EASTERN CARIBBEAN CURRENCY UNION

DECEMBER 2022

ECONOMIC AND FINANCIAL REVIEW

Eastern Caribbean Central Bank

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ANNUAL REVIEW

EASTERN CARIBBEAN CURRENCY UNION

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Eastern Caribbean Currency Union
Annual Economic and Financial Review - 2022

Eastern Caribbean Central Bank

Contents

1 Overview

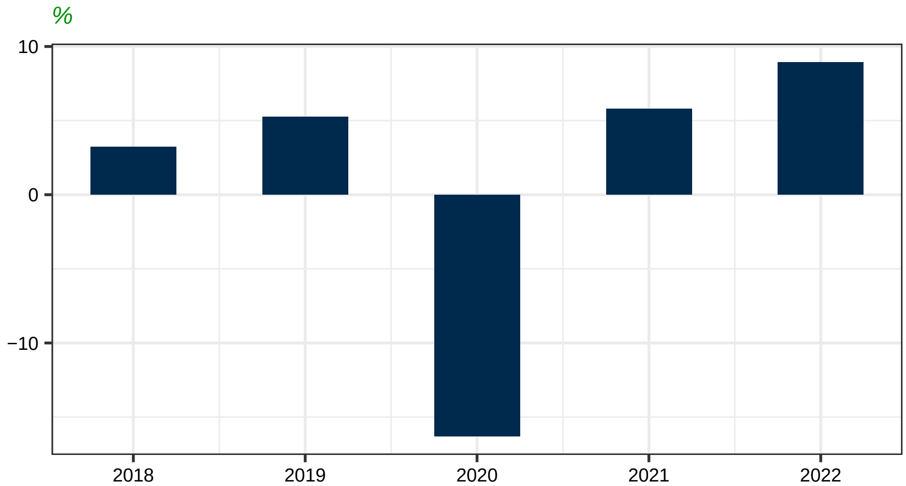
- Economic activity in the ECCU accelerated in 2022, as the regional economy continued to recover from the pandemic-induced setbacks from the past two years.
- Robust expansion in the tourism industry in 2022 relative to the previous year drove economic growth in the region. However, visitor arrivals remained below 2019 levels.
- The construction sector lost some of its momentum of the previous year as capital investments decelerated as higher construction costs weighed on investment decisions.
- Consumer prices rose during the year in review, attributable to higher fuel and commodity prices, which were associated with the ongoing military conflict in Ukraine.
- The fiscal balances of member governments improved year-on-year, as revenue growth outpaced that of expenditure, resulting in narrower overall deficit.
- External trade developments primarily reflected a widening in the merchandise trade deficit, to one of its highest levels on record. The deterioration in the trade balance was due to substantially higher import payments on food and fuel.
- While the ECCU economy is poised to continue to expand in 2023, there are key headwinds. These include the prospect of continued high price levels, geopolitical risks related to the Ukraine crisis, and the continued risks of natural disasters.

8.9% Real GDP Growth	**7.8%** end-of-period inflation	**78.5%** Debt-to-GDP ratio
-1.4% Fiscal balance (% GDP)	**-$9.0B** Merchandise trade balance	**$11.2B** Domestic claims

2 The Economy (Real Sector)

Economic activity in the ECCU is estimated to have strengthened, recording growth of 8.9 per cent in 2022, following an expansion of 5.8 per cent in 2021 (see Figure 1). The growth acceleration was driven by developments in tourism (proxied by the hotels and restaurants sector), and other auxiliary sectors. Growth was observed in most of the eight member countries with the exception of Montserrat, which recorded a contraction of 1.2 per cent in 2022.

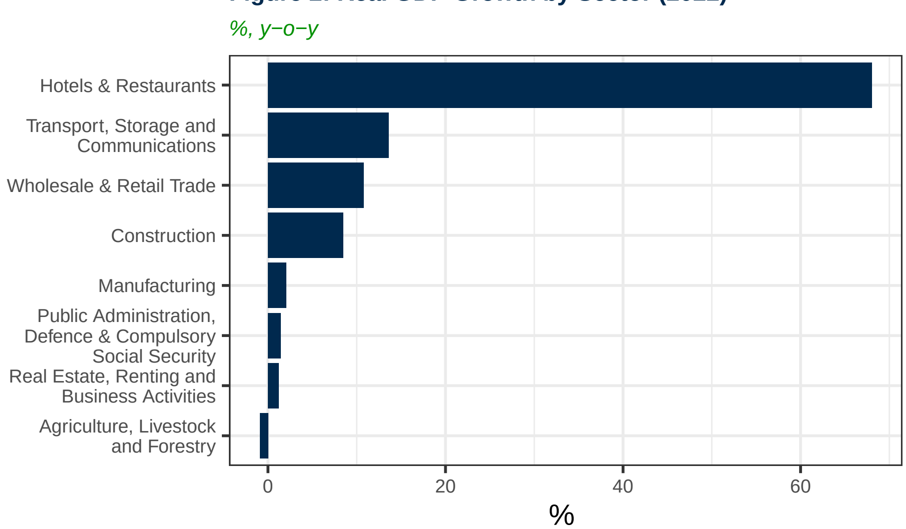
Figure 1: Real GDP Growth Rates (%)



