EASTERN CARIBBEAN CURRENCY UNION (ECCU)

1. General trends

The Eastern Caribbean Currency Union (ECCU) posted its ninth consecutive year of economic expansion in 2019. Average real GDP growth in the Union was 2.8% for 2019, down from 3.5% in the previous year, with all ECCU economies again generating positive outturns. This increased economic activity was primarily fuelled by growth in the hotels and restaurants, and transport, storage and communications sectors, and to lesser extent the wholesale and retail trade, and the construction sector.

The coronavirus disease (COVID-19) pandemic forced ECCU economies to shut their borders, increase fiscal spending on the health sector and to take steps to keep the economy afloat. The result of the crisis has been a virtual collapse of the tourism sector in many islands and the liquidation of the regional airline LIAT. The crippling effect of the COVID-19 pandemic on the tourism sector, including the Union's airline industry, and on global and domestic demand is expected to cause a double-digit economic contraction across the ECCU economies in 2020. Citizen by Investment Programme (CIP)-fuelled construction activity, government-funded infrastructure projects and education tourism —with concomitant positive spillovers into key ancillary sectors such as wholesale and retail— are expected to be the main mitigating drivers of economic activity. In the short term, economic activity across the Union is expected to be dampened by the weakness of the projected recoveries in tourism, construction and ancillary sectors, reduced inflows of foreign direct investment (FDI), increased public debt and debt service costs, a sluggish global economic recovery, weak demand, deferral of investments in response to global economic uncertainty, and challenges to the Union's offshore financial services sector owing to greylisting and blacklisting of ECCU economies.

ECCU economies began to ease their fiscal consolidation efforts in 2019, given the need to further stimulate economic activity. This led to a substantial increase in the aggregate fiscal deficit, as growth in current revenue was outstripped by the upturn in current expenditure. There was a concomitant shrinking of the primary surplus, indicating a deterioration of the fiscal positions of all the ECCU economies. The Union's debt stock increased, owing to a 1.6% uptick in the outstanding debt of central governments, although its debt to GDP ratio continued to decline.

The Union's monetary policy stance remained unchanged in 2019, focusing on maintaining the fixed exchange rate peg to the United States dollar. Strong real sector performance drove an expansion in both money supply (M1) and quasi-money, allowing an expansion of monetary liabilities (2.4%) in 2019, albeit marginally slower than the previous year. However, private sector time deposits continued to decline, suggesting that interest rates remain unattractive, with the weighted average deposit rate again remaining steady at 1.6%. Moreover, ECCU international trade performance improved in 2018 as the goods trade deficit narrowed.

Despite stronger oil prices, price pressures in ECCU were subdued, with inflation at 0.1% in 2019. In 2020, inflationary pressures are expected to be contained by a combination of slower global growth —driving down oil prices— sluggish domestic consumption and continued fiscal prudence from member governments. Unemployment rates continued to trend downward owing to the pick-up in economic activity in some member States and the continuation of targeted, training-based employment creation programmes such as the Short-Term Employment Programme in Saint Lucia and the Skills Training Empowerment

Programme in Saint Kitts and Nevis (both known as “STEP”), and New Imani (Grenada). Addressing youth unemployment, however, is still a structural challenge for ECCU.

2. Economic policy

(a) Fiscal policy

There was a slight loosening of fiscal consolidation and debt reduction efforts during the review period, as ECCU economies sought to increase public spending to stimulate economic activity, increasingly focused on achieving the target of 5.0% growth. As such, there was a significant year-on-year widening of the consolidated fiscal deficit of central governments.

This weakening of the Union’s fiscal position was primarily driven by the failure of the marginal uptick in current revenue to offset a larger increase in current expenditure and an accompanying contraction in grants. Moreover, while current expenditure as a share of GDP increased in 2019, both current revenue and grants as a percentage of GDP declined. However, capital expenditure contracted, suggesting that spending on infrastructure development projects was curtailed in 2019, as reconstruction and rehabilitation activity following the 2017 hurricane season began to taper off.

On the revenue side, there was an increase in value added tax revenue, which offset a contraction in non-tax revenue, allowing current revenue to remain steady, although it fell relative to GDP. The Union’s non-tax revenue receipts were driven by CIP inflows, which despite declining by 9.7%, were estimated to be 747.89 million East Caribbean dollars (EC$) in 2019. Saint Kitts and Nevis (EC$ 455.94 million), Dominica (EC$ 147.81 million) and Antigua and Barbuda (EC$ 112.22 million) accounted for 96% of CIP inflows to ECCU over the review period. In particular, Antigua and Barbuda saw an 88% increase in its CIP inflows in 2019.

