

SAINT LUCIA

EASTERN CARIBBEAN CENTRAL BANK

**ANNUAL
ECONOMIC
AND
FINANCIAL
REVIEW
2023**

EASTERN CARIBBEAN CENTRAL BANK



DECEMBER 2023

ECONOMIC AND FINANCIAL REVIEW

SAINT LUCIA

EASTERN CARIBBEAN CENTRAL BANK





©Eastern Caribbean Central Bank

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
Annual Economic and Financial Review - 2023

Eastern Caribbean Central Bank

Contents

Overview	2
The Economy (Real Sector)	3
Consumer Prices	4
Government Operations	4
Debt	5
Banking Developments	5
External Trade	6
Outlook	6
Selected Economic Indicators	8



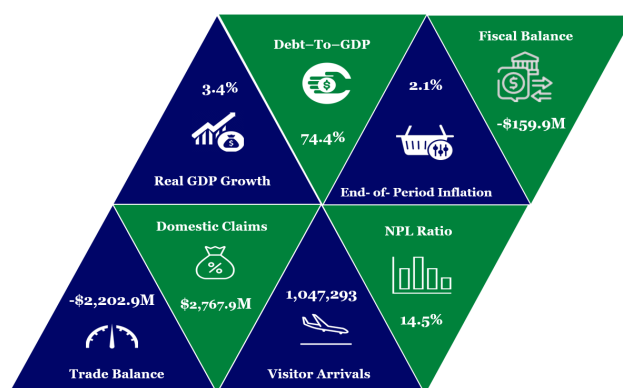
Overview¹

Economic activity in Saint Lucia continued to expand, although at a slower pace than the preceding year.

- The economy expanded by 3.4 per cent in 2023, slower than the 18.2 per cent recorded in 2022. Growth was underpinned by expansions in several economic sectors including tourism, transportation and storage, wholesale and retail trade, and manufacturing
- Inflationary pressures tapered in 2023 owing to the reduction of international fuel and food prices and further easing of supply chain challenges. Mounting expenditure resulted in a deterioration in the fiscal balance by 14.5 per cent, reversing the downward trend for the past two years
- The economy is projected to maintain a growth path over the medium-term as traction picks up

on several public and private multi-year construction projects and continued recovery efforts in the tourism, manufacturing and agriculture sectors

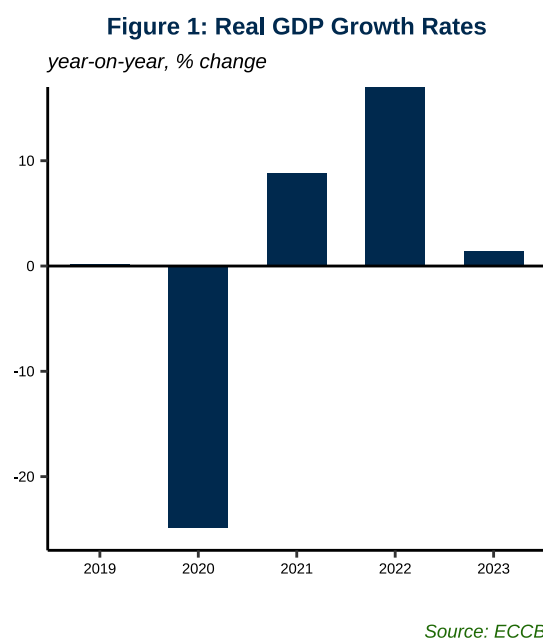
- Notwithstanding, the economy faces downside risks from prolonged geopolitical conflicts, commodity price volatility and climate-related shocks



¹Photo Credit: Saint Lucia Tourism Authority

The Economy (Real Sector)

Saint Lucia's economy recorded growth of 3.4 per cent in 2023 although growth was at a slower rate than in 2022 (see Figure 1). Consequently, in real terms the economy was 1.4 per cent larger than its 2019 level. Following the pandemic, growth was fueled by the global economic recovery which revived the country's tourism sector and provided positive spinoffs to related sectors. Maintaining this growth path over the medium term may require greater focus on home-grown initiatives underpinned by a more balanced approach to development.

