SAINT LUCIA

DECEMBER 2022

ECONOMIC AND FINANCIAL REVIEW

Eastern Caribbean Central Bank

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ANNUAL REVIEW

SAINT LUCIA

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Saint Lucia
Annual Economic and Financial Review - 2022

Eastern Caribbean Central Bank

Contents

Overview **2**

The Economy (Real Sector) **2**
Consumer Prices 3
Unemployment 4

Government Operations **4**
Debt 4

Banking Developments (Monetary) **5**

External Trade **6**

Outlook **6**

Selected Economic Indicators **8**

Overview

- Preliminary estimates point to a further expansion in economic activity in Saint Lucia in 2022. The economy grew by 15.9 per cent, up from 12.2 per cent in 2021. Growth was underpinned by expansions in several economic sectors including tourism, agriculture, and manufacturing.

- Inflationary pressures persisted in 2022, largely influenced by the global surge in commodity prices. Meanwhile, the fiscal balance improved, consistent with greater economic activity and capital expenditure restraint.

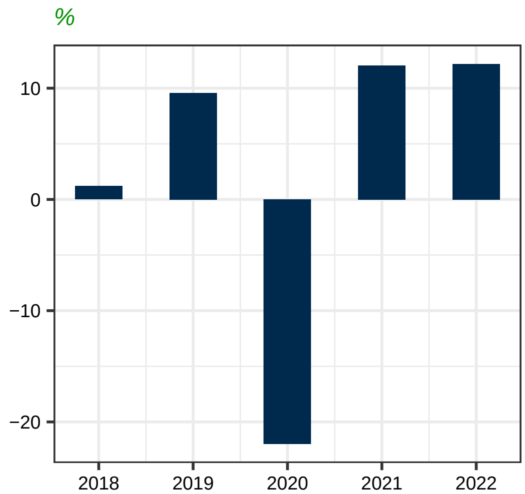
- In 2023, the economy is projected to continue on the path of expansion. However, the pace of growth will be slower than that of 2021-2022.

15.9% Real GDP Growth (2022)	**6.9%** end-of-period inflation	**85.6%** Debt-to-GDP ratio
-2.9% Fiscal balance (%GDP)	**$2.0B** Merchandise trade deficit	**$2.9B** Domestic claims

The Economy (Real Sector)

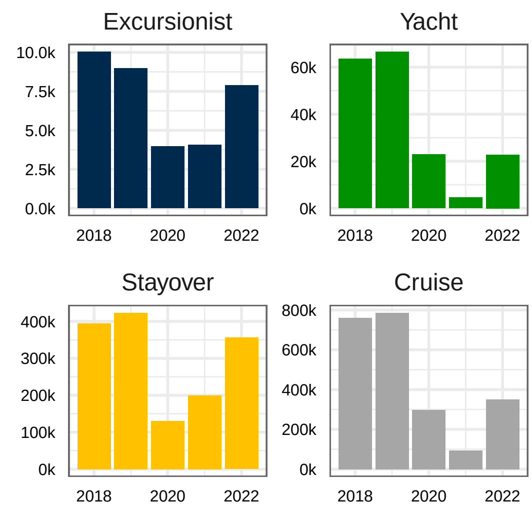
The economy of Saint Lucia grew at an unprecedented rate of 15.9 per cent in 2022. Consequently, the size of the economy was roughly 2.0 per cent below its 2019 level (Figure 1). The rebound was spurred by robust growth in tourism and related sectors, along with agriculture and manufacturing.

Figure 1: Real GDP Growth Rates (%)



Source: ECCB

Figure 2: Visitor Arrivals by Category



Source: ECCB

Value added in the accommodation and food sector, which captures tourism activity, rose by 67.6 per cent in 2022. This was primarily on account of a 78.7 per cent increase in stay-over arrivals to 356,237, which represents approximately 84.0 per cent of 2019 arrivals (Figure 2).

Arrivals from the USA and the UK surpassed the 2019 levels and accounted for 59.0 per cent and 23.0 per cent of total stay-over arrivals, respectively. Exponential growth was recorded in visitor arrivals from all other source markets including Europe and the Caribbean, but the numbers still lag behind the pre-pandemic level.

The cruise and yacht sectors have not yet recovered from the pandemic. As a percentage of 2019 figures, cruise passengers amounted to 45.0 per cent (349,922) and yachties, 34.0 per cent (22,815). As a result of these movements, overall visitor arrivals in 2022 totalled 736,866, relative to 301,675 in 2021 and 1,286.0m in 2019.

