INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/86

EASTERN CARIBBEAN CURRENCY UNION

May 2021

2021 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 2021 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 April 26, 2021 consideration of the staff report.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 26, 2021, following discussions that ended on February 9, 2021, 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 March 29, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Eastern Caribbean Currency Union.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PR21/119

IMF Executive Board Concludes 2021 Discussion on Common Policies of member Countries of the Eastern Caribbean Currency Union

FOR IMMEDIATE RELEASE

Washington, DC – **May 4, 2021:** On April 26, 2021, the Executive Board of the International Monetary Fund (IMF) concluded the 2021 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 fallout from the COVID-19 crisis is hitting ECCU economies hard. Tourism receipts (accounting for nearly 40 percent of GDP) have dried up, as tourist arrivals have come to a grinding halt. The authorities successfully contained the spread of the virus at the onset of the pandemic by largely closing the borders, but a reopening of the economies since the summer has led to a surge in COVID cases. The ECCU economy is projected to contract by 16 percent in 2020 and by a further near ½ percent in 2021. Fiscal positions have deteriorated sharply, and public debt is projected to reach 90 percent of GDP in 2021 and remain at an elevated level for years to come. Headline indicators suggest the financial system is relatively sound with ample liquidity buffers, but nonperforming loans are expected to rise significantly. The outlook is clouded by exceptionally high risks, including from the uncertainty concerning the evolution of the pandemic.

Executive Board Assessment[2]

Executive Directors noted that the COVID-19 pandemic has had a significant impact on the Eastern Caribbean currency Union (ECCU) economies and commended the authorities for their swift policy response to mitigate its socio-economic toll. Directors also noted that emergency financing from the Fund and other IFIs has helped some economies in the region cope with the fallout from the pandemic. They agreed that the near-term policy priority is to protect lives and livelihoods, including through continued support to the vulnerable and efforts to maximize COVID-19 vaccination. Noting that the region's growth outlook is subject to considerable risks, Directors recognized that careful balancing, as well as continued engagement with international institutions, including the Fund, is important to ensure sustainable inclusive growth, while safeguarding macro-fiscal sustainability.

[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.

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Directors took note of the postponement of the regional debt target date by five years and emphasized that this should be complemented by further enhancing regional and national fiscal frameworks to ensure that the target continues to serve as an important fiscal anchor for the region. In this regard, they welcomed the progress made by several countries on adopting rules-based fiscal frameworks. Efforts are needed at both regional and national levels to further strengthen fiscal policies and institutions to safeguard the credibility of the revised debt anchor.

Directors noted that measures by the regional and national authorities have effectively helped soften the immediate financial stability impact of the pandemic. Going forward, near-term supervisory flexibility should be balanced with measures to support financial institutions' capacity to weather the crisis, including limiting moratoria extensions within the time frame announced by the ECCB, ensuring loan restructurings follow realistically achievable repayment terms, and encouraging capital conservation until the full impact of the pandemic is clear. To ensure system-wide risks can be effectively contained, Directors encouraged the authorities to expeditiously formalize readily implementable crisis management plans at regional and national levels, clearly identifying the necessary coordination, enforcement, and legal requirements.

To ensure the financial system's longer-term ability to provide credit and support the regional economy, Directors encouraged the authorities to start considering credible and sustainably funded strategies to support reduction of non-performing loans, which are expected to increase from their already elevated pre-pandemic levels. They also agreed that the ECCU's broader financial sector reform momentum should be maintained, while ensuring implementation timelines avoid unduly burdening supervised institutions in the post-pandemic environment. Directors stressed the importance of addressing gaps in the supervision of non-banks, improving AML/CFT framework, and further mitigating CBR risk.

Directors supported ECCB's prudent practice to keep the backing ratio at a robust level, which is critical to safeguard the quasi-currency board arrangement. The heightened external risks call for enhanced monitoring of foreign exchange movements and preparation of policy responses to downside risks.

Directors also encouraged the authorities' continued pursuance of structural reforms to make the ECCU economies more competitive and resilient, including through digital transformation. They called for continued efforts to build resilience to climate-related shocks.

Directors agreed that the views they expressed today will form part of the Article IV consultation discussions with individual ECCU members.

ECCU: Selected Economic and Financial Indicators, 2017–21 1/

	2017	2018	2019	Est. 2020	Proj. 2021
	(Annual percentage change)				
Output and prices					
Real GDP	1.2	3.8	2.6	-16.0	-0.2
GDP deflator	1.4	0.7	1.7	-0.6	1.4
Consumer prices, average	1.1	1.2	0.7	-0.6	1.6
Monetary sector 2/					
Net foreign assets	14.6	5.8	5.1	...	...
Central bank	3.3	-1.1	-2.8	...	...
Commercial banks (net)	34.1	15.1	14.1	...	...
Net domestic assets	-6.0	-0.2	0.5	...	...
Of which: private sector credit	-0.1	0.0	0.5	...	...
Broad money (M2)	3.4	2.9	2.9	...	...
Public finances	(In percent of GDP; unless otherwise specified)				
Central government					
Total revenue and grants	26.8	27.8	27.0	26.7	27.2
Total expenditure and net lending	27.7	29.5	29.0	32.0	32.2
Overall balance	-0.9	-1.7	-2.0	-5.3	-5.0
Excl. Citizenship by Investment Programs	-3.6	-4.0	-3.6	-6.6	-5.8
Primary balance	1.6	0.6	0.4	-2.8	-2.4
Total public sector debt	72.1	69.6	67.1	83.9	88.8
External sector					
Current account balance	-7.5	-11.9	-6.5	-15.3	-21.6
Trade balance	-29.7	-34.3	-32.3	-25.0	-24.9
Exports, f.o.b. (annual percentage change)	-5.7	-14.6	2.5	-24.3	12.2
Imports, f.o.b. (annual percentage change)	3.2	17.4	-1.4	-34.6	1.6
Services, incomes and transfers	22.3	22.4	25.8	9.7	3.3
Of which: travel	37.4	36.9	39.7	15.4	8.4
External public debt	37.0	35.9	34.5	45.5	51.0
External debt service (percent of goods and nonfactor services)	9.7	9.4	9.9	28.1	28.7
International reserves					
In millions of U.S. dollars	1,750	1,747	1,698	1,747	1,717
In months of current year imports of goods and services	5.3	4.7	4.5	7.5	7.6
In percent of broad money	29.0	28.1	26.5	28.6	27.8
REER (average annual percentage change)					
Trade-weighted	-0.6	-1.9	1.2	-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/ Data for 2020 and 2021 are not reported: due to the methodological changes, annual growth numbers are not available.

INTERNATIONAL MONETARY FUND

EASTERN CARIBBEAN CURRENCY UNION

STAFF REPORT FOR THE 2021 DISCUSSION ON COMMON POLICIES OF MEMBER COUNTRIES

March 29, 2021

KEY ISSUES

The fallout from the COVID-19 crisis is hitting ECCU economies hard. Tourism receipts (accounting for nearly 40 percent of GDP) have dried up, as tourist arrivals have come to a grinding halt. The authorities successfully contained the spread of the virus at the onset of the pandemic by largely closing the borders, but a reopening of the economies since the summer has led to a surge in COVID cases. The ECCU economy is projected to contract by 16 percent in 2020 and by a further near ½ percent in 2021. Fiscal positions have deteriorated sharply, and public debt is projected to reach near 90 percent of GDP in 2021 and remain at an elevated level for years to come. Headline indicators suggest the financial system is relatively sound with ample liquidity buffers, but nonperforming loans are expected to rise significantly. The outlook is clouded by exceptionally high risks, including from the uncertainty concerning the evolution of the pandemic.

Main Policy Recommendations:

The ECCU faces the difficult challenges of protecting lives and livelihoods, ensuring medium-term fiscal sustainability, and safeguarding financial stability and the quasi-currency board. Staff recommend a near-term strategy to tackle the crisis, limit permanent scarring, and protect the vulnerable based on:

- Maintaining fiscal support by accommodating critical COVID-related spending and strengthening regional and national fiscal frameworks to safeguard the credibility of the regional debt target of 60 percent of GDP, which has been extended by 5 years to 2035.
- Supporting financial institutions' capacity to weather the near-term pandemic impact and preparing comprehensive crisis management plans at the regional and national levels.
- Keeping a robust backing ratio to safeguard the quasi-currency board.

Once a post-pandemic recovery is entrenched, policies should focus on resuming fiscal consolidation, strengthening the financial system, and implementing other structural reforms to achieve resilient growth.

Approved By
Krishna Srinivasan (WHD) and Chad Steinberg (SPR)

Mission Team: Sònia Muñoz (head), Ding Ding, Alejandro Guerson, Janne Hukka, and Kotaro Ishi (all WHD), and Gayon Hosin (MCM). The mission visited virtually all eight ECCU member jurisdictions (Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and The Grenadines) and Barbados.
The team met with the Prime Ministers/Premiers and Ministers of Finance 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. Messrs. Bakker, Lissovolik, and Chensavasdijai attended the meetings with the Prime Ministers of St. Kitts and Nevis, Grenada, and Antigua and Barbuda, respectively. Ms. Edwards (OED) attended some meetings.
Mr. Srinivasan (WHD) and Ms. Levonian (OED) participated in the concluding meeting.
ECCU individual country teams participated in their respective country meetings and in the research seminar at the ECCB.
Virtual Mission Dates: January 13–February 3 and February 9, 2021.
Contributors: ECCU team. Additional analytical input was provided by Bogdan Lissovolik, Dirk Muir, Carlo Pizzinelli, Gonzalo Salinas, Yannick Timmer, and Mauricio Vargas. Raadhika Vishvesh also provided research assistance. Anahit Aghababyan provided administrative assistance.

CONTENTS

BOXES

FIGURES

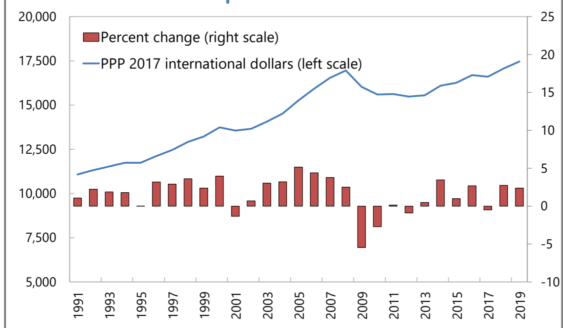
TABLES

ANNEXES

PRE-COVID-19 CONDITIONS

1. Real GDP per capita in the ECCU had barely exceeded the pre-global financial crisis peak when the COVID-19 pandemic struck. Following the global financial crisis, the ECCU had several years of lackluster growth, due to structural frictions and weak price competitiveness. Growth finally took off around 2014, supported by strong global growth and increased tourism demand. The authorities pursued a pro-growth strategy that included a strengthening of human capital, improving investment climate, and building infrastructure. Although progress in implementing reforms has been slower than desired, the governments' policy direction has been broadly in line with past staff recommendations (Annex I).

Real GDP Per Capita



Source: IMF World Economic Outlook database.

2. The ECCU's tourism-dependent economies have various vulnerabilities. All countries are micro-states that are vulnerable to natural disasters with significant socio-economic implications. Prior to the COVID-19 shock, many countries were already highly indebted, led by Antigua and Barbuda and Dominica with debt levels at around 80–90 percent of GDP. Several are highly dependent on uncertain Citizenship-by-Investment (CBI) revenues, which could complement domestic revenue but are also prone to sudden stops. The financial sector also poses a major vulnerability due to its large size and persistent loan quality weaknesses.

Key Vulnerabilities of ECCU Countries, 2019

	Tourism dependence (stay-over tourists, '000, 2019)	Natural disaster risk	Public debt (in percent of GDP; 2019)	Dependence on CBI revenue (in percent of GDP, 2019)	Banking sector soundness (NPLs in percent of total loans)
ATG	301	H	82	3.2	5.3
DMA	89	H	91	9.9	12.2
GRD	163	H	60	2.9	2.2
KNA	117	H	56	15.4	24.0
LCA	424	H	61	0.5	8.2
VCT	80	H	75	No CBI	6.4

H	High risk	MH	Medium high risk
M	Medium risk	L	Low risk

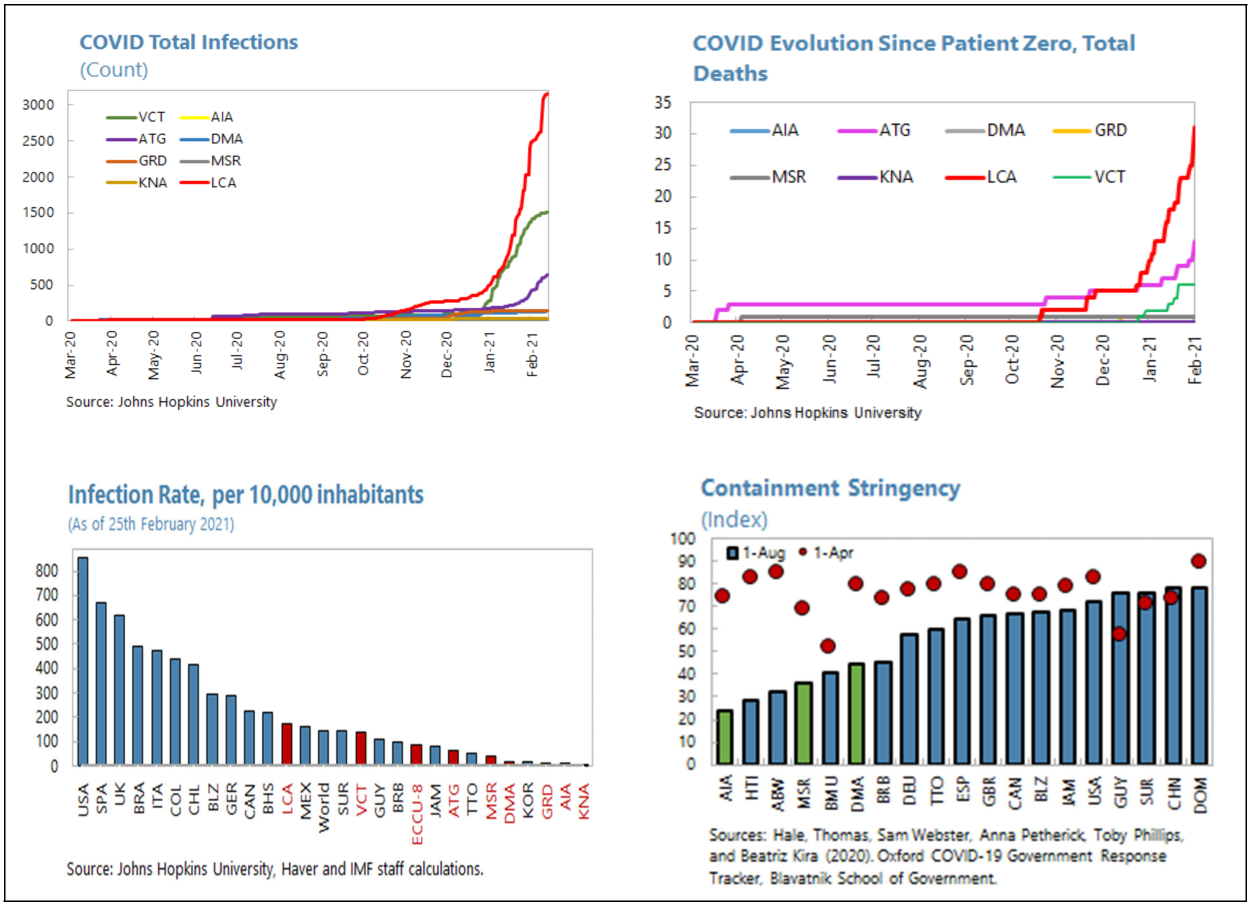
Sources: ECCU authorities and IMF staff estimates.

COVID-19 IMPACT AND POLICY RESPONSE

3. The health impact of COVID-19 in the ECCU was initially well-contained, but the situation deteriorated following a reopening of borders, with a sharp uptick in cases in early 2021. At the onset of the pandemic, ECCU countries moved quickly to restrict inbound travel and imposed strict lockdown measures.[1] By early summer, the spread of the virus had been under control, with very low infection rates. Subsequently, some authorities relaxed containment measures and reopened their borders, following which COVID-19 cases rose along with an increase in mortalities. A sharp increase took place in early 2021, reflecting the renewed global wave, the

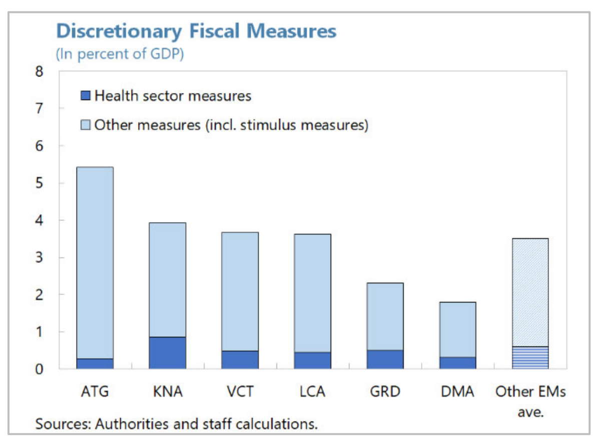
[1] St. Vincent and the Grenadines has neither declared a state of emergency nor introduced economic lockdown measures.

increase in regional visitors during Christmas holidays, and uneven compliance with quarantine protocols. Three quarters of the cases were concentrated in St. Lucia and St. Vincent and the Grenadines.

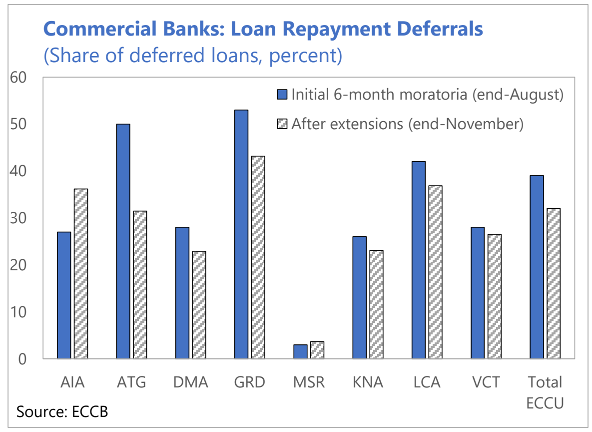


4. To mitigate the socio-economic impact of the pandemic, the authorities swiftly announced policy response measures.

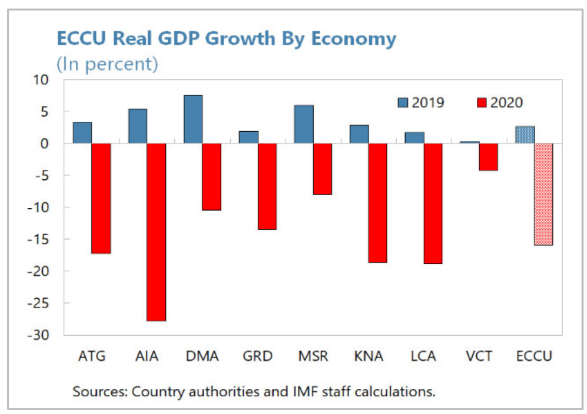
- ***Fiscal support.*** In March–April 2020, authorities announced fiscal measures to mitigate the impact of the COVID-19 shock. The size of the announced discretionary fiscal measures ranged between 2 and 5½ percent of GDP, broadly in line with those in Emerging Market economies. The measures included: (i) an increase in health care spending; (ii) cash payments to vulnerable households; (iii) income support for displaced workers in the tourism and other sectors; (iv) infrastructure projects to support local employment; and (v) tax and import duty deferrals (including on health products).



- ***Liquidity and financial sector support.*** In March 2020, the ECCB and the ECCU Bankers' Association announced broad-based loan repayment moratoria and waivers of late fees and charges for eligible borrowers for up to six months. In September 2020, the measures were extended in a more targeted manner for up to 12 months, based on banks' assessment of borrowers' financial conditions (by late-2020 nearly a third of banks' loan portfolios remained under such extended moratoria). The moratoria were accompanied by supervisory flexibility regarding specified regulatory requirements, including a temporary classification freeze for loans under moratoria.[2] National supervisors (who supervise and regulate the non-bank financial system) introduced similar guidance to credit unions and extended the grace periods for insurance premium payments, although practices and degree of supervisory guidance varied by country. To ease liquidity conditions, the ECCB also reduced the discount rate from 6.5 to 2 percent in April 2020 and the long-term credit interest rate from 6.5 to 3.5 percent in February 2021.



5. The pandemic has, however, taken a heavy toll on the economy. Containment measures and a slump in travel, starting in Spring 2020, led to a collapse in tourism-related activity and large economic losses, and a sharp increase in unemployment.[3] In response, some ECCU economies moved to gradually ease lockdown measures and open their borders using different strategies (Box 1). Nonetheless, tourist arrivals have remained far below pre-COVID-19 levels. ECCU's GDP is estimated to have contracted by 16 percent in 2020, down from a positive growth of 2¾ percent in 2019. There is considerable variation across countries, ranging from -4¼ percent (St. Vincent and the Grenadines) to -27¾ percent (Anguilla), largely reflecting the share of the tourism sector in the economy and the severity of lockdown measures. Inflation remains weak (0.2 percent y/y in December) in line with subdued CPI in key trading partners.



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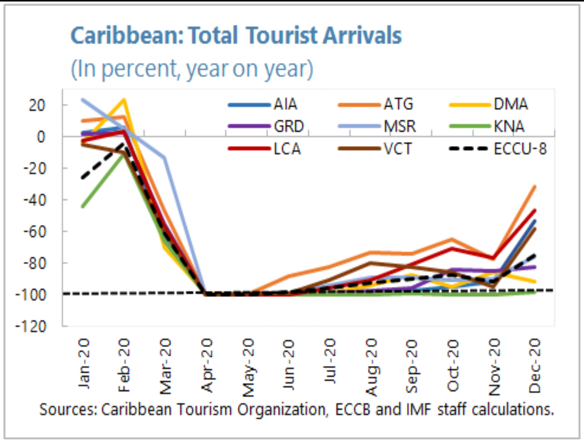
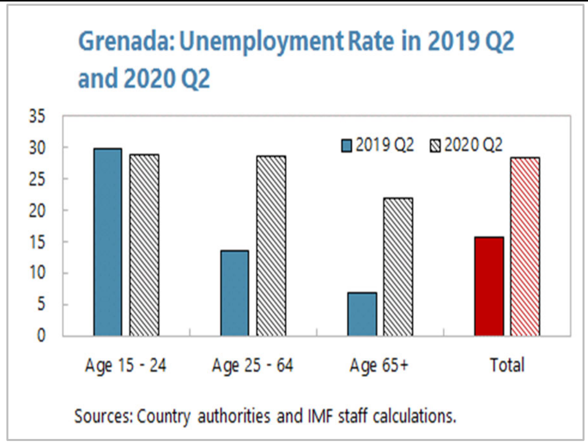
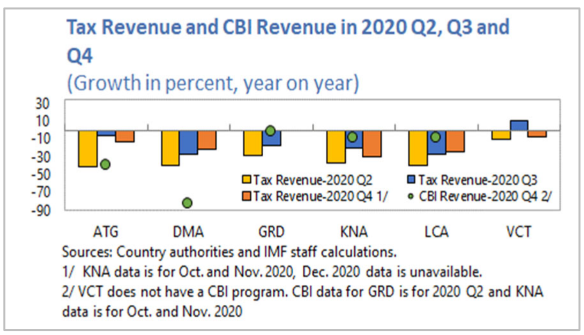
[2] The classification freeze allows banks to avoid classifying non-paying moratoria loans as NPLs and continue accruing interest to profits. IFRS 9 standards continue to govern expected credit losses and provisioning.

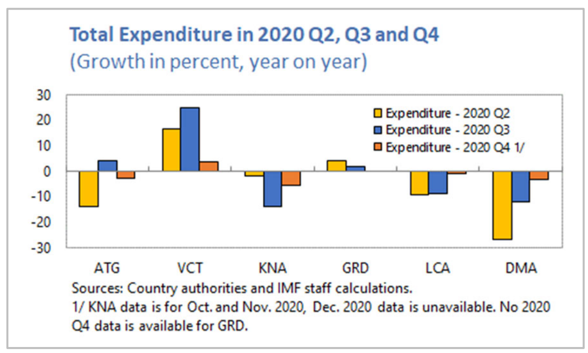
[3] Only Grenada authorities have compiled up-to-date labor statistics.





6. Fiscal positions deteriorated sharply in 2020. The size of revenue losses varied across countries, reflecting differences in countries' reliance on revenues from the tourism sector and CBI programs—the latter proved more resilient than other types of revenues. Total revenue collection in the ECCU is estimated to have declined by 16.7 percent in 2020. On the expenditure side, despite their efforts to boost COVID-19 related spending, many countries cut overall spending in nominal terms due to financing constraints, and total expenditure across the region declined by 7.2 percent in 2020. The ECCU's overall deficit is estimated to have widened to 5.3 percent of GDP (up from 2.0 percent of GDP in 2019). Rising deficits coupled with a contraction of economic activity has led to a reversal of the declining trend of public debt over the past decade, with the overall public debt estimated to have risen from 67 percent of GDP in 2019 to 84 percent of GDP in 2020.

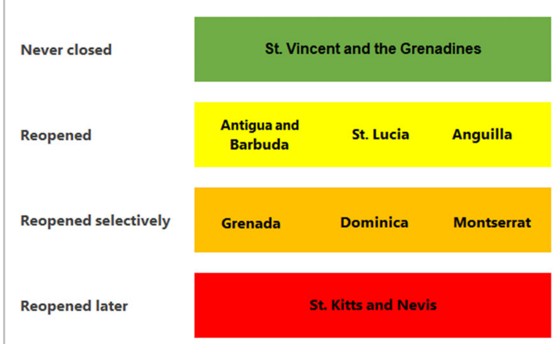




Box 1. Tourism Sector Reopening Strategies and Access to Vaccines

While early in the pandemic countries in the ECCU saw merit in a coordinated strategy to allow visitors, in practice, country-specific approaches prevailed during the first re-opening phase. Antigua and Barbuda and St. Lucia reopened during the summer of 2020 with mixed results due to a recurrence of cases, St. Kitts and Nevis did so only at end-October 2020, and St. Vincent and the Grenadines never closed its borders. In mid-September 2020, CARICOM countries agreed to strengthen the regional approach by instituting a regional "travel bubble." However, four countries announced soon after that they would opt out of the initiative (Dominica, Grenada, St. Kitts and Nevis, and St. Vincent and the Grenadines) amid COVID spikes. ECCU countries require visitors, depending on their source country, to submit proofs of negative tests before arrival and, upon arrival, stay in approved accommodations for quarantine.

Country Specific Approach to Tourism Reopening



Source: ECCU authorities and IMF staff estimates.

Securing access to vaccines is critical to return to normalcy. All ECCU-6 countries (i.e., ECCU-8 excluding Anguilla and Montserrat) are members of the COVAX Facility, which has been securing supply contracts with several major vaccine manufacturers. Four of the ECCU-6 countries (Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines) are eligible for COVAX Advance Market Committee support (i.e., cost-sharing). As part of UK overseas territories, Anguilla and Montserrat are receiving vaccines through the UK Government. The COVAX Facility's interim distribution forecast suggests that ECCU-6 countries are expected to receive doses enough to vaccinate about 20 percent of the population. The young demographic structure of the region would be advantageous. If vaccines are distributed from the oldest age groups, all or nearly 100 percent of the population 55 years and older could be vaccinated.[1] Nonetheless, the expected number of doses is too small to vaccinate 60–70 percent of the population (the authorities' intended goal) and to achieve herd immunity. Accordingly, ECCU countries have made bilateral agreements to obtain additional doses, including with India and Russia.[2]

Vaccinations in the ECCU under the COVAX Facility

	Doses	% of population covered 1/	% of above 55+ population 2/
ATG	40,800	20.8	100
DMA	28,800	20.4	90
GRD 3/	45,600	20.9	98
KNA	21,600	18.9	100
LCA 3/	74,400	20.6	100
VCT	45,600	20.7	100

Source: COVAX Facility interim distribution forecast as of 3 February, 2021.
1/ Each person should receive two doses.
2/ Assuming doses distributed from oldest age groups to youngest.
3/ Pending final evaluation of vaccine request submitted.

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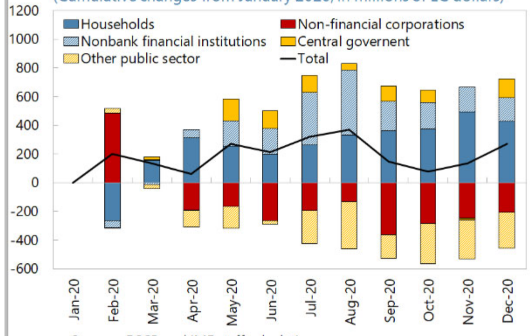
[1] In practice, however, authorities are prioritizing other vulnerable groups (like health sector workers), too.

[2] Antigua and Barbuda, Dominica, St. Lucia, St. Kitts and Nevis, and St. Vincent and the Grenadines received donations of the COVID-19 vaccine (20,000–70,000 doses per country) from the Serum Institute of India in late February–early March 2021.

