Caribbean Information &
Credit Rating Services Limited

MEDIA RELEASE

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CariCRIS lowers its credit ratings for
The Government of Saint Lucia

EC $ 140 million Debt Issue (Downgraded)	***Cari*BBB** ***Cari*BBB**	**(Regional Scale Foreign Currency)** **(Regional Scale Local Currency)**
US $ 50 million Debt Issue (Downgraded)	***Cari*BBB** ***Cari*BBB**	**(Regional Scale Foreign Currency)** **(Regional Scale Local Currency)**
US $ 38 million Debt Issue (Downgraded)	***Cari*BBB** ***Cari*BBB**	**(Regional Scale Foreign Currency)** **(Regional Scale Local Currency)**

Caribbean Information and Credit Rating Services Limited (CariCRIS) has downgraded its ratings on the debt issues (EC $140 million, US $50 million, and US $38 million) of the Government of Saint Lucia (GOSL) by one notch to *Cari***BBB** (Foreign Currency and Local Currency Ratings) on its regional scale**.** The ratings indicate that the level of creditworthiness of this obligation, adjudged in relation to other obligations in the Caribbean[1] is **adequate.**

The lowering of the ratings is primarily based on the persistent and severe deterioration in the Government's fiscal position, and the resultant steady increase in its debt stock as well as debt to GDP ratio.

The fiscal current account balance fell steadily, with the exception of FY2011/12[2], from a surplus of 4.9% of GDP in FY2008/09, to a deficit of 1.2% in FY2012/13; the first year of a deficit in the last decade. The deficit in FY2012/13 was driven by a reduction in current revenue over the period to 21.5% of GDP from 25.2% in FY2008/09. Also

[1] *The term Caribbean as used here covers the following countries: Bahamas, Barbados, Belize, Costa Rica, Dominican Republic, Guyana, Haiti, Jamaica, Panama, Suriname, Trinidad and Tobago and the following countries in the OECS: Anguilla, Antigua & Barbuda, Dominica, Grenada, Montserrat, St. Kitts & Nevis, Saint Lucia and St. Vincent & the Grenadines. Refer www.caricris.com for a more detailed explanation on CariCRIS ratings and rating definitions.*
[2] *Fiscal year runs from April 1 to March 31.*

contributing to the deteriorating current account balance was the upsurge in current expenditure to 22.7% of GDP in FY2012/13 from 20.3% in FY2008/09. The primary balance was similarly affected and fell from a surplus position of 1.9% of GDP in FY2008/09 to deficits in the following four years which continuously grew to 5.6% of GDP in FY2012/13. The overall fiscal deficit deteriorated to 8.8% of GDP in FY2012/13 from 0.9% of GDP in FY2008/09; higher than CariCRIS' projection of 7.5%. The government sought to ameliorate the worsening fiscal position by implementing a Value Added Tax (VAT) meant to broaden the tax base, simplify the tax system and increase compliance by replacing a host of smaller taxes and fees. However, for the five months of its collection in FY2012/13, it did not have an enhancing impact on current revenue over the prior year. In 2012, the Ministry of Finance had projected a full year of VAT receipts increasing revenue by EC $60-$70 million (an estimated EC $25 million for the 5 month period), and while this target was exceeded for the 5 months, it was not enough to curtail the decline in current revenue which fell by EC $43.3 million in FY2012/13. Also instituted to bolster the fiscal position was a curtailment in capital expenditure which fell to 9.1% of GDP in FY2012/13 from 10.4% in FY2011/12. At best that measure only marginally tempered the revenue decline.

In light of rising fiscal deficits, total public sector debt has risen sharply in the last three years, increasing on average by 11.4% each year. Total public sector debt rose 11.4% in 2012 to EC $2.5 billion from EC $2.3 billion in 2011; above CariCRIS' projection of EC $2.2 billion. As a percentage of GDP, total public sector debt rose to 71.1% in 2012 from 65% in 2011, and above the 70.9% CariCRIS projected. Total public sector debt is forecasted to grow to 76%[3] by end of FY2013/14.

CariCRIS' expects GOSL's fiscal position to remain tenuous in FY2013/14 especially in light of higher current expenditure given the recently negotiated wage increase for the civil service. The net increase is projected to be around EC $37 million in FY2013/14, although EC $11.8 million of this amount is expected to be financed by reducing funded vacancies. The VAT, as a replacement tax, will have a muted impact on the current revenue position. As such, the total public debt to GDP ratio is expected to grow rapidly by year-end.

Notwithstanding the deterioration in the fiscal position, the ratings on Saint Lucia continue to reflect its monetary and exchange rate stability underpinned by its

[3] *Ministry of Finance, Economic Affairs, Planning & Social Security forecast.*

membership in a quasi-currency board arrangement and its relatively diversified economic base. Also supporting the rating is an external sector characterized by moderate balance of payments (BOP) performances, relatively low external debt and adequate import cover.

***About the Sovereign*:** Saint Lucia, 'Helen of the West Indies", is situated in the Eastern Caribbean, at the northern end of the Windward Islands chain. The total area of Saint Lucia is approximately 616 km^2 (238 square miles). Total population is estimated at 169,115[4], with the greater number of persons living around the capital, Castries. Average life expectancy is 76.8 years. Infant mortality is estimated at 20.2 deaths per 1,000 live births. The official language is English but French patois is widely spoken.

Tourism is the mainstay of the economy with the main markets being the United States of America (USA), United Kingdom (UK), Caribbean and Canada. Additionally, agriculture, specifically bananas, plays a significant role in the economy. There is a small manufacturing sector, the most diverse in the Eastern Caribbean, producing clothing, beverages, corrugated cardboard boxes, as well as the assembly of electronic components and the processing of coconut. A relatively small financial sector also exists.

Please visit www.caricris.com for the detailed rating rationale on the Government of Saint Lucia

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[4] *Ministry of Financial, Economic Affairs, Planning & Social Security, "Economic and Social Review 2012"*

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