

**EASTERN  
CARIBBEAN  
CURRENCY UNION**  
**JUNE 2022**



**ECONOMIC AND  
FINANCIAL REVIEW**

**Eastern Caribbean Central Bank**



JUNE 2022

# **Economic and Financial Review**

## **HALF-YEAR REVIEW**

### **EASTERN CARIBBEAN CURRENCY UNION**

**EASTERN CARIBBEAN CENTRAL BANK**





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# Eastern Caribbean Currency Union

## Economic and Financial Review: 2022 Half-Year (2022H1)

Research, Statistics and Data Analytics Department

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## 1 Overview

- Regional economic activity strengthened in the first half of 2022<sup>1</sup> as the pandemic effects continued to dissipate.
- The strengthening was supported by continued recovery in travel services, particularly stayover and cruise categories, which boosted demand for other services sectors such as transportation, wholesale and retail trade.
- However, the outbreak of the war in Ukraine in February 2022, has given rise to global and regional inflationary conditions. Consequently, year-on-year inflation accelerated in the first half of 2022, predominantly driven by global food and energy prices.
- Consistent with the rebound in economic activity, revenue collection expanded strongly in the review period, resulting in improvements in governments' fiscal balances, while total outstanding public sector debt rose.
- Higher values of imports from commodity prices contributed to a significant widening in the merchandise trade deficit in the first six months of 2022.
- Economic activity in the ECCU is expected to further strengthen in the short to medium-term aided by pent-up demand for travel. There are however several downside risks, which could impede the continued recovery. These include the protraction of the military conflict in Ukraine and other geopolitical conflicts which could result in greater macroeconomic uncertainty and volatility in commodity prices.

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## 2 The Economy (Real Sector)

Economic activity in the regional economy is estimated to have strengthened relative to the comparable period of the previous year. The expansion was bolstered by tourism activity, as global travel began to

<sup>1</sup>The review period for this report is the first six months of 2022, and is abbreviated 2022H1 in this report

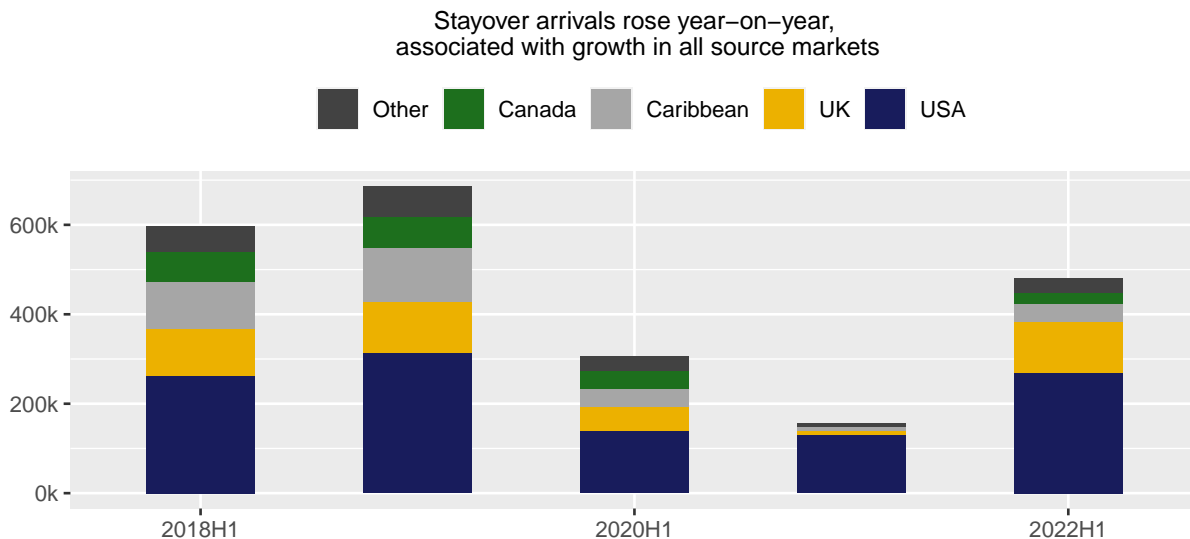
gradually gain traction following pandemic-induced contractions of the two previous years.

