



SAINT LUCIA

DEBT SUSTAINABILITY AND THE GLOBAL CRISIS

V Workshop of the Latin America and the Caribbean Debt Management Specialist
Group

October 19th - 20th, 2009

PRESENTATION OUTLINE

- **GROWTH AND FISCAL PROJECTIONS**
- **PROFILE OF PUBLIC SECTOR DEBT**
- **FISCAL MEASURES**
- **EMERGING ISSUES**
- **IMPACT OF GLOBAL RECESSION ON GROWTH**
- **RECOMMENDATIONS**
- **CONCLUSION**

GROSS DOMESTIC PRODUCT

Real Growth Rates (%)

	Actual	Projections			
	2008	2009	2010	2011	2012
Real GDP	0.7	-3.2	1.8	2.8	4.8
<i>Agriculture</i>	20.5	-7.9	1.6	4.5	4.0
<i>Bananas</i>	30.0	-21.8	-4.6	3.5	5.0
<i>Hotels and Restaurants</i>	2.2	-11.6	3.7	4.4	8.9
<i>Manufacturing</i>	-5.4	3.4	0.9	1.0	1.0
<i>Construction</i>	-14.4	-11.3	-4.3	-2.4	10.3
<i>Inflation</i>	7.2	0.8	2.5	2.6	3.0

