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St. Lucia: 2005 Article IV Consultation—Staff Report and Public Information Notice on the Executive Board Discussion.

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

- the staff report for the 2005 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on July 18, 2005 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 December 6, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its December 21, 2005 discussion of the staff report that concluded the Article IV consultation.

The document listed below has been or will be separately released.

Statistical Appendix

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND

ST. LUCIA

Staff Report for the 2005 Article IV Consultation

Prepared by the Staff Representatives for the 2005 Consultation with St. Lucia

Approved by Ratna Sahay and Matthew Fisher

December 6, 2005

- **Economic Background:** St. Lucia is a small open island economy, with a population of around 162,000 and per capita GDP of about US$4,700. It is one of eight eastern Caribbean countries and territories comprising the Eastern Caribbean Currency Union (ECCU), and its GDP accounts for 25 percent of the combined ECCU GDP. The ECCU has a common central bank, the Eastern Caribbean Central Bank (ECCB), and a common currency, the Eastern Caribbean (E.C.) dollar. The E.C. dollar has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976. St. Lucia has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on payments and transfers for current international transactions. Fund relations are summarized in Appendix I.

- **Political Situation:** St. Lucia is a Westminster-style democracy with a bicameral parliament consisting of the Senate (11 seats) and the House of Assembly (17 seats). Prime Minister Dr. Kenny Anthony of the St. Lucia Labour Party (SLP) has been in office since May 1997. The next elections are due by December 2006.

- **Last Article IV Consultation:** At the conclusion of the 2003 Article IV consultations on May 5, 2004, Directors expressed concerns about vulnerabilities associated with increasing debt and emphasized the importance of strong upfront fiscal adjustment and continued moderation in expenditures. They further emphasized the need to accelerate structural reforms, encouraging the authorities to step up their efforts to foster a conducive business environment, while reducing costly tax incentives to investment, and promoting labor market flexibility and labor productivity to preserve competitiveness. The staff report is at http://www.imf.org/external/np/sec/pn/2004/pn04128.htm.

- **Discussions:** A staff team comprising H.P. Lankes (PDR, Head), W. Keller, C. Faircloth, and S. Roache (all WHD) visited Castries during July 4–18, 2005. The team met with Prime Minister and Minister of Economy Dr. Kenny Anthony, other members of Cabinet, senior government officials, and representatives of the private sector and trade unions. ECCB and Caribbean Development Bank (CDB) staff also participated in the discussions. R. Sahay (WHD) and K. Lynch and P. Jenkins (OED) attended the final meetings.

Contents Page

Appendices

Executive Summary

- **St. Lucia's GDP growth has slowed since the 1980s and public debt has risen rapidly in recent years.** The development of tourism did not fully compensate for the declining production of bananas and other export products since 1990. A restrictive trade regime, high cost of capital, and labor market rigidities appear to have hampered structural change. Public debt built up as the authorities attempted to stimulate growth, contributing to making the economy more vulnerable to shocks.

- **The recent pick-up in economic activity provides an opportunity to address these challenges.** GDP growth is accelerating, based on tourism and related investments, and is expected to exceed 5 percent in 2005 and 2006. The positive growth outlook provides a window to reduce the fiscal imbalances and adopt measures to strengthen competition and flexibility in labor and goods markets.

- **Fiscal policy should aim to set public debt on a rapidly declining path.** While fiscal deficits have narrowed since 2003, the budget for the current fiscal year would sharply set back fiscal consolidation. However, in light of capacity constraints, the full implementation of budgeted capital expenditure is unlikely. Regarding the medium term, there was agreement on targeting a primary surplus of 3−4 percent of GDP by FY 2008/09 which would reduce debt to below 60 percent of GDP by the end of the decade.

- **Fiscal consolidation should be based on a combination of revenue and expenditure measures.** Staff and the authorities broadly agreed on most key elements of such a program, including lowering capital spending to historical levels, sustained moderation in civil service wage growth and employment, the implementation of a VAT, and the need to protect the yield of the petroleum tax through fuel price adjustments. The authorities were concerned that a large reduction of tax concessions would render the economy uncompetitive vis-à-vis other islands that also offer such concessions.

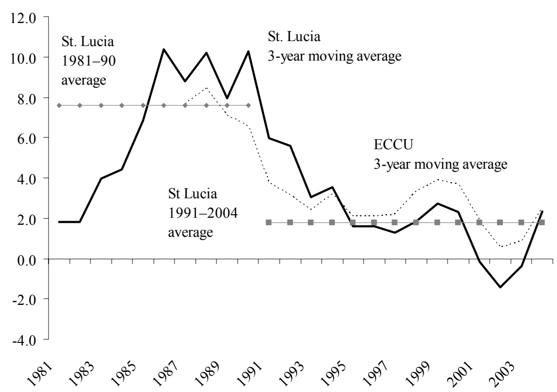
- **Long-term growth would benefit from a stronger outward orientation, and measures to promote domestic investment and labor market flexibility.** Staff recommended cutting peak import tariffs and licenses to promote export diversification, lowering the cost of capital by easing foreclosure laws, better targeting investment incentives, raising labor mobility under the CSME to broaden the available skills mix, and strengthening assistance programs to help ease the movement of banana workers into other sectors while cushioning the social impact. The authorities were committed to trade integration and greater competition, but argued that reforms required time.

- **There has been some progress in addressing financial and natural vulnerabilities.** Still, the stock of nonperforming loans remains high and should be closely monitored. St. Lucia has a well-designed disaster prevention and mitigation framework, but enforcement will be key. Public assets should be insured against natural disasters to a greater degree.

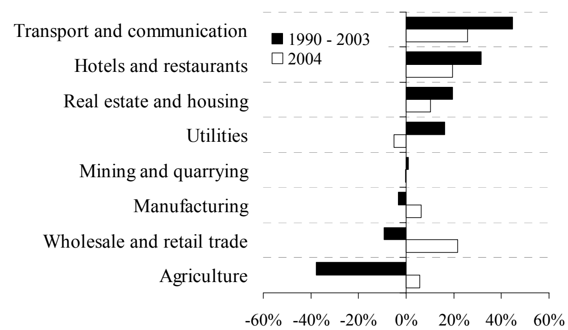
I. Background

1. **St. Lucia is a small, open, tourism-based economy that is highly vulnerable to exogenous shocks**. Tourism accounts for almost three-quarters of St. Lucia's exports, and imports are the dominant source of consumption, investment, and tax revenue. Though less exposed to hurricanes than islands in the northern Caribbean, St. Lucia has been affected by seven major storms in the past 20 years.

St. Lucia and ECCU: Real GDP Growth Trends, 1981–2004



St. Lucia: Sectoral Contribution to Cumulative Real GDP Growth (Percent)



Source: St. Lucian authorities.

2. **St. Lucia's service sectors have grown considerably over the past two decades, but GDP growth overall has declined since the 1980s.** Growth averaged 7½ percent per annum during the 1980s, as tourism and banana production took off, but has slowed to less than 2 percent per annum. since 1990. While tourism continued to grow, agriculture and, to a lesser extent, manufacturing shrank in absolute terms.

3. **Falling banana exports contributed to the slowdown in growth, but there has also been a decline in other exports.** Banana exports have suffered from rising costs and the gradual erosion of preference margins in the EU market, decreasing from 20 percent of GDP at their peak in 1988, to 3 percent in 2004 (Annex II). However, exports of other merchandise—mostly manufactures—also declined sharply, and the growth of travel and other services did not fully restore the share of trade in GDP (see text table).[1]

St. Lucia: Trade Indicators

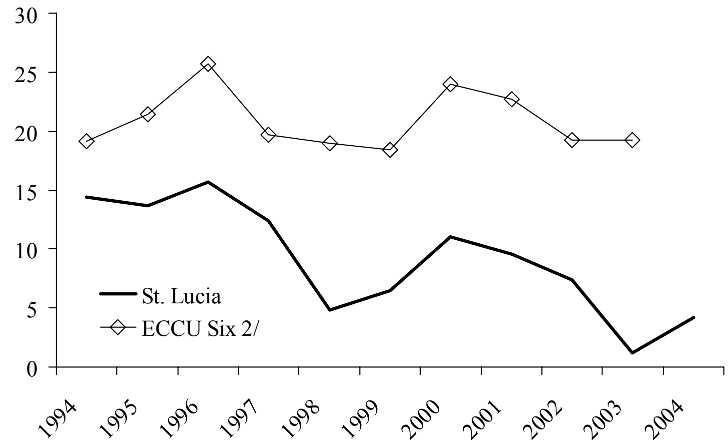
	1980	1988	2000	2004
(Percent of GDP)				
Exports of goods and nonfactors services	56	71	53	54
Of which				
Bananas	8	20	5	3
Other merchandise	17	14	1	3
Nonfactor services	30	37	47	48
Trade openness (exports and imports/GDP)	166	153	120	132
Trade openness (all countries)	41	37	49	51

Sources: ECCB; World Bank; and Fund staff estimates.

[1] The share of trade in GDP fell from 142 percent in 1987–96, to 121 percent in 1997–2004, a period during which that ratio increased in most other countries. Using a gravity model that takes into account its location, income and size, staff estimates that St. Lucia under-trades in merchandise by 20 percent in a sample of 140 countries, and by 34 percent relative to other microstates. For comparison, the same model suggests that the ECCU region (excluding St. Lucia) under-trades by 12 percent.

4. **A restrictive trade regime, high cost of capital and labor market rigidities appear to have contributed to the decline in investment and growth since the 1980s.** It is likely that the existing inward bias in the trade regime, analyzed in Box 5 (Section III), would account for part of the decline in trade openness. Cross-country studies typically associate such a decline with a slowdown in economic growth.[2] Private domestic investment has also fallen sharply since 1996. This may reflect the real financing cost of capital for the St. Lucian private sector, which has been rising and has tended to be higher than in the rest of the ECCU (Box 1). Labor market rigidities may also have slowed structural change. While average real wage growth outstripped productivity growth in the early 1990s, leading to a significant increase in unit labor costs, real wages and productivity, while volatile, have broadly moved in parallel since then. Business sector representatives point to a skills shortage, despite high unemployment. A World Bank study suggests that hiring and firing costs in St. Lucia are significantly higher than in its OECS peers,[3] although the government has questioned these results.

St. Lucia: Private Domestic Gross Fixed Capital Formation
(As a Percent of GDP, 1994−2004 1/)



1/ Adjusted for land sales recorded as foreign direct investment.
2/ Includes Antigua, Dominica, Grenada, St. Kitts, St. Lucia, and St. Vincent. St. Kitts data only begin in 1996, Grenada data begin in 1994, Dominca data begin in 1993.

5. **St. Lucia scores well on several social indicators, but unemployment remains high.** Results from a Core Welfare Indicators Questionnaire (CWIQ) survey designed with UNDP assistance indicate near-universal adult literacy, strong health indicators, and fair access to social services (Annex III). The unemployment rate declined from 20 percent in 2003 to 18 percent by end-2004, but is significantly higher among the youth and women.

St. Lucia: Social and Demographic Indicators

	St. Lucia	ECCU
Population (thousands) in 2003, estimate	161	567
Poverty headcount index, 2000 1/	25	29
HDI rank (2004), rank out of 177 countries	71	...
Life expectancy (years), 2003	74	74
Adult illiteracy rate (percent), 2001	10	8
Mortality rate, infant (per 1000 live births), 2003	16	17
GDP at market prices, 2004 (in US$ million)	762	3,105
Share in nominal GDP, 2004	24.6	100
GDP per capita (US$) in 2004, estimate	4,702	5,473

Sources: ECCB; World Bank; and Fund staff estimates.

1/ Percentage of population living below each country's locally-defined poverty line in 2000.

[2] For a survey of the literature, see A. Berg and A. Krueger, *Trade, Growth and Poverty: A Selective Survey*, IMF Working Papers, WP/03/30, February 2003.

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

Box 1. The Cost of Capital in St. Lucia

Economic theory and a range of empirical evidence suggest that the cost of capital is an important determinant of investment. The financing cost of capital is comprised of three elements. First, the weighted-average cost of debt and equity finance, with the weights determined by historical financing shares. Second, the depreciation rates of existing capital. Third, tax effects including the corporate income tax rate and capital allowance policies, but excluding tax concessions (many of which lower operating costs rather than the cost of capital).

Breakdown of the Real Cost of Capital in St. Lucia 1/
(In percent)

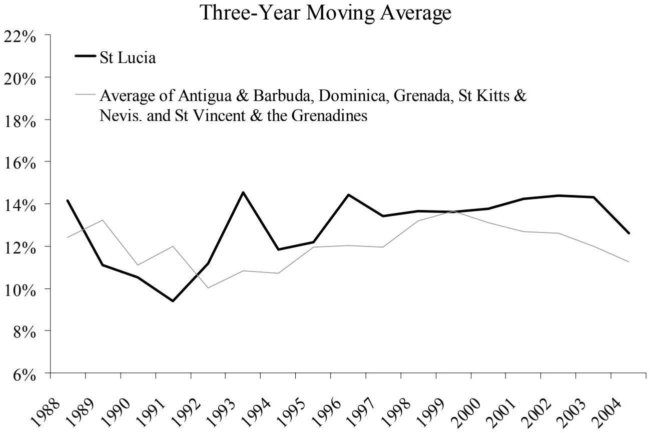
	Average		
	1990–99	2000–04	2004
Real interest rates	2.7	3.9	3.3
Real cost of equity	2.2	1.8	1.2
Depreciation	7.6	8.3	8.2
Tax factor	2.4	2.6	2.0
Cost of capital	14.9	16.6	14.6

Source: Fund staff estimates.

1/ Contribution weighted by source of finance.

Since 2000, the post-tax cost of capital in St. Lucia has averaged around 16½ percent, more than 1½ percentage points higher than during the 1990s. Rising real interest rates explain most of this increase. Spreads of commercial lending rates over deposit rates in St. Lucia have, since 1999, averaged 8.4 percent, the highest in the ECCU.

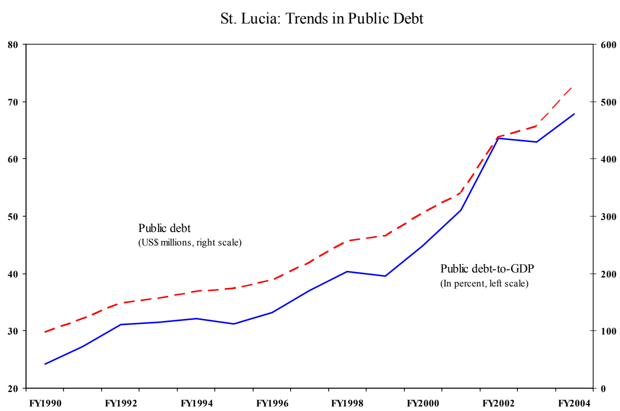
Real Pre-Tax Financing Cost of Capital in the ECCU
Three-Year Moving Average

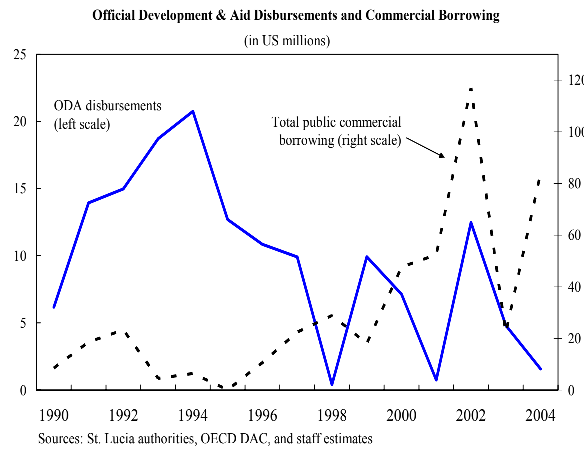


The real post-tax cost of capital for St. Lucia's domestic private sector was around 15 percent in 2004.[1] Depreciation, estimated for St. Lucia using global depreciation rates weighted according to the sectoral composition of the economy, accounts for the largest share of the cost of capital. The next largest contributor is the post-tax real interest rate. It is estimated that investment in St. Lucia has been financed mostly by debt. Tax reforms in the early 1990s lowered the tax burden on capital, but high and rising real interest rates subsequently eroded the present value of future capital allowance deductions.

[1] Refers to the "Hall-Jorgensen" real financing cost of capital. The figures in the table show the effect of tax policy in St. Lucia on the cost of capital. The figure shows the cost of capital on a pre-tax basis for St. Lucia and other ECCU countries for which data were available. The weights for the cost of financing are based on the ratio of outstanding bank credit over the nominal capital stock for the domestic private sector: 55 and 45 percent for debt and equity for St. Lucia, respectively. Depreciation rates were estimated using the OECD STAN database. The cost of equity was estimated as the sum of the three-month Euro dollar interest rates, plus the equity risk premium. This uses a country-specific risk factor, which is the coefficient of excess returns of a weighted portfolio of global and emerging market assets to the excess returns of the global equity market (i.e., a capital asset pricing model beta). The weights in this portfolio attempt to reflect the risk-return profile of investment in that country, based on sectoral contributions to GDP. This scales the expectations-based global equity risk premium (based on the ten-year U.S. treasury bond, the global stock market dividend yield and an estimate of long-term nominal dividend growth).

6. **Public debt levels have risen rapidly since the late 1990s, although they remain below the region's average.** While St. Lucia has had a history of prudent fiscal policies, budget deficits widened after 1999, following the economic slowdown. The central government deficit deteriorated from an average of 0.2 percent of GDP during the 1990s to 4.5 percent since FY 2000/01, with public debt rising rapidly from 39 percent in FY 1999/2000, to over 67 percent of GDP in FY 2004/05. While St. Lucia's public debt ratios remain below those of its ECCU partners, the deterioration in its fiscal balance in recent years has been more pronounced.





7. **Commercial borrowing coincided with a period of declining concessional assistance.** ODA inflows, an important source of infrastructure finance in the 1980s and early 1990s, fell from an average of 3 percent of GDP in 1990−96 to 1 percent in 1997−2004.

8. **Parliamentary elections are due to be held before the end of 2006 and pressure to spend is mounting ahead of the 2007 Cricket World Cup (CWC).** Prime Minister Dr. Kenny Anthony, who leads the St. Lucia Labor Party (SLP), is in his second term of office, having been re-elected in December 2001. The SLP presently occupies 6 of 11 seats in the Senate and 13 of 17 seats in the House of Assembly. The opposition United Workers Party (UWP) has been highlighting unemployment and rising public debt as key concerns. St. Lucia has been selected to host—among others—the England team and several important games between February and May 2007. In view of the size, international visibility, and popularity of this event, the government has made the games a central plank of a strategy to market St. Lucia abroad and energize domestic businesses.

Box 2. Past Staff Policy Advice

Since 2000, staff policy advice has centered around the need to control the growing public debt. Staff proposed prioritizing capital outlays, curtailing current spending, tax reforms and a regional approach to reducing costly tax concessions. While the authorities downplayed staff's sense of urgency about the debt build-up, initial steps towards fiscal consolidation have been taken in the past two years. Fiscal imbalances narrowed as revenue responded to a pick-up in economic activity and spending remained restrained. Longer term reforms have been progressing slowly and preparations for the introduction of a VAT have met with delays.

II. Recent Economic Developments and Near-Term Prospects

9. **Economic activity has picked up since 2003 and growth is likely to accelerate further in 2005.** Real GDP growth was 2.9 percent in 2003 and 4 percent in 2004. Preliminary evidence suggests that growth could exceed 5 percent in 2005. Growth has been driven by the sustained rebound in tourism and related activities following a slump after September 11, 2001. Banana production has been volatile but continued to trend downward, while other agriculture and manufacturing have shown little dynamism.