Source: ECCB

Sectoral data show that the boost in activity was driven largely by major services sector (Figure 2), primarily hotels and restaurants (68.0%), transport, storage and communication (13.6%), and wholesale and retail trade (10.8%). Gross value added in the construction sector rose in 2022 (8.5%), albeit at a slower rate relative to that of the previous year (14.4%). The deceleration in construction activity was due in part to higher construction costs, which have begun to impact firms' and households' investment decisions. Financial Intermediation and Real Estate, Renting and Business Administration sectors, registered modest gains. These sectors grew at 1.1 per cent and 1.2 per cent respectively.

Figure 2: Real GDP Growth by Sector (2022)



Source: ECCB

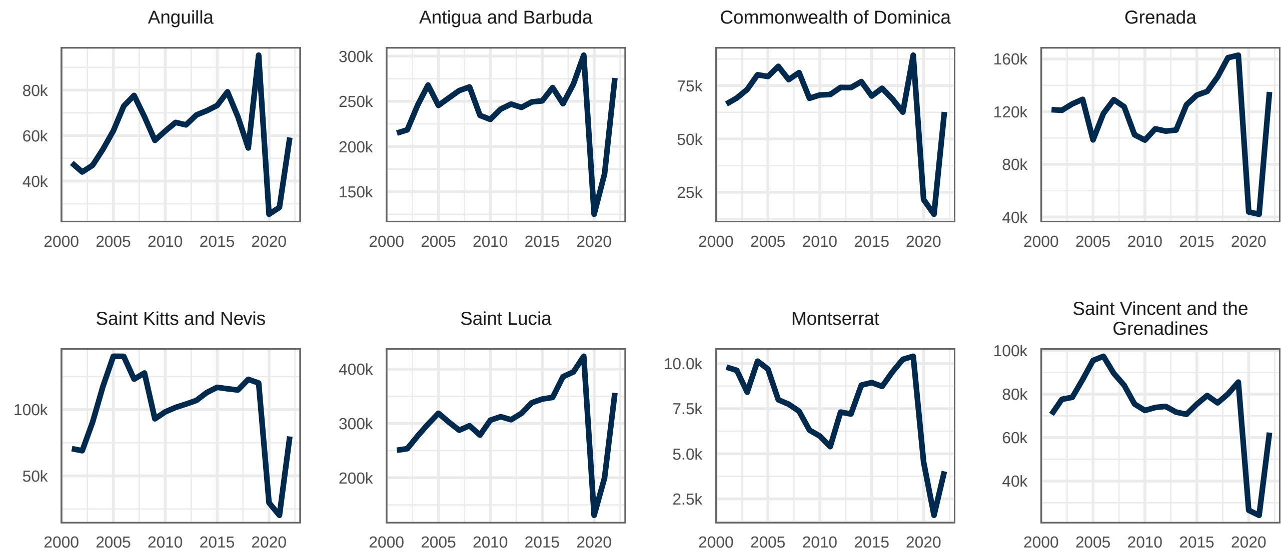
Tourism output in the ECCU continued to improve in 2022, as global travel began to gain greater traction, following pandemic-related travel concerns and restrictions. Total visitor arrivals to the region accelerated to a high of 2,853,785 in 2022 from 901,579 in the previous year. All categories of arrivals rose relative to a year prior, as global pent-up demand for travel led to a resurgence in air and cruise travel. Notwithstanding the strong growth in all visitor categories, the overall outturn of all segments remained below their 2019 levels (Figure 3).

Figure 3: Visitor Arrivals by Category

Source: ECCB

The number of stayover arrivals more than doubled, increasing to 1,034,811 from 500,050 recorded in 2021. The 2022 total was approximately 20 per cent below the level registered in 2019. The increase was broad-based, as all ECCU member countries exhibited increases in this segment, albeit below their 2019 levels, as is depicted in Figure 3. The Commonwealth of Dominica, Saint Christopher (St Kitts) and Nevis and Grenada recorded the highest growth rates in this segment. The two largest source markets for the ECCU in 2022 were the USA and the UK, and accounted for approximately 75 per cent of stay-over arrivals. Arrivals from the Caribbean and Canada recorded the highest growth year-on-year, as regional airlines gradually began to expand their flight schedules.

