

## **Eastern Caribbean Currency Union (ECCU)**

The Eastern Caribbean Currency Union (ECCU) is projected to generate economic growth of 2.8% in 2018, marking its seventh consecutive year of positive economic outturn. This growth is driven primarily by increased economic activity in the tourism, construction, manufacturing and agriculture sectors. Led by Antigua and Barbuda (5.3%) and Grenada (5.2%), all the ECCU member States are projected to post positive growth in 2018, except Dominica (-4.4%), owing to the significant damage caused to the country's productive sectors and economic infrastructure by the hurricanes of 2017.

In the short to medium term the macroeconomic outlook for the ECCU is positive, with real GDP growth expected to quicken to 4.2% in 2019, fuelled by continued strong performance of the tourism, construction, agriculture and other ancillary sectors, as well as inflows of foreign direct investment (FDI), influenced by the member States' Citizenship by Investment (CBI) programmes. Economic growth is, however, expected to be uneven across the grouping. Barbuda and Dominica, which were affected by Hurricanes Irma and Maria, are expected to continue rebuilding efforts into 2019. Key downside risks for the Union include natural disasters, challenges to business competitiveness, and potential further loss of correspondent banking relationships (de-risking), which has already impacted some members' offshore financial services sector and CBI programmes.

With respect to fiscal operations, ECCU generated an overall fiscal deficit of 0.1 million Eastern Caribbean dollars (EC\$) during the first half of 2018. This represented a reversal relative to the EC\$ 10.7-million surplus posted over the same period in 2017 and was attributable largely to the weaker performance on the capital account. In this regard, capital expenditure trended upwards as public investment in infrastructure increased and capital grants fell. In respect of the former, Antigua and Barbuda, Grenada and Saint Lucia, for example, have embarked on various roadbuilding and restoration projects; Antigua and Barbuda began its port upgrade; Dominica and Antigua and Barbuda continued reconstruction work in the aftermath of the 2017 hurricanes; and work is ongoing in Saint Vincent and the Grenadines to establish a geothermal plant on the island. Over the review period, Saint Vincent and the Grenadines reported a smaller deficit, while Grenada, Saint Kitts and Nevis and Saint Lucia recorded larger overall surpluses. This notwithstanding, the improved collective fiscal performance of these countries was insufficient to offset the worsening fiscal deficits recorded in Antigua and Barbuda and Dominica.

The overall fiscal balance of ECCU is expected to deteriorate further as governments increase capital expenditure, particularly on public infrastructure in efforts to address key structural gaps in transportation, connectivity and energy. For instance, the Government of Antigua and Barbuda is embarking on a road rebuilding programme, as well as the reconstruction of Barbuda. In addition, the Antigua and Barbuda Port Authority received approval in June 2018 for the financing of a EC\$ 100-million upgrading project.

The Government of Grenada is currently focusing on climate-smart agriculture and upgrading of hospitals. In addition, the China Development Bank has signalled its intention to finance the construction of a highway connecting the major towns on Grenada's main island, deep-water ports that could accommodate a large number of cruise and cargo ships, a large wind farm to replace diesel-fuelled generators and a modernized airport with more, longer runways. The Government of Saint Lucia is engaged in road restoration projects, and in Saint Vincent and the Grenadines, work is ongoing on a geothermal power plant, as noted above.

ECCU experienced a small contraction of 0.9% year-on-year in public debt during the first six months of 2018, with the total standing at EC\$ 13.395 billion by the end of June, mainly because reduced central government borrowings offset the increased debt incurred by public corporations. However, many members of the Union will incur debt to finance the infrastructure projects alluded to earlier, as well as any budgetary shortfalls. Therefore, public debt may be expected to increase in some ECCU economies through to the end of 2018 and into 2019.