Total tourist arrivals to the region rebounded strongly to a high of 1,408,276 from 165,279 in the first half of the previous year. All categories of visitors increased, with the largest growth in the cruise segment, due mainly to the base effects of the previous year (Figure 1). Notwithstanding the strong growth in these key categories, the overall outturn of all segments remained below their pre-pandemic (2019) levels.



Figure 1: Visitor Arrivals to the ECCU by Category

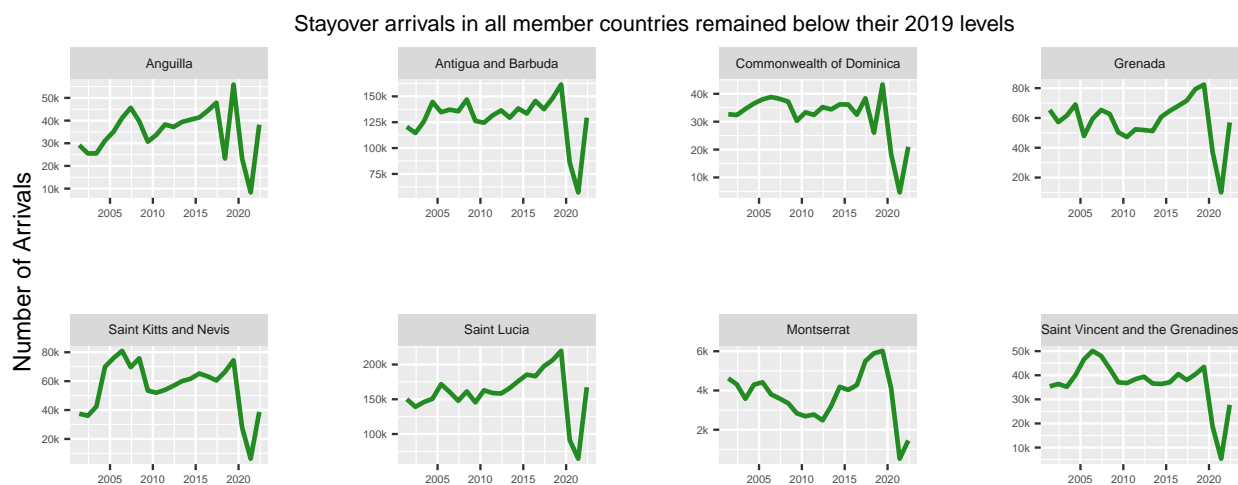
The increase in the stayover segment of arrivals was due to expansions from all major source markets, driven by pent-up demand for travel following almost two years of health and travel restrictions. The largest increases were exhibited in the number of visitors from the United Kingdom and Canada (Figure 2), reflective of the base effects from the travel restrictions imposed in these markets during the comparative period one year earlier.



Source: ECCB

Figure 2: Stayover Arrivals by Source Market

The recovery was fairly broad-based, as all ECCU member countries exhibited increases in stayover arrivals, albeit well below their 2019 levels, as is depicted in Figure 3.



Source: ECCB

Figure 3: Stayover Arrivals to the ECCU by Country

The recovery was buoyed by the auxiliary service sectors, including transportation, storage and communication, wholesale and retail trade and real estate, renting and business activities. These sectors were all estimated to have expanded over the period, as regional tourism activity continued to benefit from a strong post-pandemic expansion.

Although agricultural activity exhibited mixed trends across member countries during the period, on ag-