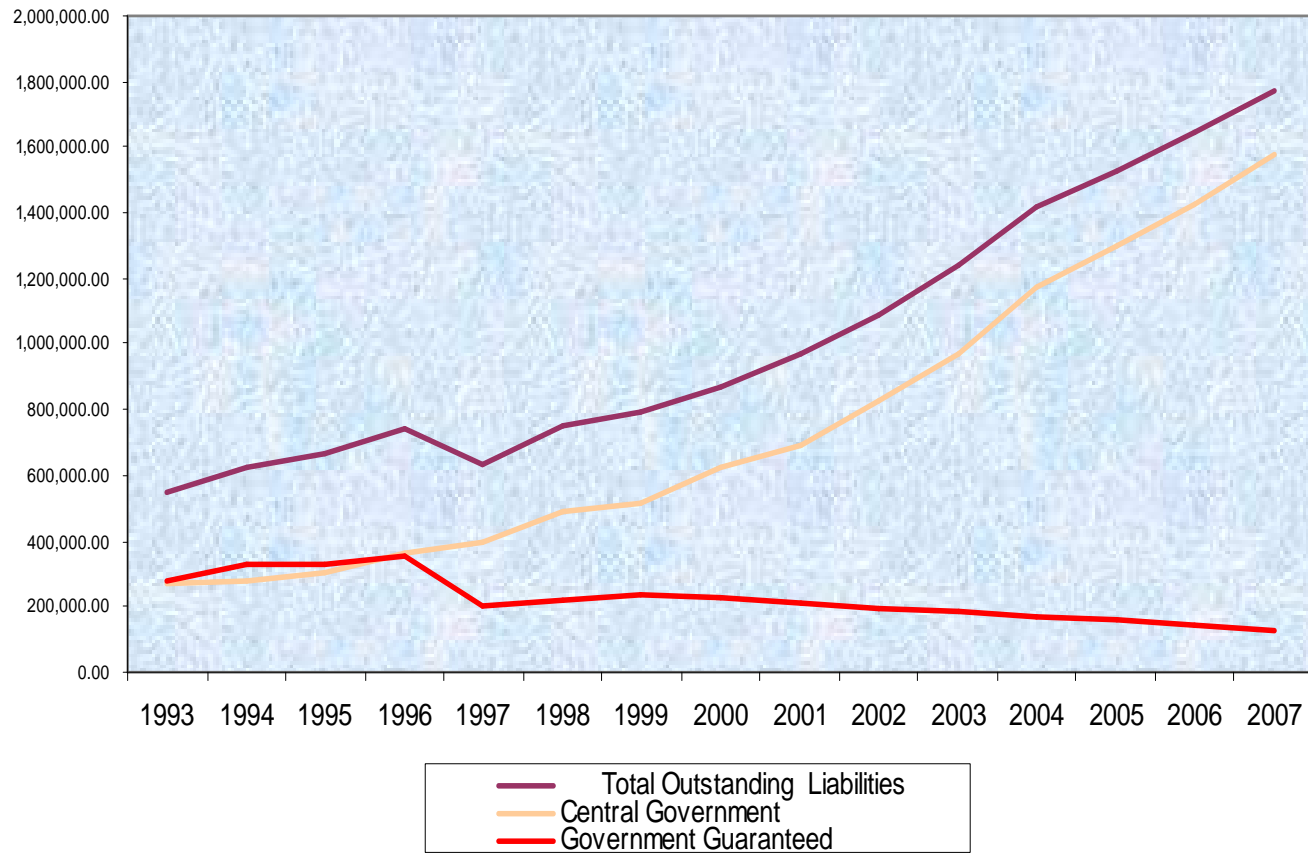
BASELINE PROJECTIONS

	2008	2009	2010	2011	2012
Total Rev. & Grants (EC\$ M) <i>% GDP</i>	798.5 29.7	745.9 28.9	820.2 30.4	862.6 30.1	883.7 28.8
Current Revenue (EC\$ M) <i>% GDP</i>	771.1 28.7	722.4 27.9	758.2 28.1	800.6 27.9	860.7 28.1
Current Expenditure (EC\$ M) <i>% GDP</i>	620.4 23.2	666.9 26.1	704.2 26.2	752.0 26.6	803.0 26.5
Capital Expenditure (EC\$ M) <i>% GDP</i>	181.2 6.7	218.4 8.5	283.3 10.5	294.2 10.4	271.3 9.0
Total Expenditure (EC\$ M) <i>% GDP</i>	801.6 29.8	885.3 34.6	987.5 36.8	1,046.2 37.0	1,074.3 35.5

