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Overview

- Regional economic activity continued its post-pandemic recovery in the first half of 2023, buoyed by robust tourism-related activity across all member countries.
- This strengthening was tempered by a moderation in manufacturing and construction-related activity.
- Although overall inflationary pressures began to dissipate both year-on-year and on a half-yearly basis, food prices remained elevated, due in part to the ongoing Russia-Ukraine conflict.
- Consistent with the rebound in economic activity, the aggregated fiscal position of member governments continued to improve, supported by strong revenue growth.
- The increase in the stayover segment of arrivals was due to expansions from all major source markets, with the exception of the United Kingdom, which fell marginally at 0.2 per cent. The United States remained the region’s largest source market and accounted for approximately half of stay-over arrivals in the period (Figure 2). While the Caribbean continued to gradually regain some of its market share, arrivals from the region comprised about 10 per cent of total stayover arrivals, compared to a high of 18 per cent in the comparable period of 2019.

The Economy (Real Sector)

Activity in the regional (ECCU) economy continued to recover in the first half of 2023, supported by strong momentum from tourism-related services. Total tourist arrivals to the region almost doubled in the review period to 2,742,211 from 1,407,954 in the first half of the previous year. The notable performance reflected increases in all segments of visitors across all member countries. The largest growth was recorded in the excursionist segment, which rose almost four-fold relative to the comparable period in the preceding year (Figure 1). Despite the continued strong performance, all categories of visitors remained slightly below the 2019 peak levels. Notably, cruise and stayover arrivals have recouped a little more than 90 per cent of the levels recorded in first half of 2019.
The surge in stayover arrivals was broad-based, with variations across member countries. Of note, Grenada and Anguilla both surpassed the number of arrivals witnessed in first half of 2019. By contrast, the number of stayover arrivals to Montserrat and Commonwealth of Dominica saw the slowest post-pandemic recovery relative to the levels in 2019 (see Figure 3).

The rebound in the tourism-related services supported growth in the auxiliary service sectors, including transportation, storage and communication, wholesale and retail trade and real estate, renting and business activities. Growth in the services sectors was tempered by developments in agriculture, construction-related activity and public administration. Construction activity moderated, marked by a decline in public investment. The decline in government capital spending in 2023 followed significant high levels of capital expenditure during the pandemic years, as a number of member governments implemented counter-cyclical capital spending to alleviate the pandemic’s economic effects. This contraction in counter-cyclical capital spending in was offset by an expansion in private sector construction activity in several member countries including St Kitts and Nevis and Anguilla. Growth in the manufacturing sector slowed mainly reflecting declines in flour, feed and beverages production in Saint Vincent and the Grenadines combined with modest expansions in output in Saint Lucia and the Commonwealth of Dominica.

**Consumer Prices**

Inflationary pressures dissipated in June 2023 both year-on-year and on a half-yearly basis. Annual inflation rose by 3.8 per cent in June 2023, a deceleration from 7.1 per cent in June 2022 (Figure 4). Over the first half of 2023, inflation was milder at 1.4 per cent relative to the December 2022 (5.7 per cent in the previous half-year).
mance was due to the persistence in food price inflation. The food price sub-index remained elevated at 9.6 per cent in June 2023 year-on-year (8.6 per cent in 2022) due to the lingering effects of global food prices emanating from the Russia-Ukraine conflict. Relative to December 2022, food prices rose moderately at 3.2 per cent. The surge in the general price level was moderated by energy prices, which fell both year-on-year and on a half-yearly basis by 5.0 per cent and 5.6 per cent respectively. This decline followed notable increases of 14.2 per cent and 10.8 per cent in the previous year. Global inflation remained persistent for most of the first half of 2023 despite extraordinary efforts at monetary policy tightening by central banks in advanced countries to return inflation to target.

**Government Operations**

The aggregated fiscal operations of ECCU central governments yielded an overall surplus of $410.8m in the first six months of 2023, relative to a deficit of $60.8m recorded in the comparable period of 2021 (Figure 5). The improvement was due in part to post-pandemic recovery and inflation-driven increases in current revenue intake. The improvement reflected fiscal surpluses in five of the eight member countries. These balances were offset by deficits in the remaining three of member countries of Commonwealth of Dominica, Saint Lucia and Saint Vincent and the Grenadines.

