Eastern Caribbean Currency Union

According to estimates of the Eastern Caribbean Central Bank (ECCB), the economies of the Eastern Caribbean Currency Union (ECCU) are expected to contract by about 5.6% in 2009, a far worse result than the earlier zero-growth projections and the positive 1.9% growth reported in 2008. This expectation has been fuelled by the negative effects of the global crisis which manifested themselves through a steep decline in tourist activity, construction, and mining and quarrying. Consumer prices deflated by 0.8% in the first six months of 2009 as commodity prices on the international market fell in the last quarter of 2008. The overall fiscal balances at the end of June 2009 improved as the deficit shrank from 3.0% of GDP in June 2008 to 1.7% of GDP in 2009, although the ratio of total public debt to GDP remained unsustainable at 96%. As the impact of the global crisis intensified and began to adversely affect the balance of payments, many countries resorted to borrowing from the International Monetary Fund (IMF).

Fiscal policy in the ECCU was focused on limiting the effects of the global crisis on the economies. To this end, the governments have agreed to an eight-point stabilization programme that includes financial, fiscal, debt management and safety net programmes and aims to ensure stability and to foster economic growth and development. At the end of June 2009, the fiscal accounts posted a primary surplus equivalent to 2.0% of GDP, up from 0.9% for the corresponding period in 2008. This was the result of a 36% increase in grants along with a 19% decline in capital expenditure. Hence, the overall public-sector deficit improved to 1.7% of GDP at the end of June 2009, from 3.0% of GDP for the same period in 2008.

The total public-sector debt of ECCU swelled to 96% of GDP as at June 2009, compared to 89% of GDP in December 2008 as many countries increased their debt stock by borrowing from IMF, the Caribbean Development Bank (CDB) and the Bolivarian Alternative for Latin America and the Caribbean (ALBA), essentially the Bolivarian Republic of Venezuela, to cope with falling revenues, tourism receipts and remittances and, by extension, to ease the worsening of the balance of payments. These funds, most of which were received with less stringent conditionalities than in the past, will assist countries in the implementation of employment-generating capital projects and in maintaining an active economic environment. Total external debt expanded slightly from 44% of GDP in 2008 to 46% of GDP in 2009, while domestic debt rose more significantly, from 45% of GDP in 2008 to 51% of GDP in 2009 for comparable periods.

Monetary policy remained neutral in 2009: there were no changes in the discount rate, which remained at 6.5%, and the statutory required reserve ratio of commercial banks remained at 6%. The inter-bank market rate increased slightly, from 6% in December 2008 to 6.6% in November 2009, indicating a tighter credit market. In light of the collapse of CLICO in January 2009 and the run on the Bank of Antigua in February 2009, the Monetary Council of ECCU agreed to enhance the regulatory and supervisory framework of the financial sector by establishing a Regulatory Oversight Committee.

For the period January to August 2009, M1 shrank by approximately 8%, reflecting the decline in economic activity. Domestic credit was also down by 1.3%, with private-sector credit increasing slightly by 1.3% and net credit to the public sector declining by 37% owing to an increase in government deposits and reduced capital expenditure. The net assets of commercial banks declined in all countries except Dominica and Saint Kitts and Nevis. The level of foreign reserves in support of the fixed exchange rate nevertheless remained substantially above the statutory minimum of 60%.

The economies of the ECCU are expected to contract by 5.6% in 2009, in response to the decline in tourism (14%), construction (21%) and mining and quarrying (17%). In the mainstay tourism sector, overall tourists arrivals decreased by 9.2% in the second quarter of 2009, compared with the same period in 2008. The high-yield segment, stay-over visitors, declined by 14.6%, while cruise passengers increased by 18.4%. The drop in stay-over visitors was particularly severe in Anguilla (18%), Grenada (22%) and Saint Kitts and Nevis (27%). Activity in the construction sector and the related mining and quarrying sector shrank as some public-sector projects were completed and private-sector construction projects (mainly major tourism projects) slowed down or came to a halt owing to the difficulties in accessing finance. Economic activity is expected to slowly recover in 2010, with growth estimated at 2%.

Labour market conditions have worsened in 2009 as the tourism and construction sectors remain sluggish. In Antigua and Barbuda, the situation was exacerbated by the closure of most businesses formerly owned by Sir Allen Stanford, who is currently on trial in the United States for fraud. At least 400 persons have lost their jobs as a result. In Saint Lucia, public servants received a 3.5% wage increase in May-June 2009.

The level of inflation measured by the CPI fell in all countries in the second quarter of 2009, dipping to -0.8% compared with 3.5% for the same period in 2008, as the prices of fuel and electricity, transportation and communication, housing and utilities decreased. All countries, with the exception of Antigua and Barbuda, which already posted a low inflation rate of 0.7% in 2008, reported substantial drops in inflation, with rates ranging from 0% to -2.0%.

In the external sector, the current account deficit declined by 12.7% to reach 34% of GDP at the end of June 2009. This was a slight improvement from December 2008, when the current account deficit stood at almost 40% of GDP and was achieved largely on account of the near 6% increase in exports (generated by the recovery of banana exports in Dominica and Saint Lucia after the drop in output caused by Hurricane Dean) and the very miniscule 0.3% decline in imports. The services account decreased by 19%, mainly because travel receipts slumped by approximately 16% owing to the downturn in stay-over tourists. Despite the 21% decline in private capital flows and FDI, the surplus on the capital and financial account increased slightly, by 3%, mainly on account of the credit received by governments from IMF, CDB and ALBA. The Central Bank's net international reserves also increased by 13.5% to reach US$ 858 million, covering three months of imports of goods and services.

EASTERN CARIBBEAN CURRENCY UNION: MAIN ECONOMIC INDICATORS

	2007	2008	2009 [a]
	Annual percentage growth rates		
Gross domestic product	5.4	1.4	-5.6
Consumer prices	5.5	4.8	-0.8 [b]
Money (M1)	10.4	5.9	-8.9 [c]
	Annual average percentages		
Central government overall balance/GDP	-3.9	-3.5	-1.1
Nominal deposit rate	3.3	3.3	3.3
Nominal lending rate	9.5	9.5	9.5
	Millions of dollars		
Exports of goods and services	2 135	1 903	1 833
Imports of goods and services	3 906	3 235	3 139
Current account balance	-1 861	-1 404	-1 411
Capital and financial account balance [d]	1 902	1 395	1 550
Overall balance	40	-9	141

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] January-June 2009 variation.
[c] Twelve-month variation to September 2008.
[d] Includes errors and omissions.