Eastern Caribbean Currency Union

1. General trends

Economic activity in the member countries of the Eastern Caribbean Currency Union (ECCU) shrank by 7.3% in 2009, compared with growth of 1.9% in 2008. This 9.2 percentage-point decline was the steepest since the GDP series was introduced and exceeded that of any non-ECCU Caribbean nation. All ECCU member countries recorded lower GDP figures with the exception of Montserrat, which reported 1% GDP growth. The sharpest contractions were recorded in Anguilla (-24.4%), Antigua and Barbuda (-10.9%), Grenada (-7.7%), Saint Kitts and Nevis (-8.0%) and Saint Lucia (-4.6%). Moderate decreases were reported in Dominica (-0.9%) and Saint Vincent and the Grenadines (-2.8%). These results were attributable to the dramatic fall, triggered by the global economic crisis, in stayover tourist arrivals and in construction linked to foreign direct investment (FDI).

The overall fiscal deficit worsened to 5.1% of GDP at the end of December 2009 up from 3.3% of GDP for the same period in 2008 as total government revenue plunged amid weakened economic activity. The worsening fiscal situation forced many governments to seek financing for budgetary and balance-of-payment support from the International Monetary Fund (IMF), the Caribbean Development Bank (CDB) and the Bolivarian Alliance for the Peoples of Our America (ALBA) As a result, total public debt ballooned to 95.6% of GDP at the end of December 2009, compared with 88.4% of GDP at the end of 2008.

The reduction in imports due to the slowdown in economic activity gave rise to an improvement in the current account deficit to 28.2% of GDP in 2009, compared with 36.8% of GDP in the previous year. Inflation continued on a downward trajectory in 2009, reaching 1.2% following a drop in domestic demand and a fall in international commodity prices, which began in 2008.

In 2010, ECCU is projected to remain in recession with negative growth projected at 2.3%. This is based on the expectation that employment and consumption will remain sluggish in the main trading partners, the United States and Europe, despite some positive signs of economic recovery.

2. Economic policy

(a) Fiscal policy

The downturn in economic activity hampered fiscal performance in the ECCU economies. For the calendar year that ended in December 2009, the Union reported an increase in the overall fiscal deficit from 3.3% of GDP in 2008, to 5.1% of GDP in 2009. The marginal primary surplus of 0.1% of GDP recorded in 2008 gave way to a

