INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/52

ST. LUCIA

2015 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

February 2016

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2015 Article IV consultation with St. Lucia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its February 5, 2016 consideration of the staff report that concluded the Article IV consultation with St. Lucia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 5, 2016, following discussions that ended on November 20, 2015, 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 January 12, 2016.
- An **Informational Annex** prepared by the IMF staff.

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

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February 5, 2016

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Washington, D.C. 20431 USA

IMF Executive Board Concludes 2015 Article IV Consultation with St. Lucia

On February 5, the Executive Board of the International Monetary Fund (IMF) concluded the 2015 Article IV consultation with St. Lucia.[1]

Background

On the back of strong tourism inflows and lower oil prices, the St. Lucian economy has returned to growth after experiencing a recession in 2012 and close-to-zero growth in 2013. GDP growth reached 0.5 percent in 2014, with transportation and hotels mostly contributing to the economic recovery. The current account deficit is estimated to have narrowed from 11.2 to 6.7 percent of GDP in 2014. Inflation increased to 3.5 percent, mainly owing to higher food prices. For the first time since FY2008/09[2], the primary balance switched to a small surplus of 0.1 percent of GDP in FY2014/15, reflecting somewhat higher revenues, including from policy measures, restraint on current spending, and cuts to capital expenditures. Nevertheless, debt continued to rise to almost 80 percent of GDP reflecting non-concessional interest rates and low growth.

Despite moderate economic recovery, unemployment rose to 24.4 percent in 2014. Youth unemployment, in particular, reached 41.8 percent. Despite some reduction in nonperforming loans, credit to private sector continued to decline. Compounded by robust deposit growth, the fall in credit continued to add onto liquidity accumulation in the banking system, raising excess reserves to an all-time high. The February 2015 decision by the Eastern Caribbean Currency Union Monetary Council to lower the minimum saving deposit interest rate from 3 to 2 percent (effective May 2015) alleviated pressures on bank profitability and allowed some easing of monetary conditions while the exchange rate, which is pegged to the U.S. dollar, appreciated by 3 percent as of September 2015 in real effective terms from a year ago.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The fiscal year begins on April 1.

Executive Board Assessment[3]

Executive Directors welcomed the recent uptick in economic activity and the positive short-term outlook on the back of stronger tourist arrivals and lower oil prices, but noted that unaddressed vulnerabilities are holding back the pace of the recovery. Accordingly, Directors encouraged the authorities to persevere with their efforts to improve the fiscal position, revive bank intermediation, and push ahead with the reform agenda. Actions on all these fronts hold the key to reducing unemployment, boosting competitiveness, and strengthening St. Lucia's growth prospects over the medium term.

Directors welcomed progress in tackling financial sector weaknesses, but observed that non-performing loans remain high and bank credit to the private sector continues to decline. They agreed that cleaning up banks' balance sheets and facilitating a resumption of lending should be top policy priorities. While some efforts require regional coordination, key steps for the St. Lucian authorities to consider include a reform of the foreclosure and insolvency legislation and the ratification of all the elements of the regional strategy for bank resolution, particularly the law on the Eastern Caribbean Asset Management Corporation. Directors welcomed the progress so far on complying with the international standards against money laundering and the financing of terrorism.

Directors noted recent improvements in the fiscal balance, but concurred that St. Lucia's high public indebtedness limits the room for policy maneuver and poses risks. They encouraged the authorities to formulate without delay a strong medium-term plan to achieve the regional debt target and secure the sustainability of public finances. Directors generally agreed that the fiscal adjustment should be based for the most part on current expenditure reductions and aim at preserving priority capital spending and creating buffers against natural disasters.

Directors took note of the newly launched Citizenship by Investment Program. They welcomed the emphasis on transparency in the governing legislation, noting that the highest integrity standards could help prevent abuses of the program. Directors underscored the importance of a prudent deployment of the associated revenues which may be volatile, for example to finance key infrastructure projects or retire public debt.

Directors underscored the importance of ambitious structural reforms to reduce unemployment, improve the business environment, and foster higher and more inclusive growth. They shared the view that continued efforts are needed to diversify energy sources, reduce the costs of doing business, and improve efficiency, including in port operations and customs. Furthermore, education reform would help address skills mismatches in the labor market

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

St. Lucia: Selected Social and Economic Indicators

	2010	2011	2012	2013	2014	Proj. 2015	2016
Output and prices							
Real GDP	-1.7	0.7	-1.1	0.1	0.5	1.6	1.4
Nominal GDP	5.3	3.2	1.6	1.8	5.2	1.2	2.3
GDP deflator	6.1	2.1	2.4	3.8	6.0	-0.4	0.9
Consumer prices (end of period)	4.2	4.8	5.0	-0.7	3.7	-0.5	0.7
Consumer prices (period average)	3.3	2.8	4.2	1.5	3.5	-0.4	0.9
Real effective exchange rate (end of period, - = depreciation)	0.2	-3.2	3.4	0.7	0.0	0.0	0.0
Money and credit							
Broad money (M2)	1.9	6.7	2.5	2.0	1.2	1.7	2.6
Credit to private sector (real)	-2.1	-0.1	0.9	-2.3	-9.9	-6.2	-3.0
Central government 1/							
Total revenue and grants	25.7	26.1	24.6	25.3	25.5	27.6	28.2
Total expenditure	30.6	32.7	33.8	31.2	29.2	31.5	31.9
Current expenditure, o.w.:	21.8	22.2	24.3	23.9	23.0	23.8	24.2
Primary balance	-1.9	-3.5	-5.8	-2.1	0.1	0.3	0.7
Overall balance	-4.9	-6.5	-9.2	-5.9	-3.7	-3.8	-3.7
Public sector debt, gross	62.4	66.9	73.7	78.6	79.6	82.4	84.0
External	31.0	32.7	33.9	36.7	38.4	39.8	40.6
Domestic	31.3	34.2	39.8	41.9	41.2	42.6	43.4
External sector							
Current account balance	-16.2	-18.8	-13.5	-11.2	-6.7	-7.4	-8.0
Exports of goods and services	48.7	44.4	46.0	45.5	44.7	44.7	45.3
Imports of goods and services	63.0	63.3	57.3	55.2	50.3	50.8	51.6
Capital/financial account, o.w.:	16.9	18.9	15.5	9.1	10.2	11.8	11.0
FDI	9.7	6.3	5.6	6.9	5.2	6.1	6.6
External debt	79.5	85.2	90.8	92.4	89.2	90.2	85.7
Public	31.0	32.7	33.9	36.7	38.4	39.8	40.6
Private 2/	48.4	52.5	56.8	55.7	50.8	50.4	45.1
Savings-Investment balance 3/	-16.2	-18.8	-13.5	-11.2	-6.7	-7.4	-8.0
Savings	11.7	9.3	13.0	11.5	12.0	16.1	16.5
Investment	27.9	28.2	26.5	22.7	18.7	23.5	24.5
Memorandum items:							
Nominal GDP (millions of EC$)	3,374	3,483	3,540	3,603	3,792	3,838	3,928
Share of ECCU stayover visitors	31.7	31.3	30.6	31.4	...	…	…

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

1/ Data are for fiscal years beginning April 1.

2/ Largely includes gross foreign liabilities of commercial banks and other private debt that covers the projected financing needs.

3/ Based on current account balance including net capital transfers.

INTERNATIONAL MONETARY FUND

ST. LUCIA

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

January 12, 2016

KEY ISSUES

Context. A moderate economic recovery is taking hold in St. Lucia. Favorable international conditions have contributed to improved demand for tourism, St. Lucia's main economic sector, and the external current account deficit has narrowed significantly. The authorities have made some progress in addressing a weak fiscal position. However, the financial sector continues to be impaired by nonperforming loans, public debt keeps rising, and unemployment remains very high, while external sector competitiveness continues to be weakened by an overvalued exchange rate, economies of scale disadvantages, and structural bottlenecks.

Strengthening the financial sector. The authorities have implemented some of the key elements of the regional strategy to strengthen the indigenous banks in the Eastern Caribbean Currency Union, of which St. Lucia is a member. Prompt implementation of the remaining elements of the strategy is a priority. Strengthening foreclosure and insolvency frameworks would remove a major impediment to resuming bank lending.

Fiscal policies for macroeconomic stability. The fiscal position has improved, owing partly to the authorities' efforts, but also to capital expenditure cuts from lack of financing. A sound multi-year adjustment plan, which internalizes the potential costs of frequent natural disasters, would have benefits on confidence, the quality of expenditures, and debt composition. Prudent management of the new Citizenship by Investment Program, consistent with the fiscal consolidation strategy, is essential.

Reducing unemployment and boosting sustainable growth. The authorities have made progress on their reform agenda, but continued efforts are needed to address long-standing structural weaknesses and key bottlenecks, including low productivity and price competitiveness. In particular, a more effective and focused education system would help alleviate the skills mismatches weighing on labor market outcomes.

Approved By
Krishna Srinivasan and Bob Traa

Discussions were held in Castries over November 10-20, 2015. The team comprised Leo Bonato (head), Geoffrey Keim, Alla Myrvoda, and Ke Wang (all WHD). Ronald James (WHD, Barbados) joined the mission for few days. Trevor Alleyne (WHD) and Kelvin Dalrymple (OED) attended policy meetings. The team was assisted from headquarters by Daniela Cortez, RoseMarie Fonseca, and Joy Villacorte. The mission met with Hon. Kenny D. Anthony, Prime Minister and Minister of Finance; Hon. Gale Rigobert, the Leader of the Opposition; senior government officials; labor unions; and private-sector representatives.

CONTENTS

ANNEXES

BACKGROUND AND FOCUS OF THE CONSULTATION

1. **St. Lucia faces significant challenges in its attempts to attain higher sustainable growth**. A member of the Eastern Caribbean Currency Union (ECCU), St. Lucia is a small island developing state with a population of about 170,000, upper-middle income levels, strong performance on social indicators, and the highest stay-over arrivals in the ECCU. These achievements are all the more notable in light of key challenges that have arisen, including a need to diversify economic activities following the collapse of European trade preferences that supported the traditional banana crop, limited skills and production bases, dependence on fossil fuel imports, and relatively frequent natural disasters (Figure 1).

2. **The Global Financial Crisis had severe repercussions on St. Lucia**. Visitor arrivals were hit by the crisis in the two main source markets (the United States and United Kingdom) and the cancellation of cruise ship visits in an environment of rising fuel prices. The strains in the tourism industry spilled over into other sectors of the economy, including FDI-backed construction and labor markets. Large exposures to tourism-related projects drove nonperforming loans (NPLs) in domestic banks to a peak of 29 percent of total loans. The government attempted to support activity during the crisis with an expansionary fiscal stance, including through construction stimulus and large-scale active labor market programs, but in recent years market access has become more difficult, deposit buffers have been drawn down, and capital expenditures had to be cut.

3. **Conditions have become more favorable recently**. External conditions, including visitor markets' economies and fuel prices, are now favorable. Tourism activity has increased and is slowly spreading into other sectors. The government has strengthened the fiscal position by enacting revenue measures and negotiating a wage freeze with labor unions.[1] The authorities hope to strengthen their finances further, including by introducing a Citizenship by Investment Program (CIP; Box 1), which is scheduled to commence in January 2016. The financial sector continues to throttle the economy, however, as slow progress on balance sheet cleanup has constrained banks' ability to support the recovery.

4. **Discussions focused on strengthening the financial sector, securing debt sustainability, and progressing with structural reforms**. The authorities have implemented some elements of prior Fund advice (Annex I). Going forward, further progress towards promoting macroeconomic stability could include forward-looking plans for fiscal adjustment, prudent CIP management, and actions to strengthen the financial sector. With respect to raising potential growth, staff advised further progress on the structural agenda to allow the private sector to overcome potential capacity constraints.

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[1] At the time of the 2014 Article IV consultation, the government and unions were negotiating a wage agreement for the 2014-16 triennium. In view of the generous agreements approved in previous years, the government had proposed a nominal wage cut. Ultimately, the parties agreed to a freeze.

Box 1. The Citizenship by Investment Program

St. Lucia is the fifth ECCU country offering a citizenship-by-investment program. These programs, which confer citizenship on individuals meeting due diligence requirements in exchange for an investment or a cash donation to the government, have enabled other ECCU countries to mitigate vulnerabilities from high debt or low tax revenues. In return, applicants to these programs may benefit from easier visa requirements, protection against political and security concerns, or lower taxation. In recent years, partly reflecting higher international economic linkages and rising geopolitical risks, interest in these programs has increased dramatically, causing surging flows to countries with long-established programs, and prompting other countries to offer similar programs.

St. Lucia's program, which starts in 2016, contains both standard and unique characteristics. In St. Lucia's case, the program maintains a cap of 500 successful applicants per year and a net-worth requirement of at least US$3 million per applicant. There are four types of qualifying investments, some of which are similar to those of other countries:

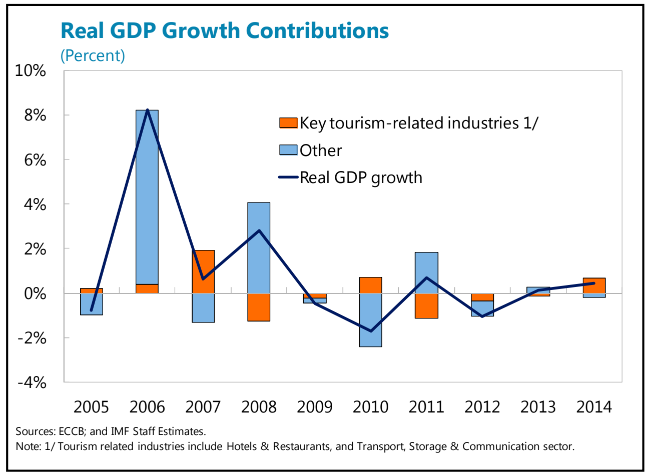
- *St. Lucia's National Economic Fund*: This option entails a contribution of at least US$200,000 to fund government-sponsored projects.
- *Approved real-estate project*: Applicants may invest at least US$300,000 in a real estate project approved by the government, either in high-end branded hotels and resorts or high-end boutique properties. The investment may be sold or transferred after a period of five years.
- *Approved enterprise projects*: This option contains single-investor and joint-investor options. For single-investor projects, the investment must amount to US$3½ million, and create at least 3 permanent jobs. For joint-investment projects, the value of the enterprise must amount to US$6 million, each investor must contribute US$1 million, and the project must generate at least 6 permanent jobs. The government has selected seven sectors in which applicants may invest: specialty restaurants; cruise ports and marinas; agro-processing plants; pharmaceutical products; ports, bridges, roads, and highways; research institutions and facilities; and offshore universities.
- *Purchase of government securities*: Applicants may purchase US$500,000 of interest-free government bonds with a 5-year tenor and hold them until maturity.

These programs may help to reduce fiscal and financial-sector pressures, but also carry risks. In particular, the real estate and enterprise options may help catalyze new investment flows and overcome a lack of financing from traditional intermediaries such as commercial banks, which may be reluctant to extend credit to large projects, particularly in the tourism industry. Similarly, the direct contribution or government securities options may help ease government funding pressures arising from tight financing conditions in regional markets. However, care is needed to prevent fiscal policies from becoming dependent on these flows, particularly in light of the cancellation of similar programs in other countries. Similarly, these programs entail important reputational and financial integrity risks, which necessitate strict adherence to standards for due diligence, governance, and transparency. The cap on applicants and additional transparency regulations passed by the authorities may help contain these risks. Among these transparency provisions, the CIP Unit will have to report annually to Parliament on the activities of the program including on the number of applications, approvals, rejections, as well as detailed information on the successful applicants.

RECENT DEVELOPMENTS

A. Macroeconomic conditions have generally improved

5. Economic activity recovered and the fiscal position strengthened in 2014. On the back of strong tourism inflows and lower oil prices, the St. Lucian economy has returned to growth after experiencing a recession in 2012 and close-to-zero growth in 2013 (Table 1). GDP growth reached 0.5 percent in 2014, with transportation and hotels mostly contributing to the economic recovery while activity in construction, communication, and agriculture was still declining. Inflation increased to 3½ percent, mainly due to higher food prices. For the first time since FY2008/09, the primary balance switched to a small surplus of 0.1 percent of GDP in FY2014/15, reflecting somewhat higher revenues, including from policy measures, restraint on current spending, and cuts to capital expenditures. Nevertheless, debt continued to rise to almost 80 percent of GDP reflecting non-concessional interest rates and low growth (Tables 2a and 2b).



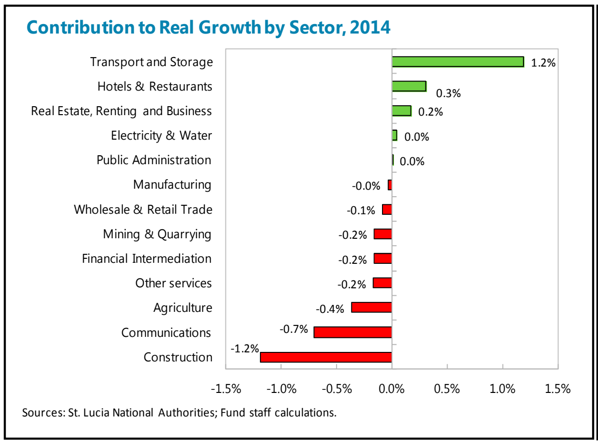
6. External sector performance improved markedly. The current account deficit is estimated to have narrowed from 11.2 to 6.7 percent of GDP in 2014, largely due to a robust pick-up in tourist arrivals and favorable food and commodity prices. About ¾ of the current account deficit were financed through FDI inflows, which at 5 percent of GDP continued to remain well below the peak of 23 percent of GDP in 2007. Labor market deficiencies, high energy and transportation costs, and economies of scale disadvantages, combined with an overvalued real effective exchange rate continued to impair competitiveness (Annex II).

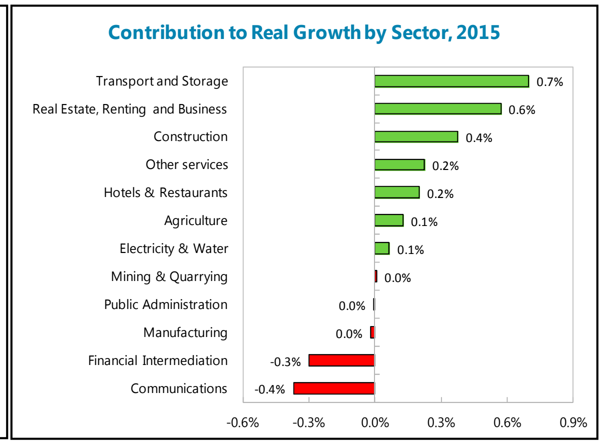
7. Unemployment, however, continued to rise and bank credit to the private sector declined (Figure 2). Unemployment reached 24.4 percent in 2014 as demand was insufficient to fully absorb the growth of the labor force. Youth unemployment, in particular, rose to an alarming 41.8 percent. Despite some reduction in nonperforming loans, credit to private sector continued to decline, reaching -6.7 percent growth y/y by December 2014. Falling credit, compounded by robust deposit growth, continued to add onto liquidity accumulation in the banking system, raising excess reserves to an all-time high. The February 2015 decision by the ECCU Monetary Council to lower the minimum saving deposit interest rate from 3 to 2 percent (effective May 2015) alleviated pressures on bank profitability and allowed some easing of monetary conditions while the exchange rate, which is pegged to the U.S. dollar, appreciated by 3 percent as of September 2015 in real effective terms from a year ago.

OUTLOOK AND RISKS

A. The short-term outlook is favorable

8. **Growth is expected to gain strength in the short term**. GDP growth is expected to accelerate to 1.6 percent in 2015 and spread to other sectors. Continued strong tourist arrivals should support activity in transportation and hotel sectors while real estate, construction, other services, and agriculture should also benefit. Inflation is declining rapidly and is projected to drop by 0.4 percent in 2015, reflecting lower fuel prices, electricity rates, and insurance premiums. The unemployment rates remained high in the first two quarters of 2015.

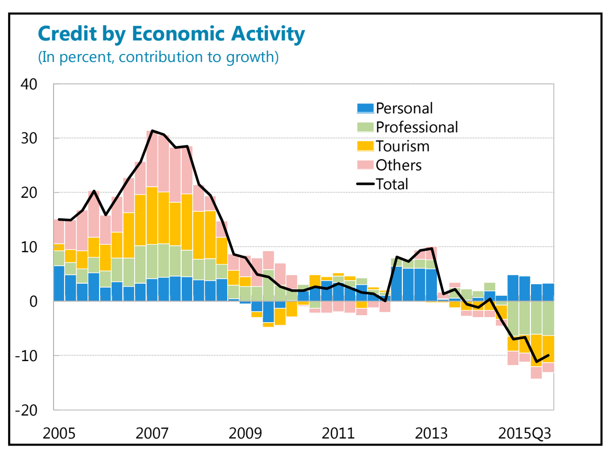




9. **The fiscal position will strengthen moderately**. The primary fiscal surplus is expected to rise to about 0.3 percent of GDP in FY 2015/16, reflecting higher economic activity and a number of new revenue-enhancing measures — including higher motor vehicle licensing fees, customs service charges, and fuel surcharges — along with continued under-execution of budgeted capital expenditures and the launch of the Citizenship by Investment Program (CIP). Public debt, however, will continue to rise to around 82 percent of GDP.

B. Consolidating the economic recovery, however, will be challenging

10. **The credit crunch will continue to constrain growth.** Despite the early signs of economic recovery, credit to the private sector has continued to decline, reaching -9.5 percent y/y in September 2015, reflecting tighter underwriting standards and still subdued domestic demand. While personal loans grew at a slow but steady pace, banks continued to deleverage in the corporate sector, particularly in tourism, trade, and professional services. The deposit base continued to show steady growth throughout the year. With



slow progress on balance sheet cleaning, banks are unlikely to revive credit to the private sector and will continue holding their liquid assets at the Eastern Caribbean Central Bank (ECCB).

11. Significant vulnerabilities cloud the medium-term outlook. Growth is projected to converge towards 2 percent in the medium-term, reflecting the continuation of ongoing construction projects, additional FDI-financed high-end resorts and public infrastructure projects, such as upgrading Hewanorra International Airport. Moreover, this projection reflects implementation of structural reforms, energy initiatives, and diversification in agriculture. In this scenario, inflation is expected to stabilize at around 2½ percent. Over the medium run, the primary fiscal surplus is expected to increase further, reflecting full-year impacts of already announced revenue policies, including the CIP, which would more than offset higher expenditures on rental and central government transfers to support the operations of new hospitals.[2] Debt, however, will continue to rise, reaching 86 percent of GDP by FY2020/21 and almost 90 percent of GDP by FY2030/31, the date at which the authorities have committed to achieve the ECCU 60 percent of GDP debt target. The current account balance is expected to widen as higher imports accompany e economic recovery (Table 3). Credit conditions should eventually normalize and moderate credit growth resume (Table 4).

St. Lucia: Central Government Cash Flows

(millions of Eastern Caribbean dollars, fiscal years)

	2015	2016	2017	2018	2019	2020
Gross financing needs	511.2	414.4	353.2	454.1	561.8	286.5
Overall deficit	148.4	147.3	160.8	169.1	177.9	187.1
Debt repayments	362.8	267.1	192.4	285.0	383.9	99.4
External	189.3	131.2	102.4	209.3	166.6	47.6
Domestic	173.5	135.8	90.0	75.7	217.3	51.8
Gross financing sources	511.2	414.4	353.2	454.1	561.8	286.5
Debt issuance	511.2	414.4	353.2	454.1	561.8	286.5
External	263.5	204.9	182.8	293.9	255.6	141.2
Domestic	247.7	209.5	170.4	160.2	306.2	145.4
Use of deposits	0.0	0.0	0.0	0.0	0.0	0.0
Memo:						
Central government deposits	147.5	147.5	147.5	147.5	147.5	147.5

1/ Projections assume no asset transactions and that existing investors roll over maturing debt.

12. Risks are broadly balanced (Box 2). Upside risks could emanate from improvements in external conditions including strengthening consumer confidence and labor-market conditions in key advanced economies, which could boost growth and tourist arrivals beyond expectations. Persistently low energy prices could exert an impact both directly through consumption and indirectly through tourism. Fiscal outturns may be better than expected if inflows related to the CIP exceed expectations and are directed at reducing debt. Downside risks remain significant, however. In particular, the likely path of U.S. monetary policy could adversely impact St. Lucia through higher

[2] Two large hospital projects are already well advanced, with both facilities expected to open in 2016. Upon completion, overall health spending will expand significantly.

borrowing costs and real exchange rate appreciation, if the U.S. dollar (to which the EC dollar is pegged) continues to strengthen. Global financial institutions de-risking activities could impart economic disruptions if financial institutions lose correspondent banking relations. Other ECCU and St. Lucia-specific risks include financial instability from the weak regional banking sector, lower tourism inflows if the U.S.-Cuba normalization diverts visitors, natural disasters, and the fiscal position, particularly if policy implementation weakens in advance of the upcoming elections.

POLICY RECOMMENDATIONS

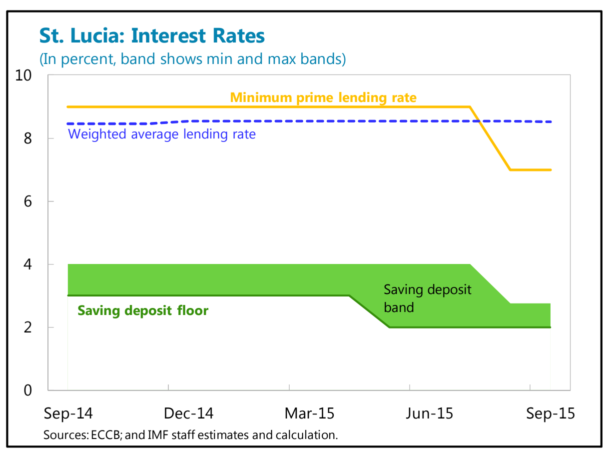
Achieving strong and sustainable growth requires a comprehensive effort to address vulnerabilities and remove long-standing impediments. Key actions include strengthening the financial sector, ensuring public debt sustainability, and reinvigorating the structural reform agenda.

A. Strengthening the Financial Sector

Commercial banks' limited progress in cleaning their balance sheets continues to constrain bank lending. Non-bank institutions have provided some offset, but overall tight lending conditions are a drag on the economy. The authorities have made some progress in financial sector reform, including under the ECCU regional initiative to strengthen banks. However, additional steps are necessary to implement the regional initiative and enhancing the foreclosure and insolvency frameworks is key to address high nonperforming loans. Global de-risking trends represent a risk for both bank and non-bank institutions.

Completing the bank balance sheet cleanup

13. Difficulties in resolving non-performing assets constrain the ability of banks to support the recovery. At 19 percent, nonperforming loans continue to weigh on banks' willingness to provide credit to the private sector. While some progress has been achieved in resolving non-performing loans, further reductions are hampered by the legal foreclosure framework. Banks' efforts to work directly with customers to resolve impaired loans also encounter difficulties.[3] At the same time, efforts



[3] Some banks are offering programs where the holders of delinquent loans can sign the property over to the bank and banks assume all the risks connected with the property sale by either (i) forgiving the outstanding amount if negative equity results; or (ii) returning the difference to the customer in case of positive equity. However, the protection provided by the lengthy foreclosure process weakens the incentive for customers to take up the offer.

