



## ECONOMIC TRENDS IN THE ECCA AREA

### OUTPUT AND PRICES

During 1982 there was a slowdown in the rate of growth of output in the countries of the ECCA area. The growth of real gross domestic product for the countries as a group is provisionally estimated at 2.6% compared with 5.6% in 1981. The factors influencing the reduced rate of output growth were essentially the same as in 1981. Weak economic activity in the industrial countries adversely affected the tourist industry in particular and depressed demand for primary commodities led to a further decline in their prices, severely affecting the area's earnings from its traditional exports, the main source of foreign exchange receipts.

### Traditional Agriculture

The decline in commodity prices since 1980, has generally had a dampening effect on production and exports of commodities. Banana exports vital to the Windward Islands fell 3% in volume and 7% in value in 1982 as compared with 1981. The Green Market Price (GMP) for exports to the United Kingdom, the traditional market, rose from £312 per ton in January 1982 to a high of £394 in May to July then declined to £365 in November to December. While the average price in 1982 was higher than in 1981, local currency earnings failed to show a proportionate increase due mainly to the depreciation of the pound sterling for most of the year.

The banana industry within recent years has been faced with serious difficulties due to the fact that the cost of production has risen more than earnings. Plans, aimed at restructuring and putting the industry on a sound financial footing, have been initiated with financial and technical assistance from international donor agencies.

These efforts appeared to have met with a measure of success as during the first six months of 1983, bananas exported from the Windward Islands amounted to 64,039 tons valued at \$61.1m. This represented an increase of 21% in quantity and 25% in value compared with the corresponding period of 1982,

indicating an improvement in E.C. dollar earnings inspite of a substantial depreciation in the pound sterling over the period January to June 1983. The Green Market Price for bananas rose from £361.4 per tonne in January to £447 per tonne at the end of June.

### Windward Islands Banana Exports

	1982		1981	
	Quantity Metric Tons	Value (\$000)	Quantity Metric Tons	Value (\$000)
Dominica	27,116	24,762	26,493	25,397
Grenada	9,995	8,957	11,201	10,573
St. Lucia	42,933	38,913	42,849	39,501
St. Vincent	26,711	24,290	29,427	27,365
Area Total	106,755	96,922	109,970	103,836

SOURCE: Windward Islands Banana Association

### Windward Islands Banana Exports

January - June

	1983		1982	
	Tonnes	Value (EC\$000)	Tonnes	Value (EC\$000)
Dominica	14,439	13,882	10,894	10,229
Grenada	4,793	4,505	4,461	3,988
St. Lucia	30,527	29,231	24,073	22,108
St. Vincent	14,280	13,492	13,475	12,472
Area Total	64,039	61,110	52,903	48,797

SOURCE: Windward Islands Banana Association

Sugar production and exports in St. Kitts in 1982 increased by 11% and 4.3% respectively. Despite the increase in quantity exported, total earnings fell 21.3% as sugar sold on the world market realised substantially lower prices than in 1981. The excess supply of sugar on the world market also prevented any significant increase in the guaranteed price for exports to the United Kingdom under the terms of the Lome Convention.

The 1983 crop yielded only 27,761 tons of sugar, 20.8% below the level of the previous year. The low yield is attributable to low rainfall in the early cane growing period and also the fact that the entire crop was not harvested.

The sugar industry in St. Kitts is facing serious financial difficulties, with the cost of production now reported to be in excess of earnings. As a result, various cost reducing measures were introduced at the start of the 1983 crop. Meanwhile factories in Antigua and St. Vincent which were re-established mainly to supply the domestic markets are reported to have experienced substantial losses primarily as a result of poor yields and higher than estimated capital costs.

#### St. Kitts Sugar Exports

Year	Quantity Produced (Tons)	Quantity Exported (Tons)	Value Exported EC\$M
1979	38,885	33,531	28.5
1980	33,927	27,662	34.8
1981	31,572	26,218	36.2
1982	35,059	27,353	28.5
1983	27,761	n.a.	n.a.

SOURCE: St. Kitts Sugar Manufacturing Corporation

Cocoa and nutmeg, two commodities of importance to the economy of Grenada also suffered price reversals during 1982. The average revenue per pound of cocoa exported fell by 15%. As was the case for a number of primary commodities, the price of cocoa on the world market fell during the two-year period 1981-1982; this has had a damaging effect on production and the quantity exported during 1982 fell some 21.7% from 1,000 tons to 951 tons. In the case of nutmegs, both production and exports increased but a substantial quantity remained in stock at year end for which no market was found. The average revenue per pound of nutmeg during 1982 fell by 15 per cent.

