



**GOVERNMENT OF SAINT LUCIA**

**P R O S P E C T U S**

**FOR EC\$27 MILLION TREASURY BILL ISSUE**

**Ministry of Finance & Physical Development**  
**Financial Center**  
**Bridge Street**  
**Castries**  
**SAINT LUCIA**

**Telephone: 1 758 468 5500/1**  
**Fax: 1 758 453 1648**  
**Email: [minfin@gosl.gov.lc](mailto:minfin@gosl.gov.lc)**

**PROSPECTUS DATE:** May 2007

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## NOTICE TO INVESTORS

This Prospectus is issued for the purpose of giving information to the public. The Government of Saint Lucia accepts full responsibility for the accuracy of the information given and confirms having made all reasonable inquiries that to the best of its knowledge and belief there are no other facts, the omission of which would make any statement in this Prospectus misleading.

This prospectus contains excerpts from the Saint Lucia Economic Review 2006. Statements contained in this Prospectus describing documents are provided in summary form only, and such documents are qualified in their entirety by reference to such documents. The ultimate decision and responsibility to proceed with any transaction with respect to this offering rests solely with you. Therefore, prior to entering into the proposed investment, you should determine the economic risks and merits, as well as the legal, tax and accounting characteristics and consequences of these treasury bill offerings, and that you are able to assume those risks.

This Prospectus and its content are issued for the specific treasury bill issue described herein. Should you need advice, consult a person licensed under the Securities Act or any other duly qualified person who specializes in advising on the acquisition of government instruments or other securities.

## ABSTRACT

The Government of Saint Lucia (hereafter referred to as GOSL) proposes to raise twenty seven million Eastern Caribbean dollars (EC\$27.0m) through the issue of a 91-day treasury bill. The treasury bill is being issued to refinance a maturing treasury bill.

The treasury bill is being raised under the authority of the Revised Treasury Bills (Amendment) Act, 2003 under the Constitution of Saint Lucia, the interest and principal repayments are a direct charge on the Consolidated Fund.

The GOSL has not been rated by any Regional or International Rating Agency. However, GOSL assigns very high priority to honouring its debt commitments. It has an unblemished track record in meeting debt service obligations in a timely manner, and in complying with the terms and conditions of debentures and loan agreements. GOSL has also established a Debt and Investment Unit in the Ministry of Finance to facilitate its debt and investment management.

The 91-day treasury bill will be issued on the Regional Government Securities Market (RGSM) and will be traded on the Eastern Caribbean Securities Exchange Ltd (ECSE) under the trading symbol LCB220807.

The treasury bill will be opened for bidding commencing at 9:00 a.m. on 22 May 2007 and close at 12:00 noon on the same day.

A competitive uniform price auction will be run at 12:00 noon on 22 May 2007. Settlement for successful bids will take place on 23 May 2007.

## I. GENERAL INFORMATION OF TREASURY BILL ISSUE

Issuer: The Government of the Saint Lucia (GOSL)

Address: The Ministry of Finance and Physical Development  
Financial Center  
Bridge Street  
Castries  
Saint Lucia (WI)

Email: minfin@gosl.gov.lc

Telephone No.: 1-758-468-5500/1

Facsimile No.: 1-758-453-1648

**Contact persons:**  
Mr. Philip Dalsou, Permanent Secretary (Ag)  
Mr. Isaac Anthony, Director of Finance  
Mr. Francis Fontenelle, Deputy Director of Finance  
Mr. Agosta Degazon, Accountant General

Date of Publication: May 2007

Purpose of Issues: The treasury bill will be issued to refinance a maturing treasury bill.

Amount of Issue: Twenty seven million Eastern Caribbean Dollars (\$27,000,000.00)

Legislative Authority: Revised Treasury Bills (Amendment) Act, 2003

## II. INFORMATION ABOUT THE TREASURY BILL ISSUE

- a. GOSL proposes to auction a twenty-seven million (EC\$27.0m) 91-day treasury bill.
- b. Maximum bid price for the 91-day treasury bill is 6.00%.
- c. The treasury bill will be opened for competitive bidding commencing at 9:00 a.m. on 22 May 2007 and close at 12:00 noon on the same day.
- d. The treasury bill issue will be settled on 23 May 2007.
- e. The maturity date of the treasury bill will be 22 August 2007.
- f. The treasury bill will be issued in the Regional Government Securities Market (RGSM) and will be traded on the Eastern Caribbean Securities Exchange Ltd (ECSE).
- g. A Competitive Uniform Price Auction with open bidding will determine the price of the issue.
- h. The treasury bill will be identified by the trading symbol LCB220807.
- i. Each investor is allowed one (1) bid with the option of increasing the amount being tendered until the close of the bidding period.
- j. The minimum bid amount is \$5,000.
- k. The Bid Multiplier will be set at \$1,000.
- l. Investors will participate in the auction through the services of any of the licensed intermediaries.
- m. The current list of licensed intermediaries is as follows:
  - ABI Bank Limited Antigua and Barbuda
  - Antigua Commercial Bank Limited
  - Bank of Nevis Limited
  - Bank of Saint Lucia Limited
  - National Commercial Bank (SVG) Limited
  - National Mortgage Finance Company of Dominica Limited
  - National Bank of Anguilla Ltd.
  - St. Kitts Nevis Anguilla National Bank Limited
  - Republic Finance and Merchant Bank Ltd. (FINCOR) – Grenada
  - Caribbean Money Market Brokers Ltd (CMMB Saint Lucia)
  - Caribbean Money Market Brokers Ltd (CMMB) – Trinidad and Tobago
- n. All currency references will be the Eastern Caribbean Dollar unless stated otherwise.

### **III. FINANCIAL ADMINISTRATION AND MANAGEMENT**

#### **1. Debt Management Objectives**

The objective of the GOSL is to ensure that the proceeds of debt are used in the most effective manner and that the terms and conditions of debt, including maturity and interest rate, result in the most efficient repayment schedules that are compatible with the periodic cash flows of the Government.

#### **2. Debt Management Strategy**

The debt management strategy of the Government is an integral part of its programme of fiscal consolidation. The key elements of the GOSL's debt management strategy include:

- Maintaining a satisfactory and prudent debt structure;
- Refinancing high cost loans and facilities to reduce debt servicing and to adjust the maturity profile of Central Government Debt in a way that balances lower financing cost and risk;
- To support the development of a well functioning market to provide funds for the government at the lowest possible cost.

#### **3. Transparency and Accountability**

The GOSL is continuously seeking ways of improving its systems of accountability and transparency. With a view to adopting more prudent and transparent fiscal management practices as well as enhancing the functioning of the Regional Government Securities Market (RGSM), the GOSL intends to borrow using a variety of instruments. As a consequence, disclosure of information on the cash flow and debt stock will be made available frequently to all investors, consistent with the rules of the Regional Debt Coordinating Committee (RDCC). The Government intends to use the services of BOSL in facilitating timely disclosure of information to the market on an ongoing basis.

#### **4. Institutional Framework**

The Debt & Investment Unit (DIU) of the Ministry of Finance (MOF) of the GOSL is charged with the responsibility of administering the Government's debt portfolio on a day-to-day basis and implementing the Government's borrowing strategy. The unit is directly accountable to the Director of Finance.

## **5. Risk Management Framework**

The establishment of an effective and efficient debt management system as a major element of economic management is of paramount importance to the Government of Saint Lucia (GOSL). Accordingly, attempts have been made to strengthen the capacity of the Debt & Investment Unit (DIU). Consequently, the DIU's functions have been broadened to include:

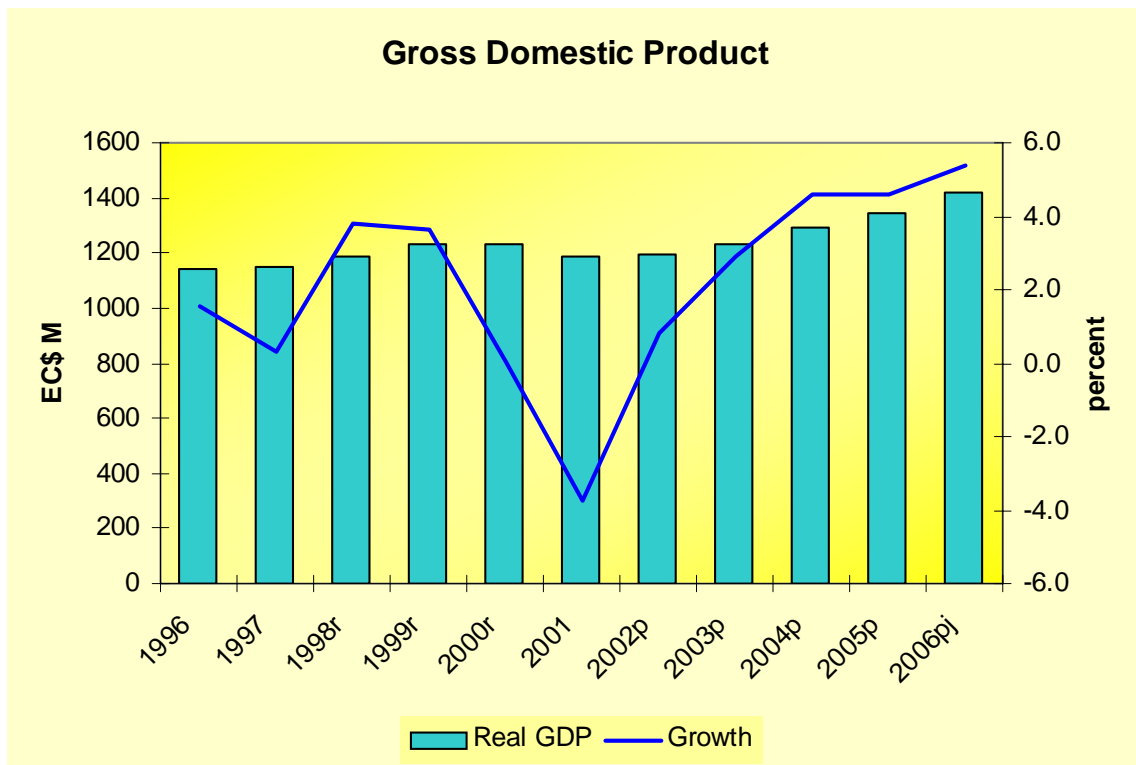
- Assisting in the formulation of debt management policies and strategies;
- Managing the debt portfolio to minimize cost with an acceptable risk profile;
- Conducting risk analysis and developing risk management policies; and
- Conducting debt sustainability analysis to assess optimal borrowing levels.

#### IV. ECONOMIC PERFORMANCE

### 1. MACRO-ECONOMIC OVERVIEW

#### Domestic Economic Developments

Preliminary data indicate that real output in the economy grew by an estimated 5.4 percent in 2006, primarily led by robust activity in the construction sector. Following growth of 4.6 percent in 2005, Saint Lucia recorded its fifth consecutive year of real growth driven by increased value-added in the construction, road transport, electricity and banking sectors. In contrast to the positive growth and contribution by most sectors to this general economic expansion, the tourism sector is estimated to have contracted by 2.7 percent while maintaining a leading share of GDP.



## **2. SECTORAL DEVELOPMENTS**

### **TOURISM**

Despite the solid growth reported in global tourism, Saint Lucia's tourism sector experienced its first period of contraction since its full recovery from the downturn associated with the 9/11 terrorist attacks on the United States in 2001. Real activity in the sector, as proxied by the hotel and restaurant sub-sectors, fell by 2.7 percent. This was translated to a contribution to real GDP of 12.4 percent. Notwithstanding, tourism remains the lead productive sector in the economy which provides the primary source of foreign exchange and induces growth in other sectors.

In the review period, total visitor arrivals declined by 7.1 percent to 694,509. This was reflective of lower arrivals in all categories of visitors. Arrivals in stay-over and yachting sub-sectors, which contribute more significantly to value added in the tourism sector, fell by 4.9 percent and 7.7 percent respectively. Similarly, cruise arrivals continued to trend downward, decreasing by 8.8 percent. The overall performance of the tourism sector continues to be largely influenced by external developments. Arrivals were adversely affected by, *inter alia*, the staging of the FIFA World Cup, high international petroleum prices, the recovery of the Asian markets that were hit by the tsunami in 2004; expectations of an active hurricane season and strict travel regulations.

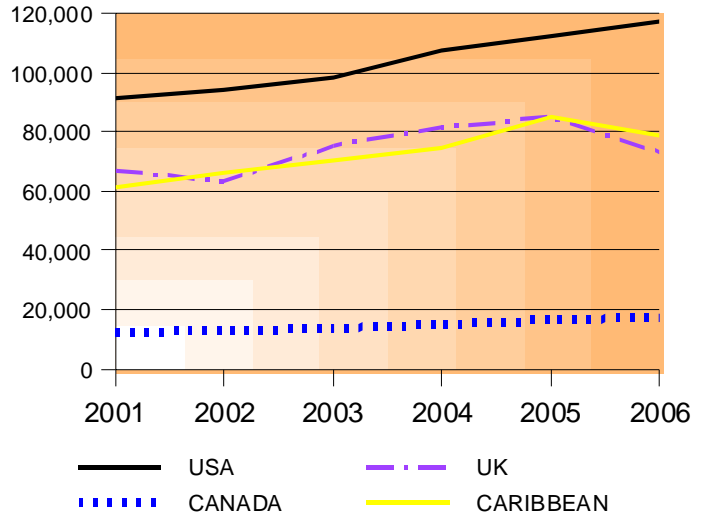
Accordingly, preliminary data indicate that visitor expenditure fell in 2006 to EC\$ 782.1 million, due to the fall in arrivals as well as lower daily expenditure by most markets.

