SAINT LUCIA

ECONOMIC AND FINANCIAL REVIEW

June 2024

Eastern Caribbean Central Bank

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EASTERN CARIBBEAN CENTRAL BANK

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Total visitor arrivals grew by **7.8** per cent to **718,619** at the end of June 2024. This represented **99.8** per cent of 2019 levels.

Consumer prices fell by **0.7** per cent in June 2024 compared to **4.3** per cent in June 2023.

Total public sector debt expanded to **$5.1b** at the end of June 2024 compared to **$4.7b** recorded at the end of June 2023

The overall fiscal position recorded a surplus of **$65.1m** relative to a deficit of **$41.2m** for the same period in 2023.

The nonperforming loans ratio fell by **2.1** percentage points to **11.6** per cent at the end of June 2024.

The trade deficit widened by **7.0** per cent led by the importation of machinery and transport equipment in preparation for expansive construction activity.

"Prospects for the economy are generally positive, driven by strong growth in tourism and construction."

Overview

- Economic growth in the first half of 2024 (H1-2024) was driven by construction activity, including significant public sector projects and private tourism-related developments.

- Government finances improved during the first half of 2024, although public debt continued to increase.

- The financial system remained sound, albeit marked by a high nonperforming loans ratio.

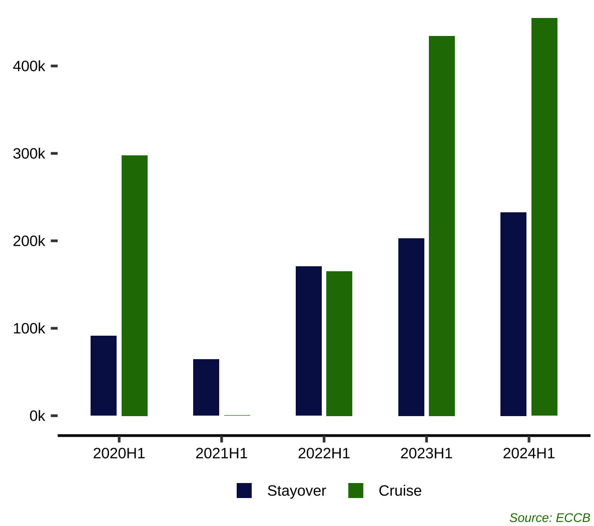
- Economic activity in Saint Lucia is expected to remain strong for 2024 supported by domestic and global developments. Notwithstanding this, geopolitical risks can affect price stability, while crime and fiscal sustainability can impede growth prospects.

The Economy (Real Sector)

Buoyant activity in the main sectors contributed to economic expansion for the first half of 2024. The combination of national and international investments led to notable expansion in tourism related activities relating to airlifts and cruise ship passenger arrivals. In construction, several private sector projects continued at pace with new developments starting since the year began. Construction activity was further supported by government's continued work on several key infrastructural projects. Strong development in these sectors spurred increased activity in other secondary sectors. Of note, half-year data showed traction in the transport and storage sectors evidenced by an increase in imports to support ongoing and planned construction activities. Moreover, wholesale and retail trade was estimated to have increased because of the momentum in the tourism industry and general economic conditions. These developments led to a decrease in unemployment and an improvement in government revenue from income, profit, and consumption-related taxes.

Tourism activity remained strong and was the driving force of the economic expansion. Total visitor arrivals and stay over arrivals rose by 7.8 and 14.6 per cent respectively for the first half of 2024 (Figure 1). The US market led the expansion, which outperformed comparable periods in 2023 and 2019. This activity was influenced by a combination of country efforts in the form of larger and more targeted marketing strategies and increased commitment from North American Airlines. In particular, American Airlines expanded aircraft capacities and the number of flights into Saint Lucia, and other airlines such as JetBlue, Delta and Virgin Atlantic that took similar actions.

Figure 1: Visitor Arrivals in Selected Categories



There was a similar expansion in intra-regional travel (up by 26.7 per cent in H1-2024), supported by enhanced regional air connectivity. Of note, the combination of increased flights from Caribbean Airlines and the resumption of services from Air Adelphi were key to the movement of visitors into the country. Particularly, the wide-scale marketing and hosting of the Saint Lucia Jazz & Arts Festival flagship event played a significant role in the jump in regional visitors in April/May of this year. Notwithstanding these developments, further work is needed on improving regional maritime travel, which has not recovered since the pandemic.

