

SAINT LUCIA

JUNE 2023



ECONOMIC AND FINANCIAL REVIEW

Eastern Caribbean Central Bank



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EASTERN CARIBBEAN CENTRAL BANK





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Address:

P. O. Box 89
Basseterre
St Kitts and Nevis
West Indies

Telephone

(869) 465-2537

Fax:

(869) 465-5615

Website

www.eccb-centralbank.org

Email

rsdad@eccb-centralbank.org

Saint Lucia
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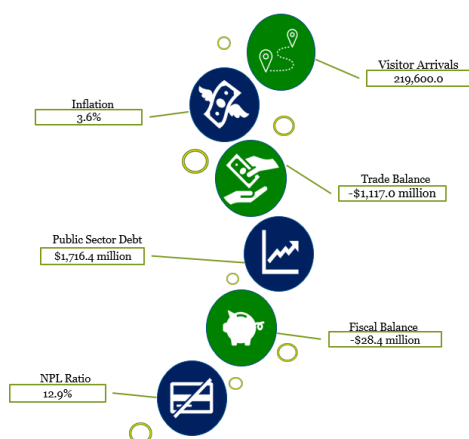
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Overview

- Data for the first half of 2023 indicate a strengthening in economic activity in Saint Lucia relative to the corresponding period in 2022, led by further expansion in the tourism industry. This outturn reflected robust growth from the main source market (North America) and a boost in intra-regional airlift.
- The improvement in economic activity was supported by increased activity in the construction sector, from both public sector and private sectors.
- Government finances deteriorated, as growth in expenditure outpaced revenue collection.
- The financial system remained sound marked by higher levels of liquidity.
- Further strengthening of economic activity is expected for the remainder of 2023. However, downside risks involve supply chain issues and increasing freight cost, monetary policy tightening by international central banks, rising interest rates, natural disasters, and volatility in crude oil prices.

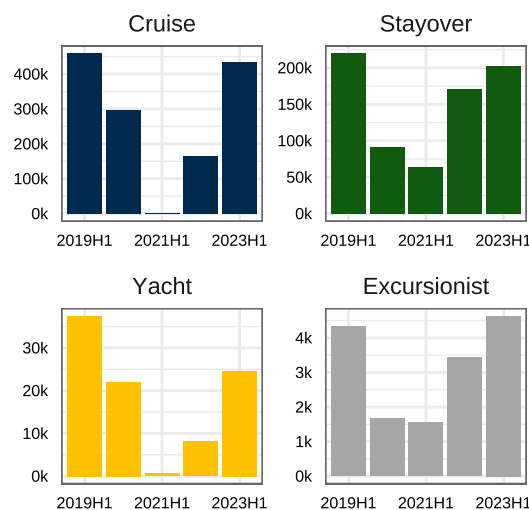


The Economy (Real Sector)

The estimated expansion in economic activity in the first six months of 2023 was attributable to higher output in the tourism industry and the construction sector. Owing to the general uptick in these key sectors, there were spillovers in other sectors.

Overall, total visitor arrivals rose by 91.6 per cent for the first six months of 2023 compared to the same period in 2022, as visitor arrivals expanded across all categories (Figure 1). This outturn reflected two consecutive years of expansion for the industry. Stay over arrivals increased by 18.8 per cent as of June 2023 compared to a year ago. This was fueled by increased visitor arrivals from the North American market, mainly visitors from Canada which grew by 11,853. Growth in arrivals from Canada was attributable to the increase to six weekly flights into Saint Lucia compared to the four weekly flights a year ago. The rebound also reflected the airline’s increased commitment, which included other direct airlift options, after restarting flights into the destination in October 2022.

Figure 1: Visitor Arrivals by Category



Source: ECCB

Intra-regional travel, which took a severe blow coming out of COVID-19, registered a 96.4 per cent increase at the end of June 2023 over June 2022. The increase in airlift was attributable to new airline options to Saint Lucia, increased airlift by existing regional airlines, and increased demand for re-introduced major festivals, including carnival.

