EASTERN CARIBBEAN CURRENCY UNION (ECCU)

1. General trends

Following nine consecutive years of increases in economic activity, capped by 2.1% growth in 2019, there was a 15.9% contraction in the gross domestic product (GDP) of the Eastern Caribbean Currency Union (ECCU)[1] in 2020. With the exception of Saint Vincent and the Grenadines, all ECCU countries experienced double-digit declines, with Antigua and Barbuda (-20.2%), Dominica (-16.6%) and Saint Lucia (-23.8%) experiencing the greatest weakening of economic activity. This Union-wide economic downturn was largely the result of slumps in tourism-related sectors (such as hotels, restaurants and transport), as well as in wholesale and retail, and construction, owing to measures taken to curb the spread of coronavirus disease (COVID-19), which beset the global travel industry and disrupted supply chains and production in some domestic sectors.

ECCU is forecast to experience modest GDP growth of 3.2% in 2021, despite the lingering harmful impact of the COVID-19 pandemic on its key sectors. This positive but weak outturn is projected based on increased access to COVID-19 vaccines, ramping-up of vaccination programmes within the Union, and a general easing of restrictions both regionally and internationally. However, over the coming two to three years, ECCU economic activity is expected to be constrained by: (i) projected weak recoveries in the tourism, construction and ancillary sectors; (ii) reduced inflows of foreign direct investment (FDI); (iii) increased public debt and debt service costs; (iv) uncertainty over the pace of global economic recovery and the resulting deferral of investment; (v) and the re-emergence of challenges for the offshore financial services sector, owing to grey- and black-listing of ECCU economies. Nonetheless, economic growth across ECCU is forecast to be 5.5% in 2022.

ECCU economies eased their fiscal consolidation efforts in 2020, given the urgent need for pandemic-associated spending on the health sector, social safety-net fiscal measures, and action to stimulate economic activity.[2] This increase in expenditure was accompanied by contractions in receipts from citizenship by investment programmes (30.9%) and current revenue (16%). Largely as a result of these factors, the aggregate fiscal deficit widened from -3.3% of GDP in 2019 to -5.02% in 2020. There was also an uptick (8.3%) in public debt, mainly attributable to the current operations balance deteriorating from a surplus of 2.8% of GDP in 2019 to a deficit of -1.6% GDP in 2020. In 2020, while there was a mixed approach to monetary policy, the Eastern Caribbean Central Bank (ECCB) consistently applied expansionary monetary and financial measures to increase liquidity in response to the pandemic. ECCB reduced its discount rate from 6.5% to 2% and adopted a more restrained regulatory approach to the banking sector. A combination of soft oil prices, weak demand and fiscal prudence by member governments in the face of economic contraction, led to continued deflation in 2020 (-0.21%), down further from -0.03% in 2019. Despite upward price pressure, inflation is projected to be a modest 0.87% in 2021. Furthermore,

[1] Refers to the six ECCU countries that are also members of the Economic Commission for Latin America and the Caribbean (ECLAC): Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines.

[2] Fiscal statistics as a percentage of GDP for the ECCU as a group correspond to aggregate values and not a simple average of individual country values.

COVID-19 has reversed the steady progress ECCU has been making in reducing unemployment, with unemployment levels rising in all ECCU member States.

2. Economic policy

(a) Fiscal policy

The COVID-19 pandemic caused a contraction in economic activity within ECCU in 2020 and increased spending, leading to a deterioration in governments’ fiscal positions. There was a loosening of fiscal consolidation and debt reduction efforts during the year, as ECCU economies sought to mitigate the pernicious health, welfare and economic impacts of the pandemic through a number of different measures, including fiscal stimulus packages aimed at maintaining a reasonable level of economic activity. As a result, the consolidated fiscal deficit of central governments deteriorated from 448.3 million East Caribbean dollars (EC$) in 2019 to EC$ 996.9 million at the end of 2020, or as a percentage of GDP from -3.3% in 2019 to -5.02% in 2020.

This weakening of the Union’s fiscal position in 2020, despite flat current expenditure (-0.2%), was primarily driven by a significant fall in current revenue (-15.8%) and an accompanying contraction in receipts from citizenship by investment programmes (30.9%). At the country level, apart from Dominica, all ECCU economies generated fiscal deficits in 2020. Saint Lucia (-8.83% of GDP), Saint Vincent and the Grenadines (-6.39% of GDP) and Antigua and Barbuda (-5.36% of GDP) recorded the largest fiscal deficits. Owing to additional spending on health-related infrastructure and fiscal stimulus packages, capital expenditure increased in Antigua and Barbuda (22.3%), Grenada (215%) and Saint Vincent and the Grenadines (32.4%).

