IMF Country Report No. 20/70

EASTERN CARIBBEAN CURRENCY UNION

March 2020

2019 DISCUSSION ON COMMON POLICIES OF MEMBER COUNTRIES—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE EASTERN CARIBBEAN CURRENCY UNION

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2019 Article IV consultation with ECCU, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its February 3, 2020 consideration of the staff report.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 3, 2020, following discussions that ended on November 27, 2020, with the officials of the Eastern Caribbean Currency Union on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 10, 2020.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Eastern Caribbean Currency Union.

  The documents listed below have been or will be separately released.

  - Selected Issues

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March 5, 2020

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IMF Executive Board Concludes 2019 Discussion on Common Policies of Member Countries of the Eastern Caribbean Currency Union

On January 31, 2020 the Executive Board of the International Monetary Fund (IMF) concluded the 2019 discussion on the common policies of the Eastern Caribbean Currency Union (ECCU) in the context of the Article IV consultations with member countries.[1]

The region saw a respite from major hurricanes, which facilitated growth acceleration to 3¾ percent. The fiscal position weakened, despite continued strength in Citizenship-by-Investment (CBI) inflows, but with headline deficits remaining moderate the public debt ratio has continued to decline. However, underlying fiscal deficits remain high. External imbalances are sizable and significant financial sector vulnerabilities affect both banks and non-banks. Growth is projected to gradually moderate as the cyclical momentum normalizes and CBI inflows ease. These trends would also contribute to wider fiscal deficits, ending the downward drift in public debt dynamics. Meeting the regional 60 percent of GDP debt benchmark by 2030 will be challenging for most ECCU countries. The outlook is clouded by downside risks, including a possible intensification of natural disasters and financial sector weaknesses. Larger well-managed CBI flows may be a source of an upside risk.

Executive Board Assessment[2]

While welcoming the ECCU's improved growth performance and public debt reduction in recent years, Executive Directors noted that growth is expected to moderate going forward.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of these bilateral Article IV consultation discussion, staff hold separate annual discussions with the regional institutions responsible for common policies in four currency unions—the Euro Area, the Eastern Caribbean Currency Union, the Central African Economic and Monetary Union, and the West African Economic and Monetary Union. For each of the currency unions, staff teams visit the regional institutions responsible for common policies in the currency union, collects economic and financial information, and discusses with officials the currency union's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis of discussion by the Executive Board. Both staff's discussions with the regional institutions and the Board discussion of the annual staff report will be considered an integral part of the Article IV consultation with each member.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

In this context, achieving debt sustainability while building resilience to natural disasters would remain challenging for most ECCU countries. To help ensure strong and resilient growth and anchor sustainability in the region, Directors called for further fiscal consolidation, expedited structural reforms, and a speedy resolution of financial sector vulnerabilities. They underscored the importance of regional integration in complementing national policies to achieve those objectives.

Directors welcomed ongoing efforts in some ECCU countries to advance their fiscal responsibility frameworks and underpin the commitment to meet the 2030 regional debt target. They emphasized the importance of countercyclical policies to create space for building resilience to natural disasters, which would be supported by comprehensive Disaster Resilience Strategies that are currently being piloted in Dominica and Grenada.

Directors underscored the importance of fiscal integration and suggested enhanced cooperation in the design of tax incentives and the Citizenship-by-Investment programs. Such efforts would not only improve governance and limit a "race to the bottom", but they could also create additional fiscal space. They added that, over the longer term, a regional stabilization fund—underpinned by a strong governance framework—could also be considered.

Directors commended the ECCB for advancing essential regional financial sector reforms and called for accelerating the progress to address financial system vulnerabilities within a well-sequenced plan. Immediate efforts should focus on repairing bank balance sheets and operationalizing the new standard for impaired assets, modernizing insolvency frameworks and reviewing governance frameworks for the ECCB and deposit-taking institutions. Equally important is expediting the efforts to strengthen the supervision of non-banks, given their growing systemic importance. Directors also urged the national authorities to expeditiously pass critical legislation, particularly for strengthening AML/CFT measures, which are particularly relevant given sustained pressures on correspondent banking relations.

Directors noted that once the critical near-term priorities are addressed along with credible fiscal backstopping, steps toward a fuller banking union could take place in the long term. Such steps should include a robust deposit insurance scheme and a regional resolution and crisis management framework.

Directors highlighted the scope for the ECCB, national authorities, and financial institutions to further modernize the payment system to strengthen the monetary union. They pointed to the ongoing review of the legal framework for the payment system as being critical to facilitate emerging Fintech and nonbank e-payment services to operate and innovate.

While welcoming the authorities' pursuit for more financial innovation, Directors recommended that the ECCB's digital currency pilot project should proceed with caution. In particular, they advised that the authorities fully implement safeguard measures to contain various risks, including those related to financial intermediation, financial integrity, and cybersecurity. After the pilot, a cost and benefit analysis of the digital currency would be useful coupled with consideration of other alternatives focusing on upgrading the payment systems.

Directors encouraged the authorities' continued pursuance of structural reforms to boost private sector-led growth and ensure external sustainability.

Directors agreed that the views they expressed today will form part of the Article IV consultation discussions with individual ECCU members. It is expected that the next Common policies consultation with the ECCU will be held on the standard 12-month cycle.

ECCU: Selected Economic and Financial Indicators, 2017–25 1/

	2017	2018	Projections 2019	2020	2021	2022	2023	2024	2025
			(Annual percentage change)						
Output and prices									
Real GDP	0.7	3.7	3.7	3.4	3.0	2.6	2.4	2.3	2.2
GDP deflator	1.7	1.6	1.6	2.1	2.0	1.9	1.9	1.9	2.0
Consumer prices, average	1.1	1.4	1.4	1.9	1.9	2.0	2.0	2.0	2.0
Monetary sector									
Net foreign assets	15.6	2.2	6.5	6.3	4.7	3.4	3.9	3.8	3.8
Central bank	3.3	-1.1	3.1	8.8	4.9	3.7	4.7	4.1	4.5
Commercial banks (net)	35.2	6.2	10.2	3.6	4.4	3.1	3.0	3.6	3.0
Net domestic assets	-7.3	3.7	5.3	4.6	5.4	5.9	4.9	4.6	4.6
Of which: private sector credit	-0.1	0.0	2.9	2.6	2.6	2.8	2.7	2.9	9.7
Broad money (M2)	3.4	2.9	5.9	5.5	5.0	4.6	4.4	4.2	4.2
Public finances			(In percent of GDP; unless otherwise indicated)						
Central government									
Total revenue and grants	27.8	27.9	26.6	24.9	24.3	23.9	23.8	23.8	23.7
Total expenditure and net lending	28.4	29.1	27.7	27.0	26.2	26.0	26.3	26.7	26.5
Overall balance	-0.6	-1.2	-1.0	-2.0	-1.8	-2.1	-2.4	-2.9	-2.8
Excl. Citizenship by Investment Programs	-4.1	-5.1	-4.5	-4.0	-3.5	-3.3	-3.5	-3.8	-3.7
Primary balance	1.9	1.1	1.2	0.2	0.4	0.0	-0.3	-0.7	-0.6
Total public sector debt 2/	72.4	70.5	69.2	68.9	68.4	68.0	67.6	67.7	67.8
Expected fiscal cost of natural disasters	…	…	…	0.8	0.8	0.8	0.8	0.8	0.7
External sector									
Current account balance	-7.3	-8.4	-7.6	-8.6	-7.9	-6.8	-6.6	-6.3	-6.2
Trade balance	-29.9	-33.6	-33.1	-32.8	-32.3	-31.7	-32.1	-33.4	-33.0
Exports, f.o.b. (annual percentage change)	-0.7	1.7	3.8	5.8	5.7	5.8	5.0	5.4	4.9
Imports, f.o.b. (annual percentage change)	3.3	16.5	3.8	4.7	3.6	3.0	5.8	8.1	3.0
Services, incomes and transfers	22.5	25.2	25.5	24.2	24.4	24.9	25.5	27.2	26.8
Of which: travel	38.4	39.9	40.6	40.9	41.9	42.2	43.1	45.5	46.7
External public debt	37.9	36.6	36.0	36.5	36.5	36.4	35.8	35.4	35.8
External debt service (percent of goods and nonfactor services)	9.9	8.9	9.6	9.3	8.0	8.9	8.9	7.9	9.7
International reserves									
In millions of U.S. dollars	1,750	1,747	1,802	1,959	2,056	2,132	2,232	2,323	2,428
In months of current year imports of goods and services	5.3	4.7	4.7	4.8	4.9	4.9	4.9	4.8	4.8
In percent of broad money	29.0	28.1	27.4	28.2	28.2	27.9	28.0	28.0	28.1
REER (average annual percentage change)									
Trade-weighted	-0.7	-2.0	…	…	…	…	…	…	…
Competitor-weighted	0.3	0.8	…	…	…	…	…	…	…
Customer-weighted	0.4	-1.9	…	…	…	…	…	…	…

Sources: Country authorities; and Fund staff estimates and projections.

1/ Includes all eight ECCU members unless otherwise noted. ECCU price aggregates are calculated as weighted averages of individual country data. Other ECCU aggregates are calculated by adding individual country data.

2/ Debt relief has been accorded to: (i) Grenada under the ECF-supported program in 2017; and (ii) St. Vincent and the Grenadines in 2017 under the Petrocaribe arrangement.

INTERNATIONAL MONETARY FUND

EASTERN CARIBBEAN CURRENCY UNION

January 10, 2020

STAFF REPORT FOR THE 2019 DISCUSSION ON COMMON POLICIES OF MEMBER COUNTRIES

KEY ISSUES

The Eastern Caribbean Currency Union (ECCU) saw a respite from major hurricanes, which facilitated growth acceleration to 3¾ percent in 2018-19. The fiscal position weakened, despite continued strength in Citizenship-by-Investment (CBI) inflows, but with headline deficits remaining moderate the public debt ratio has continued to decline. However, underlying fiscal deficits remain high. External imbalances are sizable and significant financial sector vulnerabilities affect both banks and non-banks. Growth is projected to gradually moderate towards its long-term average of 2¼ percent as the cyclical momentum normalizes and CBI inflows ease. These trends would also contribute to wider fiscal deficits, ending the downward drift in public debt dynamics. Meeting the regional 60 percent of GDP debt benchmark by 2030 will be challenging for most countries. The outlook is clouded by downside risks, including a possible intensification of natural disasters and financial sector weaknesses. Larger well-managed CBI flows may be a source of an upside risk.

Main Policy Recommendations:

While reinforcing the importance of advancing national fiscal policies that incorporate resilience-building to natural disasters and accelerating actions to safeguard financial stability, staff recommended to leverage the following steps toward regional integration for better policy responses.

- **Increasing fiscal integration** through coordinated revenues policies and pooled fiscal buffers, underpinned by preconditions to bolster fiscal governance at the national level;
- **Enhancing financial integration** through a well-sequenced plan toward a fuller banking union alongside stronger steps to safeguard financial stability;
- **Solidifying the monetary union** by raising payments' efficiency, through, but not limited to, cautiously piloting a digital currency.

Approved By
Krishna Srinivasan (WHD) and Mary Goodman (SPR)

Mission Team: Sònia Muñoz (head), Alejandro Guerson, Kotaro Ishi, Bogdan Lissovolik (all WHD), and Gayon Hosin (MCM) held policy discussions with the eight ECCU jurisdictions (Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and The Grenadines), the ECCB, the OECS Secretariat, and the CDB. Majid Malaika (ITD) joined the early part of the technical discussion on the central bank digital currency. Mike Sylvester (OED) participated in the closing meetings. The team met with the Prime Ministers and/or Ministers of Finance of six of the eight-member jurisdictions, Financial/Permanent Secretaries of eight-member jurisdictions, Financial Services Authorities of the eight member jurisdictions, the ECCB Governor and other senior officials, the Organization of Eastern Caribbean States (OECS), the Caribbean Development Bank (CDB), and a wide range of private sector representatives.

Mission Dates: October 31−November 8 and November 18−27, 2019.

Contributors: ECCU team. Additional analytical input was provided by Ding Ding, Manuel Rosales, Jan Moeller, Wayne Mitchell, Janne Hukka, Gonzalo Salinas, Mauricio Vargas, Abdoul Sidibe, Haobin Wang, and Samira Kalla. Raadhika Vishvesh provided research assistance. Anahit Aghababyan and Nicolas Landeta provided assistance.

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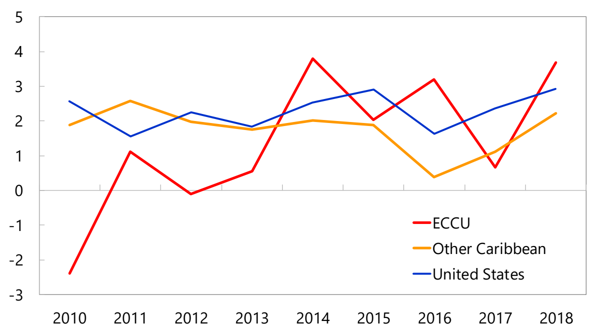
CALMER HEADWINDS

A. Recent Developments

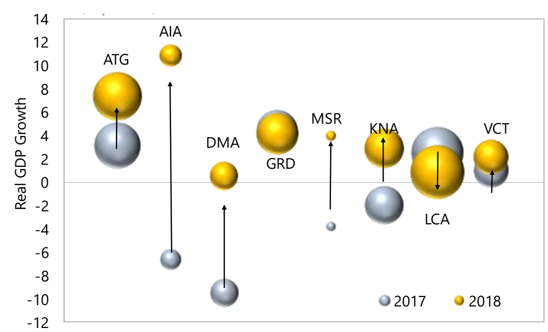
1. **Growth rebounded strongly in 2018 and has remained robust so far in 2019.** ECCU's GDP growth accelerated from ¾ percent in 2017 to 3¾ percent in 2018, reflecting buoyancy in the tourism sector, sizable CBI inflows, and a recovery from the 2017 hurricanes in Anguilla and Dominica, which were supported by large public investments in reconstruction. The increased stay-over tourism was facilitated by additional direct flights from major cities in North America. Growth momentum has remained strong in 2019, with stay-over tourism arrivals rising by 15 percent and no significant new hurricanes. Inflation remains muted (0.3 percent y/y in June) with a stronger US dollar, weaker global oil prices, and subdued CPI growth in key trading partners.

Real GDP Growth
(In percent)



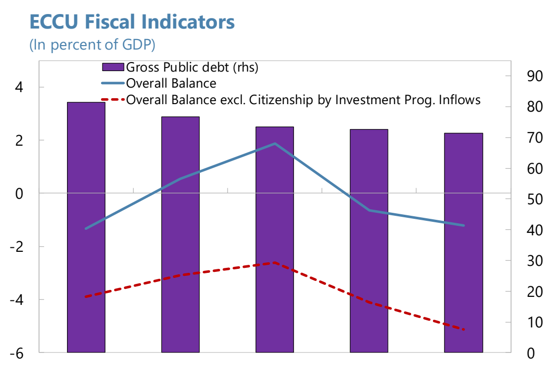
Sources: Country authorities and IMF staff estimates and projections.

ECCU Member States: Real GDP in 2017 and 2018
(in percent)

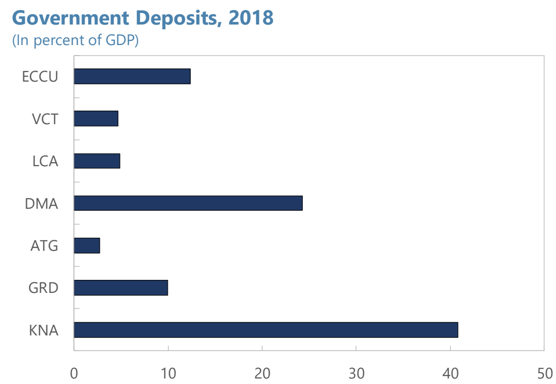


Sources: Country authorities and IMF staff estimates and projections.
Bubble size indicates the size of country's nominal GDP

2. **Fiscal deficits increased in 2018-19, but they have remained moderate.** The region's revenues were supported by CBI flows. However, the overall fiscal deficit rose from ½ to 1¼ percent of GDP in 2018 due to higher current outlays and reconstruction investment in Dominica, which was significantly financed by CBI inflows. Reflecting still-moderate deficits and higher growth, public debt fell by 2 points to about 70 percent of GDP in 2018. Nonetheless, the underlying deficit (net of CBI inflows) has been elevated at 5 percent of GDP. Countries' efforts to improve their public finances have largely been limited to ad-hoc steps, with one country (St. Lucia) considering the adoption of a fiscal rule (in addition to the fiscal responsibility framework in Grenada). Some countries have built sizable fiscal deposit buffers (often CBI resources) and made progress in establishing contingency funds for natural disasters (including Grenada and St. Vincent and the Grenadines). In March 2019, the ECCU launched an initiative to harmonize the CBI programs' due diligence processes.

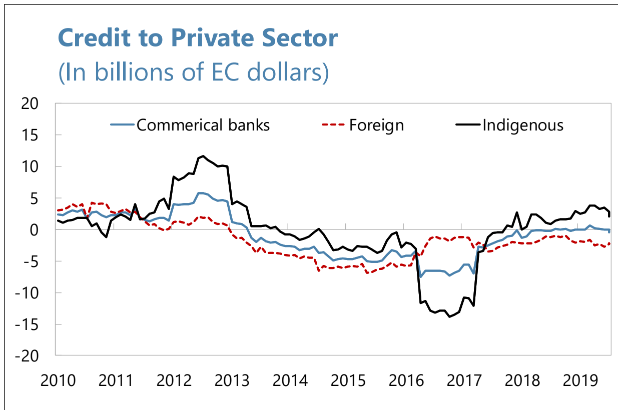


Sources: Country authorities and IMF staff estimates and projections.



Source: Country authorities.

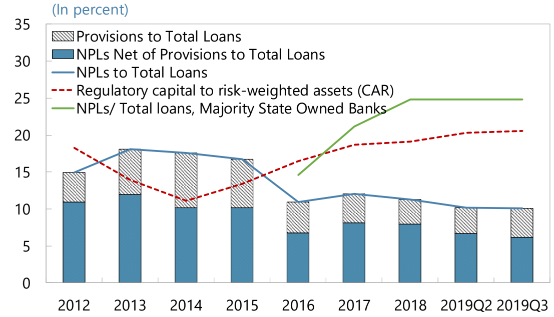
3. Bank lending to the private sector was flat in 2018, with increased credit by indigenous banks being offset by continued retrenchment of foreign banks. Insufficient bankable projects, weaknesses in contract and collateral enforcement, and gaps in borrower information limit banks' willingness to lend, reducing the credit contribution to growth. With low profitability (RoA of below 1 percent since 2010), some banks have expanded foreign investment portfolios (including risky equity) in search for yield (Figure 6). NPLs remain high (10 percent of total loans in June 2019) and thinly provisioned. Efforts to reduce NPLs through purchases by the Eastern Caribbean Asset Management Corporation (ECAMC) have so far been unsuccessful. The ECAMC was granted an extended deadline date of October 2020 for the acquisition of NPLs.[1] However, the requested financing from the Caribbean Development Bank (CDB) has been held back because of the hesitation of several governments to provide sovereign guarantees. The ECCB's upgraded impaired assets classification and provisioning standard that would incentivize write-offs is now expected to come into effect by January 2020.



Source: Staff calculations based on ECCB data.

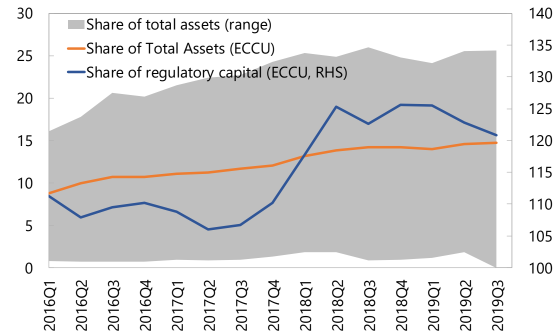
[1] The original deadline was July 2019. A number of banks have confirmed their interest in transacting with the ECAMC, including via signed letters of intent. Completion of transactions is expected within the extended deadline based on finalization of CDB funding arrangements in some cases, and financing agreements with the banks in others.

Banking Sector Loan Portfolio
(In percent)



Source: Staff calculations based on ECCB data.

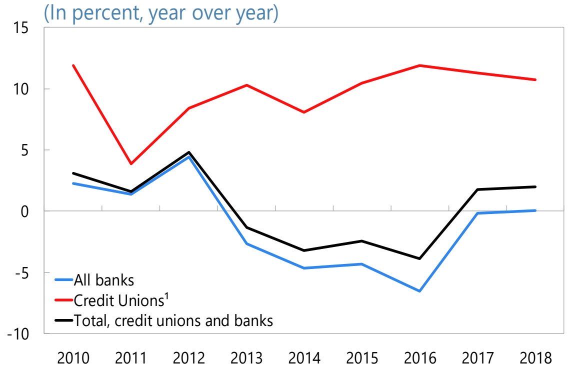
ECCU: Estimated Overseas Investments
(Indigenous commercial banks, in percent)



Sources: Staff estimates based on ECCB data.

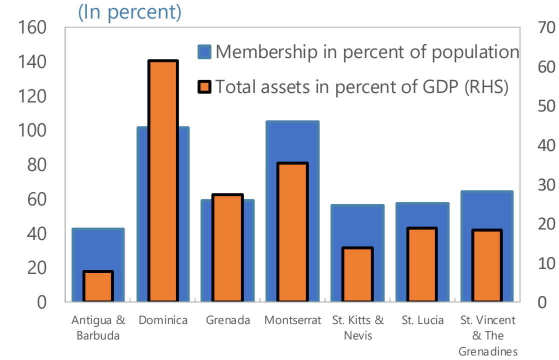
4. **Non-banks, particularly credit union and insurance sectors, continue to grow, but their fundamentals are fragile.** High liquidity, lighter regulatory requirements (relative to banks), and lower fees have underpinned the strong lending growth of credit unions (10 percent annually), with several having systemic importance. NPLs amount to about 7 percent of total loans and capital buffers are often limited. The insurance sector's profitability recovered in 2018 despite higher post-hurricane loss expenses, but it remains undersized and vulnerable, given recurrent shocks and limited diversification.[2] High insurance premia result in considerable under-insurance, especially for the vulnerable, adding to public sector contingent liabilities. Non-banking sectors, including pensions, remain subject to relatively weaker regulation, data, governance, and technical capacity.[3] Harmonized regional regulation has been prepared but remains to be passed in most jurisdictions.

Credit Unions Private Credit Growth
(In percent, year over year)



Sources: Country Authorities; ECCB; and IMF staff calculations.
[1]Total loans for ECCU countries with the exception of Anguilla which has no credit unions.

Credit Unions Membership and Size
(In percent)



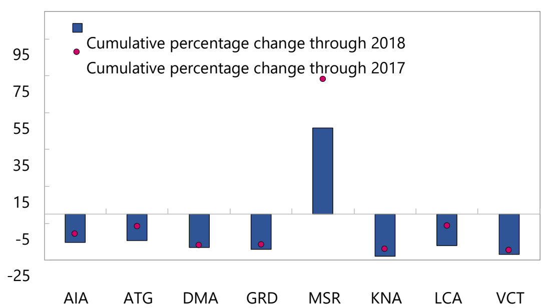
Source: Staff calculations based on data from Country authorities and World Bank.

[2] Local insurers in Dominica have been unable to meet payout obligations following hurricane Maria of 2017 and received government loans.

[3] Some sectors hold a significant share of quasi-repo instruments issued by regional broker dealers, mainly in St. Lucia, that are largely backed by regional government bonds.

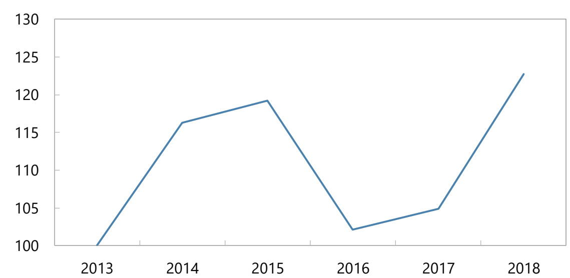
5. **The continued divestment by global financial groups adds to concerns about correspondent banking relationships (CBR).** After 10 months from the announcement, the acquisition of Scotiabank's operations by Republic Holdings from Trinidad and Tobago received the regulator's approval in all ECCU countries, but Antigua and Barbuda.[4] In addition, the agreement for sale of majority shares in First Caribbean International Bank to a group controlled by a Colombian investor was announced in November 2019, and Royal Bank of Canada announced the proposed sale of its Eastern Caribbean banking operations to a consortium of indigenous banks in the ECCU in December 2019. The number of active correspondents has been declining and pressures remain as the smaller local players are less connected and more heavily burdened with increased costs, including with a shift to second- and third-tier correspondent banks. Although CBR concentration risk has increased, most ECCU banks continue to have more than one active correspondent. Still, transaction volumes continue to grow, suggesting that the macroeconomic impact from increased costs of international payments and transfers is contained.

Active Correspondents
(Percentage change, 2012-2017 and 2012-2018)



Source: CPMI Correspondent Banking Chartpack, BIS

Number of Transactions in the ECCU 1/
(Index, 2013=100)



Source: SWIFT and IMF Staff Calculations.
Note: 1/ Refers to volume of messages as reported by SWIFT.

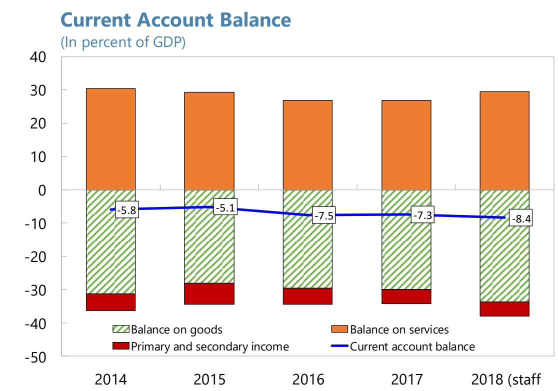
6. **The ECCB has launched a pilot study for a central bank digital currency to address the payment system inefficiencies and high costs.** In March 2019, the ECCB signed a contract with a Barbados-based fintech company, Bitt Inc., to pilot a digital currency EC dollar (DXCD) in the ECCU.[5] The initiative has been prompted by the high cost and low efficiency of payments-related banking services and slow adoption of new technologies by the private sector.

7. **The external deficit is estimated to have widened in 2018.** Staff estimates that the current account deficit increased by about 1 percentage point to 8.4 percent of GDP in 2018, essentially reflecting Dominica's large hurricane-related reconstruction imports.[6] Net FDI inflows (9.1 percent of GDP) are estimated to have more than financed the deficit. The real effective exchange rate (REER) appreciated 2.1 percent during 2018, due to the U.S. dollar strengthening.

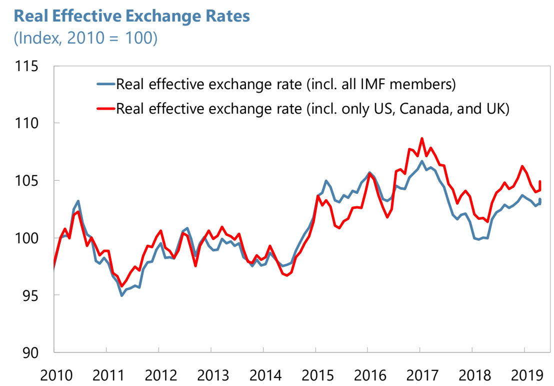
[4] The proposed acquisition of Scotiabank's operations in Antigua and Barbuda by the Eastern Caribbean Amalgamated Bank was announced in December 2019.

[5] The ECCB has deployed the pilot in two phases: (i) development and testing (through March 2020); and (ii) roll-out in four pilot countries (from April to September 2020).

[6] Based on staff estimates; official estimates for 2018 external accounts had not been published at the time of the consultation.



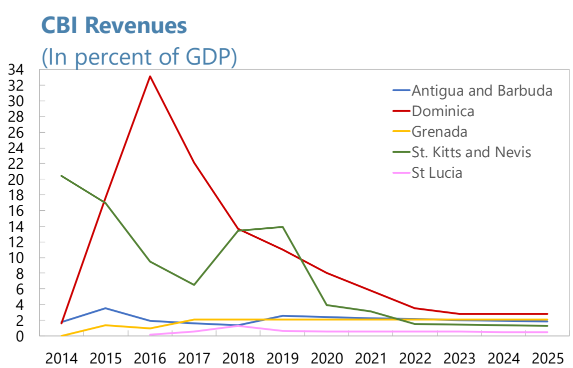
Source: Country authorities and IMF staff estimates and projections.



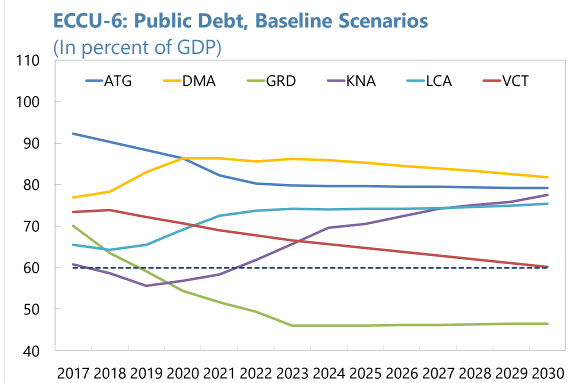
Sources: INS and Fund staff calculations.

B. Outlook and Risks

8. **Growth is projected to moderate.** GDP growth is expected to gradually ease to 2¼ percent by 2025, a long-term historical average for the region. In the near term, activity would be supported by reconstruction investment in the hurricane-hit countries, tourism investment, and agribusiness projects in some countries. A moderation of FDI-related CBI inflows would temper activity. Weak conditions for bank credit to the private sector would also weigh on the growth outlook. Inflation would stabilize at around 2 percent (in line with US), while the current account deficit is expected to narrow as higher import demand for reconstruction wanes. The moderation in CBI inflows would also widen the fiscal deficits and contribute to a cessation of the recent downward public debt dynamics at the ECCU-wide level, with substantial heterogeneity across countries.[7]



Sources: Country authorities and IMF staff estimates and projections.

