EASTERN CARIBBEAN CURRENCY UNION

ECONOMIC AND FINANCIAL REVIEW

June 2024

Eastern Caribbean Central Bank

JUNE 2024

ECONOMIC AND FINANCIAL REVIEW

EASTERN CARIBBEAN CURRENCY UNION

EASTERN CARIBBEAN CENTRAL BANK

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Eastern Caribbean Currency Union

Economic and Financial Review - June 2024

Eastern Caribbean Central Bank

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Overview[1]

- Regional economic activity continued to expand in the first half of 2024 (H1-2024), but the pace of expansion slowed from its strong post-pandemic rebound.

- Inflationary pressures eased, primarily due to lower food prices although rising fuel costs partially offset this downward trend.

- Regional governments' aggregated surplus narrowed, as expenditure growth outpaced revenue growth.

- Monetary and credit growth moderated, although credit has risen to above its recent historical average, indicative of a broader recovery in consumer sentiment since the pandemic.

- The economic outlook has become increasingly uncertain due to a confluence of factors, including heightened geopolitical risks and the escalating impacts of climate change.

The Economy (Real Sector)

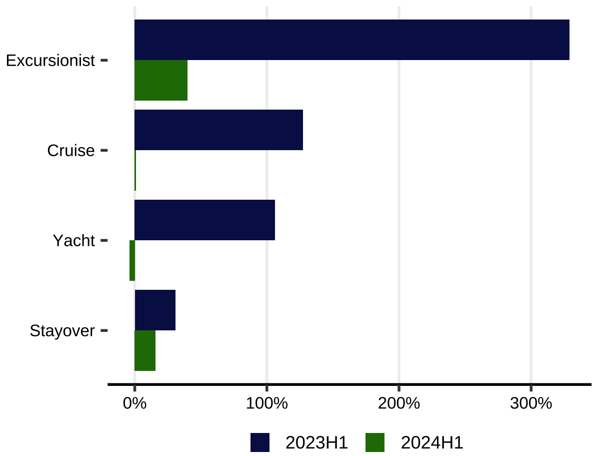
Following a robust post-pandemic recovery, regional economic activity expanded at a moderate pace in H1-2024. This slowdown was broad-based but was especially evident in tourism and other services, which had previously benefited from strong pent-up demand immediately after the post-pandemic reopening. While all member countries experienced a slowdown, a few countries maintained a strong pace of growth, driven by factors such as new hotel openings, the celebration of milestone festivals, greater air connectivity, and the ICC T20 World Cup which contributed to sustained economic activity.

There was a slowdown in the growth of total visitor arrivals with a notable moderation across the various visitor segments. Total arrivals increased by 4.8 per cent, relative to the robust growth rates observed in 2023, when the sector benefited from global pent-up demand (Figure 1). High demand, combined with continued investments by international hotel brands and investments in cruise ports, have contributed significantly to the recovery in regional economic activity following

[1]Photo Credit: Eastern Caribbean Central Bank

the pandemic.

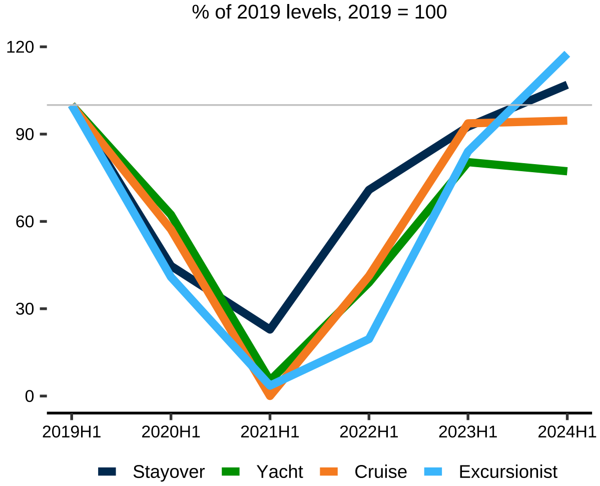
Figure 1:
Visitor Arrivals by Selected Categories
% change, 2023H1 and 2024H1



Source: ECCB

Despite the recent deceleration, the number of stayover visitors in the first half of 2024 surpassed its comparative 2019 level and secured its recovery from the pandemic. Stayover visitor arrivals experienced growth in the first half of the year, with a 15.6 per cent increase over the previous year and surpassing 2019 levels by 7.0 percent. This expansion was facilitated by resilient economic activity in the USA in the first half. The recovery of the other visitors segments was mixed with the yachting segment showing the slowest growth from its pre-pandemic level (see Figure 2).