7. The impact of the pandemic on the financial sector has so far been limited. The broad and persistent uptake on loan moratoria has contained immediate deterioration in asset quality but also points to a potentially large uptick in NPLs upon their expiration in September 2021. The moratoria may have also contributed to a modest pickup in banks' private sector credit stock, while high credit growth in credit unions in recent years appears to have moderated. At the same time, direct bank credit to governments has increased alongside rising fiscal financing needs. Financial system deposits have so far remained remarkably stable, likely reflecting disparate impact of the tourism shock across different economic and population segments, significant ''belt-tightening" among households and businesses, as well as postponed outlays due to the moratoria. Accordingly, financial system liquidity remains at high pre-pandemic levels (around 40 percent of total assets).[4] The pandemic has so far not had adverse effects on correspondent banking relationships (CBRs), although the added uncertainty has made acquiring new ones more challenging and suppressed business volumes at a time when foreign banking groups' reduced regional presence leaves a larger share of customers reliant on local banks' relationships. The ECCB recently approved the previously proposed sale of RBC's regional operations to a consortium of indigenous banks, while the Trinidad-based Republic Group completed the acquisition of most of Scotia group's operations in November 2019. The proposed sale of CIBC-FCIB to GNB Financial Group did not receive the required approval from the Caribbean regulators.

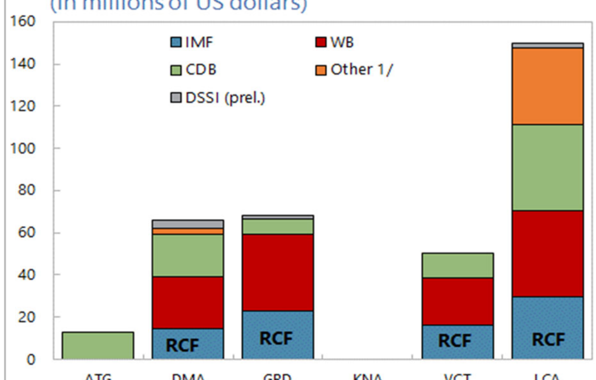
ECCU Commercial Bank Deposits
(Cumulative changes from January 2020; in millions of EC dollars)



Sources: ECCB and IMF staff calculations.

8. The authorities moved promptly to secure financing, including emergency financing from multilateral and bilateral donors. The IMF Executive Board approved emergency financing for Dominica, Grenada, and St. Lucia under the Rapid Credit Facility (RCF), totaling SDR 48.08 million (about US$65.6 million) in April 2020, while the request of St. Vincent and the Grenadines for emergency financing assistance under the RCF of SDR 11.7 million (about US$16 million) was approved in May 2020. The RCF disbursements provided immediate relief at the outset of the pandemic, financing urgent external needs for health spending and catalyzing financing from other development partners. The region received substantial COVID-19 related financial support from other international financial institutions including the World Bank and the Caribbean Development Bank, with Dominica, Grenada, and St. Lucia also benefitting from cash flow relief under the G-20 Debt Service Suspension Initiative (DSSI). Governments also relied on their deposits at the ECCB and commercial banks, CBI inflows,

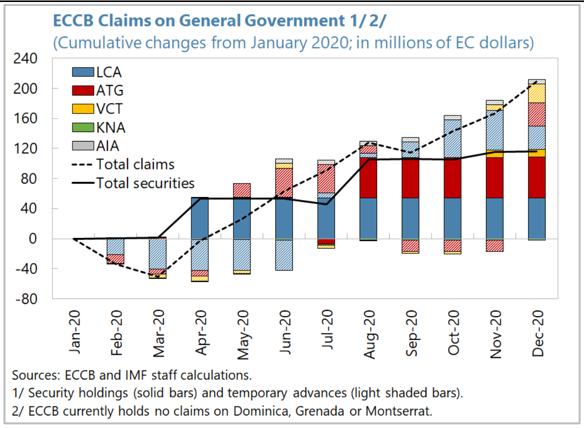
COVID-19 External Official Financing
(In millions of US dollars)

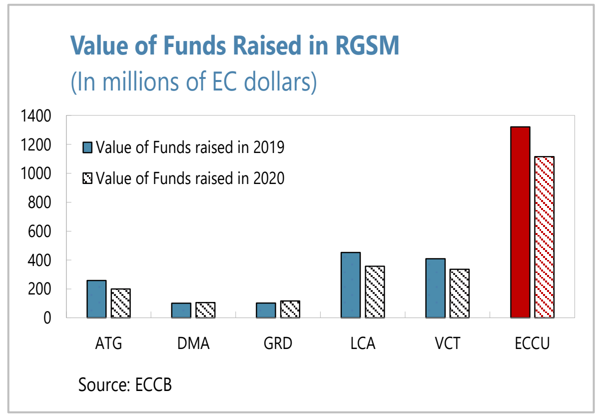


Sources: Authorities and staff calculations.
1/ Includes bilateral financing.

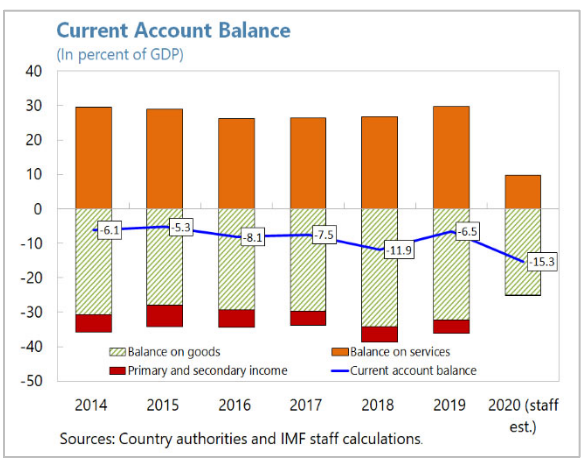
[4] ECCU banks are largely deposit-funded (i.e., have limited wholesale funding).

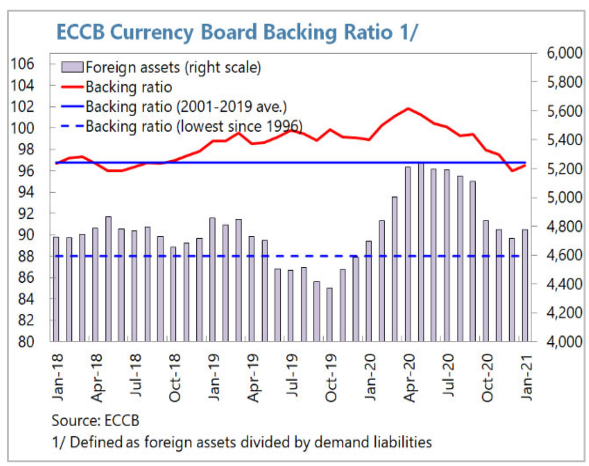
and financing from the Regional Government Securities Market (RGSM) which remained relatively stable. In addition, countries that faced more intense financing difficulties have tapped the ECCB's credit facility.





9. The current account deficit is estimated to have widened sharply in 2020. Staff estimates that the current account deficit more than doubled to 15¼ percent of GDP in 2020, reflecting lower tourism receipts partially offset by reduced imports. While net FDI inflows weakened, increased official flows helped finance the widened current account deficit, and the ECCB's foreign asset position held up relatively well.[5] The currency backing ratio under the quasi-currency board mechanism stood at 96 percent at end-January 2021.[6] The real effective exchange rate (REER) depreciated by nearly 3½ percent in 2020, due to the weakening of the U.S. dollar.





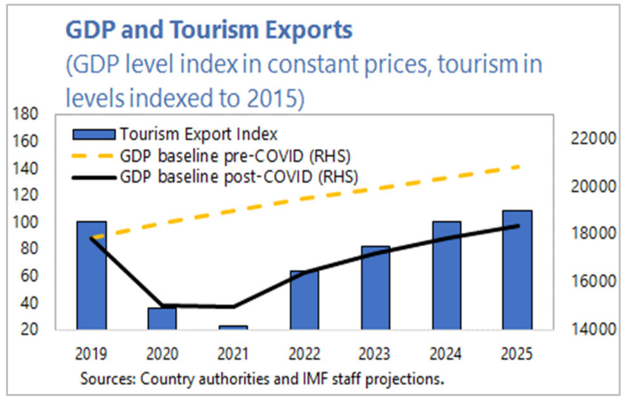
[5] The external assessment is based on staff's estimates, as the ECCB has not published balance of payments data since 2018.

[6] The backing ratio is defined as the ratio of foreign assets to demand liabilities at the ECCB.

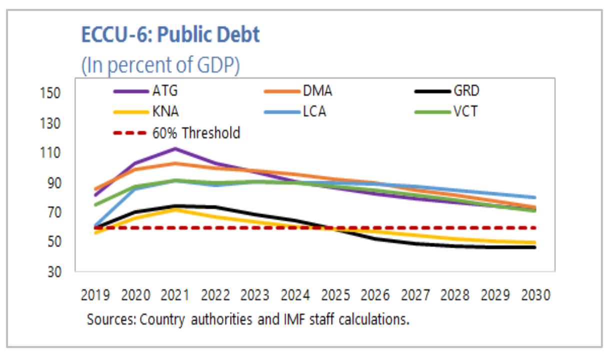
A SOMBER OUTLOOK WITH UNPRECEDENTED RISKS

A. Protracted Pace of Economic Recovery

10. A recovery will likely only begin after the COVID-19 pandemic is brought under control. Staff's baseline scenario is based on the assumption that vaccines will become broadly available in 2021Q4. As a result, the current tourism season (December 2020–May 2021) would remain very weak, as travel restrictions and consumers' general fear of contagion and the new wave of COVID-19 cases in the northern hemisphere and Europe keep arrivals very low.[7] The baseline projection also assumes that even after vaccines become available, tourists would remain cautious about leisure travel and hotels will take time to reinstate capacity. Accordingly, the pace of recovery in tourism is assumed to be gradual, with the number of tourists returning to the 2019 level only in 2024. The economy is projected to shrink by nearly ½ percent in 2021 and rebound by 9 percent in 2022. Over the medium term, growth will gradually decelerate to around 2¼ percent. The loss of economic activity and postponement of investments could result in scarring and a persistent output loss of over 12 percent of GDP through 2025, relative to the pre-COVID projection.



11. The pandemic will have a long-lasting impact on public finances in the ECCU. After a considerable deterioration in 2020–21, fiscal deficits are projected to narrow over the medium term as growth rebounds and fiscal adjustment measures are implemented, and the ECCU public debt ratio is expected to peak in 2021. Nonetheless, achieving the regional debt target of 60 percent of GDP by 2030 would be challenging for all countries, except Grenada and St. Kitts and Nevis. In this regard, the ECCB Monetary Council decided in February 2021 to extend the debt target date to 2035 and encouraged member countries to enact fiscal responsibility or fiscal resilience frameworks to support fiscal efforts in the post-pandemic period. The persistently high debt ratio would constrain the ECCU's fiscal space, limiting the authorities' ability to invest in resilience and implement policies to achieve dynamic and inclusive growth. The limited buffers and potential



[7] Countries that opened their borders during the summer are not seeing a strong rebound in the number of visitors, suggesting a slow recovery path.

financial contingent liabilities would also constrain authorities to implement counter-cyclical policies.[8]

12. Weak conditions in the financial sector would add to recovery challenges. The ongoing tourism shock is projected to almost triple bank NPLs in the next three years (see policy section), weighing on credit activity and raising fiscal contingent liability risks. These could be amplified by shocks to other asset exposures or materialization of operational risks.

B. Elevated Downside Risks

13. The outlook is subject to exceptionally high downside risks (Annex II):

- *The primary downside risk is a longer and more widespread global pandemic and a sharper-than-anticipated contraction in trading partners*. A deeper and longer recession would put additional strain on the public finances (as revenue collection weakens and needs for health spending and income transfers increase) and financial institutions (as NPLs rise, profitability falls, and so-far-benign liquidity conditions reverse). In a tail scenario this combined weakening of the real, fiscal, and financial sectors' fundamentals could undermine confidence, trigger liquidity pressures and capital outflows, and result in a loss of ECCB international reserves and potential pressure on the currency. Moreover, the ECCU is subject to the ripple effects of instability in global financial markets related to the COVID-19 pandemic. Staff's estimates suggest that an increase in global risk aversion would result in a negative growth impulse to the ECCU over two consecutive years (Box 2). Recurrent natural disasters, cyber-attacks, and the loss of CBRs remain significant risks.

- *On the upside, recovery from the pandemic could be faster than expected due to the swift dissemination of an effective vaccine that boosts confidence and economic activity*. Capital flows under CBI programs may also continue to surprise on the upside.

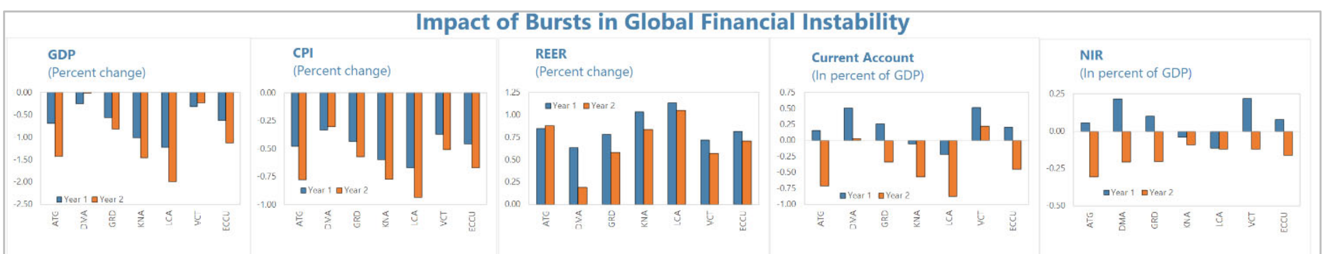
[8] Grenada and St. Kitts and Nevis hold significant government deposits, which could mitigate their financing constraints.

Box 2. Impact on the ECCU of Global Financial Instability under the COVID-19 Crisis

The ECCU is subject to the rippling effects of instability in global financial markets. The decisive and sizeable easing of monetary and financial conditions worldwide has thus far contributed to record-high asset prices in global financial centers and low interest rates. However, in light of the significant pandemic uncertainty, global financial markets show recurrent bursts of instability and sharp fly-to-quality portfolio reallocations. Despite ECCU not being financially integrated, these global investment dynamics affect key ECCU external sector fundamentals, including exchange rates across major global currencies and also depreciation of emerging countries' currencies (affecting tourism demand), key import commodity prices including oil and food items, and foreign remittances. In addition, increase in sovereign spreads, interest rates, and currency depreciation in emerging markets relative to the US dollar under those conditions weaken the ECCU external competitiveness, including of key ECCU tourism competitors such as Jamaica, Mexico, and the Dominican Republic with more flexible exchange rate regimes.

Recurrent bursts of global financial instability related to the pandemic would result in lower growth and further balance of payments pressures in the ECCU. An estimation of the global financial cycle around a stochastic trend shows that an increase in global risk aversion (a two standard deviation positive shock to the VIX index above the median) results in a negative growth impulse to the ECCU of -0.6 percent and -1.0 percent over two consecutive years, respectively. Lower commodity prices put negative pressure on ECCU inflation of around -0.5 percent, and appreciation of the EC dollar of 0.8 percent (larger in more tourism-dependent countries). The balance of payments worsens with a one-year lag, explained by reaction lags.

These estimates are based on a two-step procedure. First, an estimate of the joint dynamics of stock market prices (S&P500), global risk aversion (VIX index), commodity prices (oil, food, gold), the US monetary policy stance (Fed Funds rate), major currencies' exchange rates, long-term risk-free international interest rates (10-year US Treasury Bill yield), and emerging markets' sovereign spreads (EMBI). Shocks to the VIX are shown to worsen *jointly* key external sector transmission channels to the ECCU, including tourism demand, imported food and oil prices, foreign remittances, and imports. Second, the resulting multivariable shocks are applied to country specific VARs to estimate the impact on output, consumer prices, competitiveness, NIR, and the external current account.



Source: Fund staff estimates based on authorities' data.

POLICY DISCUSSIONS: BALANCING SUPPORT FOR THE ECONOMY WITH LONGER-TERM SUSTAINABILITY

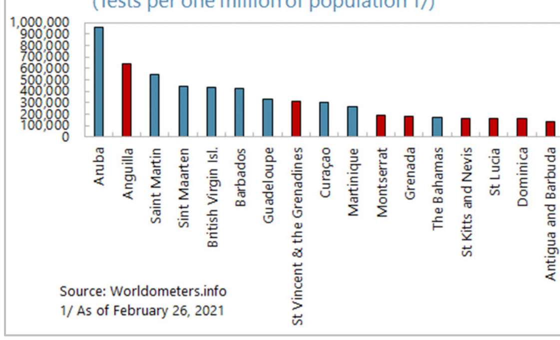
The ECCU faces the difficult challenge of combating a deep and prolonged recession and ensuring fiscal and external sustainability. The near-term imperative is to protect lives and livelihoods and limit potential scarring, while ensuring medium-term debt sustainability with strengthened fiscal frameworks and maintaining financial system stability, with a view to safeguarding the quasi-currency board system. Once the post-pandemic recovery takes hold, policies should focus on resuming fiscal consolidation, further strengthening the financial system, and accelerating other structural reforms to make the economy more competitive and resilient.

A. Supporting the Economy and Re-Anchoring the ECCU's Fiscal Framework

14. The ECCU countries face immense fiscal challenges to address the immediate health and socio-economic impact of the pandemic and its potentially long-lasting scarring effects. Most ECCU governments' fiscal deficits have been de-facto capped by the availability of financing resources, forcing pro-cyclical expenditure cuts in some cases as governments had to prioritize public spending needs. These near-term financing constraints, if not addressed, could severely affect governments' abilities to reopen the economy while ensuring public health and security. At the same time, looming debt sustainability concerns for some ECCU countries would require proactive planning for medium-term adjustment measures and structural reforms. Well-sequenced and calibrated fiscal policy responses are imperative for the ECCU countries to limit the economic scarring of the pandemic, restore macro-fiscal sustainability in a credible manner, and raise long-run growth.

15. Protecting lives and livelihoods remains the near-term policy priority. This includes: (i) enhancing testing, contact tracing and treatment capacity, and strengthening the enforcement of public health protocols; (ii) maximizing COVID-19 vaccine access in collaboration with international and regional partners; and (iii) mitigating the socio-economic impact by maintaining support for the vulnerable. Cash-constrained countries should rationalize non-essential spending and rely largely on concessional borrowing to safeguard medium-term sustainability. Strong fiscal transparency and accountability would be crucial to keep borrowing within safe limits and give confidence to donors and other stakeholders.[9]

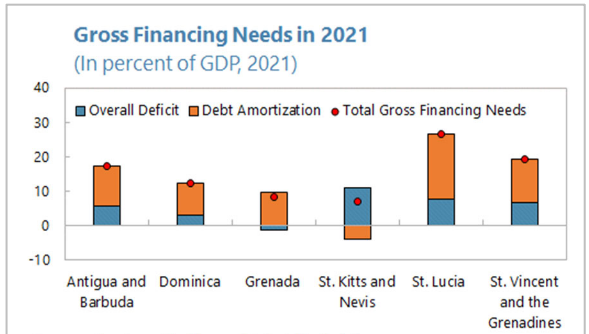
COVID Testing in the Caribbean
(Tests per one million of population 1/)



Source: Worldometers.info
1/ As of February 26, 2021

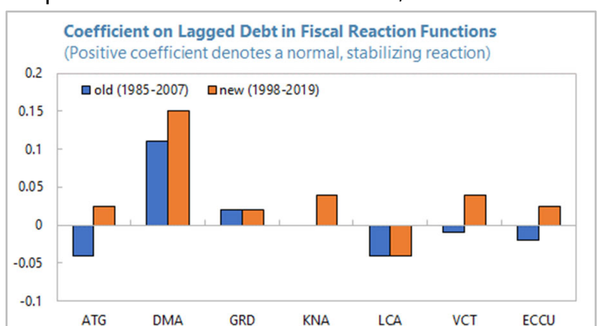
[9] In this context, governments should also make sure that transparency and governance commitments made in the context of the 2020 RCF programs are promptly met.

16. Without additional concessional financing, several ECCU countries may need substantial policy adjustment to close the near-term financing gaps. Such adjustment would become a significant headwind to economic recovery. In this regard, countries that have difficulty in securing sources for gross financing needs should consider seeking longer-term arrangements with the IFIs, including IMF supported-programs, which could help address near-term financing needs and smoothen the adjustment, catalyze donor financing to support priority spending, and serve as an anchor for the necessary medium-term adjustment to restore debt sustainability. Given tight financial conditions, debt refinancing may also be needed in some countries. Governments should minimize reliance on the ECCB credit line to safeguard the integrity of the quasi-currency board.



Sources: Country authorities and IMF staff calculations.

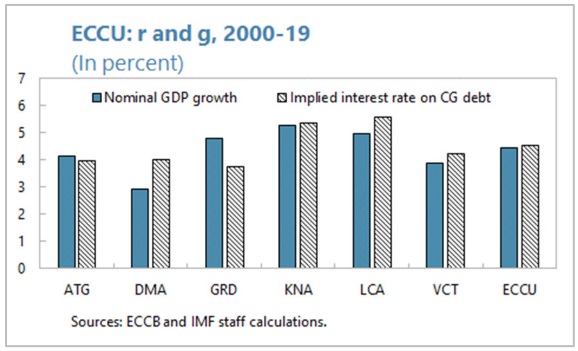
17. The ECCU's decision to postpone the regional debt target date by five years would create the near-term fiscal space needed to support the economic recovery. The 60 percent of GDP debt target has served as an important fiscal anchor for the region. Staff analysis indicates that ECCU countries' fiscal reaction functions have improved since the target was adopted in 1998 (Box 3). However, given the substantial growth and public finance impact of the pandemic, meeting the target by 2030 is no longer feasible for several countries in the region without drastic fiscal consolidation (a cumulative fiscal adjustment effort of 6 percent of GDP for the ECCU, with a cost to growth of 0.6–0.7 percent), that would both slow the recovery from the pandemic and constrain long-term growth prospects through scarring. The postponement of the debt target by five years could balance the creation of near-term fiscal space needed to support the economic recovery with the confidence-boosting effects of a firm fiscal anchor. Staff's illustrative analysis suggests that postponing the meeting of the debt objective, notably by announcing a firm and credible new target date, coupled with increased public investment (including for building resilience to natural disasters) that is embedded in a growth-friendly fiscal consolidation strategy, would have significant growth benefits. On the contrary, if the revised target date is perceived as not being credible, a potential spike in sovereign risk premia would hurt growth (Box 4).[10]



Sources: Country authorities and IMF staff projections.

[10] The simulation results are based on simplified assumptions of fiscal consolidation for the region as a whole. The real growth impact will depend on the actual size, pace and composition of public investment and fiscal consolidation (including both revenue and expenditure) measures implemented by each individual country.

Box 3. Assessing Benefits of the ECCU's Fiscal Anchor



The regional debt target plays an important role in anchoring the fiscal policies of the ECCU countries, considering the region-specific characteristics including: (i) *high externalities*—the ECCU's quasi-currency board arrangement requires clear national fiscal plans and buffers to mitigate the propagation of shocks, given the limited regional circuit-breakers in the form of the ECCB credit allocations; (ii) *dependence on external support*—donors, including IFIs, in order to provide continued financing, seek ex-ante clarity provided by fiscal rules that offer comprehensive and clear benchmarks for fiscal sustainability and accountability; and (iii) *still-unfavorable differential between (market-based) interest rates on public debt and growth (r-g):* a favorable evolution of this differential in other countries has been cited as weakening the need for primary surpluses and fiscal rules; however, the differential has been stable in the ECCU and positive if only market-based debt interest rates were considered.

Panel and Time Series Regression Estimates for Selected ECCU Countries, 1998-2019

Dependent Variable:	GLS panel	FE panel	OLS	OLS	OLS
Primary balance	ECCU-6	ECCU-6	Dominica	Grenada	St. Kitts and Nevis
Lagged CG debt	0.02*	0.03	0.32**	0.07**	0.11***
	1.78	*1.62*	*2.32*	*2.13*	*4.01*
Key other controls	output gap	output gap	output gap	real growth	output gap
				natural disaster	CBI revenue
Number of observations	128	128	22	22	22
R-squared	0.38	0.51	0.25	0.64	0.68

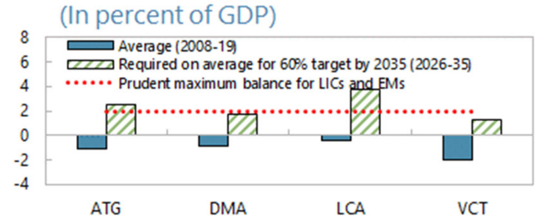
Source: IMF staff estimates.
Note: t-statistics in italics; ***,**, and * denote statistical significance at 0.01, 0.05, and 0.1 level respectively.

Empirical analysis suggests that the adoption of the 60 percent of GDP fiscal anchor in 1998 has been associated with improved ECCU countries' reaction functions. Panel (GLS) regressions for ECCU-6 and OLS time series regressions for the individual countries suggest there has been a shift from largely negative coefficients for primary balance on lagged debt in an earlier sample to mostly positive coefficients for the 1998–2019 period sample—when the 60 percent of GDP anchor was in place throughout. The coefficients are positive and statistically significant in Dominica, St. Kitts and Nevis, and Grenada. A more detailed regression analysis suggests that improved fiscal reaction functions were associated with good times (recently associated with increased CBI receipts), with the debt anchor potentially incentivizing fiscal savings in such episodes.

Well-designed rule-based fiscal frameworks can contribute to address a key source of uncertainty related to natural disaster for the region (see 2019 ECCU consultation). They need to be embedded within disaster resilience strategies that contain integrated long-term macro-fiscal plans supported by concessional donor financing within the ex-ante constraints of credible fiscal anchors.

18. It is critical that the extension of the target date is supported by further strengthening of fiscal policy frameworks to preserve the credibility of the revised fiscal anchor. The package of reforms to credibly reframe the fiscal anchor should consider the following:

Primary Balance in Selected ECCU Countries (2008–35)
(In percent of GDP)



Sources: Country authorities and IMF staff estimates.
Note: For the prudent maximum fiscal balance, see IMF How-To note "How to Calibrate Fiscal Rules: A Primer".

- *Regional common standards and arrangements to guide national fiscal responsibility frameworks.* Meeting the revised target would still be challenging for many countries in the region given the high probability of the materialization of contingent liabilities (including in the financial sector) and unusually large long-term primary surpluses that would be required to reach the target by 2035. In this regard, having robust common standards and arrangements to guide national fiscal policies would ensure timely implementation of the necessary fiscal adjustment measures, limit spillovers from unsustainable public finances, and provide a platform for effective coordination and surveillance of the fiscal policies of member countries. Flexibility is also needed to accommodate countries facing idiosyncratic shocks or starting from a less favorable fiscal position.

- *A regional fiscal oversight entity.* Such an institution would champion fiscal transparency, vet any further adjustments to the anchor, support peer reviews of members' fiscal responsibility or resilience frameworks, assess options for further reforms and operational rules, institutionalize good fiscal policies and practices, and assist members develop new legislation and/or procedures for fiscal transparency. The institution could be supported by assistance from CARTAC and placed in the ECCB monetary council's secretariat, in accordance with the ECCB's advisory role to member governments and similar to the existing arrangement where the ECCB is providing technical support to Grenada's fiscal responsibility oversight committee. This would have the advantage of maximizing available professional capacity, data availability, and convening power.[11] Finally, the effectiveness of a regional fiscal oversight entity crucially depends on its ability to undertake independent fiscal assessments, communicate with the public, and provide recommendations.

- *Incentive mechanisms to ensure compliance and reap the benefits from lower government borrowing costs.* Countries where it remains feasible to achieve the target earlier would reap payoffs from meeting debt sustainability benchmarks due to reputational benefits on borrowing costs and improved recourse to concessional funding. Furthermore, during peer reviews, the targeted debt paths would be differentiated by time horizons and pace according to their initial debt levels and macro shocks (interim targets could also be set for high-debt countries).

[11] Appropriate safeguards may be needed to ensure that the ECCB's core operations are not affected. Over time, the ECCU could also undertake coordination of tax and CBI integrity standards and policies and create a regional stabilization fund to improve fiscal space and resilience to shocks, as discussed in the 2019 ECCU consultation. Coordination of CBI programs could ensure robust vetting, monitoring and revocation systems, publication of the names of person granted citizenship, and audits of CBI receipts that is needed to protect such programs.

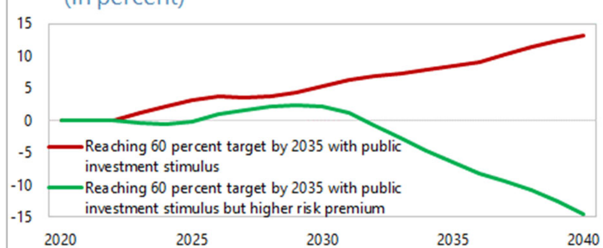
Reputational costs for deviations or non-compliance would be raised by requiring governments to explain deviations and specify concrete corrective policies.

Box 4. Importance of a Credible Postponement of the Regional Debt Target

To illustrate the importance of postponing the debt target in a credible way, we use the IMF's Global Integrated Monetary and Fiscal model (GIMF), calibrated to the ECCU, to conduct forward-looking scenarios. GIMF is an annual, multi-region, micro-founded dynamic stochastic general equilibrium model of the global economy that has been used extensively by IMF staff to conduct policy analysis (Kumhof and others, 2010 and Anderson and others, 2013). We design alternative scenarios to simulate the macro-fiscal impact of different consolidation paths and compare them to the benchmark scenario of meeting the 60 percent debt target by 2030.

