Economic and Financial Review

HALF-YEAR REVIEW

SAINT LUCIA

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1 Overview

Preliminary economic indicators reveal that the economy of Saint Lucia expanded in the first half of 2022. ¹

- The expansion was led by strong growth in tourism supplemented by higher output in the agriculture and manufacturing sectors.
- This momentum is expected to continue during the second half of the year. However, there are several headwinds stemming from geopolitical conflicts, slowing global growth, commodity price volatility and climate-related shocks.

2 The Economy (Real Sector)

The Saint Lucian economy continued to recover from the COVID-19 induced economic losses. Recovery was driven by tourism activity, with support from the agriculture and manufacturing sectors.

Following the worst contraction in the last two decades attributed to the COVID-19 pandemic, tourist arrivals showed signs of recovery in 2022. A total of 344,345 visitors graced the shores of Saint Lucia at the end of June 2022 compared with 66,992 at the end of June 2021 as border restrictions and lockdowns ended. All categories of visitors increased with stay-over arrivals reporting the strongest rebound (Figure 2). Stay-over arrivals rose by 159.4 per cent to 167,277 year-on-year, associated with growth from all major source markets.

¹The review period for this report is the first 6 months of 2022, and is abbreviated 2022H1 in this report.
In particular, arrivals from the US surpassed the level obtained in 2018 and fell short of 2019 by just 5.0 per cent as seen in Figure 3. Cruise ship passengers rose to 165,266 from 414 in 2021, and those who visited on yachts rose to 8,360 from 547 in 2021 (Figure 2).

Figure 2: Visitor Arrivals to Saint Lucia by Category

Stay–over arrivals rose year–on–year, associated with growth in all source markets

Source: ECCB

Figure 3: Stayover Arrivals by Source Market

Source: ECCB
2.1 Labour Market

The expansion in tourism is estimated to have positively impacted ancillary sectors including transport and storage; wholesale and retail trade; and real estate activities. Higher crop production excluding bananas contributed to an increase in agricultural output in line with the authorities’ thrust to increase domestic food production, thereby reducing food imports. Manufacturing activity was buoyed by greater production of beverages, paper, plastic and metal products, as well as basic chemicals.

2.1 Labour Market

Labour market conditions improved in unison with the uptick in economic activity. The unemployment rate declined to 17.5 per cent in the quarter ended June 2022, down from 19.6 per cent in the last quarter of 2021. Both male and female unemployment levels fell by 1.9 and 2.4 percentage points, respectively. Consequently, the gap between male and female unemployment narrowed from 3.9 percentage points to 3.4 percentage points during the review period. Youth unemployment declined by 5.1 percentage points to 26.1 per cent at the end of June 2022 as youths took advantage of various recruitment drives such as those of the Cruise Travel and Health industries.

2.2 Consumer Prices

During the first half of 2022, the average cost of living rose in Saint Lucia, as measured by the consumer price index (CPI). Figure 4 shows that the index accelerated to 7.9 per cent from 1.3 per cent for the comparable period in 2021 as global commodity price movements permeated domestic prices. Consumers experienced higher prices for Housing, Utilities, Gas and Fuels (20.8 per cent), food (4.3 per cent); and transport (6.2 per cent). These three expenditure categories represented over 65.0 per cent of the consumption basket.

![Graph showing half-year trends in period-average inflation](source: ECCB)

Figure 4: Half-Year Trends in Period-Average Inflation
3 Government Operations

The fiscal position of the central government improved in the first half of 2022 relative to 2021 (Figure 5). The government recorded a lower overall deficit of $63.4, down from $200.6m in the comparable period of 2021. This outturn was due to stronger current revenue as economic activity regained some buoyancy along with contractions in both current and capital expenditure.

![Figure 5: Half-Year Trends from Fiscal Operations](image)

Source: ECCB

Current revenue rose by 9.5 per cent to $562.6m (Figure 5), approximately 9.0 per cent below the pre-pandemic level. The growth in current revenue mirrored stronger receipts from all tax categories (Figure 6A).

Tax revenue rose by 9.4 per cent to $518.7m with the best performance stemming from taxes levied on domestic goods and services ($34.6m). Non-tax revenue amounted to $43.9m, approximately 10.6 per cent higher than the outturn at the end of June 2021.

