IMF Country Report No. 20/54

ST. LUCIA

February 2020

2019 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2019 Article IV consultation with St. Lucia, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on November 8, with the officials of St. Lucia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 21.
- An **Informational Annex** prepared by the IMF staff.

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

Press Release No. 20/63
FOR IMMEDIATE RELEASE
February 24, 2020

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

IMF Executive Board Concludes 2019 Article IV Consultation with St. Lucia

On February 7, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation discussions[1] with St. Lucia and considered and endorsed the staff appraisal without a meeting.[2]

Following a slowdown in 2018 real GDP growth has picked up in 2019 supported by strong growth in tourism activities. The construction sector continued to contract in early 2019 owing to delays in public infrastructure projects but stayover arrivals grew by 7.9 in the first three quarters of the year (y-o-y). Preliminary data also point to improvement in the current account. Unemployment has declined somewhat but remains high at 18 percent while inflation remained subdued as fuel price pressures subsided.

Prudent fiscal policies and revenues from the citizenship-by-investment program (CIP) have helped stabilizing public debt as a share of GDP. The primary fiscal surplus rose to 2.1 percent of GDP in 2018 and is projected to be broadly balanced in 2019 due to a decline in CIP applications and increased public sector wages. Bank credit to the private sector shrank for a sixth consecutive year, reflecting more conservative lending practices and banks' efforts to resolve legacy NPLs, while the expansion of the credit union sector remains strong.

Near-term growth prospects are favorable, albeit with downside risks. The commencement of large public infrastructure projects, including the redevelopment of the international airport and a comprehensive road improvement program, is expected to substantially boost growth in 2020-22 but will push up public debt and weaken the external position. Nonetheless, the expected improvement in St. Lucia's connectivity could help address capacity constraints and has the potential to catalyze a more durable expansion of the tourism sector and related activities. Downside risks to the outlook include a deeper-than-expected slowdown in major source markets for tourism, energy price shocks, disruptions to global financial markets, and loss of correspondent bank relationships. St. Lucia's high vulnerability to natural disasters constitutes an ever-present risk to both growth and the fiscal outlook.

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

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

Executive Board Assessment

St. Lucia's near-term growth prospects are favorable, but policy adjustments will be needed to strengthen longer-term growth. The commencement of large public infrastructure projects is expected to substantially boost growth in 2020-22 but will raise public debt and weaken the external position. However, a deeper-than-expected slowdown in major source markets for tourism, energy price shocks, disruptions to global financial markets, and loss of CBR all represent downside risks. St. Lucia's high vulnerability to natural disasters constitutes an ever-present risk to both growth and the fiscal outlook. Longer-term growth continues to be impeded by the high public debt, lingering vulnerabilities in the financial system, and structural impediments to private investment. On the other hand, there is an upside that infrastructure investment could catalyze a greater-than-expected expansion of the tourism sector and related activities. While the overall external position is assessed to be broadly consistent with the level implied by fundamentals and desirable policies, St. Lucia still has considerable competitiveness challenges, particularly in its non-tourism sector, that need to be addressed.

Fiscal policies should be geared toward rebuilding policy space and ensuring public debt converges to the regional target of 60 percent of GDP by 2030. The debt-financed infrastructure investments, despite being on semi-concessional terms with long-run repayment largely covered by dedicated revenue streams, will move public debt further away from the regional target. The need to invest in climate resilience and the uncertainty over future CIP revenues pose additional challenges to public finances. Without policy adjustments, debt vulnerabilities are elevated, and public debt does not stabilize over the near term.

The government's near-term focus should be on revenue-enhancing measures and investments that build resilience to climate related shocks. In addition to limiting current spending growth (particularly the public wage bill), additional revenues should be mobilized from the proposed hotel accommodation fee, the introduction of a carbon tax, and reducing the scope of VAT exemptions. Since some of these measures will likely be regressive, they should be introduced in parallel with targeted transfers that offset the impact on poor and vulnerable households. The National Health Insurance system should also be introduced in a fiscally responsible manner. Concerted efforts are also needed to mobilize donor grants to fund investments in climate resilience. If there is over-performance of the CIP, or of other revenue sources, it should be directed toward financing a self-insurance fund to bolster the economy's resilience against natural disasters.

A fiscal rule would help anchor fiscal policy over the medium term and support consolidation efforts. To be effective, the fiscal rule should encompass a comprehensive definition of fiscal activities, including the fiscal costs of natural disasters and the lumpy expenditure associated with infrastructure investment, and should be part of a broader fiscal responsibility framework that embeds appropriate institutional and governance arrangements to ensure both the appropriate degree of flexibility as well as enforceability of the fiscal rule. The fiscal rule will also need to be carefully calibrated to strike the balance between credibly meeting the debt target over the medium-term and providing space for much-needed spending to build resilience.

To support private sector investment, measures are needed to address constraints on financial intermediation. There is scope to improve credit market efficiency by modernizing foreclosure and insolvency legislation, establishing a regional credit bureau and registry, and taking steps to allow for the greater use of movable property as loan collateral.

Emerging financial sector risks warrant a more assertive approach to regulation and supervision. The banks' rising allocation of their assets to overseas debt securities has supported bank profitability but may also expose the sector to losses if global financial market conditions deteriorate or risk premia rise. The rapid expansion of credit unions has increased the sector's macro-financial significance that warrants stronger oversight. The swift adoption of the Harmonized Co-operative Societies Act, combined with a strengthening of supervisory oversight of the non-bank financial sector, remain key policy priorities. In addition, continued efforts are needed to satisfy international taxation and AML/CFT standards.

Efforts are needed to further enhance resilience to climate change and natural disasters. Progress has been made in implementing recommendations of the CCPA. Key measures to address the remaining institutional, financing and capacity gaps include the active costing of climate projects, improving public financial management of climate financing and outlays, mobilizing private investment in mitigation and adaptation and strengthening capacity in managing climate-related investments.

Decisive and targeted reforms are needed to address supply-side impediments to long-term growth. Enhancing productivity will require a better alignment of the education system with labor market needs. There is scope to improve the business environment by enhancing access to credit and reducing electricity costs, further diversifying the economy toward higher-value exports, and increasing local content in the tourism supply chain.

St. Lucia: Selected Social and Economic Indicators, 2015–24

I. Social and Demographic Indicators

Area (sq. km)	616	Infant mortality (per thous. live births, 2018)	14.9
		Human Development Index ranking (of 189 countries, 18)	89
Population Characteristics			
Total (2018)	178,696	Gross Domestic Product (2018)	
Rate of growth (average 2011-2018)	0.9	(millions of US dollars)	1,922
Population density (per sq. km., 2018)	290.1	(millions of EC dollars)	5,189
Net migration rate (per thousand, 2018)	0	(US$ per capita)	10,755
Secondary education enrolment (percent, 18)	90	Gross National Income per Capita (US$, 2018)	10,126
Life expectancy at birth (years, 2018)	76.1		

II. Economic and Financial Indicators

					Projections					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
					(Annual percentage change, unless otherwise specified)					
Output and prices										
Real GDP (at market prices)	0.2	3.2	2.6	0.9	1.5	3.2	3.0	2.4	1.5	1.5
Real GDP (at factor cost)	2.0	1.3	2.4	0.6	1.5	3.2	3.0	2.4	1.5	1.5
Consumer prices, end of period	-2.6	-2.8	2.0	2.2	2.1	2.2	2.0	2.0	2.0	2.0
Consumer prices, period average	-1.0	-3.1	0.1	2.4	2.2	2.1	2.1	2.0	2.0	2.0
Output gap (percent of potential GDP)	-1.4	0.2	0.9	-0.2	-0.9	-0.1	0.5	0.7	0.2	0.0
Unemployment rate (% annual avrg.)	24.1	21.3	20.2	20.2	...	...	...	...	...	...
Real effective exchange rate										
(annual average, depreciation -)	106.8	104.9	103.1	102.3	...	...	...	...	...	...
					(In percent of GDP, unless otherwise specified)					
Central government balance 1/										
Revenue	23.1	23.4	23.0	23.5	23.0	22.6	22.5	22.5	22.4	22.4
Taxes	20.7	20.9	20.1	20.5	20.7	20.3	20.3	20.2	20.2	20.2
Non-tax revenue	1.1	1.2	1.5	2.2	1.6	1.5	1.5	1.5	1.5	1.5
Grants	1.3	1.2	1.3	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Expenditure	25.7	24.9	25.4	24.6	25.5	25.4	25.3	24.6	24.6	24.6
Current primary expenditure	18.1	17.7	17.6	18.2	18.3	17.8	17.7	17.6	17.6	17.6
Interest payments	3.5	3.4	3.3	3.2	3.2	3.2	3.2	3.1	3.1	3.1
Capital expenditure	4.1	3.8	4.5	3.2	4.0	4.4	4.4	3.9	3.9	3.9
Natural disaster (ND) annualized cost	...	...	...	...	0.7	0.7	0.7	0.7	0.7	0.7
Primary balance, excl. ND cost	0.9	1.9	0.8	2.1	0.7	0.3	0.4	1.0	1.0	0.9
Primary balance, incl. ND cost	...	...	...	...	0.1	-0.3	-0.2	0.3	0.3	0.3
Overall balance excl. ND cost	-2.5	-1.5	-2.4	-1.1	-2.5	-2.9	-2.7	-2.1	-2.1	-2.2
Overall balance, incl. ND cost	...	...	...	...	-3.2	-3.5	-3.4	-2.8	-2.8	-2.8
Public sector debt	66.1	66.2	65.5	64.3	65.5	69.1	72.6	73.7	74.1	74.1
Domestic	34.7	34.5	32.0	33.2	33.5	34.7	35.9	35.9	36.2	36.4
External	31.4	31.6	33.5	31.2	32.0	34.4	36.7	37.8	37.9	37.7
Money and credit, end of period (annual percent change)										
Broad money (M2)	5.8	2.3	0.2	3.4	3.7	5.4	5.1	4.4	3.5	3.5
Credit to private sector (real)	-5.8	-4.8	-2.0	-3.3	-1.4	-1.2	0.1	0.9	1.0	1.5
Credit to private sector (nominal)	-6.8	-7.8	-1.9	-1.0	0.7	0.9	2.1	2.9	3.0	3.5
Balance of payments										
Current account balance, *o/w:*	0.0	-7.1	-1.1	2.3	3.0	-1.3	-2.6	-0.7	-0.3	0.0
Exports of goods and services	59.1	54.0	57.2	58.6	57.7	56.6	55.9	55.1	55.2	56.0
Imports of goods and services	-50.4	-54.4	-52.7	-50.8	-49.4	-52.6	-53.2	-50.6	-50.2	-50.8
Capital account balance	0.8	0.8	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Financial account balance	3.9	-4.7	-0.1	2.5	3.8	-0.5	-1.8	0.0	0.5	0.8
Direct investment	-7.8	-8.8	-3.2	-3.5	-3.9	-5.2	-5.0	-5.0	-5.0	-5.0
Portfolio investment	0.0	1.7	-3.3	3.4	2.4	3.4	3.4	3.0	2.5	2.5
Other investment	8.1	3.2	5.6	4.4	4.4	-2.2	-0.5	3.0	2.9	3.7
Net reserves assets	3.7	-0.8	0.8	-1.9	0.9	3.5	0.2	-1.0	0.0	-0.5
Errors and omissions	3.0	1.6	0.2	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	3.0	1.6	0.2	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
External debt (gross) 2/	70.7	67.4	68.8	65.9	66.7	67.9	66.4	65.2	65.5	64.0
Public	31.4	31.6	33.5	31.2	32.0	34.4	36.7	37.8	37.9	37.7
Savings-Investment balance	0.0	-7.1	-1.1	2.3	3.0	-1.3	-2.6	-0.7	-0.3	0.0
Savings	18.1	13.4	20.5	23.4	24.7	23.1	22.2	22.4	21.3	21.1
Investment	18.1	20.5	21.6	21.1	21.6	24.4	24.8	23.2	21.6	21.1
Public 3/	4.2	4.4	5.5	4.6	4.8	7.3	8.3	6.6	5.0	4.6
Private	13.9	16.1	16.1	16.5	16.9	17.1	16.6	16.6	16.6	16.6
Memorandum items:										
Nominal GDP (EC$ millions)	4,480	4,594	4,905	5,189	5,381	5,672	5,963	6,229	6,449	6,676
Net imputed international reserves										
Months of imports of goods and services	4.3	3.7	3.9	3.4	3.6	4.0	3.8	3.6	3.5	3.2
Percentage of demand liabilities	91.4	90.7	91.1	90.7	90.9	92.2	91.9	91.1	90.9	90.3

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

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

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

3/ Comprises investment by the central government and construction expenditures of public corporations, incl. the US$175 million airport project.

ST. LUCIA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

January 21, 2020

KEY ISSUES

Context. St. Lucia's near-term growth prospects are favorable, supported by large infrastructure investment and robust tourist inflows. However, longer-term growth continues to be impeded by high public debt, lingering vulnerabilities in the financial system, and structural impediments to private investment. Diminishing policy buffers further weaken the country's resilience to external shocks against the backdrop of a precarious global outlook.

Rebuilding policy space. Fiscal consolidation is needed to bring debt onto a downward path, rebuild policy space, and provide St. Lucia with flexibility to respond to negative shocks. Policies should focus on measures that increase revenues and finance much-needed investments to make the economy more resilient to natural disasters and climate change. A fiscal rule, supported by a clear medium-term institutional framework for fiscal policy, should be adopted to guide the pace and composition of the needed fiscal consolidation.

Strengthening bank balance sheets and financial intermediation. Completion of long-pending legislative initiatives, alongside stronger regional and domestic financial oversight, should provide banks with incentives to strengthen their balance sheets and increase the efficiency of financial intermediation. There is also a need to draw on supervisory and regulatory tools to respond to emerging risks from rising overseas investments of the banks and the rapid expansion of lending by credit unions.

Supporting resilient, sustainable growth. The authorities should step up efforts to address the institutional, financing and capacity gaps in its climate and disaster response strategy. Supply-side reforms are needed to unlock potential growth by improving the business environment, reducing energy costs, enhancing labor productivity, and further diversifying the economy.

Approved By
Nigel Chalk (WHD) and Mary Goodman (SPR)

Discussions for the 2019 consultation took place in Castries on October 29–November 8, 2019. The team comprised Messrs. Ding (head), Hukka, Moeller, and Vargas (all WHD). Ms. Levonian and Mr. Williams (OED) joined the concluding meetings. The mission met with the Honorable Prime Minister Chastanet, Permanent Secretary Thomas and other senior government officials, representatives of the opposition, the private sector, and labor unions. Ms. Aghababyan and Ms. Kalla assisted in the preparation of the staff report.

CONTENTS

RECENT DEVELOPMENTS AND OUTLOOK **4**

A. Context 4

B. Current Trends 5

C. Outlook and Risks 6

POLICY DISCUSSIONS **7**

A. Rebuilding Policy Space 7

B. Strengthening Financial Sector Balance Sheets and Financial Intermediation 11

C. Supporting Resilient, Sustainable Growth 14

STAFF APPRAISAL **16**

BOXES

1. Fiscal: Major Tax Measures 8
2. Fiscal: Baseline and Adjustment Scenarios 9

FIGURES

1. Recent Developments 19
2. External Sector Developments 20
3. Fiscal Sector Developments 21
4. Banking System Developments 22
5. Credit Union Sector Developments 23
6. External Competitiveness and Structural Weaknesses 24

TABLES

1. Selected Social and Economic Indicators, 2015–24 25

2a. Central Government Operations, 2015–24 (In millions of EC Dollars) 26

2b. Central Government Operations, 2015–24 (In percent of GDP) 27

3. Balance of Payments Summary, 2015–24 28
4. Monetary Survey, 2015–19 29
5. Banking System Summary Data, 2013–18 30

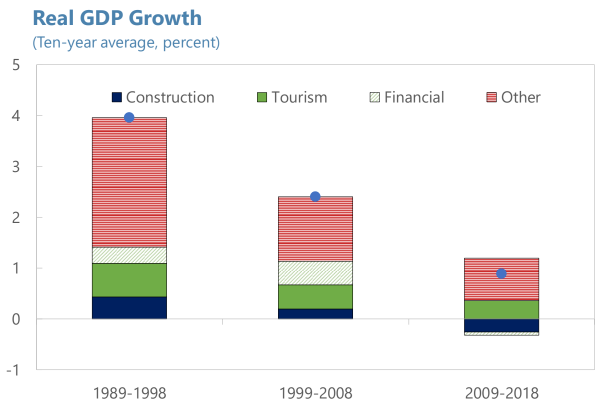
ANNEXES

I. Implementation of Previous Staff Advice ____ 31
II. External Sector Assessment ____ 32
III. Risk Assessment Matrix ____ 35
IV. Debt Sustainability Analysis ____ 36
V. The Potential Impact of a Hotel Accommodation Fee ____ 44
VI. Carbon taxation in St. Lucia: An Update ____ 49
VII. Emerging Risks from Credit Unions ____ 56
VIII. Implementation of the 2018 CCPA Recommendations ____ 60

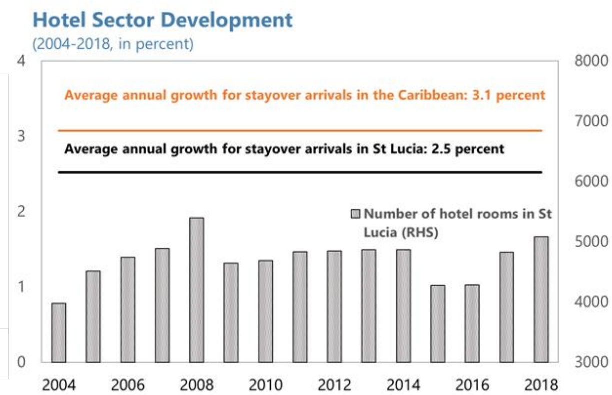
RECENT DEVELOPMENTS AND OUTLOOK

A. Context

1. **The St. Lucia economy is heavily dependent on tourism.** A late 2000s investment boom in the tourism sector ended abruptly with the global financial crisis, leading to sizeable banking sector non-performing loans (NPLs) and a heavy public debt burden from the use of fiscal stimulus to cushion the impact of the shock. Despite more favorable external conditions in recent years, including robust growth in the United States which accounts for nearly one half of stayover tourists, St. Lucia's growth has remained subdued, averaging 0.9 percent in 2008–18 compared to 2.4 percent in the previous decade. Tourism has contributed only one-third of that growth, reflecting strong regional competition and domestic capacity constraints arising from a weak appetite for new private investment in additional hotel capacity.



Sources: ECCB and national authorities.



Sources: Caribbean Tourism Organization (CTO)

2. **Domestic vulnerabilities are heightening St. Lucia's susceptibility to external shocks.** Public debt, already high at 64 percent of GDP as of 2018, is expected to rise to 74 percent over the near term as a result of external debt-financed public infrastructure investment.[1] As such, this limits the policy space to react to an economic downturn. In addition, weak asset quality weighs on bank balance sheets and there are long-standing structural impediments to efficient financial intermediation which constrains the funding for private sector projects. Finally, St. Lucia is susceptible to disruptions in tourism demand and to large shifts in its terms of trade as the country's energy needs are almost entirely met through imported fossil fuels.

3. **St. Lucia is also among the countries most exposed to climate and natural disaster shocks.** As underscored in the 2018 Climate Change Policy Assessment (CCPA), the average annual damage of natural disasters exceeds 1 percent of GDP. More frequent and severe natural disasters due to global warming would substantially harm long-term growth and undermine fiscal sustainability (staff calculations suggest that the average economic impact of natural disasters could

[1] A 2018 revision to the nominal GDP data resulted in a lower debt to GDP ratio by about 5 percentage points. With technical assistance from the Caribbean Regional Technical Assistance Centre (CARTAC), the authorities are in the process of rebasing the GDP estimates to better reflect the current structure of the St. Lucian economy. The rebasing may lead to another upward revision to the nominal GDP figures.

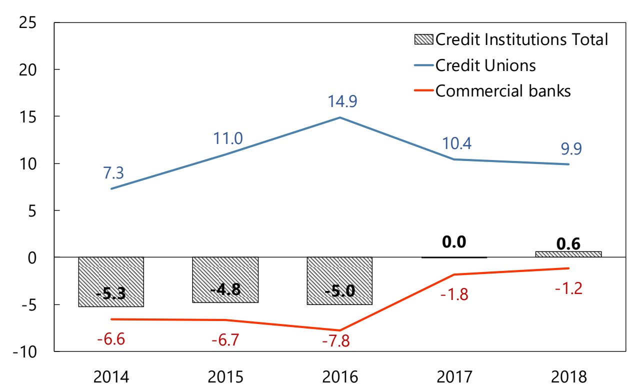
increase by 40 percent in a high CO_2 emission scenario). Despite being a regional leader in climate change preparedness, St. Lucia has large institutional, financing and capacity gaps in its disaster and climate response strategy.

B. Current Trends

4. Growth slowed in 2018 due to a sharp fall in construction but has picked up in the first three quarters of 2019 based on preliminary quarterly data. Following relatively strong growth in 2016-17, real GDP growth declined to 0.9 percent in 2018 as the completion of the Port Castries expansion project led to a 20 percent contraction in construction (Figure 1). The tourism sector expanded modestly in 2018, with stayover arrivals growing by 2.2 percent (although this is below the average growth of 3 percent for the Caribbean as a whole). While the slump in construction activity continued in early 2019, strong growth in stayover arrivals (7.9 percent y-o-y in the first three quarters of the year) contributed to stronger GDP growth. Unemployment has declined somewhat but remains high at 18 percent as of Q2 of 2019. Inflation picked up to 2.2 percent in 2018, driven by higher food and fuel prices, but has subsequently moderated to 1.6 percent in the first half of 2019.

5. Prolonged bank de-leveraging remains a significant headwind to private sector activity amidst an increasing fragmentation of the domestic credit market. Total bank credit to the private sector shrank for the sixth consecutive year. The contraction is driven by banks' more conservative lending practices and their efforts to resolve legacy NPLs (which have more than halved from the 2013-peak to about 9 percent). This has led to greater competition for the higher quality projects, compressing lending margins and increasing banks' reliance on non-interest income from fees, charges and overseas security investments. Increasingly, borrowers that are unable to access bank credit are turning to non-bank financing, most notably credit unions (where the annual growth of lending is around 10 percent) and the fast-expanding micro-lenders.[2]

St. Lucia: Private Sector Credit Growth
(Resident credit, percent)



6. The fiscal position has improved in recent years, reflecting prudent fiscal policies and revenues from the citizenship-by-investment program (CIP). The primary fiscal surplus rose to 2.1 percent of GDP in 2018 and is projected to be broadly balanced in 2019. However, the overall deficit remains large due to interest payments. CIP applications grew strongly in 2018, generating 1.3 percent of GDP in budget revenues, but have declined sharply in 2019. The recently concluded

[2] Micro-lenders provide typically short-term and small-value uncollateralized credit (up to EC$50 thousand). Over a three-year period through end-2017, the total value of disbursed loans grew by nearly 50 percent to EC$78 million.

tri-annual wage negotiations between the government and public sector unions have resulted in additional salary expenditures of 0.5 percent of GDP in 2019 due to retroactive wages increases. Under the terms of the agreement, wages for 2020-21 are set to rise only modestly and the public sector wage bill is expected to stabilize around 7¼ percent of GDP, below the average of 9 percent of GDP in 2010–15.

7. Construction of large infrastructure projects is about to commence. At a cost of US$175 million (9 percent of GDP), a new airport terminal will replace the existing outdated facility. The project is funded through government-guaranteed loans from Taiwan Province of China and from local and regional banks. Since January 2018 the government has been collecting a US$35 airport development tax per airport arrival (estimated to yield revenue of 0.7 percent of GDP annually) to repay these loans. Other planned public investment projects include a US$42 million (2.2 percent of GDP) road improvement program and hospital rehabilitations (1.6 percent of GDP), mostly financed by semi-concessional loans.

8. Preliminary data suggest an increase in the current account surplus to 2.3 percent of GDP in 2018 with an increase in tourism receipts more than offsetting higher imports.[3] In part, the strength in tourism revenues has reflected St. Lucia's increased share in the ECCU tourism market as several countries in the currency union were recovering from the 2017 hurricanes. The overall external position in 2018 is assessed to be broadly consistent with the level implied by fundamentals and desirable policies (Annex II). Nonetheless, St. Lucia still has considerable competitiveness challenges, particularly in its non-tourism sector, where the main impediments stem from a poor business environment, skills mismatches in the labor market, and misalignments between wages and labor productivity. Imputed reserves at the Eastern Caribbean Central Bank (ECCB) correspond to 3.4 months of imports in 2018 and is projected to remain above 3 months of imports in 2019.

C. Outlook and Risks

9. The short-term outlook is favorable, but long-run growth continues to be impeded by important structural weaknesses. Growth in 2019 is projected to pick up to 1.5 percent, thanks to strong growth in tourist arrivals. The current account surplus is projected to rise to around 3 percent of GDP. Import-intensive infrastructure projects will provide a substantial boost to growth in 2020-22 but will push public debt to 74 percent of GDP by 2023 and weaken the external position. However, without greater private sector investment into hotel expansions, the additional capacity from the new airport may remain underutilized, diluting the impact of this investment on long-run potential growth.

10. Risks are to the downside (Annex III). External downside risks include sharp rises in global risk premia, higher energy prices and a deeper-than-expected slowdown in major source markets for tourism (the U.S., Canada and the U.K., see Figure 2). A drying up of CIP revenues would pose

[3] Based on the official ECCB external sector statistics which was released after the 2019 ECCU Discussion of Common Policies, in which staff estimated the 2018 current account balance for St. Lucia to be 3 percent of GDP.

additional challenges to public finances. There are also macro-financial risks related to weaknesses in the AML/CFT frameworks, compliance with international tax rules, slow progress in addressing financial sector weaknesses, and a further loss of Correspondent Banking Relationships (CBRs). Natural disasters constitute an ever-present risk to both growth and the fiscal outlook. On the other hand, there is an upside that infrastructure investment could catalyze a greater-than-expected expansion of the tourism sector and related activities.

Authorities' Views

11. The authorities broadly agreed with staff's growth outlook and risk assessment. They anticipate growth to average around 3 percent over 2020-22, driven by major public investment projects, and inflation to rise modestly. Whereas activity in the construction sector is to pick up sharply, growth in the hospitality sector is expected to moderate due to capacity constraints. They believed that the airport and road renovation projects, once completed, would lead to further expansion of the hospitality sector and catalyze other domestic private investment. While the current account surplus is expected to remain strong in 2019, the authorities acknowledged that the current account balance will decline over the medium term as construction-related imports pick up. While agreeing with the thrust of staff's risk assessment, the authorities stressed that a further slowdown in advanced economies would have limited impact on St. Lucia's tourism industry as it serves a very resilient segment of the market, namely upscale and romance tourism.

POLICY DISCUSSIONS

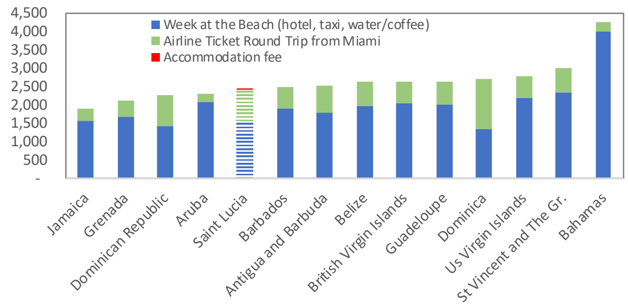
A. Rebuilding Policy Space

12. A coherent and credible medium-term adjustment strategy is needed to rebuild policy space and ensure that debt declines smoothly to the regional target of 60 percent of GDP by 2030. Notwithstanding the projected growth benefits from infrastructure investment, debt vulnerabilities are elevated and under current policies public debt does not stabilize in the near term (Annex IV). Moreover, the elevated level of public debt limits the policy space to react to adverse shocks. Finally, the need to build ex-ante resilience to natural disasters further exacerbates public finance pressures.

13. A medium-term adjustment strategy should be built around three main pillars. First, the government should maximize the revenue potential of planned reforms and develop new revenue sources. Second, public spending on resilience should be increased, financed by additional revenue sources and/or grant financing. Third, a clear institutional fiscal responsibility framework, including a fiscal rule, should be adopted to guide the pace and composition of the needed medium-term fiscal adjustment.