Compared to the benchmark scenario, delaying the target year to 2035 can create policy space for public investment, leading to long-run growth benefits. We introduce public infrastructure investment stimulus from 2021 to 2025 at 2 percent of GDP per year and a permanent amount of 0.4 percent of GDP per year afterwards to maintain the increase in the infrastructure capital stock. There is also fiscal consolidation from 2022 to 2035, with more adjustment after 2025 as the main public investment stimulus comes to an end. Compared to the benchmark scenario, the investment stimulus will bring long-run growth benefits more than enough to offset the negative growth impact from the consolidation, but it will take five more years to bring the debt to GDP ratio to the 60 percent target.

Cumulative Differences in real GDP compared to meeting the 60 percent target by 2030
(In percent)



Source: IMF staff estimates.

However, without a strong policy framework to ensure the credibility of long-run consolidation, sovereign risk premium could rise, offsetting the growth gains from delaying the consolidation process. An increase of the sovereign risk premium by 100 basis points would have a persistent negative impact on growth that would more than offset the growth benefits from the public investment stimulus. These results highlight the importance of a credible fiscal policy framework as the ECCU countries choose a new long-term adjustment path toward the regional debt target.

19. **Well sequenced improvements to national fiscal frameworks and rules are key to the success of the reframed regional anchor.** The national authorities, with continued technical assistance (TA) from IFIs, should accelerate progress toward adopting full-fledged rule-based fiscal frameworks and independent assessment institutions, as in Grenada.[12] However, these steps would

[12] Existing national rule-based frameworks (e.g., Grenada, and potentially St. Lucia and St. Vincent and the Grenadines) would usefully guide the fiscal positions and incentivize achieving the 60 percent target in advance of the minimum regional objectives. As elaborated in the 2019 ECCU consultation, these rules should be carefully designed to ensure

(continued)

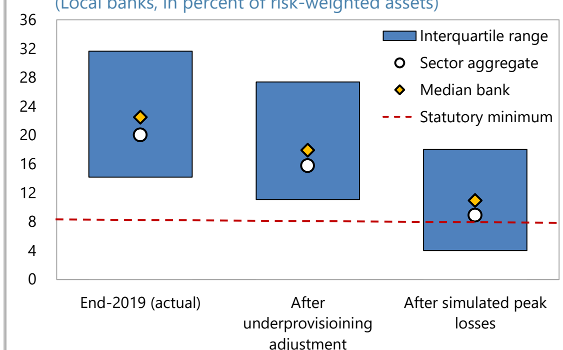
be successful only if they are well-tailored and supported by improved capacity and resources. Priority should be placed on better annual budget processes and macro-fiscal forecasting, with a focus of anchoring the medium-term fiscal frameworks (MTFFs) to achieve the revised debt target.[13] In parallel, the authorities should upgrade their public investment management, oversight for SOEs, internal audit function, fiscal reporting, and capacity to assess debt sustainability, on which they are currently receiving TA from CARTAC and the IMF. National Disaster Resilience Strategies would be an additional tool to internalize climate-related and potentially other shocks. State-contingent debt instruments triggering automatic amortization rescheduling and refinancing after large shocks, including natural disasters or pandemics, could further support fiscal sustainability (Annex IV).

B. Safeguarding Financial Stability

20. Financial system risks are gradually increasing as the crisis persists. In particular, the depth of the economic contraction and the likely protracted pace of a recovery will significantly raise credit risk and may eventually test financial institutions' liquidity buffers.

- **The pandemic shock will compound banks' legacy NPL problem.** Several banks still carry large portfolios of longstanding and insufficiently provisioned NPLs.[14] Regional efforts to reduce NPLs through purchases by the Eastern Caribbean Asset Management Corporation (ECAMC) have been hampered by funding constraints, and the ongoing crisis will further challenge recovery and resolution.[15] Meanwhile, the high share of deferred loans and staff's stress testing suggest new NPLs could rise well above levels reached after the global financial crisis (Box 5). If the estimated loan losses materialize, it would leave much of the ECCU banking sector with thin capital adequacy margins against further losses and could result in capital shortfalls in some banks. Credit risks for the credit union sector may be further exacerbated by their earlier rapid lending growth on the back of less stringent lending standards, as well as typically limited loan diversification. In general, credit institutions' loss-

IMF Staff Stress Test Impact on Bank Capital Buffers
(Local banks, in percent of risk-weighted assets)



Sources: ECCB and IMF staff calculations.

consolidation, while being robust to shocks such as natural disasters and potential materialization of contingent liabilities in the financial sector.

[13] Countries should also explain deviations from their forecasts and the corrective actions to get back on track.

[14] These include in particular majority state-owned banks with also more limited loan loss provisions coverage (Figure 4).

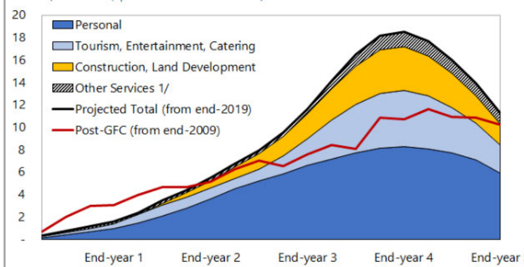
[15] The ECAMC was established in 2017 with the dual mandate for resolving failed banks and acquiring NPLs from approved financial institutions (AFIs) including banks. Following prolonged negotiations, the ECAMC signed its first set of agreements for acquisition of NPLs in October 2020, funded by a mix of ECAMC capital and selling institutions' financing. However, this funding model is not sufficient for further scaled up NPL acquisitions.

susceptibility depends heavily on their respective economies' degree of tourism dependency as well as the sectoral composition of their loan portfolios.

Box 5. COVID-19 Tourism Shock's Impact on the ECCU Banking Sector's Asset Quality

Staff simulations suggest that the ongoing tourism shock could result in near tripling of banking sector NPLs to almost 30 percent of total loans, although the full impact would materialize with a significant lag.[1] The simulations employ a panel of quarterly bank-level sectoral loan data with macroeconomic controls and local projection methods to compute sector-specific NPL impulse responses. The cumulative NPL path is derived from repeated tourism shocks that mimic the path of expected arrivals, taking into account the sectoral composition of banks' pre-pandemic loan portfolios and their respective economies' relative tourism dependency (overall contribution to GDP).

Simulated NPLs by Sector under Staff's Baseline Projection
(All banks, percent of total loans)



Sources: ECCB and IMF staff calculations.
1/ Transportation, storage, financial, professional and other services. Impact on other economic sectors' loan performance was either not statistically significant or material

At their peak, the simulated NPLs could imply loan losses of 8½ percent of ECCU GDP. Staff's loss estimates apply a uniform provisioning rate of 60 percent across the sectoral projections, while also accounting for the persistent under-provisioning of pre-existing NPLs whose resolution is further impeded by the crisis. Estimated capital shortfalls in local banks based on their pre-pandemic capitalization would be more modest (around 1 percent of GDP), but the sector on aggregate would be left with only thin capital adequacy margins against further losses.

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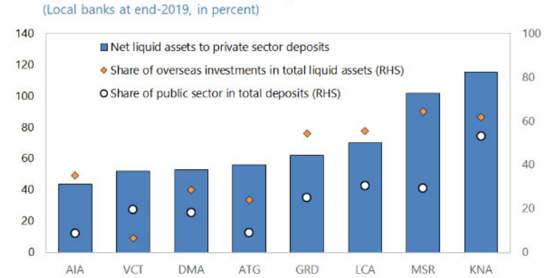
[1] The dynamic is broadly consistent with international banking crisis experience, see Ari, M. A., Chen, S. & Ratnovski, M. L., "The dynamics of non-performing loans during banking crises: a new database" (IMF WP/19/272).

- **Liquidity pressures may also emerge as the crisis lingers.** Beyond the delayed recovery, the expiration of loan moratoria and limited capacity of public authorities to maintain economic support may necessitate greater draw-down of private sector savings. Although pre-pandemic liquidity buffers were significant, prolonged belt-tightening may increase depositors' shock-sensitivity, while some banks' liquidity buffers also face pressures from public sector deposit withdrawals and risk of fair-value losses on overseas investments. Rising receivables in the insurance sector also warrants close monitoring.

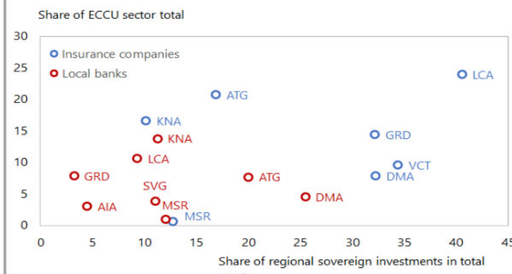
Liquidity Coverage of Private Sector Deposits
(Local banks at end-2019, in percent)



Sources: ECCB and IMF staff calculations.

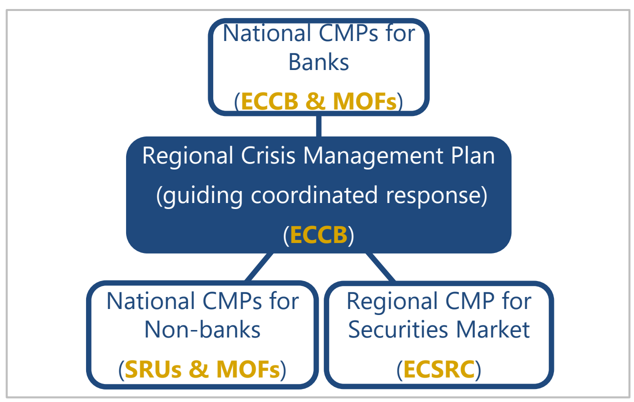
- **Sovereign-financial linkages are strong in some segments.** Banks' regional cross-border government debt holdings are limited, but some have high risk concentrations to their local sovereign. Pre-pandemic, two-thirds of such total gross exposures comprised direct lending.[16] Credit unions' sovereign exposures are smaller due to their membership-focused lending mandates, although local sovereign securities form part of their liquidity reserves. In contrast, insurance and pension companies have long been significant investors in the region's government securities, given statutory provisions restricting exposures outside the ECCU or CARICOM as well as limited alternative investment opportunities in the region.

Regional Sovereign Exposures at end-2019
(ECCU insurance companies and local banks, in percent 1/)



Sources: ECCB, ECCU national supervisors and IMF staff calculations.
1/ Insurance company sovereign exposure data not available in AIA.

21. Supervisors should carefully balance near-term supervisory flexibility with measures to support financial institutions' capacity to weather the crisis. Loan moratoria should be allowed to expire at end-September 2021 as announced by the ECCB, and banks and credit unions should be encouraged to ensure that any subsequent restructurings, if necessary, follow realistically achievable repayment terms. The recently issued ECCB standard on treatment of impaired assets will help limit long-standing overreliance on loan collateral and serve as an important guide for provisioning against expected credit losses. At the same time, supervisors should encourage capital conservation until the full impact of the pandemic is clear and, as necessary, allow for temporary breaches from minimum regulatory requirements provided the concerned institution has a credible corrective action plan in place. It is also essential to rapidly address remaining gaps in the supervision of non-banks as well as continue strengthening stress-testing coverage and practices.



22. Crisis management plans (CMPs) need to be formalized expeditiously at regional and national levels to ensure system-wide risks can be effectively contained. The current state of crisis preparedness relies largely on the authorities' experience from historical crisis episodes, with limited operational plans to guide policy responses to alternative scenarios. CMPs should consider a prioritized menu of readily implementable policy options and clearly identify the responsible agents, coordination requirements, intensified monitoring arrangements and enforcement mechanisms. The scope and modalities, including relevant triggers, of any intervention or stability measure should be assessed, including consistency with sound practices and international standards, while ensuring the adequacy of the requisite legal powers.[17] At the regional level, the ECCB should complete its review of the adequacy of its tools for liquidity assistance to banks as well

[16] Commercial bank loans to central governments increased by over 10 percent in 2020.

[17] The objective is to establish a "ladder" of scenario-tailored corrective measures, where these are appropriately escalated as the financial institution's condition deteriorates with a view to contain broader financial stability and any contingent fiscal liability risks.

as the bank resolution framework and strategies, taking into account funding constraints. With mandate for regional oversight, the ECCB should also have a key coordination role for national CMPs. These should, among other things, assess whether existing resolution regimes for non-banks remain appropriate given their increased financial system significance, and lay out the necessary home-host cooperation arrangements for cross-border financial groups. Inter-agency coordination should be enhanced by reviewing relevant memorandum of understanding (MoU) in relation to the nature and timing of information exchange, including stress tests, risk assessments, and policy developments such as designation of systemically important financial institutions.[18]

23. In anticipation of a sharp increase in NPLs, considerations for credible strategies to support reduction of troubled assets should start now. NPLs in the ECCU remain slow to resolve. This reflects rigidities in some ECCU jurisdictions' legal frameworks for asset recovery, as well as in the region's real estate markets owing to natural impediments of small scale and geographic fragmentation. Uncertain and costly asset recovery, particularly in the face of a new wave of loan losses, can constrain credit supply and thereby limit the financial system's longer-term ability to support the regional economies. The authorities therefore need to revisit sustainable funding options for the ECAMC and/or explore alternative troubled asset resolution strategies, while also addressing long-standing deficiencies in national legal frameworks.

24. Momentum on broader financial sector reform agenda should be maintained, although their pacing should pay due regard to near-term implications. National authorities should complete long-standing financial sector reforms, including on the credit reporting and insolvency frameworks, centralized AML/CFT supervision for the banking system, and harmonized legislation for co-operative societies.[19] Ongoing work towards the Optimal Regulatory Framework for the ECCU financial sector will be important to address previously identified infrastructure gaps, but the recent plan to establish a regional standards setting body should not dilute existing standards and ensure adequate capacity at each level of the regional supervisory framework. The pandemic has also highlighted the importance of developing a regional macroprudential framework and transitioning toward Basel II/III regulatory regimes. However, implementation timelines should avoid unduly burdening supervised institutions. Considerations over a regional deposit insurance need to pay due regard to the oversight framework, financial stability conditions, and all covered entities meeting the

[18] The key policy stakeholders include the ECCB, eight Ministries of Finance, eight national supervisors, Eastern Caribbean Securities Regulatory Commission (ECSRC), and Eastern Caribbean Asset Management Company (ECAMC). Inter-agency regulatory information exchange and coordination mechanisms are stipulated in MOUs and facilitated by the Regulatory Oversight Committee, which is comprised of representatives from all supervisory bodies and chaired by the ECCB governor.

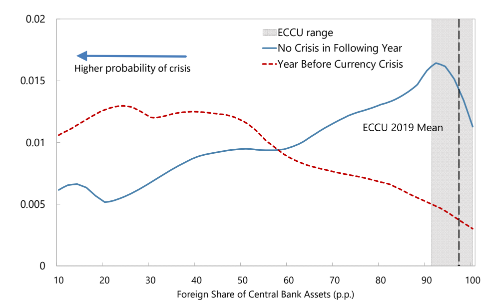
[19] The highly uncertain operating environment underscores the need to decisively address weaknesses in AML/CFT supervision and lower perceptions of abuse of regional CBI programs, by completing pending AML/CFT legislative amendments (including the above-mentioned designation of ECCB as the competent AML/CFT authority), addressing shortcomings in supervisory oversight identified in some countries' recent mutual evaluation assessments, and, importantly, countries' carefully evaluating financial integrity risks and taking ameliorative measures, including further strengthening oversight and transparency of regional CBI programs. The common regional platform for local banks' compliance functions can help mitigate the associated costs. The IMF is providing TA to strengthen ECCB's supervisory capacity in line with a risk-based approach to AML/CFT supervision and ensure harmonization of the regional AML/CFT legal and regulatory framework in line with the FATF standards.

necessary prerequisites; particularly given the pandemic's still highly uncertain balance sheet implications across banks.

C. Safeguarding the Quasi-Currency Board and Strengthening Competitiveness

25. The ECCB should keep a robust backing ratio by continuing to strictly limit credit provision. The backing ratio has remained in the range of 95–100 percent, above the legislative requirement of 60 percent and the operational benchmark of 80 percent. This prudent practice has lent credibility to the quasi-currency board arrangement. Staff's analysis looking at past crisis episodes suggests a strong link between the backing ratio and crisis likelihood and that the ECCB's backing ratio, currently at 96 percent, can be considered adequate (Box 6). Given the uncertainty concerning the evolution of the pandemic, the authorities should also enhance the monitoring of foreign exchange movements and prepare scenario-based policy responses, including estimation of financing needs and sources of concessional financing.

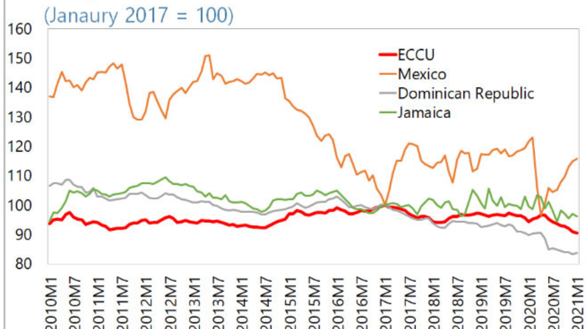
Backing ratio: Years Before Currency Crisis Versus Non-crisis
(Non-parametric density)



Sources: Laeven and Valencia (2020), Haver Analytics, WEO, IFS, GFD, WDI Databases, and IMF staff calculations.
Note: Non-parametric density estimated with Epanechnikov kernel and bandwidth=9.5. P-value from a Smirnov test for equality of distributions=0.00

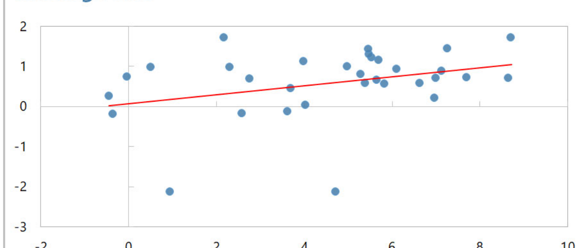
26. The COVID-19 shock has put significant pressure on output and employment, while exchange rate depreciation in neighboring economies could add to ECCU's external competitiveness challenges over time. The EBA–lite current account model suggests that the external position in 2020 (adjusted for the COVID impact) is estimated to be moderately weaker than what is consistent with fundamentals, implying an exchange rate overvaluation (Annex III). Staff's empirical analysis also found that smaller tourism economies (such as the ECCU countries) benefit less from exchange rate flexibility in the short run, likely due to *dominant currency pricing* (Annex V), but external competitiveness challenges may arise over the medium term.

Real Effective Exchange Rate: Key Tourism Competitors
(Janaury 2017 = 100)



Source: IMF Information Notification System (INS)..

Hotel Prices in Smaller Countries are Less Sensitive to the Exchange Rate



Source: IMF staff estimation.
Note: the y axis represents the percentage increase in the hotel rates (from the Week@theBeach index) with respect to appreciation of domestic currency against the US dollar, controlling for other factors, and the x axis is log GDP. The trendline indicates that the sensitivity is positively correlated with the economic size across countries.

Box 6. Assessing Currency Crisis Risk in the ECCU: Macroeconomic Perspective

The ECCB and its predecessors have maintained the fixed exchange regime for more than 70 years, uninterruptedly. The ECCB manages a common pool of reserves and can extend credit to governments and banks, up to a limit determined both by the reserve coverage and by individual country limits. Under the ECCB Agreement Act (1983), the ECCB must keep the backing ratio (defined as ECCB foreign assets as percent of its demand liabilities) at minimum 60 percent, but operationally, targets 80 percent. In practice, the backing ratio has been maintained at 95–100 percent over the past two decades. This mechanism has served to limit the risk of a currency crisis.

To verify the importance of the backing ratio in safeguarding the currency board, we revisited past currency crisis episodes in the world. We built a large panel dataset of currency crises and macroeconomic indicators by adding a small-country sample to Laeven and Valencia (2020)'s database.[1] We then run a binomial logit model following Caggiano et al. (2016). The dependent variable is a binary indicator for the occurrence of a currency crisis. The explanatory variables include domestic and global macro-financial indicators, and as key explanatory variable of interest, the "backing ratio."

The empirical results confirm the strong link between the backing ratio and crisis likelihood. The results are broadly consistent across several specifications (models 1–3). Key results are: (i) a higher backing ratio is associated with a lower likelihood of a currency crisis (the marginal effect at mean indicated that approximately, a 10 percentage point increase in the ratio reduces the likelihood of a crisis by 0.25–0.38 percent);[2] (ii) the exchange regime per se is not correlated with crisis likelihood (model 2), and (iii) the correlation is larger for small states (model 3).

Logit Model of Currency Crises
(Cross-sectional relationship between currency crises and macroeconomic fundamentals in preceding year)

	Dependent variable: occurrence of a currency crisis 1982-2017		
	(1)	(2)	(3)
Foreign/Total CB Assets t-1	-0.0297***	-0.0290***	-0.0257***
Fixed Exch. Rate t-1		-0.198	
Fixed Exch. Rate * Foreign/Total CB A		0.000	
Small State			1.544*
Small State * Foreign/Total CB Asset:			-0.0345*
Marginal Effect at Mean	-0.0271***	-0.0262***	-0.0297***
Observations	3,139	3,139	3,046
Pseudo R-squared	0.164	0.164	0.167

Sources: Laeven and Valencia (2020), Haver Analytics, WEO, IFS, GFD, WDI databases, and IMF staff calculations.
Note: Robust standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1. Marginal effects are muliplied by 100.

There is evidence that the distribution of the backing ratio in crisis cases differs from that in non-crisis cases. The distribution of the crisis cases is skewed left, while the distribution of the non-crisis case is skewed right. This implies that lower foreign assets ratios are correlated with a higher crisis probability (the arrow indicates theoretical direction of increasing crisis probability). Today, the ECCB still maintains a high level of the backing ratio (96 percent), which can be considered to be in a "safe zone."

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[1] The sample is an unbalanced panel of 173 countries for annual data 1982–2017.

[2] Calculated at the sample mean (across all countries and periods).

27. Going beyond the near term, the authorities should continue to make concerted efforts to make the economy more competitive and resilient.

- The immediate priority is to strengthen hospital, ICU, testing capacity, vaccination distribution, and health and hygiene protocols that reduce concerns of potential tourists and support a quicker rebound on tourism.

- As the health crisis abates, policy focus should increasingly shift towards repairing the scarring caused by the pandemic. This will require accelerating the implementation of structural reforms to make the economic structure more competitive and resilient. This includes investment in human and physical capital and further efforts to lower the cost of doing business by easing the regulatory burden and reducing energy and transportation costs. The ECCB initiative to modernize the payment systems and promote digital transformation would also be important to improve the overall business environment, while building resilience to natural disasters remains essential for sustainable growth. Advancing regional integration is also critical to catalyze capacity and resources for better policy responses and maximize economies of scale.[20]

D. Statistical issues

28. The lack of timely compilation of macroeconomic indicators hinders the effectiveness of external sector assessments and sound policymaking. The compilation and dissemination of external sector statistics (and to a lesser extent, national accounts) have been substantially delayed, hampering the monitoring of economic developments, macroeconomic risk assessment, and sound policy formulation. Timely data dissemination is affected by several issues, including understaffing at the ECCB and national statistics offices and delays in collecting survey data. The ECCB has recently moved to add staffing at its statistical department. To improve timeliness, however, it is important to dedicate permanent resources to external sector statistics at the national and regional levels.

AUTHORITIES' VIEWS

29. The authorities broadly agreed with staff's outlook of a protracted economic recovery that would depend on how quickly the COVID-19 pandemic is brought under control. The ECCB estimated GDP to have contracted by 15 percent in 2020 but projects a faster rebound to 4 percent in 2021, assuming a V-shaped recovery in tourism source markets based on a full reopening and return of international flights and cruise ships by the fourth quarter of 2021. Nonetheless, the economic outlook for the region remains highly uncertain and the pace of recovery in tourism is assumed to be gradual, with the number of tourists returning to the 2019 level in 2023. The recent spike in the number of confirmed COVID-19 cases in key source markets and some member countries undermines the prospects for recovery of tourism and growth in the ECCU, although the start of the vaccine rollout is positive development.

30. The authorities concurred with staff on the need for protecting lives and livelihoods but underscored the challenges of prioritizing public spending needs under financing constraints. While they agreed that fiscal support to the vulnerable population should continue, it is

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[20] In this light, the ECCB has recently initiated the Program of Action for Recovery, Resilience and Transformation, which lays out three-year policy action plans to safeguard financial stability, ensure fiscal and debt sustainability, enhance resilient and inclusive growth, and promote payments modernization and digital transformation. Some of these proposed action plans need to be further articulated and financing sources identified. Given that many of these action plans require legislative and regulatory actions at the national level, as well as financial and technical support from regional and international partners, an effective collaborative approach involving these stakeholders will be key to the success of this initiative.

no longer feasible for the ECCU countries to repeat the fiscal stimulus measures implemented during the first wave of the pandemic without additional external support. In this regard, the authorities called for greater access to concessional financing for small island countries on the basis of their vulnerability to external shocks and more rapid and equal global distribution of COVID-19 vaccines. They also noted that more efforts on revenue collection, including through the Citizenship-by-Investment programs, and greater efficiency in public spending are needed to alleviate near-term financing pressures.

31. In light of the large fiscal policy support required during the pandemic, the authorities were mostly in favor of postponing the regional debt target from 2030 to 2035 with supporting fiscal framework reforms to strengthen the credibility of the revised debt anchor and enhance fiscal resilience. They noted that while most ECCU countries were on their way to meet the 2030 debt target before the pandemic, the sharp increase in the public debt to GDP ratios across the region and the expected slow recovery in tourist arrivals would render the original target unattainable, except for Grenada and St. Kitts and Nevis. They noted that postponing the target by five years would allow them to maintain policy support in the near term and begin the consolidation process when the economic recovery is firmly entrenched. The authorities also agreed that further strengthening of the fiscal framework is key to preserve the credibility of the regional fiscal anchor and market confidence. In this context, they saw the merits of developing regional standards and arrangements to guide the national fiscal policy frameworks, especially on issues related to natural disaster clauses and state-contingent debt instruments. They also noted that establishing a regional fiscal oversight body would require legislative approval and the focus now should be given to strengthening national oversight mechanisms instead.

32. The authorities stressed that strong fiscal discipline at the national level is key to regional debt sustainability. Some of the authorities indicated their near-term plans to adopt full-fledged fiscal resilience frameworks in line with best practice in the region. Such rules-based frameworks would guide countries' consolidation process toward the reframed regional debt anchor with sufficient flexibility regarding future external shocks. The authorities also noted the need to improve public debt structure by lengthening the maturity and lowering borrowing costs and called for greater financial support from the international community to build resilience against natural disasters and climate change.

33. The authorities agreed with staff that the economic fallout from the pandemic poses gradually rising financial stability risks. They viewed credit risk as the key risk in the near-term, given the expected weakness of the economic outlook beyond the extended loan moratoria and national pandemic support measures. The authorities also acknowledged other risks related to concentration of asset exposures that need monitoring. The authorities noted, however, that the financial system took important steps to address vulnerabilities and build buffers in the pre-pandemic period. At this time, the authorities did not see any near-term liquidity risks, albeit acknowledging increasing receivables among insurance companies. The authorities have not seen the pandemic affect CBRs.

34. The authorities agreed that timely reinforcement of risk management is key to support financial institutions' capacity to weather the crisis and exit from temporary pandemic responses. The ECCB is not considering any further extension of the announced moratoria time frame and is monitoring restructured loans to ensure appropriate classification and reporting. The phased introduction of the ECCB's recently issued standard on the treatment of impaired assets will support timely credit loss provisioning, and a few SRUs are adopting similar guidance for credit unions. At the same time, stress testing is being further strengthened both at regional and national levels, and the authorities have taken steps to encourage near-term capital conservation, although existing legal frameworks do not permit blanket prohibition of shareholder distributions

35. The authorities confirmed the need for expedited formalization of crisis management plans at regional and national levels. The authorities noted their experience of successfully managing past crisis episodes but acknowledged the need to adopt formal crisis management plans that would support timely and coordinated policy responses. The ECCB is also in the process of reviewing the adequacy of its crisis tools and frameworks. The authorities also noted other reform initiatives that should complement these efforts, including the finalization of the region's draft frameworks for optimal regulatory oversight, macroprudential supervision, and crisis resolution.

36. The authorities are reviewing how best to address rising financial system NPLs. There was broad agreement on the merits of discussing the matter of NPL resolution in a regional context. Some national authorities agreed the ECAMC can serve an important function in the process, while others saw a need to also review alternatives, including complementary private sector solutions. National authorities noted financing constraints to supporting NPL resolution with fiscal resources and stressed the importance of adequate capital buffers and supervision as pre-emptive measures.

37. The authorities underscored the need to maintain financial sector reform momentum, given long implementation times. They noted that the financial stability pillar of the ECCB *Program of Action for Recovery, Resilience and Transformation of the ECCU Economies* highlights continued roll-out of key and long-outstanding reforms to support safely navigating the crisis, mitigating risks and strengthening financial system stability. They pointed to ongoing work towards *An Optimal Regulatory Framework for the Financial Sector of the ECCU* as essential to ensure that gaps in the infrastructure and supervisory framework for non-banks are addressed, and supervision follows common standards. While recognizing staff's concerns, the authorities also considered it important that work on deposit insurance should proceed apace given the expected duration of establishing the enabling legal framework.

