/AIDS programs. The third component will strengthen the capacity of the Ministry of Health to provide technical guidance for the national response to HIV/AIDS, specifically it will strengthen HIV/AIDS related services for prevention, treatment, and care delivered through the health care system. Finally, the fourth component will help build the institutional capacity for scaling up responsiveness, by financing technical advisory services, training, staffing, equipment, goods, and general operating costs.

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

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

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

II. Economic and Sector Work

The Bank has completed a series of analytical work relating to: public sector capacity in the OECS including the Institutional and Organizational Capacity Review, the OECS Procurement Assessment Review, and the OECS Financial Accountability Assessment. In conjunction with the IMF, a Financial Sector Assessment Program (FSAP) was completed in early 2004, and a fiscal issues report, which includes a review of public expenditures in St. Lucia, was completed in 2005. The Bank also recently completed an OECS study on Growth and Competitiveness, a Caribbean Air Transport Rationalization report, and a Caribbean Crime and Violence study. Work is ongoing on an OECS Private Sector Financing Study.

III. Financial Relations

(In millions of U.S. dollars)

	Principal	**Available***	**Disbursed***
Telecommunications and ICT Development Project	0.54	0.41	0.17
HIV/AIDS Prevention and Control	6.40	4.79	1.93
Water Supply Infrastructure Improvement	9.54	2.23	7.60
OECS (LC) Skills for Inclusive Growth	3.50	3.68	0.00
Caribbean Catastrophe Risk Insurance Facility	4.50	2.32	2.27
Total	24.48	13.43	11.97

*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							
	2001	2002	2003	2004	2005	2006	2007	2008**
Total disbursements	1.2	1.8	10.8	4.1	3.8	9.6	17.3	1.2
Repayments	0.8	0.8	1.2	1.4	1.2	1.3	1.8	0.3
Net disbursements	0.5	0.9	9.5	2.6	2.7	8.3	15.5	0.8
Canceled	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest and fees	0.4	0.4	0.5	0.6	0.7	0.8	0.8	0.1

** Data as of July 30, 2007

Appendix III. St. Lucia: Relations with the Caribbean Development Bank (CDB)
(As of June 30, 2007)

CDB interventions in St. Lucia have facilitated sustainable development by supporting investments in both social and economic infrastructure. This support has been financial and non-financial in nature and was aimed at ensuring that St. Lucia remains competitive in the global economy while ensuring that the needs of vulnerable groups are addressed. Specifically, the CDB has been involved in areas such as infrastructural development, human resource development, the formulation and implementation of economic, social and sectoral policies, direct and indirect lending to the productive sectors, environmental protection and poverty reduction. Going forward, it is expected that the Bank will continue to support sustainable economic growth by facilitating upgrades to utilities and infrastructure, improving the competitiveness of the tourism sector, supporting medium and small enterprises and reducing vulnerability to natural hazards. Other areas in which CDB is anticipated to be involved include (i) fostering inclusive social development through enhanced health care, education and housing, and (ii) promoting good governance by encouraging pro-poor governance, fostering the social partnership and supporting initiatives to improve development planning and macro-economic management.

St. Lucia is the second-largest beneficiary of CDB funding, with US$265.7 million being approved to St. Lucia cumulatively in loans, contingent loans, equity and grants from 1970 to June 2007. Of this amount US$136.9 million as approved from Ordinary Capital Resources with the remainder being sourced from the "soft" window. New loans and grants approved in 2006 totalled to US$0.032 million, however, loan and grant cancellations saw a net negative net position of US$906,000 being recorded. At the end of December 2006, St. Lucia had a total outstanding balance of US$148.7 million compared to US$138.1 million at the end of the previous year. No new loans or grants were approved for January to June 2007. Disbursements of loans, contingent loans, equity and grants during 2006 amounted to US$17.6 million compared to US$19.4 million disbursed in 2005. Disbursements during the first six months of 2007 amounted to US$2.5 million. Repayment of loans during 2006 amounted to US$8.1 million compared with US$3.8 million repaid in 2005. Approximately US$4.8 million was repaid during the first six months of 2006. Below is a summary of the cumulative sectoral distribution of CDB approved assistance to St. Lucia.

