INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/253

# EASTERN CARIBBEAN CURRENCY UNION

July 2022

## 2022 ARTICLE IV CONSULTATION WITH MEMBER COUNTRIES ON COMMON POLICIES OF THE EASTERN CARIBBEAN CURRENCY UNION—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 2022 Article IV consultation with member countries forming the 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 July 27, 2022 consideration of the staff report.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 27, 2022, following discussions that ended on May 31, 2022, with the officials of the ECCU on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 7, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Eastern Caribbean Currency Union.

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

- Selected Issues

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PRESS RELEASE

PR22/279

# IMF Executive Board Concludes 2022 Article IV Consultation on Common Policies of Member Countries of the Eastern Caribbean Currency Union

**FOR IMMEDIATE RELEASE**

**Washington, DC – July 29, 2022:** On July 27, 2022 the Executive Board of the International Monetary Fund (IMF) concluded the 2022 Article IV consultation on common policies of member countries of the Eastern Caribbean Currency Union (ECCU).[1]

With ECCU economies slowly emerging from the pandemic with scars, the impact of the war in Ukraine is a setback to the nascent recovery. Higher food and energy prices, amid ongoing supply disruptions and intra-regional transportation bottlenecks, are raising inflation, eroding income, lowering output growth, worsening fiscal and external positions, and threatening food and energy security. As a result, inflation is expected to hover over 5½ percent in 2022. Real GDP is projected to grow by 7½ percent in 2022, leaving output still well below the pre-pandemic level. Fiscal deficits are projected to remain sizable, given continued pandemic- and disaster-related spending and temporary support to address rising living costs, thereby keeping gross financing needs and public debt at elevated levels in the near term. The financial system has remained broadly stable so far, with adequate capital and liquidity buffers, but nonperforming loans remain high and could rise further following the expiration of the ECCB's loan moratoria program. The outlook is subject to large downside risks, primarily from further increases in commodity prices and new COVID variants amid vaccine hesitancy, in addition to the ever-present threat of natural disasters.

## Executive Board Assessment[2]

Executive Directors welcomed the Eastern Caribbean Currency Union (ECCU) and national authorities' response to the pandemic that contributed to a nascent economic recovery in 2021. Directors noted that ECCU economies have been scarred by the COVID-19 pandemic and that spillovers from the war in Ukraine have compounded supply disruptions and transportation bottlenecks, fueling inflationary pressures. They recognized that the recovery will be gradual and uneven and that downside risks to the outlook remain significant. In that

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

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

context, Directors stressed the need to focus policies on ensuring a resilient and inclusive recovery. They also highlighted the role that Fund engagement, including capacity development, and the international community could play in supporting these objectives.

Directors stressed the importance of maintaining fiscal prudence, while protecting the vulnerable, given the lingering pandemic, heightening inflation pressures, and the tightening of global financial conditions. They agreed on the need for temporary targeted transfers and called for efforts to improve the coverage and targeting of social safety nets. Directors saw merit in allowing a gradual pass-through of international energy and food prices to the domestic economy and phasing out generalized subsidies.

Directors underscored the importance of medium-term fiscal consolidation, supported by revenue mobilization, expenditure rationalization, fiscal structural reforms, and reliance on concessional financing. While noting the recent progress, Directors emphasized the need to accelerate the adoption of well-designed rule-based fiscal frameworks to support consolidation efforts and preserve the credibility of the regional debt target. They agreed that the impact of natural disasters should be internalized in these frameworks to enhance their effectiveness and credibility.

Directors noted that the financial sector remains broadly stable so far. However, they underscored the need to closely monitor asset quality and provisioning buffers, given elevated nonperforming loans, following the exit from loan moratoria. To support private sector credit growth, Directors recommended accelerating reforms to address long-standing lending and credit constraints. They noted that risks to correspondent banking relationships can be mitigated by strengthening the region's financial integrity, AML/CFT, governance, and offshore taxation frameworks. Directors called for efforts to reduce fragmentation in the non-bank supervision framework and expedite legislation to govern digitalized financial services. They welcomed recent steps by the ECCB to integrate climate risks in supervisory and regulatory frameworks and recommended that they also be integrated in crisis management plans. Noting the potential benefits and risks related to DCash, Directors urged the ECCB to raise public awareness and improve communication with end-users, reinforce capacity, and fully implement safeguard measures.

Directors encouraged further progress on structural policies to build climate resilience, strengthen competitiveness, and ensure food and energy security. They highlighted the importance of further investing in resilient infrastructure and insurance for natural disasters and accelerating the shift to renewables. Directors recommended upgrading intra-regional transportation infrastructure, enhancing regional integration, and investing in skills development.

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, 2019–23 1/

| | 2019 | 2020 | Est. 2021 | Proj. 2022 | Proj. 2023 |
|---|---|---|---|---|---|
| | | | (Annual percentage change) | | |
| **Output and Prices** | | | | | |
| Real GDP | 2.3 | -17.5 | 4.9 | 7.4 | 5.5 |
| GDP deflator | 2.7 | -0.9 | 0.6 | 5.2 | 3.3 |
| Consumer prices, average | 0.7 | -0.6 | 1.7 | 5.6 | 3.3 |
| **Monetary Sector 2/** | | | | | |
| Net foreign assets | 5.1 | 6.1 | 16.5 | ... | ... |
| Central bank | -2.8 | 3.6 | 11.6 | ... | ... |
| Commercial banks (net) | 14.1 | 8.5 | 21.1 | ... | ... |
| Net domestic assets | 1.0 | -20.1 | 1.0 | ... | ... |
| *Of which* : private sector credit | 0.5 | -0.9 | 1.5 | ... | ... |
| Broad money (M2) | 3.1 | -6.4 | 10.2 | ... | ... |
| **Public Finances** | | | (In percent of GDP, unless otherwise indicated) | | |
| Central government | | | | | |
| Total revenue and grants | 26.1 | 29.1 | 31.0 | 29.1 | 28.6 |
| Total expenditure and net lending | 28.1 | 34.7 | 34.3 | 33.2 | 30.5 |
| Overall balance 3/ | -2.1 | -5.6 | -3.3 | -4.1 | -1.8 |
| *Of which:* expected fiscal cost of natural disasters | ... | ... | ... | 0.7 | 0.7 |
| Excl. Citizenship-by-Investment Programs | -5.4 | -10.9 | -9.4 | -8.0 | -5.5 |
| Primary balance 3/ | 0.3 | -3.1 | -0.9 | -1.8 | 0.6 |
| Total public sector debt | 65.9 | 84.9 | 85.2 | 80.8 | 77.7 |
| **External Sector** | | | | | |
| Current account balance | -6.6 | -16.0 | -16.7 | -17.0 | -13.4 |
| Trade balance | -30.3 | -28.5 | -30.9 | -36.7 | -35.9 |
| Exports, f.o.b. (annual percentage change) | 38.2 | -22.3 | -0.2 | 13.7 | 8.8 |
| Imports, f.o.b. (annual percentage change) | -2.8 | -22.8 | 12.9 | 32.6 | 6.7 |
| Services, incomes and transfers | 23.7 | 12.5 | 14.2 | 19.7 | 22.5 |
| *Of which* : travel | 38.5 | 15.1 | 19.2 | 30.0 | 33.5 |
| External public debt | 34.0 | 44.8 | 47.8 | 47.6 | 47.7 |
| External debt service (percent of goods and nonfactor services) | 9.9 | 21.7 | 15.9 | 13.3 | 12.5 |
| International reserves | | | | | |
| In millions of U.S. dollars | 1,698 | 1,747 | 1,952 | 1,838 | 2,015 |
| In months of prospective year imports of goods and services | 6.5 | 5.8 | 4.9 | 4.3 | 4.6 |
| In percent of broad money | 26.0 | 28.6 | 29.0 | 25.7 | 26.5 |
| REER (average annual percentage change) | | | | | |
| Trade-weighted 4/ | 1.3 | -2.2 | -4.9 | ... | ... |

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

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

2/ Growth rates of data for 2020 and 2021 also reflect the impact of methodological changes.

3/ Projections include expected fiscal costs of natural disasters.

4/ Excludes Anguilla and Montserrat.

INTERNATIONAL MONETARY FUND

# EASTERN CARIBBEAN CURRENCY UNION

July 7, 2022

## STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION WITH MEMBER COUNTRIES ON COMMON POLICIES OF THE EASTERN CARIBBEAN CURRENCY UNION

## KEY ISSUES

**With ECCU economies slowly emerging from the pandemic with scars, the impact of the war in Ukraine is a setback to the nascent recovery.** Higher food and energy prices, amid ongoing supply disruptions and intra-regional transportation bottlenecks, are raising inflation, eroding income, lowering output growth, worsening fiscal and external positions, and threatening food and energy security. As a result, inflation is expected to hover over 5½ percent in 2022. Real GDP is projected to grow by 7½ percent in 2022, leaving output still well below the pre-pandemic level. Fiscal deficits are projected to remain sizable, given continued pandemic- and disaster-related spending and temporary support to address rising living costs, thereby keeping gross financing needs and public debt at elevated levels in the near term. The financial system has remained broadly stable so far, with adequate capital and liquidity buffers, but nonperforming loans remain high and could rise further following the expiration of the ECCB's loan moratoria program. The outlook is subject to large downside risks, primarily from further increases in commodity prices and new COVID variants amid vaccine hesitancy, in addition to the ever-present threat of natural disasters.

**Key policy recommendations to address these challenges include:**

- Maintaining fiscal prudence while protecting the vulnerable through health spending and temporary targeted transfers and enhanced social safety nets to cope with rising living costs. Adopting well-designed rule-based fiscal frameworks would help achieve fiscal consolidation, enhance resilience to shocks such as natural disasters, and preserve the credibility of the regional debt target.
- Addressing pandemic legacies in the financial sector, reinvigorating private credit growth, and reinforcing resilience to climate-related risks.
- Supporting resilient and inclusive growth, with investment in skills development, climate resilience building, investment in renewable energy sources, and a strong framework for the central bank digital currency.

Approved By
**James Morsink (WHD) and Natalia Tamirisa (SPR)**

The mission team comprised Sònia Muñoz (head), Varapat Chensavasdijai, Nan Geng, Huidan Lin (all WHD), and Gayon Hosin (MCM). During May 3–31, 2022, the mission visited virtually all eight ECCU jurisdictions (Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines), Barbados, and Trinidad and Tobago.
The team met with the Prime Ministers/Premiers and Ministers of Finance, Financial/Permanent Secretaries, and Financial Services Authorities of the eight-member jurisdictions, the Governor of the Eastern Caribbean Central Bank (ECCB) and other senior officials, the Organization of Eastern Caribbean States (OECS), the Caribbean Development Bank (CDB), and a wide range of private sector representatives. Alexandre Chailloux and Joana Pereira attended the meetings with the Prime Ministers of St. Kitts and Nevis and Dominica, respectively. Marcello Miccoli (MCM), and Herve Tourpe and Arvinder Bharath (both ITD) attended the meetings on DCash. Rosamund Edwards (OED) attended some meetings. Philip Jennings and Paul Mooney (both OED) participated in the concluding meeting. ECCU individual country teams participated in their respective country meetings and WHDC1 staff also presented in the research seminar at the ECCB.
Contributors: ECCU team. Additional analytical inputs were provided by Swarnali Ahmed Hannan, Olusegun Akanbi, Michal Andrle, Isabela Duarte, Emilio Fernandez-Corugedo, Roberto Garcia-Saltos, William Gbohoui, Alejandro Guerson, Chao He, Janne Hukka, Salma Khalid, Marie Kim, Weicheng Lian, Rui Mano, Beatriz Nunes, Camila Perez Marulanda, Manuel Rosales Torres, Dmitry Vasilyev, Raadhika Vishvesh, and Huilin Wang. Raadhika Vishvesh also provided research assistance. Anahit Aghababyan provided administrative assistance.

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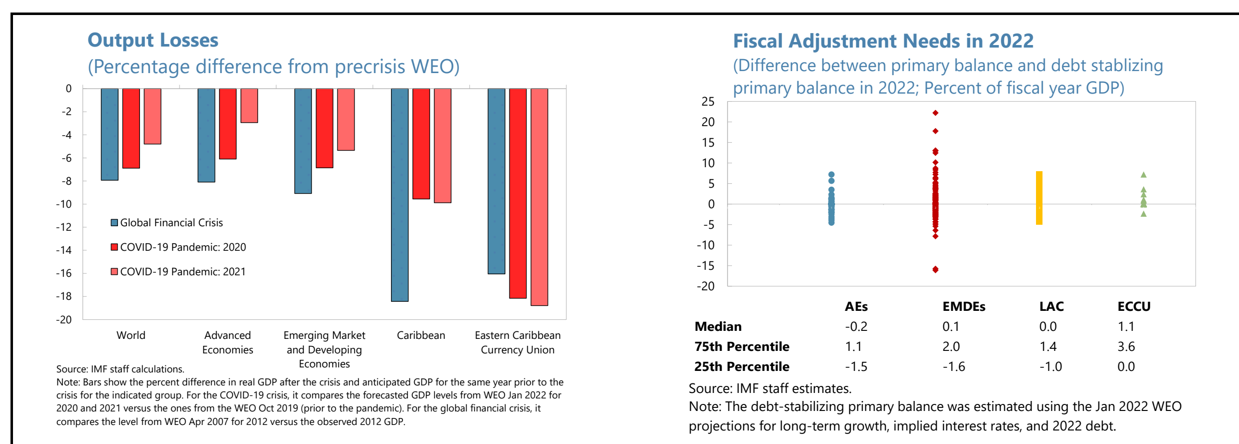
# A SETBACK TO RECOVERY FROM THE PANDEMIC

1. **Prior to the war in Ukraine, the pandemic had inflicted large output losses in the Caribbean, particularly for tourism-dependent economies such as the ECCU.** The severity of the output contraction due to COVID-19 in the Caribbean and the ECCU was greater than during the global financial crisis and in the rest of the world. Staff's analysis suggests that large output losses can be explained by the sectoral composition of output (with tourism being a high-contact service sector) and the availability of fiscal space (Box 1 and Selected Issues Paper). Severe transportation bottlenecks, especially intra-regional air travel, could worsen scarring effects, if left unaddressed.[1]

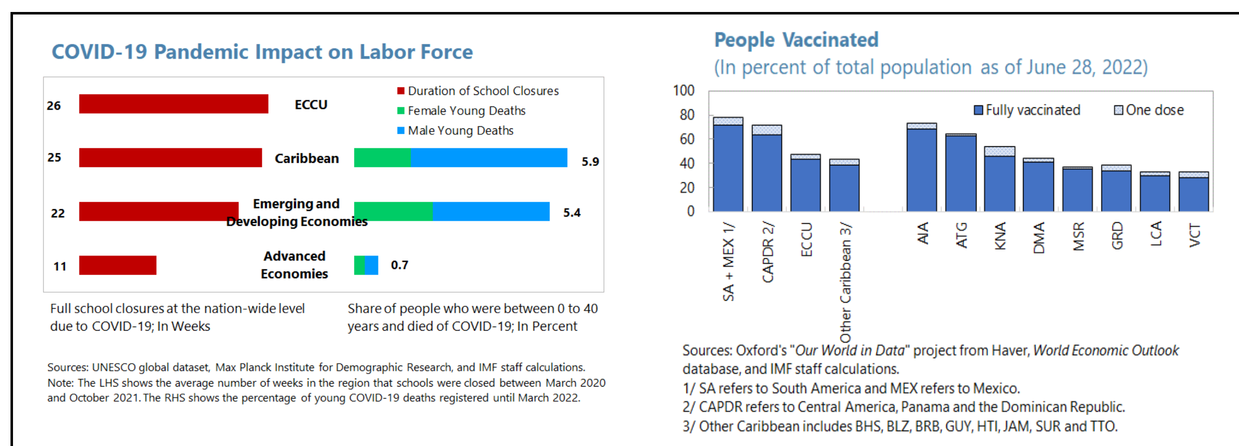



Source: IMF staff calculations.
Note: Bars show the percent difference in real GDP after the crisis and anticipated GDP for the same year prior to the crisis for the indicated group. For the COVID-19 crisis, it compares the forecasted GDP levels from WEO Jan 2022 for 2020 and 2021 versus the ones from the WEO Oct 2019 (prior to the pandemic). For the global financial crisis, it compares the level from WEO Apr 2007 for 2012 versus the observed 2012 GDP.

| | AEs | EMDEs | LAC | ECCU |
|---|---|---|---|---|
| **Median** | -0.2 | 0.1 | 0.0 | 1.1 |
| **75th Percentile** | 1.1 | 2.0 | 1.4 | 3.6 |
| **25th Percentile** | -1.5 | -1.6 | -1.0 | 0.0 |

Source: IMF staff estimates.
Note: The debt-stabilizing primary balance was estimated using the Jan 2022 WEO projections for long-term growth, implied interest rates, and 2022 debt.

2. **The pandemic also led to significant losses of human capital.** In addition to unprecedented output losses and increased fiscal adjustment needs, the ECCU countries suffered prolonged nationwide school closures between March 2020 and October 2021, with potential negative long-term impact on human capital (Box 1 and Selected Issues Paper). Vaccination played a role in containing hospitalizations and deaths amid four waves of COVID-19 outbreaks, but the share of the fully vaccinated population in the ECCU is relatively low due to vaccine hesitancy.



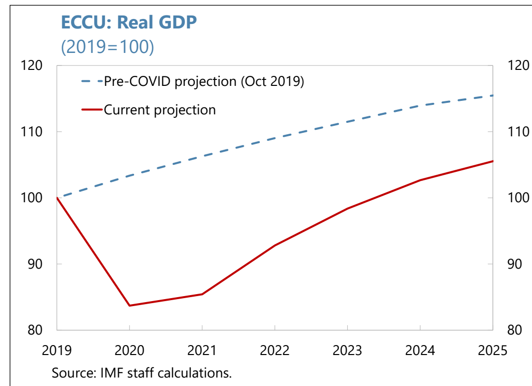

Sources: UNESCO global dataset, Max Planck Institute for Demographic Research, and IMF staff calculations.
Note: The LHS shows the average number of weeks in the region that schools were closed between March 2020 and October 2021. The RHS shows the percentage of young COVID-19 deaths registered until March 2022.

Sources: Oxford's "*Our World in Data*" project from Haver, *World Economic Outlook* database, and IMF staff calculations.
1/ SA refers to South America and MEX refers to Mexico.
2/ CAPDR refers to Central America, Panama and the Dominican Republic.
3/ Other Caribbean includes BHS, BLZ, BRB, GUY, HTI, JAM, SUR and TTO.

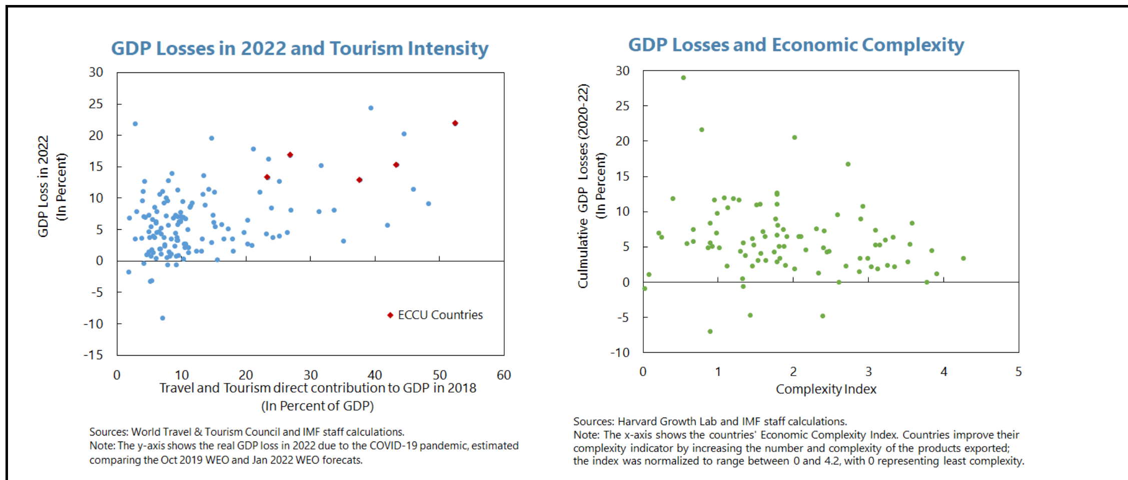
[1] Intra-regional transportation bottlenecks have worsened following the insolvency of regional airline LIAT in 2020. The airline is currently under administration and other regional airlines are unable to cover all destinations, forcing passengers to transit via Miami for intra-island travel within the ECCU and raising air fares significantly.

## Box 1. Scarring Effects of the Pandemic in the ECCU

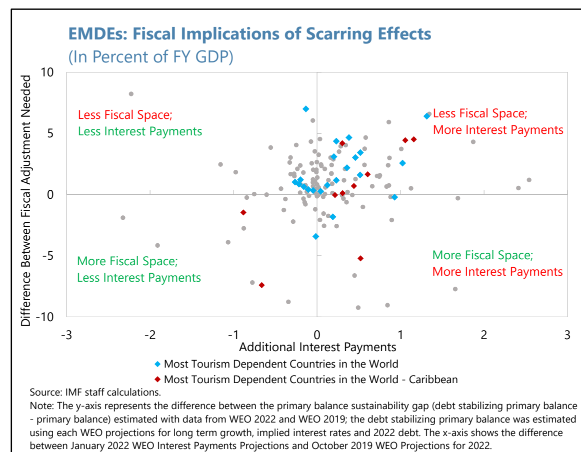
**Scarring effects occur when the economic damages induced to the factors of production during recessions prevent economies from recovering to their pre-pandemic trend, also called hysteresis.** Forecast revisions across WEO vintages before, during, and after a particular shock are used to measure the extent of the unexpected losses. The severity of the output contraction in ECCU countries from the ongoing pandemic suggests a significant potential for scars.



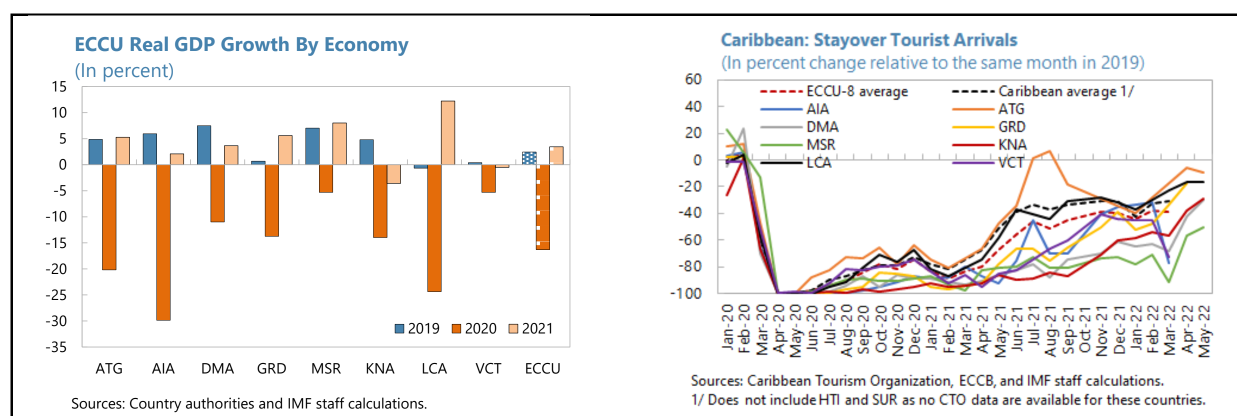

**The exposure to high-contact sectors, the lack of fiscal space, and human capital losses explain where the scars might come from in the ECCU.** Countries with significant importance of high-contact sectors, such as tourism, or limited fiscal space to mitigate the pandemic, like those in the ECCU, are expected to suffer the most. After controlling for restrictions on mobility and other variables, staff's empirical results show that high tourism exposure and low economic diversification are correlated with the output losses during 2020–22 in the ECCU, measured as downward revisions to growth forecasts. The impact of the pandemic on the quality of human capital, induced by school closures and young deaths, has the potential to have the largest negative long-term consequences.




**The fiscal effects of the pandemic are evident.** With a reduction in economic activity, the need to provide support, and the contraction in tax revenues, fiscal deficits widened and public debt soared. Most ECCU countries now have a smaller fiscal space, and some need to allocate a larger share of revenues into interest payments. This suggests that the governments' ability to invest in projects with a higher fiscal multiplier, such as infrastructure, will be reduced in the coming years. In other words, the impact of the pandemic on the fiscal accounts will also affect long-term growth and can be another potential source of hysteresis in the region.



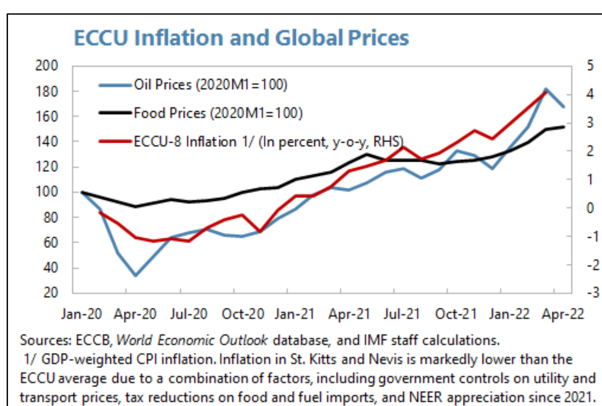
**3. Economic recovery in 2021 was slow and the war in Ukraine constituted a setback for early 2022.** ECCU GDP is estimated to have expanded by 5 percent in 2021, following a sharp contraction of 17½ percent in 2020. Strong tourism rebound led the recovery in some countries (such as Antigua and Barbuda, and St. Lucia), while activity in other sectors, particularly construction, helped cushion the drag from a slower tourism revival in others (such as Dominica and Grenada). Tourism performance can be explained by differences in pent-up demand, quarantine restrictions, flight connectivity, and luxury hotels among countries (Annex IV). High frequency indicators in the first quarter of 2022 pointed to continued pick-up in domestic activity, while there are early signs of construction activity being affected by increases in material prices and logistical difficulties. The labor market remained weak with high unemployment, although there were signs of improvement.[2]



Sources: Country authorities and IMF staff calculations.

Sources: Caribbean Tourism Organization, ECCB, and IMF staff calculations.
1/ Does not include HTI and SUR as no CTO data are available for these countries.

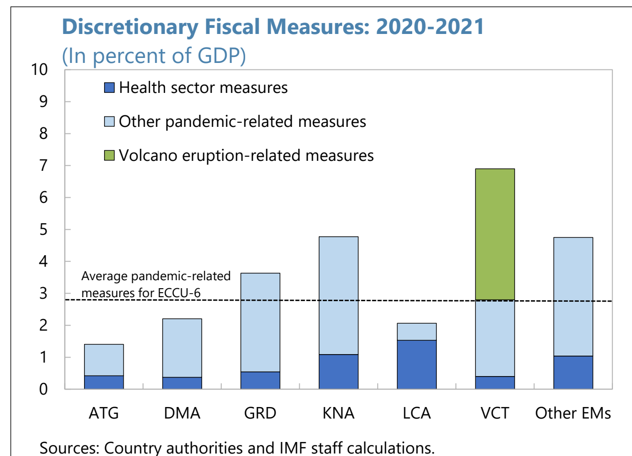
**4. Headline inflation increased strongly across the region, driven by rising food, fuel, and transportation prices.** The war has compounded existing supply chain disruptions and transportation bottlenecks, driving inflation in several countries to 5–7 percent (year-on-year) in March–April. Differences in headline inflation across countries reflected varying degrees of reliance on imported food and fuel as well as pass-through of international prices to domestic prices that can be heavily influenced by policy measures to mitigate the impact of rising living costs.



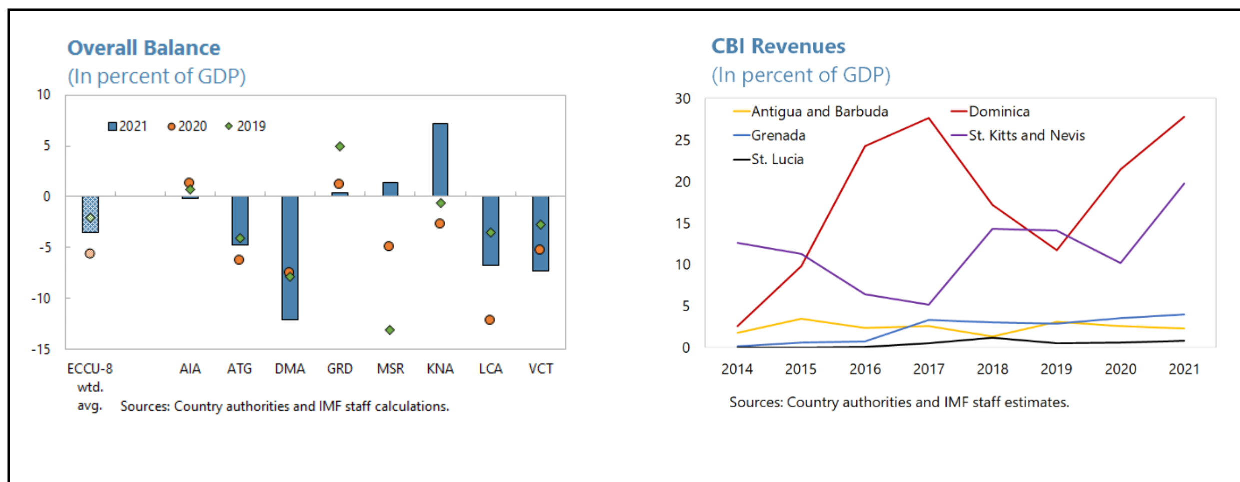
Sources: ECCB, *World Economic Outlook* database, and IMF staff calculations.
1/ GDP-weighted CPI inflation. Inflation in St. Kitts and Nevis is markedly lower than the ECCU average due to a combination of factors, including government controls on utility and transport prices, tax reductions on food and fuel imports, and NEER appreciation since 2021.

[2] For instance, unemployment in Grenada fell to 16.6 percent in 2021: Q2 (from 28.4 percent in 2020: Q2). The participation rate increased to 67 percent (from 60.9 percent), returning to pre-pandemic levels, with female participation recovering slower due to weaker recovery in the hospitality sector that relies significantly on female workers. Youth unemployment remained high at 38.6 percent even with a low participation rate (47 percent). In St. Lucia, unemployment edged down to 23 percent in 2021: Q2 (from 24 percent in 2020: Q2). Youth and female unemployment remained high at 42 and 25 percent respectively (compared to 35 and 18 percent in 2019: Q2). In Antigua and Barbuda, the number of active jobs and reported earnings declined by 6½ percent in 2021 from a year earlier, although there was some pick-up in employment in the construction and financial services sectors.

**5. Fiscal policies in 2021 and early 2022 remained supportive as priority spending continued.** ECCU's overall fiscal deficit is estimated to have narrowed to 3¼ percent of GDP in 2021, an improvement by about 2¼ percentage points from 2020, largely reflecting buoyant Citizenship-by-Investment (CBI) revenues, particularly in Dominica and St. Kitts and Nevis. Nonetheless, the overall underlying deficit (net of CBI revenues) is estimated to have remained sizable at about 9½ percent of GDP in 2021 (11 percent in 2020), given continued pandemic-related health outlays and fiscal support to households and firms in hard-hit sectors, as well as volcanic eruption-related spending (for St. Vincent and the Grenadines).[3] Dominica and Grenada also increased capital spending to support the recovery and climate resilience building. Meanwhile, some highly indebted countries have resumed fiscal consolidation to restore debt sustainability (e.g., Antigua and Barbuda and St. Lucia). Taking into account moderate overall deficits and higher growth, the overall public debt in 2021 is estimated to stay broadly the same as in 2020, at around 85 percent of GDP. Preliminary fiscal data in early 2022 suggest continued supportive stance as most countries introduced temporary exemptions on taxes, customs service charges, and electricity surcharges to alleviate the impact of higher food and fuel prices, besides fuel price caps in some countries.



Sources: Country authorities and IMF staff calculations.



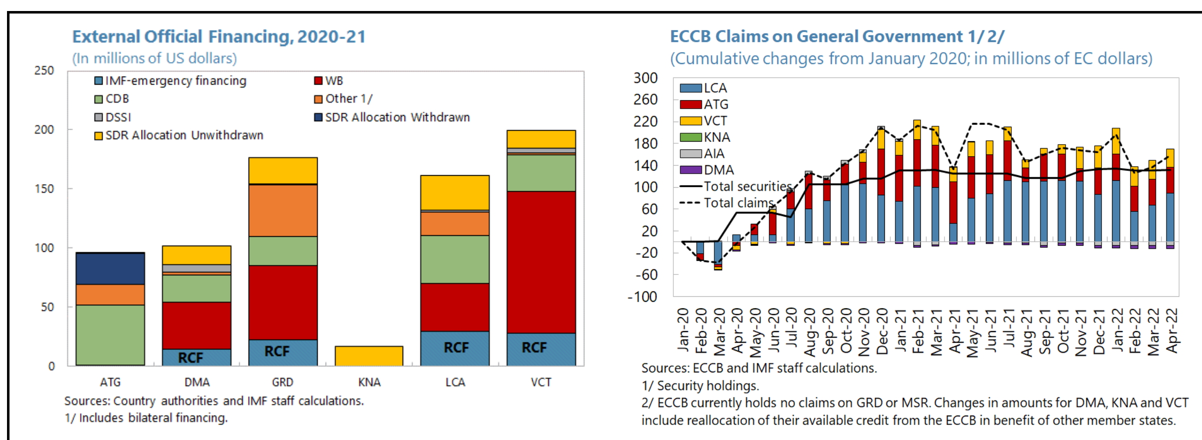
Sources: Country authorities and IMF staff calculations.

Sources: Country authorities and IMF staff estimates.

**6. Fiscal financing relied mostly on external sources.** In addition to the emergency financing disbursed in 2020, the IMF Executive Board approved emergency financing in July 2021 for St. Vincent and the Grenadines under the Large Natural Disaster Window of the Rapid Credit Facility

[3] The authorities implemented forceful and timely fiscal measures to limit the socio-economic impact of the pandemic as well as the volcanic eruption in St. Vincent and the Grenadines. In 2020–21, discretionary fiscal packages related to the pandemic averaged about 3 percent of GDP, below those in emerging market economies. Some of these measures are being gradually phased out as more persons return to work.

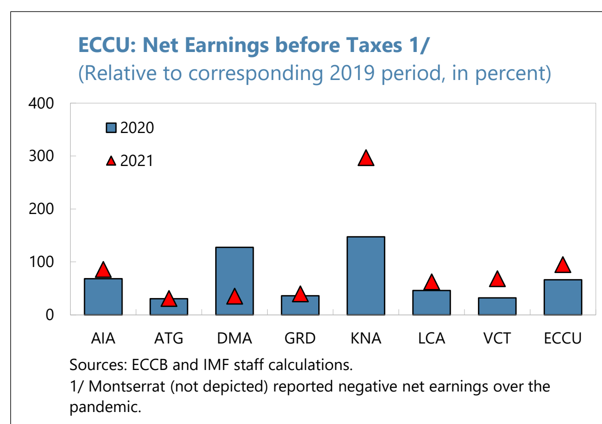
(RCF), totaling SDR 8.17 million (about US$11.6 million), following the La Soufrière volcanic eruption.[4] The ECCU region received SDR allocations totaling SDR 89.6 million (about US$126 million) in August 2021, which have been mainly used to bolster reserves. The region continued to receive significant financial support from the World Bank and the Caribbean Development Bank. Governments also relied on their deposits at the ECCB and commercial banks.[5]



Sources: Country authorities and IMF staff calculations.
1/ Includes bilateral financing.

Sources: ECCB and IMF staff calculations.
1/ Security holdings.
2/ ECCB currently holds no claims on GRD or MSR. Changes in amounts for DMA, KNA and VCT include reallocation of their available credit from the ECCB in benefit of other member states.

