

EASTERN CARIBBEAN CURRENCY UNION (ECCU)

After contracting slightly by 0.3% in 2012, the economies of the Eastern Caribbean Currency Union (ECCU) showed signs of a marginal recovery in 2013 as output in the construction, tourism and agriculture sectors increased. Although the performance of each sector varied between the countries, there was a general expansion of economic activity across the Currency Union during the first half of 2013. That improvement reflects the further stabilization of the global economy in 2013, especially in the United States and United Kingdom, the Currency Union's main trading markets. As a result, governments were able to extend their fiscal consolidation strategies, thus improving the fiscal balance from a deficit of 0.3% of GDP during the first half of 2012 to a surplus of 0.8% by mid-2013. Prices within ECCU also remained relatively stable during the period. Assuming that the economic recovery in the United States and Europe continues to strengthen, overall growth of 1.4% is projected for 2013, with a further improvement of roughly 2.1% in 2014.

ECCU posted a fiscal surplus of 100.2 million Eastern Caribbean Dollars (EC\$) (0.8% of GDP) in June 2013, in marked contrast with the deficit of EC\$ 38.97 million (0.3% of GDP) recorded for the same period in 2012. This improvement was attributable to both higher current revenues and lower government expenditure. Current revenue rose to EC\$ 1.86 billion during the period, representing a 6.1% increase over the same period in 2012. Non-tax revenues jumped up by 52%, while value added tax (VAT) receipts rose by 13.9%. At the country level, the largest revenue increases were recorded for Dominica (11.4%) and Saint Kitts and Nevis (41.3%), owing mainly to the significant non-tax revenues generated from the economic citizenship programme, and for Saint Lucia (1.9%), following the introduction of VAT nine months ago. Current expenditure also declined by 1.8% in the year to June compared with a 4% increase in the year-earlier period. Interest payments (12.5%) and transfers and subsidies (8.7%) represented the main expenditure cuts by ECCU governments in the first half of 2013 with respect to the same period in 2012 when actual increases had been recorded. Nevertheless, capital expenditure increased by 18.8% across the Currency Union from January to June 2013, relative to the corresponding period the previous year, with the largest increases occurring in Grenada, Saint Lucia and Saint Vincent and the Grenadines. Expenditure on personnel emoluments (2.0%) and goods and services (6.0%) also increased year-on-year between January and June, with the largest increase seen in Dominica (17%). In spite of this overall performance, the fiscal situation remains tenuous as evidenced by the fact that only three of the eight economies recorded growth in current revenues. Furthermore, a significantly smaller tax take from international trade and transactions (16.1%) and income and profits (10.6%) suggest reduced corporate profits for the ECCU economies.

While the improved fiscal position allowed ECCU countries to reduce their domestic debt, overall central government debt increased slightly (0.2%) to reach 85.0% of GDP during the first six months of 2013. Central government disbursed outstanding debt increased by 2.5%, 0.93% and 0.93% in Antigua and Barbuda, Saint Lucia and Grenada, respectively, and fell by 2.2% in Saint Kitts and Nevis and by 0.7% in Saint Vincent and the Grenadines. Domestic debt fell in all ECCU countries except Dominica.

The Eastern Caribbean Central Bank maintained its fairly neutral monetary policy stance during the first eight months of 2013, with a rise of only 2.8% in monetary liabilities (M2), compared with a 2.2% increase during the same period the previous year. This rise was attributable mainly to a 5.2% increase in savings and a 6.5% expansion in foreign currency deposits. Interest rates were adjusted slightly, from 8.83% to 8.66% for the average lending rate and from 3.15% to 2.92% for the average deposit rate between June 2012 and June 2013. This resulted in a slight widening of the interest rate

spread from 5.68% to 5.74%. Nevertheless, total deposits increased by 2% during the first half of 2013, compared with 1.7% for the same period in 2012. A fall in credit to the private sector led to a 4.1% decline in domestic credit during the first half of 2013. Liquidity in the commercial banking sector also increased by 3 percentage points, resulting in a liquid asset ratio of 35% in June 2013.

