Eastern Caribbean Currency Union (ECCU)

Constrained by the damage and losses sustained from Hurricanes Irma and Maria, as well as their knock-on effects on private sector activity, growth in the Eastern Caribbean Currency Union (ECCU) is expected to slow to 1.5% in 2017, compared to the 2.9% achieved in 2016.[1] Notwithstanding this weaker outturn, there was strong construction and tourism activity during the first six months of the year, the latter buoyed by increased cruise-ship arrivals. Construction activity is expected to further strengthen during the last quarter of 2017, as rebuilding efforts gather pace and tourism-related projects progress. The short-term outlook for the tourism industry is positive, bolstered by anticipated improvements in airlift and economic developments in the major source markets.

In addition, the overall debt stock of the Union is expected to increase as hurricane-affected economies seek to fund rebuilding efforts and others borrow to fund their fiscal deficits; and the merchandise trade deficit is expected to increase. ECCU is nevertheless projected to achieve real growth of 4.1% in 2018 as Dominica returns to positive growth; several private sector tourism-related and public sector infrastructure projects come on stream in Antigua and Barbuda, Grenada and Saint Lucia; and positive outturns are projected for the tourism and manufacturing sectors.

The fiscal operations (overall balance after grants) of the ECCU economies generated a surplus of 27.2 million Eastern Caribbean dollars (EC$) in the first half of June 2017, compared to EC$ 138.5 million in the prior-year period. This weakening of the fiscal performance over the review period was influenced by a deterioration in the current account position coupled with increased capital expenditure, particularly on infrastructure projects. In this regard, there was a notable fall-off in Citizen by Investment Programme (CBI) inflows in Saint Kitts and Nevis (EC$ 66.5 million, or 58.4%) and in Dominica (EC$ 48.1 million, or 23.2%) during the first half of 2017 relative to the same period in 2016. Capital expenditure expanded significantly (6.3% year-on-year in the first half of 2017) in Dominica as a result of general recovery and reconstruction activities following Tropical Storm Erika, specifically rehabilitation work at the Douglas Charles Airport, dredging of rivers, reconstruction of the new West Bridge and investment in housing. Fiscal deficits were recorded in Antigua and Barbuda, Dominica, and Saint Vincent and the Grenadines, while surpluses were recorded in Anguilla, Grenada, Saint Kitts and Nevis, and Saint Lucia during the first half of 2017.

As the fiscal position of ECCU weakened during the first half of 2017, there was a concomitant expansion in the debt stock. The total outstanding public debt stock rose by 1.4% from the end of the fourth quarter of 2016 to the end of the second quarter of 2017, as total external debt expanded. During the aforementioned period, public debt stock increased in all ECCU countries with the exception of Anguilla and Dominica. However, as a percentage of GDP, the debt declined in Antigua and Barbuda, Grenada, Saint Kitts and Nevis and Saint Vincent and the Grenadines.

With regard to the monetary sector, monetary liabilities (M2) grew by 2.3% to EC$ 16.22 billion during the first quarter of 2017, which was comparable to the growth achieved over the same period in the previous year. Notably, by end of June 2017, narrow money (M1) grew by 5.7%. In addition, during the first quarter of 2017, commercial bank liquidity, as measured by the ratio of liquid assets to total deposits plus liquid liabilities, climbed by 2.4 percentage points to 47.0%. During the first six months of 2017, however, the nominal deposit rate declined marginally from 1.7% at the end of June 2016, to 1.6% at the end of June 2017. The nominal lending rate was 8.5% at June 2017, unchanged from June 2016. Thus,

[1] Calculated as a simple average.

there was a minor 10-basis-point contraction in the interest rate spread over the first six months of 2017. Domestic credit expanded by 1.3% to EC$ 10.129 billion during the first quarter of 2017, in contrast to a decline of 2.7% over the same period in 2016. Net credit to the general government was up by 20.3%, while credit to the private sector declined by 0.3%.

The exchange rate between the Eastern Caribbean dollar and the United States dollar remained fixed at EC$ 2.7 to US$ 1 during the first half of 2017.

Driven by the combination of declining exports and rising imports, the Union's merchandise trade deficit widened year-on-year in the first half of 2017. The expansion in imports was fuelled by machinery and transport equipment, manufactured goods and articles, and food and live animals.

Within the real sector of ECCU, construction activity was up in Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, and Saint Lucia. This offset weaker construction activity in Saint Vincent and the Grenadines with the completion of the Argyle International Airport during the first quarter of 2017. The ECCU-wide overall uptick in construction activity was largely fuelled by private sector investment in hotels and other tourism-related projects, as well as increased capital expenditure, especially on schools, roads and the infrastructure development mentioned earlier. Across ECCU, buoyed by an uptick in the number of cruise-ship calls in Antigua and Barbuda, Saint Kitts and Nevis and Saint Lucia, tourism visitor arrivals rose by an estimated 9.1% in the first half of 2017, which represented a significant turnaround from the 1.1% contraction observed in the prior-year period.

Eastern Caribbean Currency Union (ECCU)[a]: main economic indicators, 2015-2017

	2015	2016	2017 [b]
	Annual growth rate		
Gross domestic product	3.0	2.9	1.5
Consumer prices	-0.9	-0.2	1.2 [c]
Money (M1)	6.2	8.5	1.6 [d]
	Annual average percentage		
Central government			
Overall balance / GDP	0.7	1.2	-0.2 [e]
Nominal deposit rate [d]	2.1	1.8	1.7 [f]
Nominal lending rate [d]	12.0	8.6	8.5 [f]
	Millions of dollars		
Exports of goods and services	3 731	3 688	...
Imports of goods and services	3 491	3 617	...
Current account balance	-42	-282	...
Capital and financial balance [g]	192	414	...
Overall balance	150	132	...

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 March.
d/ Weighted average rate.
e/ Simple averages. Does not include Dominica.
f/ Figures as of June.
g/ Includes errors and omissions.

By contrast, the outturn of the agriculture sector was mixed. Banana production fell by 32.8% to 2,783 tons in the first quarter of 2017 due to lower production in Dominica, Grenada and Saint Lucia. Total non-banana agricultural output decreased in Grenada, while production increased in Dominica, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines. Manufacturing output in ECCU marginally improved during the first half of 2017 as exports of electronic manufactures by Saint Kitts and Nevis more than tripled and thus offset weak manufacturing activity in Grenada and declining output in Dominica, Saint Lucia and Saint Vincent and the Grenadines.

During the first half of 2017, ECCU posted inflation of 1%, compared to a 0.1% deflation in the same period of 2016. The marginal increase in the general price level was underpinned by higher costs for transport and food, linked to the rebound in international commodity prices in general and in domestic market petroleum prices in particular.