

ECONOMIC AND FINANCIAL REVIEW - JUNE 2021

SAINT LUCIA

The Saint Lucian economy is projected to return to moderate growth in 2021, consistent with the recovery of advanced economies.

OVERVIEW



Preliminary data indicate that the economy of Saint Lucia contracted in the first half of 2021, following the decline observed over the same period in 2020.



This development is expected to be reversed in the second half of the year, as the tourism industry slowly recovers, public sector construction projects advance and the labour market improves.



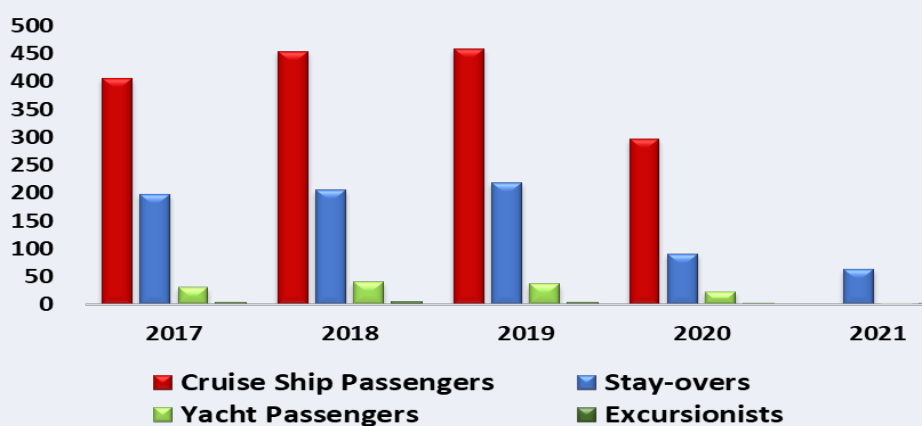
Uncertainties persist with respect to the evolution of the COVID-19 pandemic and its impact on the wider economy.

THE ECONOMY (REAL SECTOR)

The Saint Lucian economy continued to be negatively impacted by the COVID-19 pandemic in the first half of 2021 as value added in the hotels and restaurants sector, its main foreign exchange earner, contracted relative to the corresponding period of 2020.

Figure 1 - Saint Lucia Visitor Arrivals (Jan-June)

Thousands



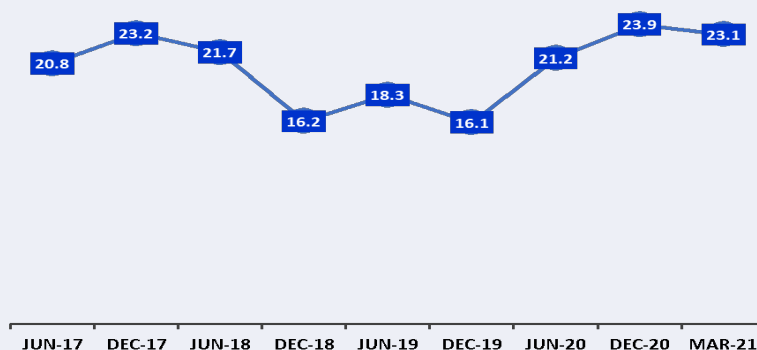
Total visitor arrivals declined by 83.8 per cent, with the number of cruise ship and yacht passengers each falling by over 97.0 per cent, while stayover arrivals contracted by 29.4 per cent compared with the levels recorded one year earlier (see figure 1). When compared with the average level over the past five years (2016 – 2020), the contraction in total arrivals is even sharper at 88.9 per cent. Declines in stayover arrivals were observed for all the major markets, except the USA, which saw an increase of 44.8 per cent, year-on-year.

The contraction in the hotels and restaurants sector negatively impacted a number of related sectors including transport and storage; wholesale and retail trade; and real estate activities. Value added in the construction sector, the seventh largest in the economy, is estimated to have increased based on the higher level of public sector investments undertaken over the first half of the year. Agriculture value added declined, consistent with the slower domestic economy and amid ongoing challenges with exports of domestic produce to the UK market.