14. Revenue-enhancing measures should be a key focus in the near term. The government's planned reforms to the personal income tax (PIT) and the residential property tax are expected to be largely revenue neutral in the near term (Box 1). The government also plans to introduce a hotel accommodation fee (estimated to generate annual income of 0.7 percent of GDP) to fund tourism marketing and promotion. However, this fee would be matched by a lower VAT on the hospitality sector to limit the impact on tourist expenses. Staff analysis suggests that even if the fee is fully passed on to tourists, it is unlikely to change St. Lucia's regional ranking on tourist expenses or have a material impact on the number of arrivals given the estimated low-price elasticity of tourists to the region (see Annex V). As such, revenue gains from the hotel accommodation fee should be preserved and not offset with an expansion of VAT preferences. Additional revenue could also be mobilized by eliminating other VAT exemptions (while minimizing the impact on poor and vulnerable households) and by harmonizing tax incentives through regional coordination (see 2019 ECCU Discussion of Common Policies). Restraining current spending, especially on the public sector wage bill, remains a key priority. The plan to introduce the National Health Insurance (NHI) system to provide coverage of basic medical services is in the early stage and needs to be implemented in a fiscally responsible manner.

Week at the Beach *plus* Airfare (in US$)



Source: IMF-W@tB Index (WP/14/229), IMF staff calculations.

Box 1. Fiscal: Major Tax Measures

Measures	Status	Revenue impact	Staff Assessment
Airport Development Tax	Implemented	0.7 percent of GDP	*Revenue is earmarked for repayment of the airport loans. During the grace period of airport loans staff recommends that funds be invested prudently.*
Personal Income Tax Reform	Proposed	Neutral	*The reform aims to enhance progressivity through higher personal allowances and fewer PIT deductions. To further simplify the system and to allow automatic filing staff recommends to remove deductions as much as possible.*
Residential Property Tax	Proposed	Marginal	*The tax is currently being redesigned to improve efficiency and lower administrative requirements. In the long term the tax could yield 0.3 percent of GDP.*
Hotel Accomodation Fee	Proposed	Neutral	*If implemented, the fee is projected to raise additional revenue of 0.7 percent of GDP, yet the government envisages compensating hotels via a lower VAT rate. Staff recommends to minimize any offsetting measures.*
Carbon tax	Recommended by staff	Around 1 percent of GDP	*Introducing a carbon tax can help attain the emission targets and finance much-needed resilience investment.*

15. **Introducing a carbon tax would help achieve debt sustainability and provide critical support for St. Lucia's mitigation efforts.** Staff analysis suggests that a carbon tax of US$50 per ton of CO_2 (EC$135) would raise revenues of around 1 percent of GDP and, together with other adjustment measures, help bring debt to 60 percent of GDP by 2030 (Box 2). By strengthening incentives to shift to renewables, reducing energy consumption, and improving energy efficiency, the tax would also help St. Lucia attain its emission reduction targets under the Paris Agreement (provided that the carbon tax is complemented with renewed efforts to expand renewables which could also help reduce energy costs, see Annex VI). The carbon tax would be moderately regressive

and should be introduced in parallel with targeted assistance to offset the impact on poorer households.[4]

Box 2. Fiscal: Baseline and Adjustment Scenarios

	2019	2020	2021	2022	2023	2024	...	2030
				(In percent of GDP)				
Baseline scenario:								
Real GDP growth	1.5	3.2	3.0	2.4	1.5	1.5	...	1.5
Primary balance (incl. ND) 1/	0.1	-0.3	-0.2	0.3	0.3	0.3	...	0.1
Public sector debt	65.5	69.1	72.6	73.7	74.1	74.1	...	75.4
Adjustment scenario:								
Real GDP growth	1.5	3.2	3.0	2.7	1.8	1.7	...	1.7
Primary balance (incl. ND) 1/	0.1	1.3	1.3	1.7	1.6	1.6	...	1.4
Public sector debt	65.5	67.6	69.4	69.0	67.9	66.3	...	58.0
Adjustment measures:								
Revenue items:								
Accommodation tax	0.0	0.7	0.7	0.7	0.7	0.7	...	0.7
Carbon tax	0.0	1.0	1.0	1.0	1.0	1.0	...	1.0
Grants 3/	0.0	1.0	1.0	1.3	1.3	1.3	...	0.3
Expenditure items:								
Social benefits offset 2/	0.0	0.1	0.1	0.1	0.1	0.1	...	0.1
Capital expenditure	0.0	0.0	0.0	0.5	0.5	0.5	...	0.5
Self-insurance saving fund	0.0	1.0	1.0	1.0	1.0	1.0	...	0.0

Source: IMF staff calculations.
1/ Annualized cost of natural disasters of 0.66 percent of GDP.
2/ Assumes that 10 percent of carbon tax revenues are used to offset negative impact on bottom quintile of households.
3/ It is assumed that grants of 1 percent of GDP received FY2020-FY2024 is used to capitalize self-insurance saving fund.

16. Building ex-ante resilience to natural disasters would enhance St. Lucia's long-term macroeconomic performance. Phasing in resilience building investments could raise near-term growth by 0.2–0.3 percent (for details see 2018 St. Lucia Article IV report). Garnering donor grants, including climate funds, for such investments will be crucial to preserve a downward path for public debt. In addition, building sufficiently large ex-ante financing instruments, including a dedicated self-insurance saving fund (that would be invested in liquid, highly rated, international assets)[5], risk-sharing mechanisms such as insurance products, and pre-arranged credit lines with international financial institutions (IFIs), can help St. Lucia cover the ex-post fiscal costs of natural disasters. Given the large infrastructure spending pressure in the next three years, the self-insurance fund can be

[4] As the poorest 20 percent of households pay (directly or indirectly) only 9.4 percent of the carbon tax revenue of 1 percent of GDP, well-targeted transfers of around 0.1 percent of GDP should be able to fully mitigate the impact of the carbon tax on their living standards.

[5] Staff estimate that a 5 percent of GDP self-insurance fund, together with other existing insurance coverages of 3 percent of GDP, would be sufficient to cover fiscal costs of natural disasters without incurring additional debt with 95-percent probability (2018 Climate Change Policy Assessment).

built over the medium term and possibly financed by greater access to donor grants and/or over-performance of CIP revenues.

17. Adopting a fiscal responsibility framework (FRF) including a fiscal rule would couch the needed consolidation in a clear, medium-term institutional framework. The government plans to link the growth of primary current spending to the debt-to-GDP ratio, anchored by the 60 percent of GDP debt target.[6] A credible and enforceable fiscal rule would help strengthen budget discipline and signal the government's commitment to sound public finances. To be effective, the rule should encompass a comprehensive definition of fiscal activities, including the annual fiscal cost of natural disasters and the lumpy expenditure associated with infrastructure investment. The fiscal framework should also create incentives both to credibly meet the 2030 debt target and to undertake much-needed investments to build resilience.

18. Appropriate institutional and governance arrangements are needed to ensure the flexibility and enforceability of the FRF. Key elements should include:

- Credible escape clauses (in the event of extremely large shocks) and corrective mechanisms defined in the relevant legislation.
- Clear transition provisions that would anchor expenditures even after the debt target has been reached (to avoid a sudden relaxation of the budget constraint once debt is below 60 percent of GDP).
- Supporting institution and governance arrangements that include: (i) robust accounting procedures (for debt, deficits, CIP inflows) and a full recording of public debt and contingent liabilities; (ii) improved fiscal projections; and (iii) effective independent fiscal oversight and accountability (one model could be Grenada's fiscal responsibility oversight committee).

19. Efforts are needed to further strengthen public financial management (PFM). The draft PFM Bill includes comprehensive measures aimed to enhance PFM transparency and accountability, such as strengthening public asset management, setting annual ceilings for public guarantees and government borrowing (including by parastatals), consolidating legislation on public debt, improving financial statements of public institutions, and introducing enforcement mechanisms. There is also a scope to improve the public investment management framework by better aligning public investment to the budget cycle, enhancing project appraisal, and strengthening procurement planning, operations and transparency.

[6] The government is currently discussing with development partners on the modality of the fiscal rule. The rule can be implemented as early as in the 2020 Budget and will set limits on government annual primary current spending depending on the public debt to GDP ratio.

Authorities' Views

20. The authorities noted that the ongoing tax reforms could be revenue enhancing in the long run. The reformed PIT and the new property tax would be easier to administer and could yield efficiency gains over time, while the hotel accommodation fee has the potential to mobilize revenue from the alternative accommodation sector such as Airbnb, which has grown substantially in St. Lucia in recent years without contributing directly to government revenues. The authorities were of the view that a VAT reduction for the hotel industry would be needed to offset the adverse impact on competitiveness. The authorities reaffirmed their commitment to eliminate VAT exemptions and zero-ratings once the social safety system has been reformed. While recently concluded negotiations on retroactive pay will increase the public sector wage bill for the current fiscal year, the authorities emphasized their commitment to restraint on current spending. On carbon taxation, while the authorities recognized its potential benefits for containing carbon emission and raising revenue and they welcomed staff's analysis on the distributional impact, they cautioned that the tax could lead to further increases in the already-high energy costs in St. Lucia. The authorities recognized that the planned NHI system needs to be implemented in a fiscally responsible manner. As such, the authorities are considering a phased approach under which the services included in the NHI package will be contingent on the financing that can be made available.

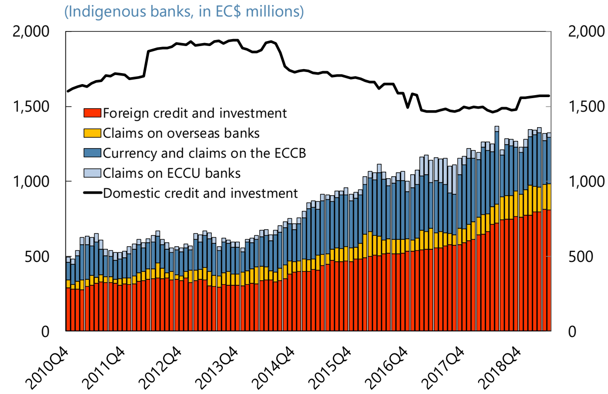
21. The authorities are actively considering the introduction of a fiscal rule to guide public expenditure in pursuance of the 60 percent debt-to-GDP target. They emphasized that the fiscal rule should allow for a smooth expenditure path and avoid sharp adjustments to spending. They acknowledged the need to embed the fiscal rule into a broader fiscal responsibility framework, including escape clauses and a strong PFM framework. They also expressed hope that the fiscal rule will signal the government's commitment to fiscal responsibility and therefore could reduce government borrowing costs. On climate financing, the authorities reported continuing challenges in accessing climate funds, and indicated that they would like to explore alternative financing mechanisms such as a dedicated infrastructure investment foundation with contributions from donors and the private sector. The authorities noted that that the primary purpose of the planned National Economic Fund, which is to be funded from CIP revenues, would be investment into development projects, with a small share potentially serving as a self-insurance fund against natural disasters. The authorities remained committed to fiscal structural reforms including further improving public investment management framework and introducing a new PFM Bill aimed to enhance transparency, accountability and efficiency of public financial management.

B. Strengthening Financial Sector Balance Sheets and Financial Intermediation

22. Legacy asset quality weaknesses continue to weigh on bank balance sheets. NPLs remain well above the ECCB's 5 percent benchmark and comprise largely of long overdue exposures that are likely to be challenging to recover. Loan portfolios remain sensitive to renewed stress (the stock of impaired loans in indigenous banks' audited financial statements are nearly twice their NPLs). Banks' efforts to strengthen their balance sheets should therefore continue, including resolving NPLs through sales of troubled assets to the Eastern Caribbean Asset Management Company (ECAMC) or fully provisioning as required by regulation. The pending introduction of the new ECCB prudential standard on provisioning should give further impetus to loss recognition, although would likely reverse the recent improvement in indigenous banks' capital adequacy ratios (Figure 4).[7]

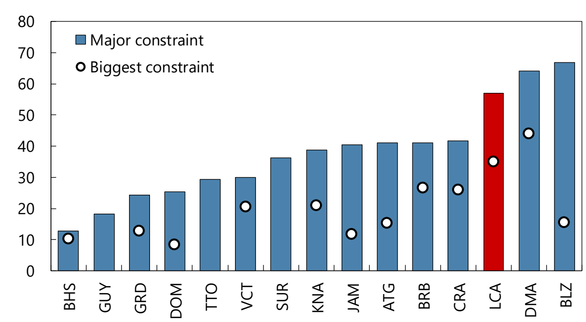
23. Indigenous banks' risk profiles are changing as they increase their exposure to foreign investments. The banking system benefits from an abundant but relatively costly local deposit base (about 43 percent of the value of deposits is subject to the minimum saving deposit rate, or MSR). Faced with limited local investment opportunities, indigenous banks have increased their overseas security exposures, particularly through investments in corporate debt. Such investments now account for about one quarter of total assets and more than twice total regulatory capital. This leaves the local banks exposed to mark-to-market losses (e.g. if global market conditions deteriorate and risk premia rise). The 2019 ECCU Discussion of Common Policies discusses the need to strengthen supervision of market risk, including attuning bank stress testing exercises to mark-to-market losses on overseas investments.

Bank Credit, Investment and Liquid Claims
(Indigenous banks, in EC$ millions)



24. Long-standing structural impediments contribute to a sustained weakness in private business credit growth. St. Lucia's private sector comprises mostly small businesses with limited access to bank loans or lines of credit. Anecdotal information suggests that many have turned to alternative, often less affordable, non-bank financing sources. The inability of these smaller borrowers to access traditional bank financing has been exacerbated by structural credit market rigidities that include:

Caribbean: Access to Credit as Major Constraint
(Percent of firms, 2010)



Source: 2017 World Bank Entreprise Survey and staff calculations.

- Outdated foreclosure and insolvency legislation that increase banks' risk aversion and lead to strict loan approval requirements.[8]

---

[7] The new provisioning regulations, expected to be phased in over 2020-22, would significantly limit banks' ability to take into account the value of collateral for loans that are overdue by more than a year.

[8] The current legislations impede efficient settlement of insolvency, add substantial time and cost to realizing the loan collateral, and limit borrowers' ability and incentives to seek a restructuring.

- Banks' ongoing efforts to mitigate and resolve NPLs;
- The absence of a credit bureau and registry, which creates information asymmetries about borrower risk that are exacerbated by lack of information sharing across lending institutions;
- A shortage of acceptable collateral that is largely limited to fixed assets (real estate or land);
- The regional MSR (currently set at 2 percent) that distorts the cost of local funding and contributes to an uneven competitive playing field between indigenous and foreign banks.

25. Improving the efficiency of financial intermediation would have an important positive effect on private investment and growth. The authorities are at an advanced stage toward adopting the harmonized legislation to support establishment of the regional credit bureau and registry. Supported by technical assistance from development partners, they are also making progress on modernizing the insolvency legislation and introducing a new legal framework and on-line registry to facilitate the use of movable property as loan collateral. Renewed focus is needed to move forward with legislative changes to address weaknesses in the current court-driven and costly foreclosure process. The 2019 ECCU Discussion of Common Policies called for phasing out the MSR and address its social function through fiscal policies.

26. The rapidly increasing size of the credit union sector warrants a more assertive approach to regulation and supervision. The locally supervised sector has, on aggregate, sizeable capital and liquidity buffers. However, the prolonged rapid credit growth, looser lending standards and persistently high loan delinquencies increase its vulnerability to shocks, while intensifying competition is beginning to weigh on profitability (see Annex VII). The operating environment is becoming increasingly challenging for smaller credit unions with existing prudential weaknesses and capacity limitations in meeting evolving compliance and accounting requirements. Direct cross-exposures between credit unions and the rest of the financial sector appear limited, but the sector's macro-financial significance is increasing, and disruptive shocks could have confidence effects. Modernizing the national regulatory framework through adoption of the regionally harmonized Co-Operative Societies Bill remains a legislative priority. There is also a need to strengthen the sector's prudential oversight including through regular stress-testing, timely enforcement of prudential standards, resolution frameworks and crisis management processes. It is important that the capacity of the national supervisor (Financial Services Regulatory Authority, or FSRA) keeps apace with the sector's rising importance, as well as developments of other nonbank financial institutions including micro-lenders and broker dealers.

27. Indigenous banks have avoided major CBR disruptions, but the risks remain significant. The associated cost pressures from international banks exiting the correspondent banking business in the region have stabilized following a sizeable increase in fees in prior years. However, some banks remain hindered in offering certain client services and the active correspondents remain relatively thin and concentrated in a few institutions, underscoring the banking system's reliance on few foreign institutions' willingness to maintain their exposure to the region.[9] Even as AML/CFT supervision of commercial banks is transferred to the ECCB, it will be key for St. Lucia to remain compliant with international standards, including by strengthening the overall AML/CFT supervisory framework and enhancing the respondent institutions' capacity to effectively manage risks. The authorities are in the midst of the Caribbean Financial Action Task Force mutual evaluation, with a final report expected in May 2020.

Authorities' Views

28. The authorities broadly shared staff's assessment of the legacy and the emerging financial sector risks. They noted the tightening competitive environment in the domestic banking sector, and the need to monitor risks associated with banks' rising overseas exposures as well as rapid non-bank domestic credit growth. They remained committed to completing the legislative initiatives to address credit market rigidities, where delays largely reflected thorough stakeholder consultations and capacity constraints. They were also mindful of rising risks in the non-bank financial sector, including pressures on smaller credit unions' capacity to keep up with the evolving competitive landscape and regulatory requirements. The expected adoption of the harmonized Co-operative Societies Bill should help ensure adequacy of prudential buffers, but the authorities acknowledged this should be accompanied by further strengthening of FSRA's supervisory capacity. While the imminent threat to indigenous banks' CBRs has eased, the authorities saw a need for a more sustainable longer-term solution to mitigate the associated risks, which could involve a regional function to strengthen AML/CFT compliance and reduce compliance costs. They also noted their continued commitment to meet the relevant international standards, including on taxation rules and practices.

C. Supporting Resilient, Sustainable Growth

29. St. Lucia is committed to further enhancing resilience to climate change and natural disasters. Commendable progress has been made in implementing the recommendations of the 2018 CCPA, particularly in the areas of updating the national and sectoral adaptation plans, formulating a climate financing strategy and mobilizing resources from the global climate funds (Annex VIII). To address the remaining gaps in the climate adaptation and mitigation strategy, further efforts are needed in the active costing of climate projects, improving public financial management of climate financing and outlays, and mobilizing private investment for mitigation and adaptation. The ongoing PFM reforms should be accompanied by capacity development to ensure that climate-related investments can be systematically identified, costed, procured and evaluated.

30. Targeted reforms are needed to address supply-side impediments to private investment. According to the 2020 *Doing Business* indicators, St. Lucia ranks relatively low on the

[9] The continued divestment by global financial groups adds to concerns about CBR losses. The three foreign branches of Canadian banks made up roughly one half of St. Lucia's total banking sector assets but have all decided to exit the Caribbean markets. The operations of Scotiabank were acquired by the Trinidad-based Republic Financial Holdings Limited in late 2019. First Caribbean International Bank announced the sale of its ECCU operations to a Colombian investor in November 2019, and Royal Bank of Canada announced the sale of its banking operations to a consortium of indigenous banks in December 2019.

availability of credit, the ability to resolve insolvency, and on registering property. The country's overall ranking has deteriorated since 2016. Implementation of new technologies can help address these challenges by modernizing land registry operations and facilitating greater online delivery of government services. An accelerated transition to renewable energy will help reduce the high electricity costs and the country's vulnerability to oil price shocks. Achieving greater investment in renewables would require putting in place a more favorable regulatory framework (including by relaxing the existing cap on solar energy production).

31. A persistent skills gap argues for reforms to the education system. Skill mismatches in the labor market, especially in the tourism sector which accounts for nearly one half of employment, have been a long-standing impediment to labor productivity growth. Increasing enrollment in technical and vocational education and training (TVET) could help address this challenge. A more timely assessment of labor market needs would help guide TVET offerings. In addition, containing public sector wage growth will be key to narrowing the misalignment between wages and labor productivity since the public sector wage-setting process has an important effect on private sector wages.

32. Greater diversification can play an important role in providing buffers against external shocks and the seasonal nature of tourism. St. Lucia's exports as a share of GDP have been declining steadily since 2010, and the country ranks among the least diversified in the region. Further diversifying the economy toward higher-value exports such as business ICT, agro-processing and creative industries would require better education and improved transportation infrastructure. Greater diversification within the tourism sector (including by increasing local content in the tourism supply chain and re-pivoting the country's package-based tourism market to more diversified products such as wellness tourism, ecotourism and city tours for cruise passengers) could also help boost growth.

33. Continued efforts are needed to improve data quality. While data provision is broadly adequate for surveillance, the lack of historical data on the external sector based on BPM6 and frequent revisions to the historical data pose challenges to macroeconomic analysis and need to be addressed with continued technical assistance from development partners and more resources for capacity development.

Authorities' Views

34. The authorities remained committed to implementing the national Climate Change Adaption Policy. Resilience to natural disasters is an important aspect of public investment and is embedded in the planned infrastructure projects. Progress has been made to update the national and sectoral adaptation plans, prepare a climate finance strategy to match investment priorities to potential funding sources, and formulate a country program with the Green Climate Fund to unlock financing. They also underscored the importance of continued donor support including technical assistance on capacity development and access to concessional financing.

35. The authorities agreed that structural reforms are needed to boost St. Lucia's productivity and competitiveness. Efforts to improve the business environment for private initiatives are under way, including through greater use of online delivery of government services and implementation of new technologies. The ongoing labor market assessment will help the formulation of a strategy to address skill mismatches and youth unemployment. In this regard, greater intra-regional labor mobility can also help reduce labor market rigidities. The authorities recognized that energy costs are high in St. Lucia but removing the cap on solar electricity production would require legislative changes.

36. The authorities acknowledged the benefits from greater economic diversification including in the tourism sector. Implementation of the Village Tourism program would spur the local economy while preserving St. Lucia's high-end destination quality, and re-development of the Castries downtown area can help transform the area into a tourist attraction. Further development of wellness tourism and ecotourism also has the potential to increase local content in the tourism supply chain. In addition, the authorities saw potential to expand the ICT and agro-processing sectors to meet the demand of a growing tourism sector. On the other hand, some fiscal subsidies are needed to support the development of the manufacturing sector and SMEs given their competitiveness challenges.

STAFF APPRAISAL

37. St. Lucia's near-term growth prospects are favorable, but policy adjustments will be needed to strengthen longer-term growth. The commencement of large public infrastructure projects is expected to substantially boost growth in 2020-22 but will raise public debt and weaken the external position. However, a deeper-than-expected slowdown in major source markets for tourism, energy price shocks, disruptions to global financial markets, and loss of CBR all represent downside risks. St. Lucia's high vulnerability to natural disasters constitutes an ever-present risk to both growth and the fiscal outlook. Longer-term growth continues to be impeded by the high public debt, lingering vulnerabilities in the financial system, and structural impediments to private investment. On the other hand, there is an upside that infrastructure investment could catalyze a greater-than-expected expansion of the tourism sector and related activities. While the overall external position is assessed to be broadly consistent with the level implied by fundamentals and desirable policies, St. Lucia still has considerable competitiveness challenges, particularly in its non-tourism sector, that need to be addressed.

38. Fiscal policies should be geared toward rebuilding policy space and ensuring public debt converges to the regional target of 60 percent of GDP by 2030. The debt-financed infrastructure investments, despite being on semi-concessional terms with long-run repayment largely covered by dedicated revenue streams, will move public debt further away from the regional target. The need to invest in climate resilience and the uncertainty over future CIP revenues pose additional challenges to public finances. Without policy adjustments, debt vulnerabilities are elevated, and public debt does not stabilize over the near term.

39. The government's near-term focus should be on revenue-enhancing measures and investments that build resilience to climate related shocks. In addition to limiting current spending growth (particularly the public wage bill), additional revenues should be mobilized from the proposed hotel accommodation fee, the introduction of a carbon tax, and reducing the scope of VAT exemptions. Since some of these measures will likely be regressive, they should be introduced in parallel with targeted transfers that offset the impact on poor and vulnerable households. The National Health Insurance system should also be introduced in a fiscally responsible manner. Concerted efforts are also needed to mobilize donor grants to fund investments in climate resilience. If there is over-performance of the CIP, or of other revenue sources, it should be directed toward financing a self-insurance fund to bolster the economy's resilience against natural disasters.

40. A fiscal rule would help anchor fiscal policy over the medium term and support consolidation efforts. To be effective, the fiscal rule should encompass a comprehensive definition of fiscal activities, including the fiscal costs of natural disasters and the lumpy expenditure associated with infrastructure investment, and should be part of a broader fiscal responsibility framework that embeds appropriate institutional and governance arrangements to ensure both the appropriate degree of flexibility as well as enforceability of the fiscal rule. The fiscal rule will also need to be carefully calibrated to strike the balance between credibly meeting the debt target over the medium-term and providing space for much-needed spending to build resilience.

41. To support private sector investment, measures are needed to address constraints on financial intermediation. There is scope to improve credit market efficiency by modernizing foreclosure and insolvency legislation, establishing a regional credit bureau and registry, and taking steps to allow for the greater use of movable property as loan collateral.

42. Emerging financial sector risks warrant a more assertive approach to regulation and supervision. The banks' rising allocation of their assets to overseas debt securities has supported bank profitability but may also expose the sector to losses if global financial market conditions deteriorate or risk premia rise. The rapid expansion of credit unions has increased the sector's macro-financial significance that warrants stronger oversight. The swift adoption of the Harmonized Co-operative Societies Act, combined with a strengthening of supervisory oversight of the non-bank financial sector, remain key policy priorities. In addition, continued efforts are needed to satisfy international taxation and AML/CFT standards.

43. Efforts are needed to further enhance resilience to climate change and natural disasters. Progress has been made in implementing recommendations of the CCPA. Key measures to address the remaining institutional, financing and capacity gaps include the active costing of climate projects, improving public financial management of climate financing and outlays, mobilizing private investment in mitigation and adaptation and strengthening capacity in managing climate-related investments.

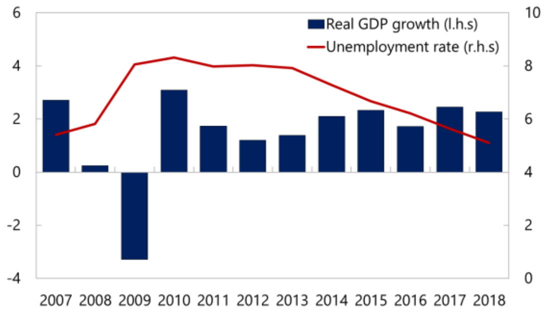
44. Decisive and targeted reforms are needed to address supply-side impediments to long-term growth. Enhancing productivity will require a better alignment of the education system with labor market needs. There is scope to improve the business environment by enhancing access to credit and reducing electricity costs, further diversifying the economy toward higher-value exports, and increasing local content in the tourism supply chain.

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

Figure 1. St. Lucia: Recent Developments

Robust growth and buoyant labor markets in advanced economies…

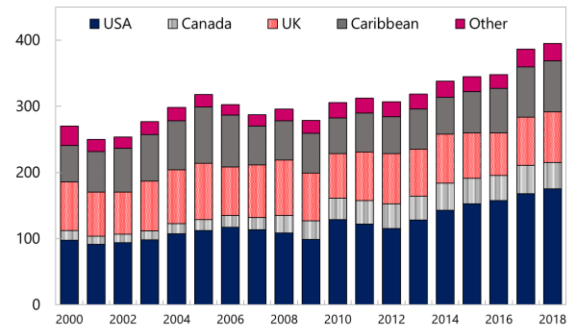
Advanced Economies: Growth and Unemployment
(In percent)



Source: World Economic Outlook (WEO) database.

…have boosted tourism demand for St. Lucia.

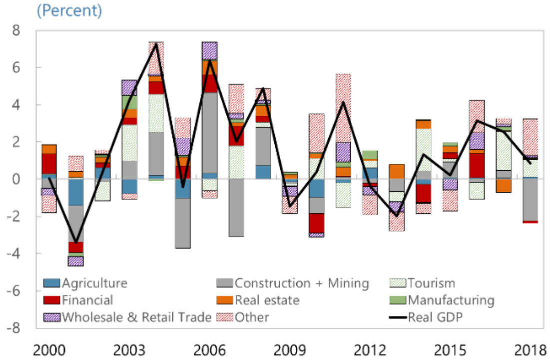
Tourist Arrivals
(In thousands)



Source: ECCB.