On the expenditure side, at the aggregate level the Union largely kept spending growth in check, with only a marginal 3.8% uptick in current expenditure At the country level, Saint Kitts and Nevis’ current expenditure was largely underpinned by a rise in transfers and subsidies (15.6 %), and in personal emoluments (4.2%) with the continuation of initiatives such as the payment of an extra month’s salary in December, the Poverty Alleviation Programme, and the Skills Training Empowerment Programme (STEP). There was a similar upward trend in personal emoluments payments (8.5%) and transfers and subsidies (2.4%) in Saint Lucia and in Saint Vincent and the Grenadines, where compensation payments to employees (5.5%) and transfers (8.4%) both increased. Current expenditure remained relatively flat in Antigua and Barbuda but saw an upswing of 6.1% in Grenada as a consequence of increased spending on subsidies and transfers, personal emoluments, and goods and services.

In 2019, ECCU governments continued to invest in repairing, upgrading or modernizing key economic infrastructure. Nonetheless, there was a downswing in capital expenditure over the review period. Antigua and Barbuda (2.3%), Saint Kitts and Nevis (10.2%), Saint Lucia (25.7%) and Saint Vincent and the Grenadines (32.2%) were the only ECCU economies which increased capital expenditure. Saint Lucia continued to spend on key infrastructure projects such as the rehabilitation and maintenance of road networks, and Hewanorra International Airport (HIA), and Saint Vincent and the Grenadines embarked on a multimillion dollar (US$ 27 million) geothermal energy project, with financing from the Caribbean Development Bank (CDB). The Government of Antigua and Barbuda continued its Road Infrastructure Rehabilitation Project, port redevelopment and enhancement project and affordable housing project, as well rebuilding public infrastructure and private homes in Barbuda. The Government of Grenada incurred capital spending on activities such as rehabilitation of the Maurice Bishop International Airport and retrofitting of the Hillsborough Health Center and Princess Royal Hospital in Carriacou. Public expenditure in Saint Kitts and Nevis focused on construction of the second cruise ship pier, Phase II of the Road Improvement and Maintenance Project, resurfacing of the airport runway and construction of the new Basseterre High School.

Growth in the Union's outstanding public debt stock was slower in 2019 (0.9%) than in 2018 (2.7%). This marginal upswing largely reflected an increase in central government debt. Several central governments incurred further debt to fund crucial public expenditure and budget shortfalls, offsetting a contraction in the debt of public corporations. Increased borrowing by Dominica, Saint Kitts and Nevis and Saint Lucia was the major driver of the Union's increased central government debt. However, the Union's debt to GDP ratio continued to improve, reaching 67.2% at the end of 2019, compared to 69.4% at the end of 2018. In real terms, total debt service payments fell 5.7% to EC$ 1.8 billion owing to the smaller obligations of Saint Kitts and Nevis and Saint Lucia. However, as a percentage of total revenue, debt service payments increased 40 basis points to 35.8% in 2019.

(b) Monetary policy

The Eastern Caribbean Central Bank (ECCB) has overarching responsibility for designing and implementing ECCU monetary policy. Over the review period, the monetary policy stance of ECCB remained unchanged, primarily pursuing price stability by maintaining the fixed exchange rate peg to the United States dollar. The nominal exchange rate between the East Caribbean dollar and the United States dollar was unchanged at its fixed rate of EC$ 2.7 = US$ 1 at the end of 2019.

Strong year-on-year real sector performance and substantial CIP inflows contributed to further increases, albeit slight, in narrow money (6.6% compared to 6.7% in 2018) and broad money (2.6% compared to 2.8% in 2018), with the latter generated by positive outturns in all forms of money. An expansion in private sector demand for credit buoyed monetary liabilities (M2). Money supply expanded 14.7% after contracting (-2.09%) in the previous year in Saint Kitts and Nevis, while M2 contracted by 6.3% in Dominica as money supply declined by 16.82%.