#### **Stay-over Arrivals**

After posting strong average growth of 7.9 percent since 2003, stay-over arrivals declined by 4.9 percent in 2006 to 302,510. This was on account of a considerable drop in arrivals in the first half of 2006 which was only partially offset in the second half. Growth was observed in the largest market, the US, as well as the Canadian market while all other markets registered declines. The second and third largest source markets, the UK and the Caribbean, accounting for 88.8 percent of stay-over arrivals, recorded a combined decline of 10.4 percent. High and uncertain oil prices may have led to the marked declines observed in April from the main markets.

Following growth of 5.1 percent in 2005, US arrivals increased by 4.3 percent to 117,450. The recommencement of Air Jamaica flights alongside high levels of consumer confidence in the US, contributed to the growth in this market. The improved performance was attained amidst an external environment characterized by rising international oil prices and ongoing terrorist threats related to geopolitical instability owing to the US war on terror. The upturn in the first quarter was attributed to record cold winters in the US. There was however, a 3.0

**Stay-over Arrivals by Major Markets**



percent decline in arrivals in December compared to the same period in 2005 due to the extraordinary warm winter that was experienced in the US during that month. The reduction in the number of flights by American Eagle also impacted negatively on arrivals from this market.

Arrivals from the UK posted a double-digit decline of 13.5 percent to 73,312, after three consecutive years of growth. The performance of the UK market, which commands on average 25 percent of stay over arrivals, was responsible for 74.0 percent of the decline of total stay over arrivals in 2006. This decline in arrivals from the UK was partly due to the untimely loss of BMI's flights early in the peak winter season, but was subsequently mitigated by the increase in weekly flights from Virgin Atlantic. This market, as well as other European markets, was adversely affected by the hosting of the FIFA World Cup in Germany. The growing popularity of cheaper travel within Europe and increasingly attractive cruises to the Mediterranean also had a dampening effect on UK arrivals to Saint Lucia. This was compounded by the closure of Club Saint Lucia, which attracts business mainly from the UK. In addition, the tour operator business, which significantly influences UK outbound traffic, is becoming increasingly competitive to the detriment of the smaller high-end tour operators which promote Saint Lucia.

Arrivals from France and Germany declined by 48.0 and 22.6 percent respectively. This was due to airlift and marketing challenges coupled with increased competition from other cheaper Caribbean islands.

After recording robust growth of 14.1 percent in 2005, arrivals from the Caribbean declined by 7.4 percent to 78,464. The reduction in market share in this events-driven market was as a result of more aggressive promotional activity by competing CARICOM destinations. The rise in the cost of regional travel militated against growth in this market. Despite the depreciation of the Euro against the US dollar, the number of visitors from the French West Indies continued to oscillate, growing by 1.0 percent in 2006. This was due to modest increases in arrivals prior to the closure of Club Saint Lucia, which normally accommodates such visitors, in late 2006.

Canadian arrivals increased by 6.0 percent to 17,491 in 2006. This increase was mainly on account of the continued strength of the Canadian dollar against the US dollar, which is fixed to the EC dollar, rendering travel to the Caribbean relatively cheap. This market continues to be seasonal as a result of limited airlift in the non-winter months and inadequate marketing.

### **Occupancy**

In keeping with the downturn in stay-over arrivals, the overall average hotel occupancy fell by 3.8 percentage points to 64.9 percent. Whilst maintaining the highest levels, all-inclusive hotels were the most affected by the fall in stay-over arrivals, posting a drop of 6.6 percentage points to 67.4 percent. Occupancy at conventional hotels (European plan type hotels) declined by 4.2 percentage points to 61.8 percent while small hotels experienced marginally lower occupancy levels of 65.6 percent. September continued to record the lowest levels of occupancy at just above 50 percent.

### **Cruise Arrivals**

Following a marked decline of 18 percent in 2005, cruise passenger arrivals contracted by 8.8 percent to 359,593 in 2006. This was occasioned by the closure of the Northern Wharf at Port Castries which was under renovation. The continuation of shorter itineraries by cruise liners out of the US mainland in response to rising fuel costs and the widespread media coverage of incidents of norovirus flu contributed to softer demand for cruises to Saint Lucia. Cruise ship calls increased on account of more but smaller European vessels with lower passenger capacity than the traditional American cruisers.

### **Other Arrivals**

Available data show that during 2006 yacht arrivals decreased by 7.7 percent to 25,355 compared to the surge of 21.9 percent in 2005. The number of excursionists continued the downward trend of the past two years, declining by 6.5 percent in 2006 to 7,051 arrivals.

## AGRICULTURE

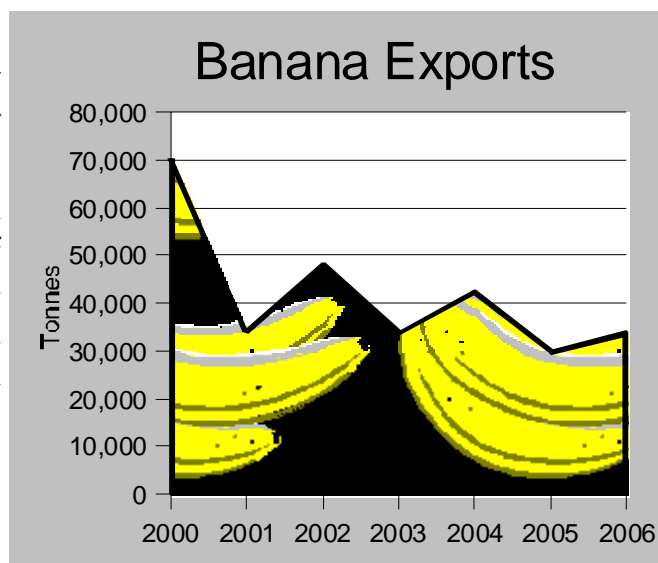
The performance of the agriculture sector was characterized by a general expansion and recovery in output. Preliminary estimates suggest that the sector recorded real growth of 9.8 percent after three consecutive periods of decline. This favourable outturn was attributed to increases in value-added of 24.1 percent and 11.4 percent in the fisheries and banana sub-sectors respectively. However, the livestock sub-sector was estimated to have contracted by 9.7 percent in the review period. In keeping with the improvement in the sector's performance, agriculture's contribution to GDP moved up to 3.2 percent of GDP, 1.3 percent of which was accounted for by bananas.

Notwithstanding this improvement, the sector continues to be constrained by a myriad of factors. These include limited access to financing and limited capacity of banana companies and the various associations and co-operatives to extend required support to farmers. Commercial bank credit to agriculture continued on a downward trend, falling by 2.2 percent in 2006 and amounted to a negligible 0.9 percent of total credit. This reflects the lack of confidence in the sector as a viable source of economic growth and the high levels of delinquency associated with farmers. This has hampered the farmers' ability to address mitigating factors such as pest control in a timely fashion. Furthermore, the sector's potential is compromised by structural and marketing deficiencies.

### Bananas

#### *Output*

Total exports of bananas by the Windward Islands increased by 5.5 percent to 61,147 tonnes in 2006, partly reversing the 25.7 percent contraction in the previous year. Saint Lucia continued to account for a dominant share of 55.6 percent of Windward Islands banana exports to the UK. St. Vincent's exports recorded a contraction of 9.2 percent while Dominica posted a modest increase of 7.6 percent. Accordingly, Windward Island banana export revenue grew by 7.8 percent to \$85.4 million.



The domestic banana industry was characterized by a rebound in the production and exports of output in the review period. The total volume of bananas produced in 2006 expanded by 13.3 percent to 33,982 tonnes. This signals a recovery from the marked decline of 29.1 percent in the previous year, when output was recorded at its lowest level of 30,007 tonnes. The upturn in production coupled with the continued strength of the pound sterling resulted in a 15.9 percent increase in Saint Lucia's revenue earnings from banana exports to \$48.1 million.

Notwithstanding this overall turnaround in output, quarterly growth in the volume of output was uneven in 2006. Growth was particularly strong in the second half as the rate of increase in output quickened to offset the 5.5 percent decline in production in the first quarter. The roll-over effects of problems encountered in 2005 such as leaf spot infestation, high input costs and unavailability of sufficient planting material were responsible for this outturn. These factors were in large measure addressed in 2006 and resulted in an unexpected oversupply of bananas in late 2006, above Saint Lucia's contracted volume to the UK. WIBDECO was accordingly unable to export the excess fruit while purchasing it from farmers.

The favourable performance of the banana industry was principally attributed to the control of the yellow sigatoka (leaf spot) disease, owing to an improvement in the arrangement for crop protection and monitoring. This was due to the intervention by WIBDECO in providing assistance to farmers in supplying the required pesticides. Farmers benefited from cheaper inputs that were highly subsidized by WIBDECO. This led to a marked increase in the use of fertilizers and other inputs by farmers who had previously abandoned their fields temporarily.

More favourable weather conditions also contributed to the increased output. In 2006, Saint Lucia experienced precipitation (rainfall) levels that were ideal for banana production. Moreover, in contrast to 2005, there were no mitigating weather systems as evidenced by the absence of a prolonged dry season, heavy winds and excessive rainfall.

The harvesting of fruit which were planted in 2005 under the tissue culture programme, was also a major contributing factor to the boost in production through higher yields per acre. The impact of this was realized in the second half of 2006 when production increased by 26.1 percent. In addition, the industry benefited from improved agronomic and husbandry practices, better maintenance of tissue culture fields by farmers, extensive rehabilitation and replanting efforts undertaken by BERU and enhanced irrigation infrastructure.

### **Non -Traditional Crops**

Available data<sup>1</sup> indicate that the production of non-traditional crops for domestic consumption grew appreciably by 20.9 percent to 2,691.9 tonnes. This performance follows three consecutive years of decline in total hotel and supermarket purchases. The sub-sector earned \$10.6 million from the domestic purchases of these crops, owing to a considerable increase in purchases by hotels. As a result, hotel purchases accounted for a much larger share of 34.5 percent of domestic purchases.

Supermarkets purchased 1,762.1 tonnes of local produce, an increase of 20.9 percent over 2005. This led to a 28.3 percent rise in revenue earned from supermarket sales to \$5.2 million. This outturn was attributed to higher domestic demand, as well as a larger supply of agricultural produce boosted by favourable weather conditions. There were increases in the quantity and value of all categories of crops, with traditional vegetables registering the most significant growth of 65.4 percent, yet accounting for only 16.4 percent of supermarket purchases. This performance was linked to higher unit prices paid to farmers for all crops with the exception of traditional vegetables.

Notwithstanding the decline in stay-over tourists, domestic hotel purchases increased by 20.8 percent to 929.8 tonnes. The growth in earnings from these purchases outweighed the increase in quantities purchased, with a value of \$3.4 million, owing to better prices offered by hotels. This was largely influenced by the initiatives undertaken by Oxfam International to assist farmer co- operatives in improving their sales arrangements, production planning and marketing strategies. This may signal a strengthening of the linkages between the agriculture and tourism sectors.

### **Fisheries<sup>2</sup>**

Available data indicate that there was an overall increase of 15.7 percent to 989.1 tonnes in fish landings during the first half of 2006. This was attributed to favourable climatic conditions which influenced migratory patterns and levels of capture of pelagic species. As a result, the estimated value of fish landed increased by 31.1 percent to \$12.7 million. There was an increase in the average price of all species with the exception of lobster, which posted a 1.6 percent decline in the average price to \$36.6 per pound.

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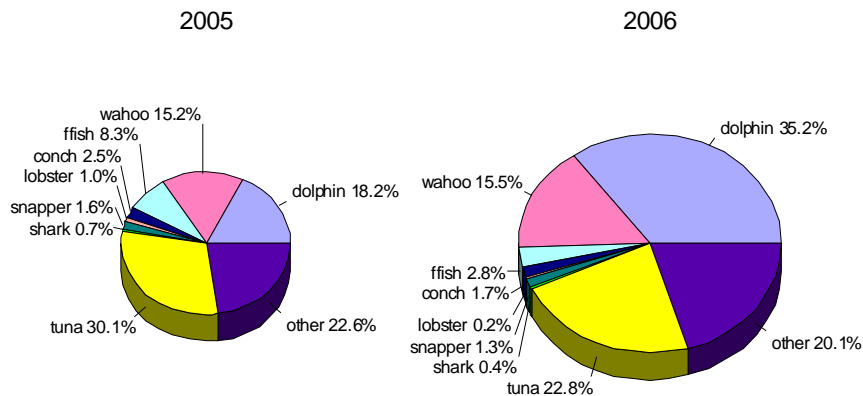
<sup>1</sup> Data on exports for the review period is unavailable.

□

<sup>2</sup> Data is currently unavailable for the second half of 2006.

□

# Fish Landing by Species



Increases in fish landings were observed for dolphin (124.6 percent), wahoo (17.6 percent) and other species (3.0 percent). On the other hand, decreases in landings were observed for flying fish (61.6 percent), conch (19.1 percent), lobster (77.9 percent), snapper (5.1 percent), shark (25.5 percent) and tuna (12.2 percent). Dolphin and tuna were the two major species typically landed and accounted for 58 percent of all landings for the first half of 2006. The estimated landings of dolphin were recorded at 348.5 tonnes while landings of tuna totalled 225.5 tonnes.