However real GDP growth remained subdued…

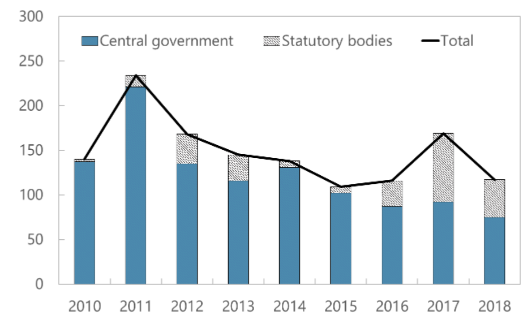
Real GDP Growth
(Percent)



Sources: ECCB; and IMF staff estimates.

…amid a decline in construction activity.

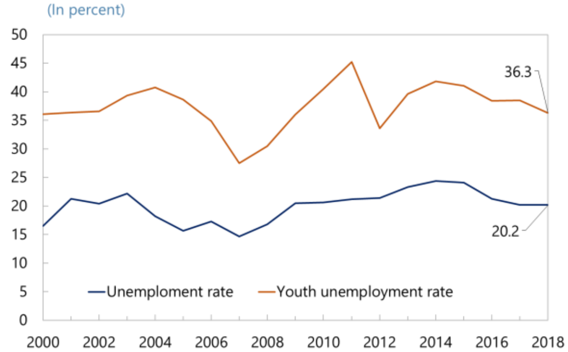
Public sector construction expenditure
(In millions of EC$)



Sources: Social and Economic Review 2018, Ministry of Finance.

Meanwhile, unemployment remains high.

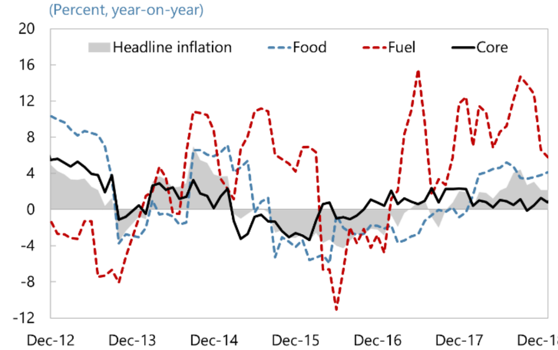
Unemployment Rates
(In percent)



Sources: Country Authorities.

Inflation has picked up on the back of higher fuel and food prices.

CPI and its Components
(Percent, year-on-year)



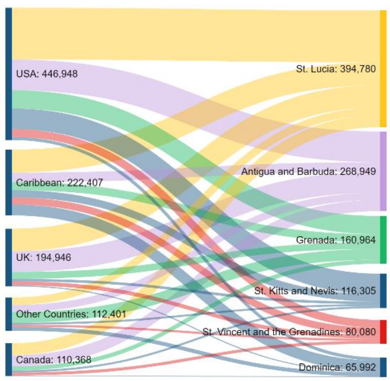
Sources: ECCB; and IMF Staff Estimates.

Figure 2. St. Lucia: External Sector Developments

St. Lucia is the main tourist destination across ECCU countries, and the U.S. is its principal source market.

ECCU Countries - Stay-Over Tourist Flows

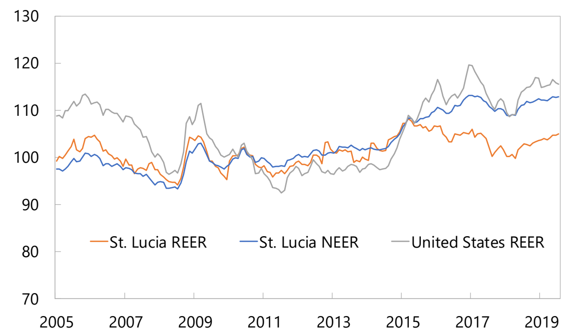
(by source/



Since mid-2018, the REER appreciated by 5 percent, owing to an appreciation of the U.S. dollar.

Nominal and Real Effective Exchange Rates

(Indexes, 2010= 100)

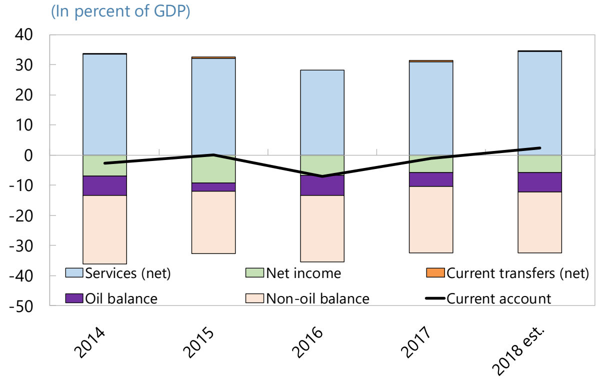


Source: Fund staff calculations.

The current account balance turned positive in 2018, with robust tourism and CIP inflows offsetting the effect of higher oil prices…

Current Account Balance

(In percent of GDP)

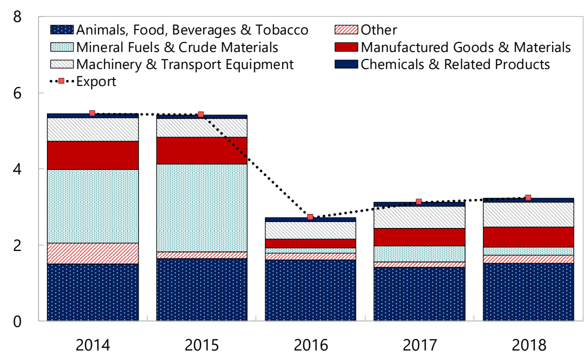


Sources: Country Authorities; and IMF Staff Estimates.

…and weaker goods exports…

Goods Export Decomposition

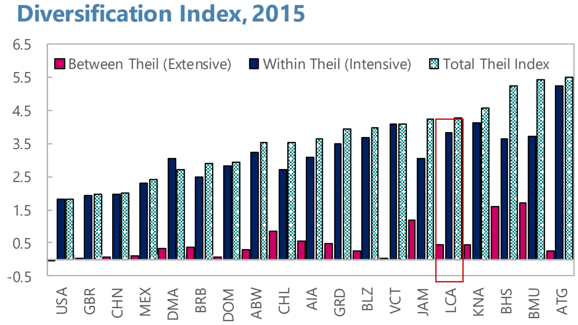
(Percent of GDP)



Sources: St. Lucia authorities and Fund staff calculations.

…reflecting weak diversification of the St. Lucian economy compared to other countries in the region.

Diversification Index, 2015

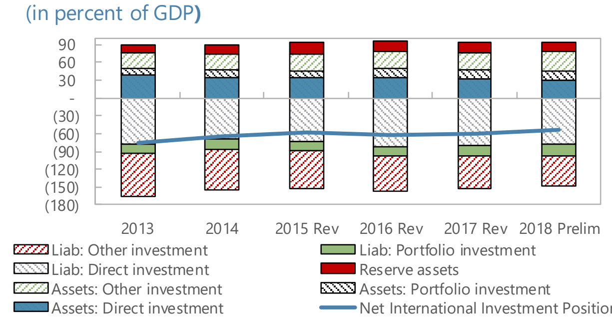


Source: IMF Diversification Index (https://www.imf.org/external/np/res/dfidimf/diversification.htm),IMF staff calculations.

The NFA position improved since 2013, driven by shrinking Other Investment liabilities.

St. Lucia: NIIP

(in percent of GDP)

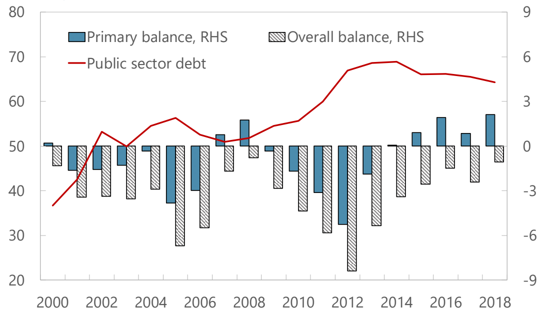


Source: ECCB and IMF staff calculations.

Figure 3. St. Lucia: Fiscal Sector Developments

Primary surpluses over the last five years contributed to the slight decline in the debt-to-GDP ratio…

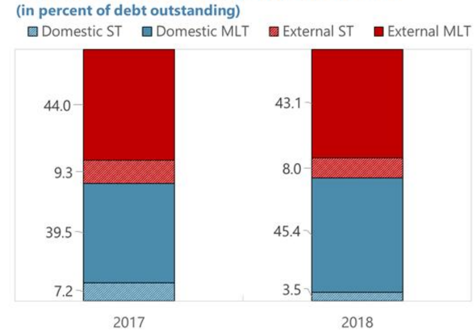
Fiscal balances and public debt
(in percent of GDP)



Source: Country authorities.

…and the share of short-term debt has been reduced.

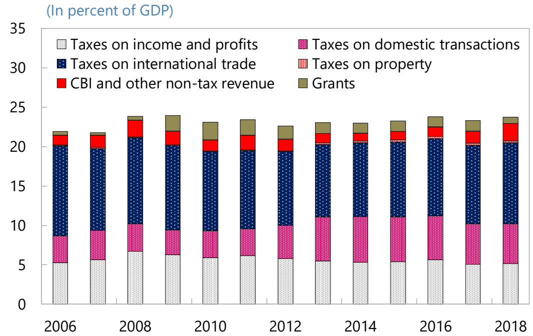
Composition of central government debt
(in percent of debt outstanding)



Source: Country authorities. ST=short-term, MLT=medium and long-term.

High CIP revenue was a positive development on the revenue side.

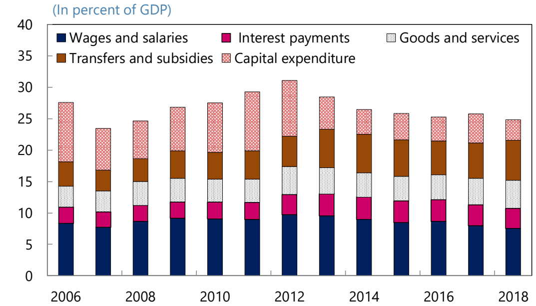
Revenue Composition
(In percent of GDP)



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

While wage bill growth has been contained, interest costs continue to weigh on the budget

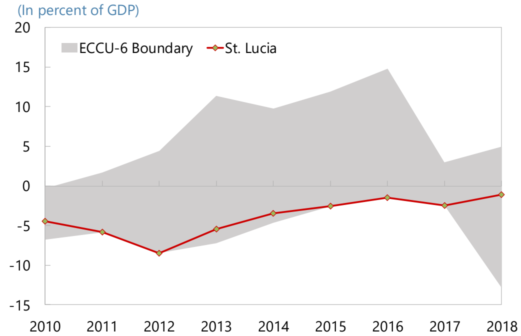
Expenditure Decomposition
(In percent of GDP)



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

Over the last decade fiscal deficits in St. Lucia were larger than in other ECCU countries…

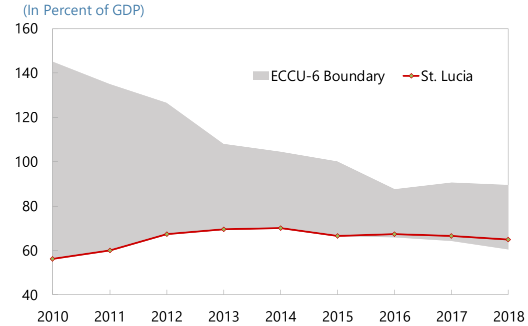
Fiscal Overall Balance
(In percent of GDP)



Source: National authorities and IMF staff calculations.

…and the country no longer boasts the lowest debt ratio in the region.

Public Debt
(In Percent of GDP)

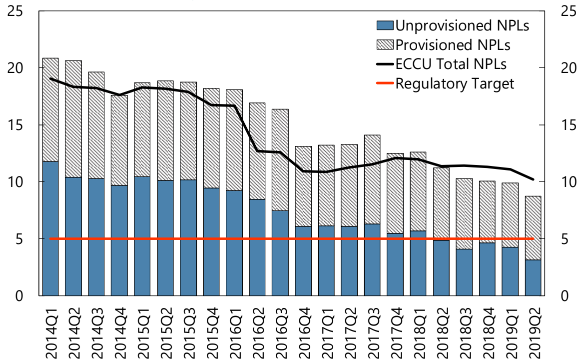


Source: National authorities and IMF staff calculations.

Figure 4. St. Lucia: Banking System Developments

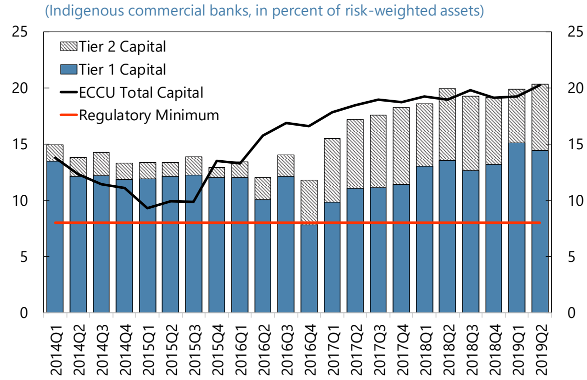
Despite gradual progress in their resolution, NPLs in commercial banks remain elevated.

NPLs and Loan-loss Provisions
(Commercial banks, in percent of total loans)



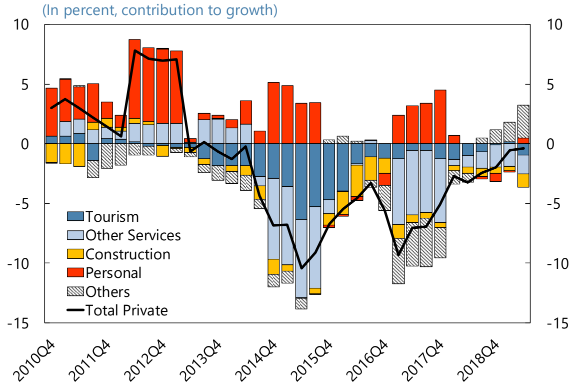
The indigenous banks' capital buffers have converged toward the ECCU average.

Capital Adequacy Indicators
(Indigenous commercial banks, in percent of risk-weighted assets)



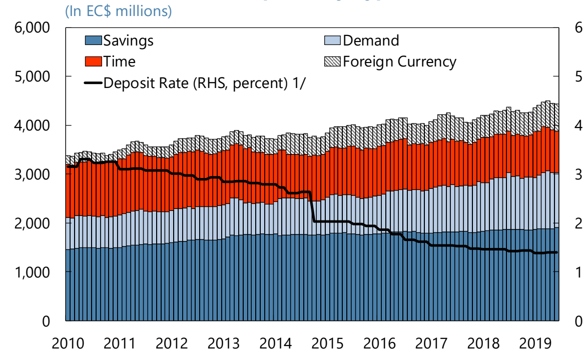
Banks continue to deleverage their exposure in the local economy, particularly in business credit …

Commercial Bank Private Credit by Economic Activity
(In percent, contribution to growth)



… while their deposit-based funding continues to grow, even as average deposit rates decline.

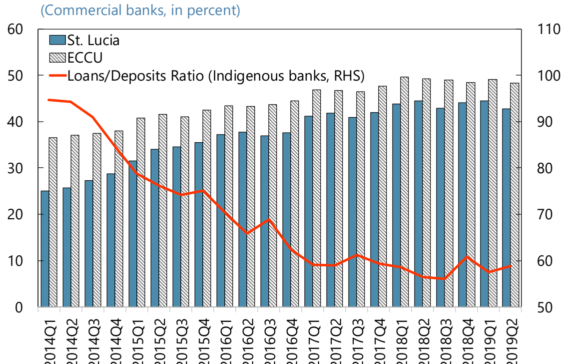
Commercial Bank Deposits by Type
(In EC$ millions)



1/ Weighted average interest rate of all deposit types.

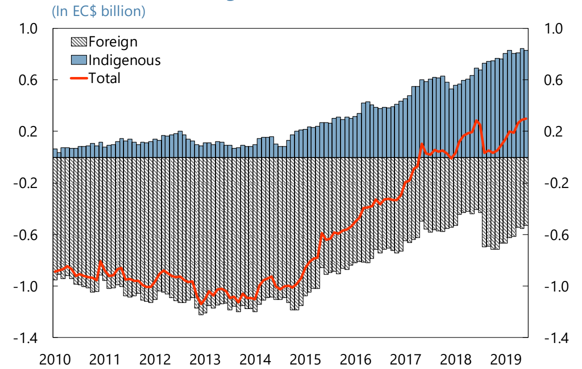
Banks have consequently accumulated sizeable liquidity buffers …

Liquid Assets to Liquid Liabilities and Deposits
(Commercial banks, in percent)



… that are increasingly held in assets abroad, leading to a shift in the sector's net foreign asset position.

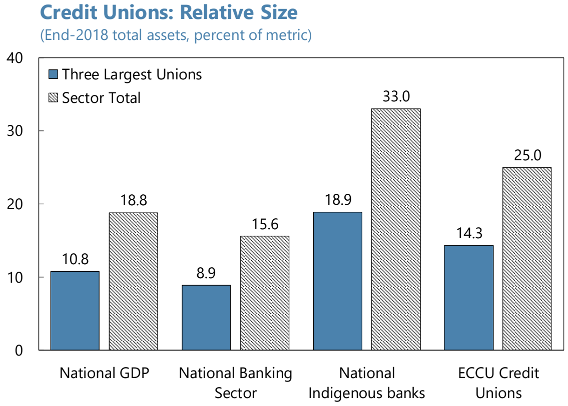
St. Lucia: Net Foreign Assets of Commercial Banks
(In EC$ billion)



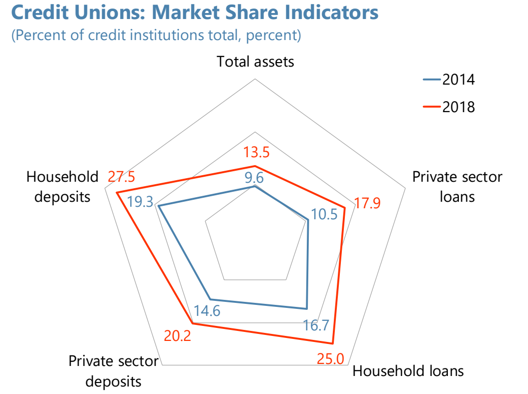
Sources: Financial Stability Indicators, ECCB Monetary Surveys, IMF staff calculations.

Figure 5. St. Lucia: Credit Union Sector Developments

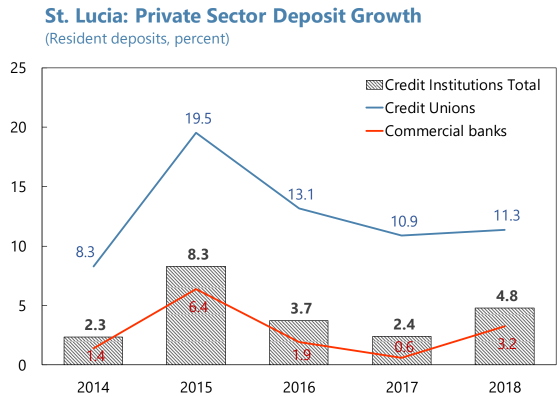
St. Lucia's credit union sector is the largest in the ECCU …



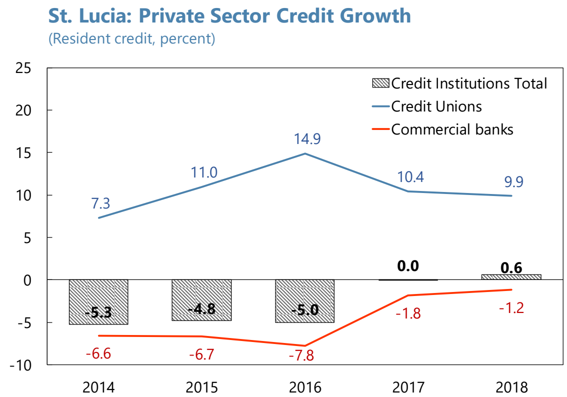
… and its significance in the domestic financial system continues to increase rapidly.



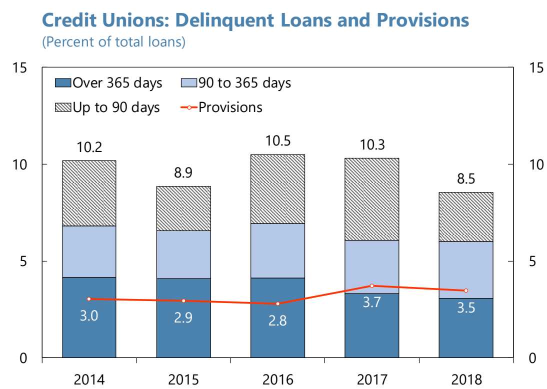
Credit union private deposit growth continues to outpace commercial banks …



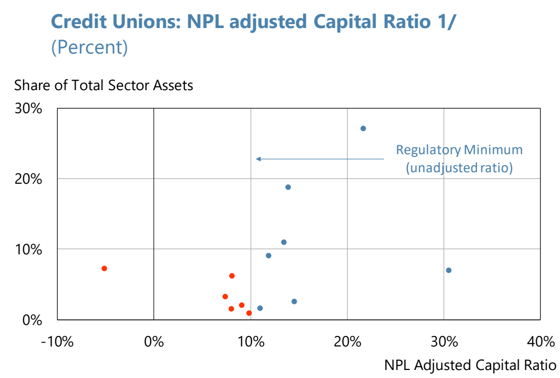
… and their membership-based lending activities has softened the impact of commercial bank deleveraging.



Persistently elevated loan delinquencies amidst rapid loan growth warrant strengthened credit risk monitoring.



While on aggregate well capitalized, some smaller unions display prudential weaknesses.



1/ Ratio of insitutional capital less unprovisioned NPLs to (unweighted) total assets.

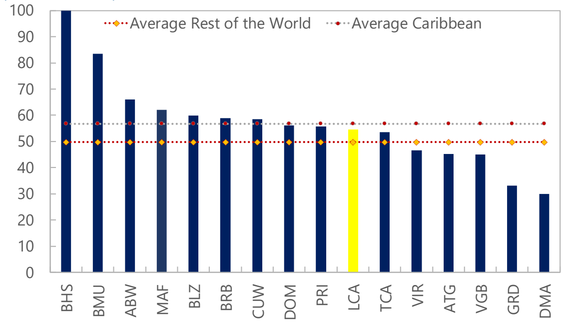
Sources: St. Lucia FSRA, ECCB Monetary Surveys, IMF staff calculations.

Figure 6. St. Lucia: External Competitiveness and Structural Weaknesses

While St. Lucia is a competitive tourist destination in the region…

Week at the Beach Index, 2019

(Bahamas = 100)

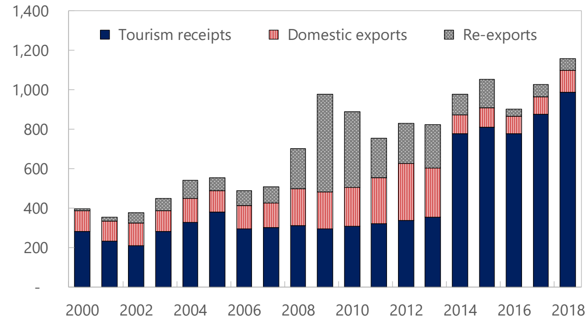


Sources: IMF Staff Calculations.
Note: 12-month moving average. Data as of April 2019.

…structural constraints are more tangible in other sectors, such as goods exports.

Tourism vs. other Exports

(In millions of USD)

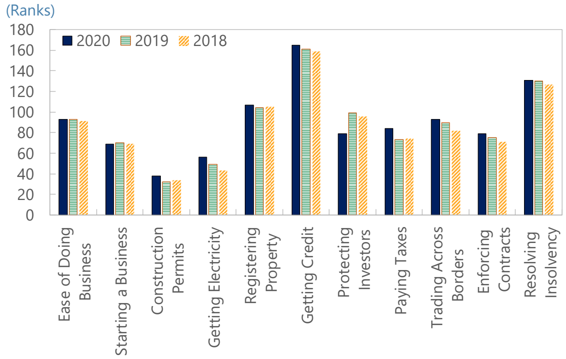


Source: ECCB and IMF staff calculations.
Note: New methodology was used to compile tourism data after 2013.

St. Lucia's Doing Business indicators suggest weaknesses on getting credit, resolving insolvency and registering property sub-components…

Doing Business Indicators, 2018-2020

(Ranks)

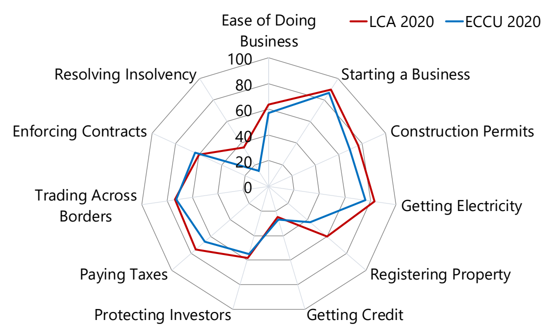


Sources: Doing Business 2020, World Bank database.

…which are common challenges for the ECCU region.

Key Doing Business Indicators, 2020

(Score is reflected on a scale from 0-100, where 100 shows the best performance)

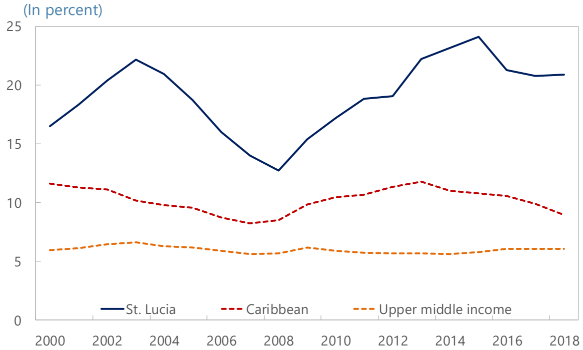


Source: World Bank, Doing Business Indicators.

Skills mismatches represent an additional constraint, contributing to persistent high unemployment rate…

Unemployment Comparison, 2018

(In percent)

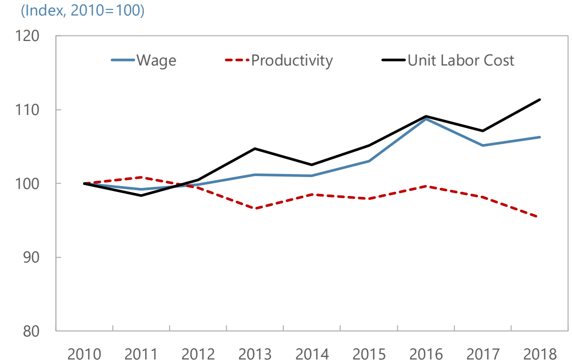


Source: World Bank Database.

…while salaries have been growing faster than labor productivity, further eroding competitiveness.

Wage, Productivity and Unit Labor Cost

(Index, 2010=100)



Source: National authorities and IMF staff calculations.