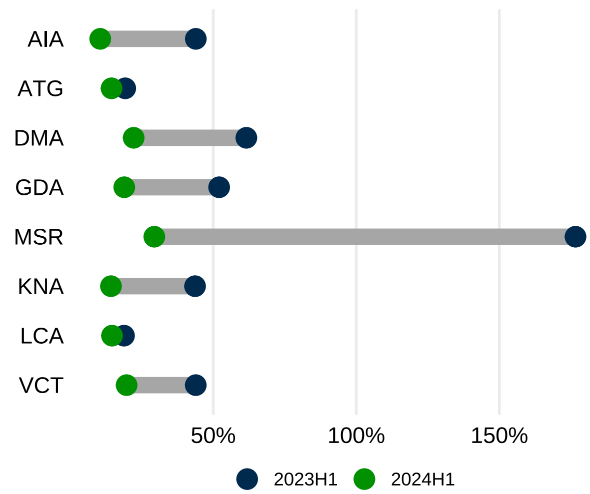
Figure 2:
Recovery in Tourist Arrivals by Selected Categories
% of 2019 levels, 2019 = 100



Source: ECCB

While the stayover segment has outperformed its pre-pandemic levels, its momentum has eased from previous highs, mirroring a broader moderation across all member countries. Montserrat, Dominica, and Saint Vincent and the Grenadines demonstrated a slightly faster pace of growth in stayover arrivals in the first half of 2024 compared to their regional peers. Tourism activity in Saint Vincent and the Grenadines was driven primarily by the opening of the Sandals Resort in March 2024 and an expansion of airlift services.

Figure 3:
Growth in Stayover Arrivals by Country
2023H1 and 2024H1



Source: ECCB

The agriculture sector was affected by the effects of climate change specifically, extreme weather conditions, including high temperatures, drought, and heavy rains. This slowdown occurred despite regional governments' efforts to support the sector. Notably, the agriculture sector of Saint Vincent and the Grenadines has not fully recovered from the impact of the volcanic eruptions of La Soufriere, but farmers and fishermen continued to benefit from financial aid to assist in their recovery.

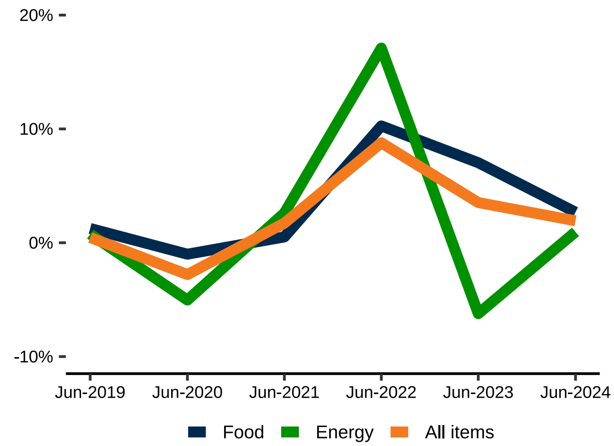
The performance of the construction sector was boosted by ongoing government incentives and investments in infrastructure projects which have driven economic activity and job creation within the sector. These projects included significant road works and the construction of major air and sea port initiatives, such as the ongoing construction of the flagship international airport in the Commonwealth of Dominica, and the sea port in Saint Vincent and the Grenadines. Private construction also remained buoyant, due to the on-going work on several CBI-related properties in Commonwealth of Dominica and the two-year VAT amnesty on building materials in Saint Lucia.

Despite the estimated economic slowdown, there are signs of positive momentum in domestic consumption, supported by favorable income growth. Anecdotal evidence and available data suggest that job gains improved, although the youth unemployment rate remained relatively high. Several countries, including Anguilla, Grenada, and Saint Kitts and Nevis, witnessed a positive impact on private consumption due to increases in minimum wages. The unemployment rate in Saint Lucia declined by 4.9 percentage points to 11.4 per cent relative to the first quarter of the previous year. Additionally, spillover effects from cultural and social events such as Carnival, the 2024 ICC Men's T20 Cricket World Cup (June 2024), and Grenada's 50th Independence Anniversary all helped to stimulate economic activity.