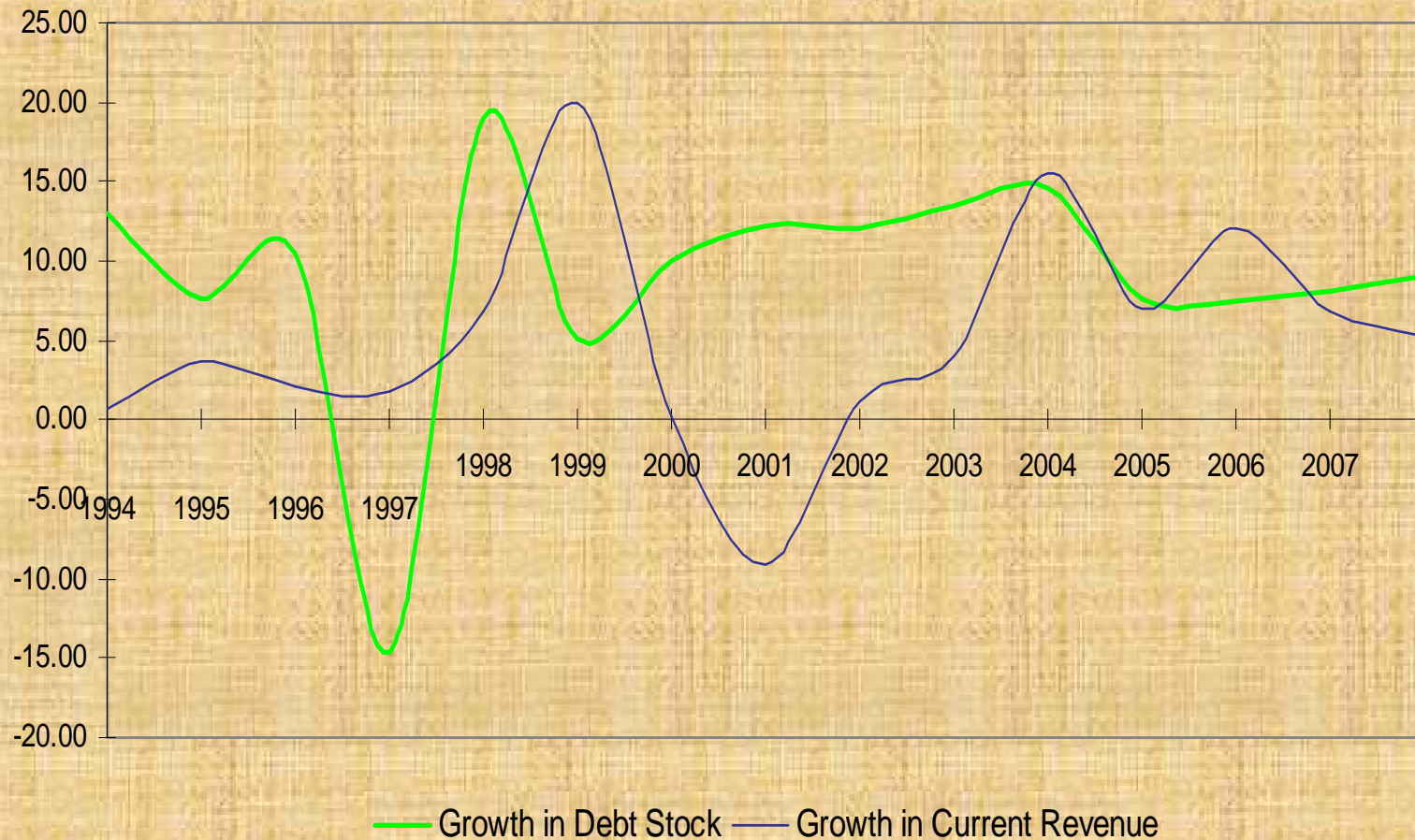
BASELINE FISCAL INDICATORS

	2008	2009	2010	2011	2012
Current Balance (EC\$M)	150.7	55.5	54.1	48.7	57.7
% GDP	5.6	2.2	2.0	1.7	1.9
Overall Balance (\$ECM)	-3.2	-139.4	-167.2	-183.6	-190.6
% GDP	-0.1	-5.5	-6.2	-6.5	-6.3
Primary Balance					
% GDP	2.8	-1.8	-2.5	-2.6	-2.3
Total Public Debt (EC\$M)	1,774.7	1,923.5	2,085.9	2,276.9	2,504.4
% GDP	66.0	75.2	77.6	80.4	82.6
CG Ext Debt Service/ Exports of Goods and Services (%)	8.4	10.4	12.2	10.4	11.4
CG Debt Service /Current Revenue (%)	27.0	36.4	39.2	30.7	35.8

