EASTERN CARIBBEAN CURRENCY UNION (ECCU)

1. General trends

In 2016, the economy of the Eastern Caribbean Currency Union (ECCU) saw its fifth consecutive year of positive growth. However, the rate of increase in real GDP slowed to 2.7%, from 3.0% in 2015. Economic expansion within the Union was driven by increased value added in the construction, wholesale and retail trade, and hotels and restaurants sectors. There was strong private-sector-led investment in the tourism industry in 2016 and visitor arrivals improved. In particular, Antigua and Barbuda emerged as the fastest-growing economy in the Caribbean, with 4.4% GDP growth. Agricultural output, as well as private and public sector activity, is expected to pick up in 2017. Growth in the tourism and construction sectors is projected to remain steady for the next two years, with positive spillovers in ancillary sectors. Collectively, these factors will fuel projected average economic growth of 2.8% across the Union in both 2017 and 2018. All ECCU territories are projected to generate positive growth in 2017.

In terms of sectoral performance, manufacturing declined by over 5% in 2016, largely owing to a fall in demand. Agricultural output was weak as nutmeg production fell in Grenada (by 16.5%), coupled with a decline in banana production in both Dominica and Saint Lucia. However, a major policy shift occurred as ECCU governments increasingly attempted to diversify the inflows of Caribbean Basin Initiative (CBI) programmes towards infrastructure projects and real sector activities such as agro-processing and manufacturing. Antigua and Barbuda, Grenada and Saint Kitts and Nevis used CBI funds to contribute to debt reduction in 2016.

With respect to fiscal performance, there was an improvement in the overall fiscal surplus in 2016 as capital expenditure contracted and the current account surplus quintupled across the Union. Despite the favourable fiscal outturn, the relatively high debt burden of ECCU economies continues to be a major challenge.

The merchandise trade deficit widened by 7.7% in 2016, after narrowing (-5.4%) in 2015, as imports increased and export receipts contracted. Average inflation across the Union remained low (1.0%), with many economies experiencing price deflation as energy and food prices remained soft in 2016.

2. Economic policy

(a) Fiscal policy

Ongoing fiscal consolidation and debt reduction programmes instituted in ECCU economies contributed to the improved fiscal performance of the Union in 2016. More specifically, individual economies sought to grasp the opportunity to adopt policies for safeguarding fiscal and debt sustainability. As a result, at its eighty-fifth meeting, in July 2016, the Monetary Council of the Eastern Caribbean Central Bank (EECB), agreed on a number of fiscal rules, including interim targets. It also agreed to strengthen the governance framework for citizen-by-investment (CBI) inflows.

Central government fiscal operation in ECCU generated an increased fiscal surplus (after grants) of 2.3% of GDP in 2016, up from 0.2% of GDP the previous year. This improved performance reflected the shift from deficit to surplus positions in Dominica, Grenada and Saint Vincent and the Grenadines, which offset the narrower surpluses generated in Antigua and Barbuda and Saint Kitts and Nevis. Current revenue collection rose by 9.0% to represent 27.5% of GDP, as both tax and non-tax revenue expanded. Concomitantly, capital expenditure was compressed (by 13.0%) to 4.2% of GDP, which was well below the targeted 5.0%-7.0% of GDP range set by the Monetary Council of the Eastern Caribbean Central Bank (ECCB). Capital expenditure was the main casualty of fiscal consolidation efforts in ECCU in 2016. Given the growth-inducing effect of capital spending, particularly in the small economies of ECCU, this trend could dampen economic growth within the Union if it persists.

At the country level, under its three-year Home Grown Structural Adjustment Programme, which commenced in 2014, Grenada passed several legislative reforms in 2016 —including the Fiscal Responsibility, Public Debt Management and Public Finance Management Acts— to strengthen its fiscal policy framework and improve its public finance management. In addition, expenditures were kept in check and improved compliance and administration fuelled increased tax revenue collections across all categories.

