EASTERN CARIBBEAN CURRENCY UNION

ANNUAL ECONOMIC AND FINANCIAL REVIEW

2023

EASTERN CARIBBEAN CENTRAL BANK

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ECONOMIC AND FINANCIAL REVIEW

EASTERN CARIBBEAN CURRENCY UNION

EASTERN CARIBBEAN CENTRAL BANK

Address:
P. O. Box 89
Basseterre
St Kitts and Nevis
West Indies

Telephone
(869) 465-2537

Fax:
(869) 465-5615

Website
www.eccb-centralbank.org

Email
rsdad@eccb-centralbank.org

Eastern Caribbean Currency Union
Annual Economic and Financial Review - 2023

Eastern Caribbean Central Bank

Contents

Overview[1]

- Economic activity in the Eastern Caribbean Currency Union (ECCU) expanded in 2023, surpassing its pre-pandemic level in real terms. Tourism activity was strong, although arrivals remained below 2019 levels.

- Inflationary pressures moderated on aggregate, following the sharp increase in the previous year. The disinflationary effects reflected movements in food and energy prices.

- The consolidated fiscal operations of ECCU Member Governments' improved in 2023 and the region's debt to GDP ratio declined associated with a growing regional economy.

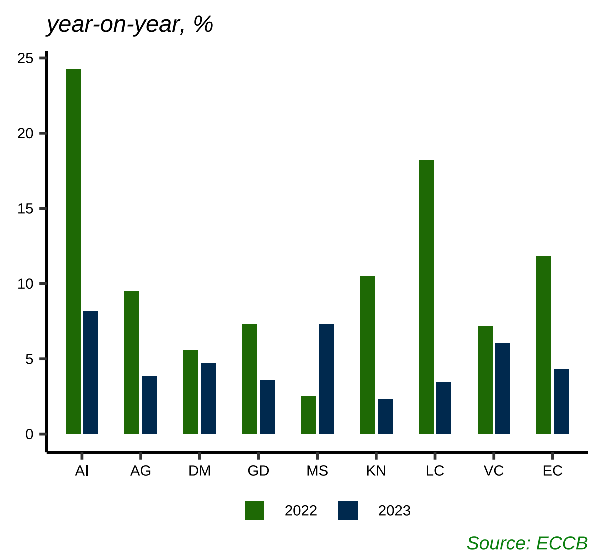
- Private sector credit and deposits in the banking system expanded, while asset quality and liquidity improved marginally.

- The ECCB projects robust growth for the regional economy in 2024, although uncertainty and risks from ongoing geopolitical conflicts may diminish the region's growth momentum.

The Economy (Real Sector)

The regional economy continued to expand in 2024, although the momentum showed some moderation. In 2023, real gross domestic product (GDP) grew by 4.3 per cent, after having expanded by 11.8 per cent in the previous year (Figure 1). Tourism-related activity remained strong although arrivals remained below its 2019 level. The expansion was broad-based across all member countries, ranging from 8.2 per cent in Anguilla to 2.3 per cent in Saint Christopher and Nevis (Figure 1). Economic activity in Anguilla was supported by the hotels and restaurants sector, which grew by 31.7 per cent in 2023.

Figure 1
Real GDP Growth Across Member Countries

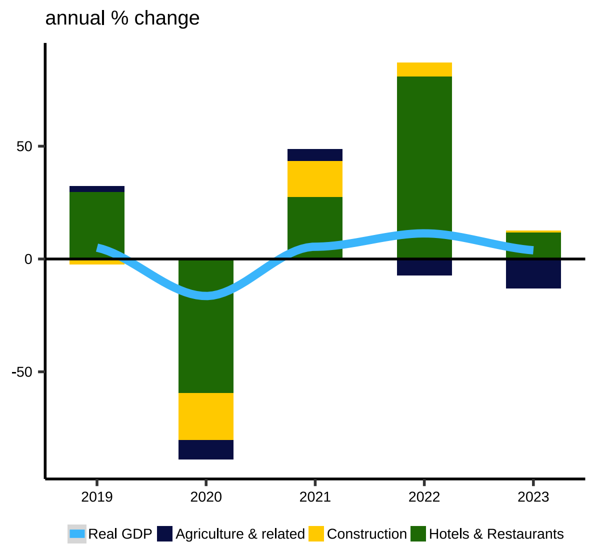


Most economic sectors expanded in 2023, led by robust growth in the services sectors. Value added in the hotels and restaurants expanded by 11.7, while its ancillary sectors including Wholesale and retail trade; and Transport, storage and communication also contributed strongly to growth, increasing by 2.0