38. The ECCB agreed on the importance of continuing to safeguard the currency board with a strong backing ratio. The ECCB continues to be guided by the legal requirements surrounding credit provision to maintain a robust backing ratio and would continue to be guided by its legal and operational framework. Given the uncertainty concerning the evolution of the pandemic, the authorities also agreed on preparing scenario-based policy responses and closely monitoring foreign exchange movements. They concurred on the need to improve timely dissemination of external sector statistics and requested further TA in the matter.

39. The ECCB stressed the importance of vigorously pursuing structural reforms during the pandemic—not waiting for its end, to improve competitiveness and boost growth. In this light, the above-mentioned ECCB *Program of Action for Recovery, Resilience and Transformation* will provide guidance to regional policymakers on a structural reform agenda, aiming to enhance regional integration and solidarity, financial stability, fiscal and debt sustainability, sustainable and innovative financing, inclusive growth, and innovation and competitiveness.

STAFF APPRAISAL

40. The COVID-19 pandemic has taken a heavy toll on the ECCU economy. The ECCU's economy has entered a deep recession, and with sizable revenue losses and spending pressures, fiscal positions have deteriorated significantly, with public debt rising. The current account balance has deteriorated, but the ECCB's foreign asset position has held up relatively well, partly reflecting increased official financing. Going forward, the recovery will be protracted and depend on how quickly the COVID-19 pandemic is brought under control. Policymakers need to carefully navigate through this challenging time, especially because the outlook is clouded by exceptionally high risks, including from the uncertainty concerning the evolution of the pandemic.

41. Protecting lives and livelihoods remains an imperative to limit the socio-economic impact of the pandemic. Near-term policy priorities include enhancing testing, contact tracing and treatment capacity, strengthening the enforcement of public health protocols, maximizing COVID-19 vaccine access, and maintaining support to the vulnerable. Countries under near-term financing constraints should rationalize non-essential spending and rely largely on concessional borrowing, including IMF-supported programs, to safeguard medium-term sustainability.

42. The ECCU's decision to extend the regional debt target date from 2030 to 2035 should be supported by strengthening regional and national fiscal frameworks to safeguard the credibility of the revised debt anchor. Postponing the debt target by five years would create near-term fiscal space needed to support the economic recovery while maintaining confidence in a firm regional fiscal anchor, given that the original target is no longer feasible for several countries in the region. To safeguard the credibility of the debt anchor, the authorities should strengthen policy frameworks at the regional level including by instituting regional common standards and arrangements to guide national fiscal policy frameworks, establishing a regional fiscal oversight body, and developing incentive mechanisms to ensure compliance and lower government borrowing costs. National authorities should accelerate progress toward adopting full-fledged rules-based fiscal frameworks to guide the pace and composition of the medium-term consolidation toward the debt target.

43. Supervisors should carefully balance near-term supervisory flexibility with measures to support financial institutions' capacity to weather the crisis. Extensions of loan moratoria should be limited within the time frame announced by the ECCB, and banks and credit unions should be encouraged to ensure that any subsequent restructurings follow realistically achievable repayment terms. Supervisors should track strengthened credit loss provisioning in line with recently issued standards, encourage capital conservation until the full impact of the pandemic is clear and, as necessary, allow for temporary breaches from minimum regulatory requirements provided the concerned institution has a credible corrective action plan. It is also essential to rapidly address remaining gaps in the supervision of non-banks and continue strengthening their stress-testing.

44. Crisis management plans need to be formalized expeditiously at regional and national levels to ensure system-wide risks can be effectively contained. These should be readily implementable with prioritized policy responses to identifiable contingency scenarios. They also need to clearly identify the responsible agents, coordination requirements and enforcement mechanisms while ensuring the adequacy of the requisite legal powers. The plans should also include the scope and modalities of any ECCB or government interventions and, in the case of non-banks, resolution options consistent with sound practices.

45. Credible strategies to support reduction of troubled assets should be started now. The pandemic is expected to increase significantly already elevated levels of non-performing loans in the financial system, which may constrain lending and thereby limit the financial system's longer-term ability to support the regional economies. The authorities therefore need to revisit sustainable funding options for the Eastern Caribbean Asset Management Company and/or explore alternative troubled asset resolution strategies, while also addressing long-standing deficiencies in national legal asset recovery frameworks.

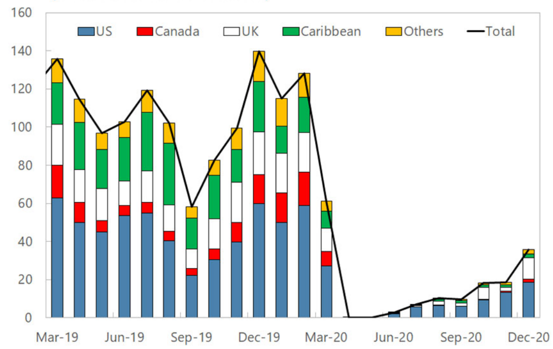
46. The broader financial sector reform momentum should be maintained at a balanced pace. National authorities should complete long-standing financial sector reforms, including on the credit reporting and insolvency frameworks, centralized AML/CFT supervision for the banking system, and harmonized legislation for co-operative societies. The pandemic has also highlighted the importance of developing a regional macroprudential framework, transitioning toward Basel II/III regulatory regimes, reducing infrastructure gaps and regulatory fragmentation, and further mitigating CBR risk. However, implementation timelines should avoid unduly burdening supervised institutions.

47. The ECCB should maintain the current prudent practice of keeping a robust backing ratio. By strictly limiting credit provision, the ECCB has maintained the backing ratio in the range of 95–100 percent, which has lent credibility to the quasi-currency board arrangement. Given the uncertainty concerning the evolution of the pandemic, the authorities should enhance monitoring of foreign exchange movements and prepare scenario-based policy responses. Bringing back the economy to a strong and sustainable recovery path quickly is also critical to ensure macroeconomic stability. To this end, the authorities should continue to make concerted efforts to implement structural reforms to make the economic structure more competitive and resilient.

Figure 1. ECCU: External Sector Developments

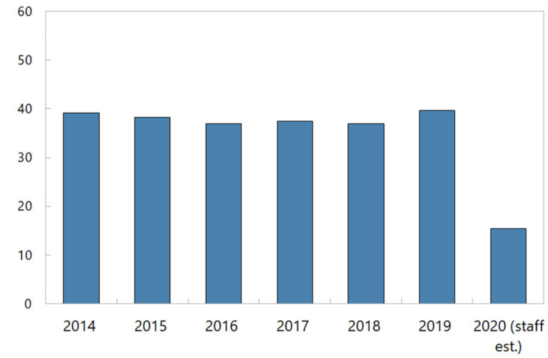
Tourism exports have collapsed….

Tourist Arrivals by Source Countries
(In thousands of tourists)



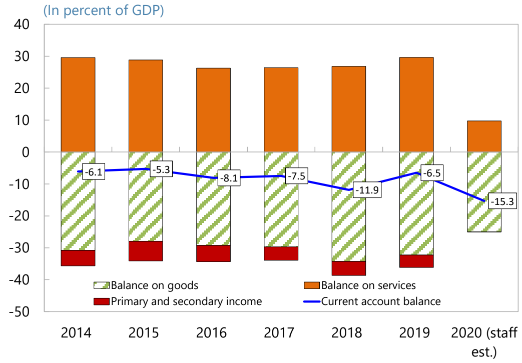
…resulting in a sharp decline in tourism exports…

Tourism Exports
(In percent of GDP)



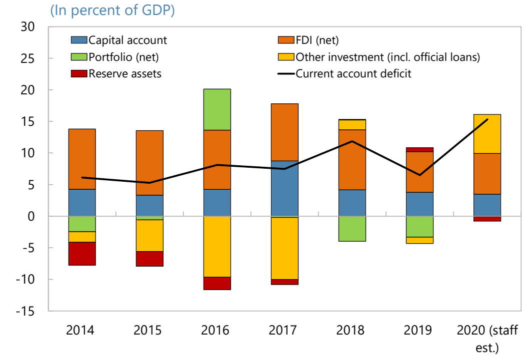
…and a widening of the current account deficit.

Current Account Balance
(In percent of GDP)



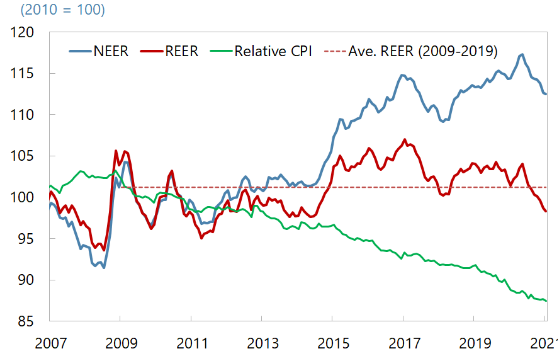
The current account deficit is expected to be financed by increased official capital inflows.

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



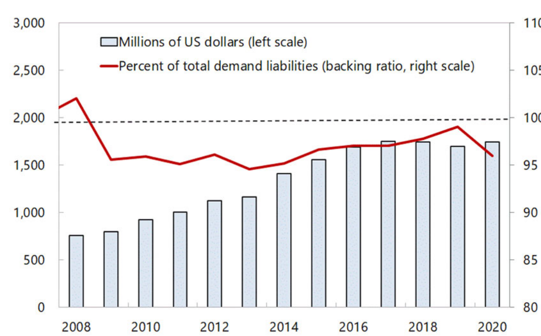
The real exchange rate has been volatile…

ECCU: Effective Exchange Rates
(2010 = 100)



…while the international reserve backing ratio has fallen slightly but remains high.

ECCB's Foreign Assets and Reserve Backing Ratio

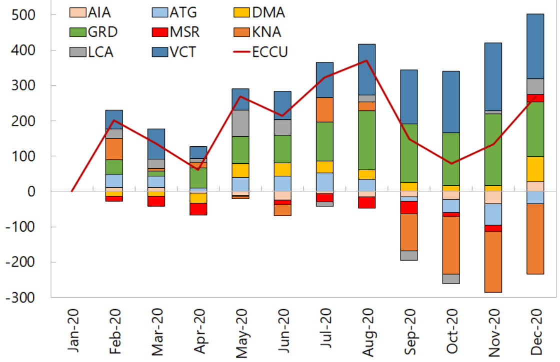


Sources: ECCB, IMF Information Notification System and IMF staff calculations.

Figure 2. ECCU: Monetary Developments

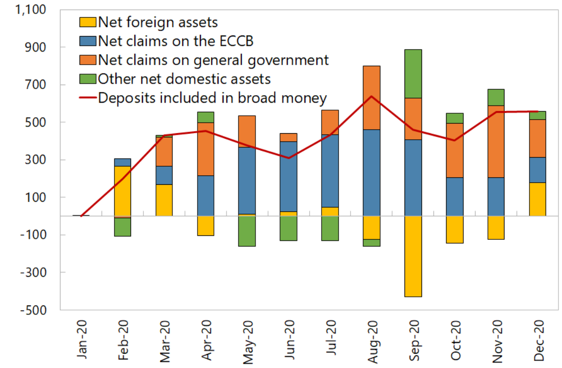
Bank deposits have remained remarkably robust across the region ....

Commercial Banks Deposits
(Cumulative changes from January 2020; in millions of EC dollars)



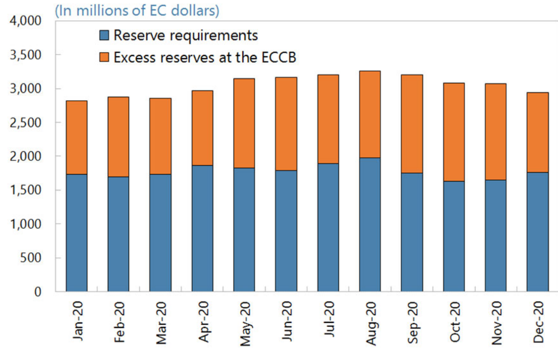
... which has supported banking system liquidity...

Commercial Banks Balance Sheet
(Cumulative changes from January 2020; in millions of EC dollars)



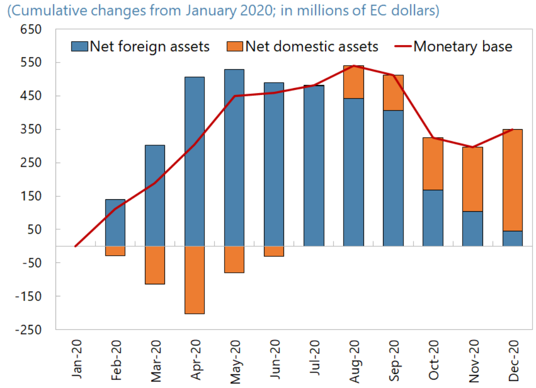
... including excess reserves at the ECCB.

Commercial Banks Reserve Requirements and Excess Reserves at the ECCB
(In millions of EC dollars)



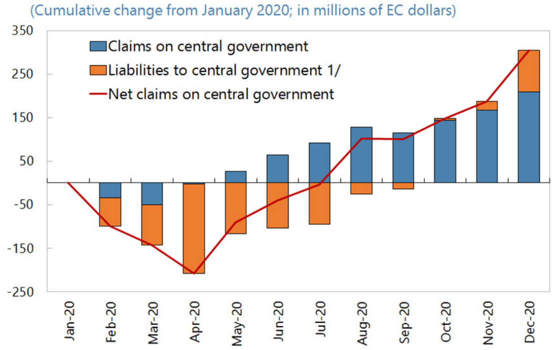
The larger monetary base is increasingly allocated to regional assets ....

ECCB Balance Sheet
(Cumulative changes from January 2020; in millions of EC dollars)



... as the pandemic triggered an increase in the ECCB's lending to governments ...

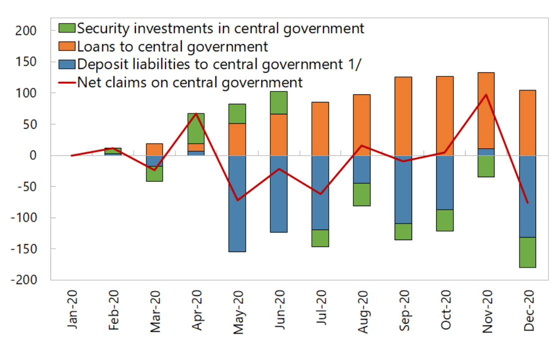
ECCB Net Claims on Central Government
(Cumulative change from January 2020; in millions of EC dollars)



1/ Positive values reflect deposit withdrawals.

... who have also increased direct borrowing from commercial banks.

Commercial Banks Net Claims on Central Government
(Cumulative change from January 2020; in millions of EC dollars)

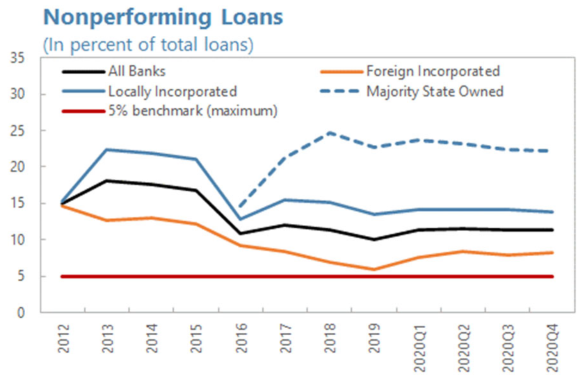


1/ Positive values reflect deposit withdrawals.

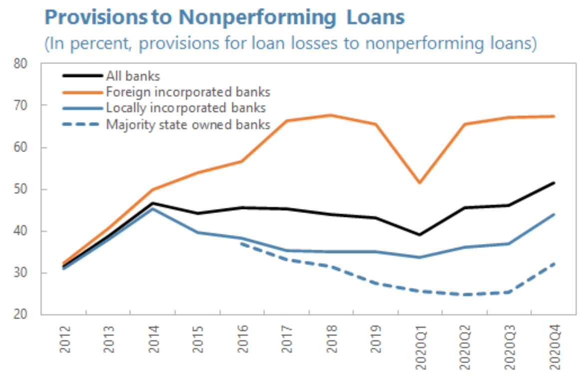
Sources: ECCB and IMF staff calculations.

Figure 3. ECCU: Financial Sector Developments 1/

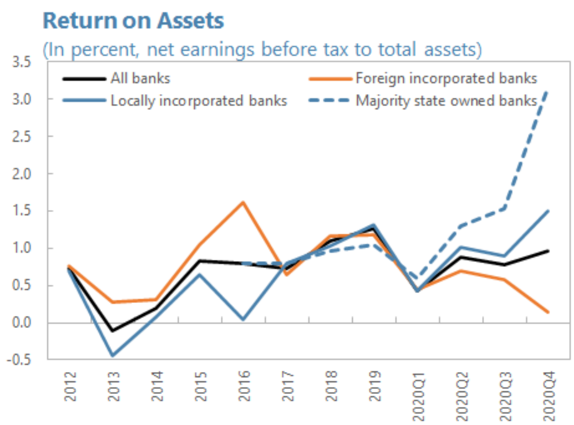
In contrast to foreign banking groups, locally incorporated banks entered the pandemic with high legacy NPLs ….



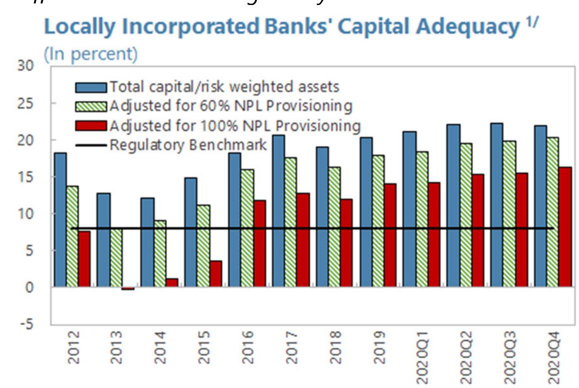
…. and have been more sluggish to increase loan loss provisions from comparatively low levels …



… while the impact on their earnings has so far remained modest.

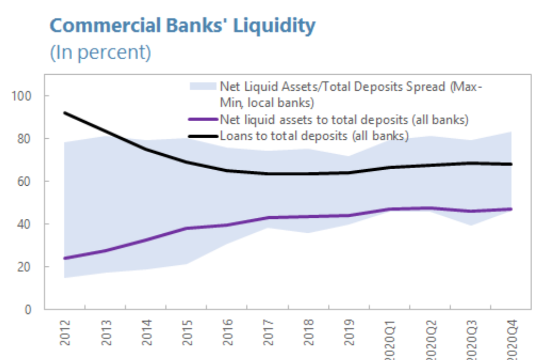


Most local banks have prudently maintained capital buffers well above the regulatory minimum.

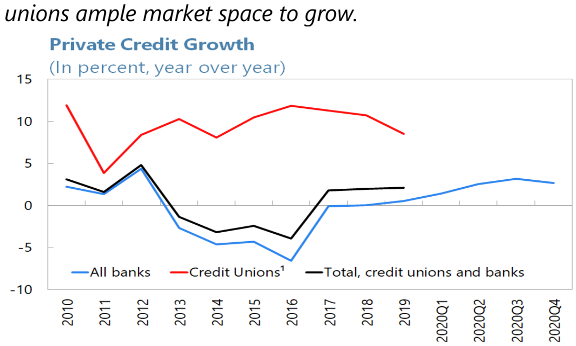


[1] Individual bank data does not reflect all revisions to FSIs over the period.

The banking system has large liquidity buffers …



… following decade-long bank deleveraging leaving credit unions ample market space to grow.



[1]Total loans for ECCU countries with the exception of Anguilla which had no credit unions until 2019.

Sources: ECCB, Caribbean Confederation of Credit Unions and Fund staff calculations.
1/ Due to data limitations, the breakdown of foreign and locally incorporated banks does not fully reflect the divestment of Bank of Nova Scotia's Eastern Caribbean operations.

Table 1. ECCU: Selected Economic and Financial Indicators, 2017–21 1/

	2017	2018	2019	Est. 2020	Proj. 2021
			(Annual percentage change)		
Output and prices					
Real GDP	1.2	3.8	2.6	-16.0	-0.2
GDP deflator	1.4	0.7	1.7	-0.6	1.4
Consumer prices, average	1.1	1.2	0.7	-0.6	1.6
Monetary sector 2/					
Net foreign assets	14.6	5.8	5.1	...	...
Central bank	3.3	-1.1	-2.8	...	...
Commercial banks (net)	34.1	15.1	14.1	...	...
Net domestic assets	-6.0	-0.2	0.5	...	...
Of which: private sector credit	-0.1	0.0	0.5	...	...
Broad money (M2)	3.4	2.9	2.9	...	...
Public finances			(In percent of GDP; unless otherwise specified)		
Central government					
Total revenue and grants	26.8	27.8	27.0	26.7	27.2
Total expenditure and net lending	27.7	29.5	29.0	32.0	32.2
Overall balance	-0.9	-1.7	-2.0	-5.3	-5.0
Excl. Citizenship by Investment Programs	-3.6	-4.0	-3.6	-6.6	-5.8
Primary balance	1.6	0.6	0.4	-2.8	-2.4
Total public sector debt	72.1	69.6	67.1	83.9	88.8
External sector					
Current account balance	-7.5	-11.9	-6.5	-15.3	-21.6
Trade balance	-29.7	-34.3	-32.3	-25.0	-24.9
Exports, f.o.b. (annual percentage change)	-5.7	-14.6	2.5	-24.3	12.2
Imports, f.o.b. (annual percentage change)	3.2	17.4	-1.4	-34.6	1.6
Services, incomes and transfers	22.3	22.4	25.8	9.7	3.3
Of which : travel	37.4	36.9	39.7	15.4	8.4
External public debt	37.0	35.9	34.5	45.5	51.0
External debt service (percent of goods and nonfactor services)	9.7	9.4	9.9	28.1	28.7
International reserves					
In millions of U.S. dollars	1,750	1,747	1,698	1,747	1,717
In months of current year imports of goods and services	5.3	4.7	4.5	7.5	7.6
In percent of broad money	29.0	28.1	26.5	28.6	27.8
REER (average annual percentage change)					
Trade-weighted	-0.6	-1.9	1.2	-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/ Data for 2020 and 2021 are not reported: due to methodological changes, annual growth numbers are not available.

Table 2. ECCU: Selected Economic Indicators by Country, 2018–26

(Annual percentage change, unless otherwise indicated)

			Est.	Proj.					
	2018	2019	2020	2021	2022	2023	2024	2025	2026
	(Annual percentage change; unless otherwise indicated)								
Real GDP	**3.8**	**2.6**	**-16.0**	**-0.2**	**9.3**	**4.9**	**3.9**	**2.6**	**2.3**
Anguilla	8.4	5.4	-27.8	-2.0	19.8	9.8	7.2	2.2	2.2
Antigua and Barbuda	7.0	3.4	-17.3	-3.0	11.9	6.3	5.9	3.9	3.0
Dominica	0.5	7.6	-10.4	-0.4	5.8	3.9	2.9	2.4	1.5
Grenada	4.1	1.9	-13.5	-1.5	5.2	5.1	3.6	2.7	2.7
Montserrat	4.0	5.9	-8.0	-2.5	4.6	3.3	2.2	2.2	2.2
St. Kitts and Nevis	2.9	2.8	-18.7	-2.0	10.0	8.0	5.5	2.7	2.7
St. Lucia	2.6	1.7	-18.9	3.1	10.7	3.2	2.4	1.8	1.4
St. Vincent and the Grenadines	2.2	0.3	-4.2	-0.1	4.9	3.3	3.1	2.7	2.7
CPI (end of period) 1/	**1.5**	**-0.1**	**0.2**	**1.5**	**1.7**	**2.0**	**2.0**	**2.0**	**2.0**
Anguilla	-0.4	0.7	-1.0	1.0	2.0	2.0	2.0	2.0	2.0
Antigua and Barbuda	1.7	0.7	2.8	2.0	2.0	2.0	2.0	2.0	2.0
Dominica	4.0	0.1	1.7	2.0	2.0	2.0	2.0	2.0	2.0
Grenada	1.4	0.1	-0.8	1.8	1.7	1.9	1.9	1.9	1.9
Montserrat	1.8	-0.6	-2.8	1.0	2.0	2.0	2.0	2.0	2.0
St. Kitts and Nevis	-0.7	-0.8	-1.2	-0.8	-0.3	2.0	2.0	2.0	2.0
St. Lucia	2.2	-0.7	-0.4	2.2	2.0	2.0	2.0	2.0	2.0
St. Vincent and the Grenadines	1.4	0.5	-1.0	1.4	2.1	2.1	2.0	2.0	2.0
Current account (percent GDP)	**-11.9**	**-6.5**	**-15.3**	**-21.6**	**-12.5**	**-9.7**	**-6.5**	**-6.0**	**-6.0**
Anguilla	-62.0	-39.7	-60.5	-67.0	-36.7	-30.1	-14.9	-14.4	-13.3
Antigua and Barbuda	-14.5	-6.8	-12.7	-25.0	-15.1	-11.1	-9.2	-7.7	-6.5
Dominica	-44.9	-26.7	-18.8	-28.0	-18.5	-15.3	-11.4	-10.5	-9.7
Grenada	-15.9	-15.9	-17.2	-23.4	-15.8	-16.2	-12.6	-12.2	-11.9
Montserrat	-2.9	0.3	-10.8	-22.2	-9.2	-8.5	-4.1	-2.3	-1.5
St. Kitts and Nevis	-5.7	-2.1	-8.1	-9.9	-8.7	-8.0	-8.0	-8.0	-8.0
St. Lucia	2.2	4.8	-16.3	-19.8	-6.8	-2.7	1.8	1.9	1.7
St. Vincent and the Grenadines	-12.0	-9.6	-13.7	-15.9	-12.9	-10.4	-9.3	-9.1	-8.9
Overall balance (percent of GDP) 2/	**-1.7**	**-2.0**	**-5.3**	**-5.0**	**-3.3**	**-2.0**	**-0.9**	**-0.2**	**0.2**
Anguilla	0.4	2.9	-0.9	-2.1	-0.9	1.9	2.8	4.4	5.0
Antigua and Barbuda	-3.2	-4.0	-5.7	-5.8	-4.6	-3.0	-1.8	-1.1	-0.6
Dominica	-20.0	-9.8	-3.7	-2.2	0.0	0.3	1.7	2.6	3.2
Grenada	4.6	5.0	-0.1	-0.9	1.4	2.2	2.8	3.0	3.4
Montserrat	-6.5	-12.7	-13.8	-6.5	-5.1	0.0	0.0	0.0	0.0
St. Kitts and Nevis	1.2	-1.1	-4.5	-5.8	-3.4	-0.4	0.3	0.9	1.1
St. Lucia	-1.0	-3.5	-9.7	-7.1	-5.3	-4.1	-3.3	-2.7	-2.2
St. Vincent and the Grenadines	-0.9	-3.0	-5.7	-6.0	-4.9	-6.0	-3.7	-2.2	-1.9
Public sector debt (percent of GDP)	**69.6**	**67.1**	**83.9**	**88.8**	**84.9**	**82.7**	**79.5**	**75.8**	**72.9**
Anguilla	60.7	48.1	67.7	70.1	58.0	49.6	42.4	36.2	29.7
Antigua and Barbuda	92.4	81.8	103.1	111.8	103.1	98.1	92.7	88.7	84.4
Dominica	79.7	91.0	97.1	96.4	91.5	87.7	82.6	77.3	71.3
Grenada	64.4	59.7	70.6	74.5	73.4	69.1	64.9	58.8	52.7
Montserrat	7.3	6.4	20.5	23.9	10.4	8.6	5.4	6.8	7.0
St. Kitts and Nevis	55.5	56.3	66.4	72.1	67.6	64.1	61.1	55.5	56.4
St. Lucia	60.0	61.3	84.4	88.4	87.6	89.9	89.4	88.9	88.2
St. Vincent and the Grenadines	75.6	75.1	87.2	91.8	90.2	90.9	89.7	87.6	84.8

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, 2018–26 1/

(In percent of GDP)

