

FOR
AGENDA

SM/82/21

CONTAINS CONFIDENTIAL
INFORMATION

January 28, 1982

To: Members of the Executive Board
From: The Secretary
Subject: St. Lucia - Staff Report for the 1981 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1981 Article IV consultation with St. Lucia.

This subject has been tentatively scheduled for discussion on Monday, February 22, 1982.

Att. (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

ST. LUCIA

Staff Report for the 1981 Article IV Consultation

Prepared by the Staff Representatives for the
1981 Article IV Consultation

Approved by E. Walter Robichek and W. A. Beveridge

January 27, 1982

The 1981 Article IV consultation discussions with St. Lucia were held in Castries in the period November 2-19, 1981. The St. Lucia representatives included the Governor General; the Prime Minister, who is also Minister of Finance; the Cabinet (in session); the three Deputy Secretaries of the Ministry of Finance and Planning; and permanent secretaries of other major ministries. The staff mission consisted of Messrs. Stephens (Head), Abdi, Rubli-Kaiser, and Valdivieso (all WHD), and Ms. Gemmer (Secretary - ADM). The mission was accompanied by Messrs. Ross, Elhirt, and Ms. Velasco of the World Bank and Mr. Slusher of the Caribbean Development Bank. Mr. Casey, Alternate Executive Director for St. Lucia, participated in some of the policy discussions. St. Lucia has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement.

I. Recent Developments and Prospects

In the period 1976-78 real GDP grew at an average annual rate of about 11 per cent a year under the impetus of a strong expansion in manufacturing, construction, and tourism; there was also a modest expansion in agriculture. The rate of growth in output dropped to about 4 per cent in 1979, mainly as a result of a decline in construction activity occasioned by work stoppage at an oil transshipment terminal. In 1980 there was a pronounced contraction in agriculture and tourism because of damage caused by a hurricane, which together with political uncertainty stemming from a leadership dispute within the ruling party (which deterred private investment), led to an estimated 5 per cent drop in output. In 1981, a significant expansion in agricultural output (mainly banana production, which recovered to almost the 1979 level), and in export manufactures led to a rise in real GDP of around 3 per cent in 1981 (Table 1). Prospects are that real GDP will increase by about 5.5 per cent in 1982. A recovery in tourism, following two years of decline caused by recession in St. Lucia's main markets and the view abroad that tourist facilities were badly damaged, is expected to reinforce a continued strong expansion in agriculture; the growth in the manufacture of export products is, however, likely to be moderate.

Table 1. St. Lucia: Principal Economic Indicators

	1976	1977	1978	1979	Est. 1980	Proj. 1981
(In millions of East Caribbean dollars)						
Nominal GDP at market prices	158.5	189.0	233.0	272.2	307.5	352.9
Nominal GDP at factor cost	135.4	156.9	197.3	225.6	257.0	302.5
Real GDP at factor cost (1977 prices)	148.2	156.9	178.1	186.0	177.7	183.3
GDP deflator (1977=100)	91.4	100.0	110.8	121.3	144.6	165.0
Consumer prices (annual average)(1964=100)	305.5	332.6	368.7	403.5	482.4	557.2
(Annual percentage change)						
Nominal GDP at market prices	29.8	19.2	23.3	16.8	13.0	14.8
Nominal GDP at factor cost	25.3	15.9	25.8	14.3	13.9	17.7
Real GDP at factor cost	14.1	5.9	13.5	4.4	-4.5	3.2
GDP deflator	10.4	9.4	10.8	9.5	19.2	14.1
Consumer prices (annual average)	9.7	8.9	10.9	9.4	19.6	15.5

Sources: Ministry of Finance and Planning; IBRD; and Fund staff estimates.

The rate of inflation in 1981 remained fairly high (as measured by the consumer price index, prices rose by an estimated 16 per cent, compared with 19 per cent in 1980) as the favorable impact of price trends abroad was offset in large measure by domestic wage and demand pressures.