Table 1
EASTERN CARIBBEAN CURRENCY UNION: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	-1.2	0.7	3.3	3.9	5.5	6.6	5.6	1.9	-7.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-8.4	7.0	-4.4	-0.9	-12.1	5.0	4.1	6.9	2.8
Mining and quarrying	-6.3	-1.5	6.7	-6.2	16.3	36.9	21.5	3.2	-22.8
Manufacturing	-0.4	-0.7	1.7	-2.6	9.0	1.2	2.7	-4.6	-9.3
Electricity, gas and water	5.6	1.9	2.9	2.8	1.4	3.0	7.2	0.4	2.0
Construction	-1.5	-2.5	3.8	5.2	19.3	12.4	6.2	1.7	-28.7
Wholesale and retail commerce, restaurants and hotels	-5.3	-0.4	8.4	4.1	4.7	5.9	3.2	0.1	-12.4
Transport, storage and communications	-1.2	-0.6	2.9	8.0	6.2	5.5	7.1	2.1	-4.6
Financial institutions, insurance, real estate and business services	0.8	3.3	2.6	6.5	7.8	11.0	7.8	2.4	2.3
Community, social and personal services	2.3	3.0	2.0	3.0	3.4	4.1	6.7	4.9	1.5
					Millions of dollars				
Balance of payments									
Current account balance	-510	-574	-681	-523	-815	-1 246	-1 545	-1 745	-1 245
Goods balance	-997	-979	-1 176	-1 233	-1 481	-1 832	-2 087	-2 249	-1 789
Exports, f.o.b.	309	299	259	342	370	359	378	470	473
Imports, f.o.b.	1 306	1 278	1 435	1 576	1 851	2 191	2 465	2 719	2 262
Services trade balance	574	526	604	763	710	638	628	619	608
Income balance	-198	-218	-238	-267	-234	-216	-236	-277	-229
Net current transfers	110	98	129	215	190	164	149	162	166
Capital and financial balance [c]	577	633	722	633	799	1 338	1 591	1 726	1 303
Net foreign direct investment	372	340	553	449	632	1 106	1 229	982	737
Other capital movements	205	293	169	184	167	232	362	744	566
Overall balance	67	59	41	110	-16	92	47	-20	58
Variation in reserve assets [d]	-67	-61	-41	-110	16	-92	-47	20	-58
Other external-sector indicators									
Gross external public debt (millions of dollars)	1 458	1 763	2 060	2 250	2 098	2 230	2 122	2 077	2 128
					Average annual rates				
Prices									
Variation in consumer prices (December-December)	2.4	-0.1	1.7	2.7	4.1	1.5	5.5	3.9	1.2
Nominal deposit rate [e]	4.3	3.7	4.6	3.2	3.2	3.2	4.3	4.5	4.5
Nominal lending rate [e]	11.4	11.0	12.8	10.4	10.2	9.9	11.3	10.3	11.3
					Percentages of GDP				
Central government									
Total revenue [f]	27.2	28.4	29.0	30.1	35.7	30.7	30.5	31.5	30.6
Current revenue	24.5	25.3	25.6	26.2	26.4	27.5	28.0	28.1	27.5
Tax revenues	21.1	21.8	22.3	23.1	23.8	24.8	25.3	25.2	24.8
Capital revenue	0.1	0.5	0.4	0.4	0.4	0.2	0.4	0.8	0.3
Total expenditure	34.3	36.9	34.0	33.7	33.5	35.3	34.4	34.8	35.7
Current expenditure	26.4	27.2	26.5	26.9	25.7	25.8	25.5	26.3	28.3
Interest	3.4	4.1	4.0	4.4	3.5	3.7	3.5	3.4	3.1
Capital expenditure [g]	7.9	9.7	7.5	6.8	7.8	9.5	8.9	8.4	7.4
Primary balance	-3.8	-4.4	-0.9	0.8	5.7	-0.9	-0.4	0.1	-2.0
Overall balance	-7.1	-8.5	-5.0	-3.6	2.2	-4.6	-3.9	-3.3	-5.1
					Percentages of GDP				
Money and credit [h]									
Domestic credit	79.1	79.3	75.9	75.8	79.2	82.6	90.8	94.7	106.5
To the public sector	-0.9	-1.1	-2.7	-2.2	-0.3	-1.6	-0.5	0.6	3.1
To the private sector	80.0	80.4	78.5	78.0	79.6	84.2	91.3	94.1	103.4
Liquidity (M3)	80.6	83.8	86.9	91.6	92.3	92.5	92.4	94.5	104.1
Currency outside banks and local-currency deposits (M2)	70.3	72.3	75.4	78.7	78.1	76.4	76.4	79.5	87.8
Foreign-currency deposits	10.2	11.4	11.5	12.9	14.2	16.1	16.1	15.0	16.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in Eastern Caribbean dollars at constant 1990 prices.
[c] ncludes errors and omissions.
[d] A minus sign (-) denotes an increase in reserves.
[e] Weighted averages.
[f] Includes grants.
[g] Includes net lending.
[h] The monetary figures are end-of-year stocks.

primary deficit of 2% of GDP in 2009. The worsening of the overall fiscal deficit was mainly the result of an 8.7% reduction in current revenue. Tax revenue collections declined by 8%, to 24.8% of GDP after growing at 6% during the previous year. This change primarily reflected falling revenues from the domestic goods and services tax (12%) and from the tax on international trade transactions (8.8%). Grant receipts remained relatively unchanged at approximately 3% of GDP.