			Est.	Proj.					
	2018	2019	2020	2021	2022	2023	2024	2025	2026
Total revenues and grants	**27.8**	**27.0**	**26.7**	**27.2**	**26.5**	**26.5**	**26.4**	**26.3**	**26.5**
Anguilla	27.1	24.5	32.9	31.0	25.1	24.3	23.1	24.1	24.0
Antigua and Barbuda	19.8	18.9	20.0	23.2	21.7	22.6	22.6	22.7	22.7
Dominica	46.7	40.8	35.7	33.1	31.7	32.1	32.4	32.7	32.8
Grenada	26.9	26.8	26.6	26.4	26.6	26.8	26.6	26.5	26.5
Montserrat	79.0	71.4	77.2	87.0	81.9	81.1	79.0	79.3	79.3
St. Kitts and Nevis	39.3	38.9	33.7	33.7	31.6	32.4	32.4	30.5	32.1
St. Lucia	22.0	21.5	20.4	21.2	21.5	21.1	21.4	21.4	21.3
St. Vincent and the Grenadines	29.1	30.5	32.5	32.4	34.6	33.1	32.3	32.3	32.2
Current expenditure	**23.9**	**24.0**	**26.8**	**27.1**	**25.1**	**24.4**	**23.6**	**22.9**	**22.7**
Anguilla	23.8	20.5	32.5	32.6	25.8	22.2	20.2	19.5	18.8
Antigua and Barbuda	21.1	21.0	22.9	24.5	22.1	21.5	20.4	19.7	19.3
Dominica	40.8	39.3	31.9	28.3	26.2	26.3	25.2	24.7	24.2
Grenada	19.6	19.2	23.0	23.3	22.1	21.5	21.0	20.8	20.7
Montserrat	77.4	75.3	79.7	87.3	81.2	78.9	77.0	76.7	76.7
St. Kitts and Nevis	27.0	27.5	31.5	32.1	29.3	27.5	26.7	24.6	25.8
St. Lucia	20.1	21.3	24.1	22.7	21.8	21.6	21.2	20.6	20.1
St. Vincent and the Grenadines	26.2	26.9	30.0	31.5	29.8	29.6	29.1	28.9	28.6
Capital expenditure	**5.6**	**5.0**	**5.1**	**5.1**	**4.6**	**4.1**	**3.8**	**3.6**	**3.6**
Anguilla	3.0	0.9	1.1	0.3	0.0	0.0	0.0	0.0	0.0
Antigua and Barbuda	1.9	1.9	2.8	4.5	4.1	4.1	4.0	4.1	4.1
Dominica	25.9	9.9	6.0	5.5	4.0	4.0	4.0	4.0	4.0
Grenada	2.8	2.6	3.7	4.1	3.1	3.1	2.8	2.7	2.4
Montserrat	8.0	8.8	11.4	6.2	5.8	2.2	2.1	2.7	2.7
St. Kitts and Nevis	11.1	12.5	6.6	7.0	5.4	5.0	5.0	4.7	4.9
St. Lucia	3.0	3.6	6.0	4.9	4.3	2.9	2.9	2.9	2.9
St. Vincent and the Grenadines	3.8	6.5	8.2	7.0	9.7	9.5	6.9	5.7	5.5
Primary balance 2/	**0.6**	**0.4**	**-2.8**	**-2.4**	**-0.7**	**0.6**	**1.6**	**2.3**	**2.6**
Anguilla	2.6	4.9	1.5	0.1	0.9	3.4	4.0	5.4	5.9
Antigua and Barbuda	-0.7	-1.2	-3.2	-3.5	-2.3	-0.7	0.5	1.2	1.4
Dominica	-18.0	-7.3	-2.0	-0.6	1.8	2.0	3.4	4.1	4.6
Grenada	6.6	6.9	2.0	1.4	3.8	4.6	5.0	5.1	5.3
Montserrat	-6.5	-12.6	-13.8	-6.4	-5.0	0.3	0.4	0.8	0.6
St. Kitts and Nevis	2.6	0.1	-3.0	-3.9	-1.4	1.6	2.4	2.7	3.0
St. Lucia	1.9	-0.5	-6.1	-2.9	-1.2	-0.1	0.8	1.4	1.9
St. Vincent and the Grenadines	1.5	-0.5	-3.3	-3.0	-1.7	-2.5	-0.2	1.1	1.3
Overall balance 2/	**-1.7**	**-2.0**	**-5.3**	**-5.0**	**-3.3**	**-2.0**	**-0.9**	**-0.2**	**0.2**
Anguilla	0.4	2.9	-0.9	-2.1	-0.9	1.9	2.8	4.4	5.0
Antigua and Barbuda	-3.2	-4.0	-5.7	-5.8	-4.6	-3.0	-1.8	-1.1	-0.6
Dominica	-20.0	-9.8	-3.7	-2.2	0.0	0.3	1.7	2.6	3.2
Grenada	4.6	5.0	-0.1	-0.9	1.4	2.2	2.8	3.0	3.4
Montserrat	-6.5	-12.7	-13.8	-6.5	-5.1	0.0	0.0	0.0	0.0
St. Kitts and Nevis	1.2	-1.1	-4.5	-5.8	-3.4	-0.4	0.3	0.9	1.1
St. Lucia	-1.0	-3.5	-9.7	-7.1	-5.3	-4.1	-3.3	-2.7	-2.2
St. Vincent and the Grenadines	-0.9	-3.0	-5.7	-6.0	-4.9	-6.0	-3.7	-2.2	-1.9

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, 2018–26 1/

	2018	2019	Est. 2020	Proj. 2021	2022	2023	2024	2025	2026
	(In percent of GDP)								
Total public sector debt 2/	**69.6**	**67.1**	**83.9**	**88.8**	**84.9**	**82.7**	**79.5**	**75.8**	**72.9**
Anguilla	60.7	48.1	67.7	70.1	58.0	49.6	42.4	36.2	29.7
Antigua and Barbuda	92.4	81.8	103.1	111.8	103.1	98.1	92.7	88.7	84.4
Dominica	79.7	91.0	97.1	96.4	91.5	87.7	82.6	77.3	71.3
Grenada	64.4	59.7	70.6	74.5	73.4	69.1	64.9	58.8	52.7
Montserrat	7.3	6.4	20.5	23.9	10.4	8.6	5.4	6.8	7.0
St. Kitts and Nevis	55.5	56.3	66.4	72.1	67.6	64.1	61.1	55.5	56.4
St. Lucia	60.0	61.3	84.4	88.4	87.6	89.9	89.4	88.9	88.2
St. Vincent and the Grenadines	75.6	75.1	87.2	91.8	90.2	90.9	89.7	87.6	84.8
External debt	**35.9**	**34.5**	**45.5**	**51.0**	**51.6**	**51.3**	**50.1**	**48.3**	**46.6**
Anguilla	25.4	20.1	27.5	27.7	21.4	18.0	15.5	13.9	12.5
Antigua and Barbuda	41.6	37.1	46.4	57.9	59.1	59.4	59.0	58.7	56.4
Dominica	55.0	57.9	68.7	72.1	70.6	68.4	64.9	61.7	58.3
Grenada	45.1	42.0	51.8	55.4	56.0	53.7	51.3	47.3	43.4
Montserrat	6.0	5.3	9.7	10.0	7.9	6.3	3.5	5.0	4.9
St. Kitts and Nevis	14.4	13.0	13.9	15.1	14.2	13.6	13.1	11.8	11.9
St. Lucia	29.1	29.4	44.9	51.0	53.2	54.5	53.9	53.3	51.8
St. Vincent and the Grenadines	49.3	52.9	64.5	66.7	70.1	72.2	71.9	70.7	68.8
Domestic debt	**33.7**	**32.6**	**38.4**	**37.8**	**33.3**	**31.4**	**29.4**	**27.4**	**26.3**
Anguilla	35.3	28.0	40.2	42.4	36.5	31.6	26.9	22.3	17.1
Antigua and Barbuda	50.8	44.8	56.7	53.8	43.9	38.8	33.7	30.0	28.0
Dominica	24.6	33.1	28.4	24.3	20.9	19.3	17.7	15.5	13.0
Grenada	19.3	17.7	18.9	19.1	17.3	15.4	13.6	11.6	9.3
Montserrat	1.4	1.1	10.8	13.9	2.6	2.3	1.9	1.8	2.2
St. Kitts and Nevis	41.1	43.3	52.5	57.1	53.4	50.4	48.0	43.7	44.5
St. Lucia	30.9	31.9	39.5	37.4	34.4	35.3	35.5	35.7	36.4
St. Vincent and the Grenadines	26.3	22.2	22.7	25.0	20.1	18.7	17.8	16.8	16.1
	(In percent)								
Implied interest rates on central government external debt									
Anguilla	4.3	5.0	4.4	4.2	4.7	4.5	4.2	3.9	3.4
Antigua and Barbuda	2.5	3.3	2.8	1.9	2.2	2.7	2.8	3.0	3.0
Dominica	2.8	1.9	2.1	2.1	2.2	2.2	2.2	2.2	2.2
Grenada	3.2	3.3	2.9	3.2	3.2	3.4	3.4	3.6	3.6
Montserrat	0.4	2.4	0.6	0.6	0.9	1.0	2.2	1.3	1.3
St. Kitts and Nevis	2.6	2.5	2.7	3.6	3.8	3.9	4.0	4.3	4.5
St. Lucia	4.5	4.3	3.3	3.1	3.1	3.3	3.4	3.4	3.5
St. Vincent and the Grenadines	2.3	2.0	1.7	2.2	3.0	3.6	3.6	3.5	3.5
Implied interest rates on central government domestic debt									
Anguilla	3.9	3.1	2.8	2.5	2.3	2.2	2.2	2.4	2.8
Antigua and Barbuda	4.0	4.4	2.8	2.8	2.9	2.8	2.7	2.6	2.0
Dominica	4.5	13.4	2.4	2.1	2.9	2.9	2.9	3.0	3.1
Grenada	3.0	2.8	3.2	3.1	3.3	3.4	3.4	3.6	3.8
Montserrat	0.4	0.5	0.0	0.0	0.2	0.2	0.3	0.3	1.1
St. Kitts and Nevis	3.9	3.4	3.4	3.8	4.3	4.4	4.5	4.3	4.4
St. Lucia	6.0	6.0	5.9	6.0	6.1	5.7	5.8	5.8	5.8
St. Vincent and the Grenadines	6.3	7.6	6.0	6.2	6.0	5.4	5.4	5.5	5.3

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: Summary Balance of Payments, 2018–26

	2018	Est. 2019	Est. 2020	Proj. 2021	2022	2023	2024	2025	2026
				(In millions of U.S. dollars)					
Current account	**-898**	**-513**	**-1,012**	**-1,442**	**-927**	**-771**	**-548**	**-533**	**-557**
Trade balance	-2,598	-2,555	-1,652	-1,663	-2,127	-2,344	-2,566	-2,752	-2,849
Exports	184	188	142	160	179	199	217	230	244
Imports	2,781	2,743	1,795	1,823	2,306	2,543	2,783	2,982	3,093
Services	2,032	2,346	644	296	1,395	1,864	2,337	2,539	2,617
Transportation	-249	-260	-218	-220	-245	-262	-278	-291	-304
Travel	2,797	3,138	1,017	565	1,920	2,546	3,143	3,411	3,601
Other services	-516	-532	-155	-49	-281	-420	-528	-581	-680
Primary income	-328	-364	-88	-147	-251	-347	-376	-379	-384
Secondary income	-4	59	84	72	55	56	56	59	59
Capital account	315	301	230	284	251	224	205	201	208
Financial account	-544	-213	-782	-1,158	-676	-546	-343	-332	-350
Direct investment	-721	-507	-425	-428	-536	-642	-702	-722	-725
Portfolio investment	302	264	3	-70	100	153	191	199	-19
Other investment	-118	80	-409	-630	-361	-235	-18	60	292
Public sector long term loan	0	-21	-234	-364	-362	-203	-140	-74	-22
Deposit taking corporations	34	273	196	-81	207	239	147	141	177
Others	-153	-172	-371	-184	-206	-271	-25	-7	137
Reserve assets	-8	-49	49	-30	121	177	186	130	103
Errors and omissions	39	0	0	0	0	0	0	0	0
				(In percent of GDP)					
Current account	**-11.9**	**-6.5**	**-15.3**	**-21.6**	**-12.5**	**-9.7**	**-6.5**	**-6.0**	**-6.0**
Trade balance	-34.3	-32.3	-25.0	-24.9	-28.6	-29.5	-30.4	-31.1	-30.9
Exports	2.4	2.4	2.2	2.4	2.4	2.5	2.6	2.6	2.6
Imports	36.7	34.7	27.2	27.3	31.0	32.0	33.0	33.7	33.5
Services	26.8	29.7	9.8	4.4	18.8	23.4	27.7	28.7	28.3
Of which: travel	36.9	39.7	15.4	8.4	25.9	32.0	37.2	38.6	39.0
Primary income	-4.3	-4.6	-1.3	-2.2	-3.4	-4.4	-4.5	-4.3	-4.2
Secondary income	-0.1	0.7	1.3	1.1	0.7	0.7	0.7	0.7	0.6
Capital account	4.2	3.8	3.5	4.2	3.4	2.8	2.4	2.3	2.2
Financial account	-7.2	-2.7	-11.8	-17.3	-9.1	-6.9	-4.1	-3.8	-3.8
Of which: direct investment	-9.5	-6.4	-6.4	-6.4	-7.2	-8.1	-8.3	-8.2	-7.9
				(Annual percentage change)					
Exports	-14.6	2.5	-24.3	12.2	11.9	11.4	9.0	6.1	6.0
Imports	17.4	-1.4	-34.6	1.6	26.5	10.3	9.4	7.2	3.7
Travel (net)	3.2	12.2	-67.6	-44.5	240.2	32.6	23.4	8.5	5.6
Direct investment	9.7	-29.7	-16.1	0.7	25.0	19.8	9.4	2.8	0.4
Memorandum items:									
Goss reserves of the ECCB, US$ millions	1,747	1,698	1,747	1,717	1,838	2,015	2,202	2,332	2,435
In months of total imports in year t+1	4.7	7.3	7.8	5.7	5.4	5.3	5.4	5.5	…

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

Table 6. ECCU: Selected Vulnerability Indicators, 2016–20

(Annual percentage change unless otherwise indicated)

	2016	2017	2018	2019	2020
External indicators					
Current account balance (percent of GDP)	-8.1	-7.5	-11.9	-6.5	-15.3
FDI inflows (percent of GDP)	-9.4	-9.1	-9.5	-6.4	-6.4
Export growth	-23.8	-5.7	-14.6	2.5	-24.3
Import growth	5.0	3.2	17.4	-1.4	-34.6
Travel receipts (percent of GDP)	37.0	37.4	36.9	39.7	15.4
Real effective exchange rate (2005=100) 1/	104.9	104.2	102.2	103.4	101.5
Total gross external public debt (percent of GDI	39.4	37.1	36.1	34.4	45.6
Gross international reserves (in US$ billion)	1.7	1.8	1.7	1.7	1.7
Net international reserves (in US$ million)	1687.9	1743.3	1724.3	1675.4	1735.8
ECCB reserve cover (in percent) 2/	97.1	97.1	97.8	99.1	96.0
Public finance indicators (percent of GDP)					
Overall central government balance	1.5	-0.9	-1.7	-2.0	-5.3
Primary central government balance	3.9	1.6	0.6	0.4	-2.8
Central government current account balance	3.2	1.3	1.9	0.5	-3.2
Public sector gross debt (end-of-period)	73.4	72.3	69.9	66.9	84.2
Financial soundness indicators (in percent)					
Capital adequacy ratio (indigenous banks, total capital over adjusted risk weighted assets)	16.5	18.7	19.1	21.3	20.9
NPLs/total loans	10.9	12.0	11.3	10.1	11.3
FX deposits/total deposits	16.8	16.4	16.3	16.6	15.6
Liquid assets/total assets	34.4	36.2	36.4	40.2	38.4
Liquid assets/short term liabilities	37.3	39.3	39.7	44.6	45.0
Return on average assets	0.8	0.7	1.1	1.4	1.0

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

Table 7. ECCU: Financial Structure, 2019

(In millions of EC dollars unless otherwise noted)

	ECCU	Anguilla	Antigua and Barbuda	Dominica	Grenada	Montserrat	St Kitts and Nevis	St Lucia	St Vincent and the Grenadines
Total assets of:									
Commercial banks	**28798**	1455	5610	2111	3709	460	6804	6398	2251
(in percent of GDP)	**135**	142	125	135	114	253	237	112	101
of which: locally incorporated	**16415**	1455	2227	1309	2639	287	4052	3074	1373
(in percent of GDP)	**77**	142	50	84	81	158	141	54	62
Total assets of the non-bank financial sector									
Credit unions	**4430**	6	396	896	999	62	417	1094	561
(in percent of GDP)	**21**	**1**	**9**	**57**	**31**	**34**	**15**	**22**	**25**
Development banks	**515**	28	21	280	89	...	322 1/	97	...
National Development Foundations	**2**	...	2	...	...	...	...	...	...
Finance and mortgage companies	**5**	...	5	...	...	...	...	...	...
Building and loans societies	**164**	...	...	4	18	0	...	...	142
Insurance companies[1]	**2255**	175	...	252	422	19	405	701	281
Money service companies	**7**	1	...	...	...	0	1	...	5
Private sector pension funds	**219**	...	...	...	219	...	...	...	...
Micro-lenders	**190**	...	57	56	64	...	13	...	...
Securities brokers/dealers	**...**	...	...	...	...	...	...	...	...
Total assets of the financial sector (bank and non	**36586**	**1665**	**6092**	**3599**	**5519**	**541**	**7640**	**8290**	**3240**
(in percent of GDP)	171	162	136	230	170	298	266	145	145
Offshore companies assets									
Offshore/International banks	**12235**	2110	6029	685	...	1718	...	1669	23
Offshore non-bank financial companies (e.g. trusts, insurance, mutual funds)	**1397**	...	...	...	...	2	...	1395	...
Other offshore (e.g. registries, agents, corporate services providers, IBCs, LLCs)	...	...	...	...	...	...	...	...	...
Total assets offshore companies	**13632**	...	...	...	...	...	...	...	...
(in percent of GDP)	**64**	...	...	...	...	...	...	...	...
Number of:									
Commercial banks	**33**	2	6	4	4	2	6	5	4
Locally incorporated	**21**	2	3	2	3	1	4	3	3
Foreign incorporated	**12**	...	3	2	1	1	2	2	1
Credit unions	**48**	1	6	6	10	1	4	16	4
Development banks	**6**	1	1	1	1	...	1	1	...
National Development Foundations	**2**	...	1	1	...	...	...	...	...
Finance and mortgage companies	**1**	...	1	...	...	...	...	...	...
Building and loans societies	**4**	...	...	1	1	1	...	...	1
Insurance companies	**143**	26	...	17	28	6	16	26	24
Money service companies	**22**	3	4	2	2	2	3	4	2
Private sector pension funds	**75**	...	...	...	43	...	...	32	...
Offshore/International banks	**45**	1	9	17	...	4	...	11	3
Offshore non-bank financial companies (e.g. trusts, insurance, mutual funds)	**346**	136	...	...	...	1	...	48	161
Other Offshore (e.g. registries, agents, corporate services providers, IBCs, LLCs)	**5563**	...	...	...	...	...	...	18	5545
Micro-lenders	**35**	5	4	6	6	...	6	8	...
Securities brokers/dealers	**0**	...	...	...	...	...	...	...	...
Total	**6323**	175	32	55	95	17	36	169	5744
Memorandum item:									
Nominal GDP (in EC$ million)	**21344**	1025	4487	1563	3254	182	2875	5731	2229

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

1/ Total development bank assets for St. Kitts and Nevis are as of end-2018.

Table 8. ECCU: Financial Soundness Indicators of the Banking Sector, 2016–20

(In percent)

	2016	2017	2018	2019	2020
Capital adequacy					
Regulatory capital to risk-weighted assets (CAR) 1/	16.5	18.7	19.1	21.3	20.9
Regulatory Tier 1 capital to risk-weighted assets 1/	15.4	16.3	16.9	17.7	17.2
Asset composition and quality					
Total loans to total assets 2/	43.3	41.3	40.6	44.1	46.6
Sectoral distribution of loans to total loans					
Loans to residents	95.6	97.2	96.6	96.1	96.2
Deposit taking financial corporations	1.5	0.8	1.2	0.5	0.0
Other financial corporations	0.7	1.0	1.1	0.9	0.9
General government	9.6	10.2	11.5	12.1	10.8
Nonfinancial corporations	32.6	30.3	29.3	29.0	31.0
Households and other	52.7	54.9	53.5	53.6	53.2
Loans to non residents	3.0	2.8	3.4	3.9	3.8
Nonperforming loans to total gross loans	10.9	12.0	11.3	10.1	11.3
Total provisions to nonperforming loans 2/	45.6	45.3	44.0	43.0	50.9
Earnings and profitability					
Return on average assets (ROA)	0.8	0.7	1.1	1.4	1.0
Noninterest expenses to gross income	67.6	69.9	66.1	64.7	64.7
Personnel expenses to noninterest expenses	32.0	31.2	31.3	30.9	28.2
Interest margin to gross income	62.4	61.8	59.3	58.6	46.5
Spread between reference lending and deposit rates	6.8	6.8	6.5	6.4	5.6
Liquidity					
Liquid assets to total assets	34.4	36.2	36.4	40.2	38.4
Liquid assets to short-term liabilities	37.3	39.3	39.7	44.6	45.0
Loans to deposits	64.8	63.4	63.5	64.2	68.1
Sensitivity to market risk					
Foreign-currency-denominated loans to total loans	12.8	12.7	13.4	11.5	11.7
Foreign-currency-denominated liabilities to total liabilities	18.9	19.0	19.5	21.7	19.8

Sources: Eastern Caribbean Central Bank (ECCB); and IMF staff calculations.
1/ Data available only for locally incorporated banks.
2/ Indicator not included in standard FSIs.

Table 9. ECCU: Financial Soundness Indicators of the Banking Sector by Country, 2016–20

(In percent)

	2016	2017	2018	2019	2020
Regulatory capital to risk-weighted assets (CAR) 1/	**16.5**	**18.7**	**19.1**	**21.3**	**20.9**
Anguilla	11.8	10.4	18.5	11.0	9.7
Antigua and Barbuda	34.8	36.6	36.3	39.4	34.6
Dominica	15.0	13.3	12.5	13.9	18.9
Grenada	14.2	13.8	13.2	11.9	15.1
Montserrat	28.3	19.5	17.4	37.7	37.8
St. Kitts and Nevis	16.3	19.5	17.4	17.8	21.2
St. Lucia	11.8	18.2	19.1	15.9	14.9
St. Vincent and the Grenadines	20.8	19.9	23.1	17.0	16.1
Regulatory Tier 1 capital to risk-weighted assets 1/	**15.4**	**16.3**	**16.9**	**17.7**	**17.2**
Anguilla	11.6	10.3	17.0	9.2	8.9
Antigua and Barbuda	32.8	30.2	27.6	31.9	28.6
Dominica	12.5	11.4	10.8	17.0	16.4
Grenada	11.6	12.2	11.7	7.8	13.3
Montserrat	27.3	18.7	18.2	30.3	33.5
St. Kitts and Nevis	17.1	18.7	18.2	17.1	14.9
St. Lucia	7.8	11.4	13.2	10.0	10.4
St. Vincent and the Grenadines	25.4	24.1	25.5	18.2	16.3
Nonperforming loans to total gross loans	**10.9**	**12.0**	**11.3**	**10.1**	**11.3**
Anguilla	6.5	23.5	24.3	25.8	25.1
Antigua and Barbuda	8.7	7.9	6.4	5.3	6.3
Dominica	14.5	17.4	17.0	12.2	15.0
Grenada	6.7	3.9	2.4	2.2	2.2
Montserrat	4.9	5.7	4.9	5.4	5.0
St. Kitts and Nevis	14.7	20.5	24.7	24.0	23.5
St. Lucia	13.1	12.5	10.0	8.2	11.3
St. Vincent and the Grenadines	9.5	8.2	6.5	6.4	7.4
Total provisions to nonperforming loans 2/	**45.6**	**45.3**	**44.0**	**43.0**	**50.9**
Anguilla	23.9	16.5	21.4	16.4	22.6
Antigua and Barbuda	38.5	34.0	36.3	58.7	90.0
Dominica	50.3	84.0	94.6	54.6	45.8
Grenada	49.9	63.9	77.0	82.8	112.5
Montserrat	98.8	106.1	112.2	118.6	61.7
St. Kitts and Nevis	37.9	25.9	21.5	24.7	30.8
St. Lucia	53.6	56.3	53.9	63.0	60.3
St. Vincent and the Grenadines	41.0	56.7	69.5	58.8	64.0
Return on average assets (ROA)	**0.8**	**0.7**	**1.1**	**1.4**	**1.0**
Anguilla	1.1	0.1	0.4	0.9	0.4
Antigua and Barbuda	1.5	1.3	1.4	1.4	0.4
Dominica	0.8	-1.5	-0.8	2.9	0.9
Grenada	1.5	1.1	1.0	1.4	0.4
Montserrat	0.4	0.3	0.5	-0.1	-0.3
St. Kitts and Nevis	0.9	0.8	1.3	0.8	2.6
St. Lucia	-0.3	1.2	1.9	1.5	0.8
St. Vincent and the Grenadines	0.3	-0.1	0.5	1.1	0.1
Liquid assets to total assets	**34.4**	**36.2**	**36.4**	**40.2**	**38.4**
Anguilla	40.0	44.7	50.9	48.3	45.0
Antigua and Barbuda	54.7	57.0	57.7	46.4	36.9
Dominica	54.3	60.8	54.4	46.2	48.9
Grenada	41.4	42.1	44.9	43.5	46.8
Montserrat	75.1	74.1	73.3	71.3	78.2
St. Kitts and Nevis	57.0	59.0	60.2	55.7	58.4
St. Lucia	33.6	36.7	39.4	40.4	37.8
St. Vincent and the Grenadines	41.0	38.7	37.7	41.4	44.0

Sources: Eastern Caribbean Central Bank (ECCB); and IMF staff calculations.
1/ Data available only for locally incorporated banks.
2/ Indicator not included in standard FSIs.

Annex I. Implementation of the Past Policy Advice[1]

Recommendations from the 2019 Common Policies Discussion	Authorities' Actions
Increasing fiscal integration	
1. Streamline and re-balance their tax incentives, supplemented by regional agreements	Some progress in Dominica, with a commitment to streamline tax incentives in the RCF disbursement. Policy challenges in the COVID-19 pandemic. Some progress in Antigua and Barbuda. Measures in the 2020 budget were postponed due to the COVID-19 pandemic. However, starting in the first quarter of 2021, tax exemptions and waivers to support business activity and major investments have been streamlined.
2. Harmonize the CBI programs' due diligence processes	Some ECCU countries continue to enhance CBI programs' due diligence, but there was no specific action towards its regional harmonization.
3. Over the longer term, consider setting up a regional stabilization fund to support macroeconomic stabilization and resilience building	Not considered because of competing priority policies and fiscal constraints during the COVID-19 pandemic.
Enhancing financial integration	
4. Strengthen banks' balance sheets, including through prompt supervisory enforcement of measures and implementation of measures	In progress. In addition to pandemic related financial policy measures and work in progress towards formalizing crisis management plans, the ECCB issued its Treatment of Impaired Assets Standard in January 2021 (with three-year phased implementation to commence in January 2022) to support timely credit loss provisioning.
5. Implement further measures to manage risks from correspondent banking relations.	In progress. The common regional platform for compliance functions is being developed to help mitigate the costs of indigenous banks and in 2020Q1 Dominica passed legislation and designated the ECCB as supervisory authority for banks (four member countries remain to complete these amendments). The Fund plans to provide TA to strengthen ECCB's AML/CFT supervisory capacity and ensure harmonization of regional AML/CFT legal and regulatory frameworks in line with international standards.

[1] This annex provides a focused follow-up on past Article IV recommendations, covering only those areas that are critical for the COVID-19 pandemic crisis and recovery.

Recommendations from the 2019 Common Policies Discussion	Authorities' Actions
6. Further strengthen oversight of nonbanks	In progress. Regional intra-regulatory collaboration and cooperation has been deepened through the financial sector Regulatory Oversight Committee (comprising national and regional regulatory authorities, chaired by the ECCB) and the *Optimal Regulatory Framework for the ECCU financial sector* includes work to address previously identified infrastructure gaps, finalize and strengthen a regional macroprudential framework and harmonize standards of financial supervision. Some SRUs are adopting guidance for credit unions similar to the ECCU's treatment of impaired assets standard.
7. After banks' balance sheets are strengthened and the fiscal backstop is functional, proceed toward a fuller resolution and crisis management framework.	In progress. The financial stability pillar of the *Program of Action for Recovery, Resilience, and Transformation* highlights continued roll-out of key and long-outstanding reforms, while other proposed framework reforms, including for a regional deposit insurance scheme, are set out in the Monetary Council's recent *Optimal Regulatory Framework for the ECCU financial sector.*
Solidifying the currency union by raising payments' efficiency	
8. Building on the successful launch of the Electronic Funds Transfer, the ECCB, national authorities, and financial institutions should continue concerted efforts to modernize the payment system.	In progress. Legislation to strengthen the payment system legal framework is under preparation.
9. Proceed cautiously with the digital currency pilot project, as planned.	In progress. The ECCB [launched] the Phase II of its digital currency project (pilot issuance of digital currency within the controlled environment) in March 2021.
Structural reform	
10. To ensure external sustainability and boost potential growth, continue efforts to advance the structural reform agenda and foster private sector activity	In progress. The ECCB issued *Program of Action for Recovery, Resilience and Transformation* which includes action plans for structural reforms.
Statistical issues	
11. Continue to improve the ECCU area statistics.	Limited progress.