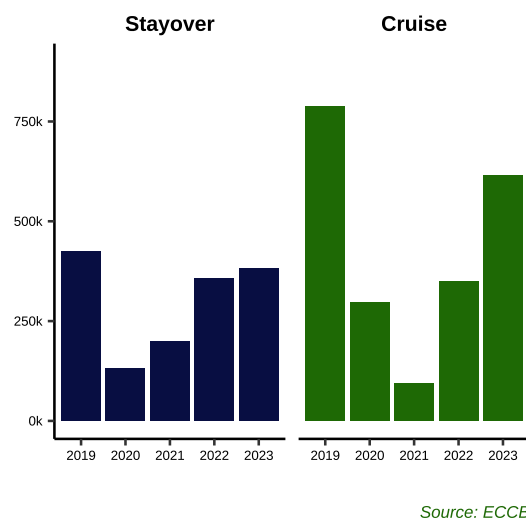


Growth continued in stay-over arrivals but at a slower pace when compared to 2022; however pre-pandemic level remained unattained (see Figure 2). Stay over arrivals expanded by 6.9 per cent when compared to 2022. Notwithstanding the increase in stay-over arrivals from most source markets, visitors from two key markets, which were the USA and the UK, fell by 4,463 and 4,297 visitors, respectively.

Positive strides continued in Caribbean arrivals. Regional visitors stood at 46,062 in 2023 over the 30,908

visitors recorded in 2022. Despite this trend, headwinds relating to the cost of intra-regional travel and fewer airlift options pose significant threats to the recovery efforts. Notably, the cruise and yacht sectors have not yet recovered fully from the pandemic. As a percentage of 2019 figures, cruise and yacht passengers have recovered 78.2 per cent and 60.6 per cent respectively.

Figure 2: Visitor Arrivals in Selected Categories



Overall, activity in the tourism industry contracted in 2023 despite an increase in visitors. Value added in the accommodation and food service activities sector declined by 0.2 per cent in 2023. To help with the recovery efforts, several ongoing and announced tourism construction projects to improve the number of accommodations are slated over the medium term. However, exogenous factors and trends in global tourism such as fuel disruptions affecting cost of travel, competition, and changing habits are major hindrances.

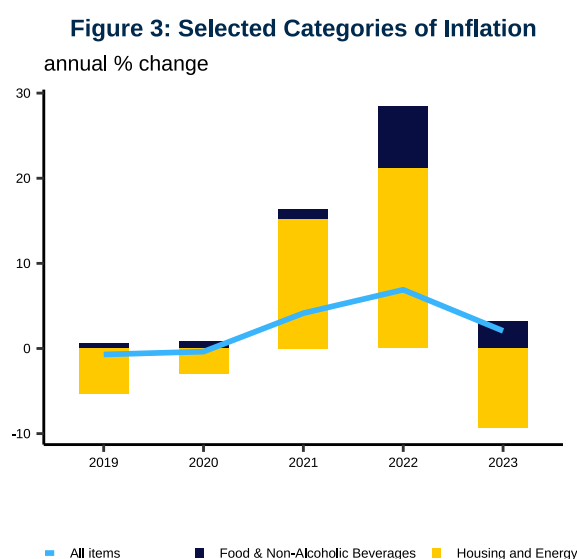
Other key sectors helped to sustain the economy. Value added in the transportation and storage and wholesale and retail trade sectors grew by 10.5 per cent and 5.7 per cent, respectively, underpinned by increased visitor arrivals. The manufacturing sector rose by 5.0 per cent reflecting higher production of beverages, and miscellaneous manufactured articles. Value

