SAINT LUCIA

COUNTRY ECONOMIC REVIEW 2020

Eastern Caribbean dollar (EC$); United States dollar (US$). **US$1 = EC$2.70**

OVERVIEW

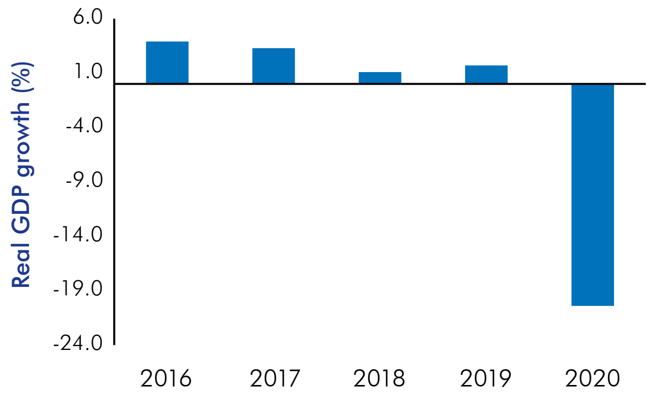
Economic conditions in Saint Lucia were severely compromised in 2020 due to the impact of the global COVID-19 pandemic. Real gross domestic product (GDP) is estimated to have plummeted by 20.4%, on account of a major contraction in tourism, the main driver of economic activity. Consequently, fiscal conditions deteriorated markedly, and public debt increased. In the financial sector, commercial bank credit to the private sector grew while external conditions worsened.

The economic outlook is cautiously optimistic. Growth is projected to rebound to 3.4% in 2021. However, risks to the outlook are tilted heavily to the downside largely due to the ongoing impacts of COVID-19 and the country's high vulnerability to natural hazards.

KEY DEVELOPMENTS IN 2020

Public health measures to mitigate the spread of COVID-19 severely constricted economic activity. As a result, preliminary estimates of real GDP indicate that the economy shrank by 20.4% (see Chart 1). Tourism, the leading economic sector, was particularly hard hit. Stay-over tourist arrivals recorded a 65% reduction year on year while cruise passenger arrivals fell by 62%. Other related ancillary sectors were similarly affected. The wholesale and retail, and transport and storage sectors declined by an estimated 11% and 36.9%, respectively. Construction activity was lower by 9.9%, and manufacturing contracted by approximately 10%. Agriculture, livestock and forestry output also recorded a 10% decline relative to the previous year's outturn.

Chart 1: Real gross domestic product growth



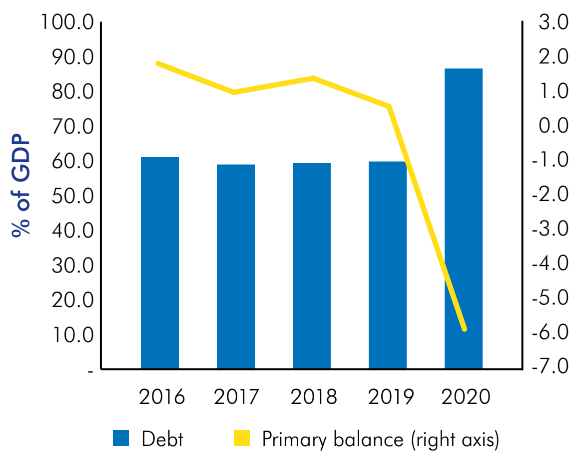
Sources: *Central Statistics Office (CSO), Eastern Caribbean Central Bank (ECCB).*

Consumer price index data show that prices fell relative to the corresponding period of 2019. Prices were 1.8% lower mainly due to a fall in prices in three of the four most heavily weighted sub-indices: housing, water, electricity, gas and other fuels; transport; and communication. A slight uptick in the cost for food and non-alcoholic beverages tempered the overall deflation. The labour market was significantly impacted by the prevailing economic conditions, occasioned by the pandemic reversing gains made in previous years. The unemployment rate climbed to 21.7% in 2020 from 16.8% in 2019.

The deterioration in economic conditions challenged the Government's operations. Preliminary data for the year indicate a weakening in fiscal performance. The overall deficit widened significantly to 9.6% of GDP while the primary balance switched to a deficit of 5.9% of GDP (see Chart 2). A combination of a steep decline in revenues, which fell by an estimated 19.7% ($226.5 mn), and a 4% ($58.3 mn) rise in total spending, accounted for the adverse fiscal outturn. The fall in current revenue reflects double-digit reductions in most major tax types. Inflows of budgetary support from multilateral lending agencies, and the repurposing of bilateral loans, supported the Government in its COVID-19 fight. As such, considerably higher levels of spending on goods and services (21.3%), and for capital outlays (13.4%), were recorded. Spending on goods and services were mainly targeted at managing the spread of COVID-19. Meanwhile, the rise in capital expenditure reflected efforts (as part of its Economic Recovery and Resilience Plan) to fast-track shovel-ready projects to stimulate economic activity and employment.