[1] Photo: Eastern Caribbean Central Bank

and 9.3 per cent respectively (see Appendix I). Meanwhile, value added in the agriculture, livestock and forestry sector contracted by 12.9 per cent, as the sector continued to be affected by climate change conditions including heavy rains and drought conditions. Heavy rains affected banana production in Saint Lucia, while crop production in Saint Vincent and the Grenadines has not fully recovered following the effects of the volcanic eruption in 2021. Consequently, root crop production in Saint Vincent and the Grenadines was estimated at approximately 50 per cent of its pre-eruption level. In addition to production challenges, the agriculture sector has been affected by significant data challenges which may not give an accurate picture of its contribution to economic activity. Construction sector activity was subdued (0.8 per cent), relative to the accelerated pace in the previous year.

Figure 2
Real Gross Value Added by Selected Sectors

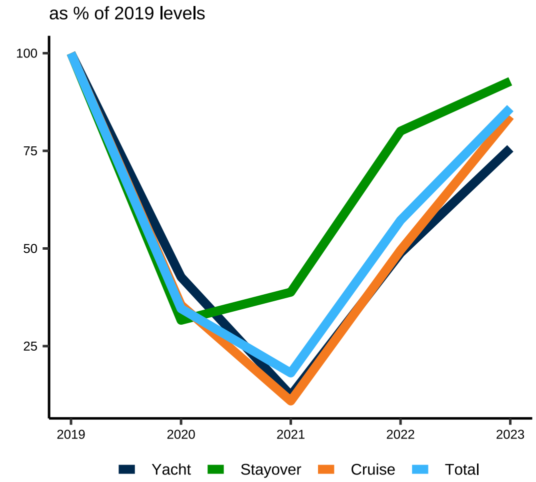


Source: ECCB

The continued recovery in tourism activity was uneven across categories of visitors and source markets. While stayover arrivals have recovered approximately 92 per cent of its 2019 levels, other segments such as cruise and yachting have recovered less quickly.

The region's tourism sector continued to recover in 2023. In 2023, 4.3 million visitors arrived on the islands, 50 per cent higher than the number of arrivals in the previous year. Notwithstanding the expansion, indicators for the sector remained below pre-pandemic (2019) levels (see Figure 3).

Figure 3
Recovery in Arrivals by Visitor Category



Source: ECCB

The continued recovery in tourism activity was uneven across categories of visitors and source markets. All categories of visitors increased in 2023 relative to 2022, however they remained below their pre-pandemic levels. Stayover arrivals have recovered approximately 92 per cent of its 2019 levels, while cruise and yachting have only recuperated 83.9 per cent and 75.6 per cent respectively, relative to 2019 levels (Figure 3). The top three source markets showing the greatest post-pandemic recovery in 2023 were the US (107.6 per cent), United Kingdom (94.1 per cent) and Canada (88.4 per cent). The number of US arrivals to the region has now surpassed its 2019 level while other markets have recovered more slowly. In 2023, Caribbean travel had registered the lowest pre-pandemic recovery, at two-thirds of its 2019 level. Travel within the ECCU has been impacted by the closure of the regional carrier, LIAT. However, aviation capacity has been improving gradually with the expansion of service by airlines such as InterCaribbean, WINAIR and Caribbean Airlines.

Consumer Prices

Inflationary pressures in the ECCU moderated in 2023 reflecting a combination of lower food and energy prices. Year-on-year consumer price inflation stood at 2.2 per cent in December 2023 from a high of 9.5 per cent in December 2022 (Figure 4). Food and energy prices were the major drivers for this moderation. Year-on-year energy price inflation fell to -4.1 per cent in December 2023 from 12.8 per cent one year earlier, while food inflation stood at 4.0 per cent from 14.3 per cent in December 2022. By contrast, the price level on the services and education sub-indices increased.