Landings at the two largest sites, Vieux-Fort and Dennery, which together account for 49.8 percent of total landings, increased by 35.3 percent and 24 percent respectively. While sites at Micoud and Soufriere recorded increases, landings at Laborie more than doubled, increasing by 29.2 tonnes to 57.5 tonnes. By contrast, the sites of Castries, Bannanes, Choiseul and Gros Islet, which collectively accounted for 14 percent of total landings, saw declines of 45 percent, 48 percent, 17 percent and 21 percent respectively.

## Livestock

Available data suggest a contraction in output in the sector, all of which is produced for domestic consumption. Notwithstanding, the development of the sector continued to be beset by a number of factors such as the absence of an abbatoir which would assist in fostering linkages with the tourism sector.

Indications are that chicken production<sup>3</sup> fell by 16.5 percent to 811.4 tonnes, continuing on its fluctuating trend. As a result, revenue generated from purchases fell to \$6.9 million, notwithstanding moderately higher prices. This was partly attributed to exit of some farmers from the poultry industry due to financial difficulties. As a result, domestic production only satisfied an estimated 17.4 percent of local demand. By contrast, preliminary data show that production of pork doubled in 2006 to 261.1 tonnes with a value of \$3.2 million. This marked its first record of consecutive annual growth and the highest level to date, as more farmers were engaged in pork production to meet domestic demand.

During the review period, 23.8 percent fewer eggs were produced, totalling 848, 000 dozens which were valued at \$4.2 million. Egg production was adversely affected by shortages of feed and low yields from older birds, particularly in the first quarter.

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<sup>3</sup> The estimates on pork and chicken production were made on the basis of the number of import license applications. This regime stipulates that 20 percent of chicken and 40 percent of pork purchased by an importer must be sourced from the domestic market. It is noteworthy that the data presented here does not capture all sales outside the formal wholesale and retail trade.

## MANUFACTURING

Activity in the manufacturing sector is estimated to have followed a steady path of growth, increasing by 6.7 percent in the review period. The favourable performance of leading sub-sectors was boosted by higher demand in the domestic and regional markets. Furthermore, the beverage sub-sector benefited from the penetration of new regional markets. This overshadowed the impact of challenges facing the sector, which were compounded by rising operating costs due to record high oil prices. This was supported by increased credit to the sector. However, these developments resulted in a marginal increase in the sector's contribution to GDP to 6.8 percent in 2006, as other sectors experienced more robust growth.

### **Production**

Preliminary data suggest that the value of production in the manufacturing sector grew by 5.6 percent to \$168.1 million, following growth of 11.9 percent in 2005. This outturn is attributed to the continued strong performance of the food and beverage, paper and paperboard and electrical sub-sectors. As in previous years, these sub-sectors accounted for a combined share of 78 percent of the total output of the manufacturing sector.

### *Food and Beverages*

Food and Beverage production maintained the largest share of manufacturing production in Saint Lucia, accounting for 49 percent of the total. During the review period, performance was mixed within this sub-sector. In keeping with trend, the value of production grew by 5.8 percent to 82.6 million. This was driven by an increase of 8.9 percent in the value of production of beverages to \$71.6 million. By contrast, the value of food production recorded a decline of 11 percent.

While non-alcoholic beverages grew by 4.1 percent, alcoholic beverages showed a pronounced increase in production, expanding by 10.5 percent and accounted for 76.6 percent of total beverage production. This was mainly reflective of the entry into a non-traditional regional export market. The introduction of new products in 2006 also contributed to the growth in domestic and export demand. By contrast, there was a 10.8 percent contraction in the value of food products to \$11.0 million.

### *Electrical Products*

Over the review period, output in this sub-sector contracted by 0.7 percent to \$28.1 million and accounted for 16 percent of total manufacturing production. This represents a significant turnaround from the 20 percent increase in the previous year. The firms in this sub-sector which produce for export mainly to the United States, have experienced declining demand for their goods as a result of price competition from China and India.

### *Paper and Paperboard*

Paper and paperboard manufactures registered an increase of 9.3 percent in value to \$21.5 million. This corresponded to a greater share of 12.9 percent of the total value of manufacturing production. The improved performance of this sub-sector was partly linked to the recovery in the export of bananas in the Windward Islands. There was an increase of 9.7 percent in the value of production of commercial boxes, due to higher demand by regional manufacturers and increased activity in the domestic wholesale and retail sector.

### *Other Sectors*

Production in other sub-sectors which accounted for 21.4 percent of total manufacturing production, rose by 8.3 percent to \$35.9 million. There were mixed performances among the other manufactured products. Of significance was the increase in the production of wood and wood products (71.7 percent), the resurgence of which was associated with the substantial level of construction activity in the domestic economy. Expansions were also recorded in other sub-sectors, notably chemicals (21.6 percent), furniture (18.3 percent), plastic products (17.8 percent), rubber products (15.7 percent) and metal products (14.9 percent).

Production of copra and copra derivatives grew by 6.4 percent to \$3.3 million as a result of previous increases in price of copra and the diversification efforts of Saint Lucia Coconut Grower's Association to expand its product range.

On the other hand, there was a marginal decline in the production of wearing apparel (1.7 percent) and printed material (17.3 percent) to \$2.4 million over the review period.

## CONSTRUCTION

The construction sector remained a major impetus of the overall economic growth observed in 2006 amidst further increases in the costs of construction materials. Building on the momentum in 2005, the sector recorded robust growth, estimated at 13.2 percent in the review period. As a result, its share of real GDP increased from 8.1 percent in 2005 to 8.7 percent. This was fuelled by both significant public investments in infrastructure and buoyant private sector spending on hotel and residential construction. These, to some extent, were undertaken in preparation for the joint hosting of the Cricket World Cup 2007.

Commercial and residential construction was spurred by attractive fiscal incentives, extended by the government in an attempt to increase the country's accommodation capacity for this major event. This was supported by favourable credit conditions in the banking sector.

Other private sector construction activity included investment in the telecommunications sector by both providers to improve the quality and capacity of their services across the island.

### **Public Sector Construction**

Preliminary data indicate that total expenditure on construction activity within the public sector increased by 23.3 percent to \$212.4 million. Notwithstanding the completion of the Road Development Programme, this was on account of higher spending on infrastructure of 28.8 percent by the Central Government. The major areas of activity were centered on road development, education, the CWC Development Project, health and community infrastructure.

Of this Public Sector expenditure, \$29.0 million was undertaken by statutory bodies, a decline of 3.0 percent compared to 2005. Port development accounted for a substantial share (70 percent) of construction by statutory bodies.

### ***Economic Infrastructure***<sup>41</sup>

During the review period, public sector spending on economic infrastructure increased by 63.3 percent to \$154.3 million. This represented 73.7 percent of total public sector construction expenditure. Of this, 84.5 percent was incurred by the Central Government. This mainly reflected continued investment aimed at improving the country's road network which is essential for its economic advancement.

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<sup>41</sup> This refers to the basic physical facilities which promote or enable economic growth.

Expenditure on road development, which is estimated at \$94.8 million, continued to dominate the central government's budget on economic infrastructure. This however, while significant, represents a marginal decline of \$1.6 million as a major project, the Roads Development Program (RDP), came to completion in the first quarter of 2006. Nonetheless, investments in road rehabilitation and improvements continued to be the major focus of the central government and accounted for a half of construction expenditure in 2006. The major road construction activities undertaken were the East Coast Road, the Road Development Project, the Tertiary Roads Programme (TRP) and the Castries Gros-Islet Highway Improvement projects. These collectively accounted for approximately 60 percent of the Central Government's expenditure on roads while a significant share was incurred for reconstruction and rehabilitation of other roads.

During the review period, work intensified on the rehabilitation of 31 km of primary roads on the East Coast, at a cost of \$26.1 million. Work commenced on Phase 1 of the Castries Gros-Islet Highway Improvement Project at a cost of \$13.1 million. This project involves the expansion and rehabilitation of the portion of road from the Choc junction to the Vigie roundabout to include the construction of two additional roundabouts and four pedestrian walkovers. It was extended to include the installation of 14 inch water distribution pipes along the full course of the highway as well as a fibre-optic cable. During the review period, work amounting to \$14.6 million, continued on the TRP which involves the rehabilitation of 94.7km of tertiary roads. In addition, Central government spending, directed at alleviating the deficiencies in the water supply infrastructure, decreased by 39.4 percent in 2006 to \$4.2 million. This was due to the continuation of the Water Sector Reform and Fifth Water Supply projects.

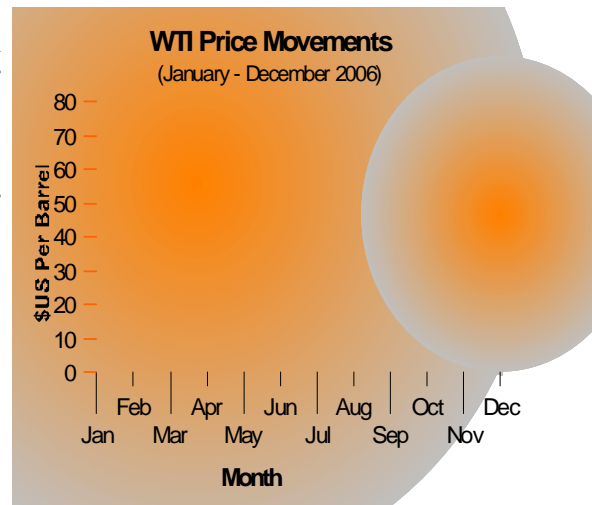
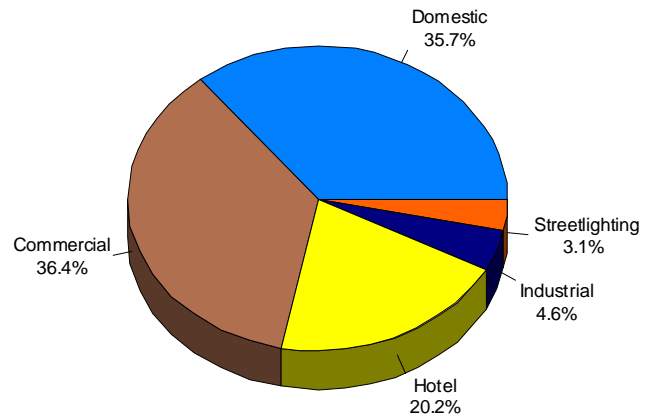
Capital expenditure by statutory bodies dropped to \$24.0 million from \$28.2 million in 2005. Of this, construction expenditure by the Saint Lucia Air and Sea Ports Authority (SLASPA) declined by 16.7 percent to \$22.2 million. This was due to the continuation and completion of works by the third quarter of 2006 on the rehabilitation of the Northern Wharf at Port Castries and the resurfacing of the George F.L Charles Airport. The Water and Sewage Company (WASCO) which is responsible for the supply of potable water on the island, expended a total of \$1.84 million on the Castries Drainage project, the installation of two inch water mains at the Desbaras tank and the improvement of the Union plant.

## ENERGY

Given the dependence on oil imports, developments in the global oil market continued to influence the domestic energy sector. Energy prices continued to rise during 2006 with crude oil prices posting new highs of US\$76 per barrel in July. WTI prices increased by 17.2 percent, averaging US\$66.10 per barrel in 2006 with reduced volatility. Oil price movements were influenced by an interplay of demand and supply factors. While buoyant global demand driven by solid economic growth affected prices, supply concerns played an increasing role in pushing up prices. The latter were related to geo-political uncertainties and tight spare capacity in global markets both in production and refining. Heightened security issues in the Middle East and disruptions in other large oil producing countries contributed to higher uncertainty. These included continued threats to Iraqi oil infrastructure, fighting in Lebanon and Israel, the standoff over Iran's nuclear programme and violence in Nigeria. These generated market fears about potential supply shortages and encouraged speculative activity which exerted upward pressure on international oil prices.

Against this background, oil importing countries pursued investments in research to aid in the production of alternative forms of energy, particularly green energy. Despite the surging oil prices, the retail price of fuel in the domestic market remained unchanged during 2006.

### Composition of Electricity Sales



## Electricity

Reflective of the overall expansion in economic activity, total demand for energy grew modestly. Electricity generated by LUCELEC increased by 2.1 percent to 330,761 Kilowatt hours (KWh) in the review period. The sector's contribution to GDP was estimated at 4.0 percent in the review period.

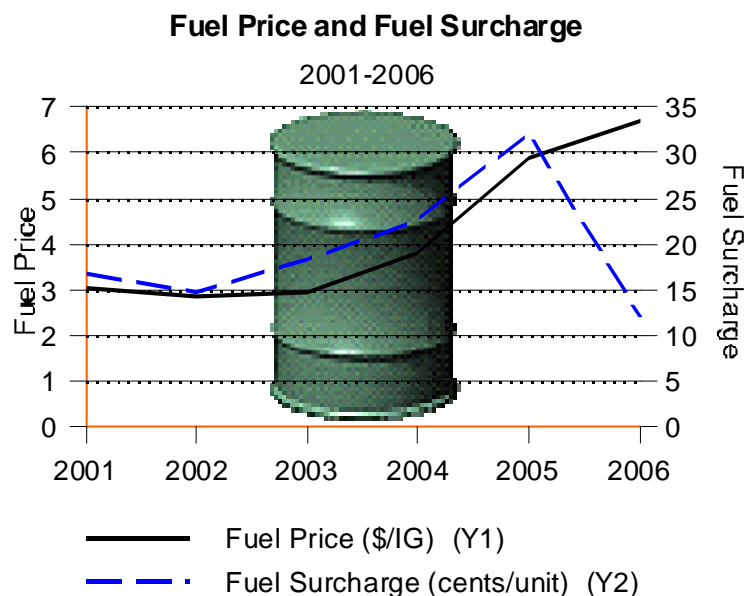
Increases in electricity consumption were noted in all categories, with the exception of LUCELEC's own usage. Domestic consumption of electricity also increased by 2.1 percent to 101,635 KWh account of a 2.7 percent increase in the number of domestic users. Commercial usage of electricity was 1.8 percent higher in 2006 when compared to the previous year, totalling 103,431 Kilowatt hours. This indicates more conservation of energy as the number of commercial consumers grew by 4.4 percent.