Consumer Prices

Disinflationary trends continued across the ECCU, mirroring the deceleration in the US and other advanced economies. Consumer price inflation in the ECCU eased to 1.9 per cent in the twelve months to June 2024 from 3.5 per cent in the year ended June 2023 (see Figure 4). The disinflationary trend was primarily due to lower food prices although rising fuel costs partially offset this downward trend. Food price inflation slowed to 2.7 per cent compared to a rate of 7.0 per cent at the end of June 2023. Food price inflation eased as the food index declined from its peak in immediate aftermath of the Ukraine war. During the period, crude oil prices were volatile, driven by heightened geopolitical tensions, production cuts by the OPEC+, and episodes of weakening global demand, particularly in China, where growth remained modest.

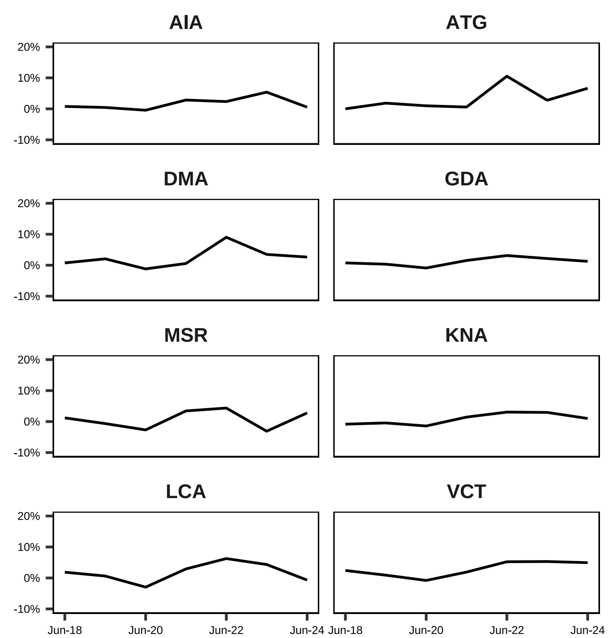
Figure 4:
Selected Categories of ECCU Inflation
%, year-ended June



Source: ECCB

The extent of price easing was fairly broad-based across member countries with a few exceptions. While six of the countries experienced a more prominent moderation in inflation, Antigua and Barbuda and Montserrat were two notable exceptions, where average inflation rates were higher relative to the rates of the previous period (see Figure 5).

Figure 5:
Inflation Trends across ECCU Member Countries
%, end-of-period



Source: ECCB

A number of regional governments responded to

the cumulative effect of previous price increases through minimum wage increases. To mitigate the impact of the post-pandemic rise in consumer prices on households, a number of regional governments, including Anguilla, Grenada and Saint Christopher (St. Kitts) and Nevis, implemented increases in their national minimum wages, intended to provide a financial boost to low-income workers.

Government Operations

Despite governments' efforts at enhancing revenue collection in recent years, there was a deterioration in governments' fiscal aggregates in H1-2024, as the growth in expenditure outpaced that of revenue.[2] As a result, the aggregated fiscal surplus narrowed to $227.8m from $341.2m in the previous year, with three member countries recording deficits in the period. The primary and current balances were both lower than the previous year's balances (see Table 1).