Cruise ship passengers totalled 434,343 during the first six months of 2023, compared with 165,266 during the comparable period of 2022; as cruise lines relaxed pro-

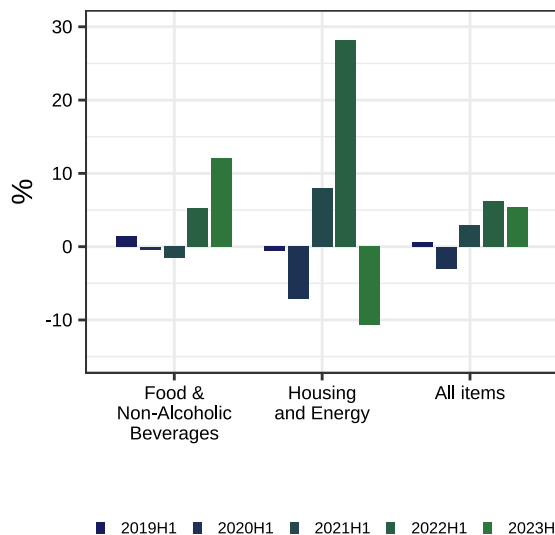
protocols to allow more passengers on board beyond the 50.0 per cent COVID-19 limit. The yachting sector showed strong signs of growth. During the first half of 2023, yacht passengers totaled 24,595 compared to 8,036 recorded passengers in the first half of 2022. Despite the rebound in tourism, total visitor arrivals were down by 7.4 per cent as at June 2023 relative to pre-pandemic levels for the same period.

Economic activity in secondary sectors including transport and storage and wholesale and retail trade was estimated to have increased on account of the momentum in the tourism industry and general economic conditions. In the agriculture sector, banana production trended downward for the third consecutive year recording a value of \$2.1m compared to \$2.9m in the corresponding period of 2022. The value in 2020 amounted to \$9.1m. Notwithstanding the decline in banana production, the sector was buoyed by increases in other crop production. The manufacturing sector continues to show signs of expansion lead by increase output in paper products and basic chemicals.

Consumer Prices

The rate of inflation slowed for the year ended June 2023 to 5.4 per cent compared to the 6.3 per cent recorded one year prior. Notwithstanding the deceleration, increases in global commodity prices owing to supply chain bottlenecks and geopolitical tensions since 2020, have resulted in higher domestic prices. In particular, the food and Non-Alcoholic Beverages sub-index was up 12.1 per cent year-on-year, relative to the increase of 5.3 per cent in the previous 12 month period. However, housing, utilities, gas and fuels prices fell by 10.7 per cent at the end of June 2023 when compared to the same period in 2022, owing to lower global fuel prices (See Figure 2).

Figure 2: Selected Categories of Inflation



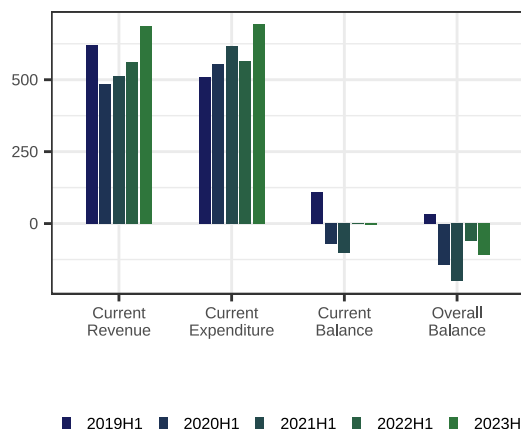
Source: ECCB

Government Operations

The central government’s fiscal position deteriorated in the first half of 2023 relative to 2022. The overall deficit widened to \$109.2m at the end of June 2023 which represented an 82.8 per cent expansion relative to the comparable period of 2022 (Figure 3). The worsening of the fiscal position was due to increases in all expenditure categories which outpaced the growth in revenue collections over the review period.

