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International Monetary Fund Predicts Favorable Prospects for St. Lucia’s Near-term Growth

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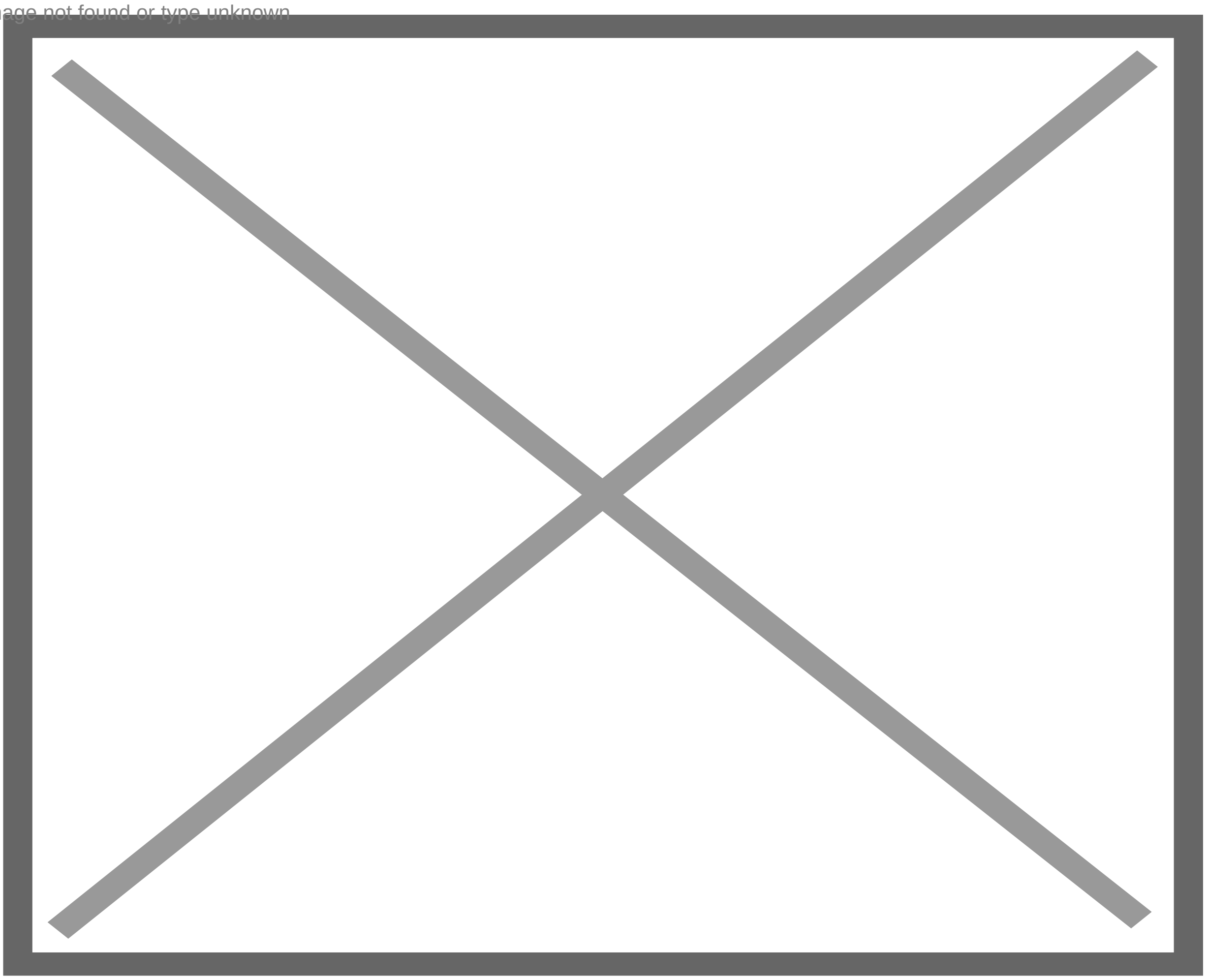

Rodney Bay, St. Lucia

WASHINGTON, CMC –The International Monetary Fund (IMF) Monday said the prospects for St. Lucia’s near-term growth are favourable, but warned that policy adjustments will be needed to strengthen longer-term growth.

The IMF executive board in its assessment of the island’s economy, noted that the commencement of large public infrastructure projects is expected to substantially boost growth in 2020-22 but will raise public debt and weaken the external position.

