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ST. LUCIA

March 2025

2024 ARTICLE IV CONSULTATION; PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ST. LUCIA

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 2024 Article IV Consultation, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its February 7, 2025, consideration of the staff report that concluded the Article IV consultation with St. Lucia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 7, 2025, following discussions that ended on November 8, 2024, with the officials of St. Lucia on the Article IV Consultation. Based on information available at the time of these discussions, the staff report was completed on January 8, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for St. Lucia.

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PRESS RELEASE

PR25/60

IMF Executive Board Concludes 2024 Article IV Consultation with St. Lucia

FOR IMMEDIATE RELEASE

Washington, DC – March 13, 2025: On February 7, 2025, the Executive Board of the International Monetary Fund (IMF) concluded the 2024 Article IV consultation[1] with St. Lucia and considered and endorsed the staff appraisal.

St. Lucia's tourism-dependent economy has normalized after the pandemic. GDP growth is expected at 3.7 percent in 2024, on strong tourism, construction, and manufacturing activity. Unemployment has dropped to decade lows but remains elevated at 14 percent. The authorities recently introduced a minimum wage, increased minimum pensions, and plan to implement an unemployment insurance scheme. Inflation, which peaked at 6.4 percent y/y in 2022, fell to 0.8 percent in June, driven by utilities and energy prices, as well as a VAT reduction. The current account deficit narrowed to 1.9 percent of GDP in 2023 with the rebound in tourism, even as the fiscal deficit widened to 2.6 percent of GDP and debt ticked up to 74.5 percent of GDP. Banks are liquid and profitable, but credit growth is weak, although credit unions are growing rapidly.

Over the medium term, once planned infrastructure and hotel investments approach completion, growth is projected to slow to a modest 1.5 percent over the medium term. Inflation is expected to rise to 2 percent over the medium term as global input costs normalize. The deficit excluding natural disasters costs is forecast to narrow to 1.3 percent of GDP in FY2024 but widen thereafter to 2.2 – 2.9 percent of GDP on the back of higher capital expenditures. Debt is projected to stabilize around 74 percent of GDP, well above the regional debt ceiling of 60 percent of GDP. The current account deficit is anticipated to narrow further over the medium term on account of stronger tourism and lower fuel prices. Bank credit to the private sector is projected to remain anemic because of high NPLs, the lack of foreclosure legislation, and concerns about the fiscal outlook.

Risks to the outlook are tilted to the downside and include investment delays and large debt rollover needs. St. Lucia is vulnerable to a global slowdown and supply disruptions, as well as natural disasters and climate change. On the upside, stronger-than-expected growth in tourism and construction could provide a positive boost to the economy.

[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 of discussion by the Executive Board.

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Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed St. Lucia's strong economic performance, aided by robust tourist arrivals and a supportive fiscal stance. While noting the favorable near-term prospects, Directors highlighted that medium-term growth is expected to slow and risks are tilted to the downside, including from investment delays and high tourism dependence. Prudent policies and reforms should aim to reduce debt, increase productivity, and boost potential growth.

Directors recommended sustained fiscal consolidation, while safeguarding space to support capital projects and resilience against natural disasters. They called for comprehensive tax policy reform, enhanced tax administration, and improved control and targeting of current expenditures, including the wage bill. Directors welcomed the authorities' commitment to achieving the regional debt target and recommended the adoption of a sound fiscal rule. Further improving the transparency of the Citizenship-by-Investment Program is also important.

Directors highlighted that while systemic risks appear contained, further reforms are needed to strengthen the financial sector. They recommended steps to further reduce banks' NPLs and enact foreclosure legislation to support credit growth. Improved compliance with ECCB provisioning requirements for banks is necessary. Directors welcomed the new Co-operative Societies Act and encouraged continued efforts to strengthen credit union regulation. They also highlighted the need to enhance risk monitoring of the insurance sector and for continued progress to address AML/CFT regulatory gaps.

Directors underscored that structural reforms and natural disaster-resilient investment are crucial to diversify the economy and boost potential growth. They emphasized the importance of improving credit access, reducing operating and tax compliance costs, and addressing labor force skill mismatches. Noting the implications for external competitiveness, Directors urged careful calibration of the minimum wage, in close consultation with stakeholders. They also encouraged measures to enhance the natural-disaster insurance framework and develop geothermal energy.

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

Table 1. St. Lucia: Selected Social and Economic Indicators, 2020–29

I. Social and Demographic Indicators

Area (sq. km)	616	Infant mortality (per thous. live births, 2023)	14.4
		Human Development Index ranking (of 189 countries, 2022)	108
Population Characteristics			
Total (thousands, 2023, UN)	179.3	Gross Domestic Product (2023)	
Rate of growth (average 2014-2023)	0.34	(millions of US dollars)	2,430
Population density (per sq. km., 2023)	291.0	(millions of EC dollars)	6,561
Secondary education enrollment (percent, 2022)	88.1	(US$ per capita)	13,555
Life expectancy at birth (years, 2023)	72.7		

II. Economic and Financial Indicators

					Est.	Pro				
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Output and Prices										
Real GDP (at market prices)	-24.4	11.6	20.4	2.2	3.7	2.8	2.4	1.9	1.5	1.5
Consumer prices, period average	-1.8	2.4	6.4	4.5	1.3	1.3	1.8	2.0	2.0	2.0
Unemployment rate (% annual average)	21.7	21.9	16.5	14.0	…	…	…	…	…	…
Real effective exchange rate (annual average, depreciation -)	99.6	95.5	96.3	97.2	…	…	…	…	…	…
Central Government Finances 1/										
Revenue	21.7	21.0	21.0	21.4	22.3	22.2	22.1	22.0	21.9	21.9
Tax revenue	19.0	18.0	18.0	19.0	19.6	19.5	19.4	19.3	19.2	19.2
Nontax revenue	1.6	1.8	1.9	1.8	1.9	1.9	1.9	1.9	1.9	1.9
Grants and capital revenue	1.1	1.3	1.1	0.5	0.8	0.8	0.8	0.8	0.8	0.8
Expenditure	33.2	25.8	22.7	24.0	23.6	24.4	25.0	24.9	24.5	24.1
Current primary expenditure	23.8	18.2	17.0	17.0	17.4	17.6	17.8	18.0	18.0	17.9
Interest payments	3.8	3.1	2.9	3.4	3.3	3.5	3.5	3.6	3.6	3.7
Capital expenditure	5.6	4.5	2.8	3.7	2.8	3.3	3.7	3.3	2.9	2.5
Overall balance excl. ND cost	-11.4	-4.8	-1.6	-2.6	-1.3	-2.2	-2.9	-2.9	-2.6	-2.2
Overall balance, incl. ND cost	-11.4	-4.8	-1.6	-2.6	-1.9	-2.8	-3.6	-3.5	-3.3	-2.9
Total public sector debt 2/	95.0	81.9	73.4	74.5	72.7	72.3	72.7	73.2	73.6	73.6
Domestic	49.4	39.3	35.6	31.5	30.1	29.5	29.3	29.4	29.4	29.4
External	45.5	42.6	37.8	43.1	42.6	42.9	43.3	43.8	44.2	44.2
Central government debt	89.8	76.8	68.9	69.6	68.1	67.9	68.4	69.1	69.7	69.9
Money and Credit, End of Period (Annual Percent Change)										
Broad money (M2)	-6.6	14.9	3.8	11.3	2.7	4.6	4.8	4.4	4.0	4.0
Credit to private sector (nominal)	2.7	-0.1	1.6	2.7	1.6	0.6	0.8	0.4	0.0	0.0
Credit to private sector (real)	4.5	-2.5	-4.5	-1.3	0.3	-0.7	-1.0	-1.5	-1.9	-1.9
Balance of Payments										
Current account balance, *o/w:*	-18.9	-11.9	-2.9	-1.9	-1.6	-1.3	-1.2	-1.0	-0.6	-0.5
Exports of goods and services	30.1	38.1	55.3	58.2	57.6	56.9	56.9	57.0	57.3	57.4
Imports of goods and services	-47.7	-47.8	-51.0	-52.4	-52.5	-52.4	-52.2	-52.2	-52.2	-52.1
Financial account balance	-14.3	-8.3	-1.1	-0.2	-0.8	-0.5	-0.4	-0.2	0.2	0.3
Direct investment	-8.2	-6.8	-2.2	-5.8	-5.7	-5.6	-5.5	-5.5	-5.4	-5.3
Portfolio investment	6.2	4.4	3.0	-0.7	-0.3	0.2	0.6	1.0	1.4	1.9
Other investment	-10.3	-14.2	-0.1	3.8	4.1	4.4	4.2	3.9	3.8	3.4
Net reserves assets	-2.0	8.3	-1.7	2.5	1.1	0.6	0.4	0.3	0.3	0.3
External debt (gross) 3/	79.0	70.0	63.0	68.0	67.1	66.7	66.0	65.3	64.7	63.9
Public	45.5	42.6	37.8	43.0	43.4	44.1	44.4	44.6	44.8	44.8
Memorandum Items:										
Nominal GDP (EC$ millions)	4,048	5,041	6,325	6,561	6,927	7,245	7,590	7,925	8,245	8,578
Net imputed international reserves										
Months of imports of goods and services	3.0	3.5	2.9	3.3	3.4	3.4	3.3	3.3	3.2	3.2
Percentage of demand liabilities	88.3	92.3	91.4	90.6	92.1	92.0	91.9	91.7	91.6	91.4

Sources: St. Lucia authorities; ECCB; UNDP HDI; and Fund staff estimates and projections.
1/ Fiscal year (April–March) basis. Fiscal balances do not include the airport project, which is implemented by a public corporation.
2/ Public sector debt includes payables and overdrafts/ECCB advances.
3/ Comprises public sector external debt, foreign liabilities of commercial banks and other private debt.

INTERNATIONAL MONETARY FUND

ST. LUCIA

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

January 8, 2025

KEY ISSUES

Context. Healthy tourist arrivals and an expansionary fiscal stance have supported the economy and helped reduce unemployment, while inflation is declining rapidly on the back of lower commodity prices. The financial sector is broadly healthy, but credit growth has been sluggish, except in the rapidly expanding credit union sector.

Outlook and risks. Strong growth is expected this year, but medium-term economic prospects are muted, with potential growth estimated at just 1.5 percent, and risks are tilted to the downside. The fiscal outlook is challenging as well, with debt likely to remain around 75 percent of GDP and large recurrent spending demands expected to squeeze much-needed capital expenditure. Bank credit is likely to remain weak, constrained by high NPLs, legislative gaps related to foreclosures and asset recoveries, and risk aversion.

Policy advice. Lowering debt to the regional target of 60 percent of GDP by 2035, as the authorities have committed, will require fiscal consolidation, and above-potential growth in the near term should make it easier to begin such an effort now. A key priority will be to raise domestic revenue via a comprehensive, equitable, and growth-friendly tax reform, but improved control of current expenditure and the implementation of sound fiscal rules will also be important elements. Financial sector priorities include strengthening bank balance sheets, further reducing NPLs, closing legislative gaps to encourage lending and support growth, and enhancing oversight and capitalization of credit unions. Finally, to boost productivity and raise potential growth, priority should be given to investment in infrastructure, education, and disaster resilience, along with labor market reforms and improvements to social protection.

Approved By
Koshy Mathai (WHD) and Dora Iakova (SPR)

Discussions took place in Castries during October 29–November 8, 2024. The team comprised Sami Ben Naceur (head), Sergei Antoshin, Enrico Di Gregorio, and Junghwan Mok, supported by Laila Azoor and Brett Smith (all WHD). Matthew Day (OED) joined several meetings, as did Justin Carter (CDB), Mikila St. Juste (ECCB), and Vasilis Tsiropoulos (WB). The mission met with Prime Minister Pierre, Minister Girard in the Ministry of Finance, Economic Development and the Youth Economy, Permanent Secretary of Finance Fontenelle, and other senior government officials, as well as representatives of the opposition, the private sector, and labor unions.

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CONTEXT

1. **St. Lucia's economy has normalized.** Given the country's heavy dependence on tourism, the pandemic led to a sharp contraction in 2020 followed by a surge in growth in 2021–23. Conditions have now normalized, and strong tourist arrivals and supportive fiscal policy are boosting growth and reducing unemployment—long an issue for St. Lucia—while favorable commodity prices are helping to bring inflation down.

2. **Medium-term prospects, however, are challenging.** Potential growth remains very weak, constrained by limited productivity capacity and labor market inefficiencies, including high informality. There is little fiscal space to continue supporting growth, and indeed a consolidation effort will be needed for the government to hit the regional debt target by 2035. And while the financial sector is healthy, bank lending remains sluggish, reflecting elevated sovereign risk and limited progress in reducing NPLs, though credit unions are expanding rapidly, driven by regulatory arbitrage.

RECENT DEVELOPMENTS

3. **The economy is performing relatively well at the moment**:

- Growth slowed to 2.2 percent in 2023 on account of a decline in U.S. visitors, but tourism has accelerated in 2024, with a pickup in tourist arrivals only partly offset by a reduction in average length of stay. Strong tourism, along with a boost to public and private construction projects, is expected to have pushed GDP growth to 3.7 percent in 2024.

- Unemployment has dropped to decade lows but remains elevated (14 percent overall and 25 percent for youth in 2023). The authorities recently introduced a minimum wage, increased minimum pensions, and revealed plans to implement an unemployment insurance scheme.

- Inflation, which peaked at 6.4 percent y/y in 2022, fell to 0.8 percent in June, driven by easing housing, water, and energy costs along with the removal of the VAT on building materials and medical equipment in 2023.

- The current account deficit remains above pre-pandemic levels but has been narrowing as tourism recovers, reaching 1.9 percent of GDP in 2023. The external position in 2023 is assessed as broadly in line with fundamentals and desirable policies (Annex I), while the REER has appreciated slightly over the last 12 months.

4. **The fiscal deficit widened in FY2023,[1] and public debt remains elevated.** The deficit rose to 2.6 percent of GDP in FY2023, as higher expenditures (related mostly to higher interest payments

[1] The fiscal year begins in April.

and improved capital project execution) outpaced gains in tax revenue (driven by the economic recovery and a new consumption levy, while citizenship-by-investment (CIP) revenue remained small). As a result, public debt ticked up to 74.5 percent of GDP.

Key Fiscal Items: Recent Developments (In percent of GDP; FY)	Pre-Covid Average '16-'19	2020	2021	2022	2023	Difference ('23-'22)
Tax revenue	19.0	19.0	18.0	18.0	19.0	1.0
CIT	1.7	1.9	1.3	1.5	2.0	0.5
Import tax on petroleum	1.0	1.6	0.9	0.5	1.0	0.5
New consumption levy	0.0	0.0	0.0	0.0	0.3	0.3
Nontax revenue	2.9	2.7	3.1	3.0	2.4	-0.6
CIP	0.5	0.5	0.8	1.0	0.7	-0.3
Primary current expenditure	16.8	23.8	18.2	17.0	17.0	0.0
Interest costs	3.0	3.8	3.1	2.9	3.4	0.5
Capital expenditure	3.7	5.6	4.5	2.8	3.7	0.9
Overall balance	-1.6	-11.4	-4.8	-1.6	-2.6	-1.0
Public debt	60.6	95.0	81.9	73.4	74.5	1.1

Sources: National authorities; and IMF staff calculations.

5. Banks are liquid and profitable, but credit growth is weak. Net interest margins have largely recovered, but they are still slightly below pre-pandemic levels. While NPLs have declined, they remained elevated at 11.6 percent in 2024Q2. Loan loss buffers have gradually increased, with most banks now meeting the regulatory minimum. Despite ample liquidity, bank lending declined by 2 percent y/y as of August, driven by a sharp contraction in business loans due to lenders' risk aversion, tight credit standards, and a preference for foreign investments. While banks pulled back, the small credit union (CU) sector, with assets equivalent to 24 percent of GDP, saw 12 percent y/y credit growth as of June. Thirteen out of sixteen CUs have capital ratios below the new regulatory minimum, including three with negative capital. While the delinquency ratio at CUs has fallen modestly, their provisioning coverage ratio remains low.

OUTLOOK AND RISKS

6. Growth and inflation are both likely to worsen over the medium run. As planned infrastructure and hotel investments approach completion, growth should slow to potential, estimated at a modest 1.5 percent. At the same time, inflation is expected to gradually rise from 1.3 percent in 2024 to around 2 percent over the medium term as global input costs normalize.

7. The fiscal outlook remains challenging over the medium term. The deficit excluding natural disaster (ND) costs[2] is expected to narrow to 1.3 percent of GDP in FY2024—lower than in the budget given low project execution—but widen thereafter. Over the medium term, the wage bill is expected to recover to pre-pandemic levels and the interest bill will grow modestly. These increases will be partly offset by a decline in capital expenditure after 2026, constrained by limited access to financing, and a reduction in goods and services expenditures associated with large public investment projects. Debt is projected to stabilize at around 74 percent of GDP.

Key Fiscal Items: Baseline (In percent of GDP; FY)	Pre-Covid Average '16-'19	2024	2025	2026	2027	2028	2029	Difference ('29-'24)
Tax revenue	19.0	19.6	19.5	19.4	19.3	19.2	19.2	-0.4
Nontax revenue	2.9	2.7	2.7	2.7	2.7	2.7	2.7	0.0
Primary current expenditure	16.8	17.4	17.6	17.8	18.0	17.9	17.9	0.5
Wages	7.5	6.6	6.9	7.2	7.5	7.5	7.5	0.8
G&S	4.0	4.8	4.8	4.7	4.6	4.6	4.5	-0.3
Interest costs	3.0	3.3	3.5	3.5	3.6	3.6	3.7	0.4
Capital expenditure	3.7	2.8	3.3	3.7	3.3	2.9	2.5	-0.3
Overall balance (excl. ND)	-1.6	-1.3	-2.2	-2.9	-2.9	-2.6	-2.2	-0.9
Primary balance (incl. ND)	1.4	1.4	0.6	-0.1	0.0	0.4	0.9	-0.5
Overall balance (incl. ND)	-1.6	-1.9	-2.8	-3.6	-3.5	-3.3	-2.9	-0.9
Public debt	60.6	72.7	72.3	72.7	73.2	73.6	73.6	0.9

Sources: National authorities; and IMF staff calculations.

[2] Natural disaster costs reflect the estimated annualized fiscal cost of a natural disaster in St. Lucia (see the 2018 Staff Report).

8. The current account deficit is projected to narrow further over the medium term on account of stronger tourism and lower fuel prices. Tourism receipts are projected to rise with the completion of hotels under construction.[3] The reserve position is expected to remain stable, ranging from 3.2 to 3.4 months of prospective imports, surpassing the 3-month benchmark.

9. Bank credit to the private sector is projected to remain anemic. Limited access to credit for firms and households remains a key obstacle to growth, economic diversification, and employment, as firms struggle to expand investments and households cannot finance large purchases. On the supply side, credit provision is hindered by high NPLs, the lack of legislation permitting foreclosures (which effectively makes all lending uncollateralized), competition from less-regulated CUs, and concerns about the fiscal outlook. On the demand side, borrowers are deterred by stringent loan-qualification requirements and burdensome application processing.

10. Risks to the outlook are tilted to the downside (Annex II). Downside risks include investment delays and challenges in raising public debt, which could result in an abrupt fiscal adjustment. High dependency on imports and tourism makes St. Lucia vulnerable to a global slowdown and supply disruptions, which could weaken tourism, FDI, and domestic incomes. A larger recognition of NPLs could further depress credit growth and impede economic growth. St. Lucia is also heavily exposed to NDs and climate change risks. On the upside, stronger-than-expected growth in tourism and construction could provide a positive boost to the economy.

Authorities' Views

11. The authorities expected higher growth in the near term and were more optimistic about medium-term prospects. They believed that enhanced investment in physical, social, and digital infrastructure will drive growth over the next two years, ultimately creating favorable conditions for higher medium-term growth than what staff has assessed. The authorities generally concurred with the staff's risk assessment.

POLICY PRIORITIES

A. Creating Fiscal Space

12. The main policy priority for St. Lucia is decisive fiscal consolidation, while creating space for priority spending on capital projects and climate resilience. Public debt is already high, exceeding the regional ceiling of 60 percent of GDP, and while it is expected to remain stable, it is subject to important risks (Annex III) including high rollover needs and a constrained domestic investor base.[4] Banks have identified high sovereign risk as a key obstacle to credit growth, and high public debt rollovers crowd out private lending. Fiscal consolidation is essential for mitigating these

[3] The authorities plan, by 2028, to increase the number of hotel rooms by over 25 percent, easing tourism capacity bottlenecks.

[4] Banks are reluctant to take on more public debt because of the high sovereign risk, insurers are facing rising reinsurance costs amid climate change, and the pension fund's reserves are shrinking.

vulnerabilities and helping the authorities fulfill their commitment to achieving the regional debt target by 2035. The cost of policy inaction could be prohibitively high, as a potential shock, such as an ND, could put debt on a higher trajectory and increase borrowing costs, making future adjustment more difficult.[5] In addition, fiscal space should be created to expand capital expenditure,[6] so as to address growth bottlenecks and climate challenges (see below). These objectives can be achieved through a comprehensive tax policy reform, improved control and targeting of current expenditures, and the adoption of a sound fiscal rule within a fiscal responsibility framework.

