EASTERN CARIBBEAN CURRENCY UNION (ECCU)

1. General trends

The economies of the Eastern Caribbean Currency Union (ECCU) continued to demonstrate resilience in 2017, with GDP growth estimated at 2.13%.[1] Although this outturn was weaker than in 2016 (2.93%), it was achieved amid significant damage and losses and decreased private sector activity in the islands affected by Hurricanes Irma and Maria. Growth was largely fuelled by strong construction and, to a lesser extent, tourism activity, which had a positive impact in some member States. Concomitantly, value added also grew in transport, storage and communications, as well as in the wholesale and retail sectors. Forecasted robust global economic activity, coupled with anticipated improvements in airlift and positive economic developments in the major source markets, makes for a positive short-term outlook for the tourism industry in ECCU.

A decrease in current revenues in 2017 led to a deterioration of the current account surplus relative to 2016, thereby narrowing the overall fiscal surplus generated by the Union. This notwithstanding, the overall debt stock fell on account of a drop in external indebtedness. Following deflationary conditions in 2016 (-0.2%), inflationary pressures began to build across the ECCU economies in 2017, albeit to differing degrees, as food, gas and fuel prices trended upwards. This resulted in an average rate of inflation of 1.4% in 2017.

Dampened by a further 7.03% economic contraction in Dominica, real growth in ECCU is projected to rise to 2.54% in 2018, fuelled by several private sector tourism-related and public sector infrastructure projects in Antigua and Barbuda, Grenada, Saint Lucia and Saint Kitts and Nevis. In addition, positive ECCU-wide outturns are projected for the tourism and manufacturing sectors. Antigua and Barbuda is expected to be the fastest-growing ECCU economy in 2018, followed by Grenada.

2. Economic policy

(a) Fiscal policy

The fiscal performance of the eight ECCU economies weakened in 2017, with the overall surplus (after grants) generated from fiscal operations contracting to 0.2% of GDP in 2017, from 3.7% of GDP the previous year. Without Anguilla and Montserrat, the overall fiscal balance shows a deficit of 0.2% of GDP, following a 3.9% surplus in 2016. Fiscal deficits were recorded in Antigua and Barbuda, Dominica, and Saint Vincent and the Grenadines, while surpluses were recorded in Grenada, Saint Kitts and Nevis, and Saint Lucia during 2017.

The current account surplus deteriorated from 5.7% of GDP in 2016 to 2.6% in 2017. Non-tax revenue contracted by 34% in the face of declining Citizen by Investment Programme (CIP) inflows in Dominica and Saint Kitts and Nevis. There was a concomitant marginal Union-wide increase in current expenditure, while capital expenditure trended upwards in some territories, particularly on infrastructure projects.

[1] Weighted average for the eight economies of the Union: Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines.

There was an uptick of 0.3 percentage points in Antigua and Barbuda's current account deficit, to 1.2% of GDP in 2017, underpinned by a 3.6% increase in current expenditure due to higher interest payments; increased spending on goods and services driven by reconstruction and development works in Barbuda; and increased transfers and subsidies to offset the costs associated with the relocation of Barbudans to Antigua amid the devastation caused by Hurricane Irma. This notwithstanding, current expenditure as percentage of GDP declined in 2017. Current revenue expanded by 2.0%, buoyed by a 11% rise in non-tax revenue receipts. In this regard, receipts from the Citizen by Investment Programme (CIP) increased as the threshold for investments in the National Development Fund was lowered from US$ 250,000 to US$ 100,000 in response to competitive pressures.

Dominica saw a deterioration of the overall surplus (32.4% of GDP) generated in 2016 to a deficit of 5.8% of GDP in 2017, largely due to a decline in both tax and non-tax revenue. Tax revenue was particularly hard hit in the aftermath of Hurricane Maria in September 2017. Further, CBI inflows, the main driver of non-tax revenue, fell by 48.4% in 2017 to 279.2 million East Caribbean dollars (EC$).

On the other hand, Grenada's home-grown structural adjustment programme and its focus on expenditure restraint and more efficient revenue collection provided impetus for the expansion of its fiscal and current account surpluses in 2017. On the revenue side, although the rate of growth of current revenue decelerated in 2017, the positive effects of growth in the real sector and changes in tax policy continued to be felt. CBI receipts increased in 2017 with an estimated EC$ 113.7 million paid into the Treasury, compared with EC$ 34.1 million in 2016.

