

SUR/07/123

October 1, 2007

**The Acting Chair's Summing Up
St. Lucia—2007 Article IV Consultation
Executive Board Meeting 07/84
September 26, 2007**

Executive Directors agreed with the thrust of the staff appraisal. They welcomed St. Lucia's recent strong economic performance, marked by robust growth and low inflation. At the same time, Directors noted that the country faces important challenges, including the need to diversify the economy, lower unemployment, and reduce the vulnerability to economic shocks. They encouraged the authorities to build on the country's strong foundations, and to continue to work toward the sustained implementation of prudent fiscal policies and structural reforms.

Directors stressed that fiscal consolidation and reforms are needed to maintain a sustainable public debt/GDP ratio and enhance fiscal flexibility to respond to exogenous shocks, while permitting effective public investment and social spending. They welcomed the authorities' plans to boost revenue through the introduction of a value-added tax, more flexible retail fuel pricing to achieve greater pass through of oil price increases, property tax assessments based on market values, and the improvement of tax administration. Directors recommended that tax incentives be rationalized to reduce revenue losses and promote investment more effectively. Directors also called for greater expenditure restraint, and welcomed the authorities' intentions to reform the civil service, introduce a formal mechanism for evaluating public investments, and strengthen debt management. While they acknowledged the need for investment in tourism-related infrastructure to help diversify the economy away from banana production, Directors advised the authorities to carefully evaluate and prioritize investment projects and to seek mostly grant and highly concessional financing.

Directors considered that the fixed-exchange rate has served St. Lucia well, and that the real effective exchange rate appears in line with fundamentals. They emphasized the importance of prudent macroeconomic policies and structural reforms to maintain competitiveness and underpin the exchange rate.

Directors noted that declining non-performing loan ratios and rising profitability point to a relatively healthy financial sector. They welcomed the measures being taken to further strengthen the sector, including the planned consolidation of nonbank regulation and supervision and the improvement of the legal and institutional framework for preventing money laundering. Given the rapid growth in private sector credit and net foreign liabilities

of commercial banks, Directors recommended that banks' credit quality and risk management practices be closely monitored.

Directors recognized that the erosion of trade preferences for bananas is placing a considerable burden on rural households. They supported the authorities' plans to provide well-targeted assistance to the most affected while seeking to restructure the economy away from banana production. They were encouraged by the relatively low cost of doing business in St. Lucia, and underlined the importance of labor retraining and increasing labor market flexibility. Directors stressed the importance of the timely disbursement by donors of the substantial aid committed to St. Lucia in support of the economic restructuring.

Directors welcomed the authorities' commitment to regional cooperation and integration. In this regard, they commended St. Lucia's progress in implementing the requirements of the Caribbean Single Market and Economy, and in removing non-tariff barriers.

Directors supported the authorities' ongoing efforts to mitigate the economic impact of natural disasters, including through the regional pooling of catastrophe risk.

Directors encouraged the authorities to continue to improve the quality and timeliness of economic and social statistics, especially the national accounts, the public sector fiscal accounts, and the balance of payments. They supported Fund technical assistance for this purpose.

The next Article IV consultation with St. Lucia is expected to be held on the standard 12-month cycle.