The unfavourable market prices for cocoa and nutmeg continued in 1983. For the first six months of the year the volume of cocoa exported increased 7.4% but earnings fell 14.9% to \$7.1m from \$8.3m in the corresponding period of 1982. In the case of nutmegs, exports during the period January to June 1983 amounted to 1,513 thousand kilos, valued at \$5.7m as against 1,488 thousand kilos valued at \$1.4m in the same period of 1982. Average earnings in 1983 however were 5.8% less than in the previous year.

The remaining major traditional export, arrowroot, produced by St. Vincent, faced strong competition on the international markets. This, together with other difficulties experienced by the industry led to a dramatic fall in exports and substantial stock accumulation during 1982.

#### Tourism

The area's tourism industry fared marginally better in 1982. The aggregate of stay-over visitors to the area increased by 1.8% over the previous year. This was the first time since 1979 that the area aggregate for this category of visitors has shown an increase. However, the number of arrivals in 1982 was still substantially less than in 1979. Tourist arrivals from ECCA countries increased steadily from 1976-1979, reflecting the economic

upturn in the industrial economies at that time, and the improvement in tourism facilities (i.e., construction of hotels and airports and improved communication). Since 1980 however, the tourism industry has experienced a significant decline in the number of stay-over visitors. This latter development reflected the recession in the industrial economies and increased competition from other areas.

During 1982 visitor arrivals from the United States to the area as a whole increased by 7.4% and provided the main impetus to the overall increase. There was also a 2.3% increase in arrivals from Canada, but the share of visitors from the United Kingdom in the area's total declined 8.4%, after increasing during every year since 1976. It is probable that in addition to the recession, the depreciation of sterling may have been a factor, as this would have increased the cost of vacation to United Kingdom visitors.

While there was a small improvement in stay-over visitors during the year, the aggregate of cruiseship visitors to the area showed substantial decline. Although arrivals of cruiseship visitors have generally tended to be volatile, it appears that this type of travel has been more adversely affected by the international recession.

Tourism is the second most important source of foreign exchange for the ECCA countries. Gross earnings during 1982 are provisionally estimated at \$329.0m compared with \$309.6m in 1981. It may be noted however, that a large proportion of these earnings is spent on imported goods and services used in the industry itself.

VISITOR ARRIVALS TO ECCA COUNTRIES

COUNTRY	STAY-OVER VISITORS		MAIN COUNTRY OF ORIGIN OF 1982 VISITORS					Cruise-ship Visitors 1982
	1981	1982	U.S.A.	Canada	U.K.	C'bean	Other	
Antigua & Barbuda	84,724	87,042	26,690	8,876	12,390	-	29,086	66,768
Dominica	17,438	19,717	3,767	922	1,922	7,349	6,386	2,362
Grenada	23,262	21,728	5,031	1,524	2,302	9,725	4,686	62,119
Montserrat	15,554	14,979	n.a.	n.a.	n.a.	n.a.	n.a.	9,921
St. Kitts-Nevis	35,352	34,394	10,796	2,485	2,631	5,850	12,632	11,146
St. Lucia	70,254	71,535	11,641	14,051	13,821	12,191	15,831	33,812
St. Vincent	44,732	47,235	n.a.	n.a.	n.a.	n.a.	n.a.	29,870
TOTAL	291,336	296,630	n.a.	n.a.	n.a.	n.a.	n.a.	215,998

SOURCE: Statistical Division in the various territories

Preliminary data on visitor arrivals for the period January to June 1983 indicate some recovery in the area's tourism sector. This was particularly so in the case of Antigua where arrivals by air increased 16% to 54,785 compared with the corresponding period of 1982. In the same period stay-over visitors to St. Lucia increased 4.7% to 38,457 while visitor arrivals to Grenada for the first three months of the year increased 7.9% compared with the same period of 1982. St. Kitts-Nevis, the other country for which data are available, experienced a 16% decline in visitor arrivals over the first six months of 1983. Damage by fire to the largest hotel may have been a contributory factor.

### Industry & Construction

The manufacturing sector is small, averaging under 10% of the area's gross domestic product. Output consists of light manufactured goods, for export to regional and extra-regional markets, as well as import substituting consumer items, building materials and other intermediate goods.

The performance of the sector during 1982 was mixed. In general, those industries producing for the home and regional markets performed creditably - particularly the garment, beverage and shoe industries; while the recession appeared to have restricted the sales by firms producing for non-regional markets, particularly the United States.

With the completion of major construction projects in Antigua and St. Lucia (an airport project and oil refinery rehabilitation in the former and an oil transshipment and storage terminal in the latter) construction activity fell in these two countries. However, most of the remaining countries experienced growth in the construction sector mainly through improvements to infrastructure and accommodation expansion in the tourism industry.