With respect to output, public-sector construction was given a boost with public expenditure increasing to EC\$ 433 million between January and June 2013, representing an 18.8% increase over the same period in 2012. Most construction activity took place in Grenada, Saint Lucia and Saint Vincent and the Grenadines. Private construction, however, was subdued, reflecting the prevailing financing difficulties besetting such projects since the onset of the global financial crisis. Major private construction works were undertaken only in Grenada and Saint Kitts and Nevis with the expansion and completion of two large tourism projects in 2013. As the effects of Black Sigatoka disease eased across ECCU, agricultural output rebounded in 2013, particularly in Grenada, Saint Vincent and the Grenadines and Saint Lucia where banana output grew by 3%. Livestock, fisheries and crop production also improved across most of the ECCU countries. The weak performance of the cruise subsector led to a 6.9% decline in overall tourist arrivals in the first half of 2013, but a 1% increase in stay-over arrivals during the first half of 2013, relative to 2012, resulted in an increase in value added in the hotels and restaurants subsector. The higher numbers of stay-over visitors came primarily from Canada (11.0%) and the United States (2.1%). Manufacturing declined during the period under review, while the real sector recorded a generally mixed performance.

With regard to inflation, prices within the Currency Union remained relatively stable, owing to reduced imports and falling global food and fuel prices. For the first half of 2013 the growth of the consumer price index averaged 0.0%, inching down by 0.1% relative to the same period in 2012.

The merchandise trade deficit narrowed in the first half of 2013 on the back of a 1.1% fall in imports and a 2.7% increase in exports. Nonetheless, the ECCU current account deficit is projected to have increased from 19.8% to 20.5% of GDP between 2012 and 2013 on account of a lower marginal increase (0.8%) in gross travel receipts year on year. Gross inflows of official grants declined by 18.7% and, together with increased short-term net capital outflows from commercial banks, had a profound effect on the capital account, which is projected to decline by 12.4% in 2013.

In terms of broad policy objectives, ECCU continues to exert stringent control over public expenditure as a means of achieving fiscal consolidation. Other revenue-enhancing efforts include the refinement of the economic citizenship programmes in Saint Kitts and Nevis, Dominica and Antigua and Barbuda, and the recent introduction of such a programme in Grenada. During the third quarter of 2013, Saint Lucia also established a National Competitiveness and Productivity Council as part of a strategy to boost the country's economic efficiency.

Eastern Caribbean Currency Union: main economic indicators, 2011-2013

| | 2011 | 2012 | 2013 ^b |
|--|--------|-------|---------------------|
| Annual growth rate | | | |
| Gross domestic product | 0.5 | -0.3 | 1.4 |
| Consumer prices | 3.9 | 2.6 | 0.0 ^c |
| Money (M1) | 1.7 | 4.5 | 6.0 ^c |
| Annual average percentage | | | |
| Central government | | | |
| Overall balance / GDP | -3.6 | -2.8 | -1.0 ^c |
| Monetary policy rate | 3.1 | 3.2 | 2.9 ^c |
| Nominal lending rate | 9.6 | 8.8 | 8.7 ^c |
| Millions of dollars | | | |
| Exports of goods and services | 2 110 | 2 135 | 2 071 ^c |
| Imports of goods and services | 3 149 | 3 092 | 3 197 ^c |
| Current account balance | -1 008 | -970 | -1 018 ^c |
| Capital and financial balance ^d | 1 293 | 1 097 | 1 024 ^c |
| Overall balance | 122 | 61 | 110 ^c |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Refers to six countries: Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.

^b Estimates.

^c Figures as of June.

^d Includes errors and omissions.

Overall growth prospects for 2014 are estimated at 2.1%. Nonetheless, achieving this growth rate will require stable international commodity and energy prices, increased foreign direct investment and no losses from natural events.