Saint Kitts and Nevis' overall fiscal (2.0% of GDP) and primary (3.6% of GDP) surpluses both contracted over the review period owing to a narrowing of the current account surplus. This was due to a fall in non-tax receipts and a rise in capital expenditure in 2017. It is worth noting that the observed 14.5% decline in non-tax revenue was driven primarily by a fall in CBI inflows, which contracted from EC$ 175 million in 2016 to EC$ 149 million in 2017.

Despite the weakened fiscal position of ECCU in 2017, the debt stock declined (0.1%) as external obligations fell by 1.7%. There was, however, a slight uptick (0.7%) in domestic borrowing. Consequently, the ECCU debt-to-GDP ratio fell by 2.3 percentage points to 71.4%. During the review period the public debt stock fell in Dominica, Grenada, Saint Lucia and Saint Vincent and the Grenadines.

Moreover, Grenada reached agreements with the United Kingdom and the Russian Federation, which completed the restructuring of all its Paris Club debt in 2017 and its debt-to-GDP ratio continued to fall during the first quarter of 2018. Antigua and Barbuda continued to implement its debt management strategy and concluded negotiations to reschedule or settle several liabilities. Antigua and Barbuda also developed a draft public debt management bill to underpin the institution of a legislative framework for public debt management.

(b) Monetary policy

In 2017, the Eastern Caribbean Central Bank (ECCB) continued to gear its monetary policy management towards maintaining the fixed exchange-rate peg and financial sector stability in the Union. ECCU saw growth of 0.1 percentage point in broad money (M2) as a share of GDP, to 86.1%, or a 3.6% nominal increase. M1 increased by 10.7% in 2017, compared to 7.4% the previous year. In addition, commercial bank liquidity, measured by the ratio of liquid assets to total deposits plus liquid liabilities, climbed by 3.2 percentage points to 47.8%, far exceeding the 25.0% minimum set by ECCB.

Domestic credit declined in ECCU in 2017, mirroring the overall Caribbean-wide trend. This decline was driven largely by a fall in lending to governments, with net credit to the central government shrinking by 13%, as well as a 7.5% decline in lending to businesses, which offset growth in consumer credit observed in the review period. Further, following the 2015 decision by the ECCB Monetary Council to reduce the minimum deposit rate to 2.0%, the average interest rate spread narrowed by 3 basis points to 6.72%. Both the weighted average deposit and lending rates continued to fall in 2017, with nominal deposit and lending rates at 1.6% and 8.3%.

(c) Other policies

Through the policy interventions of ECCB, the exchange rate between the East Caribbean dollar and the United States dollar remained fixed at EC$ 2.7 to US$ 1 during 2017. ECCB made progress towards assuming anti-money-laundering (AML) and combating the financing of terrorism (CFT) responsibilities for all institutions licensed under the Banking Act, as decided by the Monetary Council in July 2016.

Grenada, in July 2017, commenced exploratory petroleum drilling operation in its waters; formulated a public sector management reform strategy for the period 2017-2019; and in December reduced the personal income tax rate for individuals earning between EC$ 36,000 and EC$ 60,000 annually from 15% to 10%. In 2017, the Government of Saint Lucia made the policy decision to increase the excise tax on gasoline and diesel.

In 2017, the Government of Saint Vincent and the Grenadines established a disaster contingencies fund and instituted a 1% disaster levy on consumption as a means of capitalizing it. Further, the VAT standard rate was reduced to 12.5% in February 2017. Saint Kitts and Nevis formulated a five-year yachting sector strategic plan and an additional implementation plan, which will guide the development of the sector over the period 2017-2022.

3. The main variables

(a) The external sector

Driven by the combination of declining exports and rising imports, the Union’s merchandise trade deficit widened by 6.4% year-on-year in 2017. The observed 5.4% expansion in imports was fuelled by increased payments for foreign machinery and transport equipment, manufactured goods and articles, and food and live animals. Within the Union, the value of imports increased in Antigua and Barbuda, Grenada and Saint Lucia. Antigua and Barbuda’s trade deficit, for instance, climbed by 30.0% to EC$ 1.5bn (37.0% of GDP) relative to 2016, as its import bill rose by 26.6% to EC$ 1.7bn, which offset a marginal increase in exports.

