



Real GDP growth (%) 2016	2.35%	ECCB	CariCRIS Rating	Caribbean	Last Election	June 2016
Real GDP growth (%) 2017	2.48%	ECCB	Approximate S&P equivalent	B	Next Election	2021
Exchange Rate (USD/XCD)	EC\$ 2.70				Term	5
FX Direction	Fixed				Current	Allen Chastanet / United Workers Party

FISCAL

Budget Deficit (%) 2015	5.7%
Deficit Trend	↑
Debt/GDP	84%
Debt Direction	↑

Economy	Real estate, renting and business (19%), transport (19%), hotel and restaurants (11%), construction (7%), and financial intermediation (8%), wholesale and retail trade (8%)
Export Partners:	DR 26.3%, US 11.1%, Suriname 9.5%, A&B 7.3%, Dominica 7.1%, T&T 6.9%, Bdos 6.4%, UK 5.7%
Major Exports:	Bananas 41%, clothing, cocoa, avocados and mangoes
Tourism Mkts	US (42%), Europe (28%), Canada (12%) Other (18%)
Tourism Sector	Direct Contribution (13.8% of GDP), Indirect Contribution (39.5% of GDP)

ECONOMIC OUTLOOK

Data by the ECCB shows that the SLU economy grew 2.37% in 2015 compared to -0.7% in 2014. The important construction sector showed some recovery (11.9%), as well as the hotels and restaurants sector (0.4%), which is a proxy for the tourism sector. The construction sector was led by the private sector, particularly tourism-related projects like Coconut Bay Resort and the Royalton Property, while in the public sector, rehabilitation works continued on infrastructure works. There were also increases in the transport, storage and communication sector (1.9%) and real estate, renting and business activities sector (3.5%). The tourism sector grew by 3.8% in 2015 due to an expansion in the number of cruise passengers, which grew 5.6% and stay-over visitor arrivals which saw growth of 2.0%. Arrivals from the main source market, the US, grew by 7.1% reflecting increased airlift (due to improving US economy), while stay-over arrivals from the Caribbean increased by a significant 13.0%, reversing the 8.3% decline for 2014. There were declines in arrivals from Canada (6.8%), U.K (7.8%) and other countries (8.25%). Notably in July 2016, the tourism minister stated that current statistics showed an 11.7% decrease in tourist arrivals reflecting a 16.2% decrease in cruise arrivals and 1.1% decrease in stay over arrivals. The ECCB has forecasted growth of 2.35% in 2016.

INFLATION & MONETARY POLICY

Inflation averaged -0.98% in 2015 (3.52% in 2014). The major declines were in household furnishings, supplies and maintenance (13.6%), recreation and culture (15.8%), transport (9.2%) and miscellaneous (20.8%). Inflation is forecasted to average 0.7% in 2016 by the IMF. Even though the ECCB lowered the minimum savings rate to 2% in May 2015, the action has not yet translated into lower lending rates. The weighted average interest rate on deposits fell to 1.98% from 2.58% at the end of 2014, however, the weighted average lending rate rose marginally to 8.51%. The interest rate spread consequently widened by 61 bps during the nine month period ending September 2015.

TRADE BALANCE/ BOP

The merchandise trade deficit narrowed in 2015 by 16.5% to XCD1,052 million. There was a 9.1% decline in the value of imports and a 12.3% increase in the value of exports. The lower import bill resulted mainly from a fall in the cost of minerals, fuels and related materials of 61.1%. The major increases in exports were in mineral fuels and related materials (12.3%) and machinery and transport equipment (22.1%). As at 3Q15 commercial banks' transactions resulted in a net outflow of over 200% higher than the corresponding period of 2014.

FISCAL ACCOUNTS

The government recorded an overall deficit (after grants) of XCD93.57 million in 2015 compared to XCD137.59 million in 2014. The improvement was largely attributed to positive developments on the current account, which registered a surplus of XCD73.61 million. This was supported by an expansion in revenue collection (+6.7%) despite a marginal increase in current spending (0.5%). St Lucia's ratio of external debt to GDP was 35.7% in 2015 (38.8 % in 2014) and total public debt to GDP was 75.4% in 2015 (74.5% in 2014).

MONEY SUPPLY & CREDIT

Broad money as measured by M2 is estimated to have expanded 1.7% in 2015. Credit to the private sector fell by 6.2% after a 9.9% decrease in 2014. Credit to the tourism industry experienced the biggest contraction of 32.6% as banks tightened underwriting policies for tourism-based investments, given the high level of nonperforming assets in that category. Liquidity in the financial system improved as at 3Q15, with the ratio of liquid assets to total deposits plus liquid liabilities was 34.6%, higher than the level as the end of 2014.

ELECTIONS 2016

On 6th June, 2016, the United Workers Party (UWP) defeated the incumbent St. Lucia Labour Party (SLP) by a margin of 11 seats to 6. Outgoing prime minister Dr. Kenny Anthony had announced snap elections on May 19th 2016, ten months before it was constitutionally due. The new prime minister will be UWP leader Allen Chastanet. He has stated that on his immediate agenda are: Two new hotel developments (no relation to Citizenship by Investment Programme), the set-up of a tribunal to deal with the IMPACS report on twelve police killings between 2010 and 2011, the reduction of the recently implemented Value Added Tax (VAT) and consultation with regional and international institutions such as the Caribbean Development Bank (CDB) and the International Monetary Fund (IMF).

OUTLOOK

In its July 2016 update to the World Economic Outlook, the IMF shaved its global growth projections again following the passage of 'Brexit'. Global growth is now projected at 3.1% in 2016, from an earlier projection of 3.4% in Jan 2016. Importantly, the outlook for St Lucia's key markets has been cut, including the US and the Latin American and Caribbean region. However, we do expect that St Lucia's tourism sector will continue to support overall growth, as the US labor market improves. IMF also maintained its modest expectations for Europe, which is also one of St Lucia's key markets. These developments have the potential to provide a further boost to the island's tourism sector, however, note must be taken that the latest tourism data has shown a drop in figures by 11.7% for the year thus far. There is also the threat of Cuba whose recent removal from embargo can result in the island becoming a major competitor to St. Lucia and the OECS. Continued oil prices have also continued to put significant pressure on Venezuela and its ability to continue programs such as Petro Caribe may be in jeopardy. However, St Lucia has not yet received shipments from Venezuela under the agreement. Notable also is the recent launch of St. Lucia's Citizen by Investment program, this has the potential to provide a significant boost to the economy. *First Citizens Research & Analytics holds a stable view on St. Lucia but notes the volatility of factors rooted with its recovery such as its dependency on the US as its main source market, the headwinds associated with the global recovery and the threat of weather phenomenon during the hurricane season.*

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