IMF Country Report No. 17/76

ST. LUCIA

March 2017

2017 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

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 2017 Article IV consultation with St. Lucia, the following documents have been released and are included in this package:

- A **Press Release.**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on January 27, 2017, 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 March 9, 2017.
- An **Informational Annex** prepared by the IMF staff.

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

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March 31, 2017

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IMF Executive Board Concludes 2017 Article IV Consultation with St. Lucia

On March 24, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with St. Lucia, and considered and endorsed the staff appraisal without a meeting.[2]

Driven by agriculture and construction, GDP growth is estimated to have reached 0.8 percent in 2016, down from 1.8 percent in 2015. Strong employment growth in agriculture and construction put a dent on unemployment, which declined to 20 percent in the third quarter of 2016. Youth unemployment also fell, but remains very high at 41 percent. However, weakness in tourism, manufacturing, and transportation dampened growth. Exports of goods declined, contributing to widen the current account deficit to an estimated 6.7 percent of GDP in 2016. Inflation was driven down by import prices, and lingered in negative territory over the last 12 months.

GDP is projected to grow at 0.5 percent in 2017, driven mostly by continued strong performance in construction and agriculture. Higher import prices, including oil, will cause inflation to rise temporarily and, together with weak tourist expenditures, will contribute to widen external imbalances. With slow progress in cleaning up their balance sheets, banks are expected to further shrink their loan portfolio. While the forthcoming budget should bring some clarity about fiscal policies, in the absence of corrective measures, rising interest payments will add to expenditure pressures, leading public debt to an unsustainable path. As commodity prices gradually rise from recent lows, the current account deficit will widen, reflecting low competitiveness. Unless structural reforms are implemented, rigidities in the labor market, high costs of doing business, and low external competitiveness will continue to weigh on growth.

[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.

[2] The Executive Board takes decision under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Executive Board Assessment

In concluding the 2017 Article IV Consultation with St. Lucia, Executive Directors endorsed staff's appraisal as follows:

Growth remains subdued. In the short term, construction and agriculture should continue to perform strongly while growth in tourism —which should be driven by consistent inflows of U.S. tourist, new flights, and new hotels— could be stifled by the new airport tax. Slow progress in cleaning up bank balance sheets limits the extent to which banks can help sustain growth. In the medium term, rigidities in the labor market, a costly business environment, and low external competitiveness severely limit growth prospects. A comprehensive reform program is needed to appropriately address key weaknesses and improve growth prospects, but downside risks, both external and domestic, dominate the outlook.

The deterioration of the fiscal position, which has been accelerated by the recent fiscal package, should be addressed promptly and decisively in the context of the forthcoming budget. In the absence of corrective measures, financing difficulties will increase and force inefficient fiscal adjustment—typically by reducing already low capital spending—with negative effects on growth. At the same time, public debt will continue to increase with unsustainable dynamics. The FY2017/18 budget therefore presents an opportunity for the authorities to demonstrate their commitment to fiscal responsibility and clarify their intentions on a broad range of policies. A more stable fiscal position and reduced uncertainty about the government's economic program would pave the way to stronger domestic and foreign investment.

Corrective measures should be supported by a multi-year consolidation plan to attain the 2030 debt target of 60 percent of GDP. The consolidation plan should address the need to prepare for the inevitable recurrence of natural disasters. To be consistent with the authorities' intention to reform the tax system and reduce tax burdens, the adjustment effort could focus on broadening the tax base, controlling expenditure, and improving financing terms. The planned increase in the airport tax should be reconsidered if its negative growth effects do materialize. A reduction in the wage bill should be targeted through continued wage restraint and attrition. Social spending should be preserved and reoriented from temporary work programs and non-targeted subsidies to targeted social assistance. Concessional lending, rather than costly bond issuance, should be used to finance much needed investment in infrastructure, renewable energy, and natural disaster resilience, and partnerships with the private sector should be used when feasible. If enough fiscal space can be created, considerations should be given to reducing high taxes and duties on imports, which harm external competitiveness.

An appropriate fiscal rule would adequately support the adjustment effort. The PFM bill contains some welcome steps to strengthen the budget process and move toward a medium-term fiscal framework, but is not adequately tied to the debt target of 60 percent of GDP by 2030. A fiscal rule, enshrined in fiscal responsibility legislation, would be necessary to ensure the appropriate institutional arrangements for enhanced fiscal transparency and accountability.

Good governance of the citizenship program and of the sovereign wealth fund are essential to minimize risks and ensure good use of these additional resources. The recent changes to the CIP could provide a welcome boost to fiscal revenues. These revenues, however, are very volatile and the authorities' decision to collect these funds in a sovereign wealth fund reduces the risk of fiscal dependence. As in other countries, the CIP entails significant reputational and financial integrity risks, which could be minimized by strict adherence to the highest standards for due diligence, governance, and transparency. The same principles should apply to the wealth fund, which should follow transparent criteria in its operations. Addressing remaining weaknesses in public investment management would ensure that only high-yield projects are selected. In view of the high public debt, priority should be given to its reduction.

Resolution of NPLs is critical to revive credit and support economic growth and renewed priority should be given to the establishment of the regional asset management company. New insolvency legislation will be an important step to facilitate foreclosures and debt restructuring. While the final steps to establish the ECAMC should be completed promptly by all jurisdictions, increased provisions for impaired assets by banks' shareholders would facilitate the sale of NPLs. Continued efforts to implement international standards on AML/CFT and tax cooperation will be required to mitigate the risk of loss of CBRs.

Structural reforms remain critical to remove obstacles to long-term growth. Priorities include: (i) addressing skills mismatches and improving labor productivity by revising the national curriculum to match market demands and providing better training opportunities across sectors; (ii) aligning wages with productivity by gradually introducing performance-based pay in the public sector; (iii) removing obstacles preventing a more widespread adoption of solar energy or the passing of savings to final users; (iv) reducing costs to trade, including costs of port operations and import duties; and (v) addressing bank weaknesses to facilitate access to credit.

Statistics are adequate for surveillance. However, lack of resources is hampering quality in several areas. Data are subject to large revisions, which often reflect pre-existing weaknesses as methodological improvements are introduced. Adequate resources should be provided to the Central Statistics Office for data collection and compilation. The timeliness of data provision by government agencies should also be improved.

The 2016 update safeguards assessment found that the ECCB continues to maintain a governance framework that provides for independent oversight. Transparency in financial reporting has been maintained and the external audit mechanism is sound. The ECCB is taking steps to restructure the internal audit and risk management functions to align them with leading international practices.

St. Lucia: Selected Economic and Financial Indicators 2013-18

				Est.	Projections	
	2013	2014	2015	2016	2017	2018
Output and prices (percent change)						
Real GDP (at market prices)	0.1	0.4	1.8	0.8	0.5	1.5
Real GDP (at factor cost)	-2.1	-0.7	1.2	-0.6	1.2	1.5
Consumer prices, end of period	-0.7	3.7	-2.6	0.6	0.7	1.1
Central government (percent of GDP) 1/						
Revenue	25.6	25.7	27.0	27.7	27.2	27.2
Expenditure	31.6	29.4	29.6	32.2	32.1	32.1
Primary balance	-2.1	0.1	1.5	0.3	0.1	0.4
Overall balance	-6.0	-3.7	-2.6	-4.4	-4.9	-4.9
Money and credit (percent change)						
Broad money (M2)	2.0	1.2	5.8	-0.1	3.1	2.2
Credit to private sector (real)	-2.3	-9.9	-5.8	-3.1	-1.8	-0.7
Credit to private sector (nominal)	-0.8	-6.7	-6.8	-4.8	0.0	0.0
Balance of payments (percent of GDP)						
Current account balance, *o/w:*	-11.1	-8.9	-2.6	-6.7	-8.8	-9.3
Exports of goods and services	46.1	45.6	46.3	44.4	43.5	43.1
Imports of goods and services	55.9	53.6	48.1	49.8	50.6	50.5
Capital and financial account balance	9.2	12.1	2.8	6.0	9.6	10.4
FDI	7.0	6.5	6.5	6.8	6.8	7.0
Capital grants	1.6	1.7	1.5	1.5	1.4	1.4
Other (incl. errors and omissions)	0.6	3.9	-5.2	-2.3	1.3	2.0
Overall balance	-2.8	4.6	2.7	-0.7	0.8	1.2
Memorandum items:						
Nominal GDP (EC$ millions)	3,559	3,743	3,864	3,739	3,856	3,940
Net imputed international reserves						
Months of imports of goods and services	2.7	3.8	5.2	5.0	5.0	5.2
Percentage of demand liabilities	85.1	89.2	91.4	92.4	92.5	92.7
Central government debt stock ($EC millions)	2,782	2,946	2,980	3,126	3,319	3,516
(In percent of GDP)	77.2	78.1	77.8	82.9	85.6	88.6

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

1/ Fiscal year (April–March) basis.

INTERNATIONAL MONETARY FUND

ST. LUCIA

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

March 9, 2017

KEY ISSUES

Context. Despite some limited improvement in labor market conditions, unemployment remains high and growth modest as low competitiveness and structural bottlenecks continue to weigh on economic performance. Slow progress in addressing financial sector problems has left banks loaded with impaired assets and unable to support the economy. The new government is developing a program of pro-growth reforms, but policies have not yet been defined.

Fiscal policy. A recent fiscal package has weakened the fiscal position and corrective measures are needed promptly to stabilize debt dynamics and ensure the attainment of the ECCU debt target of 60 percent of GDP by 2030. Fiscal adjustment should focus on reducing the numerous tax exemptions, controlling key expenditure items, and reducing the cost of debt. A medium-term fiscal framework and a supporting fiscal rule should underpin the consolidation effort.

Financial sector policies. Continued progress in implementing the regional strategy to strengthen the financial sector in the Eastern Caribbean Currency Union is necessary to help banks resume lending. Slow implementation, including in the establishment of a regional asset management company, has delayed the resolution of problem loans. Changes to the domestic legislation on insolvency and foreclosures are also critical.

Structural policies. Addressing skills mismatches and reinforcing the link between wages and productivity are necessary to reduce high structural unemployment. Reducing high costs of doing business, including energy costs and costs of trade, should help enhance competitiveness and lift potential growth.

Approved By
Trevor Alleyne (WHD) and Bob Traa (SPR)

Discussions for the 2016 consultation took place in Castries on January 16-27, 2017. The team comprised Messrs. Bonato (head), Impavido, Salinas (all WHD), and Ms. Sola (SEC). Mr. Williams (OED) accompanied the mission and Mr. McGrath (OED) joined the final policy discussion. The mission met with the Honorable Prime Minister Allen M. Chastanet, the Honorable Minister in the Ministry of Finance Ubaldus Raymond, Director of Finance Cointha Thomas and other senior government officials, the Leader of the Opposition, the Honorable Phillip J. Pierre, and representatives of the private sector and labor unions. Mmes. Hess and Tibung assisted in the preparation of the staff report.

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RECENT DEVELOPMENTS AND OUTLOOK

A. Context

1. **Long-standing challenges hinder St. Lucia's economic performance.** The largest economy in the Eastern Caribbean Currency Union (ECCU), St. Lucia is a small island developing state of upper-middle income with strong social indicators. With the erosion of EU trade preferences starting in the 1990s, St. Lucia downsized its traditional banana production and became heavily reliant on tourism. A narrow production base, low productivity, strong dependence on imported fossil fuel, and exposure to natural disasters hamper St. Lucia's growth potential. The Global Financial Crisis highlighted these weaknesses, with a dramatic reduction of tourist inflows spilling over the rest of the economy, raising unemployment, and inflating bank nonperforming loans (NPLs). The government tried to cushion the impact of the crisis with public sector wage increases, construction stimulus, and large labor market programs, leading to a substantial increase in public debt.

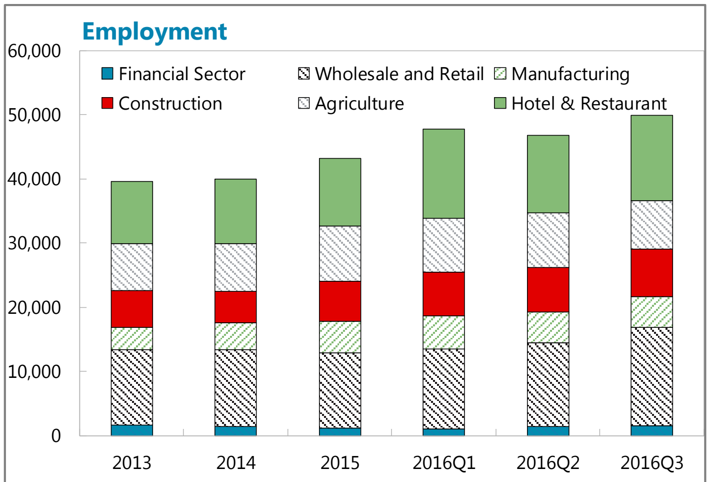
2. **Supported by favorable external conditions, the economy has emerged slowly from the Great Recession.** Economic recovery in the main tourist markets (the United States and the United Kingdom) and declining oil prices have supported a tepid increase in economic activity. Unemployment has declined although remains high, the external current account deficit has narrowed sharply from the peaks reached during the Global Financial Crisis, and some fiscal adjustment has been achieved with revenue increases —including through the introduction of a VAT—, enhanced tax compliance, a public sector nominal wage freeze, and reduced capital spending forced by financing constraints. The banking sector, however, continues to be encumbered by NPLs and credit growth remains negative.

3. **The new administration is developing a reform program, but key policies are still being shaped.** After general elections held in June 2016, a new government was installed with a solid parliamentary majority. Its pro-growth reform agenda calls for a broad tax reform, a reorganization of the public sector, a revision of the Citizenship by Investment Program (CIP), and structural reforms to improve the business climate and encourage foreign direct investment (FDI). However, details on policies are still pending and many of the reforms will take time to yield results. In the meantime, rising public debt needs to be tackled to reduce risks to the implementation of the economic program.

B. Current Trends

4. **Growth weakened in 2016 on the back of a disappointing tourist season.** Driven by agriculture and construction, GDP growth is estimated to have reached 0.8 percent in 2016, down from 1.8 percent in 2015 (Table 1 and Figure 1). Strong employment growth in agriculture and construction put a dent on unemployment, which declined to 20 percent in the third quarter of 2016. Youth unemployment also fell, but remains very high at 41 percent (Table 6). Nonetheless,

weakness in tourism, manufacturing, and transportation dampened growth. Stay-over arrivals increased by only 0.7 percent and overall tourist expenditure fell by 5 percent, one of the worst performances among ECCU tourist destinations. Exports of goods also declined, contributing to widen the current account deficit to an estimated 6.7 percent of GDP in 2016 (Table 3). Headline inflation was driven down by import prices, and lingered in negative territory over the last 12 months, while core inflation moved closer to zero.



Source: National Competitiveness and Productivity Council, St. Lucia Statistical Office.

5. **The fiscal stance deteriorated in 2016, partly reflecting rising capital spending and interest payments.** The government has been able to expand its financing and shift from short-term T-bills to longer-term bonds, which allowed it to increase capital spending while reducing rollover risks. Lengthening the maturity of debt, however, has also raised its cost, thus adding to the escalating dynamics of interest payments. The overall fiscal deficit is estimated to have increased from 2.6 percent of GDP in FY 2015/16 to 4.4 percent of GDP in FY 2016/17, prompting public debt to reverse its previous decline and rise to almost 83 percent of GDP (Tables 2a, 2b).

6. **The fiscal package recently adopted by the new government further weakens the fiscal position and may not have the desired impact on growth**. In line with the "Five to Stay Alive" electoral manifesto, the prime minister last November announced a number of tax reductions, including a cut to the VAT rate from 15 to 12.5 percent —effective February 1, 2017—, and increases in transfers totaling 1¾ percent of GDP.[1] As an offsetting measure, effective April 1, 2017, the government plans to increase airport taxes from US$25 to US$98, one of

Impact of New Government Measures on Fiscal Balance

	EC$ mill.	% of GDP
Total new government measures	**-45.7**	**-1.18**
of which:		
Expenditure items	**-1.0**	**-0.03**
Transfers/grants and contributions	**-1.0**	**-0.03**
School transportation subsidy	-0.7	-0.02
School meal subsidy	-0.3	-0.01
Revenue items	**-44.7**	**-1.15**
Reduction in VAT rate	-59.8	-1.54
Three year exemption from the residential property tax	-6.0	-0.15
Reduction in vehicle licenses fees	-2.2	-0.06
Increase in airport taxes and fees 1/	23.4	0.60

Sources: Ministry of Finance of St. Lucia and IMF staff estimates.
1/ 40 percent of additional tax revenues will be assigned to the budget of the central government.

[1] Besides the "Five to Stay Alive" manifesto, the electoral platform includes plans to increase the personal income tax threshold to EC$25,000 and reduce in the corporate tax rate from 30 to 25 percent within three years.

the highest levels in the Caribbean. Staff expects this measure to yield revenues of 0.6 percent of GDP, with a net impact of the total fiscal package on the overall balance of -1.2 percent of GDP. The steep rise in airport taxes, however, is likely to have negative effects on tourism, which could overwhelm any positive impact on growth from the other measures.[2]

7. **Bank lending continues to contract.** Credit growth remains negative, reflecting weak demand and the high level of NPLs still burdening banks (Figure 2 and Table 5). In the meantime, banks are shifting credit allocation from tourism and manufacturing to more profitable personal and professional loans, in particular mortgage and vehicle loans.

C. Outlook

8. **Modest growth is expected in the short term.** GDP is projected to grow at 0.5 percent in 2017, driven mostly by continued strong performance in construction and agriculture. Despite positive developments —the increase in the number of hotel rooms and the opening of new direct flights from the U.S.— tourism arrivals are projected to be stifled by the impact of the new airport tax while exchange rate and cyclical developments will continue to inhibit inflows from the U.K. Higher import prices, including oil, will cause inflation to rise temporarily and, together with weak tourist expenditures, will contribute to widen external imbalances. Without significant changes in fiscal policies, revenues are projected to decline as a share of GDP, accelerating the deterioration of the fiscal balance. Such dynamics would likely curtail government financing and severely constrain the implementation of investment projects. With slow progress in cleaning up their balance sheets, banks are expected to further shrink their loan portfolio.

9. **In the absence of stronger policies, the medium-term outlook is held back by structural weaknesses.** Growth is expected to revert to its medium-term rate of 1.5 percent in 2018, as FDI in hotels sustains construction activity and expands capacity in the tourism industry. While the forthcoming budget should bring some clarity about fiscal policy, in the absence of corrective measures, rising interest payments will add to expenditure pressures, leading public debt to an unsustainable path. As commodity prices gradually rise from recent lows, the current account deficit will widen, reflecting low competitiveness. Unless structural reforms are implemented, rigidities in the labor market, high costs of doing business, and low external competitiveness will continue to weigh on growth.

10. **Downside risks dominate**. While the baseline is built on the assumption of no significant policy corrections, the government has the opportunity to design and put in place appropriate policies that address key fiscal, external, and structural vulnerabilities. Together with the possibility that FDI inflows turn out to be higher than expected, this is an important upside risk to the projections (Annex I). However, several downside risks stem from both external conditions and domestic policies. In the absence of a sufficient fiscal correction, financing conditions could be much

[2] Owing to small fiscal multipliers, the positive impact of the VAT reduction on growth will likely be negligible. Conversely, under plausible assumptions on the price elasticity of long-haul leisure travelers, staff projects the negative effect of the airport tax on tourist arrivals (-14 percent) and growth (-1.4 percent) to be significant.

tighter than currently projected, forcing a sharp, disorderly fiscal adjustment that would have a negative impact on growth. A stronger-than-expected U.S. dollar appreciation would further reduce competitiveness. Owing to global instability and low medium-term growth in advanced and emerging economies, weak external demand could reduce tourist inflows. Although natural disasters are internalized in the macroeconomic framework using historical averages (Box 1), larger and more frequent disasters could occur. Slow progress in addressing bank weaknesses could undermine financial stability and growth.

St. Lucia: Central Government Cash Flows Under a Passive Scenario 1/

(Millions of Eastern Caribbean dollars, Fiscal Years)

	2016	2017	2018	2019
Gross financing needs	514	563	642	694
Overall deficit	147	180	237	262
Debt repayments	367	383	404	432
External	132	140	151	164
Domestic	235	243	254	268
Gross financing sources	514	563	642	694
Debt issuance	514	563	602	638
External	205	230	250	267
Domestic	309	333	353	371
Use of deposits	0	0	40	56
Memo:				
Central government deposits	148	148	108	52

1/ Projections assume no asset transactions and that existing investors roll over maturing debt. Scenario assumes that there are no significant changes in fiscal policy in the future.

ENSURING FISCAL SUSTAINABILITY AND FOSTERING GROWTH

A. Fiscal Policies

11. The current fiscal stance is inconsistent with fiscal and debt sustainability. In line with what happened in the recent past, staff assumes that further deterioration in the fiscal balance will reduce market access, leading to a curtailment of investment projects (baseline scenario). Even under this assumption, debt is unsustainable under the baseline of no significant change in policies.

With high public debt, interest payments are expected to rise, reflecting an increased risk premium and the prospective increase in world interest rates.[3]

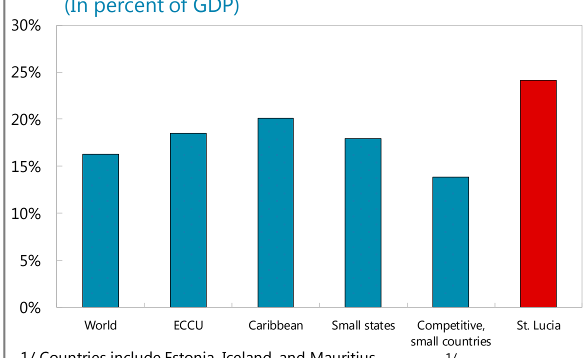
12. Fiscal consolidation, which is needed to stabilize debt, can be aligned with the authorities' objective of reforming the tax system. With relatively high tax rates and tax revenues at some 25 percent of GDP, St. Lucia's tax burden is above comparators, despite tax concessions estimated at about 7 percent of GDP, above the Caribbean average of 6.1 percent of GDP. Significantly streamlining exemptions would generate fiscal space for sustainable tax cuts and the creation of a social safety net to protect low-income households. After sufficiently broadening the tax base, consideration could be given to reducing high tariffs and other taxes on imports which, by increasing import value by 20 percent (before VAT) on average, are particularly harmful to competitiveness.

Tax Rates: Regional Averages (2016) 1/

	Personal Income	Corporate	VAT	Tariffs (2010-14) 2/
St. Lucia	30.0	30.0	15.0	9.2
Caribbean	18.2	18.4	10.9	9.8
Small States 3/	21.7	22.9	14.7	4.9
Emerging Markets	24.1	18.2	15.3	5.1
Small Competitive 4/	27.1	18.3	19.7	1.0
World	33.2	23.6	15.9	5.4

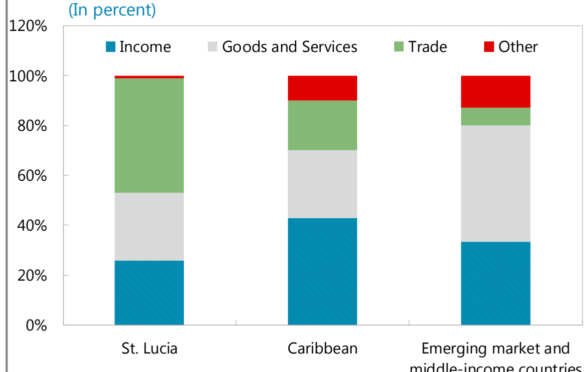
Sources: WDI; Ernst & Young; KPMG and IMF staff estimates.
1/ As of latest available.
2/ Simple average of latest available data on WDI Database (2010-14).
3/ Based on World Bank's Small States classification.
4/ Small Competitive group corresponds to the simple average of Estonia, Iceland, and Mauritius.

2015: Goverment Tax Revenue
(In percent of GDP)



1/ Countries include Estonia, Iceland, and Mauritius.
Source: WEO; and IMF staff estimates.

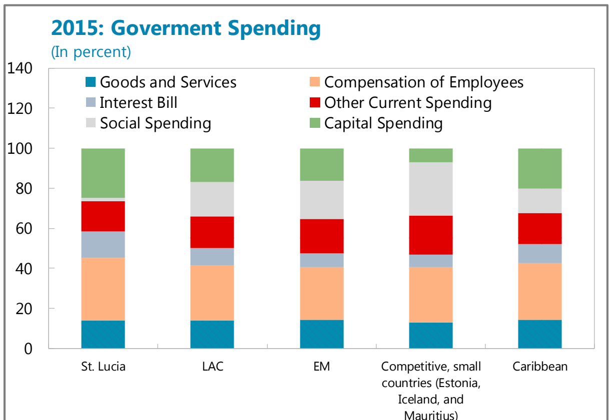
2015: Components of Total Tax Revenue
(In percent)



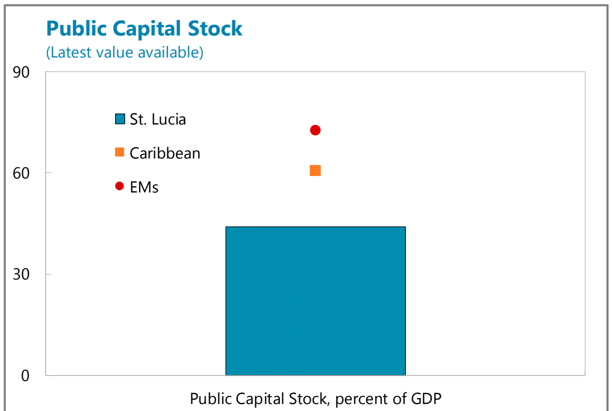
Sources: WEO; and IMF staff estimates.