Figure 4
Selected Categories of ECCU Inflation

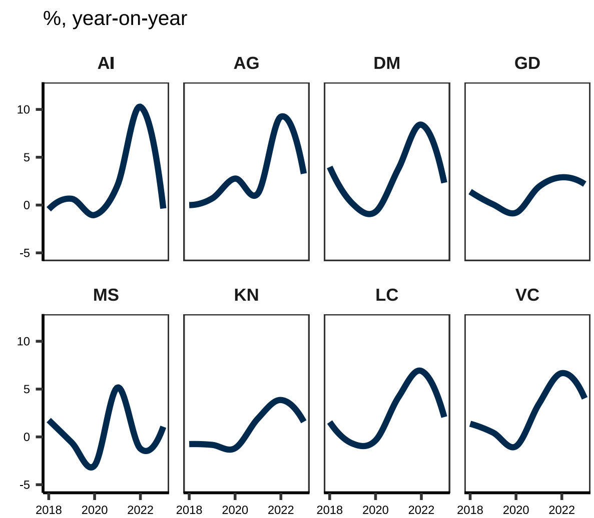
Source: ECCB

Inflationary patterns were broadly similar across the economies, as most ECCU member countries witnessed a moderation in prices (Figure 5). Notably, Anguilla was the only economy in which year-on-year overall inflation turned negative (-0.4 per cent) while price pressures increased in Montserrat with an inflation reading of 1.1 per cent from -1.2 per cent in the previous year.

The slowdown in inflation reflected a confluence of global and domestic factors. The easing in the energy sub-index was due to the decline in global oil prices. The price of Brent crude oil averaged $83 per barrel in 2023, a decline from $101 per barrel in 2022. Energy prices can sequentially affect a number of other sub-indices.

Meanwhile, year-on-year food inflation moderated from comparatively elevated levels. The food sub-index eased from 12.8 per cent in December 2022 to 4.0 per cent in December 2023. Food price developments largely reflected global developments. In 2023, the Food Price Index[2] published by the Food and Agriculture Organisation (FAO) stood at 124.7, much lower than its peak annual value of 144.7 in the preceding year. The decline in global food prices partly reflected an easing in logistical disruptions from the previous year.

Figure 5
Inflation Across ECCU Member Countries



Source: ECCB

Government Operations

The consolidated fiscal accounts of member governments improved in 2023 as tax and non-tax collections remained buoyant. The fiscal operations yielded a lower deficit of $168.4m, compared with one of $540.6m in 2022. The fiscal deficit narrowed by 6.7 percentage points of GDP to -0.7 per cent of GDP relative to 2022. The improvement was mostly due to higher revenue yield from the growing economy. Total and current expenditure rose, but less significantly than revenue (see Table 1). The current account balance to GDP improved, rising by 2 percentage points, to 5.8 per cent of GDP.

Robust current revenue growth of 13.1 per cent

[2] The Food and Agriculture Organisation's Food Price Index is a key barometer of the world food market, tracking changes in global food prices for five major commodity groups over time. These groups include cereals, vegetable oils, dairy, meat, and sugar.

was recorded in 2023 following exceptional increases in the two previous years (Table 1). Current revenue as a share of GDP was 29.6 per cent in 2023; higher than the 28.2 per cent share in the previous year. The major contribution to current revenue growth was a 21.4 per cent increase in non-tax revenue collection. Tax revenue collection also registered strong performance of 9.7 per cent, which was comparable to the previous year's expansion. Within the non-tax segment, exceptional expansion of 27.9 per cent was recorded in receipts from Citizenship by Investment (CBI) programmes with a total of $1,571.4m in 2023. Following a temporary decline in 2020, CBI receipts have grown strongly at an annual average of 44.8 per cent in the post-pandemic period.

Table 1: ECCU Central Governments' Consolidated Fiscal Operations

Item	2019	2020	2021	2022	2023
In EC$ millions					
Current Account Balance	485.5	-288.8	489.0	804.1	**1,328.6**
Current Revenue	5,410.3	4,550.1	5,537.8	6,048.0	**6,841.1**
Current Expenditure	5,061.9	5,056.1	5,243.7	5,517.5	**5,703.9**
Capital Expenditure and Net Lending	1,198.6	1,211.2	1,501.4	1,702.1	**1,716.4**
Overall Fiscal Balance	-442.2	-989.0	-508.6	-540.6	**-168.4**
As a percentage of GDP (%)					
Current Account Balance	2.3	-1.7	2.6	3.8	**5.8**
Current Revenue	25.5	26.3	29.8	28.2	**29.6**
Current Expenditure	23.9	29.3	28.2	25.8	**24.7**
Capital Expenditure and Net Lending	5.7	7.0	8.1	7.9	**7.4**
Overall Fiscal Balance	-2.1	-5.7	-2.7	-2.5	**-0.7**

[a] Sources: ECCB and National Statistics Office

The strong growth in tax receipts in 2023 was supported by an expansion in all tax categories. The buoyancy was due primarily to higher collection from taxes on income and profits (17.4 per cent) and domestic goods (9.9 per cent). VAT receipts were particularly robust, supported by the momentum in regional economic activity and the full year's implementation of the GST in Anguilla.