ECCU commercial bank liquidity remained well above the mandated threshold of 20% in 2019, with volumes of issued treasury bills and of bonds both increasing. This relatively high liquidity coupled with comparatively flat private sector credit activity (a 0.02% uptick) and heightened competition among commercial banks drove down the weighted average lending rate (down 20 basis points to 7.8%). The weighted average deposit rate, however, was 1.6% for the second consecutive year. Commercial banks in the ECCU remained largely risk-averse in 2019, focused on reducing the level of non-performing loans, and private sector credit as a share of GDP contracted 2.5 percentage points to 49.7%. The central bank adopted various measures to address the consequences of the COVID-19 pandemic, including reducing the monetary policy reference rates for the first time since 2003.

(c) Other policies

In March 2019, ECCB launched as a pilot a new blockchain-based digital East Caribbean dollar (DXCD) and Digital EC Cash (DCash), which will operate in tandem with the existing East Caribbean dollar. This new digital currency will be issued and controlled by ECCB.[1] This initiative seeks to facilitate

[1] Other cryptocurrencies such as bitcoin are not issued by central banks. These cryptocurrencies are autonomous, and do not fall under the jurisdiction or control of any specific institution.

cross-border transactions and international trade, and mitigate the threat of de-risking. This project is a component of the wider Strategic Priorities of the ECCU Payment System Modernization Initiative.

Over the review period ECCB continued to support ECCU economies' efforts to achieve the targeted reduction in the Union's public debt to 60% of GDP by 2030, through national fiscal responsibility frameworks and initiatives geared towards strengthening debt management. By the end of 2019, the Union had made steady progress, with an average debt to GDP ratio for the ECCU of 67.2% and Saint Kitts and Nevis (57.4%) already meeting the target.

Given that the Caribbean Community is the Union's second largest tourism source market, the issue of restructuring of the regional airline LIAT emerged as a downside risk to ECCU economic growth in the third quarter of 2019. The airline's restructuring plan, which was designed by CDB (the airline's largest creditor), requires a reduction in the airline's US$ 60 million debt burden, implementation of a minimum revenue guarantee payable annually (in particular, on routes that are not viable), and a reduction in management and pilot remuneration by up to 10%. The plan also calls for greater efficiency system-wide, including reducing the workforce and re-fleeting ten new aircraft from the manufacturer ATR.

In the education services sector, in an effort to systemically address the challenge of ECCU having the lowest rates of youth tertiary education enrolment and the highest youth unemployment rates in the region, the University of the West Indies (UWI) Five Islands Campus was established in Antigua and Barbuda. The Five Islands Campus begun admitting its first students in September 2019.

With respect to climate change mitigation and geothermal energy use, Saint Vincent and the Grenadines, commenced drilling work in the first quarter of 2019 in collaboration with Iceland Drilling Company, with the aim of completing four wells. Dominica also began its drilling projects in 2019.

3. The main variables

(a) The external sector

With respect to international trade, there was a marginal widening (0.5%) of the ECCU goods trade deficit to US$ 2.319 billion (33.03% of GDP) in 2019, despite Antigua and Barbuda, Dominica and Saint Lucia all managing to narrow their goods trade deficits. Buoyed by a significant upswing in travel receipts as visitor arrivals from the major source markets increased, the deficit on the Union's balance of goods and services, however, shrank from US$ 378.6 million in 2018 to US$ 123.3 million in 2019. Performance of the ECCU-wide current and capital accounts both improved in 2019, with the current account deficit shrinking (28.7% to US$ 538.8 million) and the capital account surplus expanding (3% to US$ 320 million). Although the borrowing position of the Union improved as a result, by virtue of being a net importer, ECCU continued to incur debt to offset its current account deficit.

(b) Economic activity

Despite economic growth slowing from 3.5% in 2018 to 3.1%, 2019 was the ninth consecutive year of increased economic activity for ECCU[2], with all member economies again posting positive outturns. This result was primarily driven by growth in the tourism sector (hotels and restaurants), and the transport, storage and communications sector, and to a lesser extent by wholesale and retail, and construction. The

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[2] Refers to the six ECLAC Caribbean ECCU countries: Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.

Union's economic performance was largely driven by strong economic activity in the fastest-growing ECCU economies: Antigua and Barbuda (5.8%), Dominica (5.7%) and Grenada (3.1%).