Figure 3: Central Government Fiscal Balance:

EC\$M

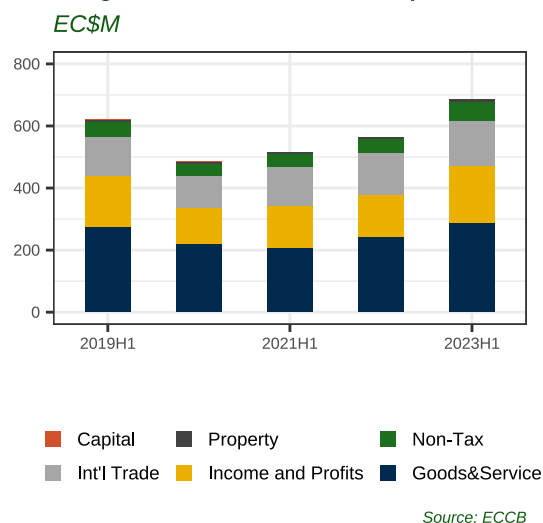


Source: ECCB

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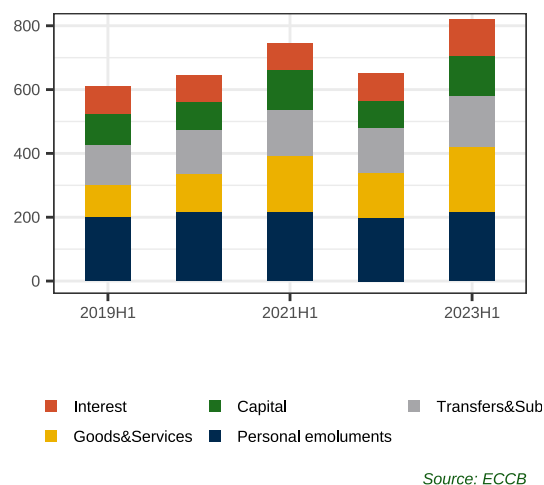
Figure 4: Total Revenue Composition



Interest payments expanded to \$114.5m for the period ending June 2023 compared to \$84.9m recorded a year ago. The increase represented a 27.8 per cent growth over the 5-year average of \$89.6m, owing to large disbursements mainly for budget support and capital projects.

Current revenue rose by 21.9 per cent to \$686.1m on account of growth across all tax categories. Tax revenue rose by 20.1 per cent to \$623.0m with notable performances in various revenue heads including taxes on income, profit and capital gains (\$49.3m) and domestic goods and services (\$44.8m) (Figure 4). This performance indicates positive business sentiment for greater investment and increased consumer spending, which was partly due to higher price levels. Non-tax revenue expanded by 43.6 per cent or by \$19.2m at the end of June 2023 when compared to the same period in 2022 because of strong collection of other taxes.

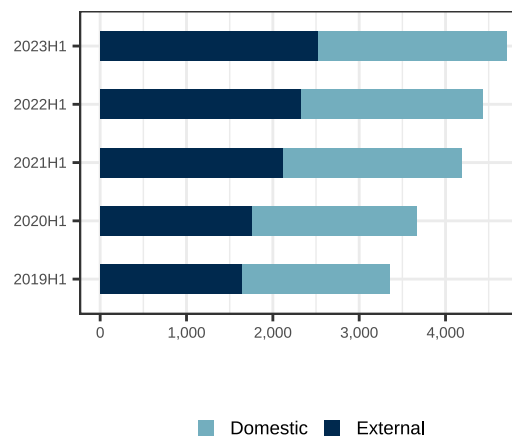
Figure 5: Total Expenditure Composition
EC\$M



Debt

The total disbursed outstanding public sector debt trended downward by an estimated \$19.2m (or by 1.2 per cent) to \$1,573.0m at the end of June 2023, compared with an outstanding amount of \$1,592.2 at the end of June 2022, as the government continued to service its obligations (see figure 6). The lower total debt level was driven by regular amortization of total public sector debt. Domestic and external debt declined by 0.9 per cent and 2.9 per cent respectively during the period under review.

Figure 6: Outstanding Public Sector Debt
EC\$M

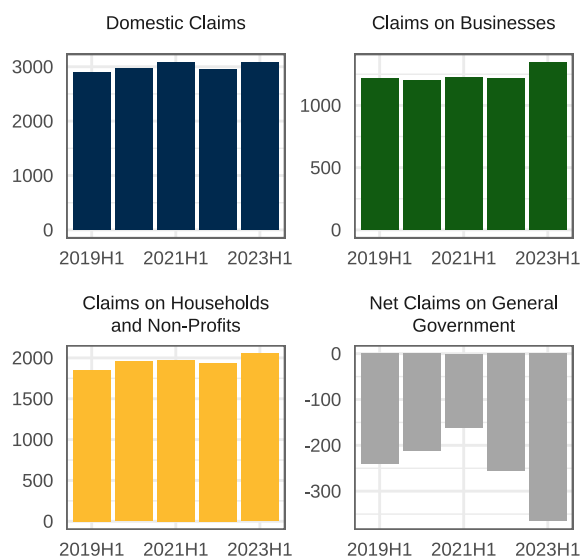


Banking Developments (Monetary)