[3] In line with the empirical evidence, the baseline scenario assumes only a partial pass-through from global rates to regional/domestic rates (Myrvoda, A. and J. Reynaud, "Monetary Policy Transmission in Eastern Caribbean Currency Union", IMF WP, forthcoming).

13. The public sector wage bill has a key role in expenditure control. Relative to comparators, compensation of employees is high while social expenditure is low. Despite the recent wage freeze, the government continues to devote a large share of its spending to employee compensation. In addition, temporary work programs cost the equivalent of 1 percent of GDP. On the other hand, spending on health, tertiary education, pensions and social assistance remains below relevant comparators as a share of GDP (Figure 3). Capital spending was relatively high in 2015, but the stock of public capital is comparatively low.

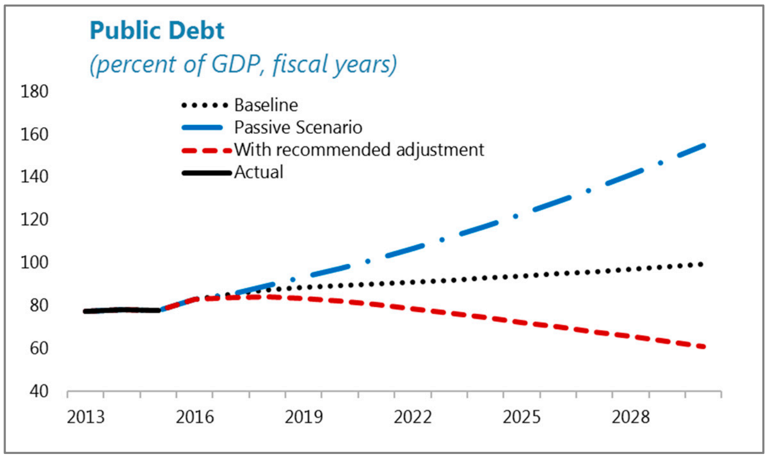


Sources: National authorities; and IMF staff estimates.



Sources: National authorities; and IMF staff estimates.

14. The ECCU debt target of 60 percent of GDP by 2030 is an appropriate anchor for the adjustment effort. This effort, which in net terms would require a fiscal adjustment of 4.4 percent of GDP, could be extended over six years through 2022, after which debt dynamics would lead to the attainment of the debt target in 2030. The focus should be on broadening the tax base, controlling expenditure, and improving financing terms while preserving capital spending and protecting low-income households (text table and Figure 4).



- On the revenue side, the elimination of selected VAT exemptions and reduced VAT rates, and the removal of non-targeted subsidies could yield 1.5 percent of GDP, of which 0.5 percent of GDP could be used to reverse part of the increase in the airport tax. In addition, the authorities could consider reducing import duties by 25 percent, which could be fully financed by reducing concessions by half.
- On the expenditure side, control of the wage bill and reduction in other non-interest expenditures would produce savings of 3.7 percent of GDP. The former could be obtained by

anchoring wage growth to CPI inflation (1.5 percent of GDP) and other measures (0.7 percent of GDP) such as attrition, review of pay systems in education, payroll audits, benchmarking with private sector wages, and performance-based pay. These fiscal savings would create room to build a targeted social safety net (0.5 percent of GDP).

- Higher capital spending and structural reforms under the adjustment scenario would lead to higher medium-term growth of 2 percent.
- The use of concessional finance, enhancements in the bond market, and a lower debt level, would lead to savings of 2.9 percent of GDP in interest payments.

Staff Recommended Adjustment Scenario 1/

	2017	2018	2019	2020	2021	2022	2030
			(in percent of GDP)				
Passive (no policy adjustment) scenario:							
Real GDP growth	0.5	1.5	1.5	1.5	1.5	1.5	1.5
Interest payments	5.0	5.3	5.7	6.2	6.6	7.1	10.9
Primary balance	0.1	-0.9	-0.9	-0.8	-0.8	-0.8	-0.8
Public sector debt	85.6	88.6	92.7	97.0	101.7	106.8	157.6
Adjustment scenario:							
Real GDP growth	1.3	2.0	2.0	2.0	2.0	2.0	2.2
Interest payments	4.7	4.7	4.6	4.5	4.4	4.2	3.3
Primary balance	2.1	2.2	2.6	3.0	3.3	3.6	3.6
Public sector debt	83.3	83.4	82.7	81.5	79.9	77.8	60.0
Adjustment measures	**2.0**	**3.2**	**3.5**	**3.8**	**4.1**	**4.4**	**...**
of which:							
Non-interest expenditure items	**1.4**	**1.9**	**2.3**	**2.6**	**2.9**	**3.2**	**...**
Compensation items	**0.3**	**0.7**	**1.1**	**1.5**	**1.9**	**2.2**	**...**
Social benefits	**0.0**	**-0.1**	**-0.2**	**-0.3**	**-0.4**	**-0.5**	**...**
Other expenses	**0.9**	**0.9**	**0.9**	**1.0**	**1.0**	**1.0**	...
o.w. Make public events financially viable	0.1	0.1	0.1	0.1	0.1	0.1	...
Offset increase in funding to Tourism Authority	0.3	0.3	0.3	0.3	0.3	0.3	...
Phase out temporary work programs	0.6	0.6	0.6	0.6	0.6	0.6	...
Goods and services	**0.2**	**0.4**	**0.4**	**0.4**	**0.5**	**0.5**	**...**
Revenue items	**0.6**	**1.2**	**1.2**	**1.2**	**1.2**	**1.2**	**...**
o.w. Broader VAT base	0.6	1.3	1.3	1.3	1.3	1.3	...
Eliminate non-targeted LPG subsidy	0.2	0.2	0.2	0.2	0.2	0.2	...
Reduce airport taxes to regional average	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	...

Source: IMF staff calculations
1/ Fiscal year (April- March) basis. Both passive and adjustment scenarios incorporate the annualized natural disaster cost described in Box1.

15. A medium-term fiscal framework should account for the frequent occurrence of natural disasters. St. Lucia, like other countries in the region, is heavily exposed to natural disasters, which entail significant economic costs in terms of investment, GDP, unemployment, poverty, and fiscal revenues. These costs can be substantially reduced by appropriate policies that mitigate disaster-related risks and provide financing of these costs prior to the event. While optimal financing is likely to involve a mix of fiscal buffers, contingent financing plans, and insurance, budget provisions of 1 percent of GDP per year are likely to be needed to address direct fiscal costs (Box 1).

Box 1. Estimating the Cost of Natural Disasters

In the absence of insurance and other forms of financing, budget provisions should cover the average annual fiscal cost of natural disasters. Based on EM-DAT data for the period 1950-2014, the average annual impact of natural disasters in St. Lucia is 1.5 percent of GDP. This figure, however, includes costs borne directly by the private sector. According to the World Bank's Post Disaster Needs Assessments (PDNAs) available in recent years for small island states, private costs average 45 percent of total damages and losses, but vary widely between 8 and 83 percent.

Using these values for St. Lucia, the annual cost to the government would be 0.8 percent of GDP, but it could be as high as 1.4 percent of GDP. A cautious approach suggests that an assumption of 1 percent, slightly higher than the average value, is appropriate for St. Lucia. This is confirmed indirectly by Guerson (2016), which, using Monte Carlo simulations to assess the appropriate size of a government savings fund to insure against natural disasters, estimates that the necessary annual budget saving for St. Lucia would be 1.05 percent of GDP.

1/ Guerson, Alejandro (2016) "Assessing Government Self-Insurance Needs Against Natural Disasters: An Application to the ECCU", Eastern Caribbean Currency Union, 2016 Discussion of Common Policies of Member Countries, Annex VIII, IMF Country Report No. 16/333.

16. **The authorities are making progress toward establishing a medium-term fiscal framework.** Welcome provisions in the Public Financial Management (PFM) Bill commit the Ministry of Finance to adopt a formal medium-term fiscal plan (MTFP) (Box 2). However, the bill does not explicitly require the submission of the MTFP to Parliament for approval with the budget nor is there any explicit obligation to publish the MTFP and the accompanying fiscal statement, the content of which is yet to be defined. However, publication of the appropriation law and of the related budget estimates is required. Apart from requiring publication of the MTFP and fiscal statement, useful additions to the current bill would be the adoption of a new chart of accounts in line with GFS standards. The authorities should also consider expanding their definition of debt to the consolidated non-financial public sector to make sure that all public debt-generating bodies are monitored.

17. An appropriate fiscal rule would be useful to support the adjustment effort, but the draft PFM bill falls short of establishing a clear link with the debt target. The bill does define the medium-term debt anchor, but budget preparation and intermediate targets are not explicitly linked to it. Moreover, the bill defines "hard" targets for the current financial year, but only "indicative" targets for the outer two years. To enhance accountability and strengthen the commitment to debt sustainability, a separate Fiscal Responsibility Act would be required to translate the debt target into domestic legislation and define a quantitative fiscal rule to guide the formulation of the MTFP.

Box 2. The PFM Bill

The new PFM Act will repeal the current Finance Administration Act. At the time of writing, the PFM bill has important features strengthening fiscal discipline. In particular, the bill provides for:

- The Minister of Finance (MOF) to commit to: (i) prudent fiscal policy and fiscal stability over a multiyear horizon; and (ii) promote transparency and accountability (Art. 5(2)).
- The Accountant General to support agencies in preparing financial projections and supervise and guide agencies to comply with the intent of the Act (Art. 9(1)).
- The MOF to formulate a three-year medium term fiscal plan (MTFP) and submit to Parliament an accompanying fiscal statement. The statement would review budgetary performance and identify measures needed to meet budgetary and plan targets, and state fiscal risks to the economy and the debt situation (Art. 16 and 17).
- The MOF to indicate an aggregate budget ceiling for the upcoming financial year and indicative ceilings for the following two years. The aggregate ceiling for the upcoming year should be accompanied by separate recurrent and capital expenditure ceilings (Art. 17).

18. CIP revenues are expected to bring increased revenues, which however carry risks. Introduced in January 2016, the citizenship program has attracted only marginal interest thus far. To increase the competitiveness of the program, the government has introduced significant changes (Box 3). These changes are expected to boost revenues, which the authorities plan to collect into a sovereign wealth fund to be used mostly to fund investment. Like other citizenship programs, St. Lucia's CIP entails significant reputational and financial integrity risks, which could be minimized by strict adherence to standards for due diligence, governance, and transparency. The same principles should apply to the wealth fund, which should give priority to debt reduction to contain risks of fiscal dependence on these volatile revenues and follow transparent criteria in its operations. Strengthening public investment management would help ensure that only high-yield projects are selected.

Box 3. Changes in the Citizenship by Investment Program

St. Lucia introduced its Citizenship by Investment Program (CIP) in 2016 with the intention to attract investments in high-end hotel and real estate products, and employment-generating business enterprises. Additionally, the program envisaged a donation to the Economic Fund and investment in an interest-free government bond as additional options. The program was targeted at individuals of high-net worth and an annual cap on the number of citizenships under the program was imposed.

The program met limited success in its first year of operation. CIP performance was poor, owing to comparatively high requirements and the expectations that a new government might change policies after the elections. Six applications were approved under the real estate option, but none of them had reached investment stage at the time of the discussions. Fourteen applications were accepted under the donation option for a total of US$1.4 million and five applications were approved under the bond option for US$2.7 million. No interest was shown in the enterprise investment option.

The new government introduced several changes to make the program more competitive. The requirement for an affidavit to declare financial resources of at least US$3 million was removed. The required contribution to the Economic Fund was reduced from US$200,000 to US$100,000 for single applicants and fees for applicants with dependents were reduced as well. An administrative fee of US$50,000 was introduced for the bond option. The cap of 500 citizenships per year has been removed. The remaining two options to obtain citizenship through investment remain the same. Citizenship can be obtained through a minimum investment amount of US$300,000 in a government-approved real estate project or an investment in an approved enterprise project starting from US$1 million.

The authorities expect these changes to significantly boost applications and revenues. In 2017/2018 a total revenue of US$9 million is expected through donations, of which 80 percent will be transferred to the government and the rest used to cover the operations of the CIP office. The real estate option is expected to bring 36 applications. Owing to the newly imposed fee, the interest in government bonds is expected to be limited.

The proceeds from the program will be collected in a sovereign wealth fund. The intention is for all CIP revenues to be transferred to a soon-to-be-announced sovereign wealth fund that will be owned, but not operated, by the government. The fund could then be used to finance investment projects and buy back debt.

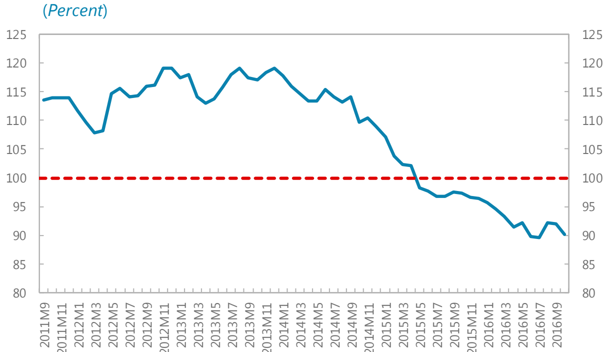
B. Financial Sector Policies

19. Persisting weakness in the banking sector hampers economic growth. NPLs are high at 21.8 and 12.5 percent for indigenous and foreign banks, respectively (Table 5). As banks attempt to increase provisioning, profitability remains low or negative. Limits in the regulatory framework — which prevents creditors from owning the collateral in case of foreclosure—, underdeveloped insolvency and debt restructuring frameworks, and low liquidity of the real estate market reduce the value of collateral. With provisions for impaired assets averaging only 50 percent, capital adequacy remains low once NPLs are written off. Against this background, banks continue to deleverage and reduce lending.

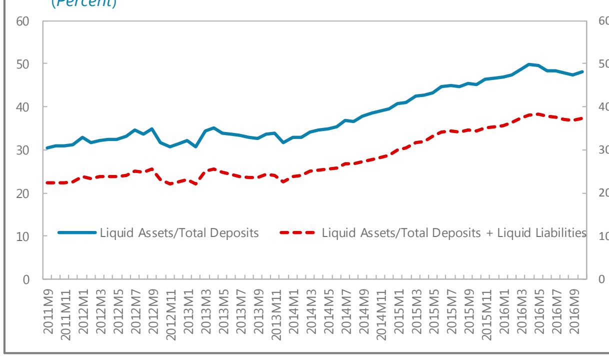
20. Low bank profitability and excess liquidity are aggravated by distortions to banking conditions. The regional minimum savings rate (MSR), which was reduced in 2015 to 2 percent by the Eastern Caribbean Central Bank (ECCB), aims to protect small depositors. However, it has prevented a decline of deposit rates in conditions of excess liquidity, contributing to low bank profitability, high lending rates, and reinforcing weak loan demand and bank excess liquidity.

21. Large liquidity buffers, however, mitigate risks to financial stability. With a loan to deposit ratio of about 90 percent, banks have a large volume of liquid assets that can be used to repay depositors. At the end of 2016, the liquidity coverage ratio stood at 37 percent while coverage of deposits stood at 48 percent (text figures and Table 5).

St. Lucia: Loans-to-Deposits Ratio
(Percent)



St. Lucia: Liquid Assets
(Percent)



22. The loss of correspondent banking relationships (CBRs) has been limited to the offshore sector, but CBR-related costs have increased substantially. Most domestic banks have been forced to dedicate more resources to due diligence and increased data reporting while correspondent banking fees for indigenous banks have reportedly increased by some 30-to-40 percent over the last five years. In some cases, banks had to terminate certain services, such as Euro check clearance. To address these issues, the authorities, jointly with the ECCB, are continuing to strengthen their regulatory frameworks, including for AML/CFT and international tax cooperation. In particular, St. Lucia has established automatic exchange of tax information with the U.S. under the Foreign Account Tax Compliance Act (FATCA), signed MOUs for tax information exchange with

32 jurisdictions, and strengthened legislative provisions to improve the availability of ownership and accounting information. Finally, the authorities have committed to adopting the OECD Common Reporting Standard for automatic exchange of tax information.

23. Progress in strengthening the financial sector remains slow. A new insolvency bill is under preparation, but the regional asset management company (ECAMC) for resolution of bank NPLs has not yet been established as some jurisdictions have not provided the necessary financial support. In the non-bank financial sector, a risk-based supervision framework has been introduced for the large number of regulated entities.[4] However, support for a new insurance bill —which would provide for regional regulation and supervision of the sector and allow companies to freely operate in the ECCU single market— is dwindling.

C. Structural Reforms

24. Despite recent improvements, addressing high structural unemployment is a priority. . Several factors seem to be at play (Annex VI). Skills mismatches are pervasive and aggravated by brain drain, mostly directed to the U.S. and other parts of the Caribbean. Workers with specialized skills, such as electricians or plumbers, are also scarce, sometimes forcing firms to employ foreign workers. Possibly owing to strong unions, the link between wages and productivity is very weak, hindering external competitiveness (Annex V). Policies are focused on treating the symptoms with temporary work programs, both domestically and overseas, but a comprehensive strategy to tackle the problem at its roots is missing.

25. Education and training are key components of the solution. A review of the education system would allow to identify how the system is performing in relation to its high cost — particularly in the primary and secondary components— and the needs of the labor market. The national curriculum may also need to be revised. Beyond the formal education system, targeted training and stronger incentives for on-the-job training and apprenticeships would help address the skills mismatch. A gradual move to performance-based pay in the public sector, which leads wages in the private sector, would help better align wages with productivity. Specific measures may also be needed to address female unemployment, which remains particularly high.

26. Costs of doing business remain high. The authorities have made some progress on a program of structural reforms under the Caribbean Growth Forum, which focus on improving skills and productivity, logistics and connectivity, and investment climate. In addition, the six-pillar Long-Term National Development Plan is expected to target building human and physical capital, strengthening institutions, improving social resilience, and mitigating and adapting to climate

[4] The Financial Services Regulatory Authority (FSRA) regulates and supervises 16 credit unions, 26 insurance companies and a sales force of 18 agents, 11 brokers and 210 salesmen, 9 active international banks (branches), 14 mutual funds, as well as 22 registered agents and trustees providing financial services representation on behalf of international business companies and trusts.

change. However, high costs of trading —including costs of port operations and import duties— and energy and low access to credit remain considerable obstacles.

27. Progress on reducing energy costs has been limited. To reduce their almost total dependence on fossil fuels, the authorities are promoting the adoption of renewable sources, but the 2020 target of 35 percent for the share of renewables is unlikely to be reached owing to delays in the implementation of the wind and geothermal components. Moreover, regulatory impediments and the need to recover investment costs could dissuade investment in renewable sources and prevent savings being transmitted to final users. In particular, the current legislation prevents individual producers of solar energy —households and businesses— from selling their excess supply to the grid, substantially reducing the advantages of adopting this source.

D. The Authorities' Position

28. The authorities were more optimistic on the growth outlook. They emphasized that the additional hotel capacity, new direct flights, and the establishment of a new Tourist Authority with an effective marketing strategy will boost tourist arrivals. In addition, the authorities do not share the staff's negative assessment of the new airport tax. Pointing to their own analysis of the market and taking account of the airport tax levels pertaining elsewhere in the region, they believe that they will remain competitive.

29. The authorities acknowledged the need for fiscal adjustment to reach the ECCU-debt target of 60 percent of GDP by 2030, which they said they are committed to achieving. They agree with staff that broadening the tax base is necessary to improve the efficiency of the system and limit the erosion of tax revenues. They intend to follow this principle for a comprehensive reform of the tax system, which will be finalized based on the soon-to-be delivered assessment by an external consultant.[5] However, the government considers VAT too complex for a small economy like St. Lucia and remains committed to reducing its rate while, being mindful of the fiscal situation, possibly offsetting the revenue loss with a sales tax. The government is also committed to controlling the wage bill and gradually improving social assistance, partly by fostering private sector participation in the provision of health and education services and improving the targeting of social assistance to the poor. In addition, the authorities agree that increasing their access to concessional financing is necessary to reduce effective interest rates.

30. The authorities recognized the need to further strengthen the fiscal framework and saw the new PFM legislation as appropriate for this purpose. In fact, the new MTFP targets would have the power of law under the new legislation. In the authorities' view, the lack of a permanent rule-based operational guidance and legislated quantitative fiscal anchor does not detract from their strong commitment to fiscal discipline.

[5] The conclusions of the preliminary report of the external consultant are broadly in line with previous FAD recommendations.

31. The authorities agreed that a prompt resolution of bank impaired assets is necessary to revive credit and support growth. They are confident that progress will accelerate in coming months, with the insolvency bill expected to be enacted in the second half of 2017 and the ECAMC to be operational by year-end. They acknowledge, however, that the new insurance legislation will require more time.

32. The authorities noted that more detail on structural policies will be available in the forthcoming budget presentation. Energy prices are seen as comparable with regional levels. The move toward renewable energy is mostly aimed at increasing efficiency and independence rather than reducing electricity costs to final users in the first instance. To address labor market rigidities and unemployment, the authorities are working on a revised labor code and considering a comprehensive education system reform. They are also working on developing strategies to tackle the issue of low productivity, including through the introduction of performance-based pay in the public sector.

STAFF APPRAISAL

33. Growth remains subdued. In the short term, construction and agriculture should continue to perform strongly while growth in tourism —which should be driven by consistent inflows of U.S. tourist, new flights, and new hotels— could be stifled by the new airport tax. Slow progress in cleaning up bank balance sheets limits the extent to which banks can help sustain growth. In the medium term, rigidities in the labor market, a costly business environment, and low external competitiveness severely limit growth prospects. A comprehensive reform program is needed to appropriately address key weaknesses and improve growth prospects, but downside risks, both external and domestic, dominate the outlook.

34. The deterioration of the fiscal position, which has been accelerated by the recent fiscal package, should be addressed promptly and decisively in the context of the forthcoming budget. In the absence of corrective measures, financing difficulties will increase and force inefficient fiscal adjustment—typically by reducing already low capital spending—with negative effects on growth. At the same time, public debt will continue to increase with unsustainable dynamics. The FY2017/18 budget therefore presents an opportunity for the authorities to demonstrate their commitment to fiscal responsibility and clarify their intentions on a broad range of policies. A more stable fiscal position and reduced uncertainty about the government's economic program would pave the way to stronger domestic and foreign investment.

35. Corrective measures should be supported by a multi-year consolidation plan to attain the 2030 debt target of 60 percent of GDP. The consolidation plan should address the need to prepare for the inevitable recurrence of natural disasters. To be consistent with the authorities' intention to reform the tax system and reduce tax burdens, the adjustment effort could focus on broadening the tax base, controlling expenditure, and improving financing terms. The planned increase in the airport tax should be reconsidered if its negative growth effects do materialize. A reduction in the wage bill should be targeted through continued wage restraint and attrition. Social spending should be preserved and reoriented from temporary work programs and non-targeted subsidies to targeted social assistance. Concessional lending, rather than costly bond issuance, should be used to finance much needed investment in infrastructure, renewable energy, and natural disaster resilience, and partnerships with the private sector should be used when feasible. If enough fiscal space can be created, considerations should be given to reducing high taxes and duties on imports, which harm external competitiveness.

36. An appropriate fiscal rule would adequately support the adjustment effort. The PFM bill contains some welcome steps to strengthen the budget process and move toward a medium-term fiscal framework, but is not adequately tied to the debt target of 60 percent of GDP by 2030. A fiscal rule, enshrined in fiscal responsibility legislation, would be necessary to ensure the appropriate institutional arrangements for enhanced fiscal transparency and accountability.

37. Good governance of the citizenship program and of the sovereign wealth fund are essential to minimize risks and ensure good use of these additional resources. The recent changes to the CIP could provide a welcome boost to fiscal revenues. These revenues, however, are very volatile and the authorities' decision to collect these funds in a sovereign wealth fund reduces the risk of fiscal dependence. As in other countries, the CIP entails significant reputational and financial integrity risks, which could be minimized by strict adherence to the highest standards for due diligence, governance, and transparency. The same principles should apply to the wealth fund, which should follow transparent criteria in its operations. Addressing remaining weaknesses in public investment management would ensure that only high-yield projects are selected. In view of the high public debt, priority should be given to its reduction.

38. Resolution of NPLs is critical to revive credit and support economic growth and renewed priority should be given to the establishment of the regional asset management company. New insolvency legislation will be an important step to facilitate foreclosures and debt restructuring. While the final steps to establish the ECAMC should be completed promptly by all jurisdictions, increased provisions for impaired assets by banks' shareholders would facilitate the sale of NPLs. Continued efforts to implement international standards on AML/CFT and tax cooperation will be required to mitigate the risk of loss of CBRs.

