

September 7, 2022

**The Acting Chair's Summing Up
St. Lucia—2022 Article IV Consultation
Executive Board Meeting 22/76
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Executive Directors agreed with the thrust of the staff appraisal. They noted that St. Lucia's tourism-dependent economy was severely hit by the pandemic, and while there was a significant rebound in tourism in 2021, the recovery remains incomplete as the surge in import prices and high inflation following the war in Ukraine weigh on economic growth. Directors noted significant challenges ahead as the public balance sheet remains under pressure, with a sizeable fiscal deficit, high rollover needs, and a sharp increase in public debt, as well as the looming threat of natural disasters. Against this backdrop, they emphasized the need to address fiscal and financial constraints to public and private investment to foster a sustainable and inclusive recovery.

Directors concurred that, in the near-term, fiscal policy should focus on protecting the most vulnerable from food and fuel price increases. Given financing constraints, they encouraged the authorities to prioritize spending and to increase the pass-through of global energy prices while supporting vulnerable households with targeted transfers.

As the recovery takes hold, Directors called for pursuing a credible and growth-friendly fiscal consolidation to strengthen fiscal sustainability, create space for social and infrastructure investment, build buffers against natural disasters, and put debt on a downward path. Adopting a medium-term fiscal responsibility framework, a debt management strategy, and a fiscal rule to support debt sustainability would be important.

Directors highlighted the role of the financial sector to unlock private sector growth. They encouraged facilitating access to credit and boosting financial intermediation, including by modernizing the insolvency and foreclosure legislation and establishing the credit bureau and a movable collateral framework, as well as strengthening the non-bank financial sector. Directors noted the expansion of the credit union segment and welcomed the Financial Services Regulatory Authority's plan to conduct an asset quality review of credit unions. They urged the authorities to address remaining AML/CFT deficiencies to protect correspondent banking relationships.

Directors called for tackling structural challenges to support growth and boost productivity, including by addressing labor market skill mismatches, building energy independence, and increasing economic diversification. They encouraged enhancing structural and financial resilience to natural disasters through a long-term integrated strategy

in a comprehensive macroeconomic framework within debt-sustainable bounds. Investment in resilient infrastructure would support growth and enhance fiscal sustainability. Directors noted the importance of developing a strong disaster insurance strategy while structural resilience is built.

It is expected that the next Article IV consultation with St. Lucia will be held on the standard 12-month cycle.