Current expenditure increased slightly, by 0.2%, to reach 28.3% of GDP in 2009. Outlays on wages and salaries, and transfers and subsidies increased by 2% and 13% respectively, while outlays on goods and services and interest payments declined by 6% and 14% respectively. The higher expenditure on transfers and subsidies is attributable to the increased allocation for safety net programmes designed to cushion the impact of the global crisis on the most vulnerable, while the lower interest payments are attributable to the accumulation of arrears in Antigua and Barbuda. Capital expenditure decreased by approximately 18% on account of the decline in public sector construction activity.

On a country-by-country basis, overall fiscal performance was disparate; Dominica recorded a slight improvement in the fiscal deficit to 2.7% of GDP, Saint Lucia shifted from a minimal surplus to a deficit equivalent to 2.5% of GDP, while Antigua and Barbuda, Grenada and Saint Vincent and the Grenadines recorded larger deficits of almost 11%, 6.2% and 3% of GDP, respectively. Saint Kitts and Nevis moved from a marginal deficit to a marginal surplus of 0.7% of GDP.

The Eight-Point Stabilization and Growth Programme[1] is expected to guide fiscal policy in 2010. According to budget estimates Grenada is expected to record a primary surplus of 1% of GDP for fiscal year 2009/2010[2] as the authorities broaden the tax base by implementing a value added tax (VAT) of 15% in February 2010. Saint Lucia and Saint Kitts and Nevis are also expected to introduce VAT in 2010/2011. Budget estimates for Saint Lucia indicate a shift from a primary surplus to a primary deficit of 2.5% of GDP in fiscal year 2009/2010 following an increase in non-grant financial public expenditure. In Antigua and Barbuda, the government has undertaken an aggressive fiscal consolidation programme, which should lead to a fiscal primary surplus of about 3.6% of GDP in 2009/2010.

Total public-sector debt continued to pose a serious challenge for the ECCU economies as the high debt level limited fiscal flexibility. At the end of December 2009, the public debt to GDP ratio was 95.6%, higher than the 88.4% recorded for the comparable period in 2008. The external debt stock increased by 2.5% to 48.3% of GDP, owing to increased borrowing from IMF, CDB and ALBA, while domestic debt stock decreased marginally, by 0.9%, to 47.4% of GDP following the restructuring of some commercial bank debt in Antigua and Barbuda. The debt to GDP ratios were in excess of 100% in Grenada (113%) and Saint Kitts and Nevis (179%) and ranged from 70% to 90% in Antigua and Barbuda, Dominica, Saint Lucia and Saint Vincent and the Grenadines. Debt service payments increased from 8.5% of GDP in 2008, to 10% of GDP in 2009, primarily reflecting a 23% rise in principal payments due to the maturity of treasury bills issued by Grenada and Saint Vincent and the Grenadines on the Regional Government Securities Market (RGSM).

In 2010, total public debt is expected to increase further as countries continue to borrow from IMF. In April 2010, IMF approved financing of US$13.3 million for Grenada under the Extended Credit Facility and in June 2010 the IMF Executive Board approved a three-year, US$117.8 million stand-by-arrangement with Antigua and Barbuda.

(b) Monetary and exchange-rate policy

The principal objective of the ECCU monetary policy is to maintain the stability of the Eastern Caribbean dollar. During 2009, the main policy instruments, namely the discount rate and required reserve ratio of commercial banks, remained unchanged at 6.5% and 6%, respectively. The interbank market rate also remained stable at around 6.6%. The nominal deposit rate was at the same level as it was in 2008 (4.5%), while the nominal lending rate increased by 1 percentage point to 11.3%, reflecting banks' increased risk aversion given the lack of optimism concerning the economic outlook. The official exchange rate remained at EC$ 2.7 to the United States dollar, but reflected a 4% depreciation in real terms against this currency.

In 2009, the monetary liabilities of ECCU increased slightly (2.5%), the same rate as in 2008, reflecting the sluggishness in economic activity. M1 contracted by 4.2% following a decline in demand deposits, while liquidity (M2) expanded by 2.8% owing to increased savings

1 The Eight Point Stabilization and Growth Programme was signed by ECCU Heads of Government in December 2009. The programmes to be implemented are fiscal reform, debt management, public sector investments, social safety net and financial sector safety net programmes, amalgamation of the indigenous commercial banks and rationalization, development and regulation of the insurance sector. According to the Eastern Caribbean Central Bank (ECCB), the main advantage of the programme is its potential to halt the decline in economic activity and to lay the foundations for growth and transformation of the economies.

