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St. Lucia: Staff Report for the 2010 Article IV Consultation

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

- The staff report, prepared by a staff team of the IMF, following discussions that ended on February 18, 2010 with the officials of St. Lucia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 1, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- Supplements to the staff report.

- A Public Information Notice (PIN)

- A statement by the Alternate Executive Director for St. Lucia

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INTERNATIONAL MONETARY FUND

ST. LUCIA

February 2010

St. Lucia: Staff Report for the 2010 Article IV Consultation

Prepared by the Western Hemisphere Department

(In consultation with other Departments)

Approved by Rodrigo Valdés (WHD) and Michele Shannon (SPR)

Context. Reflecting a sharp fall in tourist arrivals and subdued FDI-financed construction activity, the economy contracted by 5.2 percent in 2009. The outlook for 2010 points to a slow, fragile recovery, dependent on tourism demand in the USA and Europe.

Discussions. Discussions were held in Castries during February 8–18, 2010. The staff team comprised Messrs. Schipke (Head), Nassar, Perrelli, Samuel (all WHD), and Tareq (FAD). The team met with Prime Minister and Minister of Finance the Honorable Stephenson King, Leader of the Opposition Dr. Kenny Anthony, Permanent Secretary of the Ministry of Finance Isaac Anthony, and senior government officials, trade union representatives, as well as representatives of the private sector. Senior staff of the ECCB and a representative of the CDB attended key meetings.

Key Issues. An incipient economic recovery based on a rebound in the tourism sector is underway, but is subject to significant downside risks. After a large fiscal impulse in 2009, which aimed at minimizing the adverse impact of the recession on employment, the adoption of a credible fiscal framework to ensure debt sustainability is paramount. Recent financial sector difficulties in the Caribbean call for stronger financial sector regulation and supervision. The resolution of the failed CL Financial Group requires close monitoring to avoid regional spillovers and limit the fiscal cost.

Fund Relations. St. Lucia has accepted the obligations of Article VIII, Sections 2, 3 and 4, and maintains an exchange rate system free of restrictions on the making of payments and transfers for current international transactions. The Executive Board approved a request for a RAC-ESF on July 27, 2009 of an amount equivalent to SDR 6.89 million (45 percent of quota). The last Article IV Consultation was concluded on July 30, 2008. The staff report and summing up of the Executive Directors' discussions and policy recommendations are available at: http://www.imf.org/external/pubs/cat/longres.cfm?sk=23194.0

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I. Economic Context

1. Following a period of moderate economic growth, St. Lucia has been severely impacted by the global downturn. Real GDP contracted sharply in 2009 after expanding on average by about 3 percent during the previous 5 years, when tourism became a more prominent sector and resulted in FDI-related construction. The recession in the United States and Europe has contributed to lower tourism arrivals, FDI inflows, and remittances. Fiscal revenue declined reflecting the cyclical downturn and a limited temporary tax relief to the tourism sector. As a result of a decline in FDI-related imports, the external current account improved from very high deficits. At the same time, the failure of the CL Financial Group in Trinidad and Tobago, with extensive operations in the ECCU region—including St. Lucia—has highlighted the vulnerabilities of the financial system.

2. The Fund's Executive Board approved a disbursement under the Rapid-Access Component of the Fund's Exogenous Shocks Facility in July, 2009. The financial assistance, equivalent to SDR 6.89 million (45 percent of quota), helped meet the immediate foreign exchange needs stemming from the spillover effects of the global downturn and financial turmoil, thereby limiting the decline in external reserves.

3. The authorities face difficult policy challenges. Policymaking in St. Lucia faces several constraints, including limited monetary and fiscal leverage given the common currency; the relatively high public debt levels; a likely small fiscal multiplier,[1] given the openness of the economy; and social protection programs that need to be strengthened. Prior to the crisis, the authorities' policies have been broadly in line with Fund recommendations.[2] However, faced with weaker than anticipated economic activity and lower external grants, the authorities relaxed the fiscal objectives significantly beyond what was envisaged under the RAC-ESF to minimize the adverse implications for employment.[3] Public debt has increased from 66 to 75 percent between 2008 and 2009. Going forward, it will therefore be important to implement a credible fiscal framework to ensure fiscal and debt sustainability.

II. Recent Economic Developments

Economic activity has weakened, but there are some indications that an incipient recovery is underway.

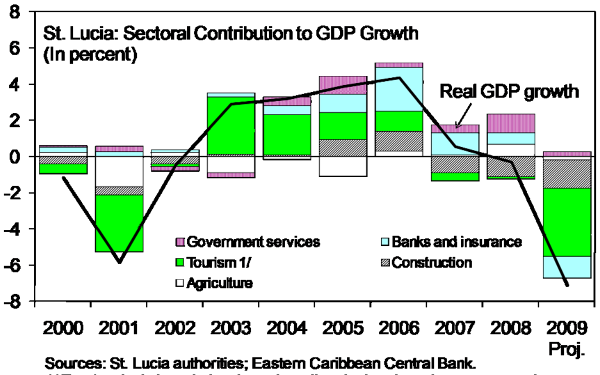
4. Economic activity contracted by 5.2 percent in 2009, given the decline in the demand for tourism from the main trade partners (U.S. and U.K.), FDI-financed construction, and banking and insurance activity. While in the last quarter of 2009 tourism data have shown a moderate recovery, the contribution of more stayover visitors to economic growth is likely to have been limited, given continued heavy discounting of hotel room rates and the airlines' government support to sustain the

[1] While the fiscal multiplier is likely to be small—reflecting the openness of the economy—increases in public spending during economic downturns have positive employment effects and improve the productive capacity of the economy.

[2] See Annex V. Also, the authorities undertook several reforms with technical assistance from CARTAC and the IMF.

[3] St. Lucia's policy intentions as expressed in the RAC-ESF Letter of Intent implied a significant tightening compared to the FY2009/10 budget.

number of flights.[4] Inflation is estimated at about 1 percent at end-2009 (from 7 percent in 2008), and—given the currency board arrangement—returns to historical levels (2-3 percent over the medium term).



Sources: St. Lucia authorities; Eastern Caribbean Central Bank.
1/ Tourism includes wholesale and retail trade, hotels and restaurants, air transport and half of local transport.

5. The fiscal position is projected to deteriorate sharply in FY2009/10[5] mainly on account of an increase in non-grant-financed public expenditure. The central government primary fiscal balance is expected to shift from a surplus of 2.2 percent of GDP to a deficit of 2.5 percent of GDP, while the overall deficit would rise to about 6.1 percent of GDP (7.8 percent of GDP including off-budget expenditures related to the construction and financing of public projects by the private sector, also known as "design-finance-construct"[6]) compared to the authorities' target of 3 percent of GDP at the time of the RAC-ESF. On the revenue side, the cyclical decline was somewhat contained due to an increase in petroleum product prices by an average of 20 percent in August 2009 and the adoption of a flexible energy-pricing regime to avoid future erosion of the fuel excise. The implementation of a VAT and other revenue-enhancing measures envisaged by the authorities in the context of the RAC-ESF, however, has yet to occur. On the expenditure side, the authorities implemented a large public works program and advanced a number of capital projects, resulting in a projected increase in non-grant capital expenditure equivalent to 3.1 percent of GDP, despite delays in the disbursement of grants and concessional loans.[7] The fiscal deficit is expected to be financed mainly by issuing securities in the Regional Government Securities Market (RGSM).

6. The external position has improved, but the current account deficit remains somewhat elevated. The external current account deficit is estimated to have narrowed by around 10 percent of GDP in 2009 relative to 2008 despite the decline in tourism. Stayover arrivals declined by about 6 percent, but discounting of hotel room rates and lower spending by tourists resulted in a larger decline in tourism receipts. Similarly, remittances are estimated to have declined as employment opportunities in migrant host countries remained bleak. A decline in FDI-related and fuel imports (the latter due to lower oil prices) is estimated to have offset the decline in tourism receipts and remittances. At around 20 percent of GDP the estimated external current account deficit is close to its norm[8] and consistent with external financing (see Annex I).

7. Credit to the private sector slowed further in 2009 and financial sector vulnerabilities have increased. The

[4] To attract additional and maintain existing flights, the government subsidized flights or provided guarantees that depend on the load factor. These subsidies amount to about 0.2-0.3 percent of GDP).

[5] The fiscal year starts April 1.

[6] Since fiscal accounts are on a cash basis, in FY2009/10 the full amount is reflected in an increase in public debt.

[7] The disbursements of grants from the EU (related to the construction of a hospital) as well as concessional financing from the World Bank got delayed.

[8] The current account norm (i.e. equilibrium current account deficit) is estimated using the fiscal- and oil balances, relative income, relative economic growth, demographics, and net foreign assets.

contraction of economic activity has resulted in a significant slowdown in private sector credit demand and commercial banks, in turn, have been rebuilding their net foreign assets. While domestic bank lending rates have remained broadly stable, there are signs that conditions in the RGSM have tightened recently, implying higher cost of fiscal financing (see Annex II). Reflecting the weakening economic environment, banking sector indicators have deteriorated and liquidity tightened during the last two quarters. Non-performing loans (NPLs) for the whole system rose from 6.7 to 8.3 percent of total loans during 2009. While NPLs of both indigenous and foreign banks increased by about 1.5 percentage points, NPLs of indigenous banks reached 10.2 percent. In addition, some banks have been offering a six-month moratorium on principal payments on private sector loans, hence underestimating NPLs.

St. Lucia: Banking Sector: Selected Financial Soundness Indicators 1/
(In percent)

	September 2008		September 2009	
	St. Lucia	ECCU	St. Lucia	ECCU
Capital adequacy ratio (indigenous banks)	18.3	19.5	20.8	21.2
Nonperforming loans/total loans	6.7	7.9	8.3	7.5
Gross government exposure/total assets	9.3	13.8	9.6	14.1
Provisions for loan losses/total loans	2.6	1.9	2.4	2.0
Provisions for loan losses/nonperforming loans	38.9	24.5	29.3	27.2
(Pre-tax) return on average equity (indigenous banl	5.3	1.4	4.0	2.6
(Pre-tax) return on average assets	0.7	0.4	0.5	0.5

Source: ECCB.

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

III. Outlook and Risks

A fragile recovery is underway, but is subject to significant downside risks.

8. The economy has begun a fragile recovery in 2010 on the back of resurgence in tourism and FDI-related and public construction, but there are important downside risks. Growth is expected to pick up to about one percent in 2010 and increase slowly to about 4 percent by 2015. For St. Lucia to achieve higher growth rates, additional structural reforms, a resumption of some high-end tourism projects, and the emergence of new growth areas will be needed.

9. Risks to the growth outlook are on the downside and dependent on the strength of the recovery in the demand for tourism. These risks include a weaker than anticipated outlook for St. Lucia's main trading partners, permanently lower-than-envisaged FDI flows, policy slippages in the run up to the next elections (which have to take place by end-2011), weak implementation capacity, and the ever-present threat of natural disasters. Meanwhile, the economic downturn has increased macro-financial risks both in St. Lucia and the currency union. While direct cross-country exposure appears to be modest, there are risks to the indigenous banking system from regional spillovers due to the fragility of indigenous banks in other Eastern Caribbean Currency Union (ECCU) countries.

10. The collapse of the Trinidad and Tobago based CL Financial Group in January 2009 has highlighted the risks of regional spillovers and financial sector vulnerabilities in the non-bank sector. The conglomerate's two insurance companies (CLICO and BAICO), with operations in St. Lucia and other ECCU countries, offered traditional insurance products and deposit-like instruments to invest in real estate projects and over-leveraged sister companies. With the deterioration of the global economic conditions in 2008 and the collapse of the real estate market in Florida, the group faced both liquidity and solvency problems. While the authorities in the region have reported that BAICO is insolvent, St. Lucia's exposure to it is relatively small (0.3 percent of GDP). Although information on the status of CLICO is more limited and the country's exposure amounts to about 5.6 percent of GDP, St. Lucia has pledged assets from CLICO amounting to 50 percent of liabilities and 70 percent of deposit-like instruments (see Annex III).

IV. Key Policies and Recommendations

The discussions focused on the adoption of a fiscal framework that will support fiscal and debt sustainability, a reduction in vulnerabilities, and St. Lucia's growth prospects following the global downturn.

Fiscal Policy

The timing of the withdrawal of the fiscal impulse needs to be carefully calibrated to ensure continued fiscal and debt sustainability, while minimizing an adverse implication on employment.

11. The government has reiterated its commitment to a medium-term fiscal strategy, which would help achieve fiscal and debt sustainability, yet current policies are inadequate to meet the government's goals. The planned fiscal measures include implementation of a broad-based value-added tax (VAT), market based property taxes, a tax on interest income, and vehicle licensing fees. However, of the latter three measures, only the increased licensing fee has been implemented.

St. Lucia: Key Fiscal Indicators, FY 2009/10

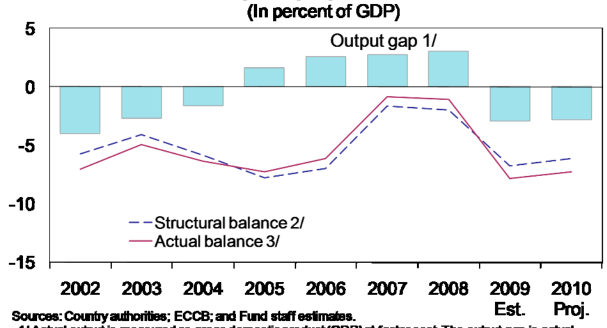
In percent of GDP

	FY 2008/09 Estimates	FY 2009/10 Budget	RAC-ESF 1/	FY 2009/10 Projections
Revenue and grants	**29.9**	**34.7**	**32.0**	**29.7**
Revenue	29.1	29.9	29.1	28.0
Grants	0.8	4.8	2.9	1.7
Total expenditure	**30.9**	**41.2**	**34.9**	**35.8**
Capital expenditure	7.4	15.0	8.2	10.5
Design finance 2/				**1.7**
Primary balance	**2.2**	**-2.9**	**0.8**	**-2.5**
Overall balance	**-1.1**	**-6.5**	**-2.9**	**-6.1**
Overall balance including design finance				**-7.8**
Fiscal Impulse				**5.1**

Sources: Ministry of Finance; and Fund staff estimates and projections.
1/ Adjusted for capital grants that were not disbursed.
2/ Related to the construction and financing of public projects by the private sector.

12. Fiscal policy in FY2009/10 was expansionary and the deficit will exceed the authorities' policy commitment under the RAC-ESF by a wide margin, contributing to about 8 percent of GDP rise in the public debt. This fiscal expansion in FY2009/10 has led to a fiscal impulse close to 5 percent of GDP. Should this fiscal stance persist into FY2010/11, it would imply a further surge in public debt, which could heighten financing pressures. Currently St. Lucia's gross financing needs are less than 10 percent of GDP, and its access to domestic and regional financing is relatively good; however, yields on government debt have increased recently and the country's share of the regional government debt market already amounts to 60 percent, which could raise the cost of borrowing going forward.

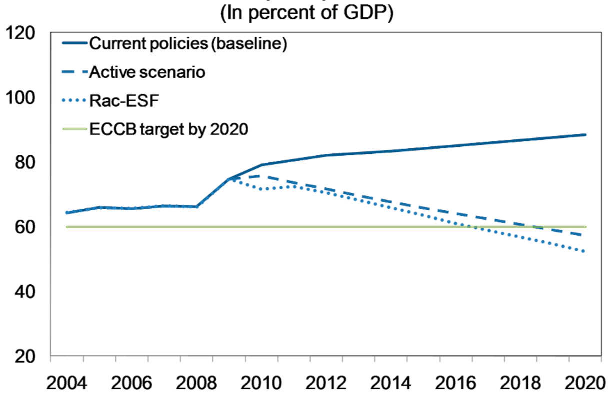
St. Lucia: Cyclically Adjusted Fiscal Balance
(In percent of GDP)



Sources: Country authorities; ECCB; and Fund staff estimates.
1/ Actual output is measured as gross domestic product (GDP) at factor cost. The output gap is actual output less potential output, as a percent of potential output.
2/ The structural balance (in percent of potential output), is the overall balance that would be observed if the level of actual output coincided with potential output. Includes liabilities related to design finance.
3/ Actual balance is the overall balance (revenue and grants less expenditure), and is expressed as a percentage of actual output. Includes liabilities related to design finance.

13. Under current policies (the baseline scenario)—the public debt is on an unsustainable path. Without additional measures, public debt is projected to rise to about 88 percent of GDP by 2020.

St. Lucia: Debt Sustainability Analysis Under Different Scenarios
(In percent of GDP)



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

14. The mission welcomes the government's renewed commitment to medium-term fiscal consolidation, and recommends the adoption of a comprehensive fiscal framework. Such a framework would lend credibility to the goal of achieving medium-term fiscal sustainability and reach the authorities' target of a debt-to-GDP ratio of 60 percent by 2020, which is paramount given the currency board arrangement. The mission would underscore the need for early implementation of the VAT and other fiscal reforms. The mission also recommends prioritization of expenditure outlays to be consistent with available concessional financing and implementation capacity. In addition, given St. Lucia's relatively high revenue-to-GDP ratio, the mission urges the authorities to consider a broad-based public expenditure reform,[9] step up efforts to strengthen debt management capacity, including the development of a medium-term strategy, and improve the capacity to conduct debt sustainability analysis. The authorities should also build fiscal space to be able to better absorb external shocks (e.g. effects of natural disasters, financial sector spillovers). Furthermore, the authorities should increase oversight of public enterprises, limit the use of "design-finance-construct" facilities to minimize contingent liabilities associated with projects financed with private sector participation.

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[9] An in depth FAD public expenditure TA mission is tentatively scheduled for May 2010.

15. The large fiscal impulse in FY2009/10 poses challenges for medium-term fiscal and debt sustainability. Accordingly, the mission recommends adjustment measures (the "active" scenario), which would reverse about two-thirds of the FY2009/10 fiscal impulse in the FY2010 budget aimed at achieving small primary balance, and reaching a surplus of about 1½ percent of GDP over the medium term. Given that the full revenue impact of the recommended measures would only materialize in the following year, the debt-to-GDP ratio would increase by one percent of GDP in FY2010/11 before putting the country on a firmly declining trajectory. The implementation of the fiscal measures would send a strong signal to market participants about the government's commitment to an exit strategy and fiscal consolidation. Given the small fiscal multiplier and significant room to improve the efficiency and effectiveness of public spending, the withdrawal is likely to have a limited impact on growth.[10]

St. Lucia: Net Impact of Additional Fiscal Measures under Active Scenario, 2010-2015
(In percent of GDP)

	Implementation Date	2010	2011	2012	2013	2014	2015
Additional policies under active scenario							
Capital expenditures cuts	Apr-10	2.0	1.0				
Wages and salaries cap	Apr-10	0.5	0.5	0.5	0.1		
Interest and property tax increases	Apr-10	0.3	0.6	0.6	0.6	0.6	0.6
VAT implementation 1/	Oct-10	0.5	1.5	2.5	2.5	2.5	2.5
Targeted social spending							
Social safety transfers	Apr-10			-0.2	-0.5	-0.5	-0.5
Net impact of additional policies		3.3	3.6	3.4	2.7	2.6	2.6
Memo:							
Primary Balance		0.2	2.1	1.6	1.6	1.6	1.6

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

1/ The VAT will replace some of the existing consumption taxes. Its net yield is estimated to rise gradually to 2.5 percent of GDP in the medium-term, with smaller impact in the initial years due to implementation adjustments.

16. An improvement in the efficiency of spending would create space for higher targeted social spending. The mission welcomes the government's commitment to enhance protection of the most vulnerable groups under a variety of social safety nets, including increased pension allowances targeted to the poor, and funding of social protection projects to help achieve the Millennium Development Goals. However, such programs could be improved by greater coordination between the implementing agencies, better targeting of the conditional cash transfer program, and streamlining of programs that are not cost effective.[11]

Addressing Vulnerabilities

Recent financial sector difficulties in the Caribbean call for close monitoring, a successful resolution of CL Financial, stronger financial sector regulation and supervision, (especially of the non-bank financial sector), and measures to avoid regional spillovers.

[10] As a simplifying assumption both scenarios have identical growth projections.

[11] D. Coady, 2008, Windward Islands: Dominica, St. Lucia and St. Vincent and the Grenadines, Social Protection in the Context of Trade Preference Erosion.

17. Banking soundness indicators have deteriorated and contagion risks from the rest of the region have increased. Although St. Lucia's banks were not directly exposed to the financial crisis, the economic downturn has increased credit risk, and the reduced asset quality has weakened banks' balance sheets. In addition, there are risks to the banking system from regional spillovers, given the weakness of indigenous banks in some other countries of the ECCU, and the wider Caribbean. While direct cross-border linkages are limited, spillovers could be propagated through the payments system or a generalized loss of confidence in indigenous banks, which represent about 60 percent of total deposits.

18. The mission encourages the authorities to prepare—in conjunction with the ECCB—a full-scale contingency plan to mitigate spillovers from potential financial events in the region, particularly in light of the latter's limited role as a lender of last resort. The authorities and the ECCB should also continue to monitor closely banking system indicators, particularly for indigenous banks, given the risk of spillovers from such banks in other ECCU countries.[12] In light of the vulnerabilities discussed above, the mission underscores the benefits of keeping St. Lucia's SDR allocation as a pooled liquidity buffer, and to promote this initiative among the other ECCU countries.

19. Strengthening the supervision of the domestic non-bank and offshore sectors remains a high priority. Although St. Lucia's stronger regulatory framework for the insurance sector spared them from the worst effects of the collapse of the Trinidad-based CL Financial Group (CLICO and BAICO), and the direct exposure of banks to the group appears to be negligible, the regulation and supervision of the non-bank sector—in particular, credit unions—remains uneven. St. Lucia's offshore financial center is small and its contribution to growth is insignificant. A failure, however, to comply with tighter international standards in the fiscal/tax and financial/regulatory areas for offshore financial centers (OFCs), as called for by the G-20, could adversely impact the reputation of the country as a high-end service provider. In the case of OFCs, the authorities have made and signed 6 of the required 12 tax information and exchange agreements (TIEAs) and are committed to the completion of the remaining ones by end March. Staff urges the authorities to take a more proactive stance during the next stage of mutual evaluations to minimize the risk of being labeled as non compliant.

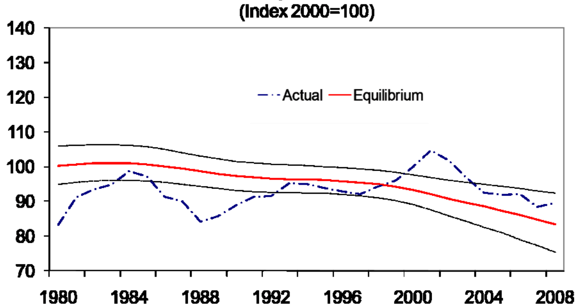
20. Staff and the authorities agree on the urgency of completing the remaining steps to put in place a fully operational single regulatory unit to provide a unified regulatory framework for non-banks, including credit unions and the insurance industry. In this context, the mission encourages the authorities to press ahead with the adoption of the Financial Services Regulatory Authority Act and other enabling legislation including the 2009 Insurance Act. The mission also supports the ECCU authorities' announced strategy of a regional resolution of BAICO and welcomes the initial steps toward its resolution, including the establishment of a new company. In this context staff reiterates that the resolution of BAICO should adhere to three principles: (i) avoid systemic contamination, (ii) minimize the fiscal costs to the extent possible, given the region's high debt levels and related vulnerabilities, and (iii) ensure equitable treatment of claimants, including giving priority to claims up to a low threshold.

[12] Most foreign banks are branches of Canadian institutions, which have withstood the financial crisis relatively well and benefit from access to liquidity from their parent banks.

Enhancing Competitiveness and Growth

21. The exchange rate does not show clear evidence of an overvaluation, but structural reforms are needed to further increase the growth potential of the economy and reduce vulnerabilities. Staff analysis indicates that St. Lucia's real effective exchange rate (REER) is close to its equilibrium level, reflecting the weakening of the U.S. dollar against major currencies through 2002–2009. Since 2000, the equilibrium REER has also fallen, due to the ongoing decline in both the terms of trade (of goods and services) and relative tourist arrivals, and the accumulation of net foreign liabilities. Assuming a resumption of FDI flows, the external current account balance converges to its norm of about 18 percent of GDP. However, given the risk of permanently lower FDI flows and to boost the long-run growth potential, the elimination of labor market constraints is paramount. Moreover, St. Lucia's share of stayover arrivals has declined after peaking in 2005. The fiscal measures recommended under the active scenario would help reduce wage pressures and create room for expanding the role of the private sector.