²Legislation to waive 12.5 per cent VAT on selected construction materials was approved in Saint Lucia's parliament. The measure is expected to apply on materials between 2 August 2023 to 1 August 2025

added in the construction sector² expanded by 3.0 per cent as a policy decision to remove VAT from selected construction materials resulted in an uptick in private construction. On the other hand, value added in the agriculture, forestry and fishing sector declined by 34.3 per cent in 2023 owing to widespread crop damage from natural disasters³, storage limitations, high input prices and diseases

Consumer Prices

The annual inflation rate decelerated to 2.1 per cent in 2023 as international price pressures eased (see Figure 3). Of note, the fuel sub-index, which surged in 2021 and 2022, have finally aligned with the trend of international prices narrowing to 9.4 per cent in 2023 from 21.1 per cent in 2022. Food sub-index fell to 3.2 per cent, half of the level recorded in 2022 as global food prices fell amidst easing of supply-side disruptions. Conversely, the annual inflation rate for restaurants and hotels jumped sharply to 8.3 per cent in 2023 relative to 0.7 per cent in 2022 owing mainly to the strong demand for travel.



Government Operations

The overall balance widened as expenditure growth outpaced the growth in revenue (see Table 1). The overall deficit widened by 9.9 per cent to reach \$159.9m in 2023, which represented 2.4 per cent of GDP. The widening of the overall deficit was fueled by expansions in transfers and subsidies and interest payments. The primary balance reflected a surplus of \$50.9m (0.8 per cent of GDP) in 2023, an improvement of \$16.8m over the \$34.1m recorded in 2022.

Table 1: Central Government Fiscal Operations (EC\$M)

Item	2019	2020	2021	2022	2023
Current Revenue	1,150.5	913.6	1,085.3	1,152.9	1,310.9
Tax Revenue	1,063.6	852.0	989.5	1,039.3	1,212.1
Non-Tax Revenue	87.0	61.7	95.8	113.6	98.8
Current Expenditure	1,116.0	1,142.0	1,174.6	1,190.1	1,303.6
Current Account Balance (after Grants)	34.6	-228.4	-89.3	-37.2	7.2
Capital Revenue	0.1	1.9	3.8	0.2	0.2
Grants	38.4	48.2	65.3	67.4	42.1
Capital Expenditure and Net Lending	201.3	234.1	258.2	175.9	209.6
Primary Balance (after Grants)	42.5	-249.2	-110.7	34.1	50.9
Overall Balance (after Grants)	-128.3	-412.4	-278.5	-145.5	-159.9
Financing	128.3	412.4	278.5	145.5	159.9

Note:

Sources: ECCB and National Statistics Office

Revenue growth remained strong amidst mounting pressures on government finances and has surpassed 2019 pre-pandemic level by 13.9 per cent. Current revenue increased by 13.7 per cent to \$1,310.9m (19.9 per cent of GDP); a further expansion over the growth of 6.2 per cent in 2022. The uptick in revenue performance was captured mainly in VAT on domestic goods and services that grew by 7.2 per cent to \$381.7m in 2023 compared to \$356.2m in 2022. Moreover, a 59.2 per cent expansion in corporate income tax in 2023 is evidence of the ongoing resurgence of business activity in the country. On the other hand, non-tax revenue contracted in 2023 by 13.1 per cent or

³Tropical Storm Bret destroyed over 75.0 per cent of Saint Lucia's banana and plantain crops on 22 June 2023

\$14.8m to \$98.8m, mainly resulting from a drop-off of \$26.8m in revenues remitted to the central government from the CIP Board.