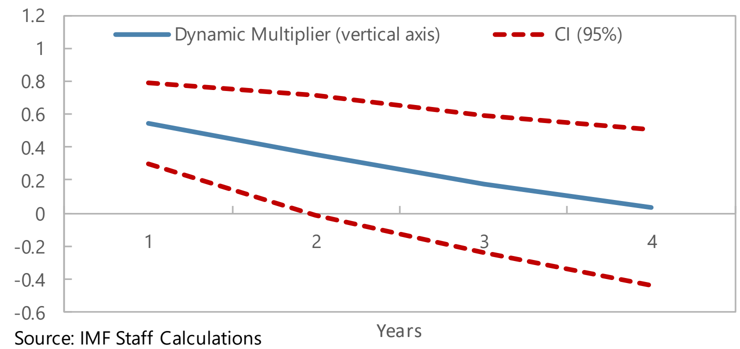


Source: Country authorities and IMF staff estimates and projections.

[7] The baseline incorporates average annual fiscal cost of natural disasters ranging from 0.5 to 1.5 percent of GDP.

9. **Risks remain mostly on the downside** (see Annex III). Adverse confidence effects from rising protectionism and the impact of US and global growth shocks would be negative for the ECCU. Staff's estimates, using a vector autoregressive analysis, suggest a potential decline of real GDP by 0.5 percentage point in response to a 1 percent fall of activity in tourism-source countries. Other global risks include a sharp rise in risk premia, cyberattacks, and large swings in energy prices. Region-specific risks comprise natural disasters increasing in frequency and intensity due to climate change, a significant decline of CBRs, and a further exit of foreign banks. Lingering problems in the financial sector present strong concerns, including possible systemic spillovers involving both banks and non-banks, as well as potential sovereign/financial adverse feedback loops. Upside risks stem from further upward surprises in CBI inflows, if these are well-managed.

Effect of a Change in Activity in Tourism-source Countries on the ECCU GDP

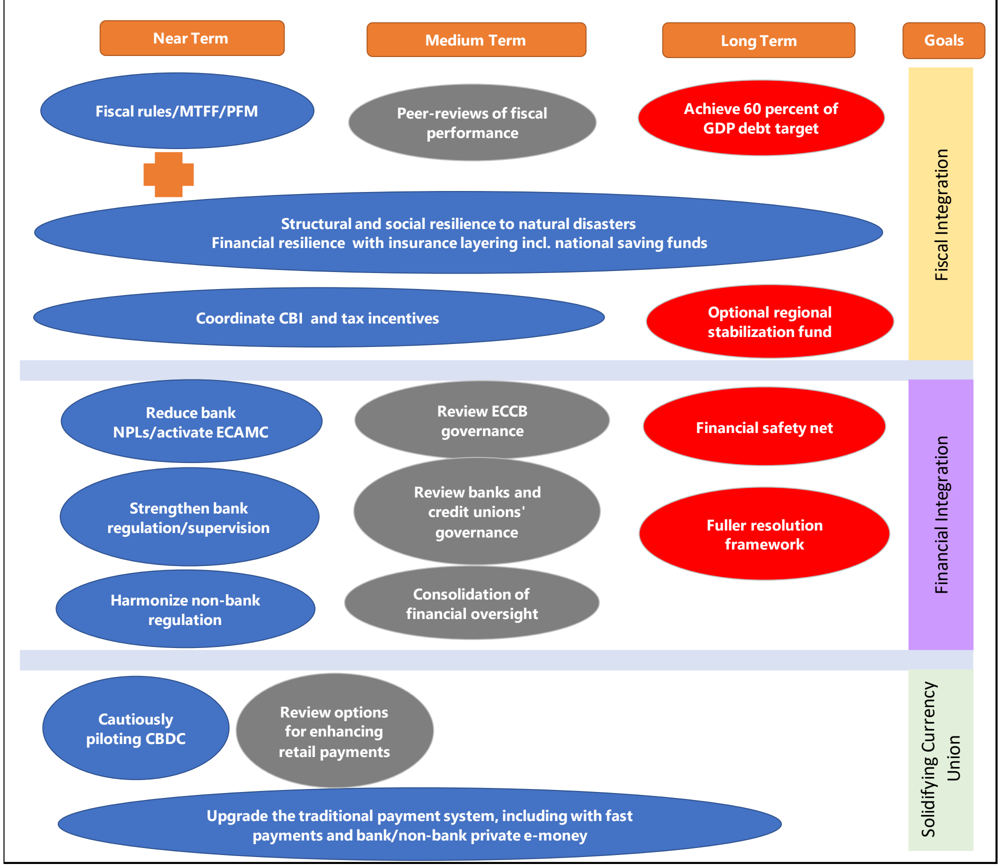


Source: IMF Staff Calculations
Note: Dynamic multipliers computed based on Vector Autoregressive Analysis of economic data for the sample of ECCU countries.

POLICY DISCUSSIONS: LEVERAGING REGIONAL INTEGRATION

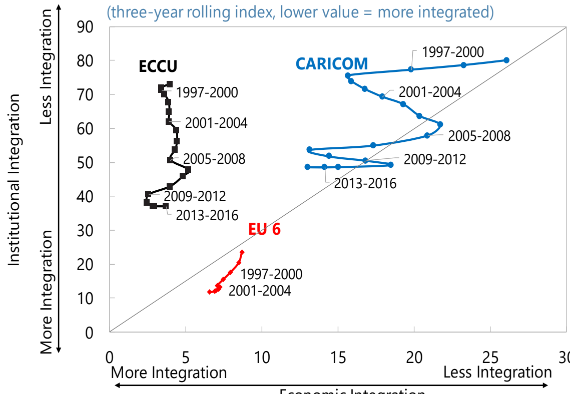
The ECCU faces multiple challenges that are compounded by large external shocks and lack of economies of scale. Advancing regional integration can catalyze capacity and resources for better policy responses if it is well sequenced and includes proper risk-management safeguards. There is scope for practical steps to increase fiscal and financial integration while exploring ways to solidify the currency union by raising payments' efficiency through, but not limited to, cautiously piloting a digital currency. Some of the integration proposals would require strong preconditions and are only suggested for the medium-to-long term. The practical steps would have interrelated positive spillover effects: fiscal integration could strengthen government backstopping to advance the banking union, while a more robust financial system would in turn help raise payments' efficiency.

Sequencing of Key Reform Agenda in the ECCU



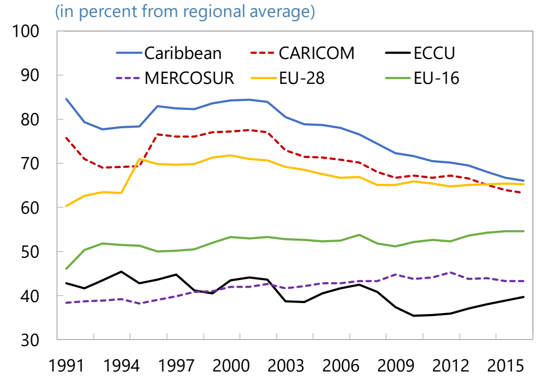
10. There is scope for increasing ECCU's economic and institutional integration. While the level of the ECCU's economic and institutional integration, as measured by the respective indexes, is higher than in other Caribbean countries, substantial gaps remain, which contribute to policy distortions and suboptimal outcomes.[8] A significant portion of the gaps relates to fiscal and financial sector policies.

Economic and Institutional Integration Indices, 1995 - 2016
(three-year rolling index, lower value = more integrated)



Source: IMF staff calculations.

Standard Deviation of Per Capita GDP 1/
(in percent from regional average)

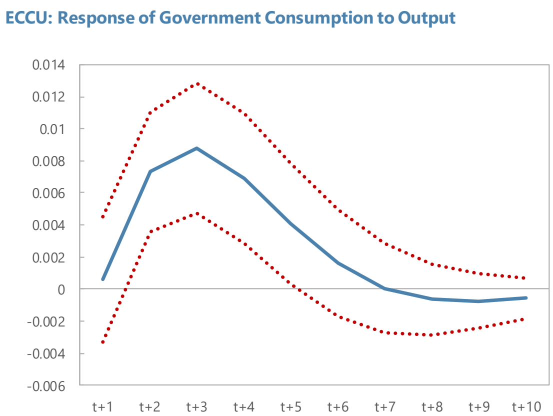


Source: IMF staff calculations.
1/ A higher value implies less economic integration.

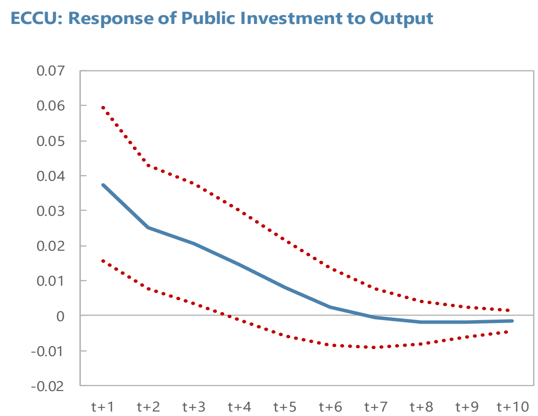
[8] See IMF Working Paper 20/08.

A. Fiscal Integration

11. The ECCU countries' overriding problems remain fiscal sustainability challenges and policy procyclicality. Recurring natural disasters and global shocks—against the background of small size, precarious revenue and financing base, and limited fiscal frameworks—cause large swings in output and government revenues that are further amplified by large and volatile CBI flows. Government consumption rises in good economic times, while in bad times social and political pressures make it downward-inflexible, with limited fiscal and financing resources constraining public investment. As a result, over-the-cycle, public investment falls, with an adverse impact on growth and resilience-building.



Source: Staff estimates based on authorities' data.

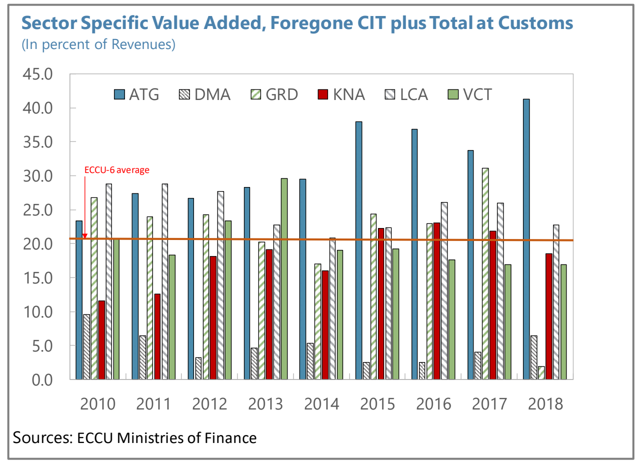


Source: Staff estimates based on authorities' data.

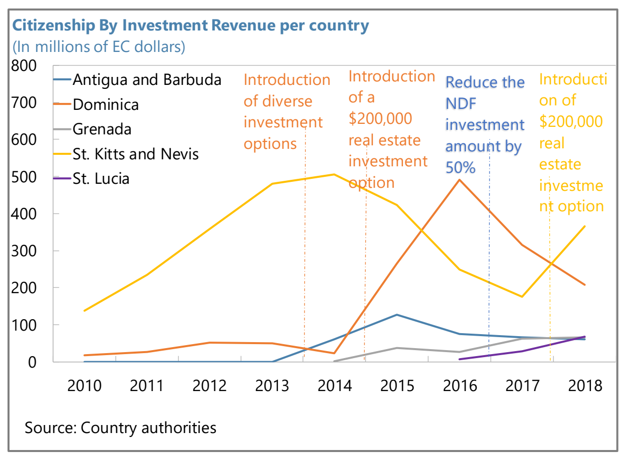
12. Achieving debt sustainability and building resilience to natural disasters through improved national frameworks remain the region's fiscal policy priority. Progress in implementing credible country-specific fiscal responsibility frameworks to reach the regional 60 percent of GDP public debt target should be accelerated. Establishment of frameworks for saving (building on the progress to startup saving funds) and supporting public investment in resilient infrastructure and insurance for natural disasters would complement those efforts. This needs to be matched by continued upgrading of fiscal institutions and Public Financial Management (PFM) practices (2018 ECCU staff report). Progress would be bolstered by comprehensive country-specific disaster resilience strategies—currently being piloted in Dominica and Grenada—that provide a roadmap for strengthening resilience and facilitating donor coordination and support.

13. The ECCB has taken the lead in supporting this task at the regional level. It has usefully engaged in harmonizing fiscal data, improving debt management, and coordinating discussion of the countries' medium-term fiscal frameworks to benchmark progress to the regional debt target. The ECCB has also been exploring proposals to be involved in managing and financing "regional projects." While these initiatives remain to be fully fleshed out, staff pointed to the need to protect the integrity of the quasi-currency board arrangement by safeguarding the ECCB's operational independence and ringfencing its reserves, drawing instead on national government funding.

14. The following practical steps to leverage regional integration could support fiscal sustainability:



- ***Regional coordination of tax incentives.*** The ECCU economies have extensively used tax concessions to attract FDI, leading to a race to the bottom. Staff's empirical analysis (see Box 1 and Selected Issues Paper (SIP)) suggests that this entails large fiscal costs[9] while economic benefits appear to be marginal: tax incentives do not meaningfully impact overall FDI, GDP growth or employment. Also, with FDI to the Caribbean being positively related to the stock of public infrastructure, a policy tradeoff emerges between granting tax incentives and attracting FDI through better public infrastructure financed from higher revenues. Drawing on best practices and trends in global taxation, ECCU countries would benefit from streamlining and re-balancing their tax incentives, supplemented by regional agreements.



- ***Regional coordination of CBI revenues***. CBI inflows have become large and are subject to significant uncertainty, exemplifying another race to the bottom among the ECCU countries. Protection of the programs' financial integrity offers an additional rationale for collective action, including to dispel concerns relating to the tax rate on offshore income and residency period and other aspects of transparency standards to lower perceptions of abuse of CBI programs. Accordingly, implementation of the March initiative to harmonize CBI due diligence processes could help the sustainability of the revenue flows and support financial stability. For the medium term, staff's analysis also suggests a case for exploring CBI program coordination on pricing and the use of quotas to support these revenues over time.

[9] Fiscal costs are estimated at about one-fifth of government revenues on average in the region.

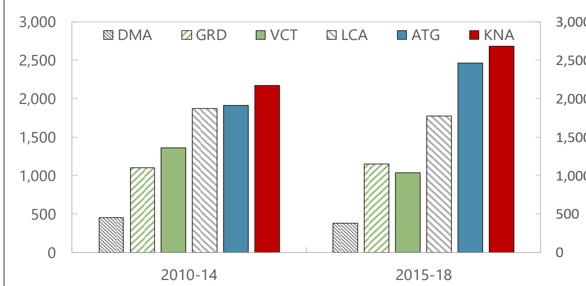
Box 1. Tax Incentives in the ECCU: High Costs, Limited Benefits

Tax incentives are popular tools for tourism-dependent Caribbean economies to attract FDI. Over the last two decades, amid intensified competition for the region's tourism market, countries have increased their use of tax incentives, including longer tax holidays and loss carry-forward years, higher investment tax allowances, and lower statutory corporate income tax (CIT) rates. Generous tax concessions are also granted at customs for import duties, VAT, and excise taxes. This pervasive use of tax incentives could lead to a harmful race to the bottom—countries feel compelled to offer incentives packages to investors out of the fear that otherwise potential investment would move to a competing destination in the region.

The benefits of tax incentives appear to be marginal. Empirical analysis for a sample of eleven tourism-based Caribbean countries (including the six independent states in the ECCU) suggests that tax incentives have some positive impact on the tourism sector. For instance, an increase in the foregone revenue by 1 million EC dollars is associated with an increase in the number of hotel rooms by 0.2 percent, controlling for other macro-level factors. But tax incentives do not seem to have an impact on overall FDI, GDP growth, or employment. The analysis also shows that FDI to the Caribbean is positively correlated with the stock of public infrastructure especially when countries experience natural disaster shocks, indicating a policy tradeoff between granting tax incentives and raising revenue to finance infrastructure investment.

However, the use of tax incentives entails large fiscal costs for the ECCU countries. The foregone tax revenue is estimated to have averaged 5.8 percent of GDP in 2010-18 annually in the region, or 21 percent of total revenue, creating large revenue loss when the countries are already under pressure to cope with the infrastructure investment gap and the rising fiscal cost of natural disasters and climate change. The cost of tax incentives is equivalent to as high as $2,500 per job in the formal sector. In addition, tax incentives are also associated with tax fraud and evasion, which may cause both real and reputational damages to the ECCU countries.

ECCU: Cost of Tax Incentives per Job (All Sectors)
(In US dollars)

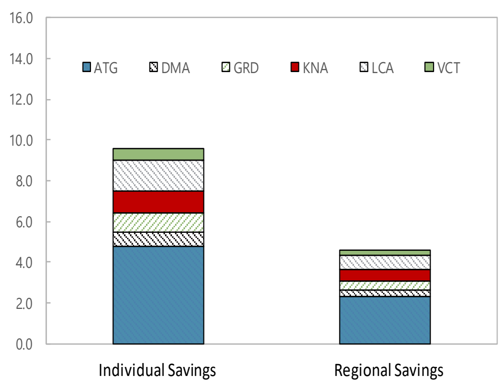


Sources: ECCU Ministries of Finances, ECCU Social Security Boards, and IMF staff calculations.

Regional coordination on tax incentives can be mutually beneficial for the ECCU countries. Efforts are needed to streamline and re-balance tax incentives based on clear principles consistent with international best practices. These principles include (i) providing an explicit rationale for market failures that incentives aim to address, with well-defined targets, costs in terms of forgone revenue, and sunset clauses; (ii) re-balancing tax incentives towards those that are better designed (investment allowances instead of tax holidays that tend to mainly generate ex-post windfall gains with little effect on incentivizing investment); (iii) broadening the tax base, while reducing tax rates to enhance attractiveness of investments; (iv) reducing the scope for discretion toward a rules-based system; (v) designing tax incentives as part of a sustainable fiscal framework and incorporating them in the budget; and (vi) strengthening tax administration and enforcement, with periodic assessments to reduce leakages and distortions. A coordinated regional approach, such as a regional agreement on harmonization of fiscal incentives for the tourism industry, is necessary to overcome the collective action problem that could undermine national reform efforts.

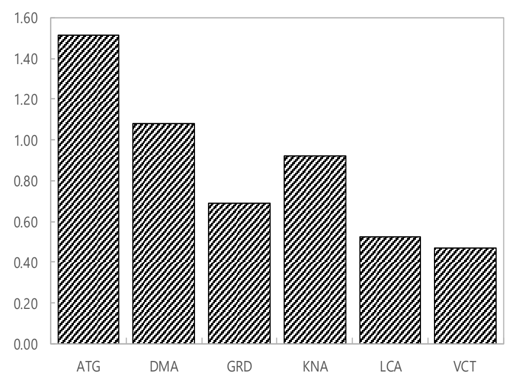
- ***A regional stabilization fund (RSF)***. In contrast to proposals to finance regional projects, the RSF could be used, in the long term, as a fiscal buffer of pooled resources against natural disasters, CBI revenue uncertainty, tourism, and global financial shocks. Staff's stochastic simulations suggest a substantial scope for regional fiscal risk sharing. Cross-country cyclical asymmetries imply resource savings with a RSF of about one-half of the sum of individual countries' funds for the same stabilization effect, with cross-country transfers reducing the amount of funds required regionally. With responsible national policies, a RSF could also reduce public expenditure procyclicality and increase public investment, by saving resources in good times and financing investment in bad times. The simulations indicate that saving of resources that have historically been used to finance government consumption booms can increase public investment by 0.5−1.5 percent of GDP per year, with significant stabilization effect and increase in private investment, employment, output and wages (Box 2 and SIP). Such a RSF could supplement individual-country self-insurance against natural disasters.

Regional and Individual Country Saving Fund
(In percent of ECCU GDP, 2018; 1 percent prob. of saving fund depletion)



Source: ECCB data, WEO, and IMF staff calculations.

Increase in Public Investment with a Regional Saving Fund
(Annual average in percent of GDP)



Source: ECCB data, WEO, and IMF staff calculations.

15. The success of the regional coordination arrangements, and particularly the RSF, would hinge on strong fiscal governance pre-conditions. Given the primary role of national fiscal policies, RSF's operations should be fully financed by all governments and reflected in national fiscal accounts. Its authority could be granted by acts of parliament. Fiscal responsibility and medium-term fiscal frameworks, together with improved PFM procedures, would be pre-requisites for monitoring and enforcing compliance with RSF qualification requirements. The governance framework of the RSF should envision no involvement of the ECCB and be transparent, with clear saving and investment rules to address risks of misappropriation and clarify sovereign ownership and each sovereign's net asset position vis-à-vis the RSF. Triggers for disbursement should be objective, transparent, and automatic.

Box 2. Enhancing Fiscal Integration through a Regional Stabilization Fund

If implemented carefully over the long term, a RSF could have important benefits in the ECCU. While similar economic structures and shock exposure across ECCU countries result in substantial cyclical co-movements, significant asymmetries remain. These include different size and market niche of tourism sectors; natural disasters affecting countries asymmetrically in timing, strength, and frequency; and different weight of the agriculture sector. A RSF can help cushion shocks, taking advantage of cross-country asymetries. Strong fiscal governance and country mandates would be a pre-requisites, which should be aimed to address moral hazard and legal and enforcement risks among sovereign ECCU countries.

A RSF could result in significant savings from risk pooling. Simulation results indicate that a RSF is about ½ of the size of the sum of individual countries' stabilization funds (SF), for the same level of saving contribution and withdrawal. The result is based on a Monte Carlo experiment replicating historical patterns of variation in output, revenue, and expenditure in response to shocks. For example, for a probability of RSF depletion at 1 percent, the estimated RSF would be about 5 percent of the regional GDP, while the sum of individual countries' SF is near 10 percent.

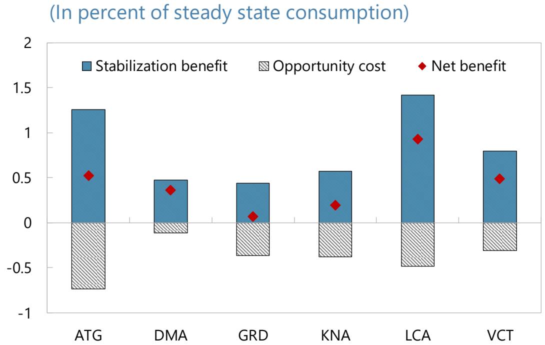
Size Requirement of Regional and Individual Country Stabilization Funds
(In percent of Regional GDP)

	Prob. Depletion = 0.1		Prob. Depletion = 0.05		Prob. Depletion = 0.01		Prob. Depletion = 0.001	
	Country	Regional 1/	Country	Regional 1/	Country	Regional 1/	Country	Regional 1/
Antigua and Barbuda	1.79	0.90	2.69	1.33	4.75	2.29	6.83	3.12
Dominica	0.34	0.17	0.49	0.24	0.71	0.34	0.90	0.41
Grenada	0.39	0.20	0.56	0.28	0.93	0.45	1.35	0.62
St. Kitts and Nevis	0.46	0.23	0.66	0.33	1.09	0.53	1.55	0.71
St. Lucia	0.59	0.30	0.90	0.44	1.55	0.75	2.13	0.97
St Vincent andf the Grenadin	0.23	0.11	0.32	0.16	0.52	0.25	0.71	0.32
ECCU	**3.79**	**1.90**	**5.63**	**2.78**	**9.55**	**4.61**	**13.46**	**6.15**

Source: ECCB data, WEO, and IMF staff calculations.
1/ Stochastic simulations for targeted probabilities of Stabilization Fund depletion.

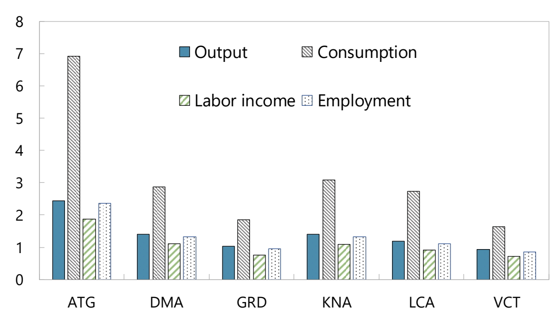
The RSF would increase private investment, employment, output, and wages. Staff simulations, based on a dynamic general equilibrium model of the six ECCU economies, show that the benefits from a faster recovery from natural disasters is likely to outweight the RSF's opportunity costs (including distortionary taxation to service additional public debt). Moreover, the possible increase of public investment (as obtained in the Monte Carlo simulations) would substantially increase long-term ouput, consumption, and labor income.

Costs and Benefits of a Regional Stabilization Fund
(In percent of steady state consumption)



Sources: ECCB data, WEO, and IMF Staff calculations.

Macroeconomic Impact of RSF Investment
(Change in percent relative to steady state)



Sources: ECCB data, WEO, and IMF Staff calculations.

B. Financial Integration

16. Notwithstanding strong banking sector liquidity and capital ratios and improvements in the NPL ratio, financial sector vulnerabilities are building up in both the bank and non-bank sectors. Banking sector liquidity and capital ratios are broadly strong, but asset quality remains a concern and an obstacle to a healthy provision of credit and economic growth. While the aggregate NPL ratios have been generally improving, sizable impaired assets under-provisioning in some indigenous banks masks significant heterogeneity and an intensification of problems in some banks and their effects through financial-fiscal linkages. Market risks are increasing with some banks investing in riskier portfolios abroad to search for yield. Reduced presence of global banks, which have larger and more diversified balance sheets than other banks, may weigh on the costs and quality of financial services, including availability of CBRs. At the same time, the entry of new regional banks seeking increased market share would likely heighten a competitive environment. There exist pockets of vulnerability in the non-bank sector. In particular, credit unions, including systemic ones, continue to be regulated by fragmented and looser supervisory frameworks.

17. To address these problems, the authorities are pursuing multipronged reforms of the financial oversight, but progress is often slowed by country-level delays.[10] The ECCB and national authorities have advanced a range of reforms to modernize banking supervision and accounting practices including banks' implementation of IFRS 9, accelerate NPL resolution, develop systemic risk monitoring, harmonize regulation for non-banks, and enhance AML/CFT frameworks and supervisory technology. The interaction of national and regional authorities has improved and systemically important financial institutions (SIFIs) are being identified. Key reforms under consideration include a deposit insurance (DI) scheme, creation of a single supervisor/regulator for non-banks, and operationalization of a credit bureau. However, progress has been slowed by delays in the passage of legislation by individual countries or lack of regional consensus.[11] Due to delayed and fragmented reform implementation, financial sector weaknesses remain and require prompt policy action.

18. The reform agenda needs to be prioritized within a holistic and well-sequenced plan, identifying key short and medium-term actions. The focus should be placed on (i) strengthening banks' balance sheets, including through prompt supervisory enforcement of measures and implementation of standards, and (ii) a review of ECCB and deposit-taking institutions' governance frameworks:

- ***Regulation and supervision.*** *In the short term*, the ECCB should (i) strengthen supervisory requirements for market and operational risk (including cybersecurity), with time-bound plans; (ii) implement the treatment of impaired assets standards and establish realistic plans for all

[10] The term "authorities" refers to regional institutions responsible for common policies in the currency union and not to respective member states' authorities, unless specifically identified by the country's name.

[11] For instance, only three countries have named the ECCB as AML/CFT Supervisor, with others retaining this role with national regulators. Also, the 2017 law to establish credit bureaus has yet been passed in five countries.

banks to reduce NPLs below 10 percent by mid-2020 and meet the 5-percent benchmark by end-2023, (iii) mandate credible plans to improve provisioning and resolve NPLs by selling to the ECAMC or fully provisioning as required by regulation, and (iv) require prompt disposal of non-banking assets (e.g., land) within statutory timelines.[12] ECCB statutory powers should then be used to raise capital as necessary. Consistent with IMF TA advice, absent substantive operationalization of the NPL acquisition mandate prior to three months of the revised deadline, the ECAMC's operations should be downscaled to receivership or wound up. Macroeconomic stress testing of financial institutions would strengthen supervision and help identify points of weakness. In addition to supervisory actions, the modernization of the insolvency law—including the implementation of the e-conveyancing framework—and the easing of restrictions on non-citizen property ownership will help maximize NPL recovery. Phasing out the Minimum Saving Rate, which distorts the credit market, could support NPL reduction, while its social objectives could be addressed through fiscal policies.

- ***Governance.*** *In the medium term*, ECCB's governance frameworks should be reviewed to provide greater operational autonomy to ECCB management, vis-a-vis the ECCB Board and the Monetary Council. Adequate allocation of functions to ECCB's management could help increase compliance and enforcement, without precluding consultation with national authorities for regional consensus building.[13] Governments' involvement could be limited to exchange rate policies and fiscal backstopping. Establishing a hierarchy between different objectives (price stability as primary objective and financial stability as secondary objective) could also help regulation enforcement, especially in case of conflicting objectives. Deposit-taking institutions' governance frameworks should also be reviewed to protect lending from special interests' influence, especially for indigenous banks with government ownership, by ensuring that most of Board members are independent.

19. Further measures to manage risks from CBRs should be advanced promptly, while mobilizing other related reforms. The ECCB should further strengthen the monitoring of banks' CBRs by fully implementing the toolkit based on IMF technical assistance, and remaining countries should expedite legislation to update the regulatory and AML/CFT oversight frameworks, including for non-banks. These reforms would be supported by implementation of the recent ECCB initiative to establish a common platform for indigenous banks' back-office risk and compliance functions through a shared-services model, which is also expected to reduce operational costs and mitigate indigenous banks' limited size.

20. Stronger oversight of nonbanks should contribute to balance sheet repair. While credit unions and insurance companies remain in the purview of national authorities, the latter should

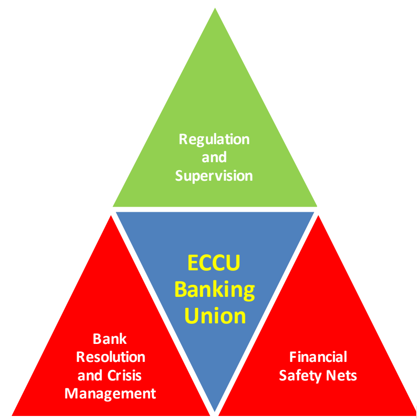
[12] The ECCB has required the reclassification of the 2015 debt-land-swap from financial to fixed assets in St. Kitts and Nevis. This entails that the land be sold within a timeframe of 5 years from the date of record that the bank became the owner. A request has been made to the ECCB for an extension of the timeline pursuant to the Banking Act.