Current expenditure expanded in nominal terms, reflecting increases in all of the major expenditure categories. Current expenditure stood at $5,703.9m which was equivalent to 24.7 per cent of GDP. All of the major spending items grew, ranging from a 1.0 per cent increase in transfers and subsidies to an 11.9 per cent increase in interest payments.

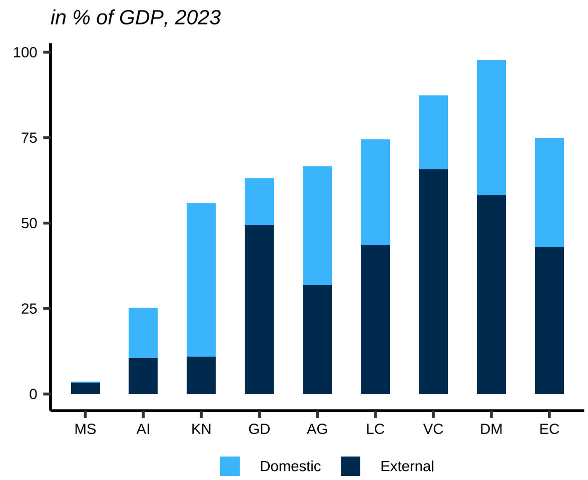
Capital spending registered growth of 0.8 per cent in 2023 as activity moderated following a significant expansion in the previous year. Spending was driven by higher public investment for major infrastructural projects in a number of countries. These included the Port Modernisation Project in Saint Vincent and the Grenadines, the construction of the international airport in Commonwealth of Dominica, road projects in Saint Lucia among several other country-level initiatives. These public investment projects were at several stages of their implementation cycles during 2023. The Port Modernisation Project Saint Vincent and the Grenadines is expected to be completed in 2025, while the international airport in Dominica is expected to be completed in 2026. Consolidated capital spending was moderated by double-digit contractions in public spending in Grenada (22.0 per cent) and Saint Christopher (St Kitts) and Nevis (28.5 per cent).

Debt

The public debt ratio fell at end-2023, but remained above the 60 per cent debt anchor. Outstanding public sector debt rose by 3.4 per cent in 2023 to $17,289.0m. Notwithstanding this nominal increase, the outstanding ratio of public sector debt relative to GDP declined to 74.9 per cent as at December 2023 from 78.1 per cent as at December 2022. This marked the third consecutive annual reduction in the ratio, and is credited to the overall positive performance of the ECCU economies. Of this total, external debt stood at $9,884.8m (or 42.8 per cent of GDP) while outstanding domestic debt was $7,404.19 (or 32.1 per cent of GDP) (Figure 6).

Central government debt was the main contributor of the increase in outstanding public sector debt, as it expanded by 3.9 per cent on an annual basis. In particular, a number of governments procured debt from external creditors to support ongoing capital investment programmes and to finance budget shortfalls. Consequently, central government external debt rose by 9.4 per cent from one year prior, the second highest in five years. Conversely, central government domestic debt contracted by 3.3 per cent owing to debt amortization.

Figure 6
Composition of Public Sector Debt



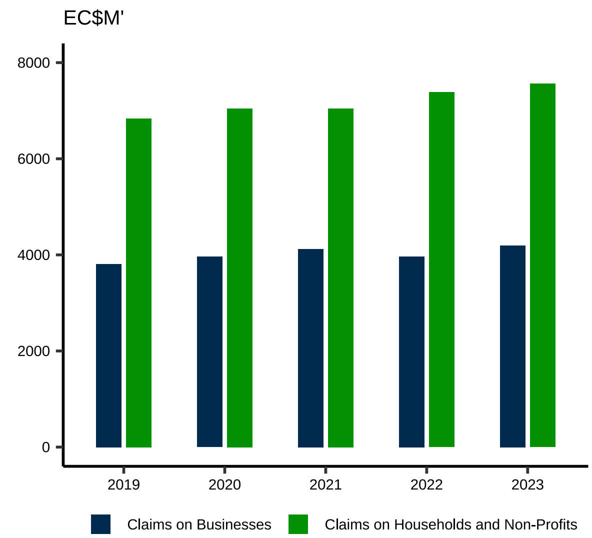
Source: ECCB

Significant differences were noted in the debt ratios across member countries. These ratios range from as low as 3.6 per cent for Montserrat to 97.8 per cent for Commonwealth of Dominica. Of note, public sector debt expanded in most member countries during the pandemic years as government responded decisively to the significant economic fallout.