13. An active scenario illustrates one approach to securing the regional debt target and making space for priority spending, while fostering growth and equity. To achieve the regional debt target by 2035, the fiscal stance needs to be tightened by 1.3 percent of GDP over five years relative to the baseline, with a primary surplus of 2.1 percent of GDP to be maintained over the subsequent five years. This would rest on a gradual increase in tax revenue by 2.5 percent of GDP over five years through a comprehensive tax reform and enhanced tax administration,[7] coupled with stabilizing the wage-to-GDP ratio (a clawback of 0.6 percent of GDP relative to the baseline). This would allow capital expenditure to reach the pre-pandemic average of 3.7 percent of GDP while investing an additional 0.6 percent of GDP annually to prepare for NDs.[8] This scenario, coupled with labor, social, and financial reforms, would be consistent with an improvement in potential growth and equity over the medium term. Staff assesses that the net impact on growth of the recommended tax reform and fiscal consolidation, including higher capital expenditure, is expected to be positive over the longer term.[9]

Key Fiscal Items: Active Scenario
(In percent of GDP; FY)

	Pre-Covid Average '16-'19	2024	2025	2026	2027	2028	2029	Difference b/w Active Scenario and Baseline for FY29	2030	2031	2032	2033	2034	2035
Tax revenue	19.0	19.6	20.0	20.4	20.8	21.3	21.7	**2.5**	21.7	21.7	21.7	21.7	21.7	21.7
Nontax revenue	2.9	2.7	2.7	2.7	2.7	2.7	2.7	**0.0**	2.7	2.7	2.7	2.7	2.7	2.7
Primary current expenditure	16.8	17.4	17.4	17.4	17.4	17.4	17.3	**-0.6**	17.3	17.3	17.3	17.3	17.3	17.3
Wages	7.5	6.6	6.7	6.8	6.9	6.9	6.9	**-0.6**	6.9	6.9	6.9	6.9	6.9	6.9
G&S	4.0	4.8	4.8	4.7	4.6	4.6	4.5	**0.0**	4.5	4.5	4.5	4.5	4.5	4.5
Interest costs	3.0	3.3	3.5	3.5	3.4	3.5	3.5	**-0.3**	3.5	3.4	3.3	3.2	3.1	3.0
Capital expenditure	3.7	2.8	3.3	3.7	3.9	4.1	4.3	**1.8**	4.3	4.3	4.3	4.3	4.3	4.3
Overall balance (excl. ND)	-1.6	-1.3	-1.5	-1.4	-1.2	-1.0	-0.7	**1.5**	-0.7	-0.6	-0.5	-0.4	-0.3	-0.2
Primary balance (incl. ND)	1.4	1.4	1.4	1.3	1.5	1.8	2.1	**1.3**	2.1	2.1	2.1	2.1	2.1	2.1
Overall balance (incl. ND)	-1.6	-1.9	-2.1	-2.1	-1.9	-1.6	-1.3	**1.5**	-1.3	-1.3	-1.1	-1.0	-0.9	-0.9
Public debt	60.6	72.7	71.6	70.5	69.5	68.4	67.1	**-6.5**	65.8	64.6	63.2	61.8	60.4	58.9

Sources: National authorities; and IMF staff calculations.

[5] See Zenios (2024) for a review of the literature on a climate-debt doom loop.

[6] The 2022 Article IV suggests that small open island economies have very low fiscal multipliers to recurrent government expenditure of 0–0.2 but larger and persistent multipliers to investment of 0.4–0.6.

[7] It is assumed that the tax reform and the phasing-in of tax increases will take five years due to the technical and legal complexity of the process.

[8] This is the minimum required for such investment based on the 2019 ECCU SIP "Building Ex-Ante Resilience to Natural Disasters". The 2022 St. Lucia Staff Report Section C shows that public investment in resilience would yield net fiscal savings and gains in GDP levels and growth rates.

[9] Gonzalez-Garcia et al. (2013) shows that the long-run multipliers of taxes and consumption expenditure are non-different from zero statistically, while public investment has a long-run multiplier of 0.6.

14. Reforming the tax system, as recommended in earlier technical assistance,[10] will boost tax revenue, improve equality, and reduce distortions (see Annex V). St. Lucia has excessive tax expenditures,[11] resulting in low tax collection—some 12 percent of GDP shy of the country's tax-generating potential[12]—and a regressive tax system. Above-potential growth in the near-term should make it easier to launch a tax reform now, with manageable short-term costs.[13] The authorities could reasonably aim to raise tax revenue by some 2.5 percent of GDP over the medium term and should focus on:

- *Rationalizing Corporate Income Tax (CIT) incentives*. Large and widespread incentives keep CIT revenue especially low, including in the exceptionally profitable hospitality sector. Eliminating these incentives could yield 2–4 percent of GDP. The upcoming implementation of the OECD Pillar II provides an opportunity to tax international hotels domestically. The design of CIT incentives should be supported by a rules-based framework, discretionary concessions should be reduced, and a monitoring unit should be established.

- *Reforming the VAT*. The main and tourism rates should be raised, the high VAT threshold lowered, and the number of zero-rated items limited, potentially generating at least 2 percent of GDP and making the VAT St. Lucia's main and most efficient revenue source.

- *Improving the Personal Income Tax*. Extensive allowances, deductions, and exemptions increase with pre-tax income and thus reduce revenue and induce regressivity. These should largely be replaced with tax credits mostly for low-income earners. Regressive deductions, such as insurance benefits and purchase of shares should be eliminated. Dividends, rental income, capital gains, and interest income (all exempt) should be taxed.

- *Developing property taxes.* Recurrent property taxes should become an important, growth-friendly source of revenue. The 2017 residential property exemption should not be renewed, at least for larger, high-value properties, and the property cadaster should be extended. The 3-year exemption for new commercial properties should be shortened. Reducing high transfer taxes can stimulate the secondary real estate market.

- *Reforming fuel taxes* would increase revenue, help achieve carbon emission targets, and reduce regressivity. Raising the fuel VAT rate from zero to the statutory rate and restoring the fuel excise to the pre-pandemic level would yield at least 0.6 percent of GDP. The ensuing revenues should help finance climate adaptation and reach carbon emission targets.

- *Raising excises on alcohol and tobacco* and possibly introducing a sweetened beverage excise could help address negative health externalities and help finance health-related expenditures.

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[10] IMF (2015) FAD TA report "Review of Income Taxation and VAT Performance for Fiscal Sustainability"; the World Bank (2024) report "Strengthening Tax Policy for Climate Resilient Growth in Saint Lucia".

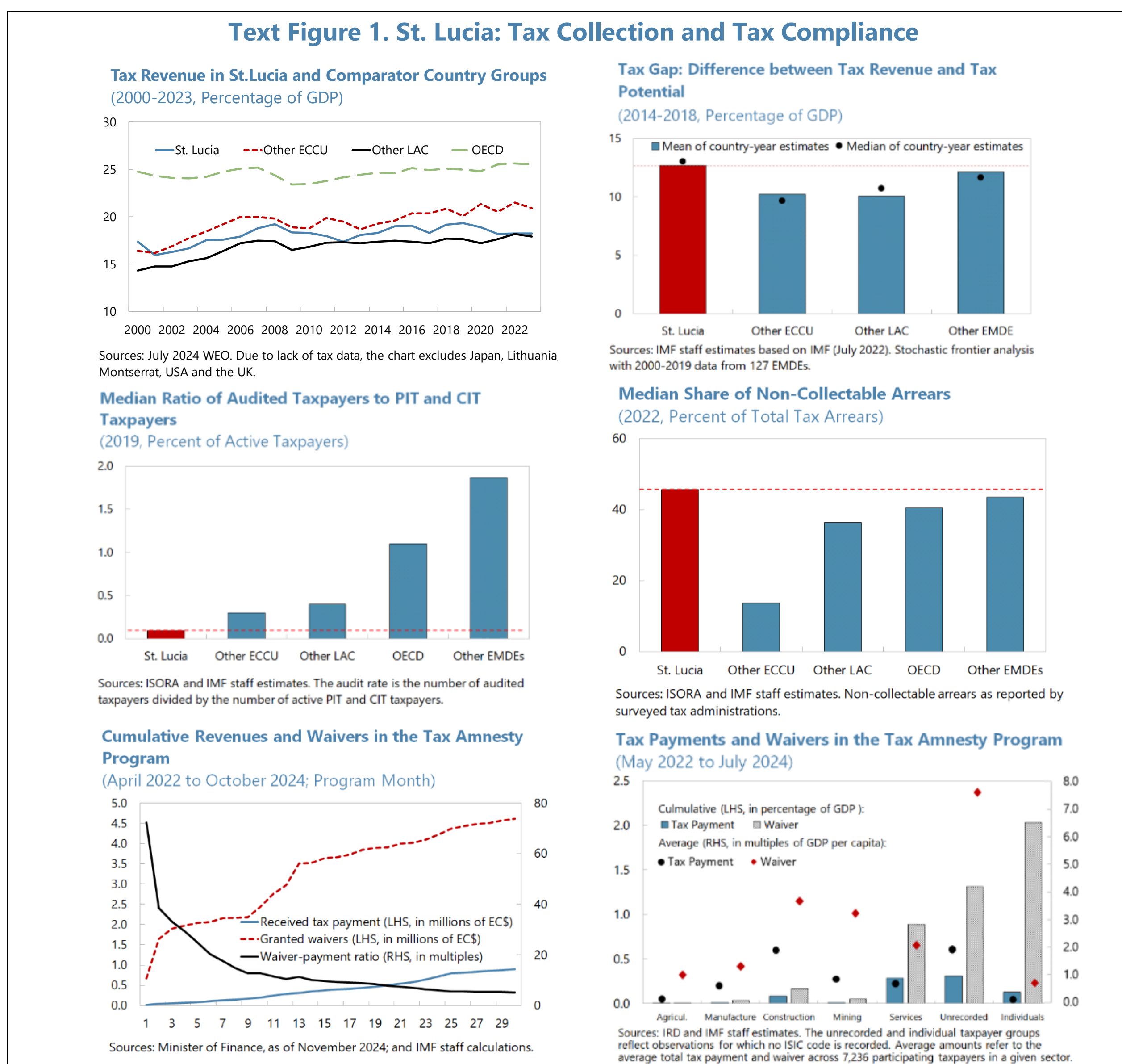
[11] The foregone tax revenue from tourism incentives was estimated at 5.8 percent of GDP, on average, for the ECCU. See IMF Country Report No. 20/70.

[12] Following IMF (2022).

[13] See the Fiscal Monitor (October 2024) Box 1.1.

15. Improving tax administration is crucial to domestic revenue mobilization. Key issues include insufficient staffing, manual processes, and inadequate data quality and transparency especially with the customs. While progress has been made, auditing and inspection capabilities should be improved further to match regional standards, leveraging the ongoing Tax Administration Modernization Project and analytics-driven compliance risk management. Improving taxpayer access and service digitalization, reducing the perception of impunity for tax avoidance and evasion, and fostering a strong culture of compliance are also critical. The ongoing tax amnesty program[14], now extended until May 2025, is estimated to result in forgone tax revenue of 4.6 percent of GDP—up to 6 times the taxes collected through the amnesty—and should not be renewed further.

Text Figure 1. St. Lucia: Tax Collection and Tax Compliance



[14] The amnesty waives all interest and penalties accumulated on previously unreported tax liabilities, and tax liabilities pertaining to years before 2000.

16. Better current spending control and targeting can help secure fiscal space. Some categories of current expenditure—goods and services, transfers, pensions, and interest—were together nearly 2 percent of GDP above the pre-pandemic average in FY2023. While wages have been contained so far, they are expected to rise in the medium term. These expenditures should be better controlled and curtailed where possible, including through a reduced headcount. Transfers are critically important, including to mitigate the impact of reforming zero-rate VAT items and reducing fuel subsidies, but to maximize their impact while protecting fiscal space they should be targeted to vulnerable households. This would require proxy-targeted measures in the near term and capacity building for more effective targeting mechanisms over the longer term.

17. A stronger fiscal framework, inclusive of fiscal rules, can instill prudence. Staff analysis[15] shows that a legal primary balance floor and current expenditure ceiling—in conjunction with the regional debt target—would work well in the context of St. Lucia. The primary balance floor would ensure debt sustainability while a rule on current spending would constrain unplanned current spending and secure space for public investments. If complemented by narrowly defined escape clauses related to NDs and other large exogenous shocks, these measures would provide an anchor for fiscal policy, enhance its transparency and credibility, and help contain sovereign borrowing costs. The fiscal rule would be a key component of a broader fiscal responsibility framework. Given rising investment needs and uncertainty surrounding long-term debt outcomes, fiscal rules should ideally be calibrated to target both increased capital expenditures and debt below the regional ceiling.

18. The sustainability of the national pension fund (the National Insurance Corporation, or NIC) should be ensured. The NIC has proposed gradually raising contribution rates and the early retirement age, which would delay its projected depletion from 2051 to 2080. These reforms deserve support, but a more comprehensive approach[16] is required to ensure its financial sustainability, including pension caps and voluntary investment options for high earners. This year's increase in the minimum pension will likely worsen the funding gap, making the need for reforms more urgent.

19. Other fiscal priorities include strengthening debt management and enhancing the CIP. Recent legislation has strengthened procurement and debt management practices, including the implementation of a medium-term debt strategy. Additionally, the authorities have strengthened the due diligence processes[17] of the currently small CIP program, as recommended in past consultations, but further efforts are needed to improve its governance and transparency, especially regarding the real estate or enterprise investment option.[18] Also to improve transparency, the

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[15] See the 2023 St. Lucia Staff Report.

[16] See [the 2024 ECCU SIP "Toward More Efficient, Sustainable, and Fair Pension Schemes in the ECCU"](#).

[17] St. Lucia has enhanced its due diligence process to comply with the 2023 U.S.-Caribbean Roundtable Agreement and address increased scrutiny from the US, EU, and UK.

[18] The selection process is not transparent. While the overall investment amount by project is known to the ECCB, the actual amounts invested per year and costs of the projects, as well as the data on fund flows related to the investment route are not available.

mechanism for transferring funds from the CIP Unit to the Treasury through the National Economic Fund should be simplified.

Authorities' Views

20. The authorities acknowledged the necessity for fiscal consolidation, albeit with a lower sense of urgency and a preference for more flexibility. They emphasized that St. Lucia has successfully raised debt and do not perceive the elevated debt levels and high rollover needs as particularly vulnerable. To achieve the debt target of 60 percent of GDP by 2035, they plan to gradually increase the primary surplus. The authorities expressed interest in the staff recommendations on the fiscal rule, but they currently favor a flexible approach. They also emphasized the importance of policies aimed at boosting economic growth, along with a rebasing of GDP, which would improve the debt-to-GDP ratio. On debt management, the authorities highlighted their progress in extending the average maturity of debt and reducing its average cost through increased reliance on concessional financing from multilateral and bilateral partners.

21. The authorities supported the proposed tax reform while emphasizing the need to protect the vulnerable population. They acknowledge that CIT and VAT tax exemptions are widespread, particularly in the tourism sector, and identify the need to make taxation fair and uniform across all sectors. In this regard, they expressed interest in Fund TA to estimate tax expenditures, especially in the hospitality sector. The authorities concurred with staff proposals on PIT, supporting the goal of increasing progressivity, while emphasizing the need for targeted social support of the vulnerable groups. They highlighted the social and business costs of raising tax rates, such as the VAT standard rate, and suggested that timing these measures is crucial, especially given the political cycle. They agreed that VAT and recurrent property tax exemptions contribute to a culture of lax tax compliance. The authorities expressed interest in taxing digital services (online purchases) and potentially raising the airport tax. They concurred with the need to improve tax administration but hoped that more taxpayers could benefit from the ongoing tax amnesty, particularly as it may assist firms in unlocking credit access upon clearing outstanding tax arrears.

22. The authorities agreed with the need to reform the NIC. They were ready to consider different options, especially based on progressivity (e.g. pension caps and investment options for high earners) but indicated the political risks of parametric reforms such as raising the statutory retirement age.

B. Strengthening the Financial System

23. While systemic risks stemming from the banking and other sectors are contained, further reforms are necessary to enhance resilience. Banks are adequately capitalized and have ample liquidity; credit unions are growing but are still individually small, with limited links to the banking sector. Nevertheless, downside risks to the economic outlook and sluggish credit growth call for additional measures to strengthen the financial system.

24. The banking sector should be further strengthened. NPLs have declined but remain elevated, with uneven progress across banks (see below). All banks should meet the ECCB's 60 percent requirement on loan loss buffers. Some banks make heavy use of prudential reserves rather than provisions—a practice not recommended by the Fund. Proper NPL recognition and provisioning could result in a decline in bank capital ratios. Banks with insufficient capital should stand ready to take measures to restore capital, such as reducing operating costs, selling assets, and suspending dividends. Given their ample liquidity and large foreign investment portfolios, banks should maintain prudence by investing in international government bonds and high-grade corporate bonds while avoiding risky instruments, such as international equities.

25. Progress in reducing NPLs and closing legislative gaps is needed to improve credit growth. Persistently high NPLs depress credit growth—especially for SMEs and micro firms—and a multi-pronged approach to reduce their stock can spur economic activity:[19]

- Prudential oversight should be strengthened to incentivize the write-off or restructuring of impaired loans. Banks should promptly meet the ECCB's 100 percent provisioning requirement for legacy NPLs, while supervisory enforcement should be strengthened. The supervisor could offer additional incentives, such as increased capital charges or time limits for carrying legacy NPLs.[20]

- Reforms are needed to enhance debt enforcement regimes and to address information gaps. St. Lucia has recently passed an Insolvency Act which is expected to facilitate out-of-court debt workouts benefitting both borrowers and lenders. Addressing the remaining legislative gap—the lack of foreclosure legislation—is imperative, as it is a key obstacle, making bank mortgage lending riskier and effectively uncollateralized, thereby restricting access to credit and limiting inclusive home ownership. The proposed unemployment insurance framework could reduce the adverse effects of foreclosures but should be carried out within the parameters of the fiscal consolidation. The credit reporting bureau is expected to improve credit conditions, but the full participation of all the banks and at least the large credit unions is needed to make it effective.

- Market infrastructure for distressed debt and repossessed properties needs improvement. Regional cooperation should be strengthened to improve the capitalization and capacity of the Eastern Caribbean Asset Management Company (ECAMC) to facilitate the disposal of impaired assets. The government, banks, and realtors should collaborate to develop a comprehensive cadaster of real properties, which would help with valuations, reviving the secondary real estate market, and developing a market for repossessed properties. As noted above, reducing transfer taxes can also help to support the market.

26. The passage of the Co-operative Societies Act was an important step toward strengthening the regulatory framework for the rapidly growing CU sector. The new Act introduces higher capital requirements for CUs and empowers the Financial Services Regulatory

[19] IMF (2015) "A Strategy for Resolving Europe's Problem Loans."

[20] See "Problem Loans in the Caribbean: Determinants, Impact and Strategies for Resolution" (Beaton et al., 2017).

Authority (FSRA). The FSRA should streamline and tighten provisioning requirements— including phasing out the use of collateral in the calculation of provisions on account of high uncertainty over effective collateral values[21]—to align them more with the ECCB. On deposit insurance, the recommended approach is first to wait for the implementation of an ECCU-level deposit insurance system for banks, which can then be extended to CUs. The pilot asset quality review has been successfully concluded and should now be expanded to other large CUs.

27. Strengthened monitoring of the insurance sector remains important amid rising climate risks. Although the asset quality of the general insurance sector has improved, the ongoing rise in global reinsurance rates for the property market may constrain insurers' profitability and their capacity to maintain underwriting practices. Addressing climate risks in the ongoing discussion on ORSA guidelines[22] would ensure insurers' risk exposures remain within prudential limits. The shrinkage of the insurance coverage of real estate (in terms of the number of insured households and the insurance coverage relative to home value) would reduce the insurers' demand for long-term public debt and increase household and public reconstruction and recovery costs after a ND[23].

28. Continued progress in addressing AML/CFT regulatory gaps is needed to mitigate risks related to cross-border flows and help maintain correspondent banking relationships. Several legal and institutional reforms have been passed in response to the Caribbean Financial Action Task Force's 2021 mutual evaluation report, including to enhance customer due diligence measures for private sector entities subject to AML/CFT regulation and bring virtual asset service providers under a suitable supervisory framework. Further efforts should be made to close the remaining gaps, including in the areas of entity transparency and AML/CFT risk-based supervision of financial institutions, lawyers, and company service providers. Mutual legal assistance and cross-border sharing of information between competent AML/CFT authorities should also be prioritized given the variety of regulatory incentives geared toward non-residents, including through the CIP, which continues to present money laundering and terrorist financing risks.

29. The ECCB has addressed most of the 2021 safeguards recommendations. The pending recommendation is on legal reforms to further strengthen the operational autonomy of the ECCB and align its Agreement Act with leading practices. Staff continues to follow up with the authorities.

30. St. Lucia has not introduced any changes in the foreign exchange system that: (i) may give rise to exchange restrictions or MCPs pertaining to obligations under Article VIII[24]; or (ii) could be designed to limit capital flows and may need to be assessed under the revised Institutional View.

[21] See the 2024 ECCU Staff Report, Annex VII.

[22] In March 2024, the FSRA issued a draft of ORSA guidelines to insurers for consultation with the support of CARTAC's technical assistance.

[23] This could be related to the costs to reconstruct public infrastructure and provide short-term public assistance to the vulnerable.

[24] St. Lucia has accepted the obligations of Article VIII, Sections 2(a), 3 and 4, in 1980, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

Authorities' Views

31. The authorities agreed that weak bank credit growth constrains economic expansion and that tackling high NPLs is a priority. They emphasized that the recently passed Insolvency Act was designed to facilitate debt resolution. Additionally, they concurred that the foreclosure legislation would reduce the risks associated with mortgage lending, making it more affordable and accessible. They expressed interest in international experience related to borrower protections. The authorities recognized the importance of advancing enforcement of the provisioning rules at the ECCU level, the ECAMC, and the regional credit bureau. The FSRA highlighted that the new Co-operative Societies Act would enhance its powers, particularly in addressing undercapitalized institutions. The FSRA welcomed the staff recommendation to strengthen provisioning rules for CUs but pointed out that phasing-out the use of collateral in the calculation of provisions would currently be possible only for long-dated NPLs.

C. Advancing Structural Reforms for Sustainable and Equitable Growth

32. Continued efforts to address supply-side bottlenecks will help support long-run growth. Potential growth has been slowing since before the pandemic, and staff analysis suggests that addressing key growth obstacles cited by firms, such as high finance costs and credit access, inadequate workforce education, and tax and customs compliance challenges, could boost productivity (Amundsen et al., forthcoming). The government's priority of investing in the physical, social, and digital domains is welcome, including upgrading the airport, main hospital, cruise ports,[25]road network, and public housing, while also promoting digitalization and security. Future efforts should focus on diversifying tourism offerings, encouraging tourist flows to inland communities,[26] enhancing educational attainment and vocational training, and diversifying economic activity[27] to reduce reliance on tourism, while also slowing the growth of public sector employment.