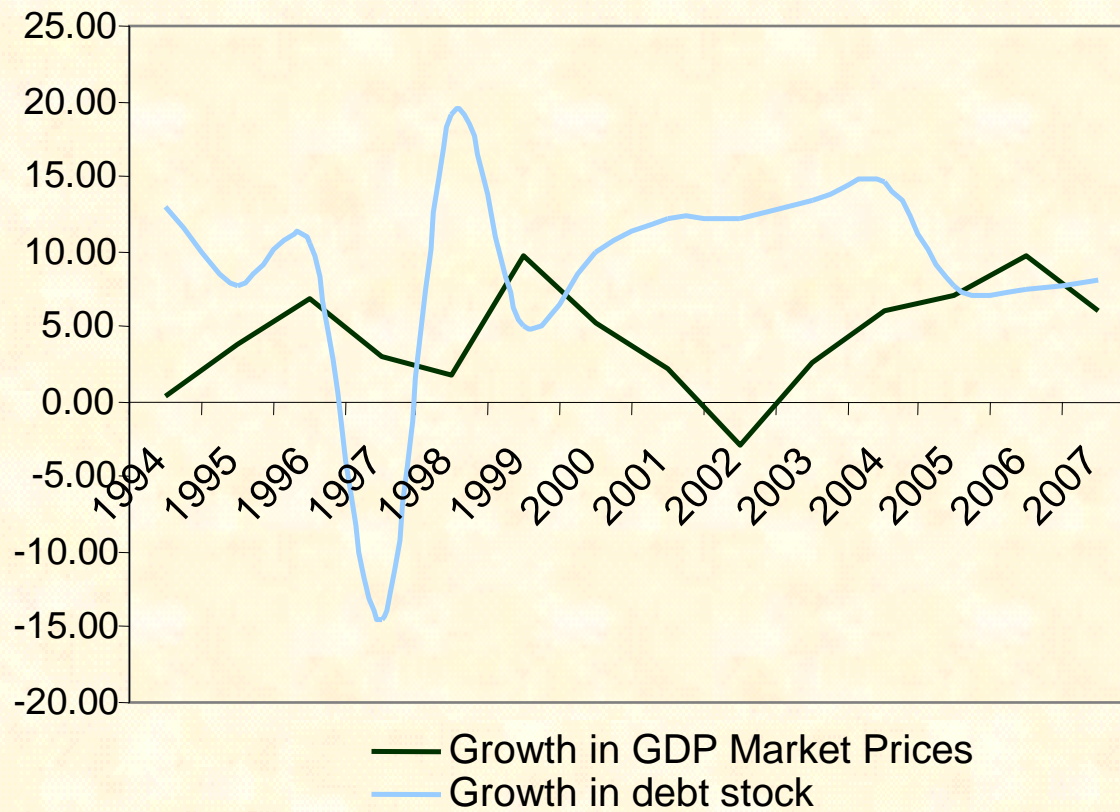
Profile of Public Sector Debt 1993-2007



Growth in Debt Versus Growth in Current Revenue



Growth in Debt Stock Versus Growth in GDP (Market Prices)



Story Behind the Graphs

- Currently total outstanding liabilities approx \$1.8 billion.
- This reflects growth of over 200% from 1994-2007.
- Government's debt stock has increased at a more significant pace than improvements in capacity to repay these obligations reflected in the following;
 - *Average growth in debt over the period; 9%*
 - *Average growth in current revenue; 5.2%*
 - *Average growth in GDP market prices; 4.4%*
 - *Average growth in real GDP; 4.2%*
- Debt sustainability dynamics are **not sustainable** given continuation of current polices

Economic Growth

- Over the past three decades the economy of Saint Lucia has been experiencing decelerated rates of real GDP Growth

- average growth rate 1980's : 6.51%

- average growth rate 1990's : 2.16%

- average growth rate 2000's : 1.84%

Impact of Global Recession on Growth Outcomes

- The current global economic slowdown and financial crisis has been labeled the “worst financial shock” since the 1930’s (IMF 8/10/2008).
- The crisis is characterized by the following;
 - Collapse of the US Housing market
 - Shocks to mature financial markets evidenced by institutional failures, distress and credit crunch.
 - Sustained increases and high oil and commodity prices.
 - A Downward spiral in confidence and trust in global financial markets
 - economic softening of leading advanced countries such as USA and Germany

Impact of Global Recession on Growth Outcomes

- The crisis is likely to impact negatively on Saint Lucia in the following manner:
 - decline in visitor arrivals as job losses and uncertainty increase.
 - possible decline in foreign direct investment
 - adverse impact on portfolios of institutional and individual investors.
 - adverse impact on revenue as large projects do not materialize and tourism contracts due to fall in imports.