**7. The ECCU financial system has remained broadly stable so far, despite lingering legacy weaknesses.** Financial institutions have maintained stable capital and ample liquidity up to end-2021. Banks have mostly retained positive profitability despite the burden of additional provisioning, buoyed by strong overseas investment returns in some banks. However, intensified competition has compressed bank lending margins and the pandemic further constrained credit growth. In addition, the stepped-up global financial market volatility, since early 2022, has adverse implications for earnings of institutions with large overseas investment portfolios, which are predominantly held in U.S. traded securities. The two-year loan moratoria that expired end-March 2022 could have deferred pandemic-related earning losses and therefore lead to an uptick in nonperforming loans (NPLs).[6] Moreover, NPLs remain elevated at



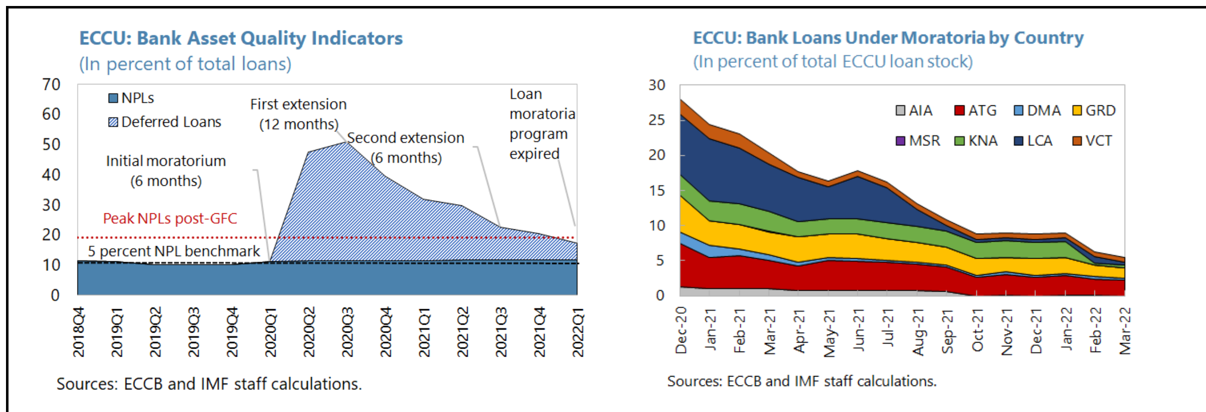
Sources: ECCB and IMF staff calculations.
1/ Montserrat (not depicted) reported negative net earnings over the pandemic.

[4] The IMF Executive Board approved emergency financing for Dominica, Grenada, and St. Lucia under the RCF, totaling SDR 48.08 million (about US$65.6 million) in April 2020, and for St. Vincent and the Grenadines SDR 11.7 million (about US$16 million) in May 2020. During 2020–21, total emergency financing from the Fund amounted to US$93 million, equivalent to 111 percent of quota (weighted average) among the four receiving countries.

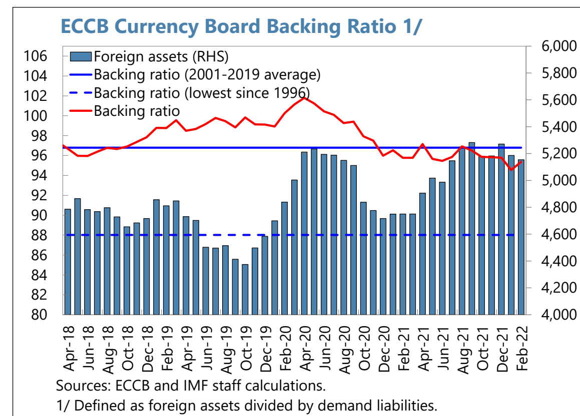
[5] While ECCU countries saw stable rollovers of government securities, there have been limited new funds raised from regional capital markets given banks' and pension funds' prudential limits on investment in sovereign bonds.

[6] The moratoria were part of a suite of pandemic response measures, including a temporary loan impairment classification freeze (see 2021 ECCU Regional Consultation Report, IMF Country Report No. 21/86). The ECCB extended the moratorium program for the second time in September 2021 and any new NPLs will be evidenced 90 days after the end-March 2022 expiration date. The ECCB has kept its discount and long-term credit interest rates unchanged at 2 and 3.5 percent respectively.

nearly 12 and 7 percent of total loans of banks and credit unions respectively at end-2021.[7] To support adequate loan loss provisioning, the ECCB has introduced more stringent provisioning guidance in effect from January 2022, and as of the first quarter of 2022 most banks were compliant with the required initial coverage ratio of 60 percent of all NPLs.[8] The loan moratoria programs for credit unions introduced by the national supervisors also expired and provisioning improved marginally to 54 percent at end-2021. The sale of Royal Bank of Canada (RBC)'s regional operations to a group of local banks in April 2021 increased the local banks' share of total system assets to two-thirds. Insurance sector capital and liquidity have also remained relatively stable across the region.




**8. The current account deficit remained elevated.** Staff estimates that the current account deficit rose further to around 16¾ percent of GDP in 2021, as higher goods imports offset the improvement in services balance. The ECCB's stock of international reserves remained stable around the pre-pandemic level, equivalent to 5 months of imports of goods and services in 2022. The currency backing ratio under the quasi-currency board mechanism stood at 95.4 percent of at end-February 2022.[9] The real effective exchange rate (REER) depreciated by 5 percent in 2021, mainly reflecting a stronger increase in trading partners' inflation.




**9. In March 2021, the ECCB launched the pilot program of its Central Bank Digital Currency (CBDC), DCash.** It was rolled out in all ECCU countries and is limited in scale with a cap of

[7] At end-2021 two ECCU countries' banking sector NPLs exceeded 20 percent of total loans with provisioning coverage below 30 percent. Banking system provisioning subsequently strengthened to 58 percent of NPLs at end-March 2022.

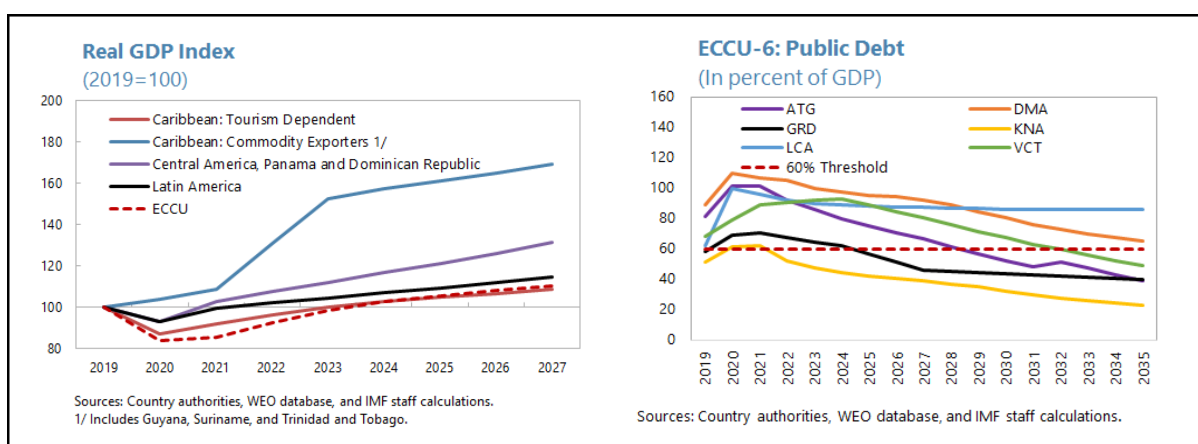
[8] The technical requirements for the planned phased increase of banks' minimum provisioning ratio to 100 percent for long-standing NPLs by 2024 are currently being reviewed by the ECCB based on industry consultations, and the revised guidance is due to be formally articulated in the ECCB's 2022 review of the Treatment of Impaired Assets Standard (TIAS).

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

EC$10 million on issuances, less than one percent of cash in circulation.[10] The uptake so far has been generally slow, largely due to the lack of marketing and public awareness as well as resource constraints faced by financial institutions and merchants in the context of increased burden posed by the pandemic and acquisitions and mergers following the exit of several foreign banks from some ECCU countries. Between January and March 2022 DCash experienced an extended outage on account of a problem with the system's operational management processes of digital certificates. While leaving the Distributed Ledger Technology and existing data and transactions intact, the outage disrupted new transactions and on-boarding of new users.

# CHALLENGING OUTLOOK

**10. The recovery is expected to remain gradual and uneven, driven by the varying pace of tourism rebound and domestic activity across countries.** Staff's baseline scenario assumes a gradual return of tourism to the 2019 level only in 2024. The impact of tighter global financial market conditions on domestic interest rates and financial stability will be limited, given regional banks' excess liquidity and non-reliance on external borrowing. Nevertheless, a more appreciated Eastern Caribbean dollar against non-U.S. dollar currencies as a result of higher U.S. interest rates will weaken ECCU competitiveness, especially in the tourism sector. At the same time, the baseline assumes that once the recovery is on a solid footing, most countries (i.e., Antigua and Barbuda, Dominica, Grenada, and St. Vincent and the Grenadines) would resume the implementation of their fiscal consolidation plans to reach the ECCU regional debt target of 60 percent of GDP by 2035. Real output is projected to grow by 7½ percent in 2022 and reach the 2019 level by 2024, with its growth converging to around 2¼ percent over the medium term.[11]



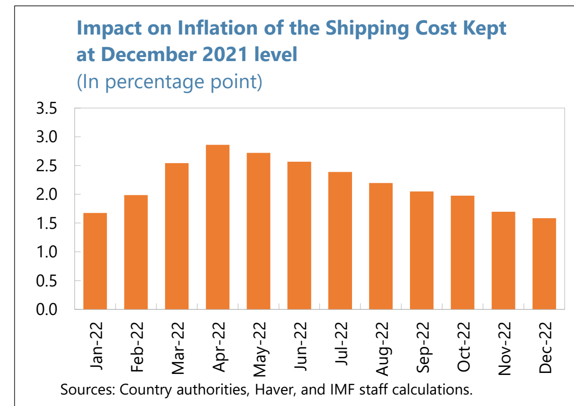
Sources: Country authorities, WEO database, and IMF staff calculations.
1/ Includes Guyana, Suriname, and Trinidad and Tobago.

Sources: Country authorities, WEO database, and IMF staff calculations.

[10] Following its initial launch in March 2021 in Antigua and Barbuda, Grenada, St. Kitts and Nevis, and St. Lucia, the DCash pilot project was extended to St. Vincent and the Grenadines in August 2021, to Dominica and Montserrat in December 2021, and to Anguilla in June 2022. The amendment to the ECCB Agreement to define and explicitly provide for a digital currency has been ratified and implemented by all ECCU countries, making DCash a legal tender.

[11] Staff analysis shows that the war in Ukraine affects the ECCU economies mainly through higher inflation (averaging over 2 percentage points) and lower GDP growth (averaging over 1 percentage point), as they rely heavily on food and fuel imports. In addition to worsening supply chain disruptions in the region, higher travel costs would weaken tourism demand and compound the decline in GDP growth, which in turn would further strain fiscal and external balances.

**11. Rising inflation pressures underpin the cautious outlook for recovery.** Staff estimates that the impact of high shipping cost on the ECCU could persist in 2022 (Annex V). Inflation is expected to peak in 2022 above 5½ percent from 1½ percent in 2021, reflecting also increases in food and fuel prices, as the war in Ukraine and pandemic linger, that are partly offset by measures such as fuel price caps in Grenada and St. Lucia and government price controls on utilities and transport in St. Kitts and Nevis. With the expiration of loan moratoria in March 2022, nonperforming loans could increase further.



Sources: Country authorities, Haver, and IMF staff calculations.

**12. Downside risks to the outlook are significant.** A further escalation of sanctions arising from the war in Ukraine would result in higher food and energy prices, which would add to inflationary pressures, in turn further eroding income and weighing on demand, including from key tourism source markets. Slowing growth in advanced economies due to tighter monetary policy would also dampen tourism in the ECCU. Additional disruptions of supply chains and associated higher shipping and raw materials costs would hold back construction activity—a key contributor to the recovery for many ECCU countries. Outbreaks of new COVID variants would hamper the tourism recovery, put additional strain on pandemic-related spending, and delay fiscal adjustments. A cancellation of CBI programs in response to pressure exerted by the EU and U.S. would eliminate a major source of fiscal revenues in several ECCU countries and could have a negative impact on correspondent banking relationships (CBRs).[12] Cyber-attacks on critical digital infrastructure could trigger financial instability or disruptions in socio-economic activities. Recurrent natural disasters pose an ever-present risk. On the upside, further relaxation of COVID-related health protocols globally could prompt a faster tourism recovery than envisaged (Annex II).

# POLICY DISCUSSIONS: ENSURING A RESILIENT AND INCLUSIVE RECOVERY

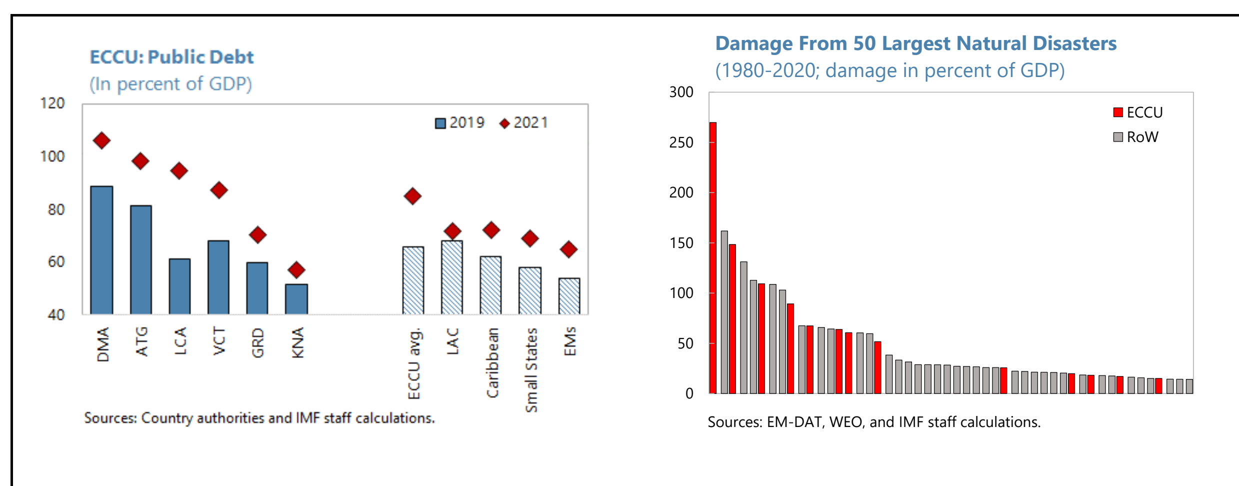
*With the lingering pandemic, heightened inflation pressures exacerbated by the war in Ukraine, and the tightening of global financial conditions, the near-term policy priority should be to maintain fiscal prudence while protecting the vulnerable through health spending, temporary targeted transfers, and enhanced social safety nets. Adopting well-designed rule-based fiscal frameworks would help achieve fiscal consolidation, withstand shocks including natural disasters, and preserve the credibility of the regional debt target. Over the medium term, policies should shift focus towards supporting resilient and inclusive growth, with climate resilience building, investment in renewables, enhanced regional integration, and a strong framework for the central bank digital currency. Financial sector policies*

[12] Recommendations to restrict visa-free access to third countries with CBI programs were made separately in March 2022 by the European Parliament and U.S. Congress, to support abolishment of such schemes on security grounds. Both proposals are yet to be brought into force. As CBI revenue can be uncertain and volatile, they should be used to enhance existing saving funds for self-insurance against natural disasters, debt reduction, and public investment.

*should aim to address pandemic legacies, reinvigorate private credit growth, and reinforce resilience to climate-related shocks.*

## A. Strengthening Fiscal Frameworks to Withstand Shocks and Safeguard Debt Sustainability

**13. The pandemic has aggravated the ECCU countries' long-standing fiscal sustainability problems, further exacerbating vulnerabilities to shocks.** ECCU countries have high public debt, largely reflecting earlier procyclical policy and susceptibility to large shocks, particularly natural disasters, relative to their small size.[13] As a result of the pandemic, the worsening of the fiscal position 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 about 66 percent of GDP in 2019 to 85¼ percent of GDP in 2021—well above peer averages and the 60 percent of GDP ECCU debt ceiling. This will, in turn, constrain the fiscal space (through higher adjustment needs and interest bills) to deal with future natural disasters, including spending on ex-ante disaster preparedness, hampering growth prospects thus generating scarring effects.[14]



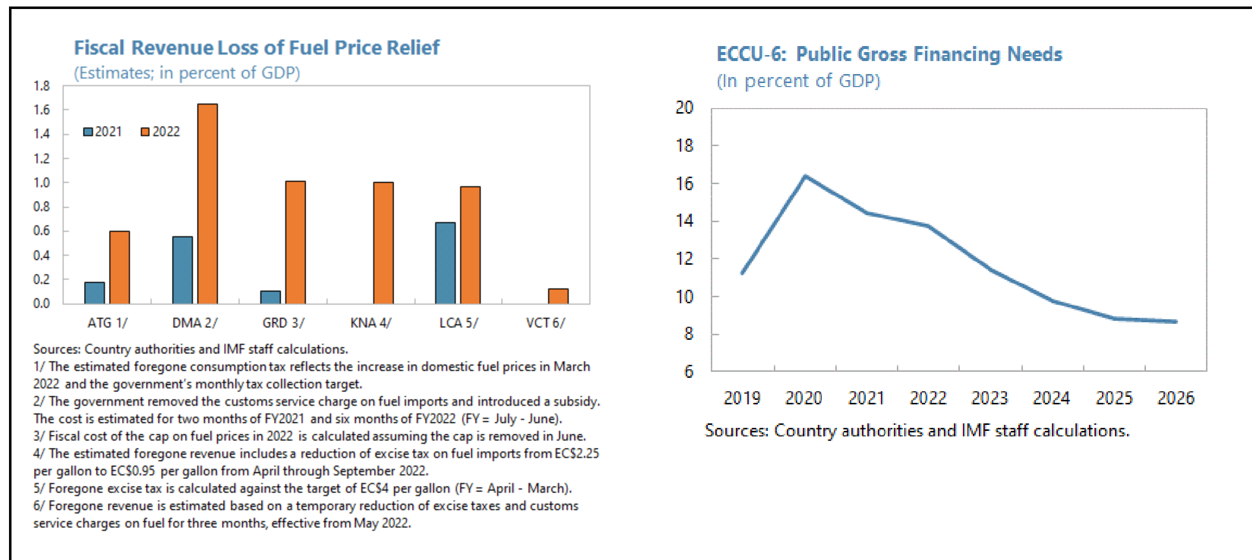

**14. Near-term policy should focus on maintaining fiscal prudence while protecting the vulnerable.** The aggregate fiscal stance (as measured by overall deficit net of CBI revenues) embedded in ECCU countries' 2022 budget plans is expected to remain accommodative at about 8 percent of GDP (compared to the average of 4½ percent of GDP during 2016–19).[15] The limited fiscal space necessitates balancing difficult trade-offs, giving priority to health spending and support to cope with rising living costs. Given the concerns with food and energy security and the less developed safety nets, temporary price subsidies can be considered and targeted transfers could be

[13] See Selected Issues for 2018 ECCU Regional Consultation Report, IMF Country Report No. 19/63.

[14] The persistently high debt ratio has co-existed with low and declining growth in the region, with some research (e.g., Greenidge et al. (2012)) suggesting that the high debt beyond the threshold of 55–56 percent of GDP is associated with lower economic growth.

[15] The improvement of about 1½ percentage points compared to 2021 largely reflects the gradual phasing out of temporary emergency spending.

provided to the vulnerable by expanding the most effective existing social assistance programs. Countries should allow a gradual pass-through of international energy and food prices to domestic prices, while committing to phase out generalized subsidies (such as fuel price caps and tax exemptions) in the coming years to help reduce fiscal cost, avoid adverse distributional impact, and promote green transformation.[16] This should be accompanied by expedited efforts to enhance coverage and targeting of social safety nets, including by centralizing and digitalizing beneficiary information and payment systems (while protecting recipients with limited IT access) to reduce duplication and omission. Countries facing large near-term gross financing needs should seek longer-term arrangements with IFIs, including IMF-supported programs that can help catalyze donor support, and minimize the reliance on the ECCB credit line to safeguard the quasi-currency board.



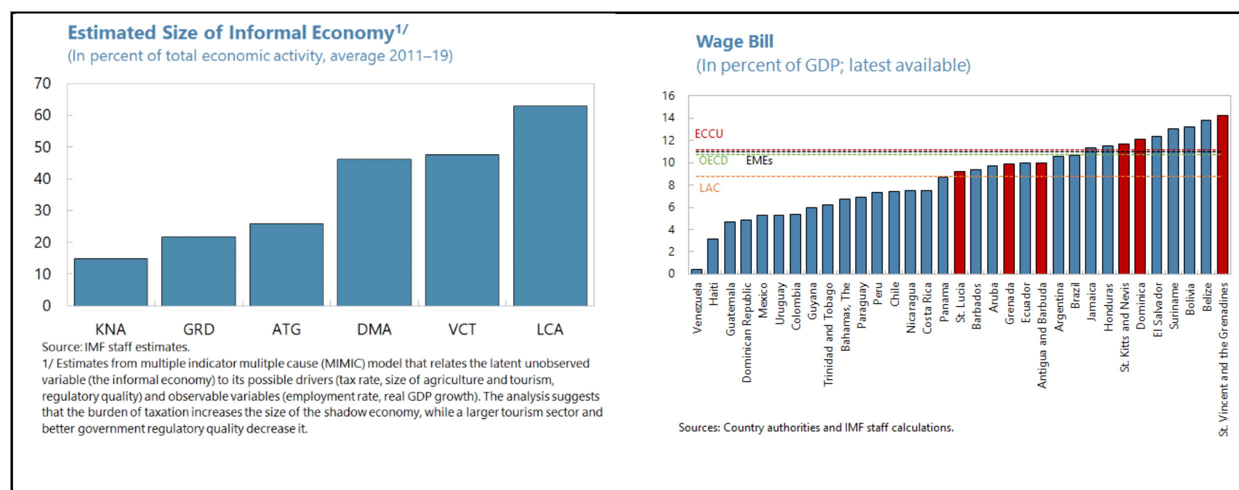

**15. Over the medium term, fiscal consolidation should resume with the composition of spending shifting to boost growth.** High-debt countries should proceed with fiscal consolidation efforts by mobilizing domestic revenues and rationalizing lower-priority spending, and rely largely on low-cost financing to safeguard debt sustainability. Moving from income support and job retention measures to implementing active labor market policies (ALMPs) would facilitate reallocation and training.[17]

**16. Creating fiscal space for productive investment and resilience building will be critical to support a resilient and inclusive recovery.** This will require further progress on ongoing revenue

[16] Existing social assistance programs include means-tested benefits and social pensions. Where social safety nets are deemed inefficient, information on household size and composition (or other welfare correlates such as location) can be used to vary benefit levels across households and improve targeting. Antigua and Barbuda and St. Lucia have already started to increase domestic fuel prices to contain the fiscal costs.

[17] ALMPs are government programs that intervene in the labor market to keep workers employed, bring them into employment, increase their productivity and earnings, and improve the functioning of labor markets.

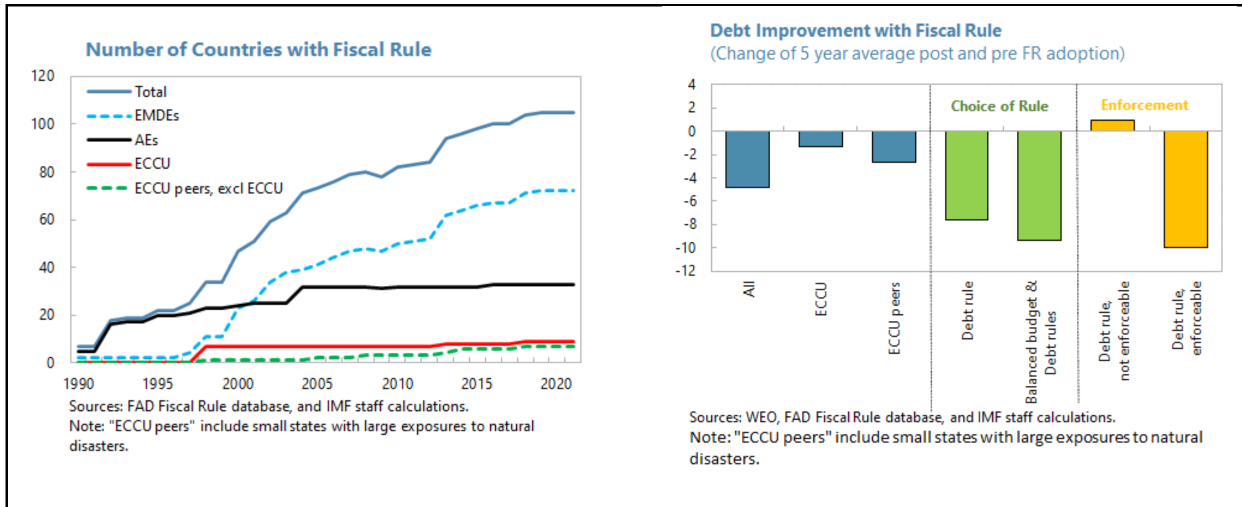
administration reforms and rationalization of tax expenditures[18] which can help broaden the tax base, enhance compliance, and reduce leakages, including from the informal economy. There is also scope for enhancing the efficiency of spending. For instance, a comparison with other countries in the region reveals that ECCU countries spend more on wages than the average in terms of GDP, squeezing the room for public investment. In addition, ECCU countries' ongoing efforts to strengthen public investment management will support effective planning, allocation, and implementation and mitigate fiscal costs and risks.[19]



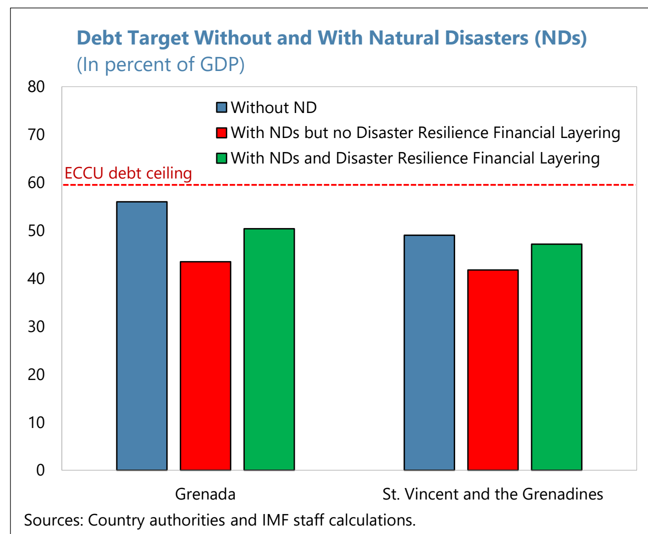

**17. ECCU countries should accelerate the adoption or reactivation of well-designed rule-based country-specific fiscal responsibility frameworks (FRFs) to help achieve fiscal consolidation and preserve the credibility of the regional debt target.** While the ECCU adopted a debt rule relatively early, particularly compared to countries with similar characteristics, the regional policy framework for reaching the agreed debt ceiling has had a limited effect on fiscal outcomes due to lack of an operational target and enforceability (Annex VI). To support the regional rule at national levels and consistent with past staff advice, several ECCU countries have adopted rule-based FRFs, including Anguilla (2013), Grenada (2015), St. Vincent and the Grenadines (2020), Antigua and Barbuda (2021), and Dominica (2021). However, due to the impact of pandemic, the implementation of the rules has been suspended since 2020 and some countries are revisiting the existing rules with a view to addressing some design weaknesses and recalibrating parameters considering the pandemic-related surge in debt and sizable disaster resilience investment needs. In this context, the need to adopt or reactivate well-designed FRFs has become more pressing to signal credible medium-term fiscal plans, given the potential increase in external borrowing costs due to tighter global financial conditions and elevated debt.

[18] See 2019 ECCU Regional Consultation Report, IMF Country Report No. 20/70. In addition, the October 2021 global agreement on international corporate taxation provides an opportunity to rationalize tax expenditure and to harmonize future efforts to attract investment among member countries. Generous tax concessions at customs for import duties could also be curbed, for example through adopting an annual aggregate cap for duty exemptions/concessions (Norregaard et al, 2015). Finally, efforts should also be made to strengthen the recurrent property tax and improve VAT levied on online purchases.

[19] Including through support by the IMF Public Investment Management Assessment with the climate module.




**18. When setting up or amending their FRFs, ECCU countries should internalize the impact of natural disasters to enhance their effectiveness.** International experience suggests that FRFs are generally more effective when having medium-term fiscal anchors (typically targeting gross public debt) supported by operational targets. Avoiding excessive restrictions that ultimately impinge on capital expenditure is particularly important, to allow for much needed climate resilient investment,[20] as well as having well-defined escape clauses and independent fiscal oversight councils. The framework should also aim to provide a cushion to the vicious circle between large government debt and low economic growth following large natural disasters. Staff's simulations using a fiscal rule calibration toolkit for Grenada and St. Vincent and the Grenadines show that greater exposure to natural disasters warrants setting lower country-specific debt ceilings (red relative to blue bars) than the regional ceiling. Disaster mitigating financial buffers (green bars) would allow for higher debt ceilings (Box 2 and Selected Issues Paper).

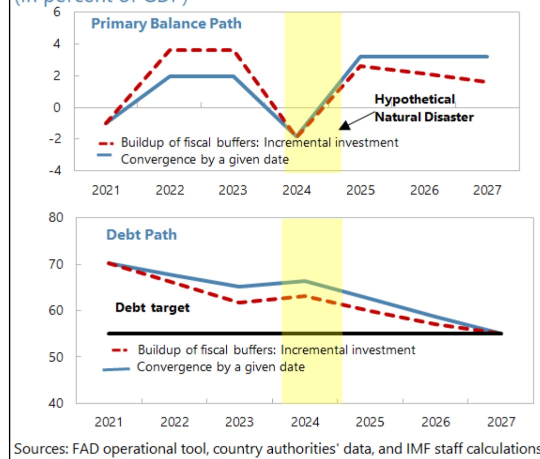



[20] Taking Grenada's fiscal rules as an example, the ceiling on the growth rate of real primary expenditure could perpetuate the impact of transitory shocks (e.g., the under-execution of public investment projects in previous years). In addition, the focus on containing expenditure reduces the incentive for revenue mobilization, precluding high-valued spending even if revenues were to increase.

## Box 2. Fiscal Rules in the Presence of Natural Disasters

**Natural disasters suggest more conservative country-specific debt targets and ex-ante operational target paths.** Using the IMF's fiscal rule calibration toolkit modified to explicitly account for natural disasters in Grenada and St. Vincent and the Grenadines, staff found that debt ceilings should be set lower, the larger the exposure to natural disasters to assure sustainability (Selected Issues Paper). The debt ceiling, however, will also depend on whether countries have disaster mitigating financial buffers, such as self-insurance, insurance policies, disaster clauses in debt securities, access to grants conditional on disasters, and robust private self-insurance. Moreover, in the event of a natural disaster, a country whose debt is above its chosen ceiling and aims to return to the ceiling in a certain number of years, needs to set operational targets conservatively to reach the ceiling while supporting the economy. Staff analysis illustrates that countries need to build and preserve fiscal space in the face of climate-related shocks.

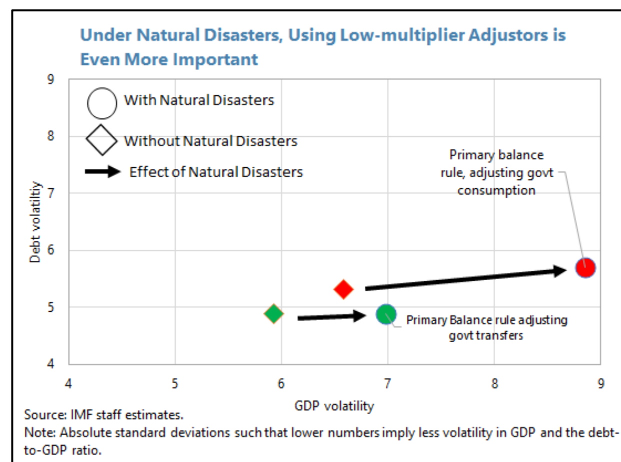
**Stylized Example for Grenada Assuming Debt Target is Reached in 2027 Under a Hypothetical Natural Disaster**
(In percent of GDP)



Sources: FAD operational tool, country authorities' data, and IMF staff calculations.

**For small open economies with high exposure to natural disasters and elevated initial level of debt, primary balance rules could be preferable to expenditure rules.** Two types of rules were considered in the IMF's GIMF model to simulate different operational rules for Grenada and St. Vincent and the Grenadines: (i) expenditure rules that constrain public spending to ensure debt convergence within ten years following a natural disaster shock; and (ii) primary balance rules set to achieve a primary balance target that is consistent with long-term debt stability. Staff results show that primary balance rules perform better for countries with high levels of public debt, where the speed of convergence to the debt target may be a relatively more important concern than counter-cyclicality. For the same reason, primary balance rules that adjust untargeted transfers are also relatively more favorable for countries that are more open because fiscal multipliers are generally lower (Selected Issues Paper for more details).

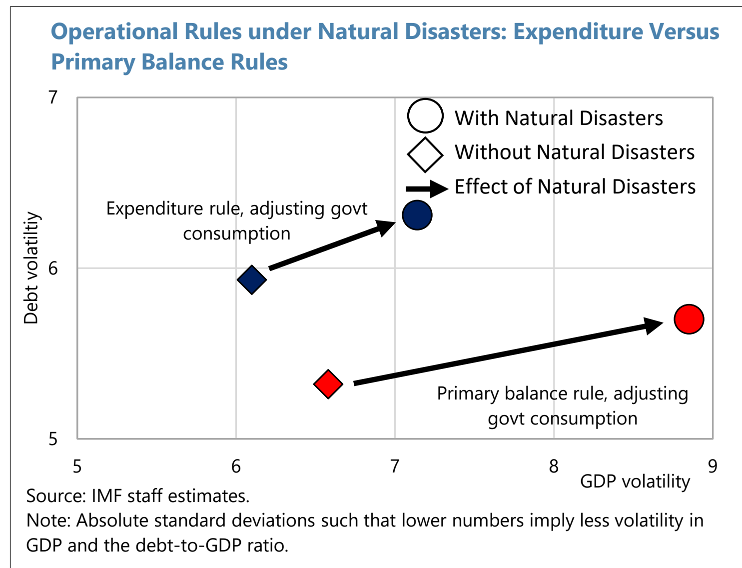
**Under Natural Disasters, Using Low-multiplier Adjustors is Even More Important**



Source: IMF staff estimates.
Note: Absolute standard deviations such that lower numbers imply less volatility in GDP and the debt-to-GDP ratio.

19. **Operational targets must be tailored to country circumstances, including exposure to natural disasters, initial level of debt, and the degree of openness.** Natural disasters increase the volatility of both output and debt (the black arrows point northeast). The choice of the operational target would need to balance the trade-off between counter-cyclicality and the speed of debt convergence to target. Staff analysis finds that expenditure rules have the advantage of facilitating countercyclical fiscal policy (reducing GDP volatility), while primary balance rules assure a swifter return to the debt ceiling. Hence, ECCU countries whose debt is more elevated compared to their debt ceiling may favor primary balance rules. Provided the primary balance rule is achieved by

adjusting revenue or expenditure components with low multipliers on growth (e.g., untargeted transfers), a primary balance rule can closely match the benefit of expenditure rules (Box 2 and Selected Issues Paper).




**20. Strong fiscal institutions are key to underpin the effective implementation of country specific FRFs.** The success of FRFs also relies on fiscal institutional reforms, including improving the budget process and government statistics, strengthening the role of national fiscal councils and state-owned enterprise (SOE) oversight, and enhancing medium-term fiscal framework and public investment management. Robust common standards and arrangements to guide national fiscal policies and a regional fiscal oversight entity would also help ensure timely implementation of the necessary fiscal adjustment measures and limit spillovers from unsustainable public finances.[21]

## B. Addressing Pandemic Legacies, Reinvigorating Private Credit Growth, and Reinforcing Financial Sector Resilience to Shocks

**21. Asset quality and provisioning buffers should remain under close monitoring following the exit from loan moratoria.** Moratoria loans have been unwound over the two-year period to end-March 2022 through a mix of resumption of normal loan repayments, loan restructuring based on lenders' case-by-case assessments, and transition to NPLs where borrower conditions cannot support restructuring.[22] While banks and credit unions on aggregate have sufficient capital buffers to absorb additional losses, intensified monitoring against relapses in loan performance is warranted given ongoing high NPLs, likely continued fragilities in borrower balance sheets, and emergence of new uncertainties, including the war in Ukraine.[23] The ECCB and national regulators should continue to ensure that provisioning accurately reflects balance sheet risks and losses, and intensify scrutiny of weaker institutions with high NPLs and lagging provisioning compliance. With improved provisioning buffers based on compliance with the ECCB's recent provisioning guidance, more banks are engaging in negotiations to dispose of NPLs. However, resolving problem loans remains constrained by ineffective foreclosure processes in some jurisdictions and the need for further progress on

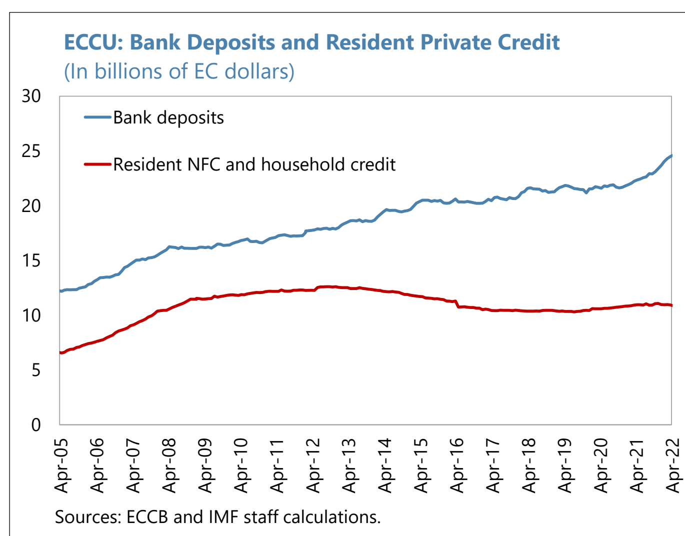
[21] See 2021 ECCU Regional Consultation Report, IMF Country Report No. 21/86.