Sectoral Distribution of Approved Financing to St. Lucia, 1970 to June 2007

Sectors	In Millions of U.S. Dollars	In Percent
Transportation & Communication	76.0	28.7
Education	43.9	16.6
Manufacturing	23.2	8.8
Agriculture	24.3	9.2
Water	19.1	7.2
Tourism	14.2	5.4
Housing	18.2	6.9
Health	8.5	3.2
Power and energy	1.4	0.5
Micro and Small Enterprises	0.6	0.2
Mining	0.06	0.02
Multisector	36.3	13.7
TOTAL	265.7	100.0

Appendix IV. St. Lucia: Statistical Issues

(As of August 23, 2007)

Data provision is inadequate for surveillance purposes. Although the statistical database compares well with those of its ECCU peers, the accuracy and timeliness of macroeconomic statistics should be further improved in order to achieve adequate standards for Fund surveillance and meet the authorities' needs. There are persistent weaknesses in coverage, frequency, quality, and timeliness, in particular regarding the national accounts, the public sector beyond the central government, and the balance of payments. Also, comprehensive and regular labor statistics are not available. The Ministry of Economic Affairs publishes bi-annually an economic and social review, which includes statistics covering developments in many 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 new GDP estimates aimed mainly at obtaining better sectoral estimates, but the process is being delayed by data collection problems. Attempts are being made to compile quarterly GDP estimates with funding from the Organization of American States (OAS). Given the increasing importance of tourism activities, a new comprehensive survey of the sector is necessary to establish key data, such as average length of stay in different types of accommodations and average daily expenditure by type of tourist arrival. This information should then be cross-checked with other related activities (i.e., restaurants and transportation) to ensure consistency. A mission fielded by the Caribbean Regional Technical Assistance Center (CARTAC) in 2005 helped the authorities develop export and import price indices and undertook initial work on measuring price developments in the tourism sector. A survey to establish the consumer basket for a new CPI has been much delayed, and work should be accelerated to replace the 1984 index. Another area in need of improvement is labor statistics, in particular, the reporting of private and public employment and wages.

Public Sector Finance

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

public sector, the periodicity and timeliness of data reporting should be improved; annual financial statements and projections are currently obtained directly from the entities during Fund missions and partially consolidated public sector accounts are 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 monetary data on a monthly basis with a lag of about six weeks. The information is reported on a regular basis based on a standardized report form since July 2006. The institutional coverage of the other depository corporations is incomplete, given that data of mortgage companies, finance companies, building societies, and credit unions—all of which accept deposits—are excluded. In this respect, close coordination between the ECCB and the regulatory authority (which supervises financial corporations other than those licensed under the Banking Act) is crucial. Moreover, sectoral and instrument classification of the monetary statistics are not in full compliance with the methodology of the *Monetary and Financial Statistics Manual*.

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 classification used in the fifth edition of the *Balance of Payments Manual (BPM5)*. Annual data up to 2005 are published in the IFS. In general, enhanced data resources and better compilation procedures are needed to improve the accuracy and timeliness of balance of payments statistics. Efforts should also be made to compile quarterly balance of payments statistics.

External Debt

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

St. Lucia: Table of Common Indicators Required for Surveillance
(As of August 23, 2007)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange rate	Fixed rate	NA	NA	NA	NA
International reserve assets and reserve liabilities of the monetary authorities[1]	12/06	03/07	M	Q	Q
Reserve/base money	03/07	05/30/07	M	Q	Q
Broad money	03/07	05/30/07	M	Q	Q
Central bank balance sheet	03/07	05/30/07	M	Q	Q
Consolidated balance sheet of the banking system	03/07	05/30/07	M	Q	Q
Interest rates	03/07	05/30/07	M	Q	Q
Consumer price index	03/07	05/11/07	M	M	M
Revenue, expenditure, balance and composition of financing—central government[3]	03/07	05/11/07	M	M	H
Revenue, expenditure, balance and composition of financing—general government[3]			NA	NA	NA
Stock of central government and central government-guaranteed debt	03/07	05/11/07	A	H	H
External current account balance	2006	05/11/07	A	H	H
Exports and imports of goods and services	2006	05/11/07	Q	Q	Q
GDP/GNP	2006	05/11/07	A	A	A
Gross external debt	03/07	05/11/07	Q	Q	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Half-yearly (H), Annually (A), Irregular (I), Not available (NA).

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 08/1
FOR IMMEDIATE RELEASE
January 4, 2008

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

IMF Executive Board Concludes 2007 Article IV Consultation with St. Lucia

On September 26, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with St. Lucia.[1]

Background

Macroeconomic outcomes have strengthened significantly in recent years. Real GDP growth averaged 3¾ percent during 2003–05, and reached about 5 percent in 2006. Activity was sustained by construction and government services, both related to tourism and preparations for the Cricket World Cup (CWC). In 2007, growth is expected to slow to 3¼ percent, due largely to weakening construction, lackluster performance of the tourism sector, and hurricane-induced damage to banana production. Inflation remains low under the regional currency board arrangement.