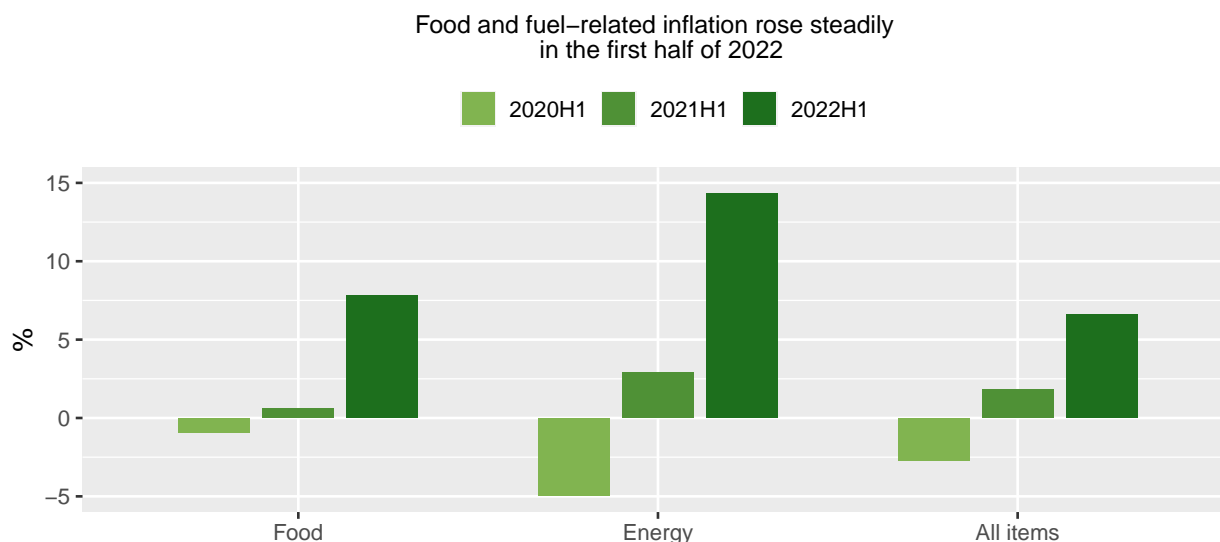


gregate, an overall expansion was recorded, primarily as agricultural production resumed in Saint Vincent and the Grenadines, following the explosive eruptions of the La Soufriere volcano which began on 9 April 2021. Growth in the sector was also supported by increased production in Saint Lucia, Saint Christopher (St Kitts) and Nevis the Commonwealth of Dominica, as governments continued to increase public investment in the sector, aimed at enhancing national food security.

Construction-related activity continued to exhibit a modest expansion during the period, driven by investment in both public and private sector activities, in particular the continuation of civil works in a number of member countries. Private sector activity continued to expand in Saint Vincent and the Grenadines, Saint Lucia, St Kitts and Nevis and Antigua and Barbuda. Activity in Saint Vincent and the Grenadines was related to reconstruction following the volcanic eruptions at La Soufriere in 2021, while activity in Antigua and Barbuda was dominated by the continued construction of the multi-million-dollar Peace Love and Happiness (PLH) project in Barbuda.

## 2.1 Consumer Prices

The first half of 2022 was characterised by high levels of inflation both globally and regionally, following the outbreak of military conflict in Ukraine in February 2022. The war exacerbated the price pressures from supply chain disruptions of the previous year. Consequently, average inflation surged due to high global energy and commodity prices. Inflation for the ECCU climbed by 6.3 per cent in the first half of 2022 following a 1.9 per cent uptick in the corresponding period of 2021 (Figure 4). The surge in the general price level was predominantly driven by energy and food prices, which rose by 14.3 per cent and 7.8 per cent respectively, following their respective increases of 2.9 per cent and 0.6 per cent in the first six months of 2021.



Source: ECCB

Figure 4: Trends in Period-Average Inflation.

In response to the inflationary pressures, member governments introduced a number of measures to protect



residents and businesses from the impact of rising inflation; including subsidies, price caps on energy-related goods as well as reductions in fuel-related taxes. Notwithstanding the provision of fiscal support, the increase in price levels was observed across all ECCU member countries. The impacts however were varied, reflecting in part the differences in each member country’s consumer basket, shipping costs and the size, type and impact of governmental support provided.

### 3 Government Operations

During the first half of 2022, the aggregated fiscal operations of ECCU central governments resulted in an overall surplus of \$13.0m, relative to a deficit of \$207.7m recorded in the first half of 2021 (Figure 5). The improvement reflected fiscal surpluses in Anguilla, Commonwealth of Dominica, Grenada and Montserrat. The positive balances were offset by fiscal deficits in the four remaining member countries.