[22] A few lenders (mostly credit unions) have granted limited extension of moratoria for up to six months post-March 2022, based on assessment of positive borrower prospects.

[23] Moreover, the ECCB's 2022 review of the TIAS should include strengthening the definitions applicable to restructured distressed loans, including restructured moratoria loans, and ensuring sufficiently robust criteria to govern reclassification of such loans to performing status so as to mitigate risk build-up.

pricing to attract funding, given ECAMC's limited resources.[24] Complementary efforts are therefore needed to address these asset recovery constraints. In the context of acknowledged vulnerabilities to emergent global financial market volatility, intensified monitoring of banks with large overseas investments is also warranted.

**22. The protracted recovery from the pandemic calls for renewed emphasis to support private sector credit growth.** Despite some recovery in recent years, bank lending remains sluggish even as deposit growth has proven robust.[25] The system consequently sits on a large pool of liquid resources (around half of total deposits and 60 percent of GDP). More than half of these assets are invested in overseas deposits and traded securities, elevating the banking sector's market risk profile and making the ECCU banking system a net foreign creditor, despite significant local investment needs. Increased competition has resulted in the compression of local lending rates and bank margins. Local banks have started to selectively engage in limited syndication of large regional loans within their risk appetite. To better target otherwise scarce regional resources to support the post-pandemic recovery, the ECCU would benefit from renewed focus on measures to address long-standing lending and credit access constraints, including:



Sources: ECCB and IMF staff calculations.

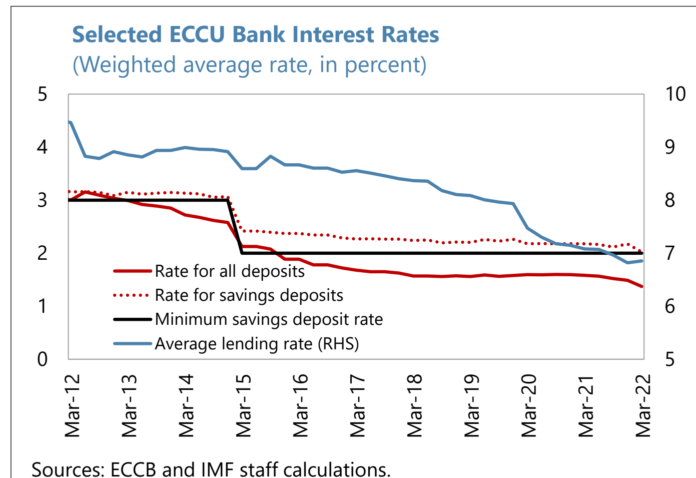
- Establishment of a *regional credit bureau and registry*, where passage of relevant legislation remains pending in some jurisdictions, and modernization of *national insolvency laws* to facilitate out-of-court settlement and clarify creditor rights that can help streamline lending processes and encourage prudent risk-taking.

- Ongoing development-partner-backed initiatives to address *collateral constraints* to access credit by micro-, small- and medium-sized enterprises (MSME), including the recently launched regional partial credit guarantee scheme (Eastern Caribbean Partial Credit Guarantee Corporation) that also aims to support MSME capacity building, and the pilot program in St. Lucia to facilitate use and registration of movable collateral.

[24] The Eastern Caribbean Asset Management Corporation (ECAMC) was established in 2017 with the dual mandate for acting as the receiver for failed banks and acquiring NPLs from approved financial institutions including banks and has been granted special powers to facilitate NPL resolution. However, there have not been NPL transactions beyond the initial asset purchases finalized in September 2021, financed from its own capital.

[25] Based on data from the Caribbean Confederation of Credit Unions, country authorities, and Fund calculations, credit growth rate in the credit union sector was 10 percent in 2020 and slowed to slightly under 9 percent in 2021.

- Revisiting the *2 percent minimum (household) savings deposit rate* (over 40 percent of total deposits), which likely weakens credit affordability, hinders local capital market development and encourages overseas investment in search for compensating yield, thereby contributing to the growing private sector savings-investment imbalance in the region.



Sources: ECCB and IMF staff calculations.

- Passage of *relevant securities legislation* by jurisdictions where these remain pending, to strengthen the framework that will help deepen capital markets and improve opportunities for financing of local investment needs.

**23. Decisive steps should be taken to protect already limited local bank CBRs.** Recent EU and U.S. proposals to phase out CBI programs could intensify the scrutiny of compliance risks in the ECCU financial system, thereby increasing CBR risks for the local banks that are becoming systemic with the exit of international banks.[26] This makes addressing any remaining shortfalls in the region's financial integrity, AML/CFT, governance and offshore taxation frameworks of critical importance. ECCU members should pursue regional coordination—including minimum standards—of oversight and transparency of CBI programs, tackle issues identified in the national CFATF mutual assessments, ensure consistency with global taxation standards, and complete designation of the ECCB as the competent AML/CFT authority over institutions licensed under the Banking Act in the three pending jurisdictions.

**24. The regional authorities are progressing on an ambitious agenda of oversight reforms, but complementary efforts are needed to resolve the currently fragmented non-bank supervision framework.** The proposed new regional standards setting body (RSSB) can help move the ECCU non-banks under a common regulatory rulebook, but more resolute parallel efforts are needed to advance consolidated supervision of financial conglomerates that operate across the region, strengthen risk-based insurance supervision and risk-mitigation standards, and address notable data gaps.[27] With increasing unregulated operations, such as crypto cash, the authorities should expedite the passage (where pending) and implementation of the Virtual Assets Business

[26] The recent exit of global banking groups from the region has increased the systemic significance of local banks that rely fully on a local deposit funding pool and has limited CBRs in the region. Implementation of the proposed sale of CIBC-FCIB's banking operations in four jurisdictions to a consortium of indigenous banks will result in local banks' share of system assets swelling to over 70 percent, three jurisdictions having two or less banks, and a yet larger share of customers reliant on local banks' CBRs.

[27] Lack of consolidated oversight of insurance companies and pension management providers operating throughout the region was a factor in the level and impact of the BAICO and CLICO failures in the ECCU. In several member countries material reporting delays and gaps for these two sectors remain. The fragmented decision-making and approval processes and timelines also hamper the effectiveness of insurance conglomerates and their ability to introduce new products designed to improve market penetration within the ECCU.

legislation and bolster the resources and capacity of national supervisory authorities in task with this new oversight mandate. The proposed ECCB's Technology Risk Standard can support uniform mitigation of cyber threats, identified by banks as a key risk area.[28]

**25. Strengthening supervision, reporting and regulatory frameworks against climate change risks can help further build financial system resilience.** The ECCU financial system has been remarkably resilient to natural disasters in the past. However, such risks may increase with climate change (Box 3). Key steps to mitigate risks should include:

- *Increasingly incorporating physical climate risks* in regional and national supervisory frameworks, supported by reporting structures that allow for more granular monitoring of different risk transmission channels, including also sovereign and insurance counterparty risks.

- *Tailoring risk assessments and stress tests* to scenarios that account for not only more intense or frequent storms, but also resilience of critical infrastructure.

- *Developing regulatory measures* to support climate risk-aware lending practices, exposure diversification (e.g., excessive concentration to single insurer, sector or sovereign), adequacy of prudential risk buffers (e.g., for systemic institutions), and ex-post asset recovery.

The ECCB's advanced work in these areas is welcome.[29] Efforts should extend to *integrating physical climate risk scenarios* in the authorities' financial system crisis management plans to ensure adequacy of policy intervention frameworks.

[28] There are plans to advance other reform initiatives including Basel II/III and the macroprudential framework and toolkit. Careful prioritization and pacing of the financial sector reform agenda, including implementation of the RSSB, remain important, and should take due note of limited resources as well as pre-existing challenges to enacting needed legislative changes at the national level.

[29] The ECCB has launched an ambitious program to integrate climate risks in supervisory and regulatory frameworks and, in collaboration with international agencies, has commenced a technical assistance project to build capacity in ECCU regulators and financial institutions.

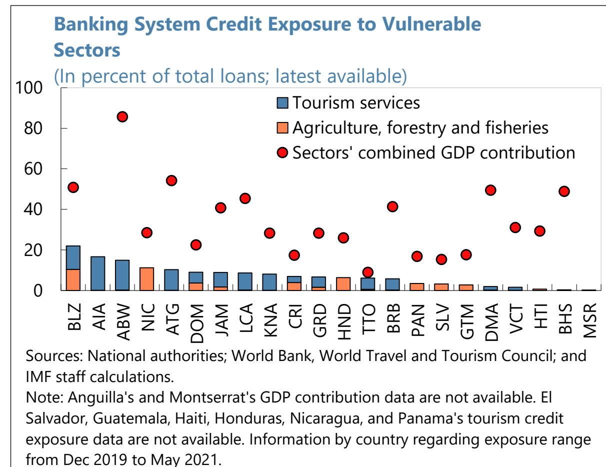
## Box 3. Climate Risk Resilience of the ECCU Financial System

**The ECCU financial system has been remarkably resilient to the impact of natural disasters.** The modest impact of natural disasters in the financial system is due to high share of insurance obligations ceded to reinsurance, significant (insured property) collateral requirements, limited direct bank exposures to most vulnerable sectors such as tourism and agriculture, and relatively speedy post-disaster recovery of the tourism sectors.

**Direct climate risk exposures may nonetheless increase going forward to the extent the private sector scales up adaptation investment by use of local financial services.** Staff analysis suggests that insurance penetration tends to increase after major natural disasters, implying that demand for private insurance in the ECCU is likely to increase as the frequency and intensity of disasters go up. Staff analysis also finds that financial deepening and inclusion could have a positive impact on insurance penetration in response to rising climate risks (Annex VII).

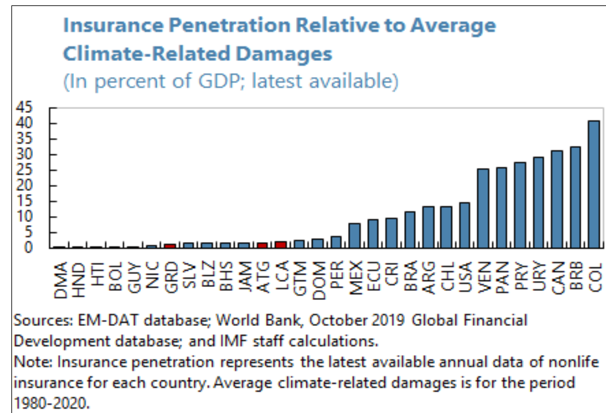
**Climate change may also intensify indirect physical risks through the broader economy, which may be heightened by the ECCU economies' high dependency on the tourism sector.** Staff simulations illustrate that more intense storm damages to critical tourism infrastructure or large consecutive storms could result in pronounced effects on bank asset quality (Annex VIII).[1] Such risks may be amplified where financial institutions hold significant exposures to public sector entities that may see their balance sheets stretched by disasters, or concentrated counterparty risks to regional insurers. Indirect risk transmission channels may also include abrupt changes to reinsurance pricing.[2]

**Banking System Credit Exposure to Vulnerable Sectors**
(In percent of total loans; latest available)



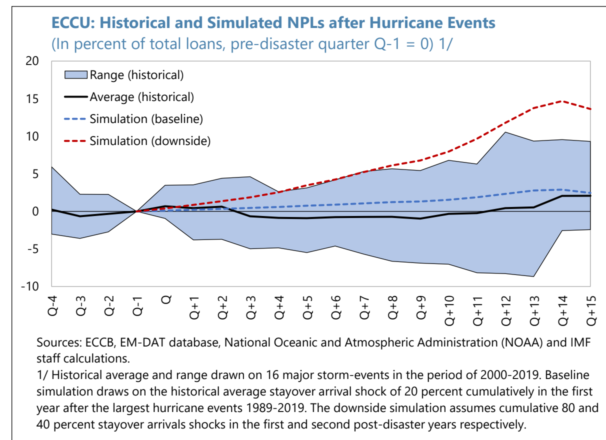

Sources: National authorities; World Bank, World Travel and Tourism Council; and IMF staff calculations.
Note: Anguilla's and Montserrat's GDP contribution data are not available. El Salvador, Guatemala, Haiti, Honduras, Nicaragua, and Panama's tourism credit exposure data are not available. Information by country regarding exposure range from Dec 2019 to May 2021.

**Insurance Penetration Relative to Average Climate-Related Damages**
(In percent of GDP; latest available)




Sources: EM-DAT database; World Bank, October 2019 Global Financial Development database; and IMF staff calculations.
Note: Insurance penetration represents the latest available annual data of nonlife insurance for each country. Average climate-related damages is for the period 1980-2020.

**ECCU: Historical and Simulated NPLs after Hurricane Events**
(In percent of total loans, pre-disaster quarter Q-1 = 0) 1/




Sources: ECCB, EM-DAT database, National Oceanic and Atmospheric Administration (NOAA) and IMF staff calculations.
1/ Historical average and range drawn on 16 major storm-events in the period of 2000-2019. Baseline simulation draws on the historical average stayover arrival shock of 20 percent cumulatively in the first year after the largest hurricane events 1989-2019. The downside simulation assumes cumulative 80 and 40 percent stayover arrivals shocks in the first and second post-disaster years respectively.

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[1] The simulations employ the stress testing methodology used to assess the potential asset quality impact of the COVID-19 pandemic in the 2021 ECCU Regional Consultation Report, IMF Country Report No. 21/86.

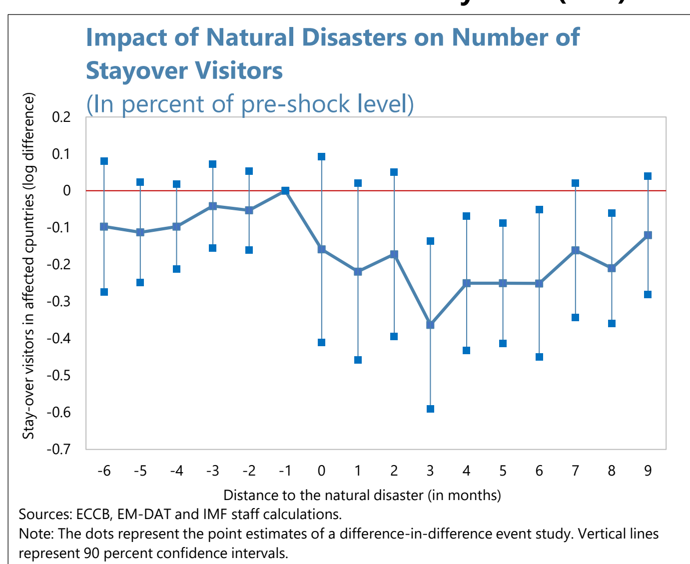
[2] The Caribbean experienced extreme tightening of the reinsurance market in 1993–94 with series of hurricanes in prior years leading to sharp price increases and refusal by some service providers to extend coverage to the Caribbean. The crisis required CARICOM intervention and led to the establishment of the Caribbean Catastrophe Risk Insurance Facility (CCRIF) in 2007.

## C. Building Climate Resilience and Enhancing Competitiveness

**26. The ECCU's external position in 2021 is assessed to be moderately weaker than the level implied by fundamentals and desirable policies.** Based on the EBA-Lite model, the current account gap was -1.6 percent of GDP, implying an exchange rate overvaluation (Annex III). As the pandemic recedes, fiscal consolidation in the region and a recovery in tourism exports should help narrow the current account deficit. Over the medium term, supply-side reforms to reduce the cost of energy and build resilience to natural disasters should increase competitiveness and strengthen the external position.

**27. Building resilience to natural disasters and climate change should continue to be a priority for the region, given its vulnerability and impact on tourism, and could rely on long-term concessional financing such as the IMF's Resilience and Sustainability Trust (RST).**[30] Efforts are ongoing with implementation of the Disaster Resilience Strategy (by Dominica and Grenada) and the preparation of updates to national adaptation/disaster plans (Antigua and Barbuda, Grenada, St. Lucia, and St. Vincent and the Grenadines).[31] The IMF's RST can complement traditional UCT programs that focus on resolving balance-of-payments difficulties in supporting the implementation of ECCU countries' resilience-building strategies, and help catalyze concessional financing from the international community, including climate funds, as well as mobilize private sector investment.

**Impact of Natural Disasters on Number of Stayover Visitors**
(In percent of pre-shock level)




Sources: ECCB, EM-DAT and IMF staff calculations.
Note: The dots represent the point estimates of a difference-in-difference event study. Vertical lines represent 90 percent confidence intervals.

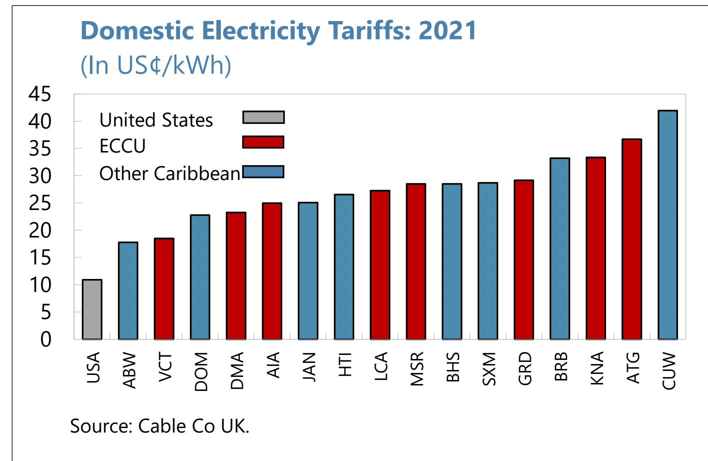
**28. Accelerating the shift to renewables and investing in energy conservation would help strengthen competitiveness and ensure energy security.** High electricity costs in most of the region, due to heavy reliance on imported diesel, hampers competitiveness and makes the region vulnerable to swings in international fuel prices. Progress is under way with investments in solar, wind and geothermal energy across countries, along with various tax incentives for renewables. The dated electricity generation assets (that also contribute to significant technical and transmissional

[30] See 2018 ECCU Regional Consultation Report (IMF Country Report No. 19/62) and Western Hemisphere Regional Economic Outlook (October 2021).

[31] Investing in structural resilience requires significant upfront costs, but it would reduce damage and losses from disasters, promote private investment and generate job opportunities. Similarly, building financial resilience, notably through insurance, would ensure liquidity for relief and reconstruction while protecting public finances from the impact of disasters. In this context, Grenada and St. Vincent and the Grenadines enrolled in the World Bank's Catastrophe Deferred Drawdown Option (CAT DDO) in 2020 and St. Vincent and the Grenadines received a disbursement in 2021.

losses) point to an opportunity to accelerate the switch to renewable sources. This will require putting in place a more favorable regulatory environment—including through updates to national energy policies, changes to energy efficiency acts, relaxing the existing cap on solar or wind energy production, establishing independent energy regulators, and promulgation of tariff and competitive procurement regulations (such as tariff cuts under the CARICOM regime)—which will also foster private sector involvement to help with the associated large investments.[32]

Domestic Electricity Tariffs: 2021
(In US¢/kWh)




Source: Cable Co UK.

**29. Competitiveness can be further improved through upgrades to transportation infrastructure, continued investment in skills development, and further regional integration that can also help ensure food security.** Upgrades to intra-regional transportation infrastructure are urgently needed and will require public-private sector collaboration. Ensuring food security for the region will entail enhancing regional integration, including through removing trade barriers, which will ease supply disruptions and facilitate trade. This will help better integrate the local agriculture sector with tourism. To address the long-standing skills mismatch in many economies, efforts can be stepped up to provide training programs and improve their effectiveness by strengthening the integration between academic institutions and firms and facilitating the transition to employment. Continued investment in broadband technology can reduce the digital divide and foster inclusive growth.

**30. Continued efforts to reinforce capacity and fully implement safeguard measures are needed to reap the benefits of DCash and contain risks.** DCash has the potential to increase economic efficiency and foster financial inclusion, but the ECCB will need to further raise public awareness and improve communication with end-users to boost confidence and uptake. As outlined in the Selected Issues Paper of 2019 ECCU Regional Consultation Report, staff advised that the authorities fully implement safeguard measures to contain various risks to the ECCB and the financial system, including those related to financial intermediation, financial integrity, and cybersecurity. While financial disintermediation risk is mitigated by the ample excess liquidity in the system and the design of DCash as a non-interest retail instrument with holding limits, the ECCB and national supervisors should closely analyze liquidity and funding conditions of financial institutions, including through liquidity stress testing. Cybersecurity risks are mitigated at the pilot stage by limited scope of system integration, but as growth and risks evolve, authorities should consider benchmarking against international standards for financial market infrastructures as well as adopting more targeted cybersecurity frameworks and standards. The DCash outage experience underscores the need to

[32] Moreover, changes to construction standards (e.g., incentivizing small-scale solar on new buildings and adding energy efficiency to building codes) can be explored.

enhance the ECCB's operational resilience and business continuity plans, including through contingency planning and increasing staffing and skills. The ECCB should also clearly divide the operational, oversight, and risk management responsibilities between the central bank and technology providers, and establish a project management governance framework. In addition, a clear exit plan from the pilot project is needed, in case of major issues with the any of its vendors.[33]

## D. Statistical Issues

**31. Timeliness of data dissemination should be further enhanced to help inform government and private sector decisions.** To promote timely delivery of key outputs, the ECCB established in April 2022 the Research, Statistics and Data Analytics Department, incorporating the teams previously in the Research Department and the Statistics Department. The ECCB and national statistical offices authorities are making progress to implement Technical Assistance recommendations from the IMF's Statistics Department and the Caribbean Regional Technical Assistance Center (CARTAC) on national accounts, price, and external sector statistics. While data provision is broadly adequate for surveillance, the pandemic has added to further delays in the compilation and dissemination of external sector statistics. Ensuring adequate staffing levels and investing in training will be essential to improve data quality and timeliness.

# AUTHORITIES' VIEWS

**32. The authorities agreed with staff's outlook of a gradual and uneven economic recovery.** They observed the scarring effects from the pandemic, notably on the tourism and transportation sectors (especially air travel), and on human capital as a result of extended school and business closures. While optimistic about tourism prospects, the authorities noted that the war in Ukraine is exacerbating supply disruptions, fueling inflation pressures, and threatening food and energy security. They saw further increases in commodity prices as a key downside risk, in addition to new COVID variants amid vaccine hesitancy and the ever-present threat from natural disasters.

**33. The authorities concurred with staff on maintaining fiscal prudence while prioritizing near-term policy to protect the vulnerable, to the extent feasible.** They stressed the need for food and fuel price controls and temporary tax exemptions or reductions to alleviate the impact of higher living expenses on households, while acknowledging the fiscal costs of these measures, even as pandemic stimulus programs are being wound down. The authorities agreed in principle with the desirability of gradually shifting to better targeted transfers to the vulnerable but, given the inadequate coverage and targeting of existing social safety nets, noted that they will continue to mainly rely on generalized subsidies at least temporarily.

**34. The authorities remain committed to meeting the regional debt target and saw the benefits of adopting rule-based fiscal frameworks, including operational targets.** Nevertheless, many underscored the challenges of reaching the 60 percent of GDP debt target by 2035 given the

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[33] This would establish oversight expectations and requirements, as appropriate, as well as provide further guidance on managing general business and operational risks, including from critical service providers.

large increases in the debt-to-GDP ratio due to the pandemic, impact of the war in Ukraine on the nascent recovery and fiscal position, and public capital spending needs to achieve development goals and resilience to natural disasters. A few authorities emphasized that the calibration of parameters of the fiscal frameworks should take into account social and development needs.

**35. The authorities agreed with the need to closely monitor post-moratoria asset quality, amid continued high NPLs.** The authorities' strategies to mitigate potential risks from unwinding of the moratoria program will include intensified scrutiny of weaker institutions. The technical requirements for the planned phased increase of banks' minimum provisioning ratio, to reach 100 percent for long-standing NPLs by 2024, will be articulated in the ECCB's 2022 review of the Treatment of Impaired Assets Standard. The authorities are committed to completing the necessary work to support asset recovery, including reforming the foreclosure legislation in some jurisdictions. Although several authorities have indicated inability to issue debt to finance the ECAMC's acquisition of legacy NPLs, they concurred on the need to enable the ECAMC to activate its special asset recovery powers to help reduce regional NPLs. Market risk will continue to be closely monitored, particularly given the implications of recent stepped-up global financial market volatility for institutions with large overseas asset portfolios.

**36. The authorities confirmed the need to advance key reforms to support private sector credit growth.** Some authorities expressed the intention to pass and implement laws that remain pending, such as the Credit Reporting Bill to facilitate establishment of a regional credit bureau/registry. The ECCB also emphasized the need for countries to expedite modernizing insolvency, collateral and asset recovery frameworks; and addressing collateral constraints. Based in large part on World Bank funding, most of the ECCU authorities have invested in the recently launched Eastern Caribbean Partial Credit Guarantee Corporation, which they viewed as instrumental in activating improved MSME access to finance and MSME capacity building in their countries.

**37. There were concerns about the potential loss of CBI revenues following the EU and US proposals to restrict visa-free access to third countries with CBI programs.** Some countries viewed these revenues as critical funding for essential economic and social investments including resilience building to natural disasters, and it will be difficult to find offsetting revenue measures. The authorities are willing to collaborate with European and U.S. counterparts to provide reassurances about the integrity of their CBI programs. At the same time, given that the intensified scrutiny of CBI programs may impact correspondent banking relationships of local banks, the authorities are committed to strengthening financial integrity frameworks and completing designation of the ECCB as banks' AML/CFT supervisory authority. Some authorities are concerned that the implementation of global minimum corporate tax would affect the region's ability to attract foreign direct investment.

**38. The authorities viewed tightened regulatory oversight of nonbank financial institutions as key to addressing potential systemic risks and maintaining financial system stability.** The ECCB Monetary Council has approved the establishment of a Regional Standards Setting Body (RSSB) to harmonize regulations for non-bank financial institutions. However, some authorities are concerned that the RSSB will not address the fundamental issue of fragmented supervision of non-banks. The ECCB will reinforce regulatory collaboration to help address the risks of non-centralized

and non-consolidated supervision of large cross-border insurance conglomerates. Strengthening frameworks to respond to cyber threats and govern digitalized financial services including crypto activities is seen as priority since unregulated operations, such as crypto cash, are increasing in the region. These risks will be addressed through the finalization and implementation of the ECCB's Technology Risk standard, country capacity building to respond to cyber threats, and passage and implementation of the Virtual Assets Business Bill where pending.

**39. The authorities recognized the importance of building fiscal and financial sector resilience to climate risks.** The authorities agreed that natural disaster risks could warrant a national debt target lower than the regional ceiling, but they pointed out that this may not be practical in the current environment given the back-to-back shocks. The ECCB has started a program to integrate climate risks in supervisory and regulatory frameworks and, in collaboration with international agencies, commenced a technical assistance project to build capacity in ECCU regulators and financial institutions.

**40. The authorities stressed the importance of securing low-cost longer-term financing for climate adaptation and welcomed the Resilience and Sustainability Trust.** Building structural and financial resilience to natural disasters remains a priority, but it is a challenge due to limited fiscal space. The authorities noted that rising fuel prices exacerbated by the war in Ukraine heightened the urgency to accelerate the shift to renewables, which will help improve competitiveness and ensure energy security. While encouraged by progress with their investments in solar, wind, and geothermal energy, the authorities noted that large investments are required to transition from fossil fuels, thus necessitating private sector involvement.

**41. The authorities underscored the urgency to ensure food security, upgrade intra-regional transportation infrastructure, and strengthen human capital.** In an effort to achieve CARICOM's goal of reducing the regional food import bill by 25 percent by 2025, the authorities are developing an action plan to enhance regional integration and ensure food and nutrition security, including by removing trade barriers. The authorities agreed that intra-regional transportation infrastructure should be addressed, as it is now an impediment to economic recovery and regional integration, which will require public-private collaboration. They saw this as critical to help mitigate supply disruptions, facilitate trade, and support tourism. To minimize the pandemic's scars on human capital and potential growth, the authorities considered it necessary to continue investment in skills development and broadband technology, as well as to facilitate the reallocation of workers and resources to their most productive uses.

**42. The ECCB agreed that raising public awareness and reinforcing capacity are key to boosting use of DCash and containing risks.** The authorities viewed cybersecurity as the main risk associated with DCash. The ECCB plans to strengthen staffing and skill capacity of its IT department as well as put more emphasis on educational marketing campaigns once the pilot is launched in Anguilla. The ECCB has also hired a project manager and is working toward establishing a project management governance framework. In addition, the ECCB has been exploring options with member governments for incorporating DCash into their e-government reforms.

# STAFF APPRAISAL

**43. The ECCU economy is on a gradual recovery path, but challenges loom ahead.** The pandemic had left scars on key economic sectors such as tourism and transportation and on human capital, while straining countries' fiscal and external balances. The war in Ukraine is exacerbating supply disruptions, fueling inflation, and threatening food and energy security. Looking forward, the recovery is likely to be uneven across countries, driven by the varying pace of tourism rebound and domestic activity. Downside risks to the outlook remain significant and stem primarily from further increases in commodity prices due to the ongoing war, in addition to outbreaks of new COVID variants and the threat of natural disasters.

**44. The near-term policy priority should be to maintain fiscal prudence while protecting the vulnerable.** To alleviate the impact of rising living costs on vulnerable households, temporary targeted transfers could be provided through existing social assistance programs. Countries should allow a gradual pass-through of international energy and food prices to the domestic economy, while committing to phase out generalized subsidies such as fuel price caps and tax exemptions in the coming years, which would help contain the fiscal cost of support measures and avoid adverse distributional impact. At the same time, efforts should be expedited to improve the adequacy and efficiency of social safety nets.

**45. Over the medium term, fiscal policy should shift toward fostering resilient and inclusive growth.** Fiscal consolidation could be supported by mobilizing domestic revenues, rationalizing lower-priority spending, and advancing fiscal structural reforms, with reliance on low-cost long-term financing to safeguard debt sustainability. Meanwhile, fiscal policy should move from income support and job retention measures to those that facilitate labor reallocation and training.

**46. Adopting well-designed rule-based fiscal responsibility frameworks (FRFs) is key to achieve fiscal consolidation and preserve the credibility of the regional debt target.** Given the potential increase in public sector borrowing costs, accelerating the adoption or reactivation of fiscal frameworks would signal credible medium-term fiscal plans and boost market confidence.

**47. When setting up or amending their FRFs, ECCU countries should internalize the impact of natural disasters to enhance their effectiveness.** Greater exposure to natural disasters would warrant setting a lower country debt ceiling than the regional ceiling, unless disaster mitigating financial buffers are readily available. The choice of the operational target must be tailored to country circumstances. For small open economies with high exposure to natural disasters and elevated initial level of debt, primary balance rules could be preferable to expenditure rules.

**48. Asset quality and provisioning buffers warrant continued close monitoring as NPLs remain elevated.** With the expiration of the loan moratoria program and given likely continued borrowers' fragilities, the ECCB and national regulators should closely monitor against relapses in loan performance, ensure that provisioning accurately reflects balance sheet risks, and intensify scrutiny of weaker institutions. Complementary efforts are also needed to address asset recovery constraints, including at the ECAMC, to reduce legacy NPLs.

**49. A renewed attention to reinvigorate private sector credit growth is critical to support the recovery.** Key reforms should be accelerated to address long-standing lending and credit constraints, including establishing a regional credit bureau and registry, modernizing insolvency frameworks, and addressing collateral constraints to credit access by MSMEs. In the context of compressed bank lending margins, the ECCB could consider revisiting the 2 percent minimum savings deposit rate. In addition, passage of relevant securities legislation where these remain pending is important to deepen local capital markets and increase financing opportunities.

**50. Decisive steps should be taken to protect local bank CBRs amid greater scrutiny of the region's CBI programs.** It will thus be critical to address any remaining shortfalls in the region's financial integrity, AML/CFT, governance and offshore taxation frameworks. ECCU members should also pursue regional coordination of oversight and transparency of CBI programs, tackle issues identified in the national CFATF mutual assessments, ensure consistency with global taxation standards, and complete designation of the ECCB as the banks' AML/CFT supervisory authority.

**51. Efforts are needed to resolve the currently fragmented non-bank supervision framework and address potential systemic risks.** While the proposed RSSB can help harmonize regulations for non-banks, it will be essential to advance consolidated supervision of large cross-border financial conglomerates, strengthen risk-based insurance supervision and risk-mitigation standards, and address notable data gaps. With increasing unregulated operations, the authorities should expedite passage and implementation of the Virtual Assets Business legislation to govern digitalized financial services including crypto assets.

**52. The ECCB could further reinforce financial sector resilience to climate shocks.** The ECCB's newly launched program to incorporate climate risks in supervisory and regulatory frameworks should integrate physical climate risk scenarios in the authorities' financial system crisis management plans to ensure adequacy of policy intervention frameworks. Strengthening frameworks and authorities' capacity to respond to cyber threats, including through timely finalization and implementation of the ECCB's Technology Risk standard, is also critical.

**53. Building resilience to natural disasters and climate change should continue to be a priority.** The authorities should build on progress in investing in resilient infrastructure and insurance for natural disasters. Accelerating the shift to renewables and investing in energy conservation, supported by an enabling regulatory environment, can help improve competitiveness, encourage private sector involvement, and ensure energy security.

**54. Structural policies should also focus on removing transportation bottlenecks, enhancing regional integration, and strengthening human capital.** This will require urgently upgrading intra-regional transportation infrastructure through public-private collaboration and enhancing regional integration, including by removing trade barriers to ensure food security. In addition, continued investment in skills development and broadband technology can foster inclusive growth.

**55. Reinforcing capacity and fully implementing safeguard measures are key for the viability of DCash.** The ECCB should step up efforts to raise public awareness of DCash and improve

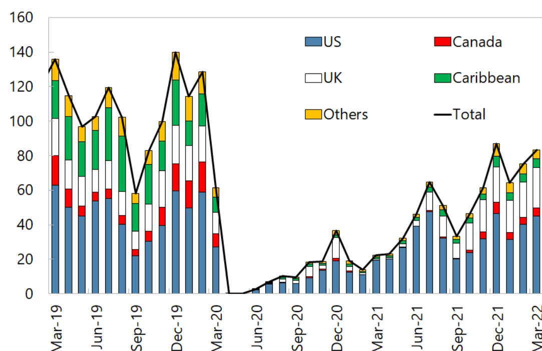
communication with end-users, while investing in contingency planning and staffing. The ECCB should also clearly divide operational, oversight, and risk management responsibilities between the central bank and technology providers, and establish a project management governance framework.