St. Lucia: Key Real Sector and Competitiveness Indicators, 2000–05

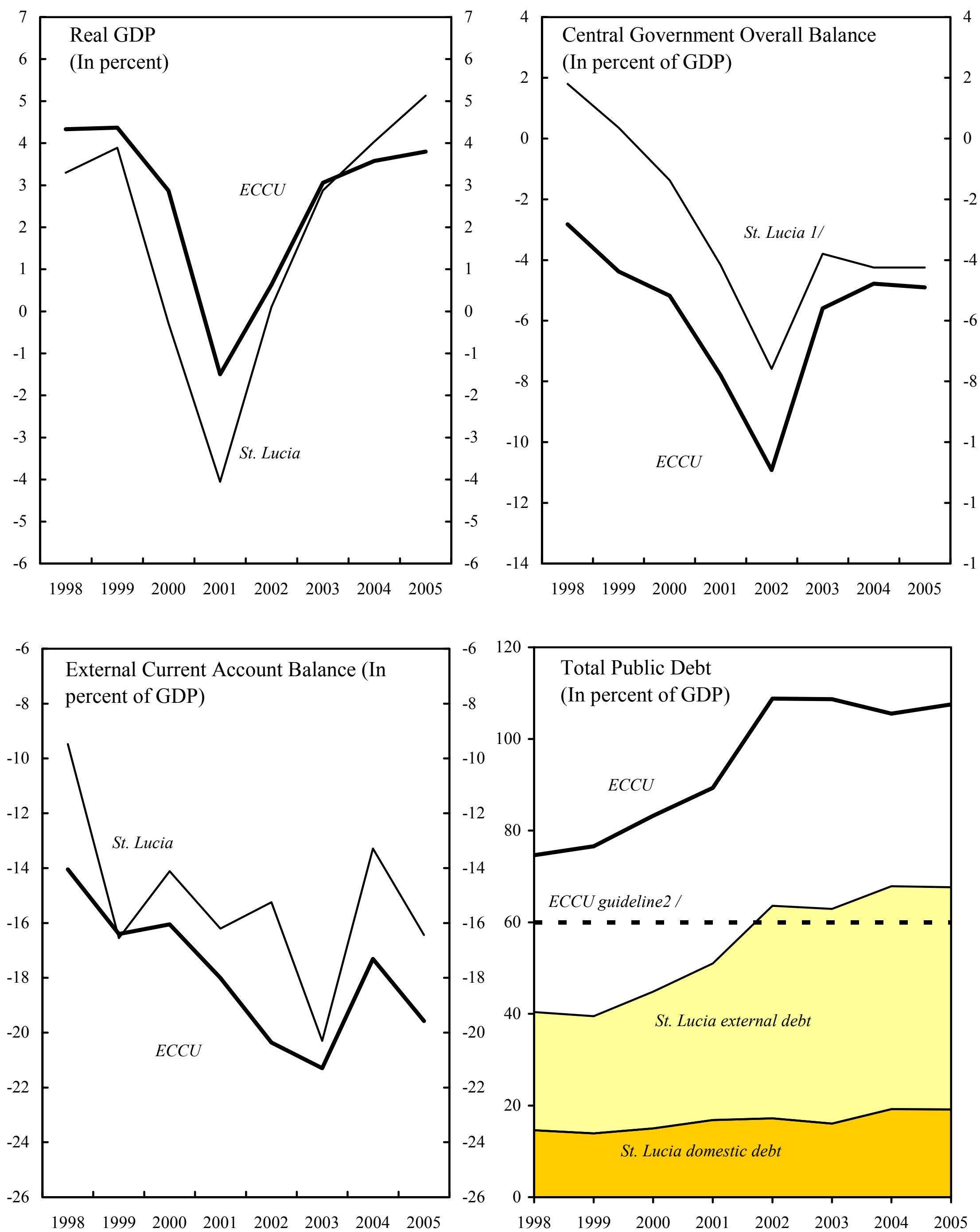
	2002	2003	2004	Proj. 2005
(Annual percentage changes, unless otherwise specified)				
Real GDP at factor cost	0.1	2.9	4.0	5.1
Consumer prices (period average)	-0.3	1.0	1.5	3.0
Tourist stayovers	1.3	9.3	3.6	5.0
Terms of trade	-2.1	-3.5	-3.7	-0.1
Excluding tourism	1.3	-10.3	-7.2	0.9
Nominal effective exchange rate (end of period, depreciation -)	-4.2	-8.6	-6.4	…
Real effective exchange rate (end of period, depreciation -)	-5.0	-10.9	-0.7	…

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

10. **Investment in tourist resorts and infrastructure is fueling demand for construction.** The government expects investment in tourist resorts to add about 1,100 new hotel rooms by early 2007, an increase of 30 percent over the current stock. Combined with public investment plans, demand for construction is projected to grow by around 20 percent in each of 2005 and 2006. Companies intend to recruit foreign labor, with the assistance of the authorities, but shortages of labor and materials are nevertheless likely.[4] According to private sector representatives, the rapid build-up in resorts is straining existing capacity

[4] Such shortages were associated with a large rise in public investment in the early 1990s. Cement and bitumen were reportedly in short supply during the mission in July.

Figure 1. St. Lucia: Comparative Macroeconomic Indicators, 1998–2005



Sources: ECCB; and Fund staff estimates and projections.

1/ Data are for fiscal years beginning April 1.
2/ Applies to central government debt only.

in water, power, road, training, security, airlift and other services. Staff project that following an intense period of construction, activity in this sector will decline sharply leading to a deceleration of GDP growth and a strengthening of the external current account in 2007–08.

11. **Together with higher oil prices, demand for construction is contributing to a rise in inflation.** Wages in construction are reportedly increasing, and consumer price inflation, which averaged 1.1 percent during 2001−04, reached 4 percent over the 12 months to July, 2005. The partial pass-through, in August 2005, of higher oil prices to fuel and transport prices will have a further direct impact on the consumer price index of 1 percent (Box 3). With a pick-up in money demand, broad money (M2) grew by 13 percent per annum through July 2005, and credit to the private sector (primarily consumer lending) has been expanding strongly.

Box 3. Managing the Rise in Oil Prices

St. Lucia maintains a system of fixed prices for most petroleum products. Retail prices are adjusted infrequently, and the government absorbs the impact of changing import prices through a variable levy. The system is similar to that in other ECCU countries, with the exception of Dominica which has a mechanism to pass through international prices.

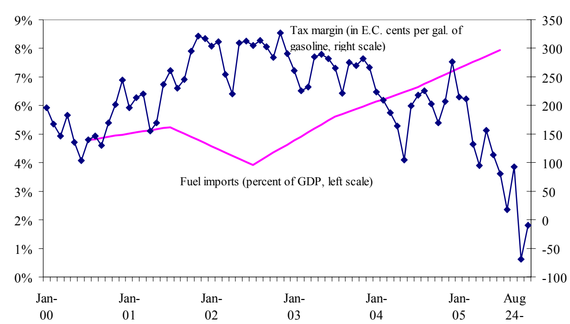
Fuel prices were increased in August, adjusting for part of the recent rise in oil prices. The price increase, by EC$1 per imperial gallon (12 percent), briefly re-established a positive tax margin on fuel before a sharp oil price increase in September. An additional increase by EC$2 would, at August 24 fuel import prices, have restored the average tax margin prevailing in 2002 (when petroleum taxation accounted for 2.4 percent of GDP in tax revenues). Prices for kerosene and cooking gas (LPG) were left unchanged at highly subsidized levels for social reasons, at an estimated cost to the budget of around EC$2 million (0.1 percent of GDP).

ECCU: Domestic Price of Unleaded Gasoline, 2002–05

	In U.S. dollars per liter, end of period			
	2002	2003	2004	2005 1/
St. Lucia	**0.63**	**0.63**	**0.69**	**0.77**
Antigua and Barbuda	0.56	0.65	0.68	0.97
Dominica	0.59	0.65	0.73	0.89
Grenada	0.61	0.61	0.61	0.89
St. Kitts and Nevis	0.54	0.54	0.54	0.86
St. Vincent and the Grenadines	0.55	0.55	0.61	0.65
Memorandum items:				
United States	0.38	0.39	0.47	0.63

1/ As of November 10, 2005.

St. Lucia: Tax Margin on Gasoline and Share of Fuel Imports in GDP, 2000−proj. 2005



It is recommended to adopt a flexible pricing mechanism. Adjusting petroleum prices continuously, according to a transparent price-setting formula, would reduce the need for *ad hoc* adjustments, allow full pass-through to consumers and instill more efficient energy use. Concerns over the possible adverse impact on the poor can be met through more targeted, means-tested forms of support. Over time, it would be desirable to return to earlier levels of taxation. The ECCB Monetary Council in October recommended that countries adopt a common oil pricing mechanism that is transparent, credible, and predictable.

As most goods are imported, higher fuel prices affect primarily the cost of local transportation, and the impact on growth appears to have been modest. Fuel prices and those of bus transport (which were also adjusted) have a weight of a little less than 10 percent in the CPI, so the direct impact of the August increases is around 1 percent. The wider impact on inflation will depend, in part, on the extent to which fuel price increases feed into salary and wage demands.

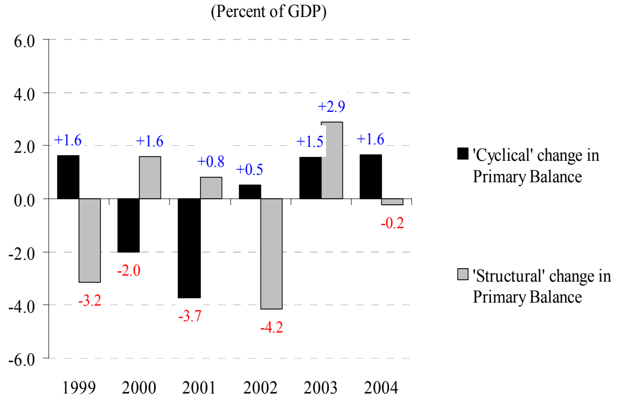
12. **Fiscal policy tightened markedly in FY 2003/04 and FY 2004/05.** The central government's overall balance on a cash basis improved by almost 3½ percent of GDP over the two-year period, despite a sharp fall in grant inflows in FY 2004/05 as a result of delays in disbursement.[5] The improvement reflected public sector wage restraint, reduced capital spending and cyclical factors, with automatic stabilizers boosting tax revenue as the economy recovered from its lows in 2000–02.

St. Lucia: Key Fiscal Indicators, 2002/03–2005/06

	2002/03	2003/04	Prel. Rev. 2004/05	Budget 2005/06	Proj. 2005/06
	(In percent of GDP)				
Total revenue and grants	**27.0**	**27.9**	**27.0**	**27.4**	**28.0**
Current revenue	24.0	25.7	27.0	24.0	26.4
Capital revenue	1.1	0.4	0.0	0.0	0.0
Capital grants	2.0	1.7	0.0	3.4	1.6
Total expenditure and net lending	**34.6**	**31.6**	**31.3**	**39.7**	**33.0**
Current expenditure	23.9	24.6	23.3	24.7	23.7
Capital expenditure and net lending	10.7	7.0	8.0	15.1	9.3
Current balance	**0.1**	**1.1**	**3.7**	**-0.7**	**2.7**
Overall balance (including grants)	**-7.6**	**-3.8**	**-4.2**	**-12.3**	**-5.0**
Primary balance	**-5.1**	**-0.9**	**-1.0**	**-8.7**	**-1.5**

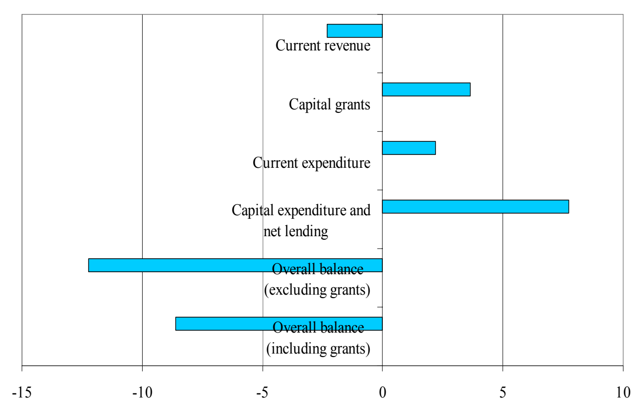
Sources: Ministry of Finance; and Fund staff estimates and projections.

St. Lucia: Change in Primary Fiscal Balance (Excluding Grants)
(Percent of GDP)



1/ Revenues and GDP are cyclically adjusted.

St. Lucia: Budget for FY 2005/06—Changes Compared with FY 2004/05
(In percent of GDP)



13. **The budget for FY 2005/06 would sharply reverse fiscal consolidation, despite continuing wage restraint, but is unlikely to be implemented in full.** As approved, the budget would cause the overall fiscal balance to deteriorate to -12.3 percent of GDP. A near-doubling of capital expenditure explains much of the shift in the fiscal stance. However, capital spending is likely to face implementation constraints.[6] Furthermore, revenue collection in the first quarter of the fiscal year, exceeded projections by 14 percent. The budget reduces the maximum corporate tax rate by two percentage points to 30 percent, and grants new tax concessions aimed at promoting agri-business cooperatives and tourism.

[5] Excluding grants, the overall balance in FY 2004/05 strengthened by 1.3 percent of GDP.

[6] Since 1990, public investment has tended to be in the range of 7–8 percent of GDP and has rarely exceeded 10 percent of GDP.

Current spending is to increase by 10 percent, mostly due to a sharp rise in unallocated (so-called "reserve") expenditures and transfers. On the positive side, the share of government wages and salaries in GDP is budgeted to remain constant after having declined since 2000.

14. **While public debt has continued to grow, St. Lucia has borrowed on favorable terms in the Regional Government Securities Market (RGSM).**[7] Public debt grew over 4 percentage points to almost 68 percent over the two years to March 2005. The budget for FY 2005/06 would add a further 7 percentage points. At the same time, the RGSM has allowed St. Lucia to replace foreign with E.C. dollar-denominated debt, with new issues at declining spreads over U.S. treasury bills. As of March 2005, 28 percent of the outstanding public debt stock was classified as domestic, compared with 25 percent a year earlier. To finance budgeted expenditure in FY 2005/06, net new bond issues in the RGSM equivalent to 9 percent of GDP would be needed to supplement multilateral and grant financing.

15. **The current account deficit is projected to widen by 3 percentage points to 16 percent of GDP in 2005, financed largely by foreign direct investment.** Following sharp but broadly balanced growth in imports and tourism receipts in 2003 and 2004, the current account balance is set to decline due to a surge in construction-related imports (including of labor services). At the same time, net FDI is expected to grow by 57 percent to US$93 million (11.4 percent of GDP) in 2005 and to accelerate further in 2006.

16. **Private remittances may be a significant source of finance that is underestimated in the balance of payments.**[8] Based on net migration rates drawn from a range of sources, including the World Bank WDI database, staff estimates the stock of St. Lucian emigrant households at around 44,000, largely in the United States and United Kingdom. According to a 2001 U.K. government survey, average annual remittances to the Caribbean amounted to US$1,094 per household (U.S. estimates tend to be higher), yielding an annual remittance flow for 2004 of US$48 million (6.3 percent of GDP), compared to the current ECCB estimate of US$27 million.

17. **The E.C. dollar has depreciated in real terms vis-à-vis key tourism markets since 2003, but competitiveness is less strong by other measures**. The weakening of the U.S. dollar (to which the E.C. dollar is pegged) since 2003 has boosted tourism sales in the European markets. At the same time, real wages have risen at an annualized rate of 1.7 percent since 1992, while productivity (measured for the export sectors of tourism, agriculture, and manufacturing in Figure 2) has remained unchanged. Although subject to cyclical variation, this implies an increase in unit labor costs and may partly explain an increase in unemployment over the same period. In view of the common exchange rate peg in the ECCU, price and wage pressures linked to the current construction boom may undermine competitiveness and the emergence of a more diversified export structure.

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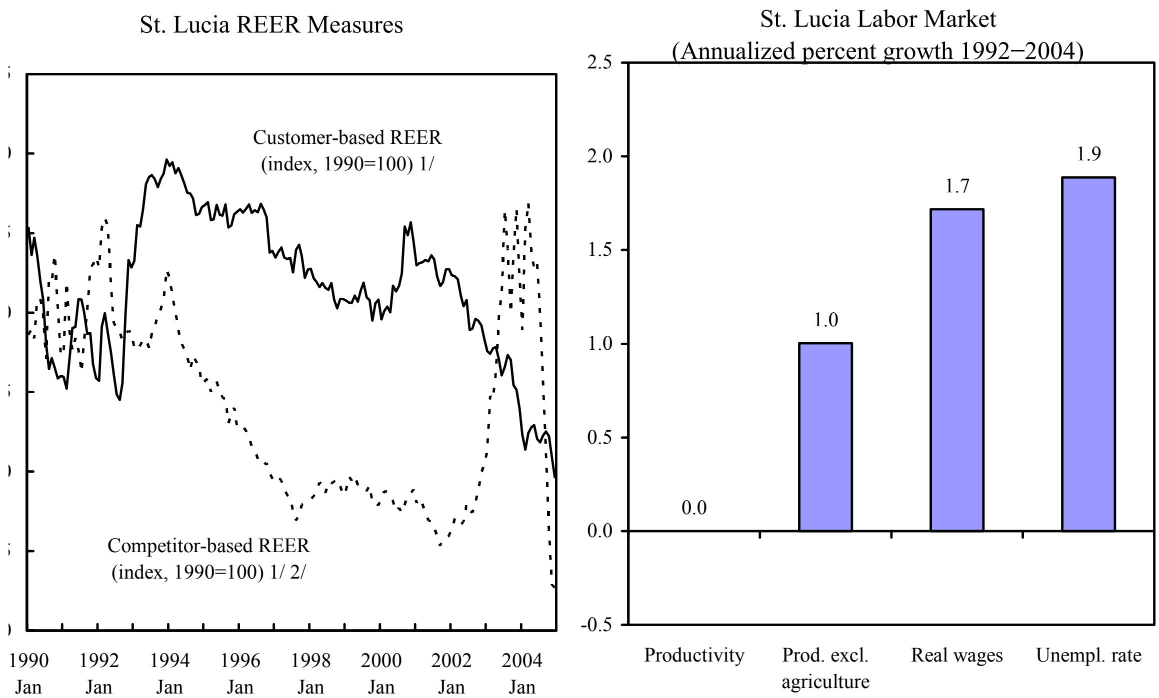
[7] In 2004, the government placed EC$157 million (7.6 percent of GDP) in six and ten-year bonds on the RGSM at an average interest rate of 6.4 percent. The borrowing program exceeded the government's financing needs in FY 2004/05. About EC$72 million remain available for the current year.

[8] Private remittances are likely to be captured, in part, as portfolio inflows in the balance of payments.

Figure 2. St. Lucia: External Competitiveness, 1990–2004



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

1/ An increase (decrease) indicates an appreciation (depreciation). Competitors-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices. The competitors with their respective weights in the index are: The Bahamas (23.4 percent), Barbados (8.0 percent), Dominican Republic (43.5 percent), Jamaica (19.4 percent), and Trinidad and Tobago (5.7 percent). The weights are chosen based on the share of tourism arrivals to the Caribbean in 2001. Customers-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices. Customers with weights are Canada (7 percent), U.K. (39 percent), and the U.S. (54 percent).

2/ The sharp appreciation in 2002–03 was caused largely by the real depreciation of the Dominican Republic's peso.

3/ Real wage data extend only to 2002.

III. POLICY DISCUSSIONS

18. **The current strength of the economy provides an opportunity to tackle St. Lucia's growing debt and adopt structural measures to bolster long-term growth.** Staff noted that a sound fiscal policy was complementary to the objective of promoting sustained growth, and that there was further room to improve the climate for domestic investment and to strengthen the economy's international integration.

19. **The authorities engaged in an open discussion with staff and, while there were differences regarding the pace of reforms, there was broad agreement on their general direction.** The authorities agreed that debt needs to be brought down, but noted that capital

spending would increase ahead of the 2007 Cricket World Cup (CWC). Tax concessions had, in the authorities' judgment, been effective at attracting foreign investment, and any reforms would have to be based on a careful review. They were committed to deepening regional and international integration—including more competitive labor markets—but highlighted the fiscal dependency on trade taxes and argued that the local industry needed more time before it could compete. Staff suggested that plans for the CWC were compatible with fiscal consolidation since tax revenues were strong and there was scope to prioritize capital spending, that tax concessions could be better targeted, and that trade reforms could be embedded in a medium-term framework of regional and multilateral integration.

A. Fiscal Policy and Public Debt

20. **The authorities stated their intent to reduce the public debt-to-GDP ratio by tightening fiscal policy over the medium term, but faced constraints in 2005 and 2006.** With assistance by SATAP,[9] the authorities had developed a budget scenario that would trim public and publicly guaranteed debt to below 60 percent of GDP by 2010. However, the immediate priorities were to ensure the successful staging of the CWC in 2007, as well as to remedy deteriorating infrastructure, tackle crime and strengthen education and hospital services, which limited the scope for fiscal consolidation in the short run.

21. **Staff noted that delivering on the government's priorities seemed compatible with a stable debt ratio in the current fiscal year.** Due to the strong GDP performance tax returns were likely to exceed budget projections by about 2.5 percent of GDP in FY 2005/06. Active expenditure management (see paragraphs 23−25) could further contribute to reducing the government's primary deficit from the budgeted 8.5 percent of GDP, to 1.5 percent, leaving the fiscal stance broadly unchanged from FY 2004/05. Indeed, such an outcome was not only desirable but likely in view of budget implementation constraints.