Figure 4: Stayover Arrivals by Country

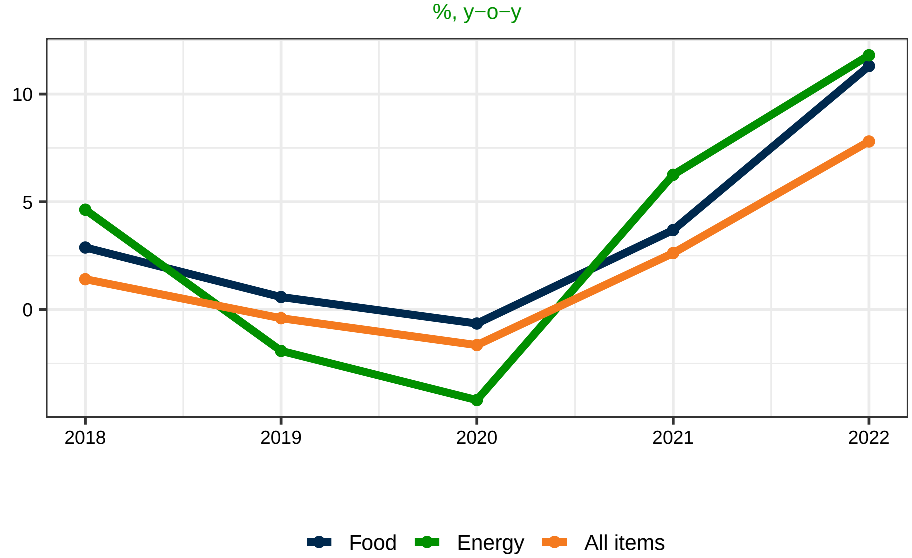


2.1 Consumer Prices

Inflationary pressures intensified both globally and regionally in 2022, following the outbreak of military conflict in Ukraine from February 2022. The war exacerbated price pressures from supply chain disruptions of the previous year. ECCU inflation climbed to 7.8 per cent at the end of 2022 following 2.6 per cent 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 11.8 per cent and 11.3 per cent respectively, following their respective increases of 6.3 per cent and 3.7 per cent at the end of 2021. These price increases have permeated to higher price levels in other components of the consumer basket, including transportation and communication (11.3 per cent) and housing and utilities (8.0 per cent).

Figure 5: Selected Categories of Inflation

%, y–o–y



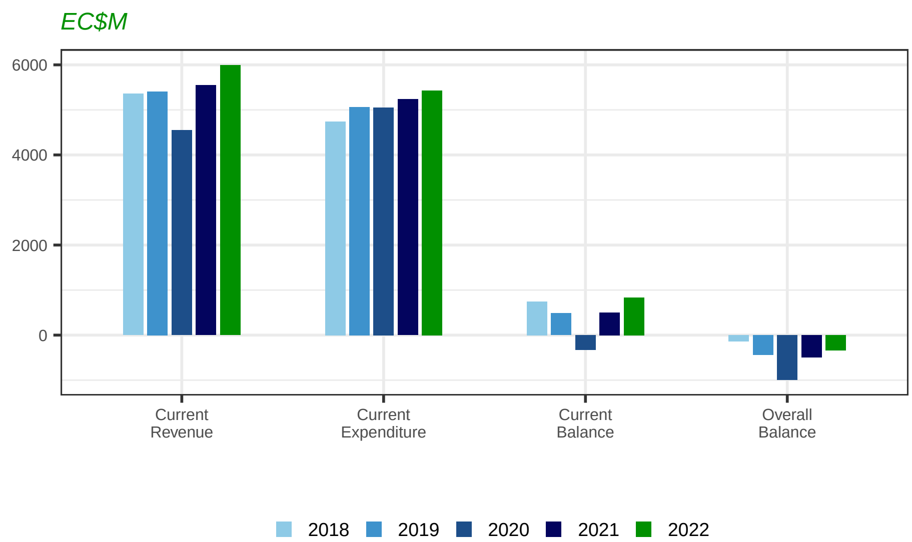
Source: ECCB

All member countries recorded increases in inflation, with Montserrat as the only exception. Montserrat's inflation stood at -0.3 per cent in December 2022, associated with lower prices of housing, electricity, water and fuels. Among the other seven member countries, inflation ranged from 2.9 per cent in Grenada to 10.8 per cent in Anguilla.