Table 1: ECCU Central Governments' Consolidated Fiscal Operations

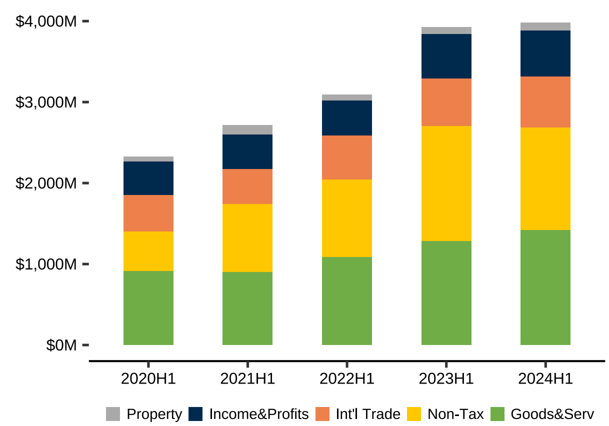
Item	2020H1	2021H1	2022H1	2023H1	2024H1
Current Revenue	2,346.4	2,734.5	3,113.4	3,964.6	**4,005.7**
Tax Revenue	1,843.1	1,878.0	2,138.7	2,507.9	**2,716.3**
Non-Tax Revenue	483.4	838.8	955.0	1,416.9	**1,264.8**
Current Expenditure	2,482.2	2,535.3	2,553.2	2,828.2	**2,942.4**
Current Account Balance (after Grants)	-62.4	291.1	717.8	1,227.7	**1,148.6**
Capital Revenue	6.3	42.3	7.5	9.0	**34.5**
Grants	291.6	274.8	315.9	184.8	**159.1**
Capital Expenditure and Net Lending	387.9	793.4	944.5	988.4	**1,027.1**
Primary Balance (after Grants)	3.8	-63.1	183.1	624.9	**513.8**
Overall Balance (after Grants)	-225.8	-277.2	-61.1	341.2	**227.8**

* Sources: ECCB and National Statistics Offices

Five member governments recorded fiscal surpluses in H1-2024, fueled by governments' concerted fiscal efforts. Antigua and Barbuda generated a historic surplus due to the increase in its Sales Tax (ABST) from 15.0 per cent to 17.0 per cent during the first quarter of the year, while Anguilla continued to benefit from the windfall from its .ai domain sales. In Grenada, the main driver of the continued fiscal balances was attributed to the spending restraint imposed by the Fiscal Resilience Act (FRA), which was re-introduced in January 2024.

Current revenue rose marginally relative to the previous year as some of the benefits from higher inflation subsided (Figure 6). Current spending rose faster than current revenue with expansions of 4.0 per cent and 1.7 per cent respectively. Revenue from most tax categories expanded, although at a slower pace than the rate in the previous year. Property taxes was the notable exception, although its yields remain a comparatively less significant component of the overall revenue base (see Figure 7).

Figure 6:
Current Revenue Composition (EC$M)
2020H1 - 2024H1



Source: ECCB

Revenue from the Value-Added Tax (VAT) continued to grow strongly (9.4 per cent) but slowed from last year's expansion (26.2 per cent), while receipts from import duty exhibited a similar moderation. Notwithstanding a generalized deceleration in revenue growth across the ECCU, Saint Christopher (St. Kitts) and Nevis exhibited a notably more pronounced decline in revenue in H1-2024 due to a sharp drop in non-tax revenue.

Non-tax revenue, which has recently been dominated by Citizenship by Investment (CBI) receipts, declined sharply in the first half of the year driven by a sharp decline in one of the CBI-participating member countries. Non-tax revenue

[2] Fiscal data for some member countries include estimates

declined by 10.7 per cent, following a 48.4 per cent increase in 2023. Mirroring this trend, was a double-digit decline in CBI revenue mainly stemming from Saint Christopher (St. Kitts) and Nevis. During H1-2024, participating CBI governments signed a Memorandum of Agreement (MOA), aimed at enhancing the regulatory framework and collaboration within the industry (see Box I).

Governments have continued to record sustained increases in current expenditure. Recurrent outlays rose by 4.0 per cent in H1-2024, slightly lower than the 10.8 per cent in H1-2023. This was largely due to increases in all major expenditure categories with the exception of goods and services which declined by 2.6 per cent. Notably, personal emoluments and transfers and subsidies, which comprise approximately two-thirds of current revenue, rose by 7.8 per cent and 6.0 per cent respectively.

Capital spending was sustained in the review period as governments continued to face pressures to address the urgent needs of their citizens and respond to the effects of climate change. The pace of growth in capital spending was sustained relative to that of the previous year. The increasing severity of hurricanes from climate change and the need to build more resilient infrastructure have compounded the need for capital spending over time. However, this increased spending may raise concerns about the sustainability of the governments' financial position in the long-term and governments' ability to meet the debt target.

