EASTERN CARIBBEAN CURRENCY UNION (ECCU)

1. General trends

The Eastern Caribbean Currency Union (ECCU) returned to growth in 2021, expanding at a weighted average rate of 3.95%, following a 16.27% contraction in 2020, when it was unexpectedly affected by the coronavirus disease (COVID-19) pandemic. Of the countries in the Union, GDP grew in Antigua and Barbuda, Dominica, Grenada, Saint Lucia and Saint Vincent and the Grenadines in 2021. The only country to record a decline in GDP was Saint Kitts and Nevis.

The GDP growth across almost all of ECCU reflects an economic recovery as respective governments either lifted or eased pandemic-related restrictions. In addition, the vaccination drive in the countries of the Union be key to preventing future nation-wide lockdowns, which is positive for the tourism industry. Despite the improvement in the other five ECCU countries, Saint Kitts and Nevis continues to feel the lingering effects of lockdowns on tourism activity, which has rebounded sluggishly, resulting in a decline in GDP of 3.94% in 2021. Looking ahead to 2022, tourism activity and aggregate demand are expected to be strong in all six ECCU countries. As a result, ECCU is projected to record GDP growth of 2.9% in 2022.

The ECCU region posted an average fiscal deficit of 159.9 million East Caribbean dollars (EC$) (5.14% of GDP) for 2020. In 2021, the average deficit narrowed to EC$ 105.2 million (2.99% of GDP), with shortfalls in all ECCU countries except Saint Kitts and Nevis. These fiscal deficits were fuelled by the need for governments to maintain public spending, but several narrowed compared to 2020 owing to a rebound in tourism, especially in cruise ship arrivals in the second half of 2021. The fiscal surplus of EC$ 168.32 million (7.2% of GDP) recorded by Saint Kitts and Nevis was driven by increased revenue from its citizenship by investment programme.

Despite the improved fiscal position, the average public debt of ECCU climbed from EC$ 2.44 billion (118.69% of GDP) in 2020 to EC$ 2.63 billion (120.53% of GDP) in 2021. Total public debt (in EC$) increased in all ECCU countries in 2021, except Saint Kitts and Nevis. This rise in public debt reflects considerable borrowing to finance fiscal measures to mitigate the economic and social effects of the lockdowns in 2020 and 2021. Nonetheless, ECCU public debt is still largely serviceable, particularly when debt service is considered as a percentage of government revenue. However, the Union's public debt should be concerning to decision makers and the international community, as it is high and is growing.

In 2021, ECCU maintained an accommodative monetary policy stance, to increase liquidity and mitigate the economic spillover from pandemic lockdowns. This included the Eastern Caribbean Central Bank (ECCB) leaving its discount rate unchanged at 2.0% throughout 2021, after cutting it from 6.5% in April 2020.

After posting deflation of -0.21% in 2020, ECCU experienced moderate year-on-year headline inflation of 2.7% in 2021. This reflected price rises across the board owing to external factors, such as pandemic-induced global supply chain bottlenecks and international freight rates rocketing by around 700% between 2020 and 2021, as well as higher food prices owing to adverse weather (drought and flooding) in many major food-producing nations. The threat from food price inflation highlights the need for the ECCU to develop self-sufficiency to feed itself and achieve food security. In that regard, a number of regional initiatives have recently been launched, such as: (i) the Caribbean Community (CARICOM) Agri-Investment Forum and Expo; (ii) the CARICOM Policy on Trade in Animals and Animal Products; (iii) a Regional Agricultural Heath and Food Safety Policy, led by the Caribbean Agricultural Health and Food Safety Agency (CAHFSA); (iv) the Alternate Sanitary and Phytosanitary Dispute Resolution Mechanism; and (v) the Special Guidelines for the Trade in Animal and Plant Commodities. These initiatives should help the subregion to reduce its food import bill by 25% by 2025.

Overall, there was an improvement of the ECCU international trade position between 2020 and 2021, including a narrowing of the balance of trade deficit to US$ 315.2 million (EC$ 851.1 million) in 2021, from US$ 354.6 million (EC$ 957.4 million) in 2020. This improvement was driven by the rise in exports to US$ 990.1 million (EC$ 2.673 billion) in 2021 from US$ 787.2 million (EC$ 2.125 billion) in 2020. However, imports also increased to US$ 1.305 billion (EC$ 3.524 billion) in 2021 from US$ 1.142 billion (EC$ 3.083 billion) in 2020. The marginal narrowing of the balance of trade deficit was a result of a rise in international demand and many countries lifting their pandemic-related restrictions in 2021, leading to increased consumption and economic activity.

