

ECCU

The Eastern Caribbean Currency Union (ECCU) is expected to achieve eight consecutive years of positive economic outturn, with average growth across the Union forecast to remain steady at 3.9% in 2019 and all ECCU economies again posting positive gains. The robust performance of the tourism sector, as well as the Citizenship by Investment (CBI) programmes and public sector-fuelled construction activity, were the primary drivers of ECCU-wide GDP growth in 2019, with Dominica (9.0%), Antigua and Barbuda (6.2%) and Grenada (3.3%) projected to be among the fastest growing economies in the Caribbean.

The macroeconomic outlook for the ECCU countries continues to be positive in the short to medium term, with real GDP growth forecast to accelerate, reaching 4.2% in 2020. The continued strong performance of the tourism, construction and ancillary sectors, as well as inflows of foreign direct investment (FDI) driven by the member states' CBI programmes, are expected to underpin this expansion in economic activity. However, prevailing downside risks include climate-related natural disasters, subdued global demand owing to lingering trade tensions and uncertainty surrounding Brexit, deferred investment in the face of global economic uncertainty, and challenges to the Union's off-shore financial services sector as a result of the grey- and blacklisting of ECCU economies.

There was a slight loosening of fiscal consolidation and debt reduction efforts in 2019, as ECCU economies sought to fund infrastructure development projects and accelerate economic activity as the Union increasingly focused on achieving its target of 5.0% growth. Consequently, there was a year-on-year widening of the consolidated fiscal deficit of central governments as a percentage of GDP from -0.5% to -1.3% in the first half of 2019. This weakening of the fiscal position was primarily driven by the capital account performance, which saw capital expenditure trending upwards (6.2%) and capital revenue and grants contracting.

The improved fiscal performance of Grenada and Saint Kitts and Nevis were insufficient to offset the worsening fiscal positions of Antigua and Barbuda, Dominica and Saint Vincent and the Grenadines over the period under review. A conservative fiscal policy stance, coupled with the positive knock-on effect of strong real sector activity on revenue collections, underpinned the surplus of 89.1 million Eastern Caribbean dollars (EC\$) generated by Grenada during the first half of 2019, while CBI programme receipts were a major contribution to the overall fiscal surplus of 191.5 million in Saint Kitts and Nevis. Increased tax and non-tax revenues buoyed government current income during the first half of 2019, with higher non-tax revenues driven by CBI programme inflows. For example, CBI collections in Saint Kitts and Nevis increased by 54.2% in the first six months of 2019.

During the first half of 2019, ECCU governments continued to focus on initiatives to upgrade or modernize key economic infrastructure, which fuelled the expansion in capital expenditure. In this connection, the Government of Antigua and Barbuda continued its road rehabilitation and expansion project, port redevelopment and enhancement project, affordable housing project, and reconstruction of public infrastructure and private homes in Barbuda. In Grenada, work is ongoing on government initiatives such as the Climate-Resilient Water Sector project, the rehabilitation of the Maurice Bishop International Airport and the retrofitting of the Hillsborough Health Centre and Princess Royal Hospital in Carriacou, as well as the Climate Smart Agriculture and Rural Enterprise Programme.

Public spending priorities in Saint Kitts and Nevis were the ongoing construction of the second cruise ship pier, phase two of the road improvement and maintenance project, the

resurfacing of the airport runway, an urban housing development project undertaken by the National Housing Corporation and the construction of the new Basseterre High School. Major ongoing capital projects in Saint Lucia include the rehabilitation and maintenance of road networks and the Hewanorra International Airport project. While Saint Vincent and the Grenadines embarked on a multimillion dollar (US\$ 27 million) geothermal energy project, with financial resources mobilized by the Caribbean Development Bank (CDB).

There was a concomitant uptick (0.3%) in public debt over the first half of 2019, which is expected to hold through to the end of the year, as many central governments may incur further debt to fund crucial public expenditure elements or offset any budgetary shortfalls. Moreover, during the first half of 2019, central governments' outstanding debt expanded as increased domestic borrowings outstripped a contraction in debt incurred on the domestic market. The Union's debt burden stood at 69.41% of GDP as of the end of June 2019. Notably, Saint Kitts and Nevis saw a 3.5% year-on-year reduction in its debt stock as of September 2019, with no major borrowing anticipated for the rest of the year.

With regard to the monetary sector, during the review period, the monetary policy stance of the Eastern Caribbean Central Bank (ECCB) remained unchanged, primarily pursuing price stability through the maintenance of the fixed exchange rate peg to the United States dollar. The nominal exchange rate between the Eastern Caribbean dollar and the United States dollar was unchanged at its fixed rate of EC\$ 2.7 = US\$ 1 by the end of June 2019.