22. **Over the medium term, a rapid decline in debt could be achieved through a combination of revenue and expenditure measures which collectively improve the fiscal balance without imposing sharp adjustments in any one area.** Staff recommended a medium-term fiscal strategy ("active scenario") that was closely modeled on the authorities' own baseline scenario and would reduce public debt below 60 percent of

St. Lucia: Fiscal Measures (staff recommendations and projections)

	Budget 2005/06	Proj. 2005/06	Proj. 2010/11
(Yield in percent of GDP compared to 2004/05 outcome)			
Fuel price change	-0.7	0.0	0.0
Streamlines tax concessions	0.0	0.0	1.5
Current spending control	-1.4	-0.4	0.9
o/w: wages and salary moderation	-0.1	0.3	0.7
control over reserve expenditures	-1.3	-0.3	0.0
transfers	0.3	-0.2	0.2
Capital exenditure ceiling	-7.1	-1.3	2.0
Official grants	3.4	1.6	1.4
Administrative measures and revenue/spending elasticity	-2.3	-0.7	-2.0
Change in overall balance	-8.1	-0.8	3.8

Source: Ministry of Finance, and staff projections

[9] Stabilization and Adjustment Technical Assistance Program, CARTAC.

GDP by 2010. This would require the central government to achieve a swing in its primary balance of 4−5 percent of GDP, to between 3 and 4 percent of GDP by FY 2008/09−FY 2010/11. The adjustment would be balanced between expenditure and revenue measures. In contrast, a passive scenario that assumes no change in the policy stance would cause debt to rise rapidly, reaching 90 percent of GDP by FY 2010/11. The fiscal and debt paths under different scenarios are set out in Box 4, and Annex I summarizes key fiscal recommendations.

23. **The staff recommended that capital expenditures be limited to high-priority projects.** In FY 2005/06 and FY 2006/07, capital spending could be held to about 9 percent of GDP, or EC$430 million cumulatively, through a tight focus on infrastructure linked to the CWC and on grant-financed projects for education and health.[10] Staff recommended that post-CWC capital budgets should not exceed the historic execution rate of around 6 percent of GDP, unless new sources of grant funding could be identified.

24. **In FY 2005/06, implementation constraints are likely to cause below-budget capital spending, and the authorities agreed with staff that in the medium term, capital spending would have to decline.** Project execution had in fact been well below plan in the first quarter of the fiscal year, and expectations were now for capital spending of a little over EC$200 million in FY 2005/06 (compared with the budgeted EC$336 million). The authorities acknowledged that an ex-ante selective approach could help ensure that budgetary funds were well targeted in the face of competition for construction and other resources. The government had opted for low-cost solutions in preparing the CWC (e.g., a temporary rather than permanent stadium expansion), and was proceeding with longstanding plans to establish a Project Monitoring Committee. Implementation of a medium-term capital budgeting framework had been delayed by the scarcity of qualified personnel.

25. **Staff commended the authorities for the continued moderation in public sector salary settlements, and argued for restraint in other expenditures.** The fiscal situation leaves little room for raises above consumer

St. Lucia: Central Government Wages and Salaries
(In percent of GDP)

	2000	2001	2002	2003	2004
St. Lucia	**13.3**	**13.7**	**13.2**	**13.7**	**12.4**
Antigua and Barbuda	11.8	11.7	12.2	12.3	11.3
Dominca	16.2	16.8	16.9	14.6	13.6
Grenada	10.3	12.0	11.3	10.9	12.7
St. Kitts and Nevis	15.4	15.1	15.0	14.4	14.4
St. Vincent and the Grenadines	14.1	14.2	14.5	13.6	13.3
ECCU (average)	13.1	13.5	13.4	13.1	12.7

Sources: Country Statistics Departments.

[10] Apart from ticket sales and licenses, Cricket World Cup St. Lucia (CWCSL), a nonprofit agency responsible for organizing the CWC, relies on government subsidies. The government has budgeted EC$78 million (3.5 percent of GDP) to cover the immediate costs for organization and stadium extension, including an access road. Discussions with CWCSL suggest that additional related infrastructure projects might total EC$127 million (5.1 percent of GDP) and include water supply and road links for the key tourism areas and addressing bottlenecks in the national road network. Certain upgrades of the two airports and harbor facilities would be executed by the financially independent parastatal St. Lucia Air and Sea Port Authority (SLASPA).

price inflation in the ongoing (triennial) public sector salary round. At the same time, the budget envisages additions to the public sector payroll, focused on security and education services. In the staff's view, this increased the urgency of proceeding with a planned civil service review, and to extend its scope from a review of competencies and responsibilities to exploring appropriate *levels* of public employment. Budgeted reserve (unallocated) expenditures, which show a sudden rise by 1 percent of GDP over the previous year, should be subject to tight disciplines and careful prioritization. Continued spending restraint was also important in light of uncertainties over the planned introduction of universal health care (UHC), whose costs had not yet been assessed.[11]

26. **Priorities on the revenue side should be to reform (a) oil pricing and taxation, (b) the tax concessions regime, and (c) the structure of indirect taxation:**

- *Fuel prices:* The authorities adjusted fuel prices by EC$1 (12 percent) subsequent to the mission, on August 24 (Box 3). Fuel pricing should seek, over time, to restore the petroleum tax revenue of 2002, and price adjustments be made automatic and formula-based.

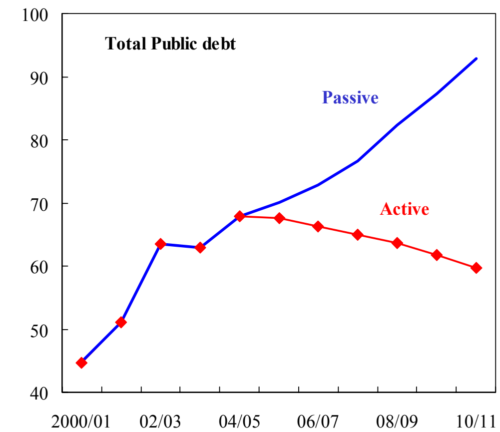
- *Tax concessions:* The mission argued the need for tighter disciplines on tax concessions, which represented a cost to the budget equivalent to at least 23 percent of tax revenue collected in 2004 (6 percent of GDP). The review of the Fiscal Incentives Act, recently commissioned by the authorities, would be an opportunity to discontinue discretionary concessions; shorten the duration of statutory concessions; and examine less costly and more targeted ways of promoting investment (see paragraph 29). Concessions should also be individually reviewed and recorded by the Ministry of Finance.[12]

- *Indirect tax reform:* Work has begun to design a value-added tax (VAT), which would replace the existing multiple consumption taxes as recommended by the OECS Tax Reform and Administration Commission (2002). A target date for its introduction has not yet been announced. Even if revenue-neutral in itself, this reform would increase the economic efficiency of taxation, and staff recommended aiming for a single flat rate with no exceptions. Early action would need to be taken to develop accounting frameworks for such a reform, in particular in the business community.

[11] The government is considering to finance the UHC through indirect taxes. In the mission's view, these should be additional to the revenues proposed under the active fiscal scenario.

[12] In response to the Prime Minister's request for an analytical paper on tax concessions during the previous Article IV consultations, staff presented IMF Country Report 05/305—2005 Eastern Caribbean Currency Union—Selected Issues, Chapter V "*Tax Concessions and Foreign Direct Investment in the ECCU*" by J. Chai and R. Goyal to the Prime Minister. For the ECCU as a whole, the paper concludes that tax concessions had been expensive while their benefits in terms of attracting foreign investment had been marginal.

Box 4. St. Lucia's Debt Dynamics



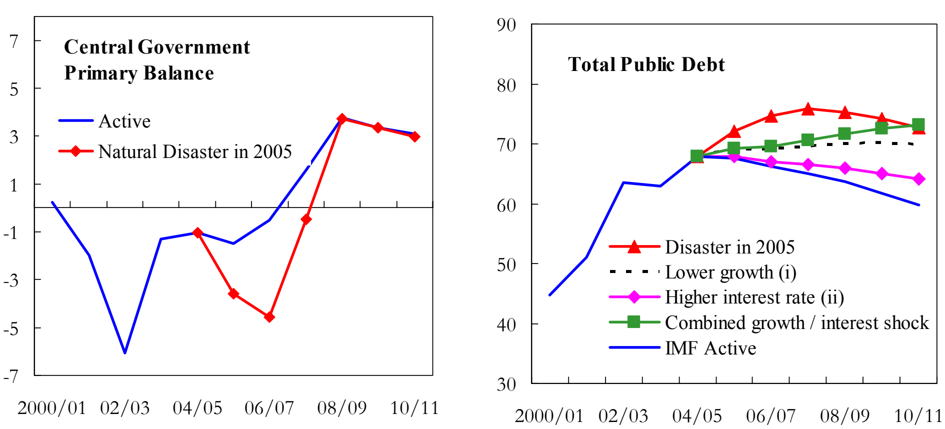
Projections prepared by staff show that a continuation of current policies generates explosive debt dynamics, even assuming the FY 2005/06 is not fully implemented. This passive scenario is driven by the sharp increase in the capital budget, related in part to the Cricket World Cup, that remains above historical norms over the projection period. The passive scenario caps capital expenditures at about 10 percent of GDP (as compared to a budgeted 15 percent) to reflect likely capacity constraints on execution. Nevertheless, the increase in public investment combined with rising interest rates (associated with increasing global interest rates projected in the IMF's World Economic Outlook) would rapidly increase the central government's borrowing requirements, pushing St. Lucia's debt ratio above 90 percent of GDP by FY 2010/11.

A policy stance that aims to contain the fiscal deficit, however, can quickly set debt dynamics on a downward path. Using the same underlying growth and interest rate assumptions, the IMF's active (baseline) scenario aims for a reduction in St. Lucia's debt ratio below 60 percent of GDP by 2010. This is based on a slightly more ambitious fiscal strategy than that proposed by the Ministry of Finance centered on: (i) bringing the capital budget before grants back to historical norms (6 percent of GDP); (ii) the introduction of VAT in 2007/08; (iii) a staged reduction in tax concessions; and (iv) containing the wage and salary bill.

While the staff's active scenario is consistent with stable debt dynamics, it is nonetheless subject to a number of downside risks. Staff conducted sensitivity analyses with respect to a series of shocks: (i) a 2 percent reduction in annual GDP growth relative to the baseline; (ii) an increase in the average interest rate on new borrowing of 2 percentage points starting in 2005/06; (iii) a combination of the low growth and high interest rate scenarios; and (iv) a sizable natural disaster in 2005/06 that causes a same-year 3.5 percentage point decline in real GDP growth and a 8 percent of GDP increase in expenditure spread out over three years.

The sensitivity of the debt ratio varies considerably across scenarios. In the event of a natural disaster, the debt ratio is expected to rise by over 10 percentage points to 76 percent of GDP in 2007/08 before reverting to a downward path. In contrast, combined growth and interest rate shocks set debt dynamics on a permanently higher path that exceeds staff's active scenario by 13 percentage points by 2010/11. These sensitivities underscore the importance of prudent debt and fiscal management to minimize debt-related vulnerabilities.

Public Sector Debt Scenarios (Active Scenario, in percent of GDP)



27. **Tax administration is being strengthened, though further steps could be taken to improve collections.** Though delayed, the authorities are moving closer towards establishment of a unified Revenue Authority. Plans for implementing an automated customs information system (ASYCUDA++) and the Single Taxpayer ID are on track and should facilitate the shift towards risk-management and administrative simplifications in border taxation. At the same time, there is a need for stronger resolve in ensuring collections on the Hotel Occupancy Tax, since only about 60 percent of taxes due are currently collected. And although the reassessment of the rental value of high-end properties has been largely completed, incremental revenue from property taxation will remain limited due to tax concessions.

B. Enhancing St. Lucia's Growth Potential

28. **St. Lucia has successfully developed its tourism industry, but will face challenges in sustaining and further enhancing economic growth.** The recent and planned expansion in stay-over capacity attests to the continued potential for tourism-based growth. Nevertheless, staff recommended that St. Lucia tackle the underlying causes of the slowdown in GDP growth since the early 1990s. Restoring higher levels of growth on a sustained basis would require structural reforms aimed at broadening the economic base, and ensuring the continued competitiveness of the tourism sector.

29. **Foreign investment is growing, but the cost of capital should be reduced to stimulate domestic investment.** Staff recommended reforming insolvency laws, which raised lending costs by making it difficult to foreclose on delinquent borrowers. Together with other members of the ECCU, the interest floor on savings accounts could be lowered or eliminated (currently 3 percent) over time, since it drives up lending rates. Staff also noted that fiscal consolidation would be expected to put downward pressure on commercial rates by reducing the government's borrowing requirement. Finally, tax incentives could be better targeted at reducing capital at risk, at lower fiscal cost, through use of tax credits and assistance with start-up training.[13]

30. **There was agreement on the need to promote labor market flexibility and to ensure that an appropriate mix of skills was available to local businesses.** Staff considered that flexible labor markets were especially important to safeguard competitiveness under the common currency arrangement with other ECCU members, and encouraged further progress in integrating CSME labor markets in order to increase the supply of labor and broaden the range of available skills—a constraint consistently highlighted by business representatives.[14] The authorities noted that inward labor mobility

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[13] Many existing tax concessions are not directly linked to investment spending, and hence the cost of capital, and tax holidays are heavily discounted by start-ups that may be cash-flow negative in their early years.

[14] In the same vein, a World Bank study (reference in footnote 3) recommends better targeting of educational curricula at business needs, perhaps with input from the private sector.

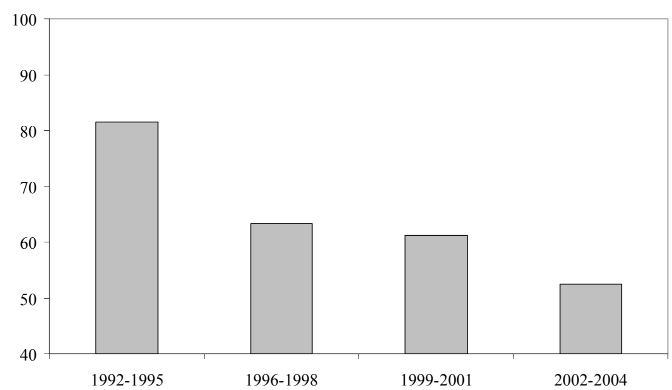
within the CSME (currently limited to five categories of workers) should increase from 2006 when independent service providers, such as craftsmen, would gain establishment rights.

31. **Staff recommended reforms to the foreign trade regime with a view to raising competitiveness and outward orientation.** It argued that high levels of protection for local manufacturing and farming drove up costs for downstream users and exporters, favored inefficient production for the small domestic market, and had not succeeded in building competitive industries (Box 5). Specifically, staff recommended replacing restrictive licenses with tariffs, reducing the import service charge, which also applies to intra-CSME trade, from 5 to below 2 percent, consistent with international standards, and sharply reducing peak tariffs, possibly in a multilateral context, in order to mitigate CARICOM trade diversion and the inward bias of the trade regime.

32. **The authorities were committed to regional and global trade integration, but emphasized the need to address adjustment costs.** Tariffication of licenses was under consideration. Stepwise liberalization under the CSME would proceed, but there was concern that the local industry was not yet fully prepared for competition, and was facing structural disadvantages such as costly utilities. Deeper regional integration required the establishment of a development fund to support the weaker CARICOM members. Liberalization of extra-regional trade was also constrained by fiscal revenue considerations. Staff argued that integration itself would lower costs (for example, of inputs), reduce the need for tax concessions and broaden the range of supplies. At the regional level, it would allow for economies of scale in the provision of collective government and business services. A credible medium-term framework of liberalization would provide time and incentives for industry to adjust, and the fiscal dependence on tariff revenues could be reduced through the planned tax reforms.

33. **In light of the expected erosion of EU banana preferences, the mission recommended diversifying production and mitigating the social impact.** EU prices have strengthened since 2000, but the impending resolution of a WTO dispute brought by Latin American producers is likely to sharply reduce preferences for St. Lucian bananas from January 1, 2006, while productivity has deteriorated, undermining remaining competitiveness (Annex II). The government's banana strategy announced in June, aims to enhance productivity, develop niche markets, and diversify agricultural production. However, topographical disadvantages and the high cost of labor suggest the sector is likely to shrink further.

St. Lucia: Productivity in the Agricultural Sector
(Real output to persons employed 1992=100)



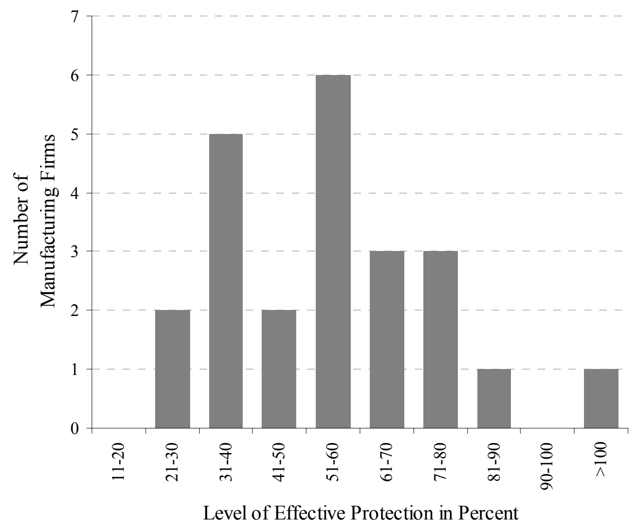
Source: Statistics Department.

Box 5. Import protection

Import barriers protect St. Lucia's domestic production from foreign competition. The simple average import tariff, at 8.9 percent excluding the unusually high service charge of 5 percent, is below the developing country median (12.3 percent). But the average hides significant tariff protection for the relatively small range of goods that are produced locally. Nonautomatic licensing adds further to protection, although its impact is hard to quantify. This box provides staff's estimates of protection for 24 firms accounting for 82 percent of the value of manufacturing output for which detailed accounts were available. Protection is likely to be at least as high for nonexport agriculture (the average agricultural tariff is 21.5 percent and that for manufacturing imports 6.9 percent).

Staff calculations suggest a median effective rate of protection (ERP) in manufacturing of over 50 percent. The figure shows the distribution of the ERP for the sample. The ERP afforded to a firm is the percentage increase in firm value added due to the net effect of tariffs on competing imports and the tariffs it pays on its inputs. Tariffs on import competing goods in the sample averaged 19 percent. At the same time, import duty paid was just 8 percent of the estimated value of these firms' imported inputs (partly as a result of tax concessions). The relatively low domestic value added typical of small economies, which import most primary, intermediate and capital goods, further raises the ERP.

Approximate Effective Rate of Rates of Protection for the St Lucian Manufacturing Sector (24 firms)



In addition to tariff protection, nearly 50 percent of surveyed domestic production is shielded by nonautomatic licenses. The CARICOM agreement provides for special "safeguards" for disadvantaged members, including St. Lucia. These safeguards are administered through import licenses, which are applicable to all imports, including those from CARICOM countries. A further 12 items are protected through licensing under CARICOM provisions for industrial development in less developed country members. Approval of licenses typically requires demonstrating that similar products cannot be purchased locally. As licenses cover 80 percent of the output of the mission's sample of manufacturing firms, the ERP estimates almost certainly understate actual protection.

Proportion of Manufacturing Industry Covered by Import Licenses
(in percent for 2002, sample of 24 firms) 1/

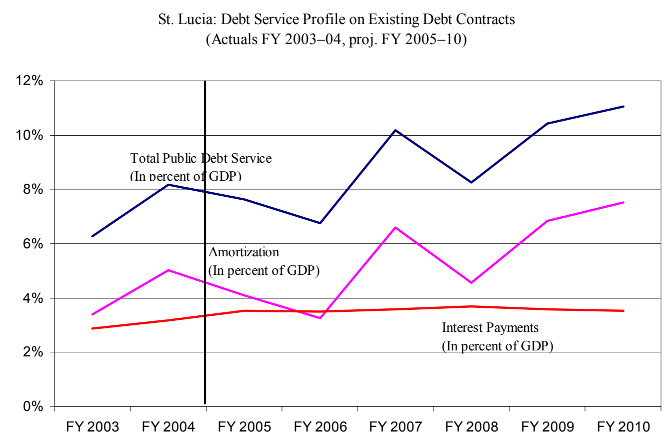
Sample output value as percent of total manufacturing output	82
Average output tariff	19
Percent of output value covered by import licenses	80
Percent of firms covered by import licenses	46

Source: St. Lucia Statistics Department

Available assistance could be most effectively applied to easing the transition by providing retraining or supporting business start-ups through investment tax credits or grants, and by building appropriate social safety nets for older workers.

C. Reducing Vulnerabilities

34. Policy discussions in this area centered on reducing rollover risks in debt markets, disaster preparedness and mitigation, and ensuring the health of the financial sector.