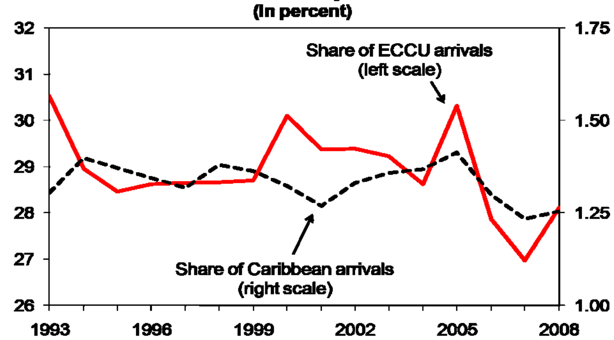
St. Lucia: Actual and Equilibrium REER, 1980–2008 1/
(Index 2000=100)



Sources: IMF, Information Notice System; and Pineda, Cashin, and Sun, "Assessing Exchange Rate Competitiveness in the Eastern Caribbean Currency Union," IMF Working Paper WP/09/78.
1/ The dotted lines around the equilibrium exchange rate represents 90 percent confidence intervals of the prediction.

22. The mission and the authorities concur on the importance of improving the business climate and enhancing productivity. With exchange rate adjustment constrained by the quasi currency board, enhancing labor market flexibility is essential. Given that public sector wages have a demonstration effect on private wage contracts, controlling increases in public sector compensation would be an important step to ensuring competitiveness and to maintaining high levels of FDI inflows. Moreover, improving the business climate, in particular lowering the costs of starting a business and simplifying the procedures for registering properties, will be key to fostering investment and private sector-led growth. At the same time, the prospects of the offshore financial sector for growth are likely to be limited in St. Lucia and—given the increasing compliance costs as a result of the latest G-20 initiatives—authorities may consider the viability of remaining in the industry.

St. Lucia: Share of Stay-over Arrivals
(In percent)



Source: ECCB; Caribbean Tourism Organization; St. Lucian authorities; and Fund staff estimates.

Other Issues

23. While St. Lucia's economic statistics are adequate for surveillance, further efforts are needed to improve the quality of data, including timeliness, coverage, and dissemination. In particular, the coverage of tourism and FDI in the national accounts and balance of payments call for further improvement. Also, the country is lacking reliable labor market statistics. Staff welcomes the authorities' focus on strengthening data quality and provision, including by seeking technical assistance from CARTAC and the IMF.

V. The Authorities' Views

24. The authorities agreed with the thrust of staff's assessment and recommendations. They noted that—in line with staff views—their main concern was achieving medium-term fiscal and debt sustainability. At the same time, they highlighted that—as a small developing country—social protection mechanisms were underdeveloped, including the absence of unemployment benefits. Therefore, given the adverse implications of the global economic and financial crisis for St. Lucia, the sizable increase in public works projects served a dual purpose of offsetting the employment impact, while at the same time improving much needed infrastructure for development. They concurred with staff on the priority of resolving the failed CL Financial Group in a regional context, strengthening regulation and supervision, especially of the non-bank financial sector, and on measures to enhance competitiveness and growth. They viewed the reduction of financial sector vulnerabilities and enhancement of competitiveness as important for private sector led growth.

Growth Outlook

25. While broadly in agreement with staff's growth outlook, the authorities were of the view that there was an upside, especially with respect to tourism and construction. In particular the authorities pointed to the remobilization of some FDI projects—with the expectation that others would follow—the recent increase in the number of flights to the island, and an improvement in stayover arrivals. In this context, they justified airline subsidies and additional tourism marketing to maintain a strong presence in the market so as not to be disadvantaged when the global economy begins to recover. The authorities are also of the view that growth in 2010 will be supported by public sector construction as a number of projects are slated for implementation.

Fiscal Policy

26. The authorities highlighted that the increased spending on public works was warranted to mitigate the negative employment impact of the crisis. To that effect they pointed to the positive employment effects of the Holistic Opportunities for Personal Empowerment (HOPE) project, with its dual purpose of providing useable skills in the context of community investment projects, and at the same time advancing with a number of high impact public investment projects. In addition, major road projects were undertaken under the "design, finance and construct" framework. Moreover, the tax relief to tourism helped to sustain activity in that sector.

27. The authorities agreed on the need to implement a credible fiscal framework. They fully expect to return to fiscal consolidation after the temporary easing of the fiscal stance when the economy begins to recover. The authorities noted the progress made in moving forward with the implementation of the vehicle license fees and the property tax. Also, they remained committed to the implementation of the VAT. However, they emphasized the need to seek broad-based political support and started a consultative process. They remained hopeful that the tax could be implemented by October. There was general agreement on the need to contain increases in the wage bill, but they indicated that there was an urgent need to address the shortage of security personnel to help reduce crime. They plan to prioritize capital expenditure, but were concerned about reducing capital expenditure too abruptly in view of the country's large infrastructure needs. In this context, the authorities emphasized they would seek aggressively grant financing to help reduce the impact of higher capital outlays on the budget.

28. The authorities noted that they would continue to implement the recommendations of IMF technical assistance on debt management. They are building capacity to undertake debt sustainability analysis and are looking forward to develop a medium-term debt strategy, which would help to avoid an increase in the risk of debt distress.

Reducing Vulnerabilities

29. The authorities agreed with staff about the risks of a possible spillover from financial sector difficulties in other Caribbean countries. In this regard, they indicated that strengthening financial sector supervision and regulation was a top priority and stressed that they had made significant progress in passing financial sector legislation, including the Financial Services Regulatory Act, which would create a common framework for the regulation and supervision of non-banks. They concurred with staff on using the SDR allocation as a buffer for the financial sector and would encourage other ECCU countries to do the same. They also agreed on the three principles for the resolution of BAICO. On offshore financial centers (OFCs), they pointed out that they were on track to complete the signing of the necessary 12 TIEAs by end March. At the same time they indicated an assessment of the benefits and costs of the sector is warranted.

Enhancing Competitiveness and Growth

30. The staff agreed with the authorities on the need to enhance competitiveness and productivity in the public service. Authorities plan to implement civil service reform that would increase productivity, permit remuneration consistent with productivity growth, and minimize the loss of skilled human resources. In this context, they welcomed IMF technical assistance and emphasized that they were also seeking assistance from the World Bank. At the same time, the authorities confirmed that they would continue moving forward with improvements in the business climate.

VI. Staff Assessment

31. The St. Lucian economy is showing signs of emerging from a very sharp recession, but there are still risks to the growth outlook. Precipitated by the global economic downturn, the marked decline in tourist arrivals and FDI-financed construction activity led to a contraction of the economy by about 5 percent, despite a significant fiscal stimulus. While the outlook for 2010 points to a nascent recovery, it is likely to be slow with significant downside risks.

32. The expansionary fiscal policy pursued by the authorities during FY2009/10 has significantly raised the fiscal deficit and public debt ratios. Faced with a more severe recession than anticipated, the authorities relaxed their fiscal target significantly as compared to the one envisaged at the time of the RAC-ESF. While the fiscal impact has mitigated the adverse employment impact of the downturn and protect the most vulnerable groups from its knock on effects, the fiscal stimulus was large and—given the higher public debt levels—

increased vulnerabilities. Therefore, the challenge will be to put in place a credible fiscal framework and return to fiscal consolidation in FY2010/11—while minimizing any adverse implications for growth and employment.

33. Putting the public debt on a firmly declining path requires both revenue and spending measures. In this context, it is important to press ahead with the planned tax reforms, in particular with the rapid implementation of the VAT. In addition, following a significant increase in public-works-related outlays in FY2009/10, a measured withdrawal of the stimulus is needed. The authorities plan to reduce capital spending back to historical levels in the medium term. However, a reduction in capital spending in FY2010/11 is needed to reduce the risk of possible financing pressures and to help achieve primary surplus of about 1½ percent of GDP over the medium term.

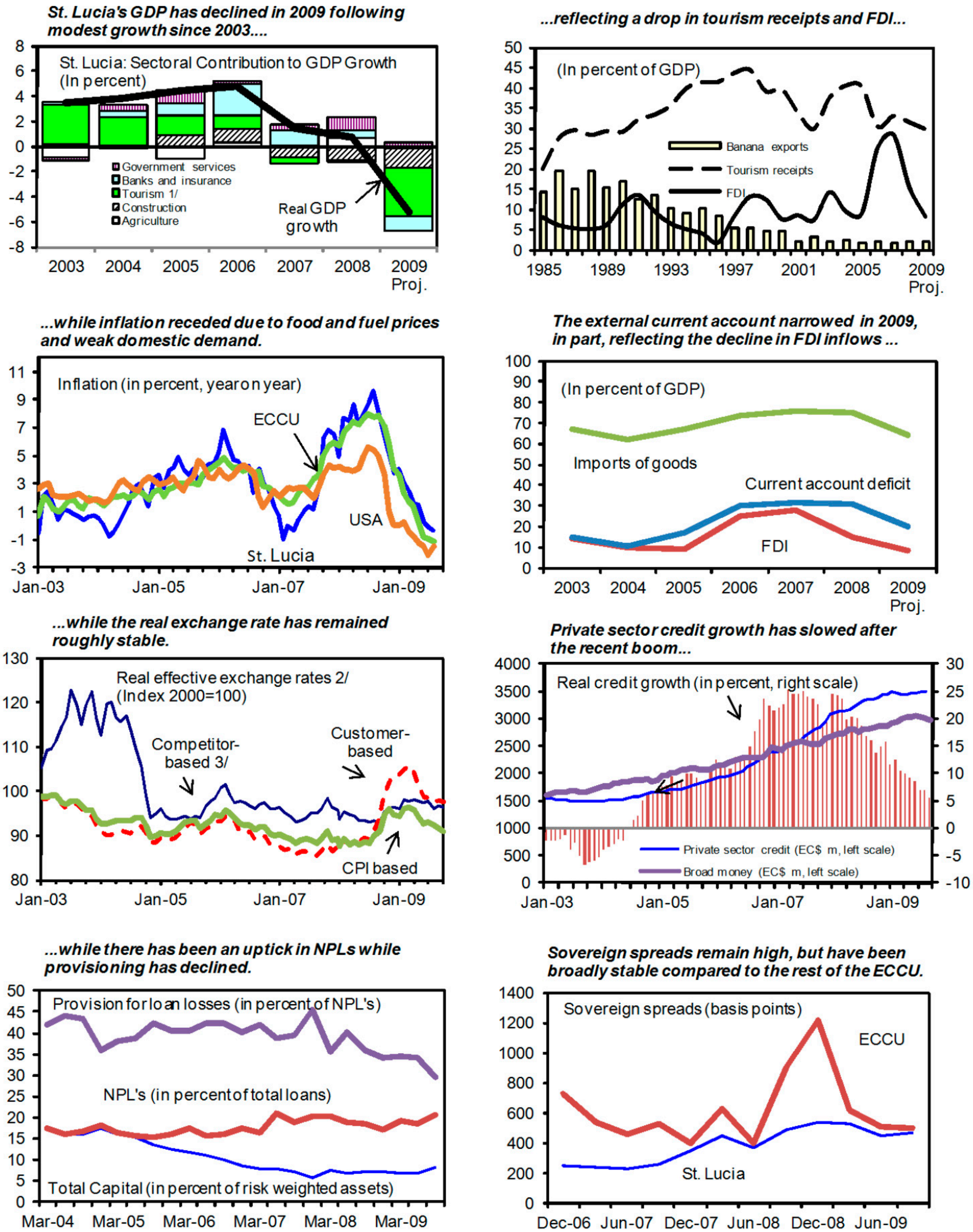
34. Expenditure has been reallocated toward addressing St. Lucia's large infrastructure needs and to help sustain activity in the tourism industry. The benefits of broad incentives package for tourism, including moratoria on taxes on the industry and subsidies to airlines are likely to be mixed. The increased capital expenditure to enhance critical infrastructure will aid the recovery when external conditions turn around. In this regard public expenditure reform over the medium term and accessing to more concessional resources would create space for higher targeted social spending and for mitigating the effects of natural disasters.

35. St. Lucia's exchange rate does not show clear evidence of an overvaluation. The economy has benefited from the depreciation of the U.S. dollar and while still elevated, the external current account deficit has narrowed substantially during the last year. At the same time, to increase the growth potential of the economy and to minimize the risk of permanently lower FDI flows, St. Lucia needs to move forward with structural reforms. The authorities have rightly placed high priority on improving the business climate, reducing the cost of doing business, and boosting labor productivity.

36. The financial system has been hit both by the collapse of CL financial and the economic downturn. Reducing financial sector vulnerabilities remains a top priority. The authorities' regional approach to resolving the insurance sector difficulties seems appropriate and the resolution should avoid systemic contagion, minimize the costs borne by regional governments, and be equitable to all stakeholders. In the same vein, the authorities are coordinating with other member countries of the ECCB on legislation needed to strengthen regulation and supervision of the nonblank financial sector, while ensuring that offshore sector regulation meets international standards. Given that banking soundness indicators have deteriorated and there is risk of contagion from other countries in the ECCU, it is commendable that the authorities intend to keep the SDR allocation as a pooled liquidity buffer and to promote this imitative among the other ECCU countries.

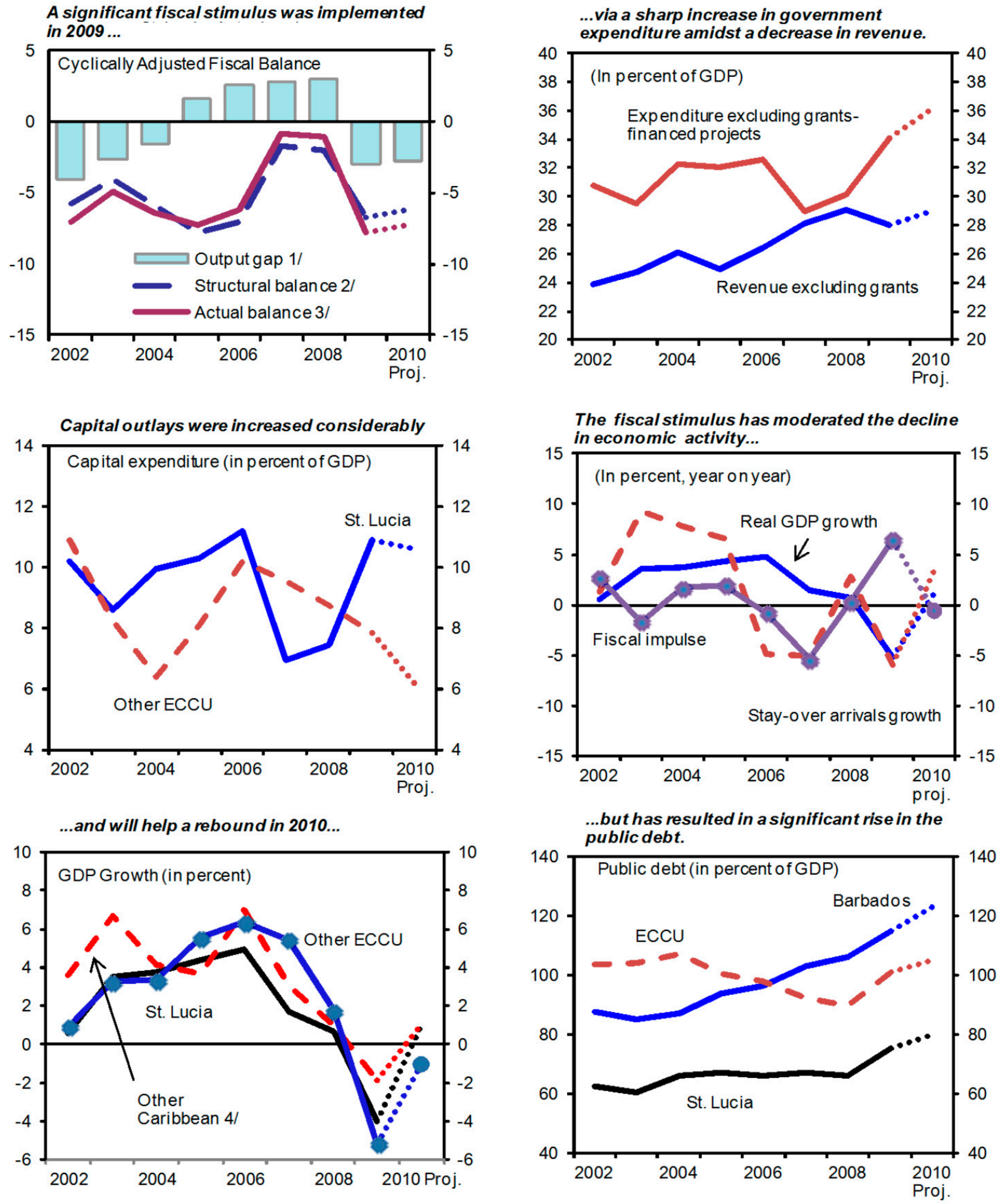
37. It is recommended that the next Article IV consultation take place on the 12 month cycle.

Figure 1. St. Lucia: Selected Economic Indicators



Source: St. Lucia authorities; ECCB; and Fund staff projections.
1/ Tourism includes wholesale and retail trade, hotels and restaurants, air transport and half of local transport.
2/ An increase (decrease) indicates an appreciation (depreciation).
3/ The sharp movements in the competitor-based real exchange rate in 2002–04 were largely driven by the depreciation of Dominican Republic's peso.

Figure 2. St. Lucia: Policy Response



Source: St. Lucia authorities; ECCB; and Fund staff estimates.

1/ Actual output is measured as gross domestic product (GDP) at factor cost. The output gap is actual output less potential output, as a percent of potential output.

2/ The structural balance, expressed as a percent of potential output, is the budgetary position (overall balance) that would be observed if the level of actual output coincided with potential output.

3/ Actual balance is the overall balance (revenue and grants less expenditure), and is expressed as a percentage of actual output.

4/ Other Caribbean includes The Bahamas, Barbados, Belize, Guyana, Jamaica, Suriname, and Trinidad and Tobago.

Table 1. St. Lucia: Selected Social and Economic Indicators, 2005–10

I. Social and Demographic Indicators

Area (sq. km)	616	Life expectancy at birth (years, 2006)	74
		Infant mortality (per thousand live births, 200	23.5
Population		Human Development Index (HDI) ranking (20	72
Total (2007)	171,226	(rank out of 177 countries)	
Rate of growth (percent per year)	1.4		
Population density (per sq. km., 2007)	317.6	Gross Domestic Product (2007)	
Net migration rate (per thousand, 2002)	-9.8	(millions of US dollars)	960
Adult illiteracy rate (percent, 2004)	5.2	(millions of EC dollars)	2,592
		(US$ per capita)	5,606

II. Economic and Financial Indicators, 2005-10

					Projections	
	2005	2006	2007	2008	2009	2010
	(Annual percentage change, unless otherwise specified)					
Output and prices						
Real GDP at factor cost	4.4	4.8	1.5	0.7	-5.2	1.1
GDP at current market prices	9.8	6.1	2.9	3.8	-2.4	2.8
GDP deflator at factor cost	3.1	2.5	0.7	3.1	3.0	1.7
Consumer prices (end of period)	4.5	1.4	6.6	3.8	1.0	1.9
Consumer prices (period average)	3.9	4.1	2.2	7.2	0.6	1.7
Banana export receipts	-23.0	15.9	-9.2	35.0	-0.8	-6.3
Unemployment rate (in percent)	18.7	16.6	13.9	16.8	…	…
External sector						
Exports, f.o.b.	-7.7	32.2	-5.0	24.1	6.1	1.8
Imports, f.o.b.	20.1	24.6	4.0	-1.3	-22.2	7.8
Travel receipts	9.3	-20.0	11.6	-2.1	-6.5	5.2
Terms of trade (- = deterioration)	-3.8	-13.2	-12.8	-14.6	1.8	-2.2
Real effective exchange rate (end of period, - = depreciation)	-0.5	0.5	-3.6	1.2	…	…
Money and credit 1/						
Net foreign assets	-14.5	1.0	-8.0	-22.7	1.2	-1.9
Net domestic assets	27.9	19.1	14.2	35.7	0.3	4.6
Of which						
Credit to private sector	17.7	27.4	34.2	27.0	2.6	1.8
	(In percent of GDP, unless otherwise specified)					
Central government 2/						
Total revenue and grants	25.2	26.7	28.3	29.9	29.7	31.7
Total expenditure and net lending	32.3	32.8	29.1	30.9	35.8	38.9
Current expenditure	22.0	21.6	22.2	23.5	25.3	26.9
Of which						
Wages and salaries	9.7	9.9	10.1	11.0	11.7	12.4
Interest	3.4	3.3	3.6	3.3	3.6	4.1
Capital expenditure	10.3	11.2	6.9	7.4	10.5	12.0
Overall balance (cash basis)	-7.2	-6.1	-0.8	-1.1	-6.1	-7.2
Of which						
Current balance (savings)	2.9	4.8	5.9	5.3	2.7	2.0
Primary balance (after grants)	-3.8	-2.8	2.7	2.2	-2.5	-3.1
Central government debt	63.7	63.5	64.5	64.6	73.2	77.7
Debt service in percent of current revenues 3/	34.2	23.2	40.1	24.9	33.5	35.0
External sector						
External current account	-17.1	-30.2	-31.3	-31.0	-20.0	-21.2
Of which						
Exports of goods and services	56.8	48.4	50.4	50.9	50.3	51.0
Imports of goods and services	67.1	73.9	76.0	76.1	64.1	65.8
Stayover arrivals (percentage change)	6.5	-4.9	-5.0	2.9	-10.0	3.5
Foreign direct investment (FDI)	8.9	25.1	28.3	15.4	8.3	13.1
Public sector external debt (end of period)	47.4	44.8	41.8	36.9	42.1	45.9
External public debt service 4/						
In percent of exports of goods and services	6.5	4.4	17.0	12.0	11.8	12.7
In percent of central government revenue before grants	15.8	8.6	32.4	22.2	22.7	23.9
Memorandum items:						
Gross public sector debt 5/ 6/ 7/	66.0	65.6	66.5	66.2	74.7	79.1
Nominal GDP at market prices (in millions of EC dollars)	2,374	2,520	2,592	2,690	2,627	2,701
Nominal GDP at factor cost (in millions of EC dollars)	1,924	2,066	2,111	2,171	2,111	2,172
Share of ECCU stayover visitors	30.3	28.1	27.0	28.1	…	…

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

1/ Changes in relation to liabilities to private sector at beginning of period.
2/ Data are for fiscal years beginning April 1.
3/ Comprises domestic and external interest and amortization.
4/ Comprises external interest and amortization.
5/ Total public (including nonguaranteed) debt in percent of GDP.
6/ Includes liabilities to the National Insurance Corporation (NIC).
7/ Includes liabilities related to the construction and financing of public projects by the private sector.

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

	2006	2007	2008	Projections 2009	2010	2011	2012	2013	2014	2015
Total revenue and grants	**677.5**	**739.4**	**799.1**	**786.2**	**866.4**	**893.9**	**892.9**	**946.5**	**1,003.6**	**1,064.4**
Current revenue	**670.2**	**735.2**	**771.9**	**740.1**	**790.5**	**824.9**	**866.2**	**918.2**	**973.5**	**1,032.5**
Tax revenue	**619.8**	**685.2**	**734.5**	**700.3**	**742.4**	**783.1**	**823.5**	**872.9**	**925.6**	**981.6**
Nontrade tax	381.5	439.2	491.1	471.6	460.3	483.1	509.0	539.6	572.1	606.8
Trade tax	238.4	246.0	243.4	228.6	282.1	300.0	314.5	333.4	353.5	374.9
Nontax revenue	**50.4**	**50.0**	**37.4**	**39.8**	**48.1**	**41.8**	**42.7**	**45.2**	**48.0**	**50.9**
Capital revenue	**0.7**	**0.0**	**6.7**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Grants	**6.6**	**4.1**	**20.5**	**45.9**	**75.9**	**69.0**	**26.7**	**28.3**	**30.0**	**31.9**
Total expenditure and net lending	**832.6**	**760.9**	**827.5**	**947.3**	**1,062.6**	**1,056.7**	**1,079.5**	**1,124.3**	**1,192.6**	**1,267.7**
Current expenditure	**548.5**	**580.2**	**629.5**	**669.9**	**735.7**	**769.7**	**812.1**	**840.8**	**892.1**	**948.9**
Wages and salaries	250.9	264.7	294.9	310.5	339.5	356.7	377.4	385.5	406.4	431.0
NIC contributions and retirement	43.3	46.3	48.1	56.2	56.7	63.9	66.8	70.8	75.1	79.7
Goods and services	101.5	111.5	124.1	124.8	139.0	139.6	144.7	153.3	162.6	172.4
Transfers	68.5	64.8	73.9	82.3	89.4	89.1	92.0	87.8	93.1	98.8
Interest payments	84.3	92.9	88.5	96.0	111.0	120.4	131.2	143.3	154.9	167.0
Domestic	27.7	30.7	40.2	41.0	51.5	58.9	65.4	72.5	79.4	86.5
External	56.6	62.3	48.2	55.0	59.5	61.5	65.8	70.8	75.5	80.5
Capital expenditure and net lending	**284.1**	**180.7**	**197.9**	**277.5**	**326.8**	**287.0**	**267.4**	**283.5**	**300.5**	**318.7**
Primary balance	**-70.8**	**71.4**	**60.1**	**-65.1**	**-85.2**	**-42.4**	**-55.4**	**-34.5**	**-34.2**	**-36.3**
(excluding grants)	**-77.4**	**67.3**	**39.6**	**-111.0**	**-161.1**	**-111.3**	**-82.1**	**-62.8**	**-64.3**	**-68.2**
Current balance	**121.7**	**155.1**	**142.4**	**70.2**	**54.7**	**55.2**	**54.1**	**77.3**	**81.4**	**83.6**
Overall balance (excluding grants)	**-161.7**	**-25.6**	**-48.8**	**-207.0**	**-272.1**	**-231.8**	**-213.3**	**-206.1**	**-219.1**	**-235.2**
Overall balance (including grants)	**-155.1**	**-21.5**	**-28.4**	**-161.1**	**-196.2**	**-162.8**	**-186.6**	**-177.8**	**-189.1**	**-203.3**
Financing	**166.3**	**85.4**	**85.8**	**161.1**	**196.2**	**162.8**	**186.6**	**177.8**	**189.1**	**203.3**
External (net)	58.5	-22.6	1.6	80.6	98.1	81.4	93.3	88.9	94.5	101.7
Loans	58.5	-22.6	0.6	80.6	98.1	81.4	93.3	88.9	94.5	101.7
Drawings	99.6	122.5	65.2	178.5	206.7	190.9	244.7	235.2	255.6	286.1
Of which:										
ESF	…	…	…	28.8	…	…	…	…	…	…
Amortization	41.1	145.1	64.6	98.0	108.6	109.5	151.4	146.3	161.0	184.5
Domestic financing	107.7	108.0	84.2	80.6	98.1	81.4	93.3	88.9	94.5	101.7
ECCB (net)	1.1	-4.0	-2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks (net)	67.0	71.1	2.6	31.1	22.3	18.1	21.1	20.0	21.4	25.4
Other domestic financing	39.7	40.9	83.9	49.4	75.8	63.2	72.2	68.9	73.1	76.2
Statistical discrepancy	-11.2	-63.9	104.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

1/ Data are for fiscal years beginning April 1.