Inflation Outlook

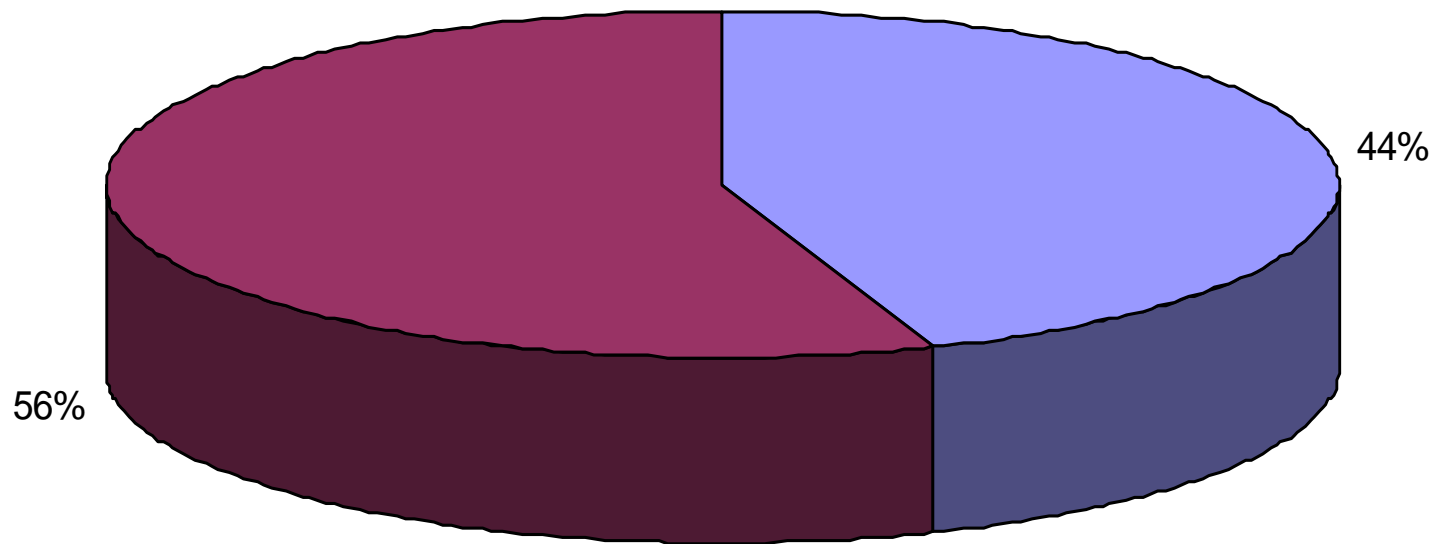
- Downward pressure on prices due weak global demand and collapse in commodity prices (energy and food)

2007	2.8%
2008	7.2%
2009	1.0%
2010	1.5%

FINANCIAL SECTOR

Growing concerns in the region about:

- Widening effects of CL Financial Group
