EASTERN CARIBBEAN CURRENCY UNION (ECCU)

1. General trends

The Eastern Caribbean Currency Union (ECCU)[1] generated its eighth consecutive year of positive outturn in economic activity in 2018. The Union quickened its recovery from the pervasive growth-dampening impact of Hurricanes Irma and Maria (2017), with economic growth accelerating to 3.7%, up from 1.8% in the previous year. This positive performance was underpinned by an expansion in economic activity in the tourism, construction, manufacturing and agriculture sectors, in which all ECCU economies posted positive growth. Continuing robust performance of the tourism sector and construction activity fuelled by Citizenship by Investment (CBI) programmes are expected to drive ECCU-wide GDP growth of 3.3% again in 2019. Antigua and Barbuda (5.9%) and Grenada (3.7%) are projected to be amongst the fastest-growing economies in the Caribbean. Key downside risks include natural disasters; challenges to the competitiveness of the Union's financial sector, including greylisting and blacklisting of ECCU economies; the pending restructuring of the regional airline Leeward Islands Air Transport (LIAT); and the current stable but fragile environment with regard to the loss of correspondent banking relationships (de-risking).

ECCU economies continued to balance fiscal consolidation and debt reduction imperatives with the need to further stimulate economic activity. Strong inflows from CBI programmes drove the current account surplus upwards, offsetting increased capital spending and improving the overall fiscal position. In this regard, the aggregate fiscal balance shifted from a deficit position in 2017 to a surplus of 21.19 million Eastern Caribbean dollars (EC$) in 2018. In addition, the Union's debt burden continued its downward trajectory towards achieving the targeted debt-to-GDP ratio of 60% set by the Monetary Council of the Eastern Caribbean Central Bank (ECCB).

The Union's monetary policy stance remained unchanged, focusing on the maintenance of the fixed exchange-rate peg with the United States dollar. Further, the strong performance of the real sector, coupled with increased inflows from CBI programmes in 2018, fuelled an expansion in the broad money supply (2.8%). However, private sector time deposits continued to decline, suggesting that interest rates remain unattractive, with the weighted average deposit rate remaining steady at 1.6%. In addition, the international trade performance of ECCU worsened in 2018, as both the overall and merchandise trade deficit widened.

Despite stronger oil prices, inflation in ECCU remained constrained at 1.15% in 2018. A combination of a slowing in global growth —which is expected to moderate oil prices— and continued fiscal prudence on the part of member governments should contain inflationary pressures in 2019. Unemployment rates continued to trend downward owing to the pick-up in economic activity and the implementation of targeted, training-based employment creation programmes in some countries.

[1] Refers to the six ECCU countries which are members of the Economic Commission for Latin America and the Caribbean (ECLAC): Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.

2. Economic policy

(a) Fiscal policy

The ECCU economies continued to delicately balance fiscal consolidation and debt reduction initiatives with the need to further stimulate economic activity in domestic economies. Improvements in the current account performance, which led to an enhanced current account surplus at the end of 2018 relative to the previous year, counterbalanced increased capital expenditure. This allowed the overall fiscal balance of the ECCU to shift from a deficit position in the previous year to a surplus of EC$ 21.19 million in 2018. On the revenue side, an estimated EC$ 778.31 million in inflows from CBI programmes fuelled an increase in current revenues of just over EC$ 0.5 billion (or 11.4%) year-on-year in 2018. Antigua and Barbuda, Grenada, Saint Lucia and Saint Kitts and Nevis all made downward adjustments to their threshold for the single contribution option, which sparked renewed interest in the Union's CBI programmes.

On the expenditure side, at the aggregate level growth in current expenditure was largely kept in check. Current expenditure remained flat in Antigua and Barbuda and increased by 1.3% in Grenada, with the former curtailing transfers to State-owned enterprises. In Saint Kitts and Nevis, however, the payment of an extra month's salary in December 2018 (which is expected to be repeated in 2019); the introduction of the Poverty Alleviation Programme (under which every household earning less than EC$ 3000 per month is eligible for an EC$ 500 subvention); and the ongoing Skills Training Empowerment Programme (STEP) have put upward pressure on current expenditure. Concomitantly, in Saint Lucia increased spending on transfers and subsidies, as well as goods and services, underpinned a 13% upswing in current expenditure.