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
				Projections						
Total revenue and grants	**26.7**	**28.3**	**29.9**	**29.7**	**31.7**	**31.1**	**29.4**	**29.4**	**29.4**	**29.4**
Current revenue	**26.4**	**28.1**	**28.9**	**28.0**	**28.9**	**28.7**	**28.5**	**28.5**	**28.5**	**28.5**
Tax revenue	**24.4**	**26.2**	**27.5**	**26.5**	**27.2**	**27.3**	**27.1**	**27.1**	**27.1**	**27.1**
Nontrade tax	15.0	16.8	18.4	17.8	16.8	16.8	16.8	16.8	16.8	16.8
Trade tax	9.4	9.4	9.1	8.6	10.3	10.4	10.3	10.3	10.3	10.3
Nontax revenue	**2.0**	**1.9**	**1.4**	**1.5**	**1.8**	**1.5**	**1.4**	**1.4**	**1.4**	**1.4**
Capital revenue	**0.0**	**0.0**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Grants	**0.3**	**0.2**	**0.8**	**1.7**	**2.8**	**2.4**	**0.9**	**0.9**	**0.9**	**0.9**
Total expenditure and net lending	**32.8**	**29.1**	**30.9**	**35.8**	**38.9**	**36.8**	**35.5**	**34.9**	**34.9**	**35.0**
Current expenditure	**21.6**	**22.2**	**23.5**	**25.3**	**26.9**	**26.8**	**26.7**	**26.1**	**26.1**	**26.2**
Wages and salaries	9.9	10.1	11.0	11.7	12.4	12.4	12.4	12.0	11.9	11.9
NIC contributions and retirement	1.7	1.8	1.8	2.1	2.1	2.2	2.2	2.2	2.2	2.2
Goods and services	4.0	4.3	4.6	4.7	5.1	4.9	4.8	4.8	4.8	4.8
Transfers	2.7	2.5	2.8	3.1	3.3	3.1	3.0	2.7	2.7	2.7
Interest payments	3.3	3.6	3.3	3.6	4.1	4.2	4.3	4.4	4.5	4.6
Domestic	1.1	1.2	1.5	1.5	1.9	2.1	2.2	2.3	2.3	2.4
External	2.2	2.4	1.8	2.1	2.2	2.1	2.2	2.2	2.2	2.2
Capital expenditure and net lending	**11.2**	**6.9**	**7.4**	**10.5**	**12.0**	**10.0**	**8.8**	**8.8**	**8.8**	**8.8**
Primary balance	**-2.8**	**2.7**	**2.2**	**-2.5**	**-3.1**	**-1.5**	**-1.8**	**-1.1**	**-1.0**	**-1.0**
(excluding grants)	**-3.1**	**2.6**	**1.5**	**-4.2**	**-5.9**	**-3.9**	**-2.7**	**-1.9**	**-1.9**	**-1.9**
Current balance	**4.8**	**5.9**	**5.3**	**2.7**	**2.0**	**1.9**	**1.8**	**2.4**	**2.4**	**2.3**
Overall balance (excluding grants)	**-6.4**	**-1.0**	**-1.8**	**-7.8**	**-10.0**	**-8.1**	**-7.0**	**-6.4**	**-6.4**	**-6.5**
Overall balance (including grants)	**-6.1**	**-0.8**	**-1.1**	**-6.1**	**-7.2**	**-5.7**	**-6.1**	**-5.5**	**-5.5**	**-5.6**
Financing	**6.6**	**3.3**	**3.2**	**6.1**	**7.2**	**5.7**	**6.1**	**5.5**	**5.5**	**5.6**
External (net)	2.3	-0.9	0.1	3.0	3.6	2.8	3.1	2.8	2.8	2.8
Loans	2.3	-0.9	0.0	3.0	3.6	2.8	3.1	2.8	2.8	2.8
Drawings	3.9	4.7	2.4	6.7	7.6	6.6	8.1	7.3	7.5	7.9
Of which:										
ESF	…	…	…	1.1	…	…	…	…	…	…
Amortization	1.6	5.5	2.4	3.7	4.0	3.8	5.0	4.5	4.7	5.1
Domestic financing	4.2	4.1	3.1	3.0	3.6	2.8	3.1	2.8	2.8	2.8
ECCB (net)	0.0	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks (net)	2.6	2.7	0.1	1.2	0.8	0.6	0.7	0.6	0.6	0.7
Other domestic financing	1.6	1.6	3.1	1.9	2.8	2.2	2.4	2.1	2.1	2.1
Statistical discrepancy	-0.4	-2.4	3.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
GDP (at market prices, in EC$ millions)	2,538	2,616	2,674	2,645	2,734	2,872	3,039	3,221	3,415	3,622
Debt service (in percent of current revenu	18.7	32.4	19.8	26.2	27.8	27.9	32.6	31.5	32.4	34.0
Central government debt (in percent of GI	63.5	64.5	64.6	73.2	77.7	79.3	80.8	81.5	82.1	83.0

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

1/ Data are for fiscal years beginning April 1.

2/ Includes liabilities related to the construction and financing of public projects by the private sector.

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

				Prel.	Projections					
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	(In millions of Eastern Caribbean dollars)									
Current account	**-761.5**	**-810.7**	**-826.1**	**-526.0**	**-573.9**	**-625.5**	**-714.8**	**-724.3**	**-764.3**	**-845.6**
Trade balance	-1,089.8	-1,161.6	-1,070.6	-726.7	-807.6	-938.5	-1,049.7	-1,092.6	-1,216.6	-1,328.3
Exports f.o.b.	316.9	301.0	373.5	396.1	403.2	424.2	450.9	481.8	515.0	539.4
Of which										
Bananas	48.1	43.7	58.9	58.4	54.8	56.2	61.8	68.0	74.8	71.1
Manufactured exports	69.5	78.0	94.4	95.9	99.6	104.6	109.7	115.1	118.8	122.8
Imports f.o.b.	-1,406.6	-1,462.6	-1,444.0	-1,122.9	-1,210.9	-1,362.7	-1,500.7	-1,574.4	-1,731.6	-1,867.7
Services (net)	446.4	497.7	397.7	362.5	406.3	491.1	523.7	568.5	664.8	708.0
Credits	902.4	1,004.7	981.7	928.2	975.8	1,074.4	1,129.5	1,201.8	1,326.8	1,410.8
Travel	768.4	857.7	839.7	785.0	825.9	914.9	960.6	1,022.6	1,136.6	1,208.9
Other nonfactor services	133.9	147.0	142.0	143.2	149.9	159.6	168.9	179.2	190.2	201.9
Debits	456.0	506.9	583.9	565.7	569.6	583.3	605.9	633.2	662.1	702.8
Travel	106.2	114.1	122.3	118.5	119.3	122.2	126.9	134.6	142.9	151.7
Other nonfactor services	349.8	392.8	461.7	447.2	450.3	461.2	479.0	498.6	519.2	551.2
Income payments (net)	-150.4	-183.5	-197.1	-205.2	-217.0	-224.6	-237.9	-252.4	-267.8	-284.1
Current transfers	32.3	36.6	43.8	43.3	44.5	46.5	49.2	52.2	55.4	58.8
Net private transfers	33.6	29.1	36.7	36.3	37.3	38.9	41.2	43.7	46.4	49.3
Net official transfers	-1.2	7.5	7.1	7.0	7.2	7.5	8.0	8.5	9.0	9.5
Capital and financial account	**868.8**	**845.8**	**854.3**	**534.6**	**582.4**	**642.4**	**736.9**	**749.4**	**790.5**	**873.7**
Capital	30.7	23.4	29.4	24.3	21.9	22.3	23.6	25.1	26.6	28.2
Financial (net)	838.1	822.4	768.5	510.3	560.5	620.1	713.2	724.4	763.9	845.5
Official capital	58.5	-22.6	-109.2	127.7	130.9	96.9	80.8	85.3	89.1	94.1
Of which:										
ESF	…	…	…	28.8	…	…	…	…	…	
Commercial banks	174.0	216.6	466.2	-17.3	11.0	30.0	47.3	60.3	54.2	64.8
Private capital	605.6	609.6	411.5	217.7	354.1	376.9	428.9	448.6	483.9	544.8
Of which:										
Net direct investment	631.6	734.1	411.5	217.7	354.1	376.9	428.9	448.6	483.9	544.8
Errors and omissions	-71.1	14.9	-58.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**36.3**	**50.0**	**-30.4**	**8.6**	**8.5**	**16.9**	**22.0**	**25.1**	**26.2**	**28.1**
Financing	-36.3	-50.0	30.4	-8.6	-8.5	-16.9	-22.0	-25.1	-26.2	-28.1
Change in imputed reserves (increase -)	-48.6	-51.3	29.5	-8.6	-8.5	-16.9	-22.0	-25.1	-26.2	-28.1
Change in govt. foreign assets	12.3	1.3	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	(In percent of GDP, unless otherwise indicated)									
Memorandum items:										
Current account	-30.2	-31.3	-31.0	-20.0	-21.2	-22.1	-23.9	-22.8	-22.7	-23.7
Exports f.o.b.	12.6	11.6	14.0	15.0	14.9	15.0	15.1	15.2	15.3	15.1
Imports f.o.b.	-55.8	-56.4	-54.2	-42.6	-44.8	-48.2	-50.2	-49.6	-51.4	-52.3
Net private transfers	1.3	1.1	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Foreign direct investment	25.1	28.3	15.4	8.3	13.1	13.3	14.3	14.1	14.4	15.2
Indicators of diversification										
(In percent of exports of goods and nonfactor services)										
Banana exports	3.9	3.3	4.3	4.4	4.0	3.8	3.9	4.0	4.1	3.6
Tourism receipts	63.0	65.7	62.0	59.3	59.9	61.0	60.8	60.7	61.7	62.0
Tourism receipts	30.5	33.1	31.5	29.8	30.5	32.4	32.1	32.2	33.8	33.8
Total trade	68.4	68.1	68.2	57.7	59.7	63.3	65.3	64.8	66.7	67.3
Exports of goods and nonfactor services	48.4	50.4	50.9	50.3	51.0	53.1	52.9	53.1	54.7	54.6
Imports of goods and nonfactor services	73.9	76.0	76.1	64.1	65.8	68.9	70.5	69.6	71.1	71.9
Terms of trade for GNFS (percentage cha	-13.2	-12.8	-14.6	1.8	-2.2	0.7	1.5	1.3	4.4	0.7
Excluding tourism (percentage change	-6.5	-8.6	-8.3	9.4	-9.9	-3.8	0.3	0.1	-0.5	-0.6
Public sector external debt (end of period	44.8	41.8	36.9	42.1	45.9	47.4	47.4	47.4	47.3	47.2

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

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

	2004	2005	2006	2007	2008	Prel. 2009	Proj. 2010
	(In millions of Eastern Caribbean dollars)						
Net foreign assets	**318.7**	**99.9**	**117.6**	**-47.7**	**-543.3**	**-513.2**	**-561.7**
ECCB (imputed reserves) 1/	351.5	308.3	356.9	408.2	378.8	397.0	389.2
Commercial banks	-32.9	-208.5	-239.3	-455.9	-922.1	-910.2	-950.9
Net domestic assets	**1,190.5**	**1,611.9**	**1,938.6**	**2,230.9**	**3,009.9**	**3,017.0**	**3,132.8**
Public sector credit (net)	-324.7	-275.9	-222.8	-650.6	-549.5	-548.3	-518.6
Central government	-130.7	-90.7	-32.0	17.2	69.0	45.3	67.1
ECCB	-13.7	-10.0	-19.8	-43.2	5.9	-5.6	-5.6
Commercial banks	-117.0	-80.6	-12.2	60.4	63.1	50.9	72.7
Net credit to rest of public sector	-194.0	-185.2	-190.8	-667.9	-618.6	-593.6	-585.6
National Insurance Corporation	-240.9	-248.2	-264.2	-291.7	-340.3	-408.0	-408.0
Other	46.9	62.9	73.4	-376.2	-278.3	-185.6	-177.7
Credit to private sector	1,650.6	1,917.3	2,386.8	3,090.8	3,680.6	3,745.4	3,790.0
Net credit to nonbank financial inst.	-35.4	-37.8	-40.4	-41.3	-29.2	-55.4	-56.9
Other items (net)	-100.0	8.3	-185.1	-168.0	-91.9	-124.8	-81.7
Broad money	**1,509.2**	**1,711.8**	**2,056.2**	**2,183.2**	**2,466.6**	**2,503.8**	**2,571.2**
Money	481.3	547.3	560.7	639.0	661.4	652.6	670.2
Currency in circulation	99.2	106.4	126.6	128.0	142.6	148.4	152.4
Demand deposits	382.2	440.9	434.1	510.9	518.8	504.2	517.8
Quasi-money	1,027.8	1,164.5	1,495.5	1,544.2	1,805.2	1,851.2	1,901.0
Time deposits	178.7	185.9	222.7	283.3	420.1	405.4	427.7
Savings deposits	810.4	916.3	1,064.9	1,150.8	1,226.6	1,301.7	1,336.7
Foreign currency deposits	38.7	62.2	207.9	110.2	158.5	144.1	136.6
	(Annual percentage change)						
Net foreign assets	-4.9	-68.7	17.8	-140.5	-1,040.0	5.6	9.5
Net domestic assets	15.0	35.4	20.3	15.1	34.9	0.2	3.8
Credit to private sector	10.2	16.2	24.5	29.5	19.1	1.8	1.2
Broad money	10.1	13.4	20.1	6.2	13.0	1.5	2.7
Money	40.3	13.7	2.4	14.0	3.5	-1.3	2.7
Quasi-money 2/	0.1	13.3	28.4	3.3	16.9	2.6	2.7
	(Percent contribution compared to M2 at the beginning of the year)						
Net foreign assets	-1.2	-14.5	1.0	-8.0	-22.7	1.2	-1.9
Net domestic assets	11.3	27.9	19.1	14.2	35.7	0.3	4.6
Public sector credit (net)	-2.5	3.2	3.1	-20.8	4.6	0.0	1.2
Of which: central government	-1.9	2.7	3.4	2.4	2.4	-1.0	0.9
Credit to private sector	11.1	17.7	27.4	34.2	27.0	2.6	1.8
Net credit to nonbank financial inst.	0.3	-0.1	-0.1	0.0	0.5	-1.0	-0.1
Other items (net)	2.4	7.2	-11.3	0.8	3.5	-1.3	1.7
Memorandum items:							
Income velocity of M2 3/	1.5	1.5	1.3	1.2	1.1	1.1	1.1

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

1/ Not including the IMF's SDR allocation of September 2009, in the amount of SDR 13.8 million (EC$ 58.7 million).

2/ Including resident foreign currency deposits.

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

Table 6. St. Lucia: Public Sector Debt, 2004–09 1/

	2004	2005	2006	2007	2008	Proj. 2009
			(In millions of EC dollars, end-period)			
Debt stock						
Public sector debt	1,426.5	1,590.2	1,665.1	1,738.8	1,770.0	1,975.2
Public sector domestic debt	428.4	464.4	536.3	656.0	787.7	912.2
By type of creditor						
ECCB	24.8	24.8	1.1	3.0	3.0	3.0
Commercial banks	252.0	256.0	109.2	354.7	453.9	409.3
Other (includes NIS and insurance companies)	151.6	183.5	425.9	298.3	330.8	499.9
By instrument						
Treasury bills	95.1	92.3	13.9	47.0	47.0	47.0
Loans	31.7	31.1	41.9	107.7	99.6	91.9
Bonds	217.3	217.3	123.2	441.7	559.9	607.9
Other (includes overdraft)	84.3	123.7	357.2	59.6	81.1	165.4
Public sector external debt	998.1	1,125.9	1,128.8	1,082.8	982.4	1,062.9
By type of creditor						
Official bilateral	149.6	192.4	193.1	67.0	58.4	80.3
Official multilateral	466.0	566.1	600.4	583.5	640.4	644.6
Commercial	382.6	367.4	335.3	432.2	283.6	290.5
			(In percent of GDP)			
Total public sector debt	64.4	66.0	65.6	66.5	66.2	74.7
Domestic debt	19.3	19.3	21.1	25.1	29.5	34.5
External debt	45.0	46.7	44.5	41.4	36.7	40.2
			(In percent of government revenues)			
Total public sector debt	252.9	260.7	248.2	236.5	227.3	246.0
Domestic debt	75.9	76.1	79.9	89.2	101.2	113.6
External debt	176.9	184.6	168.3	147.3	126.2	132.4
			(In millions of EC dollars, end-period)			
Debt service						
Total debt service	187.3	205.5	155.5	294.9	191.9	247.6
Amortization	120.3	132.4	71.2	202.0	103.4	151.6
Domestic	72.6	91.5	71.2	42.1	10.5	53.7
External	47.8	41.0	0.0	159.8	92.9	98.0
Interest	66.9	73.0	84.3	92.9	88.5	96.0
Domestic	22.2	24.1	27.7	30.7	40.2	41.0
External	44.8	48.9	56.6	62.3	48.2	55.0
			(In percent of GDP)			
Total debt service	8.5	8.5	6.1	11.3	7.2	9.4
Interest cost	3.0	3.0	3.3	3.6	3.3	3.6
Amortization	5.4	5.5	2.8	7.7	3.9	5.7
In percent of government revenue excluding grants	33.2	33.7	23.2	40.1	24.6	30.8
In percent of export of goods and services	15.0	15.2	12.8	22.6	14.2	18.7
In percent of broad money 2/	12.4	12.0	7.6	13.5	7.8	9.9
Domestic debt service						
In percent of government revenue excluding gra	16.8	18.9	14.7	9.9	6.5	11.8
In percent export of goods and services	7.6	8.6	8.1	5.6	3.7	7.1
In percent of broad money 2/	6.3	6.8	4.8	3.3	2.1	3.8
External debt service						
In percent of government revenue excluding gra	16.4	14.7	8.4	30.2	18.1	19.1
In percent of export of goods and services	7.4	6.7	4.6	17.0	10.4	11.6
In percent of broad money 2/	6.1	5.3	2.8	10.2	5.7	6.1
Memorandum items:						
Debt structure (in percent)						
Domestic	30.0	29.2	32.2	37.7	44.5	46.2
Treasury bills	6.7	5.8	0.8	2.7	2.7	2.4
Loans	2.2	2.0	2.5	6.2	5.6	4.7
Bonds	15.2	13.7	7.4	25.4	31.6	30.8
Other (includes overdraft)	5.9	7.8	21.5	3.4	4.6	8.4
External	70.0	70.8	67.8	62.3	55.5	53.8
Official bilateral	10.5	12.1	11.6	3.9	3.3	4.1
Official multilateral	32.7	35.6	36.1	33.6	36.2	32.6
Commercial	26.8	23.1	20.1	24.9	16.0	14.7
Effective average interest rate						
Domestic debt	5.2	5.2	5.2	4.7	5.1	4.5
External debt	4.5	4.3	5.0	5.7	4.9	5.2

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

1/ Net of intra-public sector debt (mainly central government debt to the NIC). The consolidated public sector includes the government, the National Insurance Corporation (NIC), and nonfinancial public enterprises. Includes liabilities related to the construction and financing of public projects by the private sector.

2/ Including foreign currency deposits.

Table 7. St. Lucia: Indicators of External and Financial Vulnerability, 2004–09
(Annual percentage changes, unless otherwise specified)

	2004	2005	2006	2007	2008	Proj. 2009
External indicators						
Merchandise exports	-12.0	-7.7	32.2	-5.0	24.1	6.1
Merchandise imports	-2.0	20.1	24.6	4.0	-1.3	-22.2
Terms of trade deterioration (-)	-5.8	-3.8	-13.2	-12.8	-14.6	1.8
Tourism earnings	15.5	9.3	-20.0	11.6	-2.1	-6.5
Banana export earnings	23.6	-23.0	15.9	-9.2	35.0	-0.8
Current account balance (in percent of GDP)	-10.9	-17.1	-30.2	-31.3	-31.0	-20.0
Capital and financial account balance (in percent of GDP) 1/	12.6	15.9	34.5	32.6	32.1	20.3
Of which						
Foreign direct investment (in percent of GDP)	9.6	8.9	25.1	28.3	15.4	8.3
Gross international reserves of the ECCB						
In millions of U.S. dollars	632.4	600.8	696.0	764.5	759.0	894.5
In percent of broad money	20.4	17.9	18.6	18.6	17.0	17.6
Gross imputed reserves						
In millions of U.S. dollars	130.2	114.2	132.2	151.2	140.3	143.5
In percent of short-term liablilities	516.8	943.5	1,092.1	1,249.2	…	…
External public debt (in percent of GDP)	46.1	47.4	44.8	41.8	36.9	42.1
External debt service (in percent of exports of goods and nonfactor services)	8.2	6.5	4.4	17.0	12.0	11.8
Of which						
Interest	3.9	2.2	0.4	4.8	3.6	4.0
Nominal exchange rate (EC dollars per U.S. dollar, end period)	2.7	2.7	2.7	2.7	2.7	…
Real effective exchange rate depreciation (-), end period	-4.8	-0.5	0.5	-3.6	1.2	…
Financial indicators						
Broad money	10.1	13.4	20.1	6.2	13.0	1.5
Credit to the private sector	10.2	16.2	24.5	29.5	19.1	1.8
Prudential indicators (in percent)						
Capital adequacy ratio (local banks)	18.0	14.4	17.6	20.2	15.6	20.8
NPLs to total loans ratio	17.3	12.6	8.5	5.8	6.6	8.3
Of which						
Local banks	22.2	16.5	10.5	7.3	9.0	10.2
Foreign banks	13.4	9.9	7.1	4.8	5.0	7.4
Loan loss provision to NPLs ratio	36.1	40.4	40.1	45.5	37.5	29.3
Of which						
Local banks	39.0	44.8	35.2	38.6	27.8	20.1
Foreign banks	32.3	35.4	45.2	52.2	48.6	35.9
Gross government claims to total assets ratio	13.0	14.6	11.8	10.0	9.7	9.6
Foreign currency deposits to total deposits ratio	2.1	3.0	9.0	5.6	6.3	6.4
Net foreign currency exposure to capital (local banks)	65.2	122.3	53.6	73.9	49.3	47.4
Contingent liabilities to capital (local banks)	124.4	149.5	124.3	78.3	104.3	60.0
(Pre-tax) return on average assets	2.4	2.3	2.4	2.8	3.2	0.5
Yield to maturity sovereign bonds 2/	7.0	6.5	7.1	7.5	7.5	7.2

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

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

Table 8. St. Lucia: Medium-Term Projections, 2004–15

(In percent of GDP, unless otherwise specified)

