

## EASTERN CARIBBEAN CURRENCY UNION (ECCU)

### 1. General trends

Economic activity in the Eastern Caribbean Currency Union (ECCU) territories is expected to expand by 1.7% in 2014, as the recovery in all six economies gathers momentum, albeit at varying levels. A rally in the construction sector, coupled with sustained growth in the tourism industry, will continue to have positive spillovers on the transportation and communications sectors. Wholesale and retail trade activities are expected to grow exponentially as a consequence of these drivers. Positive impacts are also expected in the agricultural sector. However, continued fiscal consolidation strategies should limit government spending while weak economic activity in some member States ought to keep inflation in check, with a rate of the order of 1.8% expected in 2014. The primary risks to economic growth will continue to be weak public finances, high levels of public debt and the prohibitive cost of borrowing in international financial markets.

For the period 2013, GDP grew by an average of 0.7% up from 0.2% in 2012. This improvement in economic output can be linked to higher foreign direct investment (FDI) inflows into the ECCU territories and to a higher level of private and public domestic investment. While the majority of the member States experienced positive economic growth, economic activity in Saint Lucia contracted. Overall growth in the Union remained relatively low owing to slower-than-anticipated growth in the United States (1.9%), the European Union (0.1%) and Canada (2.0%), the sub-region's major tourism source markets.

Despite further fiscal consolidation strategies, the consolidated fiscal deficit widened from 2.6% of GDP in 2012 to 2.8% of GDP in 2013, primarily as a result of increased capital expenditure in Antigua and Barbuda, Saint Kitts and Nevis and Saint Vincent and the Grenadines. This deterioration in the overall deficit position of ECCU suggests the emergence of a less cautionary approach to fiscal policy-setting in some member States. Capital expenditure was directed largely towards enhancing infrastructure, particularly road networks; in Saint Vincent and the Grenadines, the greater share of capital expenditure was invested in the construction of the Argyle International Airport.

Notwithstanding the overall consolidated fiscal deficit, revenue collections expanded by 4.5% in 2013. This was largely fuelled by non-tax revenue collection and a marginal increase in tax revenues. The 24.5% growth in non-tax revenues was essentially attributable to fees generated by the Citizenship by Investment Programme in Saint Kitts and Nevis. Moreover, the uptick in tax revenues generated by ECCU was primarily due to an increase in value added tax (VAT) collections on domestic goods and services.

Within ECCU, prices declined by 0.4% in 2013, compared with a 2.6% increase in consumer prices in 2012. The fall in consumer prices is attributed to relatively soft prices for food, fuel, clothing and footwear, housing and education.

## 2. Economic policy

### (a) Fiscal policy

The onset of the global economic and financial crisis and ensuing sluggish recovery in the region's major export markets retarded economic growth in the ECCU countries. This unmasked and worsened structural fiscal imbalances, which emerged as Member States accrued considerable debt in order to finance higher public expenditure. This increase was necessary to compensate for declining merchandise export revenues in the years preceding the crisis. In response, ECCU adopted the Eight-Point Stabilization and Growth Plan as the basis for restructuring its members' economies and stimulating sustained growth over the short-to-medium term. The goal of this approach of fiscal consolidation was to reduce fiscal deficits and public debt by meeting annual targets set by the Eastern Caribbean Central Bank (ECCB). During the period under review, guided by the imperatives of the Plan, ECCB continued to support ECCU member governments' fiscal reform and debt management efforts.

This notwithstanding, ECCU governments increased capital expenditures in 2013, as the focus was on delivering key public goods and stimulating economic activity. The main drivers of the expansion in capital expenditure were Antigua and Barbuda, Grenada, Saint Kitts and Nevis and Saint Vincent and the Grenadines. Consequently, the overall deficit widened by 41.7% to stand at 2.8% of GDP at the end of 2013. Despite the increase in the overall deficit, current revenues outstripped growth in current expenditure.