35. **Although active debt management has flattened the debt service profile, rollover costs are likely to rise in the period ahead.** Staff commended the authorities for significantly strengthening debt management in recent years, including through training programs. An active refinancing program has reduced future debt service spikes. Still, debt service on existing contracts will grow to 40 percent of fiscal revenue (10 percent of GDP) in FY 2007/08, from 30 percent in FY 2004/05, and borrowing rates are likely to increase in the period ahead as global markets tighten. Staff noted that higher projected costs of financing were an added reason to reduce outstanding debt over time.

36. **St. Lucia has a well-designed disaster mitigation and preparedness program, though further steps can be taken to ensure the program's effectiveness.** There is strong commitment to addressing vulnerabilities to natural shocks. The *National Emergency Management Organization (NEMO)*, chaired by the Prime Minister, has developed full-scale disaster simulation exercises and tested its coordination function in the context of Hurricane Ivan. The authorities have also taken action to fill a longstanding void on building code standards. Against this backdrop, staff noted the importance of stepping up inspection activities to ensure enforcement of these new standards and highlighted a role for a coherent retrofitting scheme to bolster the resistance of existing structures. The mission also suggested that disaster risk to public assets could be further mitigated by taking better advantage of risk transfer mechanisms available in local insurance markets,[15] and by participating in the ongoing World Bank initiative to develop a regional catastrophe insurance pool.

[15] Indeed, catastrophe cover for property is available in the domestic insurance sector, but government buildings and offices are for the most part left uninsured.

St. Lucia: Incidence of Natural Disasters, 1970–2004

	All Recorded Disasters					Estimates of Damage	
		Number of Events Divided by Land Area		Number of Events Divided by Population			Cumulative Damage 1/
	Number of Events	Index	Rank	Index	Rank	Number of Events	Rank
All countries	7,116	100	75	100	75	2,212	75
Advanced economies	1,572	18	74	35	96	816	102
Caribbean	190	587	23	378	22	64	45
ECCU6	48	1,173	5	747	5	19	16
St. Lucia	**9**	**989**	**6**	**459**	**7**	**2**	**16**

Sources: EM-DAT for data on natural disasters, including estimates of the number of people affected and the value of damage; World Bank, World Development Indicators for data on land area; IMF, World Economic Outlook database for data on GDP and population.

Note: The sample contains 148 countries after omitting countries without at least one natural disaster associated with a cost estimate and/or missing information on GDP (24 advanced economies, 15 Caribbean countries, and 109 other developing countries). Simple unweighted averages are used for country groupings. Rankings are in descending order, with "1" indicating the most exposed to natural disaster.

1/ In percent of annual GDP.

37. **The mission recommended continued monitoring of vulnerabilities in the financial sector.** Vulnerability indicators showed a modest weakening in the overall health of the banking sector since December 2004. The ratio of capital to risk-weighted assets had declined slightly, while nonperforming loan (NPL) ratios remained stubbornly high and well above the ECCU average, especially for domestically licensed banks. Mild improvements in NPL ratios have largely been driven by a cyclical increase in bank credit as opposed to substantive improvements in resolving delinquent loans. Indicators also point to a sharp increase in the banking sector's gross exposure to the government as a share of assets to almost 15 percent (as compared to about 11½ percent a year earlier), reflecting purchases of government securities by local banks on the Regional Government Securities Market (RGSM). The mission noted that these developments did not give rise to imminent concerns, but should be closely monitored. A review of insolvency laws aimed at easing foreclosure would assist efforts to reduce NPLs.

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

	St. Lucia				ECCU Avg.	
	Dec-02	Dec-03	Dec-04	Mar-05	Dec-04	Mar-05
Capital Adequacy Ratio 2/	14.7	16.5	18.0	16.5	17.3	16.2
Nonperforming loans/total loans	20.6	17.7	17.3	16.1	12.0	11.9
Of which: domestically licensed banks	*28.1*	*23.8*	*22.2*	*22.4*	*15.6*	*15.0*
Gross government exposure/total assets	10.5	11.5	13.0	14.9	15.3	15.6
Return on average assets	0.90	1.44	2.39	0.68	1.75	0.56

Source: ECCB.

1/ End-period data except 2005 which report quarter-ending in March.

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

IV. Staff Appraisal

38. **St. Lucia faces the challenges to enhance long-term growth potential and reduce unemployment, and to reverse the rapid rise in public debt.** There is a need to facilitate structural change in the economy, as the expansion of the tourism sector was insufficient to compensate for the decline in banana production and manufacturing since the early 1990s. At 68 percent of GDP, public debt, which built up as the authorities attempted to stimulate growth, is now creating significant vulnerabilities. This coincided with a sharp reduction in concessional financing.

39. **The recent pick-up in economic activity provides an opportunity to address these challenges.** GDP growth is accelerating, based on tourism and related activities and investments, and is expected to exceed 5 percent in 2005 and 2006. This should ease both the shift in the fiscal balance required to begin reducing debt, and the adoption of measures to strengthen competition and flexibility in labor and goods markets. At the same time, bottlenecks in construction are increasing the risk of inflation, and while the real effective exchange rate (REER) has depreciated over recent years, labor market measures of competitiveness give rise to concerns.

40. **The government has made commendable progress since 2003 in reducing fiscal imbalances, but the still fragile debt situation makes it important to build on this achievement.** While there has been moderation in current spending, much of the improvement has been cyclical. And the budget for the current fiscal year, if implemented, would sharply set back fiscal consolidation. Without resolute action, the public debt could increase to more than 90 percent of GDP by FY 2010/11. The authorities should actively manage the capital budget and prioritize spending to prevent further growth in the primary deficit, and target a shift towards a primary surplus in the range of 3−4 percent of GDP by FY 2008/09. Still, even with the resulting reduction in the debt ratio below 60 percent in FY 2010/11, the public finances would remain highly vulnerable to shocks, and the authorities should aim to continue lowering debt over the medium term.

41. **The recommended fiscal path is compatible with the government's key short-term priorities.** Staff recognizes the importance of the forthcoming Cricket World Cup (CWC), as well as other pressing social objectives and infrastructure needs. But many planned investments do not appear to be linked to these priorities and should be culled or postponed. Competition for construction resources also calls for an *ex ante* more selective approach to capital spending within a medium-term budget framework, rather than risking unexpected implementation delays in priority areas.

42. **Fiscal consolidation over the medium term is best achieved through a combination of revenue and expenditure measures.** Capital budgets should be scaled back to their historical levels, while the planned civil service review should aim to underpin sustained moderation in spending and employment. The yield of the petroleum tax should be restored through further adjustments in fuel prices and eventual conversion into an excise tax. The system of tax concessions is extremely expensive, and should be subject to tight

disciplines; broader changes would require a regional approach given competition at the margin for foreign investment. Implementation of a modern system of VAT and excises will improve the efficiency of taxation and would create space for trade reforms.

43. **St. Lucia could take further measures to promote domestic investment and labor market flexibility.** Domestic investment outside of tourism has been weak, hampering structural change. The cost of capital is high, which suggests a need to ease foreclosure laws, to review the ECCU savings rate floor, and to better target investment incentives at the capital at risk (e.g., through tax credits and training assistance). There is evidence of labor market rigidities, and labor mobility under the CSME would offer obvious benefits by broadening the available skills mix and offering new opportunities for the unemployed.

44. **The economy's growth potential would benefit from a stronger outward orientation.** Given its small size, St. Lucia relies on foreign demand for growth. But the foreign trade regime has a surprisingly strong inward bias. St. Lucia should take steps—on its own and with CARICOM partners—to lower peak tariffs and eliminate restrictive licenses which draw scarce resources into noncompetitive activities, drive up costs of tourism services and impede export diversification.

45. **The banana sector will decline further, and assistance programs should aim to ease the movement of workers into other sectors while cushioning the social impact.** Given the social implications of the decline, its external trigger and the likely impact on the government budget, there is a strong case for external assistance to manage adjustment.

46. **Prudential indicators point to some progress in strengthening the banking sector since the last Article IV consultations.** Nevertheless, the stock of nonperforming loans remains stubbornly high—partly reflecting legal impediments to foreclosure—and after an earlier decline, balance sheet exposure to the public sector is rising again. These indicators should be closely monitored, especially in view of an eventual tightening of liquidity conditions in financial markets.

47. **St. Lucia has a well-designed disaster prevention and mitigation framework.** The program has benefited from strong political leadership. There is nevertheless scope to iron out remaining implementation and enforcement issues in line ministries, and to take better advantage of insurance mechanisms to reduce public asset exposure.

48. **The quality of economic data in St. Lucia, though high relative to other ECCU countries, offers scope for improvements.** The implementation of the Core Welfare Indicators survey was a major achievement. But the national accounts, as well as consumer price and wage data, remain subject to frequent revisions and are partly based on outdated samples and weights. There is insufficient information on private remittances, which are potentially large, and consideration should be given to establishing a regular survey of financial institutions.

49. It is proposed that the next Article IV consultation take place on the standard 12-month cycle.

Fiscal Policy Recommendations

This annex box summarizes specific measures recommended by the mission to strengthen the fiscal balance and reduce public debt over time. Several of these measures have been under consideration by the authorities or are under implementation already.

Expenditure measures

- Capital expenditures should be capped at a cumulative total of EC$430 million in FY 2005/06 and FY 2006/07, which involves pushing ahead with CWC expenditure but postponing nonpriority capital expenditure. In the medium term, capital expenditure should revert to historical norms (6 percent of GDP) under a rolling Public Sector Investment Program.
- Minimize spending authorizations in FY 2005/06 under the "reserve" and discretionary expenditure accounts.
- Re-dynamize the civil service review, including reviewing staffing levels and adapting the skills profile. More generally, the authorities should continue to exert discipline to limit wage and salary increases to the rate of inflation.

Revenue measures

- Continue adjusting pump prices of fuel to reflect oil price developments and restore the 2002 yield of the petroleum tax, while cushioning the impact on poor households, for example, by limiting pass-through for LPG. Over time, convert the petroleum tax into an excise at a specific rate, and ensure automatic petroleum price adjustments to reflect market developments.
- Strengthen the yield of existing taxes by limiting and better targeting concessions (e.g. property, import, and corporate tax concessions). Corporate tax rates could be reduced in line with the streamlining of the concession regime.
- Replace the existing consumption tax with a new broad-based transactions tax and selected excise taxes. Consider folding part of the import service charge into the new transactions tax.
- Proceed with administrative reforms, including establishing the Revenue Authority, and introducing ASYCUDA++, the Single Taxpayer ID and risk-based customs management. Strengthen collection efforts, especially for the Hotel Occupancy Tax.

Prioritization and monitoring

- Tighten coordination of capital and other expenditure in the run-up to the CWC in order to ensure limited construction and project management capacity is focused on priorities.
- Implement medium-term budget framework.
- Evaluate the cost of Universal Health Care and design financing mechanisms that ensure budget neutrality and are economically efficient (such as a broad-based transactions tax).

The Banana Sector in St. Lucia

The banana industry, once a major growth driver, has shrunk as a proportion of the St. Lucian economy. For the four years through 2004, the share of real value added by the industry was a little over 2 percent, which compares to an average of around 6 percent for the previous decade and the peak of just over 12 percent recorded in 1988.

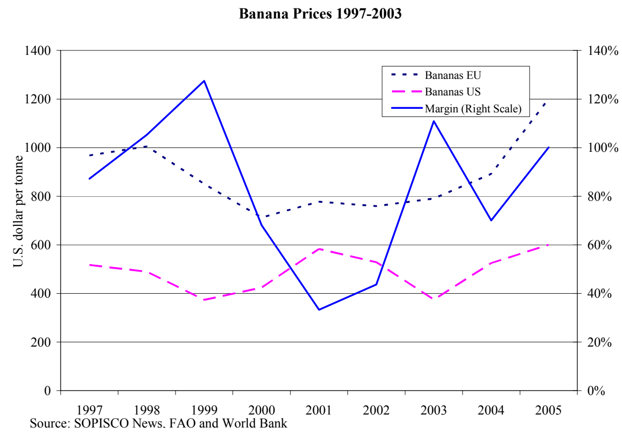
Despite its diminishing contribution to the overall economy, the industry remains important for three reasons. First, it remains a major employer in the economy, particularly for older workers without social protection. Second, its multiplier effects have typically been high; for example, in terms of indirect employment. Third, bananas have been a significant source of export earnings and have provided diversification relative to the increasingly dominant tourism sector.

High production costs are one factor explaining the demise of the banana industry. St. Lucia, in common with other Windward Islands, has production costs slightly higher than in Africa, but a number of surveys estimate that the cost is three times higher than in Latin America. Productivity in the agriculture sector, of which bananas have accounted for 50 percent of production over the last decade, has nearly halved since the early 1990s (text figure paragraph 33). The challenges faced by St. Lucia and other Caribbean producers are not easily overcome. Even an aggressively restructured industry would face difficult geographic obstacles to achieving the cost base of Latin American competitors (Table 1).

Table 1. Comparison of Banana Growing Conditions in the Caribbean and Latin America

Windward Islands	**Latin America**
Small holdings	Plantations
Growing areas hilly or mountainous. Limited land availability	Large flat plains. Wide land availability
Poor soil conditions and low yields (not more than 10 tons/acre)	Rich soil and high yields (18–24 tons/acre)
Majority are independent, small farmers	Largely plantation agriculture, often owned by transnationals, and vertically integrated operations
Higher wages than in Latin America	Wage rates low, more limited protection of social conditions of workers
Unit cost of inputs much higher owing to smaller volumes and varying soil types	Lower unit cost of inputs owing to high volume. Lower price owing to lower market wages, low social benefits and economies of scale
Shipping costs generally higher: smaller volumes, more port calls	Lower shipping costs owing to high volumes

Source: UNCTAD 2003.



St. Lucia, in common with other Caribbean producers, has enjoyed preferential access to the European export market for many years. However, these preferences are being steadily eroded. The EU Banana Regime since 1993 has been characterized by quotas and tariff preferences for ACP suppliers (which includes the Caribbean). The basic structure of the regime has remained unchanged, although there have been some changes due to challenges made at the WTO. In 2006, this regime will be replaced by a tariff-only structure on third-party countries (non-EU and non-ACP). In addition, imports of bananas from the least developed countries have seen tariffs steadily reduced and will qualify for duty-free entry by the start of 2006. The EU offered a MFN tariff level of €187 per ton in September, 2005 but this was successfully challenged by non-ACP exporters to the EU. A new proposal had not been agreed by mid-November, 2005. Table 2 shows the estimated effect of different tariff levels on ECCU banana production. This analysis was conducted on the assumption that production levels are a smooth declining function of the tariff level. However, the large fixed costs of transportation and marketing suggest that production may not be viable even at tariffs above the €150 per ton that would suggest nonviability on the basis of this study.

Table 2. Projected Change in Banana Export Revenues at Different Tariff Levels

	Tariff €/ton	f.o.b. price €/ton	Change in Export Revenue, € millions (As percent of Banana Exports) [As percent of GDP]		
			Dominica	**St. Lucia**	St. Vincent
Tariff to keep revenues unchanged	259	520	0 (0%) [0%]	**0 (0%) [0%]**	0 (0%) [0%]
	250	511	-3 (-19%) [-1%]	**0 (-8%) [0%]**	-2 (-11%) [-1%]
High tariff scenario	200	461	-12 (-100%) [-5%]	**-13 (-54%) [-2%]**	-8 (-72%) [-2%]
	150	411	Same (i.e. no production)	**-25 (-78%) [-4%]**	-18 (-100%) [-5%]
Low tariff scenario	125	386	Same (i.e. no production)	Same (i.e. no production)	Same (i.e. no production)

Source: Overseas Development Institute, London.

The erosion of EU preferences has already had a clear negative effect on market share. The U.K. has been the traditional market for Caribbean producers and yet the volume of fruit sent to the

U.K. from the Windward Islands in 1992 and 2003 was 275,541 tons and 67,317 tons respectively, implying a decline in market share from about 45 percent to 15 percent.[16]

The decline of the banana industry has major implications for employment and, potentially, social cohesion. In the 1990s (the most recent rigorous estimates available), around 20,000 people were directly employed in the industry. Indirectly, around 60,000 people, or nearly one-third of the population, were dependent on the industry for employment and income.[17] In recent years this is likely to have fallen, but agriculture (largely bananas), excluding indirect employment, still accounted for just under 10,000 jobs and 15 percent of the workforce at the end of 2004.

Banana workers are typically older than workers in other industries and often lack insurance and pension coverage. The St. Lucia Census of Agriculture in 1996 indicated that the average age of small holding farmers was rising and that the average age was nearly fifty.[18] Agricultural holdings have also been decreasing in size, leaving farmers increasingly reliant on small, unproductive parcels of land. The average size of a holding was 6.9 acres in 1961, 5.4 in 1986 and just 4.4 acres in 1996.

The decline of the banana industry also increases reliance on the dominant tourism sector for export earnings. Although their share of exports has declined over a long period, excluding tourism, bananas are still estimated to be worth 20 percent of the value of merchandise exports. Bananas have also provided some diversification from tourism. Since 1990, excluding the effect of September 11, 2001, the correlation of the value of banana exports and tourism receipts is -0.3. Years in which tourism receipts have declined saw an average increase in banana export values of 15 percent.

Policy options

St. Lucia, along with other Caribbean countries, has received compensatory aid from the EU (in particular, the SFA and STABEX) to meet export losses in the banana sector. Since 1994, St. Lucia received €153m from both schemes. STABEX is now discontinued, but substantial unspent sums remain to be disbursed. Disbursements have been unpredictable and irregular, impeding their effectiveness. A new instrument (FLEX) has been introduced and is intended to be used for general budget support

Government policy is increasingly focused on managing the decline, with a reduced emphasis on direct industry support. The government's compensatory fund allocation procedure now has three objectives: (i) agricultural diversification and banana commercialization; (ii) general economic diversification; and (iii) social recovery. In the past, the return from funds used to directly support the industry has been low. Although new projects, such as the subsidization of more productive tissue culture, continue to evolve, it is unlikely that St. Lucian producers can regain any competitive advantage over Latin American producers.

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[16] "The EU and Eastern Caribbean Bananas", The European Commission's Delegation to Barbados and the Eastern Caribbean. http://www.delbrb.cec.eu.int/en/winban/overview.htm (accessed June 18, 2005).

[17] "Restructuring and the Loss of Preference—Labour Challenges for the Caribbean Banana Industry", International Labour Organization (ILO) Caribbean Office and Multidisciplinary Advisory Team (1999).

[18] "St. Lucia Country Strategy Paper for the Banana Industry, Agricultural Diversification, and the Social Recovery of Rural Communities," Government of St. Lucia, 1999.

This implies that scarce public resources may be best directed towards easing the transition away from bananas, particularly of banana workers. Examples include the provision of retraining grants, or in the case of those seeking self-employment, subsidizing the cost of start-up businesses through the provision of investment tax credits or grants.

Options that involve a focus on agriculture may offer limited payoffs. One option for the industry is to target a market niche. Currently, 17 percent of Windward Island bananas are sold to the "Fair Trade" market,[19] for which farmers receive higher prices. The size of this market in the EU may be limited, and it is unlikely to restore industry growth. A shift to alternative crops will still leave farmers at a competitive disadvantage, given St. Lucia's geographic endowments (see Table 1).

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[19] Fairtrade Bananas Impact Study, (June 2004), Fairtrade.

St. Lucia: Core Welfare Indicators Questionnaire (CWIQ) Survey

At end-2004, the Department of Statistics of St. Lucia surveyed over 1,300 households, using the Core Welfare Indicators Questionnaire (CWIQ) survey methodology, and issued a summary report that contains indicators of households' living standards and access to social services. The CWIQ is aimed at rapidly establishing a reliable set of basic social indicators and to regularly monitor welfare and social developments for various segments of the population. The St. Lucia CWIQ survey is the first of its kind in the Caribbean; it is available on the St. Lucia Department of Statistics' website: www.stats.gov.lc. (Some results are included in the Social and Demographic Indicators section of Table 1).

The indicators on *access to social services* are generally quite strong: (i) adult literacy is 89 percent, as a result of high primary and secondary school enrollment, 93 and 79 percent, respectively; (ii) 80 percent of patients are satisfied with ready access to medical services, of which 95 percent are delivered by professionals; and (iii) 92 percent of the population has access to safe water and the same percentage uses nonwood fuel for cooking.

The *household structure* in St. Lucia is marked by loose partner relationships: (i) only a quarter of household heads are legally married and 30 percent live in common-law unions and visiting partnerships; (ii) a high proportion of children, about 62 percent, are living without their parents; and (iii) the dependency ratio is low in both rural and urban areas, but significantly higher among the poorest.

The main *social problems* are unemployment and rising crime: 19 percent of the population is unemployed and an additional 8 percent is underemployed. Unemployment is particularly high among females (25 percent) and the youth (39 percent). Crime appears to be increasing, with 6 percent of the surveyed reporting that they have been the victim of a crime, compared with 4 percent in 2001.