Box 2. Risk Assessment Matrix[4]			
Source and direction of risk	**Likelihood**	**Impact**	**Policy response**
Persistently low energy prices (↑) Costs may be kept down if supply factors reverse gradually or if demand weakens.	**High**	**Medium** to **High**	Take advantage of favorable conditions to ease the fiscal adjustment and buy time for structural reforms to yield results.
High citizenship program demand (↑) If citizenship revenues are high, and managed prudently, the program could reduce fiscal risks and debt overhang, boosting confidence and investment.	**Medium**	**Medium** to **High**	Reduce fiscal dependence risks by directing receipts towards debt reduction, and high-impact infrastructure investment. Reduce sudden stop risks by maintaining strict governance and integrity standards.
High tourism inflows (↑) Good labor market conditions in key tourist source markets may boost tourism.	**Low**	**Medium**	Continue improving the business climate, competitiveness, and infrastructure to sustain high levels of tourist arrivals.
Poor fiscal policy implementation (↓) Fiscal adjustment may be delayed, including from elections, which are due by November 2016.	**Medium** to **High**	**High**	Articulate and implement an adjustment plan to put debt on a declining path to the ECCU-wide target; incorporate disaster recovery in fiscal planning.
Decompression of credit spreads/ higher public sector borrowing costs (↓) Interest rates may rise from Fed tightening or if investors reassess underlying risks.	**Medium**	**Medium**	In addition to strong fiscal adjustment, seek to lower borrowing costs by improving the share of concessional borrowing in public debt.
Surge in the U.S. dollar (↓) The dollar may rise further reflecting improving U.S. economic prospects and lead to real effective appreciation in St. Lucia, weakening competitiveness.	**High**	**Medium**	Address cost competitiveness issues by public sector wage restraint, which may signal to the private sector; reforms to lower energy prices; and mitigate other bottlenecks that weigh on businesses.
Financial sector instability (↓) The commercial banks in the ECCU, including St. Lucia, continue to report high NPLs and weak earnings.	**Medium**	**High**	Promptly implement remaining elements of regional strategy to strengthen indigenous banks in the ECCU.
Natural disasters (↓)	**Medium**	**High**	Build buffers and optimize insurance policies, with World Bank assistance.
Tourist diversion due to normalization of U.S.-Cuba relations (↓) Easier access to Cuba for U.S. tourists may result in a diversion of tourist arrivals.	**Medium** to **Low**	**Medium**	Take action to address cost and structural competitiveness disadvantages; work with the private sector to foster diversified tourism markets.

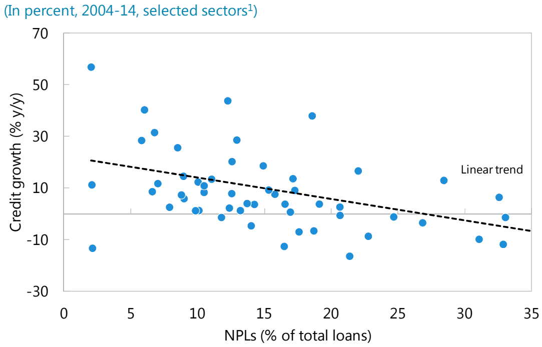
[4] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source

to increase provisioning and speed up write-offs are curbed by low profitability, which banks counter by raising fees. Against this backdrop, the heavy NPL burden continues to weigh on loan underwriting decisions. Tighter credit conditions have intensified banks' competition for well-established clients, while demand from smaller entities remains unsatisfied. Stronger competition, along with the lower savings deposit floor, prompted a decline in prime lending interest rates, while average lending rates remain largely unchanged. Banks report capital adequacy ratios above the regulatory minimum and slightly improved profitability in the third quarter of 2015.

St. Lucia: Banking Sector Non-performing Loans

Sectors with higher NPLs historically have seen lower credit growth rates, …

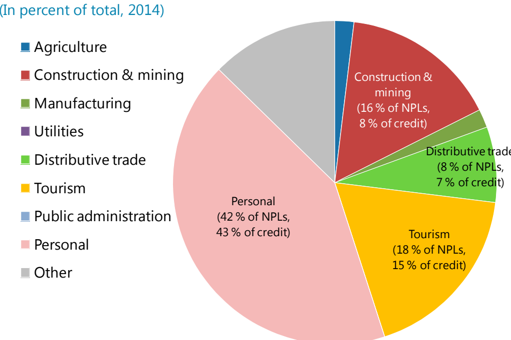
St. Lucia: NPLs and Credit by Sector
(In percent, 2004-14, selected sectors[1])



Sources: ECCB, and IMF staff estimates and calculations.
[1] Selected sectors include tourism, construction, distributive trade, personal loans and overall.

… as personal, tourism, construction, and trade sectors accounted for about 85% of total delinquent loans at end-2014.

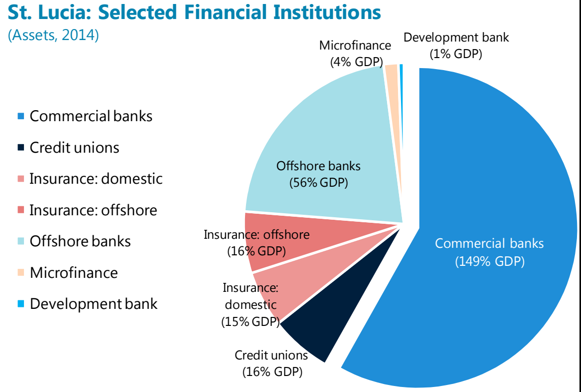
St. Lucia: Distribution of NPLs by Sector
(In percent of total, 2014)



Sources: ECCB; and IMF staff estimates and calculations.

14. Non-bank financial institutions are providing an alternative, albeit insufficient, supply of credit to the economy. According to the Financial Services Regulatory Authority (FSRA)[5], credit unions and microfinance entities report increasing loan portfolios, reflecting healthier non-bank balance sheets and increasing demand for small credits. Declining global interest rates have had an impact on profitability in the onshore insurance sector and risks are rising. A new insurance act, which has not yet been adopted, seeks to provide the authorities with the necessary powers to address these emerging issues.

St. Lucia: Selected Financial Institutions
(Assets, 2014)



Sources: ECCB; FSRA; and IMF staff estimates and calculations.

of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

[5] As St. Lucia's non-bank financial supervisor, the FSRA oversees all non-bank financial institutions, except onshore commercial banks, which are under the supervision of the ECCB.

St. Lucia: Financial Soundness Indicators

	Average 2005-09	2010	2011	2012	2013	2014	2014 Q3	Q3	2015 Q1	Q2	Q3	ECCU 2015 Q3
Capital adequacy ratio 1/	17.5	18.3	17.0	17.0	12.1	12.6	13.0	12.6	12.6	12.3	15.3	10.7
Tier 1 capital ratio	15.3	16.6	15.5	15.1	10.8	11.2	11.1	11.2	11.2	11.1	13.5	10.5
NPLs (pct of total loans)	8.3	12.4	13.2	15.3	20.6	17.6	19.6	17.6	18.7	18.9	18.8	18.1
Domestic	11.0	10.7	10.9	13.3	29.1	20.6	24.8	20.6	21.3	21.0	21.8	24.5
Foreign	6.8	13.3	14.6	16.7	14.5	15.4	15.8	15.4	16.8	17.2	16.6	12.4
Provisions (pct of NPLs)	39.0	23.2	36.2	37.9	42.5	45.1	47.7	45.1	44.1	46.3	45.9	48.3
Loan-to-deposit ratio	104.9	115.8	114.0	119.2	119.0	109.0	114.1	109.0	102.4	97.8	97.5	64.8
Liquidity ratio 2/	24.0	23.0	22.5	22.5	22.7	28.8	27.3	28.8	31.6	34.0	34.6	41.3
Return on average assets	2.5	1.5	0.5	0.9	-0.1	-0.1	0.2	-0.1	0.1	0.1	0.2	0.2

Source: ECCB.
1/ Total capital as percent of risk-weighted assets.
2/ Liquid assets as percent of deposits and liquid liabilities.

15. Important efforts have been made to improve the regulatory and supervisory frameworks, but more remains to be done. The new Banking Act, based on the ECCU model, has strengthened the regulatory and supervisory frameworks, including by introducing higher minimum capital requirements, a more effective resolution of failed banks, and a stronger depositor protection. A prompt implementation of the remaining elements of the regional strategy for bank resolution is however needed. In particular, the legislation on the Eastern Caribbean Asset Management Corporation would allow banks to dispose of delinquent loans and return to normal operations more quickly. This step should be complemented by the swift finalization of new foreclosure and insolvency regulation and the adoption of the regionally harmonized credit union legislation. Further steps are the development of a new insurance framework to improve regulation and mitigate risks in the insurance sector and continued efforts to implement risk-based supervision and Basel II regulation for banks and non-banking financial institutions. Lastly, the removal of the savings deposit floor by the ECCU Monetary Council would help improve banking sector health.

Authorities' views

16. The authorities broadly concurred with the staff's assessment of the health of the financial sector and expressed their concern regarding the scarcity of private sector financing. The authorities agreed that reviving bank credit is key to sustaining the economic recovery and reducing bank non-performing loans may be necessary to achieve that. They also noted that, while foreclosure regulation does play a role, other factors may contribute, including bank lending policies and the absence of a credit bureau. Moreover, the authorities expressed concern for the limited availability of funding to strategically important sectors like agriculture, construction, and tourism.

Global de-risking warrants close monitoring

17. The global de-risking trend is a hazard to both bank and non-bank institutions. No operational disruptions have materialized yet, but there are increasing concerns about the potential loss of correspondent banking relationships, particularly among indigenous commercial banks. The

Caribbean region is perceived as high risk by global banks, sometimes without proper differentiation by country in the authorities' view. Indigenous banks have responded by improving their reporting standards, keeping close relationships with existing correspondent banks, and looking for additional relationships. In addition, the establishment of new offshore banks is held back due to their inability to initiate correspondent relationships.

18. Staff welcomed the authorities' efforts to maintain high financial integrity norms, noting that they could help reduce vulnerability to de-risking. St. Lucia has made significant reforms to close gaps with international norms on Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT). In recognition of the progress on the AML/CFT framework, St. Lucia has been removed from the Caribbean Financial Action Task Force International Cooperation Review Group process and has now entered biennial updating. Going forward, focus should be on implementing the 2012 Financial Action Task Force standard. With respect to the CIP, the Citizenship by Investment Act and its associated regulations contain a number of welcome aspects with respect to governance, but close vigilance will be necessary, particularly on the implementation of integrity safeguards.

B. Towards Fiscal Sustainability

Public finances have improved. However, a large part of the adjustment consists of unplanned capital expenditure reductions induced by tight financing conditions. Greater reliance on short-term instruments, which remain attractive to investors, adds to risks. In staff's view, a detailed multi-year plan to achieve the ECCU-wide debt target is needed to strengthen confidence, preserve an envelope for high-impact expenditures, and build buffers against potential natural disasters. Prudent administration of the new CIP, consistent with the fiscal consolidation plan, is key.

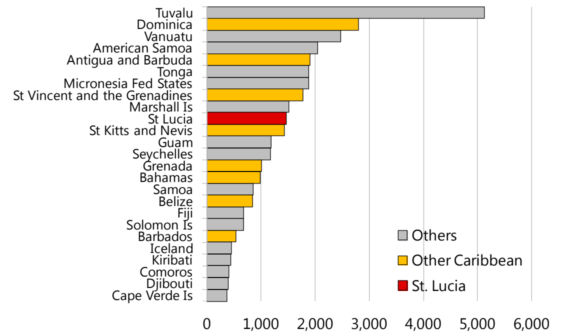
Continued progress on fiscal adjustment is needed

19. The authorities have made welcome efforts to strengthen the fiscal position. Since peaking at 5.8 percent of GDP in FY2012/13, the primary deficit has narrowed in each subsequent year to reach a small surplus, which is expected to continue into the medium-run. The improvement partly reflects higher revenues, including recent measures as well as prior efforts to improve tax compliance and raise VAT revenues. The nominal wage freeze and capital expenditure reductions have also contributed to the improved outturns. Nonetheless, with spending pressures rising from upcoming wage negotiations in the public sector and demands in advance of 2016 elections, more efforts are needed to arrest the upward debt dynamics projected under staff's baseline scenario.

20. Staff advised that fiscal policies would need to consider enhanced resilience to natural disasters. As other Caribbean islands, St. Lucia is susceptible to tropical storms and hurricanes. In addition to the immediate threat from these storms, ensuing flooding entails additional disaster mitigation expenses. As for other Caribbean small states, staff is of the view that advance planning

Frequency of Natural Disasters since 1990

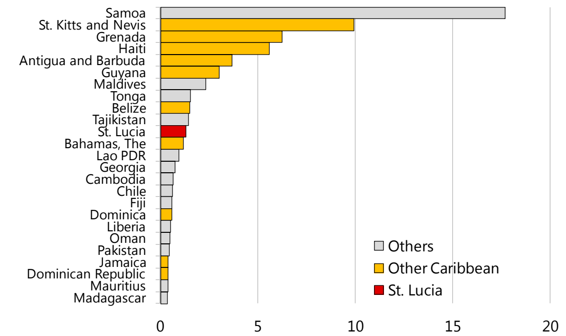
(pct. deviation from median number of disasters/person; top 25 independent countries)



Sources: EMDAT; World Development Indicators; and Fund staff estimates.

Average Annual Losses from Disasters, 1990-2013

(pct of GDP; top 25 fund members)



Sources: EMDAT; USAID; WDI; and Fund Staff Estimates.

should incorporate potential future expenses associated with natural disaster recovery. Annual damages associated with natural disaster recovery have averaged about 1.3 percent of GDP since 1990. The public sector's share has been estimated at about three-quarters, or some 1 percent of GDP. For the purposes of illustration, staff has assumed that a large-scale storm would occur in the forecast horizon at 5-year intervals, entailing cumulative losses of 5 percent of GDP spread over 3 years.[6] In addition to calibrating the fiscal adjustment in anticipation of future natural disasters, there is scope to build further resilience to future weather events by an appropriate selection and design of key infrastructure projects.

21. **The authorities are committed to the ECCU-debt target of 60 percent of GDP by 2030, but have not yet adopted a medium-term fiscal framework consistent with that objective.** In the absence of such framework, the authorities would find it difficult to execute planned capital projects owing to lack of long-term funding.

- Under this financing-constrained scenario, which staff prepared with the authorities to illustrate its implications, capital expenditures would decrease in line with expected market conditions, but no other measures would be taken.[7]

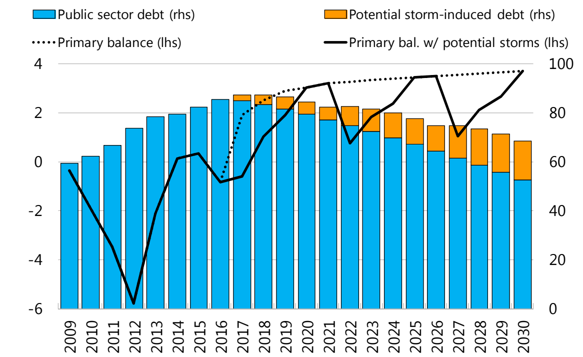
- Reflecting the severity of financing constraints, the primary balance would improve each year, rising to about 3¾ percent of GDP by FY2030/31. Over the projection horizon, debt would begin to trend down.

[6] In the two years that elapse before the next storm in the scenario, losses are zero, assuring that over the 5-year cycle, average annual losses match the estimated 1 percent of GDP observed historically.

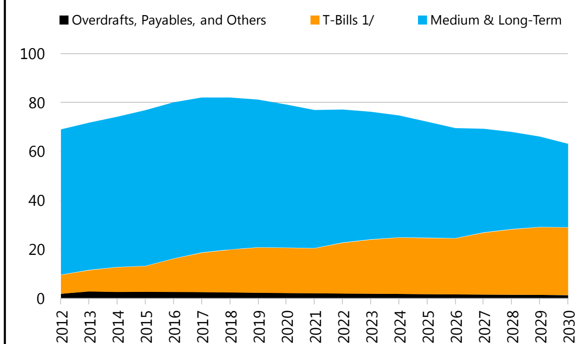
[7] Through the FY2020/21, bilateral and multilateral loan disbursements would be constrained only to the remaining amounts on existing projects; in the long run, new loans are assumed at 1.1 percent of GDP per year. Long-term bond issuance to fund capital expenditure would be limited to EC$68.2 million each year, reflecting expected CIP bond placements and long-term issuance in markets. Additional amounts are expected to be funded through T-bills, assumed to be issued at legal limits through FY2020/21, before tapering off from waning investor appetite.

- However, in the presence of potential natural-disaster related expenses, debt levels would reach 69 percent of GDP by FY2030/31. The benefits from reduced public sector indebtedness would be blunted from higher liquidity risks, as the share of short-term instruments would grow.

Fiscal Projections: Financing Constrained Scenario
(percent of GDP, fiscal years)



Debt, by Maturity
(percent of GDP, fiscal years)



1/ Original maturity of one year or less.

22. In contrast, staff recommended a multi-year fiscal adjustment plan that takes into account the occurrence of natural disasters.

- Under staff's projections, a front-loaded cumulative adjustment effort of 3⅓ percent of GDP would be needed over the next four years to achieve the ECCU debt target of 60 percent of GDP by FY2030/31. In this scenario, if there are no natural disasters during this period, the debt target would be reached by 2025/26.

- Staff recommended the adjustment rely more on current expenditures, which have lower multipliers.[8] In particular, the scenario envisages only a modest effort in the next fiscal year of ⅓ percent of GDP—in light of the elections—by improving cost recovery associated with public events. In each of the next three years, the adjustment would be 1 percent of GDP.

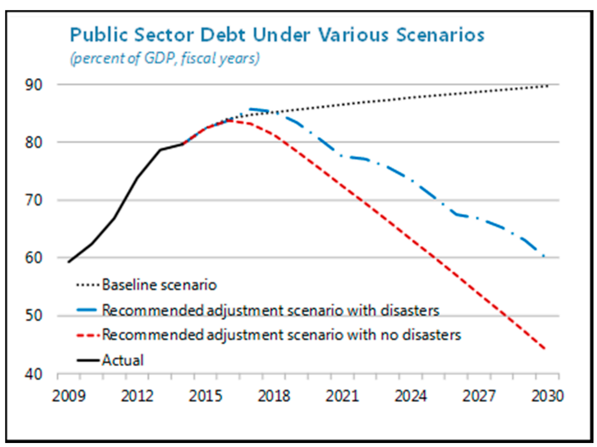
- In its proposed package of measures, staff saw room for important savings from anchoring growth in the wage bill solely to inflation and by reducing public employment through attrition. Additional measures could include freezes of central government grants to organizations and of the envelope for government employee transportation allowances, higher healthcare fees, and the elimination of non-targeted food and LPG subsidies.

[8] In particular, in light of the substantial openness of the ECCU economies, fiscal multipliers are estimated to be zero for current expenditures and revenues, and 0.3 for capital expenditures. For more information, see Gonzalez-Garcia, J. A. Lemus, and M. Mrkaic, 2013, "Fiscal Multipliers" in *The Eastern Caribbean Economic and Currency Union: Macroeconomics and Financial Systems,* ed. A. Shipke, A. Cebotari, and N. Thacker, Washington, DC: International Monetary Fund.

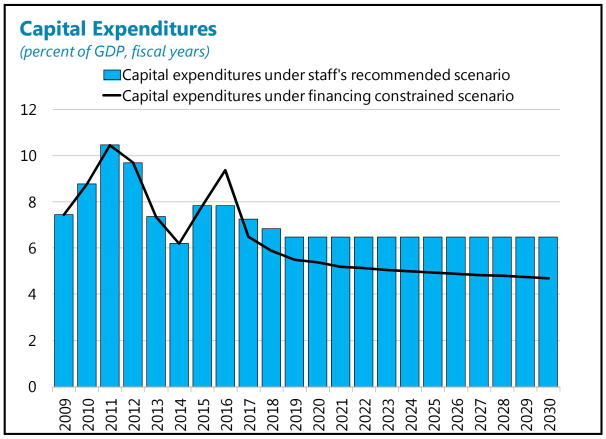
Recommended Adjustment Scenario							
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2030/31
	(in percent of GDP)						
Baseline (no policy adjustment) scenario:							
Primary balance	0.1	0.3	0.7	0.6	0.6	0.6	0.6
Public sector debt	79.6	82.4	84.0	84.7	85.2	85.6	89.7
Financing constrained scenario:							
Primary balance	0.1	0.3	-0.8	-0.6	1.0	1.9	3.7
Public sector debt	79.6	82.4	85.5	87.5	87.5	86.6	68.6
Staff's recommended adjustment scenario:							
Total adjustment measures	**...**	**...**	**0.3**	**1.0**	**1.0**	**1.0**	**...**
of which:							
Expenditure items	**...**	**...**	**0.3**	**0.7**	**0.7**	**0.4**	**...**
Compensation items	**...**	**...**	**0.0**	**0.2**	**0.2**	**0.2**	**...**
Wage growth anchored to CPI inflation	...	...	0.0	0.2	0.2	0.2	...
Attrition	...	...	0.0	0.1	0.1	0.0	...
Transfers/grants and contributions	**...**	**...**	**0.3**	**0.2**	**0.1**	**0.1**	**...**
Make public events financially viable	...	...	0.3	0.0	0.0	0.0	...
Revise cost recovery fees in healthcare	...	...	0.0	0.1	0.0	0.0	...
Other grant freezes	...	...	0.0	0.1	0.1	0.1	...
Eliminate remaining non-targeted food subsidies	...	...	0.0	0.0	0.2	0.0	...
Goods and services	**...**	**...**	**0.0**	**0.0**	**0.1**	**0.0**	**...**
Capital expenditures	**...**	**...**	**0.0**	**0.3**	**0.1**	**0.1**	**...**
Reprioritize social expenditure capital projects	...	...	0.0	0.3	0.1	0.1	...
Revenue items	**...**	**...**	**0.0**	**0.3**	**0.3**	**0.6**	**...**
Eliminate non-targeted LPG subsidy	...	...	0.0	0.2	0.0	0.0	...
Reduce customs tax expenditures	...	...	0.0	0.1	0.3	0.6	...
Primary balance in the absence of natural disasters	0.1	0.3	1.0	1.9	2.9	3.9	3.9
Primary balance with periodic disasters	0.1	0.3	1.0	-0.6	1.4	2.9	3.9
Public sector debt	79.6	82.4	83.7	85.7	85.3	83.4	59.9

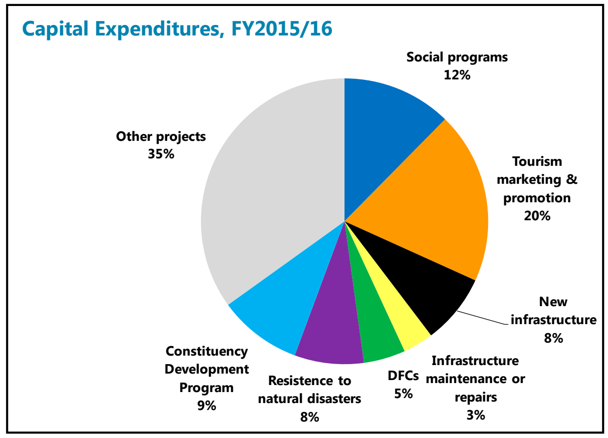
23. Staff highlighted the advantages of the recommended adjustment plan.

- The financing-constrained adjustment would allow capital projects to be implemented opportunistically when financing materializes, but it lacks transparency and transfers fiscal control from policymakers to markets. The quality of spending would suffer because high-impact projects in new infrastructure and disaster preparedness would likely be sacrificed in favor of more rigid expenditure commitments in the capital budget. In light of the already limited share that high-impact projects have in capital expenditures, additional reductions would further weigh on potential growth and add to vulnerabilities.



- Instead, under staff's recommended adjustment, a credible commitment to sustainable policies would buttress investor confidence and give the authorities greater control over fiscal operations. It would preserve a larger capital budget envelope, which could be reprogrammed towards higher-impact projects to mitigate key bottlenecks and raise potential growth, including in the context of a strengthened public investment management framework. Lastly, even under the occurrence of natural disasters, debt would remain sustainably on a downward trajectory to the ECCU-wide debt target.





24. Authorities' views. The authorities acknowledged that adjustment would be necessary, without committing to any specific course of action. They also saw merit in considering natural disaster related expenses in their fiscal planning. They expressed interest in staff's recommended adjustment scenario and noted their intention to review it carefully. In discussions on the specific adjustment measures, the authorities agreed on the need to maintain control over employment levels and costs, and to consider streamlining non-targeted subsidies as a component of a broader initiative to strengthen means-testing and social safety net programs. With regard to the proposed reduction of tax exemptions, they were concerned by the possible impact on St. Lucia's ability to attract FDIs in light of the strong tax competition at the regional level.

Continuing fiscal structural reforms would support the adjustment effort

25. Staff welcomed the authorities' efforts on fiscal structural reforms, and encouraged further steps to improve efficiency and sustain the adjustment effort. Over the past year, the authorities have approved revised procurement legislation, strengthened cash management procedures, and restructured the operations of Inland Revenue Department, which could help raise tax compliance. With respect to cash management procedures, enhanced daily sweep arrangements have already begun to yield sizable savings, further aiding the fiscal adjustment effort. Along with these welcome improvements, staff saw scope to continue implementing public financial management (PFM) reforms. In particular, technical arrangements for the adoption of a modernized chart of accounts have been completed, but final approval is still pending. Full implementation would also advance other PFM areas, including financial reporting. Other priorities include resolving the backlog of public financial statements and strengthening the timeliness of income tax refunds.

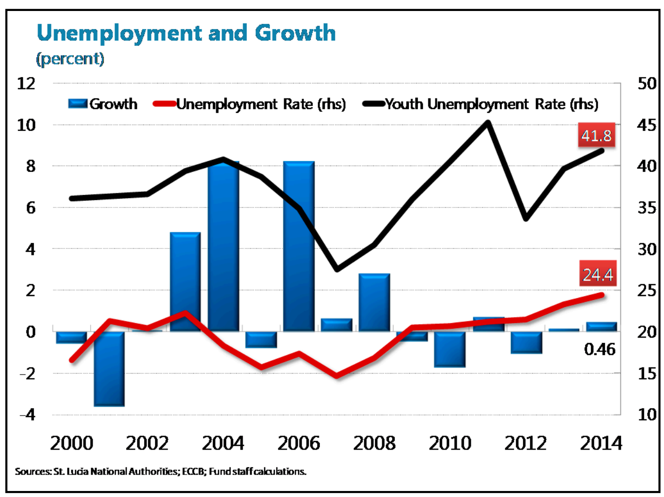
26. The new CIP warrants a prudent approach. In addition to the financial integrity risks associated with the CIP, vulnerabilities arise from potential fiscal dependence on these revenues, which can be volatile and subject to sudden stops. The annual cap on approved citizenship applications would be a strong device for containing these risks, and adjustments to this cap should be made carefully. Further, receipts received under the contributions to the St. Lucia National Economic Fund should be used either to reduce debt or for well-designed infrastructure investment aiming to boost potential growth and reduce natural disaster vulnerability. Similarly, the government securities option of the program should be administered in a manner that neither circumvents the attainment of the ECCU debt target, to which the authorities have committed, nor adds to the government's debt rollover risks. Staff noted that one option to reduce these risks would be to roll over maturing short-term debt instruments, which have grown substantially in recent years, into these longer-term securities. Additional regulations or legislation to contain the use of these revenues along these lines may be beneficial, and could be taken up in the context of fiscal responsibility legislation.

