

EASTERN CARIBBEAN CURRENCY UNION (ECCU)

1. General trends

Overall economic growth in the six ECCU members that are also members of ECLAC slowed to 2.9% in 2015 from 3.5% in 2014.¹ However, while GDP growth rates varied between the countries, all generated positive economic growth, with the exception of Dominica. Dominica's economy contracted by 1.8% owing to the destruction of key infrastructure and production sectors by Tropical Storm Erika in August 2015.

Continued fiscal consolidation and debt reduction initiatives resulted in a narrowing of the overall fiscal deficit from 1.3% of GDP in 2014 to 0.5% of GDP in 2015, with a concomitant 3% decline in non-financial public sector debt. The merchandise trade deficit widened by 0.6% in 2015 owing to soft international commodity prices, as a rise in the absolute value of imports outweighed the 0.9% increase in exports. Lower energy and food prices were the main factors responsible for average deflation of 1.24% across the Union.

Official unemployment statistics were not readily available as most members do not routinely collect labour force data. However, it is generally recognized that the ECCU countries are faced with high unemployment rates, particularly among young people. In response, many member States have designed specific programmes to address this structural challenge. In Grenada, the unemployment rate stood at an estimated 29% in 2015, down from 29.3% in 2014. The unemployment rate for Saint Lucia was 24.1% in 2015 (down from 24.4% in 2014), with youth unemployment at an estimated 41.1%.

Economic growth in ECCU is expected to continue to slow in 2016, reaching 2.8%, though some sectors, such as tourism and construction, are likely to rally. GDP growth is projected to accelerate in Saint Kitts and Nevis and Saint Vincent and the Grenadines, with Dominica returning to positive growth. Slower growth is forecast for Antigua and Barbuda, Grenada and Saint Lucia.

2. Economic policy

(a) Fiscal policy

In an attempt to address the high debt and fiscal imbalances run up by member States, ECCU adopted the Eight-Point Stabilization and Growth Programme in 2013 as the basis for restructuring their economies and stimulating sustained growth over the short to medium term. The improved fiscal performance of the ECCU economies in 2014 and 2015 suggests that the Programme has had a positive impact thus far.

More specifically, the overall fiscal deficit (after grants) shrank from 1.3% of GDP in 2014 to 0.5% of GDP in 2015. This improvement was attributable largely to the almost doubling of the current account surplus to 468.8 million Eastern Caribbean dollars (EC\$) (3.0% of GDP) in 2015, from EC\$

¹These countries are Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.

292.1 million (1.9% of GDP) in 2014. The increase in current revenues outstripped the 2.0% rise in current expenditure to EC\$ 3.952 billion, which nevertheless remained below the spending ceiling of 26% of GDP set by the Monetary Council of the Eastern Caribbean Central Bank (ECCB).

Current revenue increased by 6.5% to EC\$ 4.117 billion (26.3% of GDP) as both tax revenues (7.0%) and non-tax revenues (4.0%) expanded in 2015. Tax revenue increased across all major categories in 2015, while the observed ECCU-wide improvement in non-tax revenue was due primarily to an upswing in fees collected from citizen-by-investment programmes (CIP) in countries such as Antigua and Barbuda, Dominica and Grenada.

At the country level, Saint Kitts and Nevis recorded a smaller overall surplus, owing to a 10.1% fall in non-tax revenue to EC\$ 372.6 million as CIP inflows declined. In contrast, Antigua and Barbuda moved from a deficit in 2014 (2.8% of GDP) to an overall surplus of EC\$ 3.5 million (0.1% of GDP), which was utilized for debt reduction. This improved fiscal performance was influenced largely by an uptick in CIP inflows, which fuelled a 71.9% increase in non-tax revenue in 2015. Dominica, Grenada, Saint Lucia, and Saint Vincent and the Grenadines posted narrower overall deficits. Grenada, in particular, strengthened revenue collection, cut expenditure and continued to reform its legislative and fiscal policy framework, thereby reducing its fiscal deficit from EC\$ 115.2 million (4.7% of GDP) in 2014 to EC\$ 32.1 million (1.2% of GDP) in 2015.

The continued contractionary fiscal stance adopted by ECCU, resulting from the implementation of fiscal reform programmes in individual member States, has led to an improvement in the primary balance, with the surplus increasing to EC\$ 368.8 million (2.4% of GDP) in 2015 from EC\$ 266.0 million the previous year.