39. Structural reforms remain critical to remove obstacles to long-term growth. Priorities include: (i) addressing skills mismatches and improving labor productivity by revising the national curriculum to match market demands and providing better training opportunities across sectors; (ii) aligning wages with productivity by gradually introducing performance-based pay in the public sector; (iii) removing obstacles preventing a more widespread adoption of solar energy or the passing of savings to final users; (iv) reducing costs to trade, including costs of port operations and import duties; and (v) addressing bank weaknesses to facilitate access to credit.

40. Statistics are adequate for surveillance. However, lack of resources is hampering quality in several areas. Data are subject to large revisions, which often reflect pre-existing weaknesses as methodological improvements are introduced. Adequate resources should be provided to the

Central Statistics Office for data collection and compilation. The timeliness of data provision by government agencies should also be improved.

41. The 2016 update safeguards assessment found that the ECCB continues to maintain a governance framework that provides for independent oversight. Transparency in financial reporting has been maintained and the external audit mechanism is sound. The ECCB is taking steps to restructure the internal audit and risk management functions to align them with leading international practices.

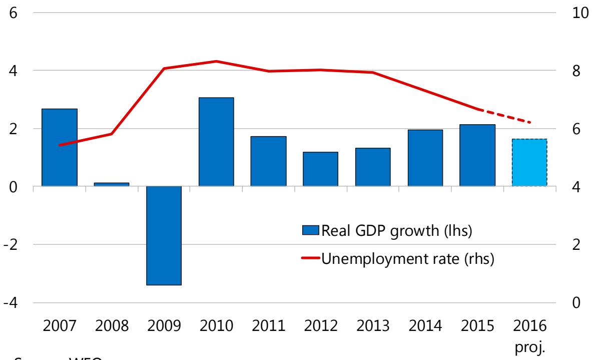
42. Staff recommends that the next Article IV Consultation for St. Lucia take place on the standard 12-month cycle.

Figure 1. Mixed Macroeconomic Outcomes Despite Favorable Global Conditions

Unemployment in AEs has continued to decline…

Advanced Economies: Growth and Unemployment

(In percent)

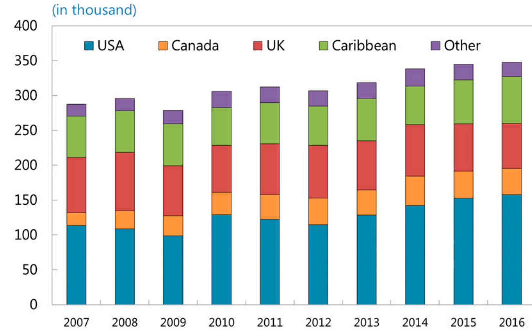


Source: WEO.

…but that translated only into a small boost to tourist arrivals.

Tourist Arrivals

(in thousand)

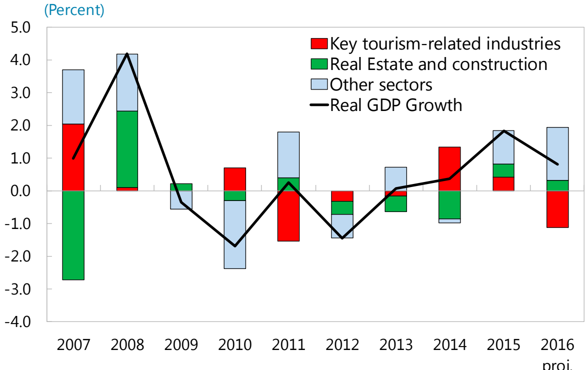


Sources: ECCB; and IMF Staff Estimates.

This weak performance partly explains recent low economic growth…

Real GDP Contribution

(Percent)

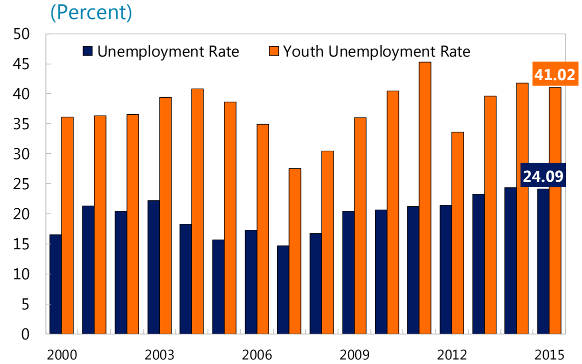


Sources: ECCB; and IMF Staff Estimates.

…and contributes to the persistently high unemployment rate.

Unemployment Rates

(Percent)

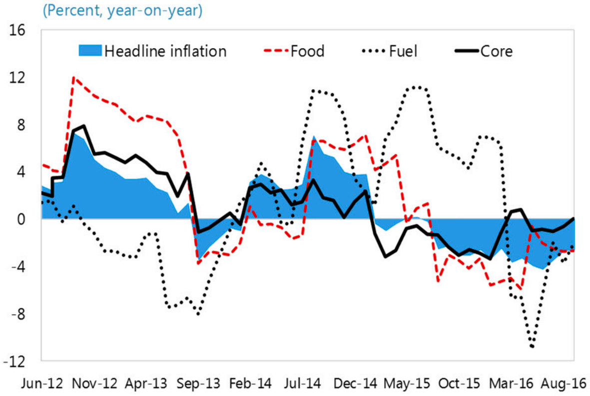


Sources: Country Authorities Review of the Economy.

Inflation has fallen on the back of lower oil and food prices…

CPI and its Components

(Percent, year-on-year)

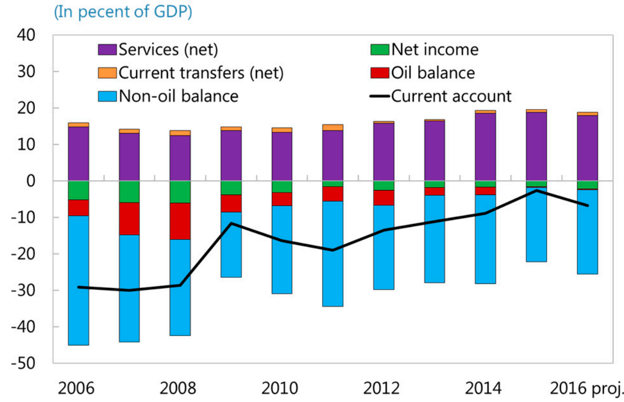


Sources: ECCB; and IMF Staff Estimates.

…which has also led to a narrowing current account deficit.

Current Account Balance

(In pecent of GDP)



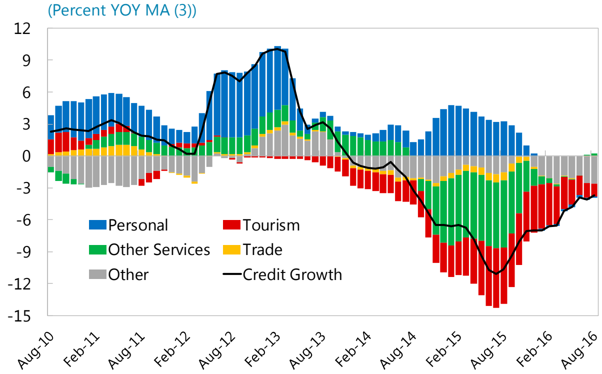
Sources: Country Authorities; and IMF Staff Estimates.

Figure 2. Strengthening the Financial Sector

Banks continue to deleverage…

Contribution to Credit Growth

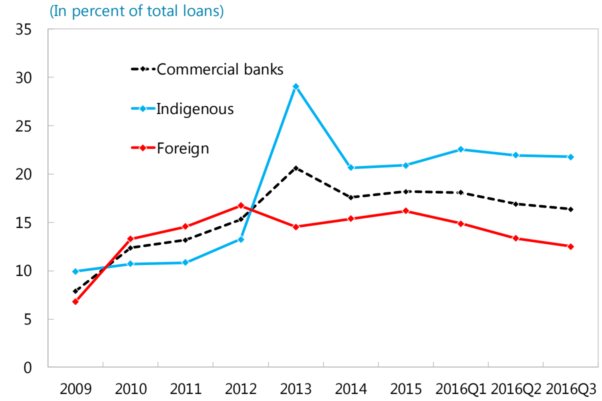
(Percent YOY MA (3))



…weighed down by high nonperforming loans…

NPLs

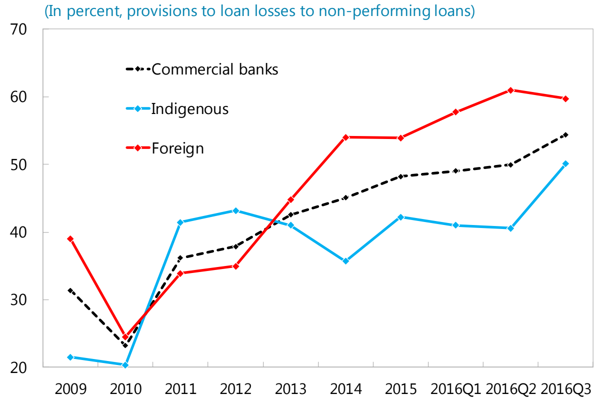
(In percent of total loans)



…which are still poorly provisioned for despite recent increases.

Provisions to NPLs

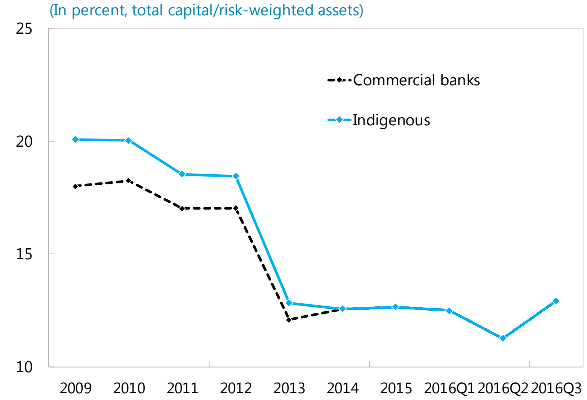
(In percent, provisions to loan losses to non-performing loans)



This creates uncertainty about true bank capitalization.

Capital Adequacy

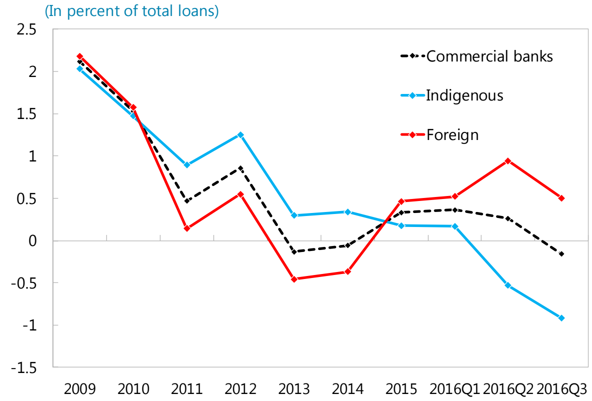
(In percent, total capital/risk-weighted assets)



Profitability continues to deteriorate…

Return on Average Assets

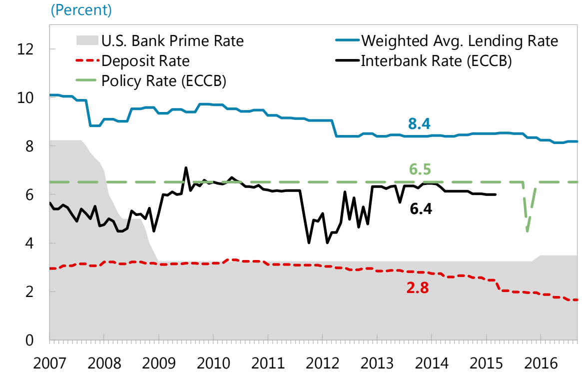
(In percent of total loans)



…although the recent decision to lower the deposit rate floor has improved funding costs.

Interest Rates

(Percent)

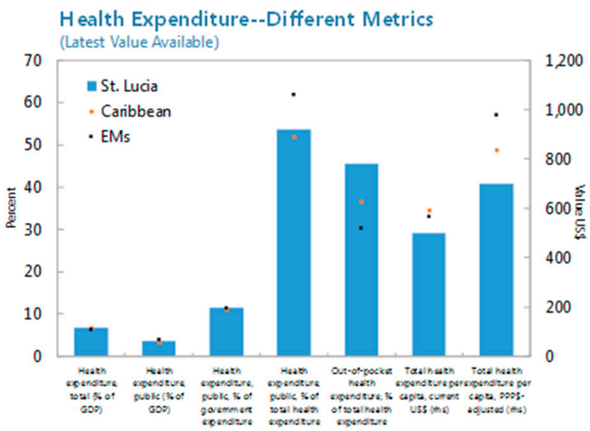


Sources: ECCB; and IMF Staff Estimates.

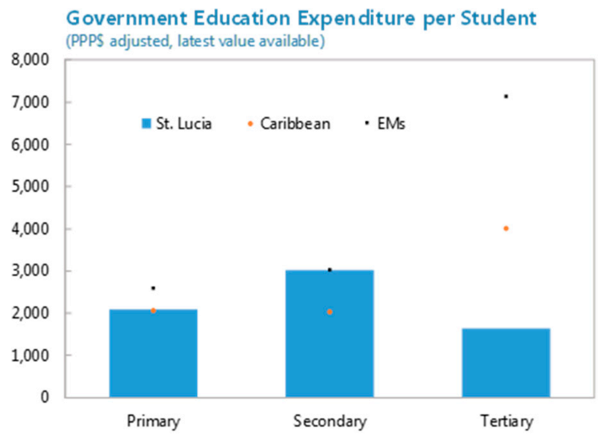
Sources: Country authorities; and IMF staff estimates.

Figure 3. Main Social Spending Items Relative to Comparator Groups

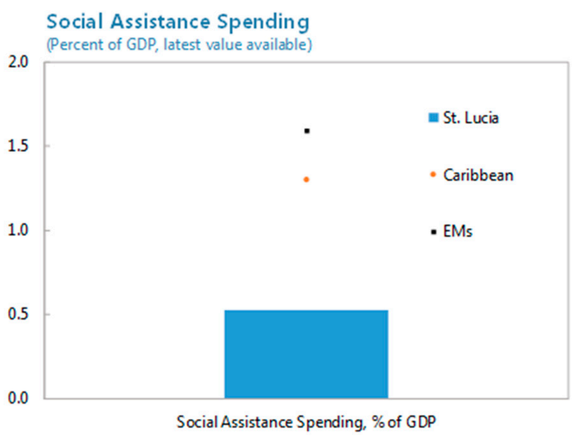
Health expenditure per capita is relatively low in St. Lucia and its system demands high out-of-pocket expenditure.



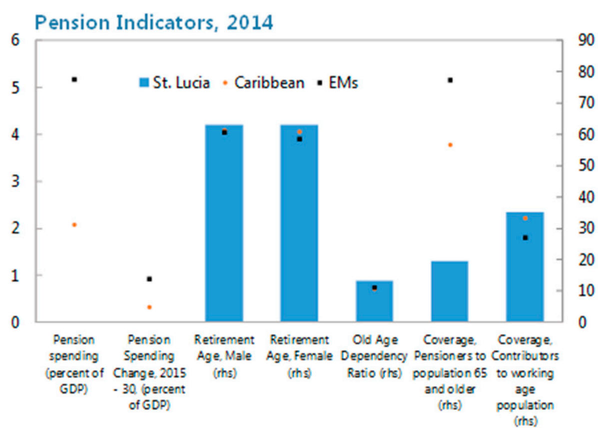
Government spending is comparatively high in secondary education and low in tertiary education.



St. Lucians receive substantially less social assistance from the government…



…and are relatively unprotected in old age.

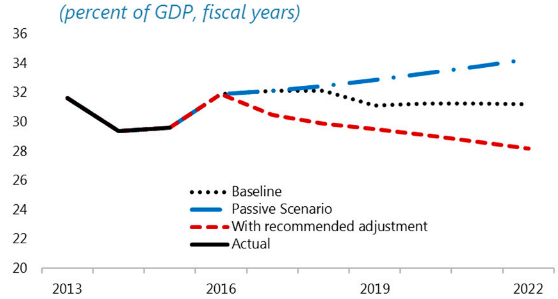


Sources: IMF staff estimates.

Figure 4. Baseline, Passive, and Adjustment Scenarios

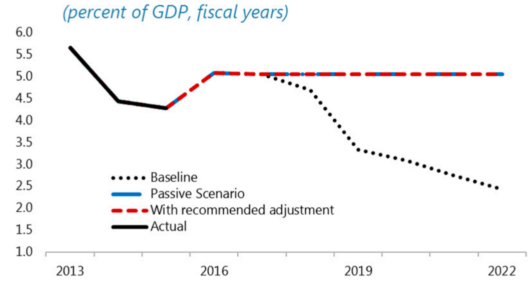
The proposed adjustment is centered on containing expenditure…

Central Government Expenditure
(percent of GDP, fiscal years)



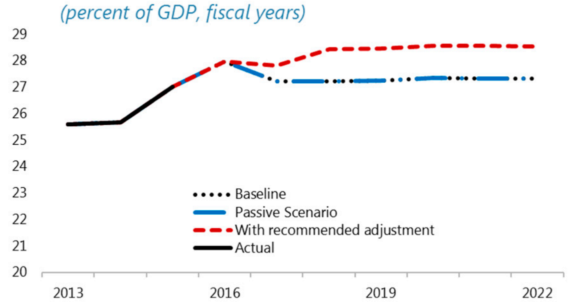
…while keeping capital expenditures constant…

Central Government Capital Expenditure
(percent of GDP, fiscal years)



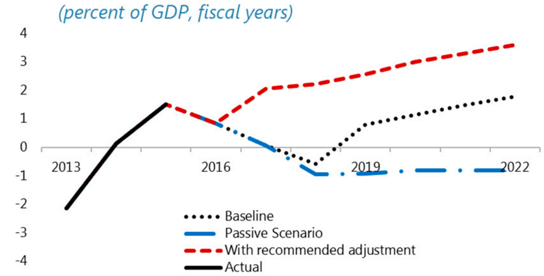
…and reversing recent revenues losses…

Central Government Revenues
(percent of GDP, fiscal years)



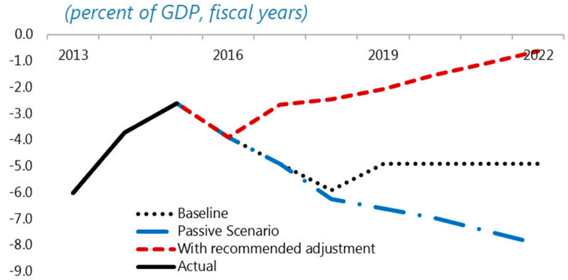
…delivering primary surplus….

Primary Balance
(percent of GDP, fiscal years)



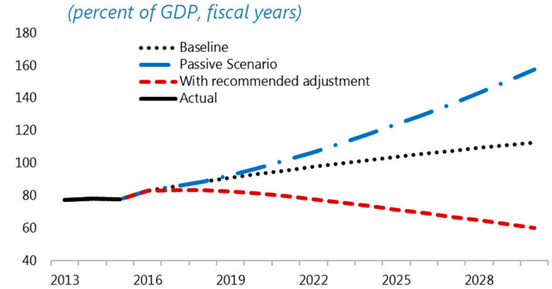
… which together with improved debt management lead to overall fiscal surpluses…

Overall Fiscal Balance
(percent of GDP, fiscal years)



… compatible with the 2030 debt target.

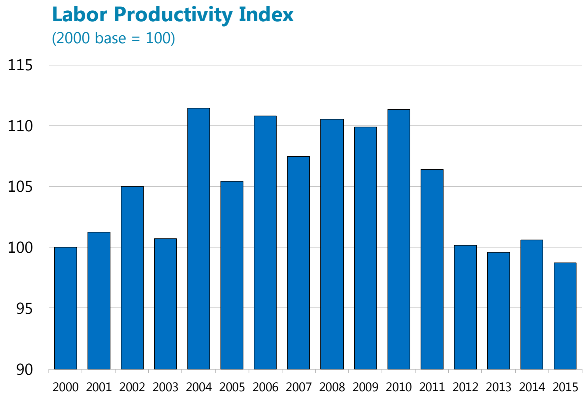
Public Debt
(percent of GDP, fiscal years)



Sources: Country authorities; and IMF staff estimates.

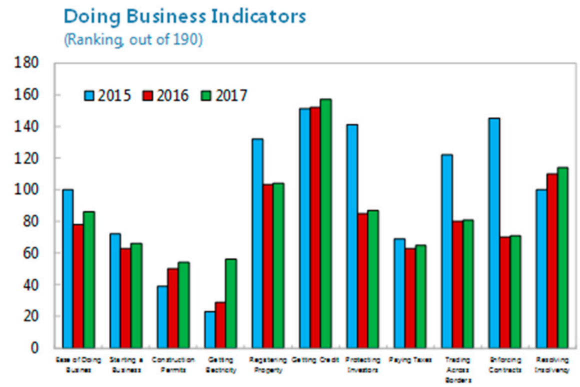
Figure 5. Structural Reform Priorities to Drive Growth

Low labor productivity…



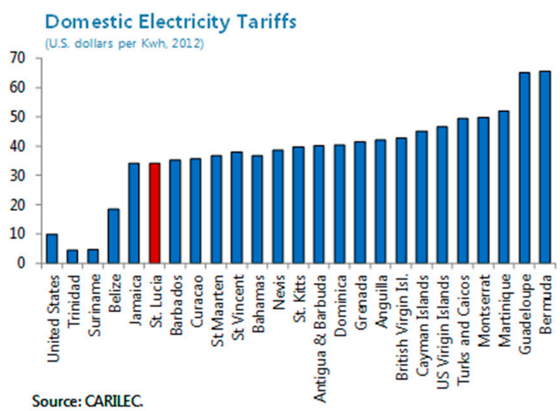
Source: National Authorities; and IMF Staff Estimates.

… and a weak business climate are key issues to address.



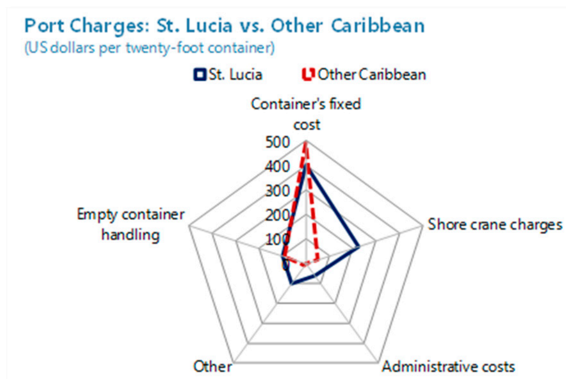
Sources: World Bank Doing Business Database.

Although among the lowest in the Caribbean, electricity costs remain high…



Source: CARILEC.

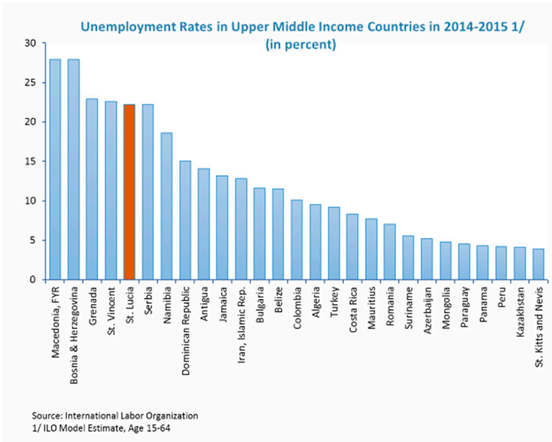
…and costs at St. Lucia's ports are high by regional standards.



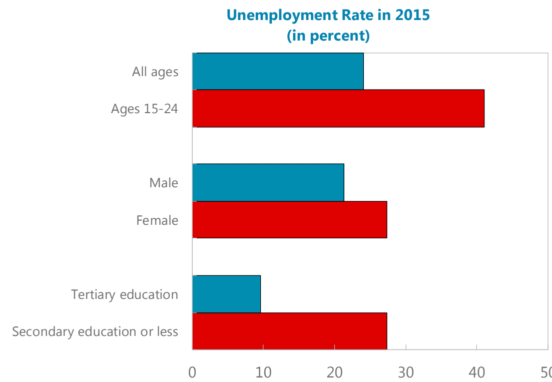
Sources: St. Lucia Air & Sea Ports Authority (SLASPA).

Figure 6. Unemployment in St. Lucia

Unemployment in St. Lucia is high by international standards….

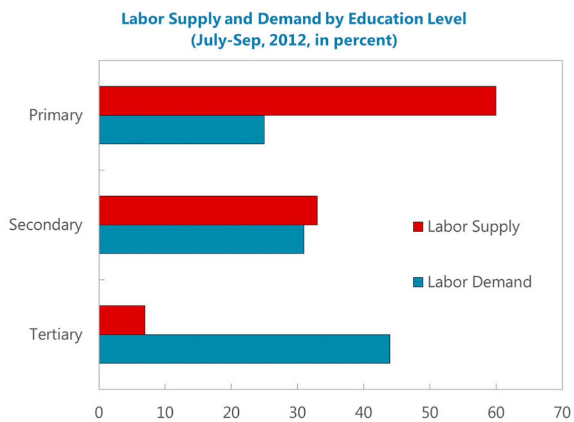


…with the youth, women and less educated being more likely to be unemployed.

