Member countries of the Eastern Caribbean Currency Union (ECCU)

The economic outlook for the Eastern Caribbean Currency Union (ECCU)[1] for 2008 continues to be fairly positive with economic growth projected at 3.1% for 2008 (5.3% in 2007). In 2009, however, the slowdown in the global economy will have an adverse impact on these economies, especially the tourism and tourism-related construction sectors, which have been the main engines of growth over the past several years. Increases in oil and food prices until the first half of 2008 led to a worsening of the external current account and a balance-of-payments deficit, compared to a surplus in 2007. The economies of the ECCU continue to be prone to natural disasters and burdened with high levels of public debt.

The overall fiscal deficit, 3.9% of GDP in 2007, is expected to further improve in 2008-2009. This is mainly due to a decline in capital expenditure (9% as of the third quarter of 2008 compared with the same period in 2007) resulting from the completion of several public-sector projects. Current fiscal operations caused a fall in the surplus, owing to an increase of over 16% in current expenditure driven by large fiscal spending commitments and salary increases, far surpassing the 9% increase in current revenue.

As at June 2008, the debt-to-GDP ratio for the ECCU countries was recorded at 94%. Public debt exceeded 100% of GDP in Dominica, Grenada and Saint Kitts and Nevis and was above 70% of GDP in Antigua and Barbuda, Saint Lucia and Saint Vincent and the Grenadines. There were marginal declines in the debt levels of Anguilla and Antigua and Barbuda. The Canadian International Development Agency (CIDA) assisted in a reclassification of government debt for Antigua and Barbuda with its Education Board, successfully reducing its debt stock. Saint Lucia issued lower-interest debt instruments through the Regional Government Securities Market (RGSM), replacing existing high-interest debt. There should be no significant increase in the debt level of Grenada despite the change of government in July 2008, as the current tight liquidity will hold back government-funded projects in the near future.

The monetary policy stance of ECCU has remained unchanged in 2008, with the discount rate and interbank market rate remaining at 6.5% and 4.5%, respectively. The Eastern Caribbean dollar (EC$) is pegged to the United States dollar at EC$ 2.70 to US$ 1.00, backed by 100% foreign reserves, so the currency is expected to remain stable in future despite fluctuations on international currency markets.

Broad money (M3) was up 3% in September 2008 (compared with December 2007), reflecting increases in private-sector savings and time deposits. The net foreign assets of the ECCU countries declined further in 2008 as commercial banks continued to draw down on foreign assets to meet increased demand for domestic credit, which grew by 7%. Private-sector credit was up 8%, well below the 20% increase in 2007, while net credit to the government declined by 16%. There was some tightening of credit, indicated by the increase in the ECCU weighted average lending rate from 9.3% in June 2008 to 9.4% in September 2008, mainly reflecting the increased lending rate in Saint Lucia.

In August 2008 the governments of Grenada, Saint Lucia, Saint Vincent and the Grenadines and Trinidad and Tobago signed a Memorandum of Understanding for the establishment of an economic union by 2011 and a political union by 2013. However, the implementation of the union may be complex and is not expected to make significant progress in the near future.

[1] ECCU member countries are Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.

The ECCU economies are expected to grow by 3.1% in 2008 and then to slow to 1.5% in 2009. Value added in the tourism and construction sectors is expected to exceed 5% while marginal increases are expected in agriculture and manufacturing. The tourism sector is under threat in the ECCU countries as conditions worsen in the economies of its major source markets. While cumulative data for January to September still showed an increase in stay-over visitors and cruise-ship passengers, the number of stay-over visitors from the United States declined in the third quarter (July-September). Contributing to a worsening scenario in the fourth quarter of 2008 and in 2009 is the decision by American Airlines and American Eagle to cut the number of flights serving the Caribbean. The suspension of operations in September 2008 by XL Airways, a United Kingdom carrier which had been serving several destinations in the subregion, and the murder of a British couple on honeymoon in Antigua in July 2008 were additional blows to Caribbean tourism.

Banana production is not expected to recover fully to pre-hurricane Dean (2007) levels in 2008, because of moko disease and leaf spot disease. It remains to be seen what impact the Economic Partnership Agreement negotiated with the European Union will have on Caribbean trade.

The rise in consumer prices continued up to the third quarter of 2008 in Anguilla, Montserrat, Saint Kitts and Nevis and Saint Vincent and the Grenadines, with inflation rates ranging from nearly 5% to as high as 9.5% compared to the 2%-8.3% range recorded at the end of 2007. To keep up with the price increases, public-sector wages were raised in Anguilla, Saint Kitts and Nevis and Saint Vincent and the Grenadines. The removal of VAT on a number of items and the suspension of the common external tariff on selected goods seem to have eased the level of inflation in Antigua, Dominica, Grenada and Saint Lucia, with rates declining to a range of 3-5% compared to 5-7.5% in 2007. The labour market is expected to loosen owing to a decline in construction activity, especially in the public sector, and employment would suffer badly from any slowdown in tourism.

It is expected that in 2008 the balance of payment surplus will turn into a deficit owing to a decline in tourism-related foreign direct investment, capital grants and remittances. The current account deficit will widen by an estimated 6.3% to stand at approximately 40% of GDP, primarily because of a 4% increase in the import bill. Two member countries of ECCU, Dominica and Saint Kitts and Nevis, have begun geothermal energy exploration, which could have positive implications for the external accounts as these countries might significantly reduce their energy imports.

EASTERN CARIBBEAN CURRENCY UNION: MAIN ECONOMIC INDICATORS

	2006	2007	2008 [a]
	Annual growth rates		
Gross domestic product	6.3	5.3	3.1
Consumer prices	1.3	6.1	...
	Annual average percentages		
Central government overall balance / GDP	-4.9	-3.9	...
Nominal deposit rate	3.3	3.3	...
Nominal lending rate	9.9	9.5	...
	Millions of dollars		
Exports of goods and services	1 887	2 010	2 045
Imports of goods and services	-3 054	-3 401	-3 550
Current account	-1 218	-1 486	-1 580
Capital and financial account	1 310	1 533	1 575
Overall balance	92	47	-5

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