Another strong, year-on-year, real sector performance during the first half of 2019 contributed to an, albeit sluggish, increase in both the broad (2.17%) and narrow money supply (6.7%) in that period. The observed growth in narrow money was generated by positive outturns in private sector demand deposits and Eastern Caribbean dollar cheques and bankers' drafts which outstripped a fall in currency held by the public. However, quasi-money, which comprises approximately 80% of M2 in Saint Kitts and Nevis, declined marginally during the period under review. Furthermore, commercial bank liquidity across ECCU economies (48.4%) remained well above the mandated threshold of 25%. This relatively high liquidity, coupled with a decline in private sector credit and competition among commercial banks, may have placed downward pressures on both the weighted average lending rate (which decreased by 32 basis points to 8.0%) and the weighted average deposit rate (down by 4 basis points to 1.56%). Commercial banks in ECCU economies remain largely risk averse, paying considerable attention to reducing the volume of non-performing loans.

Economic activity in the real sector of the Union was primarily driven by the tourism and construction sectors, with positive spillovers in ancillary sectors, such as wholesale and retail trade, transport storage and communications. With respect to the tourism sector, total arrivals increased during the first half of 2019, as both cruise ship passenger and stopover numbers trended upwards. Moreover, stopovers increased in Dominica (threefold), Saint Kitts and Nevis (11.9%), Antigua and Barbuda (11.2%), Saint Vincent and the Grenadines (7.7%), Grenada (3.8%) and Saint Lucia (2%). On average, cruise ship visitors account for more than 70% of total visitor arrivals to ECCU countries and, during the review period, cruise ship visitor numbers were up in Dominica (sevenfold increase), Saint Vincent and the Grenadines (6.5%), Saint Lucia (1.0%) and Grenada (0.4%). With regard to three major source markets, stopover arrivals from the United States, the Caribbean and the United Kingdom all increased during the first half of 2019. The number of arrivals from Canada also expanded. Total year-on-year tourist spend rose by 18% (to EC\$ 1.36 billion) during the first quarter of 2019.

There were a number of developments across individual ECCU economies which contributed to the strong tourism outturn. For instance, the marketing budget of the Antigua and Barbuda Tourism Authority was increased, helping to promote its #WhatCoolLooksLike summer campaign for 2019.

Additional direct flights from New York, Miami and North Carolina were scheduled, and the Royalton Antigua and the Hammock Cove Resorts and Spas both opened. Collectively, these initiatives all contributed to a 10% increase in stopover arrivals in Antigua and Barbuda as of the end of September 2019. JetBlue, British Airways, SunWing, Virgin Atlantic and United Airlines all maintained their services to Saint Lucia and in some instances increased their presence at Hewanorra International Airport, while Saint Kitts and Nevis continued to promote sports tourism, particularly golf, in the Canadian and United Kingdom markets. There were also increased airlifts to Grenada, while the Tourism Authority intensified its marketing efforts and efforts continued to focus on rehabilitating and expanding the room stock. Stopover numbers increased in Saint Vincent and the Grenadines thanks to the introduction by Caribbean Airlines of a weekly direct flight from New York to and Air Canada's winter service from Toronto.

Eastern Caribbean Currency Union (ECCU)^a: main economic indicators, 2017-2019

	2017	2018	2019 ^b
Annual growth rate			
Gross domestic product	1.3	3.5	3.9
Consumer prices	1.2	1.3	0.7 ^c
Money (M1)	5.5	9.5	7.6 ^c
Annual average percentage			
Central government			
Overall balance / GDP	0.1	1.3	1.4
Nominal deposit rate	1.6	1.6	1.6 ^c
Nominal lending rate	8.4	8.1	8.0 ^c
Millions of dollars			
Exports of goods and services	3 660	3 786	...
Imports of goods and services	3 813	3 539	...
Current account balance	-509	-424	...
Capital and financial balance ^d	578	411	...
Overall balance	69	-13	...

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.

Construction activity increased across all ECCU economies in the first six months of 2019, particularly in Antigua and Barbuda, Dominica and Saint Kitts and Nevis. Driven by growth in CBI inflows, private construction activity focused on hotels and tourism-related projects, while the public sector projects aimed to modernize, reconstruct and rehabilitate key infrastructure. There was also a slight improvement in manufacturing activity in ECCU economies in that period, with increased output in Dominica (paints and beverages), Saint Kitts and Nevis (manufactured goods) and Saint Lucia (food, beverages and tobacco) and Saint Vincent and the Grenadines (grains and building materials), but beverage and animal feed production in Grenada declined.

With respect to international trade, annualized half-year data indicates that the merchandise trade deficit of ECCU countries will contract slightly in 2019, as growth in exports, fuelled by re-exports, outstrips that of imports.

The Union's already modest rate of inflation fell from 1.3% at the close of 2018 to 0.7% by the end of June 2019, as housing, utilities and fuel prices trended downwards in most ECCU economies. Moreover, Grenada (-0.3%) and Saint Kitts and Nevis (-0.43%) experienced price deflation during the first half of 2019.