Debt

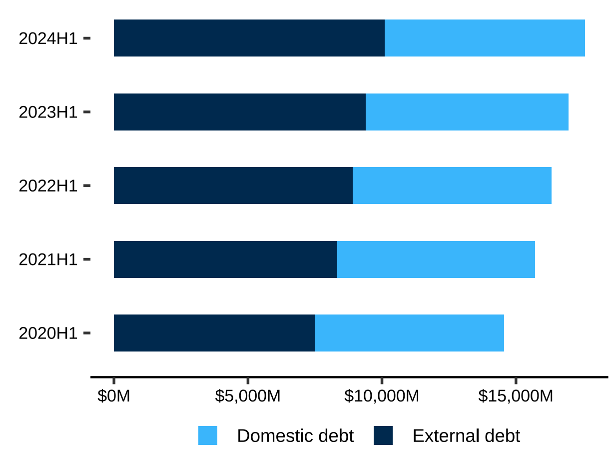
The deterioration in fiscal balances led to an increase in the ECCU's aggregated stock of public debt. Outstanding public sector debt stood at \$17,567.6m as at end-June 2024, a 3.6 per cent increase from the end of June 2023 and negligible 0.1 per cent from end of December 2023. Of this total, external debt rose by 7.5 per cent from one year ago to \$10.089.3m (Figure 7), while domestic debt declined slightly by 1.2 per cent to \$7,478.2m, primarily due to net payments to local suppliers.

In spite of growth in the aggregate figures, debt levels declined in five of the eight member countries from prudent fiscal policies and windfalls from tax increases or non-traditional revenue sources. Anguilla and Montserrat saw the largest reductions in their debt stock at 9.9 per cent and 11.3 per cent over the twelve months to June 2024. The increase in debt levels of the remaining member countries, reflect the difficulties in managing fiscal deficits and the long-term effects of the COVID-19 pandemic on government expenditure.

Figure 7:

Outstanding Public Sector Debt by Category

Stock, end-of-period



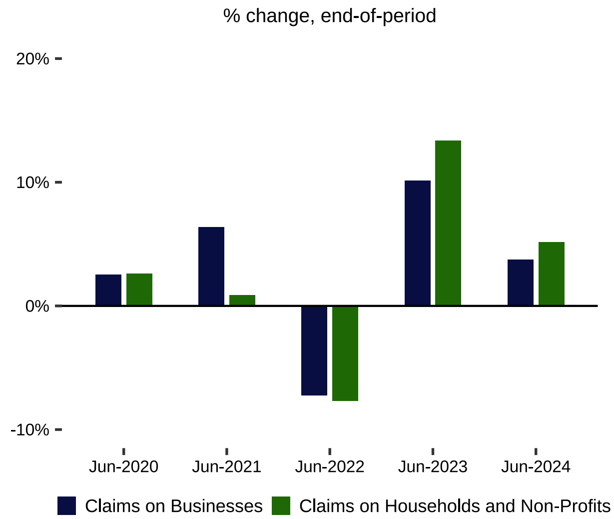
Source: ECCB

Banking Developments

Banking sector intermediation slowed over the twelve months to June 2024 due to the easing in regional economic activity. Broad monetary aggregates (M2), which grew strongly in the previous year (7.8 per cent) expanded by 6.0 per cent as at the end of June 2024 to \$20,705.0m. The expansion was mainly due to a deceleration in short-term (transferable) deposits (6.4 per cent) coupled with a rise in longer-term deposits (5.8 per cent) year-on-year. Following a pandemic-induced decline in 2020, holdings of short-term deposits, including chequing accounts, have increased steadily in the post-pandemic period with its highest rate in the 12 months to June 2023, as consumers shifted to short-term deposits.

Within M2, longer-term deposits, comprising both local and foreign-currency deposits, rose by 5.8 per cent against a decline of 1.0 per cent in the previous year. Growth in these deposits has been higher than the recent historical average of 1.7 per cent. The recent development suggests a shift in saving and spending patterns by ECCU consumers towards longer-term savings.

Figure 8:
Claims (Credit) on Selected Sectors



Source: ECCB

Domestic credit growth slowed during the twelve months to June 2024 due to an easing in both household and business credit. Outstanding credit to businesses expanded by 3.7 per cent in the 12 months to June 2024 (from 9.1 per cent), driven by expansions in credit to accommodation and food services and wholesale and retail trade. Meanwhile, outstanding loans to households rose by 5.1 per cent from the 12.0 per cent in twelve months to June 2023. Notwithstanding this deceleration in credit growth, household and business credit growth have been higher relative to their post-pandemic averages.