						Projections						
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
						I. Baseline Scenario						
Output and prices												
Real GDP growth at factor cost (percent	3.8	4.4	4.8	1.5	0.7	-5.2	1.1	2.3	3.5	3.8	3.8	3.8
Consumer prices, end-of-period (percent	3.4	4.5	1.4	6.6	3.8	1.0	1.9	2.1	2.1	2.1	2.2	2.2
Nonfinancial public sector 1/												
Central government												
Total revenue and grants	26.0	25.2	26.7	28.3	29.9	29.7	31.7	31.1	29.4	29.4	29.4	29.4
Of which: grants	0.0	0.2	0.3	0.2	0.8	1.7	2.8	2.4	0.9	0.9	0.9	0.9
Total expenditure and net lending	32.3	32.3	32.8	29.1	30.9	35.8	38.9	36.8	35.5	34.9	34.9	35.0
Of which												
Wages and salaries	10.3	9.7	9.9	10.1	11.0	11.7	12.4	12.4	12.4	12.0	11.9	11.9
Interest	3.0	3.4	3.3	3.6	3.3	3.6	4.1	4.2	4.3	4.4	4.5	4.6
Capital expenditure	9.9	10.3	11.2	6.9	7.4	10.5	12.0	10.0	8.8	8.8	8.8	8.8
Overall balance (cash basis)	-6.2	-7.2	-6.1	-0.8	-1.1	-6.1	-7.2	-5.7	-6.1	-5.5	-5.5	-5.6
Of which												
Primary balance	-3.2	-3.8	-2.8	2.7	2.2	-2.5	-3.1	-1.5	-1.8	-1.1	-1.0	-1.0
(excluding grants)	-3.2	-4.0	-3.1	2.6	1.5	-4.2	-5.9	-3.9	-2.7	-1.9	-1.9	-1.9
Central government debt 2/ 3/	61.9	63.7	63.5	64.5	64.6	73.2	77.7	79.3	80.8	81.5	82.1	83.0
Gross public sector debt 3/ 4/	64.4	66.0	65.6	66.5	66.2	74.7	79.1	80.7	82.1	82.7	83.3	84.1
External sector												
External current account	-10.9	-17.1	-30.2	-31.3	-31.0	-20.0	-21.2	-22.1	-23.9	-22.8	-22.7	-23.7
Gross public sector external debt (end of	46.1	47.4	44.8	41.8	36.9	42.1	45.9	47.4	47.4	47.4	47.3	47.2
External public debt service												
(In percent of exports of goods and ser	8.2	6.5	4.4	17.0	12.0	11.8	12.7	13.5	17.2	17.6	18.8	21.0
(In percent of central government revenu	19.7	15.8	8.6	32.4	22.2	22.7	23.9	24.4	31.1	31.9	34.9	38.9
						II. Active Scenario						
Output and prices												
Real GDP growth at factor cost (percent	3.8	4.4	4.8	1.5	0.7	-5.2	1.1	2.3	3.5	3.8	3.8	3.8
Consumer prices, end-of-period (percent	3.4	4.5	1.4	6.6	3.8	1.0	1.9	2.1	2.1	2.1	2.2	2.2
Nonfinancial public sector 1/												
Central government												
Total revenue and grants	26.0	25.2	26.7	28.3	29.9	29.7	32.5	33.2	32.5	32.5	32.5	32.5
Of which: grants	0.0	0.2	0.3	0.2	0.8	1.7	2.8	2.4	0.9	0.9	0.9	0.9
Total expenditure and net lending	32.3	32.3	32.8	29.1	30.9	35.8	36.4	35.1	34.8	34.7	34.7	34.6
Of which												
Wages and salaries	10.3	9.7	9.9	10.1	11.0	11.7	11.9	11.9	11.9	11.9	11.9	11.9
Interest	3.0	3.4	3.3	3.6	3.3	3.6	4.1	4.0	3.9	3.9	3.8	3.7
Capital expenditure	9.9	10.3	11.2	6.9	7.4	10.5	10.0	9.0	8.8	8.8	8.8	8.8
Overall balance (cash basis)	-6.2	-7.2	-6.1	-0.8	-1.1	-6.1	-3.9	-1.9	-2.3	-2.3	-2.2	-2.1
Of which												
Primary balance	-3.2	-3.8	-2.8	2.7	2.2	-2.5	0.2	2.1	1.6	1.6	1.6	1.6
(excluding grants)	-3.2	-4.0	-3.1	2.6	1.5	-4.2	-2.6	-0.3	0.7	0.7	0.7	0.7
Central government debt 2/ 3/	61.9	63.7	63.5	64.5	64.6	73.2	74.3	72.3	70.4	68.4	66.4	64.8
Gross public sector debt 3/ 4/	64.4	66.0	65.6	66.5	66.2	74.7	75.8	73.7	71.7	69.6	67.6	65.9
External sector												
External current account	-10.9	-17.1	-30.2	-31.3	-30.7	-19.9	-18.9	-18.6	-19.3	-19.5	-19.5	-20.3
Gross public sector external debt (end of	46.1	47.4	44.8	41.8	36.5	40.5	41.2	40.2	39.2	38.1	37.0	36.0
External public debt service												
(In percent of exports of goods and ser	8.2	6.5	4.4	17.0	12.0	11.8	12.3	11.3	13.1	11.7	11.2	11.6
(In percent of central government revenu	19.7	15.8	8.6	32.4	22.2	22.7	21.8	20.0	22.5	20.2	20.0	20.5

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

1/ Data are for fiscal years beginning April 1.

2/ Includes debt guaranteed by the central government.

3/ Includes liabilities related to the construction and financing of public projects by the private sector.

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

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

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

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

1/ As of Apri 30, 2008.

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

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

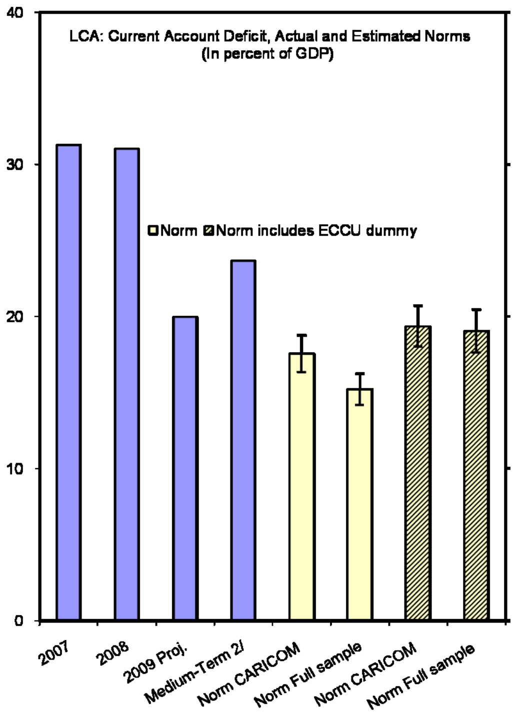
Annex I: Exchange Rate Assessment

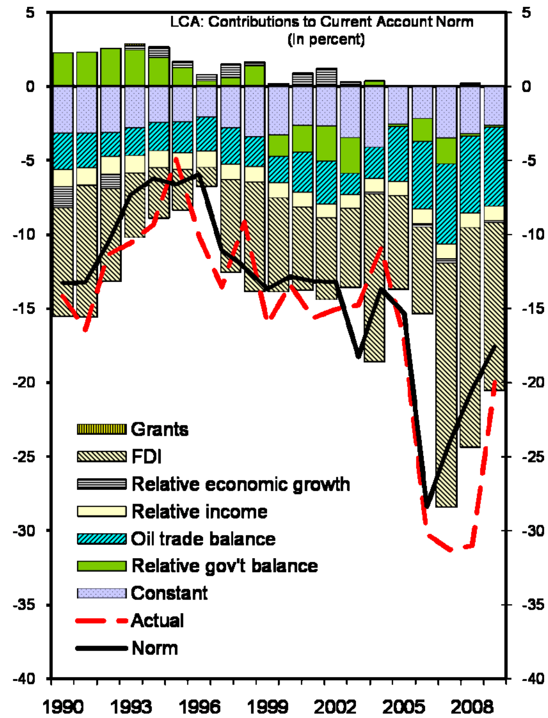
1. St. Lucia's exchange rate does not show clear evidence of an overvaluation based on the CGER methodology[1]. The equilibrium real exchange rate (ERER) methodology indicates an overvaluation of about 6 percent, which lies within the 95 percent confidence interval. Reflecting the depreciation of the U.S. dollar over the last couple of years, the real exchange rate has declined as the equilibrium exchange rate fell.

2. Large equilibrium current account deficits, in most cases driven by FDI-financed imports, are a phenomenon observed in all ECCU countries. Under the macro balance approach, staff estimates that St. Lucia's equilibrium current account balance (current account "norm") is around 18 percent of GDP when the methodology uses coefficients from regressions based on a CARICOM-only sample, and close to 17 percent when the sample is expanded to a larger set of tourism-dependent countries (see IMF Country Report No. 08/96), which implies an overvaluation of about 3 percent. FDI explains an important part of the unusually large current account norm. However the large commercial bank inflows helped finance the current account balance in 2008. A reversal of these flows as occurred in 2009 would help to close the gap between the actual and predicted current account. Over the medium term the current account balance is projected to rise slowly to around 24 percent of GDP reflecting the recovery in FDI inflows.

3. Notwithstanding these results, it is also relevant to disentangle the impact of transient shocks in crisis-years from the risk of permanent changes in St. Lucia's current account dynamics. In the table below, we estimate the decline on travel receipts and imports of goods following the global recession of 2008–09, and the underlying current account balance after controlling for that shock. The results indicate that, if it is assumed a slow recovery in the tourism sector, then the demand for tourism-related projects will be stagnant, which is reflected on lower-than-average FDI flows (the spike in FDI in 2006 and 2007 is in large part a one off associated with construction related to the 2007 Cricket World Cup). In addition, considering that the import content of FDI is about 80 percent, imports are not expected to return to their pre-crisis levels, which would leave a current account balance excluding FDI-related imports close to 8 percent of GDP by 2015. In the absence productivity enhancing measures and improvements in non-price competitiveness, this would imply an annual accumulation of external debt of about 8 percent of GDP under the baseline projection. Moreover, the lack of FDI-financed projects could result in a long-term deterioration in the competitiveness of St. Lucia's tourism sector.

[1] Information deficiencies, particularly on nonbank private sector assets and liabilities, preclude the use of the external sustainability approach.





1/ In computing the norms, medium-term values of the fiscal balance, oil-balance, output growth, and relative income are drawn from staff projections. Band is ±1 standard error of the prediction. CARICOM sample includes ECCU countries and The Bahamas, Barbados, Belize, and Jamaica. Full sample includes 24 tourism-dependent economies.

2/ Based on Fund staff estimates. Medium-term ends 2015.

St. Lucia: The Underlying Current Account Balance
(In percent of GDP)

	2009	2010
Observed current account balance (a)	-20.0	-21.3
Crisis effects 1/ (b)	2.3	0.9
Change in travel receipts	-5.8	-5.1
Change in imports of goods	8.1	6.0
of which: change in imports of fuel	0.9	0.1
Underlying current account balance (a-b)	-22.3	-22.2
Import content of FDI 1/	6.6	10.5
Current account balance excluding import content of FDI	-15.7	-11.7
Memorandum item:		
FDI	8.3	13.1
GDP (in millions of EC$)	2,627	2,701

1/ Differences between the average 2003-08 and the actual annual figures.

2/ Assumes that 80 percent of FDI are spent on imports.

Annex II: Access to the Regional Government Securities Market (RGSM)

1. St. Lucia is a dominant player on the RGSM. Since issuing for the first time in 2004, St. Lucia has issued more securities in the regional market than any other country in each successive year. At end-2009, the value of St. Lucia's securities outstanding constituted 58 percent of the RGSM. This represents about 32 percent of St. Lucia's total public debt and about 5 percent of ECCU GDP.

2. **St. Lucia's debt profile.** As at end-December 2009, 50 percent of St. Lucia's public sector debt is in bonds (with average maturity of about 6 years), 5 percent in treasury bills, and 45 percent in loans. The expectation is that these instruments will be rolled over on maturity, which eliminates the cost of carry involved in establishing sinking funds—as was common in the past. The government intends to rely more on securities to finance its budget deficits, which reinforces the need to actively manage government debt.

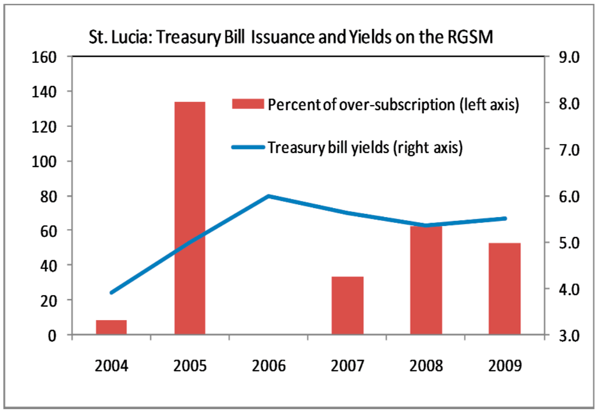
3. **Subscriptions on the RGSM remain firm.** Demand for St. Lucia's securities, unlike for its regional peers, has remained high on the RGSM. In 2009, St. Lucia was able to issue securities on 13 occasions, which were all over-subscribed. The market appetite for St. Lucia's debt reflects the authorities' prudent fiscal policies and sound debt management practices.

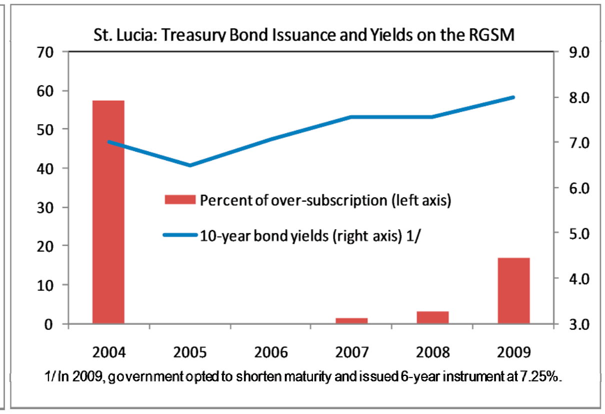
4. **Bond yields have increased recently.** While yields on St. Lucia's public sector debt have remained broadly stable in recent years, interest rates on longer-term maturities have begun to rise in recent months due, in part, to greater utilization of the RGSM. Given these developments, it is paramount that the government reins in fiscal deficits and implements a credible fiscal framework.

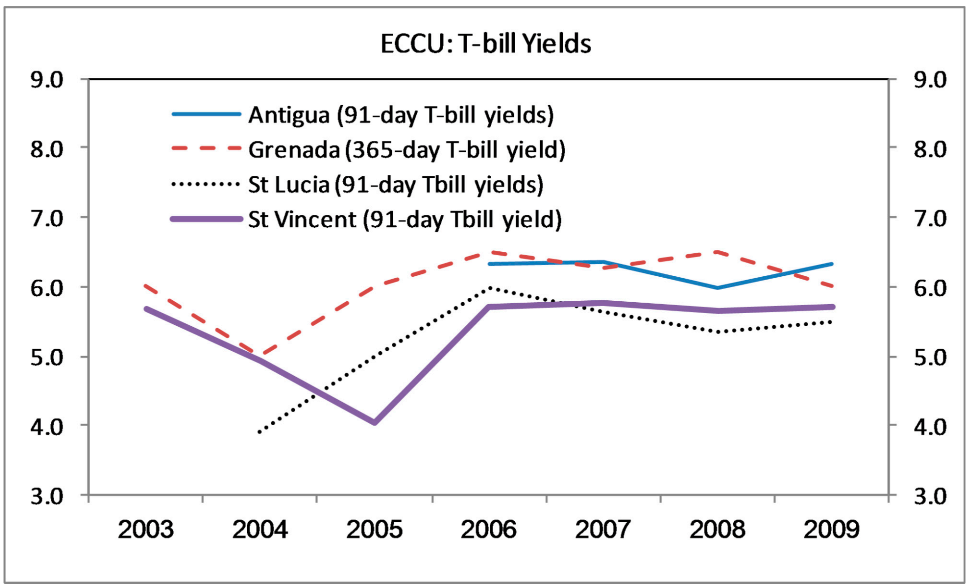
St. Lucia: Value of Securities Outstanding on the Regional Government Securities Market (in millions of EC dollars).

	2002	2003	2004	2005	2006	2007	2008	2009
St. Lucia	0	0	185	284	346	426	555	588
Treasury bills	0	0	27	52	39	39	52	52
Bonds	0	0	158	232	307	387	503	536
ECCU	75	147	363	460	715	809	922	1005
Treasury bills	0	72	100	123	163	159	172	197
Bonds	75	75	263	337	552	651	750	808

Source: Eastern Caribbean Central Bank.


St. Lucia: Treasury Bill Issuance and Yields on the RGSM
Percent of over-subscription (left axis)
Treasury bill yields (right axis)
160
140
120
100
80
60
40
20
0
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2004
2005
2006
2007
2008
2009


St. Lucia: Treasury Bond Issuance and Yields on the RGSM
Percent of over-subscription (left axis)
10-year bond yields (right axis) 1/
70
60
50
40
30
20
10
0
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2004
2005
2006
2007
2008
2009
1/ In 2009, government opted to shorten maturity and issued 6-year instrument at 7.25%.


ECCU: T-bill Yields
Antigua (91-day T-bill yields)
Grenada (365-day T-bill yield)
St Lucia (91-day Tbill yields)
St Vincent (91-day Tbill yield)
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2003
2004
2005
2006
2007
2008
2009

Annex III: Macro-Financial Risks

1. The economic downturn has increased macro-financial risks in the region. While direct cross-country exposure appears to be modest, there are risks to the banking system from regional spillovers, particularly in view of the ECCB's limited capacity to act as lender-of-last-resort. In addition to the risk of a spillover from weak indigenous banks in other ECCU countries, the collapse of the Trinidad and Tobago-based CL Financial group in January 2009 represents a major challenge to financial system stability. These risks underscore the need for enhanced monitoring and strengthening supervision and regulation of the financial system.

2. Direct cross-country exposure of St. Lucian banks to the rest of the ECCU appears to be limited. Balances due from banks in other ECCU economies were EC$ 330 million (6 percent of total assets of the banking system) at end-December, 2009. Indigenous banks had claims on other ECCU banks amounting to EC$50 million (less than 3 percent of total assets) at the same date. However, there is a risk of contagion from banks in other ECCU countries via the shared payments system and a generalized loss of confidence.

3. Regarding the insurance sector, two of CL Financial subsidiaries, the British American Insurance Company (BAICO) and the Colonial Life Insurance Company (CLICO), with extensive branch networks in the ECCU countries, had been offering deposit-like products. Regional authorities responsible for the resolution of the insurance sector have reported that BAICO is insolvent, with an estimated negative net worth of EC$981.5 million (7.9 percent of GDP) at the regional level. At the same time, the authorities in the region have taken steps to set up a new insurance company. The exposure of St. Lucian residents to BAICO and CLICO amounts to about 6 percent of GDP. While the direct exposure of banks and other financial intermediaries to the former appear to be negligible, the value of collateral insured by BAICO might adversely be affected. In addition, while information on the value of CLICO's assets is still limited, St. Lucia has pledged assets from CLICO amounting to 50 percent of liabilities and 70 percent of deposit-like instruments.

4. These macro-financial risks reinforce the need for fiscal policy to contain increases in the public debt and to strengthen financial sector oversight. Resolution of these problems could increase the already high public debt burden, and add to the susceptibility of the economy to natural disasters and other debt-related vulnerabilities. In this context, the near-term challenge is to ensure that the resolution of the insurance companies avoids systemic contamination, minimizes the fiscal cost, and provides equitable treatment to all policyholders. This may include lowering of interest rates, extension of tenor, and possible conversion of some liabilities into equity. Strengthening financial sector regulation would be a high priority. In this respect, the authorities are in the process of establishing a single regulatory unit for non-bank financial institutions (e.g., credit unions, building societies, and insurance companies). In the medium term, the establishment of a regional non-bank financial regulator might be warranted to avoid regulatory arbitrage across ECCU countries.

Annex IV: Improving the Efficiency of Public Expenditure

1. As in the other ECCU countries, policymaking in St. Lucia is constrained by the currency board arrangement. Sound fiscal policy and an efficient public sector are, therefore, paramount both for macroeconomic stability and the country's competitiveness. The impact of the global financial and economic crisis has brought to the fore the need to increase fiscal space to better absorb shocks. Also, the risk of permanently lower FDI and tourist arrivals calls for continued efforts to improve competitiveness. Given St. Lucia's relatively high revenue-to-GDP ratio, efforts to create fiscal space will have to focus more on the expenditure side. Rationalizing government expenditures could generate fiscal savings, while simultaneously enhancing the efficiency and effectiveness of government spending programs.

2. Central government expenditure in St. Lucia was about 36 percent of GDP in 2009 (see Table). While this is less than the average in other ECCU countries, public expenditures have increased sharply during the FY2009/10. Part of the sharp acceleration is due to a large increase in capital expenditure associated with the fiscal stimulus. Nevertheless, there has also been a significant increase in current spending, especially for wages and salaries. This trend is mirrored by the rest of the ECCU, albeit at a lower rate. The following reviews selected public expenditure policy issues in St. Lucia. A more comprehensive study based on a forthcoming IMF technical assistance mission will be prepared for the 2010 ECCU Common Policy Discussion.

Public Sector Wages and Employment

3. In line with other ECCU countries, central government wages and salaries averaged about 12 percent of GDP during 2006–08. However, the wage bill grew rapidly in 2009, reaching almost 14 percent of GDP, with a further increase expected in 2010. This is due both to increase in wages, as well as in employment. About 5.5 percent of the population was employed in the public sector in 2008—second only to Antigua and Barbuda among the independent ECCU countries.

4. The government is committed to reforming the public sector with a view to enhancing its efficiency. Towards that end, the authorities have initiated a functional review of government ministries with assistance from the World Bank. The authorities also plan to reform human resource management and legal framework for public service. A review of the pay negotiation framework is also part of the reform program.

Health Spending

5. The public sector is the dominant provider of health care services in St. Lucia. User fees are charged for some services at hospitals and health centers, but these typically account for a small portion of total health financing. General government spending on health is about 3 percent of GDP, on average. This is slightly less than the average for other independent ECCU countries.

6. St. Lucia has relatively good health indicators for a country at its income level of GDP per capita. Nevertheless, there are concerns about the quality and coverage of health care services. Only about a quarter of the population is covered by health insurance and the number of uninsured is rising, especially among the poor. Health care costs are expected to rise in the future with an ageing population raising concerns regarding the sustainability of the current health financing system.

7. There may be scope for improving efficiency of health spending by reorganizing and consolidating some of the health facilities in the country. Better coordination of health services at the regional level, similar to the successful OECS pharmaceutical procurement program, could also enhance efficiency of health services

Education

8. Public education spending exceeds 6 percent of GDP. This is higher than that in Latin America and Caribbean countries, but less than in some of the other independent ECCU countries. Such a high level of expenditure reflects the government's commitment to education. In recent years, there has also been a shift in expenditure composition away from wages towards capital and other current spending.

9. More efficient delivery of education services can help achieve better outcomes, while also generating some fiscal savings. This could be achieved by raising the pupil-teacher ratio in both primary and secondary education and increasing non-government financing of tertiary education. Better targeting of school feeding and free text book programs could also result in improved equity and efficiency of these programs.

Social Assistance

10. St. Lucia implements a range of social assistance programs designed to address most of the key poverty and vulnerability issues. These include public works programs, transfers, subsidies, labor-market programs, and public assistance programs. Social assistance expenditures are estimated at about 1.3 percent of GDP in FY2008/09, about at par with that in Latin America and Caribbean region, but less than in some of the other independent ECCU countries.

11. A large number of programs implemented by different government agencies result in overlap and duplication, with high start-up and operating costs. At the same time, some of the public assistance programs are not well-targeted. Combining programs with similar objectives and improved targeting could help minimize leakage and ensure that social assistance objectives are achieved in a cost-effective manner. Linking some assistance programs to specific requirements such as schooling or health clinic attendance may contribute to poverty alleviation by promoting investment in human and physical asset base.

Pensions

12. While contribution income of the National Insurance Corporation (NIC) currently exceeds its payments, the 2003 actuarial review suggests that, with a rapidly ageing population, pension reserves are projected to begin declining in 2048 and be exhausted by 2063. Recent reform measures, which included raising the retirement age to 65, increasing the number of contributions required for retirement pension, and a reduction in the maximum pensions, have been steps in the right direction. The government also reformed the civil servants' pension by making it contributory since 2003. These reforms have improved the financial sustainability of the system by pushing outward the date by which reserves would be exhausted. Nevertheless, additional parametric reforms may be needed to ensure long run sustainability of the pension system. Such reforms will be guided by the recommendations of the ECCU regional Pension Commissions which is expected to complete its work in 2010.

St. Lucia: Central Government Expenditure
(in percent of GDP)

	St. Lucia		Rest of ECCU	
	2009 1/	2006-08 2/	2009 1/	2006-08 2/
Total expenditure and net lending	35.8	30.9	39.4	36.1
Total current expenditure	25.3	22.4	31.2	26.7
Wages and salaries 3/	13.9	12.1	13.0	12.1
Goods and services	4.7	4.3	6.5	6.4
Subsidies and transfers	3.1	2.6	6.4	4.6
Interest payments	3.6	3.4	5.3	3.6
Capital Expenditure and net lending	10.5	8.5	8.1	9.5

Sources: St. Lucia authorities; and Fund staff estimates.
1/ Preliminary estimates.
2/ Average for the period.
3/ Includes employee contributions to national insurance schemes.