LABOUR MARKET

Given the ongoing economic challenges, labour market conditions during the first half of 2021 deteriorated somewhat relative to the comparable period of 2020. Accordingly, the latest available data as at March 2021 indicate an unemployment rate of 23.1 per cent, up from 21.1 per cent as at June 2020 (see figure 2). Consistent with the gradual reopening of the economy and the ongoing recovery of the tourism industry, labour market conditions improved moderately during the second quarter of 2021.

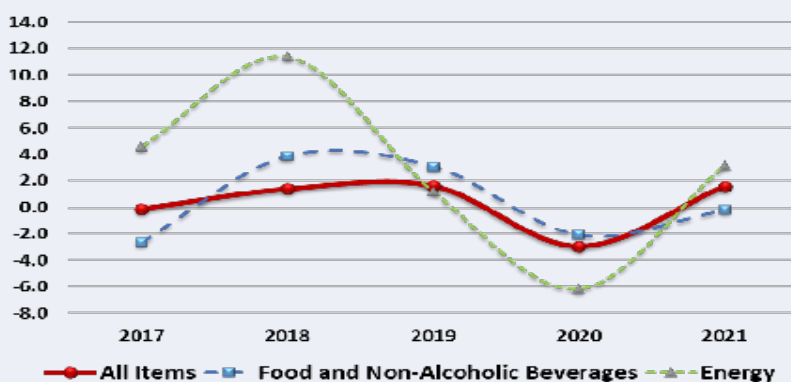
Figure 2 - Saint Lucia Unemployment Rate (%)



CONSUMER PRICES

Consumers in Saint Lucia faced higher prices in the first half of the year as the consumer price index rose by 1.0 per cent, on a period average basis, in contrast to a 2.4 per cent decline one year earlier.

Figure 3 - Saint Lucia Consumer Price Index Percentage Change (period average)

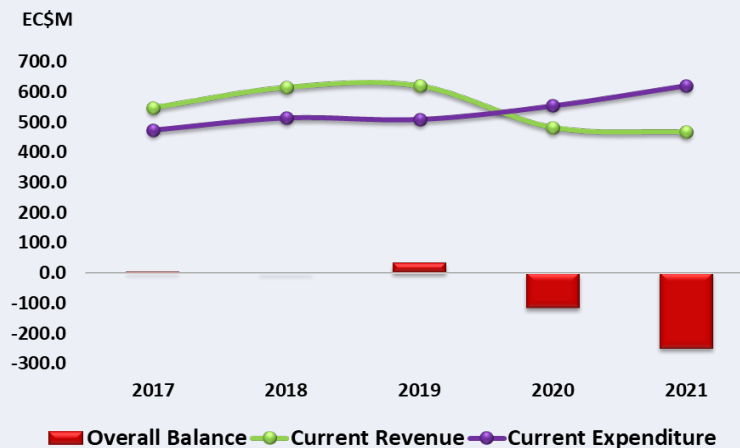


The pick-up in prices was largely influenced by the increased cost for housing, utilities, gas and fuels (3.6 per cent), communication (2.2 per cent), and transport (1.5 per cent). These three sub-indices accounted for approximately 44.2 per cent of the average consumer basket. Higher prices were also recorded for clothing and footwear (4.1 per cent) and health (3.5 per cent). A 1.0 per cent decrease in the food and non-alcoholic sub-index, which accounts for 27.4 per cent of the consumer basket, partially mitigated the overall increase in prices (see figure 3).

GOVERNMENT OPERATIONS (FISCAL AND DEBT)

The government recorded an overall deficit of \$250.6m in the first half of 2021, compared with one of \$117.0m in the comparable period of 2020 (see figure 4) and an average half-yearly deficit of \$7.2m over the previous 5 years. This development was due mainly to a decline in current revenue, coupled with increases in both current and capital expenditure.

Figure 4 - Saint Lucia Public Finance (June)



Consistent with the slower economy, current revenue (see figure 5) declined by 3.1 per cent (\$14.9m) compared with the performance one year earlier and by \$93.0m relative to the average over the past five years. Contractions in tax flows associated with international trade and transactions and non-tax revenue were the main drivers behind this development. Conversely, current expenditure (see figure 6) increased by 11.9 per cent (\$66.1m), as the government ramped up expenditure on healthcare and social services in its fight against the COVID-19 virus. When compared with the average outflows over the last five years, current expenditure expanded by 24.8 per cent (\$123.3m). These developments resulted in the largest half-year current account deficit on record of \$152.8m. An analysis of the composition of government revenue and expenditure reveals that taxes on domestic goods and services accounted for the largest share of government inflows (34.0 per cent), while personal emoluments (wages and salaries) made up just under a third of government expenditure at 29.0 per cent.