Table 1. St. Lucia: Selected Social and Economic Indicators, 2015–24

I. Social and Demographic Indicators

Area (sq. km)	616	Infant mortality (per thous. live births, 2018)	14.9
		Human Development Index ranking (of 189 countries, 2018)	89
Population Characteristics			
Total (2018)	178,696	Gross Domestic Product (2018)	
Rate of growth (average 2011-2018)	0.9	(millions of US dollars)	1,922
Population density (per sq. km., 2018)	290.1	(millions of EC dollars)	5,189
Net migration rate (per thousand, 2018)	0	(US$ per capita)	10,755
Secondary education enrolment (percent, 2018)	90	Gross National Income per Capita (US$, 2018)	10,126
Life expectancy at birth (years, 2018)	76.1		

II. Economic and Financial Indicators

					Projections					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	(Annual percentage change, unless otherwise specified)									
Output and prices										
Real GDP (at market prices)	0.2	3.2	2.6	0.9	1.5	3.2	3.0	2.4	1.5	1.5
Real GDP (at factor cost)	2.0	1.3	2.4	0.6	1.5	3.2	3.0	2.4	1.5	1.5
Consumer prices, end of period	-2.6	-2.8	2.0	2.2	2.1	2.2	2.0	2.0	2.0	2.0
Output gap (percent of potential GDP)	-1.4	0.2	0.9	-0.2	-0.9	-0.1	0.5	0.7	0.2	0.0
Unemployment rate (% annual average)	24.1	21.3	20.2	20.2	...	...	...	...	...	...
Real effective exchange rate										
(annual average, depreciation -)	106.8	104.9	103.1	102.3	...	...	...	...	...	...
	(In percent of GDP, unless otherwise specified)									
Central government balance 1/										
Revenue	23.1	23.4	23.0	23.5	23.0	22.6	22.5	22.5	22.4	22.4
Taxes	20.7	20.9	20.1	20.5	20.7	20.3	20.3	20.2	20.2	20.2
Non-tax revenue	1.1	1.2	1.5	2.2	1.6	1.5	1.5	1.5	1.5	1.5
Grants	1.3	1.2	1.3	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Expenditure	25.7	24.9	25.4	24.6	25.5	25.4	25.3	24.6	24.6	24.6
Current primary expenditure	18.1	17.7	17.6	18.2	18.3	17.8	17.7	17.6	17.6	17.6
Interest payments	3.5	3.4	3.3	3.2	3.2	3.2	3.2	3.1	3.1	3.1
Capital expenditure	4.1	3.8	4.5	3.2	4.0	4.4	4.4	3.9	3.9	3.9
Natural disaster (ND) annualised cost	...	...	...	...	0.7	0.7	0.7	0.7	0.7	0.7
Primary balance, excl. ND cost	0.9	1.9	0.8	2.1	0.7	0.3	0.4	1.0	1.0	0.9
Primary balance, incl. ND cost	...	...	...	...	0.1	-0.3	-0.2	0.3	0.3	0.3
Overall balance excl. ND cost	-2.5	-1.5	-2.4	-1.1	-2.5	-2.9	-2.7	-2.1	-2.1	-2.2
Overall balance, incl. ND cost	...	...	...	...	-3.2	-3.5	-3.4	-2.8	-2.8	-2.8
Public sector debt	66.1	66.2	65.5	64.3	65.5	69.1	72.6	73.7	74.1	74.1
Domestic	34.7	34.5	32.0	33.2	33.5	34.7	35.9	35.9	36.2	36.4
External	31.4	31.6	33.5	31.2	32.0	34.4	36.7	37.8	37.9	37.7
Money and credit, end of period (annual percent change)										
Broad money (M2)	5.8	2.3	0.2	3.4	3.7	5.4	5.1	4.4	3.5	3.5
Credit to private sector (real)	-5.8	-4.8	-2.0	-3.3	-1.4	-1.2	0.1	0.9	1.0	1.5
Credit to private sector (nominal)	-6.8	-7.8	-1.9	-1.0	0.7	0.9	2.1	2.9	3.0	3.5
Balance of payments										
Current account balance, *o/w:*	0.0	-7.1	-1.1	2.3	3.0	-1.3	-2.6	-0.7	-0.3	0.0
Exports of goods and services	59.1	54.0	57.2	58.6	57.7	56.6	55.9	55.1	55.2	56.0
Imports of goods and services	-50.4	-54.4	-52.7	-50.8	-49.4	-52.6	-53.2	-50.6	-50.2	-50.8
Capital account balance	0.8	0.8	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Financial account balance	3.9	-4.7	-0.1	2.5	3.8	-0.5	-1.8	0.0	0.5	0.8
Direct investment	-7.8	-8.8	-3.2	-3.5	-3.9	-5.2	-5.0	-5.0	-5.0	-5.0
Portfolio investment	0.0	1.7	-3.3	3.4	2.4	3.4	3.4	3.0	2.5	2.5
Other investment	8.1	3.2	5.6	4.4	4.4	-2.2	-0.5	3.0	2.9	3.7
Net reserves assets	3.7	-0.8	0.8	-1.9	0.9	3.5	0.2	-1.0	0.0	-0.5
Errors and omissions	3.0	1.6	0.2	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
External debt (gross) 2/	70.7	67.4	68.8	65.9	66.7	67.9	66.4	65.2	65.5	64.0
Public	31.4	31.6	33.5	31.2	32.0	34.4	36.7	37.8	37.9	37.7
Savings-Investment balance	0.0	-7.1	-1.1	2.3	3.0	-1.3	-2.6	-0.7	-0.3	0.0
Savings	18.1	13.4	20.5	23.4	24.7	23.1	22.2	22.4	21.3	21.1
Investment	18.1	20.5	21.6	21.1	21.6	24.4	24.8	23.2	21.6	21.1
Public 3/	4.2	4.4	5.5	4.6	4.8	7.3	8.3	6.6	5.0	4.6
Private	13.9	16.1	16.1	16.5	16.9	17.1	16.6	16.6	16.6	16.6
Memorandum items:										
Nominal GDP (EC$ millions)	4,480	4,594	4,905	5,189	5,381	5,672	5,963	6,229	6,449	6,676
Net imputed international reserves										
Months of imports of goods and services	4.3	3.7	3.9	3.4	3.6	4.0	3.8	3.6	3.5	3.2
Percentage of demand liabilities	91.4	90.7	91.1	90.7	90.9	92.2	91.9	91.1	90.9	90.3

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

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

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

3/ Comprises investment by the central government and construction expenditures of public corporations, incl. the US$175 million airport project.

Table 2a. St. Lucia: Central Government Operations, 2015–24 1/
(In millions of EC dollars)

	2015	2016	2017	2018	Projections 2019	2020	2021	2022	2023	2024
					(In millions of EC dollars)					
Revenue	**1,041.9**	**1,091.8**	**1,142.3**	**1,232.2**	**1,256.7**	**1,296.5**	**1,357.4**	**1,411.8**	**1,459.4**	**1,508.3**
Taxes	934.4	978.2	1,002.3	1,074.3	1,127.2	1,165.1	1,221.1	1,271.1	1,315.1	1,360.0
Taxes on income	241.5	259.0	247.5	268.8	281.0	294.8	309.8	323.6	335.8	347.7
Taxes on property	10.7	12.0	12.0	9.7	9.1	9.6	10.1	10.5	10.9	11.2
Taxes on goods and services	255.2	258.0	253.2	261.9	282.7	287.3	301.5	314.2	325.3	336.8
Taxes on international trade and transactions 2/	427.0	449.2	489.6	533.9	554.4	573.4	599.7	622.8	643.0	664.3
Grants	58.7	57.9	65.0	41.0	41.0	43.2	45.3	47.2	48.9	50.6
Other revenue	48.8	55.7	75.0	116.9	88.5	88.2	91.0	93.4	95.5	97.7
Property income	7.0	4.7	5.2	4.5	4.7	4.9	5.2	5.4	5.6	5.8
Sales, fees and fines	27.3	29.5	58.7	97.8	68.6	67.3	69.0	70.5	71.8	73.1
o.w. Citizen by Investment Program (CIP)	0.0	5.9	27.8	67.0	33.5	33.5	33.5	33.5	33.5	33.5
Other nontax revenue	14.5	21.5	11.1	14.6	15.2	16.0	16.8	17.5	18.1	18.8
Expenditure	**1,156.8**	**1,161.1**	**1,262.5**	**1,287.8**	**1,392.5**	**1,460.4**	**1,523.6**	**1,544.3**	**1,598.1**	**1,654.5**
Expense	**970.2**	**984.9**	**1,036.6**	**1,121.2**	**1,172.5**	**1,205.3**	**1,259.2**	**1,299.5**	**1,344.7**	**1,392.1**
Compensation of employees	377.9	397.8	392.1	391.9	431.1	425.7	443.3	455.7	471.8	488.5
Purchase of goods and services	174.6	182.8	204.8	232.0	238.5	251.3	263.7	274.9	284.6	294.6
Interest	156.0	158.7	162.4	165.8	174.7	184.0	191.9	194.8	201.9	209.9
Social benefits	102.5	112.6	118.0	133.1	122.4	128.9	135.3	141.0	146.0	151.1
Retirement benefits	84.9	94.8	95.3	98.5	104.1	109.7	115.1	120.0	124.2	128.6
Public assistance and casual relief	17.6	17.8	22.7	34.6	18.3	19.2	20.2	21.0	21.8	22.6
Subsidies	8.7	8.3	5.6	5.9	6.2	6.5	6.8	7.1	7.4	7.6
Other	8.8	9.5	17.1	28.7	12.1	12.7	13.4	13.9	14.4	14.9
Other expense	159.1	133.0	159.3	198.3	205.7	215.4	224.9	233.1	240.4	248.0
Transfers to public-sector institutions 3/	159.1	133.0	159.3	198.3	205.7	215.4	224.9	233.1	240.4	248.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets	**186.6**	**176.2**	**225.9**	**166.6**	**220.0**	**255.1**	**264.4**	**244.8**	**253.4**	**262.4**
Grant-financed capital expenditure	58.7	57.9	65.0	41.0	41.0	43.2	45.3	47.2	48.9	50.6
Other capital expenditure 4/	128.0	118.6	161.0	125.8	179.3	212.1	219.3	197.8	204.8	212.0
Capital revenue	0.1	0.3	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Natural disaster (ND) annualised cost 5/	**…**	**…**	**…**	**…**	**36.0**	**37.9**	**39.8**	**41.5**	**42.9**	**44.5**
Gross Operating Balance	**71.8**	**106.8**	**105.7**	**111.1**	**84.2**	**91.2**	**98.2**	**112.3**	**114.8**	**116.2**
Net lending/borrowing (overall balance, excl. ND cost)	**-114.8**	**-69.4**	**-120.2**	**-55.5**	**-135.8**	**-163.9**	**-166.1**	**-132.5**	**-138.6**	**-146.2**
Net lending/borrowing (overall balance, incl. ND cost)	**…**	**…**	**…**	**…**	**-171.8**	**-201.8**	**-205.9**	**-174.0**	**-181.6**	**-190.6**
Net financial transactions	**-114.8**	**-69.4**	**-120.2**	**-55.5**	**-135.8**	**-163.9**	**-166.1**	**-132.5**	**-138.6**	**-146.2**
Net acquisition of assets	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**49.5**	**71.0**	**124.3**	**104.5**	**171.8**	**201.8**	**205.9**	**174.0**	**181.6**	**190.6**
Domestic	90.4	0.2	-62.6	134.4	85.9	100.9	103.0	87.0	90.8	95.3
Foreign	-40.9	70.8	186.9	-29.8	85.9	100.9	103.0	87.0	90.8	95.3
Statistical discrepancy	*65.4*	*-1.6*	*-4.1*	*-49.0*	*-36.0*	*-37.9*	*-39.8*	*-41.5*	*-42.9*	*-44.5*
Memorandum items:										
Primary balance (excl. ND)	41.1	89.3	42.2	110.2	38.9	20.1	25.8	62.3	63.3	63.7
Primary balance (incl. ND)	…	…	…	…	2.9	-17.8	-14.0	20.8	20.3	19.2
Public sector debt	2,980	3,091	3,258	3,368	3,573	3,972	4,375	4,634	4,824	4,991
Domestic	1,565	1,614	1,592	1,737	1,829	1,996	2,164	2,259	2,356	2,451
Central government	1,504	1,505	1,442	1,576	1,662	1,763	1,866	1,953	2,044	2,139
Public corporations 6/	61	109	150	160	167	233	298	306	313	312
External	1,415	1,477	1,666	1,632	1,744	1,977	2,211	2,375	2,467	2,540
Central government	1,368	1,439	1,626	1,596	1,682	1,783	1,886	1,973	2,063	2,159
Public corporations 7/	47	38	41	36	63	194	326	402	404	382
Nominal GDP fiscal year (EC$ millions)	4,508	4,672	4,976	5,237	5,454	5,745	6,030	6,284	6,505	6,735

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

1/ Fiscal year (April–March) basis.

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

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

4/ Includes roads rehabilitation in 2019-21 financed through a US$50 million from the government of the Taiwan, Province of China.

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

6/ Includes a government guarantee for a US$75 million syndicated loan from private banks to SLASPA for the redevelopment of Hewanorra airport.

7/ Includes a government guarantee for a US$100 million loan from the government of the Taiwan, Province of China, to SLASPA for the redevelopment of Hewanorra airport.

Table 2b. St. Lucia: Central Government Operations, 2015–24 1/

(In percent of GDP)

					Projections					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
					(In percent of GDP)					
Revenue	**23.1**	**23.4**	**23.0**	**23.5**	**23.0**	**22.6**	**22.5**	**22.5**	**22.4**	**22.4**
Taxes	20.7	20.9	20.1	20.5	20.7	20.3	20.3	20.2	20.2	20.2
Taxes on income	5.4	5.5	5.0	5.1	5.2	5.1	5.1	5.2	5.2	5.2
Taxes on property	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on goods and services	5.7	5.5	5.1	5.0	5.2	5.0	5.0	5.0	5.0	5.0
Taxes on international trade and transactions 2/	9.5	9.6	9.8	10.2	10.2	10.0	9.9	9.9	9.9	9.9
Grants	1.3	1.2	1.3	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other revenue	1.1	1.2	1.5	2.2	1.6	1.5	1.5	1.5	1.5	1.5
Property income	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Sales, fees and fines	0.6	0.6	1.2	1.9	1.3	1.2	1.1	1.1	1.1	1.1
o.w. Citizen by Investment Program (CIP)	0.0	0.1	0.6	1.3	0.6	0.6	0.6	0.5	0.5	0.5
Other nontax revenue	0.3	0.5	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Expenditure	**25.7**	**24.9**	**25.4**	**24.6**	**25.5**	**25.4**	**25.3**	**24.6**	**24.6**	**24.6**
Expense	**21.5**	**21.1**	**20.8**	**21.4**	**21.5**	**21.0**	**20.9**	**20.7**	**20.7**	**20.7**
Compensation of employees	8.4	8.5	7.9	7.5	7.9	7.4	7.4	7.3	7.3	7.3
Purchase of goods and services	3.9	3.9	4.1	4.4	4.4	4.4	4.4	4.4	4.4	4.4
Interest	3.5	3.4	3.3	3.2	3.2	3.2	3.2	3.1	3.1	3.1
Social benefits	2.3	2.4	2.4	2.5	2.2	2.2	2.2	2.2	2.2	2.2
Retirement benefits	1.9	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Public assistance and casual relief	0.4	0.4	0.5	0.7	0.3	0.3	0.3	0.3	0.3	0.3
Subsidies	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other expense	3.5	2.8	3.2	3.8	3.8	3.8	3.7	3.7	3.7	3.7
Transfers to public-sector institutions 3/	3.5	2.8	3.2	3.8	3.8	3.8	3.7	3.7	3.7	3.7
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets	**4.1**	**3.8**	**4.5**	**3.2**	**4.0**	**4.4**	**4.4**	**3.9**	**3.9**	**3.9**
Grant-financed capital expenditure	1.3	1.2	1.3	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other capital expenditure 4/	2.8	2.5	3.2	2.4	3.3	3.7	3.6	3.1	3.1	3.1
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Natural disaster (ND) annualised cost 5/	**…**	**…**	**…**	**…**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**
Gross Operating Balance	**1.6**	**2.3**	**2.1**	**2.1**	**1.5**	**1.6**	**1.6**	**1.8**	**1.8**	**1.7**
Net lending/borrowing (overall balance, excl. ND cost)	**-2.5**	**-1.5**	**-2.4**	**-1.1**	**-2.5**	**-2.9**	**-2.8**	**-2.1**	**-2.1**	**-2.2**
Net lending/borrowing (overall balance, incl. ND cost)	**…**	**…**	**…**	**…**	**-3.2**	**-3.5**	**-3.4**	**-2.8**	**-2.8**	**-2.8**
Net financial transactions	**-2.5**	**-1.5**	**-2.4**	**-1.1**	**-2.5**	**-2.9**	**-2.8**	**-2.1**	**-2.1**	**-2.2**
Net acquisition of assets	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**1.1**	**1.5**	**2.5**	**2.0**	**3.2**	**3.5**	**3.4**	**2.8**	**2.8**	**2.8**
Domestic	2.0	0.0	-1.3	2.6	1.6	1.8	1.7	1.4	1.4	1.4
Foreign	-0.9	1.5	3.8	-0.6	1.6	1.8	1.7	1.4	1.4	1.4
Statistical discrepancy	*1.4*	*0.0*	*-0.1*	*-0.9*	*-0.7*	*-0.7*	*-0.7*	*-0.7*	*-0.7*	*-0.7*
Memorandum items:										
Primary balance (excl. ND)	0.9	1.9	0.8	2.1	0.7	0.3	0.4	1.0	1.0	0.9
Primary balance (incl. ND)	…	…	…	…	0.1	-0.3	-0.2	0.3	0.3	0.3
Public sector debt	66.1	66.2	65.5	64.3	65.5	69.1	72.6	73.7	74.1	74.1
Domestic	34.7	34.5	32.0	33.2	33.5	34.7	35.9	35.9	36.2	36.4
Central government	33.4	32.2	29.0	30.1	30.5	30.7	30.9	31.1	31.4	31.8
Public corporations 6/	1.3	2.3	3.0	3.1	3.1	4.0	4.9	4.9	4.8	4.6
External	31.4	31.6	33.5	31.2	32.0	34.4	36.7	37.8	37.9	37.7
Central government	30.3	30.8	32.7	30.5	30.8	31.0	31.3	31.4	31.7	32.1
Public corporations 7/	1.1	0.8	0.8	0.7	1.1	3.4	5.4	6.4	6.2	5.7
Nominal GDP fiscal year (EC$ millions)	4,508	4,672	4,976	5,237	5,454	5,745	6,030	6,284	6,505	6,735

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

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

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

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

4/ Includes roads rehabilitation in 2019-21 financed through a US$50 million from the government of the Taiwan, Province of China.

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

6/ Includes a government guarantee for a US$75 million syndicated loan from private banks to SLASPA for the redevelopment of Hewanorra airport.

7/ Includes a government guarantee for a US$100 million loan from the government of the Taiwan, Province of China, to SLASPA for the redevelopment of Hewanorra airport.

Table 3. St. Lucia: Balance of Payments Summary, 2015–24

					Projections					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
					(In millions of US dollars)					
Current account balance	**0.2**	**-121.6**	**-19.3**	**44.8**	**60.6**	**-27.0**	**-57.0**	**-17.2**	**-6.4**	**-0.1**
Exports of goods and services	980.9	919.4	1038.6	1125.7	1149.2	1189.2	1234.1	1270.1	1317.3	1384.1
Goods	113.6	90.1	93.6	70.4	63.3	60.2	58.4	57.2	57.2	57.8
Tourism	810.2	776.0	874.8	963.1	988.3	1028.3	1069.7	1102.2	1145.5	1207.7
Other services 1/	57.1	53.3	70.2	92.1	97.5	100.8	106.0	110.7	114.6	118.7
Imports of goods and services	-836.8	-925.3	-957.6	-975.5	-983.8	-1105.3	-1175.3	-1167.9	-1200.0	-1255.6
Food	-113.4	-108.3	-115.6	-119.7	-122.4	-132.0	-142.9	-150.8	-156.2	-161.3
Fuel	-83.0	-112.9	-90.87	-130.53	-125.9	-136.8	-138.8	-142.1	-145.3	-150.4
Other goods	-305.5	-354.7	-369.9	-329.5	-329.0	-398.2	-430.9	-400.3	-408.4	-434.6
Services	-335.0	-349.4	-381.2	-395.8	-406.4	-438.3	-462.7	-474.7	-490.1	-509.3
Net Income, o.w.	-152.9	-114.0	-106.8	-112.4	-112.2	-118.6	-123.8	-127.7	-132.4	-137.6
Public interest payments	-19.2	-21.0	-27.7	-29.8	-26.6	-28.4	-28.9	-28.6	-29.8	-31.3
Net current transfers, o.w.	9.0	-1.6	6.6	7.1	7.4	7.7	8.0	8.3	8.7	9.0
Remittances	71.6	67.1	69.0	70.3	70.2	68.5	70.2	71.3	72.9	74.3
Capital Account	**14.0**	**13.9**	**12.5**	**12.8**	**15.2**	**16.0**	**16.8**	**17.5**	**18.1**	**18.7**
Financial Account	**64.6**	**-80.6**	**-2.2**	**48.6**	**75.8**	**-11.0**	**-40.2**	**0.3**	**11.7**	**18.6**
Direct Investment	-129.0	-149.2	-58.6	-66.9	-78.3	-109.2	-109.8	-114.7	-118.7	-122.9
Portolio Investment	-0.7	28.2	-60.7	66.1	48.6	71.2	74.9	68.2	60.6	62.8
Other Investment	133.6	53.9	101.6	85.0	88.1	-46.0	-10.2	69.2	68.7	90.4
Net Reserve Assets	60.8	-13.5	15.4	-35.6	17.4	72.9	4.9	-22.4	1.1	-11.6
Errors and omissions	**50.4**	**27.1**	**4.5**	**-8.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
					(In percent of GDP)					
Current account balance	**0.0**	**-7.1**	**-1.1**	**2.3**	**3.0**	**-1.3**	**-2.6**	**-0.7**	**-0.3**	**0.0**
Exports of goods and services	59.1	54.0	57.2	58.6	57.7	56.6	55.9	55.1	55.2	56.0
Goods	6.8	5.3	5.2	3.7	3.2	2.9	2.6	2.5	2.4	2.3
Tourism	48.8	45.6	48.2	50.1	49.6	48.9	48.4	47.8	48.0	48.8
Other services	3.4	3.1	3.9	4.8	4.9	4.8	4.8	4.8	4.8	4.8
Imports of goods and services	-50.4	-54.4	-52.7	-50.8	-49.4	-52.6	-53.2	-50.6	-50.2	-50.8
Food	-6.8	-6.4	-6.4	-6.2	-6.1	-6.3	-6.5	-6.5	-6.5	-6.5
Fuel	-5.0	-6.6	-5.0	-6.8	-6.3	-6.5	-6.3	-6.2	-6.1	-6.1
Other goods	-18.4	-20.8	-20.4	-17.1	-16.5	-19.0	-19.5	-17.4	-17.1	-17.6
Services	-20.2	-20.5	-21.0	-20.6	-20.4	-20.9	-21.0	-20.6	-20.5	-20.6
Net Income, o.w.	-9.2	-6.7	-5.9	-5.8	-5.6	-5.6	-5.6	-5.5	-5.5	-5.6
Public interest payments	-1.2	-1.2	-1.5	-1.6	-1.3	-1.3	-1.3	-1.2	-1.2	-1.3
Net current transfers, o.w.	0.5	-0.1	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Remittances	4.3	3.9	3.8	3.7	3.5	3.3	3.2	3.1	3.1	3.0
Capital Account	**0.8**	**0.8**	**0.7**	**0.7**	**0.8**	**0.8**	**0.8**	**0.8**	**0.8**	**0.8**
Financial Account	**3.9**	**-4.7**	**-0.1**	**2.5**	**3.8**	**-0.5**	**-1.8**	**0.0**	**0.5**	**0.8**
Direct Investment	-7.8	-8.8	-3.2	-3.5	-3.9	-5.2	-5.0	-5.0	-5.0	-5.0
Portfolio Investment	0.0	1.7	-3.3	3.4	2.4	3.4	3.4	3.0	2.5	2.5
Other Investment	8.1	3.2	5.6	4.4	4.4	-2.2	-0.5	3.0	2.9	3.7
Net Reserve Assets	3.7	-0.8	0.8	-1.9	0.9	3.5	0.2	-1.0	0.0	-0.5
Errors and omissions	**3.0**	**1.6**	**0.2**	**-0.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum Items:										
Trade balance (percent of GDP)	**-23.4**	**-28.6**	**-26.6**	**-26.5**	**-25.8**	**-28.9**	**-29.6**	**-27.6**	**-27.3**	**-27.8**
Services balance (percent of GDP)	**72.5**	**69.3**	**73.0**	**75.5**	**74.9**	**74.6**	**74.2**	**73.2**	**73.3**	**74.2**
Net imputed international reserves										
Millions of US dollars, end of period	298.1	289.0	307.4	274.8	292.3	365.2	370.1	347.7	348.8	337.2
Months of imports of goods and services	4.3	3.7	3.9	3.4	3.6	4.0	3.8	3.6	3.5	3.2
Percentage of demand liabilities	91.4	90.7	91.1	90.7	90.9	92.2	91.9	91.1	90.9	90.3
Gross external debt (percent of GDP)	70.7	67.4	68.8	65.9	66.7	67.9	66.4	65.2	65.5	64.0
Public sector	31.4	31.6	33.5	31.2	32.0	34.4	36.7	37.8	37.9	37.7
Private sector 1/	39.3	35.8	35.3	34.7	34.7	33.5	29.7	27.4	27.5	26.3
GDP (in US$ millions)	1,659	1,702	1,817	1,922	1,993	2,101	2,209	2,307	2,388	2,473

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

1/ Includes collections from the Airport Development tax.

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

Table 4. St. Lucia: Monetary Survey, 2015–19

	2015	2016	2017	Est. 2018	Proj. 2019
	(In millions of EC dollars, end of period)				
Net foreign assets	268.4	486.3	820.0	833.3	1,113.1
Central bank	804.9	780.4	829.9	742.0	850.3
Commercial banks (net)	-536.5	-294.1	-9.9	91.3	262.8
Assets	1,226.2	1,350.4	1,499.3	1,892.3	1,883.7
Liabilities	-1,762.7	-1,644.5	-1,509.2	-1,801.0	-1,620.9
Net domestic assets	2,786.3	2,638.7	2,312.4	2,405.6	2,245.5
Public sector credit, net	-253.7	-272.4	-361.3	-422.6	-396.8
(real terms)	-217.9	-240.9	-313.2	-358.6	-329.7
Central government	226.7	205.0	191.8	210.6	231.1
Other public sector	-480.4	-477.4	-553.0	-633.3	-627.9
Private sector credit, net	3,522.9	3,249.1	3,188.8	3,156.7	3,178.7
(real terms)	3,026.3	2,872.5	2,764.4	2,678.5	2,640.9
Other items (net)	-478.5	-322.1	-505.5	-353.8	-536.4
Broad money (M2)	3,054.7	3,125.0	3,132.4	3,238.9	3,358.6
Money	764.1	851.3	905.0	1,004.4	1,041.5
Currency in circulation	153.9	165.8	159.6	163.4	169.4
Demand deposits	610.3	685.6	745.4	841.0	872.1
Quasi-money	2,290.6	2,273.7	2,227.5	2,234.5	2,317.1
Time deposits	387.7	362.1	277.3	238.2	247.0
Savings deposits	1,556.0	1,584.8	1,624.3	1,674.2	1,736.0
Foreign currency deposits	341.9	318.4	320.8	310.5	321.9
	(12-month percentage change)				
Net domestic assets	-12.7	-5.3	-12.4	4.0	-6.7
Broad money (M2)	5.8	2.3	0.2	3.4	3.7
NFA contribution	19.9	7.1	10.7	0.4	8.6
NDA contribution	-14.1	-4.8	-10.4	3.0	-4.9
Money	3.5	11.4	6.3	11.0	3.7
NFA contribution	23.0	-3.2	5.8	-9.7	10.8
NDA contribution	-19.5	14.6	0.5	20.7	-7.1
Quasi-money	6.6	-0.7	-2.0	0.3	3.7
	(In percent of GDP)				
Net foreign assets	6.0	10.6	16.7	16.1	20.7
Net domestic assets	62.2	57.4	47.1	46.4	41.7
Public sector credit, net	-5.7	-5.9	-7.4	-8.1	-7.4
Private sector credit, net	78.6	70.7	65.0	60.8	59.1
Broad money (M2)	68.2	68.0	63.9	62.4	62.4
Money	17.1	18.5	18.4	19.4	19.4
Quasi-money	51.1	49.5	45.4	43.1	43.1
Interest rates (percent per year) 1/					
ECCB policy rate	6.50	6.50	6.50	6.50	6.50
US policy rate	0.13	0.39	0.97	1.78	2.15
Interbank market rate	6.48	...	...	...	...
Time deposit rate	2.43	1.82	1.63	1.43	1.46
Demand deposit rate	0.44	0.27	0.22	0.25	0.20
Weighted average lending rate	8.35	8.15	7.99	7.95	7.61

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

1/ End-of-period rates.