The authorities took deliberate steps to attract maritime visitors during the slower part of the cruise season. Saint Lucia welcomed 61 more cruise ships for the first half of 2024 relative to the same period in 2023. Of which, seven vessels berthed at Port Castries in June 2024 relative to zero in June 2023 as the country benefited from the marketing reach of Global Ports Holdings Plc. The international ports developer took over cruise management services at Port Castries in May 2024. These developments, in part, resulted in a 4.7 per cent increase to 454,594 cruise ship passengers compared with 434,343 passengers over the referenced period. Yacht passengers declined by 0.6 per cent as recovery in this sub-sector has been steady but remains below pre-pandemic levels by 34.7 per cent (12,974 passengers).

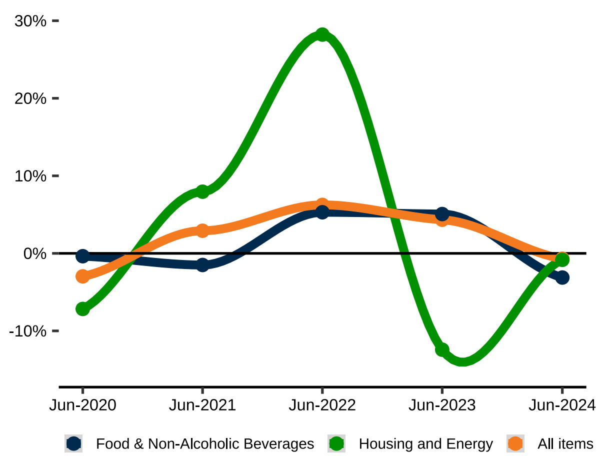
The tourism industry is on an upward path with several opportunities to support its further expansion for the remainder of 2024. Of note, airlift is expected to grow supported by additional seats and increased flights from North American airlines. Regional travel will be supported by new entrants and additional routes from existing airlines. Other notable events for the remainder of 2024 includes the upcoming Carnival Season, which will be boosted by increased up marketing. The projection for global growth at a modest pace and the expected deceleration in the global inflation bode well to support Saint Lucia's tourism activity.

Consumer Prices

The rate of domestic price increases slowed; however, geopolitical developments loom and pose a significant threat to price stability. The rate of inflation decelerated to -0.7 per cent for the first six months of 2024 from the 4.3 per cent captured for the same period a year ago (Figure 2). The general easing of domestic prices is consistent with the global downward trend in global inflation and oil prices owing to relaxing of supply chain bottlenecks. As such, the Food and Non-Alcoholic Beverages sub index slowed further to -3.1 per cent at the end of June 2024 compared with 5.1 per cent recorded for the same period last year. The Housing, Utilities, Gas and Fuels prices fell to -0.8 per cent at the end of June 2024 as oil prices remain relatively stable for the year to date. Despite the slowdown of domestic price increases, any escalation in geopolitical risks can have a significant impact on the supply chain and can affect current domestic price stability.

Figure 2: Selected Categories of Inflation

end-period, y-o-y



Source: ECCB

Government Operations

Several steps taken by the government resulted in a $31.4m reduction in current expenditure (Table 1). Outlays on personal emoluments were down by 8.1 per cent in June 2024 exclusively due to government's decision to pay $11.7m in retroactive pay to civil servants in 2023. Additional steps taken by the government included reducing its carbon footprint by commencing a LED Street Lighting project, which contributed to a decline in expenditure on utilities by $5.2m. Further, payments for property rental increased by $7.3m and coincides with a $7.7m reduction in the insurance bill signaling government's shift to rental versus ownership. In contrast, interest payments expanded to $115.2m for the period ending June 2024, which was an increase of $9.3m compared to the same period a year ago. The expansion represented a 9.4 per cent growth over the past year, owing to large disbursements mainly for budget support and capital projects. Capital expenditure rose by 8.5 per cent given the thrust by the government in building out the public infrastructure.

