EASTERN CARIBBEAN CURRENCY UNION (ECCU)

1. General trends

The gross domestic product of the six economies of the Eastern Caribbean Currency Union (ECCU)[1] contracted by an average of 0.4% in 2012, compared with their performance in 2011. This contraction was due to a decline in tourism earnings, construction and transportation over the period. Some economies however, performed marginally better than others, reflecting the renewed buoyancy of the United States economy, the region's main tourism source market, as well as some growth in agriculture, as this sector began to show signs of recovery from the impact of Hurricane Tomas, in 2011, and from the ravages of Black Sigatoka disease. St. Vincent and the Grenadines and Antigua and Barbuda recorded real growth of 1.5% and 2.3%, respectively, between 2011 and 2012. The remaining four countries contracted, with St. Lucia (-3.04%) and Dominica (-1.5%) showing the sharpest declines.

Despite this lacklustre performance, the fiscal consolidation strategies pursued in most ECCU countries resulted in a tightening of the fiscal deficit, which narrowed to 2.6% of GDP in 2012, from 3.7% in 2011. Saint Vincent and the Grenadines and Antigua and Barbuda showed the most significant improvements in their fiscal balances, while St. Kitts and Nevis, Saint Lucia and Grenada saw their deficits widen.

Fiscal constraint was exercised within the context of IMF-recommended measures in order to improve fiscal and debt sustainability over the short to medium term. Hence, many countries, such as Saint Lucia, Dominica and Saint Kitts and Nevis reduced capital spending. On the revenue side, efforts were also made, in particular by Saint Lucia, to widen the tax-base and increase revenue through the introduction of value added tax (VAT). Despite the overall sluggishness in most economies, current revenue increased by 7.9%, the most significant components of this positive result being a 10% increase in revenue from personal income tax and a 9.3% increase in value added tax receipts. Meanwhile, tax collections on international trade and transactions increased by only 1.1%. This was due to a decline in merchandise trade, as a reduction in real sector activity, construction and the hotel and restaurant sector resulted in lower imports. Moreover, with exports increasing modestly (4.4%) on the strength of increased earnings from bananas, the merchandise trade deficit improved slightly in 2012.

Sluggish economic growth also served to moderate inflation within ECCU, with average consumer prices rising by 2.0% in 2012, compared with 3.7% in 2011. Escalations in the prices of clothing and footwear and education were the principal drivers of inflation, with St. Lucia (5.0%) reporting the largest increase.

For 2013, growth in the Union is projected to remain weak at 2.1%, although the economic recovery is expected to strengthen as conditions in the United States' economy improve. However, continued fiscal strategies will limit government spending and the weak economic activity will keep inflation in check. While two countries (St. Lucia and Grenada) are settling down again after recent elections, the people of Antigua and Barbuda are preparing to go to the polls in 2014. Given the region's strong legacy of parliamentary democracy, however, political stability is likely to be maintained as the basis for renewed growth over the short to medium term.

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[1] This note covers only the following six countries: Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Vincent and the Grenadines, and St. Lucia. Anguilla and Montserrat are not a part of this analysis.

2. Economic Policies

(a) Fiscal Policy

Since the onset of the global economic crisis, the ECCU countries have adopted the Eight Point Stabilization and Growth Plan as the basis for restructuring their economies and stimulating sustained growth over the short to medium term. As noted by the Eastern Caribbean Central Bank (ECCB), this plan aims to reduce fiscal deficits and public debt over time by setting annual targets, which for the eight countries in 2012, ranged between -6.2% and 5.2% for the primary balance-to-GDP ratio; and between 69% and 97.9% for the debt-to-GDP ratio.