Figure 5 - Government Revenue, Jan -Jun 2021 (EC\$M)

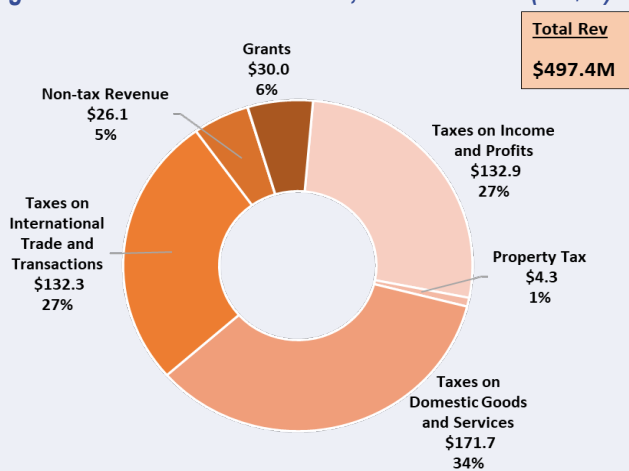
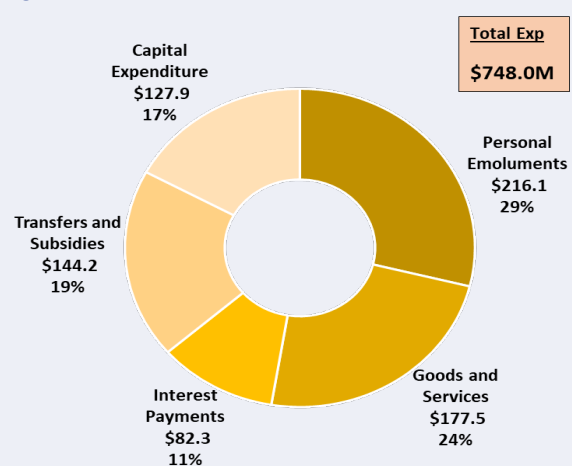
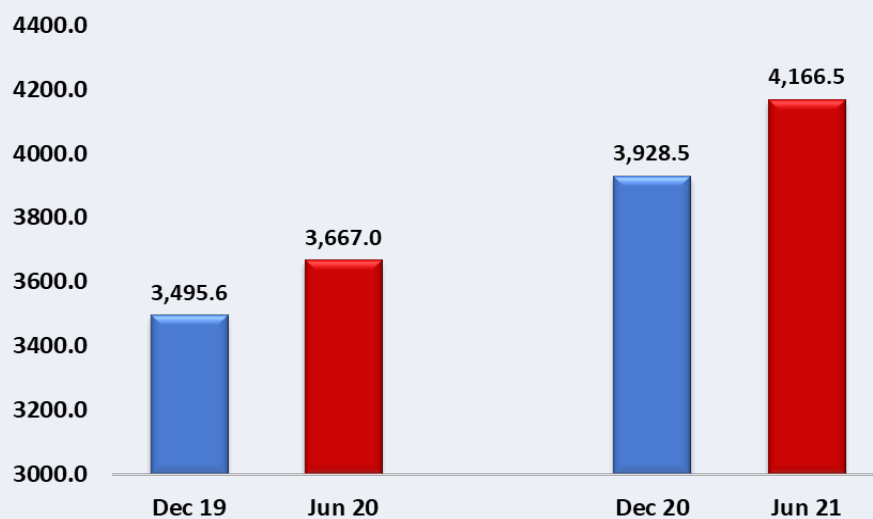


Figure 6 - Government Expenditure, Jan-Jun 2021 (EC\$M)



In an effort to resuscitate the economy and improve the employment situation, the government also embarked on scaling up its public investments, doubling its capital expenditure to \$127.9m in the first half of 2021, relative to the \$64.7m spent one year earlier. The combination of these factors resulted in the largest first half overall deficit in recent history. Consequently, the ongoing overall deficits contributed to a 13.6 per cent (\$499.5m) increase in Saint Lucia's total public sector debt to \$4.2b as at June 2021 (see figure 7).