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

Item	2020H1	2021H1	2022H1	2023H1	2024H1
Current Revenue	499.4	469.8	562.7	701.5	**795.0**
Tax Revenue	444.8	434.5	518.7	637.1	**715.4**
Non-Tax Revenue	54.6	35.4	44.0	64.4	**79.6**
Current Expenditure	556.7	610.3	563.5	657.4	**626.0**
Current Account Balance (after Grants)	-57.3	-140.5	-0.8	44.0	**169.0**
Capital Revenue	0.2	0.1	0.1	0.2	**0.0**
Grants	10.2	39.0	28.5	28.2	**19.3**
Capital Expenditure and Net Lending	100.6	156.1	87.3	113.6	**123.2**
Primary Balance (after Grants)	-65.7	-174.8	25.4	64.7	**180.3**
Overall Balance (after Grants)	-147.4	-257.4	-59.5	-41.2	**65.1**

* Sources: ECCB and National Statistics Office

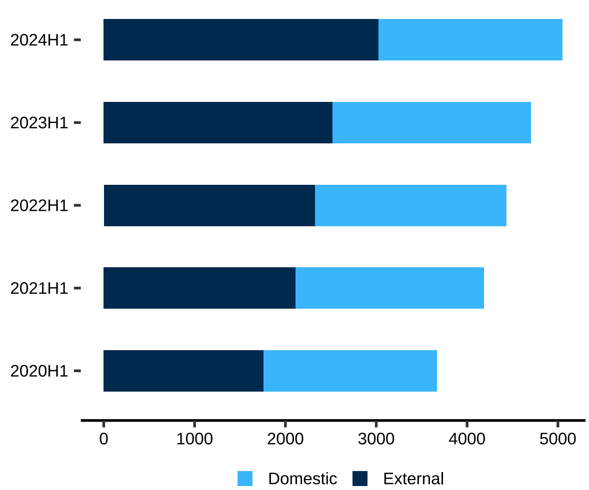
Improvements in economic activity supported strong revenue collection. Current revenue rose by 13.3 per cent to $795.0m because of growth across all tax categories except taxes on international activity. Tax revenue increased by 12.3 per cent to $715.4m with notable performances in various revenue heads including taxes on domestic goods and services ($62.3m), income, profit and capital gains ($17.1m). Of this $17.1m, was collected from corporate income tax and is indicative of positive business sentiments allowing for greater investment in the economy. Pertaining to taxes on goods and services, VAT collections rose by 10.9 per cent ($22.0m) due to increased consumer spending and partially resulted from higher price levels. Non-tax revenue expanded by 23.6 per cent or by $15.2m to $79.6m at the end of June 2024, which was mainly collected from Citizenship by Investment proceeds.

Debt

Debt accumulation may pose debt sustainability concerns as detailed in Box 1. The total disbursed outstanding public sector debt expanded to $5.1b at the end of June 2024, which represented a 7.4 per cent increase compared to $4.7b recorded at the end of June 2023 (Figure 3). The Government of Saint Lucia's external debt portfolio grew by $507.0m. External debt contracted were mainly used for budget support given the limited fiscal space and major capital projects. The amortization of $160.2m on the domestic side slowed the expansion in total debt stock.

Figure 3: Outstanding Public Sector Debt (EC$M)

Stock, end-period



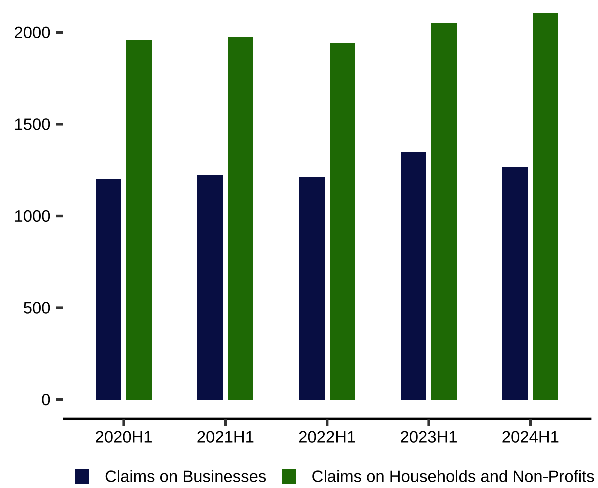
Source: ECCB

Banking Developments

Credit extension was down for the first half of 2024 despite the uptick in economic activity. Domestic claims (credit) declined by 11.9 per cent as government reduced its commitment on domestic facilities including the overdraft instrument and relied heavily on external financing. Overall claims on the private sector contracted, business lending declined (5.9 per cent) owing to strong revenue performances and less reliance on banks' credit as highlighted in Figure 4. Borrowing from households grew and was supported by several policy initiatives by the central government relating to construction, including the reduction of VAT on selected construction materials. Additionally, increased marketing by banks for other consumer loans including vehicle facilities further expanded credit growth to households. Net claims on general government narrowed by $366.9m as the expansion in public sector deposits ($196.6m) grew relative to the reduction of -$170.3m in credit.