The information available on wages does not permit a comprehensive analysis of wage trends. It would appear, however, that a politically unsettled environment and the size of public sector awards contributed in the recent past to strong upward pressures on wages in the private sector. Following a six-week strike in early 1979, public servants were awarded an increase in wages and salaries which averaged 25 per cent retroactive to January 1977. That agreement, which expired in March 1980, also provided additionally for a 5 per cent increase in salaries of civil servants whenever the index of retail prices rose by 15 per cent above the base level. Four such adjustments were made during the duration of the agreement. Negotiations are currently under way between the Government and civil servants on a new three-year contract.

In July 1981, the Central Government awarded a 40 per cent increase in wages to daily-paid workers, retroactive to April 1, 1980, and 20 per cent, retroactive to April 1, 1981; the wage agreement is due to expire on March 31, 1982. At the Port Authority, which is a state enterprise, workers at the terminal were awarded in mid-1981 increases of 40 per cent and monthly-paid employees were granted scaled increases of 15 per cent, 25 per cent, and 35 per cent, depending on income levels, together with automatic cost of living adjustments of 5 per cent for every 15 per cent rise in the consumer price index. These awards were retroactive to July 1, 1980.

Wage settlements in unionized industries in 1981 generally provided for salary increases in the range of 25 to 30 per cent for the first year and 15 to 25 per cent in the second year of two-year agreements. These might be compared with awards of 20 to 25 per cent a year in 1980, 18 to 20 per cent a year in 1979, and around 17 per cent a year in 1978.

According to preliminary estimates, there was a widening in the current account deficit of the balance of payments from the equivalent of 29 per cent of GDP in 1980 to about 42 per cent in 1981. This deterioration stemmed in part from expansionary fiscal policies and reflected a combination of (1) continued growth in imports, boosted by the requirements for reconstruction of hurricane damage and for completion of the first phase of the Hess oil transshipment terminal; (2) a fall in agricultural exports following the hurricane; and (3) a drop in travel receipts, which, as mentioned above, were affected by recession abroad. The enlarged current account deficit was substantially covered by private capital inflows (mainly direct investment by the Hess Corporation), and the overall balance of payments deficit, financed by St. Lucia's purchase under the Fund's compensatory financing facility, remained roughly at the 1980 level of close to 3 per cent of GDP (Table 2).

In 1982, the current account deficit is expected to narrow to some 22 per cent of GDP. Total exports will be boosted by a recovery in banana exports while total imports are expected to grow only marginally since a fall in imports related to the oil terminal is likely to partially offset a strong growth in other imports.

In the three fiscal years ended March 31, 1980, the Central Government's budgetary operations recorded overall deficits averaging about 1.5 per cent of GDP. The overall deficits were financed mainly through net borrowing from the East Caribbean Currency Authority (ECCA) and net disbursement of project-related external loans (Table 3). Central government budgetary operations deteriorated markedly in FY 1980/81. The current account, which had registered surpluses in the preceding three fiscal years, moved to approximate balance and the overall deficit rose to about 7 per cent of GDP. This outturn reflected a slowdown in the growth of current revenue (about 10 per cent as against an average of 23 per cent a year during the preceding two years) owing in part

to the slowdown in economic activity, and a sharp increase in expenditure (23 per cent), related mainly to relief and reconstruction outlays in the wake of Hurricane Allen. This deficit was covered mainly by the counterpart of net purchases from the Fund (via ECCA) and by the proceeds from the imposition of a 10 per cent legal reserve requirement on the local commercial banks.

Table 2 . St. Lucia: Summary Balance of Payments

(In millions of U.S. dollars)