The improved fiscal position was accompanied by a 3.0% decline in non-financial public sector debt to EC\$ 12.672 billion at the end of 2015 relative to the previous year. This fall in the public debt stock was attributable to an overall contraction in both domestic and external debt obligations (by 0.8% and 4.1%, respectively), especially in Antigua and Barbuda, Grenada and Saint Kitts and Nevis. Antigua and Barbuda's non-financial public sector debt declined from 102.8% of GDP in 2014 to 92.1% 2015, as the central government's domestic debt decreased by 11.2%. This was achieved largely through debt-for-equity swaps involving two statutory corporations—the Antigua and Barbuda Medical Benefits Scheme and the Antigua and Barbuda Social Security Board—as well as a EC\$ 62.1 million payment on the longstanding liability to HMB Holdings Ltd. for the Half Moon Bay property. In addition, scheduled amortized payments led to a 6.1% decrease in the total debt stock of public corporations to EC\$ 511.1 million.

Grenada restructured its debt with its leading external and domestic creditors, resulting in a year-on-year contraction in total outstanding non-financial public sector debt from 95.7% of GDP at the end of 2014 to 85.8% of GDP at the end of 2015. Furthermore, Grenada's increased fiscal vigilance under an International Monetary Fund (IMF) programme saw the country avoid the accumulation of arrears on external debt and limit the acquisition of additional non-concessional external debt in 2015.

The ECCB Monetary Council proposed that all ECCU countries should seek to lower their debt-to-GDP ratio to 60% by 2030. To this end ECCB has been engaging in financial planning and conducting debt sustainability analyses to monitor the progress being made by countries in achieving this target. Preliminary projections suggest that Saint Kitts and Nevis is on track to achieve this goal by 2017, in view of its recent revenue-side performance. In 2015, central government debt in Saint Kitts and Nevis declined by 14.5%, which was largely due to a 13.5% contraction in total disbursed and outstanding non-

financial public sector debt to EC\$ 1.534 billion or 61.6% of GDP. More specifically, external debt declined by 25.0% to EC\$ 575.0 million due to a combination of debt service and other payments to the IMF and the People's Bank of China, and a policy of limiting external borrowing.

Saint Lucia's non-financial public sector debt increased by 3.0% to EC\$ 2.979 billion (76.8% of GDP) at the end of 2015, owing primarily to a 3.8% expansion in central government borrowing.

(b) Monetary policy

During the period under review, ECCB continued to design and implement monetary policy in ECCU, regulating the availability of money and credit. The Bank also continued to maintain a fixed exchange rate (pegged to the United States dollar).

Financial sector liquidity increased by 4.4 percentage points in 2015. The decision by the Monetary Council to lower the minimum deposit rate on savings to 2.0% from 1 May 2015 had a greater direct impact on deposit rates than on lending rates. Increased market competition is generally considered to be behind the lower lending rates observed across ECCU in 2015. The weighted average interest rate spread widened by 43 basis points to 6.77%, as the weighted average lending rate fell by 17 basis points year-on-year to 8.74% and the weighted average deposit rate fell by 60 basis points to 1.98%. On the heels of a 6.2% decline in 2014, domestic credit contracted by a further 7.6% to EC\$ 11.166 billion at the end of 2015, as borrowing by the private sector, central governments and non-financial public enterprises all decreased.

Net credit to the private sector fell by 3.7%, as credit to all major sectors, with the exception of financial institutions, decreased. Despite the positive out-turn in tourism and construction on average, credit to these sectors declined by 17.7% and 6.5%, respectively. In Grenada, despite economic growth of 5.1% in 2015, domestic credit to the private sector contracted by 3.8%. Loans were down by 5.7% for the tourism sector, by 64.3% for mining and quarrying, 14.5% for distributive trade, 24.3% for utilities, 17% for professional and other services and 6.3% for agriculture. In contrast, while economic growth in Saint Vincent and the Grenadines was relatively lower (1.6%), domestic credit expanded by 4.8%, in line with higher demand from the private sector.

The entire ECCU money supply (M3) is estimated to have increased by 4.18% in 2015, down from a 6.74% expansion the previous year. This was driven by a similar ECCU-wide deceleration in the growth of monetary liabilities (M2) to 4.0%, down from 6.2% in 2014. Both quasi and narrow money increased (by 2.7% and 8.4%, respectively), with the former buoyed by an upward trend in both private sector foreign-currency deposits and private sector savings deposits. Moreover, increased private sector demand deposits and currency with the public were the primary drivers of the expansion in narrow money (M1) in 2015.

