Eastern Caribbean Currency Union (ECCU)

The economies of the Eastern Caribbean Currency Union (ECCU) contracted for most of 2012 after an estimated growth rate of 0.8% and promising signs of recovery in 2011. This was due to a decline in construction, wholesale and retail trade and financial services. However, upturns in tourism and manufacturing, along with renewed growth in agriculture and forestry, tempered this decline across all member countries during the first half of the year. The lacklustre global economic recovery, as evidenced by the sovereign debt crisis in Europe and slow growth in the United States, was also a key factor impacting the ECCU economy during 2012. The situation was exacerbated by continued implementation of fiscally prudent strategies in many countries, as governments struggled to reduce the fiscal gap while at the same time providing economic stimulation. The overall fiscal deficit fell to 0.4% of GDP by the end of the first half of 2012, while inflation averaged 2% up to August 2012. Growth for 2012 overall was estimated at 0.7%, but actual growth may be lower owing to the impact of Hurricane Sandy on the eastern United States, the region's principal tourism source market.

Due to increasing expenditures and declining revenues, the central government fiscal balance of ECCU recorded a slight deficit in the first half of 2012, a deterioration from the primary surplus of 0.1% for the year-earlier period. Current expenditure rose 1.7%

over this period, owing to increases in pension payments and personal emoluments. At the same time, current revenues fell by 1.3% on account of a smaller tax take from international trade transactions and income and profits. The higher expenditures were most evident in Saint Lucia (13%), while revenue gains were most notable for Saint Lucia, Antigua and Barbuda, and Saint Vincent and the Grenadines. Increased property taxes (25.3%), thanks to enhanced collection efforts in several countries, and taxes on domestic goods and services (4%), contributed the most to revenue increases. Saint Lucia introduced VAT at a rate of 15% in the final quarter of 2012.

The ECCU public debt rose by 0.6 percentage points during the first half of 2012, averaging 84.7% of GDP for 2012. The exception to this trend was Saint Kitts and Nevis, where the public debt fell marginally. The increase in public debt ranged from 0.4% in Grenada to 7% in Dominica. Interest payments on the debt fell by 3.7% during the first half of 2012, compared to the same period of 2011.

The Eastern Caribbean Central Bank maintained its fairly neutral monetary policy stance from 2011, with a rise of only 3.8% in monetary liabilities (M2) over the period August 2011-August 2012. The average deposit rate inched up from 3.12% in June 2011 to 3.15% in June 2012, while the average lending rate declined by roughly 1 percentage point to 8.54% over the same period. Total deposits increased by 4.3% August-August, possibly as a result of the slight rise in the deposit rate. Despite a reduction in credit to the government and tourism sectors, total domestic lending climbed by 2.1% over the same period. Loans to private individuals were the principal source of credit expansion during this time. Liquidity in the commercial banking sector also declined during the first half of 2012, along with the liquid asset ratio.

With respect to output, all sectors declined during the first three quarters of 2012. For tourism, total stay-over arrivals fell by 0.7% during the first eight months of 2012 compared to the same period of 2011. Cruise passenger arrivals fell more heavily, by 7.8%. Stay-over visitor numbers declined most for Dominica (5.5%) and Saint Lucia (2.3%), but increased for Saint Vincent and the Grenadines and Antigua and Barbuda. Agricultural value added also rose during the first half of 2012 as the impact of Black Sigatoka infestation of bananas began to abate in Saint Lucia, Grenada and Saint Vincent and the Grenadines. This gain was, however, offset by decreased nutmeg production in Grenada. Manufacturing output of beer, flour and feeds also increased in Saint Vincent and the Grenadines. Output of electrical and telecommunications equipment grew in Saint Kitts and Nevis, while soap production expanded by 20.7% in Dominica, and paper products were up (29%) in Saint Lucia. Private construction recorded a mixed performance during the review period and remained generally subdued, while spending on capital projects also declined between 12.3% and 65.5% across ECCU.

The 12-month inflation rate to August 2012 was 2.0%, down from the 4% recorded at the end of 2011. This reduction was due mainly to a standstill in housing prices during the period and a fall in food and fuel price inflation. Saint Lucia (3%) and Antigua and Barbuda (2.3%) posted the highest inflation rates over this period while Saint Kitts and Nevis (0.3%) recorded the lowest.

Although the merchandise trade deficit widened very slightly (by 0.2%) between August 2011 and August 2012, the ECCU current account deficit narrowed by 0.66% to 18.7% of GDP, reflecting larger surpluses on the travel and services accounts (6.4% and 6%, respectively). For the first eight months of 2012, imports remained unchanged from the prior-year period, while exports declined by 1%. It is estimated that the capital and financial account surplus also declined in 2012, by 5.1%, owing to a surge in net short-term capital outflows in the first half of the year.

While the overall prospects are for improved economic growth of 1.8% in 2013, this outcome is highly dependent on renewed growth in the subregion's tourism source markets, as well as stable international commodity and energy prices, and no losses from the passage of natural events.

EASTERN CARIBBEAN CURRENCY UNION: MAIN ECONOMIC INDICATORS[a]

	2010	2011	2012 [b]
	Annual growth rates		
Gross domestic product	-2.4	-0.4	0.7
Per capita gross domestic product	0.3	-1.0	0.1
Consumer prices	3.4	3.5	2.0 [c]
Money (M1)	2.3	4.2	8.6 [d]
	Annual average percentages		
Central government overall balance / GDP	-2.4	-3.8	-4.0
Monetary police rate	6.5	6.5	6.5 [e]
Nominal lending rate [f]	9.5	9.4	9.1 [e]
	Millions of dollars		
Exports of goods and services	1 896	1 946	1 877
Imports of goods and services	2 825	2 843	2 138
Current account balance	-971	-923	-972
Capital and financial balance [g]	1 031	927	1 046
Overall balance	94	26	74

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Simple averages. Includes information on six ECCU countries: Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.
[b] Estimates.
[c] Twelve-month variation to August 2012.
[d] Year-on-year average variation, January to August.
[e] January-June average.
[f] Weighted average of the system lending rates.
[g] Includes errors and omissions.