SAINT LUCIA

Table 1	2020
Population, million	0.2
GDP, current US$ billion	1.7
GDP per capita, current US$	9257.4
School enrollment, primary (% gross)[a]	102.3
Life expectancy at birth, years[a]	76.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

The COVID-19 pandemic caused a severe GDP contraction of 20 percent in 2020 and a sharp surge in public debt to 87 percent of GDP. The poor and most vulnerable groups have been disproportionately impacted by the crisis, compounded by potential threats from exposure to extreme climate-related events, exacerbated by climate change. It is critical for the government to balance -term fiscal measures mitigating the impacts on the most disadvantaged with long-term structural reforms maintaining fiscal and economic sustainability.

Key conditions and challenges

Prior to the COVID-19 pandemic, sustained performance in tourism and construction drove growth, averaging 3 percent over 2016-19. Unemployment decreased from 24.1 percent in 2015 to 16.8 percent in 2019, improving the income-generating ability of households. However, as a small island developing state, Saint Lucia faces unique development challenges, including the vulnerabilities of a less diversified economy and high exposure to extreme climate-related events. The rising debt level has constrained the government's capacity to address these development challenges. Although poverty decreased between 2006 and 2016 (the latest available data), income inequality remained high with the Gini index at 51.3 in 2016. The government had made progress in building economic resilience and fiscal sustainability prior to the pandemic, including designing a rules-based Fiscal Responsibility Framework (FRF) and diversifying the economy. Public debt remained stable at around 60 percent of GDP.

The COVID-19 pandemic brought great challenges to public health and has caused significant socio-economic damages. Tourism in Saint Lucia fell sharply in 2020, following the almost complete halt of international travel and caused a severe economic contraction. The pandemic has disproportionately affected the poor and vulnerable, who have limited access to basic goods and services, posing threats to food security.

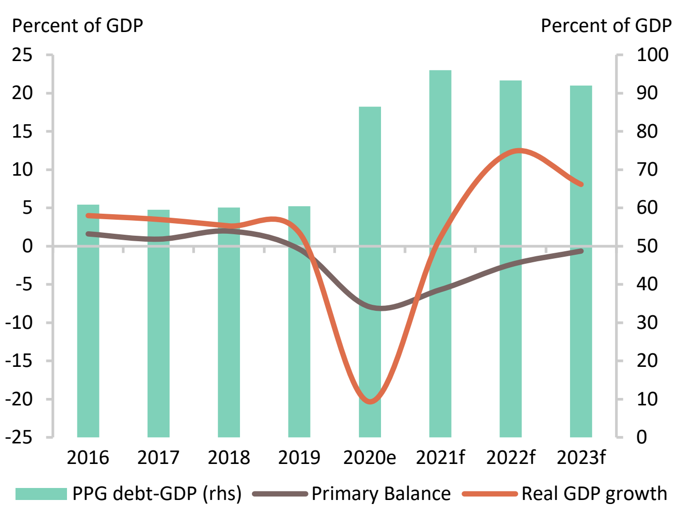
The uncertainty and severity of the ongoing pandemic have magnified the existing high risks related to disasters and external shocks. Weakness in institutional capacity and risks to debt sustainability also constrain the government's ability to cope with these risks. Focused short-term fiscal support is important to protect those most impacted by the pandemic and prevent long-term socio-economic damage. Structural reforms remain crucial to building fiscal sustainability and economic resilience over the long term. This includes the implementation of the FRF once the pandemic abates, reforms on tax expenditures and revenue enhancement, and other reforms to strengthen resilience to climate change and external shocks.

Recent developments

Real GDP contracted by an estimated 20.4 percent in 2020, the deepest decline since 1980. The fallout in tourism, which accounts for about 40.7 percent of GDP, is expected to drive the contraction and increase in unemployment. Almost 45 percent of the population working pre-pandemic had stopped working in May 2020, mostly due to COVID-19 related business closures. Women are more vulnerable to unemployment caused by the pandemic since they are more likely to work in tourism-related sectors.

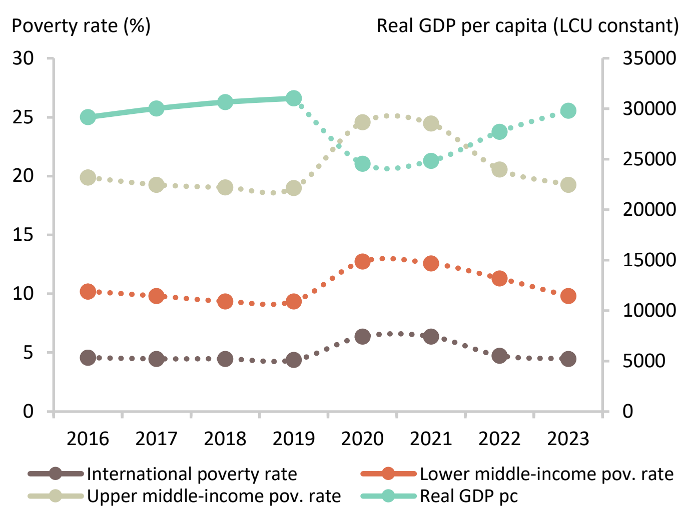
The primary deficit is estimated to have deteriorated to 7.9 percent of GDP in 2020,

FIGURE 1 Saint Lucia / The evolution of main macro variables



Sources: IMF; World Bank staff estimates; ECCB.

