



“ECONOMY ON THE REBOUND”

STATEMENT BY

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INTRODUCTION: ON THE WAY TO RECOVERY

From time to time, questions are posed by you about the state of our economy. I am pleased to share with you and the public an update on the performance of the economy since the 2015/16 Budget Statement.

I am pleased to report that Saint Lucia's economy is on the way to recovery after three consecutive years of contraction. You may recall that in the past three years the rate of negative growth had decelerated steadily. Preliminary data for the period January to June 2015 suggest increases in output for most

sectors of the economy, led principally by the tourism industry. The rebound in economic performance has been helped by the slow but steady recovery in the economies of the more developed countries to which Saint Lucia's economy is inextricably linked, as they represent the main source markets for our tourist arrivals.

RECORD PERFORMANCE IN TOURISM

During the first half of 2015, total stay-over arrivals increased by 5.3 percent to 185,424 representing a record level of arrivals over the last five years for the first six months of the year. This performance was

mainly attributed to a 12.3 percent growth in arrivals from the United States, our largest source market and highest spending market per person.

The performance of the United States market was largely influenced by a steady improvement in the US economy supported by additional airlifts in the latter part of 2014, mainly from the North East region of the US. Other markets, such as the Caribbean, also showed improvements in arrivals.

Cruise ship passenger arrivals were also on the upswing, with growth of 9.8 percent to 399,746 passengers visiting our shores during the first half of

2015. This strong performance was mainly attributed to an increase in scheduled arrivals by cruise lines and the return of some other cruise lines. However, preliminary indications suggest that the 2015/16 winter season is likely to see a slowdown in cruise ship arrivals as fewer cruise lines are scheduled to visit Saint Lucia.

TURNAROUND IN CONSTRUCTION

INDUSTRY

Saint Lucia's economic performance in 2015 is likely to be strengthened by the turnaround that is currently being witnessed in the construction

industry. Based on preliminary data for the first six months of 2015, the value of imported construction materials increased by 4.8 percent compared with the corresponding period of 2014. Further, expenditure on major construction projects increased for the first half of 2015 compared with the previous year.

Public sector expenditure on construction is expected to increase as several new projects get underway, for example, the Soufriere Square, the Vieux Fort Administrative Complex, the Gros Islet Human Resource Development Centre, and the

Aquatic Centre. In addition, plans are in the final stages for work to start on the expansion of the Choc Gros Islet Highway.

In the private sector, work continues on a number of projects such as Tides Sugar Beach in Soufriere, Harbour Club Hotel, Unicomer building and Dayana commercial building. The reconstruction of the Smugglers hotel later this year, at an estimated cost of over US\$100 million, is expected to have a major impact on the revival of the construction industry.

The recovery in construction could, of course be boosted even further, if our commercial banks adopt more aggressive lending policies in home construction.

INCREASED PRODUCTION IN MANUFACTURING

Notwithstanding the challenges of the manufacturing sector, indications are that production increased during the January to June 2015 period by 1.8 percent. While the largest and most significant category, food and food products, recorded a 5.9 percent decline in the value of

production, increases were recorded in output of corrugated paper and paper board by 13.4 percent, wood and wood products by 29.0 percent and furnishings by 20.5 per cent.

MIXED PERFORMANCE IN AGRICULTURE

The agriculture sector recorded mixed performances during the first half of 2015.

While banana and livestock production recorded declines, purchases of fresh fruits and vegetables by the supermarkets and hotels increased. Banana exports to the UK fell by 3.7 percent to 4,937 tonnes

valued at \$9.1 million. The Ministry of Agriculture has reported enormous success in controlling the black sigatoka disease which should augur well for the future of the banana industry.

Supermarket and hotel purchases of other crops grew by an estimated 6.0 percent to 2,480 tonnes reflecting the success of the CFL farmer certification programme coupled with the growth in stay-over visitors.

DECLINE IN INFLATION

Following an increase of 3.5 percent in 2014, the rate of inflation is on the decline in 2015. During the period January to June 2015 growth in the consumer price index averaged 0.3 percent reflecting the dampening impact of lower fuel cost on consumer prices.

IMPROVED FISCAL PERFORMANCE

The improvement in economic performance was not only confined to the real sectors of the economy. The fiscal performance of the Government of Saint Lucia also improved evidenced by an overall surplus during the first quarter (April to June) of the

2015/16 fiscal year, albeit due to the commencement of the implementation of the capital programme.

Total revenue and grants increased by 11.9 percent to \$253.84 million while total expenditure grew by 1.7 percent to \$235.22 million. This resulted in a surplus of \$18.62 million. This compares favorably to the overall deficit of \$4.52 million recorded in the first quarter of fiscal year 2014/15.

The current account improved as the surplus for the first quarter increased by 50.5 percent to \$45.71 million on account of larger increase in current

revenue relative to current expenditure. Current revenue grew by 9.4 percent to \$243.87 million while current expenditure was up by 2.9 percent to \$198.17, mainly driven by higher interest payments on the island's debt. The largest contributor to the increase in current revenue was taxes on income, mainly reflecting collections of tax arrears.

RISKS REMAIN

Notwithstanding the improved fiscal position during the first quarter, significant risk remains as evidenced by our high public debt stock. The stock of public debt as at June 2015 stood at \$2,791.16

million representing an increase of 0.1 percent relative to December 2014. The low rate of increase was influenced by a \$63.5 million loan which was paid off during the period under review.

Interest payment on the debt is expected to be the largest contributor to growth in current expenditure in 2015/16, reflecting past debt accumulation and the maturity profile of the debt stock. This trend of rising debt service cost is expected to continue as an increasingly larger amount of the debt comes to maturity.

Despite the first quarter improvements in fiscal performance, I expect that there will be, a widening of fiscal deficit in the current as expenditure pressures accelerates. You will recall that I had indicated that this would happen in the 2015/16 Budget Statement. It is therefore important that measures to contain expenditure remain firmly in place.

REAL GDP GROWTH EXPANDS

On the basis of the performance of the economy during the first half of 2015 and expectations for the rest of the year, real GDP growth is estimated to

expand somewhere within the range of 0.8 to 2.4 percent in 2015. However, this projection is subject to considerable downside risks given the precarious nature of the incipient recovery coupled with the headwinds emanating from the slow pace of global economic recovery. The economic slowdown in China and Brazil are particularly worrisome.

On the domestic front, downside risk associated with slower than anticipated pace of private sector construction activity and government capital spending on account of acute financing pressures,

implies that the outlook although positive, remains fragile.

UNEMPLOYMENT

While I do not have updated figures on the rate of unemployment, I expect that unemployment will be contained and will gradually reduce as investment intensifies and the economy expands.

REASON FOR HOPE

I believe that there is good reason, barring any major disasters or calamities to befall us, for our people to look forward to the future with greater hope and

confidence. The Government has had to take some hard, difficult and unpopular decisions to correct the structural problems of our economy. Some of the decisions were greeted with dismay but they are beginning to bear fruit for all to see.

I remain thankful to all Saint Lucians for their understanding and patience. We have come through a difficult period. We are not home and dry! Far from it! There is still more to be done. Collectively, we can do it.