33. Labor market reforms are needed to underpin sustainable and equitable growth over the medium term. The introduction of the minimum wage, which is estimated to affect 13 percent of the employed population, is a welcome development, as it can alleviate income disparities and stimulate labor supply. Miscalibration, however, can reduce business competitiveness (especially for smaller firms), limit job opportunities for less-skilled workers, and encourage informality. While in line with ECCU minimum-to-average wage ratios, the statutory rate—set at 62 percent of mean wages—is high enough to potentially be distortionary.[28] To mitigate potential negative impacts, the

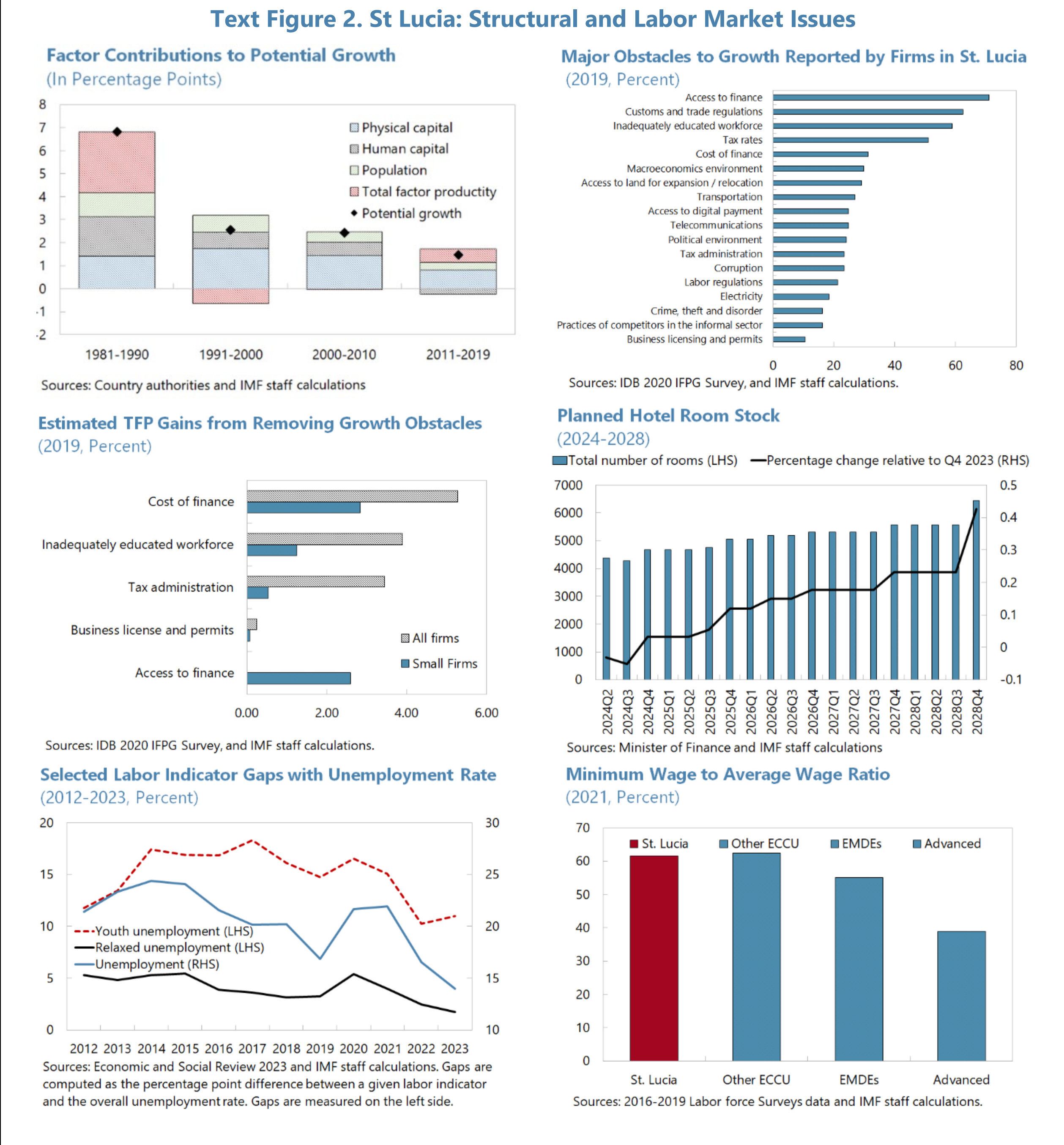
[25] In 2024, Saint Lucia Air and Seaport Authority (SLASPA) signed a 30-year concession agreement with a large international cruise operator to manage cruise-related services.

[26] The rise of shared accommodations presents a significant opportunity to expand the gains from tourism outside of the hotel industry and into local communities but will require improved monitoring on the part of the government.

[27] St. Lucia's English-speaking workforce, political stability, and ongoing investment in IT position it well to expand its business process outsourcing sector, as well as to further develop its higher human capital-content services.

[28] A high ratio raises the risk that equity gains are offset by employment losses. Minimum wages are assessed to be "non-distortionary" at between 25 and 50 percent of the average wage (IMF 2016).

authorities should consider implementing cyclical multiparty reviews, sector-specific differentiation, and active labor market policies, and should continue pursuing targeted investment to address skill mismatches and youth- and gender gaps in salaries and labor force participation.[29]



29 Including through the development of a national skill registry, the strengthening of TVET institutions, and securing budget support for the Youth Economy Agency. See Park and Hannan (2024) for a discussion on the prevailing youth and gender labor market gaps in St. Lucia.

34. Investments in climate adaptation and energy transition are required to ensure long-lasting growth. St. Lucia is highly vulnerable to both NDs and climate change, with profound fiscal and financial implications.

- St. Lucia is implementing a National Adaptation Plan with projected completion by 2028.[30] Effective execution would benefit from supporting fiscal reforms, including integration of climate policy in the government budget, public financial management, and public procurement.
- Though a regional leader, St. Lucia still faces large institutional, financing, and capacity gaps in its climate response strategy.[31] Staff analysis shows that investment in resilience of least 0.6 percent of GDP has long-term growth and fiscal benefits, and additional fiscal resources should be allocated each year for a three-layered insurance framework. St. Lucia is currently in discussions with the World Bank on obtaining a Catastrophe Deferred Drawdown Option—the third layer of the insurance framework against NDs recommended in past Staff Reports.

- The development of geothermal energy on the island could reduce electricity costs and oil price vulnerabilities and lift long-run growth.[32] St. Lucia is cooperating with the OECS Commission on the development of geothermal energy. Exploratory drilling—with the World Bank providing technical expertise and financing—is expected to commence in 2025.

Authorities' Views

35. The authorities highlighted the growth emphasis of their reform agenda. They noted that investment in infrastructure and the facilitation of renewable energy adoption are complemented by initiatives aimed at easing the school-to-labor market transition, such as the Youth Economy Agency and several TVET and skill-matching programs, as well as expanding citizens' online access to government services. The authorities anticipated that the recent Tourism Development Act would foster the process of public certification of hospitality activities, allowing for improved supervision of the shared accommodation sector. Lastly, they expected that the new minimum wage would have only modest impacts on labor cost for the average firm, while improving the living standards for the working class.

STAFF APPRAISAL

36. Despite favorable near-term prospects, St. Lucia faces low structural growth and a challenging fiscal outlook. Strong tourist arrivals and expansionary fiscal policy are buoying growth at present, but growth is projected to slow to anemic rates over the medium term, reflecting structural constraints including weak bank credit, labor mismatches, and an inefficient tax system.

[30] See "Saint Lucia's National Adaptation Plan (NAP) 2018-2028."

[31] St. Lucia undertook a Climate Change Policy Assessment (CCPA) pilot in 2018 (Country Report No. 18/181). The 2019 Article IV staff report took stock on its implementation (IMF Country Report No. 20/54).

[32] See the 2024 St. Kitts and Nevis SIP "Economic Benefits from Energy Transition".

The fiscal deficit is relatively contained on account of capital under-execution but is projected to widen over the medium term, with debt stabilizing well above the regional debt target.

37. Decisive fiscal consolidation, while safeguarding space to support capital projects and climate resilience, should be the authorities' key economic priority. Fiscal consolidation is critical to increase St. Lucia's preparedness to NDs and address high rollover needs, as well as to achieve the regional debt target. These objectives can be met through a comprehensive tax policy reform, improved control and targeting of current expenditures, and the adoption of a sound fiscal rule within a fiscal responsibility framework. The fiscal stance needs to be tightened over five years. Then, a moderate primary surplus should be maintained over the subsequent five years. This plan relies on gradually increasing tax revenue through tax reform and enhanced tax administration, alongside controlling the wage bill.

38. Reforming the tax system, as recommended in TA reports, will boost tax revenue, enhance equity, and reduce distortions. St. Lucia has excessive tax expenditures, resulting in low and regressive tax collection. With the economy growing strongly at the moment, the authorities are well placed to launch a tax reform now. Priorities should include eliminating corporate tax exemptions, especially for the profitable tourism sector; broadening and equalizing the VAT; making the PIT more progressive; resuming and improving property taxation; and modernizing fuel taxation. The capabilities of the tax administration should be enhanced, and tax amnesties should cease.

39. Structural fiscal reforms are needed to instill fiscal prudence and ensure fiscal sustainability. Well-designed fiscal rules would help guide the consolidation. A primary balance floor, a ceiling on current expenditures, and alignment with the regional debt target—complemented by narrowly defined escape clauses for NDs—would be well suited to St. Lucia. The fiscal rules would be a key component of a broader fiscal responsibility framework. The NIC's proposed reforms deserve support but should be part of a more comprehensive strategy. Further progress with transparency of the CIP is needed.

40. A further reduction in bank NPLs and passing foreclosure legislation are essential to unlock credit growth. Compliance with the ECCB's provisioning requirements should be improved. Addressing the remaining legislative gap on foreclosures will mitigate risks in mortgage lending and improve access to credit. Collaboration among the government, banks, and realtors to create a comprehensive property cadaster will enhance the efficiency in the secondary real estate market. Strengthened regional cooperation with the ECAMC will enhance efforts to dispose of NPLs. The effectiveness of the regional credit reporting bureau depends on full participation from all banks and at least major CUs. Ongoing initiatives to improve financial literacy among households and micro firms will further facilitate access to credit.

41. Strengthening the regulation of CUs and closely monitoring risks in the insurance sector should be continued. Empowered by the new Co-operative Societies Act, the FSRA is encouraged to streamline and tighten the provisioning requirements to align more closely with the ECCB. The successful pilot asset quality review should now be extended to other large CUs. In the insurance sector, rising reinsurance rates for real estate property insurance is a key challenge,

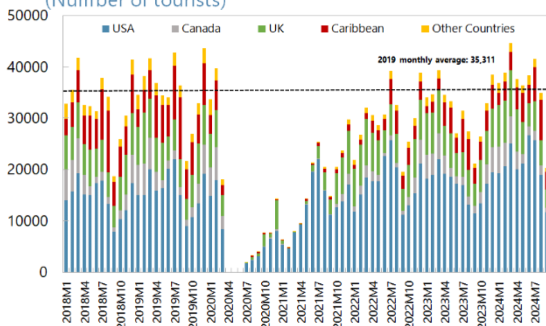
leading to reduced insurance coverage, which could significantly increase household and public sector costs after a ND.

42. Structural reforms, along with increased investment in climate adaptation, are crucial to boost potential growth. To prioritize the swift execution of the infrastructure plan, the authorities should address administrative hurdles, secure financing – including with tax revenues – and ease input supply shortages. Structural policies can create the necessary business environment for FDIs and domestic production by easing credit access, reducing operating and tax compliance costs, and addressing skill mismatches in the labor force. Minimum wage calibration should consider external competitiveness and sector-level productivity, involving consultations with stakeholders. Enhancing the three-layered insurance framework against NDs and allocating fiscal sources for resilience measures would mitigate climate-related risks, while developing geothermal energy would lower electricity costs, reduce oil price volatility exposure, and boost long-term growth.

43. Staff recommend that the next Article IV consultation be held on the standard 12-month cycle.

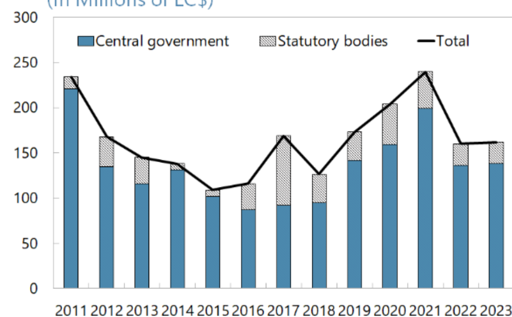
Figure 1. St. Lucia: Recent Economic Developments

With stay-over arrivals now expected above 2019 levels…



Sources: Country authorities and IMF staff calculations.

…and public investment supporting growth…

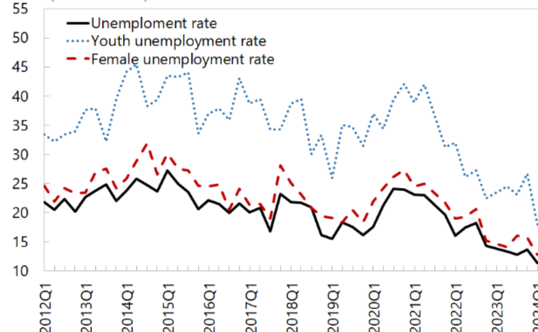


Source: Ministry of Finance.

…real GDP growth continued to recover…

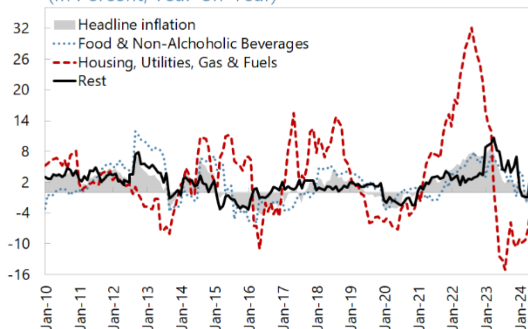
Sources: ECCB; and IMF staff estimates.

…reducing the unemployment rate to a decade low.



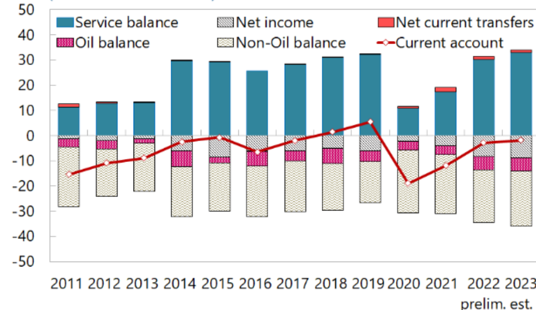
Sources: Central Statistical Office of St. Lucia

Inflation, past its 2022 peak, is correcting swiftly.



Sources: ECCB; and IMF staff estimates.

The current account deficit narrowed, supported by the recovery in tourism.

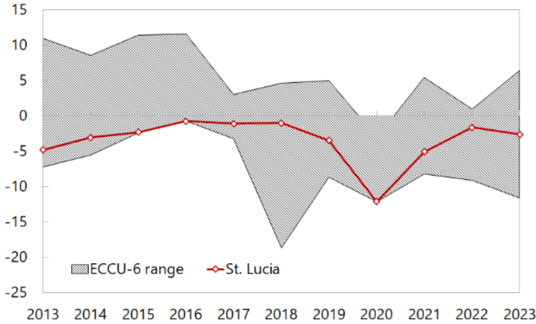


Sources: Country authorities and IMF staff estimates.
Note: Data changed from BPM5 to BPM6 since 2014.

Figure 2. St. Lucia: Fiscal Sector Developments

Despite the recovery, the fiscal deficit in 2023 worsened...

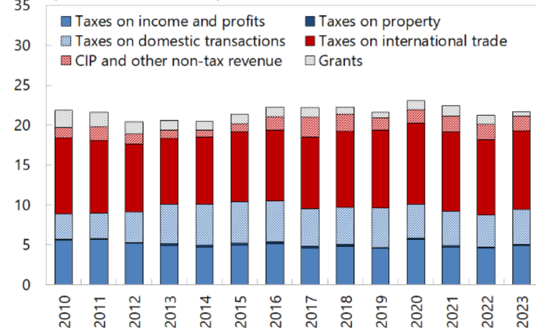
Fiscal Overall Balance
(In Percent of GDP)



Source: National authorities and IMF staff calculations.

...as revenues increased slowly...

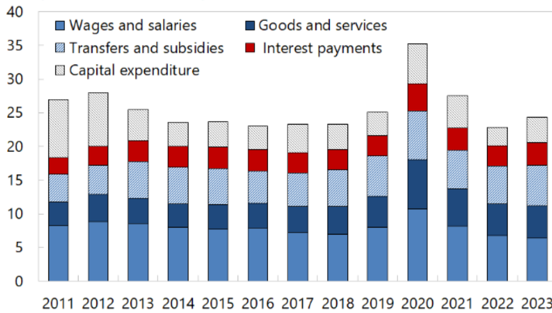
Revenue Composition
(In Percent of GDP)



Sources: Country authorities and IMF staff estimates.

...outpaced by expenditures.

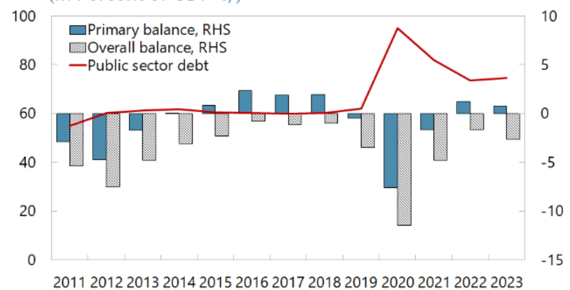
Expenditure Decomposition
(In Percent of GDP)



Sources: Country authorities and IMF staff estimates.

Public debt edged higher in 2023...

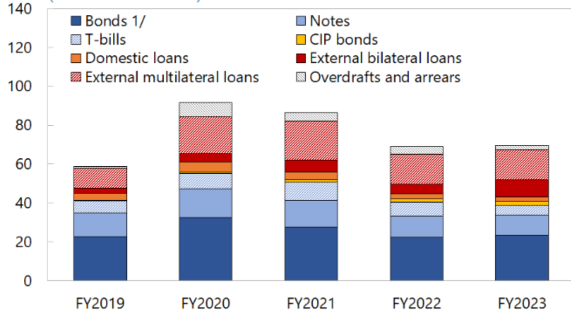
Fiscal Balances and Public Debt
(In Percent of GDP 1/)



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

...even though short-term debt is being reduced...

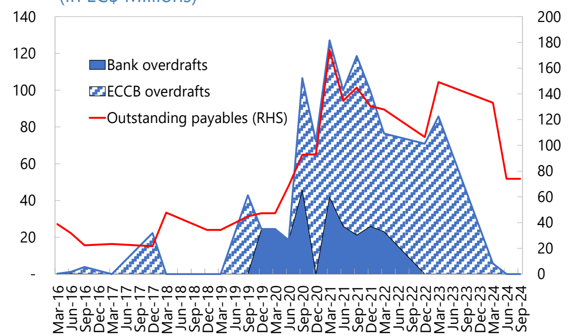
Composition of Central Government Debt
(In Percent of GDP)



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

...with progress on overdrafts and outstanding payables.

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

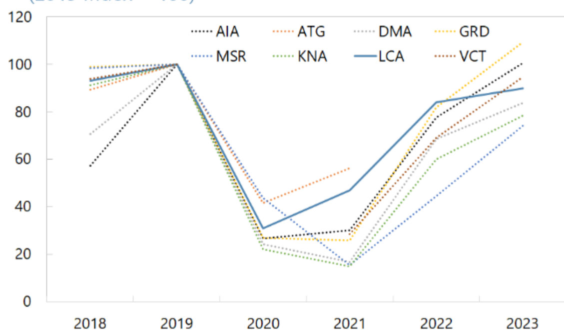


Sources: Country authorities and IMF staff estimates.

Figure 3. St. Lucia: External Sector Developments

Tourism continued to recover in 2023…

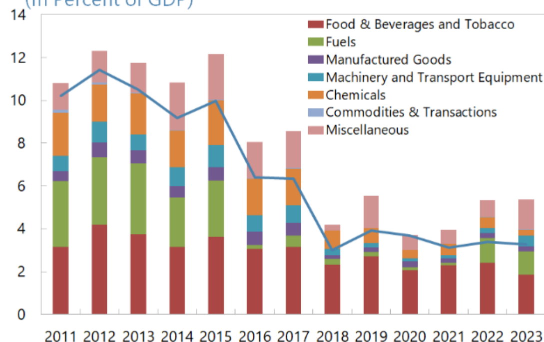
ECCU Stay-Over Visitors
(2019 Index = 100)



Sources: CTO and IMF staff calculations.

…and exports of goods almost reached 2019 levels.

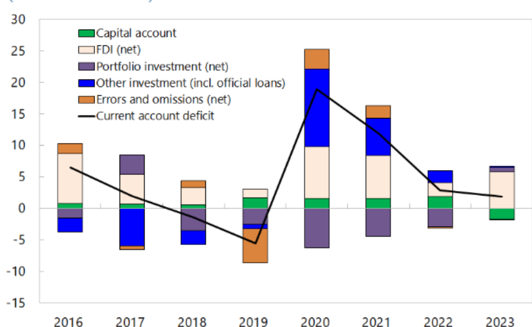
Goods Export Decomposition
(In Percent of GDP)



Sources: ECCB and IMF staff calculations.

The current account deficit continued to shrink in 2023, while net FDI increased …

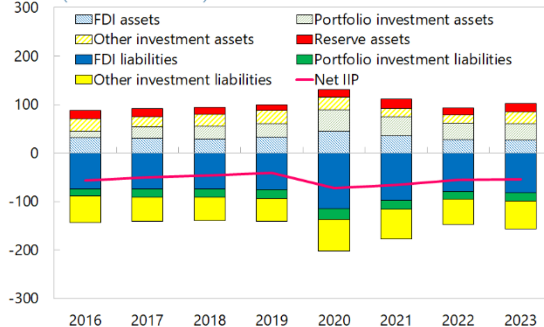
Current Account Sources of Finance
(Percent of GDP)



Sources: Country authorities and IMF staff calculations.

…and the negative NIIP also continued to improve.

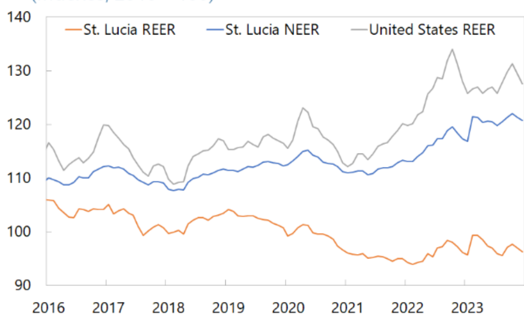
IIP Composition by Instrument
(Percent of GDP)



Sources: ECCB and IMF staff calculations.