[13] The ECCB Monetary Council is composed of the Ministers of Finance, who are often also Prime Ministers. The ECCB Board is also dominated by government representatives, typically the Financial Secretaries of the Ministries of Finance. Powers on policy and general administration reside at the ECCB Board, while Monetary Council has the mandate on matters of monetary and credit policy.

provide adequate resources, improve enforcement, and address data gaps. Realistic and urgent plans are needed for resolution of weak non-banking institutions. For the insurance industry, strengthened risk mitigation standards and practices (e.g. for market and liquidity risk and minimum reinsurance) should be adopted—supported by prompt finalization of the harmonized regulatory framework on insurance, pension, and deposit-taking non-bank sectors. Enhanced ECCB monitoring of large credit unions is a positive step and could be deepened. Consolidated supervision of financial groups, including off-balance sheet operations such as management of pensions and other investment funds, should be advanced. Effective consolidation of regional financial sector oversight, with the ECCB having supervisory responsibility for all deposit-taking institutions and another agency mandated to supervise the non-deposit taking financial sector will maximize coverage and mitigate resource and skills constraints.

21. Provided the critical short and medium-term priorities are addressed, steps toward a fuller banking union could take place in the long term. Components of a common financial safety net, including a DI scheme and Emergency Liquidity Assistance (ELA), and a bank resolution and crisis management framework need to be appropriately assessed and sequenced given the risk of mutualization of fiscal costs and possible low appetite for risk sharing across jurisdictions. Further progress in addressing financial sector pockets of weakness is needed to incentivize regional funding and resource sharing, which could otherwise trigger moral hazard and risky lending. Establishment of a regional financial safety net and resolution funds would require sovereign agreements on burden sharing of possible losses from bank failures, for which progress towards fiscal integration is needed (see section A). Banks' balance sheet repair and a credible fiscal backstopping should be preconditions to deposit insurance/resolution funds based on industry contributions, adjusted for participating institutions' size and risk—building on the authorities' steps to identify SIFIs. Initially, an operational fiscal backstop would be necessary while the funds for resolution are built.

ECCU Banking Union



Source: Fund staff.

22. After banks' balance sheets are strengthened and the fiscal backstop is functional, the ECCB could proceed toward a fuller resolution and crisis management framework. A suitable model includes (i) least-cost resolution funding for non-systemic banks supported by DI funds, and (ii) a regional resolution fund for systemic banks, after bank soundness and governance issues have been addressed and a critical mass of funding accumulated. The activation of a fiscal back-stop, under clear conditions, would reduce the risk of a crisis spreading from systemic bank failures. Supporting the bank resolution and crisis management framework requires advancing reform in key areas affecting resolution funding of systemic banks; regional crisis management plans (including non-banks); consolidation of broad financial sector oversight; a macroprudential framework; and a regulatory regime for systemic institutions.

Supporting a Bank Resolution and Crisis Management Framework

Strengthening the Supranational Resolution Authority and Framework	- Implement prudential standards - Improve cross-border coordination - Internalize home-host perspectives - Leverage resources and expertise
Regional Resolution Funding for Systemic Banks	- Clear fiscal backstoping identification in case of systemic bank failures - Internalize debt sustainability challenges affecting some ECCU countries
Strengthen Crisis Management Arrangements	- Advance crisis management plans at the national level for non-banks, in coordination with the ECCB - Develop a regional crisis management framework
Consolidation of Regional Financial Sector Oversight for Banks & Non-banks	- Cohesive coverage - Leverage resource and skill constraints
Adoption of Macroprudential Mandate and Toolkit	- Address buildup of systemic region-wide risk to prevent overburdening of Resolution Fund
Introduce Regulatory Regime for Systemic Institutions	- Continue progress and expand framework to identify systemic financial institutions - Contain shock propagation

23. **A regional financial safety net comprising DI and LOLR/ELA frameworks can support financial stability more efficiently.** A regional framework enables broader risk diversification and access to more resources, increasing credibility. A DI scheme could reduce the risk of deposit runs as implicit national guarantees are insufficient if the sovereign has fiscal sustainability challenges. An effective liquidity facility can mitigate the risk of liquidity pressures on solvent banks that trigger fire sales, thereby containing systemic spillovers.

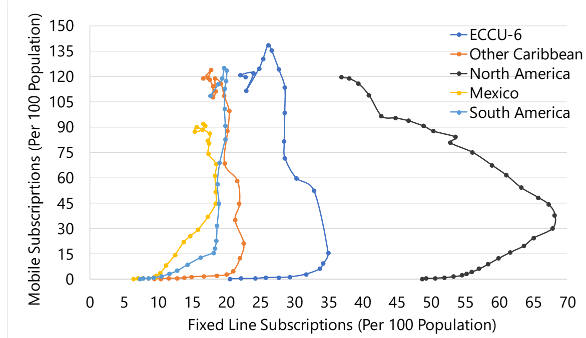
24. **A financial safety net would need to be comprehensive and tailored to the constraints of the ECCU quasi-currency board.** Current regulations envision very limited scope for LOLR or ELA and any revision would need to be consistent with the quasi-currency board arrangement and the requirement of solvency to qualify for liquidity assistance.[14] Stronger credit union's performance, regulation, and supervision are necessary prerequisites for their participation in the financial safety net.

[14] The current LOLR facility requires unanimous approval of the Monetary Council. This, for example, limits discretion of the central bank to assist illiquid but solvent banks.

C. Solidifying the Currency Union by Raising Payments' Efficiency

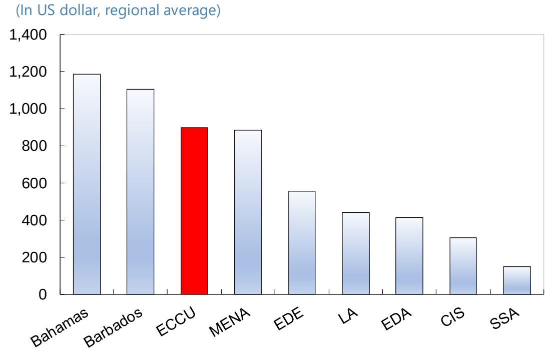
25. ECCU's retail payments are dominated by cash and checks. These are estimated to account for about 80 percent of total payments. The costs of cash usage, including transportation, storage, and security for both the central bank and the private sector are high, and so are fees for credit or debit cards and account transfer services charges for customers.[15] Checks are also inefficient as settlement takes time. Technology is actually available—mobile subscription is high—but is underutilized. Private sector initiatives to adopt more advanced payment technologies, such as mobile payment services, have until recently been limited, as such investment is costly, particularly due to the lack of economies of scale.[16]

Evidence of Leapfrogging 1985-2017



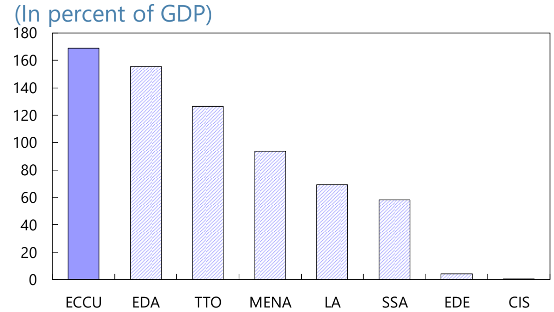
Sources: World Bank Database and IMF Staff Estimates

Cash in Circulation Per Capita, 2016-18 Average
(In US dollar, regional average)



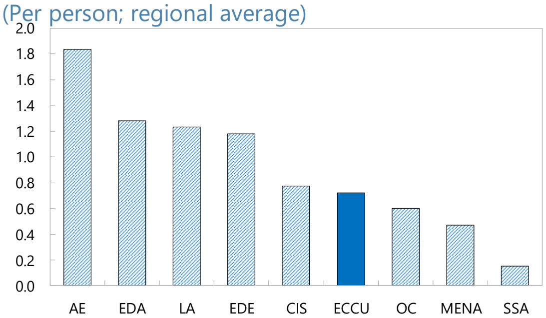
Source: IMF International Financial Statistics and WEO database.

Use of Checks in Value, 2015
(In percent of GDP)



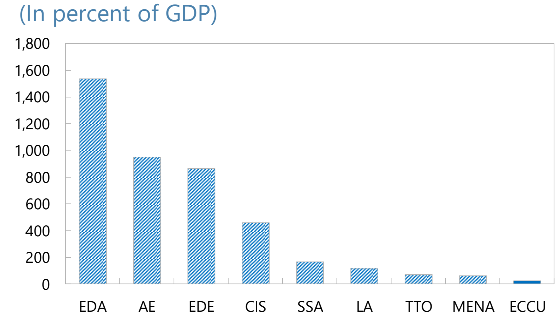
Source: WB Global Payment Systems Survey, 2015

Number of Credit and Debit Cards Per Person, 2015
(Per person; regional average)



Source: IMF Financial Access Survey
Note. Other Caribbean (OC) include Dominican .Rep. and Trinidad and Tobago.

Bank Credit Transfer in Value, 2015
(In percent of GDP)



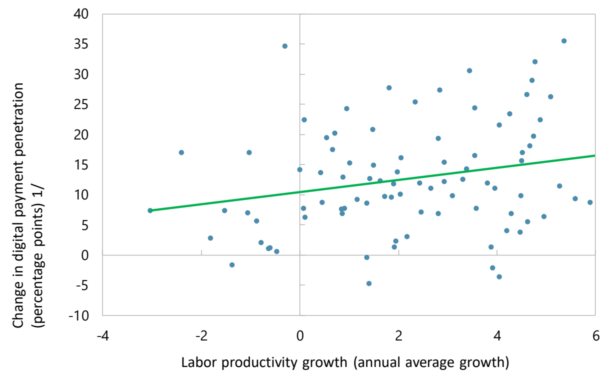
Source: WB Global Payment Systems Survey, 2015

[15] Credit card merchant fees typically carry charges of 4-6 percent per transaction, compared to 1-2 percent globally.

[16] Only a handful of start-ups emerged just recently, including CaribePay and JAD Cash in St. Kitts and Nevis.

26. The ECCB has launched several initiatives to reform the payment system. The authorities are concerned that the inefficient payments system adds to the costs of doing business, especially for small and medium-sized enterprises, dampening productivity. Staff's empirical analysis based on cross-country panel data suggests that the use of digital payment technology is associated with higher labor productivity growth in recent years (see SIP). The ECCB initiated the Eastern Caribbean Automated Clearing House project in 2009, and its first phase, the check imaging clearing system, was completed in 2015. In March 2018, the Electronic Funds Transfer (EFT) system was launched, aiming to improve the interoperability across financial institutions. In March 2019, the ECCB launched a digital currency pilot project using blockchain technology to reduce excessive reliance on cash and cheques, improve the efficiency of the retail payment system, and—by reducing financial frictions—support economic development (Box 3).

Labor Productivity Growth and Digital Payments Penetration, 2014-2017



Source: World Bank Global Findex Index and Pen World Table
1/ The change in the share of population (age 15 years old and above) who have made or received digital payments in the past year.

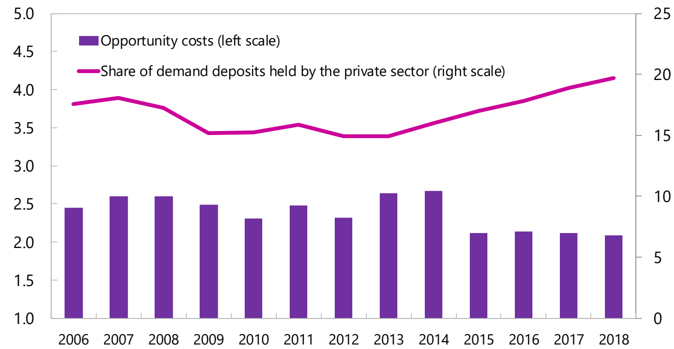
27. Building on the successful launch of the EFT, the ECCB, national authorities, and financial institutions should continue concerted efforts to modernize the payment system. Since the introduction of the EFT, some banks have begun to develop and offer various electronic payment services (including mobile payments). To encourage competition, options to integrate credit unions in the core payment systems should also be examined, in the context of establishing an equivalent prudential oversight framework. The ongoing review of the legal and regulatory framework for the payment system is also critical to allow emerging Fintech and nonbank e-payment services to operate and innovate. Advancing e-government initiatives would also help increase the volume of digital payments to alleviate small-economy constraints and enhance the business opportunities for the private sector. In this context, the authorities' digital economy project, which is currently in its preparatory phase, would contribute to the transformation of key public services. Early introduction of the digital ID is desirable to support these initiatives.

28. The digital currency pilot project, launched by the ECCB, should proceed cautiously as planned. The digital currency pilot will be deployed in Spring 2020 in a controlled environment. The ECCB is developing success criteria for the pilot to evaluate the effects and merits of the digital currency. To contain risks, some safeguard measures are embedded in the design of the digital currency: the size of its holding and transaction values is limited, with no interest accrued and no use for foreign exchange transactions.[17] Nonetheless, the digital currency could expose the ECCB and the financial system to various (and not fully known) risks—including those related to financial intermediation, financial integrity, and cybersecurity. The pilot will provide the opportunity to examine these risks and assess policy gaps. More specifically:

[17] For example, tourists will not be allowed to use the digital currency.

- ***Financial intermediation***. Ample excess liquidity in the system would mitigate possible financial disintermediation risk. However, the effects of the digital currency on the choice of payment instruments and financial institutions' funding are uncertain, especially under stress. Staff's empirical analysis suggests that depositors are sensitive to the opportunity cost of holding deposits, implying that in times of banking sector stress or low interest rates, demand for the digital currency (which is default risk free) could rise (see SIP). Accordingly, the ECCB and the national supervisors should closely coordinate on analyzing the liquidity and funding conditions of each bank and credit union, including through liquidity stress testing.

Share of Private Sector Demand Deposits and Opportunity Costs 1/
(In percent)



1/ Share of demand deposits is calculated as demand deposits as percent of total deposits, both held by private businesses and households. The opportunity cost is calculated as demand deposit rates minus savings deposit rates.
Sources: ECCB and IMF Monetary Survey

- ***Financial integrity***. The current AML/CFT framework will be broadly maintained, as the regulated financial institutions continue to take the key role in ensuring AML/CFT compliance. To fully reap the benefits of the new technology and address new risks, AML/CFT operational guidelines and regulations need to be thoroughly reviewed and upgraded.

- ***Cybersecurity***. The ECCB could be exposed to operational and financial risks from malfunctioning of the digital applications, platforms, or infrastructure, due to cyberattacks. The ECCB is identifying cybersecurity threats and exploring risk mitigation measures as important pre-requisites to the digital currency. Areas for further improvements include: (i) developing proactive cybersecurity IT operations within the ECCB, for example by instituting a "real-time 24/7" monitoring system to prevent, detect, and recover from cybersecurity breaches; (ii) further strengthening IT resilience and operations (e.g., IT asset, configuration, and vulnerability management) at the ECCB; and (iii) further improving third party and cloud risk management. In addition, more supervisory resources could be allocated to ensure effective supervisory expertise and coordination practices for cybersecurity policy and practice at financial institutions.

- ***Data and privacy governance.*** The data and privacy governance frameworks should be established to ensure that sensitive financial or personal data is protected.

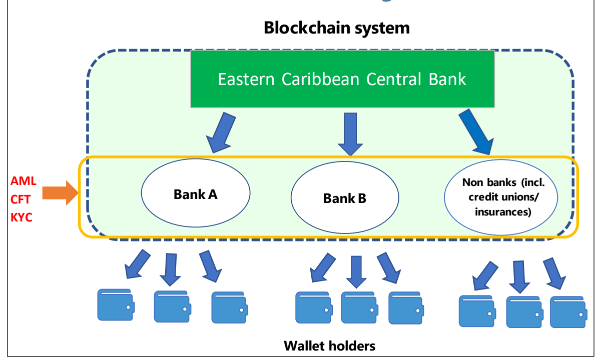
29. After the pilot, the ECCB is planning to thoroughly review its results. More work may be warranted, especially to further test the digital currency system, strengthen cybersecurity and AML/CFT operations, and update legal and regulatory frameworks. The authorities are also encouraged to conduct a comprehensive cost and benefit analysis of the new digital currency ecosystem.

Box 3. The Key Design Aspects of the ECCB Digital Currency for the Pilot[1]

General scheme. The ECCB will have the sole authority to issue and redeem the digital currency and will be able to fully control its supply. The ECCB will preserve a "two-tier system" to fully utilize the comparative advantage of (i) the private sector to interact with customers and carry out the relevant AML/CFT requirements, including the necessary customer due diligence measures, and (ii) the central bank to provide trust and manage the digital currency scheme in line with its payment system policies. About 15 financial institutions in four ECCU member economies (Antigua and Barbuda, Grenada, St. Kitts and Nevis, and St. Lucia) will participate in the pilot. The digital currency can be used for financial transactions including peer-to-peer, business-to-business, and business-to-customer. The size of its holding and transaction values per wallet is limited, with no interest accrued and no use for foreign exchange transactions. The ECCB has no intention to eliminate the use of physical cash, because it has its own convenience.

Process of issuing digital currency. Financial institutions request the digital currency from the ECCB. In response, the ECCB sends the digital currency to them using the blockchain network. Then, financial institutions in turn distribute it to their clients upon their request in exchange for deposits or cash.[2]

Process of Issuing DXCD



Access to transaction data:

- The ECCB can observe each transaction data (but anonymously) and the outstanding stock of the digital currency in each digital wallet. The ECCB does not see detailed information about digital currency transactions (e.g., the identity/name of payers and payees and the purpose of transaction).

- Financial institutions can fully observe the identity of payers and payees and the purpose of transaction (e.g., the goods or services payers bought from payees), if either payers or payees are their own customers. They are responsible for maintaining its own clients' database.

Who Can See What Information?

	Transaction data related to clients of:		
	Bank A	Bank B	Nonbank A
ECCB	**Only anonymous transaction data**		
Bank A	**Full data related to transaction of own customers 1/**		
Bank B		**Full data related to transaction of own customers1/**	
Nonbank A			**Full data related to transaction of own customers1/**

1/ All data including identity of payers and payees involved in transactions.

Implication for AML/CFT management. Because individual financial institutions have access to information pertaining to their clients' transactions, they have the obligation and responsibility to monitor the legitimacy of each transaction and maintain their clients' database. Accordingly, the main responsibility of AML/CFT monitoring falls on these financial institutions. The ECCB is not expected to be directly involved in monitoring of each individual transaction. Instead, its main role is to supervise financial institutions to ensure that they are compliant with the AML/CFT regulatory framework.

_____

[1] Based on the information staff obtained during the mission. The ECCB was still developing the design of the digital currency.

[2] This scheme implies that clients do not have direct access to central bank accounts.

D. Other Issues

30. To ensure external sustainability and boost potential growth, ECCU authorities should continue efforts to advance the structural reform agenda and foster private sector activity beyond tourism. Both the EBA–lite current account and real effective exchange rate models suggest that the external position in 2018 was weaker than that consistent with fundamentals, implying an exchange rate overvaluation in 2018. Implementing fiscal consolidation and structural reforms would help enhance competitiveness, sustainability, and boost non-tourism exports. Key structural reforms include strengthening investment and business climate, improving public sector efficiency, reducing energy and transportation costs and tariffs, and advancing labor market reforms and regional integration. In addition, further improving connectivity and Fintech have the potential to reduce business costs, enhance efficiency, thereby improving competitiveness (see Annex II and Figure 7).

31. The ECCB should continue to improve the ECCU area statistics. Following the useful launch of the debt portal in mid-2019, several priorities remain, including further harmonization of public debt statistics, back-casting of BPM6-consistent data, more timely publication of BoP releases, and upgrading private external debt data.

AUTHORITIES' VIEWS

32. The authorities broadly agreed with staff's macroeconomic outlook. ECCB staff also projected ECCU GDP growth to ease, to 3¼ percent in 2019, with a slight uptick of 3.5 percent in 2020. They also agreed with the key risks being natural disasters, a global economic slowdown, a further loss of CBRs, and cyber threats.

33. The authorities reaffirmed their commitment to meeting the 60 percent of GDP debt target. However, they underscored substantial risks posed by natural disasters and saw economic growth as a critical factor, calling for the need for debt sustainability strategies to accommodate their development spending needs. Some of the authorities indicated plans to advance elements of their own fiscal responsibility frameworks and to build national saving funds and resilient infrastructure, while arguing for the need to step up international grant financing given their high cost.

34. The authorities were mostly in favor of coordinating revenue-side measures, although there was some heterogeneity in views on several specific aspects. They were wary of practical difficulties to enforce coordination among sovereign countries. On tax incentives, some authorities stressed the need for retaining flexibility to attract foreign direct investment given the limited options to improve competitiveness. They also argued for a nuanced view of the different tax incentives and pointed to their extensive use worldwide. On the CBI programs, they were committed to advancing ongoing cooperation initiatives to strengthen transparency and integrity. Some, however, saw merit in retaining a degree of competition with country differentiation.

35. They saw the potential merits of a regional stabilization fund, but some authorities were skeptical about practical implementation. Most authorities pointed to insufficient resources to finance the initial capital of the fund, unless these were provided through international funding.

Other obstacles include substantial differences in the countries' economic fundamentals, level of development, diversity of policy views, and fiscal sustainability challenges. Some authorities indicated they would be prioritizing national saving funds until credible safeguards for managing pooled resources are created at the regional level.

36. The authorities agreed with staff on the financial stability risks and challenges. They shared the concern about the departure of global banks but saw both risks (such as loss of CBRs) and opportunities (such as consolidation of indigenous banks). While recognizing the risk of rapid credit unions' growth—including from domestically systemic institutions—and softer loan qualification requirements, they emphasized that progress towards harmonized regional regulation should help address the risks. They were concerned by the possibility of further CBRs losses and stressed the role of the international community in containing those risks. They also noted the region's strong cooperation to address remaining gaps on AML/CFT and international taxation despite capacity constraints. They shared concerns about the limited size of indigenous banks, elevated market and operational risks, but pointed to declining NPL levels with improved provisioning in most countries. They noted that IFRS 9 should also facilitate broad provisioning for aged NPLs, which would result in a reduction in NPLs.

37. The authorities highlighted the ample scope of their reform agenda. They noted the phased upgrade to Basel II/III standards, the project to consolidate back-office risk and compliance functions of indigenous banks, the upcoming issuance of the treatment of impaired assets standard, and the pending corporate governance standards with strengthened fit and proper requirements. They confirmed commitment to the ECAMC strategy and explained the deadline extension was necessary, noting the expectation of initiating the NPL purchases in 2020. However, they noted that the extension of government guarantees to facilitate CDB financing for NPL acquisitions may be difficult for some jurisdictions given already high public debt levels. They also pointed out that the ECAMC may not have the capacity to acquire all impaired assets due to shallow real estate markets. They highlighted ongoing initiatives to advance collateral realization subject to real estate market conditions and to review insolvency legislation to facilitate loan recovery. They concurred with staff on the need to step-up monitoring of bank investment portfolios for compliance with statutory limits.

38. Most authorities consider that the current legislation provides appropriate autonomy to the ECCB. In their view, the ECCB governance framework with Ministers of Finance at the Monetary Council and government representatives at the Board is appropriate in the ECCU context. They noted the need for consensus building for reform implementation, with financial stability also being dependent on growth and development. The majority of authorities pointed to national parliamentary processes as the main reason for delayed implementation of financial reforms, as opposed to insufficient ECCB autonomy.

39. The authorities welcomed staff proposals to progress towards a deeper banking union in the long term and agreed on the preconditions. They concurred on the need to address remaining bank and non-bank balance sheet weakness as priority—with solid financial fundamentals as a key stepping stone towards industry-funded deposit insurance—and noted that a project geared towards establishing a DI scheme is currently being developed. They took note of staff advice that emergency liquidity and resolution funding frameworks require strong fiscal fundamentals, in addition to financial soundness, and should be tackled at a later stage.

40. The ECCB stressed the need for central bank leadership in testing digital payments in the ECCU. As other central banks, the ECCB is exploring the feasibility of a central bank digital currency. In the ECCU with its multiple islands, payments are slow and costly, and the lack of economies of scale constrains private sector solutions. Therefore, developing more efficient intra-regional payment systems is critical. The ECCB stressed that the digital currency pilot would be conducted in a controlled environment, thereby minimizing the risks. After the pilot, the ECCB will conduct a thorough review on the results of the pilot.

41. In parallel with the digital currency pilot, the authorities are making efforts to improve the traditional payment system. By 2025, they aimed to increase the use of credit and debit cards and electronic transfers by 40-60 percent. Currently, they are exploring options to integrate credit unions in the core payment systems to enhance competition. They concurred with staff that the lack of legislation has deterred the development of FinTech and non-bank payment services and are planning to review the legal framework. In this context, the ECCB welcomed the opportunity to receive technical assistance on governance and legal frameworks for FinTech.

STAFF APPRAISAL

42. Growth has rebounded in 2018-19, fiscal deficits have increased, and the public debt ratio has continued to decline. Going forward, growth is expected to gradually ease, and the outlook is clouded by downside risks, particularly natural disasters and continued pressures of CBRs. In this context, achieving the 60 percent of GDP debt target while building resilience to natural disasters would remain challenging for most countries. The external position is weaker than implied by medium-term fundamentals and desirable policies. Implementing fiscal consolidation and structural reforms would help enhance competitiveness and sustainability.

43. Greater regional integration can complement national policies in improving the outlook and mitigating risks. Robust national fiscal responsibility frameworks that ensure public debt sustainability and buffers to natural disasters—including through Disaster Resilience Strategies currently being piloted in Dominica and Grenada—remain key to improving economic performance. In addition, well-sequenced regional integration can catalyze resources for better policy responses.

44. Fiscal integration through regional coordination of selected revenue policies could create fiscal space for ECCU's public investment. There is scope for the ECCU countries to cooperate on tax incentives and CBI program conditions, including on their financial integrity to improve their governance, to limit the "race to the bottom" and create fiscal space, while achieving the objective of making FDI more attractive also through better infrastructure.

45. Over the longer term, a regional pooling of fiscal resources can support macroeconomic stabilization and resilience building. This entails limiting excessive growth of public consumption in good times to create scope for resilience building and other growth-enhancing investment in bad times. Such an arrangement would require a strong governance framework and should be financed by national budgets to protect ECCB's international reserves and the credibility of its quasi-currency board arrangement.

46. Accelerated progress on the ECCB's reform agenda will help address financial system vulnerabilities. The agenda needs to be prioritized and implemented within a holistic and well-sequenced plan. Efforts to repair bank balance sheets, including via sales to the Eastern Caribbean Asset Management Company, should be stepped up in the short term. The new treatment of impaired assets standard, now expected by January 2020, should be implemented without delay. Progress in modernizing insolvency frameworks would facilitate loan recovery. ECCB's and deposit-taking institutions' governance frameworks should be reviewed and passage of critical legislation, including AML/CFT, should be expedited by remaining countries to increase compliance and enforcement. Consolidated supervision of financial groups should be advanced. Urgent measures are also needed to monitor and address market and operational risks, including from correspondent banking relationships and cybersecurity.

47. Provided the critical near-term priorities are addressed, financial integration through steps toward a fuller banking union could take place in the long term. These would involve: (i) enhancing the financial safety net with a robust deposit insurance scheme and (ii) establishing a regional resolution and crisis management framework. Both these steps require operationalizing credible fiscal backstopping as a key precondition. Improved regulation of systemic institutions, regional consolidation of non-bank financial sector oversight, and progress in the establishment of a macroprudential mandate and toolkit will help address region-wide systemic risk.

48. The ECCB, national authorities, and financial institutions should continue efforts to modernize the payment system to solidify the monetary union. The ongoing review of the legal framework for the payment system is critical to allow emerging Fintech and nonbank e-payment services to operate and innovate. Integrating credit unions in the core payment system could be examined, in the context of establishing an equivalent prudential oversight framework. Advancing e-government would also help increase the volume of digital payments to address small-economy constraints and enhance business opportunities for the private sector. Early introduction of a digital ID is needed to support these initiatives.

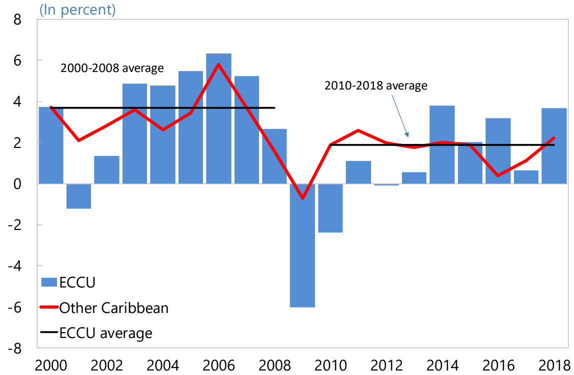
49. The ECCB's digital currency project should proceed cautiously. To contain vulnerabilities, the authorities should fully implement the safeguard measures embedded in the design of the digital currency. The pilot will provide the opportunity to examine the various risks of the digital currency—including for financial intermediation, financial integrity, and cybersecurity—and assess policy gaps.

The discussion with the ECCU authorities will be on the 12-month cycle in accordance with Decision No. 13655-(06/1), as amended.