(c) Other policies

Many ECCU economies are currently experiencing a period of relatively weak growth and high debt. Accordingly, ECCU has generally pursued a path of fiscal consolidation, debt reduction and economic development. In this regard, the Parliament of Grenada approved fiscal responsibility legislation and revised legislation on the tax regime in June 2015, which is expected to further strengthen the country's fiscal performance in 2016 and beyond. In 2015 Antigua and Barbuda passed a bill establishing a special economic zone to facilitate public and private sector participation in a competitive

and attractive environment for the promotion of economic development and job creation. In 2016, the Antigua and Barbuda Tourism and Business Incentives Act (Act No. 22 of 2013), which was originally enacted in 2014 with a sunset clause ending in 2016, was extended for a further two years, through to April 2018.

3. The main variables

(a) The external sector

In 2015, the ECCU balance of payments posted a smaller surplus than in 2014. This deterioration was due largely to a shrinking of the capital and financial account surplus (by 25.8%), including net errors and omissions, in 2015. The current account deficit, however, narrowed by 1.9%, owing primarily to a widening of the services account surplus (3.9%). The trade deficit expanded by 0.6%, as a rise in the absolute value of imports offset a 0.9% increase in exports. The positive out-turn for the services account was underpinned by a 2.8% increase in tourism receipts and a 9.7% rise in other services receipts.

(b) Economic activity

Overall economic growth in ECCU slowed from 3.5% in 2014 to 2.9% in 2015. While GDP growth rates varied widely between the individual countries, all posted positive economic growth, with the exception of Dominica. Antigua and Barbuda (4.1%), Grenada (5.1%) and Saint Kitts and Nevis (3.8%) recorded growth of over 3%. Economic growth in ECCU is expected to continue to slow to 2.8% in 2016, despite a stronger performance by tourism and construction. GDP growth is projected to accelerate in Saint Kitts and Nevis and Saint Vincent and the Grenadines, with Dominica returning to positive growth. Slower growth is forecast for Antigua and Barbuda, Grenada and Saint Lucia.

Across the ECCU economies, value added in the construction sector rose sharply (5.6%) in 2015, after very limited growth in 2014 (0.2%). This improvement was driven by increased private sector activity in residential properties and tourism-related projects, coupled with a rise in public sector spending on capital projects in Saint Kitts and Nevis and Saint Lucia.

In the tourism sector, growth in value added in hotels and restaurants more than halved, from 5.9% in 2014 to 1.7% in 2015, as growth in total visitor expenditure slowed significantly, rising by just 2.4% compared with 8.1% in 2014. While the number of stay-over visitors rose more slowly, total visitors were up by 9.8% (compared with 9.9% in 2014) thanks to a 14.1% increase in cruise ship passengers.

(c) Prices, wages and employment

Consumer prices in ECCU declined on average in 2015, with deflation of 1.24% (compared with inflation of 1.50% in 2014), owing mainly to lower energy and food prices. At the country level, Grenada registered deflation of 1.35% in 2015, compared with 0.98% in 2014. Similarly, prices declined by 2.3% in Saint Kitts and Nevis in 2015, driven by lower fuel prices and the removal of the value added tax (VAT) (of 17%) on food, medical supplies and funeral expenses. In Antigua and Barbuda, inflation remained relatively stable, falling from 1.1% in 2014 to 1.0% in 2015.

Statistics on wage levels are not available. Current unemployment statistics are also unavailable for many ECCU economies; however, high unemployment has been identified as a major structural challenge. In Grenada the unemployment rate stood at an estimated 29% in 2015, down from 29.3% in 2014. The unemployment rate for Saint Lucia in 2015 was 24.1% (down from 24.4% in 2014), with youth unemployment at an estimated 41.1%.