Claims on households continued to be driven by credit demand for residential home construction and vehicle purchases. Banking sector credit has been dominated by household credit comprising about 65.0 per cent of regional domestic credit. The concentration of credit to the household sector (including the sustained increase for vehicle purchases) highlights the need to extend credit to productive sectors for a more diversified lending landscape and to foster broad-based economic growth and resilience.

Despite slowing credit growth, the banking system remained sound with healthy liquidity levels and improving credit quality. Asset quality generally improved, while liquidity ratios remained above regulatory benchmarks. The ratio of liquid assets to short-term liabilities stood at 44.1, which was just marginally below 44.2 in June 2023. In June 2024, the ratio of non-performing loans (NPL) to total loans stood at 9.8 per cent, down from 11.6 per cent one year earlier, but was significantly above the 5.0 per cent regulatory benchmark. The highest NPL levels were recorded for Saint Christopher (St. Kitts) and Nevis (18.7), Anguilla (13.0) and Saint Lucia (11.6). The lowest rate was recorded for Grenada at 3.4 per cent.

External Trade

Regional export earnings continued to decline signaling broader competitiveness challenges. The merchandise trade deficit widened and stood at $4,612.8m in H1-2024, as domestic exports contracted, coupled with an increase in imports over the period. The value of domestic exports declined for the third consecutive period, to below its H1-2019 pre-pandemic level of $183.9m. The sustained weak domestic exports and the widening trade deficit also underscore broader trade and competitiveness challenges, such as high costs of production, limited innovation, ongoing regional transportation challenges and trade regulations and barriers.

The value of imports continued to rise, with machinery and transport, petroleum products and food accounting for the largest import categories. Ongoing infrastructure projects in many member countries fueled the imports of machinery and transport (heavy equipment) which were the largest imported category (20.0 per cent). This was followed by petroleum-related products and food which accounted for 19.6 per cent and 19.2 per cent of total goods imported to the region. Notably, the food import bill fell by 5.6 per cent from its peak value in 2023.

Tourist expenditure continued to rise in H1-2024 in line with the recovery in total visitor arrivals easily surpassing its H1-2019 pre-pandemic level. Tourist expenditure stood at $4,540.1m in the H1-2024, 11.3 per cent above its 2023 level. Tourist expenditure has increased since 2022 from its sharp pandemic-induced declines in 2020 and 2021, and has exceeded the level registered in the corresponding period of 2019.

Outlook

The moderate regional economic expansion is likely to continue in the forecast period due to a more challenging external environment. In its July 2024 World Economic Outlook (WEO) report, the International Monetary Fund (IMF) maintained its prediction for global economic growth in 2024 at 3.2 per cent. Of note, the IMF also revised its outlook for the region's main source markets. The U.S. forecast was lowered slightly to 2.6 per cent in 2024 and 1.9 per cent in 2025 due to anticipated cooling in the labour market, moderation of consumption, and some tightening of fiscal policy. The euro area is expected to experience a modest growth rate of 0.9 per cent in 2024.

The outlook may however deteriorate due to a combination of factors. Developments in the Middle East and Ukraine may affect consumer and investor sentiments worldwide or increase disruptions in trade. A potential increase in commodity prices from these geopolitical conflicts, including unrest in the Middle East and Ukraine and the potential impact of US elections, could all affect the outlook for inflation, global trade and economic growth.

Domestically, the impact of climate change presents a growing risk in light of the high probability of an active hurricane season. According to the World Economic Forum's Global Risks Report 2024, climate change and its consequences are likely to pose one of the greatest risks to the world over the next decade. The risk may be particularly detrimental for Small Island Developing States such as those of the Eastern Caribbean Currency Union. These external and domestic risks will continue to challenge the resilience of the regional economy in the short- and medium-term.

Medium-term fiscal and debt sustainability strategies would be paramount in light of the emerging and growing risks. These will however be contingent on continued fiscal reform measures by governments. The full effect of these reforms may take some time. Member governments should continue to implement credible fiscal frameworks as quickly as possible, if they are to achieve the 60.0 per cent debt-to-GDP target by 2035.

While risks remain on the downside, there is a possibility of some upside surprises. On the upside, global inflation could moderate more quickly than assumed and growth in the United States could be stronger than expected.