Annex II. Risk Assessment Matrix[1]

Source and direction of risks	Relative Likelihood	Impact	Policy response
Unexpected shift in the Covid-19 pandemic. Limited access to and longer-than-expected deployment of vaccines in some countries prompt a reassessment of their growth prospects. Or, the disease proves harder to eradicate, requiring costly containment efforts and prompting persistent behavioral changes rendering many activities unviable.	**Medium (Downside)**	A recovery in tourism delays further, dipping growth and resulting in long-run scarring effects, with corporate distress and protracted joblessness.	Extend COVID-19 related discretionary fiscal and financial sector measures to support people and firms affected by the crisis. Carefully monitor financial institutions for signs of distress, and review the crisis management plan and preparedness, taking account of likely downside risk scenarios.
Alternatively, recovery from the pandemic is faster than expected due to the rapid production and distribution of vaccines, boosting confidence and economic activity.	**Medium (Upside)**	Domestic and external (especially tourism) pick up, boosting economic activity and employment.	Gradually withdraw support measures to ensure that the recovery is entrenched.
Widespread social discontent and political instability. Social tensions erupt as the pandemic and inadequate policy response cause economic hardship and exacerbate preexisting socioeconomic inequities.	**High (Downside)**	Economic activity is disrupted. Political instability weakens policymaking and confidence.	Maintain expansionary fiscal stance until the economy recovers. Ensure that fiscal measures to protect the vulnerable should be well targeted.
Cyber-attacks on critical global infrastructure, institutions, and financial systems trigger systemic financial instability or widespread disruptions in socio-economic activities and remote work arrangements.	**Medium (Downside)**	Payment and financial systems are disrupted, raising financial sector stability risk.	Prepare appropriate crisis management plans. Strengthen financial sector regulation and supervision. Pursue a prudent approach to financial innovation.
Higher frequency and severity of natural disasters related to climate change cause severe economic damage to smaller economies susceptible to disruptions	**Medium (Downside)**	Reduce growth and worsen fiscal and external positions.	Build a consistent framework with investment in resilience and appropriate ex ante financing, including fiscal buffers, within a Disaster Resilience Strategy.
Financial sector. High NPLs, increasing market risk in indigenous banks, and distress in non-bank financial sector trigger a confidence shock.	**Medium (Downside)**	Financial sector instability disrupts economic activity	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 may surprise on upside in light of recent track record.	**Medium (Upside)**	Improve fiscal and external positions.	Improve management and oversight 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 (Downside)**	Fees of cross border payments rise, raising costs of doing business and reducing remittance inflows	Strengthen compliance with AML/CFT and tax transparency standards. Strengthen CBRs monitoring and supervisory standards for bank. Finalize arrangements for the ECCB to assume AML/CFT supervisory duties.

[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). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

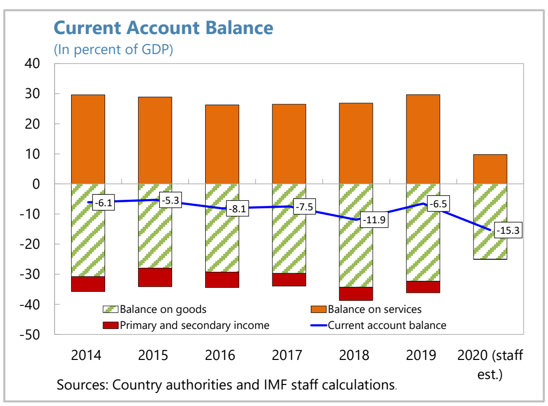
Annex III. External Sector Assessment

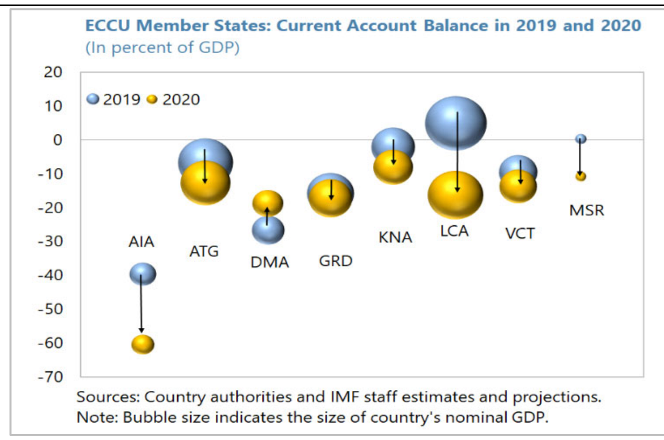
Overall Assessment*. The ECCU's external position in 2020 was moderately weaker than the level implied by fundamentals and desirable policies in 2020. The assessment is, however, subject to an unusually wide margin of error given the lack of data for external accounts and other macroeconomic indicators in 2020 and challenges in assessing the full impact of the COVID-19 crisis.*[1]

Potential Policy Responses*. Near-term policies should continue to support the recovery, while the authorities' commitment to implementing fiscal consolidation and structural reforms to strengthen the ECCU's external competitiveness, once the COVID-19 crisis recedes, will remain important to maintain long-term external sustainability.*

Current Account

Background. As a small, open, and tourism-dependent economy, the ECCU has been hit hard by the COVID-19 crisis. Travel restrictions caused a near shutdown of the tourism sector in spring 2020, leading to a collapse in tourism exports (accounted for by nearly 40 percent of GDP) and overall economic activity. As ECCU economies moved to gradually easing lockdown measures and opening their borders in summer, tourists started coming back, and economic activity showed some improvement. Nonetheless, tourist arrivals have remained far below pre-Covid-19 levels, and COVID cases have since surged. Staff expect the current account deficit to have more than doubled to 15¼ percent of GDP for the ECCU (and 14½ percent of GDP for the ECCU excluding Anguilla and Montserrat) in 2020, reflecting lower tourism receipts partially offset by reduced imports.[2] The deterioration in the currency account balance is relatively large in Anguilla, Antigua and Barbuda, St. Kitts and Nevis, and St. Lucia, due to their relatively high dependence on tourism exports.





Assessment. The assessment is based on staff's estimates due to the lack of data for external accounts and other macroeconomic indicators. Accordingly, it is subject to an unusually wide margin of error. The current account deficit for the ECCU-6 countries was estimated at 14.4 percent of GDP in 2020. After adjusting for cyclical contributions (-1 percent), the temporary impact of the COVID-19 crisis on the current account (+7.3 percent), and natural disasters (-0.1 percent); the adjusted current account deficit was 8.2 percent of

[1] The external sector assessment is based on staff's estimates.

[2] Due to lack of sufficient data for Anguilla and Montserrat, the EBA-lite model-based assessment excludes these two overseas territories of the United Kingdom.

GDP.[3] The current account norm was estimated at -6.8 percent of GDP, indicating a current account gap of -1.4 percent of GDP. Policy gaps contribute 1.1 percentage points to the gap, of which, the domestic component of the policy gap was -3.4 percent of GDP, reflecting a higher than desirable level of the fiscal deficit.

ECCU: EBA-lite Model Estimates for 2020

(In percent of GDP) 1/

	CA model	REER model
CA-Actual	**-14.4**	
Cyclical contributions (from model, -)	1.0	
Additional temporary/statistical factors (+)	7.3	
Natural disasters and conflicts (-)	0.1	
Adjusted CA	**-8.2**	
CA Norm (from model) 2/	**-6.8**	
Adjustments to the norm	0.0	
Adjusted CA Norm	**-6.8**	
CA Gap	**-1.4**	**1.0**
O/w: Policy gap	1.1	
O/w: Domestic policy gap	-3.4	
O/w: Fiscal policy	-3.3	
Elasticity	-0.4	
REER Gap (in percent)	**3.8**	**-2.6**

1/ The assessment is for ECCU-6 countries.

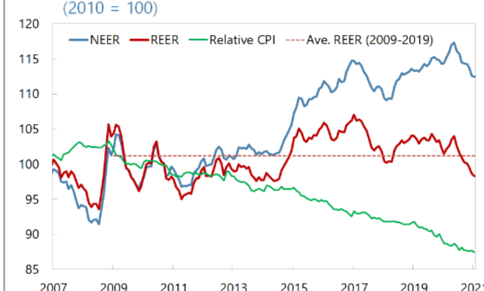
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The ECCU's exchange rate has presented some volatility over the past year. Along with the movement of the U.S. dollar, the ECCU's nominal effective exchange rate index appreciated by 2½ percent during the first five months of 2020 but thereafter depreciated by 4 through end-2020. In 2020, the relative price index continued to fall. At end-December 2020, the real effective exchange rate was 3½ percent weaker than the end-2019 level, slightly below the post-global financial crisis average.

ECCU: Effective Exchange Rates

(2010 = 100)



Sources: IMF Information Notice System

Assessment. IMF's EBA-lite Index-Real Effective Exchange Rate model suggests an undervaluation of 2.6 percent in 2020. Some caution is needed to interpret the results of this model due to its limitations to capture the recent volatility in the exchange rate, sizable current account deficits, and the absence of the ECCB's intervention in the foreign exchange market. Using

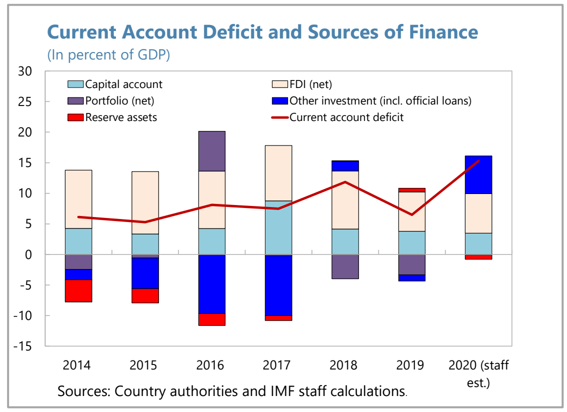
[3] The temporary impact of the COVID-19 crisis on the current was calculated by (i) splitting the decline in the travel balance (as a percent of GDP) between temporary and permanent components; and (ii) multiplying the temporary component by 0.5. The adjustment was required because the "cyclical contributions" do not fully reflect the COVID-19 crisis-related shock to tourism, which explains the large deterioration in the current account balance in 2020. The adjustment does not take account of contributions from oil and remittance balance adjusters.

the gap from the CA model as a reference and applying a staff-estimated semi-elasticity of 0.4 yields an overvaluation of 4.1 percent.

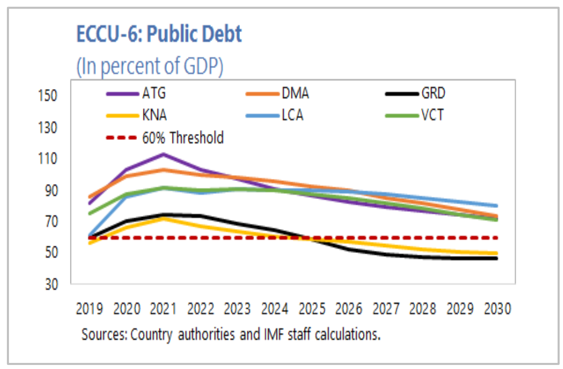
Capital and Financial Accounts and Net International Investment Position

Background.

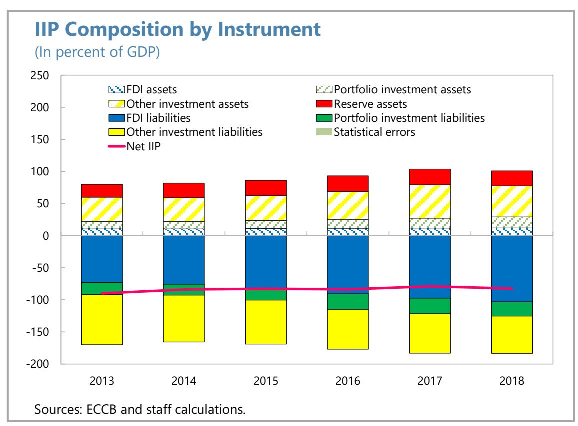
- Pre-COVID-19 crisis, FDI inflows have financed the large part of the current account deficit. At the onset of the COVID-19 crisis, the authorities promptly moved to secure available financing options, including concessional financing from international financial institutions. This helped finance the widened current account deficit and minimize the loss of international reserves.



- The ECCU's fiscal position has deteriorated and overall public debt is estimated to have risen from 67 percent of GDP in 2019 to 84 percent of GDP in 2020 (of which, external public debt accounted for about 55 percent). The ECCU public debt ratio is expected to peak in 2021 but remains high, well above the regional debt target of 60 percent of GDP, for an extended period in many countries. The persistently high debt ratio would constrain the ECCU's fiscal space, and some countries might face difficulty in securing sources for external financing.



- It is likely that the net international investment position (IIP) has deteriorated. At end-2018 (the latest available official data), the net IIP was a deficit of over 80 percent. The current account deficit was estimated relatively small (6½ percent of GDP) in 2019 but deteriorated sharply in 2020. Accordingly. the net IIP should have further deteriorated over the past two years with the increased share of public borrowing (part of "other investment liabilities").



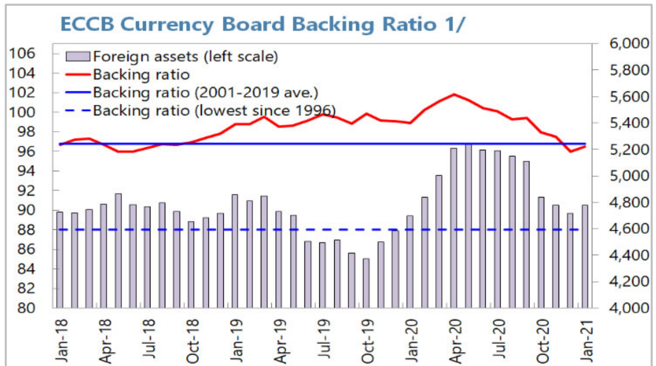
Assessment. The large current account deficit is expected in 2021. Given the uncertainty concerning the evolution of the pandemic, the authorities should also enhance the monitoring of foreign exchange movements and prepare scenario-based policy responses, including estimation of financing needs and sources of concessional financing.

FX Intervention and Reserves Level

Background. Despite the sharp fall in tourism receipts, the international reserve position has remained above the post-global financial crisis average. At end-2020, the international reserves stood at US$1.7 billion, equivalent to 7½ months of total imports of goods and services (above the benchmark of three months), 29 percent of broad money (above the benchmark of 20 percent), and 58 percent of total external debt. The ECCB has also maintained a high level of the reserve backing ratio (defined as the stock of the international reserves a percent of the ECCB's demand liabilities) at 96 percent.

Reserve Adequacy Metric, end-2020

	End-2020	Benchmark
In billions of US dollar	1.7	...
Percent of GDP	26.4	...
Percent of demand liabilities	96.0	...
In months of total imports	7.5	3.0
Percent of broad money	28.6	20.0
Percent of total external debt	57.9	...



Source: ECCB
1/ Defined as foreign assets divided by demand liabilities.

Assessment. To ensure the credibility of the quasi-currency board arrangement, the ECCB has limited the provision of credit to the economy (including both fiscal authorities and banks), which helped maintaining a relatively high level of the backing ratio. This practice should continue.

Annex IV. Using State-Contingent Sovereign Debt Bonds to Strengthen Debt Sustainability

1. ECCU countries could strengthen debt sustainability by expanding the use of state-contingent debt instruments (SCDIs). Given ECCU countries' reliance on tourism export revenue and the need to import for consumption, those economies are affected disproportionately by recurrent natural disasters and the current COVID-19 pandemic. Sovereign debt contracts can be set to automatically reschedule repayments and/or trigger financing from creditors when affected by large shocks that can be specified ex-ante and verified ex-post.

2. SCDIs have been proposed as suitable instruments to facilitate sovereign debt restructuring. SCDIs can facilitate speedier and less-costly debt restructuring by tying the payments of restructured debt contracts to future economic outcomes, for example, GDP, exports, or commodity prices. They can be designed to provide additional creditor compensation in good times and/or provide some form of debtor relief in bad times, such as the occurrence of a natural disaster or in the Covid-19 pandemic. In this way, SCDIs can help avoid protracted disputes about current valuations and facilitate quicker agreements between creditors and debtors, thus allowing countries to restore debt sustainability and their return to market access.

3. SCDIs have been used during recent sovereign debt restructurings involving Caribbean countries exposed to natural disasters. Restructured debt in both Grenada (2015) and Barbados (2018) have included natural disaster or "hurricane" clauses designed to provide cash flow relief after a natural disaster event, enabling countries to redirect funds intended for debt service to more immediate needs, reducing the economic impact of the natural disaster.

4. Staff theoretical analysis shows that SCDIs emerge as an optimal solution when a sovereign country cannot credibly pre-commit to service debt under extreme negative shocks, especially when these affect a large share of the economy. The result is obtained from a canonical small-open economy model in which a sovereign borrower can choose to default on debt service commitments at any point in time, skipping debt service obligations and increasing concurrent spending at the cost of being excluded from access to future financing, thereby becoming unable to smooth spending with debt issuance in the future.

5. The model shows that creditors internalize the risk of default and optimally offer an SCDI contract, with the following properties:

- *For non-extreme shocks*, borrowing dynamics are the same as in the pre-commitment case: governments can achieve maximum expenditure smoothing using sovereign debt acts as a shock absorber, with net borrowing during recessions and net repayment during expansions.
- *When a negative large shock affecting the sovereign borrower occurs* such that there are incentives to default to avoid an excessive decline in consumption:

  - Creditors extend new loans to the debtor optimally, keeping the borrower engaged in the contractual relation with creditors. This contains the pressure on the sovereign borrower to reduce concurrent spending to avoid a default.
  - Governments agree to some pro-cyclical downward expenditure adjustment to contain the accumulation of debt. This adjustment is smaller than the one needed to avoid default under non state-contingent debt instruments.

- The optimal stock of debt of the sovereign debtor is lower than in an economy with commitment to never default under any state of nature. This provides space for additional borrowing in case of future extreme negative shocks materialize.

- Borrowing interest rates are close to the international risk-free international rates—because there is no default in equilibrium with automated rescheduling of debt service payments and financing—increasing welfare.

6. The results above imply that SCDIs are found to be optimal from the creditor perspective outside of debt restructurings, given creditor's interest to prevent asset loss in a sovereign default. Issuance of SCDIs are optimal at all times, good and bad, not just during debt restructurings. In practice, however, their issuance has been limited, mostly in light of the reluctance of sovereign bond investors to accept complex instruments of difficult valuation and uncertain payout, which would be reflected in excess risk premia. The result above implies that, if SCDI are issued in sufficient critical mass and for specific and verifiable extreme negative events, interest rates could decline—in the model SCDIs pay the risk-free international interest rate because creditors have no loss in equilibrium. This could be implemented in the ECCU context and Caribbean more broadly, with a coordinated switch to the issuance of SCDIs in the regional bond market.

Annex V. The Role of Dominant Currency Pricing in the Tourism Market in Small States

1. **The quasi-currency board arrangement has served as the nominal anchor for the ECCU since the start of the currency union, limiting the role of the exchange rate as a shock-adjustment mechanism.** While exchange rate flexibility in general is beneficial for countries to maintain competitiveness, these benefits can vary across countries and sectors depending on the extent to which exporters use the US dollar (rather than local currency) to set prices for international trade—a phenomenon dubbed *dominant currency pricing,* or DCP. Previous research has indicated that DCP is less pronounced for services trade (such as tourism) compared to trade in goods (such as manufacturing), suggesting a more important role of exchange rate flexibility as a shock absorber for tourism-dependent countries (Adler et al., 2020 and Li and Meleshchuk, 2020).

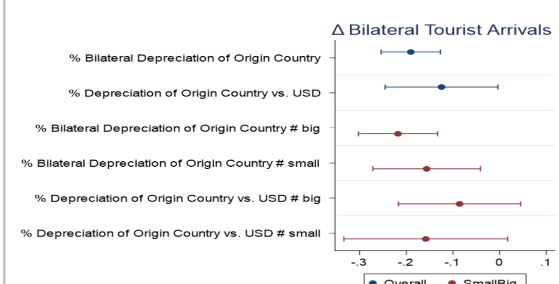
2. **Using the IMF's *week at the beach index* (w@tb), which tracks the nominal cost of an average one-week beach holiday in more than 70 countries, we found that hotels prices in smaller countries are less sensitive to the bilateral exchange rate against the US dollar.** This result suggests a larger degree of DCP for the smaller tourism destinations, potentially due to the higher import content in their tourism exports. When hotels prices are set in the US dollar, for non-US tourists it is the US dollar exchange rate rather than the bilateral exchange rate that matters more for the cost of hotels—while the bilateral exchange rate may matter more for services invoiced in local currency, such as taxi and local tours. In other words, DCP can dampen the reaction of tourism demand to bilateral exchange rate fluctuations.

3. **Our cross-country regressions show that the elasticity is lower for smaller tourism destinations (such as the ECCU countries) where DCP plays a more prominent role.** While exchange rate flexibility in general has an impact on tourist arrivals (a result in line with the literature), the average exchange rate elasticity for tourism masks significant heterogeneity across countries. While a 10 percent bilateral depreciation can be associated with a 2 percent increase in tourist arrivals for the economies above the median of the sample, the elasticity is 1.5 for those below the median. If measured by population, the elasticity is 2.3 for countries with a population above the sample median and 1.3 for those with a population below the median.

Sensitivity of Hotel Prices to Exchange Rate

Source: IMF staff estimation.

Estimated Coefficients of Tourist Arrivals w.r.t. Exchange Rates Fluctuation



Source: IMF staff estimates.

Annex VI. Recent Developments in ECCU Countries

Anguilla

1. **Anguilla is an overseas territory of the United Kingdom and is not a Fund member.** Anguilla, however, is a member of the ECCU and the Organization of Eastern Caribbean States. The country is highly dependent on tourism – with tourism exports accounting for approximately 37 percent of GDP – and grants from the U.K. Anguilla's population is about 15,000.

2. **The economic impact of COVID-19 on Anguilla is unprecedented.** The authorities have successfully contained COVID-19 cases at relatively low levels (totaling 18 as of February 28, 2021), with zero deaths, but the economic toll has been significant due to the sudden stop in tourism arrivals. With borders closed from March to November 2020, GDP is estimated to have contracted by 27¾ percent in 2020, with negative inflation (-1 percent). The distribution of vaccines began in February, with the aim to rapidly inoculate 70 percent of Anguillans, providing hope for an early recovery. Nonetheless, the 2020–21 tourism season continues to be depressed due to travel restrictions and the renewed surge in COVID-19 cases in the northern hemisphere and Europe. Accordingly, GDP is expected to contract again by 2 percent in 2021.

3. **The current account deficit widened significantly.** The current account deficit is estimated to have widened to 60 ½ percent of GDP in 2020 (from 39¾ percent of GDP in 2019), with a sizable loss of travel receipts partially offset by reduced goods imports. The current account deficit is expected to remain elevated in 2021 and narrow over the medium-term as the pandemic subsides and tourism recovers. Despite the significant BOP shock, however, international reserves stood at EC $142.6 million at the end of 2020 (equivalent to 2.3 months of total imports), down only by EC$16 million from 2019, with the support of COVID-19 relief grants from the U.K.

4. **Fiscal policies appropriately shifted toward providing relief to the unemployed, vulnerable groups, small businesses, and the health sector.** The overall balance fell from a surplus of 3¼ percent of GDP in 2019 to a deficit of ¾ percent in 2020, reflecting lower tourism and import tax revenues and pandemic related expenditure. With the increased deficit and smaller GDP, public debt rose from 48 percent of GDP in 2019 to 68 percent of GDP in 2020. To support the authorities, the U.K. provided conditional emergency financial aid of EC $41 million in 2020 and is expected to disburse an additional EC $40 million in 2021. Authorities are committed to mobilizing more local revenues, including by implementing a gross sales tax and improving international tax transparency. In 2022, a single GST will replace an existing mix, to streamline and broaden the tax base.

5. **There remain vulnerable spots in the financial system.** The banking sector's capital adequacy ratio was 10 percent in 2020, down slightly from 11 percent in 2019, but still above the regulatory benchmark of 8 percent. The non-performing loan ratio remains elevated at around 25 percent, while the banking sector's profitability remains relatively weak. However, formal vesting of the bridge bank and its sale of NPLs to ECAMC are yet to be finalized. In November 2019, Republic Bank Ltd. acquired Scotiabank's operations in Anguilla, causing overall capital ratio to decline from 16.5 percent in 2019-Q3 to 9.7 percent by 2020-Q4.

Antigua and Barbuda

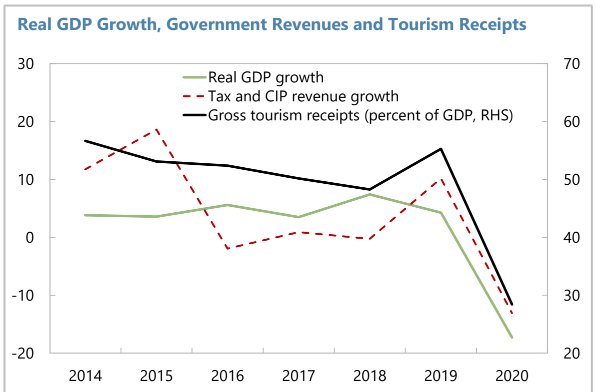
6. Antigua and Barbuda's tourism-dependent economy has been hit hard by the global COVID-19 pandemic. The economy experienced strong growth in 2014–19, averaging 4½ percent, buoyed by robust tourism inflows and construction activity driven by the expansion of hotel capacity. To contain the spread of the virus, the country closed its borders in mid-March 2020, and tourism came to a halt in April and hotels were forced to close. Both stayover tourist arrivals and cruise ship visits fell by about 60 percent in 2020. The government promptly took measures to tackle the pandemic, including building a new medical facility, expanding health spending and the social safety net, and granting concessions to selected sectors, while delaying implementation of new revenue measures announced in the 2020 budget. After the number of confirmed COVID-19 cases stabilized at around 25 in May, a gradual reopening of the economy began on June 1, 2020. The resumption of tourism, however, has been sluggish. The economy is estimated to have contracted by 17.3 percent in 2020. Inflation was subdued and averaged 1.1 percent in 2020.

7. Near-term risks to the economic outlook are tilted to the downside. Real GDP is expected to contract further by 3 percent in 2021, with tourism activity only returning to pre-pandemic levels by 2024. While the virus was well-contained in 2020, local confirmed COVID-19 cases have risen by more than sixfold from 159 at end-2020 to 992 by mid-March 2021, resulting in the extension of the state of emergency to end-March 2021 and imposition of a partial lockdown in late January. The government has so far secured COVID-19 vaccines for about 40 percent of the population. Antigua and Barbuda's growth outlook remains subject to sizeable downside risks stemming from the lockdown in the United Kingdom; suspension of flights from Canada to the Caribbean until end-April 2021; further delays in the restart of cruise operations; and increased costs to travelers arising from new COVID-19 testing and quarantine requirements for arrival and departure. In addition, the reorganization of LIAT, the regional airline based in Antigua and Barbuda, poses a large contingent fiscal liability. Finally, there is the ever-present risk of natural disasters, as witnessed by the devastation inflicted by Hurricanes Irma and Maria in 2017.

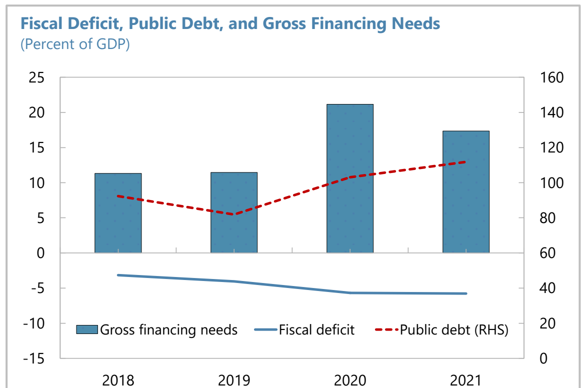
8. The external position was weakened by the pandemic shock. The current account deficit is projected to have surged from 6¾ percent of GDP in 2019 to 12¾ percent of GDP in 2020, mainly due to the sharp drop in tourism receipts, which was only partially offset by the decline in imports. The ratio of international reserves to prospective imports was around 5 months in 2019 and is estimated to have increased slightly to 5½ months in 2020, reflecting the collapse in the tourism sector's demand for imports and relatively stable reserves held at the ECCB. Antigua and Barbuda has exhausted its credit allocation at the ECCB.

9. Antigua and Barbuda's financial sector entered the pandemic with some buffers and has remained stable. At end-2019, banks' capital and liquidity ratios were above regulatory norms and NPLs (5.5 percent of total loans) were below the ECCU average (10.1 percent of total loans). Available data show that NPLs rose to 6.3 percent by end-2020 compared with the average of 11.4 percent for the ECCU. The end of the temporary loan moratoria in September 2021 that were extended by banks and credit unions in the context of the pandemic may adversely affect financial sector soundness. Financial regulators (ECCB for banks and the Financial Services Regulatory Commission for non-banks) remain vigilant regarding vulnerabilities.

10. Public finances are under stress and gross fiscal financing needs are elevated. The overall fiscal deficit widened from 4 percent of GDP in 2019 to 5¾ percent of GDP in 2020 due to the steep decline in revenues and the postponement of budgeted tax revenue measures to account for the pandemic. Spending was reallocated to accommodate measures to mitigate the impact of the pandemic. Cash flow constraints resulted in net accumulation of arrears to domestic and external creditors. Public debt rose from 81¾ percent of GDP in 2019 to 103 percent of GDP in 2020. The fiscal position will remain weak with the overall deficit projected to stay unchanged at 5¾ percent of GDP in 2021 and public debt to increase further to 112 percent of GDP, while gross financing needs are estimated to be high at about 17½ percent of GDP.



Sources: Country authorities and IMF staff calculations.



Sources: Country authorities and IMF staff calculations.

