FOR AGENDA

EBS/10/245
Correction 1

January 10, 2011

To: Members of the Executive Board

From: The Acting Secretary

Subject: **St. Lucia—Request for Disbursement Under the Rapid Credit Facility and Emergency Natural Disaster Assistance**

The attached corrections to EBS/10/245 (12/28/10) have been provided by the staff:

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

Page 4, para. 6: for "**Pre-hurricane fiscal imbalances were projected to widen in FY 2010/11.** While the central government's total revenue-to-GDP ratio would have remained stable at about 31 percent of GDP, total spending was projected to increase by about 1½ percentage points of GDP, mainly reflecting an increase in personal emoluments. As a result, the primary fiscal deficit (including grants) would have deteriorated by about 1 percentage points of GDP with respect to FY 2009/10 to 1½ percent of GDP. The overall deficit would have been 5.3 percent of GDP (1.3 percentage points higher than in FY 2009/10), resulting in an increase in the debt-to-GDP ratio from 74 percent in FY 2009/10 to 76 percent in FY 2010/11"

read "**Pre-hurricane fiscal imbalances were projected to remain stable in FY 2010/11.** While the central government's total revenue-to-GDP ratio would have improved by 1.2 percentage points to 32.2 percent of GDP, total spending was projected to increase by about 1½ percentage points of GDP, mainly reflecting an increase in personal emoluments. As a result, the primary fiscal deficit (including grants) would have been largely unchanged with respect to FY 2009/10 at 0.6 percent of GDP. The overall deficit would have been 4.3 percent of GDP (0.3 percentage points higher than in FY 2009/10)"

Questions may be referred to Mr. Schipke (ext. 34278), Mr. Nassar (ext. 38665), and Ms. Ogawa (ext. 34288) in WHD.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:
Department Heads

I. BACKGROUND

1. **St. Lucia was hit by Hurricane Tomas on October 30–31, 2010, causing loss of life and considerable damage to infrastructure and agriculture.** According to an UN ECLAC report, torrential rains caused landslides, resulting in human casualties and severe damages to infrastructure (the road network and water supply), and agriculture.[1] Some commercial and residential buildings (including hotels) were also affected. The overall impact is estimated preliminarily at US$336 million (about 34 percent of GDP). This includes export losses of US$45 million.

2. **St. Lucia is experiencing an urgent balance of payments need characterized by a financing gap that, if not addressed, would result in an immediate and severe economic disruption.** The authorities moved quickly to provide immediate relief to those affected by the hurricane and have begun reconstruction. The public administration has responded expeditiously and effectively. So far reconstruction efforts are being financed through the reallocation of the investment budget (equivalent to about US$28.5 million), US$3.2 million from the Caribbean Catastrophe Risk Insurance Fund, and US$0.2 million in emergency grants from the Caribbean Development Bank.

3. **The authorities have requested a purchase equivalent to 35 percent of quota (see attached letter of intent), consisting of a disbursement of SDR 3.83 million under the Rapid Credit Facility (RCF) and a purchase equivalent to SDR 1.53 million under the Fund's Emergency Natural Disaster Assistance (ENDA).** The request follows a 45 percent of quota drawing under the Exogenous Shocks Facility (RAC-ESF)[2] in June 2009 aimed at mitigating the effect of the global economic and financial crisis, which underscores St. Lucia's vulnerability to sudden and exogenous shocks. Access under the RCF/ENDA would help close the financing gap in FY 2010/11.[3]

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[1] ECLAC/UNDP, *Saint Lucia: Macro Socio-Economic and Environmental Assessment Report: Towards Resilience Following the Passage of Hurricane Tomas*, December 2010. An estimated 5,952 people, about 3.5 percent of the total population, were severely affected, including 7 deaths, 5 missing, 36 injuries and 473 in shelters.

[2] A number of policies envisaged under the RAC-ESF have been implemented. However, key measures (VAT and market valuation-based property tax) are still pending.

[3] A mission visited Castries on November 23–24 to assess the immediate balance of payments needs resulting from the impact of Hurricane Tomas, reviewed the authorities' policy measures to address the shock, and had preliminary discussion on the modalities of possible Fund financing. Final meetings were held on December 17 via VC. The staff team comprised A. Schipke (Head), K. Nassar and S. Ogawa (all WHD), and W. Samuel (Regional Resident Representative). The mission met with the Permanent Secretary of the Ministry of Finance and other senior government officials.

4. **The thrust of the authorities' policies in recent years has been broadly consistent with Fund advice.** In the ECCU, St. Lucia is the largest economy and generally has stronger vulnerability indicators. The authorities have followed key Fund recommendations, including strengthening financial management, debt management and supervision of the nonbank financial sector, as well as pension reform. They have, however, been slow in responding to staff recommendations to implement a value-added tax and market valuation-based property tax.[4]

II. Economic Performance Prior to Hurricane Tomas

5. **St. Lucia's economy had begun to pick up when Hurricane Tomas hit the island.** Economic activity declined by 3.6 percent in 2009 and was on a path to achieve a 1.7 percent growth in 2010, buoyed by a noticeable rebound in tourism. Stay-over tourist arrivals increased by about 15 percent through September 2010, helped by a strong marketing campaign in North America and a marked improvement in airlift (including the introduction of low cost carriers—Jet Blue and West Jet from the United States and Canada, respectively). Declines in activity in the agriculture and banking sectors, however, weighed on the recovery. Inflation remained moderate at 2.7 percent at end-September 2010.

6. **Pre-hurricane fiscal imbalances were projected to remain stable in FY 2010/11.** While the central government's total revenue-to-GDP ratio would have improved by 1.2 percentage points to 32.2 percent of GDP, total spending was projected to increase by about 1½ percentage points of GDP, mainly reflecting an increase in personal emoluments. As a result, the primary fiscal deficit (including grants) would have been largely unchanged with respect to FY 2009/10 at 0.6 percent of GDP. The overall deficit would have been 4.3 percent of GDP (0.3 percentage points higher than in FY 2009/10).

7. **The external current account balance was projected to deteriorate in 2010.** The external current account deficit was expected to widen by about 2½ percentage points of GDP to about 17 percent of GDP, due to a decline in banana exports and an increase in construction- and fuel-related imports. Based on solid advance bookings, however, stay-over tourist arrivals were projected to remain strong. The external current account deficit was financed largely by FDI and government borrowing.

8. **The adverse impact of the global economic and financial crisis put additional stress on the financial system.** Despite a gradual recovery prior to Hurricane Tomas, financial soundness indicators continued to deteriorate with NPLs rising to 13.6 percent (a 5 percentage point deterioration over a 12-month period), while provisioning had fallen short

[4] Elections are constitutionally due by March 2012, but can be called at any time.