**Prime Minister and Minister of Finance, Economic Growth, Job Creation, External Affairs and the Public Service**

**Opening Statement to Press Briefing on**

**IMF/WB ANNUAL MEETINGS**

**Wednesday 28th October 2020**

The World Bank and the International Monetary Fund (IMF) conduct Annual Meetings in October each year. During our participation at the IMF-World Bank Meeting this month, there were several issues which were raised with the Managing Directors of these two institutions and other World Leaders, and which are of particular importance to us here in Saint Lucia.

Whilst we are cognizant of the fact that there is presently a world-wide pandemic affecting all countries, we are sensitive to the plight of the issues confronting Small Island Developing States, such as Saint Lucia and our Caribbean neighbours. The COVID-19 pandemic has proven to be as much a healthcare crisis as an economic one, and we are particularly vulnerable due to our size, geography and location.

At this year’s meetings, some of the discussions centered around Small Island Developing States and the impact of COVID-19 on our economies. We advocated for the International Financial Institutions to give close attention to the issues plaguing our economies. We articulated the concerns of our populace and the vulnerabilities which undermine our efforts geared towards economic growth. We spared no effort to show our development partners that the pandemic has presented a perfect example of how the idiosyncrasies of our region cause economic shocks to be exacerbated, and lead to disproportionate effects on our socioeconomic landscape.

Today, we will highlight some of these issues and the specific concerns the Saint Lucian delegation raised at the meetings, including some recommendations advanced, not just on behalf of our country, but also on behalf of Small Island Developing States in the region:

1. ***Impact of COVID-19 & Saint Lucia’s Response***

* The COVID-19 pandemic has had a debilitating impact on many economies across the world. The pandemic has resulted in a marked decline in global travel and curtailed hotel, restaurant and related tourism activities. Many countries, particularly Small Island Developing States, are trying to respond to the pandemic with large segments of their economy closed down, resulting in reduced revenues. This turn of events has in the immediate term led to the need to borrow, in order to bridge the revenue shortfall and build capacity in the health sector, to respond to COVID-19 related illness and to mitigate the spread of the Coronavirus.
* Prior to COVID-19, Saint Lucia had made significant progress with its economic growth indicators and had attained a Debt to GDP ratio of 60% as at the end of March 2020. The Government has had to borrow funds from development partners to help mitigate the economic crisis facing the country, particularly because the revenue of the Central Government has been significantly eroded, coupled with additional expenditures related to managing and augmenting the Healthcare system.
* As part of the COVID-19 response, the Government of St. Lucia had to increase expenditures on healthcare related measures, such as the establishment of quarantine and isolation centers, the rehabilitation of the Victoria Hospital, the move to OKEU Hospital, the increase in testing capacity, the acquisition of medical equipment and supplies, hiring additional healthcare workers and maintaining health protocols.
* The country has also suffered massive unemployment, due to the closure of the tourism sector, all necessitating social and economic relief measures aimed at providing support to the poor and vulnerable, and those directly impacted as a result of the crisis.
* Growth in the Caribbean region and St Lucia has been relatively tepid, and traditionally has relied on construction activity and tourism related developments. Prior to COVID-19, Saint Lucia recorded real growth of 1.7 % in 2019, with expectations of 3.0 to 4.0 % for 2020.
* Saint Lucia also experienced a decline in unemployment during the period 2017 to 2019, which was driven by developments in the tourism and construction industry. While the decline observed in Saint Lucia’s unemployment was welcomed, estimates suggest that unemployment, as at early June 2020 went back up to 21.0%, primarily due to the effects of COVID-19.
* The debt to GDP ratio has spiked on account of projections of a decline in GDP (that could be as high as 20%) for fiscal year 2020. Prior to COVID-19, growth in Saint Lucia’s debt to GDP ratio was flat, with the ratio fluctuating between 61.0 (2016) and 59.6% (2019). Given the initial estimates of the debt to GDP ratio, Saint Lucia was on a path to achieve the 60.0% target by 2030.
* For fiscal year 2020, tax revenues have fallen by more than 50%. Our debt redemption rate has been in the region of 25% this fiscal year. Lower revenues, increased expenditures and significant debt redemptions have significantly affected our cash flows. A large component of the deterioration in fiscal sustainability for St. Lucia reflects increased borrowings to bridge revenue shortfalls and does not reflect fiscal slippage in the traditional sense.

Despite the effects of the pandemic, the Saint Lucia Government has embarked upon a multiplicity of policy responses to help mitigate the effects of the crisis, and to bring relief to the most vulnerable groups.