2 Fiscal year: Antigua and Barbuda and Grenada: January to December; Saint Lucia: April to March.

deposits (5.2%) and fixed deposits (5.4%). In addition, foreign currency deposits were up by 0.8%. On the other hand, domestic credit rose by 4.6%, to 106% of GDP, a much slower pace than in 2008 (11.2%) due to a more limited expansion in credit to the private sector (2.3% in 2009, relative to 9.8% in 2008). The behaviour of private sector credit is attributable to slower growth in business credit (4%) and credit to households (1.9%) compared with growth of 11.5% and 10.1%, respectively, in 2008. This slowing is linked mainly to changes in commercial bank practices, such as more rigid policies on collateral requirements and underwriting procedures,[3] resulting in a 51% increase in excess reserves. Conversely, net lending to the government increased by 22% as governments accessed credit from commercial banks to help finance their overall fiscal deficit.

Activity on the RGSM intensified in 2009. The number of auctions rose from 36 in 2008 to 42 in 2009 (36 treasury bills and 6 bonds) with a 7.2% increase in value to EC$ 739 million. However, with confidence at a low ebb following the global economic crisis, investor demand for government securities was weak and, as a result, eight issues were undersubscribed. Thus, governments were unable to raise the required financing and sought financing elsewhere or curtailed their fiscal operations.

The intervention by the Eastern Caribbean Central Bank (ECCB) in the Bank of Antigua and the collapse of Colonial Life Insurance Company Ltd (CLICO) and British-American Insurance Company Ltd (BAICO) had adverse consequences on business confidence, employment and personal wealth in these economies. The consolidated exposure of member countries to these companies was approximately EC$ 2.2 billion, representing 18% of GDP. To ameliorate the situation, BAICO was placed under judicial management, while CLICO has been mandated to cease the issuance of new policies. The authorities have also put in place stricter measures to regulate the non-bank financial sector. This sector includes credit unions, money services and insurance companies.

3. The main variables

(a) Economic activity

Real GDP contracted by 7.3% in 2009, compared with growth of 1.9% in 2008 as a result of declines in construction, tourism and manufacturing. These sectors are the main drivers of economic growth and contributed 12%, 8%, and 4% to GDP, respectively.

Value added in the construction sector diminished by approximately 29% in 2009, in comparison with 1.7% growth in 2008. Tourism activity declined by about 13% compared with a 1% drop in the previous year. The contraction in construction was due mainly to difficulty in accessing financing for public and private sector projects. The slump was particularly sharp in Anguilla and Grenada at 59% and 50% respectively, while in Dominica, St Kitts and Nevis and Saint Lucia, it ranged between 20% and 25%. In Saint Vincent and the Grenadines, the drop was minimal at 8.5%. The sluggish performance in the tourism sector was due to a 12% fall in the higher-end stay-over visitors despite an 18% rise in cruise ship passengers. The decline in stay-over visitors was most pronounced in Saint Kitts and Nevis (27%) and Anguilla (18%). However, there are positive signs as tourism data for the first quarter of 2010 indicate a 3.3% increase in tourist arrivals in ECCU member countries over the same period in 2009.[4]

Value added in the manufacturing sector declined by 9.3% owing to slack external demand. Manufacturing output was down in Saint Kitts and Nevis (electronics components), Dominica (beverages and soaps), Grenada (flour, rum and beer) and St Vincent and the Grenadines (beer, rice and animal feed).

Increased value added was reported in agriculture (2.8%), financial and real estate business (2.3%), electricity, gas and water (2.0%) and other services (1.5%). Agricultural activity expanded thanks to increased crop production (root crops, cocoa, mace and tropical fruits) and fishing. However, the production of bananas, an

[4] Eastern Caribbean Central Bank (ECCB), *Business Outlook Survey*, July to December 2009.