	1977	1978	1979	1980	1981	Proj. 1982
<u>Goods and services and transfers</u>	<u>-11.4</u>	<u>-23.5</u>	<u>-27.9</u>	<u>-33.3</u>	<u>-51.6</u>	<u>-34.9</u>
Exports, f.o.b.	22.6	26.8	31.8	46.0	40.4	53.7
Imports, c.i.f.	-59.3	-82.8	-101.2	-123.8	-138.1	-141.6
Services (net)	15.2	22.8	30.0	28.0	24.2	35.0
Transfers (net)	10.1	9.7	11.5	16.5	21.9	18.0
<u>Capital account</u>	<u>16.7</u>	<u>27.3</u>	<u>30.4</u>	<u>35.8</u>	<u>45.8</u>	<u>34.9</u>
Public borrowing (net)	1.9	2.7	3.0	1.6	2.6	8.0
Commercial banks	1.8	4.0	1.4	3.3	1.6	--
Private direct investment	13.0	20.6	26.0	30.9	41.6	26.9
<u>Errors and omissions</u>	<u>-5.2</u>	<u>-4.6</u>	<u>-3.6</u>	<u>-5.9</u>	<u>1.6</u>	<u>--</u>
<u>SDR allocation</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>0.5</u>	<u>0.5</u>	<u>--</u>
<u>Overall deficit (-)</u>	<u>0.1</u>	<u>-0.8</u>	<u>-1.1</u>	<u>-2.9</u>	<u>-3.7</u>	<u>--</u>
<u>Financing</u>	<u>-0.1</u>	<u>0.8</u>	<u>1.1</u>	<u>2.9</u>	<u>3.7</u>	<u>--</u>
Net ECCA borrowing	--	0.7	1.2	0.7	--	--
Change in foreign assets (increase -)	-0.1	0.1	-0.1	-0.1	0.2	--
IMF borrowing	--	--	--	2.3	3.5	--

Sources: Ministry of Finance, and Planning; and Fund staff estimates.

There has been a further pronounced deterioration in the fiscal situation in FY 1981/82. On the basis of the budgetary trends during the first half, and in the absence of corrective measures, a current account deficit of nearly EC\$23 million (about 17 per cent of GDP) is in prospect for the fiscal year as a whole. Even if capital expenditure were held to an estimated EC\$26 million, the overall deficit after

Table 3. St. Lucia: Central Government Operations

	Preliminary				Proj.	Budget
	1977/78	1978/79	1979/80	1980/81	1981/82 1/	Profile 1982/83
(In millions of East Caribbean dollars)						
Total revenue	57.50	63.76	88.16	93.40	96.69	136.00
Current revenue	51.65	58.05	77.46	85.38	85.60	122.00
Budgetary grants	0.29	0.43	0.37	0.03	--	--
Capital grants	5.56	5.28	10.33	7.99	5.45	14.00
New tax measures	--	--	--	--	5.64	--
Total expenditure	59.90	67.47	92.40	113.25	122.32	141.10
Current expenditure	48.72	51.52	75.78	84.36	104.20	114.00
Capital expenditure	11.18	15.95	16.62	28.89	18.12	27.10
Current balance	3.22	6.96	2.05	1.05	-12.96	8.00
Overall deficit	-2.40	-3.71	-4.24	-19.85	-25.63	-5.10
Financing	2.40	3.71	4.24	19.85	25.63	5.10
Foreign assets (increase -)	-0.04	0.12	-1.80	-0.49	1.28	--
SDR allocation	--	--	1.31	1.31	--	--
Net borrowing from ECCA (including the counterpart of pur- chases from the IMF)	0.94	2.85	2.54	8.14	9.95	--
Other net foreign borrowing	2.04	3.87	0.07	1.30	5.22	5.10
Net local bank borrowing	-4.00	1.03	-0.10	8.90	0.26	--
Other net domestic borrowing	-0.25	-0.85	2.66	--	8.92	--
Residual	3.71	-3.31	-0.44	0.69	--	--
(As per cent of GDP)						
Current revenue	27.3	24.9	28.5	27.8	25.9 2/	28.1
Current expenditure	25.8	22.1	27.8	27.4	29.5	26.2
Current balance	1.7	3.0	0.8	0.3	-3.7	1.8
Overall deficit	-1.3	-1.6	-1.6	-6.5	-7.3	-1.1

Sources: Ministry of Finance, Development and Planning; and Fund staff estimates.

1/ Both revenue and expenditure estimates are revised on the basis of revenue/expenditure measures introduced in November 1981 and those contemplated for early 1982.

2/ Includes estimated yield of new tax measures.

project-related grants would amount to roughly EC\$39 million, or the equivalent of 11 per cent of GDP. The prospect was of an unfinanced gap of about EC\$24 million. Indeed, the fiscal situation had deteriorated to the point where it seemed at the time that the Government might be unable to meet in full its financial obligations in December 1981.

