Economic Alert iQ

First Citizens
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Economic Alert: Highlights of St. Lucia's National Budget 2017/2018

Review of the Economy FY 2016/17

- According to government estimates, Saint Lucia's economy saw growth by 0.9% growth in 2016, mainly due to expansions in the construction, manufacturing, agriculture, wholesale and retail and financial services sectors. This compares to an average 10-year growth of 1.3%
- Deflation risk remains, as the economy saw a decline in the CPI (Consumer Price Index) of 3.1%
- The increase in domestic economic activity was accompanied by an improvement in the labour force participation rate which increased to 73.4% and a further reduction in the rate of unemployment.
- Unemployment rate saw a decrease from 24.1% in 2015 to 21.6% in 2016. However, youth unemployment continues to be problematic as it stands 43.1% as at the end of last year.
- Government was able to make strides having improved the fiscal deficit from XCD100.9 million in 2015/16 to XCD67.8 million in 2016/17 due to revenue growth by 6% whilst containing expenditure with minimal growth of 3% .

	2016/2017 Projected Outturn	2017/2018 Budget Estimate
Total Revenue and Grants	**1,107,698,663**	**1,158,056,973**
EXPENDITURE		
Wages & Salaries	476,323,410	490,130,016
Goods & Services	190,096,984	214,782,812
Transfers	123,536,149	141,787,159
Current Primary Expenditures	**789,956,542**	**846,699,987**
Interest Charges on Debt	165,738,241	170,133,890
Current Expenditure	**955,694,783**	**1,016,833,877**
Principal Repayment (PR)	122,195,635	124,513,023
Refunds	10,131,646	10,164,000
Total Recurrent Expenditure	**1,088,022,064**	**1,151,510,900**
Current Surplus/ Deficit as % of GDP	1.87	0.98
Debt Service Coverage Ratio	5.98	3.35

Source: FCIS Research & Analytics, St. Lucia National Budget Statement 2017/18

*Figures denoted in XCD

Key Sectors Performance

Tourism

-Total visitor arrivals fell by 7.3%, mainly due to a 13.2% decline in cruise arrivals.

-The drop in cruise passengers was partly offset by an increase of 0.9% in stay over visitors primarily from the US and the Caribbean.

-Visitor expenditure contracted by 4.8% to $1.97 billion.

Agriculture

-The agriculture sector grew by a mere 4% hampered by the passage of Tropical Storm Matthew

-Export earnings were reduced by 11.2% to $19.8 million.

-The pattern of banana exports appears to be shifting with the volume of export to the Caribbean region, surpassing exports to the UK for the first time.

Financial & Monetary Sector

-In the commercial banking sector, the stock of bank credit and loans and advances by banks continued to fall.

-This decline is happening within the context of continued growth in deposits, which has resulted in liquidity indicators such as the loans-to-deposit ratios declining to 90.1% by 2016 from 119% in 2013 and excess reserves held at the ECCB by commercial banks rising to $451.1m from $244.3m in 2013.

Construction

-The construction sector was the most vibrant sector as a result of investment in the construction of hotels and commercial properties accounting for approximately 60% of the growth in real GDP.

-Activity in the construction sector employed 17% of the 5,248 persons who gained employment in 2016.

-The manufactu
sector experien
further growth
2016 evidenced
a 7.2% increase
production.

-Increases were
recorded for no
alcoholic bever
as well as bake
products.

Source: FCIS Research & Analytics, St. Lucia National Budget Statement 2017/18

Key Strategic Objectives Outlined

The following strategic areas of focus have been outlined by the government over the next four years with the underlying aim of achieving sustainable and inclusive growth.

Creating Sustainable Employment

- Government plans to work towards an unemployment rate of no more than 15% by 2021
- It is expected that many of the investments within the coming months will create employment throughout the island, particularly in the sectors of tourism, agriculture and construction.
- The tourism sector is expected to be reengineered in order to achieve its full potential and to be used as a catalyst for economic growth. Major tourism investments are expected. The opening of The Royalton where at minimum 900 jobs have been created during operations.
- Plans to revitalize the banana industry and increase banana production. The Ranju farms have been identified as available farm lands which will be utilized for banana cultivation.
- Announcement of full rehabilitation works of the bypass roads to provide drivers with viable alternatives to the Castries to Gros-Islet Highway.
- The Government of Saint Lucia has entered into a framework agreement with Desert Star Holdings Limited for the development of the "Pearl of the Caribbean". This project has 3 phases and will include a racecourse, residential properties, casino, hotel, marina and recreational park.
- Government has engaged the International Financial Corporation (IFC) to serve as lead advisor to develop and advise on the feasibility of implementing a public-private partnership transaction for the development of the Hewanorra International Airport (HIA).

- **Reengineering Social Services**
  - The Government will introduce and enforce standards throughout the education system. These will include standards for school buildings and infrastructure, school supervision, policy administration, teacher preparation and curriculum delivery.
  - The Ministry of Health estimates that a minimum basic package of health services for the population will cost approximately XCD179 million. This cost will allow for the provision of primary, secondary and tertiary care services.
  - The funding will be used to cover the operating and maintaining of the two new hospitals, improving primary care services by increasing hours of operation in support of the hospitals and strengthening mental health services. Currently the budget for the Ministry of Health is XCD110 million. Hence, there is a financing gap of XCD69 million.

- **Reforming Government to make it more responsive to the business community and citizens**
  - The Inland Revenue Department's Electronic Payment Platform has been launched effective March 21st, 2017. Electronic payments are now possible for all major tax types for both individuals and businesses using either a debit or credit card.