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

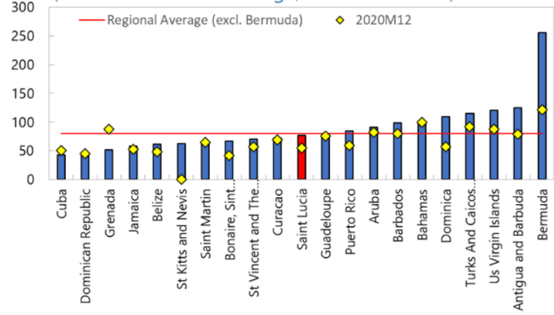
Nominal and Real Effective Exchange Rates
(Indexes, 2010= 100)



Source: IMF staff calculations.

St. Lucia remains a moderately competitive tourist destination, though it has become more expensive relative to its peers since 2020.

Week at the Beach Index 1/
(2022M5-2023M4 Average, Bahamas = 100)

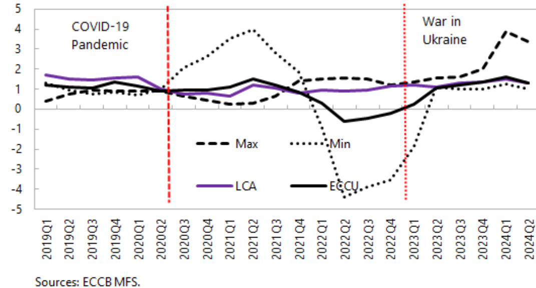


1/ "Week at the Beach(W@TB)" index measures the average cost of a 7-day-stay at a beach destination.
Source: IMF staff calculations.

Figure 4. St. Lucia: Financial Sector Developments

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

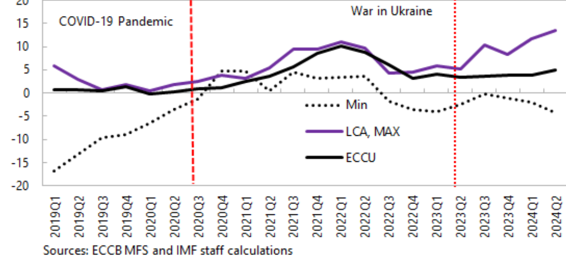
Return on Average Assets
(In percent)



Sources: ECCB MFS.

Deposit growth has slowed but remained positive, underpinning ample liquidity at banks.

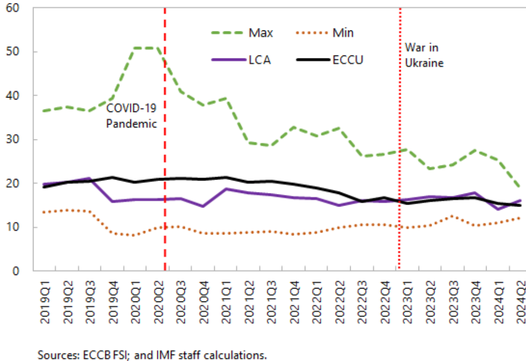
Deposit Growth
(In percent, year on year change)



Sources: ECCB MFS and IMF staff calculations

Banks have capital above the regulatory minimum…

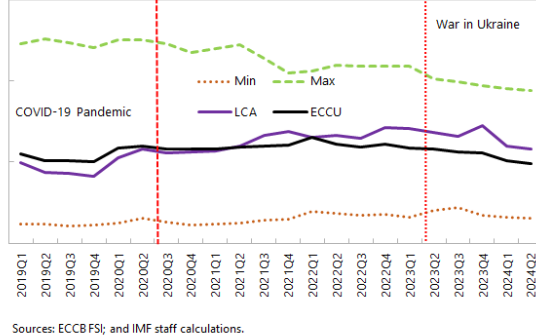
Capital Adequacy Ratios
(In percent of risk-weighted assets)



Sources: ECCB FSI; and IMF staff calculations.

… but bank NPL ratios—while improved—remained high.

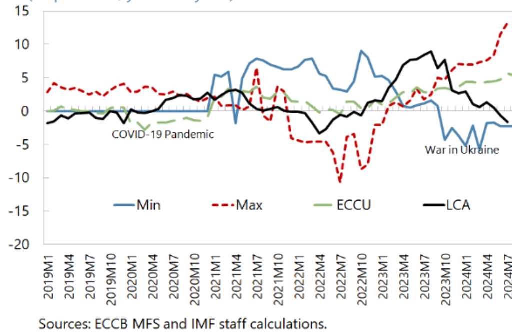
Asset Quality: NPL Ratio
(In percent of total loans)



Sources: ECCB FSI; and IMF staff calculations.

Credit growth has remained anemic despite the economic recovery.

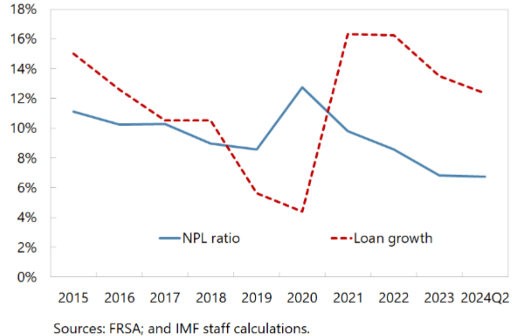
Credit to the Private Sector
(In percent, year on year)



Sources: ECCB MFS and IMF staff calculations.

CUs' NPLs have declined but loan growth is still strong.

Credit Unions: NPL Ratio and Loan Growth
(In percent of total loans; year-on-year percent change)



Sources: FRSA; and IMF staff calculations.

Table 1. St. Lucia: Selected Social and Economic Indicators, 2020–29

I. Social and Demographic Indicators

Area (sq. km)	616	Infant mortality (per thous. live births, 2023)	14.4
		Human Development Index ranking (of 189 countries, 2022)	108
Population Characteristics			
Total (thousands, 2023, UN)	179.3	Gross Domestic Product (2023)	
Rate of growth (average 2014-2023)	0.34	(millions of US dollars)	2,430
Population density (per sq. km., 2023)	291.0	(millions of EC dollars)	6,561
Secondary education enrollment (percent, 2022)	88.1	(US$ per capita)	13,555
Life expectancy at birth (years, 2023)	72.7		

II. Economic and Financial Indicators

					Est.	Projections				
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	(Annual percentage change, unless otherwise specified)									
Output and Prices										
Real GDP (at market prices)	-24.4	11.6	20.4	2.2	3.7	2.8	2.4	1.9	1.5	1.5
Consumer prices, period average	-1.8	2.4	6.4	4.5	1.3	1.3	1.8	2.0	2.0	2.0
Unemployment rate (% annual average)	21.7	21.9	16.5	14.0	...	...	...	...	...	...
Real effective exchange rate										
(annual average, depreciation -)	99.6	95.5	96.3	97.2	...	...	...	...	...	...
	(In percent of GDP, unless otherwise specified)									
Central Government Finances 1/										
Revenue	21.7	21.0	21.0	21.4	22.3	22.2	22.1	22.0	21.9	21.9
Tax revenue	19.0	18.0	18.0	19.0	19.6	19.5	19.4	19.3	19.2	19.2
Nontax revenue	1.6	1.8	1.9	1.8	1.9	1.9	1.9	1.9	1.9	1.9
Grants and capital revenue	1.1	1.3	1.1	0.5	0.8	0.8	0.8	0.8	0.8	0.8
Expenditure	33.2	25.8	22.7	24.0	23.6	24.4	25.0	24.9	24.5	24.1
Current primary expenditure	23.8	18.2	17.0	17.0	17.4	17.6	17.8	18.0	18.0	17.9
Interest payments	3.8	3.1	2.9	3.4	3.3	3.5	3.5	3.6	3.6	3.7
Capital expenditure	5.6	4.5	2.8	3.7	2.8	3.3	3.7	3.3	2.9	2.5
Overall balance excl. ND cost	-11.4	-4.8	-1.6	-2.6	-1.3	-2.2	-2.9	-2.9	-2.6	-2.2
Overall balance, incl. ND cost	-11.4	-4.8	-1.6	-2.6	-1.9	-2.8	-3.6	-3.5	-3.3	-2.9
Total public sector debt 2/	95.0	81.9	73.4	74.5	72.7	72.3	72.7	73.2	73.6	73.6
Domestic	49.4	39.3	35.6	31.5	30.1	29.5	29.3	29.4	29.4	29.4
External	45.5	42.6	37.8	43.1	42.6	42.9	43.3	43.8	44.2	44.2
Central government debt	89.8	76.8	68.9	69.6	68.1	67.9	68.4	69.1	69.7	69.9
Money and Credit, End of Period (Annual Percent Change)										
Broad money (M2)	-6.6	14.9	3.8	11.3	2.7	4.6	4.8	4.4	4.0	4.0
Credit to private sector (nominal)	2.7	-0.1	1.6	2.7	1.6	0.6	0.8	0.4	0.0	0.0
Credit to private sector (real)	4.5	-2.5	-4.5	-1.3	0.3	-0.7	-1.0	-1.5	-1.9	-1.9
Balance of Payments										
Current account balance, *o/w:*	-18.9	-11.9	-2.9	-1.9	-1.6	-1.3	-1.2	-1.0	-0.6	-0.5
Exports of goods and services	30.1	38.1	55.3	58.2	57.6	56.9	56.9	57.0	57.3	57.4
Imports of goods and services	-47.7	-47.8	-51.0	-52.4	-52.5	-52.4	-52.2	-52.2	-52.2	-52.1
Financial account balance	-14.3	-8.3	-1.1	-0.2	-0.8	-0.5	-0.4	-0.2	0.2	0.3
Direct investment	-8.2	-6.8	-2.2	-5.8	-5.7	-5.6	-5.5	-5.5	-5.4	-5.3
Portfolio investment	6.2	4.4	3.0	-0.7	-0.3	0.2	0.6	1.0	1.4	1.9
Other investment	-10.3	-14.2	-0.1	3.8	4.1	4.4	4.2	3.9	3.8	3.4
Net reserves assets	-2.0	8.3	-1.7	2.5	1.1	0.6	0.4	0.3	0.3	0.3
External debt (gross) 3/	79.0	70.0	63.0	68.0	67.1	66.7	66.0	65.3	64.7	63.9
Public	45.5	42.6	37.8	43.0	43.4	44.1	44.4	44.6	44.8	44.8
Memorandum Items:										
Nominal GDP (EC$ millions)	4,048	5,041	6,325	6,561	6,927	7,245	7,590	7,925	8,245	8,578
Net imputed international reserves										
Months of imports of goods and services	3.0	3.5	2.9	3.3	3.4	3.4	3.3	3.3	3.2	3.2
Percentage of demand liabilities	88.3	92.3	91.4	90.6	92.1	92.0	91.9	91.7	91.6	91.4

Sources: St. Lucia authorities; ECCB; UNDP HDI; and Fund staff estimates and projections.
1/ Fiscal year (April–March) basis. Fiscal balances do not include the airport project, which is implemented by a public corporation.
2/ Public sector debt includes payables and overdrafts/ECCB advances.
3/ Comprises public sector external debt, foreign liabilities of commercial banks and other private debt.

Table 2. St. Lucia: Central Government Operations, 2020–29 1/

	2020	2021	2022	2023	Est. 2024	Projections 2025	2026	2027	2028	2029
	(In percent of GDP)									
Revenue	**21.7**	**21.0**	**21.0**	**21.4**	**22.3**	**22.2**	**22.1**	**22.0**	**21.9**	**21.9**
Tax revenue	**19.0**	**18.0**	**18.0**	**19.0**	**19.6**	**19.5**	**19.4**	**19.3**	**19.2**	**19.2**
Taxes on income	5.4	4.4	4.5	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Taxes on property	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on goods and services	3.9	4.1	3.9	4.3	4.6	4.6	4.6	4.6	4.6	4.6
Taxes on international trade and transactions 2/	9.6	9.3	9.4	9.8	10.1	10.0	9.9	9.8	9.7	9.7
Grants and capital revenue	1.1	1.3	1.1	0.5	0.8	0.8	0.8	0.8	0.8	0.8
Other revenue	1.6	1.8	1.9	1.8	1.9	1.9	1.9	1.9	1.9	1.9
o.w. Citizen by Investment Program (CIP)	0.5	0.8	1.0	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Expenditure	**33.2**	**25.8**	**22.7**	**24.0**	**23.6**	**24.4**	**25.0**	**24.9**	**24.5**	**24.1**
Current Expenditure	**27.6**	**21.4**	**19.9**	**20.3**	**20.7**	**21.1**	**21.3**	**21.6**	**21.6**	**21.6**
Compensation of employees	10.1	7.7	6.7	6.3	6.6	6.9	7.2	7.5	7.5	7.5
Purchase of goods and services	6.9	5.2	4.6	4.7	4.8	4.8	4.7	4.6	4.6	4.5
Interest	3.8	3.1	2.9	3.4	3.3	3.5	3.5	3.6	3.6	3.7
Social benefits	2.7	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Retirement benefits	2.4	1.9	1.9	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Public assistance and casual relief	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Other expense	4.1	3.1	3.4	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Transfers to public-sector institutions 3/	4.1	3.1	3.4	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Capital Expenditure	**5.6**	**4.5**	**2.8**	**3.7**	**2.8**	**3.3**	**3.7**	**3.3**	**2.9**	**2.5**
Grant-financed capital expenditure	0.9	1.1	0.8	1.0	0.8	0.8	0.8	0.8	0.8	0.8
Other capital expenditure	4.6	3.4	2.0	2.7	2.1	2.5	2.9	2.5	2.1	1.7
Natural Disaster (ND) Annualised Cost 4/	**0.0**	**0.0**	**0.0**	**0.0**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**
Net Lending/Borrowing (Overall Balance, excl. ND Cost)	**-11.4**	**-4.8**	**-1.6**	**-2.6**	**-1.3**	**-2.2**	**-2.9**	**-2.9**	**-2.6**	**-2.2**
Net Lending/Borrowing (Overall Balance, incl. ND Cost)	**-11.4**	**-4.8**	**-1.6**	**-2.6**	**-1.9**	**-2.8**	**-3.6**	**-3.5**	**-3.3**	**-2.9**
Memorandum Items:										
Primary balance (excl. ND)	-7.6	-1.7	1.2	0.7	2.0	1.3	0.6	0.7	1.0	1.5
Primary balance (incl. ND)	-7.6	-1.7	1.2	0.7	1.4	0.6	-0.1	0.0	0.4	0.8
Central government debt	89.8	76.8	68.9	69.6	68.1	67.9	68.4	69.1	69.7	69.9
Public sector debt 5/	**95.0**	**81.9**	**73.4**	**74.5**	**72.7**	**72.3**	**72.7**	**73.2**	**73.6**	**73.6**
Domestic	49.4	39.3	35.6	31.5	30.1	29.5	29.3	29.4	29.4	29.4
Central government	46.1	36.4	33.2	28.7	27.5	27.0	26.9	27.1	27.2	27.3
Public corporations 6/	3.4	2.9	2.4	2.8	2.6	2.5	2.4	2.3	2.2	2.1
External	45.5	42.6	37.8	43.1	42.6	42.9	43.3	43.8	44.2	44.2
Central government	43.7	40.4	35.7	40.9	40.5	40.9	41.5	42.1	42.5	42.6
Public corporations 6/	1.8	2.2	2.1	2.1	2.0	1.9	1.8	1.8	1.7	1.6
Nominal GDP fiscal year (EC$ millions)	4,296	5,362	6,384	6,653	7,006	7,331	7,673	8,005	8,328	8,664

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/ For details see 2018 Article IV report.

5/ Includes payables and overdrafts/ECCB advances.

6/ Government guaranteed.

Table 3. St. Lucia: Balance of Payments Summary, 2020–29

	2020	2021	2022	2023	Est. 2024	Projections 2025	2026	2027	2028	2029
					(In percent of GDP)					
Current Account Balance	**-18.9**	**-11.9**	**-2.9**	**-1.9**	**-1.6**	**-1.3**	**-1.2**	**-1.0**	**-0.6**	**-0.5**
Exports of goods and services	30.1	38.1	55.3	58.2	57.6	56.9	56.9	57.0	57.3	57.4
Goods	4.1	4.6	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8
Tourism	22.7	30.5	46.5	49.4	48.7	48.0	48.1	48.2	48.5	48.6
Other services	3.3	3.0	3.0	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Imports of goods and services	-47.7	-47.8	-51.0	-52.4	-52.5	-52.4	-52.2	-52.2	-52.2	-52.1
Food	-7.2	-6.5	-6.8	-6.6	-6.6	-6.7	-6.8	-6.9	-6.9	-6.9
Fuel	-3.6	-3.6	-7.6	-8.7	-8.7	-8.5	-8.3	-8.2	-8.1	-8.1
Other goods	-21.6	-21.5	-17.4	-17.6	-17.6	-17.6	-17.6	-17.6	-17.6	-17.6
Services	-15.3	-16.2	-19.2	-19.6	-19.6	-19.6	-19.6	-19.6	-19.6	-19.6
Net Income, o.w.	-2.4	-4.0	-8.4	-8.9	-8.0	-7.1	-7.1	-7.1	-7.1	-7.1
Public interest payments	-1.5	-1.2	-1.1	-1.5	-1.5	-1.8	-1.8	-1.9	-2.0	-2.1
Net current transfers, o.w.	1.0	1.9	1.2	1.2	1.3	1.3	1.3	1.3	1.3	1.3
Remittances	2.4	2.6	2.0	2.0	2.0	2.0	1.9	1.9	2.0	2.0
Capital Account	**1.6**	**1.6**	**1.9**	**1.7**	**0.8**	**0.8**	**0.8**	**0.8**	**0.8**	**0.8**
Financial Account	**-14.3**	**-8.3**	**-1.1**	**-0.2**	**-0.8**	**-0.5**	**-0.4**	**-0.2**	**0.2**	**0.3**
Direct Investment	-8.2	-6.8	-2.2	-5.8	-5.7	-5.6	-5.5	-5.5	-5.4	-5.3
Portfolio Investment	6.2	4.4	3.0	-0.7	-0.3	0.2	0.6	1.0	1.4	1.9
Other Investment	-10.3	-14.2	-0.1	3.8	4.1	4.4	4.2	3.9	3.8	3.4
Net Reserve Assets	-2.0	8.3	-1.7	2.5	1.1	0.6	0.4	0.3	0.3	0.3
Errors and Omissions	**3.1**	**2.0**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum Items:										
Trade balance	-28.3	-27.0	-26.0	-27.1	-27.1	-27.0	-26.9	-26.8	-26.8	-26.7
Services balance	10.7	17.3	30.3	32.9	32.2	31.5	31.5	31.6	32.0	32.1
Net imputed international reserves										
Millions of US dollars, end of period	224.3	350.7	309.9	371.5	399.4	416.1	427.1	435.6	444.4	455.3
Months of imports of goods and services	3.0	3.5	2.9	3.3	3.4	3.4	3.3	3.3	3.2	3.2
Percentage of demand liabilities	88.3	92.3	91.4	90.6	92.1	92.0	91.9	91.7	91.6	91.4
Gross external debt	79.0	70.0	63.0	68.0	67.1	66.7	66.0	65.3	64.7	63.9
Public sector	45.5	42.6	37.8	43.0	43.4	44.1	44.4	44.6	44.8	44.8
Private sector 1/	33.4	27.4	25.2	25.0	23.6	22.6	21.6	20.7	19.9	19.1
GDP (in US$ millions)	1,499	1,867	2,343	2,430	2,565	2,683	2,811	2,935	3,054	3,177

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

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

Table 4. St. Lucia: Monetary Survey, 2020–29

	2020	2021	2022	2023	Est. 2024	Projections 2025	2026	2027	2028	2029
	(12-month percentage change)									
Net Domestic Assets	-14.2	2.9	1.1	-19.3	34.2	3.0	5.4	5.6	1.3	1.2
Public sector credit, net	-65.4	84.6	29.9	22.4	-9.7	2.4	0.5	-0.2	-0.6	-0.2
(real terms)	-65.3	77.2	21.5	19.9	-10.2	0.9	-1.5	-2.2	-2.5	-2.1
Private sector credit, net	2.7	-0.1	1.6	2.7	1.6	0.6	0.8	0.4	0.0	0.0
(real terms)	3.1	-4.1	-4.9	0.6	0.9	-0.8	-1.2	-1.5	-1.9	-1.9
Broad Money (M2)	-6.6	14.9	3.8	11.3	2.7	4.6	4.8	4.4	4.0	4.0
NFA contribution	3.6	12.9	3.1	22.4	-11.5	3.0	1.9	1.4	3.3	3.4
NDA contribution	-10.2	1.9	0.6	-11.1	14.2	1.6	2.9	3.0	0.7	0.6
Money	-5.0	39.9	5.7	10.6	5.6	4.6	4.8	4.4	4.0	4.0
NFA contribution	-7.4	34.7	-8.1	11.5	4.6	2.7	1.7	1.2	1.2	1.5
NDA contribution	2.4	5.2	13.8	-1.0	0.9	1.9	3.1	3.2	2.8	2.6
Quasi-money	-7.3	3.3	2.6	11.8	0.9	4.6	4.8	4.4	4.0	4.0
	(In percent of GDP)									
Net Foreign Assets	26.4	29.2	25.1	36.9	28.1	28.6	28.4	28.0	28.9	29.8
Net Domestic Assets	50.7	41.9	33.8	26.2	33.4	32.9	33.0	33.4	32.5	31.6
Public sector credit, net	-3.3	-4.9	-5.1	-6.0	-5.2	-5.0	-4.8	-4.6	-4.4	-4.2
Private sector credit, net	78.6	63.1	51.1	50.6	48.6	46.8	45.0	43.3	41.6	40.0
Broad Money (M2)	77.1	71.1	58.8	63.1	61.4	61.4	61.4	61.4	61.4	61.4
Money	24.3	27.3	23.0	24.5	24.5	24.5	24.5	24.5	24.5	24.5
Quasi-money	52.8	43.8	35.8	38.6	36.9	36.9	36.9	36.9	36.9	36.9
ECCB policy rate (percent, OEP)	2.00	2.00	2.00	2.00	2.00	…	…	…	…	…

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

Table 5. St. Lucia: Banking System Summary Data, 2018–24
(In percent)

	2018 Dec	2019 Dec	2020 Dec	2021 Dec	2022 Dec	2023 Dec	2024 Jun
Capitalization							
Total Capital/Total Assets	5.4	6.6	7.9	8.0	7.2	8.1	8.5
Regulatory capital to risk-weighted assets (CAR)	19.1	15.9	14.9	16.8	15.9	18.0	16.1
Regulatory Tier 1 capital to risk-weighted assets	13.2	10.0	10.4	14.4	14.2	14.4	12.5
Large exposures to tier capital	27.7	44.7	0.0	9.7	19.9	18.8	18.1
Asset quality							
Nonperforming loans to total gross loans	10.0	8.2	11.3	13.8	14.2	14.5	11.6
Nonperforming loans net of provisions to capital	59.7	37.4	47.4	54.3	64.5	56.8	39.2
Management							
Non-Interest Expenses/Gross Income	60.0	58.9	62.3	67.4	69.2	63.9	65.0
Personnel Expense/Non-interest Expenses	31.5	34.7	36.8	32.2	30.7	28.9	27.9
Profitability							
Return on Avg Assets	1.9	1.5	0.8	0.8	1.2	1.4	1.3
Return on Avg Equity	35.2	25.3	10.8	9.7	16.2	18.3	3.9
Interest Margin/Gross Income	61.3	60.6	62.4	60.8	53.3	57.2	54.8
Interest Spread 1/	6.5	6.1	5.5	5.4	5.6	5.6	5.4
Liquidity							
Liquid Assets/Total Assets	39.4	40.4	37.8	39.3	43.6	47.0	50.3
Liquid Assets/Current Liabilities (Short-term liabilities)	42.0	43.2	42.9	43.4	47.8	49.5	52.9
FX Risk							
Foreign-currency-denominated loans to total loans	9.5	2.1	3.0	3.3	6.1	4.3	4.5
Foreign-currency-denominated liabilities to total liabilities	14.0	21.8	16.6	16.7	18.4	17.3	16.3
Net open position in foreign exchange to capital	210.9	84.4	107.7	143.7	182.7	173.4	165.4

Sources: ECCB and IMF staff calculations.

