INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/68

ST. LUCIA

March 2024

2023 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 2023 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 June 26, 2023, with the officials of St. Lucia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 28, 2023.
- 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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IMF Executive Board Concludes 2023 Article IV Consultation with St. Lucia

FOR IMMEDIATE RELEASE

Washington, DC – March 8, 2024: On August 25, 2023, the Executive Board of the International Monetary Fund (IMF) concluded the 2023 Article IV consultation[1] with St. Lucia and considered and endorsed the staff appraisal without a meeting on a lapse-of-time basis.[2]

St. Lucia's tourist-dependent economy has rebounded strongly after the Covid-19 pandemic and the commodity import price shock due to Russia's war in Ukraine. Output is currently near the pre-pandemic level, while higher government revenue has narrowed the fiscal deficit. Similarly, with the recovery of tourism, the current account deficit declined from the pandemic peak of 16 percent of GDP in 2020 to an estimated 2 percent of GDP in 2022. Though declining, public debt remains much higher than before the pandemic. The banking sector has adequate liquidity and is profitable, but NPLs are elevated.

The GDP growth projection in 2023, at 3.2 percent, is lower than 2022 as tourism demand continues the recovery and the economy approaches the existing production capacity. Afterwards, it is projected to gradually decline towards a potential rate of 1.5 percent in the medium-term. Annual inflation is projected to remain high in 2023 at 4.3 percent and then to decline to around 2 percent in the medium term. The current account deficit is expected at 0.8 percent of GDP in 2023 and is projected to close over the medium term driven by the continued recovery in tourism.

On current policies, public debt is projected to stabilize around 75 percent of GDP in the medium term, significantly above the regional ceiling of 60 percent of GDP by 2035. Bank credit to the private sector is projected to remain anemic in the absence of improved loan loss provisioning, fiscal adjustment, and additional legislative reform. Natural disasters are a recurrent threat. Risks to the outlook are tilted to the downside and includes global economic slowdown, commodity price volatility, and additional global financial tightening.

Executive Board Assessment

The St. Lucia economy rebounded strongly in 2022 after the collapse in tourism during the pandemic and the war in Ukraine, leading to large improvements in the fiscal and external deficits. GDP grew by an estimated 15.7 percent in 2022. Inflation was high at 6.5 percent with strong impulse from international prices. With the recovery of tourism, the current account deficit narrowed from a peak of 15.2 percent of GDP in 2020 to 2.3 percent of GDP in 2022, while the estimated fiscal balance improved in FY2022 by 4.1 percentage point to a deficit of

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[1] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

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

1.4 percent of GDP due to strong tax revenue collection and CIP revenue. However, the large fiscal deficits during the pandemic and the growth collapse in 2020 led to a significant increase in public debt which now stands at near 75 percent of GDP. The financial system has remained stable and liquid with a sustained increase in deposits, but the loan portfolio performance has worsened. The rapid credit growth in the credit unions raises credit risk concern, especially given relatively weaker credit standards in the sector, generally high NPLs, and low capital buffers in some institutions.

Growth is projected to slow in the medium term as the economy completes the recovery, but the fiscal outlook poses challenges. The government's plan, encompassing investments in the transport, health, and social areas, is ambitious and consistent with the needs to address bottlenecks to growth. However, on current policies, public debt is projected to stabilize around 75 percent of GDP in the medium term, above the regional ceiling of 60 percent of GDP by 2035. The short maturity profile of domestic (regional) debt keeps financing needs elevated, implying refinancing risk. The government plans to increase revenue are insufficient to reach the regional debt ceiling. Constraints to bank credit, including the need to increase provisioning and legal disincentives affecting the ability to seize collateral remain obstacles to domestic investment, employment, and growth.

The government's plan could be strengthened with policies that focus on fiscal sustainability and resource allocation efficiency. With output approaching its pre-pandemic level, the government should target a fiscal consolidation of at least 2½ percent of GDP to reach the regional debt ceiling and rely on strengthening of tax compliance, streamlining of tax exemptions, adopting a fuel price pass-through framework, and the more efficient value added tax. A further 1 percent of GDP of fiscal consolidation could be used to increase public investment resilient to natural disasters. Public debt sustainability could be supported by a well-designed fiscal rule, self-financing of the initiatives to strengthen the social safety net, and more capacity to access climate finance. To address fiscal risks, CIP revenue could be saved in a fund for self-insurance against natural disasters, debt service, and public investment. The draft reforms put forward by the pension fund should be implemented to increase its longevity, and its investment portfolio should be more internationally diversified to boost its resilience to shocks.

The priority in the financial sector is to strengthen buffers to increase resilience to shocks while enhancing incentives for private lending. Banks should improve the classification of NPLs in the post-moratorium and restructured portfolios, raise provisions to the regulatory minimum, and strengthen risk management of foreign investments. The government should use its representation power at the ECCB to strengthen the enforcement of provisioning requirements and speed up the disposals of NPLs. The modernization of foreclosure legislation for commercial loans and residential property, and passing of the bankruptcy and insolvency law, would expand credit access and lower loan interest rates. Ensuring effective implementation of the international AML/CFT standards would help protect correspondent banking relationships and mitigate risks related to cross-border financial flows. In the credit unions sector, the passing of the draft bill with stronger regulatory standards will improve compliance with provisioning and capital requirements.

High unemployment, particularly among the youth, requires targeted policies to address deep-rooted social problems and a review of the education programs. While improving conditions for private investment will increase labor demand, it may prove insufficient to achieve full employment. High unemployment affects different segments of the population facing distinct challenges to employment, especially female workers and youth. This suggests the need to review education programs to strengthen employability; increase enrollment in technical and vocational education and training to address skill mismatches; reduce of transport cost; and review the allocation of government scholarships to skills in high demand, in consultation with employers. Labor participation of females and youth[3] could be addressed by expanding the capacity of child and elderly care. The recently created Youth Economy Agency to support youth employment and business development and entrepreneurship with training and guidance could be complemented with social programs that tackle non-economic barriers to employment.

[3] Youth from households with young children and the elderly are more likely to be NEET.

St. Lucia: Selected Economic Indicators, 2019–24

				Projections		
	2019	2020	2021	2022	2023	2024
	(Annual percentage change, unless otherwise specified)					
Output and prices						
Real GDP (at market prices)	-0.2	-23.6	11.3	15.7	3.2	2.3
Consumer prices, period average	0.5	-1.8	2.4	6.5	4.3	2.1
Output gap (percent of potential GDP)	6.5	-19.3	-11.3	1.0	2.2	2.5
Unemployment rate (% annual average)	16.8	21.7	21.9	...	...	...
Nominal GDP (EC$ millions) 1/	5,677	4,112	4,994	6,201	6,709	7,044
Public finances	(In percent of GDP, unless otherwise specified)					
Central government 2/						
Revenue	21.5	21.6	21.2	21.8	21.3	21.0
Expenditure	25.0	33.0	26.7	23.2	23.5	23.4
Natural disaster (ND) annualized cost	0.0	0.0	0.0	0.0	0.7	0.7
Primary balance, incl. ND cost	-0.5	-7.7	-2.3	1.5	0.4	0.2
Overall balance, incl. ND cost	-3.5	-11.5	-5.5	-1.4	-2.8	-3.0
Central government debt	58.5	89.1	77.8	69.5	67.6	67.4
Total public sector debt 3/	61.9	94.2	82.9	74.1	73.7	75.0
Domestic	32.2	49.0	39.8	36.0	34.2	33.7
External	29.7	45.2	43.1	38.1	39.5	41.3
Money and credit, end of period (annual percent change)						
Broad money (M2)	3.2	-6.6	14.9	3.8	3.4	2.1
Credit to private sector (real)	-2.4	4.5	-2.4	-4.6	-0.3	0.9
Credit to private sector (nominal)	-1.9	2.7	-0.1	1.6	4.0	3.0
External sector						
Current account balance, *o/w:*	5.5	-15.2	-7.0	-2.3	-0.8	-0.4
Exports of goods and services	57.5	29.7	38.4	52.6	54.4	54.8
Imports of goods and services	-46.2	-43.8	-44.1	-51.3	-51.4	-51.4
Capital account balance	1.6	1.6	1.6	1.3	1.3	1.2
Financial account balance	1.8	-10.1	-5.0	-3.3	0.5	0.7
External debt (gross) 4/	61.4	78.1	70.8	63.8	63.2	63.9
Net imputed international reserves						
Months of imports of goods and services	4.5	3.3	3.6	2.9	3.9	5.0
Percentage of demand liabilities	88.7	88.3	92.3	91.4	93.6	94.9

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

1/ GDP historical series was rebased to 2018 base year in 2020. This increased nominal GDP figures by about 9 percentage points.

2/ Fiscal year (April–March) basis. Fiscal balances do not include the airport project, which is implemented by a public corporation.

3/ Public sector debt includes payables and overdrafts/ECCB advances.

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

INTERNATIONAL MONETARY FUND

ST. LUCIA

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

July 28, 2023

KEY ISSUES

Recent developments. The economy has rebounded strongly after the Covid-19 pandemic and the commodity import price shock due to Russia's war in Ukraine; output is currently near the pre-pandemic level. Higher government revenue has narrowed the fiscal deficit, but public debt is much higher than before the pandemic. The banking sector has adequate liquidity and is profitable, but NPLs are elevated, and additional provisioning is required. Rapid credit growth in the large credit union sector is a concern, and several institutions require additional capital.

Outlook and risks. Output is projected to reach the pre-pandemic level in 2023, underpinned by tourism recovery. However, the government has large refinancing needs in the near term and debt is not projected to decline from its high level. The impact of the global financial tightening has been limited thus far due to low financial integration but remains a downside risk. Banks' NPLs may increase because of the restructured loans portfolio. Natural disasters are a recurrent threat.

Policies. With output approaching full recovery, the priority is to start rebuilding fiscal and financial buffers and place public debt on a solid downward trend, anchored on the regional debt ceiling, through growth-friendly fiscal consolidation and fiscal rules. In the banking sector, it is important to reach full compliance with the regional central bank's provisioning requirements. The momentum of reforms to address disincentives to bank lending should be maintained by passing legislation to expedite loan collateral appropriation. Draft legislation to strengthen the regulation and supervision of credit unions should be passed, and the planned asset quality review carried forward. On the structural front, the labor market initiatives to address high youth unemployment could be complemented with policies to tackle deep-rooted social problems and a review of education programs.

Approved By
James Morsink (WHD) and Fabian Bornhorst (SPR)

Discussions for the 2023 Article IV consultation took place in Castries, St. Lucia, on June 13–26, 2023. The team comprised Alejandro Guerson (head), Swarnali Ahmed Hannan, Sergei Antoshin, and Hyunmin Park (all WHD). Ronald James (CDB), Paul Leonovich (MCM), Matthew Day (OED), Josh Kelly (ECCB), Vasilis Tsiropoulos (WB), and Adrian Wardzynski (LEG) joined several meetings. Philip Jennings (OED) joined the concluding meeting. The mission met with the Honorable Prime Minister Philip J. Pierre, Permanent Secretary Francis Fontenelle and other senior government officials, representatives of the opposition, the private sector, and labor unions. The team was supported by Anahit Aghababyan and Huilin Wang (WHD).

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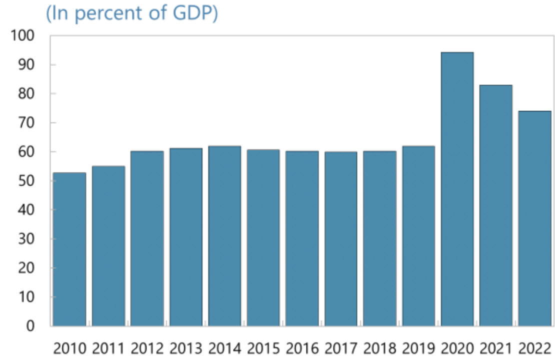
ANNEXES

CONTEXT

1. **The economy rebounded strongly in 2022 after two back-to-back external shocks.** The highly tourist-dependent economy was hit hard by the pandemic. Subsequently, the war in Ukraine added a negative impulse to the weakened economy given high dependence on imported fuel and food items. The economy rebounded strongly in 2022 with the recovery in tourism.

2. **However, the two shocks have significantly eroded fiscal and financial buffers, and climate-related challenges remain.** Public debt is well above the pre-pandemic level (text chart). NPLs have increased in the banks and credit unions, and additional provisioning is needed. Located in the hurricane belt, St. Lucia is highly vulnerable to natural disasters. While among the regional leaders in climate change preparedness,[1] the country has large institutional, financing and capacity gaps in its climate response strategy.

Public Debt
(In percent of GDP)

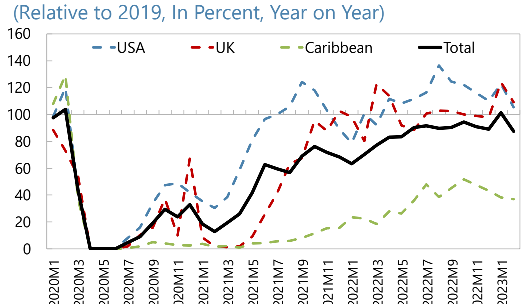


Sources: Country authorities and IMF staff calculations.

RECENT DEVELOPMENTS

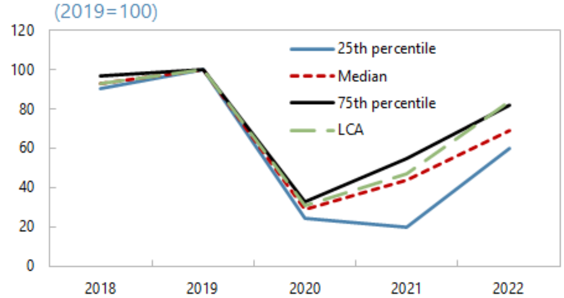
3. **The economic recovery in 2022 was stronger than expected.** Real GDP grew by 15.7 percent in 2022, driven by recovery in tourism and wholesale and retail trade, bringing unemployment down from 23 percent in 2021: Q2 to 17.5 percent in 2022Q2 (Figure 1). The recovery was fueled by pent-up demand for tourism, as stay-over tourist arrivals in 2022 reached 84 percent of the level in 2019.

Stay-Over Tourist Arrivals
(Relative to 2019, In Percent, Year on Year)



Sources: Country authorities and IMF staff calculations.
Note: The share of tourist arrivals in 2019 for US, UK, Caribbean are 45, 20, and 20 percent respectively.

Tourist Arrivals in the Caribbean
(2019=100)



Sources: Country authorities and CTO.

[1] St. Lucia is implementing a comprehensive 10-year National Adaptation Plan (NAP) with projected completion by 2028. It is accompanied by Sectoral Adaptation Strategy and Action Plans. See "St. Lucia First National Adaptation Plan Progress Report", 2022.

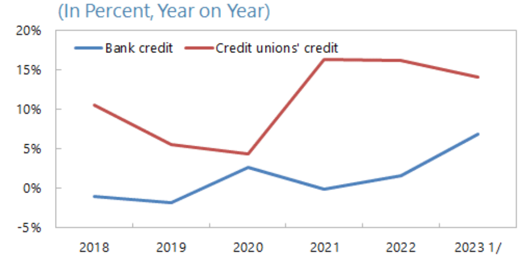
4. Inflation has declined but remains high. Inflation reached a peak of 8 percent year-on-year in September 2022, driven by 29 percent inflation in housing, water, electricity, and fuels (Figure 2). It then remained high at 7 percent year-on-year through the end of 2022 as the decline in global oil prices was offset by a reinstatement of fuel excise taxes.

5. The fiscal balance improved in FY2022, but public debt remained elevated. The fiscal balance improved in FY2022 by 4.1 percentage points to a deficit of 1.4 percent of GDP due to strong tax revenue collection, growth of Citizenship by Investment Program (CIP) revenue, and delays in the execution of public investment. Though less than the previous year, gross financing needs remained elevated at 15.4 percent of GDP in FY 2022 due to the increase in short-term amortization payments. The large fiscal deficits during the pandemic and the growth collapse in 2020 led to a significant increase in public debt to near 95 percent of GDP. With the economic recovery, public debt now stands at near 75 percent of GDP, about 12 percent above the 2019 level. Overdrafts and payables are still high at 3.7 percent of GDP.

6. The current account deficit has narrowed. With the recovery of tourism, the current account deficit declined from the pandemic peak of 16 percent of GDP in 2020 to an estimated 2 percent of GDP in 2022, still below the level prior to the pandemic. Imputed reserves were 3.6 and 2.9 months of imports in 2021 and 2022, respectively.

7. The banking sector is stable, but NPLs are high and credit growth has been anemic (Figure 4). Banks have remained profitable, supported by steady net interest income. Deposits continued to grow albeit at a slower pace, further strengthening liquidity buffers. Capital ratios are above the regulatory minimum. However, NPL ratios have edged higher, to 14 percent of loans, and the restructured loans' portfolio embeds a risk of additional NPLs. In addition, the provisioning coverage ratios at some banks are still below the ECCB's requirement of 60 percent. The high public debt is also a source of systemic risk given the sovereign-bank link, through both direct and indirect exposures.[2] Credit growth has picked up in 2023, partly because of a low base in 2022, but remains below the nominal GDP growth despite the stronger-than-expected economic recovery (text figure). In contrast, credit unions—an important segment for financial inclusion—have accelerated credit provision to households, with loans growing 14 percent in 2023Q1. Credit unions' delinquency ratios fell to 8 percent in 2023Q1 from a pandemic high of 13 percent. Overall, the level of systemic risk remains moderate.

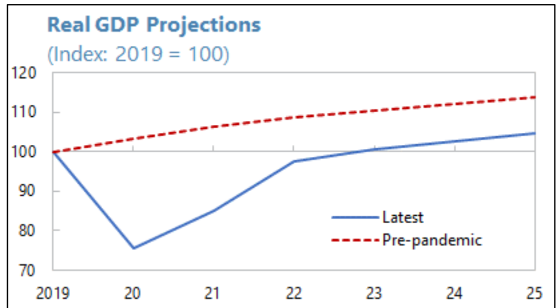
Credit Growth
(In Percent, Year on Year)



Sources: ECCB MFS; and IMF staff calculations.
1/ April for banks; March for credit unions.

[2] Gross bank exposure to the government is 6 percent of total assets.

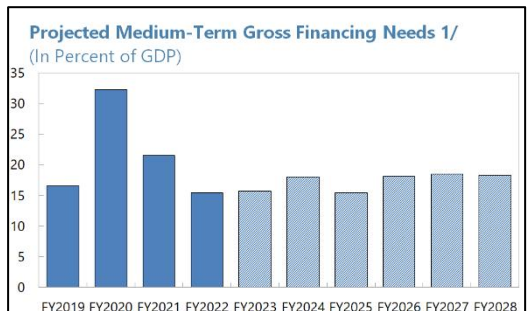
OUTLOOK AND RISKS



Sources: Country authorities and IMF staff calculations.

8. After the strong rebound in 2021 and 2022, growth is projected to gradually converge to potential, as airlift capacity begins to bind in the near-term and tourism demand completes the recovery in the medium-term. Annual inflation is projected to remain high around 4 percent in 2023 due to the carry-over effect before moderating to 2 percent in 2024.

9. The fiscal outlook continues to pose challenges amid high public debt and large rollover needs. On current policies, public debt is projected to stabilize around 75 percent of GDP in the medium term, significantly above the regional target of 60 percent of GDP by 2035. Though fiscal balances have improved owing to the economic rebound and inflation, the short maturity profile of domestic (regional) debt keeps financing needs elevated, implying high rollover risk. Staff's projection assumes the government remains financially constrained, unable to access sustained net additional funding based on available official envelopes and with limited appetite to increase exposure by participants in the regional bond market. With revenue projected in line with economic activity and given the relative downward rigidity of recurrent spending in the near term, the government financing constraint leads to low fiscal space for investment.



Sources: Country authorities and IMF staff calculations.
1/ Projection assumes gradual reduction of outstanding payables and overdrafts over the medium-term.

10. The current account is projected to recover to a modest surplus over the medium-term, thus returning to pre-pandemic levels. The overall external position in 2022 is assessed to be broadly in line with the level implied by the fundamentals and desirable policies (Annex III). However, the assessment is subject to significant uncertainty related to the potential impacts of the war in Ukraine, a possible global slowdown affecting tourism recovery, and import price volatility.

11. Bank credit to the private sector is projected to remain anemic in the absence of improved loan loss provisioning, fiscal adjustment, and additional legislative reform. Limited access to credit by firms and households is a key obstacle to domestic investment, employment, and growth. Banks are constrained by increased provisioning requirements in the near-term and structural constraints affecting banks' willingness to lend including legislative gaps regarding the ability to seize collateral and to access information about debtors' creditworthiness. They are also concerned about high public debt and the uncertain global environment. The interest rate risk from the banking sector is currently contained because of the substantial liquidity.

12. Risks to the outlook are tilted to the downside. Downside risks include global economic slowdown, commodity price volatility, and additional global financial tightening. Extreme climate events are a recurrent risk (see RAM in Appendix). In the financial sector, fuller NPLs recognition from the restructured loans portfolio or an increase in banks' foreign investments to take advantage of higher (or more persistently high) international interest rates could further depress credit growth and harm the recovery. Tightening in global financial conditions above expectations could reduce FDI, tourism demand[3], and appetite for risky public debt which is projected to remain high in the baseline. CIP revenue implies significant downside and upside uncertainty on the fiscal and external balances, with potentially large implications on public and private investment execution and growth. Better-than-expected tourism recovery poses upside risk.

Authorities' Views

13. The authorities broadly concurred with staff's baseline projections but have more upbeat growth forecasts over the medium term. Based on the hotel construction pipeline over the medium term and the plans to upgrade key public infrastructure, the authorities expect higher output growth in the medium term than projected by staff. The authorities generally agreed with the staff risk assessment and expressed concern about the lingering and/or renewed threat of Covid.

POLICY PRIORITIES

Near-term policies should focus on restoring fiscal and financial buffers to withstand shocks and improve conditions for investment and growth, complemented by institutional and legal reforms to protect the space for public investment while ensuring access to government financing at favorable terms. Banks should improve the classification of NPLs in the post-moratorium and restructured portfolios, raise provisions to the regulatory minimum, and strengthen interest rate risk management. Addressing risks in the credit union sector by strengthening regulation and enforcement are critical for financial stability and financial inclusion. Additional policies to address deep-rooted social problems would help reduce youth unemployment and support female participation in labor markets.