Despite the closure of a major hotel during 2006, lower stay-over arrivals and hotel occupancy levels, electricity consumed by hotels increased by 1.1 percent to 57,485 Kilowatt hours. This reflected consumption by two new hotels.

In keeping with the establishment of new housing areas and extensive road construction projects ahead of the Cricket World Cup, street lighting consumption increased by 14.9 percent.

In the review period, the internal use of electricity by LUCELEC decreased by 2.5 percent to 13, 071 KWh, after three consecutive years of growth. Total electricity sales increased by 2.5 percent to 284,398 KWh. The line loss rate increased by 3.9 percent to 34,423 Kilowatt hours indicative of production inefficiency.

Moving in tandem with world oil prices, the average price of fuel paid by LUCELEC went up by 14 percent to \$6.70 per gallon. This followed a substantial increase in 2005 when the average fuel cost jumped from \$3.82 per gallon to \$5.87 per gallon. However, the fuel surcharge fell dramatically by 62.4 percent to an average of 12.1 cents per unit of electricity generated.



This represented the first decrease in the fuel surcharge since 2002, due to amendments to the Electricity Supply Act which allows for a reclassification of a large component of the fuel surcharge into the basic tariff, effective April 2006.

## **Alternative Forms of Energy**

### *Wind Energy*

The Government of Saint Lucia continued to support the development of wind energy on the island. In November of 2006, LUCELEC received approval from the Cabinet of Ministers to acquire several portions of land in order to develop a wind farm.

### *Importation of Commercial Energy*

Driven by a remarkable increase in the importation of diesel, imports of commercial energy products more than doubled to 1, 241,212 Barrels of Oil equivalent (BOE) in the review period. Increased imports were recorded for all fuels with the exception of kerosene.

There was an upswing in the volume of diesel imported in 2006 to 654,730 (BOE) from 120,668 (BOE) in 2005, primarily on account of major road construction activity and build-up of inventory levels. It also partly reflects increased generation of electricity and reduced production efficiencies by LUCELEC. Following an increase of 5.4 percent in 2005, imports of unleaded gasoline grew moderately by 4.7 percent to 349,264 BOE.

Kerosene and liquefied propane gas (LPG) continued to be subsidized by the government in the review year. Reflecting changes in demand, LPG imports rose by 16.6 percent to 71,835 BOE while the importation of kerosene dropped by 17.4 percent to 165,384 BOE.

The volume of imports of such commodities was unaffected by price movements as the Government kept retail prices unchanged under its price control mechanism, in order to protect consumers from high and volatile international oil prices. Accordingly, government absorbed revenue losses from subsidizing the costs of LPG and kerosene as international oil prices in 2006 exceeded \$49 per barrel.

## MONETARY & FINANCIAL SECTOR

### Monetary Developments

Consistent with the favourable performance of the economy, the financial sector is estimated to have registered real growth of 9.0 percent in the review period, after registering strong growth of 8.7 percent in 2005. Accordingly, the contribution of the sector to GDP, led by robust growth in the banking sector, increased by 0.4 percentage points to 11.5 percent.

During the review period, net domestic assets (NDA) advanced by 32.9 percent to \$2,142.8 million, driven by a considerable rise in private sector demand for credit. There was an increase in credit allocated to most economic sectors, notably tourism and construction. This was facilitated by growth in deposit accumulation, resulting in a tightening of liquidity, evidenced by the higher loans to deposit ratio of 93.6 percent. Developments in the monetary sector were also characterized by fairly stable interest rates with little adjustment in the term structure of the nominal interest rates over the review period.

At the end of 2006, monetary liabilities (M2) advanced by 20.1 percent to \$2,056.2 million mainly reflecting the expansion in economic activity. Consequently, there was a 186.7 percent decline in total net foreign assets (NFA) to a net liability position of \$86.6 million, marking the first net liability position in almost ten (10) years. St. Lucia recorded an increase of 15.8 percent in its net international reserves in 2006.

#### **Domestic Credit<sup>5</sup>**

In keeping with the expansion in aggregate demand, credit to the domestic economy increased by 28.7 percent to \$2,280.5 million over the twelve-month period ending December 2006. This outcome was largely driven by the notable growth of 24.5 percent to \$2,386.8 million in outstanding credit to the private sector, well above the 16.2 percent increase recorded at the end of 2005. This was attributable to the increased demand from businesses and households as well as an easing in the terms and conditions of lending by commercial banks.

The central government, non-bank financial institutions and non-financial public enterprises continue to be net lenders to the banking system. Owing to higher overall fiscal deficit, deposits of the central government declined by 11.3 percent

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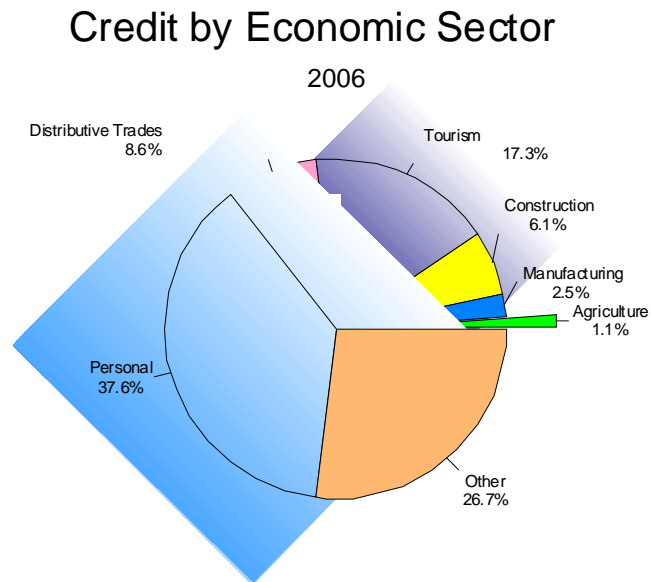
<sup>5</sup> In the Monetary Survey **Domestic Credit** is the total *net credit* of all the participants in the banking system, except for the Private Sector whose credit is not presented as a net figure.

□

and its demand for credit, particularly from commercial banks, increased by 4.1 percent. This resulted in a substantial decrease in net credit to the central government to \$26.9 million from \$78.7 million.

Net credit to non-financial public enterprises grew by 15.9 percent to \$214.8 million as their deposits increased by 8.4 percent while credit to these enterprises dipped by 3.2 percent. An increase of 7.3 percent was recorded in the net credit position of subsidiaries and affiliates to \$180.8 million, occasioned by growth in credit which outweighed the rise in its deposits. Similarly, credit to the non-bank financial institutions which advanced by 1.1 percent was accompanied by growth of 4.0 percent in deposits, leading to an improvement of 6.9 percent in its net credit position.

Data on the distribution of credit by economic activity revealed that over the review period, there were notable increases in new lending to most sectors. Borrowing by the personal sector advanced by 7.4 percent to \$1,028.2 million and continued to absorb a significant share (37.6 percent) of total credit. This was largely accounted for by personal investments in the acquisition of property, which includes the purchase of land and/or construction of homes. Credit for this purpose grew by 8.2 percent, partly fuelled by continued promotions of mortgages by financial institutions. In addition, credit for the purchase of durable consumer goods increased by 26.7 percent to \$138.9 million. This mainly reflected higher demand for new motor vehicles.



Continued confidence in the potential of the tourism sector was reflected by the rise in credit to \$473.7 million, following a 32.7 percent growth in the same period in 2005. This accounted for a notable share (17.3 percent) of total lending. Expansions in tourism-related infrastructure spur investment in other sectors such as construction, manufacturing, quarrying and transport, which all recorded sizeable increases in borrowing from commercial banks.

In keeping with the recent steady increases, credit for professional & other

services grew by more than half its level in 2005 to \$370 million. Credit for construction and land development to the construction sector over the review period was buoyed by hotel/residential renovation and construction, road and water infrastructural works and World Cup Cricket related projects.

Driven by the favourable performance of the economy, credit to the distributive trades sector grew by 3.7 percent to \$236.2 million. However, following the downward trend, credit extended to the agricultural sector dipped by 2.2 percent to \$25.9 million. This highlights the low level of confidence in the sector's viability and high credit risks associated with the sector.

### **Liabilities**

During 2006, total domestic liabilities of the commercial banking system registered an increase of 20.6 percent to \$4,151.5 million, following growth of 17.3 percent in 2005. This expansion was led predominantly by deposits, which on average account for over 70 percent of total domestic liabilities. Total deposits increased by 15.0 percent to \$2,919.4 million over the review period. There were upward movements in all categories of deposit liabilities, except for demand deposits. This was partly indicative of the increase in factor incomes spurred by the growing economy.

Savings deposits, which constitute the largest share of liabilities to the private sector, increased by 16.1 percent to \$1,208.7 million while time deposits grew by 5.0 percent to \$836.9 million. In contrast, there was a 1.7 percent fall in demand deposits to \$610.7 million, a turnaround from the 20.1 percent upturn at the end of December 2005. Meanwhile, foreign currency deposits more than tripled to \$263.0 million. This stemmed from inflows of foreign direct investment associated with construction activity particularly of hotels, prompted in part by Cricket World Cup 2007.

Deposits of private individuals, which account for the largest share of the accumulation of deposits, continued to trend upward, rising by 12.9 percent. Deposit holdings of business firms were 42.7 percent higher than in 2005 while that of private businesses expanded by 42.7 percent to \$561.8 million. There was appreciable growth in deposit holdings by Statutory Bodies (8.4 percent), Non-Bank Financial Institutions (4.0 percent) and Subsidiaries and Affiliates (48.0 percent). On the other hand, public sector deposits declined by 15.6 percent to \$295.8 million, following the 18.7 percent rise at the end of 2005. This outcome was a direct consequence of increased government spending on capital projects.

### **Money Supply**

Monetary liabilities (M2) recorded a growth rate of 20.1 percent to \$2,056.2

million over the review period, marking the highest rate of growth in more than five (5) years. This was in large measure reflective of the substantial increase in Quasi-money<sup>6</sup>. The narrow measure of money, (M1), advanced by 2.4 percent to \$560.6 million on account of a 10.9 percent growth in currency in circulation. Reflective of brisk economic activity, cash held at commercial banks and private sector demand deposits fell marginally by 1.9 percent.

Quasi-money which typically constitutes roughly 70 percent of M2, expanded by 28.4 percent to \$1,495.5 million at the end of 2006. There were notable increases in all components of quasi money, particularly private sector savings deposits and private sector foreign currency deposits which rose by 16.2 percent to \$1,064.9 million and 234.1 percent to \$207.9 million, respectively, over the period ending December 2006.

### **Liquidity and Interest Rates**

In keeping with the expansion in economic activity, liquidity conditions in the commercial banking system, as measured by the loans to deposits ratio, tightened further over the review period. This ratio increased to 93.6 percent from 85.7 percent in 2005 as loans and advances rose by 25.7 percent, outpacing the increase of 15.1 percent in deposits.

During the reporting period, there were moderate adjustments in the term structure of nominal interest rates. Accordingly, the weighted average loan rate fell by 36 basis points to 10.54 percent while there were mixed movements in the various weighted deposit rates.

This led to the weighted average deposit rate<sup>7</sup> rising by 30 basis points to 3.06 percent at the end of 2006. The rates on demand deposits remained unchanged, ranging from 0 to 3 percent, while the highest rates on savings deposits fell from 4.75 percent to 4.0 percent. Interest rates paid on time deposits remained flat, except that for maturities over two years which attracted an additional 25 basis points in the maximum interest rate. On the other hand, as in previous years, there were no changes in the prime lending rates during 2006 while the rates attached to add-on loans fell by 450 basis points to 13.5 percent.

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<sup>6</sup> Composed of private sector time, savings and foreign deposits.

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<sup>7</sup> These rates are those applied to the national currency only.