Current expenditure for the period January to May 2021 was EC$ 1.86 billion in ECCU, up from EC$ 1.83 billion for the corresponding period of 2020. This, however, does not give the full picture, as three member States recorded contractions in current expenditure: Antigua and Barbuda (-5.4%), Dominica (-3.4%) and Saint Kitts and Nevis (-4.3%), primarily driven by lower debt servicing costs and transfers and subsidies.

Current revenue totalled EC$ 4.311 billion (27.80% of GDP), down 15.8% from the previous year’s EC$ 5.123 billion (27.8% of GDP). This decline was due to contractions in both tax revenue and non-tax revenue. Lower receipts from citizenship by investment programmes caused the fall-off in non-tax revenue, whilst all major categories of tax revenue declined, particularly taxes on domestic goods and services and taxes on international trade and transactions. This weakening in no small part reflected dampened economic activity in 2020, induced by pandemic-related restrictions imposed within ECCU. There was, however, an increase in grants to 5.14% of GDP from 1.5% of GDP in 2019, primarily buoyed by a 202.91% upturn in grant receipts in Dominica to EC$ 228.93 million.

The public sector debt stock of the ECCU rose by 8.3% to EC$ 14.578 billion (or 87.0% of GDP, up from 68.8% of GDP in 2019), with only Saint Kitts and Nevis (0.1%) recording a marginal reduction in public debt. Dominica (15.3%), Saint Lucia (12.4%) and Saint Vincent and the Grenadines (12.6%) experienced the largest increases in public debt in 2020. Total debt service payments decreased by 2.3% to EC$ 1.532 billion, with only Antigua and Barbuda (6.7%) emerging with increased debt service costs in 2020.

(b) Monetary policy

In 2020, ECCB maintained its monetary policy objective, 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 the end of 2020, at its fixed rate of EC$ 2.7 = US$ 1. In the year, ECCB largely adopted an expansionary monetary policy stance, introducing measures to increase liquidity in response to the pandemic. These included: (i) reducing its short-term discount rate from 6.5% to 2% and its long-term discount rate to 3.5%; (ii) increasing resources for extending credit to governments; and (iii) lenient regulatory treatment of the banking sector. This enabled institutions to roll out an initial suite of measures to assist customers affected by the pandemic, such as six-month moratoriums on loan payments —subsequently increased to twelve months where necessary— and waivers of late fees and charges.

The ECCU commercial banking system's liquidity remained healthy in 2020, well above the minimum ratio of 20% for net liquid assets to total deposits. In contrast, asset quality worsened slightly, with an uptick in non-performing loans, attributable to the spillover effects of the pandemic. Private sector credit contracted marginally (0.6%) in 2020, and weighted average lending and deposit rates both fell, by 62 basis points and 1 basis point to 7.21% and 1.55% respectively. Moreover, there was a deterioration (-3.6%) in broad money supply in 2020, indicative of the damaging impact of increased unemployment and heightened economic uncertainty on deposits (both foreign and Eastern Caribbean currency) within the ECCU.

(c) Other policies

In 2020, ECCU members implemented fiscal and related policy measures to mitigate the economic impact of the COVID-19 pandemic. For instance, at the end of March 2020, the Government of Antigua and Barbuda instituted a myriad of initiatives to combat the effect the pandemic on its economy, such as: increased public expenditure on health care in the order of 0.5% of GDP; a 20% reduction in the cost of electricity for the public, initially for 90 days, subsequently further reduced by 5% until September 2020; a 20% reduction in the cost of fuel for fishermen for 90 days; suspension of the common external tariff on food imports; and expansion of the existing social safety programmes.

In May 2020, the Government of Dominica introduced a series of measures, including: (i) extending the deadline for filing tax returns; (ii) a three-month moratorium for corporate tax; (iii) waiving penalties on businesses that entered into payment plans within six months of the new deadline; (iv) reducing the corporate tax rate from 25% to 17% for companies retaining at least 80% of their workers for 12 months; (v) removing import duty and value added tax on hygienic products; (vi) provision of additional funding to the Ministry of Health, Wellness and New Health Investment and the Ministry of Blue and Green Economy, Agriculture and National Food Security; (vii) issuing grants to approximately 2,500 crop farmers; (viii) investing US$ 100 million in projects; (ix) paying arrears to small contractors and merchants; and (x) issuing grants to families adversely affected by the COVID-19 pandemic.