Figure 1. ECCU: Real Sector Developments

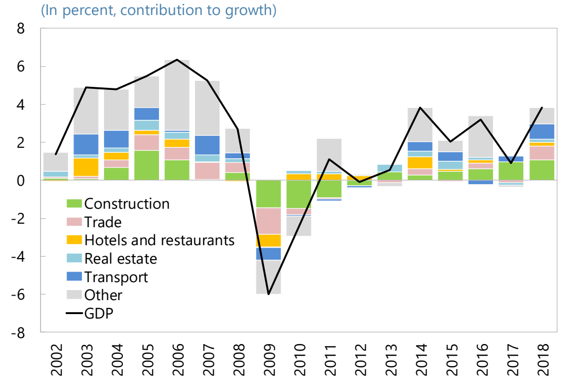
Regional growth picked up strongly in 2018…

Regional Real GDP Growth
(In percent)



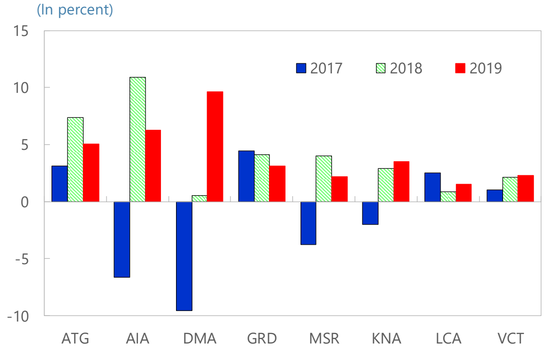
…reflecting buoyant construction, trade, and transport sectors.

ECCU: Real GDP Growth
(In percent, contribution to growth)



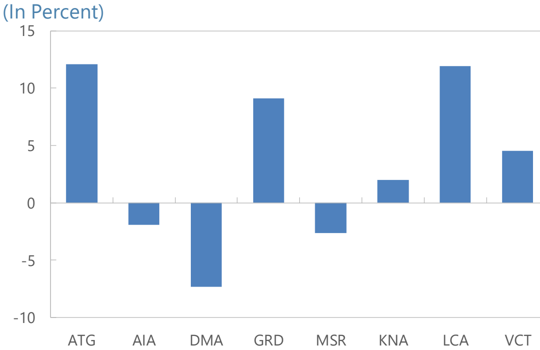
All economies grew positively over the past two years, with a remarkable recovery in AIA, DMA, and MSR…

Real GDP Growth By Economy
(In percent)



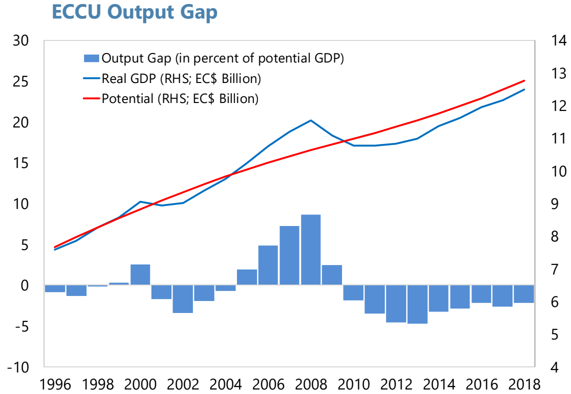
…but their per capita GDP has yet to recover to 2016 levels.

Change in Per Capita GDP between 2016 and 2018
(In Percent)



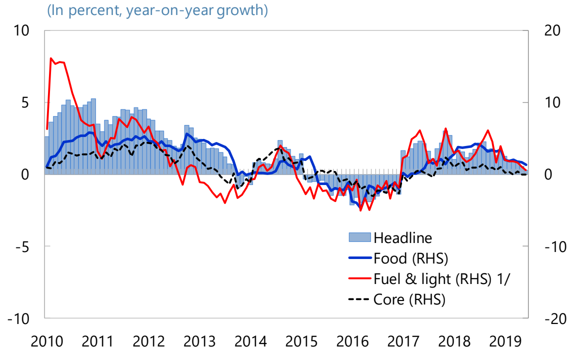
Region's output has just recovered to its potential.

ECCU Output Gap



Inflation pressures are muted in part due to lower fuel and commodity prices.

CPI and Components
(In percent, year-on-year growth)



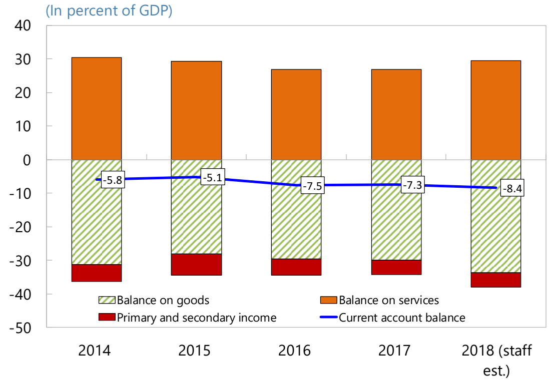
1/ In addition to fuel and light, series definition also includes housing, utilities, and gas for some ECCU jurisdictions.

Source: Country authorities, ECCB and Fund staff calculations.

Figure 2. ECCU: External Sector Developments

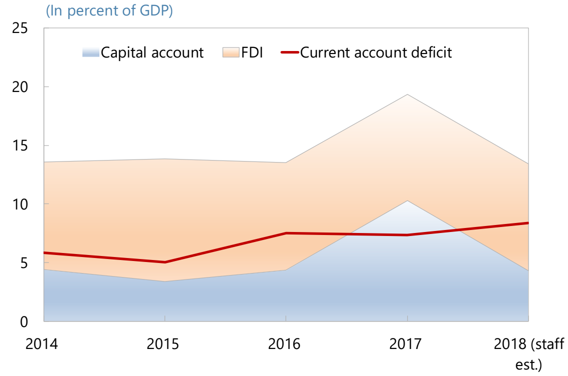
Current account deficit is estimated to have slightly widened in 2018.

Current Account Balance
(In percent of GDP)



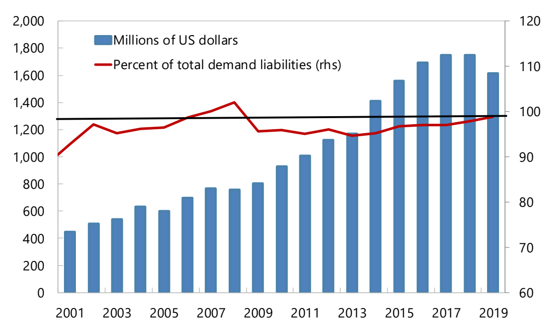
Capital account and FDI inflows more than finance the current account deficit…

Current Account Deficit and Sources of Finance
(In percent of GDP)



…the coverage ratio of international reserve remains close to 100 percent of reserve money.

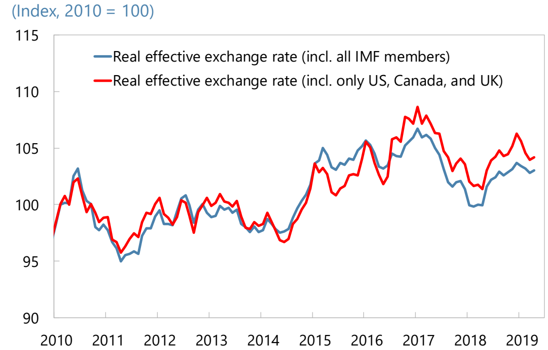
ECCB's Holding of External Assets (International Reserves) 1/



Sources: ECCB.
1/ End year. 2019 data are for September 2019.

Real exchange rates appreciated due to a stronger dollar.

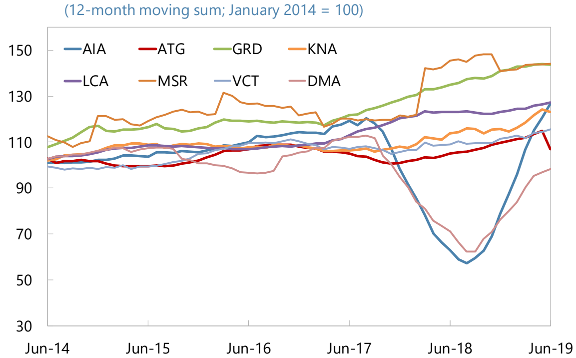
Real Effective Exchange Rates
(Index, 2010 = 100)



Sources: INS and Fund staff calculations.

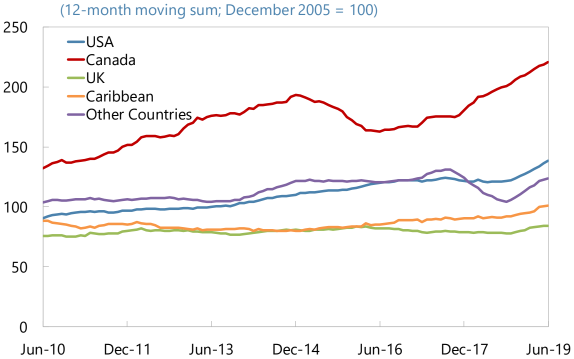
Stayover tourist arrivals fell sharply in Anguilla and Dominica.

Tourist Arrivals by Country
(12-month moving sum; January 2014 = 100)



Tourists from Canada have been particularly growing fast recently.

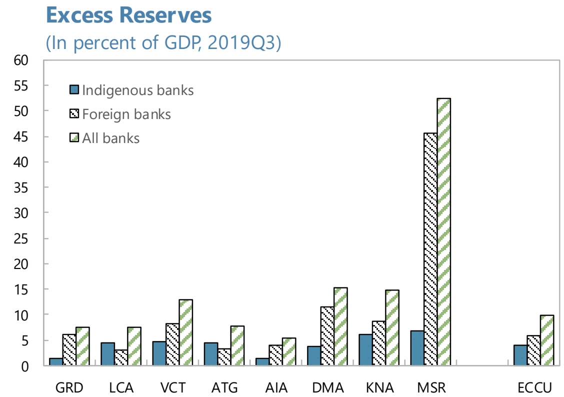
Tourist Arrivals by Origin
(12-month moving sum; December 2005 = 100)



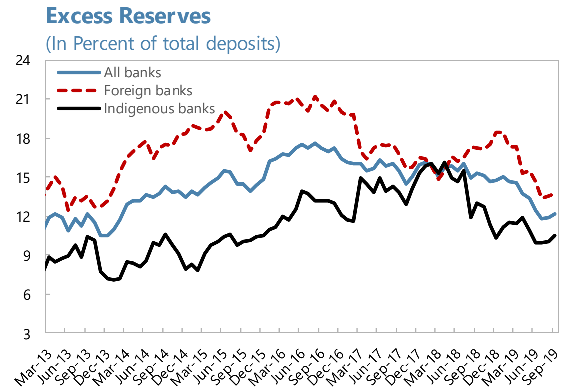
Sources: ECCB, CTO and Fund staff calculations.

Figure 3. ECCU: Monetary Developments

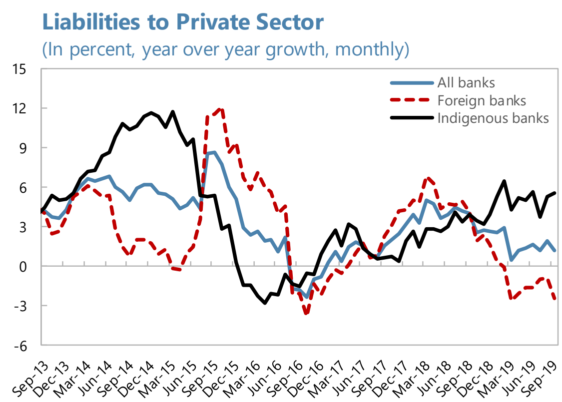
Excess reserves remain elevated in most jurisdictions …



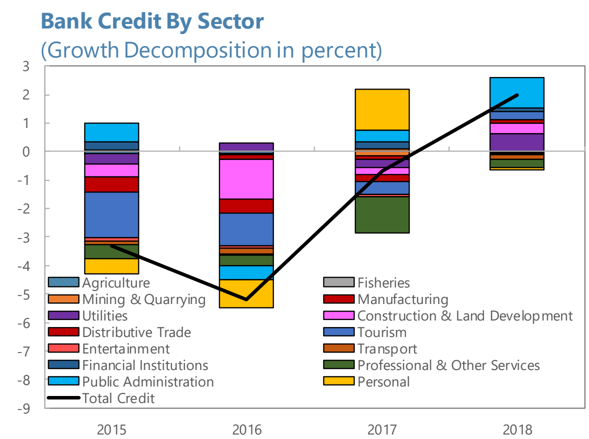
… but started declining recently in foreign banks.



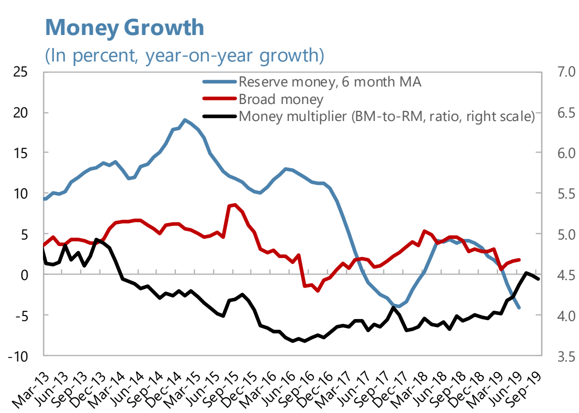
Amidst continued deposit growth…



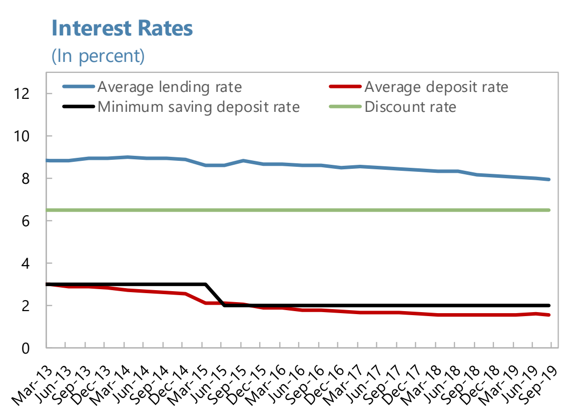
…there was mild credit recovery, shifting towards public administration and utilities.



Monetary growth also accelerated slightly…



…with no significant change in monetary policy, and average deposit rates falling below the minimum savings rate.



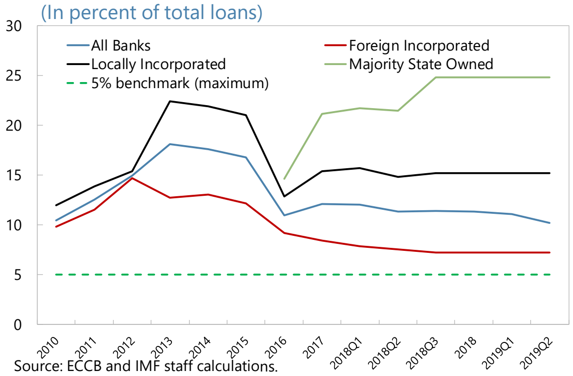
Source: ECCB

Figure 4. ECCU: Financial Soundness Indicators

NPLs stopped declining in locally incorporated banks, particularly in public banks…

Nonperforming Loans

(In percent of total loans)

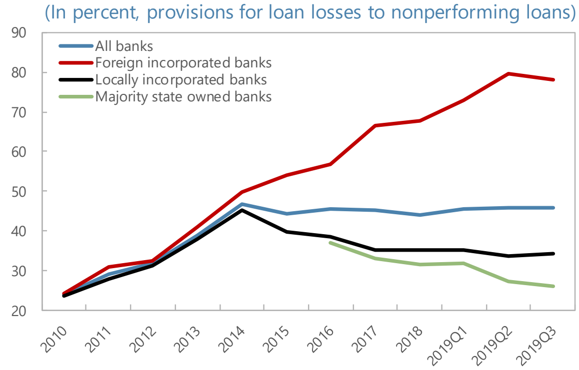


Source: ECCB and IMF staff calculations.

…while provisioning has increased significantly only in foreign incorporated banks

Provisions to Nonperforming Loans

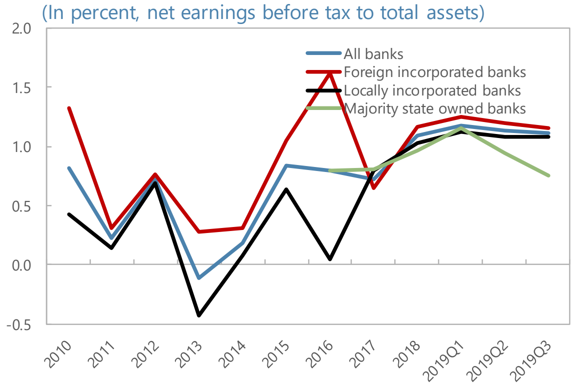
(In percent, provisions for loan losses to nonperforming loans)



Profitability has recovered but remains very low….

Return on Assets

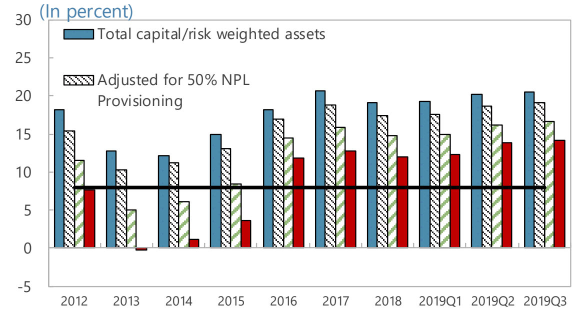
(In percent, net earnings before tax to total assets)



… while capital is above the regulatory standards.

Locally Incorporated Banks' Capital Adequacy [1/]

(In percent)

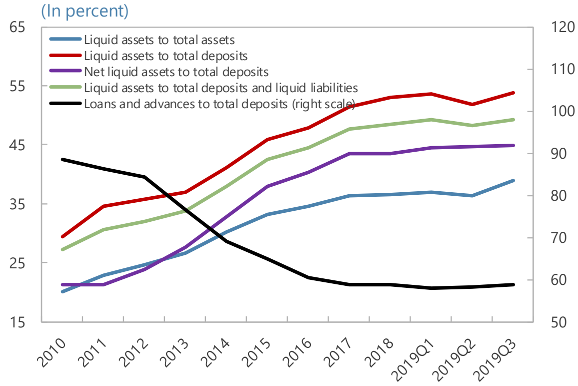


[1] Individual bank data does not reflect all revisions to FSIs over the period.

Excess liquidity may have peaked ….

Commercial Banks's Liquidity

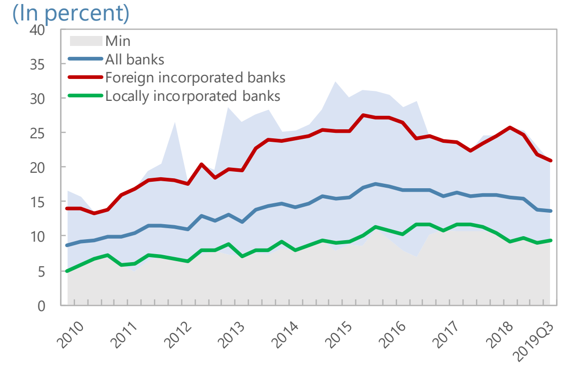
(In percent)



… including cash reserves.

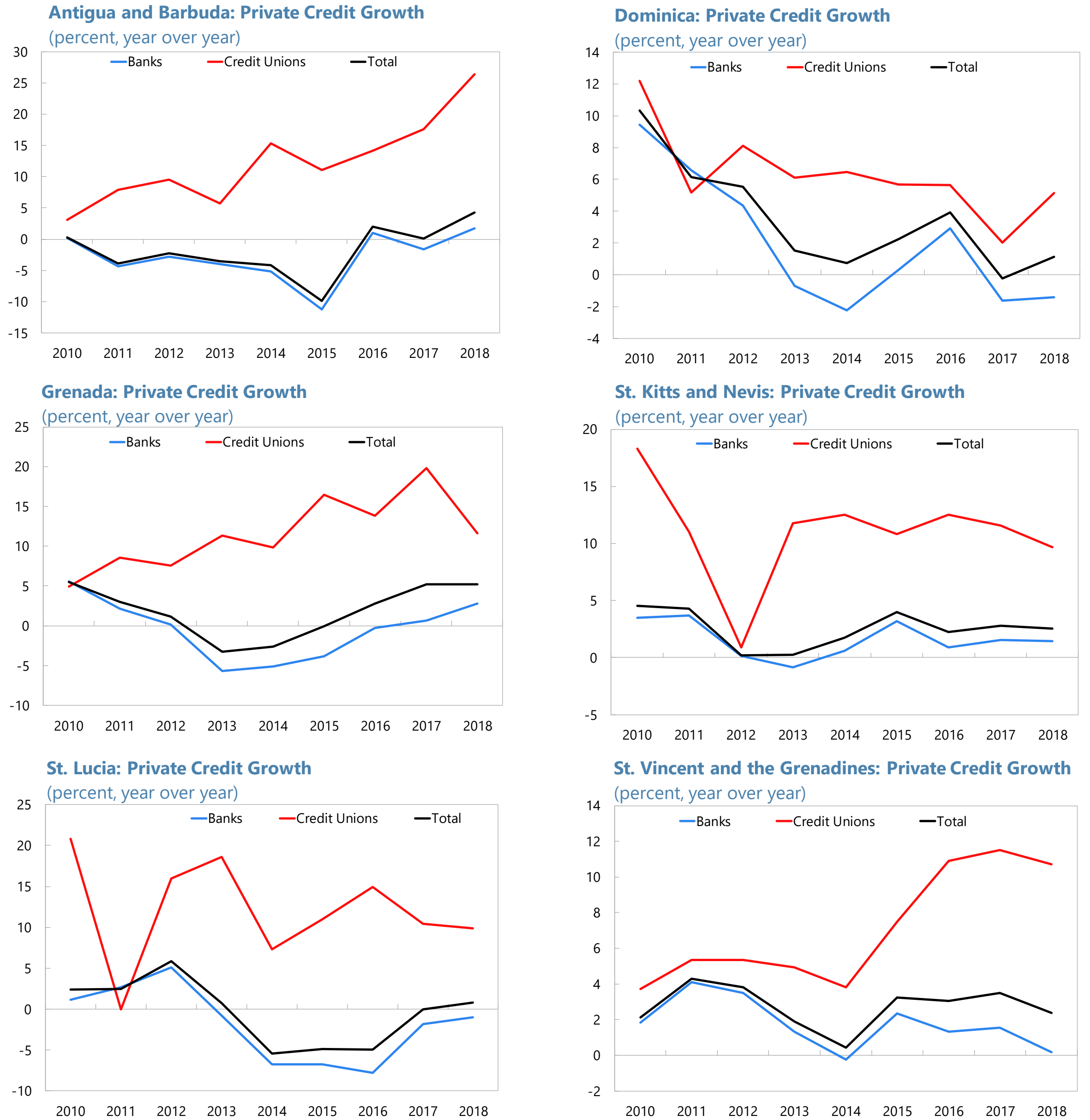
Cash Reserves to Total Deposits

(In percent)



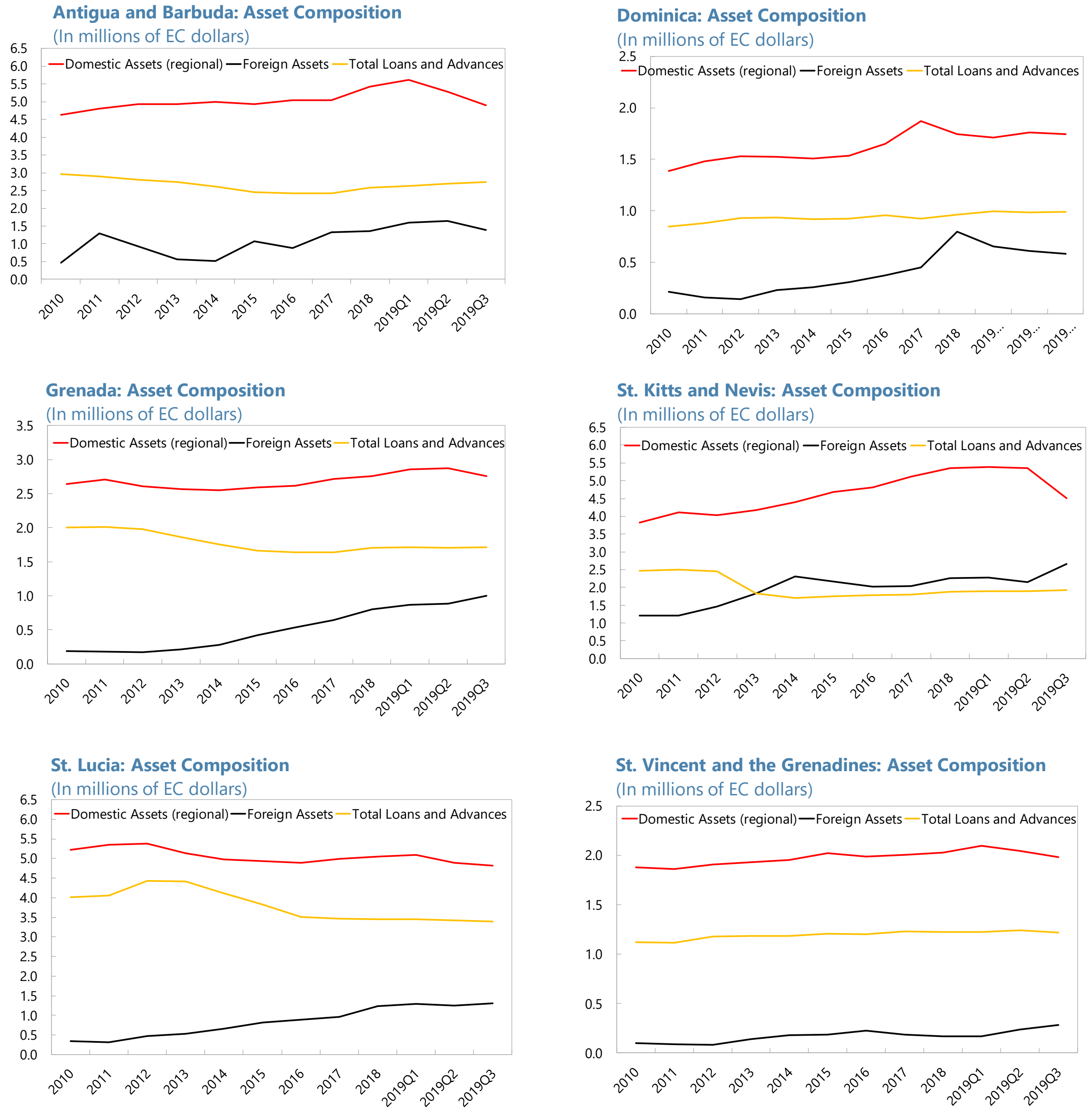
Source: ECCB and Fund staff calculations

Figure 5. ECCU: Credit Developments



Source: Country Authorities; ECCB; and IMF Staff Calculations.

Figure 6. ECCU: Asset Composition



Source: Country Authorities; ECCB; and IMF Staff Calculations.

Figure 7. ECCU: Doing Business Indicators 1/

Sources: World Bank 2019 Doing Business Indicators; and Fund staff calculations.

1/ Smaller numbers represent greater ease in doing business. 2019 Doing Business rankings are across 190 countries. These indicators should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.

2/ Annual rankings are rebased to adjust for different sample sizes.

Note: Antigua and Barbuda (ATG), Dominica (DMA), Grenada (GRD), St. Kitts and Nevis (KNA), St. Lucia (LCA), St. Vincent and the Grenadines (VCT), and Latin America and Caribbean (LAC).

Table 1. ECCU: Selected Economic and Financial Indicators, 2017–25 1/

	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Projections						
			(Annual percentage change)						
Output and prices									
Real GDP	0.7	3.7	3.7	3.4	3.0	2.6	2.4	2.3	2.2
GDP deflator	1.7	1.6	1.6	2.1	2.0	1.9	1.9	1.9	2.0
Consumer prices, average	1.1	1.4	1.4	1.9	1.9	2.0	2.0	2.0	2.0
Monetary sector									
Net foreign assets	15.6	2.2	6.5	6.3	4.7	3.4	3.9	3.8	3.8
Central bank	3.3	-1.1	3.1	8.8	4.9	3.7	4.7	4.1	4.5
Commercial banks (net)	35.2	6.2	10.2	3.6	4.4	3.1	3.0	3.6	3.0
Net domestic assets	-7.3	3.7	5.3	4.6	5.4	5.9	4.9	4.6	4.6
Of which: private sector credit	-0.1	0.0	2.9	2.6	2.6	2.8	2.7	2.9	9.7
Broad money (M2)	3.4	2.9	5.9	5.5	5.0	4.6	4.4	4.2	4.2
Public finances			(In percent of GDP; unless otherwise indicated)						
Central government									
Total revenue and grants	27.8	27.9	26.6	24.9	24.3	23.9	23.8	23.8	23.7
Total expenditure and net lending	28.4	29.1	27.7	27.0	26.2	26.0	26.3	26.7	26.5
Overall balance	-0.6	-1.2	-1.0	-2.0	-1.8	-2.1	-2.4	-2.9	-2.8
Excl. Citizenship by Investment Programs	-4.1	-5.1	-4.5	-4.0	-3.5	-3.3	-3.5	-3.8	-3.7
Primary balance	1.9	1.1	1.2	0.2	0.4	0.0	-0.3	-0.7	-0.6
Total public sector debt 2/	72.4	70.5	69.2	68.9	68.4	68.0	67.6	67.7	67.8
Expected fiscal cost of natural disasters	…	…	…	0.8	0.8	0.8	0.8	0.8	0.7
External sector									
Current account balance	-7.3	-8.4	-7.6	-8.6	-7.9	-6.8	-6.6	-6.3	-6.2
Trade balance	-29.9	-33.6	-33.1	-32.8	-32.3	-31.7	-32.1	-33.4	-33.0
Exports, f.o.b. (annual percentage change)	-0.7	1.7	3.8	5.8	5.7	5.8	5.0	5.4	4.9
Imports, f.o.b. (annual percentage change)	3.3	16.5	3.8	4.7	3.6	3.0	5.8	8.1	3.0
Services, incomes and transfers	22.5	25.2	25.5	24.2	24.4	24.9	25.5	27.2	26.8
Of which: travel	38.4	39.9	40.6	40.9	41.9	42.2	43.1	45.5	46.7
External public debt	37.9	36.6	36.0	36.5	36.5	36.4	35.8	35.4	35.8
External debt service (percent of goods and nonfactor services)	9.9	8.9	9.6	9.3	8.0	8.9	8.9	7.9	9.7
International reserves									
In millions of U.S. dollars	1,750	1,747	1,802	1,959	2,056	2,132	2,232	2,323	2,428
In months of current year imports of goods and services	5.3	4.7	4.7	4.8	4.9	4.9	4.9	4.8	4.8
In percent of broad money	29.0	28.1	27.4	28.2	28.2	27.9	28.0	28.0	28.1
REER (average annual percentage change)									
Trade-weighted	-0.7	-2.0	…	…	…	…	…	…	…
Competitor-weighted	0.3	0.8	…	…	…	…	…	…	…
Customer-weighted	0.4	-1.9	…	…	…	…	…	…	…

Sources: Country authorities; and Fund staff estimates and projections.