Governments across ECCU persisted in their efforts to repair, upgrade or modernize key economic infrastructure in 2018, causing capital expenditure to increase by just under EC$ 1 million. This trend has continued in 2019, with further capital spending on public infrastructure in an effort to address key structural gaps in transportation, connectivity and energy. For instance, in Antigua and Barbuda the road rebuilding programme, the reconstruction of Barbuda and the EC$ 100 million upgrade of the deep-water harbour at Saint John's are all ongoing; while the government of Grenada has been upgrading hospitals and implementing its Climate Smart Agriculture and Rural Enterprise Programme. The Government of Saint Lucia will continue implementing road restoration projects and the rehabilitation of the Hewanorra International Airport (HIA); while work is ongoing on a geothermal power plant in Saint Vincent and the Grenadines; and the reconstruction effort following Hurricanes Irma and Maria (2017) has gained momentum in Dominica. Public expenditure in Saint Kitts and Nevis will continue to centre on the ongoing construction of the second cruise ship pier, phase II of the road improvement and maintenance project, a housing development project being undertaken by the National Housing Corporation and the construction of the new Basseterre High School.

The debt burden of ECCU continued its downward trajectory in 2018, contracting by a further 2.04 percentage points to 68.61% of GDP, suggesting that the Union is well on its way to achieving the aforementioned debt-to-GDP ratio of 60% by 2030, the target set by the Monetary Council of ECCB. This notwithstanding, total public sector debt stood at EC$ 13.1 billion at the end of 2018, which represented a 2.5% year-on-year increase as both domestic and external borrowings rose. Consistent with the concerted effort of ECCU governments at prudent debt management, both the consolidated central government and public corporation debt burdens continued to contract in 2018, the former for the fourth consecutive year. On the other hand, additional debt is expected to be incurred to finance infrastructural and other capital projects, as well as any budgetary shortfalls in some economies in 2019. The volume of public debt may thus increase further in some ECCU economies.

(b) Monetary policy

The Eastern Caribbean Central Bank has overarching responsibility for designing and implementing monetary policy in ECCU. During the review period, the Bank's monetary policy stance remained unchanged, with continued focus on price stability through the maintenance of the fixed exchange-rate peg with the United States dollar (EC$ 2.70 = US$ 1). The nominal exchange rate between the two currencies was unchanged at the end of 2018.

The strong performance of the real sector, coupled with increased inflows from CBI programmes in 2018, which more than compensated for sluggish domestic credit growth, was reflected in a year-on-year increase in the broad money supply (2.8%), which stood at EC$ 15.6 billion. This expansion in money supply was underpinned by growth in narrow money (6.8%) owing to positive outturns in currency held by the public (5.5% growth) and private sector demand deposits (7.3%); as well as quasi-money (1.4%). In respect of the latter, private sector time deposits continued their decline suggesting that interest rates remain unattractive. Concurrently, commercial bank liquidity improved year-on-year and the weighted average lending rate declined by three basis points while the weighted average deposit rate remained steady at 1.6%.

(c) Other policies

An emerging downside risk to growth in ECCU has been the issue of restructuring the regional airline LIAT, given that the Caribbean Community is the Union's second largest tourism source market. The requirements of the airline's restructuring plan, which was designed by the Caribbean Development Bank (CDB) (the airline's largest creditor), include: reduction of the airline's US$ 60 million debt burden; implementation of a minimum revenue guarantee payable annually (in particular, on routes that are not commercially viable); reduction in management and pilot remuneration of up to 10%; and greater efficiency systemwide, including workforce reduction and the re-fleeting of 10 new ATR aircraft.

Efforts to rescue LIAT are being led by the Government of Antigua and Barbuda, which currently holds a 34% share of the airline and is poised to become the majority shareholder as it is presently in negotiations to purchase the bulk (90%) of the 49% stake held by Barbados. At the time these negotiations commenced, the airline was in talks with 11 of the 15 destination countries regarding the introduction of a minimum revenue guarantee to ensure profitability. This would mean that governments would have to pay for unprofitable flights to their country. The focus has been on getting these guarantees accepted and implemented.

In the education services sector, in an effort to systemically address the challenge of ECCU having the lowest rates of youth tertiary education enrolment and the highest rates of youth unemployment in the region, in 2017 the Government of Antigua and Barbuda made a proposal to establish and host the University of the West Indies (UWI) Five Islands Campus. The goal is to promote national and subregional economic and social development, with a focus on the robust expansion of its social capital. The Five Islands Campus will admit its first cohort of some 800 students in September 2019.

In financial services, in February 2019, the ECCB signed an agreement pioneering the world's first blockchain-backed currency issues by a central bank. The ECCB FinTech Working Group has been developing the initiative in partnership with Barbados fintech firm Bitt Inc. The project will create a digital version of the Eastern Caribbean dollar (DXCD), which will eventually be phased into public use. The development and testing phase, which is expected to last around 12 months, will be followed by a six-month rollout and implementation in selected pilot countries.[2] Apart from reducing reliance on cash and lowering overall transactional costs, it is anticipated that the digital currency will enhance the growth and development of the financial sector in the Union.