Figure 4: Claims (Credit) on Selected Sectors (EC$M)

Stock end-period



Source: ECCB

Deposits in the Saint Lucia banking system increased by 12.7 per cent due to strong foreign currency receipts. The expansion was led by a 43.7 per cent rise in foreign currency deposits, which was mainly attributable to the booming tourism sector. Transferrable deposits grew by 7.6 per cent ($106.5m) for the first half of 2024.There were also expansions in Other EC denominated deposits (7.6 per cent).

Credit quality improved in the Saint Lucia banking sector. The nonperforming loans to gross loans ratio dipped by 2.1 percentage points as a result of a $77.5m decline in the stock of nonperforming loans.

External Trade

The trade deficit widened by 7.0 per cent led by the importation of machinery and transport equipment as the country prepares for expan-

sive construction activity. Projects including ongoing works on St Jude's Hospital, Hewanorra International Airport, and Road rehabilitation projects are key undertakings by the government. Private sector construction, which are centered mainly on tourism, related projects are moving ahead at pace. Minerals, fuel, lubricants and related materials expanded by 5.8 per cent to support growing economic activity.

Export activity improved by 17.7 per cent, notably from improved performances in the manufacturing sector while the agriculture sector faced several challenges. The expansion was led by marked increases in the export of mineral fuels, lubricants and related materials by $14.4m and miscellaneous manufactured articles by $10.5m. In agriculture, banana exports were down for the second consecutive year by -1.8 per cent in 2024 and -28.9 per cent in 2023. The decline in banana production was attributable to ongoing issues such as increased regional competition, climate risks (storms/droughts), cost of inputs, diseases, and quality concerns from buyers. Nonetheless, there are several opportunities for regional expansion into territories such as Antigua and Barbuda, Saint Christopher (St. Kitts) and Nevis and Barbados given the recent uptick in imports from these countries. External sector developments are further supported by the expansion in visitor expenditure which grew by 43.1 per cent over the past four years.

Outlook

Economic activity in Saint Lucia expanded in 2024 and the outlook for the remainder of the year is positive, yet balanced. Although, economic activity will be led by increased tourism activity and construction, positive spill-offs to secondary sectors will or may support growth prospects.

- **Several opportunities lay ahead to enable expansion in the tourism industry.** Of note, the industry is expected to benefit from increased commitment from North American Airlines in the form of new routes, increased airlift and aircraft size. Infrastructural developments, the recent signing with Global Ports Holdings Plc, which included the development of Saint Lucia's cruise ports and increase marketing by the international ports developer, can contribute to a notable increase in cruise passenger arrivals. Other investments in hotels will see an expansion in the room stock on the island. Additionally, growth will be supported by global developments including the slowdown of inflation and projected economic expansion in major source markets.

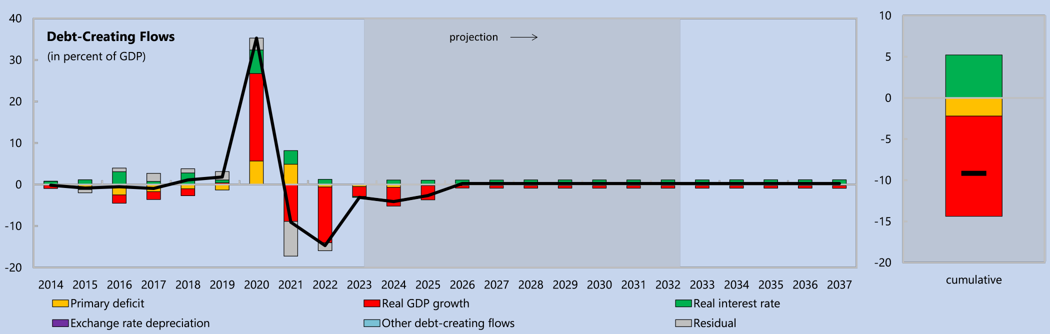
- **The construction industry is expected to contribute to the growth agenda.** The government signed three Build Own Lease Transfer (BOLT) agreements, which are expected to assist in the construction of key infrastructure projects. Legal and financing hurdles are being rectified for major public sector projects, including the Hewanorra International Airport, Millennium Highway, St Jude's Hospital, road works, and port facilities. Further, recent policy initiatives to leverage the CBI programme to build affordable houses and earmarking funds for private construction are also expected to contribute to the sector's performance.