C. Securing Higher and More Inclusive Growth

Low productivity, high costs, and supply constraints limit potential growth, which is lower than in many comparable countries, including small states. Sustainably boosting growth requires resolving key bottlenecks that constrain private sector development. Similarly, reducing the high unemployment rate calls for policies to address skills mismatches and boost educational attainment.

Removing obstacles to growth and reducing high unemployment

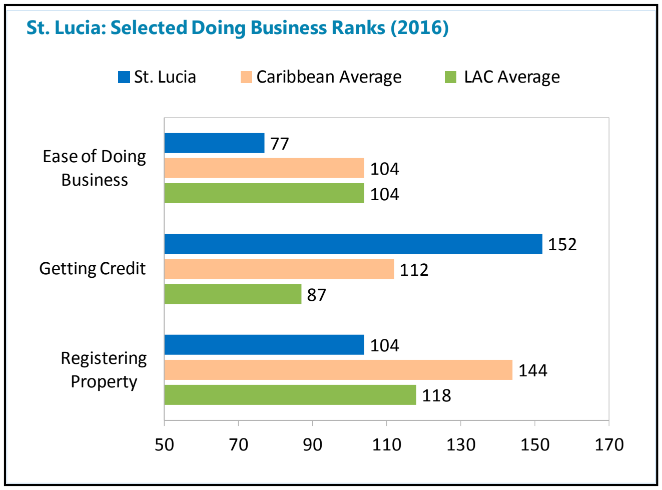
27. **Higher sustainable growth requires continued efforts to ease bottlenecks and reduce costs.** Before the global crisis, weak cost competitiveness and severe structural constraints were already evidenced by slow growth and high unemployment. These challenges had been exacerbated by the collapse of the traditional banana industry following the loss of preferential access to European markets. Tourism has expanded since, making St. Lucia the largest destination in the ECCU, but weak linkages with other domestic industries and key bottlenecks have prevented the development of a diversified economy.



28. **The authorities have made progress on their structural reform agenda**. The new commercial court will help strengthen contract enforcement, which is traditionally a key concern. Steps have been taken to address St. Lucia's dependence on imported fossil fuels and high electricity costs (Annex IV). New renewable energy initiatives have been launched and regulatory reforms have continued, including legislation to enable establishment of an independent utilities regulatory commission. The modernization of port operations and customs, which is necessary to

address high costs, has continued and progress has been made in the dialogue with unions on a more flexible work schedule that would contain high overtime expenditures and help reduce shipping fees. The National Competitiveness and Productivity Council, established in 2013 to identify key issues related to competitiveness and productivity, has issued its first report.[9]

29. Low productivity and high unemployment continue to be challenge, and partly reflect skills shortages. The structural shift in employment from agriculture and construction to tourism and public administration has continued, but skill mismatches and weak educational outcomes have prevented productivity improvements and a reduction of high unemployment. Despite internationally low pupil-teacher ratios, pass rates of major subjects remain low, dropout rates are high, and the skills provided are inadequate to meet current market needs. The shortage of labor with tertiary education is exacerbated by brain drain (Annex V).



30. The authorities have undertaken a number of programs to boost employment, but their focus on training could be strengthened. NICE, which aims to create sustainable employment opportunities, was launched in 2012. Two major programs under NICE are JOBS for direct job intervention, and CPIP, which targets small contractors to provide employment opportunities on community infrastructural projects. Other main social and employment programs started in the late 2000s including YAEP, HOPE, KSL, YEP, and SMILES. STEP was first launched in 1997. Of the total expenditure on these programs, which is equivalent to more than 1 percent of GDP, only less than 10 percent includes a training component, and about 37 percent supports apprenticeship.[10]

31. Staff recommended focusing on four key areas:

- *Reforming the energy sector*. Prompt implementation of the renewable energy initiatives is key to diversifying sources and reducing costs. In addition, there is ample scope for improving energy efficiency. Lastly, it is necessary to complete regulatory reforms, including revisiting the allowable rate of return to the electricity supplier.

[9] In particular, the report recommends a closer link between wages and productivity and strengthening labor market information systems.

[10] Parra-Torrado, Monica, 2014, "Youth unemployment in the Caribbean", The World Bank.

- *Addressing costs at the ports and customs.* While many of St. Lucia's structural competitiveness weaknesses are typical of the region, costs associated with clearing imports and exports through the ports are unusually large. Continued modernization of port operations and customs remains crucial. Priorities include fully automating the registration system and finalizing negotiations for a more flexible work schedule for port operations.

- *Improving other aspects of the business environment*. High costs of doing business—especially difficulties in obtaining credit and registering property—are also key impediments to growth. The authorities have started addressing these issues, but reforms of the foreclosure legislation, bankruptcy procedures, and property registration are urgently needed.

- *Reducing the skills mismatch*. There is scope to improve the effectiveness and enhance the focus of the educational system and the employment programs. Reforms should focus on (i) reinforcing efforts to develop an effective technical and vocational education system; (ii) expanding the training component of employment programs; (iii) increasing provisions for tertiary and continuing education for youth and adults; (iv) improving performance measurement in the education system to enhance quality and cost-effectiveness; and (v) monitoring labor market needs on a more regular basis to ensure matching between supply and demand.

32. Authorities' views. The authorities reiterated their commitment to improve the business environment and enhance competitiveness while noting their past achievements. They broadly agreed with staff priorities and recommendations. They concurred on the need to address challenges in the labor market and the education system, but noted that the options to expand training in employment programs are limited owing to the lack of incentives for beneficiaries, the social welfare implications of a less generous system, and the challenges in setting up a targeted system due to capacity constraints.

STAFF APPRAISAL

33. The economic recovery and a strengthening fiscal position have contributed to reducing short-term risks. Favorable external conditions have set the St. Lucian economy back on a growth path after a recession in 2012 and close-to-zero growth in 2013. Improved economic conditions have contributed to reducing external and fiscal vulnerabilities. The external current account deficit has narrowed significantly while additional revenues from stronger economic activity and fiscal measures, and the under-execution of the capital budget have led to a small primary fiscal surplus in fiscal year 2014/15.

34. The short-term growth outlook is positive, but many impediments remain to consolidating the recovery. Persistent weaknesses constrain the ability of banks to support the private sector and lack of long-term funding is affecting the implementation of public investment projects. While under-execution of capital spending is helping to strengthen the fiscal position, delaying key infrastructure investment has a negative impact on medium-term growth prospects.

Lack of skilled workers continue to limit the expansion of firms in all sectors while unemployment remains very high, particularly among the youth, and mostly of structural nature. Supply bottlenecks, low productivity, and high costs limit medium-term growth prospects well below what is necessary to reduce unemployment on a durable basis.

35. High public debt remains a key vulnerability. At about 80 percent of GDP and rising, public debt is far above the ECCU's target ceiling of 60 percent of GDP by 2030, high by international standards, and ever-increasing interest payments limit the budget resources available for other uses, including high-impact social and infrastructure spending. Primary fiscal surpluses are expected to continue, reflecting, among other things, inflows from the new Citizenship by Investment Program. The size of these surpluses, however, is not likely to be sufficient to prevent the debt ratio from rising further, unless further adjustment measures are taken.

36. Addressing weak bank balance sheets is a priority. Some progress has been achieved in resolving non-performing loans, but further reductions are hampered by the lengthy foreclosure process. Despite increased lending activity from credit unions and micro-finance institutions, limited financing opportunities continue to be a drag on the economy. A swift reform of the foreclosure and insolvency regulation, and a prompt implementation of the remaining elements of the regional strategy for bank resolution, including the legislation on the Eastern Caribbean Asset Management Corporation, would help complete the healing process of the banking sector. Adopting the regionally harmonized credit union legislation would strengthen the regulatory framework in the non-bank financial sector.

37. A sound medium-term plan is needed to put public debt on a sustainable path. The authorities are committed to the ECCU-wide debt target ceiling, but have not yet formulated and presented a medium-term plan on how to achieve this target. Such a plan is necessary to strengthen confidence and provide buffers for risks, including from natural disasters. A limited adjustment over the next four years could accomplish these objectives. This adjustment could be based mostly on targeted expenditure reductions, and would preserve high-impact projects in new infrastructure and disaster preparedness. It would also make room for social protection programs to respond to the needs arising from the reduction of untargeted subsidies. Under this plan, the authorities would be able to regain control over the composition of expenditure and reduce the risks connected with the accumulation of short-term debt.

38. The Citizenship by Investment Program provides new opportunities, but requires a prudent approach. The *Citizenship by Investment Act* and its associated regulations contain a number of welcome aspects in regard to governance arrangements, which are essential for the success of the program. A prudent use of the annual cap on approved citizenship applications would help reduce the risk of fiscal dependence on volatile inflows. Additionally, these revenues should be directed to lower public debt or to improve growth-enhancing infrastructure.

39. The authorities have made progress on their structural reform agenda, but important areas remain to be addressed and rapid implementation is key. Important steps have been taken to address St. Lucia's dependence on imported fossil fuels, improve the business environment, and modernize port operations and customs. Reformed procurement legislation and improved cash management procedures have enhanced public financial management. More efforts, however, are needed to rationalize and refocus the education system and address labor skill mismatches.

40. Data provision is broadly adequate for surveillance despite weaknesses in coverage, frequency, quality, and timeliness, in particular regarding the national accounts, the public sector beyond the central government, and the balance of payments.

41. The safeguards framework is relatively sound. St. Lucia is a member of the ECCB, and an update safeguards assessment is underway. The previous assessment, concluded in April 2012, found that the ECCB continued to maintain a relatively sound safeguards framework.

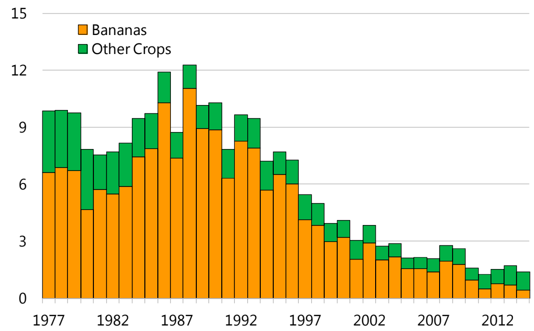
42. Staff recommends that the next Article IV Consultation for St. Lucia take place on the standard 12-month cycle.

Figure 1. St. Lucia: An Economy in Transition

Since the end of preferential access to European markets in the mid 1990s, the agriculture sector in St. Lucia has collapsed…

St. Lucia: Real Gross Value Added of Crops

(percent of real GDP at market prices)

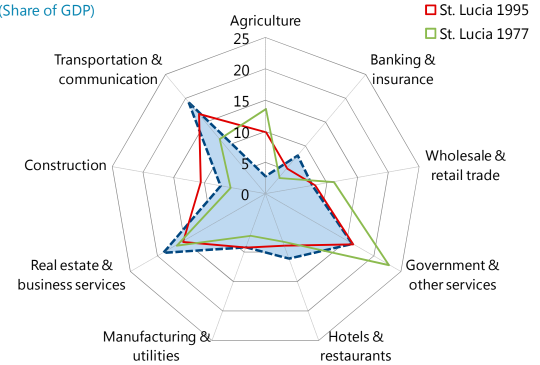


Sources: ECCB and Fund staff calculations.

… requiring the emergence of alternative growth drivers, one of which has been the tourism industry, …

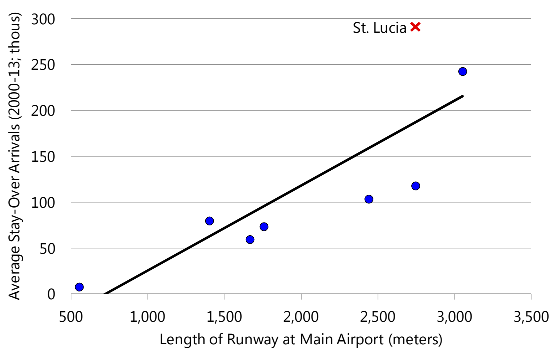
Structure of the Economy

(Share of GDP)



… aided by the presence of appropriate infrastructure, which has enabled St. Lucia to become the largest tourist destination in the ECCU.

ECCU: Airport Infrastructure and Tourism

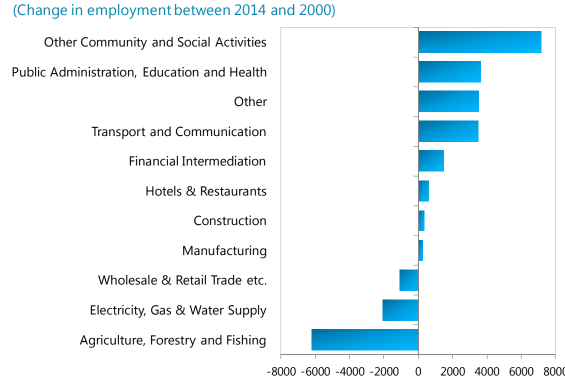


Sources: DAFIF; ECCU; and Fund staff estimates.

Structural change in the St. Lucian economy has caused substantial worker displacement…

Long-Term Employment Flows

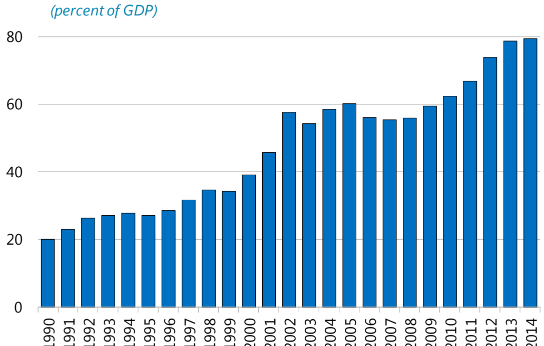
(Change in employment between 2014 and 2000)



The government has actively attempted to support higher growth and employment, but those efforts have resulted in a substantial debt overhang….

St. Lucia: Public Sector Debt

(percent of GDP)

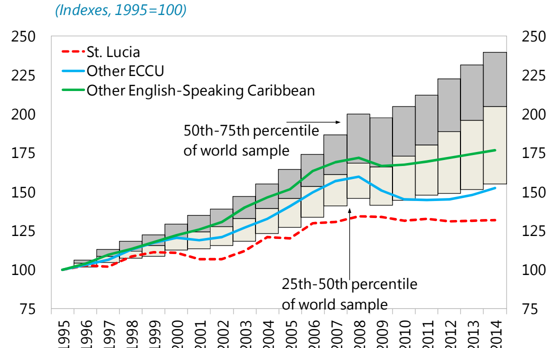


Source: WEO.

… which has itself become a drag on already established slow growth.

Real GDP

(Indexes, 1995=100)

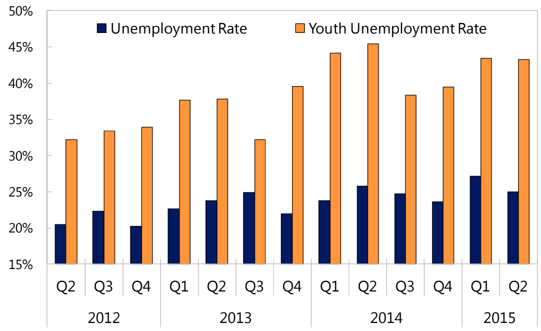


Sources: World Economic Outlook; and Fund staff calculations.

Figure 2. St. Lucia: Continued Macroeconomic Challenges

Although growth was positive in 2014, the unemployment rate rose further…

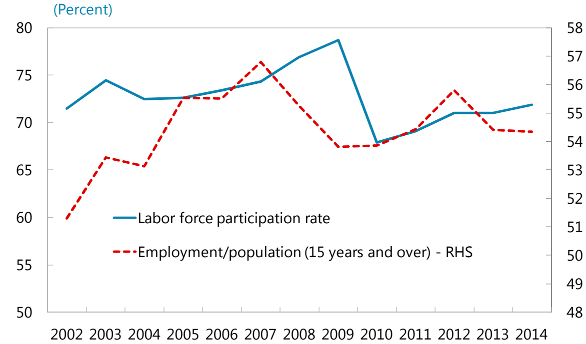
Unemployment Rates, quarterly, 2012-2015



Sources: Country authorities; Fund staff calculations.

… as employment fell amid a rise in labor force participation.

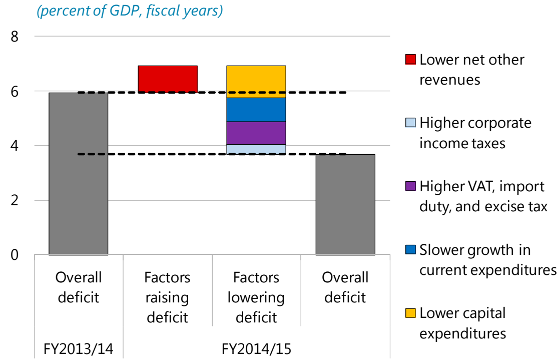
Employment
(Percent)



Sources: St. Lucia National Authorities; and IMF Staff Calculations.

Cuts in capital expenditure were the largest contributor to the improved fiscal position last year, …

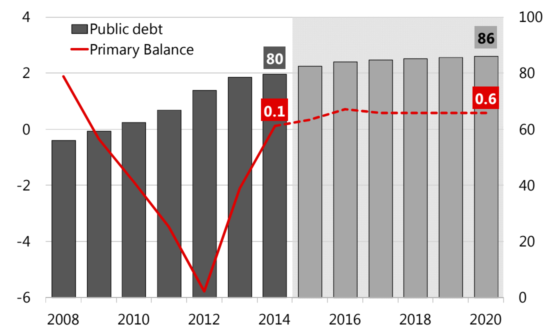
Factors Affecting FY2014/15 Deficit
(percent of GDP, fiscal years)



Sources: Fund staff estimates.

… which remains unsustainable over the long run.

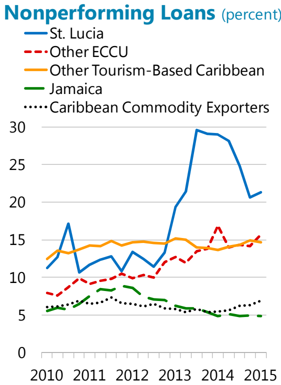
Medium-Term Fiscal Projections
(percent of GDP)



Sources: St. Lucian Authorities and Fund staff estimates.

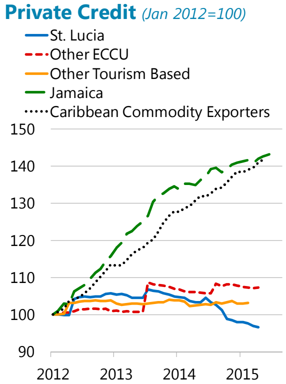
Stalling recent progress on bank balance sheet cleanup has contributed to declining credit to the private sector.

Nonperforming Loans (percent)



Sources: Country Authorities; staff calcs.

Private Credit *(Jan 2012=100)*



Sources: National Authorities; Staff calc.

With benign commodity prices and low imported inflation, St. Lucia's consumer prices have been declining lately.

St. Lucia: CPI and its Components
(in percent, year-on-year)

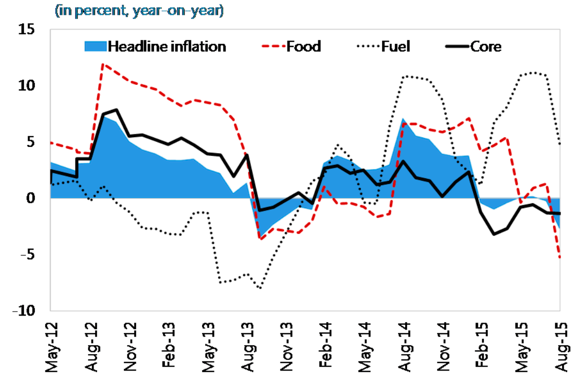


Table 1. St. Lucia: Selected Economic and Social Indicators

I. Social and Demographic Indicators

Area (sq. km)	616	Life expectancy at birth (years, 2011)	74.6
		Infant mortality (per thous. live births, 2010)	14
Population		Human Development Index (HDI) ranking (2011)	82
Total (2012)	169,115	(rank out of 187 countries)	
Rate of growth (average 2001-2010)	1.5		
Population density (per sq. km., 2012)	274.5	Gross Domestic Product (2014)	
Net migration rate (per thousand, 2012)	-3.5	(millions of US dollars)	1,404
Adult illiteracy rate (percent, 2009)	5.2	(millions of EC dollars)	3,792
		(US$ per capita)	8,305

II. Economic and Financial Indicators

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
				Est.			Proj.			
	(Annual percentage change, unless otherwise specified)									
Output and prices										
Real GDP (at market prices)	0.7	-1.1	0.1	0.5	1.6	1.4	1.9	2.0	2.0	2.0
Real GDP (at factor cost)	1.1	-0.8	-1.9	-0.7	1.6	1.4	1.9	2.0	2.0	2.0
Nominal GDP	3.2	1.6	1.8	5.2	1.2	2.3	4.0	4.6	4.5	4.6
Consumer prices, end of period	4.8	5.0	-0.7	3.7	-0.5	0.7	2.9	2.3	2.5	2.7
Consumer prices, period average	2.8	4.2	1.5	3.5	-0.4	0.9	2.0	2.5	2.5	2.5
Potential GDP	0.8	0.7	0.8	0.9	1.0	1.2	1.4	1.6	1.7	2.0
Output gap (percent of potential GDP)	0.6	-1.2	-1.8	-2.2	-1.7	-1.5	-1.0	-0.5	-0.2	-0.2
Unemployment rate	21.2	21.4	23.3	24.4	...	...	...	...	...	
Real effective exchange rate										
(annual average, depreciation -)	-3.2	3.4	0.7	0.0	...	...	...	...	...	
	(In percent of GDP, unless otherwise specified)									
Central government balance 1/										
Revenue	26.1	24.6	25.3	25.5	27.6	28.2	28.0	28.0	28.0	28.0
Taxes	21.9	21.3	22.5	22.9	23.8	24.0	23.9	23.9	23.9	23.9
Non-tax revenue	2.0	1.5	1.3	1.1	1.6	2.0	2.0	2.0	2.0	2.0
Grants	2.2	1.8	1.5	1.4	2.1	2.1	2.1	2.1	2.1	2.1
Expenditure	32.7	33.8	31.2	29.2	31.5	31.9	31.9	32.0	32.0	32.0
Current primary expenditure	19.2	20.8	20.0	19.2	19.6	19.8	19.8	19.8	19.8	19.8
Interest payments	3.0	3.5	3.8	3.8	4.2	4.4	4.5	4.5	4.5	4.5
Capital expenditure	10.4	9.5	7.4	6.2	7.7	7.7	7.7	7.7	7.7	7.7
Primary balance	-3.5	-5.8	-2.1	0.1	0.3	0.7	0.6	0.6	0.6	0.6
Overall balance	-6.5	-9.2	-5.9	-3.7	-3.8	-3.7	-3.9	-3.9	-3.9	-4.0
Central government debt (incl. guaranteed)	66.9	73.7	78.6	79.6	82.4	84.0	84.7	85.2	85.6	86.0
External	32.7	33.9	36.7	38.4	39.8	40.6	41.0	41.2	41.4	41.6
Domestic	34.2	39.8	41.9	41.2	42.6	43.4	43.8	44.0	44.2	44.4
Money and credit, end of period (annual percent change)										
Broad money (M2)	6.7	2.5	2.0	1.2	1.7	2.6	4.0	4.6	4.5	4.6
Credit to private sector (real)	-0.1	0.9	-2.3	-9.9	-6.2	-3.0	-1.1	0.2	1.0	2.0
Credit to private sector (nominal)	2.6	5.1	-0.8	-6.7	-6.5	-2.1	0.9	2.7	3.5	4.6
Balance of payments										
Current account balance, *o/w:*	-18.8	-13.5	-11.2	-6.7	-7.4	-8.0	-8.4	-8.9	-9.2	-9.5
Exports of goods and services	44.4	46.0	45.5	44.7	44.7	45.3	46.2	46.7	47.1	47.2
Imports of goods and services	63.3	57.3	55.2	50.3	50.8	51.6	52.9	53.8	54.4	54.8
Capital and financial account balance	18.9	15.5	9.1	10.2	11.8	11.0	10.6	10.9	10.8	10.7
FDI	6.3	5.6	6.9	5.2	6.1	6.6	7.0	7.2	7.5	7.5
Capital grants	2.6	2.5	1.6	2.2	2.3	2.3	2.3	2.3	2.2	2.2
Other (incl. errors and omissions)	10.0	7.4	0.6	2.8	3.4	2.2	1.4	1.5	1.1	1.0
Overall balance	0.6	1.3	-3.0	4.8	4.3	3.0	2.2	2.0	1.6	1.2
External debt (gross) 2/	85.2	90.8	92.4	89.2	90.2	85.7	82.3	81.2	80.5	79.8
Public	32.7	33.9	36.7	38.4	39.8	40.6	41.0	41.2	41.4	41.6
Savings-Investment balance	-18.8	-13.5	-11.2	-6.7	-7.4	-8.0	-8.4	-8.9	-9.2	-9.5
Savings	9.3	13.0	11.5	12.0	16.1	16.5	16.0	15.5	15.2	14.9
Investment	28.2	26.5	22.7	18.7	23.5	24.5	24.4	24.4	24.4	24.4
Public	10.1	10.1	8.3	6.6	7.4	8.0	7.9	7.9	7.9	7.9
Private	18.0	16.4	14.4	12.1	16.1	16.5	16.5	16.5	16.5	16.5
Memorandum items:										
Nominal GDP (EC$ millions)	3,483	3,540	3,603	3,792	3,838	3,928	4,085	4,274	4,468	4,675
Net imputed international reserves										
Months of imports of goods and services	2.8	3.3	2.7	4.0	5.0	5.5	5.7	5.8	5.9	5.8
Percentage of demand liabilities	87.6	87.0	85.1	89.2	91.3	92.2	92.5	92.8	92.9	92.9

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

1/ Fiscal year (April–March) basis.