On the monetary front, a strong performance of the real sector during the first half of 2018 contributed to a year-on-year increase in both broad money (4.2%) and narrow money (10.8%) as at the end of June. Concomitantly, year-on-year, by the end of June 2018, commercial bank liquidity improved (1.7 percentage points), while the weighted average lending rate and weighted average deposit rate declined.

The nominal exchange rate between the Eastern Caribbean dollar and the United States dollar was unchanged at its fixed rate of EC\$ 2.7 = US\$ 1 at the end of June 2018.

The buoyancy of the real sector in ECCU during the first half of 2018 was largely due to stronger performances in tourism-related activities and construction. There was an overall increase in tourism arrivals, which was driven by an improvement in cruise and yachting arrivals, particularly in countries that were not hit by hurricanes in 2017. Construction activity also increased in the first six months of 2018 in Anguilla, Antigua and Barbuda, Dominica and Grenada, mainly in hotels, tourism-related infrastructure and public infrastructure that had been damaged by Hurricanes Irma and Maria in 2017.

Manufacturing also showed a marginal improvement in ECCU in the first half of 2018, with contributions made by favourable performances in Saint Kitts and Nevis (for example, in the production of beverages), Grenada (beverages, chemicals and paint, and animal feed), Saint Lucia and Saint Vincent and the Grenadines (beverages and building materials).

In the agricultural sector, collectively, the ECCU recorded a slight improvement in the first half on 2018. In the banana industry (one of the Union's main agricultural export crops), increased output in Saint Lucia, Saint Kitts and Nevis and Saint Vincent and the Grenadines offset the significant contraction in the output of Dominica as a result of Hurricane Maria. The improved performance of the tourism, construction, manufacturing and agriculture sectors fostered stronger economic activity in wholesale and retail trade, transport, storage and communications, and in the real estate, renting and business activities sectors.

With respect to international trade, growth in re-exports drove an exceptionally strong expansion of ECCU exports —by 46.2%, from EC\$ 536.7 million to EC\$ 784.7 million. However, in absolute terms, this was insufficient to offset the 16.3% increase in imports, from EC\$ 3.606 billion to EC\$ 4.194 billion, driven by higher payments for mineral fuels and related materials (due to stronger

**Eastern Caribbean Currency Union (ECCU)<sup>a</sup>: main economic indicators, 2016-2018**

	2016	2017	2018 <sup>b</sup>
	<b>Annual growth rate</b>		
Gross domestic product	3.6	1.9	2.8
Consumer prices	-0.2	1.5	1.0 <sup>c</sup>
Money (M1)	-7.7	-5.2	9.9 <sup>d</sup>
	<b>Annual average percentage</b>		
Central government			
Overall balance / GDP	1.2	0.3	0.2 <sup>e</sup>
Nominal deposit rate	1.8	1.6	1.5 <sup>c</sup>
Nominal lending rate	12.6	8.4	8.2 <sup>c</sup>
	<b>Millions of dollars</b>		
Exports of goods and services	3 790	3 544	...
Imports of goods and services	3 625	3 138	...
Current account balance	-349	-41	...
Capital and financial balance <sup>f</sup>	480	58	...
Overall balance	131	17	...

**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 Lucia and Saint Vincent and the Grenadines.

b/ Estimates.

c/ Figures as of June.

d/ Weighted average rate. Figures as of July.

e/ Simple averages. Does not include Dominica.

f/ Includes errors and omissions.

oil prices), machinery and transport equipment and manufactured goods. The trade deficit is also likely to widen as demand for construction-related materials and equipment rises during the second half of 2018 and into 2019.

Despite stronger oil prices, the already modest rate of inflation in ECCU slowed to 0.46% by the end of June 2018, compared with 0.51% a year earlier, reflecting slower price growth in the first half of 2018 than in the first half of 2017.<sup>1</sup>

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<sup>1</sup> Inflation in ECCU is generally low. In fact, the Union's average annual inflation rates for 2015, 2016, and 2017 were -0.77%, -1.56%, and 0.92%, respectively.