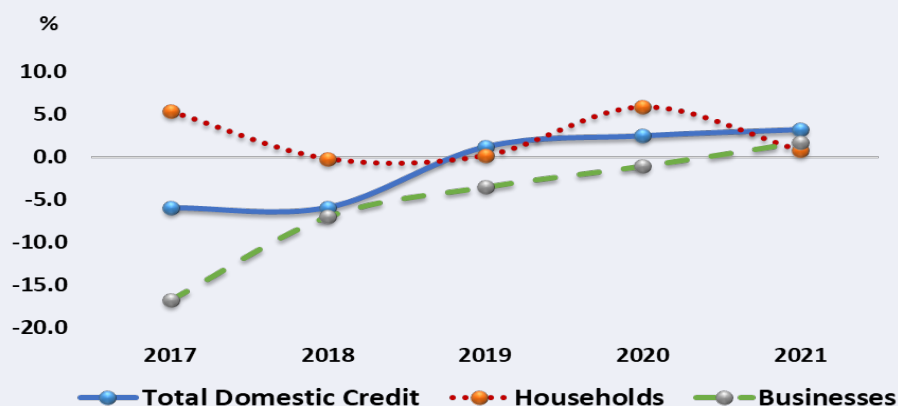
Figure 7 - Total Public Sector Debt
EC\$M



BANKING DEVELOPMENTS (MONETARY)

Despite the contraction in economic activity, domestic claims (credit) over the first half of 2021 increased by 3.2 per cent, up from 2.5 per cent one year earlier. Within the private sector, credit growth was stronger for businesses (1.7 per cent), while household credit growth decelerated to 0.8 per cent, from 5.9 per cent in 2020 (see figure 8). Meanwhile, credit to the public sector rose by 3.9 cent, driven by increased borrowing from the Central Bank.

Figure 8 - Saint Lucia Domestic Credit Percentage Change (June)

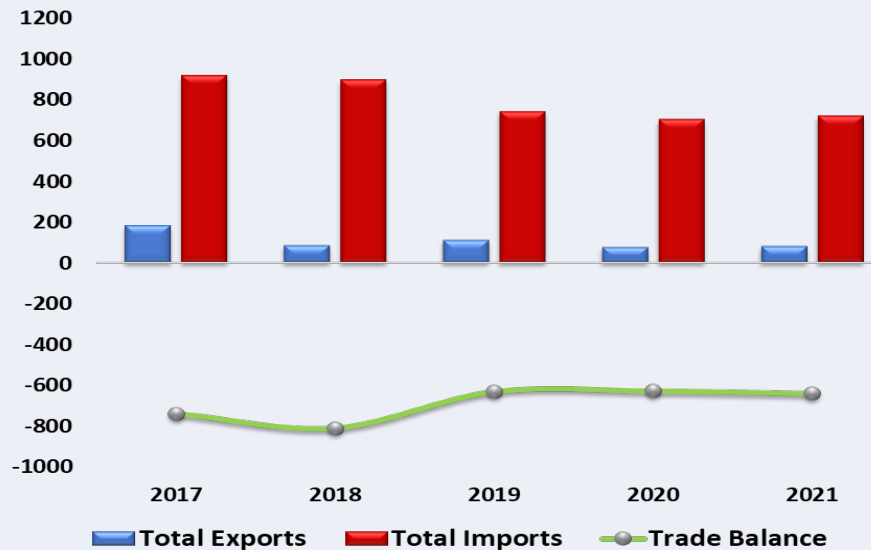


Deposits in the banking system also grew as households and businesses curtailed spending and adopted a cautious approach to the uncertainty posed by the pandemic. All categories of deposits registered increases, ranging from 6.5 per cent to 13.3 per cent, year over year. Additionally, commercial banks' asset quality deteriorated slightly, with the non-performing loan (NPL) ratio increasing to 12.0 per cent from 11.6 per cent in 2020, moving further away from the ECCB's prudential benchmark of 5.0 per cent.