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

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
							Proj.			
					(In millions of EC Dollars)					
Revenue	**914.4**	**873.7**	**922.5**	**968.7**	**1,066.0**	**1,117.5**	**1,158.7**	**1,211.9**	**1,267.3**	**1,325.9**
Taxes	764.6	758.0	820.1	872.8	920.4	952.5	986.8	1,032.2	1,079.3	1,129.2
Taxes on income	240.9	224.4	219.9	224.1	234.5	234.9	244.7	255.9	267.6	280.0
Taxes on property	4.4	4.9	8.2	9.4	10.0	10.3	10.7	11.2	11.7	12.2
Taxes on goods and services	244.6	287.9	365.0	396.6	415.5	436.3	449.2	469.8	491.3	514.0
Taxes on international trade and transactions	274.7	240.8	226.9	242.6	260.4	271.0	282.3	295.2	308.7	323.0
Grants	78.4	63.2	55.6	53.3	82.2	84.5	88.0	92.0	96.2	100.7
Other revenue	71.4	52.5	46.9	42.7	63.4	80.5	83.9	87.7	91.7	96.0
Property income	33.4	10.1	5.8	4.0	7.0	7.2	7.5	7.8	8.2	8.5
Sales, fees and fines	24.7	28.8	27.7	23.5	41.4	58.0	60.4	63.1	66.0	69.1
Other nontax revenue	13.3	13.7	13.3	15.2	15.0	15.4	16.1	16.8	17.6	18.4
Expenditure	**1,142.1**	**1,202.5**	**1,139.4**	**1,109.0**	**1,214.4**	**1,264.8**	**1,319.5**	**1,381.0**	**1,445.2**	**1,513.0**
Expense	**776.6**	**863.3**	**871.0**	**873.8**	**917.4**	**959.6**	**1,001.6**	**1,048.5**	**1,097.5**	**1,149.2**
Compensation of employees	349.5	379.0	382.0	379.6	381.6	392.2	408.4	427.2	446.7	467.4
Purchase of goods and services	146.0	174.4	167.6	162.2	169.9	175.9	184.2	192.7	201.5	210.8
Interest	105.8	123.1	140.0	145.0	161.2	175.8	184.3	193.7	203.6	214.0
Social benefits	105.4	107.7	96.9	102.7	105.6	108.5	113.0	118.2	123.6	129.3
Retirement benefits	72.5	70.1	76.2	80.1	83.7	86.0	89.6	93.7	98.0	102.5
Public assistance and casual relief	32.9	37.6	20.7	22.6	21.9	22.5	23.4	24.5	25.6	26.8
Subsidies	23.5	29.0	12.7	14.1	13.7	14.1	14.7	15.3	16.0	16.8
Other	9.4	8.6	7.9	8.5	8.2	8.4	8.8	9.2	9.6	10.0
Other expense	69.9	79.2	84.5	84.3	99.1	107.1	111.6	116.7	122.0	127.7
Transfers to public-sector institutions	69.9	79.2	84.5	84.3	99.1	107.1	111.6	116.7	122.0	127.7
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets	**365.4**	**339.2**	**268.4**	**235.2**	**297.0**	**305.2**	**317.9**	**332.5**	**347.7**	**363.8**
Grant-financed capital expenditure	78.4	63.2	55.6	53.3	82.2	84.5	88.0	92.0	96.2	100.7
Other capital expenditure	287.7	281.6	212.9	182.1	219.9	225.9	235.3	246.1	257.4	269.3
Capital revenue	-0.7	-5.6	-0.1	-0.2	-5.1	-5.2	-5.4	-5.7	-5.9	-6.2
Gross Operating Balance	**137.8**	**10.4**	**51.4**	**94.9**	**148.6**	**157.9**	**157.1**	**163.4**	**169.8**	**176.6**
Net lending/borrowing (overall balance)	**-227.7**	**-328.8**	**-216.9**	**-140.3**	**-148.4**	**-147.3**	**-160.8**	**-169.1**	**-177.9**	**-187.1**
Net financial transactions	**-227.7**	**-328.8**	**-216.9**	**-140.3**	**-148.4**	**-147.3**	**-160.8**	**-169.1**	**-177.9**	**-187.1**
Net acquisition of assets	**-39.2**	**-121.1**	**21.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Currency and deposits	-39.2	-121.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other assets	0.0	0.0	21.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**236.3**	**300.4**	**165.4**	**201.8**	**148.4**	**147.3**	**160.8**	**169.1**	**177.9**	**187.1**
Domestic	136.5	226.4	25.7	75.2	74.2	73.6	80.4	84.5	88.9	93.6
Foreign	99.8	74.0	139.7	126.6	74.2	73.6	80.4	84.5	88.9	93.6
Statistical discrepancy	*-47.8*	*-92.7*	*73.1*	*-61.5*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Memorandum items:										
Primary balance	-121.9	-205.7	-76.9	4.7	12.8	28.6	23.5	24.6	25.7	26.9
Central government debt (incl. guaranteed) 2/	2,338	2,622	2,868	3,028	3,179	3,333	3,502	3,682	3,870	4,068
Domestic	1,194	1,415	1,528	1,567	1,644	1,722	1,809	1,901	1,998	2,100
Direct	1,087	1,313	1,339	1,414	1,488	1,562	1,642	1,727	1,816	1,909
Guaranteed	108	102	189	153	156	160	167	174	182	191
Foreign	1,144	1,207	1,340	1,461	1,536	1,611	1,694	1,781	1,872	1,969
Direct	1,069	1,143	1,282	1,409	1,483	1,557	1,637	1,722	1,811	1,904
Guaranteed	75	64	58	52	53	54	56	59	62	65
Nominal GDP fiscal year (EC$ millions)	3,497	3,556	3,650	3,804	3,861	3,968	4,132	4,322	4,520	4,729

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

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

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

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
							Proj.			
				(In percent of GDP)						
Revenue	**26.1**	**24.6**	**25.3**	**25.5**	**27.6**	**28.2**	**28.0**	**28.0**	**28.0**	**28.0**
Taxes	21.9	21.3	22.5	22.9	23.8	24.0	23.9	23.9	23.9	23.9
Taxes on income	6.9	6.3	6.0	5.9	6.1	5.9	5.9	5.9	5.9	5.9
Taxes on property	0.1	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Taxes on goods and services	7.0	8.1	10.0	10.4	10.8	11.0	10.9	10.9	10.9	10.9
Taxes on international trade and transactions	7.9	6.8	6.2	6.4	6.7	6.8	6.8	6.8	6.8	6.8
Grants	2.2	1.8	1.5	1.4	2.1	2.1	2.1	2.1	2.1	2.1
Other revenue	2.0	1.5	1.3	1.1	1.6	2.0	2.0	2.0	2.0	2.0
Property income	1.0	0.3	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Sales, fees and fines	0.7	0.8	0.8	0.6	1.1	1.5	1.5	1.5	1.5	1.5
Other nontax revenue	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Expenditure	**32.7**	**33.8**	**31.2**	**29.2**	**31.5**	**31.9**	**31.9**	**32.0**	**32.0**	**32.0**
Expense	**22.2**	**24.3**	**23.9**	**23.0**	**23.8**	**24.2**	**24.2**	**24.3**	**24.3**	**24.3**
Compensation of employees	10.0	10.7	10.5	10.0	9.9	9.9	9.9	9.9	9.9	9.9
Purchase of goods and services	4.2	4.9	4.6	4.3	4.4	4.4	4.5	4.5	4.5	4.5
Interest	3.0	3.5	3.8	3.8	4.2	4.4	4.5	4.5	4.5	4.5
Social benefits	3.0	3.0	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Retirement benefits	2.1	2.0	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.2
Public assistance and casual relief	0.9	1.1	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Subsidies	0.7	0.8	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Other	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other expense	2.0	2.2	2.3	2.2	2.6	2.7	2.7	2.7	2.7	2.7
Capital transfers	2.0	2.2	2.3	2.2	2.6	2.7	2.7	2.7	2.7	2.7
Net acquisition of nonfinancial assets	**10.4**	**9.5**	**7.4**	**6.2**	**7.7**	**7.7**	**7.7**	**7.7**	**7.7**	**7.7**
Grant-financed capital expenditure	2.2	1.8	1.5	1.4	2.1	2.1	2.1	2.1	2.1	2.1
Other capital expenditure	8.2	7.9	5.8	4.8	5.7	5.7	5.7	5.7	5.7	5.7
Capital revenue	0.0	-0.2	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Gross Operating Balance	**3.9**	**0.3**	**1.4**	**2.5**	**3.8**	**4.0**	**3.8**	**3.8**	**3.8**	**3.7**
Net lending/borrowing (overall balance)	**-6.5**	**-9.2**	**-5.9**	**-3.7**	**-3.8**	**-3.7**	**-3.9**	**-3.9**	**-3.9**	**-4.0**
Net financial transactions	**-6.5**	**-9.2**	**-5.9**	**-3.7**	**-3.8**	**-3.7**	**-3.9**	**-3.9**	**-3.9**	**-4.0**
Net acquisition of assets	**-1.1**	**-3.4**	**0.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Currency and deposits	-1.1	-3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other assets	0.0	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**6.8**	**8.4**	**4.5**	**5.3**	**3.8**	**3.7**	**3.9**	**3.9**	**3.9**	**4.0**
Domestic	3.9	6.4	0.7	2.0	1.9	1.9	1.9	2.0	2.0	2.0
Foreign	2.9	2.1	3.8	3.3	1.9	1.9	1.9	2.0	2.0	2.0
Statistical discrepancy	*-1.4*	*-2.6*	*2.0*	*-1.6*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Memorandum items:										
Primary balance	-3.5	-5.8	-2.1	0.1	0.3	0.7	0.6	0.6	0.6	0.6
Central government debt (incl. guaranteed) 2/	66.9	73.7	78.6	79.6	82.4	84.0	84.7	85.2	85.6	86.0
Domestic	34.2	39.8	41.9	41.2	42.6	43.4	43.8	44.0	44.2	44.4
Direct	31.1	36.9	36.7	37.2	38.5	39.4	39.7	39.9	40.2	40.4
Guaranteed	3.1	2.9	5.2	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Foreign	32.7	33.9	36.7	38.4	39.8	40.6	41.0	41.2	41.4	41.6
Direct	30.6	32.1	35.1	37.0	38.4	39.2	39.6	39.8	40.1	40.3
Guaranteed	2.1	1.8	1.6	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Nominal GDP fiscal year (EC$ millions)	3,497	3,556	3,650	3,804	3,861	3,968	4,132	4,322	4,520	4,729

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

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

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

Table 3. St. Lucia: Balance of Payments

	2011	2012	2013	Prelim. 2014	2015	2016	Proj. 2017	2018	2019	2020
				(In millions of US Dollars)						
Current account balance	**-242.7**	**-176.8**	**-149.6**	**-94.1**	**-105.8**	**-116.5**	**-127.5**	**-141.0**	**-152.0**	**-164.8**
Exports of goods and services	572.8	603.8	607.8	627.8	636.0	658.4	699.8	739.5	779.4	817.6
Goods	192.3	212.4	200.3	182.5	173.9	178.4	187.8	197.5	207.2	216.6
Tourism	320.6	337.3	353.9	390.4	404.4	418.7	438.5	461.1	483.5	505.6
Other services	60.0	54.0	53.6	54.9	57.7	61.2	73.5	80.9	88.7	95.4
Imports of goods and services	816.2	751.6	736.2	705.9	721.9	751.2	800.9	851.1	899.7	948.2
Food	115.4	111.9	131.8	115.6	116.1	114.9	118.4	124.1	129.4	134.7
Fuel	95.7	99.7	78.1	63.4	42.8	44.9	51.2	56.0	59.8	63.0
Other goods	402.2	354.9	336.1	343.0	375.8	396.9	422.5	450.8	478.9	507.3
Services	203.0	185.2	190.2	183.9	187.2	194.5	208.8	220.2	231.6	243.2
Net Income, o.w.	-19.8	-35.3	-26.0	-25.6	-29.8	-34.0	-37.3	-40.9	-43.6	-46.6
Public interest payments	-15.2	-17.8	-19.9	-20.5	-22.7	-24.7	-25.8	-27.1	-28.5	-30.0
Net current transfers	20.5	6.3	4.7	9.6	9.9	10.4	10.9	11.4	11.9	12.4
Capital and financial account balance	**244.1**	**203.3**	**120.8**	**142.9**	**167.0**	**160.4**	**160.4**	**172.9**	**178.8**	**185.6**
Capital transfers	34.0	32.9	20.7	31.0	32.0	32.9	34.2	35.7	37.2	38.9
Public sector flows	1.4	-14.6	-2.9	19.8	26.1	25.2	29.4	32.0	33.4	35.2
Foreign direct investment	80.9	73.6	92.0	72.7	87.3	95.8	105.2	114.2	123.3	129.5
Commercial banks	78.1	48.9	-14.1	-59.8	-112.4	-56.4	-25.7	-12.5	-10.1	-8.8
Other private flows 1/	49.7	62.6	25.0	78.2	134.1	62.9	17.4	3.5	-5.1	-9.2
Errors and omissions	**6.4**	**-10.1**	**-10.9**	**18.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**7.8**	**16.4**	**-39.8**	**66.9**	**61.3**	**44.0**	**33.0**	**31.9**	**26.8**	**20.8**
Overall financing	**-7.8**	**-16.4**	**39.8**	**-66.9**	**-61.3**	**-44.0**	**-33.0**	**-31.9**	**-26.8**	**-20.8**
Change in ECCB NFA	-7.7	-16.4	39.8	-66.9	-61.3	-44.0	-33.0	-31.9	-26.8	-20.8
Change in imputed reserves (increase -)	-7.8	-16.4	39.8	-66.9	-61.3	-44.0	-33.0	-31.9	-26.8	-20.8
o.w.: Change in SDR Holdings	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
				(In percent of GDP)						
Current account balance	**-18.8**	**-13.5**	**-11.2**	**-6.7**	**-7.4**	**-8.0**	**-8.4**	**-8.9**	**-9.2**	**-9.5**
Exports of goods and services	44.4	46.0	45.5	44.7	44.7	45.3	46.2	46.7	47.1	47.2
Goods	14.9	16.2	15.0	13.0	12.2	12.3	12.4	12.5	12.5	12.5
Tourism	24.8	25.7	26.5	27.8	28.4	28.8	29.0	29.1	29.2	29.2
Other services	4.7	4.1	4.0	3.9	4.1	4.2	4.9	5.1	5.4	5.5
Imports of goods and services	63.3	57.3	55.2	50.3	50.8	51.6	52.9	53.8	54.4	54.8
Food	8.9	8.5	9.9	8.2	8.2	7.9	7.8	7.8	7.8	7.8
Fuel	7.4	7.6	5.8	4.5	3.0	3.1	3.4	3.5	3.6	3.6
Other goods	31.2	27.1	25.2	24.4	26.4	27.3	27.9	28.5	28.9	29.3
Services	15.7	14.1	14.3	13.1	13.2	13.4	13.8	13.9	14.0	14.0
Net Income, o.w.	-1.5	-2.7	-1.9	-1.8	-2.1	-2.3	-2.5	-2.6	-2.6	-2.7
Public interest payments	-1.2	-1.4	-1.5	-1.5	-1.6	-1.7	-1.7	-1.7	-1.7	-1.7
Net current transfers	1.6	0.5	0.4	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Capital and financial account balance	**18.9**	**15.5**	**9.1**	**10.2**	**11.8**	**11.0**	**10.6**	**10.9**	**10.8**	**10.7**
Capital transfers	2.6	2.5	1.6	2.2	2.3	2.3	2.3	2.3	2.2	2.2
Public sector flows	0.1	-1.1	-0.2	1.4	1.8	1.7	1.9	2.0	2.0	2.0
Foreign direct investment	6.3	5.6	6.9	5.2	6.1	6.6	7.0	7.2	7.5	7.5
Commercial banks	6.1	3.7	-1.1	-4.3	-7.9	-3.9	-1.7	-0.8	-0.6	-0.5
Other private flows 1/	3.9	4.8	1.9	5.6	9.4	4.3	1.2	0.2	-0.3	-0.5
Errors and omissions	**0.5**	**-0.8**	**-0.8**	**1.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**0.6**	**1.3**	**-3.0**	**4.8**	**4.3**	**3.0**	**2.2**	**2.0**	**1.6**	**1.2**
Memorandum Items:										
Trade balance (percent of GDP)	**-32.6**	**-27.0**	**-25.9**	**-24.2**	**-25.4**	**-26.0**	**-26.7**	**-27.4**	**-27.9**	**-28.2**
Services balance (percent of GDP)	**13.8**	**15.7**	**16.3**	**18.6**	**19.3**	**19.6**	**20.0**	**20.3**	**20.6**	**20.7**
Net imputed international reserves										
Millions of US dollars, end of period	189.8	208.2	168.5	235.3	308.7	353.6	379.6	397.1	415.3	432.4
Months of imports of goods and services	2.8	3.3	2.7	4.0	5.0	5.5	5.7	5.8	5.9	5.8
Percentage of demand liabilities	87.6	87.0	85.1	89.2	91.3	92.2	92.5	92.8	92.9	92.9
Gross external debt (percent of GDP)	85.2	90.8	92.4	89.2	90.2	85.7	82.3	81.2	80.5	79.8
Public sector	32.7	33.9	36.7	38.4	39.8	40.6	41.0	41.2	41.4	41.6
Private sector 2/	52.5	56.8	55.7	50.8	50.4	45.1	41.3	40.0	39.0	38.2
GDP (in US$ millions)	1,290	1,311	1,334	1,404	1,422	1,455	1,513	1,583	1,655	1,731

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

1/ Assumed to cover the residual financing needs over the projection period, allowing international reserves to gradually accumulate.

2/ Includes largely gross foreign liabilities of commercial banks and other private debt that covers the projected financing needs.

Table 4. St. Lucia: Summary Accounts of the Banking System

	2011	2012	2013	2014	2015 Proj.	2016 Proj.
	(In millions of EC dollars, end of period)					
Net foreign assets	-494.7	-576.8	-646.2	-305.2	182.2	453.1
Central bank	512.4	562.2	454.9	635.4	819.3	938.0
Commercial banks (net)	-1,007.1	-1,139.1	-1,101.0	-940.6	-637.0	-484.9
Assets	822.9	872.7	906.8	985.2	1,136.9	1,221.7
Liabilities	-1,829.9	-2,011.7	-2,007.8	-1,925.8	-1,773.9	-1,706.6
Net domestic assets	3,224.5	3,375.3	3,499.4	3,193.1	2,754.7	2,561.1
Public sector credit, net	-289.9	-181.1	-74.1	-199.1	-267.3	-239.1
(real terms)	-262.1	-155.9	-64.3	-166.6	-224.9	-199.7
Central government	-1.0	162.4	308.0	257.2	250.9	271.1
Other public sector	-288.9	-343.5	-382.1	-456.3	-518.3	-510.2
Private sector credit, net	3,887.5	4,084.6	4,051.4	3,778.6	3,533.0	3,458.8
(real terms)	3,514.6	3,516.7	3,514.1	3,161.5	2,972.0	2,888.0
Other items (net)	-377.0	-515.2	-464.4	-430.9	-511.0	-658.6
Broad money (M2)	2,729.8	2,798.5	2,853.2	2,887.9	2,936.9	3,014.2
Money	661.8	691.8	687.6	738.5	747.5	765.0
Currency in circulation	165.2	163.0	160.0	154.9	156.8	160.5
Demand deposits	496.5	528.8	527.6	583.6	590.7	604.6
Quasi-money	2,068.0	2,106.7	2,165.6	2,149.5	2,189.4	2,249.2
Time deposits	491.0	486.9	443.8	369.5	389.1	461.3
Savings deposits	1,393.5	1,448.3	1,543.2	1,526.5	1,552.8	1,589.2
Foreign currency deposits	169.9	161.9	170.6	243.3	247.5	198.7
	(12-month percentage change)					
Net foreign assets	56.7	16.6	12.0	-52.8	-159.7	148.7
Net domestic assets	12.2	4.7	3.7	-8.8	-13.7	-7.0
Broad money (M2)	6.7	2.5	2.0	1.2	1.7	2.6
NFA contribution	-7.0	-3.0	-2.5	12.0	16.9	9.2
NDA contribution	13.7	5.5	4.4	-10.7	-15.2	-6.6
Money	4.5	4.5	-0.6	7.4	1.2	2.3
NFA contribution	3.2	7.5	-15.5	26.3	24.9	15.9
NDA contribution	1.3	-3.0	14.9	-18.9	-23.7	-13.5
Quasi-money	7.4	1.9	2.8	-0.7	1.9	2.7
	(In percent of GDP)					
Net foreign assets	-14.2	-16.3	-17.9	-8.0	4.7	11.5
Net domestic assets	92.6	95.3	97.1	84.2	71.8	65.2
Broad money (M2)	78.4	79.1	79.2	76.2	76.5	76.7
Money	19.0	19.5	19.1	19.5	19.5	19.5
Quasi-money	59.4	59.5	60.1	56.7	57.0	57.3
Interest rates (percent per year) 1/						
ECCB policy rate	6.50	6.50	6.50	6.50	…	…
US policy rate	0.13	0.13	0.13	0.13	…	…
Interbank market rate	4.88	6.31	6.45	6.03	…	…
Time deposit rate	4.25	3.98	3.74	2.69	…	…
Demand deposit rate	0.75	0.86	0.69	0.46	…	…
Weighted average lending rate	9.05	8.51	8.41	8.54	…	…

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

1/ End-of-period rates.

Annex I. Implementation of Previous Fund Advice

2014 Article IV Policy Recommendation	Policy Actions
Growth Agenda	
Staff recommended reforms to address key bottlenecks:	*The authorities have moved ahead on some items.*
Continuing with reforms to improve operations at the ports and customs.	The authorities improved Customs operations by automating the import clearance process and introducing a Risk Management Task Force. The authorities and unions have laid the groundwork to commence negotiations on s shift-based work schedule to lower overtime costs.
Accelerate legal reforms to expedite contract resolution.	The Commercial Division of the High Court is expected to open soon. Rules have been finalized and a judge has been appointed.
Reducing the cost of credit	The Monetary Council, of which St. Lucia is a member, agreed to lower the deposit rate floor from 3 percent to 2 percent.
Other items	Other recommendations, including reforming insolvency procedures, introducing a movable property registry, and examining the scope for renewables to lower energy costs remain in planning phases.
Fiscal Policy	
Staff advised urgently developing and implementing a credible, medium-run adjustment strategy to achieve their commitment to the regional debt target of 60 percent of GDP by 2020.	*The authorities continue to support labor markets and the economy rather than adopting substantial fiscal adjustment policies.*
Introduce a three-year adjustment of around 7½ percent of GDP through a combination of savings on wages, other current and non-infrastructure capital expenditures, and tax expenditures.	The authorities in St. Lucia and elsewhere in the ECCU delayed the target to 2030; a strategy to achieve this target has not been presented. An agreement was reached on a wage freeze instead of rather than a nominal cut cuts. Some revenue items have been introduced or announced including increasing the VAT rate on tourism services and raising certain fees and surcharges.
Financial Sector	
Staff recommended both local and regional reforms to bolster the financial system.	*The authorities have moved forward, including in the context of a major regional initiative*
Continue with the regional strategy to strengthen the ECCU banking system	The authorities passed the Banking Act took other regionally harmonized actions to reform the bank supervision and regulation framework; asset quality reviews have been completed; results of a dynamic modeling exercise are expected and will inform future policies. Additional legislative reforms are expected.
Prompt passage of the regional legislation for credit unions and the insurance sector.	Not yet implemented.
Expediently reform foreclosure legislation.	The authorities have committed to a reform in a regional context.

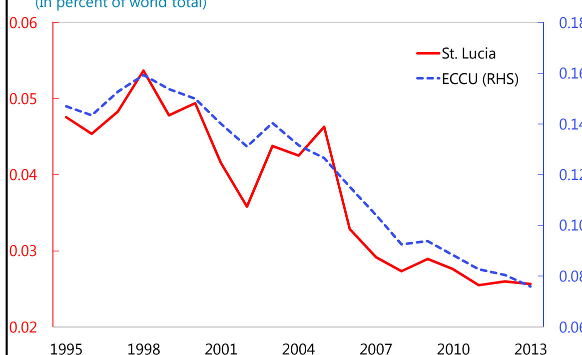
Annex II. External Position Assessment

St. Lucia's external position benefited from a robust pick-up in tourist activity and favorable commodity prices, bringing the current account deficit from 11 percent in 2013 to a preliminary estimate of 6.7 percent of GDP in 2014. After more than a decade of persistent double-digit current account deficits, St. Lucia's external position is estimated to have improved significantly in 2014 largely owing to the recovery of tourism exports and lower food and commodity prices.

The current account deficit is expected to widen gradually over the medium term reflecting a structural lack of competitiveness. The near term external position is projected to benefit from favorable commodity and fuel prices. Over the medium term, however, the projected current account deficit is expected to return to historical levels, reflecting stabilizing commodity and fuel prices. Higher FDI inflows are likely to encourage FDI-related import growth, while sustained economic growth and tourism activity pick-up is expected to boost consumer imports. The trade deficit is also projected to deteriorate on account of subdued export growth, reflecting product and labor market frictions, high energy and transportation costs, burdensome bureaucratic procedures, economies of scale disadvantages, and an overvalued real exchange rate, all of which continue to impair the competitiveness of St. Lucia's external sector.

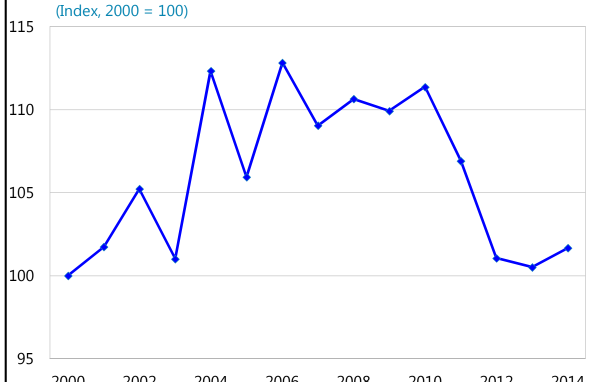
Bottlenecks continue to constrain St. Lucia's productivity, export growth and diversification, also reflected in the declining tourism market share. Subdued economic growth, accompanied by rigid labor market conditions and expanding public sector employment, has contributed to St. Lucia's stagnant productivity since the Global Financial Crisis. Between 2008 and 2012 alone public sector employment increased by about 36 percent, while real GDP growth averaged close to 0.3 percent. While low productivity remains a concern for the entire ECCU, St. Lucia's productivity is estimated to have had a deeper declined then the union average. Private sector frictions, captured by the World Bank Doing Business indicators, are also reflected in the areas of getting credit, resolving insolvency, and registering property, among others. On average, St. Lucia appears to perform better than other ECCU members in the area of starting a business, mainly due to fewer procedures and shorter processing time. While the cost of starting a business in income per capita terms continued to decline throughout the last decade in other ECCU

St. Lucia: International Tourism Receipts
(In percent of world total)

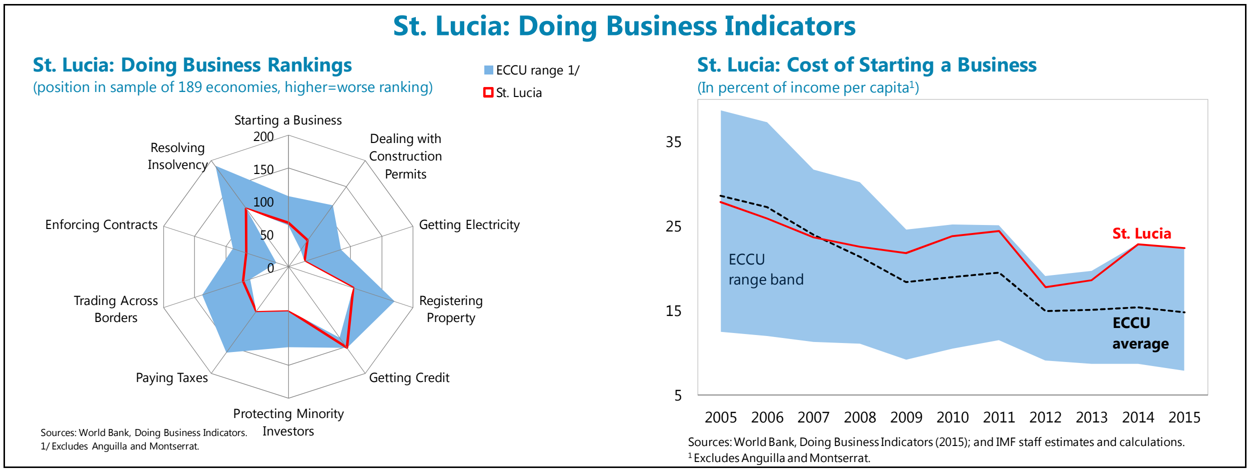


Sources: WDI; and IMF staff estimates and calculations.

