SAINT LUCIA

ECONOMIC BRIEF

Eastern Caribbean Dollar (EC$); United States Dollar (US$) US$1 = EC$2.70

Overview

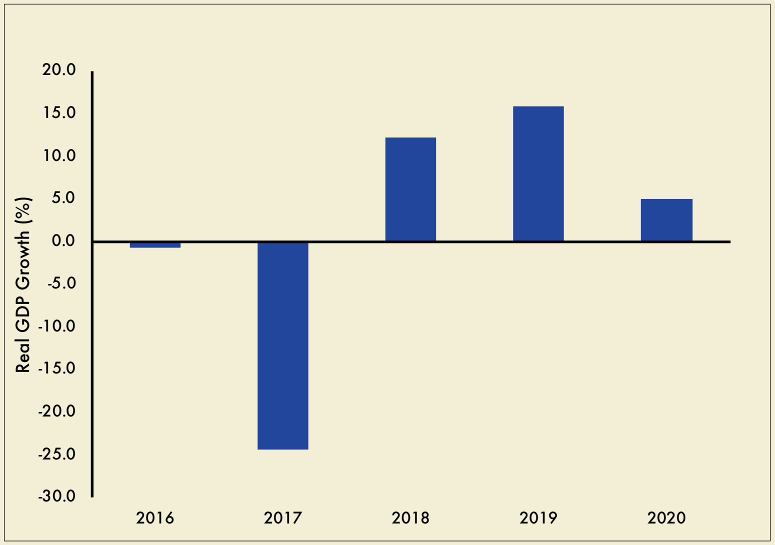
The Saint Lucia economy registered strong growth in 2022, as the recovery from the COVID-19 pandemic firmed. Inflationary pressures climbed due to rising food prices; elevated freight rates; and logistics costs. The improvement in gross domestic product (GDP) performance facilitated improved fiscal and public debt outturns. Saint Lucia's external position also improved. Financial sector soundness indicators support stability, although asset quality deteriorated for the fourth consecutive year since 2019, reflecting persisting pressures from the pandemic and other shocks, and rising vulnerability.

The economic outlook for 2023 is cautiously optimistic. Growth is projected to expand further, albeit at a slower pace. However, risks to the outlook are tilted to the downside due largely to ongoing global headwinds that can disrupt global economic activity and the country's continuing vulnerability to natural hazards.

KEY DEVELOPMENTS IN 2022[1]

Significant growth in tourist arrivals drove the continued growth momentum in 2022. Real GDP grew by 15.7% (see Chart 1) on the strength of record growth in tourism arrivals from its two main international source markets, the United States of America (USA) and the United Kingdom (UK). The UK market returned to 2019 levels while the USA surged ahead, but overall arrivals growth was constrained by a subdued Caribbean market mainly because of limited and high-cost airlift. The average length of stay per visitor surpassed 2019 levels resulting in increases in average spend per visitor. At the same time, cruise activity returned to 44.4% of the 2019 outturn. The general reopening of the economy, along with the strong overall accommodation and food services sector performance, positively impacted other key economic sectors, notably wholesale and retail, and real estate activities. However, the delayed rollout of public sector capital projects caused a slight reduction in construction activity.

Chart 1: Real GDP Growth



Sources: *Central Statistics Office (CSO), Eastern Caribbean Central Bank (ECCB).*
**Caribbean Development Bank (CDB) estimate.*

The consumer price index (period average) showed a marked increase in relative prices. General prices rose by 6.4% year on year due mainly due to increased prices in the three most heavily weighted sub-indices: housing, water, electricity, gas and other fuels (24.1%); and food and non-alcoholic beverages (5.6%); and transport (5.5%).

The labour market firmed up during 2022. With the strong return of economic activity, particularly in the labor-intensive tourism sector, the unemployment rate in Saint Lucia is estimated to have declined to 16.5% in 2022, down from a pandemic peak of 21.9% in 2021.

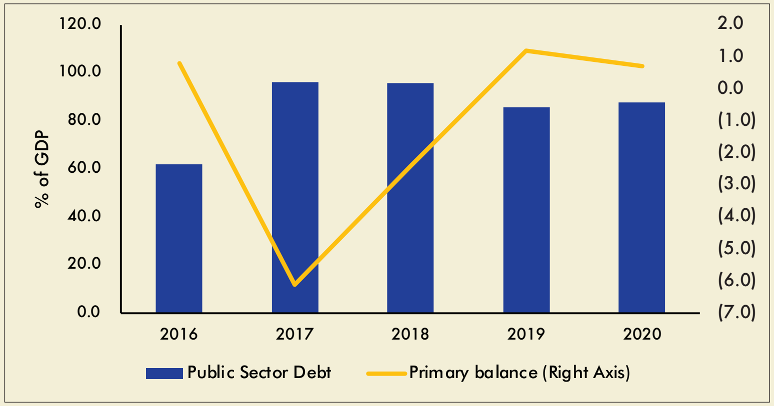
Fiscal performance improved in line with stronger economic activity. The overall fiscal deficit narrowed to

[1]All comparisons are with respect to 2021, unless otherwise stated.

2.9% of GDP from 6.8% in 2021, and the primary balance shifted to a surplus equivalent to 1.2% of GDP from a deficit a year earlier (see Chart 2). The improvement was led by growth in government receipts (5.7%) coupled with a 6.8% reduction in total expenditure. The increase in revenue was supported by gains across all major tax types, as well as in non-tax revenue. Higher outlays for current transfers and interest payments led the rise in spending. These were tempered by reduction in wages and salaries, goods and services, and capital spending.