Current revenue continued to perform well in the first half of 2023, resulting in an improvement in the governments’ aggregated current account balance to $805.9m from $717.2m in the comparable period of the previous year. All member countries generated surpluses on their current account over the period, with the exception of Saint Lucia. The improvement in the aggregated current balance was driven by a 12.4 per cent increase in cur-
rent revenue to $3,499.3m from its level one year prior. The revenue outturn resulted in revenue exceeding its pre-pandemic trend levels.

The notable current revenue performance reflected increases in all major revenue categories for the review period. Inflows from taxes on goods and services, grew by 16.7 per cent to $1,272.7m (Figure 6). Growth in this category was driven by receipts in Value-Added Tax (13.0 per cent) and excise taxes (21.8 per cent). Non-tax revenue grew by 3.2 per cent year-on-year, and accounted for the second largest share of government revenue in the first six months of 2023. The expansion in non-tax revenue was fuelled by the sub-category, earnings from government departments (notably in Anguilla), which increased almost three-fold over the 2022 level. Within this category, receipts from the Citizenship by Investment programme, increased marginally by 0.2 per cent following exceptional growth in the previous two years. The slowdown was mainly attributable to lower recorded receipts by the Commonwealth of Dominica.

Total spending fell by 6.3 per cent to $3,276.7m from the level in the corresponding period in 2022 (Figure 7). The contraction was mainly due to a sharp reduction in capital spending, in line with a culmination of pandemic-related expenditure and counter-cyclical capital spending. Capital expenditure stood at $492.1m, almost half of its 2022 level of $943.8m. Lower capital spending was recorded in Grenada, Saint Christopher and Nevis and Commonwealth of Dominica. Conversely, all other major categories of spending recorded increases in the period, including expenditure on goods and services (15.7 per cent) transfers and subsidies (11.2 per cent), interest payments (9.9 per cent) and personal emoluments (3.4 per cent).

Debt

The combined fiscal operations resulted in a 3.4 per cent ($557.5m) increase in the ECCU total public sector debt to $16.9b as at June 2023 (see Figure 8). The external debt which accounted for 55.6 per cent of the total debt portfolio, increased by 5.0 per cent ($446.4m). Domestic debt grew by 1.5 per cent or $111.2m over the period.

External debt growth was recorded in three ECCU countries: Saint Vincent and the Grenadines (14.3 per cent), Saint Lucia (8.5 per cent), and the Commonwealth of Dominica (6.2 per cent), over the review period. In the domestic portfolio, the growth was driven by increases in the debt of the Saint Vincent and the Grenadines (10.2 per cent), Saint Lucia (3.4 per cent) and Antigua and Barbuda (3.2 per cent).

Generally, across the ECCU member countries, public sector debt accumulation was predominantly linked to central government activity and was utilised for various capital projects and budget support. The main funding source were multilateral and bilateral creditors via loans and government securities. On the domestic side, ECCU
Eastern Caribbean Currency Union

Governments relied on bonds, treasury bills and overdraft facilities to support budget demands.

Banking Developments (Monetary)

The regional banking system remained liquid and continued to support regional economic activity. Aggregate deposits in the ECCU banking system increased by 2.2 per cent year-on-year, while domestic claims grew by 0.8 per cent. The slowdown in credit was partly due to lower discretionary income by ECCU residents from ongoing price pressures.

Year-on-year, growth in overall deposits was driven by expansions in foreign exchange and demand (transferable) EC-currency deposits. Transferable deposits rose by 12.5 per cent in June 2023 relative to the amount recorded one year earlier (H1 2023: 8.8 per cent). Similarly, foreign exchange deposits slowed significantly recording year-on-year growth of 1.9 per cent following a robust increase of 20.4 per cent in the preceding year. Meanwhile, EC-currency deposits, which accounted for the largest share of banking sector deposits, fell by a further 3.2 per cent in June 2023 (Figure 10) after contracting by 2.6 per cent in the previous 12 months ending June 2022.