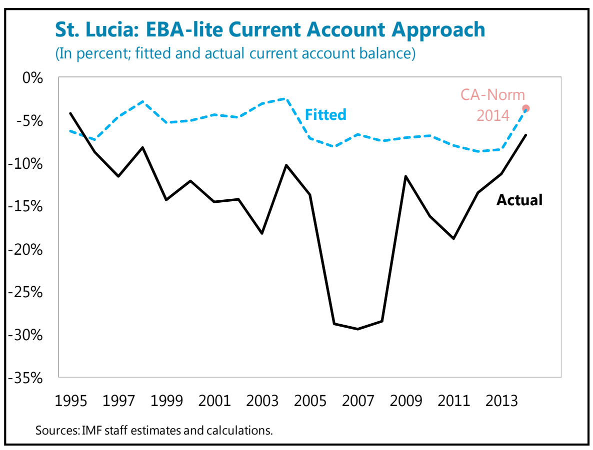
Labor Productivity Index
(Index, 2000 = 100)



members, in St. Lucia, however, it remains at about 22 percent, the highest levels in the union. Against this backdrop, similarly to other ECCU members, these competitiveness bottlenecks have added to St. Lucia's declining market share in tourism.



Empirical evidence points to the presence of some exchange rate overvaluation. The standard EBA-lite estimates suggest some degree of overvaluation of the real effective exchange rate in 2014. The current account balance of -6.7 percent of GDP was lower in 2014 than the estimated "norm" of -3.6 percent of GDP, suggesting an overvaluation of the real effective exchange rate of about 11 percent. Meanwhile, REER-based EBA-lite approach points to an overvaluation of the real effective exchange rate of about 2.3 percent in 2014. These results suggest somewhat lower misalignment when compared to the 2014 Staff Report largely on account of lower current account deficit over the medium term, owing to the stronger economic outturn in 2014 and lower medium term commodity and fuel price expectations. Due to the poor fit of the model for small countries with large current account deficits, the majority of the current account gap, however, is explained by the regression residual (see table below). Significant financing of the current account deficit through the FDI, which is excluded from the model, could partially explain this discrepancy, along with measurement errors and other data shortcomings. Thus, the results should be considered with caution as current account estimates may change in the future as authorities continue to improve their data collection methodology, potentially leading to revisions in the estimates of REER misalignment[1].



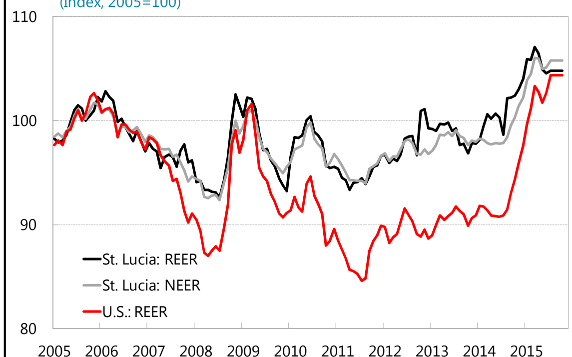
[1] The authorities are currently working on improving balance of payments statistics through broader coverage and methodological enhancements. Current estimates of tourism receipts, in particular, are based on an outdated

St. Lucia: Exchange Rate Assessment EBA-lite Model Estimates (2014, in percent)						
	Current Account Norm	Actual Current Account Balance	Current Account Gap	REER Gap[1]	Policy Gap	Residual
Current Account Regression	-3.6	-6.7	-3.1	11.2	-0.2	-2.9
REER Regression	…	…	…	2.3	…	…

Source: IMF staff estimates and calculations.
[1] Positive number indicates overvaluation.

The domestic currency is expected to continue appreciating in nominal effective terms, but the effect of the appreciation is likely to be mitigated by higher tourist arrivals. Given the de facto currency board arrangement of the EC dollar against the U.S. dollar, in recent months St. Lucia's exchange rate has continued to appreciate in real effective terms, mainly driven by nominal effective exchange rate appreciation against its trading partners. Appreciation is likely to continue in the near future as the normalization of unconventional monetary policy in the United States may cause the U.S. dollar to strengthen further. However, the overall effect on St. Lucia's external sector is likely to be mitigated by low exchange rate elasticity of tourism owing to St. Lucia's high concentration on high-end tourism and by higher tourist arrivals from the U.S. as the recovery consolidates in that country.

Nominal and Real Effective Exchange Rate
(Index, 2005=100)



Sources: IMF, INS database, and staff estimates and calculations.

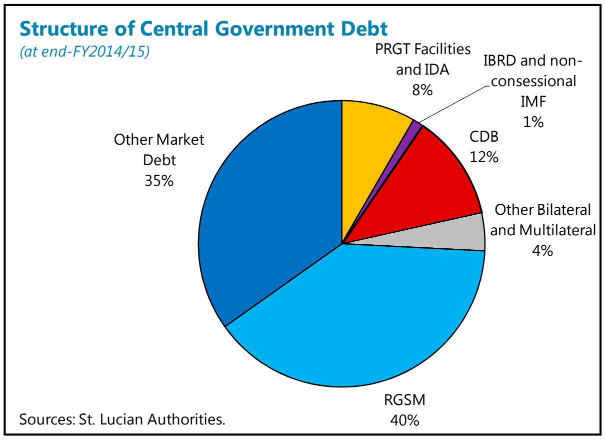
estimate of tourist expenditure and are compiled using the IMF BPM 5 methodology. Revised balance of payments data, which are expected to be released in 2016, will be based on the BPM6 methodology and a new tourist expenditure survey.

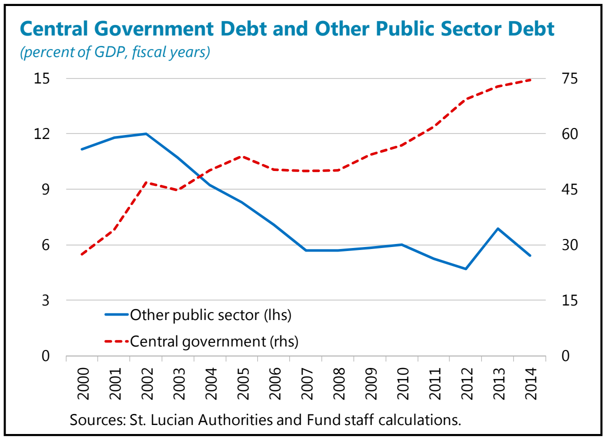
Annex III. Debt Sustainability Analysis [1]

Debt levels have risen rapidly in recent years. Many standard vulnerability indicators already exceed prudential thresholds, including on debt levels, financing requirements, length of maturities, and usage of external sources, as illustrated by the heat map (Figure A1). In the absence of an adjustment plan to achieve the authorities' announced fiscal targets, public sector debt would remain on an upward trajectory. Although the pace of debt accumulation is expected to slow down relative to recent consultations, debt dynamics remain unsustainable under the staff's baseline as well as standard adverse scenarios.

Background

A large and rising public sector debt burden constitutes one of the most serious vulnerabilities for St. Lucia's economic outlook. The dramatic rise in public debt began around the time the traditional banana industry collapsed in the mid-1990s and was aggravated by the fallout of September 11, 2001, the slow recovery in the United States from the early-2000s recession, and the global financial crisis. Between FY1996/97 and FY2014/15, public debt has risen from 28 to 79 percent of GDP.





- **Coverage**. Central government obligations constitute the largest share of St. Lucia's public debt and have been rising over time. These debts include market-based securities, commercial bank bonds and loans, bilateral and multilateral debt, loans from the national insurance scheme (NIC), overdraft facilities, and outstanding payables. Public debt also includes the loans from the domestic commercial banks and the NIC to the statutory enterprises, both guaranteed and non-guaranteed debts, and loans from multilateral development institutions, of which all are subject to guarantees. In contrast to the central government, other public sector debt has been stable in recent years.

[1] St. Lucia, classified as an upper-middle income country, has an IDA-blend status from the World Bank. St. Lucia is also able to borrow from the Fund under PRGT facilities. However, reflecting the preponderance of market-based instruments in St. Lucia's public sector debt, staff has been using the market access country DSA.

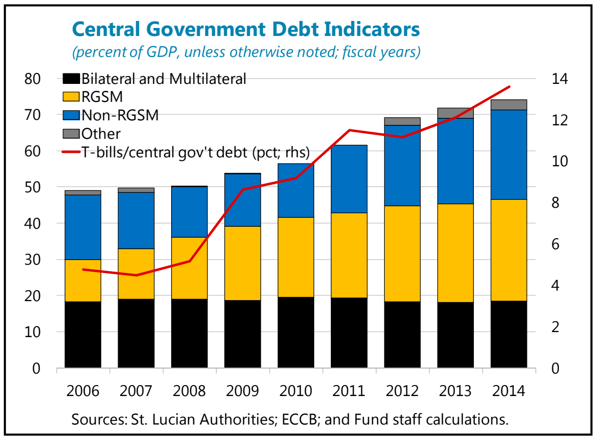
- **Instruments**. Despite having access to concessional forms of financing, the majority of St. Lucia's debt is market-based. Bilateral and multilateral debt amounts to one quarter of total public debt, of which the Caribbean Development Bank is the largest creditor. In contrast, the remaining three-quarters of St. Lucia's debt instruments have been issued on commercial terms. The ECCU Regional Government Securities Market (RGSM), is the largest market in which St. Lucia has issued sovereign debt instruments, accounting for about 40 percent of total central government debt. As St. Lucia has over time saturated the RGSM, becoming the largest issuer in the market by far, other sources have increasingly been tapped, including issues on the Trinidad and Tobago securities exchange, debt instruments listed on the Eastern Caribbean Securities Exchange, other private placements, and bonds and loans issued directly to the NIC. In each of these markets, there is a mix of short-term treasury bills and medium-to-long term notes and bonds, although in recent years, short-term instruments have been taking up a larger share of the total. Central government debt is fairly balanced between domestic and external creditors. Within domestic debt, non-bank financial institutions (including the NIC), commercial banks, and insurance companies hold the largest shares of domestic debt.

Central Government Debt, December 31, 2014, by Holder

	EC$ millions	Percent of GDP	Percent of Central Govt Liabilities
Domestic securities and loans	**1,298**	**34.2**	**46.8**
Commercial banks	344	9.1	12.4
Insurance companies	177	4.7	6.4
Other financial institutions	710	18.7	25.6
Non-financial public sector	6	0.2	0.2
Other domestic holders 1/	61	1.6	2.2
Outstanding payables and overdrafts	**106**	**2.8**	**3.8**
External debt	**1,367**	**36.1**	**49.3**
Multilateral institutions	**605**	**15.9**	**21.8**
IMF	46	1.2	1.6
Caribbean Development Bank	331	8.7	11.9
World Bank (IDA and IBRD)	227	6.0	8.2
IFAD	0	0.0	0.0
Bilateral	**109**	**2.9**	**3.9**
France	20	0.5	0.7
Kuwait	33	0.9	1.2
Jamaica	16	0.4	0.6
Trinidad and Tobago	41	1.1	1.5
External commercial debt	**654**	**17.2**	**23.6**
Total central government debt	**2,772**	**73.1**	**100.0**
Memo: Debt ex. payables and overdrafts	2,666	70.3	96.2

Source: St. Lucian authorities.

- **Vulnerabilities posed by public debt**. The characteristics of St. Lucia's debt stock, which stands at 79.6 percent of GDP—in excess of the 60 percent threshold—and substantial borrowing requirements result in breaches of key thresholds under the baseline scenario. As a result, the heat map shows the highest vulnerability in most cells. Other indicators, such as the bond spread and public debt in foreign currencies are approaching upper early warning levels, while the change in short-term public debt and public debt held by nonresidents exceed the upper early warning benchmarks. Largely reflecting the large stock of non-resident deposits in the banking system, but also the growing stock of externally-held t-bills, the external financing requirement is high. Despite high public debt,recent RGSM auctions have been well subscribed and yields have remained stable, possibly flecting high liquidity among key investors and limited alternative investment opportunities



Baseline Scenario

Staff's baseline scenario projects an unsustainable debt burden. Under the baseline scenario, the output gap is expected to close, with real GDP growth approaching 2 percent, close to the average of 1.9 percent observed over the past 25 years. Inflation, which tends to be volatile in St. Lucia, should remain moderate and within a range of 1-2½ percent. The medium-term primary fiscal balance is set to remain in slight surplus of 0.6 percent of GDP, with interest expenses rising over the projection horizon. As a result, public debt is set to rise steadily, reaching 86 percent of GDP by 2020/21 and 90 percent of GDP by FY2030/31, the date in which the authorities have pledged to attain a 60 percent of GDP debt level.

Revisions to Baseline Fiscal Projections

(percent of GDP, fiscal years)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Debt, current baseline	59.3	62.4	66.9	73.7	78.6	79.6	82.4	84.0	84.7	85.2	85.6	86.0
Debt, 2012 Article IV	59.8	62.6	67.0	74.1	79.6	84.6	89.0	93.6	98.0	102.3	106.3	110.4
Difference	-0.4	-0.2	-0.1	-0.4	-1.0	-5.0	-6.7	-9.6	-13.3	-17.1	-20.7	-24.4
Revision due to:	-0.4	-0.2	-0.1	-0.4	-1.0	-5.9	-7.5	-10.4	-14.1	-17.9	-21.4	-25.1
National accounts revision	-0.4	-0.2	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Revisions to projections:	0.0	0.0	0.0	-0.3	-0.8	-5.7	-7.4	-10.3	-13.9	-17.7	-21.2	-24.9
Real sector	0.0	0.0	0.0	-0.3	-0.8	-2.9	-1.3	-0.4	-0.6	-0.8	-0.9	-1.0
Primary balance	0.0	0.0	0.0	0.0	0.0	-2.2	-5.1	-8.5	-11.5	-14.4	-17.1	-19.7
Interest	0.0	0.0	0.0	0.0	0.1	0.0	-0.3	-0.6	-1.1	-1.7	-2.5	-3.5
Other 1/	0.0	0.0	0.0	0.0	-0.1	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7

Sources: St. Lucian Authorities and Fund staff estimates.
1/ Activities of the rest of the public sector and other below-the-line transactions.
Note: Sums may not exactly equal totals due to rounding errors.

Although conclusions are broadly the same, the outlook is somewhat more favorable than in past consultations. In the 2014 Article IV consultation, debt was also projected to be on an unsustainable trajectory and was expected to reach 110 percent of GDP in FY2020/21, much higher than the 86 percent currently expected, reflecting a number of factors including:

- *Revisions to national accounts data*: A recently issued revision to the national accounts resulted in a 1¼ percent increase in the level of nominal GDP in FY2013/14 (the last year of data in the previous Article IV consultation). The one-off increase in the denominator has reduced the debt-to-GDP ratio by about ¼ percent throughout the projection horizon.

- *Better-than-expected growth outturns and improved projections*: Real GDP growth was stronger than expected last year, and FY2015/16 results are expected to be positively impacted by upwardly revised real output growth projections for the advanced economies as well as the late-2014 fall in oil prices, which was not foreseen at the time of the last consultation.

- *Net improvements in the fiscal outlook*: In the previous Article IV consultation, projections assumed implementation of the authorities' announced intentions to provide substantial income tax relief to individuals and corporations, execute the capital budget at high levels of expenditures, and negotiate a five percent wage cut. In the event, the authorities did not implement the tax relief measures, reduced capital expenditures, and negotiated a wage freeze, instead of a cut. Additionally, new revenue measures have been introduced since the last consultation and the capital budget cuts are expected to persist, due to tight financing conditions. On net, the medium-term projected primary balance has been revised up 3.4 percentage points of GDP, substantially reducing debt accumulation.

- *Lower interest expenditures*: In line with the improved primary balance projections and lower debt accumulations, interest expenditures are lower.

On the basis of prior forecast errors and other countries' experiences, projections are subject to risks. Since 2006, growth projections have generally been more optimistic than outturns. Projections for the primary balance and inflation have not been over-optimistic, but errors have been large in either direction, likely reflecting the high degree of macroeconomic volatility that is typical of small developing states. The maximum projected three-year adjustment in the cyclically adjusted primary balance, at 5½ percent of GDP between FY2012/13 and FY2015/16, suggests an expected strong performance relative to international experience. However, the downside risk to projections suggested by this metric is mitigated by distortions from retroactive wage payments in FY2012/13 as well as by staff's expectation of limited further adjustment over the medium run. The highest level of the cyclically adjusted balance is weak relative to the world sample and does not suggest a downside risk to projections. Finally, risks associated with contingent liabilities from the financial sector have likely lessened following improvements in the reported financial performance of banks.

Alternative scenarios

Under adverse shock scenarios, the baseline debt path becomes even less sustainable.

- *Growth shock*: The growth shock, which simulates a one standard deviation adverse shock to real GDP growth over 2016-17 has the most severe outcome. In this scenario, the two-year economic contraction would result in decreased inflation, in line with the widening of the output gap; a wider primary deficit; and higher government borrowing costs. By FY2020/21, public debt would reach 93 percent of GDP.

- *Primary balance, interest rate, and exchange rate shocks*: Other adverse shock scenarios have more modest effects, resulting in debt approaching levels around 1-4 percentage points of GDP higher than under the baseline. The most severe is the real interest rate shock, in which case the government's effective interest rate rises to its highest historical level permanently starting in FY2016/17. Less severe is the primary balance shock, which envisages a ½ standard deviation deterioration in the primary balance over FY2016/17-FY2017/18, followed by a 5 percent real exchange rate shock. The risk suggested by the latter scenario is mitigated by the near currency board arrangement for the Eastern Caribbean dollar.

- *Combined macro-fiscal shock*: The combined macro-fiscal shock is more severe than the macro-fiscal stress tests, with public debt reaching 114 percent by FY2020/21. The severity of this scenario reflects the common real sector and primary balance assumptions as under the real GDP growth shock scenario, plus a rise in the effective interest rate.
- *Adjustment scenarios*:[2] Under staff's recommended adjustment scenario, measures are implemented totaling 3⅓ percent of GDP spread over FY2016/17-FY2019/20, with an expected disaster recovery projected over FY2017/18-FY2019/20. Subjecting this scenario to the growth, inflation, and interest rate shocks of the combined macro-fiscal shock scenario (the exchange rate depreciation has been excluded due to the exchange rate arrangement) causes debt to rise up at first, reflecting the deterioration in the primary balance and a substantially worse macroeconomic environment. However, debt stabilizes at 96 percent of GDP at the end of the projection horizon. Under the constrained adjustment scenario, in which capital expenditures are reduced in line with tight financing conditions, with otherwise identical macroeconomic shocks, debt continues rising throughout the projection period to reach about 104 percent of GDP.[3] The stronger performance under the recommended adjustment scenario underscores an added benefit from decisive upfront action to make progress towards debt sustainability.

[2] The scenarios are described in ¶21-23 in the main text.

[3] In light of the low multipliers assumed for the ECCU countries and already modest share of new infrastructure in the capital budget, the growth impacts of adjustment are assumed to be zero in both the recommended and financing constrained scenarios.

External Debt Sustainability Analysis

External debt is projected to decrease somewhat to 80 percent of GDP by the end of the forecast horizon. In the next few years, commercial banks' foreign liabilities are expected to decrease outright, reflecting these institutions' deleveraging efforts. A minor recovery to current dollar levels in later years will not prevent private external debt from falling as a share of GDP over the medium term. These trends are expected to offset continued increases in public sector external debt in line with the fiscal projections. Additionally, these projections assume a recovery in foreign direct investment, which would result in larger non-debt financing sources for projected future current account deficits. However, the external debt path remains vulnerable to potential adverse shocks. Under the scenario with key variables held at historical levels, external debt would be on an upward trajectory. The adverse shock scenarios also suggest vulnerability—under the growth, interest rate, current account, and the combined shock scenarios, external debt also rises throughout the forecast period. The most severe effects are observed under the real exchange rate depreciation scenario, which would result in a step increase in external debt to around 123 percent of GDP in the year of the shock, before decreasing a bit to 116 by 2020. The vulnerability suggested by this scenario is mitigated by the regional central bank's near currency board arrangement, which makes such a depreciation unlikely.

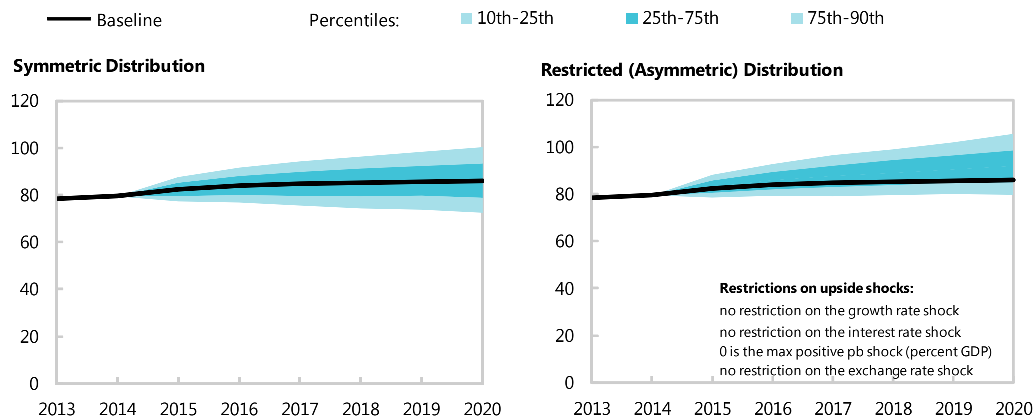
Figure A1. St. Lucia: Public DSA Risk Assessment

Heat Map

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

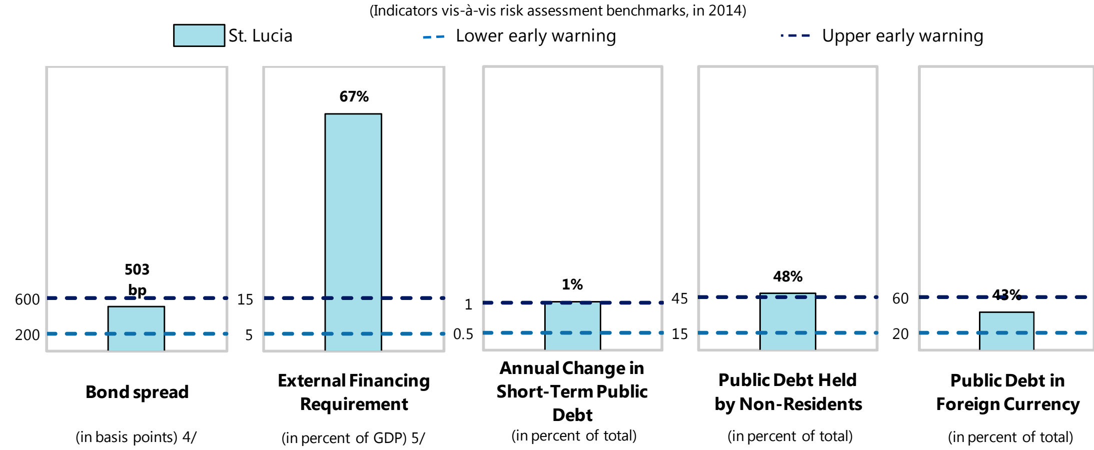
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2014)



Source: IMF staff.

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

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

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

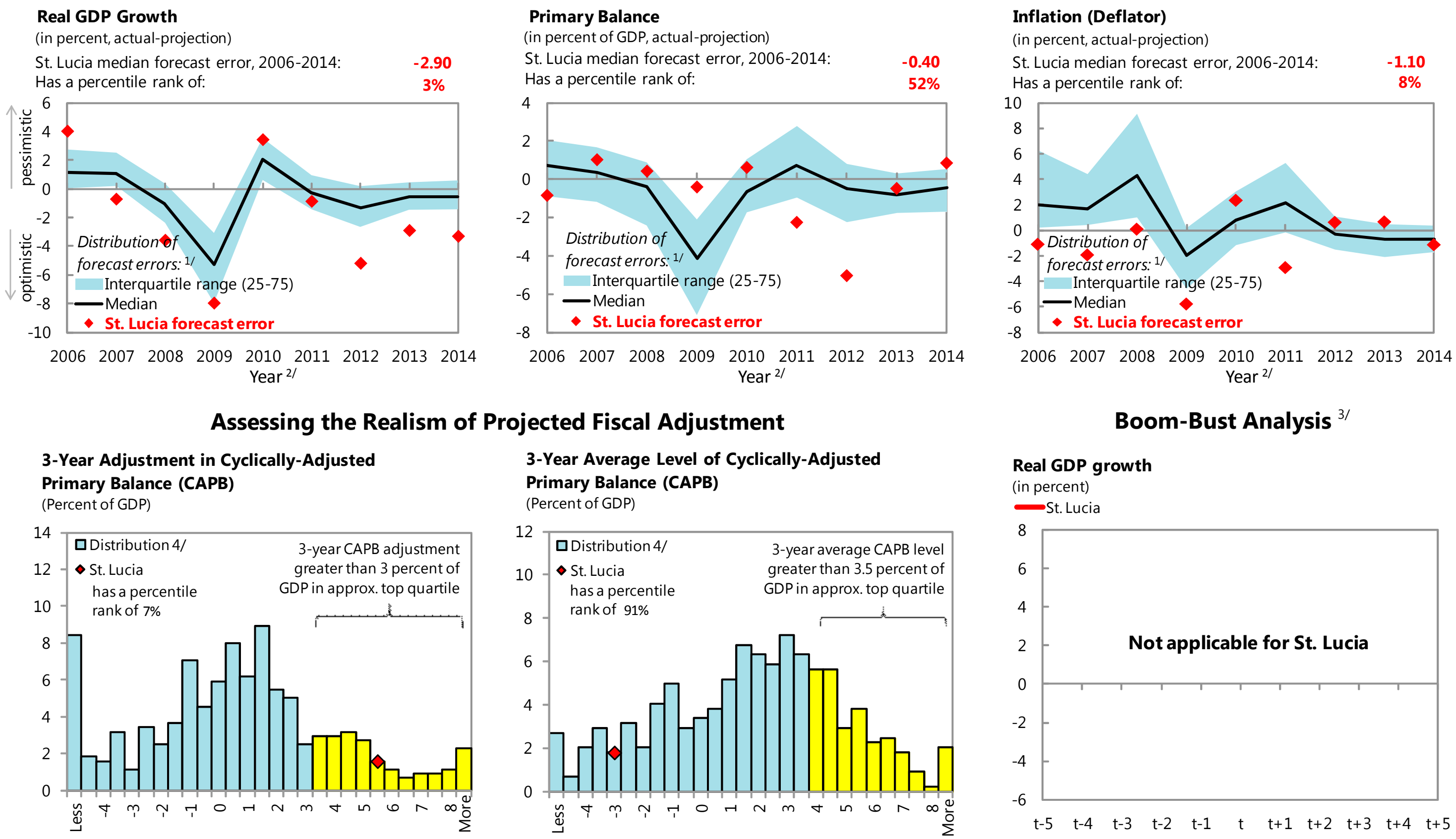
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, at most recent auction, October 29, 2015.

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

Figure A2. St. Lucia Public DSA—Realism of Baseline Assumptions

Forecast Track Record, versus all countries



Source : IMF Staff.