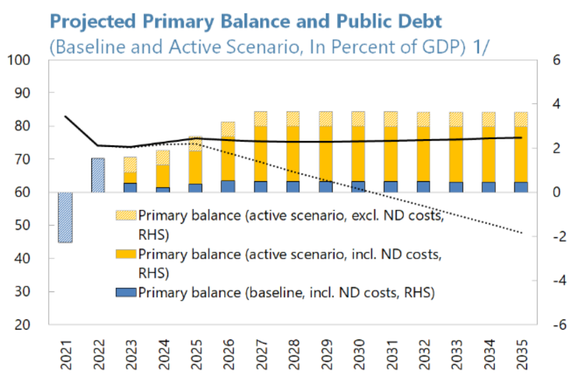
A. Rebuilding Fiscal Buffers

14. The fiscal policy priority is to rebuild buffers by starting fiscal consolidation in FY 2023/24, taking advantage of supportive cyclical conditions. The consolidation should be the first step of a medium-term plan sufficient to (i) put public debt firmly on a downward path; (ii) create fiscal space to support infrastructure and social investment; and (iii) build buffers against natural disasters.

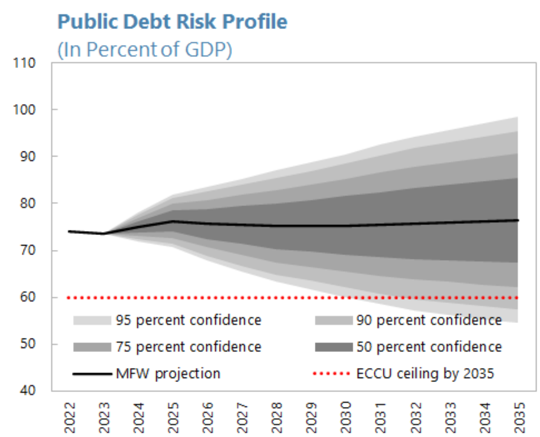
15. The authorities are contemplating measures to increase revenue, but higher adjustments are required to reach the regional debt target. Key initiatives include a new

[3] See the 2022 St. Lucia Article IV Staff Report, Box 1.

2.5 percent Health and Citizen Security Levy,[4] increase in excises on tobacco products, and a tax amnesty. While this would help reduce debt in line with past staff recommendation, the projected yields are insufficient to put debt on a downward trajectory to reach the regional debt ceiling and the measures are relatively less efficient than alternative options that staff proposed in terms of their growth impact and tax administration burden. While the tax amnesty can yield revenue in the short-term, it may incentivize non-compliance if taxpayers come to expect amnesties again in the future. The tax administration should ensure that an operational plan is in place with a structured and strong approach to arrears collection. The authorities' proposal also includes measures that would decrease revenue or increase expenditures, including temporary removal of 12.5 percent VAT on building materials, and a one-off payment to pensioners and teachers.



Sources: Country authorities and IMF staff calculations.
1/ For illustrative purposes the active scenario assumes an evenly phased adjustment of 0.5 percent of GDP per year between FY2023-27.



Source: Fund staff calculations based on authorities' data.

16. To support improvement in productivity, private investment, and employment, the government's plan could be strengthened with policies that focus on fiscal sustainability and efficiency of resource allocation. With output approaching its pre-pandemic level, the government should pursue more ambitious fiscal consolidation targets consistent with the regional debt ceiling, which is needed to strengthen debt sustainability. This requires savings measures of 2½ percent of GDP.[5] A further 1 percent of GDP consolidation could be targeted to boost public investment, including in resilience to natural disasters, which would stimulate growth in the near term and lead to fiscal savings in rehabilitation and reconstruction cost in case of a natural disaster. Potential measures (text table) could include (i) an increase of the VAT rate back to 15 percent from 12.5 percent currently; (ii) containment of public sector wage growth to below nominal output growth during the triennial wage negotiations with labor unions; (iii) reversal of the reduced rate for the hospitality sector and reinstatement of value-based property taxation; and (iv) streamlining of tax incentives and exemptions which amount to at least 3.7 percent of GDP—the social and investment objectives could be addressed more efficiently with targeted and proxy-targeted

[4] The Health and Citizen Security Levy is effectively a sales tax on specific goods, the tax base is expected to be more narrow than that of the value added tax.

[5] The consolidation need includes a natural disaster cost of two-thirds of a percent of GDP annually.

transfers and subsidies. Tax incentives, particularly for the tourism sector, could be reviewed to increase revenue while maintaining investment and job creation. The amount and allocation of tax incentives could be supported by adopting a rules-based (non-discretionary) framework including an annual cap on revenue foregone and transparent communication and publication.[6]

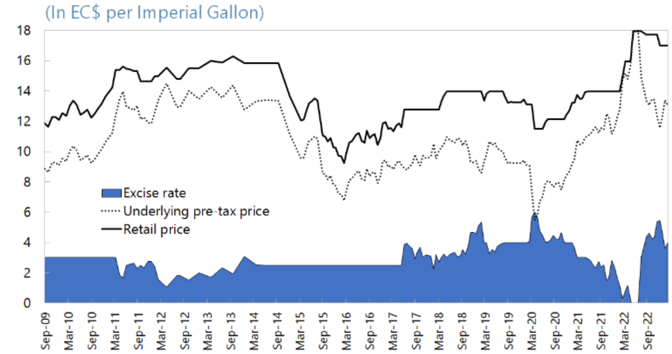
Options for Fiscal Consolidation

Description	Est. yield (% of GDP)	Notes
Estimated Medium-Term Adjustment Need:	**3.5**	
To set debt on a downward path toward the regional 2035 debt targett of 60 percent of GDP	2.5	
To increase public investment to at least the pre-pandemic average level relative to GDP	1.0	
Menu of Potential Meaures:	**3.9**	
Containing growth of the public sector wage bill (excl. retroactive increases) in the current triennial collective bargaining agreement to no more than the average of the last two.	0.7	(+) Reduces wage bill to precrisis levels, helps contain inflationary pressures and supports competitiveness
VAT measures, of which:	2.3	
Rate increase from 12.5 to 15 percent	1.1	(+) Effective in raising revenue, fairly shared burden between formal and informal sectors (-) Regressive without offsetting measures
Reversal of reduced rate for hospitality sector to offset the accommodation fee (from Dec 2020)	0.7	(+) Effective revenue source, improves cross-sectoral fairness
Increasing the VAT rate on fuel from 0 to 15 percent	0.5	(+) Remove inefficiences and improve fairness of the tax system (-) Some aspects may be regressive
Removal of some tax exemptions	0.8	(+) Improve efficiency of the tax system
Increasing the excise rate on fuel from 3.5 to 4 ECD	0.1	(+) Reduces fiscal impact of price shocks (-) Yield mitigated by need for offsetting measures to protect the poor.
Review tourism sector tax incentives, including in the context of the global minimum corporate income tax.	tbd	(+) Effective revenue source, improves cross-sectoral fairness. (-) May necessitate regional coordination to limit adverse competitiveness impact.
Reinstating a value-based residential property tax with features to address affordability concerns	tbd	(+) Effective revenue source where concerns of regressivity may be addressed e.g. with zero-rate threshold. (-) Requires time and new administrative measures to implement.

[6] The government expressed willingness to consider some of the fiscal consolidation measures, especially the review of tax exemptions, fuel taxes, and tax incentives to the tourism sector.

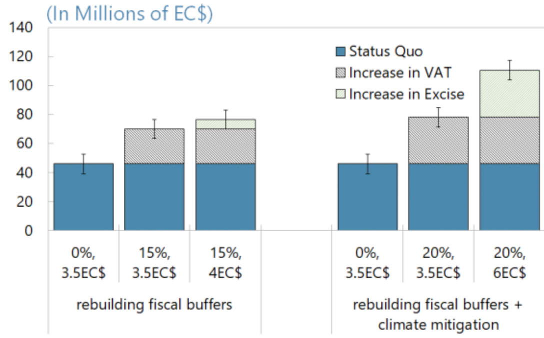
17. A fuel tax reform could improve revenue, help meet carbon emission targets and, with a new price pass-through mechanism, balance efficiency and social considerations. Currently, fuel is taxed at a zero VAT rate and an excise tax around a target of EC$3.5 per imperial gallon which is adjusted discretionally every three weeks. To increase revenue and reduce carbon emissions, increasing the VAT rate on fuel to the statutory rate would yield additional revenue of 0.5 percent of GDP, and additional 0.1 percent of GDP could be obtained by restoring the excise tax rate to the pre-pandemic level. To cushion the social and economic impact of sharp increases in international oil prices, the existing pass-through petroleum pricing practice could be replaced by a rule smoothing the passthrough from international oil to domestic fuel prices. Staff simulations indicate that, if appropriately calibrated, a smoothing passthrough rule can more effectively protect expected revenue in the long term while easing the social burden in the short term when international oil prices are high[7] and acting as an automatic stabilizer of output and inflation (text charts). Fuel taxes could be increased further to help reach St. Lucia's carbon emission mitigation commitments and increase revenue—which could be used to finance well-designed social transfers to mitigate the impact on the poor (text charts).

Gasoline Price and Excise Tax Rate
(In EC$ per Imperial Gallon)



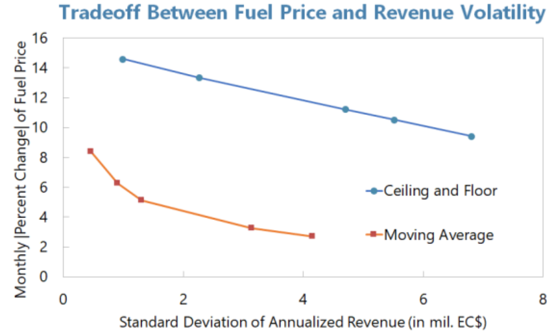
Sources: Country authorities, World Economic Outlook, IMF staff calculations.

Expected Annual Tax Revenue from Gasoline
(In Millions of EC$)



Sources: Data from authorities and IMF staff calculations.
Note: The length of each error bar is 2×standard deviation of total revenue.

Tradeoff Between Fuel Price and Revenue Volatility



Sources: Data from authorities and staff calculations.
Note: Based on gasoline when the excise tax is set at 3.5EC$ per imperial gallon and VAT is set at 0%.

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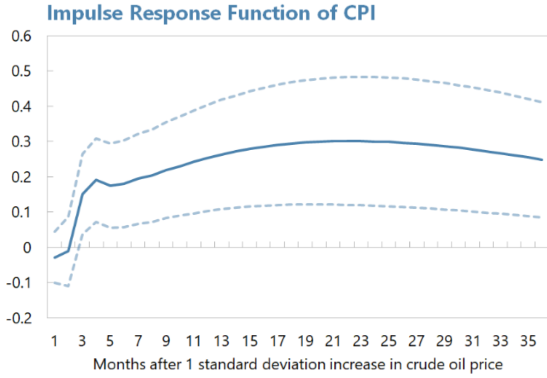
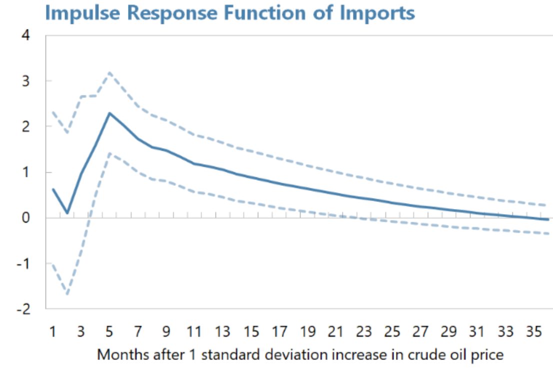
[7] Sustainability of the revenue in the long term is achieved with containment of fuel tax reductions when international oil prices are low. Implementation may require a fuel price stabilization fund.

Impulse Response Function of CPI



Sources: Data from authorities and staff calculations.
Note: The dashed lines are 1 standard deviation apart from the solid line.

Impulse Response Function of Imports



Sources: Data from authorities and staff calculations.
Note: The dashed lines are 1 standard deviation apart from the solid line.

18. **The government's physical and social investment plan, covering a broad set of areas, is ambitious and consistent with the needs to address bottlenecks to growth.** The public investment plan includes key infrastructure projects that will lift potential output and support the expansion of tourism, with positive downstream economic impact on other sectors. These include a new airport, improvements in the cruise ship port and the surrounding infrastructure for commercial expansion, and a new cargo seaport that would boost productivity and reduce the costs of transport. These investments are important considering the pipeline of large hotels under construction and development. The construction of a new hospital and improvements in the existing health infrastructure are key social investments and will support labor productivity.

19. **The government's objectives could be further supported by protecting space for public infrastructure and social investments.** Under staff's baseline, capital spending is limited to around 2½ percent of GDP due to the combination of low revenue, high current spending, and financing constraints. More fiscal space for investment in public infrastructure would better support private investment, thereby increasing labor demand and productivity. This would in turn increase growth, ease medium term adjustment needs, and aid debt sustainability. In addition, building capacity for well-designed targeted social transfers or proxy-targeted measures would enable helping the poor reach specific development objectives (i.e., in health and education), including during downturns. The government is planning to implement universal health care, and an unemployment insurance framework is at an advanced stage. These reforms will strengthen the social safety net while incentivizing formal employment. These key initiatives should be carefully designed with commensurate contributions to ensure their financial sustainability. Reforms put forward by the pension fund (increase contributions, modify the formula for the calculation of pensions to favor longer careers, reform pension parameters including automatic indexation, discourage early retirement) should be implemented to increase its longevity,[8] and its investment portfolio should be more internationally diversified to boost its resilience to shocks.[9]

[8] In the absence of reforms, the fund's reserves would be depleted by around 2050, resulting in a significant underfunding gap of around 165 percent of GDP in 60 years, which would require annual fiscal outlays of about 3 percent of GDP over the next 60 years.

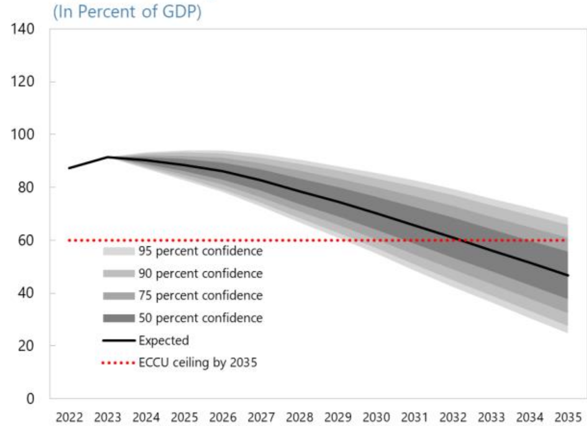
[9] Currently, the share of foreign investments outside the ECCU is around 15 percent of the total.

20. The government is making progress on legislative reforms to mitigate fiscal risk. The Public Financial Management Act passed in 2020, upgraded with additional amendments in 2022 and operational guidelines, has become effective in May 2023. A Public Asset Management Policy establishing asset valuation and disposal procedures has been endorsed by the Cabinet and came in effect in 2023. The government is reviewing the Public Finance Act to add clarifications and to strengthen implementation for effective application. It is also preparing regulations for the application of the 2021 Public Procurement and Asset Disposal Act, which will add transparency with clearly defined tender process requirements.[10]

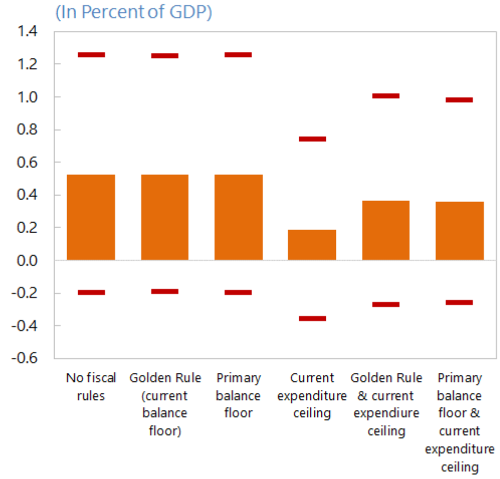
21. Adoption of a fiscal rule combining a primary balance floor and a recurrent spending ceiling would support the commitment to build fiscal buffers and mitigate fiscal risk further. Staff analysis suggests that this combination would contain recurrent spending procyclicality and thus provide additional fiscal space for public investment while supporting debt reduction without increasing taxes (text charts). It would also strengthen credibility by reducing the implied size of recurrent spending consolidations, which could be politically resisted. The relative simplicity of the proposal, with two operational targets anchored on a debt ceiling, should be transparently communicated to facilitate monitoring, enforce the consistency with annual budgets, and include escape clauses against natural disasters and pandemics.[11] The adoption of a credible fiscal rule would signal the direction and objectives of fiscal policy, especially in the face of shocks, and thus help support access to financing at better terms. Given the considerable uncertainty on debt outcomes in the long term, the rules should be calibrated to target a level lower than the regional debt ceiling, thus reinforcing credibility. The fiscal rule would be a key component of a fiscal responsibility framework, which the government intends to prepare in consultation with development partners.

Fiscal Rules Simulations

Public Debt with a Primary Balance Floor and a Current Expenditure Ceiling
(In Percent of GDP)



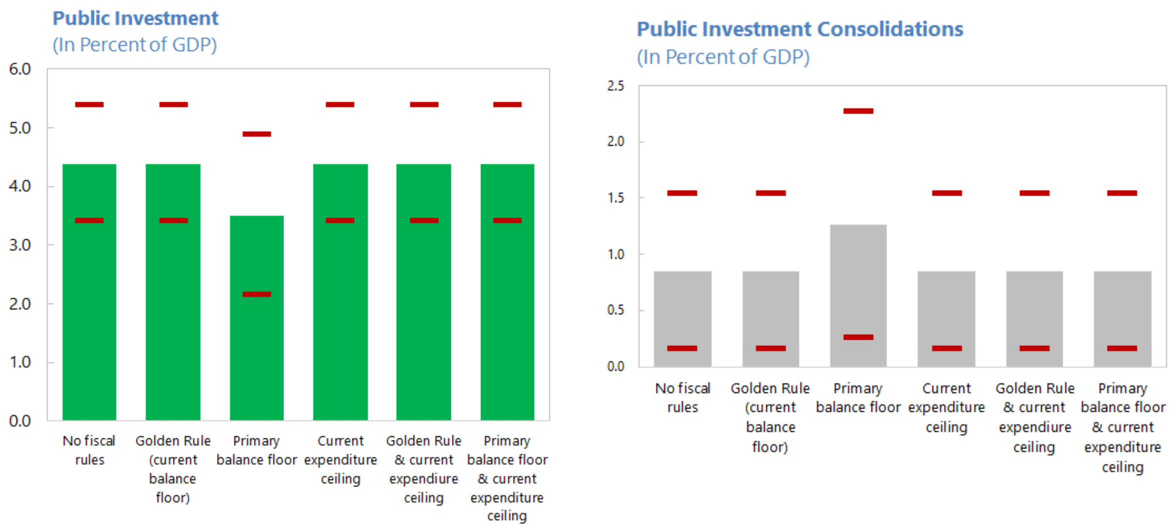
Current Primary Expenditure Consolidations
(In Percent of GDP)



[10] The Audit Department is finalizing a document on Covid policies and expenditure. These documents must be tabled in Parliament before they can be published.

[11] More flexibility and space for public investment could be achieved, for example, by switching to a recurrent balance rule when the public debt ceiling is not binding.

Fiscal Rules Simulations (Concluded)



Source: Fund staff calculations and authorities' data. Based on stochastic simulations that replicate historical variations in tax revenue, non-tax revenue, recurrent spending, and public investment. The bars indicate expected values and red lines are one standard deviations. When a primary balance floor is applied, public investment is the residual variable.

22. The government's objective of reducing high debt rollover needs could be supported by the development of bond markets and a permanent capacity to access climate finance. With gross financing needs of around 15–20 percent of GDP over the medium term, including short-term amortization of domestic (regional) treasury bills and bonds, the government's debt management strategy seeks to lengthen debt maturity. However, the execution has been delayed due to the recent increase in long-term interest rates.

- The government can take steps to improve the primary and secondary bond markets[12] by providing greater transparency and predictability to investors with more reliance on primary auctions in the regional government securities market (RGSM) and thus reduce the heavy reliance on private placements. This would increase government bonds' liquidity (currently held to maturity) and reduce interest rates by making them more attractive to a broader set of investors, including at the regional level.

- With regards access to climate finance, the government's plan to issue a blue bond at concessional terms combined with a debt swap operation is an important initiative. If well executed, it could lower interest costs and lengthen debt maturity by using most of the proceeds to repurchase domestic instruments with higher interest rates and shorter maturity. The preparation of such operations is significantly complex, typically requiring coordination among several government departments and technical support. To develop capacity to access climate financing recurrently while minimizing the interest and administrative costs, the government could develop a database of projects with climate adaptation and mitigation

[12] "Eastern Caribbean Union. Regional Government Securities Market: Developing a Vibrant Local Currency Bond Market", IMF (2019).

objectives, adopt green tagging of expenditures in the budget, and consider reforms to the government organization structure to enhance communication and coordination of the departments involved. Additional steps to mitigate refinancing risks include rolling out of annual borrowing plans and publication of a comprehensive medium-term fiscal framework and debt management strategy. Given the risks to debt sustainability, the government should prepare contingency plans, especially for extreme shocks like natural disasters, by increasing coverage from the Caribbean Catastrophe Risk Insurance Facility, especially for large scale low probability events.

23. The increase of Citizenship by Investment Program (CIP) revenue presents an opportunity to strengthen resilience to shocks and should be spent cautiously. Given that CIP flows are difficult to predict and the risk of a sudden stop, recurrent spending should not rely on CIP financing. The government has established a sinking fund to use the revenue collected with a new CIP option, which provides citizenship with the purchase of government bonds, for debt service exclusively. Other government CIP proceeds could be saved in a separate fund for self-insurance against natural disasters (for immediate availability at low cost), debt service (for debt reduction and to reduce refinancing risk), and public investment, including in resilience to natural disasters.

Authorities' Views

24. The authorities are confident that their planned revenue measures would generate substantial revenue, potentially larger than the staff estimate. While recognizing the efficiency advantages of a VAT rate increase, they see the new Health and Citizen Security Levy as a viable alternative with a specific allocation of the revenue in areas of need and regarded staff's estimated yield as conservative, indicating likely upward potential. They noted that VAT exemptions on building materials would help boost construction activity and increase growth while easing housing cost. They agreed with the Fund's long-standing advice to strengthen tax compliance and to streamline tax exemptions, especially in the tourism sector.