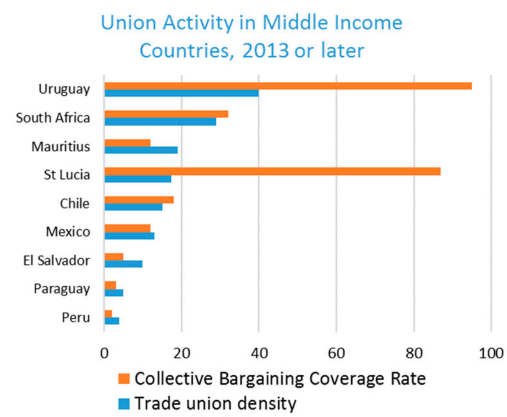


Source: St. Lucia Statistics Office

Most of the unemployment is structural in nature possibly due to skills mismatches….

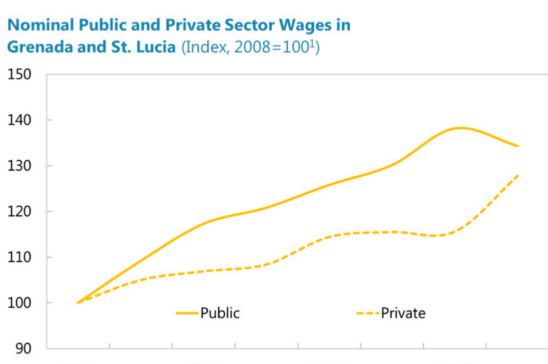


… as well as strong unions.



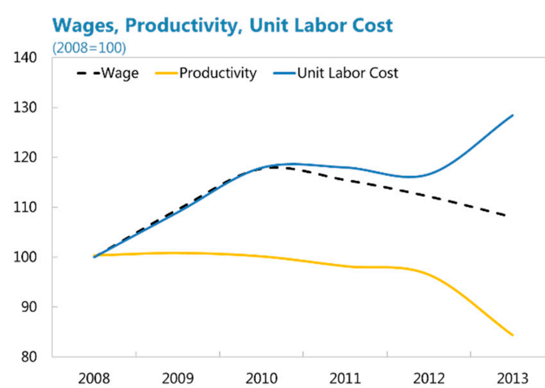
Source: ILO and Staff Calculations

…that create upward pressure on wages in the public sector, and by demonstration effects, in private sector.



[1]Series are smoothed using a 2 year moving average. Private includes manufacturing, construction, tourism, financial and real estate and business.

Wage increases are unmatched by productivity increases, weighing on external competitiveness.



Sources: Haver Analytics; National Insurance Scheme, National Authorities; and IMF staff calculations.

Table 1. St. Lucia: Selected Social and Economic Indicators, 2013–2022

I. Social and Demographic Indicators

Area (sq. km)	616	Life expectancy at birth (years, 2015)	75.1
		Infant mortality (per thous. live births, 2015)	12.7
Population		Human Development Index (HDI) ranking (2014)	89
Total (2015)	169,115	(rank out of 188 countries)	
Rate of growth (average 2001-2010)	1.5		
Population density (per sq. km., 2015)	274.5	Gross Domestic Product (2015)	
Net migration rate (per thousand, 2012)	-3.5	(millions of US dollars)	1,431
Adult illiteracy rate (percent, 2009)	5.2	(millions of EC dollars)	3,864
		(US$ per capita)	8,462

II. Economic and Financial Indicators

				Est.	Projections					
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	(Annual percentage change, unless otherwise specified)									
Output and prices										
Real GDP (at market prices)	0.1	0.4	1.8	0.8	0.5	1.5	1.5	1.5	1.5	1.5
Real GDP (at factor cost)	-2.1	-0.7	1.2	-0.6	1.2	1.5	1.5	1.5	1.5	1.5
Consumer prices, end of period	-0.7	3.7	-2.6	0.6	0.7	1.1	1.5	1.5	1.5	1.5
Potential GDP	-0.1	0.3	0.6	0.9	1.1	1.3	1.4	1.5	1.5	1.5
Output gap (percent of potential GDP)	-0.9	-0.8	0.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Unemployment rate (% annual average)	23.3	24.4	24.1	…	…	…	…	…	…	…
Real effective exchange rate										
(annual average, depreciation -)	100.8	103.2	108.1	105.7	…	…	…	…	…	…
	(In percent of GDP, unless otherwise specified)									
Central government balance 1/										
Revenue	25.6	25.7	27.0	27.7	27.2	27.2	27.2	27.3	27.3	27.3
Taxes	22.7	23.1	24.4	25.3	24.1	24.1	24.2	24.3	24.3	24.2
Non-tax revenue	1.3	1.1	1.3	1.1	1.8	1.8	1.8	1.8	1.8	1.8
Grants	1.5	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Expenditure	31.6	29.4	29.6	32.2	32.1	32.1	31.1	31.2	31.2	31.2
Current primary expenditure	22.1	21.1	21.2	22.0	22.1	22.1	22.1	22.1	22.1	22.1
Interest payments	3.9	3.8	4.1	4.8	5.0	5.3	5.7	6.0	6.4	6.7
Capital expenditure	5.7	4.4	4.3	5.4	5.0	4.7	3.3	3.1	2.7	2.4
Natural disaster (ND) annualised cost	…	…	…	…	…	1.0	1.0	1.0	1.0	1.0
Primary balance, excl. ND cost	-2.1	0.1	1.5	0.3	0.1	0.4	1.8	2.1	2.5	2.8
Primary balance, incl. ND cost						-0.6	0.8	1.1	1.5	1.8
Overall balance excl. ND cost	-6.0	-3.7	-2.6	-4.4	-4.9	-4.9	-3.9	-3.9	-3.9	-3.9
Overall balance, incl. ND cost	…	…	…	…	…	-5.9	-4.9	-4.9	-4.9	-4.9
Central government debt (incl. guaranteed)	77.2	78.1	77.8	82.9	85.6	88.6	90.9	93.3	95.6	97.7
External	37.2	38.7	36.9	39.5	40.9	42.4	43.6	44.9	46.0	47.2
Domestic	40.0	39.4	40.8	43.5	44.7	46.2	47.3	48.4	49.5	50.5
Money and credit, end of period (annual percent change)										
Broad money (M2)	2.0	1.2	5.8	-0.1	3.1	2.2	3.0	3.0	3.0	3.1
Credit to private sector (real)	-2.3	-9.9	-5.8	-3.1	-1.8	-0.7	-1.5	1.5	1.5	1.5
Credit to private sector (nominal)	-0.8	-6.7	-6.8	-4.8	0.0	0.0	0.0	3.0	3.0	3.1
Balance of payments										
Current account balance, *o/w:*	-11.1	-8.9	-2.6	-6.7	-8.8	-9.3	-8.9	-8.9	-8.9	-9.2
Exports of goods and services	46.1	45.6	46.3	44.4	43.5	43.1	43.6	43.8	44.0	44.1
Imports of goods and services	55.9	53.6	48.1	49.8	50.6	50.5	50.4	50.4	50.4	50.5
Capital and financial account balance	9.2	12.1	2.8	6.0	9.6	10.4	9.9	9.5	9.6	9.8
FDI	7.0	6.5	6.5	6.8	6.8	7.0	7.1	7.1	7.2	6.4
Capital grants	1.6	1.7	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.4
Other (incl. errors and omissions)	0.6	3.9	-5.2	-2.3	1.3	2.0	1.4	1.0	0.9	2.0
Overall balance	-2.8	4.6	2.7	-0.7	0.8	1.2	1.0	0.6	0.6	0.7
External debt (gross) 2/	93.6	90.2	82.5	83.0	83.8	85.3	86.6	87.8	89.0	89.9
Public	37.2	38.7	36.9	39.5	40.9	42.4	43.6	44.9	46.0	47.2
Savings-Investment balance	-11.1	-8.9	-2.6	-6.7	-8.8	-9.3	-8.9	-8.9	-8.9	-9.2
Savings	11.8	10.1	17.1	13.9	12.5	12.1	11.8	11.7	11.7	11.4
Investment	22.9	19.0	19.7	20.7	21.2	21.4	20.8	20.6	20.7	20.5
Public	7.2	4.9	4.4	5.0	5.2	5.0	3.9	3.3	3.0	2.7
Private	15.8	14.0	15.3	15.7	16.1	16.5	16.9	17.3	17.7	17.9
Memorandum items:										
Nominal GDP (EC$ millions)	3,559	3,743	3,864	3,739	3,856	3,940	4,060	4,182	4,306	4,438
Net imputed international reserves										
Months of imports of goods and services	2.7	3.8	5.2	5.0	5.0	5.2	5.3	5.3	5.3	5.2
Percentage of demand liabilities	85.1	89.2	91.4	92.4	92.5	92.7	92.8	92.8	92.8	92.8

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

1/ Fiscal year (April–March) basis.

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

Table 2a. St. Lucia: The Statement of Operations of the Central Government 1/

(In millions of EC dollars)

				Projections							
	2013	2014	2015	2016	2016 Budget	2017	2018	2019	2020	2021	2022
					(In millions of EC Dollars)						
Revenue	**922.5**	**968.7**	**1,035.6**	**1,045.1**	**1,166.3**	**1,055.0**	**1,080.3**	**1,114.1**	**1,151.8**	**1,186.2**	**1,222.2**
Taxes	820.1	872.8	935.3	954.2	953.8	935.4	957.9	987.9	1,021.9	1,052.3	1,084.2
Taxes on income	219.9	224.1	241.5	244.8	245.4	247.9	254.2	261.4	269.3	277.3	285.7
Taxes on property	8.2	9.4	10.7	10.5	10.9	11.1	11.4	13.3	18.2	18.8	19.4
Taxes on goods and services	222.9	245.4	255.2	252.4	268.5	236.2	241.9	249.2	256.7	264.3	272.4
Taxes on international trade and transactions	369.1	393.8	427.8	446.5	429.1	440.2	450.4	463.9	477.7	491.9	506.8
Grants	55.6	53.3	51.6	50.0	97.2	51.4	52.7	54.3	55.9	57.6	59.3
Other revenue	46.9	42.7	48.8	40.9	115.3	68.2	69.8	71.9	74.1	76.3	78.6
Property income	5.8	4.0	7.0	4.3	4.6	4.4	4.5	4.7	4.8	5.0	5.1
Sales, fees and fines	27.7	23.5	27.3	25.6	52.1	51.4	52.6	54.2	55.8	57.5	59.2
o.w. Citizen by Investment Program (CIP)	0.0	0.0	0.0	3.6	16.0	16.0	10.0	9.7	10.1	10.5	10.7
Other nontax revenue	13.3	15.2	14.5	11.0	42.6	12.4	12.7	13.1	13.5	13.9	14.3
Expenditure	**1,139.6**	**1,109.3**	**1,135.8**	**1,211.9**	**1,293.2**	**1,244.8**	**1,275.2**	**1,273.6**	**1,316.1**	**1,355.4**	**1,396.6**
Expense	**935.8**	**941.6**	**971.8**	**1,010.2**	**967.2**	**1,049.1**	**1,088.7**	**1,137.3**	**1,185.9**	**1,236.2**	**1,287.7**
Compensation of employees	382.0	379.6	377.9	382.6	392.7	393.6	403.0	415.3	427.7	440.5	453.9
Purchase of goods and services	167.6	162.2	174.6	185.0	186.8	190.3	194.9	200.8	206.8	213.0	219.5
Interest	140.0	145.0	157.6	179.3	170.5	192.0	210.9	232.9	254.5	276.9	299.2
Social benefits	96.9	102.7	102.5	105.0	103.7	110.4	113.0	116.4	119.9	123.5	127.3
Retirement benefits	76.2	80.1	84.9	86.8	74.9	91.8	94.0	96.9	99.7	102.7	105.9
Public assistance and casual relief	20.7	22.6	17.6	18.2	28.9	18.6	19.0	19.6	20.2	20.8	21.4
Subsidies	12.7	14.1	8.7	8.7	8.8	8.8	9.0	9.3	9.6	9.9	10.2
Other	7.9	8.5	8.8	9.5	...	9.7	10.0	10.3	10.6	10.9	11.2
Other expense	149.3	152.1	159.1	158.3	113.5	162.9	166.8	171.8	177.0	182.3	187.8
Transfers to public-sector institutions	149.3	152.1	159.1	158.3	113.5	162.9	166.8	171.8	177.0	182.3	187.8
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets	**203.9**	**167.8**	**164.0**	**201.7**	**326.0**	**195.7**	**186.5**	**136.3**	**130.2**	**119.2**	**108.9**
Grant-financed capital expenditure	55.6	53.3	51.6	51.6	97.2	51.4	52.7	54.3	55.9	57.6	59.3
Other capital expenditure	148.2	114.3	112.4	140.1	228.7	144.3	133.8	82.1	74.3	61.6	49.5
Capital revenue	0.1	0.2	0.1	10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Natural disaster (ND) annualised cost 2/	**...**	**...**	**...**	**...**	**...**	**...**	**39.7**	**40.9**	**42.1**	**43.4**	**44.7**
Gross Operating Balance	**-13.3**	**27.1**	**63.8**	**34.9**	**199.1**	**5.9**	**-8.3**	**-23.2**	**-34.1**	**-50.0**	**-65.5**
Net lending/borrowing (overall balance, excl. ND cost)	**-217.2**	**-140.6**	**-100.2**	**-166.9**	**-142.0**	**-189.9**	**-194.8**	**-159.5**	**-164.3**	**-169.2**	**-174.4**
Net lending/borrowing (overall balance, incl. ND cost)	**...**	**...**	**...**	**...**	**...**	**...**	**-234.5**	**-200.4**	**-206.4**	**-212.6**	**-219.1**
Net financial transactions	**-217.2**	**-140.6**	**-100.2**	**-166.9**	**-142.0**	**-189.9**	**-234.5**	**-200.4**	**-206.4**	**-212.6**	**-219.1**
Net acquisition of assets	**21.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-40.0**	**0.0**	**0.0**	**0.0**	**0.0**
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	-40.0	0.0	0.0	0.0	0.0
Other assets	21.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**165.4**	**201.8**	**49.5**	**146.9**	**142.0**	**189.9**	**194.6**	**200.5**	**206.5**	**212.7**	**219.1**
Domestic	25.7	75.2	90.4	73.4	67.8	94.9	97.3	100.2	103.2	106.3	109.6
Foreign	139.7	126.6	-40.9	73.4	74.2	94.9	97.3	100.2	103.2	106.3	109.6
Statistical discrepancy	*73.3*	*-61.2*	*50.7*	*20.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Memorandum items:											
Primary balance (excl. ND)	-77.1	4.3	57.4	12.4	28.5	2.2	16.1	73.4	90.2	107.7	124.8
Primary balance (incl. ND)	...	...	...	...	...	...	-23.6	32.5	48.1	64.3	80.1
Central government debt (incl. guaranteed) 3/	2,782	2,946	2,980	3,125	...	3,318	3,515	3,719	3,929	4,145	4,368
Domestic	1,442	1,485	1,565	1,637	...	1,734	1,833	1,935	2,040	2,148	2,260
Direct	1,339	1,414	1,504	1,578	...	1,673	1,770	1,870	1,973	2,080	2,189
Guaranteed	103	71	61	60	...	61	63	65	67	69	71
Foreign	1,340	1,461	1,415	1,488	...	1,584	1,683	1,784	1,889	1,997	2,108
Direct	1,282	1,409	1,368	1,441	...	1,536	1,634	1,734	1,837	1,943	2,053
Guaranteed	58	52	47	47	...	48	49	51	52	54	55
Nominal GDP fiscal year (EC$ millions)	3,605	3,773	3,833	3,768	3,870	3,877	3,970	4,090	4,213	4,339	4,471

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

1/ Fiscal year (April–March) basis.

2/ Natural disaster costs are annualized estimated costs (see Box 1).

3/ Direct debt and debt of the parastatal entities (including debt guaranteed by the central government).

Table 2b. St. Lucia: The Statement of Operations of the Central Government 1/

(In percent of GDP)

				Projections							
	2013	2014	2015	2016	2016 Budget	2017	2018	2019	2020	2021	2022
					(In percent of GDP)						
Revenue	**25.6**	**25.7**	**27.0**	**27.7**	**30.1**	**27.2**	**27.2**	**27.2**	**27.3**	**27.3**	**27.3**
Taxes	22.7	23.1	24.4	25.3	24.6	24.1	24.1	24.2	24.3	24.3	24.2
Taxes on income	6.1	5.9	6.3	6.5	6.3	6.4	6.4	6.4	6.4	6.4	6.4
Taxes on property	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4
Taxes on goods and services	6.2	6.5	6.7	6.7	6.9	6.1	6.1	6.1	6.1	6.1	6.1
Taxes on international trade and transactions	10.2	10.4	11.2	11.8	11.1	11.4	11.3	11.3	11.3	11.3	11.3
Grants	1.5	1.4	1.3	1.3	2.5	1.3	1.3	1.3	1.3	1.3	1.3
Other revenue	1.3	1.1	1.3	1.1	3.0	1.8	1.8	1.8	1.8	1.8	1.8
Property income	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Sales, fees and fines	0.8	0.6	0.7	0.7	1.3	1.3	1.3	1.3	1.3	1.3	1.3
o.w. Citizen by Investment Program (CIP)	0.0	0.0	0.0	0.1	0.4	0.4	0.3	0.2	0.2	0.2	0.2
Other nontax revenue	0.4	0.4	0.4	0.3	1.1	0.3	0.3	0.3	0.3	0.3	0.3
Expenditure	**31.6**	**29.4**	**29.6**	**32.2**	**33.4**	**32.1**	**32.1**	**31.1**	**31.2**	**31.2**	**31.2**
Expense	**26.0**	**25.0**	**25.4**	**26.8**	**25.0**	**27.1**	**27.4**	**27.8**	**28.2**	**28.5**	**28.8**
Compensation of employees	10.6	10.1	9.9	10.2	10.1	10.2	10.2	10.2	10.2	10.2	10.2
Purchase of goods and services	4.7	4.3	4.6	4.9	4.8	4.9	4.9	4.9	4.9	4.9	4.9
Interest	3.9	3.8	4.1	4.8	4.4	5.0	5.3	5.7	6.0	6.4	6.7
Social benefits	2.7	2.7	2.7	2.8	2.7	2.8	2.8	2.8	2.8	2.8	2.8
Retirement benefits	2.1	2.1	2.2	2.3	1.9	2.4	2.4	2.4	2.4	2.4	2.4
Public assistance and casual relief	0.6	0.6	0.5	0.5	0.7	0.5	0.5	0.5	0.5	0.5	0.5
Subsidies	0.4	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other expense	4.1	4.0	4.2	4.2	2.9	4.2	4.2	4.2	4.2	4.2	4.2
Transfers to public-sector institutions	4.1	4.0	4.2	4.2	2.9	4.2	4.2	4.2	4.2	4.2	4.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets	**5.7**	**4.4**	**4.3**	**5.4**	**8.4**	**5.0**	**4.7**	**3.3**	**3.1**	**2.7**	**2.4**
Grant-financed capital expenditure	1.5	1.4	1.3	1.4	2.5	1.3	1.3	1.3	1.3	1.3	1.3
Other capital expenditure	4.1	3.0	2.9	3.7	5.9	3.7	3.4	2.0	1.8	1.4	1.1
Capital revenue	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Natural disaster (ND) annualised cost 2/	**…**	**…**	**…**	**…**	**…**	**…**	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**
Gross Operating Balance	**-0.4**	**0.7**	**1.7**	**0.9**	**5.1**	**0.2**	**-0.2**	**-0.6**	**-0.8**	**-1.2**	**-1.5**
Net lending/borrowing (overall balance, excl. ND cost)	**-6.0**	**-3.7**	**-2.6**	**-4.4**	**-3.7**	**-4.9**	**-4.9**	**-3.9**	**-3.9**	**-3.9**	**-3.9**
Net lending/borrowing (overall balance, incl. ND cost)	**…**	**…**	**…**	**…**	**…**	**…**	**-5.9**	**-4.9**	**-4.9**	**-4.9**	**-4.9**
Net financial transactions	**-6.0**	**-3.7**	**-2.6**	**-4.4**	**-3.7**	**-4.9**	**-5.9**	**-4.9**	**-4.9**	**-4.9**	**-4.9**
Net acquisition of assets	**0.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-1.0**	**0.0**	**0.0**	**0.0**	**0.0**
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	-1.0	0.0	0.0	0.0	0.0
Other assets	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**4.6**	**5.3**	**1.3**	**3.9**	**3.7**	**4.9**	**4.9**	**4.9**	**4.9**	**4.9**	**4.9**
Domestic	0.7	2.0	2.4	1.9	1.8	2.4	2.5	2.5	2.5	2.5	2.5
Foreign	3.9	3.4	-1.1	1.9	1.9	2.4	2.5	2.5	2.5	2.5	2.5
Statistical discrepancy	*2.0*	*-1.6*	*1.3*	*0.5*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Memorandum items:											
Primary balance (excl. ND)	-2.1	0.1	1.5	0.3	0.7	0.1	0.4	1.8	2.1	2.5	2.8
Primary balance (incl. ND)	…	…	…	…	…	…	-0.6	0.8	1.1	1.5	1.8
Central government debt (incl. guaranteed) 3/	77.2	78.1	77.8	82.9	…	85.6	88.5	90.9	93.3	95.5	97.7
Domestic	40.0	39.4	40.8	43.4	…	44.7	46.2	47.3	48.4	49.5	50.5
Direct	37.1	37.5	39.2	41.9	…	43.1	44.6	45.7	46.8	47.9	49.0
Guaranteed	2.9	1.9	1.6	1.6	…	1.6	1.6	1.6	1.6	1.6	1.6
Foreign	37.2	38.7	36.9	39.5	…	40.9	42.4	43.6	44.8	46.0	47.1
Direct	35.6	37.3	35.7	38.2	…	39.6	41.1	42.4	43.6	44.8	45.9
Guaranteed	1.6	1.4	1.2	1.2	…	1.2	1.2	1.2	1.2	1.2	1.2
Nominal GDP fiscal year (EC$ millions)	3,605	3,773	3,833	3,768	3,870	3,877	3,970	4,090	4,213	4,339	4,471

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

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

2/ Natural disaster costs are annualized estimated costs (see Box 1).

3/ Direct debt and debt of the parastatal entities guaranteed by the central government.