- **Notwithstanding growth prospects, Saint Lucia must navigate several international and domestic challenges.** The geopolitical risk emanating from ongoing conflicts poses the biggest threat to the supply chain and price stability (crude oil prices), which can affect domestic prices. In the domestic economy, the country has to weather the surge in crime, which can impact economic activity and affect investor confidence. The issue of fiscal sustainability must also be addressed. Climate shocks are also a major risk and the country will need to continue to build climate resilience, which can include enhancing the disaster financing options. Relating to public sector construction projects, issues relating to implementation should be addressed.

Box 1: Abstract from Debt Sustainability Analysis for Saint Lucia

This summary presents preliminary findings from an initial debt sustainability analysis conducted for Saint Lucia using the Debt Dynamics Tool (DDT). Developed by the International Monetary Fund, this tool enables the projection of potential trajectories for the public debt stock over time under both baseline and alternative scenarios. It considers the main factors that may affect debt dynamics (such as primary deficit, real GDP growth and real interest rates). Additionally, it facilitates the estimation of fiscal adjustment paths that are aligned with a predetermined target level of debt.

The debt analysis projected the public sector debt ratio over a 10-year period and estimated the path of fiscal adjustments necessary to reach ECCU debt target of 60 per cent of GDP by 2035. The analysis indicated that strong economic growth is essential for improving Saint Lucia's debt sustainability. The findings show that between 2014 and 2020, economic growth contributed to a 2.2 percentage point reduction in debt on average. In 2021, growth contributed 8.9 percentage points and 13.4 percentage points in 2022. In 2020, debt levels rose as a result of counter-cyclical spending measures implemented in response to the COVID-19 pandemic. The ratio has trended downward to 74.5 per cent at the end of 2023 owing to the economic growth effect.



Achieving debt sustainability would be hinged on improving growth performance and bolstering the country's response to economic shocks. The debt sustainability analysis showed that under the baseline, the public debt-to-GDP ratio is expected to remain above the ECCU's 60 per cent 2035 debt target. To attain the debt anchor, an annual primary balance-to-GDP adjustment of 0.5 per cent would be necessary. Achieving the benchmark may however be challenged by external shocks to GDP growth including natural disaster risks which were modelled under an alternative scenario. In light of growing global risks, urgent steps are required to ensure future debt sustainability.

Selected Economic Indicators

Item	2020H1	2021H1	2022H1	2023H1	2024H1
Banking and Monetary					
Net Foreign Assets (EC$M)	1,125.9	1,304.7	1,368.3	1,939.7	2,905.6
Domestic Credit (EC$M)	2,971.5	3,081.2	2,941.7	3,075.0	2,708.5
M2(EC$M)	3,066.7	3,342.8	3,722.8	4,037.1	4,548.6
Currency in Circulation (EC$M)	203.4	217.8	228.7	233.4	242.0
Liquid assets to total assets	38.7	37.7	41.2	45.5	50.3
Liquid assets to short-term liabilities	43.5	42.3	44.6	50.2	52.9
Customer deposits to total (noninterbank)loans	112.5	117.3	130.8	133.0	151.0
Weighted Average Deposit Rate (%)	1.4	1.4	1.1	1.1	1.1
Weighted Average Lending Rate (%)	7.1	6.9	6.6	6.7	6.5
Interest Rate Spread (%)	5.6	5.5	5.4	5.6	5.4
Non-Performing Loans to Total Loans (%)	10.8	11.0	12.0	13.6	11.6
Real Sector and Prices					
Inflation Rate (year-on-year)(end-June) (%)	−3.0	2.9	6.3	4.3	−0.7
Inflation Rate (half-year) (%)	−2.1	1.1	3.2	0.7	−1.7
Total Visitor Arrivals	412,959	66,992	347,517	666,497	718,619
Total Visitor Expenditure (EC$M)	581.2	524.6	1,397.9	1,600.8	1,617.7
Government Finances					
Current Revenue (EC$M)	499.4	469.8	562.7	701.5	795.0
Current Expenditure (EC$M)	556.7	610.3	563.5	657.4	626.0
Current Balance (EC$M)	−57.3	−140.5	−0.8	44.0	169.0
Primary Balance (EC$M)	−65.7	−174.8	25.4	64.7	180.3
Overall Balance (EC$M)	−147.4	−257.4	−59.5	−41.2	65.1
Total Public Sector Debt (EC$M)	3,667.0	4,186.0	4,435.9	4,704.2	5,051.1

Data as at August 2024

2024

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