From late March 2020 onward, the Government of Grenada pursued key fiscal policies, including payment of wages and payroll support for workers in the tourism industry; increased spending on government employment programmes; credit to small businesses; increased public spending on health care; and deferred payment of taxes.

In the same month, the Government of Saint Kitts and Nevis introduced measures including: (i) increasing public expenditure on health to 0.6% of GDP; (ii) grants for SMEs and the agricultural sector;

(iii) waiving tariffs on the import of hygiene and health-related products; (iv) increasing public expenditure on poverty alleviation projects; (v) temporarily reducing the corporate income tax rate from 33% to 25% and the unincorporated business tax rate from 4% to 2%; (vi) a moratorium on payments for electricity for pandemic-affected businesses; and (vii) provision of funding for mortgage loans. These measures were maintained up to June 2020. Additionally, funded by the Social Security Board, there was a transfer of EC$ 1,000 in April, May, June, and September 2020 to individuals whose employment was affected by the pandemic crisis.

In early April 2020, the Government of Saint Lucia announced a number of measures, such as: (i) a Social Stabilization Plan to address the economic impact of the COVID-19 crisis, offering income support to affected persons; (ii) suspension of rental fees to businesses renting from the government; and (iii) a rebate on fuel for bus drivers. In July 2020, the Government introduced an Economic Recovery and Resilience Plan, with several support mechanisms such as electricity assistance to affected stakeholders for a period of six months, from October 2020 to March 2021, and an increase in grants and loans to businesses.

In early April 2020, the Government of Saint Vincent and the Grenadines rolled out a fiscal package amounting to 3.6% of GDP, the main measures of which were: (i) deferral of tax payments; (ii) increased public expenditure on the health sector; (iii) a waiver of VAT and tariffs on the import of health and hygiene products; (iv) financial support to stakeholders in the tourism, transport, and agriculture sectors; and (v) increased public expenditure on social safety-net programmes.

The continued spread and mutation of COVID-19 also caused all governments of ECCU to implement special entry and exit restrictions and requirements for their territory. However, despite the acute impact of the COVID-19 pandemic on government revenue, fiscal space and economic activity throughout the Union in 2020, governments and the private sector have committed themselves to several infrastructural projects. For example, the Government of Antigua and Barbuda has several projects planned for 2021, which include an EC$ 55 million project to build a new airport; a project in collaboration with the United Nations Office for Project Services (UNOPS) to build 10,000 affordable homes across the islands; and continuation of four major road projects (Anchorage Road, Sir Sidney Walling Highway, Old Parham Road, and Valley Road).

The Government of Dominica also has key infrastructure projects planned for 2021, including: construction of an international airport at a cost of approximately EC$ 1 billion, mobilized from the Citizenship by Investment (CBI) programme; construction of the Anichi Resort and Spa, a private-sector funded project, which commenced in April 2021; and a 10 MW geothermal energy project that includes drilling of two wells, civil works for access roads and construction of well pads, valued at EC$ 9 million.

Grenada has several infrastructure planned for 2021: a water supply expansion and sewerage improvement project in Saint George’s, that will be implemented in conjunction with the United Kingdom Caribbean Infrastructure Partnership Fund (UKCIF); construction of an EC$ 2 billion, 500-room five-star hotel, golf course, and other luxury amenities; and the Silversands Hotel project, which will be funded by Citizenship by Investment (CBI) funds and will allow investors to purchase shares from the developer. This 30-room hotel will be located on Portici Beach near the capital, Saint George’s.

In 2021, the Government of Saint Kitts and Nevis will pursue several construction projects, such as the new Basseterre High School, a solar farm and several health centres. The Government of Saint Lucia has committed to the construction of the La Guerre Combined School; upgrade of schools in Castries; construction of Union Roundabout; a pipeline replacement project in the north of the island, to be executed by the national water company, WASCO; the construction of Cul De Sac Bridge; and continuation of construction works for Box Park. Saint Vincent and the Grenadines had also committed to several projects in the construction and road maintenance sector in 2021. However, in the aftermath of the eruption of La Soufrière, and the evacuation of thousands of people, it is uncertain if any of the planned projects may be implemented within the initial timeframes.

3. The main variables

(a) The external sector

There was an appreciable narrowing (24.1%) of the ECCU goods trade deficit in 2020 as a fall-off in the value of imports outstripped the decline in export earnings. Soft and declining crude oil prices and dampened commercial activity were the major drivers of the former. The pandemic-induced slump in tourist arrivals led to a 65% contraction in gross travel receipts (inflows from travel services) with cruise ship calls falling 60%, cruise ship passenger arrivals 65.6%, yacht calls 40.5%, and stay-over arrivals 68.1%. Together, this led to a significant worsening of the Union's goods and services (trade) deficit.