1/ Interest Spread = Weighted average lending rates - weighted average deposit rates

Table 6. St. Lucia: Selected Labor Market Indicators, 2017–23

	2017	2018	2019	2020	2021	2022	2023
Estimated household population (y-o-y percent change)	-0.3	0.0	-1.3	-1.0	7.8	0.5	0.9
Population 15 years and over (y-o-y percent change)	-0.2	-0.4	-0.4	-2.1	3.4	6.6	3.1
Unemployment rate (percent)	20.2	20.2	16.8	21.7	21.9	16.5	14.0
o/w male	18.1	18.5	14.9	18.6	20.1	14.8	11.2
o/w female	22.4	22.1	18.9	24.9	23.9	18.6	17.3
Youth unemployment rate (percent)	38.5	36.3	31.6	38.2	37.0	26.8	25.0
Labor force (percent of total population)	59.0	59.9	59.1	56.6	59.6	60.4	61.6
Labor force participation rate (percent)	71.4	71.4	71.0	68.8	70.5	71.3	71.6

Sources: St. Lucia Population and Housing Census, National Insurance Corporation, Economic and Social Review 2023.

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Annex I. External Sector Assessment

Overall Assessment: *The external position of St. Lucia in 2023 is assessed as broadly in line with the level implied by fundamentals and desirable policies. Continued recovery of the tourism sector and lower pressure on fuels and food price eased BOP pressures, bringing the current account to -1.9 percent of GDP in 2023. After adjusting for the natural disaster factor, staff finds a cyclically adjusted CA of -1.4 percent of GDP. This trend is expected to continue, leading to a further narrowing of the current account deficit in 2024 and over the medium term.*

Potential Policy Responses: *Notwithstanding the overall assessment, inadequate workforce education, and high unit labor costs highlight St. Lucia's competitiveness challenges, particularly in the non-tourism sectors, and the need for supply-side reforms. Amid low structural growth, addressing structural bottlenecks is essential to increase competitiveness, and continued efforts to reduce NPLs and close legislative gaps will help revive private credit growth.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The *deficit* in the net international investment position (IIP) declined from a peak at 72 percent of GDP in 2020 to 54 percent of GDP in 2023, close to the average level of 49 percent of GDP during 2015–19. In 2023, foreign direct and portfolio investments, together 59 percent of total assets, constituted the largest components from the asset side; while foreign direct and other investments were the largest components from the liability side, comprising 89 percent of total liabilities.

Assessment. With the expected improvement in the current account as the tourism recovers, the net IIP deficit is expected to steadily decline close to pre-pandemic levels (projected at 36 percent of GDP in 2029 versus 41 in 2019).[1]

2023 (% GDP)	NIIP: -54	Gross Assets: 102	Debt Assets: 35	Gross Liab.: 156	Debt Liab.: 26

Current Account

Background. The current account deteriorated sharply from the average -0.5 percent of GDP during 2015–19 to -18.9 percent of GDP in 2020, mainly driven by the sharp fall in travel receipts from 50.8 percent of GDP in 2019 to 22.7 percent of GDP in 2020. With the recovery of tourism and lower pressure on fuel and food prices, the CA deficit has narrowed to 1.9 percent of GDP, but it is still higher than the pre-pandemic level.

Assessment. The external position is assessed as broadly in line with the level implied by fundamentals and desirable policies. This assessment is based on the EBA-lite REER model, which aligns reasonably well with actual data. Although the model indicates a positive current account gap of 1.9 percent of GDP, the external position is still assessed as broadly in line with the level implied by fundamentals and desirable policies, given several factors that hinder competitiveness, as outlined in ¶31 and ¶21.[2] On the other hand, the EBA-lite CA model suggests a positive current account gap of 2.9 percent of GDP.

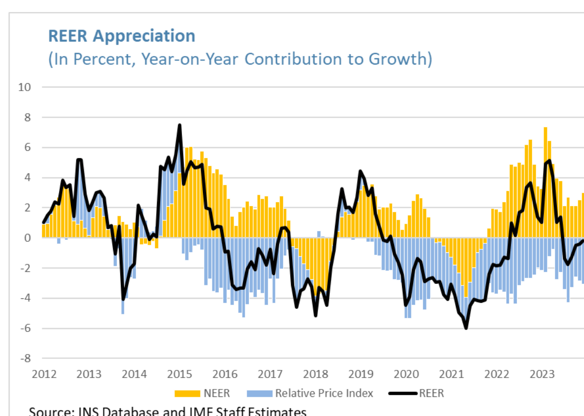
St. Lucia: EBA-lite Model Results, 2023		
	CA model 1/	**REER model**
	(in percent of GDP)	
CA-Actual	**-1.9**	
Cyclical contributions (from model) (-)	-0.4	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	**-1.4**	
CA Norm (from model) 2/	**-4.2**	
Adjusted CA Norm	**-4.2**	
CA Gap	**2.9**	**1.9**
o/w Relative policy gap	1.2	
Elasticity	-0.3	
REER Gap (in percent)	**-8.3**	**-5.5**

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The upward trend of real effective exchange rate (REER) continued until the first half of 2023 and reversed modestly in the second half, with stronger trading partner inflation offsetting the recent impact of nominal exchange rate appreciation of the U.S dollar, to which the regional currency is pegged.

Assessment. The REER is estimated to be undervalued by 5.5 percent in 2023, based on the EBA-lite REER model.[3] On the other hand, the EBA-lite CA model shows the REER gap is -8.3 percent.



Capital and Financial Accounts: Flows and Policy Measures

Background. St. Lucia has attracted large FDI net inflows in supporting the development of the tourism sector. Net FDI inflows and net other investment inflows increased from 1.5 percent of GDP and -1.9 percent of GDP in 2019 to 5.8 percent of GDP and -3.8 percent of GDP in 2023, respectively.

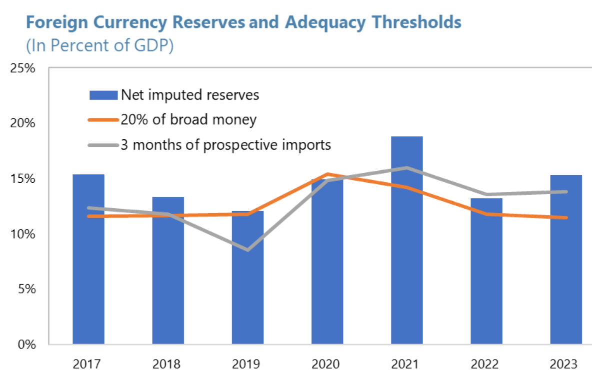
Assessment. Over the medium-term, capital transfers are projected to remain stable at 1.0 percent of GDP, and net FDI inflows are expected to gradually decline to 5.3 percent of GDP. However, St. Lucia's high exposure to climate changes and NDs pose downside risks to FDI projections.

FX Intervention and Reserves Level

Background. St. Lucia's reserve position improved in 2023. As a member of the Eastern Caribbean Currency Union, St. Lucia is under a currency board arrangement. Foreign assets and liabilities of the ECCB cannot be directly assigned to an individual country. Net imputed reserves, averaging 14.2 percent of GDP during 2016–20, improved to 15.3 percent of GDP in 2023.

Assessment. In 2023, imputed reserves exceeded the typical benchmarks of 20 percent of broad money and three months of prospective imports.

Foreign Currency Reserves and Adequacy Thresholds
(In Percent of GDP)



Sources: ECCB; and IMF staff calculations.

[1] Based on the ECCB estimates through 2023 and IMF staff projections thereafter.
[2] Saint Lucia's competitiveness is hindered by several factors. As discussed in ¶32, the newly introduced minimum wage, with a minimum-to-average wage ratio close to the regional average and higher than levels deemed non-distortionary by the literature, may reduce business competitiveness if not properly calibrated. High financial cost and inadequate education, as noted in ¶25, are additional obstacles to improve attractiveness. Furthermore, high hotel prices and limited airlift capacity made Saint Lucia less appealing than closer tourist destinations following the pandemic.
[3] The EBA-lite model does not provide a country-fixed effect for St. Lucia. Compared to last assessment, a smaller country-fixed effect is used (based on minimizing the model residuals for St. Lucia in 2014–23).

Annex II. Risk Assessment Matrix[1]

Risks	Likelihood	Impact	Policy Response
Conjunctural Risks			
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	**High**	**Medium** **ST**	Diversify tourism revenues. Monitor financial risks to FDI. Monitor the banking sector development in coordination with ECCB and strengthen national supervision of CUs.
Commodity price volatility. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.	**High**	**Medium** **MT**	Provide temporary and targeted transfers to the vulnerable. Allow a gradual pass-through of international prices and phase out generalized subsidies. Accelerate transition to renewable energy sources.
Social discontent. High inflation, real income loss, spillovers from conflicts (including migration), and worsening inequality stir social unrest, drive populist policies, and increase resistance to reforms, especially in the context of polarized or disputed elections. This exacerbates imbalances and weakens growth prospects, leading to policy uncertainty and market repricing.	**High**	**Medium** **ST**	Provide temporary and targeted support to the vulnerable. Strengthen the labor market and provide more diversified and higher-quality job opportunities.
Global growth surprises · **Slowdown.** Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs. · **Acceleration.** Positive supply-side surprises, monetary easing, productivity gains from AI, and/or stronger EMDE performance raise global demand and trade, and ease global financing conditions.	**Medium** **Low**	**High** **ST, MT**	Enhance competitiveness to support economic recovery. Diversify tourism revenues. Monitor the financial sector development, including risks to FDI, in coordination with ECCB.
Systemic financial instability. High interest rates and risk premia and asset repricing amid economic slowdowns and elevated policy uncertainty (including from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs.	**Medium**	**Medium** **ST**	Monitor asset quality and ensure adequate loan loss provisioning. Vigilantly monitor the financial sector development in coordination with ECCB.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Risks	Likelihood	Impact	Policy Response
Conjunctural Risks			
Sovereign debt distress. Domino effects from high global interest rates, deteriorating debt sustainability in some AEs, unfunded fiscal spending, and/or disorderly debt events in some EMDEs spillover to other highly indebted countries, amplified by sovereign-bank feedback, resulting in capital outflows, rising risk premia, loss of market access, and contraction of growth and social spending.	Medium	Medium ST	Strengthen the fiscal position, including through comprehensive tax reform, and communicate credible medium-term fiscal plan, anchored in sound fiscal rules. Monitor the banking sector development in coordination with ECCB and strengthen national supervision of CUs.
Structural Risks			
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	High	Medium MT	Enhance international cooperation and competitiveness to support economic recovery and cross border collaboration.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	High	Medium MT	Enhance digital security in public and private platforms.
Climate change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability. A disorderly transition to net-zero emissions and regulatory uncertainty lead to stranded assets and low investment.	Medium	High ST	Invest in resilient infrastructure and implement a multi-layered insurance framework against NDs. Proceed with energy transition initiatives, including geothermal.
Domestic Risks			
Delays in infrastructure investment. Private investment could be unprofitable without enough infrastructure investment.	Medium	High ST, MT	Contain growth of current expenditures, including through the implementation of fiscal rules and structural reforms.
Disorderly fiscal adjustment. A weakening fiscal position and tightening financial conditions can force an abrupt fiscal adjustment.	Medium	High MT	Adopt a fiscal rule and implement tax reforms to ensure adequate fiscal adjustment and debt sustainability.
Financial sector weakness. An unexpected increase in or more aggressive recordation of NPLs would further impair credit intermediation.	Medium	Medium MT	Monitor asset quality and ensure adequate loan loss provisioning.

Annex III. Debt Sustainability Analysis

Annex III. Table 1. St. Lucia: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	High	The overall risk of sovereign stress is high, reflecting a high underlying level of debt and vulnerabilities in the medium and the long term.
Near term 1/			
Medium term	Moderate	High	Medium-term risks are assessed as high against a moderate overall mechanical signal, due to high debt fanchart signal and the vulnerability in the financial sector (high NPLs and low provisions). The debt fanchart signal is high, reflecting a history of high volatility and a high terminal debt level. The GFN financeability signal is moderate, reflecting a high average GFN offset by low bank claims on government.
Fanchart	High	…	
GFN	Moderate	…	
Stress test	...	…	
Long term	…	High	Long-term risks are high due to large amortization-, climate adaptation-, and demographic risks. Healthcare costs from population aging could increase debt-to-GDP by more than 30 p.p. compared to the baseline by 2053. In the absence of reforms, the pension fund's reserves w ould be depleted around 2051, resulting in an underfunding gap of around 165 percent of GDP in 60 years, w hich w ould require fiscal outlays of about 3 percent of GDP over the next 60 years.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	N.A.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: St. Lucia is assessed to be at a high overall risk of sovereign stress. The debt-to-GDP ratio has decreased rapidly from 95 percent in FY2020 to 74.5 percent in FY2023 thanks to a swift tourism-led recovery and inflation surprises. However, given that growth is projected to moderate to potential, unless the government implements a substantial fiscal consolidation, debt is expected to stabilize at 74 percent of GDP in the medium term, much higher than the 60 percent of GDP ECCU-wide debt target. High medium-term risks stem from financial sector vulnerability and high GFN, driven by amortization of medium and long term debt (both domestic and external), while high long-term risks stem from large amortization risks, climate adaptation risks, and demographic risks. Natural disasters present a recurrent threat to fiscal stability.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Annex III. Table 2. St. Lucia: Debt Coverage and Disclosures

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

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

(Row groupings: CG = rows 1–3; GG: expected = rows 1–5; NFPS = rows 1–6; CPS = rows 1–8.)

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-Government Debt Holdings

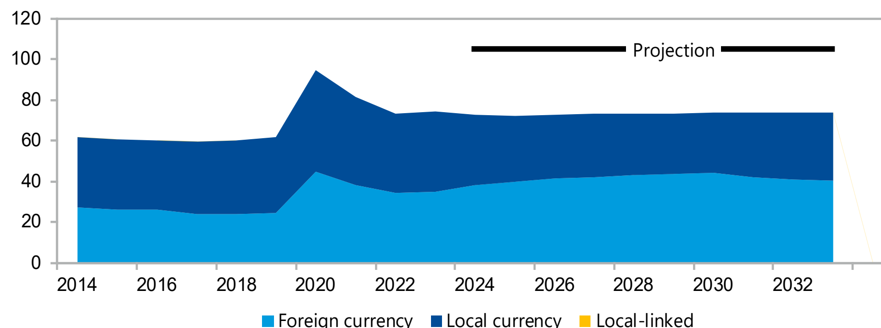
Issuer \ Holder		Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1	Budget. central govt									0
2	Extra-budget. funds									0
3	Social security funds									0
4	State govt.									0
5	Local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

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

Commentary: the debt sustainability analysis covers the central government, inclusive of central government-led project loans, and government-guaranteed public sector nonfinancial corporations, which incur debt most prominently in the execution of large-scale infrastructural projects.

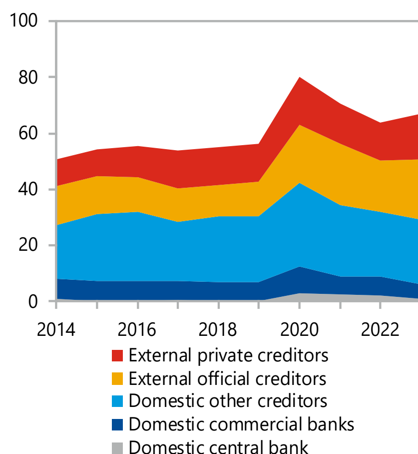
Annex III. Table 3. St. Lucia: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



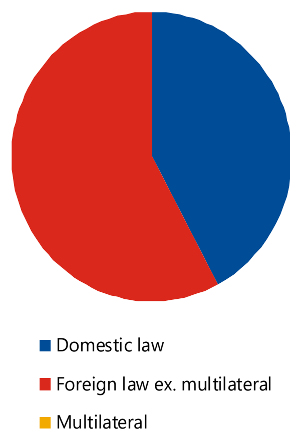
Note: The perimeter shown is central government and public non-financial corporations (government guaranteed).

Public Debt by Holder (Percent of GDP)



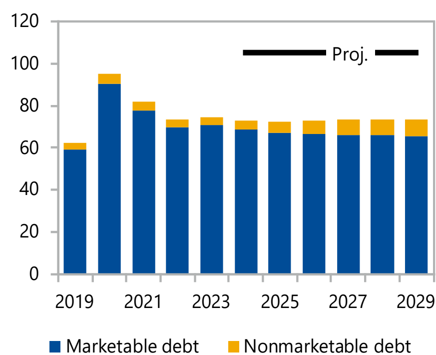
Note: The perimeter shown is central government and public non-financial corporations (government guaranteed).

Public Debt by Governing Law, 2023 (Percent)



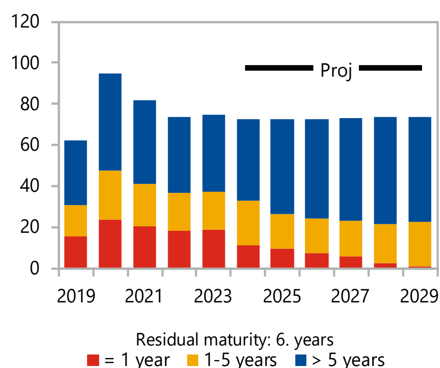
Note: The perimeter shown is central government and public non-financial corporations (government guaranteed).