FIGURE 2 Saint Lucia / Actual and projected poverty rates and real GDP per capita



Sources: World Bank. Notes: see Table 2.

compared with an average of 1.0 percent surplus between 2016-19. General Government debt surged by 20 percent of GDP in 2020, half of which was caused by the large GDP contraction. The more than 30 percent drop of tax revenues also contributed to the deficit, due to losses in taxes on goods & services and international trade. Total expenditure increased by 7 percent of GDP due to a surge in COVID-19 related expenditures, including support to vulnerable groups and public investment projects to create jobs.

The current account deficit is estimated to widen to 14.5 percent of GDP in 2020 from a surplus of 4.6 percent in 2019. The external financing needs are expected to be financed by international development partners, partial rollover of maturing debt, and FDI inflows to tourism-related projects. The deficit is mostly driven by the sharp decline in tourism, which took up 80 percent of total exports in 2019. The drop of commodity exports also contributed to the deficit due to interruptions in international transportation. Nevertheless, the slow pace of domestic economic activities dampened the demand for imports, somewhat tempering the worsening external imbalances. Remittances have picked up in the third quarter, following a sharp temporary decline in the second quarter.

Outlook

In 2021, Saint Lucia's economy is projected to expand only marginally due to the second wave of COVID-19 cases extending into 2021 and delays in the resumption of tourism. Assuming that international travel will gradually restart towards the end of 2021, that private and public sector construction projects rebound, and with the absence of major weather-related events, the economy will rebound strongly after 2022 but will recover its 2019-level only by 2024/25.

Given the severe impacts of the pandemic, it is expected that the fiscal support measures for the most impacted groups will continue in 2021. The fiscal deficit will hence remain elevated, and debt-to-GDP will continue rising in 2021. Due to the expected fast growth, the public debt will gradually decrease, but remain above 90 percent of GDP if no strong fiscal consolidation measures and fiscal reforms are implemented.

As a result of income and job losses, poverty is expected to remain high in 2021, following the spike in 2020. It will, however, be mitigated by the measures implemented by the government, such as the extension of the main social assistance program, the Public Assistance Programme. The poverty rate at the upper middle-income international poverty line of $5.50 per person per day is projected to increase to 24.5 percent in 2021, and then gradually resume its decline to a projected 19.3 percent in 2023. The COVID-19 pandemic is hence expected to undo Saint Lucia's poverty reduction efforts made since 2017.

TABLE 2 Saint Lucia / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices[a]	2.6	1.7	-20.4	1.1	12.3	8.1
Real GDP growth, at constant factor prices[a]	2.8	2.8	-20.4	1.1	12.3	8.1
Agriculture	1.7	-0.8	1.9	2.1	2.7	2.5
Industry	-3.4	3.0	-2.7	4.4	3.7	3.3
Services	3.8	2.8	-23.3	0.5	14.1	9.0
Inflation (Consumer Price Index)	2.5	0.6	-1.7	0.3	1.4	1.6
Current Account Balance (% of GDP)	2.2	4.6	-14.4	-13.2	-3.1	1.2
Fiscal Balance (% of GDP)[b]	-1.0	-3.4	-11.5	-9.7	-6.3	-4.2
Debt (% of GDP)[b]	60.1	60.4	86.5	96.0	93.3	92.0
Primary Balance (% of GDP)[b]	1.9	-0.4	-7.9	-5.7	-2.4	-0.7
International poverty rate ($1.9 in 2011 PPP)[c,d]	4.5	4.4	6.4	6.4	4.7	4.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	9.4	9.4	12.7	12.6	11.3	9.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	19.0	19.0	24.6	24.5	20.6	19.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast.

(a) Growth projections for 2021-23 remain sensitive to uncertainties surrounding the timing of the vaccine roll-out and the recovery in tourism.

(b) Fiscal balances are reported in fiscal years (April 1st -March 31st).

(c) Calculations based on 2016 SLC-HBS. Actual data: 2016. Nowcast: 2017-2020. Forecasts are from 2021 to 2023.Actual data: 2016. Nowcast: 2017-2020. Forecasts are from 2021 to 2023.

(d) Projection using neutral distribution (2016) with pass-through = 0.87 based on GDP per capita in constant LCU.