EXTERNAL TRADE

Over the first half of 2021, the merchandise trade deficit widened by 2.1 per cent to \$640.2m, following a contraction of 0.5 per cent, one year earlier. A \$15.3m increase in import payments drove this outcome, while exports rose marginally by \$2.0m (see figure 9).

Figure 9 - Saint Lucia Visible Trade (EC\$m, June)



The main areas of increased imports were manufactured goods and machinery and transport equipment. Banana exports declined by some 45.8 per cent, owing to reduced production and ongoing logistical issues with getting local produce to Saint Lucia's key UK market. In addition, preliminary data show that gross travel receipts contracted by 24.7 per cent (\$143.4m), as cruise tourism was virtually non-existent and stayover visitor arrivals fell across most major markets.

OUTLOOK

The Saint Lucian economy is projected to return to moderate growth in 2021, consistent with the IMF's July update for global output growth of 6.0 per cent, influenced in part by the 7.0 per cent recovery of both the US and UK markets. However, there is some uncertainty regarding the pace of the recovery as the Delta variant of the COVID-19 virus and the relatively slow uptake of vaccinations threaten to hinder the strength of the recovery. The following are noteworthy:

- High levels of unemployment are likely to persist over the medium term as the economy recovers from the ravages of COVID-19, further hampering the pace of recovery.
- The construction sector is likely to be the main engine of growth in 2021 as tourism activity may remain subdued. Given the lack of vibrancy in the private sector, construction activity is expected to be dominated by public infrastructure projects. Key public sector investments include ongoing work on the renovation and expansion of the Hewanorra International Airport, the reconstruction of St Jude Hospital, upgrading of the Millennium Highway and the West Coast Road, and water supply redevelopment projects at Vieux Fort, Dennery and the John Compton Dam.
- The resumption of flights from major US and UK carriers is an important signal of the buoyancy of the tourism industry. In addition, cruise tourism has restarted, with Saint Lucia expecting some 74 calls in December 2021.
- Given the government's lack of fiscal space and the gradual economic recovery, large overall deficits are likely to persist, further driving up the debt level.
- Important downside risks include the potential spread of the Delta variant among residents, which could trigger travel restrictions to Saint Lucia and further destabilise the domestic economy. Additionally, a potential spike in inflation, coupled with the historically slow rate of implementation of public sector projects could dampen the recovery. Further, the potential for natural disasters is ever present and continually threatens to reverse the gains of the past two decades.

TABLES

The five-year formatted tables for Saint Lucia's main economic sectors

- Table L1 - Central Government Fiscal Operations
- Table L2 - Monetary Survey
- Table L3 - Selected Trade Statistics
- Table L4 - Consumer Price Index
- Table L5 - Banana Production

Table L1
Saint Lucia - Central Government Fiscal Operations
(In millions of Eastern Caribbean dollars)

