

Eastern Caribbean Currency Union

During the first half of 2010, economic activity in the Eastern Caribbean Currency Union (ECCU) is estimated to have contracted, albeit at a slower pace (2.8%) than in the same period of 2009 (when it fell by 6.2%). The main factor in this fall was the continued decline in construction activity.

Inflation edged up slightly and is expected to end the year at about 3%. The fiscal deficit rose to nearly 3% of GDP during the period January to June 2010, compared with 2% for the same period in 2009, as tax revenue continued to slide. The current account deficit remained relatively unchanged at approximately 27% of GDP in June 2010, while the debt-to-GDP ratio increased to 103%. The authorities project a 2% contraction in economic activity in 2010, with a slow recovery of 1% in 2011. However, the damage caused by Hurricane Tomas in October 2010 to agriculture and infrastructural capital in Saint Lucia and Saint Vincent and the Grenadines may result in a sharper contraction in 2010. Conversely, reconstruction efforts may contribute to a better growth performance in 2011.

Given the tight fiscal position and high debt levels of central governments, the countercyclical policies implemented in order to cushion the impact of the crisis were limited. Stemming from the Eight-Point Stabilization and Growth Programme agreed upon by member countries in June 2009, country-specific fiscal targets, established in October 2010, included debt service ratios no greater than 15% of current revenue, a primary surplus of at least 3% of GDP, and the previously agreed objective of reducing the debt-to-GDP ratio to 60% by 2020.

Total government revenue dipped by 4% in the first half of 2010, while total expenditure was up by 3%, mainly due to an increase in current expenditure. This resulted in a rise in the overall fiscal deficit to 3% of GDP (compared with 2% of GDP in June 2009) and a fall in the primary surplus to 0.7% of GDP (1.6% of GDP in 2009). On the revenue side, Saint Kitts and Nevis introduced a 17% value added tax in November 2010, while Antigua and Barbuda initiated fiscal consolidation and Saint Lucia opted for overall tax reform. With the loans received from the International Monetary Fund

(IMF) and domestic financial institutions, the aggregate public-sector debt stock swelled from 96% of GDP at the end of December 2009 to 103% of GDP in June 2010¹. Total external debt grew marginally to 50% of GDP from 48% of GDP, while domestic debt expanded to 53% of GDP from 51% of GDP. Debt service payments increased by 18% to 7.5% of GDP.

In 2010, the focus of monetary policy was on protecting the stability of the financial system and maintaining the credibility of the currency peg. At the monetary policy level, little was done to stimulate economic activity. The central-bank-administered discount rate remained at 6.5% and the average lending and deposit rates of commercial banks remained unchanged at 11.3% and 4.5% respectively. Domestic credit to the private sector remained sluggish, rising by a mere 2% in August 2010 relative to December 2009, while net credit to the central government declined by approximately 28%, owing to an increase in deposits and cutbacks in capital expenditure. In keeping with the slowdown in economic activity, the money supply (M1) decreased by 0.5%.

Real output contracted in the first half of 2010 by 2.8% and an overall contraction of 2% has been projected for 2010. However, with the loss of agricultural crops and infrastructural capital caused by the passage of Hurricane Tomas in Saint Lucia and Saint Vincent and the Grenadines, growth in 2010 may actually worsen. The main sources of the contraction in the first half of 2010

¹ In June 2010, IMF approved a three-year US\$ 117.8 million Stand-by Arrangement with Antigua and Barbuda (US\$ 31.8 million received to date) to support recovery from mounting debt and cope with the impact of the global crisis. In April 2010, the Fund approved US\$ 13.3 million under an Extended Credit Facility (ECF) with Grenada; US\$ 1.9 million was disbursed under this facility in April 2010, while US\$ 2.6 million was disbursed under a previous ECF arrangement.

were the declines in the construction sector (20%), in wholesale and retail trade (6%) and in banks and insurance (3%). The tourism sector, which contributed about 8% to real GDP and is the mainstay of many ECCU economies, saw some improvement during that period thanks to a 5% increase in the higher-end stay-over visitors; cruise passengers were also up by 3% compared with the same period of 2009. Arrivals of stay-over visitors from the United States and Canada increased by about 14% and 17% respectively, while figures for stay-over visitors from the United Kingdom were down by about 9%. A number of challenges remain as the tourism sector is highly dependent on the recovery in the United States and United Kingdom. In addition, the increase in the Air Passenger Duty in the United Kingdom (from £50 to £75 in November 2010) could have an impact on travel demand from that country. The agricultural sector, which contributed 6% to GDP, contracted by 3% in the first half of 2010 on account of the fall in crop production and fishing. Output of bananas, the main crop in the ECCU declined due to drought and leaf spot disease.

Year-on-year inflation was 2.2% in June 2010, up from -0.2% in June 2009. By year end, the rate may inch up above 3%, owing to the impact of Hurricane Tomas and the introduction of the value added tax in Saint Kitts and Nevis. Although unemployment statistics are difficult to come by, the slowdown in construction and the tourism sector points to a rise in this indicator in 2010. In Nevis (one of the few places for which data are available), the number of employed persons fell to 4,321 in the first quarter of 2010 (from 4,844 in 2009), as the construction and tourism sectors shed jobs.

**EASTERN CARIBBEAN CURRENCY UNION:
MAIN ECONOMIC INDICATORS**

	2008	2009	2010 ^a
Annual average percentages			
Central government overall balance / GDP	-3.9	-3.5	-1.1
Nominal deposit rate	3.3	3.3	...
Millions of dollars			
Exports of goods and services	2 135	1 903	1 833
Imports of goods and services	3 906	3 235	3 139
Current account	-1 861	-1 404	-1 411
Capital and financial account ^b	1 902	1 395	1 550
Overall balance	40	-9	141

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

^a Preliminary estimates.

^b Includes errors and omissions.

Estimates for the first half of 2010 indicated that the current account deficit remained largely unchanged, compared with December 2009, at approximately 27% of GDP. The merchandise trade deficit widened by 5% on account of falling export receipts (11%), combined with a slight increase in the import bill (2%). The services account surplus grew by 5% owing to a 3% increase in travel receipts, the main component of the services account, as stay-over tourist arrivals rallied. Meanwhile, the capital and financial account surplus diminished by nearly 11% as FDI inflows, especially to the tourism sector, remained at a low ebb. A reduction in commercial bank transactions led to weaker inflows, notwithstanding the stronger inflows received by the government. The reserve position of the central bank improved by approximately 4.4% over the previous 12 months ending June 2010 to stand at US\$ 834 million, or nearly 3 months' imports.