Debt by Instruments (Percent of GDP)



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

Public Debt by Maturity (Percent of GDP)



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

Commentary: most public debt consists of marketable instruments, with non-marketable debt reflecing government investment project loans. Domestic debt markets are relatively shallow, resulting in the prevalence of externally held debt. Over time, outstanding debt maturity is expected to lengthen in line with the authorities' debt management

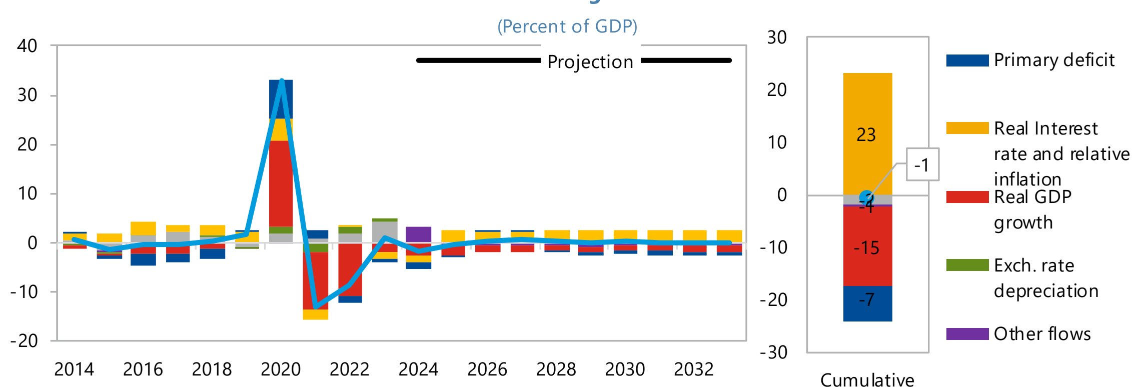
Annex III. Table 4. St. Lucia: Baseline Scenario

(Percent of fiscal year GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	74.5	72.7	72.3	72.7	73.2	73.6	73.6	73.7	73.9	73.9	73.9
Change in public debt	1.1	-1.8	-0.4	0.3	0.5	0.4	-0.1	0.2	0.1	0.0	0.0
Contribution of identified flows	-3.3	-2.0	-0.5	0.4	0.8	0.7	0.2	0.4	0.4	0.3	0.2
Primary deficit	-0.7	-1.3	-0.6	0.1	0.0	-0.3	-0.8	-0.8	-0.8	-0.8	-0.8
Noninterest revenues	21.3	22.2	22.1	22.0	21.9	21.8	21.8	21.8	21.8	21.8	21.8
Noninterest expenditures	20.7	20.9	21.5	22.2	22.0	21.5	21.0	21.0	21.0	21.0	21.0
Automatic debt dynamics	-2.6	-3.9	0.7	0.6	1.1	1.4	1.5	1.5	1.5	1.4	1.4
Real interest rate and relative inflat	-1.4	-1.4	2.6	2.2	2.4	2.5	2.6	2.6	2.6	2.5	2.5
Real interest rate	-1.1	-1.3	2.7	2.1	2.1	2.2	2.3	2.3	2.3	2.3	2.3
Relative inflation	-0.3	-0.2	-0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Real growth rate	-1.9	-2.5	-1.9	-1.6	-1.3	-1.1	-1.1 .	-1.1	-1.1	-1.1	-1.1
Real exchange rate	0.7	…	…	…	…	…	… .	…	…	…	…
Other identified flows	-0.1	3.3	-0.6	-0.3	-0.4	-0.4	-0.5	-0.3	-0.3	-0.4	-0.4
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	-0.1	3.3	-0.6	-0.3	-0.4	-0.4	-0.5	-0.3	-0.3	-0.4	-0.4
Contribution of residual	4.4	0.2	0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Gross financing needs	12.6	11.1	13.9	14.4	13.4	12.8	11.0	10.6	12.4	15.1	15.3
of which: debt service	13.4	12.5	14.6	14.3	13.4	13.2	11.8	11.5	13.2	16.0	16.2
Local currency	8.9	8.8	7.7	6.6	4.3	4.1	3.2	2.5	2.7	6.1	6.4
Foreign currency	4.5	3.7	6.9	7.7	9.2	9.1	8.6	9.0	10.5	9.9	9.8
Memo:											
Real GDP growth (percent)	2.6	3.5	2.7	2.3	1.8	1.5	1.5	1.5	1.5	1.5	1.5
Inflation (GDP deflator; percent)	1.6	1.8	1.9	2.3	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Nominal GDP growth (percent)	4.2	5.3	4.6	4.7	4.3	4.0	4.0	4.0	4.0	4.0	4.0
Effective interest rate (percent)	0.0	0.0	5.7	5.4	5.6	5.7	5.8	5.8	5.8	5.7	5.7

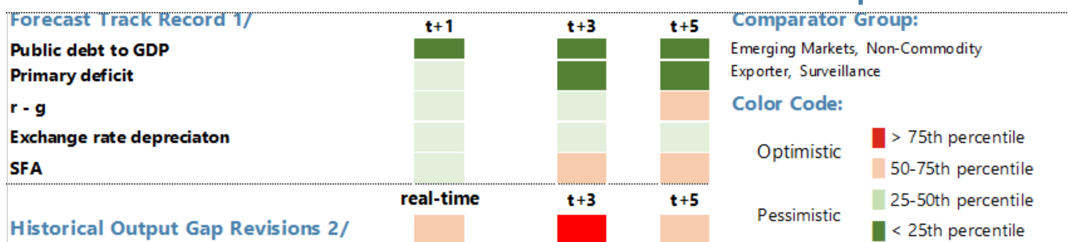
Contribution to Change in Public Debt

(Percent of GDP)



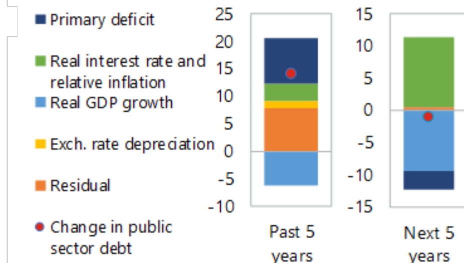
Commentary: The public debt-to-GDP ratio is to projected to remain elevated at around 74 percent, well above the 2035 regional debt target commitment of 60 percent. Slowing real GDP growth, and an unfavorable interest rate to inflation differential, will make a reduction in public debt less likely unless decided fiscal consolidation measures are implemented. Alternative simulations where interest rates on medium-to-long term external debt issuances are higher by 1-1.5 percentage points yield similar assessments to our baseline scenario, albeit with marginally higher terminal debt-to-GDP ratios (about 1-2 p.p. respectively).

Annex III. Table 5. St. Lucia: Realism of Baseline Assumptions

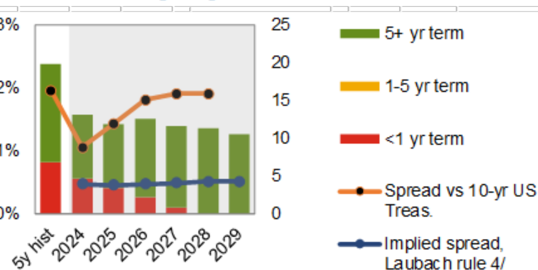


Public Debt Creating Flows

(Percent of GDP)

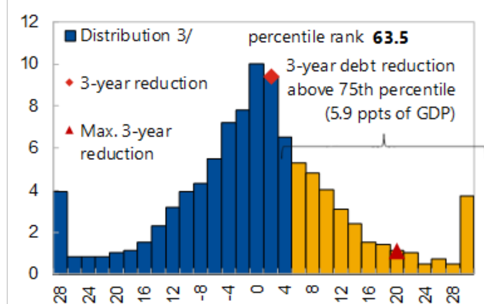


Bond Issuances (Bars, Debt issuances (RHS, %GDP); Lines, Avg Marginal Interest Rates (LHS, Percent))

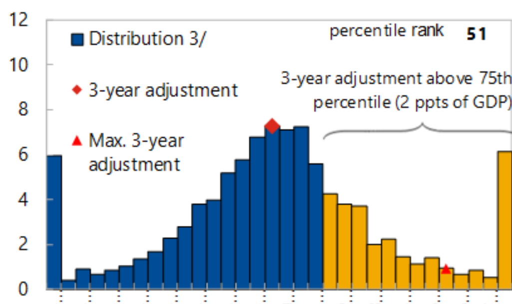


3-Year Debt Reduction

(Percent of GDP)

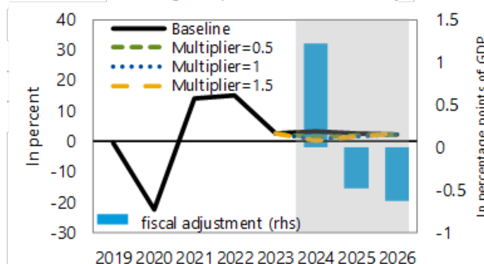


3-Year Adjustment in Cyclically-Adjusted Primary Balance (Percent of GDP)



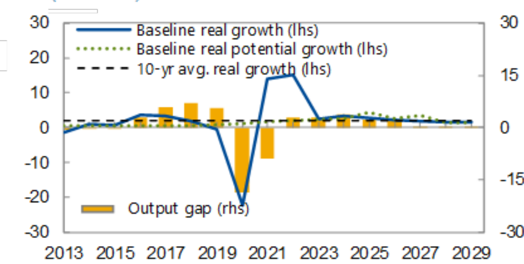
Fiscal Adjustment and Possible Growth Paths

(Lines, Real Growth Using Multiplier (LHS); Bars, Fiscal Adj. (RHS)



Real GDP Growth

(In Percent)



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

Source: IMF staff.

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

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

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex III. Table 6. St. Lucia: Medium-Term Risk Analysis

Debt Fanchart and GFN Financeability Indexes

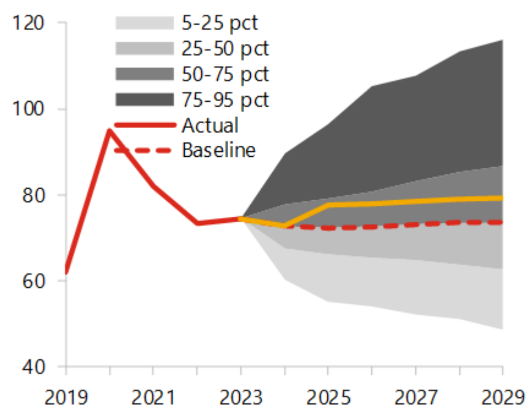
(Percent of GDP Unless Otherwise Indicated)

Module	Indicator	Value	Risk index	Risk signal
Debt fanchart module	Fanchart width	67.4	1.0	...
	Probability of debt not stabilizing (pct)	65.5	0.5	...
	Terminal debt level x institutions index	40.4	0.9	...
	Debt fanchart index	**...**	**2.4**	**High**
GFN finance-ability module	Average GFN in baseline	12.8	4.4	...
	Bank claims on government (pct bank assets)	4.4	1.4	...
	Chg. in claims on govt. in stress (pct bank assets)	9.6	3.2	...
	GFN financeability index	**...**	**9.0**	**Moderate**

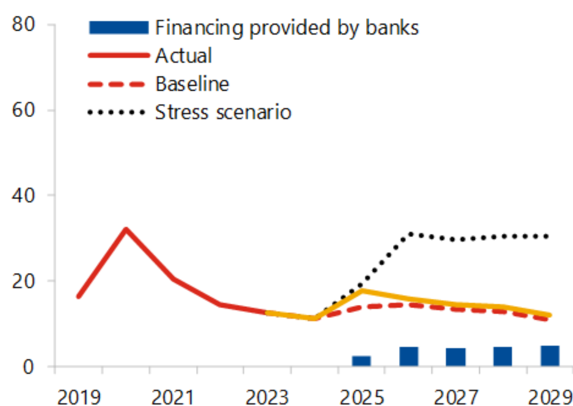
Emer. Mar., Non-Com. Exp., Surveillance: 0, 25, 50, 75, 100

Legend: Interquartile range; St. Lucia

Final Fanchart (Percent of GDP)



Gross Financing Needs (Percent of GDP)

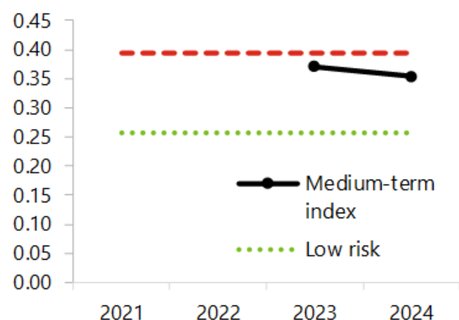


Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Nat. disaster

Medium-Term Index

(Index Number)



Medium-Term Risk Analysis

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

Prob. of missed crisis, 2024-2029 (if stress not predicted): 27.3 pct.

Prob. of false alarm, 2024-2029 (if stress predicted): 20.5 pct.

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

Annex III. Table 7. St. Lucia: Long-Term Risk Analysis

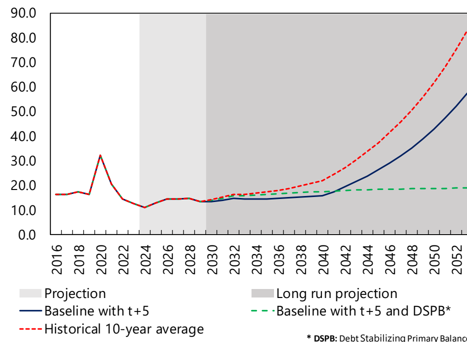
Large Amortization Trigger

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

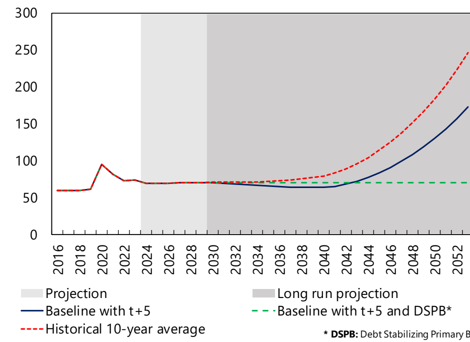
Overall Risk Indication	

Alternative Baseline Long-Term Projections

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



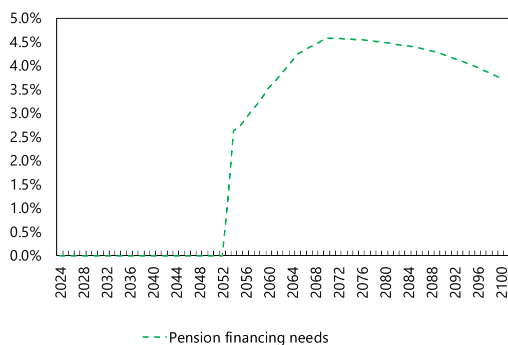
Commentary: The large amortization submodule is suggesting a liquidity risk beyond the medium-term horizon.

Annex III. Table 7. St. Lucia: Long-Term Risk Analysis (continued)

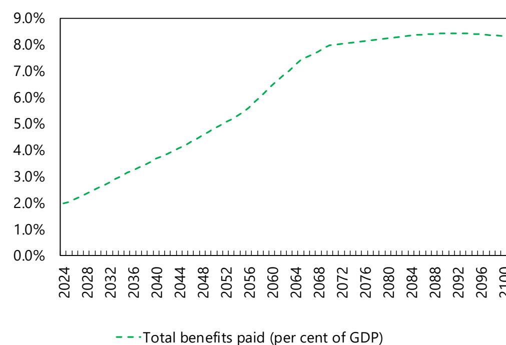
Demographics: Pension

Permanent Adjustment Needed in the Pension System (Percent of GDP per year)	To keep pension assets positive for:		
	30 years	50 years	Until 2100
	0.03%	1.26%	1.98%

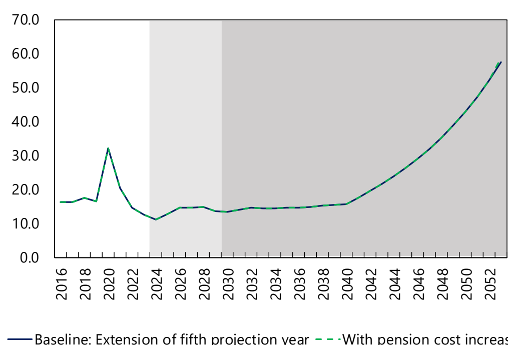
Pension Financing Needs



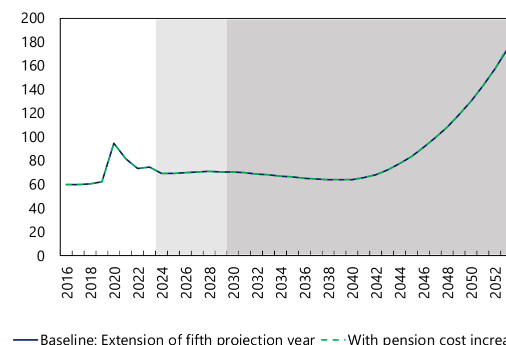
Total Benefits Paid



GFN-to-GDP Ratio



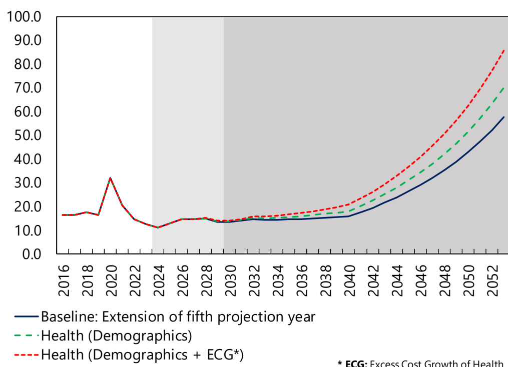
Total Public Debt-to-GDP Ratio



Commentary: The authority's study projects that in the absence of reforms, the pension fund's reserves would be depleted by around 2051, resulting in an underfunding gap of around 165 percent of GDP in 60 years, requiring annual fiscal outlays of about 3 percent of GDP.

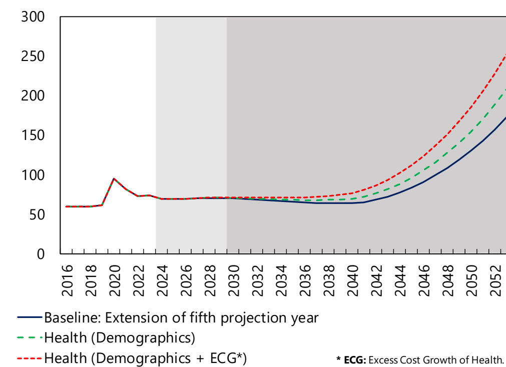
Demographics: Health

GFN-to-GDP Ratio



* **ECG:** Excess Cost Growth of Health.

Total Public Debt-to-GDP Ratio



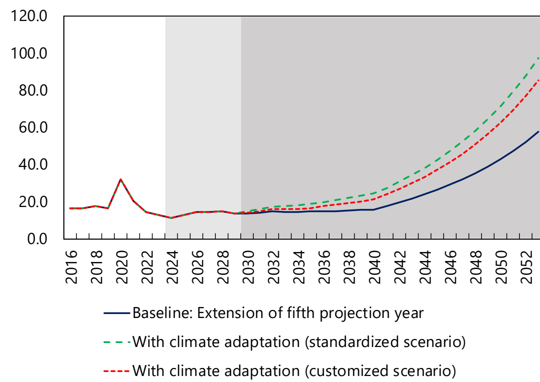
* **ECG:** Excess Cost Growth of Health.

Commentary: The health module suggests that with increase in healthcare costs related to demographic change, debt-to-GDP ratio could increase by 35 p.p. by 2053. With additional 0.6 pp of growth in healthcare costs, debt-to-GDP ratio could increase by 45 p.p. more, further increasing long term sustainability risks.

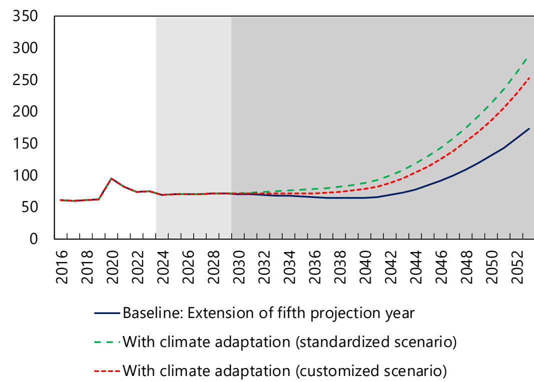
Annex III. Table 7. St. Lucia: Long-Term Risk Analysis (concluded)

Climate Change: Adaptation

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: The customized scenario, assuming an adaptation cost of 1.3 percent of GDP, 0.7 p.p. of which is already included in the baseline scenario, suggests that debt-to-GDP could increase by 79 p.p. by 2053, further increasing long term sustainability risks.

Annex IV. Implementation of Past Fund Advice

Recommendations from the 2023 Article IV Consultation	Authorities Actions
Fiscal Policies	
Implement medium-term adjustment of 2.5-3.5 percent of GDP to reach the regional debt target and increase public investment.	**Pending/Mixed.** The fiscal deficit has widened in FY2023 and in the FY2024 budget, despite several measures implemented. Debt is projected to remain high, at 74 percent of GDP over the MT in the baseline. The authorities imposed a 2.5 percent health and security levy from August 2023 and increased excises on tobacco products amid the lack of progress on the VAT. A tax amnesty, which helped the collection of arrears, was extended for another year, but it can disincentivize compliance amid feeble enforcement. The authorities are evaluating taxation of shared accommodations to even the competitive field.
Increase the VAT and excise on fuel.	**Pending.** No measures have been undertaken. Contrary to Fund advice, temporary VAT exemptions on medical equipment and construction materials were introduced to aid the health sector and reduce business input costs.
Contain growth in the wage bill.	**Work in progress.** In FY2023, the wage bill in percent of GDP was smaller than the prior year. However, it is expected to decompress in the baseline.
Modernize public financial management, digitalize public services, and strengthen tax compliance.	**Work in progress.** The authorities are improving their budget and financial management through the adoption of new IT systems (Questica, CLOUDSUITE), and are transitioning away from the use of checks as a means of payment. They are creating an online platform (DigiGov) acting as a one-stop digital access to over 150 services across 8 ministries. They are modernizing the Inland Revenue Department through the innovative use of new ICT, and plan to encourage the digitalization of tax filing and payment.
Implement parametric reforms of the pension fund to reduce long-term fiscal risks.	**Pending.** The national pension fund has proposed to the Cabinet gradual increases in contribution rates and the early retirement age, which would postpone the fund's depletion date from 2051 to 2080.
Adopt a fiscal rule combining a primary balance floor and a recurrent spending ceiling.	**Pending.** The authorities are analyzing fiscal rules' options but currently prefer flexibility.
Reduce high debt rollover needs and refinancing risks.	**Work in progress.** The authorities are continuing efforts to lengthen the average maturities and reduce the cost of debt, primarily through a larger share of concessional financing, and nearly eliminated the expensive overdrafts. The Debt Management Act was enacted in April 2024, which aims to consolidate and modernize the laws to strengthen the management of public debt, ensuring prudent borrowing practices and sustainable fiscal policies. The blue bond initiative has been put on hold because of the high global long-term interest rates and the technical complexity of the operation.
Spend the revenue from Citizenship by Investment Program cautiously and avoid relying recurrent spending on CIP financing.	**Mixed**. The authorities have made progress to bolster the CIP, but improvement in governance and transparency remains necessary. The regional memorandum of agreement on pricing, due-diligence, and information sharing, was approved in June 2024.
Financial Sector Policies	
Strengthen the enforcement of provisioning requirement and speed up efforts to dispose of long-standing NPLs.	**Mixed.** The banks have reduced NPLs in aggregate, increased their provisions, and made progress with NPL disposals, but the stock of legacy NPLs remain high.
Close the legislative gaps, including the modernization of the foreclosure legislation.	**Mixed.** The regional credit bureau is operational, but time is needed to collect and collate the credit score data. The Bankruptcy and Insolvency Bill (which had been under review since 2020) was passed in September 2024. The foreclosure legislation is still lacking.

Recommendations from the 2023 Article IV Consultation	Authorities Actions
Continue the reforms of the AML/CFT laws and practices.	**Work in progress.** The regional memorandum of agreement on pricing, due-diligence, and information sharing, was approved in June 2024.
The regulation and supervision of CUs should be strengthened and the enforcement by the regulator enhanced.	**Work in progress.** An asset quality review for the largest CU was completed in 2024, with plans to expand it to others. The Co-operative Societies Act to strengthen requirements and empower the national supervisor (in line with harmonized regional regulations) was passed in October 2024.
Structural Policies	
Continue efforts to implement the government's physical, digital, and social investment plan to address bottlenecks to growth.	**Work in progress**. The authorities' investment plans focus on health, education, and digital infrastructure as well as physical infrastructure. The physical infrastructure includes upgrading the road networks, upgrading the airport, and building a new cargo seaport, improving the cruise ship port, and upgrading justice and policing facilities. They are renovating the main hospital on the island and several school facilities, including transforming four secondary schools in TVET-dedicated schools. They are pursuing the modernization and provision of broadband internet access free of charge through the GiNet project, accompanied by the provision of laptops to secondary school students. The authorities are updating the island's energy production mix with incentives for solar energy and EV acquisition, and exploratory drilling for a World Bank-supported geothermal energy project to start in 2025.
Improve labor force participation and productivity.	**Work in progress.** The authorities are pursuing several initiatives to develop TVET skills, including with the aid of the OECS, and facilitate the skill matching process by planning for a national skill registry in collaboration with employers. The Youth Economy Agency (YEA) is facilitating the provision of small-scale credit for the establishment of young entrepreneurs' businesses and signed a Technical Agreement with Taiwan Province of China for a grant of $1.2 million to support youth training. To encourage the participation of Youth in Agriculture, the Ministry of Agriculture and the YEA will collaborate to adopt modern agricultural production techniques using cutting-edge technologies.