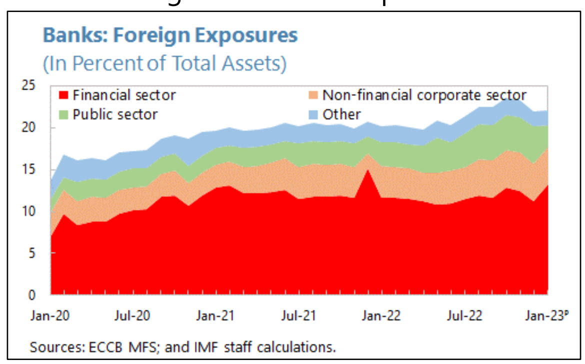
25. The authorities reacted positively to staff recommendations on fiscal rules, fuel price pass-through, and a CIP framework. They appreciated staff's recommendation on fiscal rules and are open to consider options. On fuel price pass-through frameworks, the authorities noted they are de-facto applying a similar framework to the ceiling-floor simulations in staff analysis, albeit in a discretionary manner and will consider the smoothing options to balance revenue protection and social considerations. They took positive note of staff recommendation to save other government CIP proceeds in a separate fund designated for self-insurance against natural disasters, debt service, and public investment.

26. The draft reforms put forward by the pension fund are being finalized in preparation for submission to the Parliament in the coming months. The authorities noted that, based on past experience, the draft reforms have a good chance to be passed in Parliament. The authorities were receptive to the staff recommendation to increase the international diversification of the pension fund's investment portfolio.

B. Strengthening Financial Sector Resilience

27. The priority in the financial sector is to strengthen buffers to increase resilience to shocks while enhancing conditions for private lending and growth. Given high bank NPLs[13] and provisions below the ECCB's requirement, positive bank profitability and capital above the regulatory minimum present an opportunity to improve the classification of NPLs and raise provisions to the required levels at all the banks.[14] The government should use its representation power at the ECCB to strengthen the enforcement of provisioning requirements and speed up efforts to dispose of long-standing NPLs. The strengthening of the banking system would increase financial resilience and improve conditions for bank credit growth which in turn would support economic growth.

28. The banks should improve investment portfolio risk management, including interest rate risk management, in the face of tightening global financial conditions, and de-risk and better diversify their portfolios. Some banks have substantial investments in overseas securities, including US government bonds. Additional risks stem from the large amount of corporate bonds relative to Treasuries, and—within the corporate bond portfolio—a sizeable exposure to the financial sector and a large portion of bonds rated below A-. Higher global interest rates would translate into investment losses on foreign securities and a possible widening in credit spreads on corporate bonds,[15] hitting bank capital with a knock-on effect on credit growth.



29. Financial-sector legislative reforms would improve incentives for bank credit to the private sector and bolster economic growth. To improve incentives for bank lending, the government has made significant progress on the legislative reforms recommended in the 2022 Article IV consultation with having passed the movable collateral framework, approved a credit bureau,[16] and advanced an insolvency bill.[17] On the

[13] There is risk that NPLs could increase further considering the lenient treatment of restructured loans after the Covid-19 pandemic (restructured loans are immediately classified as performing).

[14] Most large banks have not reached the minimum requirement for provisions of 60 percent of NPLs, which had to be met by end-2022, and reaching the 60 percent requirement by end-2024 may prove challenging to some banks (revised down from the 100 percent by the ECCB recently).

[15] This could be amplified by recent banking woes in the global scene.

[16] The credit bureau received its license in December and is expected to become fully functional in the coming months after having collected and collated all the necessary information. Citizens can request their credit report and can request it to be sent to third parties such as courts, landlords, employers, insurers, or credit institutions. All credit institutions can request credit reports from the credit bureau. The credit reports will include credit information from a variety of market participants, including banks, credit unions, utilities, courts, and civil records.

[17] The insolvency bill that was prepared in 2020 is under review, in consultation with financial institutions and other stakeholders. There is no specific timeline for its submission to Parliament for approval.

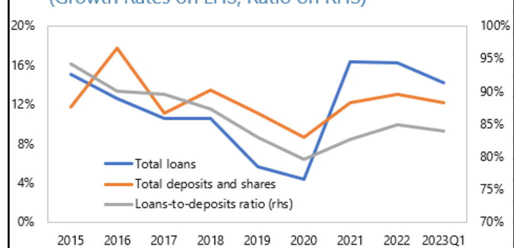
remaining recommendation to modernize the foreclosure legislation—a key impediment to credit access and growth—the government is prepared to consider the inclusion of commercial and investment residential properties in the legislation (excluding primary residences) and is planning to request TA on this topic. More generally, further financial deepening underpinned by strong financial institutions' balance sheets and the legal enhancements, including in market development, will support growth and economic stability.[18]

30. Continuation of the reforms of the AML/CFT laws and practices will mitigate risks related to cross-border financial flows and help protect correspondent banking relationships. Several legal and institutional reforms have been passed between 2021 and 2023 to address the technical deficiencies identified in the Caribbean Financial Action Task Force's (CFATF) mutual evaluation report published in January 2021. More emphasis on the implementation of the risk-based approach to supervision of AML/CFT would be an important enhancement, including to ensure adequate, accurate, and up-to-date beneficial ownership information. Mutual legal assistance and cross-border sharing of information should be prioritized given the variety of regulatory incentives geared toward non-residents.

31. The authorities continued to work on the legal reforms recommended in the 2021 ECCB Safeguards Assessment. These legal reforms require national enactment and are needed to strengthen the operational autonomy of the ECCB and to align its Agreement Act with leading practices. Work is continuing at the ECCB to address new risks with the issuance of DCash that require additional controls and oversight.[19]

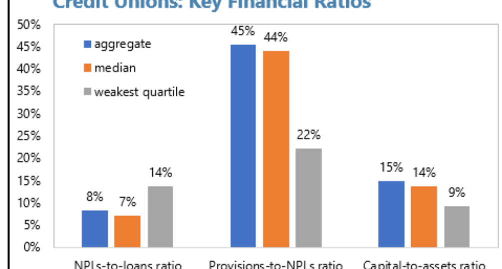
32. The regulation and supervision of credit unions should be strengthened and the enforcement by the regulator enhanced. The credit union segment is systemic, with total assets of 25 percent of GDP, and is important for financial inclusion. Credit unions have continued to grow rapidly, extending their lending by 16 percent in 2022 on average, with some large institutions expanding even faster. The rapid growth of credit unions is attributed to sustained inflow of deposits to the sector and weak credit standards and risk management, which result in regulatory arbitrage vis-à-vis banks in competing loan segments, mainly mortgages and consumer loans. There is a wide variation

Credit Unions: Loans and Deposits
(Growth Rates on LHS; Ratio on RHS)



Sources: FRSA; and IMF staff calculations.

Credit Unions: Key Financial Ratios



Sources: FRSA; and IMF staff calculations.

[18] "Rethinking Financial Deepening: Stability and Growth in Emerging Markets", IMF Staff Discussion Note, SDN/15/08, May 2015. The paper shows that most emerging market economies could see higher growth and more stability from further financial deepening.

[19] An update safeguards assessment of the ECCB found strong external audit and financial reporting practices that continue to be aligned with international standards.

in the NPL ratios,[20] provisioning coverage,[21] and capital ratios across credit unions, including the large ones. Two institutions have very low or negative capital, envisioned to eventually merge with the larger credit unions. Mindful of the risks, the Financial Services Regulation Authority (FSRA) has proceeded with its plan to conduct an asset quality review.[22] The FSRA has also put forward legislation (expected to be passed by end-2023) to strengthen regulatory standards, including the raising of the capital requirement by 2 pp to 12 percent of assets and limiting the use of collateral as an offset for the calculation of provisions,[23] and oversight, as well as providing the regulator with additional enforcing power and resources.

Authorities' Views

33. The authorities agreed that NPLs are high at both banks and credit unions, while noting both upside and downside risk. They concurred NPLs could increase further because of the risks embedded in the restructured loan portfolios but noted that NPLs could organically decline due to the economic rebound. They agreed with provisions needing improvement at some banks and in most credit unions and acknowledged the importance of strengthening financial resilience to protect deposits and financial inclusion. On AML/CFT, the authorities are committed to carrying out the pending legislative reforms and to improve implementation. They are also committed to passing the legal reforms recommended in the 2021 ECCB Safeguards Assessment. The FSRA agreed on the assessment of the credit unions and acknowledged the need to strengthen the regulation, supervision, and enforcement with the passing of the new legislation.

C. Increasing Employment with Labor Market Reforms

34. Policies that improve labor force participation and productivity could increase employment and address gender and youth gaps, important for growth and social development. The participation rate for female prime age workers (aged 25–64) is about 10 percentage points lower than male counterparts. Compared to emerging markets and low-income countries, St. Lucia ranks on the worse side for gender gap in informal employment, but fares better in formal employment and participation gaps (IMF Gender Gap Indicator Toolkit). Staff

[20] See the 2022 St. Lucia Staff Report on the loan classification issues pertaining to moratoriums and restructurings.

[21] The FSRA follows a different provisioning practice relative to that by the ECCB for banks, where the provisioning coverage ratio is generally lower (45 percent in aggregate as of March 2023 for credit unions vs the 60 percent required by the ECCB) and are assessed against the loan amount reduced by the value of collateral. The use of the value of collateral as an offset is unusual by international regulatory standards because the value of collateral is uncertain in a real estate market with low liquidity, especially in rural areas. Moreover, the lack of modernized foreclosure legislation in St. Lucia effectively means that credit unions are not able to seize collateral outright—which should preclude the lenders from using it as an offset in the calculation of provisions.

[22] As of June 2023, the regulator is selecting an international audit firm to lead the review process. The review will take three years and will cover the largest credit unions.

[23] In the new legislation, generally, collateral will not be used for 365+ days NPLs but will still be used for 90+ days to 365 days NPLs.

estimates suggest that female workers have a 10 percent lower participation rate than males.[24] Furthermore, the likelihood of participation is lower for youth, lower-secondary educated, and caretaker of elders. A median female worker receives 20 percent less in monthly gross income than a male with the same observable characteristics (e.g., experience, education).[25] Since the pandemic, there has been a jump in both male and female youth who are *not in employment, education, or training* (NEET). Employers indicate difficulty in finding skilled workers due to a combination of outmigration and skill mismatches.

35. Addressing these labor market frictions requires a renewed effort to increase both labor productivity and participation, thus strengthening external competitiveness. While improving conditions for private investment will increase employment, it may prove insufficient to achieve full employment across all the population segments given their distinct challenges to employment (Annex IV, Figure 1). The government could seek additional technical assistance from development partners to improve education attainment, including to increase enrollment in technical and vocational education and training to address skill mismatches. Labor participation of females and youth[26] could be addressed by expanding the capacity of child and elderly care. Education programs could be reviewed to strengthen employability and the allocation of government scholarships could be better aligned with the skills in high demand, in consultation with employers. The recently created Youth Economy Agency to support youth employment with business incubation and entrepreneurship with training and guidance could be complemented with social programs that tackle non-economic barriers to employment. These programs would have to fit within the fiscal consolidation plan and could include tuition or cost recovery fees to ensure a neutral impact on the budget. In addition, increasing the transparency of pay and providing more parental leave would increase labor participation and thereby increase equality of opportunities, and narrow gender salary gaps.[27] This will in turn boost labor productivity, external competitiveness, and growth.

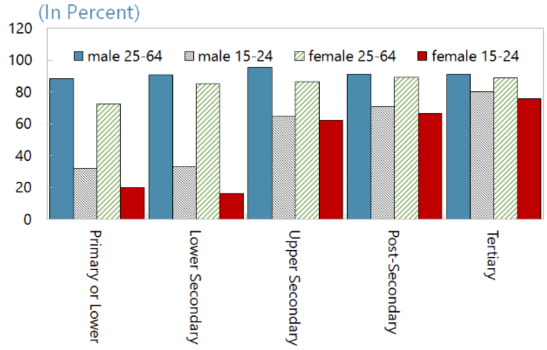
[24] Based on a profit regression controlling for observable characteristics (e.g., education, whether the worker is the head of the household),

[25] Preliminary staff estimates of the gender wage gap are based on quantile regression analysis with the Mincer approach using the mid-point of 8 income brackets in the Labor Force Survey.

[26] Youth from households with young children and the elderly are more likely to be NEET.

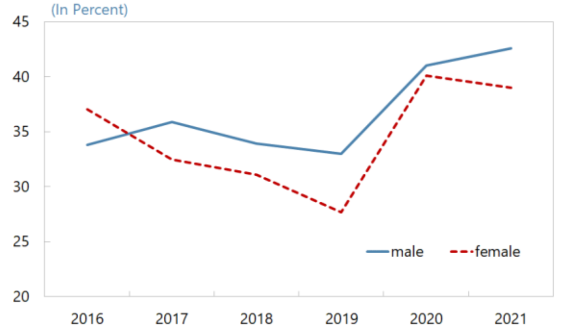
[27] See IMF Fiscal Monitor, April 2021, Chapter 2.

Labor Force Participation Rate
(In Percent)



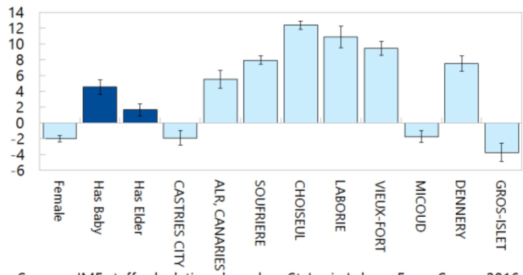
Sources: IMF staff calculations based on St. Lucia Labour Force Survey 2016-2021.

Share of Youth Not in Employment, Education, or Training
(In Percent)



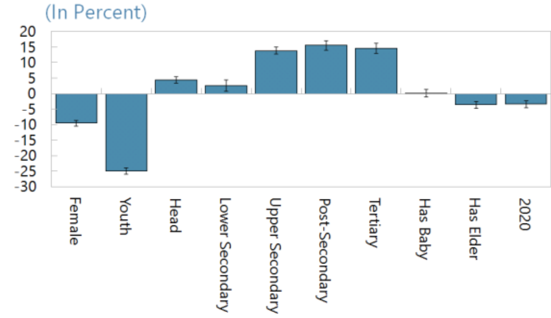
Sources: IMF staff calculations based on St. Lucia Labour Force Survey 2016-2021.

Marginal Effect on the Probability of being Youth NEET
(In Percent)



Sources: IMF staff calculations based on St. Lucia Labour Force Survey 2016-2021.
Note: The base district is Castries Rural. The error bars denote 95% CI. Controls include education groups and 2020 dummy.

Marginal Effect on Labor Force Participation
(In Percent)



Sources: IMF staff calculations based on St. Lucia Labour Force Survey 2016-2021.
Note: The base education group is Primary or Lower. The error bars denote 95% confidence interval.

Authorities' Views

36. **The authorities appreciated the staff's analysis on the labor market and emphasized their ongoing efforts to tackle high youth unemployment.** They expect their business incubation initiative with the establishment of the Youth Economy Agency and the vocational training programs will support young workers' employment and growth.

STAFF APPRAISAL

37. **The St. Lucia economy rebounded strongly in 2022 after the collapse in tourism during the pandemic and the war in Ukraine, leading to large improvements in the fiscal and external deficits.** GDP grew by an estimated 15.7 percent in 2022. Inflation was high at 6.4 percent with strong impulse from international prices. With the recovery of tourism, the current account deficit narrowed from a peak of 15.2 percent of GDP in 2020 to 2.3 percent of GDP in 2022, while the estimated fiscal balance improved in FY2022 by 4.1 percentage point to a deficit of 1.4 percent of GDP due to strong tax revenue collection and CIP revenue. However, the large fiscal deficits during the pandemic and the growth collapse in 2020 led to a significant increase in public debt which now stands at near 75 percent of GDP. The financial system has remained stable and liquid with a sustained increase in deposits, but the loan portfolio performance has worsened. The rapid credit

growth in the credit unions raises credit risk concern, especially given relatively weaker credit standards in the sector, generally high NPLs, and low capital buffers in some institutions.

38. Growth is projected to slow in the medium term as the economy completes the recovery, but the fiscal outlook poses challenges. The government's plan, encompassing investments in the transport, health, and social areas, is ambitious and consistent with the needs to address bottlenecks to growth. However, on current policies, public debt is projected to stabilize around 75 percent of GDP in the medium term, above the regional ceiling of 60 percent of GDP by 2035. The short maturity profile of domestic (regional) debt keeps financing needs elevated, implying refinancing risk. The government plans to increase revenue are insufficient to reach the regional debt ceiling. Constraints to bank credit, including the need to increase provisioning and legal disincentives affecting the ability to seize collateral remain obstacles to domestic investment, employment, and growth.

39. The government's plan could be strengthened with policies that focus on fiscal sustainability and resource allocation efficiency. With output approaching its pre-pandemic level, the government should target a fiscal consolidation of at least 2½ percent of GDP to reach the regional debt ceiling and rely on strengthening of tax compliance, streamlining of tax exemptions, adopting a fuel price pass-through framework, and the more efficient value added tax. A further 1 percent of GDP of fiscal consolidation could be used to increase public investment resilient to natural disasters. Public debt sustainability could be supported by a well-designed fiscal rule, self-financing of the initiatives to strengthen the social safety net, and more capacity to access climate finance. To address fiscal risks, CIP revenue could be saved in a fund for self-insurance against natural disasters, debt service, and public investment. The draft reforms put forward by the pension fund should be implemented to increase its longevity, and its investment portfolio should be more internationally diversified to boost its resilience to shocks.

40. The priority in the financial sector is to strengthen buffers to increase resilience to shocks while enhancing incentives for private lending. Banks should improve the classification of NPLs in the post-moratorium and restructured portfolios, raise provisions to the regulatory minimum, and strengthen risk management of foreign investments. The government should use its representation power at the ECCB to strengthen the enforcement of provisioning requirements and speed up the disposals of NPLs. The modernization of foreclosure legislation for commercial loans and residential property, and passing of the bankruptcy and insolvency law, would expand credit access and lower loan interest rates. Ensuring effective implementation of the international AML/CFT standards would help protect correspondent banking relationships and mitigate risks related to cross-border financial flows. In the credit unions sector, the passing of the draft bill with stronger regulatory standards will improve compliance with provisioning and capital requirements.

41. High unemployment, particularly among the youth, requires targeted policies to address deep-rooted social problems and a review of the education programs. While improving conditions for private investment will increase labor demand, it may prove insufficient to achieve full employment. High unemployment affects different segments of the population facing distinct challenges to employment, especially female workers and youth. This suggests the need to review education programs to strengthen employability; increase enrollment in technical and vocational education and training to address skill mismatches; reduce of transport cost; and review the allocation of government scholarships to skills in high demand, in consultation with employers. Labor participation of females and youth[28] could be addressed by expanding the capacity of child and elderly care. The recently created Youth Economy Agency to support youth employment and business development and entrepreneurship with training and guidance could be complemented with social programs that tackle non-economic barriers to employment.

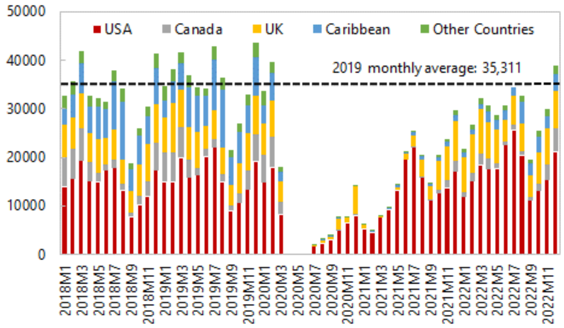
42. It is recommended that the next Article IV consultation takes place on the standard 12-months cycle.

[28] Youth from households with young children and the elderly are more likely to be NEET.

Figure 1. St. Lucia: Recent Economic Developments

With tourism recovering strongly…

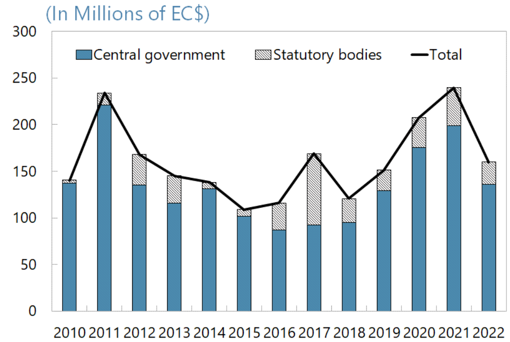
Monthly Stay-Over Tourist Arrivals
(Number of Tourists)



Sources: Country authorities and IMF staff calculations.

…and public investment remaining above 2019 levels…

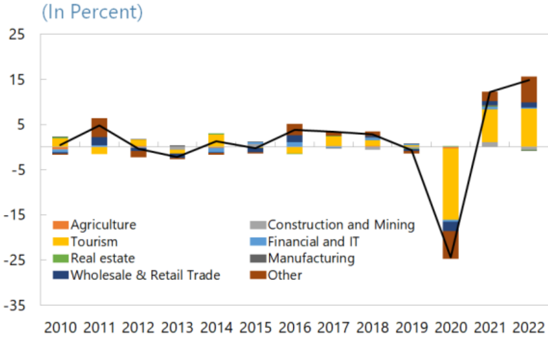
Public Sector Construction Expenditure
(In Millions of EC$)



Sources: Economic and Social Review 2022, Ministry of Finance.

…real GDP continued to recover…

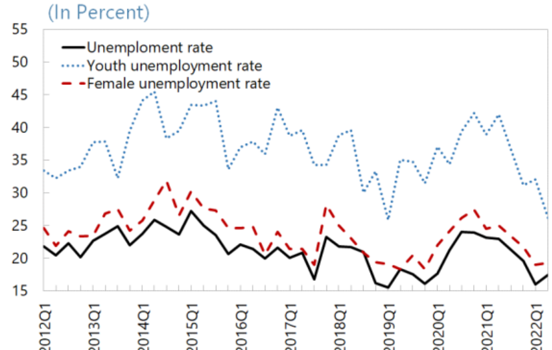
Real GDP Growth
(In Percent)



Sources: ECCB; and IMF staff estimates.

…lowering the unemployment rate.

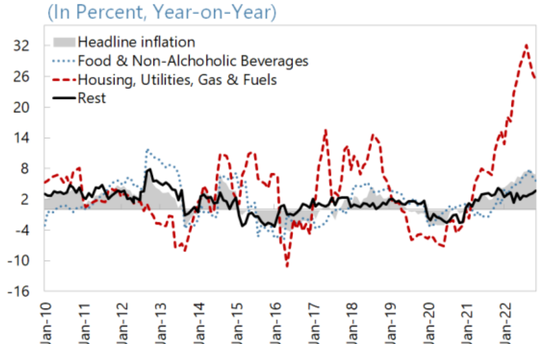
Unemployment Rates
(In Percent)



Sources: Central Statistical Office of St. Lucia

Inflation, though past its peak, remains elevated.