Table 3. St. Lucia: Balance of Payments Summary, 2013–2022

				Est.	Projections					
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
				(In millions of US Dollars)						
Current account balance	**-146.6**	**-123.0**	**-36.8**	**-93.4**	**-125.1**	**-135.3**	**-134.2**	**-137.9**	**-142.2**	**-150.5**
Exports of goods and services	607.8	632.1	662.0	615.4	620.6	629.2	655.0	678.6	702.3	724.8
Goods	200.3	184.4	206.5	181.7	189.0	194.2	200.7	207.0	213.3	219.9
Tourism	353.9	390.4	396.9	375.0	361.8	359.9	373.3	385.8	398.2	411.4
Other services	53.6	57.3	58.6	58.8	69.9	75.0	81.1	85.8	90.8	93.6
Imports of goods and services	736.2	743.1	687.8	689.4	722.8	736.8	757.2	779.9	803.3	829.5
Food	131.8	117.4	113.4	108.4	110.6	114.2	117.5	121.4	125.3	129.4
Fuel	78.1	63.4	42.1	35.8	41.4	43.3	44.9	46.6	48.5	50.5
Other goods	336.1	371.3	346.2	360.6	375.2	379.7	389.3	400.3	411.5	424.8
Services	190.2	191.1	186.2	184.6	195.7	199.7	205.5	211.7	218.0	224.9
Net Income, o.w.	-22.9	-22.7	-22.0	-30.7	-35.0	-40.3	-45.3	-50.3	-55.6	-60.9
Public interest payments	-19.9	-20.4	-19.5	-24.9	-26.9	-29.7	-33.2	-36.7	-40.3	-43.9
Net current transfers, o.w.	4.7	10.7	11.0	11.3	12.0	12.7	13.3	13.8	14.4	15.0
Remittances	26.8	26.8	26.8	27.2	27.9	28.4	28.3	27.6	28.2	28.7
Capital and financial account balance	**120.8**	**168.4**	**39.6**	**83.1**	**136.9**	**152.3**	**149.5**	**147.8**	**152.4**	**161.3**
Capital transfers	20.7	23.1	20.8	20.1	20.6	21.1	21.7	22.3	22.9	23.6
Public sector flows	-2.9	19.1	-3.6	18.5	36.7	34.9	37.5	38.5	39.5	40.9
Foreign direct investment	92.0	90.6	92.5	94.8	97.2	101.8	106.2	110.3	114.6	105.0
Commercial banks	-14.1	-59.4	-149.7	-78.5	3.7	2.7	3.9	3.9	4.0	0.7
Other private flows	25.0	95.0	79.5	28.2	-21.3	-8.3	-19.7	-27.2	-28.6	-8.8
Errors and omissions	**-10.9**	**18.1**	**36.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-36.7**	**63.4**	**39.3**	**-10.3**	**11.9**	**17.0**	**15.3**	**10.0**	**10.2**	**10.8**
Change in ECCB NFA	39.8	-66.9	-39.3	10.3	-11.9	-17.0	-15.3	-10.0	-10.2	-10.8
Change in imputed reserves (increase -)	39.8	-66.9	-39.3	10.3	-11.9	-17.0	-15.3	-10.0	-10.2	-10.8
				(In percent of GDP)						
Current account balance	**-11.1**	**-8.9**	**-2.6**	**-6.7**	**-8.8**	**-9.3**	**-8.9**	**-8.9**	**-8.9**	**-9.2**
Exports of goods and services	46.1	45.6	46.3	44.4	43.5	43.1	43.6	43.8	44.0	44.1
Goods	15.2	13.3	14.4	13.1	13.2	13.3	13.3	13.4	13.4	13.4
Tourism	26.9	28.2	27.7	27.1	25.3	24.7	24.8	24.9	25.0	25.0
Other services	4.1	4.1	4.1	4.2	4.9	5.1	5.4	5.5	5.7	5.7
Imports of goods and services	55.9	53.6	48.1	49.8	50.6	50.5	50.4	50.4	50.4	50.5
Food	10.0	8.5	7.9	7.8	7.7	7.8	7.8	7.8	7.9	7.9
Fuel	5.9	4.6	2.9	2.6	2.9	3.0	3.0	3.0	3.0	3.1
Other goods	25.5	26.8	24.2	26.0	26.3	26.0	25.9	25.8	25.8	25.8
Services	14.4	13.8	13.0	13.3	13.7	13.7	13.7	13.7	13.7	13.7
Net Income, o.w.	-1.7	-1.6	-1.5	-2.2	-2.4	-2.8	-3.0	-3.2	-3.5	-3.7
Public interest payments	-1.5	-1.5	-1.4	-1.8	-1.9	-2.0	-2.2	-2.4	-2.5	-2.7
Net current transfers, o.w.	0.4	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9
Remittances	2.0	1.9	1.9	2.0	2.0	1.9	1.9	1.8	1.8	1.7
Capital and financial account balance	**9.2**	**12.1**	**2.8**	**6.0**	**9.6**	**10.4**	**9.9**	**9.5**	**9.6**	**9.8**
Capital transfers	1.6	1.7	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.4
Public sector flows	-0.2	1.4	-0.2	1.3	2.6	2.4	2.5	2.5	2.5	2.5
Foreign direct investment	7.0	6.5	6.5	6.8	6.8	7.0	7.1	7.1	7.2	6.4
Commercial banks	-1.1	-4.3	-10.5	-5.7	0.3	0.2	0.3	0.3	0.3	0.0
Other private flows	1.9	6.9	5.6	2.0	-1.5	-0.6	-1.3	-1.8	-1.8	-0.5
Errors and omissions	**-0.8**	**1.3**	**2.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-2.8**	**4.6**	**2.7**	**-0.7**	**0.8**	**1.2**	**1.0**	**0.6**	**0.6**	**0.7**
Memorandum Items:										
Trade balance (percent of GDP)	**-26.2**	**-26.5**	**-20.6**	**-23.3**	**-23.7**	**-23.5**	**-23.3**	**-23.3**	**-23.3**	**-23.4**
Services balance (percent of GDP)	**16.5**	**18.5**	**18.8**	**18.0**	**16.5**	**16.1**	**16.5**	**16.8**	**17.0**	**17.0**
Net imputed international reserves										
Millions of US dollars, end of period	168.5	235.3	308.7	353.6	379.6	397.1	415.3	432.4	449.5	467.7
Months of imports of goods and services	2.7	3.8	5.2	5.0	5.0	5.2	5.3	5.3	5.3	5.2
Percentage of demand liabilities	85.1	89.2	91.4	92.4	92.5	92.7	92.8	92.8	92.8	92.8
Gross external debt (percent of GDP)	93.6	90.2	82.5	83.0	83.8	85.3	86.6	87.8	89.0	89.9
Public sector	37.2	38.7	36.9	39.5	40.9	42.4	43.6	44.9	46.0	47.2
Private sector 1/	56.4	51.5	45.6	43.5	42.9	42.9	42.9	42.9	42.9	42.7
GDP (in US$ millions)	1,318	1,386	1,431	1,385	1,428	1,459	1,504	1,549	1,595	1,644

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

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

Table 4. St. Lucia: Monetary Survey, 2013–2017

	2013	2014	2015	2016	Projections 2017
			(In millions of EC dollars, end of period)		
Net foreign assets	-646.2	-305.2	268.4	452.6	474.6
Central bank	454.9	635.4	804.9	777.1	809.1
Commercial banks (net)	-1,101.0	-940.6	-536.5	-324.4	-334.5
Assets	906.8	985.2	1,226.2	1,281.5	1,321.4
Liabilities	-2,007.8	-1,925.8	-1,762.7	-1,606.0	-1,656.0
Net domestic assets	3,499.4	3,193.1	2,786.3	2,598.4	2,671.4
Public sector credit, net	-74.1	-199.1	-253.7	-160.3	-83.7
(real terms)	-64.3	-166.6	-217.9	-136.9	-71.0
Central government	308.0	257.2	226.7	285.2	351.7
Other public sector	-382.1	-456.3	-480.4	-445.5	-435.3
Private sector credit, net	4,051.4	3,778.6	3,522.9	3,353.8	3,353.8
(real terms)	3,514.1	3,161.5	3,026.4	2,864.1	2,845.6
Other items (net)	-464.4	-430.9	-478.5	-595.1	-598.7
Broad money (M2)	2,853.2	2,887.9	3,054.7	3,051.0	3,146.0
Money	687.6	738.5	764.1	801.9	826.8
Currency in circulation	160.0	154.9	153.9	141.0	145.4
Demand deposits	527.6	583.6	610.3	660.8	681.4
Quasi-money	2,165.6	2,149.5	2,290.6	2,249.1	2,319.1
Time deposits	443.8	369.5	387.7	389.2	401.4
Savings deposits	1,543.2	1,526.5	1,556.0	1,545.7	1,593.8
Foreign currency deposits	170.6	243.3	341.9	217.5	227.1
			(12-month percentage change)		
Net domestic assets	3.7	-8.8	-12.7	-6.7	2.8
Broad money (M2)	2.0	1.2	5.8	-0.1	3.1
NFA contribution	-2.5	12.0	19.9	6.0	0.7
NDA contribution	4.4	-10.7	-14.1	-6.2	2.4
Money	-0.6	7.4	3.5	4.9	3.1
NFA contribution	-15.5	26.3	23.0	-3.6	4.0
NDA contribution	14.9	-18.9	-19.5	8.6	-0.9
Quasi-money	2.8	-0.7	6.6	-1.8	3.1
			(In percent of GDP)		
Net foreign assets	-18.2	-8.2	6.9	12.1	12.3
Net domestic assets	98.3	85.3	72.1	69.5	69.3
Broad money (M2)	80.2	77.2	79.1	81.6	81.6
Money	19.3	19.7	19.8	21.4	21.4
Quasi-money	60.9	57.4	59.3	60.1	60.1
Interest rates (percent per year) 1/					
ECCB policy rate	6.50	6.50	6.50	...	...
US policy rate	0.13	0.13	0.13	...	...
Interbank market rate	6.45	6.03	6.48	...	...
Time deposit rate	3.74	2.69	2.43	...	...
Demand deposit rate	0.69	0.46	0.44	...	...
Weighted average lending rate	8.41	8.54	8.35	...	...

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

1/ End-of-period rates.

Table 5. St. Lucia: Banking System Summary Data, 2010–2016

	2010	2011	2012	2013	2014	2015	2016Q1	2016Q2	2016Q3	2016M10	2016M11
					(Percent of GDP)						
Balance Sheet											
Total assets	165.9	163.5	167.1	158.8	150.7	148.4	157.7	156.0	153.6	156.8	156.7
Gross loans	119.4	117.4	126.4	123.9	109.7	99.0	102.6	99.8	99.4	97.0	97.0
o/w NPLs	14.8	15.5	19.3	25.6	19.3	18.0	18.6	16.9	16.3		
Provisions for NPLs	3.4	5.6	7.3	10.9	8.7	8.7	9.1	8.4	8.8	7.9	8.2
Due from ECCB	6.9	6.6	7.8	6.8	12.1	14.1	15.5	15.9	14.6	15.0	15.6
Due from banks abroad	4.3	2.2	6.3	8.7	9.1	11.1	14.0	12.5	11.5	11.3	11.0
Total liabilities	160.0	157.8	161.2	153.0	145.2	143.1	152.2	150.5	146.8	151.2	151.2
Deposits	103.2	103.0	106.1	104.2	100.6	102.6	109.9	111.1	108.0	107.6	108.0
Deposits (FX)	5.7	6.7	7.8	8.2	9.8	11.5	12.5	11.7	11.1	11.0	11.1
Due to ECCB	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Due to banks abroad	12.0	14.7	16.3	14.4	13.1	9.8	10.0	10.2	9.8	9.8	9.6
Capital	5.9	5.7	5.9	5.8	5.5	5.3	5.5	5.5	6.8	5.5	5.5
					(Percent)						
Profitability											
Net interest income/total Income	41.5	41.2	51.2	45.8	49.8	49.9	50.0	49.6	52.0		
Net non-interest income/total income	16.7	17.9	9.7	3.1	-1.2	2.9	5.9	-6.6	-0.4		
Operating expenses/Total income	41.8	40.8	39.2	51.1	51.3	47.3	44.1	57.1	48.4		
Provisions/total income	43.1	74.8	32.6	71.3	52.3	52.5	33.3	25.7	61.6		
Gross profits/total income	15.2	-15.7	28.2	-22.4	-3.6	0.3	22.6	17.2	-10.0		
Interest spread	0.9	0.9	1.0	0.9	1.1	0.9	0.9	0.9	1.0		
ROAE	1.5	-1.1	2.3	-2.3	1.8	-2.9	1.9	-6.7	-11.2		
ROAA	0.3	-0.3	0.5	-0.4	-0.1		0.4	0.3	-0.2		
Capital Adequacy											
CAR	20.0	18.5	17.0	12.8	12.6	12.0	12.5	11.3	12.9		
T1R	18.2	16.8	15.1	11.5	11.2	11.2	11.2	9.4	11.1		
RWA/assets	77.8	69.8	82.5	80.9	77.5	72.4	70.3	66.3	67.5		
Asset Quality											
NPL ratio	12.4	13.2	15.3	20.6	17.6	18.2	18.1	16.9	16.4		
Provisions/NPL	23.2	36.2	37.9	42.5	45.1	48.2	49.0	50.0	54.4		
Past due/grossloans	5.2	4.4	4.9	3.0	3.1	2.7	2.9	2.5	1.9		
Net NPL/capital	38.5	28.6	34.6	127.8	94.0	86.6	89.5	98.9	72.3		
FX Risk											
FX assets/assets	17.4	16.6	18.2	18.7	16.1	14.7	15.7	14.4	14.0	13.7	13.4
FX liabilities/liabilities	14.1	16.1	16.9	16.9	17.7	16.6	16.4	16.1	15.9	15.3	15.3
NOP/capital	66.9	61.4	63.3	113.6	87.4	117.4	136.0	180.4	161.9		
Liquidity Risk											
Liquid assets/total assets		19.6	20.0	20.8	26.3	32.2	34.0	34.4	33.3	33.0	33.5
Liquidity coverage ratio		22.5	22.5	22.7	28.8	35.5	37.2	37.8	37.0	37.4	37.9
Liquid assets/total deposits		31.1	31.5	31.7	39.4	46.7	48.7	48.3	47.4	48.1	48.6
Funding Risk											
Core/non-core liabilities	191.8	198.0	203.3	224.9	237.9	266.0	273.5	295.8	296.5	259.5	262.9
Core/non-core liabilities (ECD)	258.4	282.4	292.3	326.6	335.2	341.3	345.5	391.7	392.0	325.4	328.9
Core/non-core liabilities (FX)	33.8	35.6	40.0	46.2	61.6	93.4	100.8	92.5	90.3	89.8	92.2
Costs of Funds	0.9	0.9	0.6	0.6	0.6	0.5	0.4	0.4	0.4		
Leverage and Concentration Risk											
LD ratio	115.8	114.0	119.2	119.0	109.0	96.5	93.3	89.8	92.0	90.2	89.8
LD ratio (ECD)	97.7	96.8	104.6	108.0	104.5	97.2	94.5	90.5	92.4	90.2	90.0
LD ratio (FX)	424.9	362.0	303.2	248.0	150.8	90.4	84.1	83.9	88.7	90.2	88.1
C1 borrower loan/capital ratio	1.7	27.2	24.1	41.2	23.1	27.3	27.1	30.9	27.9		
C1 sector loan/capital ratio	131.8	167.1	215.1	305.9	328.4	343.4	324.5	372.3	325.3		
Government assets/assets	13.6	11.9	11.4	10.5	10.9	11.6	11.9	12.8	11.9		
Government liabilities/liabilities	14.1	12.3	11.8	10.9	11.3	12.0	12.3	13.3	12.5		
Memo											
Nominal GDP (EOY)	3,353.1	3,457.7	3,506.8	3,558.7	3,742.7	3,864.1	3,739.3	3,739.3	3,739.3	3,739.3	3,739.3
Lending rate (% wa)	9.5	9.0	8.5	8.4	8.5	8.3	8.2	8.1	8.2		
Total deposits (% wa)	3.3	3.1	2.9	2.8	2.0	1.9	1.9	1.8	1.7		
ECCB's discount rate (%)	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5		

Sources: ECCB; and IMF staff estimates.

Table 6. St. Lucia: Selected Labor Market Indicators, 2010–2015

	2010	2011	2012	2013	2014	2015
Estimated household population (y-o-y % change)	0.5	1.5	0.6	2.2	-0.1	0.2
Population 15 years and over (y-o-y % change)	-3.1	3.8	2.1	3.3	-0.5	2.8
Unemployment rate (%)	20.6	21.2	21.4	23.3	24.4	24.1
o/w male	19.5	19.2	19.4	21.3	20.9	21.3
o/w female	22.0	23.3	23.6	25.5	28.4	27.4
Youth unemployment rate (%)	33.6	35.3	33.9	39.6	41.8	41.0
Labor force (% of total population)	51.5	53.6	55.9	56.5	57.0	58.8
Labor force participation rate (%)	67.9	69.1	71.0	71.0	71.9	72.2
Wages (EC$, annual average)	18275	18628	19538	20084	20853	21281
o/w public	21786	22439	23365	24171	25663	24949

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

Annex I. Risk Assessment Matrix

Source and direction of risks	Likelihood	Impact	Policy response
Global/External			
Persistent U.S. dollar strength (↓) The dollar may rise more than expected, reflecting improving U.S. economic prospects. This would lead to real effective appreciation in St. Lucia, undermining competitiveness.	High	Medium /Low	Address cost competitiveness by public sector wage restraint, which may signal to the private sector; lower energy prices; and mitigate other bottlenecks that weigh on businesses.
Fall in tourism inflows (↓) • Policy uncertainty in the U.S. and Europe could lead to rising global imbalances and exacerbate exchange rate and capital flow volatility, with a negative impact on global tourism flows. • Structurally weak growth in key AEs and EMs may reduce tourist demand in the medium term.	High/ Medium	High	Increase efforts to diversify the economy and reduce its dependence on tourism. Take action to address cost and structural competitiveness disadvantages; work with the private sector to foster diversified tourism markets.
Stronger tourism-related FDI (↑) More-than-expected projects in the pipeline may materialize.	Medium	High	Use the additional revenues generated by higher growth to offset the impact of tax cuts on the fiscal balance and to ensure debt sustainability.
Domestic			
Design and implementation of appropriate macroeconomic and structural policies (↑) Appropriately designed policies are successful in addressing fiscal and external vulnerabilities and enhancing growth potential.	Medium	High	
Disorderly fiscal adjustment (↓) In the absence of adequate fiscal correction, tightening financial conditions can force an abrupt fiscal adjustment.	Low	High	Promptly implement adequate fiscal adjustment to offset the impact of tax cuts on the fiscal balance and to ensure debt sustainability.
Financial sector instability (↓) Commercial banks continue to report high NPLs and weak earnings.	Medium	High	Promptly implement remaining elements of the ECCU strategy to strengthen indigenous banks.
Natural disasters (↓) Larger or more frequent events than the historical average hit St. Lucia.	Medium	High	Build buffers and optimize insurance policies, with the assistance of the World Bank.

The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex II. Implementation of Previous Staff Advice

Recommendations	Policy Actions
Growth Agenda	
Prompt implementation of the renewable energy initiatives, improve energy efficiency, revisit allowable rate of return to electricity supplier.	The government has partnered with the World Bank and Clinton Initiative towards this objective.
Continued modernization of port operations and customs, fully automating registration system and implementing more flexible schedule for port operations.	Some progress in customs operations and framework agreed with trade unions on more flexible working hours.
Lower the cost of doing business, especially the difficulties in obtaining credit and registering property by reforming foreclosure legislation, bankruptcy procedures, and property registration.	St. Lucia has started a program of reforms to improve the business climate under the Caribbean Growth Forum. However, it declined eight positions in the 2017 Doing Business Ranking, mainly reflecting a major decline in Getting Electricity, but also due to declines in Getting Credit and Resolving Insolvency.
Strengthen and expand tertiary education by: (i) effective technical and vocational training; (ii) expanding training component of employment programs; (iii) increasing provisions for tertiary and continuing education; (iv) improving performance measurement; and (v) monitoring labor market needs.	Implemented a system to monitor labor market demand.
Fiscal Policy	
Introduce a four-year adjustment equivalent to 3.3 percentage points of GDP based on reducing in customs tax expenditures, anchoring wage growth to CPI inflation, attrition, reduction in non-essential transfers and subsidies, and reprioritizing capital projects.	The wage bill is projected to decline by 0.3 percentage points by 2016 amidst tight wage control. Other recommended adjustment measures were not implemented.
Incorporate disaster recovery in fiscal planning.	The new draft PFM bill requires a fiscal statement, including fiscal risks, to be submitted to parliament.
Financial Sector	
Implement remaining elements of the regional strategy for bank resolution, including the legislation on the asset management corporation (ECAMC).	St. Lucia and all ECCU jurisdictions have approved a new Banking Act and the ECAMC.
Continue with the regional strategy to strengthen the ECCU banking system.	ECCB intervened three insolvent banks in Anguilla and Antigua and Barbuda.
Expediently reform foreclosure and insolvency legislation.	A new insolvency law is being prepared.
Adoption of the regionally harmonized credit union legislation.	Not implemented.
Development of new insurance framework to improve regulation and mitigate risk in the insurance sector.	Work on the new legislation has started, but lack of political support is causing delays.
Continue efforts to implement risk-based supervision and Basel II regulation for banks and non-banking financial institutions.	In progress.
Remove savings deposit floor.	Not implemented.

Annex III. Debt Sustainability Analysis[1]

Public debt is unsustainable under the baseline scenario as projected debt levels and government financing needs are well above benchmark levels and increase throughout the projection period. Market access for long-term financing has recently improved, but this could easily change in the absence of stronger policies.

A. Background

1. **St. Lucia's debt has been increasing rapidly over the last two decades.** The dramatic rise in public debt began around the time the traditional banana industry collapsed in the mid-1990s and was aggravated by the impact on tourism of the 9/11 terrorist attacks and the global financial crisis. Thus, between FY1996/97 and FY2014/15, public debt rose from 28 to 79 percent of GDP. Public debt as a share of GDP actually declined slightly in FY 2015/16 as a result of improved fiscal performance.

2. **Central government obligations constitute the largest component of St. Lucia's public debt and have been rising over time.** These obligations include market-based securities, commercial bank bonds and loans, bilateral and multilateral debt, loans from the national insurance scheme (NIC), overdraft facilities, and outstanding payables. Public debt also includes government-guaranteed loans from domestic commercial banks and multilateral institutions to statutory enterprises. While central government debt has increased, government-guaranteed debt has declined in recent years.

3. **Despite having access to concessional forms of project financing, the majority of St. Lucia's debt is market-based and used for general budget financing.** Bilateral and multilateral debt amounts to one quarter of total public debt, with the Caribbean Development Bank as the largest creditor. In contrast, the remaining three-quarters of St. Lucia's debt instruments have been issued on commercial terms, of which 35 percent through the ECCU Regional Government Securities Market (RGSM). Other sources are the Trinidad and Tobago securities exchange, the Eastern Caribbean Securities Exchange, other private placements, and bonds and loans issued directly to the NIC.

[1] The analysis of public debt sustainability is based on the framework developed for market access countries. See *Staff Guidance Note for Public Debt Sustainability Analysis in Market Access Countries,* IMF, May 2013.

4. **Central government debt is fairly balanced between domestic and external creditors (52 and 48 percent, respectively by end-December 2016).** Within domestic debt, non-bank financial institutions (including the NIC) and commercial banks hold the largest shares.

B. Public Debt Sustainability Analysis

5. **Staff's baseline scenario continues to project an unsustainable debt burden.** Under the baseline macroeconomic framework increasing public debt affects investors' appetite for St. Lucia's debt instruments, thus leading to a gradual reduction in financing for public investment starting in FY 2018/19. Despite this financing constraint, public debt would continue to rise, reaching 95.6 percent of GDP by FY 2021/22 and 112.8 percent of GDP by FY2030/31, thus missing the 2030 debt target of 60 percent of GDP. As mentioned earlier in this staff report, the staff-proposed adjustment would result in a continued decline in public debt, reaching 60 percent of GDP by 2030 as intended by the authorities.

6. **Under DSA adverse shock scenarios, the baseline debt path becomes even less sustainable (see Figure A5).** The growth shock, which simulates a one standard deviation adverse shock to real GDP growth over 2016-17, has the most severe outcome among the single shock scenarios, with public debt reaching 103.3 percent of GDP by FY2021/22. Other adverse shock scenarios affect significantly the path of public debt. It is worth noting that the risk posed by an exchange rate shock is mitigated by the near-currency-board arrangement for the Eastern Caribbean dollar. Under the combined macro-fiscal shock public debt would reach 112.4 percent of GDP by FY2020/21. On the other hand, an alternative scenario taking into account staff's recommended adjustment policies would gradually reduce financing needs and the debt-to-GDP-ratio.

C. External Debt Sustainability Analysis

7. **Under the baseline scenario, external debt is projected to increase gradually reflecting the expected increase in public debt.** External debt is projected to reach 89 percent of GDP by 2021, up from 83 percent in 2016. Furthermore, the external debt path remains vulnerable to potential adverse shocks. Were key variables to remain at the historical levels seen in the aftermath of the Global Financial Crisis, external debt would be on an upward trajectory reaching 146 percent of GDP by 2021. The adverse shock scenarios also suggest vulnerability— under the growth, interest rate, current account, and combined shock scenarios, external debt rises throughout the forecast period. The most severe effects are observed under the real exchange rate depreciation scenario, which would result in a step increase in external debt to around 124 percent of GDP in the year of

the shock and reaching 132 percent by 2021. The vulnerability suggested by this scenario is mitigated by the regional central bank's near-currency board-arrangement.

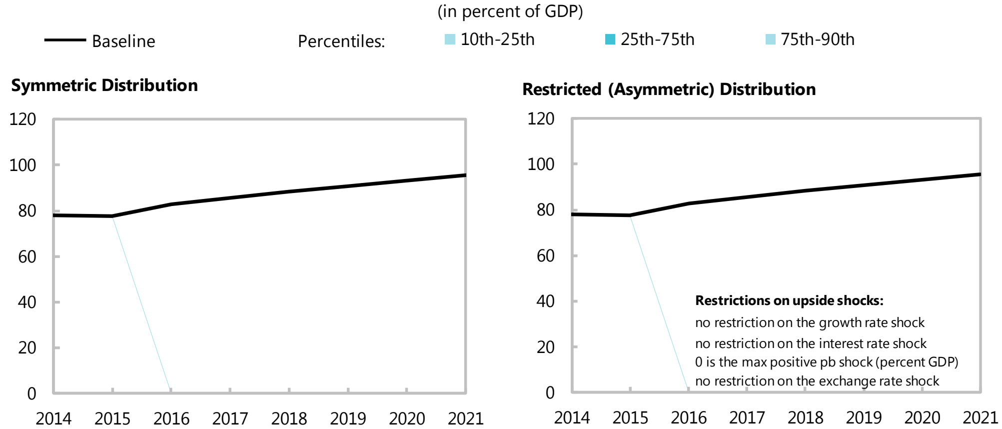
Figure A1. St. Lucia: Public DSA Risk Assessment

Heat Map

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

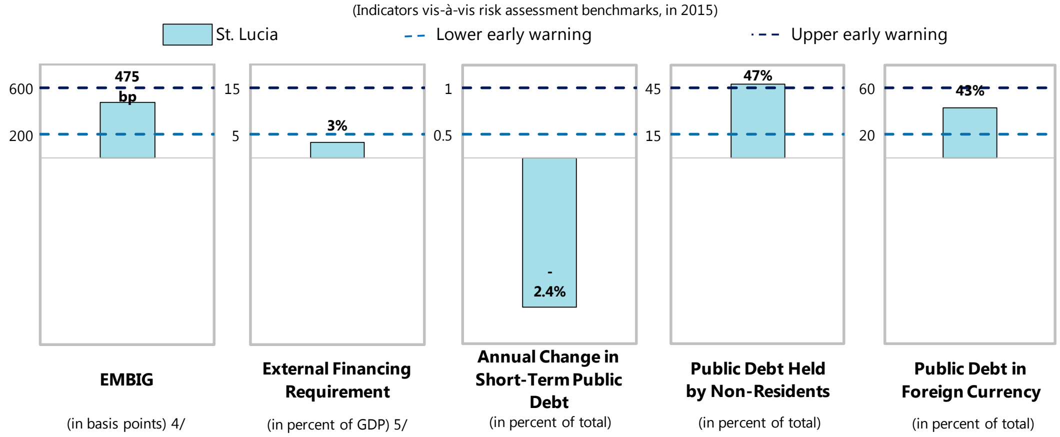
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2015)



Source: IMF staff.