The deterioration in the Government's financial situation in FY 1981/82 stems from both a shortfall in budgeted revenue and higher than planned current expenditure arising from new spending commitments entered into by the Government, including the wage award to daily-paid workers, and the consequential rise in government transfers to semi-autonomous state agencies. Meanwhile, estimated current revenues from existing taxes for the full fiscal year have been revised downward from EC\$100 million to EC\$85 million, due to the adverse impact of certain decisions taken prior to the appointment of a new Prime Minister in May 1981. These recent actions included a reduction in income taxation with effect from January 1981, an increase in the number of items exempted from import duties in the wake of the hurricane, and a reduction in the tax on petroleum products; together these have been estimated to lower collections from taxes by EC\$6 million. In addition, because of delays in completing the oil transshipment terminal no throughput tax is likely to be paid by the Hess Corporation in the current fiscal year (EC\$6 million).

In view of the pressing need for corrective action in the fiscal field, the consultation discussions centered on the policy measures that could be implemented quickly but which would at the same time yield significant improvements in the country's position in the medium term.

II. Summary of Policy Discussions

1. Fiscal policies

In the light of the fiscal situation described above, the Government of St. Lucia has decided to effect major adjustments in its budgetary operations through a combination of revenue measures and expenditure restraint. In late November, all daily-paid workers, except for those employed in designated essential services, were laid off. Daily monitoring of the Government's cash balances with commercial banks was instituted to ensure that total monthly expenditure would not exceed the sum of monthly revenue, capital grants, and concessional loans. In late November the Government also introduced, with effect immediately, new revenue measures that did not require prior Parliamentary approval; these included increases in consumption duties on a wide range of products and the imposition of such duties on a number of commodities that were previously exempt (Table 4). The Government plans to introduce additional measures, including a restoration, effective as of January 1, 1982 of personal income taxation to the level in effect at the end of 1980. Altogether, the proposed tax package, if implemented as planned, is expected to yield about EC\$6 million in the remainder of the current fiscal year, and EC\$19 million (5 per cent of GDP) in FY 1982/83.

Table 4. St. Lucia: New Tax Measures
(In millions of East Caribbean dollars)

		Estimated Yield	
		Dec.-	
		Mar. 1982	FY 1982/83
A. On November 25, 1981 the following tax measures took effect:			
1. Stamp duty on sale of property:			
For citizens of St. Lucia a 2 per cent ad valorem conveyance on sale of any property	0.30		1.50
2. Exit certificates:			
Fees of EC\$5 for each exit certificate issued to a person leaving the state	0.02		0.10
3. A temporary increase of stamp duties on imports from 6 per cent to 7 per cent	0.62		2.30
4. Fees for issue of a passport increased from EC\$20 to EC\$30	0.03		0.12
B. Effective November 30, 1981 consumption tax on the following products was increased as follows:			
Rum - from \$20.00 to \$25.00 per liquid gallon.			
Whiskey - from \$28.00 to \$40.00 per liquid gallon.			
Gin - from \$28.00 to \$40.00 per liquid gallon.			
Brandy - from \$23.10 to \$30.00 per liquid gallon.			
Cigarettes - from \$8.00 to \$10.00 per pound.			
Electrical appliances - from 10 per cent to 15 per cent ad valorem.			
Electronic goods (radios, televisions, etc.) - from 10 per cent to 20 per cent ad valorem.			
Motorcars (over 1,800 cc) - from 40 per cent to 60 per cent ad valorem.			
Motorcars (less than 1,800 cc) - from 20 per cent to 30 per cent ad valorem.			
Records (phonograph) - from 25 per cent to 35 per cent ad valorem.			
Furniture - from 10 per cent to 15 per cent ad valorem.			
Also a consumption tax of 5 per cent was imposed on buses, trucks, and some automobile spare parts; 10 per cent on canned fruits and vegetables and tires; and 15 per cent on shampoos, cosmetics, and other perfumed spirits was imposed.			
	2.00		6.00
C. The following tax measures are to be implemented early in 1982:			
1. Restoration of personal income taxation to January 1, 1981 level and increase in penalties on arrears	0.98		3.70
2. Other	1.69		5.78
Total	5.64		19.5

Source: Ministry of Finance, Development and Planning.