Towards this end, ECCU governments imposed cuts in capital expenditure in 2012, although in some cases these cuts were not enough to offset the increases in current expenditure. For instance, the global deficit increased in Dominica, Grenada and St. Lucia, while smaller deficits were recorded for Antigua and Barbuda and St. Vincent and the Grenadines. The overall balance of Saint Kitts and Nevis remained in surplus and expanded in 2012. Overall, current expenditure expanded by 9.5% compared with 2011. Figures provided by ECCB indicate that this was driven primarily by increased spending on personnel emoluments (11.2%), transfers and subsidies (9.2%) and interest payments (15.0%).

This notwithstanding, the overall result was an improvement in the primary balance for ECCU as a whole, as it moved from a deficit to a surplus in 2012, at 0.9% of GDP, as current revenue increased modestly and the fall in capital expenditure more than compensated for the increases in current expenditures. This marginal improvement reflects the continued sluggishness of ECCU economies as tourism and manufacturing earnings, in particular, fell during the period. During the first quarter of 2013, the same general conditions prevailed. The fiscal consolidation programme caused an 80% reduction in the global balance of the ECCU countries during this period, compared with the first quarter of 2012. This was due to reductions in current expenditure (7.3%), as revenues were up during the period (3.9%).

The global fiscal deficit also translated into a 1.5% increase in the total disbursed outstanding debt for ECCU between 2011 and 2012. In terms of specific countries, the largest increase in public debt was for Saint Lucia (9.3%), but Saint Vincent and the Grenadines and Grenada also recorded increases.

(b) Monetary Policy

The main objective of ECCB continues to be currency management within the union in order to maintain the stability of the exchange rate. Since the onset of the global economic crisis, monetary policy has also been oriented to further strengthening ECCU finance and capital markets and forging a single financial space. Under the oversight of ECCB, monetary liabilities (M2) increased by 3.5% between 2011 and 2012, with savings deposits increasing by 7.3%, while foreign currency deposits declined by 15.7%. Currency in circulation also declined marginally: 0.8%.

Domestic credit in the ECCU economies remained flat in 2012, with a rise just over 0%. This was because the increase in credit to the private sector (1.9%) was offset by a 9.7% reduction in credit to the government. While government deposits declined slightly (0.1%), there was a significant increase (9.3%) in the net deposits of non-financial public enterprises. Additional loans within the private sector resulted in a 20.2% increase in outstanding credit to non-bank financial institutions. These trends, however, show the general weakness of the ECCU economies during the period, with most commercial bank credit being disbursed to activities such as mining and quarrying (1.9%), tourism (3.8%) and construction (0.8%). Nevertheless, lending for personal uses dominated the share of credit and amounted to 44.5% of outstanding credit during the first nine months of 2012. Low credit uptake, together with a slightly better increase in deposits, led to an increase in commercial bank liquidity, with the liquidity ratio increasing to 32%, a 2-percentage-point increase over the figure for 2011. The ratio of loans to deposits also fell to 85.1 during the period as deposits expanded in comparison with the drawdown of loans.

Interest rates across the Union remained largely stable between 2011 and 2012, with the average weighted lending rate standing at 8.91% and the average weighted deposit rate being 3.04% in December 2012. High liquidity also motivated a narrowing of the interest-rate spread, which decreased by 0.6 percentage points to 5.9 percentage points between 2011 and 2012.

The reserve position of ECCU improved, however, as net foreign assets of commercial banks expanded by 11.4%, while that of the Central Bank went up by 4.8%. This stronger reserve position boosts the Central Bank's capacity to continue to support the fixed exchange regime of the Union, with the exchange rate remaining at US$ 1 = EC$ 2.7 at the end of the first quarter of 2013.

(c) Other policies

Over the past year, ECCU has continued to pursue its fiscal consolidation strategy, while seeking to reduce debt and stimulate growth. Although the contraction experienced over the past year has further constrained fiscal capacity to implement countercyclical measures, recent signs of buoyancy in the United States economy - the Union's main trading partner - suggest that the incipient recovery may gather momentum in 2013. Further, some economies such as Antigua and Barbuda, which has successfully completed its standby arrangement with IMF, and Saint Kitts and Nevis, which is currently implementing one, provide evidence of success within ECCU in achieving the anticipated economic restructuring over the short to medium term. The last year also saw signs of a rebound in agriculture, which can also serve to strengthen the Union's trade balance. At the same time, several downside risks remain, in particular, difficulties in continuing to secure airlift for the vital tourism sector, problems in meeting the high cost of energy and in guaranteeing energy security, and the ever present threat of natural disasters such as hurricanes and the enormous economic and environmental costs that they leave in their wake.