Lastly, with respect to efforts to mitigate climate change and utilize geothermal energy in ECCU, in November 2018, Saint Vincent and the Grenadines signed a US$ 20-million drilling contract with Iceland Drilling Company, under which work began in the second quarter of 2019, with the aim of completing four wells. Dominica also expects to bring drilling projects on stream in 2019.[3]

3. The main variables

(a) The external sector

The ECCU merchandise trade deficit widened by 9.9% to EC$ 270.8 million (33.3% of GDP) in 2018, owing to an increase in import payments and an accompanying decline (9.2%) in export receipts. Growth in imports was largely on account of increased payments for mineral fuels and related materials (given higher oil prices), machinery and transport equipment and manufactured goods. The merchandise trade deficit is likely to widen again in 2019, as demand for construction-related materials and equipment rises. An expansion in gross travel receipts was the main driver of a 20.1% improvement in the services surplus to EC$ 136 million, which underpinned a 5-basis-point contraction in the goods and services deficit to 16.6% of GDP. This notwithstanding, the current account deficit deteriorated in 2018.

(b) Economic activity

The Union generated its eighth consecutive year of economic growth in 2018, with the rate quickening to 3.7%, from 1.8% in 2017. This positive outturn was underpinned by strong economic activity in the tourism, construction, manufacturing and agriculture sectors, which posted positive growth in all the economies.

A combination of CBI-funded projects and capital expenditure made construction activity (which grew by 7.5%) a major driver of growth in the real economy in 2018, with positive spillovers into the transport, storage and communication (5.0%) and wholesale and retail (5.7%) sectors. The Union’s economic growth was largely built on strong economic activity at the country level in Antigua and Barbuda and in Grenada.

Private sector projects such as the Royalton Hotel and the Hammock Cove Resort and Spa, as well as public sector initiatives such as the road rehabilitation and expansion project, the affordable housing project and the reconstruction of public infrastructure in Barbuda underpinned a 20% expansion in construction sector output in Antigua and Barbuda, with a further 15% expansion projected for 2019. In Grenada, the CBI programme continued to be a major source of FDI, financing several tourism sector projects and providing a source of grant funding for capital projects. As a result, although the rate of GDP growth cooled, construction sector output expanded 15% in 2018, with the wholesale and retail sector growing by 10%.

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[2] See [online] https://stluciastar.com/eccb-launches-digital-currency/.
[3] See [online] https://pressroom.oecs.org/video-update-advancing-geothermal-energy-in-the-oecs-for-economic-development-and-resilience.

In Dominica, growth of 60% in the construction sector and 15% in wholesale and retail trade was largely due to public reconstruction activities, as well as CBI-financed tourism projects such as the Jungle Bay Hotel and the Anichi Resort and Spa. Although slowing somewhat, this positive outturn is expected to continue in 2019.

ECCU tourist arrivals increased in 2018, pushing visitor spending upwards by 10.9% to EC$ 3.9 billion, thanks to higher numbers of cruise-ship passengers (10.0%) and stay-over visitors (4.2%). As a consequence, the hotels and restaurants sector returned to positive growth (2.1%) in 2018. Antigua and Barbuda, Saint Lucia and Grenada dominated the Union's stay-over arrivals, as the former reaped the benefits of additional airlift out of New York, Miami and North Carolina, which accompanied marketing and branding by the Antigua and Barbuda Tourism Authority; while major airlines such as JetBlue, Delta, British Airways, Sun Wing, Virgin Atlantic and United Airlines continued to maintain their presence in Saint Lucia. Grenada has recently begun receiving flights from the United States (JetBlue) and Canada (SunWing), and has increasingly sought to improve the quality and volume of its room stock, as well as engaging in marketing efforts.

The manufacturing sector returned to positive growth in 2018 following a decline in output in 2017. This positive outturn was derived from a favourable performance in Saint Kitts and Nevis (for example, in production of beverages), Grenada (beverages, chemicals and paint, and animal feed), Saint Lucia, and Saint Vincent and the Grenadines (beverages and building materials). ECCU recorded a slower rate of contraction in agricultural output in 2018, with banana production (one of the Union's main agricultural export crops) growing by 8.24% following a 2.44% contraction in the previous year.

GDP growth of 3.3% in 2019 is expected to be driven by a continuing robust performance of the tourism sector, as well as CBI-fuelled construction activity and the concomitant positive spillovers into key ancillary sectors such as wholesale and retail, and transport, storage and communications. Economic growth is, however, projected to be uneven across member States with Antigua and Barbuda (5.9%) and Grenada (3.7%) expected to be among the fastest-growing economies in the Caribbean, and the economy of Dominica projected to expand by just over 2%.