11. The authorities are embarking on an ambitious Medium-Term Fiscal Strategy (MTFS). The MTFS was announced in January 2021 and includes steps to increase the tax-to-GDP ratio to 18 percent by 2023 and 20 percent over the medium term (from 16¼ percent of GDP in 2020), largely through the broadening of the property and sales tax bases, reduction in tax concessions and exemptions, and introduction of a tourism accommodation levy. The government will also maintain the wage freeze for most of 2021–25, limit new hiring, strengthen the oversight and monitoring of SOEs, bring the public procurement legislation into force, and facilitate the clearance of domestic and external arrears, including through a combination of cash payments, bonds, and land swaps with domestic creditors. If fully implemented, the policy reforms and measures in the new MTFS has the potential to help secure fiscal sustainability and put public debt on a downward path to under 70 percent of GDP by 2030, in line with the authorities' objectives, while creating fiscal space to boost capital spending and building fiscal buffers in the event of natural disasters and other economic shocks.

Dominica

12. The COVID-19 pandemic has been well contained, with timely government intervention. Prompt closure of borders to international visitors and early lockdown and contact tracing limited the number of cases to 156 with no deaths. Strict travel restrictions remain for non-nationals, including quarantine and proof of a negative test. Access to vaccines has been difficult with delays in provision under the COVAX arrangement, which targeted 20 percent of the population. The government is seeking bilateral agreements with India and China, but the small size puts Dominica at a competitive disadvantage. Tests are available for travelers to take at entry and exit (required to visitors to reentry their countries of origin), but health facilities and medical staff are grossly insufficient to contain a severe local outbreak.

13. The government implemented measures to address health risk and mitigate the economic impact of the pandemic. The policies, committed to in the context of receiving emergency financing—through an RCF disbursement—from the Fund in April 2020, include the establishment of a center for quarantine services, purchase of medical supplies, and transitory income support transfers to the unemployed, with additional support of World Bank financing. The government also approved tax relief measures including postponement of the income tax payment deadline. Measures to support the financial sector included loan service moratoria in the bank and credit union sectors.

14. The economy has been hit hard by the pandemic, owing to the collapse of tourism. Tourism, which accounts for over 70 percent of total exports and 20 percent of GDP, has come to a halt, causing ripple effects on the economy. Dominica's real GDP is projected to contract by 10.5 percent in 2020, and the current account deficit to reach 19 percent of GDP, supported by financing from CBI deposits and official loans. The fiscal balance is projected to reach -2.2 percent of GDP, owing to a decline in tax revenues of 14 percent, an increase in health-related expenditure, and income transfers to support the unemployed. Public debt is projected to have reached 90 percent of GDP at end-2020. Tax collection is projected to decline further in FY2020 with the full impact of the pandemic, but the fiscal deficit could remain contained due to financing constraints reducing the space for public investment, the main residual allocation. The external current account deficit is projected to peak in 2021 at 26 percent of GDP, led by the contraction in tourism exports, and financed with deposits from CBI revenue and IFI loans.

15. The government has identified financing from multilateral and bilateral sources to cover a significant share of near-term needs. Dominica received financing from the IMF under the Rapid Credit Facility (SDR 10.3 million, equivalent to 89.4 percent of quota) and took advantage of the G-20 DSSI initiative to help fill its external financing needs. The RCF disbursement helped catalyze financing from the World Bank and the Caribbean Development Bank and was sufficient to close the external and fiscal financing gaps in the near term, along with some domestic financing from the National Bank.

16. The economic impact of the pandemic on the financial sector has thus far remained contained, but risks to financial stability have increased. The financial sector remains stable, showing no liquidity pressures. Credit risk is the main threat to financial stability in banks and credit unions. Banks' NPLs increased by 3 percentage points since the pandemic outbreak, to 15 percent of total loans. NPLs are expected to grow further once the loan service moratorium expires in September 2021. The credit union sector, which account for over 60 percent of financial sector assets and includes systemically important institutions, remains undercapitalized.

17. Medium term policies remain anchored in the gradual fiscal consolidation committed to in the RCF disbursement, integral to the plan to build resiliency to natural disasters. The authorities intend to strengthen fiscal sustainability with identified structural measures targeting fiscal savings of 6 percent of GDP cumulatively, phased over 5 years, set to start once recovery takes hold. The government is also preparing institutional fiscal reforms to strengthen public debt sustainability, including the adoption of a fiscal rule consistent with regional commitments, and improvement of Public Financial Management and Public Procurement. The government has approved a comprehensive development plan to build resilience to natural disasters, expected to enhance long-term growth and support fiscal sustainability. Despite fiscal pressures, the government has remained current with all debt obligations, and managed to save resources in the Vulnerability Fund to build a fiscal buffer against natural disasters. The government is finishing the preparation of additional multilateral and bilateral loans focused on structural fiscal reform. Other contributing factors include better-than-projected tax revenue performance following a relaxation of the lockdown; contained revenue loss from the decline in tourism activity because the sector benefits from significant tax exemptions; and a reduction in public investment execution. The government remains focused on its development agenda to build resiliency to natural disasters.

18. Main risks to the outlook include uncertainty with regards to the intensity and duration of the global pandemic, and recurrent natural disasters. Staff's baseline projections assume that the spread of the disease will be contained at moderate levels following the vaccination, and economic activity will resume gradually in line with the recovery in international travel. However, the medium-term recovery is projected to be protracted, as the pandemic is expected to further deteriorate lingering weakness in the bank and non-bank financial sectors, and near-depletion of fiscal buffers. Citizenship by investment (CBI) revenue, difficult to predict, has shown a declining trend in recent years and remains a source of upside and downside risk. Maintaining high transparency and governance standards remains critical to minimize CBI flows' risk. Delays in fiscal consolidation and materialization of downside risks could open fiscal and external financing gaps.

Grenada

19. In the years preceding the COVID-19 pandemic, Grenada enjoyed rapid growth and strong fiscal and financial sector buffers. Real GDP expanded at around 5 percent per annum between 2014–19, significantly above the average of 2 percent during 2000–14. Growth benefited from structural reforms implemented between 2014–17, supported by an IMF ECF arrangement addressing vulnerabilities in fiscal, financial, business climate, and governance areas. Public debt declined steadily from 108 percent of GDP in 2013 to 59 percent in 2019, benefiting from strong growth and prudent fiscal policies, with the primary balance reaching 7 percent of GDP in 2019.

Financial sector buffers at end-2019 were also significant, with banks' capital and liquidity ratios above regulatory norms—capital adequacy ratio at 15 percent—and NPLs at 2 percent.

20. The authorities responded proactively to control the pandemic. Stringent containment measures at the onset of the pandemic, including a border closure to international visitors and a local curfew, and a judicious relaxation and reimposition of these measures in response to domestic and international developments, have resulted in around 150 cases and only one fatality.

21. Economic activity was, however, hit hard, as tourism came to virtual halt. Tourism accounts for over 80 percent of exports and came to a standstill since 2020Q2. A temporary closure of the key St. George's University, which may not resume in-person classes until late-2021, has further stressed the hospitality sector. A surge in COVID-19 cases in December forced a new partial lockdown, highlighting the difficulty of reactivating tourism amidst the pandemic. Real GDP is estimated to have contracted by 13.5 percent in 2020, while the unemployment rate surged to 28 percent in 2020Q2 (from 15 percent in 2019Q2) and then fell to 21 percent in Q3. The decline was driven largely by a drop in male unemployment (from 26 to 15 percent), with a small decline in female unemployment (from 31 to 29 percent). Inflation turned negative in 2020, reflecting declining fuel prices.

22. The government provided fiscal support by invoking the FRL's escape clause. The relief package included: (i) increased health sector expenditures (ii) support for hospitality workers; (iii) overhaul of development bank lending facilities; (iv) unemployment benefits; (v) reduction and deferral of taxes. Their fiscal cost in 2020 totaled around 2 percent of GDP. Regional and local financial regulators encouraged lenders to provide loan moratoria for six months.

Grenada: Fiscal Support Measures

Measures	Value (in million EC$)	Detailed measures
Health sector expenditure	15	Procurement of protective equipment, health screening equipment, thermometers for schools, COVID testing, securing the premises for quaranteened individuals, other.
Wage subsidies	20	Temporary payroll support to hoteliers, restaurants, bars, and small travel agents in the tourism sector, and income support to public bus operators, taxi drivers, tourist vendors, and other hospitality-based businesses.
Credit support	12	Adjust the small hotel lending facility and Expand the small business lending facility at the Grenada Development Bank
Stronger social protection	10	A temporary unemployment benefit programme
Other	9	Price support for farmers, tax deferral, household electricity bills

Sources: Country authorities and IMF staff estimates.

23. Grenada received IMF financing under the Rapid Credit Facility (RCF) and took advantage of the G-20 DSSI initiative. These engagements helped the government fill its external financing needs. The request for purchase of SDR 16.4 million (about US$22.4 million), equivalent to 100 percent quota or 2.1 percent of GDP under an RCF, was approved in April 2020. The RCF disbursement and debt service suspension under the DSSI helped contain the pandemic and its socioeconomic fallout.

24. There has been indication of macroeconomic resilience. Despite falling revenues and COVID-relief expenditures, the primary balance is estimated to have been in surplus in 2020 of around 2 percent of GDP. Public debt, however, increased to 70 percent of GDP at end-2020. There are limited signs of external sector pressures, despite the collapse in tourism, as net foreign assets remained stable. Import compression, robust remittances inflows, and continued FDI contributed to stabilizing the external position. The financial sector also remained resilient, with NPLs edging up to 2.6 percent—the rise would be stronger without the loan moratoria—by September 2020, and capital and liquidity ratios significantly above regulatory thresholds (capital-to-asset ratio at 22 percent).

Grenada: 2020 Financing by Source

	Value (in million EC$)	Share in total financing
External Financing		
Multilateral	181.8	60%
Existing Loans	56.9	19%
New Loans	124.9	41%
Caribbean Development Ban	10.4	3.4%
IMF (RCF)	60.5	20%
World Bank	54	18%
Domestic Financing		
Treasury Bills and Bonds		
RGSM-Reissues	100	33%
Non-RGSM	22	7.3%
Central Bank	0	0
Commerical Banks	0	0

Sources: Country authorities and IMF staff estimates.

25. The impact of COVID is expected to be prolonged, creating significant downside risks. Tourism arrivals further contracted in 2020Q4, and a quick rebound in 2021 is unlikely. With the loss of the high tourism season, GDP is projected to contract by 1.5 percent in 2021. Persistent loss in the tourism sector may create scarring effects in the long term.

26. Financing needs should continue to be manageable owing to a small fiscal deficit and high reserves. Financing needs will be largely driven by amortization and interest payments and are projected at US$74 million in 2021. World Bank's US$25 million Development Policy Credit would cover around one-third of it, with the rest coming from multilateral, bilateral, and domestic sources. The government built significant reserves by late-2020, as its deposits rose by US$67 million from January to October 2020. This buffer, however, was run down in December due to a one-off payment of US$60 million to a US investor (to settle a decision of the International Center for Settlement of Investment Disputes (ICSID) regarding the repurchase of shares in Grenlec, an electricity company).

27. Once the COVID-19 crisis wanes, the government is mandated to return to FRL targets, which would allow sustained debt reduction toward the 55 percent of GDP debt threshold. The authorities, jointly with the ECCB, plan to continue upgrading the financial oversight. Further progress on structural reforms and an advancement of the pilot disaster resilience strategy should solidify Grenada's growth.

Montserrat

28. 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 around 4,990. Montserrat's main economic activities include construction, sand mining, quarrying, government services and tourism.

29. The economy was severely impacted by COVID-19. The authorities have managed the health crisis relatively well with only 20 COVID-19 cases since March 2020, but one death. The authorities have closed the island's borders since March 2020. Montserrat's tourism sector is relatively small, with tourism exports accounting for 20 percent of GDP, but the COVID crisis severely impacted the economy, with GDP expected to fall by 8 percent in 2020 and negative inflation. GDP growth is projected to continue to fall by 2½ percent in 2021, with both upside and downside risks, depending on how quickly the global pandemic crisis would end. The current account balance is projected to deteriorate from a balanced position in 2019 to -11 percent of GDP in 2020 with decreased tourism receipts. In February 2021, Montserrat received 3,000 doses of the AstraZeneca vaccine from the U.K. and began vaccinating its citizens.

30. The fiscal balance deteriorated in 2019, but public debt remains low. The overall deficit is projected to remain high at over 13 percent of GDP in 2020 due to increased social spending under COVID assistance programs. Public debt is estimated to have risen to 20½ percent of GDP in 2020, up from 6½ percent of GDP in 2019 but remains far below the regional debt target of 60 percent of GDP. The fiscal balance is projected to improve toward a balanced budget, and public debt will start falling over the medium term. The Montserrat government received grant assistance of EC$20 million (about 12 percent of GDP) from the U.K. in April 2020 to fund their initial COVID response.

31. The financial sector remains stable with strong capital and liquidity buffers. The capital adequacy ratio remained high at 38 percent in 2020 Q4 and the ratio of non-performing loans to total loans was stable at 5 percent. However, bank profitability has remained low, with return on average assets ranging between 0 and -1 percent since the end of 2019. The Montserrat Social Security Fund has been in deficit for over eight years. Key interventions like increasing the contribution rate and wage ceiling would improve the situation in the near term.

32. Medium-term prospects for the economy depend largely on donor support. Real GDP growth is projected to be sustained at around 2¼ percent. This assumes improvements in tourism infrastructure with the aid of EU and UK financing, and an increase in tourist arrivals. Government spending will remain dependent on UK grant assistance, which accounts for 60 percent of total budget expenditures. Key social and infrastructural projects include the construction of an air traffic control tower, an airport runway, a new hospital, improvements in tourism infrastructure, and port development.

St. Kitts and Nevis

The authorities have successfully contained the spread of Covid-19 while using their large fiscal buffers to mitigate the health, and social impact of the pandemic. The economic damage has been large, and the post-pandemic outlook is uncertain.

33. In the years preceding the Covid-19 pandemic, large inflows from the Citizenship-By-Investment (CBI) program contributed to a strong fiscal position. Large CBI revenues, averaging 10 percent of GDP per year over the past decade, helped bolster the public finances, as reflected in

9 consecutive years of surpluses.[1] Since 2013, when the government embarked on a restructuring of public debt, real GDP grew at an annual average of about 3 percent,[2] further helped by an expansion of tourism.

34. As a result, St Kitts and Nevis had significant fiscal buffers to cope with the pandemic. The public debt to GDP ratio, which peaked at 145 percent of GDP in 2010, fell to 56 percent of GDP in 2019, making St. Kitts and Nevis the first country in the ECCU that met the regional debt target of 60 percent by 2030. Moreover, significant government deposits were built up in the local banking sector (27 percent of projected 2020 GDP at end-March).

35. The pandemic has been well-contained, but the economic damage has been large. A prompt closure of borders to international visitors helped contain the spread of the disease, with only 43 cases (41 recovered and no deaths reported). But with tourism—which previously accounted for over 60 percent of total exports and a quarter of GDP[3]—coming to a virtual halt, the economy has been hit hard, with real GDP estimated to have contracted by 19 percent in 2020.

36. A large fiscal package helped mitigate the health and social impact of the pandemic. The government bought medical equipment and supplies, deferred the property tax from June to September 2020, and for the remainder of 2020 reduced the unincorporated business tax rate (from 4 to 2 percent), cut the income tax for companies that retained at least 75 percent of their personnel (from 33 to 25 percent), and waived utilities fees. To fund requests for moratoria on mortgages[4] and to boost new lending, it increased funding for the development bank. The total cost of the package was around 4.3 percent of GDP, which was largely spent in the second quarter, when the country was in lockdown.[5] In addition, the Social Security Board provided payments to workers who lost their job or saw their hours reduced (about a quarter of the working age population), with a total cost of about 1 percent of GDP.

37. Large spending cuts in investment and other current expenditure helped contain the increase of the fiscal deficit from 1.1 percent of GDP in 2019 to 4½ percent in 2020. Excluding the exceptional land buy-back in 2019 of 4.4 percent of GDP, the fiscal balance deteriorated by 7¾ percent of GDP. The impact of the government's fiscal package (6 percent of GDP) was exacerbated by the cyclical impact (some 10 percent of GDP), and a decline in CBI revenues after an unusually strong 2019 (3 percent of GDP). A sharp curtailment of expenditure (over 10 percent of GDP, of which about one third was investment) limited the increase in the deficit. The deficit was financed through a drawdown of deposits.

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[1] In 2019, there was a deficit of 1.1 percent of GDP, as the government spent 4.4 percent of GDP repurchasing unsold land from the debt-land swap arrangement that was part of the 2013–14 debt restructuring (see footnote 7).

[2] At factor prices.

[3] According to World Travel and Tourism Council (2020), <https://wttc.org/Research/Economic-Impact>.

[4] This moratorium was an ECCU-wide agreed measure.

[5] The original package announced by the government in March 2020 amounted to 4.1 percent of GDP for 2020Q2 only.

38. With the loss of the current tourism high season, real GDP will likely decline by a further 2 percent in 2021. A post-vaccine rebound in arrivals should lead to double digit GDP growth in 2022. Thereafter, GDP growth will gradually taper off to 2¾ percent in 2025 and beyond. The crisis has led to a permanent decline in potential GDP *levels*—current estimates of potential GDP are 10 percent lower than estimate made in 2019. A key uncertainty is what happens to CBI inflows—which have provided important support for the public finances and the economy in the past decade.[6] If they remain high, the fiscal deficit will likely disappear, but a sharp drop in CBI inflows relative to its average level in the past decade could lead to sizeable fiscal deficits.

39. The pandemic will likely deepen financial sector vulnerabilities. While liquidity and NPLs have so far remained stable, high moratoria requests indicate weakening asset quality and early provisioning for expected losses has been modest. Banks held large capital and liquidity buffers going into the crisis, but also a (i) high share of NPLs (averaging 25 percent of total loans), with limited provisions and more challenging recovery and divestment prospects; and (ii) large overseas investments of excess liquidity subject to heightened revaluation risks. Credit unions' pre-pandemic NPLs were more limited, but they also hold thinner prudential buffers following preceding years' rapid credit expansion. Financial institutions' sovereign exposures are comparatively limited, in part due to sizeable CBI related government deposits in the banking sector. However, the pandemic is likely to further delay divestment of unsold lands from the 2013–14 restructuring of domestic sovereign debt.[7]

St. Lucia

40. The COVID-19 pandemic has had a devastating impact on St. Lucia. At the onset of the crisis, the St. Lucian authorities managed to keep the infections under control through resolute containment measures, including a border closure and country-wide lockdown. However, following the border reopening in the summer of 2020 and the return of foreign tourists, local COVID-19 cases spiked. The country experienced the most severe COVID-19 outbreak in the ECCU as of early 2021, with more than 800 new cases in January alone, more than double the total number recorded in 2020. St. Lucia has so far secured COVID-19 vaccines for 20 percent of its population under the COVAX facility and also received vaccines from bilateral partners. Vaccine rollout has started in March.

41. As a tourism and import-dependent economy, St. Lucia's fiscal and external balances have been hit hard by the pandemic. With annual stay-over tourist arrivals plummeting by about 70 percent and cruise ship travel grinding to a complete halt, the economy is estimated to have contracted by 18.9 percent in 2020. The authorities' fiscal expansion in response to the pandemic,

[6] Monthly fiscal data up to November 2020 indicate that monthly CBI demand in 2020 has remained stable relative to the months before the pandemic.

[7] The restructuring involved a swap of sovereign lands against nearly EC$ 800 million of government debt held by the largest local bank. The sale value of the lands is guaranteed at par by the government, who also pays an annual dividend on the remaining lands (the rates are periodically renegotiated). The government has repurchased a portion of the lands in recent years, but about EC$ 480 million of the lands remain unresolved.

while necessary to cushion the economic impact of the crisis, has led to a substantial increase in public debt. The overall fiscal deficit for FY2020 is estimated to have widened to 9.7 percent of GDP (from 3.5 percent in FY2019), driven by increased public health spending, temporary income support to vulnerable households, and a significant decline in revenues. Public debt is expected to rise sharply from around 60 percent of GDP in FY2019 to 84 percent of GDP in FY2020 (including approximately 9 percent of GDP in government-guaranteed loans for the airport terminal project). The sharp contraction of tourism exports is projected to result in a massive current account deficit of 16.3 percent of GDP (compared to a surplus of 4.8 percent of GDP in 2019). This, together with the large fiscal deficits and pressures from maturing medium and long-term government debt, have led to an urgent balance of payment need.

42. In response to a request from the St. Lucian authorities, the IMF Executive Board approved emergency financing under the RCF equivalent to 100 percent of St. Lucia's quota (SDR 21 million or about US$29 million) in April 2020. These resources, along with financial assistance from other multilateral and bilateral donors of around US$110 million, have helped the government meet the fiscal financing needs in FY2020 (from April 2020 to March 2021) and eased BOP financing pressure. The government has also maintained stable rollover of its maturing debt, including that held by external private creditors, and has requested debt relief from its official creditors under the G20 Debt Service Suspension Initiative (DSSI). Nonetheless, given the government's elevated gross financing needs owing to large debt service payments, near-term financing pressure remains.

43. The authorities remain committed to ensuring long-run debt sustainability. To this end, they announced in November 2020 a plan to adopt a rule-based Fiscal Responsibility Framework to ensure fiscal discipline and guide medium-term fiscal policies. Within the fiscal envelope that is consistent with this framework, the authorities plan to increase public investment in health, education, and resilience to natural disasters and climate change to enhance St. Lucia's long-term macroeconomic performance. If fully implemented and supported by revenue-enhancing measures, the framework has the potential to put public debt on a downward path while building fiscal buffers to future shocks.

44. The COVID-19 pandemic risks reversing recent years' gains in reducing financial sector vulnerabilities. While the financial system so far continues to enjoy excess liquidity, high take-up on bank and credit union loan moratoria speaks to reduced payment capacity beyond sectors directly dependent on tourism. This reversal of recent years' downward trend in NPLs is forcing financial institutions to increase their credit loss provisions, as also encouraged by tightening of associated regulatory guidance. Large capital buffers are helping to contain any near-term financial stability impact. Still, risks are likely to intensify the longer the crisis persists and could be further amplified by any parallel losses from financial institutions' investment portfolios.

45. Growth is expected to recover in 2021 but near-term outlook is subject to significant downside risks. Staff's baseline projections assume that the spread of the disease will be contained at moderate levels following the vaccination, and economic activity will resume gradually once the immediate health crisis begins to wane. While the recovery of tourism is expected to be slow, a pickup in construction of the pipeline infrastructure projects is projected to contribute to a real growth of 3.1 percent in 2021. However, there is significant uncertainty about the intensity and the duration of the global pandemic and the speed at which international leisure travel will resume. A more protracted domestic contraction and a longer-lasting halt in inbound tourists represent important downside risks to the outlook. Additional downside risks include St. Lucia's inherent vulnerability to natural disasters.

St. Vincent and the Grenadines

46. COVID-19 cases surged at the beginning of 2021. Amid the second wave of contagion in Europe and North America, Vincentians returning from abroad and tourists during the Christmas holidays contributed to new 1,435 cases in the first two months of 2021 (compared to 121 total cases in 2020). The authorities have tightened containment measures, and more recently, COVID-19 cases have fallen to pre-holiday levels. On vaccines, St. Vincent and the Grenadines is expected to receive 45,600 doses through the COVAX Facility (covering about 20 percent of the population). The authorities are also exploring additional doses from other sources, including the U.K., Cuba, India, and Russia.

47. Looming volcanic risk. During the last week of 2020, La Soufrière volcano awakened after four decades of slumber, releasing magma into its crater and creating a lava dome. The authorities have responded swiftly by (i) strengthening the monitoring capacity with the assistance of regional and international partners (e.g., the University of the West Indies Seismic Research Centre, the Caribbean Disaster Emergency Management Agency, and the U.K.); (ii) updating the National Volcano Emergency Plan; and (iii) simulating scenario-based financing needs. It remains highly uncertain when and how the volcano erupts, but the authorities have estimated that around 20,000 people (about 20 percent of the population) will need to evacuate in a worst-case scenario. In the last 1979 eruption, the total economic loss (including agriculture, animals, and property) was estimated at US$150 million in today's value (about 20 percent of GDP).

48. Growth recovery will be protracted, with risks to the outlook tilted to the downside. GDP is estimated to have fallen by around 4 percent in 2020, a relatively moderate reduction in the ECCU region due to lower dependence on hospitality services, the absence of full-lockdown measures, and the effective implementation of the fiscal package.[8] GDP is projected to remain weak

[8] On April 7, 2020, the government approved a fiscal package equivalent to 3.6 percent of GDP of which, effectively, EC$54 million (2.5 percent of GDP) were distributed in 2020. The main measures included: (i) increased health spending, (ii) waiving of VAT and duties on health and hygiene products, (iii) relief to the hardest-hit sectors (i.e. tourism, transport, and agriculture), (iv) expansion of social safety net programs, and (v) deferred payment of personal income taxes and various license fees. To support the authorities, the IMF Executive Board approved emergency financing under the RCF equivalent to 100 percent of St. Vincent and the Grenadines' quota (SDR11.7 million or about US$16 million) in May 2020. In its Letter of Intent, the government committed to publish procurement documentation, including information on the beneficial owners of the companies that receive crisis related procurement contracts, to report monthly on COVID-related expenditures, and to undertake a full ex-post financial and operational audit of COVID-19 spending at the time of the annual audit. The authorities have honored these commitments, although the publication of information on the beneficiary owners has been delayed and the annual audit for the 2020 financial operation (by Supreme Audit Institution) is expected to take place later this year.

(zero growth) in 2021 but accelerate to 5 percent in 2022, assuming that the COVID-19 pandemic crisis subsides and tourists return, the construction of the port project gets into full swing, and new hotel/resort construction boosts demand. The main risks to the outlook include a more protracted pace of tourism recovery (than currently anticipated), a potential explosive volcanic eruption, and severe rainfalls and hurricanes.

49. Fiscal performance was relatively robust despite the sheer size of the COVID-19 shock. Revenue collection was robust in 2020, with total revenues and grants reaching 32½ percent of GDP, up 2½ percentage points of GDP from 2019. Strong revenue collections from personal income tax, excise duties (including delayed collections from petroleum companies), and capital revenue from the concession deal with Sandals Resorts International more than offset a decline in VAT receipts and grants. On the spending front, due to the COVID-19 response measures, total expenditure increased by 4¾ percentage points to 38¼ percent of GDP in 2020. As a result, the overall deficit widened from 3 percent of GDP in 2019 to 5¾ percent of GDP in 2020. Public debt rose from 75 percent of GDP in 2019 to 87 percent of GDP in 2020.

50. The authorities published the 2021 Budget on February 1, 2021. The budget envisages a widening of the overall deficit to 13¾ percent of GDP, due to a substantial increase in capital outlays (from 8¼ percent of GDP in 2020 to 14¼ percent of GDP in 2021). Over the past few years, the government always presented ambitious capital budgets but implemented them prudently in light of available financing. Accordingly, staff expect the overall deficit to be contained at around 6 percent of GDP. Over the next few years, public debt is expected to stay high at around 90 percent of GDP, as the primary deficit remains at an elevated level, reflecting the construction of the new port.

51. The financial system has remained stable. Banks maintained a high capital ratio (21 percent) and liquid assets to total assets ratio (42 percent), while the nonperforming loan ratio stood at 7¼ percent, above the 5 percent regulatory benchmark (in Q2 2020). In parallel with the ECCB’s measures to safeguard banking system stability, the Financial Services Authority (FSA) has also implemented several measures, including a loan moratoria and a waiver of late fees and charges to eligible customers, to support credit unions and other non-bank financial institutions.

INTERNATIONAL MONETARY FUND

EASTERN CARIBBEAN CURRENCY UNION

March 29, 2021

STAFF REPORT FOR THE 2021 DISCUSSION ON COMMON POLICIES OF MEMBER COUNTRIES—INFORMATIONAL ANNEX

Prepared By

Western Hemisphere Department
(In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of March 26, 2021)

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. An update of the safeguards assessment of the ECCB is underway. Under the Fund's safeguards policy, the ECCB is subject to a full safeguards assessment on a four-year cycle. The last safeguards assessment was conducted in 2016.

CARTAC: CAPACITY BUILDING IN THE ECCU[1]

(As of March 26, 2021)

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

4. Despite the pandemic, CARTAC has been able to deliver a substantial program of capacity building over the past 15 months. As a result of the pandemic the IMF cancelled most travel and CD had to be delivered virtually. Although the technology functioned for the most part, scheduling meetings around lockdowns and uneven internet access initially caused significant problems and slowed down CD delivery. As civil servants and CARTAC staff got used to fully working online, delivery resumed to a high level from May 2020 onwards.

A. Tax Administration

5. In the area of tax administration, VAT implementation in ECCU countries is largely complete. The British Overseas Territory of *Anguilla* relaunched its efforts to implement a Goods and Services Tax (GST/VAT) in 2018 using a three phased approach. The first phase was the introduction of the Interim Goods Tax and Excise Tax on selected goods at the Customs that was implemented in October 2019. The second phase, which was intended to be a partial GST on the domestic supply of goods only, was scheduled for implementation in January 2021 with the full GST including tax on services to be implemented in 2023. To date, the authorities have decided to

[1] Prepared by Azziza Trotter, Pauline Peters, Frode Lindseth, Stephen Mendes, Colin Owen, Martin Bowen, Marianna Endresz, Ralph Lewars, Robin Youll, Consuelo Soto-Crovetto, Patrick Blagrave, and Gregory Horman (all CARTAC).

combine phases 2 and 3 and implement a full GST in 2022. Initial public awareness has started. CARTAC has provided technical assistance to Anguilla on strengthening organizational structure and governance arrangements aimed at determining the most appropriate structure and staffing levels in preparation for the implementation of the GST.