Annex V. Tax Reform Key Aspects and Sequence

The first part of the Annex reviews tax policy for the Caribbean, with a focus on two issues: how to effectively and efficiently tax tourism; and the appropriate approach to investment tax incentives. The second part of the Annex presents tax policy reform priorities for St. Lucia and its sequencing, based on technical assistance reports.

A. Part I. General Principles of Good Taxation in the Caribbean

1. There are substantial economic rents associated with tourism in the Caribbean and charging high fees for access to scarce, location specific features is a very efficient way to raise revenue. High fees to access overcrowded destinations are efficient as they both raise revenue and allocate access to those that value it the highest. Rather than addressing overcrowding by capping the number of cruise ship visits, more countries could charge fees. The Caribbean has the competitive advantage of proximity to a large population, yet competition between jurisdictions within the region allows the private sector to capture most of the economic rents associated with this competitive advantage.

2. The largest components of tourist expenditures are international transportation and accommodation. Next are a variety of smaller expenditures on taxis, tour guides, souvenirs, activities, and meals. Taxing the profits associated with air transportation is challenging, while the highly competitive market for local tourist services is characterized by small businesses with significant entry and exit. That focuses effective revenue generation from tourism on the taxation of tourist accommodation and charging appropriate fees for both publicly provided activities and for access to unique location specific cultural or natural features.

3. The taxation of stays at international hotel chains and vacation rentals is subject to administrative challenges. Transactions are often processed outside the destination country, international hotel chains can utilize internal transactions to move profits between jurisdictions, and scattered vacation rentals can be more difficult to monitor.

What Are Good Tax Bases for Tourism Dependent Economies in the Caribbean?

4. Tourism dependent economies in the Caribbean share features that make some tax bases preferable to tax than others. In addition to minimizing potential negative impacts on economic growth and social welfare, tax systems need to be set up in a way that minimizes the cost of compliance for taxpayers and the cost of administration for the government, while making tax avoidance and evasion as difficult as possible.

5. A well-designed VAT is the preferred tax for raising substantial revenues with the smallest negative effect on economic growth. The best practice involves

collecting VAT on the broadest possible range of goods and services and at each stage in the production and distribution chain and then providing a credit to a registered taxpayer for the VAT they paid on their business inputs. By collecting VAT at each stage, a substantial portion of the revenue associated with an untaxed final supply has already been collected. For example, an unregistered retailer will have paid VAT on: the goods that they imported or purchased from a wholesaler; the retail space that they rent; and the electricity and mobile phones that they use. As a result, VAT exemptions for business inputs should be considered tax relief for the informal economy; administration of input tax credits, nonetheless, remains a work in progress in many countries.

6. **Recurrent taxes on land and residential property have the desirable features of being both efficient and progressive.** Taxing land more heavily does not reduce its quantity, so the tax creates fewer economic distortions than most other taxes. Residential property ownership also tends to be concentrated among upper-income households, so a proportional tax on the value of improved residential property collects relatively more revenue from the wealthy. The taxation of the improved value of commercial property, however, is a less efficient source of tax revenue as it discourages income earning capital investment.

7. **Taxing income at the individual level can be a potent revenue source and an effective mechanism for improving the distribution of income.** The main goals of a personal income tax are thus to raise sufficient revenue in a way that minimizes economic distortions while fairly distributing the tax burden. Two main concepts of fairness are usually distinguished: horizontal equity (individuals in similar circumstances are treated equally by the tax system); and vertical equity (individuals with greater capacity to pay taxes, as measured by their incomes, should pay a greater level of tax, usually more than proportionately more).

8. **Unfortunately, the most damaging taxes for economic growth are common in the Caribbean: production or transaction-based taxes that are insensitive to profits (e.g., Stamp Duty on property transactions) or unrelieved tax imposed on business inputs (e.g., customs duties).** These taxes are often introduced because of the seeming ease of collection and lower administration costs. Transactions taxes widen the gap between buying and selling prices, which reduces market liquidity and thereby affects the allocation of assets, labor mobility and social welfare. The result is a substantial reduction in trading and longer hold periods. Housing transaction taxes lead to a misallocation of the housing stock by discouraging young families from upsizing their housing and by discouraging retiree households from downsizing. In contrast, a recurrent property tax has no impact on mobility or the allocation of assets.

Tax Incentives: Minimizing the Economic and Fiscal Damage

9. **It would be preferable to not provide any tax incentives, secure in the knowledge that the country's core tax system and other policy frameworks are**

competitive.[1] But it is understood that tax incentives are seen as necessary for attracting certain investments, and that the absence of any specific package would likely lead to the re-introduction of even more damaging discretionary relief. Caribbean countries need to ensure that their investment tax incentives are not considered harmful tax practices.

10. If contemplated, tax incentives should relate to those tax bases that are either less robust or more economically damaging. Specifically:

- **Transaction Taxes.** Stamp duties and property transfer taxes impose significant efficiency costs through resource misallocations and are thus a suitable target for exemptions or repeal.
- **Corporate Income Tax.** Incentives based on costs incurred directly increase the likelihood of investment, whereas incentives related to profits (e.g., tax holidays) primarily provide windfall gains to businesses that would have invested in the absence of the incentive. In lieu of tax holidays, qualifying projects could be provided with the following incentives: expensing for capital investments; and an extended loss carry-forward period plus no limit on the ability to use losses to reduce current-year taxable income to zero combined with limits on interest deductibility. Corporate income tax applies to projects once they are generating operating profits and the combination of expensing and full loss carry-forwards allows the taxpayer to delay paying corporate income tax until the value of the initial capital investment has been recovered through operating profits.
- **Non-Resident Withholding Taxes.** In a country with a corporate income tax, a full exemption from withholding tax on payments of dividends could be considered. Exemptions from withholding taxes for tax deductible payments such as interest, royalties, and management services should be time-limited and capped (or avoided altogether), as a withholding tax is often the only mechanism for ensuring source country taxation.
- **Customs Tariff.** Taxes on business inputs are amongst the most harmful for economic growth. A full exemption from Customs Tariffs imposed on business inputs (e.g., construction materials) is advisable; the general elimination of these tariffs could also be considered. No tax relief should be provided for imports destined to be consumed by employees of the project, for example personal automobiles.

11. Governments should *avoid* tax incentives related to the most economically efficient and administratively resilient tax instruments. This includes:

[1] "Options for Low Income Countries' Effective and Efficient Use of Tax Incentives for Investment", A, Report to the G-20 Development Working Group by the IMF, OECD, UN and WORLD BANK, https://www.oecd.org/tax/options-for-low-income-countries-effective-and-efficient-use-of-tax-incentives-for-investment.htm.

- **Excise Taxes.** No exemptions for alcohol, tobacco or fossil fuels. The objective of these excise taxes is to increase the price of consuming a harmful product.

- **Value-Added Tax and Recurrent Property Tax.** Ideally, no exemptions. These tax bases are amongst the most economically efficient sources of tax revenues, and they are relatively difficult for taxpayers to avoid or evade. In some cases, an exception could be made for a very narrow basket consumed by the poor amid the lack of proper social targeting.

- **Personal Income Tax.** No exemptions for employees of a favored project. Such relief is gratuitous, undermining the fairness of the tax system and the tax morale of individuals not eligible for relief.

Annex V. Table 1. St. Lucia: Summarizing the Impacts of Different Tax Bases

	Relative Growth Friendliness	Helps Achieve Progressivity	Leakage	Recommended for Small Caribbean Countries
Recurrent Property Tax	Land taxation is growth friendly; taxing commercial buildings discourages investment	Recurrent taxation of the improved value of residential property	None	Essential
VAT	Growth friendly	No	Minimal	Essential
Customs Tariffs	Damaging	No	Minimal	Maybe
Stamp Duties	Damaging	No	High	No
Excise Taxes	Depends on good	No	Manageable	Yes (fossil fuels, tobacco, alcohol)
Personal Income Tax	Somewhat negative	Best mechanism	Potential for informal employment and some tax planning by wealthy	Yes
Corporate Income Tax	Negative	Supports a progressive personal income tax	Substantial tax planning opportunities	Yes, unless the top marginal personal income tax rate is low

Note: The Table summarizes the impacts of applying different taxes in the region and this may result in simplification and some loss of detail, however this does not affect the overall impacts highlighted.

B. Part II. Key Recommendations for a Tax Policy Reform in St. Lucia

12. A comprehensive tax policy reform should be implemented, based on technical assistance reports,[2] to boost tax revenue, improve equality, and reduce distortions. St. Lucia stands out as a Caribbean country with a significant number of tax expenditures, resulting in low tax revenue and wide-spread regressivity. Moreover, the number of exemptions has been growing over time eroding the tax base. With the economy fully recovered after the pandemic and growth above the potential in the near-term, it is an opportune moment to redesign the tax system with a manageable cost to growth in the short term, while making the tax system more growth-friendly and progressive over the medium and long term.

- CIT revenue is especially low because of tax incentives provided to a wide range of companies. More specifically, the hospitality sector is enjoying exceptional profitability[3], while still benefiting from generous tax incentives and concessions[4]. A review of tax concessions should be quickly concluded given the implementation of the OECD pillar II with a view to abolish tax concessions. With the abolishment of CIT concessions—which could yield 2-4 percent of GDP—consideration could be given to lowering the CIT rate, while allowing for full expensing of capital expenditures and loss carryforwards. Simplified corporate income tax regime for SMEs and micro firms could improve compliance and reduce the large informal sector. In general, the design of tax incentives should be supported by adopting a rules-based framework and establishing a monitoring unit.

- The reform of the VAT should include the reversal of the main rate from the current 12.5 percent to the pre-pandemic 15 percent, a reduction in the high VAT threshold, a minimization of zero-VAT items, and increases in the tourism VATs from the current rates of 7 and 10 percent—which all together could generate at least 2 percent of GDP. A well-designed VAT—as uniform and broad as possible—would serve as the main and most cost-effective source of revenue mobilization in case of an economic or climate-related shock.

- The PIT has an excessive number of allowances, deductions, and exemptions that both reduce revenue and are often regressive. Allowances and deductions that currently reduce taxable income should be replaced with tax credits, and regressive deductions

[2] The World Bank (2024) TA report "Strengthening Tax Policy for Climate Resilient Growth in Saint Lucia"; IMF (2015) FAD TA report "Review of Income Taxation and VAT Performance for Fiscal Sustainability."

[3] As evidenced by hotel prices and BOP flows.

[4] In St. Lucia, many tax exemptions are granted to the tourism sector and to the importation of cars. For the ECCU region, the foregone tax revenue from tourism incentives was estimated at 5.8 percent of GDP on average. See IMF Country Report No. 20/70.

should be eliminated. Dividends, rental income, capital gains, and interest income (currently exempt) should be taxed to raise taxes and improve fairness. A fourth income tax bracket could be introduced to increase progressivity.

- Recurrent property taxes are currently low, but should be an important source of revenue, as they are considered the least harmful taxes for economic growth. An exemption on Land and House Tax—which was initially granted for residential properties in 2017—has been extended until now. Moreover, only about 50 percent of residential properties are registered. Finally, newly built commercial properties are exempt for three years. These exemptions should be eliminated, and the cadaster of real properties should be updated and expanded. Moreover, inheritance, gift, and net wealth taxes could be introduced to increase progressivity and increase revenue. Finally, transfer taxes are too high and harm both the tax collection and the secondary real estate market, which has negative repercussions for bank mortgage lending and repossessions.

- A fuel tax reform would increase revenue, help achieve carbon emission targets, and reduce regressivity. In general, a zero- or low-rate fuel VAT and fuel subsidies are regressive and conducive of energy overconsumption. Raising the fuel VAT rate from the current 0 percent to the statutory rate and restoring the fuel excise[5] to the pre-pandemic level would generate at least 0.6 percent of GDP. A smoothing passthrough mechanism from international oil to domestic fuel prices could protect revenue in the long term.[6] Furthermore, higher fuel VAT and fuel excise can be used to generate additional revenue to help finance climate adaptation and reach carbon emission targets.

- Similarly, higher excises on alcohol and tobacco, and the introduction of an excise on sweetened beverages could help address negative health externalities and generate additional revenue to help finance health-related expenditures.

13. The tax reform should prioritize the policy areas and steps with the largest potential to raise revenue, while considering the impacts on growth and equity, as well as implementation cost (Table 2). For example, the CIT reform would likely yield the largest increase in revenue, whereas it would require substantial legislative changes[7] which could take time. However, it is critical to act expediently to enact some positive changes in the near-term, while the broader legislative work can continue over a longer period. The completion of a thorough CIT reform would allow the authorities to consider lowering the statutory CIT rate towards 25 percent. Similarly, should the VAT become all-

[5] After plunging in 2022, the LPG subsidy continues to be substantial, and kerosene is not taxed.

[6] See the 2024 ECCU Staff Report Annex VI.

[7] Tax incentives are stipulated in at least five Acts (Financial Incentives, Tourism Incentives, Tourism Stimulus and Investment, Agriculture and Fisheries Incentives, Special Development Areas).

inclusive and uniform, and medium-term goals be achieved, the statutory VAT rate could be reduced. Some elements of the reform require *not* extending existent exemptions and thus carry little implementation cost. For example, higher and broader recurrent property taxes would help tax the economy in the most growth-friendly manner. As an offset, this should be complemented by a significant cut in transaction taxes which hamper the secondary property market and bank lending. Better fuel and health taxation would help reduce negative externalities and finance both the green transition and social investment—much needed already in the short term. The simplification of the CIT and PIT would help reduce informality.

Annex V. Table 2. St. Lucia: Sequencing of the Proposed Tax Reform			
Priority/Timing	**Policy Area**	**Recommendation**	**Rationale/Estimated Impact**
1st/Short- to medium-term	CIT	Eliminate tax exemptions and holidays. Reform tax incentives. Allow for full expensing of capex and loss carryforwards and put a cap on interest deductibility.	Improve fairness and make taxation more investment friendly. Raise tax revenue by 2-4 percent of GDP.
1st/Short-term	VAT	Bring the rates on hotel accommodation (7 percent) and other tourism services (10 percent) to the statutory rate. Raise the statutory rate from 12.5 percent to 15 percent. Reduce the VAT threshold.	Improve fairness. 1.8 percent of GDP.
1st/Short- to medium-term	PIT	Eliminate regressive tax breaks. Replace pre-tax breaks with flat tax credits. Tax dividends, rental income, capital gains, and interest income.	Raise revenue, reduce regressivity.
1st/Short-term	Property taxes	Eliminate the 2017 exemption on residential properties and shorten the exemption on new residential properties from 3 years. Cut transaction taxes.	Raise revenue, reduce regressivity. Revive the secondary real estate market.
1st/Short-term	Fuel taxes	Raise the fuel VAT rate from 0 percent to 15 percent. Eliminate the subsidy on LPG. Tax kerosene.	Promote energy transition. 0.6 percent of GDP.
1st/Short-term	Health taxes	Raise excises on alcohol and tobacco.	Address negative health externalities, fund expenditure on health. 0.1 percent of GDP.
2nd/Medium-term	CIT	Introduce simplified regimes for SMEs and micro firms.	Reduce informality.
2nd/Medium-term	CIT	After a thorough reform of tax exemptions and incentives, consider lowering the CIT rate from 30 percent toward 25 percent.	Promote growth, increase compliance.
2nd/Medium-term	VAT	Gradually eliminate temporary and permanent zero-rated VAT items, supplemented by targeted social transfers.	Increase tax revenues, reduce VAT distortions while avoiding negative distributional impact.
2nd/Medium-term	PIT	Consider introducing the fourth income bracket.	Increase progressivity.
2nd/Medium-term	Property taxes	Update and expand the cadaster of real properties. Consider progressive tax rates and the introduction of inheritance and gift taxes.	Increase progressivity.
2nd/Medium-term	Fuel taxes	Create expenditure-based green tax incentives on renewable energy.	Promote energy transition.
2nd/Short-medium-term	Health taxes	Introduce an excise of sweetened beverages.	Address negative health externalities, fund expenditure on health.

Annex VI. SDS Country Engagement Box

Annex VI. Table 1. St. Lucia: Country Engagement Overview		
Policy Issues and Objectives	**Domestic Constraints**	**Staff Engagement Plan**
Fiscal Policy		
St. Lucia is committed to reaching the regional debt target of 60 percent of GDP by 2035.	St. Lucia routinely runs moderate deficits and has not implemented most fiscal consolidation measures recommended in past reports. The main obstacle is political and public resistance to higher taxes and lower spending rather than capacity constraints.	Staff recommends a decisive fiscal consolidation over the next 10 years, a tax reform, and the introduction of fiscal rules.
Domestic Revenue Mobilization		
Authorities aim to balance a growth-friendly, low-tax environment with upcoming infrastructural, social, and climate-related needs. This has created a light tax enforcement environment and several opportunities for taxpayers to escape the tax base. Modernization initiatives with the tax administration are helping to upgrade capacity.	Regional tax competition, a low-tax burden culture, tax evasion and avoidance, tax enforcement challenges and a habit of conceding tax exemptions to requesting businesses depress tax revenues.	Staff plans to advise authorities on how to design an efficient but fair and effective tax system, including advocating for strengthening tax administration capabilities, including on the back of targeted CD by FAD, CARTAC, and the World Bank.
Financial System		
Authorities aim for a stable financial system that can provide sufficient credit and support growth.	Despite notable progress in closing legislative gaps, acting on foreclosures on primary residences remains a significant challenge. The ECCB's requirements are not enforced. The CUs are important for financial inclusion and enjoy the regulatory arbitrage, while the national supervisor lacks sufficient powers.	The Fund is engaged with the ECCB to strengthen enforcement. Staff recommends closing information gaps and advancing foreclosure legislation to support bank lending and expand access to credit. Staff endorses the legislation that empowers the national regulator.
Structural Policies		
St. Lucia requires boosting its low potential growth and productivity, enhancing its competitiveness in the tourism industry, and diversifying towards other sectors, including those that would activate its labor force and improve its skill profile. Chronic issues in the labor market need attention, including high unemployment, skill mismatches, gender and age gaps in labor market outcomes, and risk of worker outmigration in search for better compensations. Authorities hold these issues at the core of their policy agenda and invest in the infrastructure, digital, and social domains to achieve these goals.	St. Lucia suffers from limited fiscal space accompanied by low tax collection, high public debt, limited public debt markets, and limited private credit growth, which affect its ability to invest in infrastructure, social- and human capital needs. Cyclical weather shocks periodically affect its productive capacity. Difficulty in training and retaining qualified public sector personnel further constrain the government's capacity to plan and implement new policy.	IMF staff continues to engage with authorities on surveillance issues on an annual basis through AIV consultations. Emphasis is placed on the need to adopt structural reforms and addressing supply-side bottlenecks, such as limited capital expenditure on infrastructure and resilience to ND, that constrain potential output. Functional departments and CARTAC will continue to provide capacity development resources and training to improve the authorities statistical, analytical, and policy implementation capabilities.
Resilience to Climate Shocks		
St. Lucia is implementing a national strategy of climate change adaptation (National Adaptation Plan) with projected completion by 2028.	Climate-related public investment is implemented by different ministries and SOEs. More investment in resilience is required. St. Lucia has large institutional, financing, and capacity gaps.	Staff estimated the required level of investment in resilience, urges fiscal consolidation to free up space for investments, supports coordination efforts, encourages engagement with international partners, and supports green financing initiatives. The World Bank and the Caribbean Development Bank stand ready to provide technical expertise and lending for specific climate-related projects.

Annex VII. Data Issues

Annex VII. Table 1. St. Lucia: Data Adequacy Assessment for Surveillance

St. Lucia: Data Adequacy Assessment Rating 1/

B

Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
Questionnaire Results 2/	C	B	B	C	B	B	B

Detailed Questionnaire Results

Data Quality Characteristics	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency
Coverage	B	B	C	B	B	
Granularity 3/	C		B	B	B	
			B		B	
Consistency			B	C		B
Frequency and Timeliness	C	B	C	C	B	

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment.
- Real: While 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, subject to significant delays. CPI data is provided in a timely manner, in line with international best practices, with the updated CPI basket (base Jan. 2018) based on the 2016 Household Expenditure Survey.
- Fiscal: Reporting of budgetary central government data has deficiencies in the compilation of both general government and public sector statistics. The data is subject to frequent and substantial revisions. There is a need for improvement in accounting system for capital expenditure 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.
- External: External sector data suffers large historical revisions and substantial size of errors and omissions. More granularity of administrative information is needed for analytical purposes. The response rate to the balance for payments surveys is low (about 40 percent). Strengthening collaboration of the nonfinancial private sector and the SO is warranted to improve data quality. Capacity constraints limit processing of the visitors' expenditure survey.
- Monetary and Financial: The ECCB reports all core and 10 additional financial soundness indicators (FSIs) for commercial banks in St. Lucia. The Financial Services Regulation Authority (FSRA) compiles FSIs for credit unions and insurance companies quarterly, with some lag.

Changes since the last Article IV consultation. None

Corrective actions and capacity development priorities. A CARTAC technical assistance (TA) mission on external sector statistics (ESS) to the Central Statistics Office (CSO) of Saint Lucia was conducted in October 2024. The mission focused on data collection issues related to the Citizenship by Investment Program (CIP), and the work program to improve estimates for trade in goods, travel exports, and direct investment. Following a previous mission recommendation, the Tourism Authority incorporated valid surveys for estimating the total visitor expenditure, and new estimates were incorporated in December 2023. As the mission revised 2023 balance of payments (BOP) estimates that were previously published in March 2024, net errors and omissions (NEOs) went from negative EC$1 million to negative EC$68 million.
Another CARTAC technical assistance (TA) mission on Price Statistics Accounts to the CSO was conducted in September 2024. The main purpose of the mission is to assist the CSO with the development of new producer price indices (PPIs) for the mining, manufacturing, utilities, and construction sectors. Follow-up TA for enhancing PPIs is scheduled for March 2025.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff does not use any data and/or estimates in the staff report in lieu of official statistics.