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 6: Central Government Fiscal Balances



Source: ECCB

Consistent with the rebound in economic activity, the fiscal positions of member governments generally improved. Preliminary data on the aggregated fiscal operations of central governments indicate that the overall deficit narrowed to $300.7m (3.2 per cent of GDP) from one of $493.2m (5.6 per cent of GDP) in the previous year. The narrowing of the deficit reflected fiscal surpluses generated by the governments of Anguilla, Commonwealth of Dominica, Grenada and Montserrat, due in part to rising tax revenues, grants and inflows from the Citizenship by Investment programmes. Fiscal deficits generated by the four remaining member governments offset the positive balances. The deficits ranged from 2.3 per cent of GDP (Antigua and Barbuda) to 7.1 per cent of GDP (St Vincent and the Grenadines).

The current account balance recorded a surplus of $835.3m (3.9 per cent of GDP) from one of $502.7m (2.7 per cent of GDP) as the economic activity strengthened and tax receipts improved. An 8.0 per cent increase in current revenue to $5,991.6m (28.2 per cent GDP) from its level one year prior underpinned the improvement in the aggregated current balance.

Driving the expansion in current revenue were expansions in both tax and non-tax revenue of 9.6 per cent and 4.4 per cent, respectively. All the major tax categories registered improvements with the exception of taxes on property, which fell by 30.7 per cent. Inflows from taxes on goods and services grew by 17.0 per cent and remained the largest component of revenue during the period, totalling $2,205.6m. The increase in this category was largely driven by higher revenue from Value-Added Tax (VAT) and hotel accommodation, consistent with the estimated improvement in stay-over arrivals and economic activity.

Non-tax revenue grew by 4.4 per cent year-on-year, and comprised the second largest share of current revenue in 2022. Inflows from the Citizenship by Investment programmes (CIP/CBI), by several member governments, fuelled the expansion in non-tax revenue. In 2022, CIP receipts totalled $1,199.2m, 56.3 per cent above the average receipts of the previous five years (2017 – 2021).

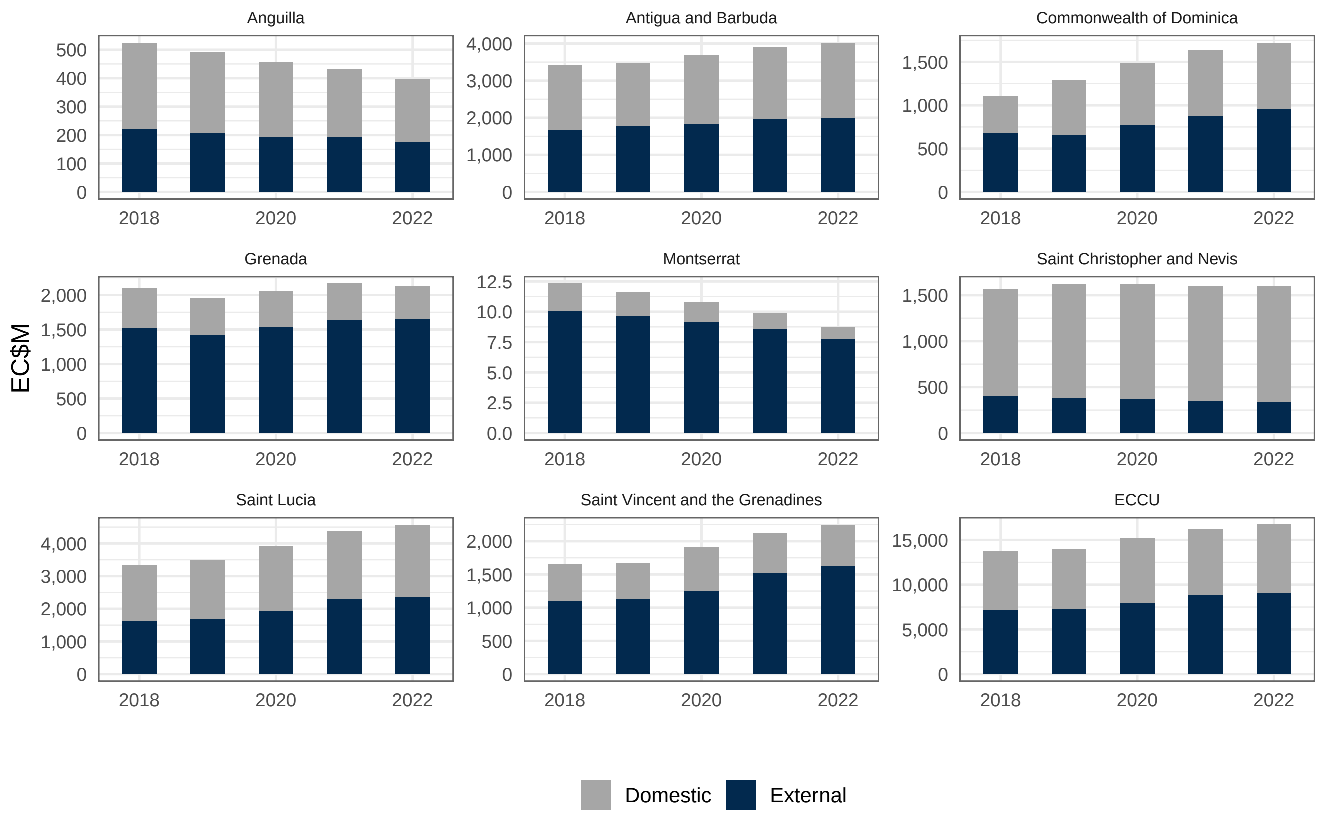
Meanwhile, current expenditure totalled $5,433.0m in 2022 (25.6 per cent of GDP), an increase of 3.7 per cent from the outlays in the previous year. The modest expansion was primarily attributable to higher spending on transfers and subsidies, which grew by 11.3 per cent ($155.7m) led by increases in transfers, pensions and gratuities. The second largest increase was in Interest payments (5.3 per cent), marked by higher servicing on external debt. The growth in spending on personal emoluments and goods and services was negligible during the review period, at 0.4 per cent and 0.6 per cent respectively.