Annex V: The Authorities' Response to Recent Fund Policy Advice

1. In the 2008 Article IV Consultation, Directors highlighted that further fiscal consolidation was necessary and recommended to move quickly to broaden the tax base through the introduction of a more flexible domestic petroleum pricing mechanism, the VAT, and the market valuation-based property taxation. So far, the authorities have implemented the domestic petroleum pricing mechanism and have started a consultative process on the implementation of the VAT to ensure broad-based political support. In addition, staff advised that capital expenditures needed to be prioritized and properly evaluated, while the growth in the civil service wage bill should be limited. To achieve this, the authorities have requested IMF TA and a mission is tentatively scheduled for May 2010. Moreover, Directors called for closer monitoring of the financial sector vulnerabilities, and strengthening of social safety nets. In the case of the financial sector, the authorities have moved expeditiously and are tighten financial sector regulation and supervision, especially in the non-bank sector.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 10/46
April 2, 2010

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

IMF Executive Board Concludes 2010 Article IV Consultation with St. Lucia

On March, 15, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with St. Lucia.[1]

Background

Macroeconomic outcomes have weakened significantly. Real GDP is estimated to have contracted by 5.2 percent in 2009, reflecting a sharp decline in visitor arrivals and construction activity related to Foreign Direct Investment (FDI). For 2010, the outlook is for a nascent recovery, supported by higher advance hotel bookings and additional flights to the island. However, there are a number of downside risks to the outlook, including lower than the anticipated recovery in St. Lucia's main trading partners and FDI inflows. Inflation has declined from 7.2 percent in 2008 to 0.6 percent in 2009, and is expected to remain in the low single digits over the medium term.

The fiscal position is estimated to have deteriorated sharply in FY2009/10, mainly on account of an increase in public expenditure. The primary fiscal balance is expected to shift from a surplus of about 2.3 percent of GDP in FY2008/09 to a deficit of about 2.5 percent in FY2009/10. On the revenue side, the cyclical decline was somewhat contained by a 20 percent increase in the prices of petroleum products in August 2009

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

and the adoption of a flexible energy-pricing regime. The implementation of other revenue-enhancing measures (including a value-added tax) envisaged by the authorities at the time of the RAC-ESF Executive Board approval, however, has yet to occur. On the expenditure side, the authorities undertook a large public works program, resulting in capital expenditure increase of about 3 percent of GDP. The fiscal deficit is expected to be financed mainly by issuing securities on the Regional Government Securities Market (RGSM).

External imbalances have narrowed in 2009. The external current account deficit is projected to have declined by about 11 percentage points of GDP in 2009, reflecting lower FDI-related imports and smaller food and fuel import bills. Stayover arrivals are projected to decline by 6 percent (year-on-year), but discounting of hotel room rates and lower spending by tourists would result in a larger decline in tourism receipts. In addition, remittances are projected to decline in line with employment opportunities in migrant host countries. At about 20 percent of GDP, the estimated external current account deficit is close to its historical level and consistent with identified external financing.

In 2009, credit to the private sector continued to decline and financial sector vulnerabilities have increased. The contraction in economic activity has resulted in a significant slowdown in private sector credit demand. At the same time, the weakening economic environment has led to an increase in non-performing loans and deterioration in other bank soundness indicators. While domestic bank lending rates have remained broadly stable, there are signs that conditions in the RGSM have tightened recently. The collapse of the Trinidad and Tobago-based CL Financial Group with operations in St. Lucia and other Eastern Caribbean Currency Union countries has highlighted weaknesses in the regulation and supervision of the non-bank financial sector.

Executive Board Assessment

The Executive Directors observed that the global downturn had led to a marked decline in St. Lucia's economic activity. The economy is recently showing welcome signs of an emerging recovery, although downside risks remain given the continued dependence on tourism. While the expansionary fiscal policy has helped to mitigate the adverse impact of the global crisis and protect the most vulnerable segments of the population, it has raised the fiscal deficit and public debt ratios significantly.

Against this backdrop, Directors welcomed the authorities' commitment to implement a credible fiscal framework to achieve fiscal sustainability, while minimizing adverse implications for growth and employment. They encouraged the authorities to move ahead with the implementation of the planned value-added tax in 2010, and to embark on a measured withdrawal of discretionary spending, including by scaling back capital spending. Over the medium term, Directors emphasized the need to prioritize and improve the efficiency of public spending, to contain the growth of the public wage bill, and to seek more concessional financing in order to create fiscal space for higher targeted social spending and to absorb external shocks.

Directors noted staff's assessment that St. Lucia's exchange rate does not show clear evidence of an overvaluation. Given risks of lower FDI inflows, and to increase the growth potential, they encouraged the authorities to move forward on structural reforms, including improving the business climate and boosting labor productivity.

Directors observed that the financial system has been hit by both the economic downturn and the collapse of the CL-Financial Group. Given the deterioration in bank soundness indicators, they encouraged the authorities to closely monitor the financial sector and take action as needed. Directors welcomed the authorities' regional approach to the strengthening of regulation and supervision of nonbank financial institutions and the resolution of the insurance company BAICO. They looked forward to the adoption of the Financial Services Regulatory Act and related legislation. Directors commended the authorities' intention to keep the SDR allocation as a pooled liquidity buffer.

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

St. Lucia: Selected Economic Indicators, 2006-10

	2006	2007	2008	2009	Proj. 2010
(Annual percentage change, unless otherwise specified)					
Output and prices					
Real GDP (factor cost)	4.8	1.5	0.7	-5.2	1.1
Nominal GDP (market prices)	6.1	2.9	3.8	-2.4	2.8
Consumer prices, end of period	1.4	6.6	3.8	1.0	1.9
Consumer prices, period average	4.1	2.2	7.2	0.6	1.7
Banking system					
Net foreign assets 1/	1.0	-8.0	-22.7	1.2	-1.9
Net domestic assets 1/	19.1	14.2	35.7	0.3	4.6
Of which					
Credit to private sector	27.4	34.2	27.0	2.6	1.8
(In percent of GDP, unless otherwise specified)					
Public sector					
Central government finances					
Total revenue and grants	26.7	28.3	29.9	29.7	31.7
Total expenditure and net lending	32.8	29.1	30.9	35.8	38.9
Current expenditure	21.6	22.2	23.5	25.3	26.9
Capital expenditure	11.2	6.9	7.4	10.5	12.0
Overall balance (after grants)	-6.1	-0.8	-1.1	-6.1	-7.2
Primary balance (after grants)	-2.8	2.7	2.2	-2.5	-3.1
Central government debt	57.0	64.5	64.6	73.2	77.7
Gross public sector debt	65.6	66.5	66.2	74.7	79.1
External sector					
External current account	-30.2	-31.3	-31.0	-20.0	-21.2
Stayover arrivals (percentage change)	-4.9	-5.0	2.9	-10.0	3.5
Public sector external debt (end of period)	44.8	41.8	36.9	42.1	45.9
External public debt service					
In percent of exports of goods and services	4.4	17.0	12.0	11.8	12.7
Real effective exchange rate (- = depreciation)					
Percentage change	0.5	-3.6	1.2	…	…
External terms of trade (- = deterioration)					
Percentage change	-13.2	-12.8	-14.6	1.8	-2.2

Sources: St. Lucia authorities; ECCB; and Fund staff estimates and projections.
1/ Change in relation to liabilities to private sector at beginning of period.

INTERNATIONAL MONETARY FUND

ST. LUCIA

External and Public Debt Sustainability Analysis

Prepared by the Staff of the International Monetary Fund

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This debt sustainability analysis (DSA) assesses the sustainability of St. Lucia's public and external debt. The analysis—which reflects recent surge in the debt level, lower growth arising from a possible prolonged weakness in the global economy, and vulnerability to natural disasters—indicates that, under current fiscal policies, St. Lucia runs a moderate risk of debt distress.

A. Introduction

1. St. Lucia, like many other tourism-dependent countries in the Caribbean, has been significantly impacted by the 2008–09 global economic and financial crises. After expanding on average by about 3 percent during 2004–08, economic activity contracted by about 5 percent in 2009, reflecting a sharp fall in tourist arrivals and FDI-financed construction activity. Fiscal imbalances widened, mainly on account of the cyclical downturn, the discretionary spending measures taken by the central government to cushion the impact of the crisis on unemployment, and delays in the implementation of revenue-enhancing tax measures envisaged at the time of the RAC-ESF request. As a result, the primary fiscal balance (as a percentage of GDP) reverted by almost 5 percentage points, from a surplus of 2.2 percent in 2008 to a deficit of 2.5 percent of GDP in 2009. Reflecting the fiscal deterioration, as well as off-budget expenditures related to the construction and financing of public projects by the private sector (design, finance, and construct), which amounted to almost 1.7 percent of GDP, gross public sector debt increased from about 66¼ percent of GDP in 2008 to about 74¾ percent in 2009. Meanwhile, St. Lucia's public external debt increased to 40.2 percent of GDP (from 36.7 percent in 2008), but the country's risk of debt distress remains moderate.

B. Baseline Assumptions for the DSA

2. St. Lucia's DSA is built on a baseline scenario that assumes: (i) real GDP growth rising to about 3.9 percent over the medium term; and (ii) a compression of the primary fiscal balance towards a steady deficit of one percent of GDP over the same period. The envisaged paths for real GDP growth and the primary fiscal balance are subject to downside risks, including those arising from volatile FDI and grant inflow. While FDI inflows are projected to revert back to historical levels of about 14 percent of GDP in the medium-term, they are lower than during 2006–07 given spikes related to the preparation for the West Indies Cricket World Cup. If grant inflows were to be lower than envisaged under the baseline projection, capital expenditure would need to be scaled

back further to achieve a primary fiscal balance of about -0.2 percent of GDP—the level required to stabilize the debt-to-GDP ratio.

3. The deficit is assumed to be financed mainly through borrowing in the Regional Government Securities Market (RGSM), which is held by both domestic and foreign investors, along with limited multilateral borrowing reflecting Caribbean Development Bank (CDB) terms. While exports of goods as a percent of GDP would gradually decrease to an average 12¾ percent (from currently 15 percent), tourism receipts would slowly catch up to pre-crisis levels, averaging 33¼ percent of GDP in the longer term, in the context of a moderate recovery in tourism-related FDI inflows. The associated external current account deficit converges to about 23 percent of GDP, in line with pre-crisis levels.

Box 1. Macroeconomic Assumptions under the Baseline Scenario (2010–29)

- Following a prolonged slowdown in the aftermath of the global recession, real GDP growth is projected to average about 3.9 percent over the longer term. Inflation is expected to remain in the low single digits, anchored by the currency board arrangement.

- The primary fiscal deficit of the central government (including grants) is projected to converge to about one percent of GDP by 2013, reflecting three core elements of the baseline fiscal stance:(a) the fiscal stimulus provided by the government to contain the surge on unemployment in the aftermath of the global financial crisis; (b) the projected increase in the wage bill to about 12 percent of GDP in FY 2010/11, and (c) the delays in the implementation of critical revenue-enhancing tax measures, such as the single-rate value-added tax.

- Capital grants are conservatively projected at 0.9 percent of GDP starting in 2012, consistent with the historical average, while capital expenditure reverts to 8¾ percent of GDP over the longer term.

- Following a sharp decline in 2008–09, FDI inflows are assumed to only partially recover the pre-crisis levels, averaging about 14 percent over the medium term. The current account deficit is projected to converge to 23 percent of GDP, reflecting persistently lower FDI-related imports.

C. Evaluation of External Debt Sustainability under Baseline Scenario

4. Reflecting its relatively sound policies and institutional framework, St. Lucia has been classified as a strong performer according to the CPIA rating system, with an average rating of 3.93 for 2005–08. As a strong performer, St. Lucia's prudential thresholds on the present value (PV) of debt-to-GDP, debt-to-exports and debt-to-revenue are, respectively, 50, 200 and 300 percent.

5. Notwithstanding its performance in the recent past, the global financial crisis has led St. Lucia to an overall fiscal deficit of about 7¾ percent of GDP in 2009 (including liabilities related to the construction and financing of public projects by the private sector), with a projected average medium-term deficit of about 6 percent of GDP under the baseline scenario. As a result, in the absence of additional fiscal measures the PV of external debt is set to increase to about 51 percent of GDP by 2029, breaching the relevant threshold of debt distress. All other debt and debt service ratios increase substantially over the medium and longer terms, but do not cross the respective thresholds. For this reason, St. Lucia's risk of external debt distress remains moderate (see Figures A1–A2 and Tables A1–A4).

6. Sensitivity analysis shows that the level of external debt is most responsive to an extreme shock of nominal exchange rate depreciation. Under this scenario—with a one-time 30 percent nominal depreciation relative to the baseline in 2010—the PV of external debt-to-GDP ratio would breach the debt-to-GDP threshold of 50 percent (Table A2, Scenario B6). Similarly, the most extreme export shock scenario—of export growth at one standard deviation below the historical average in 2010–11—would push the debt service-to-exports ratio to slightly above the 25 percent threshold in three years (Table A2, Scenario B2).

7. St. Lucia's external debt sustainability analysis includes only public sector debt, as information on private sector external borrowing is not available.

D. Evaluation of Public Sector Debt Sustainability under Baseline Scenario

8. The combination of a recession and counter-cyclical fiscal policies in 2009 resulted in a debt-to-GDP ratio that is 8 percentage points higher than in 2008. Consequently, under the baseline scenario the rate of debt accumulation is about 3 percent of GDP per year. Moreover, the debt service as a share of current revenue and grants is expected to increase to about 63 percent in 2029 from 33½ percent in 2009. Under the most extreme shock scenarios, keeping the primary balance at the 2009 level will push the NPV of the total debt to 103 percent of GDP by 2020, while having a one-time depreciation will take the debt to 116 percent of GDP by that year.

9. Given St. Lucia's high public debt-to-GDP ratio, its recent debt dynamics, and the ever-present risks of natural disasters, the vulnerabilities of its public debt remain elevated. In addition, the recovery from the global downturn is expected to be slower than in advance economies, as demand for tourism is projected to remain subdued for a prolonged period of time. In recent years,

St. Lucia has relied heavily on private financing sources (in lieu of concessional financing), which has increased the cost of financing and rollover risks. Due to the small pool of creditors in the regional markets, the risks of exhausting financing sources have increased (see background note on the Regional Government Securities Market). If it becomes necessary to tap private international financial markets outside of the RGSM, St. Lucia may obtain a credit rating under unfavorable circumstances and will be compared to other emerging markets in the region, which will likely imply a sustained widening of sovereign spreads. This could raise interest payments, which will, in turn, require a credible fiscal framework that yields higher primary surpluses necessary to restore debt sustainability. Finally, possible contingent liabilities from the non-banking financial sector could also raise the required primary surplus.

E. External and Public Debt Dynamics under the Active Scenario

10. The deterioration in debt dynamics underscores the need for an exit strategy from the fiscal stimulus that does not jeopardize St. Lucia's growth prospects. Projections show that the implementation of the planned tax measures and some tightening of discretionary expenditure, as recommended in active scenario described in the staff report, would deliver the primary surpluses necessary to put St. Lucia's public debt-to-GDP ratio on a firmly downward trajectory over the medium term. By targeting a primary fiscal surplus of about 1.6 percent over the medium and long term, the stock of debt would decline to about 58 percent of GDP by 2020—i.e., slightly below the Eastern Caribbean Central Bank's benchmark of 60 percent—and to 42 percent by 2029. Moreover, the external debt would be cut by almost a half over the projection period, declining to 22.3 percent of GDP by 2029. All relevant indicators of debt distress would show patterns of steady improvement; particularly with respect to debt service ratios (see Figures A3–A4 and Tables A5–A8.).The deterioration in debt dynamics also calls for a strengthening of debt management capacity, including the development of a medium-term strategy and improvement in capacity to conduct debt sustainability analysis. A reversal of the trend toward shortening the maturity profile of the debt in recent years could also help avoid a rise in the debt service ratio over the medium term—one of the main contributors to the rising risk of debt distress.

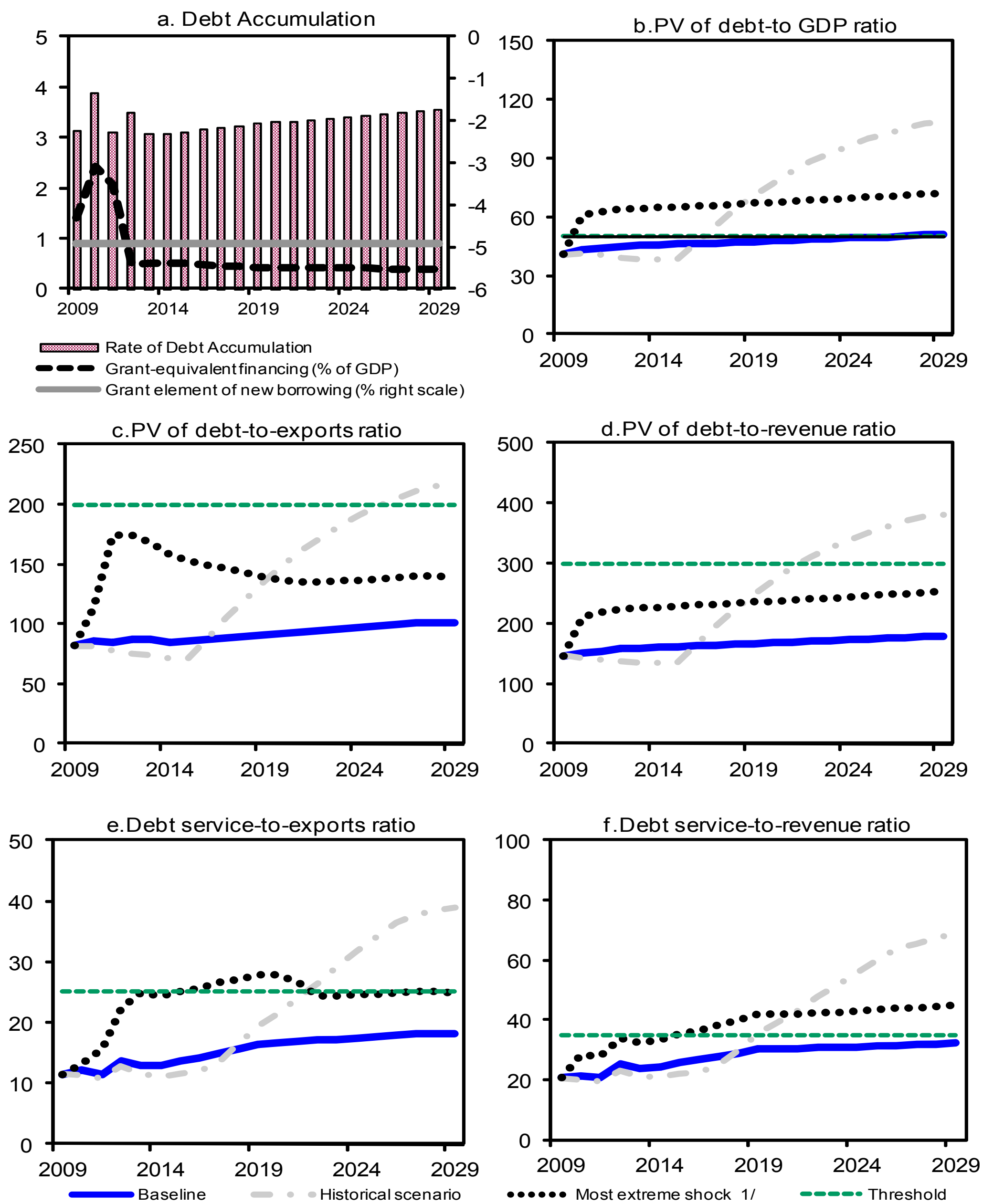
F. Conclusions

11. Staff analysis shows that, under the baseline scenario (with an average primary deficit of around one percent of GDP over the medium and longer terms), imbalances for the overall public sector would be on an increasing and unsustainable path, achieving a public debt-to-GDP ratio of about 88 percent by 2020—the timetable for attaining the 60 percent of GDP debt benchmark of the Eastern Caribbean Central Bank. St. Lucia would then continue to increase its stock of public debt steadily, reaching 96 percent of GDP by 2029.

12. Also noteworthy, under the baseline scenario the public external debt is set to increase by 1/3 percent per year, and the present value of the external debt-to-GDP ratio is set to breach the 50 percent threshold by 2027. However, other relevant thresholds are expected to be respected, and

for this reason St. Lucia's risk of external debt distress remains moderate. Nevertheless, some caution should be used in interpreting these results as private external debt data are not available, and under the most extreme shock scenario up to three thresholds (the PV of debt-to-GDP, debt service-to-exports, and debt service-to-revenue ratios) would be breached over the projection period.

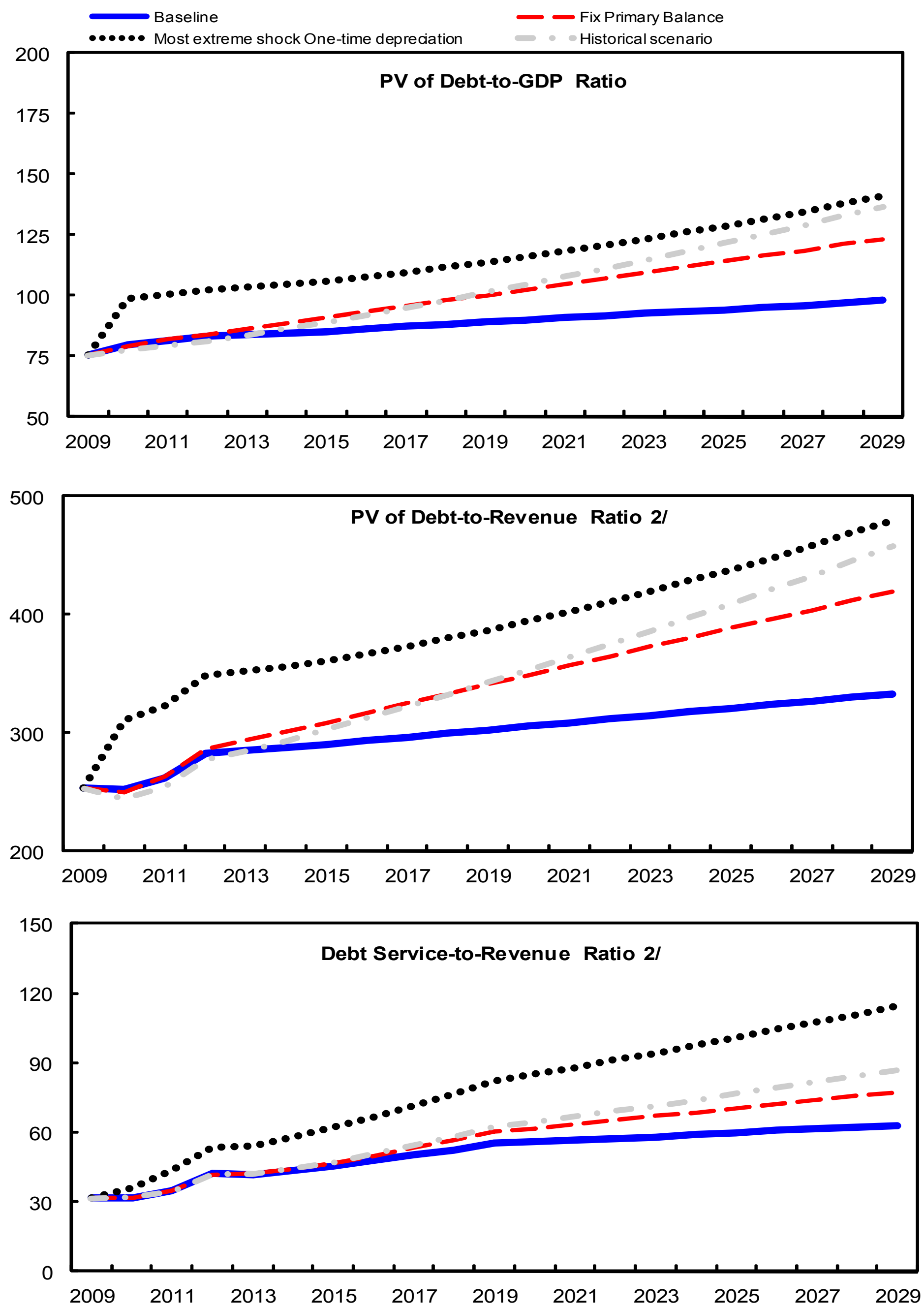
Figure A1. St. Lucia: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2009-2029 1/



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

1/ The most extreme stress test is the test that yields the highest ratio in 2019. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure A2. St. Lucia: Indicators of Public Debt Under Alternative Scenarios, 2009-2029 1/



Sources: St. Lucian authorities; and Fund staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2019.
2/ Revenues are defined inclusive of grants.

