CARIBBEAN DEVELOPMENT BANK

COUNTRY ECONOMIC REVIEW 2018

SAINT LUCIA

OVERVIEW

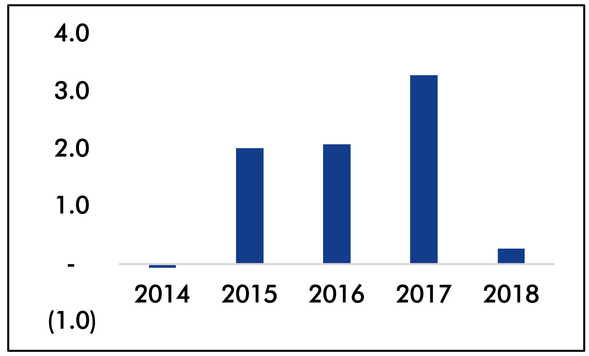
Economic activity in Saint Lucia decelerated to 0.6% in 2018 from 3.7% in 2017. This slowdown was mainly due to a significant downturn in the construction sector. Headline inflation[1] increased, while Central Government (CG) operations resulted in improved fiscal balances; and public debt as a percent of the gross domestic product (GDP) was slightly lower. Commercial bank credit to the private sector contracted in 2018; and the spread between lending and deposit rates widened. The external current account was in surplus, while gross reserves as a percentage of imports contracted.

The economic outlook is positive. Growth is projected to rebound to 3.0%, and fiscal conditions should improve in 2019. However, risks to the outlook are tilted to the downside.

KEY DEVELOPMENTS IN 2018

It is estimated that GDP expanded by 0.6% in 2018 (see Chart 1). This deceleration in activity was driven mainly by unfavourable outturns in the main growth sectors. Delays in private and public sector construction projects resulted in a steep sector decline of 17.0%, in contrast to a robust expansion of 11.4% in 2017. Meanwhile, the pace of growth in tourism-related activities slowed to 4.3%, compared with the 10.3% recorded in 2017. Consequently, key ancillary activities such as wholesale and retail, and transport and storage, either contracted or recorded lower expansion in 2018. Conversely, the buoyant growth in agricultural output (11.4%) mitigated the slowdown in economic activity. This outturn represented a considerable turnaround in the agricultural sector which had recorded an average decline of 2.0% over the previous five years.

Chart 1: Real GDP Growth



Source: Central Statistics Office (CSO), ECCB.

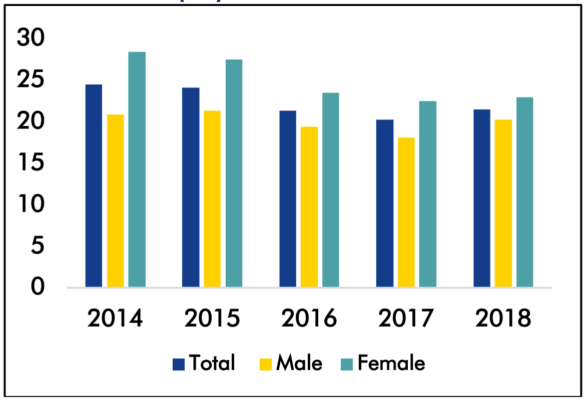
The Consumer Price Index (CPI) (period average) increased by 1.7% during the first three quarters of 2018, compared with the end of 2017 outturn. This was attributable to higher prices in the three most heavily weighted sub-indices. As at September, prices in the food and non-alcoholic beverages and housing; utilities, gas and fuels; and transport sub-indices were up by 3.6%, 12.7%, and 0.8%, respectively.

Weaker economic conditions compromised employment performance in 2018. Data from the Central Statistics Office? (CSO) show that, on a year-on-year basis, the unemployment rate rose to 20.9% in the third quarter of 2018, compared with 16.8% for the same period in 2017[2] (see Chart 2). Job losses were recorded in all major sectors except public administration. On an annualised basis, unemployment was estimated to be approximately 21.5% in 2018, marginally up from 20.2% in 2017.

[1] Inflations is measured by the year-on-year rate of change in CPI.

[2] CSO data is available only up to the third quarter of 2018.

Chart 2: Unemployment



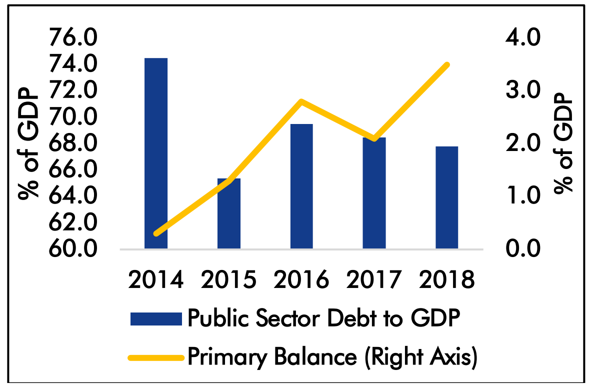
Source: CSO.