### Prices

During 1982, the rate of price increases based on the percentage change in the consumer price index was substantially lower than in 1981 in all ECCA countries, with the exception of Montserrat where the rate was 1.3 percentage points higher. The slowdown in the rate of price increases reflects the progress made in reducing the rate of inflation in the industrial countries.

The ECCA countries have a large propensity to import and the bulk of these imports are derived from industrial countries. As the rate of inflation in these countries decelerated in 1982, the rate of price increases in the area moderated.

ECCA's weighted average index showed that for the area as a whole consumer prices rose 3.6%, substantially lower than the rate of 8.9% that obtained in 1981. Examination of the retail price indices for the various countries revealed lower increases in the price of food, energy and housing while for household supplies and appliances and alcoholic beverages, the increases were generally at rates above that of the overall index.

The rate of increase in the consumer price indices continued to fall during 1983 and for the first six months of the year the area's weighted average increase was 1.0 per cent.

### Percentage Change in Consumer Price Index 1980-83

	1980	1981	1982	1983 (Jan.-June)
Antigua	11.5	7.9	2.1	-0.8
Dominica	21.4	8.1	4.6	0.4
Grenada	21.8	10.5	7.0	2.6
Montserrat	17.8	7.1	8.4	2.4
St. Kitts-Nevis	14.3	8.6	3.4	1.5
St. Lucia	21.1	9.5	0.4	1.1
St. Vincent	18.8	8.8	4.8	n.a.
Area Weighted Average Rate	18.2	8.9	3.6	1.0

BALANCE OF PAYMENTS

The adverse impact of the global economic recession on the area economies during 1982 culminated in an overall balance of payments deficit of \$58.8m compared with a deficit of \$74.3m in 1981.

Based on provisional data, exports from the area declined 6.7% from \$447.7m in 1981 to \$417.5m in 1982. The fall in exports was a result of reduced earnings from the countries traditional exports of bananas, sugar, nutmegs and arrowroot, due mainly to reduced prices on commodity markets. Imports (c.i.f.) to the area, provisionally put at \$1,263.9m, fell by 1.4% after increasing rapidly in the two previous years. The rapid increase in imports in 1980 and 1981 was on account of imported raw materials and equipment associated with large capital projects in Antigua and St. Lucia - an oil refinery in the former and an oil transshipment and storage terminal in the latter. Imports in those years also rose as a result of the destruction to agricultural crops by hurricanes in 1979 and 1980. The fall in imports during 1982 was however not enough to offset that in exports and the visible trade deficit widened.

The invisible trade balance showed a net improvement of \$90.7m compared with the 1981 position. Earnings from tourism are estimated to have increased to \$329m from \$309.6m in the previous year. Unrequited transfers both private and official, were an important source of foreign exchange for the area during the year. These flows increased by \$37.6m to \$342.5m in 1982. Due to the improvement in the invisible trade account and the increase in net transfers to the area, the deficit on current account narrowed from \$392.4m in 1981 to \$286.7m in 1982.

With the completion of large capital projects financed with foreign funds in Antigua and St. Lucia, long-term capital flows were not as high as in 1981. The overall deficit in 1982 was financed largely through a reduction in the reserves of the Authority of \$56.4m, following similar financing amounting to \$28.8m in 1981. Financing of \$1.8m was provided through the net use of IMF resources by some participating governments; in contrast financing through that source in 1981 was \$43.1m.

ECCA Area Countries

Balance of Payments

ECSM

	<u>1981</u>	<u>1982 (P)</u>
<u>CURRENT ACCOUNT BALANCE</u>	- 392.4	- 286.7
Merchandise Exports f.o.b.	447.7	417.5 (P)
Merchandise Imports c.i.f.	-1,281.5	-1,263.9 (P)
TRADE BALANCE	- 833.8	- 846.4
Other Goods, Services, Income: Credit	424.3	514.8
Travel	(309.6)	(329.0)
Investment Income	(40.8)	(34.2)
Other	(73.9)	(151.6)
Other Goods, Services, Income: Debit	- 193.8	- 203.6
Travel	(-76.4)	(-86.7)
Investment Income	(-27.3)	(-32.2)
Other	(-90.1)	(-84.7)
Private Unrequited Transfers (Net)	177.3	159.9
Workers Remittances	(77.2)	(49.1)
Other	(100.1)	(110.8)
Official Unrequited Transfers (Net)	33.6	88.6
<u>CAPITAL ACCOUNT BALANCE</u>	318.1	226.9
Direct Investment (Private) <sup>1</sup>	256.8	213.5
Other Long-Term Capital	79.5	63.5
Official Sector	(88.5)	(74.6)
Other	(-9.0)	(-11.1)
Short-Term Capital	- 18.2	- 50.1
Official Sector	(-34.5)	(-34.6)
Commercial Banks	(14.5)	(0.8)
Other	(0.8)	(-16.3)
OVERALL SURPLUS/DEFICIT	- 74.3	- 59.8
<u>FINANCING</u>	74.3	59.8
Use of IMF Credit	43.1	1.8
Other Claims	2.4	1.6
Changes in Reserves (-increase/+ decrease)	28.8	56.4

