

Eastern Caribbean Currency Union (ECCU)

All Eastern Caribbean Currency Union (ECCU)¹ economies are forecast to experience negative growth in 2020, primarily because of the deleterious impact of the coronavirus disease (COVID-19) pandemic on the leading sectors of ECCU economies. The far-reaching measures taken at the international and subregional levels to curb the spread of the disease, which included lockdowns and border and business closures, led to the virtual cessation of tourism activity in the ECCU in the second quarter of 2020, with spillover effects on the retail distribution and services sectors. ECCU countries began gradually reopening their borders in the third quarter of 2020. However, in light of the regional tourism sector's inextricable link to the economic performance of major source markets in Europe and North America, weaker economic activity in these economies and a global resurgence in infections are expected to precipitate continued year-on-year contraction in the tourism sector during the second half of 2020. Hence, following nine consecutive years of positive economic growth, the real GDP of the ECCU is forecast to contract by 17.1% in 2020, following an expansion of 2.3% in 2019.

The declining trend in unemployment in recent years is expected to be reversed owing to permanent job losses, business closures, developments regarding LIAT (the main regional airline in the ECCU) and the slow recovery of the tourism sector. Consumer prices are forecast to decline by 1.4% in 2020 because of weaker global economic activity along with low (and declining) oil prices, following flat inflation (0.0%) the previous year. The ECCU economies registered an overall fiscal deficit equivalent to 4.9% of GDP in the first half of 2020.

Economic policy across the ECCU focused largely on increasing fiscal expenditure in the health sector in order to tackle the COVID-19 pandemic and on mitigating the socioeconomic fallout by prioritizing job retention. The attendant fiscal packages instituted across the ECCU to varying degrees covered measures such as payroll support, grants to businesses, unemployment benefits, public assistance grants, tax credits, concession and deferral programmes, investment stimuli and other forms of relief. For instance, the Government of Antigua and Barbuda increased public expenditure on health care, initially reduced the cost of electricity to households by 20% for 90 days, suspended the common external tariff on food imports and expanded existing social safety programmes. It also adopted fiscal revenue guidelines and a medium-term fiscal framework to enhance its fiscal operations. Similarly, Dominica reduced its corporate tax rate from 25% to 17% on companies which retained at least 80% of their workers for 12 months, increased fiscal expenditure in the Ministries of Health and Agriculture, provided grants to approximately 2,500 individual crop farmers and to families negatively affected by COVID-19, and paid arrears to small contractors and merchants.

The Government of Grenada sought to implement a robust strategy to manage liquidity, prioritize COVID-19-related spending and respond to natural disaster shocks. It also provided payroll support for workers in the tourism industry and credit to small businesses. In December, with regard to the Fiscal Responsibility Act (FRA), the government activated section 8(3)(f) and section 10 (the "escape clause") which allows for the suspension—for a period not exceeding one fiscal year—of fiscal rules, targets and corrective measures under sections 7 and 8 of the FRA. This suggests that the fiscal

¹ Refers to the six ECCU countries that are member States 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.

rules set out in the FRA may be broken as a result of the precipitous fall in revenue because of COVID-19.

Meanwhile, Saint Kitts and Nevis increased public expenditure in the health sector, expanded public expenditure on poverty alleviation projects and reduced the corporate income tax rate from 33% to 25%. The Government of Saint Lucia implemented its Social Stabilization Plan to address the economic effects of the COVID-19 pandemic. Moreover, the Government of Saint Vincent and the Grenadines rolled out a fiscal package amounting to 3.6% of GDP to mitigate the economic impact of the pandemic, which included the deferral of tax payments, the provision of financial support to stakeholders in the tourism, transport, and agriculture sectors, and the increase in public expenditure on social safety net programmes.

The data show that as a consequence of this substantive easing of fiscal consolidation efforts across ECCU economies during the review period, the ECCU generated an overall fiscal deficit of 265.8 million Eastern Caribbean dollars (EC\$) (4.57% of GDP) in the first half of 2020. A deeper examination of the data reveals significant disparities in fiscal performance across individual ECCU countries. Notably, Grenada emerged as the only ECCU economy to generate a surplus (albeit minimal) of EC\$ 30 million or 2.1% of GDP in the first half of 2020. Notwithstanding, increased expenditure to finance COVID-19-related support measures and a contraction in tax revenue as economic activity slowed sharply meant that the fiscal surplus narrowed by just under 70% relative to the first half of 2019. However, there was an uptick in the country's non-tax revenue as inflows from the economic citizenship programme increased. In contrast, a fall in economic citizenship programme inflows underpinned declining non-tax revenue in Antigua and Barbuda (receipts stood at EC\$ 40.8 million at the end of June), Dominica and Saint Kitts and Nevis in the first half of 2020.