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

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

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

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

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

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

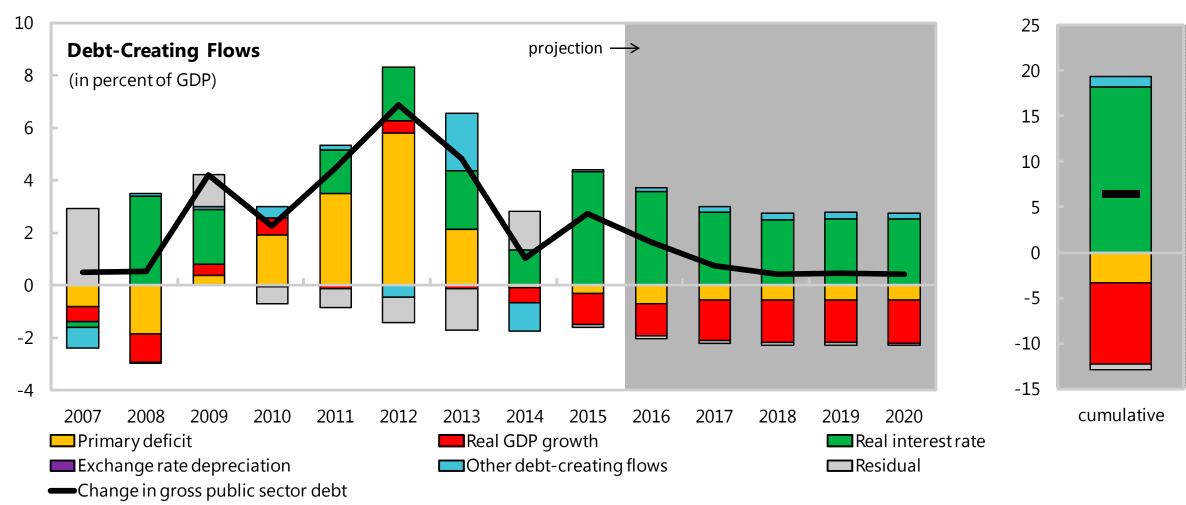
Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2007-2012 [2]	2013	2014	2015	2016	2017	2018	2019	2020
Nominal gross public debt	62.4	78.6	79.6	82.4	84.0	84.7	85.2	85.6	86.0
Of which: guarantees	3.9	2.7	2.1	2.0	2.0	1.9	1.8	1.7	1.6
Public gross financing needs	11.1	16.5	16.3	23.2	25.5	29.7	36.1	43.7	43.8
Real GDP growth (in percent)	0.1	0.2	0.7	1.5	1.5	1.9	2.0	2.0	2.0
Inflation (GDP deflator, in percent)	3.0	2.4	3.4	0.0	1.2	2.2	2.5	2.5	2.5
Nominal GDP growth (in percent)	3.1	2.7	4.2	1.5	2.8	4.2	4.6	4.6	4.6
Effective interest rate (in percent) [4]	5.5	5.6	5.2	5.5	5.7	5.7	5.7	5.7	5.6

As of October 29, 2015		
Sovereign Spreads		
EMBIG (bp) 3/		503
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	n.a.	n.a.
S&Ps	n.a.	n.a.
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2004-2012	2013	2014	2015	2016	2017	2018	2019	2020	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	3.1	4.8	1.0	2.7	1.6	0.8	0.4	0.5	0.4	6.4	
Identified debt-creating flows	2.8	6.4	-0.4	2.9	1.8	0.9	0.5	0.5	0.5	7.0	
Primary deficit	1.5	2.1	-0.1	-0.3	-0.7	-0.6	-0.6	-0.6	-0.6	-3.3	1.1
Primary (noninterest) revenue and grants	25.2	25.3	25.5	27.6	28.2	28.0	28.0	28.0	28.0	167.9	
Primary (noninterest) expenditure	26.6	27.4	25.3	27.3	27.4	27.5	27.5	27.5	27.5	164.6	
Automatic debt dynamics [5]	1.4	2.1	0.8	3.1	2.3	1.2	0.9	0.9	0.8	9.2	
Interest rate/growth differential [6]	1.4	2.1	0.8	3.1	2.3	1.2	0.9	0.9	0.8	9.2	
Of which: real interest rate	1.5	2.2	1.3	4.3	3.6	2.8	2.5	2.5	2.5	18.2	
Of which: real GDP growth	0.0	-0.2	-0.6	-1.2	-1.2	-1.6	-1.6	-1.6	-1.7	-8.9	
Exchange rate depreciation [7]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.1	2.2	-1.1	0.1	0.1	0.2	0.2	0.2	0.2	1.2	
Privatizaton proceeds (negative)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Activities of the statutory enterprises	-0.2	2.2	-1.1	0.1	0.1	0.2	0.2	0.2	0.2	1.2	
Residual, including asset changes [8]	0.3	-1.6	1.5	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.6	



Source: IMF staff.

1/ Public sector is defined as general government and includes public guarantees, defined as Guaranteed debt of the statutory enterprises..

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

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

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

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

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

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

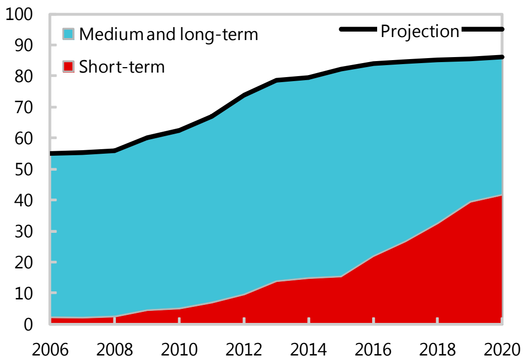
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure A4. St. Lucia Public DSA—Composition of Public Debt and Alternative Scenarios[1/]

Composition of Public Debt

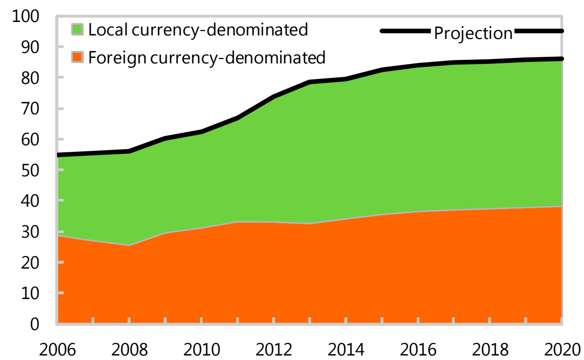
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

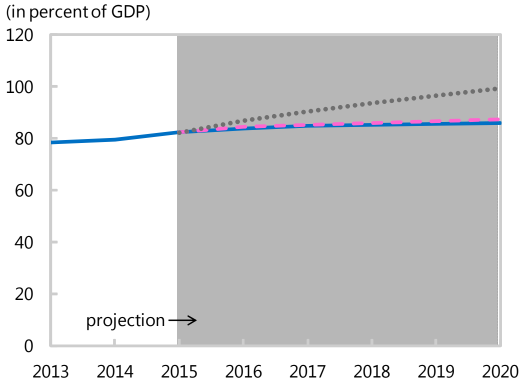


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

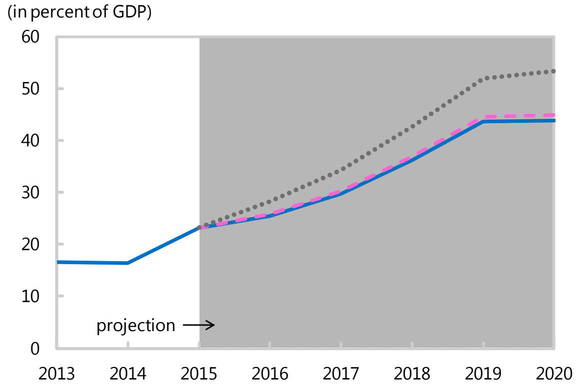
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	1.5	1.5	1.9	2.0	2.0	2.0
Inflation	0.0	1.2	2.2	2.5	2.5	2.5
Primary Balance	0.3	0.7	0.6	0.6	0.6	0.6
Effective interest rate	5.5	5.7	5.7	5.7	5.7	5.6
Constant Primary Balance Scenario						
Real GDP growth	1.5	1.5	1.9	2.0	2.0	2.0
Inflation	0.0	1.2	2.2	2.5	2.5	2.5
Primary Balance	0.3	0.3	0.3	0.3	0.3	0.3
Effective interest rate	5.5	5.7	5.7	5.7	5.6	5.6

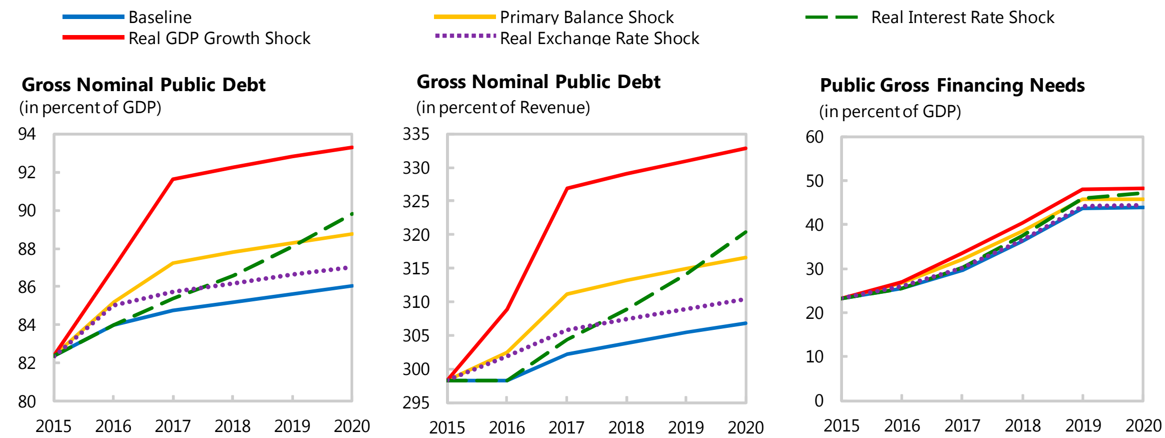
Historical Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	1.5	0.9	0.9	0.9	0.9	0.9
Inflation	0.0	1.2	2.2	2.5	2.5	2.5
Primary Balance	0.3	-1.8	-1.8	-1.8	-1.8	-1.8
Effective interest rate	5.5	5.7	5.0	4.8	4.6	4.4

Source: IMF staff.

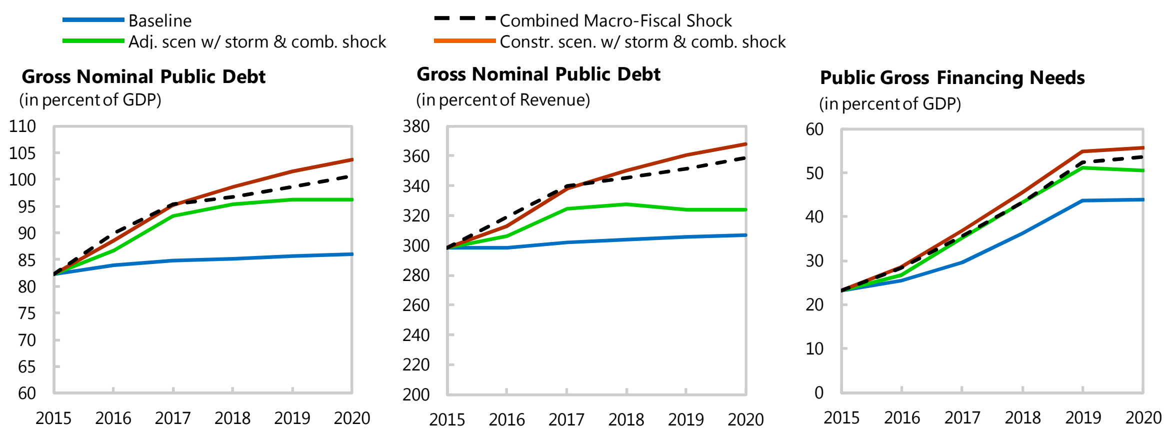
1/ Fiscal-year (April-March) basis.

Figure A5. St. Lucia Public DSA—Stress Tests[1/]

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2015	2016	2017	2018	2019	2020
Real GDP growth	1.5	1.5	1.9	2.0	2.0	2.0
Inflation	0.0	1.2	2.2	2.5	2.5	2.5
Primary balance	0.3	-0.5	-0.6	0.6	0.6	0.6
Effective interest rate	5.5	5.7	5.8	5.8	5.7	5.7
Real Interest Rate Shock						
Real GDP growth	1.5	1.5	1.9	2.0	2.0	2.0
Inflation	0.0	1.2	2.2	2.5	2.5	2.5
Primary balance	0.3	0.7	0.6	0.6	0.6	0.6
Effective interest rate	5.5	5.7	6.4	6.7	6.9	7.2
Combined Shock						
Real GDP growth	1.5	-0.6	-0.2	2.0	2.0	2.0
Inflation	0.0	0.7	1.6	2.5	2.5	2.5
Primary balance	0.3	-0.5	-0.9	0.6	0.6	0.6
Effective interest rate	5.5	5.8	6.4	6.7	6.9	7.2
Adj. scen w/ storm & comb. shock						
Real GDP growth	1.5	-0.6	-0.2	2.0	2.0	2.0
Inflation	0.0	0.7	1.6	2.5	2.5	2.5
Primary balance	0.3	0.3	-2.2	-0.1	1.4	2.5
Effective interest rate	5.5	5.7	6.4	6.7	7.0	7.3

Real GDP Growth Shock	2015	2016	2017	2018	2019	2020
Real GDP growth	1.5	-0.6	-0.2	2.0	2.0	2.0
Inflation	0.0	0.7	1.6	2.5	2.5	2.5
Primary balance	0.3	0.0	-0.9	0.6	0.6	0.6
Effective interest rate	5.5	5.7	5.7	5.8	5.7	5.7
Real Exchange Rate Shock						
Real GDP growth	1.5	1.5	1.9	2.0	2.0	2.0
Inflation	0.0	2.9	2.2	2.5	2.5	2.5
Primary balance	0.3	0.7	0.6	0.6	0.6	0.6
Effective interest rate	5.5	5.8	5.7	5.6	5.6	5.6
Constr. scen. w/ storm & comb. shock						
Real GDP growth	1.5	-0.6	-0.2	1.0	1.0	1.0
Inflation	0.0	0.7	1.6	2.5	2.5	2.5
Primary balance	0.3	0.7	0.6	0.6	0.6	0.6
Effective interest rate	5.5	5.7	6.5	6.7	7.0	7.3

Source: IMF staff.
1/ Fiscal year (April-March) basis.

Table A1. St. Lucia: External Debt Sustainability Framework, 2010-2020

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2010	2011	2012	2013	2014			2015	2016	2017	2018	2019	2020	Debt-stabilizing non-interest current account 6/
Baseline: External debt	79.5	85.2	90.8	92.4	89.2			**90.2**	**85.7**	**82.3**	**81.2**	**80.5**	**79.8**	**-7.1**
Change in external debt	-5.6	5.8	5.5	1.7	-3.3			1.0	-4.5	-3.4	-1.1	-0.8	-0.7	
Identified external debt-creating flows (4+8+9)	2.3	10.0	6.5	2.7	-3.1			-0.1	0.2	-0.1	0.1	0.2	0.5	
Current account deficit, excluding interest payments	11.6	16.0	9.5	7.9	3.6			4.1	4.4	4.7	5.1	5.3	5.6	
Deficit in balance of goods and services	14.3	18.9	11.3	9.6	5.6			6.0	6.4	6.7	7.0	7.3	7.5	
Exports	48.7	44.4	46.0	45.5	44.7			44.7	45.3	46.2	46.7	47.1	47.2	
Imports	63.0	63.3	57.3	55.2	50.3			50.8	51.6	52.9	53.8	54.4	54.8	
Net non-debt creating capital inflows (negative)	-9.7	-6.3	-5.6	-6.9	-5.2			-6.1	-6.6	-7.0	-7.2	-7.5	-7.5	
Automatic debt dynamics 1/	0.3	0.3	2.7	1.7	-1.5			2.0	2.4	2.1	2.3	2.3	2.4	
Contribution from nominal interest rate	4.6	2.8	4.0	3.3	3.1			3.4	3.6	3.7	3.8	3.9	4.0	
Contribution from real GDP growth	1.4	-0.5	0.9	-0.1	-0.4			-1.4	-1.2	-1.6	-1.6	-1.6	-1.6	
Contribution from price and exchange rate changes 2/	-5.7	-2.0	-2.3	-1.5	-4.2			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-7.9	-4.3	-1.0	-1.1	-0.2			1.1	-4.7	-3.3	-1.2	-0.9	-1.1	
External debt-to-exports ratio (in percent)	163.0	191.9	197.1	203.0	199.5			201.6	189.4	178.0	173.9	170.8	169.0	
Gross external financing need (in billions of US dollars) 4/	218.9	257.8	194.6	169.6	114.6			128.5	141.1	153.3	168.1	180.6	194.8	
in percent of GDP	17.5	20.0	14.8	12.7	8.2	10-Year	10-Year	9.0	9.7	10.1	10.6	10.9	11.2	
Scenario with key variables at their historical averages 5/								**90.2**	**89.9**	**91.8**	**96.1**	**100.7**	**105.2**	**-8.9**
						Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation							
Real GDP growth (in percent)	-1.7	0.7	-1.1	0.1	0.5	0.9	2.9	1.6	1.4	1.9	2.0	2.0	2.0	
GDP deflator in US dollars (change in percent)	7.1	2.5	2.7	1.6	4.8	3.8	3.2	-0.4	0.9	2.0	2.5	2.5	2.5	
Nominal external interest rate (in percent)	5.7	3.6	4.8	3.7	3.5	7.1	3.7	3.8	4.1	4.5	4.9	5.0	5.1	
Growth of exports (US dollar terms, in percent)	11.9	-5.9	5.4	0.7	3.3	3.5	9.7	1.3	3.5	6.3	5.7	5.4	4.9	
Growth of imports (US dollar terms, in percent)	21.5	3.7	-7.9	-2.1	-4.1	4.3	13.6	2.3	4.1	6.6	6.3	5.7	5.4	
Current account balance, excluding interest payments	-11.6	-16.0	-9.5	-7.9	-3.6	-12.7	7.5	-4.1	-4.4	-4.7	-5.1	-5.3	-5.6	
Net non-debt creating capital inflows	9.7	6.3	5.6	6.9	5.2	11.3	6.5	6.1	6.6	7.0	7.2	7.5	7.5	

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

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

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

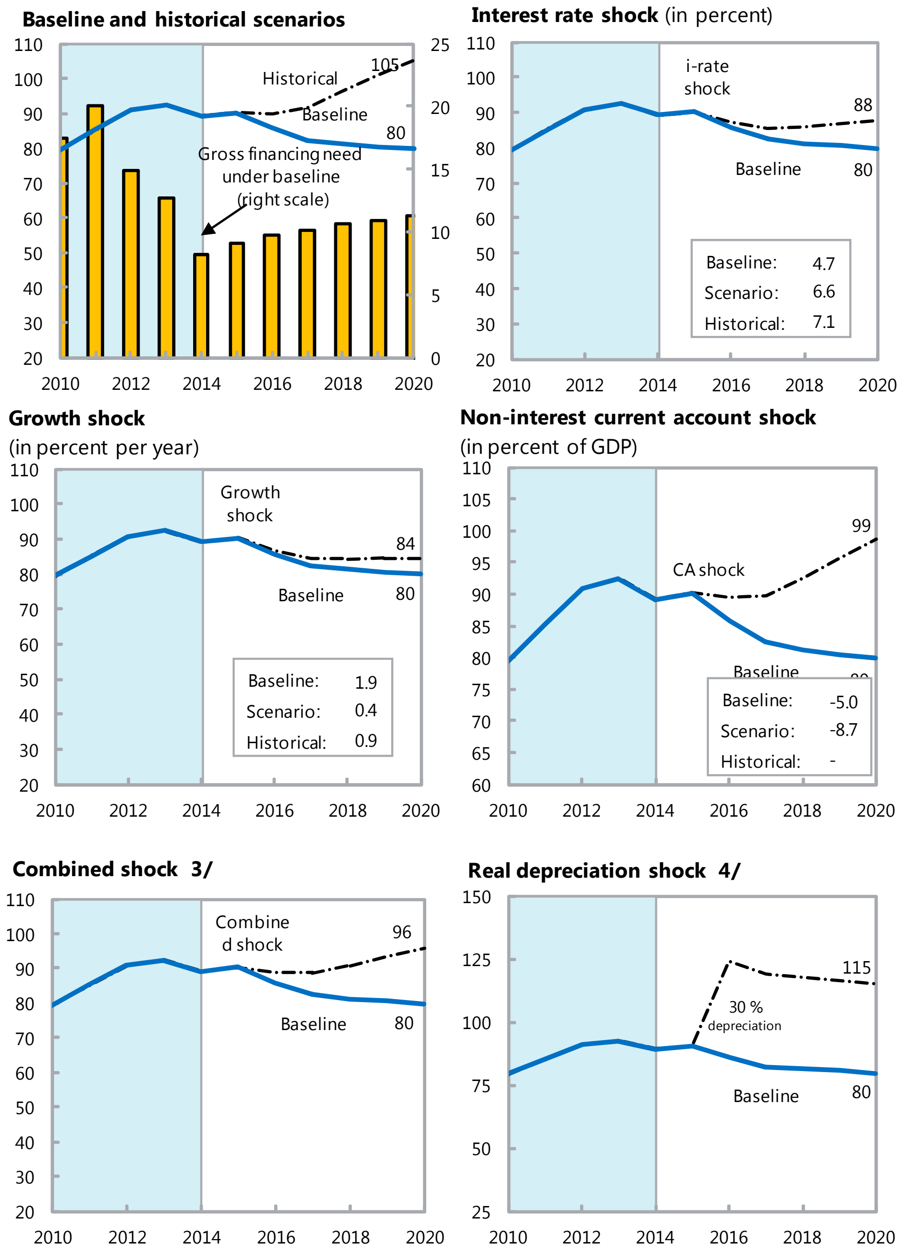
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

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

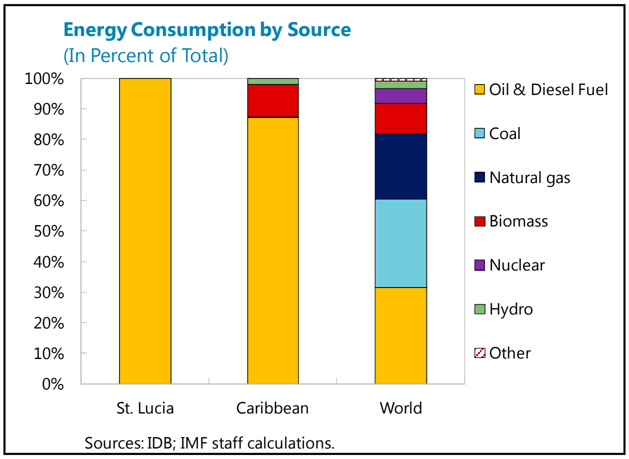
(External debt in percent of GDP)

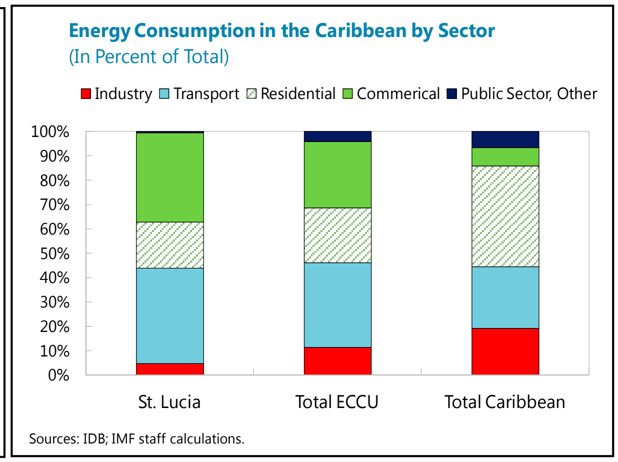


Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2015.

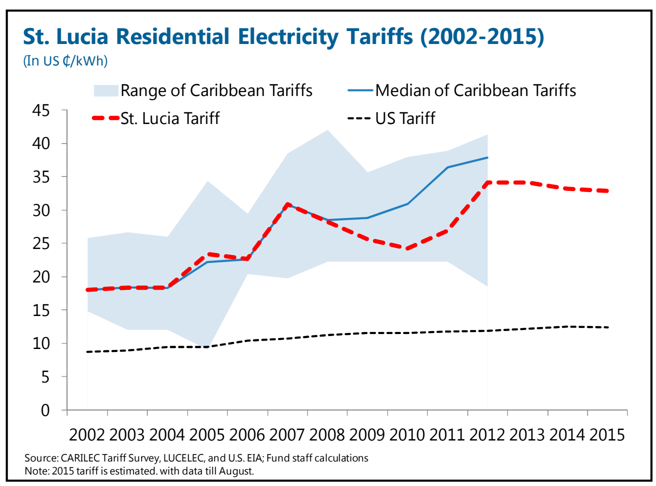
Annex IV. Energy Sector Issues

St. Lucia is characterized by high energy consumption and overdependence on imported fossil fuels. Dependence on imported fossil fuels is generally large in the Caribbean relative to the rest of the world, with this source accounting for 87 percent of total consumption. With no natural petroleum resources, St. Lucia is entirely dependent on imported fuels. Almost all of its electricity is generated from diesel, and all the other needs are also satisfied by oil-based products. The commercial sector and the transport sector are the most intensive users of energy. As other tourism-based economies, St. Lucia is quite energy intensive due to the large consumption by hotel and other tourism facilities, with a large portion on air conditioning.

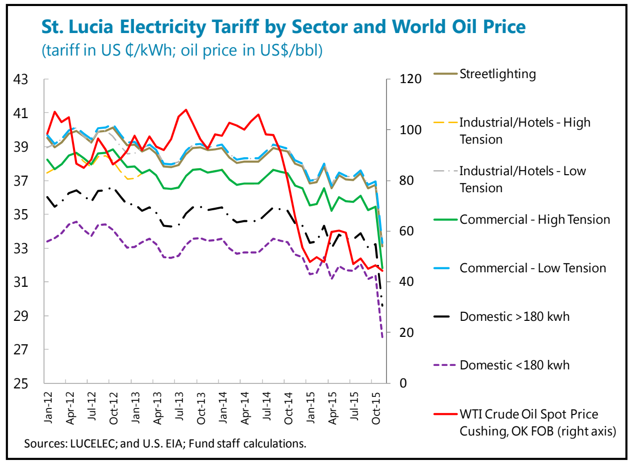




Overdependence on imported fossil fuels has resulted in high electricity tariffs. Over the last decade, high and volatile oil prices have increased pressure on electricity tariffs, which are high internationally. According to the 2015 World Bank Enterprise Survey, around 56 percent of firms in St. Lucia identify electricity as a major constraint to doing business, which is higher than the Caribbean average and other developing countries.

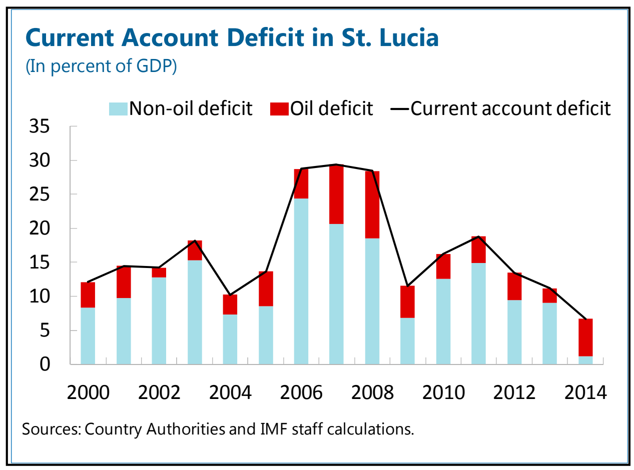


There has been some progress on reducing electricity tariffs. The electricity provider LUCELEC has hedged fuel prices since 2010 using Fixed Price Swaps to reduce price fluctuations, which has helped lower the fuel surcharge (the annual adjustment to reflect international prices) and its impact on electricity tariffs. As a result of the hedging, electricity tariffs did not fall immediately with world oil price earlier this year. But in recent months, electricity tariff rates have been significantly reduced with new lower hedging fuel prices, which benefited domestic, commercial, and industrial customers.