[4] Caribbean Tourism Organization (CTO).

important export crop, fell by 17%, owing mainly to the Sigatoka leaf spot disease.

(b) Prices, wages and employment

Annual inflation had fallen to 1.2% in December 2009 from 3.9% a year earlier. This reduction is attributable to the fall in food and oil prices on the global market and depressed domestic demand due to higher unemployment. Consumer prices are expected to rally in 2010 as the global economy and the price of commodities rebound. Moreover, the implementation of VAT in Grenada in February 2010 and the reduction in the basket of zero-rated items in Antigua and Barbuda in January 2010 will contribute to a rise in consumer prices. Monthly country data for 2010 indicated higher inflation rates from January to February in Antigua and Barbuda, Grenada, Saint Kitts and Nevis, and Saint Vincent and the Grenadines, while there were decreases in Dominica and Saint Lucia.

Civil servants received salary increases in Dominica (2%), Saint Lucia (4.1%) and St Vincent and the Grenadines (3%). In Grenada, the police service received a 2% raise.

Although no official up-to-date labour market data are available for ECCU, reliable sources report that labour market conditions weakened in 2009.[5] This was due to the sharp decline in stay-over visitor arrivals in the tourism sector and the contraction in construction activity and manufacturing, all of these sectors being major employers. In Antigua and Barbuda, most of the companies owned by Allen Stanford were closed (at least 1,200 people lost their jobs), leading to a fall in employment levels. In Saint Lucia, the unemployment rate in the last quarter of 2009 was 20.5%, up from 16.8% for the corresponding period in 2008. In response, the government has launched job creation initiatives, such as the Holistic Opportunities for Personal Empowerment (HOPE),[6] which have mitigated the severity of the global crisis on the labour market.

(c) The external sector

The external account balance improved in 2009 as the economic downturn led to a steep decline in imports and thus an improvement in the current account deficit to 28.2% of GDP,[7] down from a deficit of 36.8% of GDP in the previous year. Import payments declined by nearly 17% to 51.3% of GDP owing to the decline in capital goods consistent with slower activity in tourism and construction, and to lower prices for oil and food. Exports of goods were less buoyant than in 2008 and increased by a mere 0.6% in 2009, compared with 24% in 2008. This small rise in exports is attributable mainly to a slight increase in re-exports of machinery and petroleum products.

The surplus on the services account continued to diminish, in this case by 1.6% to 13.7% of GDP, as the improvement in net receipts from transportation and other services was not sufficient to offset the reduction in net travel receipts caused by the decline in stay-over visitors. Despite the 9.3% decrease in remittances to 3.3% of GDP, net current transfers expanded by 2% thanks to increased transfers to the government. The deficit on the income account improved marginally to 5.2% of GDP, down from 5.8% in the previous year. This improvement was due to the decline in repatriated profits, reinvested earnings and interest on government transactions.

On the capital and financial accounts, the surplus shrank by 20% to stand at US$ 1.303 million or 29% of GDP (including errors and omissions), as net direct inward investment declined by 25% to 16.7% of GDP. This decline resulted from the stoppage of a number of externally financed tourism-related construction projects and a drop in land sales to foreigners. Government receipts of external financing resulted in a better outturn on the capital and financial accounts despite the fall-off in FDI. The better current account performance contributed to an overall balance-of-payment surplus of 1.3% of GDP in 2009, as against a deficit of 0.4% of GDP in 2008. This led to an increase in the central bank's net international reserves of approximately 6%, to US$ 799 million at the end of December 2009, covering three months' imports of goods and services.

The current account deficit is expected to contract further to 28% of GDP in 2010 as economic activity is projected to remain sluggish.

[5] Eastern Caribbean Central Bank (ECCB), *Annual and Economic Review*, 2009.

[6] HOPE is a central government initiative executed through the Saint Lucia Social Development Fund in collaboration with the National Skills Development Centre to provide employment, training and economic opportunities for participants.

[7] Real GDP at 1990 constant prices was US$ 4,734 million in 2008 and US$ 4,408 million in 2009.