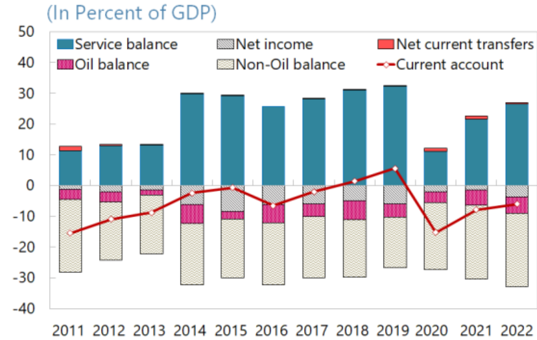
CPI and its Components
(In Percent, Year-on-Year)



Sources: ECCB; and IMF Staff Estimates.

The current account is still in deficit.

Current Account Balance
(In Percent of GDP)

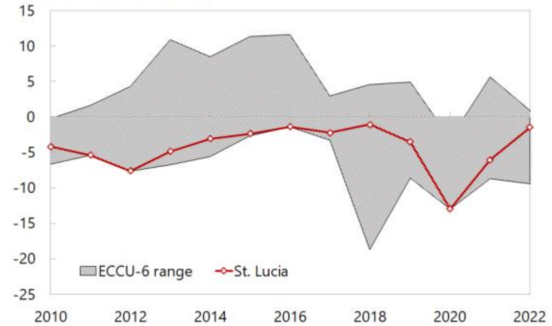


Sources: Country Authorities; and IMF Staff Estimates.
Note: Data changed from BPM5 to BPM6 since 2014.

Figure 2. St. Lucia: Fiscal Sector Developments

After a sharp decline following the pandemic, the fiscal balance is improving.

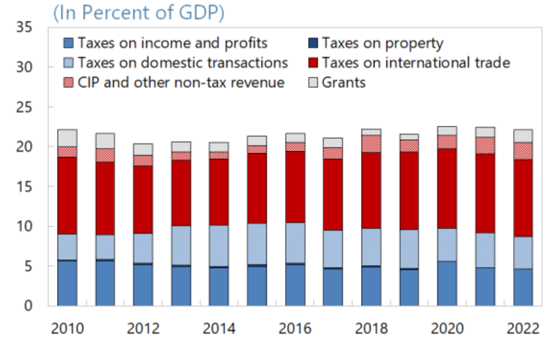
Fiscal Overall Balance
(In Percent of GDP)



Source: National authorities and IMF staff calculations.

Revenues improved in FY22 compared to FY21, both in nominal terms and as a share of GDP.

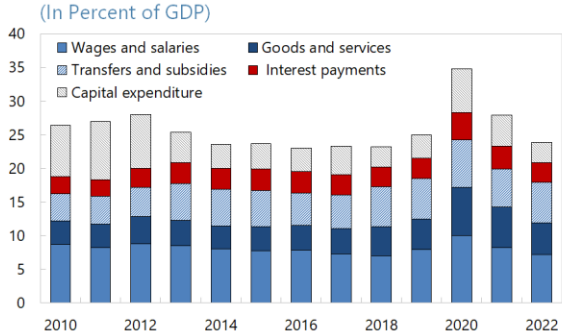
Revenue Composition
(In Percent of GDP)



Sources: Country authorities and IMF Staff Estimates.

Expenditure, as a share of GDP, continues to fall since the pandemic.

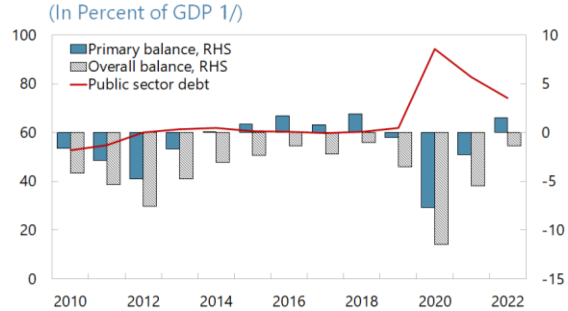
Expenditure Decomposition
(In Percent of GDP)



Sources: Country authorities and IMF Staff Estimates.

Public debt, though declining after the pandemic jump, remains elevated.

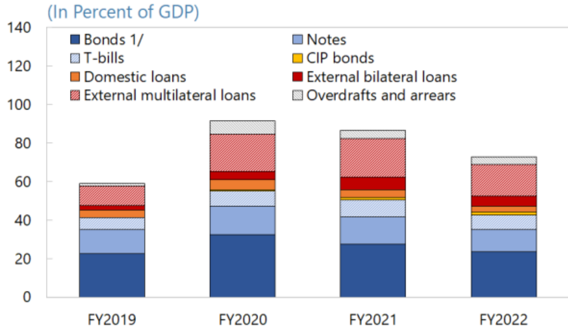
Fiscal Balances and Public Debt
(In Percent of GDP 1/)



Sources: Country authorities.
1/ GDP was revised up in 2017, 2019 and 2020 following changes to national accounts and rebasing of historical data.

Debt composition continues to shift towards long-term financing, but short-term liabilities remain large…

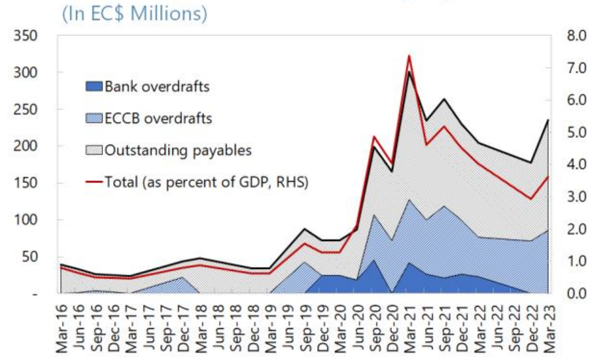
Composition of Central Government Debt
(In Percent of GDP)



Sources: Country authorities and IMF staff calculations.
1/ Includes ECCB long-term credit allocation from FY2020.

…with significant overdrafts and outstanding payables.

Stock of Overdrafts and Outstanding Payables
(In EC$ Millions)

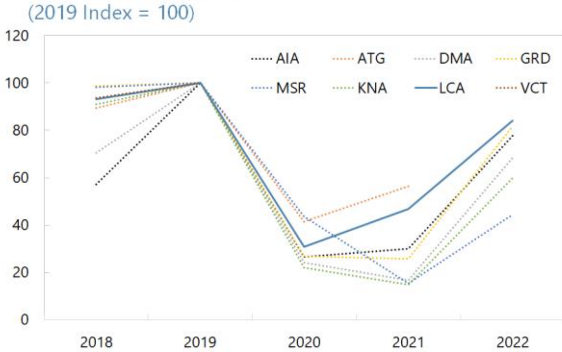


Sources: Country authorities and IMF staff estimates.

Figure 3. St. Lucia: External Sector Developments

Tourism continued to recover strongly in 2022…

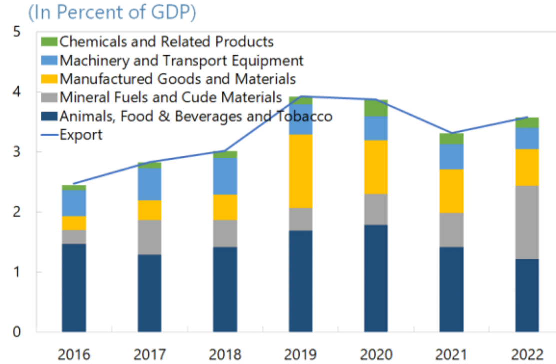
ECCU Stay-over Visitors
(2019 Index = 100)



Sources: CTO and IMF staff calculations.

…and exports of goods almost reached 2019 levels.

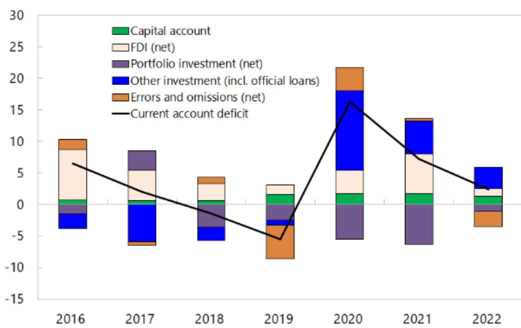
Goods Export Decomposition
(In Percent of GDP)



Sources: ECCB and IMF staff calculations.

The current account deficit continued to shrink in 2022, while FDI remained stable, and portfolio outflows declined…

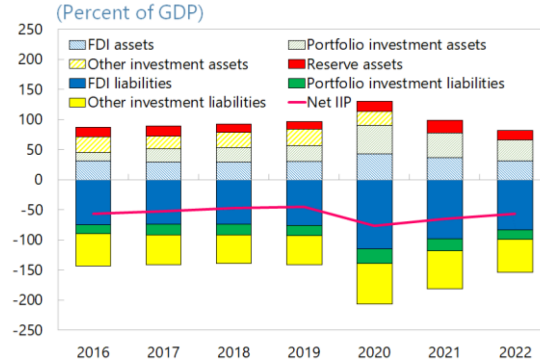
Current Account Sources of Finance
(Percent of GDP)



Sources: Country authorities and IMF staff calculations.

…and the negative NIIP also continued to improve.

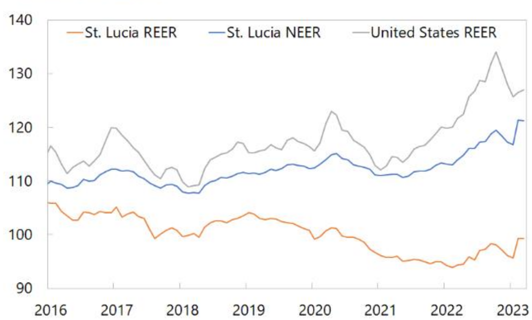
IIP Composition by Instrument
(Percent of GDP)



Sources: ECCB and IMF staff calculations.

The REER has slightly appreciated over the last 12 months due to NEER appreciation.

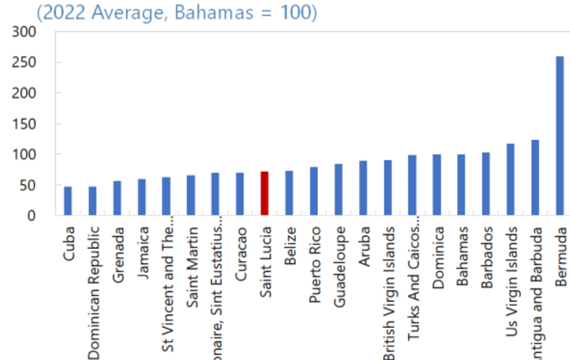
Nominal and Real Effective Exchange Rates
(Indexes, 2010= 100)



Source: IMF staff calculations.

St. Lucia remains a moderately competitive tourist destination, though it became more expensive relative to its peers between 2021 and 2022.

Week at the Beach Index
(2022 Average, Bahamas = 100)

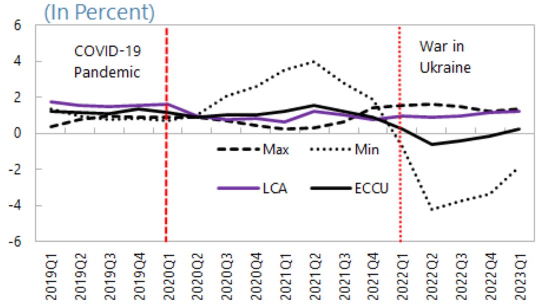


Sources: Country authorities and IMF staff calculations.

Figure 4. St. Lucia: Financial Sector Developments

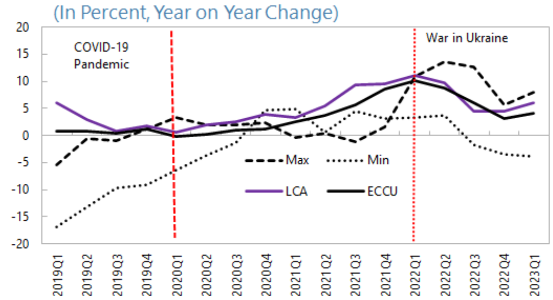
Banks have remained profitable, supported by steady net interest income.

Return on Average Assets
(In Percent)



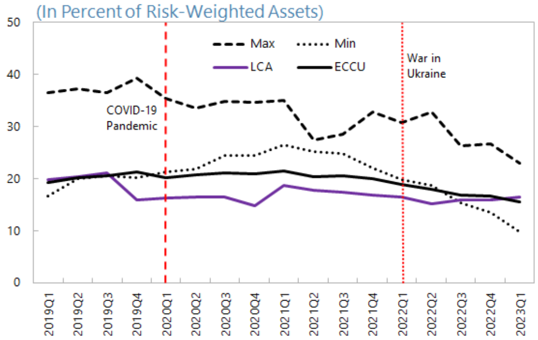
Deposit growth has slowed but remained positive.

Deposit Growth
(In Percent, Year on Year Change)



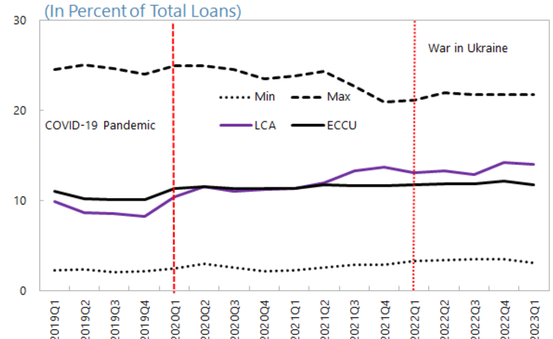
As a result, banks are still liquid and have capital above the regulatory minimum.

Capital Adequacy Ratios
(In Percent of Risk-Weighted Assets)



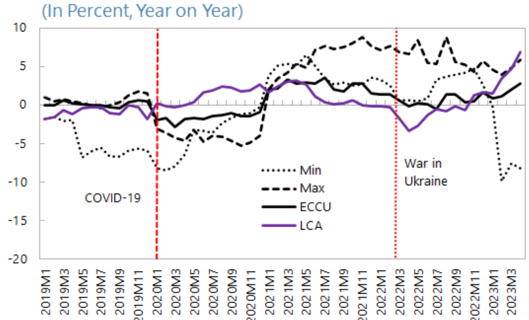
However, bank NPL ratios have edged higher, and provisions are below the ECCB's requirement.

Asset Quality: NPL Ratio
(In Percent of Total Loans)



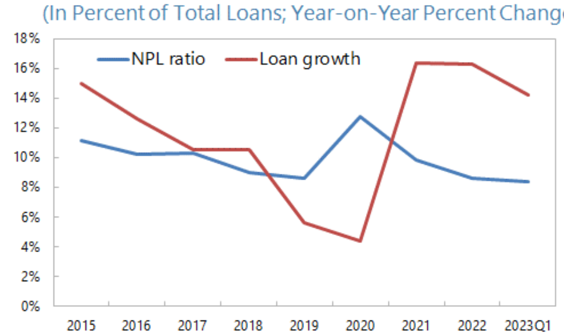
Credit growth has picked up recently but is still anemic despite the stronger-than-expected economic recovery.

Credit to the Private Sector
(In Percent, Year on Year)



Credit unions' NPLs have declined but are still elevated and could rise due to classification issues.

Credit Unions: NPL Ratio and Loan Growth
(In Percent of Total Loans; Year-on-Year Percent Change)



Sources: ECCB; FRSA; and IMF staff calculations.
Note: Max and Min denote the country in the ECCU with the highest and lowest value as of 2023Q1, respectively.

Table 1. St. Lucia: Selected Social and Economic Indicators, 2019–28

I. Social and Demographic Indicators

Area (sq. km)	616	Infant mortality (per thous. live births, 2020)	22
		Human Development Index ranking (of 189 countries, 2020)	85
Population Characteristics			
Total (thousands, 2022Q3)	181.8	Gross Domestic Product (2021)	
Rate of growth (average 2010-2021)	0.53	(millions of US dollars)	1,850
Population density (per sq. km., 2021)	295.1	(millions of EC dollars)	4,994
Secondary education enrollment (percent, 2019)	90	(US$ per capita)	10,173
Life expectancy at birth (years, 2019)	76	Gross National Income per Capita (US$, 2020)	8,790

II. Economic and Financial Indicators

					Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	(Annual percentage change, unless otherwise specified)									
Output and Prices										
Real GDP (at market prices)	-0.2	-23.6	11.3	15.7	3.2	2.3	2.3	1.8	1.5	1.5
Real GDP (at factor cost)	0.7	-23.7	10.3	14.3	3.2	2.3	2.3	1.8	1.5	1.5
Consumer prices, period average	0.5	-1.8	2.4	6.5	4.3	2.1	2.0	2.0	2.0	2.0
Output gap (percent of potential GDP)	6.5	-19.3	-11.3	1.0	2.2	2.5	1.3	1.1	0.0	0.0
Unemployment rate (% annual average)	16.8	21.7	21.9	...	...	...	...	...	...	...
Real effective exchange rate										
(annual average, depreciation -)	102.5	99.4	95.3	...	...	...	...	...	...	...
	(In percent of GDP, unless otherwise specified)									
Central Government Finances 1/										
Revenue	21.5	21.6	21.2	21.8	21.3	21.0	21.0	21.1	21.0	21.0
Taxes	19.3	18.9	18.2	18.2	18.2	18.2	18.2	18.3	18.3	18.2
Non-tax revenue	1.5	1.6	1.8	2.0	1.9	1.7	1.7	1.6	1.6	1.6
Grants	0.7	1.1	1.2	1.6	1.3	1.2	1.2	1.2	1.2	1.2
Expenditure	25.0	33.0	26.7	23.2	23.5	23.4	23.2	23.2	23.3	23.4
Current primary expenditure	18.5	23.1	19.3	17.4	17.6	17.6	17.4	17.4	17.3	17.3
Interest payments	3.0	3.8	3.2	2.9	3.2	3.3	3.3	3.4	3.4	3.5
Capital expenditure	3.5	6.2	4.2	2.9	2.7	2.5	2.5	2.5	2.5	2.5
Natural disaster (ND) annualised cost	0.0	0.0	0.0	0.0	0.7	0.7	0.7	0.7	0.7	0.7
Primary balance, excl. ND cost	-0.5	-7.7	-2.3	1.5	1.1	0.9	1.0	1.2	1.2	1.1
Primary balance, incl. ND cost	-0.5	-7.7	-2.3	1.5	0.4	0.2	0.4	0.5	0.5	0.5
Overall balance excl. ND cost	-3.5	-11.5	-5.5	-1.4	-2.1	-2.4	-2.3	-2.2	-2.3	-2.4
Overall balance, incl. ND cost	-3.5	-11.5	-5.5	-1.4	-2.8	-3.0	-2.9	-2.8	-2.9	-3.1
Central government debt	58.5	89.1	77.8	69.5	67.6	67.4	67.3	67.4	67.7	68.1
Total public sector debt 2/	61.9	94.2	82.9	74.1	73.7	75.0	76.3	75.7	75.4	75.2
Domestic	32.2	49.0	39.8	36.0	34.2	33.7	33.6	32.9	32.4	32.8
External	29.7	45.2	43.1	38.1	39.5	41.3	42.7	42.8	42.9	42.4
Money and Credit, End of Period (Annual Percent Change)										
Broad money (M2)	3.2	-6.6	14.9	3.8	3.4	2.1	4.8	4.4	4.0	4.0
Credit to private sector (real)	-2.4	4.5	-2.4	-4.6	-0.3	0.9	0.0	-1.0	-2.0	-2.0
Credit to private sector (nominal)	-1.9	2.7	-0.1	1.6	4.0	3.0	2.0	1.0	0.0	0.0
Balance of Payments										
Current account balance, *o/w:*	5.5	-15.2	-7.0	-2.3	-0.8	-0.4	-0.3	-0.1	-0.1	-0.1
Exports of goods and services	57.5	29.7	38.4	52.6	54.4	54.8	55.1	55.3	55.4	55.5
Imports of goods and services	-46.2	-43.8	-44.1	-51.3	-51.4	-51.4	-51.4	-51.4	-51.4	-51.4
Capital account balance	1.6	1.6	1.6	1.3	1.3	1.2	1.2	1.2	1.2	1.2
Financial account balance	1.8	-10.1	-5.0	-3.3	0.5	0.7	0.9	1.0	1.0	1.1
Direct investment	-1.5	-3.5	-6.1	-1.1	-1.1	-1.0	-1.0	-1.0	-0.9	-0.9
Portfolio investment	2.5	5.1	6.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Other investment	1.9	-9.8	-13.4	-1.5	-4.7	-5.0	-4.0	-3.7	-3.6	-2.7
Net reserves assets	-1.2	-2.0	8.4	-1.8	5.3	5.6	4.8	4.6	4.6	3.6
Errors and omissions	-5.3	3.5	0.3	-2.3	0.0	0.0	0.0	0.0	0.0	0.0
External debt (gross) 3/	61.4	78.1	70.8	63.8	63.2	63.9	64.3	63.4	62.8	61.5
Public	29.7	45.2	43.1	38.1	39.5	41.3	42.7	42.8	42.9	42.4
Memorandum Items:										
Nominal GDP (EC$ millions) 4/	5,677	4,112	4,994	6,201	6,709	7,044	7,385	7,707	8,018	8,341
Net imputed international reserves										
Months of imports of goods and services	4.5	3.3	3.6	2.9	3.9	5.0	5.9	6.7	7.5	8.0
Percentage of demand liabilities	88.7	88.3	92.3	91.4	93.6	94.9	95.6	96.1	96.5	96.7

Sources: St. Lucia authorities; ECCB; UNDP HDI; and Fund staff estimates and projections.
1/ Fiscal year (April–March) basis. Fiscal balances do not include the airport project, which is implemented by a public corporation.
2/ Public sector debt includes payables and overdrafts/ECCB advances.
3/ Comprises public sector external debt, foreign liabilities of commercial banks and other private debt.
4/ GDP historical series was rebased to 2018 base year in 2020. This increased nominal GDP figures by about 9 percentage points.