Table 1. St. Lucia: Basic Data

I. Social and Demographic Indicators

(In percent, 2004, unless indicated otherwise)

Area (sq. km)	616	Adult illiteracy rate	11.4
		Pupil/teacher ratio, primary school (2002/03)	12.2
Population (total)	162,311	Pupil/teacher ratio, secondary school (200	17.9
Rate of growth (percent per year)	1.0	Public school pass rate (2003)	70.6
Population density (per sq.km.)	263.5	Primary school enrollment	92.6
Hosehold with female head	43.0	AIDS incidence rate (percent)	4
Difficulty with food needs	7.0	Unemployment	18.9
Access to safe water	92.0	Female	24.7
Non-wood fuel used for cooking	91.8	Youth	39.2
Life expectancy at birth (years)	72	Gross Domestic Product	
Infant mortality (per thousand live births)	13.4	(millions of U.S. dollars)	763.2
Human Development Index (HDI) ranking	71	(millions of E.C. dollars)	2,061
(rank out of 177 countries)		(US$ per capita)	4,702

II. Economic and Financial Indicators, 1999–2005

	1999	2000	2001	2002	2003	Prel. 2004	Proj. 2005
(Annual percentage changes, unless otherwise specified)							
Output and prices							
Real GDP at factor cost	3.9	-0.3	-4.1	0.1	2.9	4.0	5.1
Consumer prices (period average)	3.5	3.6	2.1	-0.3	1.0	1.5	3.0
Banana production	-11.0	7.8	-51.6	41.5	-29.5	24.6	-14.7
Tourist stayovers	3.3	3.6	-7.3	1.3	9.3	3.6	5.0
External sector							
Exports, f.o.b.	-13.5	-13.2	2.7	27.8	3.6	43.6	2.7
Imports, f.o.b.	5.7	0.1	-12.9	-0.1	30.4	6.9	18.7
Travel receipts	-7.2	5.9	-16.4	-9.9	34.3	15.4	8.0
Terms of trade	7.3	-6.3	-10.6	-2.1	-3.5	-3.7	-0.1
Excluding tourism	7.1	-5.9	1.6	1.3	-10.3	-7.2	0.9
Nominal effective exchange rate (end of period, depreciation -)	3.8	8.2	0.7	-4.2	-8.6	-6.4	…
Real effective exchange rate (end of period, depreciation -)	8.3	4.7	-1.0	-5.0	-10.9	-0.7	…
Money and credit 1/							
Domestic assets (net)	10.8	4.7	4.6	3.8	-10.1	11.3	8.1
Credit to public sector (net)	-2.9	-1.8	-2.0	2.1	-2.8	-2.5	0.6
Credit to private sector	13.6	8.0	5.1	0.9	-4.3	11.1	9.8
Money and quasi-money	9.7	7.9	4.7	3.2	7.6	10.1	10.8
Velocity of money (M2) 2/	1.7	1.6	1.5	1.5	1.5	1.4	1.4
(In percent of GDP, unless otherwise specified)							
Central government 3/							
Current balance	7.8	5.3	1.6	0.1	1.1	3.7	2.7
Capital outlays	9.1	7.3	7.4	10.7	7.0	8.0	9.3
Overall balance (before grants)	-1.2	-2.0	-5.6	-9.6	-5.5	-4.2	-6.5
Overall balance (after grants)	0.4	-1.4	-4.2	-7.6	-3.8	-4.2	-5.0
Total public sector debt 4/	39.4	44.8	51.1	63.6	62.9	67.9	67.6
Of which : central government	27.2	31.6	37.7	50.6	51.0	57.3	57.8
External sector							
Current account balance	-16.6	-14.1	-16.2	-15.2	-20.3	-13.3	-16.4
External public debt (end of period) 5/	24.3	28.4	33.0	46.4	46.9	48.7	48.5
(In millions of U.S. dollars)							
GDP at current market prices	670.5	685.3	664.4	682.1	715.7	763.2	825.2
Gross international reserves of the ECCB, end-of-period	364.6	383.7	446.0	504.8	539.9	581.9	628.1

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

1/ Changes in relation to liabilities to private sector at beginning of period.
2/ Nominal GDP at market prices divided by the average stock of money (measured as the simple average of the current period stock and the stock 12-months earlier).
3/ Data are for fiscal years beginning April 1.
4/ Includes liabilities to the NIC.
5/ Total public and publicly guaranteed debt.

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

(In millions of E.C. dollars)

	1999/00	2000/01	2001/02	2002/03	2003/04	Prel. 2004/05	Proj. 2005/06
Total revenue and grants	**527.5**	**492.0**	**458.2**	**497.7**	**538.3**	**557.3**	**624.1**
Current revenue	**496.1**	**481.1**	**429.2**	**441.5**	**496.7**	**556.4**	**588.3**
Tax revenue	**418.1**	**432.0**	**385.3**	**405.4**	**452.9**	**511.8**	**548.3**
Taxes on income and profits	127.0	137.4	118.4	105.4	110.0	132.4	143.5
Taxes on property	0.9	1.9	4.7	4.4	3.8	3.7	4.9
Taxes on goods and services	170.6	173.7	168.5	173.7	194.8	202.3	209.4
Consumption taxes	122.8	100.8	105.4	112.7	121.0	123.5	118.7
Imports	112.2	90.3	100.1	107.8	114.4	117.2	110.4
Domestic goods	10.6	10.5	5.3	4.9	6.6	6.3	8.3
Hotel occupancy tax	18.0	22.7	18.5	19.5	22.2	26.3	29.6
Excises	6.3	27.5	21.1	6.3	7.2	7.6	12.4
Other	23.5	22.7	23.5	35.2	44.4	45.0	48.7
Taxes on international trade	119.6	119.1	93.8	120.8	144.4	173.4	190.5
Of which							
Import duties	71.4	64.2	51.7	57.4	69.4	75.3	85.0
Service charge (imports)	34.7	33.4	27.9	30.2	39.3	46.4	53.2
Nontax revenue	**77.9**	**49.1**	**43.9**	**36.2**	**43.8**	**44.6**	**40.0**
Capital revenue	**2.5**	**0.1**	**2.7**	**19.9**	**8.6**	**0.9**	**1.0**
Capital grants	**28.9**	**10.8**	**26.3**	**36.3**	**32.9**	**0.0**	**34.8**
Total expenditure and net lending	**521.0**	**517.3**	**532.8**	**637.3**	**611.5**	**644.7**	**735.2**
Current expenditure	**354.5**	**383.2**	**400.2**	**439.8**	**475.4**	**480.4**	**527.5**
Wages and salaries	198.3	209.5	212.7	211.6	229.9	220.7	231.2
NIC contributions and retirement	22.9	27.4	35.6	34.3	35.2	40.3	44.1
Goods and services	72.3	71.0	74.0	72.8	78.0	89.2	102.7
Transfers	34.1	34.6	38.7	68.4	60.2	63.2	72.4
Interest payments	**23.6**	**29.5**	**41.7**	**46.6**	**56.6**	**67.0**	**77.0**
Domestic	15.8	21.3	22.5	21.9	20.2	22.2	25.5
External	7.9	8.2	19.3	24.7	36.4	44.8	51.5
Capital expenditure and net lending	**166.5**	**134.1**	**132.6**	**197.5**	**136.1**	**164.3**	**207.7**
Current balance	**141.6**	**97.9**	**29.0**	**1.7**	**21.3**	**76.0**	**60.8**
Overall balance (excluding grants)	**-22.4**	**-36.0**	**-101.0**	**-176.0**	**-106.2**	**-87.4**	**-145.9**
Overall balance (including grants)	**6.5**	**-25.2**	**-74.7**	**-139.7**	**-73.3**	**-87.4**	**-111.1**
Primary balance	**30.1**	**4.3**	**-32.9**	**-93.1**	**-16.7**	**-20.4**	**-34.0**
Financing	**-6.5**	**25.2**	**74.7**	**139.7**	**73.3**	**87.4**	**111.1**
External (net)	25.9	25.8	88.3	69.6	54.2	113.3	72.2
Loans	47.0	-30.6	37.7	24.5	51.1	62.7	13.5
Drawings	57.2	16.8	56.8	72.8	68.0	79.4	72.6
Amortization	-10.1	-47.4	-19.1	-48.4	-16.9	-16.7	-59.1
Other net credit	-21.1	56.4	50.6	45.1	3.1	50.7	58.8
Change in external arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	-32.4	-0.6	-13.6	49.7	10.4	-25.9	38.9
ECCB (net)	-6.2	-4.8	3.2	-16.9	10.3	-65.6	0.0
Commercial banks (net)	-28.3	3.8	-11.0	-3.1	8.2	27.9	38.9
Other domestic financing	2.2	0.4	-5.8	69.6	-8.1	11.8	0.0
Privatization proceeds	0.0	0.0	0.0	19.9	8.6	0.0	0.0

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

Table 3. St. Lucia: Operations of the Central Government

(In percent of GDP)

	1999/00	2000/01	2001/02	2002/03	2003/04	Prel. 2004/05	Proj. 2005/06
Total revenue and grants	**29.0**	**26.8**	**25.5**	**27.0**	**27.9**	**27.0**	**28.0**
Current revenue	**27.3**	**26.2**	**23.9**	**24.0**	**25.7**	**27.0**	**26.4**
Tax revenue	**23.0**	**23.5**	**21.5**	**22.0**	**23.4**	**24.8**	**24.6**
Taxes on income and profits	7.0	7.5	6.6	5.7	5.7	6.4	6.4
Taxes on property	0.1	0.1	0.3	0.2	0.2	0.2	0.2
Taxes on goods and services	9.4	9.5	9.4	9.4	10.1	9.8	9.4
Consumption taxes	6.7	5.5	5.9	6.1	6.3	6.0	5.3
Imports	6.2	4.9	5.6	5.9	5.9	5.7	5.0
Domestic goods	0.6	0.6	0.3	0.3	0.3	0.3	0.4
Hotel occupancy tax	1.0	1.2	1.0	1.1	1.1	1.3	1.3
Excises	0.3	1.5	1.2	0.3	0.4	0.4	0.6
Other	1.3	1.2	1.3	1.9	2.3	2.2	2.2
Taxes on international trade	6.6	6.5	5.2	6.6	7.5	8.4	8.6
Of which	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Import duties	3.9	3.5	2.9	3.1	3.6	3.7	3.8
Service charge (imports)	1.9	1.8	1.6	1.6	2.0	2.2	2.4
Nontax revenue	**4.3**	**2.7**	**2.4**	**2.0**	**2.3**	**2.2**	**1.8**
Capital revenue	**0.1**	**0.0**	**0.1**	**1.1**	**0.4**	**0.0**	**0.0**
Capital grants	**1.6**	**0.6**	**1.5**	**2.0**	**1.7**	**0.0**	**1.6**
Total expenditure and net lending	**28.6**	**28.2**	**29.7**	**34.6**	**31.6**	**31.3**	**33.0**
Current expenditure	**19.5**	**20.9**	**22.3**	**23.9**	**24.6**	**23.3**	**23.7**
Wages and salaries	10.9	11.4	11.9	11.5	11.9	10.7	10.4
NIC contributions and retirement	1.3	1.5	2.0	1.9	1.8	2.0	2.0
Goods and services	4.0	3.9	4.1	4.0	4.0	4.3	4.6
Transfers	1.9	1.9	2.2	3.7	3.1	3.1	3.3
Interest payments	1.3	1.6	2.3	2.5	2.9	3.3	3.5
Domestic	0.9	1.2	1.3	1.2	1.0	1.1	1.1
External	0.4	0.4	1.1	1.3	1.9	2.2	2.3
Capital expenditure and net lending	**9.1**	**7.3**	**7.4**	**10.7**	**7.0**	**8.0**	**9.3**
Current balance	**7.8**	**5.3**	**1.6**	**0.1**	**1.1**	**3.7**	**2.7**
Overall balance (excluding grants)	**-1.2**	**-2.0**	**-5.6**	**-9.6**	**-5.5**	**-4.2**	**-6.5**
Overall balance (including grants)	**0.4**	**-1.4**	**-4.2**	**-7.6**	**-3.8**	**-4.2**	**-5.0**
Primary balance	**1.7**	**0.2**	**-1.8**	**-5.1**	**-0.9**	**-1.0**	**-1.5**
Financing	**-0.4**	**1.4**	**4.2**	**7.6**	**3.8**	**4.2**	**5.0**
External (net)	1.4	1.4	4.9	3.8	2.8	5.5	3.2
Loans	2.6	-1.7	2.1	1.3	2.6	3.0	0.6
Drawings	3.1	0.9	3.2	4.0	3.5	3.9	3.3
Amortization	-0.6	-2.6	-1.1	-2.6	-0.9	-0.8	-2.7
Other net credit	-1.2	3.1	2.8	2.4	0.2	2.5	2.6
Change in external arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	-1.8	0.0	-0.8	2.7	0.5	-1.3	1.7
ECCB (net)	-0.3	-0.3	0.2	-0.9	0.5	-3.2	0.0
Commercial banks (net)	-1.6	0.2	-0.6	-0.2	0.4	1.4	1.7
Other domestic financing	0.1	0.0	-0.3	3.8	-0.4	0.6	0.0
Privatization proceeds	0.0	0.0	0.0	1.1	0.4	0.0	0.0
Memorandum items:							
Central government primary expenditure	27.3	26.6	27.4	32.1	28.7	28.0	29.5
Of which							
Current primary expenditure	18.2	19.3	20.0	21.4	21.7	20.1	20.2
Nominal GDP (in millions of E.C. dollars)	1,820	1,836	1,794	1,842	1,932	2,061	2,228

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

Table 4: St. Lucia: Structure of Public Debt, 1999/2000–2004/05

	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05
	(In millions of U.S. dollars, unless otherwise stated)					
Domestic debt (by debtor)	**93.5**	**102.3**	**112.7**	**118.9**	**116.6**	**149.7**
Central government	**78.3**	**78.2**	**89.8**	**95.3**	**93.3**	**126.8**
Loans	31.8	31.3	30.9	27.2	13.0	11.5
Overdraft	4.5	4.6	5.2	3.7	1.7	0.6
Bonds	20.1	20.3	20.3	27.4	28.9	80.5
Treasury bills	22.0	22.0	33.4	37.1	49.7	34.2
Government guaranteed (loans)	**15.2**	**20.6**	**17.2**	**15.6**	**14.7**	**14.3**
Government nonguaranteed (loans)	**0.0**	**3.5**	**5.7**	**8.0**	**8.6**	**8.5**
Domestic debt						
Central government (by creditor)	**78.3**	**78.2**	**89.8**	**95.3**	**93.3**	**126.8**
Central bank	11.0	10.6	14.2	12.0	9.2	9.2
Commercial banks	40.4	40.4	44.0	41.8	40.2	72.0
Financial institutions	0.3	0.3	0.3	0.5	1.5	0.5
Insurance company	13.0	13.1	13.1	15.2	15.5	14.4
Public holders	0.4	0.6	0.5	0.9	1.2	1.0
Social Security	12.4	12.4	16.8	24.2	24.8	29.5
Other	0.9	0.9	0.9	0.9	0.8	0.3
External debt (by debtor and creditor)	**172.5**	**202.4**	**228.8**	**320.1**	**341.1**	**378.8**
Central government	**105.4**	**136.7**	**162.4**	**254.2**	**277.5**	**319.6**
Bilateral	24.3	21.8	20.9	21.6	21.7	23.1
Multilateral	57.8	58.2	59.7	81.1	104.3	129.7
Of which: Caribbean Development Bank (CDB)	34.6	35.1	37.4	48.7	67.0	90.4
Commercial banks	14.5	48.0	71.8	140.6	140.7	141.3
Of which: loans	12.3	13.1	23.5	14.3	14.2	14.2
bonds	2.2	34.9	48.3	126.3	126.5	127.1
Export credit	0.0	0.0	1.2	1.5	1.3	1.1
Other 1/	8.8	8.8	8.8	9.4	9.6	24.3
Government guaranteed	**62.9**	**61.7**	**55.7**	**53.9**	**51.5**	**47.1**
Bilateral	10.1	8.8	6.1	6.4	6.1	5.5
Multilateral	52.8	52.9	49.6	47.5	45.3	41.5
Government nonguaranteed	**4.3**	**3.9**	**10.6**	**12.0**	**12.1**	**12.2**
Bilateral	3.3	1.8	0.6	0.0	0.0	0.0
Multilateral	1.0	0.9	0.9	1.1	1.2	1.3
Commercial banks	0.0	1.2	9.2	10.9	10.9	10.9
Total central government debt	**183.7**	**214.9**	**252.2**	**349.5**	**370.8**	**446.4**
Disbursements	25.7	40.7	48.8	134.1	43.9	112.3
Amortization	8.7	19.6	8.7	45.6	24.6	39.1
Total public debt	**266.1**	**304.7**	**341.5**	**439.0**	**457.6**	**528.5**
Disbursements	32.3	56.8	61.0	141.8	48.9	113.5
Amortization	17.1	27.4	19.2	54.6	33.5	45.7
	(In percent of GDP)					
Total public debt	39.5	44.8	51.1	63.6	62.9	67.9
Central government	27.3	31.6	37.7	50.6	51.0	57.3
Other	12.2	13.2	13.3	13.0	11.9	10.5
Total public debt	39.5	44.8	51.1	63.6	62.9	67.9
Domestic debt	13.9	15.0	16.8	17.2	16.0	19.2
External debt	25.6	29.8	34.2	46.4	46.9	48.7
Disbursements	4.8	8.4	9.1	20.5	6.7	14.6
Amortization	2.5	4.0	2.9	7.9	4.6	5.9
Nominal GDP (in millions of E.C. dollars)	1,820	1,836	1,794	1,842	1,932	2,061

Sources: Ministry of Finance, and Fund staff estimates.

1/ Includes National Savings and Development bonds and RGSM bonds.

Table 5. St. Lucia: Monetary Survey

	2000	2001	2002	2003	2004	Proj. 2005
(In millions of Eastern Caribbean dollars, end of period)						
Net foreign assets	**116.6**	**117.4**	**109.8**	**335.2**	**318.7**	**358.4**
Net (imputed international reserves)	207.8	235.2	248.1	282.6	351.5	332.0
Commercial banks	-91.2	-117.8	-138.3	52.5	-32.9	26.4
Net domestic assets	**1,062.8**	**1,116.9**	**1,163.5**	**1,035.2**	**1,190.5**	**1,313.0**
Net credit to the public sector	-258.4	-281.6	-255.2	-290.8	-324.7	-315.9
Claims on government (net)	-85.8	-113.1	-96.3	-104.4	-130.7	-99.5
ECCB net credit to central government	3.5	10.9	3.1	-0.6	-13.7	-11.4
Commercial bank net credit to government	-89.3	-124.0	-99.4	-103.8	-117.0	-88.1
Net credit to other public sector	-172.7	-168.6	-158.9	-186.4	-194.0	-216.3
Credit to private sector 1/	1,481.7	1,541.8	1,553.5	1,498.2	1,650.6	1,799.1
Other items (net)	-160.5	-143.3	-134.7	-172.2	-135.4	-170.2
Money and quasi-money (M2)	**1,179.4**	**1,234.3**	**1,273.3**	**1,370.4**	**1,509.2**	**1,671.4**
Money	286.1	283.8	287.6	343.1	481.3	524.5
Currency outside banks	84.6	82.1	83.6	91.3	99.2	118.8
Demand deposits	201.5	201.7	204.0	251.8	382.2	405.7
Quasi-money	893.3	950.5	985.7	1,027.3	1,027.8	1,146.9
Time deposits	334.7	364.4	309.6	240.2	178.7	190.1
Savings deposits	551.1	573.3	652.3	755.2	810.4	889.7
Foreign currency deposits	7.6	12.8	23.8	31.9	38.7	67.1
(12-month change in percent of M2 at the beginning of the period)						
Net foreign assets	3.2	0.1	-0.6	17.7	-1.2	2.6
Net imputed reserves	1.1	2.3	1.0	2.7	5.0	-1.3
Commercial banks net foreign assets	2.1	-2.3	-1.7	15.0	-6.2	3.9
Net domestic assets	4.7	4.6	3.8	-10.1	11.3	8.1
Credit to the public sector	-1.8	-2.0	2.1	-2.8	-2.5	0.6
Credit to the central government	-2.0	-2.3	1.4	-0.6	-1.9	2.1
Credit to the rest of the public sector	0.2	0.3	0.8	-2.2	-0.6	-1.5
Credit to the private sector	8.0	5.1	0.9	-4.3	11.1	9.8
Other items (net)	-1.6	1.5	0.7	-2.9	2.7	-2.3
(12-month percentage change)						
Credit to the private sector	6.3	4.1	0.8	-3.6	10.2	9.0
Money and quasi-money	7.9	4.7	3.2	7.6	10.1	10.8
Money	6.9	-0.8	1.3	19.3	40.3	9.0
Quasi-money	8.2	6.4	3.7	4.2	0.1	11.6
Memorandum item:						
Income velocity of M2 2/	1.6	1.5	1.5	1.5	1.4	1.4

Sources: ECCBank; and Fund staff estimates and projections.