Domestic claims (credit) rose by 6.4 per cent to \$3,129.0m at the end of June 2023 compared to a decline of 4.5 per cent recorded in the comparable period (Figure 7). Claims on the private sector expanded by 7.7 per cent year-on-year as credit to businesses and households grew by 10.9 per cent and 5.7 per cent respectively. This was consistent with the estimated improvement in economic conditions for the first half of 2023. The net claims on general government widened by 21.4 per cent to \$311.6m as the expansion in deposits by the public sector of 16.8 per cent outpaced the increase of 14.5 per cent in credit to this sector.

Figure 7: Claims (Credit) to Selected Sectors

EC\$m

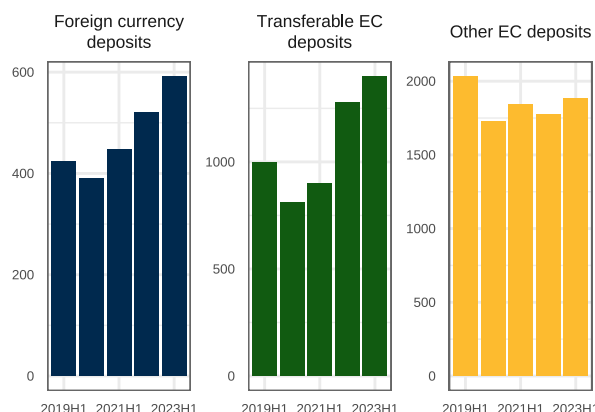


Source: ECCB

Total deposits within the banking system rose by 8.4 per cent during for the year ended June 2023 when compared to the previous period. Of note, transferrable deposits posted the largest increase of 9.7 per cent (\$123.3m) for the first half of 2023 (Figure 8). There were also expansions in other EC deposits (6.1 per cent, \$108.3m) and foreign currency deposits (13.9 per cent, \$72.4m). The general increase in deposits within the banking system was driven by the year-on-year increase in economic activity led by tourism growth.

Figure 8: Selected Categories of Deposits

EC\$m

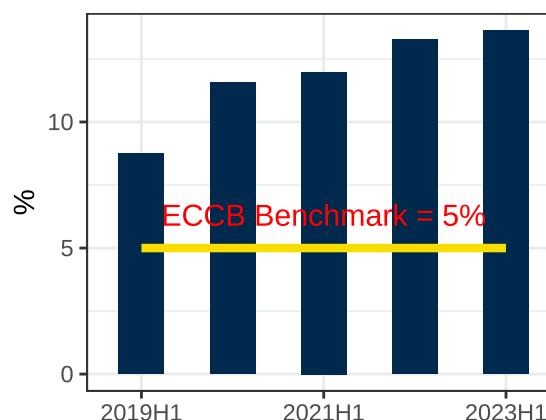


Source: ECCB

The ratio of total loans and advances to deposits grew marginally by 0.8 percentage points to 68.3 per cent over the year ended June 2023, mainly reflecting the increased deposits in the banking system. Figure 9 shows that the non-performing loan (NPL) ratio rose by three percentage points as at June 2023 from the 13.3 per cent recorded at end June 2022.

Figure 9: Non-Performing Loans Ratio

% of Total Loans



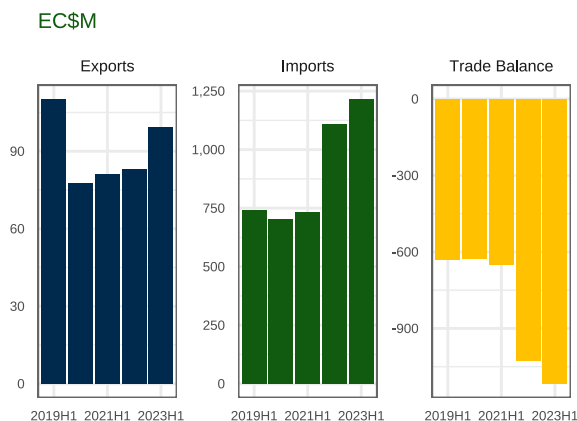
Source: ECCB

External Trade

The trade deficit widened by 9.0 per cent in the first half of 2023 led by the growth in food importation. Moreover, the deficit of \$1,117.0m is the largest balance over the last five years which is due to upward pressures on global prices and the uptick in domestic economic activity supported through imports (Figure 10).