Table 2a. St. Lucia: Central Government Operations, 2019–28 1/

(In Millions of EC Dollars)

				Est.	Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	(In millions of EC dollars)									
Revenue	**1,221.8**	**933.6**	**1,124.1**	**1,380.9**	**1,450.0**	**1,499.5**	**1,565.2**	**1,640.2**	**1,703.5**	**1,770.4**
Taxes	1,097.7	818.1	962.6	1,150.3	1,237.1	1,297.9	1,355.7	1,423.9	1,479.6	1,537.4
Taxes on income	256.7	230.6	236.5	286.0	315.9	332.2	347.9	363.0	377.7	393.0
Taxes on property	7.8	7.2	8.0	11.7	9.9	10.4	10.9	11.3	11.8	12.3
Taxes on goods and services	276.9	168.7	220.1	253.2	261.0	274.6	287.3	289.4	300.9	312.9
Taxes on international trade and transactions 2/	556.3	411.7	498.0	599.4	650.3	680.8	709.7	760.2	789.2	819.3
Grants	40.0	47.5	63.7	101.1	86.8	82.0	85.9	89.6	93.2	97.0
Other revenue 3/	84.1	67.9	97.8	129.5	126.0	119.5	123.5	126.7	130.7	136.0
Property income	4.9	3.1	3.2	3.8	4.1	4.3	4.5	4.6	4.8	5.0
Fines, Penalties & Forfeits, Voluntary Transfers	5.7	23.3	43.6	66.2	58.1	48.2	48.9	48.8	49.8	51.8
of Which: Citizen by Investment Program (CIP)	4.4	22.7	42.7	65.0	56.8	46.9	47.5	47.4	48.2	50.2
Sales and other nontax revenue	73.4	41.6	51.0	59.5	63.9	67.0	70.2	73.2	76.1	79.2
Expenditure	**1,420.4**	**1,431.4**	**1,415.5**	**1,468.3**	**1,594.9**	**1,668.5**	**1,735.1**	**1,809.7**	**1,887.8**	**1,971.3**
Expense	**1,220.5**	**1,164.1**	**1,191.6**	**1,285.9**	**1,414.0**	**1,488.1**	**1,546.6**	**1,613.5**	**1,683.4**	**1,758.3**
Compensation of employees	451.8	413.0	411.3	444.3	483.2	527.1	551.9	575.5	598.8	622.9
Purchase of goods and services	258.9	293.6	299.3	292.5	318.8	317.5	327.2	341.2	355.0	369.3
Interest	170.8	164.4	171.0	184.0	218.0	232.0	247.1	261.8	278.4	297.2
Social benefits	117.8	115.8	124.8	146.0	158.0	165.8	163.2	170.2	177.0	184.2
Retirement benefits	101.6	100.8	106.2	108.2	114.4	120.1	125.7	131.1	136.4	141.9
Public assistance and casual relief	16.1	15.0	18.6	37.8	43.6	45.8	37.4	39.0	40.6	42.3
Subsidies	4.8	3.4	3.7	20.3	24.8	26.0	27.2	28.4	29.5	30.7
Other	11.3	11.7	14.9	17.5	18.8	19.7	10.2	10.6	11.1	11.5
Other expense	221.3	177.2	185.2	219.1	236.0	245.6	257.2	264.9	274.1	284.7
Transfers to public-sector institutions 4/	221.3	177.2	185.2	219.1	236.0	245.6	257.2	264.9	274.1	283.7
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Net Acquisition of Nonfinancial Assets	**199.9**	**267.4**	**223.9**	**182.5**	**180.9**	**180.4**	**188.5**	**196.1**	**204.4**	**212.9**
Grant-financed capital expenditure	35.0	45.6	54.2	101.1	86.8	82.0	85.9	89.6	93.2	97.0
Other capital expenditure	165.8	222.2	173.6	84.9	96.2	101.0	105.7	110.2	114.7	119.3
Capital revenue	0.9	0.4	3.9	3.5	2.1	2.6	3.1	3.7	3.4	3.4
Natural Disaster (ND) Annualised Cost 5/	**0.0**	**0.0**	**0.0**	**0.0**	**45.3**	**47.5**	**49.8**	**51.9**	**54.0**	**56.2**
Gross Operating Balance	**1.3**	**-230.5**	**-67.4**	**95.0**	**36.0**	**11.4**	**18.6**	**26.6**	**20.2**	**12.1**
Net Lending/Borrowing (Overall Balance, excl. ND Cost)	**-198.6**	**-497.8**	**-291.4**	**-87.5**	**-144.9**	**-169.0**	**-170.0**	**-169.5**	**-184.3**	**-200.9**
Net Lending/Borrowing (Overall Balance, incl. ND Cost)	**-198.6**	**-497.8**	**-291.4**	**-87.5**	**-190.2**	**-216.5**	**-219.7**	**-221.4**	**-238.2**	**-257.0**
Net Financial Transactions	**-198.6**	**-497.8**	**-291.4**	**-87.5**	**-144.9**	**-169.0**	**-170.0**	**-169.5**	**-184.3**	**-200.9**
Net Incurrence of Liabilities	**147.8**	**539.0**	**259.2**	**280.9**	**190.2**	**216.5**	**219.7**	**221.4**	**238.2**	**256.0**
Domestic	108.4	294.7	-26.0	166.7	-15.8	17.3	42.3	69.0	77.2	89.7
Foreign	39.4	244.3	285.2	114.2	206.0	199.3	177.4	152.3	161.1	166.3
Statistical discrepancy	*51.1*	*-101.1*	*32.2*	*-193.4*	*-45.3*	*-47.5*	*-49.8*	*-51.9*	*-53.0*	*-53.2*
Memorandum Items:										
Primary balance (excl. ND) 6/	-27.8	-333.4	-120.4	96.5	73.1	63.1	77.1	92.3	94.2	96.3
Primary balance (incl. ND) 6/	-27.8	-333.4	-120.4	96.5	27.8	15.5	27.3	40.4	40.2	40.1
Structural primary balance (incl. ND) 6/	-116.9	-86.2	-4.4	77.5	36.4	27.0	55.7	77.3	94.2	97.3
Central government debt	3,320	3,859	4,118	4,399	4,589	4,806	5,025	5,247	5,485	5,741
Public sector debt 7/	3,514	4,081	4,390	4,688	5,006	5,349	5,696	5,892	6,105	6,334
Domestic	1,828	2,125	2,108	2,275	2,322	2,401	2,506	2,563	2,627	2,763
Central government	1,685	1,979	1,953	2,120	2,104	2,122	2,164	2,233	2,310	2,400
Public corporations 8/	144	145	155	155	217	280	342	330	317	363
External	1,686	1,956	2,282	2,413	2,684	2,948	3,190	3,329	3,477	3,571
Central government	1,635	1,879	2,165	2,279	2,485	2,684	2,861	3,014	3,175	3,341
Public corporations 8/	51	77	117	134	199	264	328	316	303	230
Nominal GDP fiscal year (EC$ millions)	5,677	4,332	5,295	6,328	6,793	7,129	7,465	7,784	8,099	8,426

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

1/ Fiscal year (April–March) basis.

2/ Includes revenue from the Airport Development Tax, which is fully transferred to St. Lucia Air and Sea Ports Authority (SLASPA).

3/ There are classification changes in other revenue from FY2019. 2018 data show sales, fees, and fines in the category fines, penalties & forfeits, voluntary transfers in the table. From FY2019 onwards: sales and other nontax revenue include sale of goods & services, social security contributions, and miscellaneous revenue. CIP income in the table shows voluntary transfers, which include CIP-related receipts (transfers of CIP revenue to the central government from the Saint Lucia National Economic Fund and from the operating surplus of the CIP Unit).

4/ Includes transfer to SLASPA corresponding to the Airport Development Tax.

5/ Natural disaster costs are annualized estimated costs of 0.7 percent of GDP (for details see 2018 Article IV report).

6/ The improvement in the primary balance is predominantly driven by the reduction in capital spending as a result of financing constraints.

7/ Includes payables and overdrafts/ECCB advances.

8/ Government guaranteed.

Table 2b. St. Lucia: Central Government Operations, 2019–28 1/

(In Percent of GDP)

				Est.	Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	(In percent of GDP)									
Revenue	**21.5**	**21.6**	**21.2**	**21.8**	**21.3**	**21.0**	**21.0**	**21.1**	**21.0**	**21.0**
Taxes	19.3	18.9	18.2	18.2	18.2	18.2	18.2	18.3	18.3	18.2
Taxes on income	4.5	5.3	4.5	4.5	4.7	4.7	4.7	4.7	4.7	4.7
Taxes on property	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Taxes on goods and services	4.9	3.9	4.2	4.0	3.8	3.9	3.8	3.7	3.7	3.7
Taxes on international trade and transactions 2/	9.8	9.5	9.4	9.5	9.6	9.5	9.5	9.8	9.7	9.7
Grants	0.7	1.1	1.2	1.6	1.3	1.2	1.2	1.2	1.2	1.2
Other revenue 3/	1.5	1.6	1.8	2.0	1.9	1.7	1.7	1.6	1.6	1.6
Property income	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Fines, Penalties & Forfeits, Voluntary Transfers	0.1	0.5	0.8	1.0	0.9	0.7	0.7	0.6	0.6	0.6
o.w. Citizen by Investment Program (CIP)	0.1	0.5	0.8	1.0	0.8	0.7	0.6	0.6	0.6	0.6
Sales and other nontax revenue	1.3	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Expenditure	**25.0**	**33.0**	**26.7**	**23.2**	**23.5**	**23.4**	**23.2**	**23.2**	**23.3**	**23.4**
Expense	**21.5**	**26.9**	**22.5**	**20.3**	**20.8**	**20.9**	**20.7**	**20.7**	**20.8**	**20.9**
Compensation of employees	8.0	9.5	7.8	7.0	7.1	7.4	7.4	7.4	7.4	7.4
Purchase of goods and services	4.6	6.8	5.7	4.6	4.7	4.5	4.4	4.4	4.4	4.4
Interest	3.0	3.8	3.2	2.9	3.2	3.3	3.3	3.4	3.4	3.5
Social benefits	2.1	2.7	2.4	2.3	2.3	2.3	2.2	2.2	2.2	2.2
Retirement benefits	1.8	2.3	2.0	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Public assistance and casual relief	0.3	0.3	0.4	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Subsidies	0.1	0.1	0.1	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Other	0.2	0.3	0.3	0.3	0.3	0.3	0.1	0.1	0.1	0.1
Other expense	3.9	4.1	3.5	3.5	3.5	3.4	3.4	3.4	3.4	3.4
Transfers to public-sector institutions 4/	3.9	4.1	3.5	3.5	3.5	3.4	3.4	3.4	3.4	3.4
Other	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	**3.5**	**6.2**	**4.2**	**2.9**	**2.7**	**2.5**	**2.5**	**2.5**	**2.5**	**2.5**
Grant-financed capital expenditure	0.6	1.1	1.0	1.6	1.3	1.2	1.2	1.2	1.2	1.2
Other capital expenditure	2.9	5.1	3.3	1.3	1.4	1.4	1.4	1.4	1.4	1.4
Capital revenue	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Natural Disaster (ND) Annualised Cost 5/	**0.0**	**0.0**	**0.0**	**0.0**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**
Gross Operating Balance	**0.0**	**-5.3**	**-1.3**	**1.5**	**0.5**	**0.2**	**0.2**	**0.3**	**0.2**	**0.1**
Net Lending/Borrowing (Overall Balance, excl. ND Cost)	**-3.5**	**-11.5**	**-5.5**	**-1.4**	**-2.1**	**-2.4**	**-2.3**	**-2.2**	**-2.3**	**-2.4**
Net Lending/Borrowing (Overall Balance, incl. ND Cost)	**-3.5**	**-11.5**	**-5.5**	**-1.4**	**-2.8**	**-3.0**	**-2.9**	**-2.8**	**-2.9**	**-3.1**
Net Financial Transactions	**-3.5**	**-11.5**	**-5.5**	**-1.4**	**-2.1**	**-2.4**	**-2.3**	**-2.2**	**-2.3**	**-2.4**
Net Incurrence of Liabilities	**2.6**	**12.4**	**4.9**	**4.4**	**2.8**	**3.0**	**2.9**	**2.8**	**2.9**	**3.0**
Domestic	1.9	6.8	-0.5	2.6	-0.2	0.2	0.6	0.9	1.0	1.1
Foreign	0.7	5.6	5.4	1.8	3.0	2.8	2.4	2.0	2.0	2.0
Statistical discrepancy	*0.9*	*-2.3*	*0.6*	*-3.1*	*-0.7*	*-0.7*	*-0.7*	*-0.7*	*-0.7*	*-0.6*
Memorandum Items:										
Primary balance (excl. ND) 6/	-0.5	-7.7	-2.3	1.5	1.1	0.9	1.0	1.2	1.2	1.1
Primary balance (incl. ND) 6/	-0.5	-7.7	-2.3	1.5	0.4	0.2	0.4	0.5	0.5	0.5
Structural primary balance (incl. ND) 6/	-2.1	-2.0	-0.1	1.2	0.5	0.4	0.7	1.0	1.2	1.2
Central government debt	58.5	89.1	77.8	69.5	67.6	67.4	67.3	67.4	67.7	68.1
Public sector debt 7/	61.9	94.2	82.9	74.1	73.7	75.0	76.3	75.7	75.4	75.2
Domestic	32.2	49.0	39.8	36.0	34.2	33.7	33.6	32.9	32.4	32.8
Central government	29.7	45.7	36.9	33.5	31.0	29.8	29.0	28.7	28.5	28.5
Public corporations 8/	2.5	3.4	2.9	2.4	3.2	3.9	4.6	4.2	3.9	4.3
External	29.7	45.2	43.1	38.1	39.5	41.3	42.7	42.8	42.9	42.4
Central government	28.8	43.4	40.9	36.0	36.6	37.6	38.3	38.7	39.2	39.7
Public corporations 8/	0.9	1.8	2.2	2.1	2.9	3.7	4.4	4.1	3.7	2.7
Nominal GDP fiscal year (EC$ millions)	5,677	4,332	5,295	6,328	6,793	7,129	7,465	7,784	8,099	8,426

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/ Includes revenue from the Airport Development Tax, which is fully transferred to St. Lucia Air and Sea Ports Authority (SLASPA).

3/ There are classification changes in other revenue from FY2019. 2018 data show sales, fees, and fines in the category fines, penalties & forfeits, voluntary transfers in the table. From FY2019 onwards: sales and other nontax revenue include sale of goods & services, social security contributions, and miscellaneous revenue. CIP income in the table shows voluntary transfers, which include CIP-related receipts (transfers of CIP revenue to the central government from the Saint Lucia National Economic Fund and from the operating surplus of the CIP Unit).

4/ Includes transfer to SLASPA corresponding to the Airport Development Tax.

5/ Natural disaster costs are annualized estimated costs of 0.7 percent of GDP (for details see 2018 Article IV report).

6/ The improvement in the primary balance is predominantly driven by the reduction in capital spending as a result of financing constraints.

7/ Includes payables and overdrafts/ECCB advances.

8/ Government guaranteed.

Table 3. St. Lucia: Balance of Payments Summary, 2019–28

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Projections					
	(In millions of US dollars)									
Current Account Balance	116.0	-231.9	-129.4	-52.3	-19.1	-11.5	-7.8	-3.5	-3.5	-3.1
Exports of goods and services	1209.3	452.4	710.4	1208.6	1351.0	1430.5	1506.0	1578.4	1645.0	1714.4
Goods	91.6	60.8	86.4	65.9	71.3	74.8	78.4	81.8	85.1	88.6
Tourism	1064.3	340.4	569.3	1080.0	1211.7	1284.3	1352.8	1418.5	1478.7	1541.3
Other services	53.4	51.3	54.7	62.8	68.0	71.3	74.8	78.1	81.2	84.5
Imports of goods and services	-970.4	-667.0	-815.7	-1179.0	-1276.8	-1340.8	-1405.6	-1466.9	-1526.1	-1587.7
Food	-121.8	-107.6	-121.0	-186.9	-201.8	-204.7	-216.4	-223.6	-228.4	-235.9
Fuel	-94.6	-53.6	-66.8	-112.2	-122.9	-124.7	-127.7	-130.2	-132.2	-134.7
Other goods	-310.2	-282.7	-341.9	-422.1	-455.7	-489.9	-514.8	-542.6	-571.9	-599.6
Services	-443.9	-223.0	-286.0	-457.8	-496.4	-521.5	-546.7	-570.5	-593.6	-617.5
Net Income, o.w.	-126.2	-32.2	-59.3	-103.2	-118.3	-127.2	-135.2	-142.8	-151.0	-159.7
Public interest payments	-26.9	-23.4	-23.0	-25.8	-34.5	-39.2	-43.0	-46.6	-50.9	-55.5
Net current transfers, o.w.	3.3	14.8	35.2	21.2	25.1	26.0	27.0	27.7	28.5	30.0
Remittances	25.2	38.2	23.9	28.3	28.9	29.5	30.2	31.0	31.5	32.2
Capital Account	**34.3**	**24.0**	**30.1**	**29.1**	**32.2**	**30.4**	**31.8**	**33.2**	**34.5**	**35.9**
Financial Account	**37.9**	**-154.3**	**-93.2**	**-76.5**	**13.1**	**18.9**	**24.0**	**29.7**	**31.0**	**32.8**
Direct Investment	-30.6	-53.3	-112.6	-25.6	-26.2	-26.8	-27.3	-27.7	-28.1	-28.5
Portfolio Investment	52.8	143.2	113.2	53.3	26.6	28.0	29.3	30.6	31.8	33.1
Other Investment	40.8	-18.7	-248.4	23.0	-118.0	-129.4	-109.5	-104.5	-108.3	-83.7
Net Reserve Assets	-25.1	-29.8	154.5	-41.1	130.6	147.1	131.5	131.3	135.6	111.9
Errors and Omissions	**-112.4**	**53.7**	**6.1**	**-53.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
	(In percent of GDP)									
Current Account Balance	**5.5**	**-15.2**	**-7.0**	**-2.3**	**-0.8**	**-0.4**	**-0.3**	**-0.1**	**-0.1**	**-0.1**
Exports of goods and services	57.5	29.7	38.4	52.6	54.4	54.8	55.1	55.3	55.4	55.5
Goods	4.4	4.0	4.7	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Tourism	50.6	22.4	30.8	47.0	48.8	49.2	49.5	49.7	49.8	49.9
Other services	2.5	3.4	3.0	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Imports of goods and services	-46.2	-43.8	-44.1	-51.3	-51.4	-51.4	-51.4	-51.4	-51.4	-51.4
Food	-5.8	-7.1	-6.5	-8.1	-8.1	-7.8	-7.9	-7.8	-7.7	-7.6
Fuel	-4.5	-3.5	-3.6	-4.9	-4.9	-4.8	-4.7	-4.6	-4.5	-4.4
Other goods	-14.8	-18.6	-18.5	-18.4	-18.3	-18.8	-18.8	-19.0	-19.3	-19.4
Services	-21.1	-14.6	-15.5	-19.9	-20.0	-20.0	-20.0	-20.0	-20.0	-20.0
Net Income, o.w.	-6.0	-2.1	-3.2	-4.5	-4.8	-4.9	-4.9	-5.0	-5.1	-5.2
Public interest payments	-1.3	-1.5	-1.2	-1.1	-1.4	-1.5	-1.6	-1.6	-1.7	-1.8
Net current transfers, o.w.	0.2	1.0	1.9	0.9	1.0	1.0	1.0	1.0	1.0	1.0
Remittances	1.2	2.5	1.3	1.2	1.2	1.1	1.1	1.1	1.1	1.0
Capital Account	**1.6**	**1.6**	**1.6**	**1.3**	**1.3**	**1.2**	**1.2**	**1.2**	**1.2**	**1.2**
Financial Account	**1.8**	**-10.1**	**-5.0**	**-3.3**	**0.5**	**0.7**	**0.9**	**1.0**	**1.0**	**1.1**
Direct Investment	-1.5	-3.5	-6.1	-1.1	-1.1	-1.0	-1.0	-1.0	-0.9	-0.9
Portfolio Investment	2.5	5.1	6.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Other Investment	1.9	-9.8	-13.4	-1.5	-4.7	-5.0	-4.0	-3.7	-3.6	-2.7
Net Reserve Assets	-1.2	-2.0	8.4	-1.8	5.3	5.6	4.8	4.6	4.6	3.6
Errors and Omissions	**-5.3**	**3.5**	**0.3**	**-2.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum Items:										
Trade balance (percent of GDP)	-20.7	-25.2	-24.0	-28.5	-28.5	-28.5	-28.5	-28.5	-28.5	-28.5
Services balance (percent of GDP)	32.1	11.1	18.3	29.8	31.5	32.0	32.2	32.4	32.5	32.6
Net imputed international reserves										
Millions of US dollars, end of period	252.9	224.3	350.7	309.6	440.3	587.4	718.9	850.2	985.8	1097.7
Months of imports of goods and services	4.5	3.3	3.6	2.9	3.9	5.0	5.9	6.7	7.5	8.0
Percentage of demand liabilities	88.7	88.3	92.3	91.4	93.6	94.9	95.6	96.1	96.5	96.7
Gross external debt (percent of GDP)	61.4	78.1	70.8	63.8	63.2	63.9	64.3	63.4	62.8	61.5
Public sector	29.7	45.2	43.1	38.1	39.5	41.3	42.7	42.8	42.9	42.4
Private sector 1/	31.7	32.9	27.7	25.7	23.7	22.6	21.6	20.7	19.9	19.1
GDP (in US$ millions)	2,103	1,523	1,850	2,297	2,485	2,609	2,735	2,854	2,970	3,089