Table A1. St. Lucia: External Debt Sustainability Framework, Baseline Scenario, 2006-2029 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections																		
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009-2014 Average	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2015-2029 Average
External debt (nominal) 1/	**44.5**	**41.4**	**36.7**			**40.2**	**42.5**	**43.3**	**44.0**	**44.2**	**44.5**		**45.9**	**46.2**	**46.5**	**46.8**	**47.1**	**47.5**	**47.8**	**48.1**	**48.4**	**48.9**	**49.2**	
o/w public and publicly guaranteed (PPG)	44.5	41.4	36.7			40.2	42.5	43.3	44.0	44.2	44.5		45.9	46.2	46.5	46.8	47.1	47.5	47.8	48.1	48.4	48.9	49.2	
Change in external debt	-2.2	-3.1	-4.7			3.5	2.3	0.8	0.7	0.3	0.3		0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.5	0.3	
Identified net debt-creating flows	2.8	1.6	14.6			13.6	7.6	7.7	8.0	7.0	6.6		-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.5	-0.6	-0.8	-0.3	0.7	
Non-interest current account deficit	**27.8**	**28.6**	**29.1**	**18.1**	**8.0**	**17.8**	**18.8**	**19.6**	**21.4**	**20.3**	**20.2**		**20.7**	**20.8**	**20.8**	**20.9**	**20.9**	**20.8**	**20.7**	**20.7**	**20.5**	**21.1**	**22.1**	20.8
Deficit in balance of goods and services	25.4	25.4	25.2			13.8	14.7	15.6	17.3	16.3	16.2		16.5	16.6	16.6	16.6	16.5	16.5	16.4	16.3	16.1	16.6	17.7	
Exports	48.0	49.9	50.7			50.1	50.4	52.2	52.0	52.3	53.9		52.1	51.7	51.4	51.0	50.7	50.5	50.2	50.0	49.7	50.0	50.6	
Imports	73.4	75.3	75.8			63.8	65.1	67.8	69.3	68.5	70.1		68.5	68.3	67.9	67.6	67.3	66.9	66.6	66.2	65.9	66.7	68.3	
Net current transfers (negative = inflow)	-1.3	-1.4	-1.6	-1.8	0.5	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6		-1.4	-1.3	-1.3	-1.2	-1.2	-1.1	-1.1	-1.0	-1.0	-1.0	-0.9	-1.2
o/w official	0.0	-0.3	-0.3			-0.3	-0.3	-0.3	-0.3	-0.3	-0.3		-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	
Other current account flows (negative = net inflow)	3.7	4.6	5.6			5.7	5.8	5.7	5.7	5.6	5.6		5.6	5.5	5.5	5.5	5.5	5.5	5.5	5.4	5.4	5.4	5.4	
Net FDI (negative = inflow)	**-24.9**	**-28.1**	**-15.4**	**-13.6**	**7.3**	**-8.2**	**-13.0**	**-13.1**	**-14.1**	**-13.9**	**-14.2**		**-21.8**	**-21.8**	**-21.8**	**-21.8**	**-21.9**	**-21.9**	**-21.9**	**-21.9**	**-21.9**	**-22.0**	**-22.0**	-21.4
Endogenous debt dynamics 2/	**-0.1**	**1.0**	**0.9**			**4.0**	**1.7**	**1.2**	**0.7**	**0.6**	**0.6**		**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	
Contribution from nominal interest rate	2.2	2.4	1.8			2.1	2.2	2.1	2.2	2.2	2.2		2.3	2.3	2.3	2.3	2.3	2.4	2.4	2.4	2.4	2.4	2.4	
Contribution from real GDP growth	-2.1	-0.6	-0.3			1.9	-0.4	-0.9	-1.4	-1.6	-1.6		-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.8	-1.8	-1.8	
Contribution from price and exchange rate changes	-0.2	-0.7	-0.6			...	...	...	...	...	...		...	...	...	...	...	...	...	...	...	...	...	
Residual (3-4) 3/	**-5.0**	**-4.7**	**-19.3**			**-10.1**	**-5.3**	**-6.9**	**-7.3**	**-6.7**	**-6.4**		**0.8**	**0.7**	**0.7**	**0.7**	**0.7**	**0.8**	**0.9**	**1.0**	**1.1**	**0.8**	**-0.4**	
o/w exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
PV of external debt 4/	44.5	41.4	36.7			40.9	43.3	44.2	45.1	45.4	45.7		47.4	47.7	48.1	48.4	48.8	49.1	49.5	49.8	50.2	50.7	51.0	
In percent of exports	...	...	73.7			81.7	85.9	84.7	86.7	86.9	84.8		91.0	92.3	93.6	94.9	96.1	97.4	98.6	99.8	100.9	101.3	100.8	
PV of PPG external debt	**...**	**...**	**37.3**			**40.9**	**43.3**	**44.2**	**45.1**	**45.4**	**45.7**		**47.4**	**47.7**	**48.1**	**48.4**	**48.8**	**49.1**	**49.5**	**49.8**	**50.2**	**50.7**	**51.0**	
In percent of exports	**...**	**...**	**73.7**			**81.7**	**85.9**	**84.7**	**86.7**	**86.9**	**84.8**		**91.0**	**92.3**	**93.6**	**94.9**	**96.1**	**97.4**	**98.6**	**99.8**	**100.9**	**101.3**	**100.8**	
In percent of government revenues	**...**	**...**	**128.2**			**146.1**	**149.9**	**153.9**	**158.1**	**159.3**	**160.4**		**166.2**	**167.4**	**168.7**	**169.9**	**171.1**	**172.4**	**173.6**	**174.8**	**176.1**	**177.7**	**179.0**	
Debt service-to-exports ratio (in percent)	**4.6**	**17.0**	**10.4**			**11.6**	**12.2**	**11.4**	**13.7**	**12.9**	**12.8**		**16.5**	**16.7**	**16.8**	**17.1**	**17.2**	**17.5**	**17.7**	**18.0**	**18.2**	**18.3**	**18.2**	
PPG debt service-to-exports ratio (in percent)	**4.6**	**17.0**	**10.4**			**11.6**	**12.2**	**11.4**	**13.7**	**12.9**	**12.8**		**16.5**	**16.7**	**16.8**	**17.1**	**17.2**	**17.5**	**17.7**	**18.0**	**18.2**	**18.3**	**18.2**	
PPG debt service-to-revenue ratio (in percent)	**8.4**	**30.2**	**18.1**			**20.7**	**21.3**	**20.7**	**25.1**	**23.6**	**24.3**		**30.2**	**30.2**	**30.3**	**30.6**	**30.7**	**31.0**	**31.2**	**31.5**	**31.8**	**32.1**	**32.3**	
Total gross financing need (Millions of U.S. dollars)	48.1	87.6	188.0			150.5	121.6	132.6	162.0	156.3	163.5		127.6	137.2	146.6	157.6	167.3	178.2	189.4	200.1	210.9	239.6	288.2	
Non-interest current account deficit that stabilizes debt rati	30.0	31.7	33.7			14.4	16.5	18.8	20.7	20.0	19.9		20.4	20.5	20.5	20.5	20.5	20.5	20.4	20.3	20.2	20.6	21.8	
Key macroeconomic assumptions																								
Real GDP growth (in percent)	4.8	1.5	0.7	1.7	2.8	-5.2	1.1	2.3	3.5	3.8	3.8	1.5	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9
GDP deflator in US dollar terms (change in percent)	0.5	1.6	1.5	2.3	1.3	4.3	2.2	2.7	2.2	2.2	2.2	2.6	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.3	2.3	2.0	2.3	2.2
Effective interest rate (percent) 5/	5.0	5.5	4.5	4.2	1.1	5.6	5.6	5.3	5.3	5.3	5.3	5.4	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Growth of exports of G&S (US dollar terms, in percent)	-9.5	7.1	3.8	4.2	13.5	-2.3	4.1	8.7	5.5	6.5	9.4	5.3	5.4	5.4	5.5	5.5	5.6	5.6	5.7	5.7	5.8	6.6	7.5	5.7
Growth of imports of G&S (US dollar terms, in percent)	17.0	5.7	3.0	6.2	11.5	-16.7	5.4	9.3	8.2	4.8	8.4	3.2	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	7.3	8.8	6.0
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9
Government revenues (excluding grants, in percent of GDP	26.4	28.1	29.1			28.0	28.9	28.7	28.5	28.5	28.5		28.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5
Aid flows (in Millions of US dollars) 7/	2.5	1.5	7.6			17.0	28.1	25.5	9.9	10.5	11.1		15.0	15.9	16.9	17.9	19.0	20.2	21.5	22.8	24.2	25.7	27.3	
o/w Grants	2.5	1.5	7.6			17.0	28.1	25.5	9.9	10.5	11.1		15.0	15.9	16.9	17.9	19.0	20.2	21.5	22.8	24.2	25.7	27.3	
o/w Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.4	2.4	2.1	0.5	0.5	0.5		0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Grant-equivalent financing (in percent of external financing)	...	...	...			16.5	23.3	22.9	5.4	6.4	6.1		4.2	4.1	4.1	4.0	4.0	3.9	3.8	3.8	3.7	3.6	3.6	4.2
Memorandum items:																								
Nominal GDP (Millions of US dollars)	939.9	969.0	990.5			979.7	1012.4	1063.6	1125.4	1193.0	1264.9		1702.3	1807.7	1919.2	2038.2	2164.9	2299.4	2442.6	2594.6	2756.8	2921.6	3104.5	
Nominal dollar GDP growth	5.3	3.1	2.2			-1.1	3.3	5.1	5.8	6.0	6.0	4.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.0	6.3	6.2
PV of PPG external debt (in Millions of US dollars)			369.7			400.6	438.8	470.3	507.3	541.8	578.3		806.6	862.7	922.8	987.2	1056.0	1129.7	1208.6	1293.0	1383.5	1480.2	1583.7	
(PVt-PVt-1)/GDPt-1 (in percent)						3.1	3.9	3.1	3.5	3.1	3.1	3.3	3.3	3.3	3.3	3.4	3.4	3.4	3.4	3.5	3.5	3.5	3.5	3.3

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

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

Table A2. St. Lucia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029
(In percent)

	Projections									
	2009	2010	2011	2012	2013	2014	2015	**2019**	2020	2029
PV of debt-to GDP ratio										
Baseline	41	43	44	45	45	46	46	**47**	48	51
A. Alternative Scenarios										
A1. Key variables at their historical averages in 2009-2029 1/	41	41	40	39	38	38	39	**71**	77	109
A2. New public sector loans on less favorable terms in 2009-2029 2	41	44	45	47	48	49	50	**54**	55	67
B. Bound Tests										
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	41	44	47	48	48	48	49	**50**	51	54
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	41	50	66	66	64	62	60	**53**	51	51
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	41	44	45	46	47	47	47	**49**	49	52
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	41	51	59	59	58	56	55	**51**	50	51
B5. Combination of B1-B4 using one-half standard deviation shocks	41	51	67	66	65	63	61	**54**	53	53
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	41	61	63	64	64	65	65	**67**	68	72
PV of debt-to-exports ratio										
Baseline	82	86	85	87	87	85	86	**91**	92	101
A. Alternative Scenarios										
A1. Key variables at their historical averages in 2009-2029 1/	82	82	77	75	73	71	72	**136**	149	215
A2. New public sector loans on less favorable terms in 2009-2029 2	82	87	87	90	91	90	92	**104**	107	132
B. Bound Tests										
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	82	86	85	87	87	85	86	**91**	92	101
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	82	114	174	174	168	158	153	**139**	136	139
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	82	86	85	87	87	85	86	**91**	92	101
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	82	101	113	113	110	105	102	**98**	97	101
B5. Combination of B1-B4 using one-half standard deviation shocks	82	106	146	146	141	133	129	**119**	117	121
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	82	86	85	87	87	85	86	**91**	92	101
PV of debt-to-revenue ratio										
Baseline	146	150	154	158	159	160	161	**166**	167	179
A. Alternative Scenarios										
A1. Key variables at their historical averages in 2009-2029 1/	146	143	140	137	134	135	135	**248**	271	381
A2. New public sector loans on less favorable terms in 2009-2029 2	146	152	158	164	167	171	174	**189**	193	234
B. Bound Tests										
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	146	153	163	167	169	170	171	**176**	177	189
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	146	174	230	231	224	217	210	**185**	180	180
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	146	152	158	163	164	165	166	**171**	172	184
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	146	175	206	207	202	198	194	**178**	175	179
B5. Combination of B1-B4 using one-half standard deviation shocks	146	176	232	233	227	220	214	**191**	186	188
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	146	212	218	224	226	227	229	**235**	237	253
Debt service-to-exports ratio										
Baseline	12	12	11	14	13	13	14	17	17	18
A. Alternative Scenarios										
A1. Key variables at their historical averages in 2009-2029 1/	12	11	11	13	11	11	12	19	22	39
A2. New public sector loans on less favorable terms in 2009-2029 2	12	11	11	13	13	13	14	19	20	25
B. Bound Tests										
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	12	11	11	13	12	12	13	16	16	18
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	12	13	16	22	25	24	25	28	28	25
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	12	11	11	13	12	12	13	16	16	18
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	12	11	11	16	16	16	17	19	19	18
B5. Combination of B1-B4 using one-half standard deviation shocks	12	12	14	19	21	20	21	24	24	21
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	12	11	11	13	12	12	13	16	16	18
Debt service-to-revenue ratio										
Baseline	21	21	21	25	24	24	26	**30**	30	32
A. Alternative Scenarios										
A1. Key variables at their historical averages in 2009-2029 1/	21	20	19	23	21	21	22	**36**	39	69
A2. New public sector loans on less favorable terms in 2009-2029 2	21	20	20	24	24	25	27	**35**	36	45
B. Bound Tests										
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	21	20	21	25	24	25	26	**31**	31	34
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	21	20	21	30	33	33	34	**37**	37	32
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	21	20	20	25	23	24	26	**30**	30	33
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	21	20	21	29	30	30	31	**35**	34	32
B5. Combination of B1-B4 using one-half standard deviation shocks	21	20	22	31	34	34	35	**38**	37	33
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	21	28	28	34	32	33	35	**42**	42	45
Memorandum item:										
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	-5	-5	-5	-5	-5	-5	-5	**-5**	-5	-5

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

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

Table A3. St. Lucia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2006-2029
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Projections										
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009-14 Average	2019	2020	2029	2015-29 Average
Public sector debt 1/	**65.6**	**66.5**	**66.2**			**74.7**	**79.1**	**80.7**	**82.1**	**82.7**	**83.3**		**87.5**	**88.4**	**96.2**	
o/w foreign-currency denominated	44.5	41.4	36.7			40.2	42.5	43.3	44.0	44.2	44.5		45.9	46.2	49.2	
Change in public sector debt	-0.4	0.8	-0.3			8.5	4.4	1.6	1.4	0.6	0.6		0.8	0.8	0.8	
Identified debt-creating flows	2.8	-1.1	-0.4			6.8	4.8	1.9	1.7	0.9	0.8		0.8	0.8	0.8	
Primary deficit	2.8	-2.7	-2.2	1.1	2.7	2.5	3.1	1.5	1.8	1.1	1.0	1.8	1.0	1.0	1.0	1.0
Revenue and grants	26.7	28.3	29.9			29.7	31.7	31.1	29.4	29.4	29.4		29.4	29.4	29.4	
of which: grants	0.3	0.2	0.8			1.7	2.8	2.4	0.9	0.9	0.9		0.9	0.9	0.9	
Primary (noninterest) expenditure	29.5	25.5	27.6			32.2	34.8	32.6	31.2	30.5	30.4		30.4	30.4	30.4	
Automatic debt dynamics	0.0	1.6	1.9			4.4	1.6	0.4	-0.1	-0.2	-0.2		-0.2	-0.2	-0.2	
Contribution from interest rate/growth differential	-1.2	0.9	1.4			5.4	1.8	0.7	0.0	-0.1	-0.1		0.0	0.0	0.0	
of which: contribution from average real interest rate	1.8	1.8	1.9			1.8	2.6	2.5	2.8	2.9	3.0		3.2	3.3	3.6	
of which: contribution from real GDP growth	-3.0	-1.0	-0.5			3.6	-0.8	-1.8	-2.8	-3.0	-3.0		-3.2	-3.3	-3.6	
Contribution from real exchange rate depreciation	1.2	0.7	0.4			-1.1	-0.1	-0.4	-0.1	-0.1	-0.1		…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	
Residual, including asset changes	-3.2	2.0	0.1			1.7	-0.3	-0.3	-0.3	-0.3	-0.3		0.0	0.0	0.0	
Other Sustainability Indicators																
PV of public sector debt	**65.6**	**66.5**	**66.2**			**75.4**	**80.0**	**81.6**	**83.2**	**83.9**	**84.5**		**89.0**	**89.9**	**97.9**	
o/w foreign-currency denominated	…	…	…			40.9	43.3	44.2	45.1	45.4	45.7		47.4	47.7	51.0	
o/w external	…	…	…			40.9	43.3	44.2	45.1	45.4	45.7		47.4	47.7	51.0	
PV of contingent liabilities (not included in public sector debt)	…	…	…			…	…	…	…	…	…		…	…	…	
Gross financing need 2/	10.6	11.3	6.5			12.2	15.2	14.3	16.9	16.3	17.0		21.7	22.2	25.4	
PV of public sector debt-to-revenue and grants ratio (in percen	245.8	235.2	221.5			253.6	252.3	262.2	283.2	285.4	287.6		303.0	306.0	333.3	
PV of public sector debt-to-revenue ratio (in percent)	248.2	236.5	227.3			269.3	276.6	284.1	291.9	294.2	296.4		312.3	315.4	343.6	
o/w external 3/	…	…	…			146.1	149.9	153.9	158.1	159.3	160.4		166.2	167.4	179.0	
Debt service-to-revenue and grants ratio (in percent) 4/	15.6	39.9	24.0			31.5	31.9	34.8	42.1	41.9	43.8		55.3	55.9	63.0	
Debt service-to-revenue ratio (in percent) 4/	15.7	40.1	24.6			33.5	35.0	37.7	43.4	43.2	45.1		57.0	57.6	64.9	
Primary deficit that stabilizes the debt-to-GDP ratio	3.1	-3.6	-2.0			-6.0	-1.3	-0.1	0.4	0.5	0.4		0.2	0.2	0.2	
Key macroeconomic and fiscal assumptions																
Real GDP growth (in percent)	4.8	1.5	0.7	1.7	2.8	-5.2	1.1	2.3	3.5	3.8	3.8	1.5	3.9	3.9	3.9	3.9
Average nominal interest rate on forex debt (in percent)	5.0	5.5	4.5	4.2	1.1	5.6	5.6	5.3	5.3	5.3	5.3	5.4	5.3	5.3	5.3	5.3
Average real interest rate on domestic debt (in percent)	5.5	4.1	4.6	4.4	1.7	0.8	3.4	3.1	3.8	4.0	4.2	3.2	4.4	4.5	4.5	4.5
Real exchange rate depreciation (in percent, + indicates depre	2.8	1.5	1.0	0.1	1.6	-2.6	…	…	…	…	…	…	…	…	…	…
Inflation rate (GDP deflator, in percent)	0.5	1.6	1.5	2.3	1.3	4.3	2.2	2.7	2.2	2.2	2.2	2.6	2.2	2.2	2.3	2.2
Growth of real primary spending (deflated by GDP deflator, in p	0.1	-0.1	0.1	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	…	…	…	…	…	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	…

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

1/ Includes public sector guaranteed and non-guaranteed debt. Also includes liabilities related to the construction and financing of public projects by the private sector.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

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

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

Table A4. St. Lucia: Sensitivity Analysis for Key Indicators of Public Debt 2009-2029

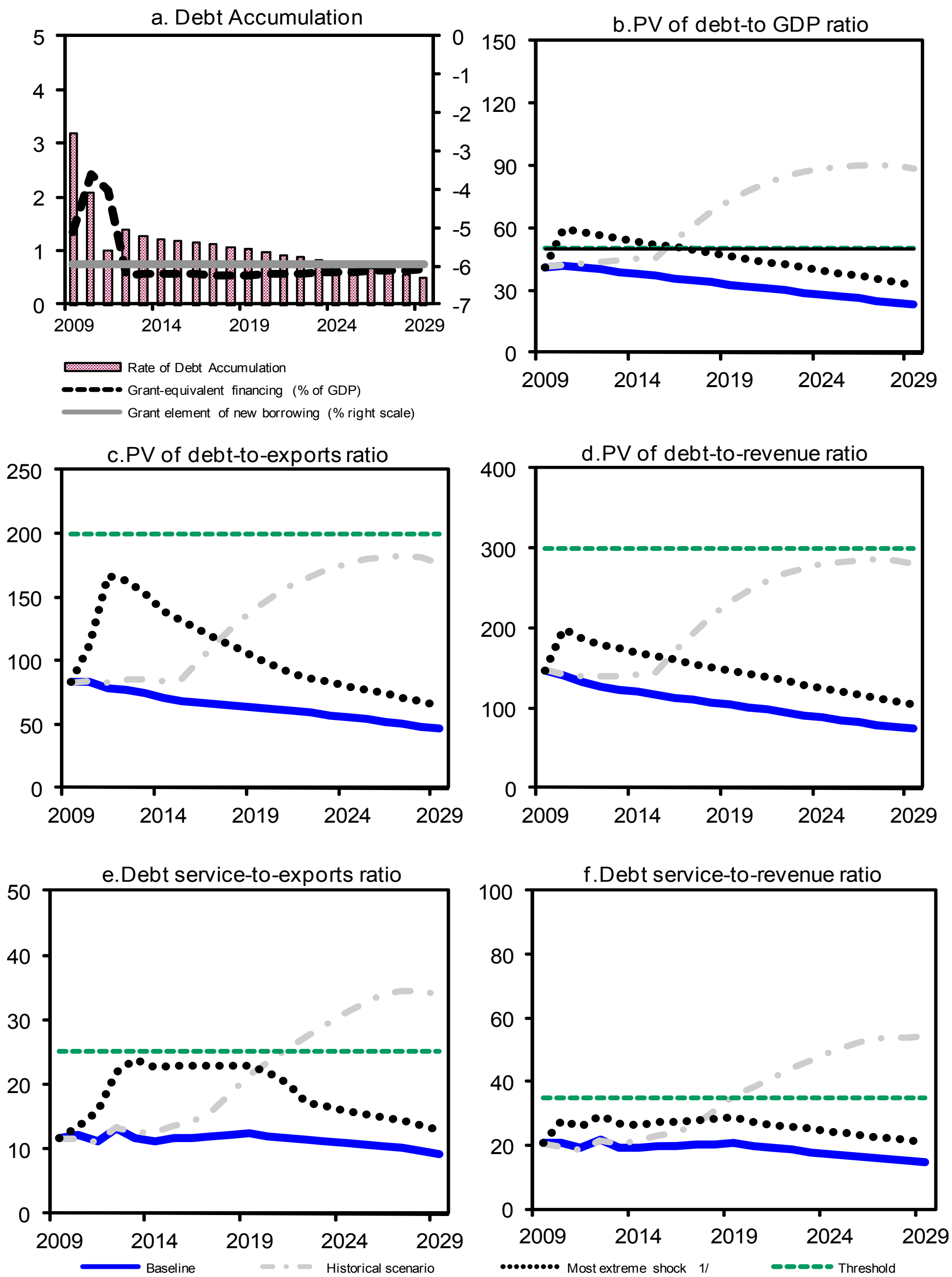
	Projections								
	2009	2010	2011	2012	2013	2014	2019	2020	2029
PV of Debt-to-GDP Ratio									
Baseline	75	80	82	83	84	84	89	90	98
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	75	78	79	82	84	86	101	105	137
A2. Primary balance is unchanged from 2009	75	79	82	84	86	88	100	103	123
A3. Permanently lower GDP growth 1/	75	81	83	86	88	90	104	108	149
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	75	83	89	92	95	97	110	113	136
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	75	81	85	86	87	88	92	93	101
B3. Combination of B1-B2 using one half standard deviation shocks	75	80	84	87	88	90	99	100	116
B4. One-time 30 percent real depreciation in 2010	75	99	101	102	103	105	114	116	141
B5. 10 percent of GDP increase in other debt-creating flows in 2010	75	90	92	94	94	95	99	100	108
PV of Debt-to-Revenue Ratio 2/									
Baseline	254	252	262	283	285	288	303	306	333
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	254	245	254	277	285	293	343	354	458
A2. Primary balance is unchanged from 2009	254	250	263	287	294	301	341	349	420
A3. Permanently lower GDP growth 1/	254	254	267	292	298	305	355	367	505
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	254	260	284	313	321	329	374	383	461
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	254	255	273	294	296	298	314	317	344
B3. Combination of B1-B2 using one half standard deviation shocks	254	252	270	295	300	305	335	341	393
B4. One-time 30 percent real depreciation in 2010	254	311	323	349	352	356	387	395	480
B5. 10 percent of GDP increase in other debt-creating flows in 2010	254	285	295	318	320	322	337	340	366
Debt Service-to-Revenue Ratio 2/									
Baseline	31	32	35	42	42	44	55	56	63
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	31	32	34	42	42	45	62	64	87
A2. Primary balance is unchanged from 2009	31	32	35	42	42	44	60	62	77
A3. Permanently lower GDP growth 1/	31	32	35	43	43	46	63	65	90
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	31	33	37	45	46	49	66	68	85
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	31	32	35	43	44	45	57	58	65
B3. Combination of B1-B2 using one half standard deviation shocks	31	32	36	43	43	46	60	61	73
B4. One-time 30 percent real depreciation in 2010	31	36	43	54	54	58	82	85	114
B5. 10 percent of GDP increase in other debt-creating flows in 2010	31	32	37	47	47	49	63	63	69