There was similar widening of Grenada’s merchandise trade deficit from 30.3% of GDP or EC$ 0.87 billion in 2016 to 35.3% of GDP or EC$ 1.07 billion in 2017. The country’s imports stood at EC$ 1.1 billion, which represented an increase of 19.9% over the previous year. This was tied to growth in construction activity and in vehicle imports, as well as a 24% rise in the value of fuel imports. Revenue from agricultural exports contracted (by 20.3%), owing to declining export volumes of several commodities and manufactured exports were down (by 4.2%), reflecting reduced receipts from flour.

Saint Lucia, on the other hand, registered a smaller deficit in 2017 as a marginal increase in its imports was offset by a 6.1% rise in the value of exports, largely driven by re-exports. The trade deficits in Dominica, Saint Kitts and Nevis and Saint Vincent and the Grenadines also contracted to varying degrees in 2017.

Furthermore, a fall in stay-over arrivals from the United Kingdom and United States markets were the major driver of the 1.3% drop in gross tourist receipts recorded in ECCU in 2017. Dominica and Antigua and Barbuda were the hardest hit in terms of the fall in tourist receipts, with declines of 19.5% and 6.7%, respectively, due primarily to the direct impacts of tropical storm Erika and Hurricane Maria.

In addition, there was an expansion in external debt repayment, which outstripped an increase in gross external disbursement to the central government, thereby leading to a contraction (EC$ 8.2m) in the net disbursement position, which stood at EC$ 26.7m at the end of 2017. Increased grant inflows in Antigua and Barbuda, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines led to a climb in gross receipts of official grants in 2017.

(b) Economic activity

While all ECCU economies with the exception of Dominica (-4.21%) posted positive growth in 2017, the rate for the Union slowed to 2.13%. There was, however, stronger growth in the construction sector and increased cruise-ship arrivals in some member States. Value added also grew in transport, storage and communications; as well as in the wholesale and retail sectors. The short-term outlook for the tourism industry in ECCU remains positive.

Within the real sector of ECCU, construction activity, the main driver of economic growth in the Union, grew by 12.0% in 2017. Value added in the construction sector 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 fuelled largely by private sector investment in hotels and other tourism-related projects, as well as increased capital expenditure, especially on schools, government buildings, roads and infrastructure development. Furthermore, within ECCU, the spillover effects of the positive outturn in the construction sector boosted value added in mining and quarrying; storage and communications; and wholesale and retail activity.

Across ECCU, due to an uptick in the number of cruise-ship calls in Antigua and Barbuda, Saint Kitts and Nevis and Saint Lucia, tourism visitor arrivals rose in 2017, following a contraction in 2016. Buoyed by increased visitor numbers from Canada and the Caribbean, there was a marginal rise in stay-over arrivals in ECCU. A 6.7% fall-off in visitors to Antigua and Barbuda was in part due to competition from other destinations and trepidation on the part of leisure tourists in the aftermath of Hurricane Irma.

Manufacturing output in ECCU marginally improved in 2017, driven by positive outturns from the grains, beverages and building material subsectors in Saint Vincent and the Grenadines. These positive outturns collectively offset declining manufacturing output in Dominica (32.7%) and Saint Kitts and Nevis (6.5%). In respect of the latter, export of alcoholic beverages declined significantly in 2017, other manufacturing exports declined (8.5%) and electronics exports contracted (2.7%), which more than offset the positive outturn of exports of electronic manufactures observed during the first half of the year. In addition, while value added in Grenada's manufacturing sector grew by 2.6%, rum production fell by 14.0%; and growth in value added in Antigua and Barbuda and Saint Lucia's manufacturing sectors was weak in 2017 Furthermore, increased enrolment at St. George's University propelled growth in the education sector of Grenada.

Dampened by further 7.03% economic contraction in Dominica, due to the devastating impact of Hurricane Maria on the agricultural, manufacturing and tourism sectors as well as economic infrastructure, real growth in ECCU is projected at 2.54% in 2018. Without Dominica, average growth of the other seven ECCU economies is projected at 3.39% in 2018.

This increased economic activity is expected to be fuelled by several private sector tourism-related and public sector infrastructure projects in Antigua and Barbuda, Grenada, Saint Lucia and Saint Kitts and Nevis. In addition, positive outturns are projected for the tourism and manufacturing sectors. Moreover, the Sustainable Growth Fund in Saint Kitts and Nevis, a new modality introduced in March 2018 under the citizenship by investment programme, is intended to strengthen domestic growth.