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

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

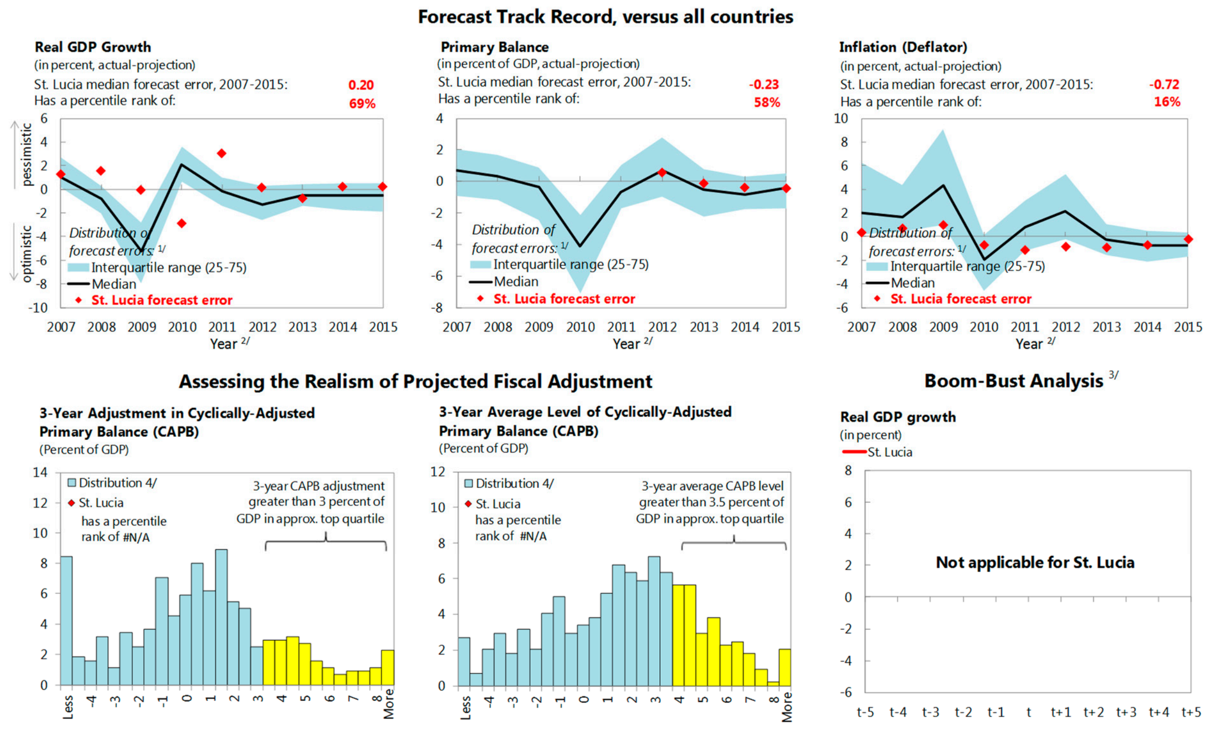
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant,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

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

4/ EMBIG, an average over the last 3 months, 26-Oct-16 through 24-Jan-17.

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

Figure A2. St. Lucia: Public DSA – Realism of Baseline Assumptions



Source : IMF Staff.

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

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

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

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

Figure A3. St. Lucia: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(In percent of GDP, fiscal-year basis, unless otherwise indicated)

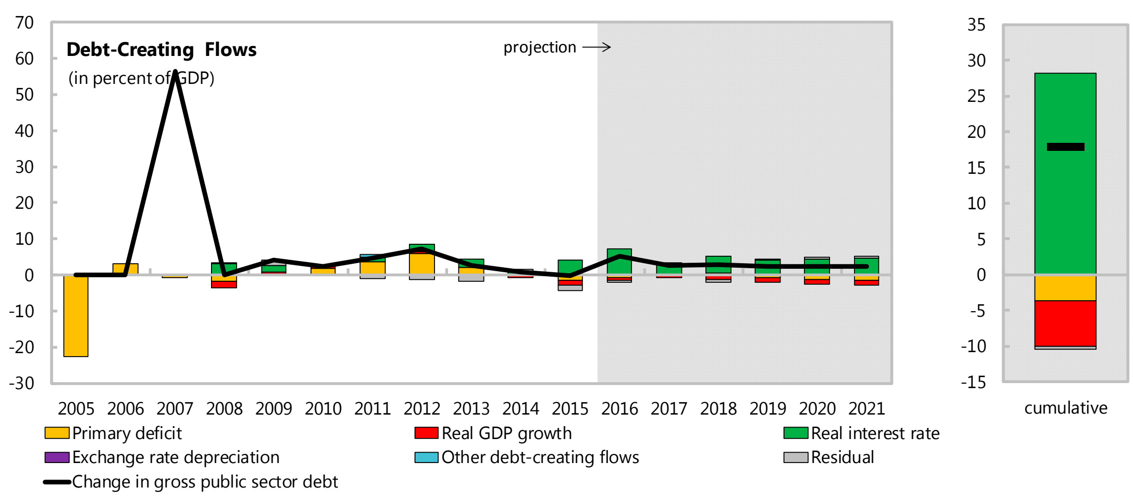
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2005-2013 [2/]	2014	2015	2016	2017	2018	2019	2020	2021
Nominal gross public debt	50.5	78.1	77.8	82.9	85.6	88.6	90.9	93.3	95.6
Of which: guarantees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public gross financing needs	8.2	16.4	12.2	25.3	22.9	38.5	35.1	45.3	47.8
Real GDP growth (in percent)	0.9	0.7	1.6	0.7	0.7	1.5	1.5	1.5	1.5
Inflation (GDP deflator, in percent)	3.5	3.9	0.0	-2.4	2.1	0.9	1.5	1.5	1.5
Nominal GDP growth (in percent)	4.4	4.7	1.6	-1.7	2.9	2.4	3.0	3.0	3.0
Effective interest rate (in percent) [4/]	5.1	5.2	5.4	6.6	6.1	6.3	6.4	6.6	6.6

As of January 24, 2017		
Sovereign Spreads		
EMBIG (bp) 3/		482
5Y CDS (bp)		258
Ratings	Foreign	Local
Moody's	n.a.	n.a.
S&Ps	n.a.	n.a.
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	8.6	0.9	-0.3	5.2	2.7	3.0	2.4	2.3	2.3	17.8	
Identified debt-creating flows	3.8	0.3	1.3	5.7	2.6	3.9	2.1	2.0	1.8	18.1	
Primary deficit	-0.9	-0.1	-1.5	-0.8	-0.1	0.6	-0.8	-1.1	-1.5	-3.7	3.2
Primary (noninterest) revenue and gra	24.9	25.7	27.0	28.0	27.2	27.2	27.2	27.3	27.3	164.3	
Primary (noninterest) expenditure	24.0	25.6	25.5	27.1	27.2	27.8	26.4	26.2	25.9	160.6	
Automatic debt dynamics [5/]	1.7	0.4	2.8	6.6	2.6	3.3	2.9	3.2	3.2	21.8	
Interest rate/growth differential [6/]	1.7	0.4	2.8	6.6	2.6	3.3	2.9	3.2	3.2	21.8	
Of which: real interest rate	1.7	0.9	4.0	7.2	3.2	4.5	4.2	4.5	4.6	28.2	
Of which: real GDP growth	0.0	-0.5	-1.2	-0.6	-0.6	-1.2	-1.3	-1.3	-1.4	-6.4	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Government and Public Sector Finan	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euro	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	-0.3	0.6	-1.7	-0.6	0.1	-0.9	0.2	0.3	0.5	-0.3	



Source: IMF staff.

1/ Public sector is defined as central government and includes public guarantees, defined as .

2/ Based on available data.

3/ EMBIG.

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

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

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

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

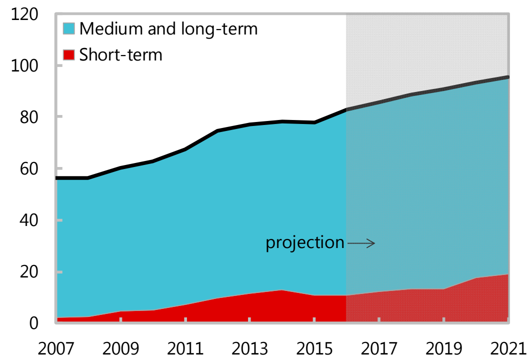
8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

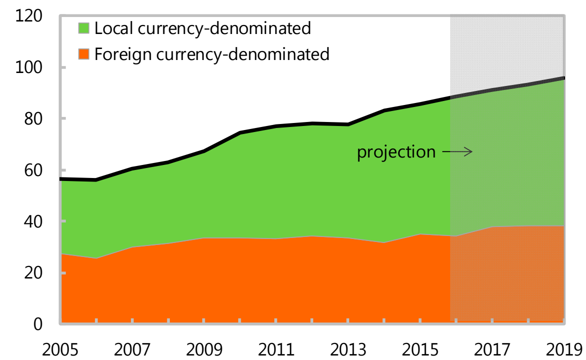
Figure A4. St. Lucia: Public DSA-Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



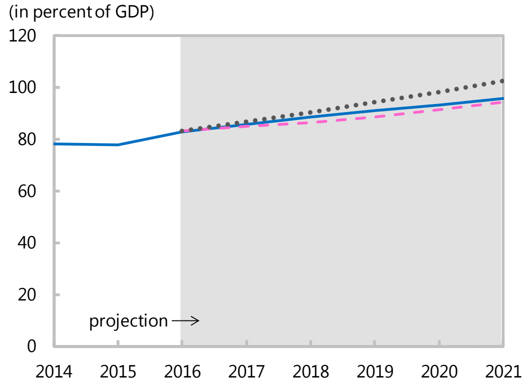
By Currency
(in percent of GDP)



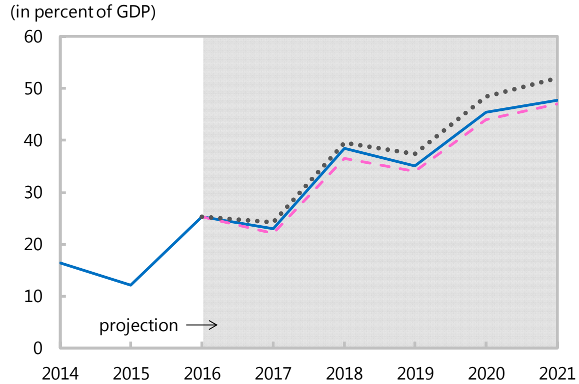
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

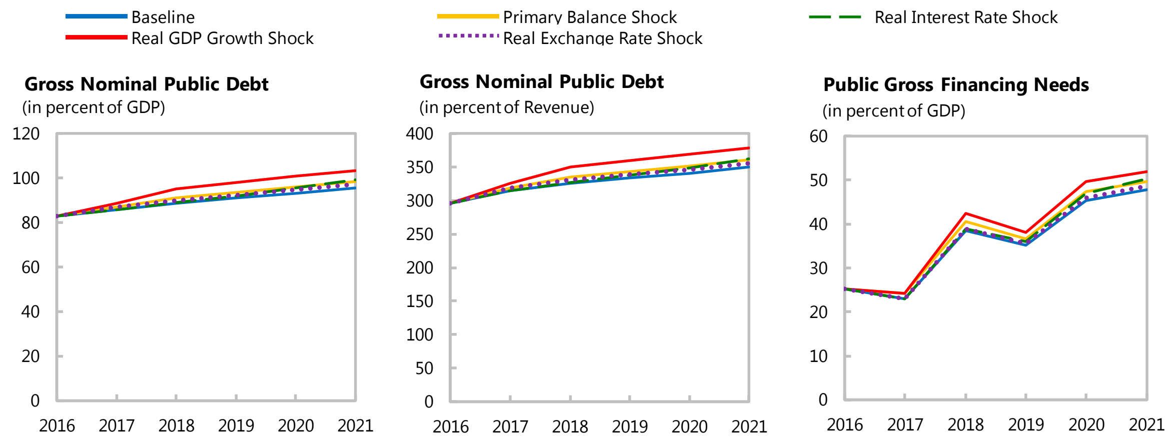
Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	0.7	0.7	1.5	1.5	1.5	1.5
Inflation	-2.4	2.1	0.9	1.5	1.5	1.5
Primary Balance	0.8	0.1	-0.6	0.8	1.1	1.5
Effective interest rate	6.6	6.1	6.3	6.4	6.6	6.6
Constant Primary Balance Scenario						
Real GDP growth	0.7	0.7	1.5	1.5	1.5	1.5
Inflation	-2.4	2.1	0.9	1.5	1.5	1.5
Primary Balance	0.8	0.8	0.8	0.8	0.8	0.8
Effective interest rate	6.6	6.1	6.3	6.5	6.6	6.6

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	0.7	0.9	0.9	0.9	0.9	0.9
Inflation	-2.4	2.1	0.9	1.5	1.5	1.5
Primary Balance	0.8	-1.3	-1.3	-1.3	-1.3	-1.3
Effective interest rate	6.6	6.1	5.7	5.1	4.9	4.8

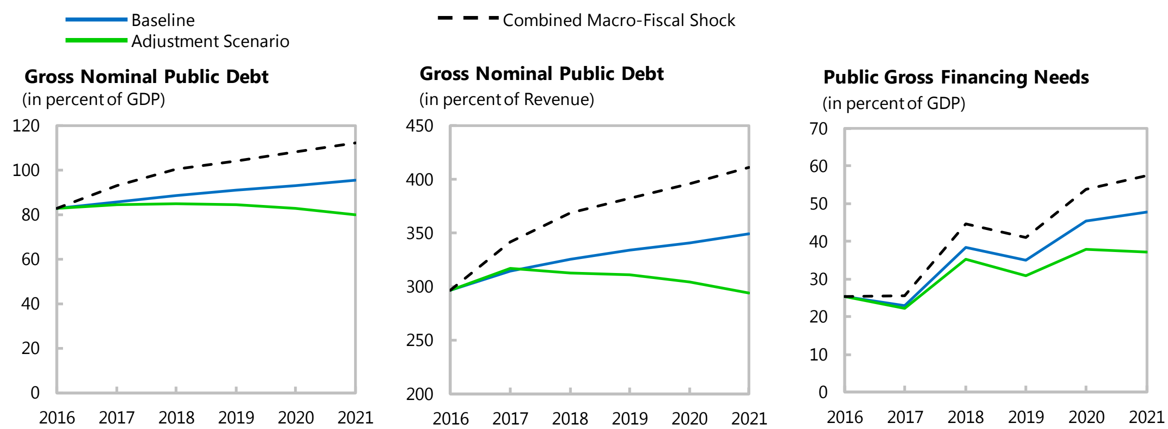
Source: IMF staff.

Figure A5. St. Lucia: Public DSA-Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	0.7	0.7	1.5	1.5	1.5	1.5
Inflation	-2.4	2.1	0.9	1.5	1.5	1.5
Primary balance	0.8	-1.2	-1.8	0.8	1.1	1.5
Effective interest rate	6.6	6.1	6.4	6.6	6.6	6.6
Real Interest Rate Shock						
Real GDP growth	0.7	0.7	1.5	1.5	1.5	1.5
Inflation	-2.4	2.1	0.9	1.5	1.5	1.5
Primary balance	0.8	0.1	-0.6	0.8	1.1	1.5
Effective interest rate	6.6	6.1	6.7	7.4	7.7	7.8
Combined Shock						
Real GDP growth	0.7	-1.3	-0.6	1.5	1.5	1.5
Inflation	-2.4	1.6	0.4	1.5	1.5	1.5
Primary balance	0.8	-1.2	-2.0	0.8	1.1	1.5
Effective interest rate	6.6	6.4	6.7	7.4	7.7	7.8

Real GDP Growth Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	0.7	-1.3	-0.6	1.5	1.5	1.5
Inflation	-2.4	1.6	0.4	1.5	1.5	1.5
Primary balance	0.8	-0.6	-2.0	0.8	1.1	1.5
Effective interest rate	6.6	6.1	6.3	6.6	6.6	6.6
Real Exchange Rate Shock						
Real GDP growth	0.7	0.7	1.5	1.5	1.5	1.5
Inflation	-2.4	5.1	0.9	1.5	1.5	1.5
Primary balance	0.8	0.1	-0.6	0.8	1.1	1.5
Effective interest rate	6.6	6.4	6.3	6.4	6.6	6.6

Source: IMF staff.

Table A1. St. Lucia: External Debt Sustainability Framework, 2011-2021

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2011	2012	2013	2014	2015	10-Year Historical Average	10-Year Standard Deviation	2016	2017	2018	2019	2020	2021	Debt-stabilizing non-interest current account 6/
Baseline: External debt	85.9	91.6	93.6	90.2	82.5			**83.0**	**83.8**	**85.3**	**86.6**	**87.8**	**89.0**	**7.2**
Change in external debt	5.9	5.8	1.9	-3.4	-7.6			0.4	0.9	1.5	1.2	1.2	1.2	
Identified external debt-creating flows (4+8+9)	22.9	17.9	16.8	10.8	6.2			12.9	15.2	15.0	14.7	14.8	14.8	
Current account deficit, excluding interest payments	17.8	12.1	9.6	7.4	1.2			4.9	6.9	7.2	6.7	6.5	6.4	
Deficit in balance of goods and services	19.0	11.4	9.7	8.0	1.8			5.3	7.2	7.4	6.8	6.5	6.3	
Exports	44.7	46.5	46.1	45.6	46.3			44.4	43.5	43.1	43.6	43.8	44.0	
Imports	63.7	57.9	55.9	53.6	48.1			49.8	50.6	50.5	50.4	50.4	50.4	
Net non-debt creating capital inflows (negative)	6.3	5.7	7.0	6.5	6.5			6.8	6.8	7.0	7.1	7.1	7.2	
Automatic debt dynamics 1/	-1.2	0.2	0.2	-3.1	-1.5			1.1	1.5	0.8	1.0	1.1	1.2	
Contribution from nominal interest rate	1.2	1.4	1.5	1.5	1.4			1.8	1.9	2.0	2.2	2.4	2.5	
Contribution from real GDP growth	-0.2	1.2	-0.1	-0.3	-1.6			-0.7	-0.4	-1.2	-1.2	-1.3	-1.3	
Contribution from price and exchange rate changes 2/	-2.2	-2.4	-1.3	-4.3	-1.2			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-16.9	-12.2	-14.8	-14.2	-13.8			-12.5	-14.3	-13.5	-13.5	-13.5	-13.6	
External debt-to-exports ratio (in percent)	192.0	197.2	203.0	197.7	178.4			186.7	192.9	197.9	198.8	200.4	202.1	
Gross external financing need (in billions of US dollars) 4/	0.3	0.2	0.2	0.1	0.1			0.1	0.2	0.2	0.2	0.2	0.2	
in percent of GDP	20.1	14.8	12.6	10.3	3.9			8.5	10.6	11.3	11.1	11.3	11.4	
Scenario with key variables at their historical averages 5/								**83.0**	**95.9**	**108.1**	**120.8**	**133.4**	**145.6**	**8.0**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	0.2	-1.4	0.1	0.4	1.8	1.1	2.6	0.8	0.5	1.5	1.5	1.5	1.5	
GDP deflator in US dollars (change in percent)	2.9	2.9	1.4	4.8	1.4	3.1	2.8	-4.0	2.6	0.7	1.5	1.5	1.4	
Nominal external interest rate (in percent)	1.5	1.6	1.7	1.7	1.6	1.8	0.4	2.1	2.3	2.5	2.7	2.8	3.0	
Growth of exports (US dollar terms, in percent)	-5.9	5.4	0.7	4.0	4.7	2.7	9.1	-7.0	0.8	1.4	4.1	3.6	3.5	
Growth of imports (US dollar terms, in percent)	3.7	-7.9	-2.1	0.9	-7.4	2.2	12.8	0.2	4.8	1.9	2.8	3.0	3.0	
Current account balance, excluding interest payments	-17.8	-12.1	-9.6	-7.4	-1.2	-15.6	9.4	-4.9	-6.9	-7.2	-6.7	-6.5	-6.4	
Net non-debt creating capital inflows	-6.3	-5.7	-7.0	-6.5	-6.5	-11.3	6.6	-6.8	-6.8	-7.0	-7.1	-7.1	-7.2	

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

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

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

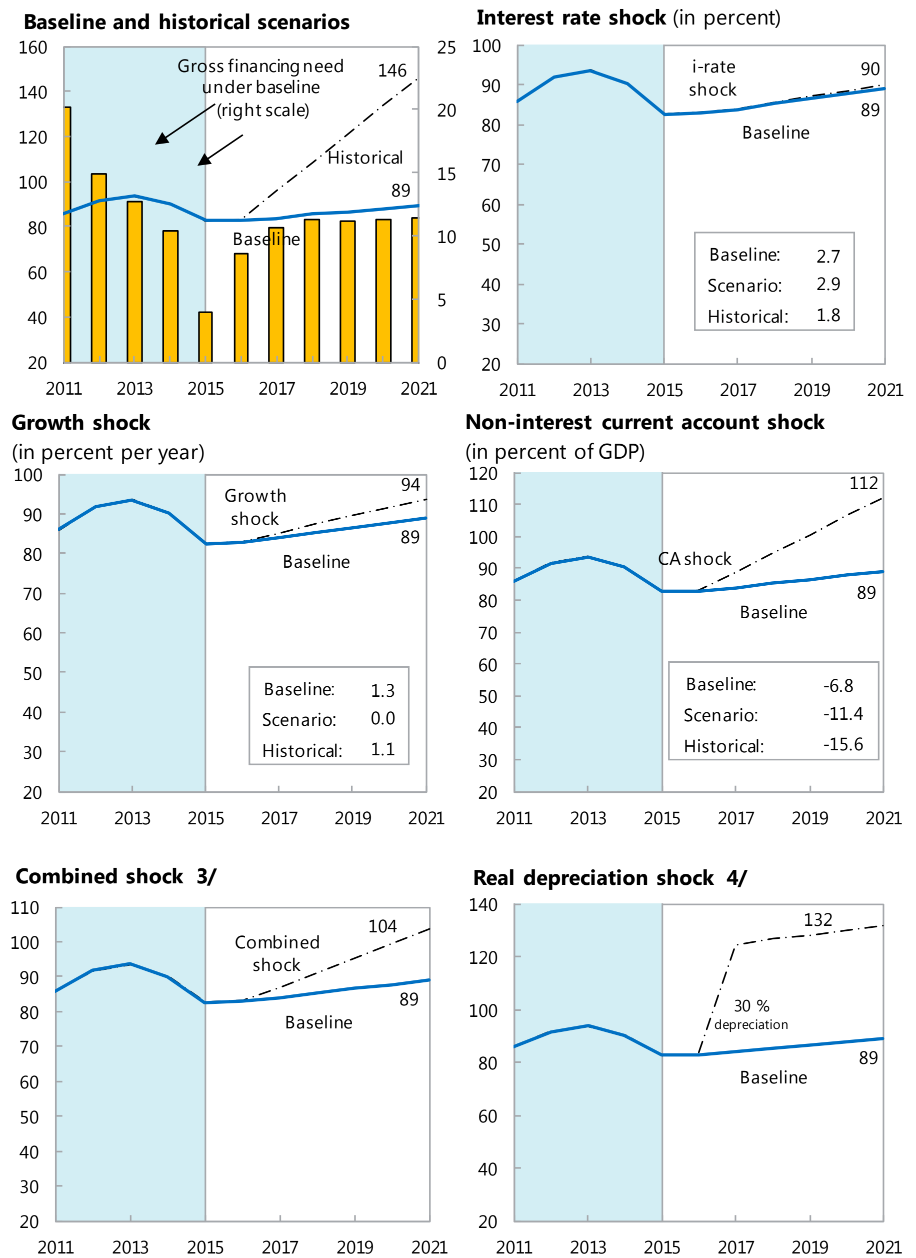
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

Figure A6. St. Lucia: External Debt Sustainability: Bound Tests 1/ 2/

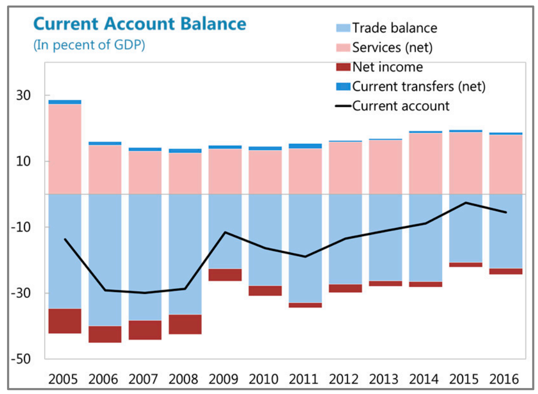
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2010.