Consistent with improved fiscal developments, public debt is estimated to have contracted. Total public debt, as a percentage of GDP is preliminarily assessed to have declined to 85.6% at end of 2022, compared with 95.5% a year earlier. The improvement in the public debt-to-GDP ratio largely reflects the resurgence of economic activity as the total debt stock increased by EC$209.6 million (mn) as the Government borrowed from domestic and external sources to finance its fiscal deficit.

Chart 2: Fiscal and Debt Performance

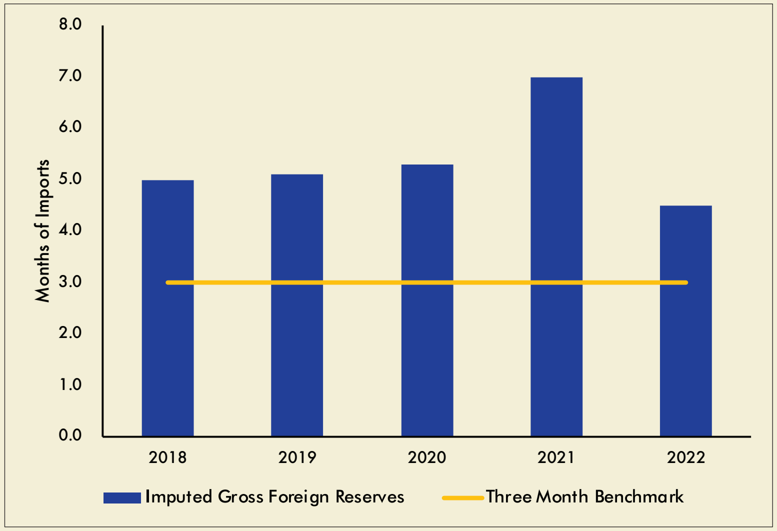


Sources: *Ministry of Finance and Caribbean Development Bank (CDB) Staff Calculations.*
**CDB estimate.*

Performance in the banking sector was mixed. The capital adequacy ratio for commercial banks trended downward to 15.9% from 16.7% recorded a year ago, and 25.6% in 2019 before the pandemic. Although declining, the ratio remained well above the 8% prudential level. Liquidity, as measured by the ratio of liquid assets to total assets, was higher at 43.6% compared with 39.34%. Domestic bank credit contracted by 0.7% to EC$2,955.9 mn following a decline of 2.9% in the prior year, reflecting an improvement in net claims to central government (CG) as CG built up deposits. Meanwhile, credit to the private sector grew by 1.6% in contrast to a marginal decline during 2021. However, asset quality in the banking system has steadily deteriorated and is well above the Region's prudential guideline of 5%. The non-performing loan (NPL) ratio further edged up to14.2%, from 13.8% in 2021 and 8.2% pre-COVID-19.

As the recovery strengthened, the external account rebounded. The current account deficit is estimated to have narrowed to EC$141.3 mn (2.5% of GDP), from EC$349.3 mn (6.5% of GDP). The positive outturn was influenced by a more than two-fold increase in the services account surplus, driven mainly by increased total visitor expenditure. Meanwhile, the deficit in the goods account widened by 47.8%, indicative of significant increase in imports to support the rise in economic activity. Imputed international reserves provided import cover for goods trade above the three-month benchmark (see Chart 3).

Chart 3: Imputed Gross Foreign Reserves



Source: *ECCB.*

2023 OUTLOOK

General macroeconomic conditions are forecast to remain positive with 5% growth estimated for 2023. Continued growth in the tourism sector, both in terms of stayover and cruise passenger arrivals, is expected to drive overall economic output; but a moderation in growth is anticipated in 2023, before a slight uptick occurs in 2024 as delayed projects come onstream. This outlook is heavily contingent on tourism and its related activities continuing the trend observed in the first quarter of 2023, and by public and private construction activities.

Government operations are projected to benefit from the continued improvement in economic conditions. Fiscal deficits are expected to narrow and, accordingly, debt will continue to trend downwards. Notwithstanding, liquidity challenges presented by short-term maturing debt could limit fiscal operations in 2023. Prolonging fiscal relief support will risk undermining the sustainability of public finances and the Government's policy space to deal with future crises. While the banking sector has remained relatively stable, the trends in the capital adequacy ratio and the NPLs require scrutiny. Improved economic conditions could, however, reduce these risks to stability.

Despite the upbeat forward-looking expectations, risks are tilted heavily to the downside. A confluence of issues related to ongoing Russia/Ukraine war, and persistently high inflation present considerable downside risks to the economic prospects. The ever-present risk of exposure to natural hazard events can also weigh heavily on the continued recovery.

DATA

The table below summarises the key economic (and social) indicators underpinning this Country Brief. These data are taken from several sources and are the latest available at time of publication. Data for 2023 are estimates and subject to revision.

Selected Indicators

	2019	2020	2021	2022	2023 e
Real GDP Growth (%)	(0.7)	(24.4)	12.2	15.7	5.0
Average Inflation (%)	0.5	(1.8)	2.4	6.4	4.8
Unemployment (%)	16.8	21.7	21.9	16.5	n.a.
Primary Balance (% of GDP)	0.8	(6.1)	(2.4)	1.2	0.7
Public Debt (% of GDP)	61.8	96.0	95.5	85.6	87.6

Sources: *CSO, ECCB, CDB.*

Note: *e-estimate.*