The ECCU governments' current operations therefore generated a surplus (0.5% of GDP), compared with a deficit (0.1% of GDP) in the previous year. Increases in tax revenues were mainly due to VAT collections in Saint Lucia, while non-tax revenues were due to fees associated with the Saint Kitts' Citizenship by Investment Programme. The total public-sector debt stock declined by 0.3% in 2013 compared with a 1.1% increase in 2012, resulting in an improvement in the debt-to-GDP ratio to 98.5% at the end of 2013. In this regard, a decline (8.5%) in domestic debt, primarily due to the land-for-debt swap in Saint Kitts, offset an increase in external indebtedness as central governments of Saint Lucia, Antigua and Barbuda, Grenada and Saint Vincent and the Grenadines expanded borrowings. Saint Kitts and Nevis was the only ECCU economy for which public-sector debt declined in 2013.

### (b) Monetary policy

Domestic credit stock in the ECCU economies contracted further (3.7%) in 2013 owing to a fall (50.7%) in the net credit positions of governments as credit from commercial banks declined. The land-for-debt swap orchestrated between the Government of Saint Kitts and Nevis and the commercial banks, which considerably reduced loans and advances to the State, largely accounted for the contraction in commercial bank credit to ECCU governments.

In contrast, an increase in credit to households, subsidiaries and affiliates led to a rise (2.0%) in private sector credit in 2013. Further, with the exception of the category "personal use", commercial bank credit across all other economic activities declined in 2013, including the construction sector (down by 3.3%) and the tourism industry (down by 5.8 %). The uptick (1.5%) in commercial bank credit for property acquisition and other personal uses was attributable to an expansion in lending for home construction, renovation and house and land purchases. Interest rates across the Union remained relatively stable between 2012 and 2013, with the average weighted lending rate remaining at 8.9%. However, in response to increased liquidity, the average weighted deposit rate declined by 0.18 percentage points to 2.84% and the interest-rate spread widened by 0.21 percentage points to 6.1%.

The reserve position of ECCU improved (by 3.9%) by the end of 2013. This was largely a result of the increase in foreign securities and the reduction in foreign liabilities. This stronger reserve position buttresses the Central Bank's capacity to continue to support the fixed exchange regime of the Union, with the exchange rate remaining at US\$ 1 = EC\$ 2.7 at the end of the first quarter of 2014.

**(c) Other policies**

During 2013, ECCU continued to follow a path of fiscal consolidation, debt reduction and growth stimulation, which yielded a second consecutive year of expansion in economic activity. However, whilst some economies kept expenditure in check, others (e.g. Antigua and Barbuda, Grenada, Saint Kitts and Nevis and Saint Vincent and the Grenadines) adopted a relatively more expansionary approach, seeking to address key structural gaps which have constrained growth and structural transformation towards sustainable development. Capital expenditures in this respect were geared mainly to transportation interconnection, particularly road-works, airport and port infrastructure. In fact, Saint Vincent and the Grenadines' capital expenditure almost tripled in 2013.

Emphasis was also placed on social protection and unemployment relief, particularly in Saint Lucia and Grenada through State-assisted programmes such as the Single Mothers in Life Enhancement Skills Project (SMILES) in Saint Lucia and the IMANI programme in Grenada. Collectively these subtle shifts in policy focus have in no small way underpinned increased central government borrowing in Saint Lucia, Antigua and Barbuda, Grenada and Saint Vincent and the Grenadines.

The region has also made considerable progress towards establishing harmonized insurance legislation and implementing a harmonized legislative and regulatory compliance framework by the revised deadline set for adhering to requirements of the United States Foreign Account Tax Compliance Act (FATCA). These two initiatives are seen as critical to financial stability within ECCU. With a view to accelerating credit growth and strengthening the resilience of the financial sector, ECCU is also seeking to establish a public credit bureau and a Single Financial Space. Additionally, the development finance institutions and development banks operating in ECCU have increasingly been viewed as central players in fostering growth and structural transformation in ECCU economies. In this regard, these development partners have been increasingly encouraged to adopt a policy-based approach to financial intermediation, where, in an effort to stimulate economic growth, resources are channelled to priority sectors such as tourism and manufacturing.