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, 2019–28

	2019	2020	2021	2022	Projections 2023	2024	2025	2026	2027	2028
	(In millions of EC dollars, end of period)									
Net Foreign Assets	950.7	1,070.5	1,474.5	1,587.0	1,980.8	2,396.9	2,817.7	3,202.5	3,591.5	3,995.5
Central bank	682.7	605.7	947.0	836.0	1,188.7	1,586.0	1,941.1	2,295.6	2,661.7	2,963.9
Commercial banks (net)	267.9	464.8	527.5	751.0	792.0	810.9	876.6	906.9	929.8	1,031.6
Assets	2,066.9	1,817.8	1,909.1	2,344.0	2,384.0	2,402.9	2,468.6	2,498.9	2,521.8	2,623.6
Liabilities	-1,799.0	-1,353.0	-1,381.6	-1,592.0	-1,592.0	-1,592.0	-1,592.0	-1,592.0	-1,592.0	-1,592.0
Net Domestic Assets	2,392.3	2,051.9	2,112.0	2,135.0	1,869.3	1,535.7	1,304.9	1,099.8	884.4	661.2
Public sector credit, net	-389.1	-134.7	-248.6	-323.0	-316.5	-330.4	-339.6	-344.9	-348.0	-347.4
(real terms)	-332.5	-115.5	-204.8	-248.8	-237.6	-243.2	-245.1	-244.0	-241.4	-236.3
Central government	252.1	301.1	253.4	205.0	176.2	161.3	151.1	147.3	145.6	145.7
Other public sector	-641.2	-435.8	-502.1	-528.0	-492.6	-491.7	-490.8	-492.2	-493.6	-493.2
Private sector credit, net	3,098.2	3,182.2	3,178.7	3,230.0	3,359.2	3,460.0	3,529.2	3,564.5	3,564.5	3,564.5
(real terms)	2,647.7	2,729.5	2,617.9	2,488.4	2,522.0	2,546.8	2,546.8	2,521.8	2,472.4	2,423.9
Other items (net)	-335.9	-994.4	-809.1	-730.0	-1,173.4	-1,593.9	-1,884.7	-2,119.8	-2,332.0	-2,555.8
Broad Money (M2)	3,343.0	3,122.4	3,586.5	3,722.0	3,850.1	3,932.6	4,122.6	4,302.3	4,476.0	4,656.7
Money	1,035.9	983.8	1,376.4	1,455.0	1,574.3	1,652.9	1,732.7	1,808.3	1,881.3	1,957.2
Currency in circulation	155.0	155.5	173.9	180.0	194.8	204.5	214.4	223.7	232.7	242.1
Demand deposits	880.9	828.3	1,202.6	1,275.0	1,379.5	1,448.4	1,518.4	1,584.6	1,648.5	1,715.1
Quasi-money	2,307.1	2,138.6	2,210.0	2,267.0	2,275.8	2,279.7	2,389.8	2,494.0	2,594.7	2,699.5
Time deposits	247.5	126.5	134.3	128.0	138.5	145.4	152.4	-84.6	-76.6	-67.7
Savings deposits	1,727.2	1,639.8	1,604.2	1,657.0	1,792.9	1,882.3	1,973.3	2,059.3	2,142.4	2,229.0
Foreign currency deposits	313.4	372.3	471.5	482.0	521.5	547.5	574.0	519.3	528.9	538.3
	(12-month percentage change)									
Net Domestic Assets	-0.6	-14.2	2.9	1.1	-12.4	-17.8	-15.0	-15.7	-19.6	-25.2
Public sector credit, net	-7.9	-65.4	84.6	29.9	-2.0	4.4	2.8	1.6	0.9	-0.2
(real terms)	-7.3	-65.3	77.2	21.5	-4.5	2.3	0.8	-0.4	-1.1	-2.1
Private sector credit, net	-1.9	2.7	-0.1	1.6	4.0	3.0	2.0	1.0	0.0	0.0
(real terms)	-1.2	3.1	-4.1	-4.9	1.3	1.0	0.0	-1.0	-2.0	-2.0
Broad Money (M2)	3.2	-6.6	14.9	3.8	3.4	2.1	4.8	4.4	4.0	4.0
NFA contribution	3.6	3.6	12.9	3.1	10.6	10.8	10.7	9.3	9.0	9.0
NDA contribution	-0.4	-10.2	1.9	0.6	-7.1	-8.7	-5.9	-5.0	-5.0	-5.0
Money	3.1	-5.0	39.9	5.7	8.2	5.0	4.8	4.4	4.0	4.0
NFA contribution	-5.9	-7.4	34.7	-8.1	24.2	25.2	21.5	20.5	20.2	16.1
NDA contribution	9.0	2.4	5.2	13.8	-16.0	-20.2	-16.7	-16.1	-16.2	-12.0
Quasi-money	3.2	-7.3	3.3	2.6	0.4	0.2	4.8	4.4	4.0	4.0
	(In percent of GDP)									
Net Foreign Assets	16.7	26.0	29.5	25.6	29.5	34.0	38.2	41.6	44.8	47.9
Net Domestic Assets	42.1	49.9	42.3	34.4	27.9	21.8	17.7	14.3	11.0	7.9
Public sector credit, net	-6.9	-3.3	-5.0	-5.2	-4.7	-4.7	-4.6	-4.5	-4.3	-4.2
Private sector credit, net	54.6	77.4	63.7	52.1	50.1	49.1	47.8	46.3	44.5	42.7
Broad Money (M2)	58.9	75.9	71.8	60.0	57.4	55.8	55.8	55.8	55.8	55.8
Money	18.2	23.9	27.6	23.5	23.5	23.5	23.5	23.5	23.5	23.5
Quasi-money	40.6	52.0	44.3	36.6	33.9	32.4	32.4	32.4	32.4	32.4
Interest Rates (Percent Per Year) 1/										
ECCB policy rate	6.5	2.00	2.00	2.00	...	...	...	...	...	...
Time deposit rate	1.5	1.54	1.31	1.14	...	...	...	...	...	...
Demand deposit rate	0.2	0.14	0.11	0.16	...	...	...	...	...	...
Weighted average lending rate	7.6	7.00	6.55	6.49	...	...	...	...	...	...

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

1/ End-of-period rates.

Table 5. St. Lucia: Banking System Summary Data, 2018–22

	2018	2019	2020	2021	2022			
	Dec	Dec	Dec	Dec	Mar	June	Sep	Dec
Capitalization								
Total Capital/Total Assets	5.4	6.6	7.9	8.0	7.4	6.8	7.2	7.1
Regulatory capital to risk-weighted assets (CAR)	19.1	15.9	14.9	16.8	16.6	15.1	15.9	15.9
Regulatory Tier 1 capital to risk-weighted assets	13.2	10.0	10.4	14.4	14.8	13.4	13.6	14.0
Large exposures to tier capital	27.7	44.7	0.0	9.7	9.5	7.4	20.0	20.5
Asset quality								
Nonperforming loans to total gross loans	10.0	8.2	11.3	13.8	13.1	13.3	12.9	14.2
Nonperforming loans net of provisions to capital	59.7	37.4	47.4	54.3	50.0	52.7	54.6	64.2
Management								
Non-Interest Expenses/Gross Income	60.0	58.9	62.3	67.4	72.0	67.2	69.0	69.2
Personnel Expense/Non-interest Expenses	31.5	34.7	36.8	32.2	27.7	29.4	30.6	30.7
Profitability								
Return on Avg Assets	1.9	1.5	0.8	0.8	1.0	0.9	1.0	1.2
Return on Avg Equity	35.2	25.3	10.8	9.7	12.0	11.7	13.2	16.3
Interest Margin/Gross Income	61.3	60.6	62.4	60.8	55.2	53.3	52.3	53.3
Interest Spread 1/	6.5	6.1	5.5	5.4	5.4	5.4	5.4	5.6
Liquidity								
Liquid Assets/Total Assets	39.4	40.4	37.8	39.3	40.5	41.2	42.9	43.8
Liquid Assets/Current Liabilities (Short-term liabilities)	42.0	43.2	42.9	43.4	44.2	44.6	46.5	47.8
FX Risk								
Foreign-currency-denominated loans to total loans	9.5	2.1	3.0	3.3	3.6	4.5	5.1	6.1
Foreign-currency-denominated liabilities to total liabilities	14.0	21.8	16.6	16.7	17.3	20.9	17.1	18.4
Net open position in foreign exchange to capital	210.9	84.4	107.7	143.7	133.5	153.2	177.6	186.7

Sources: ECCB and IMF staff calculations.
1/ Interest Spread = Weighted average lending rates - weighted average deposit rates

Table 6. St. Lucia: Selected Labor Market Indicators, 2016–22

	2016	2017	2018	2019	2020	2021	2022
Estimated household population (y-o-y % change)	0.6	-0.3	0.0	-1.3	-1.0	7.8	0.5
Population 15 years and over (y-o-y% change)	2.1	-0.2	-0.4	-0.4	-2.1	3.4	6.6
Unemployment rate (%)	21.3	20.2	20.2	16.8	21.7	20.9	16.5
o/w male	19.4	18.1	18.5	14.9	18.6	20.1	14.1
o/w female	23.5	22.4	22.1	18.9	24.9	23.9	18.5
Youth unemployment rate (%)	38.4	38.5	36.3	31.6	38.2	37.0	26.9
Labor force (% of total population)	60.1	59.0	59.9	59.1	56.6	59.6	60.4
Labor force participation rate (%)	72.7	71.4	71.4	71.0	68.8	70.5	71.3

Sources: St. Lucia Population and Housing Census, National Insurance Corporation, Economic and Social Review 2022.

Annex I. Risk Assessment Matrix[1]

Risks	Likelihood	Impact	Policy Response
Conjunctural Risks			
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.	High	Medium ST	Diversify tourism revenues. Increase the linkage between tourism and other sectors. Vigilantly monitor the financial sector development in coordination with ECCB.
Social discontent. Supply shocks, high inflation, real wage drops, and spillovers from crises in other countries worsen inequality, trigger social unrest, and give rise to financing pressures and damaging populist policies with possible spillovers to other EMDEs. This exacerbates imbalances, slows growth, and triggers market repricing.	High	Medium ST	Provide temporary and targeted support to the vulnerable. Strengthen the labor market and provide more diversified and higher-quality job opportunities.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation. **EMDEs:** A new bout of global financial tightening, possibly combined with volatile commodity prices, leads to spiking risk premia, debt distress, widening of external imbalances, fiscal pressures, and sudden stops.	Medium	High ST, MT	Enhance competitiveness to support economic recovery. Diversify tourism revenues. Increase the linkage between tourism and other sectors. Vigilantly monitor the financial sector development in coordination with ECCB.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	Medium	Medium MT	Provide temporary and targeted transfers to the vulnerable. Allow a gradual pass-through of international prices and phase out generalized subsidies. Accelerate transition to renewable energy sources.
Monetary policy miscalibration. Amid high economic uncertainty and volatility, major central banks slow monetary policy tightening or pivot to loosen monetary policy stance prematurely, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets.	Medium	Medium ST	Provide temporary and targeted support to the vulnerable. Strengthen the fiscal and communicate credible medium-term fiscal plan.
Systemic financial instability. Sharp swings in real interest rates, risk premia, and assets repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing markets dislocations and adverse cross-border spillovers.	Medium	Medium ST	Monitor asset quality and ensure adequate loan loss provisioning. Vigilantly monitor the financial sector development in coordination with ECCB.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. 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. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Risks	Likelihood	Impact	Policy Response
Structural Risks			
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	**High**	**Medium** **MT**	Enhance international cooperation and competitiveness to support economic recovery and cross border collaboration.
Cyberthreats. Cyberattacks on critical domestic and/or international physical or digital infrastructure (including digital currency and crypto ecosystems) trigger financial and economic instability.	**Medium**	**Medium** **MT**	Enhance digital security in public and private platforms.
Extreme climate events. Extreme climate events cause more severe than expected damage to infrastructure (especially in smaller vulnerable economies) and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing growth.	**Medium**	**Medium** **ST**	Implement national adaptation plans with investment in structural and financial resilience, and appropriate ex ante financing.
Domestic Risks			
Lower than expected CIP revenues. Pressure from EU to end Citizenship by Investment Program or face visa restrictions, leaving the program unattractive.	**Medium**	**Medium** **MT**	Mobilize revenue from alternative sources.
Disorderly fiscal adjustment. A weakening fiscal position and tightening financial conditions can force an abrupt fiscal adjustment.	**Low**	**High** **MT**	Adopt a fiscal rule and implement tax reforms to ensure adequate fiscal adjustment and debt sustainability.
Financial sector weakness. Commercial banks continue to report high NPLs, which impair credit intermediation.	**Medium**	**High** **ST**	Monitor asset quality and ensure adequate loan loss provisioning.
Delays in infrastructure investment. Private investment could be unprofitable without enough infrastructure investment.	**Medium**	**High** **ST, MT**	Contain growth of current expenditures.

Annex II. External Sector Assessment

Overall Assessment: *The external position of St. Lucia in 2022 was broadly in line with the level implied by fundamentals and desirable policies. The assessment is, however, subject to unusually high uncertainty given the challenges in assessing the full impact of the pandemic, the use of preliminary data for the current account, and the conflicting signals from the EBA-lite CA and REER models.*

Potential Policy Responses: *Notwithstanding the overall assessment, labor productivity growth and unit labor costs highlight St. Lucia's competitiveness challenges, particularly in the non-tourism sectors, and the need for supply-side reforms. Given that growth has stalled in the past decade, these bottlenecks need to be addressed to increase competitiveness, realize growth potential, and minimize the scarring effects of the pandemic.*

Foreign Assets and Liabilities: Position and Trajectory

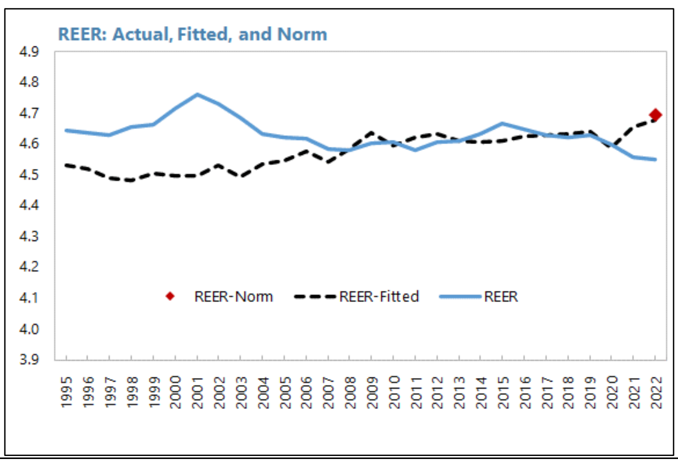
Background. The *deficit* in the net international investment position (IIP), averaging about 51 percent of GDP during 2015–19, peaked at 70 percent of GDP in 2020 and declined to 54 percent of GDP in 2022.[1] In 2022, foreign direct and portfolio investments, together 68 percent of total assets, constituted the largest components from the asset side; while foreign direct and other investments were the largest components from the liability side, comprising 89 percent of total liabilities.

Assessment. With the expected improvement in the current account as the tourism recovers, the net IIP deficit is expected to steadily decline close to pre-pandemic levels (projected at 38 percent of GDP in 2028 versus 43 in 2019).

2022 (% GDP)	NIIP: -54	Gross Assets: 93	Debt Assets: 39	Gross Liabilities: 147	Debt Liabilities: 23

Current Account

Background. The current account, averaging -0.5 percent of GDP during 2015–19 and posting surplus in 2018 and 2019, deteriorated sharply following the pandemic to -15.2 percent of GDP in 2020 and -2.3 percent of GDP in 2022. This was predominantly driven by the sharp fall in travel receipts, from 50.6 percent of GDP in 2019 to 22.4 percent of GDP in 2020, following the drop in tourism, and a subsequent rebound to 47.0 percent of GDP in 2022. Going forward, the current account is expected to improve gradually and close in 2024–28 as the recovery in tourism offsets the trade deficit related to imports of oil and food.



Current Account

Assessment. The external position was broadly in line with the level implied by fundamentals and desirable policies. However, given the disruptions associated with the pandemic and the war in Ukraine, the uncertainty around the assessment remains particularly high. The EBA-lite CA model suggests a positive current account gap of 2.5 percent of GDP.[2] The EBA-lite REER model implies a positive current account gap of 5.3 percent of GDP.[3] St. Lucia's overall assessment is based on the EBA-lite REER model as it tracks the actual data reasonably well while the current account data is subject to revisions, adding another layer of uncertainty for the results derived from the EBA-lite CA model.

EBA-lite Model Results, 2022

	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	**-2.3**	
Cyclical contributions (from model) (-)	-0.1	
COVID-19 adjustors (-) 2/	-0.6	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	0.3	
Adjusted CA	**-1.9**	
CA Norm (from model) 3/	**-4.4**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-4.4**	
CA Gap	**2.5**	**5.3**
o/w Relative policy gap	1.8	
Elasticity	-0.4	
REER Gap (in percent)	**-6.9**	**-14.6**

1/ Based on the EBA-lite 3.0 methodology

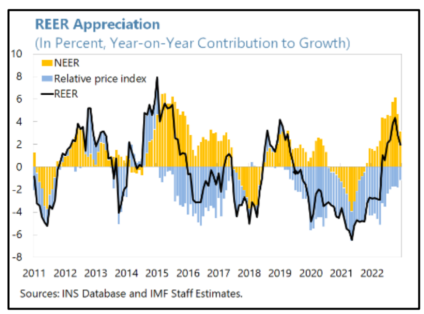
2/ Additional cyclical adjustment to account for the temporary impact of the pandemic and the war in Ukraine on tourism.

3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The real effective exchange rate (REER) depreciated by 4.7 percent in 2022, driven by both inflation differential and nominal effective exchange rate, with the latter depreciating by 1.1 percent. With the exception of 2019, the REER has continued to depreciate since 2016, by around 10 percent between 2015 and 2021.

Assessment. The REER gap in 2022 was -6.9 percent, derived from the EBA-lite CA model and an elasticity of -0.4. The EBA-lite REER model shows a REER gap of -12.2 percent.[4]

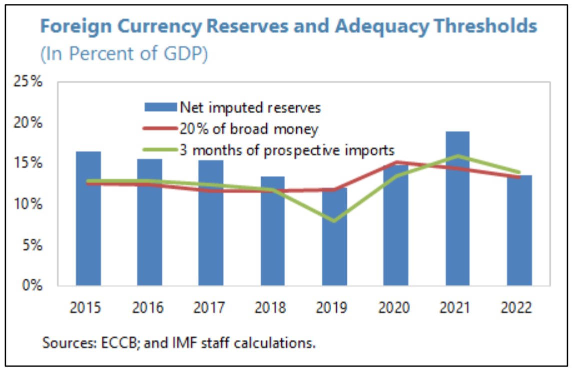


Capital and Financial Accounts: Flows and Policy Measures

Background. Capital transfers, averaging 0.9 percent of GDP in 2015–19, increased to 1.3 percent of GDP in 2022. Net FDI inflows and net other investment inflows increased from 1.5 percent of GDP and -1.9 percent of GDP in 2019 to 1.1 percent of GDP and 1.5 percent of GDP in 2022, respectively.

Assessment. Over the medium-term, capital transfers are projected to remain stable at 1.2 percent of GDP, and net FDI inflows are expected to decline to 1.0 percent of GDP. St. Lucia's high exposure to climate changes and natural disasters pose downside risks to FDI projections.

FX Intervention and Reserves Level



Background. St. Lucia's reserve position weakened in 2022. As a member of the Eastern Caribbean Currency Union, St. Lucia is under a currency board arrangement. Foreign assets and liabilities of the ECCB cannot be directly assigned to an individual country. Net imputed reserves, averaging 14.5 percent of GDP during 2015–19, declined to 13.5 percent of GDP in 2022.

Assessment. In 2022, imputed reserves were close to the typical benchmarks of 20 percent of broad money and three months of prospective imports.

[1] Based on the ECCB estimates through 2023 and IMF staff projections thereafter.

[2] The ESA model includes a Covid-19 cyclical adjustor to account for the temporary impact of the pandemic on a country's external position. Two adjustors are available: one for tourism, another one for oil trade balance. In the case of St. Lucia, only the Covid-19 adjustor for tourism was used.

[3] The CA/REER elasticity of -0.20 incorporates an elasticity of tourist expenditure with respect to REER of -0.1 for the Caribbean countries (see IMF Working Papers WP/14/229) and an elasticity of -0.4 for non-travel exports.

[4] The EBA-lite model does not provide a country-fixed effect for St. Lucia. Compared to last assessment, a smaller country-fixed effect is used (based on minimizing the model residuals for St. Lucia in 2018-2022) to reflect the fact that Covid-19 related adjustments and scarring effects are likely to pose downward pressure on the equilibrium REER, which is not captured by the model.

Annex III. Debt Sustainability Analysis

St. Lucia's debt remains at high risk of sovereign stress, with elevated baseline levels projected in the medium and long term. The strong recovery from the COVID-19 pandemic reduced public debt burdens from 94.2 percent in FY2020 to 82.9 in FY2021 and then to 74.1 in FY2022. In the baseline scenario, debt will stabilize around 75 percent of GDP in the medium term. Implementation of the fiscal consolidation plan envisaged in the main text would put public debt on a path that stabilizes below the regional debt target of 60 percent in the long term. Downside risks to the debt sustainability outlook include weaker tourism-related revenues from global slowdown, vulnerability in the financial sector, contingent liability from the social security fund (NIC), and natural disasters.

Table 1. St. Lucia: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	High	The overall risk of sovereign stress is high, reflecting a high level of vulnerability in the medium and the long term.
Near term 1/			
Medium term	Moderate	High	Medium-term risks are assessed as high against a moderate overall mechanical signal, due to high debt fanchart signal and the vulnerability in the financial sector (high NPLs and low provisions). The debt fanchart signal is high, reflecting a history of high volatility and a high terminal debt level. The GFN financeability signal is moderate, reflecting a high average GFN offset by low bank claims on government.
Fanchart	High	...	
GFN	Moderate	...	
Stress test	...	...	
Long term	...	High	Long-term risks are high coming from large amortization risks, climate adaptation risks, and demographic risks. Healthcare costs from population aging could increase debt-to-GDP by around 15 pp compared to the baseline by 2052. In the absence of reforms, the pension fund's reserves would be depleted around 2050, resulting in an underfunding gap of around 165 percent of GDP in 60 years, which would require fiscal outlays of about 3 percent of GDP over the next 60 years.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	N.A.
Debt stabilization in the baseline			Yes

Table 1. St. Lucia: Risk of Sovereign Stress (Concluded)

DSA Summary Assessment

Commentary: St. Lucia is at a high overall risk of sovereign stress. Debt-to-GDP ratio has decreased from 94.2 percent in FY2020 to 74.1 percent in FY2022 as the recovery from the COVID-19 shock continued. However, given that growth is projected to moderate to potential, unless the government implements a substantial fiscal consolidation, debt is expected to remain elevated in the medium and long terms. High medium-term risks stem from financial sector vulnerability and high GFN, driven by amortization of medium and long term debt (both domestic and external), while high long-term risks stem from large amortization risks, climate adaptation risks, and demographic risks.

Source: Fund staff.
Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.
1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.
2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Table 2. St. Lucia: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					No	
2. Subsectors included in the chosen coverage in (1) above:						

		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	Yes	Airport redevelopment
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	No	Separate entity (NIC)
CPS / NFPS / GG: expected	4	State governments	No	Not applicable
CPS / NFPS / GG: expected	5	Local governments	No	Not applicable
CPS / NFPS	6	Public nonfinancial corporations	Yes	Government-guaranteed
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
5. Debt consolidation across sectors:		Consolidated		Non-consolidated	

Color code: chosen coverage (green); Missing from recommended coverage (red); Not applicable (grey)

Chosen coverage (green): CG; Budgetary central government, Extra budgetary funds, Public nonfinancial corporations (Yes); Currency & deposits, Loans, Debt securities, Oth acct. payable 2/; Cash basis; Nominal value 5/; Non-consolidated. Missing from recommended coverage (red): 1a No; Social security funds, State governments, Local governments (No); IPSGSs 3/. Not applicable (grey): Central bank, Other public financial corporations (No).