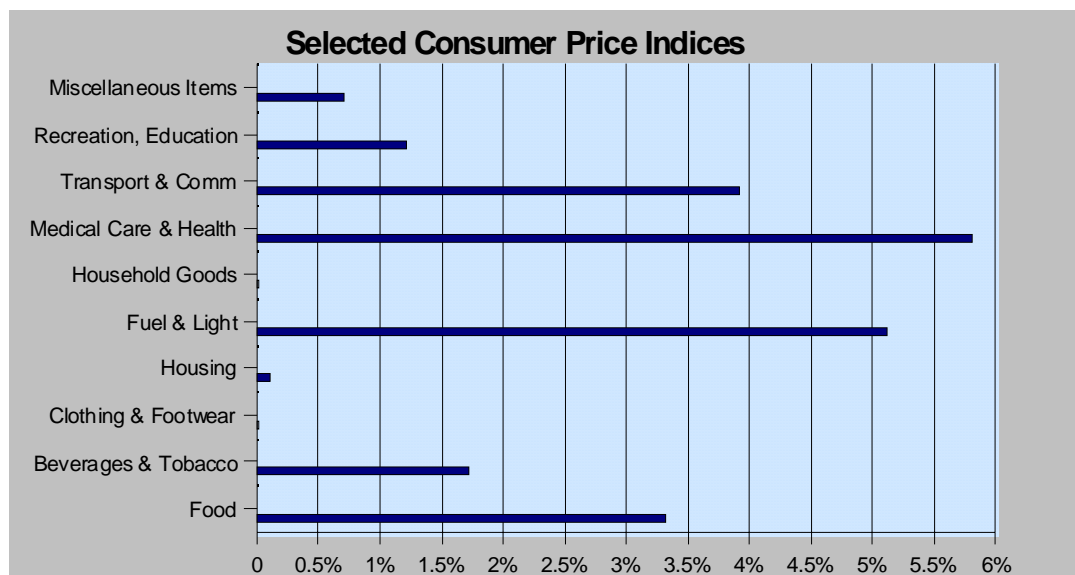
### Selected Interest Rates

	Dec '05	Dec '06
Demand Deposits	0	0.0 - 3.0
Savings Deposits	3	3.0 -
Time Deposits (over 2 yrs)	1.0 - 3.75	1.0 - 4.0
Prime Lending Rates	9.5 - 10.0	9.5 - 10.0

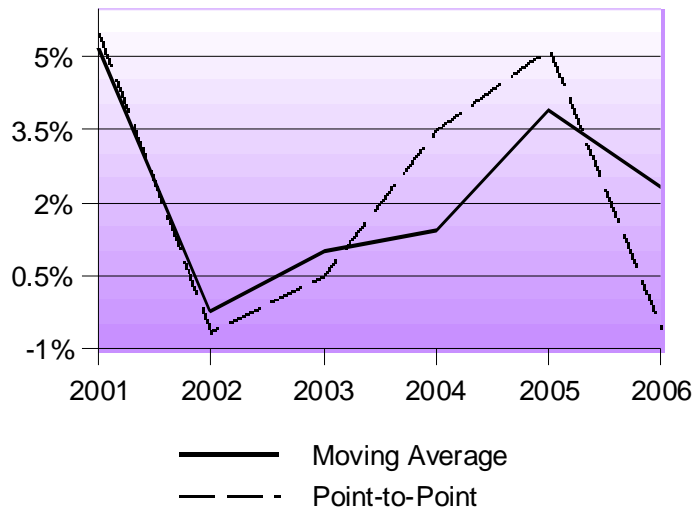
### External Reserves

Over the review period ending December 2006, St. Lucia's net foreign assets (NFA) were characterized by a significant build-up in commercial banks' liabilities. This outcome led to the first net liability position recorded in over seven (7) years and amounted to \$86.6 million, almost half of that in 2005. There was a 50.5 percent expansion in commercial banks' foreign liabilities to \$1,054.5 million which outstripped the growth in external assets. Concomitantly, St. Lucia's share of imputed reserves at the Central Bank grew by 15.8 percent to \$356.9 million, in contrast to the 12.3 percent fall in 2005. This was occasioned by the 14.6 percent increase in imputed assets which offset the 24.1 percent decline in imputed liabilities. Moreover, despite the continued deterioration of the external current account deficit, the surplus on the capital and financial account contributed to the increase in the net international reserves (NIR) to \$356.9 million.

### PRICES



**Consumer Price Index, 2001-2006**



Inflationary pressures in the domestic economy moderated in 2006 despite rising international oil prices and overall strong aggregate demand. Inflation, as measured by the percentage change in the 12-month average of the Consumer Price Index (CPI), grew by 2.3 percent compared to the 3.9 percent increase reported in 2005.

St. Lucia's major industrial trading partners recorded relatively moderate and stable inflation,

contained by monetary tightening. Consumer prices in the US advanced by 2.5 percent while the UK registered an annual inflation rate of 3.0 percent in 2006, marking the highest on record. The largest upward effect on the inflation rate came from transport costs. Inflation in the domestic economy compares favourably with that experienced in the regional economies. Data on consumer prices in the ECCU countries indicated increases in food and fuel, stemming from increases in global prices of oil and the implementation of new tax measures. Jamaica, Barbados and Trinidad posted inflation rates of 5.8 percent, 7.6 percent and 9.1 percent respectively.

These exerted upward pressure on consumer prices in the domestic economy through "imported" inflation. In addition, rising international oil prices in the first half of 2006, impacted directly on the price level in St. Lucia. Higher cost of non-US imports, driven by the depreciation of the US dollar against major currencies such as the yen and the pound sterling contributed to the inflation recorded. Domestic push factors included supply shortages and moderate increases in wages and salaries which led to increased aggregate demand, particularly in the public sector. Notwithstanding, the fall in the price of some food items as well as the drop in oil prices during the last quarter contributed to a dampening of the rate of inflation in 2006. Furthermore, government's fiscal policy of maintaining fixed prices on price-controlled items such as petroleum products limited the increase in overall prices.

Over the review period, there were upward movements in most of the components of the CPI, led by the Medical Care and Health sub-index which grew by 5.8 percent. This outcome was attributed to the increase in the prices of medical services and physicians' fees. The Fuel and Light sub-index advanced

by 5.1 percent indicative of the impact of high international oil prices on the cost of electricity during 2006. The Transport and Communications sub-index rose by 3.9 percent owing primarily to the increase in the cost of transport. This upturn was attributed to the increase in taxi and bus fares and the retail prices of petrol and motor vehicles—reflective of the pass-through effects associated with rising global oil prices.

The food sub-index, the most heavily weighted in the CPI, rose by 3.3 percent, after the 7.1 percent increase recorded in 2005. This outcome was led by the fall in the price of vegetables, accompanied by the deceleration in the price increases of other food items including tubers, milk and dairy products and frozen meat. The Beverages and Tobacco sub-index increased by 1.7 percent to reflect mainly the 4.7 percent rise in the price of alcoholic beverages. The Recreation, Education and Culture sub-index inched up by 1.2 percent on account of the rise in the price of books.

Less significant upward contributions to the CPI were noted for Miscellaneous Goods and Services (0.7 percent) and Housing (0.1 percent) while the sub-indices for Clothing & Footwear and Furniture & Household Equipment remained unchanged.

## V. CENTRAL GOVERNMENT FISCAL OPERATIONS

On the strength of its revenue performance in 2006/07, the operations of the central government resulted in an improved current surplus of \$101.1 million or 4.2 percent of GDP from 3.3 percent of GDP. Robust activity in the domestic economy facilitated an appreciable increase in tax receipts which outpaced the growth noted in current expenditure. However, based on preliminary estimates, capital expenditure grew sizeably by 11 percent to \$264.5 million. Consequently, the fiscal position of the central government deteriorated to an overall deficit of \$158.6 million (6.6 percent of GDP) from \$153.0 million (6.4 percent of GDP) in the fiscal year 2005/06.

### **Revenue Performance**

During the fiscal year 2006/07, total revenue and grants rose by 9.8 percent to \$661.3 million, the equivalent of 26.1 percent of GDP. Of this, grant funding was \$4.2 million while capital revenue was \$0.6 million.

Following growth of 4.4 percent in 2005/06, current revenue increased at a solid pace of 10.2 percent to \$656.5 million (27.3 percent of GDP) in 2006/07. The robust performance of the domestic economy impacted favourably on tax collections which increased by 12.1 percent to period \$621.4 million. This was led by notable increases in taxes on income and on international trade. However, there was a decline of 14.5 percent in non-tax revenue in the review.

### ***Taxes on Income & Property***

In keeping with the level of economic expansion, revenue from direct taxes grew by 12.4 percent to \$161.9 million. Personal income taxes, which accounted for 39 percent of income taxes, increased further by 9.3 percent to \$63.8 million. This was influenced by higher employment coupled with wage and salary increases in both the public and private sectors. Similarly, corporate income taxes rose by 7.8 percent to \$65.3 million, after rising by 10.9 percent in the previous fiscal year. There was a significant increase in collections of withholding taxes from \$5.1 million to \$12.5 million due to an extraordinary one-off payment of arrears.

Revenue from property taxes dipped from \$4.9 million to \$4.2 million in 2006/07.

The legislated exemptions granted to property owners over the age of 60 contributed to this outcome. This new measure took effect in the third quarter of the fiscal year. However, the ongoing (house) registration and valuation exercise is expected to widen this tax base and thus property tax collections, upon completion.

### *Taxes on Goods and Services*

The collection of taxes on goods and services rebounded in the review period, increasing by 9.5 percent to \$217.1 million, after a decline of 3.3 percent in FY 05/06. The sub-categories with the highest tax yields were consumption tax on imports (51.6 percent of taxes on goods and services), hotel occupancy taxes (13.6 percent), stamp duties (11.9 percent) and licenses (7.1 percent).

Consumption taxes contributed significantly to this outturn as it grew by 6.2 percent to \$120.0 million while accounting for a significant share of taxes on goods & services. Of this, consumption tax receipts from petroleum products rose by 26.0 percent to \$17.8 million. Notwithstanding higher average world oil prices in the fiscal period, this was boosted by the full year's impact of the upward adjustments in the retail prices of diesel and unleaded gas, effective August 2005. Concessions on imports of construction materials associated with the expansion in the island's hotel room stock ahead of the hosting of Cricket World Cup, dampened consumption tax yields on other imports. Consumption tax from these increased by 1.7 percent to \$ 94.2 million, while domestic tax receipts dropped by 3.2 percent to \$8.1 million.

Despite a decline in occupancy levels, hotel accommodation tax grew by 2.9 percent to \$29.5 million due to collection of arrears. Buoyed by vibrant activity in the banking sector and property market, collection of stamp duties recorded a sharp increase of 52.5 percent to \$25.1 million. Receipts from licenses grew by 2.6 percent on the strength of telecommunications licences to \$15.5 million, compared to a 19.7 percent decline in the previous review period.

With respect to other taxes, collection of domestic excise taxes showed a further decline of 48.0 percent to \$3.9 million while receipts from insurance premium tax increased by 2.6 percent to \$5.9 million. A modest increase in electricity generation by LUCELEC led to a slightly higher fuel surcharge collections of \$3.4 million.

Cellular taxes increased by 2.9 percent to \$7.9 million on account of expanding usage of cellular phones. Collections of passenger facility fees, levied on air travel to Saint Lucia, increased from \$1.5 million to \$5.0 million. This was due to an improvement in the arrangements with the airlines for the transfer of collections to the central government.

### ***Taxes on International Trade and Transactions***

Reflective of increased merchandise imports associated with the expansion in economic activity, tax receipts from international trade posted double-digit growth for the fifth consecutive year. This was also supported by measures implemented to improve the efficiency of collections. These taxes increased by 14.9 percent generating \$238.4 million and were primarily attributed to the growth in non-oil imports. All revenue heads in this category registered strong growth with the exception of thruput charges. Forty-one percent of international trade taxes were accrued from import duties, 27.4 percent from service charge, 16.4 percent from excise tax on imports and 9.1 percent from the environmental levy.

Notwithstanding concessions associated with CWC 2007, import duty rose by 12.8 percent to \$98.4 million. Owing to higher imports of motor vehicles, excise tax on imports grew by 17.6 percent to \$39.1 million. Collections of service charge and environmental levy, which were largely unaffected by the CWC 2007 incentives package, grew by 19.6 and 24.1 percent to \$64.3 and \$21.7 million, respectively.

The growth in airport tax to \$6.9 million was occasioned by an increase in the departure tax charged to non-nationals, made effective October 2006. Revenue from travel tax fell by 2.6 percent while security charge collections more than doubled to \$2.0 million.

### **Non-Tax Revenue**

Collections of non-tax revenue declined by 14.5 percent in 2006/07, after falling by 14 percent in the previous fiscal year. Fees, fines and sales accounted for 44 percent of non-tax receipts and fell by 20.8 percent to \$15.5 million.

Interest and rents fell by 22.6 percent to \$10.4 million while earnings by

government departments rose from \$3.8 to \$4.8 million. Additionally, other non-tax related revenues increased by 3.4 percent to \$4.3 million.

### **Expenditure Performance**

Fueled by sizeable growth in both current and capital spending, total Central Government expenditure was recorded at \$819.9 million, an increase of 8.6 percent. As a result, expenditure in relation to GDP rose from 31.8 percent to 32.0 percent. Capital expenditure is estimated to have increased from 9.9 percent of GDP to 11.0 percent of GDP in 2006/07.

### ***Current Expenditure***

Current expenditure grew by 7.5 percent to \$555.3 million or 23.1 percent of GDP, owing largely to increases in wages and salaries, goods & services and interest payments on outstanding debt.

## VI. PUBLIC DEBT

During the period under review, the expansion of the public sector investment program in the absence of significant grant receipts, resulted in an increase of 7.6 percent in the total public sector liabilities. Notwithstanding a marginal decline in outstanding payables, at the end of 2006, total liabilities of the public sector were recorded at \$1,642.1 million, largely reflecting a build-up in the official debt stock of the government.

Official public sector debt advanced by 7.9 percent to \$1,624.9 million. Accordingly, the ratio of public sector debt to GDP increased from 63.8 to 65 percent, remaining above the prudential limit of 60 percent set by the Eastern Caribbean Central Bank<sup>8</sup>.

This stemmed largely from increased outstanding central government debt due to significant investments in road infrastructure. Central Government debt rose by 10.2 percent to \$1,427.4 million, led by growth in domestic debt. As a result, the ratio of central government debt to GDP moved from 54.7 percent to 57.1 percent over the review period.

The maturity profile of the central government's disbursed outstanding debt indicates that the portfolio consisted largely of debt with long term maturities. Outstanding debt with maturities over ten years accounted for 85 percent of central government total debt. There was a slight shift primarily from short to medium term debt. The latter increased by 7 percentage points to 30 percent, while the proportion of debt with maturities of less than 5 years fell by 5 percentage points to 14 percent.