- Collapse of Stanford Group
- Flight to quality



■ DOMESTIC ■ EXTERNAL

CENTRAL GOVERNMENT DEBT PROFILE

Dec 2007-2008

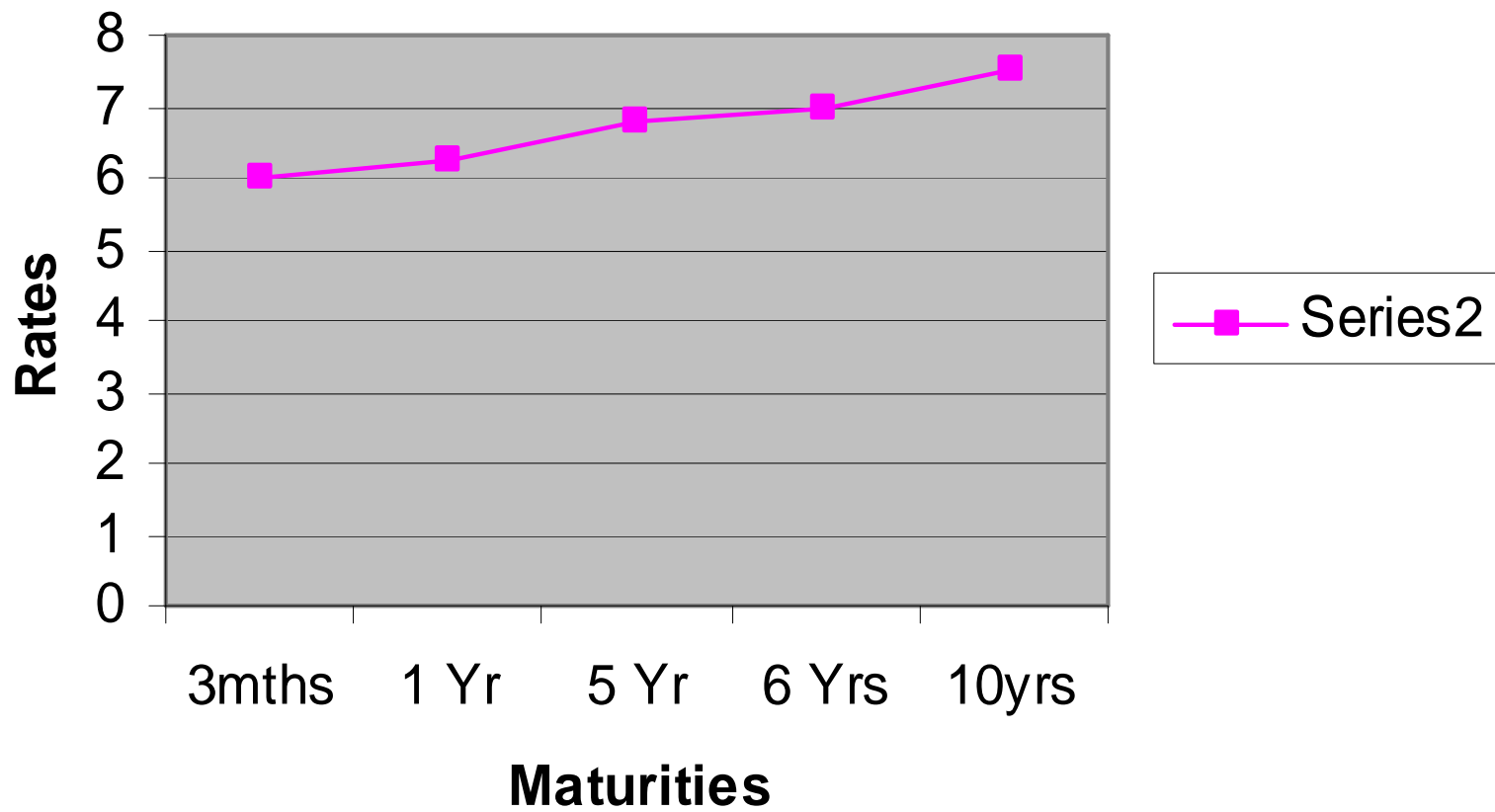
	2007	%	2008	%
BONDS	759,222,209	48	792,803,536	50
LOANS	745,568,026	47	719,416,963	45
TBILLS	70,934,627	5	83,547,293	5
TOTAL	1,575,724,862	100	1,595,767,792	100