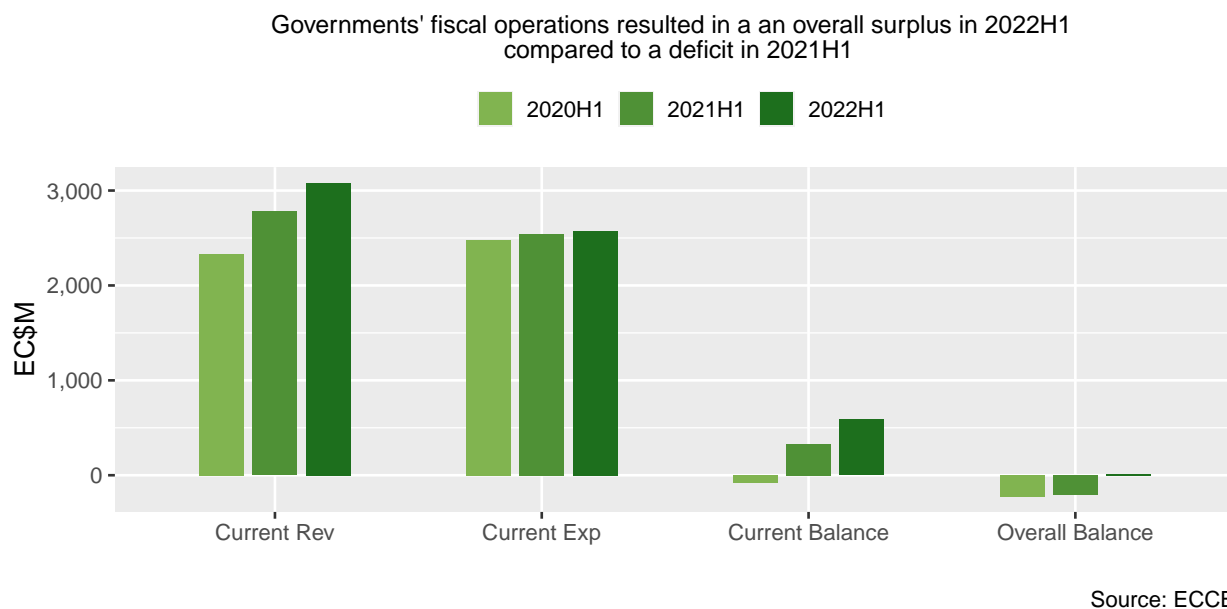


Figure 5: Trends in Governments’ Fiscal Operations

Higher current revenue intake resulted in an improvement in the governments’ aggregated current account balances to \$586.1m from \$330.1m in the comparable period of the previous year. All member countries, except Saint Lucia and Saint Vincent and the Grenadines generated surpluses in their fiscal operations. The improvement in the aggregated current balance was driven by a 10.9 per cent increase in current revenue to \$3,081m from its level one year prior. Meanwhile current expenditure fell by 1.2 per cent relative to 2.5 per cent in the corresponding period one year prior.