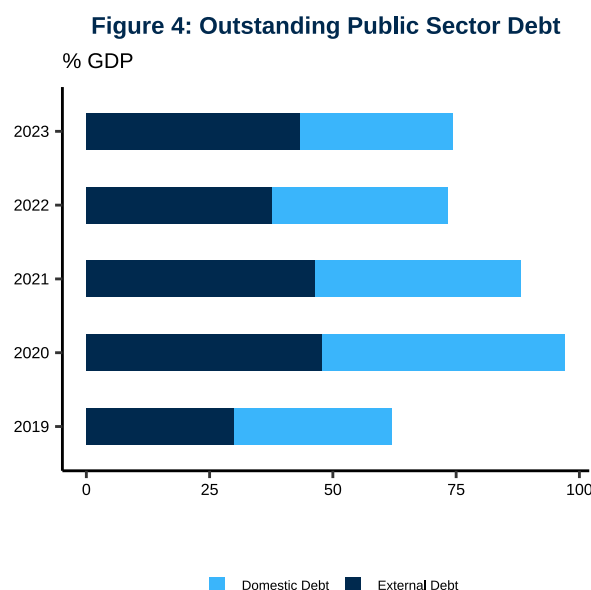
Transfers and interest payments fueled the growth in expenditure for the Government of Saint Lucia. Transfer payments expanded by 22.1 per cent or by \$65.6m to reach \$362.9m at the end of 2023. Of note, the government's widespread approach to providing financial relief to citizens resulted in a \$50.1m (26.0 per cent) growth in other transfers. Additionally, pension payments grew by 14.8 per cent as a result of the government's decision to disburse a one-time payment of \$600.00 to over 3,000 government pensioners. Meanwhile, several public construction projects such as the Hewanorra International Airport control tower, St Jude's Hospital and various road works resulted in a 16.2 per cent increase to \$209.6m in capital expenditure at the end of 2023. Notwithstanding the increase in expenditure, the current account improved to \$7.2m (0.1 per cent of GDP) in 2023, compared to a deficit of \$37.2m (-0.6 per cent of GDP) in 2022. On the capital account, capital grants fell by \$25.7m while capital expenditure rose by \$33.7m due to ongoing projects.

Despite the growing economy, government's finances have been supported by borrowing for budget financing. Over the medium-term, the government may consider more targeted social assistance programmes along with other cost-cutting measures to improve the fiscal situation.

Debt

Saint Lucia's debt stock expanded, although and the debt ratio rose marginally owing to the growing economy (see Figure 4). Total public sector debt⁴ expanded by 6.9 per cent to reach \$4,888.4m at the end of December 2023 when compared to \$4,572.9m in 2022. Total public sector debt as a

share of GDP rose slightly by 1.0 percentage point to 74.4 per cent. Of this total, central government activity led the expansion. Central government external debt grew by \$500.2m, while the overall expansion was slowed by a \$189.7m reduction in domestic debt owing to amortization. Of note, the authorities contracted roughly \$383.8m in external debt for budget support with a loan of \$275.8m (US\$102.1m) and the issuance of a \$108.0m (USD\$40.0) bond, from two bilateral creditors. Several new loans and disbursements for various projects and policy initiatives contributed further to the growth in external debt.



Source: ECCB

Despite the growing economy, government's finances have been supported by borrowing for budget financing. Over the medium-term, the government may consider more targeted social assistance programmes along with other cost-cutting measures to improve the fiscal situation.

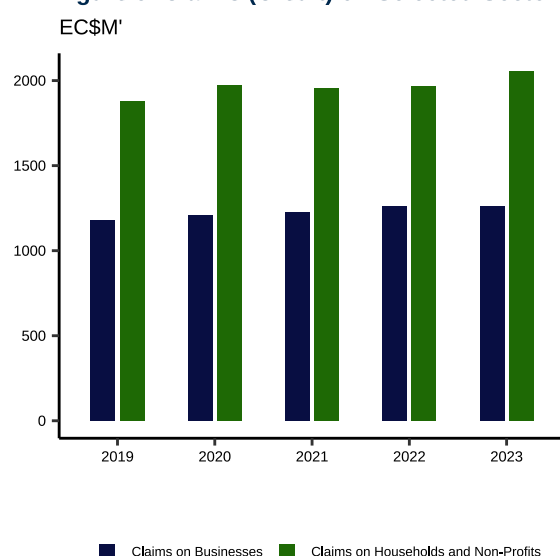
Banking Developments

Domestic claims (credit) tightened by 6.5 per cent (\$193.5m) to \$2,767.9m, as claims on gov-