In an attempt to limit its exchange rate risks, the government has been pursuing a policy of maximizing the proportion of debt contracted in currencies with fixed exchange rates to the EC dollar. In accordance with this practice, 54.5 percent of

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<sup>8</sup> Revised at the 56th Meeting Of The Monetary Council-21 July 2006.

The principal sums represented by any treasury bill outstanding at any one time shall not exceed in the aggregate 30.0% of the estimated annual revenue of the state for the last preceding financial year as shown in the annual estimates of revenue and expenditure laid before the House of Assembly with respect to that year. Revised Treasury Bill Act of 2001 Chapter 15:33 (Subsection 3). □

the central government's debt was denominated in United States dollars, 22 percent in Eastern Caribbean dollars and 1.3 percent in Barbados dollars. Other currencies included Special Drawing Rights (13 percent), Euros (5 percent) and Kuwaiti Dinars and British pounds (2 percent each).

In contrast to the additional debt contracted by the central government, government guaranteed and non-government guaranteed debt fell by 10.1 percent to \$143.9 and by 1.6 percent to \$53.7 million respectively.

### **Domestic Debt**

Public sector domestic debt rose by 15.4 percent to \$536.5 million, as a result of increased financing of the central government's budget deficit by the domestic sector. In contrast, both government- guaranteed and non-guaranteed debt declined. Consequently, public sector debt as a percent of GDP rose by one percentage point to 21 percent over the review period.

The central government's domestic debt grew by 18.9 percent to \$470.1 million. This accounted for one third of central government's total debt and represented an increase of 2 percentage points to 18.6 percent of GDP.

The central government obtained part of its budgetary financing requirements by issuing debt instruments on the RGSM. In January and August of 2006, the government issued two ten- year bonds in the amount of \$27 million and \$50 million respectively. Approximately 84 percent of these were purchased by local institutions. Consequently, outstanding bonds held by domestic lenders accounted for 51 percent of central government's domestic debt and rose by 24.2 percent to \$241.7 million. In addition, due to relatively attractive interest rates, there was a significant increase of 57.8 percent in borrowing from commercial sources to \$77.6 million.

The central government also issued treasury bills on the RGSM in February, May and July to rollover maturing treasury bills. Therefore, in contrast with other forms of domestic debt instruments, the value of disbursed and outstanding

treasury bills fell by 1.3 percent to \$60.0 million,<sup>9</sup> while the stock of treasury notes remained at \$90.8 million. This trend highlights a reduced need for short term financing during the year in light of increased revenue flows.

### **External Debt**

At the end of 2006, two-thirds of the public sector's outstanding debt was financed by external sources and amounted to \$1,088.5 million. This represented an increase of 4.1 percent to 43 percent of GDP. Of this, the central government's external debt rose by 6.3 percent to \$957.3 million or 38 percent of GDP.

External debt guaranteed by the central government declined by 12.7 percent to \$98.3 million. However, non-guaranteed debt increased by 1.1 percent to \$32.9 million.

Reflecting the financing of the capital investment program, approximately 53.2 percent of the central government's external debt or \$508.8 million was sourced from multilateral lenders. CDB contributed one third of such concessionary funding. This was followed by the World Bank Group which accounted for 14.4 percent of central government external debt.

In keeping with activities on the RGSM, outstanding bonds held by external lenders decreased by 2.6 percent and accounted for 38 percent of the central government's outstanding external debt or \$359.5 million. The largest holders of central government bonds are commercial banks, namely the Royal Merchant Bank of Trinidad & Tobago and CITIBANK, which held 18 percent and 12 percent respectively of the central government's external outstanding debt.

Bilateral lending which contributed 7 percent of the central government's outstanding external debt, rose by 12.3 percent to \$70.3 million. The largest bilateral creditor was Agence Francaise with a share of 6 percent.

Treasury bills and treasury notes held by external lenders accounted for 2 percent of the central government's outstanding external debt. The total

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<sup>9</sup>One year T-bill was floated on July 25, 2006 for \$25 million but only half of this amount was subscribed at 5.5%.

□

outstanding value of these notes and bills was \$18.6 million, a decline of 4.1 percent.

An analysis of the external debt by sector indicated that a quarter of disbursed outstanding debt was used to finance activities in the communications and works sector, particularly the construction of roads and bridges. This is consistent with the priorities of the public sector investment program. Hotel and tourism activities absorbed 13 percent of disbursed and outstanding debt in comparison with 14.3 percent in the previous year.

## **TRADE & THE BALANCE OF PAYMENTS**

The current account deficit of the balance of payments (BOP) is estimated to have deteriorated significantly in 2006 to \$933.6 million, representing 37.4 percent of GDP, up from 18.1 percent in 2005. This downturn was largely due to a widening of the goods account coupled with the weakening of the services and income accounts, even with increased inflows in current transfers.

On the capital and financial account, net inflows more than doubled to 33.2 percent of GDP in the review period, compared to 15.3 percent in 2005. This performance was influenced primarily by the activities of the central government, commercial banks and foreign direct investment. In 2006, net inflows to the central government rose by 3.8 percent of GDP compared to 0.8 percent in the previous year. In the review period, the commercial banks drew down on their net foreign assets in the magnitude of 9.3 percent of GDP relative to 7.3 percent in 2005.

At the end of 2006, net inflows on the BOP exceeded net outflows and provided an overall surplus of \$48.6 million, in contrast to the net deficit of \$41.2 million in the previous year. This accumulation of financial assets was reflected in the reserve position of the ECCB.

### **Current Account**

During 2006, the external current account deficit is estimated to have more than doubled from \$428.3 million to \$933.6 million. This outcome was driven mainly by the strong growth in merchandise imports accompanied by the 12.5 percent

fall in the net inflows on the services account. In line with the fall in long-stay tourists, net travel receipts declined by 22.9 percent to \$659.9 million and contributed largely to the unfavourable performance of the services account. Indicative of the continued increase in economic activity in 2006, net outflows in transportation and insurance services grew by 26.2 percent and 23.2 percent, respectively.

The domestic economy makes net payments of income to the rest of the world by virtue of investment inflows received in previous years. The income account is dominated by direct investment earnings that reflect the activities of foreign-owned enterprises such as commercial banks, oil and telecommunications companies and hotels. At the end of the review period, net income payments grew by 18.3 percent to \$231.7 million, compared to the 5.1 percent increase reported in 2005.

### **Capital and Financial Account**

The financing of the current account is facilitated through net inflows on the capital and financial account. In 2006, the surplus on the capital and financial account expanded notably from \$387.1 million (16.3 percent of GDP) to \$828.8 million (33.1 percent of GDP). This marks the largest surplus on record. The major components contributing to this outcome were inflows on the financial account associated with foreign direct investment activity, net loan disbursements to the public sector and the draw down of net foreign assets by commercial banks. On the other hand, net financial inflows on the capital account were recorded at \$6.7 million, down from \$14.4 million in 2005. This was owed principally to the fall in disbursements of capital grant receipts from the European Union.

Net direct investment doubled to \$463.4 million in the review period, equivalent to 18.3 percent of GDP. This performance was above the period average during 2000-05 of 9.5 percent of GDP, and was boosted by tourism-related activities and hotel projects, many of which were associated with Cricket World Cup 2007. Net disbursements of long term loans to central government were posted at \$90.1 million, up from \$20 million in 2005. This outturn reflected the financing of major capital projects, the majority of which included road and stadium infrastructural

works. Accordingly, amortization payments by the central government moved from \$7.2 million in 2005 to \$24 million in 2006.

Mirroring the trend in 2005, commercial banks drew down on their net foreign assets in the amount of \$235.1 million over the review period. This was prompted by the tight liquidity position during 2006 occasioned mainly by growing private sector demand for credit.

### **Overall Balance**

The overall balance recorded a surplus and thereby an increase in Saint Lucia's share of imputed reserves of \$48.6 million. This is equivalent to 1.9 percent of GDP and is in sharp contrast to the \$41.2 million deficit reported in 2005.

## **VII. SECURITY ISSUANCE PROCEDURES, CLEARANCE AND SETTLEMENT AND SECONDARY MARKET ACTIVITIES**

The series of bonds will be issued and listed on the Regional Government Securities Market (RGSM). This market will operate on the Eastern Caribbean Securities Exchange (ECSE) trading platform for both primary issuance and secondary trading. The pricing methodology to be used for selling the securities will be a competitive uniform auction with open bidding. The ECSE is responsible for dissemination of market information, providing intermediaries with market access, administering the auction process and monitoring and surveillance of the auctions.

The ECSE, through the Eastern Caribbean Central Securities Depository (ECCSD), will be responsible for facilitating clearance and settlement for the securities allotted. The ECCSD will ensure that funds are deposited to the account of the Government of Saint Lucia. The ECSE, through the Eastern Caribbean Central Securities Registry (ECCSR), will record and maintain ownership of the government securities in electronic book-entry form. The ECCSR will mail confirmation of proof of ownership letters to all investors who were successful in the auction. The ECCSR will also process corporate action on behalf of issuing governments.

Intermediaries will be responsible for interfacing with prospective investors, collecting applications for subscription and processing the same for bidding on the ECSE platform. Investors must provide the intermediaries with funds to cover the cost of the transaction. For this particular offering, investors will pay the applicable brokerage fees to the intermediaries.

A list of licensed intermediaries is provided in Appendix I. Clients that are successful will be informed of their payment obligations and funds deducted from their respective accounts with the intermediary.

As an issuer in the RGSM, the Government of Saint Lucia will be subject to the rules, guidelines and procedures developed by the Regional Debt Coordinating Committee (RDCC) for the operation of the market including ongoing reporting and disclosure requirements.

**APPENDIX I**

**LIST OF LICENSED INTERMEDIARIES**

INSTITUTION	CONTACT INFORMATION	ASSOCIATED PERSONS
National Bank of Anguilla Ltd	P O Box 44 The Valley Tel: 264-497-2101 Fax: 264-497-3310 Email: nbabankl@anguillanet.com	<b>Principal:</b> Selwyn Horsford  <b>Representative:</b> Idona Reid
ABI Bank Ltd.	ABI Financial Centre Redcliffe Street St John's Tel: 268 480 2824 Fax: 268 480 2765 Email: abibsec@candw.ag	<b>Principal:</b> Casroy James  <b>Representative:</b> Laura Abraham
Antigua Commercial Bank Ltd.	ACB Financial Centre P O Box 3089 St John's Tel: 268 481 4200 Fax: 268 481 4158 Email: acb@candw.ag	<b>Principals:</b> Peter N Ashe Sharon Nathaniel  <b>Representative:</b> Sharon Nathaniel
National Mortgage Finance Company of Dominica Ltd.	64 Hillsborough Street Roseau Tel: 767 448 4401/4405 Fax: 767 448 3982 Email: ncbdom@cwdom.dm	<b>Principal:</b> Caryl Phillip-Williams  <b>Representatives:</b> Dawn Yankey Marilyn Edwards
Republic Finance and Merchant Bank Ltd. (FINCOR)	NCB House Grand Anse St George's Tel: 473 444 1875 Fax: 473 444 1879 Email: fincorec@caribsurf.com	<b>Principals:</b> Heather Titus Wilma Williams  <b>Representatives:</b> Heather Titus Wilma Williams
St Kitts Nevis Anguilla National Bank Ltd.	P O Box 343 Central Street Basseterre Tel: 869 465 2204 Fax: 869 465 1050 Email: national_bank@sknanb.com	<b>Principals:</b> Winston Hutchinson Anthony Galloway  <b>Representatives:</b> Marlene Nisbett Desilu Smithen Petronella Edmeade-Crooke

INSTITUTION	CONTACT INFORMATION	ASSOCIATED PERSONS
The Bank of Nevis Ltd.	P O Box 450 Charlestown Nevis Tel: 869 469 5564 Fax: 869 469 5798 E mail: bon@caribsurf.com	<b>Principal:</b> Hanzel Manners  <b>Representatives:</b> Lisa Jones Vernesia Walters
Bank of St Lucia Ltd.	P O Box 1862 Bridge Street Castries Tel: 758 456 6000 Fax: 758 456 6190 Email: bankofsaintlucia@candw.lc	<b>Principals :</b> Donna Matthew Beverley Henry Benard Fevrier  <b>Representatives :</b> Trevor Lamontagne Lawrence Jean
Caribbean Money Market Brokers Ltd. (CMMB St Lucia)	9 Brazil Street Castries Tel: 758 450 2662 Fax: 758 451 7984 Email: info@mycmmb.com	<b>Principals :</b> Leslie St Louis Brent Salvary Sharmaine Rosemond Carole Eleuthere-Jn Marie  <b>Representatives:</b> Sharmaine Rosemond Leslie St Louis Vishwatee Jagroop
National Commercial Bank (SVG) Ltd.	P O Box 880 Cnr. Bedford and Grenville Streets Kingstown Tel: 784 457 1844 Fax: 784 456 2612 Email: natbank@caribsurf.com	<b>Principals:</b> Keith Inniss Jeffrey Ledger  <b>Representatives:</b> Patricia John La Fleur Dublin
Caribbean Money Market Brokers Ltd. (CMMB)	No. 1 Richmond Street, Ground Floor Furness Court, Independence Square Port of Spain Tel: 868 623 7815/5153 Fax: 868 624 4544/9833 ; 627 2930 Email: info@mycmmb.com	<b>Principals:</b> Brent Salvary Leslie St Louis Sharmaine Rosemond  <b>Representatives:</b> Leslie St Louis Vishwatee Jagroop Sharmaine Rosemond