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

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

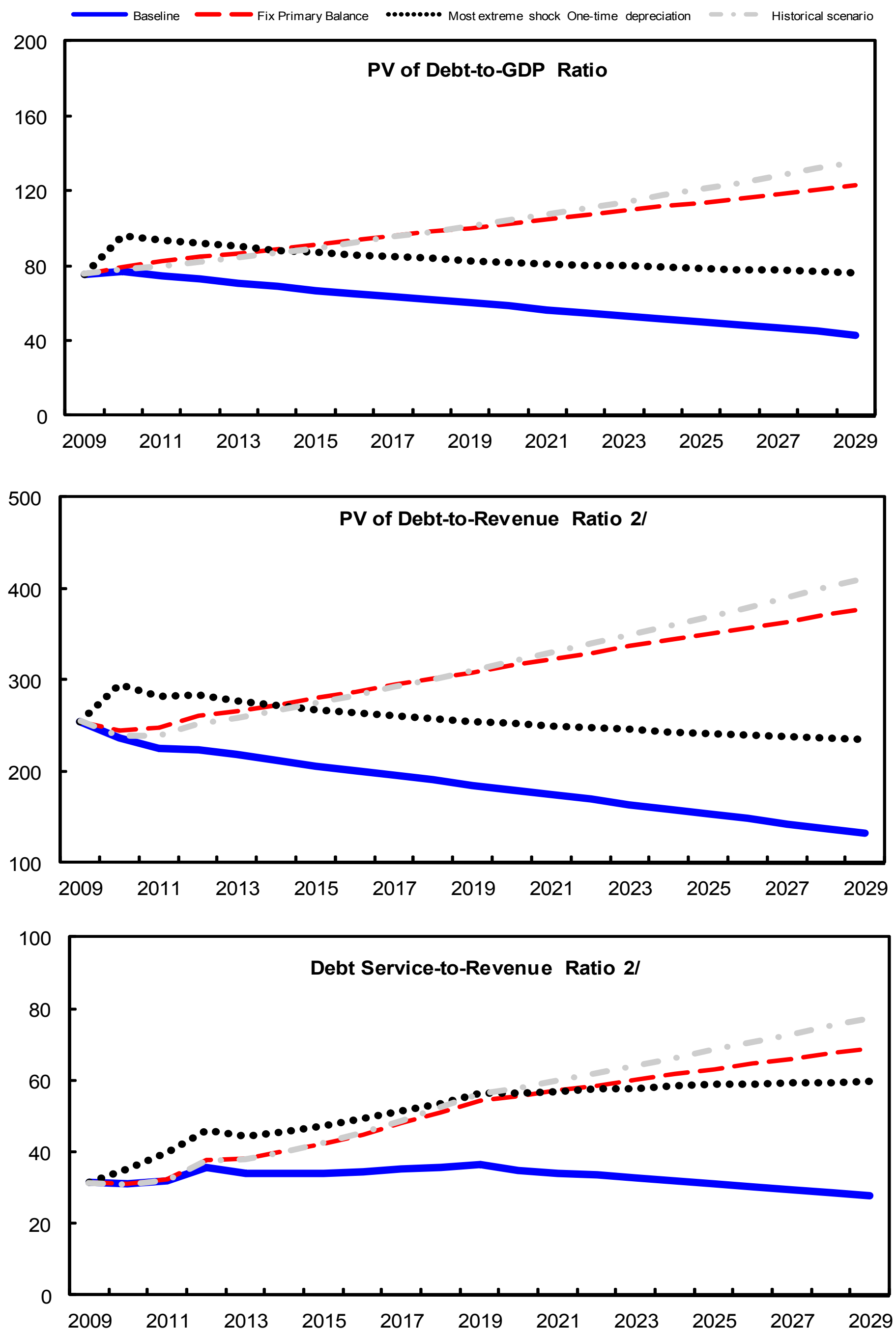
Figure A3. St. Lucia: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2009-2029 1/ (Active Scenario)



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

1/ The most extreme stress test is the test that yields the highest ratio in 2019. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure A4. St. Lucia: Indicators of Public Debt Under Alternative Scenarios, 2009-2029 1/ (Active Scenario)



Sources: St. Lucian authorities; and Fund staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2019.
2/ Revenues are defined inclusive of grants.

Table A5. St. Lucia: External Debt Sustainability Framework, Active Scenario, 2006-2029 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections										
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009-2014 Average	2019	2020	2029	2015-2029 Average
External debt (nominal) 1/	**44.5**	**41.4**	**36.7**			**40.2**	**40.8**	**39.8**	**38.8**	**37.7**	**36.6**		**31.6**	**30.6**	**22.3**	
o/w public and publicly guaranteed (PPG)	44.5	41.4	36.7			40.2	40.8	39.8	38.8	37.7	36.6		31.6	30.6	22.3	
Change in external debt	-2.2	-3.1	-4.7			3.5	0.6	-1.0	-1.0	-1.1	-1.0		-1.0	-1.0	-0.9	
Identified net debt-creating flows	2.8	1.6	14.6			13.5	5.3	4.3	3.6	3.9	3.7		-2.9	-2.8	-1.7	
Non-interest current account deficit	**27.8**	**28.6**	**29.1**	**18.1**	**8.0**	**17.7**	**16.5**	**16.3**	**17.1**	**17.3**	**17.3**		**18.3**	**18.4**	**19.7**	18.4
Deficit in balance of goods and services	25.4	25.4	25.2			13.8	12.7	12.4	13.2	13.5	13.5		14.2	14.3	15.2	
Exports	48.0	49.9	50.7			49.7	50.1	52.1	51.9	52.1	53.7		51.8	51.4	50.3	
Imports	73.4	75.3	75.8			63.6	62.8	64.5	65.1	65.6	67.2		66.0	65.7	65.5	
Net current transfers (negative = inflow)	-1.3	-1.4	-1.6	-1.8	0.5	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6		-1.4	-1.3	-0.9	-1.2
o/w official	0.0	-0.3	-0.3			-0.3	-0.3	-0.3	-0.3	-0.3	-0.3		-0.2	-0.2	-0.1	
Other current account flows (negative = net inflow)	3.7	4.6	5.6			5.5	5.5	5.4	5.4	5.4	5.4		5.4	5.4	5.5	
Net FDI (negative = inflow)	**-24.9**	**-28.1**	**-15.4**	**-13.6**	**7.3**	**-8.2**	**-12.9**	**-13.2**	**-14.1**	**-13.9**	**-14.2**		**-21.7**	**-21.7**	**-21.7**	-21.2
Endogenous debt dynamics 2/	**-0.1**	**1.0**	**0.9**			**4.0**	**1.7**	**1.2**	**0.7**	**0.6**	**0.5**		**0.4**	**0.4**	**0.3**	
Contribution from nominal interest rate	2.2	2.4	1.8			2.1	2.2	2.1	2.0	1.9	1.9		1.6	1.6	1.2	
Contribution from real GDP growth	-2.1	-0.6	-0.3			1.9	-0.4	-0.9	-1.3	-1.4	-1.3		-1.2	-1.2	-0.9	
Contribution from price and exchange rate changes	-0.2	-0.7	-0.6			…	…	…	…	…	…		…	…	…	
Residual (3-4) 3/	**-5.0**	**-4.7**	**-19.3**			**-10.0**	**-4.7**	**-5.3**	**-4.6**	**-5.0**	**-4.8**		**2.0**	**1.9**	**0.8**	
o/w exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	
PV of external debt 4/	44.5	41.4	36.7			41.2	41.9	40.9	40.0	38.9	37.8		32.8	31.8	23.2	
In percent of exports	…	…	74.2			82.9	83.6	78.5	77.0	74.6	70.4		63.3	61.8	46.2	
PV of PPG external debt	**…**	**…**	**37.6**			**41.2**	**41.9**	**40.9**	**40.0**	**38.9**	**37.8**		**32.8**	**31.8**	**23.2**	
In percent of exports	**…**	**…**	**74.2**			**82.9**	**83.6**	**78.5**	**77.0**	**74.6**	**70.4**		**63.3**	**61.8**	**46.2**	
In percent of government revenues	**…**	**…**	**129.1**			**147.4**	**141.1**	**132.6**	**126.4**	**123.1**	**119.7**		**103.7**	**100.6**	**73.4**	
Debt service-to-exports ratio (in percent)	**4.6**	**17.0**	**10.4**			**11.6**	**12.3**	**11.3**	**13.1**	**11.8**	**11.3**		**12.5**	**12.0**	**9.2**	
PPG debt service-to-exports ratio (in percent)	**4.6**	**17.0**	**10.4**			**11.6**	**12.3**	**11.3**	**13.1**	**11.8**	**11.3**		**12.5**	**12.0**	**9.2**	
PPG debt service-to-revenue ratio (in percent)	**8.4**	**30.2**	**18.1**			**20.7**	**20.7**	**19.1**	**21.5**	**19.4**	**19.2**		**20.5**	**19.6**	**14.7**	
Total gross financing need (Millions of U.S. dollars)	48.1	87.6	188.0			149.5	98.8	95.8	109.7	113.6	116.9		52.8	53.0	82.7	
Non-interest current account deficit that stabilizes debt ratio	30.0	31.7	33.7			14.3	15.9	17.3	18.1	18.4	18.4		19.3	19.4	20.6	
Key macroeconomic assumptions																
Real GDP growth (in percent)	4.8	1.5	0.7	1.7	2.8	-5.2	1.1	2.3	3.5	3.8	3.8	1.5	3.9	3.9	3.9	3.9
GDP deflator in US dollar terms (change in percent)	0.5	1.6	1.5	2.3	1.3	4.3	2.2	2.7	2.2	2.2	2.2	2.6	2.2	2.2	2.3	2.2
Effective interest rate (percent) 5/	5.0	5.5	4.5	4.2	1.1	5.6	5.6	5.3	5.3	5.3	5.3	5.4	5.3	5.3	5.3	5.3
Growth of exports of G&S (US dollar terms, in percent)	-9.5	7.1	3.8	4.2	13.5	-2.9	4.2	9.1	5.4	6.5	9.4	5.3	5.4	5.4	7.5	5.7
Growth of imports of G&S (US dollar terms, in percent)	17.0	5.7	3.0	6.2	11.5	-17.1	2.1	7.9	6.8	6.8	8.7	2.5	5.7	5.7	8.7	6.0
Grant element of new public sector borrowing (in percent)	…	…	…	…	…	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0
Government revenues (excluding grants, in percent of GDP)	26.4	28.1	29.1			28.0	29.7	30.8	31.6	31.6	31.6		31.6	31.6	31.6	31.6
Aid flows (in Millions of US dollars) 7/	2.5	1.5	7.6			17.0	28.1	25.5	9.9	10.5	11.1		15.0	15.9	27.3	
o/w Grants	2.5	1.5	7.6			17.0	28.1	25.5	9.9	10.5	11.1		15.0	15.9	27.3	
o/w Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	…	…	…			1.3	2.4	2.1	0.5	0.6	0.6		0.5	0.6	0.6	0.6
Grant-equivalent financing (in percent of external financing) 8/	…	…	…			15.7	28.0	29.7	7.6	9.1	9.2		8.1	8.7	13.4	10.0
Memorandum items:																
Nominal GDP (Millions of US dollars)	939.9	969.0	990.5			979.7	1012.4	1063.6	1125.4	1193.0	1264.9		1702.3	1807.7	3104.5	
Nominal dollar GDP growth	5.3	3.1	2.2			-1.1	3.3	5.1	5.8	6.0	6.0	4.2	6.2	6.2	6.3	6.2
PV of PPG external debt (in Millions of US dollars)			372.4			404.1	424.6	434.9	449.6	464.0	478.6		558.1	574.8	720.6	
(PVt-PVt-1)/GDPt-1 (in percent)						3.2	2.1	1.0	1.4	1.3	1.2	1.7	1.0	1.0	0.5	0.9

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

1/ Includes public sector guaranteed and non-guaranteed external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

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

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table A6. St. Lucia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029 (Active Scenario)
(In percent)

	Projections									
	2009	2010	2011	2012	2013	2014	2015	**2019**	2020	2029
PV of debt-to GDP ratio										
Baseline	41	42	41	40	39	38	37	**33**	32	23
A. Alternative Scenarios										
A1. Key variables at their historical averages in 2009-2029 1/	41	42	43	44	44	45	45	**73**	78	89
A2. New public sector loans on less favorable terms in 2009-2029 2	41	42	42	41	40	40	39	**37**	36	31
B. Bound Tests										
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	41	43	43	42	41	40	39	**35**	34	25
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	41	49	63	61	58	54	51	**38**	35	23
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	41	42	42	41	40	39	38	**34**	33	24
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	41	49	56	54	51	49	46	**36**	34	23
B5. Combination of B1-B4 using one-half standard deviation shocks	41	49	63	62	58	55	52	**39**	37	24
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	41	59	58	57	55	54	52	**46**	45	33
PV of debt-to-exports ratio										
Baseline	83	84	79	77	75	70	69	**63**	62	46
A. Alternative Scenarios										
A1. Key variables at their historical averages in 2009-2029 1/	83	84	82	85	85	84	85	**141**	151	177
A2. New public sector loans on less favorable terms in 2009-2029 2	83	85	80	79	78	74	73	**71**	70	62
B. Bound Tests										
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	83	84	79	77	75	70	69	**63**	62	46
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	83	112	167	163	153	139	131	**102**	95	64
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	83	84	79	77	75	70	69	**63**	62	46
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	83	98	107	104	99	91	86	**70**	66	46
B5. Combination of B1-B4 using one-half standard deviation shocks	83	104	140	136	128	117	110	**87**	82	56
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	83	84	79	77	75	70	69	**63**	62	46
PV of debt-to-revenue ratio										
Baseline	147	141	133	126	123	120	116	**104**	101	73
A. Alternative Scenarios										
A1. Key variables at their historical averages in 2009-2029 1/	147	142	139	139	141	142	144	**231**	246	281
A2. New public sector loans on less favorable terms in 2009-2029 2	147	143	135	130	128	126	124	**116**	115	98
B. Bound Tests										
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	147	144	140	134	130	127	123	**110**	106	78
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	147	164	204	193	182	171	161	**121**	112	74
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	147	143	136	130	127	123	120	**107**	103	76
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	147	166	181	171	162	154	146	**115**	108	74
B5. Combination of B1-B4 using one-half standard deviation shocks	147	166	206	195	184	173	163	**125**	116	77
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	147	200	188	179	174	169	165	**147**	142	104
Debt service-to-exports ratio										
Baseline	12	12	11	13	12	11	12	13	12	9
A. Alternative Scenarios										
A1. Key variables at their historical averages in 2009-2029 1/	12	12	11	13	12	13	13	22	24	34
A2. New public sector loans on less favorable terms in 2009-2029 2	12	12	10	12	11	11	11	13	13	12
B. Bound Tests										
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	12	12	11	13	11	11	11	12	12	9
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	12	13	16	22	24	23	23	23	22	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	12	12	11	13	11	11	11	12	12	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	12	12	12	15	15	15	15	15	15	9
B5. Combination of B1-B4 using one-half standard deviation shocks	12	12	14	19	20	19	19	19	19	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	12	12	11	13	11	11	11	12	12	9
Debt service-to-revenue ratio										
Baseline	21	21	19	22	19	19	20	**20**	20	15
A. Alternative Scenarios										
A1. Key variables at their historical averages in 2009-2029 1/	21	19	19	22	21	21	23	**35**	38	54
A2. New public sector loans on less favorable terms in 2009-2029 2	21	20	17	20	19	18	19	**22**	21	19
B. Bound Tests										
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	21	20	19	22	20	20	20	**21**	20	15
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	21	20	19	26	28	28	28	**27**	26	15
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	21	20	19	21	19	19	20	**21**	20	15
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	21	20	19	25	25	25	25	**25**	24	15
B5. Combination of B1-B4 using one-half standard deviation shocks	21	20	20	27	29	28	28	**28**	26	16
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	21	28	26	29	27	26	27	**29**	27	21
Memorandum item:										
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	-6	-6	-6	-6	-6	-6	-6	**-6**	-6	-6

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

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

Table A7. St. Lucia: Public Sector Debt Sustainability Framework, Active Scenario, 2006-2029
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Projections										
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009-14 Average	2019	2020	2029	2015-29 Average
Public sector debt 1/	**59.1**	**66.5**	**66.2**			**74.7**	**75.8**	**73.7**	**71.7**	**69.6**	**67.6**		**58.9**	**57.2**	**42.2**	
o/w foreign-currency denominated	44.5	41.4	36.7			40.2	40.8	39.8	38.8	37.7	36.6		31.6	30.6	22.3	
Change in public sector debt	-6.9	7.4	-0.3			8.5	1.1	-2.1	-2.0	-2.1	-2.0		-1.7	-1.7	-1.7	
Identified debt-creating flows	2.8	-1.0	-0.4			6.8	1.4	-1.8	-1.7	-1.8	-1.8		-1.7	-1.7	-1.7	
Primary deficit	2.8	-2.7	-2.2	1.1	2.7	2.5	-0.2	-2.1	-1.6	-1.6	-1.6	-0.8	-1.6	-1.6	-1.6	-1.6
Revenue and grants	26.7	28.3	29.9			29.7	32.5	33.2	32.5	32.5	32.5		32.5	32.5	32.5	
of which: grants	0.3	0.2	0.8			1.7	2.8	2.4	0.9	0.9	0.9		0.9	0.9	0.9	
Primary (noninterest) expenditure	29.5	25.5	27.6			32.2	32.3	31.1	30.9	30.9	30.9		30.9	30.9	30.9	
Automatic debt dynamics	0.0	1.8	1.9			4.4	1.6	0.4	-0.1	-0.2	-0.2		-0.1	-0.1	-0.1	
Contribution from interest rate/growth differential	-1.2	1.1	1.4			5.4	1.8	0.7	0.0	-0.1	-0.1		0.0	0.0	0.0	
of which: contribution from average real interest rate	1.8	1.9	1.9			1.8	2.6	2.4	2.5	2.5	2.5		2.2	2.2	1.7	
of which: contribution from real GDP growth	-3.0	-0.9	-0.5			3.6	-0.8	-1.7	-2.5	-2.6	-2.5		-2.3	-2.2	-1.6	
Contribution from real exchange rate depreciation	1.2	0.7	0.4			-1.1	-0.1	-0.3	-0.1	-0.1	-0.1		…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	
Residual, including asset changes	-9.7	8.3	0.1			1.7	-0.3	-0.3	-0.3	-0.3	-0.3		0.0	0.0	0.0	
Other Sustainability Indicators																
PV of public sector debt	**59.1**	**66.5**	**66.2**			**75.7**	**76.9**	**74.8**	**72.9**	**70.8**	**68.8**		**60.1**	**58.4**	**43.2**	
o/w foreign-currency denominated	…	…	…			41.2	41.9	40.9	40.0	38.9	37.8		32.8	31.8	23.2	
o/w external	…	…	…			41.2	41.9	40.9	40.0	38.9	37.8		32.8	31.8	23.2	
PV of contingent liabilities (not included in public sector debt)	…	…	…			…	…	…	…	…	…		…	…	…	
Gross financing need 2/	10.6	11.3	6.5			12.2	11.9	10.5	12.7	12.2	12.3		13.4	13.1	10.4	
PV of public sector debt-to-revenue and grants ratio (in percent	221.2	235.2	221.5			254.8	236.7	225.1	224.3	218.0	211.7		185.1	179.8	132.9	
PV of public sector debt-to-revenue ratio (in percent)	223.4	236.5	227.3			270.6	258.8	242.7	230.6	224.1	217.6		190.3	184.8	136.6	
o/w external 3/	…	…	…			147.4	141.1	132.6	126.4	123.1	119.7		103.7	100.6	73.4	
Debt service-to-revenue and grants ratio (in percent) 4/	15.6	39.9	24.0			31.5	31.1	32.1	35.9	34.0	34.0		36.4	35.0	27.9	
Debt service-to-revenue ratio (in percent) 4/	15.7	40.1	24.6			33.5	34.0	34.6	36.9	34.9	35.0		37.4	35.9	28.6	
Primary deficit that stabilizes the debt-to-GDP ratio	9.7	-10.1	-2.0			-6.0	-1.3	-0.1	0.4	0.5	0.4		0.1	0.1	0.1	
Key macroeconomic and fiscal assumptions																
Real GDP growth (in percent)	4.8	1.5	0.7	1.7	2.8	-5.2	1.1	2.3	3.5	3.8	3.8	1.5	3.9	3.9	3.9	3.9
Average nominal interest rate on forex debt (in percent)	5.0	5.5	4.5	4.2	1.1	5.6	5.6	5.3	5.3	5.3	5.3	5.4	5.3	5.3	5.3	5.3
Average real interest rate on domestic debt (in percent)	5.5	6.6	4.6	4.7	1.8	0.8	3.4	3.0	3.7	3.9	4.1	3.2	4.4	4.5	4.6	4.5
Real exchange rate depreciation (in percent, + indicates depre	2.8	1.5	1.0	0.1	1.6	-2.6	…	…	…	…	…	…	…	…	…	…
Inflation rate (GDP deflator, in percent)	0.5	1.6	1.5	2.3	1.3	4.3	2.2	2.7	2.2	2.2	2.2	2.6	2.2	2.2	2.3	2.2
Growth of real primary spending (deflated by GDP deflator, in p	0.1	-0.1	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	…	…	…	…	…	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	…

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

1/ Includes public sector guaranteed and non-guaranteed debt. Also includes liabilities related to the construction and financing of public projects by the private sector.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

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

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

Table A8. St. Lucia: Sensitivity Analysis for Key Indicators of Public Debt 2009-2029 (Active Scenario)

	Projections								
	2009	2010	2011	2012	2013	2014	2019	2020	2029
PV of Debt-to-GDP Ratio									
Baseline	76	77	75	73	71	69	60	58	43
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	76	78	80	82	84	87	101	105	135
A2. Primary balance is unchanged from 2009	76	80	82	85	87	89	100	103	123
A3. Permanently lower GDP growth 1/	76	78	76	75	75	74	75	76	91
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	76	79	82	82	81	81	81	81	81
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	76	81	85	83	81	79	70	68	53
B3. Combination of B1-B2 using one half standard deviation shocks	76	80	85	84	82	81	77	76	68
B4. One-time 30 percent real depreciation in 2010	76	96	94	92	90	88	83	82	77
B5. 10 percent of GDP increase in other debt-creating flows in 2010	76	87	85	83	81	79	70	68	53
PV of Debt-to-Revenue Ratio 2/									
Baseline	255	237	225	224	218	212	185	180	133
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	255	240	239	252	259	266	311	320	412
A2. Primary balance is unchanged from 2009	255	245	248	260	267	273	309	316	378
A3. Permanently lower GDP growth 1/	255	239	229	232	229	227	230	232	281
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	255	244	245	251	250	249	249	249	249
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	255	250	256	256	250	243	216	211	163
B3. Combination of B1-B2 using one half standard deviation shocks	255	247	254	257	253	250	236	233	209
B4. One-time 30 percent real depreciation in 2010	255	295	282	283	278	272	255	252	236
B5. 10 percent of GDP increase in other debt-creating flows in 2010	255	268	256	256	250	243	216	211	163
Debt Service-to-Revenue Ratio 2/									
Baseline	31	31	32	36	34	34	36	35	28
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	31	31	32	38	38	40	56	58	78
A2. Primary balance is unchanged from 2009	31	31	33	38	38	40	54	55	69
A3. Permanently lower GDP growth 1/	31	31	32	37	35	36	42	42	51
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	31	32	34	39	37	38	46	46	48
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	31	31	33	39	39	39	43	42	34
B3. Combination of B1-B2 using one half standard deviation shocks	31	31	33	39	39	39	45	44	41
B4. One-time 30 percent real depreciation in 2010	31	35	40	46	44	46	56	56	60
B5. 10 percent of GDP increase in other debt-creating flows in 2010	31	31	34	41	39	39	43	42	34

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

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

ST. LUCIA

Staff Report for the 2010 Article IV Consultations

Informational Annex

Prepared by the Western Hemisphere Department

February 26, 2010

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Appendices

Appendix I. St. Lucia: Fund Relations

(As of December 31, 2009)

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

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

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	14.57	100.00
Holdings	15.43	105.91

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ESF RAC Loan	6.89	45.03

V. Latest Financial Arrangements: None

VI. Projected Payments to Fund[1/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2010	2011	2012	2013	2014
Principal					
Charges/Interest	0.04	0.04	0.04	0.04	0.04
Total	0.04	0.04	0.04	0.04	0.04

[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.

VII. Implementation of HIPC Initiative: Not Applicable

VIII. Last Article IV Consultation: St. Lucia is currently on the 12-month cycle. The last Article IV consultation was concluded by the Executive Board on July 30, 2008. The relevant documents are IMF Country Report Nos. 08/329 and 08/330.