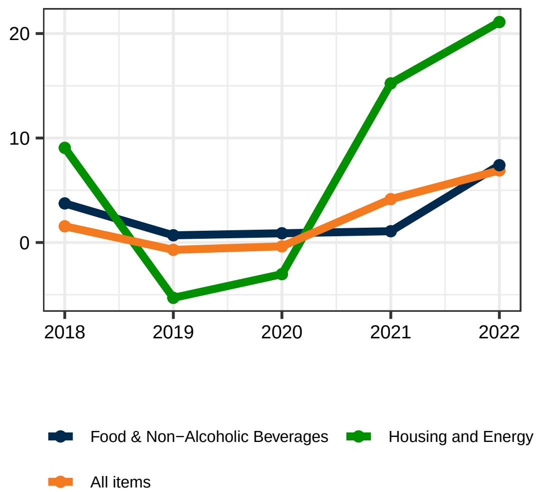
Value added in the wholesale and retail trade and transport and storage sectors grew by 12.0 per cent and 18.0 per cent, respectively, largely driven by the strong increase in visitor arrivals. The agricultural sector expanded by 9.8 per cent, resulting from increased crop production under several initiatives including the Seven Crops Project, the use of technology as part of the Agriculture Intelligence Information Systems, and the Youth Agriculture Enterprise Program. The opening of new regional markets for bananas and higher local consumption led to a more than doubling of banana output. Value added in the manufacturing sector rose by 8.0 per cent reflecting higher production of paper and metal products and beverages. Meanwhile, activity in the construction sector contracted by 10.0 per cent mainly due to a slowdown in public sector projects.

Consumer Prices

The annual inflation rate in Saint Lucia rose to 6.9 per cent at the end of 2022, from 4.2 per cent at the end of 2021 (Figure 3). Higher price levels were recorded for housing, electricity, gas and other fuels (21.1 per cent); alcoholic beverages (10.2 per cent); furnishings and household equipment (8.5 per cent); food (7.4 per cent), and transport (4.5 per cent). Overall, Saint Lucia's inflation rate reflected higher global prices for energy and food emanating from the spill overs of the war in Ukraine and Supply Chain disruptions associated with China's COVID-19 containment strategy.

Figure 3: Selected Categories of Inflation

%, y–o–y



Source: ECCB

Unemployment

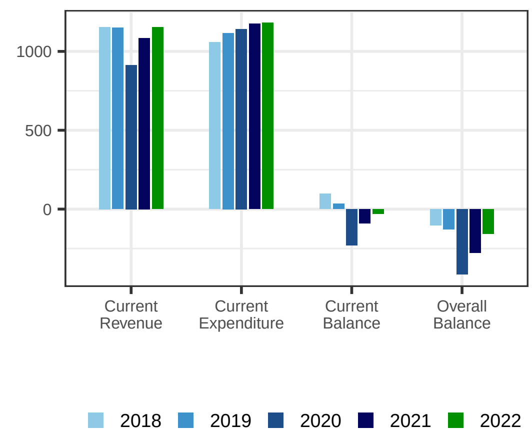
The unemployment rate fell to 18.2 in the third quarter of 2022, from 19.6 per cent in the last quarter of 2021. Youth unemployment remained elevated at 27.2 per cent.

Government Operations

The fiscal position of the central government improved in 2022 on account of two factors – the general increase in tax revenue associated with the expansion in economic activity and a reduction in capital expenditure (Figure 4). The overall deficit narrowed to $156.2m (2.9 per cent of GDP) at the end of the calendar year, compared with a deficit of $278.5m (6.1 per cent of GDP) at year's end, 2021. The primary balance transitioned to a surplus position of $22.8m (0.4 per cent of GDP) in 2022, in contrast to a deficit of $110.7m (2.4 per cent), with positive implications for the debt dynamics.

