

EASTERN CARIBBEAN CURRENCY UNION (ECCU)

The ECCU economies are projected to grow by an average of 2.8% in 2016 (up from 2.7% the previous year) and 3.1 % in 2017.¹ The economic expansion observed in 2016 was primarily driven by tourism-related construction, particularly projects in Antigua and Barbuda, Saint Kitts and Nevis and Saint Lucia, and by the hotels and restaurants and agricultural sectors. More specifically, the Antigua and Barbuda economy is projected to expand by 4.2% in 2016, following an equally strong performance (4.1%) in 2015. Economic growth in Saint Kitts and Nevis is set to decline marginally to 3.7% in 2016, due to a slowing of tourism and construction activity. The Grenadian economy is projected to expand by 2.9% in 2016, as compared to 6.2% in 2015, since the pace of economic activity slowed across the major sectors, with agricultural output expected to decline by 10% and manufacturing output to remain flat. The overall fiscal surplus generated by ECCU is set to increase in 2016. Price deflation (-1.0%) is forecast for end-2016, with falling fuel costs having driven a decline in overall consumer prices.

There were no major upsets in fiscal policy across the ECCU economies during the first half of 2016, as the currency union's fiscal performance improved relative to the same period the previous year. However, it is noteworthy that the Government of Grenada passed the Tax Administration Act and completed the restructuring of the Inland Revenue Department during the semester. ECCU generated an aggregate fiscal surplus of 162.2 million East Caribbean dollars (EC\$), as compared to a surplus of EC\$ 33.9 million during the first half of 2015. This improved fiscal outturn was driven by a combination of a contraction in capital expenditure and an increased current account surplus across ECCU. Moreover, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines all generated increased fiscal surpluses during the first six months of 2016 relative to the same period the previous year.

In Saint Kitts and Nevis, the larger overall fiscal surplus (after grants) was helped by a fall in capital expenditure. This offset a contraction in current revenue, as inflows from the Citizen by Investment (CBI) programme began to decline during the first half of 2016, a development attributed to competition from similar programmes offered by other ECCU member States, while value added tax (VAT) revenue also fell because a waiver was introduced for food items. CBI inflows were EC\$ 147 million by September 2016, as compared to EC\$ 204 million by the same month in 2015. Primarily owing to increased revenues, Grenada and Saint Lucia both moved from an overall fiscal deficit during the first six months of 2015 to a surplus over the same period in 2016. Grenada in particular managed to meet the IMF programme requirement of raising its primary surplus to 3.5% of GDP. Furthermore, Grenada's current account position also improved to such an extent that its government no longer had to rely upon overdraft facilities, despite restarting bond payments and exiting the wage freeze arrangement.

In aggregate, the ECCU current account surplus expanded to EC\$ 306.1 million during the first six months of 2016 from EC\$ 231.4 million over the same period in 2015. This improvement in current operations was fuelled by an increase in current revenue that outstripped the rise in current expenditure during the first half of 2016. In particular, Saint Lucia's current account surplus doubled to EC\$ 102.4 million thanks to an uptick in current revenue coupled with a decline in current spending.

¹ Refers to a simple average of growth rates across the six ECCU members which are members of the Economic Commission for Latin America and the Caribbean (ECLAC).

However, Saint Lucia is set to reduce its standard rate of VAT from the current 15% to 12.5% by 1 February 2017. The government has also approved an amnesty for all tax types, including personal property tax, from 1 October 2016 to 28 February 2018. To mitigate the impact of the loss of revenue, the airport development tax will be reintroduced with effect from 1 April 2017, but it is unlikely that this and other planned revenue-generating measures will entirely offset the loss of revenue from the VAT reduction and the tax amnesty in the short term.

The ECCU economies largely continued with their debt consolidation and debt reduction initiatives during 2016 as they sought to move towards the objective of achieving a debt-to-GDP ratio of 60% by 2030. Notwithstanding, the ECCU-wide debt stock trended upward (2.0%) during the first six months of 2016. By the end of June 2016, total disbursed outstanding public-sector debt stood at EC\$ 13.14 billion. This growth was fuelled by an expansion (2.5%) in the outstanding debt of central governments as they increased borrowings both domestically and externally to cover capital expenditure.

At the country level, the total public debt of Saint Kitts and Nevis moved in the opposite direction, falling to EC\$ 1.540 billion by the end of June 2016 from EC\$ 1.763 billion at the end of June 2015. This contraction in the debt stock can be attributed to gains from the debt restructuring exercise undertaken between 2011 and 2014, to the debt-for-land swap of 2013, and to the capping of new debt. Scheduled amortization payments and a partial overdraft repayment collectively underpinned the marginal (0.4%) decline in the total outstanding public debt of Saint Vincent and the Grenadines to EC\$ 1.603 billion during the first half of 2016.

At the aggregate level, financial-sector liquidity within ECCU remained high during the first six months of 2016. The ratio of loans and advances to deposits fell from 64.8 to 61.7 over the same period, which is indicative of the increase in liquidity within the commercial banking system. Despite the high liquidity, private-sector lending contracted 4.5% in the first half of the year. This reflected declines across sectors, particularly in construction and tourism. Furthermore, the minimum deposit rate on savings (MSR) was cut from 3.0% to 2.0%. This reduction took effect on 1 May 2015 and placed downward pressure on saving rates even as lending rates were rising.

The construction, tourism, manufacturing, wholesale and retail sectors continued to be the largest contributors to GDP in ECCU during the first half of 2016. Private-sector tourism-related projects (particularly in Antigua and Barbuda, Dominica, Grenada and Saint Vincent and the Grenadines) drove increased activity in the construction sector relative to the same period the previous year. Public-sector

EASTERN CARIBBEAN CURRENCY UNION (ECCU) ^a: main economic indicators, 2014-2016

	2014	2015	2016 ^b
	Annual growth rate		
Gross domestic product	3.7	3.0	2.8
Consumer prices	0.8	-0.9	-0.9 ^c
Money (M1)	8.5	7.5	8.8 ^d
	Annual average percentage		
Central government			
Overall balance / GDP	-1.3	-0.1	-0.6
Nominal deposit rate ^d	2.6	2.1	1.8 ^e
Nominal lending rate ^d	9.0	12.0	8.6 ^e
	Millions of dollars		
Exports of goods and services	2,232	2,282	2,339
Imports of goods and services	3,003	2,957	3,018
Current account balance	-738	-641	-652
Capital and financial balance ^f	990	767	652
Overall balance	252	126	...

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.

e/ Figures as of September.

f/ Includes errors and omissions.

construction activity, on the other hand, was more subdued and focused on plugging infrastructure gaps in the form of roads, bridges and the like.

There was also a weakening of tourism activity within ECCU during the first six months of 2016 relative to the same period of 2015, with total visitor arrivals contracting by 2.8% despite an increase in stay-over arrivals, as growing global economic uncertainty seemingly had a negative impact on all other subcategories of visitors, including cruise ship arrivals. Unsurprisingly, the slowing of tourism activity dampened that of the wholesale and retail sector, the transport, storage and communication sector and the real-estate sector. Agricultural output expanded, but manufacturing activity declined as weakening global aggregate demand impacted negatively on Saint Kitts and Nevis's exports of manufactures.

At the aggregate level, soft oil prices were a factor in the price deflation (-0.9%) observed during the first half of 2016. While generally improving, relatively high unemployment levels continued to be a structural challenge for the ECCU economies during the same period.