Table 5. St. Lucia: Banking System Summary Data, 2013–18

	2013	2014	2015	2016	2017	2018
			(Percent of GDP)			
Balance Sheet						
Total assets	141.1	134.0	128.0	125.7	121.2	120.9
Gross loans	110.1	97.5	85.4	76.4	70.7	66.5
o/w NPLs	22.7	17.1	15.5	10.0	8.8	6.7
Provisions for NPLs	9.7	7.7	7.5	5.4	5.0	3.6
Cash and Due from ECCB	8.4	12.9	14.1	12.6	14.3	11.9
Due from ECCU Banks	5.5	4.4	6.3	7.2	8.2	9.5
Due from banks abroad	7.7	8.1	9.6	9.5	8.8	10.9
Investments	11.7	12.5	13.8	15.8	15.8	18.2
Total liabilities	135.9	129.1	123.5	121.2	115.4	115.4
Deposits	92.5	89.5	88.5	87.0	84.7	82.3
Deposits (FX)	7.3	8.7	9.9	8.8	9.0	9.2
Due to ECCU Banks	23.4	21.3	19.2	17.3	19.9	20.7
Due to banks abroad	12.8	11.6	8.4	7.9	6.6	5.6
Capital	5.1	4.9	4.6	4.5	5.8	5.5
			(Percent)			
Profitability						
Interest Margin/Gross Income	67.8	70.4	67.8	61.2	60.7	61.4
Non-Interest Expenses/Gross Income	67.0	70.0	67.3	65.4	61.2	60.0
Lending Rate Spread	5.6	5.9	6.4	6.5	6.5	6.5
ROAE	-9.0	-1.9	0.1	-17.2	7.0	4.8
ROAA	-0.1	-0.1	0.3	-0.3	1.2	1.9
Capital Adequacy 1/						
CAR	14.3	13.3	12.9	11.8	18.2	19.1
T1R	12.8	11.9	12.0	7.8	11.4	13.2
Asset Quality						
NPL ratio	20.6	17.6	18.2	13.1	12.5	10.0
Provisions/NPL	42.5	45.1	48.2	53.6	56.3	53.9
FX Risk						
FX assets/assets	18.7	16.1	14.7	13.9	13.4	14.5
Foreign-currency-denominated liabilities to total liabilities	17.0	17.6	16.5	15.2	14.6	14.0
Liquidity Risk						
Liquid assets/total assets	20.8	26.3	32.2	33.6	36.7	39.7
Liquidity coverage ratio	22.7	28.8	35.5	37.6	42.0	44.1
Liquid assets/total deposits	31.7	39.4	46.7	48.5	52.6	58.3
Loan-Deposit ratio	119.0	109.0	96.5	87.8	83.5	80.7
Memo						
Nominal GDP (EC$ millions)	4,006	4,209	4,480	4,594	4,905	5,189
Lending rate (% wa)	8.4	8.5	8.3	8.1	8.0	7.9
Total deposits (% wa)	2.8	2.0	1.9	1.6	1.5	1.4
ECCB's discount rate (%)	6.5	6.5	6.5	6.5	6.5	6.5

1/ Correspond to indigenous banks only.

Sources: ECCB; and IMF staff estimates.

Annex I. Implementation of Previous Staff Advice

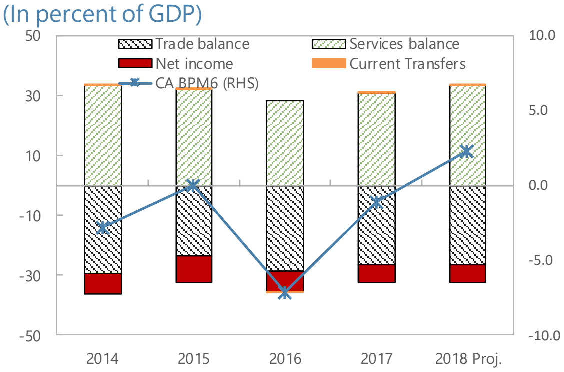
Progress on 2018 Article IV Policy Recommendations	
Recommendations	Policy Actions
Growth Agenda	
Staff recommended reforms to address structural impediments and increase economic diversification:	
Improve access to credit, including by completing the introduction of a credit bureau.	Credit bureau was expected to start operations by end of this year. Delays are expected.
Reduce comparatively high costs of trading and energy. Implement renewable energy initiatives.	Geothermal project is being funded by the WB which will cover cost of the exploratory drilling program and completing of the technical and implementation preparation activities necessary. A final decision on further geothermal development activities is pending.
Reduce labor market rigidities that delink productivity and wages. Training apprenticeship programs and better aligning the education system with labor market needs would help reduce structural unemployment.	The authorities have indicated their intention to modernize school curriculum and teaching methods, and continue to provide professional development training for teachers.
Improve effectiveness of social assistance through better targeting of transfers, and by reducing temporary work programs and non-targeted subsidies.	The government is developing a central beneficiary registry to monitor social spending, and is receiving technical assistance from the WB Human Resilience project to reform the safety net.
Strengthen tourism backward linkages with agriculture, and developing sectors where economies of scale are less important to increase diversification.	The government supports further development of spa & wellness tourism and ecotourism. Preparatory legislative and regulatory framework for Village tourism is advanced and will allow persons to become participants in the value chain of tourism.
Fiscal Policy	
Staff advised fiscal adjustment, anchored by the ECCU debt target of 60 percent of GDP by 2030.	
Streamline tax exemptions, which undermine the revenue base and the efficiency of the tax system.	No measures were undertaken.
Control the wage bill through continued wage moderation and public sector reform.	The government concluded the tri-annual wage negotiations with public sector unions resulting in additional salary expenditures in FY2019. Wages for FY2020 and FY2021 are set to rise only modestly and the public sector wage bill is expected to stabilize around 7 1/4 percent of GDP.
Increase reliance on concessional financing and a shift to longer-term instruments to reduce servicing costs and mitigate rollover risks.	New concessional loans were acquired (airport expansion and roads improvement) funded by Taiwan, Province of China, representing more than 10 percent of additional stock of debt.
Introduce a fiscal responsibility framework, defining institutional arrangements, and mechanisms for transparency and accountability.	The government is considering the implementation of a fiscal responsibility law. Discussions are still at an early stage.
Financial Sector	
Staff recommended both local and regional reforms to bolster the financial system.	
Adopt modernized foreclosure and insolvency legislations.	In progress. Draft legislative bill on insolvency is in the process of being finalized following a Cabinet of Ministers approval of underpinning policies in October 2019. Foreclosure legislation has undergone successive consultation rounds, but policy direction remains to be determined.
Commit to full operationalization of the Eastern Caribbean Asset Management Company's (ECAMC) mandate, including collection and disposal of distressed assets.	The ECAMC started operating in July 2017, but outstanding issues regarding its funding modalities and acquiring a critical mass of NPLs to support its asset management mandate remain to be resolved. The ECAMC has been granted an extended deadline of October 2020 for the acquisition of the NPLs.
Strengthen monitoring and supervision of credit unions and microfinance companies and rapid approval of the regionally harmonized regulation.	In progress. Following stakeholder consultations, a revised draft harmonized Co-Operative Societies Bill is under review.
Adopt the Harmonized Credit Reporting Bill to support operationalization of the regional Credit Bureau.	At advanced stage of preparation. A draft legislation has been prepared and is pending submission to Parliament.
Strengthen due diligence procedures under the Citizenship-by-Investment program.	Applicants are vetted through independent third parties, local law enforcement, and the Joint Regional Communications Centre (JRCC). The government seeks to harmonize due diligence procedures in the region and enhance information sharing, including with the JRCC.
Continue efforts on stregthening the AML/CFT regime, address gaps in compliance with international tax rules, and deepen collaboration and information sharing between respondent and correspondent banks.	In progress. The authorities are in the process of preparing for the 2019 CFTAF mutal evaluation. The government committed to improve compliance on international tax matters by the end of the year.

Annex II. External Sector Assessment

St. Lucia's external position in 2018 is assessed to be broadly consistent with the level implied by medium term fundamentals and desirable policies. Despite an improvement in the current account balance, other indicators including the Doing Business Ranking, labor productivity growth and unit labor costs highlight St. Lucia's competitiveness challenges and the need for supply-side reforms.

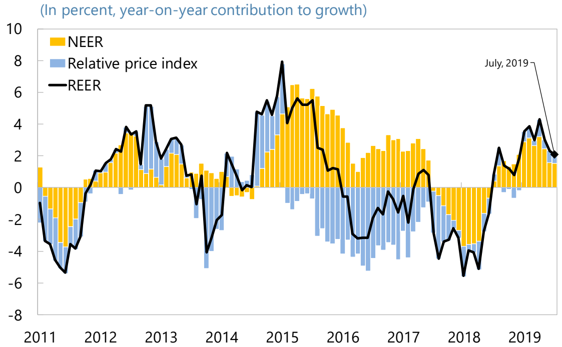
1. **The current account balance turned positive in 2018.** The most recent ECCB revisions to BoP-BPM6 data resulted in lower current account estimates for 2014-18 (the downward revisions for the current account balance of 2017 and 2018 were more than 2 percent of GDP).[1] Nevertheless, the estimations are subject to further changes due to revisions to the tourist expenditure surveys, and consequently, service receipts estimates.[2] Preliminary estimates based on the latest trade and tourism data from the authorities indicate that the current account surplus could increase further in 2019 owing to robust tourism receipts (including the US$35 airport development tax that the government started to collect in January 2018), but the current account balance is expected to turn negative starting in 2020 due to the construction of the large infrastructure projects. Historically St. Lucia's current account deficits have been mostly financed by FDI, while disbursement of the project loans will contribute to finance the current account deficit in the medium term.

Current Account Balance (BPM6)
(In percent of GDP)



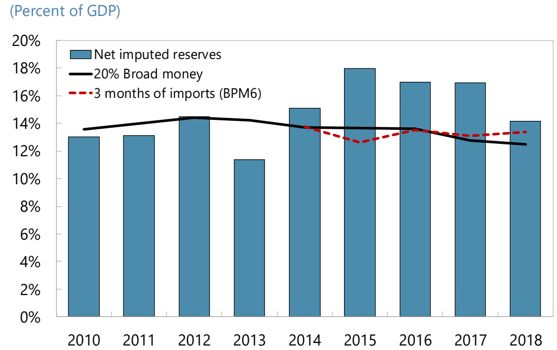
2. **The real effective exchange rate (REER) appreciated since the second half of 2018.** This trend was driven by a nominal appreciation of the exchange rate in 2018 reflecting a stronger U.S.

REER Appreciation
(In percent, year-on-year contribution to growth)



Sources: INS Database; and IMF Staff Estimates.

Foreign Currency Reserves and Adequacy Thresholds
(Percent of GDP)



Sources: Country Authorities; and IMF Staff Estimates.

[1] BoP-BPM6 data before 2014 are not available.

[2] The revision is due to the lack of reliable tourist expenditure survey data in 2017. As the authorities are still resolving inconsistencies in the survey data, further revisions to the historical current account data are expected.

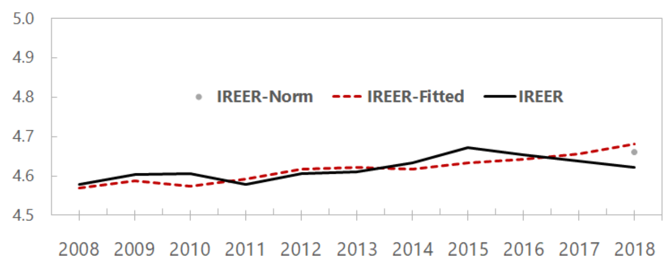
dollar (to which the E.C. dollar is pegged). The imputed net international reserves held at the ECCB remained above the reserve adequacy thresholds in 2018. As a member of the ECCU, reserve adequacy is assessed based on the net imputed reserves held at the ECCB. The reserve coverage—of about 14 percent of GDP in 2018 corresponding to 3.4 months of imports and 23 percent of broad money—exceeds the ECCB benchmarks of 3 months and 20 percent, respectively.

St. Lucia: External Sector Assessment

		Current Account Balance							
		Cyc. Adj. Norm 2/	2018 Actual	Cyc. Adj. CA	CA Gap	Policy Gap	Residual	Elasticity	REER Gap 3/
EBA-lite	CA Model 1/	-1.6	2.3	2.2	3.8	0.3	4.7	-0.2	**-18.3**
	External Sustainability Approach 4/								**-16.8**
	REER Model								**-3.9**

1/ Percent of GDP.
2/ Multilaterally consistent. Includes adjustment due to the Airport Development Tax.
3/ Positive number indicates overvaluation.
4/ The REER gap is negative when the REER must appreciate to stabilize the NFA at its 2018 level. NIIP represented -55 percent of GDP in 2018.

IREER (index of REER): Actual, Fitted, and Norm



Source: EBA-lite model, IMF staff calculations.

3. **Staff assess the 2018 external position to be broadly consistent with the level implied by fundamentals and desirable policies.** The EBA-lite CA model yields a CA norm of -2 percent of GDP in 2018, implying a CA gap of about 4.2 percent of GDP and an undervaluation of the effective exchange rate of 20 percent. However, the EBA-lite REER model points to a REER undervaluation of only 3.9 percent. The improvement in the current account in 2018 (and 2019) reflected in part a temporary increase in national savings due to the collection of the airport development tax (0.7 percent of GDP in 2018) which is not accounted for in the CA model and will be offset by higher imports once construction of the airport project starts.[3] Adjusting for the airport development tax, the EBA-lite CA model yields a CA gap of about 3.8 percent of GDP and an undervaluation of the effective exchange rate of 18 percent (see table). However, these results should be interpreted with caution given the large uncertainties in the current account data, partly due to the expected revisions to the tourism exports data.[4] At the same time, the EBA-lite REER model has tracked the actual data reasonably well (see figure) and does not suffer from the risk of large revisions (St. Lucia's REER series has also been less volatile than those of some other ECCU

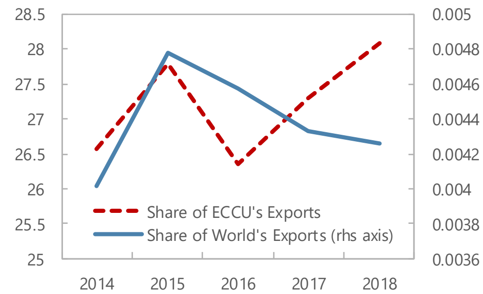
[3] The airport tax is recorded in the current account under exports of other services. At the same time, it is accounted for in the fiscal accounts as a revenue and as an expenditure under transfers to public institutions.

[4] An indication for further downward revisions is the discrepancy in the tourism data. While the official CA data point to an increase of tourism exports by 10 percent from 2017 to 2018, the actual stay-over tourist arrival only increased by 2.2 percent.

countries). Thus, staff base the assessment on the REER model, which implies that the external position is broadly consistent with the level implied by fundamentals and desirable policies.[5] The NIIP, estimated at -55 percent of GDP as of 2018, is assessed to be sustainable under the EBA-lite external sustainability (ES) approach.

4. St. Lucia's external position is stronger compared to the other members of the ECCU. The 2019 ECCU Discussion of Common Policies indicates that the external position of the currency union was weaker than that consistent with fundamentals and desirable policies by 3½ percent of GDP (and the REER was overvalued by 9 percent in 2018), in part due to rising imports for post-disaster reconstruction in Dominica. As several countries in the currency union are still recovering from the 2017 hurricanes, St. Lucia's share in the region's exports market has been rising, contributing to its strong external position relative to others in the currency union.

Exports of Goods and Services
(in percent)



Source: St. lucia authoirities and IMF staff calculations.

5. A range of non-price indicators point to St. Lucia's long-standing competitiveness challenges particularly in the non-tourism sector. The World Bank Doing Business ranking indicates St. Lucia' overall ranking has continued to fall from 86 in 2017 to 93 in the 2020 vintage. Major weakness exists in the areas of getting credit (mainly linked to the lack of credit information/absence of a credit bureau), resolving insolvency (due to a weak legal framework), and registering property (driven by high costs respect to the value of properties and a large number of procedures needed.). In addition, productivity per worker has been flat during the last decade, while labor costs have increased by around 10 percent, indicating a disconnect between wages and productivity. The country's narrow production and export base also means that competitiveness of the non-tourism sector is even weaker.

6. In the medium-term, St. Lucia's current account balance is projected to decline considerably due to the rising public investment. The large infrastructure projects will increase imports, only partly offset by the projected steady growth in tourist arrivals. This outlook is subject to potentially large downside risks, including lower than expected growth in major tourist source countries, natural disasters, and increases in oil prices. The projected increase in St. Lucia's imports (and the corresponding decline in its current account balance) should also unwind the discrepancy between the external positions of St. Lucia and the ECCU. This outlook, together with St. Lucia's high public debt, highlight the needs to rebuild policy space through fiscal consolidation and address structural impediments to competitiveness and long-run growth.

[5] Using a CA/REER elasticity of -0.21 implies a CA gap of -0.8 percent. The CA/REER elasticity is based on previous staff estimation of the elasticity of tourist expenditure with respect to REER of -0.1 for the Caribbean countries (see IMF Working Papers WP/14/229).

Annex III. Risk Assessment Matrix[1]

Source and direction of risks	Relative Likelihood	Impact/Time Horizon	Policy response
Global/External			
Rising protectionism and retreat from multilateralism. (↓) Additional barriers, including trade restrictions lead to adverse effects on investment, growth, and stability.	High	**High/ST, MT** Major FDI projects in the pipeline may get delayed or cancelled	Diversify the economy and reduce its dependence on tourism. Pursue fiscal adjustment to attain sustainability and reduce debt rollover risks.
Weaker-than-expected global growth. (↓) Idiosyncratic factors in the U.S., Europe, China, and emerging markets feed off each other to result in a growth slowdown.	Medium/High	**High/ST, MT**	Address cost and structural competitiveness disadvantages, including high dependence on hydrocarbon fuels, high energy prices, and other bottlenecks that weigh on businesses.
Cyber-attacks on critical global financial systems (↓) may trigger systemic financial instability or disrupt socio-economic activities.	Low	**Medium/ST, MT**	Prepare appropriate crisis management plans. Strengthen financial sector regulation and supervision.
Sharp rise in risk premia. (↓) Higher risk premia cause higher debt service; stress on leveraged firms, households, and vulnerable sovereigns, depressing growth.	High	**High/ST** Higher risk perception could lead to loss/higher costs of CBRs	Pursue fiscal adjustment to attain sustainability and reduce debt rollover risks. Continue efforts to strengthen compliance with AML/CFT and tax transparency standards.
Higher frequency and severity of natural disasters (↓) cause severe economic damage to smaller economies.	Medium/Low	**High/ST, MT** Larger and more frequent events than the historical average	Build fiscal buffers, invest in resilience, and ensure financing, including with risk-transfer instruments, with the assistance of the World Bank.
Large swings in energy prices. (↓) Uncertainty surrounding the shocks translates to elevated price volatility, complicating economic management and affecting investment in the energy sector.	Medium	**Medium/ST, MT**	Reduce high dependence on hydrocarbon fuels. Support transition to alternative energy sources.
Domestic			
Lower than expected CIP revenues (↓)	Medium	**Medium/MT**	Mobilize revenue from other sources.
Disorderly fiscal adjustment (↓) A weakening fiscal position and tightening financial conditions can force an abrupt fiscal adjustment.	Low	**High/MT**	Adopt a fiscal rule and implement tax reforms to ensure adequate fiscal adjustment and debt sustainability.
Financial sector weakness (↓) Emerging risks related to rising bank exposure to foreign assets, rapid expansion of credit unions, and high and persistent NPLs. There are also risks related to weaknesses in the AML/CFT frameworks, compliance with international tax rules, and a further loss of CBRs.	Medium	**Medium/MT**	Promptly implement remaining elements of the ECCU strategy to strengthen the banking sector. Enhance regulatory and supervisory frameworks for non-banks. Continue efforts to strengthen compliance with AML/CFT and tax transparency standards.
Delayed infrastructure investment (↓)	Low	**High/ST, MT**	Address bottlenecks in project implementation and step up other resilience investment

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

Annex IV. Debt Sustainability Analysis[1]

Public debt as a percentage of GDP declined slightly to reach 64 percent at the end of FY2018, in part owing to benign external economic conditions. However, being projected to rise to 74 percent of GDP by FY2024 debt vulnerabilities are elevated and under current policies public debt does not stabilize over the near term. Financing needs were 18.8 percent of GDP and will remain elevated over the medium term. The heat map points to substantial risks to debt sustainability from lower growth and growing fiscal deficits. Debt dynamics are also vulnerable to natural disasters, as illustrated in a stress test scenario. Reducing public debt to sustainable levels will require fiscal consolidation, in particular by developing new revenue sources, and continued progress with lowering borrowing cost.

1. Debt dynamics and gross financing requirements. Gross public debt as a percentage of GDP declined to 64.3 percent at the of FY2018, compared to 65.5 percent a year earlier.[2] As in the year before the decline in the debt ratio was driven by the primary surplus of the central government, but unlike in FY2017 real GDP growth contributed only little. Guaranteed and non-guaranteed debt of public corporations expressed as a percentage of GDP remained constant at 3.8 percent, or 5.8 percent of gross public debt. In FY2018 gross financing needs amounted to 18.8 percent of GDP as Treasury bills and bonds on the regional government securities market (RGSM) came due. In the near-term debt will rise due to the US$175 million (9.1 percent of GDP) airport redevelopment project and other major capital projects (see main text). The associated financing needs are covered by semi-concessional loans from Taiwan, Province of China, with the grant element estimated at 10 percent, and a US$75 million syndicated loan from local and regional banks. Over the medium-term public debt will continue to rise towards 74 percent of GDP. Annual financing needs will remain high at around 18 percent of GDP.

2. Debt composition and vulnerabilities. Domestic debt is 49.7 percent of total central government debt, composed of medium- and long-term debt (93.4 percent), with Treasury bills (4.5 percent) and overdrafts (2.1 percent). External debt of the central government debt is 50.3 percent of the total and is composed of bilateral or multilateral loans (42.7 percent), medium- and long-term commercial borrowings (43.1 percent), and Treasury bills (14.2 percent). Commercial banks in the ECCU are the largest holder of Treasury bills, reflecting excess liquidity in the regional banking system and thus providing support to the government's financing needs. Having peaked at 21.5 percent in 2016, the share of short-term debt in total central government debt has declined to 10.4 percent, and the government is pursuing further efforts to lengthen maturities and reduce issuance of Treasury bills. Similar to other countries in the region, a sinking fund has been set up to manage redemptions of maturing bonds. Most borrowings of public corporations are domestic (81.6 percent out of total debt of public corporations), but with the implementation of the airport

[1] The debt sustainability analysis for St. Lucia is based on the framework for market access countries. Gross public debt is defined as central government debt and guaranteed and non-guaranteed debt of public corporations. External debt is defined as external debt of the public sector. The fiscal year runs from April to March. Fiscal year GDP for 2018 is extrapolated using the calendar year GDP projection for 2019 from the baseline.

[2] A revision of the national accounts series raised nominal GDP for 2016 (2017) by 4.6 (8) percent compared to the 2018 Article IV report, resulting in a public debt-to-GDP ratio that is lower by 3.1 (5.2) percentage points.

redevelopment project the external share will rise. Debt in foreign currencies is overwhelmingly denominated in U.S. dollars, which the Eastern Caribbean dollar remains pegged to since 1976.

3. Realism of baseline assumptions. After a robust but short expansion over the near-term staff forecasts growth to return to its potential of 1.5 percent, with inflation remaining near 2 percent throughout the projection period. While the fiscal stance of the central government accounts remains broadly neutral this debt sustainability analysis includes in the fiscal balance the airport redevelopment project that is being executed by a public corporation (see information in main text). The adjusted primary balance is therefore sharply negative in FY2020 and FY2021 and is the primary driver of the rise in debt. Forecasts errors for growth, inflation, and the primary balance have been large but declined markedly in 2018. Forecast errors for the primary balance are partially explained by the upward revision of nominal GDP by the Statistics Office as the revised actuals for the primary deficits are now smaller and make past forecasts appear overly pessimistic.

4. Stress tests. Debt dynamics are inherently vulnerable to adverse macro-fiscal shocks. As discussed in Annex III as a tourism-dependent economy St. Lucia is very exposed to external economic conditions, and a slowdown in advanced economies could bring about a decline in tourist arrivals, as experienced in the Global Financial Crisis. Illustrating this risk, the real GDP growth shock scenario, which reduces growth by one standard deviation (2 percent) over 2020 and 2021, steers public debt towards 80 percent of GDP over the medium-term. The primary balance shock, a one standard deviation (2.3 percent of GDP) deterioration in the primary balance spread over 2020 and 2021, induces a succinct rise in public debt but thanks to sustained growth the medium-term debt dynamics are more favorable than under the real GDP growth shock. The deterioration of the primary balance is equally distributed over the revenue and expenditure side to allow an interpretation of either a lapse of fiscal restraint or a sudden fall in revenues, e.g. a drop in CIP revenues. The natural disaster scenario, modeled to mimic damages sustained by Hurricane Tomas in 2010, simulates a fall of real GDP growth of 5, 3, and 2 percent relative to baseline for 2020, 2021, and 2022, and a deterioration of the primary balance of the same amount. Under the shock scenario financing needs climb to almost 30 percent of GDP and debt rises even more rapidly than under the combined macro-fiscal shock, reaching more than 80 percent of GDP by 2021.

5. External debt. External debt of the public sector declined from 34 percent of GDP at end-FY2017 to 31.4 percent of GDP at end-FY2018, with the decline primarily reflecting an improvement in the current account.3 Driven by the external semi-concessional loan for the airport redevelopment external debt in the baseline is to rise markedly and to reach 38 percent of GDP by FY2024. Reflecting the importance of tourism revenues for the economy, bound tests suggest that the external debt profile is vulnerable to shocks in the non-interest current account, i.e., a permanent one-half standard deviation deterioration in the non-interest current account would bring external debt to 47 percent of GDP by 2024.

[3] Compared to the 2018 Article IV report the much lower level of external debt is primarily due to the different coverage. In addition, resulting from the revision of the national accounts series the ratio of public external debt to GDP for 2016 (2017) was mechanically lowered by 1.5 (2.7) percentage points.

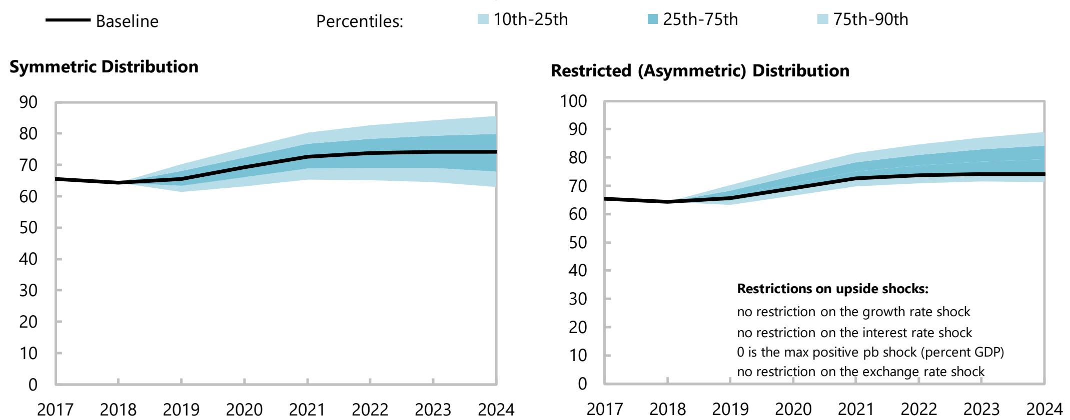
Annex IV Figure 1. St. Lucia: Public DSA Risk Assessment

Heat Map

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

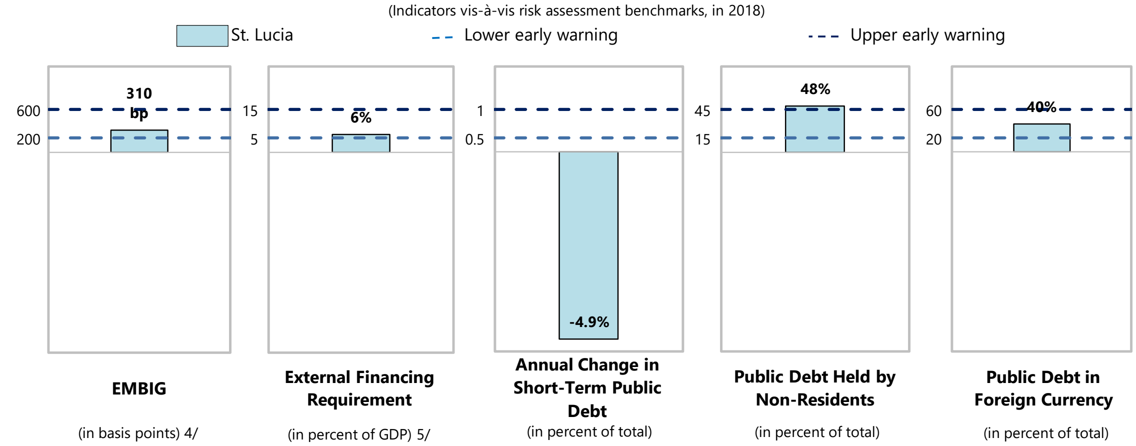
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2018)



Source: IMF staff.