1/ Includes all eight ECCU members unless otherwise noted. ECCU price aggregates are calculated as weighted averages of individual country data. Other ECCU aggregates are calculated by adding individual country data.

2/ Debt relief has been accorded to: (i) Grenada under the ECF-supported program in 2017; and (ii) St. Vincent and the Grenadines in 2017 under the Petrocaribe arrangement.

Table 2. ECCU: Selected Economic Indicators by Country, 2017–25
(Annual percentage change; unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Projections						
Real GDP (ECCU-8)	**0.7**	**3.7**	**3.7**	**3.4**	**3.2**	**2.8**	**2.5**	**2.4**	**2.4**
Anguilla	-6.6	10.9	6.3	4.9	1.7	1.7	1.7	1.7	1.7
Antigua and Barbuda	3.1	7.4	5.0	3.7	3.3	2.5	2.5	2.5	2.5
Dominica	-9.5	0.5	9.6	4.7	4.7	3.3	2.8	1.7	1.5
Grenada	4.4	4.1	3.1	2.8	2.7	3.2	3.2	3.0	2.7
Montserrat	-3.8	4.0	2.2	2.2	2.2	2.2	2.2	2.2	2.2
St. Kitts and Nevis	-2.0	2.9	3.5	3.5	3.0	2.7	2.7	2.7	2.7
St. Lucia	2.6	0.9	1.5	3.2	3.0	2.4	1.5	1.5	1.5
St. Vincent and the Grenadines	1.0	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3
CPI (end of period) 1/	**1.7**	**1.3**	**1.7**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**
Anguilla	1.3	-0.4	1.6	2.0	2.0	2.0	2.0	2.0	2.0
Antigua and Barbuda	2.4	1.7	1.6	2.0	2.0	2.0	2.0	2.0	2.0
Dominica	1.4	1.4	1.8	1.8	2.0	2.0	2.0	2.0	2.0
Grenada	0.5	1.4	1.0	2.0	2.0	2.0	2.0	2.0	2.0
Montserrat	1.6	2.4	1.3	1.7	2.0	2.0	2.0	2.0	2.0
St. Kitts and Nevis	0.8	-0.7	2.0	2.0	2.0	2.0	2.0	2.0	2.0
St. Lucia	2.0	2.2	2.1	2.2	2.0	2.0	2.0	2.0	2.0
St. Vincent and the Grenadines	3.0	1.4	1.8	2.0	2.0	2.0	2.0	2.0	2.0
Current account (percent GDP)	**-7.3**	**-8.4**	**-7.5**	**-8.8**	**-8.5**	**-7.6**	**-7.8**	**-7.6**	**-7.5**
Anguilla	-7.8	-42.1	-48.2	-34.2	-33.0	-33.2	-33.6	-34.2	-36.7
Antigua and Barbuda	-8.8	-7.0	-6.4	-5.7	-5.6	-5.5	-5.4	-5.3	-5.2
Dominica	-12.7	-45.4	-32.3	-26.6	-19.8	-15.0	-12.5	-11.8	-9.8
Grenada	-12.0	-11.4	-11.7	-10.7	-8.9	-9.1	-10.1	-9.9	-10.4
Montserrat	-9.7	-2.0	-1.8	-5.4	-4.3	-4.1	-4.0	-3.8	-3.7
St. Kitts and Nevis	-11.0	-7.2	-6.1	-15.6	-15.0	-14.8	-14.6	-12.8	-11.5
St. Lucia	1.5	3.0	3.0	-1.5	-2.6	-0.1	0.8	1.0	1.0
St. Vincent and the Grenadines	-12.0	-12.2	-11.3	-10.4	-9.5	-9.0	-8.9	-8.9	-8.9
Overall balance (percnet of GDP) 2/	**-0.6**	**-1.7**	**-0.8**	**-2.2**	**-2.5**	**-3.0**	**-3.3**	**-3.8**	**-3.9**
Anguilla	0.9	0.4	0.9	2.6	-0.2	-0.6	1.8	2.0	3.2
Antigua and Barbuda	-2.8	-3.1	-3.1	-2.7	-2.7	-2.8	-2.9	-3.0	-3.4
Dominica	0.3	-19.7	-11.7	-7.6	-4.0	-2.7	-3.4	-2.2	-1.5
Grenada	3.0	4.5	3.8	4.3	4.5	2.8	0.9	-2.2	-2.2
Montserrat	1.2	-6.5	-1.5	3.0	0.9	0.9	0.0	0.0	0.0
St. Kitts and Nevis	0.5	1.1	6.2	-4.9	-4.8	-7.0	-7.3	-7.7	-7.0
St. Lucia	-2.4	-1.1	-3.2	-3.5	-3.4	-2.8	-2.8	-2.8	-2.9
St. Vincent and the Grenadines	-0.4	-1.1	-2.2	-1.6	-1.4	-1.3	-1.3	-1.2	-1.0
Total public sector debt (percent of GDP)	**72.1**	**70.4**	**69.5**	**69.5**	**69.9**	**70.6**	**71.3**	**72.4**	**73.6**
Anguilla	65.0	61.0	54.8	47.9	45.6	44.3	40.6	36.9	32.3
Antigua and Barbuda	90.9	89.7	88.1	86.7	83.9	83.0	83.7	84.3	84.9
Dominica	76.9	78.4	83.0	86.4	86.3	85.6	86.2	85.9	85.3
Grenada	70.1	63.5	59.2	54.4	51.7	49.4	46.1	46.0	46.0
Montserrat	8.1	7.3	8.0	4.7	3.7	2.8	2.7	2.7	2.6
St. Kitts and Nevis	60.8	58.7	55.6	56.4	57.4	60.5	63.8	67.4	70.5
St. Lucia	65.5	64.3	65.5	69.1	72.6	73.7	74.1	74.1	74.1
St. Vincent and the Grenadines	73.5	73.9	72.2	70.7	69.1	67.8	66.6	65.7	64.7

Sources: Country authorities; and Fund staff estimates and projections.
1/ The weighted average inflation using nominal GDP to assign weights.
2/ For projections, includes expected fiscal costs of natural disaster hazards.

Table 3. ECCU: Selected Central Government Fiscal Indicators by Country, 2017–25 1/

(In percent of GDP)

			Projections						
	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total revenues and grants	**27.8**	**28.2**	**26.7**	**24.9**	**24.3**	**23.8**	**23.8**	**23.8**	**23.6**
Anguilla	29.1	26.8	25.0	25.1	19.8	19.8	21.6	21.6	21.8
Antigua and Barbuda	20.7	19.8	18.3	18.1	18.0	17.9	17.8	17.6	17.2
Dominica	55.2	45.9	38.4	34.8	31.7	29.9	29.2	29.5	29.1
Grenada	25.6	26.5	25.6	25.5	25.4	25.3	25.1	24.9	24.8
Montserrat	86.0	79.0	82.8	80.1	77.7	77.7	77.7	77.7	77.7
St. Kitts and Nevis	29.2	39.3	37.6	27.3	26.1	24.1	23.9	23.8	23.2
St. Lucia	23.0	23.5	23.0	22.6	22.5	22.5	22.4	22.4	22.4
St. Vincent and the Grenadines	30.0	29.1	27.9	28.9	28.9	28.9	28.9	28.9	28.9
Current expenditure	**23.4**	**24.2**	**23.2**	**23.1**	**22.6**	**22.6**	**22.6**	**22.6**	**22.4**
Anguilla	25.5	23.6	22.5	21.4	19.9	19.3	18.7	18.6	17.6
Antigua and Barbuda	21.7	20.9	19.8	19.0	18.9	18.9	18.9	18.8	18.7
Dominica	32.0	40.1	32.6	28.9	25.8	25.1	25.2	25.2	25.2
Grenada	19.9	19.3	19.0	18.8	18.5	19.0	19.1	19.1	19.2
Montserrat	73.3	77.4	73.4	71.6	69.5	69.5	69.5	69.5	69.5
St. Kitts and Nevis	24.0	27.0	25.8	27.1	26.7	26.9	27.1	27.3	26.1
St. Lucia	20.8	21.4	21.5	21.0	20.9	20.7	20.7	20.7	20.7
St. Vincent and the Grenadines	26.4	26.2	26.4	26.6	26.4	26.3	26.3	26.2	26.1
Capital expenditure	**5.0**	**5.7**	**4.3**	**4.0**	**4.1**	**4.2**	**4.5**	**5.0**	**5.0**
Anguilla	2.7	2.8	1.4	0.9	0.0	0.9	0.9	0.8	0.8
Antigua and Barbuda	1.9	1.9	1.6	1.7	1.8	1.8	1.8	1.9	1.9
Dominica	23.0	25.5	16.0	12.0	8.5	6.0	6.0	5.0	4.0
Grenada	2.7	2.7	2.8	2.5	2.4	3.5	5.1	8.0	7.9
Montserrat	11.5	8.0	10.8	5.5	7.4	7.4	8.3	8.3	8.3
St. Kitts and Nevis	4.7	11.1	5.3	4.8	3.9	3.9	3.9	3.9	3.8
St. Lucia	4.5	3.2	4.0	4.4	4.4	3.9	3.9	3.9	3.9
St. Vincent and the Grenadines	4.1	4.0	3.6	3.9	3.9	3.9	3.9	3.9	3.9
Primary balance 2/	**1.9**	**0.6**	**1.3**	**-0.1**	**-0.4**	**-0.9**	**-1.2**	**-1.7**	**-1.8**
Anguilla	3.0	2.6	3.0	4.5	1.6	1.1	3.2	3.3	4.3
Antigua and Barbuda	-0.1	-0.6	-0.7	-0.8	-0.8	-0.8	-0.9	-0.9	-1.2
Dominica	2.4	-17.7	-10.3	-6.0	-2.3	-1.0	-1.7	-0.5	0.1
Grenada	5.7	6.5	5.9	6.2	6.3	4.5	2.5	-0.7	-0.7
Montserrat	1.2	-6.5	-1.5	3.0	0.9	0.9	0.0	0.0	-0.1
St. Kitts and Nevis	2.0	2.5	7.4	-3.5	-3.2	-5.3	-5.5	-5.6	-4.8
St. Lucia	0.8	2.1	0.7	0.3	0.4	1.0	1.0	0.9	0.9
St. Vincent and the Grenadines	1.9	1.3	0.1	0.8	0.9	1.0	1.1	1.1	1.1
Overall balance 2/	**-0.6**	**-1.7**	**-0.8**	**-2.2**	**-2.5**	**-3.0**	**-3.3**	**-3.8**	**-3.9**
Anguilla	0.9	0.4	0.9	2.6	-0.2	-0.6	1.8	2.0	3.2
Antigua and Barbuda	-2.8	-3.1	-3.1	-2.7	-2.7	-2.8	-2.9	-3.0	-3.4
Dominica	0.3	-19.7	-11.7	-7.6	-4.0	-2.7	-3.4	-2.2	-1.5
Grenada	3.0	4.5	3.8	4.3	4.5	2.8	0.9	-2.2	-2.2
Montserrat	1.2	-6.5	-1.5	3.0	0.9	0.9	0.0	0.0	0.0
St. Kitts and Nevis	0.5	1.1	6.2	-4.9	-4.8	-7.0	-7.3	-7.7	-7.0
St. Lucia	-2.4	-1.1	-3.2	-3.5	-3.4	-2.8	-2.8	-2.8	-2.9
St. Vincent and the Grenadines	-0.4	-1.1	-2.2	-1.6	-1.4	-1.3	-1.3	-1.2	-1.0

Sources: Country authorities; and Fund staff estimates and projections.
1/ Fiscal years for Dominica, Montserrat (since 2010) and St. Lucia.
2/ Projections include expected natural disaster costs.

Table 4. ECCU: Selected Public Sector Debt Indicators by Country, 2017–25 1/

	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Projections						
				(In percent of GDP)					
Total public sector debt 2/	**72.1**	**70.4**	**69.5**	**69.5**	**69.9**	**70.6**	**71.3**	**72.4**	**73.6**
Anguilla	65.0	61.0	54.8	47.9	45.6	44.3	40.6	36.9	32.3
Antigua and Barbuda	90.9	89.7	88.1	86.7	83.9	83.0	83.7	84.3	84.9
Dominica	76.9	78.4	83.0	86.4	86.3	85.6	86.2	85.9	85.3
Grenada	70.1	63.5	59.2	54.4	51.7	49.4	46.1	46.0	46.0
Montserrat	8.1	7.3	8.0	4.7	3.7	2.8	2.7	2.7	2.6
St. Kitts and Nevis	60.8	58.7	55.6	56.4	57.4	60.5	63.8	67.4	70.5
St. Lucia	65.5	64.3	65.5	69.1	72.6	73.7	74.1	74.1	74.1
St. Vincent and the Grenadines	73.5	73.9	72.2	70.7	69.1	67.8	66.6	65.7	64.7
External debt	**37.9**	**36.2**	**35.8**	**36.4**	**36.9**	**37.6**	**37.9**	**38.4**	**39.8**
Anguilla	25.7	25.2	22.0	20.0	19.0	17.3	15.7	14.2	12.8
Antigua and Barbuda	42.9	41.3	39.4	40.6	39.8	40.1	40.1	40.1	43.3
Dominica	57.9	62.7	68.6	73.0	73.9	73.7	75.0	75.2	75.0
Grenada	47.5	44.5	42.4	39.8	39.4	38.7	36.1	35.5	34.9
Montserrat	6.5	6.0	6.0	6.6	7.1	7.6	8.0	8.4	8.7
St. Kitts and Nevis	15.6	14.1	12.2	11.0	10.0	9.6	9.7	9.9	10.1
St. Lucia	33.5	31.2	32.0	34.4	36.7	37.8	37.9	37.7	37.6
St. Vincent and the Grenadines	46.9	45.7	45.5	44.3	41.9	39.5	37.2	35.7	34.3
Domestic debt	**34.1**	**34.1**	**33.7**	**33.1**	**33.0**	**33.0**	**33.4**	**34.0**	**33.8**
Anguilla	39.3	35.8	32.8	27.9	26.6	26.9	24.8	22.7	19.4
Antigua and Barbuda	48.0	48.4	48.7	46.0	44.0	42.9	43.5	44.2	41.6
Dominica	19.0	15.7	14.4	13.4	12.4	11.9	11.2	10.8	10.3
Grenada	22.6	19.0	16.8	14.6	12.4	10.8	9.9	10.5	11.1
Montserrat	1.6	1.4	2.0	-1.8	-3.4	-4.8	-5.3	-5.7	-6.1
St. Kitts and Nevis	45.2	44.6	43.5	45.4	47.4	51.0	54.2	57.5	60.4
St. Lucia	32.0	33.2	33.5	34.7	35.9	35.9	36.2	36.4	36.6
St. Vincent and the Grenadines	26.6	28.2	26.7	26.3	27.2	28.3	29.4	30.0	30.5
					(In percent)				
Implied interest rates on central government external debt									
Anguilla	3.3	3.4	5.2	5.1	5.0	5.5	4.9	4.6	4.2
Antigua and Barbuda	2.4	2.5	2.7	1.3	1.6	1.8	2.1	2.1	1.9
Dominica	2.6	2.0	1.2	1.6	1.8	1.8	1.8	1.9	1.8
Grenada	4.2	3.2	3.5	3.5	3.3	3.3	3.5	3.3	3.3
Montserrat	0.3	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.2
St. Kitts and Nevis	2.2	2.7	2.6	4.1	4.2	4.1	3.9	3.8	3.8
St. Lucia	4.7	5.1	4.3	4.4	4.2	4.0	3.9	4.0	4.0
St. Vincent and the Grenadines	2.3	2.4	2.6	2.8	2.7	2.7	2.7	2.5	2.4
Implied interest rates on central government domestic debt									
Anguilla	3.4	3.8	3.2	3.3	3.3	2.9	2.8	2.8	3.0
Antigua and Barbuda	4.9	4.1	3.9	3.7	3.8	3.8	3.7	3.7	4.0
Dominica	6.7	8.7	6.3	5.8	5.8	5.9	5.9	5.9	5.9
Grenada	3.3	3.0	3.7	3.7	3.8	3.7	3.5	3.0	3.1
Montserrat	0.0	0.0	0.6	-0.5	-0.4	0.3	0.4	1.0	1.4
St. Kitts and Nevis	3.4	3.4	3.0	3.1	3.3	3.3	3.4	3.5	3.6
St. Lucia	6.0	5.7	6.1	6.0	6.0	6.0	5.9	5.8	5.7
St. Vincent and the Grenadines	5.8	5.9	5.4	5.6	5.3	5.4	5.5	5.6	5.6

Sources: Country authorities; and Fund staff estimates and projections.

1/ Fiscal years for Dominica, Montserrat (since 2010) and St. Lucia.

2/ Debt relief has been accorded to: (i) Grenada under the ECF-supported program in 2017; (ii) St. Vincent and the Grenadines in 2017 under the Petrocaribe arrangement.

Table 5. ECCU: Monetary Survey, 2017–25

	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Projections						
			(In millions of EC dollars, end of period)						
Net foreign assets	8,551	8,737	9,301	9,883	10,343	10,695	11,108	11,532	11,971
Central bank	4,707	4,656	4,802	5,223	5,481	5,682	5,948	6,191	6,470
Commercial banks (net)	3,844	4,081	4,499	4,661	4,863	5,012	5,159	5,341	5,501
Assets	7,228	7,563	...	...	...	...	...	...	...
Liabilities	-3,384	-3,482	...	...	...	...	...	...	...
Net domestic assets	7,770	8,054	8,478	8,871	9,400	10,017	10,565	11,132	11,728
Public sector credit, net	-1,936	-1,919	-1,884	-1,907	-1,990	-2,107	-2,155	-2,216	-2,271
Central government	76	135	191	158	99	49	59	69	75
Other public sector	-2,011	-2,054	-2,075	-2,065	-2,089	-2,156	-2,213	-2,284	-2,346
Private sector credit, net	11,049	11,052	11,369	11,664	11,984	12,340	12,684	13,069	14,345
Other items (net)	-1,344	-1,079	-1,007	-886	-594	-216	36	279	-346
Broad money (M2)	16,321	16,791	17,779	18,754	19,743	20,712	21,673	22,664	23,698
Money	4,109	4,397	4,632	4,885	5,142	5,393	5,642	5,899	6,167
Currency in circulation	1,196	1,252	...	...	...	...	...	...	...
Demand deposits	3,211	3,449	...	...	...	...	...	...	...
Quasi-money	12,211	12,393	13,147	13,869	14,601	15,319	16,031	16,765	17,531
Time deposits	2,036	1,974	...	...	...	...	...	...	...
Savings deposits	7,629	7,817	...	...	...	...	...	...	...
Foreign currency deposits	2,547	2,602	...	...	...	...	...	...	...
			(Annual percentage change)						
Net foreign assets	15.6	2.2	6.5	6.3	4.7	3.4	3.9	3.8	3.8
Net domestic assets	-7.3	3.7	5.3	4.6	6.0	6.6	5.5	5.4	5.3
Public sector credit, net	96.6	-0.9	-1.8	1.2	4.3	5.9	2.3	2.8	2.5
Private sector credit, net	-0.1	0.0	2.9	2.6	2.7	3.0	2.8	3.0	9.8
Other items (net)	-20.9	-19.7	-6.7	-12.0					
Broad money (M2)	3.4	2.9	5.9	5.5	5.3	4.9	4.6	4.6	4.6
			(Contribution to M2 growth)						
Net foreign assets	7.3	1.1	3.4	3.3	-37.2	-50.8	20.1	16.9	8.4
Net domestic assets	-3.9	1.7	2.5	2.2	5.3	4.9	4.6	4.6	4.6
Public sector credit, net	-6.0	0.1	0.2	-0.1	5.2	4.9	4.6	4.6	4.5
Private sector credit, net	-0.1	0.0	1.9	1.7	5.3	4.9	4.6	4.6	4.6
Other items (net)	2.3	1.6	0.4	0.7	1.6	1.9	1.2	1.1	-2.8
			(In percent of GDP)						
Net foreign assets	45.9	45.8	46.3	46.7	46.3	45.5	45.0	44.7	44.3
Net domestic assets	41.7	42.2	42.2	41.9	42.1	42.6	42.8	43.1	43.4
Public sector credit, net	-10.4	-10.1	-9.4	-9.0	-8.9	-9.0	-8.7	-8.6	-8.4
Private sector credit, net	59.3	57.9	56.6	55.1	53.7	52.5	51.4	50.6	53.1
Broad money (M2)	87.6	88.0	88.5	88.6	88.4	88.1	87.9	87.8	87.8
Money	22.0	23.0	23.1	23.1	23.0	22.9	22.9	22.9	22.8
Quasi-money	65.5	65.0	65.4	65.5	65.4	65.1	65.0	64.9	64.9
Memorandum items:									
Interest rates (percent per year)									
ECCB discount rate	6.50	6.50	...	...	...	...	...	...	...
Banks time deposit rate	2.21	2.21	...	...	...	...	...	...	...
Banks demand deposit rate	0.25	0.22	...	...	...	...	...	...	...
Banks weighted average lending rate	8.41	8.11	...	...	...	...	...	...	...

Sources: ECCB; and Fund staff estimates and projections.

Table 6. ECCU: Summary Balance of Payments, 2017–25 1/

			Staff est.	Projections						
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					(In millions of U.S. dollars)					
Current account	**-520**	**-518**	**-623**	**-588**	**-725**	**-737**	**-690**	**-744**	**-761**	**-785**
Trade balance	-2,034	-2,111	-2,498	-2,594	-2,712	-2,837	-2,986	-3,238	-3,663	-3,809
Exports	262	260	265	275	291	308	327	344	365	384
Imports	2,296	2,372	2,763	2,868	3,003	3,145	3,313	3,583	4,027	4,193
Services	1,853	1,905	2,199	2,335	2,373	2,534	2,754	2,983	3,514	3,707
Transportation	-181	-201	-229	-241	-255	-268	-281	-294	-308	-322
Travel	2,615	2,712	2,972	3,183	3,380	3,563	3,740	3,946	4,369	4,779
Other services	-581	-607	-544	-606	-752	-760	-704	-669	-547	-750
Primary income	-354	-375	-361	-369	-383	-413	-436	-445	-543	-608
Secondary income	15	64	37	39	-3	-21	-22	-43	-70	-75
Capital account	299	726	321	316	276	258	246	233	234	221
Financial account	-281	406	-640	-273	-449	-479	-444	-511	-528	-563
Direct investment	-636	-639	-678	-673	-690	-704	-726	-747	-770	-794
Portfolio investment	-449	69	117	96	101	105	108	109	111	114
Other investment	665	916	-71	249	-17	23	98	28	40	12
Public sector long term loan	26	112	43	123	137	183	199	152	193	294
Deposit taking corporations	682	486	-32	221	129	148	132	135	151	147
Others	-43	318	-82	-95	-283	-308	-233	-259	-304	-429
Reserve assets	139	59	-8	55	157	97	76	100	91	104
Errors and omissions	-60	197	-337	0	0	0	0	0	0	0
					(In percent of GDP)					
Current account	**-7.5**	**-7.3**	**-8.4**	**-7.5**	**-8.8**	**-8.5**	**-7.6**	**-7.8**	**-7.6**	**-7.5**
Trade balance	-29.5	-29.9	-33.6	-33.1	-32.8	-32.6	-32.7	-33.9	-36.6	-36.4
Exports	3.8	3.7	3.6	3.5	3.5	3.5	3.6	3.6	3.6	3.7
Imports	33.3	33.6	37.1	36.6	36.3	36.1	36.3	37.5	40.3	40.1
Services	26.8	27.0	29.5	29.8	28.7	29.1	30.1	31.2	35.1	35.5
Of which: travel	37.9	38.4	39.9	40.6	40.9	40.9	40.9	41.3	43.7	45.7
Primary income	-5.1	-5.3	-4.9	-4.7	-4.6	-4.7	-4.8	-4.7	-5.4	-5.8
Secondary income	0.2	0.9	0.5	0.5	0.0	-0.2	-0.2	-0.5	-0.7	-0.7
Capital account	4.3	10.3	4.3	4.0	3.3	3.0	2.7	2.4	2.3	2.1
Financial account	-4.1	5.7	-8.6	-3.5	-5.4	-5.5	-4.9	-5.3	-5.3	-5.4
Of which : direct investment	-9.2	-9.0	-9.1	-8.6	-8.3	-8.1	-7.9	-7.8	-7.7	-7.6
					(Annual percentage change)					
Exports	-22.3	-0.7	1.7	3.8	5.8	6.0	6.1	5.3	5.9	5.4
Imports	5.0	3.3	16.5	3.8	4.7	4.7	5.3	8.2	12.4	4.1
Travel (net)	1.2	3.7	9.6	7.1	6.2	5.4	5.0	5.5	10.7	9.4
Direct investment	-7.6	0.5	6.1	-0.7	2.6	1.9	3.2	2.9	3.0	3.1
Memorandum items:										
End-year gross reserves of the ECCB, US$ millions	1,691	1,750	1,747	1,802	1,959	2,056	2,132	2,232	2,323	2,428
In months of current year imports of goods and service	5.3	5.3	4.7	4.7	4.8	4.8	4.8	4.7	4.5	4.5

Sources: Country authorities; and Fund staff estimates and projections.

Table 7. ECCU: Selected Vulnerability Indicators, 2014–18

(Annual percentage change; unless otherwise indicated)

	2014	2015	2016	2017	2018
External indicators					
Current account balance (percent of GDP)	-5.8	-5.1	-7.5	-7.3	-8.4
FDI inflows (percent of GDP)	-9.2	-10.4	-9.2	-9.0	-9.1
Export growth	...	-11.2	-22.3	-0.7	1.7
Import growth	...	-6.1	5.0	3.3	16.5
Travel receipts (percent of GDP)	40.4	39.1	37.9	38.4	39.9
Real effective exchange rate (2005=100) 1/	98.9	104.0	104.6	103.9	101.8
Total gross external public debt (percent of GDP)	44.3	41.3	40.2	38.1	36.5
Gross international reserves (in US$ billion)	1.411	1.560	1.691	1.750	1.747
Net international reserves (in US$ million)	1,409	1,558	1,688	1,743	1,724
ECCB reserve cover (in percent) 2/	95.2	96.7	97.1	97.1	97.8
Public finance indicators (percent of GDP)					
Overall central government balance	-1.3	0.5	1.9	-0.6	-1.7
Excl. Citizenship by Investment Prog.	-3.6	-3.2	-2.1	-3.5	-5.1
Primary central government balance	1.4	3.2	4.3	1.9	0.6
Excl. Citizenship by Investment Prog.	-0.9	-0.6	0.3	-1.0	-2.7
Central government current account balance	0.8	2.0	3.5	1.8	1.9
Public sector gross debt (end-of-period)	81.4	76.7	73.5	72.4	71.0
Financial stability indicators (in percent)					
Capital adequacy ratio (indigenous banks, total capital over adjusted risk weighted assets)	11.1	13.4	16.5	18.7	19.1
NPLs/total loans	17.6	16.7	10.9	12.0	11.3
Indigenous banks	23.6	22.6	15.1	...	...
Foreign banks	13.1	12.0	9.2	...	...
Loan loss provision/NPLs	46.8	44.4	46.2	...	...
Indigenous banks	45.0	39.5	39.0	...	...
Foreign banks	49.4	52.5	55.6	...	...
FX deposits/total deposits	17.6	17.4	15.9	...	...
Liquid assets/total assets	30.2	33.1	34.4	36.2	36.4
Net liquid assets/total deposits	32.7	38.0	40.0	...	...
Risk-weighted assets/total assets	61.0	58.6	55.8	...	...
Contingent liabilities/capital (indigenous banks)	85.2	60.5	39.8	...	...
(Pre-tax) return on average assets	0.2	0.8	0.8	0.7	1.1
(Pre-tax) return on average equity	4.0	20.3	14.6	11.9	16.0

Sources: Country authorities; and Fund staff estimates and projections.
1/ Excludes Anguilla and Montserrat.
2/ Foreign assets as a percentage of demand liabilities.