Capital expenditure fell by 1.8 per cent year-on-year to $1,473.2m (6.9 per cent of GDP). Notwithstanding the decline, capital expenditure remained above the five-year average of $1,209.6m. The governments of Anguilla, Commonwealth of Dominica, Montserrat and Saint Lucia recorded lower spending. The lower capital spending was due in part to low implementation rates of the public sector investment programmes and the winding down of counter-cyclical capital spending.

3.1 Debt

The ECCU total disbursed outstanding public sector debt stood at $16,701.3m at the end of December 2022; representing a 3.0 per cent increase from a year ago. The expansion of $479.3m was proportionally similar in both the domestic ($230.8m or 3.1 per cent) and external ($248.5m or 2.8 per cent) portfolios and was driven exclusively by central governments' activity (Figure 7). Notwithstanding the growth in the stock of debt, the share of debt, as a per cent of GDP, fell to 78.5 per cent in 2022 from 86.8 per cent in 2021 owing to improved economic conditions.

Figure 7: Outstanding Public Sector Debt



Source: ECCB

The net growth in central government domestic debt resulted from the surge in the issue of government securities and an uptick in the utilization of the ECCB's short-term credit facility to meet budgetary requirements. This activity was mainly concentrated in Saint Lucia (7.7 per cent), Antigua and Barbuda (6.6 per cent), and Saint Vincent and the Grenadines (3.9 per cent). Debt expanded on the external side as countries received budgetary financing from the issue of securities and project financing from multilateral creditors such as CDB and IDA, and EXIM China (bilateral). On the other hand, ECCU public corporations' debt contracted by 1.5 per cent owing to amortization of debts on both the domestic and external portfolios.