Figure 9 depicts the main categories of banking sector credit as at end June and reflected subdued lending activity, particularly to businesses. Domestic claims (credit)
Eastern Caribbean Currency Union
grew negligibly by 0.8 per cent at the end of June 2023 to $11,041.6m relative to the total outstanding claims recorded in one year earlier. Notably, claims declined by 1.4 per cent for the first six months of the 2023. Outstanding claims to businesses expanded by 1.7 per cent, following weaker credit growth in the previous year. Meanwhile, outstanding claims to households and non-profit institutions registered growth of 4.6 per cent year-on-year in June, up from 0.1 per cent increase in the previous year. Outstanding banking sector credit in the region continued to be driven by loans for constriction, home sales and real estate related activities. Meanwhile, the net deposit position of general government rose by 32.1 per cent year-on-year, as an increase in governments’ deposits outpaced the accumulation of claims to government in the banking sector.

Asset quality of the banking system improved slightly over the year ended June 2023, proxied by the ratio of commercial banks’ non-performing loans (NPL) to total loans. The ratio stood at 11.6 per cent at the end of June 2023, slightly lower than the ratio of 12.3 per cent recorded in June 2022, and significantly above ECCB’s prudential benchmark of 5.0 per cent (Figure 11). The highest NPL ratios were observed in St Kitts and Nevis and Anguilla. The NPL ratio declined in six of the eight member countries. By contrast, increases in in the NPL ratio was recorded in Grenada and Saint Lucia.

External Trade

Following a narrowing in 2020, the consolidated merchandise trade deficit continued to widen in the post-pandemic period. The expansion was partly due to the higher food and commodity prices from the ongoing conflict in Ukraine. The merchandise trade registered a wider deficit of $4,610.2m in the first half of 2023 from $4,210.9m recorded in the first half of 2022 as the value of imports rose faster than that of exports (Figure 11). Goods exports recorded a notable rise (15.8 per cent) over the period after declining in the comparable six-month period of the previous year. Within this category, receipts from domestic exports grew by 17.9 per cent, a significant improvement from the 0.3 per cent decline in the prior year. Goods imports grew by a further 9.9 per cent (37.2 per cent in 2022), consistent with higher food and commodity prices.
All major import categories recorded increases, including food (14.3 per cent), fuel (1.0 per cent) and machinery and transport equipment (10.0 per cent). Food accounted for the largest category of imports during the review period (20.5 per cent), mainly due to higher cost of imported food. The deterioration in the regional trade balance reflected similar developments across all ECCU member countries.

**Outlook**

Economic activity is expected to be favourable, but at a more moderate pace than previously projected. The main downside risks stem from high inflation and continued geopolitical uncertainties. In its July 2023 World Economic Outlook (WEO), the International Monetary Fund raised its global growth estimates for 2023 to 3.0 per cent, slightly above its April forecast; but warned that persistent challenges could dampen the medium-term outlook. The improvement was due to resilient economic activity in the first quarter. Global consumer price inflation is expected to decelerate for the remainder of 2023 and into 2024. However, the balance of risks facing the global economy remained tilted to the downside.

- The ECCU faces a modest global growth environment in the short-to medium term, as inflation continues to reduce disposable incomes and the lagged effects of monetary policy in advanced economies take greater effect.
- Although inflation is expected to moderate in the short to medium-term, upside risks to this inflation forecast include renewed upward pressures on the costs of energy and food, and the recent suspension by Russia of the Black Sea grain deal which may exacerbate price pressures globally and regionally.
- The consolidated fiscal performance of member governments is expected to improve supported by stronger revenue growth. However, there are downside risks to this forecast related to the Citizenship by Investment programmes in member countries. In July 2023, a decision was taken by the United Kingdom to impose visa restrictions on Commonwealth of Dominica due to concerns from its CBI programme. While Dominica is the only country currently affected by the recent UK decision, it is still unclear whether there will be any contagion effects on other CBI countries. The CBI programmes are a vital source of revenue for a number of ECCU member countries, and any negative impact on these programmes could have a negative effect on the fiscal performance for participating member countries.
- Other downside risks include the higher probability of weather-related disasters as well as an escalation in geopolitical tensions, which could dampen economic activity, through lower demand for travel, foreign direct investment, as well as lower business and consumer confidence.
- On the upside, despite some recent easing, continued favourable labour market conditions in advanced economies and stronger-than-expected demand may facilitate global economic resilience and lead to continued momentum in regional tourism activity.
### Selected Economic Indicators