Figure 10: Selected Categories of External Sector



Source: ECCB

Imports grew by 9.9 per cent (\$109.2m) at the end of June 2023, which was slower than the 51.2 per cent (\$374.9m) recorded for the comparative period in 2022. The rise in the import bill was driven by increases in food of 13.6 per cent (\$30.4m) and fuel and related materials of 10.3 per cent (\$30.7m) to support the recovery in the tourism industry and construction sector. Total exports slowed by 2.8 per cent relative to the 4.0 per cent recorded a year prior. Notably, the main commodities exported such as bananas and beverages declined by 40.0 per cent and 0.6 per cent respectively relative to the previous year. The drop in banana production was attributable to ongoing issues such as natural disasters, cost of inputs, diseases, and quality concerns from buy-

ers.

Outlook

Economic activity in Saint Lucia is projected to accelerate over the remainder of 2023 led by robust performance in the tourism industry and an uptick in the construction activity, led by public sector investments.

- Activity in the tourism industry is expected to accelerate owing to ongoing and increased marketing initiatives; uptick in intra-regional airlift; pent-up demand from the North American market and increases in the room stock and other tourism-related attractions on the island.
- The construction sector is expected to expand as the pace accelerates on major public sector projects, including the Hewanorra International Airport, Millennium highway, St Jude Hospital, road works, and port facilities. Further, the recent initiative to reduce the VAT on selected construction materials could boost for private sector construction activity.
- Downside risks include supply chain issues and high freight costs, the prolonged and escalated war in Ukraine, monetary policy tightening by central banks, natural disasters, and volatility in crude oil prices.



Selected Economic Indicators

Saint Lucia: Selected Economic Indicators

Indicators	2019H1	2020H1	2021H1	2022H1	2023H1
Current Revenue (EC\$M)	619.3	483.2	513.8	562.7	686.1
Current Expenditure (EC\$M)	509.7	554.0	615.6	563.7	692.4
Current Balance (EC\$M)	109.5	-70.8	-101.8	-1.0	-6.3
Primary Balance (EC\$M)	118.4	-60.7	-118.9	25.2	5.3
Overall Balance (EC\$M)	33.3	-142.4	-200.6	-59.7	-109.2
Total Public Sector Debt (EC\$M)	3,350.7	3,667.0	4,186.0	4,435.9	4,704.8
Inflation Rate (Y-o-Y)(end of period %)	0.6	-3.0	2.9	6.3	5.4
Total Visitor Arrivals	720,003.0	412,959.0	66,992.0	347,517.0	666,497.0
Total Visitor Expenditure (EC\$M)	1,395.1	581.2	524.6	1,397.9	1,715.2
Net Foreign Assets (EC\$M)	1,048.9	1,125.9	1,304.7	1,368.3	1,885.7
Domestic Credit (EC\$M)	2,903.2	2,971.5	3,081.2	2,941.7	3,129.0
M2 (EC\$M)	3,607.1	3,066.7	3,342.8	3,722.8	4,037.1
Currency in Circulation (EC\$M)	203.7	203.4	217.8	228.7	233.4
Liquid assets to total assets	38.4	38.7	37.7	41.2	45.5
Liquid assets to short-term liabilities	40.5	43.5	42.3	44.6	50.2
Customer deposits to total(noninterbank)loans	116.4	112.5	117.3	130.8	133.0
Weighted Average Deposit Rate (%)	1.4	1.4	1.4	1.1	1.1
Weighted Average Lending Rate (%)	7.6	7.1	6.9	6.6	6.7
Interest Rate Spread (%)	6.2	5.6	5.5	5.4	5.6
Non-Performing Loans to Total Loans (%)	8.7	11.6	12.0	13.3	13.6