Figure 4: Central Government Fiscal Balance

EC$M



Source: ECCB

Current revenue grew by 6.2 per cent to $1,152.6m (21.6 per cent of GDP) following growth of 18.8 per cent in 2021, consistent with the economic recovery. Tax revenue, which accounted for 90.0 per cent of current revenue showed significant gains, growing by 5.0 per cent ($49.5m) to reach $1039.0m, similar to the level obtained in 2018. Receipts on all main tax categories increased, with the most sizable growth from taxes levied on international trade and transactions. Non-tax revenue rose by 18.5 per cent ($17.8m) to $113.6m due to higher inflows from the Economic Citizenship Program and other non-tax revenue. The growth in current expenditure was marginal, increasing by 0.7 per cent ($7.8m) to $1,182.4m (22.1 per cent of GDP). In comparison, current expenditure grew by 2.9 per cent ($32.6m) in 2021. The main drivers of the increase in current expenditures were higher interest payments ($11.1m) and transfers and subsidies ($12.4m). This was offset by the decline in spending on goods and services ($16.2m). Consequently, the current account deficit totalled $29.8m (0.6 per cent of GDP) in 2022, compared with one of $89.3m (2.0 per cent of GDP) in 2021. On the capital account, grants fell by 8.4 per cent to $59.8m contributing to a reduction in expenditure by 27.8 per cent to $186.2m.

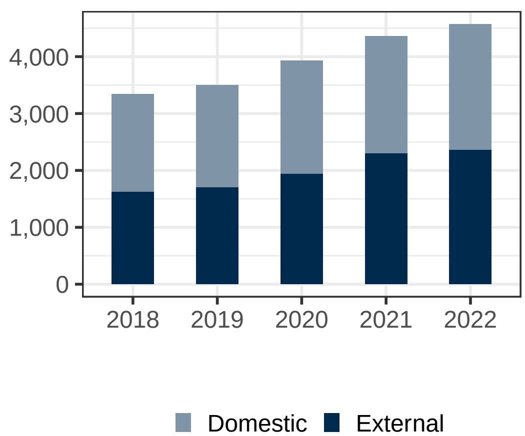
Debt

At the end of 2022, total outstanding public sector debt [1] increased by 4.8 per cent to $4,572.5m, while the uptick

[1] Debt figures adjusted to include Short Term liabilities (i.e. Accounts Payables and Overdrafts) based on international best practice.

in economic activity led to a 9.9 percentage point decline in the debt ratio to 85.6 per cent from a year ago (Figure 5). The growth in the debt stock was led by a 7.1 per cent ($146.9m) increase in central government domestic debt. Of note, there was a 14.6 per cent expansion in government securities via private placement for budget support, which was subscribed mainly by government related entities, private deposit taking corporations and insurance companies. On the external side, there was a 2.0 per cent growth driven by an uptick of approximately 5.0 per cent in government securities with financial corporations and non-ECCU residents as the main investors. As a result, total central government debt rose by 4.6 per cent to $4,281.0m, net of amortization payments.

Figure 5: Outstanding Public Sector Debt
EC$M



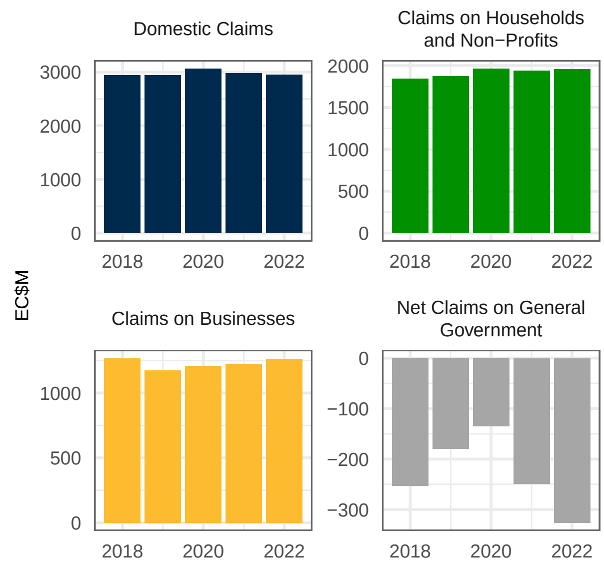
Source: ECCB

The debt of public corporations rose by 7.2 per cent to $290.5m largely due to an increase in external borrowing for ongoing works on the Hewanorra International Airport (HIA) Redevelopment and supporting micro, small and medium enterprises projects.

Banking Developments (Monetary)

During 2022, domestic claims (credit) contracted while deposits grew. Bank credit contracted by 0.8 per cent to $2,953.6m in 2022, following a decline of 2.9 per cent in the prior year. This outturn was the result of an improvement in the net claims on general government, as the increase in deposits (liabilities to government) offset that of claims (credit). Meanwhile, in the private sector, credit extended to both businesses and households rose by 2.9 per cent and 0.8 per cent, respectively.