⁴Debt figures adjusted to include Short Term liabilities (i.e. Accounts Payables and Overdrafts) based on international best practice

ernment declined (see Figure 5). Nevertheless, improved economic conditions in 2023 resulted in growth in private sector claims of 2.7 per cent as credit to households and businesses grew by 4.5 per cent (\$89.1m) and 0.2 per cent (\$2.8m) respectively. The net claims on general government declined by 88.9 per cent to \$282.9m as the expansion in deposits by the public sector rose by 14.3 per cent or \$127.5m. Credit to this sector contracted by 27.2 per cent in 2023 reversing the expansion of 22.0 per cent growth in 2022.

Figure 5: Claims (Credit) on Selected Sectors



Source: ECCB

Bank deposits surged by 11.0 per cent year-on-year driven by an increase in overall economic activity. This represented a 7.0 percentage point increase over the previous period. The five-year annual moving average for the period 2019 to 2023 was 14.1 per cent compared to the 6.9 per cent recorded for the period 2018 to 2022. Of note, transferrable deposits posted the largest increase of 11.7 per cent (\$150.0m) during 2023. There were also expansions in other EC deposits (7.4 per cent, \$132.8m) and foreign currency deposits (27.0 per cent).

The non-performing loan (NPL) remained elevated above the ECCU's benchmark of 5.0 per

cent but remains stable. The ratio rose marginally by three basis points to reach 14.5 per cent from the 14.2 per cent recorded in 2022.

External Trade

The trade deficit widened (\$163.3m) for the period 2023/2022 albeit at a slower pace relative to the period 2022/2021 (\$572.5m). The visible trade deficit widened to \$2,202.6m (33.5 per cent of GDP) in 2023, from \$2,039.8m (32.7 per cent of GDP) in 2022. The widening of the deficit reflected an expansion in import receipts (\$164.9m) to \$2,417.9m due to the simultaneous effects of a higher volume of tourism related imports, greater local demand for foreign goods, and import of used cars. Export receipts also rose by 0.7 per cent to \$215.0m driven by miscellaneous manufactured articles. Banana production, a major exporting good of the country, was down by 2,835.8 tonnes (55.4 per cent) in 2023 as the crop suffered widespread damage of about a 75.0 per cent during the passage of Tropical Storm Bret.

Outlook

The economy of Saint Lucia is showing signs of slowing down after two years of double-digit growth. Nonetheless, the economy is expected to achieve growth over the medium-term buoyed by continued recovery in the tourism industry and multi-year public and private construction projects. Additionally, the upward trend in VAT and corporate income tax receipts are evidence of the resurgence of business activity, which bodes well for economic growth in the country. Despite this optimism, the authorities may explore options for managing its debt which has been due partly to fiscal shortfalls.

Internationally, commodity price volatility stemming mainly from geopolitical disruptions may pose headwinds for economic growth and the tourism industry.

- Tax revenue is expected to continue its upward trajectory in keeping with the expansion in economic activity. Its impact on the fiscal balance would however depend on the authorities' ability to curtail spending as expenditure is projected to outpace revenue receipts over the medium term.
- The deceleration in the price levels after a two-year high is expected to provide much relief to households. Despite this, international trade disruptions such as attacks on cargo ships in the Red Sea and the possibility of an escalation of geopolitical conflicts can result in a surge in prices.
- The trade deficit is expected to widen as the value and volume of imports increase to support the tourism industry and the overall resurgence of the economy continues.
- Construction is likely to play a major role in the economic expansion as the government gears up for a major thrust in several capital projects following the resolution of legal and logistical concerns. Moreover, household residential and tourism-related construction projects are expected to intensify to meet growing demand.
- Sustained growth in the country will also depend on the authorities' collaboration with the private sector to facilitate economic diversification. These include greater support and investment by the private sector in the manufacturing and agriculture sectors which may provide support to the tourism and construction sectors.