Similarly, in 2016, Dominica continued its fiscal consolidation efforts with a view to achieving its fiscal targets. In this regard, increased CBI inflows (captured under non-tax revenue) and an expansion of 18.8 million Eastern Caribbean dollars (EC$) in tax revenue collections underpinned an upward trend in current revenue in 2016. Although this was tempered by an expansion in both current and capital expenditure, Dominica nevertheless generated a fiscal surplus of 11.3% of GDP.

Despite the abolishment of personal income tax from 1 July 2016, Antigua and Barbuda's tax revenue still grew, albeit at a lower rate than in 2015 (2.8%, compared with 9.0%). Tax collection was bolstered by strong receipts from the Antigua and Barbuda Sales tax (ABST), which increased by 8.3% compared to 1.2% the previous year. Meanwhile, a contraction in CBI receipts was the primary driver of a fall in non-tax revenue. This notwithstanding, current revenue declined only marginally, from 21.4% of GDP in 2015 to 20.3% in 2016.

In 2016 Saint Kitts and Nevis continued the implementation of its reform of the Tax Incentive Regime policy and placed ceilings on new debt. During the first six months of 2016, the Government of Grenada passed the Tax Administration Act and completed the restructuring of the Inland Revenue Department.

Saint Lucia, meanwhile, reduced its standard rate of value added tax (VAT) from 15% to 12.5%, with effect from 1 February 2017. The government also approved an amnesty for all tax types including personal property tax, from 1 October 2016 to 28 February 2018. However, the airport development tax was reintroduced from 1 April 2017.

Consistent with the Union's commitment to debt reduction, the stock of outstanding central government debt fell from 69.2% of GDP in 2015 to 68.2% at the end of 2016, led by significant declines in Antigua and Barbuda, Dominica, Grenada and Saint Kitts and Nevis. Grenada accelerated the pace of its debt restructuring in 2016, with the result that its total outstanding public sector debt fell from 88.1% of GDP in 2015 to 83.4% at the end of 2016 and is forecast to fall to 72% of GDP by end-2017.

(b) Monetary policy

The monetary policy of ECCB remained unchanged in 2016, with the continuation of several ongoing initiatives to increase credit to the private sector and stimulate growth within ECCU. Moreover, the Bank's policy interventions were pursuant to achieving its broader objectives of ensuring the stability of the exchange rate, foreign-exchange arrangements and the financial sector overall. The reduction of the minimum saving rate (MSR) in May 2015 yielded only a marginal impact on lending rates, suggesting that it has not been as effective as expected as tool of monetary policy.

In its efforts to ensure stability in the banking sector, ECCB provided assistance to commercial banks in establishing a common platform and approach to managing financial, operational, credit and strategic risks.

Through its Monetary Council, ECCB is currently working towards establishing a policy framework for the reform and development of the financial sector in ECCU, which would include the introduction of a partial credit guarantee scheme and legislative reforms to address the insolvency framework, among other things. Furthermore, as at the end of 2016, all ECCU member States had passed the requisite legislation for the establishment of the Eastern Caribbean Asset Management Corporation (ECAMC).

With respect to financial developments within ECCU in 2016, the growth of broad money (M2) slowed to 0.9%, down from 3.9% the previous year. In this regard, a 1.0% contraction in quasi-money over the year, underpinned by reductions in time deposits and foreign-currency deposits by the private sector, was offset by a 7.4% increase in narrow money (M1). However, domestic credit contracted by 8.9%, following an 8.3% fall in 2015. In addition, credit to both the private sector and governments declined in 2016. In the first case, the strengthening of lending terms and conditions, as well as prudential requirements, may have collectively dampened credit demand.

Furthermore, liquidity in the commercial banking system improved in 2016, remaining well above the minimum established by the ECCB prudential guidelines. During the review period, the lowering of the minimum saving rate to 2.0% on 1 May 2015 continued to dampen savings rates more than lending rates, thereby further widening the weighted average interest rate spread.