1/ Includes assumption by government of EC$40 million in debt from the SLBGA in 1998, previously included.
2/ Nominal GDP at market prices divided by the average stock of money (measured as the simple average of the current period stock and the stock 12-months earlier).

Table 6. St. Lucia: Summary Balance of Payments

(In millions of U.S. dollars)

	2000	2001	2002	2003	Prel. 2004	Proj. 2005
Current account	**-96.7**	**-107.7**	**-104.0**	**-145.3**	**-101.4**	**-135.7**
Trade balance	-259.6	-217.8	-202.6	-282.7	-275.9	-344.2
Exports, f.o.b.	52.9	54.3	69.3	71.8	103.1	105.9
Imports, f.o.b.	-312.5	-272.1	-271.9	-354.5	-379.1	-450.1
Services (net)	144.0	95.8	86.5	125.3	162.5	176.0
Receipts	325.8	275.4	252.8	321.8	375.0	405.9
Travel	278.6	233.0	210.0	282.1	325.7	351.7
Other nonfactor services	43.5	39.8	39.2	34.9	44.4	48.9
Factor services	3.7	2.6	3.6	4.8	4.9	5.3
Payments	181.8	179.6	166.3	196.5	212.5	229.9
Travel	33.3	31.7	33.7	35.6	38.4	41.5
Other nonfactor services	100.2	98.9	93.7	107.6	118.7	130.7
Factor services	48.3	49.0	38.9	53.3	55.5	57.7
Of which						
Interest payments on public debt	8.1	11.5	11.0	17.0	18.0	17.2
Current transfers (net)	18.9	14.3	12.1	12.0	12.0	32.5
Capital and financial account	**110.1**	**120.3**	**109.7**	**163.6**	**128.2**	**128.4**
Capital transfers (net)	15.8	25.5	19.7	17.1	3.6	7.4
Official borrowing (net) 1/	29.5	20.9	41.5	72.4	26.7	14.1
Private capital	64.8	73.9	48.5	74.1	97.9	106.9
Private long-term (net)	60.3	57.5	55.2	124.7	61.1	85.0
Of which						
Direct investment (net)	53.7	58.8	49.9	96.8	66.1	93.7
Commercial Banks	-8.5	9.8	7.6	-71.8	31.6	22.0
Other short term capital (net) 2/	13.0	6.5	-14.2	21.1	5.2	0.0
Overall balance	**13.4**	**12.6**	**5.8**	**18.3**	**26.8**	**-7.2**
Change in imputed reserves (increase -)	-4.5	-10.1	-4.8	-12.8	-25.5	7.2
Memorandum items:						
Current account balance 3/	-14.1	-16.2	-15.2	-20.3	-13.3	-16.4
Foreign direct investment (net) 3/	7.8	8.9	7.3	13.5	8.7	11.4
External debt 4/	28.9	32.4	38.1	47.2	48.3	46.9
Debt service ratio 5/	5.3	11.2	10.9	7.3	7.6	6.9

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

1/ 2003 includes US$17.6 million to finance a transfer to the private sector.
2/ Includes errors and omissions.
3/ In percent of GDP.
4/ Public and publicly guaranteed, in percent of GDP.
5/ In percent of exports of goods and nonfactor services.

Table 7. St. Lucia: Medium-Term Projections, 2002/03–2010/11

(In percent of GDP, unless otherwise specified)

	2002/03	2003/04	Prel. 2004/05	Projections 2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
I. Active Scenario (Baseline)									
Real GDP growth at factor cost (percent change)	1.0	3.1	4.3	5.3	4.9	1.8	0.5	2.5	3.3
Consumer prices, end-of-period (percent change)	-0.7	0.5	3.5	3.0	4.0	4.0	2.0	1.0	1.0
Nonfinancial public sector									
Central government overall balance	-7.6	-3.8	-4.2	-5.0	-4.0	-2.0	0.1	-0.2	-0.5
Gross public sector debt	63.6	62.9	67.9	67.6	66.2	65.0	63.6	61.8	59.7
Central government primary balance	-5.1	-0.9	-1.0	-1.5	-0.5	1.6	3.8	3.4	3.1
Public sector overall balance	-3.9	-1.0	-1.3	-5.1	-4.1	-2.1	0.0	-0.3	-0.6
Public sector primary balance	-0.8	2.5	2.4	-0.9	0.0	2.1	4.3	3.8	3.5
II. Passive Scenario									
Real GDP growth at factor cost (percent change)	1.0	3.1	4.3	5.3	4.9	1.8	0.5	2.5	3.3
Consumer prices, end-of-period (percent change)	-0.7	0.5	3.5	3.0	4.0	4.0	2.0	1.0	1.0
Nonfinancial public sector									
Central government overall balance (cash basis)	-7.6	-3.8	-4.2	-7.4	-8.4	-7.4	-7.2	-7.8	-9.0
Gross public sector debt	63.6	62.9	67.9	70.0	72.8	76.7	82.3	87.4	92.8
Central government primary balance	-5.1	-0.9	-1.0	-3.9	-4.7	-3.4	-2.6	-2.8	-3.6
Public sector overall balance	-3.9	-1.0	-1.3	-7.5	-8.5	-7.5	-7.3	-7.9	-9.1
Public sector primary balance	-0.8	2.5	2.4	-3.3	-4.2	-2.9	-2.1	-2.3	-3.2
III. Active Scenario: Macroeconomic Framework									
Saving and investment									
Gross domestic investment	22.6	21.1	21.1	18.5	24.7	19.2	17.7	17.9	17.9
Public	8.1	9.5	8.0	7.9	8.7	8.2	6.7	5.9	5.9
Private	14.5	11.7	13.1	10.6	16.0	11.0	11.0	12.0	12.0
Gross national saving	7.3	0.8	7.8	2.0	4.1	11.5	7.9	8.2	8.2
Public	1.2	0.3	1.1	2.0	2.7	2.5	3.1	3.8	3.6
Private	6.1	0.5	6.7	0.0	1.4	9.0	4.7	4.4	4.6
Nonfinancial public sector									
Central government									
Total revenue and grants	27.0	27.9	27.0	28.0	28.2	27.4	28.7	28.4	28.0
Total expenditure and net lending	34.6	31.6	31.3	33.0	32.1	29.4	28.6	28.6	28.4
Of which									
Wages and salaries	11.5	11.9	10.7	10.4	10.1	9.8	9.8	10.0	10.0
Interest	2.5	2.9	3.3	3.5	3.4	3.5	3.7	3.6	3.4
Overall balance	-7.6	-3.8	-4.2	-5.0	-4.0	-2.0	0.1	-0.2	-0.4
Primary balance	-5.1	-0.9	-1.0	-1.5	-0.5	1.6	3.8	3.4	3.1
Gross public sector debt	63.6	62.9	67.9	67.6	66.2	65.0	63.6	61.8	59.7
External sector									
External current account	-15.2	-20.3	-13.3	-16.4	-20.5	-7.7	-9.8	-9.8	-9.7
Gross public sector external debt (end of period)	46.4	46.9	48.7	48.5	47.5	46.6	45.6	44.3	42.8
External public debt service									
(In percent of exports of goods and services)	10.9	7.3	7.6	6.9	8.0	9.4	10.7	8.9	8.7
(In percent of central government revenue before grants)	15.8	10.5	11.0	18.8	18.3	25.2	19.0	19.7	19.5

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

Note: The medium-term projections for real GDP growth are the same for both passive and active scenarios. Strong economic activity is favoring, in the short-term, a fiscal outcome along the lines of the active scenario. The principal assumption underlying the active scenario is that fiscal balances are higher. This would likely have an ambiguous effect on GDP growth over the medium term by: (i) reducing aggregate demand, which is negative for growth; and (ii) crowding in the private sector, which is positive for growth. In the absence of a full economy model in which these effects may be assessed, there was insufficient information to deviate from the passive projection.

There is a pronounced decline and recovery in real GDP growth in the 2007–10 period. The current account deficit is also projected to narrow sharply before widening again in 2008. These projections reflect the large but temporary surge in economic activity, fuelled by public and foreign direct investment in 2005–07, related to the Cricket World Cup in 2007.

Table 8. St. Lucia: Medium-Term Balance of Payments, 2003–10 (Active/Baseline Scenario)

(In millions of U.S. dollars)

		Prel.	Proj.					
	2003	2004	2005	2006	2007	2008	2009	2010
Current account	**-145.3**	**-101.4**	**-135.7**	**-185.9**	**-74.5**	**-96.5**	**-98.9**	**-102.5**
Trade balance	-282.7	-275.9	-344.2	-397.3	-335.7	-359.8	-371.2	-387.5
Exports, f.o.b.	71.8	103.1	105.9	115.7	121.7	121.5	125.7	129.9
Imports, f.o.b.	-354.5	-379.1	-450.1	-513.0	-457.4	-481.3	-496.9	-517.5
Services (net)	125.3	162.5	176.0	178.8	226.2	228.3	237.3	250.0
Receipts	321.8	375.0	405.9	440.9	504.6	515.8	537.3	565.4
Travel	282.1	325.7	351.7	380.4	439.1	447.9	465.9	489.7
Other nonfactor services	34.9	44.4	48.9	54.6	59.2	61.5	64.8	68.8
Factor services	4.8	4.9	5.3	5.9	6.2	6.4	6.6	6.9
Payments	196.5	212.5	229.9	262.0	278.4	287.5	300.0	315.4
Travel	35.6	38.4	41.5	45.5	48.4	49.4	51.0	53.1
Other nonfactor services	107.6	118.7	130.7	146.1	158.4	164.6	173.2	184.0
Factor services	53.3	55.5	57.7	70.4	71.5	73.5	75.8	78.3
Of which: interest payments on public debt	17.0	18.0	17.2	26.0	24.2	25.4	26.1	26.4
Current transfers (net)	12.0	12.0	32.5	32.5	35.0	35.0	35.0	35.0
Capital and financial account	**163.6**	**128.2**	**128.4**	**178.8**	**78.9**	**98.4**	**103.3**	**108.0**
Capital transfers (net)	17.1	3.6	7.4	7.4	14.8	18.5	20.0	7.4
Official borrowing (net) 1/	72.4	26.7	14.1	30.6	8.0	0.5	-2.0	-1.9
Private capital	74.1	97.9	106.9	140.8	56.1	79.3	85.4	102.4
Private long-term (net)	124.7	61.1	85.0	90.8	79.4	68.7	79.7	104.0
Of which: direct investment (net)	96.8	66.1	93.7	108.7	67.5	68.8	71.0	74.0
Commercial banks	-71.8	31.6	22.0	50.0	-23.3	10.6	5.6	-1.6
Other short term capital (net) 2/	21.1	5.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**18.3**	**26.8**	**-7.2**	**-7.1**	**4.4**	**1.9**	**4.4**	**5.4**
Change in imputed reserves (increase -)	-12.8	-25.5	7.2	7.1	-4.4	-1.9	-4.4	-5.4
Memorandum items:								
Current account balance 3/	-20.3	-13.3	-16.4	-20.5	-7.7	-9.8	-9.8	-9.7
Foreign direct investment (net) 3/	13.5	8.7	11.4	12.0	7.0	7.0	7.0	7.0
External debt 4/	47.2	48.3	46.9	45.8	43.9	43.2	41.6	39.7
Debt service ratio 5/	7.3	7.6	6.9	8.0	9.4	10.7	8.9	8.7

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

1/ 2003 includes US$17.6 million to finance a transfer to the private sector.

2/ Includes errors and omissions.

3/ In percent of GDP.

4/ Public and publicly guaranteed, in percent of GDP.

5/ In percent of exports of goods and nonfactor services.

Table 9. St. Lucia: External Debt Sustainability Framework, 2000-10 (Active Scenario)
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2000	2001	2002	2003	2004			2005	2006	2007	2008	2009	2010	
								I. Baseline Projections						**Debt-stabilizing non-interest current account 6/**
1 **External debt**	28.9	32.4	38.1	47.2	48.3			**46.8**	**45.6**	**43.7**	**43.0**	**41.4**	**39.5**	**-6.2**
2 Change in external debt	3.5	3.5	5.7	9.1	1.1			-1.5	-1.2	-1.9	-0.7	-1.6	-1.9	
3 Identified external debt-creating flows (4+8+9)	5.5	8.0	7.8	5.0	2.7			1.4	4.3	-2.1	2.0	1.4	1.0	
4 Current account deficit, excluding interest payments	12.9	14.5	13.6	17.9	10.9			14.3	17.6	5.2	7.2	7.1	7.2	
5 Deficit in balance of goods and services	16.9	18.4	17.0	22.0	14.9			20.3	24.0	11.3	13.3	13.1	12.9	
6 Exports	55.3	49.6	47.2	55.0	62.6			61.9	61.2	64.7	64.6	65.1	65.5	
7 Imports	72.1	68.0	64.2	77.0	77.5			82.3	85.3	76.0	77.9	78.2	78.4	
8 Net nondebt creating capital inflows (negative)	-7.8	-8.9	-7.3	-13.5	-8.7			-11.3	-12.0	-7.0	-7.0	-7.0	-7.0	
9 Automatic debt dynamics 1/	0.4	2.4	1.5	0.6	0.4			-1.6	-1.4	-0.3	1.8	1.2	0.8	
10 Contribution from nominal interest rate	1.2	1.7	1.6	2.4	2.4			2.1	2.9	2.5	2.6	2.6	2.5	
11 Contribution from real GDP growth	0.1	1.2	0.0	-1.0	-1.8			-2.3	-2.4	-1.0	0.1	-0.9	-1.3	
12 Contribution from price and exchange rate changes 2/	-0.8	-0.5	-0.1	-0.7	-0.2			-1.4	-1.8	-1.8	-0.9	-0.4	-0.4	
13 Residual, incl. change in gross foreign assets (2-3)	-2.0	-4.5	-2.1	4.1	-1.6			-2.9	-5.4	0.2	-2.8	-2.9	-2.9	
External debt-to-exports ratio (in percent)	52.2	65.3	80.8	85.9	77.2			75.6	74.5	67.6	66.5	63.6	60.4	
Gross external financing need (in billions of US dollars) 3/	0.1	0.2	0.2	0.2	0.2			0.2	0.3	0.2	0.2	0.2	0.2	
in percent of GDP	20.8	25.9	25.1	28.1	22.3			25.3	28.8	17.6	20.5	19.1	18.8	
Key Macroeconomic Assumptions						10-Year Historical Average	10-Year Standard Deviation							Projected Average
Real GDP growth (in percent)	-0.3	-4.1	0.1	2.9	4.0	1.9	3.0	5.1	5.8	2.4	-0.1	2.3	3.2	2.7
Exchange rate appreciation (US dollar value of local currency, change in percent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP deflator in US dollars (change in percent)	3.5	1.9	0.3	1.9	0.4	1.7	1.4	3.0	4.0	4.0	2.0	1.0	1.0	2.4
Nominal external interest rate (in percent)	4.7	5.8	5.1	6.5	5.3	5.1	0.7	4.7	6.7	5.8	6.0	6.1	6.3	6.2
Growth of exports (US dollar terms, in percent)	1.8	-12.9	-2.3	22.2	21.5	3.9	11.9	7.0	8.8	12.5	1.8	4.0	4.9	6.4
Growth of imports (US dollar terms, in percent)	-1.5	-8.6	-3.0	25.7	7.4	4.1	9.2	14.9	14.0	-5.1	4.5	3.7	4.5	4.3
Current account balance, excluding interest payments	-12.9	-14.5	-13.6	-17.9	-10.9	-11.9	4.0	-14.3	-17.6	-5.2	-7.2	-7.1	-7.2	-8.9
Net non-debt creating capital inflows	7.8	8.9	7.3	13.5	8.7	8.9	3.3	11.3	12.0	7.0	7.0	7.0	7.0	8.0
								II. Stress Tests for External Debt Ratio						**Debt-stabilizing non-interest current account 6/**
A. Alternative Scenarios														
A1. Key variables are at their historical averages in 2006–10 4/								**46.8**	**44.8**	**48.7**	**49.5**	**50.2**	**50.9**	**-8.1**
B. Bound Tests														
B1. Nominal interest rate is at baseline plus one-half standard deviation								**46.8**	**45.8**	**44.0**	**43.4**	**42.0**	**40.3**	**-6.1**
B2. Real GDP growth is at baseline minus one-half standard deviations								**46.8**	**46.0**	**44.6**	**44.1**	**42.7**	**40.7**	**-6.1**
B3. Non-interest current account is at baseline minus one-half standard deviations								**46.8**	**47.6**	**47.7**	**49.1**	**49.7**	**50.0**	**-6.0**
B4. Combination of B1-B3 using 1/4 standard deviation shocks								**46.8**	**46.9**	**46.3**	**46.9**	**46.5**	**45.8**	**-5.9**
B5. One time 30 percent real depreciation in 2006								**46.8**	**59.8**	**54.3**	**49.0**	**42.5**	**35.6**	**-9.9**

1/ Derived as [r - g - ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = 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 [-ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) times previous period debt stock. ρ increases with an appreciating domestic currency (ε > 0) and rising inflation (based on GDP deflator).

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

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

5/ The implied change in other key variables under this scenario is discussed in the text.

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.

Table 10. St. Lucia: Public Sector Debt Sustainability Framework, 2000-10 (Active Scenario)
(In percent of GDP, unless otherwise indicated; fiscal years)

	Actual							Projections						
	2000	2001	2002	2003	2004			2005	2006	2007	2008	2009	2010	
								I. Baseline Projections						**Debt-stabilizing primary balance 10/**
1 **Public sector debt 1/**	43.7	48.6	60.7	60.1	65.2			**65.2**	**63.9**	**62.8**	**61.4**	**59.7**	**57.8**	**1.4**
o/w foreign-currency denominated	27.2	32.7	44.5	44.8	40.4			40.2	39.4	38.7	37.9	36.8	35.6	
2 Change in public sector debt	4.9	4.9	12.1	-0.6	5.2			0.0	-1.2	-1.1	-1.4	-1.8	-1.9	
3 Identified debt-creating flows (4+7+12)	0.5	4.7	7.0	0.8	1.5			-0.2	-1.5	-1.6	-1.7	-1.9	-1.5	
4 Primary deficit	-0.2	1.8	5.0	0.8	1.0			1.5	0.5	-1.6	-3.7	-3.3	-3.0	
5 Revenue and grants	26.8	25.4	26.7	27.4	26.5			27.3	27.7	27.3	28.5	28.1	27.7	
6 Primary (noninterest) expenditure	26.6	27.2	31.7	28.2	27.5			28.8	28.2	25.7	24.7	24.7	24.7	
7 Automatic debt dynamics 2/	0.8	2.8	2.0	-0.1	0.5			-1.7	-2.0	0.0	2.1	1.4	1.5	
8 Contribution from interest rate/growth differential 3/	0.8	2.8	2.0	-0.1	0.5			-1.7	-2.0	0.0	2.1	1.4	1.5	
9 Of which contribution from real interest rate	0.3	1.5	2.4	1.8	3.0			1.5	0.9	1.0	2.4	2.9	2.8	
10 Of which contribution from real GDP growth	0.5	1.3	-0.4	-1.8	-2.5			-3.2	-2.9	-1.1	-0.3	-1.5	-1.4	
11 Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
12 Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
13 Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
15 Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
16 Residual, including asset changes (2-3)	4.4	0.3	5.0	-1.4	3.6			0.2	0.3	0.5	0.3	0.1	-0.3	
Public sector debt-to-revenue ratio 1/	163.1	191.6	227.3	219.2	246.0			238.3	230.8	230.4	215.8	212.4	208.6	
Gross financing need 5/	1.4	4.1	7.5	3.7	4.2			4.9	3.9	2.0	-0.1	0.2	0.4	
in billions of U.S. dollars	0.0	0.0	0.1	0.0	0.0	10-Year	10-Year	0.0	0.0	0.0	0.0	0.0	0.0	
						Historical	Standard							Projected
Key Macroeconomic and Fiscal Assumptions						Average	Deviation							Average
Real GDP growth (in percent)	-1.2	-3.0	0.8	3.2	4.3	1.8	2.6	5.3	4.9	1.8	0.5	2.5	2.4	2.4
Average nominal interest rate on public debt (in percent) 6/	4.2	5.2	5.3	5.0	5.7	4.2	1.0	5.6	5.7	5.8	5.9	5.9	6.0	5.8
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	0.7	3.3	5.0	3.1	5.3	2.5	1.8	2.6	1.7	1.8	3.9	4.9	5.0	3.4
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inflation rate (GDP deflator, in percent)	3.5	1.9	0.3	1.9	0.4	1.7	1.4	3.0	4.0	4.0	2.0	1.0	1.0	2.4
Growth of real primary spending (deflated by GDP deflator, in percent)	-5.2	-1.2	20.0	-7.8	3.7	3.2	8.6	10.6	2.4	-7.8	-3.6	2.6	3.0	-0.7
Primary deficit	-0.2	1.8	5.0	0.8	1.0	0.2	2.5	1.5	0.5	-1.6	-3.7	-3.3	-3.0	-2.2
								II. Stress Tests for Public Debt Ratio						**Debt-stabilizing primary balance 10/**
A. Alternative Scenarios														
A1. Key variables are at their historical averages in 2006–10 7/								**65.2**	**66.1**	**67.2**	**68.1**	**68.9**	**69.2**	**0.4**
A2. No policy change (constant primary balance) in 2006–10								**65.2**	**64.9**	**66.8**	**70.8**	**74.1**	**77.0**	**1.9**
B. Bound Tests														
B1. Real interest rate is at baseline plus one standard deviations								**65.2**	**64.5**	**63.8**	**62.8**	**61.3**	**60.0**	**2.0**
B2. Real GDP growth is at baseline minus one-half standard deviation								**65.2**	**65.1**	**65.3**	**65.5**	**65.7**	**66.4**	**2.5**
B3. Primary balance is at baseline minus one-half standard deviation								**65.2**	**65.2**	**65.4**	**65.3**	**64.9**	**64.4**	**1.6**
B4. Combination of B1-B3 using one-quarter standard deviation shocks								**65.2**	**65.3**	**65.5**	**65.5**	**65.2**	**64.8**	**2.3**
B5. One time 30 percent real depreciation in 2006 9/								**65.2**	**84.0**	**82.7**	**81.8**	**80.2**	**78.8**	**1.9**
B6. 10 percent of GDP increase in other debt-creating flows in 2006								**65.2**	**74.0**	**72.8**	**71.8**	**70.2**	**68.6**	**1.7**

1/ The public sector is defined as the Central Government. Public debt therefore excludes gross debt not guaranteed by the Central Government, which amounted to US$20.7 million in 2004FY.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
6/ Derived as nominal interest expenditure divided by previous period debt stock.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ The implied change in other key variables under this scenario is discussed in the text.
9/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).
10/ 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.