	January to June					Average 2015 to 2019	Average 2016 to 2020
	2017	2018	2019	2020	2021		
Current Revenue	547.06	614.40	619.28	482.22	467.28	562.28	560.30
Tax Revenue	518.62	548.87	568.10	441.12	441.19	524.09	519.34
Taxes on Income and Profits	151.61	157.40	163.51	112.35	132.93	152.69	147.79
Of which:							
Personal	55.82	57.80	62.19	57.04	67.31	57.57	58.07
Company/Corporation	65.80	63.62	61.58	33.18	54.19	59.56	57.48
Taxes on Property	7.04	6.00	4.22	3.52	4.29	5.75	5.40
Taxes on Domestic Goods and Services	203.16	211.15	216.50	166.62	171.67	211.21	204.13
Of which:							
Consumption Duty	-	-	-	-	-	0.00	0.00
Licences	11.56	9.48	11.01	8.35	8.84	10.73	10.72
Excise Tax	2.00	2.40	2.44	1.95	1.56	2.15	2.13
Hotel Occupancy Tax	0.10	0.30	0.82	0.01	-	0.42	0.31
Value Added Tax	167.44	174.84	178.59	135.11	135.69	175.99	168.15
Taxes on International Trade and Transactions	156.80	174.32	183.87	158.62	132.29	154.44	162.01
Of which:							
Consumption Tax	-	-	-	-	0.02	0.05	0.05
Import Duties	58.63	60.32	59.00	49.42	48.35	56.02	56.01
Customs Service Charge	37.23	37.94	37.65	32.85	34.46	35.01	35.91
Excise Tax	48.81	48.31	61.31	56.66	44.93	46.64	50.97
Non-Tax Revenue	28.44	65.53	51.18	41.10	26.09	38.19	40.95
<i>of which: Citizenship By Investment</i>	6.99	40.54	17.08	16.09	-	12.92	16.14
Current Expenditure	474.61	514.75	509.75	554.03	620.11	474.25	496.85
Personal Emoluments	191.97	192.99	195.54	213.89	216.10	191.46	196.71
Goods and Services	93.21	111.54	101.36	121.08	177.46	94.09	101.38
Interest Payments	76.58	80.19	85.06	81.71	82.32	77.53	79.05
Domestic	46.05	43.21	50.93	45.74	48.64	46.94	46.78
External	30.53	36.98	34.13	35.97	33.67	30.59	32.27
Transfers and Subsidies	112.85	130.03	127.80	137.35	144.23	111.17	119.72
Of which: Pensions	41.49	42.66	44.40	48.52	55.28	39.98	42.90
Current Account Balance	72.45	99.65	109.53	(71.82)	(152.83)	88.03	63.44
Capital Revenue	0.06	0.06	0.06	1.60	0.13	0.07	0.37
Grants	29.82	22.10	22.48	17.90	29.96	20.60	20.57
Of which: Capital Grants	29.82	22.10	22.48	17.90	29.96	20.60	20.57
Capital Expenditure and Net Lending	99.42	125.78	98.78	64.68	127.86	98.87	91.60
Of which: Capital Expenditure	99.42	125.78	98.78	64.68	127.86	98.87	91.60
Primary Balance after grants	79.49	76.22	118.36	(35.29)	(168.29)	87.35	71.84
Overall Balance after grants	2.91	(3.97)	33.30	(117.00)	(250.60)	9.83	(7.21)
Financing	(2.91)	3.97	(33.30)	117.00	250.60		
Domestic	(122.70)	38.95	(125.69)	12.13	229.66		
ECCB (net)	37.15	(29.09)	0.92	55.23	(9.45)		
Commercial Banks (net)	(38.84)	(19.68)	17.20	(13.20)	4.01		
Other	(121.02)	87.72	(143.81)	(29.90)	235.10		
External	119.79	(34.98)	92.39	104.86	20.95		
Net Disbursements (Amortisation)	119.79	(34.98)	92.39	104.86	20.95		
Disbursements	158.13	58.18	129.47	138.80	60.94		
Amortisation	(38.34)	(93.16)	(37.08)	(33.94)	(40.00)		
Change in Government Foreign Assets	-	-	-	-	-		
Arrears	-	-	-	-	-		
Domestic	-	-	-	-	-		
External	-	-	-	-	-		
Other financing	-	-	-	-	-		

Source: Ministry of Finance, Saint Lucia
Data as at 10 August 2021

Table L2
Saint Lucia - Monetary Survey
(EC\$M at end of period)