Box 1: Regional Framework for Citizenship by Investment Programmes

During the first half of 2024, Member Countries of the Eastern Caribbean Currency Union which offer Citizenship By Investment Programmes (CBI), united to strengthen the integrity of their CBI programmes, by signing a Memorandum of Agreement (MOA). The MOA marked a pivotal shift towards stricter regulations and collaborative efforts within the industry. Under the CBI program, foreign investors are granted citizenship in the country in return for making a substantial investment in the socio-economic development of those countries. The CBI has historically been a major revenue source for Saint Christopher (St. Kitts) and Nevis, Commonwealth of Dominica, Antigua and Barbuda and Grenada, and comprised an average of approximately 80 per cent of non-tax revenue.

The signatories of the MOA are Antigua and Barbuda, Commonwealth of Dominica, Grenada, Saint Christopher (St. Kitts) and Nevis and Saint Lucia. The signing of the MOU was an important step in aligning the pricing, regulations, and vetting practices across the five regional CBI countries and in enhancing the transparency and credibility of the region's CBI initiatives. The signing of the MOA also underscores the firm and collective commitment of the region's CBI-participating member countries to uphold CBI programme standards and engage in constructive dialogue with international partners.

The MoA outlines fundamental agreements among the participating CBI countries, including the exchange of best practices and due diligence processes; the establishment of a minimum threshold of USD $200,000, reflecting actual funds received; information sharing on applicants; enhanced transparency measures, including financial disclosures; independent financial and operational audits; the creation of a regional authority to establish standards; the adoption of common communication and promotion standards; regulation of agents. A significant provision of the MOA involved raising the minimum investment threshold to US$200,000, with a deadline set of 30 June 30 2024. The collective efforts of the signatories' through the MOA also aim to address any concerns raised by international stakeholders, by fostering greater transparency and compliance with international standards. These measures are intended to enhance the programmes' credibility and fortify the programmes against potential vulnerabilities. By demonstrating such commitment to best practices, transparency, and regulatory compliance, participating countries enhance investor confidence, attract high-quality applicants, and distinguish themselves as reputable destinations for CBI.

Selected Economic Indicators

Item	2020H1	2021H1	2022H1	2023H1	2024H1
Banking and Monetary					
Net Foreign Assets (EC$M)	10,031.0	10,666.1	11,068.6	12,335.4	13,526.9
Domestic Credit (EC$M)	9,944.3	10,802.0	10,150.6	10,827.0	11,236.5
M2 (EC$M)	16,448.9	17,530.6	17,977.1	19,526.8	20,705.0
Currency in Circulation (EC$M)	1,224.5	1,277.1	1,424.0	1,496.1	1,576.8
Liquid assets to total assets	38.8	37.3	39.7	39.8	39.7
Liquid assets to short-term liabilities	45.2	42.3	42.6	44.4	44.1
Customer deposits to total (noninterbank)loans	149.9	151.1	162.0	165.0	164.0
Weighted Average Deposit Rate (%)	1.6	1.6	1.3	1.3	1.3
Weighted Average Lending Rate (%)	7.3	7.1	6.9	6.8	6.7
Interest Rate Spread (%)	5.7	5.5	5.6	5.5	5.4
Non-Performing Loans to Total Loans (%)	11.7	11.5	12.8	11.6	9.8
Real Sector and Prices					
Inflation Rate (year-on-year)(end-June) (%)	−2.8	1.7	8.8	3.5	1.9
Inflation Rate (half-year) (%)	−2.4	0.9	6.9	1.1	1.0
Total Visitor Arrivals	1,610,951	165,275	1,413,587	2,750,905	2,881,899
Total Visitor Expenditure (EC$M)	1,766.8	1,118.6	3,352.0	4,080.5	4,540.1
Government Finances					
Current Revenue (EC$M)	2,346.4	2,734.5	3,113.4	3,964.6	4,005.7
Current Expenditure (EC$M)	2,482.2	2,535.3	2,553.2	2,828.2	2,942.4
Current Balance (EC$M)	−62.4	291.1	717.8	1,227.7	1,148.6
Primary Balance (EC$M)	3.8	−63.1	183.1	624.9	513.8
Overall Balance (EC$M)	−225.8	−277.2	−61.1	341.2	227.8
Total Public Sector Debt (EC$M)	14,553.3	15,712.2	16,316.9	16,952.3	17,567.6

Data as at August 2024

2024

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