IX. Exchange Arrangement: St. Lucia is part of the Eastern Caribbean Currency Union (ECCU), which comprises five additional Fund Members (Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, and St. Vincent and the Grenadines; and two territories of the United Kingdom. These eight ECCU members have a common currency, monetary policy, and exchange rate system. The common currency, the Eastern Caribbean (EC) dollar, has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976. The common central bank, the Eastern Caribbean Central Bank (ECCB), has operated like a quasi-currency board, maintaining foreign exchange backing of its currency and demand liabilities of close to 100 percent.

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

(As of January 27, 2010)

The World Bank is in the process of elaborating its Eastern Caribbean Sub-Regional Partnership Strategy for FY10–14, which is scheduled to be presented to the Board of the Bank in May 2010. The interventions elaborated on below were launched under the Bank's Eastern Caribbean Sub-Region Country Assistance Strategy (CAS) for FY06–09. The FY06-09 strategy supported the sub-region's development agenda through two main pillars: (1) stimulating growth and improving competitiveness; and (2) reducing vulnerability, by promoting greater social inclusion and strengthening disaster risk management. Recognizing the OECS countries' weakened creditworthiness due to high debt ratios, Bank activities focused on leveraging available donor grant financing. The OECS countries have confirmed that the objectives under the FY06–09 Strategy remain relevant.

I. Projects

There are six active World Bank projects in St. Lucia for a net commitment of approximately US$27.84 million.

The **OECS E-Government for Regional Integration Program** was approved by the Board on May 27, 2008. This project consists of a US$2.4 million IDA credit (two thirds of which is from the Latin America and Caribbean Regional IDA allocation) to St. Lucia and is designed to promote the efficiency, quality, and transparency of public services through the delivery of regionally integrated e-government applications that take advantage of economies of scale. The program is structured in phases. Phase 1 focuses on cross-sectoral e-government issues, as well as on specific applications in the public finance area (including Public Financial Management or PFM, tax, customs and procurement), and also includes an e-government in health pilot project (possibly together with preparatory and complementary activities in other social and productive sectors). Subsequent phases of the program are expected to deepen the assistance provided under Phase 1, while expanding the program to cover other sectors, in particular, health, education, agriculture, tourism, postal, among others that may emerge during the early stages of implementation of Phase 1. The Commonwealth of Dominica, Grenada, St. Vincent and the Grenadines now participate in this program.

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

The **OECS Catastrophe Risk Insurance Facility (CCRIF)** was approved in January 2007. This is the world's first ever multi-country catastrophe insurance pool. The Bank approved a US$4.5 million IDA credit for St. Lucia to finance their contribution to the fund over three years. The CCRIF will enable governments to participate in a joint reserve mechanism which effectively gives coverage akin to business interruption insurance against adverse natural events on a catastrophic scale, such as a major earthquakes or hurricanes. The CCRIF allows participating countries to pool their country-specific risks into one, better-diversified portfolio, resulting in a substantial reduction in the premium cost of 45–50 percent.

The **Telecommunications and ICT Development Project,** approved in May 2005 for US$543,000, half coming from IBRD loans and the other half from IDA credit, aims at improving the access, quality, and use of telecommunications and ICT services to achieve socio-economic development in the Organization of Eastern Caribbean States (OECS). The project has four components: (1) strengthening the national and regional regulatory frameworks and promoting additional competition in the telecommunications sector. Emphasis will be given to capacity building of Eastern Caribbean Telecommunications Authority (ECTEL) and the National Telecommunications Regulatory Commissions (NTRCs) by providing them with assistance to: (1) revise the regional and national sector legislation, and develop a modem interconnection regime; (2) review current universal access policy, create related guidelines, and provide financial support to establish a Universal Service Fund (USF); (3) improve growth and competitiveness in ICT-enabled services through utilization of broadband infrastructure; and (4) ensure management and administration of the overall project.

The **HIV/AIDS Prevention and Control Project** was approved in July 2004 for US$6.4 million, with half the financing through IBRD loans and the other half from IDA credit. The project supports the national program, which aims to prevent and control the spread of the epidemic, and to mitigate the socio-economic impact of the disease on the population. The project will use a two-pronged strategy: targeting interventions at high risk groups, and implementing non-targeted activities for the general population. The first component—Community and Civil Society Initiatives—will finance HIV/AIDS prevention, care, and support activities of Civil Society Organizations, women's organizations, professional organizations, trade unions, and private sector organizations. The second component will support the response to HIV/AIDS by non-health sector line ministries, namely, basic cross-cutting HIV/AIDS activities which all ministries are expected to implement under their respective sectoral HIV/AIDS programs. The third component will strengthen the capacity of the Ministry of Health to provide technical guidance for the national response to HIV/AIDS, specifically it will strengthen HIV/AIDS related services for prevention, treatment, and care delivered through the health care system. Finally, the fourth component will help build the institutional capacity for scaling up responsiveness, by financing technical advisory services, training, staffing, equipment, goods, and general operating costs.

The **St. Lucia Disaster Management Project II** was approved in June 2004 for US$7.5 million and consists of US$3.8 million in IDA credit, and US$3.7 million from the IBRD. This project aims at further reducing the country's vulnerability to adverse natural events (hurricane, floods, etc.) through investment in risk management activities. The project's four components are: Component (1) Physical Prevention and Mitigation Work: (a) coastal protection works for Dennery Village; (b) rehabilitation and reconstruction of two bridges; (c) drainage, river walls and slope stabilization; (d) retrofitting of schools and health centers; (e) procurement of additional stock; (f) technical audits for works at Dennery Village; (g) training and capacity building. Component (2) Strengthening Emergency Preparedness and Response: (a) construction of the Emergency Operations Center and additional satellite warehouses; (b) installation of water tanks; (c) technical assistance and training for the National Emergency Management Office; (d) specialized disaster equipment. Component 3) Institutional Strengthening: (a) building code training and sensitization; (b) technical assistance in territorial planning; (c) vulnerability assessment. Component 4) Project Management: (a) technical assistance to the Project Coordination Unit and technical audits.

II. Economic and Sector Work

The Bank has completed a series of analytical studies relating to public sector capacity in the OECS including a number of Public Expenditure Reviews, an Institutional and Organizational Capacity Review and, in late 2007, a Country Fiduciary Assessment. The Bank also prepared an OECS study on Growth and Competitiveness (2005), an OECS Skills Enhancement Policy Note (2006), a Caribbean Air Transport Report (2006), and a regional study on Crime, Violence, and Development: Trends, Costs, and Policy Options in the Caribbean (2007). In addition, an OECS Private Sector Financing Study and the OECS Tourism Backward Linkages Study were completed in 2008. The publication "Caribbean-Accelerating Trade Integration: Policy Options for Sustained Growth, Job Creation and Poverty Reduction" was released in the Summer of 2009.

St. Lucia will also benefit from ongoing and planned analytical and advisory activities including the following: a CARICOM study on Managing Nurse Migration and a preparatory study aimed at developing a Caribbean-wide Regional Energy Strategy.

III. Financial Relations

(In millions of U.S. dollars)

Operation	Original Principal	Available[1]	Disbursed[1]
OECS (St. Lucia) Skills for Inclusive Growth	3.50	3.37	0.38
E-Government for Regional Integration Program	2.40	0.18	2.16
OECS Catastrophe Risk Insurance	4.50	0.72	3.95
Telecommunications & ICT Development Project	0.54	0.27	0.29
HIV/AIDS Prevention & Control	6.40	0.51	6.28
LC Disaster Management Project II	10.5	2.56	7.98
Total	**27.84**	**7.61**	**21.04**

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

Disbursements and Debt Service (Fiscal Year ending January 2010)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
Total disbursements	1.3	1.3	10.6	4.5	3.6	9.1	17.8	8.7	5.0	1.7
Repayments	0.8	0.8	1.2	1.4	1.2	1.3	1.6	2.5	2.9	1.9
Net disbursements	0.5	0.5	9.4	3.1	2.4	7.8	16.3	6.2	2.1	-0.2
Interest and fees	0.4	0.4	0.5	0.6	0.7	0.8	0.8	1.3	1.3	0.6

*July 2009–January 2010

Appendix III. St. Lucia: Relations with the Caribbean Development Bank

(As of December 31, 2009)

CDB has sought to support its borrowing member countries to improve economic growth, reduce poverty, pursue inclusive development and improve governance. Approximately USD330.9mn has been approved to St. Lucia cumulatively in loans, contingent loans, equity and grants from 1970 to 2009. Of this amount, USD175 mn were approved from Ordinary Capital Resources with the remainder being sourced from the "soft" window. Table 1 is a summary of the cumulative sectoral distribution of CDB approved assistance to St. Lucia over the period. Prior to 2008 CDB support to St. Lucia has largely being through loans for capital projects or through lines of credit, while additional support through grants and loans has been given for institutional strengthening. In 2006, CDB in recognition of the changing environment in which its borrowing member countries operate, diversified its loan offering to include policy-based loans. St. Lucia has benefited from this and in 2008, CDB approved a policy-based loan to GOSL of USD30mn (USD12mn from CDB's Special Funds Resources and USD18mn from CDB's Ordinary Capital Resources). The PBL is intended to support reforms aimed at improving public sector management as one component of the overall macroeconomic programme of GOSL to achieve more balanced growth across the island, raise employment levels and reduce poverty. During 2008 CDB also approved a loan of USD12.0mn for the enhancement of basic education through infrastructure development and institutional strengthening, while grants approved during that year amounted to USD79,000. Total financing approved by the CDB amounted to USD20.8mn in 2009, of which USD20.0mn was with respect to a line of credit for education, while grants amounted to USD165,000.

Table 1. Sectoral Distribution of Approved Financing (Net) to St. Lucia, 1970 to 2009

Sectors	In Millions of U.S. Dollars	In Percent
Transportation & Communication	76.0	23.0
Education	55.9	22.9
Manufacturing	23.2	7.0
Agriculture	24.2	7.3
Water	19.0	5.7
Tourism	14.2	4.3
Housing	18.2	5.5
Health	8.5	2.6
Power and energy	1.4	0.4
Micro and Small	0.6	0.2
Mining	0.06	0.02
Multisector	69.7	21.1
TOTAL	330.9	100.0

Net flow of loan funds to St. Lucia from CDB over the last five years is shown in table 2, while table 3 shows grant disbursements. The first disbursements of the PBL amounting USD15mn was made in 2009. Undisbursed loan balances with respect to St. Lucia amounted to USD60.4mn at the end-2009.

Table 2. Loan transaction (in Millions of US Dollars)

	2005	**2006**	**2007**	**2008**	**2009**
Net Flows	8.8	2.6	(9.2)	(11.2)	4.9
Disbursements	20.0	16.2	6.1	9.7	19.5
Armortization	5.4	6.7	8.1	14.1	8.6
Interest Payment	5.8	6.9	7.2	6.8	6.0

Table 3. Grants disbursements to St. Lucia (in Millions of US Dollars)

	2005	**2006**	**2007**	**2008**	**2009**
Grant disbursements	0.3	1.3	0.9	0.5	0.4

Appendix IV. St. Lucia: Statistical Issues

(As of February 18, 2010)

Data provision has some shortcomings, but is broadly adequate for surveillance. Although the statistical database compares well with those of its Eastern Caribbean Central Bank (ECCB) peers, the accuracy and timeliness of macroeconomic statistics should be improved in order to achieve adequate standards for Fund surveillance and meet the authorities' needs. There are persistent weaknesses in coverage, frequency, quality, and timeliness, in particular regarding the national accounts, data on the public sector beyond the central government, and the balance of payments. Also, comprehensive and regular labor statistics are not available. The Ministry of Finance, Economic Affairs, and National Development publishes bi-annually an economic and social review, which includes statistics on many macroeconomic sectors. The ECCB publishes a quarterly economic and financial review and an annual balance of payments for each member country.

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

Real Sector Statistics

The authorities are revising GDP estimates to obtain better sectoral estimates, and the process is expected to be concluded this year. Attempts are being made to compile quarterly GDP estimates with funding from the Organization of American States. Given the increasing importance of tourism activities, a new comprehensive survey of the sector is necessary to establish key data, such as the average length of stay in different types of accommodations and the average daily expenditure by type of tourist arrival. This information should be crosschecked with other related activities (i.e., restaurants and transportation) to ensure consistency. Missions fielded by the Caribbean Regional Technical Assistance Center in the past few years aided development of export and import price indices and initial work on measuring price developments in the tourism sector. The rebasing exercise of the CPI has been completed—the new CPI basket (base January 2008) is based on the 2006 Household Expenditure Survey. Another area in need of improvement is labor statistics, in particular, the reporting of private and public employment and wages.

Government Finance Statistics

Reporting of central government data has improved substantially over the last few years, but deficiencies remain in the rest of the public sector. The authorities are reporting monthly data on the central government's current revenue and expenditure, using a Fund-compatible economic classification, with lags of a couple of months. However, frequent and substantial revisions suggest that there is a need for further refinement. With regard to the rest of the public sector, the periodicity and timeliness of data reporting should be improved. Data on domestic debt of the public sector are not available on a regular basis. No fiscal data are reported to STA for publication in the *GFS Yearbook* or in *IFS*.

Monetary and Financial Statistics

Monetary statistics are compiled and reported to the Fund by the ECCB on a monthly basis based on a standardized report form since July 2006. In April 2007 a data ROSC mission assessed the monetary statistics with reference to the GDDS, and the Data Quality Assessment Framework (DQAF, July 2003). It indicated that the institutional coverage of the other depository corporations is incomplete, as data for mortgage companies, finance companies, building societies, and credit unions—all of which accept deposits—are excluded. Also, accrued interest is not incorporated in the value of the interest-bearing assets and liabilities, and valuation adjustments are included in other liabilities. In addition, source data for the commercial banks do not provide the disaggregation recommended in the Monetary and Financial Statistics Manual. Close coordination between the ECCB and the single regulatory unit (which supervises financial corporations other than those licensed under the Banking Act) is crucial.

Balance of Payments Statistics

Balance of payments data are compiled by the ECCB on an annual basis. Although recent data provide a more detailed breakdown of goods than in the past, in other areas they do not provide sufficient detail to enable publication of the full classification used in the fifth edition of the *Balance of Payments Manual*. Annual data up to 2008 are published in the IFS. In general, enhanced data resources and better compilation procedures are needed to improve the accuracy and timeliness of balance of payments statistics. Efforts should also be made to compile quarterly balance of payments statistics and the annual international investment position statement.

External Debt

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

St. Lucia: Table of Common Indicators Required for Surveillance
(As of February 18, 2010)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items: Data Quality – Methodological soundness[8]	Memo Items: Data Quality – Accuracy and reliability[9]
Exchange rate	Fixed rate	NA	NA	NA	NA		
International reserve assets and reserve liabilities of the monetary authorities[1]	12/06	03/07	M	Q	Q		
Reserve/base money	12/09	02/16/10	M	Q	Q	LO	LO
Broad money	12/09	02/16/10	M	Q	Q	LO	LO
Central bank balance sheet	12/09	02/16/10	M	Q	Q	LO	LO
Consolidated balance sheet of the banking system	12/09	02/16/10	M	Q	Q	LO	LO
Interest rates	1/10	2/17/10	M	Q	Q		
Consumer price index	8/09	12/10/09	M	M	M		
Revenue, expenditure, balance and composition of financing—central government[3]	03/07	05/11/07	M	M	H		
Revenue, expenditure, balance and composition of financing—general government[3, 4]			NA	NA	NA		
Stock of central government and central government-guaranteed debt[5]	03/07	05/11/07	A	H	H		
External current account balance	2008	11/4/09	A	H	H		
Exports and imports of goods and services	2008	11/4/09	A	Q	Q		
GDP/GNP	2008	8/4/09	A	A	A		
Gross external debt	03/07	05/11/07	Q	Q	A		
International Investment Position[6]							

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis a vis nonresidents.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Half-yearly (H), Annually (A), Irregular (I), Not available (NA).
[8] Reflects the assessment provided in the data ROSC published on August 21, 2007 and based on the findings of the mission that took place during April 10-18, 2007 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).
[9] Same as footnote 8, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs and revision studies.

Statement by Mr. O'Sullivan, Alternate Executive Director for St. Lucia
March 15, 2010

The authorities of St. Lucia wish to thank the staff for an insightful report. They wish to place on the record their appreciation of the warm spirit of collaboration on the part of staff during the consultations. The authorities agree with the thrust of the policy recommendations. They share fully the concerns expressed about debt sustainability although in that context, they would have welcomed more attention in the report on the growth side of the debt ratio equation. That said, they consider that the staff report accurately identifies and describes in a balanced way the principal economic challenges facing St. Lucia.

Economic management in an uncertain environment

St. Lucia is attempting to manage the difficult transition from an agricultural economy largely dominated by a single product to a more modern economy based mainly on higher value services, notably tourism. Reasonable progress was being achieved on that front prior to the global crisis. The negative impact of the hurricane of August 2007 and the earthquake which occurred later that year notwithstanding, the St Lucian economy had been expanding at an annual rate of around 4 percent pre-crisis. During that period, significant resources were committed to enhancing the quality of the country's infrastructure and, supported by heavy foreign direct investment, there was a marked expansion in tourism capacity. While the main focus in the recent consultations was necessarily on fiscal issues, the authorities would welcome engagement with the Fund on a theme which featured prominently in previous consultations, namely, the challenge of raising the country's growth potential. The general case for continued structural reforms, including enhancing the business environment, is well understood but closer engagement would be welcome on the identification of specific measures to make public investment more productive, to diversify the tourist product and to leverage the benefits of regional integration and the potential of the St. Lucian diaspora.

The series of external shocks which have buffeted the region over the last few years have again underlined the difficulties inherent in managing small extremely open economies in a turbulent environment. In addition to the inherently unpredictable events of recent years, the economic environment for the region is changing in a more measured way, as recently evidenced by the signing of the OECS Economic Union Treaty. The deepening of regional integration is a positive development for ECCU countries. The commitment of the authorities through the region to this endeavor can be seen from the willingness of a number of countries, including St Lucia, to hold their recent SDR allocations as pooled reserves in order to improve regional liquidity.

Recent economic and fiscal developments

The economic outturn for 2009 was significantly worse than forecast at the time of the RAC-ESF discussions last July. At that time, the staff expectation was for a fall in output of 2.5 percent. It is now estimated by staff that the contraction in output was more than twice that, at 5.2 percent and unemployment rose to over 20 percent by end-year.

The sharp downturn in the economy impacted fiscal developments. As discussed below, the deficit on a cash basis for FY 2009/10 is now expected to be 6.1 percent of GDP as compared with the scaled-back mid-year objective of 2.9 percent. Interestingly, this deterioration is more than fully due to lower-than-expected revenue and grants, at 29.7 percent of GDP compared with the mid-2009 expectation of 33.9 percent of GDP. Expenditure was contained within target. Wages and salaries were marginally lower than targeted in mid-2009 as also were interest payments. Total current expenditure came in 1.4 percentage points below the mid-year expectation at 25.3 percent of GDP. On the capital side, the outturn was 0.4 percent higher than the mid-year goal at 10.5 percent of GDP. Thus, the increase of 3 percentage points in the planned fiscal deficit on a cash basis was due to a fall in receipts of 4 percentage points which was partially offset by bringing spending in 1 percentage point below the revised mid-year target.

Countervailing measures adopted by the authorities in 2009

In common with other countries in the region, St. Lucia is struggling to maintain the fabric of its main source of growth, tourism, in the face of what will hopefully prove to be a temporary decline in the demand for its product. The tourism industry generates almost four-fifths of export receipts and is the principal driver of activity in the construction sector. In 2009, the authorities were concerned not only to mitigate the impact of the sharp reduction in external demand on employment in the tourism sector but also to address the risk that some of the recent expansion in tourism capacity might have been lost unless establishments succeed in riding out the crisis. The authorities' response to this concern was to agree with the industry to defer some tax payments which would have been due in the current fiscal year to FY 2010/2011. This contributed to the widening of the fiscal deficit as compared with what was envisaged in mid-2009. This was a one-off cash-flow concession to the industry, not a tax cut. The sums deferred from the current fiscal year will fall due for payment in the fiscal year commencing 1 April 2010, along with taxes due in the normal course thus helping to reduce the fiscal deficit.

As noted in the staff report, the authorities also delivered an expenditure-side response to the deteriorating economic situation by advancing a number of capital projects. This served the dual purpose of addressing infrastructural advances needed for tourism purposes and providing public works-based relief.

Fiscal outturn for 2009/10

The staff report emphasises the divergence between the likely fiscal outturn for the year ended March 2010 and that which was expected when the RAC-ESF discussions were taking place some three months into the fiscal year.

The authorities acknowledge that the emerging deficit for FY 2009/10, at 6.1 percent of GDP, will be roughly double the level envisaged in the Letter of Intent dated July 7 2009. They consider, however, that over and above the direct impact of the fall in output on revenues and expenditure, additional supportive measures were needed. They would recall that the original budget projection for the current fiscal year was for a deficit of 6.9 percent of GDP so the expected cash outturn at 6.1 percent will actually be within the original target. Looking at the emerging outturn from an accruals standpoint, the inclusion of the additional 1.7 percent of GDP in respect of the public works delivered through However, from an accruals standpoint, the tax concession granted to the tourism operators whereby tax payments which were due this year have been deferred into the coming fiscal year is an offset against that. The broad picture, therefore, is that in a worse-than-expected economic environment, the underlying budgetary outturn for FY 2009/10 will be close to that originally planned.

Looking back on the fiscal year just ending, the conclusion has to be that with hindsight and given the sharper-than-expected downturn in the economy, the goal of trimming the planned budget deficit from the 6.9 percent of GDP envisaged in April 2009 to the objective of 2.9 percent of GDP just three months later was over-ambitious but that, clearly, the emerging deficit is excessively high and steps are required to deliver a primary balance which will generate a steady downward path in the level of debt towards a more sustainable level.

That said, the authorities agree fully with staff that budget deficits at the level observed in FY 2009/10 and the accompanying sharp increase in the debt ratio simply cannot be sustained. They concur with the Fund view that an exit strategy centered on a sustainable primary budget setting is essential and they consider that the staff's assessment of the appropriate budgetary target is reasonable. The authorities reiterate their commitment to the regional goal of bringing the debt ratio to below 60 percent by 2020 though they would reiterate that, as for other countries in the region, the realisation of this objective by the date envisaged will depend not only on their own fiscal policy efforts but also on a reasonably healthy external economic environment and on efforts to enhance growth potential.

Ensuring fiscal and debt sustainability

The authorities intend to ground fiscal policy on the delivery of a primary balance which will place debt on a more sustainable trajectory. They continue to subscribe to the common regional goal in that respect. While broadening the base for economic growth will require significant public capital spending over the medium-term, the authorities will keep capital spending to a realistic and fiscally responsible level. They underline the importance for attracting foreign direct investment and the need for good quality physical capital infrastructure. The authorities also recognise that the capital expenditure program must be phased carefully to reduce the risk of encountering capacity constraints and thereby dissipating scarce resources through cost inflation in certain sectors. They see a need to improve their capacity for project appraisal. Investment decisions must be taken on the basis of a reliable appraisal of the prospective public return on the investments.

The Prime Minister, in his Letter of Intent of July 7 last, reconfirmed plans to introduce a value added tax in the course of 2010. During the course of the consultations, he reiterated that goal. Technical work and public communications are continuing in parallel with a view to achieving that objective. The authorities are fully convinced of the potential of a VAT system for strengthening the revenue base and thereby contributing to the debt sustainability goal. They recommitted during the consultations to the debt sustainability target and the specific measures to that end set out by the Prime Minister in his Letter of Intent. They view the prospective outturn for the current fiscal year as an unavoidable but temporary departure from the envisaged path which was essentially generated by the force of external circumstances but which nonetheless needs to be reversed.

Financial and external stability

The authorities acknowledge the financial sector vulnerabilities highlighted by staff. They are addressing these issues in conjunction where necessary with other countries in the region which have also been impacted by the BAICO/CLICO events. As noted in the staff report, they are coordinating with other ECCB countries on legislation for improving the supervision of the nonbank financial sector. To that end, they have progressed the passing of the Financial Services Regulatory Act to bring non-banking institutions within a common regulatory and supervisory framework. They expect to complete on time the signing of the Tax Information Exchange Agreements in relation to offshore financial center activity but they also intend to assess the costs and benefits to St Lucia of that particular sector. Finally, the authorities will monitor closely the trend in NPLs which, as staff points out, has been deteriorating and which could be understated by the headline figures due to the granting in some cases of moratoria on principal payments.

St Lucia’s external balance remains reasonably sound. The exchange rate is at or around the level implied by the fundamentals. The large current account deficit is largely financed by direct private capital inflows. The global downturn is impacting the current account balance, however, and not just through its impact on regional tourist numbers. St Lucia is under pressure to retain its market share and the return per visitor has been falling recently due to heavy discounting in the industry and lower spending per visitor. Remittances from the diaspora are under pressure due to economic pressures elsewhere.