Current expenditure fell by 8.4 per cent to $563.8m fuelled largely by lower outlays on goods and services ($34.3m) and personal emoluments ($16.6m) (Figure 6B). Meanwhile, capital expenditure declined by 31.7 per cent to $87.3m reflecting reduced investments on public infrastructure. Capital expenditure was partly financed by capital grants of $25.0m.
3.1 Debt

Saint Lucia’s debt increased during the period under review as government borrowed for budgetary support and various capital projects. The public sector disbursed outstanding debt rose by 6.1 per cent ($253.4m) to $4,439.4m as of June 2022 from a year ago (Figure 7). External debt grew by $213.4m to $2,322.8m reflecting receipts of loans from Multilateral Institutions and the RGSM. New securities were largely taken up by RGSM participants such as financial corporations and non-ECCU residents. Domestic debt rose by $40.0m to $2,116.6m driven by new bond issuances.

![Figure 6: Trends in the Composition of Expenditure and Revenue](source)

**Figure 6: Trends in the Composition of Expenditure and Revenue**

Both external and domestic debt increased over the review period.

![Figure 7: Trends in Outstanding Public Sector Debt](source)

**Figure 7: Trends in Outstanding Public Sector Debt**
4 Banking Developments (Monetary)

Domestic claims (credit) fell by 4.5 per cent to $2,942.3m during the first half of 2022, reversing the upward trend observed over the last three years. Within the private sector, credit fell for both businesses (0.8 per cent) and households (1.6 per cent), partly related to the shift towards the non-bank sector. Credit to the public sector rose marginally by 0.20 per cent while deposits increased by 14.5 per cent leading to an overall increase in the net deposit position of the government (Figure 8).

On aggregate total deposits rose by 11.9 per cent to $3,568.7m associated with greater tourism receipts and the general uptick in economic activity. Transferable deposits and Foreign Currency deposits grew by 41.6 per cent and 16.3 per cent, respectively, while Other deposits fell by 3.7 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 67.5 per cent from 75.1 per cent in June 2021, the lowest level over the 5-year period.

Commercial banks’ asset quality deteriorated, with the non-performing loan (NPL) ratio increasing to 13.3 per cent from 12.0 per cent in 2021 (Figure 9), attributed partly to the end of the Loan Moratoria Programme.
The NPL ratio continued to trend above the 5.0 per cent prudential limit

Source ECCB

Figure 9: Trends in Non-Performing Loans

5 External Trade

The merchandise trade deficit increased significantly during the first half of the year reflecting two major developments – higher import prices and the recovery in tourism activity (Figure 10). The deficit widened by 57.3 per cent to $1,024.1m, the largest increase over the last five years.

The import bill rose by 51.2 per cent to $1,107.0m associated with the surge in global import prices for food, and fuel and related materials along with higher volumes of imports to support the tourism industry. The growth in the import bill was marginally offset by a 2.0 per cent increase in export receipts to $82.9m, largely driven by the export of beverages and to a lesser extent bananas. On the services account, travel receipts more than doubled to $1,295.2m, exceeding the 5-year average by 31.2 per cent. This outturn was consistent with stronger visitor arrivals.
The trade deficit widened year-on-year, reflecting higher global commodity prices.

Source: ECCB

Figure 10: Selected Components in External Trade

6 Outlook

The Saint Lucian economy is expected to remain on track to regain the losses suffered due to the COVID-19 pandemic. The pace of recovery is likely to be comparable with the outturn obtained in 2021, i.e. double-digit growth rate. In the second half of the year, the economy will benefit from greater tourism activity especially in the peak months of October – December, when cruise tourism is expected to pick up. Stay-overs arrivals will remain strong and maintain the trend observed in the first half of the year. * Construction activity will receive a boost in the last quarter as work resumes on the St Jude Hospital and activity intensifies on some major road networks. Farm production and manufacturing will continue to support higher consumption demand:

- Tax revenue is anticipated to further strengthen given its positive correlation with economic activity, thus yielding a better fiscal balance than in 2021, once expenditure growth is contained;
- However, Saint Lucia is not immune to the state of global affairs characterized by geopolitical conflicts such as the Russia/Ukraine war, which is placing supply-side pressures on commodity prices;
- Higher prices for goods and services will continue to erode the spending power of Saint Lucian households, forcing the authorities to respond with beneficial fiscal support.
- The forecast by the IMF for a slowdown in global growth as a result of monetary tightening in advanced economies could dampen the economic recovery.
- Furthermore, the depreciation of the British Pound and the Euro against the US dollar could pose some competitive risks to tourism demand.
## 7 Selected Economic Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2018H1</th>
<th>2019H1</th>
<th>2020H1</th>
<th>2021H1</th>
<th>2022H1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Revenue (EC$M)</td>
<td>614.4</td>
<td>619.3</td>
<td>483.2</td>
<td>513.8</td>
<td>562.6</td>
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<tr>
<td>Current Expenditure (EC$M)</td>
<td>514.7</td>
<td>509.7</td>
<td>554.0</td>
<td>615.6</td>
<td>563.8</td>
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<tr>
<td>Current Balance (EC$M)</td>
<td>99.6</td>
<td>109.5</td>
<td>-70.8</td>
<td>-101.8</td>
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<tr>
<td>Primary Balance (EC$M)</td>
<td>76.2</td>
<td>118.4</td>
<td>-60.7</td>
<td>-118.9</td>
<td>21.6</td>
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<tr>
<td>Overall Balance (EC$M)</td>
<td>-4.0</td>
<td>33.3</td>
<td>-142.4</td>
<td>-200.6</td>
<td>-63.4</td>
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<tr>
<td>Total Public Sector Debt (EC$M)</td>
<td>3228.3</td>
<td>3350.7</td>
<td>3667.0</td>
<td>4186.0</td>
<td>4439.4</td>
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<tr>
<td>Inflation (Period Average %)</td>
<td>1.4</td>
<td>1.6</td>
<td>-2.8</td>
<td>1.3</td>
<td>7.9</td>
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<tr>
<td>Total Visitor Arrivals ('000)</td>
<td>706.1</td>
<td>720.0</td>
<td>413.0</td>
<td>67.0</td>
<td>344.3</td>
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<tr>
<td>Total Visitor Expenditure (EC$M)</td>
<td>1300.7</td>
<td>1395.1</td>
<td>581.2</td>
<td>502.8</td>
<td>1295.2</td>
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<tr>
<td>Net Foreign Assets (EC$M)</td>
<td>819.3</td>
<td>1048.9</td>
<td>1125.9</td>
<td>1304.7</td>
<td>1368.3</td>
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<tr>
<td>Domestic Credit (EC$M)</td>
<td>2869.3</td>
<td>2903.2</td>
<td>2971.5</td>
<td>3081.2</td>
<td>2941.7</td>
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<tr>
<td>M2 (EC$M)</td>
<td>3424.3</td>
<td>3607.1</td>
<td>3066.7</td>
<td>3342.8</td>
<td>3722.8</td>
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<td>Currency in Circulation (EC$M)</td>
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<td>203.7</td>
<td>203.4</td>
<td>217.8</td>
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<td>Liquid assets to total assets</td>
<td>39.2</td>
<td>38.4</td>
<td>38.7</td>
<td>37.7</td>
<td>41.2</td>
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<tr>
<td>Liquid assets to short-term liabilities</td>
<td>41.0</td>
<td>40.5</td>
<td>43.5</td>
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<td>44.6</td>
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<tr>
<td>Customer deposits to total (noninterbank) loans</td>
<td>115.4</td>
<td>116.4</td>
<td>112.5</td>
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<td>Weighted Average Deposit Rate (%)</td>
<td>1.5</td>
<td>1.4</td>
<td>1.4</td>
<td>1.4</td>
<td>1.1</td>
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<tr>
<td>Weighted Average Lending Rate (%)</td>
<td>8.1</td>
<td>7.6</td>
<td>7.1</td>
<td>6.9</td>
<td>6.6</td>
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<tr>
<td>Interest Rate Spread (%)</td>
<td>6.6</td>
<td>6.2</td>
<td>5.6</td>
<td>5.5</td>
<td>5.4</td>
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<tr>
<td>Non-Performing Loans to Total Loans (%)</td>
<td>11.2</td>
<td>8.7</td>
<td>11.6</td>
<td>12.0</td>
<td>13.3</td>
</tr>
</tbody>
</table>
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