APPENDIX II GDP BY ECONOMIC ACTIVITY AT FACTOR COST - CONSTANT PRICES

SAINT LUCIA  
GROSS DOMESTIC PRODUCT BY ECONOMIC ACTIVITY AT FACTOR COST  
CONSTANT PRICES - 1990

EC\$ Millions

SECTORS	1997	1998r	1999r	2000r	2001	2002p	2003p	2004p	2005p	2006pj
Agriculture, Livestock, Forestry, Fishing	98.38	97.20	82.69	85.37	64.50	67.33	56.73	55.10	41.47	45.52
- Bananas	52.14	51.22	41.05	43.68	22.37	35.75	22.78	26.81	16.84	18.76
- Other Crops	26.71	25.56	21.14	19.57	20.48	13.50	14.27	11.30	8.15	8.94
- Livestock	8.39	9.12	6.67	7.67	7.20	6.86	6.64	6.77	6.92	6.25
- Fishing	9.57	9.84	12.48	13.21	13.22	10.02	11.88	9.10	8.48	10.52
- Forestry	1.57	1.46	1.35	1.24	1.23	1.20	1.16	1.12	1.08	1.05
Mining and Quarrying	5.73	5.83	6.72	7.66	5.71	5.82	5.83	5.70	5.50	6.59
Manufacturing	66.50	71.37	71.38	73.67	74.06	80.62	79.26	85.81	90.91	97.01
Construction	87.64	96.82	109.22	104.21	99.02	94.23	95.73	96.70	108.79	123.17
Electricity and Water	47.98	57.88	64.16	61.06	63.85	62.26	63.42	64.63	55.96	64.46
- Electricity	38.38	49.73	57.39	53.18	55.59	55.06	56.32	57.44	48.73	57.09
- Water	9.60	8.15	6.77	7.87	8.26	7.20	7.10	7.19	7.23	7.37
Wholesale and Retail Trade	150.10	151.65	156.18	146.05	124.84	126.39	136.21	147.68	156.29	158.02
Hotels and Restaurants	142.05	145.40	151.57	155.61	139.20	138.35	161.36	170.86	181.67	176.70

<b>Transport</b>	<b>119.10</b>	<b>122.42</b>	<b>128.79</b>	<b>127.14</b>	<b>125.49</b>	<b>120.70</b>	<b>123.45</b>	<b>133.24</b>	<b>141.69</b>	<b>162.56</b>
- Road Transport	81.40	83.03	85.04	86.90	87.05	84.73	85.18	86.09	93.14	101.34
- Air Transport	15.83	16.14	17.50	18.03	17.06	16.44	17.84	22.26	21.88	24.27
- Sea Transport	21.87	23.25	26.25	22.21	21.38	19.53	20.43	24.89	26.67	36.95
<b>Communications</b>	<b>93.53</b>	<b>96.18</b>	<b>102.13</b>	<b>107.75</b>	<b>120.50</b>	<b>129.56</b>	<b>135.43</b>	<b>141.65</b>	<b>152.05</b>	<b>151.72</b>
<b>Banking and Insurance</b>	<b>105.73</b>	<b>110.99</b>	<b>120.79</b>	<b>124.42</b>	<b>127.72</b>	<b>129.29</b>	<b>131.85</b>	<b>138.36</b>	<b>150.40</b>	<b>163.94</b>
- Banking	91.73	96.19	105.14	107.98	110.22	112.35	114.07	119.57	131.37	142.57
- Insurance	14.00	14.80	15.65	16.44	17.50	16.94	17.78	18.79	19.03	21.37
<b>Real Estate and Owner Occupied Dwellings</b>	<b>129.26</b>	<b>135.13</b>	<b>138.36</b>	<b>141.39</b>	<b>146.16</b>	<b>149.63</b>	<b>154.62</b>	<b>159.68</b>	<b>168.78</b>	<b>173.18</b>
<b>Producers of Government Services</b>	<b>136.53</b>	<b>138.57</b>	<b>144.74</b>	<b>145.89</b>	<b>149.43</b>	<b>146.97</b>	<b>143.93</b>	<b>149.82</b>	<b>162.34</b>	<b>178.23</b>
<b>Other Services</b>	<b>52.42</b>	<b>53.99</b>	<b>55.72</b>	<b>57.55</b>	<b>53.33</b>	<b>54.29</b>	<b>54.27</b>	<b>54.59</b>	<b>55.60</b>	<b>57.78</b>
<b>Less: Imputed Banking Service Charge</b>	<b>-88.94</b>	<b>-93.77</b>	<b>-99.45</b>	<b>-104.13</b>	<b>-106.21</b>	<b>-108.24</b>	<b>-109.95</b>	<b>-115.2</b>	<b>-123.67</b>	<b>-138.2</b>
<b>TOTAL</b>	<b>1146.01</b>	<b>1189.66</b>	<b>1233.00</b>	<b>1233.64</b>	<b>1187.60</b>	<b>1197.20</b>	<b>1232.15</b>	<b>1288.62</b>	<b>1347.79</b>	<b>1420.68</b>
Growth Rate	0.31	3.81	3.64	0.05	-3.73	0.81	2.92	4.58	4.59	5.41

*P=Provisional.*

*Pj=Projected*

*R=Revised*

APPENDIX III GDP BY ECONOMIC ACTIVITY AT FACTOR COST  
- RATE OF GROWTH

SAINT LUCIA  
GROSS DOMESTIC PRODUCT BY ECONOMIC ACTIVITY AT FACTOR COST  
GROWTH RATE IN CONSTANT PRICES - 1990  
EC\$ Millions

SECTORS	2002p	2003P	2004Pj	2005P	2006Pj
Agriculture, Livestock, Forestry, Fishing	4.38%	-	-2.87%	24.74%	9.77%
- Bananas	59.81%	36.28%	17.69%	37.19%	11.40%
- Other Crops	34.08%	5.70%	20.81%	27.88%	9.69%
- Livestock	-4.72%	-3.21%	1.96%	2.22%	-9.68%
- Fishing	24.21%	18.56%	23.40%	-6.81%	24.06%
- Forestry	-2.92%	-3.01%	-3.36%	-3.57%	-2.78%
Mining and Quarrying	1.87%	0.30%	-2.30%	-3.51%	19.79%
Manufacturing	8.86%	-1.69%	8.26%	5.95%	6.71%
Construction	-4.84%	1.59%	1.01%	12.50%	13.22%
Electricity and Water	-2.49%	1.86%	1.90%	13.40%	15.18%
- Electricity	-0.95%	2.28%	1.99%	15.15%	17.14%
- Water	12.88%	-1.31%	1.20%	0.60%	1.95%
Wholesale and Retail Trade	1.24%	7.77%	8.42%	5.83%	1.11%
Hotels and Restaurants	-0.61%	16.63%	5.89%	6.33%	-2.74%
Transport	-3.82%	2.28%	7.93%	6.34%	14.73%
- Road Transport	-2.67%	0.53%	1.07%	8.19%	8.80%
- Air Transport	-3.63%	8.52%	24.78%	-1.71%	10.92%
- Sea Transport	-8.65%	4.61%	21.83%	7.15%	38.55%
Communications	7.52%	4.53%	4.59%	7.34%	-0.22%
Banking and Insurance	1.23%	1.98%	4.94%	8.70%	9.00%
- Banking	1.93%	1.53%	4.82%	9.87%	8.53%
- Insurance	-3.18%	4.96%	5.67%	1.25%	12.31%

<b>Real Estate and Owner Occupied Dwellings</b>	<b>2.37%</b>	<b>3.33%</b>	<b>3.27%</b>	<b>5.70%</b>	<b>2.61%</b>
<b>Producers of Government Services</b>	<b>-1.65%</b>	<b>-2.07%</b>	<b>4.09%</b>	<b>8.36%</b>	<b>9.79%</b>
<b>Other Services</b>	<b>1.79%</b>	<b>-0.03%</b>	<b>0.59%</b>	<b>1.85%</b>	<b>3.92%</b>
<b>Less: Imputed Banking Service Charge</b>	<b>1.91%</b>	<b>1.58%</b>	<b>4.77%</b>	<b>7.35%</b>	<b>11.75%</b>
<b>Total Growth Rate</b>	<b>0.81%</b>	<b>2.92%</b>	<b>4.58%</b>	<b>4.59%</b>	<b>5.41%</b>

*P=Provisional*

*Pj=Projected*

*R=Revised*

**SOURCE: GOVERNMENT STATISTICS DEPARTMENT (SAINT LUCIA)**

APPENDIX IV EXPENDITURE ON GDP IN CURRENT PRICES

SAINT LUCIA  
EXPENDITURE ON GROSS DOMESTIC PRODUCT

In Current Prices

-In Millions of EC Dollars

	1997	1998	1999	2000	2001p	2002p	2003p	2004p	2005p	2006pj
<b>EXPENDITURE ON GROSS DOMESTIC PRODUCT (M. P.)</b>	<b>1617.49</b>	<b>1775.33</b>	<b>1869.37</b>	<b>1907.76</b>	<b>1850.69</b>	<b>1899.17</b>	<b>2015.53</b>	<b>2158.82</b>	<b>2369.30</b>	<b>2498.41</b>
<b>Government Final Consumption Expenditure</b>	<b>284.08</b>	<b>314.65</b>	<b>330.85</b>	<b>353.70</b>	<b>358.51</b>	<b>393.22</b>	<b>414.74</b>	<b>412.18</b>	<b>436.85</b>	<b>414.43</b>
<b>Private Final Consumption Expenditure</b>	<b>1078.14</b>	<b>1135.99</b>	<b>1208.58</b>	<b>1254.98</b>	<b>1237.00</b>	<b>1308.04</b>	<b>1447.76</b>	<b>1459.31</b>	<b>1552.76</b>	<b>1534.35</b>
<b>Gross Capital Formation</b>	<b>417.71</b>	<b>433.08</b>	<b>500.45</b>	<b>490.70</b>	<b>459.37</b>	<b>415.89</b>	<b>408.40</b>	<b>451.79</b>	<b>551.21</b>	<b>736.21</b>
<b>Increase in Stocks</b>										
<b>Gross Fixed Capital Formation</b>	<b>417.71</b>	<b>433.08</b>	<b>500.45</b>	<b>490.70</b>	<b>459.37</b>	<b>415.89</b>	<b>408.40</b>	<b>451.79</b>	<b>551.21</b>	<b>736.21</b>
<b>Construction</b>	<b>227.52</b>	<b>264.34</b>	<b>325.46</b>	<b>310.84</b>	<b>299.72</b>	<b>282.08</b>	<b>270.71</b>	<b>285.30</b>	<b>343.70</b>	<b>445.40</b>
- Public Sector	80.00	67.16	89.60	60.03	93.10	79.51	73.15	61.17	126.70	
- Private Sector	147.52	197.18	235.86	250.81	206.62	202.57	197.56	224.13	217.00	
<b>Transport Equipment</b>	<b>55.96</b>	<b>31.32</b>	<b>37.29</b>	<b>40.86</b>	<b>42.48</b>	<b>35.79</b>	<b>46.59</b>	<b>64.89</b>	<b>91.87</b>	<b>168.55</b>
- Public Sector	0.07	0.65	0.35	0.73	0.55	0.28	0.71	0.18	0.16	6.15
- Private Sector	55.89	30.67	36.94	40.13	41.93	35.51	45.88	64.71	91.71	162.40
<b>Other Machinery &amp; Equip.</b>	<b>134.23</b>	<b>137.42</b>	<b>137.70</b>	<b>139.00</b>	<b>117.17</b>	<b>98.02</b>	<b>91.10</b>	<b>101.60</b>	<b>115.64</b>	<b>122.26</b>
- Public Sector	2.55	5.22	4.05	5.47	3.23	5.80	4.02	1.14	2.57	5.56
- Private Sector	131.68	132.20	133.65	133.53	113.95	92.22	87.08	100.46	113.07	116.70

<b>Net Exports</b>	<b>-162.44</b>	<b>-108.39</b>	<b>-170.51</b>	<b>-191.62</b>	<b>-204.19</b>	<b>-217.98</b>	<b>-255.37</b>	<b>-164.46</b>	<b>-171.52</b>	<b>-186.58</b>
Exports of Goods and Services	968.34	1037.30	1031.40	1012.44	883.02	860.17	1033.24	1081.64	1119.47	1150.92
Less: Imports of Goods and Services	1130.78	1145.69	1201.91	1204.06	1087.21	1078.15	1288.61	1246.10	1290.99	1337.50
<b>GDP AT MARKET PRICES</b>	<b>1617.49</b>	<b>1775.33</b>	<b>1869.37</b>	<b>1907.76</b>	<b>1850.69</b>	<b>1899.17</b>	<b>2015.53</b>	<b>2158.82</b>	<b>2369.30</b>	<b>2498.41</b>
Less: Indirect Taxes	-234.45	-293.65	-289.63	-291.59	-259.90	-302.18	-339.10	-375.51	-449.81	-453.61
Plus: Subsidies	237.74	296.70	292.73	294.67	263.47	305.30	343.16	379.46	454.60	455.40
	3.29	3.05	3.10	3.08	3.57	3.12	4.06	3.95	4.79	1.79
<b>GDP AT FACTOR COST</b>	<b>1383.04</b>	<b>1481.68</b>	<b>1579.74</b>	<b>1616.17</b>	<b>1590.79</b>	<b>1596.99</b>	<b>1676.43</b>	<b>1783.31</b>	<b>1919.49</b>	<b>2044.80</b>
Growth Rate	2.90%	7.13%	6.62%	2.31%	-1.57%	0.39%	4.97%	6.38%	7.64%	6.53%