The nominal exchange rate between the East Caribbean dollar and the United States dollar remained unchanged at EC$ 2.7 = US$ 1 as the Eastern Caribbean Central Bank retained its leading policy objective of maintaining a fixed exchange rate regime. In comparison, the real exchange rate declined by 3.5%, suggesting that domestic prices grew slower than international prices. The higher international price level is an existential threat for ECCU as it imports many of its consumer and producer products. It follows therefore that ECCU countries will eventually import this inflation since there are insufficient subregional substitutes.

As the ECCU countries are tourism-dependent, their vaccination drives and other measures such as contact tracing and PCR testing of incoming travellers have been vital in preventing new nation-wide lockdowns. As a result, tourism re-emerged as the engine for growth in the ECCU in 2021.

Although borders were reopened, four ECCU countries’ tourist arrivals were lower than in 2020, partly owing to caution among tourists as new COVID-19 variants emerged (Delta and Omicron): stayover arrivals were 31.9% lower in Dominica in 2021 than in 2020, and also declined in Grenada (-3.9%), Saint Kitts and Nevis (-31.9%) and Saint Vincent and the Grenadines (-8.7%). In contrast, stayover arrivals rose by 35.5% in Antigua and Barbuda and by 52.5% in Saint Lucia.

2. Economic policy

(a) Fiscal policy

Three ECCU countries recorded smaller fiscal deficits in 2021 than the previous year. In Antigua and Barbuda, the fiscal deficit narrowed to EC$ 183.6 million (4.6% of GDP) in 2021, owing to increased government revenues as economic activity rebounded significantly. There was also a contraction in the fiscal deficit in Grenada to EC$ 6.4 million (0.2% of GDP) in 2021, from EC$ 128.1 million (4.6% of GDP) in 2020. In Saint Vincent and the Grenadines, the fiscal deficit narrowed to EC$ 122.3 million (5.1% of GDP) in 2021, from EC$ 144.6 million (6.1% of GDP) in 2020. Unfortunately, the public finance situations remained somewhat challenging in both Dominica and Saint Lucia: Dominica’s fiscal deficit more than doubled in 2021 to EC$ 105.4 million (7.2% of GDP) from EC$ 48.6 million in 2020 (3.6% of GDP), whilst Saint Lucia’s fiscal deficit widened marginally to EC$ 382.0 million (8.0% of GDP) in 2021, from EC$ 374.6 million (8.6% of GDP) in 2020. In Saint Kitts and Nevis, the improvement in finances allowed the government to post a fiscal surplus of EC$ 168.3 million (7.2% of GDP), compared to a deficit of EC$ 58.9 million (2.5% of GDP) in 2020.

Several countries generated increased government revenue. For instance, fuelled by a 9.3% rise in tax revenue, Antigua and Barbuda's current revenue grew by 4.8% to EC$ 785.2 million (19.8% of GDP). In Dominica, government current revenue grew by 46.5% to EC$ 802.1 million (54.5% of GDP), largely due to increased citizenship by investment revenues. In Grenada, current revenue rose by EC$ 22.4 million to EC$ 712.0 million in 2021 (23.5% of GDP) as citizenship by investment inflows increased significantly. In Saint Kitts and Nevis, current revenue grew by 36.3% to EC$ 1.087 billion (46.3% of GDP) as the citizenship by investment intake more than doubled in 2021. In Saint Lucia, current revenue increased by 6.7% to EC$ 987.2 million (20.7% of GDP) with grants increasing by just under 50%. In Saint Vincent and the Grenadines, current revenue rose by 12.5% to EC$ 662.3 million (27.6% of GDP), largely due to increased receipts from property tax and customs service charges.

In 2021, ECCU economies increased public expenditure, but the higher spending was more than offset by gains on the revenue side. In Antigua and Barbuda, current expenditure grew by 2.1%, to EC$ 901.3 million (22.7% of GDP), with personal emoluments and transfers and subsides dominating expenditure, and public spending on health, education and social services also increasing. In Dominica, the government increased capital expenditure to EC$ 423.3 million (28.7% of GDP), as it sought to stimulate its economy, however there was a concomitant contraction in current expenditure, as spending on goods and services declined. In Grenada current expenditure increased by 4.1% to EC$ 677.2 million (22.4% of GDP, driven by increased spending on personal emoluments and goods and services. The country's capital expenditure also increased, buoyed by a doubling of grants. In Saint Kitts and Nevis, current expenditure grew marginally by 0.3% to EC$ 776.3 million (33.1% of GDP). In Saint Lucia, current expenditure grew by 2.9% to EC$ 1.2 billion (24.7% of GDP). In Saint Vincent and the Grenadines, current expenditure grew by 6.3% to EC$ 682.5 million (28.4% of GDP).