### 3.1 Debt

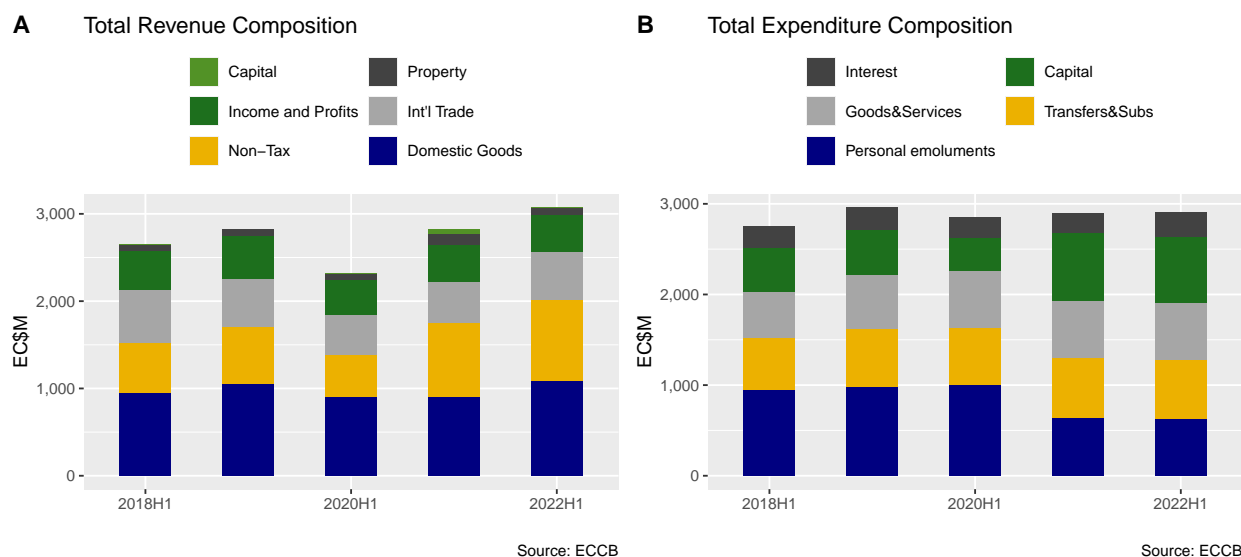


Figure 6: Trends in the Composition of Revenue and Expenditure

Total government revenue (which includes capital revenue) rose by 9.2 per cent (\$256.0m) to \$3,095.6m relative to the corresponding period in 2021 (Figure 6A). The expansion reflected increases in all major revenue categories with the exception of property and capital revenue. Inflows from taxes on goods and services, grew by 20.7 per cent, and remained the largest component of revenue during the period, amounting to \$1,090.6m. Non-tax revenue grew by 9.6 per cent year-on-year, and comprised the second largest share of total government revenue in the first six months of 2022. The expansion in non-tax revenue was fuelled by inflows from the Citizenship by Investment programme, notably in Saint Kitts and Nevis and the Commonwealth of Dominica.

Meanwhile, total expenditure amounted to \$3,306.3m, a negligible increase (0.3 per cent) from the outlay in the corresponding period in 2021 (Figure 6B). The increase was primarily due to lower spending on health and pandemic-related programmes, as the effects of the pandemic dissipated. Declines were registered in outlays on transfers and subsidies (2.7 per cent) and goods and services (0.9 per cent). Spending on personal emoluments, which comprised the largest share of government expenditure, remained virtually unchanged during the review period.

### 3.1 Debt

The aggregated fiscal operations of member governments resulted in a 3.7 per cent (\$583.0m) expansion in the stock of total public sector debt to \$16.3 billion as at June 2022 relative to the stock in the corresponding period of the previous year (see Figure 7). The increase was largely driven by external debt accumulation, which grew by \$582.0m (or 7.0 per cent) over the period, and accounted for 54.6 per cent of the total ECCU debt stock as at end June 2022.



The increase in total outstanding public sector debt reflected debt expansions in most member countries



Source: ECCB

Figure 7: Trends in Outstanding Public Sector Debt in the ECCU

The growth in external debt reflected expansions in the external debt portfolios of Saint Lucia (37.0 per cent), Saint Vincent and the Grenadines (30.0 per cent) Antigua and Barbuda (24.0 per cent), and the Commonwealth of Dominica (15.0 per cent). The increases in outstanding public external debt were supported by traditional multilateral creditors such as the CDB and IDA as well as a bilateral creditor – the EXIM China, and used to finance a number of capital projects. The domestic debt stock grew marginally (\$1.0m), and was attributable to regular amortizations by Saint Vincent and the Grenadines (\$49.1m), Anguilla (\$22.8m), Grenada (\$10.5m), and St. Kitts and Nevis (\$3.8m) over the period. Of note, \$24.2m debt held by Petro Caribe was cancelled in May 2022 in the case of Saint Vincent and the Grenadines.

## 4 Banking Developments (Monetary)

Deposits in the ECCU banking system expanded during the first half of 2022, while credit growth slowed relative to the corresponding period of the previous year. Domestic claims (credit) increased by 1.5 per cent at the end of June 2022 to \$10,956.4m, significantly lower than the 8.8 per cent increase recorded one year earlier (Figure 8). Within the private sector segment, marginal expansions were observed in outstanding

claims to both businesses (0.1 per cent) and to households and non-profit institutions (0.2 per cent). The marginal expansions in outstanding credit may reflect, among other factors, increased credit risks stemming from greater macroeconomic uncertainty and global inflationary conditions which have resulted in a general decline in disposable income. Meanwhile, the net deposit position of general government declined by 29.6 per cent, as an increase in claims to governments (\$61.7m) outpaced the accumulation of government deposits (\$13.0m) in the banking sector.