Based on the above-mentioned new measures, the payment of EC\$1.5 million in backpay to daily-paid workers, and containment of capital outlays the budgetary operations of the Central Government in FY 1981/82 are likely to result in a current account deficit of EC\$13 million and an overall deficit of about EC\$26 million (equivalent to 7 per cent of GDP). These estimates do not take into account any payments to civil servants that might arise from a new wage and salary agreement. The representatives of St. Lucia anticipated that the financing requirement could be met through net borrowing from ECCA, the counterpart of purchase already made under the Fund's compensatory financing facility, net disbursements of concessional loans, net recourse to the local banking system, net drawdown of foreign assets; special purchases of local Treasury bills by the Central Bank of Barbados; and from nonbank local sources, including the national insurance scheme. The Government also plans to issue debentures at fairly attractive rates of interest, for subscription by daily-paid workers and civil servants, as part of its wage and salary negotiating strategy (see below) in amounts equivalent to their retroactive payments; the nonbank public in general would also be offered the opportunity to invest in these debentures. Arrears of payments to local suppliers which had already begun to accumulate will increase further during the remainder of the fiscal year.

The staff representatives suggested that the Central Government should aim at a current account surplus equivalent to about 2 per cent of GDP in FY 1982/83 and an overall deficit that could be financed by net disbursements of concessional loans. The suggested level of savings was regarded to be an essential step toward improved fiscal management that would allow the Government not only to step up its capital investment, thereby absorbing some of the laid-off workers, but also to make a needed start in building up a cushion of official reserves. On the basis of a tentative estimate of roughly EC\$122 million in current revenue in FY 1982/83 (including the yield from new taxation) the savings target could be achieved if current expenditure were held to EC\$114 million, inclusive of the costs of any new wage and salary agreement with civil servants and significant reductions of fiscal arrears. This also assumes that additional retroactive payments to daily-paid workers and that payments that might be due to civil servants when a new wage and salary agreement is finalized would not be paid all at once but would be spread over three fiscal years beginning with FY 1982/83.

The representatives of St. Lucia stressed that the newly implemented revenue and expenditure measures underscored the Government's determination to effect marked improvements in its budgetary operations. They noted that efforts were also being made to institute effective expenditure control procedures, particularly with respect to commitments. A start had been made in this direction, and measures have already been taken with the help of technical assistance from the Fund to correct deficiencies in financial information and administration. The authorities noted that further progress would be necessary to institute controls at the commitment level and hoped to count on additional short-term technical assistance in the area of expenditure controls from the Fund for this purpose.

2. Monetary issues

Given St. Lucia's institutional framework, there is limited scope for monetary policy: St. Lucia has no central bank of its own, and it shares a common currency, the East Caribbean dollar, issued by the East Caribbean Currency Authority (ECCA), with six other states. ECCA has certain attributes of a central bank but has used its statutory powers only sparingly.

In 1980, the Government imposed a 10 per cent mandatory reserve requirement on commercial bank deposit liabilities. The proceeds have been deposited with the Treasury and have been used to finance the budgetary operations of the Central Government. The initial impact on commercial banks' operations was a squeeze on their liquidity position, which became more pronounced in the second half of 1981 as the growth of their deposit liabilities continued, as in 1980, to lag the expansion in domestic credit. The tightened liquidity position of the commercial banks has been reflected in some upward adjustment of their time deposit and lending rates; 12-month deposit rates were raised from 7 per cent at the end of 1980 to 8 per cent in October 1981, and the prime lending rate from 9 per cent at the end of 1980 to 11 per cent over the same period and to 12 per cent in November 1981. Savings deposit rates, however, have remained virtually unchanged and in October varied between 3 and 5 per cent.

The representatives of St. Lucia concurred with the mission's view that the relatively low levels of interest rates did not offer sufficient rewards to savers and militated against the efficient allocation of credit. Furthermore, the negative interest rate differentials with regional and international markets tended to encourage net outflows of funds, thereby further squeezing the commercial banks' liquidity position. There are no legal limits on deposit and lending rates in St. Lucia. The representatives of St. Lucia explained that efforts would be made to obtain a clearer understanding of the mechanism of interest rate determination in St. Lucia in order to identify practical ways to induce an upward adjustment in deposit and lending rates.