Table 2. St. Lucia: Debt Coverage and Disclosures (Concluded)

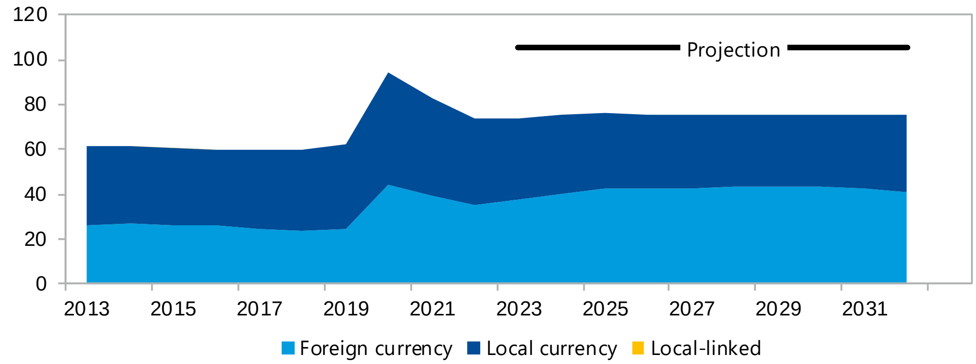
Reporting on Intra-Government Debt Holdings

					Holder / Issuer	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt									0
				2	Extra-budget. funds									0
				3	Social security funds									0
				4	State govt.									0
				5	Local govt.									0
				6	Nonfin pub. corp.									0
				7	Central bank									0
				8	Oth. pub. fin. corp									0
					Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

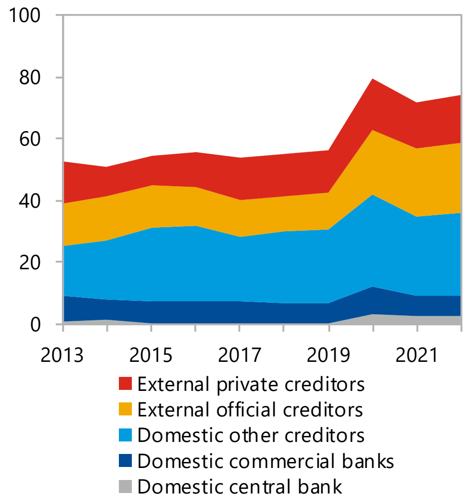
Figure 1. St. Lucia: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



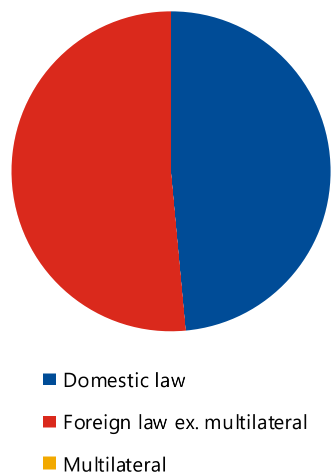
Note: The perimeter shown is central government and public non-financial corporations (government guaranteed).

Public Debt by Holder (Percent of GDP)



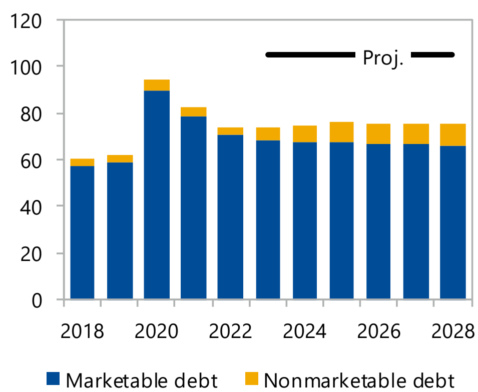
Note: The perimeter shown is central government and public non-financial corporations (government guaranteed).

Public Debt by Governing Law, 2022 (Percent)



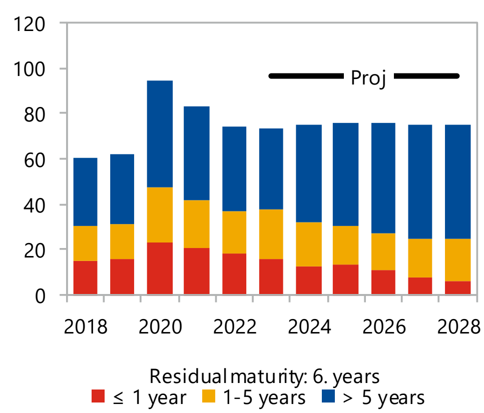
Note: The perimeter shown is central government and public non-financial corporations (government guaranteed).

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is central government and public non-financial corporations (government guaranteed).

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is central government and public non-financial corporations (government guaranteed).

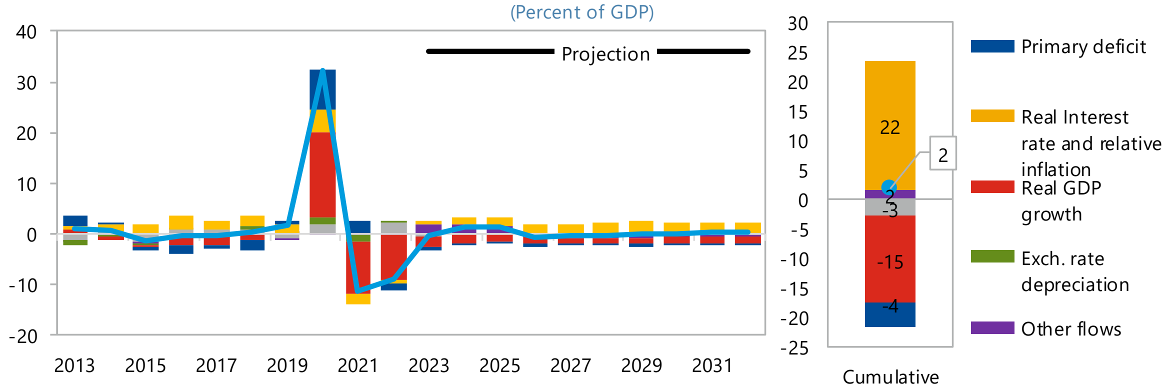
Table 3. St. Lucia: Baseline Scenario

(Percent of GDP Unless Indicated Otherwise)

	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	74.1	73.7	75.0	76.3	75.7	75.4	75.2	75.2	75.4	75.5	75.8
Change in public debt	-8.8	-0.4	1.3	1.3	-0.6	-0.3	-0.2	0.0	0.1	0.2	0.2
Contribution of identified flows	-11.1	0.2	1.5	1.4	-0.4	0.0	0.1	0.5	0.4	0.4	0.4
Primary deficit	-1.5	-0.3	-0.2	-0.3	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Noninterest revenues	21.8	21.3	21.0	20.9	21.1	21.0	21.0	21.0	21.0	20.9	20.9
Noninterest expenditures	20.4	21.0	20.9	20.6	20.6	20.6	20.6	20.5	20.5	20.5	20.5
Automatic debt dynamics	-9.6	-1.4	-0.2	0.0	0.5	0.9	1.0	1.4	1.2	1.3	1.2
Real interest rate and relative inflat	-0.7	0.8	1.5	1.6	1.8	2.0	2.1	2.5	2.3	2.4	2.4
Real interest rate	-1.9	0.2	1.4	1.5	1.6	1.7	1.9	2.0	2.1	2.1	2.1
Relative inflation	1.2	0.6	0.1	0.1	0.2	0.3	0.2	0.5	0.2	0.2	0.2
Real growth rate	-9.0	-2.2	-1.7	-1.6	-1.3	-1.1	-1.1 .	-1.1	-1.1	-1.1	-1.1
Real exchange rate	0.2	...	...	...	...	...	... .	...	...	...	...
Other identified flows	-0.1	1.9	1.8	1.7	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4	-0.4
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	-0.1	1.9	1.8	1.7	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4	-0.4
Contribution of residual	2.3	-0.6	-0.1	-0.1	-0.2	-0.3	-0.3	-0.5	-0.2	-0.2	-0.2
Gross financing needs	14.4	15.1	18.2	15.6	18.0	16.9	15.6	15.0	15.3	15.7	18.7
of which: debt service	16.0	15.5	18.4	15.9	18.5	17.4	16.1	15.5	15.7	16.2	19.2
Local currency	10.9	10.5	9.8	8.7	9.8	7.5	6.9	6.3	6.2	6.3	8.6
Foreign currency	5.0	5.0	8.6	7.2	8.7	9.9	9.1	9.2	9.6	9.9	10.5
Memo:											
Real GDP growth (percent)	12.2	3.0	2.3	2.2	1.7	1.5	1.5	1.5	1.5	1.5	1.5
Inflation (GDP deflator; percent)	6.5	4.2	2.6	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Nominal GDP growth (percent)	19.5	7.3	4.9	4.7	4.3	4.0	4.0	4.0	4.0	4.0	4.0
Effective interest rate (percent)	3.7	4.5	4.5	4.6	4.7	4.9	5.1	5.3	5.4	5.5	5.4

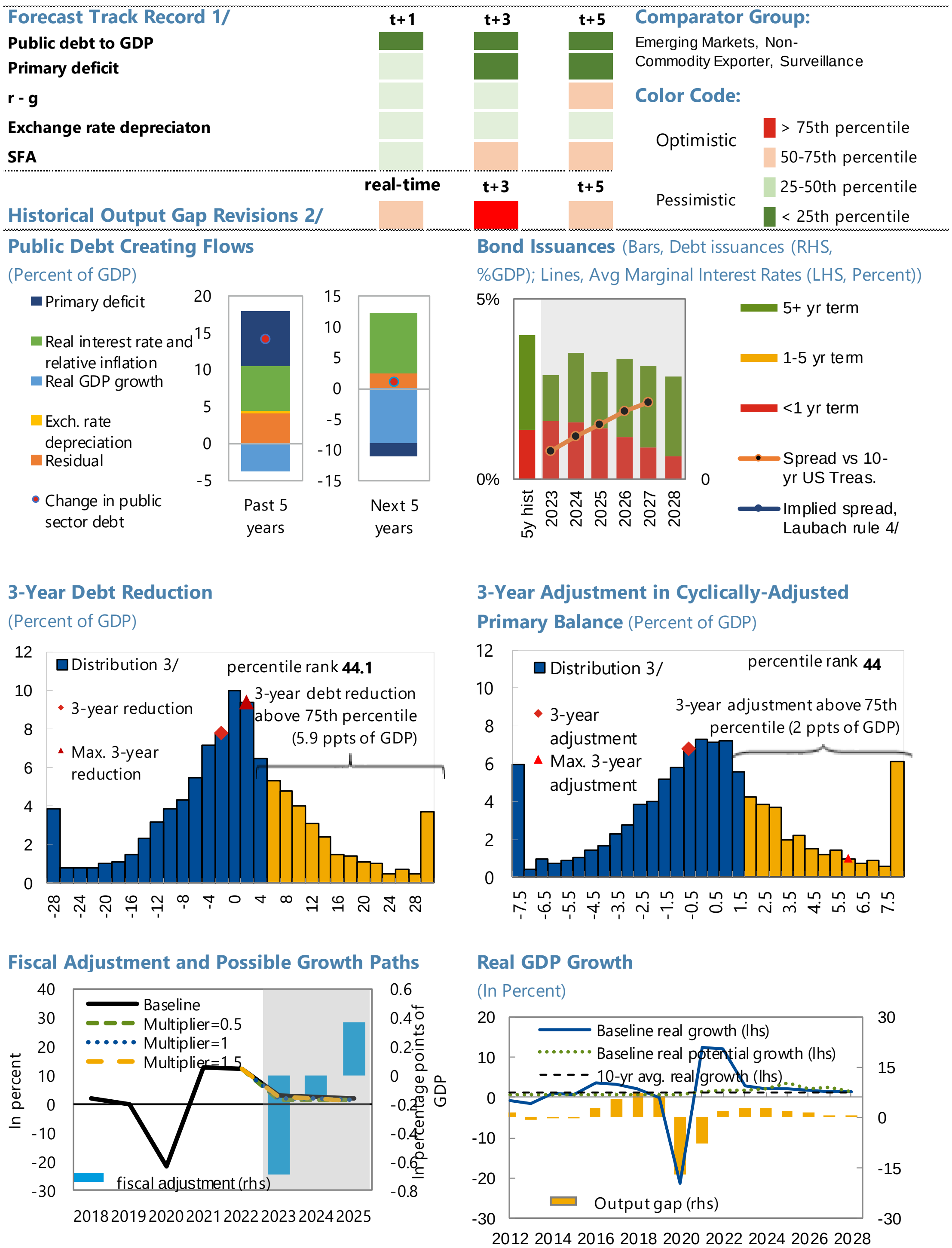
Contribution to Change in Public Debt

(Percent of GDP)



Staff commentary: The public debt-to-GDP ratio is to projected to remain elevated around 75 percent, well above the regional debt target commitment of 60 percent.

Figure 2. St. Lucia: Realism of Baseline Assumptions



Commentary: The recovery from COVID-19 will impart complicated effects on the growth path. However, realism analysis does not point to major concerns: past forecast errors do not reveal any systematic biases and the projected fiscal adjustment and debt reduction are well within norms.

Source: IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates.

Figure 3. St. Lucia: Medium-Term Risk Analysis

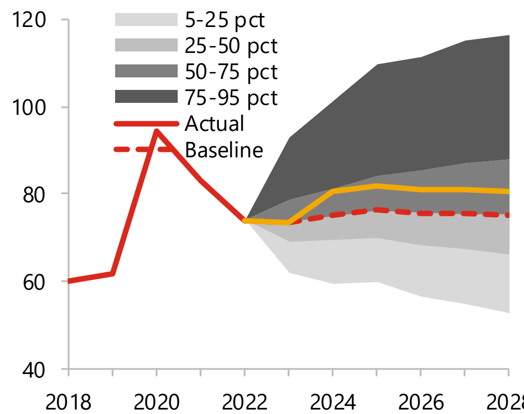
Debt Fanchart and GFN Financeability Indexes
(Percent of GDP Unless Otherwise Indicated)

Module	Indicator	Value	Risk index	Risk signal
Debt fanchart module	Fanchart width	63.5	0.9	...
	Probability of debt not stabilizing (pct)	68.3	0.6	...
	Terminal debt level x institutions index	41.9	0.9	...
	Debt fanchart index	**...**	**2.4**	**High**
GFN finance-ability module	Average GFN in baseline	16.5	5.6	...
	Bank claims on government (pct bank assets)	5.8	1.9	...
	Chg. in claims on govt. in stress (pct bank assets	9.6	3.2	...
	GFN financeability index	**...**	**10.7**	**Moderate**

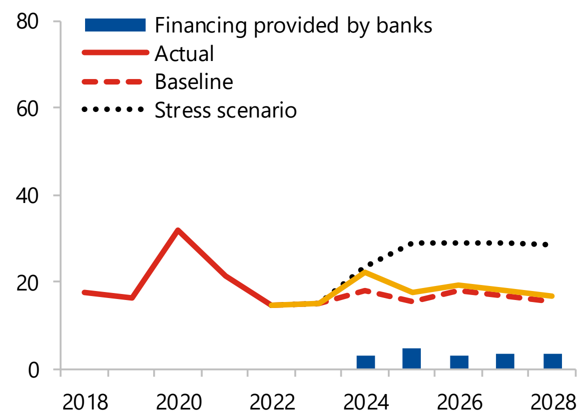
Emer. Mar., Non-Com. Exp., Surveillance: 0, 25, 50, 75, 100

Legend: Interquartile range; St. Lucia

Final Fanchart (Percent of GDP)



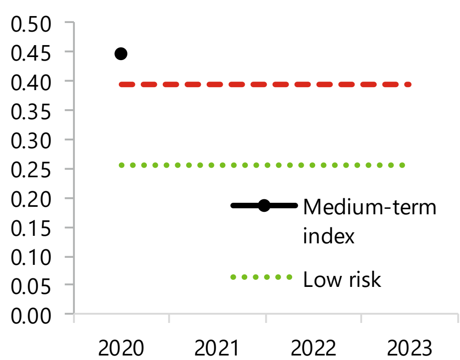
Gross Financing Needs (Percent of GDP)



Triggered stress tests (stress tests not activated in gray)

Banking crisis Commodity prices Exchange rate Contingent liab. Natural disaster

Medium-Term Index
(Index Number)



Medium-Term Risk Analysis

	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.5
GFN finaceability index	7.6	17.9	0.5	0.2
Medium-term index (MTI)	0.3	0.4	...	0.4, Moderate

Prob. of missed crisis, 2023-2028 (if stress not predicted): 27.3 pct.

Prob. of false alarm, 2023-2028 (if stress predicted): 15.9 pct.

Commentary: Medium-term risks are assessed as high against a moderate overall mechanical signal, considering the high debt fanchart signal and the vulnerability in the financial sector displayed by high NPLs and low provisions. The debt fanchart signal is high, reflecting a history of high volatility and a high terminal debt level. The GFN financeability signal is moderate, reflecting a high average GFN offset by low bank claims on government. The natural disaster stress test indicates the risk of higher GFN and debt. The contingent liability stress test was triggered mechanicallly but not conducted because there is no state or local government and guaranteed debt of public non-financial corporations are already included in the coverage.

Figure 4a. St. Lucia: Long-Term Risk Analysis

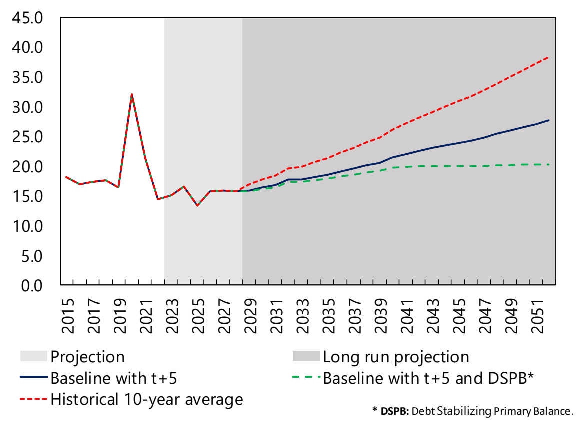
Large Amortization Trigger

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	

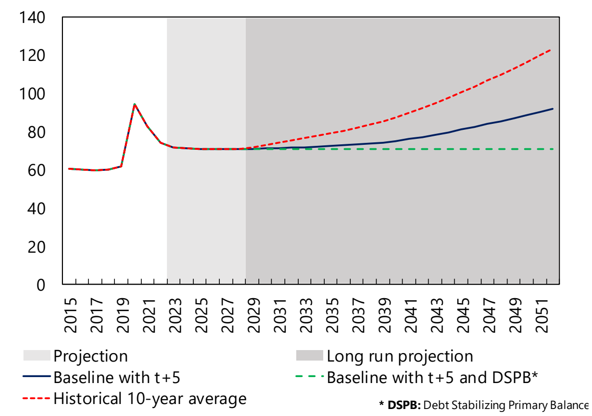
Overall Risk Indication	

Alternative Baseline Long-Term Projections

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



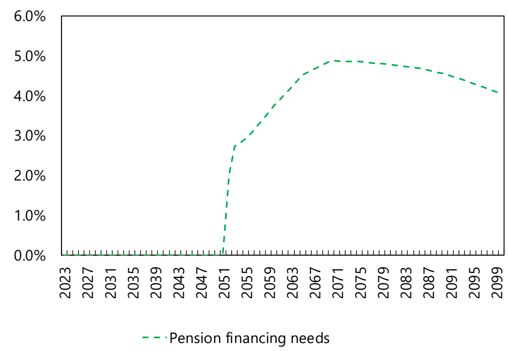
Commentary: The large amortization submodule is suggesting a liquidity risk beyond the medium-term horizon.

Figure 4b. St. Lucia: Long-Term Risk Analysis

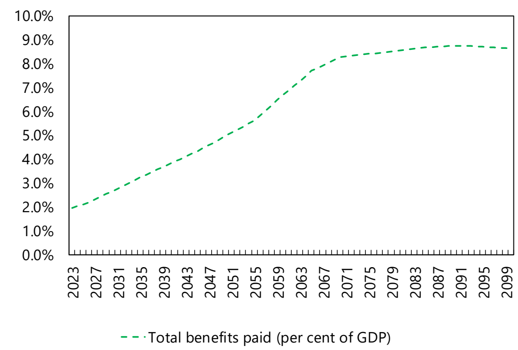
Demographics: Pension

Permanent Adjustment Needed in the Pension System (Percent of GDP per year)	To keep pension assets positive for:		
	30 years	50 years	Until 2100
	0.06%	1.32%	2.13%

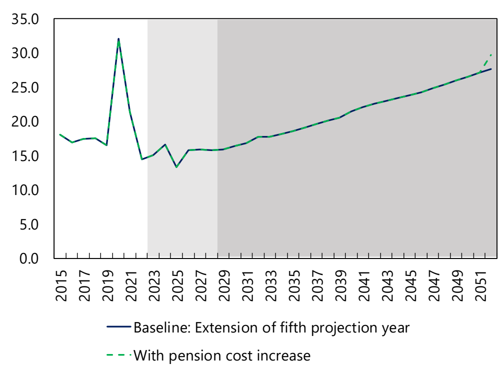
Pension Financing Needs



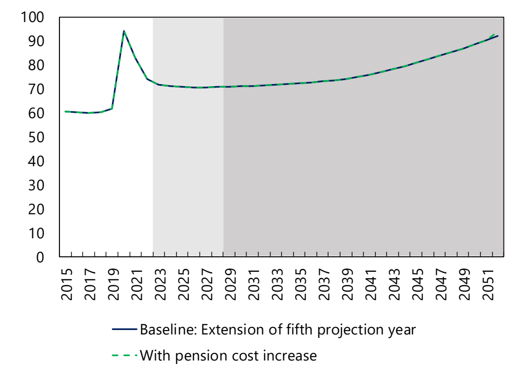
Total Benefits Paid



GFN-to-GDP Ratio



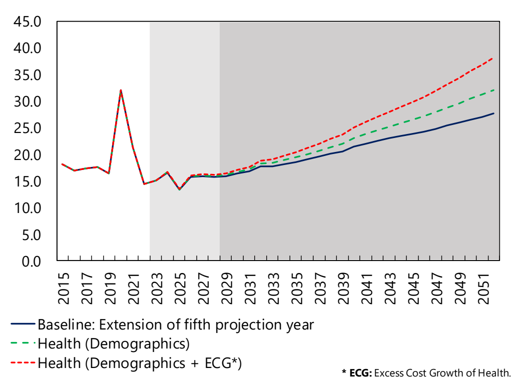
Total Public Debt-to-GDP Ratio



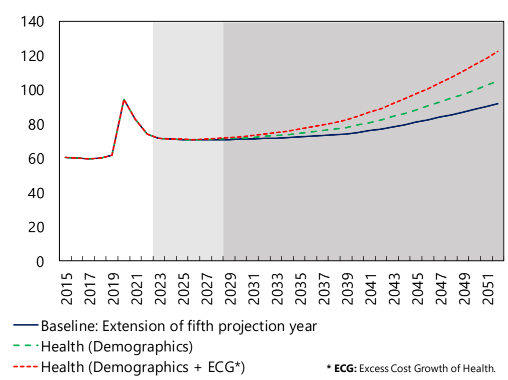
Commentary: The authority's study projects that in the absence of reforms, the pension fund's reserves would be depleted by around 2050, resulting in an underfunding gap of around 165 percent of GDP in 60 years, requiring annual fiscal outlays of about 3 percent of GDP.