Other data gaps. Data on the capital stock, particularly real estate market data, would help in the assessment of climate-change related risks. Enhanced supervisory data on credit unions, insurance companies, reinsurance and other soundness indicators would strengthen assessment of risks (including from climate) in the non-bank financial institution sector.
The Citizenship by Investment Program (CIP) Unit does not share data on flows and stocks of the foreign escrow accounts and land sales to nonresidents.

Annex VII. Table 2. St. Lucia: Data Standards Initiatives

St. Lucia participates in the Enhanced General Data Dissemination System (e-GDDS) and first posted its metadata in September 2000 but is yet to disseminate the data recommended under the e-GDDS.

Annex VII. Table 3. St. Lucia: Table of Common Indicators Required for Surveillance

(As of November 2024)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	St. Lucia?	Expected Timeliness[6,7]	St. Lucia?
Exchange Rates	Fixed Rate	NA	NA	NA	D	D	...	1D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Sep-24	Oct-24	M	M	M	...	1M	...
Reserve/Base Money	Sep-24	Oct-24	M	M	M	M	2M	6W
Broad Money	Sep-24	Oct-24	M	M	M	M	1Q	6W
Central Bank Balance Sheet	Sep-24	Oct-24	M	M	M	M	2M	6W
Consolidated Balance Sheet of the Banking System	Sep-24	Oct-24	M	M	M	M	1Q	6W
Interest Rates[2]	Sep-24	Oct-24	M	M	M	M	...	6W
Consumer Price Index	Jun-24	Sep-24	M	M	M	M	2M	2W
Revenue, Expenditure, Balance and Composition of Financing[3]?General Government[4]	Jun-24	Sep-24	NA	NA	A	...	3Q	...
Revenue, Expenditure, Balance and Composition of Financing[3]?Central Government	Jun-24	Sep-24	M	M	Q	M,Q	1Q	1Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Mar-24	May-24	Q	A	Q	A	2Q	3M
External Current Account Balance	2023	Jun-24	A	A	Q	A	1Q	8M
Exports and Imports of Goods and Services	2023	Jun-24	A	A	M	M	12W	6W
GDP/GNP	2023	May-24	Q	A	Q	A	1Q	2M
Gross External Debt	NA	NA	NA	NA	Q	...	2Q	...
International Investment Position	2023	Jun-24	A	A	A	...	3Q	...

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

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

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

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

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

ST. LUCIA

January 8, 2025

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

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

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FUND RELATIONS

(As of Nov 30, 2024)

Membership Status:	Joined: November 15, 1979; Article VIII	
General Resources Account:	SDR Million	Percent of Quota
Quota	21.40	100.00
Fund holdings of currency	19.87	92.85
Reserve Tranche Position	1.53	7.16
SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	35.08	100.00
Holdings	22.53	64.23
Outstanding Purchases and Loans:	SDR Million	Percent of Quota
RCF Loans	21.40	100.00
Latest Financial Arrangements:		
Outright Loans		

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

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

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

	Forthcoming				
	2024	2025	2026	2027	2028
Principal		2.14	4.28	4.28	4.28
Charges/Interest		0.42	0.42	0.42	0.42
Total		2.56	4.70	4.70	4.70

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

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

Exchange Rate Assessment: The de jure exchange rate arrangement is a currency board. St. Lucia participates in a currency union with seven other members of the ECCU and has no separate legal

tender. The Eastern Caribbean dollar is pegged to the U.S. dollar under a currency board arrangement at EC$2.70 per U.S. dollar. St. Lucia has accepted the obligations of Article VIII, Sections 2(a), 3 and 4, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

Safeguards Assessment: Under the Fund's safeguards policy, the Eastern Caribbean Central Bank (ECCB) is subject to a full safeguards assessment on a four-year cycle. An update assessment was completed in August 2021 and found that the ECCB has maintained strong external audit and financial reporting practices that continue to be aligned with international standards, and further improvements in the capacity of the internal audit function. Legal reforms were recommended to further strengthen operational autonomy of the ECCB and align its Agreement Act with leading practices. The issuance of digital currency (DCash) introduces new risks that require additional controls and oversight, and the assessment made recommendations to enhance the related project-governance framework.

Article IV Consultation: The last Article IV consultation was concluded by the Executive Board on August 25, 2023. St. Lucia is on a 12-month cycle.

Technical Assistance: St. Lucia has received substantial technical assistance from the Caribbean Region Technical Assistance Center (CARTAC) and the IMF. Technical assistance missions focused on macroeconomic programming and analysis, reforms of the revenue administration, public financial management, real and external sector statistics, and the financial sector.

Macroeconomic Programming and Analysis

- July 2024 (CARTAC): Building capacity in medium-term macro-fiscal frameworks.
- February 2022 (ICD and CARTAC): Provide ECCU member countries with a customized workshop on public debt dynamics.
- October 2021 (ICD and CARTAC): Fiscal Frameworks Course (offered to all CARTAC countries).
- September 2019 (ICD and CARTAC): Provide ECCU member countries with a customized workshop on public debt dynamics.
- September 2019 (CARTAC): Provide ECCU customized DSA/FP course.
- July 2019 (CARTAC): Provide Macroeconomics Diagnostics Course (offered to all CARTAC countries).
- May/June 2019 (CARTAC): A workshop on the MAC DSA framework.
- April 2016 (CARTAC): Updating the Macro Framework and drafting the medium-term fiscal framework.

National Accounts

- September 2024 (CARTAC): Developing Expenditure-based GDP.
- February 2022 (CARTAC): Support for development of estimates of Gross Domestic Product expenditure components.
- January-February 2020 (CARTAC): Follow up mission of national statistics; Compile rebased GDP estimates and update of the SUT benchmark estimates.
- September 2017, September 2018 and February 2019, October 2019 (CARTAC): Assist with compiling the supply and use tables (SUT) for 2016 and improve national accounts estimates.
- February 2017 (CARTAC): National Accounts Statistics (QGDP).
- September 2016 (CARTAC): Develop the compilation system to produce quarterly GDP by economic activity estimates and to improve the annual GDP estimates.
- September 2015 (CARTAC): Expand and improve the national accounts, including producing SUT and rebasing the GDP estimates.

Price Statistics

- September 2024 (CARTAC): Producer Price and Trade Price Statistics (PPT).
- April 2024 (CARTAC): Real Sector—Prices-PPI.
- November 2022 (CARTAC): Updating CPI.

External Sector Statistics

- October 2024 (CARTAC): Balance of payments and IIP—Source Data.
- October 2023 (CARTAC): Balance of payments and IIP—Source Data.
- August 2023 (CARTAC): External Sector Statistics.
- October 2022 (CARTAC): Balance of payments and IIP—Source Data.
- January 2022 (CARTAC): Size and evolution of net errors and omissions.
- March 2021 (CARTAC): Data collection continuity in the context of the COVID-19 pandemic.
- January 2020 (CARTAC): Assist on the backcasting for balance of payments data for 2000-13, addressing methodological changes reflected in the 2014-18 following the BPM6.
- April 2019 (CARTAC): Strengthen source data for the balance of payments and IIP.

- September 2018 (CARTAC): Dealing with nonresponse and improving the compilation of trade in goods statistics.
- March 2018 (CARTAC): Strengthening the compilation of the recently revised balance of payments and new international investment position (IIP) statistics.
- October 2016 (CARTAC): Reviewing preliminary BPM6-based balance of payments and new IIP statistics for dissemination.
- March 2016 (CARTAC): Assessing data sources for the compilation of balance of payments and IIP Statistics according to the BPM6.

Tax Reforms and Revenue Administration

- September 2024 (CARTAC): Digital technologies better aligned with strategic objectives/Data Cleansing (HYBRID).
- September 2024 (CARTAC): Taxpayers meet their payment obligations as required by law/Collection and Enforcement.
- May 2024 (CARTAC): Public Sector Accounting Standards (IPSAS) Support.
- May 2024 (CARTAC): Review of Ledger.
- November 2023 (CARTAC): Development of a Request for Proposal (RFP) for system acquisition
- April 2023 (CARTAC): Strengthening management and Governance Arrangements—Annual Reporting.
- February 2023 (CARTAC): Strengthening Reform Management Capacity—Reform Plan WS.
- October 2022 (CARTAC): Strengthening Reform Management Capacity.
- September 2022 (CARTAC): Strengthening Human Capital—Middle Managers.
- April 2022 (CARTAC): Developing Performance Targets and KPI in Customs.
- November 2021 (FAD and CARTAC Revenue Administration): Provide a 'Tax Administration Diagnostic Assessment Tool' (TADAT) diagnostic.
- October 2021 (CARTAC): Developing Performance Targets and KPI in Customs.
- September 2021 (FAD and CARTAC Revenue Administration): Provide a virtual TADAT Training course.

- July 2021 (CARTAC): Review of dispute resolutions framework at the Inland Revenue Department.
- December 2020- May 2021 (LEG and CARTAC): Support the Inland Revenue Department in drafting a Tax Administration and Procedures Act (TAPA) to apply to all major domestic taxes and to make consequential amendments to existing tax acts.
- November 2020 (CARTAC): Provide a virtual training to build audit and assessment capacity, focusing on strengthening non-filers program.
- July- Aug. 2020 (CARTAC): Compliance Management Strategy Plan for the Tourism and Hospital sector at the Inland Revenue Department (IRD).
- May 2020 (CARTAC): Review the existing IRD's business processes and IT and prepare a new business model with processes.
- May-September 2020 (CARTAC): Supporting implementation of new tax administration information technology system.
- November 2019 (CARTAC) Strengthening HQ Capacity: Program Development.
- November 2019 (CARTAC): Regional seminar in Developing Trusted Trader and Authorized Economic Operator Programs.
- September 2019 (CARTAC): Regional workshop, Tax Audit Training.
- July 2019 (CARTAC): IT Support—Implementation of ICT System
- July 2019 (CARTAC): Strengthening Audit Capacity and Audit Program.
- June 2019 (CARTAC): Regional seminar in Disaster Preparedness Planning for Tax and Customs.
- June 2019 (CARTAC Tax Administration): Strengthening HQ functions.
- May and November 2018 (CARTAC): Regional Tax Audit Training.
- October 2018 (CARTAC): Building HQ and Audit Capacity.
- June 2018 (CARTAC): Audit Effective Management.
- June 2018 (CARTAC): Strengthening IRD IT Business Processes and Control.
- FY 2018/19 (CARTAC): Provide training on extracting data from the ASYCUDA system.
- October and November 2017 (CARTAC): Building Technical Capacity in VAT Legislation.

- June and November 2017 (CARTAC): Building and enhancing HQ capacity, data gathering, analysis, and program reporting.
- March 17, October 2016 (CARTAC): Developing a Compliance Risk Management Strategy.
- November 2016: Strengthening Performance Management—establishing KPI.
- November 2016: IT Support— (via Peer-to-Peer Technical Assistance (TA) Attachment).
- October 2016: Data Analytics.
- September 2016 (CARTAC): Developing a Taxpayer Service Strategy.
- June 2016 (CARTAC): Building Audit Capacity.
- June 2016 (CARTAC): Strengthen the Post Clearance Audit Function.

Expenditure Rationalization and PFM Reforms

- September 2024 (CARTAC): Implementing a revised and modern Chart of Accounts (CoA).
- April 2022 (CARTAC): A Roadmap for Treasury Reform.
- January 2022 (CARTAC): Establishing a Centralized Internal Audit Function.
- July-August 2021 (CARTAC): Strengthening Budget Planning and Preparation.
- April 2018 (CARTAC): PFM Action Plan.
- September 2017 (CARTAC): Budget Workshop with MoF and all Ministries.
- July 2017 (CARTAC): PEFA Assessment.
- June 2017 (CARTAC): PEFA Workshop.
- January 2016 (CARTAC): Diagnostic Assessment of Internal Audit.

Financial Sector

- September 2024 (CARTAC): Guidelines on Corporate governance and ERM—Insurance.
- May 2024 (CARTAC): RBS Implementation Credit Unions and IFRS 9.
- October 2023 (CARTAC): Insurance Follow-up RBS insurance and review ORSA guideline.
- June 2023 (CARTAC): Insurance Training ORSA and Risk-Based Capital.

- February 2022 (CARTAC): Implement Risk-based supervision (RBS) across credit unions and insurance companies.
- November 2020 (CARTAC): Provide follow-up TAs to enhance Financial Services Regulatory Authority (FSRA)'s capacity to implement Risk-based supervision (RBS) across credit unions and insurance companies.
- FY18–FY20 (CARTAC): Regional Workshops on the supervision of Credit Unions and Insurance companies, consolidated supervision, risk-based supervision, and on other topical or emerging issues such as cyber risk, and FinTech.
- October 2019 (CARTAC): Implementation of Risk-based supervision across non-bank financial institutions.
- October 2019 (CARTAC): Develop the Stress Testing Framework for the Credit Union Sector.
- February 2020 (MCM): Contingency Planning for Crisis Preparedness and Management.
- September 2018 (CARTAC): Review 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 Implémentation.
- February 2016 (CARTAC): Basel II Implementation.

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

Debt Management

- February 2024 (CARTAC): Debt Management MTDS and Green Financing.
- August 2021 (CARTAC): Fiscal Financing Gaps and Debt Management (joint seminar for the ECCB and ECCU countries).

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

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

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

Statement by Ms. Gina Fitzgerald and Mr. Matthew Day on St. Lucia
Executive Board Meeting
February 7, 2025

1. On behalf of the authorities of St. Lucia, we express gratitude to Mr. Ben Naceur and his team for the constructive discussions and valuable recommendations throughout the Article IV mission. **The authorities broadly agree with staff's analysis** and remain committed to building on this strong foundation to further advance St. Lucia's economic development and long-term resilience.

Recent Developments and Economic Outlook

2. **Fueled by a rebound in tourism, the St. Lucian economy has fully recovered after the shocks of the COVID-19 pandemic and the impact of Hurricane Beryl.** Growth for 2024 is projected at 3.7 percent, with growth in 2025 estimated at 2.8 percent. 2024 was a record- breaking year for tourism arrivals and the authorities are somewhat more optimistic than staff, projecting the strong capital project/FDI pipeline and tourism growth will continue, with higher airlift expected for the near-term.

3. **Inflation has fallen dramatically.** Most of what is consumed in St. Lucia is imported, making the country very sensitive to global price movements. The authorities adopted various measures aimed at curbing the economic pressures on citizens emanating from elevated inflation. From its peak of 6.4 percent, inflation fell to 0.8 percent in June 2024 and is expected to stabilize around 2 percent as global input costs normalize.

4. **Labor market conditions have also improved.** As staff note, unemployment has dropped to decade lows. Youth unemployment, although still very high, is reducing. As well as this, the authorities intend to implement an unemployment insurance scheme, complementing recent minimum wage and pension reforms.

5. **The authorities are focused on guarding against downside risks**, which could adversely impact the economy, such as climate change-induced weather events like tropical storms, hurricanes, droughts, as well as regional and global conflicts, which can cause inflation and economic downturns in the wider world economy and in Saint Lucia.

Fiscal Responsibility and Debt Sustainability

6. **The debt-to-GDP ratio has decreased rapidly from 95 percent in FY2020 to 74.5 percent in FY2023 thanks to the tourism-led recovery and sound macroeconomic approach of the authorities**. The authorities plan to increase the primary surplus: there were surpluses in 2022-23 and 2023-24, and a surplus is projected for 2024-25. The debt stock includes central government contracted debt and liabilities, government-guaranteed debt, and public sector debt. In line with the government's Medium Term Debt Management Strategy (MTDS), the authorities will continue to convert treasury bills into longer-term instruments to lengthen the maturity profile, reduce rollover risk, and to pursue long term financing with lower interest rates from multilateral agencies, financial institutions, and donor governments.

7. **The government of St. Lucia plans to overhaul the tax system to ensure greater efficiency in the collection of taxes, to secure a higher level of tax compliance, and to broaden the tax base.** As noted by staff, recent legislation has strengthened procurement and debt management practices. The authorities have further strengthened the due diligence processes for St. Lucia's Citizenship by Investment Programme. The permanent Health and Security Levy raises additional revenue to finance health and security projects for the benefit of Saint Lucians and visitors. The authorities agree that better spending control and targeting can help secure fiscal space. In this respect, public sector wages as a percentage of GDP have fallen. The authorities agree on the need to ensure sustainability of the national pension fund (National Insurance Corporation, or NIC). As indicated by staff, the authorities have expressed an interest in Fund technical assistance to estimate tax expenditure.

Financial Sector Resilience

8. **St. Lucia's financial sector remains stable, with a liquid and profitable banking system, and falling NPL levels.** Weak bank credit growth has been complemented by rapid lending growth within the credit union sector. Given the current upswing in the economic cycle, the authorities agree that financial institutions should leverage the favorable environment to strengthen their balance sheets, increase reserves, and enhance business processes. By achieving greater efficiency now, they can build resilience to better navigate future economic downturns.

9. **St. Lucia is actively implementing initiatives to strengthen financial resilience and support the stability of its banking and non-bank financial institutions.** The Co-operative Societies Act is a harmonized approach to strengthening supervision and resilience within credit unions. In 2024, the Insolvency Act allowed citizens facing financial challenges with the means to renegotiate loan terms with creditors and pause foreclosures, while retaining their investments. Better pricing of risks by banks is recognized as a key reform and the authorities have requested technical assistance in this regard. The authorities agree that full participation of all the banks and at least the large credit unions is needed to ensure the effectiveness of the ECCU Credit Bureau. Continued strengthening of the insurance sector remains a priority and the authorities are grateful to CARTAC for technical assistance in the Financial Services Regulatory Authority (FRSA) draft Own Risk and Solvency Assessment Guidelines.

10. **Our authorities have made progress in addressing the findings of the Caribbean Financial Action Task Force (CFATF) report.** Efforts in recent years underscore the authorities' dedication to strengthening its anti-money laundering, counter-terrorism financing and counter-proliferation financing framework. In October 2024, the CFATF positively re-rated St. Lucia on 7 Recommendations: these improved ratings follow Saint Lucia's last application in May 2023, which resulted in the upgrading of 20 Recommendations. Saint Lucia continues its preparations for its Fifth Round Mutual Evaluation by the CFATF, mindful of staff's recommendation.

Structural Reform

Climate

11. **St. Lucia remains extremely vulnerable to climate change risks.** Building resilience and adapting to climate change is a full-time effort, which requires the dedication of resources of all kinds. As noted by staff, St. Lucia is a regional leader in climate response and the authorities continue to mainstream resilience-building across government and non- government agencies, private sector entities, and community-based organizations. As highlighted in the staff report, St. Lucia is currently in discussions with the World Bank on obtaining a Catastrophe Deferred Drawdown Option—the third layer of the insurance framework against national disasters recommended in past Staff Reports.

12. In January 2024, the World Bank approved a $40m project to support Saint Lucia's fiscal and green reforms for sustainable recovery, including helping the government implement the National Energy Policy and Climate Change Act 2024. **The Climate Change Act provides a comprehensive approach to addressing mitigation, adaptation, and loss and damage**, including development of a Climate Change Adaptation Policy, implementation of a National Adaptation Plan (including Sectoral Adaptation Strategies and Action Plans) and updated Nationally Determined Contributions.

13. **The updated National Energy Policy (NEP) has the objective of increasing renewable energy generation and decarbonization of thermal and transport systems,** which will be supported by new relevant legislation. This ambitious expansion of renewable energy is expected to support an increase of around 10 to 33 percent of electric vehicles in the transport sector, depending on the type of vehicle. The NEP also places strong emphasis on improving energy efficiency, calling for energy audits of government buildings, efficiency labeling of appliances, and public education on energy conservation.

14. In addition, in 2025 the government, working with community groups, the Saint Lucia Social Development Fund, and the Solid Waste Management Authority will intensify efforts to create a cleaner environment, and ensure a healthier Saint Lucia for all.

Infrastructure- physical, social and digital

15. **The fiscal year 2024-2025 was dubbed the “Year of Infrastructure" and infrastructural development will continue** beyond March 2025, and will be intensified throughout 2025, with significant investments in houses, seaports, airport and roads. The Castries Cruise Port Development project has commenced. The redevelopment of Hewanorra International Airport will continue in a prudent and responsible way.

16. **Tourism continues to be the leading generator of revenue, economic activity and for capital investments in the economy.** Growth is expected to intensify this year, both due to large private investments but also as government investments and access to resources, through the Community Tourism Agency (CTA), reach more rural and coastal communities. The new Tourism Development Act will ensure enhanced supervision, certification and incentivization of investment.

17. **Notwithstanding the challenges of the high cost of health care, the government’s mission to provide accessible, quality, and affordable healthcare to all its citizens remains high on its agenda.** They are at the final stage of completion and commissioning of a new, modern, fully equipped St Jude Hospital at the original site. The enhancement of free medical services to registered citizens will be expanded in 2025 at Health & Wellness Centres.

18. **The authorities, through the Department of the Public Service, are undertaking a systematic review of its digital landscape.** Current initiatives aimed at enhancing regional connectivity include the Digital Government Integrated Services Platform (DigiGov) Project, which streamlines public services through digital platforms; and the World Bank sponsored Caribbean Digital Transformation Project (Digital Caribbean), a major contributor to the country's digital evolution. Education will continue to be enhanced, including further investment in digitization and procurement of ICT equipment to help in the teaching of science and technology.

Opportunities for Youth, Women and Persons with Disabilities

19. **St. Lucia is starting to feel the economic impact of the Youth Economy**, as the eco- system created by the Youth Economy Agency (YEA) delivers on its mandate to provide finance, training, marketing and mentorship to young people seeking self-sustainable employment. It has had a positive impact on generating employment opportunities in the economy, in particular on youth unemployment which has dropped from a high of 37% in 2021, to 17% in 2024.

20. **Gender based institutional training and development** as part of the Fire Service project reflects the authorities’ commitment to enhancing female labor force participation. **In 2024, Saint Lucia appointed its first-ever Minister for Persons with Disabilities**, reflecting a transformative policy shift in addressing the needs of individuals living with disabilities. **The authorities will continue pursuing targeted investment to address skill mismatches and youth and gender gaps in salaries and labor force participation.**

Conclusion

21. **Our authorities are committed to sustaining the momentum of strong economic growth and fiscal prudence through sound macroeconomic management.** They remain dedicated to maintaining debt sustainability while addressing critical development priorities.

22. **The authorities deeply appreciate the invaluable technical assistance provided over the years,** which has significantly enhanced public financial management, revenue administration, public investment management, financial sector supervision, and data adequacy. They look forward to the continued support of the Fund and other partners in advancing their development agenda.