*-/ not available*

*P=Provisional*

*pj=Projected*

*R=Revised*

**SOURCE: Government Statistics  
Department (Saint Lucia)**

**CENTRAL GOVERNMENT REVENUE TO GDP**  
**ECONOMIC CLASSIFICATION**  
 (% GDP)

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
<b>Total Revenues and Grants</b>	<b>25.97%</b>	<b>24.60%</b>	<b>25.77%</b>	<b>26.01%</b>	<b>25.85%</b>	<b>25.07%</b>	<b>26.07%</b>
Capital Grants	0.57%	1.41%	1.88%	1.60%	0.00%	0.25%	0.16%
Capital Revenue	0.01%	0.14%	1.03%	0.42%	0.04%	0.03%	0.02%
<b>CURRENT REVENUE</b>	<b>25.39%</b>	<b>23.04%</b>	<b>22.86%</b>	<b>23.98%</b>	<b>25.81%</b>	<b>24.80%</b>	<b>25.88%</b>
<b>Tax Revenue</b>	<b>22.80%</b>	<b>20.68%</b>	<b>20.99%</b>	<b>22.11%</b>	<b>23.70%</b>	<b>23.09%</b>	<b>24.50%</b>
<b>Taxes on Income</b>	<b>7.24%</b>	<b>6.32%</b>	<b>5.43%</b>	<b>5.36%</b>	<b>6.44%</b>	<b>6.00%</b>	<b>6.38%</b>
Individuals	2.58%	2.57%	2.46%	2.13%	2.25%	2.43%	2.52%
Withholdings	0.35%	0.35%	0.25%	0.19%	0.17%	0.21%	0.49%
Corporations	3.32%	2.93%	2.19%	2.19%	2.47%	2.52%	2.57%
Arrears	1.33%	0.94%	0.97%	1.21%	1.43%	1.23%	1.07%
Less Tax Refunds	0.34%	0.46%	0.45%	-0.36%	-0.37%	-0.39%	-0.27%
<b>Tax on Property</b>	<b>0.10%</b>	<b>0.25%</b>	<b>0.23%</b>	<b>0.19%</b>	<b>0.16%</b>	<b>0.20%</b>	<b>0.16%</b>
Property Tax	0.10%	0.25%	0.23%	0.19%	0.16%	0.20%	0.16%
<b>Tax On Goods And Services</b>	<b>7.95%</b>	<b>8.22%</b>	<b>9.07%</b>	<b>9.29%</b>	<b>9.28%</b>	<b>8.26%</b>	<b>8.56%</b>
<b>Consumption Tax</b>	<b>5.33%</b>	<b>5.66%</b>	<b>5.84%</b>	<b>5.90%</b>	<b>5.58%</b>	<b>4.70%</b>	<b>4.73%</b>
Consumption tax (imports)	4.77%	5.37%	5.59%	5.58%	5.30%	4.36%	4.41%
Consumption tax (domestic)	0.56%	0.28%	0.26%	0.32%	0.29%	0.35%	0.32%
Excise tax (domestic)	0.23%	0.30%	0.33%	0.35%	0.34%	0.31%	0.15%
Hotel Occupancy tax	1.20%	0.99%	1.01%	1.08%	1.19%	1.19%	1.16%
Insurance Premium Tax	0.20%	0.21%	0.22%	0.20%	0.20%	0.21%	0.23%
Licences	0.37%	0.43%	0.45%	0.81%	0.85%	0.63%	0.61%

Fuel Surcharge	0.16%	0.16%	0.14%	0.15%	0.15%	0.14%	0.14%
Stamp Duties (Inland Revenue)	0.47%	0.46%	1.01%	0.56%	0.69%	0.69%	1.02%
Cellular Tax			0.06%	0.23%	0.27%	0.32%	0.31%
Passenger Facility Fee						0.06%	0.20%
<b>Taxes on International Trade and Transactions</b>	<b>6.29%</b>	<b>5.03%</b>	<b>6.27%</b>	<b>7.27%</b>	<b>7.81%</b>	<b>8.64%</b>	<b>9.40%</b>
Import Duty	3.39%	2.77%	2.98%	3.39%	3.40%	3.63%	3.88%
Travel Tax	0.13%	0.09%	0.13%	0.24%	0.25%	0.17%	0.16%
Service Charge (imports)	1.76%	1.50%	1.56%	1.92%	2.10%	2.24%	2.58%
Environmental Levy	0.48%	0.38%	0.50%	0.57%	0.61%	0.73%	0.85%
Surcharge on Int'l Calls	0.21%						
Airport Tax	0.26%	0.24%	0.21%	0.21%	0.27%	0.20%	0.27%
Security Charge					0.04%	0.04%	0.08%
Excise tax (imports)			0.83%	0.90%	1.12%	1.39%	1.54%
<b>Non-Tax Revenue</b>	<b>2.59%</b>	<b>2.36%</b>	<b>1.88%</b>	<b>1.88%</b>	<b>2.11%</b>	<b>1.71%</b>	<b>1.38%</b>
Earnings From Govt. Depts.	0.47%	0.38%	0.19%	0.26%	0.26%	0.16%	0.19%
E.C.C.B. Profits	0.12%	0.18%	0.12%	0.09%	0.08%	0.00%	0.00%
Interest and rents	0.66%	0.75%	0.55%	0.36%	0.29%	0.56%	0.41%
Fees, Fines and Sales	0.76%	0.72%	0.80%	0.99%	1.08%	0.82%	0.61%
Other Non Tax Revenues	0.58%	0.33%	0.21%	0.17%	0.41%	0.17%	0.17%

**Memorandum Items:**

Nominal GDP at Market Prices 1893.49 1862.81 1928.08 2049.61 2211.12 2401.58 2536.70

R=Revised

Pre=Preliminary

APPENDIX VI CENTRAL GOVERNMENT EXPENDITURE TO GDP

**CENTRAL GOVERNMENT EXPENDITURE TO GDP**  
**APRIL TO MARCH**  
**ECONOMIC CLASSIFICATION**  
**(% GDP)**

	2000/01	2001/02 R	2002/03	2003/04	2004/05 R	2005/06 R	2006/07 Pj
<b>Wages and Salaries</b>	<b>11.17%</b>	<b>11.42%</b>	<b>10.98%</b>	<b>11.06%</b>	<b>10.35%</b>	<b>9.74%</b>	<b>9.73%</b>
Wages	1.50%	1.52%	1.44%	1.37%	1.33%	1.20%	1.23%
Salaries	9.45%	9.81%	9.54%	9.16%	8.77%	8.02%	8.45%
retro-active	0.23%	0.09%	0.00%	0.53%	0.25%	0.53%	0.05%
<b>N.I.S</b>	<b>0.15%</b>	<b>0.15%</b>	<b>0.16%</b>	<b>0.16%</b>	<b>0.24%</b>	<b>0.17%</b>	<b>0.19%</b>
<b>Retiring Benefits</b>	<b>1.72%</b>	<b>1.69%</b>	<b>1.67%</b>	<b>1.83%</b>	<b>1.88%</b>	<b>1.64%</b>	<b>1.60%</b>
<b>Interest Payments</b>	<b>1.79%</b>	<b>2.10%</b>	<b>2.10%</b>	<b>2.87%</b>	<b>3.03%</b>	<b>3.00%</b>	<b>3.26%</b>
Domestic	0.87%	0.99%	1.04%	0.88%	0.94%	0.85%	1.01%
Foreign	0.92%	1.11%	1.06%	1.99%	2.09%	2.15%	2.25%
<b>Goods and Services</b>	<b>3.75%</b>	<b>3.80%</b>	<b>4.05%</b>	<b>4.19%</b>	<b>3.96%</b>	<b>4.18%</b>	<b>4.33%</b>
<b>Current Transfers</b>	<b>1.85%</b>	<b>2.27%</b>	<b>2.94%</b>	<b>3.39%</b>	<b>3.43%</b>	<b>2.79%</b>	<b>2.78%</b>
public sector	1.61%	2.01%	2.71%	2.76%	3.00%	2.58%	2.55%
private sector	0.24%	0.26%	0.23%	0.62%	0.43%	0.21%	0.24%
Subsidies	0.08%	0.08%	0.06%	0.34%	0.18%	0.07%	0.08%
Other	0.15%	0.17%	0.17%	0.28%	0.25%	0.14%	0.15%
<b>Current Expenditure</b>	<b>20.43%</b>	<b>21.43%</b>	<b>21.90%</b>	<b>23.51%</b>	<b>22.89%</b>	<b>21.52%</b>	<b>21.89%</b>
<b>Capital Expenditure</b>	<b>7.08%</b>	<b>7.12%</b>	<b>7.78%</b>	<b>8.61%</b>	<b>9.94%</b>	<b>9.92%</b>	<b>10.43%</b>
Local Revenue	4.33%	1.32%	0.43%	0.35%	1.41%	0.47%	0.72%
Grants	0.92%	0.41%	1.17%	0.96%	3.24%	0.28%	0.37%
Loans	1.82%	5.39%	6.18%	7.31%	5.30%	9.17%	9.34%
<b>Total Expenditure</b>	<b>27.51%</b>	<b>28.54%</b>	<b>29.68%</b>	<b>32.12%</b>	<b>32.84%</b>	<b>31.44%</b>	<b>32.32%</b>
<i>Nominal GDP at Market Prices</i>	1893.49	1862.81	1928.08	2049.61	2211.12	2401.58	2536.70

R=Revised

Pj=Projected

APPENDIX VII TOTAL PUBLIC SECTOR OUTSTANDING LIABILITIES

TOTAL PUBLIC SECTOR OUTSTANDING LIABILITIES

As at December 31, 2006

(in EC\$000's)

	2000	2001	2002	2003	2004	2005 R	2006 pre	Change
<b>TOTAL OUTSTANDING LIABILITIES</b>	<b>868,543.00</b>	<b>974,330.00</b>	<b>1,092,455.90</b>	<b>1,239,113.36</b>	<b>1,420,152.65</b>	<b>1,528,242.94</b>	<b>1,642,114.16</b>	<b>7.45%</b>
<b>1. OFFICIAL DEBT</b>	<b>852,199.20</b>	<b>947,776.30</b>	<b>1,076,637.20</b>	<b>1,213,174.70</b>	<b>1,399,960.15</b>	<b>1,510,938.84</b>	<b>1,624,949.58</b>	<b>7.55%</b>
<b>A. Central Gov't.</b>								
Outstanding Debt	623,426.60	695,938.30	826,110.20	968,158.80	1,175,864.31	1,296,263.53	1,427,373.44	10.11%
- Domestic	292,398.90	310,579.30	318,480.00	231,197.30	345,882.34	395,340.26	470,080.51	18.91%
- External	331,027.60	385,359.00	507,630.20	736,961.50	829,981.97	900,923.27	957,292.93	6.26%
<b>B. Government Guaranteed</b>								
Outstanding Debt	228,772.60	212,499.10	197,147.80	187,861.00	167,923.96	160,136.77	143,895.18	-10.14%
- Domestic	59,499.00	42,808.40	45,616.10	74,359.70	39,177.32	47,545.20	45,644.72	-4.00%
- External	169,274.00	169,690.70	151,531.70	140,501.30	128,746.64	112,591.57	98,250.45	-12.74%
<b>C. Public Non-Guaranteed</b>								
Outstanding Debt		39,338.90	53,379.20	57,154.90	56,171.97	54,538.53	53,680.96	-1.57%
- Domestic		16,907.30	22,970.50	24,466.30	23,185.60	21,976.76	20,750.89	-5.58%
- External		22,431.60	30,408.70	32,688.60	32,986.37	32,561.77	32,930.07	1.13%
<b>Outstanding payables</b>	<b>16,343.80</b>	<b>26,553.70</b>	<b>15,818.70</b>	<b>25,938.66</b>	<b>20,192.51</b>	<b>17,304.10</b>	<b>17,164.58</b>	<b>-0.81%</b>

R=Revised; Pre= preliminary

## APPENDIX VIII SINKING FUND PORTFOLIO

### GOSL SINKING FUND PORTFOLIO

	REDEMPTION AMOUNT	BALANCES Feb-07	OUTSTANDING BALANCE	MATURITY DATE
St. Lucia Government Nat. Savings and Development Bond 1996/2006				
St. Lucia Government Nat. Savings and Development Bond 1997/2007	44,980,000.00	42,379,292.00	2,600,708.00	November 1, 2007
St. Lucia Government Nat. Savings and Development Bond 2002/2012	60,000,000.00	23,001,787.00	36,998,213.00	August 1, 2012
Re-draining of Cul-De-Sac River	7,500,000.00	7,628,752.00	(128,752.00)	May 1, 2007
Bodelais Correctional Facility	50,000,000.00	42,000,937.00	7,999,063.00	January 1, 2008
Refinanced 16.2 million bond issue 04/09	8,100,000.00	2,361,268.00	5,738,732.00	December 1, 2009
GOSL Fixed Rate Bond*	63,500,000.00	23,200,000.00		June 27, 2015
	<b>234,080,000.00</b>	<b>140,572,036.00</b>	<b>53,207,964.00</b>	

\* This amount represents \$23.2 M retained by the investor to be placed in a sinking fund to be used to redeem bond at maturity. The GOSL is not expected to make any further contributions to the fund. Government's limit to raise funds through Savings and Development Bonds is \$400 Million.