Debt by Currency Composition

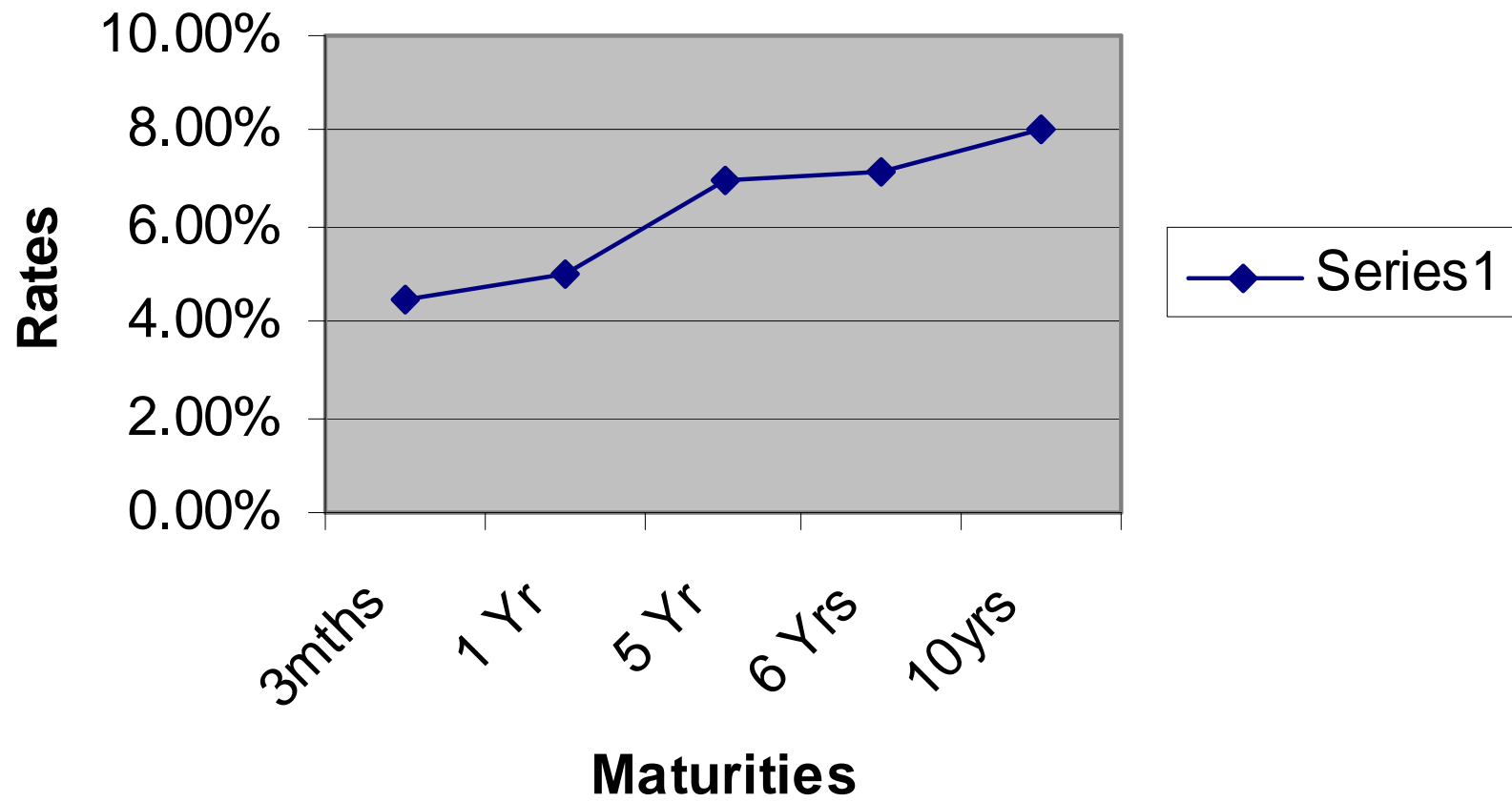
December 31st 2008

Currency	Disbursed Outstanding Debt		%
	Central Government	Public Debt	
	EC\$	EC\$	
Canadian Dollar (CAD)	0.00	0.00	0%
Barbados Dollars (BDS)	10,125,000.00	10,125,000.00	1%
ECU/EURO	52,190,928.93	73,842,855.10	4%
Eastern Caribbean dollars (ECD)	881,481,208.76	962,609,678.12	54%
British Pound (GBP)	897,694.17	897,694.17	0%
Special Drawing Rights (SDR)	145,634,544.53	145,634,544.53	8%
United States Dollar (USD)	481,269,526.23	553,581,050.67	31%
Kuwaiti Dinars(KWD)	24,168,889.16	24,168,889.16	1%
	1,595,767,791.78	1,770,859,711.75	

GOSL 2007 Yield Curve



GOSL 2009 Yield Curve



Recommendations

Recommendations: Economic Growth

- **Given the importance of growth to issues regarding debt sustainability it may be useful to focus on some growth enhancing reforms over the medium term**
- **The formulation of a medium term development agenda and strategy which is supported by strong/careful research and analysis**
- **A working group should be appointed to design and implement an adjustment programme that will aim to address structural growth issues as well as address the debt sustainability dynamics.**

Conclusions

- Difficult policy decisions to be taken in response to current economic environment
 - Maintain fiscal prudence:
 - Subsidies policy
 - Early salary negotiations
 - Ceiling of capital expenditure to GDP
 - Ceiling on borrowing
 - Consolidation of ministries
 - Concessions – inter-ministerial committee to review concessions to all sectors
 - Eliminate wastage where possible – eg policy on double sided printing

Conclusions

- GOVERNMENT OBJECTIVES
 - Preserve jobs and increase employment
 - Maintain fiscal prudence – backload fiscal convergence to prudential limits over medium-term
 - Stimulate economic activity
 - Private sector-led growth
 - Tax policies – incentives; productive spending
 - Non-financial policies
 - Institutional
 - Public sector efficiency
 - More productive use of foreign exchange
 - Reduce consumption of fuel – import bill is \$195 m in 2008
 - Limit importation and spending on cars
 - Policies to lower spending on cars

Conclusions

- Policies to enhance growth prospects
 - Medium term strategy
 - Inward – looking strategies
 - Policies to support expansion in **all agriculture**:
 - Stimulate activity in **construction** sector:
 - Public sector investment - Infrastructure
 - Support to **tourism**

THANK YOU!