1. Firstly, there was the development of the COVID-19 **Health Response Plan**. This plan was initially developed in March 2020 but has since been updated to treat with the new emerging threats of the further spread of the virus.
2. Secondly, there was the development of the **Social Stabilization Programme**, which was announced on 8th April 2020. This program allowed for the provision of income support, tax relief, and other social support measures which catered to individuals, households and businesses most impacted by the pandemic.
3. Thirdly, there was the development of **the Economic Recovery & Resilience Plan** (ERRP), which was launched on 12th July 2020. This plan encompasses a broad array of strategies to mitigate the impact of COVID-19. The ERRP was established on 6 pillars (3 Recovery pillars and 3 Resilience pillars). These pillars are further broken down into 32 interventions, all aimed at sustaining and stimulating the economy, whilst bringing about some level of recovery. Quite a number of these interventions have been rolled and the remaining ones will be rolled out in the coming months. It must be noted that this plan is very extension, and covers a rollout period of 12 months.
4. ***SIDS & the Development Agenda***

Caribbean States, along with the global economy, are now experiencing another sudden stop to their main economic drivers and foreign exchange earner as a result of the COVID-19 pandemic, which has altered the **economic landscape of our economies as well as the development finance architecture**.

Caribbean islands have endured a subtler and more understated sudden stop, that being, the stop to certain levels of **Official Development Assistance** and concessionary development finance once a certain GDP per capita threshold is exceeded. This policy of penalizing countries for not maintaining the targeted Debt to GDP ratio of 60%, whilst embarking on growth-oriented policies, has restricted small states, such as Saint Lucia, from growing and developing at the pace they should.

To attain the desired level of transformation needed to drastically catapult our economies to the next level, it is important that Small States be rewarded for pursuing sound development policy, while also giving due consideration to the inherent vulnerability to climate change that characterizes the experience of Caribbean islands.

1. ***De-risking***

The institutional constraints, imposed by certain developed countries and international institutions on the countries in our region, have proven to be very prohibitive. The severing of **correspondent banking relationships** with entities which are deemed high risk is having a severe impact on the financial sectors of many Caribbean nations.

The adoption of a de-risking strategy by global banks, which provides correspondent banking services for domestic banks across the world, was apparently in response to a complex combination of factors including increasing costs of compliance, change in risk appetite, uncertainty in cross border transactions, mounting pressures on the local regulatory environment and Know Your Customer (KYC) requirements. **The increase in the cost of compliance** over the years has resulted from incidents of record-setting fines, criminal prosecution and enforcement actions.

While Belize has been one of the jurisdiction most affected in the Caribbean, Saint Lucia is also facing challenges. Some Money Services Businesses (MSBs) have encountered difficulties in opening accounts with domestic banks as a result of pressure from correspondent banks labeling MSBs as high-risk institutions. Other domestic banks have decided altogether to do away from Money Services.

Given the importance of international finance and banking services to economic growth and development, CARICOM has taken the proactive approach of pursing discussions at various levels, both in the region and internationally, to identify the best means of addressing and mitigating the impact of reduced access to international banking and financial services and markets, caused by de-risking measures.

1. ***Blacklisting of Caribbean Countries***

Our region has been adversely affected by the **Blacklisting efforts of the European Union and other international bodies**. As you may know, there has been recent additions to the EU Blacklist, including some of the countries in the Caribbean region. Lucky for us, we have been able to get off the EU Blacklist and have established a **territorial tax system**, in response to the demands of the EU as it relates to tax transparency. Under the territorial tax system, income arising from a source outside of Saint Lucia is **tax exempt**. This tax system is further supported by the newly establish **Economic Substance Act**, which requires entities to show that they are participating in income generating activities. Saint Lucia, although in good standing with the Organization for Economic Cooperation and Development (OECD), is still in the process of ensuring that we are completely in compliance with the EU tax requirements.

We have advocated that the region needs multilateral support with combatting the unproductive and unnecessary blacklisting of Caribbean countries through advocacy, as well as technical assistance, in the areas of more effective tax administration, enhancing the regulatory environment and strengthening the legislative framework for Anti-Money Laundering and Countering the Financing of Terrorism. During the annual meetings, we stated our concerns with the Blacklisting process adopted:

1. Negative listing is often unwarranted and not conducted with consistency and transparency across countries;
2. Blacklisting results in reputational damage and other repercussions which are far reaching, and are particularly difficult in the current environment;
3. For the financial services centres, negative listings send inaccurate messages, damages trust and harms sectors that are viable and completely legitimate;
4. Blacklisting is a deterrent to investment, which will be critical for the region’s recovery. These negative ratings affect not only the countries that have been negatively listed, but the entire region.
5. ***Ways IFIs and Development Partners Can Help***

The IMF and World Bank have both assisted Small Island Developing States, including Saint Lucia, since the onslaught of the COVID-19 pandemic, by instituting the **debt service suspension initiative** (DSSI) and **providing some funds under their rapid response facilities towards budgetary support and the healthcare response**. This initial financing has focused on the health impact of the crisis, through the procurement of equipment and supplies to treat with COVID-19, strengthening our health systems and the expansion of social protection for vulnerable groups. Whilst these have been very useful, they are certainly not adequate.