Table 11. St. Lucia: Selected Vulnerability Indicators

	2000	2001	2002	2003	2004
Key economic and market indicators 1/					
Real GDP growth (in percent)	-0.3	-4.1	0.1	2.9	4.0
CPI inflation (12-month cumulative, in percent)	0.4	2.1	-0.7	0.5	3.5
(Fixed peg)					
External sector					
Exchange rate regime					
Current account balance (percent of GDP)	-14.1	-16.2	-15.2	-20.3	-13.3
Net FDI inflows (percent of GDP)	7.8	8.9	7.3	13.5	8.7
Export growth (f.o.b.)	-13.2	2.7	27.8	3.6	45.8
Real effective exchange rate (1990 = 100)	122.3	122.9	120.6	109.0	106.4
Gross international reserves of the ECCB, (GIR) in US$ billion	0.384	0.446	0.505	0.540	0.582
GIR in percent of ST debt at remaining maturity	…	…	…	…	…
Net imputed international reserves (NIR) in US$ billion	0.077	0.087	0.092	0.105	0.130
Total gross external public debt in percent of GDP	28.6	33.5	45.7	46.7	47.8
Of which					
Short-term debt (original maturity in percent of GDP)	…	…	…	…	…
Private sector debt (in percent of GDP)	…	…	…	…	…
Total gross external public debt in percent of exports of goods and nonfactor services	53.0	65.1	98.7	86.6	80.5
Gross external financing requirement (in US$ billion) 3/	0.118	0.130	0.140	0.084	0.148
Consolidated public sector 2/					
Overall central government balance (percent of GDP)	-1.4	-4.1	-7.6	-3.8	-4.5
Central government current account balance (percent of GDP)	5.3	1.6	0.1	1.1	1.8
Debt-stabilizing primary balance (percent of GDP)	…	…	…	…	…
Gross public sector financing requirement (in percent of GDP)	*2.1*	*5.4*	*8.9*	*5.7*	*6.3*
Public sector gross debt (PSGD, in percent of GDP)	44.8	51.1	63.6	62.9	67.9
Of which					
External debt from official creditors (in percent of total PSGD)	47.4	40.4	35.9	39.0	38.1
External debt from private creditors (in percent of total PSGD)	19.0	26.6	37.0	35.5	33.6
Domestic debt linked to foreign currency (in percent of total PSGD)	...	...	...	...	...
Domestic debt at variable interest rate (in percent of total PSGD)	...	...	...	...	...
Public sector net debt (in percent of GDP)	...	...	...	...	...
(In percent)					
Public and private financial sector					
Capital adequacy ratio (Indigenous banks)	15.4	16.2	14.7	16.5	18.0
NPLs/Total loans	12.7	16.5	20.6	17.7	17.3
Indigenous banks	20.1	23.3	28.1	23.8	22.2
Foreign banks	6.8	10.5	14.3	12.5	13.4
Loan loss provision/NPLs	28.4	28.1	28.2	42.2	36.1
Indigenous banks	26.9	24.9	27.5	39.4	39.0
Foreign banks	32.1	34.5	29.4	46.9	32.3
Gross government claims/Total assets	11.2	9.3	10.5	11.5	13.0
FX deposits/Total deposits	0.7	1.5	1.7	1.8	2.1
Net foreign currency exposure/Capital (Indigenous banks)	72.6	-15.6	-19.0	5.9	30.2
Contingent liabilities/Capital (Indigenous banks)	108.6	94.1	105.6	92.7	101.8
(Pre-tax) return on average assets	2.5	1.7	0.9	1.4	2.4
(Percent per annum)					
Memorandum items					
3-month treasury bills rate	7.0	7.0	7.0	7.0	7.0
U.S. treasury bonds rate	5.8	3.5	1.6	1.0	1.4

Sources: ECCB, FSSA, and IFS.

1/ Staff projections of the 12-month change to end-June.
2/ Financial year starting April 1. Data for FY 2004/05 is preliminary.
3/ Defined as external current account deficit plus external amortization.

Table 12. St. Lucia: Millennium Development Goals 1/ 2/

	1990	1994	1997	2000	2003
Goal 1: Eradicate extreme poverty and hunger					
Percentage share of income or consumption held by poorest 20 percent	...	...	...	...	...
Population below $1 a day (percent)	...	...	...	...	...
Population below minimum level of dietary energy consumption (percent)	...	...	...	...	...
Poverty gap ratio at $1 a day (incidence x depth of poverty)	...	...	...	...	...
Poverty headcount, national (percent of population)	...	...	...	...	...
Prevalence of underweight in children (under five years of age)	...	...	...	...	...
Goal 2: Achieve universal primary education					
Net primary enrollment ratio (percent of relevant age group)	...	...	...	100	...
Primary completion rate, total (percent of relevant age group)	...	...	...	128	...
Percentage of cohort reaching grade 5 (percent)	...	...	...	...	...
Youth literacy rate (percent ages 15–24)	...	...	...	...	...
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliament (percent)	0.0	0.0	0.0	11.0	11.0
Ratio of girls to boys in primary and secondary education (percent)	...	...	...	99.6	...
Ratio of young literate females to males (percent ages 15–24)	...	...	...	...	...
Share of women employed in the nonagricultural sector (percent)	47.1	49.6	47.2	48.5	48.5
Goal 4: Reduce child mortality					
Immunization, measles (percent of children ages 12–23 months)	82	92	95	88	90
Infant mortality rate (per 1,000 live births)	20	...	...	17	16
Under 5 mortality rate (per 1,000)	24	...	...	19	18
Goal 5: Improve maternal health					
Births attended by skilled health staff (percent of total)	...	...	100.0	...	...
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	...	...	...
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Contraceptive prevalence rate (percent of women ages 15–49)	...	...	...	...	...
Incidence of tuberculosis (per 100,000 people)	32.0	...	...	25.0	22.0
Tuberculosis cases detected under DOTS (percent)	...	...	92.0	60.0	71.0
Number of children orphaned by HIV/AIDS	...	...	...	...	...
Prevalence of HIV, total (percent of population aged 15–49)	...	...	...	...	...
Goal 7: Ensure environmental sustainability					
Access to an improved water source (percent of population)	98.0	...	...	98.0	...
Access to improved sanitation (percent of population)	...	...	...	89.0	...
Access to secure tenure (percent of population)	...	...	...	...	...
CO2 emissions (metric tons per capita)	1.2	2.1	1.9	2.2	...
Forest area (percent of total land area)	23.0	...	...	14.8	...
GDP per unit of energy use (2000 PPP $ per kg oil equivalent)	...	...	...	...	...
Nationally protected areas (percent of total land area)	...	0.0	0.0	0.0	0.0
Goal 8: Develop a global partnership for development					
Aid per capita (current US$)	3.4	5.7	4.7	1.7	2.3
Debt service (percent of exports)	2.1	3.0	3.4	7.3	7.4
Fixed line and mobile phone subscribers (per 1,000 people)	129.4	182.1	242.6	306.7	409.0
Internet users (per 1,000 people)	..	...	*6.9*	19.7	...
Personal computers (per 1,000 people)	..	..	..	137.7	150.0
Unemployment, youth female (percent of female labor force ages 15–24)	..	39.4	43.2	..	..
Unemployment, youth male (percent of male labor force ages 15–24)	..	23.4	31.0	..	..
Unemployment, youth total (percent of total labor force ages 15–24)	..	29.1	35.2	..	..

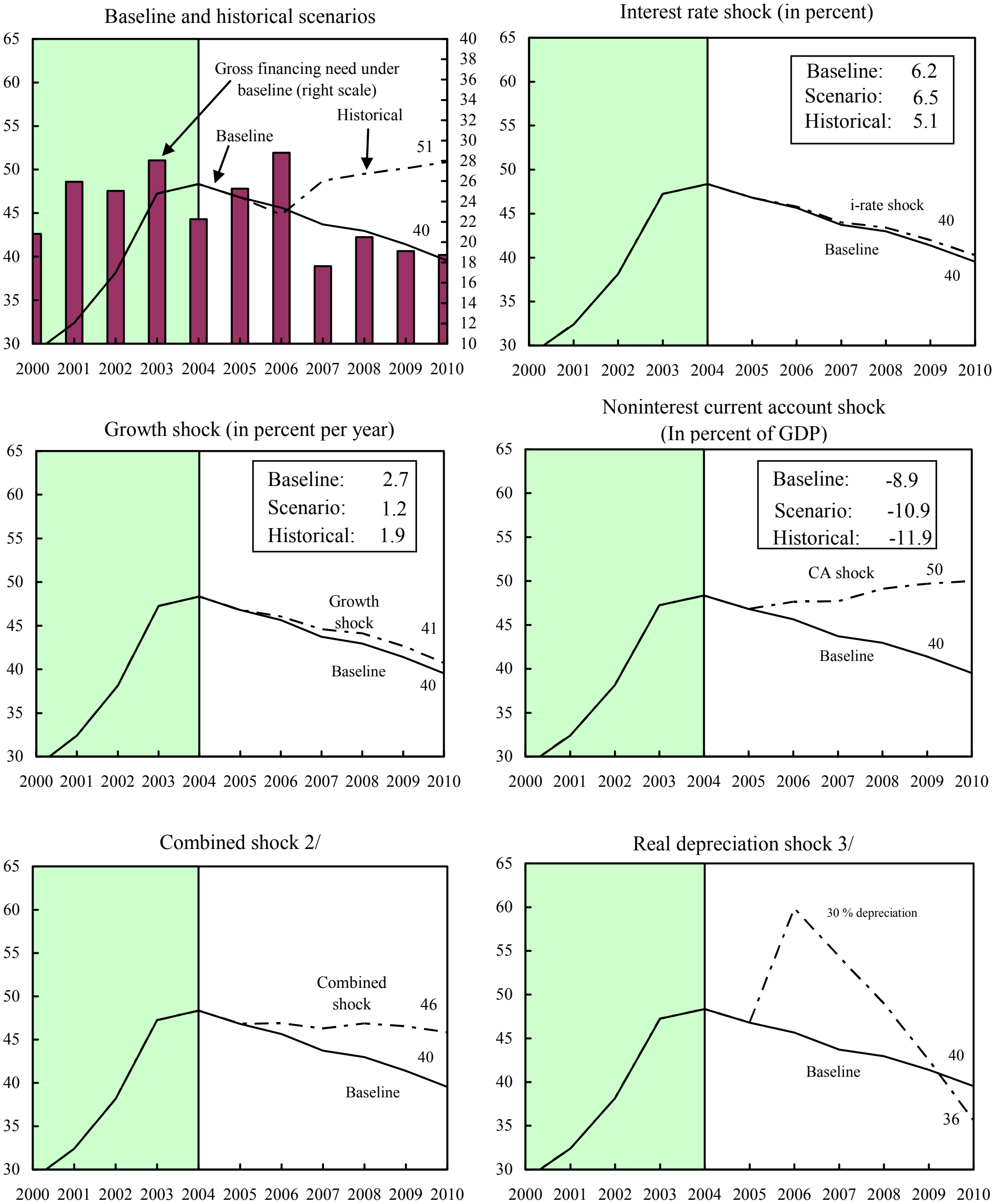
Sources: World Development Indicators database, April 2005, and Core Welfare Indicatores Quesionnaire (CWIQ) Survey, December 2004.

1/ The goals, targets, and relevant indicators to assess progress over the period from 1990 to 2015 when targets are expected to be met, are explained in **http://millenniumindicators.un.org/unsd/mi/mi_goals.asp** and **http://ddp-ext.worldbank.org/ext/MDG/home.do**

2/ Figures in italics refer to periods other than those specified.

3/ 2004 data from CWIQ survey.

Figure 3. St. Lucia: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



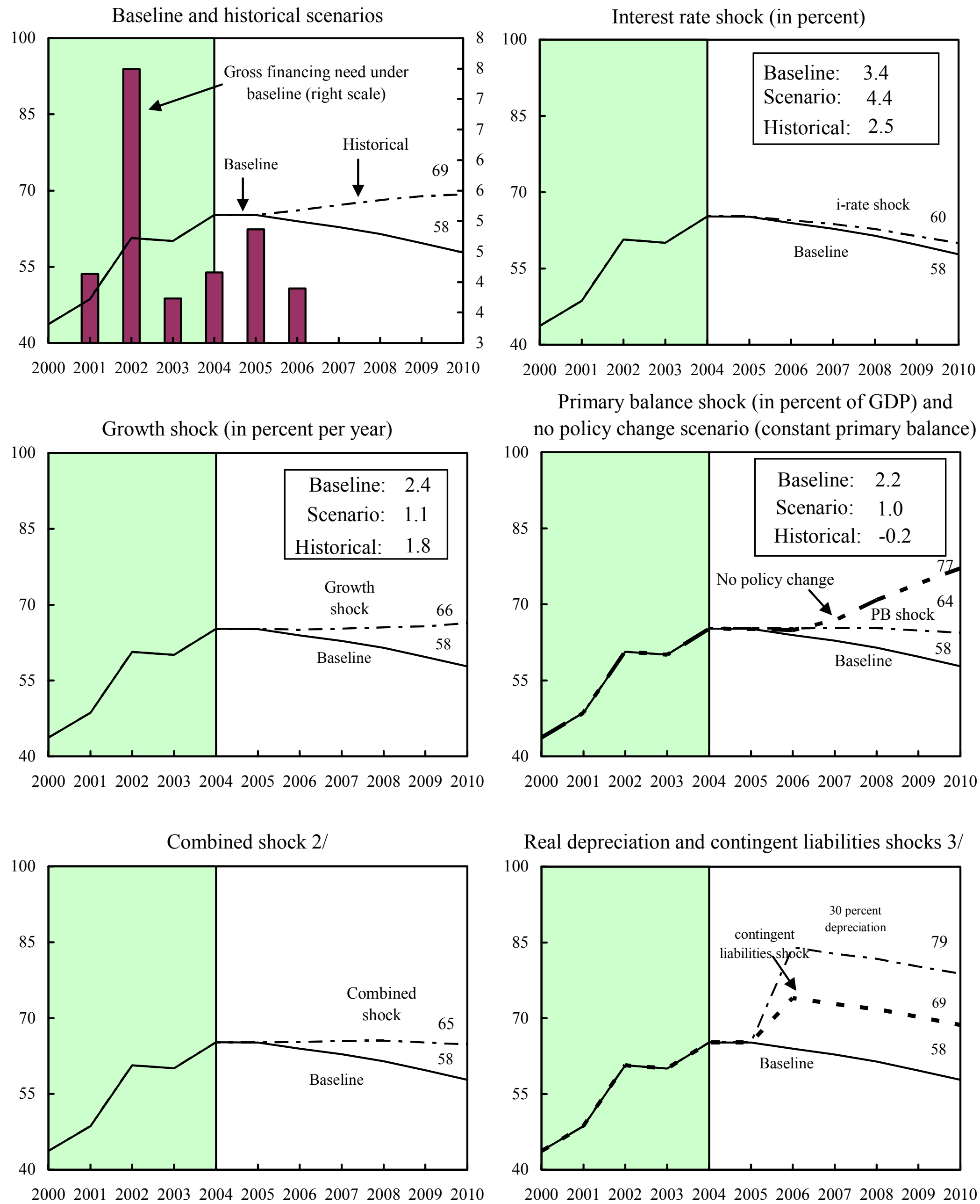
Sources: International Monetary Fund, Country desk data, and staff estimates.

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/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

3/ One-time real depreciation of 30 percent occurs in 2006.

Figure 4. St. Lucia: Public Debt Sustainability: Bound Tests 1/
(Public 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/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2006, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

St. Lucia: Relations with the Fund

(As of October 31, 2005)

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

II. **General Resources Account**

	SDR Million	Percent of Quota
Quota	15.30	100.00
Fund holdings of currency	15.29	99.97
Reserve position in Fund	0.01	0.04

III. **SDR Department**

	SDR Million	Percent of Allocation
Net cumulative allocation	0.74	100.00
Holdings	1.51	203.39

IV. **Outstanding Purchases and Loans:** None

V. **Financial Arrangements:** None

VI. **Projected Obligations to the Fund:** None

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

VIII. **Article IV Consultation**: St. Lucia is currently on the 12-month cycle. The 2003 Article IV consultation was concluded by the Executive Board on May 5, 2004; the relevant documents are IMF Country Report Nos. 04/397 and 04/401.

IX. **Technical Assistance** provided since the beginning of 2004 by the Caribbean Regional Technical Assistance Center (CARTAC)**:**

- Ongoing, assistance in developing regulations on capital adequacy, risk management guidelines and guidelines on corporate governance, accounting and auditing, related party transactions, large exposures and asset classification along the lines of those currently under development with the ECCB.

- During August−October 2005, preparation of a VAT sensitivity study.

- During March–September 2005, review of SIGFIS management, security and reporting.

- In July 2005, coordination of an attachment from the Supervisor of Insurance, Barbados to assist with an on-site inspection of an insurance company.
- In June 2005, assistance in updating macroeconomic projections to incorporate major public and private sector projects into the medium-term economic outlook under the Stabilization and Adjustment Technical Assistance Program (SATAP).
- In May 2005, Workshop on best practices in tax administration.
- In March 2005, assistance in improving CPI compilation methods and training in imputation techniques.
- Ongoing, follow-up on steps to create a single unit for the supervision of financial institutions.
- Between October 2004–February 2005, review of SIGFIS management, security and reporting.
- In August 2004, assistance with the simplification of the PAYE system.
- In July–August 2004, preparation of a survey to summarize the region’s tax systems, information on the individual countries’ tax revenue, and cross-country analysis.
- In July 2004, training for customs officials (with CCLEC and U.S. Customs).
- In July 2004, assistance with the preparation of a plan for the introduction of a revenue authority.
- In July 2004, training for a group of new auditors and tax officers.
- In June 2004, workshop to provide budget department specialist training.
- In May 2004, assistance in completing a draft financial program and report.
- Between March–July 2004, review of SIGFIS management, security and reporting, in conjunction with Barbados.
- Between January–March 2004, assistance in developing Smartstream management and reporting.
- In February 2004, assistance in developing export-import price indices.
- In January 2004, follow-up financial programming exercise under the Stabilization and Adjustment Technical Assistance Program (SATAP).