In the tourism sector, total visitors to the Union increased during in 2019, as a 9.4% upswing in stay-overs (to 11.9 million) more than offset a marginal decline in cruise-ship visitors. The number of stay-over visitors increased in all ECCU countries in 2019. In addition, driven by an 85% increase in calls to Dominica, the number of cruise ship calls to ECCU increased (by 23) to 1,949 over the review period. Antigua and Barbuda and Dominica also saw significant rises in yacht calls. This increased tourism activity fuelled a robust expansion (56%) in tourist spending across ECCU to US$ 3.46 billion. Moreover, value-added in the hotels and restaurants sector, which is a measure of tourism sector activity, expanded by 8.4% in 2019, up from 7.9% in the previous year.

A number of developments across individual ECCU economies contributed to the strong tourism outturn. For instance, Antigua and Barbuda increased the marketing budget for its Tourism Authority, which launched its #WhatCoolLooksLike summer campaign in 2019. During the review period, new flights were added from Miami, New York and North Carolina, and the Royalton and Hammock Cove resorts both opened their doors. The collective result was a 11.9% increase in stayover arrivals in Antigua and Barbuda. In Saint Lucia, JetBlue, British Airways, Sunwing, Virgin Atlantic and United Airlines all maintained their services and some even increased their presence at Hewanorra International Airport (HIA), contributing to the 7.3% increase in stay-overs. Saint Kitts and Nevis continued to promote sports tourism, particularly golfing holidaymakers from Canada and United Kingdom, driving a 6.6% uptick in stay-over arrivals. In Grenada, flights also increased, the Tourism Authority intensified marketing efforts, and there was a continued focus on rehabilitation and expansion of room stock, contributing to a 1.2% increase in stay-overs. In Saint Vincent and the Grenadines, Caribbean Airlines introduced a weekly flight from New York to Saint Vincent and Air Canada launched a winter service from Toronto, both of which contributed to increased (6.5%) stayover numbers.

Construction value-added expanded 7.9% in ECCU, driven by positive outturns in Antigua and Barbuda (17%), Dominica (6.7%) and Saint Kitts and Nevis (2%). Fuelled by growth in CIP inflows, private construction activity focused on tourism-related projects. Public sector construction, such as the Antigua and Barbuda Road Infrastructure Rehabilitation and the St. John's port redevelopment project, placed emphasis on modernization, reconstruction and rehabilitation of key economic infrastructure. Following strong performance in the prior year, manufacturing activity in the Union was muted in 2019, with sectoral value-added contracting marginally (0.6%). This came despite an increase in sectoral value-added of 9.1% in Dominica owing to growth in production of beverages and soaps and a rise of 6.1% in Grenada. Agricultural output picked up considerably (with value-added increasing by 10.6%) in 2019, as sectoral value-added expanded in all ECCU economies except Saint Lucia. Moreover, crop production increased(particularly nutmeg), as did the value of banana exports. The education services sector in Grenada, which accounts for 17.2% of GDP, rebounded in 2019 to grow by 4.5% following a 5.1% dip in the previous year.

The crippling effect of the COVID-19 pandemic on the tourism sector —including the Union's airline industry— and on global demand is expected to cause a double-digit economic contraction across ECCU economies in 2020, with CIP-fuelled construction activity, government-funded infrastructure projects, and concomitant positive spillovers into keys ancillary sectors such as wholesale and retail providing the main mitigating drivers of economic activity.

(c) Prices, wages and employment

The modest inflation of 1.3% seen in ECCU in 2018 slowed almost to a halt in 2019, reaching 0.1% by year-end, as prices pressures remained moderate, despite relatively strong oil prices which averaged US$ 59.60 per barrel in 2019. Indeed, Saint Kitts and Nevis (-0.84%) and Saint Lucia (-0.70%) experienced deflation in 2019, while the consumer price index was largely unchanged in Grenada, recording a minimal rate of inflation of 0.07%. Communication, and food, alcoholic and non-alcoholic beverages trended upward in most ECCU economies, while gas and fuel prices trended downward in Grenada and Saint Lucia. Sluggish domestic demand in ECCU economies is expected to further cool endogenous inflationary pressure in 2020. Inflation is expected to be further constrained by a combination of weak global growth and demand owing to the COVID-19 pandemic, weak oil prices, and fiscal prudence by member governments in response to the economic contraction.