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2019H1</th>
<th>2020H1</th>
<th>2021H1</th>
<th>2022H1</th>
<th>2023H1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Revenue (EC$M)</td>
<td>2,846.6</td>
<td>2,330.1</td>
<td>2,778.5</td>
<td>3,113.6</td>
<td>3,499.3</td>
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<tr>
<td>Current Expenditure (EC$M)</td>
<td>2,459.0</td>
<td>2,479.5</td>
<td>2,540.6</td>
<td>2,553.9</td>
<td>2,784.6</td>
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<tr>
<td>Current Balance (EC$M)</td>
<td>448.6</td>
<td>−75.9</td>
<td>329.8</td>
<td>717.2</td>
<td>805.9</td>
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<tr>
<td>Primary Balance (EC$M)</td>
<td>265.2</td>
<td>8.9</td>
<td>−60.5</td>
<td>183.3</td>
<td>679.0</td>
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<tr>
<td>Overall Balance (EC$M)</td>
<td>22.3</td>
<td>−220.7</td>
<td>−273.6</td>
<td>−60.8</td>
<td>410.0</td>
</tr>
<tr>
<td>Total Public Sector Debt (EC$M)</td>
<td>13,855.6</td>
<td>14,553.3</td>
<td>15,723.8</td>
<td>16,332.7</td>
<td>16,902.5</td>
</tr>
<tr>
<td>Inflation Rate (Year-on-Year) end of period (%)</td>
<td>0.5</td>
<td>−2.8</td>
<td>1.7</td>
<td>7.1</td>
<td>3.8</td>
</tr>
<tr>
<td>Total Visitor Arrivals</td>
<td>2,966,534.0</td>
<td>1,610,950.0</td>
<td>165,275.0</td>
<td>1,407,954.0</td>
<td>2,742,211.0</td>
</tr>
<tr>
<td>Total Visitor Expenditure (EC$M)</td>
<td>3,738.8</td>
<td>1,672.7</td>
<td>1,116.4</td>
<td>3,252.5</td>
<td>4,090.2</td>
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<tr>
<td>Net Foreign Assets (EC$M)</td>
<td>9,461.4</td>
<td>10,031.0</td>
<td>10,666.1</td>
<td>11,374.2</td>
<td>12,339.4</td>
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<tr>
<td>Domestic Credit (EC$M)</td>
<td>9,934.7</td>
<td>9,919.7</td>
<td>10,795.0</td>
<td>10,957.4</td>
<td>11,041.6</td>
</tr>
<tr>
<td>M2 (EC$M)</td>
<td>18,133.6</td>
<td>16,256.4</td>
<td>17,523.6</td>
<td>19,197.2</td>
<td>19,684.3</td>
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<tr>
<td>Currency in Circulation (EC$M)</td>
<td>1,141.3</td>
<td>1,224.5</td>
<td>1,277.1</td>
<td>1,424.0</td>
<td>1,496.1</td>
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<tr>
<td>Liquid assets to total assets</td>
<td>36.4</td>
<td>38.9</td>
<td>37.3</td>
<td>39.3</td>
<td>39.9</td>
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<tr>
<td>Liquid assets to short-term liabilities</td>
<td>39.5</td>
<td>45.3</td>
<td>42.3</td>
<td>45.0</td>
<td>44.5</td>
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<tr>
<td>Customer deposits to total (noninterbank)loans</td>
<td>158.4</td>
<td>149.1</td>
<td>151.1</td>
<td>162.8</td>
<td>164.5</td>
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<tr>
<td>Weighted Average Deposit Rate (%)</td>
<td>1.6</td>
<td>1.6</td>
<td>1.6</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Weighted Average Lending Rate (%)</td>
<td>8.0</td>
<td>7.3</td>
<td>7.1</td>
<td>6.9</td>
<td>6.8</td>
</tr>
<tr>
<td>Interest Rate Spread (%)</td>
<td>6.4</td>
<td>5.7</td>
<td>5.5</td>
<td>5.6</td>
<td>5.5</td>
</tr>
<tr>
<td>Non-Performing Loans to Total Loans (%)</td>
<td>10.2</td>
<td>11.9</td>
<td>11.8</td>
<td>12.3</td>
<td>11.6</td>
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Data as at August 2023

Sources: Eastern Caribbean Central Bank & Central Statistical Offices

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