In line with a worsened fiscal outturn, public sector debt recorded a considerable rise. Public sector debt, as a percentage of GDP, climbed to 86.5% in 2020, compared with 59.7% a year earlier. Government increased its borrowing to finance the larger than expected financing requirement.

Chart 2: Fiscal and debt performance

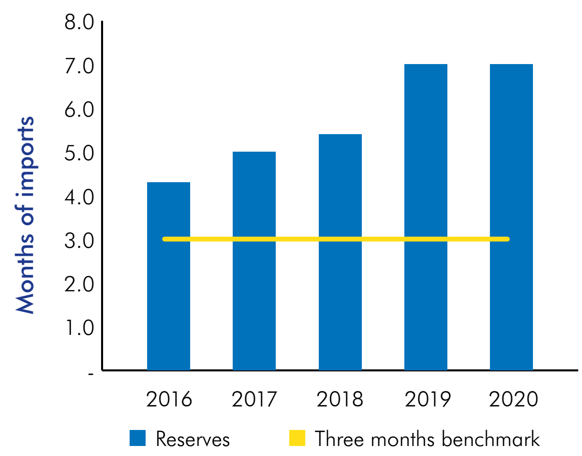


***Sources:** Ministry of Finance, and Caribbean Development Bank (CDB) Staff Calculations.*

The slump in economic activity adversely impacted the banking sector, although the sector remained relatively stable. End of year data show that the capital adequacy ratio was marginally lower at 14.9% but remained above the regulatory benchmark. Similarly, liquidity, measured by the ratio of liquid assets to total assets, ticked down to 37.8% compared with 40.7%. Despite an arrangement between the ECCB and the Bankers' Association, which provided loan repayment moratoria for customers for most of 2020, the ratio of non-performing loans to gross loans rose to 11.3% from 8.2% at the end of 2019. Meanwhile, domestic credit showed a significant increase of 13.2%, led by net lending to the Government, which rose by 17.7%. Credit to the private sector was also higher, by 2.7%. The prime lending rate remained at 9.0%, and the spread between the weighted average lending and deposit rate narrowed by 61 basis points to 5.5%.

The external position deteriorated, reflecting the impact of COVID-19. Consistent with the decline in tourist arrivals, total visitor expenditure dropped precipitously by 68% year on year. By contrast, the merchandise trade deficit narrowed by 11.5% relative to the previous year but was not sufficient to offset the steep reduction in the services trade. This outcome resulted from lower exports and imports by 12.9% and 22%, respectively. At end-December, imputed international reserves provided import cover for goods trade well above the three-month benchmark (see Chart 3).

Chart 3: Imputed gross foreign reserves



**Data as at March 2021.*
***Sources:** ECCB.*

OUTLOOK

The economy is projected to grow by 3.4% in 2021. This outlook is contingent primarily on a robust public sector investment programme, driving construction activities, with the attendant positive spill-over effects on other sectors. Other contributions could come from a modest recovery in tourist arrivals, particularly during the fourth quarter of the year, depending on progress in vaccination for the virus in source markets and locally. An improved economic environment would augur well for the public revenue collection to offset planned higher capital spending and improve fiscal and debt balances. Notwithstanding, ongoing liquidity challenges presented by short-term maturing debt could constrain fiscal operations in 2021. The persistence of COVID-19 could significantly derail economic recovery prospects. Coupled with the ever-present risk of exposure to natural hazard events, these present considerable downside risks.

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 2020 are subject to revision.

Selected indicators

	2016	2017	2018	2019	2020e
Real GDP growth (%)	3.9	3.3	1.1	1.7	-20.4
Average inflation (%)	-3.1	0.1	1.9	1.9	-1.8
Unemployment (%)	21.3	20.2	21.5	16.8	21.7
Primary balance (% of GDP)	1.8	0.9	1.3	0.7	-5.9
Public sector debt (% of GDP)	61.0	58.9	59.4	59.7	86.5

Sources: *SCSO, ECCB, CDB.*

Note: e – estimate (as at April 15, 2021); n.a. – not available.

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