Against the backdrop the favourable global outlook and in view of the country's high growth correlation with the business cycles of the United States, United Kingdom and euro area economies as well as positive developments in the domestic construction and tourism sectors, Antigua and Barbuda is forecast to be the fastest growing economy in ECCU in 2018, followed by Grenada.

(c) Prices, wages and employment

A modest increase in the general price level occurred in ECCU, 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. As such, ECCU posted inflation of 1.4% in 2017, compared to a 0.2% deflation in 2016. Inflation remained relatively subdued in Grenada (0.48%) and Saint Kitts and Nevis (-1.1%) during the first quarter of 2018.

There was an overall decline in the unemployment rate in ECCU in 2017. For instance, robust economic growth, particularly in construction with positive spillovers in the retail sector, fuelled a fall in the unemployment rate in Grenada from 26.8% in 2016 to 23.6% in 2017. Moreover, in 2017 youth unemployment stood at 39.9%, down from 50.4% in the previous year. Similarly, led by increased construction activity, the unemployment rate in Saint Lucia fell from 21.3% in 2016 to 20.2% in 2017. However, youth unemployment increased marginally from 38.4% in 2016 to 38.5% in 2017.

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Table 1

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017 b/
	Annual growth rates c/								
Gross domestic product	-4.5	-2.8	0.1	0.6	2.3	3.5	3.0	2.9	2.1
Per capita gross domestic product	-6.0	-3.1	-0.2	-0.4	1.0	4.1	1.4	2.5	0.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.5	-13.4	2.1	5.0	5.7	3.3	8.2	1.4	-3.3
Mining and quarrying	-28.0	-17.6	-10.3	8.0	38.3	3.7	-4.2	-0.2	12.2
Manufacturing	-1.4	-4.0	-1.9	-3.7	3.7	-1.1	1.0	-1.4	-1.1
Electricity, gas and water	2.9	1.1	1.9	-0.2	-0.4	-0.4	3.9	2.5	0.3
Construction	-9.2	-15.5	-10.8	-4.3	11.2	0.0	5.7	10.9	12.5
Wholesale and retail commerce, restaurants and hotels	-10.6	1.0	0.4	1.3	-0.6	5.1	-0.3	2.9	1.9
Transport, storage and communications	-5.1	-0.4	-0.6	-0.5	0.2	4.2	2.0	-1.2	4.5
Financial institutions, insurance, real estate and business services	-0.5	-2.8	1.0	1.1	1.8	1.8	4.2	3.0	0.8
Community, social and personal services	2.4	0.9	2.2	2.4	2.1	4.2	1.8	2.3	1.9
External-sector indicators	**Millions of dollars**								
Net resource transfer (millions of dollars)	873	929	855	795	818	115	-173	12	...
Total gross external debt (millions of dollars)	2 110	2 194	2 303	2 324	2 632	2 679	2 593	2 614	2 562.9
Central government	**Percentajes of GDP**								
Total revenue	24.5	24.8	25.1	25.2	25.7	27.1	27.0	30.5	26.3
Tax revenue	20.3	19.9	20.0	19.9	19.6	19.8	20.1	20.5	20.1
Total expenditure	28.8	27.1	28.6	27.4	29.1	28.1	26.7	26.6	26.5
Current expenditure	22.8	22.3	23.1	22.8	22.8	22.7	21.7	22.2	22.3
Interest	3.0	2.9	3.0	3.2	2.9	3.0	2.7	2.6	2.3
Capital expenditure	6.1	4.8	5.5	4.6	6.2	5.4	5.0	4.3	4.2
Primary balance	-1.3	0.6	-0.5	0.9	-0.5	1.9	3.0	6.5	2.1
Overall balance	-4.3	-2.3	-3.5	-2.3	-3.4	-1.1	0.3	3.9	-0.2
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	81.2	80.3	80.1	79.2	74.4	66.1	57.0	51.0	48.6
To the public sector	3.7	1.8	2.0	0.7	-0.3	-1.8	-4.2	-6.8	-7.1
To the private sector	77.5	78.5	78.2	78.5	74.7	67.9	61.2	57.8	55.7
Monetary base	12.5	14.1	15.8	16.6	18.1	20.9	21.8	22.8	22.4
Money (M1)	17.4	17.7	18.0	18.6	18.5	19.5	19.8	20.5	21.9
M2	71.7	72.9	74.3	75.9	76.5	75.4	73.0	72.0	72.7
Foreign-currency deposits	6.5	6.7	6.7	6.8	8.0	9.9	10.8	10.0	9.7

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.