(c) Exchange-rate policy

ECCB continued its management of monetary policy around a fixed exchange rate pegged to the United States dollar at a rate of EC$ 2.70 per US$ 1. Exchange-rate conditions remained stable in 2016 and the integrity of the fixed exchange rate was not compromised. In this regard, the backing ratio increased marginally relative to the previous year, to 97.09% as at December 2016, remaining well above the statutory and operational benchmarks of 60.0% and 80.0%, respectively. ECCB continued to satisfy its reserve portfolio management objectives of preserving capital and meeting liquidity needs. The duration of the Bank's customized benchmark was rebalanced to two years, in keeping with the risk tolerance prescribed by its Board of Directors. Accordingly, the increase in the value of the Bank's nominal base of foreign reserve assets allowed it to transfer funds from the lower-yielding liquidity tranche to the higher-yielding core tranche of the portfolio.

3. The main variables

(a) The external sector

Import payments rose by 4.8%, at the same time as export receipts declined by 11.1%, as both re-exports (-8.3%) and domestic exports (-12.8%) contracted. As a result, the merchandise trade deficit widened to EC$ 6.1 billion in 2016, after narrowing by 5.4% in 2015. The higher imports in the aggregate reflected increased imports of transport equipment and machinery, mainly on the back of an upturn in construction activity. Antigua and Barbuda, Grenada, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines all experienced increased import payments, while manufacturing exports contracted in Dominica, Saint Lucia and Saint Kitts and Nevis.

An increase in stay-over arrivals, particularly from the Unites States, fuelled an expansion (10.0%) of gross travel receipts in 2016, with the economies of the Dominica, Saint Vincent and the Grenadines, Saint Lucia and Antigua and Barbuda being the major drivers of this improved outturn.

(b) Economic activity

The ECCU economies grew by 2.7% in 2016, down from 3.0% the previous year. However, all member States posted positive growth. Economic expansion within the Union was largely driven by increased value added in construction, primarily due to tourism-related activities in Antigua and Barbuda, Saint Kitts and Nevis and Saint Lucia, as well as by the wholesale and retail trade, and hotels and restaurants sectors. Strong investment continued in the tourism industry, where private-sector-led activity trended upwards in 2016. Growth in the construction and tourism sectors is projected to be maintained for the next two years, and agricultural output is expected to strengthen. Consequently, it is projected that average ECCU-wide economic growth will be 2.8% in both 2017 and 2018.

At the country level, economic activity in Antigua and Barbuda increased by 4.4% in 2016, up from 3.8% the previous year, making it the fastest-growing economy in ECCU, and indeed the Caribbean. This quickening of economic expansion has been fuelled by increased economic activity across the hotels and restaurants, construction and wholesale and retail trade sectors. Although at a slower pace than in 2015, Grenada’s economy grew by 1.9% in 2016, driven mainly by the construction (7.0%), mining and quarrying (17.5%), tourism[1] (7.5%), and education (2.5%) sectors**.** The activity in the tourism and construction sectors also generated positive spillover effects in ancillary sectors such as transport, storage and communications (5.9%) and wholesale and retail trade (4.2%). Growth in Saint Kitts and Nevis contracted to 3.6% in 2016, with activity in the construction sector decelerating as both private and public sector investment slowed. There was also a slowdown in the tourism industry.

Saint Lucia made changes to its methodology for calculating GDP, which saw the country achieve 2.1% growth in 2016. Dominica posted 0.9% expansion in 2016, buoyed by increased economic activity in both the construction and agriculture sectors. Positive outturns across all major sectors, excluding manufacturing and fishing, fuelled real GDP growth of 2.4% in Saint Vincent and Grenadines.

(c) Prices, wages and employment

Albeit with mixed effects, soft energy and food prices contributed to low ECCU-wide inflation in 2016. Inflation in ECCU was 1.0% in 2016, compared with deflation of -1.1% in 2015. Lower food prices were recorded in six ECCU territories, and lower gas and fuels prices in four. Antigua and Barbuda, Saint Kitts and Nevis and Saint Lucia all experienced deflation in 2016.