Annex IV. External Sector Assessment

St. Lucia's external position is weaker than implied by fundamentals and desirable policies. The estimated current account gap is -1.4 percent of GDP and the EBA-lite methodology suggests an overvaluation of the real effective exchange rate of about 5 percent. However, St. Lucia needs to address its considerable structural weaknesses in order to boost competitiveness. Measures targeted at improving the business environment, removing labor market rigidities, and diversifying the export base would not only boost income, but also make the economy more resilient to natural disasters, which disproportionately weigh on the traditional sectors such as agriculture and tourism.



1. **St. Lucia's current account (CA) balance has improved in recent years, but a deterioration is expected in 2016.** After a long stretch of double digit deficits, the external balance started improving in 2011 on account of rising tourism receipts and favorable movements in commodity prices. The 2015 CA estimate has been recently revised upward to -2.6 percent of GDP owing to a better than expected outturn in tourist arrivals —particularly from the United States— and a smaller than anticipated deficit in trade in goods. For 2016, staff estimates a deficit of -6.7 percent on account of underperforming exports and a 5 percent drop in tourist expenditures.[1]

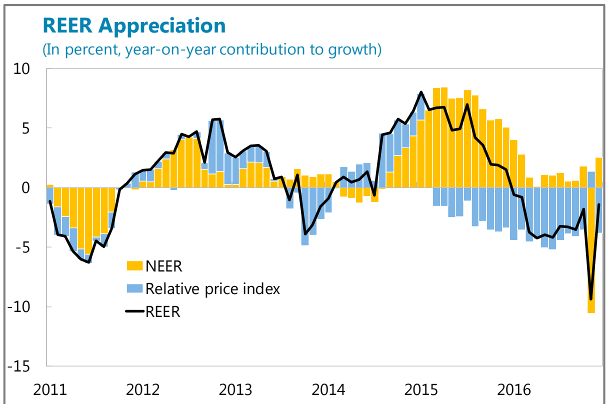
2. **Based on the EBA-lite methodology, the CA deficit in 2016 is wider than implied by medium-term fundamentals and desirable policies**. The CA-regression approach of the EBA-lite methodology yields a CA norm of -5.4 percent of GDP, implying a CA gap in of about -1.4 percent of GDP in 2016 and an overvaluation of the effective exchange rate of about 5 percent. The results of the EBA-lite REER model point to an overvaluation of the same magnitude. However, high unemployment and low output growth point to a deeper competitiveness problem.

[1] Staff projections are based on data compiled using the BPM5 methodology. The authorities are currently working on transitioning to the BPM6 methodology while simultaneously improving the quality of balance of payments statistics through broader coverage and methodological enhancements. Revised balance of payments data for 2014 and 2015 are expected to be released in 2017. Provisional data for 2014 point to a substantial improvement of the current account balance resulting from enhanced estimates of travel credits.

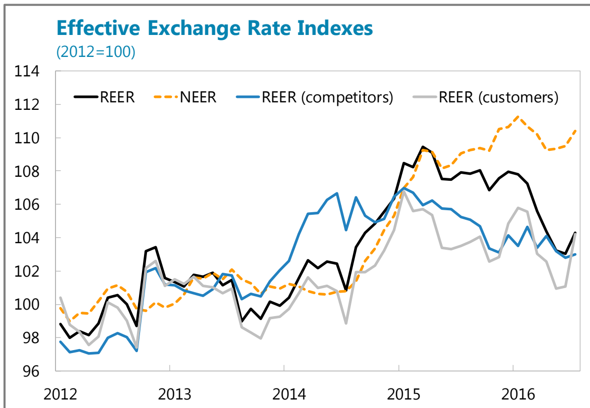
St. Lucia Exchange Rate Assessment EBA-lite Model Estimates (2016 in percent)						
	Current Account Norm	Actual Current Account Balance	Current Account Gap	REER Gap 1/	Policy Gap	Residual
CA Regression	-5.4	-6.7	-1.4	5.0	-0.6	-0.7
REER Regression				5.0		

Source: IMF staff estimates and calculations.

1/ Positive number indicates overvaluation.



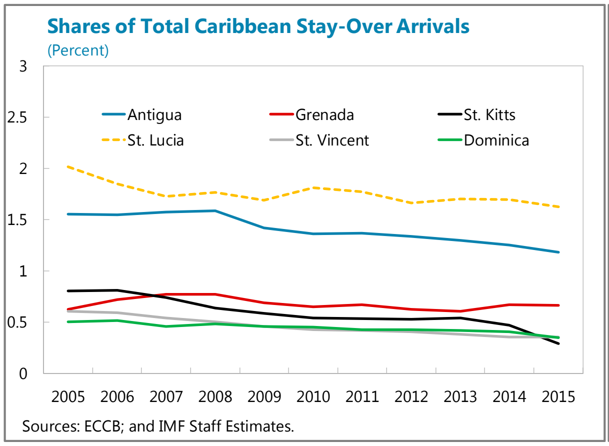
Sources: INS Database; and IMF Staff Estimates.

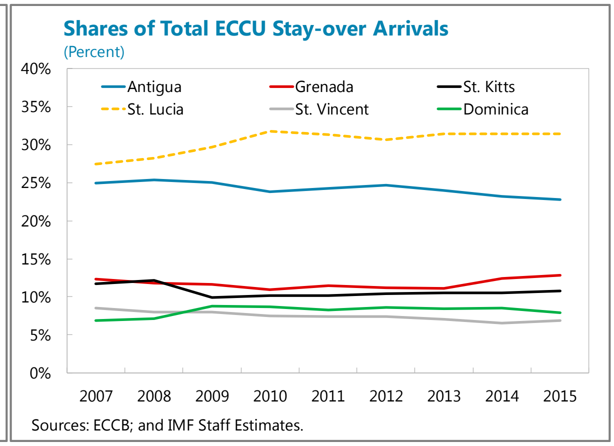


Sources: INS Database; and IMF Staff Estimates.

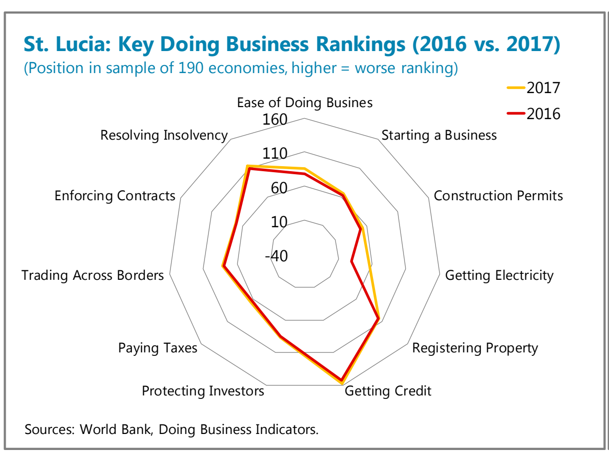
3. **After a few years of steady appreciation, the REER has weakened since mid-2015**. The real effective exchange rate had been steadily appreciating since 2011, mostly on account of the nominal appreciation of the U.S. dollar to which the E.C. dollar is pegged. Some depreciation was recorded beginning in the second half of 2015, driven mostly by the inflation differential. The effect of a depreciation, however, is likely to be limited owing to the very narrow export base and to the low price elasticity of tourism, which reflects St. Lucia's focus on high end tourism.

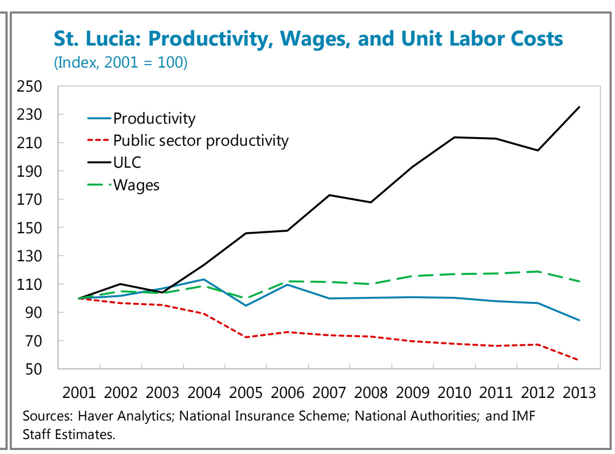
4. **Tourism performed strongly in recent years, but a slowdown was experienced in 2016.** After the loss of preferential access of the banana industry to the European markets, the agricultural sector gradually declined over the last two decades and tourism became St. Lucia's most important export sector. With a share of about 32 percent of total stay-over arrivals, St. Lucia is the largest tourist destination in the ECCU, but its market share has recently declined. In 2016 the tourism sector underperformed, recording no growth in stay-over arrivals and a large drop in cruise-ship visitors as well as tourist expenditures. To boost the attractiveness of the island, the government is negotiating with foreign investors to add new resorts in the medium term. On the other hand, the planned increase in the airport tax might adversely affect tourist arrivals.





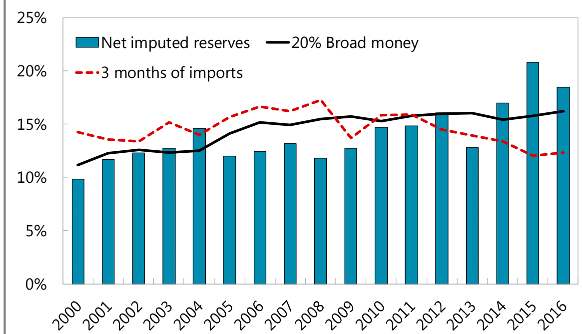
5. **Due to structural weaknesses, the CA deficit is expected to widen gradually over time**. Over the medium term, the current account deficit is projected to return to double digits, reflecting gradually rising commodity and fuel prices, higher FDI-related import growth, and structural weaknesses constraining productivity, export growth, and the diversification potential. Being a small island economy, St. Lucia suffers economies of scale disadvantages, which make any attempts to diversify the production base challenging. However, a more diversified export base could help boost income, and protect the country from fluctuations caused by external shocks and natural disasters, and by the seasonal nature of tourism. To increase competitiveness, St. Lucia needs to address a number of structural weaknesses. According to the latest edition of the Doing Business Indicators of the World Bank, the country's overall ranking has dropped from 78 to 86 in 2017. The report highlighted high export and import costs as one of St. Lucia's notable weaknesses. Energy and transport costs are also high while access to credit is limited. High unit labor costs and a marked disconnect between wages and productivity —partly reflecting the large share of public sector employment and strong unions— are further weighing on St. Lucia's external competitiveness**.**





6. **Imputed net international reserves held at the ECCB remain above the reserve adequacy thresholds.** As a member of the ECCU, reserve adequacy is assessed based on the net imputed reserves held at the ECCB. The reserve coverage of about 18 percent of GDP in 2016 corresponds to about 5 months of imports and 23 percent of broad money, exceeding the benchmarks of 3 months and 20 percent, respectively.

Foreign Currency Reserves and Adequacy Thresholds
(Percent of GDP)

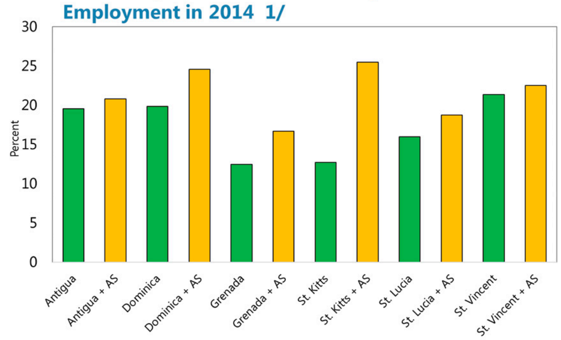


Sources: Country Authorities; and IMF Staff Estimates.

Annex V. Government Wage Bill in the Caribbean[1]

1. **In ECCU countries, the government wage bill is the largest expenditure outlay and governments are the largest employers.** In St. Lucia, the wage bill rose to 34 percent of total expenditure in 2015, considerably above the 27 percent average for Emerging Market and Middle-Income Economies. As in other ECCU countries, the public sector is the single largest employer in St. Lucia, accounting for 13 percent of total employment in the island, and for approximately a fifth when including apprenticeship schemes.

Public Employment as a Percentage of Total Employment in 2014 1/



1/ AS stands for Apprenticeship Schemes.

2. **Several reasons explain the high wage bill and public sector employment in the ECCU and St. Lucia**. Indeed, there are several historical, structural, and policy related factors behind this:

- Historically, ECCU governments expanded in the post-independence period to support economic and social development. New ministries and departments were created for this purpose.

- Providing public services has fixed costs, so the cost per capita in small countries is higher and the civil service larger in relation to the size of the economy.

- Wage setting is governed by collective bargaining with very strong and active trade unions across the ECCU. This situation is more prevalent within the public sector where trade union density is highest.

- Schemes such as incremental pay progression and promotions and retroactive wage negotiations have delinked wages from productivity. This was most evident in the last downturn following the Global Financial Crisis, when the wage bill increased by 3 percent per annum over the period 2009-2012 while GDP was falling.

[1] Prepared by Gonzalo Salinas, based on James, Ronald and Wayne Mitchell, "Government Employment and Wage Bill in the ECCU Member Countries, IMF Working Paper, forthcoming.

- Governments find it politically difficult to reduce public employment during economic downturns when unemployment is high and social safety nets are insufficient.

3. **These reasons also explain the large wage increases experienced by St. Lucia in recent years.** With the exception of the wage freeze during 2013-2016, wage increases averaging 3 percent annually have been granted since 2008. Furthermore, the retroactive approach to wage negotiations could lead to substantial increases in the wage bill in subsequent years, which are inconsistent with forward-looking fiscal targets.

4. **Wages have been generally high in the ECCU and St. Lucia relative to peer countries.** World Bank (2005) provides a comparison of wages paid to different job positions (including in occupations that are relevant to the public sector such as teachers, nurses, and clerks) [2]. The report shows that wages are higher in the ECCU than in other Caribbean, upper middle income countries and microstates. The combination of high wages with persistently high unemployment suggests that labor markets do not function efficiently.

5. **The composition of the civil service may not be optimal in ECCU countries.** Severe shortages of skilled labor across the region, aggravated by a large brain drain, are reflected in a small share of middle and senior technical staff in the core civil service. There is also a similar shortage of doctors in the public health system. On the other hand, the public service seems to have more than enough teachers and nurses with very high teacher-to-student ratios relative to comparator countries, although educational outcomes are not satisfactory. World Bank (2005) observes that St. Lucia, while having a more adequate supply of secondary graduates than Guyana or the Dominican Republic, suffers from the most severe shortages with respect to post-secondary and university educated workers. In the World Bank assessment, there is scope in the ECCU region to reallocate spending from teacher salaries to other areas, without radically increasing per capita spending or reducing outcomes.

6. **Managing the wage bill should be considered within the broad context of civil service reforms aimed at improving service delivery and reducing costs**. This begins with rethinking the role of public service and defining a service-oriented bureaucracy that adequately satisfies the needs of the population. In the short term, this requires narrowing the array of services provided by the

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[2] World Bank, 2005, "Organization of Eastern Caribbean States - Towards a New Agenda for Growth," Report No. 31863-LAC, Washington: World Bank.

government and letting the private sector play a role where appropriate. The following broad components of an institutional reform framework are suggested:

- **Legislative reforms and amendments to rationalize existing policies and rules and implement new legislation for the introduction of the reform program.** There is a need for regulations that guide and facilitate the "rightsizing" effort and install flexible personnel management practices. Ceilings on wages and/or employment can help promote consistency with fiscal objectives.

- **Functional review and human resource audits.** The former focuses on identifying core governmental functions, eliminating duplication, and consolidating and/or merging similar services from different ministries, departments and agencies (MDAs) of government. The latter is useful to establish the adequate size and skill set of the civil service.

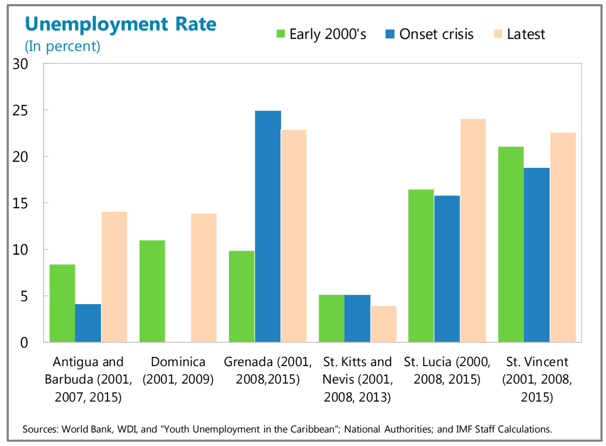
- **Information management systems for human resources and central personnel.** These would facilitate sustained and efficient staff performance and the achievement of the civil service's goals.

- **Budgetary institutions and fiscal planning frameworks** should be strengthened to support budget planning and preparation as well as the management and the control of the wage bill. Negotiations for wage increases should be guided by macro indicators including cost of living adjustments, affordability or fiscal sustainability, productivity growth/performance outcomes, but also comparators with the private sector and statutory bodies.

- **A shift to medium term performance-based budgeting and alignment** with sectoral strategies would facilitate better assessments of budget outputs and results with performance outcomes and with productivity and efficiency**.**

- **Compensation and performance systems.** These should build on the outcome of the functional review to establish job classifications, fair remuneration and performance mechanisms that will (i) facilitate the recruitment and retention of high–quality employees and (ii) reward performance with compensation and career development opportunities.

Annex VI. Unemployment in St. Lucia and the ECCU[1]



1. **Unemployment rates are high in most ECCU countries.** With the sole exception of St. Kitts and Nevis, ECCU members are characterized by double digit unemployment rates driven by both cyclical and structural factors.

2. **Structural factors play a key role in explaining high unemployment in the ECCU.** The region has gone through a considerable structural transformation since the 1990s when the European Union severely weakened its trade preferences for imports of bananas from the Caribbean. The previously thriving industry was significantly downsized, leading to large reductions in formal employment. In St. Lucia, the 33-percent drop in agricultural employment between 2001 and 2013 translated into a 6-percent drop in total employment. Labor demand is further affected by the recurrence of natural disasters, which affect employment in agriculture and to a lesser extent in construction, tourism, and transportation. In addition, employment in the ECCU is characterized by seasonal fluctuations, mostly connected with tourism. In St. Lucia, unemployment rises by about two percentage points in the low tourist season.

3. **Unemployment rates increased considerably in the wake of the Global Financial Crisis.** After a period of considerable expansion during the 2000s, annual output either stagnated or contracted in all ECCU countries after 2008. In St. Lucia, the weaker tourism outlook at the onset of the crisis translated into an immediate contraction in employment in hotels, restaurants, and construction while agricultural employment stagnated. Between 2008 and 2015, St. Lucia's unemployment rate rose from 15.8 to 24.1 percent, one of the highest in the region.

4. **Female and youth unemployment are particularly high in St. Lucia.** Youth unemployment is about twice as high as overall unemployment in ECCU countries. In St. Lucia, as much as half the population between 15 and 24 years of age is unemployed. The gender disparity is

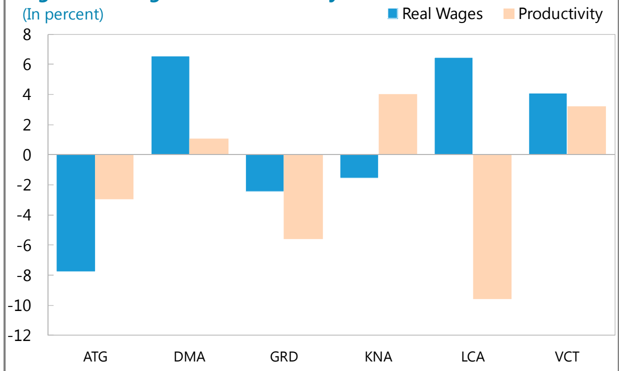
[1] Prepared by Veronika Sola, based on Lafeuillee, Li, James, Salinas, Savchenko: "Explaining high unemployment in ECCU countries". IMF Working Paper, forthcoming.

also alarming, as the gender gap was about 7 percent in 2014, similar to only some other Caribbean countries (Jamaica, Dominican Republic) and countries in the Middle East and North Africa.

5. **A skills and vocational mismatch contributes to unemployment in St. Lucia and other ECCU countries.** The 2012 national labor market needs survey confirmed the gap between firms' demand for skilled labor and the quantity supplied by the market in St. Lucia. However, the fact that unemployment is particularly high among young people, which have generally higher education levels than the rest of the population, could indicate that additional factors are at work. The low diversification of the economy limits the range of employment opportunities available and can be part of the reason for the mismatch.

Figure 4a: Wages and Productivity Growth 1/

(In percent)

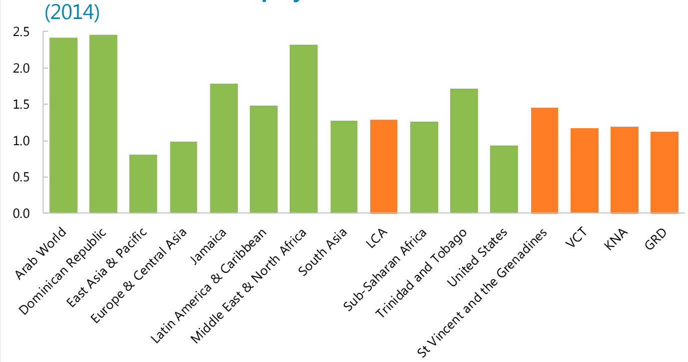


Sources: National Insurance Services (NIS).
1/ Change between 2007-08 and 2012-13

6. **High unemployment reflects labor market rigidities, possibly strong unions.** The strong disconnect between real wages and productivity helps explain the persistence of high unemployment. In St. Lucia, real wages increased both in the public and the private sector despite a substantial decline in productivity since the beginning of the global financial crisis. This phenomenon could be explained by strong labor union activity and its impact on wage setting. Even though the ECCU is characterized by a fairly low density of labor unions, the coverage of workers in collective bargaining agreements is high, unions are very well organized and politically influential, and they cover large key sectors. In St. Lucia, public sector wages have grown faster than in the private sector and have generally led through demonstration effects, which are evident in the practice of private sector unions to negotiate wages using public sector wages as a benchmark.

Female to Male Unemployment Ratio 1/

(2014)



Sources: World Bank, WDI and National Authorities.
1/ Female divided by Male Unemployment Rate.

7. **Determined policy actions are needed to reduce high unemployment in ECCU countries.** In particular, efforts should be made to better align wage and productivity growth.

Boosting productivity in small island economies requires measures targeted at increasing economies of scale through international and intraregional integration, improving the investment climate, lowering the cost of energy through investment in renewable sources, and setting up labor training programs and an education system in tune with labor market demand. Controlling public sector wage growth and increasing wage-setting flexibility while protecting basic workers' rights should also be considered. Particular attention should be given to understanding the reason for the large gap between male and female unemployment.

INTERNATIONAL MONETARY FUND

ST. LUCIA

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

March 9, 2017

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

CONTENTS

FUND RELATIONS

(As of December 31, 2016)

Membership Status: Joined: November 15, 1979; Article VIII

General Resources Account:	SDR Million	Percent of Quota
Quota	21.40	100.00
Fund holdings of currency	19.87	92.85
Reserve Tranche Position	1.53	7.16

SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	14.57	100.00
Holdings	10.73	73.69

Outstanding Purchases and Loans:	SDR Million	Percent of Quota
RCF Loans	3.45	16.11
ESF RAC Loan	4.13	19.32

Latest Financial Arrangements: None

Projected Payments to the Fund[2/]

	Forthcoming				
	2017	2018	2019	2020	2021
Principal	2.14	2.14	2.14	0.77	0.38
Charges/Interest	0.01	0.01	0.01	0.01	0.01
Total	2.15	2.15	2.15	0.78	0.39

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

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

Exchange Rate Assessment: The de jure exchange rate arrangement is a currency board. St. Lucia participates in a currency union with seven other members of the ECCU and has no separate legal tender. The Eastern Caribbean dollar is pegged to the U.S. dollar under a currency board arrangement at EC$2.70 per U.S. dollar. St. Lucia has accepted the obligations of Article VIII, Sections

2(a), 3 and 4, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

Safeguards Assessment: Under the Fund's safeguards policy, the Eastern Caribbean Central Bank (ECCB) is subject to a full safeguards assessment on a four-year cycle. An update assessment was completed in April 2016 and found that the ECCB has maintained generally strong controls over its key operations. External audit and financial reporting practices remain sound. The ECCB financial statements are compliant with International Financial Reporting Standards and are published on a timely basis. The internal audit function needs to be reformed to align it with leading international practices and oversight could be further strengthened by enhancing the financial expertise of the audit committee.