Table 8. ECCU: Financial Structure, end 2018

(In millions of EC dollars; unless otherwise indicated)

	ECCU	Anguilla	Antigua and Barbuda	Dominica	Grenada	Montserrat	St Kitts and Nevis	St Lucia	St Vincent and the Grenadines
Total assets of:									
Commercial banks	**30,801**	1,548	6,779	2,366	3,558	461	7,613	6,274	2,201
(in percent of GDP)	**154**	178	156	164	111	275	288	128	100
of which: locally incorporated	**15,959**	1,434	2,184	1,450	2,385	287	4,008	2,947	1,264
(in percent of GDP)	**80**	165	50	101	75	171	151	60	58
Total assets of the non-bank financial sector									
Credit unions	**4,024**	...	339	885	879	59	379	966	516
(in percent of GDP)	**20**	...	8	...	25	18	13	19	22
Development banks	**800**	...	24	265	75	...	340	96	...
National Development Foundations	**22**	...	1	21	...	...	...	...	...
Finance and mortgage companies	**2**	...	2	...	...	...	...	...	...
Building and loans societies	**205**	...	...	5	19	32	...	...	149
Insurance companies[1]	**3,147**	412	516	400	386	16	496	677	245
Money service companies	**167**	0	...	34	120	0	9	...	3
Private sector pension funds	**247**	...	...	...	203	...	...	...	44
Micro-lenders	**58**	...	33	...	25	...	...	...	...
Securities brokers/dealers	**38**	...	...	...	...	...	...	38	...
Total assets of the financial sector (bank and non	**39,510**	...	7,357	1,632	1,707	...	8,562	8,429	2,967
(in percent of GDP)	**197**	...	180	141	53	...	320	172	140
Offshore companies assets									
Offshore/International banks	**11,416**	3,204	5,802	248	...	377	176	1,533	76
Offshore non-bank financial companies (e.g. trusts, insurance, mutual funds)	**3,106**	1,460	23	...	...	0	...	1,600	23
Other offshore (e.g. registries, agents, corporate services providers, IBCs, LLCs)	**36**	18	18	...	...	...	...	...	...
Total assets offshore companies	**14,558**	...	5,826	248	...	...	176	3,293	569
(in percent of GDP)	**73**	...	143	21	...	...	7	67	27
Number of:									
Commercial banks	**35**	3	6	4	5	2	6	5	4
Locally incorporated	**17**	2	3	1	3	1	3	2	2
Foreign incorporated	**18**	1	3	3	2	1	3	3	2
Credit unions	**47**	...	6	6	10	1	4	16	4
Development banks	**6**	1	1	1	1	...	1	1	...
National Development Foundations	**4**	...	1	1	...	1	...	...	1
Finance and mortgage companies	**7**	1	1	...	...	...	1	4	...
Building and loans societies	**4**	...	...	1	1	1	...	...	1
Insurance companies	**159**	26	20	14	26	7	16	26	24
Money service companies	**46**	3	6	10	2	2	18	3	2
Private sector pension funds	**125**	...	3	6	45	...	14	31	26
Offshore/International banks	**47**	1	9	14	...	4	1	14	4
Offshore non-bank financial companies (e.g. trusts, insurance, mutual funds)	**462**	225	2	...	...	1	...	62	172
Other Offshore (e.g. registries, agents, corporate services providers, IBCs, LLCs)	**7,021**	59	1,226	21	81	...	...	24	5,610
Micro-lenders	**25**	7	5	...	5	1	...	7	...
Securities brokers/dealers	**2**	...	...	...	...	...	...	2	...
Total	**7,990**	329	1,308	82	181	20	53	198	6,264
Memorandum item:									
Nominal GDP (in EC$ million)	**20,052**	870	4,349	1,440	3,199	168	2,646	4,887	2,191

Sources: National Authorities, Eastern Caribbean Central Bank and IMF staff calculations.

Table 9. ECCU: Financial Soundness Indicators of the Banking Sector, 2010–19

(In percent)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019Q1	2019Q2	2019Q3
Capital adequacy												
Regulatory capital to risk-weighted assets (CAR)[1]	21.6	17.9	18.2	14.0	11.1	13.4	16.5	18.7	19.1	19.2	20.3	20.6
Regulatory Tier 1 capital to risk-weighted assets[1]	20.0	17.3	17.0	13.0	10.8	13.4	15.4	16.3	16.9	17.3	17.1	17.6
Total capital to total assets[1]	9.3	7.1	6.9	5.1	4.0	5.1	5.8	6.5	6.6	6.4	6.7	7.4
Asset composition and quality												
Total loans to total assets	59.9	57.2	58.2	55.2	50.8	46.5	43.3	41.3	40.6	39.8	40.8	42.5
Sectoral distribution of bank credit (as percent of total loans)												
Agriculture sector	2.8	0.4	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Tourism sector	11.4	11.4	10.4	10.4	9.9	8.5	7.7	7.2	7.3	7.3	7.2	7.6
Household (Resident Loans)	41.9	42.0	43.2	46.4	49.8	51.0	52.7	54.9	53.5	19.2	20.3	20.6
Real estate	23.3	23.6	25.1	27.2	28.8	29.4	30.1	30.9	29.9	38.9	39.5	39.4
Other sectors	20.6	22.5	20.8	15.5	11.1	10.7	9.2	6.7	9.0	34.2	32.8	32.1
Nonperforming loans to total gross loans	10.5	12.5	15.0	18.1	17.6	16.7	10.9	12.0	11.3	11.1	10.2	10.1
Provisions to nonperforming loans	23.8	29.0	31.6	38.9	46.8	44.2	45.6	45.3	44.0	45.4	45.8	45.8
Nonperforming loans net of provisions to capital	53.5	76.9	91.6	130.0	128.7	92.8	51.7	51.7	49.2	46.5	41.3	38.4
Earnings and profitability												
Return on average assets (ROA)	1.2	0.7	0.7	-0.1	0.2	0.8	0.8	0.7	1.1	1.2	1.1	1.1
Personnel expenses to non-interest expenses	35.5	35.5	35.6	34.5	35.1	32.8	32.0	31.2	31.2	34.6	31.4	30.9
Interest spread[2]	6.3	6.5	5.9	6.1	6.3	6.8	6.8	6.8	6.5	6.5	6.4	6.4
Liquidity												
Liquid assets to total assets	20.0	22.9	24.5	26.5	30.2	33.1	34.4	36.2	36.4	36.7	36.2	38.7
Liquid assets to short-term liabilities	23.5	26.5	28.2	29.5	33.1	36.5	37.2	39.3	39.7	40.0	39.5	42.6
Liquid assets to total deposits and liquid liabilities	36.5	39.9	40.0	41.7	45.3	50.0	51.4	54.2	57.0	57.3	56.8	55.6
Gross loans to deposits	88.6	86.4	84.5	76.7	69.1	64.8	60.9	58.7	58.8	57.8	58.1	58.8
Gross loans to deposits (EC Dollars)	86.8	83.7	83.0	75.4	69.0	65.4	62.5	60.8	60.2	60.5	61.6	62.5
Gross loans to deposits (Foreign currency)	97.4	99.9	91.7	83.0	69.4	61.9	49.4	47.4	51.5	44.4	40.7	39.9
Sensitivity to market risk												
Net open position in foreign exchange to capital	39.6	41.8	50.0	99.7	148.8	151.5	131.8	151.6	167.5	171.4	177.0	170.7
Foreign-currency-denominated liabilities to total liabilities	21.0	23.0	22.7	20.7	20.8	20.7	18.4	18.4	18.8	19.8	18.8	21.0
Foreign-currency-denominated loans to total loans	18.6	18.7	17.8	17.8	17.4	16.4	12.8	12.7	13.4	12.4	11.7	11.2
Foreign-currency-denominated assets to total assets	18.4	20.5	20.2	20.5	21.0	20.8	18.0	19.2	19.0	19.1	18.8	19.9
Funding risk												
Core to non-core liabilities	246.1	222.3	252.7	297.8	322.4	296.2	294.6	280.6	258.5	253.3	273.6	308.7
Core to non-core liabilities (EC Dollars)	273.8	280.6	320.3	358.8	380.9	338.6	324.2	306.7	290.1	276.1	284.4	356.9
Core to non-core liabilities (Foreign currency)	165.7	109.1	123.4	161.2	187.4	186.0	199.7	194.0	163.0	178.6	230.3	184.2

Sources: Eastern Caribbean Central Bank (ECCB); and IMF staff calculations.

1/ Correspond to locally incorporated banks only.

2/ Weighted average lending rates less weighted average deposit rates.

Note: Gross loans to deposits was received until 2016. This series is calculated by IMF Staff 2017 onwards using underlying data provided by the ECCB.

Table 10. ECCU: Financial Soundness Indicators of the Banking Sector by Country, 2010–19

(In percent)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019Q3
Regulatory capital to risk-weighted assets (CAR)[1]	**21.6**	**17.9**	**18.2**	**14.0**	**11.1**	**13.4**	**16.5**	**18.7**	**19.1**	**20.6**
Anguilla	17.1	13.7	13.2	5.9	-4.8	-5.8	11.8	10.4	18.5	16.6
Antigua and Barbuda	16.3	4.4	4.1	-14.1	-17.0	29.6	34.8	36.6	36.3	36.5
Dominica	17.5	11.5	15.5	13.1	11.9	12.9	15.0	13.3	12.5	14.9
Grenada	16.9	15.4	14.5	14.1	13.6	12.6	14.2	13.8	13.2	13.8
Montserrat	29.1	16.3	24.5	28.2	26.9	27.6	28.3	29.1	33.6	33.6
St. Kitts and Nevis	41.9	40.8	38.9	34.5	26.5	22.5	22.8	19.5	17.4	20.6
St. Lucia	20.3	19.0	19.2	14.3	13.3	12.9	11.8	18.2	19.1	21.1
St. Vincent and the Grenadines	19.0	17.4	17.1	16.3	16.5	21.0	20.8	19.9	23.1	23.3
Regulatory Tier 1 capital to risk-weighted assets[1]	**20.0**	**17.3**	**17.0**	**13.0**	**10.8**	**13.4**	**15.4**	**16.3**	**16.9**	**17.6**
Anguilla	17.0	14.7	12.2	5.5	-4.3	-5.0	11.6	10.3	17.0	15.0
Antigua and Barbuda	13.4	0.9	-1.3	-18.4	-21.3	26.4	32.8	30.2	27.6	28.4
Dominica	16.7	12.5	14.2	12.0	12.4	12.3	12.5	11.4	10.8	13.7
Grenada	15.4	13.9	13.7	12.7	12.3	10.4	11.6	12.2	11.7	11.6
Montserrat	26.8	14.8	22.6	27.8	26.0	26.6	27.3	27.1	31.4	29.8
St. Kitts and Nevis	36.6	40.2	39.1	33.8	27.3	24.6	23.9	18.7	18.2	20.1
St. Lucia	18.5	17.3	17.1	12.8	11.9	12.0	7.8	11.4	13.2	13.9
St. Vincent and the Grenadines	21.9	20.7	19.3	18.6	20.1	25.2	25.4	24.1	25.5	25.4
Nonperforming loans to total gross loans	**10.5**	**12.5**	**15.0**	**18.1**	**17.6**	**16.7**	**10.9**	**12.0**	**11.3**	**10.1**
Anguilla	22.1	34.3	36.4	49.0	48.9	49.3	6.5	23.5	24.3	23.3
Antigua and Barbuda	10.6	12.4	14.9	13.7	13.8	9.5	8.7	7.9	6.4	5.3
Dominica	8.1	8.7	12.3	13.9	14.2	15.1	14.5	17.4	17.0	12.2
Grenada	7.5	9.4	11.8	13.8	14.6	10.0	6.7	3.9	2.4	2.1
Montserrat	2.6	2.7	5.0	5.9	5.2	7.1	4.9	5.7	4.9	5.4
St. Kitts and Nevis	5.5	6.7	10.4	10.6	12.7	15.5	14.7	20.5	24.7	24.7
St. Lucia	12.4	13.2	15.3	20.6	17.6	18.2	13.1	12.5	10.0	8.6
St. Vincent and the Grenadines	8.6	7.7	7.4	8.3	10.0	8.7	9.5	8.2	6.5	6.4
Provisions to nonperforming loans	**23.8**	**29.0**	**31.6**	**38.9**	**46.8**	**44.2**	**45.6**	**45.3**	**44.0**	**45.8**
Anguilla	17.2	18.6	17.7	23.6	45.3	46.8	23.9	16.5	21.4	18.2
Antigua and Barbuda	23.3	31.9	39.5	58.3	66.6	37.1	38.5	34.0	36.3	55.3
Dominica	14.2	18.3	18.3	29.1	31.0	43.4	50.3	84.0	94.6	84.7
Grenada	28.6	28.4	33.2	35.8	39.3	42.9	49.9	63.9	77.0	85.0
Montserrat	60.7	39.4	80.2	36.6	82.8	74.4	98.8	106.1	112.2	114.5
St. Kitts and Nevis	42.2	38.1	32.1	40.2	48.2	39.1	37.9	25.9	21.5	23.2
St. Lucia	23.2	36.2	37.9	42.5	45.1	48.2	53.6	56.3	53.9	62.2
St. Vincent and the Grenadines	21.0	22.8	31.9	34.8	31.0	36.2	41.0	56.7	69.5	64.7
Return on average assets (ROA)	**1.2**	**0.7**	**0.7**	**-0.1**	**0.2**	**0.8**	**0.8**	**0.7**	**1.1**	**1.1**
Anguilla	1.7	-0.9	-1.6	-2.8	-0.4	0.6	1.1	0.1	0.4	1.0
Antigua and Barbuda	1.0	1.4	1.3	0.6	0.4	1.3	1.5	1.4	1.4	1.3
Dominica	1.2	0.0	1.1	-0.1	-0.1	0.1	0.8	-1.6	-0.8	0.6
Grenada	1.2	0.2	0.5	-1.9	-0.1	1.5	1.5	1.1	1.0	1.3
Montserrat	-0.7	-2.1	1.7	0.1	0.0	0.2	0.4	0.3	0.5	0.0
St. Kitts and Nevis	1.1	1.5	0.6	0.7	0.6	0.8	0.9	0.8	1.3	0.7
St. Lucia	1.5	0.5	0.9	-0.1	-0.1	0.3	-0.3	1.2	1.9	1.5
St. Vincent and the Grenadines	1.0	0.5	1.0	0.5	-0.2	0.8	0.3	-0.1	0.5	0.8
Liquid assets to total assets	**20.0**	**22.9**	**24.5**	**26.5**	**30.2**	**33.1**	**34.4**	**36.2**	**36.4**	**38.7**
Anguilla	23.9	22.6	21.9	21.0	23.9	27.5	40.0	44.7	50.9	51.5
Antigua and Barbuda	32.4	45.7	45.2	45.1	47.6	55.1	54.7	57.0	57.7	52.3
Dominica	34.4	33.7	35.3	36.6	39.7	45.7	53.0	59.7	54.4	49.4
Grenada	20.6	22.9	22.8	27.6	32.7	37.4	40.6	42.1	44.9	46.3
Montserrat	76.6	77.9	74.4	75.4	75.8	74.3	75.1	74.1	73.3	72.1
St. Kitts and Nevis	41.8	44.2	47.7	52.0	53.8	50.7	48.4	59.1	60.2	58.9
St. Lucia	19.2	19.5	19.9	20.7	26.2	32.2	33.6	36.7	39.4	38.5
St. Vincent and the Grenadines	35.9	33.3	32.8	36.1	37.6	38.2	41.0	38.7	37.7	41.0

Sources: Eastern Caribbean Central Bank (ECCB); and IMF staff calculations.

1/ Correspond to locally incorporated banks only.

Note: CAR and Regulatory Tier 1 Capital to risk weighted assets for Dominica and Montserrat were received until 2016. These series are calculated by IMF Staff 2017 onwards using underlying data provided by the ECCB.

Annex I. Implementation of Previous Staff Advice

Recommendations from the 2018 Common Policies Discussion	Policy Actions
Decisive and timely actions to resolve weaknesses in the financial sector	
Prompt actions by ECCB to address current and emerging risks in banks	
i. Establish and enforce a realistic plan for banks to reduce NPLs to no more than 10 percent by end-2019 and attain the 5- percent benchmark for NPLs by end-2023.	Issue of the Treatment of Impaired Assets standard, including recent industry feedback, is now expected for January 2020. Improved NPLs ratio of seven countries at end-2018, with five within the 10 percent target, was largely offset by increased NPLs in one.
ii. Require banks to submit credible, time-bound action plans to improve provisioning and resolve NPLs, especially large CBI-related NPLs in one territory, and dispose of non-core assets within statutory timelines.	Requirements imposed based on off- and on-site review findings, including discussions with Board and executive management of bank with large CBI-related NPLs and non-core assets.
iii. Promptly issue and implement its prudential standards on the treatment of impaired assets.	Issuance is now expected for January 2020 with implementation to commence during Q1.
iv. Closely monitor banks' progress to plans and appropriately utilize statutory powers to ensure that banks adhere to their NPL resolution plans, fully comply with prudential standards on collateral valuation and provisioning, enhance risk management and strengthen capital.	Close monitoring is done through off-site reviews, including quarterly stress tests of NPLs and provisioning impact on capital, with follow-up at on-site examinations.
v. Accelerate the consolidation of indigenous banks to attain sustainable critical mass and act quickly with any undercapitalized banks.	A shared services platform for indigenous banks to cover AML/CFT compliance and other back office functions is being introduced as an initial step.
Intensify efforts to fully operationalize the ECAMC's mandates and its NPL recovery	
Complete acquisition of a critical mass of commercial NPLs at realizable market values by the July 2019 deadline.	Not achieved by July 2019. Five AFIs signed Letters of Intent for NPL transactions and negotiations with others in progress. In October 2019 MC extended the deadline to October 2020 to allow CDB funding arrangements and NPL acquisitions to be completed.
Absent adequate progress to meet the deadline, promptly downscale ECAMC's operations to receivership or wound up.	ECAMC deadline extended to October 2020.
Complete urgently the modernization of the insolvency and foreclosure laws and easing restrictions on non-citizen property ownerships to maximize NPL recovery and minimize potential fiscal costs.	No progress on insolvency laws. E-conveyancing project initiated to address challenges in real estate collateral recovery, especially in jurisdictions with land titling issues.
Adopt plans for resolution of weak non-bank institutions	
Country authorities in collaboration with the ECCB design and implement plans for effective (i) intervention of problem entities, (ii) management of system impact (e.g. liquidity), and (iii) communications.	Quarterly meetings of the Regional Oversight Committee (comprising ECCB, national regulatory and supervisory authorities and the ECSRC) share information and coordinate action plans on systemic issues.

Establish and enforce appropriate risk mitigation standards and practices in the insurance sector (e.g. minimum investment criteria and reinsurance standards).	National regulatory and supervisory authorities collaborate directly and through regulatory colleges.
Promptly complete the financial sector reform agenda	
Finalize harmonized legislation on credit unions and insurance sector and the insurance, pension, and securities subsectors. Extend it to building societies.	Yet to be finalized. Leader of SIPMP coordinating office resigned; Antigua and Barbuda's Financial Secretary now coordinating.
Undertake effective consolidation of regional financial sector oversight, with the ECCB having supervisory responsibility for all deposit taking institutions and another agency mandated to supervise the non-deposit taking financial sector.	Still work in progress. Model for consolidated regional oversight being considered, including approach for ECCB oversight of systemic non-bank institutions.
In the near term, provide adequate resources to country financial regulatory authorities to allow for effective non-bank financial sector oversight in the interim, until the consolidated regional architecture is established.	A few individual authorities report improved staff resources.
Eliminate she ECCU minimum saving deposit rate, or at least gradually phase it out.	No development. ECCB advises that eventual phase out will be tied to fundamental reforms including deposit insurance.
Finalize and implement strategies to minimize the risk of a potential decline in CBRs and related increased costs, de-risking of downstream financial institutions by banks, and exit of foreign banks	
i. Specific monitoring of banks' CBRs, considering the reporting template developed by the IMF.	IMF TA (CARTAC and MCM) on CBR Monitoring template done in 2019 – to be implemented as part of ECCB monitoring framework.
ii. Intensified information sharing and relationship building with current and prospective correspondent banks and their oversight authorities, including involvement of the ECCB at appropriate levels.	Banks indicate regular interactions with CBs; some also confirm own visits to overseas CBs and agencies for information sharing etc.
iii. Strengthening and harmonization of the regulatory and AML/CFT oversight framework for banks and non-bank financial institutions, including urgent passage and implementation of legislation designating the ECCB as Supervisory Authority for AML/CFT for banks by all remaining territories.	Still only 3 territories with enabling legislation. St Lucia's laws permit ECCB to audit but this does not fulfil the requirement for designation of ECCB as the competent authority for commercial banks' AML/CFT oversight.
iv. Timely completion of national risk assessments.	Some countries completed NRA, others at varying stages.
v. Enhanced governance, qualifying criteria, transparency, due diligence and penalties/sanctions relating to any abuse of CBI programs.	Some progress was made, with the March 2019 initiative to coordinate the financial integrity issues of the region's CBI schemes.

Adopt Robust Frameworks to Support Fiscal Consolidation and Accommodate Ex-ante Resilience	
Pass national fiscal responsibility legislation (FRLs) tailored to country characteristics and incorporating key common elements across the ECCU.	In addition to existing fiscal rules in Grenada and Anguilla, St. Lucia's authorities are considering adopting a fiscal rule.
i. Debt anchor that treats the target of 60 percent of GDP by 2030 as a common ceiling with lower targets for some individual countries based on their characteristics.	While there was a de-facto progress on reducing the public debt ratios in most countries in 2017-18, there were no significant institutional steps to lock in and reinforce this progress.
ii. Operational targets based on a budget balance net of CBI inflows, with country-specific characteristics and supplementary operational targets (on expenditure categories).	Operational targets are part of MTFFs that are discussed with the ECCB, but the discussions are informal.
iii. Fiscal buffers such as self-insurance and insurance against natural disasters should be integral parts of the fiscal frameworks.	Individual countries are making progress in building the buffers, but an overall organizing framework is lacking. Planned implementation of a DRS in Grenada and Dominica could mark major progress.
iv. Flexibility to shocks through escape clauses and favorable treatment of reconstruction spending.	No new developments.
v. Supporting institutions through robust accounting procedures (including for CBI inflows, non-guaranteed public debt and contingent liabilities); (ii) improved fiscal projections; and (iii) effective independent fiscal oversight and accountability (including through fiscal councils).	Some progress was made, including (i) the creation of the ECCB's debt portal that facilitates debt management, and (ii) the initiative to coordinate the financial integrity issues of the CBI schemes of March 2019.
Build Resilience to Natural Disasters	
Shifting from ex-post relief to ex-ante preparation	
i. Adopt credible fiscal plans that accommodate and plan for resilient investment. Public investment projects at risk of natural disasters should be resilient and appropriately designed and costed.	There is significant regional consensus on the need to invest in physical resilience, especially considering expected intensification of natural disasters with climate change. Public investment plans in general focus on infrastructure resiliency, despite its additional cost. Some countries, however, show some resistance in light of the developmental opportunity cost, and condition resilient investment to the availability of concessional financing.
ii. Develop a comprehensive insurance strategy against natural disasters, including disaster risk financing and insurance (and self-insurance) layering.	All countries agree on the importance of building fiscal buffers for natural disasters and are purchasing insurance from the Caribbean Catastrophe Insurance Facility. Most countries are building saving funds for self-insurance and have made PFM legislation amendments as needed to that effect. Coverage, however, remains insufficient considering the extent of exposure and expected loss,
iii. Develop strategies to enhance access to donor grants. Improve access to concessional financing to through initiatives	Some countries are improving administrative capacity to access donor grants, but most remain challenged in light of administrative capacity

	to pool resources in regional institutions with accreditation to climate funds.	constraints to meet heterogeneous requirements for access. Some regional institutions have achieved accreditation, including the Caribbean Development Bank, but success in accessing funding remains mixed.
iv.	Address information, legislation gaps, and small economies of scale, including assessment of general preparedness to identify priorities in legislation and processes, such as budgeting and public investment management, costed investment projects and risk financing plans. Increase regional coordination to help set standards, facilitate peer review, and create economies of scale.	Some countries are advancing legislation amendments to the PFM Acts for the establishment of saving funds for natural disasters and are working with the Caribbean Regional Technical Assistance Center to enhance procurement legislation and transparency standards, as needed to access donor funding.
v.	Integrate resilience building with macroeconomic planning. Include expected costs of natural disasters in macroeconomic frameworks, as well as costs and benefits of the resilience strategy, to evaluate the fiscal space needed for the implementation.	During the Caribbean Forum in October 2019 governments expressed strong interest on the preparation of a Disaster Resilience Strategy (DRS) with Fund staff support, which would integrate cost and returns of resilient investment in a comprehensive macroeconomic framework. The framework includes three pillars to build physical, financial and social resilience, and allows identification of financing gaps that could be filled with donor assistance and concessional loans. Dominica and Grenada have confirmed interest in becoming DRS pilot cases in February 2019 during a DMD visit to the region; Both DRS are currently at an advanced stage.
vi.	Coordinate resilience building with fiscal responsibility legislation**.** Fiscal responsibility legislation would underpin the necessary fiscal adjustment to ensure a credible overall strategy. Fiscal responsibility should incorporate minimum insurance coverage, effectively helping internalize expected fiscal costs of future disasters, and annual saving needs for the sustainability of the saving funds.	Country authorities continue to express commitment to fiscal sustainability, but no country has passed legislation on fiscal responsibility in the past year. Countries are making progress in submitting fiscal plans to the ECCB reach the regional public debt ceiling of 60 percent of GDP by 2030, as committed by Ministers of Finance in a Memorandum of Understanding at the ECCB Monetary Council.
Enhance Competitiveness and Potential Growth		
Priority areas include the business climate, tariffs and regional integration, labor markets and education, and public-sector efficiency		
i.	Accelerate progress of new legislation on foreclosure, insolvency and credit bureaus to address the ease of getting credit.	In progress. The Harmonized Credit Reporting Bill has been developed to establish credit bureaus, and five jurisdictions have passed the bill. New legislation on foreclosure is being developed.
ii.	Implement investment strategies in renewable energies while actively engaging the private sector.	Ongoing. Several jurisdictions (e.g., Montserrat, St. Vincent and the Grenadines) are developing geothermal power plans with the private sector.

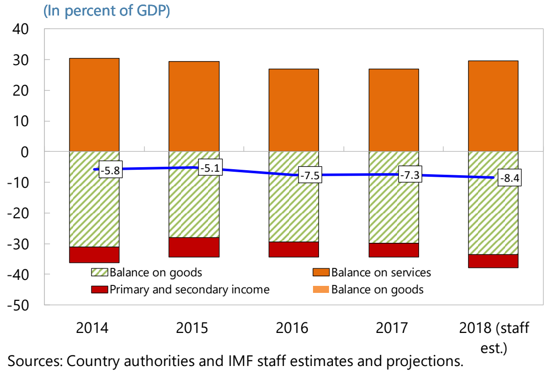
iii. Cut tariffs under the CARICOM regime to enhance competition and reduce import prices.	Limited progress.
iv. Pursue regional integration to address the small size of internal markets and high costs.	Limited progress.
v. Implement comprehensive technical and vocational skills programs.	Ongoing. National authorities are implementing various employment programs for young people to address high youth unemployment.
vi. Introduce new technologies in the public sector to significantly enhance its efficiency.	Ongoing. With the assistance of international organizations, many jurisdictions are exploring approaches to develop e-government.

Annex II. External Sector Assessment

The ECCU's external position remains weaker than implied by medium-term fundamentals and desirable policies. Implementing fiscal consolidation and structural reforms to strengthen the ECCU's external competitiveness would help ensure external sustainability.

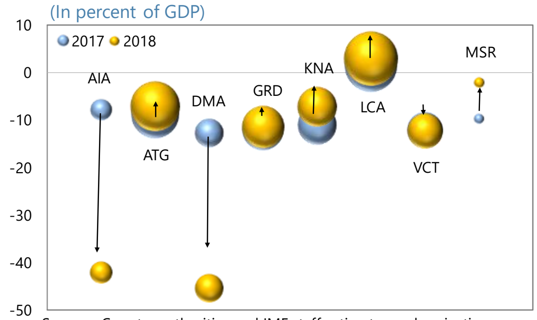
1. **The external deficit is estimated to have widened in 2018.**[1] Staff estimates that the current account deficit increased by 1 percentage point to 8.4 percent of GDP in 2018.[2] The service account surplus reached nearly 30 percent of GDP (up from 27 percent of GDP in 2017), due to the increased receipts from tourism. The balance on goods, however, deteriorated from 30 to 34 percent of GDP, mainly due to the increased imports of construction materials for rehabilitation and reconstruction projects in Dominica, following Hurricane Maria in 2017. Net FDI inflows (about 9 percent of GDP) are estimated to have more than financed the current account deficit.

Current Account Balance
(In percent of GDP)



Sources: Country authorities and IMF staff estimates and projections.

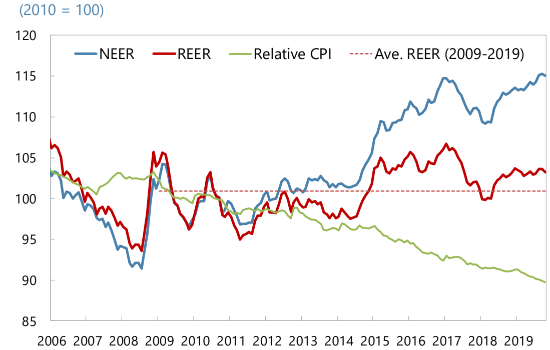
ECCU Member States: Current Account Balance in 2017 and 2018
(In percent of GDP)



Sources: Country authorities and IMF staff estimates and projections.
Bubble size indicates the size of country's nominal GDP.

2. **The real effective exchange rate remains above post-global financial crisis averages.** Along with the appreciation of the U.S. dollar, the ECCU's nominal effective exchange rate index appreciated about 13 percent between 2014 and 2016.[3] The appreciation pressures thereafter eased, but only temporarily, as the nominal effective exchange rate has begun to rise again since the beginning of 2018. Meanwhile, the relative price index has continued to fall, offsetting the part of the nominal exchange rate appreciation. The level of the real effective exchange rate today exceeds its post-

ECCU: Effective Exchange Rates
(2010 = 100)



Sources: IMF Information Notice System

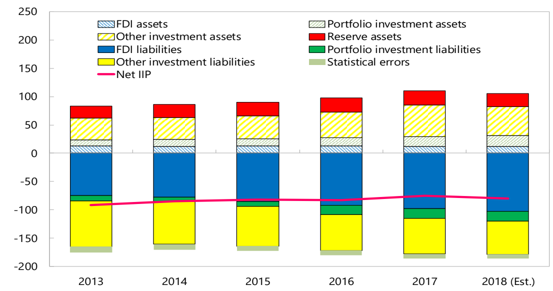
[1] The official estimates for 2018 external accounts had not been published at the time of the consultation.

[2] Excluding citizenship-by-investment fiscal revenues (about 4 percent of GDP), the current account deficit was estimated at 12.4 percent of GDP in 2018.

[3] The ECCB has maintained the fixed exchange rate system (pegged at EC$2.7 per U.S. dollar) since July 1976.

global financial crisis period average by about 2¼ percent.

IIP Composition by Instrument
(In percent of GDP)



Sources: ECCB and staff calculations.

3. With the deterioration in the current account deficit, the net external liabilities are estimated to have increased slightly at end 2018. Staff estimated that the net international investment position (IIP) reached a deficit of over 80 percent of GDP in 2018, up from 76 percent of GDP in 2017. Over one-half of external liabilities are in the form of foreign direct investment.