In response to the negative economic and fiscal impact of COVID-19 on ECCU economies, monetary policy was conditioned by a focus on easing borrowing conditions for commercial banks as a means of providing much-needed liquidity. In this regard, in April 2020 the Eastern Caribbean Central Bank (ECCB) lowered the discount rate for the first time since 2003, from 6.5% to 2.0%. It also expanded credit offered to governments and approved a grant for ECCB member governments, totalling EC\$ 4 million, to address the COVID-19 crisis. Further, the ECCB collaborated with the ECCU Bankers' Association to facilitate a support programme for customers, the main measures of which included a six-month moratorium on loan repayments, the waiver of late fees and charges applicable to eligible customers, and increased credit limits.

The slowing of economic activity across the ECCU precipitated a marked year-on-year deterioration of 3% in broad money supply as at August 2020, which was indicative of the pervasive harmful effect of increased unemployment and heightened economic uncertainty on currency in circulation and deposits. Competition among commercial banks and the need to stimulate economic activity exerted downward pressure on the weighted average lending rate, which decreased by 62 basis points to 7.21%, while the weighted average deposit rate remained flat. Over the first eight months of 2020, private sector credit increased in Antigua and Barbuda (2.3%), Saint Lucia (0.7%) and Saint Vincent and the Grenadines (0.6%). Despite the decline in economic activity because of the pandemic, ECCU-wide commercial bank liquidity is expected to remain healthy and well above the mandated liquid-assets-to-total-deposits ratio threshold of 20%. The increase in the ECCU outstanding public debt stock is forecast to gather pace in 2020 as central governments incur further debt to fund COVID-19-related fiscal packages and budgetary shortfalls in the face of falling revenue.

The nominal United States dollar to Eastern Caribbean dollar exchange rate remained unchanged at the fixed rate of US\$ 1 to EC\$ 2.7, and this stability is expected to persist. However, as at

the end of August 2020, the real exchange rate reflected a slight depreciation of 1.71%, in contrast to a 0.27% appreciation in 2019.

Based on preliminary data, the ECCU merchandise trade deficit contracted in the first half of 2020, with the pace of the reduction of imports outstripping that of exports. Low and declining crude oil prices and dampened commercial activity are thought to be the major drivers of the reduction of imports. In addition, the precipitous decline in tourist arrivals is forecast to halve gross travel receipts.

Real GDP growth in the ECCU is projected to contract by 17.1% in 2020, despite the gradual reopening of domestic economies in the third quarter of 2020. This considerable decrease in economic activity was driven primarily by the lingering contraction brought about by the COVID-19 pandemic in the tourism industry (i.e. hotels and restaurants), which is the main driver of economic activity in the ECCU, as well as in the transport, storage and communications, wholesale and retail trade, and construction sectors.

Lockdowns, border closures and other travel restrictions implemented in the major source markets of the ECCU weighed heavily on global demand and disrupted the subregion's tourism sector. It is estimated that ECCU-wide stay-over arrivals more than halved in the first half of 2020. Moreover, from January–October, tourist arrivals declined by 55.4% in Antigua and Barbuda, 70.4% in Grenada and 68.7% in Saint Lucia. Tourist arrivals to Dominica plummeted by 70.1% over the first three quarters of 2020 relative to 2019. While there were an estimated 1,193,377 stay-over visitors to the ECCU countries in 2019, as at June 2020, tourist arrivals stood at 286,076. Yacht calls to Antigua and Barbuda, Dominica and Saint Lucia and cruise ship calls to all ECCU countries also declined dramatically.

Although unemployment data were unavailable at the time of publication, the recent trend of declining unemployment in the ECCU is expected to be reversed owing to permanent job losses, temporary closures of hotels and other businesses, developments regarding LIAT (the main regional airline in the ECCU), and the slow recovery of the tourism sector as ECCU economies reopen their borders. Consumer prices are forecast to decline by 1.4% in 2020 because of weaker global economic activity along with low (and declining) oil prices, following flat inflation (0.0%) the previous year.