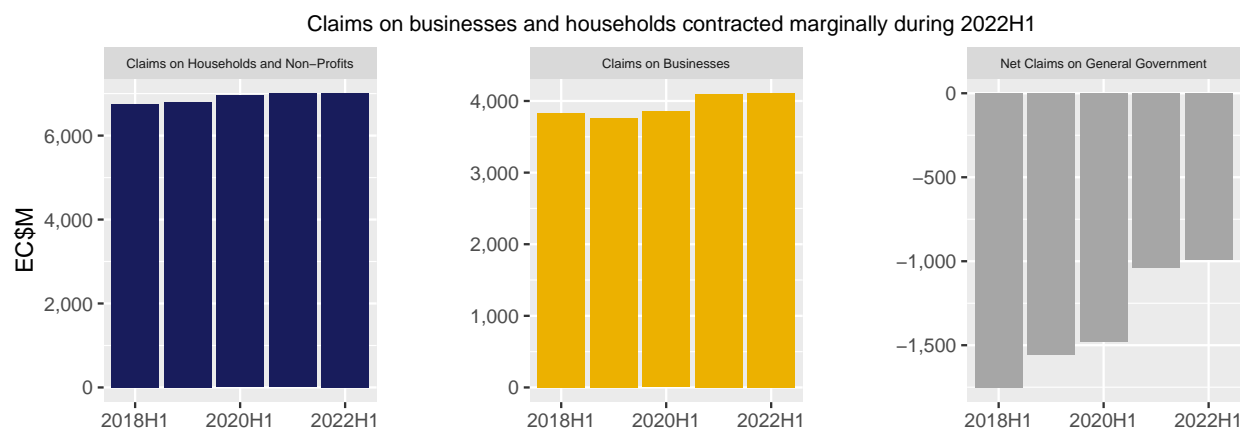


Figure 8: Trends in Domestic Claims on Selected Sectors

Banking system domestic deposits rose during the review period, reflecting expansions in two of the three major sub-components. Transferable EC-currency deposits and foreign currency deposits, recorded year-on-year expansions of 32.7 per cent and 27.4 per cent respectively. Meanwhile, EC-currency deposits, which accounted for the largest share of domestic banking sector deposits, fell by 2.4 per cent (Figure 9).

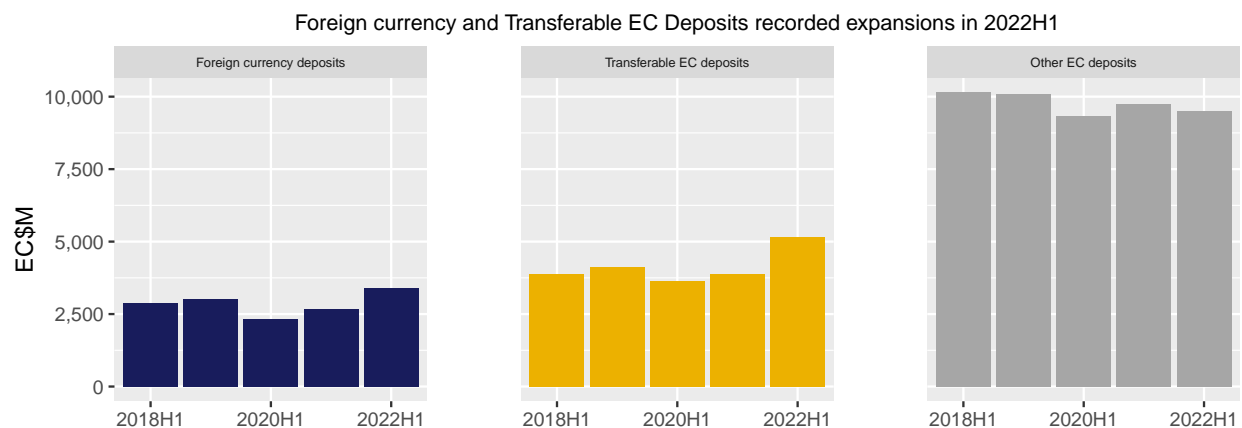


Figure 9: Trends in Domestic Deposits



Asset quality of the banking system deteriorated slightly over the period, proxied by the ratio of commercial banks' non-performing loans (NPL) to total loans ratio. The ratio stood at 11.9 per cent at the end of June 2022, from 11.7 per cent in 2021, well above ECCB's prudential benchmark of 5.0 per cent (Figure 10). The highest NPL ratios were observed in St Kitts and Nevis and Anguilla.