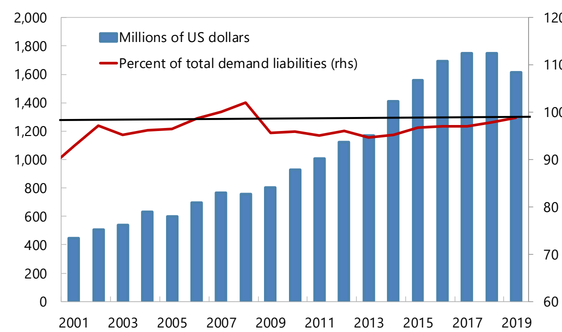
4. The stock of the ECCB's international reserves stayed at its all-time highs. The international reserve position stood at US$1.8 billion, equivalent to 4¾ months of total imports (above the benchmark of three months), 28 percent of broad money (above the benchmark of 20 percent), and three times the stock of short-term external debt at end-2018, which appears to be adequate.[4] More recently, the stock of international reserves decreased slightly to US$1.7 billion, but the reserve backing ratio (defined as the stock of the international reserve as a percent of the monetary base) remains close to 100 percent.

Reserve Adequacy Metric, end 2018

	End-2018	Benchmark
In billions of US dollar	1.7	...
Percent of GDP	23.5	...
Percent of demand liabilities	97.8	...
In months of total imports	4.7	3.0
Percent of broad money	28.1	20.0
Percent of short term external debt 1/	319.6	...

1/ Excludes deposit taking corporations as their net foreign asset position is positive.

ECCB's Holding of External Assets (International Reserves) 1/



Sources: ECCB.
1/ End year. 2019 data are for September 2019.

EBA-lite assessment

5. IMF's EBA-lite current account models suggest an overvaluation of the exchange rate of around 9 percent in 2018. The cyclically-adjusted current account balance is estimated at -8½ percent of GDP in 2018, while the mutually consistent cyclically-adjusted current account norm (the level consistent with medium-term fundamentals and desirable policies) was -5 percent of GDP. This suggests a current account gap of -3½ percent of GDP, of which ½ percent of GDP was

[4] Mwase (2012)'s metrics (calculated as 20 percent of total exports +20 percent of broad money +80 percent of short-term debt) suggest that the international reserve position was about 70 percent of the threshold in 2018. If we use exports of goods (instead of total exports), the reserve position was about 100 percent of the threshold.

attributed to the policy gaps (which include both domestic and world policy gaps). The domestic component of the policy gap (-1¼ percent of GDP) was mostly due to a higher than desirable level of the ECCU's fiscal deficit in 2018 (-1 percent of GDP). The estimated current account gap implies an exchange rate overvaluation of about 9 percent in 2018. Note that the aggregate masks a large degree of current account gaps across ECCU economies, ranging from nearly -30 percent of GDP in Dominica to 5 percent of GDP in St. Lucia.

Current Account and Real Exchange Rate Assessments
(2018, in percent of GDP; unless otherwise indicated)

	CA Model	I-REER Model
CA Actual	-8.4	
Cyclically adjusted CA	-8.3	
Mutually consistent cyclically adjusted CA norm	-4.8	
CA Gap	**-3.5**	
O.w.: Policy gap	0.6	
(Domestic policy gap)	-1.2	
O.w.: Fiscal policy	-0.3	
(Domestic policy gap)	-1.0	
Real exchange rate gap[1]	**9.1**	**-3.8**

Source: IMF staff estimates.
1/ In percentage points. Positive numbers indicate an overvalued REER.

6. **IMF's EBA-lite Index-Real Effective Exchange Rate model indicates an exchange rate undervaluation of about 3¾ percent in 2018**. This in part reflects the cyclical depreciation of the real effective exchange rate in 2017-2018 (by 3 percent). Some caution is needed to interpret the results of the latter model as it has some limitations to capture recent volatility in the exchange rate.

7. **Overall assessment.** Based on the results of the current account model, the ECCU's external position is assessed as weaker than its level consistent with medium-term fundamentals and desirable policies.

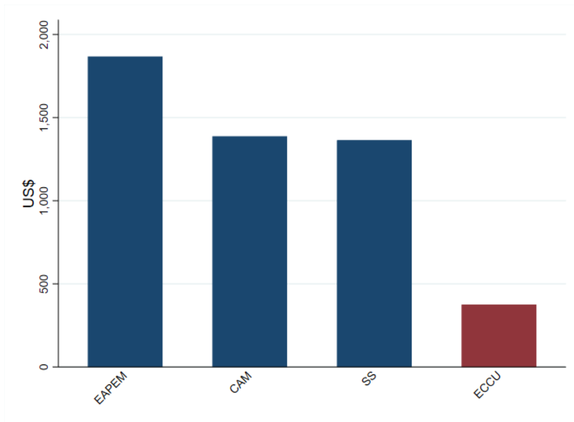
Policy Implications

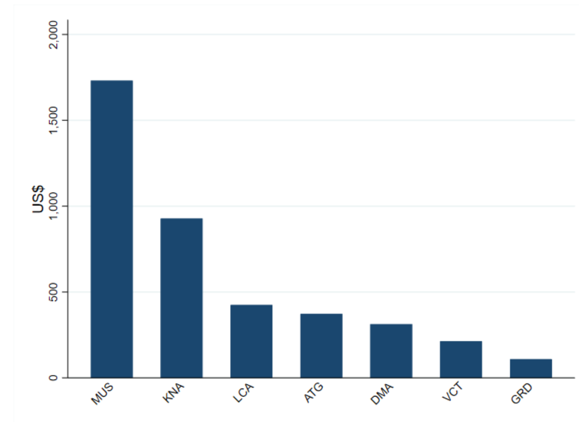
8. **The external position is expected to gradually improve over the medium term.** Imports of construction materials for reconstruction and rehabilitation activity following the 2017 Hurricanes are expected to taper off, contributing to narrowing the trade deficit. Robust growth in tourism receipts would also help sustain a large surplus in the service account. ECCU authorities, however, will need to continue efforts to advance the structural reform agenda and consider fostering private sector activity beyond tourism (Annex II Box). Implementing structural reforms in investment and business climate, public sector efficiency, reducing energy and transportation costs and tariffs, labor market reforms, and regional integration will also be critical to enhance the region's competitiveness. In this light, Fintech has the potential to reduce business costs, enhance efficiency, thereby boosting potential growth. Fiscal consolidation should be pursued vigorously to ensure macroeconomic stability while helping close the current account gap.

Annex II Box 1. Diversifying Exports in the ECCU

Exports of ECCU countries are heavily concentrated in tourism because of their attractive geography, but also their limited success developing other exports. Excluding raw commodities and tourism, per capita exports in ECCU countries are lower than in average in other small states and considerably below the average of manufacturing-intensive regions, such as Central America and East Asia Emerging Markets. There are some small states, however, for which this indicator is as high as the average in CAM and EAEM, notably Mauritius, and ECCU's St. Kitts and Nevis (KNA) is also superlative.

Non-commodity and service exports per capita 1/





Sources: UN Comtrade database.
Notes: 1/ Averages in 2015-17. Services exclude tourism and government services.
2/ CAM=Central America, EAPEM= East Asia and Pacific Emerging Markets, SS=Small States, MUS=Mauritius

High-quality education, strong institutional development, trade policy openness, good infrastructure, and moderate unit labor costs, are associated with export complexity and diversification (Ding and Hadzi-Vaskov, 2017; Giri and others, 2019; Salinas, forthcoming). Mauritius excels in most of these factors and exports a significant amount of non-commodity and non-tourism exports despite its remoteness from large international markets and does not rely much on natural resource abundance.

Determinants of Export Diversification and Complexity in ECCU and Selected Countries and Regions in 2017

	Governance	Education	Infrastructure	Tariffs
East Asia Emerging Markets	-0.10	0.60	4.40	6.1
ECCU	0.56	0.66	n.a.	11.4
Mauritius	0.81	0.76	4.59	2.1
Other Small States	0.11	0.64	4.11	10.9

Notes: Governance is the overall Worldwide Governance Indicator by D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank). Education is the Education Subindex of the Human Development Index (World Bank). Infrastructure is the 12th Pillar of the Global Competitiveness Index (World Economic Forum). Tariffs is the simple average tariff from the World Integrated Trade Solution (World Bank).

Some countries have used sectoral policies for exports development when some of their horizontal policies were weak. For example, in the 1970s with an underdeveloped infrastructure, very high imports tariffs, and high unit labor costs, Mauritius promoted manufacturing through Export Processing Zones with tax free imports and a low minimum wage. Besides promoting non-tourism sectors, ECCU countries can diversify vertically (within tourism), offering tourism related goods and services, such as agricultural products to hotels and restaurants or medical tourism.

Annex III. Risk Assessment Matrix[1]

Source and direction of risks	Relative Likelihood	Impact/Time Horizon	Policy response
Rising protectionism and retreat from multilateralism (↓). In the near term, additional barriers reduce growth directly and through adverse confidence effects and financial market volatility.	High	High/ST, MT	Reduce external and fiscal vulnerabilities. Accelerate fiscal adjustment to reduce debt rollover risks and attain sustainability. Implement structural reforms to diversify and improve competitiveness.
Sharp rise in risk premia (↓). An abrupt deterioration in market sentiment triggers risk-off events and depresses growth.	High	High/ST	Pursue fiscal adjustment and create buffers. Properly regulate and supervise banks' exposure to market risks.
Further build-up of financial vulnerabilities. A turn of monetary policy towards easing encourages risk-taking and reduces financial resilience to shocks.	High	High/MT	Fiscal adjustment to reduce financing risks and create buffers. Properly regulate and supervise banks' exposure to risks.
Higher frequency and severity of natural disasters (↓) cause severe economic damage.	Medium	High/ST, MT	Build a consistent framework with investment in resilience and appropriate ex ante financing, including fiscal buffers, within a Disaster Resilience Strategy.
Weaker-than-expected global growth (↓). Confidence wanes in the U.S. with weaker investment, Brexit delays investment in Europe; large stressed emerging economies.	Medium/ High	High/MT	Reduce external and fiscal vulnerabilities. Strengthen the fiscal position and implement structural reforms.
Large swings in energy prices (↓↑). Risks to oil prices are broadly balanced, but elevated price volatility complicates economic management.	Medium	High/ST, MT	Address high dependence on hydrocarbon fuels and high energy prices. Improve fiscal and financial buffers to better manage volatility.
Cyber-attacks (↓) may trigger systemic financial instability or widespread disruptions in socio-economic activities.	Low	Medium/ST, MT	Prepare appropriate crisis management plans. Strengthen financial sector regulation and supervision. Pursue a prudent approach to financial innovation.
Financial sector (↓) High NPLs, increasing market risk in indigenous banks, a further exit of foreign banks, and distress in non-bank financial sector trigger a financial crisis.	High	High/MT	Promptly implement remaining elements of the ECCU strategy to strengthen indigenous banks. Enhance regulatory and supervisory frameworks for non-banks. Reinforce the fiscal position to provide a credible backstop.
CBI flows (↑). These may surprise on upside in light of recent track record.	Medium	Medium/ST, MT	Improve management of the CBI inflows through creating regional and national saving/stabilization funds to maximize their fiscal and growth benefits.
Correspondent banking relationship (↓). Curtailment of cross-border financial services may intensify, particularly following the recent exit of several global banks.	Medium	Medium/ST, MT	Strengthen compliance with AML/CFT and tax transparency standards. Promote bank consolidation. Enhance transparency in CBI programs. Implement the IMF TA on CBRs monitoring and improve supervisory standards for bank management and data.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). "Short term" (ST) and "medium term" (MT) are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex IV. United Kingdom Overseas Territories—Anguilla and Montserrat

ANGUILLA

1. **Anguilla is an overseas territory of the U.K. and is not a Fund member.** Anguilla, however, is a member of the ECCU and the Organization of Eastern Caribbean States. The country's economy is highly dependent on tourism and development assistance. The current population of Anguilla is about 15,000. The economy is de facto dollarized.

2. **The economy continues to recover**. Growth rebounded from -6½ percent in 2017 to 11 percent in 2018, boosted by reconstruction and rehabilitation activity in the aftermath of Hurricane Irma. Tourists have come back to Anguilla with stayover tourist arrivals picking up from -20 percent in 2018 to about 4 percent for the first six months of 2019. An increase in donor-funded capital projects also supported the economic recovery. The economy is expected to expand strongly by 6 percent in 2019. Over the medium-term, as reconstruction and rehabilitation demand tapers, GDP growth would gradually moderate to a more sustainable pace of about 2 percent. Despite strong growth, inflation has remained muted, 0.4 percent year on year for the first 6 months of 2019.

3. **The current account deficit has widened significantly as sizable reconstruction activities began**. The current account deficit increased from 8 percent of GDP in 2017 to 42 percent of GDP in 2018, reflecting a large increase in reconstruction-related imports, and was largely financed by official grants. The current account deficit is expected to remain elevated in 2019, before narrowing over the medium-term as reconstruction is completed.

4. **The risk to the economic outlook is tilted to the downside, due in part to uncertainties around the Brexit.** The Brexit could potentially affect Anguilla's relationships with the European Union, for example in the areas of trade and development assistance, as well as access to public services in neighboring EU islands (e.g., Sint Maarten). In addition, if natural disasters become more intensified and frequent, Anguilla would be exposed more seriously to climate-related events.

5. **Despite the significant shock to the economy, Anguilla has maintained broadly balanced budgets.** The fiscal balance decreased from a surplus of 1 percent of GDP in 2017 to 0.5 percent in 2018, due to a decline in tourism-related tax revenues, and is expected to go up back to 1 percent of GDP in 2019, with a recovery in tourism receipts. Public debt is projected to decrease gradually to below 40 percent of GDP over the medium term.

6. **There remain vulnerable spots in the financial system.** The banking sector's capital adequacy ratio in Q2 2019 was 16 percent, well above the regulatory benchmark of 8 percent. However, the non-performing loan ratio remains elevated at around 22 percent. The put-back transaction was completed in November 2019 and the finalization of the statutory vesting order, now in progress, will formally conclude the resolution process. The strategy to reduce NPLs to

within the 5 percent benchmark includes sale of NPLs to the ECAMC. The banking sector's profitability remains relatively weak, with return on assets ranging from 0-1 percent over the last two years. In January 2019, First Caribbean International Bank (branch) ceased operations in Anguilla.

Annex IV. Table 1. Anguilla: Selected Indicators, 2017-25

I. Social and Demographic Indicators [1/]

Population (thousands, estimate)	14.9	Infant mortality rate (deaths/1000 live births, 2017)	3.4
Population below poverty line (percent, 2002)	23.0	GDP per capita (US$)	18,983
Average life expectancy at birth (years, 2016)	81.3	GDP at market prices (US$ million)	322.4
Literacy rate (percent of population, 2016)	95.0	Share in regional GDP (percent)	4.3

II. Economic and Financial Indicators

	2017	2018	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.
(Annual percentage change)									
National income and prices									
Real GDP	-6.6	10.9	6.3	4.9	1.7	1.7	1.7	1.7	1.7
GDP deflator	-5.2	2.5	2.5	2.7	2.8	2.0	2.0	2.0	2.0
Consumer prices, average	1.5	0.1	1.6	2.0	2.0	2.0	2.0	2.0	2.0
Consumer prices, end period	1.3	-0.4	1.6	2.0	2.0	2.0	2.0	2.0	2.0
Monetary sector									
Broad money (M2)	2.4	2.2	8.9	7.7	4.6	3.8	3.8	3.8	3.8
(Annual change, in percent of M2 at the beginning of the year)									
Net foreign assets	6.2	4.9	4.0	4.5	2.7	1.8	1.8	1.8	1.3
Net domestic credit	-3.8	-2.9	4.9	3.1	1.9	1.9	1.9	1.9	2.5
Of which									
Private sector credit	0.8	1.9	2.3	2.4	2.3	2.3	2.3	2.3	2.3
Credit to central government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(In percent of GDP)									
Public sector									
Primary central government balance	3.0	2.6	3.2	4.7	1.8	1.3	3.4	3.5	4.4
Overall central government balance	0.9	0.4	1.1	2.8	0.0	-0.4	2.0	2.2	3.3
Revenue and grants	29.1	26.8	25.0	25.1	19.8	19.8	21.6	21.6	21.7
Of which: Grants	1.7	3.8	1.4	0.9	0.0	0.9	0.9	0.8	0.8
Expenditure and net lending 2/	28.3	26.4	23.9	22.3	19.9	20.2	19.6	19.5	18.4
Foreign financing	-1.3	3.1	-1.1	-0.3	0.0	-0.9	-0.9	-0.9	-0.9
Domestic financing including arrears	0.4	-3.6	0.0	-2.5	0.0	1.3	-1.1	-1.3	-2.4
Total public debt (end-of-period)	65.0	61.0	54.8	47.9	45.6	44.3	40.6	36.9	32.3
External	25.7	25.2	22.0	20.0	19.0	17.3	15.7	14.2	12.8
Domestic	39.3	35.8	32.8	27.9	26.6	26.9	24.8	22.7	19.4
(Annual percentage change)									
External sector									
Exports of goods and nonfactor services	34.2	-15.2	-5.0	3.7	3.7	3.7	3.7	3.7	0.1
Imports of goods and nonfactor services	6.9	27.3	5.0	-5.4	2.3	2.6	2.9	3.2	2.9
(In percent of GDP)									
External current account balance	-7.8	-42.1	-50.4	-39.2	-37.5	-36.5	-35.7	-35.2	-36.6
Trade balance	-52.1	-77.2	-73.1	-59.6	-57.3	-56.1	-55.2	-54.6	-53.8
Services, incomes and transfers	44.3	35.1	22.7	20.3	19.7	19.6	19.5	19.4	17.2
Of which:									
Travel (net)	53.4	35.3	42.1	40.6	40.2	40.1	40.1	40.0	38.7
Capital and financial account	21.0	42.4	50.4	39.2	37.5	36.5	32.3	33.3	34.3
Of which:									
Foreign direct investment	-36.9	-49.7	-29.6	-28.0	-27.2	-26.6	-26.1	-25.5	-24.6
Memorandum Item:									
GDP at market prices, current prices (in EC$ mn)	765.5	870.5	947.9	1020.5	1067.9	1108.3	1150.2	1193.7	1238.8

Sources: Authorities; and Fund staff estimates and projections.

[1/] Estimates are for the year 2018, except otherwise noted.

[2/] Includes bank resolution transfers, all above the line for 2016.

MONTSERRAT

1. **Montserrat is an overseas territory of the United Kingdom and is not a Fund member.** Montserrat, however, is a member of the ECCU and the Organization of Eastern Caribbean States. Following a catastrophic volcanic eruption in July 1995, two-thirds of its 12,000 inhabitants fled the island (some have since returned), and the population today is 5,300. Half the island remains uninhabitable. Economic activity is limited to mining and quarrying, construction, financial and professional services, and tourism.

2. **Economic growth recovered after a contraction in 2017.** GDP growth rebounded sharply from – 3¾ percent in 2017 to 4 percent in 2018, due to a recovery in construction, hotels, and restaurants. This turnaround also reflected progress in implementing donor-funded projects (in February 2018, the European Development Fund disbursed a grant of EC$ 60 million to the government). Stay over visitors grew by around 16 percent in 2018, with tourist arrivals from the U.K. up by 25 percent and from Canada up by 15 percent. The current account deficit declined significantly from nearly 10 percent of GDP in 2017 to 2 percent of GDP in 2018, with increased travel receipts and official grants, while inflation remained steady at below 2 percent. In 2019, GDP growth is estimated to moderate to 2¼ percent, a more sustainable level.

3. **Medium-term prospects for the economy depend largely on tourism and donor support.** Real GDP growth is projected to be sustained at around 2¼ percent. This assumes a steady increase in tourist arrivals, which would in turn require measures to enhance connectivity. In this light, donor assistance, especially from the U.K., which accounts for about 60 percent of total budget expenditures, is important to support key developmental and social projects. These include upgrading key infrastructure (such as the port, the airport, roads, energy, and subsea fiber optic), promoting tourism, improving access to the uninhabitable area, health, and education. Risks to the growth outlook are tilted to the downside, mainly due to natural disaster and "no-deal" Brexit risks.

4. **The fiscal balance deteriorated in 2018, but public debt remains low.** The overall balance turned from a surplus of 1¼ percent of GDP in 2017 to a deficit of 6½ percent of GDP in 2018, due largely to a decline in grants. Public debt remained low at around 8 percent of GDP in 2018, little changed from 2017, on account of the strong growth recovery. The overall balance is expected to improve to a deficit of 1½ percent of GDP in 2019 (with increased grants) as key public projects are completed. The fiscal outlook, however, is subject to large uncertainty owing to the impact that Brexit may have on the steady flow of UK grants.

5. **Montserrat aims to replace the use of fossil fuels with 100 percent renewable energy in the electricity and transport sectors.** A new 250KW solar power plant providing 10 percent of peak electricity demand was commissioned in 2018. Another 750KW solar plant project to provide 40 percent of peak electricity demand is in progress. These projects, combined with improved infrastructure to enhance tourist access to the island, are expected to contribute to reducing the costs of doing business over the longer-term.

Annex IV. Table 2. Montserrat: Selected Indicators, 2017-25

I. Social and Demographic Indicators 1/

Population (thousands, estimate)	5.3	Gini coefficient	0.3
Average life expectancy at birth (years)	73.2	GDP per capita (US$), estimate	11794.4
Literacy rate (percent of population)	97.0	GDP at market prices (US$ mln)	62.1
Infant mortality rate (deaths / 1000 live births)	15.8	Share in regional GDP (percent)	0.9

II. Economic and Financial Indicators

			Proj.						
	2017	2018	2019	2020	2021	2022	2023	2024	2025
	(Annual percentage change)								
National income and prices									
Real GDP	-3.8	4.0	2.2	2.2	2.2	2.2	2.2	2.2	2.2
GDP deflator	1.2	1.5	1.2	1.7	2.0	2.0	2.0	2.0	2.0
Consumer prices, average	1.2	1.5	1.2	1.7	2.0	2.0	2.0	2.0	2.0
Consumer prices, end-period	1.6	2.4	1.3	1.7	2.0	2.0	2.0	2.0	2.0
Monetary sector									
Broad money (M2)	-1.9	4.1	3.5	3.9	4.2	4.2	4.2	4.2	4.2
	(Annual change, in percent of M2 at the beginning of the year)								
Net foreign assets	-5.8	0.1	0.2	3.6	3.7	3.7	3.7	3.7	3.7
Net domestic assets	4.0	-0.3	3.3	0.3	0.5	0.6	0.5	0.5	0.5
Of which:									
Private sector credit	1.3	2.1	1.7	1.8	1.9	1.9	2.0	2.0	2.4
	(In percent of GDP)								
Public sector									
Primary central government balance (including natural disaster costs)	1.2	-6.5	-1.5	3.0	0.9	0.9	0.0	0.0	-0.1
Overall central government balance (including natural disaster costs)	1.2	-6.5	-1.5	3.0	0.9	0.9	0.0	0.0	0.0
Revenue and grants	86.0	79.0	82.8	80.1	77.7	77.7	77.7	77.7	77.7
Of which: Grants	56.8	49.0	52.1	50.2	48.6	49.7	50.7	51.6	52.5
Expenditure and net lending	84.8	85.5	84.3	77.1	76.9	76.9	77.7	77.7	77.7
Foreign financing	1.6	0.1	0.8	0.8	0.7	0.7	0.7	0.6	0.6
Domestic financing including arrears	-2.6	6.5	0.7	-3.8	-1.6	-1.6	-0.7	-0.6	-0.6
Total public debt (end-of-period)	8.1	7.3	8.0	4.7	3.7	2.8	2.7	2.7	2.6
	(Annual percentage change)								
External sector									
Exports of goods and nonfactor services	4.6	17.7	5.3	6.0	6.4	6.5	6.5	6.6	6.8
Imports of goods and nonfactor services	0.7	-0.8	7.8	7.6	-2.8	3.9	3.0	3.4	3.7
	(In percent of GDP)								
External current account balance	-9.7	-2.0	-1.8	-5.4	-4.3	-4.1	-4.0	-3.8	-3.7
Trade balance	-38.7	-39.5	-42.9	-46.2	-40.4	-40.2	-39.3	-38.6	-38.1
Services, incomes and transfers	29.0	37.5	41.1	40.8	36.1	36.1	35.3	34.8	34.5
Of which:									
Travel (net)	14.0	17.9	18.2	18.5	18.9	19.2	19.6	20.0	20.4
Capital and financial account	27.0	-8.5	1.8	5.4	4.3	4.1	4.0	3.8	3.2
Of which:									
Foreign direct investment	-6.7	-8.2	-8.3	-8.2	-8.2	-8.2	-8.2	-8.2	-8.2
Memorandum item:									
GDP at market prices, current prices (in EC$ mn)	161.1	167.7	173.5	180.3	187.9	195.8	204.1	212.7	221.7

Sources: Authorities; ECCB; and Fund staff estimates and projections.

1/ Estimates are for the year 2019, except where noted.

INTERNATIONAL MONETARY FUND

EASTERN CARIBBEAN CURRENCY UNION

STAFF REPORT FOR THE 2019 DISCUSSION ON COMMON POLICIES OF MEMBER COUNTRIES—INFORMATIONAL ANNEX

January 10, 2020

Prepared By

Western Hemisphere Department
(In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND _____ 2

CARTAC: CAPACITY BUILDING IN THE ECCU _____ 2

RELATIONS WITH THE FUND

(As of November 30, 2019)

1. Membership Status: Not Applicable

2. Exchange Arrangement: The Eastern Caribbean Currency Union (ECCU) comprises six Fund members: Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines; and two territories of the United Kingdom, Anguilla and Montserrat. The eight ECCU members have a common currency, monetary policy, and exchange system. The common currency, the Eastern Caribbean (EC) dollar, has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976. The common central bank, the Eastern Caribbean Central Bank (ECCB), has operated like a quasi-currency board, maintaining foreign exchange backing of its currency and demand liabilities of close to 100 percent.

3. Safeguards assessment. The 2016 updated safeguards assessment found that the ECCB continues to maintain a governance framework that provides for independent oversight. Transparency in financial reporting has been maintained and the external audit mechanism is sound. As recommended by the assessment, the ECCB has restructured the internal audit and risk management functions to align them with leading international practices. In accordance with the Safeguards Policy which requires regional central banks to be assessed every four years, the ECCB will be subject to an update assessment in 2020.

CARTAC: CAPACITY BUILDING IN THE ECCU

(As of November 30, 2019)

Highlights of CARTAC's technical assitance (TA) and training to the ECCU countries in the various core areas are provided below.

1. In the area of tax administration, VAT implementation in ECCU countries is largely complete.[1] The tax program for the ECCU member countries continues to focus on: (i) organizational restructuring to include strengthening and establishing a large taxpayer operation, (ii) strategic management frameworks (SMF); (iii) capacity building in core functions (taxpayer service, audit, collections enforcement, data analysis and risk management), (iv) building of a robust program management (headquarters) function, (v) modernizing tax legislation, and (vi) strengthening IT systems.

2. Implementation of management of taxpayers through segmentation and the

[1] Dominica (March 2006), Antigua and Barbuda (January 2007), St. Vincent and the Grenadines (May 2007), Grenada (February 2010), St. Kitts and Nevis (November 2010), St. Lucia (October 2012). In Anguilla in 2012, CARTAC provided support with its preparations for the introduction of a Goods and Services Tax in 2014. The government is considering a broad-based GST/VAT, possibly to be implemented in two phases – Limited VAT in 2021 and full VAT in 2023/4.

establishment of Large and Medium Taxpayers Units (LMTUs)/programs and Design, Planning and Monitoring Units (DPMUs) are progressing well in Antigua and Barbuda, Dominica, St. Lucia, St. Kitts and Nevis, Grenada, and St. Vincent and the Grenadines.

3. **There is also progress in implementing new or modernized legislation.** St. Kitts and Nevis secured legislation that mandates the filing of VAT and CIT tax returns. Anguilla now has a modern Inland Revenue Department Act, which provides the legal framework for the functioning of the Comptroller's office and sets forth the Comptrollers powers to collect tax. St. Vincent and the Grenadines are in the process of strengthening its legal framework with the implementation (possibly before the end of 2019) of a new Tax Administration Act.

4. **Countries are strengthening their legislative framework to meet international standards and effectively administer taxes.** Support was provided to Dominica, St. Vincent and the Grenadines. Anguilla, Antigua and Barbuda, Montserrat, St, Lucia, St. Kitts and Nevis have either strengthen their legislation and/or taken steps to address the issue of harmful taxation.

5. **The standardized regional data analytics and cross-matching program has made significant progress.** Given significant capacity gaps in the region, this project aims to build analytical skills in the planning, monitoring and program design and audit units to improve data matching, and data mining to strengthen the quality of compliance management programs. St. Kitts and Nevis, Dominica, St. Lucia, and Grenada, St. Vincent and the Grenadines have benefited from the program. The program was introduced to Antigua and Barbuda's audit unit. The delivery modality is now targeting a core nucleus of staff to achieve a higher level of competence to allow for institutional specialization in this area aligned with the program management agenda. The previous high-level sensitization program has strengthened participants' skills in Excel, improved identification of errors and issues to be addressed to improve data quality, sharpened the identification of risks in core functional areas of registration, on-time filing and payments, and the accuracy of taxpayer reporting based on the results of data cross-matching, analysis of VAT financial data, and introduction of industry benchmarking. The data analytics program is now focusing on the analysis of data to improve the development of core functional programs and decision-making process.

6. **Progress on the implementation of the standardized regional approach to risk-based compliance improvement has so far been limited.** This is due to the insufficient data quality and limitations in the capacity of administrations to use and analyze internal and external data. St. Kitts and Nevis, Dominica, St. Lucia, Grenada and St. Vincent and the Grenadines benefited from TA to develop a risk-based compliance management framework. Work in this area continues as administrations become more competent in the use of available data to better inform the risk management process.

7. **Performance management has been strengthened through building capacity**/mentoring of officers in the planning and monitoring units in St. Lucia, Antigua and Barbuda, St. Kitts and Nevis, and St. Vincent and the Grenadines.