3. The main variables

(a) The external sector

The balance-of-payments current account deficit narrowed from 18.4% of GDP in 2011 to 16.1% of GDP in 2012. This modest improvement was due mainly to a modest expansion in exports of both goods and services, while imports of both declined slightly. During 2012, the trade deficit (goods and services) narrowed by 13.1% to stand at US$ 803.6 million, approximately 15.8% of GDP.

The balance-of-payments income account recorded a deficit corresponding to 3.0% of GDP in 2012, almost unchanged from the 2.9% recorded in the previous year. Current transfers also remained largely unchanged, as remittance flows did not show much growth due to the lacklustre economic conditions in the United States and Europe. The surplus on the capital and financial accounts of the balance of payments was substantially lower than that of 2011, mainly owing to a 28.9% decline in the financial account. The overall balance of these accounts was equivalent to 16.1% of GDP in 2012, a decline of approximately 5 percentage points compared with 2011. This was principally attributable to a sharp decline in other investment assets during 2012.

ECCU international reserves amounted to US$ 917 million in 2012, 9.7% higher than the 2011 total and equivalent to approximately 4 months of goods and services imports. The ECCU countries that experienced the largest gains in international reserves during the year were Dominica and St. Vincent and the Grenadines (both around a 23% increase), while Grenada suffered a 2% fall in reserves.

(b) Economic activity

Although ECCU countries have mostly transitioned from agricultural to service-based economies, agriculture remains an important sector for some countries. Hence, export earnings from tourism and agriculture largely determine trade performance for the Union. In the case of tourism, total stay-over visitor arrivals decreased marginally (0.3%) for the group as a whole between 2011 and 2012. A breakdown in these statistics reveal a mixed performance among the countries in the region, with Antigua and Barbuda and Dominica experiencing gains of 2.3% and 3.4% respectively, while Grenada saw tourism arrivals fall by 5.1% in 2012. New arrivals came mainly from Canada (which posted strong growth of 5.7%) and the United States (1.8%). However arrivals from the Caribbean region continued to diminish, with a fall of 6.0% in 2012, compared with a smaller decline (1.2%) in 2011. This very marginal decrease in arrivals reflects the impact of reduced airlift and steeper airfares into the countries of the Union in 2012, due to rationalization of travel routes by some air carriers from the United States. These impacts, which have intensified since the start of 2013, resulted in a 0.3% decline in tourism value added up to October 2012 relative to the same period in 2011, as higher airfares resulted in lower tourism expenditure.

A notable emerging trend is the decline in cruise ship passengers across ECCU countries, as the numbers of ships calling decreased steadily between 2011 and 2012. All countries in the ECCU experienced declines in cruise passenger arrivals, which ranged from over 20% in Dominica and Grenada to a less steep reduction of 9.1% in Antigua and Barbuda. This pattern reflects the continued weakness in the United States economy, the Union’s leading source market for cruise ship traffic.

In the first four months of 2013, the lacklustre performance of the tourism sector continued, with both stay-over visitors and cruise passenger arrivals continuing to decline. The lone bright spot was St. Lucia, which saw its tourist arrivals increase by 2.1% during the first four months of 2013, compared with the same period of the previous year.