(P) Provisional  
1 Includes Errors & Omissions

FINANCIAL SURVEY

Monetary Aggregates

Domestic credit expansion by the banking system slowed down over the year ended June 31, 1983 to a rate of 13.6% as compared with 19.9% in the previous year. The deceleration was due to a falling-off in the rate of loan expansion to the private sector, from 23.4% in the previous year to 4.8% in the year under review. Credit to the public sector (Central Government, Public Corporations, etc.) increased by 42.4% compared with 9.6% in the year before.

The dominance of public sector credit over the last year may have resulted partly from the weak performance of the area economies which caused governments' revenue to fall below budgetary projections, thereby increasing the public sector borrowing requirements. The low growth of private sector credit on the other hand may be due to a combination of depressed economic conditions and the "crowding-out effect" by the public sector.

The monetary liabilities of the banking system grew at approximately the same rate (13.3%) as domestic credit - in financial terms, \$147.8m in the case of the former and \$126.7m for the latter. This led to a 3.8% (\$8.8m) increase in the system's net foreign assets. In the previous twelve-month period domestic credit expanded by 19.9% (\$154.3m) while total monetary liabilities grew by 7.9% (\$81.5m), and had the effect of reducing net foreign assets by 18.6% (\$52.4m). Due to the high propensity to import in the area, credit expansion by the banking system tends to result more in foreign exchange losses than in money supply expansion.

The (M1) money supply grew by the moderate rate of 10.6% in the review period in contrast to a negative growth of 0.5% over the previous twelve months. Currency in active circulation grew by 9.7% and demand deposits by 11.1%. The decline in the previous year was due to a fall of 3.7% in demand deposits as the currency component increased by 5.9%.

Quasi money increased 14.3% (\$117.7m) during the review period in contrast to 11.2% (\$83.1m) in the year before. The M2 money supply (M1 + Quasi money) which is generally more stable than M1, and a better indicator of economic trends in the area, increased 13.3% as against 7.9% the year before. The higher growth reflects mainly increased exports and earnings from traditional agriculture and the improved performance of tourism during the first six months of 1983.

Factors Influencing Money Supply

(Annual Changes)

	June 1982		June 1983	
	\$M	%	\$M	%
Net Foreign Assets	-52.4	-18.6	8.8	3.8
Domestic Credit	<u>154.3</u>	19.9	<u>126.7</u>	13.6
Private Sector	135.2	23.4	34.5	4.8
Public Sector	19.1	9.6	92.2	42.4
Money Supply (M1)	<u>-1.6</u>	0.5	<u>30.1</u>	10.6
Currency with Public	5.5	5.9	9.7	9.7
Demand Deposits	-7.2	-3.7	20.2	11.1
Quasi Money (Time + Savings Deposits)	83.1	11.2	117.7	14.3
Total Monetary Liabilities (M2)	81.5	7.9	147.8	13.3

Commercial Bank Credit

Loans and advances by commercial banks expanded by \$97.8m (11.7%) to a total \$935m at the end of the review period; this is in contrast to an expansion of \$133.7m (19%) in the previous year. There was a net increase in loans to the public sector of \$28.7m as against \$14.5m the year before.

while loans for private sector activity increased \$69.1m compared with \$119.2m in the previous year.

An analysis of the increase in private sector activity loans revealed that credit to business firms accounted for \$43.2m, personal loans \$16.6m and other unclassified loans \$9.3m. The increase in credit for business purposes was allocated mainly to the tourism, distributive trades, construction and transport sectors. Credit to the tourism sector increased \$11.2m or 26.8% to total \$53.0m following an increase of \$13.1m in the previous year. The expansion of credit to tourism reflects an increase in emphasis being placed on tourism development in the area.

#### Interest Rates & Liquidity

The interest rates offered for savings deposits showed little movement during the year and continued to range between 2.5% and 5%. With respect to time deposits however, there was some noticeable upward movement as loanable funds became scarce. The level of time deposits rates as indicated by the six-month rate ranged between 3% and 8.5%. Banks in St. Lucia and Antigua tended to offer rates at the higher end of the range, and was indicative of the relative scarcity of bank funds in the two countries.

Overall, the banking system became slightly more liquid during the year under review. The liquid assets to total assets ratio increased 1.0 percentage points to 16.5% while the loans to deposits ratio fell 1.5 percentage points to 81.8% at the end of June 1983.