Figure 6: Claims (Credit) to Selected Sectors
in EC$M

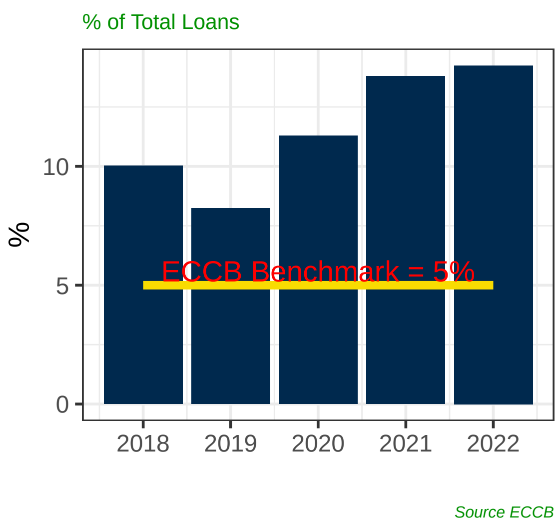


Source: ECCB

All categories of deposits increased with the most notable being transferable deposits[2] which rose by 6.0 per cent. The growth in deposits resulted in a higher liquidity position for commercial banks, as the total loans and advances to deposits ratio fell to 69.5 per cent at the end of 2022 from 71.9 per cent one year earlier. Commercial banks' asset quality continued to deteriorate for the third consecutive year, induced by the pandemic. The non-performing loan (NPL) ratio increased to 14.2 per cent from 13.8 per cent in 2021.

[2]Transferable deposits include chequing accounts and other demand deposits

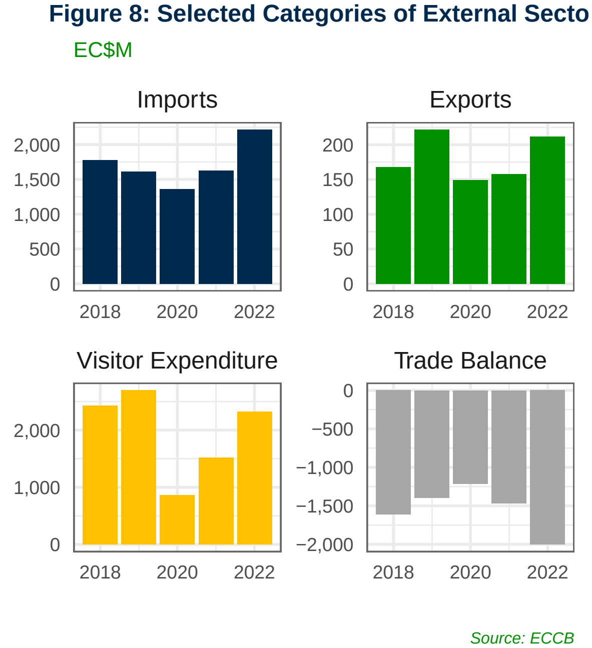
Figure 7: Non−Performing Loans Ratio



External Trade

The visible trade deficit widened to $2,001.2m (37.5 per cent of GDP) in 2022, from $1,467.1m (32.1 per cent of GDP) in 2021. The widening of the deficit reflected strong growth in import payments ($587.6m) due to the simultaneous effects of a higher volume of tourism-related imports, greater local demand for foreign goods, and an uptick in global prices for energy, food, and used cars. Export receipts also rose by $53.5m mainly derived from the re-export of mineral fuels.

Figure 8: Selected Categories of External Secto



On the services account, gross travel receipts rose by 52.5 per cent to $2,321.4m associated with buoyant tourism inflows.

Outlook

Following double-digit GDP growth rates for two consecutive years, the Saint Lucian economy is projected to fully recover from the pandemic in 2023. The economy is expected to experience single-digit growth in 2023 led by continued growth in tourism, agriculture, and manufacturing. The construction sector is also expected to revert to positive growth, as government resumes activity on the Hewanorra International airport and St Jude's Hospital, as well as investments in roads and social services infrastructure. Private sector construction activity will consist of tourism-related investments, expansion of commercial spaces, and residential construction.

- Despite heightened global uncertainty, due to the current war in Ukraine, monetary policy tightening and its associated adverse impact on borrowing costs in emerging and developing countries, and the volatility of commodity prices, tourism demand is forecasted to remain strong according to the World Travel and Tourism Council (WTTC). This strong global demand will positively impact tourism activity in Saint Lucia, although the pace of growth is expected to slow.