8. **Strengthening information technology systems for business delivery is essential to support sustainable reforms.** The tax administration information technology (IT) system used in the ECCU countries, is receiving regional peer-to-peer support. Drawing on regional skills, IT

enhancement support was provided to St. Lucia, Grenada, and St. Vincent and the Grenadines with enhancements to SIGTAS. In Montserrat, the property tax system was enhanced, facilitating timely production of notices of assessments and a system to administer CIT was recently implemented. St. Lucia and St. Vincent and the Grenadines benefitted from TA in strengthening IT operational, security procedures, and business continuity plans.

9. Some countries are taking steps to acquire new IT systems. St. Kitts and Nevis, St. Lucia, Grenada, St. Vincent and the Grenadines are seeking to replace their tax information systems**.** Anguilla commenced the implementation of a new system and Antigua and Barbuda is in the process of upgrading it. Antigua and Barbuda, St. Lucia, St. Vincent and the Grenadines benefited from a study-tour of Tax administration Jamaica (TAJ)—to get an understanding of TAJ's IT support, systems and process used in identifying and implementing its new tax information system.

10. In supporting regional integration, all ECCU member countries benefited from three regional workshops in FY2018/19: (a) International Survey of Revenue Administration (ISORA) sensitization sessions led by FAD - the event outlined the most recent developments regarding the platform and access to review the data outcomes from the last round of survey data; (b) Effectively Managing Audit Programs – which sought to strengthen regional audit management capacity, ensuring that audits and other verification programs are effectively managed; and (c) an inter-regional seminar between CARTAC and PFTAC – all ECCU countries participated in this first event of this kind. Important inter- and intra-regional technical and operational issues were discussed, and regional and country presentations made show-casing issues and solutions for tax administration and policy matters. In addition, Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines are participating in a FAD-led initiative to establish a "Regional Tax Audit Team (RTAT)". Phase II of the program is underway; four workshops have been conducted. The third and fourth training sessions focused on auditing the financial sector. Following the training, the program will shift into implementation mode where actual audits will commence in multiple jurisdictions related to a selected sector (potentially, the financial sector).

11. Core tax administration functions have been strengthened. Dominica received support in enhancing taxpayer service delivery. Dominica, St. Vincent and Grenadines, and St Lucia received training in audit techniques – building analytical skills and auditing of taxpayers who do not keep adequate books and records.

12. TA has been provided to strengthen resilience to extreme weather events. In June 2019 a joint regional seminar was held in the regional customs training center in the Dominican Republic on ***Disaster Preparedness for Tax and Customs***. All ECCU customs and tax administrations participated in the seminar. During the weeklong event, held with the assistance of UNCTAD and the Caribbean Disaster and Emergency Management Agency (CDEMA), participants learned about best practices in disaster preparedness and business continuity planning and shared experiences of tax and customs survival and recovery during hurricanes Irma and Maria.

13. Customs administration focuses on: strengthening risk management and managerial skills to help ensure (i) leadership, management and governance; (ii) trade facilitation, and (iii) compliance. Regional initiatives include continued support to CARICOM in the harmonization of customs procedures.

14. Risk Management is the cornerstone of an effective, modern customs administration. It enables customs, by gathering and analyzing information from a variety of sources, to make sound decisions about interventions in the cargo clearance process. TA has been provided to Grenada, Anguilla, Dominica and St. Kitts and Nevis, St. Vincent and the Grenadines, and Anguilla, and in each territory a framework has been prepared to identify, categorize, and prioritize risks and to propose treatment techniques to address those risks. This has been further developed in these administrations to identify, monitor, and facilitate traders' compliance.

15. TA, including advice, mentoring and training on post clearance audit (PCA), was delivered to St. Vincent and the Grenadines and Dominica. Approximately 20 officers received training, and as a result of this assistance, customs in these member countries acquired the capacity to initiate significant PCA programs, and to strengthen both compliance and trade facilitation. Together with risk management, PCA has been an area where CARTAC has provided significant TA since FY14 – to Antigua and Barbuda, Dominica, and St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

16. TA has been provided to Grenada to strengthen training capacity. Significant TA has been provided to develop training modules in core customs skills for new and recent entrants to customs and to prepare a cadre of trainers. This will improve the quality and consistency of service for importers.

17. TA has been provided to Anguilla to prepare for the implementation of the Interim Goods Tax (IGT). TA has been provided to prepare a detailed prioritized action plan for the customs aspects of the new tax. In collaboration with FAD TP, TA has been provided to help extract customs data to assist in revenue modelling of the new tax.

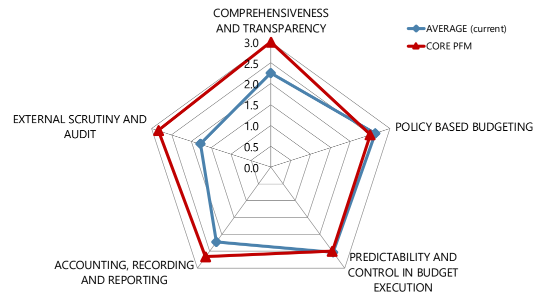
18. CARTAC has been reviewing the post hurricane PFM Response in Dominica and Anguilla and will also be reviewing the same for Antigua and Barbuda later in the year with the intention of assisting those countries to increase their resilience to the effects of climate change. The results of the individual reviews will be aggregated to produce a Caribbean report to help improve hurricane preparedness for the region.

19. PEFA assessments that were completed in Grenada and Dominica in 2016 and in St Lucia in 2017 will add to this information base. As a follow-up to each PEFA assessment, CARTAC has worked closely with the assessed countries to develop PFM Action Plans in order to improve those weaknesses highlighted in the PEFA assessments. CARTAC is conducting a PEFA Assessment of Anguilla as of late-2019.

20. Implementation of a modernized and mor econsistent PFM legal framework in the ECCU is progressing. Antigua and Barbuda (delivered from the IMF Headquarters with European Union funding), St. Lucia (delivered under the Financial Management in the Caribbean program), Anguilla, and Dominica have finalized draft legislation for legislative consideration. In September a FAD-led TA mission to Dominica on the establishment of a Vulnerability, Risk and Resilience Fund (VRRF) to mitigate financial shocks from severe weather events. CARTAC provided amendments to their Draft PFM Legislation governing the creation, operation and management of the VRRF Fund. Montserrat and St. Vincent and the Grenadines also have prepared initial PFM drafts that are under review. Grenada passed revisions to its new PFM legislation and has adopted revised regulations (FMC) and a Fiscal Responsibility Act.[2] St Lucia had tabled a new PFM Act which was not passed in time during the last session. Given that most ECCB Countries still have their legislation in draft form, it will be important to accelerate their submission to the respective Parliaments.

Average Scores for Key PEFA Dimensions

The region continues to move closer to "Core PFM functionality"



Sources: PEFA database and IMF staff estimates.

21. Anguilla, Montserrat, and St. Vincent and the Grenadines received diagnostic assessments and training in the implementation of the CARTAC SOE/SB ownership manual (bringing to seven the number of countries implementing the manual). The countries undergoing this reform were brought together in a small workshop to share experiences and better practices in implementing the CARTAC reform – Grenada gave a presentation on achievements to date and shared reporting templates and other material to aid the reform effort in the region.

22. Regional budget preparation reform has been strengthened, with new countries adopting the strategic budgeting reform agenda. St. Lucia's budgets were prepared according to the strategic budget reform methodology and presented in the revised program budgeting format, including non-financial performance information. Budget preparation reform was further sustained through the development of comprehensive budget manuals. New manuals were developed for St. Lucia and St. Vincent and the Grenadines; bringing to nine the number of CARTAC countries with comprehensive budget preparation manuals. The budget manuals include a gender budgeting perspective. Montserrat has engaged the services of a private consultant to assist them with developing a medium-term fiscal framework and budget as well as programme budgeting.

23. Compliance with International Public Sector Accounting Standards (IPSAS) has made significant progress. The annual IPSAS cash basis workshop was repeated this year to evaluate compliance with the new exposure draft. As a result, Anguilla and St. Kitts and Nevis were self-assessed as fully compliant, but work remains to be done to improve the notes to cash basis financials, to provide a more comprehensive view as countries move to modified cash (as a step prior to accrual basis). Mission to Dominica and Grenada to review their Treasury Functions and to improve their IPSAS cash management also took place. A mission to assist Anguilla with reforming the COA took place in January 2019 and provided assistance with transition to GFS2014.

24. CARTAC's technical assistance to the ECCU countries in the area of macroeconomic and financial programming analysis continued in 2019. During 2019 four country missions were conducted in Anguilla, Antigua and Barbuda, Montserrat, and Saint Lucia. In the case of Anguilla, the focus was on assisting the Ministry of Finance in updating their Medium Term Economic and Fiscal

[2] FMC – Financial Management in the Caribbean program financed by Canada and executed by the Fiscal Affairs Department (FAD).

Plan (MTEFP) as required by the British Government as a pre-condition for approval of their budget and to draw down a loan from the Caribbean Development Bank for post hurricane rehabilitation. In Antigua and Barbuda, the focus was placed on improving the capacity of the staff in the Ministry of Finance in developing the Medium-term Fiscal Framework. (MTFF). The MTFF is expected to lay the groundwork for the authorities to develop medium term budget frameworks starting with the 2020 budget. In Montserrat, the mission focused on enhancing capacity of the Ministry of Finance and assisting it in updating the MTFF. The Ministry of Finance of Saint Lucia requested training of their staff on the Market Access Debt Sustainability Analysis template (MAC DSA). Training in the use of the template was requested in light of the expected large increase in public debt over the medium term emanating from the reconstruction of the international airport coupled with extensive road works. 15 persons benefited from the training including 2 from ECCB.

25. The training is expected to enhance the capacity of the staff in the Ministry of Finance to adopt a more structured approach to macroeconomic forecasting and updating the MTFF. This should result in a more systematic approach to budgeting and policy making. In addition to the country level technical assistance, three regional workshops were conducted for the representatives from ECCU countries. The first, a Macroeconomic Diagnostics course, was conducted in Barbados in July and attended by 21 participants, of which 6 were from the ECCU. A debt sustainability analysis course was customized for the ECCU countries and held in September 2019 in St. Kitts and Nevis. 27 persons participated in the course, of which 9 came from the ECCB. It is expected that the country economists at ECCB will work closely with their respective countries in regularly updating the DSA templates for the countries. A Fiscal Sustainability course was also conducted in Jamaica in October, including for 3 persons from the ECCU.

26. CARTAC's TA in the area of financial stability comprises: (i) stress-testing various aspects of the financial system; (ii) preparing financial soundness indicators (FSIs) for deposit-taking institutions and financial stability and health indicators (FSHIs) for the non- deposit taking segments of the financial sector; (iii) developing macro-prudential and systemic risk indicators (MPIs and SRIs respectively) to bolster overall financial sector risk management and, (iv) assisting the ECCB in preparing the financial stability report for the ECCU member territories.

27. During FY18, CARTAC provided ECCB with TA on upgrading its financial stability function, specifically in relation to developing MPIs and SRIs, and developing a macroprudential institutional and surveillance framework to cover the ECCU region. The recommended macroprudential institutional and surveillance framework was endorsed by the ECCB Board of Directors. A proposal based on the CARTAC TA is being finalized for presentation to the ECCU Monetary Council to formalize the ECCU's financial stability institutional framework. The ECCB also prepared and published on its website the inaugural Financial Stability Report, which assessed systemic risks and vulnerabilities in the ECCU region and featured the MPIs and SRIs provided by CARTAC TA.

28. A comprehensive list of financial health and soundness indicators with accompanying methodologies was developed for the insurance sector regulators in the ECCU region. Follow up TA on developing stress-testing frameworks for ECCU insurance regulators were provided to Antigua and Barbuda, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and to FSU staff in the ECCB in FY19. Further to the training and action plan provided by CARTAC, Antigua and Barbuda and St. Vincent and the Grenadines have developed Reinsurance Guidelines for feedback from their respective industries. A similar stress testing TA program will be provided in December 2019 for the remaining insurance sector regulators in the ECCU region.

29. A set of FHSIs with accompanying methodologies were developed for credit union sector regulators in Anguilla, Antigua and Barbuda, Dominica, St. Kitts and Nevis and for FSU staff in ECCB**.** A similar stress testing TA program will be provided for St. Lucia in October 2019.

30. Dominica received CARTAC TA on credit union stress testing which has already led positive outcomes. A 'bottom-up' stress testing program has been implemented by the Regulator through the issue of Stress Test Guidelines to the credit union sector. Dominica's Financial Services Unit has since established an annual credit union sector meeting to review and discuss results from yearly sector-wide stress testing exercises. Reporting forms were amended in line with CARTAC TA recommendations to allow for reporting on loan and deposit concentrations to facilitate the prescribed stress testing exercises.

31. CARTAC provided training to help ECCB implement the correspondent banking relationships (CBRs) monitoring toolkit (developed in the Monetary and Capital Markets Department) to enhance systemic risk surveillance of ECCU's cross-border payment flows. The CBRs toolkit was used for analysis of payments data collected from 84 percent of ECCU respondent banks covering the period 2014 to 2017. It is expected that the ECCB will routinely update the data set for continued application in the toolkit to guide their strategy for minimizing the risk of CBR withdrawals.

32. In financial sector supervision, CARTAC reviewed and provided feedback on the ECCB's draft Basel II/III implementation plan for the Eastern Caribbean Currency Union (ECCU) and assisted with the development of time-bounded action plans and milestones to achieve Basel II/III implementation objectives. The ECCB has established a Basel II/III implementation team and had commenced consultation with institutions that will be subject to Basel II/III reporting. The ECCB has submitted a third iteration of their Basel II/III implementation roadmap to CARTAC. Implementation of Pillar 1, assuming no further revision to their implementation timetable is possible by the end of FY21. It is highly unlikely that Pillar 2 will be implemented by the end of FY 22. Pillar 2 implementation requires at least 12 to 18 months. The authorities have expressed preference for either a Resident Advisor or Peripatetic Advisor for Basel II/III implementation.

33. Training and TA on the implementation of risk-based supervision was provided across bank and non-bank financial institutions in member countries. During FY 18, CARTAC provided TA to the following countries: Grenada - Risk-Focused Examination of Retail Lending at Credit Unions; St. Vincent and the Grenadines, and Grenada - Review of Reinsurance Treaties, and Actuarial Reports of Insurance Companies; Dominica - Supervisory intervention plan for Credit Union and insurance sectors; and Antigua and Barbuda – guidelines on bottom-up stress testing for credit unions. CARTAC also provided follow-up TA to facilitate improvements in processes and practices for conducting onsite and offsite supervision in a risk-based supervisory environment in St. Vincent and the Grenadines, Grenada, Antigua and Barbuda, and Anguilla.

34. In March 2019, CARTAC conducted a 2.5-day (March 4-6, 2019) workshop on the implementation and application of Risk-based Supervision (RBS) across Foreign Bank

Branches (FBBs) in the ECCU. Key implementation challenges in applying RBS across FBBs were addressed, including the importance of communicating supervisory expectations to FBBs regarding the role and responsibilities of Branch Country Mangers. The workshop was attended by 24 staff members from the Bank Supervision Department of the ECCB.

35. In July 2019, CARTAC provided follow-up RBS methodology related training and TA to senior managers responsible for the supervision of Credit Unions and Insurance companies across the member territories of the ECCU. The workshop was attended by 31 senior supervisors from national regulatory agencies in the ECCU with responsibility for the supervision of credit unions, insurance companies, and other non-bank financial institutions. The workshop also had representation from the Eastern Caribbean Central Bank (ECCB). Following the Regional workshop in July, the Financial Services Regulatory Authority (FSRA) of St Lucia requested follow-up TA to implement RBS. The FSRA has developed draft action plans to transition to RBS and implement a risk-based solvency regime for insurance companies. The upcoming mission in late October 2019 will focus on RBS implementation.

36. In FY18, CARTAC provided TA to facilitate review of the draft legislation on Securities and Investment Funds. Both legislations will replace the current Securities Act and the legislation governing collective investment schemes enacted in the ECCU member territories in 2001. The draft Bill was submitted to the IOSCO for preliminary assessment of the ECSRC eligibility for membership. The draft Bill has since been finalized for public consultation.

37. In FY18, CARTAC provided TA to address deficiencies in the ECCU's Uniform Insurance and Pension Bill. This would be a step towards the establishment of a Single Market for Insurance and Pension (SIPM). Recommendations resulting from the review have been finalized, and in process of being incorporated into the Uniform Bill with a view to establish a uniform Insurance and Pension legislation in the ECCU that are aligned with international regulatory and market conduct standards.

38. Continued efforts at capacity building through regional workshops in FY18, FY19, and FY20. CARTAC facilitated both bank and non-bank supervisors from member countries of the ECCU to attend several regional workshops. These workshops focused on strengthening regulatory and supervisory oversight across both the bank and the non-bank sectors (pension, insurance, securities, and credit unions), systemic risk surveillance, implementation of IFRS 9 and IFRS 17, risk-based capital framework for insurance companies, consolidated supervision, digital currencies, and FinTech. In September 2019, CARTAC facilitated both bank and non-bank supervisors from the ECCB and member countries of the ECCU to attend regional workshop on Consolidated Risk-based Supervision of Banking Groups and Financial Conglomerates in Kingston, Jamaica.

39. TA was provided to Dominica on developing supervisory intervention plans for the credit union and insurance. The Financial Stability and Financial Sector Supervision programs fielded a joint mission to Dominica in early 2018 to assess the resilience of some financial institutions in the aftermath of hurricane Maria of 2017.

40. During 2017-18 the CARTAC program on economic and financial statistics concentrated on improving external sector, national accounts, and price statistics in the ECCU countries. Good progress is being made by Grenada, St. Kitts and Nevis, and St. Vincent and the Grenadines in expanding the range and improving the quality of their *annual national accounts,* including developing supply and use tables (SUT). The SUT for St. Lucia has been finalized and work commenced to compile rebased GDP estimates. A comprehensive review of the national accounts concepts, data sources, compilation, and dissemination methods was conducted for Grenada**,** and 5-year action plan to rebase the GDP and expand the national accounts prepared.

- Increased efforts are being made by countries to develop or improve *quarterly national accounts* estimates. Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines have commenced disseminating quarterly GDP by economic activity (QGDP-P) estimates.

- Progress is also being made by countries to improve price statistics. Assistance was provided to build institutional capacity, improve the CPI compilation methodology, review the Household Budget Survey (HBS)/Survey of Living Conditions (SLC) household consumption expenditure data, and update the CPI expenditure weights for St. Vincent and the Grenadines.

- A regional training workshop was conducted during September 30-October 4, 2019 to strengthen the technical capacity of price statisticians from ECCU countries and the ECCB to review HBS/SLC household consumption expenditure data, aggregate and quality adjust the data to produce updated expenditure weights for the CPI basket, improve the CPI methodology, and compile rebased CPI series.

41. CARTAC is continuing to coordinate its activities with other TA providers in the region, including the Project for the Regional Advancement of Statistics in the Caribbean (PRASC) being delivered by Statistics Canada on improving data sources and compiling national accounts and price statistics and the assistance provided by the ECCB in reviewing the annual national accounts of the ECCU member states.

42. Supported by CARTAC, since 2017 the ECCB and ECCU's NSOs have jointly been disseminating enhanced annual balance of payments and international investment position (IIP) statistics for each ECCU member country and the ECCU region following the *BPM6* guidelines. Data for 2014 onwards are available on the ECCB's website and re-disseminated in the IMF's *Balance of Payments Statistics Yearbook (BOPSY)* and *International Financial Statistics (IFS)*. CARTAC continues assisting ECCU member's countries in strengthening the compilation framework of the ESS and dissemination of statistics mainly through enhancing the coverage, methodology, and the quality of prioritized balance of payments components with the incorporation of a wider variety of data sources to supplement business surveys. NSOs of most of ECCU's member countries have access to relevant tax information available at the country's inland revenue department. Supported by CARTAC, increased number of NSOs and/or the tourism authorities conduct sound visitor expenditure surveys (VES).[3] Recent CARTAC missions to the ECCB and the NSOs are assisting in developing suitable backcasting techniques to address significant breaks in the balance of payments for years prior 2014. In coordination with the debt management offices of the ministries

[3] Antigua and Barbuda, Dominica, Grenada, St Lucia and St Vincent and The Grenadines conduct VES on an ongoing basis and results are incorporated in their balance of payments. St Kitts and Nevis conducted a VES in 2016 and its indicators are updated every year to compile visitor expenditure estimates in the balance of payments. It is noteworthy that tourism expenditure compiled in travel services exports was largely underestimated in the former balance of payments statistics of most ECCU member countries, given the lack of up-to-date indicators from VESs.

of finances, the ECCB has also posted aggregated data on outstanding central government and public sector external debt on its website. CARTAC is also supporting the ECCB and the NSOs to compile public and private external debt in line with international standards.

Statement by Ms. Levonian and Mr. Sylvester on Eastern Caribbean Currency Union
February 3, 2020

Our Eastern Caribbean Currency Union (ECCU) authorities are committed to building strong, resilient, and inclusive economies. In this context, they thank staff for the constructive engagement during the 2019 regional consultations on common policies and welcome the insightful Report and Selected Issues Paper (SIP). Despite growing risks and persistent challenges, our authorities continue to advance their economic development agenda. They remain committed to pursuing sound macroeconomic policies and reforms at the national and regional levels and look forward to the continued engagement of the Fund and other development partners. They broadly share staff's appraisal and many of their recommendations. In this Buff, they wish to emphasize ongoing national and regional efforts aimed at addressing the challenges identified in the Report, and to respond to some of the issues raised by staff.

Leveraging Regional Integration

Our authorities welcome the focus of the 2019 regional consultation on policies to advance regional integration. As a grouping of small island developing states, the ECCU region is beset by multiple challenges and risks, some of which could be mitigated by taking regional approaches. Our authorities thank staff for their analytical work and policy recommendations on fiscal and financial integration and solidifying the monetary union. They see some merit in greater fiscal integration, for instance, on CBI program due diligence processes, but note some challenges to harmonize tax incentives among sovereign states facing different domestic circumstances. They also see the potential merits of building buffers, including through a regional stabilization fund, but point to the difficult tradeoff with limited fiscal space and insufficient external support. That said, some of our authorities have moved ahead with the establishment of national savings funds. Furthermore, the Eastern Caribbean Central Bank (ECCB) has a small regional "rainy day" fund and would welcome staff's support on how this fund could be enhanced, including through external donor support. Regarding greater financial integration, our authorities are already moving forward with efforts to strengthen the NPL resolution and crisis management frameworks, as well as plans to introduce a deposit insurance (DI) scheme. On solidifying the monetary union, our authorities have made significant progress in modernizing the payment system by introducing the Eastern Caribbean Automated Clearing House (ECACH) and the Electronic Funds Transfer (EFT) systems and are moving ahead with plans to introduce a digital version of the EC dollar.

Our authorities strongly believe that a digital version of the EC dollar (DXCD) will help support the economic transformation of the ECCU. A DXCD will support the modernization of the payment system by making it more resilient and efficient through reducing the heavy reliance on the use of cash and cheques, improving the speed and decreasing the cost of transactions, and minimizing the social costs of hard currency. Consistent with this strategic vision for the ECCU, the ECCB launched a DXCD pilot in March of 2019 to inform the development and implementation of what will essentially be the world's first central bank digital currency. Our authorities are approaching this reform in a deliberate manner with due consideration to key safeguards, including cybersecurity and AML/CFT requirements. Our authorities welcome staff's useful SIP, which reinforces many of the important design elements currently under consideration by the ECCB and look forward to the Fund's continued support in leveraging technology and innovation in the region.

Real Sector Developments and Policies

Our authorities welcome the strong rebound in growth and the broadly favorable outlook. After growing by less than 1 percent in 2017, due largely to the devastating impact of Hurricanes Irma and Maria, real GDP grew strongly by 3.9 percent and 3.2 percent in 2018 and 2019, respectively, driven by a strong recovery in tourism and construction. On medium-term growth, our authorities are slightly more optimistic than staff and expect growth to hover around 3.5 percent but concur that the outlook is subject to considerable downside risks, not least from natural disasters, a global economic slowdown, a further loss of CBRs, and cyber threats.

Our authorities are strongly committed to building resilience to natural disasters and climate change. The increasing frequency and intensity of natural disasters is a major source of vulnerability to growth and fiscal health in the ECCU. Our authorities face a vicious cycle of natural disasters, followed by low growth and a buildup of indebtedness and debt distress. In this regard, our authorities will continue to prioritize reforms and policies to support resilience building, including participating in the Caribbean Catastrophe Risk Insurance Facility (CCRIF SPC), adopting appropriate building standards, and investing in climate resilient infrastructure. They greatly appreciate the Fund's increased focus in recent years in supporting countries vulnerable to catastrophic natural disasters to build ex ante resilience, including the current efforts in Grenada and Dominica with disaster resilience strategies (DRSs). They call on the Fund and other development partners to increase access to reliable and affordable financial and technical support in this area, including through efforts to promote the widespread uptake of disaster-linked clauses in debt instruments.

Fiscal and Debt Developments and Policies

Our authorities are committed to the prudent management of public finances to support fiscal and debt sustainability. They note positively the improvement in the overall fiscal deficit in 2019, following the spike in 2018, largely due to disaster-related spending. They further take note of the positive and downward movement of the public debt ratio. While acknowledging these positive developments, our authorities remain mindful of the significant risks to public finances and the absolute necessity to pursue prudent fiscal and debt management policies. The ECCB will continue to support member countries in developing strong fiscal and debt frameworks, including medium-term fiscal frameworks and debt management strategies. Our authorities note staff's concerns regarding some member countries' progress towards reaching the 60 percent of GDP debt target by the 2030 timeline and reaffirm their commitment to meeting this target, including closely monitoring progress and taking actions, as appropriate. However, our authorities continue to stress the difficult challenge to meet critical investments to support growth and poverty reduction and to build fiscal buffers to support resilience, while keeping debt levels down, with little or no fiscal space and external support. They call on the international community to support those efforts, including through increasing access to grant financing.

The ECCB will continue its effort to promote fiscal discipline across the ECCU, including through the adoption of rules-based fiscal resilience frameworks. In addition to Grenada and Anguilla, which have fiscal rules in place, more of our authorities are looking to advance elements of their own fiscal frameworks. While all our authorities have committed to fiscal prudence, it is unlikely that they will agree to uniform fiscal frameworks. The ECCB encourages staff to explore with our authorities a set of common minimum fiscal anchors that could be adopted.

Financial Sector Developments and Policies

Financial sector conditions in the ECCU remained stable in the past year, but vulnerabilities persist. Our authorities welcome staff's assessment that banking sector liquidity and capital ratios have remained strong and the level of non-performing loans (NPLs) has continued to decline. However, the NPL ratio is still above the regulatory standard and weak credit growth persists. Our authorities are acutely aware that sustained efforts are needed to address remaining financial sector weaknesses, mitigate risks, and increase the sector's contribution to growth. They broadly share staff's assessment of the key risks and challenges, including the exit of global banks, a rapidly growing credit union sector, and ongoing pressures related to further losses of correspondent banking relationships (CBRs). They believe that their current efforts will continue to deliver important results for financial sector strengthening.

Our authorities remain committed to advancing their reform agenda to boost financial sector stability and build resilience. The ECCB intends to build on the progress already made in many areas to strengthen financial oversight and operations. They will continue to press ahead with reforms to, inter alia, accelerate NPL resolution, harmonize regulation for non-banks, develop systemic risk monitoring, and enhance the AML/CFT framework. Our authorities note staff's concerns regarding the slow pace of financial sector reforms due in part to delays in the passing of legislation by individual countries. While the ECCB authorities agree that these reforms should move faster, they believe that staff need to be more pragmatic in assessing the pace of regional reforms giving due consideration to different country circumstances. Our authorities do not support phasing out the minimum savings rate (MSR) at this time and will consider its removal in conjunction with other reforms, including the introduction of deposit insurance.

Our authorities continue to be concerned about the possibility of further CBR losses. They are grateful to the Fund and other international partners for their efforts in helping to find concrete solutions to this problem. While CBR losses in the ECCU have stabilized somewhat, the possibility of further withdrawals remains a major concern. Our authorities urge the Fund and others to remain actively engaged on this burning issue in support of member countries' efforts. The ECCB will press ahead with efforts to harmonize and strengthen AML/CFT supervision at the regional level.

Boosting Growth and Inclusion

Our authorities will continue to implement structural reforms to promote sustainable and inclusive growth. They see economic growth as a critical factor in helping to address many of their challenges, including high levels of poverty, inequality, and unemployment. Accordingly, our authorities will continue to pursue reforms aimed at removing obstacles to higher growth and employment levels, and poverty reduction by focusing on improving the climate for doing business; diversifying the economic structure, including through investments in renewable energy; further developing the regional capital market; and addressing rigidities to labor market performance, including through education and training. Regional initiatives currently being implemented, such as the World Bank-supported Eastern Caribbean Partial Credit Guarantee Corporation, will support SMEs' development and employment generation. Our authorities concur with staff that technology, particularly Fintech, has the potential to boost economic growth. Our authorities are moving ahead with reforms to facilitate the adoption of technology and promote innovation, both at the national and regional levels, including through investment in a high-speed fiber-optic broadband network and e-government platforms. Our authorities look to the Fund for technical assistance to support Fintech development in the region.

Engagement with the Fund and other Development Partners

Our authorities highly value the continuing strong relationship with the Fund and other development partners. They are very grateful for the sound policy advice, the considerable amount of technical assistance (TA) through the Caribbean Regional Technical Assistance Centre (CARTAC) and other mediums, and the various technical exchanges, including through programs such as the Garfield T. Riley Seminar Series, an initiative of the Research Department of the ECCB. Our authorities look forward to the continued strong support of the Fund and other development partners in helping the region address its many development challenges.

Conclusion

While growth has rebounded strongly and the near-term outlook remains favorable, the economic landscape in the ECCU region remains fragile in the face of daunting risks and challenges. Our authorities are acutely aware of the difficult road ahead and remain committed to confronting the many challenges, with the support of its partners. In this regard, the continued flow of TA and financial support to the region and the effective coordination of ECCU work programs with regional and international institutions are critical in helping our authorities tackle these challenges in a steady and sustained manner.