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

## Figure 1. ECCU: External Sector Developments

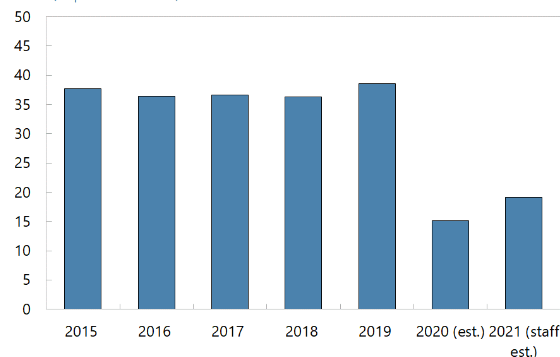
*The recovery of tourist arrivals has been slow …*

**Tourist Arrivals by Source Countries**
(In thousands of stay-over tourists)



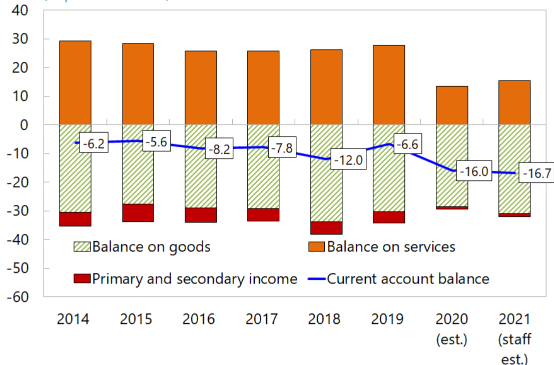

*… resulting in continued weakness in tourism exports…*

**Tourism Exports**
(In percent of GDP)



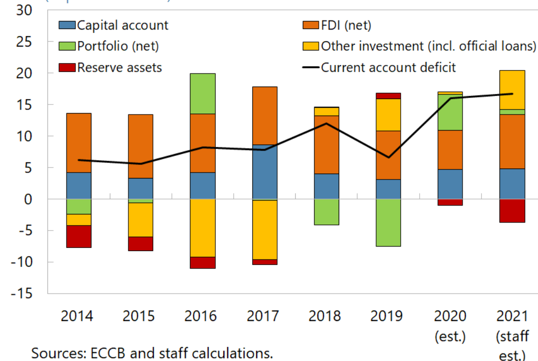

*… and an elevated level of the current account deficit …*

**Current Account Balance**
(In percent of GDP)




*… that is expected to be financed by FDI and increased official capital inflows.*

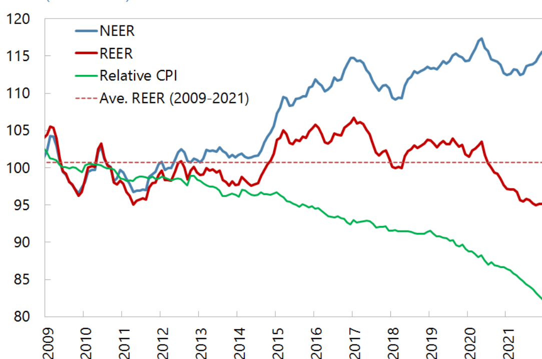
**Current Account Deficit and Sources of Finance**
(In percent of GDP)




Sources: ECCB and staff calculations.

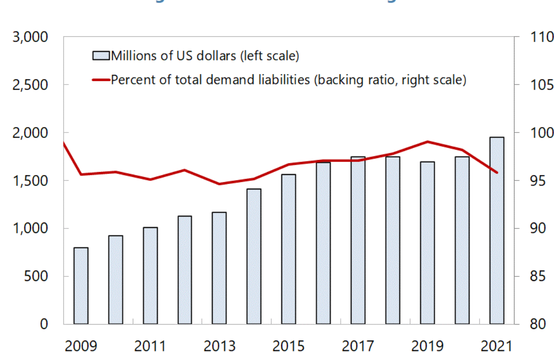
*The real exchange rate depreciated by about 5 percent …*

**ECCU: Effective Exchange Rates**
(2010 = 100)




*… while the international reserve backing ratio remains high.*

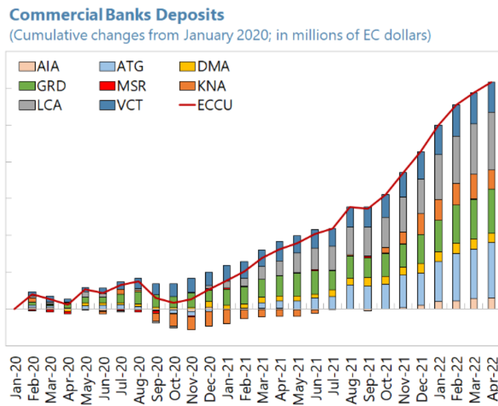
**ECCB Foreign Assets and Reserve Backing Ratio**



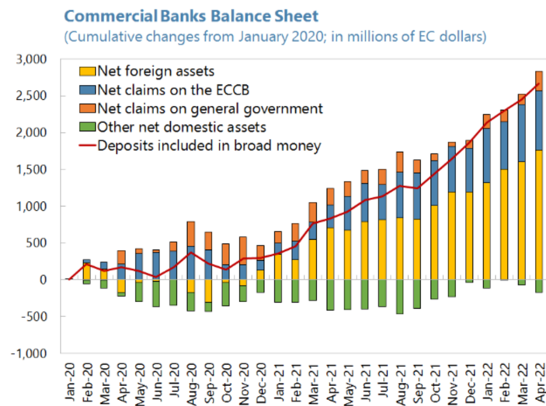

Sources: ECCB, IMF Information Notification System, and IMF staff calculations.

## Figure 2. ECCU: Monetary Developments

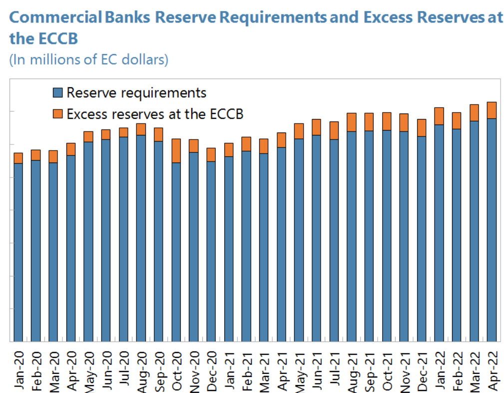
*Bank deposits have remained remarkably robust across the region ...*



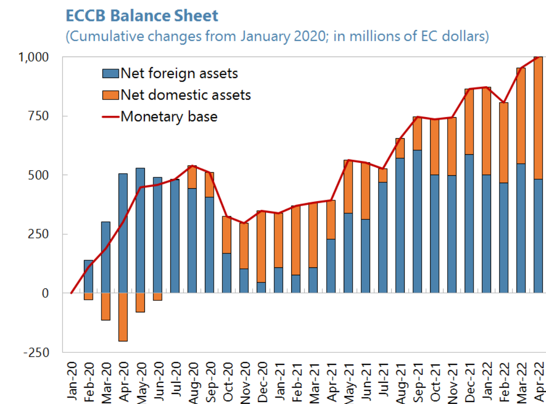

*... which has continued to increase banking system liquidity amidst subdued lending.*



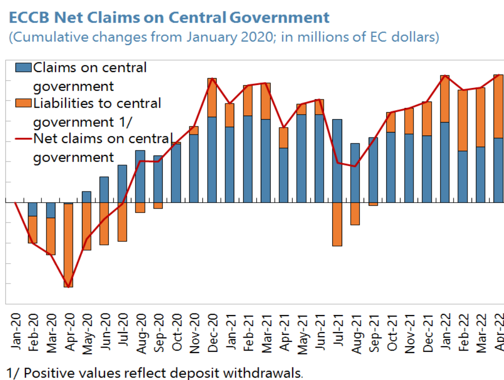

*Excess reserves at the ECCB have declined ...*




*... and much of the larger monetary base is allocated overseas.*

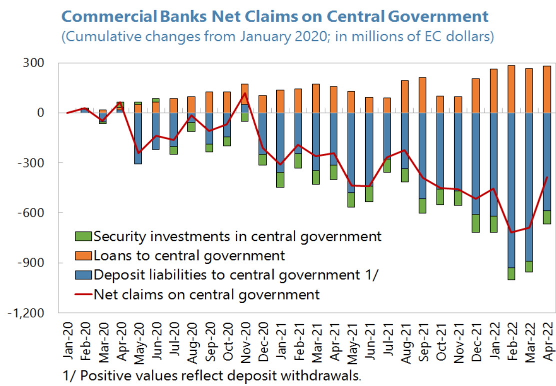



*The pandemic triggered an increase in the ECCB's lending to governments ...*




1/ Positive values reflect deposit withdrawals.

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

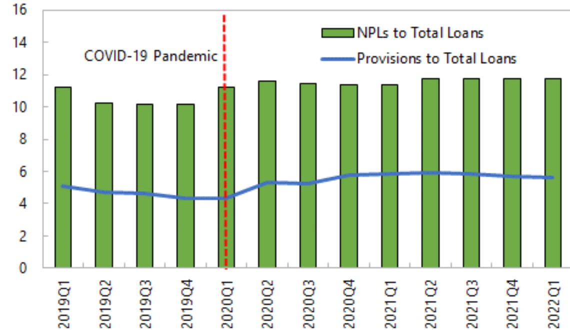



1/ Positive values reflect deposit withdrawals.

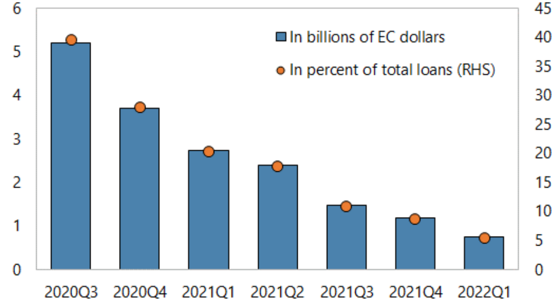
Sources: ECCB and IMF staff calculations.

## Figure 3. ECCU: Financial Sector Developments—Credit Risk Impact of the Pandemic

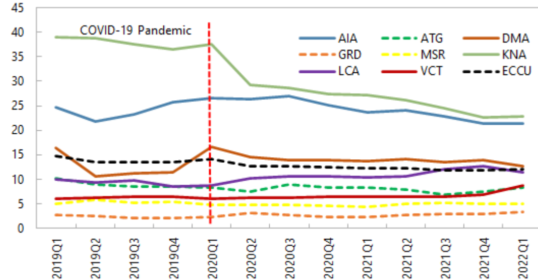
*System-wide NPLs have remained stable through the pandemic …*



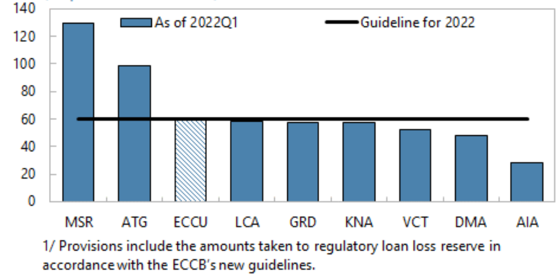

*… due to loan moratoria with a steadily declining stock since the initial broad uptake.*




*Local bank NPLs nonetheless remain high in several member states …*

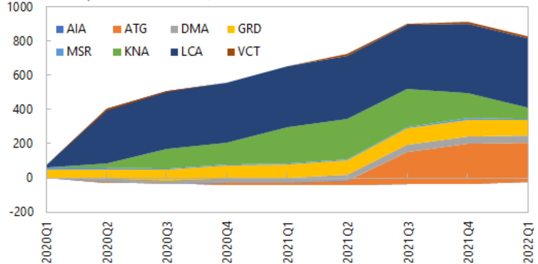



*… necessitating higher provisioning to meet the ECCB's new guidelines.*

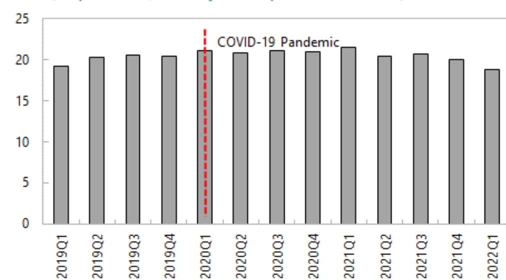



1/ Provisions include the amounts taken to regulatory loan loss reserve in accordance with the ECCB's new guidelines.

*Retained earnings have raised local banks' regulatory capital …*



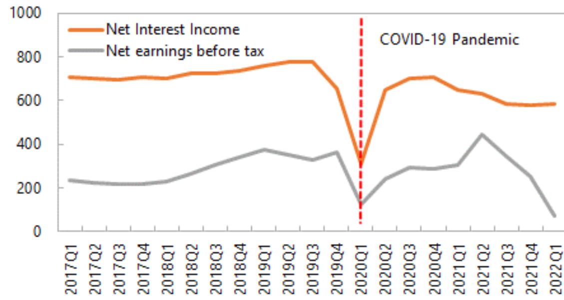

*… supporting stable system-wide capital adequacy through the pandemic, even as recent global financial market volatility is impacting overseas investment values.*



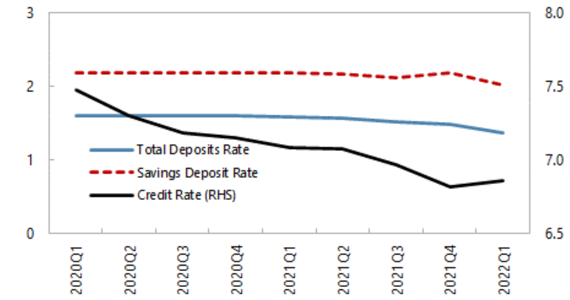

Sources: ECCB and IMF staff calculations.

## Figure 4. ECCU: Financial Sector Developments—Business Impact of the Pandemic

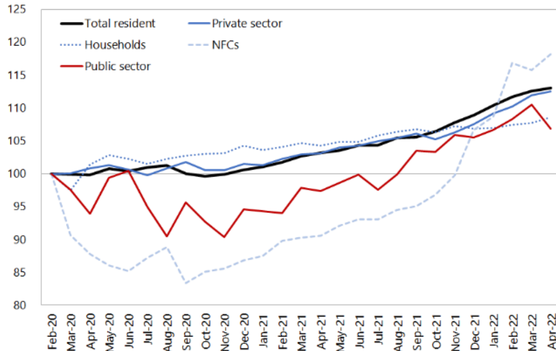
*Sector profitability that has recovered despite higher provisions and some squeeze on lending margins, now reflects market risk vulnerability of large overseas assets…*



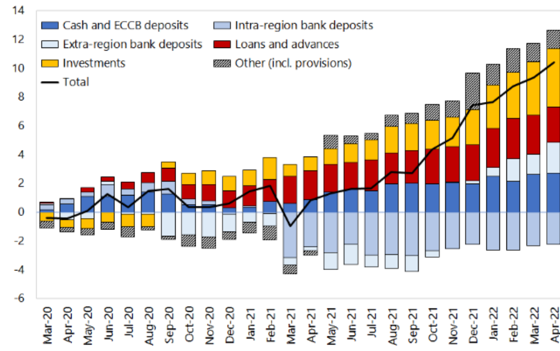

*… as continued competition for limited pool of bankable credit accounts has pushed down average lending rates.*



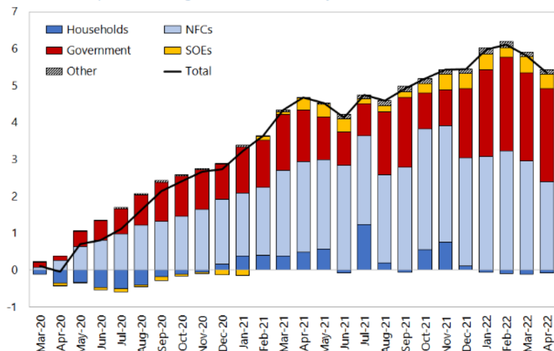

*System liquidity has accelerated over 2021 with recovery in corporate and public deposits…*



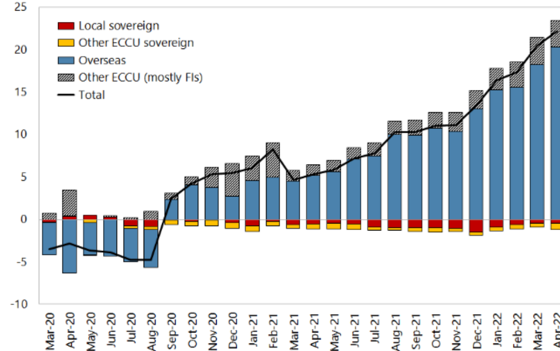

*… feeding accumulation of cash reserves and investments, but also a pick-up in credit growth…*




*… driven by lending to corporates and the local sovereign.*




*Bank exposure to ECCU sovereign securities remains modest, with strong investment growth in overseas assets.*




Sources: ECCB and IMF staff calculations.

## Table 1. ECCU: Selected Economic and Financial Indicators, 2019–23 1/

| | | | Est. | Proj. | |
|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2023 |
| | | | (Annual percentage change) | | |
| **Output and Prices** | | | | | |
| Real GDP | 2.3 | -17.5 | 4.9 | 7.4 | 5.5 |
| GDP deflator | 2.7 | -0.9 | 0.6 | 5.2 | 3.3 |
| Consumer prices, average | 0.7 | -0.6 | 1.7 | 5.6 | 3.3 |
| **Monetary Sector 2/** | | | | | |
| Net foreign assets | 5.1 | 6.1 | 16.5 | ... | ... |
| Central bank | -2.8 | 3.6 | 11.6 | ... | ... |
| Commercial banks (net) | 14.1 | 8.5 | 21.1 | ... | ... |
| Net domestic assets | 1.0 | -20.1 | 1.0 | ... | ... |
| *Of which* : private sector credit | 0.5 | -0.9 | 1.5 | ... | ... |
| Broad money (M2) | 3.1 | -6.4 | 10.2 | ... | ... |
| **Public Finances** | | | (In percent of GDP, unless otherwise indicated) | | |
| Central government | | | | | |
| Total revenue and grants | 26.1 | 29.1 | 31.0 | 29.1 | 28.6 |
| Total expenditure and net lending | 28.1 | 34.7 | 34.3 | 33.2 | 30.5 |
| Overall balance 3/ | -2.1 | -5.6 | -3.3 | -4.1 | -1.8 |
| *Of which:* expected fiscal cost of natural disasters | ... | ... | ... | 0.7 | 0.7 |
| Excl. Citizenship-by-Investment Programs | -5.4 | -10.9 | -9.4 | -8.0 | -5.5 |
| Primary balance 3/ | 0.3 | -3.1 | -0.9 | -1.8 | 0.6 |
| Total public sector debt | 65.9 | 84.9 | 85.2 | 80.8 | 77.7 |
| **External Sector** | | | | | |
| Current account balance | -6.6 | -16.0 | -16.7 | -17.0 | -13.4 |
| Trade balance | -30.3 | -28.5 | -30.9 | -36.7 | -35.9 |
| Exports, f.o.b. (annual percentage change) | 38.2 | -22.3 | -0.2 | 13.7 | 8.8 |
| Imports, f.o.b. (annual percentage change) | -2.8 | -22.8 | 12.9 | 32.6 | 6.7 |
| Services, incomes and transfers | 23.7 | 12.5 | 14.2 | 19.7 | 22.5 |
| *Of which* : travel | 38.5 | 15.1 | 19.2 | 30.0 | 33.5 |
| External public debt | 34.0 | 44.8 | 47.8 | 47.6 | 47.7 |
| External debt service (percent of goods and nonfactor services) | 9.9 | 21.7 | 15.9 | 13.3 | 12.5 |
| International reserves | | | | | |
| In millions of U.S. dollars | 1,698 | 1,747 | 1,952 | 1,838 | 2,015 |
| In months of prospective year imports of goods and services | 6.5 | 5.8 | 4.9 | 4.3 | 4.6 |
| In percent of broad money | 26.0 | 28.6 | 29.0 | 25.7 | 26.5 |
| REER (average annual percentage change) | | | | | |
| Trade-weighted 4/ | 1.3 | -2.2 | -4.9 | ... | ... |

Sources: Country authorities; and IMF staff estimates and projections.
1/ Includes all eight ECCU members unless otherwise noted. ECCU consumer price aggregates are calculated as weighted averages of individual country data. Other ECCU aggregates are calculated by adding individual country data.
2/ Growth rates of data for 2020 and 2021 also reflect the impact of methodological changes.
3/ Projections include expected fiscal costs of natural disasters.
4/ Excludes Anguilla and Montserrat.

## Table 2. ECCU: Selected Economic Indicators by Country, 2019–27
(Annual percentage change, unless otherwise indicated)

| | | | Est. | Proj. | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| **Real GDP** | **2.3** | **-17.5** | **4.9** | **7.4** | **5.5** | **4.4** | **3.0** | **2.4** | **2.3** |
| Anguilla | 5.9 | -29.9 | 2.1 | 16.2 | 9.3 | 7.2 | 2.2 | 2.2 | 2.2 |
| Antigua and Barbuda | 4.9 | -20.2 | 5.3 | 6.5 | 5.6 | 5.4 | 4.0 | 2.7 | 2.7 |
| Dominica | 7.5 | -11.0 | 3.6 | 6.8 | 5.0 | 4.6 | 4.1 | 2.5 | 2.5 |
| Grenada | 0.7 | -13.8 | 5.6 | 3.6 | 3.6 | 3.9 | 3.5 | 3.2 | 2.8 |
| Montserrat | 7.0 | -5.3 | 8.0 | 4.3 | 3.1 | 2.2 | 2.2 | 2.2 | 2.2 |
| St. Kitts and Nevis | 4.8 | -14.0 | -3.6 | 10.0 | 4.7 | 4.3 | 2.7 | 2.7 | 2.7 |
| St. Lucia | -0.7 | -24.4 | 12.2 | 9.1 | 5.8 | 3.8 | 2.0 | 1.7 | 1.5 |
| St. Vincent and the Grenadines | 0.4 | -5.3 | -0.5 | 5.2 | 6.8 | 4.0 | 3.2 | 2.7 | 2.7 |
| **CPI (period average) 1/** | **0.7** | **-0.6** | **1.7** | **5.6** | **3.3** | **2.1** | **2.0** | **2.0** | **2.0** |
| Anguilla | 0.8 | -0.5 | 1.8 | 3.5 | 2.7 | 2.0 | 2.0 | 2.0 | 2.0 |
| Antigua and Barbuda | 1.4 | 1.1 | 1.6 | 7.1 | 3.2 | 2.3 | 2.0 | 2.0 | 2.0 |
| Dominica | 1.5 | -0.7 | 2.5 | 5.0 | 4.2 | 2.0 | 2.0 | 2.0 | 2.0 |
| Grenada | 0.6 | -0.7 | 1.2 | 4.4 | 3.5 | 1.8 | 2.0 | 2.0 | 2.0 |
| Montserrat | -1.1 | -1.9 | 2.6 | 5.7 | 4.2 | 2.0 | 2.0 | 2.0 | 2.0 |
| St. Kitts and Nevis | -0.8 | -1.0 | 0.4 | 3.8 | 2.8 | 1.9 | 2.0 | 2.0 | 2.0 |
| St. Lucia | 0.5 | -1.8 | 2.4 | 6.4 | 2.7 | 2.2 | 2.0 | 2.0 | 2.0 |
| St. Vincent and the Grenadines | 0.9 | -0.6 | 1.6 | 6.2 | 4.6 | 2.0 | 2.0 | 2.0 | 2.0 |
| **Current Account (percent GDP)** | **-6.6** | **-16.0** | **-16.7** | **-17.0** | **-13.4** | **-9.6** | **-8.6** | **-7.7** | **-6.7** |
| Anguilla | -39.2 | -22.3 | -39.6 | -47.4 | -40.3 | -35.2 | -33.2 | -30.5 | -28.8 |
| Antigua and Barbuda | -7.5 | -18.4 | -15.0 | -17.2 | -13.4 | -13.0 | -12.3 | -10.5 | -9.2 |
| Dominica | -38.2 | -30.3 | -32.4 | -32.9 | -27.2 | -21.5 | -19.6 | -17.6 | -14.6 |
| Grenada | -14.6 | -21.0 | -24.3 | -27.0 | -21.4 | -13.4 | -13.0 | -12.3 | -11.7 |
| Montserrat | 0.1 | 8.3 | -17.4 | -18.9 | -11.6 | -9.4 | -6.7 | -4.0 | -0.9 |
| St. Kitts and Nevis | -2.2 | -8.0 | -4.8 | -5.2 | -4.1 | -3.3 | -2.9 | -1.8 | -1.2 |
| St. Lucia | 5.7 | -15.7 | -11.0 | -6.4 | -0.9 | 0.7 | 0.7 | 0.5 | 0.3 |
| St. Vincent and the Grenadines | -3.1 | -15.1 | -22.7 | -29.7 | -29.3 | -17.4 | -13.7 | -10.2 | -8.5 |
| **Overall Balance (percent of GDP) 2/** | **-2.1** | **-5.6** | **-3.3** | **-4.1** | **-1.8** | **-1.1** | **-0.5** | **-0.1** | **0.1** |
| Anguilla | 0.7 | 1.3 | -0.1 | -0.9 | 2.0 | 2.9 | 4.5 | 5.0 | 5.4 |
| Antigua and Barbuda | -4.0 | -6.4 | -4.3 | -3.6 | -1.9 | -0.3 | 0.1 | 0.3 | 0.3 |
| Dominica | -8.3 | -7.2 | -11.4 | -4.3 | -3.9 | -5.6 | -5.1 | -3.7 | -2.1 |
| Grenada | 5.0 | 1.2 | 0.3 | -2.2 | 2.2 | 2.5 | 2.3 | 2.6 | 2.7 |
| Montserrat | -13.1 | -4.9 | 1.4 | -2.7 | -0.6 | -0.5 | -0.4 | -0.4 | -0.4 |
| St. Kitts and Nevis | -0.6 | -2.7 | 7.2 | 2.0 | 3.3 | 2.4 | 1.7 | 1.8 | 1.8 |
| St. Lucia | -3.5 | -11.9 | -6.5 | -6.4 | -2.9 | -3.0 | -3.0 | -3.1 | -3.1 |
| St. Vincent and the Grenadines | -2.7 | -5.3 | -7.3 | -10.8 | -10.2 | -5.2 | -1.0 | 0.8 | 1.3 |
| **Public Sector Debt (percent of GDP)** | **65.9** | **84.9** | **85.2** | **80.8** | **77.7** | **75.0** | **72.0** | **69.0** | **66.0** |
| Anguilla | 48.1 | 70.4 | 67.5 | 57.7 | 49.6 | 42.4 | 36.1 | 29.4 | 22.4 |
| Antigua and Barbuda | 81.3 | 101.5 | 101.4 | 92.5 | 86.2 | 80.0 | 75.1 | 70.8 | 66.6 |
| Dominica | 94.2 | 106.3 | 101.1 | 100.2 | 97.0 | 94.5 | 92.9 | 92.0 | 90.0 |
| Grenada | 58.5 | 69.3 | 70.3 | 67.8 | 64.8 | 62.5 | 56.8 | 51.3 | 46.2 |
| Montserrat | 6.5 | 5.9 | 5.1 | 5.5 | 5.4 | 5.4 | 5.0 | 4.8 | 4.8 |
| St. Kitts and Nevis | 51.7 | 61.3 | 62.4 | 52.1 | 47.5 | 44.5 | 42.2 | 40.7 | 39.0 |
| St. Lucia | 62.1 | 96.9 | 92.2 | 90.1 | 88.3 | 87.8 | 87.6 | 87.0 | 86.5 |
| St. Vincent and the Grenadines | 68.1 | 79.2 | 89.2 | 90.7 | 92.2 | 92.6 | 89.1 | 84.7 | 80.5 |

Sources: Country authorities; and IMF staff estimates and projections.
1/ The weighted average inflation using nominal GDP to assign weights.
2/ Projections include expected fiscal costs of natural disasters.

## Table 3. ECCU: Selected Central Government Fiscal Indicators by Country, 2019–27 1/

(In percent of GDP)

| | | | Est. | Proj. | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| **Total Revenues and Grants** | **26.1** | **29.1** | **31.0** | **29.1** | **28.6** | **27.7** | **27.4** | **27.3** | **27.3** |
| Anguilla | 22.8 | 35.0 | 31.8 | 26.0 | 25.3 | 24.1 | 25.1 | 24.9 | 24.6 |
| Antigua and Barbuda | 18.6 | 20.4 | 20.9 | 21.7 | 22.4 | 21.9 | 22.0 | 22.0 | 22.0 |
| Dominica | 38.1 | 55.8 | 50.1 | 46.5 | 45.3 | 43.7 | 42.5 | 42.1 | 42.0 |
| Grenada | 26.6 | 28.1 | 31.8 | 31.6 | 30.1 | 29.1 | 28.4 | 28.2 | 28.1 |
| Montserrat | 73.3 | 87.3 | 76.8 | 67.8 | 65.7 | 64.0 | 61.0 | 60.7 | 60.4 |
| St. Kitts and Nevis | 35.6 | 31.6 | 42.3 | 35.0 | 33.7 | 32.0 | 31.1 | 31.1 | 31.1 |
| St. Lucia | 21.6 | 22.1 | 23.7 | 23.1 | 22.5 | 22.3 | 22.4 | 22.3 | 22.3 |
| St. Vincent and the Grenadines | 27.7 | 30.4 | 31.4 | 29.7 | 30.9 | 29.6 | 29.8 | 29.6 | 29.6 |
| **Current Expenditure** | **23.3** | **27.5** | **26.9** | **26.0** | **24.5** | **24.0** | **23.7** | **23.5** | **23.3** |
| Anguilla | 20.9 | 32.3 | 31.5 | 26.8 | 23.2 | 21.1 | 20.4 | 19.7 | 19.0 |
| Antigua and Barbuda | 20.7 | 23.9 | 22.7 | 21.3 | 20.5 | 19.2 | 18.8 | 18.6 | 18.6 |
| Dominica | 37.1 | 36.5 | 35.1 | 33.8 | 32.8 | 32.9 | 32.1 | 31.3 | 30.6 |
| Grenada | 19.0 | 23.1 | 22.8 | 23.2 | 21.0 | 20.9 | 21.4 | 20.9 | 20.8 |
| Montserrat | 77.4 | 76.9 | 65.9 | 64.9 | 61.8 | 60.5 | 57.9 | 56.7 | 55.8 |
| St. Kitts and Nevis | 24.9 | 27.5 | 28.3 | 28.7 | 27.5 | 27.2 | 27.1 | 27.0 | 27.0 |
| St. Lucia | 21.6 | 27.7 | 25.1 | 23.8 | 22.2 | 22.1 | 22.1 | 22.1 | 22.2 |
| St. Vincent and the Grenadines | 24.4 | 27.3 | 29.4 | 27.6 | 26.2 | 25.7 | 25.0 | 24.5 | 24.1 |
| **Capital Expenditure** | **4.8** | **7.2** | **7.4** | **7.2** | **6.0** | **4.8** | **4.2** | **4.0** | **3.9** |
| Anguilla | 1.0 | 1.2 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Antigua and Barbuda | 1.9 | 2.9 | 2.5 | 4.0 | 3.8 | 3.1 | 3.1 | 3.1 | 3.1 |
| Dominica | 9.3 | 26.5 | 25.0 | 15.5 | 15.0 | 15.0 | 14.0 | 13.0 | 12.0 |
| Grenada | 2.6 | 3.8 | 8.6 | 10.7 | 6.9 | 5.7 | 4.6 | 4.7 | 4.7 |
| Montserrat | 9.0 | 15.3 | 9.5 | 5.6 | 4.5 | 4.0 | 3.6 | 4.5 | 5.1 |
| St. Kitts and Nevis | 11.4 | 6.8 | 6.8 | 4.3 | 2.9 | 2.3 | 2.3 | 2.3 | 2.3 |
| St. Lucia | 3.6 | 6.4 | 5.1 | 5.1 | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 |
| St. Vincent and the Grenadines | 5.9 | 8.4 | 9.3 | 12.9 | 14.9 | 9.1 | 5.8 | 4.3 | 4.2 |
| **Primary Balance 2/** | **0.3** | **-3.1** | **-0.9** | **-1.8** | **0.6** | **1.2** | **1.9** | **2.3** | **2.4** |
| Anguilla | 2.7 | 3.7 | 2.1 | 1.0 | 3.5 | 4.2 | 5.6 | 6.0 | 6.2 |
| Antigua and Barbuda | -1.2 | -3.8 | -1.8 | -1.1 | 0.7 | 1.9 | 2.6 | 2.8 | 2.8 |
| Dominica | -5.9 | -5.2 | -9.4 | -2.2 | -1.5 | -3.0 | -2.6 | -1.3 | 0.1 |
| Grenada | 6.8 | 3.2 | 2.1 | -0.3 | 4.0 | 4.1 | 4.4 | 4.5 | 4.4 |
| Montserrat | -12.9 | -4.8 | 1.5 | -2.6 | -0.5 | -0.2 | -0.1 | 0.0 | 0.0 |
| St. Kitts and Nevis | 0.5 | -1.5 | 8.3 | 3.2 | 4.3 | 3.5 | 2.7 | 2.7 | 2.7 |
| St. Lucia | -0.5 | -8.0 | -2.9 | -2.4 | 1.2 | 1.1 | 1.2 | 1.1 | 1.1 |
| St. Vincent and the Grenadines | -0.4 | -3.1 | -4.7 | -8.3 | -7.5 | -2.4 | 1.7 | 3.2 | 3.5 |
| **Overall Balance 2/** | **-2.1** | **-5.6** | **-3.3** | **-4.1** | **-1.8** | **-1.1** | **-0.5** | **-0.1** | **0.1** |
| Anguilla | 0.7 | 1.3 | -0.1 | -0.9 | 2.0 | 2.9 | 4.5 | 5.0 | 5.4 |
| Antigua and Barbuda | -4.0 | -6.4 | -4.3 | -3.6 | -1.9 | -0.3 | 0.1 | 0.3 | 0.3 |
| Dominica | -8.3 | -7.2 | -11.4 | -4.3 | -3.9 | -5.6 | -5.1 | -3.7 | -2.1 |
| Grenada | 5.0 | 1.2 | 0.3 | -2.2 | 2.2 | 2.5 | 2.3 | 2.6 | 2.7 |
| Montserrat | -13.1 | -4.9 | 1.4 | -2.7 | -0.6 | -0.5 | -0.4 | -0.4 | -0.4 |
| St. Kitts and Nevis | -0.6 | -2.7 | 7.2 | 2.0 | 3.3 | 2.4 | 1.7 | 1.8 | 1.8 |
| St. Lucia | -3.5 | -11.9 | -6.5 | -6.4 | -2.9 | -3.0 | -3.0 | -3.1 | -3.1 |
| St. Vincent and the Grenadines | -2.7 | -5.3 | -7.3 | -10.8 | -10.2 | -5.2 | -1.0 | 0.8 | 1.3 |

Sources: Country authorities; and IMF staff estimates and projections.
1/ Fiscal years for Dominica, Montserrat, and St. Lucia.
2/ Projections include expected fiscal costs of natural disasters.