Banking Developments

During the year, broad monetary liabilities increased, driven by demand for higher short-term deposits. Monetary aggregates (M2) grew by 4.6 per cent at the end of December 2023 to $19,947.9m, equivalent to 86.4 per cent of GDP. The expansion was mainly due to a sharp rise in transferable deposits (13.7 per cent) coupled with a marginal rise in longer-term deposits (0.8 per cent). Holdings of short-term deposits including chequing accounts have accelerated in the post-pandemic period triggered by the need for greater liquidity as a result inflationary pressures and uncertainty.

Figure 7
Claims (Credit) on Selected Sectors



Source: ECCB

Domestic claims declined marginally reflecting a confluence of higher credit to private sector and an increase in the net deposit position of governments. Growth in claims on the private sector accelerated in 2023 reflecting higher bank lending to businesses (Figure 7). Following a 3.8 per cent contraction in 2022, outstanding credit to businesses expanded by 5.8 per cent to $4,194.8m in the 12 months to December 2023, driven by year-on-year expansions in credit to agriculture, manufacturing and transport and storage. The largest expansions in business credit was recorded in Saint Vincent and the Grenadines and Grenada. Meanwhile, outstanding loans to households rose by 2.4 per cent to $7,561.1m, a deceleration from the 4.8 per cent in 2022. Claims on households continued to be driven by the demand for residential construction, real estate activity and credit for vehicle purchases.

Asset quality in the banking system improved over the review period, with discernible differences in the NPL ratio across member countries. In December 2023, the ratio of non-performing loans (NPL) to total loans stood at 11.2 per cent, down 7 basis points from a year earlier. The lowest rate was recorded for Grenada at 3.4 per cent, while the highest rate was recorded in Saint Christopher (St Kitts) and Nevis at 19.4 per cent. Anguilla's NPL ratio registered the largest decline over the period, falling by 4.3 percentage points to 16.2 per cent. This was followed by the NPL ratio for Saint Christopher (St Kitts) and Nevis, which declined by 3.2 percentage points over the twelve-month period. Liquidity improved marginally over the period, evidenced by an increase in liquid assets to short-term liabilities.

The region's food import bill continued its upward trend in the post-pandemic period, surpassing $2.0 billion in 2023. Between 2014 and 2019, the value of the region's food imports grew at an annual average rate of 2.4 per cent; but in the past two years, the region's food import bill has recorded an historically high annual average growth of 16.5 per cent

External Trade

An expansion in the value of imports resulted in the widening in the merchandise trade deficit in 2023. The merchandise trade deficit widened to $9,847.9m (42.7 per cent of GDP) relative to one of $8,948.9m (41.8 per cent of GDP) in 2022. All major import segments increased over the period, although the imports of machinery, mineral fuels and food were the main contributors of the expansion. Machinery and transport equipment was the largest imported segment followed by food. Meanwhile, domestic exports which declined in the previous year, increased over the period to $474.0m, surpassing its 2019 level of $450.4m.

The region's food import bill continued its upward trend in the post-pandemic period, surpassing $2.0 billion in 2023. Between 2014 and 2019, regional food imports grew at an average annual rate of 2.4 per cent or an average value of $1,468.8m a year. In the last two years however, the region's food import bill has recorded an historically high annual average growth rate of 16.5 per cent. While global food prices have contributed to this incomparable increase in food imports, demand for imported foods by residents and visitors have also been a significant contributory factor. In 2023, food accounted for one-fifth of total imports and was valued at approximately $2,116.2m.

Spending by tourists increased in 2023 and has exceeded its pre-pandemic level. Tourist expenditure stood at $4,079.0m in 2023, about 6 per cent higher than its 2019 value and 30 per cent above its 2022 value.

Outlook

The growth prospects for the regional economy in 2024 are positive. Economic activity expanded in 2023 and is projected to be sustained in 2024. Growth is expected to be supported by tourism-related activity and construction, as stay-over arrivals are expected to reach pre-pandemic levels. Inflationary pressures should continue to recede assuming there are no unforeseen geopolitical developments. Public investment is expected to boost growth, as governments execute a number of large capital-intensive projects. Over the medium term, the regional debt stock is anticipated to expand as governments implement several capital projects which are in the pipeline. Additional measures may therefore be necessary to reverse this upward trend in debt over the medium-term. The increase in minimum wage in a number of member countries is also expected to support the region's positive growth outlook.