Fiscal imbalances remained high in 2006. Total tax revenues were strong, buoyed by reforms at customs. However, petroleum tax collection was poor (given the limited pass-through of world oil prices), and significant increases occurred in capital expenditures and wages and salaries. As a result, the overall deficit fell only slightly to 6½ percent of GDP in 2006, and gross public debt rose to 67 percent of GDP.

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

Following a sharp increase in 2006, the external current account deficit is expected to narrow in 2007. The deterioration (to over 32 percent of GDP) was driven by a rapid fall in both the terms of trade and tourism arrivals, and an increase in imports related to hotel construction and public capital expenditure for the CWC. Foreign direct investment surged in 2006 (to over 23 percent of GDP), reflecting tourism-related construction. In 2007 the current account deficit is projected to narrow on account of a slowdown in tourism-related imports and a moderate rebound in exports of goods and services.

While St. Lucia's real exchange rate does not appear to be overvalued, competitiveness remains a challenge. At end-2006 the real effective exchange rate (REER) was at its lowest level in nearly 20 years, reflecting the depreciation of the U.S. dollar against major currencies, and staff analysis indicates that the REER is close to its estimated equilibrium level. However, there are challenges in maintaining external competitiveness, as real wages have increased, the terms of trade have deteriorated significantly since 2002, and in recent years St. Lucia has experienced a decline in its share of stayover visitors to the Eastern Caribbean Currency Union (ECCU).

Broad money growth remained strong in 2006, and prudential indicators point to a strengthening of the financial system. Credit to the private sector expanded by 25 percent, attributable to CWC-related activities and hotel construction. In 2007, growth in private credit is expected to slow, in line with anticipated real GDP and construction sector growth. While bank provisioning has been stable and nonperforming loans continue to decline, the credit boom has the potential to erode the quality of banking system assets, raising the importance of effective financial supervision.

There has been some progress toward strengthening the financial supervisory and regulatory framework since the 2004 ECCU regional FSAP. Amendments to the uniform Banking Act were passed in December 2006, enhancing ECCB regulatory powers and requiring banks to provision for nonperforming government loans. The authorities have bolstered supervision of nonbanks through the strengthening of the Financial Services Supervision Unit, and legislation governing cooperatives, money services institutions and domestic insurance is expected to be passed by end-2007. However, progress has been slow in developing a broad supervisory framework to regulate all nonbank financial intermediaries, and while a Single Regulatory Unit for nonbanks was approved by Cabinet in 2006, it has yet to be fully implemented.

There has also been progress in implementing broad structural reforms. On fiscal issues, the authorities intend to enhance revenue-raising by the introduction of a more flexible mechanism for retail fuel pricing and a market valuation-based property tax (both in 2008), and a value-added tax (in 2009). The erosion of trade preferences for bananas has reduced incomes and employment prospects for poor rural households, and the authorities have attempted to bolster the country's social safety net to alleviate poverty. St. Lucia is one of the world's most disaster-prone countries, and has made good strides in bolstering national disaster mitigation and preparedness, including by the enhancement of the National Emergency Management Organization, improvements to the national disaster response plan, and participation in regional risk pooling.

Executive Board Assessment

Directors welcomed St. Lucia's recent strong economic performance, marked by robust growth and low inflation. At the same time, Directors noted that the country faces important challenges, including the need to diversify the economy, lower unemployment, and reduce the vulnerability to economic shocks. They encouraged the authorities to build on the country's strong foundations, and to continue to work toward the sustained implementation of prudent fiscal policies and structural reforms.

Directors stressed that fiscal consolidation and reforms are needed to maintain a sustainable public debt/GDP ratio and enhance fiscal flexibility to respond to exogenous shocks, while permitting effective public investment and social spending. They welcomed the authorities' plans to boost revenue through the introduction of a value-added tax, more flexible retail fuel pricing to achieve greater pass through of oil price increases, property tax assessments based on market values, and the improvement of tax administration. Directors recommended that tax incentives be rationalized to reduce revenue losses and promote investment more effectively. Directors also called for greater expenditure restraint, and welcomed the authorities' intentions to reform the civil service, introduce a formal mechanism for evaluating public investments, and strengthen debt management. While they acknowledged the need for investment in tourism-related infrastructure to help diversify the economy away from banana production, Directors advised the authorities to carefully evaluate and prioritize investment projects and to seek mostly grant and highly concessional financing.