	2017	2018	2019	2020	2021 E	June Moving Averages	
	June	June	June	June	June	2015 - 2019	2016 - 2020
Net Foreign Assets	599.30	819.34	1,048.95	1,123.89	1,306.46	613.98	794.21
Claims On Non-Residents	2,397.05	2,582.92	2,553.69	2,504.53	2,620.44	2,348.80	2,449.53
Central Bank	762.70	796.43	750.10	863.22	855.58	802.75	802.44
Other Depository Corporations (Commercial Banks)	1,634.35	1,786.49	1,803.59	1,641.31	1,764.87	1,546.05	1,647.09
Liabilities To Non-Residents	1,797.74	1,763.58	1,504.74	1,380.64	1,313.98	1,734.82	1,655.32
Central Bank	0.13	0.04	0.09	54.26	120.24	0.12	10.94
Other Depository Corporations (Commercial Banks)	1,797.61	1,763.54	1,504.65	1,326.38	1,193.74	1,734.71	1,644.38
Net Domestic Assets	2,803.92	2,604.96	2,558.18	1,945.92	2,038.29	2,769.40	2,564.28
Domestic Claims	3,049.68	2,869.25	2,903.20	2,975.17	3,070.58	3,107.32	3,008.14
Net Claims On General Government	(205.57)	(292.23)	(240.85)	(208.81)	(171.45)	(240.96)	(242.33)
Claims On General Government	351.82	351.46	380.42	477.98	496.49	348.56	379.38
From Central Bank	0.09	-	0.04	54.19	120.16	0.03	10.87
From Other Depository Corporations	351.73	351.46	380.38	423.80	376.33	348.53	368.51
Liabilities To General Government	557.39	643.69	621.27	686.79	667.94	589.52	621.71
Claims On Other Sectors	3,255.25	3,161.48	3,144.06	3,183.97	3,242.04	3,348.28	3,250.47
Claims On Other Financial Corporations (Non-Bank Financial Institutions)	12.75	11.78	45.48	12.45	9.81	32.73	29.24
Claims On Public Non-Financial Corporations	35.80	42.54	33.42	10.55	36.13	47.79	36.05
Claims On Private Sector	3,206.70	3,107.16	3,065.16	3,160.97	3,196.10	3,267.77	3,185.18
Claims On Other Non-Financial Corporations (Business Credit)	1,355.53	1,260.46	1,215.88	1,202.53	1,222.74	1,452.18	1,332.66
Claims On Other Resident Sectors (Households and Non-profit institutions)	1,851.18	1,846.70	1,849.28	1,958.44	1,973.36	1,815.59	1,852.52
Other Items (Net)	(245.76)	(264.29)	(345.02)	(1,029.25)	(1,032.29)	(337.92)	(443.85)
Broad Money Liabilities (M2)	3,403.22	3,424.30	3,607.13	3,069.81	3,344.75	3,383.37	3,358.49
Narrow Money (M1)	966.02	1,011.11	1,149.95	947.59	1,057.36	951.00	978.59
Currency Outside Depository Corporations	153.75	152.28	151.20	136.68	156.14	150.20	149.69
Currency Issued By Central Bank (Currency In Circulation)	212.32	202.18	203.70	203.36	219.77	206.10	207.10
Less Holdings Of National Currency By Odc (Commercial Banks)	58.58	49.91	52.50	66.68	63.63	55.91	57.41
Transferable Deposits, In National Currency	812.27	858.84	998.75	810.91	901.22	800.81	828.90
Quasi Money	2,437.20	2,413.19	2,457.18	2,122.21	2,287.39	2,432.37	2,379.90
Other Deposits, In National Currency	2,029.77	2,015.14	2,033.08	1,728.16	1,840.84	2,042.21	1,979.23
Foreign Currency Deposits	407.43	398.05	424.10	394.06	446.56	390.16	400.67
Memo Items							
Liquidity Ratios							
Liquid assets to total assets	36.93	38.82	38.10	38.76	37.66	35.81	38.05
Liquid assets to short-term liabilities	39.01	41.01	40.47	43.54	42.33	38.04	41.27
Customer deposits to total (noninterbank) loans	108.72	115.42	116.40	112.54	117.29	107.39	114.07
Weighted Average Interest Rate							
Total Deposits Rate	1.54	1.46	1.39	1.43	1.39	1.64	1.44
Lending Rate	8.13	8.09	7.61	7.06	6.87	8.10	7.55
Spread between reference lending and deposit rates (basis points)	6.59	6.64	6.22	5.64	5.49	6.46	6.11
Nonperforming loans to gross loans	13.29	11.24	8.75	11.57	11.98	13.81	11.37

Source: Eastern Caribbean Central Bank
Data as at 06 August 2021

Table L3
Saint Lucia - Selected Trade Statistics
(Value: EC\$M)

	January to June					Average	Average
	2017	2018	2019	2020	2021	2015 to 2019	2016 to 2020
Total Exports	180.22	85.69	110.25	77.70	79.67	168.38	124.48
Total Domestic Exports	104.98	53.55	45.96	42.38	52.51	88.48	71.40
Total Re-Exports	75.24	32.14	64.29	35.32	27.16	79.90	53.08
Total Imports	918.90	896.73	740.00	704.54	719.87	843.25	832.51
Visible Trade Balance	(738.69)	(811.04)	(629.76)	(626.84)	(640.21)	(674.87)	(708.03)