We are of the view that there are other ways in which our development partners can assist and contribute to the economic agenda of sustainable and equitable growth.

Some of these include:

1. **Reviewing the instruments that are used to assess debt sustainability**. The dominance of the debt to GDP ratio and per capita income skew the discussion and do not differentiate between a fiscal position that is country-led **versus** a fiscal position driven by inescapable responses to economic shocks.
2. **Ring-fencing all catastrophic debt.** One proposal with respect to assessing solvency and fiscal performance is to ring-fence all ‘**catastrophic**’ debt from debt calculations, and to use a moving average of GDP to compute the debt to GDP ratio. Simulations of such a metric would closely track GDP, but in times of shocks, smooth fluctuations due to external shocks.
3. **Establishing a Development & Resilience Building Fund**. The Caribbean region, over the past decades, have made significant progress with respect to infrastructural and economic development. Sadly, these have been hampered by natural disasters due to climate change and other economic shocks. There is a therefore a need for a broad-based **Development & Resilience Building Fund** to help overcome these hurdles and act as a buffer to these natural and economic shocks.
4. **Removing institutional impediments**. The COVID-19 pandemic has laid bare the dependency of the region on the tourism industry and its related services. With limited global travel and low levels of visitor spending the impact on the region is significant. Caribbean countries have tried to diversify away from tourism to financial services and related industries, but these efforts have often been stymied by disproportionate international scrutiny and regulation which have impeded the development of these sectors.
5. **Providing multilateral support and advocacy**. This is critical to complement the Caribbean region’s collaborative work toward rebuilding travel confidence on a global scale. Support is needed to help the region benefit from new opportunities and to diversify their tourism products. For example, prolonged remote work programmes will create an avenue for persons to travel to the Caribbean and work from there. This will improve revenues and foreign exchange earnings for the region.
6. ***Specific Recommendations***

In light of the current situation facing our region, Saint Lucia and the Caribbean countries have put forward the following key recommendations:

1. There is need for a forum to look into the crowding out effect on growth and deterioration of our fiscal positions which comes from the constant need to replenish our capital stock due to disasters, as well as revisiting the calculation of the debt to GDP metric to include either:
   1. A moving average of GDP and/or
   2. A ‘ring-fencing’ approach to certain segments of the debt, particularly ‘catastrophic’ debt.
2. Exploring new tools for mitigating against debt instability observed after the global financial crisis of 2008 and to explore options to allow International Financial Institutions to assist Caribbean countries and develop innovative financing instruments, which could provide relief to countries with high levels of debt.
3. The provision of finance to countries based on assessment of need and risk and not strictly on fixed country allocations. The use of a Vulnerability Index in development financing arrangements would be a more favourable approach than the use of Debt to GDP ratios.
4. The diversification into areas such as agriculture and information technology to adapt to the post COVID-19 reality. Exploring approaches to increasing food security through applying new technologies and digital solutions would serve to boost economic growth for in the region.
5. Providing support for re-skilling and re-training of our labour force to take advantage of opportunities presented post-COVID-19.
6. Providing technical assistance and capacity building in various critical areas such as debt management, financial regulatory frameworks, financial stability and cyber security.
7. Investing in the Blue Economy and capitalizing on new areas to generate energy and innovative products which have the potential to accelerate economic growth.
8. Support for the Disaster Resilient Strategies (DRSs) and Climate Change Resilience Assessments. Financial assistance, earmarked for building resilience to climate change in small developing states, such as the Caribbean needs to be explored.
9. Establishment of a Development Fund or Trust Fund through which liquidity support can be channeled through grants or at concessional rates.
10. Exploring possible de-risking strategies which will allow for economic growth and fiscal stability for Caribbean countries.

We have just provided a snapshot of the discussions held with the IMF and the World Bank during the Annual Meetings this October. We were very vocal and unapologetic in our advocacy. We truly hope that whilst these institutions are encumbered by political agendas and institutional constraints, there will be some swaying in the direction of reform and a more accommodating and favourable stance will be forthcoming.

We thank you for your time and attention.