With respect to agriculture, there is evidence of some overall recovery in the sector after the devastation by Hurricane Tomas, and the more recent infestation of Black Sigatoka disease. Agricultural production in ECCU increased overall by 5.4% in 2012. The exceptions were Dominica, where a 29% fall in banana output in 2012, caused agricultural production to remain flat, and Saint Kitts and Nevis, where drought conditions early in the planting season led to a 7.4% contraction in the sector. However, Saint Lucia and Grenada showed a spectacular rebound in agricultural output, with banana production more than doubling between 2011 and 2012. Cocoa and fruits and vegetable production were up by 33% and 20% respectively in Grenada, while fisheries expanded in St. Lucia.

Much like agriculture, manufacturing rallied (by 3.4%) in 2012, after a setback in 2011. By contrast, construction suffered the impacts of limited capital spending under the fiscal consolidation programme applied by most governments and consequently contracted further in 2012 (5.2%). Only in Antigua and Barbuda and in St. Vincent and the Grenadines, where major works are underway for airport construction, was there a slight increase in value added in the sector. With respect to private construction, limited fiscal stimulus initiatives in Antigua and Barbuda (the Construct Antigua and Barbuda Initiative) and Saint Lucia (Private Construction Stimulus) were not sufficient to enhance value added in the sector.

More generally, however, a fall in foreign direct investment to the hotel and tourism sector, along with sluggish economic activity and the consequent low credit uptake, has put a damper on private construction in the economies of the Union.

The overall growth prospects remain weak for ECCU in 2013; however, after yet another year of economic contraction (0.15%) in 2012, aggregate growth of approximately 2.1% is expected in 2013. Indeed, the still slight recovery under way in countries such as Antigua and Barbuda and Saint Vincent and the Grenadines may start to gather momentum in 2013.

Nevertheless, major growth challenges will persist, the most significant of these being the Union's substantial debt burden, which will continue to warrant strong fiscal consolidation measures. In this regard, the winding up of several public sector capital programmes in some countries (St. Lucia, Dominica, and Saint Kitts and Nevis) will dampen growth prospects. The ECCU economies will be hard pressed to attract foreign direct investment amid the continuing economic turmoil in Europe. But the revitalization of the agricultural sector in some countries (Saint Vincent and the Grenadines, Grenada, and Saint Lucia), along with some progress in reducing public debt and restructuring the fiscal regime (Antigua and Barbuda and Saint Kitts and Nevis), is likely to moderate the impact of these constraints.

(c) Prices, wages and employment

Consumer price inflation eased down from 3.7% in 2011 to 2.0% in 2012. The main factors fuelling inflation were higher prices for alcoholic beverages and tobacco, clothing and footwear, and education. The inflation rates varied across the ECCU countries with the highest rate (5%) being recorded in St. Lucia, while the lowest rates were observed in St. Kitts and Nevis (0.2%) and St. Vincent and the Grenadines (1.0%). The remaining countries all recorded inflation rates of around 2%.

Official unemployment statistics are for the most part unavailable, but this indicator is expected to remain high during the short term, with the fiscal consolidation strategies of most governments effectively imposing a wage freeze in these economies. Tepid growth will also limit investment and related uptake of credit. However, given that the economic performance in 2012 suggests an improvement over the previous year, continued economic improvement for ECCU economies as a whole is a reasonable projection. This is likely to be enhanced by the Union's generally stable political climate, which has facilitated smooth changes in administration in two countries over the past year. Furthermore, continued improvements in the United States economy, the Union's principal trading partner, bodes well for continued growth in the short to medium term in these small, open economies.