Article IV consultation: St. Lucia is currently on a 12-month cycle. The last Article IV consultation was concluded on February 5, 2016 by the Executive Board; the relevant document is IMF Country Report 16/52.

Technical Assistance: St. Lucia has received substantial technical assistance from the Caribbean Region Technical Assistance Center (CARTAC) and the IMF. Technical assistance missions focused on macroeconomic programming and analysis, reforms of the revenue administration, public financial management, real and external sector statistics and the financial sector. St. Lucia has also participated in a wide range of regional seminars and training, as well as internships and attachments.

Macroeconomic Programming and Analysis

- April 2016 (CARTAC): Updating the Macro Framework and drafting the medium-term fiscal framework
- March 2015: To review progress on the GDP Forecasting Framework.
- October 2015: Make Presentation at CARTAC National Accounts Planning Workshop.
- July 2014: To make better use of the high-frequency macro indicators in updating short-term GDP projections.

National Accounts

- September 2016 (CARTAC): National Accounts Mission to develop the compilation system to produce quarterly GDP by economic activity estimates and to improve the annual GDP estimates.
- September 2015 (CARTAC) A Real Sector Statistics Mission visited Castries to provide TA to the CSO for St. Lucia on reviewing and providing advice to expand and improve the national accounts, including producing SUT and rebasing the GDP estimates.

- March 2014 (CARTAC): Development a plan to assess the quality of the annual GDP estimates; January 2013 (CARTAC) advice on improving the source data to compile quarterly GDP; May 2011 (CARTAC): advice on the development of quarterly GDP, with St. Lucia being a pilot in the OECS.
- December 2010 (CARTAC): real sector projections, including the preparation of scenarios that assessed the impact of Hurricane Tomas on the economy.
- July–August 2009 (CARTAC): national accounts mission aimed at rebasing the GDP estimates to 2006 and exploring the feasibility of producing final expenditure in constant prices.

External Sector Statistics

- October 2016 (CARTAC): Balance of Payments and IIP Statistics
- March 2016 (CARTAC): Balance of Payments and IIP Statistics
- January 2015 (CARTAC): Training on External Sector Statistics for Survey Respondents

Tax Reforms and Revenue Administration

- November 2016: Strengthening Performance Management – establishing KPI
- November 2016: IT Support – (via Peer-to-Peer Technical Assistance (TA) Attachment)
- October 2016 (CARTAC Revenue Administration): Developing a Compliance Risk Management Strategy. (follow-up TA in March 2017 to complete this TA)
- October 2016: Data Analytics
- September 2016 (CARTAC Revenue Administration): Developing a Taxpayer Service Strategy.
- June 2016 (CARTAC Revenue Administration): Building Audit Capacity
- June 2016 (CARTAC Customs): Strengthen the Post Clearance Audit Function.
- October 2015 (CARTAC Tax Administration): Technical Assistance to Support the Establishment of a Large and Medium Taxpayers Unit.
- September 2015 (CARTAC Tax Administration): Technical Assistance for Amending the Corporate Income TA and Determining the Presumptive Tax Rate.
- September 2015 (CARTAC Customs Administration): Provide guidance & training on improving & strengthening enforcement intelligence and risk.
- November 2014 (CARTAC Customs Administration): Support Risk Management mission.

- August 2014 (CARTAC Customs Administration): TA to Montserrat Customs and Excise Department.
- May 2014 (CARTAC Customs Administration): Organizational Structure Review of the CED.
- September 1-11, 2015: (CARTAC) Improve the Corporate Income Tax regime.
- July 6-17, 2015 (CARTAC) IRD structural re-organization establishment of the LMTU and DPMU).
- March 16-27 2015, May 11-22, July 27-August 6, 2015: (CARTAC) Property taxation.
- December 9–December 22, 2014: (FAD funded by CARTAC) VAT revenue analysis.
- July, September, October 2014 and April 2015 (CARTAC) IRD structural re-organization.
- April 13-24, 2014 (CARTAC) tax and customs, data matching.
- April 2-15, 2014 (FAD) follow-up on tax and customs administrations after VAT introduction.
- January 27-31 2014, (CARTAC) IRD strategic planning.
- October 14-November 1, 2013 and February 10-24, 2014, (CARTAC) development of VAT audit capacity.
- October 2013 (CARTAC): Strengthening the Customs Administration—Valuation workshop and training.
- May 2014 (CARTAC): Strengthening the Customs Administration—Organizational Structure Review.
- December 2008–January 2010 and May 2011-November 2012 (CARTAC): preparations for VAT implementation, including development of the project plan, VAT rate study, drafting the VAT legislation, delivery of training to tax and customs staff, supporting customs and Inland Revenue Department (IRD) preparations for VAT administration, development and implementation of the advisory visits program for potential registrants, and establishing a VAT section within IRD with the necessary procedures for operation.
- June 2012 and November 2012 (CARTAC): special sector tax audits.
- August 2012 (CARTAC): review of customs bonded warehouses.
- June 2008, September 2008, February 2009, August 2009 and May 2012 (CARTAC): development and implementation of Customs Risk Management Program.
- March 2010, June 2010, October 2010 and June 2011 (CARTAC): development and implementation of Customs Post Clearance Audit Program.
- September 2010 and May 2011 (CARTAC): development of an integrity program for Inland Revenue.

- March 2010, June 2010, October 2010 and June 2011 (CARTAC): development and implementation of Customs post clearance audit program.
- June 2008, September 2008, February 2009 and August 2009 (CARTAC): development and implementation of customs risk management program.
- June 2009 and September 2009 (CARTAC): development of Corporate Strategic Business Plan for Inland Revenue and customs.
- April 2003 (FAD): modernization of the tax system in regional (OECS) context.

Expenditure Rationalization and PFM Reforms

- January 2016 (CARTAC): Diagnostic Assessment of Internal Audit.
- September 2015 (CARTAC): Assist Authorities in Preparing for the 2015/2017 Budget Process.
- October 2015 (PFM): PFM Accountant General's Department review and Pre PEFA assessment.
- September 2015 (PFM): Program Based Budgeting.
- August 2015 (PFM): Develop a comprehensive budget manual.
- December 2014 (PFM): Budget Preparation Mission.
- October 2014 (PFM): Budget Preparation Mission.
- February 2014 (PFM): Assist with finalizing annual budget estimates document.
- January 2014 (PFM): Final Budget Preparation Reform Mission.
- May 2014 (MCM): Strengthening public debt management in ECCU countries. Assessment of Technical Assistance needs provided to the ECCB.
- July 2014 (CARTAC): Improvements to real sector monitoring frameworks to provide for rapid updating of real sector variables using high frequency indicators.
- January 2013, June 2013, November 2013, January 2014 (CARTAC): Budget Preparation Reform;
- February 2013 (CARTAC): Chart of Accounts reform.
- December 2013 (CARTAC): Diagnostic of PFM legislation.
- October 2013 (CARTAC): Improving accountability and performance of Parastatals.
- January 2012 (CARTAC MAC Programme): real and fiscal medium-term projections under baseline and active scenarios.
- May and November 2011 (CARTAC): budget preparation mission.
- June 2010 (CARTAC): preparation of a PFM reform action plan, PFM workshop.

- December 2010 (CARTAC): fiscal projections under baseline and active scenarios.
- August 2010 (FAD): regional project on public expenditure issues, including expenditure trends, policies, and expenditure rationalization options.
- November 2009 (CARTAC): budget preparation and fiscal projections.
- December 2008 (MCM): improving debt management capacity of the government.

Financial Sector

- April 2016 (CARTAC): Basel II Implementation.
- February 2016 (CARTAC): Basel II Implementation.
- August 2015 (CARTAC): Dynamic Modelling and Stress Testing of St. Lucian Banks (in conjunction with ECCB).
- August 2015 (CARTAC): Training of Credit Union Regulators on Stress-Testing.
- December 2015 (MCM): Implementation of Risk Based Supervision.
- August 2015 (MCM): Dynamic Modelling Project.
- November 2014 (MCM): Risk Based Supervision Insurance.
- September 2014 (MCM): Risk Based Supervision Framework
- March, May and June 2014 (MCM and LEG): Strategy to resolve indigenous banks. Assistance to the ECCB.
- May 2014 and ongoing (MCM): Collateral valuation. Assistance to the ECCB.
- May 2014 and ongoing (MCM): Credit risk management assessment. Assistance to the ECCB.
- May 2014 (CARTAC): Technical assistance requests from the ECCB to implement Basel II in the ECCU. The ECCB as a part of the Caribbean Group of Banking Supervisors (CGBS), has developed the operational risk guidelines for Basel II and has established a steering committee, made up of regulators from some of the SRUs to look at areas of national discretion for the implementation of Basel II.
- November 2013 and May 2014 (MCM and LEG): Assistance to the ECCB on legislative changes to the ECCB Agreement Act, Banking Act and subsidiary legislation.
- May 2014 (CARTAC): Assistance to the ECCB with the development and implementation of a strategic plan to achieve compliance with the Basel Core Principles for Effective Banking Supervision.

- March 2013 (CARTAC): Review a draft Corporate Governance Guidance for ECCB which covers domestic banking operations in St. Lucia
- December 2013 (CARTAC): Review an Internal Audit Guidance for Banks in the ECCU.
- February 2011 (IMF/WB/CDB): A Joint Task Force on the ECCU Financial System (FSTF) performed a comprehensive diagnostics on the indigenous banks and delivered recommendations to address critical issues.
- December 2008 (CARTAC): development of policy proposals for the Single Regulatory Unit (SRU) Act to be drafted by the authorities in St. Lucia;
- May 2008 (CARTAC): assessment of development needs of the Single Regulatory Unit;
- October 2007 (CARTAC): participation of St Lucia's SRU supervisory staff in Off-shore Mutual Funds Supervision Workshop held in St. Kitts and Nevis and St. Vincent;
- September 2007 (CARTAC): participation of St. Lucia's SRU supervisory staff in Trust Supervision Workshop held in Turks and Caicos.

Technical assistance on the banking sector is provided to the Eastern Caribbean Central Bank (ECCB) as the supervisor and not to individual countries within the Eastern Caribbean Currency Union (ECCU). Currently, MCM has placed three long-term experts at the ECCB, financed by Canada: (i) a bank resolution advisor; (ii) a bank supervision advisor; and (iii) the manager of the regional asset management company.

CARTAC is working with the ECCB to develop a framework for the implementation of the recommendations of the sixth edition of the balance of payments manual for ECCU members, inclusive of St. Lucia. Additionally, a technical Assistance request from St. Lucia to provide assistance with bank supervision, mutual funds and review of insurance treaties is currently under consideration.

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

AML/CFT: A detailed assessment of the AML/CFT regimes of St. Lucia was conducted by the Caribbean Financial Action Task Force (CFATF) in November 2008, and the eighth follow-up report was published in November 2013.

RELATIONS WITH THE WORLD BANK GROUP

(As of February 10, 2017)

World Bank Group OECS Regional Partnership Strategy: On November 13, 2014, the Board of the Executive Directors of the World Bank Group (WBG) endorsed the Regional Partnership Strategy (RPS) for the Organisation of Eastern Caribbean States (OECS) which covers the period FY15-19 (July 1, 2014 – June 30, 2019). The high-level objective of the RPS is to contribute to laying the foundations for sustainable inclusive growth, in line with the OECS governments' priorities. In order to achieve this goal, the strategy is organized around three main areas of engagement. Under the first one, the WBG is supporting "competitiveness". Growth and job creation in the private sector are expected to be supported both horizontally – by improving the business environment – and vertically – by focusing on specific sectors with a high potential to generate inclusive sustainable growth (particularly tourism, agribusiness and their respective linkages). The second area of engagement is "public sector modernization", with particular focus on public financial management (PFM) and institutional capacity building, including for statistics and public private partnerships (PPPs), to better leverage private investment in infrastructure and service provision. The third area is "resilience", with the objective to address both social vulnerabilities (in education, health and social protection), and exposure to natural disasters. Constrained in general by the small size of investments in the OECS, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) are expected to contribute to the RPS objectives through selective investment support, depending on opportunities. The IFC would focus on crisis response; job creation and inclusive growth; innovation, competitiveness, and integration; and climate change. MIGA, however, would face more limited opportunities for engagement because of the small market size of the OECS countries.

Within the OECS RPS, St. Lucia, as a member country of the International Development Association (IDA), has received an IDA17 allocation (for the July 1, 2014 – June 30, 2017 period) equal to SDR 17.4 million (roughly USD 24.3 million at today's exchange rate). The IDA18 national allocation (for the July 1, 2017 – June 30, 2020) is expected to triple the IDA17 allocation.

A. Projects

The current WB portfolio in St. Lucia includes three projects: (i) Regional Disaster Vulnerability Reduction Project-RDVRP (IDA $42.6Million; Trust Funds $15 Million); (ii) Caribbean Regional Communications Infrastructure Project-CARCIP (IDA$6 Million); and (iii) Eastern Caribbean Energy Regulatory Authority-ECERA (IDA$2.8 Million). St. Lucia also benefits from a US$2 million Bank Executed Trust Fund (BETF) to support geothermal development.

B. Economic and Sector Work

The Caribbean Growth Forum (CGF) -The Caribbean Growth Forum (CGF) is a multi-stakeholder platform designed to identify, prioritize and implement a set of activities to improve the growth enabling environment in the Caribbean, while promoting participatory public policy making. It has so far engaged more than 2,500 representatives from business associations, civil society organizations, Government, private sector, media, indigenous groups, and international development agencies on themes such as Logistics and Connectivity; Investment Climate; and, Skills and Productivity.

Low growth, high unemployment, especially for youth and women, high debt ratios (eight of the top twelve most indebted countries in the world are in Caribbean), high incidence of crime, and, growing vulnerability to external shocks characterize the region. In the wake of the global financial crisis, the high debt/low growth challenge has become even more acute.

A number of Caribbean countries reached out to international donors to find an innovative approach to the growth challenge in the region. A suggestion was made to launch a genuinely participatory growth initiative. Following consultations and some preparatory work, the program started in mid-2012 with a regional launch event in Jamaica. The process is supported and facilitated by the World Bank, the Inter-American Development Bank, the Caribbean Development Bank, Compete Caribbean and the European Union.

Key Outcomes

Positive outcomes are tangible: twelve countries formally joined the process by establishing their national CGF chapter and have completed the first phase of national dialogue. This effort has led to the prioritization of concrete and actionable activities and draft action plans are now available, with details on each activity' implementation plan (e.g., accountabilities, milestones, timeline, funding). The results of each country's dialogue were presented at three regional forum in The Bahamas in June 2013, in St. Kitts and Nevis in 2014, and in St. Lucia in June 2015. This allowed national stakeholders from government, private sector and civil society to compare notes on each other's' priorities and exchange ideas on solutions to each identified challenges with technical specialists and peers. Each government involved in the CGF also committed to follow-up on implementation of the reform agenda, to report back periodically on progress (every 4-5 months) and to enable independent monitoring of the reforms by private sector and civil society representatives.

In terms of **analytical products**, the Bank has completed a series of studies related to public expenditure, fiscal and debt sustainability, growth and competitiveness, the financial sector, public sector management and social protection. The ongoing dissemination of these reports represents a key instrument for policy dialogue with the OECS governments, including St. Lucia.

A number of recent analytical works have also been disseminated in the context of the CGF process. A number of knowledge products are expected to be disseminated this year, including "Driving tourism in the Eastern Caribbean: The case for a regional Ferry"; "Trade matters: new opportunities for the Caribbean"; "Linking farmers and agro-processors to the tourism industry in the OECS"; and the "OECS Growth report".

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK (CDB)

(As of December, 2016)

The Caribbean Development Bank (CDB) has been an important development partner in St. Lucia (STL) and is currently the island's largest multilateral donor. Interventions have been aimed at facilitating sustainable development by supporting investments in social and economic infrastructure, as well as creating a more enabling policy environment. Specifically, CDB has been involved in areas such as: (i)development of physical infrastructure; (ii) public financial management; (iii) human resource development; (iv)support to the productive sectors; and (v) community-based poverty reduction.

In 2012, the Bank approved a country assistance strategy with an indicative resource envelope of $88.5 mn to guide operations in STL over the period 2013-16. Given STL's vulnerability to economic shocks and natural hazards, the main strategic objective of the programme was to assist in building social and economic resilience by: (i) improving efficiency of social and economic infrastructure; (ii) increasing the contribution of the agricultural sector; (iii) enhancing youth outcomes; (iv) enhancing the viability of small and medium-sized enterprises (SMEs); and (v) improving management capacity in order to reduce vulnerability to natural hazards and economic shocks. Importantly, recognising the impact of gender and environmental/climate change factors on a country's ability to achieve sustainable development outcomes.

STL has utilised the Bank's resources extensively over the years and at the end of 2016, was the third largest recipient of CDB assistance. Cumulative loans, contingent loans and equity and grants totalled $473.5 mn between 1970 and 2016. Of this amount, just over half was approved from Ordinary Capital Resources (OCR) with the remainder being sourced from the "soft" window.

The year 2016 was a relatively active one as the Bank approved five notable capital investment and technical assistance interventions totalling $50.1mn. The most significant, the St. Lucia Education Quality and Improvement Project (24.2mn) seeks to enhance student outcomes across the education sector with particular emphasis on improving learning opportunities and outcomes for learners with special education needs. The Dennery North Water Supply Redevelopment project (11.3mn) continues the Bank's involvement in the water sector by focussing on the installation of new water supply intake, transmission, treatment and storage facilities for Dennery North. The first of its kind for the Bank, the Street Light Retrofitting Project (10.6mn) seeks to replace all of St. Lucia's high pressure sodium and mercury vapour street lights with high efficiency light-emitting diode systems and in so doing, reduce energy consumption and associated greenhouse gas emissions. Cognisant of the development potential of the Vieux Fort area, the Bank approved technical assistance for the development of a Spatial Plan for the Vieux Fort District which will provide a physical planning framework to guide long-term sustainable economic and social development and improve management of environment and natural resources. Lastly, technical assistance in the form of a

Youth Empowerment Project will assist in the country's efforts to develop an integrated results-based youth empowerment response to multi-faceted citizen security issues facing at-risk communities in Castries. Other on-going interventions during the year were direct poverty reduction support and capacity enhancement for small and medium sized enterprises.

Notwithstanding the Bank's significant involvement in St. Lucia, net resource flows have been negative over the 2012 to 2016 period (see Table 1 below). This has largely been due to implementation capacity issues and the availability of alternative funding sources. The most significant disbursements during the period 2013 to 2016 were for lines of credit to support private sector development, reconstruction following the passage of Hurricane Tomas, education sector enhancement, and a policy based loan in support of macroeconomic reforms.

Table 1. Portfolio Flows

Item	2012	2013	2014	2015	2016
(a) Disbursements	7.2	11.1	16	11.2	10.6
(b) Principal Repayments	11.4	12.3	12	13.2	13.3
(c) Net Disbursements (a-b)	-4.2	-1.2	4	-2	-2.7
(d) Interest Payments	4.8	4.7	4.7	4.5	3.9
(e) Other charges	0.2	0.2	0.2	0.1	0.3
(f) Net cash flow (c-d-e)	-9.2	-6.1	-0.9	-6.7	-6.9

STATISTICAL APPENDIX

(As of February 8, 2017)
I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance. Although the statistical database compares well and in some areas has a broader coverage than those of its Eastern Caribbean Central Union (ECCU) peers, the accuracy and timeliness of macroeconomic statistics should be improved in order to achieve more effective economic analysis and policy formulation. There are weaknesses in coverage, frequency, quality, and timeliness, in particular regarding the national accounts, data on the public sector beyond the central government, and the balance of payments.
National Accounts: Nominal GDP data are compiled using the production and expenditure approaches on an annual basis. Real GDP data are compiled only using the production approach. Since 2011, real GDP estimates are compiled with 2006 as the new base year. Preliminary GDP is available about four months after the end of the year and are usually finalized with a two-year lag. Household final consumption expenditure is derived residually. No explicit changes in inventories series are disseminated. No official quarterly GDP estimates are disseminated, but a pilot project is currently underway, with technical assistance from CARTAC, to compile these. CARTAC has provided technical assistance since May 2011 on quarterly GDP compilation, with St. Lucia serving as a pilot for the ECCU countries. Quarterly GDP figures are projected to be released in March 2017. Additional technical and human resources are required to implement the new developmental work in the area of National Accounts.
Price Statistics: The rebasing exercise of the CPI has been completed—the new CPI basket (base January 2008) is based on the 2006 Household Expenditure Survey. No export and import price indices are compiled, nor a producer price index.
Government Finance Statistics: Reporting of central government data has improved over the last few years, but deficiencies remain in the compilation of both government and public sector statistics. The authorities report monthly data on the central government's current revenue and expenditure, using a non *GFSM 2001* presentation with lags of a couple of months. Fiscal data for publication in the *GFS Yearbook* or in *IFS* have been reported to STA in 2013 and 2014, which were converted to a *GFSM 2001* presentation by IMF staff. The authorities would thus benefit from moving to a complete GFSM framework for the compilation of Government Finance Statistics. Additionally, frequent and substantial

revisions suggest that there is a need for further refinement, including improvements to accounting systems for capital expenditures to record outlays associated with grant-financed projects as they are realized. Data for the rest of the public sector (financial and nonfinancial public corporations) are not readily available and should be compiled on a regular basis to improve fiscal monitoring of the overall public sector.
Monetary and Financial Statistics: Monthly monetary statistics are compiled and reported to the Fund by the ECCB, based on standardized report forms (SRF) for the central bank (SRF 1SR) and for other depository corporations (SRF 2SR), since July 2006. In April 2007, a data ROSC mission assessed the monetary statistics with reference to the GDDS and the Data Quality Assessment Framework (DQAF, July 2003). It found that the institutional coverage of other depository corporations was incomplete, as data for mortgage companies, finance companies, building societies, and credit unions—all of which accept deposits—were excluded. Accrued interest was not incorporated into the value of the interest-bearing assets and liabilities, and valuation adjustments were wrongly included in other liabilities. In addition, source data for the commercial banks did not provide the disaggregation recommended by the *Monetary and Financial Statistics Manual* and *Compilation Guide*. Close coordination between the ECCB and the single regulatory unit (which supervises financial corporations other than those licensed under the Banking Act) is crucial. The ECCB is currently working on implementing a new reporting system for commercial banks that is envisaged to address the recommendations made by the April 2007 data ROSC mission. It is expected that the new reporting system would be implemented in 2016-17.
Financial sector surveillance: The ECCB compiles financial soundness indicators (FSIs) for its member countries, including St. Lucia. However, due to confidentiality concerns, dissemination of FSIs for ECCB member countries has not yet been approved.
External sector statistics: Balance of payments data are compiled and disseminated by the ECCB on an annual basis. In January 2016, the ECCB released preliminary summary estimates of 2014 balance of payments and—for the first time—international investment position statistics based on the sixth edition of the *Balance of Payments and International Investment Position Statistics Manual* (*BPM6*) for the eight ECCU member economies. The ECCB plans to disseminate comprehensive balance of payments data in early 2017. Given the lack of detail of the preliminary data, more work is underway to review the recent revisions and identify balance of payments components that need further improvement. Further work is required to improve the coverage of the data, particularly, the recording of trade in goods sourced from customs records and direct investment transactions due to the low response rates to the survey. Travel credits are now based on visitor expenditure surveys carried out by the St. Lucia Tourist Board, which are a better data source. New data have not been submitted to STA. Actions need to be undertaken in collaboration with the ECCB, which coordinates the compilation of the external sector statistics for all its member economies.

The Ministry of Finance has detailed statistics for public sector external debt and publicly guaranteed private sector external debt (St. Lucia reports public and publicly guaranteed external debt data to the Quarterly External Debt Statistics (QEDS) database). Data on private sector external debt are not available yet.	
II. Data Standards and Quality	
St. Lucia is a participant in the General Data Dissemination System (GDDS), which has been superseded by the enhanced GDDS (e-GDDS) since May 2015. 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 1, 2004, although updates are needed.	A Data ROSC for the monetary sector was conducted in 2007, covering the ECCB and ECCU member countries, including St. Lucia.

St. Lucia: Table of Common Indicators Required for Surveillance
(As of February 8, 2017)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Fixed rate	NA	NA	NA	NA
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	11/2016	1/17/2017	M	M	M
Reserve/Base Money	11/2016	1/17/2017	M	M	M
Broad Money	11/2016	1/17/2017	M	M	M
Central Bank Balance Sheet	11/2016	1/17/2017	M	M	M
Consolidated Balance Sheet of the Banking System	11/2016	1/17/2017	M	M	M
Interest Rates[2]	11/2016	1/17/2017	M	M	M
Consumer Price Index	09/2016	12/29/2016	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	08/2016	11/2016	M	M	H
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	08/2016	11/2016	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q2/2016	11/2016	Q	H	H
External Current Account Balance	2016	07/22/2016	A	H	H
Exports and Imports of Goods and Services	09/2016	12/29/2016	A	Q	Q
GDP/GNP	2016	01/23/2017	A	A	A
Gross External Debt	12/16	02/2017	Q	H	H
International Investment Position[6]	NA	NA	NA	NA	NA

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

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

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

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

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

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