3. Wage and price policies

The staff representatives cautioned that recent trends in wage settlements could adversely affect the competitiveness of the export and tourist sectors and further diminish the demand for labor, thereby exacerbating unemployment. Already, employees in the banana industry, in reaction to the wage award to daily-paid workers in the public sector, had begun to press for higher wages. If such increases were granted there would be a heightening of difficulties being experienced in that industry because of, inter alia, the appreciation of the East Caribbean dollar with respect to the pound sterling. Civil servants also have demanded an increase of 60 per cent over salaries paid in April 1980. For its part, the Government, in its ongoing negotiations with civil servants on a new three-year agreement, has proposed the

elimination of any provisions for cost of living adjustments and increases in salaries of 30 per cent, 40 per cent, and 45 per cent in the first, second, and third year, respectively, over 1977 levels. After taking into account the 20 per cent increase in salaries in the form of cost of living adjustments paid under the wage agreement which expired on March 31, 1980, the Government's proposal is equivalent to an increase of 10 per cent, 10 per cent, and 5 per cent in the first, second, and third year, respectively over the April 1980 salary level.

The staff representatives urged the authorities to secure moderate wage settlements in the public sector and to use the Government's influence to ease wage pressures in the private sector in order to protect St. Lucia's international competitiveness. In this connection (and also because of the budgetary implications), the staff representatives suggested to the authorities that the award to daily-paid workers under the existing contract should be spread over a four-year period, beginning April 1, 1980, instead of over two years as agreed with the unions.

In response the authorities noted that it would be very difficult to rescind the award to daily-paid workers but remarked that the decision to lay off all daily-paid workers, except those employed in essential services, could provide an early opportunity to renegotiate the duration of the contract. They also stated that the Government was determined to limit the increase in civil service pay to a maximum of 25 per cent over the three years of the new agreement.

In 1980, a Prices Commission composed of representatives of business, the legal profession, trade unions, and the public sector was established to advise the Price Control Division of the Ministry of Trade, Industry, Tourism, and Foreign Affairs on price controls. Such controls have not been rigidly enforced and are applicable mainly to imported goods and generally take the form of allowable markups for certain essential foods: fish, flour, meat, sugar, and rice are subject to absolute price ceilings and administered prices apply to petroleum derivatives. Since the late 1960s, the Government has been the sole importer of sugar and rice, which are purchased in bulk and sold through a private distribution network. In 1980, the Prices Commission was designated to be the sole importer of cement.

4. Energy policy

St. Lucia's energy requirements are met entirely from imports of oil, which accounted for roughly 10 per cent of total imports in 1980. The Government has been investigating the possibilities of developing alternate sources of energy and is being assisted by the European Investment Bank to examine the geothermal potential of St. Lucia. Until recently, increases in fuel prices were passed on in full to consumers. In 1981, however, the Government lowered the consumption tax on petroleum products in order to limit the rise in prices at the retail level. As noted above, this policy is being reconsidered since it is inconsistent with the need to conserve energy and the fiscal situation of the Government.

5. External policies

St. Lucia is highly vulnerable to shifts in external conditions and presently has no freely available reserves that could be used as a buffer in the event of a shortfall in foreign exchange receipts. The representatives of St. Lucia indicated that in their view the Government should seek, over time, to build up a cushion of reserves. However, in view of the country's difficult financial situation, progress in this direction would have to be deferred until the next fiscal year, when the Government would not use fully its borrowing entitlement with ECCA (which is determined annually for all member states); as of December 31, 1981, St. Lucia's access to ECCA's resources was virtually exhausted.

St. Lucia's external debt service payments are relatively low, approximating 1.5 per cent of foreign exchange earnings from exports and tourism in 1980. Given the fact that St. Lucia is not now in a position to borrow abroad on commercial terms, and is not likely to be in such a position over the medium term, the debt service is expected to remain relatively low.