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

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

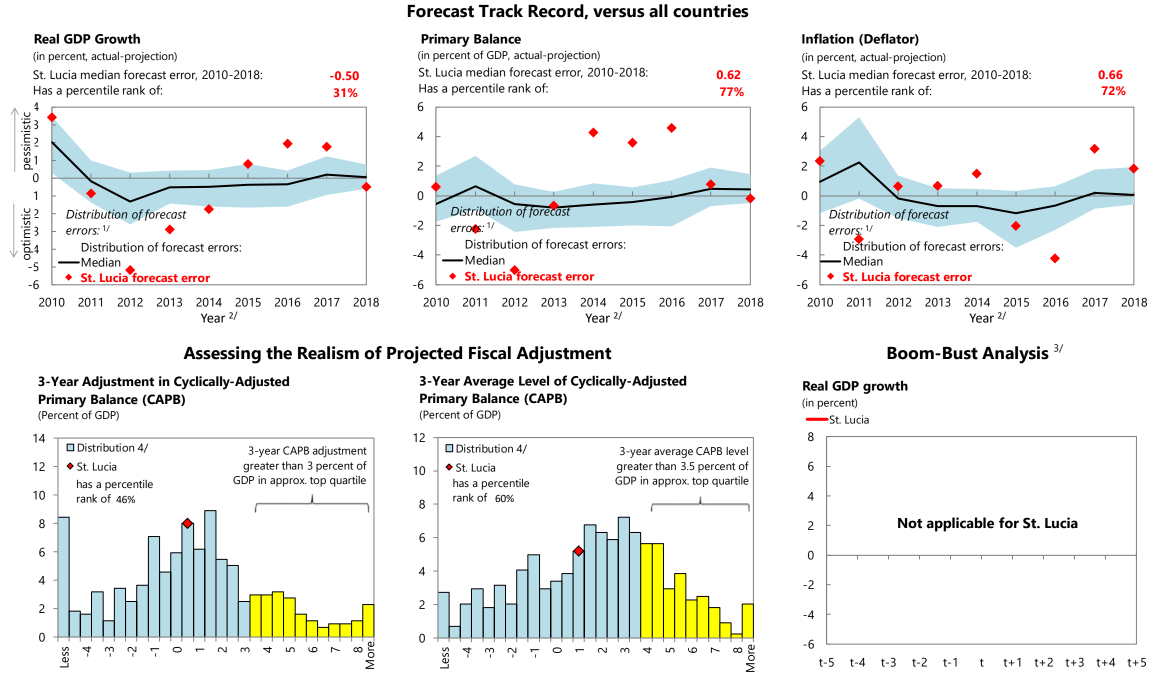
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant,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

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

4/ EMBIG, an average over the last 3 months, 09-Oct-19 through 07-Jan-20.

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

Annex IV Figure 2. St. Lucia: Public DSA - Realism of Baseline Assumptions



Source : IMF Staff.

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

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

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

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

Annex IV Figure 3. St. Lucia: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(In percent of GDP unless otherwise indicated)

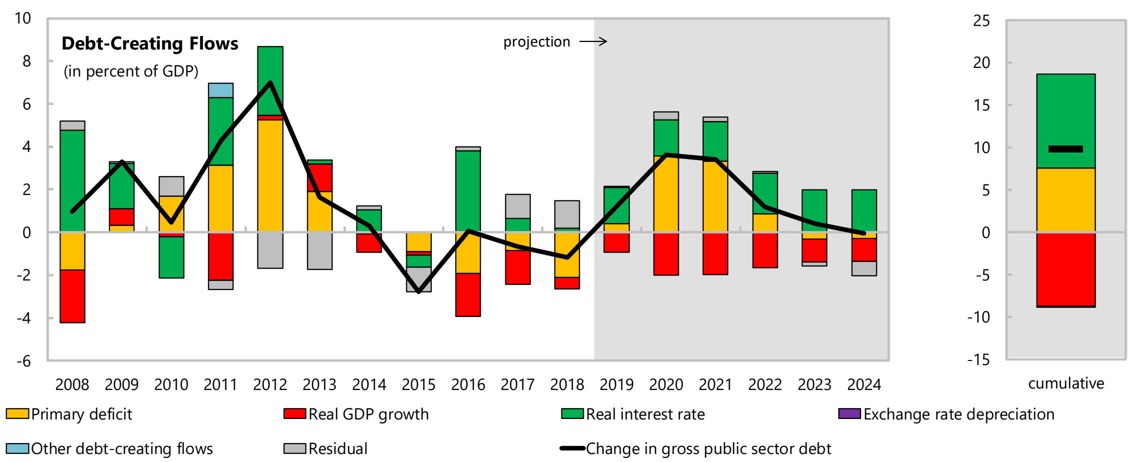
Debt, Economic and Market Indicators [1/]

	Actual			Projections						
	2008-2016 [2/]	2017	2018	2019	2020	2021	2022	2023	2024	
Nominal gross public debt	62.1	65.5	64.3	65.5	69.1	72.6	73.7	74.1	74.1	
Public gross financing needs	14.4	19.1	18.8	18.2	23.4	22.6	17.4	16.1	17.6	
Real GDP growth (in percent)	1.1	2.6	0.9	1.5	3.2	3.0	2.4	1.5	1.5	
Inflation (GDP deflator, in percent)	2.1	4.1	4.9	2.2	2.1	2.1	2.0	2.0	2.0	
Nominal GDP growth (in percent)	3.4	6.5	5.2	4.1	5.3	5.0	4.2	3.5	3.5	
Effective interest rate (in percent) [4/]	5.2	5.3	5.1	4.9	4.9	4.9	4.8	4.8	4.8	

As of January 07, 2020		
Sovereign Spreads		
EMBIG (bp) 3/		287
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	n.a.	n.a.
S&Ps	n.a.	n.a.
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.7	-0.7	-1.2	1.2	3.6	3.4	1.2	0.4	0.0	9.8	
Identified debt-creating flows	2.1	-1.8	-2.4	1.2	3.2	3.2	1.1	0.6	0.6	9.9	
Primary deficit	0.9	-0.8	-2.1	0.4	3.6	3.3	0.9	-0.3	-0.3	7.5	0.9
Primary (noninterest) revenue and grants	23.1	23.0	23.5	23.0	22.6	22.5	22.5	22.4	22.4	135.4	
Primary (noninterest) expenditure	24.0	22.1	21.4	23.5	26.1	25.8	23.3	22.1	22.1	143.0	
Automatic debt dynamics [5/]	1.1	-0.9	-0.3	0.8	-0.3	-0.1	0.2	0.9	0.9	2.4	
Interest rate/growth differential [6/]	1.1	-0.9	-0.3	0.8	-0.3	-0.1	0.2	0.9	0.9	2.4	
Of which: real interest rate	1.8	0.6	0.2	1.7	1.7	1.8	1.9	2.0	2.0	11.1	
Of which: real GDP growth	-0.6	-1.6	-0.5	-0.9	-2.0	-2.0	-1.7	-1.1	-1.1	-8.7	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization proceeds	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	-0.4	1.1	1.3	0.0	0.4	0.2	0.1	-0.2	-0.7	-0.1	



Source: IMF staff.

1/ Public sector is defined the central government and includes public corporations.

2/ Based on available data.

3/ EMBIG.

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

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

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

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

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

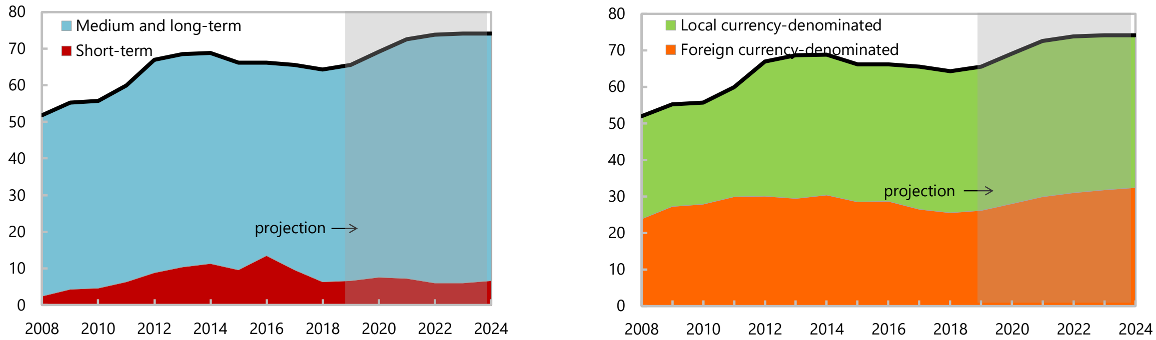
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Annex IV Figure 4. St. Lucia: Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)

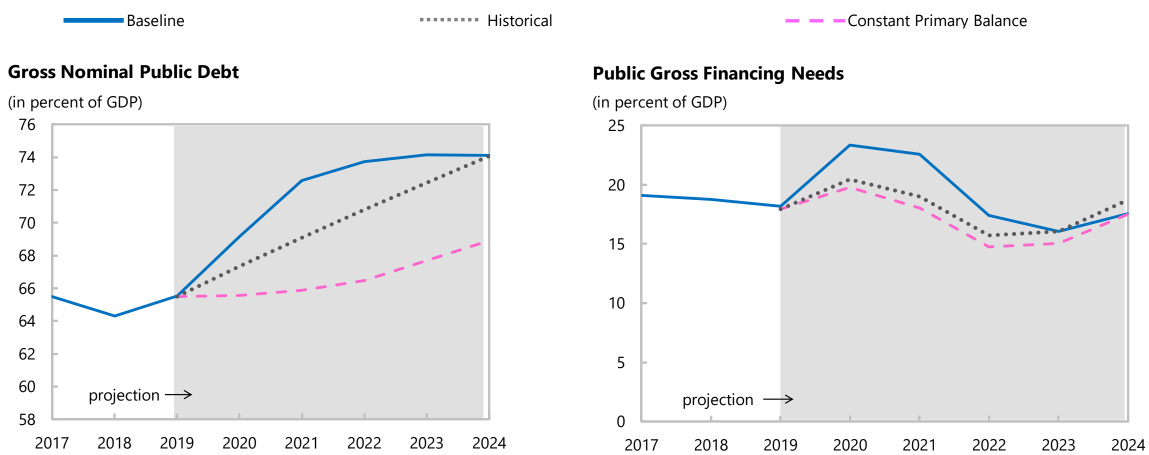
By Currency
(in percent of GDP)



Alternative Scenarios

Gross Nominal Public Debt
(in percent of GDP)

Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Baseline Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	1.5	3.2	3.0	2.4	1.5	1.5
Inflation	2.2	2.1	2.1	2.0	2.0	2.0
Primary Balance	-0.4	-3.6	-3.3	-0.9	0.3	0.3
Effective interest rate	4.9	4.9	4.9	4.8	4.8	4.8
Constant Primary Balance Scenario						
Real GDP growth	1.5	3.2	3.0	2.4	1.5	1.5
Inflation	2.2	2.1	2.1	2.0	2.0	2.0
Primary Balance	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Effective interest rate	4.9	4.9	4.9	4.8	4.8	4.8

Historical Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	1.5	0.9	0.9	0.9	0.9	0.9
Inflation	2.2	2.1	2.1	2.0	2.0	2.0
Primary Balance	-0.4	-0.6	-0.6	-0.6	-0.6	-0.6
Effective interest rate	4.9	4.9	4.7	4.5	4.4	4.3

Source: IMF staff.

Annex IV Table 1. St. Lucia: External Debt Sustainability Framework, 2014–24

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2014	2015	2016	2017	2018			2019	2020	2021	2022	2023	2024	Debt-stabilizing non-interest current account 7/
Baseline: External debt	34.7	31.6	32.1	34.0	31.4			**32.4**	**34.9**	**37.1**	**38.1**	**38.3**	**38.0**	**-4.8**
Change in external debt	1.3	-3.1	0.6	1.8	-2.5			1.0	2.4	2.2	1.0	0.1	-0.2	
Identified external debt-creating flows (4+8+9)	-5.1	-9.9	-2.4	-4.2	-7.7			-8.9	-5.3	-3.7	-5.7	-6.0	-6.6	
Current account deficit, excluding interest payments	1.4	-1.2	5.9	-0.5	-3.9			-4.4	-0.6	0.7	-1.4	-2.0	-2.6	
Deficit in balance of goods and services	-4.0	-8.7	0.3	-4.5	-7.8			-8.3	-4.4	-3.0	-5.1	-5.7	-6.2	
Exports	59.1	59.1	54.0	57.2	58.6			57.7	56.6	56.0	55.3	55.4	56.3	
Imports	55.0	50.4	54.4	52.7	50.8			49.4	52.2	53.0	50.2	49.8	50.1	
Net non-debt creating capital inflows (negative)	-6.3	-7.8	-8.8	-3.2	-3.5			-5.4	-5.2	-5.0	-5.0	-5.0	-5.0	
Automatic debt dynamics 1/	-0.2	-0.9	0.5	-0.5	-0.3			0.9	0.5	0.6	0.7	1.0	1.0	
Contribution from nominal interest rate	1.4	1.2	1.3	1.6	1.6			1.4	1.5	1.6	1.5	1.5	1.5	
Contribution from real GDP growth	-0.4	-0.1	-1.0	-0.8	-0.3			-0.5	-1.0	-1.0	-0.9	-0.6	-0.6	
Contribution from price and exchange rate changes 2/	-1.2	-2.0	0.2	-1.3	-1.6			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	6.4	6.8	3.0	6.0	5.1			9.9	7.7	5.9	6.8	6.1	6.4	
External debt-to-exports ratio (in percent)	58.8	53.4	59.5	59.4	53.7			56.2	61.6	66.3	69.0	69.0	67.6	
Gross external financing need (in billions of US dollars) 4/	144.4	166.8	232.7	192.0	134.6			99.3	213.2	234.3	160.0	148.8	172.3	
in percent of GDP	9.3	10.1	13.7	10.6	7.0			5.0	10.1	10.6	6.9	6.2	7.0	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**32.4**	**35.4**	**36.8**	**39.0**	**40.6**	**42.3**	**-5.8**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	1.3	0.2	3.2	2.6	0.9	0.9	2.0	1.5	3.2	3.0	2.4	1.5	1.5	
GDP deflator in US dollars (change in percent)	3.7	6.2	-0.6	4.1	4.9	3.2	3.3	2.2	2.1	2.1	2.0	2.0	2.0	
Nominal external interest rate (in percent)	4.3	3.7	4.2	5.3	5.0	4.5	0.5	4.6	4.9	4.7	4.3	4.1	4.1	
Growth of exports (US dollar terms, in percent) 6/	n.a	6.5	-6.3	13.0	8.4	5.4	8.2	2.1	3.5	3.9	3.2	3.9	5.1	
Growth of imports (US dollar terms, in percent) 6/	n.a	-2.5	10.6	3.5	1.9	3.4	5.4	0.9	11.4	6.6	-1.1	2.7	4.1	
Current account balance, excluding interest payments 6/	-1.4	1.2	-5.9	0.5	3.9	-0.3	3.6	4.4	0.6	-0.7	1.4	2.0	2.6	
Net non-debt creating capital inflows 6/	6.3	7.8	8.8	3.2	3.5	5.9	2.5	5.4	5.2	5.0	5.0	5.0	5.0	

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

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

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

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

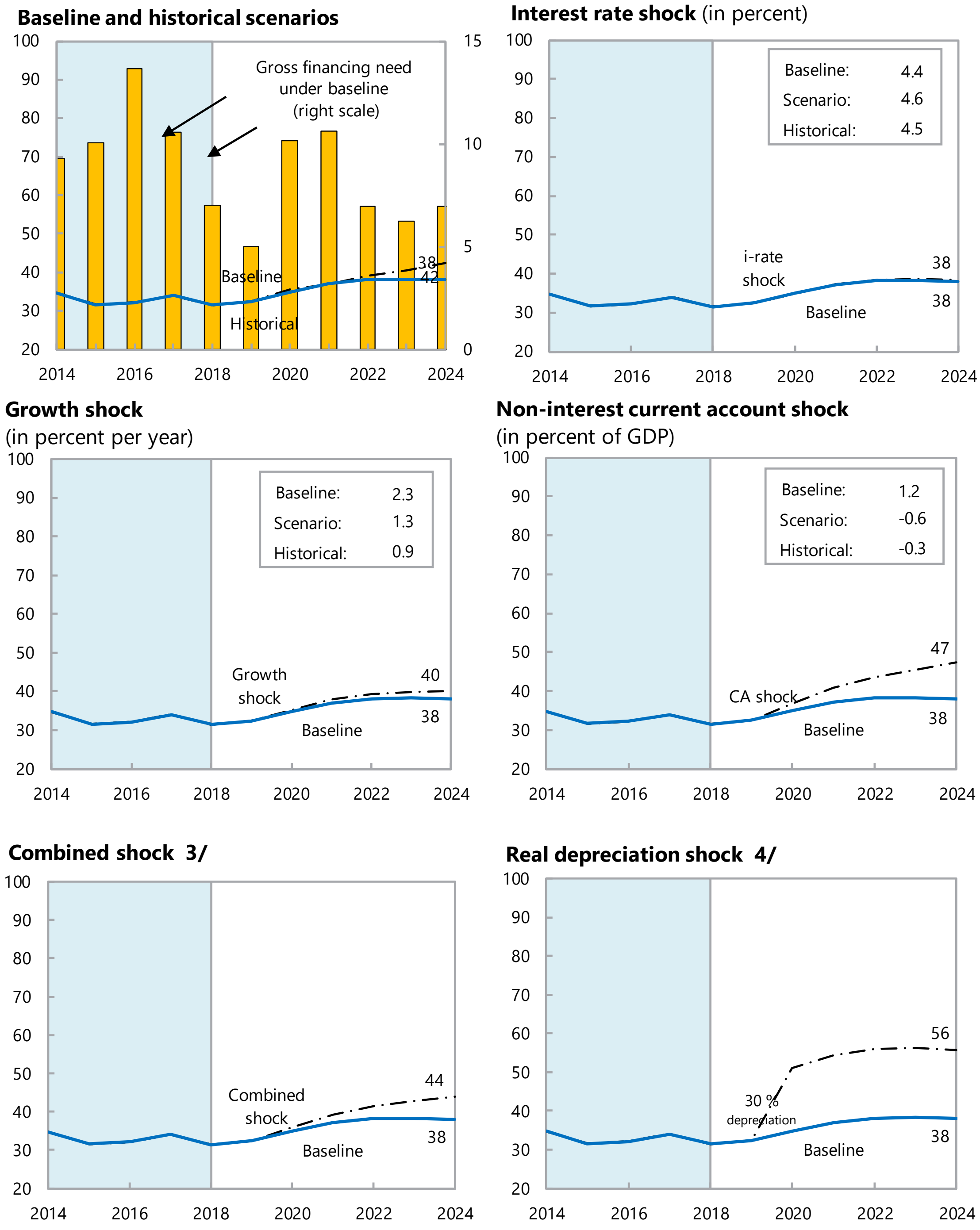
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Average and standard deviation computed with available BPM6 data since 2014.

7/ 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.

Annex IV Figure 6. St. Lucia: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)

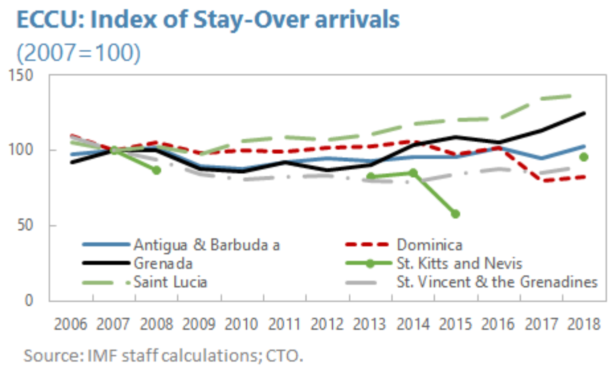


Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2019.

Annex V. The Potential Impact of the Hotel Accommodation Fee[1]

Tourism is the most important sector for the St. Lucian economy and an important revenue source. Using a novel dataset, we measure the elasticity of tourist arrivals to variations in prices, while considering other elements that might affect tourism market demand and supply. The estimated low elasticity suggests limited impact of the proposed hotel accommodation fee on competitiveness.

1. St. Lucia's tourism sector has been growing steadily in recent years, outpacing other ECCU countries. In 2018, St. Lucia hosted almost 400,000 stayover tourists, more than twice of its total population.[2] Despite the increase of the *airport tax* and the introduction of the *airport development tax* in 2017-18,[3] the number of stayover arrivals grew by 11 and 2.2 percent in 2017 and 2018, respectively, in part due to the diversion of tourists from the neighboring countries that were affected by Hurricane Irma in 2017.



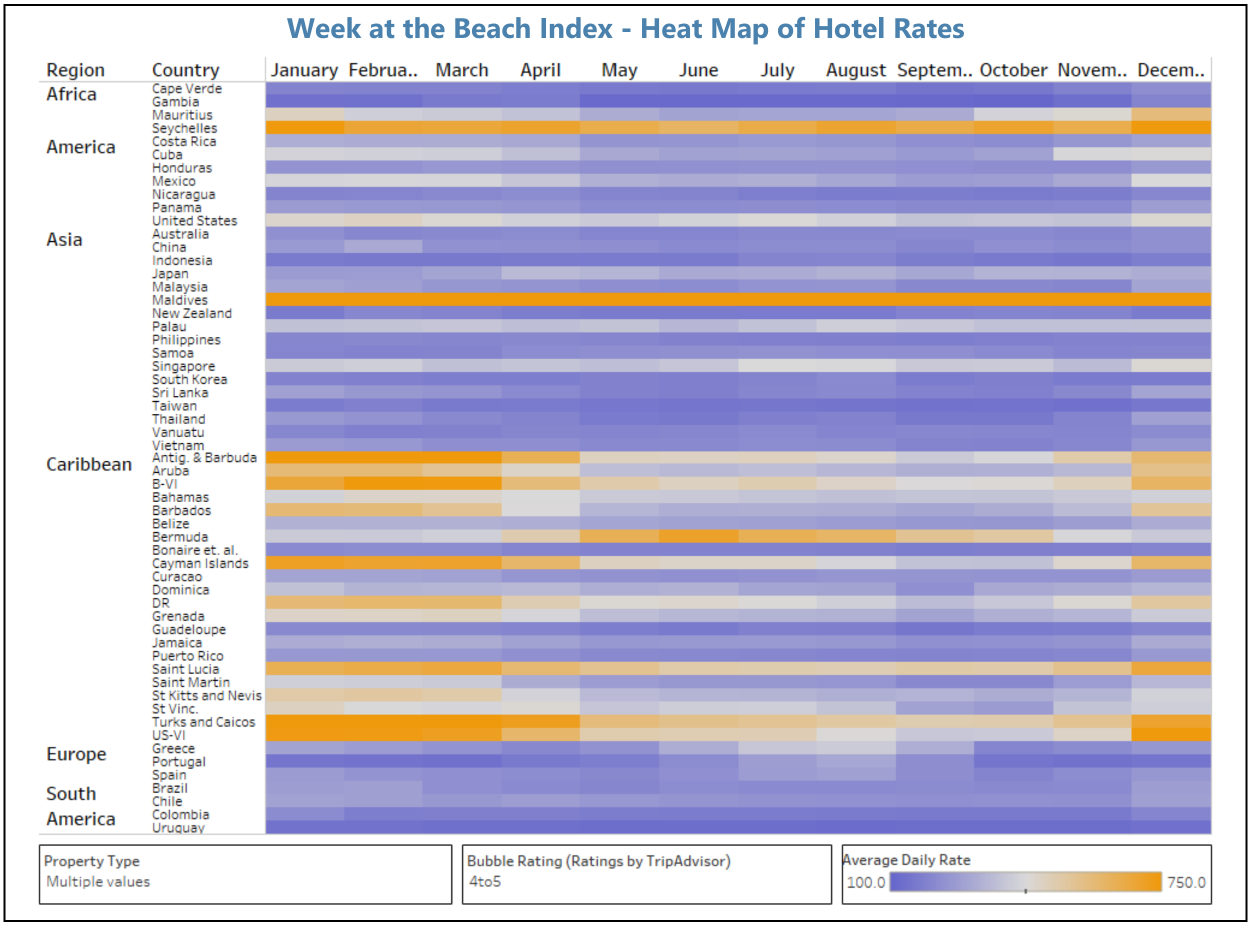
2. The impact of the proposed Hotel Accommodation Fee (HAF) on tourist arrivals depends on supply and demand elasticities. Tourism supply and demand respond to a complicated interaction between final consumers (i.e. tourists) and providers of products (such as lodging and transportation companies, marketing, and travel agencies.) One simplification in the analysis is to consider the fee as a price component of tourist expenditure. The overall impact of prices on tourist *demand* in the Caribbean has been analyzed in Laframboise et al. (2014), Ghazanchyan et al. (2019) and Bolaky (2011). They found that the number of tourist arrivals in the region is not overly sensitive to changes in prices; indeed, it responds more to external factors such as income in tourist source countries. This finding might be a characteristic of high-end destinations (Tran, 2011). On the other hand, while the *supply* of tourism products, at least in the short-term, is considered inelastic to prices, the hotel industry has benefitted during the past couple of decades from technological advances including price discrimination techniques (Ghose et al., 2012.) These elements might contribute to scenarios where a combination of new taxes and price discrimination do not necessarily affect the efficiency of the tourism sector (Gu and Tam, 2014.)

[1] Prepared by Mauricio Vargas.

[2] In addition, St. Lucia receives more than 4 times its population in cruiseship tourists, representing about 760,000 visitors in 2018.

[3] The government increased the airport tax on non-CARICOM travel from US$25 to US$63 in mid-2017 and introduced an airport development tax of US$35, effective January 2018. The airport tax was then reduced to US$53 in January 2018.

3. The IMF-Week at the Beach index (W@tB), a novel database for tourist expenditure, suggests that the Caribbean is the most expensive beach destination.[4] Most Caribbean countries report an average cost in the range of $1,300-2,300 excluding airfares ($1,900-3,000 including airfares from/to Miami). A week at the beach in St. Lucia at a 3-4 bubble rating hotel (according to the TripAdvisor scale) might cost around $1,600 excluding airfares, or $2,500 including a roundtrip airfare.



4. Compared to the overall cost, the introduction of the HAF would add around 1.4 percent (or $33) to the average per capita cost of spending one week in St. Lucia. The fee does not affect the relative position of St. Lucia in the ranking among the Caribbean tourist destinations (including W@tB costs plus a roundtrip airfare from/to Miami).

5. To quantify the impact of price changes, we estimate the demand of tourist services proxied by the number of stayover arrivals. The econometric specification follows Laframboise et al. (2014) and Ghazanchyan et al. (2019) with a country specific model for St. Lucia and the monthly W@tB index. The general specification is:

---

[4] Laframboise et al. (2014). The index accounts for the average spending necessary to spend one week on beach destinations all over the world (without airline ticket costs). Currently, the index includes 56 countries and 155 destinations.

$$\ln(\#arriv) = \alpha + \beta_1 \ln(Price) + \beta_2 \ln(Inc\_US) + \beta_3 \ln(Air\_cap) + \beta[\boldsymbol{controls}] + \varepsilon$$

Since the main variables are expressed in natural logarithms, the interpretation of the β coefficients can be done in terms of elasticities. We gathered monthly data reflecting quantities, prices, and other control variables affecting the tourism market in St. Lucia.