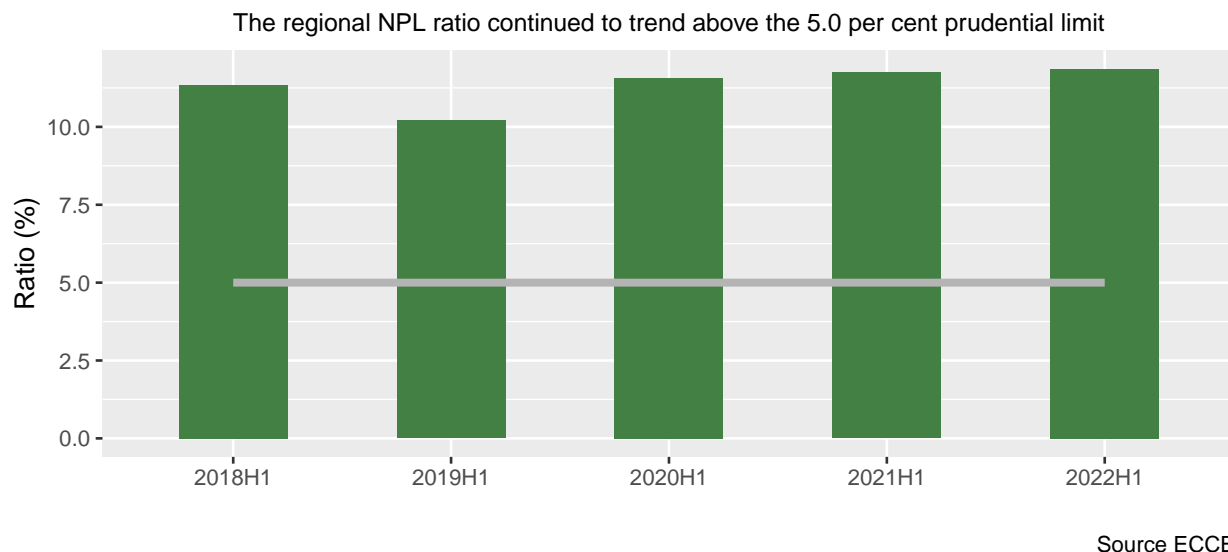
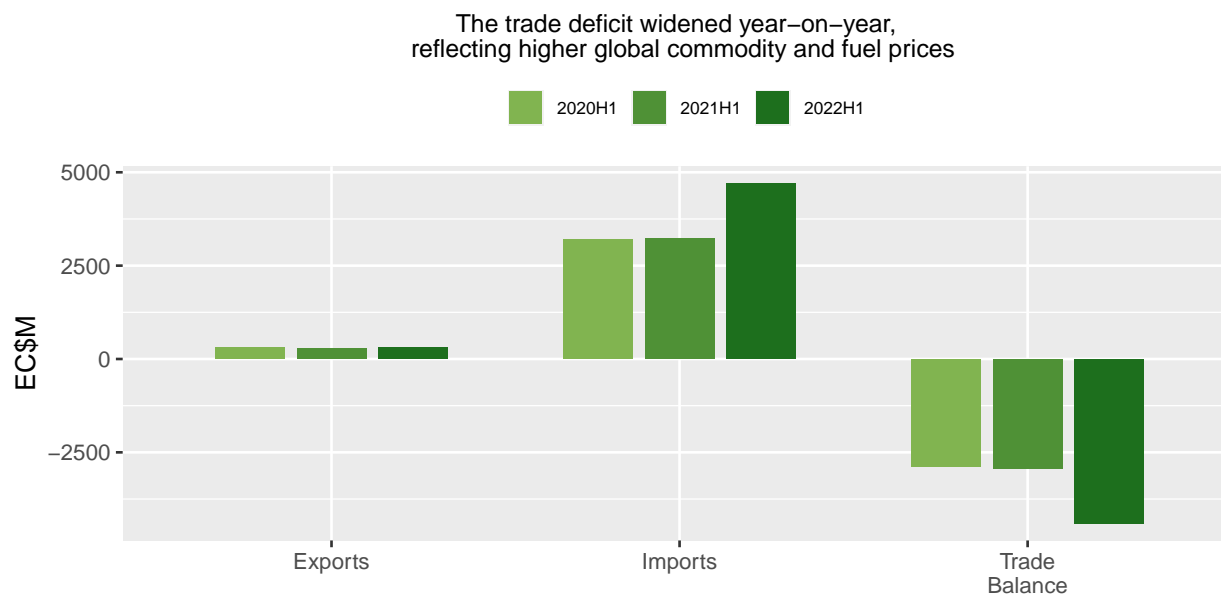


Figure 10: Trends in the Non-Performing Loans Ratio

## 5 External Trade

Higher food and commodity prices, precipitated by the war in Ukraine, resulted in a significant widening in the merchandise trade deficit during the period. The merchandise trade deficit stood at \$4,404.0m, up from a value of \$2,925.8m registered in the first half of 2021 (Figure 11), as the increase in the import payments (46.2 per cent) far exceeded the marginal expansion in export receipts (2.9 per cent). The higher import value was due to a combination of surging food and commodity prices and elevated freight costs, as a result of trade disruptions and trade sanctions emanating from the war in Ukraine. The deterioration in the regional trade balance reflected similar developments across all ECCU member countries.