6. **The tax program for ECCU member countries continues to focus on:** (i) organizational restructuring to strengthen and establish 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 a robust program management (headquarters) function, (v) modernizing tax legislation, and (vi) strengthening IT systems. CARTAC continues to monitor the progress that the countries are making with respect to implementing recommendations associated with TA delivered in the areas listed above and to ensure that implementation targets for key recommendations are met. TA was delivered to *St. Lucia* in the core business area of audit, and *Grenada* and *St. Kitts and Nevis* on risk management.

7. **There has been progress in implementing new or modernized legislation.** *St. Vincent and the Grenadines* continued to pursue work on strengthening its legal framework with the implementation of a new Tax Administration Act. The authorities have pursued to deliver the training to their staff on the new legislation. Technical assistance was provided to *Montserrat* and *St. Lucia* on strengthening their legislative framework through the preparation of a Tax Administration Act. Work with both countries is continuing.

8. **The standardized regional data analytics and cross-matching program is now fully institutionalized for audit and compliance in most countries.** *St. Kitts and Nevis*, *Dominica*, *St. Lucia*, and *Grenada*, *St. Vincent and the Grenadines* have benefited from the program and are now utilizing data analytical skills in conducting their audits and compliance risk management programs. The data analytics program has proven very useful to the tax administrations in analyzing data to improve the development of core functional programs and decision-making process.

9. **Progress has continued on implementing the standardized regional approach to risk-based compliance, despite the challenges due to insufficient data 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. Follow up work will be done in *Grenada* on developing a compliance improvement plan before the end of FY21.

10. **Strengthening information technology systems for business delivery has been essential to support sustainable reforms and to ensure business continuity particularly in times of uncertainty.** The tax administration information technology (IT) system used in the ECCU countries, continues to receive regional peer-to-peer support. Some countries, however, have started to upgrade their IT system and are all at different stages in the process. *St. Lucia* has received assistance to develop an RFP to acquire a new system. CARTAC will be facilitating a study tour for *Grenada* to be hosted by Jamaica to get an understanding of the Tax Authority of Jamaica's IT support, systems and processes used in identifying and implementing its new tax information system. *St. Kitts and Nevis* is at the stage of finalizing a contract with the supplier of a new system

while *Dominica* is still in discussions with their authorities to upgrade their system. *Anguilla* has already commenced the implementation of the new system with a few modules already in use within the Internal Revenue Department.

11. Tax Administration Diagnostic Assessment Tool (TADAT). *Dominica* benefitted from a TADAT assessment which provided the authorities with a baseline of the tax administration's performance that can be used to determine reform priorities. A post TADAT workshop helping to develop and implement a plan to address the areas for improvement will be conducted with the authorities before the end of April 2021. Other countries have expressed an interest in having a TADAT assessment conducted: *St. Lucia* (FY22), *Grenada* and *St. Kitts and Nevis* (FY23).

12. Most ECCU member countries participated and benefitted from regional workshops and seminars in FY2020/21. A total of six regional initiatives were held:

- *Effective Revenue Management*. CARTAC facilitated a program aimed at monitoring and analyzing revenue performance pre- and post-COVID. This program was aimed at strengthening the capacity of the tax administrations to be able to provide reliable advice to the Ministry of Finance for forecasting and decision making. Regular meetings were held with individual countries and a regional seminar was held where the analysis of the revenue figures was presented and discussed.

- *Strengthening Business Continuity Strategy—Disaster Preparedness*. Several meetings were held with tax administrations to discuss the general strategy that can be customized to each tax administration. A framework document was also developed and shared.

- *COVID-19 Board Room Virtual Discussions*. A total of four meetings were held with tax administration officials who shared with their counterparts the measures that were implemented by their various authorities that affected tax operations, some of which included, delayed filing and payment deadlines, temporary removal of VAT on some items. The structures put in place for officers to work from home and its benefits and challenges were also examined. The fora allowed exchange of ideas and support among tax administrations in navigating the period of uncertainty

- *Internal Audit*. This workshop was aimed at supporting countries in strengthening internal control, compliance with the law, maintaining and using SOPs for all functional areas.

- *International Survey on Revenue Administration* (*ISORA*). Maintaining the information necessary for input in the ISORA Survey.

B. Customs administration

13. Customs administration focused on strengthening risk management and managerial skills to help ensure (i) leadership, management, and governance; (ii) trade facilitation, and (iii) compliance. Regional initiatives included continued support to the Caribbean Community (CARICOM) in the harmonization of customs procedures. This was particularly critical during a period when imports and customs revenue collapsed because of the pandemic (Table 1).

Table 1. Caribbean: Impact of COVID-19 Lockdown on Imports and Customs Revenue, 2020
(Imports by value and all customs revenue from imports (in USD), unless otherwise indicated)

	March - July 2019		March - July 2020		Difference			
	Imports (CIF Value)	Duties and Taxes	CIF Value	Duties and Taxes	CIF Value	Duties and Taxes	CIF Value (in percent)	Duties and Taxes (in percent)
Anguilla	74,898,574	14,544,096	52,490,994	10,003,380	-22,407,580	-4,540,716	-30	-31
Antigua and Barbuda	187,393,349	59,800,337	129,703,750	48,673,717	-57,689,599	-11,126,619	-31	-19
Aruba	430,416,031	71,621,200	293,077,402	43,238,777	-137,338,629	-28,382,423	-32	-40
Barbados	745,458,244	203,832,090	582,255,118	148,862,585	-163,203,127	-54,969,504	-22	-27
Belize	294,587,272	113,127,460	215,622,625	81,080,040	-78,964,647	-32,047,420	-27	-28
Bermuda	700,637,183	100,689,402	425,596,230	74,789,429	-275,040,953	-25,899,973	-39	-26
Cayman Islands	NA	89,115,000	NA	48,461,000	NA	-40,654,000	NA	-46
Curacao	447,539,403	62,766,164	378,730,565	66,010,891	-68,808,839	3,244,726	-15	5
Grenada	217,800,363	73,743,555	153,609,117	59,135,093	-64,191,246	-14,608,462	-29	-20
Guyana	NA	429,969,359	NA	330,372,886	NA	-99,596,474	NA	-23
Jamaica	2,656,644,013	601,547,498	1,814,719,705	474,735,064	-841,924,308	-126,812,434	-32	-21
St. Kitts and Nevis	60,057,436	13,714,091	37,963,855	10,651,863	-22,093,581	-3,062,228	-37	-22
St. Lucia	223,178,430	73,225,967	173,042,792	55,629,986	-50,135,639	-17,595,981	-22	-24
St. Vincent and the Grenadines	122,811,463	34,424,310	120,194,841	33,836,967	-2,616,622	-587,344	-2	-2
Total	6,161,421,761	1,942,120,529	4,377,006,992	1,485,481,678	-1,784,414,769	-456,638,851	-29	-24
Average							-27	-23

Sources: ECCU country authorities and CARTAC staff estimates.

14. TA in Risk Management. 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*, *Dominica*, *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. Post clearance audit (PCA). TA, including advice, mentoring, and training on PCA, was delivered to *St. Vincent and the Grenadines* and *Dominica*. Approximately 35 officers received training, and because 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. Customs management of petroleum imports. TA has bsseen provided to *St. Vincent and the Grenadines*. This is a significant source of revenue and CD has focused on making controls more effective so that accurate reporting is made by traders and the correct duties are paid. Further TA will be provided in this area on a regional basis.

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

C. Public Financial Management

18. As countries responded to the pandemic, Public Financial Management (PFM) TA focused on addressing pandemic-related issues through regional webinars. The first webinar provided advice to cash management units on functioning with limited revenue reaching treasuries. The second webinar addressed PFM functionality during the pandemic. It drew on FAD work and lessons learned from CARTAC's PFM Hurricane Review study where countries that had experienced the hurricanes of 2017 used their hurricane committee structures and system solutions to assist them through the pandemic. The third webinar addressed how to include pandemic spending into the upcoming budgets. The fourth webinar focused on specific challenges for health budgets due to the pandemic.

19. Since November 2020, CARTAC has undertaken a series of workshops to support Internal Audit functions across the region. These workshops have focused on the specific challenges of auditing pandemic-related expenditures and other disaster relief spending, given the need to respond to such crises urgently. To accommodate the challenges of on-line learning, the workshops have been conducted over several half-days rather than full day workshops that are usually arranged for in-person events. Over 50 people have attended each of the workshops, with representatives from all the ECCU countries. A series of five additional workshops are planned for 2021.

20. Following a request from *St. Vincent and the Grenadines*, TA was provided on Operationalizing the Fiscal Responsibility Framework. The mission report included recommendations on further enhancing the fiscal responsibility framework, the annual budget preparation process, and the medium term economic and fiscal outlook statement as well as improving transparency and accountability.

21. Implementing a modern and consistent PFM legal framework across the Caribbean including ECCU countries has remained a key focus. The impact of Covid-19 has highlighted further concerns around rules, emergency processes and recording transactions during a pandemic.

22. Despite the pandemic, budget preparation reforms have been sustained and countries have continued to improve their processes. Support has been provided to the strategic budget reform methodology, with focus on the Medium-Term Expenditure Framework (MTEF) process, strategic plans, development of Key Performance Indicators (KPIs) and reporting.

23. CARTAC concluded a Public Expenditure and Financial Accountability (PEFA) Assessment in *Anguilla* before the pandemic and is now planning a follow-up virtual mission focusing on a PEFA Action Plan to support improvement.

D. Financial Stability

24. 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 nondeposit 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.

25. Following the outbreak of the COVID-19 pandemic, CARTAC helped ECCU countries to identify its financial stability implications. In June 2020, ECCU members (and other countries from the region) participated in a workshop on COVID-19 stress testing for the insurance sector. The workshop assisted insurance sector supervisors to develop and implement pandemic stress scenarios and assess the potential impact on the sector. It also advised on how to develop an action plan for implementation as part of the supervisory (top-down) stress testing, as well as how to communicate with insurers on risks related to the pandemic.

E. Financial Sector Supervision

26. In financial sector supervision, CARTAC has continued to work closely with the *ECCB* on the implementation of the Basel II/III capital framework. In June 2020, CARTAC reviewed and provided feedback on the ECCB's Revised Draft Guideline on "Definition of Capital and Capital Calculations under Pillar 1" and developed draft versions of the capital adequacy reporting templates. Walk-through exercises on completing the templates were conducted, and a similar exercise is planned for April 2021. Following the June 2020 mission, CARTAC provided ongoing assistance to the ECCB to support activities relating to Pillar 1 implementation. The ECCB has made appreciable progress with the implementation of Basel II/III (Pillar 1) including addressing related recommendations from the last TA mission. The ECCB has commenced conducting quantitative impact study (QIS) of Pillar 1 implementation across a sample of institutions before the full QIS scheduled from April 5 to May 14, 2021. Implementation of Pillar 1, assuming no further revision to their implementation timetable, is possible by April 2022. It is highly unlikely that Pillars 2 and 3 will be implemented before April 2024. The ECCB is also contemplating implementing other elements of the capital adequacy framework such as the capital conservation buffer, leverage ratio, and the liquidity coverage ratio (LCR). A follow-up Basel II/III implementation mission will be conducted in late April 2021.

27. During the last two years, CARTAC provided follow-up TA on risk-based supervision (RBS) to non-bank supervisors in the ECCU at a regional workshop in July 2019 and bilaterally in 2019 and 2020. The level of progress in the implementation of RBS varies across member territories of the union. Two of the eight territories exhibited strong commitment to transition to RBS. Follow-up TA on RBS provided to non-bank supervisors in *St Lucia*, and *St. Vincent and the Grenadines* in 2020 focused on key success factors for RBS implementation, providing feedback on risk-based assessments of credit unions and insurance companies, and developing two-year action plans to achieve targeted milestones linked to key RBS outcomes. A similar TA mission in terms of scope is planned for *Grenada* in mid-March 2021. Follow up TA on RBS is planned for these members by end-April 2022 subject to evidence of progress in meeting agreed milestones and in the practical application of RBS. *St Lucia*, *Anguilla*, and *Antigua and Barbuda* have expressed interest in receiving technical assistance on the implementation of a risk-based solvency regime for insurance companies.

28. In the fall of 2020, CARTAC conducted a capacity building workshop for the benefit of staff and Commissioners of the Eastern Caribbean Securities Regulatory Commission (ECSRC). The training covered the basics of securities market supervisory oversight with emphasis on on-site supervision, key aspects of securities regulation in the context of applicable international standards (such as those published by the International Organization of Securities Commissions-IOSCO; and the OECD Principles for Corporate Governance).

29. In February 2021, members of staff from the *Anguilla* Financial Services Commission (A-FSC) participated in a CARTAC sponsored virtual 2-week workshop on the regulation and supervision of credit unions. There are 2 credit unions in Anguilla, one of which is dormant. The need to potentially license and supervise credit unions spurred the request from the authorities for TA due to increased interest by community members to establish credit unions. As a result of the training provided, the A-FSC will revise its draft Cooperative Societies Act to clarify sections related to required capital in credit unions.

30. In late 2020, CARTAC responded to the Financial Services Commission of *Montserrat* (FSC) request for technical assistance to review the organizational structure of the FSC. Recommendations to implement a revised structure, including staffing to facilitate preparation of budget estimates for FY 22 and for the FSC to effectively fulfill its legislative mandate were provided.

31. In 2020, at the request of the *St. Vincent and Grenadines* Financial Services Authority (FSA), the IMF Monetary and Capital Markets Department (MCM) reviewed legislative amendments to the governing legislation of the FSA in resolution. The request was a follow-up on the December 2017 CARTAC mission related to legal regime to incorporate recovery and resolution powers. Feedback and advice provided were in line with international best practices with the objective of strengthening the regulatory powers of the Authority to introduce the legal framework for effective resolution of credit unions and building societies.

32. Both insurance and bank supervisors from the member territories and the ECCB, respectively, participated in several regional workshops and webinars hosted by CARTAC, and jointly with IMF-HQ during the last two years. In FY21, representatives from the insurance supervisory agencies in each member territory participated in regional workshops on stress testing and building resilience against climate risk. The workshop on insurance stress testing followed up previous TA by incorporating stress scenarios reflecting the simultaneous impact of shocks from the pandemic and natural catastrophe (e.g., hurricane). The workshop on climate risk was designed to enhance supervisory capacity to conduct climate risk assessments and response capabilities for dealing with climate-related and other environmental risks to improve resilience. In March 2021, insurance supervisors from each member territory also participated in a CARTAC sponsored workshop on supervisory review of the actuarial liabilities of life insurance companies. The IMF-CARTAC remote round-table discussions/webinars were conducted from May to July 2020 and addressed topics such as “Cybersecurity of Remote Work During the Pandemic” and “Regulatory and Supervisory Response to Deal with Coronavirus Impact”. The webinars were well attended by both banking and insurance supervisors from the ECCU.

F. Real and External Sector Statistics

33. During the period December 2019–February 2021, the CARTAC program on economic and financial statistics concentrated on improving external sector, national accounts, and price statistics in the ECCU countries. CARTAC also continues 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.

34. Of note in the period, good progress was made by *Grenada*, *St. Kitts and Nevis*, *St. Lucia*, 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). In *Grenada* a five-year action plan to improve and expand the national accounts was agreed, and a mission in February 2020 assessed the input data for the planned SUT, including establishing the industry and product dimensions and recommending ways to address data gaps. In *St. Kitts and Nevis*, a mission in April 2019 helped assess the input data for their SUT in terms of classification, coverage, time of recording, and valuation. Recommendations for expanding and improving the data to address the remaining gaps was also provided, and the compilation of the SUT industry and product balances commenced. Missions to *St. Lucia* in February 2019 and January 2020 also supported the development of an SUT for 2016 and the subsequent rebasing of GDP to 2016 prices, including back casting the series to 2000. Significant improvements were also made to the conceptual basis and coverage of the estimates, and quarterly estimates were updated in line with the 2016 benchmark. In *St. Vincent and the Grenadines* in February 2021, CARTAC, in close partnership with PRASC, helped finalize an SUT for 2018. This will be used as the basis for rebasing the estimates of GDP in March 2021.

35. Progress is also being made by countries to improve price statistics. Notably, in *Grenada* in April 2020 when assistance was provided to build institutional capacity, improve the CPI compilation methodology, review the 2018/19 Household Budget Survey (HBS) household consumption expenditure data, and update the CPI expenditure weights.

36. While there were no regional training workshops during 2020, CARTAC has introduced some short learning modules related to national account themes. The first of these was held in February 2021 and was attended by staff from the statistical office of *Anguilla*, *Antigua and Barbuda*, *Dominica*, *Montserrat*, *St. Kitts and Nevis*, and *St. Lucia*, as well as by representatives from the *ECCB*. A further nine sessions are planned in the coming period.

37. 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 has continued assisting ECCU member 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 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).[2] Furthermore, recent CARTAC TA is

[2] *Antigua and Barbuda*, *Dominica*, *Grenada*, *St. Lucia* and *St. Vincent and the Grenadines* conduct face-to-face VES at airports (stayover visitors) and seaports (cruise visitors) on an ongoing basis and results are incorporated in their

(continued)

assisting in addressing compilation issues—some of them have been aggravated by the COVID-19 pandemic—preventing a more timely dissemination of balance of payments and IIP data and in developing suitable back-casting techniques to address significant breaks in the balance of payments for years prior 2014. In coordination with the debt management offices of the ministries 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.

G. Macroeconomic Forecasting and Analysis

38. CARTAC has continued to provide technical assistance to ECCU countries in macroeconomic and macro-fiscal forecasting and analysis. As in other sectors, the COVID-19 pandemic presented a significant disruption to the workplan, but support was nevertheless provided to *Anguilla* and *St. Kitts and Nevis*. The engagement with Anguilla's Ministry of Finance (Fall 2020) focused on refining the medium-term macroeconomic and fiscal projections in the face of a sharp decline in tourism, and tremendous uncertainty regarding the likely path for recovery. As in previous years, the role of CARTAC in this process was primarily to review the assumptions underpinning the forecasts and provide feedback on areas for refinement—the British Government appreciates CARTAC involvement in Anguilla's projection process, in the context of its approval of Anguilla's annual budget. Technical assistance to St. Kitts and Nevis (June 2020) focused on refining the medium-term macro-fiscal framework and was conducted with the Ministry of Finance and participants from the ECCB.

39. A series of virtual seminars was initiated in December 2020, featuring participation by authorities in ECCU countries as well as those elsewhere in the Caribbean region. Topics included forecasting tourism arrivals (December 2020), the role that COVID testing can play in fostering economic recovery and reducing inequality (February 2021), and the impact of climate change on disaster-prone countries (forthcoming in March 2021).

H. Debt Management

40. The debt management capacity-building program at CARTAC commenced in October 2020. A new initiative funded by the Canadian government, the program is supporting Caribbean countries, including the member states of the ECCU, in achieving the strategic objectives of (i) raising financing and managing the public debt at low cost subject to a prudent level of risk; (ii) increasing financing choices for the government in domestic, regional, and international capital markets, including through climate-resilient debt instruments; and (iii) enhancing the capacity of the government to manage public debt by having in place effective debt recording, reporting, and monitoring practices. A demand-driven work plan is being developed in collaboration with country authorities, while having regard to priorities identified by IMF staff. A key challenge in ECCU countries lies in the implementation of a realistic debt management strategy. Nearly every ECCU country already develops a strategy, but it does not in practice always consistently guide individual

balance of payments. However, VES are currently suspended. The COVID-19 pandemic has severely affected the free cross-border movement of international travelers, in particular inbound tourists. 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.

borrowing decisions. An immediate requirement, due to the global pandemic, is to raise higher-than-usual volumes of financing but in a manner that does not exacerbate refinancing risk in the near term. Better coordination of debt management operations and management of the government's cash balance is needed in many countries. Nearly all countries could do more to improve the transparency of debt policy, debt operations, and the composition of the debt portfolio, for the sake of governance and accountability to national stakeholders and international partners. There lies significant scope for reforms to the ECCU regional government securities market, which will aid in reducing cost and risk and provide greater assurance of the availability of financing to the government. The capacity-building program at CARTAC will address those priorities through a combination of technical assistance missions, regional training workshops, and periodic seminars, with several activities going forward from March 2021.

Statement by Ms. Levonian, Executive Director,
and Ms. Edwards, Advisor to the Executive Director
on Eastern Caribbean Currency Union
April 26, 2021

Our Eastern Caribbean Currency Union (ECCU) authorities welcome the Staff Report for the 2021 Common Policies Discussion. The comprehensive report broadly reflects developments in the Currency Union within the context of the ongoing COVID-19 pandemic and embraces the actions and proposals that are being pursued to steer post-pandemic recovery, safeguard macroeconomic stability, support inclusive and sustainable growth, and build resilient economies. Our authorities appreciate their ongoing engagement with Fund staff and the candid dialogue that characterizes these discussions.

Framework for COVID-19 recovery

The pandemic has hit the economies of the ECCU hard with GDP for the Currency Union as a whole estimated to have contracted by 16 percent in 2020, with steeper declines in the more tourism-dependent economies. The economic losses are a direct impact of containment actions, including the closure of borders and strict lockdown measures, implemented to reduce the spread of the virus. Inflation has been contained at 0.2 percent year on year in December in line with the consumer price index in key trading partners.

The containment measures allowed for the first wave of the pandemic to be reasonably well-contained, with relatively low levels of infections and deaths. However, as borders were re-opened and global infections increased, the number of cases rose and eventually led to a re-implementation of containment measures.

As early as March 2020, several measures were implemented in ECCU member countries to mitigate the impact of the pandemic. These included increased health care spending, cash payments to vulnerable households, income support for displaced workers in the tourism and other sectors, tax and import duty deferrals, and accelerating the implementation of the public sector investment program, where possible, to boost employment. In addition, the Eastern Caribbean Central Bank (ECCB), in collaboration with the commercial banks, agreed to exercise regulatory forbearance and introduced measures in the banking sector, such as granting of moratoria on loan repayments. The actions taken by the commercial banks were largely replicated in the non-bank sector which is dominated by credit unions. In addition, the ECCB reduced the discount rate from 6.5 to 2 percent and the long-term credit interest rate from 6.5 to 3.5 percent to ease access to Central Bank credit for member governments and licensed financial institutions.

The ECCB proposes to implement a Program of Action for Recovery, Resilience and Transformation (PARRT) to help support the recovery process and pursue a path towards sustainable and resilient economic growth. The program was endorsed by the Monetary Council of the ECCB in October 2020 and is expected to be implemented over a three-year period. It consists of proposed policy actions to be undertaken at both the national and the regional levels and is built on the following four pillars:

1. Financial stability
2. Fiscal and debt sustainability
3. Resilient and inclusive growth
4. Payments modernization and digital transformation

Aspects of the program are already being implemented. For instance, in the context of pillar 4, on 31 March 2021, the ECCB launched 'DCash'- a digital currency that became the world's first retail central bank digital currency (CBDC) to be publicly issued within a formal currency union.

<u>**Financial and Monetary Sector Developments**</u>

Financial sector conditions are relatively sound with ample liquidity buffers and a stable deposits base. Nevertheless, several downside risks exist and safeguarding financial stability is crucial. Uncertainty about the duration of the pandemic is a major risk. Although accommodative financial sector policies have so far been appropriate, prolonged regulatory forbearance will mask weaknesses in the sector.

Maintaining a strong currency is a major policy objective. Despite the economic challenges and the uncertainties in the external sector, the exchange rate parity with the US dollar has remained fixed. Foreign reserves remain high and no change in the exchange rate is anticipated.

Our authorities agree with staff that comprehensive crisis management plans for implementation at the regional and national levels should be prepared. To that end, the main objectives of the financial stability pillar of the PARRT are structured to maintain stability in the entire financial system while stimulating economic growth. The authorities will ensure that the non-bank financial system operates within the applicable guidelines provided by the single regulatory units of individual governments. Likewise, licensed financial institutions will be required to operate within prudential benchmarks and relevant guidelines issued by the ECCB. In addition, actions will be taken to maintain the stability of the financial system through the support of recapitalization, effective resolution strategies, optimal liquidity management, and improved information exchange.

Sustained efforts are needed to address remaining financial sector weaknesses. The ECCB will work with Governments to build the databases that are needed to enrich the quality of banking sector assessments. These assessments will help with the identification of institutions which pose high systemic risk, especially those with very elevated NPL levels. The tourism shock is projected to almost triple banks' NPLs. Regional efforts to reduce NPLs will continue. One option is through purchases by the Eastern Caribbean Asset Management Corporation (ECAMC) which was established by the Monetary Council for that purpose. The alternative is through private sector asset management companies that are providing that service.

Corresponding Banking Relationships (CBRs)

The loss of correspondent banking relationships (CBRs) remains a concern for the region and poses a risk to financial stability. Although there have been no new terminations of CBRs, recent legislative changes in the U.S. could increase the cost of compliance, a key factor in the decision of correspondent banks on whether to provide services to Caribbean respondent banks. This action could re-elevate the risk of losing CBRs and magnify the concerns of potential impact on the banking sector and the economy more generally. With two foreign banks exiting the market in the last 18 months, domestic banks now serve close to two-thirds of the market. This highlights the magnitude of the challenge if ECCU domestic banks are not able to maintain adequate CBRs.

Our authorities will continue to pursue initiatives to prevent further loss of CBRs by adopting global regulatory standards, implementing reforms targeted at improving the AML/CFT framework, as well as to improve governance in undertaking all financial transactions. However, standards for AML/CFT continue to change and are adopted and implemented at significant cost. Enhancing capacity to address these issues remains a priority.

Our authorities look to the Fund and other multilateral institutions for the technical support to continue to enhance the AML/CFT framework and leveraging digital tools for transaction monitoring.

Fiscal Policy and Debt Management

The pandemic has worsened the fiscal situation of ECCU member states. Largely as a result of steep declines in GDP, the ECCB has recommended that member countries delay the achievement of the fiscal anchor of 60 percent debt to GDP ratio from 2030 to 2035. Public debt levels are high and increasing in several countries as new debts were incurred to finance the pandemic response. Accordingly, our authorities are committed to making well-focused and concerted efforts to improve fiscal performance and achieve debt reduction goals across the ECCU.

Our authorities agree that stronger fiscal consolidation efforts are needed to attain the debt targets by the revised date of 2035. The pace at which the target will be achieved will vary from country to country. ECCU member states are committed to prioritizing fiscal discipline, including through the adoption of fiscal rules. Well-articulated fiscal frameworks and comprehensive recovery plans are necessary along with the ECCB PARRT.

Measures to enhance revenue administration and collection are necessary. ECCU member states will need the assistance of development partners in raising the financing for closing the fiscal gap. This will be complemented by increasing domestic revenues. In that regard, technical support to achieve this objective is vital. For those states that rely heavily on resources from the Citizenship by Investment Programs, strengthening the governance in the operation of these programs will be undertaken to ensure greater sustainability.

Our authorities welcome the Fund's preparation of a comprehensive climate change strategy, including the plans to include climate change issues in surveillance and the preparation of a climate change dashboard. The ECCU countries are ranked among the most natural disaster-prone countries worldwide and are barely able to build buffers because of the frequency of climatic events and other natural hazards. The ongoing eruption of the La Soufriere volcano in St. Vincent and the Grenadines is evidence of the risks to which ECCU member states are exposed. **Building resilience is not optional and access to funding for resilience building is critical**. We continue to advocate for special consideration to be given to Small Development States (SDSs), including those of the ECCU, in light of their high level of vulnerability, and urge the Fund to work with other multilateral institutions in addressing this urgent and important matter.

Achieving Sustained and Inclusive Growth

The road to returning to pre-pandemic GDP levels could be long and protracted if the pandemic is not contained. As such, our authorities will pursue a path to achieving sustained and inclusive growth that is multifaceted. In the first instance, the focus will be on ensuring that the population is fully vaccinated in tandem with tourism source markets, which is needed to fully reopen the tourism industry as soon as possible. In this context, the Fund should continue its advocacy for vaccine equity among all countries. Additionally, our authorities continue to make investments in other sectors such as agriculture, physical infrastructure, renewable energy, and digitalization to lay the foundations for sustained and inclusive growth.

Our authorities remain committed to removing obstacles to doing business that impact on growth outcomes. Investments in education and continued support to the health sector will improve the quality of the labor force. New legislation to provide for the establishment of a credit bureau and simplifying foreclosure processes are all intended to encourage private sector investment.

The ECCU will pursue these developments in a coordinated manner and within the context of the OECS Economic Union framework**.**

Capacity Development

Central to the successful implementation of the ECCU recovery plans is the availability of technical support. Our authorities are grateful to the Fund's area and functional departments as well as the Caribbean Regional Technical Assistance Centre (CARTAC) for their tremendous efforts in facilitating capacity building in the ECCU and look forward to the continued strong support of the Fund in this regard.

Conclusion

Our authorities remain cognizant that much more needs to be done to achieve the long-term vision for the ECCU. Despite numerous challenges, our authorities are not daunted by the tasks that lie ahead and are keen to take the necessary steps to rebuild in the aftermath of the pandemic. Strengthening integration and greater collaboration among member states will make the development efforts more effective.

The support of the international community, including the Fund, as well as technical and financial assistance are critical to the success of the ECCU's plans to preserve macroeconomic stability, develop sound financial systems, and ensure sustainable, inclusive growth.