- **Improving Security and Justice**
  - Government plans to increase the resources of the Royal Saint Lucia Police Force by training 46 recruits and providing additional vehicles and other much needed equipment.
  - Plans to erect structures to house the Family court, First District Court, the High Court, Magistrates court and the Offices of the Director of Public Prosecutions while the National Cultural Centre will be relocated to an alternative location.
  - Through intelligence-driven crime fighting strategies government aims to increase surveillance within the city of Castries with the installation of CCTV cameras throughout the city, particularly in areas prone to crime. The Government will be partnering with the private sector in the supply and maintenance of cameras.
  - Plans to develop a Border Control Services Agency.

- **Building Capacity in Renewable Energy**
  - Government will more aggressively pursue the installation of photo-voltaic and solar hot water systems on public buildings. Government will also seek to advance ongoing work in the areas of geothermal exploration and solar farm development.
  - The strategy will also include the promotion of increased manufacturing energy enterprises in Saint Lucia.

- **Adapting to Climate Change**
  - Government will focus on expediting access to the Green Climate Fund and other similar climate entities and address institutional and other barriers which have impeded access to such financing.

Key Fiscal Strategies

- From 1st of February of 2017, government reduced the VAT rate from 15% to 12.5% as part of the initial VAT reform. It is the view of Government that the reduction in VAT will reduce prices to the consumer and/or boost profits for business, thereby stimulating confidence in the economy.
- Design of a VAT deferral system to minimize the impact of the VAT obligations faced by manufacturers. This system will eliminate the VAT payment on imports of raw materials and no such payment is required subsequently, to the extent that the manufacturer is allowed to claim the full input VAT.

- Reform to both the personal allowance and the applicable deductions with a view to simplifying the system while simultaneously making it more progressive. It is also the intention of the Government to place a cap on personal income tax.
- Government plans to introduce a foreign residency program that will allow high net worth persons to take up residence in Saint Lucia.
- The Government has commissioned a study to review mechanisms to enhance the competitiveness of the existing Citizen Investment Program and to amend the tax legislation to make it attractive for foreign persons to become tax residents of Saint Lucia.
- Government will increase the excise tax on gasoline and diesel from XCD2.50 a gallon to XCD4.00. This will take effect from June, 2017.

Financing the 2017-2018 Estimates of Expenditure

The budget will be financed as follows:

1. Recurrent Revenue of XCD1.073 billion comprising :
    a. Tax Revenue of XCD958 million (89.3% of revenue)
    b. Non Tax Revenue of XCD115 million (10.7% of revenue)

2. Capital Revenue from the proceeds of the sale of assets amounting to XCD7.4 million

3. Grants amounting to XCD87.4 million from friendly governments and multilateral institutions including:
    i. Republic of China (Taiwan) contributing XCD35.7 million
    ii. Caribbean Development Bank (CDB) contributing XCD9.9 million
    iii. European Development Fund (EDF) contributing XCD13.8 million
    iv. Government of Mexico contributing XCD9.1 million.
    v. World Bank (IDA/IBRD) – contributing a total of XCD9.8 million
    vi. United Nations Environmental Programme (UNEP) - XCD4.2 million

4. Government Instruments, including Bonds of XCD208 million and Treasury Bills of XCD50 million.

5. Other Loans totalling XCD84.8m comprising
    a. XCD43.1 million from the Caribbean Development Bank

b. XCD 24.9 million from the World Bank

c. XCD13.6 million from the Republic of China (Taiwan)

d. XCD1 million from the National Insurance Corporation (NIC)

e. XCD2.2 million from the Kuwait Fund for Arab Economic Development

Allocation of Expenditure

- The Economic Sector Departments are poised to receive the largest share of total expenditure in the amount of XCD899.6 million or 60%. This represents an increase of XCD87.2 million, or 10% over the last financial year 2016/2017.
- Of this amount a sum of XCD612.8 million or 69% is allocated to recurrent expenditure while XCD286.8 million or 31% represents the share allocated to capital expenditure.
- The Ministry of Finance will receive the largest share of this amount totaling $499.2 million or 56% of the total expenditure for the economic sector. Approximately XCD376.1 million or 76% is budgeted for debt service payments and retiring benefits.
- The Department of Economic Development, Transport and Civil Aviation the sum of XCD67.8 million for Capital Expenditure, of which XCD27.5 million is to be allocated to the Disaster Vulnerability Reduction Project (DVRP).
- The Ministry of Infrastructure, Ports and Energy the sum of XCD60.8 million for Capital Expenditure out of which XCD14.9 million is for the Disaster Recovery Programme.
- A capital injection of XCD49.3 million to help stimulate the Agriculture sector
- Department of Tourism, Information and Broadcasting will see an allocation of XCD33.6 million
- Department of Housing, Urban Renewal and Telecommunications, is expected to get XCD25.5 million, the majority of which will be directed to PROUD/Settlement Upgrade Project, PROUD III, the National Sites and Services Programme and the CDB funded Housing Construction Programme.
- Social Services sector will receive XCD406.7 million, of which XCD359.2 million is recurrent expenditure and XCD47.4 million is for capital expenditure.
- A sum of XCD289.9 million is assigned for the Ministries of Education and Health and the remainder of XCD69.3 million is to be distributed to the Ministries of Equity, Labour, Youth Development and Local Government.
- A capital provision of XCD18.7 million is allocated for the Ministry of Health and Wellness.
- Lastly, General Service Agencies will see an allocation of XCD58.5 million.

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