(b) Monetary policy

ECCB monetary policy remained accommodative in 2021 and the nominal exchange rate remained fixed at EC$ 2.7 = US$ 1 at the end of the year. In ECCU, narrow money (M1 monetary aggregate) increased on average by 22%, from EC$ 730.8 million in 2020 to EC$ 908.2 million in 2021. The expansion in the narrow money supply was driven by both Saint Lucia, with a 39.9% increase, and Dominica, with a 39.2% increase. Concomitantly, broad money (M2 monetary aggregate) in the ECCU region increased by an average of 11% in 2021 to EC$ 2.8 billion from EC$ 2.5 billion in 2020. The largest expansion in broad money was observed in Saint Lucia at 14.9%, followed by Antigua and Barbuda at 13.9%. In Saint Lucia, banking deposits expanded (both chequing and foreign currency), owing to a combination of increased economic activity and continued unease among households and businesses, in light of protracted pandemic-induced economic uncertainty.

Private sector credit remained strong in ECCU at an average of EC$ 1.720 billion in 2021, only slightly higher than the previous average of EC$ 1.701 billion for 2020. However, all countries, with the exception of Saint Kitts and Nevis, saw a decrease in the ratio of private sector credit to GDP. Reflecting the Union's accommodative monetary policy stance, the weighted average lending rate for ECCU fell to 6.8 % in 2021 from 7.2 % in 2020, while the weighted average deposit rate eased from 1.6 % in 2020 to 1.5% in 2021. As a result, the interest rate spread narrowed slightly by 0.2 percentage points in 2021.

(c) Other policies

In March 2021, ECCB launched the pilot of its new digital currency, the Digital East Caribbean Dollar (DXCD), now available on its DCash platform. The blockchain-based system is intended as a retail payment system, with the aim of boosting economic growth and business opportunities for ECCU. Since its launch, the platform's infrastructure has been upgraded and ECCB has been moving ahead with plans for commercial deployment and integration of the DCash platform.

ECCU governments have embarked on several capital projects to stimulate economic activity. For instance, in Antigua and Barbuda, the government is building a new airport at a cost of EC$ 55 million, continuing four major road projects (Anchorage Road, Old Parham Road, Sir Sydney Walling Highway and Valley Road) and building 10,000 houses across the country. In Dominica, the government is proceeding with the 10 MW geothermal energy project valued at EC$ 9 million, continuing the airport upgrade and Anichi Development, a private sector developer, will develop a resort. In Grenada, work is ongoing for the EC$ 2 billion Grenada National Resort Project, in Saint George's, the water supply is being expanded and sewerage improved. In Saint Kitts and Nevis, the government is developing a solar farm (in collaboration with ECCB), constructing new facilities for Basseterre High School and building several health centres. In Saint Lucia, the government is engaging construction of new buildings for La Guerre Combined School, a new bridge over the Cul De Sac River and a pipeline replacement in the north of the island by the Water and Sewerage Company (WASCO). In Saint Vincent and the Grenadines, the government intends to continue several road maintenance and upgrade projects, especially those affected by the recent eruption.

3. The main variables

(a) The external sector

The ECCU-wide deficit in the balance of trade for goods and services narrowed slightly to EC$ 135.6 million in 2021 from EC$ 139.7 million in 2020. The largest trade deficit for goods and services in an ECCU country was in Saint Vincent and the Grenadines, which widened to EC$ 209.86 million in 2021 from EC$ 185.48 million in 2020, owing to a decline in goods exports caused by disruption to agricultural and value-added output from the eruption of the La Soufrière volcano on 9 April 2021, the first in 40 years. The trade deficits for goods and services also widened in Antigua and Barbuda and Saint Kitts and Nevis, because of rebounds in import demand as pandemic-related restrictions were lifted, quickening economic activity. In the remaining ECCU countries, the trade deficits for goods and services narrowed.