6. Our results suggest the following determinants for tourism demand (Table 1).

- **Prices.** The W@tB index represents an innovation in the specification and it is our preferred proxy for prices in the tourism industry. A 1.0 percent increase in the index is associated with 0.25-0.34 percent decrease in arrivals (Table 1). Alternative specifications, including measures of the REER weighted by trading-partners or tourism-source-countries (as in Laframboise et al. 2014 and Ghazanchyan et al. 2019) are not statistically significant.

- **Income in tourist source countries.** A 1.0 percent increase in the index of U.S. retail sales would represent a 0.5-0.62 percent increase in arrivals.

- **Supply/connectivity factors.** The monthly airlift capacity (measured by the number of seats available) has a positive and statistically significant impact on arrivals. A 1.0 percent increase in the number of available seats is associated with a 1.5-1.6 percent increase in the number of total arrivals.

- **Other factors.** Drawing on the annual Emergency Events Database (EM-DAT), we built a monthly series of natural disasters. While the number of observations is limited within the sample period, our results suggest that a natural disaster that causes damage of 1 percent of GDP would reduce stayover arrivals by 1.6 percent.

7. For robustness checks, we also analyze whether tourists from distinct parts of the world might respond with varying intensity to changes in prices. We run the previously described specification replacing the dependent variable "total stayover arrivals" by total arrivals from each of the main tourism source regions. Our results, reported in Table 2, suggest that only the specification for tourists from the Caribbean shows a statistically significant price elasticity, which is approximately 3 times higher than the one reported for the whole sample in Table 1. This result indicates that a 1 percent increase in prices might lead to a 1.07 percent reduction of tourist arrivals from the Caribbean region. The specifications corresponding to visitors from the U.S., the U.K. and Canada show price elasticities that are not statistically different from zero.

8. Given the above price elasticity estimates and the magnitude of the proposed HAF, the implementation of the measure would have little effect on the number of tourist arrivals. Our findings suggest that the number of visitors might fall by 0.3-0.4 percent, or 1300-1700 tourists annually.

Annex V. Table 1. Determinants of Stay-over Arrivals

VARIABLES	(1) LCA	(2) LCA b/
Airlines Monthly Capacity	1.514***	1.593**
	(0.148)	(0.135
US Advance Retail Sales: Retail , Monthly, Not Seasonally Adjusted a/	0.499***	0.622**
	(0.145)	(0.134
Hurricane Damage (in percent of GDP)	-1.286	-1.598*
	(1.207)	(0.672
Week at the Beach Index a/	-0.251	-0.342*
	(0.152)	(0.136
Constant	-3.489***	-4.052*
	(0.684)	(0.633
Observations	52	52
R-squared	0.865	0.902

Robust pval in parentheses
*** p<0.01, ** p<0.05, * p<0.1
a/ Logarithm of the index (2015M1=100)
b/ Include seasonal dummies (not reported).

Annex V. Table 2. Sensitivity of Price Elasticity by Tourist Country Source

VARIABLES	(1) US	(2) CANADA	(3) UK	(4) Caribbean
Week at the Beach Index a/	-0.86	-1.49	0.57	**-1.07**
	0.11	0.16	0.17	**0.04**
Observations	51	51	51	51
R-squared	0.48	0.82	0.46	0.57

Robust pval reported below the coefficient
a/ Logarithm of the index (2015M1=100)
All specifications Include seasonal dummies and other controls (not reported).

References

Bolaky, Bineswaree, 2011. "Tourism competitiveness in the Caribbean," Revista CEPAL, Naciones Unidas Comisión Económica para América Latina y el Caribe (CEPAL), August.

Ghose, Anindya and Ipeirotis, Panagiotis G. and Li, Beibei, “Designing Ranking Systems for Hotels on Travel Search Engines by Mining User-Generated and Crowd-Sourced Content”, Marketing Science, Vol. 31, No. 3, May–June 2012, pp. 493–520.

Gu, Xinhua and Tam, Pui Sun, (2014), ”Tax incidence and price discrimination: An application of theories to gambling markets”, China Economic Review, 28, issue C, p. 135-151

Manuk Ghazanchyan & Li Zhao & Steve Brito & Vivian Parlak, 2019. "New Insights into ECCU's Tourism Sector Competitiveness," IMF Working Papers 19/154, International Monetary Fund.

Nicole Laframboise & Nkunde Mwase & Joonkyu Park & Yingke Zhou, 2014. "Revisiting Tourism Flows to the Caribbean; What is Driving Arrivals?" IMF Working Papers 14/229, International Monetary Fund.

Tran, X. (2011). “Price sensitivity of customers in luxurious hotels in U.S.”, e-Review of Tourism Research. 9. 122-133.

Annex VI. Carbon Taxation in St. Lucia: An Update[1]

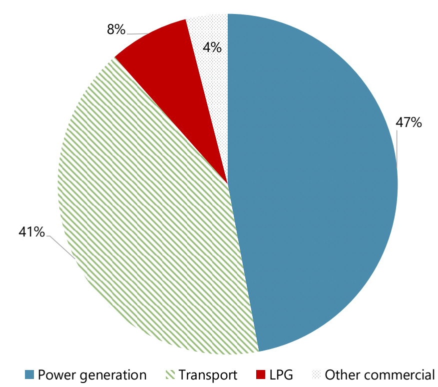
St. Lucia's mitigation plan relies on greater energy efficiency and a shift to renewable energies. But overall emissions continue to rise as the renewable share is growing only slowly and the country is at risk of missing its emission reduction targets from the 2015 Paris Agreement. A carbon tax – a charge on the carbon content of fossil fuels – can complement mitigation efforts by strengthening incentives for shifting to renewables, reducing energy consumption, and improving energy efficiency. At the same time the tax can also mobilize urgently needed revenue to support debt sustainability. Building on the work for the 2018 Climate Change Policy Assessment, this annex provides updated projections for emissions and fiscal revenues under various carbon tax scenarios. It also discusses concerns about the distributional impact of a carbon tax and its impact on competitiveness for energy-intensive industries.

A. Supporting Mitigation through Carbon Taxes

1. St. Lucia's mitigation strategy focuses on renewable energies and energy efficiency. For the 2015 Paris Agreement, St. Lucia pledged to limit greenhouse gases (GHGs) to 634 and 628 kilo-tons (or Gg) of CO2 equivalent in 2025 and 2030 respectively, reductions of 16 and 23 percent below projected 'business as usual' (BAU) levels in those years. The commitment is underpinned by a plan to expand the share of renewable power generation, currently around 2 percent, to 35 percent by 2025 and 50 percent by 2030. However, achieving this target appears challenging given limited progress with increasing solar capacity and setbacks with wind and geothermal projects.

2. A carbon tax would leverage St. Lucia's mitigation strategy by strengthening incentives for shifting to renewables and improving energy efficiency. The tax would raise the gap in generation costs between conventional and renewable energies and thus stimulate investment into renewables, provided that structural bottlenecks impeding the expansion of renewables are resolved (see main text). Also, carbon taxes are far more effective at exploiting emissions mitigation opportunities than other policies since they encourage the full range of behavioral responses of households and firms for reducing energy use at the lowest cost (e.g. conserving energy better, purchasing more efficient appliances, etc.).[2] Administratively, a carbon tax is straightforward to implement as a modification of existing fuel taxes

Annex VI. Figure 1. CO_2 Emission Shares



(2018)

Source: MoF, LUCELEC, and IMF staff calculations.

[1] Prepared by Jan Moeller, Victor Mylonas, and Ian Parry.

[2] For a general discussion of carbon taxation see: IMF 2019. *How to Mitigate Climate Change*. Fiscal Monitor.

and is virtually impossible to avoid. Furthermore, a carbon tax can also improve energy security by reducing dependence on oil imports from geopolitical volatile regions.

B. Projections for Emissions and Fiscal Revenues

3. In St. Lucia power generation and transportation each account for more than 40 percent of total emissions, yet the current excise tax system treats the two sectors unevenly. In 2018, power generation accounted for 47 percent of fossil fuel CO_2 emissions, transportation 41 percent, LPG 8 percent and other commercial use 4 percent (see Figure 1).[3] However, three quarters of excise tax revenues were generated by the transportation sector (see Table 1). Road fuels are subject to an EC$4 per gallon excise tax (annual revenues of 1.5 percent of GDP)[4] while the levy on diesel for power generation is only EC$1 per gallon (annual revenues of 0.4 percent of GDP)[5]. LPG is not subject to an excise tax but rather it is subsidized at an annual cost of 0.1 percent of GDP.[6]

Annex VI. Table 1. Excises and Levies On Fossil Fuels (2018)

Product	Consumption, million gallons	Excise/levy, EC$/gallon	Revenue, %GDP
Diesel for power generation	20.2	1.0	0.4
Diesel/gasoline for transport	19.1	4.0	1.5
Fuels for other commercial use	1.7	0.0	0.0
Total/average	41.0	2.4	1.8

Source: MoF, LUCELEC, and IMF staff calculations.

4. There is scope for a modest increase in energy prices from a regional perspective. Road fuel prices are already higher in St. Lucia than in most regional comparators while electricity prices are lower than in some comparator markets (see Figure 2). Both electricity and road fuels are zero-rated items under St. Lucia's VAT Act while in some other countries electricity is not (or only partially) exempt from VAT. The increase of energy prices resulting from a US$50 carbon tax—as illustrated by the red boxes in Figure 2—does not appear to materially affect the ranking of electricity and fuel prices relative to comparator countries.

---

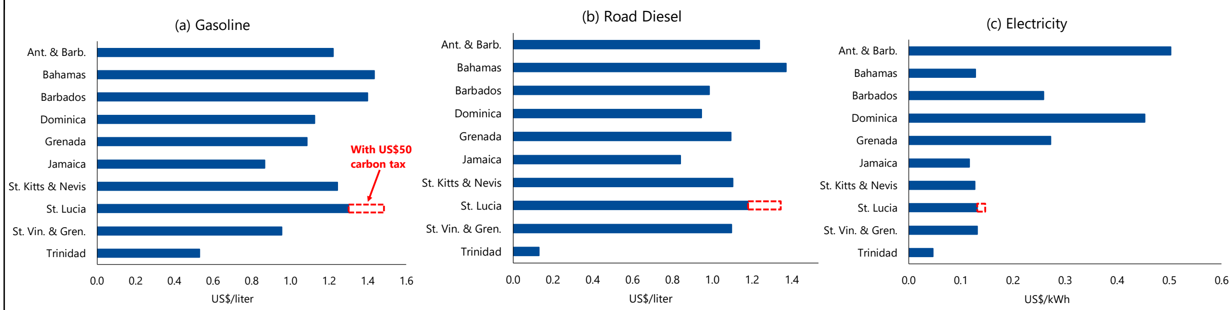
[3] Due to data constraints it is not possible to cleanly separate fuel consumption for transportation and fuels for commercial use, e.g., by manufacturing firms or hotels. The *Other commercial use* category represents fuels that are exempt from import duties due to concessions. The *Transportation* category likely contains non-exempt fuels for commercial use, which are taxed like road fuels.

[4] Road fuel retail prices are regulated and adjusted every three weeks based on actual import prices. In theory, this should result in a quick pass-through from oil prices on world markets. In practice, however, there is an overall cap on retail prices and during periods of high oil prices the government lowers the excise tax to honor the cap.

[5] If duty-free fuels were taxed similarly to road fuels the annual revenue would amount to EC$7 million (0.1 percent of GDP).

[6] LPG is cross-subsidized from the excise tax revenue on road fuels. Excise tax revenue in Table 1 is gross revenue.

Annex VI. Figure 2: Regional Energy Prices (2017)



Source: IMF staff calculations.

5. A spreadsheet model is used to assess the impact of a carbon tax on emissions and fiscal revenues. The model projects fuel use and electricity demand through 2030 using calibrated income and price elasticities combined with assumptions about improvements in energy efficiency and the transition to renewables.[7] The BAU scenario (with no further changes to the fuel tax system) is compared to various scenarios with a carbon tax and accelerated transition to renewables. In all carbon tax scenarios, the tax is phased in gradually on top of current excise taxes on diesel for power generation, road fuels, fuels for other commercial use, and subsidies for LPG.[8] Scenarios with a faster transition to renewables simulate an increase in the renewable share in electricity generation to 50 percent by 2030, consistent with St. Lucia's pledge under the Paris Agreement.

6. The model projections show that while the carbon tax can raise sizable revenues, a more forceful expansion of renewables is needed to attain the emission reduction targets by 2030. By itself, a carbon tax rising to US$50 per ton (EC$135) in 2030 reduces emissions by an estimated 7.5 percent below BAU levels in 2030 (see Figure 3).[9] Doubling the carbon tax to US$100 reduces emissions 14 percent. If renewables could be expanded in line with the NDC pledge, economy-wide emissions would be reduced 25 percent. Combining this renewables scenario with the US$50 and US$100 carbon taxes cuts 2030 emissions by 30 and 34 percent respectively. In terms of revenues[10], the US$50 and US$100 carbon taxes by themselves would be raising 1.1 and 2.1 percent of GDP in extra revenue in 2030, compared with the BAU and accounting for the erosion in the base of pre-existing fuel taxes. When combined with the renewables policy (which further erodes the tax base from diesel used in power generation) extra revenues from the carbon taxes are 0.7 and 1.4 percent of GDP respectively.

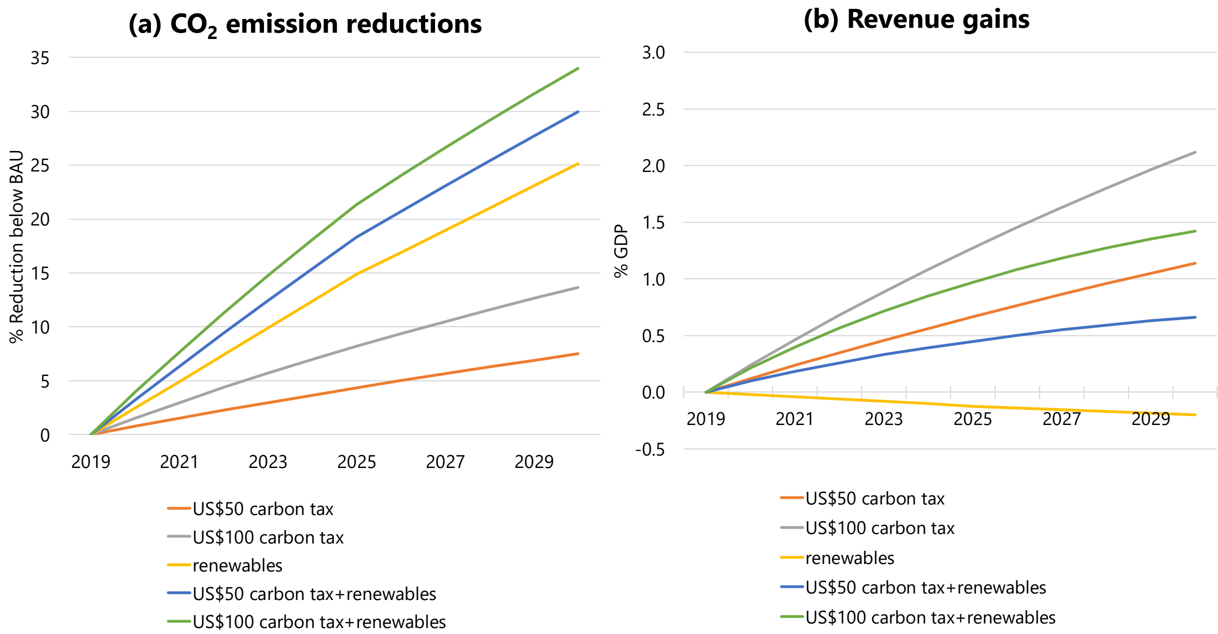
[7] For details on the model see 2018 Climate Change Policy Assessment, and IMF (2019).

[8] This treatment implies that the uneven structure of the current system is preserved, meaning that emissions in the transportation sector continue to be taxed at a higher rate than emissions from power generation. There is some justification for this treatment to the extent that road fuel taxes are addressing other environmental costs like congestion. See Parry et al. (2014).

[9] Under the US$50 carbon tax road fuel prices would rise by 12.5 percent (EC$1.6) relative to BAU by 2030. Electricity prices would rise by 10.2 percent and prices of other fuels, including LPG, would rise by 14 percent (all relative to BAU). Under a US$100 carbon tax price changes are roughly twice as large.

[10] The revenue scenarios presented here are separate from the revenue projection in the adjustment scenario of the main text. The adjustment scenario assumes a much quicker implementation of a carbon tax, yielding revenue of 1 percent of GDP starting in FY2020/21.

Annex VI. Figure 3. Model Projections For Carbon Tax Scenarios



Source: IMF staff calculations.

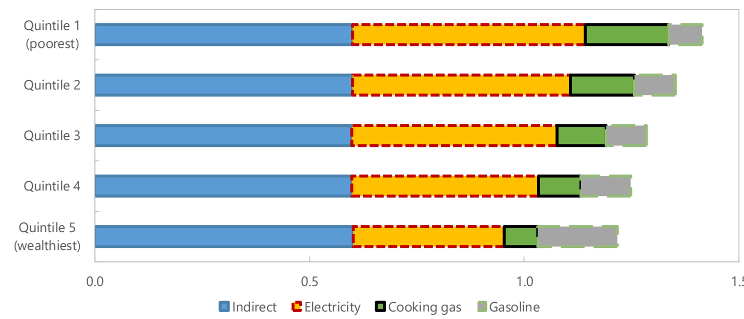
C. Distributional Impact and Competitiveness

7. **While carbon taxes are effective for mitigation and fiscal purposes, they can be regressive if spending on energy or energy-intensive products by the most vulnerable is disproportionately high.** The distributional and social impact of the tax depends on the spending patterns of different segments of the population and the assessment must incorporate the effect from both direct price changes of energy products and indirect price changes of non-energy products. Indirect effects emerge as the carbon tax is passed on along the supply chain into the prices of intermediate and ultimately final goods and in practice such effects, while not as visible as direct increases in fuel and electricity prices, are often sizable. If the tax is found to be regressive poorer households could be compensated through means-tested cash or in-kind transfers (provided the social safety net and administrative capacity are sufficiently effective) or assistance for household energy bills (though this reduces environmental effectiveness of the tax and there are limitations to compensate for indirect effects).

8. In St. Lucia a carbon tax would be mildly regressive because of relatively high spending shares for electricity and cooking gas among poorer households. Based on analysis of the 2016 Household Survey of Living Conditions and Household Budgets (SLC/HBS) poorer households spend a larger proportion of their total expenditures on electricity and cooking gas than more affluent households, while the reverse holds for purchases of gasoline and diesel (due to lower car ownership among lower poorer households). As shown in Figure 4 these spending patterns result in the carbon tax being mildly regressive, with the tax burden of the poorest 20 percent amounting to 1.4 percent of their total consumption compared to only 1.2 percent of the wealthiest 20 percent.[11] Indirect effects are significant (about 0.6 percent of total household consumption), yet they affect all segments similarly.

Annex VI. Figure 4. Burden of a US$50 Carbon Tax on Households

(In percent of total household consumption)



Source: IMF staff calculations.

9. Nonetheless, compensating poorer households for the loss of purchasing power would require only relatively modest resources. Despite being regressive in relative terms the absolute burden of the carbon tax falls mostly on affluent households that have higher total spending. The poorest 20 percent of households pay (directly or indirectly) only 9.4 percent of the carbon tax revenue. If a corresponding share of total proceeds was used for targeted assistance these households as a group would be as well as off as before the tax. The analysis also demonstrates that the current subsidization of LPG, which in part is motivated by the high spending by the most vulnerable households, is not an effective social policy. Only 14.3 percent of economy-wide spending on LPG can be attributed to the poorest 20 percent of households and thus most of the subsidy ends up benefitting wealthier households. In sum, these results should encourage accelerated work to improve the social safety net and administrative capacities, such as implementing a central beneficiary registry.[12]

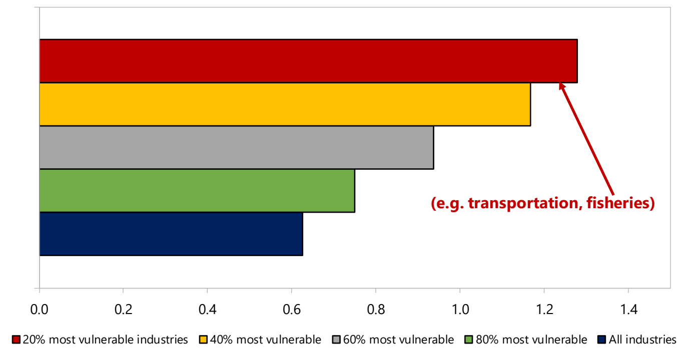
[11] For the analysis households are sorted into quintiles based on per capita household consumption. Using data on intermediate input use from the Supply-and-Use tables (SUTs) indirect effects are computed using the approach by Coady et al. (2006). Both household expenditure shares and firms' input structure are assumed to be fixed with no substitution effects.

12 The most recent poverty estimates from 2016 indicate that 20.3 percent of Saint Lucia's population are poor (or live below $5.50 dollars a day).

10. The carbon tax increases production costs for energy-intensive sectors (e.g. transportation, hotels, fisheries) to a limited extent. From the producers' perspective a carbon tax increases production costs, resulting in depressed profits margins if the rise in costs cannot be passed on to consumers. For sectors that compete in international markets, such as tourism, a carbon tax that is introduced unilaterally would adversely affect competitiveness. Figure 5 shows that with a US$50 carbon tax production costs rise by 0.6 percent on average and by 1.3 percent for the most energy-intensive industries.[13] Importantly, these numbers represent an upper bound to the cost increase since in practice firms will substitute towards less energy-intensive intermediate inputs and may reduce energy use through investment into new and more energy-efficient equipment.

Figure 5. Burden of a US$50 Carbon Tax on Industries

(Output-weighted average cost increase by cumulative industry share, in percent)



Source: IMF staff calculations.

[13] Compared to the estimates for various other countries in IMF (2019a) the cost increases for St. Lucia are very modest. Partially, this is accounted for by a more dominant share of emission-intensive sectors, such as manufacturing, in advanced and emerging economies, e.g., US and China.

References

Coady, David and Moataz El-Said, Robert Gillingham, Kangni Kpodar, Paulo Medas, David Newhouse, 2006. "The Magnitude and Distribution of Fuel Subsidies: Evidence from Bolivia, Ghana, Jordan, Mali, and Sri Lanka", IMF Working Paper 06/247.

International Monetary Fund (IMF), 2018, "St. Lucia: Climate Change Policy Assessment", Country Report No. 18/181

International Monetary Fund (IMF), 2019a, "Fiscal Monitor: How to Mitigate Climate Change", Washington, DC, October.

International Monetary Fund (IMF), 2019b, "Fiscal Policies for Implementing Paris Climate Strategies", Washington, DC.

Parry, Ian and Dirk Heine, Eliza Lis, Shanjun Li, 2014, "Getting Energy Prices Right: From Principle to Practice", IMF, Washington, DC.

Annex VII. Emerging Risks from Credit Unions[1]

1. St Lucia has 16 non-profit credit unions with membership covering about 60 percent of the population. The unions provide basic financial services to their membership, typically based on a common community or professional bond, under a member-friendly business model. Funding consists primarily of withdrawable member shares and deposits that earn attractive interest and profit dividends, and benefit from income tax deductibility. Lending comprises of household property and consumption loans (although the latter may also include financing used by borrowers for small business purposes). Credit unions are nationally regulated under the Co-operative Societies Act (COSA) and supervised by the local Financial Service Regulatory Authority (FSRA), with effective operations from January 2014.2

2. The credit unions play an increasingly important role in local financial intermediation. At end-2018, the sector's total assets amounted to about 20 percent of GDP and it accounted for about a quarter of total resident household deposits and loans. Credit unions' rapid expansion in part reflects their niche market, underpinned by their ability to serve underbanked population segments with the benefit of close community ties, but also lower fees, higher returns on savings and less stringent lending regulations relative to commercial banks. Their growth has helped to cushion the prolonged decline in bank private sector credit, although their business lending activity remains limited.

3. Continued rapid credit growth, information gaps and pockets of prudential weaknesses give rise to increasing financial stability risks. The credit union sector holds on aggregate sizeable liquidity and capital buffers, but with significant and drawn-out vulnerabilities among the smaller entities (the FSRA designates seven unions under a high-risk watchlist). Delinquent and long-overdue loans remain persistently high across much of the sector, reflecting in part unions' reluctance to write-off and foreclose on irrecoverable loans, while supervisory information gaps preclude monitoring of forbearance related asset quality weaknesses.[3] Loan-loss provisioning falls short of the FSRA regulatory guidance in a significant share of the sector, and its adequacy is in some cases highly sensitive to the recoverable value of the underlying collateral.[4] This under-provisioning risk is particularly pertinent given credit unions' vulnerability to a deterioration in

---

[1] Prepared by Janne Hukka.

[2] St. Lucia is yet to adopt the regionally Harmonized Co-Operative Societies Bill due to extensive stakeholder consultations. The revised Act would seek to enhance credit union licensing and reporting requirements, prudential standards, and supervisory enforcement actions.

[3] In contrast to commercial banks, credit unions are not bound by the ECCB Banking Act restrictions on repeat restructuring, and the regulations do not include clear loan reclassification rules (nor minimum provisioning requirement) for restructured/forborne loans.

[4] Similar to commercial banks, the current regulations allow credit unions to determine their provisioning requirement net of qualifying collateral held against overdue loans (ranging from 25 percent of the loan value from 90 days past due to 100 percent for over 365 days overdue). Recoverable collateral valuations are subject to significant uncertainty due to unspecified treatment of recovery costs, lack of granularity in supervisory reporting and market specific factors (e.g. absence of a real estate index to support and regularly update property appraisals).

the housing market through sizeable property loan exposures. The unions also face increasing pressures from the pending implementation of IFRS9 (with potential implications to provisions and write-offs), potential downward pressures on lending margins from the more competitive credit environment, as well as costs of rising compliance requirements.

Annex VII. Table 1. St. Lucia Credit Unions: Selected Prudential Indicators 2014-2018
(Sector aggregate, percent)

	2014	2015	2016	2017	2018
Capitalization					
Capital-to-asset ratio 1/	17.7	17.6	17.0	17.1	17.7
Liquidity					
Liquid assets to total assets	9.2	7.6	9.7	10.4	12.1
ST assets to ST liabilities 2/	19.2	17.6	21.6	24.2	25.8
Loan-to-deposit ratio	93.9	94.0	89.8	89.5	87.2
Asset quality					
Delinquent loans to total loans	10.2	8.9	10.5	10.3	8.5
NPL ratio (over 90 days past due)	8.5	6.6	6.9	6.1	6.0
of which more than a year past due (share)	49.0	62.0	59.6	54.5	50.9
Provision coverage of NPLs	35.9	44.5	40.3	61.5	57.7

Source: St Lucia FSRA, IMF staff calculations

1/ Ratio of share capital, retained earnings and statutory and other non-withdrawable reserves to total assets.

2/ Ratio of liquid assets (cash and deposits) and short-term investments less short-term payables to short-term liabilities.

4. **Macro-financial linkages from credit unions are so far moderate but growing.** The unions are owned and funded by their members. Direct government exposures are limited to security holdings of about one percent of GDP. Credit unions hold deposits at the indigenous banks, but the amounts are so far not significant relative to these banks' sizeable deposit base.[5] That said, the sector's macro-significance is growing rapidly with its size and the largest credit union (with assets of about 5 percent of GDP) has been designated as systemically significant under a recent ECCB regional initiative.[6] Sector-wide distress could have adverse spillover effects on domestic economic activity and give rise to significant fiscal costs to the extent the government would back the sizeable household savings and equity in the unions (over 16 percent of GDP).

5. **The sector's rising importance underscores timely detection of vulnerabilities.** The FSRA implements risk-based supervision with prioritized on-site inspections. The backdrop of rapid expansion calls for supplementary enhancement of off-site monitoring, including closing asset quality information gaps, enhancing consistency of supervisory reporting and clarifying prudential

[5] Aggregate credit union deposits in other financial institutions of about EC$ 180 million are equivalent to about 7½ percent of the indigenous banks' total deposits, of which more than a third is in fixed deposits or CDs.