Table 1

EASTERN CARIBBEAN CURRENCY UNION (ECCU): MAIN ECONOMIC INDICATORS

	2004	2005	2006	2007	2008	2009	2010	2011	2012 b/
	Annual growth rates c/								
Gross domestic product	4,2	4,8	6,8	5,1	2,8	-5,3	-2,0	0,1	-0,5
Per capita gross domestic product	3,6	4,2	6,1	4,4	2,2	-5,9	-2,6	-0,5	-1,1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-0,9	-12,6	5,0	0,1	9,3	2,2	-11,0	0,6	5,5
Mining and quarrying	-19,8	4,5	54,9	14,8	0,5	-25,2	-17,3	-13,4	4,2
Manufacturing	3,2	6,9	-1,0	4,8	-1,7	0,2	-4,1	-3,0	3,2
Electricity, gas and water	2,9	5,6	4,2	5,5	2,6	3,3	0,6	2,9	-0,4
Construction	8,9	14,0	15,1	0,2	2,4	-12,3	-15,7	-6,7	-4,8
Wholesale and retail commerce, restaurants and hotels	4,3	5,5	6,2	5,5	3,1	-13,4	-1,7	-0,7	-0,9
Transport, storage and communications	7,7	4,7	-0,3	7,9	2,1	-4,5	-1,3	-1,2	-1,3
Financial institutions, insurance, real estate and business services	3,1	4,6	5,7	5,4	2,1	-0,6	2,1	0,4	0,5
Community, social and personal services	-0,1	2,0	7,7	5,9	4,1	3,3	0,8	2,3	1,7
Balance of payments	**Millions of dollars**								
Current account balance	-482	-737	-1 082	-1 364	-1 504	-990	-1 001	-928	-819
Goods balance	-1 133	-1 364	-1 635	-1 872	-2 023	-1 552	-1 615	-1 640	-1 557
Exports, f.o.b.	332	353	347	349	448	405	453	427	445
Imports, f.o.b.	1 465	1 717	1 982	2 222	2 471	1 957	2 069	2 067	2 002
Services trade balance	738	698	605	613	625	628	633	716	753
Income balance	-281	-237	-203	-234	-251	-220	-162	-144	-154
Net current transfers	194	165	151	131	145	154	143	141	139
Capital and financial balance d/	593	705	1 159	1 397	1 487	1 090	1 094	994	886
Net foreign direct investment	370	522	928	1 061	849	613	516	414	453
Other capital movements	224	184	231	336	639	477	578	580	433
Overall balance	111	-32	77	34	-17	100	93	66	67
Variation in reserve assets e/	-111	32	-77	-34	17	-100	-93	-66	-67
Other external-sector indicators									
Net resource transfer (millions of dollars)	312	469	956	1 163	1 236	870	932	850	732
Total gross external debt (millions of dollars)	1 939	1 820	1 922	2 121	2 079	2 090	2 180	2 162	...
Central government	**Percentajes of GDP**								
Total revenue	24,8	30,1	25,5	24,8	26,2	25,0	26,2	...	...
Tax revenue	19,7	20,3	20,8	21,2	21,5	20,8	20,7	...	...
Total expenditure	27,9	28,1	30,0	28,2	28,9	29,5	27,8	...	...
Current expenditure	22,5	21,6	21,8	20,9	21,8	23,3	23,3	...	...
Interest	3,9	3,2	3,3	3,0	3,0	3,1	3,1	...	...
Capital expenditure	5,4	6,5	8,2	7,4	7,1	6,2	4,5	...	...
Primary balance	0,8	5,1	-1,2	-0,3	0,3	-1,5	1,4	...	...
Overall balance	-3,1	2,0	-4,5	-3,4	-2,7	-4,5	-1,6	...	...
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	68,6	71,8	74,8	81,4	85,9	93,9	93,1	93,1	91,9
To the public sector	-2,0	-0,3	-1,4	-0,5	0,6	2,8	-0,7	-1,0	-2,1
To the private sector	70,6	72,1	76,2	81,8	85,3	91,1	93,8	94,0	94,1
Monetary base	...	...	14,4	14,2	13,1	14,1	16,1	18,1	19,0
Money (M1)	79,4	76,6	79,4	78,7	77,3	81,0	83,7	85,6	88,1
M2	72,1	69,2	71,1	70,3	70,2	74,3	76,7	78,8	80,9
Foreign-currency deposits	7,3	7,4	8,3	8,4	7,1	6,8	7,0	6,8	7,3

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.
d/ Includes errors and omissions.
e/ A minus sign (-) indicates an increase in reserve assets.