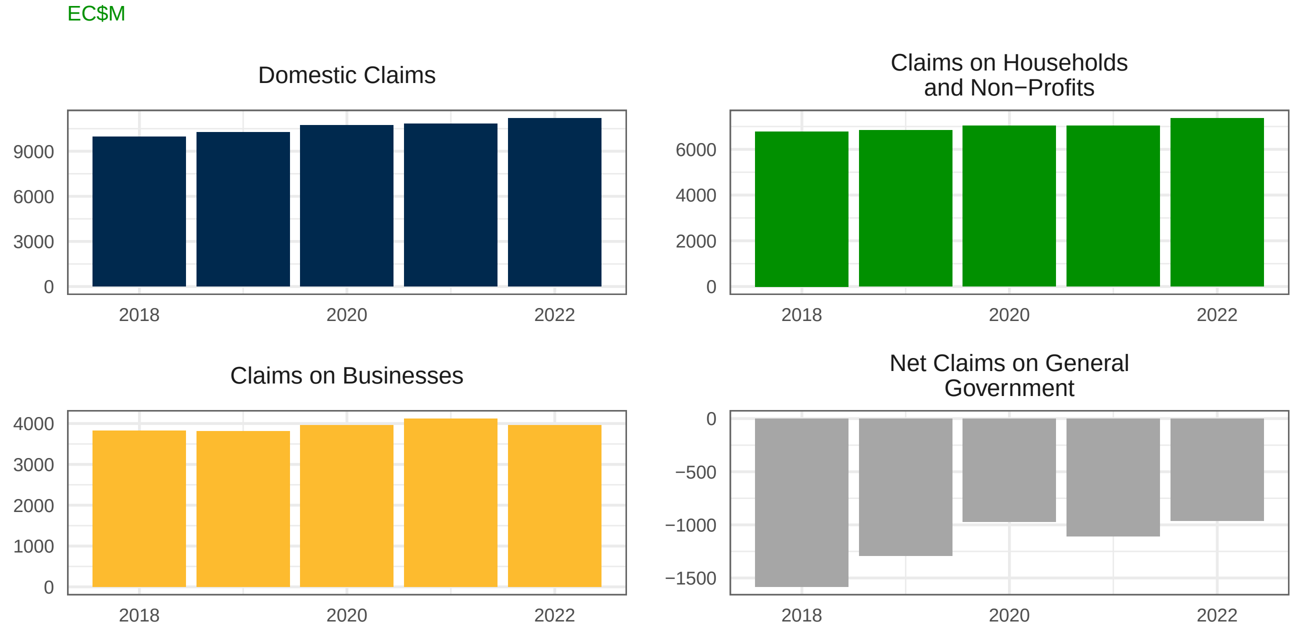
3.2 RGSM

As at December 2022, the Market raised roughly $1.2b, which represented an increase of 13.8 per cent ($144.2m), when compared to the activity recorded in 2021. Of the 58 instruments issued across member governments, treasury bills accounted for 86.4 per cent of funding received, while the remaining financing came in the form of bonds. The weighted average interest rate for treasury bills on the Market dipped to 2.8 per cent in 2022 compared to 3.4 per cent in 2021. On the other hand, the rate jumped to 4.4 per cent in 2022 or 1.4 percentage points above the level a year ago.

4 Banking Developments (Monetary)

During the review period, deposits and credit in the ECCU banking system expanded, in tandem with the estimated improvement in real sector activity. Following marginal growth of 0.7 per cent in 2021, domestic claims (credit) rose more quickly at 3.5 per cent at the end of 2022 to $11,194m (Figure 8). Outstanding claims (credit) to both the government and the private sector underpinned the growth momentum. Claims to government and government deposits rose during the period, resulting in governments' lower net deposit position of $963.2m in 2022. Growth in claims to households (4.8 per cent), mainly mortgages, supported the increase in outstanding credit to the private sector. Conversely, business credit declined by 3.8 per cent, reflective of higher investment costs from inflation and the subsequent uncertainty of the economic outlook.

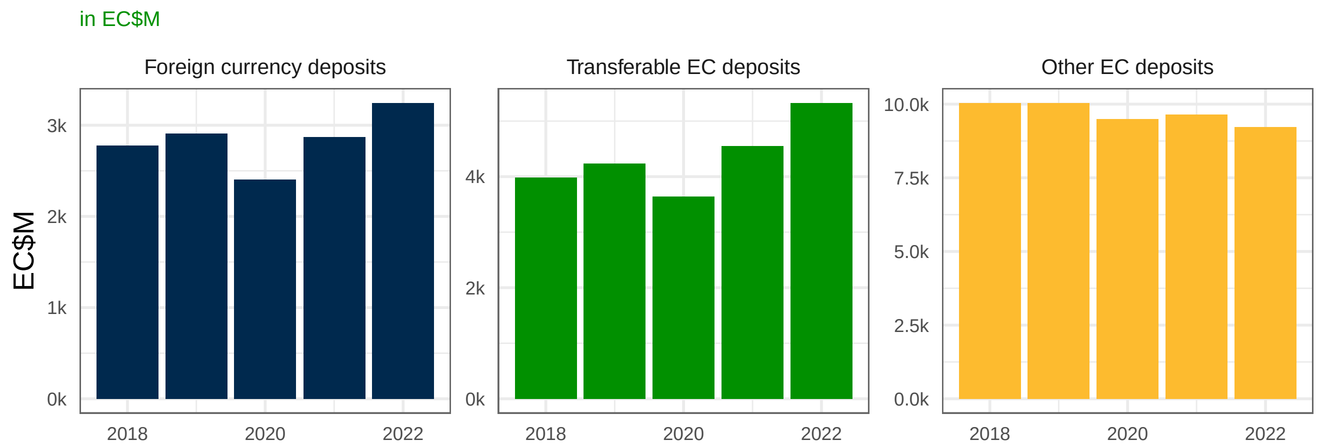
Figure 8: Claims (Credit) to Selected Sectors



Source: ECCB

Deposits continued to expand in 2022 (4.3 per cent), albeit more moderately relative to the previous year (9.9 per cent). The major contributors to the increase in deposits were transferable (demand) EC-currency deposits (17.1 per cent) and foreign currency deposits (13.0 per cent). Conversely, other EC-currency deposits, registered a year-on year contraction of 4.3 per cent, reflecting in part, a shift by depositors to short-term demand deposits as inflationary pressures contributed to higher spending.

