Organization of Eastern Caribbean States (OECS)

Economic growth in the OECS member countries is estimated to have risen by around 6.8% in 2006, compared with 5.7% in 2005. This performance was boosted especially by demand for tourist services and construction activities relating to preparations for the Cricket World Cup 2007.

The broad aim of economic policy in 2006 has been to strengthen the fiscal accounts in order to reduce public debt to sustainable levels and continue the structural transformation of the economies to foster competitiveness.[1]

The fiscal deficit widened by over 74% with respect to the 2005 figure. Current revenue posted a strong upturn (14%), propelled by gains in both tax and non-tax revenues (15% and 12%, respectively). Notably, proceeds from taxes on income and profits registered growth of 17%, mostly because of the reintroduction of personal income tax in Antigua and Barbuda. Receipts from taxes on domestic goods and services transactions rose, thanks to the introduction of value added tax (VAT) in Dominica and windfall proceeds from land sales in Saint Kitts and Nevis and Anguilla. VAT was introduced in Dominica in March 2006 at a rate of 15%, replacing a number of taxes including those on consumption and sales.

Current spending was up by over 7% in 2006. This was associated mainly with wage rises in Anguilla and Saint Lucia and higher interest payments on domestic debt contracted with the local banking system to fund public investment projects. Domestic interest payments increased sharply in Saint Kitts and Nevis, reflecting borrowing to fund severance payments to former workers upon the closure of the sugar industry.

The capital expenditure programme remains the greatest challenge to fiscal consolidation within the monetary union. In the first quarter of 2006, capital expenditure posted growth of over 52%. The subregion has undertaken an ambitious programme to build stadiums and infrastructure works for the Cricket World Cup 2007. This has revealed installed capacity constraints and supply shortages in some countries, pushing up project costs.

The fiscal stance and debt sustainability have become issues of major concern in the OECS member countries, some of which are among the most highly indebted in the world. Governments undertook countercyclical fiscal spending in the slow-growth period that followed the terrorist attacks of 11 September 2001 in the United States.

Monetary conditions have eased somewhat in 2006, with banks offering more favourable terms and conditions for credit. A 15% expansion in domestic credit in the first quarter of 2006 was driven mainly by housing construction. All the countries registered growth in private-sector credit, especially for tourism projects reflecting increased business confidence. The OECS authorities have attempted to improve the regulatory framework, including creditors' rights and bankruptcy procedures, in order to boost bank lending for productive activities.

Driven by the upsurge in economic activity, broad money expanded by 9.4%, the biggest increase in five years. The highest growth rate (17%) was in foreign-currency deposits, reflecting inflows of foreign direct investment for tourism and construction projects, especially in Anguilla, Antigua and Barbuda and Saint Kitts and Nevis.

The banking sector's net international assets contracted by 1.7%, on account of a 15.9% cut in net foreign assets by commercial banks in order to finance domestic lending to the private and public sectors.

The growth impetus of 2005 continued in 2006, driven by construction (up by 14%), tourism, agriculture and services, and particularly wholesale and retail trade. Public-sector activities centred on preparations for the Cricket World Cup 2007, especially the construction of cricket stadiums and improvements to roads, ports and sanitation infrastructure. Meanwhile, private-sector investment went into hotels and villas to expand room capacity.

[1] The closure of the sugar industry in Saint Kitts and Nevis in 2005 was a key plank of the structural change process in the region.

Tourism strengthened in 2006, with a 2.3% increase in long-stay visitors in the first half of the year, thanks to the reopening of some hotels in Grenada, strong marketing and additional airline capacity from some tourist markets. The sector also benefited from improved price competitiveness linked to the depreciation of the United States dollar against the euro.

Agricultural output rose slightly in 2006, fuelled mainly by the recovery of banana production in Saint Lucia following the end of the leaf spot infestation of 2005, as well as favourable weather conditions. Banana production increased in all the banana-producing countries, except Saint Vincent and the Grenadines where output declined by about 1%, reflecting continued productivity problems. In Grenada, production of cocoa, nutmeg and mace expanded. Conversely, agricultural output plummeted in Saint Kitts and Nevis following the closure of the sugar industry in 2005. Manufacturing activity picked up in the wake of stronger demand associated with overall economic growth, with higher output of beer, rice and animal feed, electronic components and paper board.

The rate of inflation increased as a result of high international fuel prices, higher prices of food and building materials, including cement, and tight labour-market conditions in the construction sector.

Unemployment is estimated to have declined in the subregion, consistent with the robust growth in activity, particularly in the construction and tourism sectors. Wages increased significantly in Anguilla and Saint Lucia.

The balance of payments is expected to post a small surplus in 2006, as larger inflows on the services and capital accounts offset a widening merchandise deficit. Imports expanded in 2006, reflecting the spike in petroleum prices and the high import propensity observed during boom periods. Exports expanded more slowly, with the increase in banana exports (4.8%) offset by the drop in sugar exports from Saint Kitts and Nevis.

Gross travel receipts increased by 6% during the first semester, which includes the active winter tourist season. Foreign direct investment expanded, as a result of the construction of hotels and holiday villas. Official grants were down on the previous year, when Grenada had received additional funds for reconstruction after hurricane damage. External interest payments remained relatively stable in 2006.

Table 1
OECS: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	4.1	5.7	6.8
Consumer prices	1.7	4.2	…
	Annual average percentages		
Central government overall balance/GDP	-3.4	2.7	...
	Millions of dollars		
Exports of goods and services	1 803	1 882	1 995
Imports of goods and services	2 308	2 562	2 854
Current account	- 553	- 747	- 960
Capital and financial account	667	723	962
Overall balance	115	- 24	1

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