Significant downside risks from the global environment and climate change could lower the region's growth momentum. Risks and uncertainties from global and domestic developments, including war, inflation, crime, climate change and fiscal challenges will persist in 2024. The International Monetary Fund's World Economic Outlook (April 2024) has estimated global growth of 3.2 per cent in 2024 and in 2025, well below trend. The deceleration is attributed to the dual conflicts in Ukraine and the Middle East. The materialization of any of these risks is likely to restrain growth in the ECCU. For instance, an escalation in the conflicts in Ukraine or the Middle East could significantly raise the price of energy and other commodities as well as possibly freight rates. The re-emergence of inflation in early 2024 is likely to keep monetary policy rates in advanced countries high for some time before the easing cycle begins. However, the relative strength of the US labour market should help support arrivals from that market to the region. Overall, the ECCB remains guardedly optimistic regarding the macroeconomic outlook for the region.

Selected Economic Indicators

Item	2019	2020	2021	2022	2023
National Income and Prices (Annual % change)					
Nominal Gross Domestic Product (GDP) at Market Prices	4.2	-18.5	7.8	15.0	7.8
Real GDP at Market Prices	3.8	-16.6	5.5	11.8	4.3
Consumer Prices (end of period)	-0.4	-1.6	2.7	9.5	2.2
Consumer Prices (period average)	0.4	-2.3	1.6	8.4	3.8
Real Gross Value Added (GVA) at basic prices (%)					
Agriculture, Livestock and Forestry	2.8	-8.4	5.4	-7.1	-12.9
Manufacturing	-16.1	-21.8	8.0	-20.1	2.6
Construction	-2.4	-21.0	16.1	6.1	0.8
Wholesale and Retail Trade	-0.9	-18.1	5.2	9.8	2.0
Hotels and Restaurants	29.5	-59.3	27.3	80.9	11.7
Transport, Storage and Communications	8.5	-21.1	2.2	29.4	9.3
Financial Intermediation	5.8	0.8	2.8	-0.6	1.5
Real Estate, Renting and Business Activities	2.5	-11.1	1.6	2.0	2.2
Public Administration, Defence & Compulsory Social Security	3.9	-0.3	1.6	2.9	3.2
Total Public Sector Debt (% GDP)					
Total Public Sector Debt	66.1	87.9	87.2	78.1	74.9
Public Sector External Debt (end-of-period)	34.4	45.6	47.5	42.6	42.8
Central Government Finances (in XCD millions)					
Current Account Balance	485.5	-288.8	489.0	804.1	1,328.6
Current Revenue	5,410.3	4,550.1	5,537.8	6,048.0	6,841.1
Current Expenditure	5,061.9	5,056.1	5,243.7	5,517.5	5,703.9
Capital Expenditure and Net Lending	1,198.6	1,211.2	1,501.4	1,702.1	1,716.4
Overall Fiscal Balance	-442.2	-989.0	-508.6	-540.6	-168.4
Monetary Sector (% p.a.)					
Weighted Deposit Interest Rates	1.6	1.6	1.5	1.3	1.3
Weighted Lending Interest Rates	7.9	7.1	6.8	6.9	6.2
Non-Performing Loans Ratio (%)	10.1	11.3	11.7	11.9	11.2
Memorandum items (in XCD millions, unless otherwise stated)					
Nominal GDP at Market Prices	21,190.9	17,269.5	18,612.9	21,413.7	23,076.0
Real GDP at Market Prices	16,337.6	13,630.2	14,375.4	16,075.1	16,772.7
GDP per capita (EC$)	28,318.9	22,755.2	24,364.9	27,945.0	29,643.7
Merchandise Imports (f.o.b)	8,324.6	6,425.4	7,425.6	9,619.3	10,601.9
Merchandise Exports	768.9	625.5	608.9	670.5	754.0
Gross Visitor Expenditure	7,271.1	2,502.9	3,404.1	6,969.0	7,619.1
Net Foreign Assets	9,182.3	9,738.2	11,345.6	11,336.0	12,424.7
Domestic Credit	10,268.3	10,756.1	10,832.3	11,207.7	11,199.8
Money Supply (M2)	18,163.3	16,791.0	18,435.3	19,073.8	19,941.4
Currency in Circulation	1,323.8	1,354.0	1,479.4	1,583.8	1,653.4

Note:

Data as at 23 February 2024

[1] Sources: Central Statistics Offices and Eastern Caribbean Central Bank (ECCB)

2023

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