The construction of the Sandals La Source and Spa at Pink Gin Bay in Grenada, together with the Citizen by Investment Programme, other FDI projects and the Sugar Industry Diversification Foundation (SIDF) in Saint Kitts and Nevis, drove positive outturns in the tourism and private-sector construction activities in these two economies. This was manifested in a 20.0% expansion in output in the construction sector in Grenada and an 8.0% rise in the sector's value added in Saint Kitts and Nevis in 2013. Efforts to increase FDI inflows, particularly into the tourism sector with a view to strengthening recovery, are expected to accelerate further throughout ECCU in 2014.

Furthermore, Antigua and Barbuda successfully completed the nation's three-year standby arrangement with the International Monetary Fund (IMF) in 2013 and Saint Kitts and Nevis will complete theirs in 2014. Grenada has recently (2014) entered into a three year Extended Credit Facility Arrangement with IMF for US\$ 21.9 million, which is conditioned by structural reforms, fiscal adjustment and comprehensive debt restructuring. The foregoing is indicative of the Union's

commitment to undertaking the economic restructuring necessary to spur economic growth in the short to medium term.

Moreover, the adjustments and reforms under the standby arrangement improved the fiscal position of Saint Kitts and Nevis and achieved considerable progress in reducing public debt. In addition, following a cumulative contraction of 10% in economic activity over the period 2009-2012, real GDP expanded by 2.0% in 2013. However, Antigua and Barbuda showed some measure of slippage in respect of capital expenditure and macro-economic performance since exiting the standby arrangement with the Fund, and therefore may need to craft a medium-term fiscal consolidation framework geared to reining in public debt.

### **3. The main variables**

#### **(a) The external sector**

The balance-of-payments current account deficit narrowed from 17.6% of GDP in 2012 to 16.4% of GDP in 2013. The decrease in the current account deficit is attributable to a reduction in the deficit for merchandise trade. The surplus on the services account also increased in 2013, driven by increased inflows from travel and government services.

The balance-of-payments income account recorded a narrowing of the deficit to EC\$ 408.1 million in 2013 from EC\$ 470 million in 2012. The surplus on the capital and financial accounts of the balance-of payments also contracted in 2013, owing primarily to a 28.9% decline in the outflow of funds from commercial banks.

#### **(b) Economic activity**

Structurally, ECCU economies have invariably evolved from primarily agricultural to predominantly service-based economies; however, agriculture still plays a multifunctional role and remains an important productive sector for ECCU countries, particularly the Windward Islands, that is, Saint Lucia, Saint Vincent and the Grenadines and Grenada. Consequently, export earnings from the tourism and agriculture sectors are the main drivers of the Union's trade performance.

Total stay-over visitor arrivals were slightly higher in 2013 (0.1%) than in 2012. However, a look at the disaggregated data shows that the performance of ECCU economies was mixed, with Antigua and Barbuda and Saint Vincent and the Grenadines experiencing declines of 6.8% and 3.5%, respectively, while all other countries experienced an acceleration in stay-over visitor arrivals in 2013. Increased arrivals from Canada (7.2%), the United States (1.9%) and the Caribbean (0.1%) supported the overall rise in stay-over arrivals. The improved performance of the tourism sector reflects the economic upturn in the United States and Canada.

Following the 12.7% contraction in 2012, there was a further decline (1.8%) in cruise ship passenger arrivals across ECCU, despite a 1.7% increase in the number of cruise ships calling. At the country level, while cruise passenger arrivals increased in Saint Kitts and Nevis (9.35%), Saint Lucia (3.89%) and Saint Vincent and the Grenadines (3.89%), they declined in the remaining ECCU economies. This trend reflects increased competition from non-traditional destinations.