St. Lucia: Relations with the World Bank Group

(As of November 3, 2005)

The World Bank's Management presented to its Board the Eastern Caribbean Sub-Region Country Assistance Strategy (CAS), on September 13, 2005. The World Bank Group's strategy for the four years covered by this CAS (FY 2006−09) supports the sub-region's development agenda through two main pillars: (i) stimulating growth and improving competitiveness; and (ii) reducing vulnerability, by promoting greater social inclusion and strengthening disaster risk management. Recognizing the OECS countries' weakened creditworthiness due to high debt ratios, Bank activities will focus on leveraging available donor grant financing. Following the recommendations of the recently completed growth and competitiveness study for the OECS, IBRD and IDA support would focus on providing technical and financial assistance for interventions to support these two pillars.

An indicative Base Case lending scenario consists of about US$51.3 million in IDA resources for the four OECS blend countries (Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines). This amount includes the estimated IDA country allocations for each of the four countries during FY 2006−09, and an IDA regional allocation of US$15.2 million for two regional projects: US$12 million for Catastrophe Risk Insurance and US$3.2 million for Infrastructure and Utilities Reform. Planned lending to St. Lucia amounts to US$16.7 million under the Base Case lending scenario and consists of two investment projects: Public Sector Modernization Infrastructure and Utilities Reform, and a Social Protection Program.

I. Projects

There are six active World Bank projects in St. Lucia for a net commitment of approximately US$43 million.

The **St. Lucia Water Sector Reform Technical Assistance** was approved in December 2001 for US$2.6million. It supports the Government of St. Lucia's goal of improving the water and sewerage service provision through private sector participation (PSP) in the operation of WASCO, the water supply and sewerage utility. The project finances the development of a regulatory framework, the preparatory work for PSP transaction as well a dissemination and consensus building campaigns.

The World Bank on March 8, 2002, approved US$20.9 million in loans and credits to support **Emergency Recovery Projects** in Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. The projects support efforts aimed at fostering recovery from the fallout of the events of September 11, 2001. The projects support: (i) efforts to safeguard the productive capacity of the tourism sector by securing energy imports; (ii) investments to enhance security at airports and ports; and (iii) the development of institutional capacity to develop security programs as mandated by international civil aviation and maritime transport agencies. The Bank's support to St. Lucia under this project is for US$6.3 million.

The **OECS Education Reform Project** is a follow-up to the Basic Education Project. It was approved in June 2002 for US$12.0 million, and was signed in September 2002. It is expected to become effective by the end of 2005. This is one of several subprojects included in a regional horizontal APL. The overall objective of this project is to build human capital in the OECS which, in turn, will contribute to the diversification of their economy and more sustainable growth. This objective will be achieved by: (i) increasing equitable access to secondary education; (ii) improving the quality of the teaching and learning process, with more direct interventions at the school level and a focus on student-centered learning, and (iii) strengthening management of the sector and governance of schools.

The **St. Lucia Disaster Management Project II** was approved in June 2004 for US$7.5 million. The project aims at further reducing the country's vulnerability to adverse natural events (hurricane, floods, etc.) through investment in risk management activities. The project has the following four components: (i) Physical Prevention and Mitigation Work Component; (ii) Strengthening Emergency Preparedness and Response; (iii) Institutional Strengthening; and (iv) Project Management.

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

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

The **St. Lucia Water Supply Infrastructure Improvement Project**, approved in May 2005 for US$7.7 million will support a short term investment program to carry out critical works required to achieve the following objectives: (i) alleviate the water shortage in the North of the country. The infrastructure works proposed will allow the utility to supply the entire North of the island with a more efficient, continuous and reliable service; and (ii) implement urgent investments that will result in additional revenues, reduce the likelihood of commercial users (important sources of cross-subsidy for poor consumers) abandoning the system, and improve the potential of a successful partnership between the government and the private sector.

II. Economic and Sector Work

The Bank has completed a series of analytical work relating to (i) public sector capacity in the OECS including the Institutional and Organizational Capacity Review, (ii) the OECS Procurement Assessment Review, and (iii) the OECS Financial Accountability Assessment. In conjunction with the Fund, a Financial Sector Assessment Program (FSAP) was completed in early 2004. The Bank also recently completed an OECS study on Growth and Competitiveness. Work is ongoing on a review of large scale energy options for the OECS, under the Energy Sector Management Assistance Program. A fiscal issues report, which includes a review of public expenditures in St. Lucia, has also been completed.

St. Lucia will benefit from ongoing and planned analytical and advisory activities to support the new CAS' two main pillars, including the following activities: Caribbean Air Transport Rationalization report, Caribbean Skills and Curriculum Study, Caribbean Recent Economic Developments in Infrastructure study, Caribbean Financial Sector and Regulation report, Caribbean Social projection strategy review, and a regional study on Crime, Violence and Exclusion.

III. Financial Relations

(In millions of U.S. dollars)

	Principal	**Available**	**Disbursed**
TELECOM & INFO & COMM TECH DEV	0.5	0.6	0.0
HIV/AIDS PREVENTION & CONTROL	6.4	6.2	0.0
OECS EDUCATION DEVELOPMENT	12.3	11.9	1.0
EMERGENCY RECOVERY	6.3	0.9	6.1
WATER SECTOR REFORM TECH ASST	2.6	1.5	1.4
ST. LUCIA DISASTER MANAGEMENT II	7.5	6.8	0.7
ST. LUCIA WATER SUPPLY INFRASTRUCTURE IMPROVEMENT	7.7	7.6	0.0
	43.3	**35.5**	**9.2**

Disbursements and Debt Service (Fiscal Year Ending June 30)

(In millions of U.S. dollars)

	Actual							Projections	
	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total disbursements	1.73	1.89	1.22	1.75	10.76	4.06	3.84	7.43	8.07
Repayments	0.19	0.36	0.75	0.82	1.21	1.44	1.18	1.34	1.70
Net disbursements	1.54	1.53	0.47	0.93	9.55	2.62	2.66	6.09	6.37
Canceled	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest and fees	0.37	0.48	0.40	0.40	0.50	0.63	0.73	0.81	1.12

St. Lucia: Relations with the Caribbean Development Bank

(As of October 31, 2005)

CDB's operations in St. Lucia have been designed to support the economic and social development efforts of the government by financing priority capital projects, providing technical assistance and engaging in policy dialogue on key development issues. Guided by its mandate and the development objectives of the government, the CDB has collaborated with St. Lucia in such areas as: (i) the formulation and implementation of macroeconomic, social, and sectoral policies geared towards providing a framework for growth; (ii) infrastructure development to facilitate private sector investment; (iii) human resource development to facilitate economic growth and diversification and the reduction of poverty; (iv) direct and indirect lending to agriculture, tourism, and manufacturing; (v) environmental protection to promote sustainable development; and (vi) poverty reduction.

St. Lucia is the second largest user of CDB resources, accounting for US$242.4 million (9.8 percent) of net cumulative loans, contingent loans, equity, and grants approved from 1970 to 2004. Of this amount, US$115.6 million were provided from the Ordinary Capital Resources while the remainder was from "soft" resources. New loans and grant approved in 2004 amounted to US$5.5 million, however net loans, contingent loans, equity and grants approved during 2004 reflected a negative position of US$94,000 due to cancellations of previous loans and grants. At the end of December 2004 St. Lucia had a total outstanding loan balance of US$125.0 million compared to US$102.2 million at the end of 2003. An additional loan of US$22.6mn to finance additional project costs encountered in the Road Development program was approved during 2005. Disbursement of loans, contingent loans, equity and grants during 2004 reached US$28.5 million, while that disbursed during 2003 amounted to US$20.6 million. Disbursement during January to October 2005 amounted to US$16.9 million.

Below is a summary of the cumulative sectoral distribution of CDB assistance to St. Lucia.

Sectoral Distribution of Approved Financing, 1970–2004

Sectors	In Millions of U.S. Dollars	In Percent
Transportation and Communication	52.2	21.5
Education	44.0	18.2
Manufacturing	23.3	9.3
Agriculture	24.3	10.0
Water	19.1	7.9
Tourism	14.1	5.8
Housing	19.0	7.8
Health	8.5	3.5
Power and energy	1.4	0.6
Multisector	35.9	14.8
TOTAL	242.4	100.0

St. Lucia: Statistical Issues

St. Lucia's statistical database compares well with those of its ECCU peers, but its accuracy and timeliness should be further improved in order to meet the authorities' needs and achieve adequate standards for Fund surveillance. Persistent weaknesses in coverage, frequency, quality, and timeliness continue to hamper effective economic analysis and policy formulation, in particular regarding the national accounts, the public sector outside central government, and the balance of payments. Also, comprehensive and regular labor statistics are not available. The Ministry of Finance publishes bi-annually an economic and social review, which includes statistics covering developments in many macroeconomic sectors. The Eastern Caribbean Central Bank (ECCB) publishes a quarterly economic and financial review and an annual balance of payments for each member country.

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

Real sector

The authorities are developing a new methodology for the computation of the GDP, aimed mainly at obtaining better sectoral estimates, but the process is being delayed by data collection problems. Attempts are being made to compile quarterly GDP estimates with funding from the Organization of American States (OAS). Given the increasing importance of tourism activities, a new comprehensive survey of the sector seems necessary to establish key data, such as average length of stay in different types of accommodations and average daily expenditure by type of tourist arrival. This information should then be cross-checked with other related activities, i.e., restaurants and transportation, to ensure consistency. A recent mission from the Caribbean Regional Technical Assistance Center (CARTAC) helped the authorities develop export and import price indices and undertook initial work on measuring price developments in the tourism sector. A survey to establish the consumer basket for a new CPI has been much delayed, and work should be accelerated to quickly replace the 1984 index. Another area in need of improvement is reporting on labor statistics, in particular, private and public employment and wages.

Public sector finance

Reporting of central government data has improved substantially over the last few years, but deficiencies remain in the rest of the public sector. The authorities are reporting monthly data on the central government's current revenue and expenditure, using a Fund-compatible economic classification, with lags of a couple of months. However, frequent and substantial revisions of figures reported suggest that further improvements to the process are needed. With regard to the rest of the public sector, the periodicity and timeliness of data reporting should be improved; annual financial statements and projections are currently obtained directly from the entities during Fund missions and partially consolidated public sector accounts are compiled by the Fund staff. Data on domestic debt of the public sector are not available on a regular basis. No fiscal data are reported to STA for publication in the *GFS Yearbook* or in *IFS*.

Money and banking

The ECCB compiles monetary data on a monthly basis with a lag of about six weeks. The information is reliable and is reported on a regular basis.

Balance of payments

Balance of payments data are compiled by the ECCB on an annual basis. Although recent data provide a more detailed breakdown of goods than in the past, in other areas they do not provide sufficient detail to enable publication of the full detailed classification used in the fifth edition of the *Balance of Payments Manual (BPM5).* Data for 2002 and revised data for earlier years are published in the *IFS*. In general, enhanced data sources and better compilation procedures are needed to improve the accuracy and timeliness of balance of payments statistics. Efforts should also be made to compile quarterly balance of payments statistics.

External debt

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

St. Lucia: Table of Common Indicators Required for Surveillance
(As of November 17, 2005)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	Fixed Rate	NA	NA	NA	NA
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	08/05	10/05	M	Q	Q
Reserve/Base Money	08/05	10/05	M	Q	Q
Broad Money	08/05	10/05	M	Q	Q
Central Bank Balance Sheet	08/05	10/05	M	Q	Q
Consolidated Balance Sheet of the Banking System	09/05	11/05	M	Q	Q
Interest Rates[2]	09/05	11/05	M	Q	Q
Consumer Price Index	07/05	10/22/05	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government[4]	06/04	10/22/05	Q	Q	H
Stocks of Central Government and Central Government-Guaranteed Debt[5]	03/05	7/04/05	A	H	H
External Current Account Balance	2004	7/04/05	A	H	H
Exports and Imports of Goods and Services	03/05	7/04/05	Q	Q	Q
GDP/GNP	2004	7/04/05	A	A	A
Gross External Debt	03/05	7/04/05	Q	Q	A

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

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 06/14
FOR IMMEDIATE RELEASE
February 9, 2006

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

IMF Executive Board Concludes 2005 Article IV Consultation with St. Lucia

On December 21, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with St. Lucia.[1]

Background

St. Lucia's economy is dominated by tourism, which accounts for almost three-quarters of the island's exports. Though less exposed to hurricanes than other Caribbean islands, St. Lucia remains vulnerable to natural and other exogenous shocks. Since 1990, the production of banana and other export products has been declining. Banana exports have suffered from rising costs and the gradual erosion of preference margins in the EU market. A restrictive trade regime, high cost of capital, and labor market rigidities appear to have delayed structural change.

Economic activity in St. Lucia has been slowing since the 1980s, but it has picked up since 2003, driven by tourism and related investments. Real GDP growth was 4 percent in 2004 and is expected to exceed 5 percent in 2005 and 2006. The rebound in tourism since 2003 was facilitated by a favorable global environment, and investment in tourist resorts and infrastructure is fueling demand for construction ahead of the 2007 Cricket World Cup. Plans exist to increase the stock of hotel rooms by about 30 percent, or 1,100 new units. At the same time, inflation, which had been subdued under the ECCU currency board arrangement, has recently pointed upwards, reaching 4.4 percent in the 12 months to November, 2005. The partial pass-through, in August 2005, of higher oil prices to controlled fuel and transport prices may further add to price pressures.

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

Central government fiscal policy has tightened markedly since 2003 and deficits have narrowed. The 2005/06 budget would sharply set back fiscal consolidation but full implementation of the high levels of budgeted capital expenditure appears unlikely due to capacity constraints. The overall fiscal deficit for FY 2004/05 narrowed to 4 percent of GDP, and the primary deficit to 1 percent of GDP, compared to a primary deficit of 5.1 percent of GDP in FY 2002/03. The improvement reflected public sector wage restraint, reduced capital spending and cyclical factors boosting tax revenue as the economy recovered.

The rapid rise in public debt in recent years has slowed with total public debt reaching almost 68 percent of GDP by end-FY 2004/05. But while this is lower than the debt ratios of other ECCU countries, it remains high by international standards, thus exposing St. Lucia to financial risks. As regards the banking sector, the stock of nonperforming loans in commercial banks' balance sheets remains high and well above the ECCU average.

Real depreciation of the E.C. dollar against major currencies has strengthened the external competitiveness of the tourism sector as measured by a competitor-based real effective exchange rate. Other measures indicate that rising real wages, stagnant productivity, and recent price pressures may undermine competitiveness and the emergence of a more diversified export structure.

Regarding the external balance, increasing tourism receipts have not fully compensated for declining agricultural and manufacturing exports over recent years. Imports are being boosted by strong consumer demand and investment activities related to the Cricket World Cup. The current account deficit is set to widen through 2006, but should begin to narrow thereafter as investment demand eases. This deficit is expected to be largely financed by foreign direct investment related to the tourism sector.

Executive Board Assessment

Directors welcomed the recent strong growth performance of St. Lucia's economy, with a recovery in tourist arrivals and strong investment in tourism infrastructure more than offsetting the continued decline in banana exports. Directors commended the authorities for their record of prudent public debt management—the best within the ECCU—and for the progress made in fiscal consolidation over the past two years. At the same time, Directors cautioned that more recently, public debt had risen sharply, and they urged the authorities to take advantage of the robust growth to follow through with plans to reduce the debt over the medium term. They considered that the authorities are well placed to avail of the economy's present strength to address the economy's structural and fiscal challenges, so as to lay the groundwork for continued sustainable high growth in the long term and a reduction in unemployment.

Directors underscored the importance of continued progress toward fiscal consolidation. The FY 2005/06 budget, which calls for a large increase in capital spending, would set back progress in this regard. Directors considered that much of the fiscal improvement in recent years has reflected cyclical factors, and a combination of revenue and expenditure measures is still needed to strengthen the underlying fiscal position.

These include rebuilding petroleum tax revenues and converting the petroleum tax into an excise tax, limiting the growth of the civil service wage bill, and eventually introducing a modern system of VAT and excise taxation. Directors emphasized in particular the need for greater discipline over tax concessions, and called for a regional approach to phasing out such concessions that curtails destructive competition for investments. The need for careful management and prioritization of capital expenditures was also noted, which would help to lessen the emerging strains on capacity stemming from the construction boom and to contain inflationary pressures.

Directors noted that the banana sector is likely to continue to contract owing to competitive pressures and the coming erosion of its trade preferences in export markets. Efforts to ameliorate the social impact of the sector's decline should include labor retraining, support for business start-ups, and the creation of an appropriate safety net for older workers.

Directors considered that, to boost St. Lucia's growth potential, the investment climate should be strengthened, competitiveness enhanced, and the outward orientation of the economy further increased. They encouraged efforts to lower the cost of capital by easing foreclosure laws, reviewing the ECCU savings rate floor, and better targeting investment incentives. Directors noted that the real effective exchange rate has depreciated in recent years. Nevertheless, given the ECCU exchange rate arrangement, St. Lucia's competitiveness needs to be supported by increased labor market flexibility and measures to improve skills and opportunities for the unemployed. Directors also recommended lowering peak tariff rates and eliminating restrictive licenses that draw resources into noncompetitive activities, drive up the cost of tourism services, and impede diversification.

Directors welcomed the progress that has been made in strengthening the banking sector. However, nonperforming loans remain high and balance sheet exposure to the public sector is rising, warranting close monitoring, especially if liquidity conditions in financial markets tighten.

Directors encouraged the authorities to continue to improve the timeliness and accuracy of data for economic analysis and policy-making, especially with regard to the national accounts, and consumer prices and wages. They also recommended strengthening information on private remittances by introducing a regular survey of financial institutions.

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

St. Lucia: Selected Economic Indicators

	2000	2001	2002	2003	Prel. 2004	Proj. 2005
(Annual percentage changes, unless otherwise specified)						
Output and prices						
Real GDP at factor cost	-0.3	-4.1	0.1	2.9	4.0	5.1
Consumer prices (period average)	3.6	2.1	-0.3	1.0	1.5	3.0
Banana production	7.8	-51.6	41.5	-29.5	24.6	-14.7
Tourist stayovers	3.6	-7.3	1.3	9.3	3.6	5.0
External sector						
Exports, f.o.b.	-13.2	2.7	27.8	3.6	43.6	2.7
Imports, f.o.b.	0.1	-12.9	-0.1	30.4	6.9	18.7
Travel receipts	5.9	-16.4	-9.9	34.3	15.4	8.0
Terms of trade	-6.3	-10.6	-2.1	-3.5	-3.7	-0.1
Excluding tourism	-5.9	1.6	1.3	-10.3	-7.2	0.9
Nominal effective exchange rate (end of period, depreciation -)	8.2	0.7	-4.2	-8.6	-6.4	…
Real effective exchange rate (end of period, depreciation -)	4.7	-1.0	-5.0	-10.9	-0.7	…
Money and credit 1/						
Domestic assets (net)	4.7	4.6	3.8	-10.1	11.3	8.1
Credit to public sector (net)	-1.8	-2.0	2.1	-2.8	-2.5	0.6
Credit to private sector	8.0	5.1	0.9	-4.3	11.1	9.8
Money and quasi-money	7.9	4.7	3.2	7.6	10.1	10.8
Velocity of money (M2) 2/	1.6	1.5	1.5	1.5	1.4	1.4
(In percent of GDP, unless otherwise specified)						
Central government 3/						
Current balance	5.3	1.6	0.1	1.1	3.7	2.7
Capital outlays	7.3	7.4	10.7	7.0	8.0	9.3
Overall balance (before grants)	-2.0	-5.6	-9.6	-5.5	-4.2	-6.5
Overall balance (after grants)	-1.4	-4.2	-7.6	-3.8	-4.2	-5.0
Total public sector debt 4/	44.8	51.1	63.6	62.9	67.9	67.6
Of which: central government	31.6	37.7	50.6	51.0	57.3	57.8
External sector						
Current account balance	-14.1	-16.2	-15.2	-20.3	-13.3	-16.4
External public debt (end of period) 5/	28.4	33.0	46.4	46.9	48.7	48.5
Debt-service ratio	5.3	11.2	10.8	8.4	8.8	10.4
(In millions of U.S. dollars)						
GDP at current market prices	685.3	664.4	682.1	715.7	763.2	825.2
Gross international reserves of the ECCB, end-of-period	383.7	446.0	504.8	539.9	581.9	628.1

Sources: St. Lucian authorities; Eastern Caribbean Central Bank; and Fund staff estimates and projections.

1/ Changes in relation to liabilities to private sector at beginning of period.
2/ Nominal GDP at market prices divided by the average stock of money (measured as the simple average of the current period stock and the stock 12-months earlier).
3/ Data are for fiscal years beginning April 1.
4/ Includes liabilities to the NIC.
5/ Total public and publicly guaranteed debt.