## Table 4. ECCU: Selected Public Sector Debt Indicators by Country, 2019–27 1/

| | | | Est. | Proj. | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| | | | | (In percent of GDP) | | | | | |
| **Total Public Sector Debt** | **65.9** | **84.9** | **85.2** | **80.8** | **77.7** | **75.0** | **72.0** | **69.0** | **66.0** |
| Anguilla | 48.1 | 70.4 | 67.5 | 57.7 | 49.6 | 42.4 | 36.1 | 29.4 | 22.4 |
| Antigua and Barbuda | 81.3 | 101.5 | 101.4 | 92.5 | 86.2 | 80.0 | 75.1 | 70.8 | 66.6 |
| Dominica | 94.2 | 106.3 | 101.1 | 100.2 | 97.0 | 94.5 | 92.9 | 92.0 | 90.0 |
| Grenada | 58.5 | 69.3 | 70.3 | 67.8 | 64.8 | 62.5 | 56.8 | 51.3 | 46.2 |
| Montserrat | 6.5 | 5.9 | 5.1 | 5.5 | 5.4 | 5.4 | 5.0 | 4.8 | 4.8 |
| St. Kitts and Nevis | 51.7 | 61.3 | 62.4 | 52.1 | 47.5 | 44.5 | 42.2 | 40.7 | 39.0 |
| St. Lucia | 62.1 | 96.9 | 92.2 | 90.1 | 88.3 | 87.8 | 87.6 | 87.0 | 86.5 |
| St. Vincent and the Grenadines | 68.1 | 79.2 | 89.2 | 90.7 | 92.2 | 92.6 | 89.1 | 84.7 | 80.5 |
| **External Debt** | **34.0** | **44.8** | **47.8** | **47.6** | **47.7** | **47.6** | **46.7** | **45.4** | **43.8** |
| Anguilla | 20.1 | 27.9 | 27.6 | 22.6 | 19.6 | 17.4 | 16.1 | 15.1 | 14.6 |
| Antigua and Barbuda | 36.5 | 48.1 | 50.6 | 51.9 | 50.3 | 49.3 | 48.3 | 46.7 | 44.6 |
| Dominica | 54.7 | 66.8 | 64.3 | 67.0 | 66.9 | 67.0 | 67.6 | 68.8 | 68.6 |
| Grenada | 44.0 | 54.1 | 54.9 | 52.8 | 51.4 | 50.4 | 46.0 | 42.3 | 38.9 |
| Montserrat | 5.4 | 5.0 | 4.4 | 4.4 | 4.2 | 4.0 | 3.9 | 3.7 | 3.6 |
| St. Kitts and Nevis | 12.1 | 13.7 | 13.3 | 8.3 | 6.9 | 5.6 | 4.6 | 3.7 | 2.8 |
| St. Lucia | 29.8 | 46.4 | 48.0 | 51.0 | 51.7 | 52.8 | 53.3 | 53.2 | 52.9 |
| St. Vincent and the Grenadines | 48.1 | 54.7 | 69.3 | 70.6 | 75.8 | 78.3 | 77.1 | 74.3 | 71.1 |
| **Domestic Debt** | **32.0** | **40.1** | **37.5** | **33.2** | **30.0** | **27.4** | **25.3** | **23.6** | **22.2** |
| Anguilla | 28.0 | 42.5 | 39.9 | 35.2 | 30.0 | 25.0 | 20.0 | 14.3 | 7.9 |
| Antigua and Barbuda | 44.7 | 53.4 | 50.8 | 40.6 | 35.9 | 30.7 | 26.8 | 24.0 | 22.0 |
| Dominica | 39.5 | 39.4 | 36.7 | 33.2 | 30.0 | 27.5 | 25.3 | 23.3 | 21.4 |
| Grenada | 14.6 | 15.2 | 15.4 | 15.0 | 13.4 | 12.0 | 10.8 | 9.0 | 7.2 |
| Montserrat | 1.1 | 0.9 | 0.7 | 1.1 | 1.2 | 1.4 | 1.2 | 1.1 | 1.2 |
| St. Kitts and Nevis | 39.6 | 47.6 | 49.1 | 43.8 | 40.6 | 38.8 | 37.6 | 37.0 | 36.2 |
| St. Lucia | 32.3 | 50.4 | 44.2 | 39.1 | 36.6 | 35.0 | 34.3 | 33.8 | 33.7 |
| St. Vincent and the Grenadines | 20.1 | 24.6 | 20.0 | 20.1 | 16.4 | 14.3 | 12.0 | 10.4 | 9.4 |
| | | | | (In percent) | | | | | |
| **Implied Interest Rates on Central Government External Debt** | | | | | | | | | |
| Anguilla | 5.0 | 4.6 | 4.2 | 4.6 | 4.3 | 3.9 | 3.5 | 3.0 | 2.4 |
| Antigua and Barbuda | 3.3 | 2.7 | 2.4 | 1.9 | 2.7 | 3.1 | 3.5 | 3.8 | 4.1 |
| Dominica | 2.8 | 1.4 | 1.2 | 1.6 | 1.8 | 1.9 | 1.8 | 1.8 | 1.7 |
| Grenada | 3.1 | 2.7 | 2.4 | 2.9 | 2.8 | 2.5 | 3.7 | 3.7 | 3.7 |
| Montserrat | 3.0 | 2.5 | 2.3 | 2.6 | 2.5 | 2.5 | 2.6 | 2.6 | 2.6 |
| St. Kitts and Nevis | 2.6 | 2.5 | 2.5 | 2.9 | 3.1 | 3.2 | 3.3 | 3.5 | 3.8 |
| St. Lucia | 4.4 | 3.5 | 3.0 | 2.8 | 3.3 | 3.4 | 3.5 | 3.6 | 3.7 |
| St. Vincent and the Grenadines | 2.0 | 1.7 | 1.6 | 2.0 | 2.1 | 2.4 | 2.5 | 2.3 | 2.2 |
| **Implied Interest Rates on Central Government Domestic Debt** | | | | | | | | | |
| Anguilla | 3.1 | 2.8 | 2.7 | 2.5 | 2.4 | 2.5 | 2.8 | 3.5 | 3.7 |
| Antigua and Barbuda | 4.3 | 3.1 | 3.2 | 4.5 | 4.5 | 3.2 | 4.3 | 4.3 | 4.2 |
| Dominica | 3.6 | 3.7 | 4.4 | 4.2 | 5.6 | 6.7 | 6.8 | 6.9 | 6.9 |
| Grenada | 3.4 | 3.6 | 3.2 | 2.4 | 2.5 | 2.4 | 3.3 | 3.6 | 3.7 |
| Montserrat | 4.1 | 4.9 | 5.5 | 2.0 | 1.7 | 1.5 | 1.6 | 1.7 | 1.4 |
| St. Kitts and Nevis | 3.4 | 3.1 | 2.6 | 3.7 | 3.7 | 4.5 | 4.5 | 4.8 | 5.3 |
| St. Lucia | 5.8 | 4.9 | 5.4 | 5.7 | 6.0 | 6.1 | 6.1 | 6.1 | 6.1 |
| St. Vincent and the Grenadines | 7.6 | 5.9 | 7.2 | 5.6 | 6.2 | 6.1 | 5.4 | 5.3 | 5.3 |

Sources: Country authorities; and IMF staff estimates and projections.
1/ Fiscal years for Dominica, Montserrat, and St. Lucia.

## Table 5. ECCU: Summary Balance of Payments, 2019–27

| | | | Est. | Proj. | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| | (In millions of U.S. dollars) | | | | | | | | |
| **Current Account** | **-535** | **-1,063** | **-1,173** | **-1,349** | **-1,159** | **-882** | **-838** | **-786** | **-718** |
| Trade balance | -2,460 | -1,897 | -2,167 | -2,912 | -3,103 | -3,138 | -3,298 | -3,362 | -3,476 |
| Exports | 259 | 201 | 200 | 228 | 248 | 256 | 273 | 290 | 310 |
| Imports | 2,719 | 2,098 | 2,368 | 3,139 | 3,351 | 3,394 | 3,571 | 3,652 | 3,787 |
| Services | 2,247 | 900 | 1,084 | 1,783 | 2,263 | 2,667 | 2,903 | 3,040 | 3,246 |
| Transportation | -245 | -200 | -211 | -239 | -260 | -278 | -292 | -306 | -320 |
| Travel | 3,134 | 1,005 | 1,346 | 2,377 | 2,894 | 3,326 | 3,604 | 3,814 | 4,010 |
| Other services | -642 | 95 | -50 | -355 | -371 | -381 | -409 | -467 | -444 |
| Primary income | -381 | -146 | -171 | -305 | -364 | -451 | -478 | -498 | -519 |
| Secondary income | 60 | 79 | 81 | 85 | 45 | 40 | 35 | 34 | 32 |
| **Capital Account** | **251** | **313** | **340** | **405** | **375** | **327** | **315** | **305** | **299** |
| **Financial Account** | **-498** | **-751** | **-833** | **-943** | **-784** | **-555** | **-523** | **-481** | **-419** |
| Direct investment | -624 | -412 | -600 | -694 | -745 | -654 | -687 | -719 | -745 |
| Portfolio investment | 614 | -381 | -58 | -73 | -96 | -118 | -130 | -271 | -290 |
| Other investment | -420 | -24 | -438 | -135 | 91 | 264 | 348 | 552 | 654 |
| Public sector long-term loans | -6 | -187 | -299 | -385 | -248 | -199 | -99 | -66 | -43 |
| Deposit-taking corporations | 0 | 146 | 395 | 83 | 107 | 87 | 85 | 65 | 15 |
| Others | -414 | 17 | -534 | 167 | 232 | 376 | 361 | 553 | 682 |
| Reserve assets | -67 | 67 | 263 | -41 | -34 | -48 | -53 | -44 | -37 |
| Errors and omissions | -215 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | (In percent of GDP) | | | | | | | | |
| **Current Account** | **-6.6** | **-16.0** | **-16.7** | **-17.0** | **-13.4** | **-9.6** | **-8.6** | **-7.7** | **-6.7** |
| Trade balance | -30.3 | -28.5 | -30.9 | -36.7 | -35.9 | -34.0 | -33.9 | -33.1 | -32.7 |
| Exports | 3.2 | 3.0 | 2.9 | 2.9 | 2.9 | 2.8 | 2.8 | 2.8 | 2.9 |
| Imports | 33.4 | 31.5 | 33.7 | 39.6 | 38.7 | 36.8 | 36.8 | 35.9 | 35.6 |
| Services | 27.6 | 13.5 | 15.4 | 22.5 | 26.2 | 28.9 | 29.9 | 29.9 | 30.5 |
| *Of which:* travel | 38.5 | 15.1 | 19.2 | 30.0 | 33.5 | 36.0 | 37.1 | 37.5 | 37.7 |
| Primary income | -4.7 | -2.2 | -2.4 | -3.8 | -4.2 | -4.9 | -4.9 | -4.9 | -4.9 |
| Secondary income | 0.7 | 1.2 | 1.2 | 1.1 | 0.5 | 0.4 | 0.4 | 0.3 | 0.3 |
| **Capital Account** | **3.1** | **4.7** | **4.8** | **5.1** | **4.3** | **3.5** | **3.2** | **3.0** | **2.8** |
| **Financial Account** | **-6.1** | **-11.3** | **-11.9** | **-11.9** | **-9.1** | **-6.0** | **-5.4** | **-4.7** | **-3.9** |
| *Of which*: direct investment | -7.7 | -6.2 | -8.5 | -8.7 | -8.6 | -7.1 | -7.1 | -7.1 | -7.0 |
| | (Annual percentage change) | | | | | | | | |
| Exports | 38.2 | -22.3 | -0.2 | 13.7 | 8.8 | 3.5 | 6.4 | 6.2 | 7.0 |
| Imports | -2.8 | -22.8 | 12.9 | 32.6 | 6.7 | 1.3 | 5.2 | 2.3 | 3.7 |
| Travel (net) | 11.6 | -67.9 | 33.9 | 76.6 | 21.8 | 14.9 | 8.4 | 5.8 | 5.1 |
| Direct investment | -188.3 | -34.0 | 45.5 | 15.7 | 7.3 | -12.2 | 5.1 | 4.5 | 3.7 |
| ***Memorandum Items:*** | | | | | | | | | |
| Gross reserves of the ECCB (in US$ million) | 1,698 | 1,747 | 1,952 | 1,838 | 2,015 | 2,202 | 2,332 | 2,435 | 2,436 |
| In months of total imports in year t+1 | 6.5 | 5.8 | 4.9 | 4.3 | 4.6 | 4.8 | 4.9 | 5.0 | ... |

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

**Table 6. ECCU: Selected Vulnerability Indicators, 2016–21**
(Annual percentage change, unless otherwise indicated)

| | 2016 | 2017 | 2018 | 2019 | 2020 | Est. 2021 |
|---|---|---|---|---|---|---|
| **External Indicators** | | | | | | |
| Current account balance (percent of GDP) | -8.2 | -7.8 | -12.0 | -6.6 | -16.0 | -16.7 |
| FDI inflows (percent of GDP) | 10.1 | 9.7 | 10.2 | 8.9 | 7.4 | 9.8 |
| Export growth | -22.5 | -7.4 | -12.8 | 38.2 | -22.3 | -0.2 |
| Import growth | 5.0 | 3.1 | 18.2 | -2.8 | -22.8 | 12.9 |
| Travel receipts (percent of GDP) | 36.4 | 36.6 | 36.3 | 38.5 | 15.1 | 19.2 |
| Real effective exchange rate 1/ | 0.5 | -0.7 | -2.0 | 1.3 | -2.2 | -4.9 |
| Total gross external public debt (percent of GDP) | 38.1 | 35.8 | 35.3 | 33.8 | 45.2 | 48.5 |
| Gross external financing requirement (in US$ million) 2/ | 765 | 852 | 1,212 | 873 | 1,457 | 1,497 |
| Gross international reserves (in US$ million) | 1,691 | 1,750 | 1,747 | 1,698 | 1,747 | 1,952 |
| Net international reserves (in US$ million) | 1,688 | 1,743 | 1,724 | 1,675 | 1,736 | 1,936 |
| ECCB reserve cover (in percent) 3/ | 97.1 | 97.1 | 97.8 | 99.1 | 96.0 | 95.8 |
| **Public Finance Indicators (percent of GDP)** | | | | | | |
| Overall central government balance | 1.5 | -0.9 | -1.5 | -2.0 | -5.6 | -3.4 |
| Primary central government balance | 3.9 | 1.6 | 0.8 | 0.3 | -3.1 | -1.0 |
| Central government current account balance | 3.3 | 1.3 | 2.0 | 0.5 | -1.7 | 0.3 |
| Public sector gross debt (end-of-period) | 71.4 | 70.1 | 68.4 | 65.7 | 85.7 | 86.5 |
| **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 | 20.0 |
| NPLs/total loans | 10.9 | 12.0 | 11.3 | 10.1 | 11.3 | 11.7 |
| FX deposits/total deposits | 16.8 | 16.4 | 16.3 | 16.6 | 15.6 | 16.9 |
| Liquid assets/total assets | 34.4 | 36.2 | 36.4 | 40.2 | 41.6 | 41.2 |
| Liquid assets/short-term liabilities | 37.3 | 39.3 | 39.7 | 44.6 | 48.8 | 46.4 |
| Return on average assets | 0.8 | 0.7 | 1.1 | 1.4 | 1.0 | 0.9 |

Sources: Country authorities and IMF staff estimates.
1/ Excludes Anguilla and Montserrat.
2/ Defined as current account deficit plus external debt amortization.
3/ Foreign assets as share of demand liabilities.

## Table 7. ECCU: Financial Structure, 2021

(In millions of EC dollars, unless otherwise indicated)

| | ECCU | Anguilla | Antigua and Barbuda | Dominica | Grenada | Montserrat | St. Kitts and Nevis | St. Lucia | St. Vincent and the Grenadines |
|---|---|---|---|---|---|---|---|---|---|
| **Total Assets of:** | | | | | | | | | |
| Commercial banks | 30,304 | 1,509 | 5,592 | 2,306 | 4,388 | 419 | 6,506 | 6,948 | 2,636 |
| (in percent of GDP) | 160 | 208 | 141 | 148 | 146 | 206 | 254 | 152 | 112 |
| of which: locally incorporated | 25,974 | 1,508 | 4,303 | 1,991 | 3,908 | 419 | 6,153 | 5,693 | 2,000 |
| (in percent of GDP) | 137 | 208 | 108 | 128 | 130 | 206 | 240 | 125 | 85 |
| **Total Assets of the Non-bank Financial Sector** | | | | | | | | | |
| Credit unions | 5,240 | 29 | 485 | 988 | 1,174 | 71 | 519 | 1,315 | 659 |
| (in percent of GDP) | 28 | 4 | 12 | 63 | 39 | 35 | 20 | 29 | 28 |
| Development banks | 231 | ... | 17 | 2 | 100 | ... | ... | 112 | ... |
| National Development Foundations | 23 | ... | 2 | 21 | ... | ... | ... | ... | ... |
| Finance and mortgage companies | 4 | ... | 4 | ... | ... | ... | ... | ... | ... |
| Building and loans societies | 198 | ... | ... | 4 | 19 | 32 | ... | ... | 143 |
| Insurance companies 1/ | 2,698 | 157 | 627 | 240 | 506 | 21 | 545 | 304 | 298 |
| Money service companies 2/ | 2 | ... | ... | ... | ... | ... | 2 | ... | ... |
| Private sector pension funds 3/ | 286 | ... | ... | 42 | 244 | ... | ... | ... | ... |
| Micro-lenders | 150 | ... | 60 | 21 | 59 | ... | 10 | ... | ... |
| Securities brokers/dealers 4/ | 544 | ... | ... | ... | ... | ... | ... | 544 | ... |
| Total Assets of the Financial Sector (Bank and Non-bank) | 39,680 | 1,695 | 6,787 | 3,624 | 6,489 | 543 | 7,582 | 9,224 | 3,736 |
| (in percent of GDP) | 209 | 234 | 171 | 232 | 216 | 267 | 296 | 202 | 159 |
| Securities issues by reporting issuers | 1,058 | ... | 209 | 84 | 137 | ... | ... | 320 | 308 |
| **Offshore/International Companies Assets** | | | | | | | | | |
| Offshore/international banks | 11,585 | 736 | 5,313 | 721 | ... | 1,787 | 295 | 2,693 | 41 |
| Offshore/international non-bank financial companies (e.g. trusts, insurance, mutual funds) | 3,867 | ... | ... | ... | ... | 607 | 1,169 | 2,091 | ... |
| Other offshore/international (e.g. agents, IBCs, LLCs, MFs, registries, and TCSPs) 5/ | 36 | ... | ... | ... | ... | ... | 14 | ... | 22 |
| Total assets offshore/international companies | 15,488 | 736 | 5,313 | 721 | 0 | 2,394 | 1,478 | 4,783 | 63 |
| (in percent of GDP) | 82 | 101 | 134 | 46 | 0 | 1,178 | 58 | 105 | 3 |
| **Number of:** | | | | | | | | | |
| Commercial banks | 27 | 2 | 4 | 3 | 4 | 1 | 5 | 4 | 4 |
| Locally incorporated | 21 | 2 | 3 | 2 | 3 | 1 | 4 | 3 | 3 |
| Foreign incorporated | 6 | ... | 1 | 1 | 1 | ... | 1 | 1 | 1 |
| Credit unions | 50 | 1 | 8 | 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 | 2 | 1 | 1 | ... | ... | ... | ... | ... | ... |
| Building and loans societies | 4 | ... | ... | 1 | 1 | 1 | ... | ... | 1 |
| Insurance companies | 161 | 25 | 22 | 17 | 27 | 7 | 16 | 23 | 24 |
| Money service companies | 32 | 4 | 4 | 3 | 2 | 2 | 10 | 5 | 2 |
| Private sector pension funds | 49 | ... | ... | 6 | 43 | ... | ... | ... | ... |
| Offshore/international banks | 47 | 3 | 8 | 17 | ... | 4 | 3 | 11 | 1 |
| Offshore/international non-bank financial companies (e.g. trusts, insurance, mutual funds) | 448 | 94 | 1 | ... | ... | 1 | 165 | 42 | 145 |
| Other offshore/international (e.g. agents, IBCs, LLCs, MFs, registries, and TCSPs) 5/ | 17,460 | 53 | ... | ... | ... | 2 | 12,641 | 19 | 4,745 |
| Micro-lenders | 31 | 4 | ... | 6 | 4 | ... | 6 | 11 | ... |
| Securities brokers/dealers | 6 | ... | ... | ... | 1 | ... | 2 | 2 | 1 |
| Total | 18,325 | 188 | 50 | 61 | 93 | 19 | 12,853 | 134 | 4,927 |
| Reporting issuers | 35 | 3 | 2 | 3 | 8 | 1 | 9 | 7 | 2 |
| ***Memorandum Item:*** | | | | | | | | | |
| Nominal GDP (in EC$ million) | 18,961 | 725 | 3,972 | 1,561 | 3,011 | 203 | 2,566 | 4,566 | 2,356 |

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

1/ Data for Anguilla, Antigua and Barbuda, and St. Kitts and Nevis reflect end-2020 numbers that are currently available.

2/ For money service companies, mostly data on number of transactions and institutions are reported, not on assets.

3/ Reflects currently available information for a subset of funds; does not include all private sector pension funds.

4/ Reflects data for non-bank broker dealers.

5/ IBCs are International Business Companies, LLCs are Limited Liability Companies, MFs are Multiform Foundations, and TCSPs are Trusts and Corporate Service Providers.

## Table 8. ECCU: Financial Soundness Indicators of the Banking Sector, 2016–22
(In percent)

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022Q1 |
|---|---|---|---|---|---|---|---|
| **Capital Adequacy** | | | | | | | |
| Regulatory capital to risk-weighted assets (CAR) 1/ | 16.5 | 18.7 | 19.1 | 21.3 | 20.9 | 20.0 | 18.9 |
| Regulatory Tier 1 capital to risk-weighted assets 1/ | 15.4 | 16.3 | 16.9 | 17.7 | 17.2 | 16.8 | 15.9 |
| **Asset Composition and Quality** | | | | | | | |
| Total loans to total assets 2/ | 43.3 | 41.3 | 40.6 | 44.1 | 46.5 | 44.9 | 44.2 |
| Sectoral distribution of loans to total loans | | | | | | | |
| Loans to residents | 95.6 | 97.2 | 96.6 | 96.1 | 96.2 | 96.0 | 96.0 |
| Deposit taking financial corporations | 1.5 | 0.8 | 1.2 | 0.5 | 0.0 | 0.0 | 0.0 |
| Other financial corporations | 0.7 | 1.0 | 1.1 | 0.9 | 0.9 | 0.9 | 0.9 |
| General government | 9.6 | 10.2 | 11.5 | 12.1 | 10.8 | 10.6 | 10.9 |
| Nonfinancial corporations | 32.6 | 30.3 | 29.3 | 29.0 | 31.0 | 32.5 | 32.5 |
| Households and other | 52.7 | 54.9 | 53.5 | 53.6 | 53.2 | 51.8 | 51.4 |
| Loans to non residents | 3.0 | 2.8 | 3.4 | 3.9 | 3.8 | 4.0 | 4.0 |
| Nonperforming loans to total gross loans | 10.9 | 12.0 | 11.3 | 10.1 | 11.3 | 11.7 | 11.7 |
| Total provisions to nonperforming loans 2/ | 45.6 | 45.3 | 44.0 | 43.0 | 50.9 | 48.4 | 47.7 |
| **Earnings and Profitability** | | | | | | | |
| Return on average assets (ROA) | 0.8 | 0.7 | 1.1 | 1.4 | 1.0 | 0.9 | 0.3 |
| Noninterest expenses to gross income | 67.6 | 69.9 | 66.1 | 64.7 | 64.3 | 71.0 | 115.2 |
| Personnel expenses to noninterest expenses | 32.0 | 31.2 | 31.3 | 30.9 | 28.4 | 32.2 | 17.4 |
| Interest margin to gross income | 62.4 | 61.8 | 59.3 | 58.6 | 46.5 | 50.5 | 51.4 |
| Spread between reference lending and deposit rates | 6.8 | 6.8 | 6.5 | 6.4 | 5.6 | 5.3 | 5.5 |
| **Liquidity** | | | | | | | |
| Liquid assets to total assets | 34.4 | 36.2 | 36.4 | 40.2 | 41.6 | 41.2 | 42.9 |
| Liquid assets to short-term liabilities | 37.3 | 39.3 | 39.7 | 44.6 | 48.8 | 46.4 | 48.0 |
| Loans to deposits | 64.8 | 63.4 | 63.5 | 64.2 | 68.1 | 64.0 | 62.2 |
| **Sensitivity to Market Risk** | | | | | | | |
| Foreign-currency-denominated loans to total loans | 12.8 | 12.7 | 13.4 | 11.5 | 11.7 | 11.8 | 11.9 |
| Foreign-currency-denominated liabilities to total liabilities | 18.9 | 19.0 | 18.8 | 21.1 | 19.8 | 17.5 | 18.0 |

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. Provisions do not reflect allocations to prudential loan loss reserve made in accordance with the ECCB's new guidelines implemented in January 2022.

## Table 9. ECCU: Financial Soundness Indicators of the Banking Sector by Country, 2016–22

(In percent)

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022Q1 |
|---|---|---|---|---|---|---|---|
| **Regulatory Capital to Risk-Weighted Assets (CAR) 1/** | **16.5** | **18.7** | **19.1** | **21.3** | **20.9** | **20.0** | **18.9** |
| Anguilla | 11.8 | 10.4 | 18.5 | 8.6 | 8.6 | 8.5 | 8.7 |
| Antigua and Barbuda | 34.8 | 36.6 | 36.3 | 39.4 | 34.6 | 32.8 | 30.8 |
| Dominica | 15.0 | 13.3 | 12.5 | 13.9 | 18.9 | 19.1 | 18.6 |
| Grenada | 14.2 | 13.8 | 13.2 | 11.9 | 15.1 | 15.8 | 14.6 |
| Montserrat | 28.3 | 19.5 | 17.4 | 37.7 | 37.8 | 24.1 | 24.4 |
| St. Kitts and Nevis | 16.3 | 19.5 | 17.4 | 20.2 | 24.5 | 22.1 | 19.9 |
| St. Lucia | 11.8 | 18.2 | 19.1 | 15.9 | 14.9 | 16.8 | 16.4 |
| St. Vincent and the Grenadines | 20.8 | 19.9 | 23.1 | 22.2 | 22.5 | 22.4 | 21.9 |
| **Regulatory Tier 1 Capital to Risk-Weighted Assets 1/** | **15.4** | **16.3** | **16.9** | **17.7** | **17.2** | **16.8** | **15.9** |
| Anguilla | 11.6 | 10.3 | 17.0 | 7.4 | 8.1 | 7.6 | 6.6 |
| Antigua and Barbuda | 32.8 | 30.2 | 27.6 | 31.9 | 28.6 | 27.9 | 26.2 |
| Dominica | 12.5 | 11.4 | 10.8 | 17.0 | 16.4 | 17.8 | 18.0 |
| Grenada | 11.6 | 12.2 | 11.7 | 7.8 | 13.3 | 14.2 | 13.0 |
| Montserrat | 27.3 | 18.7 | 18.2 | 30.3 | 33.5 | 20.1 | 20.9 |
| St. Kitts and Nevis | 17.1 | 18.7 | 18.2 | 19.4 | 17.2 | 16.5 | 13.8 |
| St. Lucia | 7.8 | 11.4 | 13.2 | 10.0 | 10.4 | 14.4 | 14.6 |
| St. Vincent and the Grenadines | 25.4 | 24.1 | 25.5 | 23.8 | 22.7 | 20.9 | 20.8 |
| **Nonperforming Loans to Total Gross Loans** | **10.9** | **12.0** | **11.3** | **10.1** | **11.3** | **11.7** | **11.7** |
| Anguilla | 6.5 | 23.5 | 24.3 | 25.8 | 25.1 | 21.4 | 21.5 |
| Antigua and Barbuda | 8.7 | 7.9 | 6.4 | 5.3 | 6.3 | 6.7 | 6.9 |
| Dominica | 14.5 | 17.4 | 17.0 | 12.2 | 15.0 | 14.4 | 13.1 |
| Grenada | 6.7 | 3.9 | 2.4 | 2.2 | 2.2 | 2.9 | 3.3 |
| Montserrat | 4.9 | 5.7 | 4.9 | 5.4 | 5.0 | 5.1 | 5.1 |
| St. Kitts and Nevis | 14.7 | 20.5 | 24.7 | 24.0 | 23.5 | 20.9 | 21.2 |
| St. Lucia | 13.1 | 12.5 | 10.0 | 8.2 | 11.3 | 13.8 | 13.1 |
| St. Vincent and the Grenadines | 9.5 | 8.2 | 6.5 | 6.4 | 7.4 | 7.8 | 9.5 |
| **Total Provisions to Nonperforming Loans 2/** | **45.6** | **45.3** | **44.0** | **43.0** | **50.9** | **48.4** | **47.7** |
| Anguilla | 23.9 | 16.5 | 21.4 | 16.4 | 22.6 | 27.8 | 28.1 |
| Antigua and Barbuda | 38.5 | 34.0 | 36.3 | 58.7 | 90.0 | 84.3 | 85.9 |
| Dominica | 50.3 | 84.0 | 94.6 | 54.6 | 45.8 | 49.1 | 47.2 |
| Grenada | 49.9 | 63.9 | 77.0 | 82.8 | 112.5 | 67.8 | 60.0 |
| Montserrat | 98.8 | 106.1 | 112.2 | 118.6 | 61.7 | 59.9 | 72.5 |
| St. Kitts and Nevis | 37.9 | 25.9 | 21.5 | 24.7 | 30.8 | 26.9 | 26.0 |
| St. Lucia | 53.6 | 56.3 | 53.9 | 63.0 | 60.4 | 54.8 | 56.7 |
| St. Vincent and the Grenadines | 41.0 | 56.7 | 69.5 | 58.8 | 64.0 | 59.2 | 47.9 |
| **Return on Average Assets (ROA)** | **0.8** | **0.7** | **1.1** | **1.4** | **1.0** | **0.9** | **0.3** |
| Anguilla | 1.1 | 0.1 | 0.4 | 0.9 | 0.4 | 1.4 | 1.5 |
| Antigua and Barbuda | 1.5 | 1.3 | 1.4 | 1.4 | 0.4 | 0.7 | 0.7 |
| Dominica | 0.8 | -1.5 | -0.8 | 2.9 | 0.9 | 0.2 | -0.5 |
| Grenada | 1.5 | 1.1 | 1.0 | 1.4 | 0.4 | 0.3 | 0.4 |
| Montserrat | 0.4 | 0.3 | 0.5 | -0.1 | -0.3 | 0.0 | 0.0 |
| St. Kitts and Nevis | 0.9 | 0.8 | 1.3 | 0.8 | 2.6 | 1.9 | -0.7 |
| St. Lucia | -0.3 | 1.2 | 1.9 | 1.5 | 0.8 | 0.8 | 1.0 |
| St. Vincent and the Grenadines | 0.3 | -0.1 | 0.5 | 1.1 | 0.1 | 0.4 | 0.4 |
| **Liquid Assets to Total Assets** | **34.4** | **36.2** | **36.4** | **40.2** | **41.6** | **41.2** | **42.9** |
| Anguilla | 40.0 | 44.7 | 50.9 | 48.3 | 45.0 | 50.4 | 52.5 |
| Antigua and Barbuda | 54.7 | 57.0 | 57.7 | 46.4 | 36.9 | 40.5 | 46.8 |
| Dominica | 54.3 | 60.8 | 54.4 | 46.2 | 48.9 | 46.1 | 44.5 |
| Grenada | 41.4 | 42.1 | 44.9 | 43.5 | 46.8 | 44.9 | 50.0 |
| Montserrat | 75.1 | 74.1 | 73.3 | 71.3 | 78.2 | 74.1 | 74.4 |
| St. Kitts and Nevis | 57.0 | 59.0 | 60.2 | 55.7 | 58.4 | 51.6 | 52.2 |
| St. Lucia | 33.6 | 36.7 | 39.4 | 40.4 | 37.8 | 39.3 | 40.5 |
| St. Vincent and the Grenadines | 41.0 | 38.7 | 37.7 | 41.4 | 44.0 | 47.2 | 47.6 |

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. Provisions do not reflect allocations to prudential loan loss reserve made in accordance with the ECCB's new guidelines implemented in January 2022.

# Annex I. Implementation of Past Fund Policy Advice

| Recommendations from the 2021 Common Policies Discussion | Authorities' Actions |
|---|---|
| **Supporting the economy and re-anchoring the fiscal framework** | |
| 1. Maintain support to the vulnerable by accommodating critical COVID-related spending. | Fiscal policies in 2021 remained supportive, partly reflecting continued pandemic-related health outlays and fiscal support to households and firms in hard-hit sectors. The aggregate fiscal stance in 2022 is expected to remain accommodative as authorities give priority to health spending and support to cope with rising living costs. |
| 2. Strengthen regional and national fiscal frameworks to preserve credibility of the revised regional debt target. | Establishing a regional fiscal oversight body is not considered as it would require legislative approval. Limited progress in developing regional standards and arrangements to guide the national fiscal policy frameworks. There has been progress in strengthening national fiscal frameworks with Antigua and Barbuda and Dominica adopting fiscal responsibility frameworks and St. Vincent and Grenadines creating a Fiscal Responsibility Mechanism (i.e., Fiscal Council) in 2021. |
| **Safeguarding financial stability** | |
| 3. Limit extensions of loan moratoria within the timeframe announced by the ECCB and support financial institutions' capacity to weather the pandemic. | The loan moratoria program was extended a second time at end-September 2021 for six months, due to continued pandemic impact, and expired at end-March 2022. |
| 4. Formalize crisis management plans at regional and national levels. | Countries are at various stages of preparing national plans, and this remains work in progress at the regional (ECCB) level. |
| 5. Start considering credible and sustainably funded strategies to support reduction of NPLs. | ECCB implemented the Treatment of Impaired Assets (TIAS) prudential standard in January 2022, including (i) guideline for an initial minimum 60 percent provision to NPLs ratio to induce building of adequate provisioning buffers for legacy NPLs; and (ii) criteria for write-off of long-standing NPLs. With compliance, banks will be better placed to dispose of NPLs at realistically realizable values. Some banks are engaging in discussions with the ECAMC and a private sector distressed asset entity that had acquired NPLs in the region previously. The ECAMC is bolstering its capacity but is yet to obtain funding to support further NPLs acquisitions. |
| 6. Maintain broader financial sector reform momentum (non-bank supervision, credit reporting and insolvency frameworks, centralized AML/CFT supervision for banking system, and CBR risk). | There has been progress in most areas albeit slower than targeted, such as (i) Monetary Council's approval of the ECCB's proposal to establish a regional standards setting body to harmonize standards for non-bank financial sector oversight; (ii) passage of the Credit Reporting Bill by more member countries (Anguilla, Montserrat, and St. Lucia remain outstanding); and (iii) more member countries' passage of legal amendments and designation of the ECCB as AML/CFT supervisory authority for banks (Anguilla, Montserrat, and St. Kitts and Nevis remain outstanding).<br>However, progress has been limited on reforms to modernize insolvency frameworks, and to address some shortfalls in the region's management of compliance and financial integrity risks which have implications for CBR risk. |

| Recommendations from the 2021 Common Policies Discussion | Authorities' Actions |
| --- | --- |
| | Progress on additional reforms relate to (i) passage by three countries of the Virtual Assets Bill that was developed by the ECCB in 2021 to cover digitalized financial services including crypto asset activities; (ii) countries' efforts to effect consistency with global minimum corporation tax standards, which range from formation of a working group on international tax treaties in one case, to repeal of the offshore registry regime with participants' transitioning to registration under the Companies Act and applicable domestic tax regime in another case; and (iii) work advanced by the ECCB towards integrating climate risks in financial supervisory and regulatory frameworks. |
| **Safeguarding the quasi-currency board** | |
| 7. Keep the backing ratio at a robust level. | During May 2021–February 2022, the backing ratio ranged from 94.6 to 96.9 percent (compared to an average of 96.8 percent during 2001-19) and was 95.4 percent as of end-February 2022. |
| 8. Enhance monitoring of foreign exchange movements and prepare scenario-based policy responses, given the uncertainty concerning the evolution of the pandemic. | It is not considered as priority given the developments of the pandemic. |
| **Structural reforms** | |
| 9. Implement structural reforms to enhance competitiveness and resilience. | A new Payment System and Services Act (PSSA) is being drafted with the aim of broadening the scope of regulated activities, introducing a comprehensive licensing regime calibrated to new risks, strengthening consumer protection, engendering confidence in the use of e-payments, and promoting safety and efficiency in the ECCU payment system and capacity to maintain financial stability. Caribbean Digital Transformation Project (Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines, and Organization of Eastern Caribbean States) and blue economy project (Grenada. St. Lucia, St. Vincent and the Grenadines) are underway, with World Bank support. Efforts are being made to accelerate the shift to renewable energy at the national level, including geothermal exploration (Dominica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines), expansion of solar and wind capacity (Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines), and regulatory changes (Dominica, Grenada, St. Kitts and Nevis, and St. Lucia). |
| **Statistical issues** | |
| 10. Improve timeliness of data dissemination. | The response rates to external sector surveys remain low, there are delays in the availability of administrative data, and its granularity can be further improved. The ECCB, in collaboration with national statistics offices, is working on addressing these, among issues raised in the CARTAC external sector statistics mission (December 2021). To promote timely delivery of key output, leverage the data analytics capabilities, and support optimization of the research, analytics, and policy design functions, the ECCB established in April 2022 the Research, Statistics and Data Analytics Department, incorporating the teams previously in the Research Department and the Statistics Department. |

# Annex II. Risk Assessment Matrix[1]

| Risks | Relative Likelihood | Impact | Policy Response |
|---|---|---|---|
| **Rising and volatile food and energy prices** amid supply constraints, war in Ukraine, export restrictions, and currency depreciation lead to bouts of price and real sector volatility, food insecurity, social unrest, and acute food and energy crises (especially in EMDEs with lack of fiscal space). | High | Inflation pressures intensify, eroding income, dampening demand, widening fiscal and trade deficits, and threatening food and energy security. | Provide temporary and targeted transfers to the vulnerable. Allow a gradual pass-through of international prices and phase out generalized subsidies. Expeditiously improve coverage and targeting of social safety nets. Accelerate the shift to renewables. Enhance regional integration to ensure food security. |
| **Outbreaks of lethal and highly contagious COVID-19 variants** lead to rapidly increasing hospitalizations and deaths due to low vaccine protection, more social distancing and/or new lockdowns, and extended supply chain disruptions. | Medium | Tourism recovery is stalled and domestic activity disrupted, deepening scarring effects and worsening fiscal and external positions. | Ensure adequate access to essential items, such as food and medicine. Extend targeted pandemic relief measures to support the vulnerable and prioritize health spending. Adopt credible medium-term plan to preserve fiscal sustainability. Continue public education campaign to address vaccine hesitancy. |
| **De-anchoring of inflation expectations in the U.S. and/or advanced European economies** prompts faster-than-anticipated policy tightening and leads to sharp tightening of global financial conditions and spiking risk premia. | Medium | Domestic currency appreciates given U.S. dollar peg, weakening competitiveness. Higher borrowing costs add fiscal strains. | Strengthen fiscal frameworks to rebuild buffers and communicate credible medium-term fiscal plan. Implement structural reforms to improve competitiveness. Intensify monitoring of financial institutions. |
| **Cyberattacks** on critical physical or digital infrastructure (including digital currency platforms) trigger financial instability or widespread disruptions in socio-economic activities. | Medium | Payment and financial systems are disrupted, hurting confidence. | Prepare appropriate crisis management plans. Strengthen financial sector regulation and supervision. Pursue a prudent approach to financial innovation. |
| **More frequent natural disasters related to climate change** cause severe economic damage to smaller vulnerable economies. | Medium | Reduce growth and worsen fiscal and external positions. | Design rule-based fiscal frameworks that internalize exposure to natural disasters. Adopt national adaptation plans with investment in structural and financial resilience, and appropriate ex ante financing. |
| **Higher NPLs and market risk** in indigenous banks and non-banks trigger a confidence shock. | Medium | Financial sector instability disrupts economic activity. | Monitor asset quality and ensure adequate loan loss provisioning. Enhance regulatory and supervisory frameworks for non-banks. |
| **CBI programs** are subject to increased scrutiny and gradually phased out. | Medium | Worsen fiscal and external positions, reducing growth prospects. | Enhance oversight and transparency of CBI programs. Closely collaborate with EU and U.S. counterparts to address any concerns. Diversify from CBI revenues over time. |
| **Correspondent banking relationship.** Curtailment of cross-border financial services may intensify amid the exit of global banks. | Medium | Fees of cross-border payments rise, raising business costs and reducing remittance inflows. | Strengthen compliance with AML/CFT and tax transparency standards. Complete designation of ECCB as AML/CFT supervisory authority for banks in all jurisdictions. |

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. 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.