CG operations resulted in improved fiscal outcomes in 2018. Preliminary estimates from the Ministry of Finance (MOF) indicate that the overall balance switched to a surplus position of 0.3% of GDP as at September 2018, from a deficit of 0.8% as at the same period in 2017, while the primary surplus improved to 3.5% of GDP from 2.4% over the comparable period (see Chart 3). The improved fiscal balances resulted from expansion in total revenue and grants, which grew by 9.3%, outpacing the 4.6% growth in total expenditure. Notable revenue performances were recorded in value-added tax (VAT), which rebounded by 4.9% following a 9.4% decline in 2017 when the rate was reduced to 12.5% from 15.0%[3]. Collections from the Citizenship by Investment Programme were particularly strong. September 2018 figures indicate a more than sevenfold rise to $60.2 million (mn) from $7.0 mn for the same period a year earlier. On the expenditure side, a number of categories recorded growth. Spending on goods and services, which grew by 45.8% year-on-year as at September 2018, recorded the largest increase.

[3] The VAT rate reduction became effective in February 2017.

Public sector debt was estimated to be 67.8% of GDP at the end of 2018, slightly down from 68.5% a year earlier. The reduction in debt was consistent with improvements in fiscal outturns, and a reduction in borrowing requirements for 2018.

Chart 3: Fiscal and Debt Performance

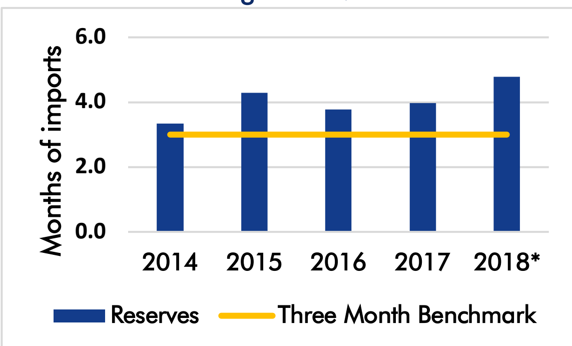


Source: MOF and Caribbean Development Bank (CDB) Staff Calculations.

Outcomes in the financial sector largely reflected the slowdown in economic activity. Commercial banks' lending to the public and private sectors declined as at end of September 2018. Credit to the private sector contracted by 1.7%, while lending to CG fell by 7.0%. At the same time and, consistent with lower economic activity, currency with the public recorded a 10.2% decline. The prime lending rate increased by 200 basis points to 9.0%, and the spread between the weighted average lending and deposit rate widened by 10 basis point to 6.62%. Meanwhile, the ratio of gross non-performing loans to total loans declined to 10.3% from 12.5% at the end of 2017. The capital adequacy ratio moved up to 19.2%.

The external current account recorded a small surplus for the first time in three years. The surplus was 0.8% of GDP compared with a deficit of 2.5% at the end of 2017. This outturn was aided by higher exports of services, which offset the decline in goods and merchandise trade. Data as at September 2018 show that imputed gross reserves ticked up to an equivalent of 4.8 months of imports (see Chart 4).

Chart 4: Gross Foreign Reserves



**Data as at September 2018.*
Source: ECCB.

OUTLOOK

Economic growth of 3.0% is expected in 2019. Growth appears poised to increase in large part due to private and public sector construction programmes coming back on stream. Tourism activities are projected to expand and agriculture output will remain buoyant. Consequently, growth in ancillary economic activities, such as wholesale and retail and transport and storage, will likely trend upwards. Higher levels of expenditure, mainly capital spending, could lead to a slight deterioration in fiscal conditions with an adverse impact on public debt. Moreover, a bunching of debt service payments could present challenges in 2019. Projected global economic slowdown and the island's high susceptibility to natural hazard events present major downside risks.

DATA

The table below summarises the key economic (and social) indicators underpinning this Country Brief. These data are taken from a number of sources, and are the latest available at time of publication. Data for 2018 are based on available data as at September, and are subject to revision.

Selected Indicators

	2014	2015	2016	2017[e]	2018[e]
Real GDP Growth (%)	0.0	0.3	3.9	3.7	0.6
Average Inflation (%)	3.5	(1.0)	(3.1)	0.1	1.7
Unemployment (%)	24.5	24.1	21.3	20.2	21.5
Primary Balance (% of GDP)	0.3	1.3	2.8	2.1	3.5
Public Sector Debt (% of GDP)	74.5	65.4	69.5	68.5	67.8

Sources: CSO, ECCB, CDB.
e: estimate.