Source: ECCB

Figure 11: Selected Components of External Trade

## 6 Outlook

The rebound in regional economic activity is expected to be sustained in the second half of 2022 and into the first quarter of 2023. This positive outlook is premised on the expectation of continued pent-up post-pandemic demand for travel to the region and strong labour market indicators in key source markets.

This favourable outlook is however subject to considerable downside risks which could constrain the region's economic recovery.

- Key among these risks is the uncertainty in global environment, due to continued geopolitical tensions including the protracted military conflict in Ukraine, which are likely to subdue global growth, consistent with the IMF's projections.
- The United Kingdom and the EU, which are key source markets for tourism, are likely to remain susceptible to the effects of the war in Ukraine and high energy costs which will continue to take a toll on consumption and industrial production in these economies.
- While COVID-19 has become less problematic for most countries, there is a possibility of an increase in infections in countries such as China, which could further dampen the global growth outlook.
- While inflationary pressures are expected to abate over time, prices are expected to remain elevated in the region's key source markets, which may further diminish disposable income.
- Central banks in many advanced economies are expected to continue to raise interest rates to combat inflation, resulting in tightening in financial conditions.
- The weaknesses in the British pound sterling and other non-US currencies are likely to affect the level of grants to member countries and impact travel from source markets.



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- Price increases, which initially affected food and energy in the ECCU member countries, are likely to affect other goods and services, given the potential lag from the global impact.
  - Fiscal support, aimed at offsetting the impact of inflation on residents, is likely to continue into the short to medium-term, putting further pressure on governments' fiscal balances.
  - As regional households continue to spend more on food and energy, this is likely to reduce discretionary spending, which could further dampen growth.

While these risks are significant, they are likely to dampen, but not derail the region's growth prospects for 2022.



## 7 Selected Economic Indicators

Indicator	2018H1	2019H1	2020H1	2021H1	2022H1
Current Revenue (EC\$M)	2657.7	2846.1	2329.4	2779.2	3081.9
Current Expenditure (EC\$M)	2264.5	2459.0	2479.5	2541.0	2572.3
Current Balance (EC\$M)	456.1	448.1	-76.7	330.1	586.1
Primary Balance (EC\$M)	294.9	264.6	8.1	5.5	279.8
Overall Balance (EC\$M)	57.0	21.7	-221.5	-207.7	13.0
Total Public Sector Debt (EC\$M)	13440.5	13855.6	14522.5	15673.7	16251.6
Inflation (Period Average %)	1.5	0.5	-2.7	1.8	6.6
Total Visitor Arrivals ('000)	2743.4	2966.5	1611.0	165.3	1408.3
Total Visitor Expenditure (EC\$M)	3243.0	3738.8	1672.7	1094.6	3255.2
Net Foreign Assets (EC\$M)	9050.3	9461.4	10031.0	10666.1	11372.8
Domestic Credit (EC\$M)	9672.5	9934.7	9919.7	10795.0	10956.4
M2 (EC\$M)	17785.9	18133.6	16256.4	17337.2	19197.1
Currency in Circulation (EC\$M)	1083.4	1141.3	1224.5	1277.1	1424.0
Liquid assets to total assets	37.6	36.4	42.3	40.5	42.4
Liquid assets to short-term liabilities	40.4	39.5	49.3	46.0	47.3
Customer deposits to total (noninterbank) loans	162.4	158.4	149.1	149.9	162.8
Weighted Average Deposit Rate (%)	1.6	1.6	1.6	1.6	1.3
Weighted Average Lending Rate (%)	8.4	8.0	7.3	7.1	6.9
Interest Rate Spread (%)	6.8	6.4	5.7	5.5	5.6
Non-Performing Loans to Total Loans (%)	11.3	10.2	11.6	11.7	11.9





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