Table 1
EASTERN CARIBBEAN CURRENCY UNION (ECCU): MAIN ECONOMIC INDICATORS a/

	2007	2008	2009	2010	2011	2012	2013	2014	2015 b/
Annual growth rates c/									
Gross domestic product	4.4	2.9	-5.0	-2.9	0.0	0.3	1.5	3.5	2.9
Per capita gross domestic product	3.5	2.3	-6.1	-3.7	-0.6	-0.3	1.4	3.3	2.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.4	8.9	2.5	-13.1	1.9	4.7	5.3	3.8	3.4
Mining and quarrying	14.8	3.4	-28.0	-17.6	-10.3	8.0	11.7	-5.7	-11.6
Manufacturing	3.9	-0.3	-0.5	-5.4	-2.5	-5.6	1.0	-0.5	1.1
Electricity, gas and water	5.6	2.5	3.2	0.5	2.4	0.0	-0.7	0.0	6.3
Construction	-2.5	2.8	-9.2	-15.5	-10.7	-4.1	6.4	0.2	5.6
Wholesale and retail commerce, restaurants and hotels	5.2	3.2	-12.8	-0.4	2.7	-0.1	-0.2	4.1	1.5
Transport, storage and communications	7.8	2.2	-5.3	-1.4	-2.2	-2.0	-0.6	3.3	2.3
Financial institutions, insurance, real estate and business services	4.5	1.8	-0.9	-1.4	1.3	1.8	1.9	1.5	2.7
Community, social and personal services	5.1	3.6	2.9	0.9	2.0	2.4	2.3	4.1	1.5
Balance of payments									
Millions of dollars									
Current account balance	-1,364	-1,514	-991	-1,000	-944	-893	-886	-781	-766
Goods balance	-1,872	-2,023	-1,557	-1,621	-1,654	-1,624	-1,666	-1,654	-1,664
Exports, f.o.b.	349	448	405	456	433	467	465	436	440
Imports, f.o.b.	-2,222	-2,471	-1,962	-2,077	-2,087	-2,092	-2,131	-2,091	-2,104
Services trade balance	613	615	632	640	713	745	781	870	905
Income balance	-234	-251	-220	-162	-144	-166	-128	-140	-142
Net current transfers	131	145	154	143	141	153	128	143	136
Capital and financial balance d/	1,397	1,497	1,092	1,092	1,010	970	979	1,033	766
Net foreign direct investment	1,061	849	613	516	398	490	620	563	562
Other capital movements	336	649	479	576	612	480	359	470	205
Overall balance	34	-17	101	92	67	77	93	252	...
Variation in reserve assets e/	-34	17	-101	-92	-67	-77	-93	-225	...
Other external-sector indicators									
Net resource transfer (millions of dollars)	1,163	1,246	873	931	866	804	851	893	624
Total gross external debt (millions of dollars)	2,131	2,057	2,110	2,194	2,303	2,324	2,574	2,605	2,488
Central government									
Percentajes of GDP									
Total revenue	24.8	26.0	25.0	25.6	26.0	25.8	26.4	27.9	28.1
Tax revenue	21.1	21.3	20.8	20.6	20.7	20.4	20.2	20.8	21.6
Total expenditure	27.6	28.7	29.5	28.0	29.7	28.2	29.8	29.2	28.7
Current expenditure	20.3	21.6	23.3	23.1	23.9	23.4	23.5	23.5	23.3
Interest	3.0	2.9	3.1	3.0	3.1	3.2	2.9	3.1	2.9
Capital expenditure	7.3	7.1	6.2	4.9	5.7	4.7	6.4	5.7	5.4
Primary balance	0.2	0.3	-1.3	0.6	-0.6	0.9	-0.5	1.7	2.4
Overall balance	-2.9	-2.7	-4.4	-2.4	-3.6	-2.3	-3.4	-1.3	-0.5
Money and credit									
Percentages of GDP, end-of-year stocks									
Domestic credit	73.0	76.3	83.4	83.4	83.1	82.3	77.3	68.4	60.1
To the public sector	0.6	1.7	3.8	1.6	1.5	0.8	-4.2	-7.2	-4.4
To the private sector	72.4	74.7	79.6	81.8	81.6	81.5	81.5	75.4	64.6
Monetary base	12.8	11.9	12.8	14.8	16.5	17.1	18.7	21.2	204.1
Money (M1)	19.7	18.6	17.9	18.4	18.8	19.3	19.2	20.2	20.9
M2	69.8	69.6	73.6	75.7	77.3	78.8	79.4	78.0	77.0
Foreign-currency deposits	8.4	7.1	6.7	7.0	6.7	7.1	8.4	10.3	11.4

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 Vincent and The Grenadines and Saint Lucia.

b/ Preliminary figures.

c/ Based on figures in local currency at constant 2006 prices.

d/ Includes errors and omissions.

e/ A minus sign (-) indicates an increase in reserve assets.