

Joint Statement by the Government of Saint Lucia and IMF Staff at the Conclusion of the 2005 Article IV Consultation Discussions with Saint Lucia

July 25, 2005

An IMF staff mission visited Saint Lucia from July 4 - 18, 2005 to conduct the 2005 Article IV Consultation discussions. The mission received excellent cooperation from the government and benefited from a constructive exchange of views with the Prime Minister, The Honourable Kenny Anthony, the Permanent Secretary of the Ministry of Finance, Mr. Trevor Brathwaite, other senior government officials, the public sector labor union, and a broad range of private sector representatives.

Economic activity in Saint Lucia has gained momentum, with real GDP growth rising to 4 percent in 2004 from 2.9 percent the previous year, largely driven by a buoyant tourism sector. Growth is projected to exceed 5 percent in 2005 and to accelerate in the run-up to the Cricket World Cup (CWC) in 2007, due to a strong rise in public and foreign investment. Despite this positive outlook, the economy remains vulnerable to oil price shocks, declining EU banana preferences, and high exposure to natural disasters.

The mission noted that although public debt in Saint Lucia is lower than in other Eastern Caribbean Currency Union countries, it is high by international standards. The 2005/06 budget envisages a sharp increase in capital spending ahead of the CWC and to rebuild the aging infrastructure. In the mission's view, such investments are necessary but should be phased to avoid implementation and supply bottlenecks that could lead to price and wage pressures. With this in mind, the mission recommended tight budget management and a clear prioritization of capital projects in the near term. The mission supported the authorities' medium term intention to deepen fiscal consolidation and reduce public debt through spending discipline and reforms aimed at increasing the efficiency of the tax system.

The mission discussed with the authorities ways to raise Saint Lucia's medium-term growth prospects. Opening the economy further at an appropriate pace, in the context of negotiations for the Caribbean Single Market Economy and the WTO's Doha Round, would make it more competitive and lower the cost of inputs for the private sector. The mission and the authorities also discussed possible ways of creating the right incentives for the private sector to flourish, including reducing the cost of capital and raising labor productivity.

The mission recognized the significant challenges arising from the declining European Union preferences in bananas and supported the need to put in place social safety nets, as well as retrain workers to reduce the impact of dislocation. There was broad agreement on the aim to strengthen domestic linkages of the agricultural sector to tourism and to promote diversification.

The passage over the past 12 months of hurricanes Ivan and Emily near Saint Lucia reaffirms the importance of contingency planning and bolstering risk mitigation and

disaster management. The mission welcomed the progress Saint Lucia has made in its disaster mitigation and preparedness program, and noted that the new building code should be systematically enforced in the country. The mission and the authorities agreed that there was more scope for tapping the insurance markets, preferably via a regional approach, to further mitigate financial losses from natural disasters.

The IMF mission wishes the government and the people of Saint Lucia every success in their efforts to build a strong and prosperous economy and adapt successfully to the changing global environment.

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