Demographics: Health

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

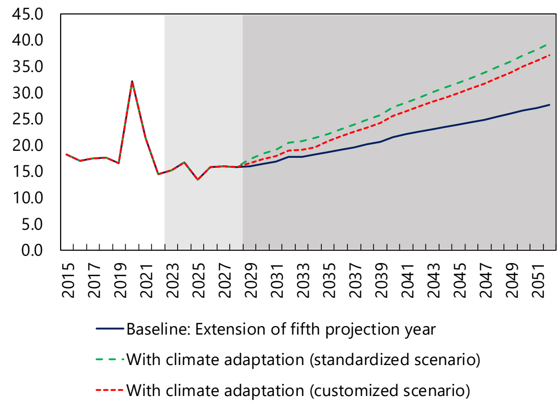


Commentary: The health module sugests that with increase in healthcare costs related to demographic change, debt-to-GDP ratio could increase by 13 pp by 2052. With additional 0.6 pp of growth in healthcare costs, debt-to-GDP ratio could increase by 17 pp more, further increasing long term sustainability risks.

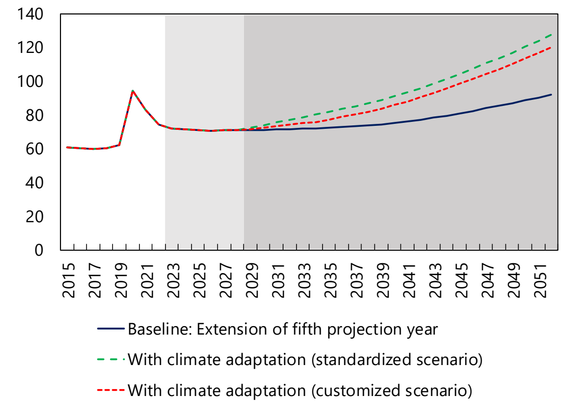
Figure 4c. St. Lucia: Long-Term Risk Analysis

Climate Change: Adaptation

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



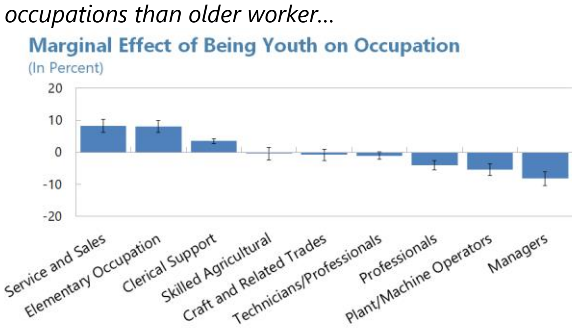
Commentary: The customized scenario, assuming an adaptation cost of 1.3 percent of GDP, 0.7 pp of which is already included in the baseline scenario, suggests that debt-to-GDP could increase by 28 pp by 2052, further increasing long term sustainability risks.

Annex IV. Youth and Gender in the Labor Market

Youth and female workers constitute a higher share of the marginalized work force in St. Lucia's labor market. When employed, young workers are more likely to be in low-paying occupations such as service and sales, elementary, and clerical support occupations than older workers with the same observable characteristics. They are also much more likely to be employed in the private sector and less likely to be self-employed than older workers, possibly due to borrowing constraints. Like young workers, female workers are more likely to be employed in low-paying occupations such as service and sales and clerical support occupations, but unlike young workers, also more likely to be employed in some high-paying occupations such as professionals and managers than male workers with the same observable characteristics. At the same time, they are much more likely to be employed in the central government and less likely to be self-employed. A median female workers earn 20 percent less in monthly gross income than male workers with the same observable characteristics. Combined with the regional correlation between youth unemployment and reports of illegal drugs sold on the streets, the available data suggest that the youth and the female workers face a particularly lower market wage (and workplace amenities) compared to their reservation wage.

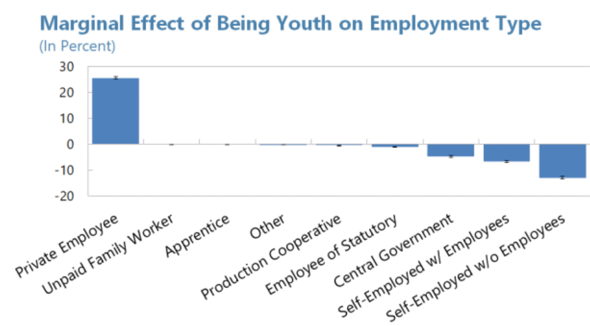
Figure 1. St. Lucia: Youth and Gender in the Labor Market

Youth are more likely to be employed in service and sales, elementary occupations, and clerical support occupations than older worker…



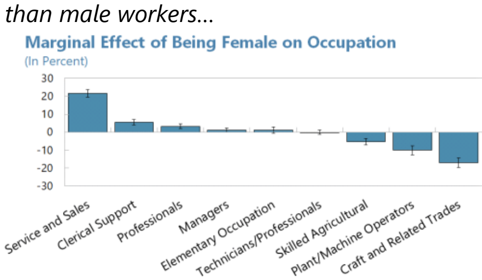
Sources: IMF staff calculations based on St. Lucia Labour Force Survey 2016-2021.
Note: Multinomial logit regression results with education, age group, gender, household head, and pandemic indicators. The error bands denote 95% confidence intervals.

…and much more likely to be employed as a private employee, given the same educational attainment.



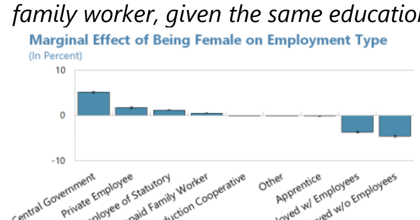
Sources: IMF staff calculations based on St. Lucia Labour Force Survey 2016-2021.
Note: Multinomial logit regression results with education, age group, gender, household head, and pandemic indicators. The error bands denote 95% confidence intervals.

Females are more likely to be employed in service and sales, clerical support, professionals, and management than male workers…



Sources: IMF staff calculations based on St. Lucia Labour Force Survey 2016-2021.
Note: Multinomial logit regression results with education, age group, gender, household head, and pandemic indicators. The error bands denote 95% confidence intervals.

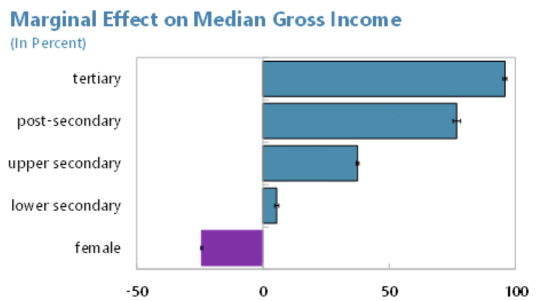
…and more likely to be employed in the central government, private firm, statutory, or as an unpaid family worker, given the same educational attainment.



Sources: IMF staff calculations based on St. Lucia Labour Force Survey 2016-2021.
Note: Multinomial logit regression results with education, age group, gender, household head, and pandemic indicators. The error bands denote 95% confidence intervals.

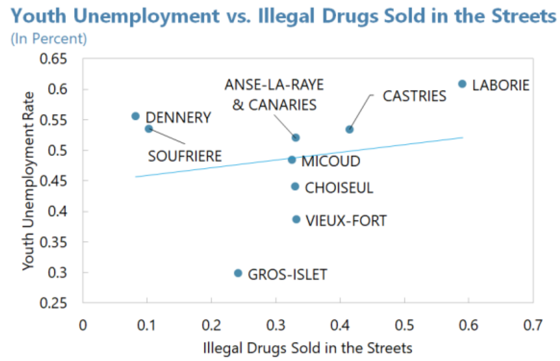
Figure 1. St. Lucia: Youth and Gender in the Labor Market (Concluded)

Female workers earn less in gross monthly income than male workers with the same observable characteristics.



Sources: IMF staff calculations based on St. Lucia Labour Force Survey 2016-2021.
Note: Results are based on Mincer quantile regression using the mid-point of 8 income brackets in the Labor Force Survey. Covariates include occupation, industry, potential experience and its square.

Youth unemployment is correlated with reports of illegal drugs sold at the district level, consistent with the hypothesis that some unemployed youth may be participating in the illicit, informal economy.



Sources: St. Lucia Labor Force Survey 2016-2019, 2021; St. Lucia Crime Victimization Survey 2019, and IMF staff calculations.

INTERNATIONAL MONETARY FUND

ST. LUCIA

July 28, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

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

CONTENTS

FUND RELATIONS

(As of May 31, 2023)

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	35.08	100.00
Holdings	23.21	66.17
Outstanding Purchases and Loans:	SDR Million	Percent of Quota
RCF Loans	21.40	100.00
Latest Financial Arrangements:		
Outright Loans		

	Date of Commitment	Date of Drawn/Expired	Amount approved (SDR million)	Amount approved (SDR million)
RCF	April 28, 2020	April 30, 2020	21.40	21.40

Overdue Obligations and Projected Payments to the Fund[1/]

(SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2023	2024	2025	2026	2027
Principal			2.14	4.28	4.28
Charges/Interest	0.23	0.45	0.45	0.45	0.45
Total	0.23	0.45	2.59	4.73	4.73

Implementation of HIPC Initiative:	Not Applicable
Implementation of Multilateral Debt Relief Initiative (MDRI):	Not Applicable
Implementation of Catastrophe Containment and Relief (CCR):	Not Applicable

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

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 August 2021 and found that the ECCB has maintained strong external audit and financial reporting practices that continue to be aligned with international standards, and further improvements in the capacity of the internal audit function. Legal reforms were recommended to further strengthen operational autonomy of the ECCB and align its Agreement Act with leading practices. The issuance of digital currency (DCash) introduces new risks that require additional controls and oversight, and the assessment made recommendations to enhance the related project-governance framework.

Article IV Consultation: The last Article IV consultation was concluded by the Executive Board on September 7, 2022. St. Lucia is on a 12-month cycle.

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.

Macroeconomic Programming and Analysis

- February 2022 (ICD and CARTAC): Provide ECCU member countries with a customized workshop on public debt dynamics
- October 2021 (ICD and CARTAC): Fiscal Frameworks Course (offered to all CARTAC countries)
- September 2019 (ICD and CARTAC): Provide ECCU member countries with a customized workshop on public debt dynamics
- September 2019 (CARTAC): Provide ECCU customized DSA/FP course
- July 2019 (CARTAC): Provide Macroeconomics Diagnostics Course (offered to all CARTAC countries)
- May/June 2019 (CARTAC): A workshop on the MAC DSA framework
- April 2016 (CARTAC): Updating the Macro Framework and drafting the medium-term fiscal framework

National Accounts

- February 2022 (CARTAC): Support for development of estimates of Gross Domestic Product expenditure components
- January-February 2020 (CARTAC): Follow up mission of national statistics; Compile rebased GDP estimates and update of the SUT benchmark estimates
- September 2017, September 2018 and February 2019, October 2019 (CARTAC): Assist with compiling the supply and use tables (SUT) for 2016 and improve national accounts estimates
- September 2016 (CARTAC): Develop the compilation system to produce quarterly GDP by economic activity estimates and to improve the annual GDP estimates.
- September 2015 (CARTAC): Expand & improve the national accounts, including producing SUT and rebasing the GDP estimates.

Consumer Price Index

- November 2022 (CARTAC): Updating CPI

External Sector Statistics

- October 2022 (CARTAC): Balance of payments and IIP – Source Data
- January 2022 (CARTAC): Size and evolution of net errors and omissions
- March 2021 (CARTAC): Data collection continuity in the context of the COVID 19 pandemic.
- January 2020 (CARTAC): Assist on the backcasting for balance of payments data for 2000-2013, addressing methodological changes reflected in the 2014-18 following the BPM6.
- April 2019 (CARTAC): Strengthen source data for the balance of payments and IIP.
- September 2018 (CARTAC): Dealing with nonresponse and improving the compilation of trade in goods statistics
- March 2018 (CARTAC): Strengthening the compilation of the recently revised balance of payments and new international investment position (IIP) statistics.
- October 2016 (CARTAC): Reviewing preliminary BPM6-based balance of payments and new IIP statistics for dissemination.
- March 2016 (CARTAC): Assessing data sources for the compilation of balance of payments and IIP Statistics according to the BPM6.

Tax Reforms and Revenue Administration

- April 2023 (CARTAC): Strengthening management and Governance Arrangements – Annual Reporting
- February 2023 (CARTAC): Strengthening Reform Management Capacity – Reform Plan WS
- October 2022 (CARTAC): Strengthening Reform Management Capacity
- September 2022 (CARTAC): Strengthening Human Capital – Middle Managers
- April 2022 (CARTAC): Developing Performance Targets and KPI in Customs
- November 2021 (FAD and CARTAC Revenue Administration): Provide a 'Tax Administration Diagnostic Assessment Tool' (TADAT) diagnostic
- October 2021 (CARTAC): Developing Performance Targets and KPI in Customs
- September 2021 (FAD and CARTAC Revenue Administration): Provide a virtual TADAT Training course
- July 2021 (CARTAC): Review of dispute resolutions framework at the Inland Revenue Department
- December 2020- May 2021 (LEG and CARTAC): Support the Inland Revenue Department in drafting a Tax Administration and Procedures Act (TAPA) to apply to all major domestic taxes and to make consequential amendments to existing tax acts
- November 2020 (CARTAC): Provide a virtual training to build audit and assessment capacity, focusing on strengthening non-filers program
- July- Aug. 2020 (CARTAC): Compliance Management Strategy Plan for the Tourism and Hospital sector at the Inland Revenue Department (IRD).
- May 2020 (CARTAC): Review the existing IRD's business processes and IT and prepare a new business model with processes.
- May-September 2020 (CARTAC): Supporting implementation of new tax administration information technology system
- November 2019 (CARTAC) Strengthening HQ Capacity: Program Development
- November 2019 (CARTAC): Regional seminar in Developing Trusted Trader and Authorized Economic Operator Programs.
- September 2019 (CARTAC): Regional workshop, Tax Audit Training

- July 2019 (CARTAC): IT Support - Implementation of ICT System
- July 2019 (CARTAC): Strengthening Audit Capacity and Audit Program
- June 2019 (CARTAC): Regional seminar in Disaster Preparedness Planning for Tax and Customs.
- June 2019 (CARTAC Tax Administration): Strengthening HQ functions
- May & November 2018 (CARTAC): Regional Tax Audit Training
- October 2018 (CARTAC): Building HQ & Audit Capacity
- June 2018 (CARTAC): Audit Effective Management
- June 2018 (CARTAC): Strengthening IRD IT Business Processes & Control
- FY 2018/19 (CARTAC): Provide training on extracting data from the ASYCUDA system
- October & November 2017 (CARTAC): Building Technical Capacity in VAT Legislation
- June & November 2017 (CARTAC): Building and enhancing HQ capacity, data gathering, analysis, and program reporting
- March 17, October 2016 (CARTAC): Developing a Compliance Risk Management Strategy.
- November 2016: Strengthening Performance Management – establishing KPI
- November 2016: IT Support – (via Peer-to-Peer Technical Assistance (TA) Attachment)
- October 2016: Data Analytics
- September 2016 (CARTAC): Developing a Taxpayer Service Strategy.
- June 2016 (CARTAC): Building Audit Capacity
- June 2016 (CARTAC): Strengthen the Post Clearance Audit Function.

Expenditure Rationalization and PFM Reforms

- April 2022 (CARTAC): A Roadmap for Treasury Reform
- January 2022 (CARTAC): Establishing a Centralized Internal Audit Function
- July-August 2021 (CARTAC): Strengthening Budget Planning and Preparation
- April 2018 (CARTAC): PFM Action Plan

- September 2017 (CARTAC): Budget Workshop with MoF and all Ministries
- July 2017 (CARTAC): PEFA Assessment
- June 2017 (CARTAC): PEFA Workshop
- January 2016 (CARTAC): Diagnostic Assessment of Internal Audit.

Financial Sector

- June 2023 (CARTAC): Insurance Training ORSA and Risk-Based Capital
- February 2022 (CARTAC): Implement Risk-based supervision (RBS) across credit unions and insurance companies
- November 2020 (CARTAC): Provide follow-up TAs to enhance Financial Services Regulatory Authority (FSRA)'s capacity to implement Risk-based supervision (RBS) across credit unions and insurance companies
- FY18–FY20 (CARTAC): Regional Workshops on the supervision of Credit Unions and Insurance companies, consolidated supervision, risk-based supervision, and on other topical or emerging issues such as cyber risk, and FinTech.
- October 2019 (CARTAC): Implementation of Risk-based supervision across non-bank financial institutions
- October 2019 (CARTAC): Develop the Stress Testing Framework for the Credit Union Sector.
- February 2020 (MCM): Contingency Planning for Crisis Preparedness and Management
- September 2018 (CARTAC): Review & analyze Life and General Insurance Actuarial Valuation reports.
- June 2018 (CARTAC): Stress Testing the Insurance Sector (joint mission for four ECCU countries).
- September 2017 (CARTAC): Developing Financial Health and Stability Indicators for the Insurance Sector (joint mission for four ECCU countries).
- April 2016 (CARTAC): Basel II Implémentation.
- February 2016 (CARTAC): Basel II Implementation.

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.

Debt Management

- August 2021 (CARTAC): Fiscal Financing Gaps and Debt Management (joint seminar for the ECCB and ECCU countries)
- June 2021 (CARTAC): Debt Management strategy and Annual Borrowing Plan (joint workshop for the ECCB and ECCU countries)
- January 2020: Preparation of an Annual Borrowing Plan
- October 2019: Developing the Regional Government Securities Market (joint mission for the ECCB and ECCU countries)

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank: WBG Finances - Country Details - St. Lucia (worldbank.org)
- Caribbean Development Bank: https://www.caribank.org/countries-and-members/borrowing-members/saint-lucia

STATISTICAL APPENDIX

(As of June 30, 2023)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but is broadly adequate for surveillance. The statistical database compares well and, in some areas, has a broader coverage than those of its Eastern Caribbean Central Union (ECCU) peers. However, the accuracy and timeliness of macroeconomic statistics could enhance for more effective economic analysis and policy formulation. In particular, national account and balance of payment data could improve its coverage, frequency, and timeliness, and the public sector data beyond the budgetary central government remains limited.
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. GDP data rebased with constant 2018 price estimates were published in 2020. Preliminary GDP is available about six months after the end of the year and estimates are usually finalized with a two-year lag. Quarterly GDP estimates by the expenditure approaches were developed and first released in 2017 with technical assistance from CARTAC and is published at a quarterly basis with a lag. National accounts data could improve its precision, reducing the magnitude of revision between data releases.
Price Statistics: The rebasing exercise of the CPI has been completed—the new CPI basket (base January 2018) is based on the 2016 Household Expenditure Survey.
Government Finance Statistics: Reporting of budgetary central government data has improved over the last few years, but deficiencies remain in the compilation of both general government and public sector statistics. The authorities report monthly data on the budgetary central government's current revenue and expenditure, using a non *GFSM 2014* presentation with lags of a couple of months. 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: Monetary data are compiled by the ECCB on a monthly basis and reported regularly to the Fund. Specifically, on St. Lucia, the institutional coverage of other depository corporations is incomplete, and valuation of interest-bearing assets and liabilities does not incorporate accrued interest. Also, source data for the commercial banks do not provide disaggregated information recommended by the Monetary and Financial Statistics Manual (ECCB is currently working on this issue).
Financial Sector Surveillance: The ECCB reports quarterly FSIs for St. Lucia covering commercial banks.

External Sector Statistics: Since 2017, the ECCB and the NSOs including the Central Statistics Office (CSO) of St. Lucia have been jointly disseminating annual balance of payments and international investment position (IIP) statistics for each of ECCU member economies and the ECCU region following the BPM6 guidelines. Data for 2014 onwards are available on the ECCB's website. CARTAC continues assisting ECCU member's countries in strengthening the compilation framework of the ESS and dissemination of statistics mainly through enhancing the coverage, methodology and the quality of prioritized balance of payments components with the incorporation of a wider variety of data sources to supplement business surveys, which response rates are not satisfactory yet. The CSO accesses to relevant tax information from the Inland Revenue Department. Travel credits estimates are based on up-to-date visitor expenditure surveys carried out by the St. Lucia Tourist Board. Trade in goods data have been revised in the balance of payments by applying the recommended general trade system for the compilation of the international merchandise trade statistics. CARTAC TA to ECCB and CSO currently assist in backcasting the balance of payments for years prior 2014 addressing relevant breaks. The Debt Management Office (DMO) of the Ministry of Finance compiles granular public sector external debt (external debt owed by central government and by public corporations that is guaranteed by the government) and publicly guaranteed private sector external debt statistics that St. Lucia reports to the World Bank's Quarterly External Debt Statistics (QEDS) database. Data on external debt of the non-bank private sector are not available.

II. Data Standards and Quality	
St. Lucia is a participant in the enhanced General Data Dissemination System (e-GDDS since September 2000 but has not yet launched a National Summary Data Page (NSDP).	

St. Lucia: Table of Common Indicators Required for Surveillance
(As of June 30, 2023)

	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]	04/2023	06/2023	M	M	M
Reserve/Base Money	04/2023	06/2023	M	M	M
Broad Money	04/2023	06/2023	M	M	M
Central Bank Balance Sheet	04/2023	06/2023	M	M	M
Consolidated Balance Sheet of the Banking System	04/2023	06/2023	M	M	M
Interest Rates[2]	04/2023	06/2023	M	M	M
Consumer Price Index	03/2023	06/2023	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	03/2023	05/2023	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q1/2023	06/2023	Q	H	H
External Current Account Balance	2022	06/2023	A	A	A
Exports and Imports of Goods and Services	2022	06/2023	A	A	A
GDP/GNP	2022	07/2023	Q	A	A
Gross External Debt	NA	NA	NA	NA	NA
International Investment Position[6]	2020	04/2022	A	A	A

[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, 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); half-yearly (H); quarterly (Q); annually (A); irregular (I); and not available (NA).