Selected Economic Indicators

Item	2019	2020	2021	2022	2023
National Income and Prices (Annual % change)					
Nominal Gross Domestic Product (GDP) at Market Prices ¹	1.5	-28.4	22.5	25.8	5.5
Real GDP at Market prices ¹	-0.7	-24.6	10.0	18.2	3.4
Consumer Prices (end of period)	-0.7	-0.4	4.2	6.9	2.1
Consumer Prices (period average)	0.5	-1.8	2.4	6.4	4.1
Real Gross Value Added (GVA) at basic prices (%)					
Agriculture, forestry and fishing	5.5	-13.3	9.1	4.5	-34.3
Manufacturing	0.6	-0.4	4.0	4.0	5.0
Construction	2.7	9.5	12.5	-0.4	3.0
Wholesale and retail trade; repair of motor vehicles and motorcycles	-8.4	-14.2	-2.8	-0.4	5.7
Transportation and storage	4.9	-43.2	12.2	36.8	10.5
Accommodation and food service activities	0.5	-68.0	63.6	76.4	-0.2
Financial and insurance activities	4.5	-9.7	0.4	-3.1	1.2
Real estate activities	-1.1	2.8	0.7	1.0	1.0
Public administration and defence; compulsory social security	2.8	3.6	2.1	1.9	1.0
Total Public Sector Debt (% GDP)					
Total Public Sector Debt	61.9	97.1	88.1	73.4	74.4
Public Sector External Debt (end-of-period)	30.0	47.9	46.3	37.8	42.2
Central Government Finances (in XCD millions)					
Current Account Balance	34.6	-228.4	-89.3	-37.2	7.2
Current Revenue	1,150.5	913.6	1,085.3	1,152.9	1,310.9
Current Expenditure	1,116.0	1,142.0	1,174.6	1,190.1	1,303.6
Capital Expenditure and Net Lending	201.3	234.1	258.2	175.9	209.6
Overall Fiscal Balance	-128.3	-412.4	-278.5	-145.5	-159.9
Monetary Sector (% p.a.)					
Weighted Deposit Interest Rates	1.4	1.4	1.1	1.1	1.1
Weighted Lending Interest Rates	7.6	7.0	6.5	6.7	6.5
Non-Performing Loans Ratio (%)	8.2	11.3	13.8	14.2	14.5
Memorandum items (in XCD millions, unless otherwise stated)					
Nominal GDP at Market Prices	5,648.6	4,044.1	4,953.9	6,231.3	6,572.4
Real GDP at Market Prices	5,528.2	4,169.0	4,585.8	5,419.6	5,605.8
GDP per capita (EC\$)	27,256.7	18,980.6	23,660.2	29,831.4	30,862.8
Merchandise Imports (f.o.b)	1,615.5	1,362.1	1,625.2	2,253.0	2,417.9
Merchandise Exports (f.o.b)	221.6	149.1	158.2	213.4	215.0
Gross Visitor Expenditure	2,696.1	858.3	1,522.5	2,951.9	3,116.1
Net Foreign Assets	951.8	1,070.5	1,474.5	1,588.0	2,421.2
Domestic Credit	2,942.4	3,068.1	2,977.9	2,960.9	2,767.9
Money Supply (M2)	3,576.2	3,122.4	3,586.5	3,731.9	4,143.8
Currency in Circulation	242.1	234.3	251.0	254.8	265.6

Note:

Data as at 23 February 2024

¹ Sources: Central Statistics Office and Eastern Caribbean Central Bank (ECCB)

2023

Find more ECCB publications by visiting
www.eccb-centralbank.org/research-and-publications

EASTERN CARIBBEAN
CENTRAL BANK