(c) Prices, wages and employment

Despite stronger oil prices, inflation in ECCU remained relatively flat at 1.15% in 2018, when compared to 1.13% the previous year. Notably, Saint Kitts and Nevis experienced price deflation of 1%, continuing a downward trajectory in price levels begun in 2014. Improving domestic demand in ECCU economies is expected to provide endogenous inflationary pressure in 2019. However, a combination of slowing global growth (expected to moderate oil prices) and continued fiscal prudence on the part of member governments will likely constrain inflation.

Statistics on wage levels are generally not available. High unemployment, particularly among youth, has been a major structural challenge for ECCU economies. However, in recent years, unemployment rates have been trending downward thanks to the pick-up in economic activity and the implementation of targeted training-based employment creation programmes such as the Short-Term Employment Programme in Saint Lucia and the Skills Training Empowerment Programme in Saint Kitts and Nevis (both known as "STEP") and New Imani in Grenada. In Saint Lucia, while the unemployment rate remained flat at 20.2% in 2018, youth unemployment fell by 2.2 percentage points to 36.3%. Further, in Grenada the private sector share of employment has steadily increased, reaching 52.4% in 2018, and the unemployment rate fell from 23.6% in 2017 to 21.7% in 2018, with youth unemployment declining by 1.9 percentage points to 37%.

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Table 1

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018 b/
	Annual growth rates c/								
Gross domestic product	-2.0	1.2	-0.1	0.7	3.5	2.1	3.6	1.8	3.7
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-12.6	2.5	6.9	4.2	3.9	6.8	0.9	-7.0	-1.7
Mining and quarrying	-17.6	-10.3	8.0	38.3	3.7	-4.2	1.6	8.4	8.6
Manufacturing	-4.0	-1.9	-3.7	3.7	-0.9	1.4	-1.0	-1.5	3.5
Electricity, gas and water	1.2	1.9	-0.3	-0.4	-0.3	4.0	2.6	-1.8	-0.2
Construction	-15.5	-10.8	-4.3	6.6	1.0	6.4	10.4	13.6	4.7
Wholesale and retail commerce, restaurants and hotels	1.3	1.9	1.2	-1.5	5.9	-0.5	2.8	1.6	5.0
Transport, storage and communications	-0.4	-0.6	-0.5	0.2	4.5	2.9	0.0	4.1	4.7
Financial institutions, insurance, real estate and business services	-2.8	1.1	1.3	1.6	1.2	3.5	2.7	0.3	1.7
Community, social and personal services	1.4	1.8	2.1	1.9	4.0	1.0	3.5	1.0	-0.1
External-sector indicators	**Millions of dollars**								
Net resource transfer (millions of dollars)	929	855	795	818	200	-63	88	-291	-36.1
Total gross external debt (millions of dollars)	2 305	2 481	2 399	2 654	2 679	2 593	2 640	2 526	2 584.2
Central government	**Percentajes of GDP**								
Total revenue	24.5	24.8	25.1	25.2	25.7	27.1	27.0	30.5	26.3
Tax revenue	20.3	19.9	20.0	19.9	19.6	19.8	20.1	20.5	20.1
Total expenditure	28.8	27.1	28.6	27.4	29.1	28.1	26.7	26.6	26.5
Current expenditure	22.8	22.3	23.1	22.8	22.8	22.7	21.7	22.2	22.3
Interest	3.0	2.9	3.0	3.2	2.9	3.0	2.7	2.6	2.3
Capital expenditure	6.1	4.8	5.5	4.6	6.2	5.4	5.0	4.3	4.2
Primary balance	-1.3	0.6	-0.5	0.9	-0.5	1.9	3.0	6.5	2.1
Overall balance	-4.3	-2.3	-3.5	-2.3	-3.4	-1.1	0.3	3.9	-0.2
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	80.1	80.0	79.2	74.3	65.9	52.2	46.0	43.8	41.9
To the public sector	1.8	2.0	0.7	-0.3	-1.8	-4.2	-6.7	-11.4	-10.9
To the private sector	78.3	78.1	78.5	74.6	67.6	61.1	57.2	55.2	52.8
Monetary base	12.5	14.1	15.8	16.6	18.1	20.8	21.8	22.6	20.7
Money (M1)	17.6	18.0	18.5	18.4	19.4	19.8	20.3	21.7	22.0
M2	72.7	74.2	75.9	76.3	75.1	72.9	71.4	72.1	70.6
Foreign-currency deposits	6.7	6.7	6.8	8.0	9.9	10.8	10.0	9.6	9.4

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.