“However, a deeper-than-expected slowdown in major source markets for tourism, energy price shocks, disruptions to global financial markets, and loss of (correspondent banking relationship)

CBR all represent downside risks."

The executive board said that St. Lucia's high vulnerability to natural disasters constitutes an ever-present risk to both growth and the fiscal outlook.

It said longer-term growth continues to be impeded by the high public debt, lingering vulnerabilities in the financial system, and structural impediments to private investment.

"On the other hand, there is an upside that infrastructure investment could catalyze a greater-than-expected expansion of the tourism sector and related activities. While the overall external position is assessed to be broadly consistent with the level implied by fundamentals and desirable policies, St. Lucia still has considerable competitiveness challenges, particularly in its non-tourism sector, that need to be addressed."

The IMF said that fiscal policies should be geared toward rebuilding policy space and ensuring public debt converges to the regional target of 60 per cent of gross domestic product (GDP) by 2030.

The Washington-based financial institution said the debt-financed infrastructure investments, despite being on semi-concessional terms with long-run repayment largely covered by dedicated revenue streams, will move public debt further away from the regional target.

"The need to invest in climate resilience and the uncertainty over future CIP revenues pose additional challenges to public finances. Without policy adjustments, debt vulnerabilities are elevated, and public debt does not stabilize over the near term."

The IMF said that the Allen Chastanet government's near-term focus should be on revenue-enhancing measures and investments that build resilience to climate related shocks.

It said in addition to limiting current spending growth – particularly the public wage bill-additional revenues should be mobilized from the proposed hotel accommodation fee, the introduction of a carbon tax, and reducing the scope of value added tax (VAT) exemptions.

"Since some of these measures will likely be regressive, they should be introduced in parallel with targeted transfers that offset the impact on poor and vulnerable households. The National Health Insurance system should also be introduced in a fiscally responsible manner.

"Concerted efforts are also needed to mobilize donor grants to fund investments in climate resilience. If there is over-performance of the CIP, or of other revenue sources, it should be directed toward financing a self-insurance fund to bolster the economy's resilience against natural disasters," the IMF said.

It said a fiscal rule would help anchor fiscal policy over the medium term and support consolidation efforts.

"To be effective, the fiscal rule should encompass a comprehensive definition of fiscal activities, including the fiscal costs of natural disasters and the lumpy expenditure associated with infrastructure investment, and should be part of a broader fiscal responsibility framework that embeds appropriate institutional and governance arrangements to ensure both the appropriate degree of flexibility as well as enforceability of the fiscal rule.

“The fiscal rule will also need to be carefully calibrated to strike the balance between credibly meeting the debt target over the medium-term and providing space for much-needed spending to build resilience.”

To support private sector investment, the IMF is urging that measures are needed to address constraints on financial intermediation.

“There is scope to improve credit market efficiency by modernizing foreclosure and insolvency legislation, establishing a regional credit bureau and registry, and taking steps to allow for the greater use of movable property as loan collateral,’ it said.

The executive board said that the emerging financial sector risks warrant a more assertive approach to regulation and supervision.

The banks’ rising allocation of their assets to overseas debt securities has supported bank profitability but may also expose the sector to losses if global financial market conditions deteriorate or risk premia rise.

The rapid expansion of credit unions has increased the sector’s macro-financial significance that warrants stronger oversight. The swift adoption of the Harmonized Co-operative Societies Act, combined with a strengthening of supervisory oversight of the non-bank financial sector, remain key policy priorities. In addition, continued efforts are needed to satisfy international taxation and anti-money laundering and combating the financing of terrorism (AML/CFT) standards.

The IMF said efforts are needed to further enhance resilience to climate change and natural disasters. Progress has been made in implementing recommendations of the CCPA.

It said key measures to address the remaining institutional, financing and capacity gaps include the active costing of climate projects, improving public financial management of climate financing and outlays, mobilizing private investment in mitigation and adaptation and strengthening capacity in managing climate-related investments.

“Decisive and targeted reforms are needed to address supply-side impediments to long-term growth. Enhancing productivity will require a better alignment of the education system with labor market needs. There is scope to improve the business environment by enhancing access to credit and reducing electricity costs, further diversifying the economy toward higher-value exports, and increasing local content in the tourism supply chain,” the IMF added.

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