Payments and transfers for current international transactions are subject to controls but are not restricted. Also, the surrender of exchange proceeds from exports and invisible transactions is mandatory, but is not enforced. Although outward transfers of capital are in principle restricted, these restrictions cannot be made effective as there is freedom of capital movement within the ECCA region, which is linked by a common currency, and exchange controls and restrictions vis-à-vis the rest of the world differ in scope and degree of enforcement among ECCA's member states. In addition, banks can move funds freely within ECCA, and the latter does not impede the banks from transferring such funds outside the region.

As a member of ECCA, the exchange rate of St. Lucia's currency, the East Caribbean dollar, can only be changed by unanimous agreement of all the member states. The East Caribbean dollar was pegged to the pound sterling at EC\$4.80 per pound sterling until July 1976, when its peg was changed to the U.S. dollar at EC\$2.70 per U.S. dollar.

V. Staff Appraisal

St. Lucia's economy recovered at a moderate rate in 1981, following a decline in output in the wake of Hurricane Allen in 1980. Notwithstanding a moderation in the rate of price increase in St. Lucia's major trading partners, the rate of internal inflation has, however, remained relatively high in 1981, mainly because of domestic wage and demand pressures. The growth in real GDP is likely to accelerate in 1982 as a recovery in tourism is expected to reinforce a continued strong expansion in agriculture. The external sector is also expected to show an improvement in 1982 on the basis of a recovery in travel receipts and in agricultural exports, which had been adversely affected by the hurricane.

Wage settlements in St. Lucia during 1981 have been well in excess of both domestic and foreign price increases. The persistence of this trend in wage costs is likely to undermine the competitiveness of the export and tourist sectors and thereby exacerbate the unemployment problem. Wage developments in the public sector are of particular concern not only because of the adverse impact on government finances, but also because recent settlements appear to have led to strong upward pressures on wages in the private sector. In the staff's view, the Government should make every effort to extend the existing wage contract with daily-paid workers for two years beyond its expiry date of March 31, 1982 and to finalize a moderate wage and salary agreement with civil servants. These actions could set the stage for the Government to reach urgently a consensus on a wage policy with all sectors of the economy that would be consistent with its economic and financial strategy.

The pronounced deterioration in St. Lucia's fiscal situation in the current fiscal year stems from poor revenue performance and, more importantly, from a sharp rise in current expenditure associated with new spending commitments entered into by the Government. The Government has not been able to meet all its financial obligations and arrears of payments to local suppliers have been accumulating. There is therefore little doubt that the government finances need to be strengthened. The staff believes that the Government's fiscal objective should be the generation of sufficient resources by the public sector to finance at least a part of high priority capital investments and to build up a cushion of reserves. The Government has taken some corrective revenue and expenditure measures and plans to introduce further measures so as to improve its finances. The staff urges the Government to implement these additional measures as contemplated and to quickly put in place effective expenditure control procedures so as to generate budgetary savings in FY 1982/83.

The staff believes that the present structure of interest rates in St. Lucia is inappropriate for the purpose of stimulating savings, ensuring productive use of scarce financial resources, and safeguarding the country's balance of payments. The staff supports the Government's effort to identify practical ways to induce a general upward adjustment of interest rates in St. Lucia.

Fund Relations with St. Lucia
(On November 30, 1981)

Membership date: November 15, 1979

Status: Article VIII

Quota: SDR 5.4 million

Exchange rate: 2.70 East Caribbean dollars = 1 U.S. dollar

Fund holdings of St. Lucia currency:		Millions of SDRs	Per cent of quota
Total		9.45	175.00
Under tranche policy		(6.75)	(125.00)
Compensatory financing facility		(2.70)	(50.00)

SDR Department:		Millions of SDRs	Per cent of cumulative allocation
Net cumulative allocation	0.74		100.00
Holdings	0.23		30.90

Recent contacts: The last Article IV consultation discussions were held in Castries from April 17-May 2, 1980 and the consultation procedures were concluded by the Executive Board on July 28, 1980. A staff mission visited Castries from May 27 to June 6, 1981 to discuss with the authorities the budget for FY 1981/82. Mr. A. Osei, a member of the panel of fiscal experts, was assigned as Accounting Advisor to the Ministry of Finance in August 1980. His assignment was recently extended through August 1982.