# Annex III. External Sector Assessment

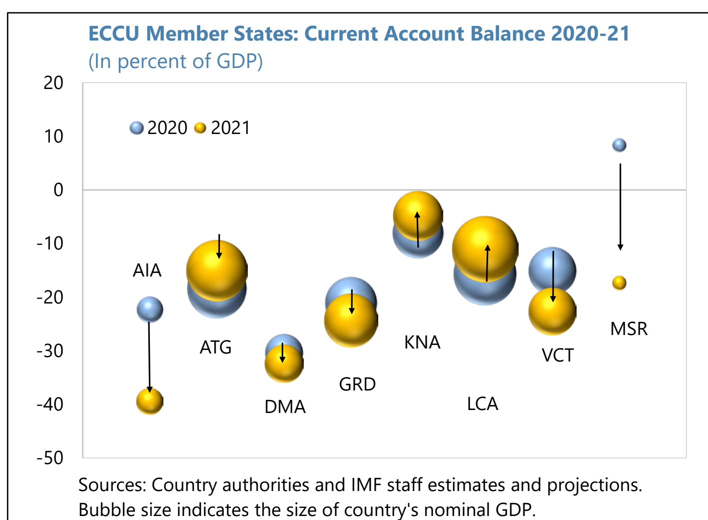
***Overall Assessment.*** *The ECCU's external position in 2021 was moderately weaker than the level implied by fundamentals and desirable policies. The assessment is, however, subject to a wide margin of error given the lack of data for external accounts and other macroeconomic indicators and challenges in assessing the full impact of the pandemic.*[1]

***Potential Policy Responses.*** *Near-term policies should continue to protect the vulnerable and support the recovery with significant increases in global commodity prices from the war in Ukraine representing an important headwind. Fiscal frameworks should be strengthened to help sustain fiscal consolidation efforts and safeguard debt sustainability, while making space for needed investment in resilience building. Policies to foster renewable energy generation, enhance regional integration, and continue investment in skills development can help improve competitiveness and strengthen the external position.*

## Current Account

**Background.** As a small, open, and tourism-dependent economy, the ECCU was hit hard by the COVID-19 crisis, with a collapse in tourism exports (accounted for by nearly 40 percent of GDP) and overall economic activity in 2020. While tourists have started coming back, the pace of the rebound varies across countries. Staff expects the current account deficit to have widened to 16¾ percent of GDP for the ECCU in 2021, as stronger imports more than offset improving tourism receipts.[2] The current account deficit narrowed in St. Kitts and Nevis reflecting weak imports arising from fiscal tightening and volatility in Citizenship-by-Investment (CBI) inflows and in Antigua and Barbuda and St. Lucia from a strong rebound in tourist arrivals. The current account deficit widened significantly in St. Vincent and the Grenadines as the volcanic eruption affected agricultural exports while post-disaster reconstruction and humanitarian needs drove up imports, as well as in Anguilla and Montserrat where tourism recovery has been very slow.

**ECCU Member States: Current Account Balance 2020-21**
(In percent of GDP)




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

**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 (excluding Anguilla and Montserrat) was estimated at 16.6 percent of GDP in 2021. After adjusting for cyclical contributions (-1.0 percent) due to a large negative output gap, the temporary impact of the COVID-19 crisis on the net tourism balance and remittances (+8.0 percent), additional temporary/statistical factors (+1.5 percent) reflecting combined impact on trade balances of CBI inflow volatility (Dominica and St. Kitts and Nevis) and volcanic eruption and post-disaster needs (St. Vincent and the Grenadines), and natural disasters (-0.2 percent), the adjusted current account deficit was 8.2 percent of GDP.[3] The current account norm was estimated at -6.6 percent of GDP. These result in a current account gap of -1.6 percent of GDP. Policy gaps jointly contribute 3.3 percentage points to the current account gap, of which the

domestic fiscal policy gap was -1.3 percent of GDP, reflecting a higher than desirable level of the fiscal deficit in most economies.

**ECCU: EBA-lite Model Estimates for 2021**
(In percent of GDP)[1/]

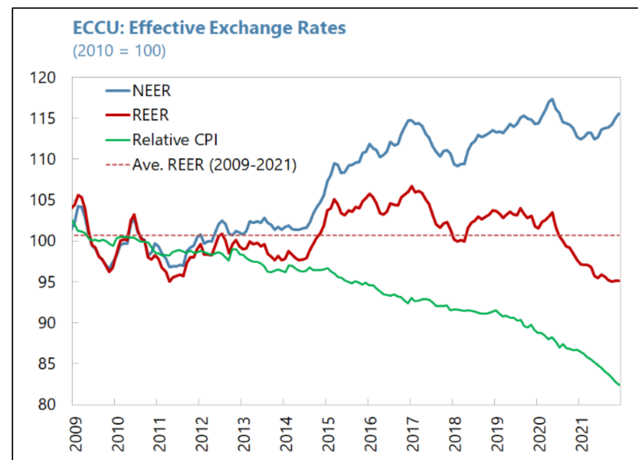
| | CA model | REER model |
|---|---|---|
| **CA-Actual** | **-16.6** | |
| Cyclical contributions (from model) (-) | 1.0 | |
| COVID-19 adjustor (-) 2/ | -8.0 | |
| Additional temporary/statistical factors (-) | -1.5 | |
| Natural disasters and conflicts (-) | 0.2 | |
| **Adjusted CA** | **-8.2** | |
| | | |
| **CA Norm (from model) 3/** | **-6.6** | |
| Adjustments to the norm (-) | 0.0 | |
| **Adjusted CA Norm** | **-6.6** | |
| | | |
| **CA Gap** | **-1.6** | **-0.1** |
| o/w Relative policy gap | 3.3 | |
| o/w Domestic policy gap | 0.8 | |
| o/w Fiscal policy gap | -1.3 | |
| Elasticity | -0.33 | |
| | | |
| **REER Gap (in percent)** | **5.3** | **-0.2** |

1/ The assessment is for ECCU-6 countries.

2/ Cyclically adjusted, including multilateral consistency adjustments.

## Real Exchange Rate

**Background.** Along with the movement of the U.S. dollar, the ECCU's nominal effective exchange rate index appreciated by 2.8 percent between December 2020 and December 2021. The relative price index continued to fall, due to stronger increases in inflation among its trading partners. In December 2021, the real effective exchange rate was 2.8 percent weaker than the December 2020 level, below the 2009-2021 average.



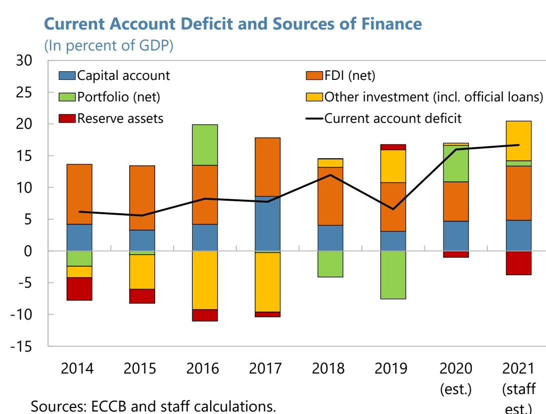

**Assessment.** IMF's EBA-lite Real Effective Exchange Rate model suggests an undervaluation of 0.2 percent in 2021. Some caution is needed to interpret the results of this model due to sizable current account deficits and the absence of the ECCB's intervention in the foreign exchange market. Using the gap from the current account model as a reference and applying a staff-estimated semi-elasticity of 0.33 yields an overvaluation of 5.3 percent.

## Capital and Financial Accounts and Net International Investment Position

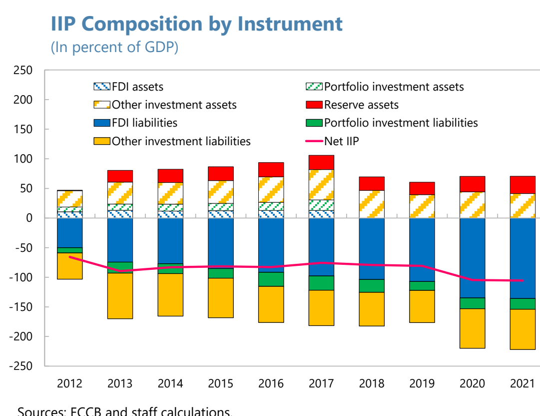
**Background.**

- *FDI inflows* (that had financed a large part of the current account deficit before the pandemic) remained moderate in 2021. *Concessional financing* from international financial institutions continued to finance the widening current account deficit and, together with the SDR allocation in August 2021, supported an increase in international reserves.
- The ECCU's *fiscal position* improved slightly. The overall deficit narrowed from 5.6 percent of GDP in 2020 to 3.3 percent in 2021. However, overall public debt edged up from 84.9 percent of GDP in 2020 to 85.2 percent of GDP in 2021 (of which, external public debt accounted for 56 percent). The ECCU public debt ratio is expected to have peaked in 2021 but to remain 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 external financing.
- The *net international investment position* (IIP) remained elevated in the negative. At end-2021, the net IIP was -105.5 percent of GDP, marginally worsened from -104.6 percent at end-2020.

### ECCU-6: Current Account and International Investment Position




Sources: ECCB and staff calculations.



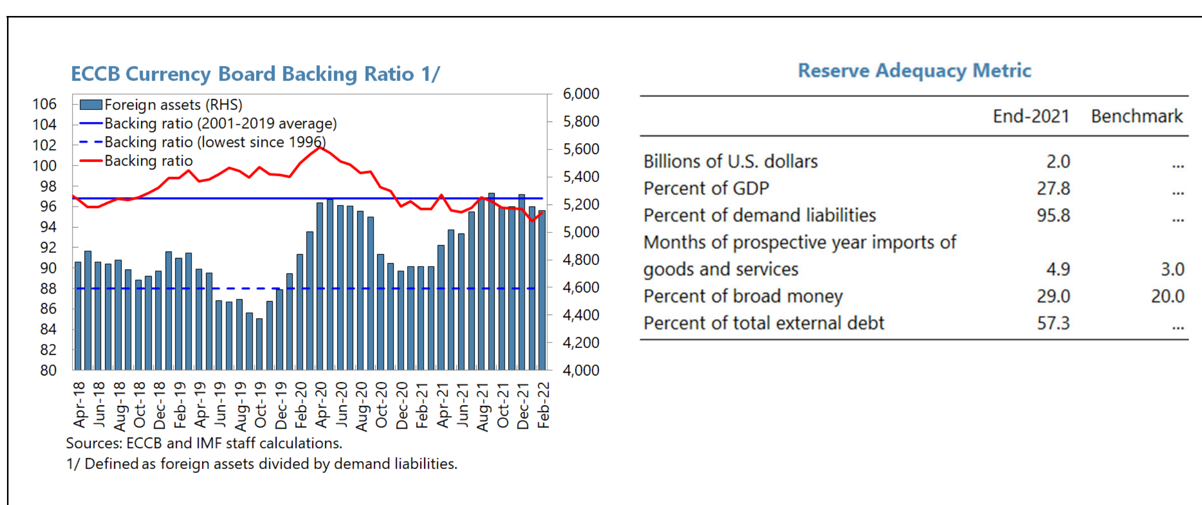

Sources: ECCB and staff calculations.

**Assessment.** The current account deficit is expected to remain large in 2022, given rising food and energy prices amid the war in Ukraine and the region's heavy reliance on imported goods. Given the uncertainty concerning the evolution of the pandemic and the outlook for inflation and tourism, 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 weak recovery in tourist arrivals, the international reserve position has remained above the post-global financial crisis average. At end-2021, the international reserves stood at US$2.0 billion, equivalent to 4.9 months of prospective year imports of goods and services (above the benchmark of three months), 29 percent of broad money (above the benchmark of 20 percent), and 57.3 percent of total external debt. The ECCB has also maintained a high level of the reserve backing ratio (defined as stock of the international reserves as a percent of the ECCB's demand liabilities) at 95.8 percent.

**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 maintain a relatively high level of the backing ratio. This practice should continue.



Sources: ECCB and IMF staff calculations.
1/ Defined as foreign assets divided by demand liabilities.

**Reserve Adequacy Metric**

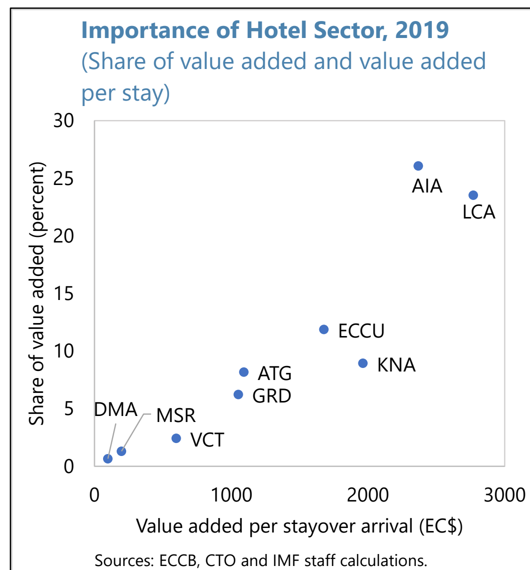
| | End-2021 | Benchmark |
|---|---|---|
| Billions of U.S. dollars | 2.0 | ... |
| Percent of GDP | 27.8 | ... |
| Percent of demand liabilities | 95.8 | ... |
| Months of prospective year imports of goods and services | 4.9 | 3.0 |
| Percent of broad money | 29.0 | 20.0 |
| Percent of total external debt | 57.3 | ... |

[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.

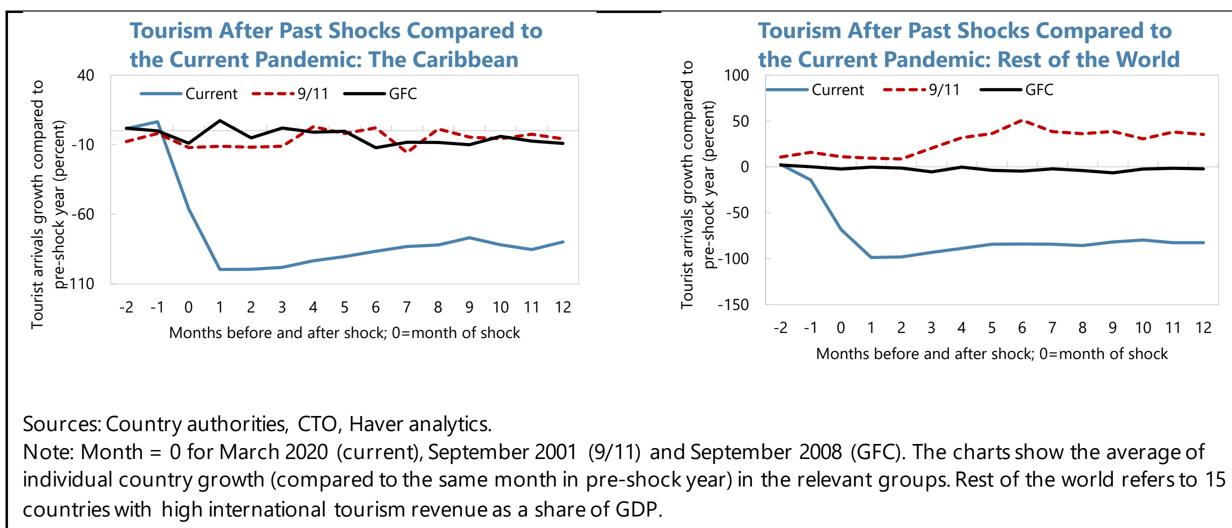
[3] The temporary impact of the COVID-19 crisis on the current was calculated by (i) splitting the decline in the travel balance (as a percent of GDP) between temporary and permanent components; and (ii) multiplying the temporary component by 0.5. The adjustment was required because the "cyclical contributions" component does not fully reflect the COVID-19 crisis-related shock to tourism, which explains the large deterioration in the current account balance in 2021 compared to its pre-pandemic level. The COVID-19 shock is expected to affect the tourism balance differently across countries. While in Dominica and St. Kitts and Nevis, net tourism balance is projected to recover to the pre-pandemic trend only partially by 2025, the pandemic is projected to have only temporary impacts on the net tourism balance of other countries, with the balance projected to return to the pre-pandemic trend in 2022 for St. Lucia, in 2023 for Antigua and Barbuda, in 2024 for Grenada, and in 2025 for St. Vincent and the Grenadines.

# Annex IV. Tourism in the ECCU: The Path of Recovery[1]



Sources: ECCB, CTO and IMF staff calculations.

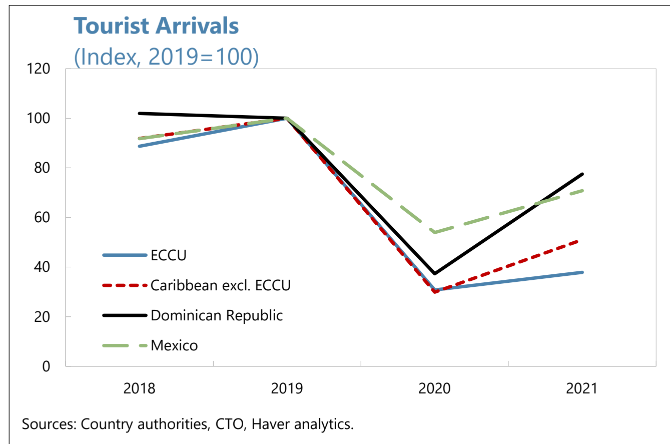
1. **Tourism in the ECCU region was hit hard by the pandemic.** The region is heavily dependent on tourism with international tourism revenues comprising 33 percent of GDP during 2018 (average of nine countries), and above 60 percent of GDP in Antigua and Barbuda. Just the hotel sector share of gross value added in ECCU is relatively high at 11.9 percent, ranging from more than 20 percent for Anguilla and St. Lucia to below 2 percent for Dominica and Montserrat. The contagious nature and the global spread of the virus severely affected travel and high-contact service sectors worldwide. The magnitude of the drop in tourism in the Caribbean region, like in other tourist-dependent countries, was unprecedentedly large relative to other global shocks like the global financial crisis and the September 11, 2001 terror attack in the U.S. The drop in the value added in the hotel sector in ECCU during the pandemic was also sharper than these past episodes.



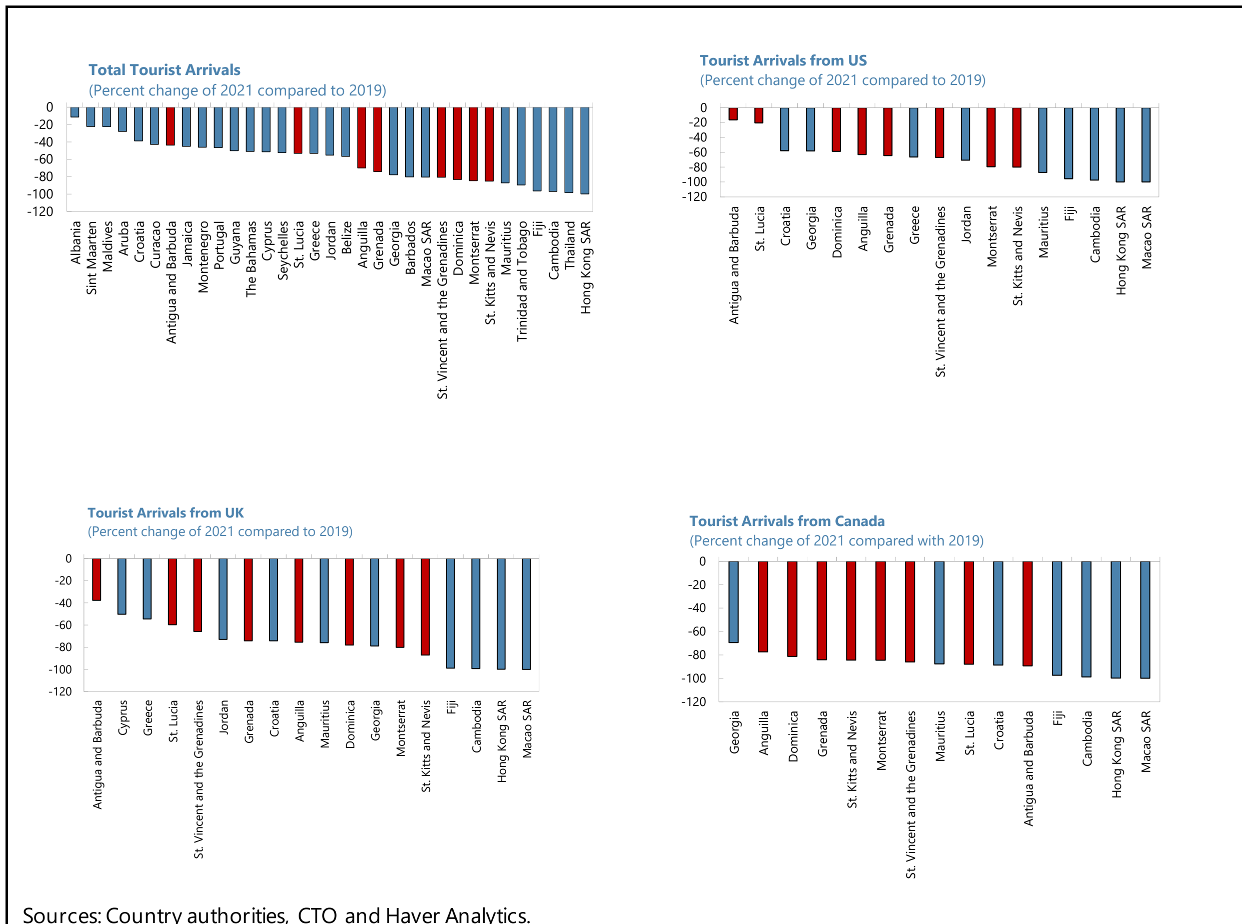
Sources: Country authorities, CTO, Haver analytics.
Note: Month = 0 for March 2020 (current), September 2001 (9/11) and September 2008 (GFC). The charts show the average of individual country growth (compared to the same month in pre-shock year) in the relevant groups. Rest of the world refers to 15 countries with high international tourism revenue as a share of GDP.

[1] Prepared by Swarnali Ahmed Hannan, Chao He, Hugo Tuesta, and Huilin Wang. The tourism data for Caribbean countries refer to stayover arrivals, while those of other countries are usually tourist/foreign tourist arrivals.

**2. Tourism to the ECCU recovered but remained below pre-pandemic levels in 2021.** Tourist arrivals growth in 2021 underperformed regional peers (Mexico, Dominican Republic). Tourist arrivals remained below pre-pandemic levels across countries in the Caribbean and other tourism-dependent countries, including—where data are available—for tourist arrivals from destinations like the U.S., U.K., and Canada, which reflects the effects of recurrent COVID-19 waves and the mobility restrictions imposed to fight the pandemic.



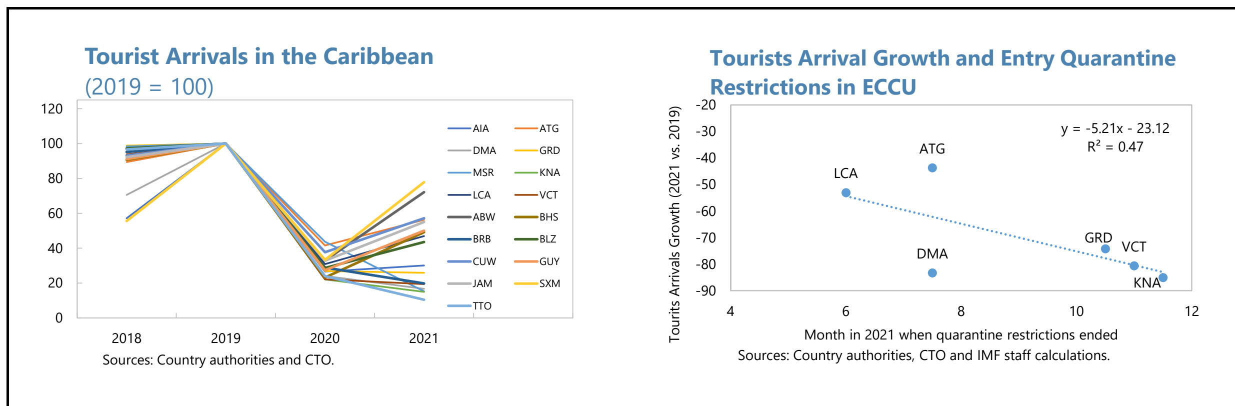
Sources: Country authorities, CTO, Haver analytics.



Sources: Country authorities, CTO and Haver Analytics.

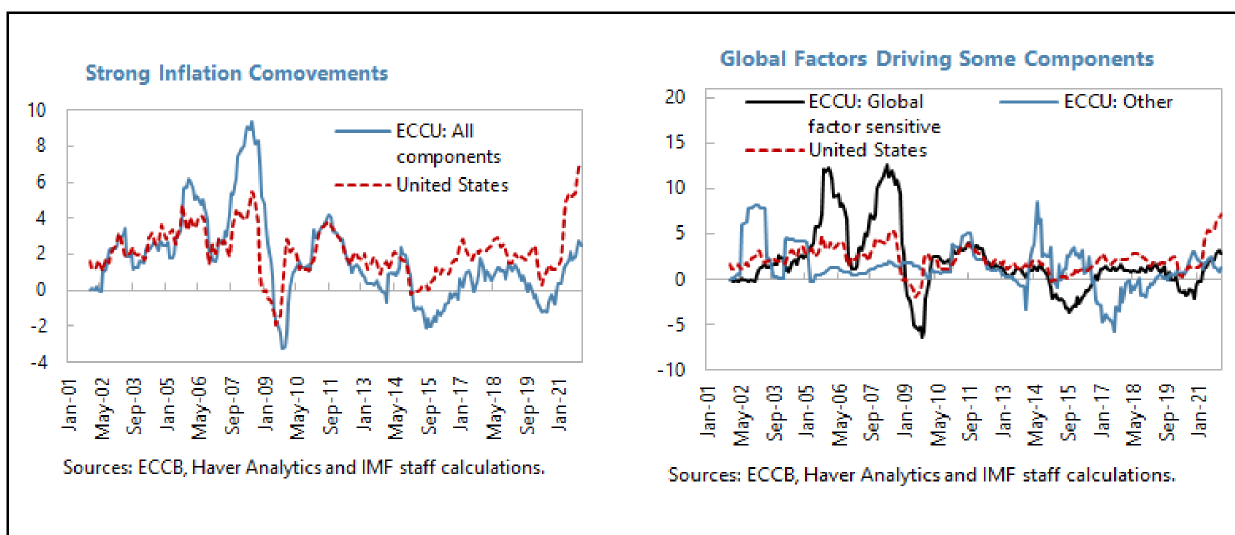
**3. The recovery within the ECCU region varies across countries.** Though the drop in tourist arrivals in 2020 was across the board owing to the pandemic, the speed of recovery in 2021 varied across countries, with Antigua and Barbuda gaining back more than 50 percent of pre-pandemic tourist levels, but St. Kitts and Nevis reaching less than 15 percent of pre-pandemic levels. The tourism performance is associated with the quarantine end dates for vaccinated incoming travelers,

with countries removing these restrictions earlier faring better. Existing vulnerabilities, such as limited flight connectivity, could amplify the negative performance. In addition, some countries seem to have benefitted from faster recovery in luxury travels.



# Annex V. Inflation Dynamics in the ECCU: External Cost Shocks and Propagation[1]

1. **ECCU economies are highly exposed to external cost shocks, given the heavy reliance on imported goods.** The imports-to-GDP ratio of ECCU economies was on average 64.3 percent in 2019, substantially higher than the global average of 27.7 percent.[2] Despite price stabilization mechanisms implemented by ECCU governments, large and persistent swings in external costs can have a significant impact on living costs. Such forces are behind the strong co-movements in inflation between ECCU economies and their major trading partners such as the United States, which can also be driven by common demand shocks.

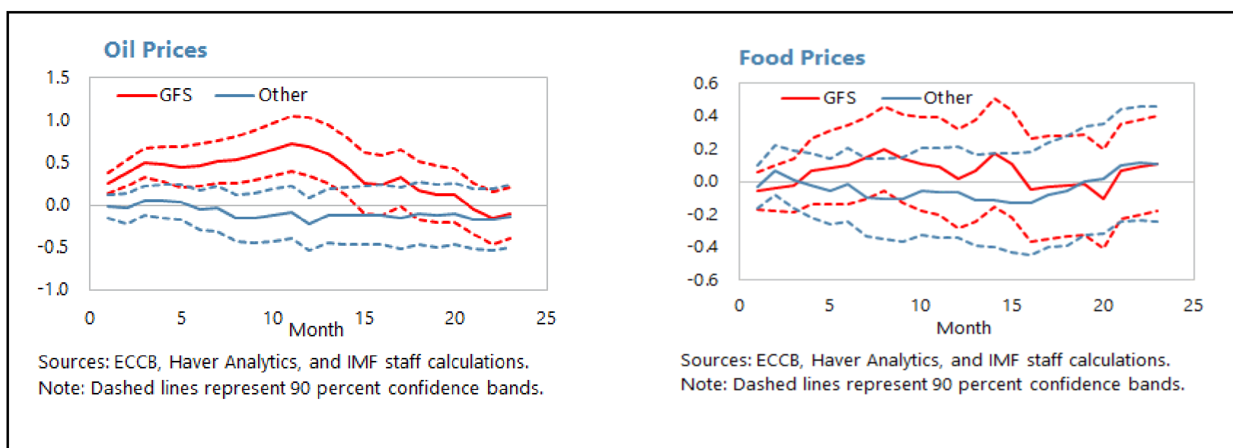



2. **External cost shocks have salient policy implications.** Given the exchange rate peg, targeted fiscal policy plays a major role in mitigating external cost shocks. As such policies need to strike a balance between protecting vulnerable households and assisting general population in alleviating the consequence of rising living costs, the persistence of inflation is an important parameter in calibrating policy measures and gauging the macroeconomic impact. The current juncture sees significant risks of persistently high inflation, given strained global shipping and upward pressure on food and energy prices, which are amplified by geopolitical conflicts.

3. **Food, housing, and transportation are more sensitive to global shocks than other CPI components and referred to as global-factor-sensitive (GFS) components.** GFS components constitute around two-thirds of the total weight. The correlation of inflation between GFS components and the rest is low, merely 0.03 between 2001 and 2021.

[1] Prepared by Weicheng Lian, with data support from Beatriz Nunes and Raadhika Vishvesh.

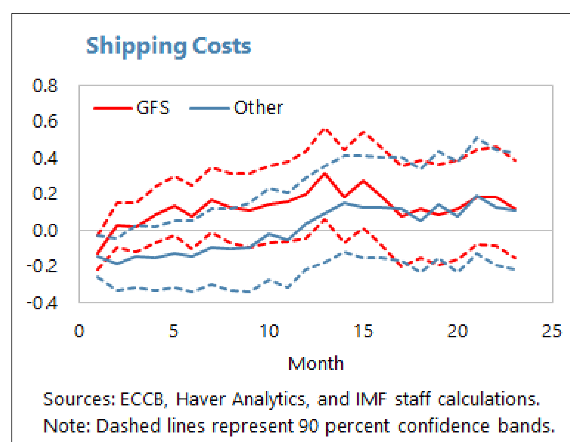
[2] Weighted by GDP in USD.




Sources: ECCB, Haver Analytics, and IMF staff calculations.
Note: Dashed lines represent 90 percent confidence bands.

Sources: ECCB, Haver Analytics, and IMF staff calculations.
Note: Dashed lines represent 90 percent confidence bands.

**4. A local projection method (LPM) analysis confirms that external costs have a large impact on the inflation of GFS components.** The exercise quantifies the response of year-on-year change of the component CPI (aggregated into the global-factor-sensitive part and the rest) to month-on-month changes in three external cost measures (i.e., world oil prices, commodity food price index, and the Baltic Dry Index). Following Jorda (2005), the exercise controls for other variables that can influence the outcome variable. In the current exercise, they include world output gap and the lags of inflation and external cost measures.




Sources: ECCB, Haver Analytics, and IMF staff calculations.
Note: Dashed lines represent 90 percent confidence bands.

The following specification is estimated for ECCU economies for the period between 2001M12 and 2019M12:

$$\pi_{i,t+h} - \pi_{i,t-1} = f(\Delta BDI_{i,t}, \dots, \Delta BDI_{i,t-12}, \Delta Oilp_t, \dots, \Delta Oilp_{t-12}, \Delta Foodp_t, \dots, \Delta Foodp_{t-12}$$
$$\Delta World\ output\ gap_t, \Delta World\ output\ gap_{t-3}, \dots, \Delta World\ output\ gap_{t-9}, \alpha_i), \qquad \text{(V.1)}$$

where $f$ is a linear function, $\Delta X_{i,t} = X_{i,t} - X_{i,t-1}$, and $\alpha_i$ refers to country-fixed effects.[3]

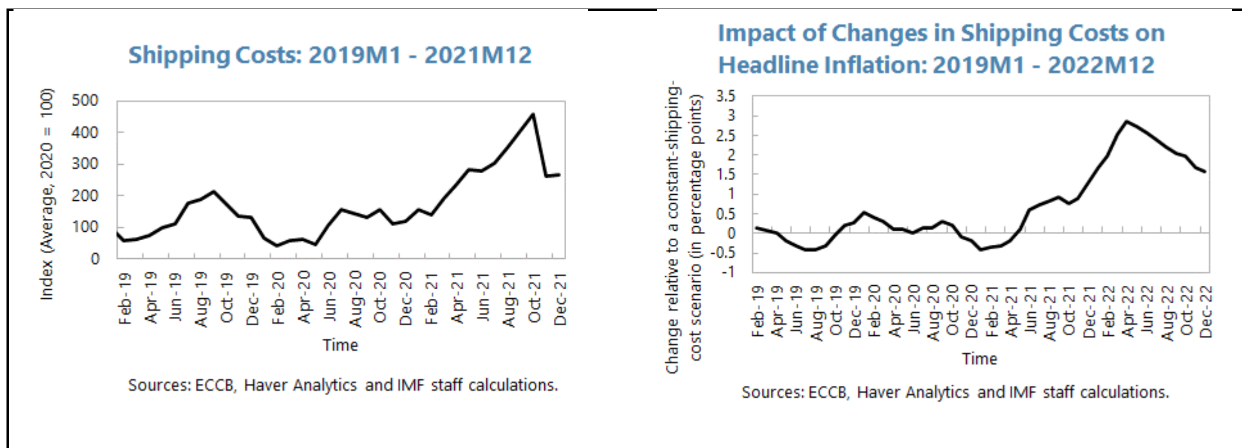
A key reason of using the LPM is that one does not need to assume inflation persistence, which may not be stable over time given the policy intervention.

**5. External costs have an economically significant impact on GFS components.** A 50 percent increase in oil price, which is in line with the oil price change during 2021–22 considering

[3] World output gap has three lags because it is only available at the quarterly frequency. Output gap is not controlled for two reasons: (i) it is hard to estimate; (ii) HP-filtered output gap is not a significant factor in the Phillips curve estimation for ECCU countries.

the impact of the war in Ukraine, drives up the inflation of GFS components by around 2.5 percentage points, which implies an impact on the headline inflation of around 1.7 percentage points. Such an effect would dissipate by the end of the second year. By contrast, an increase in shipping costs has a more persistent impact. The results are robust to restricting the sample period to post-2010 (the shipping costs declined to lower levels in this period relative to previous episodes).