Sources: LUCELEC; and U.S. EIA; Fund staff calculations.

The economy is highly vulnerable to oil price shocks. Oil deficit accounts for a large share of the current account deficit of St. Lucia, especially during episodes of high oil prices. Fluctuations in world oil prices impact inflation directly through electricity and transportation costs. Therefore, with a fixed exchange rate regime, positive oil price shocks normally lead to real exchange rate appreciation and a loss of competitiveness.



Sources: Country Authorities and IMF staff calculations.

St. Lucia has actively engaged in regional energy plans with other Caribbean states and developed its own national energy plans. In 2010, the Cabinet approved the National Energy Policy (NEP), which aimed to lower and stabilize the price of energy, especially by exploiting renewable energy resources. In 2013, CARICOM defined a regional strategy—the CARICOM Energy Policy (CEP)—which focus on regulatory reforms to improve energy efficiency and diversify the generation mix. Saint Lucia joined the ALBA and Petrocaribe bodies in 2013. In November 2015, the Petrocaribe Joint Venture Agreement was signed to facilitate Petrocaribe projects. The initial plan is to use asphalt with Petrocaribe.

The authorities have committed to develop renewable energy resources to diversify the generation mix. The 2010 NEP established targets for renewable energy to 5 percent of the electricity generated in 2013, 15 percent in 2015, and 30 percent in 2020. At the 2014 Clinton Global Initiative Conference, the government further increased its target for renewables to 35 percent by 2020. St. Lucia has been exploring the following options:

- **Geothermal Energy:** The geothermal potential is estimated to be around 30 MW or more, which could satisfy the average base load of energy needs if fully developed. Efforts to develop geothermal continued in 2014, with the assistance of the Government of New Zealand and the World Bank. As part of the initiative, community engagement and consultations were held during 2014. Permission has been granted by the Piton Management Authority to conduct surface exploration studies starting in April 2015. The second stage of exploration for geothermal energy has started in July 2015, which is expected to be completed in one year. Private sector developers are expected to participate in the following phases.

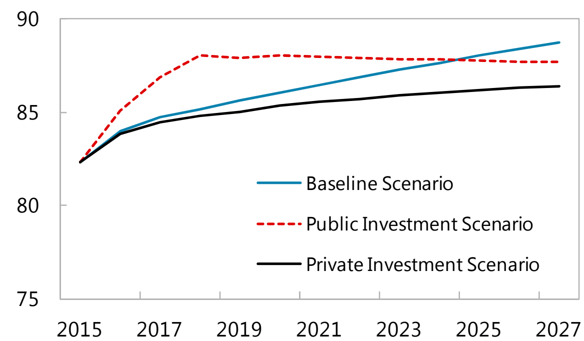
- **Solar:** From the 2010 Nexant report, the potential for solar generation is estimated at 36 MW but current solar photovoltaic (PV) use is limited to a few small systems. Solar PV and solar water heaters could be economic in St. Lucia. LUCELEC operates several demonstration programs involving small grid-connected PV systems. Solar water heaters are in use and could further expand with the low generation cost at about US$0.09 per kWh. A plan to build a 5 MW solar farm has been approved and it is now in its initial stages.
- **Wind:** The total wind potential on Saint Lucia has been estimated at 40MW and economic viable with the generation cost. LUCELEC has investigated the resource at several sites. In 2004, LUCELEC began a partnership with a Canadian group to build a 12 MW wind farm on St. Lucia, but the project has been delayed by land acquisition issues. In 2015, the government of Saint Lucia, in collaboration with LUCELEC and WindTex Energy, a U.S.-based company, have erected a test tower that will help assess the potential for the construction of a 12 MW wind farm in Dennery. There is also an ongoing environment and social impact assessment of the project. Energy produced by the wind farm should come on stream in two years.
- **Waste-to-Energy:** In 2014, the government started a waste-to-energy initiative with LUCELEC and the Carbon War Room. The waste-to-energy initiative will allow the conversion of landfill waste into energy that can be fed into the grid to supplement the use of diesel, with an estimated 2 to 3 MW generation capacity.

- **The government has made efforts to improve energy efficiency.** In 2012, the government introduced voluntary energy efficiency standards for lighting. The government has started a pilot program of LED street lights in 2013. There are plans to extend the streetlight program and retrofitting lights of government buildings. To fully implement the project needs financing and upgrades of building codes. Energy efficiency windows and air conditioning could help reduce energy usage. Reducing generation and distribution losses is also very important. LUCELEC has prioritized the installation of smart meters to manage electricity demand and improve service.

The authorities are planning to implement the following regulatory reforms: (i) establish an independent regulatory commission for the electricity sector (St. Lucia has also actively advocated the institution of the proposed regional regulatory authority – Eastern Caribbean Energy Regulatory Authority); (ii) set up an Energy Policy Advisory Committee to improve communication between public and private sector; (iii) encourage the development of small-scale renewable energy systems with license reforms and net-metering; (iv) develop legislation on energy efficiency; (v) update the 1994 Electricity Supply Act to allow commercial entities to generate electricity for their own use; (vi) complete regulations on grid code, interconnection, and wire and electricity codes for building; and (vi) redesign the Electricity tariff structure to fully reflect the production cost including the inflation adjustment and the differential customer categories.

Supplying more energy at reduced costs would require significant investments in the energy sector. Diversifying the energy mix requires significant investments in technology, power plant conversion, and upgrading together with investment in renewable energy. According to IDB estimates, energy investment needs of St. Lucia used in the investment scenario are around 66 million U. S. dollars to cover the cost of the 10MW geothermal plant, which is around 5.4 percent of 2014 GDP.[1] We assess the impact of energy investments on debt sustainability, assuming positive investment effects on short-term and long-term growth. Public investments in the energy sector are hindered by the high public debt load and unfavorable debt dynamics, and to fully benefit from the investments will take time. Private sector participation could provide a solution, which should be approached with caution.

St. Lucia: Public Debt Scenario with Energy Investments
(In percent of GDP)



Sources: McIntyre et al (forthcoming); Fund staff calculations.

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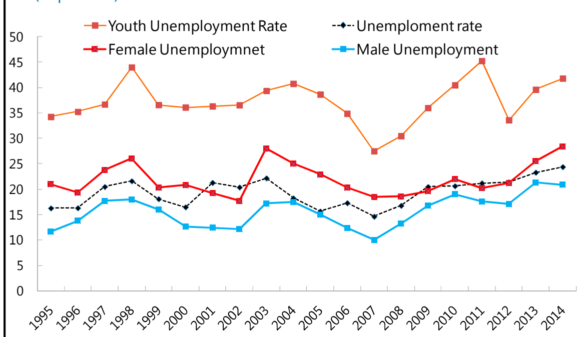
[1] This amount is likely to be underestimated because it includes only 10 MW for geothermal energy in the assumptions. There could be additional investment needs for other renewable energy, building and upgrading power plants, and energy efficiency. The investment scenario reflects a 20-year loan at 5 percent to cover the cost of the 10MW geothermal plant, with debt service covered through cost savings. Assumptions reflect the growth impact from the energy investment and efficiency gains passed on to end-users in the form of lower electricity tariffs.

Annex V. Education and Unemployment in St. Lucia

Structural shifts in employment have displaced a large number of unskilled workers. Following the downsizing of the banana industry in the early 1990s, the structure of the economy has shifted from labor intensive agriculture and manufacturing industries to services over the past two decades. Demand for skilled workers from public administration, tourism, and the financial sector increased, but demand for unskilled workers stagnated. Partly reflecting weaknesses in the education system, labor supply did not adjust to this shift and unemployment rates have remained high since 1990s, and increased further with the recent economic recession. Unemployment is particularly high among females, youth, and rural population. Over the past two decades, the youth unemployment rate was 37 percent on average, and 22 percent for females — as opposed to 16 percent for males.

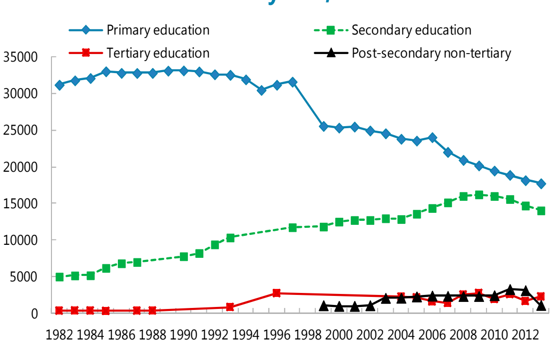
Unemployment Rate, 1995-2014
(In percent)



Sources: Country Authorities; World Bank WDI; Fund staff calculations.

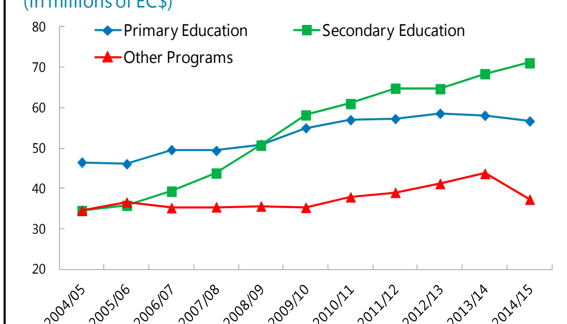
With efforts made by the authorities, universal education has improved over the years, especially for secondary education. With the introduction of the Universal Secondary School program in 2006, enrollment and government expenditure in secondary education have steadily increased while enrollment in tertiary education has stayed relatively flat. The gross enrollment ratios of primary and secondary education are above 90 percent. At the same time, teachers in secondary education have increased from around 300 in 1980s to more than 1000 in 2013, while numbers in primary and tertiary education have remained flat or declined slightly. As a result, the pupil-teacher ratios in both primary and secondary education are lower than in most upper middle income countries.

Enrollment in Education System, 1982-2013

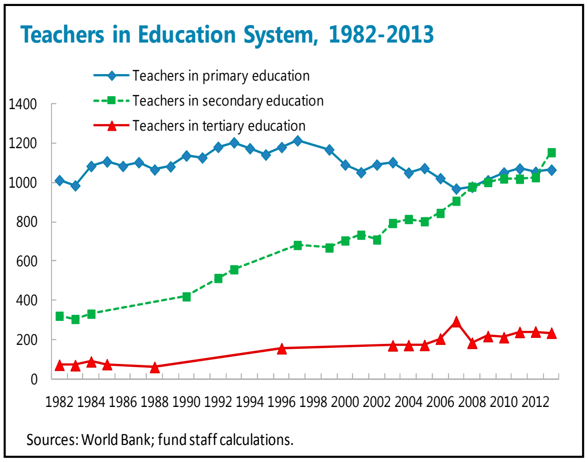


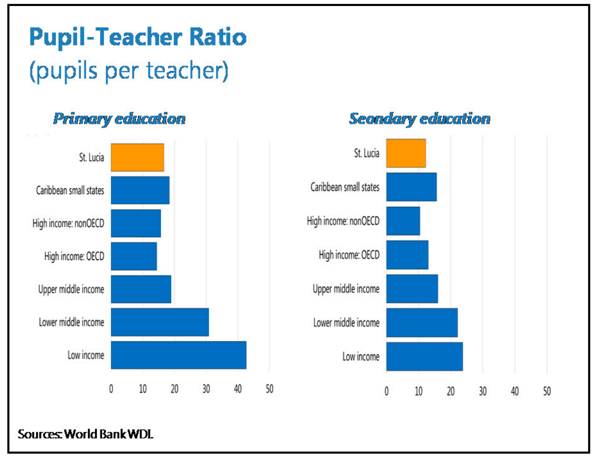
Sources: World Bank; fund staff calculations.

Expenditure by Levels of Education, 2004-2014
(in millions of EC$)

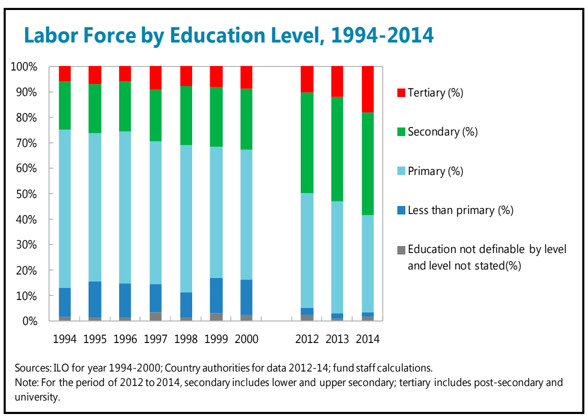


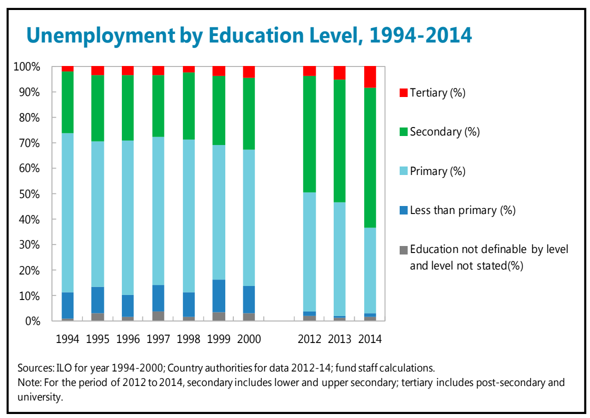
Sources: Education Statistical Digest 2014; fund staff calculations



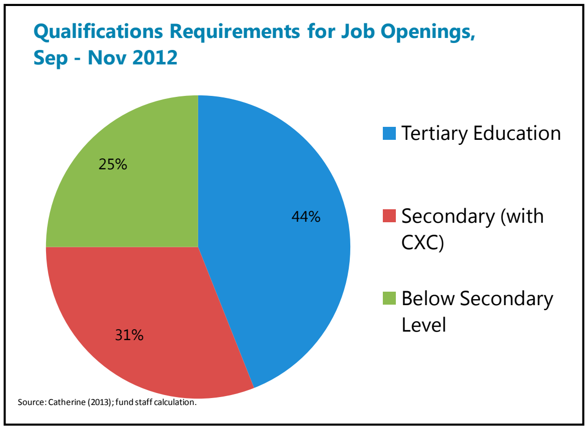


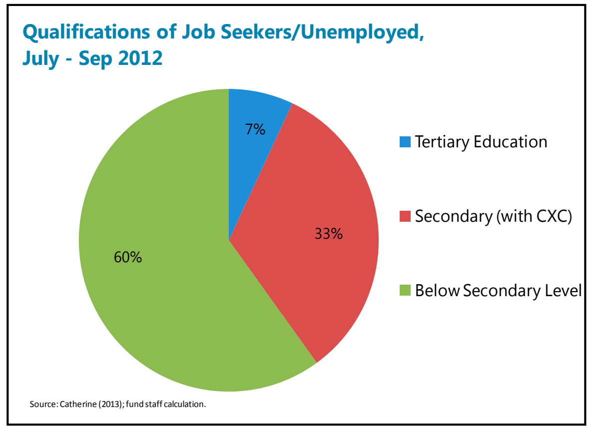
The skills mismatch is likely one of the key reasons for high unemployment. While the shares of labor force participants with either a secondary or a tertiary diploma have both increased, the share of tertiary education is much lower, and that of secondary education much higher, suggesting a structural lack of workers with adequate skills. The vocational education system remains underdeveloped and many unemployed with secondary education do not offer the skills sought out in the labor market.



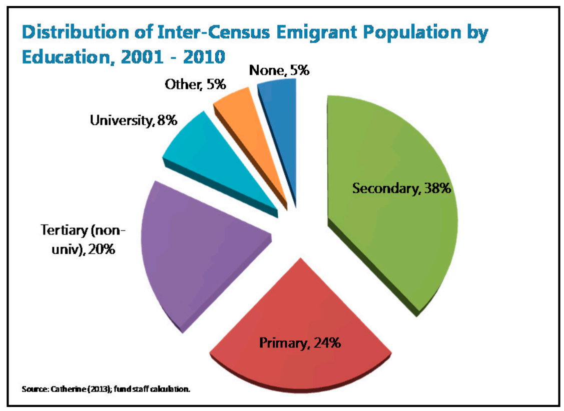


The 2012 national labor market needs survey confirmed this mismatch. The survey showed a large gap between the qualifications offered by job seekers and those requested by employers. The percentage of job seekers with below secondary level education was 60 percent as opposed to a only 25 percent of employer requests. Conversely, the share of tertiary-educated job seekers was only 7 percent against a share of 40 percent of job offers.





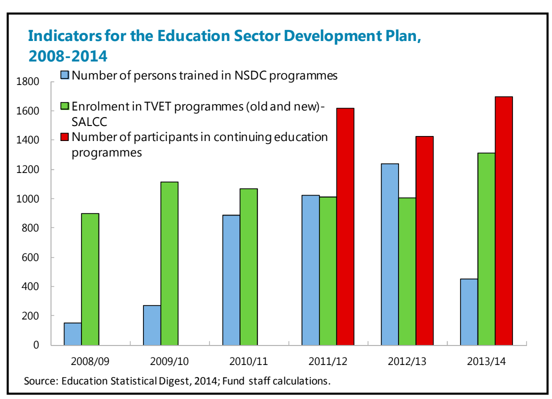
The brain drain has worsened the mismatch. Migration trends show a significant drain of highly-educated labor force. Based on U. S. Census data, Mishra (2006) showed that 53 percent of the labor force with tertiary education had migrated to the United States during the period 1965-2000. The national census data in 2010 showed that 20 percent of all migrants hold tertiary degrees and 8 percent university degrees.



With unemployment on the rise, public sector employment has expanded over the last decade. Public sector employees have increased by 23 percent over the last fifteen years (from 8,804 in FY01 to 11,501 in FY14) and average earnings by 40 percent over the period 2000-2013, faster than in most sectors. As a result, the public sector wage bill has increased to 10 percent of GDP in 2014.

To address weakness in the education system, policy priorities could focus on the following areas:

- *Continuing efforts to develop an effective system of technical and vocational training.* Policy makers should reassess the roles of the existing institutions National Skills Development Centre (NSDC), the Centre for Adolescent Rehabilitation and Education (CARE), and the National Enrichment and Learning Programme (NELP), with a view at enhancing the effectiveness of these institutions in providing the required certifications within the system of Caribbean Vocational Qualifications.



- *Increasing the retraining component of social and employment programs.* Once the need for retraining is established, the continuation of benefits could be tied to the participation in retraining programs.

- *Increasing provisions for tertiary and continuing education for youth and adults.* Investment in infrastructure should privilege affordable higher education, in line with labor market needs. Currently post-secondary and tertiary programs are offered at the Sir Arthur Lewis Community College, the Vieux Fort Post Secondary Department, Monroe College, UWI Open Campus, and four offshore Medical Schools. Access could be encouraged by providing needs-based financial assistance to prospective students. Continuing efforts should be made to improve access, enrollment, and completion of continuing education through programs such as the National Enrichment and Learning Programme (NELP).

- *Improving performance measurement in the education system to enhance quality and cost-effectiveness.* Quality of education is essential to better prepare students for higher level education and to provide the skills needed in the job market. Professional development opportunities should be provided to teachers on a continuous basis, but the automatic link between career development and training should be replaced by a link with performance to strengthen incentives and allow a better control of costs.

- *Monitoring labor market needs on a more regular basis to ensure matching between supply and demand.* Regular monitoring of labor market needs would help identify the key gaps and develop specific policies to address those needs.

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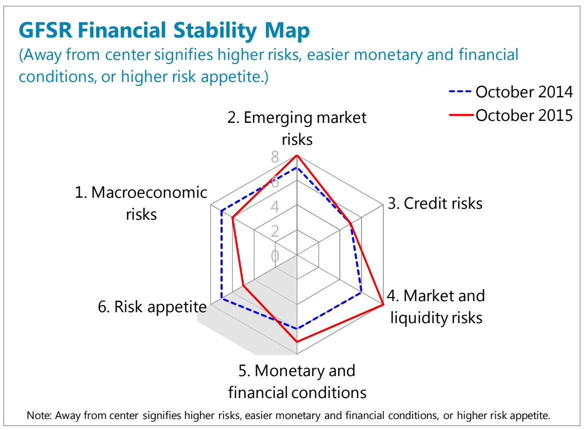
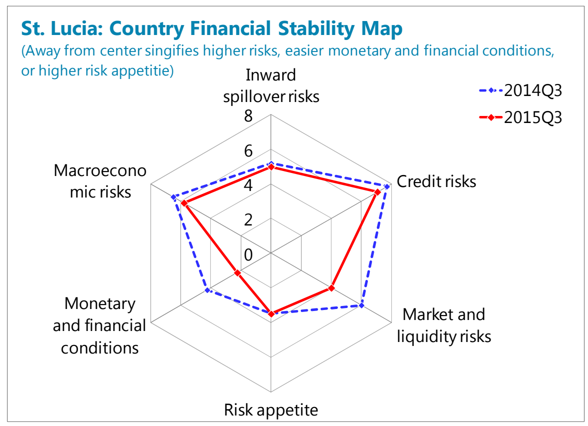
Annex VI. Risks to Financial Stability in St. Lucia

This annex evaluates risks to St. Lucia's financial stability using the country financial stability map methodology, and credit cycle and financial soundness indicators heatmap.[1] Financial stability methodology maps quantitative indicators into six categories of risks and conditions relevant for financial stability: (i) macroeconomic risks, (ii) inward spillover risks, (iii) credit risks, (iv) market and liquidity risks, (iv) monetary and financial conditions, and (vi) risk appetite. Domestic and external sources of risks to financial stability and their evolution since a year ago are evaluated and compared against developments in global risks to financial stability from the Global Financial Stability Report.





Risks to St Lucia's financial stability remain elevated and largely originate from domestic sources. Credit risks associated with the deep fragilities in the banking system continue to be the most important source of domestic risk to St. Lucia's financial stability. Over the past year, credit risks held up against the backdrop of weakening bank balance sheets, on the back of declining credit, and exacerbated by the elevated levels of delinquent loans, despite the marginal improvement in profitability. Bank exposure to sovereign debt also contributed to heighten credit risk. Declining credit growth also added onto the rising market and liquidity risks, and, in combination with rising real interest rates, to tighter monetary and financial conditions. Macroeconomic risks remain relatively unchanged as gains in macroeconomic performance – reflected in lower output gap and inflation, strengthening trade, and faster GDP growth – are offset by deteriorating domestic credit conditions. Inward spillover risks to St. Lucia's financial stability and risk appetite remained relatively unchanged since a year ago.

The evolution of risks to St. Lucia's financial stability can be compared against that of global risks to financial stability of October 2015 GFSR Map. The key difference is that St. Lucia has not seen the same easing of market and liquidity pressures and loosening of monetary and financial

[1] St. Lucia country financial stability maps are constructed using the methodology of Cervantes, Jeasakul, Maloney and Ong (2014) "Mapping Country to Global Financial Stability," IMF Working Paper, 2014.

conditions. To a large extent, this reflects the significant difficulties that the banking system in St. Lucia continues to face.

To assess the credit cycle and the soundness of the financial system in St. Lucia, we employ the use of credit cycle and financial soundness indicators (FSIs) heatmap tool. The tool incorporates indicators of the current soundness of the financial system and of its corporate and household counterparties, and produces a heat map of the credit cycle and key FSIs to inform whether policies are needed. It provides a snapshot of the three basic properties of the banking sector: credit cycle, balance sheet risks, and loss-absorbing capital buffers. A red indicator signifies the need for policies when the upper range of the threshold is breached; yellow coloring implies the state of alert when the indicator falls between the upper and the lower bound; while green signifies a 'no policy' scenario when the indicator is below the lower threshold. When applied to ECCU economies, however, the tool should be used with caution, given that it was developed to assess credit booms, causing many St. Lucia indicators to turn green and point to a low risk rating.

St. Lucia credit cycle and balance sheet risks remain elevated and merit close watch. Credit to private sector declined further in 2015, while excess liquidity continued to accumulate, driven by robust deposits. Inferior loan quality continues to persist, as marked by high levels of NPLs, while the balance sheet buffers remain vulnerable, given the low profitability of the banking system. Credit growth continued to decline throughout 2015 reaching -9.5 percent year-on-year growth in September 2015. The negative credit growth is marked green since it falls below the 3 percent lower bound.

Banks' balance sheet data show sufficient liquidity and contained foreign exchange risks. St. Lucia deposit-to-loan ratio continues to increase – particularly among the indigenous banks, reflecting strong deposit base growth – as both, the declining credit and the robust deposit inflows boost the ratio. Since the estimate falls above the 100 percent benchmark in 2015, the indicator is marked green, signifying sufficient liquidity in the system. The balance sheet buffers remain vulnerable as low profitability point to banks' limited buffers to absorb negative shocks, despite the sound capital adequacy ratios.

Table 1. St. Lucia: Financial Soundness Indicators (FSIs) Heatmap

St. Lucia	12Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2	2015Q3
Overall Financial Sector Rating	M	L	M	H	L	M	M	M	M	L	M	L	M	L
Credit cycle	M	L	M	H	L	L	L	L	L	L	L	L	L	L
Change in credit / GDP ratio (pp, annual)	3.6	2.6	3.7	5.3	(1.8)	(1.1)	(4.3)	(8.5)	(5.9)	(10.2)	(11.4)	(8.7)	(12.7)	(11.4)
Growth of credit / GDP (%, annual)	3.3	2.3	3.3	4.9	(1.6)	(0.9)	(3.8)	(7.4)	(5.3)	(9.0)	(10.3)	(8.2)	(11.9)	(11.1)
Credit-to-GDP gap (st. dev)	0.9	1.1	1.4	1.5	1.1	1.2	0.6	(0.1)	0.2	(0.5)	(1.2)	(1.1)	(1.3)	(1.2)
Balance Sheet Soundness	L	L	M	M	L	M	M	M	M	L	M	L	M	L
Balance Sheet Structural Risk	L	L	M	L	L	L	M	L	L	L	L	L	L	L
Deposit-to-loan ratio	86.6	86.3	83.9	87.7	86.4	85.2	84.0	87.3	86.7	87.7	91.7	97.7	102.3	102.6
FX liabilities % (of total liabilities)	15.9	17.2	16.3	16.2	16.8	16.8	16.3	16.3	18.5	18.1	17.0	17.2	15.6	16.1
FX loans % (of total loans)	19.6	19.3	18.6	18.4	18.1	17.1	16.4	16.2	15.6	14.6	13.4	13.2	10.7	10.3
Balance Sheet Buffers	L	L	M	M	L	M	M	M	M	L	M	L	M	L
Leverage	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Leverage ratio (%)	14.9	15.3	14.1	13.0	9.9	10.4	10.4	10.8	9.5	10.0	9.7	9.4	9.1	9.3
Profitability	L	L	L	L	L	L	H	L	H	L	H	L	H	L
ROA	0.0	0.4	0.5	0.1	0.0	0.1	(0.4)	0.2	(0.4)	0.2	(0.1)	0.1	0.1	0.2
ROE	1.8	2.7	2.3	1.8	1.5	0.5	(2.3)	2.4	(4.0)	3.0	1.8	2.2	(1.2)	3.2
Asset quality	M	M	H	H	M	H	H	H	H	L	L	L	L	L
NPL ratio	16.0	15.5	15.3	18.1	17.6	21.8	20.6	20.9	20.6	19.6	17.6	18.7	18.9	18.8
NPL ratio change (%, annual)	12.3	13.1	16.1	16.9	9.8	40.7	34.9	15.2	17.2	(10.1)	(14.9)	(10.4)	(8.5)	(4.3)
Memo items:														
Credit-to-GDP (%)	114.5	114.2	114.6	114.9	112.7	113.1	110.3	106.4	106.7	102.9	98.9	97.7	94.0	91.5
Credit-to-GDP gap (%; HP filter)	112.0	111.5	110.9	110.3	109.5	108.6	107.6	106.5	105.4	104.2	102.9	101.7	100.4	99.1
Credit growth (%; annual)	4.9	4.0	5.1	5.3	(0.3)	1.3	(0.8)	(1.3)	0.1	(4.7)	(6.7)	(6.5)	(10.2)	(9.3)
CAR (in %)	18.5	18.2	17.0	18.9	12.8	13.2	12.8	13.4	12.2	13.0	12.6	12.6	12.3	15.3
Tier 1 CAR (in %)	16.7	16.5	15.1	18.2	11.4	11.4	11.5	12.1	10.7	11.1	11.2	11.2	11.1	13.5

Sources: ECCB; and IMF staff estimates and calculations.