Source: Central Statistical Office, Saint Lucia and ECCB Estimates

Data as at 10 August 2021

Table L4
Saint Lucia - Consumer Price Index
January 2018 = 100

	Period Average January to December		January to June					Percentage Change*	
			Period Average					<u>Jun-20</u>	<u>Jun-21</u>
	Dec-19	Dec-20	2017	2018	2019	2020	2021	Dec-19	Dec-20
All items	101.76	99.97	99.35	100.73	102.37	99.35	100.94	(2.37)	0.97
Food and Non-Alcoholic Beverages	103.39	102.55	97.01	100.76	103.87	101.72	101.51	(1.61)	(1.01)
Alcoholic Beverages, Tobacco & Narcotics	104.87	102.53	98.38	100.49	104.67	102.14	103.25	(2.60)	0.70
Clothing and Footwear	92.16	97.80	102.21	96.32	92.55	94.81	101.85	2.88	4.14
Housing, Utilities, Gas and Fuels	101.55	96.77	91.79	102.23	103.48	97.11	100.21	(4.38)	3.55
Household Furnishings, Supplies and Maintenance	98.55	99.44	100.03	98.97	97.69	99.29	100.15	0.75	0.71
Health	102.42	103.94	101.01	101.11	102.47	103.41	107.59	0.96	3.52
Transport	105.21	99.62	97.25	100.55	104.73	99.89	101.11	(5.06)	1.50
Communication	99.76	99.34	99.47	99.93	99.71	99.48	101.53	(0.28)	2.21
Recreation & Culture	93.54	88.04	105.45	98.56	93.52	89.33	84.63	(4.50)	(3.87)
Education	100.01	100.05	98.96	100.00	100.00	100.08	100.00	0.07	(0.05)
Hotels & Restaurants	96.92	99.44	102.36	98.58	97.10	99.10	97.14	2.25	(2.31)
Miscellaneous Goods and Services	100.96	98.88	99.77	99.83	100.77	99.05	98.40	(1.89)	(0.49)

*January to June average index / January to December Average index of the previous year

Source: Central Statistical Office, Saint Lucia and ECCB Estimates

Data as at 10 August 2021

Table L5
Saint Lucia - Selected Tourism Statistics

	January to June					Average	Average
	2017	2018	2019	2020	2021	2015 to 2019	2016 to 2020
Total Visitor Arrivals	637,648	706,139	720,003	412,959	66,992	646,777	604,737
Stay Over Arrivals ^{1/}	197,548	206,182	219,608	91,399	64,482	198,380	179,575
USA	89,589	96,440	102,430	41,155	59,598	91,598	83,080
Canada	27,372	25,879	24,965	14,593	362	25,624	23,252
UK	35,625	38,575	43,586	17,732	2,883	37,610	34,002
Caribbean	30,958	32,113	35,108	11,421	932	30,629	27,642
Other Countries	14,004	13,175	13,519	6,498	707	12,919	11,599
Excursionists	4,368	5,354	4,328	1,660	1,549	4,625	4,329
Cruise Ship Passenger	406,026	454,298	458,635	297,885	414	408,974	388,602
Number of Cruise Ships	279	237	218	174	1	242	228
Yacht Passengers ^{1/}	29,706	40,305	37,432	22,015	547	34,798	32,231
Total Visitor Expenditure (EC\$M)	1,156.10	1,300.68	1,395.10	581.22	437.78	1,202.22	1,085.60

^{1/} From January 2016, yacht passengers staying in paid accommodation was recorded as part of stay-over arrivals

Source: Saint Lucia Tourist Board and ECCB Estimates

Data as at 10 August 2021

Table L6
Saint Lucia - Banana Production

	January to June					Average	Average
	2017	2018	2019	2020	2021	2015 to 2019	2016 to 2020
Volume (tonnes)	3,084	5,077	3,200	3,235	1,755	4,054	3,714
Value (EC\$M)	5.12	8.39	5.16	5.15	3.31	6.96	6.22
Unit Price (EC\$/ tonnes)	1,660.32	1,653.22	1,613.87	1,592.10	1,883.43	1,710.96	1,670.09

Source: Winfresh Ltd

Data as at 10 August 2021



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