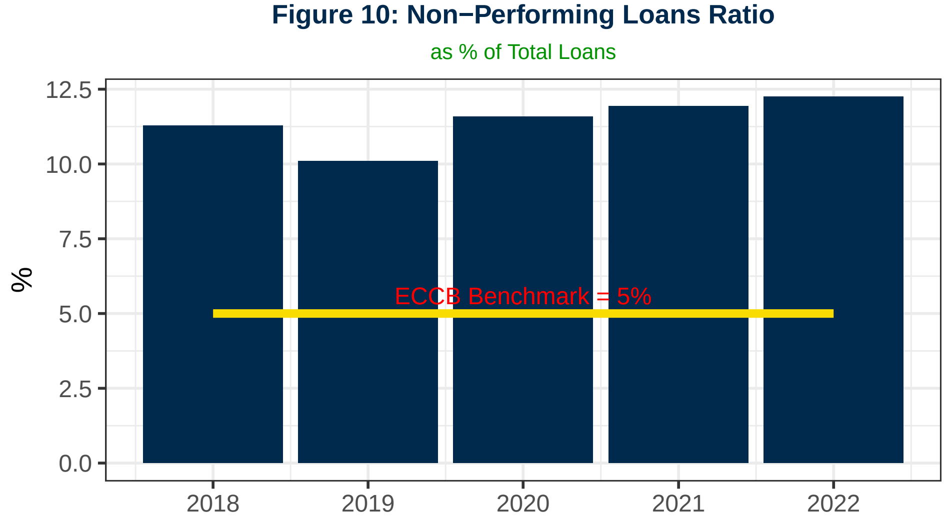
Figure 9: Selected Categories of Deposits



Source: ECCB

Asset quality of the banking system deteriorated for a third consecutive year as the ratio of non-performing loans stood at 12.2 per cent in 2022 compared with 11.9 per cent at the end of 2021 (Figure 10). The ratio was in excess of the ECCB's 5.0 per cent prudential benchmark. Saint Christopher (St. Kitts) and Nevis recorded the highest NPL ratio at 21.8 per cent.

Figure 10: Non−Performing Loans Ratio



Source ECCB

5 External Trade

Higher food and commodity prices, precipitated by the war in Ukraine, resulted in a significant widening in the merchandise trade deficit in 2022. The merchandise trade deficit widened by 31.7 per cent to $8,977.3m (42.2 of GDP) in 2022, largely attributable to an increase in the value of imports (Figure 10). The deficit in 2022 was one of the highest levels for the region in the last decade, reflecting both the global inflationary environment as well as weaker competitiveness of domestic exports.

Selected Categories of the External Sector

Source: ECCB

Imports rose by 30.1 per cent to one of its highest levels of $9,659.4m (45.4 per cent of GDP), following an increase of 15.6 per cent in the previous year. The largest categories of imports were food, followed by machinery and transport which was followed by fuels and related materials. The value of exports rose by 12.4 per cent for a total of $682.1m (3.2 per cent of GDP) in 2022. Of this total, domestic exports earnings grew by a marginal 1.2 per cent while the value of re-exports expanded by 38.9 per cent. The deterioration in the regional trade balance was broad-based, with similar developments across all ECCU member countries. This outturn was representative of widening external imbalances fueled by the rise in import prices, primarily fuel, food and commodity price inflation, amid continuing military conflict in Ukraine and volatile energy prices. All member countries recorded trade deficits, with all member governments recording wider deficits relative to the previous year.

Gross expenditure by tourists grew by 66.5 per cent to $5,620.3m, consistent with the strong recovery in stay-over arrivals. At this level, the value of gross travel receipts has gradually converged to its pre-pandemic levels

6 Outlook

Regional economic activity is expected to moderate in 2023, in keeping with the projected subdued growth in global output. The IMF's January 2023 outlook has projected that global growth will slow to 2.9 per cent in 2023 before rising in 2024. This projection is below historical average, and is based on the continued war in Ukraine, inflationary conditions and some tightening in monetary policy by central banks in advanced economies. While inflation is expected to decelerate in these economies, it will remain higher than its historical average in the short to medium term. Tourism activity is expected to remain relatively buoyant. This outlook is premised on the expectation of continued pent-up demand for air and cruise travel to the region and strong labour market indicators in key source markets.

This outlook is however subject to considerable uncertainty and risks which remain firmly tilted to the downside.