- Activity related to stay-over arrivals is expected to fully recover from the impact of the pandemic, by the end of 2023 to early 2024, partly on account of the intervention by regional leaders to address the challenges of regional travel along with the hosting of festivals. As a result, stay-over arrivals from the Caribbean market, which is the third largest, are projected to accelerate.

- The agriculture and manufacturing sectors will continue to benefit from specially designed initiatives aimed at reducing the import bill and strong domestic demand to support tourism activity.

- While the debt level is expected to decline in 2023 due to GDP growth, fiscal pressures will persist. In the absence of fiscal consolidation, the overall fiscal deficit will continue to hover around 2.5-3.0 per cent of GDP.

- These forecasts are conditional on developments in the global economy such as a sharper than expected recession in its main trading partners and the intensification of adverse supply-side factors that could yield higher commodity prices.

- Other downside risks include natural disaster shocks, the escalation in crime, and unforeseen financing constraints to implement public sector capital projects.

Selected Economic Indicators

Indicators	2018	2019	2020	2021	2022
National Income and Prices (Annual % change)					
Nominal Gross Domestic Product (GDP) at Market Prices	3.0	1.8	-27.6	11.6	17.0
Real GDP at Market prices	2.9	-0.7	-24.4	12.2	15.9
Deflator	0.1	2.5	-4.3	-0.6	0.9
Consumer Prices (end of period)	1.6	-0.7	-0.4	4.2	6.9
Consumer Prices (period average)	1.9	0.5	-1.8	2.4	6.4
Real Gross Value Added (GVA) at basic prices (%)					
Agriculture, forestry and fishing	13.8	5.3	-13.1	5.1	9.8
Construction	-13.1	-7.7	-1.3	20.0	-10.0
Wholesale and retail trade; repair of motor vehicles and motorcycles	2.5	-4.4	-21.1	9.5	12.0
Transportation and storage	2.6	4.6	-35.9	27.5	18.0
Accommodation and food service activities	6.0	0.5	-66.9	66.8	67.6
Financial and insurance activities	-0.5	4.5	2.1	1.1	-2.5
Real estate activities	0.8	-1.1	2.9	1.7	1.0
Public administration and defence; compulsory social security	1.6	2.9	3.3	2.2	1.0
Total Public Sector Debt (% GDP)					
Total Public Sector Debt	60.2	61.8	96.0	95.5	85.6
Public Sector External Debt (end-of-period)	31.0	31.8	50.8	52.9	44.1
Central Government (in XCD millions)					
Current Account Balance	96.7	34.6	-228.4	-89.3	-29.8
Current Revenue	1,154.5	1,150.5	913.6	1,085.3	1,152.6
Current Expenditure	1,057.8	1,116.0	1,142.0	1,174.6	1,182.4
Capital Expenditure and Net Lending	235.2	201.3	234.1	258.2	186.2
Overall Fiscal Balance	-102.4	-128.3	-412.4	-278.5	-156.2
Monetary Sector (% p.a.)					
Weighted Deposit Interest Rates	1.4	1.4	1.4	1.1	1.1
Weighted Lending Interest Rates	7.9	7.6	7.0	6.5	6.7
Non-Performing Loans Ratio (%)	10.0	8.2	11.3	13.8	14.2
Memo (in XCD millions, unless otherwise stated)					
Nominal GDP at Market Prices	5,554.1	5,654.3	4,093.2	4,566.4	5,341.4
Real GDP at Market Prices	5,554.1	5,518.0	4,173.5	4,684.0	5,427.8
GDP per capita (EC$)	31,081.2	31,413.9	22,590.6	25,051.9	29,128.6
Merchandise Imports (f.o.b)	1,778.7	1,615.5	1,362.1	1,625.2	2,212.8
Merchandise Exports (f.o.b)	167.9	221.6	149.1	158.2	211.7
Gross Visitor Expenditure	2,431.5	2,696.1	858.3	1,522.5	2,321.4
Net Foreign Assets	833.7	951.8	1,070.5	1,474.5	1,587.1
Domestic Credit	2,939.4	2,942.4	3,068.1	2,977.9	2,953.1
Money Supply (M2)	3,444.2	3,576.2	3,122.4	3,586.5	3,721.9
Currency in Circulation	239.6	242.1	234.3	251.0	254.8

Note:

Data as at February 2023

[1] Sources:Central Statistics Office and Eastern Caribbean Central Bank