Note: This tool incorporates indicators of the current soundness of the financial system and of its corporate and household counterparties, and produces a heat map of the credit cycle and key FSIs to inform whether policies are needed. It provides a snapshot of the three basic properties of the banking sector: credit cycle, balance sheet risks, and loss-absorbing capital buffers. A red indicator signifies the need for policies when the upper range of the threshold is breached; yellow coloring implies the state of alert when the indicator falls between the upper and the lower bound; while green signifies a 'no policy' scenario when the indicator is below the lower threshold. When applied to ECCU, however, the tool should be used with caution, given that it was developed to assess credit booms, causing many ECCU indicators to turn green and point to a low risk rating.

INTERNATIONAL MONETARY FUND

ST. LUCIA

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 12, 2016

Prepared By

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

CONTENTS

FUND RELATIONS

(As of December 31, 2015)

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

General Resources Account:	SDR Million	Percent of Quota
Quota	15.30	100.00
Fund holdings of currency	15.49	101.22
Reserve Tranche Position	0.01	0.04

SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	14.57	100.00
Holdings	14.02	96.26

Outstanding Purchases and Loans:	SDR Million	Percent of Quota
Emergency Assistance[1/]	0.19	1.25
RCF Loans	3.83	25.03
ESF RAC Loan	5.51	36.03

[1/]Emergency Assistance may include ENDA, EPCA, and RFI.

Latest Financial Arrangements: None

Projected Payments to the Fund[2/]

	Forthcoming				
	2016	2017	2018	2019	2020
Principal	1.95	2.14	2.14	2.14	0.77
Charges/Interest	0.00	0.01	0.01	0.00	0.00
Total	1.95	2.15	2.15	2.15	0.77

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

Implementation of HIPC Initiative: Not Applicable

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

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

Exchange Rate Assessment: The de jure exchange rate arrangement is a currency board. St. Lucia participates in a currency union with seven other members of the ECCU and has no separate legal tender. The Eastern Caribbean dollar is pegged to the U.S. dollar under a currency board arrangement at EC$2.70 per U.S. dollar. St. Lucia has accepted the obligations of Article VIII, Sections 2(a), 3 and 4, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

Safeguards Assessment: Under the Fund's safeguards assessment policy, the Eastern Caribbean Central Bank (ECCB), of which St. Lucia is a member, is subject to a full safeguards assessment under a four-year cycle. In line with this policy, an update safeguards assessment of the ECCB is underway. The previous assessment concluded in April 2012 found that the ECCB continued to maintain a relatively sound safeguards framework. In addition, the external audit and financial reporting mechanisms complied with international standards and financial statements were published in a timely manner. Independent oversight on external and internal audits and reserves management was exercised by the Audit and Investment Committees, respectively. Recommendations were made to enhance the ECCB's legal framework.

Article IV consultation: St. Lucia is currently on a 12-month cycle. The last Article IV consultation was concluded on March 1, 2013 by the Executive Board; the relevant document is SM/13/41.

Technical Assistance: St. Lucia has received substantial technical assistance from the Caribbean Region Technical Assistance Center (CARTAC) and the IMF. Technical assistance missions focused on national accounts, tax reforms, revenue administration, expenditure rationalization and the financial sector.

Macroeconomics and Programming Analysis

- March 2015: To review progress on the GDP Forecasting Framework
- October 2015: Make Presentation at CARTAC National Accounts Planning Workshop
- July 2014: To make better use of the high-frequency macro indicators in updating short-term GDP projections

National Accounts

- March 2014 (CARTAC): Development a plan to assess the quality of the GDP estimates; May 2011 (CARTAC): preparation for quarterly GDP compilation, with St. Lucia being a pilot in the OECS;
- December 2010 (CARTAC): real sector projections, including the preparation of scenarios that assessed the impact of Hurricane Tomas on the economy;

- July–August 2009 (CARTAC): national accounts mission aimed at rebasing the GDP estimates to 2006 and exploring the feasibility of producing final expenditure in constant prices.

Real Sector Statistics

- September 2015: A Real Sector Statistics Mission visited Castries to provide TA to the CSO for St. Lucia on reviewing and providing advice to expand and improve the national accounts, including producing SUT and rebasing the GDP estimates.

External Sector Statistics

- January 2015 (CARTAC): Training on External Sector Statistics for Survey Respondents

Tax Reforms and Revenue Administration

- September 2015 (Customs Administration): Provide guidance & training on improving & strengthening enforcement intelligence and risk.
- November 2014 (Customs Administration): Support Risk Management mission
- August 2014 (Customs Administration): TA to Montserrat Customs and Excise Department
- May 2014 (Customs Administration): Organizational Structure Review of the CED
- September 1-11, 2015: (CARTAC) Improve the Corporate Income Tax regime
- July 6-17, 2015 (CARTAC) IRD structural re-organization establishment of the LMTU and DPMU)
- March 16-27 2015, May 11-22, July 27-August 6, 2015: (CARTAC) Property taxation
- December 9–December 22, 2014: (FAD funded by CARTAC) VAT revenue analysis
- July, September, October 2014 and April 2015 (CARTAC) IRD structural re-organization
- April 13-24, 2014 (CARTAC) tax and customs, data matching
- April 2-15, 2014 (FAD) follow-up on tax and customs administrations after VAT introduction.
- January 27-31 2014, (CARTAC) IRD strategic planning
- October 14-November 1, 2013 and February 10-24, 2014, (CARTAC) development of VAT audit capacity
- October 2013 (CARTAC): Strengthening the Customs Administration—Valuation workshop and training;

- May 2014 (CARTAC): Strengthening the Customs Administration—Organizational Structure Review;
- December 2008–January 2010 and May 2011-November 2012 (CARTAC): preparations for VAT implementation, including development of the project plan, VAT rate study, drafting the VAT legislation, delivery of training to tax and customs staff, supporting customs and Inland Revenue Department (IRD) preparations for VAT administration, development and implementation of the advisory visits program for potential registrants, and establishing a VAT section within IRD with the necessary procedures for operation;
- June 2012 and November 2012 (CARTAC): special sector tax audits;
- August 2012 (CARTAC): review of customs bonded warehouses;
- June 2008, September 2008, February 2009, August 2009 and May 2012 (CARTAC): development and implementation of Customs Risk Management Program;
- March 2010, June 2010, October 2010 and June 2011 (CARTAC): development and implementation of Customs Post Clearance Audit Program;
- September 2010 and May 2011 (CARTAC): development of an integrity program for Inland Revenue;
- March 2010, June 2010, October 2010 and June 2011 (CARTAC): development and implementation of Customs post clearance audit program;
- June 2008, September 2008, February 2009 and August 2009 (CARTAC): development and implementation of customs risk management program;
- June 2009 and September 2009 (CARTAC): development of Corporate Strategic Business Plan for Inland Revenue and customs;
- April 2003 (FAD): modernization of the tax system in regional (OECS) context.

Expenditure Rationalization and PFM Reforms

- October 2015 (PFM): PFM Accountant General's Department review and Pre PEFA assessment
- September 2015 (PFM): Program Based Budgeting
- August 2015 (PFM): Develop a comprehensive budget manual
- December 2014 (PFM): Budget Preparation Mission
- October 2014 (PFM): Budget Preparation Mission
- February 2014 (PFM): Assist with finalizing annual budget estimates document

- January 2014 (PFM): Final Budget Preparation Reform Mission
- May 2014 (MCM): Strengthening public debt management in ECCU countries. Assessment of Technical Assistance needs provided to the ECCB.
- July 2014 (CARTAC): Improvements to real sector monitoring frameworks to provide for rapid updating of real sector variables using high frequency indicators;
- January 2013, June 2013, November 2013, January 2014 (CARTAC): Budget Preparation Reform;
- February 2013 (CARTAC): Chart of Accounts reform;
- December 2013 (CARTAC): Diagnostic of PFM legislation;
- October 2013 (CARTAC): Improving accountability and performance of Parastatals;
- January 2012 (CARTAC MAC Programme): real and fiscal medium-term projections under baseline and active scenarios;
- May and November 2011 (CARTAC): budget preparation mission;
- June 2010 (CARTAC): preparation of a PFM reform action plan, PFM workshop;
- December 2010 (CARTAC): fiscal projections under baseline and active scenarios;
- August 2010 (FAD): regional project on public expenditure issues, including expenditure trends, policies, and expenditure rationalization options;
- November 2009 (CARTAC): budget preparation and fiscal projections;
- December 2008 (MCM): improving debt management capacity of the government.

Financial Sector

- December 2015 (MCM): Implementation of Risk Based Supervision
- August 2015 (MCM): Dynamic Modelling Project
- November 2014 (MCM): Risk Based Supervision Insurance
- September 2014 (MCM): Risk Based Supervision Framework
- March, May and June 2014 (MCM and LEG): Strategy to resolve indigenous banks. Assistance to the ECCB.
- May 2014 and ongoing (MCM): Collateral valuation. Assistance to the ECCB.
- May 2014 and ongoing (MCM): Credit risk management assessment. Assistance to the ECCB.

- May 2014 (CARTAC): Technical assistance requests from the ECCB to implement Basel II in the ECCU. The ECCB as a part of the Caribbean Group of Banking Supervisors (CGBS), has developed the operational risk guidelines for Basel II and has established a steering committee, made up of regulators from some of the SRUs to look at areas of national discretion for the implementation of Basel II.
- November 2013 and May 2014 (MCM and LEG): Assistance to the ECCB on legislative changes to the ECCB Agreement Act, Banking Act and subsidiary legislation.
- May 2014 (CARTAC): Assistance to the ECCB with the development and implementation of a strategic plan to achieve compliance with the Basel Core Principles for Effective Banking Supervision.
- March 2013 (CARTAC): Review a draft Corporate Governance Guidance for ECCB which covers domestic banking operations in St. Lucia
- December 2013 (CARTAC): Review an Internal Audit Guidance for Banks in the ECCU.
- February 2011 (IMF/WB/CDB): A Joint Task Force on the ECCU Financial System (FSTF) performed a comprehensive diagnostics on the indigenous banks and delivered recommendations to address critical issues.
- December 2008 (CARTAC): development of policy proposals for the Single Regulatory Unit (SRU) Act to be drafted by the authorities in St. Lucia;
- May 2008 (CARTAC): assessment of development needs of the Single Regulatory Unit;
- October 2007 (CARTAC): participation of St Lucia's SRU supervisory staff in Off-shore Mutual Funds Supervision Workshop held in St. Kitts and Nevis and St. Vincent;
- September 2007 (CARTAC): participation of St. Lucia's SRU supervisory staff in Trust Supervision Workshop held in Turks and Caicos.

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

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

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

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

RELATIONS WITH THE WORLD BANK GROUP

(As of October, 2015)

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

The RPS is grounded in a holistic approach to tackling the long-standing issues of low growth and debt sustainability in the Caribbean: the Comprehensive Debt Framework, developed in 2010 by the Bank at the request of the Heads of Government of CARICOM countries. Structured around four pillars, the Comprehensive Debt Framework (CDF) is designed to address the interdependent structural causes of high debt and low growth in small island states by (i) promoting private-sector led growth, (ii) strengthening fiscal management, (iii) building resilience to natural disasters, and (iv) improving debt management. Governments of the OECS recognize the multifaceted nature of the challenges they face and understand that improvements in competitiveness, reduction in sovereign debt levels, fiscal adjustments to ensure macro sustainability, and enhanced sustainability and resilience to shocks are interrelated aspects that are critical to resume and sustain inclusive growth. As a result, they have used the CDF to frame their own reform strategies and activities.

The indicative IBRD lending program for the six OECS countries is expected to be around US$120 million, or up to a maximum of US$20 million for each OECS country – including for St. Lucia - for the period of the RPS (FY15-19), subject to country and program performance, IBRD's lending capacity, and exposure management parameters. In addition to the IBRD envelope, four OECS countries (Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines) can also count on an IDA national allocation. The IDA17 (FY15-17) allocation for the OECS is equal to SDR61.3 million, an increase of around 22 percent over the IDA16 OECS allocation (SDR50.3 million). With regard to St. Lucia, its IDA-17 allocation is equal to SDR 17.4 million (roughly USD 24.3mln at today's exchange rate).

A. Projects

1. The WB portfolio in St. Lucia includes three projects: (i) Regional Disaster Vulnerability Reduction Project-RDVRP (IDA $15 Million; PPCR $41 Million); (ii) Caribbean Regional Communications Infrastructure Project-CARCIP (IDA$6 Million); (iii) Eastern Caribbean Energy Regulatory Authority-ECERA (IDA$2.8 Million). St. Lucia also benefit of US$ 2 million Bank Executed Trust Fund to support geothermal development.

2. Overall, the portfolio quality in St. Lucia is mixed, with CARCIP and ECERA experiencing some problems and therefore proceeding through a restructuring process, while the RDVRP is proceeding in a satisfactory manner.

The **Caribbean Regional Communications Infrastructure Program (CARCIP)** is a broad umbrella program to include all interested CARIFORUM countries.[1] It offers a menu of choices with specific components to be tailored to each country's priorities. The menu of options are: (a) ICT Connectivity—to increase access and affordability of broadband communications

[1] CARIFORUM comprises the 15 Caribbean countries of CARICOM (i.e., Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago), and the Dominican Republic.

networks within region and countries; (b) E-Government—to contribute to improved Government efficiency and transparency through the delivery of e-services, including e-government and e-society applications; and (c) IT Industry—to contribute to the development of the regional and national IT industry. Phase 1 of the Program was approved by the Board on May 22, 2012 with Grenada (US$10 million IDA), St. Lucia (US$6 million IDA) and St. Vincent and the Grenadines (US$6 million IDA) as participating countries. Additional countries can join since this is a comprehensive program that seeks to increase access to regional broadband networks and advance the development of an ICT-enabled services industry in the Caribbean Region. The project is currently going through restructuring.

The Eastern Caribbean Energy Regulatory Authority (ECERA) Project (Grenada and St. Lucia) was approved in June 2011. The objective of this project is to establish and operationalize a regional approach to the development of the electricity sector in the OECS, by supporting the establishment of a regional regulator. Currently, Grenada and Saint Lucia have used IDA credit (with US$2.8 million each, for a total of US$5.6 million) for the design and operationalization of ECERA. The design phase is coordinated by the OECS Secretariat. Component A of this project will facilitate the creation and launching of the ECERA, including carrying out the legal and consultative process leading to the formulation and ratification of the ECERA treaty, and defining the options for the ECERA self-financing mechanism, reviewing tariffs and examining incentive mechanisms to promote renewable energy. Component B will facilitate the initial three years of ECERA’s operations, including the day-to-day operations and execution of core regulatory tasks including: (i) tariff and investment plan reviews; and (ii) defining a regional licensing framework for electricity market participants with a particular focus on facilitating the integration of electricity production from renewable sources into the supply mix. The project is currently going through restructuring.

A **Disaster Vulnerability Reduction Project** has been approved by the Board in June 2014. The package is in the amount of US$68 million equivalent consisting of (a) an IDA Credit in the amount of 15.57 million SDR (USD$ 24 million equivalent); (b) an IDA Credit from the Crisis Response Window in the amount of 11.03 million SDR (US$17.0 million equivalent); (c) a Loan from the Climate Investment Funds: Pilot Program for Climate Resilience (PPCR) under the Strategic Climate Fund (SCF) for US$15.0 million; and (d) a Grant from the Climate Investment Funds: PPCR-SCF for US$12.0 million. The objective of the Project is to reduce vulnerability to natural hazards and climate change impacts in Saint Lucia. The Project consists of the following five components: Risk Reduction and Adaptation Measures; Technical Assistance for Improved Assessment and Application of Disaster and Climate Risk Information in Decision-making; Climate Adaptation Financing Facility; Contingent Emergency Response; and Project Management and Implementation Support.

In spring 2015 the WB has conducted a **Country Portfolio Performance Review** in the OECS countries. Some of the main findings regarding the portfolio review in St. Lucia are the following: (i) country context needs to be better understood and taken into account during project preparation; (ii) institutional strengthening of national agencies in charge of monitoring projects, beyond the Project Implementation Unit (PIU), is needed to make sure that projects contribute to build national capacity; (iii) training initiatives are critical, particularly on fiduciary training; (iv) a more comprehensive and flexible approach to facilitate procurement in small states is needed; (v) Government processes are sometimes complex or slow and cause delays; (vi) Collaboration needs to improve both internally, among line ministries, and at the Bank, to ensure consistency of messages and clear communication with the client; and (vii) lack of technical staff is an issue and cause delays in completing activities by the deadline.

B. Economic and Sector Work

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

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

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

Key Outcomes

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

Comprehensive Debt Framework - At the request of the Heads of Government of CARICOM, the Bank put together a Comprehensive Debt Framework that proposes a strategy for addressing the high debt challenge faced in the OECS in a sustainable way. This Framework proposes a holistic approach around four interdependent pillars (Supporting private sector led growth, including private sector development and financial sector stability; Enhancing fiscal sustainability; Improving climate change resilience and Disaster Risk Management; and Debt resolution). The Framework has been rolled out in all the OECS, including Dominica. The Governments expressed interest in principle, in continue to work with the World Bank and other development partners to develop policy measures that could help stimulate growth and reduce debt in the country.

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

The Bank's program in St. Lucia is further supported by a comprehensive series of completed, ongoing and planned analytical and advisory activities, including the following: "Towards a New Agenda for Growth" – OECS growth and competitiveness study (2005); an OECS Skills Enhancement Policy Note (2006); a Caribbean Air Transport Report (2006); a regional study on Crime, Violence, and Development: Trends, Costs, and Policy Options in the Caribbean (2007); an OECS Private Sector Financing Study (2008); the OECS Tourism Backward Linkages Study (2008); the report titled "Caribbean – Accelerating Trade Integration: Policy Options for Sustained Growth, Job Creation and Poverty Reduction" (2009); a study on the Nurse Labor & Education Markets in the English-Speaking CARICOM: Issues and Options for Reform (2009); and Caribbean Regional Electricity Supply Options: Toward Greater Security, Renewable and Resilience (2011). A number of recent analytical works have also been disseminated in the context pf the CGF process. A number of knowledge products are expected to be disseminated this year, including "Driving tourism in the Eastern Caribbean: The case for a regional Ferry"; "Trade matters: new opportunities for the Caribbean"; "Linking farmers and agro-processors to the tourism industry in the OECS"; and the "OECS Growth report".

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK (CDB)

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

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

3. STL has utilised the Bank's resources extensively over the years and at the end of 2014, was the third largest recipient of CDB assistance. Cumulative loans, contingent loans and equity and grants totalled $409.2 mn between 1970 and 2014. Of this amount, just over half was approved from Ordinary Capital Resources (OCR) with the remainder being sourced from the "soft" window.

4. One loan amounting to $14.8mn was approved in 2015 for the rehabilitation of the John Compton Dam. Fundamentally, the project seeks to improve the reliability and sustainability of the water supply to the north of island by: (a) increasing the storage capacity of JCD through sediment removal; (b) establishing operational procedures for sediment removal and management; (c) rehabilitating JCD structure and monitoring equipment; and (d) reducing the potential for landslides within the Roseau watershed. The project also provides *inter alia* institutional strengthening for the utility provider by building capacity in financial management, support for a climate action plan and the mainstreaming of gender concerns in provider's polices and operations. Other interventions during the year were direct poverty reduction support and capacity enhancement for small and medium sized enterprises.

5. Notwithstanding the Bank's significant involvement in St. Lucia, net resource flows have been negative over the 2010 to 2014 period and preliminary indications are that 2015 will

follow the trend (see Table 1 below). This has largely been due to implementation capacity issues and the availability of alternative funding sources. The most significant disbursements during the period 2013 to 2015 were for lines of credit to support private sector development, reconstruction following the passage of Hurricane Tomas, education sector enhancement, and a policy based loan in support of macroeconomic reforms.

TABLE 1: PORTFOLIO FLOWS

Item	2010	2011	2012	2013	2014	2015[2]
(a) Disbursements	20.4	4.4	7.2	11.1	16.0	7.6
(b) Principal Repayments	10.5	11.7	11.4	12.3	12.0	13.2
(c) Net Disbursements (a-b)	9.9	(7.3)	(4.2)	(1.2)	4.0	(5.6)
(d) Interest Payments	6.0	5.4	4.8	4.7	4.7	4.5
(e) Other charges	0.1	0.2	0.2	0.2	0.2	0.1
(f) Net cash flow (c-d-e)	3.8	(12.9)	(9.2)	(6.1)	(0.9)	(10.2)

[2] As at Dec 10

STATISTICAL APPENDIX

As of October 22, 2015

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but is broadly adequate for surveillance. Although the statistical database compares well and in some areas has a broader coverage than those of its Eastern Caribbean Central Union (ECCU) peers, the accuracy and timeliness of macroeconomic statistics should be improved in order to achieve more effective economic analysis and policy formulation. There are weaknesses in coverage, frequency, quality, and timeliness, in particular regarding the national accounts, data on the public sector beyond the central government, and the balance of payments.

National Accounts: Nominal GDP data are compiled using the production and expenditure approaches on an annual basis. Real GDP data are compiled only using the production approach. Since 2011, real GDP estimates are compiled with 2006 as the new base year. GDP estimates are available about four months after the end of the year and are usually finalized with a two-year lag. Household final consumption expenditure is derived residually. No explicit changes in inventories series are disseminated.

No official quarterly GDP estimates are disseminated, but a pilot project is currently underway, with technical assistance from CARTAC, to compile these. CARTAC has provided technical assistance since May 2011 on quarterly GDP compilation, with St. Lucia serving as a pilot for the ECCU countries..

Additional technical and human resources are required to implement the new developmental work in the area of National Accounts.

Price Statistics: The rebasing exercise of the CPI has been completed—the new CPI basket (base January 2008) is based on the 2006 Household Expenditure Survey. No export and import price indices are compiled, nor a producer price index.

Government Finance Statistics: Reporting of central government data has improved over the last few years, but deficiencies remain in the compilation of both government and public sector statistics. The authorities report monthly data on the central government's current revenue and expenditure, using a non *GFSM 2001* presentation with lags of a couple of months. Fiscal data for publication in the *GFS Yearbook* or in *IFS* have been reported to STA in 2013 and 2014, which were converted to a *GFSM 2001* presentation by IMF staff. The authorities would thus benefit from moving to a complete GFSM framework for the compilation of Government Finance Statistics. Additionally, frequent and substantial revisions suggest that there is a need for further refinement, including improvements to accounting

systems for capital expenditures to record outlays associated with grant-financed projects as they are realized. Data for the rest of the public sector (financial and nonfinancial public corporations) are not readily available and should be compiled on a regular basis to improve fiscal monitoring of the overall general government.
Monetary and Financial Statistics: Monthly monetary statistics (for central bank and other depository corporations) are compiled and reported to the Fund by the ECCB, based on the standardized report forms, 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 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 by the *Monetary and Financial Statistics Manual* and *Compilation Guide*. Close coordination between the ECCB and the single regulatory unit (which supervises financial corporations other than those licensed under the Banking Act) is crucial.. Monetary and financial statistics missions visited the ECCB in November 2009 and November 2014. As a result, the quality of monetary statistics improved, but coverage of the ODC sector continues to be incomplete, including only commercial banks.
Financial sector surveillance: The ECCB compiles financial soundness indicators (FSIs) for its member countries, including St. Lucia, but does not report FSIs to STA for dissemination on the IMF's website due to confidentiality reasons.
External sector statistics: The ECCB reports annual balance of payments data of its eight members (including St. Lucia) for publication in the *Balance of Payments Statistics Yearbook* (*BOPSY*) and the *International Financial Statistics* (*IFS*). The compilation of balance of payments statistics for the ECCU and member states is a joint exercise between the ECCB and its members. The quality of major components of the balance of payments in the region needs to be improved, including the recording of goods imports, travel credits, private transfers, and direct investment transactions.. Timeliness of balance of payments statistics should be improved as well. CARTAC has provided technical assistance to the ECCB and the member economies to improve the quality of external sector statistics and to introduce new survey forms, which were used to collect 2014 data. The new survey forms are aligned with the sixth edition of the *Balance of Payments and International Investment Position Statistics Manual* (*BPM6*) and also collected, for the first time, data for the production of international investment position (IIP) statistics. It is expected that 2014 data based on the results of the surveys will be disseminated by December 2015. The Ministry of Finance has a detailed statistics for public sector external debt and publicly guaranteed private sector external debt (St. Lucia reports public and publicly guaranteed external debt data to the Quarterly External Debt Statistics (QEDS) database). Data on private external debt are not available yet.

II. Data Standards and Quality	
St. Lucia is a participant in the General Data Dissemination System (GDDS), which has been superseded by the enhanced GDDS (e-GDDS) since May 2015. Its metadata, which include detailed plans for statistical development in the main macroeconomic areas over the short and medium term, have been posted on the Fund's Dissemination Standards Bulletin Board (http://dsbb.imf.org) since September 1, 2004, although updates are needed.	A Data ROSC for the monetary sector was conducted in 2007, covering the ECCB and ECCU member countries, including St. Lucia.

Appendix I: Table of Common Indicators Required for Surveillance

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Fixed rate	NA	NA	NA	NA
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	7/2015	9/18/15	M	M	M
Reserve/Base Money		10/7/2015	M	M	M
Broad Money		10/7/2015	M	M	M
Central Bank Balance Sheet		10/7/2015	M	M	M
Consolidated Balance Sheet of the Banking System		10/7/2015	M	M	M
Interest Rates[2]	7/2015	10/7/2015	M	M	M
Consumer Price Index	6/2015	8/28/2015	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	12/2013	10/9/2015	M	M	H
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Q1/2014	10/8/2014	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	3/2015	6/11/2015	Q	H	H
External Current Account Balance	2014	2/27/2015	A	H	H
Exports and Imports of Goods and Services	2014	2/27/2015	A	Q	Q
GDP/GNP	2014	7/2/2015	A	A	A
Gross External Debt					
International Investment Position[6]					

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

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

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

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

[5] Including currency and maturity composition.

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

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