**6. A simulation exercise is conducted to estimate the impact of changes in shipping costs in 2019M1-2021M12 on inflation in 2022.** It consists of two steps. The first step calculates $y_t = \sum_{k=1,\ldots,23} \beta_k \Delta BDI_{i,t-k}$ to get the "additive" impact of a change in shipping cost (captured by $\Delta BDI_{i,t-k}$), where $\beta_k$ is the coefficient of $\Delta BDI_{i,t}$ estimated in equation (V.1) when the dependent variable is $\pi_{i,t+k} - \pi_{i,t-1}$. The second step calculates the overall impact of changes in shipping costs as $Z_t = \sum_{i=1,\ldots,I} (\rho)^i y_{t-i}$, where $\rho$ captures the persistence of the impact. $\rho$ is assumed to be equal to the historical inflation persistence of GFS components and around 0.83 at the monthly frequency.[4]



Sources: ECCB, Haver Analytics and IMF staff calculations.

Sources: ECCB, Haver Analytics and IMF staff calculations.

**7. The simulation results suggest that if shipping costs stay at the end-2021 level in 2022, inflation of GFS component in the ECCU would increase** by around 3.3 percentage points, and accordingly headline inflation by 2.2 percentage points. Despite significant uncertainty regarding global shipping costs in 2022, part of its reversal in October-December 2021 reflected seasonality.

**8. These quantitative estimates suggest that the ECCU would experience significantly higher inflation than historical average.** The exercises described above do not consider new measures introduced by the governments to mitigate rising shipping costs during the COVID-19 pandemic or nonlinearity that is not captured fully by the exercises.[5] They imply that the headline

[4] The exercise further assumes that the shipping cost of 2022 would be the same as the level in end-2021. Under this assumption, the month-on-month changes of the shipping cost would be zero in 2022, creating no additional impact on inflation from shipping costs in 2022. By contrast, if this assumption does not hold and if the shipping cost declines from its historical high levels in 2021 to a low level in 2022, the inflationary impact of shipping costs on inflation in 2021 would obviously be smaller than the estimated value here.

[5] The nonlinearity may come from importing firms being more cautious than usual in passing a spike in shipping costs to customers if they anticipate a reversal later. This may stand behind the large confidence band in the LPM

(continued)

inflation in 2022 will be around 3.9 percentage points higher than otherwise. While the effect in practice is likely to be dampened by the response of ECCU governments to the inflationary pressure (including the cap on fuel prices currently in place in Grenada and St. Lucia) and further reduced if the shipping cost declines in 2022 from the end-2021 level, the estimation conducted here clearly suggests a sizable impact of external cost shocks in 2022 that calls for policymakers to pay close attention to the underlying sources and their persistence.

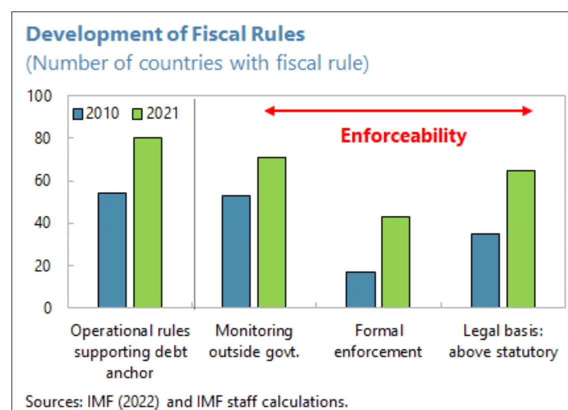
**9. Inflation in the ECCU can be further influenced by other US inflation drivers.** A component-level analysis suggests that only GFS components are significantly affected by U.S. inflation drivers. While strong US inflation can be a concern, one mitigating factor to consider is that while the inflation of GFS components used to rise strongly whenever U.S. inflation picked up, the relationship was more muted recently.

estimate for the shipping costs effects on inflation and consistent with some anecdotal evidence (in Grenada, for example, food importers recently indicated their reluctance to pass rising shipping costs to the public, partly because they are SOEs). Moreover, data suggest that shipping costs have already moderated in the last few months of 2021, suggesting a potential reversal. However, there is significant uncertainty on this issue, especially given the potential impact of oil price on shipping costs. Here, it is important not to confuse between the direct oil price effect on the ECCU inflation through energy being part of the production of consumption goods and an indirect effect of oil price on the ECCU inflation through the impact of energy price on shipping costs.

# Annex VI. Lessons for the ECCU and Its Members from Countries' Experience with Fiscal Rule[1]

**1. An event study suggests that fiscal rules are more effective in lowering public debt when: (i) debt and operational targets are combined and (ii) the rules are enforceable.**

- **Combining debt and operational targets.** Increasingly more countries have adopted multiple fiscal rules to guide fiscal policy—often using a debt ceiling or anchor supported by operational rules. Among ECCU peers,[2] Mauritius adopted a debt rule only, while all others adopted budget balance and other operational targets in addition to the debt rule.




- **Enforceability.** EMDEs notably improved their FRFs over the last decade through stronger legal basis and enhanced enforcement mechanisms (WB, 2020 and Davoodi and others, 2022). So far, Anguilla and Grenada (Table 1) are the only countries among ECCU peers which have a fiscal rule both supported by formal enforcement mechanisms and approved as legislation. Similar to Dominica, a few ECCU peers have legally backed fiscal rules but lack formal enforcement mechanisms (The Bahamas, Cabo Verde, and Maldives). Meanwhile, the FRFs of Antigua and Barbuda and St. Vincent and the Grenadines still lack a strong legal basis.

**General Principles**

**Fiscal rules** should be:

**Simple:** avoid too many operational targets

**Flexible:** appropriately defined escape clauses and clarity on plans to return to the FRF's targets after triggering

**Enforceable:**

- Inscribing the framework in law and designating an independent fiscal council
- Anchored on a medium-term debt ceiling and supported by an operational target

**2. While the ECCU is an early adopter of fiscal rules, its current supranational rule lacks operational targets and enforceability.** In 1998, the ECCB Monetary Council set targets on the overall deficit and debt of 3 and 60 percent of GDP, respectively, to be reached by 2020. However, the deficit target was abandoned in 2006 and the debt target was delayed twice, first to 2030 in 2015, and then to 2035 due to the pandemic. Several ECCU countries have persistently carried public debts well above the ECCU ceiling, even prior to the pandemic.

[1] Prepared by Isabela Duarte, Emilio Fernandez-Corugedo, Marie Kim, Weicheng Lian, Rui Mano, Camila Perez Marulanda, and Manuel Rosales Torres.

[2] At the supranational level, WAEMU adopted FRFs in 2000, CEMAC in 2002 and EAMU in 2013. Among small states, Cape Verde (1998) is the only other country that adopted a fiscal rule before 2000. Other peers that introduced FRFs in the 2000s include: Maldives (2006), Mauritius (2008), Andorra (2014), and The Bahamas (2018).

## Table 1. ECCU: Summary of Fiscal Responsibility Frameworks Across the Members

| Member Country or Territory | Legal Status of Rule<br>Introduction Date/ Implementation Date | Medium-Term Debt Anchor | Operational Targets | Escape Clauses and Triggers | Government Level Coverage (CG, NFPS) | Compliance Oversight | Independent Oversight Committee |
|---|---|---|---|---|---|---|---|
| Anguilla | Fiscal Responsibility Act, enacted by Anguilla's Legislature on October 25, 2013 and effective 2014. | * Net debt below 80 percent of recurrent revenue;<br>* Net debt below 90 percent of recurrent revenue by 2015. | 1. Debt service below 10 percent of recurrent revenue;<br>2. Liquid assets at a minimum of 25 percent of recurrent expenditure (90 days). | Yes. Triggers:<br>Extraordinary events that threaten macroeconomic stability. | Public sector (i.e., central government, statutory authorities, and government companies) | UK government | Yes.<br>UK government. |
| Antigua and Barbuda | Fiscal Resilience Guidelines and Medium-Term Fiscal Strategy approved by Cabinet on January 20, 2021, but not published and lacking parliamentary approval. | Below 70 percent of GDP by 2030 | 1. Primary surplus between 0.5 and 1 percent of GDP by 2023;<br>2. Overall deficit of less than 1.5 percent of GDP by 2024;<br>3. Tax-to-GDP ratio of at least 18 percent by 2023 and 20 percent over the medium-term;<br>4. Wage bill not exceeding 9 percent of GDP by 2025. | Yes. Triggers:<br>a) Natural disaster is declared;<br>b) A public health epidemic or pandemic is declared;<br>c) Real GDP contracts by 2 percent or more in a fiscal year or cumulatively by 3 percent or greater over two consecutive years;<br>d) A financial crisis with fiscal costs has occurred or is imminent. | Central government | Yes.<br>a) Parliament;<br>b) To-be-established Fiscal Resilience Oversight Committee (FROC). | No.<br>FROC still to be appointed by Cabinet. |
| Dominica | Fiscal Responsibility Framework (FRF), enacted by Parliament on November 30, 2021. | 60 percent of GDP by 2035 | 1. Primary balance has to reach a surplus of 2 percent of GDP by 2026 and to remain above that level thereafter, when the debt to GDP ratio is above 60 percent;<br>2. When the cumulative difference between the actual primary balance and the target is greater than 2 percent of GDP, a corrective action needs to be taken to reduce the difference to zero within 3 years, with at least one third of the adjustment made in the first year. | Yes. Triggers:<br>a) Natural disaster, epidemic, civil unrest or war;<br>b) Real GDP contracts by 2 percent in a year or cumulatively by equal or greater than 3 percent over two consecutive fiscal years;<br>c) the ECCB has certified that a financial crisis has occurred; or<br>d) the prime Minister determines that implementation of the fiscal rules, targets or corrective measures would be unduly harmful to public finances or macroeconomic or financial stability. | Non-Financial Public Sector | Yes. Fiscal Responsibility Commitee (FRC) , to be established by March 31, 2025. | No.<br>FRC, appointed by the Minister and approved by the Cabinet. |
| Grenada | Fiscal Responsibility Act, enacted by Parliament on August 25, 2015 and implemented since 2016, with escape clause triggered for 2020-22. | Expected to reach 55 percent of GDP by 2025 | 1. Primary balance exceeding 3.5 percent of GDP;<br>2. Public expenditure growth lower than 2 percent in real term (excl. grant-financed capital expenditure);<br>3. Wages lower than 9 percent of GDP;<br>Parameters to be recalibrated when the public debt falls below 55 percent of GDP. | Yes. Triggers:<br>a) Natural disasters, pandemic, or war;<br>b) Real GDP contracts by 2 percent in a year or by 3 percent cumulatively over two consecutive fiscal years;<br>c) Financial crisis certified by the ECCB, or fiscal cost related to capital injection exceeding 4 percent of GDP. | NFPS | Yes.<br>a) Parliament;<br>b) Fiscal Responsibility Oversight Committee (FROC), operational since August 2017. | Yes.<br>Nominated by the parliament in consultation with the Director of Audit, and appointed by the Governor General. |
| St. Vincent and the Grenadines | A parliamentary resolution (i.e., not enacted into a "Law"), approved in January 2020. Not yet operationalized. | 60 percent of GDP by 2030 | 1. Primary balance rule: primary deficit of on average of 1.2 percent of GDP annually for 2021-2023; and primary surplus of 2.7 percent of GDP from 2024 onwards;<br>2. Expenditure rule: (i) current spending growth does not exceed nominal GDP growth; (ii) wage bill does not exceed 12.5% of GDP from 2022. | Yes. Triggers:<br>a) Natural disaster is declared;<br>b) A public health epidemic or pandemic is declared;<br>c) Real GDP contracts by 2 percent or more in a year or cumulatively by 3 percent or greater over two consecutive years;<br>d) A financial crisis certified by the ECCB and with fiscal costs has occurred or is imminent. | Central government | Yes.<br>Fiscal Responsibility Mechanism (i.e., Fiscal Council), established on September 23, 2021. | No.<br>Members appointed by Cabinet. |

Note: The medium-term debt anchor of all countries is consistent with the ECCU's debt target of reaching 60 percent of GDP by 2035.

Sources: Country authorities and IMF staff.

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World Bank, 2020, "Fiscal Rules and Economic Size in Latin America and the Caribbean," Latin American Development Forum, Washington, DC: World Bank.

# Annex VII. Insurance Penetration and Natural Disasters[1]

**1. Private insurance can reduce the ECCU economies' reliance on financial aid from public sources after a disaster.** In addition, insurance penetration positively affects a country's recovery rate after a disaster. On average, disaster cases in low insurance countries take longer to achieve economic recovery compared to those in high-insurance countries. However, insurance penetration tends to be low in lower-income countries—it is estimated that about 40 percent of direct losses from natural disasters is insured in developed countries, compared to 10 percent in middle-income countries, and below 5 percent in low-income countries (Carpenter et al., 2020).

**2. The difference-in-differences (DD) approach was used to determine the effect of natural disasters on nonlife insurance penetration, using an annual panel dataset consisting of most countries in the world.** The treatment variable is constructed using total damages as percent of GDP from EM-DAT (the Emergency Events Database). The regressions included additional covariates from the IMF's World Economic Outlook dataset, the World Bank's World Development Indicators database, and the Penn World Tables, such as GDP per capita, GDP growth, public debt, financial depth measured by the share of bankable population, bank deposits, broad money, stock market capitalization, etc. to obtain an unbiased estimator. The additional covariates did not significantly affect the treatment coefficient. In addition to cluster-robust standard errors staff also estimated bootstrapped standard errors, and the results remained stable.

The basic idea of the DD estimator is the following:

$$\mathrm{y} = \beta_0 + \beta_1 \mathrm{d}D + \delta_0 \mathrm{d2} + \delta_1 \mathrm{d2} \cdot \mathrm{dB} + \mathrm{u}, \qquad (1)$$

where y is insurance penetration. dD is equal to 0 for countries not affected by natural disasters and is equal to 1 for countries that were hit by natural disasters. d2 is equal 0 before the ND and 1 after the ND. We are interested in $\delta_1$:

$$\delta_1 = \left(\overline{y_{B,2}} - \overline{y_{B,1}}\right) - \left(\overline{y_{A,2}} - \overline{y_{A,1}}\right). \qquad (2)$$

**3. The treatment variable is constructed using total damages as percent of GDP.** We assign it to 1 when total damage is equal to or higher than 10 percent of GDP, that is, close to two standard deviations. Due to the limited availability of data on insurance penetration, our panel data has 15 natural disasters that will be considered treatments.

[1] Prepared by Camila Perez Marulanda, Dmitry Vasilyev, and Raadhika Vishvesh.

**Summary of the Treatment Variable**

| Treatment variable | Total damage in percent of GDP |
|---|---|
| Number of observations | 1158.0 |
| Mean | 0.8 |
| Std. Deviation | 5.5 |
| Min | 0.0000007 |
| Max | 148.4 |

Sources: EM-DAT and IMF staff calculations.

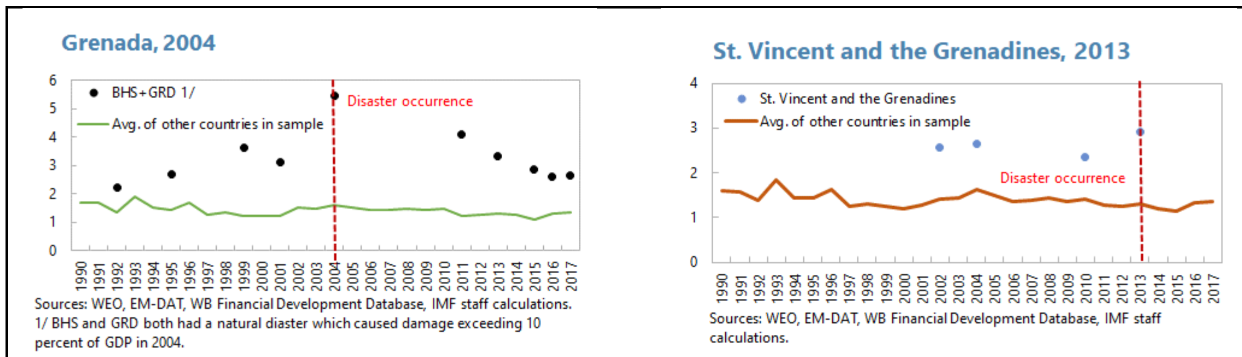
**List of Treatments 1/**

| Country | Year | Total damage in percent of GDP |
|---|---|---|
| Honduras | 1998 | 59.6 |
| Nicaragua | 1998 | 21.3 |
| Belize | 2000 | 33.3 |
| Belize | 2001 | 28.7 |
| Georgia | 2002 | 10 |
| Bahamas, The | 2004 | 11 |
| Grenada | 2004 | 148.4 |
| Guyana | 2005 | 27.2 |
| Tajikistan | 2008 | 16.4 |
| Chile | 2010 | 13.7 |
| Haiti | 2010 | 67.5 |
| Thailand | 2011 | 10.8 |
| St. Vincent and the Grenadines | 2013 | 15 |
| Nepal | 2015 | 21.2 |
| Fiji | 2016 | 12.2 |

Sources: EM-DAT and IMF staff calculations.

1/ Includes disaster events causing damage of 10 percent of GDP or more that have insurance penetration data for the disaster year.

4. **Trends in non-life insurance penetration in the treated group (the countries affected by large natural disasters) are parallel to trends in the control group before the natural disasters.** In most cases, insurance penetration increases after natural disasters. The similarity of trends before the treatment is an important requirement of the DD method. The analysis in our case is complicated by the data availability and missing values. At the same time, DD allows us to include country and time fixed effects (FEs) that we have not included in the charts. Controlling for FEs improves similarity in trends.




Sources: WEO, EM-DAT, WB Financial Development Database, IMF staff calculations.
1/ BHS and GRD both had a natural diaster which caused damage exceeding 10 percent of GDP in 2004.

Sources: WEO, EM-DAT, WB Financial Development Database, IMF staff calculations.

**5. The results show that insurance penetration tends to increase after major natural disasters.** The results imply that demand for private insurance in vulnerable countries like the ECCU is likely to increase as the frequency and intensity of disasters rise. The analysis also found a positive correlation between insurance penetration and other financial development indicators such as bank deposits, indicating that financial deepening and inclusion could have a positive impact on enhancing insurance penetration in response to rising climate risks. This indicates that financial deepening could stimulate insurance penetration in countries with sizeable climate risks. Our findings echo the observations by Hodula et al. (2021), who identify that non-life premiums co-move with the business cycle and are positive related to more developed financial systems, and Feyen et al. (2011) who find that the non-life insurance sector is driven by the availability of private credit and financial institutions in the economy.

**Main Results**

| | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 |
|---|---|---|---|---|---|---|
| Treatment effect | 0.159* | 0.109** | 0.123*** | 0.109*** | 0.082** | 0.102*** |
| | (-0.09) | (-0.05) | (-0.03) | (-0.04) | (-0.04) | (-0.02) |
| GDP in levels (lagged) | | 0.011 | | | | |
| | | (-0.04) | | | | |
| GDP growth | | | 1.850*** | 1.996* | 2.121*** | 2.070*** |
| | | | (-0.3) | (-0.86) | (-0.46) | (-0.45) |
| Capital stock growth | | | | | | |
| Bank accounts growth | | | | -0.059 | | |
| | | | | (-0.22) | | |
| Growth of public debt | | | | | | |
| Public Debt | | | | -0.083 | -0.049* | -0.048* |
| | | | | (-0.12) | (-0.02) | (-0.02) |
| GDP per capita | | | | 0.075 | 0.345* | 0.345* |
| | | | | (-0.17) | (-0.15) | (-0.15) |
| GDP per capita growth | | | | | | |
| Broad money | | | | -0.126 | -0.144 | -0.145 |
| | | | | (-0.18) | (-0.08) | (-0.08) |
| Stock market capitalization | | | | | -0.054 | -0.054 |
| | | | | | (-0.06) | (-0.06) |
| constant | 1.303*** | 0.065 | 0.078 | 1.432 | 2.330* | 2.328* |
| | (-0.05) | (-0.26) | (-0.06) | (-1.95) | (-0.91) | (-0.9) |
| dfres | 127 | 83 | 83 | 30 | 58 | 58 |

**Notes**
Standard errors in parentheses.
* p<0.1, ** p<0.05, *** p<0.01
Model 1: Treated variable is nonlife insurance premium in percentage of GDP
Models 2 through 5: Treated variable is change in nonlife insurance premium in dollars.
Model 6: Treated variable is change in nonlife insurance premium in dollars. Treatment variable is inserted with a lag.

# Annex VIII. Natural Disaster Impact on the ECCU Banking System Asset Quality[1]

**1. Natural disasters have historically had a relatively modest impact on the ECCU banking system.** Despite large-scale economic damages, even the largest hurricane events such as Maria (2017) in Dominica resulted in only modest deterioration in asset quality.[2] Key mitigating factors include mandated insurance of the loan collateral, as well as lenders' modest exposures to the most vulnerable sectors (such as agriculture), in part reflecting their internalization of the region's susceptibility to natural disasters. The loans portfolio impact would also depend on the banks' and the country authorities' policy response (e.g., in Dominica large citizenship-by-investment revenues supported the government's capacity to respond to recent disasters). Bank funding risks are mitigated by ample system-wide liquidity.[3]

**2. Bank asset quality may nonetheless become increasingly affected by disasters' indirect transmission channels as they intensify with climate change.** Importantly, as evidenced by the experience with the COVID-19 pandemic, the ECCU economies' heavy reliance on tourism makes them susceptible prolonged travel disruptions.[4] As in the 2020 ECCU Regional Consultation, we investigate the potential impact of stayover tourism arrival shocks on bank asset quality by use of local projection methods (Jordà, 2005) to compute sector-specific nonperforming loan (NPL) impulse response functions, which in turn are used to simulate an average cumulative NPL path for the region for a given tourism shock scenario.[5] Specifically, drawing on a cross-country panel of quarterly bank-level sectoral loan data for the period 2010Q3-2019Q4 with a range of controls and bank fixed effects, the analysis considers the following impulse response system of equations:

$$y_{i,j,t+h} = \alpha^h + \beta^h shock^{tourism}_{j,t} + \sum_{s=1}^{S} \vartheta^h_s shock^{tourism}_{j,t-s} + \sum_{k=1}^{K} \theta^h_k y_{i,j,t-k} + \sum_{c=1}^{C} \delta^h_c Controls_{c,i,j,t-1} + \gamma^h NatDis_{j,t} + \mu_i + cubic\ trend_t + \epsilon_{i,j,t+h} \qquad (1)$$

where the subscripts i, j and t denote bank, country and quarter, respectively. The superscript h = 0,…,20 denotes the time horizon (number of quarters after t) being considered. The dependent variable $y_{i,j,t+h}$, measures credit quality and takes the form of a logistic transformation of the NPL ratio common in literature.[6] The tourism shock consists of year- on-year percent changes in stayover

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[1] Prepared by Janne Hukka.

[2] The observation is consistent with econometric studies of the region such as Brei et.al. (2019) and Beaton et.al. (2017) that found no signs of loan defaults or deterioration in bank capital as a result of past hurricane strikes.

[3] Analysis by Brei et.al. (2019) focusing on earlier periods point to potential deposit withdrawal risks in the event of natural disaster shocks.

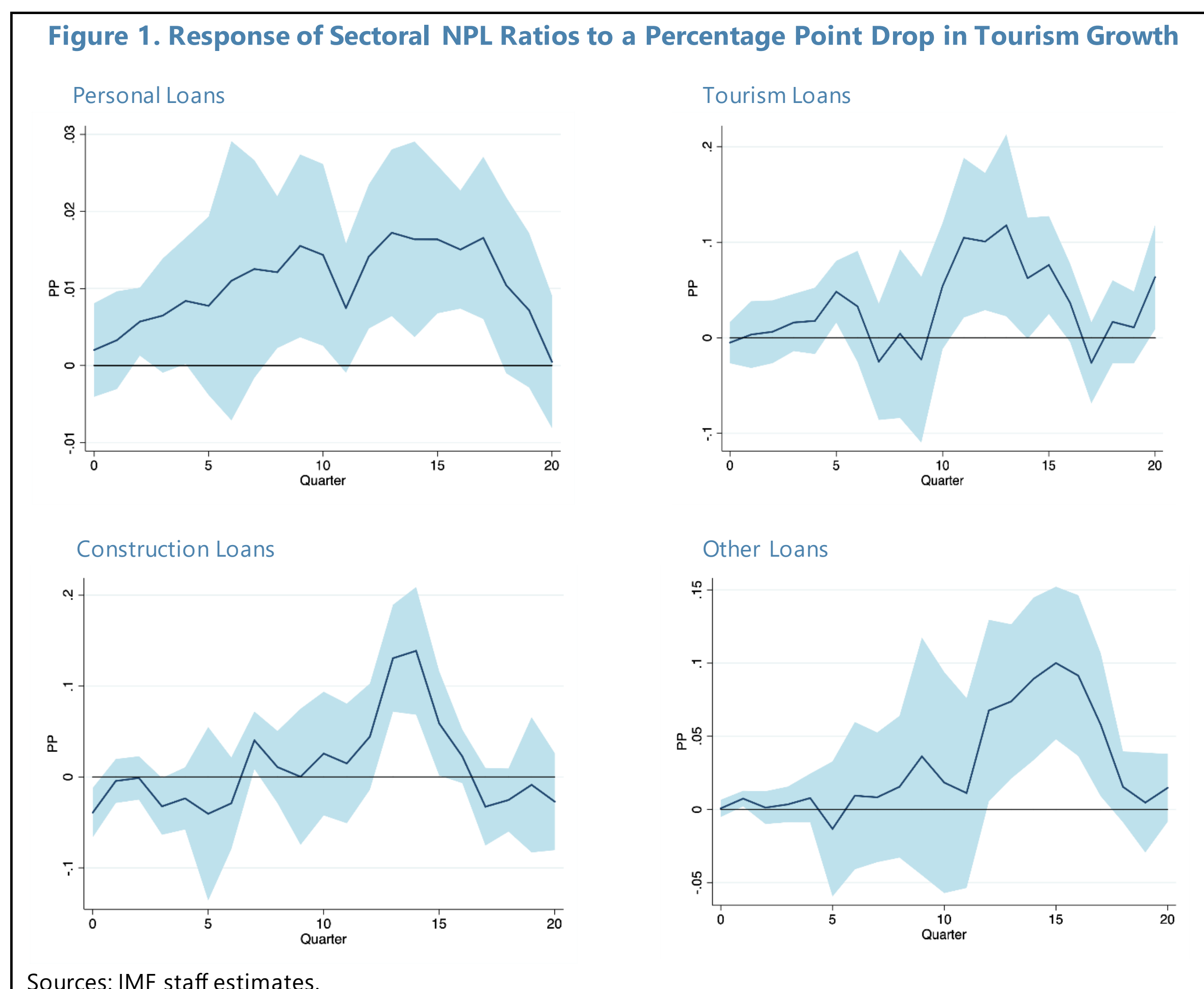
[4] Similar to Beaton et.al. (2016), tourism arrivals may thereby be considered a high-frequency proxy for domestic economic activity in absence of sub-annual data on GDP or employment.

[5] Aggregation of the sectoral cumulative NPL paths considers the sectoral composition of banks' credit portfolios as well as their respective counties' relative degree of tourism dependency as measured by the sector's contribution to GDP.

[6] See for instance Ghosh (2015), Klein (2013) and IMF (2019).

tourism arrivals for a given country and quarter. Considered controls include bank profitability, credit growth, lending rates, inflation, import growth as proxy for non-tourism economic conditions and a natural disaster dummy. Estimating the specification for each credit sector and collecting the βh coefficients, representing the cumulative impact of the tourism shock on the NPL ratio after h quarters, as well as the corresponding standard errors, allows for construction of sector-specific impulse response functions (Annex VIII Figure 1).

**Figure 1. Response of Sectoral NPL Ratios to a Percentage Point Drop in Tourism Growth**

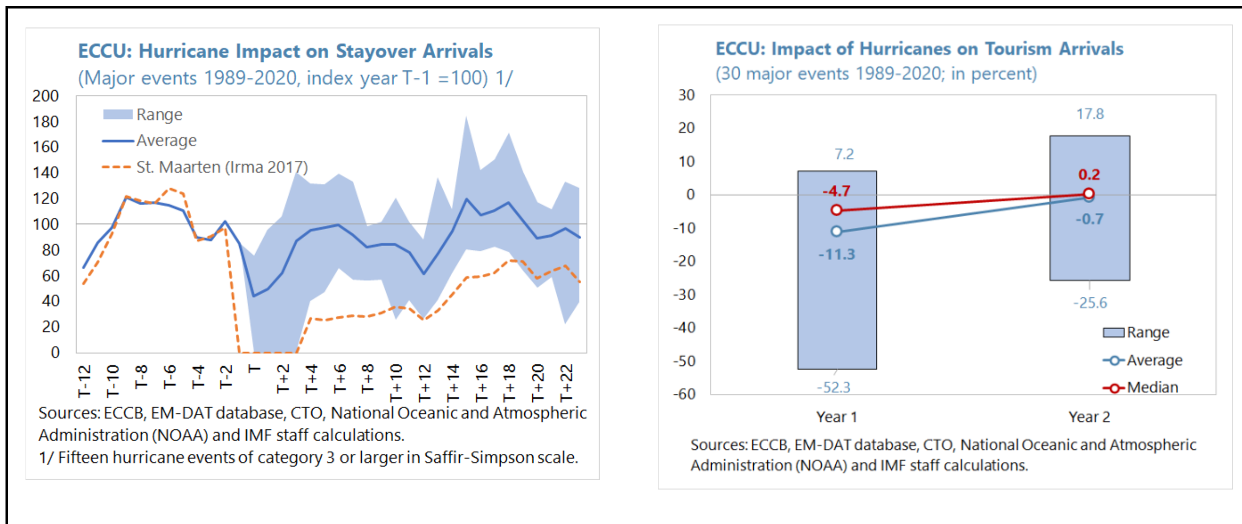



Sources: IMF staff estimates.

**3. The simulation scenarios are calibrated based on new staff event-analysis of historical stayover arrival responses to major hurricane events over the past three decades.** For the ECCU the sample considers 30 major tropical storm events, of which half comprises of hurricanes of category 3 or higher on the Saffir-Simpson scale.[7] For the latter group stayover arrivals declined on average by a fifth in the year following the disaster but tended to revert to pre-disaster levels in all

[7] The storm events are selected by dual criteria of their vicinity to the country (employing historical hurricane tracks from the US National Oceanic and Atmospheric Administration's (NOAA) database) and its reported impact (EM-DAT international disaster database complemented with other online sources).

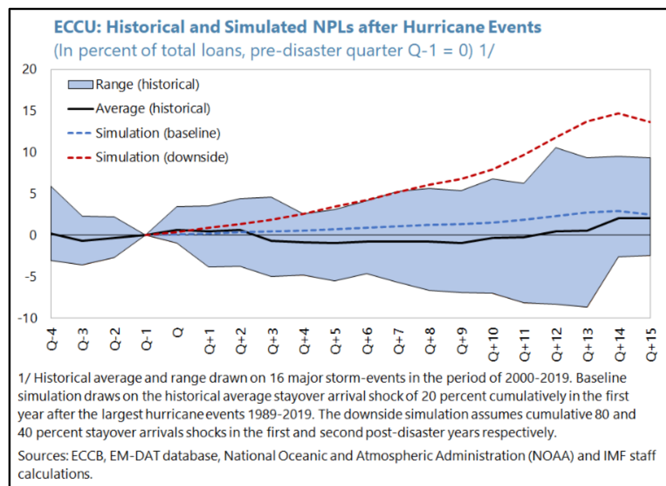
instances where the initial shock was not followed by another major storm in the following year. The lack of significant and persistent damage to critical transport infrastructure may have been an important factor to the speed of tourism recovery. Outside of the ECCU, St. Maarten's experience in the aftermath of Irma (2017), where storm damage substantially constrained the airport terminal's passenger capacity years after impact, offers perspective of the potential downside risks: following an 80 percent drop in the year after impact, stayover arrivals recovered only to 40 percent below the pre-disaster levels in the following year and had not fully recovered before the COVID-19 pandemic.



Sources: ECCB, EM-DAT database, CTO, National Oceanic and Atmospheric Administration (NOAA) and IMF staff calculations.
1/ Fifteen hurricane events of category 3 or larger in Saffir-Simpson scale.

Sources: ECCB, EM-DAT database, CTO, National Oceanic and Atmospheric Administration (NOAA) and IMF staff calculations.

**4. The simulation results illustrate potential downside risks from prolonged disruptions to tourism flows by climate change.** Under the baseline 20 percent single-year decline in stayover arrivals the simulated NPLs would peak just under three percentage points above their pre-disaster level for an average ECCU country and be mostly concentrated in the tourism and construction sectors. However, a more significant tourism disruption in scale similar to St. Maarten in 2017 can result in a several-fold larger increase.[8] The country specific impact would depend on its relative degree of tourism-dependency, bank credit composition and policy response (proactive loan restructurings), as well as the policy response by the fiscal and monetary authorities (including extension of temporary loan moratoria such as in the case of the



1/ Historical average and range drawn on 16 major storm-events in the period of 2000-2019. Baseline simulation draws on the historical average stayover arrival shock of 20 percent cumulatively in the first year after the largest hurricane events 1989-2019. The downside simulation assumes cumulative 80 and 40 percent stayover arrivals shocks in the first and second post-disaster years respectively.
Sources: ECCB, EM-DAT database, National Oceanic and Atmospheric Administration (NOAA) and IMF staff calculations.

[8] The actual impact on St. Maarten banking system's NPLs was more modest, see IMF Country Report No. 20/94.

2021 volcanic eruption of La Soufrière in St. Vincent and Grenadines). Tightening of bank lending standards since the aftermath of the global financial crisis may also attenuate potential losses.

**5. Other factors may also accentuate asset quality risks from natural disasters.** Even in absence of major infrastructure damage countries' tourism flows may face prolonged disruptions from successive storms that may become more frequent with climate change. The fiscal impact of large natural disasters under already stretched public sector balance sheets can heighten risks to banks with large sovereign exposures. Banks' more direct exposure to climate change risks may also rise over time to the extent private sector demand for adaptation financing increases.

# Annex IX. United Kingdom Overseas Territories—Anguilla and Montserrat

## Anguilla

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

2. **A gradual recovery from the pandemic is under way.** The authorities have contained COVID-19 cases at relatively low levels with total cases of 3,294 and 9 deaths, with the vaccination rate at top of ECCU (69 percent of population fully vaccinated). In 2021, total stayover arrivals increased by 12 percent, supporting a real GDP growth rate of 2.1 percent after a 29.9 percent contraction in 2020. Nonetheless, tourism arrivals remain 70 percent below their pre-pandemic level. American tourists are expected to continue increasing supported by new daily direct flights by American Airlines from the U.S. since December 2021, although Anguilla's stricter and longer-lasting entry restrictions add uncertainties to the tourism outlook.

3. **Fiscal policies focused on providing relief to the unemployed, health sector, and vulnerable households to cope with rising fuel and food prices.** The overall balance decreased slightly (from a surplus of 1.3 percent of GDP in 2020 to a small deficit of 0.1 percent in 2021), reflecting higher pandemic-related expenditures and subsidies on food and energy sectors. The authorities are committed to improving employment and providing social safety net to the vulnerable with the COVID-19 financial aid from the U.K., including an expansion of the unemployment assistance program that covers people who have not contributed to Social Security. Public debt remained low at 67.5 percent of GDP in 2021 due to the tight borrowing space.

4. **The current account deficit worsened amid rising import prices.** The current account deficit widened to 39.6 percent of GDP in 2021 (from 22.3 percent of GDP in 2020). A significant increase of imports—primarily due to the soaring global food and fuel prices—outweighed the slight recovery in tourist receipts. Despite the significant BOP shock, international reserves stood at EC$151.9 million in 2021 with the support of COVID-19 disbursement from the U.K. (EC$40 million). The current account deficit is projected to widen further in 2022.

5. **The financial sector remains stable but there are pockets of vulnerability.** The capital adequacy ratio (CAR) declined marginally to 8.5 percent in 2021 (from 8.6 percent in 2020), still above the 8 percent regulatory benchmark. The NPL ratio declined to 21 percent in 2021, from 25 percent in 2020, reflecting the recovery in tourism-related employment and business as well as ongoing efforts to dispose of NPLs. However, it remained well above the prudential benchmark and an upward tick in post-moratoria NPLs is likely. The credit union established three years ago has been growing rapidly. The authorities joined the DCash pilot project in June 2022.

