ECONOMIC AND FINANCIAL REVIEW

SAINT LUCIA

EASTERN CARIBBEAN CENTRAL BANK
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Saint Lucia

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

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-
Saint Lucia
tocols 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, yatch 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 trans-
port and storage and wholesale and retail trade was esti-
mated to have increased on account of the momentum in
the tourism industry and general economic conditions. In
the agriculture sector, banana production trended down-
ward 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. Notwith-
standing the decline in banana production, the sector
was buoyed by increases in other crop production. The
manufacturing sector continues to show signs of expan-
sion 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 bottle-
necks 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, utili-
ties, gas and fuels prices fell by 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).

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 rep-
resented an 82.8 per cent expansion relative to the com-
parable period of 2022 (Figure 3). The worsening of the
fiscal position was due to increases in all expenditure cat-
egories which outpaced the growth in revenue collections
over the review period.
Saint Lucia

parable 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 4: Total Revenue Composition](image)

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.

![Figure 5: Total Expenditure Composition](image)

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.

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](image)
Saint Lucia

Banking Developments (Mone-
tary)

Domestic claims (credit) rose by 6.4 per cent to $3,129.0m at the end of June 2023 compared to a de-
cline 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 house-
holds 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.

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 expan-
sions 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 ac-
tivity led by tourism growth.

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 per-
centage points as at June 2023 from the 13.3 per cent
recorded at end June 2022.

External Trade

The trade deficit widened by 9.0 per cent in the first half
of 2023 led by the growth in food importation. More-
over, 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).
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 buyers.

**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 Hewanaorra International Airport, Millenium 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.
# Saint Lucia: Selected Economic Indicators

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