- Key among those risks is the uncertainty in the global environment, due to continued geopolitical tensions and the protracted military conflict in Ukraine, which is likely to subdue global growth.

- A slowdown or a recession in advanced economies, particularly, the region's key source markets will dampen the continued recovery in regional tourism activity
- While inflationary pressures are expected to subside over time, prices are expected to remain elevated in the region's key source markets, which may further diminish disposable income and spending on travel and leisure
- Continued price pressures may result in further tightening in financial conditions, which may further reduce investment and consumption.
- Consequently, the risk of recession is still likely, albeit temporary, for many advanced economies.
- The United Kingdom and the EU 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
- If these risks materialise, they are likely to weigh on consumption and investments and undermine the region's economic growth prospects, through subdued demand for travel, lower foreign direct investment and a deterioration in fiscal positions.
- Increased spending on food and energy is likely to reduce households' discretionary spending, which could further dampen growth.
- Fiscal support, and demands for higher wages, aimed at limiting the impact of inflation on residents, may place further pressure on governments' fiscal balances. These are expected to be compounded with the probability of natural disasters, as the region moves into the hurricane season.

7 Selected Economic Indicators

Indicators	2018	2019	2020	2021	2022
National Income and Prices (Annual % change)					
Nominal Gross Domestic Product (GDP) at Market Prices	5.7	4.2	-18.5	8.3	13.7
Real GDP at Market Prices	3.8	4.0	-16.5	5.8	8.9
Deflator	2.0	-0.6	-3.3	2.3	4.4
Consumer Prices (end of period)	1.4	-0.4	-1.6	2.6	7.8
Consumer Prices (period average)	1.4	0.4	-2.3	1.6	6.7
Real Gross Value Added (GVA) at basic prices (%)					
Agriculture, Livestock and Forestry	-5.0	2.8	-8.5	4.4	-0.9
Construction	11.0	-0.6	-19.7	14.4	8.5
Wholesale and Retail Trade	7.9	-0.9	-18.1	6.7	10.8
Hotels and Restaurants	4.7	29.5	-59.3	27.8	68.0
Transport, Storage and Communications	5.3	8.6	-21.3	5.4	13.6
Financial Intermediation	1.7	5.8	0.8	2.9	1.1
Real Estate, Renting and Business Activities	1.2	2.5	-11.1	1.8	1.2
Public Administration, Defence & Compulsory Social Security	-0.4	3.9	-0.3	1.6	1.4
Total Public Sector Debt (% GDP)					
Total Public Sector Debt	82.0	73.5	90.6	88.7	76.8
Public Sector External Debt (end-of-period)	35.4	34.4	45.7	47.3	42.8
Central Government (in XCD millions)					
Current Account Balance	747.7	484.6	-331.3	502.7	835.3
Current Revenue	5,355.9	5,409.4	4,549.2	5,546.2	5,991.6
Current Expenditure	4,742.9	5,061.9	5,056.1	5,238.4	5,433.0
Capital Expenditure and Net Lending	1,216.9	1,198.6	1,211.2	1,499.6	1,472.5
Overall Fiscal Balance	-140.3	-443.2	-989.9	-493.2	-300.7
Monetary Sector (% p.a.)					
Weighted Deposit Interest Rates	1.6	1.6	1.6	1.5	1.3
Weighted Lending Interest Rates	8.1	7.9	7.1	6.8	6.9
Non-Performing Loans Ratio (%)	11.3	10.1	11.6	11.9	12.2
Memo (in XCD millions, unless otherwise stated)					
Nominal GDP at Market Prices	20,337.3	21,190.9	17,266.5	18,700.2	21,264.7
Real GDP at Market Prices	15,735.7	16,366.9	13,671.6	14,461.0	15,743.8
GDP per capita (EC$)	27,335.9	28,318.8	22,750.5	24,499.4	27,709.9
Merchandise Imports (f.o.b)	8,485.6	8,324.6	6,425.4	7,425.5	9,659.4
Merchandise Exports	643.5	768.9	625.5	606.9	682.1
Gross Visitor Expenditure	6,079.4	6,988.2	2,399.5	3,374.8	5,620.3
Net Foreign Assets	8,764.8	9,182.3	9,738.2	11,345.6	11,336.0
Domestic Credit	9,955.4	10,268.3	10,742.8	10,820.4	11,189.9
Money Supply (M2)	17,750.9	18,163.3	16,586.8	18,229.7	19,054.7
Currency in Circulation	1,251.8	1,323.8	1,354.0	1,479.4	1,583.8

Note:

Data as at February 2023

[1] Sources:Central Statistics Office and Eastern Caribbean Central Bank