Driven primarily by an increase in crop production, particularly an 11.3% rise in nutmeg output, agricultural output in ECCU expanded (1.6%) in 2013. Overall output, however, was dampened by

declines in banana production in Dominica (29.3%), Grenada (5.5%) and Saint Lucia (1.6%) owing to the Black Sigatoka disease, disease and drought, and unfavourable weather, respectively. There was an estimated 7.3% contraction in banana production in 2013. The livestock subsector also rebounded in 2013 with production up by 2.5%, following a 4.0% decline in 2012.

Union-wide GDP growth was constrained, however, by a contraction in value added in the manufacturing sector (by 3.8 %) in 2013. Weaker domestic, regional and international demand led to lower manufacturing output in Saint Kitts and Nevis and Saint Lucia, in particular in the former, where several internationally recognized beverage brands ceased production. In contrast, manufacturing output demonstrated distinct recoveries in Saint Vincent and the Grenadines (beer, flour and feeds), Grenada (beverages) and Dominica (beverages and soap).

Fuelled by stronger FDI inflows (18.1%), value added in the construction industry trended upwards by 2.9% in 2013 on the heels of a 4.3% downturn in the previous year. The recovery of construction activity within the Union was underpinned by strong sectoral performances in Grenada (20.0%), Saint Vincent and the Grenadines (15.0%), Saint Kitts and Nevis (8.0%) and Antigua and Barbuda (5.0%).

The overall growth prospects are encouraging for ECCU in 2014, given the outlook for strengthening of the global economy. All the ECCU countries are expected to generate positive growth in 2014, fuelled by the recovering demand for leisure services from major source markets. The marketing initiatives undertaken by the region in both traditional and non-traditional markets are expected to be a key driver in increasing the performance of the industry. Furthermore, the Central Bank's efforts at prudential debt management and fiscal reform, modernizing the financial system and promoting private-sector development will create the requisite enabling environment for sustained growth to persist in the short-to-medium term.

### **(c) Prices, wages and employment**

Consumer price inflation cooled from 2.6% increase in 2012 to 0.4% in 2013. The main factors contributing to the easing of inflation were lower prices for clothing and footwear, fuel and electricity, medical expenses, housing and education. However, food prices were up slightly (0.1%), and the other items that showed increases were as follows: household furnishing (2.8%), housing (1.5%) and transport and communications (1.0%). The consumer price index decreased in Dominica, Grenada and Saint Lucia, while it escalated in Antigua and Barbuda. Saint Kitts and Nevis experienced a lower rate of inflation. Consumer prices in Saint Vincent and the Grenadines were unchanged from 2012 to 2013. The projected inflation of 1.8% for ECCU in 2014 will be driven by a continued expansion in capital expenditures in economies such as Antigua and Barbuda, Grenada, Saint Kitts and Nevis and Saint Vincent and the Grenadines, which are expected to stimulate domestic demand and in turn put upward pressure on the inflation rate.

Official unemployment statistics are for the most part unavailable, with the exception of Saint Lucia and Grenada. The unemployment rate in Saint Lucia is estimated to be 23% and youth unemployment 39%. The situation is more acute in Grenada where the total unemployment rate stands at 33.5%, and youth unemployment at 55.6%. This suggests that unemployment, particularly among youth, is emerging as an acute structural problem for ECCU. Public-sector wages were adjusted in some of the member States, namely Saint Lucia (4%), Saint Vincent and the Grenadines (1.5%), and Dominica (2.5%).