Directors considered that the fixed-exchange rate has served St. Lucia well, and that the real effective exchange rate appears in line with fundamentals. They emphasized the importance of prudent macroeconomic policies and structural reforms to maintain competitiveness and underpin the exchange rate.

Directors noted that declining non-performing loan ratios and rising profitability point to a relatively healthy financial sector. They welcomed the measures being taken to further strengthen the sector, including the planned consolidation of nonbank regulation and supervision and the improvement of the legal and institutional framework for preventing money laundering. Given the rapid growth in private sector credit and net foreign liabilities of commercial banks, Directors recommended that banks' credit quality and risk management practices be closely monitored.

Directors recognized that the erosion of trade preferences for bananas is placing a considerable burden on rural households. They supported the authorities' plans to provide well-targeted assistance to the most affected while seeking to restructure the economy away from banana production. They were encouraged by the relatively low cost of doing business in St. Lucia, and underlined the importance of labor retraining and increasing labor market flexibility. Directors stressed the importance of the timely disbursement by donors of the substantial aid committed to St. Lucia in support of the economic restructuring.

Directors welcomed the authorities' commitment to regional cooperation and integration. In this regard, they commended St. Lucia's progress in implementing the requirements of the Caribbean Single Market and Economy, and in removing non-tariff barriers.

Directors supported the authorities' ongoing efforts to mitigate the economic impact of natural disasters, including through the regional pooling of catastrophe risk.

Directors encouraged the authorities to continue to improve the quality and timeliness of economic and social statistics, especially the national accounts, the public sector fiscal accounts, and the balance of payments. They supported Fund technical assistance for this purpose.

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, 2003–07

	2003	2004	2005	2006	Proj. 2007
(Annual percentage change, unless otherwise specified)					
Output and prices					
Real GDP (factor cost)	3.1	4.5	3.8	5.0	3.2
Nominal GDP (market prices)	6.1	7.1	9.7	5.4	3.5
Consumer prices, end of period	0.5	3.5	5.2	-0.6	2.5
Consumer prices, period average	1.0	1.5	3.9	2.4	2.5
Banking system					
Net foreign assets 1/	17.7	-1.2	-14.5	1.0	-3.1
Net domestic assets 1/	-10.1	11.3	27.9	19.1	12.7
Of which					
Net credit to the public sector 1/	-2.8	-2.5	3.2	1.7	2.0
Credit to private sector 1/	-4.3	11.1	17.7	27.4	9.2
Broad money	7.6	10.1	13.4	20.1	9.6
(In percent of GDP, unless otherwise specified)					
Public sector					
Central government finances 2/					
Total revenue and grants	26.2	25.5	25.1	25.9	29.0
Total expenditure and net lending	29.8	29.3	32.0	32.4	33.5
Current expenditure	22.4	21.7	22.0	21.9	23.3
Capital expenditure	6.6	7.4	9.9	10.5	10.2
Overall balance (cash basis)	-3.6	-3.8	-6.9	-6.5	-4.4
Primary balance (after grants)	-0.8	-0.8	-3.4	-3.0	-0.8
Central government debt	56.5	62.0	63.4	63.9	66.2
Gross public sector debt 3/ 4/	60.3	66.1	66.5	66.6	70.6
External sector					
External current account	-19.7	-10.9	-17.1	-32.2	-20.6
Stayover arrivals (percentage change)	9.3	7.8	6.5	-4.9	-2.0
Public sector external debt (end of period)	45.7	46.2	45.9	43.9	44.0
External public debt service					
In percent of exports of goods and services	7.3	7.7	7.0	13.2	15.8
Real effective exchange rate (- = depreciation)					
Percentage change	-4.9	-4.6	-0.5	-1.0	...
External terms of trade (- = deterioration)					
Percentage change	-3.5	-0.8	-1.1	-13.9	-2.9
Banana export receipts					
Percentage change	-25.7	24.7	-23.7	15.9	-15.0

Sources: St. Lucian authorities; ECCB; and IMF staff estimates and projections.
1/ Annual changes relative to the stock of broad money at the beginning of the period.
2/ Data are for fiscal years beginning April 1. Based on baseline (current policies) scenario for 2007.
3/ Includes liabilities to the NIC.
4/ Total public (including nonguaranteed) debt in percent of GDP.