Consequently, the ECCU-wide current account and capital account both deteriorated in 2020, with the deficit of the former expanding by 4.8 percentage points to -16.62% of GDP and the latter's surplus contracting by 41 basis points to 3.82% of GDP. These developments led to a worsening of the net borrowing position of ECCU, due to the additional debt with international financial institutions such as the International Monetary Fund (IMF), taken on to offset the current account deficit.

(b) Economic activity

After nine consecutive years of increased economic activity, capped by 2.1% economic growth in 2019, there was a 15.9% contraction in the GDP of ECCU[3] in 2020, with all ECCU economies returning negative outturns. All ECCU economies, with the sole exception of Saint Vincent and the Grenadines, experienced double-digit declines. The economies of Antigua and Barbuda (-20.2%), Dominica (-16.6%) and Saint Lucia (-23.8%) were the most severely impacted by the real sector spillovers of the COVID-19 pandemic.

This Union-wide decrease in economic activity was primarily driven by contractions in tourism-related sectors (such as hotels, restaurants, and transport), the wholesale and retail trade, and construction owing to measures taken to curb the spread of COVID-19, which beset the global travel industry and disrupted supply chains and production in some domestic sectors. More specifically, value added fell in hotel and restaurants (62.1%), construction (18.2%) and manufacturing (4.8%) in 2020, although there was a marginal uptick (4.8%) in the agriculture sector. However, these figures do not give the full picture, as both Antigua and Barbuda (3.3%) and Dominica (6.1%) record growth in value added. In Grenada, value added of the education sector, which is their single largest contributor to GDP, declined by 1.2%.

As ECCU economies are largely tourism-dependent, when assessing its economic performance it is useful to focus more specifically on the tourism sector. Total visitors to the Union decreased drastically from 4.97 million in 2019 to 1.72 million in 2020, a -65.4% downswing, and the number of stay-over visitors also took a significant hit, falling by 68.1% from 1.2 million in 2019 to just 337,461 in 2020. The total number of cruise ships calls as an aggregate also decreased from 1,925 to 771, a 59.9% decrease, with Saint Kitts and Nevis (-64.9%), Saint Vincent and the Grenadines (-64.6%), Antigua and Barbuda (-62.6%)

[3] 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.

and Grenada (-61.9%) all severely affected. The decrease in cruise ship calls led to cruise passenger arrivals dropping 64.5% from 3.4 million in 2019 to 1.21 million in 2020, with Saint Kitts and Nevis (-74.6%) most severely affected in ECCU. Though all members of the Union experienced more than 58% decreases in stay-over arrivals, Dominica (-75.8%), Saint Kitts and Nevis (75.3%) and Grenada (-73.1%) experienced the steepest declines.

Despite the debilitating effect of the COVID-19 pandemic on tourism, the sector is expected to make a slow recovery in 2021, as approved vaccines are distributed regionally and globally and containment measures are eased. The construction and agriculture sectors are also expected to perform better in 2021, as governments continue to invest in these areas. ECCU is therefore forecast to return to growth in 2021 (3.2%).

(c) Prices, wages and employment

A combination of soft oil prices, weak demand owing to the COVID-19 pandemic and fiscal prudence by member governments in response to economic contraction led to continued consumer price deflation (-0.21%) in 2020, down further from -0.03% in 2019. However, in 2020 Antigua and Barbuda experienced inflation (2.78%). Despite upward price pressures, continued economic uncertainty is forecast to keep inflation in check in 2021. This, coupled with governments' expected fiscal responsibility is projected to constrain inflation to 0.87% in 2021.

Statistics on ECCU wage levels are generally not available. The economic impact of the COVID-19 pandemic has reversed the steady progress the Union made in reducing unemployment; indeed, unemployment levels rose in all member States in 2020. Many employers within the Union have had to lay off workers in an effort to keep their businesses afloat. High unemployment, particularly amongst youth, has increasingly become a major structural challenge for ECCU economies. COVID-19 has only served to exacerbate this problem. Second quarter of 2020 data from Saint Lucia's Labour Force Survey revealed that the unemployment rate in the country had risen to around 21.2%, up from 16.8% in 2019. Likewise, youth unemployment is estimated to have worsened from 31.6% to 34.4% over the same period. In Grenada, the unemployment rate for the second quarter of 2020 was 28.4% (14,236 people), up from 15.1% in the fourth quarter of 2019.