Table 1  
ECCU: MAIN ECONOMIC INDICATORS

	2005	2006	2007	2008	2009	2010	2011	2012	2013
	<b>Annual growth rates c/</b>								
Gross domestic product	4.8	6.8	5.1	2.8	-5.3	-2.0	0.1	-0.5	0.9
Per capita gross domestic product	4.2	5.6	4.2	1.9	-6.0	-3.4	-0.5	-0.6	0.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fish	-12.6	5.0	0.1	9.3	2.2	-11.0	0.6	5.5	2.9
Mining and quarrying	4.5	54.9	14.8	0.5	-25.2	-17.3	-13.4	4.2	12.9
Manufacturing	6.9	-1.0	4.8	-1.7	0.2	-4.1	-3.0	3.2	-4.0
Electricity, gas and water	5.6	4.2	5.5	2.6	3.3	0.6	2.9	-0.4	-0.1
Construction	14.0	15.1	0.2	2.4	-12.3	-15.7	-6.7	-4.8	4.8
Wholesale and retail commerce, restaurants and hotels	5.5	6.2	5.5	3.1	-13.4	-1.7	-0.7	-0.9	-0.9
Transport, storage and communications	4.7	-0.3	7.9	2.1	-4.5	-1.3	-1.2	-1.3	0.4
Financial institutions, insurance, real estate and business services	4.6	5.7	5.4	2.1	-0.6	2.1	0.4	0.5	1.8
Community, social and personal services	2.0	7.7	5.9	4.1	3.3	0.8	2.3	1.7	2.7
Balance of payments	<b>Millions of dollars</b>								
Current account balance	-737	-1,082	-1,364	-1,515	-991	-1,001	-936	-913	-863
Goods balance	-901	-1,246	-1,498	-1,686	-1,209	-1,235	-1,204	-1,161	-1,107
Exports, f.o.b.	353	347	349	448	405	456	433	464	469
Imports, f.o.b.	1,717	1,982	2,222	2,471	1,957	2,070	2,077	2,076	2,079
Services trade balance	698	605	613	614	626	632	710	731	749
Income balance	-237	-203	-234	-251	-220	-162	-144	-169	-146
Net current transfers	165	151	131	145	154	143	141	138	145
Capital and financial balance d/	705	1,159	1,397	1,498	929	1,093	1,003	989	954
Net foreign direct investment	522	928	1,061	849	613	516	398	468	548
Other capital movements	184	231	336	649	316	577	605	522	406
Overall balance	-32	77	34	-17	101	92	66	77	91
Variation in reserve assets e/	32	-77	-34	17	-101	-92	-66	-77	-91
Other external-sector indicators									
Net resource transfer (millions of dollars)	469	956	1,163	1,247	873	931	859	821	808
Total gross external debt (millions of dollars)	1,772	1,888	2,121	2,079	2,090	2,195	2,243	2,255	2,374
Central government	<b>Porcentajes of GDP</b>								
Total revenue	29.8	25.3	24.8	26.1	25.1	25.6	26.1	25.8	26.4
Tax revenue	20.1	20.6	21.1	21.4	20.8	20.6	20.7	20.4	20.3
Total expenditure	27.8	29.2	27.6	28.8	29.5	28.1	29.7	28.1	29.4
Current expenditure	21.3	21.0	20.3	21.7	23.3	23.1	24.0	23.4	23.5
Interest	3.1	3.2	3.0	2.9	3.1	3.1	3.1	3.2	3.0
Capital expenditure	6.5	8.2	7.3	7.1	6.2	4.9	5.7	4.7	5.9
Primary balance	5.1	-0.7	0.2	0.3	-1.4	0.6	-0.6	0.9	-0.1
Overall balance	2.0	-3.9	-2.9	-2.7	-4.4	-2.4	-3.6	-2.3	-3.0
Money and credit	<b>Porcentajes of GDP, end-of-year stocks</b>								
Domestic credit	66.5	64.6	66.5	73.5	89.7	90.1	87.2	82.6	81.8
To the public sector	2.9	-1.0	0.6	4.7	14.6	12.2	12.6	10.2	12.7
To the private sector	63.6	65.6	65.9	68.8	75.1	77.8	74.4	72.3	69.1
Monetary base	...	14.4	14.2	13.1	14.1	16.1	18.1	19.0	...
Money (M1)	20.6	20.0	19.8	18.7	18.0	18.5	18.9	19.2	19.2
M2	77.9	75.5	72.5	72.9	76.6	78.7	79.3	80.0	81.9
Foreign-currency deposits	7.0	7.5	9.5	7.3	6.3	7.4	6.3	5.3	7.1

**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.