ST. LUCIA

Area and population

Area	238 sq. miles (616 sq. kilometers)
Population (end-1981 (proj.))	122 thousand
Annual rate of population increase (1976-81)	1.5 per cent

GDP (proj. 1981) SDR 111.0 million

GDP per capita 1981 SDR 910

Origin of GDP (proj. 1981) (per cent)

Agriculture and fishing	17
Manufacturing	7
Construction	15
Government	13
Other	52

Ratios to GDP (proj. 1981)

Exports of goods and nonfactor services	59.4
Imports of goods and nonfactor services	111.2
Central government revenues (fiscal year from April 1)	30.4
Central government expenditures (fiscal year from April 1)	37.3
External public and government-guaranteed debt (end of year)	13.7
Gross domestic savings	5.2
Gross investment	57.0
Money and quasi-money (end of September)	57.2

Annual changes in selected economic indicators

	1978	1979	1980	Est. 1981
		(per cent)		
Real GDP per capita	11.7	3.6	-5.9	1.6
Real GDP (at factor cost)	13.5	4.4	-4.5	3.2
GDP at current prices	23.3	16.8	13.0	14.8
Domestic expenditure (at current prices)	32.1	15.4	14.9	23.3
Investment	(68.5)	(-3.4)	(17.8)	(19.6)
Consumption	(12.2)	(30.9)	(13.1)	(25.6)
GDP deflator	10.8	9.5	19.2	14.1
Consumer prices (annual averages)	10.9	9.4	19.6	15.5
Central government revenues (fiscal year from April 1)	10.9	38.3	5.9	3.5
Central government expenditures (fiscal year from April 1)	12.6	36.9	22.6	8.0
Money and quasi-money <u>1/</u>	17.7	22.1	11.6	9.8 <u>3/</u>
Money	(2.2)	(51.8)	(11.0)	(-1.8) <u>3/</u>
Quasi-money	(23.4)	(12.9)	(11.8)	(16.1) <u>3/</u>
Net commercial bank assets <u>2/</u>	27.5	12.8	16.6	22.6 <u>3/</u>
Credit to Central Government (net) <u>2/</u>	(-3.4)	(3.9)	(-0.4)	(3.9) <u>3/</u>
Credit to private sector <u>2/</u>	(23.7)	(16.4)	(23.9)	(16.4) <u>3/</u>
Merchandise exports (f.o.b., in U.S. dollars)	18.6	18.7	44.7	-12.2
Merchandise imports (c.i.f., in U.S. dollars)	39.6	22.2	22.3	11.6
Travel receipts (gross, in U.S. dollars)	55.6	20.6	17.1	-10.5

<u>Central government finances (fiscal year from April 1)</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>Proj. 1981</u>
	<u>(millions of East Caribbean dollars)</u>			
Revenues	63.8	88.2	93.4	96.7
Expenditures	67.5	92.4	113.3	122.3
Current account surplus or deficit (-)	7.0	2.1	1.0	-13.0
Overall surplus or deficit (-)	-3.7	-4.2	-19.9	-25.6
External financing (net)	6.9	2.1	10.3	16.5
Internal financing (net) and residual	-3.2	2.1	9.6	9.1
<u>Balance of payments</u>	<u>(millions of U.S. dollars)</u>			
Merchandise exports (f.o.b.)	26.8	31.8	46.0	40.4
Merchandise imports (c.i.f.)	-82.8	-101.2	-123.8	-138.1
Travel (net)	22.4	29.2	32.7	28.8
Other services and transfers (net)	10.1	12.3	11.8	17.3
Balance on current and transfer accounts	-23.5	-27.9	-33.3	-51.6
Official capital (net)	2.7	3.0	1.6	2.6
Private capital (net) and errors and omissions	20.0	23.8	28.3	44.8
SDR allocation	--	--	0.5	0.5
Change in official net reserves (increase -)	0.8	1.1	2.9	3.7

1/ Includes deposits of rest of public sector (excluding the Central Government).

2/ In relation to liabilities to the private sector at beginning of period.

3/ For the year ended in September 1981.