Statistics on wage levels are generally not available. High unemployment, particularly among youth, has been a major structural challenge for ECCU economies. However, in recent years, unemployment rates have been trending downward owing to the pick-up in economic activity and implementation of targeted training-based employment creation programmes such the Short-Term Employment Programme in Saint Lucia and the Skills Training Empowerment Programme in Saint Kitts and Nevis (both known as “STEP”) and New Imani in Grenada. However, there was a slight reversal in this trend in some economies in 2019, with the number of persons employed in the Commonwealth of Dominica contracting by 1.7% (to 4,163), and youth unemployment rising 4.7 percentage points year-on-year to 34.7% in September 2019. However, Grenada’s unemployment rate continued its downward trajectory during the first quarter of 2019, falling to 15.2% from 16.7% at the end of the third quarter of 2018. In Saint Lucia overall unemployment fell 3.4% year-on-year to 17.5% in September 2019.

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Table 1

EASTERN CARIBBEAN CURRENCY UNION (ECCU) a/: MAIN ECONOMIC INDICATORS

	2011	2012	2013	2014	2015	2016	2017	2018	2019 b/
	Annual growth rates c/								
Gross domestic product	1.0	0.2	0.6	3.7	2.0	3.5	1.2	3.5	2.8
Per capita gross domestic product	-0.1	-0.8	0.7	3.7	1.2	2.8	-0.3	3.1	2.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.5	6.8	4.4	3.8	6.8	0.9	-6.0	-4.9	6.7
Mining and quarrying	-10.3	8.0	38.3	32.2	-6.6	0.5	-4.2	-0.7	1.7
Manufacturing	-1.9	-3.5	3.5	1.8	0.6	-2.3	-0.9	6.1	-1.9
Electricity, gas and water	1.9	-0.3	-0.4	-0.3	3.5	2.7	-1.8	0.1	6.7
Construction	-10.8	-4.3	6.6	2.5	6.7	9.8	13.0	7.9	4.9
Wholesale and retail commerce, restaurants and hotels	2.0	1.4	-1.5	5.9	-0.6	2.7	1.3	7.4	4.9
Transport, storage and communications	-0.6	-0.5	0.2	3.8	4.0	-1.1	2.8	5.9	4.5
Financial institutions, insurance, real estate and business services	1.0	0.4	1.3	1.2	3.6	3.0	0.1	1.9	-6.9
Community, social and personal services	1.9	1.9	1.4	3.5	0.0	3.7	2.2	-1.6	2.4
External-sector indicators	**Millions of dollars**								
Net resource transfer (millions of dollars)	865	791	818	245	11	275	203	382	184.2
Total gross external debt (millions of dollars)	2 303	2 324	2 574	2 605	2 670	2 684	2 575	2 615	2 528.9
Central government	**Percentajes of GDP**								
Total revenue	24.8	24.9	28.1	29.5	29.4	31.1	28.7	30.9	29.1
Tax revenue	19.7	19.7	21.4	21.6	21.9	22.2	21.7	22.1	21.5
Total expenditure	28.3	27.1	31.7	30.6	29.1	28.7	29.5	31.5	31.7
Current expenditure	22.8	22.6	25.0	24.7	23.7	24.0	24.2	24.8	25.4
Interest	2.9	3.1	3.1	3.3	2.9	2.8	2.7	2.6	2.5
Capital expenditure	5.5	4.5	6.8	5.9	5.5	4.7	5.2	6.7	6.3
Primary balance	-0.5	0.9	-0.5	2.1	3.1	5.1	1.9	1.9	-0.1
Overall balance	-3.5	-2.2	-2.7	-1.0	0.4	1.0	-0.3	-0.6	-2.6
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	80.1	79.3	74.6	66.0	52.3	45.9	43.8	41.8	41.2
To the public sector	2.0	0.7	-0.3	-1.8	-4.2	-6.7	-11.4	-10.9	-9.2
To the private sector	78.1	78.6	74.9	67.8	61.3	57.1	55.2	52.7	50.3
Monetary base	15.8	16.6	18.2	20.8	21.9	22.6	22.2	20.7	18.6
Money (M1)	18.0	18.6	18.5	19.4	19.8	20.3	21.7	22.0	22.3
M2	74.2	76.0	76.6	75.3	73.1	71.2	72.0	70.5	68.8
Foreign-currency deposits	6.7	6.8	8.1	9.9	10.8	9.9	9.6	9.4	9.4

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 Vincent and The Grenadines and Saint Lucia.

b/ Preliminary figures.

c/ Based on figures in local currency at constant 2006 prices.