(b) Economic activity

Economic activity was stronger in ECCU in 2021 than in 2020. Antigua and Barbuda posted growth of 5.27% in 2021, in a significant reversal of the 20.19% contraction in 2020, driven by expansion in real value-added across the hotels and restaurants, construction, and wholesale and retail sectors. Dominica recorded growth of 6.54% in 2021, following a 16.60% decline in 2020, as the government invested heavily in agriculture and construction. Grenada saw growth of 5.71% in 2021, from a contraction of 13.76% in 2020, largely driven by output growth in many sectors including tourism, construction, wholesale and retail trade, manufacturing and agriculture. Saint Lucia experienced the strongest growth among ECCU economies at 7.0% in 2021, following a 20.37% decline in 2020, driven by a robust recovery in the accommodation and food services sector. Saint Vincent and the Grenadines achieved a mere 0.74% growth in 2021, after a 5.31% fall in 2020, with value-added in wholesale and retail, construction and manufacturing all improving. The overall growth in ECCU of 4.0% in 2021 was tempered by the 3.94%

contraction in Saint Kitts and Nevis in 2021, as the country continued to experience a decline in tourist stayover arrivals.

In the tourism sector, ECCU average stayover arrivals increased by 24.5% from 62,910 in 2020 to 78,347 in 2021. Antigua and Barbuda recorded an increase in stayover arrivals to 169,469 in 2021 from 125,088 in 2020 as it benefitted significantly from pent-up demand for travel-related services following the easing of pandemic lockdowns. Saint Lucia also saw a rise in stayover arrivals, to 199,347 in 2021 from 130,699 in 2020. ECCU average growth in stayover arrivals was somewhat dampened by declines in arrivals in Dominica, Grenada, Saint Kitts and Nevis and Saint Vincent and the Grenadines. Notably, the public health risks from new variants of COVID-19 (such as Delta and Omicron) and cases of monkey pox prompted several countries that are source markets to caution citizens against travelling.

Construction value-added in ECCU rose on average by 10% to EC$ 274.3 million in 2021 from EC$ 241.5 million in 2020, with all economies recording growth. Grenada saw the largest growth in construction value-added, by 33% to EC$ 239.28 million from EC$ 179.58 million. Dominica's construction value-added grew by 19% to EC$ 73.11 million from EC$ 61.62 million, whilst in Antigua and Barbuda construction value-added grew by 16% to EC$ 566.16 million from EC$ 488.40 million. The ECCU-wide increase in construction value-added also reflects the extent to which ECCU governments have used construction as a tool to boost economic activity and mitigate the economic effects of the pandemic.

The Union's projected average growth for 2022 of 2.9% is subject to several downside risks including rising global inflation and supply chain bottlenecks, both of which have been exacerbated by the war between the Russian Federation and Ukraine, which has also slowed the growth of many large economies (in turn potentially affecting ECCU tourist arrivals). Oil prices remain high and are expected to average around US$ 90 in 2022 and other fuel costs have also been pushed up driven by the war. The globally high rates of inflation are likely to affect domestic inflation in ECCU economies, dampening domestic consumption, driving up production costs and reducing export competitiveness. The ECCU economies also face growing public debt and new health threats such as new COVID-19 variants and monkey pox. On the upside, economic activity across the Union should be buoyed by strong tourism services demand across all visitor categories in 2022.

(c) Prices, wages and employment

Headline inflation in ECCU was a modest 2.7% in 2021, reflecting price rises across the board, following the deflation recorded in 2020. Several global supply-side factors caused the rises in prices. Saint Lucia posted the highest headline inflation among ECCU countries of 4.2%, followed by Dominica with 4%, Saint Vincent and the Grenadines with 3.8%, Grenada with 2.1%, Saint Kitts and Nevis with 2% and lastly Antigua and Barbuda at 1.3%. Inflation in ECCU can be expected to trend upwards as international oil and commodity prices remain high, and supply chain disruptions and bottlenecks persist.

Up-to-date data on salaries and wages in the ECCU is generally unavailable. The subregion, however, tends to experience high unemployment, particularly among young people. Unemployment data for 2021 was only available for Grenada, where there was an improvement in labour conditions in the second quarter of 2021 relative to the last quarter of 2020: the unemployment rate fell 2.1 percentage points to 16.6%, despite youth unemployment rising by 2.5 percentage points to 42.0% over the same period. Lockdown measures during the pandemic are highly likely to have had a detrimental impact for the most vulnerable groups, as evidenced by the widening of the gap between male and female unemployment in Grenada during the second quarter of 2021. Nevertheless, rebounding economic activity in ECCU countries, especially during the second half of 2021, is expected to have favoured employment and income creation opportunities.