Public servants in Dominica and Saint Lucia received no increase in wages or salaries in 2016 and the latter country instituted a wage freeze that year. Grenada, on the other hand, emerged from a three-year wage freeze under its Home Grown Structural Adjustment Programme and awarded incremental payments to public servants. In addition, a number of the country’s private sector companies

[1] Value added in the hotels and restaurants sector is used as a proxy for activity in the tourism industry.

paid bonuses in December 2016. Grenada is also close to completing a wage bill management strategy to address two pressure points on the expenditure side: the sheer size of the wage bill, and the fact that the Fiscal Responsibility Act caps public sector wage bill at 9% of GDP and wage rises at 2% in real terms. Antigua and Barbuda adjusted the salaries of a small share of government employees in 2016.

Unemployment within the Union continues to be a severe challenge. There seems to be a skills mismatch between the graduates of secondary and tertiary learning institutions and the needs of both the public and the private sector. The overall unemployment rate edged down in 2016 in Saint Lucia, by 0.3 percentage points to 21.0%, and in Grenada, to 28.6% (from 29.0% in 2015). However, youth employment was above 40% in both these countries in 2016.

Table 1

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016 b/
	Annual growth rates c/								
Gross domestic product	2.9	-5.0	-2.9	0.0	0.3	1.5	3.7	3.0	2.7
Per capita gross domestic product	2.3	-6.1	-3.7	-0.6	-0.3	1.4	3.6	2.3	2.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	8.9	2.5	-13.1	1.9	4.7	5.3	3.8	7.8	-2.3
Mining and quarrying	3.4	-28.0	-17.6	-10.3	8.0	11.7	-3.9	-8.3	8.2
Manufacturing	-0.3	-0.5	-5.4	-2.5	-5.6	1.0	-0.5	1.2	-5.6
Electricity, gas and water	2.5	3.2	0.5	2.4	0.0	-0.7	-0.4	3.9	2.0
Construction	2.8	-9.2	-15.5	-10.7	-4.1	6.4	1.1	5.0	7.6
Wholesale and retail commerce, restaurants and hotels	3.2	-12.8	-0.4	2.7	-0.1	-0.2	4.5	1.6	3.6
Transport, storage and communications	2.2	-5.3	-1.4	-2.2	-2.0	-0.6	3.7	1.4	1.4
Financial institutions, insurance, real estate and business services	1.8	-0.9	-1.4	1.3	1.8	1.9	1.7	2.8	1.9
Community, social and personal services	3.6	2.9	0.9	2.0	2.4	2.3	4.1	2.1	2.0
External-sector indicators	**Millions of dollars**								
Net resource transfer (millions of dollars)	1 246	873	929	855	795	818	115	-173	-222
Total gross external debt (millions of dollars)	55	-17	-30	-52	9	29	30	-4	…
Central government	**Percentajes of GDP**								
Total revenue	26.0	24.9	25.5	25.9	25.8	26.5	27.8	28.2	30.1
Tax revenue	21.3	20.7	20.5	20.6	20.4	20.2	20.4	21.0	21.6
Total expenditure	28.7	29.4	27.9	29.5	28.1	29.9	29.0	28.0	27.8
Current expenditure	21.6	23.2	23.0	23.8	23.4	23.5	23.3	22.7	23.5
Interest	2.9	3.1	3.0	3.1	3.2	3.0	3.1	2.8	2.7
Capital expenditure	7.1	6.2	4.9	5.7	4.7	6.4	5.7	5.3	4.2
Primary balance	0.3	-1.3	0.6	-0.6	0.9	-0.5	1.9	3.0	5.1
Overall balance	-2.7	-4.4	-2.4	-3.6	-2.3	-3.5	-1.2	0.2	2.3
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	76.3	83.4	83.6	83.6	82.2	77.3	68.4	60.1	54.9
To the public sector	1.7	3.8	1.9	2.1	0.8	-0.3	-1.8	-4.4	-7.2
To the private sector	74.7	79.6	81.8	81.6	81.5	77.6	70.3	64.5	62.2
Monetary base	11.9	12.8	14.8	16.5	17.1	18.7	21.2	22.0	23.3
Money (M1)	18.6	17.9	18.4	18.8	19.3	19.2	20.2	20.9	21.9
M2	69.6	73.6	75.9	77.5	78.8	79.4	78.0	76.9	76.9
Foreign-currency deposits	7.1	6.7	7.0	7.0	7.1	8.4	10.3	11.4	10.7

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.