6. **Medium-term economic prospects continue to depend on the tourism recovery and U.K. grants while the authorities are shifting towards clean energy.** With 85 percent of the economy directly or indirectly related to tourism sector, the economic outlook remains highly dependent on the speed of tourism recovery. Government revenues will likely rise following the implementation of the goods and services tax in July 2022. Nonetheless, the international borrowing space for Anguilla will remain very limited with U.K. grants being the major source of funding. The authorities are pressing ahead with switching to renewable energy, especially solar and wind, to lessen the reliance on fuel imports. The blue economy, which includes fishery, vessel industry, cruise tourism, and related education, remains the focus in the authorities' medium-term work plan.

### Montserrat

1. **Montserrat—a member of the ECCU and the Organization of Eastern Caribbean States—is an overseas territory of the United Kingdom and not a Fund member.** It has a working population of 2,000 people out of a total population of around 4,990. Montserrat's main economic activities include construction, government services, and tourism.

2. **A gradual recovery is under way.** Although there have been around 1,000 COVID-19 cases, deaths have been limited to 8 people. The authorities set up a testing center and widely distributed vaccines, but only 35 percent of the population is fully vaccinated due to vaccine hesitancy. The economy is not as tourism dependent as the rest of the ECCU. The authorities closed their borders until October 2021 to limit COVID cases, which had led to a virtual standstill of stayover tourists in both 2020 and 2021. Due to an unprecedented decline in tourism receipts, high import prices, and a fall in official transfers, the current account worsened from a surplus of 8 percent of GDP to a deficit of 17 percent of GDP in 2021 and is projected to remain large in 2022. The authorities later launched the Remote Worker Stamp Program to attract long-term visitors. Cruise ship activity has resumed, with two new ships expected to begin operations this year. Real GDP is expected to expand by about 4 percent in 2022 after 8 percent growth in 2021, supported by recovery in tourism, transport, public administration, and construction sectors. Given the anticipated recoveries in these sectors, the current account balance is expected to improve in 2023 and over the medium term.

3. **The fiscal balance improved in 2021 reflecting strong grant revenues and a moderation in expenditure.** The fiscal outlook depends on U.K. budget support. Grant revenues exceeded 50 percent of GDP in 2021, supporting a small overall fiscal surplus. Public debt was the lowest in the ECCU at 5.1 percent of GDP in 2021 and is projected to remain low and stable in the medium term.

4. **The authorities strive to switch to renewables amid rising global fuel prices.** With local fuel prices soaring to US$6 per gallon, the island is also making great strides towards achieving its goal of becoming a climate-smart economy, while allowing international prices to pass-through to domestic consumers. Montserrat aims to use only renewable energy by 2035 through the construction of solar, wind and geothermal power plants. The government currently has a large 1-megawatt solar power plant and recently completed construction on another 750-kilowatt solar plant, and 3 geothermal wells.

5. **The financial sector remains broadly stable, but credit demand has dwindled.** The sector comprises one bank, one credit union, and a limited insurance sector. NPLs are low at 5 percent, with liquidity and provisioning buffers. Lending margins are between 4.5 and 5 percent, and provisions exceed 100 percent of NPLs at end-March 2022, which is well above the ECCB's mandated 60 percent minimum. The credit union's financial position has improved somewhat, and no insurance sector issues have been reported. The population is cash-driven, but there is a low local demand for credit, motivating the bank and the credit union to lend to diaspora.

6. **Medium-term prospects depend on budget support and the construction outlook.** With over 63 percent of its recurrent budget financed by the U.K. government, Montserrat's prospects rely largely on continued budget assistance. A large port development project expected to bolster employment and construction growth is under way, along with renewable energy projects.

INTERNATIONAL MONETARY FUND

# EASTERN CARIBBEAN CURRENCY UNION

July 7, 2022

## STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION WITH MEMBER COUNTRIES ON COMMON POLICIES OF THE EASTERN CARIBBEAN CURRENCY UNION—INFORMATIONAL ANNEX

Prepared By

Western Hemisphere Department
(In consultation with other departments)

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# RELATIONS WITH THE FUND

(As of July 7, 2022)

**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 assessment of the ECCB, finalized in August 2021, found strong external audit and financial reporting practices that continue to be aligned with international standards, and further improvements in the capacity of the internal audit function. Legal reforms were recommended to further strengthen operational autonomy of the ECCB and align its Agreement Act with leading practices. The issuance of DCash introduces new risks that require additional controls and oversight, including strengthening the related project governance framework.

# CARTAC: CAPACITY BUILDING IN THE ECCU[1]

(As of June 21, 2022)

*Highlights of Caribbean Regional Technical Assistance Center (CARTAC) technical assistance (TA) and training to the ECCU countries in the various core areas are provided below.*

4. **CARTAC delivered a substantial work program over the past 18 months.** As CARTAC and its member countries adapted to a virtual working environment, TA demand picked up across all work programs leading to an increase in capacity development (CD) delivery compared to the previous period. With some semblance of normalcy returning, CARTAC was also able to carry out a few in-person TA missions at the end of FY22.

## A. Tax Administration

5. **VAT implementation in ECCU countries continues.** The British Overseas Territory of *Anguilla* is implementing a Goods and Services Tax (GST) which will come into force on July 1, 2022. CARTAC recently assisted the *Anguilla's* Ministry of Finance to determine the most appropriate organizational structure for the Inland Revenue Department (IRD) to implement and administer the GST. CARTAC also provided support determining transitional rules and policies and good practice from other CARTAC member countries implementing GST. In close cooperation with the IRD, CARTAC organized a joint CD activity with the Fiscal Affairs and Legal Departments. The delivery modality was tailored to the needs of the IRD as the timing of the CD was flexible and periodic and allowed the IRD to reach out and request advice and support from the experts when needed.

6. **The tax administration program for ECCU member countries focuses on:** (i) CD in core functions (taxpayer service and education, audit, compliance with filing and payment obligations, dispute resolution, and data analysis); (ii) CD in management and governance arrangements (compliance and institutional risk management, organizational management including strengthening large taxpayers operations, ICT and data management, human resource management and strengthening legal framework); and (iii) analytical work to support tax reforms (TADAT diagnostic assessment, Post-TADAT Implementation Plans and Tax Gap analysis). CD was delivered to: *Anguilla* to support implementation of GST; *Antigua and Barbuda* in the area of audit, human resource management and compliance risk management (CRM); *Dominica* in arrears management and developing a Post-TADAT Action Plan; *Grenada* in CRM; *St. Lucia* in dispute resolution and TADAT training and assessment; *Montserrat* in audit and developing a framework to strengthen the integrity of information and data capture; *St. Kitts and Nevis* in the area of performance management; and *St. Vincent and the Grenadines* on developing a client relations management program for large and medium taxpayers.

[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).

**7. CARTAC monitors progress through the IMF's Results-Based Management (RBM) framework.** CARTAC continues to monitor progress with respect to implementing recommendations associated with CD and to ensure that implementation targets for key recommendations are met. However, staff shortage and turnover negatively impact sustainability and continuity in the implementation of recommendations. Challenges due to insufficient data and limitations in the capacity to use and analyze internal and external data still exist. *Antigua and Barbuda* and *Grenada* benefited from CD to develop a risk-based compliance management framework in FY22. Work in this area will continue.

**8. Supporting effective ICT systems.** As several CARTAC members, including ECCU countries, are in the process of implementing new ICT systems, CARTAC hosted a regional seminar to provide awareness on best practices for tax-related ICT modernization projects. A panel of project managers from CARTAC member countries shared lessons learned about implementing a modernization project, and experts from the IMF presented best practices for digitalization, risk management and how tax administrations can benefit from emerging technologies. CARTAC also facilitated a four-day virtual study tour for the *Grenada* Inland Revenue Department (IRD) to learn from the Tax Administration of Jamaica. A virtual meeting with e-Gov Jamaica Limited was also included to provide an overview on how they function and support the operations of Tax Administration Jamaica (TAJ) and other governmental agencies.

**9. Tax Administration Diagnostic Assessment Tool (TADAT).** The coverage of TADAT diagnostics in ECCU countries continue to increase. *St. Lucia* received a five-day TADAT training for staff from the Inland Revenue Division (IRD), Ministry of Finance and St. Lucia Internal Audit. The training covered the TADAT framework in detail and served as a preparation for a TADAT assessment that took place in October 2021. A Post-TADAT Implementation Plan mission is planned for FY23 to develop a plan to address areas identified for improvement. Other ECCU countries have expressed an interest in having a TADAT assessment and/or training conducted: *St. Kitts and Nevis* and *Grenada* (FY24).

**10. ECCU member countries participated and benefitted from regional workshops and seminars in FY22:**

- *Joint Seminar on Exchange of Information between Tax and Customs Administrations.* Exchange of information and operational collaboration between Tax and Customs on income tax, VAT/GST has significant mutual benefits optimizing revenue collection and managing compliance. As a response to a request from the Heads of the Tax and Customs Administrations to promote information exchange and cooperation, CARTAC arranged a joint Tax and Customs virtual seminar on exchange of information. The capacity of some customs and tax administrations to take advantage of systematic exchange of information is more developed and these are more able to use this to improve compliance management. CARTAC will follow up with ECCU members to discuss tailored CD in the area.

- *Enhancing Leadership and Management Development.* Representatives from several ECCU countries participated in a Leadership and Management Development (LMD) webinar designed

to address the leadership development needs of tax administrations to support tax reform initiatives. The program was delivered using presentations, case study scenarios, and group exercises designed to identify and test learning and understanding of a range of subjects. Participants were encouraged to report back to their revenue authorities and departments to discuss the need for further country-specific LMD events.

- *International Survey on Revenue Administration (ISORA)*. CARTAC continues to support ECCU countries maintaining ISORA data to support evaluation of their administrations' performance.

## B. Customs administration

**11. Customs Administration focused on strengthening risk management and managerial skills** to help ensure (i) leadership, management, and governance; (ii) trade facilitation; and (iii) securing revenue. Regional initiatives included facilitating an initiative to develop cooperation and information between tax and customs.

**12. Strengthening performance management.** Helping customs administrations in *Anguilla, Antigua and Barbuda, Dominica, Grenada, St. Lucia,* and *St. Vincent and the Grenadines* to collect, analyze and make use of data to strengthen the management and risk management functions. The aim is to help make customs more focused and purposeful towards achieving departmental priorities and government policy objectives. This will enable customs administrations to demonstrate, in measurable, tangible ways, progress made and so be more rigorous in managing performance and demonstrating what is being done to improve or maintain performance.

**13. Strengthening the legal framework.** TA was provided to *Anguilla* and *St. Vincent and the Grenadines* to undertake a gap analysis to identify where the current law was not in harmony with the CARICOM model legislation for customs, the provisions of the WTO TFA and other regional initiatives, and to help prepare a new legal framework for both administrations.

**14. Customs management of petroleum imports.** TA has been 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.

## C. Public Financial Management

### Technical Assistance

**15. Budget Process Reform.** Missions on strengthening budget planning and preparation were undertaken in *Montserrat* and *St. Lucia*. The missions included (i) a desk review of current practices and recommendations for further strengthening medium-term budgeting and performance planning and reporting practices; and (ii) training and capacity building of the staff of the Ministry of Finance and service delivery ministries based on the recommendations of the desk review.

**16. Treasury Operations.** Reviews and recommendations for improving treasury operations and

business practices were conducted in *Dominica* and *St. Lucia*. For both countries comprehensive reform 'road maps' were prepared. The Government of *Montserrat* also reached out for support in moving towards Accruals Accounting and development of a new Chart of Accounts, both pieces of work are now completed, and further support will be provided later in the year to take forward the recommendations. Two missions were undertaken in *St. Vincent and the Grenadines* on improving bank reconciliation and cash basis IPSAS. The former was completed in May 2022 and the latter is expected to be finalized in July.

**17. Internal Audit.** A TA mission supported the *Anguilla* Ministry of Finance (MOF) officials in preparing a Public Financial Management (PFM) Reform Action Plan. Support is being provided to Internal Audit to address the recommendation from the 2018 Internal Quality Assessment Action Plan. Training was also provided to *Anguilla* on Auditing Disasters and Pandemics. The training was designed to achieve general conformance with the IIA internal audit standards for planning, conducting, and reporting an audit. It covered audit tools, techniques, and best practices in auditing disasters and pandemics. Following separate remote missions, recommendations were prepared for establishing centralized internal audit functions in *Dominica* and *St. Lucia*. Training was provided to the *Montserrat* Internal Audit teams on writing audit reports and interaction with audit committees.

**18. Fiscal Responsibility.** A remote mission was undertaken to *St. Vincent and the Grenadines* to provide further technical advice and guidance on a Review of the Operationalization of the Fiscal Responsibility Framework. A separate mission was undertaken on Strengthening the Oversight of State-Owned Enterprises (SOEs).

**19. PIMA and C-PIMA.** A Public Investment Management Assessment (PIMA) including the climate module (CPIMA) was undertaken with the *Anguillan* authorities. A report was presented to authorities setting out findings and recommendations for strengthening the processes for assessing and allocating resources for major public investment projects.

**20. Post-Hurricane PFM Review Follow-Up.** A follow-up review of the *Dominica* post-hurricane PFM preparedness review was undertaken. The mission reviewed progress of the recommendations since the initial post-hurricane review and set out further recommendations for the future.

### Regional Workshops

**21. Budget planning and preparation.** CARTAC delivered a series of three regional workshops each over three half-days on budget planning and preparation on the following topics (i) Strengthening budget preparation using medium term budget estimates; (ii) Budgeting for results: Prioritizing budget spending through performance planning and reporting; and (iii) Program monitoring and evaluation.

**22. Treasury operations.** A series of regional workshops on treasury operations covered the following topics and attracted a lot of interest from treasury officials in the region.

i. Cash management and cash-flow forecasting
ii. Internal controls for payroll and non-salary expenditure
iii. Improving use of electronic payments
iv. Financial reporting – in-year reports and annual financial statements
v. Challenges in transitioning from cash to accrual accounting

23. **Internal Audit.** A series of workshops to support Internal Audit (IA) functions across the region was undertaken. These workshops continued to focus on the specific challenges of auditing pandemic-related expenditures and were developed specifically to needs of the IA departments across the region. To accommodate the challenges of online learning, the workshops have been conducted over three half-days rather than full-day workshops that are usually arranged for in-person events. Average attendance at the events increased to over 60 people per workshop, with representatives from all the ECCU countries. Further workshops are planned for 2022 to continue with this successful online training with a planned in-person conference in the fourth quarter.

24. **Regional Gender Budgeting Workshop.** A three-half day gender budgeting workshop was conducted in February 2022. The theme of the workshop was Improving Service Delivery Outcomes Through Gender Responsive Budgeting (GRB). The workshop covered international practices on how GRB has improved the effectiveness of, and equitable access, to, government programs and services particularly in the health and education sector. The workshop included discussions, and engaged with participants through interactive workshop exercises, on how lessons learned from these experiences can be applied in Caribbean countries, as well as identifying possible initiatives. Average attendance at all the above events was excellent with representatives from all the ECCU countries attending most of the workshops. Further workshops are planned for 2022 to continue with this successful online training format.

## D. Financial Sector Supervision

25. **In financial sector supervision, CARTAC continued to work closely with the ECCB on the implementation of the Basel II/III capital framework.** The ECCB has made appreciable progress with the implementation of Basel II/III (Pillar 1) including addressing TA mission recommendations.

- 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. Following the June 2020 mission, CARTAC provided ongoing assistance to the ECCB to support activities relating to Pillar 1 implementation.

- In February 2022, CARTAC provided follow-up TA on conducting Review (Supervisory Review Process – SRP) of bank's Internal Capital Adequacy Assessment Process (ICAAP) and commenced TA on the implementation of the Liquidity Coverage Ratio (LCR) under the Basel II/III framework. CARTAC also reviewed and provided feedback on the findings from the Quantitative Impact Study (QIS) on Pillar 1 conducted by the ECCB, and draft versions of guidelines on the ICAAP

and Market Risk prepared by the staff of the Bank Supervision Department (BSD). The results of the QIS conducted to assess the impact of the Basel II/III Pillar 1 capital charge revealed inconsistencies in the data reported with respect to the calculation of minimum capital requirements for market risk especially at some of the larger banks.[2] The ECCB has been advised to seek clarification on the market risk exposures being reported at these institutions.

- The importance of finalizing the Pillar 1 reporting templates as soon as possible to meet the scheduled September 2022 date for effective implementation was emphasized during the mission conducted in February 2022. The ECCB has requested follow-up CD assistance to review and provide feedback on the draft versions of several risk management guidelines in FY23.

**26. CARTAC provided follow-up bilateral CD missions on the implementation of risk-based supervision (RBS) to non-bank supervisors in *Grenada, St. Lucia,* and *St. Vincent and the Grenadines.*** These bilateral missions were conducted during FY20 to FY22 following the regional workshop on RBS implementation for non-bank supervisors from the member the member territories of the ECCU in July 2019. The non-bank supervisory agencies or the Single Regulatory Units (SRU) in all three countries have made progress on the implementation of RBS. Further CD assistance will be needed to fully implement RBS operational processes and procedures and achieve agreed milestones. The SRUs in the other member territories of the ECCU have not expressed interest for follow-up TA on the implementation of RBS during last three fiscal years. The bilateral workshop on insurance supervision and conducting on-site reviews at the *Anguilla* Financial Services Commission in April 2022 included a risk-based supervisory focus.

**27. *St. Lucia* and *Antigua and Barbuda* have expressed interest in receiving TA on the implementation of a risk-based solvency regime for insurance companies.** The timing and delivery of TA on the development of a risk-based solvency regime for insurance companies in the ECCU is dependent on the enactment of the harmonized legislation for insurance across the ECCU.

**28. The regulatory and supervisory capacity of the Eastern Caribbean Securities Regulatory Commission (ECSRC) continues to improve with TA.** In FY20–21, CARTAC reviewed and updated the Securities Bill and Investment Funds Bill to align with international standards. The former has been enacted in five of the eight ECCU member countries, while the latter has been enacted in four territories. In late 2020, CARTAC provided training on understanding the risks of the industry for purposes of conducting adequate supervision. In 2022, follow-up assistance was provided on finalizing the regulations for both the Securities Bill and Investment Funds Bill. Following revisions to the suite of legislation to govern activities in the Eastern Caribbean Securities Market (ECSM), the ECSRC's application for Associate Membership in the International Organization of Securities Commissions (IOSCO) was successful and the commission became an Associate Member in February 2022.

[2] The mission advised the ECCB to exercise caution in drawing conclusions from the QIS results at these institutions prior to ascertaining the reasons for the inconsistent Pillar 1 capital allocation reported for market risk.

**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 two 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 TA to review the organizational structure of the FSC.** Recommendations to implement a revised structure were provided, including staffing to facilitate preparation of budget estimates for FY22 to enable the FSC to effectively fulfill its legislative mandate.

**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 the 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 FSA to introduce the legal framework for effective resolution of credit unions and building societies.

**32. The legal framework for the supervision and regulation of International Banks in *Nevis* was reviewed in FY22.** The review was undertaken by the IMF's Legal Department (Financial and Fiscal Law Unit). The TA mission also drafted legislative amendments to the International Banking Ordinance 2014 (NIBO).

**33. Both insurance and bank supervisors from the member territories participated in several regional workshops and webinars hosted by CARTAC, and jointly with IMF-HQ.**

- 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 built on previous workshops and incorporated stress scenarios to reflect the 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 participated in the CARTAC regional workshop on supervisory review of the actuarial liabilities of life insurance companies. The IMF-CARTAC remote roundtable discussions/webinars on "Cybersecurity of Remote Work During the Pandemic" and "Regulatory and Supervisory Response to Deal with Coronavirus Impact" conducted in 2020 were well attended by both banking and insurance supervisors from the ECCU.
- In FY22, banking supervisors from the ECCB participated in the IMF-CARTAC regional workshop on supervisory review of cyber risk management practices at banking institutions, and webinar

on "Unwinding COVID-19 Policy Interventions for Banking Systems". The insurance supervisors from all member territories also participated in a 7-week workshop on IFRS 17 implementation from February to April 2022.

- Both banking and non-bank supervisors participated in the IMF-CARTAC webinar on "Climate Risk" in October 2021. The webinar on climate risk was designed to raise awareness of the Network for Greening the Financial System (NGFS) Guide for Supervisors, physical risk threats to the financial sector across the region, and elicit feedback from banking and insurance supervisors in the region on future CD needs in the area of climate risk supervision.

## E. Real and External Sector Statistics

**34. During the period December 2019–April 2022, the CARTAC program on economic and financial statistics concentrated on improving external sector, national accounts, and price statistics in the ECCU countries.** CARTAC also continued 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.

**35. Of note in the period, good progress was made by *Anguilla*, *Grenada*, *Montserrat, 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).** Rebased or re-referenced estimates of GDP to 2018 prices was supported in *Anguilla*, *Grenada*, *Montserrat*, *St. Kitts and Nevis*, and *St. Vincent and the Grenadines*. 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 backcasting 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,* CARTAC, in close partnership with PRASC, helped finalize SUTs for 2018, which were used as the basis to rebase the estimates of GDP. A similar development of SUT in *Grenada* in early 2022 will also provide the basis for publication of rebased estimates there later in 2022.

**36. Progress is also being made by countries to improve price statistics.** Notably, in *Grenada* and *St. Kitts and Nevis* where assistance was provided to build institutional capacity, improve the Consumer Price Index compilation methodology, and update the expenditure weights. In addition, in 2021, CARTAC supported the initiation of a program of work to develop a Producer Price Index for services in *Antigua and Barbuda*.

**37. While there were no regional training workshops during 2020–21, CARTAC has introduced some short learning modules related to national account themes.** The topics for these seminars were identified following discussion with the heads of economic statistics in each member country, based on their anticipated needs. Six have been held to date, including an introduction to measuring GDP for new members of staff, a workshop for senior national accounts

staff to improve their analytical skills, and a four-day review of the use of administrative data sources in the compilation of national accounts. Representatives from all ECCU countries have attended these events, as well as staff from the ECCB, who attended as guests.

**38. 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 improving the timeliness of data and 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).[3] Furthermore, recent CARTAC TA is 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 backcasting techniques to address significant breaks in the balance of payments for years prior to 2014. Further, CARTAC is also assisting on the production of flash balance of payments indicators in advance to the release of preliminary figures. 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 will continue supporting the ECCB and the NSOs medium-term work program which includes the compilation and dissemination of quarterly balance of payments and IIP, addressing pending tasks regarding merchandise trade statistics, the Coordinated Direct Investment Survey, and the compilation of public and private external debt in line with international standards.

## F. Macroeconomic Forecasting and Analysis

**39. The primary focus of CARTAC's engagement on macroeconomics within the ECCU region was on tools to analyze debt dynamics.** A hands-on workshop with participants from 7–8 ECCU member countries was held in February 2022, during which customized versions of the IMF Institute for Capacity Development's (ICD) 'Public Debt Dynamics Tool' (DDT) were developed with country MOF and ECCB staff. Workshop participants demonstrated strong knowledge of the tool, as demonstrated by their presentations of analysis and risk scenarios for their own countries (including related to climate change) using the tool. Subsequent follow-up support has been provided to

[3] *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 balance of payments. However, VES were suspended due to the COVID-19 pandemic which severely affected the free cross-border movement of international travelers, in particular inbound tourists, but since 2022 countries are progressively restarting them.

*Anguilla* and *Dominica* to support their adoption of the tool as a component of their policy toolkit.

**40. Support has also been provided to *Anguilla* on refining medium-term macroeconomic and fiscal projections.** Factoring in a sharp decline and uncertain pace of recovery in tourism was a key focus of the July 2021 mission. The development of a simple tool to link macroeconomic projections across production sectors to assumptions about tourism arrivals, and other high-frequency indicators, will support such exercises in the future. The British Government has noted its appreciation of CARTAC's involvement in Anguilla's projection process, in the context of its approval of Anguilla's annual budget.

**41. Several regional events—courses and webinars—were attended by staff from the ECCB and ECCU member-country governments.** Topics covered during webinars included: fiscal multipliers in small developing states; gender inequality in the COVID-19 recovery; natural disasters and scarring effects; macroeconomic effects of structural reforms in Latin America and the Caribbean; and the role of dominant currency pricing in international tourism. Courses were offered (jointly with the IMF's ICD) in the areas of fiscal policy analysis and fiscal frameworks.

**42. Future agreed engagements between CARTAC and the ECCB will focus on 'nowcasting' and developing capacity on medium-term macroeconomic frameworks.** Jointly with the IMF's ICD, CARTAC will provide support to ECCB staff regarding near-term forecasting techniques, linking the evolution of high-frequency variables to the in-year real-sector forecast (so-called 'nowcasting'). Thereafter, focus will shift to developing macroeconomic frameworks for ECCU countries, which can generate consistent projections across all sectors of the economy (real, fiscal, external, monetary) and alternative/risk scenarios (including relating to climate change, and fiscal consolidations).

## G. Debt Management

**43. CARTAC, through the debt management program launched in late 2020, has engaged with ECCU countries, as well as the ECCB, on several key issues.** Nearly all of the countries already develop medium-term debt management strategies, but the strategies in practice do not always consistently guide individual borrowing decisions. Due to the global pandemic, the countries have had to raise higher-than-usual volumes of financing, while trying not to exacerbate debt sustainability vulnerabilities. Transparency of debt stocks and flows is generally low, and the reports on debt policy, composition, and operations that are published often suffer from limited coverage, uneven data quality, and lengthy delays between the reporting date and public release. To date, CARTAC's engagement has been at the multi-country level, although priorities for bilateral TA have been discussed with several of the countries.

**44. CARTAC delivered two capacity-building activities targeted solely at ECCU countries and the ECCB.** These were (i) a workshop in June 2021 on translating the debt management strategy into a realistic annual borrowing plan and an issuance calendar for domestic securities; and (ii) a seminar in August 2021 on interpreting fiscal financing gaps and working systematically through the debt management issues related to closing them.

**45. ECCU countries and the ECCB also participated in the Caribbean-wide capacity-building activities organized by the debt management program.** These included (i) a webinar in October 2021 on implications for government debt managers in assessing and raising financing, sourcing market information, and recording debt arising from the transition from Libor to new reference rates for floating-rate debt instruments; (ii) a workshop in February 2022 on the fundamentals of debt reporting and monitoring; and (iii) a webinar in April 2022 on debt-for-climate swaps as an instrument for mobilizing or redirecting financing for climate-related objectives while keeping debt at sustainable levels.

**Statement by Mr. Jennings, Executive Director,**
**Mr. O'Brolchain, Alternate Executive Director,**
**and Ms. Edwards, Advisor to the Executive Director,**
**on Eastern Caribbean Currency Union**
**July 27, 2022**

Our Eastern Caribbean Currency Union (ECCU) authorities welcome the Staff Report and other related documents for the 2022 Common Policies Discussion. The report broadly reflects developments in the Currency Union within the context of the ongoing COVID-19 pandemic and the impact of Russia's invasion of Ukraine and acknowledges the efforts being pursued to address the current challenges. Our authorities appreciate their ongoing engagement with Fund staff and the open and frank dialogue and broadly concur with staff's analyses and recommendations.

## Recent Economic Developments, Outlook, and Risks

**ECCU economies continue to feel the effects of the lingering COVID-19 pandemic and the impacts of Russia's invasion of Ukraine.** Gross Domestic Product (GDP) for the ECCU is estimated to have expanded by 5 percent in 2021, following a sharp contraction of 17½ percent in 2020. Economic activity has been largely uneven across the currency union with robust rebound in the tourism sector in some tourism-dependent countries, but activity remains low in others. Likewise, construction activity in some countries has led to economic growth but high prices supply chain and shipping issues are muting activities in the construction sector in some economies. Early indications are that the ECCU economies could grow by 7½ percent in 2022 and converging to around 2¼ percent over the medium term. Inflation is expected to peak in 2022 to above 5½ percent, reaching as high as 7 percent in some countries from 1½ percent in 2021. These price increases are driven by rising food, fuel, and transportation prices.

The current account deficit, estimated at 16¾ percent of GDP in 2021, remains high as stronger imports more than offset tourism receipts. International reserves remain stable and the currency backing ratio stood at 95.4 percent as at end-February 2022.

Inflation poses a major risk to the outlook. Our authorities are grappling with an inflationary shock whose duration is uncertain and which is posing a fiscal challenge and threatens to undermine growth prospects and social outcomes.

## Fiscal Policy and Debt Management

**The fiscal situation of ECCU member countries has deteriorated, and fiscal deficits remain high.** Revenues declined with the implementation of measures to mitigate the impact of the pandemic while expenditure increased as authorities increased spending on health services and introduced measures to sustain employment, protect the vulnerable, and cushion the impact of rising food and fuel prices. Debt levels have increased as countries borrowed to meet the additional

costs associated with the pandemic and to support the public investment program. Overall public debt in 2021 is estimated at around 85 percent of GDP.

**Our authorities remain committed to achieving the 60 percent debt to GDP ratio by the target date of 2035.** They recognize that stronger fiscal consolidation efforts are required and towards that end, countries have started the process of enhancing their fiscal framework including the establishment of fiscal rules. We take note of Annex VI on *"Lessons for the ECCU and Its Members from Countries' Experience with Fiscal Rules"* and the Selected Issues Paper section on *Fiscal Rules in Disaster-prone Countries: Implications for the ECCU"* and appreciate staff's guidance on how the work being done in the ECCU can be further improved.

**Strengthening public financial management remains a vital activity.** Our authorities see the measures adopted to address the pandemic and the impact of Russia's invasion of Ukraine as necessary at this time. It is not expected that measures will be unwound prematurely, but as the recovery takes hold, they acknowledge the necessity to gradually reset the parameters in pursuit of fiscal and debt sustainability. That said, they are also mindful of the several downside risks that could impact their ability to increase domestic revenues. Authorities are particularly concerned with the risks associated with the Citizenship by Investment (CBI) Programs. They have taken steps to strengthen the governance in the operation of these programs and are willing to collaborate with European and U.S. counterparts to settle any concerns that they may have about the integrity of their CBI programs. Steps are also being taken to improve the efficiency in the delivery of government services to reduce discretionary expenditure in order to have the fiscal space to provide support to the vulnerable, to continue to address the health concerns and to accelerate the implementation of the capital program.

**Access to concessional financing for building resilience is key.** A substantial part of the debt of the ECCU countries was contracted to respond to the impact of climatic events and our authorities know firsthand the imperative of building resilience. They welcome the establishment of the Resilience and Sustainability Trust (RST) which acknowledges the vulnerability of Small Developing States (SDSs) to external shocks but remain concerned that relatively high debt levels in ECCU countries may preclude them from gaining access to the RST. Our authorities also anticipate that the RST will serve as a catalyst to access other climate funds which have so far been left largely untapped because of the complexity of the application process. The assistance of the Fund is crucial on this matter.

## Financial and Monetary Sector Developments

**Financial sector conditions have remained broadly stable, but efforts will continue to ensure financial stability in both the bank and non-bank sectors.** The level of non-performing loans remains high and requires special attention from the Eastern Caribbean Central Bank (ECCB) as the regulator and supervisor of the banking sector as well as from the regulators of the non-bank sector. As at end March 2022, moratoria on loans granted at the start of the pandemic have been unwound and we take note that this may have the effect of increasing NPLs in the near term. Therefore, asset quality and provisioning for bad assets will remain in the spotlight in keeping with the ECCB's new provisioning guidelines.

**Our authorities accept that the financial sector can benefit from improved coordination on regulation and supervision**. The proposed new Regional Standards Setting Body (RSSB) is intended to help the ECCU non-banks operate under a common regulatory rulebook and improve the quality of regulation and supervision.

**In keeping with the efforts to build resilience, our authorities support initiatives for strengthening supervision, reporting and regulatory frameworks against climate change risks**. The ECCB is fully committed to undertake these initiatives and has launched an ambitious program to integrate climate risks in supervisory and regulatory frameworks including the implementation of a technical assistance project to build capacity in ECCU regulators and financial institutions. We also take note of the results of the assessment in Annex VIII on *"Natural Disaster Impact on the ECCU Banking System Asset Quality"* as it gives further guidance on addressing climate risks in the banking sector.

**Maintaining a strong currency continues to be 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. The fixed exchange rate policy has served the region well and given confidence to potential investors. Foreign reserves remain high and no change in the exchange rate is anticipated.

In support of strengthening governance in the financial sector, our authorities will continue implementing reforms targeted at improving the AML/CFT framework and to pursue initiatives to prevent further loss of correspondent banking relationships (CBRs) by adopting global regulatory standards. **The loss of CBRs remains a concern for the region as it poses a risk to financial stability and every effort is being made to minimize the materialization of these risks**.

**Looking ahead, the implementation of measures to increase credit will be pursued.** Under the guidance of the ECCB and the approval of the Monetary Council, country authorities are committed to passing the necessary legislation including those related to the establishment of the credit bureau, foreclosure, and solvency. In addition, they have participated in the Eastern Caribbean Partial Credit Guarantee Corporation that aims to address collateral constraints to access credit by micro, small and medium-sized enterprises (MSME) and to provide capacity development. The introduction of D-Cash (central bank digital currency) with the appropriate safeguards offers a new opportunity to increase economic efficiency and foster financial inclusion. The ECCB will intensify its public education on this payment instrument to increase participation by ECCU citizens. The formalization of crisis management plans remains work in progress and on completion will provide a framework for financial institutions to respond to unanticipated events.

## Achieving Sustained and Inclusive Growth

**Economic recovery post pandemic and within the context of Russia's invasion in Ukraine will be challenging for the ECCU.** To boost tourism arrivals, and within the context of an improving health environment, our authorities have removed several of the COVID-19 mandates. To date, arrivals have increased but are still well below the pre-pandemic period and with an uneven distribution among various ECCU member countries. Inter-regional travel is important to

boosting tourist arrivals in the ECCU, but the gap created by the diminished service offered by the regional airline LIAT has not been fully addressed and poses a major challenge that requires concerted and urgent action to improve regional transportation. Additionally, our authorities continue to make investments in other sectors such as agriculture, physical infrastructure, renewable energy, and digitalization. However, supply chain and transportation constraints could thwart the timeliness and success of these interventions.

**Addressing climate change remains a priority for the region**. Our authorities have adopted comprehensive adaptation programs which are being implemented through the public sector investment program with a focus on building resilient housing and climate proofing public infrastructure such as schools, health facilities and roads. At the same time, they expect to accomplish the commitments given on the nationally determined contributions. Our authorities continue to advocate for concessional financing and grants to finance resilience building and for debt accumulated to address response to climatic events to be treated differently.

**Regaining losses of human capital is vital**. The ECCU Region will require a good quality labor force to support the recovery process. Investments in education will be needed to address the fallout from extensive school closures during the height of the pandemic and to provide remedial opportunities to those that may have been left behind due to constraints related to online learning. Retooling of displaced workers and investment in skills development and broadband technology is also part of the strategy being adopted. Support to the health sector will also continue, to minimize future impacts of COVID-19 including the emergence of new variants and to increase vaccination coverage. In pursuing these reforms, our authorities will ensure gender equity and that there are benefits for the youth.

**Advancing structural reforms to enhance competitiveness and resilience is essential.** To address the increasing cost of food and fuel, greater investments will be undertaken. In regard to food, the ECCU member states are part of an initiative to increase food production in the wider Caribbean and to reduce imports from outside of the Region. Regarding fuel, our authorities are seeking to accelerate their plans to transition to greater use of renewable energy and are focused on increasing investments in wind, solar and geothermal energy systems. These actions will not only address the current inflationary concerns but will take the ECCU closer to the goals they have set themselves with respect to addressing climate change.

## Capacity Development

**Capacity development is required to support the implementation of the ECCU recovery plans**. Technical support is required at both the country and institutional level and our authorities are open to varying modalities for delivery of technical assistance. 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. Considering the critical expanding policy agenda, such as climate change, digitalization and data analytics, the replenishment of CARTAC is important for supporting the member countries with their policy reforms. We look forward to the continued strong support of CARTAC's work in the Region.

**Conclusion**

Our authorities express appreciation to the Fund and in particular the staff of the Western Hemisphere Department for their tireless support and advice.

Significant challenges and downside risks threaten the success of the development plans for the ECCU region, but our authorities are not daunted by the tasks that lie ahead. They will continue to address the immediate imperative of high food and fuel prices and to protect the vulnerable from these impacts but will not lose sight of the long-term goals of addressing climate change, pursuing fiscal and debt sustainability, and the attainment of inclusive and sustainable growth. The pursuit of a development agenda under the umbrella of regional integration will no doubt be more effective and the ECCU member countries have demonstrated their ability to work together.

Our authorities also remain committed to enhancing the quality of National Statistics to ensure accurate reporting that will form the basis for quality advice.

Our authorities anticipate the continued support of the international community, including the Fund, in the pursuit of their development goals.