[6] The current regulatory framework does not impose additional requirements on the systemically important credit union, but ongoing regional reform considerations assess the option of bringing these entities under the ECCB's regulatory and supervisory purview.

norms. This should be further informed by regular stress testing, under development with CARTAC technical assistance, with scenarios accounting for potential weaknesses arising from prolonged rapid credit growth, identified under-provisioning and uncertainties over collateral valuations.

6. Existing intervention and resolution frameworks need to adapt to rising stability risks. Credit unions' funding options are inherently tied to their membership, which may prove constrained in periods of distress, and formal financial safety nets are very limited.[7] Also, notwithstanding minimal direct cross-union exposures, weak transparency and absence of a formalized crisis communication plan may give rise to indirect spillovers through confidence channels in the event of a prominent failure.[8] In absence of a precisely defined ladder of escalation measures, efforts to address current prudential weaknesses have so far largely relied on moral suasion and the full scope of the FSRA's early intervention powers remain to be tested. Moreover, the existing resolution framework is constrained by absence of standing resolution funding, as well as legislative rigidities and ambiguities.[9] The FSRA is reviewing existing procedures as part of its recent initiative to develop a Financial Crisis Management Plan (FCMP) for non-bank financial institutions, a first in the region.

[7] Credit unions savings have no formal deposit insurance nor access to emergency liquidity. A local advocate body (St. Lucia Co-Operative Credit Union League) has facilities to lend to credit-worthy member societies, but its capacity is limited to only a few percent of total sector assets and has not been employed in practice.

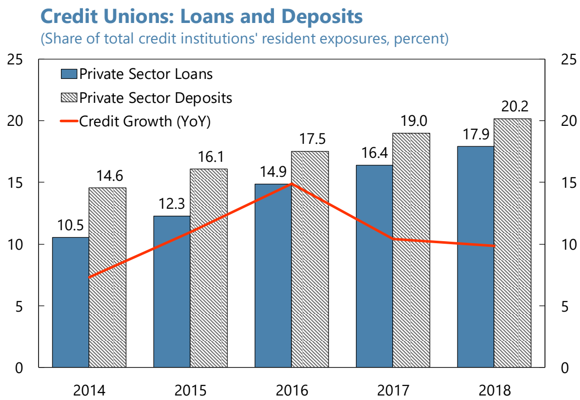
[8] Only six credit unions have their annual reports and audited financial statements readily available online and some are published with a significant lag. The FSRA's annual reports provide quantitative information only on a sector aggregate level.

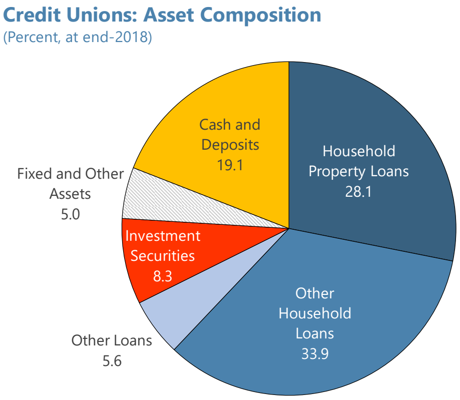
[9] The range of available resolution strategies, including an outright sale, establishment of a bridge bank or a forced merger, are limited by legal restrictions on the transfer of union assets to non-member parties (subject to special-majority membership approval). The legal framework also lacks clearly defined operational triggers or designated authority charged with directing intervention into a distressed union (placement into receivership and liquidation are subject to ministerial approval and may be directed either by the FSRA or courts).

Annex VII. Figure 1. Credit Unions: Overview and Prudential Metrics[1]

Credit unions comprise an increasing share of domestic financial intermediation …

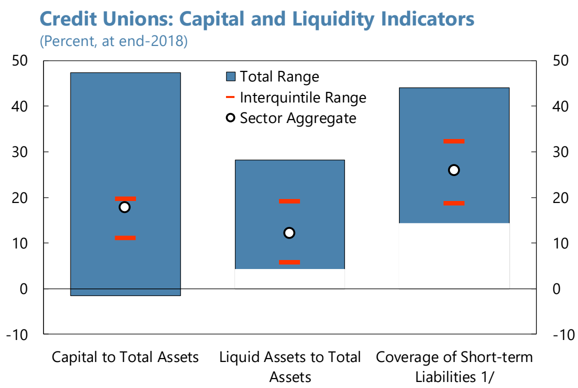
… with member-friendly business models serving primarily local households.



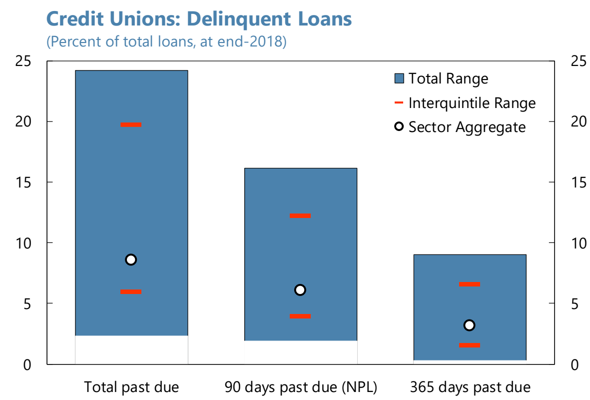


Notwithstanding few outliers, the credit unions hold sizeable capital and liquidity buffers.

Elevated loan delinquencies and long-dated arrears are nonetheless a persistent concern …

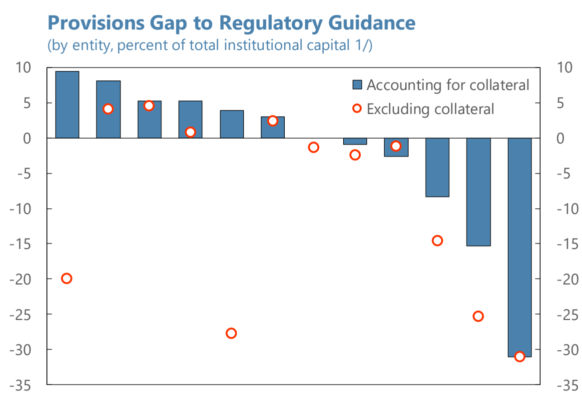


1/ Liquid assets and net short-term investments to total member deposits.

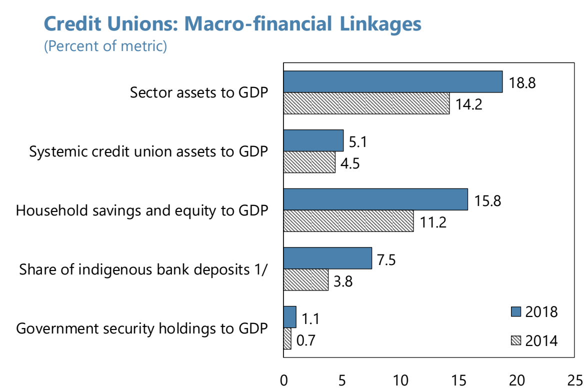


… particularly where provisions adequacy falls short of the regulatory guidance or is sensitive to collateral values.

Credit unions' macro-financial linkages remain limited for now but are growing rapidly with the sector's size.



1/ Negative value indicates underprovisioning to FSRA guidance. Excludes union with negative capital.



1/ Assumes all deposits in other financial institutions are held in the indigenous banks.

1/ Prudential indicators based on end-2018 data, subject to availability.

Sources: ECCB, FSRA and IMF Staff calculations.

Annex VIII. Implementation of the 2018 CCPA Recommendations

Background

1. **The Climate Change Policy Assessment (CCPA)** is a joint initiative by the IMF and World Bank to assist small states to understand and manage the expected economic impact of climate change, while safeguarding long-run fiscal and external sustainability. St. Lucia underwent the CCPA in 2018 as one of the pilot countries for the assessment.[1]

2. **The CCPA provided a comprehensive assessment of St. Lucia's plans to manage climate change from the perspective of the macroeconomic implications.** The assessment suggested macro-relevant reforms that could strengthen the likelihood of success of the national strategy in the areas of: general preparedness, mitigation, adaptation, financing, risk management and national processes. Overall, the CCPA recognized that St. Lucia has shown leadership among the Caribbean countries in confronting climate change, despite its difficult fiscal constraints, and highlighted that success of its long-term climate adaptation and mitigation strategy will require full articulation of a costed strategy, the mobilization of private investment for bankable projects and external grants for public goods, and capacity-building to manage the plans effectively.

3. **The authorities have made commendable progress on implementing the CCPA recommendations.** Their reform agenda is guided by the 2015 Climate Change Adaptation Policy which provided a framework for addressing the impacts of climate change in an integrated manner across all key sectors with interconnected processes on adaptation facilitation, adaptation financing and adaptation implementation. Recent progress in carrying out the reform agenda includes updating the national and sectoral adaptation plans, preparing a climate financing strategy, and mobilizing resources from the global climate funds. The government's infrastructure programs also include a focus on building resilience to natural disasters. This note summarizes the progresses in each of the six areas presented in the CCPA.

Implementation of the CCPA Recommendations

A. General Preparedness

Recommendations

- Strengthen the National Determined Contribution (NDC), to provide a comprehensive strategy of St. Lucia's climate-change related effort—particularly by adding costed adaptation plans.
- Update the National Vision Plan and Medium-Term Development Plan, and develop supporting operational sectoral plans, with focus on costing and resource mobilization.

[1] The CCPA report was published at https://www.imf.org/en/Publications/CR/Issues/2018/06/21/St-46007

- Ensure that all enabling legislation and standards relevant to climate, environment and energy are in place.

Progress

4. **Based on the 2018 National Adaptation Plan (NAP)** which outlined immediate, medium and long-term climate change adaptation needs and the process for the development of adaptation strategies and investment plans for priority sectors, the government is now in the process of finalizing Sectoral Adaptation Strategies and Action Plans (SASAPs) in water, agriculture, fisheries, infrastructure, education and health with indicative estimate of financing needs in each sector. The draft climate change legislation is also under review. The government's Medium-Term Development Plan 2019–22 will also have a focus on building resilience against climate change.

5. **On climate financing, the government is in the process of developing a climate financing strategy that will map the indicative financing needs in the identified priority sectors to the possible financing resources including global climate funds, donor support and budget resources.** However, the active costing of climate projects has not taken place.

B. Mitigation

Recommendations

- Introduce a carbon tax by applying the announced road fuel tax increase to other diesel products (including for power generation) and synchronizing future tax increases across all fuels.

Progress

6. **The authorities are mindful of the potential benefits of carbon taxation on supporting St. Lucia's efforts to meet emission reduction efforts and further strengthen public finance and appreciate the IMF staff's work on the distributional impact of a carbon tax and the policy implications.** However, they note that there is limited scope to introduce a carbon tax given the already high cost of the energy in the country.

C. Adaptation

Recommendations

- Enact the amendments to the OECS Building Code for Saint Lucia.
- Review and approve the Coastal Zone Management Policy and Strategy.
- Consider rezoning flood areas.

Progress

7. **The SASAPs will include strategies for natural resource management, including coastal, marine and terrestrial biodiversity.** Studies on the OECS building code is undergoing with donor's support. Currently there is no timetable for approving the Coastal Zone Management Policy and Strategy or rezoning flood areas, although the National Integrated Planning Program (NIPP) and the Sustainable Development and Environmental Division (SDED) have both been looking at the vulnerability of government assets and communities along St. Lucia's coast.

D. Financing

Recommendations

- Articulate a strategy for raising climate-change financing; use the NDC forum as a catalyst.
- Rely as much as possible on private sector and grant financing, to ensure continued fiscal and debt sustainability.
- Fully implement the renewables strategy, not least because it will strengthen St. Lucia's balance of payments.

Progress

8. **The Climate Financing Strategy is being finalized. The government is developing a country program with the Green Climate Fund to unlock financing for the already-identified projects.** However, there is little progress with mobilizing private investment. The scope of increasing the use of renewable energy is restricted by the existing cap for solar energy production. Removing the cap will require legislative changes.

E. Risk Management

Recommendations

- Build a contingency funding buffer through:
- Immediate capitalization of a fund of USD 5–7 million
- In the medium term, a savings fund with capitalization of 5 percent of GDP, replenished on a rolling basis, which would give St. Lucia a 95 percent probability of being able to cover the fiscal costs of disasters without incurring additional debt.
- Use revenues from the Citizenship-by-Investment program (CIP) to capitalize disaster funding.
- Consider making insurance mandatory for key public buildings.
- Study the value of making insurance mandatory for buildings in flood-risk areas.

- Support the strengthening of the domestic insurance market, as well as *regional* initiatives for insurance, which are likely to be relatively cost-effective.

Progress

9. The government plans to use part of the CIP revenues to build a liquid self-insurance fund to bolster the country's resilience to disasters. A parametric insurance scheme for the fisheries sector to enhance resilience against the impacts of climate-related disasters has been introduced with donor support. Currently there is no plan to introduce mandatory insurance.

F. National Processes

Recommendations

- Ensure that responsibilities for climate action are logically assigned to relevant ministries, with clear responsibilities for developing sectoral strategies and costed investments.
- Revive the public sector investment plan (PSIP), while addressing any problems that made it be considered inadequate.
- Ensure that climate-related objectives and activities are systematically identified in thebudget, and investment projects explicitly linked to these.
- Build capacity for effective public investment appraisal and monitoring, in the Ministry of Finance and other relevant ministries.

Progress

10. The NAP and SASAPs have clearly defined the responsibilities for climate change for the relevant ministries and the government has set up a delivery unit to monitor policy implementation, as well as the strategy for capacity development. The government will receive technical assistance from the World Bank to resume the PSIP with an aim to strengthen appraisal and monitoring for all public investment projects. Resilience to natural disasters is an important aspect of the government's infrastructure programs.

ST. LUCIA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 21, 2020

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

CONTENTS

FUND RELATIONS ____ 2

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS ____ 11

STATISTICAL APPENDIX ____ 12

FUND RELATIONS

(As of November 30, 2019)

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

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

SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	14.57	100.00
Holdings	4.14	28.41

Outstanding Purchases and Loans:	SDR Million	Percent of Quota
RCF Loans	1.15	5.37

Latest Financial Arrangements: None

Projected Payments to the Fund[1/]

	Forthcoming				
	2019	2020	2021	2022	2023
Principal		0.77	0.38		
Charges/Interest	0.02	0.08	0.08	0.08	0.08
Total	0.02	0.85	0.47	0.08	0.08

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

Implementation of HIPC Initiative: Not Applicable

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

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

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

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

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

Macroeconomic Programming and Analysis

- September 2019 (CARTAC): 2 officers from the MOF attended the ECCU Customized DSA/FP course.
- July 2019 (CARTAC): 1 official from the MOF participated in the Macroeconomics Diagnostics Course
- May/June 2019 (CARTAC): A workshop was conducted on the MAC DSA framework. 13 persons from the MOF attended.
- April 2016 (CARTAC): Updating the Macro Framework and drafting the medium-term fiscal framework
- March 2015: To review progress on the GDP Forecasting Framework.
- October 2015: Make Presentation at CARTAC National Accounts Planning Workshop.
- July 2014: To make better use of the high-frequency macro indicators in updating short-term GDP projections.

National Accounts

- October 2019 (CARTAC): National Accounts Mission to assist with redeveloping the national accounts compilation system and compiling rebased GDP estimates.

- September 2017, September 2018 and February 2019 (CARTAC): National Accounts Missions to assist with compiling and balancing the supply and use tables (SUT) for 2016; and implementing further improvements in the national accounts estimates.

- September 2016 (CARTAC): National Accounts Mission to develop the compilation system to produce quarterly GDP by economic activity estimates and to improve the annual GDP estimates.

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

- March 2014 (CARTAC): Development a plan to assess the quality of the annual GDP estimates; January 2013 (CARTAC) advice on improving the source data to compile quarterly GDP; May 2011 (CARTAC): advice on the development of quarterly GDP, with St. Lucia being a pilot in the OECS.

- December 2010 (CARTAC): real sector projections, including the preparation of scenarios that assessed the impact of Hurricane Tomas on the economy.

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

External Sector Statistics

- September 2018 (CARTAC): Dealing with nonresponse and improving the compilation of trade in goods statistics

- March 2018 (CARTAC): Strengthening the compilation of the recently revised balance of payments and new international investment position (IIP) statistics.

- October 2016 (CARTAC): Reviewing preliminary BPM6-based Balance of Payments and new IIP Statistics for dissemination.

- March 2016 (CARTAC): Assessing sources data for the compilation of Balance of Payments and IIP Statistics according to the BPM6.

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

Tax Reforms and Revenue Administration

- November 2019 (CARTAC Tax Administration) Strengthening HQ Capacity: Program Development

- November 2019 (CARTAC Customs): participation in regional seminar in Developing Trusted Trader and Authorized Economic Operator Programs.
- September 2019 (CARTAC Tax Administration): Regional Tax Audit Training (participation in regional workshop)
- July 2019 (CARTAC Tax Administration): IT Support - Implementation of ICT System
- July 2019 (CARTAC Tax Administration): Strengthening Audit Capacity and Audit Program
- June 2019 (CARTAC Tax Administration and Customs): participation in regional seminar in Disaster Preparedness Planning for Tax and Customs.
- June 2019 (CARTAC Tax Administration): Strengthening HQ functions
- May & November 2018 (CARTAC Tax Administration): Regional Tax Audit Training (participation in regional workshop)
- October 2018 (CARTAC Tax Administration): Building HQ & Audit Capacity
- June 2018 (CARTAC Tax Administration): Audit Effective Management (participation in regional workshop)
- June 2018 (CARTAC Tax Administration): Strengthening IRD IT Business Processes & Control
- FY 2018/19 (CARTAC Customs Administration): Provide training on extracting data from the ASYCUDA system to support risk management, trade facilitation and sound management.
- October & November 2017 (CARTAC): Building Technical Capacity in VAT Legislation
- June & November 2017 (CARTAC): Building and enhancing HQ capacity, data gathering, analysis, and program reporting
- March 2017 CARTAC Revenue Administration): Follow-up on Developing a Compliance Risk Management Strategy.
- November 2016: Strengthening Performance Management – establishing KPI
- November 2016: IT Support – (via Peer-to-Peer Technical Assistance (TA) Attachment)
- October 2016 (CARTAC Revenue Administration): Developing a Compliance Risk Management Strategy. (follow-up TA in March 2017 to complete this TA)
- October 2016: Data Analytics
- September 2016 (CARTAC Revenue Administration): Developing a Taxpayer Service Strategy.
- June 2016 (CARTAC Revenue Administration): Building Audit Capacity

- June 2016 (CARTAC Customs): Strengthen the Post Clearance Audit Function.
- October 2015 (CARTAC Tax Administration): Technical Assistance to Support the Establishment of a Large and Medium Taxpayers Unit.
- September 2015 (CARTAC Tax Administration): Technical Assistance for Amending the Corporate Income TA and Determining the Presumptive Tax Rate.
- September 2015 (CARTAC Customs Administration): Provide guidance & training on improving & strengthening enforcement intelligence and risk.
- November 2014 (CARTAC Customs Administration): Support Risk Management mission.
- August 2014 (CARTAC Customs Administration): TA to Montserrat Customs and Excise Department.
- May 2014 (CARTAC Customs Administration): Organizational Structure Review of the CED.
- September 1–11, 2015: (CARTAC) Improve the Corporate Income Tax regime.
- July 6–17, 2015 (CARTAC) IRD structural re-organization establishment of the LMTU and DPMU).
- March 16–27 2015, May 11–22, July 27–August 6, 2015: (CARTAC) Property taxation.
- December 9–December 22, 2014: (FAD funded by CARTAC) VAT revenue analysis.
- July, September, October 2014 and April 2015 (CARTAC) IRD structural re-organization.
- April 13–24, 2014 (CARTAC) tax and customs, data matching.
- April 2–15, 2014 (FAD) follow-up on tax and customs administrations after VAT introduction.
- January 27–31 2014, (CARTAC) IRD strategic planning.
- October 14–November 1, 2013 and February 10–24, 2014, (CARTAC) development of VAT audit capacity.
- April 2013: Electronic Auditing for Income Tax and VAT Auditors St. Lucia
- March 2013: SUPPORTING THE VAT AUDIT PROGRAM
- January/February 2013: Basic VAT Assurance Course
- September 2012: Supporting the Establishment of a VAT Collections and Enforcement Function
- June/July 2013: Collection Enforcement Training and support for The Establishment of a Collection and Enforcement Function
- October 2013 (CARTAC): Strengthening the Customs Administration—Valuation workshop and training.

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

Expenditure Rationalization and PFM Reforms

- April 2018 (CARTAC): PFM Action Plan
- September 2017 (CARTAC): Budget Workshop with MoF and all Ministries
- July 2017 (CARTAC): PEFA Assessment
- June 2017 (CARTAC): PEFA Workshop
- January 2016 (CARTAC): Diagnostic Assessment of Internal Audit.
- September 2015 (CARTAC): Assist Authorities in Preparing for the 2015/2017 Budget Process.
- October 2015 (PFM): PFM Accountant General's Department review and Pre PEFA assessment.

- September 2015 (PFM): Program Based Budgeting.
- August 2015 (PFM): Develop a comprehensive budget manual.
- December 2014 (PFM): Budget Preparation Mission.
- October 2014 (PFM): Budget Preparation Mission.
- February 2014 (PFM): Assist with finalizing annual budget estimates document.
- January 2014 (PFM): Final Budget Preparation Reform Mission.
- May 2014 (MCM): Strengthening public debt management in ECCU countries. Assessment of Technical Assistance needs provided to the ECCB.
- July 2014 (CARTAC): Improvements to real sector monitoring frameworks to provide for rapid updating of real sector variables using high frequency indicators.
- January 2013, June 2013, November 2013, January 2014 (CARTAC): Budget Preparation Reform;
- February 2013 (CARTAC): Chart of Accounts reform.
- December 2013 (CARTAC): Diagnostic of PFM legislation.
- October 2013 (CARTAC): Improving accountability and performance of Parastatals.
- January 2012 (CARTAC MAC Programme): real and fiscal medium-term projections under baseline and active scenarios.
- May and November 2011 (CARTAC): budget preparation mission.
- June 2010 (CARTAC): preparation of a PFM reform action plan, PFM workshop.
- December 2010 (CARTAC): fiscal projections under baseline and active scenarios.
- August 2010 (FAD): regional project on public expenditure issues, including expenditure trends, policies, and expenditure rationalization options.
- November 2009 (CARTAC): budget preparation and fiscal projections.
- December 2008 (MCM): improving debt management capacity of the government.

Financial Sector

- FY18–FY20 (CARTAC): Staff from the Financial Services Regulatory Authority (FSRA) participated in all Regional Workshops on the supervision of Credit Unions and Insurance companies, consolidated supervision, risk-based supervision, and on other topical or emerging issues such as cyber risk, and FinTech.

- October 2019 (CARTAC): provided bilateral TA to the FSRA on the implementation of Risk-based supervision across non-bank financial institutions.

- October 2019 (CARTAC): Developing the Stress Testing Framework for the Credit Union Sector.
- September 2018 (CARTAC): Technical assistance requests from the Financial Services Regulatory Authority to review and analyze Life and General Insurance Actuarial Valuation reports.
- June 2018 (CARTAC): Stress Testing the Insurance Sector (joint mission for four ECCU countries).
- September 2017 (CARTAC): Developing Financial Health and Stability Indicators for the Insurance Sector (joint mission for four ECCU countries).
- April 2016 (CARTAC): Basel II Implementation.
- February 2016 (CARTAC): Basel II Implementation.
- August 2015 (CARTAC): Dynamic Modelling and Stress Testing of St. Lucian Banks (in conjunction with ECCB).
- August 2015 (CARTAC): Training of Credit Union Regulators on Stress-Testing.
- December 2015 (MCM): Implementation of Risk Based Supervision.
- August 2015 (MCM): Dynamic Modelling Project.
- November 2014 (MCM): Risk Based Supervision Insurance.
- September 2014 (MCM): Risk Based Supervision Framework
- March, May and June 2014 (MCM and LEG): Strategy to resolve indigenous banks. Assistance to the ECCB.
- May 2014 and ongoing (MCM): Collateral valuation. Assistance to the ECCB.
- May 2014 and ongoing (MCM): Credit risk management assessment. Assistance to the ECCB.
- May 2014 (CARTAC): Technical assistance requests from the ECCB to implement Basel II in the ECCU. The ECCB as a part of the Caribbean Group of Banking Supervisors (CGBS), has developed the operational risk guidelines for Basel II and has established a steering committee, made up of regulators from some of the SRUs to look at areas of national discretion for the implementation of Basel II.
- November 2013 and May 2014 (MCM and LEG): Assistance to the ECCB on legislative changes to the ECCB Agreement Act, Banking Act and subsidiary legislation.
- May 2014 (CARTAC): Assistance to the ECCB with the development and implementation of a strategic plan to achieve compliance with the Basel Core Principles for Effective Banking Supervision.
- March 2013 (CARTAC): Review a draft Corporate Governance Guidance for ECCB which covers domestic banking operations in St. Lucia

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

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

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

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

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

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank: http://financesapp.worldbank.org/en/countries/St.%20Lucia/
- Caribbean Development Bank: https://www.caribank.org/countries-and-members/borrowing-members/saint-lucia

STATISTICAL APPENDIX

ST. LUCIA — STATISTICAL ISSUES APPENDIX

(As of May 16, 2018)

I. Assessment of Data Adequacy for Surveillance

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

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

Quarterly GDP estimates by the expenditure approaches were developed and released in April 2017 with technical assistance from CARTAC. CARTAC has provided technical assistance since May 2011 on quarterly GDP compilation, with St. Lucia serving as a pilot for the ECCU countries.

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

Price Statistics: The rebasing exercise of the CPI has been completed—the new CPI basket (base January 2018) is based on the 2016 Household Expenditure Survey. The statistical office has started developing a producer price index covering hotels and restaurants and is considering developing unit-value based export and import price Indexes.

Government Finance Statistics: Reporting of budgetary central government data has improved over the last few years, but deficiencies remain in the compilation of both general government and public sector statistics. The authorities report monthly data on the budgetary central government's current revenue and expenditure, using a non *GFSM 2014* presentation with lags of a couple of months. The authorities would thus benefit from moving to a complete GFSM framework for the compilation of Government Finance Statistics. Additionally, frequent and substantial revisions suggest that there is a need for further refinement, including improvements to accounting systems for capital expenditures to record outlays associated with grant-financed projects as they are realized. Data for the rest of the public sector (financial and nonfinancial public corporations) are not readily available and should be compiled on a regular basis to improve fiscal monitoring of the overall public sector.

Monetary and Financial Statistics: Monetary data are compiled by the ECCB on a monthly basis and reported regularly to the Fund. Specifically, on St. Lucia, the institutional coverage of other depository corporations is incomplete, and valuation of interest-bearing assets and liabilities does not incorporate accrued interest. Also, source data for the commercial banks do not provide disaggregated information recommended by the Monetary and Financial Statistics Manual (ECCB is currently working on this issue). St. Lucia reports data on several series and indicators of the Financial Access Survey (FAS) including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial sector surveillance: The ECCB reports quarterly FSIs for St. Lucia covering commercial banks.

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

II. Data Standards and Quality

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

St. Lucia: Table of Common Indicators Required for Surveillance (As of December 3, 2019)					
	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Fixed rate	NA	NA	NA	NA
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	07/2019	09/30/2019	M	M	M
Reserve/Base Money	07/2019	09/30/2019	M	M	M
Broad Money	07/2019	09/30/2019	M	M	M
Central Bank Balance Sheet	07/2019	09/30/2019	M	M	M
Consolidated Balance Sheet of the Banking System	07/2019	09/30/2019	M	M	M
Interest Rates[2]	07/2019	09/30/2019	M	M	M
Consumer Price Index	06/2019	10/2019	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	08/2016	11/2016	M	M	H
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	08/2016	11/2016	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q2/2016	11/2016	Q	H	H
External Current Account Balance	2018	11/14/2019	A	A	A
Exports and Imports of Goods and Services	2018	11/14/2019	A	A	A
GDP/GNP	2017	01/04/2019	A	A	A
Gross External Debt	12/16	02/2017	Q	H	H
International Investment Position[6]	2018	11/14/2019	A	A	A

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

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

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

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

[5] Including currency and maturity composition.

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

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